M.L.Dahanukar College of Commerce

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INSIDE THIS ISSUE

FOREWORD

Idea Behind This Weekly Newsletter

Being a Commerce College, students are expected to know the changes in the business world. This weekly newsletter will help the students get acquainted with a glimpse of what happened in the week gone by. It will also have insights into various business and commerce related updates which will help you gain in-depth knowledge. Make it a point to read each and every article in this issue and stay updated so that you don't get outdated.

- DR. D. M. Doke
Principal

The BAF Times

DO TERM DEPOSITS HAVE A FUTURE?

Mr. Karan Patil,
Alumni,
M.L.Dahanukar College of Commerce &
Founder, Maksideo Investments

Term deposits are the most popular traditional investments in India. The most common investment advice people tend to offer is to park extra funds in Fixed Deposits. However, with the changing environment of the investment industry, are these conventional instruments a wise choice, even today? Do they have a future in India? Let's have a look.

Let's get back to basics first and understand what term deposits are.

- **Term Deposits Meaning**

In term deposits, you invest a fixed sum of money for a fixed term and get fixed returns on the money invested. The returns on term deposits are in the form of interest. Usually, the maturity of term deposits can range from a few months to a couple of years. Term deposits are mainly issued by financial institutions like banks and NBFCs.
There are two main types of term deposits: –

1. Fixed Deposits (FD):

In fixed deposits, you invest a fixed sum at the initiation and earn interest on the same. You can receive the sum along with interest at maturity or choose to have interest paid out monthly or quarterly. It is used to park the extra funds.

2. Recurring Deposits (RD):

However, in the case of recurring deposits, you must keep depositing a certain specified sum at defined intervals (usually monthly). The funds earn interest which is usually paid out at maturity. RD can be considered to be a convenient way of saving money and multiplying the same by earning interest on funds accumulated. One can convert RD into FD on maturity.

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- **Historical Interest Rates**

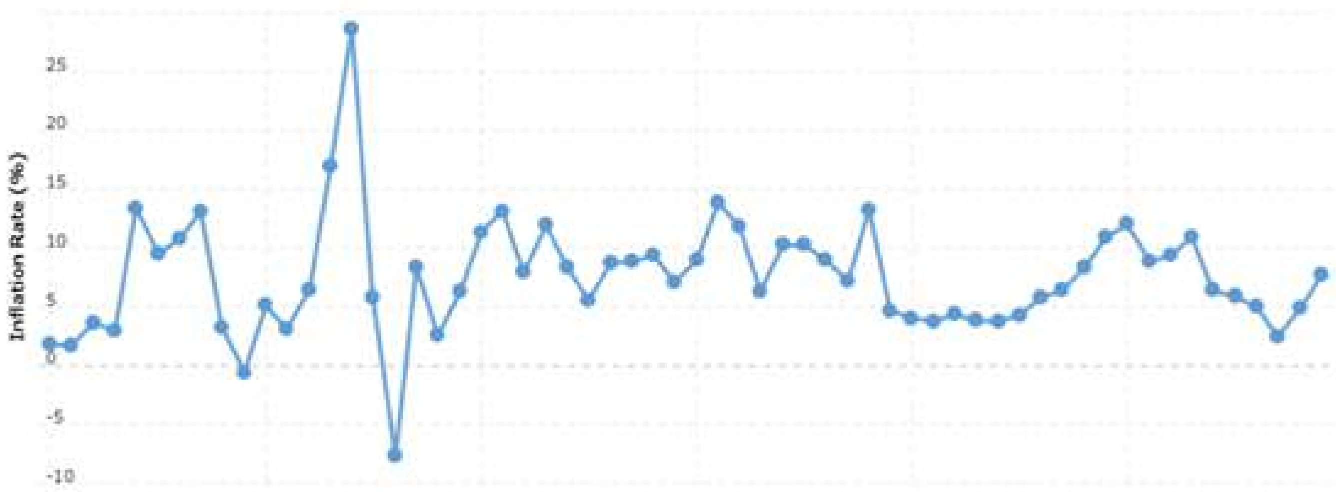
Earlier, the interest rates were quite high for these instruments. One year FD rates were as high as 12%. Whereas the current rates are somewhere around 5%-7% which is quite low as compared to the earlier rates.
This evidences the fall in FD rates over time giving rise to one obvious question – Is this a permanent fall or some correction in the rates could be expected?

- **Current Interest Rates**

Currently, the one year FD rate in India is at around 6%.

- **Inflation**

Interest rates in a country tend to move along with the inflation rates. The higher the inflation, the higher is the interest rate. Historically the inflation rate in India was high as seen in the graph.



Source: World Bank

Currently, you can hardly earn any return above the inflation rate. This results in constant purchasing power even after the maturity of your investment. It means that the things which you can buy with a certain sum of money today and at the maturity of your investment will be the same. Such an investment will not provide any added advantage in terms of returns, you are only compensated for the time value of money at maturity.

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- **Future Interest Rates**

Inflation in developed countries is low. It is ideally between 1% – 3%. This leads to lower interest rates in developed countries. Interest rates in developed countries like the US, UK, Canada, etc. is near 0%. Also, some countries like Norway, Switzerland, etc. have negative interest rates.

India continues its inflation target of 4% with a range of 2% for the next five years. It means that the target inflation for the next five years ranges from 2% to 6%. So, it would not be surprising to expect the rates in the range of 3% to 7%.

- **Tax**

Tax is an important factor to be considered while investing. Both FDs and RDs are taxed at slab rates. This means that the net return after tax is much lower.

Example:

Suppose you invest Rs.1,00,000 for a year with an interest of 7% and you fall into the tax slab of 20%. This means that you will earn a return of Rs.7000. But you have to pay 20% tax on the return. This means your net return after tax is 7000 – 1400 = 5600. This lowers your return to 5.6%.

- **Liquidity**

Liquidity is yet another concern with term deposits. Term deposits can be withdrawn only at maturity. During the tenure, term deposits can be withdrawn; however, they shall attract a penalty. The penalty can range from 0.5% to 1%. This in turn will lower the return.

One must consider the liquidity needs before investing.

- **Risk with the Banks**

Nowadays, credit risk in the banking industry has risen due to frauds and other issues. This leads to restrictions on withdrawal which may continue for a shorter period or a longer period depending upon the intensity of cash crunch the bank is facing. As per DICGC, each depositor of the bank is insured for the amount as held up to a maximum of Rs. 5,00,000. The insured amount shall include both principal and interest portion of the deposit as on the date of any scheme of reconstruction (including liquidation/ amalgamation/merger) coming into force or even on the date when the bank's license is cancelled.

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The deposits insured shall cover deposits in a savings account, current account and even term deposits. This means any amount in the account over and above Rs. 5,00,000 is at risk.

Let us also throw light on the positive aspects of this investment option.

- **Advantages of Term Deposits**

1.Diversification: The returns on fixed income securities like FD and RD have a low correlation with the returns on equity market securities. Exposure to fixed income can reduce an individual's portfolio risk. Also, during the period of low growth, fixed income securities tend to outperform equities given the fact that borrowers do not default.

2.Regular Cash Flow: FD and RD can be structured to provide regular cash flows. Such cash flows shall meet the regular spending needs. This is difficult to achieve with equities. Eg. A retired individual can construct the outflows similar to the salary for monthly spendings.

3.Tax saving: Term deposits and annuities from some institutions are tax-free. Either the investments or returns or both are tax-free depending on the characteristics of the security. This feature does not reduce your after-tax returns. It instead helps the individual to achieve maximum after-tax returns.

- **Conclusion**

According to the author, term deposits are not that good an option as it was traditionally. But an individual can choose to have exposure to the term deposits due to the limited availability of debt securities. Term deposits give exposure to returns on fixed interest securities but one must think wisely before investing in term deposits.

ESG – A NEW INVESTMENT TOOL & A NON-FINANCIAL PARAMETER

Mr. Gaurav G Rangnekar,
Alumni,
M.L.Dahanukar College of Commerce

- As a smart and modern investor, one should not only consider the quantitative (financial parameters) but they should also analyse and focus on the qualitative (non – financial parameters). The financial parameters consists of the financials of the company where as the non- financial parameter (Quantitative Factors) refers to the ESG factors, Growth , Future of the company etc.

- ESG analysis helps the investor to get valuable data / insights regarding various factors that may have a strong and significant effect on the financial metrics / financial model of the company. Hence this helps the investor to take proper prospective investment decision in the company.

- The investors can perform ESG Analysis and refer to the companies ESG Rating before making any investment decision.

- Portfolio Managers as well as retail investor strongly conducts ESG Analysis and then integrate this entire analysis for making an investment decision. ESG research and analysis is not a simple task, the research analyst have to denote a considerable amount of duration to perform the research and analysis to come to a final conclusion before investing the funds.

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- Earlier times the investors were only dependent on the fundamental analysis while making their investment decisions. But from past decade, investors wants a long- term sustainability of the company , Hence only analysis of financial statements are not sufficient for parking their funds in the company.

- This Covid-19 pandemic has opened the eyes of the investors as the company there delivered a very high profits with bad ESG was strong hit by this wave. But companies with high ESG score with steady returns were able to sustain this pandemic and did not erode the wealth of the investors.

Environmental	Social	Governance
• Climate • Natural Resources • Waste Management • Other environmental factors	• Human Resources • Labour Management • Society • CSR	• Corporate Governance • Rules / regulations of bodies

Environment Empathy (E)	This entirely focuses on the environment factors in the world.
Society Responsibility (S)	The companies take inputs from the society , so they should also give something in return.
Corporate Governance (C)	This element is all about integrity and honesty of the company.

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ESG Investment Fund

- ESG Investment is an emerging investment segment which focuses on the three core areas (Environment , Social , Governance).
- The ESG investment fund first lists down the companies that are very highly motivated towards ESG and simultaneously analyse their financial parameters. If the company satisfies both the parameters then these funds are invested in those companies. The funds are raised through public as like normal Mutual Funds.
- As per the research, the fund houses and modern investors are now focusing on the ESG along with just focusing on profits and capital appreciation. The companies that have a strong hold on ESG tend to give a higher return on investment (Long term) as per research conducted by various analysts. Hence there has been a huge global demand for ESG Funds from last few years.

Various ESG Funds in India

ESG Fund	Issuance Date
Aditya Birla Sun Life ESG Fund	December 2020
Axis ESG Fund	February 2020
ICICI Prudential ESG Fund	October 2020
SBI Magnum Equity ESG Fund	May 2018

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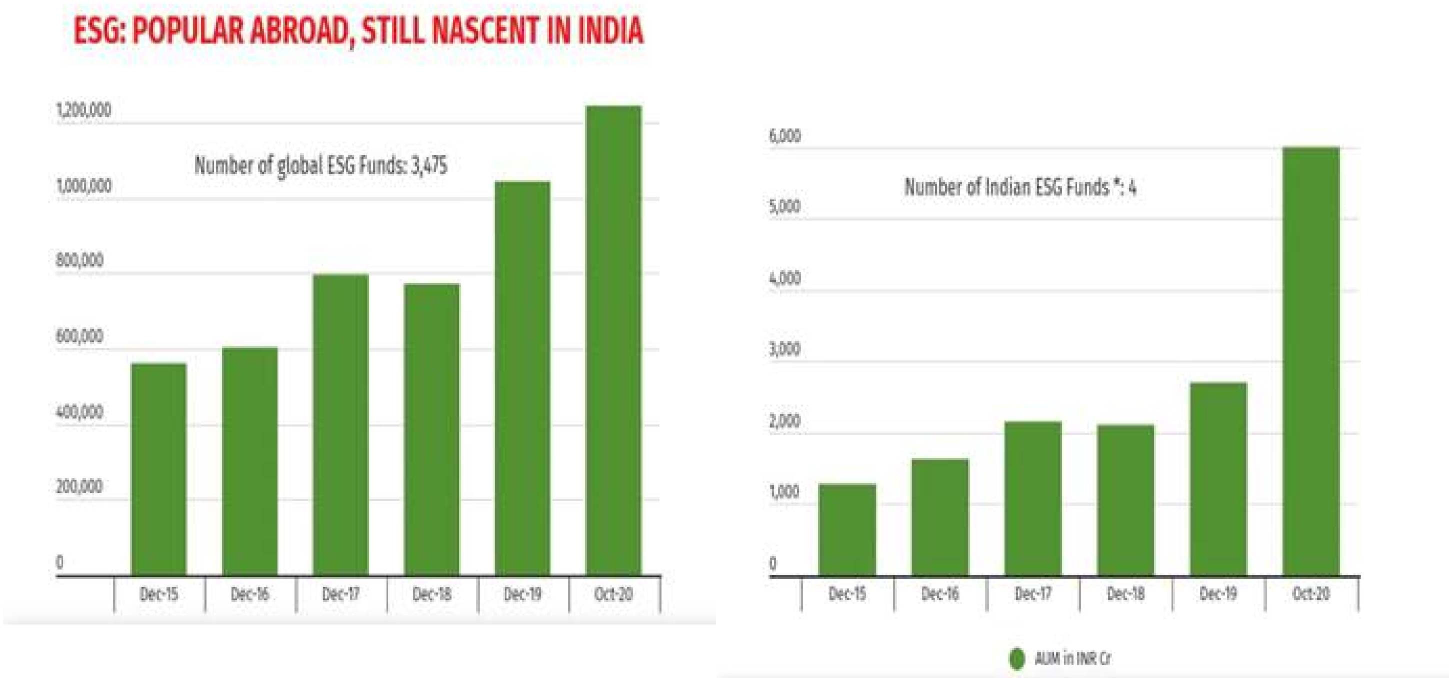
- The valuation of the Global ESG funds has doubled in last four years and has tripled in last 8 years. As of FY 2019-20, the AUM has reached to around $40.5 trillion. There is a 15% compounding in each financial year and the analysts are predicting that the ESG AUM will be reaching to $53 trillion by financial year 2025.
- In India , NSE100 ESG Index consists of 88 companies is the subset of the Nifty 100 Index .
- India is emerging and focusing on the ESG , but as of FY 2019- 20, it has low ranking world- wide in terms of environment protection and is ranked at 168 out of 180 companies.
- ESG funds are getting bigger each financial year and consists of 3500 ESG Funds worldwide. Talking about India, it has around 4 ESG Funds with AUM of approximately Rs 6,000 crores as on FY 2020-21



(Note – Citi Bank is recognized as the Best Bank for ESG research at the 2021 ESG investing Awards for the second consecutive year)

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Future of ESG in India

- The ESG funds not only delivers returns but also helps assured reliance on the company before making any investment.

- The ESG scores / ratings are important along with financial / fundamental analysis of a company while performing decisions related to Investments.

- The investors are now becoming more aware regarding the ESG factors after this covid – 19 pandemic . They have become more focused now in steady and long term returns with a sustainable attitude rather just making profits (profit oriented).

- Many top ratings and research agencies states that , the companies with high ESG Score tend to have a strong potential for long term sustainability (Example - TCS , Infosys , HDFC).

- The AUM globally as well as in India has grown almost to three folds in last five financial years. So we can interpret that there is an exponential growth and demand in ESG Funds hence due to this we can see the sharp increase in the AUM.

- The new retail investors along with existing investors are now dependent on ESG scores provided by rating agencies along with analysis of the financial statement of the company before making investments in-order to reduce the risk involved in the investments.

- Hence, we can interpret that the future of ESG is very bright and the AUM in ESG funds will be more than that of regular Mutual Funds.

- Reliance Ltd in their AGM (2020-21) also stated that companies now has only one option carry on their operations adhering to the long- term sustainability. It means the company need to strictly comply with the ESG Factors in order to sustain for a long time.

EVERYTHING YOU NEED TO KNOW ABOUT ADANI GROUP STOCK.

Ms. Tanisha Singh,
Alumni,
M.L.Dahanukar College of Commerce

Amidst the confusion over the identity of frozen accounts of foreign portfolio investors and promoters increasing their stake by accumulating shares in some companies, the stocks of Adani Group are fluctuating rapidly.

Here are some pointers which will help you to update yourself with latest information

- Foreign portfolio investors are required to manage separate accounts for local trading and offshore instruments like depository receipt. Henceforth, the depository accounts were frozen by NSDL and domestic trading accounts of these three funds continue to be active.
- The three foreign portfolio investors whose accounts were frozen as of May 31 were Albula Investments, APMS Investment and Cresta Fund. They had lost nearly ₹44,898 crore in market value
- Promoters of the two Adani group companies-Adani Ports and Special Economic Zone (APSEZ) and Adani Green Energy have started accruing the shares from the open market and has purchased shares worth over ₹1,810 crore so far to stop the overwhelming selling seen due to news of frozen accounts.
- As a result of promoters increasing their stake of shares in Adani Group companies, these stocks were in demand, with four of the six listed stocks hitting the 5% upper circuit for the second day in a row on the BSE.
- The Adani group will export first coal from its Carmichael, Australia mining project this year and will start shipping to its customers according to schedule. This project will actively lift the economic prospects of the Australian outback and also help Indian power plants to source cheap coal.
- As per the company, India will be a foundation customer for the Carmichael mine and is the fourth largest global user of electricity as well as the source of the biggest growth in global energy demand.

CRYPRTOCURRENCY CONUNDRUM

Ms. Gauri Borhade,
Alumni,
M.L.Dahanukar College of Commerce

What is cryptocurrency ?

Cryptocurrency is a form of payment that can be exchanged online for goods and services. Cryptocurrencies work using a technology called Blockchain. Blockchain is a decentralized technology spread across many computers that manages and records transactions.

Key points -

- Cryptocurrencies don't use middlemen, so transactions are usually easier, faster and require less or no additional transaction fees.
- Cryptocurrency such as bitcoin, can be extremely volatile, investments can result in remarkable gains, but equally staggering losses.
- Trading cryptocurrency is very risky. The industry is not backed up by any kind of government or central banks.
- Even though cryptocurrencies are designed to be theft-proof, there's still considerable risk for fraud and cyber-crime .

Advantages of crypto –

- Cryptocurrency are perfect for small businesses. Just set up an address and it allows you to receive money from across the world, without having to deal with the hassle of bureaucracy , government regulations or banks .
- As the currency is completely decentralized, a peer to peer system, you are its master. You own it, neither government nor banks have control over it. Critics may point out that it is not completely private as criminals have been tracked using bitcoins but you can also opt for other types of crypto which place even stronger emphasis on privacy.

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- Cryptocurrencies have always kept itself as an optimal solution for transactions. Transactions, whether international or domestic in cryptocurrencies, are lightning-fast. This is because the verification requires very little time to process as there are very few barriers to cross.

- Privacy and security have always been a major concern for cryptocurrencies. The blockchain ledger is based on different mathematical puzzles, which are hard to decode. This makes cryptocurrency more secure than ordinary electronic transactions. Cryptocurrencies, for better security and privacy, use pseudonyms that are unconnected to any user, account or stored data that could be linked to a profile.

Disadvantages of crypto –

- How can you trust that which has no rules? If you buy something with bitcoin and get ripped off, don't expect anyone to help you. if someone hacks your wallet no one is going to aid you. Such is the risk of an unregulated system.

- If there is dispute between concerning parties, or if someone mistakenly sends funds to a wrong wallet address, the coin cannot be retrieved by the sender. This can be used by many people to cheat others money, since there are no refunds.

- Although cryptocurrencies are very secure, exchanges are not that secure. Most exchanges store the wallet data of users to operate their user ID properly. This data can be stolen by the hackers, giving them access to a lot of accounts. After getting access, these hackers can easily transfer the funds.

- The developer wanted to create virtually untraceable source code and strong hacking defences, this would make it safer to put money in cryptocurrencies than physical cash or bank vaults. But if any user loses the private key to their wallet, there's no getting it back. The wallet will remain locked away along with the number of coins inside it. This will result in financial loss of the user.

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Cryptocurrency and India –

- Even as the world's largest and most popular cryptocurrency is making headway, the meteoric rise in Bitcoins can be attributed to continued interest by major corporate. Now, more and more small and big investors around the world are attracted to cryptocurrency owing to its potential gains.

- While investors are riding the waves of this global phenomenon, India continues to be in quagmire. Their developments are raising many questions. However, legal experts and investors unanimously agree that banning is not the solution.

- Many think that a sweeping step like imposing a ban would cost a huge loss of investment to India. Regardless of the Indian crypto, start-ups have collectively raised millions from foreign investors.

- Finance Minister Nirmala Sitharaman said that "the Government is holding talks with the Reserve Bank of India and will take a very calibrated position on cryptocurrency."

- In the absence of regulation and recognition by the Government of India, the future of cryptocurrencies seems to be in a disarray. The Central Government recently revealed that it will introduce a new bill on cryptocurrencies. There is no information so far on the content of 'The Cryptocurrency and Regulation of Official Digital Currency Bill, 2021'. In 2018, RBI had banned banks from conducting transactions related to cryptocurrency. However, in March 2020, the Supreme Court of INDIA lifted the ban, and cryptocurrencies have been operational in India ever since.

- Experts believe that cryptocurrencies will not disappear from India, essentially because of the main characteristics that allows them to be transferred from person to person without a middleman.

- While the debate on the future of cryprtocurrencies goes on, only time will tell which direction would the finale unfold .

ANALYSING THE ALGO-ACTION

Ms. Isha Mahajan,
TYBAF

Algorithmic trading is a method of executing orders using automated pre-programmed trading instructions. Algorithmic trading makes use of complex formulas, combined with mathematical models and human oversight, to make decisions to buy or sell financial securities on an exchange. It can be used in a wide variety of situations including order execution, arbitrage, and trend trading strategies.

Using few simple instructions, a computer program will automatically monitor the stock price and indicators and place the buy and sell orders when the defined conditions are met. A trader no longer needs to monitor live prices and graphs or put in the orders manually. The algorithmic trading system does this automatically by correctly identifying the trading opportunity. These algos offer opportunities for wealth creation, render markets more liquid, and pave the way for systematic trading.

A study in 2019 showed that around 92% of trading in the international Forex market was performed by trading algorithms rather than humans. India allowed algorithmic trading in 2008, but algos control less than half of trades executed. On the other hand, 90% of trades on American exchanges are with the help of algorithms. In Japan, the number is between 70-80%. India has still a long way to go in terms of algorithmic trading penetration in the market.

Algo-trading provides the following benefits:

- Trades are executed at the best possible prices.
- Trade order placement is instant and accurate.
- Trades are timed correctly and instantly to avoid significant price changes.
- Reduced transaction costs.
- Simultaneous automated checks on multiple market conditions.
- Reduced risk of manual errors when placing trades.

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- Algo-trading can be back tested using available historical and real-time data to see if it is a viable trading strategy.
- Reduces the possibility of mistakes by human traders based on emotional and psychological factors.

Both the NSE and BSE have opened up algorithmic trading to the retail population, but the guidelines are not crystal clear. Technically, both exchanges require that each algorithm must be approved through a rigorous process. However, with the advent of API's (Application Programming Interface) being offered by brokers such as Zerodha's Kite and Upstox's Developer API, the retail population can technically circumvent the approval process. In other words, algorithmic trading is truly open to the retail population in India.

High-frequency trading, also known as HFT, is a subset of algorithmic trading. It uses powerful computer programs to transact a large number of orders in fractions of a second based on complex algorithms that analyse multiple markets and execute orders based on market conditions.

High-frequency trading strategies is largely driven by their ability to simultaneously process large volumes of information- competition tends to occur through who can execute them the fastest. Computers owned by HFT firms and proprietary traders are often housed in the same premises where an exchange's computer servers are. This enables HFT firms to access stock prices a split second before the rest of the investors.

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For a momentary change of market direction, HFTs make use of techniques which help them in executing favourable trading opportunities. Some of them are:

- Quote Stuffing:
  Initially, huge orders for purchase or sell are placed and then called off in fraction of seconds. Quote stuffing have strong impact on the price which moves as per quote stuffing.
- Spoofing:
  Spoofing attempts to misguide other security holders by showing substantial buy or sell force on the given stock resulting into rising or falling price for particular stock.
- Liquidity Rebate trading:
  Rebate is offered by exchanges like NYSE to the traders for buying at bid and selling at ask which helps them to maintain required liquidity in the market. HFTs transact such huge orders, collect the rebate fees and quickly offer back securities into the market with the use of limit order to earn profit.
- Momentum Ignition:
  Accumulation of securities around a particular price which leads to rise in price as demand quantity is huge. Then slowly cause reduction in pricing which goes along with gradual reduction in trade volume.

However, SEBI has come up with measures to curb the impact of HFT manipulations and improve real liquidity in the stock markets. They include a minimum resting time between HFT orders, matching orders through frequent batch auctions rather than through the order book, introducing random delays for orders, randomising the order queue periodically, capping order-to-trade ratio and creating separate queues for orders from co-located servers (used by HFT algorithms).

TATA CONSUMER TO LAUNCH EIGHT O'CLOCK COFFEE

Ms. Akshata Khandekar,
Alumni,
M.L.Dahanukar College of Commerce

"The company is focusing on bolstering its e-commerce capabilities, and a few products have been already launched in the direct-to-consumer model. The Eight O'Clock Coffee will be launched in the D2C model next week," said N Chandrasekaran, Chairman of Tata Consumer Products Ltd.

Tata Consumer Products Ltd (TCPL) will launch its Eight O'Clock Coffee in India as a direct-to-consumer brand next week. The move is aligned with the company's plans to expand its e-commerce capabilities, N. Chandrasekaran, chairman, TCPL, said at the company's 58th Annual General Meeting.

"To achieve the next level of growth by leveraging this expanded product portfolio, the company is now implementing and integrating its distribution network and supply chain to drive efficiency and, more importantly, agility. Undertaking an end-to-end digitalization of its channel partners, and field force is another key initiative.

Eight O'Clock is the fourth largest roast and ground coffee brand in the US, the company said. It sells ground coffee apart from single-serve pods used in coffee machines. Eight O'Clock Coffee Co. Ltd is an unlisted subsidiary of Tata Coffee Ltd.

TCPL, which sells a range of essential food and beverage products in India, such as tea, coffee, salt, pulses and ready-to-cook mixes, has been experimenting with more online-first brands as the pandemic altered consumers' shopping behaviour.

Share of sales from e-commerce more than doubled, growing over 130% in the last fiscal, said Sunil D'Souza, Managing Director and Chief Executive, TCPL.

TCPL is focusing on pushing more products through a strong distribution network, both offline and e-commerce, and leverage the Tata Super app, Chandrasekaran said.

Designed by:
Bhavya Bhat, TYBAF

If you wish to contribute your articles to be featured in the next issue, please mail your articles on swapnils@mldc.edu.in or contact on 9987094858 by Tuesday of every week and wait for the issue to be released on Saturday.

All Articles in this issue are the personal views of the authors and the college does not necessarily subscribe to the personal views of the authors.

Editor-in-Chief
CS Swapnil Shenvi, Coordinator –B.Com.(A&F)
M.L.Dahanukar College of Commerce