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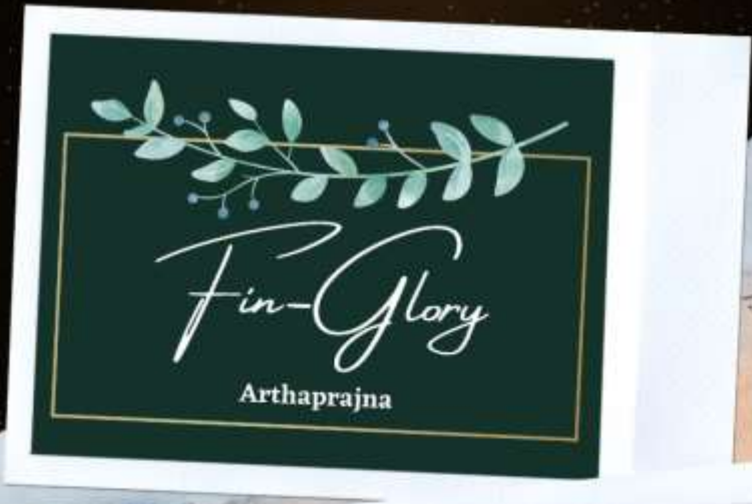
ARTHAPRAJNA



"Money is good for nothing unless you know the value of it by experience."

Fin-glory

From the Editor's Desk:

Dear readers,
Greetings from PIM
"An investment in knowledge pays the best interest".
–Benjamin Franklin

Without further ado, we the members of Finance Forum-FIN-GLORY present before you the 1st issue of Volume 13th of ARTHAPRAJNA.

This volume comprises of columns namely, FIN-WINGS , FIN-TOOL , FIN-PERSONALITY , FIN-TERM , FIN-TOON and FIN-FACT . We are planning to come up with few more additional columns for which we solicit your ideas too.

The Fin-Glory highlights the effects of escalating technological advancements in the field of business.

This issue presents before you the analysis of the components of plastic money, the idea of Bootstrapping, Inspirational story of the promoter of Nykaa, ROE as a tool of fundamental analysis and overview of the current stock market scenario.

Our team consists of Naveen R. Bhat as a Main editor, Sameeksha M.Prabhu and Heera Sanam of 2nd MBA as Language editors & Sowmya and Mayura Shetty of 2nd MBA as technical editors.

ARTHAPRAJNA Team eagerly awaits your valuable feedback.

Please do mail us at arthaprajna@pim.ac.in

Regards: Team Arthaprajna

FIN-TOOL

DECODING THE COMPONENTS OF CREDIT-CARD PLASTIC MONEY

Plastic money-that's what credit cards represent. The flexibility of using this rectangular piece of plastic is that it fits inside one's wallet. A credit card is usually identified by an unique 16 digit number. The sixteen digits are used for maximum protection so as to minimize the chance of even unintentional misquoting of credit card numbers.

Let us understand how the system of credit card works. The important entities in the system are:

- The Card Issuing bank (CIB);
- The Service Provider (SP);
- The Merchant Establishment (ME), and
- The customer who is issued the card.

The **CIB** initially prospects the business and takes an initiative to issue a credit card to the end customer. It is not necessary for an individual to hold an account in the **CIB** to apply for a credit card. **CIB** scrutinizes the application based on parameters of credit worthiness and then issues a card with an appropriate credit limit (also called spending limit) to the customer. Spending limit represents the maximum amount a card holder is allowed to accrue as debt at any point of time against a single card. Higher spending limit you would be accorded depending on the annual declared earnings.

The Service Provider (SP) is an entity that provides a network of system for all transactions to take place. The most visible service providers are VISA and MasterCard. We need to understand that VISA and MasterCard do not issue credit card on their own, but the CIBs issue those cards run on the systems provided by either of the two. The SP provides the network, processes etc., to facilitate transactions, enlisting the Merchant Establishment (ME) to add power to the network is also the responsibility of the SP.

Why are there only two major SPs while there are too many CIBs?

There probably isn't enough space for more **SPs** to operate. American Express is also an **SP** but the acceptability of Amex cards pales in comparison to that of VISA and MasterCard. VISA and MasterCard fight it out for the widest acceptability. Some of their advertisement of MasterCard goes like: The storyline ends like this, 'There are some thongs money can't buy. For everything else, there's MasterCard'. Surely you will also recall the ex-bond Pierce Brosnan flashing a VISA card for the damage he causes to the rickshaw- 'VISA-All it takes'.

The **ME** is any retail outlet that accepts the credit card. At most stores, you would find the stickers of VISA and MasterCard, or at least one of them. This indicates that the **ME** will honour credit card that run on the system provided by the respective SPs.

To understand the complete flow of events and processes, lets us look at a typical transaction that happens at a retail outlet:

Let's assume that you purchase an article for Rs.1000. You pay with your ICICI bank VISA card. The **ME** accepts your cards, swipes it on a console and enters the transactions amount. When swipe is done, the information containing the magnetic stripe of the card is captured by the machine. This is matched against the central database at the **SP**'s end. The checks are done to verify the authenticity of the card, and the transaction amount is approved if it is within the approved credit limit. A Bill is generated and the customer signs on the bill. He accepts to pay the transaction amount at a future date when the bill is presented to him by his **CIB**.

Credit card bills are generated once in every month. This statement contains the list of purchases the customer has made till a particular date. Depends when the purchases are made, the customer can enjoy an interest free credit of up to 55 days. (The period differs between CIBs).

The onus of collecting the money from the customer rests with the CIB. The **ME** is assured of its payment from the **CIB** the moment the card is swiped. The **CIB** usually charges a transaction fee of *2.5%* from the **ME** for the service. This is shared between the CIB and the SP. A larger part of this would be retained by the **CIB** as it takes the risks associated with the non -payment from the customer. In transaction where the margin for the **ME** is less- like customer durables- the **ME** might even ask for an additional *2.5%* to cover its transaction cost with the **CIB**. At some retail outlets, if a customer is willing to by cash, she can negotiate for discount on the total bill. This suits the **ME** well as there is no transaction fee involved and is assured of liquid cash flow straight away.

The customer is charged a joining a fee and recurring annual fee for the usage of the card. The competition in the credit card industry has forced many **CIB**s to waive one, or both, of the above-mentioned fees. Also, the customers can redeem the points they earn by virtue of their spending against the renewal fee. High spenders also get other benefits based on their spending levels. All these are promotional schemes to encourage higher usage of particular card. Let us not forget that the CIB makes money every time a card is used and so the return is highly variable.

<u>Revolving Credit</u>

The caveat in credit card spending is "never" to have any bills outstanding. If a customer does not pay the total outstanding amount by due date, the **CIB** may charge interest up to *44% per annum* for the outstanding amount and probably another service charge on top of It. This is where the **CIB**s makes additional money. In fact, **CIB**s actually encourage customers to revolve credit by offering appropriate schemes. If a **CIB** is convinced of a customer's ability to pay-now or a couple of months later-it makes business sense to allow the customer to postpone the payment. In no other form of financing can a bank realize a return of *44% per annum*. The actual amount a customer pays by revolving the credit will be small, but when we consider the total revolving credit used by all the customers of CIB, the interest accrues to sizeable amount.

Relationship Building

CIBs use the credit card route to establish long standing relationships with customers. Some bank issue free credit cards to MBA students when they are in college. The rationale is simple but quite logical. A person usually has some emotional attachment to the 'firsts' in his/her life. Imagine an MBA students getting a photo credit card-with photo etched on the plastic card. Probably that is the first for him/her. The **CIB**s know that the MBA students will make good money when they start working and so the credit risk is minimal. The **CIB** follows it up with an SB account for the student. After the students graduate and decides to take a two-wheeler/Car/Housing loan as he/she progresses in one's career, the preferred banker will be the **CIB**. The **CIB** has no problem in extending any credit to the person as long as the repayment history is good. The person might avail of personal loans for her marriage and for her daughter's education and marriage. That is really long-term thinking. Research has indicated that it takes more than four times effort and money to find a new customer than to service an existing one. A customer now has the option of getting personal loans credited to her bank account based on her credit history with the CIB.

Co-Branding

Since, credit card business is all about getting a share of the consumers spending, **CIB**s and other entities get together and promote co-branded cars. Co-branded cards with the petroleum companies offers additional benefits to customers, like discounts on consumable for automobiles. Co-branded cards in travel industry offers free upgrades to business class while travelling by air, access to VIP lounges at the airports etc. Customers now even avail schemes that allow them to go on a foreign holiday and pay through EMIs that would be directly billed to the credit card.

Source: Indian Express Newspaper

Written By:

Naveen R.Bhat
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INDEX	COMMODITIES	CURRENCIES
BSE SENSEX: 58807.13	GOLD: 47934.00	1 USD = 75.52₹
NSE NIFTY: 17516.85	CRUDE OIL: 5421.00	1EUR = 85.54₹

The table shows the data as on 09-12-2021

FIN-TERM

BOOTSTRAPPING

Bootstrapping is a term used to describe when an entrepreneur begins a business with very little money and no outside funding. When someone tries to start and build a business using their own money or the new company's operating profits bootstrapping, they are said to be bootstrapping.

Entrepreneurs usually apply for business loans from commercial banks and other sources but when an entrepreneur starts business through his own fund is said to be bootstrapping.

Usually bootstrapping is taken as a business model when an entrepreneur is lacking skills for product development and promotion as well as lacking higher experience in formulating business plan.

Usually bootstrapping goes by 3 stages:

- **Beginner stage**

In the beginner stage the entrepreneurs start business with their own savings or borrowed money from their friends.

For example: If the founder is doing some job, he continues to work on the same job and can use the salary for his new business.

- **Customer-funded stage:**

In customer-funded stage the company/entrepreneur starts using whatever money is earned from his customers through sales or service rendering for his business.

- **Credit stage**

In credit stage, entrepreneur focuses on funding the amounts to some activities such as hiring of staff members, improving equipment's, etc. At this stage the company takes loan or tries to find venture capital for its expansion.

Some tips to reach your goals in bootstrapping a new start-up:

- Minimize overhead expenses
- Avoid credit card debt
- Careful evaluation of expenses
- Test the market in small ways
- Manage own public relations
- Do own market research

Bootstrapping is nothing but encouraging or boosting up new businesses. It is helpful when the business involves more risk as there is no outside funding.

Here the entrepreneur is not answerable to the investors as well as there is no need of spending time on hunting out the investment. The entrepreneur uses his own money may be rupee so he can manage company's money efficiently and effectively.

On the other hand, as he starts business with smaller fund, faster growth might be little difficult.

However, the concept of bootstrapping will be really beneficial to those who want to start their own business without the monetary help of others.

Written By:

<u>*Source: Investopedia*</u>

Sowmya
2nd MBA

FIN-PERSONALITY

<u>"A VISIONARY IS CONSTANTLY NAMED INSANE UNTIL THE TIME THE PERSON TRANSFORM IT INTO A REALITY".</u>

Falguni Nayar, the organizer of Nykaa, one of India's greatest web-based design and way of life entries, had been carrying on with the best life. Falguni Nayar is an Indian businesswoman and billionaire who is the founder and CEO of the beauty and lifestyle retail company Nykaa. She is one of the two self-made female, Indian billionaires. Subsequent to serving 20 years as an endeavor financial banker and trader with Kotak Mahindra, she out of nowhere declared her take-off to seek after her fantasy. Exploiting the extent of magnificence and skincare items on the web, she directed herself towards Nykaa, and out came a stage that made history with its appearance. Maintaining her internet-based business effectively, alongside 35 physical stores, clear a path for a business person who told the world that age is only a number.

Falguni Nayar established Nykaa in 2012 with the vision of building a multi-brand omnichannel excellence zeroed in retail business. By engaging client decisions and empowering brands to arrive at the expensiveness and profundity of the country, Nykaa has arisen as India's driving magnificence retailer assuming a basic part in fostering the excellence market in India. Nykaa-ites, Falguni has assembled a delight and way of life retail domain with an arrangement of 1500+ brands, including its own private mark, accessible on the web and across 68 stores in India. Nykaa's income surpassed Rs. 1200 crores in income in FY19 and was on target to surpass Rs. 2000 crores in FY20. Nykaa has wandered into new verticals like:

Nykaa Fashion - a design first, style drove organized design stage.

Subsequent to moving from IIM Ahmedabad, Falguni began her vocation in talking with A.F. Ferguson and Co. She then, at that point, gone through 18 years at the Kotak Mahindra Bank, helming a few organizations and was the Managing Director of Kotak Mahindra Investment Bank, and was chief at Kotak Securities – the bank's institutional values division.

Today, heading a group of north of 1600 Nykaa-ites, Falguni has assembled a delight and way of life retail domain with an arrangement of 1500+ brands, including its own private mark, accessible on the web and across 68 stores in India. Nykaa's income surpassed Rs. 1200 crores in income in FY19 and was on target to surpass Rs. 2000 crores in FY20. Nykaa has wandered into new verticals like Nykaa Fashion - a design first, style drove organized design stage.

The brand is presently exemplification wellbeing and excellence, and it is further opening its extravagance stores (Nykaa extravagance) in chief objections. Nykaa has likewise been a leader in bringing global extravagance brands to India, giving Indian clients sweeping items and administrations to browse.

Written By:

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2nd MBA

Source: ebnw.net

FIN-TOON

"These financials look right. They smell right – they're either right or Very clean."

By,
Sowmya
2nd MBA

FIN-FACTS

FUNDAMENTAL ANALYSIS OF STOCK USING "RETURN ON EQUITY"

Return on equity (ROE) is one of the ratios / tools where the investor uses while analysing the company whether to invest their capital or not in that particular company. It helps the investor to identify attributes of the company. ROE tells what the shareholders earn on every unit of capital he has invested and the ability of the company to generate return to shareholders. ROE helps in the purchasing equities; it is the market price value of the future value of company cash flow.

Return on equity is done for long term Investment. It tells if a person would like to invest his money in a company for long term and for that first he has to know what is the high return he gets. If there is high risk there will be high return, as an investor he knows what is the return he is getting. The ideal percentage of ROE should be at least 15% (Bench mark) where the percentage is denoted from India's yearly growth rate + average inflation rate, but preferably above 18% is good.

If the person has invested in shares, he selects the company whose ROE is more than 15%. If the return on equity is less than 15% then the investor doesn't invest his stocks in that particular company.

How to analyse company according to Return on Equity?

ROE = Net profit/ total shareholder's fund.

Total shareholders fund Means everything which belongs to equity shareholders (like: - equity capital, reserves, etc.). While analysing a company using ROE investor observes performance of previous 5 years. If the ROE is same for last 5 years; if there is any change it means sometimes there will operating income in a company that is to be deducted from Net profit.

As an investor he compares ROE of many companies and selects the best company among them whose ROE is high. While comparing ROE of last 5 or 10 years. HUL, Infosys, Asian Paints are good examples whose ROE is greater.

The company whose ROE for 5 or 10 years is ">20 and Market capitalisation>1000" crores among those investors has to choose the best company. If the ROE of a Company is high its market value will also be high. The company with high debt should not be considered for ROE.

Paid up capital is one of the components of equity capital (face value * no. of shares). Companies sometime don't give all profits earned to the equity shareholders. They keep some as retained earnings.

Other income like non-operating income which is one time in nature has to be removed from the profit while analysing. If there is debt held by a company, while analysing ratio through Return on capital employed (ROCE) the investor gets to know the price earning and price to book value becomes the property of particular Stock.

Price earning tells investors how much the market is ready to pay for one rupee earning of company.

Equity shareholders are the true owners of the company. They are internals to the organisation having voting rights etc. ROE gives exact % for the prediction investors do. Investors are happy if they are getting higher return on equity for the capital they invest.

Written By:

Source: Investopedia

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FIN-WINGS

STOCK MARKET: VIEW OF CURRENT SCENARIO

The BSE Sensex closed at 57,260.58, up 153.43 points or 0.27%. It recorded an intraday high of 57,626.51 and a low of 56,382.93.

The Nifty 50 closed at 17,053.95, up 27.50 points or 0.16%. It recorded an intraday high of 17,160.70 and a low of 16,782.40.

Nifty Midcap 50 was down 1.52% while Nifty Small cap 50 was down 2.63%. The S&P BSE Midcap was down 0.93% while the S&P BSE Small cap was down 1.90%. Indices closed marginally higher on today in the volatile market. Market indices recovered from early loss to end marginally higher, led by IT shares. Multiplayer comes witnessed heavy selling pressure throughout the day.

"As the Nifty approached near its 20 DEMA (Double Exponential Moving Average) resistance around 17,500, we witnessed a selloff in certain heavyweights which wiped off some of the weekly gains," said Ruchit Jain, trading strategist at online brokerage 5paisa.com.

On 29th Monday global cues are totally good compared to that on 26th Friday, especially the East Asia market did not react as much as U.S and Europe market reacted for the new omicron variant of coronavirus. But otherwise, European market are 1% higher and US market are 1.08% higher.

Everything was good and today the premarket Bank Nifty showed more than 200 price higher as because the good news for Kotak Bank, the RBI allowed the promoter to retain up to 26% but as earlier the RBI said only 15% the promoter can hold. This was really the positive nature for the Kotak Bank as well as IndusInd Bank. And also LIC has got permission to increase the stake holding in Kotak Bank from 5% to 10% but it as a fall on the opening of market today at 9:15 a.m. within few seconds of market opening there was a huge sell order and the selling was in mass this was not happening for the first time, this month selling was continuously going on from many days and even on 29th November by the FII (foreign institutional investor) they are selling huge amount of shares in Indian market as they are just artificially keeping the SGX Nifty higher. This happened today as SGX Nifty was showing significantly higher the moment the market opens today, within few seconds today Bank Nifty falling nearly 1000 points from the intraday point of view and Nifty falling more than 300 points from the opening level and closing level its positive.

On the day market was such a downfall as technical the rules broken, this foreign institutional investor selling shares is not going to stop as there is a high chance that it can continue for over to 2 to 4 weeks, after there will be an inactive of FII the Indian market can get recover. There is a high chance when the market gets positive result the bouncing from support level to the top is possible. But the way of selling by FII is totally disturbing the Indian market. Bank Nifty falling intraday by shooting up to 1000 points but the closing drop to 200 points. Certainly, it can be said that option strategy is crazy in the market at a very high premium.

In all of these Reliance is Dominating the market maybe by some points upside and in some points downside in some days but the maximum points were contributed by Reliance industries. Kotak Bank and HDFC Bank together contributed more than 200 points for Bank Nifty. With that even also Bank Nifty closes below 100 points that is because Axis Bank, State Bank, ICICI Bank all of them contributed on the negative side.

On seeing the side of Axis Bank there was around 200 points downfalls from the past week, this fall is around 25%, even with the SBI there was a downfall of 80 points. With that many of the blue-chip company falling around 20% particularly banking sector. FII selling continuously as of today FII could have sold few thousand crores of shares in the Indian market. Other than that Omicron variant of coronavirus is the only reason for making the FII investor selling their shares, there is no big global cues news for the reason of downfall.

China industrial data was released which was good and the direct tax collection in India is up to 68%. When it comes to India all the data points are good. Only the bad news is FII selling in the market. Surprisingly last week of 26th Friday also market fell in huge. Presently Nifty is in the support level as pertaining many times it broke the support level.

This week Nifty can be traded in 16800 to 17400 points. As there cannot be a Bullish in the market as foreign institutional investors are up to selling. After the world market falling on 26 Friday, they are all consolidating with the positive points, are much volatile in the market in the present as well as in the future.

Conclusion

For the time being the market setup is not good there will be Bearish as foreign institutional investors is going to continue is selling no matter how good there will be global cues. On 30th November there will be more volatile as end of the month, as the data of GDP will be published and in upcoming days the sale data will also be published. Midcaps and small caps continued to witness increased selling pressure as broader indices closed in the red. Trader should be cautious in the market in the upcoming days.

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Source: 1) Business Line

2) The Economic Times

FIN-QUIZ

CLICK HERE TO ANSWER