Infineeti Newsletter

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Inside this issue

Monetary Policy: Quarter review

The global economy at large is in a synchronized slowdown, and the domestic macroeconomic situation evokes concerns. Inflation and the large twin deficits (current account deficit and fiscal deficit) threaten to further rock the macroeconomic stability far away from equilibrium.

Under these conditions of global uncertainty and domestic macroeconomic pressures, the stance of the monetary policy is as follows:

- Contain inflation,
- Support a sustainable growth path over the medium-term, and
- Continue to provide liquidity to facilitate credit availability to productive sectors

Measure

The statutory liquidity ratio (SLR) of scheduled commercial banks has been reduced to 23% from 24% of their NTDL with effect from the fortnight beginning August 11, 2012.

Response to the measure

Banks said they will not cut their lending and deposit rates. Since most banks are holding excess government securities in their books, bankers say that a cut in SLR will not affect their liquidity position.

Expert Opinions

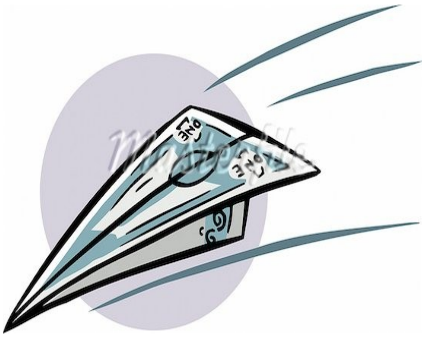
"The growth estimate of 6-6.5% is reasonable. RBI has taken a cautious stance...As far as reduction in growth rate is concerned, I agree that growth rate is going to be lower that what was projected at the time of the budget." - Montek Singh Ahluwalia, *Deputy Chairman, Planning Commission*

"The central bank and the government need to coordinate and find a solution to balance the monetary policy, improve the fiscal situation and to get growth back in the economy. The situation in the economy calls for urgent and decisive action and the primary agencies—RBI and government—responsible for policy making should prepare an effective roadmap together." - R.V. Kanoria, *President, Federation of Indian Chamber of Commerce and Industry (FICCI)*

"This is a bold step from RBI and it certainly needs to be appreciated. With headline inflation persistently remaining above comfort level of 7 percent, this policy stance of retaining repo rate looks justified despite obvious impact of tight monetary policy for past two years on the growth slowdown. Although SLR is expected to maintain liquidity levels, it may not show any significant impact as the liquidity conditions have been already eased out since the April policy, which included injection of liquidity by way of open market operations." - Anis Chakravarty, *Senior Director, Deloitte in India*

MCX-SX: A new journey begins

SEBI granted permission to MCX-SX to operate as a full-fledged stock exchange on 10th July,2012. MCX-SX was first granted recognition by SEBI in September 2008, but was only allowed to conduct trading in the currency derivatives segment. MCX-SX is the first national-level equity exchange to be launched since 1998. With the approval MCX-SX would now be able to offer asset classes such as equity and equity F&O, interest rate futures and wholesale debt segments. SEBI however, has set a condition that the promoters of MCX-SX would have to reduce stake to five percent in 18 months.



Many market participants believe that the NSE and BSE put together, offer everything there is to offer in the business of running a bourse. They have one of the largest pools of listed stocks in the world, they operate on state-of-the-art automated trading systems, backed by well-oiled clearing and settlement machinery. However, have the Indian stock exchanges excelled in allowing new businesses to raise funds for their needs, facilitating the allocation of capital through fair price discovery and providing liquidity at all times for investors to buy and sell their holdings? Not really. Here is where the MCX-SX can distinguish itself from the existing bourses.

The cash market has been shrinking and there is a downtrend in the liquidity in the cash market as well. The MCX-SX can focus on building volumes by launching new derivative contracts with hefty incentives at such a time.

Getting long-term investors interested once again in buying shares is not easy but better access to Tier II and Tier III cities and product innovation involving neglected product categories like debentures and bonds or new asset classes such as silver and real estate, can help accomplish this objective.

The MCX-SX can also set a high bar on the quality of companies and members who do business on it. This along with the MCX-SX's technological backing will aid surveillance and regulation of trading activity to avoid price manipulation.

Finally, the MCX-SX can provide investors with more readily accessible information about company financials, shareholding and material corporate action which companies are required to file with stock exchanges. Organizing and presenting this information to the investor in a user-friendly fashion along with a periodic disclosure of the volume of the exchange's business can increase attraction and establish the new exchange's credentials with investors.

FOUR-YEAR BATTLE

October 2008: MCX-SX starts operations in currency derivatives

August 2009: SEBI wants dilution of promoters' stake before allowing stock trading

July 2010: MCX-SX moves Bombay HC

September 2010: SEBI issues showcause notice to MCX-SX violations and passes order rejecting the exchange's application

March 2012: HC sets aside SEBI order

April 2012: SC disposes of SEBI petition

June 2012: SEBI notifies new regulations after SC sets deadline

July 2012: SEBI gives approval to MCX-SX to offer trading in other assets

FACULTY OPINION
Professor Pratap Mohanty

FDI in Multi-brand Retail

Let us first look at the guidelines related to FDI in retail in India:

· FDI upto 100% for cash and carry wholesale trading and export trading allowed under the automatic route

· FDI upto 51% with prior government approval for retail of single-brand products, subject to Press Note 3 (2006 series)

· FDI is not allowed in multi-brand retailing in India

What would be the benefits of allowing FDI in multi-brand retail in India?

The consumer will benefit from the price and better quality of products. Since there will be a wider variety available to the consumer, he will be able to substitute certain goods for others and hence, will not be constrained by the availability and price range of only a few product types within a category.

Manufacturers will gain from the economy-of-scale and scope of production that will come about by allowing FDI in retail. The availability of better technology will be a boon for producers and ultimately for the consumer as well.

Better warehousing facilities will be available to manufacturers and SMEs will not be hurt because the requirement of sourcing raw materials from India for large global players like IKEA will ensure that SMEs survive and even further expand as the globally players themselves grow and broaden their market base.

What would be the disadvantages of allowing FDI in multi-brand retail in India?

The domestic retailers will be negatively impacted as global players like Walmart and Tesco open stores offering a range of household items and grocery directly to consumers. This could lead to a widening gap between Indian users. The segments of the population with higher income will avail the benefits of products of higher quality and convenient foreign retail formats, whereas, the poorer segments of society will have to rely on the domestic retailers who would be struggling to compete and perhaps also be dwindling in number.

Additionally, infant industries will face troubles in growth and expansion as established foreign brands and retailers will make the market highly competitive.

Farmers in our country today do not get equal share for their labor under contract farming. The wage rate differentials are very high and proper assessment of labor productivity is not done. It is important that adequate measures be taken in our country to assess labor productivity with better accuracy and provide proper compensation before allowing foreign companies to come and perhaps further mismanage a currently disorganized system in the country.

Ramil Sobti
Summer Internship at Mahindra & Mahindra (Mergers and Acquisitions)

Q. In a nutshell, could you please describe for us the glimpse of Mergers & Acquisitions that you caught through your summer internship experience?

A. The first time we think of Mergers and Acquisitions, we think of valuation and hard-core mathematics. However, only about 15% of the time is spent on valuation and financial analysis while working on an M&A deal. 20% of the time is spent on deal structuring, while another 20% is spent on negotiations. Studying the legal and regulatory requirements and SEBI filing takes most of the time.

Khaitan is the legal advisor of M&M. M&M is the second most acquisitive group after Tatas; with an M&A team of around 8 core people. They keep evaluating potential targets specially to acquire technology. The famous Ssangyong acquisition had technology as the main strategic motive. It is this acquired technology that manifests itself in the new XUV-500. While M&A theory emphasises on synergy from the deal, in practice, it is not always about synergy. It is more about the asset that one is acquiring. Mahindra acquired Ssangyong as it as a very good brand as far as technology is concerned. Its technology would not have been on sale as such, hence acquiring the company was important. Surprisingly, investment banks play a very small role in M&A deals, and are concerned mainly with valuation of the target company. The I-banks which top the League table rankings are not really the best performers. Rather, small banks such as Kotak are doing very well. In the international context, however, I-banks play a very important role in the process of due diligence.

Q. Could you please share with us some details on your project?

A. My project involved preparing a buy-side pitch-book for automobiles. The other project was an internal strategy project, an internal competition among the interns at M&M, wherein I proposed the Enterprise Social Network (ESN) for M&M. ESN provides a universal search bar, which helps to connect with the other employees easily and enhances organisation-wide integration. It is like an FB in the company. I won this competition and got the prestigious opportunity of presenting to the Board of Directors at M&M.

I also got the opportunity to work with Barclays Tokyo on an ongoing international deal.

Q. What skills or learning from IIFT do you think was useful for your project?

A. At IIFT, I studied business strategy which helped me conduct EFAS and IFAS analyses efficiently. While ratio analysis came in very handy, valuation techniques were not of much use to me during the course of my internship as the valuation at M&A level was far more advanced. CFA definitely helped me in this regard.

Q. Describe a typical day for an intern at M&M.

A. A typical day at M&M would begin by meeting the automotive representative and going over the work done earlier. I consulted the VPs of the division to gauge the needs of the current scenario in the auto sector. Some time would then be spent on acquisition opportunities and running my mentor on the short-listed potential target companies. In order to remain updated on the legal and regulatory requirements of M&A, it was important to over the new regulations and keep tracking changes, see when the filing requirements are there and read the thick 300 page CCI book and an even thicker book on Company's Law Act. I would also interact with the corporate law team and get in touch with specific M&A law firms.

Q. What challenges did you encounter during the course of the project? How did you tackle them?

A. The main challenge I faced during the course of my internship was the lack of any prior knowledge on law and regulatory issues, which was worsened by the fact that competing interns knew about law as they had studied it at their B-schools. However, it was not really an uphill task to tackle this challenge. Reading the CCI book and guidance from the buddy who had been assigned to me at M&M helped me tackle the challenge easily.

Q. Tell us something new that you learned about the company while you were working there.

A. Before joining M&M as an intern, I had a perception that M&M was primarily into tractors. However, the fact is that M&M is involved in 'Everything under the Sun', from submarines to airplanes. In India, it is the only private company producing airplanes. M&M is cash-rich in terms of M&A s and is the second most acquisitive group in India.

Q. What would an employee at the company be doing in the profile given to you for summers?

A. The employee would be working on-site on an M&A deal and would be involved in direct client negotiations. He would be an L7M (Level 7 Manager) and would be shouldering a lot of responsibility in the deal.

Q. What were the expectations of the company from you?

A. Surprisingly, M&M did not expect much from its interns. I was given a platform and access to all required resources. I was trusted in a sensitive sector like M&A as much as they would trust a regular employee. I just had to leverage the opportunities and it was up to me to contribute to the company.. At M&M, there is a lot of team work involved, and the best part is that the teams work in a coherent fashion without any inter-rivalry.

"At M&M, they want to see how proactive you are."

Kunal Sinha
Summer Internship at Development Bank of Singapore

Q. In a nutshell, could you please describe for us the glimpse of corporate lending that you caught through your summer internship experience?

A. In DBS' credit risk management there were two groups: CCG (Corporate Credit Group) and CCU (Credit Control Unit). I was working for CCG. DBS is involved majorly in corporate lending in India. They don't have a lot of retail operations or Investment Banking. The CCG is responsible for the approval of loans to these corporates. The relationship managers are the front-end bankers at the different branches whose job is to attract clients. The request for the loan is sent to the CCG which then decides based on the cash flows, industry outlook and other factors, whether the loan should be approved or not. All the loan memos would reach CCG group at DBS, Mumbai and the decisions would be taken regarding the approval of the loan. That's an overview about the general working of Loan Process.

Q. Could you please share with us some details about your project?

A. My project primarily involved data entry, however, I took the initiative to meet various people in the organization and learn about DBS' internal rating system used to rate companies. My mentor used to maintain a database with DBS's entire exposure, which is the total amount of loans they have approved. At the time I Left, DBS India had a total exposure of 1 trillion INR. Apart from other information regarding lending quality the database gave us an idea about the unsecured and secured exposure of DBS, India. The Senior Executive Credit Approver in Singapore uses this information to finally approve the loans and has great interest in minimizing unsecured exposure. Presentations were given to DBS, Singapore about the amount of secured versus unsecured exposure, the credit ratings of the companies as well as the number of subordinated and unsubordinated loans. This plays a major role in formation of strategy. My job during the internship was to ensure that the database was well-updated because when I started the data lacked integrity. My mentor had been busy with his work on credit approvals and had not been able to devote enough time in maintaining data integrity. During the later stages of my internship I was asked by the Credit Risk head to design a process that would make updates to the database more streamlined. This additional component of my project was very interesting and challenging as it involved a lot of negotiation with the CCU department from where we required a lot of important information regarding extent of security creation.

Q. What skills or learning from IIFT do you think was useful for your project?

A. Microsoft Excel was the most useful thing that I had learnt during my first year at IIFT with respect to the work I did for my project. This is a trend which is common in all internships in finance. Communication skills were also very important and so were several things we learned in our organizational behaviour course. Knowing how to deal with people and gathering information effectively from people in the organization is one of the most important skills. Finally, knowledge of financial instruments always helps.

Q. What skills did you develop while working at DBS that you believe will be useful in your future career?

A. Professionalism. This is something I believe you get to learn in a foreign bank like DBS and would not be able to experience while interning at an Indian bank.

Q. Describe a typical day for an intern at DBS.

A. I would start my day by discussing the task for the day with my mentor. The credit risk managers

(CRMs) had memo allotments based on cities and they would pass on their comments to higher authorities and this is how the loan approval process would start. Constant enquiry with other foreign banks regarding client information is a norm. When I felt there was a fault in a memo I would make calls to the Regional Manager in the corresponding branch and get requisite clarification on the matter.

Q. What challenges did you encounter during the course of the project? How did you tackle them?

A. The only real challenge for me in the project was quantification of my work. I also designed a tool called the FRMR – Facility Risk Matrix Rating – which would tell us the quality of our exposure through a single number. Thinking out-of-the-box and coming up with new ideas and figuring out ways to show my work more effectively in my final presentation was challenging.

Q. Tell us something new that you learned about the company while you were working there.

A. Since DBS is a relatively new bank in India, I learned a lot regarding bank strategy for example I learned that DBS does not plan to indulge too heavily in retail operations in India. It doesn't consider it to be lucrative enough. After exhausting opportunities in the corporate loan area, they plan to focus on lending to SMEs because there is a great margin there. Hence, DBS has been constantly seeking opportunities to open up new branches to expand their network with RBI.

Q. What would an employee at the company be doing in the profile given to you for summers?

A. The employee would be directly involved in the credit approval process.

Q. What were the expectations of the company from you?

A. They expect the interns to apply what they learn and think with an open mind. Interns provide a perspective from outside and a thought process that permanent employees aren't able to apply.

Google acquires Motorola Mobility

On August 15, 2011, Google agreed to purchase Motorola Mobility and the deal was completed on May 22, 2012. The deal value was $ 12.5 billion. The aim of this acquisition is to focus Motorola Mobility's remarkable talent on fewer, bigger bets, and create wonderful devices used by people around the world.

Motorola Mobility's full commitment to the Android operating system means there is a natural fit between the 2 companies. Google is great at software; Motorola Mobility is great at devices. The combination of the two makes sense and will enable faster innovation. Motorola Mobility has a long history of innovation in communications technology and the development of intellectual property.

The dominant reason Google acquired Motorola: Motorola's patents relevant to Google's Android strategy.

Google

$ 12.5 Billion

MOTOROLA MOBILITY

Google has acquired dozens of companies over the last two years, and perhaps 100 over its lifetime, but never has it shelled out so much cash. Google is tapping into its $39 billion in cash reserves to acquire the first phone maker to strongly support Google's Android mobile operating system. The $12.5 billion bid represents roughly 30 percent of Google's current cash and securities total. It's a bold move by Google. Motorola has more than 17,000 patents, with 7,500 more pending. This sort of high-tech protection made the buy a no-brainer for Google.

Apple and Microsoft forced Google to trigger this deal after they outbid the search giant for Nortel Network's patent portfolio, which includes core wireless and 4G LTE (Long-Term Evolution) patents. Android has been besieged on all sides by Apple, Microsoft and others with stakes in the smartphone market. Apple and Microsoft have both sued Motorola for patent infringement, claiming the OEM's smartphone designs and features mimic technology they patented. Motorola has a multitude of its own patents under its belt. While acquiring Motorola's patents may not help Google with the existing suits, it could deter future Android lawsuits.

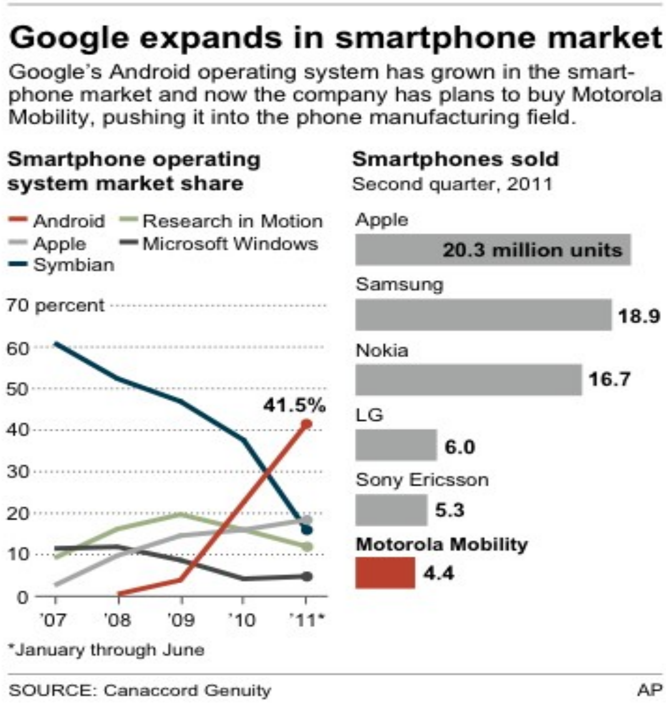
The "obvious" business that fits with Google's possible long-term strategy: Google might integrate Motorola's smartphone and tablet businesses in order to compete directly with Apple and Research in Motion. After all, they are both vertically integrated-hardware and software.

The acquisition of Motorola will increase competition by strengthening Google's patent portfolio, which will enable Google to better protect Android from anti-competitive threats from Microsoft, Apple and other companies. The deal will enable Google to join Apple as a phone maker that offers the OS and application stack along with the hardware.

The good thing is that Google could license Motorola patents to partners like HTC and Samsung, which are also being sued for patent infringement by Apple. There is one other side benefit Google could gain from this acquisition. Motorola is a major set-top box provider for cable television. Theoretically, Google might integrate its Android-based Google TV software directly into Motorola's set-top boxes. That would cut out the Logitech Revue companion box that has suffered from slow sales, giving Google tighter integration with the hardware.

Google has reported a profit of US$2.79 billion in the second quarter, up 11 percent over the same period of last year, in the company's first financial statement since it finalized its acquisition of Motorola Mobility in May. Motorola brought in $1.25 billion in revenue in the quarter that ended June 30, about 10 percent of Google's total revenue. But Motorola also accounted for an operating loss of $233 million, which brought Google's total operating income down as a percent of its revenue by 6 percentage points. Google's total revenue, including Motorola sales, was $12.21 billion compared to $9.02 billion a year earlier.

Google's advertising business remained strong, bringing in nearly $11 billion, a 21 percent increase year over year. But the company's cost per click, or what it earns from advertisers per click, was down 16 percent from the same period of last year. The metric, which has been cause for some concern among financial analysts, did rise a single percentage point since the first quarter of this year. Analysts polled by Thomson Reuters had expected Google to deliver earnings per share, excluding one-time items, of $10.04. Google delivered $10.12.



The surprise acquisition is expected to have a huge impact on tech industry. The deal may cause pressure for other mobile phone makers; RIM (Research in Motion) has the most to lose from Google-Motorola deal. With Google's money and proficiency and its strong reputation, Motorola may directly compete with RIM in corporate market. This may coerce RIM either to enter into a strategic alliance with another company or get acquired by some other tech major to remain competitive. Shares of RIM jumped after the news of Google's Motorola acquisition, under the conjecture that the company's patent portfolio could be worth up to $10 billion in a buyout scenario. The BlackBerry maker has control over 2,033 patents, covering everything from mobile security to e-mail. Google's move may push Apple or Microsoft to go after RIM for its intellectual property.

"The tax benefits of the deal make what was a good deal into a great deal," said Robert Willens, a New York accounting and tax expert. He estimated that through the acquisition, Google can expect to reap $700m a year in tax deductions from future profits each year through 2019. Google also will be able to immediately reduce its taxes by $1bn due to Motorola Mobility's US net operating loss, and by a further $700m due to its foreign operating loss, he said.

News Updates

DOMESTIC

Opposition raises objections to FDI in retail:

The Samajwadi Party, Left parties and the JDs voiced their opposition to the Manhoman Singh-led government over the issue of FDI in multi-brand retail. 'Political parties across the spectrum are opposed to this move. Many state governments have also stated their opposition,' said the letter sent by these parties to the Prime Minister, as per the reports. This event caused retail stocks to plummet. Provogue (India) fell 7.24%, Brandhouse Retails 5.55%, Pantaloon Retail (India) fell 5.11%, Koutons Retail India fell 4.37% Shoppers Stop fell 3.72%, CESC fell 2.12%, Trent fell 1.39%.

Violence engulfs Maruti's Manesar plant:

Violence broke out on as a result of labour disputes on July 19, due to which a senior executive was killed and nearly 100 workers injured, forcing the Japanese car maker to declare an indefinite lock-out in its Indian subsidiary's second plant at Manesar. At 7.3%, the company reported its lowest Q1 margins in the past four years.

BSE launches derivatives for the BSE 100 index:

To make its derivatives segment more attractive, the Bombay Stock Exchange (BSE) has decided to take over the country's most popular financial product, the Nifty 50 index of the rival National Stock Exchange (NSE). BSE today launched derivatives for the BSE 100 index. The cost of trading the BSE 100 will be lower than the NSE's index.

Jindal Steel alleges government reprisal in Bolivia after exiting project:

Indian companies keen on setting up mining projects in developing countries will now have to rethink. Jindal Steel & Power, the Naveen Jindal-controlled steel and utility company that surprised the corporate world in 2007 by proposing to invest $2.1 billion in a mine-cum-steel project in Bolivia, is now facing problems concerning its employees and assets.

India's online education market size to be $40 billion by 2017:

With a network of more than 1 million schools and 18,000 higher education institutions, India is all set to have an online education market of $40 billion, growing 100% from the present value of$ 20 Billion.

Asia Motor Works to roll out luxury buses by Q4:

Heavy commercial truck-maker Asia Motor Works (AMW) is expected to launch its first luxury bus in fourth quarter, which is likely to drive competition in the segment, mainly dominated by overseas players.

Indigo Airlines alleges that government favors a select few airlines:

Indigo Airlines co-promoter Rahul Bhatia today alleged that the government is "tinkering" with aviation policies for "a select few".

RBI ups priority sector lending target for foreign banks:

The Reserve Bank of India (RBI) has increased the priority sector lending target for foreign banks with 20 branches or more to 40 percent from 32 percent in a phased manner.

INTERNATIONAL

The IMF released a pessimistic update on the world economy. It expects global GDP to increase by 3.5% this year, the slowest pace since 2009.

Microsoft announced first quarterly loss in 26 years:

Microsoft has reported a loss of $492 million in the June quarter due to a non-cash write-down of $6.2 billion related to non-performance of online advertising business. This is the first loss reported by the company since it went public in 1986.

Kenichi Watanabe resigned as chief executive of Nomura and other senior managers stepped down because of an insider-trading scandal at the Japanese bank. Mr. Watanabe was the architect behind Nomura opening up to global markets, but his acquisition of Lehman Brothers' non-American assets has hurt the bank.

JP Morgan Chase said that its losses related to credit-derivatives trade at its London office had ballooned to around $5.8 billion. It restated its first-quarter earnings. In May the bank had put the loss at $2 billion.

HSBC hit by provisions:

HSBC declared that net profit fell in the first half, as the bank was forced to put aside $2 billion to cover the fallout of U.S. money-laundering probe and the improper selling of financial products. The series of provisions at the bank pushed up underlying costs by $1.9 billion and ate into the lender's bottom line, cutting net profit attributable to ordinary shareholders in the first six months by 9% to $8.15 billion.

GM sacks once-superhot global marketing chief:

There's a huge executive shakeup today at General Motors involving one of the nation's hottest marketing chiefs. General Motors' global chief marketing officer, Joel Ewanick, has elected to resign effective immediately, the automaker says, "I can tell you that he failed to meet the expectations the company has for its employees," said GM spokesman Greg Martin. He would not be more specific.

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