

FINly



Narendra Modi's Jan Dhan Yojana

Credit
Ratings



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Cover Story

Financial Inclusion: Jan Dhan Yojana

-Abhimanyu

Existing Banking sector

On 15th August 2014, India's new Prime Minister Mr. Narendra Modi declared in his Independence Day speech about the ambitious project of Financial Inclusion by way of Pradhan Mantri Jan Dhan Yojana. Under this scheme, government plans to bring in, all those under-privileged sections of the society who so far had been left untouchable, within the ambit of financial sector. In the last decade we have witnessed significant growth in our banking sector as far as numbers are concerned, in terms of revenue, deposits, credit off take. But when it comes to penetration in terms of its services, it has been marginal. At the time this scheme was launched almost 60% of the population did not possess bank accounts, which means majority of our society is lying outside the economic and financial range of the government.

Rural & Urban Banking at Glance					
Group	Population (Crore)	Branches (in '000)	Per Branch Population	Share of Deposits	Share of Advances
Rural	83 (68)	34 (37)	24	9%	8%
Urban	38 (32)	59 (63)	6	91%	92%
Total	121	93	13	100	100
<i>Source: Census 2011 & RBI Banking Statistics – Handout Dec`11 () denotes percent</i>					

This shows that despite making significant improvement in terms of financial viability, competitiveness and profitability, there are concerns regarding the fact that our banking sector is not able to reach vast segment of our society.

Why Financial Inclusion:

India's economy is a mixed one with agriculture and manufacturing contributing approximately 13.5% and services contributing about 74% towards total GDP. Still agriculture engages 51% of our workforce, hence it becomes imperative to make sure that the policies which are meant for agriculture sector and other related sectors like priority sectors should trickle to the last man standing. The banking services so far have been able to reach the vast sections particularly in rural India where branch to population ratio exist as high as 24,000 and the share of deposits is also abysmally low as 9%. By bringing these sections under financial mainstream and by giving them credit facilities, it will also help them in freeing from the clutches of usurious moneylenders.

Earlier, schemes like Direct Benefit Cash Transfer, MNREGA failed due to the poor banking facilities. Thus, financial exclusion not only widens Rich- Poor divide but also leads to Social Exclusion.

Jan Dhan Yojana:

Launched on 28th August 2014, with thumping response from the public , under this scheme around 15 million bank accounts were opened on the same day and till date 65 million accounts have been opened across the country . The scheme also provides incentives like Rs. 30,000 insurance cover along with additional accidental insurance cover of Rs. 1, 00,000 that will come bundled with a Ru-Pay enabled debit cards. Accounts would be eligible for Rs 5,000 overdraft facility after the effective and judicious use of the account for 6 months, which is also subjected to the credit worthiness of the account holder. With the new technology introduced by National Payments Corporations of India (NPCI), a person can transfer funds and also check their balance through normal phone which was earlier limited to smart phones only. This scheme will also substantially mitigate the problem over money remittances faced by those working in unorganized sector with no access to banks. The ultimate objective of this scheme is to provide every Indian with a bank account so that whatever initiative the government takes in the form of subsidiaries and incentives, it must reach the beneficiaries directly through a definite route. The government also hopes that this will fill up the loopholes within the system and will be very effective in the fight against corruption. The corporate sector has also welcomed this scheme as they believe this will not only infuse liquidity into the system but at the same time it will make the role of banks even more prominent. The priority and small enterprise borrowers will be largely benefitted with this scheme as this will make credit available at cheaper rates with more flexibility of repayment which will give them relief from venal moneylenders. The other aspect of this scheme is to make the banking facilities available across regions, which will make the banking sector more strong and robust. Even the commitment shown by the banks; PSUs along with leading private banks has been phenomenal. SBI, India's largest bank, has set up 11,274 camps and added 20.13 lakhs accounts for the period of 15 days. The second largest public sector bank, Bank of Baroda has added 14.19 lakh accounts through 7610 camps and 6811 service sectors. ICICI, largest private lender introduces about 18.5 million unbanked people into the banking fold, plans to open 2.5 million accounts under the Jan Dhan scheme .On a whole, this scheme is aimed at improving the lives of millions of India's poor by bringing them within the financial framework along with strengthening the financial framework itself .

Future Aspect:

Just like any other flagship program, Jan Dhan scheme's success depends on the implementation part, where the role of banks becomes even more important. The role of the government and the banks is to make sure that the accounts do not go dormant after a certain time and this is where the incentives will play a big role. Only then the target of efficient financial circulation would be achieved. The scheme also provides insurance cover of Rs. 1, 00,000. Under the lure of it there is a possibility that multiple accounts can be opened under a single name, hence all banks need to have a single information sharing system by which this misuse can be stopped. This project largely depends on banking facilities; therefore efforts should be made to make sure banking services reach the last mile in any form. The concept of mobile banking can be very effective here; if payment licenses are given to mobile networking companies then things would be much easier to manage. Here, communication will also play a very crucial role since financially backward sections of the society are neither aware nor used to these services. They need to be aware about the benefits of these schemes, thus communicating the benefits is the key. At the same time, while implementing the policy if the core objective of the scheme is not compromised, this scheme would definitely give us good results in the future.

Educational Section

CREDIT rating

-Shreya Devan

What is credit rating?

A credit rating is an opinion of the credit rating agency about whether there is a chance of default by the borrower. However it should not be confused with a recommendation. It is upon the lender or the investor whether he accepts the rating or not.

Rating is done when there is a need to find out the credit worthiness of a borrower, be it a company or a nation. This need can arise due to various circumstances. Firstly a bank may require credit rating before it sanctions loans or other credit facilities like cash credit or bank overdraft. Banks take the help of credit rating agencies to evaluate the borrower as well as rating it through their in-house rating mechanisms.

Apart from this companies may also come for rating to assess themselves as to where they stand with respect to other companies in their industry.

Types of Rating

A credit rating is a very broad term and includes different types of rating which are:

- **Corporate Ratings:** This means evaluating the credit worthiness of a company by measuring their chances of default in the future. The company is usually a borrower which needs a loan or any other credit facility to be sanctioned by a bank or any other financial institution.
- **Sovereign Rating:** This rating is assigned to a nation and is arrived at by measuring the political risk of the country and various other factors. For example, recently Standard and Poor (S&P) upgraded India's rating from BBB minus to stable because of the change in government mandate and improved political settings after Mr. Narendra Modi was elected as the Prime Minister.
- **Instrument Rating:** A particular instrument can also be rated such as bond rating which is the rating given to bonds issued by government companies and other bodies and predicts how it will perform in the future. Apart from bond ratings there are equity ratings as well as commercial paper ratings.

Credit Rating Agencies

Credit Rating Agencies, also known as CRAs analyse the borrower's financial and non financial information to arrive at credit rating. They are equipped with professionals who are capable of taking accurate decisions about the future position of the company or nation being evaluated.

The first credit rating agency was set up in New York in 1841 and was known as The Mercantile Agency. Today the international credit rating industry is dominated by three names; Moody's, Standard and Poor's (S&P) and Fitch Ratings; also known as The Big Three. They came under attack after the global crisis in 2007 where they gave favourable ratings to companies like Lehman Brothers which went on to become insolvent leading to huge losses to banks and other financial institutions who had given loan to them.



India had its first credit rating agency in 1987 when CRISIL was incorporated. It continues to be the market leader in India with around 60% of the market share. After this in 1991, ICRA (Investment Information & Credit Rating Agency of India Limited) was set up, closely followed by Credit Analysis and Research Limited (CARE) in 1993. In the same year, ONICRA Credit Rating Agency was in-

corporated which provides ratings to Individuals and Small and Medium Enterprises. Apart from them there are few other players in the credit rating sector of India, namely Small and Medium Enterprises Rating Agency (SMERA), Brickwork Ratings India Private Limited, India Ratings and Research (Ind-Ra) and Duff and Phelps Credit Rating India Private Limited (DCR India).

Rating Symbols

A rating symbol can be expressed in alphabetical form, for instance AAA (read as Triple A) indicates high credit worthiness and D indicates very high chances of default. Some agencies use plus or minus signs along with the alphabets to indicate different grades whereas others adopt a combination of alphabets and numbers; for example A1 or B2 wherein the alphabet may indicate their performance and the number may indicate their financial strength. The rating symbol may vary from one agency to another.



Types of Credit Risk

Rating is done by assessing the company with regards to various types of risk.

Industry risk – A rating analyst finds out the growth opportunities and recent developments in the industry in which the company is operating to help them in arriving at a rating.

Business Risk – This is measured by various factors such as whether the company has concentrated set of customers and suppliers (having few customers and suppliers increases the credit risk because losing them means huge loss for the company), profit margins that the company is able to earn in comparison to its competitors and many more factors.



Management Risk – This depends on the quality of management, whether they have previous experience in the same industry and their educational qualifications. Also a rating analyst verifies whether there have been any instances of default by the management in the repayment of their personal loans or credit card repayments.

Political Risk- This risk is taken in to account while assigning sovereign rating of a nation. It depends on the stability of the government and the investing environment prevalent in the country.

Rating Process

Credit Rating is a complex process involving various steps which may vary from one rating agency to another. Some of the basic steps in credit rating are:

- The company which wants its credit rating done **fills up an application form** along with a questionnaire (only in case of some rating agencies) and sends it to the agency along with the rating fees. The company will also need to send its financials and other important documents like Memorandum of Association and Article of Association or partnership deed among others.
- On receipt of the documents and application form, the case is **assigned to an analyst** or a group of analysts who then start the rating process.
- For assigning rating a company's **financial as well as non financial information** are collected. Financial Information includes the trend of their sales and profits, their working capital requirements, proportion of fixed assets etc. Non-financial information includes the management experience, educational qualifications, any innovative business practices adopted by

Credit Score

-
- Excellent
 - Average
 - Poor

- These information are represented through **charts and graphs** as well as **ratios**. Graphs help in easy understanding of the changing trends in the company and ratios like debt equity ratio, current ratio, interest coverage ratio are useful indicators for judging the future loan repayment capacity of a company.
- Some agencies also send their analysts for **site visits** for interaction with management to help in better understanding of the business model. When this is not feasible, analysts may have **telephonic conversations** with the management to bring better clarity to the case.
- After this the analyst **decides a rating**, keeping in consideration all the information collected with the help of financials as well as their interaction with the management.
- The next step is **presentation of the rating** to the **Rating Committee** comprising of senior officials of the agency as well as experts from various business fields. After various discussions, the committee arrives at a rating which in some cases may differ from the rating which the analyst had initially proposed.
- The rating arrived by the committee is communicated to the company and a **rating certificate** is prepared.
- It is upon the company whether they want the **rating** to be **published or kept confidential**. If the company wants it to be published, their rating is displayed on the website of the rating agency along with the rating rationale specifying the salient features which explain why they got this specified rating.
- The credit rating agency is required to **monitor the performance** of the company or the instrument which they have rated till the rating expires. The rating can be for a year which is true in case of most corporate ratings whereas instrument ratings can be for the period till the instrument matures.

Advantages of Rating

To Borrowers

- **Helps in attracting investors** – A favourable credit rating helps the company in getting finance in the form of loans or any other credit facility. A positive rating on its instrument like commercial paper or bonds boosts investor confidence.
- **Reduced interest rate** – One of the main reasons enterprises come for rating is that banks promise them reduced interest rate if they get a good rating.
- **Helps in promotion** – If a company gets a good rating, they can display it on their website which acts as a promotion tool.

- **Performance Assessment** – Credit rating is a very good assessment device for companies which want to know what they are doing right and what not.

To Lenders/Investors

- **Helps in decision making** – A credit rating tells us how likely it is that a borrower will default. Hence if a company or a country has very good or very bad rating it makes the investing public's decision easier.
- **Saves money** – It is not financially feasible for a financial institution or any investor to collect all the information regarding the borrower each and every time they give loan or make an investment. Hence they take their decisions keeping in mind the rating assigned by the rating agencies.

To Government

The responsibility on government to constantly regulate corporate houses is reduced because they voluntarily maintain good standards to get positive credit ratings.

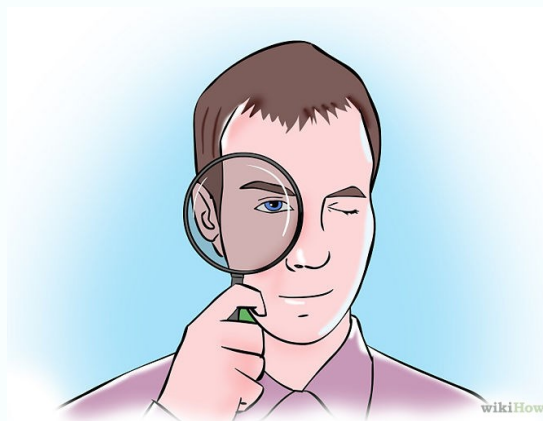
Disadvantages of credit rating

- **Biased opinion:** In most cases the credit rating agency is paid by the company which they are going to rate. Because of this the agency may assign a positive rating to the client with the hope that they will come back for renewal of rating after it expires.
- **Rating is not always objective:** Although a rating is assigned after taking in to consideration many factors, it may not always be objective because at the end it is upon the analyst and the rating committee what rating they give after going through all the information. Hence errors in human judgement can affect the rating.
- **Inadequate monitoring:** Even if rating is done in an unbiased and objective manner, it does not take much time for the environment to change and to make the rating redundant. To prevent this, an agency should constantly monitor the instrument or company which it had rated, but unfortunately this practice is not given much importance in most agencies.
- **Focus on quantity rather than quality:** Nowadays, with the increase in competition among credit rating agencies, many of them are stressing on number of rated cases rather than on the quality of the rating. This forces an analyst to spend less time on one case which invariably affects the accuracy of the rating.

- **Insufficient information:** In many cases, the client withholds important information which they feel can negatively affect the ratings. The analyst is left with no choice but to rate the company on the available information.

What are the basic skills required in a rating analyst?

- **Accounting knowledge:** An analyst is required to at least know the basic accounting concepts because a major responsibility of the job is to analyse the financials of the company which is to be rated.
- **Basic computer skills:** The analyst needs to be equipped with basic Microsoft word and excel functions as most of the work is done with the help of these programmes.
- **Analytical and decision making skills:** Mere financial and accounting knowledge is not sufficient; a rating analyst should make sense of the information available with him and make rational decisions. For instance, a person may know the formulae of all accounting ratios but this knowledge is of no use if he/she does not know what an increase or decrease in a particular ratio implies.

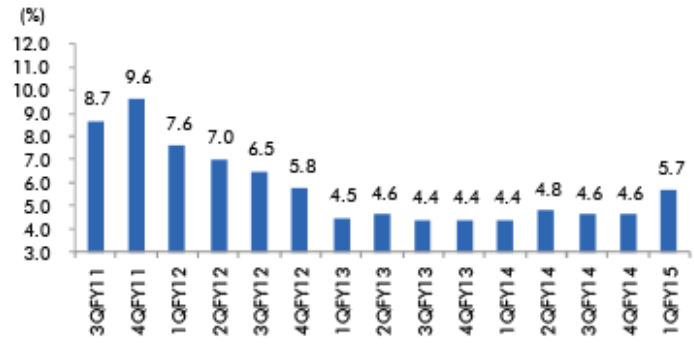


- **Communication skills:** Good communication skills, both written as well as oral, is a very important factor which a rating agency takes in to consideration while recruiting personnel. Written skills are necessary, as an analyst is required to prepare a rating report based on the financial and non financial information collected about the client. Also he/she needs to interact with the management personally or through telephonic conversations and will be required to present the proposed rating in front of the rating committee. For these purposes, excellent oral communication skills are a must.

News Section

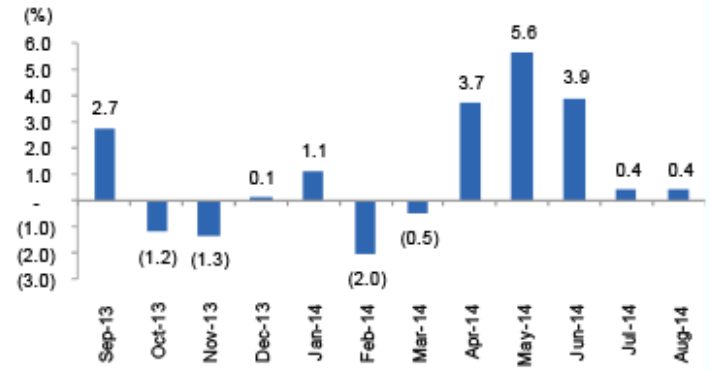
Macro watch

Exhibit 1: Quarterly GDP trends



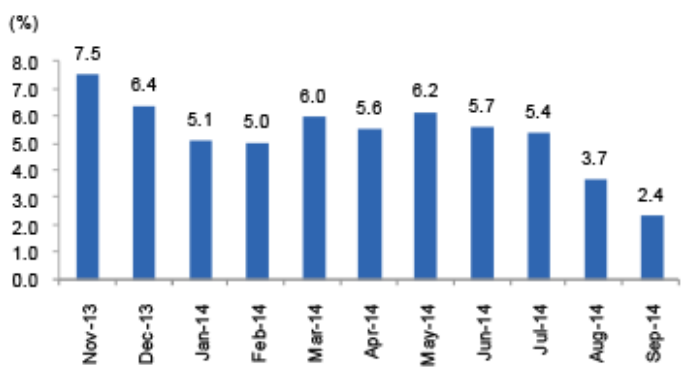
Source: CSO,

Exhibit 2: IIP trends



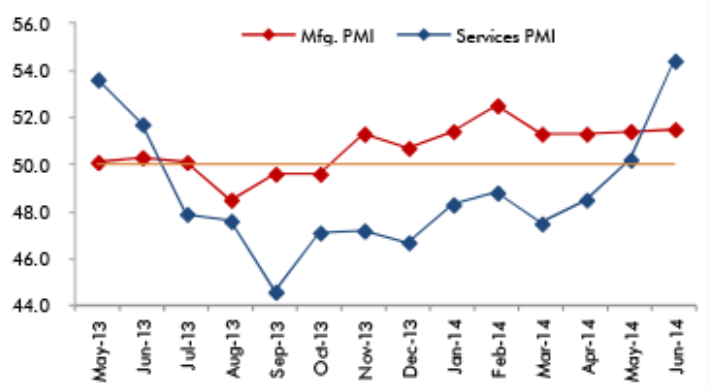
Source: MOSPI,

Exhibit 3: Monthly WPI inflation trends



Source: MOSPI,

Exhibit 4: Manufacturing and services PMI



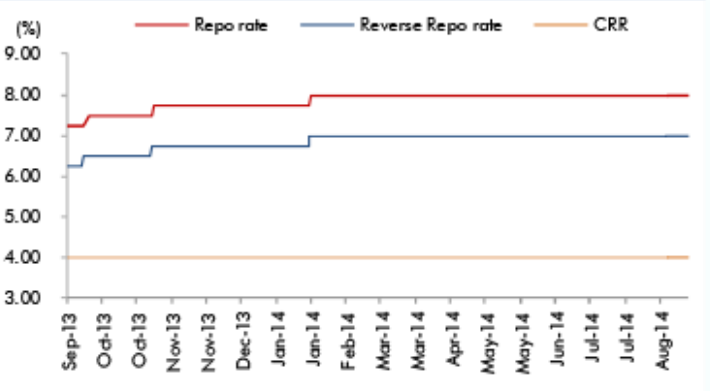
Source: Market, Note: Level above 50 indicates expansion

Exhibit 5: Exports and imports growth trends



Source: Bloomberg,

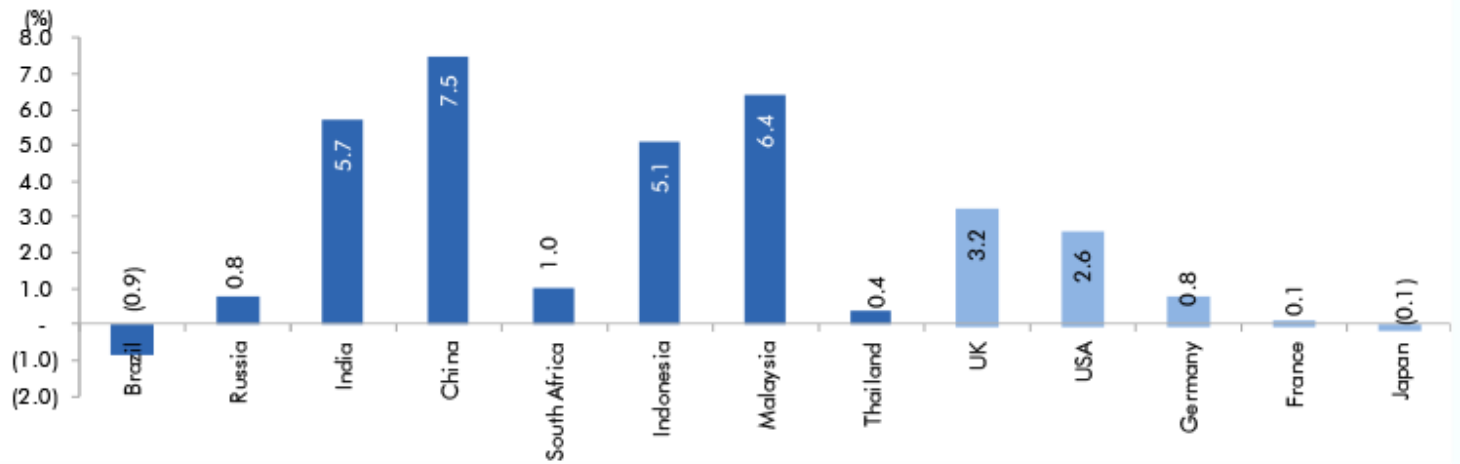
Exhibit 6: Key policy rates



Source: RBI,

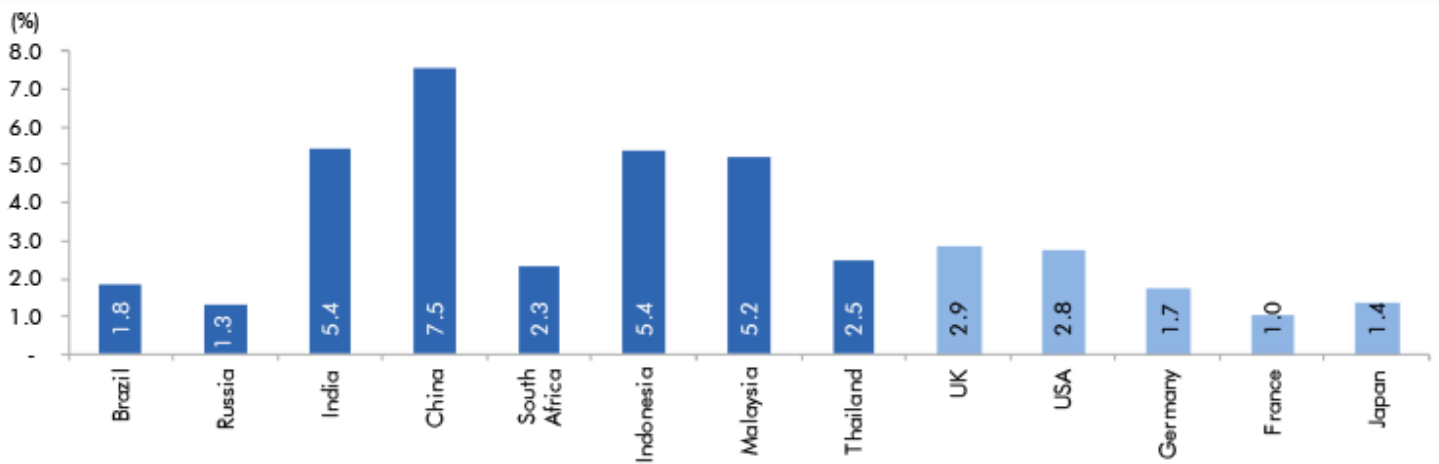
Global watch

Exhibit 1: Latest quarterly GDP Growth (% yoy) across select developing and developed countries



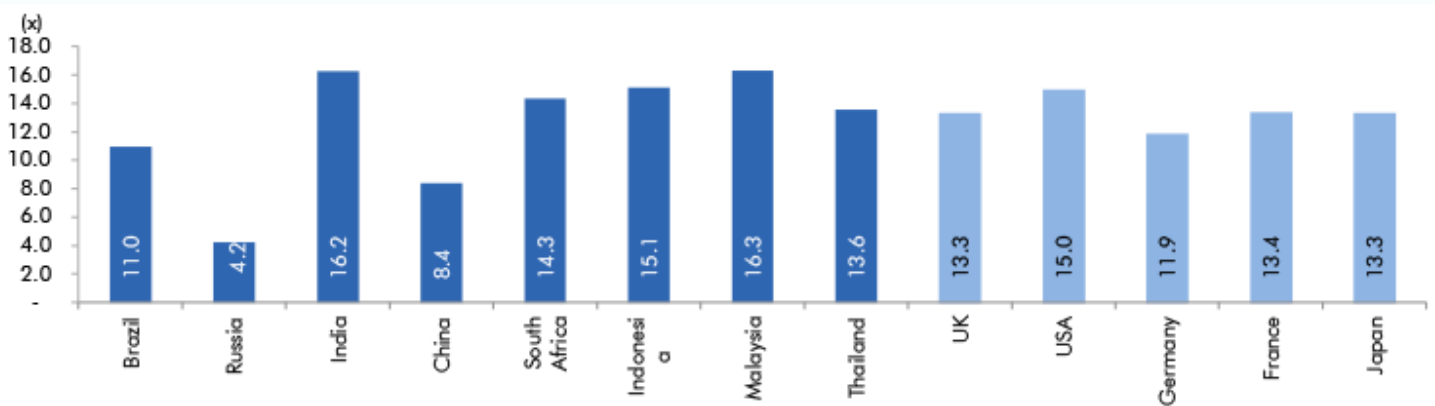
Source: Bloomberg,

Exhibit 2: 2014 GDP Growth projection by IMF (% yoy) across select developing and developed countries



Source: IMF,

Exhibit 3: One year forward P-E ratio across select developing and developed countries



Source: Bloomberg,

Exhibit 4: Relative performance of indices across globe

Country	Name of index	Closing price	Returns (%)		
			1M	3M	1YR
Brazil	Bovespa	54,303	(8.1)	(4.8)	2.2
Russia	Micex	1,376	(7.9)	(4.4)	(11.2)
India	Nifty	7,879	(4.3)	2.2	29.0
China	Shanghai Composite	2,357	1.0	14.4	6.9
South Africa	Top 40	42,480	(9.2)	(10.4)	5.6
Mexico	Mexbol	43,214	(6.4)	(2.3)	6.7
Indonesia	LQ45	855	(2.8)	(0.7)	16.5
Malaysia	KLCI	1,803	(3.2)	(5.0)	0.7
Thailand	SET 50	1,015	(3.0)	(1.7)	3.4
USA	Dow Jones	16,400	(5.9)	(5.1)	4.7
UK	FTSE	6,267	(8.8)	(8.0)	(6.9)
Japan	Nikkei	15,111	(8.9)	(5.6)	3.5
Germany	DAX	8,718	(11.1)	(12.0)	(3.2)
France	CAC	3,991	(11.1)	(9.6)	(8.0)

Source: Bloomberg.

FINZOMANIA

This month we organized our first event of this academic calendar **Finzomania-2014** on 8th oct 2014. Finzomania is the annual financial quiz that is organized by the only finance club of SIMSR **Finstreet**. We are pleased to inform you that this year we received much anticipated response from students across all majors. In all, there were 58 teams (2 members) registered for the online round, out of which 33 got shortlisted for the second round . As per feedback we received from the students the quiz contained questions from diverse subjects of finance, which also tested students reasoning and decision making skills. We also tried to include subjects like current affairs, derivatives, mutual funds, currency, economics, banking and insurance in our stage round , which gave the fair opportunity to all the top four teams which qualified. Finally we have a Winner from PG B team (**Harsh Harwani & Rohit Sarangi**) and runners up from second year(**Monysh Bandedally and Dattatray Bhandarkar**)

We would like to thank our Goodies sponsor **www.livingstyle.in** for their valuable support.



Winners



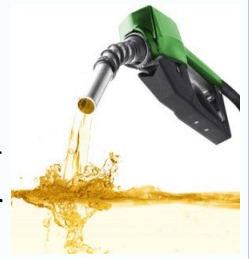
Runners Up



NEWS BUZZ

Diesel price deregulated

Diesel prices will now be market-linked as the government has decided to deregulate it. Government's subsidy bill will come down as a result helping it to inch closer towards meeting the fiscal deficit target of 4.1% of GDP.



Inflation eases to multi-year low

Declining food and fuel prices has seen India's inflation fall to the lowest in recent years. While Consumer Price Index (CPI) fell to 6.46%, the lowest in three years, Wholesale Price Index (WPI) eased to a five-year low of 2.38% in September 2014.

Industrial Output Growth Unchanged

The Index of Industrial Production (IIP) grew 0.4% yoy in August 2014, but remained unchanged from the previous month. This is much below India Ratings and Research's (Ind-Ra) expectation of 2.4%. The below par performance of industrial output growth over two successive months indicates the fragility of India's industrial recovery.



GDP growth pegged at 5.6%

The International Monetary Fund (IMF) has upgraded India's FY15 GDP growth to 5.6 percent from the interim forecast of 5.4 percent made in July and estimates FY16 growth to be at 6.4 percent. The fund believes a pickup in exports and investments have aided India's recovery.

Labor reforms rolled out

The PM unveiled new measures for the youth, workers and employers to improve ease of business for enterprises while expanding government support to impart skill training for workers. Measures include portable PF accounts and a unified portal for labor inspection at firms.



Raghuram Rajan the Best Central Bank Governor

Reserve Bank of India Governor Raghuram Rajan has been conferred with the Best Central Bank Governor award for 2014 by Euromoney magazine. The magazine said Mr Rajan's tough monetary policy combatted the storm ravaging the deficit-ridden economy in the recent emerging market crisis.



Jean Tirole wins the 2014 Nobel Prize for economics

French economist Jean Tirole won the 2014 Nobel Prize for economics for work that has shed light on how governments can "tame" the big businesses that dominate once-public monopolies like railways, highways and telecommunications.

Arvind Subramanian appointed Chief Economic Adviser

Former IMF economist and an IIM-Ahmedabad alumnus, Arvind Subramanian has been appointed Chief Economic Advisor in the Finance Ministry. The post of CEA has been lying vacant since Raghuram Rajan left the Finance Ministry to join the Reserve Bank as Governor in September last year.



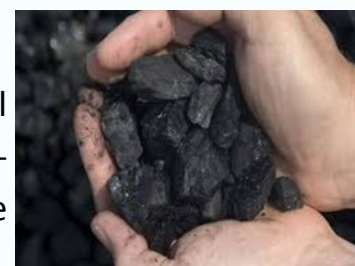
amazon.in

Future Group ties up with Amazon India

Future Group has made a tie-up with Amazon to sell its private labels in the fashion category. Future will use the Amazon platform to sell its private labels such as Lee Cooper, Converse, Indigo Nation, Scullers and Jealous21, among others. Last month, Tata Group's Croma entered into an alliance with Snapdeal.

Supreme Court cancels 214 of 218 coal block allocations

The Supreme Court has deallocated 214 coal blocks out of the 218 coal blocks allocated since 1993. It has asked coal blocks which are already operational to wrap up their operations in 6 months. All the companies have also been fined at Rs 295 per mega tonne.



TRIVIA

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NSE IS FIRST STOCK EXCHANGE IN THE WORLD TO USE SATELLITE COMMUNICATION FOR TRADING



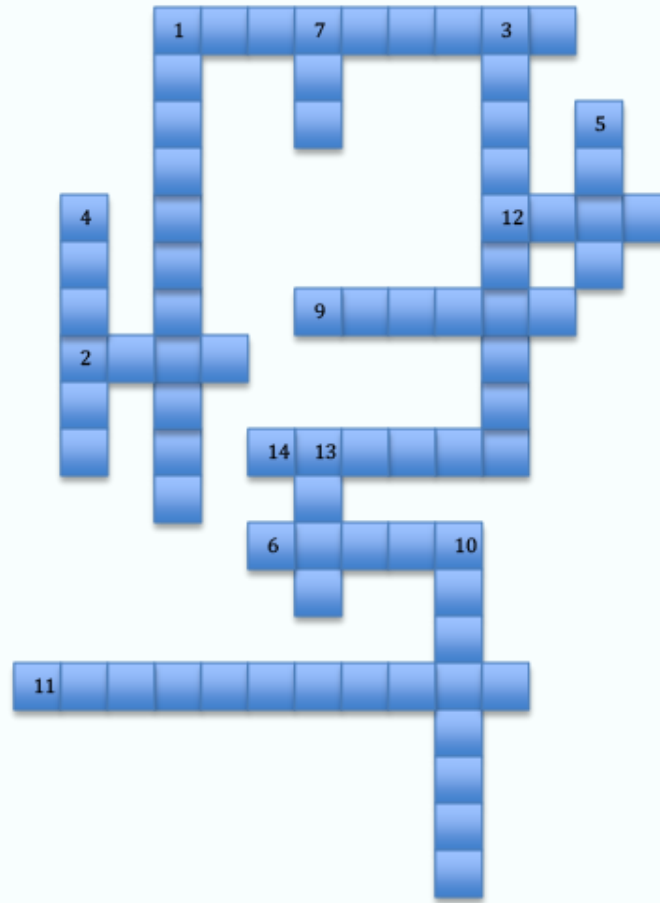
ZIMBABWE HAS EXPERIENCED THE WORST INFLATION IN THE WORLD 6.5 SEXTILLION % IN NOV 2008

1
6,500,000,000,000,000,000,000

UNTIL THE U.S FEDERAL RESERVE WAS CREATED ,INDIVIDUAL BANKS COULD CREATE THEIR OWN MONEY



CROSSWORD- Business and Finance



ACROSS	DOWN
1) A collection	3) Putting money into an asset
2) Money in coins or notes	4) Shares
6) Property owned by a person or a company	5) To lend
9) Money received	7) Contribution to state revenue
11) Finance Minister of India	1) Pooling of money by 2 or more individuals
12) Fraud or dishonest scheme	10) Acquisition
14) Financial gain	13) Exposure to danger

NOTE - There are no spaces between words

1)Portfolio,1D)Partnership, 2)Cash,3)Investment,4)Stocks,5)Loan,6)Asset,
 7)Tax , 14)Profit,13)Risk,10)Takeover,11)Arun jaitely,12)Scam,9)Income

Answers

FINly

Finance Monthly Magazine

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