“Often we want to get rid of the ego because it brings pain. But this desire to be free from the ego magnifies the ego even more. Being natural is the simplest way to overcome the ego. Just take it for granted that everyone belongs to you.”
Greetings. Our much anticipated second issue of Finacle is on course and we have made tremendous effort to bring you this edition. Finacle is a means by which we try to tap the important financial news and bring it to your desk. Filled with inspiration and information as intended.

There are always challenges in any journey which defy your pain. Such was a challenge faced by world economy in 2007-08. We tap into the biggest crisis of all times in our “Special Series” Section.

In this edition we have customised finacle in a reader friendly way, which will ensure knowledge & fun at the same time. The Newsletter also includes important activities over the Globe.

But most interesting in this issue shall be the Budget overview by Dr. K.C Mishra (Vice Chancellor), Sri Sri University. Here he decodes “The Budget that wasn’t”. We are utmost grateful to him to have sought time out of his busy schedule to actually educate the readers about what was the other side of the story.

We look forward to engaging you all with the coming issues.

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Summary Pros & Notorious Cons of The Union Budget 2015

The Union Budget of 2015-16 was presented in the backdrop of sky high expectations of reform. The budget gave due importance to all sections of the economy. It tried to enhance the ease-of-doing business & make India more competitive while keeping its focus on infrastructure development. Macro backdrop for the Indian economy has presented a rare opportunity to bring about the necessary changes needed to propel India towards double digit growth.

Inflation under control, crash in world commodity prices including crude oil giving fiscal space to India, macro-economic parameters suddenly turning positive partly due to feel good factors, resultant external sector buoyancy, no need for aggressive reduction of fiscal deficit giving opportunity to invest in catalytic sectors and years left to face the electorate to recapture power by ruling alliance are bonanza for budgetary exercise.

Budget is really good though most give it 60% due to apprehension of implementability. The central positives in the budget are enumerated in bullets.

Positives

• Increase in capital expenditure by 0.2% of GDP & reduction of subsidy by 0.4% of GDP
• National Infrastructure & Investment Fund
• Tax free Infrastructure bonds
• Less private risk in PPP mode
• Make in India Tax incentives for manufacturing
• Skill India allocations to improve employability
• Black money curbing special laws
• Tokenism to promote entrepreneurship culture
• Steps for ease of doing business while making business more competitive
• Prospective implementation of GAAR from 2017
• Phased reduction of corporate tax in 4 years
• No MAT for FIIs
• Ease of tax compliance
• Convergence of taxes to move to GST

Negatives

There are many good & innovative ideas in budget but in a debate at Bhubaneswar a channel asked me extempore to tell few innovation deficiencies in budget! Bullets below are more a compliance of that request but wise readers can also make sense out of them:
• **Environment tax my foot budget:** Waste & damage to environment must be paid up front. It is very difficult to clean Ganga mess we create;

• **Carbon no issue budget:** Given fiscal space opened up by oil price collapse, time was right for a bold pledge for corporate carbon tax;

• **Edu-dump budget:** Education is master switch of all economic development. By showing tokenism like IIT/IIM/AIIMS, education budget curtailed.

• **Where is the black money budget:** There is no mapping of domestic black money. As indication, look at all commercial real estate transactions of only top 50 cities of India in last 15 years. Will you!

• **Illegal immigrant no issue budget:** Our FM seems to know 40% of fortune 500 companies were formed by immigrants of world. No worry if India has a continuous flow of illegal immigrants to spend budget on!

• **Nirbhaya fund all gender budgeting:** Engender India’s budget dear FM to have real gender equality. Whom are we kidding by topping up unspent Nirbhaya fund!

• **Unemployment can wait for make in India budget:** Germany 8%, UK 20%, France 24%, Italy 40%, Spain 57% and Greece 58% youth unemployed. What’s big deal for India? Dear even educated Indians will have their brain in the domestic drains as brain drain will evaporate without India doing anything!

• **God believing FM budget:** No possibility of pandemics in India though world sits down to provide for 1918 type pandemic possibility by way of Ebola, Swine Flu or what have you!

• **Gold Utopic budget:** World has 10 trillion $ gold but never transactions have succeeded. India’s 833 billion $ of Gold has salivated FM. Luck or trend!

• **Techno dumb budget:** LED lighting makes continuous strides in cost reduction & increasing lumens per lamp to cut energy use by 80%. But budget has no lab to land program.

• **Federated electoral goodies:** Now states have greater financial autonomy thanks to this finance commission. As a citizen I am scared of race for electoral gains. There should be at least NITI Ayog guidelines or all money will go in distributing Mangalasutras, colour TVs & may be some free brandy in winter to keep warm.

• **Strategic culture India:** Save Indian heritage sites from land mafia & religious shrines from vested mafia. Then talk of India’s strategic culture & tourism potential.

• **Food no issue budget:** India has 48 billion $ food wastage before it reaches consumer & 40 billion $ wastage at consumer end. Should there be no commercial innovation!

• **Capital blunder budget:** Indian capital markets to work, need an adequate degree of coordination fighting temptation of ring-fencing & financial protectionism. Instruments should be what is good for India not what capital market can administer due to its talent gap.

• **Digital economy be self-supervised:** Already Industrial economy is shifting to digital economy. Indian leaders should fathom transition institutions if they can!

• **Shifting economy needs no strategic budgetary planning:** India’s shift from Agrarian economy to Industrial economy is incomplete for talk like Make in India to surface. No preparation for shifting agriculturists proportionate to contribution to GDP.

• **R&D unnecessary in enlightened India:** India’s future determination process should reflect its potential for which there must be independent R&D & dispersion of enterprise.

• **Governance change but fact remains:** India’s future is decided by corporates & vote catching
• **Governance change but fact remains:** India's future is decided by corporates & vote catching politician's constituency. NITI Ayog is politically astute than economically gravimetric.

• **Middle class can wait:** Structural reforms & deregulations are important in long term with impact for growth potential, but people may not be patient for long. Middle class usually has strong antenna.

• **Just in time skill possible:** Biggest distributional issue in Skill India is if skilled people are unemployed, they get detached from labor market & lose skills.

• **Insurance against social tension only:** This social insurance & other social security are cosmetic to work on surface not on core of inclusiveness. Core of inclusiveness is propensity to consume from own earnings. Inclusive budget means support poorest to get jobs at lower end of wage & skills ladder. That is about making labor markets work better

• **Soft quantitative of budget not aligned:** Budget should transform through value creation & empowerment using education, innovation, inspiration & collaboration as catalysts!

• **Signalling direction for make in India:** Make in India possible only if India succeeds in R&D in increase crop yields, miles per gallon, processor speeds & new product sales.

Nature is finite & we need an economy in India that can work with that. There can be no prosperity in a resource wrecked India. After reading this article supporters of present Government may consider me out of place. But there are enough good in the budget for greater number of good people to blow the trumpet. But let there be a few like me to be predictive for possibilities with a bit of satire that any democracy should have as capacity to absorb.
- **ICC Cricket World Cup through Finance Prism**
  - In India vs. Australia semi-final match 70 associated brands showcased commercials of worth Rs. 22 lakhs for 10 seconds.
  - For other important matches the number of brands were 50 and average ad-rates was 15 lakhs.
  - In comparison to the 2011 edition a 10 second slot had cost Rs. 18 lakh during India vs. Pakistan semi-final match.

- **India GDP growth to be 8% in FY16**
  - Rating agency Fitch has forecast India’s GDP to grow at 8% in 2015-16 and 8.3% next year.
  - Recent government expenditure cuts of around Rs. 1 lakh crore can dampen the growth.

- **India’s current Foreign Reserves**
  - Foreign currency assets rose $4.54 billion to $314.89 billion.
  - The rise is due to the cause that central bank has been mopping dollar flows through state run banks
  - Gold reserves remained unchanged at $19.84 billion.

- **Merger of Ranbaxy and Sun Pharmaceutical**
  - The Combined entity will become the 5th largest generic drug company in the world with revenue over $4.5 billion.
  - Post-merger the promoter of Ranbaxy, Daiichi Sankyo became 2nd largest shareholder of sun pharmaceutical.

  - Ranbaxy will be delisted from the stock market and the shareholder of Ranbaxy will receive 8 share of Sun Pharmaceutical for every 10 shares.

- **Big investments in 15 days**
  - Honda cars to invest 380 crores to raise capacity from 120000 units to 180000 units
  - This will also increase the employment of about 600 people
  - Honda motor cycle and scooter India to invest Rs.585 crores in Karnataka plant kolar dist plant to expand capacity by 6 lakhs units.

- **MRF**
  - The company will be investing 4,500 crores at its Perambalur and Arakonam over a period of seven years.
  - By this they want to get 1.2 million of investment as turnover.

- **HDFC**
  - It is planning to raise Rs. 2400 crores via sale of 10% stake to the public.
  - This will pare HDFC’s stake to 64.05%

- **Spectrum Auction 2015**
  - After 19 days and 150 rounds of bidding India’s 2015 spectrum auction across 800 MHz, 900 MHz, 1800 MHz and 2100 MHz bands has concluded.
  - Idea Cellular, the country’s 3rd largest operator bid a maximum of Rs. 30306.98 crores to buy spectrum in 900 MHz, 1800 MHz and 2100 MHz bands.
  - Airtel and Vodafone bid Rs. 29130.20 crores and Rs 29959.74 cores respectively in the same bands.
  - The total bidding of spectrum went over 1,07,000 crores which was more than expected of Rs. 90,000 crores.

Bharat Ratna Atal Bihari Vajpayee

- The Narendra Modi government at the Centre has conferred Bharat Ratna on iconic leader and statesman Atal Bihari Vajpayee.
- Vajpayee was the first person associated with Rashtriya Swayamsewak Sangh to become the prime minister of India

Sonia Gandhi slams Modi government on Land Bill

- Sonia Gandhi alleged it was a mockery of the consensus building tradition by a “myopic” Modi government which was “bending backwards” to favour industrialists and demanded that UPA’s legislation be brought back in totality.
- Hailing farmers as the “backbone” of the country, Gandhi said Congress cannot support any law which hurts farmers, and asked the Modi dispensation to bring back UPA’s land bill in totality.
- Faced with stiff opposition on the land bill, the government had reached out to leaders of opposition parties,

Rift within AAP widens:

- AAP National Council is likely to remove senior leaders Prashant Bhushan and Yogendra Yadav from the party.
- First Yogendra Yadav and Prashant Bhushan held a press conference where they called Delhi Chief Minister Arvind Kejriwal a dictator surrounded by yes men.
- The Kejriwal camp hit back claiming that “private” conversations of leaders were being “recorded” for the past nine months to “blackmail” the leadership.

Farmer suicides due to wrong policies of West Bengal:BJP

- Slamming the West Bengal government over suicides of potato farmers, BJP said that the deaths were due to wrong agricultural policies of the state government.
- They said that West Bengal’s decision to ban export of potato to other states as the main reason behind the problem.
- Several potato farmers had committed suicide, allegedly driven by financial distress after not getting remunerative prices for their produce in West Bengal, in recent days.
What is the US Federal rate?

• The Federal Reserve Board or (the Fed) is the governing body of the Federal System just like RBI in India. The seven members of the board of governors are appointed by the president, subject to confirmation by the Senate.

• The federal funds rate is one of the most influential interest rates in the U.S. economy, since it affects monetary and financial conditions, which in turn have a bearing on key aspects of the broad economy including employment, growth and inflation. The Federal Open Market Committee (FOMC), which is the Federal Reserve’s primary monetary policymaking body, telegraphs its desired target for the federal funds rate through open market operations. Also known as the “fed funds rate”.

• The higher the federal funds rate, the more expensive it is to borrow money.

. On December 16, 2008 the Federal Open Market Committee slashed its target for the federal funds rate to a range of between 0% and 0.25% from the already low 1% rate. The available data indicated that consumer spending, business investment, and industrial production have declined. **This was the time of the financial crisis.** More than six years later the federal funds rate remains at this historically low level but the economic picture has changed drastically. The FOMC took a small but significant step toward beginning to raise interest rates by issuing guidance that opens up the possibility of a hike.

**India’s gamble with the Federal rate interest hike**

• Any hike in interest rates make investments into dollar-denominated assets attractive and could lead to an outflow of US dollars from emerging markets like India into the US, further strengthening an already-strong US dollar.

• As emerging market currencies start weakening they induce more capital flight outwards, further weakening them leading to a vicious circle.

• If America is showing some kind of growth then obviously the US Fed will not stay behind in increasing interest rates and sucking out the excess liquidity from the system.

 Had there been no growth in the Indian economy, the US raising interest rates would have shocked Indian Economy. But if India’s growth story remains intact, that shock would be absorbed. Only the $60 billion that has entered Indian debt market might fly out (in search of higher yields from US Treasury bonds) and foreign institutional investment in the equity markets will not be impacted much.

**Open market operation**

The buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system. Purchases inject money into the banking system and stimulate growth while sales of securities drain the excess money from the system.
India is looking forward for simplicity, honesty, and transparency in the revenue system. To achieve that, GST is the right decision to bring out the concept of one Indian market, transparency and tax efficiency. Goods and Service is the best tax reform since 1947. India is all set to bring in the largest indirect tax reform after the introduction of Value Added Tax (VAT) in 2005. As said by Finance Minister Arun Jaitley in a meeting of Parliamentary Consultative Committee, GST will help to reduce the tax on tax and would benefit the consumer. The objective of GST is to replace indirect tax at the state and central level by single tax, impose a comprehensive base of all goods and services at a moderate tax rate. In addition to simplify the tax system, enhancing the compliance and boosting tax revenue for the both state and central, GST will reduce tax outflow from the hands of consumer.

**Need of GST in India**
GST has been introduced not only to get rid of current incomplete work of indirect tax that are partial and suffer disabilities, mainly exemptions and multiple rates but also to improve the tax compliances. One of the most important development in other countries is spread of GST over the last 6 decades. It is having the capacity to raise revenue in the most neutral and transparent manner and more than 150 countries have adopted the GST system for tax revenue. GST has been preferred as a global standard.

**NOTE:** A survey revealed that public deficit and debt are still very high. India’s debt- to- GDP ratio is higher than other emerging economies like Brazil, Mexico, China. Spending on health sector is also lower than other countries. Only 10% of subsidies reach the poor. In comparison to other emerging economies, corporate tax is high but it yields very low revenue. GST can solve these all problem (From OECD)

**Benefits of GST**
It has been treated as the economically efficient solution even for the corporate companies to compete with other companies in the market, as it simplifies the indirect tax structure to one general rate that can be paid by all companies. By a proper structure of GST every company will get a deduction on the taxes paid by its suppliers. That results in every buyer ensuring that supplier has paid his part to claim deduction.

**Benefits of GST for corporates**
It will lead to the creation of a unified market for facilities seamless movements of goods and services across the states which is been expected to reduce transaction cost of businesses. How GST will impact some of the companies in India:

1. **Godrej consumer products:** GST rate will be tax neutral for most of the FMCG products. But it will benefit from lower warehouse cost, more efficient supply chain planning and inventory reduction.
2. **PVR cinema:** the GST will lead to lower entertainment taxes.
3. **Mahindra & Mahindra:** GST will benefit auto sector by reductions in duties on large SUVs and cars as GST rate is likely to be lower than the present excise plus VAT rate. Tractors may be taxed at lower rate in GST.

**Benefits of GST for a trader and manufacturer**
With the help of GST a trader and manufacturer can get the following benefits:

1. **Common market:** goods are being sold mostly within the state to avoid CST which is not credited at the stage of manufacture or in trading. There will be a common market in the absence of CST and entry tax. The good quality product which is being manufactured in one part of the country can reach another part of the country.
2. **Invoicing will be simpler:** With the introduction of GST only one rate will be written. As invoice is more detailed since taxes on goods and services are written separately for one transaction.
3. **Common exemption between state and central:** Now the exemptions given by the Centre and the states being different, the final price becomes different in different states. In the GST regime, exemptions will be common between the Centre and the states which will make the rates of duty same all over India.
4. **Zero rating will be more comprehensive and easier:** With GST, zero rating will be more comprehensive. Without GST, zero rating (giving relief for the input duty) is possible, but it does not give relief for some of the duties.
5. **Undue enrichment law will go:** This is a highly litigated law which will necessarily have to go because GST will be a combination of so many taxes apart from these two taxes. There is a law in central excise and service tax which provides for refusing refund of higher duty paid in case the burden of higher rate of tax imposed already has not been passed on to the consumer. And these taxes do not have the same provision. Moreover, if the unjust enrichment of law is made to apply to GST as a whole, the purpose of seamless movement of goods and services will be defeated.
Adam Applegarth, CEO of Northern Rock bank, one of the first victims of the subprime mortgage crisis, very rightly articulated the above mentioned statement. Surely something had changed. Something had gone horribly wrong.

Northern Rock bank faced a liquidity crisis during September, 2007 and it needed a loan from the British government. This sparked fears that the bank will shortly go bankrupt – prompting customers to queue round the block to withdraw their savings. It is the first run on a British bank for 150 years. How did something that started in U.S.A, come to Britain and subsequently to other EU nations including the now infamous “P.I.I.G.S” countries and few parts of Asia?

Here is what had happened:

Subprime loan: Is a type of loan granted to individuals with poor credit history and would not be able to qualify for conventional mortgages. Because subprime borrowers present a higher risk for lenders, subprime mortgages charge interest rates above the prime lending rate.

Early 2000-2004

• Federal Reserve interest rates are low giving a boost to the real estate industry among many others.
• Growing interest in the real estate industry with increased borrowings.
• Many mortgage brokers steered their clients toward loans they couldn’t afford. Now, when someone wanted a loan, he or she would go directly to the bank as well as to mortgage brokers to act as the go-between.

Securitization: Securitization involves the pooling of mortgages into packages and “selling” shares of many such packages to institutional investors, investment banks and in this case different countries. The securitization process spreads the market risk (obviously because more and more people now hold a part of it), provide long-term funding for mortgage lending and allows every person in the hierarchy

2004-2006

• Unique financial instruments called mortgage-backed security and CDOs on a rise.
• Packages being sold to banks like Lehman brothers, JP Morgan, Fannie Mae and Freddie Mac, Merrill Lynch etc.
• Securitized CDOs moving country to country through banks like Northern rock in Britain, ICICI

2007-2009

• As concerns over a brewing housing bubble mounted, the Fed began to hike rates.
• This is one of the factors that lead to the sharp increase in the number of subprime mortgage foreclosures in August of 2006.
• Banks defaulted since they went bankrupt. Lehman brothers could not be bailed-out by the U.S government.
• A sharp interest rate hike lead to recession and unemployment.
The world at large:

### Eurozone GDP data

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<th>Germany</th>
<th>Ireland</th>
<th>Greece</th>
<th>Spain</th>
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<td>5.4</td>
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<td>1.7</td>
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<tr>
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<td>0.9</td>
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<tr>
<td>2009</td>
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Terms and their meanings:

1. **Run on a bank** - It simply means when vast majority of people go to their banks to withdraw money at the same time. Obviously banks don’t keep all the money everytime, so go bankrupt.

2. **P.I.I.G.S** - Portugal, Ireland, Italy, Greece and Spain are the economically weakest nations in EU. Ireland was added after it lost significantly in the 2007 crisis due its banks invested heavily in the CDOs.

3. **Prime lending rate** - The interest rate that commercial banks charge their most credit-worthy customers.

4. **Mortgage backed securities** - A type of asset-backed security that is secured by a mortgage or collection of mortgages. When you invest in a mortgage-backed security you are essentially lending money to a home buyer or business. It means, loan given on the guarantee of the house. If you fail to pay, they seize your house.

5. **CDOs** - Collateral debt obligations is a structured asset backed security. It is a collection of loans, bonds, mortgages etc. If some loans default and the cash collected by the CDO is insufficient to pay all of its investors, those in the lowest, most "junior" party suffer losses first.

**Bail out** - A bailout is for giving financial support to a company or country which faces serious financial difficulty

**DID YOU KNOW?**

In the early 21st century, the U.S. housing market was booming. A person who bought a new home in January 1996 for $155,000 could reasonably expect to make a profit of $100,000 when selling it in August 2006.
EVOLUTION OF CSR IN INDIA & ITS CURRENT IMPORTANCE IN CORPORATE WORLD

India has the world’s richest tradition of Corporate Social Responsibility (CSR). The term CSR may be relatively new to India, but the concept dates back to Mauryan history, where philosophers like Kautilya emphasised on ethical practices and principles while conducting business. CSR has been informally practiced in ancient times in form of charity to the poor and disadvantaged.

CSR has evolved in phases like community engagement, socially responsible production, and socially responsible employee relations by which the evolution of CSR in India can be broadly divided into four phases:

• The first phase of CSR was driven by noble deeds of philanthropists and charity which was influenced by family values, traditions, culture and religion along with industrialisation.

• The second phase was the period of independence struggle when the industrialists were pressurised to show their dedication towards the benefit of the society. Mahatma Gandhi urged to the powerful industrialists to share their wealth for the benefit of underprivileged section of the society & also he regarded the Indian companies and industries as “Temples of Modern India”. He gave the concept of trusteeship.

• In the third phase from 1960-1980, CSR was influenced by the emergence of Public sector undertakings to ensure proper distribution of wealth. The corporate malpractices and unsuccessful PSUs led to a natural shift of expectation from the public to the private sector and their active involvement in the socio-economic growth.

• In the fourth phase from 1980 onwards, Indian companies integrated CSR into a sustainable business strategy. Globalisation and economic liberalisation started in 1990s, resulted a boom in the economic growth of the country making it possible for the companies to contribute more towards

Prior to 2012-13, many firms were voluntarily making donations and spending on community development and mitigation of environmental pollution. It is only since 2012-13 in response to the SEBI circular dated August 2012, firms have started allocating funds for CSR activities specifically.

What SSU had to say? Bhavya Shree Thaduri

What started as charity is now understood and accepted as responsibility.
It is found that 34% of the top 300 firms in India work through own foundations or trusts. About 19% of the companies organise free medical check-up camps in rural areas, blood donation camps and educational camps for farmers in the rural area.

The following pie chart depicts the various approaches adopted by the top 300 firms to fulfil their CSR obligations.

The year 2012-13 marks a turning point, where we can see a marked difference in the CSR initiatives adopted by the firms. We have compared the donations made and CSR expenditure incurred by firms in the last three years till 2013 (Source: firm level data from Prowess (Centre for Monitoring Indian Economy))
Events in SSU

ALOHA’ 15  Convergence’15

The Team

- Balaji Rengarajan
- Shashank Dubey
- Anibrata Debnath
- Sanskriti Hagar
- Lavita Singhania
- Sweekrut Pudipeddi

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