

NEWSLETTER

Volume No: 05

May 2022

From Director's desk

Takeover games, like market, too is unpredictable

Elon Musk lapped up Twitter on 26 April, 2022, via a much debated aggressive, USD 44 billion hostile takeover. Aswath Damodaran, "Dean/Guru of Valuation", gave Musk only a remote chance of getting Twitter: the last of the four possibilities he outlined. Who knew that the promoters ready to commit suicide by swallowing the 'poison pill' would warmly embrace the *raider* and have a great party once they saw cash on the table! It seems not only markets but even mergers and takeovers are also quite unpredictable, even for the experts. And such games get into the realm of magic when mavericks and 'magicians' are involved, as subsequent "fake accounts" comments and stalemate on the deal by Musk himself.

LIC passes the IPO test

LIC took the IPO horse to the pond months ago. It was a great race, followed by an equally great proclamation: the largest IPO in India, mega issue with over Rs. 60,000 Cr. But before the horse could drink the water from the then calm lake, a distant war in Ukraine unleashed a market tsunami. Potential issuers took a sudden retreat. After some calm got restored, LIC came back with a rather moderate issue plan [though still the largest IPO in India]; about Rs 21000 Cr, but managed to get about 3 times subscription. Reduction in the issue size is hailed by many as practical may be correct. However, it seems, we are yet to develop tough muzzles for real big ticket action that could alter the contours of market dynamics.

Inflation of rate hikes, globally

The world is fighting the inflation dragon [not the Chinese one, for a change] like never before, with some coordinated and some isolated actions. RBI finally joined the action front; after months of bravado, philosophical statements and adages; with a 40 basis point hike in the repo rate through a sudden, off-cycle action. Though central banking play book advises avoiding negative surprises, this negative announcement was welcomed across the spectrum as a much anticipated measure.

Dr. CKG Nair
Director, NISM

FINANCIAL MARKETS

1. Finance Ministry bars CPSEs from buying state-owned companies

Stating that transfer of management control from the government to any other government organization or state government may continue the "inherent inefficiencies" of state-run firms. The ministry said, such transfer would defeat the very purpose of the new PSE policy.

2. How electric vehicle push is reshaping energy and auto sector on Dalal Street?

In the auto industry, change is constant. Companies that are able to embrace change and innovate their product offering with time, will continue to command higher valuation premiums than their counterparts. The transition towards EVs will be a transitional change rather than an overnight disruption.

3. Individual investors can use UPI for up to Rs. 5 lakh payment in public issues

As per SEBI, Individual investors applying in public issues of equity shares and convertibles can use Unified Payment Interface (UPI) for application amount up to Rs 5 lakh. Also, they have been asked to provide their UPI ID in the bid-cum-application form submitted with any of these entities – syndicate member, stock broker, depository participant and registrar to an issue and share transfer agent.

4. Equity Strategy: Premium valuation a key concern for FPIs

FPIs (Foreign Portfolio Investors) have broadly reduced India's weighting by 50-100bps, evident in \$ 19-bn outflow. The outflow has been primarily due to valuation concerns. Most investors were surprised with the market resilience despite oil worries and ensuing twin deficit concerns on India.

5. UPI hits record high in April with 5.58 bn. transactions worth Rs 9.83 tn.

India's flagship digital payments platform – Unified Payments Interface (UPI) – saw its highest ever number of transactions in April 2022 at 5.58 billion, amounting to Rs 9.83 trillion; UPI had processed 2.64 billion transactions worth Rs 4.93 trillion. Initially in FY22, transactions had dipped slightly due to the second wave of COVID.

CORPORATE WORLD

1. LIC IPO – application, allotment and listing

After the closing of application to LIC IPO on May 9, 2022, LIC may list on May 17, 2022.

2. Over 1.67 lakh companies incorporated last year: MCA

More than 1.67 lakh companies were incorporated in the country in the last financial year compared to 1.55 lakh new companies registered a year. According to Ministry of Corporate Affairs [MCA] the increase is also significant considering that the number of companies incorporated during the financial year 2020-21 was the highest ever.

3. Government Tightens Nidhi Companies' Compliance Norms

To protect the interests of the public and to prevent possible illegal fundraising activities, the Government has tightened Nidhi Companies' Compliance norms. The new rules stipulate that Public Companies desirous to function as Nidhi must obtain a prior declaration from the Central Government before accepting deposits. Nidhi (Amendment) Rules, 2022 shall come into force on the date of its publication in the Official Gazette *i.e.*, 19th April 2022.

4. M&A deals climb up as startup funding begins to slow

The unprecedented funding boom that domestic startups saw last year is now being followed by a rush to acquire smaller players as the financing market softens. Consolidation is also in play as many of these startups are unable to shore up a war chest to fight bigger and more well-capitalised rivals. Dozens of unicorns (privately held firms with valuations of \$1 billion or more) and soonicorns have either acquired companies or are in the process of buying out firms.

5. Top banks ask NPCI to clarify its stance on UPI for crypto

Questioning the 'shadow ban' on cryptocurrencies, leading banks have asked the umbrella institution National Payments Corporation of India (NPCI) to spell out in a formal directive on the use of the popular money transfer tool 'Unified Payment Interface' to buy and sell the virtual digital assets (VDAs).

6. Why the start-ups end up in a governance soup?

There has been a spate of governance issues at start-ups centered on 'related party' transactions, creative accounting, incomplete disclosures, and knowingly violating the laws. Layoffs, particularly abrupt, have also attracted attention from time to time.

7. Regulatory & tech challenges will test HDFC Bank during merger

HDFC Bank will face challenges in mobilising a huge pool of deposits to meet regulatory requirements, including those on cash reserve ratio (CRR), statutory liquidity ratio (SLR) and priority sector loans (PSL). The triple challenge of complying with regulatory requirements, deposit mobilisation and technology integration will be testing, according to experts.

REGULATORY DEVELOPMENTS

1. SEBI restructures its Advisory Committee on market data

SEBI has restructured its advisory committee on market data that recommends policy measures pertaining to areas like securities market data access and privacy. The scope of the work of the committee includes identifying segment-wise data perimeters, data needs, gaps, recommending data privacy and data access regulations applicable to market data.

2. RBI allows rural co-operative banks to raise funds from preference shares & debts

The RBI allowed Rural Cooperative Banks (RCBs) to raise funds from people in their area of operation or existing shareholders through a variety of instruments. RCBs, which include state co-operative banks and district central co-operative banks, can raise funds from preference shares and debt instruments. According to RBI, they can also raise funds through debt instruments, including perpetual debt instruments eligible for inclusion in tier I capital and long term subordinated bonds eligible for inclusion in tier II capital.

3. RBI's new guidelines to make microfinance stronger

The RBI recently released its final guidelines for Microfinance institutions (MFIs) that will be applicable to all entities (banks, small finance banks and NBFCs) engaged in this sector. Unlike the earlier definition that distinguished between rural and urban, RBI has now set a common household limit of Rs 300,000 for loans to qualify as microfinance. For entities to qualify for an NBFC-MFI license, they should have at least 75% of assets in microfinance and the cap on NBFCs was increased to 25% of assets as against 10% earlier.

4. Insolvency and Bankruptcy Board of India (Liquidation Process) (Amendment) Regulations, 2022

The Insolvency and Bankruptcy Board of India has issued an amendment notification on the Liquidation process. The same will come into force from its date of publication.

5. Government starts work to bring parity to long-term capital gains tax laws

Currently, returns from listed stocks or shares are taxed at 10%, if they are held at least for a year. On the other hand, similar returns from unlisted shares are taxed at 20%, if the holding period is at least two years. The holding period to avail long-term tax rate could also see some changes.

6. Bill amending laws governing Chartered Accountants, Cost Accountants, Company Secretaries receives President's assent

This Bill is with the intention of making the three institutions a lot more transparent in their disciplinary matters, and raise the quality of the disciplinary processes. This would also facilitate India to be able to support institutions and firms which can be encouraged by the council to create something similar to the Big Four.

7. RBI hikes repo rate by 40 basis points in emergency meet

The Reserve Bank of India (RBI) Governor in an unscheduled meet said that the Monetary Policy Committee (MPC) unanimously voted to hike rates by 40 bps whilst remaining accommodative.

8. Regulatory changes set to change the way wealthy individuals invest in IPOs

Key regulatory changes are set to change the way wealthy individuals invest in initial public offerings (IPOs). The Reserve Bank of India (RBI) has imposed a cap of Rs 1 crore on IPO financing by non-banking financial companies (NBFCs).

DEVELOPMENT IN RELATED AREAS

1. Cabinet approves Rs 820 crore financial support for India Post Payments Bank

The Union Cabinet has approved financial support of Rs 820 crore for India Post Payments Bank. The support will help state-run payments bank to penetrate deeper into the country, especially in the rural area and work towards financial inclusion. There was a proposal to provide Rs 820 crore financial support to India Post Payments Bank (IPPB).

2. RBI's new credit cards rules explained

The guidelines, officially known as the Reserve Bank of India (Credit Card and Debit Card – Issuance and Conduct) Directions, 2022, provide a thorough set of instructions primarily to card-

issuers relating to issuing credit and debit cards, co-branded cards, billing, and telemarketing, among others. Written consent will be required for all applicants for a credit card, according to new guidelines issued by the RBI that will be effective from July 1, 2022.

3. New Government initiatives to aid start-ups in technology sectors

Government has launched number of programs to aid Start-ups in technology sectors. The programmes initiated by Department of Science & Technology aim to nurture innovation and technology led entrepreneurship, which also creates new avenues for wealth creation and job generation. CSIR has set up 7 Common Research and Technology Development Hubs (CRTDHs) during last five years, for promoting industrial R&D innovation, dedicated for MSMEs, start-ups and individual innovators.

4. Analysts zero in on 5 inflation-proof sectors to invest

Rising inflation will put companies, especially those in the consumption and discretionary sector in a dilemma. Their raw material cost is rising sharply, but passing it on to consumers could lead to drop in demand. And if they don't, the bottom line and margins will contract. Rising input cost is expected to result in downgrade of earnings estimates in many sectors during the Q4 result season.

5. Incremental credit-to-GDP share likely to breach 50% mark in FY23

The incremental credit to GDP share was as high as 63 per cent in the pre-pandemic year (FY19). The average share was 50 per cent for the seven-year period ended FY20. A higher credit-to-GDP ratio indicates aggressive and active participation of the banking sector in the real economy, while a lower number shows the need for more formal credit.

6. Net FDI, FPI and FII data (2020-2021)

Monthly data about FDI, FPI and FII data are out for ready reference and the same can be viewed in RBI Bulletin – point 34 under Foreign Investment Inflows.

GLOBAL FINANCIAL DEVELOPMENTS

1. India, European Union agree to establish Trade and Technology Council

India and the European Union (EU) on April 25, 2022 agreed to establish a Trade and Technology Council, a strategic mechanism to address the challenges of ensuring trusted technology and security in the wake of rapid geopolitical changes – a move that is expected to deepen their strategic relationship.

2. BHIM UPI goes live at NeoPay terminals in UAE

NPCI International Payments Ltd (NIPL), the international arm of the National Payment Corporation of India, has announced that BHIM UPI is now live at NeoPay terminals across the UAE. This initiative will empower millions of Indians who travel to the UAE, to safely and conveniently make payments using BHIM UPI. NIPL and NeoPay, the payment subsidiary of Mashreq Bank, partnered last year to create the acceptance infrastructure in the UAE.

3. India extends additional \$500 m credit line to Sri Lanka for purchasing fuel

India has agreed to extend an additional \$500 million credit line to help Sri Lanka import fuel, amid delays in chalking out a bailout package with the IMF to mitigate the dire financial crisis facing the island nation. Sri Lanka has been struggling to pay for imports after its foreign exchange reserves plummeted sharply in recent times, causing a devaluation of its currency and spiraling inflation.

4. Inflation hits record high of 7.4% in euro region

Inflation hit a new record for the 19 countries that use the euro as skyrocketing fuel prices boosted by the war in Ukraine add new burdens to household finances and weigh on a slowing economic recovery from the latest outbreaks of COVID-19. Annual inflation hit 7.5% for April, the highest since statistics started in 1997 and the sixth record in a row, topping the old record of 7.4% from March.

5. Global solar sector attracts \$7.5 bn corporate funding in March

Corporate funding in global solar sector, including India, saw a quarter-on-quarter growth of 51 per cent to USD 7.5 billion in the March quarter. The financing activity was backed by robust demand for solar assets. Corporate funding includes venture capital and private equity, debt financing, and public market financing.

6. Interest rate rise: who makes the high-stakes decision and how does it get made?

The Reserve Bank of Australia (RBA) is considering raising the official cash rate for the first time since 2010 and the outcome will have big ramifications for the federal election.

7. How Elon Musk's Twitter takeover unfolded?

The stunning \$44 billion deal was wrapped up just three weeks after Musk first disclosed a 9.2% stake in the firm, and 11 days after he announced his "best and final" offer of \$54.20 a share for the rest of the company.

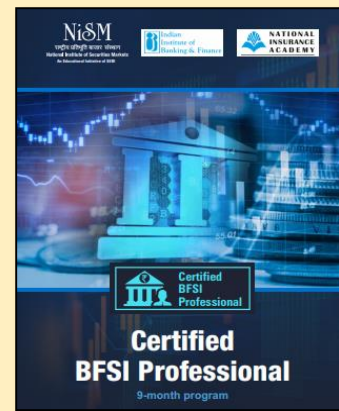
NISM ANNOUNCEMENTS



The banner features the NISM logo at the top, with the text 'Admissions Open 2022' at the bottom. It is divided into three columns: 'Full-time programme' on the left, 'Weekend Programme' on the right, and a central 'NISM nlu' section. The 'Full-time programme' column lists 'PGDM (SM)' (2-year Full-time programme, AICTE Approved, Post Graduate Diploma in Management (Securities Markets)) and 'LL.M. (INVESTMENT & SECURITIES LAWS)' (1-year Full-time programme). The 'Weekend Programme' column lists 'PGCM (DSFM)' (14-month Regular Weekend Programme, AICTE Approved, Post Graduate Certificate in Management (Data Science in Financial Markets)).

Admissions of forthcoming batches of Post-Graduate Diploma in Management (Securities Markets) PGDM (SM), LL.M. (Investment and Securities Laws), Post Graduate Certificate in Management (Data Science in Financial Markets) PGCM(DSFM) has been released on the NISM website as well as in other platforms. Lookout for details at: www.nism.ac.in

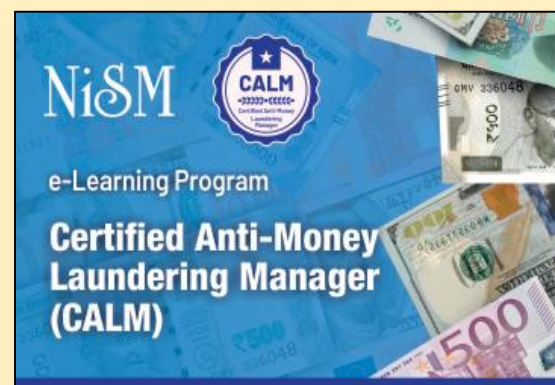
A nine-month long e-learning programme spread over three semesters to enable graduate/post-graduate students for a career in the BFSI sector (click on the image for more details).



Series-XIX-A: Alternative Investment Funds (Category I and II) Distributors

The certification covers all important topics to enhance the quality of sales and distribution and enable better quality investor services by the Distributors and Placement Agents in Alternative Investment Funds (AIF) domain in India. The Series XIX-A certification examination focuses on Category I and Category II AIFs. It covers basic understanding of the alternative asset classes, alternative investment funds in India, role and functions of various stakeholders in AIF domain (such as Sponsor, Investment Management Company, Distributors, Investors), the purpose and processes of due diligence to be conducted by the fund and the investors. The certification also provides an understanding of the valuation techniques and investment and exit policies adopted by Category I and Category II AIFs. It further discusses about the taxation aspects and the regulatory environment in which the AIFs (Category I and II) operate in India. The certification will be immensely useful to all those who want to learn about the various aspects of distribution of AIF schemes (Category I and II).

NISM launched Self-paced e-Learning course for prevention of Money Laundering and Terror Financing and other serious financial crimes. (click on the image for more details).





SEBI Nation-Wide Financial Markets Quiz & Essay Contest 2021-22 (click on the image for more details).

NISM NEWS



The 3rd Alumni Meet and 9th Annual Convocation will be organized on May 28 & 29, 2022 respectively at NISM Campus, Patalganga. Grandmaster Pravin Thipsay and International Master Bhagyashree Thipsay will grace the Alumni meet on May 28, 2022. Shri. Uday Kotak, Managing Director of Kotak Mahindra Bank will be the Chief Guest on May 29, 2022 for the Convocation. (click on the image for more details).

FOOD FOR THOUGHT – FROM NISM BRAINS

- Ms. Mitu Bhardwaj and Ms. Rasmeet Kohli jointly authored an article on “Performance standards—the missing piece in curated stock portfolios” featured in Mint on April 21, 2022.
<https://www.livemint.com/money/personal-finance/performance-standards-the-missing-piece-in-curated-stock-portfolios-11650560700352.html>
- Dr. Rachana Baid authored an article on “Multi-asset mutual funds are similar, and yet so different” featured in Money Control on April 25, 2022.
<https://www.moneycontrol.com/news/opinion/multi-asset-mutual-funds-are-similar-and-yet-so-different-8405531.html>
- Dr. V Shunmugam authored an article on “Towards a healthy financialisation of commodities sector” featured in Business Line on April 26, 2022.
<https://www.thehindubusinessline.com/opinion/towards-a-healthy-financialisation-of-commodities-sector/article65356898.ece>
- Dr. V Shunmugam authored an article on “India cannot be faulted for buying Russian oil” featured in Business Line on May 05, 2022.
<https://www.thehindubusinessline.com/opinion/india-cannot-be-faulted-for-buying-russian-oil/article65385789.ece>
- Ms. Monika Halan authored an article on “The time has come to change the poverty narrative in India” featured in Hindustan Times on May 05, 2022.
<https://www.hindustantimes.com/opinion/the-time-has-come-to-change-the-poverty-narrative-in-india-101651766441211.html>
- Dr. Ranjith Krishnan jointly with Mr. Abhinav Kumar K P authored an article on “Startups: A Compliance & Secretarial Perspective” featured in ICSI Chartered Secretary Journal published by The Institute of Company Secretaries of India in May 2022 issue (Page Nos 64 to 68).
https://www.icsi.edu/media/webmodules/linksofweeks/ICSI_May_2022.pdf
- Dr. Latha Chari, Dr. Pradiptarathi Panda & Dr. CKG Nair jointly authored an article on “Regulatory Risk Containment Measures on Single Stock Derivatives” featured in Economic & Political weekly (Vol. 57, Issue No. 20, May 14, 2022).
<https://www.epw.in/journal/2022/20/money-banking-and-finance/regulatory-risk-containment-measures-single-stock.html>

DISCLAIMER: This newsletter is for informational and educational purpose only and is intended to highlight recent happenings as reported in media, with links providing access as per their policies only. The information and/or observations contained in this newsletter do not constitute legal advice and should not be acted upon in any specific situation without appropriate legal advice. The views expressed in the Newsletter are not that of NISM. Any feedback and suggestions would be valuable, in our pursuit to constantly improve newsletter and ensure its continued success amongst readers. Please feel free to send any feedback, suggestions or comments to newsletter@nism.ac.in