Sinhgad Technical Education Society's

SINHGAD INSTITUTE OF MANAGEMENT

(Affiliated to Savitribai Phule Pune University, Approved by AICTE & Accredited by NAAC)

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REPORT ON Overview of Financial Markets Five Days Student Training Program Sinhgad Institute of Management

Overview of Financial Markets Five Days Student Training Program Sinhgad Institute of Management, Pune in association with Bombay Stock Exchange Brokers Forum organized a Five Days Student Training Program on 'Overview of Financial Market- Series: I' from 13th to 17th of September 2021.

Activity Title: Overview of Financial Market – Series: I

Name of the Guest Speaker: Dr. Aditya Srinivas Designation: Chief Operating Officer and Chief Economist

Organization Name: Bombay Stock Exchange Brokers Forum

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Date (From to To) 13th to 17th September 2021 (Five Days)

Time: 10:45 to 11:45 AM

Venue: Online (Google Meet)

Divisions: MBA-I (A to E) Marketing and Finance Specialization

Number of Students Registered: 260 Number of Students Completed Training Program Successfully 151 Profile of the Speaker: Dr. V. Aditya Srinivas is working as Chief Operating Officer and Chief Economist at the Bombay Stock Exchange Brokers Forum. He has totally 16 years of corporate experience. He has represented India at Harvard University USA, South Korea, Japan, Maldives, Oman, Dubai, Hong Kong, Taiwan, Sweden, Indonesia, Turkey to name a few countries. He has taken more than 2000 sessions on Indian Economy and stock market and trained more than 65000 participants across India. His qualifications are BBF Finance (Dist), MBA Sinhgad Technical Educational Society's SINHGAD INSTITUTE OF MANAGEMENT (Affiliated to Savitribai Phule Pune University, Approved by AICTE & Accredited by

National Board of Accreditation, New Delhi) S.No. 44/1, Vadgaon (Bk.), Off Sinhgad Road, Pune 411 041 Telefax: (020) 24356592 E-mail: director_siom@sinhgad.edu Website: www.sinhgad.edu Finance (Gold Medal), Ph. D (Economics) MDP (IIM Ahmedabad), CWM, D.Litt (USA), ISO 9000 Lead Auditor. He has also presented 23 research papers in National and International conference and has published 35 Research papers.

Day-1: Dr. Aditya Srinivas briefed about the origin and history of Bombay Stock Exchange. The Bombay Stock Exchange (BSE) was formed on 9th July 1875, 146 years ago. It was started by Premchand Roychand. Its original name was 'Native Shares and Stock Brokers Association'. During those days its membership fees was Rs. 1. It has about 318 members. He also discussed about the use of trading account and accessing demat account. Three types of accounts are required to trade in stock market: 1. Trading Account 2. Demat Account 3. Savings Account Trading Account is used for buy and sell of transactions. A code is generated and transactions are punched into the code. Demat account is opened to store the securities which are purchased. It consist a number which is known as Client ID. Securities and Exchange Board of India (SEBI) has recently allowed eKYC, which makes it very easy to open demat and trading account without much documentation. It invited fresh investors to enter the market during Covid 19 pandemic. Further, he explained how the trading takes place once the accounts are opened. The client calls the broker or sub-broker, tell him the trading code in which the transactions are to be kept. Once the transaction is done the broker or sub-broker will call the client and confirm about the trades/transactions. There are two types or levels of trading: 1. Intra-day Trading: It is about buy and sells transactions in one day only. The profit and loss is settled by way of difference. 2. Delivery Base Trading: Here the entire payment is made by the client. The securities are then transferred to the demat account of the client after the client makes the full payment. If client does not pay then the securities lie in the broker's pool account. He further explained that stock market or capital market is the long-term source of investment. Equity shares are the best financial assets to create long-term wealth creation. BSE Sensex formed in 1979 with the base of 100 today it is at 50,000. In last 40 years the CAGR returns is 16.6 % approx. He also discussed the current standing of India's economy. He mentioned Indian Economy is called 'Heaven of Stability'. India's GDP growth rate is 7.1% compared to the world average GDP growth of 3.1%. Currently the world's Big four economies are in

trouble – USA, Europe, China and Japan. According to Dr. Srinivas the three unique features of Indian Economy are: 1. Demographic Dividend: It is 75% of the population is less than 35 years of age. Average age of an Indian is 25 years compared to USA which has 40 years, Japan 52 years and Europe 47 years. 2. Domestic Consumption: Around 80% of the production in India is consumed by Indians itself and only 20% is exported. Thus, India is not an export dependent country. 3. High Saving Rate: The saving rate in India is 27% of GDP, while whole world is 21%. Then, Mr. Srinivas explained about what is Investment? Investment is a process where we forego current consumption for future growth. Surplus funds are parked for getting higher future returns. Why it is necessary to Invest? According to him people invest to achieve the following goals of life: a. To own a house b. To buy a car c. Child Education d. Marriage of children e. Retirement Planning f. To beat Inflation g. To Increase Standard of Living Dr. Aditya Srinivas, concluded Day-I session by explaining the various avenues of investment- Fixed Deposits, Mutual Funds, Equity Shares, Provident Fund, Insurance, Gold and Property. He mentioned that Fixed Deposits has 8% rate of interest, it is the nominal rate of return. While the real rate of return in 8% - 6% = 2%. It includes inflation which reduces the purchasing power of money. Average inflation in India is 6 to 7 %. Further, students actively participated in asking questions and clearing their doubts related to today's session and capital market.

Day -2: On the day-2 of student training progam, Dr. Aditya Srinivas started the session with Fundamental Analysis. It is a study to find out good companies for long-term investment. It answers the questions 'which share to buy?' Fundamental analysis does three tier analyses: 1. Economic Analysis 2. Industry Analysis 3. Company Analysis In economic analysis following indicators are studied: a. GDP Growth: It is the most vital parameter. It indicates the progress of an economy annually. The data is released by government quarterly. b. Inflation and Interest Rate: Inflation is independent variable while interest rate is dependent variable. When inflation goes up, RBI will increase the interest rates. When the interest rate increases, the economy slows down as demand and consumption decreases. c. Exchange Rates: This indicates the Rupee=Dollar equation. If currency appreciates then the economy is stronger and foreign inflows will begin. Depreciation indicates that the currency is weak and the outflow will start. Indian currency is determined by RBI considering the inflow and outflow of the foreign currency. d. Current Account Deficit: It is the

difference between exports and imports. If imports are greater than exports then it is called current account deficit. While if exports are greater than imports it is called current account surplus. India is experiencing a current account deficit of 1.2% of GDP. Mainly India imports crude oil which is 77% of the total crude oil requirement. e. Fiscal Deficit: It is the difference between government's income and expenditure. Foreign investors give more importance to fiscal deficits. Government's income is the taxes paid by people and company. Government's expenditures are the spending on social issues, health, defence etc. Higher fiscal deficit indicates the government's inefficiency to utilize people's money. f. Index of Industrial Production (IIP) or Data: IIP index indicates the demand in the manufacturing sector. Currently the index is at -1.9%. Lower index means the performance of manufacturing sector in the economy is low and vice versa. In April 2020, the IIP was -57% and in November 2020, it was 3.63% and in December 2020 it was low at -1.9%. g. Other Macroeconomic parameters indicating country's progress Dr. Srinivas mentioned that unless economy is in good shape the foreign capital will not inflow. As India is a labor intensive country, capital is needed to generate employment. India's macroeconomic fundamentals and so there is inflow of foreign capital. Then he discuss about the industry analysis. According to him, every sector has its own dynamics. For instance, banking sector analysis study would include factors like – Non Performing Assets (NPA), Net Interest Margins (NIM), Current and Saving Accounts (CASA) and more. Current banking sector NPA has reached to Rs. 4 lakh crores. Indian Banking sector is weak since banks have huge NPAs. In 2012, Gross NPA was Rs. 1.86 Lakhs crores. In 2016, Gross NPA was Rs. 4 lakh crores. In 2020, Gross NPA is at Rs. 9 lakh crores. In which, Public Sector Banks have 9.32% NPAs. All Public Sector Banks are in huge losses. Banking stocks have come down. Valuation is attractive for long-term buyers. On the other hand, India's IT sector earns 80% revenue in US Dollars. USA is the key market for Indian IT companies. Indian IT firms have zero debt and strong cash flows. With the changes in HB1 visa laws the IT stock prices had come down, but these stocks are good for long-term investments. Further, he explained the factors influencing company analysis. They are: a. Gross Profit: It is the total revenue which comes from sells. If the gross profit is decreasing then it indicates the product is not accepted by consumers or the company is not targeting the right market. For example, Tata Nano sells did not pick up so the gross revenue was very low due to low sales. b. Net Profit: It is most important since it is the opportunity cost of capital. Stock price will not

rise if the net profit is not rising. The FIII (Forum Merger III) and Mutual funds will not buy the company shares. c. Operating Profit: It is the cash flow coming from the core business activity. It has to be positive means the business is in working condition. DFL and Unitech had negative operating cash flows which mean the business is bleeding and no income is coming from the main operations. d. Earnings Per Share (EPS): This is very important parameter, if EPS does not rise then FIII (Forum Merger III) and Mutual Funds will not buy the shares. EPS is net profit divided by total number of shares. e. Price Earning (PE) Ratio: It is a valuation ratio. Valuation is an art and not science. It depends on person looking at company, what he feels is the value of the company. There are two myths in PE ratio: i. Whether Lower PE is good or ii. Higher PE is good PE depends on sector potential. For instance, IT, Media, Telecom, Private Banks etc. Biotech has high PE ratio because growth is more. Sectors like cement, steel aluminum have lower PE ratio, because growth in these sectors are low. f. Debt Equity Ratio: This has become the most important ratio after the Global Financial Crisis 2008. The lower the ratio the better it is for the company. For example, companies like KFA died due to Rs. 7000 crore loans, DFL has Rs. 22000 crore loans so stocks are NPA, Reliance Communication has Rs. 39000 crore loans, Bharati Airtel has Rs. 66000 crore loans. These are clear examples that if debt is more, the company profit goes for a toss. g. Dividend Payout Ratio: This shows the amount of dividend paid by the company. Higher the ratio the better for the shareholders. It means the company has solid cash to pay. h. Liquidity Ratio: It shows the amount of liquid assets with the company. This ratio should also be sufficient with the company so that short term payment obligations can be well managed. For example, Shubhiksha Stores failed as they had no money to pay salaries to staff. i. Order Book: This shows the amount of orders with the company. Higher the order book then it means more cash flow with the company in the future. Every three months when the companies give the result, order book is declared by the management. For example, Laren and Tubro has Rs. 98000 crore of Order book. j. Corporate Governance: It is about the management honesty which counts. We trust Infosys because of Narayan Murthy. Honesty of top management is the key to the long term success of the company. Dr. Srinivas concluded the day-2 session by mentioning that fundamental analysis is used for long-term investment. Only stock analysis is not useful. One must do economic and industry analysis also. Stock market will give good returns if the economy is in good state. Stock market is one of the indicators of the

economy. Dr. Srinivas cleared the doubts and answered the questions raised by the students. • What should be the approach to invest in the companies with higher PE/PB? • Other than Corporate Governance which qualitative parameters one much consider before investing? • I am planning to invest more money in Tech Fund Direct; will it be good to invest more money in it? • Many more…

Day-3: On day-3, Dr. Aditya Srinivas discussed about Mutual Funds. Mutual Funds refer to pool of money which collectively belongs to investors. First mutual funds were started in 1964 by UTI. In 1987, Public Sector Banks were allowed to start mutual funds. State Bank of India (SBI) was the first to start with mutual funds. After economic reforms, in 1993 private sectors were allowed to start with mutual funds, in which Kothari Pioneer was the first to start it. In 1996, SEBI issued mutual fund guidelines. The Structure of Mutual funds consists of Sponsor, Board of Trustees and Asset Management Companies (AMCs). Sponsor creates the mutual funds. For example, Tata Mutual Fund created by Tata. The net worth of sponsor has to be Rs. 50 crores. Boards of Trustees are individuals who are repute in financial markets. They ensure that interests of investors are taken care off. Asset Management Companies select the stocks for investment and generate return for investors. Following are the types of schemes: a. Equity Diversified: Funds which invest 100% in stock market. b. Balanced Funds: Funds which invest 65% in stock market and 35% in debt market c. Debt Funds: Funds which invest 100% in debt market d. Sector Funds: Funds which invest 100% in only one sector e. Index Funds: Funds which has one index like Nifty or SENSEX as benchmark index and replicate that index f. Tax Saver Funds: Funds which are invested in equities with an locking period of 3 years g. ETF Funds: Exchange Traded Funds are listed in stock exchange. The benefits of mutual funds are: a. Diversification: Investment is done in around 50 stocks so the risk is diversified. b. Decent Return: Since 1964 average return has been between 12 to 15% c. Liquidity: Redemption money is credited to the account within 3 working days. d. Taxation: 10% long term capital gains tax above profit of Rs. 1,00,000. Short term capital gain tax at 15% e. Professional Management: An Asset Management company manages the portfolio of shares. The current scenario of mutual funds shows that there are 43 mutual funds in India with more than 1000 schemes. The total Assets Under Management (AUM) is Rs. 31 lakh crore. In 2004, the total AUM was Rs. 1.5 lakh crores. In 2014-15, 23 lakh new SIPs were registered. While in 2015-16, 29 lakh new SIPs were registered. In 2015 the market return was -5% but SIP registration was up by 26%. In

2020, total SIP registered is Rs. 3.35 lakh crores. Rs. 5000 crores come into stock market through Systematic Investment Plan (SIPs). Every year 6 lakhs SIP get registered. Numbers of mutual funds investors are 2.28 crores. Numbers of mutual funds distributed are 2 lakhs (only 20000 are active). Average SIP investment size per month is Rs. 3200. Average value of portfolio of a mutual fund investor is Rs. 78,000 which was Rs. 65,000 in 2015. While selecting mutual funds, one must understand or research about AMC, past performance, consistency of performance and investment style i.e whether it is aggressive or defensive. SIP is based on Rupee Cost Averaging. Automatic times the market. It is a tool for wealth creation in the long run. For instance, every month Rs. 500 is deducted from the bank account and buying is done. Every month buying brings down the average cost. Rs. 500 invested for 25 years at 15% return. Thus, the invested amount is Rs. 1,50,000 while the amount return is Rs. 16,21,000. Dr. Srinivas explained about SIP with the help of one more example. Suppose a new wedded couple or parents of newly born baby invest Rs. 5000 every month for 25 years with an expected return of 15%. They invest total amount of Rs. 15,00,000 while they get a total return of 16,21,00,000. When the child is at marriageable age of say 25 years, the parents need not worry about his/her future. Further, Dr. Srinivas compared stock market investing and mutual fund investing. In stock market, time is required to track the market. Investor need not dedicate time for mutual funds as it is taken care by fund managers. For stock market investment knowledge is required as to what to buy and what to sell? For mutual fund investing, fund manager and his research team does all the buying and selling on behalf of the investor. One needs bulk capital to invest in stock market, while an individual can start SIP with Rs. 500 only. Only rich and affluent people can take the risk of stock market, while in mutual funds anyone can invest – rich or poor. Dr. Srinivas compared the traditional products with mutual funds. Fixed deposits gives 5.15% interest with TDS and income tax gets deducted, Provident fund has 15 years locking period and return is around 7.10%, while mutual funds have average return of 15% on long term basis and complete flexibility of taking money out whenever required. Dr. Srinivas concluded the session by mentioning that mutual funds are long-term investment options which generates wealth for long-term. SIP will make small investments on monthly basis and give big results over a period of time. While retail investors want to create wealth for the future without taking much risk. Students cleared their doubts by asking questions. Looking at the current scenario which fund will be beneficial for the public? It is mentioned in mutual funds add that mutual funds are subject to market risks, what type of risks are involved?

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Day-4 On day-4, Dr. Aditya Srinivas showed the students and explained live the functions of stock market. Then he explained about derivatives that it is an instrument whose value is derived from underlying assets. The underlying assets can be financial or non-financial, for example, stocks, bonds, gold, silver, temperature, electricity etc. Derivatives started in 1848 at Chicago Board of Trade (CBOT). In 1865, future trading started. In 1900, first index future contract was traded on Kansas Board of Trade. In 1996, L C Gupta committee was formed to study whether derivatives are required in India. The committee studies for 2 years and in 1998 submitted their report stating that the derivatives can be started. In 1998, J R Verma committee was formed to suggest the risk management framework. Finally, in June 2000 derivative market started with Index future contracts. There are mainly three participants in the derivative market – Speculators, Hedgers and Arbitrageurs. Speculators do short –term trading. For instance, buying Nifty contract when GDP is good and then selling after one hour as profits are earned. Hedging is done to remove the risk and not to make profits. Hedging involves taking two opposite positions at the same time. For instance, FII buy of Rs. 10 lakhs Reliance in the cash market. They will sell Rs. 10 lakhs Reliance Future Contract. In case, Reliance value goes down to Rs. 8 lakhs, then in cash market they will experience a loss of Rs. 2 lakhs, while in future market they will make a profit of Rs. 2 lakhs and Net outflow is zero. Why hedging is done? If hedging is not done then the loss is sure to occur, as the objective of hedging is to reduce risk and not make profit. Institutions do hedging in a big way, so as to protect the value of their portfolio. Arbitrage is to buy from one market where the price is low and sell in the other market where the price is high. For instance, Reliance is Rs. 1000 in cash market and Rs. 1010 in future market. Then one can buy Reliance from cash market and sell it in future market. On expiry the price in cash and future will be covered. Arbitrage gives good earnings in the bulls market. In 2007, there was a huge difference between cash market and future market due to Bull Run and so the future prices were quoted very high. The returns were 3% per month. The two main products of Derivatives are: Futures and Options Futures are a contract between buyers and sellers for a predetermined date. The predetermined date is to execute transaction on a recognized stock exchange. There are three types of margin in Futures: Initial margin, Maintenance margin and Ad-hoc margin. Initial margin is the basic is the basic amount to be paid to broker to initiate the trade. Maintenance margin is the amount which has to be in the client's account all the time. It is normally 50% of the initial margin. At times due to volatility additional margin may be imposed called as Ad-hoc margin.

Risk management is the key in the derivatives market for long run survival of clients and brokers. Further with the help of an example Dr. Srinivas explained the functioning of futures market. Options as an investment tool give the buyer the right but not the obligation. There are two types of Options: Call and Put options. Call option gives the buyer the right to buy but not the obligation. Put option gives the buyer the right to sell but not the obligation. With the help of an example Dr. Srinivas explained the working of these options. Finally, he concluded the session by discussing the key aspects of Derivative market. One must understand the risk involved. Buy only options since risk is limited to the amount of premium paid. Futures are very risky, as profit and loss both can be unlimited. FIIs are big players in the market. Index is very heavily traded. Retail investors trade but often incur loss. The minimum contract value is Rs. 5 lakhs which was earlier Rs. 2 lakhs. Thus, retail investors should not trade if they do not understand the risk. Margin is the main tool for risk management. Brokers must guide clients properly for derivatives market trading. Knowledge management is very important for derivative markets.

Day-5 On day-5, Dr. Aditya Srinivas explained live the money control website (www.moneycontrol.com). After explaining the website details and functioning, Dr Srinivas answered the questions and doubts raised by the students. The session concluded with the online test and feedback. Out of 255 students 151 students completed the test successfully

Dr. Daniel Penkar
Director, SIOM