



# STRICTLY STREET

*The official newsletter of AAMDANI*



## Flipkart



## JABONG COM

## ADD TO VOCAB

### Ponzi Scheme

It is a fraudulent investing scam promising high rates of return with little risk to investors. The Ponzi scheme generates returns for early investors by acquiring new investors. This is similar to a pyramid scheme in that both are based on using new investors' funds to pay the earlier backers. Both Ponzi schemes and pyramid schemes eventually bottom out when the flood of new investors dries up and there isn't enough money to go around. At that point, the schemes unravel.

## JABONG OUT OF THE GAME?

Flipkart has shut down the operations of Jabong, in a move to fully empower its premium fashion marketplace Myntra. Flipkart had acquired Jabong from Global Fashion Group in a fire sale worth \$70 million in 2016. Unlike Myntra, that has been growing fast, Jabong was continuously struggling to scale in terms of sale. Experts said the move will help Flipkart consolidate operations and make marketing budget efficient.

# UNION BUDGET 2020-21

This year, the Union Budget is woven around three prominent things - aspirational India to boost the standard of living, economic development for all and building humane and compassionate society.

## What all you should know?

- Fiscal deficit 2020-21 pegged at 3.5% of the GDP as against 3.8% for 2019-20.
- New income tax structure proposed for individuals willing to forego certain exemptions and deductions.
- Revised tax rates:
  - 10% income of ₹ 5-7.5 lakh
  - 15% for ₹ 7.5-10 lakh
  - 20% for ₹ 10-12.5 lakh
  - 25% for ₹ 12.5-15 lakh
  - 30% for above ₹ 15 lakhs
- Of the existing over 100 exemptions and deductions, around to be removed in the new simplified tax regime.
- Dividend Distribution Tax to be abolished for making India a more attractive investment destination.
- Bank Deposit Insurance coverage increased to ₹5 Lakh from ₹1 lakh per depositor.
- ₹100 lakh crore to be invested on infrastructure over the next ₹5 years.
- “Vivad se Vishwas” scheme launched in which interest and penalty would be waived for those willing to settle tax disputes till March 31, 2020.
- Disinvestment proceeds estimated to be ₹1.20 lakh crore for 2020-21, up from ₹65,000 crore in current fiscal.
- Govt. sell part of its holding in LIC by way initial Public Offer.
- New Education Policy to be announced. Allocation of ₹99,300 crore for the education sector and ₹3000 crore for skill development.
- ₹69,000 crore allocated for the healthcare sector.
- MSME turnover threshold for audit increased to ₹ 5 crore from ₹ 1 crore for those businesses carrying out less than 5% transaction in cash.
- 100 more airports to be set up by 2024 to support the UDAN scheme.
- PAN to be instantly allotted online on the basis of Aadhaar.

## Big Moves

- ₹5.75 lakh crore - estimated market capitalisation.
  - ₹80,000 crore - Proceeds from 10% sale.
  - ₹ 31 lakh crore - LIC's assets under management.
  - ₹25,241 crore - NPA's out of a total debit of ₹ 4,05,304 crore in FY19.
  - IPO to make LIC the 4th largest co after Reliance Industries, TCS and HDFC bank.
- Budget 2020 failed to lift D-Street sentiment and left market high and dry for a lot of investors were hoping for big bang reforms from the government. The fiscal math seems reasonable of 3.5 percent GDP for FY21 but the calculation hinges on a lot of optimistic assumptions and aggressive divestment receipts. In terms of sectors, the Budget was negative for stocks in sectors such as fertilizers, tobacco, insurance, real estate and some part of capital goods space.

# GOVT DIVESTING LIC?

The government's proposal to list Life Insurance Corp. of India (LIC) through an initial public offering (IPO) was a highlight of the 2020-21 Budget. LIC is the country's largest insurer with a market share of 76.28% in number of policies and 71% in first-year premiums. LIC has many subsidiaries including IDBI Bank. LIC recorded assets under management of Rs 31 lakh crore in 2019. In January, LIC had completed acquisition of a 51% stake in IDBI Bank. Reacting to the minister's announcement, shares of IDBI Bank rose as much as 17.5% intraday, and closed at ₹37.3 on Saturday, up 10% from its previous close.

## Major reasons

- LIC's gross NPAs rose to 6.10 per cent in the first six months (April-September) of 2019-20. Gross NPAs have almost doubled in the last five years. The insurer always maintained a stable 1.5-2 per cent gross NPAs.
- The Modi government has set an ambitious divestment target of Rs 2.1 lakh crore for FY21 and expects to garner nearly Rs 70,000 crore through partial stake sale in LIC. This will help the government to increase its expenditure in various sectors as cash inflows will increase after disinvestment.

Experts believe the stake sale will not only allow the government to meet its revised fiscal deficit target, but also draw more foreign investments into India. LIC IPO is likely to be held in the second half of next fiscal. LIC's equity capital stands at ₹100 crore, which needs to be increased in order to sell even a 10% stake. The insurer pays 95% of its surplus to policyholders and the rest to the government. The extra capital required for the IPO will likely come from the government's portion of the surplus as the policyholders' money will be left untouched. Using the proceeds from the government's dividend seems to be the most logical thing to do at the moment. The listing of insurer will make it one of India's biggest companies in terms of market capitalization along with Reliance Industries, TCS and HDFC Bank.

# INDIA NO LONGER ELIGIBLE FOR GSP BENEFITS

The United States Trade Representative's (USTR's) office has classified India as a developed economy, ineligible for benefits given by Washington DC to developing countries. This is expected to stop all chances of India reclaiming its benefits under the US' Generalized System of Preferences (GSP) scheme. The GSP is America's oldest preferential trade scheme, which offered Indian exporters tariff-free access to the US until June, when all benefits were suspended. The USTR considers a country's per capita gross national income (GNI) and share of world trade to designate its level of economic development.

India is the largest beneficiary nation under the GSP, with total benefits from tariff exemptions amounting to \$260 million in 2018, according to the data from the USTR's office. While goods worth \$6.35 billion were covered under GSP in 2018-19, it was only a small piece of India's overall exports to the US in the same period, which stood at \$51.4 billion. In respect of products having GSP benefits of 3 per cent or more, exporters had found it difficult to absorb the loss, the Federation of Indian Export Organisations (FIEO) has said. Despite having a minimal impact on India's overall outbound trade with the US, specific exports from India in a diverse set of sectors such as jewellery, leather, pharmaceuticals, chemicals and agricultural products has faced higher costs and competition, FIEO said.

## GRAB THE FACTS

- Nutella sells approximately 11 million jars every year across the world. That's 1 jar every 2.5 seconds.
- The Ikea store layouts are designed like mazes so that customers who walk in, get lost and land up getting more time in the stores
- .In 2002, Fujitsu made a device called the "iPad," and Apple had to pay \$4 million to Fujitsu to buy the trademark rights.
- Coal India was the biggest IPO in India when the state-run firm raised Rs 15,200 crore in 2010.

# IMPACT OF CORONAVIRUS ON THE INDIAN ECONOMY

A prolonged prevalence of the Coronavirus contagion in China could adversely impact India's trade and economy. In 2002-03, India's total trade with China stood at a paltry \$4.8 billion which has now expanded more than 18 times to \$87 billion in 2018-19. India exported mostly raw materials and industrial inputs to China such as organic chemicals (\$3.2 billion), mineral fuels (\$2.8 billion), cotton (\$1.8 billion), ores (\$1.2 billion), plastic materials (\$1.1 billion) in 2018-19. On the other hand, the major items imported by India during the same period include electronic items (\$20.6 billion), machinery (\$13.4 billion), organic chemicals (\$8.6 billion) and plastic items (\$2.7 billion).

It has impacted many industries in India, one of which is pharmaceuticals. Indian pharma firms are closely monitoring the outbreak of Coronavirus in China as it could impact the supply of active pharmaceutical ingredients in the country if the situation in the neighbouring nation does not improve soon. India imports bulk drugs/active pharmaceutical ingredients (APIs) for producing medicines including certain essential medicines. The other example of industry that will be impacted is Surat's diamond industry. The Surat diamond industry is likely to face a loss of around Rs 8,000 crore in next two months as Hong Kong, which is a major export destination, has declared a state of emergency due to the coronavirus outbreak in China, say experts. According to Gems and Jewellery Export Promotion Council (GJEPC), polished diamonds worth around Rs 50,000 crore are exported from Surat to Hong Kong every year. That's around 37 per cent of the total exports from here. Now, due to Coronavirus scare, Hong Kong has declared a month-long vacation which will impact the diamond industry adversely. Also, Gujarati traders having offices there are coming back to India. The positive effect is that the Global buyers are turning to India to source ceramics, homeware, fashion and lifestyle goods, textiles, engineering goods and furniture as China grapples with the deadly coronavirus outbreak. In the past few days or so, Indian manufacturers and exporters of such goods have received an increasing number of enquiries mostly from the US and the European Union seeking to replace China as a supplier.

Also, Fitch Solutions said it expects vehicle production in India to contract by 8.3 per cent in 2020 as the auto industry faces increasing risk of supply shortage due to China's coronavirus outbreak, possibly hitting domestic output if the virus spreads in the country. "China supplies India with between 10-30 percent of its automotive components, and this could be two to three times higher when looking at India's EV segment, which highlights just how exposed India's automotive manufacturing industry is to the slowdown of vehicle Chinese component manufacturing," it said.

# HIGHLIGHTS

- The country's exports contracted for the sixth month in a row by 1.66 per cent in January to USD 25.97 billion, according to the data released by the commerce ministry.
- Former Jet Airways CEO Vinay Dube has been named as the new chief executive of budget carrier GoAir.
- Indian-origin Rishi Sunak has been appointed finance minister by UK Prime Minister Boris Johnson on 13th Feb.
- L&T Metro Rail Hyderabad, a subsidiary of Larsen & Toubro, has completed India's second-largest operational metro rail project.
- ONGC, Indian Oil Corporation and NTPC were the top three profitable PSUs in 2018-19, whereas BSNL, Air India and MTNL incurred highest losses for a third consecutive year, according to a survey tabled in the Parliament.

## TEST YOUR AWARENESS

1. In January 2020, who has been appointed as the new Chief Executive Officer (CEO) of IBM?
2. Which bank has signed a MoU with Indian Army for customised services?
3. Which bank has launched 'iBox', a 24\*7 self-service delivery facility in January 2010?

## WISE SAYINGS

"Anything that is measured and watched, improves." -  
Bob Parsons

## SOURCES

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