GAEF in TIMES

Finance Wing Magazine

December 2022

Hear it from the Heads

Waieeha Hamdani
Secretary

GAEEFin Times is an initiative to support our goal of increasing financial literacy, especially among the student community. The contents of this magazine have a perfect blend of some of the most exciting and valuable aspects of finance to engage our readers. A special shoutout to our creative authors, editors, designers and heads for making this magazine a reality. I appreciate all of their efforts and contribution. I am hoping that this publication proves to be beneficial and leaves a powerful impact.

Happy Reading #Be Curious

GAEEFin Times is a blend of well researched write-ups and analyses which not only provides a lot of knowledge to our readers but also instigates a keen interest for finance.
This magazins aims to promote financial literacy.
Being really passionate about finance, it's been a great experience curating this magazine along with my wonderful team.

Usloob Khan
Finance Head

TABLE OF CONTENTS

ISLAM FINANCE & BANKING SYSTEM

AUTHORS: RIDHA BAZAZ AND ARYAN CHHAJER
EDITED BY DANISH ASLAM

Article Summary:

This article aims to understand the Islamic Finance and Banking System, considering everything from history to working and framework. It elaborates on the feasibility of Islamic Finance in times of crisis, providing an example of the global financial crisis (2008). Additionally, it attempts to examine Islamic Banking and the lack of clarity surrounding it under the Indian criminal code.

INTRODUCTION

Islamic finance or Sharia-compliant finance is a banking system that works according to Sharia laws as explained in the Quran, the holy book of Muslims. It deals with the permissible investments, wealth, and finances of individuals and businesses. There are two ground rules of Islamic finance, risk sharing and charging no interest. The Islamic banking system is based on partnership. In Islamic banking, shareholders, depositors, and borrowers would participate on a profit loss sharing basis.

There are approximately 520 banks and 1,700 mutual funds around the world that comply with Islamic principles. The financial assets under the Islamic Financial system are projected to grow to $3.7 trillion by 2024.

HISTORY

The roots of Islamic banking can be traced back to the city of Makkah. The people of Makkah were mainly involved in trading activities and needed financial help to carry on and expand their business. The ones with surplus funds would lend them to these traders and people in business in return for a share of their profit. However, there were no banks or financial institutes established until the early 1900s.
The first interest-free or zero interest banks were developed by the Europeans, who were non-muslims. The Europeans had excellent trade relations with the people of the Middle East, who were mainly Muslims.

The Europeans knew about the Muslim beliefs and Islamic views about Ribba (Interest). For the smooth functioning of trade, they developed interest-free financial systems that worked on a profit-loss sharing basis in these areas.

During the 1920s and 1930s, Muslim-owned banks were established, but soon they adopted the practices of their European competitors.
The emergence of modern Islamic banking began in the early 1970s.
There were mainly three reasons for this;

1. The finance ministers of the organization of the Islamic Conference (OIC) agreed to establish the Islamic Development Bank in December 1973 IDB primarily as a Development Assistance agency rather than a commercial bank. One of the significant roles of IDB was to promote Islamic banking worldwide.
2. The rise in oil prices facilitated the development of modern Islamic banking in 1973, and it vastly increased financial resources. It led to the formation of several Islamic Banks like the Dubai Islamic Bank (founded in 1975), the Kuwait finance house (founded in 1977) the Bahrain Islamic bank (founded in 1981), to name a few.
3. The efforts made by Islamic finance scholars so that people eliminate prohibited elements like Riba are indeed arguably the most critical but insufficiently recognized reason for the development of Islamic banking and financial system.

WORKING IN ISLAMIC FINANCE

Islamic banks are proposed on the principle of an interest-free banking system. Riba (also known as interest) under Islamic law means that anything in excess- the depositor or the investor should not make a profit that is made using the hard work of others. Under Islamic law, it is permitted to follow a system of reasonable profit and return from the deposits of investors where the investor himself takes a well-calculated risk. The banks invest the deposited money in something allowed under Islamic law that is not haram and doesn’t involve high risks. Therefore, businesses that involve gambling, drug abuse, war, and weapons are strictly prohibited. The Islamic banking structure is based on the principle that banks act as agents by collecting money from their depositors and investing them in sharia-compliant ventures and projects.

There are many financial services and products in Islamic banking that cover the customers' needs. Some of them are Mudarbah (profit sharing – one party provides finances, the other provides expertise), Musharaka (joint venture – both parties share everything equally), Murabaha (cost plus profit), Ijara (letting on lease), Istisna amongst others.

ISLAMIC FINANCE FRAMEWORK

Although Islamic banks are prohibited from charging or deducting interest on deposits, they can produce a surplus through various Shari’ah-compliant means.

- **Ijara** is when a bank buys an asset or a good, such as a vehicle, and leases it to the customer. The ownership of the asset remains with the bank until the customer pays off the lease to the bank. During this time, the bank is responsible for the maintenance of the asset (Chhapra, Ahmed, Rehan, & Hussain, 2018).
- **Wakala** means delegation of authority in which the bank is appointed as a sole agent to complete a specific task on customers' demand. The bank helps the customer with its expertise for an agreed duration and charges fees for it which is the profit for the bank.
- **Sukuk** are financial commodities whose terms and conditions comply with sharia, hoping to create profits similar to conventional fixed-income instruments like debentures. Unlike a conventional bond (secured or unsecured), which represents the repayment obligation of the issuer, a Sukuk represents an interest in an underlying funding arrangement structured according to sharia, entitling the holder to a part of the returns produced by such agreement and, at a defined future date, the return of the capital.

ISLAMIC FINANCE & AND BANKING SYSTEM

- **Takaful** is an Islamic insurance scheme wherein people contribute their funds into a pool system to warrant each other against loss or damage. Takaful insurance is based on Shari'ah-compliant means, which explains how people are responsible for cooperating and securing one another. Takaful policies cover various types of insurance such as health, life, and general insurance.
- **Murabaha** means when banks buy the asset while acting as an intermediary, which is sold to customers on premium, which is the profit for the bank. The customer accepts the asset with a deferred payment system (Salman & Nawaz, 2018)
- **Musharakah** is a partnership structure in Islamic finance in which the partners of the enterprise share in the profits and losses. Since Shari'ah does not permit the generation of profit from interest in lending, musharakah allows the financier of a project or a venture to achieve a return in the form of a part of the actual profits according to a pre-decided manner. However, unlike a traditional creditor, the financier will also have his share in the losses, if there are any, on a ratio basis. Musharakah is a type of shirkah al-amwal (or partnership), which in Arabic means "sharing" (Salman & Nawaz, 2018).
- **Mudarabah** is a partnership where one partner invests in a business venture while the other manages the business. The investor is called the Rab al Maal, and the person that manages the business is called the Mudarib. There are two types of Mudarabah partnerships; restricted and unrestricted. Restricted Mudarabah is a contract in which the investor restricts the actions of the working partner to a particular location, all to a specific type of business. Unrestricted Mudarabah in this contract, the investor permits the working partners who administer the Mudarabah fund without any restrictions.

A two-tier Liability-based Mudarabah system is used in most Islamic banks, where the bank first signs an agreement with the depositors as a managing partner of their funds. Then the bank signs an agreement with the entrepreneur as an investor. This model is a hybrid of both Musharakah and Mudarabah.

ISLAMIC FINANCE IN INDIA

In India, Islamic finance is still in its infancy, with only a few companies in the systemic sector. Through 2019, the entire South Asian area had $73 billion in Islamic finance assets. Most people were from Pakistan and Sri Lanka, with only a small percentage from India.
The engagement of banks in Islamic finance, or what we call Islamic Banking, has long been put on hold due to a lack of clarity under the Indian criminal code.

The Banking Regulation Act of 1949 favors the "banking with interest" system, while the operation of "banking without interest" is hampered by a slew of regulations, including prohibitions on profit-sharing businesses, prohibitions on owning immovable property other than banking assets, and SLR requirements, among others. However, it is essential to note that there is no particular legislative prohibition against Islamic finance. At the same time, banks are prohibited from engaging under the Banking Regulations Act. Nothing prevents other financial organizations, such as NBFCs, from following suit.

In its report, the RBI's committee on the Medium-Term Path to Financial Inclusion recommended that instead of establishing a distinct framework for Islamic banking, a separate window for Islamic finance products be established. According to multiple media reports, the RBI declared in answer to an RTI request that it is not pushing the growth of Islamic banking any further because "wider and equal opportunities" are already available to all residents.

As a result, while Islamic finance products may be offered by companies other than banks, banks' participation will be on hold until the RBI takes further action, which effectively excludes the vast bulk of the capital pool from this area.

BENEFITS OF ISLAMIC FINANCE

While the Islamic banking system is still considered to be in its early developmental stage, the fact that it is one of the most stable and beneficial banking systems in the world cannot be denied. At the time of the 2008 global financial crisis, while the major financial systems in the world collapsed and suffered, the Islamic finance system, by its risk sharing, remained intact and protected. In recent decades, Islamic finance has emerged as an effective financial tool not only for Muslim countries but for economies worldwide.

Shariah forbids practices like usury, speculation, and gambling that help reduce the impact of such harmful practices. The Islamic financial system encourages stable investments. Companies whose financial practices and operations are too risky are usually kept away by Islamic financing companies, encouraging investments in promising ventures.

Islamic finance also promotes financial justice. While the western financial system profits at the cost of its customers and puts the beneficiary liable for all risks, the Islamic finance system believes in sharing profits, losses, and risks, thereby encouraging business activities and investment, benefiting the economy as a whole.

CONCLUSION

While the Islamic banking system is still considered to be in its early developmental stage, the fact that it is one of the most stable and beneficial banking systems in the world cannot be denied. At the time of the 2008 global financial crisis, while the major financial systems in the world collapsed and suffered, the Islamic finance system, by its risk sharing, remained intact and protected. In recent decades, Islamic finance has emerged as an effective financial tool not only for Muslim countries but for economies worldwide.

REVENUE STREAMS: ITC

WRITTEN BY: ARSHEEN MONAWER
EDITED BY; AYAN RASUL

DEFINITION

Revenue is the vanity and sanity of the business and is one of the most critical aspects of an organization. It acts as fuel to the engine and indicates the organisation's profits, viability, sustainability, and creditworthiness. Therefore, for any business to survive, the management's core focus should be on its revenue model and streams.

Revenue streams are the various sources from which a company earns money. For example, it can be from selling a product, providing services, renting, advertising etc. The revenue stream of a particular business depends on the activities undertaken by it.

A company's revenue is the total of its operating and non-operating earnings.

"This article examines the different types of revenue streams and their versatility in the corporate world. It explores the concept of revenue stream and its diversification through a brief case study of the company — ITC. The author further elaborates on the history of ITC, its diversification, and the ideal revenue model that the company follows.

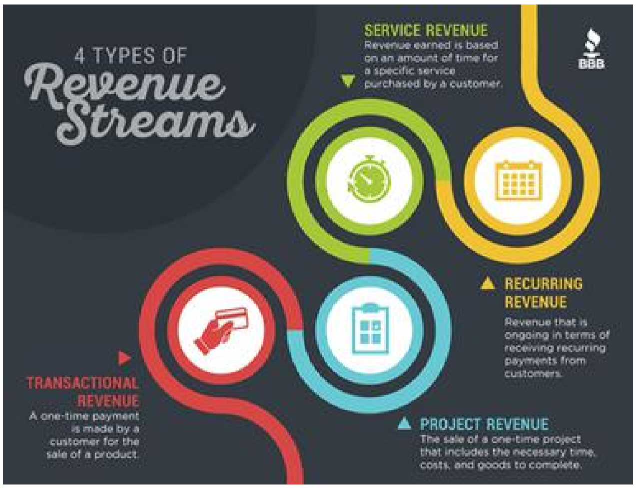


Figure 1: Types of Revenue Streams

OPERATING ACTIVITIES

The operating revenue concentrates on the businesses' core activities. The ways in which a company earns through its operational activities define its operating revenue stream. It can be of various categories: transaction-based revenue, usage fee or service revenue, project revenue, and recurring revenue.

Types of Revenue Streams

1. **Transaction-based revenue**- It is a one-time payment made by a customer to purchase goods. The customer can be another company (B2B) or a consumer (B2C). For example, a company manufacturing and selling furniture has a transaction-based remuneration.
2. **Service revenue**- A firm will receive a usage fee or service revenue when it provides services—for example, earnings from booking a lodging service.

3. Project revenue- An enterprise generates project revenue by taking up small-scale or large-scale undertakings—for example, a construction business that makes revenue for every project it signs for.

4. Recurring revenue- Businesses earn recurring revenue through ongoing customer payments, such as Netflix subscriptions, lending assets, brokering etc.

NON-OPERATING ACTIVITES

These also, make way for revenue streams for the company. These are in the form of interest, rent, and dividend income.

The firm's income being the key performance indicator for all companies, is like the arteries to the heart of the business. Its sources help us understand the types and patterns of cash inflows. These are often the best tools for analysts to analyse and predict the company's value and future growth prospects

Nevertheless, we all know how essential revenues are. But, how should we know which source of revenue to rely on?

The answer to this question is — none. A company can never entirely rely on just one activity or source to generate all its income. That's like putting all our eggs in one basket. If that source dries up, the company won't have other income lines to fall back on.

The solution lies in having a range of revenue streams that remain relevant and complementary to your core customer base. It fuels growth, helps the business survive in market weakness, and expands market visibility and reach.

To comprehend the concept of the revenue streams and the matter of its diversification, let us look at a company that started by selling a single product but now has been diversifying to various related domains. Initially a cigarette company, it has now become an ecosystem in itself.

You guessed it right- It's the ITC!

What do we know about the ITC Limited?

ITC Limited is an India-based holding company incorporated on August 24 1910, under the name Imperial Tobacco Company of India Ltd. As the company's ownership progressively Indianised, the name of the company was changed from Imperial Tobacco Company of India Ltd to India Tobacco Company Ltd in 1970 and then to ITC Ltd in 1974.

REVENUE STREAM

THE DIVERSIFICATION

FOLLOWING THE TIMELINE-

- It started with the production of cigarettes and leaf tobaccos and in 1925, the company set up a Packaging & Printing business as backward strategic integration for ITC's Cigarette business. The Packaging and Printing business initially aided the supply of their cigarette packages. Then gradually, the company in the printing and packaging sector diversified itself and gave birth to several brands and products.
- As a result, it is India's most sophisticated packaging house today.
- As of 2022, the company has generated a revenue of 5618.55 crores in this sector.
- In 1975 and 1979, ITC entered into the hotel and paperboard business, respectively.
- Further, in 1990, the company set up an Agri-Business Division to export Agri-commodities. ITC's agri-business division is one of India's largest private exporters of agricultural commodities, assisting about 40 crore agriculturalists. Apart from using the Agribusiness for exports, ITC also used it as a raw material generator for its upcoming packaged food and personal care business.
- In the 2000's, ITC entered the world of packaged food, lifestyle retailing, IT, education and sanitary, and other personal care products. This was the start of a phase where ITC aggressively diversified its business from cigarettes to other FMCG products.

Figure 2: Diverse segments of ITC

However, the company has been diversifying across various segments such as FMCG (fast-moving consumer goods), paperboards, hotels, paper and packaging, and agri-businesses. Cigarettes are no longer the only source of earnings as ITC has come a long way and has successfully established itself as a household consumer-based business and in various other sectors. Today, the company is among the top market cap companies in India. It produces 6 million sustainable livelihoods by contributing to three sectors of the Indian economy- manufacturing, agriculture & services.

ITC'S REVENUE MODEL

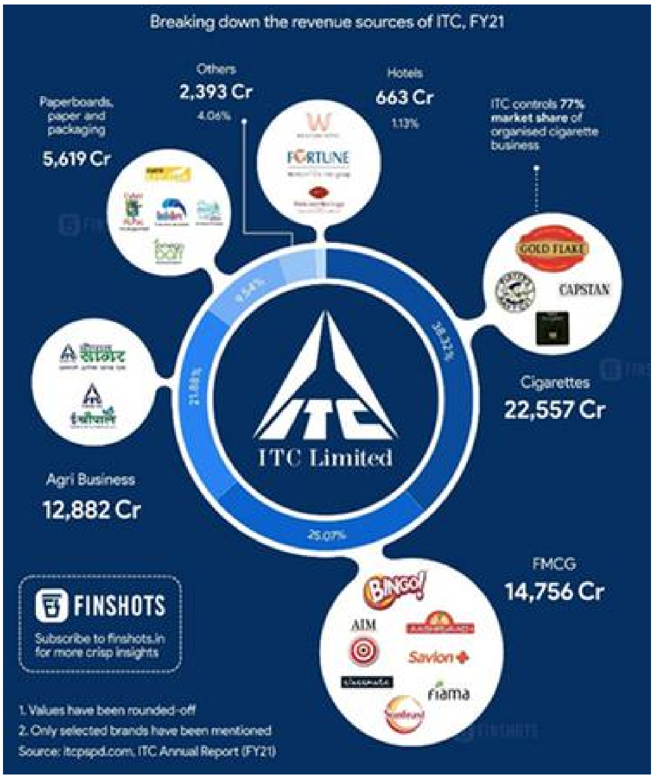


Figure 3: Revenue sources of ITC, FYI 21'

Today, the company has colossal revenue pouring in from various streams. Cigarettes hold a massive stake of 40% of revenue generation. This segment is the most cash-generating division with a 60% of profit margin. In 2022 alone, the company minted a 22557.32 crore revenue from cigarettes with a profit margin of 13498.36 crores. The considerable amount of cash generated from this sector is used to fuel other emerging businesses, such as the hotel and the agriculture business, and to give dividends to its shareholders.

The FMCG sector (apart from cigarettes) contributes to around 26% of the revenues. It is one of the company's most growing sectors, with the segment revenue growing by 8.6% on a relatively high base.

Some of ITC's FMCG brands that have achieved an influential market standing among consumers are- Sunfeast, Aashirvaad, YiPPee!, Bingo!, Candyman, and Kitchens of India in the Branded Packaged Foods space. Fiama, Superia Vivel, and Essenza Di Wills, in the Personal Care Products segment. Paperkraft and Classmate in Education & Stationery products. Mangaldeep in Agarbattis as well as Aim in Matches.

The paperboard, packaging, agriculture, and the hotel business have also shown resilient performance. However, any losses in this sector are funded by the profits of the other performing segments.

For instance, the hotel sector for the company showed a negative profit of 563.87 crores for the year ended 2022. The reason behind this was the decline of the tourism sector due to the pandemic.

At the same time, ITC had the profits from other sources to fund these losses. This, for the company, is the most crucial benefit of having multiple income sources.

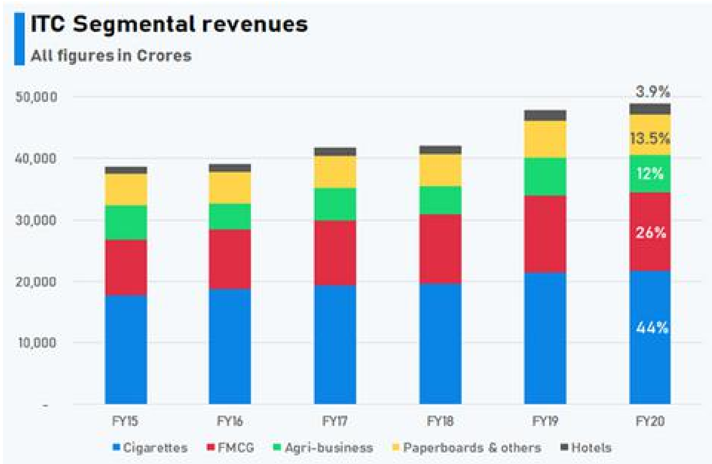


Table 1: Segmental revenues

The company primarily uses a transaction-based revenue stream, as most of its operating activities revolve around manufacturing and selling goods. In addition, the hotel segment generates a usage/service fee revenue. It has implemented its business model very well in all its sectors.

CONCLUSION

ITC's pricing mechanism, aggressive advertisement, and the interrelated chain of segments have given itself an edge over its competitors. The company has grown mainly in the tobacco and FMCG industries and has a great potential to expand in its other sectors in the market as well.

HANDBOOK TO DERIVATIVES

AUTHORS: RAMSHA ANWAR AND ALEENA KHAN
EDITED BY: AYAN RASUL AND AREEBA SHAKEB

INTRODUCTION

A derivative, according to Fernando (2022), is a form of financial contract whose value is determined by an underlying asset, collection of assets, or benchmark. A derivative is a contract between two or more parties that can be traded on an exchange or **over-the-counter (OTC)** (Murphy, 2022).

Before delving deeper into what derivatives are, let us examine why we require them—

We need derivatives because they **lower the financial risk** of a transaction by requiring individuals to **agree on prices** in the present for **future periods**, further enabling a person to transfer the risk to someone else who is ready to accept it. Furthermore , they are used to control financial risk by allowing investors to take opposing positions in a single transaction, which is referred to as hedging.

> **Several financial tools aid in management of finances—one such financial tool is a 'derivative', which is attributed with making trading and other transactions convenient. The authors have broken down and analyzed each aspect of a derivative, concisely. The article begins with a comprehensible elaboration of what derivatives are, along with an example. The various types of derivatives, its stakeholders, and its requisites for trading, have also been listed down briefly. Conclusively, the authors have put forth crucial aspects and pointers that need to be considered before trading in the derivatives market.**

They are also used to speculate on the value of various assets and are important because the more risk a trader takes, the more profit he will make. Derivatives can be utilised on both sides of the equation to reduce or increase hazards.

Below is an **example** that briefly illustrates why we need derivatives—

Assume you are X and you want to host a Thanksgiving dinner next month. You'll need several pounds of turkey because the entire town is coming. You know that it is the time when everyone will be buying turkey, so there is a chance you won't get any or that you will get it at a very high price. What should you do in light of this uncertainty?

You know the price is currently 100 rupees per turkey, and you also have a rough estimate that it could be 180 rupees per turkey next month. So, you make a contract with the seller to buy 20 turkeys at the cost of 180 per turkey in the next month. There is no middle-man involved when you are dealing in derivatives. Now since the seller is also concerned about future prices, he agrees to sell turkeys at the agreed price in the next month.

In this manner, derivatives lower the financial risk of a transaction by requiring individuals to agree to prices in the present for future periods, additionally a term structure is set.

Thanksgiving has arrived. Prices have risen up to 200 rupees per turkey. On those 20 turkeys, X made a profit while the seller lost money. The turkey was the underlying asset here. This way, derivatives also enable a person to transfer the risk to someone else who is ready to accept it.

This article expands on the following aspects.

- The various **types of derivatives**
- **Who participates** in them, and
- The **requisites** for trading in derivatives.

Derivatives, according to the Corporate Finance Institute (2021), are financial tools that derive their value from the underlying asset. It narrows the focus on present prices.

Derivatives make trading convenient in various ways since they only require a small down payment, called **"paying on margin"**
(Chen, 2021).

These are some ways in which trading is made convenient through derivatives—

- The derivative contract's seller does not always have to own the asset. They can also satisfy the contract by simply giving money equal to the asset's prevailing worth or selling another derivative contract that balances the previous. Hence, derivatives make trading easier than the actual asset being traded (Zucchi, 2022).
- According to Chui (2010), derivatives also make the **liquidity needed** by a business **more predictable**. The business now knows how much money they will require to settle contracts and make emergencies, well less frequent. This, in turn, makes it possible for further investments.
- A small percentage of the world's derivatives are traded on exchanges, which are public contracts with standardised contract terms (Manning, 2022). The standardisation is aimed at improving the liquidity of derivatives. In 2007, the world's largest exchange was created by the merger of the Chicago Mercantile Exchange and the Chicago Board of Trade (CME Group Inc. 2017

HANDBOOK TO DERIVATIVES

TYPES OF DERIVATIVES

TYPES OF DERIVATIVES

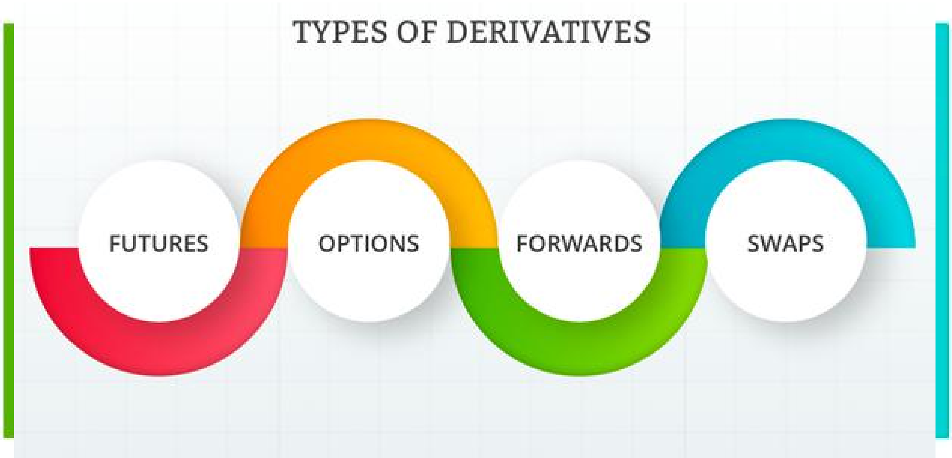
According to Fernando (2022), derivatives can be divided into two classes, **'lock' and 'option'**. Under the 'lock' class both the parties involved are bound to the terms of the contract throughout its life, for eg. futures, swaps, or forwards; whereas, under the 'option' class the holder has the right, not the obligation, to do what they want with the asset before the option's expiration at a specific price, for eg. stock options, which provides an investor with the right, but not the responsibility, to purchase or sell a stock at a certain price and date **(Picardo, 2022).**

Let us take an example to understand the different types of derivatives.—

Assume a company XYZ deals in oil at the rate of $100 per barrel. The underlying asset here is the oil quantified in terms of barrels. The company understands that due to the ongoing Russia-Ukraine war,it can sell these barrels at a higher profit margin. The company, after negotiating with the European distributors, who fear further higher pricing, forge an agreement and buy them at $115 per barrel.

XYZ company can now either draft a derivative contract in which when the next shipment comes, whether the price falls or rises– both the parties (distributors and the company) will have no choice but to fulfil the agreement and purchase the oil barrel at $115 each. This would be under the "lock" category.

Derivatives are frequently used by businesses to "**lock**" in the price of raw materials needed to produce their products. A company can avoid having to worry about a raw material price increase that might reduce profitability by locking into the derivative contract. In some circumstances, a slight loss could be acceptable for price stability (Kennon, 2022).



source: medium.com

An "**option**" contract however provides an alternative. By the time the next shipment arrives, the prices have dropped to $90 per barrel but the company instead earns a profit from a different segment, say- trades in coal and foresees a rise in the prices of oil. As a result, the company gives the distributors a contract that is fair to both the parties and also yields a profit for both. This solution prevents the business from suffering a loss.

CLASSIFICATION OF DERIVATIVE TRADERS

Based on their trading objectives and techniques, derivative traders are classified into three types: **hedgers, arbitrageurs, and margin traders**-

Hedger- They use derivative contracts to mitigate the risk of any future changes in the price of the underlying financial asset, they use derivative contracts.You are referred to as a Hedger if you simply want to protect your funds from a loss in value when you run short on derivatives.

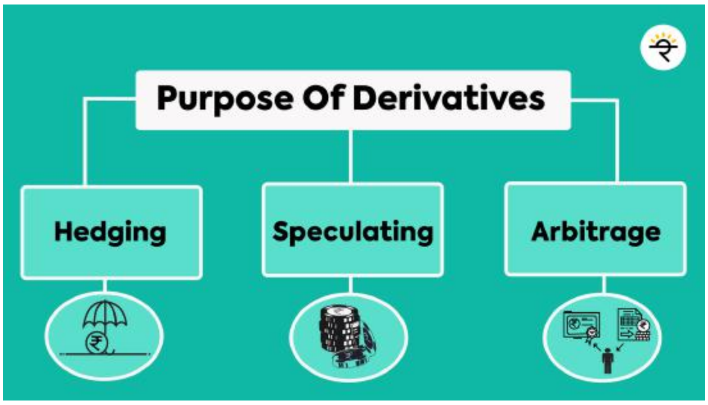
Arbitrageur- Arbitrageurs are traders who acquire financial assets on one financial market and sell them on another market to make a profit. The profits are made by the Arbitrageurs when the financial assets are available in the different financial markets and the prices differ in these markets.

Margin traders- Margin traders are those who participate in margin trading. Margin is a unique feature that allows traders to execute trades without having to pay the full value of the financial asset up front. Trading in derivatives is where margin trading is most common.

(In this context, going long means owning the stock at full price because you believe the price will rise. Going short means you do not own the stock; you borrowed it in a margin account from a brokerage firm and must sell it at a higher price to pay off the brokerage).

MUST KNOWS OF TRADING IN THE DERIVATIVES MARKET.

1. As we discussed that derivatives derive their value from some underlying asset. But the problem in a real-life scenario is that you cannot know the exact value of the asset. Just like what happened with **mortgage-backed securities debt** in the 2008 Financial Crisis (Singh, 2022).



source: rachnaranade.com

2. **Time!** As all the contracts are time-bound, no one can predict the prices with 100% surety, there will always be uncertainty.

3. As for a contract to take place, you need at least two parties. And what if the other party fails to fulfil the agreement. What if they go bankrupt?

4. We earlier mentioned "**Paying on margin**". It works like leverage and attracts traders like moths over the flame. But sometimes when the value of the underlying asset goes down, the trader has to put more money in their margin account to maintain the amount.

CONCLUSION

Although using derivatives can be exciting, it can be like fire in the hands of a child when a novice investor who does not understand the intricacies involved decides to make use of it. It is a very quick way to make some quick money in a short period of time, but it is also a quick way to lose a lot of money in the same amount of time.

Derivatives are hence, financial tools that come with their own sets of risks and benefits, like any other financial tool. If you need a push into trading with derivatives, then probably the fact that it is a **market worth approximately $12.6 trillion** might be a motivator. However, hedge at your own risk!

BLACKROCK : SWOT ANALYSIS

BY AYUSH RAJ
EDITED BY:AREEBA SHAKEB

S W O T

WHAT IS BLACKROCK

BlackRock Inc. is a leading multinational investment management corporation based in New York City, the USA. In 1988, it was founded as a risk management and fixed income institutional asset manager.

BlackRock is the world's largest asset manager, according to Brush & Wittenberg (2022), with US$10 trillion assets under management as of January 2022. It operates globally with more than 70 offices in 30 countries and clients in 100 countries.

SERVICES OFFERED

Services offered by BlackRock are:

- Portfolio Construction and Balance Sheet Solutions, including Sustainability and Climate Risk Advisory.
- Capital Markets & Transaction Support
- Data, Analytics & Financial Modelling
- Enterprise Risk & Regulatory Advisory.

STRENGTHS

Strengths include the **resources and talents** they may use to develop a long-lasting competitive edge in the market.

Enriching People: BlackRock's commitment to offering the greatest financial advice services is one of its key competitive advantages. With the shift to net zero, they are guiding their clients through financial change. The BlackRock Advisers keep an eye on the advisory services offered to clients by, among other things, routinely evaluating client accounts and giving clients updates on their accounts (BlackRock Inc., 2019).

Acquisitions: An acquisition is a business transaction in which one firm buys all or a portion of the stock or assets of another company.
BlackRock demonstrates a history of successfully integrating additional businesses through acquisitions, including Quellos Capital Management's fund-of-funds division, SSRM Holdings, and many more.

> **In order to understand the hows and whys pertaining to a companys' success or loss, conducting a SWOT analysis is essential. In this article, the author has analyzed the strengths (S), weaknesses (W), opportunities (O) and threats (T) pertinent to the multi-billion dollar investment management corporation- BlackRock Inc. The author has backed her/his/their findings with veritable facts and statistics along with concisely listing down and explaining her/his/their findings in each domain, one by one. She/he/they have concluded the article by giving inputs on the domains that need to be reformed and worked on.**

Strong Free Cash Flow: The company has access to resources to develop new initiatives thanks to its strong free cash flow (BlackRock Free Cash Flow, 2022).

Good Return on Investment: Return on investment (ROI) is a performance metric used to assess an investment's efficiency or to compare the efficiency of many investments, additionally, a good ROI is considered to be 7% greater for businesses.
By generating new revenue streams, it is relatively successful in new initiatives and offers a high return on capital investments (Blackrock Inc 's ROI per quarter, 2022).

Strong Brand Portfolio: BlackRock has made investments over the years to develop a strong brand portfolio. If a company wants to diversify into new product categories, this brand portfolio can be quite helpful (BlackRock: Worldwide leader in risk assessment and management, 2019).

Outstanding Performance in New Markets: BlackRock has acquired the necessary experience to successfully enter new markets. The expansion has aided businesses in diversifying their business cycle risks in the markets where they compete and generating new revenue streams.

- BlackRock was named one of Wall Street Journal's Best-Managed Companies of 2021. (BlackRock Inc., 2022).

- BlackRock was also ranked #6 on Refinitiv's 2021 top 100 most diverse and Inclusive organizations globally, as ranked by their Diversity & Inclusion (D&I) Index.

High customer satisfaction: Customers who are pleased with the services are the most ardent supporters. Their favourable word-of-mouth gives a brand credibility, popularity, and helps them recruit new clients. This saves brands a lot of money that they would have spent on marketing and promotional activities to recruit new customers.
BlackRock, with its devoted customer relationship management department, has been able to attain a high degree of customer happiness among current customers and good brand equity among potential customers (Rieder & Brownback, 2020).

WEAKNESSES

Weaknesses prevent an organisation from working optimally. A bad brand, higher-than-average turnover, high levels of debt, an inadequate supply chain, or a lack of cash are examples of areas that the company has to improve in order to remain competitive.
BlackRock Inc demonstrates its weaknesses in the following domains:

Accusations: BlackRock has come under fire for allegedly contributing to climate change (Wallace-Wells, 2022), maintaining tight relations with the Federal Reserve System during the COVID 19 pandemic, engaging in anti-competitive behaviour, and making unheard-of investments in China (Mookerjee & Cheng, 2021).

BLACKROCK PRESENCE

High Attrition Rate: When compared to other organisations, BlackRock has a high attrition rate, which basically means that their employees are leaving frequently which happens because of employee dissatisfaction with the compensation structure, a lack of employee growth possibilities, and even bad working conditions.
In comparison to its rivals, the bank must spend more on the education and training of its staff (Shastri, 2022).

Low investment in research and development: Investment in R&D of BlackRock lagged behind the industry's top performers in terms of growth. Despite spending more on R&D than the industry average, BlackRock has not been able to keep up with the best firms in the sector in terms of innovation. It has the appearance of a seasoned company eager to release items with tested features (Knott, 2018).

Laurence D. Fink, CEO, BlackRock

OPPORTUNITIES

Opportunities are outside factors that work in the company's favour, and the company can take advantage of them to expand.

Technology development: The greatest benefit to humanity and the organisation as a whole has been the development of technology. With the development of technology and BlackRock's adaptation to it, a wide range of services are now available to people all over the world.

Expanded market: BlackRock now has the chance to access a brand-new, developing market due to the adoption of new technology standards and free trade agreements between governments (Deloitte & Touché LLP, 2020).

Stable free cash flow: Opportunities to engage in adjacent product segments arise from stable free cash flow. With greater cash on hand, the business can invest in both new product categories and technological advancements. This ought to present BlackRock with new opportunities in other product areas (WSJ: BlackRock Inc., 2021).

THREATS

Existence of Competitors: J.P. Morgan, Chase, Bank of America, and other major competitors have posed threats to BlackRock. Customers may be drawn to the investment management services by rival businesses (JPMorgan Chase & Co vs BlackRock, 2022).

Security risks: If the financial institution encounters any security issues at any time, it could pose a serious risk to the business. After such events, it would be difficult for the business to win back the trust of its customers and keep them (Security report for BlackRock, 2022).

No regular supply of innovative products: The corporation has created many goods throughout the years, although many of them are reactions to developments made by rival companies. Second, the supply of new products or services is irregular, which causes fluctuations in the sales figures over time that are both high and low (Dovbnya, 2022).

CONCLUSION

In the SWOT analysis of BlackRock, we found that the company's brand value and range of services have increased its market stability; however, competitors are ahead of and significantly better than BlackRock in terms of technological innovation.
One must focus on technical improvements and marketing strategies to stay competitive in the investment management business. In a digital world where everyone uses mobile devices like smartphones and laptops, digital marketing is crucial for building brand awareness across the globe.

HEDGE FUNDS

AUTHORS: RAMSHA ANWAR AND ALEENA KHAN
EDITED BY: VARISHA ABDULLAH

WHAT ARE HEDGE FUNDS

Constituted by the words 'hedge' (to protect) and 'funds' (pools of money), Hedge Funds serve the purpose of saving money from callous market conditions.

Like Mutual Funds, Hedge Funds are pools of money investable in varied assets. However, unlike Mutual Funds, Hedge Funds utilize leverage practices (more borrowing as well as risk) such as short selling, options, and futures. These complex techniques help create a diverse portfolio, gain positive returns, and eliminate risk.

Owing to the profitable yet precarious nature of Hedge Funds, only accredited investors with due knowledge and experience choose to operate them in the market.

This article attempts to explore Hedge Funds with particular reference to India. It elaborates on multiple facets, including the concept of Hedge Funds, the differences between Hedge Funds and Mutual Funds, hedging strategies, and the regulation of the Indian Hedge Funds market by SEBI. Additionally, it describes the prerequisites and steps to start Hedge Funds in India. Finally, it presents Hedge Funds as an asset to the Indian market. Continue reading this article to learn more.

Interestingly, Hedge Funds are not regulated by the Securities and Exchange Board of India (SEBI) (Sabarinathan, 2010). Hence, these funds cannot be marketed. Regardless of how well they fare, their advertisements can never be seen.

Let us suppose Kayne is an investor who owns 1000 Microsoft shares with a value of $30 per share (as of May 2022). Kanye wants to protect her shares against the possible share value decline in the next two months. Kanye can buy ten July put option contracts on Microsoft on the Chicago Board Options Exchange with a strike price of $28.5. This move will give Kanye the right to sell 1000 shares @ $28.5. If the quoted price (or, the offered price for bidding) is $1, each option contract will cost $1000. The total cost of the hedging strategy will be $10,000.

If the share price declines, the option can be exercised such that $28,500 be realized for the entire holding. Otherwise, if the price stays above $28.5, the option will not be exercised and expire worthless.

In this manner, hedging strategies yield positive returns despite market fluctuations.

HEDGE FUNDS IN INDIA

Hedge Funds were introduced in the Indian market only in 2012 by SEBI under Category-3 of 'Alternative Investment Funds' (SEBI, 2012). Consequently, these funds can be easily registered with SEBI and accept money from Indian investors working on Indian securities. According to recent data, the Indian Hedge Funds market has about ₹35,777 crores of total investments (Seth, 2022).

HOW TO START HEDGE FUNDS IN INDIA?

Starting a Hedge Fund in India entails the following steps and pre-requisites:

1. Establish a team:

Since Hedge Funds are essentially a business/start-up, a team is required to handle them. In fact, the investor is recommended to be part of an existing team at an asset management or prop trading firm. If not, the following positions should be hired:

- A Chief Operations Officer (who multi-tasks until a bigger team is hired)
- An Office Manager
- An investment team

SEBI allows limited legal entities to register as Hedge Funds. The entities must prepare certain documents, including:

- A company memorandum, articles of association
- A trust, trust deed
- A partnership or a limited liability partnership, partnership agreem

2. Outline an investment strategy:

An investment strategy is the basis of a Hedge Fund. It serves the following purposes:
a. It is the highlight of the pitch to investors.
b. It is a tool for bringing people on board.

Moreover, an investment strategy is similar to a business plan. It covers everything from the market analysis to a distinctive selling point to the fund's legal structure.
A Hedge Fund in India is expected to adhere to the following laws under SEBI :

- The Alternative Investment Funds Regulations of 2012
- The Foreign Portfolio Investor Regulations of 2014

HEDGE FUNDS

3. Raise Capital:

A crucial determinant of the success of a Hedge Fund is the capital raised. Irrespective of the investors in the fund being wealthy individuals or large companies, capital minimums must be set. A minimum initial amount of INR 500 crores is required to attract investors. The next objective should be scaling up.

Some prominent Hedge funds operating in India are:

• India Capital Pte Ltd.
• India Capital Fund.
• India Deep Value Fund
• Absolute India Fund (AIF)
• Fair Value
• Naissance Jaipur (India) Fund
• Monsoon Capital Equity Value Fund
• Atlantis India Opportunities Fund

Since Hedge Funds cannot be marketed, most of the names above are unheard of.

Furthermore, the booming Hedge Funds market in India has attracted many foreign investors like Renaissance Technologies, Vikram Pandit-founded Old Lane, DE Shaw, and Och-Ziff Capital Management. The early entrants have gained exponential returns on investment, thereby continuing to Hedge in India.

Unlike Hedge Funds, the other fund categories under the 'Alternative Investment Funds' are limited by either illiquidity or the long-term horizon during which they must be invested. Additionally, Hedge Funds are not intensively regulated by any legal body as their profitability lies in the leeway they enjoy.

Therefore, Hedge Funds have been developed in India to satisfy the high-end investors' need for positive returns unrelated to the market returns. These investors thus enjoy a market of their own while also serving an important role in portfolio diversification.

PRIORITY SECTOR LENDING

AUTHORS: RIDHA BAZAZ AND ARYAN CHHAJER
EDITED BY: FAIQUL

EVOLUTION OF PRIORITY SECTOR LENDING

Indian banking is a singular illustration of how social and commercial banking may coexist peacefully. Bank loans influence the growth of the economy. Along with economic growth, it ought to result in the eradication of poverty and a fair distribution of income. Many committees have examined rural lending and credit for India's key sectors. One such committee established in India before independence was the Indian Central Banking Enquiry Committee (1931).

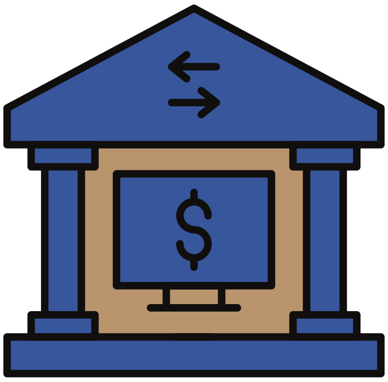
The idea of social control emerged in the 1960s to ensure a fair allocation of credit while keeping in mind the relative importance of our developmental requirements. Based on the report provided by the Informal Study Group on statistics related to Advances to the Priority Sectors, which the Reserve Bank established in May 1971, the classification of the priority sectors was formalized in 1972.

> **The Reserve Bank of India issued priority sector lending guidelines to improve credit penetration in credit-deficient areas, increasing lending to small and marginal farmers and weaker sections, and increasing credit for renewable energy and health infrastructure.**

Banks were encouraged to increase the priority sector's share of total lending in November 1974.

All commercial banks were then advised to reach the goal of priority sector lending at 40% of total bank advances by 1985, based on the recommendations of the Working Group on the Modalities of Implementation of Priority Sector Lending and the Twenty Point Economic Programme by Banks.

Sub targets were also explicitly set for lending to agriculture and the priority sector's weakest segments. Since then, there have been significant revisions to the qualified activities and businesses that qualify for the priority sector. Based on the suggestions of an internal panel, the priority sector criteria were last updated in 2007. Several committees have examined the issue of priority sectors, notably the Committee on Financial Sector Reforms (Narasimham Committee).



NEED FOR PRIORITY SECTOR LENDING

There has been a claim that as agriculture accounts for a tiny portion of the Gross Domestic Product (GDP) and has a limited capacity to absorb credit, direct agriculture targets should be set higher. Given that agriculture provides a living for nearly two-thirds of India's people, its dropping GDP share cannot be used as a justification for prescribing lower targets. Instead, agriculture is a crucial industry. It is essential to guarantee food security and reduce poverty. Also, this sector does not have access to other financial resources like equities, commercial papers, etc. The cooperative structure's fundamental flaws limit its capacity to meet the credit needs of the agricultural industry

According to the 1954 All India Rural Credit Survey, less than 9% of India's rural credit needs were met by formal credit institutions. Moneylenders, people in business, and wealthy landowners provided over 75% of rural credit.
According to the "Situation Assessment Survey of Farmers," which was performed as part of the 59th round of the National Sample Survey (January-December 2003), there were around 147.90 million rural households in all of India, with 60.4% of those being farmer households. Small and marginal farmer families made up 74.97 million (SFMF). Only roughly 46.3%, or 34.70 million farmer households, of the 74.97 million SFMF in the nation had access to financing, whether from formal or informal sources. Banks were the most significant source of credit for farmers, accounting for 36% of the total outstanding loans (26%). This suggests that most farmers are denied access to conventional financial institutions' lending. The rural poor continue to suffer from dependence on predatory moneylenders.

BASIC PHILOSOPHY BEHIND PSL

Priority sectors are those areas of the economy that, despite being able to support themselves and being creditworthy, might not receive timely and sufficient credit in the absence of this special dispensation. Usually, these are low-interest loans given to farmers for their businesses in agriculture and related fields, to micro and small businesses, to the poor for housing, to students for their education, and other low-income groups and vulnerable groups.

Banks must conduct essential sector activities as part of regular business operations. Corporate Social Responsibility should not be associated with it. The price of all credit has been made accessible, however, with the assumption that pricing should not be exploitative, which is one significant facilitation by the Reserve Bank. - Instead of channeling these loans through mediators, banks could lend directly to beneficiaries. This will guarantee improved risk management and lower transaction costs for these loans. - Without innovation structures, products, and processes, our Priority Sector activities will fail. Market participants should be eager to experiment and introduce new ideas.

PRIORITY SECTOR LENDING

WHAT KIND OF ACTIVITIES DOES PRIORITY SECTOR LENDING COVER?

The following activities are included in priority sector lending:

AGRICULTURE

• Farm Credit (Farm and Allied Activities), funding for agriculture infrastructure, and ancillary activities are all examples of lending to the agricultural industry.

• Farm Credit to Individual Farmers includes Self-Help Groups (SHGs) or Joint Liability Groups (JLGs), which comprise groups of individual farmers and farmer-owned businesses that are directly involved in agriculture and related activities like dairy, fishery, animal husbandry, poultry, beekeeping, and sericulture.

• Crop loans cover conventional and non-conventional plantations, horticulture, and related endeavours.

• Medium- and long-term loans for agriculture and related operations, such as the acquisition of machinery and agricultural implements, as well as loans for related activities' development

• Loans to help farmers with pre-and post-harvest tasks like spraying, harvesting, grading, and shipping their farm products.

• Loans to farmers in need who owe money to non-institutional lenders.

• Executing the Kisan Credit Card Scheme loans.

• Loans towards the acquisition of land for agricultural use by small and marginal farmers.

• Loans with a maximum term of 12 months are secured by the pledge or hypothecation of agricultural goods, including warehouse receipts.

• The cap is set at Rs. 50 lakh for warehouse receipts that do not fall under the group mentioned above and Rs. 75 lakh for negotiable warehouse receipts.(Hussain, 2021)

• Loans to farmers for the installation of independent Solar Agriculture Pumps and the solarization of Agriculture Pumps connected to the grid.

INFRASTRUCTURE FOR AGRICULTURE

• Loans for building storage facilities, such as warehouses, market yards, godowns, silos, and cold storage networks meant to keep agricultural goods and products wherever they may be.
• Conservation of the soil and creation of watersheds.
• Seed production, bio-pesticide and bio-fertilizer manufacturing, plant tissue culture, and vermicomposting are all examples of agri-biotechnology.
• The total amount of credit that has been approved for the aforementioned is Rs 100 crore per borrower from the banking system.
• Loans to establish agribusiness centers.

ASSOCIATION ACTIVITIES

• Loans to farmer cooperative organizations of up to Rs 5 crore for the disposal of members' crops.
• Loans from the banking system for food and Agro-processing up to a total sanctioned maximum of Rs. 100 crore per borrower. (Reserve bank of India, 2022)
• Bank loans to Farmers' Service Societies (FSS), Large-sized Adivasi Multi-Purpose Societies (LAMPS), and Primary Agricultural Credit Societies (PACS) for on-lending to agriculture.
• If a shortage in the priority sector is discovered, NABARD has additional eligible funds.

SMALL AND MARGINAL FIRMS

• The Marginal Farmer group includes farmers who own up to 1 hectare of land.
• Small Farmers are defined as those with a landholding of over 1 hectare and less than 2 hectares.
• Agricultural labourers who are not landowners, tenant farmers, oral lessees, and sharecroppers.
• Loans to self-help organizations where small and marginal farmers take part in direct agriculture and related activities.
• Disaggregated data on these loans must be kept by banks.

• Loans are made to cooperatives and producer firms owned by farmers who are actively involved in agriculture and related activities.
• In this situation, the percentage of small and marginal farmers must be at least 75%, and their share of the overall landholding must be at least 75%.

SMALL AND MEDIUM-SIZED BUSINESS (MSMES)

• Micro businesses are defined as those with a turnover of less than five crore rupees and an investment in plant, machinery, or equipment that does not exceed one crore rupees.
• Small businesses are defined as those with a turnover of little over fifty crore rupees and an investment in plant, machinery, or equipment that does not exceed ten crore rupees.
• Medium-sized businesses with a turnover of no more than 250 billion rupees and an investment in plant, machinery, or equipment of no more than 50 crore rupees.
• The following criteria must be met for bank loans to micro, small, and medium-sized businesses to be considered in the priority sector:

MANUFACTURING BUSINESSES

• Micro, Small, and Medium-sized businesses that produce goods for any of the industries are included in the first schedule of the Industries (Development and Regulation) Act of 1951.
• Such industries are characterised in terms of investment in equipment and machinery, and the government occasionally notifies them of their existence.

THE SERVICE ENTERPISES

• The bank offers Micro and Small Businesses loans of up to Rs 5 crore per unit and Rs 10 crore to Medium Businesses that provide or deliver services.
• According to the MSME Development Act of 2006, they are described in terms of equipment investment.

KHADI AND VILLAGE INDUSTRIES SECTOR

All loans made to businesses in this sector are eligible to be classified under the sub-target of 7.5% established for micro-businesses in the priority sector. (Reserve Bank of India, 2022)

EDUCATION LOANS TO INDIVIDUALS

• Educational reasons, including vocational courses, are eligible for priority sector classification if they do not exceed Rs 20 lakh. (Reserve Bank of India, 2022)
• The present priority sector designation for loans would remain in effect until maturity.

HOUSING

• Loans for individuals in major cities up to Rs 35 lakh.
• For the purchase or construction of a home for each family outside of urban centers, up to Rs. 25 lakh may be available.
• In metropolitan areas and other centres, the Total Cost of the housing unit shall not be more than Rs. 45 lakh and Rs. 30 lakh, respectively.
• Employees of banks are not eligible for house loans.
• Loans of up to Rs. 10 lakh in metropolitan areas and up to Rs. 6 lakh in other sizes are available for repairs to damaged homes that are in line with the entire Cost of the house.
• Bank loans to any governmental organization for housing development or slum clearance and slum dweller rehabilitation are only available for homes with a carpet area of no more than 60 square meters.

SOCIAL INFRASTRUCTURE

• Loans for the construction of schools, drinking water facilities, and sanitation facilities up to a maximum of Rs 5 crore per borrower. (Reserve Bank Of India, 2022)
• Social infrastructure involves modifications to domestic water systems and the building or remodeling of toilets. (Reserve Bank Of India, 2022)
• Building health care facilities, including those for Ayushman Bharat, in Tier-2 to Tier-6 centers may be financed with loans up to a maximum of Rs 10 crore per borrower. (Reserve Bank Of India, 2022)
• The restrictions mentioned above only apply to centers with a population of under one lakh with UCBs.(Reserve Bank Of India, 2022)
• Subject to specific requirements, bank loans to Micro Finance Institutions (MFI) that are given for on-lending to individuals, SHG members, or JLGs for water and sanitation infrastructure are also eligible under these categories. (Reserve Bank Of India, 2022)

ANALYSIS

RENEWABLE ENERGY

• Farm Credit (Farm and Allied Activities), funding for agriculture infrastructure, and ancillary activities are all examples of lending to the agricultural industry.

• Farm Credit to Individual Farmers includes Self-Help Groups (SHGs) or Joint Liability Groups (JLGs), which comprise

OTHERS

• When borrowers meet specific yearly income requirements, banks directly offer loans to individuals and individual SHG members up to Rs 1 lakh each.
• Loans up to Rs 2.00 lakh are given directly by banks to SHG for purposes other than agriculture or MSME, such as addressing social needs, building or repairing homes, building toilets, or engaging in any profitable shared activity started by the SHG.6
• Loans to people who need assistance that does not exceed Rs 1,000,000 pe3r borrower to pay off non-institutional creditors.
• Loans approved for State-Sponsored Organizations for Scheduled Castes/Scheduled Tribes with the express intention of purchasing and supplying inputs and marketing the products produced by the organizations' beneficiaries

With the goal of harmonising various instructions issued to Commercial Banks, SFBs, RRBs, UCBs, and LABs, RBI has aligned these new guidelines with emerging national priorities and focused more on inclusive development. According to these new guidelines of 2020, the overall Priority Sector Lending aim remains at 40%; there has been no change. Regarding priority sector targets, foreign banks with 20 branches or more are equal to local banks (Reserve Bank Of India, 2022).
• In terms of RRBs and SFBs, the PSL's overarching goal is the same in both cases. However, the total PSL target for Urban Cooperative Banks would be 75% by 2024 (Ministry of Finance, 2021).
• In the sub-target categories, all commercial banks, except for UCBs and RRBs, will accumulate the aim for small and marginal farmers from 8 to 10 percent by 2024 and the aim for underprivileged groups from 10 to 12 percent (Ministry of Finance, 2021).
• In the category of agriculture, new loans have been introduced for priority sector purposes, including loans for the installation of solar agricultural pumps, loans for the production of biofuels, loans for the establishment of compressed biogas plants, and loans to startups engaged in ancillary activities. For small and marginal farmers, members of self-help groups, and joint liability groups, new loans have been created.
• Loans up to 50 crores for startups have been introduced under the MSMEs category.
• The loan ceiling for "Ayushman Bharat" has been raised to develop the health infrastructure.

PROBLEMS AND PROSPECT

The government has made many arrangements under the priority sector lending programme to assist the nation's weaker and more creditworthy sectors. Still, for various reasons, the program's goals are not effectively achieved. The following is a discussion of several gaps that exist:

PROBLEMS IN AGRICULTURE FINANCE

The most significant economic sector, agriculture, which provides a considerable section of the population a living, is plagued by many issues. The loans granted to farmers by different banks under priority sector lending are not always sufficient to cover all the requirements of agricultural activities, and frequently farmers divert such monies to useless uses. This is because of less attention being paid to them, many small and marginal farmers do not benefit; however, large farmers are given greater attention.

PROCESSING TIME AND COST

Priority Sector Lending's goal is to help the most vulnerable sectors of the economy, but getting one of these loans requires a lengthy application process, lots of paperwork, and other formalities. Because of the loan's protracted approval process, high transaction costs, and long processing time, businesses are having difficulty getting loans. Although processing time and prices are still cheap for startups, they increase for industries which are in the growth stages.

PROBLEMS OF NPAS

Assets that are not expected to continue producing income are non-performing assets. Non-performing assets have past due balances of over 90 days.(Reserve Bank of India, 2001)
NPAs are produced when debtors default on their loan payments. It became a problem for the priority sector because many banks do not want to lend to priority sectors out of fear of NPAs. According to many studies, Priority Sector Lending is also one of the causes of rising NPAs in banks. Considering the suggestions given by the UK Sinha-led expert committee on MSMEs, RBI updated the PSL categories and the loan limit in 2020.(Reserve Bank of India, 2022)

RECOMENDATION

A significant amount of system efficiency can be unlocked, and the value of public sector banks can be raised considerably by converting a portion of PS loans to a grant funded directly by the government. Grants will have a much more significant positive impact on these poorer areas. With the help of the Jan Dhan Yojana, Aadhaar and Mobile number (JAM) trinity, this is possible; the beneficiaries will favor it, and it will be politically acceptable.
In reality, banks should pay a portion of the total grant amounts through a special cess imposed on them. They wouldn't be any worse off than they were previously because it could be estimated as the Cost of their NPAs in the segment.

Because of the COVID-19 pandemic, things needed to be reevaluated. Infrastructure for health and education has been emphasized strongly. As we all transition to new ways of working and learning, it has highlighted the significance of having access to digital resources. This should be reflected in the PS classification, and we should target and provide funds to the weaker areas by utilizing the capabilities of our technological stack. To rebuild our social infrastructure, however, state government funding for health and education must be dramatically increased.

Following are some recommendations that the government should implement to build Health and Social Infrastructure.

First, it is astonishing that hospitals can only cost up to Rs. 10 crores to build and that health is simply a subcategory of social infrastructure. This needs to be a significant autonomous category where we promote "appropriate size" hospitals rather than "small size" hospitals, which are more effective in urban areas but not elsewhere.

Second, institutions need to be established to educate nurses, medical professionals, machine operators, and for training in fundamental technology and digital applications. In his book, Bridgital Nations, Tata Chairman N Chandrashekharan brilliantly captures this.
Third, the loan limit for educational infrastructure is only five crores. Loans for low-income groups to purchase smartphones and computers should also be considered as part of PS financing.

CRYPTO POOL DERIVATIVES

AUTHOR: MAYANK
EDITED BY: VARISHA AND FAIQ

INTRODUCTION

Crypto pool refers to the pooling of evolving cryptocurrencies in the virtual world and integrating them with their real-life applications, project insights, and future predictions.

Many investors assert that investing in the virtual market is futile. The criticism of the current blockchain technology-based money is like that of the Internet in the 90s. Nonetheless, the Internet became one of the greatest inventions in human history. The advanced blockchain technology exhibits a promising future due to the following pros:

- It is automated.
- It accelerates transactions.
- It reduces the risk of theft.
- It enables secure connections.
- It uses abstraction in software.
- It safeguards user privacy.

> **This article attempts to explore crypto pool derivatives.. It elaborates on multiple facets, including the advantages of blockchain technology, differences between coins and tokens, disadvantages of traditional banking systems, stablecoins, and the definitions of mining, burning, market capital, and minting. Additionally, it describes the proof of work and stake and non-fungible tokens (NFTs). Finally, it sheds light on decentralized finance (DeFi).**

Let us assume Person X plans to purchase their partner a luxurious car. To their dismay, bank transfers take time to process on Sundays. Consequently, Person X fails to surprise their partner the same day. On the other hand, using cryptocurrency can verify transfers within fifteen minutes on any day. In fact, a famous American rapper Lil Uzi Vert recently paid in Ether for a brand-new Maserati as a gift because the wire transfer failed.

Furthermore, it should be noted that coins and tokens are technically distinct entities. Coins are the assets hosted on their own blockchains, such as Bitcoin (works on the Bitcoin blockchain) or Ether (works on the Ethereum blockchain). On the contrary, tokens are the assets foreign to their own blockchains, such as UniSwap or ChainLink (both work on the Ethereum blockchain).

Traditional banking demands hefty processing fees. The fees may range from 5-10% depending upon whether the transaction is domestic or international. However, the sender may have to wait for a long time until the amount is credited. This delay causes vast inconvenience, especially when money is required urgently.

Besides, let us discuss some technical terms that will be frequently used in this article.

MINING

Mining is the process by which new tokens are entered into circulation and the network confirms new transactions. It is a critical component of the blockchain ledger's maintenance and development.

MARKET CAPITAL

Market capital is the total supply of a particular currency in the market. Unlike the fiat currency, market capital is generally a fixed supply. It is thus a deflationary asset.

BURNING

Cryptocurrency burning is the process by which users can remove tokens from circulation, which reduces the number of coins in use.

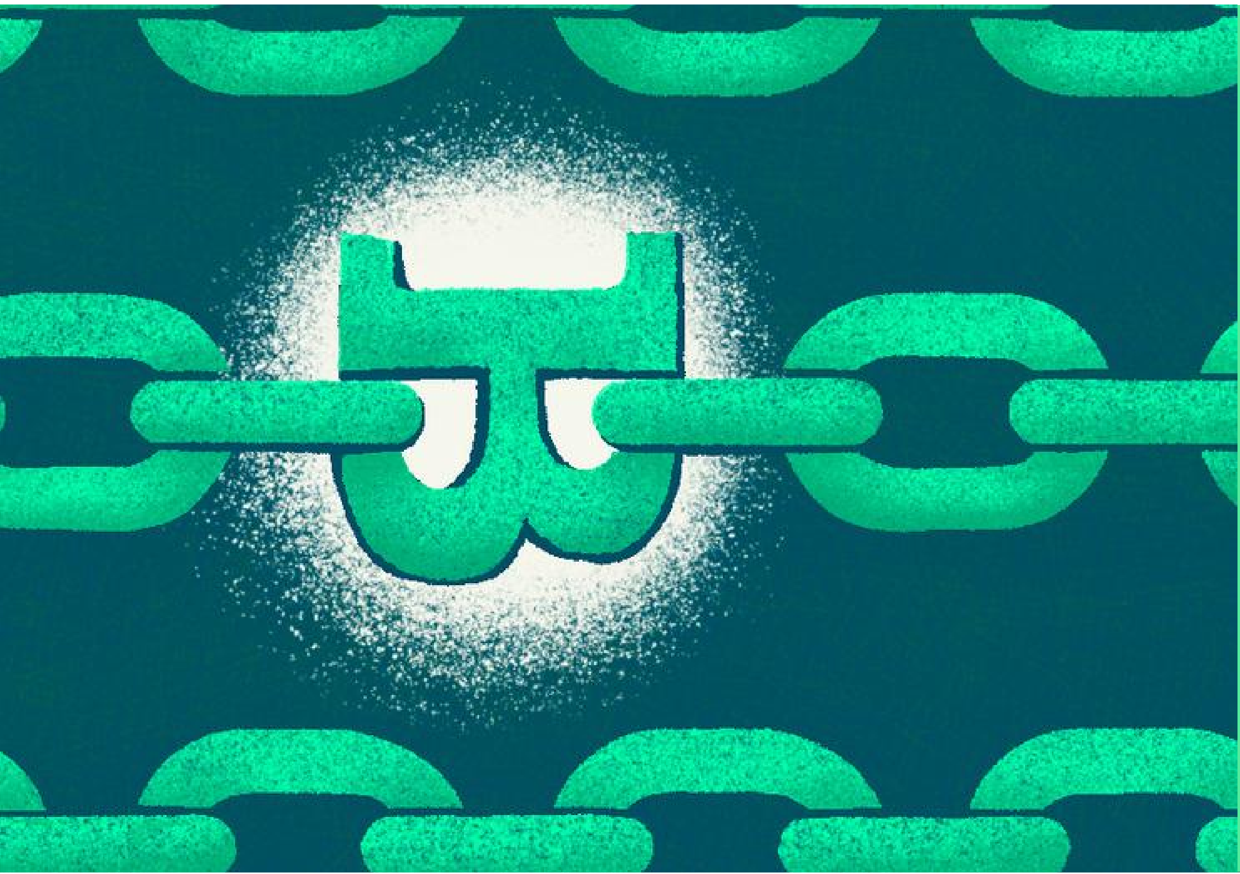
MINTING

When a product is registered on the blockchain, the mint date indicates the day it originally came into existence. It is similar to the manufacturing date of any product on the physical market.

CRYPTOCURRENCY

Cryptocurrency refers to the coins or tokens that equalize any currency using which one can trade or buy goods.
With changes in the crypto ecosystem, coins and tokens can be used to purchase fiat currency or vice versa. Recently, Tesla started accepting Dogecoin as a payment method for its cars.

However, coins and tokens are volatile as their prices are highly unstable. For instance, "n" number of tokens may be used to buy a cup of coffee on a given day. A week later, the same number of tokens could suffice for purchasing a Ferrari. A fortnight later, those tokens may become worth nil. Hence, their volatility hinders cryptocurrencies from being accepted as legal tenders by the masses.



CRYPTO POOL DERIVATIVES

CRYPTO POOL DERIVATIVES

STABLECOINS

Stable coins are backed by central commodities like the USD, real estate, or gold against which changes in cryptocurrencies like Bitcoin and Ethereum can be measured (Amer, 2020).

Despite the presence of various decentralized cryptocurrencies, stable coins are helpful as they ensure that investors have liquidated assets in case a sudden high-yielding investment opportunity arrives.

Earlier, stable coins were fiat currencies like the Euro and USD that were legal tenders in various nations. Investors across latitudes would thus conveniently reckon the valuation of the coin/token.

Other stable coins have also been launched in recent years, like **Tether, DAI**, and **USDC**. The USD backs these stable coins. Additionally, stable coins like Tether Gold and Pax Gold are backed by gold.

PROOF OF WORK AND STAKE

> **Since we have covered many things superficially, let's dive a bit deeper to understand the entire transaction process, validations and other aspects of these digital assets.**

PROOF OF WORK

Proof of work **(PoW)** describes a system that requires a not insignificant but feasible amount of effort to deter frivolous or malicious uses of computing power. Such as sending spam emails or launching a denial of service attacks. It is the initial basis on which the bitcoin blockchain is based, where a block is created whenever a transaction is validated. It isn't easy to validate a transaction since it requires many numerical calculations among various validators on the blockchain. This ensures the work is divided among them and doesn't benefit one user. It was initially the thought process of Satoshi Nakamoto, the inventor of Bitcoin, but with time people started using mining pools where they could stack up the equipment for mining. More equipment meant faster calculations, which is biased for the miners with lesser equipment. With the concentration of heavy equipment, the power consumption is very high at a specific place, which is also harmful to the environment **(Napeltano & Curry, 2022).** The projects which use **PoW** as their basis of working are Bitcoin, Eth 1.0, **DogeCoin**, etc.

PROOF OF STAKE

Proof-of-stake is a cryptocurrency consensus mechanism that processes transactions and adds new blocks to a blockchain. A consensus mechanism is a method for validating and securing entries in a distributed database. It was introduced as an alternative to the PoW mechanism **(Frankenfield, 2022)**. Since PoW had drawbacks that were hard to over, this eventually gave birth to **PoS**. Proof of state mechanism ensures the miners put in some stake as a deposit. The higher the stake they have, the higher the chance of getting the opportunity of validating a block and hence getting the mining reward. This algorithm ensures that the more equipment you put in for mining equivalent staking is required to maintain unbiased functioning. This method also ensures that the assets keep circulating in the market and there isn't a sudden crash that could be orchestrated by the miners holding many assets. The Withdrawal of such a vast amount might cause the market's fall, but by **PoS**, it is a catch for the miner.
It aims to eliminate the downsides of Proof-of-Work, including the hardware requirement and the energy consumption. However, by removing these features, Proof-of-Stake loses the advantages of Proof-of-Work.

NON FUNGIBLE TOKENS (NFTS)

These have been the recent trend where you put up your art, let it be a painting, drawings, or products, among other things on the internet. Do you wonder how this differs from a jpeg image that has been used for a long time on the internet? Well, blockchain technology is the answer which creates a ledger of everyone who had owned that product right from the start since when it was minted (Sharma, 2022). Again, the question arises of trademark and copyright infringement on various items arises. What more utility does this technology have?

Well, the ledger maintains the owners from the very start to the current date, so you would know for what price it was purchased and who owns it. Since it is decentralized, tampering with it is almost irrelevant to discuss. The famous NFT project, Bored Ape Yacht Club (BAYC), built a community based on their art projects. It hosts various yacht parties in multiple locations across the globe and invites people owning the digital art. Another such project is **CyberPunk.**

BAYC has even launched its token **ApeCoin ($APE)**, which focuses on **Decentralized Autonomous Organization (DAO)**. This means that everyone who holds the token has a vote in their projects and plans, just like the shareholders in a meeting, but unlike the board member, every person holding the token has an equal say in the matter.

DECENTRALIZED FINANCE (DEFI)

Traditional Finance has always been under the scanner because of hidden charges, longer processing times, human errors, and frequent issues people face (Sharma, 2022). Introduction of **DeFi** by various decentralized platforms like **Mana**, a platform that could utilize the investments in building and shaping up the metaverse. DeFi gives the virtual world another dimension of lending and borrowing virtual assets, processed at a low-interest rate.

This aspect also introduced a new term known as flash loan **(Hertig, 2022)**, as you might think of it as a new term. It is also a kind of loan and is provided to the borrower in a flash with no collateral and involves three steps:

- The first step is for the user to borrow the funds.
- The second step is for the user to decide what to do with the funds.
- The third is the user's repayment of the loan.

If any of the above conditions fail, the smart contract nullifies the transaction and returns to the state as if nothing happened.
Since the loan is settled in this single transaction in seconds, there is no collateral. Since the transaction is not deemed completed until the funds are returned to the blockchain, the loan is to be settled within seconds and is usually automated.

For instance, if a token is $10 on one platform and $15 on the other, arbitrage traders can take out a flash loan, purchase $1,000 worth of coins on Platform A and then sell it for $1,500 on Platform B. The trader then repays the loan, earning an immediate $500 profit. This is known as arbitrage trading.

The specific aspect of DeFi is that the flash loan has been used in malicious attacks on various blockchains, due to which it has been under great scrutiny, but once it is verified, it might be a safer option to switch to this kind of Finance.

Other kinds of loans are usually just like the regular loans banks provide. The collateral is a virtual asset or cryptocurrency, like Eth, BTC, or any other big global currency. They are provided with a stable token, such as USDC or USDT, with a low-interest rate. Similar to the savings account in the bank, you can stake up your crypto assets on various exchanges and earn enormous interests, which are way more than what traditional banks provide.

IN CONVERSATION WITH MURRAD BEIGH

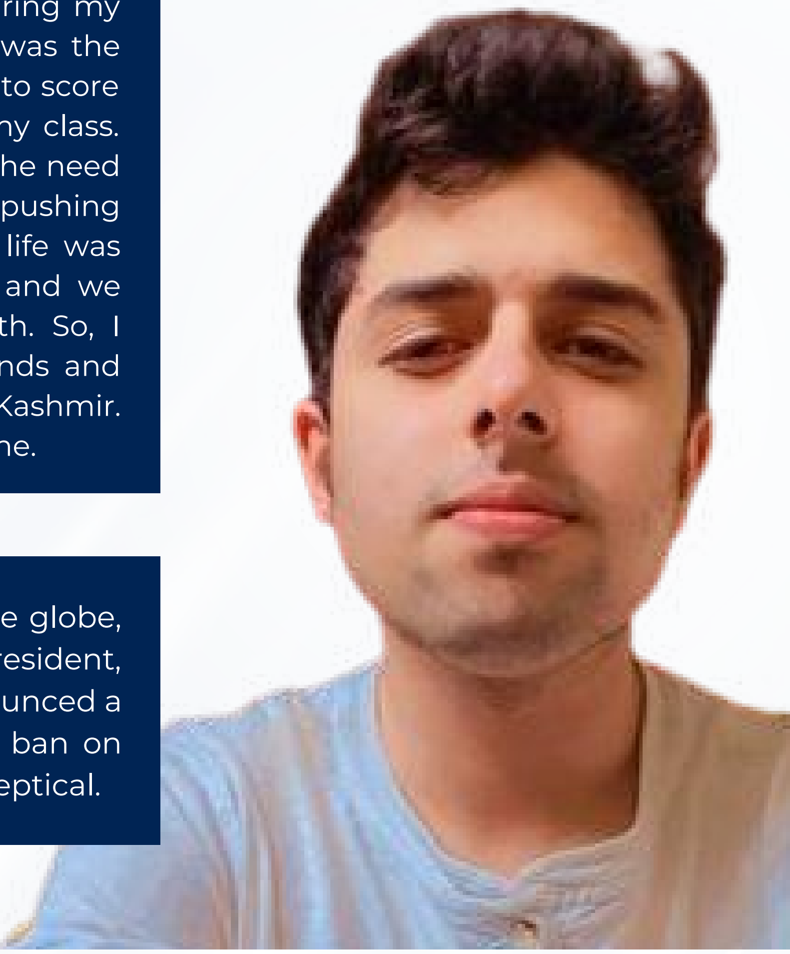
BY WAJEEHA HAMDANI

Murrad Beigh is an educational consultant, a finance professional, and a young entrepreneur. He is also a successful and well-known content creator, with over 198k Instagram followers.

Murrad graduated from the University of Delhi and co-founded "Fin-ladder," which assists students and professionals in preparing for various finance courses. He has also obtained both levels of FRM certification.

Let's begin by talking about your journey from the very beginning, to understand who you are and how you reached here

I come from Srinagar, Jammu & Kashmir. During my schooling itself, I wasn't a smart kid at all. I was the most average kid you'd have ever met. I used to score mediocrely. I never scored 90 percentile in my class. But, as soon as I came to class 11th, I realised the need to focus on my education as well, so I started pushing towards it. The pivot point in my education life was when we had a bad year here at Kashmir, and we didn't have much schooling in my class 12th. So, I ended up studying a bit more than my friends and ended up being the state topper in Jammu & Kashmir. Once I did that, I had good options in front of me.



I ended up applying to colleges all across the globe, but in 2017, Trump was elected as the US President, and the day I got my SAT scores, Trump announced a Muslim ban. Not that he had announced a ban on me, but my parents would have been very sceptical.

So, I skipped all the options I had in the US. In the UK, I got into the London School of Economics, but then because something did not go in my favour, I ended up at Delhi University, which was a big craze at that time because I used to think DU was the OG place. But, on the very first day of my college, I realised this was not what I wanted to do, this is not something that I like, so I started with finance certifications on the first day of college. By the end of 1st semester, I was a National Stock Exchange of India certified, derivative pro-national stock exchange certified market professional, and I had completed many other certifications. I thought of going ahead with a professional certification, where I started with Financial Risk Management and became among the youngest people in the world to clear FRM. Then, I started with CFA, wanting as many certifications as possible. But once I did all these things, I realised I had spent 5-6 lakh rupees only on these certifications, and I was only in my second year of college, and the quality of teaching there wasn't great.Murrad graduated from the University of Delhi and co-founded "Fin-ladder," which assists students and professionals in preparing for various finance courses. He has also obtained both levels of FRM certification.

So, my co-founder and I decided to let us teach people on youtube for free. That seemed like a very kiddy idea to us. We started doing that in our second year of college, and it was going fine, but the problem was that when we were giving information for free– we started courses on Youtube, and everyone was joining, but they were not completing the course. So we decided to start charging people a bit of money, so we started with 500 rupees.

It started doing well, then we raised the prices to 1000, and it was still doing well. We started getting more people to help us sell the course. Today, we have more than a lakh students, paid students studying with us. It is an amazing experience with the people who work with us. We have the Vice President of Bank of NY Mellon teaching for us; we have people from Goldman Sachs teaching for us; we have amongst the best faculty all across the world teaching for us. It has been a great experience so far. We have learnt a lot, and it has been four years since we started with this. Every year has been exponential growth, so till now, it's been a great journey and somewhat of a roller coaster ride, but yeah, I have loved it throughout.

That was really impressive —so, moving on to the next question– what inspired you to take finance?

Honestly, I was confused. On my first day, I was very confused about my college. I wanted to enter into something that would give me good money because, honestly, my motive was money. Then I looked at different certifications. I was inclined towards finance, digital marketing, and starting my startup because that was something that I had dreamt of. So, on my first day of college, I did not only start with finance certification, but I also started with Digital Marketing alongside starting my own thing. I did not prioritise the process of starting my own thing on my first day of college itself, which is the single most thing I regret the most, because if I had started at that time, I would have gotten one more year of making sales for my startup. The amount of exposure you get in a startup is tremendous. But that did not work out. I was continuing with digital marketing and finance— and somewhere in the middle, I realised that Digital Marketing was not something I liked, but finance was something that intrigued me.

-As you've cleared FRM, what advice would you give to students targeting FRM, and what are the opportunities after that?

The single most, biggest advice that I'll give to students is, like, I receive 100 calls in a month from people who want to get started with FRM, and the only single piece of advice that I give to these students is- don't directly jump into any of these certifications because—

- They demand a lot of time
- They demand a lot of money

So, my single most important advice would be to start small— start with something, see if you like it, then invest in it, and go deep into it, as at the end of the day, doing FRM is an absolutely amazing thing but directly jumping into it is not a good idea and with regards to job opportunities—

We have banks coming in, the amount of credit risk that we see in our banks right now is huge, and the demand for FRM is coming up very dramatically. Market risk is another field where India is getting a lot of attention. Since India has also started taking up the KPO work for different countries in India, we are sort of the backbone of doing the backend work for different countries. Germany asked to do credit research on some companies. Doing it in Germany is very expensive, but doing it in India is easy and very cheap. So with that being said, there are a lot of job opportunities coming from that sector, but in general, FRM has good scope.

So you talked about starting small, whether seeing if you are into it or not. So, for students inclined towards finance or want a career in finance— what extra courses or extracurriculars should they take in college, to have an edge later?

So, for everyone who is starting in Finance or wants to start in finance, it's the NSE India certification. It will take you around 2 or 3 weeks to complete the certification. The amount of money involved is less than 2k and by the end of 3 weeks you will know if you like finance or not. So that is the single most important advice I give to students.

Also, we would like to know more about your journey of building finnlader. Like you gave an overview, but specifically how was it to start up and what obstacles you had to overcome.

There were too many obstacles. The single biggest obstacle that we had when we were starting up was that we were 19 y/o kids and we were trying to sell our courses to people who were 32. And, when we used to call, they asked what experience we had. So, improving our pitch was the most important thing we did. And back when I was 19, even though my voice is shrill right now, back when I was 19, I definitely sounded like a kid and my face still has that kid feature. So, selling the course to 30y/o was the most difficult thing. But we learned how to pitch and sell to clients. Next thing was, we had no experience in coding and didn't know how to build a website. So, I learned how to code to build our website. Getting people to trust you is one more thing. Why would a working professional come and teach for you?

Anyone could have done it, we had the time and guts to go with it.

Later, we stopped telling our age to people, instead we hired an elderly person who would pitch for us.

What advice would you give to college students who want to start their investment journey but don't have much knowledge about it.

For people who want to trade, the Market is the best teacher. Trading is a roller coaster. If one cannot manage his/her/their emotions, it will be very difficult, but it could be learned in the market only.

How should students decide their target colleges abroad?

Students need to ask themselves what they want to do, what funding options do you have. Students' focus should be on building a profile about what course they want to do if they want to end up getting a scholarship. People don't take funding options very seriously. Parents invest in properties and cryptocurrency but don't invest in themselves, which would trump any other investment. Thinking of funding options is very important. Take your funding options into consideration, the course you want to do. Then apply to the top universities, don't go for average universities. Scholarships are difficult to get, but there are a lot of scholarships. Just students don't know about these scholarships. Around 70% of US students study on scholarships because of good counsellors. We don't have career counsellors in our schools. In India, external counsellors are looking to make money by sending students to a college, offering them good commission instead of the best option available.

Now, we move on to the final question, "what nudged you towards creating content related to finance?"

Finance was pretty straightforward because we were spending somewhere around five to ten thousand every day on Facebook advertisements, and in the beginning, when we used to spend five thousand rupees, we used to get fifty thousand in return. It was a good deal for the time being, but anyone who has dealt with Facebook ads in the past would know that it always goes down, so later, we just made some seven thousand rupees after spending the same money. The returns of facebook started going down gradually, so we started looking for alternatives. We observed other start-ups and their strategies for making money. We realised that Youtube is where they're making money, so we started making Youtube videos. It was doing well, and we were getting enough to keep going. Then, reels started coming up, and it became a trend, so I thought it was a good idea to make reels since I used to make videos on Dubsmash when I was a kid. Reels started to do well for me. Our Instagram page started to grow a lot. Within the first few reels, I remember the first reel I posted had twenty thousand views, the second had about two hundred thousand views, and the third one had three hundred thousand views. So, I thought reels were something I could make consistently. About the International education thing, it all started as a joke.

I was talking to a friend and then posted a funny reel, and it had around 7.6 million views. I posted it for fun without any research behind it. In that reel, I talked about six countries that you should go to study, and I had kept Saudi Arabia, the U.S., and some more, without any research, but it blew up. My followers grew daily, from 400 to 500, 1000, 2000, and so on. It blew up on the fifth day. So, I thought making content about international education seemed good for me, so I tried one more. Then it became a routine to post about international education until I realised that I have one lakh followers and a reach of around fifty million, so I thought we were onto something. I started my youtube channel, and within six months, we crossed ninety-five thousand subscribers. Now, it's been just seven months of posting content over there, so that is how the international education thing came about.

MEET THE TEAM

THE GRAPHICS TEAM

Subia Syed (Marketing Director)

Maniza Hasan (Head of Graphics Team)

Mouid Danyal (Member)

Syed Zayed Muneer (Member)

Ilma Hafeez (Member)

Faraz Ahmed Aaswi (Member)

THE AUTHORS

Aryan Chhajer (Finance Head)

Ridha Bazaz (Member)

Arsheen Monawar (Member)

Aleena Khan (Member)

Mayank (Member)

Ayush Raj (Member)

Ramsha Anwar (Member)

THE EDITORS

Areeba Shakeb (Editorial Head)

Danish (Member)

Varisha (Member)

Ayan Rasul (Member)

Faqiul (Member)

GAEE
Global Association of Economics Education
JMI

Connect with us

gaee_jmi   GAEE Jamia Millia Islamia