

29th August 2020

SUMMACHAR


BUSINESS NEWSLETTER

#8

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UNDERSTANDING MARKET CAPITALIZATION




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PRIVATISATION OF PAYMENTS SPACE IN INDIA?



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WILL ADANI POWER'S DELISTING IMPACT EXISTING SHAREHOLDERS?



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Biz Question of the Week

Which movie inspired the name “iPod”?

Email us your answer at

communications@summachar.in

*(The **fastest fingers first** will be featured in next week's newsletter and will get an **exclusive certificate**.)*

DC and Marvel fans should definitely check out the [SuperQuiz on Superheroes](#), happening this **Sunday**, 30 Aug 2020 at 12 noon on our **Instagram** stories.

Winner announcement!

Last week we asked,

Q: What does the missing piece in Wikipedia's logo indicate?

A: The empty space represents how many more **articles** are yet to be added to Wikipedia, depicting the infinity of **knowledge**.

Congratulations **Mr. Aditya Narayan**, for being the fastest fingers first.

1 Are Markets Not In Touch With Reality?

Reaching pre-COVID levels, Stock markets across the globe are going through the roof even though Nation's GDPs are shrinking. How is this happening?

What's the **thumb rule of GDP and Markets**?

- Increasing GDP is generally a sign of a **bullish trend** (rising trend) in the stock market, whereas weakening GDP is generally a sign of **bearish trend** (declining trend).
- Stock markets may show opposite trends to the theory for short terms but in the long term, it is always expected to follow economic development.

So is it due to **Irrational Exuberance**?

Yes, such an exuberance is an increase in asset price without any fundamental justification, and out of investors' enthusiasm. Investing in stock markets is also easier with the advent of technology, which gives direct access to them via apps.

- Moreover, people are investing their surplus money in stock markets during the lockdown, as interest rates in banks & yields on Govt. bonds are low.
- Eg: **10-year US treasury bonds** had a yield of **0.65%** only, and if you take inflation of 1% (in US as of July 2020) into consideration, then return on investment may be **-0.35%**.

Are Big Companies driving these markets?

- Experts say that Indian stock market is being majorly driven by large market capitalization stocks like **Reliance**. Most stock indices are constructed on the basis of the weighted average of companies' market capitalization.

Did you know? In finance and economics, **the greater fool theory** states that the price of an object is determined not by its actual value, but rather by the local and relative demand of a specific consumer. So many investors make a questionable investment, assuming they can sell it later to “a greater fool”.

INFOGRAPHIC STORY

DEEP DIVE STORY

2 Understanding Market Cap As Apple Hits \$2tn Mark

After reaching **\$2 trillion market capitalization** by surpassing Saudi Aramco's **\$1.78 tn** market cap, Apple became the first US public company to achieve this feat. But what is Market Capitalization?

- **Market Cap** = outstanding shares of a company X current market price.
- **Outstanding shares** are the total number of shares held by all shareholders, including retail owners, institutional owners, and the company's owners.
- Market cap can be calculated only for publicly traded companies and fluctuation in the share price directly affects the market cap of a company.
- **For instance**, if a company has 10 million outstanding shares and the current stock price is \$50 then, the market cap of a company equals, $\$50 \times 10 \text{ million} = \500 mn .

Is the company owner's wealth linked to market cap?

- Yes. Generally, company owners (also called promoters) hold substantial amounts of the company's stock. Let's say if Facebook's market cap is standing at \$400 billion and Mark Zuckerberg owns 20% of its shares, then his net worth from owning Facebook would be \$80 billion.
- Moreover, owners of companies get paychecks and dividends from their companies along with inherited wealth, private assets, paychecks & holdings in other companies.

Did you know? **Apple** released its **\$700 wheels** for Macbook Pro and many internet memes were made of using them in skateboards instead.

INFOGRAPHIC STORY

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3 Privatization Of Payments Space In India

Recently, RBI allowed private companies to set up an “**umbrella entity**” like that of **National Payments Corporation of India** (NPCI) to manage retail payments space and settlement systems in India.

What Is NPCI's role?

- NPCI manages retail payments and settlement systems in India. It is a ‘**not-for-profit**’ entity owned by a consortium of leading public and private sector banks.
- Moreover, it maintains digital payment channels such as Unified Payment Interface (**UPI**), National Automated Clearing House (**NACH**), National Financial Switch (**NFS**), IMPS, Bharat Bill Payments, **FASTag**, etc.

RBI's plan to privatise

- RBI has allowed private players to set up an NPCI-like company which can be '**for-profit**' entities. They are just required to apply before **February 2021**.
- Private players will be allowed to operate **clearing and settlement systems**. They can set up ATM networks, Aadhar based payment, Point Of Sale (PoS) and Remittance Services.
- One of the major criteria to set up such an entity is that it must maintain a minimum net worth of ₹300 crores at all times and have a minimum paid-up capital of **₹500 crores**.
- **Did you know?** Apart from foreign financial firms, domestic firms like **Reliance, Paytm, NSE, BSE and SBI** have expressed their interest in this privatization.

INFOGRAPHIC STORY

DEEP DIVE STORY

4 Will Adani's Delisting Impact Existing Shareholders?

Recently the board of **Adani Power Ltd** approved the delisting of their public shares from stock exchanges.

But what is **delisting**?

It means the removal of stock from the stock exchange i.e the stock will no longer trade on specified stock exchanges.

Types of delisting:

Voluntary delisting: When a company buys back the public shares at the decided floor price. Such delisting is only considered successful when the company acquires 90% of the total shares.

Involuntary delisting: When directors, promoters, and/or firm are banned from accessing the securities market. In this case, promoters are under compulsion to purchase the shares from public shareholders.

Adani may gain, Shareholders shall lose?

- Experts say that the low performance of the share price makes it difficult for the company to borrow more money. Thus, by delisting it can **improve the share price**, which will help it borrow more at a time when interest rates are low.
- However retail shareholders will be negatively impacted as investors holding the stock since its IPO, will lose **~60%** of their investment, if the company buys back shares at **~₹40**.

Did you know? Adani Green Energy Limited (**AGEL**) is an Indian renewable energy company owned by Adani Group. In May 2020, Adani won the **world's largest solar bid** by the Solar Energy Corporation of India (SECI) worth \$6 billion.

INFOGRAPHIC STORY

DEEP DIVE STORY

Hope you enjoyed reading!

Feedback? Write to us at
communications@summachar.in.