



# OKONOMIST

Newsletter by OKONOMOS

## NSEL Crises: A Value Addition To The ‘Crises-Age’ In India

The present environment in the Indian investment scenario is very weak. Investors already had to deal with currency depreciations and weak policies. Now, another headache for the investors has come in the form of "NSEL Crisis".

The appointed authorities are facing a tough situations as ‘how – to’ rectify the disparity between the on the paper transaction and the actual transactions. One of the biggest causes of the problem contributing in the crisis is Payment Defaulters. Hence the authorities need to come out with a quick solution on a permanent basis before it emerges as a major issue in the economy. To reduce conflicts between owners and the management,

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One reason for this issue can be the differentiation in awareness as what is the difference between spot exchange and stock exchange.

1. Stock Exchange(SEs) & Commodity Exchange (comexes): Regulated by Securities and Exchange Board of India(SEBI), the Forward Markets Commission (FMC)
2. Spot exchanges (spotexes): Regulated by independent entity.

exchange administration is closely formulating various regulations on trading, settlement, margining, surveillance, member inspections, audits, etc., which can de-promote the lagging factors affecting the mutually smooth transaction between two parties and the body intervening both of them.

Spotex deals in physical commodities, since it is a spot-market intermediary. This presupposes the presence of a uniform, credible and financially sound regulated national market structure such as warehousing (WH), collateral management, transportation and quality control. The

Warehousing Development & Regulatory Authority was established to take care of these issues but is yet to deliver.

So the major issue here is regarding the availability of physical stock in warehouse. Resolving this flaw can help the trading system to a great extent.

### So, What Can Be Possible Outcomes ?

1. Introduce **settlement guarantee fund (SGF)** and margin system under which initial margin/deposits, mark-to-market and value-at-risk margins and accumulated interest, penalties and collaterals and other physical entities will drive the clients to be more prompt and punctual. Here prospective broker can turn out his net-position to almost zero if the clients have offsetting positions which in turn increase the default risk manifold and brings the clients to default to the broker and ultimately to the exchange level.



*“There has been many questions and even today our jurisdiction is questioned so as to how to have an independent & smooth functioning of the economy whether at high or low level, but according to me the real question is ‘when?’”*

2. **Regulatory:** Regulate the Warehouse incoming/outgoing and manage the availability of storage which will lead to reliable and quality storage. Also proper accounting practices need to be applied so as to improve the accuracy and credibility of WH receipts.
3. **Risk management/operational:** Create infrastructure for WHs and introduce centralized margin and capital adequacy norms to have a reliable clearing and settlement system and for the entire system to be more healthy and smooth.

There have been many questions and even today our jurisdiction is questioned as to how to have an independent and smooth functioning of the economy whether at high or low levels, but according to me the real question is ‘when?’ will this issue will be attempted to be rectified completely so as to maintain investors interest in our financial system...

**Ravi Panjwani**

## Zimbabwe: A Worthless Currency

“Inflation is a sin; every government denounces it and every government practices it”

Sir Frederick Keith-Ross

Zimbabweans are getting stronger. Thirty years ago it took five people to carry fifty Zimbabwean dollars (Z\$50)'s worth of groceries. Today even a child can even carry five Hundred thousand dollars (Z\$50 x 104)'s worth of groceries

- Imagine buying 3 eggs for 100000000000 Zimbabwean dollar
- 1 kg apple for 100 million Zimbabwean dollars!

Shocked!!

This was exactly what happened in Zimbabwe in 2008-2009 which is termed as HYPERINFLATION



**HYPERINFLATION** occurs when a country experiences very high and usually accelerating rates of inflation, causing the population to minimize their holdings of money. Under such conditions, the general price level within an economy increases rapidly as the official currency quickly loses real value. Meanwhile, the real value of economic items generally stays the same with respect to one another, and remains relatively stable in terms of foreign currencies. This includes the economic items that generally constitute the government's expenses.

*“Zimbabwe is currently experiencing an inflation rate of over 7600% per annum. The crisis started in 2000 when the Zimbabwean government effectively destroyed their agricultural industry by displacing farmers from their lands.”*

### The Cause Of Hyperinflation

Zimbabwe's economy immediately went into recession and inflation began to rise. Foreign currency shortage as well as exchange rate misalignment also resulted in general increase in prices. Although foreign currency shortages have been a perennial economic problem for Zimbabwe since its independence, the severity of the problem first came to light in 1987, before subsiding

and reappearing again at a severe scale in 2000. Added to the foreign exchange shortage is the exchange rate misalignment where by the official exchange rate has been far below the market-determined rates, resulting in growing black/parallel market for foreign currency. Due to this shortage, imports of raw materials have been acquired using expensive foreign currency from the black market. The ultimate effect of this has

been cost-push inflation.

So here is the consequence of hyperinflation “a loaf of bread now costs what 12 new cars did a decade ago,” and “a small pack of locally produced coffee beans costs just short of 1 billion Zimbabwe dollars. A decade ago, this sum would have bought 60 new cars.” At the

stores. While supermarket shelves were empty, a thriving black market developed, where goods were traded at much higher prices. Underground markets for foreign exchange also sprang up in back offices and in parking lots local notes were being converted to hard currencies at much

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*“A minibus driver still charges passengers in local currency but at a higher price on the evening trip home and he changes his local notes into hard currency three times a day.”*

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height of the hyperinflation, prices doubled every few days, and Zimbabweans struggled to keep their cash resources from evaporating. A minibus driver still charges passengers in local currency but at a higher price on the evening trip home and he changes his local notes into hard currency three times a day.

The government attempted to quell rampant inflation by controlling the prices of basic commodities and services in 2007 and 2008. Authorities forced merchants—sometimes with police force—to lower prices that exceeded set ceilings. This quickly produced food shortages because businesses couldn't earn a profit selling at government-mandated prices and producers of goods and services cut output to avoid incurring losses. People waited in long lines at fuel stations and



rate than the official central bank rate. Some commodities, such as gasoline, were exclusively traded in U.S. dollars or the South African rand, and landlords often accepted groceries and food items as barter for rent."

**Ruchika Bansal**

## The KING Is Dead... What Remains Is The

### FISH !!

Aviation industry is a classic example of the fact that not all technological innovations result in great financial gains. A lot of times, lessons from history are often ignored and the Indian liquor king a.k.a. Mr. Vijay Mallya is no exception to it. Attracted by the increasing air traffic in Indian sub-continent, Vijay Mallya started Kingfisher Airlines in 2003. Despite having a few advantages such as reaching the million passengers mark in four years of its operation and also achieving the highest market share, Kingfisher incurred losses in every single year since its commencement.

### The Big-Bang Start

The airline started its commercial operations in May 2005 with the focus on quality in-flight services like In-Flight Entertainment (IFE) system with personal TV, recliners, blankets, meals, headphones, chargers and of course the very special & polite air hostesses which added to the 'WOW' experience. The passenger traffic for Kingfisher continued to surge but the airlines continued to make financial losses which obviously went unnoticed.

### The Fatal Acquisition

Kingfisher was very keen to start its international operations thus it acquired Air Deccan in April 2008 at a valuation of Rs.22billion. As a result of excessive debt, global monetary crisis and the decline in air traffic, Kingfisher alas! faced a major setback.

### Rising Debt

Kingfisher's debt jumped from Rs.9 billion in 2007 to Rs.60 billion in 2009.

### Confused Positioning

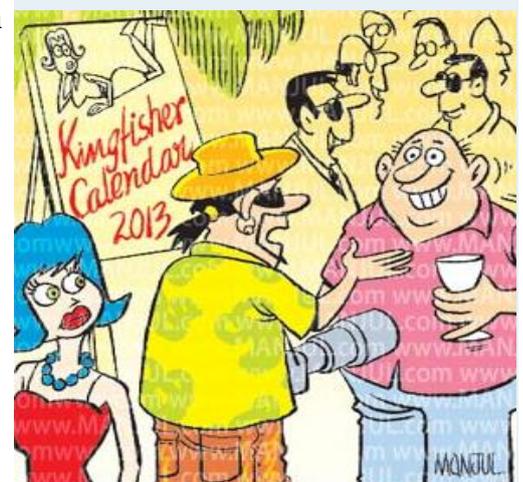
As Kingfisher acquired Air Deccan, it indeed entered the low cost market, but at the cost of creating confusion about itself. It was originally viewed as a luxury carrier, which had better margins.

The problems it faced:

1. Acquiring Air Deccan to witness faster growth
2. Excessive debt to finance the acquisition of Air Deccan
3. Inability to synergies operations
4. Rising fuel costs and taxes



*"...Kingfisher's debt jumped from Rs.9 billion in 2007 to Rs.60 billion in 2009..."*



Our next calendar will be nude.  
We don't have any money  
to buy bikinis.

But now it started witnessing lower passenger traffic and also the sales continued to decline steeply. Decline in sales growth with high debt is a disaster for any company and this was faced by this company too.

## Rising Fuel Costs

Power & fuel cost accounted for 40% of the total operating costs for the airlines. In mid-

employees. As a result, multiple strikes took place which resulted in frequent flight cancellations and also a complete disastrous erosion of customer trust. In February 2013, airline lost all international and domestic flying slots.

There is little hope of recovery after the sale of promoter stake in United Spirits to Diageo. But the recent currency depreciation has ensured that fuel costs in India are at an ALL TIME HIGH and there is an increased

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*“The company had to cut down its operations which reflected in its number of aircrafts reducing from 60 to 15 which in turn created difficulties in attracting investors in such a vulnerable state.”*

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2011, oil prices fell below \$100 a barrel. As a result Kingfisher couldn't capitalise on it.

## The After Effects

The debt problems faced by Kingfisher resulted into non-payment of salaries to its

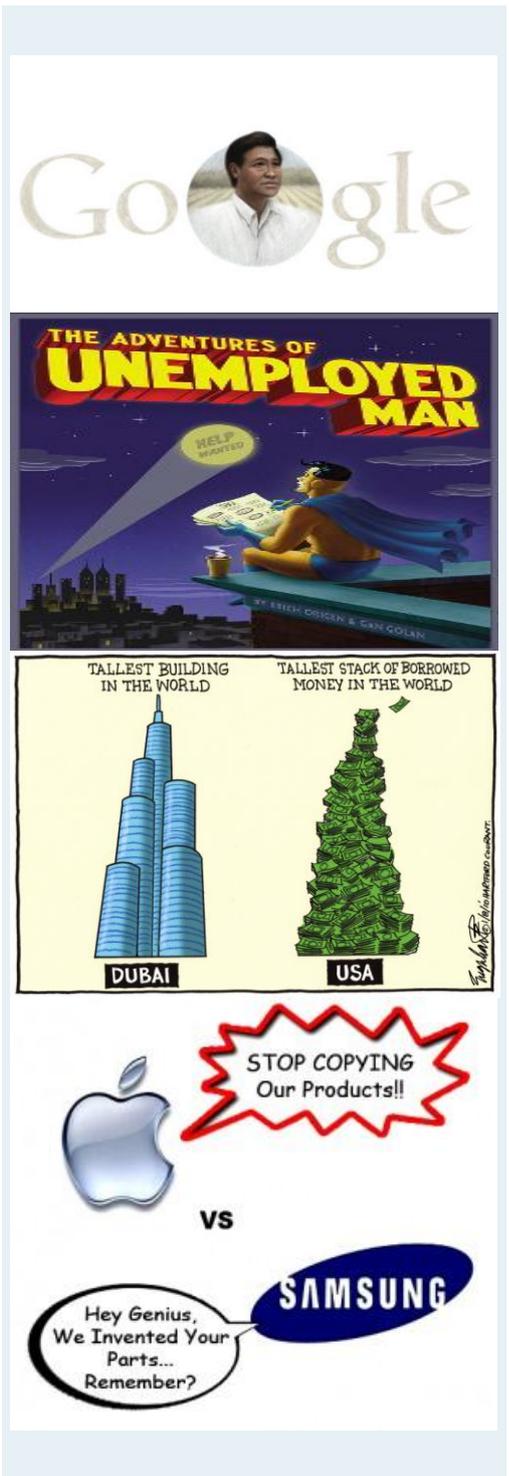
likelihood of interest rates remaining at elevated levels. This casts a shadow on the possibility of the revival of Kingfisher.



## Aneesh Porwal

## Facts About Economy And Business:

1. According to Forbes, if a Google employee passes away, "their surviving spouse or domestic partner will receive a check for 50% of their salary every year for the next decade."
2. The unemployment rate for men is 8.4%. For married men, it's 4.9%.
3. A Honda Civic hybrid starts at \$24,200 and gets 44 miles per gallon. A Civic with a normal gas engine starts at \$16,000 and gets 39 MPG. If you drive 15,000 miles a year and gas averages \$4 a gallon, it will take 47 years for the hybrid to justify its cost over the traditional model.
4. China's working-age population is expected to shrink by more than 200 million between now and 2050. The U.S.' is expected to rise by 47 million.
5. China's economy grew 7 times as fast as America's over the past decade.
6. The largest bank note was the Chinese 1 Kwan, printed in the 14th century, measuring 9 X 13 inches.
7. Half the population of the world earns only 5% of the world's total wealth.
8. There are 138 stock exchanges in the world.
9. Apple's cash and investments are now equal to the GDP of Hungary and more than those of Vietnam and Iraq.
10. The International Energy Agency predicts that the U.S. will become the world's largest oil-producer by 2020, overtaking Saudi Arabia.
11. The Bank of America was originally called The Bank of Italy
12. 50% of the ownership of domino's pizza was once traded for a used Volkswagen Beetle.



Swati Bhatt

## Presenting Junior OKONOMOS Team



Next Trimester Starts  
With a  
**GAME**

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