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Finomenon
The Finance Cell, NMIMS

FINANCIAL SECTOR OF TOMORROW

How will technology and regulations shape the future?

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THE FINANCIAL

THE ANNUAL MAGAZINE

TABLE OF CONTENTS

THE FACULTY SPEAKS

"In the middle of difficulty lies opportunity"

- ALBERT EINSTEIN

The year 2019 brought serious challenges for the Indian economy. The economic slowdown worsened not only in aggregate terms, but in each part of the economy. Key end-use sectors like automobile, housing and consumer goods witnessed weak demand conditions, affecting the upstream sectors as well. Corporate investments came to a standstill and credit growth remained sluggish. Exports continued to underperform.

The financial sector too felt the repercussions. The high non-performing asset (NPA) problems of public sector banks continued to persist. The NBFC liquidity crisis which got triggered after the default by IL&FS last year, deepened further subsequent to the default by DHFL.

The relatively healthy increase in bellwether stock indices, Nifty 50 and Sensex, was too narrow to be ascribed to the entire stock market, since the midcap and small cap indices declined. Nevertheless, mutual fund assets under management saw double digit growth, thanks to the growth in systematic investment plans. Private equity activity remained strong while alternative investment funds continued to grow at a rapid rate.

The mood as 2020 begins is one of cautious optimism, expecting the long-awaited cyclical recovery in the Indian economy on the back of transmission and response to the monetary and fiscal stimuli provided by the central bank and the Indian government. This will also need efforts to fix the NPA and capitalization issues of banks and liquidity problems of NBFCs.
The RBI showed intent to kick start the growth engine by cutting the repo rate in five successive monetary policy meetings. It also innovatively used forex swaps to bring dollar liquidity and convert it into rupee liquidity. The significant infusion of liquidity brought down the money market rates and bond yields. Towards the end of the year it also undertook bond trades to reduce the term premium.
We can expect the economic slowdown, the financial sector crisis, and the consequent

regulatory response to have two positive outcomes for the financial sector. Firstly, it provides an opportunity to the banking and financial services players to consolidate, and focus on strengthening their balance sheets and improving their operating efficiency. We are already seeing consolidation in banks and asset management companies. The NBFC sector may witness shakeout if their liquidity problems persist, but the surviving NBFCs may emerge stronger.

Secondly, increased regulatory activity may usher in innovation, perhaps through enablement, but even through unexpected paths of regulatory arbitrage. Structured finance has seen high degree of activity with sharp increase in securitisation volumes as well new financing structures. Relatively new segments like peer-to-peer lending have been witnessing very high growth. We can hope to see continued surge in innovations in 2020 and beyond. These would open up windows of opportunity for new entrants to get a foothold, as well as for the incumbents to adapt and offer more relevant services or delivery platforms.

The innovations will undoubtedly be enabled by both information technology as well as by new financing structures and methods. Regardless of the future economic growth trajectory, even at the current size of the economy, there is huge unmet need for new financial solutions, for example to finance infrastructure investments.

As regulations and technology take the centre-stage, the theme for this year's Illuminar is "Financial sector of tomorrow: How will technology and regulations shape the future?" I am glad to announce the release of The Financial, the annual magazine of the Finomenon club on the Illuminar's theme. In 2019, Finomenon launched several interesting research reports. Samriddhi, the student-managed investment fund, continued to perform well in its third full year of operation. The response to Moolyankan, the investment valuation competition, as well as other events, was very encouraging. I am sure that at Illuminar, we will have enriching discussions and useful takeaways.

THE PRESIDENT SPEAKS

"No dream is ever chased alone"

- RAHUL DRAVID

India, once one of the fastest-growing economies has been regarded as an also-ran these days. India's economy has lost its sheen this year. It is very rare you see an economy that tumbles so rapidly after a stupendous growth. This nosedive can be attributed to numerous reasons starting from the credit crunch, decreasing consumer confidence to high unemployment rates. Considering the current scenario it is very important for us to foresee our economy and take necessitated actions for the same. For the last year, our GDP has been deteriorating and feels like we are getting sucked into a black hole. Contrarily and repeatedly, our government has been brushing aside these numbers, trying to instil confidence in citizens that everything is under control and it is an unworrying slowdown and the turnaround is just around the corner. As a socialist economy, we've always had deep beliefs in the abilities of governments, however, in this era of Digital - India, there are various other sources that also reveal the true picture of the current state of the Indian economy. In this era of technology, we are rightly equipped to be a better judge of the numbers and the situation of our country than a stipulated entity deciphering to us. Thus the year 2020 is going to be pivotal if we are to continue dreaming of a $5 trillion economy. It would also be very crucial if we are to experience a turnaround in the economy.

Going forward we are bound to face a lot of uncertainties in this dynamic world. Our primary objective would be to look for the turnaround of the economy and to put ourselves back on track for the world's fastest-growing economy. In this on-going revolution, the backbone of our country- the financial industry needs to be working ten steps ahead of the economy. It needs to lay a foundation that other sectors can use as a launchpad to revive and/or propel themselves. Hence we have tried to look at how our financial sector should be tomorrow and thus focused on the central theme - Financial Sector of tomorrow: How will technology and regulations shape the future?

On the front of our finance club, Finomenon, we've had a very eventful year. We organized several workshops and training for our B-School students who are stepping into the financial world.

We increased our outreach and took up various initiatives to support students during their final placements. From Illuminar to Moolyankan, we saw mind-blowing participation. We began a new initiative of FinSights whose aim was to provide deeper insights into a crucial topic of concern prevailing in the economy on a weekly basis. Our student-led investment fund did incredibly well giving absolute returns of 7.5% in a span of four months, until the end of the year. Samriddhi also released an equity research report on Kotak Bank, which was a landmark achievement for us it was the first time an equity research report was prepared for a BFSI company. We hope to continue to add value to all the students by focusing our attention on providing them with a platform for learning more about the area of finance with ease and support them to be great future leaders in the finance industry.

FINANCIAL SECTOR OF TOMORROW:

How Will Technology and regulations shape the future

There are two big opportunities in the future financial industry. One is online banking, where all the financial institutions go online; the other is internet finance, which is purely led by outsiders. – Jack Ma

In both instances, success of these organizations in finance will be based on the ability of any institution to deliver value by leveraging data and technology. Traditional financial institutions and non-traditional fintech firms have begun to understand that collaboration may be the best path to long-term growth. At the same time, big tech firms like google and amazon, are offering financial services (payments), creating fintech solutions. Hence, technology in the finance domain is the missing link between financial traditionalism and the finances of the future.

As rightly said by the late American President, Theodore Roosevelt, "I believe that the more you know about the past, the better you are prepared for the future", let us understand how history has shaped up this space. Before the 2008 financial crises, banks and financial

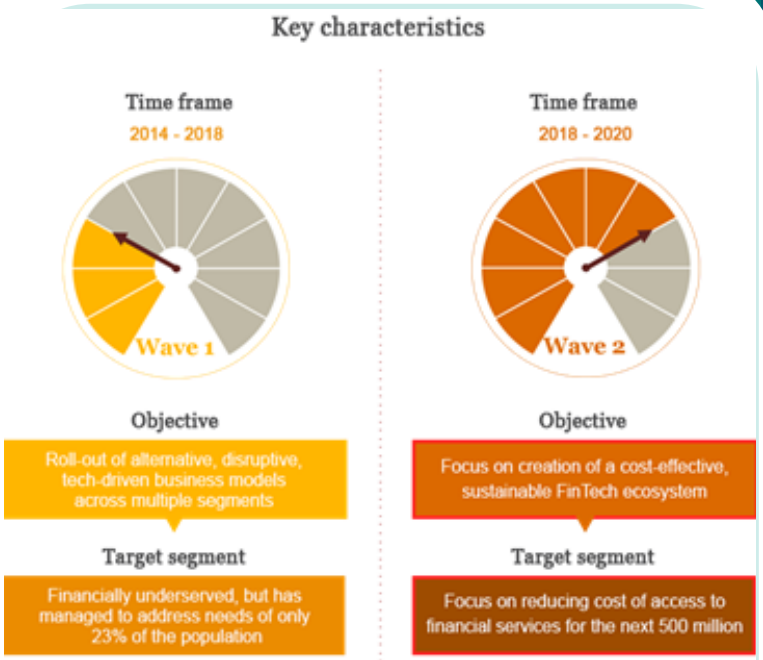
As rightly said by the late American President, Theodore Roosevelt, "I believe that the more you know about the past, the better you are prepared for the future", let us understand how history has shaped up this space. Before the 2008 financial crises, banks and financial institutions were the most dynamic fields leading technological innovations in products and product delivery. However, after the crises hit the markets worldwide, many institutions had to shut down or change their portfolios to align them with the market regulations. Adapting to those hard times favored their survival, but it did not drive innovation.

During the same time, technology was having an unprecedented boom. The dot com bubble had led to an increase in the number of businesses built on the internet infrastructure. People had smarter options for everyday necessities, the most common use is of mobile payment systems. People welcomed this change, and by the time banks and financial institutions got back on their feet, there was already a considerable gap

between the technologies offered by traditional banks and the rising standards of modern customers. They demanded more flexibility, convenience and a streamlined user experience – and Fintech was there to meet these standards. The aftermath of the crises highlighted the significance of conducive and forward-thinking regulations as one of the most significant catalysts for unlocking the full benefits of emerging technologies for financial institutions.

Data at the heart of financial revolution- The Big risk with Big Data

Fintech is considered as the 4th Revolution. Fintech companies collect and process vast amounts of data in order to provide financial services quickly and inexpensively. A lot of this data contains sensitive personal information such as date of birth, bank account details and online banking credentials. The sheer volume of the information increases its sensitivity because over time a fintech company may generate a very detailed and complete picture of an individual. As a result, data security and compliance with applicable privacy legislation are of critical importance.



The Personal Data Protection Bill draft tabled in the Indian Parliament on the 11th December 2019 with the aim to provide for protection of personal data of individuals and establish a Data Protection Authority for the same. With the implementation of the bill, principle of storage limitation will be applicable, and data can only be used for the purpose for which it was collected, thereafter, the said data may be anonymised, or erased, permanently. Therefore, limiting the user information use to send further communication to engage them. Hence, the players in this space will have a hard time to retain customers and remain the platform of choice for all their financial requirements. This also means that fintech will need to evolve an alternative scoring mechanism and consent-based architecture.

FinTech 2.0 – A new era for Financial Inclusion

The general perception of FinTech is 'products and companies that employ digital and online technology in the banking and financial services industries' (Wave 1). FinTech and TechFin is capable to perform more strategic

role with the aim to contribute to the larger goal of financial inclusion. (Wave 2). In 2013, CRISIL had launched Inclusix, India's first financial inclusion index, to gauge the level and progress of financial inclusion in the country across its 666 districts. Now, over a half, 336 to be exact, of the 666 districts of India have a score of "Above Average" on the index. But, with a larger number of Indians acquiring access to financial services, the need for the government to regulate these services and the service providers also becomes of paramount importance. Regulations will play a key role in ensuring equity and fair play by players in this sector.

Regulation and FinTech – A Marriage that Needs to Happen

The current data shows that 94% of adults in high-income economies have an account at a financial institution versus 63% in low- or middle-income countries. High-income economies have stricter norms and tighter regulatory control over financial institutions. Regulatory changes in developing economies like India, can enable successful adoption and adaptation of new innovations in digital finance, encourage their use, and increase competition among their providers. Also, progress needs to be compatible with the traditional mandates of financial regulation and supervision: safeguarding the stability of the financial system, maintaining its integrity, and protecting consumers. The convergence of traditional financial institutions and fintech companies will happen when the regulations governing them are similar and aligned.

In India, insurance, asset management, P2P lending, e-wallets and payment gateway services have seen tremendous development due to Fintech start-ups in these sectors. The RBI under the Payment and Settlements Act 2007 governs and regulates these entities. Regulated development will happen when regulators will look at FinTech companies in a different light. One change happened in 2017, when a Working Group of the Reserve Bank of India recommended that a regulatory sandbox (RS) be set up in India, which will allow FinTech start-ups to test out new services and assess risks before they are introduced to the market.

There is no universal regulatory body for fintech entities in India. The Indian FinTech space has been governed by multiple entities such as RBI, SEBI, TRAI and IRDA. This has resulted in uncertainties and grey areas for the FinTech community due to the overlap of regulations and contrasting views.

Fintech and beyond: The technologies and skills of tomorrow

Combining Artificial Intelligence, Machine Leaning, Blockchain, Robotic Process Automation and Conversational Banking into the financial sector will play a crucial role in

attracting customers and increasing the efficiency of the financial institutions in 2020. AI and ML use case in attraction and risk management of client portfolio, conversational banking in customer query resolution and RPA in managing regulatory documentation. Banking enterprises are not required to work on each of these technologies simultaneously but implement several of these innovations into regular operations to see the desired results.

The combination of these programs requires a convergence of multidisciplinary skills in modern programming languages, artificial intelligence (AI), machine learning (ML), blockchain, and data privacy with a basic functioning knowledge of banking and accounting. This combination of skills, according to the University of California Berkeley is known as the 'full-stack quant' and refers to the talent who can code and possess a working knowledge of financial concepts, and statistics.

The nature of the industry demands well-developed soft skills. Fintech originated from the spirit of innovation and versatility and the soft skills like, openness, problem-solving, communication, adaptability and transparency are given huge importance on a daily basis. Also, with new regulations for better transparency of data handling and the security and integrity of customer data, a spike is expected in the demand for data security experts that are familiar with the regulations.

On the concluding note, we believe that the future of financial industry will ultimately depend on its ability to leverage the power of consumer data, advanced analytics and digital technology to deliver services to customers within the regulatory scope. Inclusion will also enable growth in this sector, making consumers the ultimate winner.

Cover Story Written By -
Srishti Gupta, Finomenon Junior

WINNING ARTICLE

Technology is changing way how businesses used to operate. We have alarms that detect polluted substances in air, medical equipment that can identify life threatening conditions before they become an issue or smarter computer software to make controlling vital equipment easier than ever before.

An Industry which has seen huge innovations in recent years is the use of technology within the financial world. The new buzzword 'FinTech' is becoming common place in the sector and with an ever-evolving corporate and consumer focus, the need to keep up with advancements is seeing more choice and an improved user-experience across the board.

For a long time, new market entrants found it difficult to break into financial services Industry. Well, not anymore, FinTech disruptors have found a way in. Disruptors are fast-moving companies, often start-ups, focused on a particular innovative technology or process in everything from mobile payments to insurance.

As per PWC, the Few Competitive Technology-driven drivers which will shape the financial services industry are:

1) FinTech will be the business model of future

2) The Sharing Economy will be embedded in every part of financial system

3) Blockchain will be adopted into mainstream

4) "Customer Intelligence" will be the most important predictor of revenue growth and profitability

5) Cyber Security will be one of the top risks facing financial institutions

6) Asia will emerge as key center for technology-driven innovation

7) Regulators will be adopting technology too.

In order to understand how technology has impacted Financial services Industry and how will it shape it going forward, we will look at a disruption which has taken place in industry and changes it brought about.

In order to understand we will take a look at India's Payment Industry which has undergone

tremendous change and why India's Digital bet has paid off.

India over the past three four years have seen a digital payments system evolve that's unlike nearly any other market in the world- driven heavily by regulation.

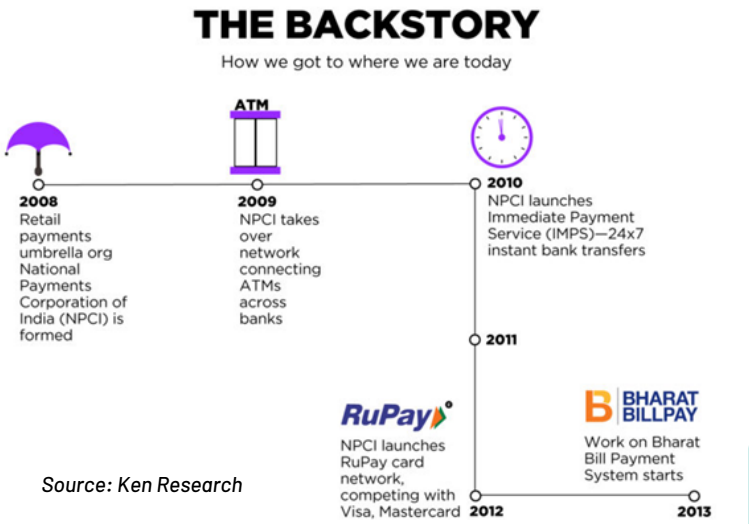
This is in stark contrast to China, the other hotbed of payments and Fintech, which has grown its own digital finance ecosystem with barely any regulatory oversight.

Consumers have got both increasing convenience and a bevvy of cashbacks from eager startups, and electronic payments have soared. From two factor authentication to eKYC to demonetization to UPI, we trace how policy decisions have reshaped the payments landscape.

Imagine a travel or food-ordering site's checkout page circa 2010-14. Credit cards. Debit cards. Netbanking. Cash on delivery. That's about it.

Then came the wallets. Mobikwik, and Paytm, and FreeCharge. Airtel Money. Amazon Pay. Phonepe. More wallets from everyone and their uncle. Then came the Unified Payments Interface, or UPI—the holy grail of instantaneous payments right from your bank account. And credit-like options where you buy now, pay later.

The past five years in India have been a rollercoaster ride for companies from card networks like Visa and Mastercard to Paytm and Mobikwik to banks to card payments firms like Pine Labs and Ingenico to payment gateways like BillDesk and PayU.



Source: Ken Research

The establishment of the NPCI by a consortium of banks more than a decade ago sowed the seed for large-scale changes in how payments worked in India. The non-profit entity is owned by banks, but answers to Reserve Bank of India (RBI) and the government in general—and often acts as a quasi-regulator for payments.

But that aside, India's current payments-heavy Fintech ecosystem began to take shape with arrival of mobile wallets- especially Paytm.

The growth of mobile wallets using PPI licences also affected how the central bank planned payment banks—the next stage in India's payments evolution. They were specialised banks that could accept small deposits (up to Rs 1 lakh or $1447) and provide payments services, but not issue loans. Concerns over the viability of using PPI licences for large-scale payments prompted an RBI committee on financial inclusion to recommend that wallet companies be pushed to go the payments bank route instead. But the real kicker was yet to come.

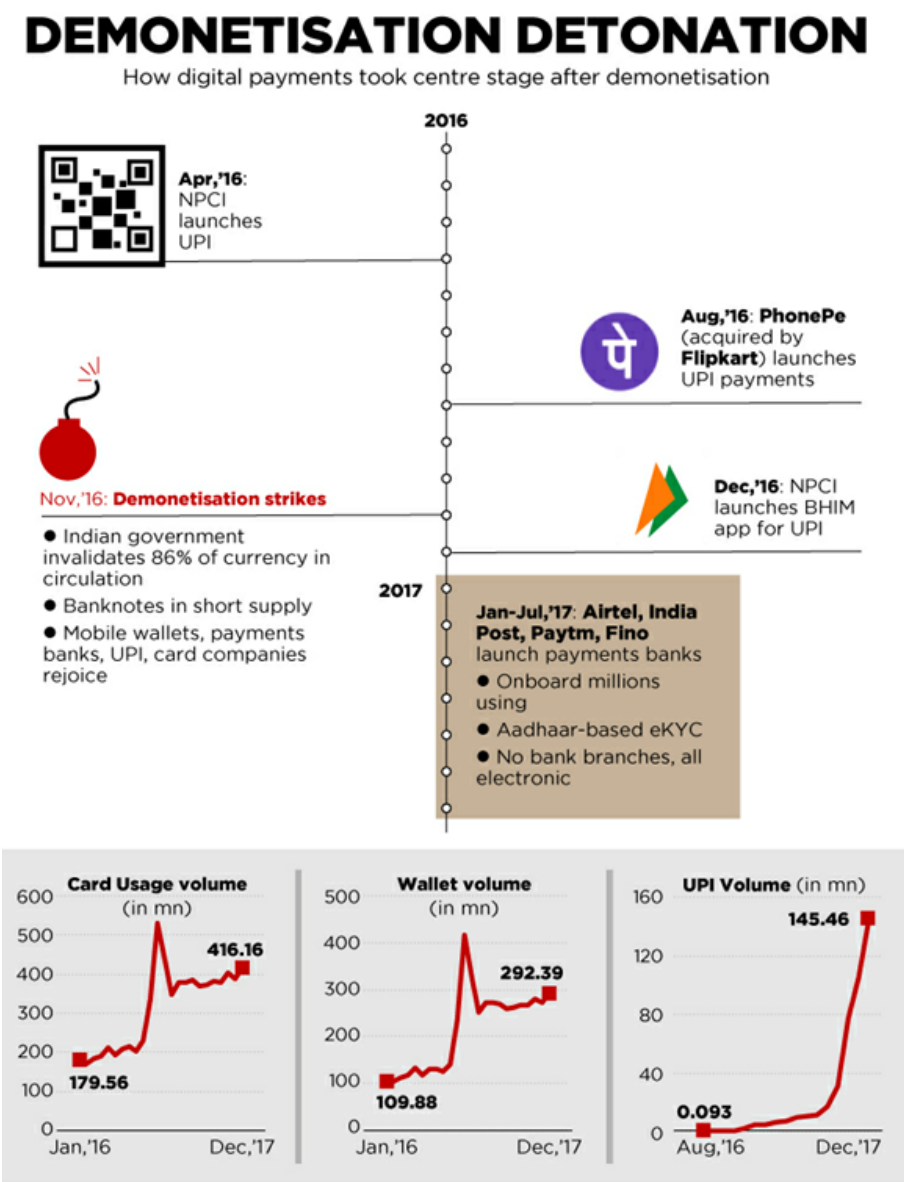
The tumult of demonetisation drove panicked, cashless Indians to electronic payment; and wallets, payments banks and cards saw a sharp spike in usage.

As did UPI—a new interbank transfer system built on IMPS. Instead of getting a person's bank account number and branch details—a cumbersome process—UPI allowed consumers to use virtual IDs for their accounts.

It would prove to be a game-changer—but not quite immediately. Because the only major apps offering UPI payments in the first year were PhonePe (owned by e-commerce company Flipkart) and the government's own BHIM app.

Scandals and yet more policy back and forth left payments banks with a rather uncertain future at the end of 2018. Likewise for wallets.

But it is safe enough to say that UPI has taken the retail payments crown. But the policy quakes and the market shifts of the past three to four years have touched almost every corner of the payments ecosystem.



Barring any policy surprise, UPI has been the clear winner of India's Payments story.

Having seen how the technology disrupted Payments Industry, lets look at what future holds for the industry. There is a certain degree of hype around AI and machine learning technologies and, of course, there are risks involved with adopting them prematurely and without a proper measurement of results. It is also important to bear in mind, that while these technologies bring about this next phase in the evolution of financial services – and indeed, the future of lending – the importance of human touch should not be overlooked. The modern finance market is crowded with options and choice, and customers often lack sufficient support and guidance.

Winning Article Submitted By -
Nikhil Upadhya, NMIMS Mumbai

2

RUNNER-UP ARTICLE

Innovation Of Fintech Is Deconstructing The Walls That Have Long Surrounded By The Traditional Financial And Banking System

Amid sweeping regulatory change, today's financial services institutions are focusing on digital transformation, convergence and disruption from an array of non-traditional competitors – all while meeting greater demands for trust and transparency.

Financial technology or "FinTech" has seen remarkable growth over the past few years. What was once considered a complex way of managing finance is now used by millions of people globally, due to the rise of online banking and mobile-first platforms.

Increasing consumer and SME awareness of, and engagement with, FinTech is driving concrete growth in adoption rates. With FinTech services now being commonly used by consumers globally, it's clear that FinTechs have become recognized financial services providers. The most used services were in money transfer and payments, with around three-quarters of consumers having used a service in this category. Usage was particularly prevalent in China, with the rate at 95%. Other frequently used services included savings and investments, budgeting and financial planning, insurance, and borrowing services.

According to an Ernst & Young report, it appears consumers want to get to their financial tools through a single app or online portal, with 60% of adopters indicating this was their preference. However, a tech-first approach is not always favoured by consumers – when it comes to customer service only 27% of FinTech adopters globally said they would prefer to talk to their bank via social media than the more traditional channel of face-to-face exchange.

In the field of technology based banking, information technology and electronic funds transfer system have emerged as the twin pillars of modern banking development. Products offered by banks have moved way beyond conventional banking and access to these services have become round the clock. This, indeed, is a revolution in Indian banking industry. Payments banks will open another alternative channel after internet and mobile banking, and help improve efficiencies and reduce costs involved in catering to customers in the rural and semi-urban areas. The 'Digital India Campaign' launched in July 2015 by the Government of India, with an aim to ensure that the Government services and subsidy benefits

are made available to citizens electronically by improving online infrastructure and by increasing Internet connectivity will pave way for technological reforms in India and make the country digitally empowered.

In this article we've tried to answer the following questions:

1. Which emerging innovations are the most impactful and relevant to the financial services industry?
2. How will these innovations impact the ways in which financial services are structured, provisioned and consumed in the future?
3. What would be the implications of these changes on customers, financial institutions, and the overall financial services industry?

Even in an environment of rapid change to the design, delivery and providers of financial services, the core function remain the same.
We have identified six core functions that comprise financial services :
1. Payments
2. Market Provisioning
3. Investment Management
4. Insurance
5. Deposits & Lending
6. Capital Raising

Key disruptive trends: Mobile & Streamlined payments, Integrated billing, Next generation security, Cryptographic protocols, P2P transfers, Mobile money

Implication: New consumer functionalities are being built on existing payment systems and will result in meaningful changes in customer behaviour. The greatest potential for cryptocurrencies may be to radically streamline the transfer of value, rather than as store of value. Financial institutions may lose control over their customers' transaction experience as payments become more integrated. With reduced visibility, becoming the default card among specific customer segments will become critical. Winning issuers will be able to gain visibility into more of customers' spending patterns, build more holistic understanding of customers, and create more competitive offerings. As more efficient alternative rails are adopted, the role of traditional intermediaries as a trusted party may diminish. Financial institutions may face a new set of risks (e.g., reputation, security) and regulatory issues as they participate in new rails. Applications of these technologies can expand beyond money transfer to modernize other financial infrastructures

Insurance

Key disruptive trends: Disaggregated distribution, Sharing economy, self-driving cars, 3rd Party capital, Smarty & cheaper sensors, Wearable, IoT

Implication: Emergence of online insurance marketplaces and homogenisation of risks will force big changes in insurers' strategies.

Ubiquity of connected devices will enable insurers to highly personalise insurance and proactively manage clients' risks. In an increasingly commoditised environment, the risks of customers being more fickle will increase and creating loyalty through innovation will become more important. Insurers' ability to benchmark against competitors will become more important as customers gain ability to comparison-shop. With increased margin pressure, insurers will need to increase their size by expanding either scope or scale. As customer relationships evolve from short-term product-based to long-term advisory, capturing customers early on becomes critical. As insurers become a hub for customer data, their strategic value within full-service financial institutions will grow. Forming partnerships with data providers, device manufacturers and other ecosystem participants will be critical to enable connected insurance.

Deposits & Lending

Key disruptive trends: P2P, Lean Automated processes, Alternative adjudication, Virtual banking and Mobile banking

Implication: Emergence New lending platforms are transforming credit evaluation and loan origination as well as opening up consumer lending to non-traditional sources of capital. New entrants will make meeting customer demands more important, creating an imperative for banks to reconsider their roles. Intensified competition will narrow spread between deposits and loans, decreasing financial institutions' profitability. As savers turn to alternative platforms, traditional deposits and investment products will be eroded. Distribution of customers' credit portfolio over a large number of alternative platforms may make it difficult to measure customer's creditworthiness. Financial products will increasingly be offered on a stand-alone basis limiting incumbents' ability to competitively cross-subsidise. Financial institutions' ability to collaborate with non-traditional players and other institutions will become essential. Financial institutions will need to choose where they will specialise and where they will leverage external partners (e.g., product manufacturing vs. creation of customer experience)

Capital Raising

Key disruptive trends: Empowered Angel investors and alternative adjudication

Implication: Crowdfunding platforms are widening access to capital raising activities, making the overall ecosystem richer. Access to more diverse funding options allow new companies to grow at a quicker pace and shorten the average time between early funding stages. Distribution platforms create a venue for investors to tailor their investment portfolio across dimensions beyond financial return. As the barriers to enter the asset class fall, it becomes ever more important for traditional intermediaries' profitability to find undiscovered "start" investments.

Investment Management

Key disruptive trends: Social trading, Automated advice & wealth management, Retail

algorithmic trading, Advanced analytics, Capability sharing

Implication: Robo-advisors are improving accessibility to sophisticated financial management and creating margin pressure, forcing traditional advisors to evolve. The scope of externalisable processes is expanding, giving financial institutions access to the new levels of efficiency and sophistication. New entrants will place pressure on margins and intensify competition among traditional players in more specialised segments. As more advisory functions become automated, distributing wealth products via proprietary advisory channels will become less effective. As new entrants widen the access for mass customers, they will compete for customers' traditional savings deposits. The ability to access sophisticated capabilities without large infrastructure investments flattens the playing field for mid-sized institutions. Organisational agility will become critical to sustain competitiveness as high-value capabilities are continued to be commoditised. Externalisation of capabilities may result in workforce skill loss by preventing the development of a holistic view of operations.

Market Provisioning

Key disruptive trends: Machine accessible data, AI, Machine learning, Big data

Implication: As the popularity of high frequency trading declines, the focus of algorithmic trading may shift to smarter, faster response to real life events. New information platforms are improving connectivity among market constituents, making the markets more liquid, accessible, and efficient. The impacts of event-driven algorithmic trading on liquidity, spread and systemic stability are unclear. With end-to-end trading activities automated, even small errors in data integrity, trade strategy, and execution will lead to large impact. Regulators have the potential to significantly alter the course of developments in this area.

Runner-Up Article Submitted By -
Nandita Agarwal, NMIMS Mumbai

KOTAK MAHINDRA BANK

COMPANY OVERVIEW

Kotak Mahindra Bank is an Indian private sector bank headquartered in Mumbai, Maharashtra, India. In 1985, Uday Kotak established what became an Indian financial services conglomerate. In February 2003, Kotak Mahindra Finance Ltd. (KMFL), the group's flagship company, received a banking licence from RBI. With this, KMFL became the first NBFC in India to be converted into a bank - Kotak Mahindra Bank

Limited. The Group provides a wide span of solutions through its subsidiaries across banking (consumer, commercial, corporate), credit and financing, equity broking, wealth and asset management, insurance (general and life), and investment banking.

HOLD

Shareholding Pattern:
(as on 31st Oct 2019)

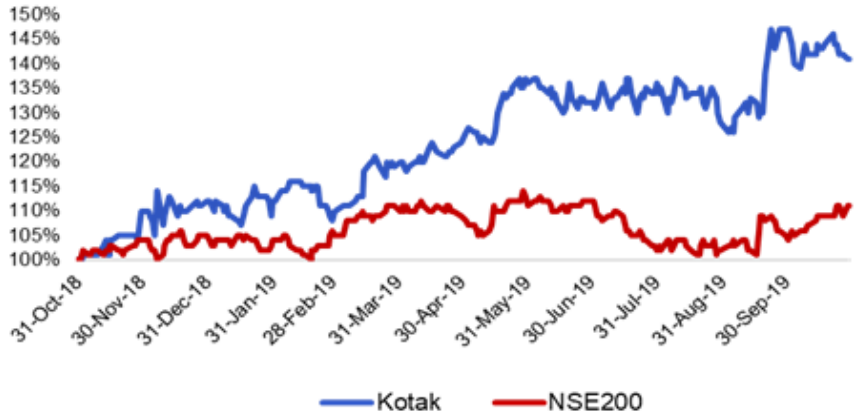
Promoters	29.99%
FII	40.27%
DII	11.13%
Public	17.61%

Current Market Price	1628.0
Target Price	1713.14
Potential Upside(%)	5.23%
Market Cap (Cr.)	3,10,133
Sector	BFSI
52- Week High (INR)	1683.95
52- Week Low (INR)	1098.45

BUSINESS BAROMETER

For Q1 FY20, Loan growth for the standalone bank was moderate (+18% YoY, 1% QoQ), the profit grew at 32.71 percent YoY basis to Rs 1,360 crore on standalone basis. Net Interest Income (NII) for Q1FY20 increased 23 per cent to Rs 3,173 crore from Rs 2,583 crore in Q1FY19. Average savings deposits grew 21 per cent to Rs 78,654 crore compared with Rs 65,135 crore a year ago. Non-bank subsidiaries contributed 30% to consolidated PAT for 1QFY20 vs 35% in 1QFY19. The decline was due to moderation in profits from
securities business (Kotak Sec: -15% YoY). Life insurance subsidiary reported a healthy performance with gross written premium for 1QFY20 up 38% YoY. Limited. The Group provides a wide span of solutions through its subsidiaries across banking (consumer, commercial, corporate), credit and financing, equity broking, wealth and asset management, insurance (general and life), and investment banking.

KOTAKBANK V/S NSE200 INDEX



INVESTMENT THESIS AND RATIONALE

811 catching pace-

With 811 - Aadhaar - based OTP authentication process for savings account opening and a bouquet of digital initiatives taken by KMB, the customer acquisition cost reduced to 15-20% of acquisition cost through physical branch banking. Also, 12-15% of 811 customers upgraded to full branch banking facilities indicating good conversion rate of cross selling. As a result, CASA ratio will increase leading to higher NIM.

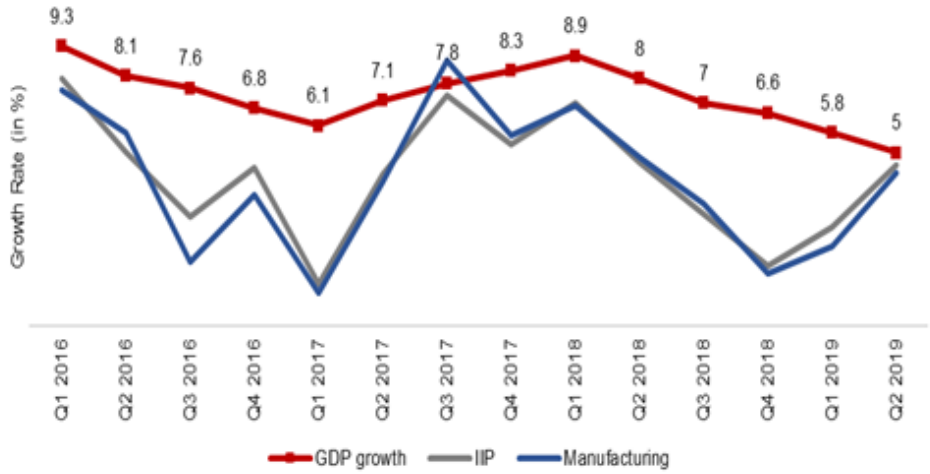
Prudent Loan Book

The bank is very conservative in its approach when it comes to its exposures towards certain risky sectors like real estate development and auto. It is well diversified in terms of its loan book composition and geographical diversification and has been able to maintain and better its asset quality over the years with its current net NPA at 0.73%.

Premium Valuation

All these growth factors have already been priced with the bank currently trading at a P/B > 4, which is at 45% premium to the average P/B of private bank peers. Also, the current corporate governance issues plaguing the banking industry have led to more trust being directed towards quality stocks like KMB taking its stock price higher.

MACROECONOMIC INDICATORS



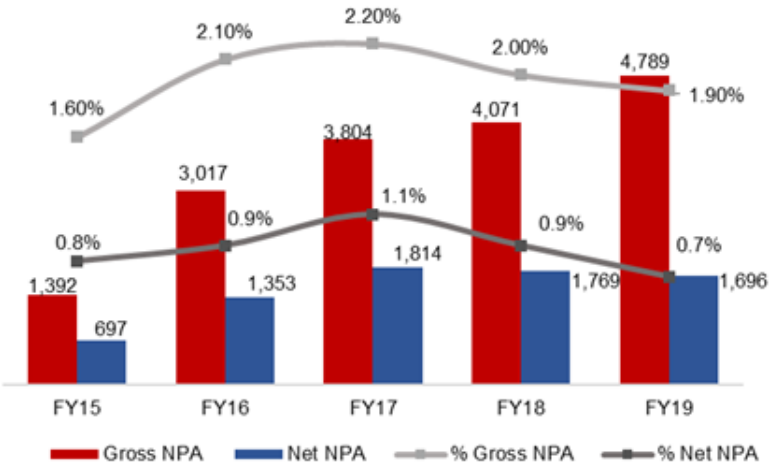
Indian economy witnessed varied pressures throughout FY 19, with eminent economic slowdown led by lower growth in domestic consumption, subdued investment climate, slowdown in the global economy, adverse currency movements, high commodity prices, farm distress and tight financial conditions aggravated by the non-banking financial crisis.

The RBI continued with its accommodative stance with repo rate cuts with the 5th and the last cut of 2019 reducing it by 25bps from 5.40% to 5.15%. The reverse repo rate has been accordingly set at 4.90%. New push towards improving monetary transmission with the external benchmarking, the floating rate home loans offered by banks will be directly compared with the MCLR which will go down because of rate cut. This will impact both the long-term deposit rates and bond yields.

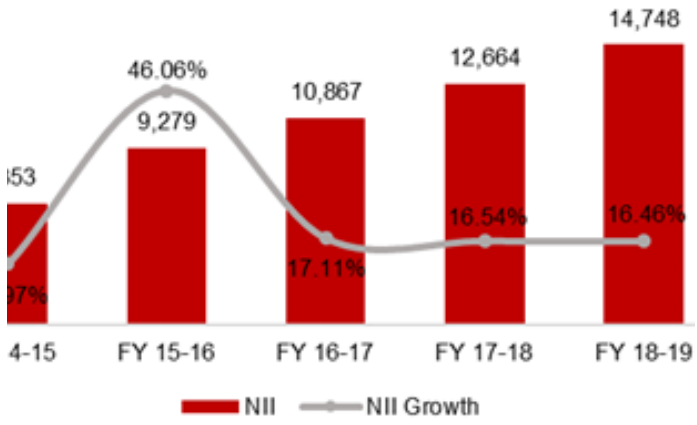
KEY FINANCIAL METRICS OF KOTAK MAHINDRA BANK

Good asset quality ensures lower NPAs-

Kotak Bank continues to strengthen balance sheet on the asset quality management front. The bank's Gross NPA and Net NPA are at lower levels in the last few quarters. Kotak looks at returns commensurate with the risks involved with the philosophy of focusing more on "Return of Capital" than "Return on Capital", which helps the bank maintain low NPA's. Limited exposure to stressed sectors and conservative lending practices limit worries on asset quality.



NPA TREND



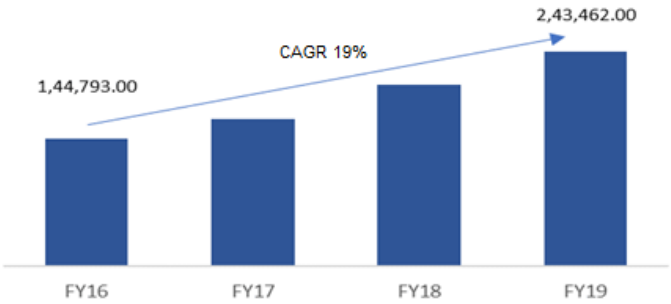
NII TREND

Improved CASA growth rate:

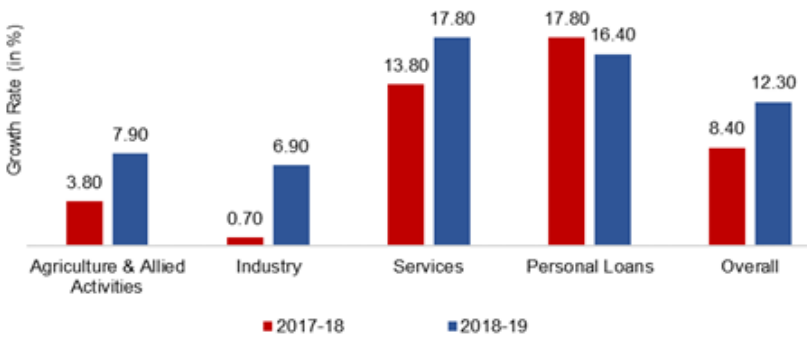
Kotak currently has an industry leading CASA ratio. This is in line with the management's focus on current accounts as well as savings accounts. Average current account grew by 23% and savings account by 21%. Overall improvement in the CASA ratio has been due to bank's focus on low cost and low-ticket size deposits less than 1 crore which has been growing at 25% YoY.

Loan book continuing its increasing trend:

Kotak saw 18% YoY growth in the loan book in Q1 FY20. Credit growth has moderated from earlier trajectory of 20%+ growth due to lower growth in corporate & business banking (7.4% YoY) & marginal moderation in CV & retail unsecured book. The management reiterated that it is poised to achieve 20% credit growth in FY20 with focus shifting towards SME & consumer durable financing.



LOAN BOOK CONTINUING ITS INCREASING TREND

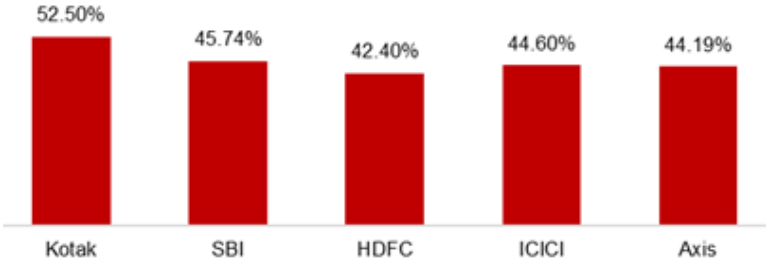


SECTOR WISE LOAN GROWTH RATE

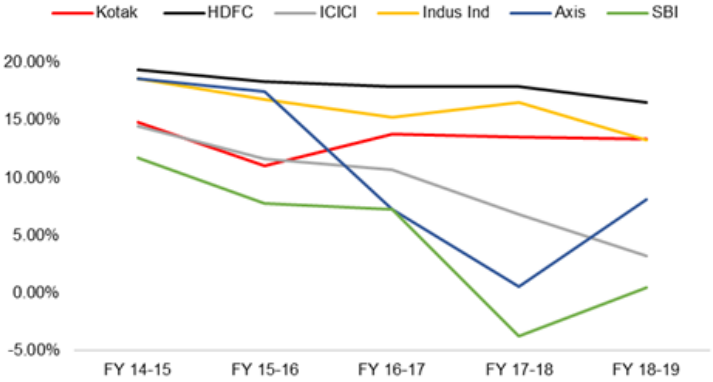
BANKING INDUSTRY OVERVIEW

Deposit and credit growth patterns emerge from the headwinds

Though the deposit growth rate has gone up to 10% in FY19 from a 53-year low of 3% in November 2017, there is still a significant gap between credit growth and deposit growth in India. Increase in Non-Food Credit (NFC) in 2019 was driven mainly by flows to large-scale industry and the services sector. Credit growth to agriculture was driven by food grains and horticulture production while double digit growth in services sector was pulled up by NBFCs. Growth of personal loans moderated to 16.4 % due to deceleration in vehicle and education loans.



CASA % ACROSS BANKS



ROE COMPARISON ACROSS BANKS

KEY FINANCIAL METRICS OF KOTAK MAHINDRA BANK

Improved ROE likely to remain range bound:

Kotak has marginally improved its Return of Equity (ROE) post FY 2016 and it has been stable since then around 13.5%. In comparison to other Banks, Kotak Mahindra has shown an improvement in ROE on the brink of positive asset quality as well as a positive Asset Liability Management (ALM) with 99% deposits maturing in less than 3 years compared to 75% of assets. ALM. The Bank has been conservative and has been maintaining high capital adequacy ratio which results in low return on equity.

SAMRIDDHI VERDICT

Team Samriddhi research on KMB recommends a HOLD investment decision based on a Target Price of ₹1713.14, implying an upside of 5.23%.The valuation metric is as follows - The standalone valuation of KMB is ₹1,330.1 per share using two-stage FCFE model and ₹1,075.4 per share using two-stage residual income model. Through relative valuation, standalone KMBprice is ₹1,129.1 per share. Five subsidiaries have been considered for the consolidated valuation of KMB using SOTP. Kotak Mahindra Bank and these fivesubsidiaries contribute ~98% of total consolidated net assets. The subsidiaries have been valued using relative valuation considering the listed peers in their respective industries. The consolidated valuation for KMB is ₹1,713.14.

SAMRIDDHI JOURNEY

NMIMS Mumbai and within a short span of three years, it has proved its mettle both by consistently outperforming the benchmark and by publishing detailed research reports, providing returns to investors not only in the monetary term but also as a fount of in-depth industry knowledge.

Team Samriddhi will also take this opportunity to express gratitude towards its investors. The investor base comprising of Students, Faculty and Administration of NMIMS Mumbai have stood with Samriddhi showering us with their support and faith. We, believe our class of investors to be our biggest asset in our quest to materialize a vision of shared prosperity. We cannot overemphasize the impact of the investor's meetings and their feedback and will continue to welcome the same.

At the outset, it is imperative to mention the Objective of the Fund, to seek for and award prospects for Growth Sustenance and Value Creation across only Equities comprising of the NSE200 Index. Samriddhi is to be categorized under Growth and Frontline Equity Funds which translates into a meticulous investment methodology that is governed with strict discipline. To this investing helps us to avoid the trappings of speculative returns that are often ephemeral and strategize the portfolio across carefully picked stocks assured of Investment returns in terms of high equity growth.

This enables us to screen for robust parameters on sufficiently representative quantitative bases and allocate investments prudently.

The four pillars of our Investment methodology are as follows:

Quality- Companies which maintain high standards in accounting and information disclosure and also boasts of the ability to sustain profitability on a cash flows basis.

Growth- Unlike contemporary measures, we set our standards for Growth from the Economic moat perspective. We award value where we see growth to be above industry averages and sustained with distinguished businesses generating profitability and growth.

Risk- A paramount component in our framework, our understanding of risk comes from the investment standpoint rather than

the company standpoint, whether bad debt, non-core businesses or one-offs cushion real profitability issues, or when the company reverts further below the mean across mature industry life-cycle stages, among other aspects.

Profitability- We look at profitability from the lens of Capital owners' return, viz. Return on Invested Capital (ROIC), Cash Flow Return on Investment (CFROI) as against insufficient PAT/EBITDA measures. This helps us filter value picks from wealth destroying companies.

Our research proves that the former are superior measures to reflect management focus on value creation.

Samriddhi also actively aims to distinguish itself with its own proprietary research through three flagship publications, Samriddhi Intelligence Report (SIR), Samriddhi Equity Research Report (SERR). Our research reflects our current views on investment ideas, sectoral attractiveness, market trends and developments, valuations and asset strategy implications. Team Samriddhi published a comprehensive SERR on Kotak Bank covering in depth various facets of the Kotak Group's operations along with deep insights into the Indian banking sector. Our research corroborates with and substantiates our investments to achieve returns in step with the risk we shoulder.

Over its effective investment period, Samriddhi has generated ~37% returns on a price-weighted basis (~34% if we weight for value, which is affected by withdrawals and reinvestments at the onset and culmination of the respective academic year). It serves to remind that the Investment Return for the first set of investors, measured on an allocation-weighted basis, is 30.98%. So effectively, our first set of investors have reaped c.31% returns over a period of one-and-a-half years. While comfortably beating the NSE200 with a ~9.54% cumulative outperformance (price-weighted), we take greater comfort in generating a Sharpe Ratio of 0.46 and reducing our downside risk to 5.03% as a result of the quality of our investments and the safety that the market attaches to them.

In our quest to a vision of shared prosperity for all our stakeholders, Team Samriddhi aims to continue with its endeavour to constantly challenge the conventional wisdom of value investing by striving to stay ahead of the curve. Our guiding principle of keeping our investor's expectation closest to our heart will allow us to stay true and strong.

SAMRIDDHI FUND FACT SHEET

INVESTMENT OBJECTIVE

To seek to generate long-term capital appreciation from a portfolio comprised entirely of Equity securities from the NSE200 Index.

INVESTMENT METHODOLOGY

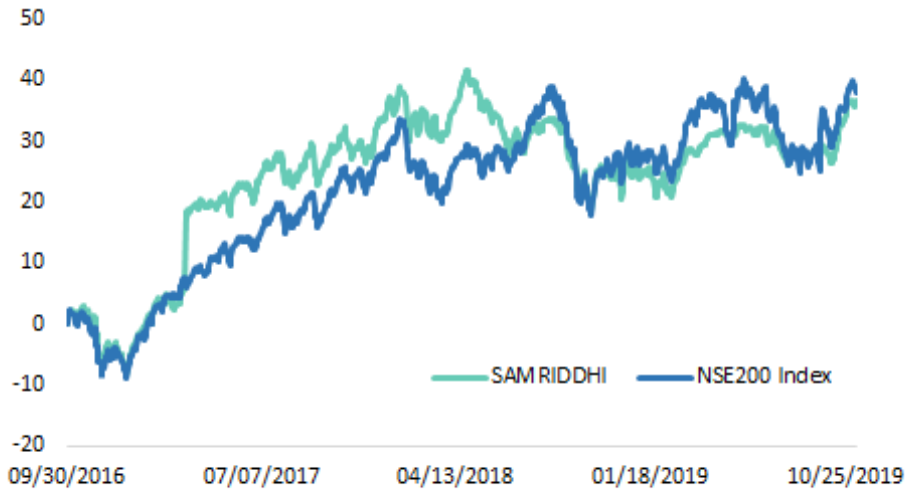
We invest in equities of Stocks that pass our parameters on Growth, Profitability, Risk & Leverage across sectors.

INVESTMENT IDEOLOGY

Award VALUE stocks
Pick ACROSS
Large & Mid-Market
Capitalisations

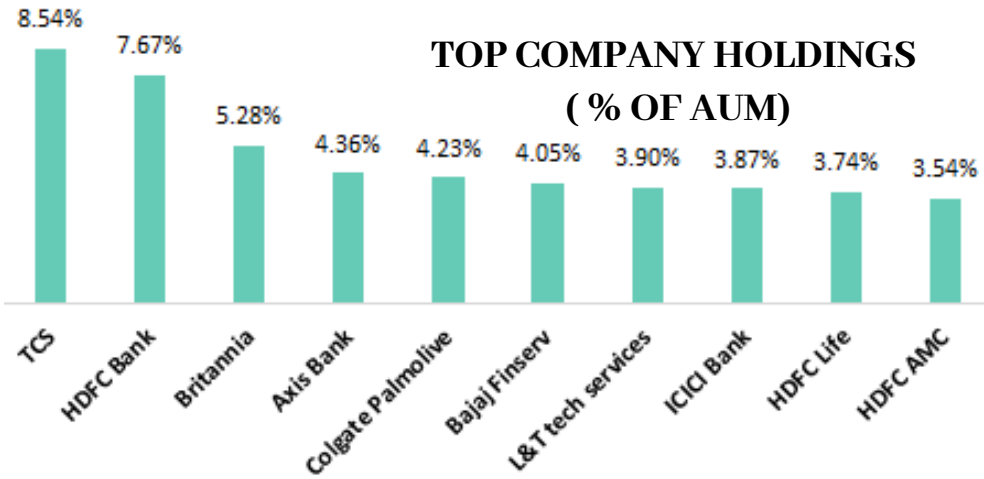
PORTFOLIO CHARACTERSTICS

Portfolio P/E	27.24x
Portfolio P/B	5.6x
Dividend Yield (%)	1.4%
NAV as on 24/11/19	₹655
Total Stock Positions	34
Benchmark Index	NSE20
Index P/E	28.6x
Index P/B	3.5x



PORTFOLIO RETURN SUMMARY

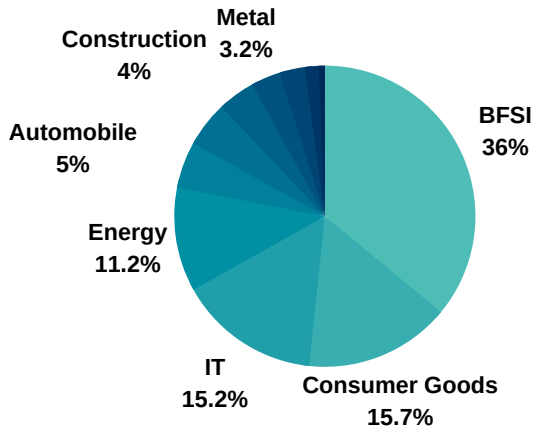
Returns 6M
Returns YTD
Total Return
Annualised SD



RISK RETURN CHARACTERSTICS

Sharpe Ratio	0.46
95% MonteCarlo VaR	₹7,511
Portfolio Beta	0.36
Treynor's ratio	0.10
Jensen's Alpha	0.20
Annualised down risk	5.03%
Tracking error	11.24%
Capture Ratio	0.48

TOP SECTOR HOLDINGS



FINOMENON JOURNEY

ILLUMINAR

FIN FIESTA

THE FINANCE MOGUL

DECODING FINANCE

B'TALKS

SAMRIDDHI DAY

BEAN COUNTERS

SUMMERTHAN

FINSHODHAN

MOOLYANKAN

WEBSITE

WINTERTHAN

SEMINARS AND WORKSHOPS

FINOMENON JOURNEY

ILLUMINAR

Illuminar is an Annual Business Conclave of NMIMS, Mumbai which is hosted by Finomenon, Finance cell of NMIMS, Mumbai. It gives the budding business leaders a glimpse into the dynamism across the global economy and empowers them to feel the pulse of the energetic atmosphere.

FIN FIESTA

Finance Week is a week-long saga of competitions and fun events . This year we had exciting games like Bamboozled , Fin-Twister, Smart Dart and Tarp Toss. We had registrations from top B-Schools and the event was a huge success. It was a melting pot of excitement, enthusiasm, victory and smiles.

THE FINANCE MOGUL

TFM is an Inter B-school Finance case study competition where last year, the case was based on Mergers and Acquisitions. There were 3 rounds in the event, the first round was an online trading and quiz round, the second round was a case study submission and the third was the final presentation.

The central theme for the year was, **"Fin-morphosis- Catalysing change"**, which focused on the disruptive growth that our country has been witnessing. We witnessed eminent speakers like Mr Anish Dalmia, MD & CEO, IDFC Securities Limited; Mr. Ajay Bohora, Co-founder and MD & CEO, HDFC Credila, Mr. Arun Thukral, MD& CEO, Axis Securities Limited; Mr. N Shridhar, MD & CEO, Chief Investment & Strategy Officer, CEO – Infrastructure, Hiranandani Group; Mr. Nilesh Shah, MD, Kotak Mahindra Asset Management Co. Ltd.; Mr. Shobhit Agarwal, MD & CEO, Anarock Capital Advisors; Mr. Ajay Srinivasan, CEO, Aditya Birla Capital Ltd. Amongst these, 4 of the speakers were a part of the Panel discussion which was moderated by Dr. Paritosh Basu.

The Annual Business conclave called Illuminar, a week-long Inter B-school competition called The Finance Mogul and two days of fun filled gaming events called Fin-Fiesta were all part of the Finance week.

FINOMENON JOURNEY

DECODING FINANCE

A two-day workshop was conducted by Mr. Peeyush Chitlangia, Founder of Finshiksha where he talked about 'Careers in Finance'. It was a very interactive session where he talked about the different roles in the Finance Sector. It was an initiative to guide the students of 1st year to choose their specialization and address the fear of Finance among them so it helped the 1st year students to address their anxieties and debunk the myths.

B'TALKS

B'Talks (Business Talks) is an initiative exclusively for Finomenon juniors to help prepare for the Summer placements. Finomenon juniors were allocated companies from Nifty 100 and were asked to analyze and present the MD&A report. It comprised of Macroeconomic impacts, company strategies, financial comparison and enterprise opportunities and risk which gave the students a holistic idea across multiple sectors.


"The winner's edge is not in a gifted birth, a high IQ, or in talent. The winner's edge is all in the attitude, not aptitude. Attitude is the criterion for success."

Greetings from Team Finomenon!

As we all know that all good things come to an end, with that we conclude B'talks 2019.

It was a tough fight involving immense diligence and out of the box thinking, with the contestants battling for every inch of the ground. But yes, the victory was worth all the pains taken.

We present before you the winners of B'Talks, 2019

Winners : Rajat Garg and Rhea Jamuar
First Runners - up: Rajas Chavan and Anshul Marwah

SAMRIDDHI DAY

Samriddhi Day was celebrated on 31st July and was divided in two parts. The first part was educating the participants about the financial market basics, the various financial instruments used in the market, their performance and the basics of portfolio management. In the second part of the event, the participants played a stock simulation game. In the simulation game, the participants were given virtual currency to manage their portfolios by achieving various targets.

FINOMENON JOURNEY

BEAN COUNTERS

As a part of an intra college fest, Parichay, the event was designed around the thought of icebreaking for the first year students. The event witnessed a huge turnout from the entire batch. Round 1 was an online quiz from where the top performing teams moved to Round 2 to play games including Finance Taboo, Are you an intelligent investor, and other games with a finance twist.

SUMMERTHAN

In an effort to prepare the first year students for summers, Finomenon shared Finance dossier and Summerthan articles with the students. Summerthan articles collated the recent world happenings with insights for easy understanding of various topics like Impact of trade war on Indian Exports and imports, Fate of Britain post Brexit, Bank mergers, IBC and other current topics.

FINSHODHAN

A competition restricted to Finomenon Juniors only, Finshodhan provided a great opportunity to learn from and witness a competition close to CFA-RC. It covered research on multiple companies and valuation techniques which were judged by Finomenon alums.

MOOLYANKAN

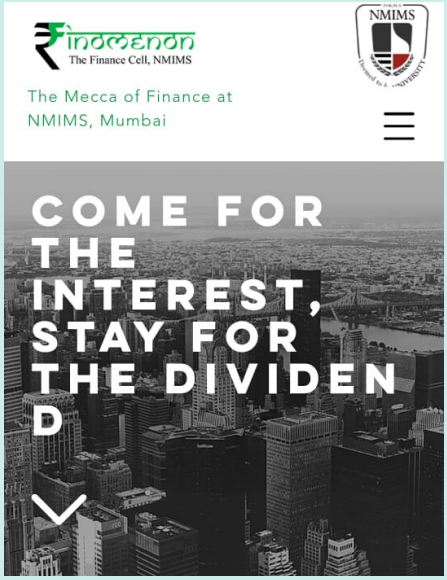
Moolyankan is the flagship pan-India equity research competition where one gets an opportunity to compete with other budding analysts from top B-schools from the country. Through this competition one stands to gain the knowledge as to how equity research is conducted, how stocks are valued, how industries operate during the good and the bad times, and more importantly to assess the future scope for the stock.

FINOMENON JOURNEY

WEBSITE

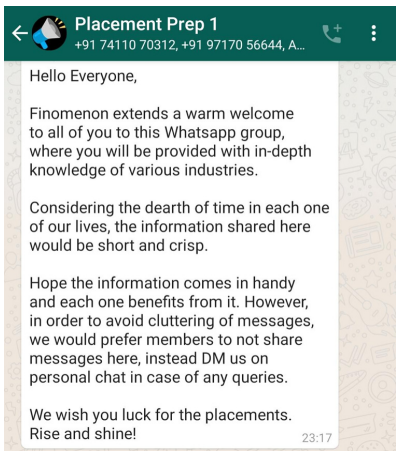
The biggest milestone that we achieved this year was of launching our website. We share the latest news, articles on current affairs and information related to our upcoming events. It is a one stop knowledge hub for all Finance enthusiasts.

A link to our website https://www.finomenonnmims.com/



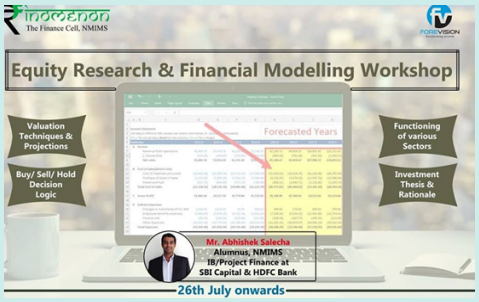
WINTERTHAN

Winterthan is an effort to help the second year students prepare for their final placements. As a part of Winterthan, Finomenon collates articles of the recent world happenings with insights for easy understanding of various topics. This year we extended this to accommodate these articles on our website and on our instagram page, where it is called FinSights. We also had a dedicated WhatsApp group which was used to give the latest updates on sector trends and industry news to the 2nd year students during their placements.



SEMINARS AND WORKSHOPS

Seminars and Workshops:We conducted various workshops on Stock markets and Equity research to give the students a hands on experience. We even conducted certain webinars like Finshiksha webinar on 'Demystifying Financial Statement Linkages' that simplified the need of financial statements and their analysis. An eduCBA career guidance webinar was conducted which was followed by CFAT exam which is a test conducted across various B-Schools. The winners get access to free online courses. Apart from these, we also had an Ethics workshop by the CFA institute.



AND MANY OTHER EVENTS

ALUMNI RECONNECT

Devanshi Sharma, President 2018-19

Devanshi is currently working as a Management Trainee in the Finance Department of Tata AIA Life Insurance Company Limited. She has completed her B.Com with specialization in Finance and Accounts from Mount Carmel College, Bangalore. Prior to joining MBA, she was working with Deloitte USI as an Audit Associate.

1. What comes to your mind when you go back to think about your MBA life and which moment did you cherish the most?

Talking about the most cherished moment of my MBA life, there are so many of them that it is practically hard to choose one of it. From stepping into this college thinking whether I would be able to create an identity of my own to being able to head the Finance cell by the end of the first year, I came a long way and in this journey I came across an amazing bunch of people and friends who supported me throughout and with them I share countless memories. Each moment spent at the campus with my friends is what I will cherish for my entire life.

2. How did you feel being the face of the finance field in the college as a part of Finomenon?

Finomenon is a committee that has been very close to my heart from the day I had joined it and I feel splendid to have had the opportunity to be the face of the committee and lead it. I am very thankful to my seniors who chose me for the position of President. Being the face of Finomenon, I felt more accountable for all the things that we did as a committee whilst being able to realize my hidden talents and skills. I realized a huge responsibility lies on the shoulders of the person leading the team as it is he/she who is responsible for the effective functioning of the entire team.

3. How did you manage time among academics, committee work and competitions?

First year of college was quite hectic as I was new to juggling with so many tasks, however in the process one learns to adapt and so did I. I believe a systematic allocation of time to each task and proper discipline isthe key to success.

4. If you could have done something different in your MBA life what would it be?

If I could have done something different in my mba life, I would go back and participate in more case study competitions than I actually did. These competitions really help develop one's personality and provide them with the right amount of knowledge and exposure on how to handle a real business problem.

5. How did your summer internship prepare you for your corporate life?

I was a summer intern in the treasury department of Indiabulls Housing Finance Limited. My 2 months of summer internship gave me insights on how to deal with research projects, how to interact and network with people and how to handle challenging work situations. Overall it made me realize that in the corporate world, team dynamics play a very important role in effective functioning of a project or the organization at large.

6. What are your expectations from Finomenon going forward?

Finomenon as a committee has grown each year and has achieved even greater heights this year with the kind of new initiatives that all of the committee members have brought in. I am extremely proud of all the members (both senior and junior committee). It is extremely important that Finomenon maintains the name that it has created for itself and for this to happen, there is a need to constantly evolve and bring in new ideas and work together as a team. The only thing that I expect is that the committee shouldn't stop innovating or bringing new ideas. Don't be extremely content and relax with what you have achieved so far, introspect what went right and what went wrong, make corrections and keep moving forward with a positive spirit. This attitude will help Finomenon reach even greater heights in the coming years.

7. Your view on the current financial scenario.

The current financial scenario does not look very good. If we consider sectors like auto, real estate and manufacturing, they haven't been performing at par with the expectations. The GDP growth has also slowed down tremendously and unemployment has risen.
However, having said that the government has made efforts and has announced some reforms in the past few months in order to bring stability in the financial sector. We will have to wait and see as to how these reforms benefit the industry.

8. How often do you rely on subjects other than Finance that you learnt during your MBA in your corporate life?

It actually depends on the kind of projects/tasks that one is doing in office. I have used my learning and knowledge of subjects like marketing management, negotiation skills, strategic management in the last few months since I joined the corporate world. So it is purely work specific.

9. Any particular incident of your MBA life that you want to share with your juniors?

There is no such specific moment that I would like to highlight but yeah as I mentioned before, my MBA journey has been full of countless memories that it is a bit difficult to choose one from so many.

10. Who was your favourite professor and why?

All the professors that taught me are quite learned and have great experience in their field. However, if I have to choose one professor who was my favourite, it has to be Chandan Das Gupta Sir. He made even the tougher topics sound easy through his teaching techniques. I had both his subjects in the second year - Commercial Bank Management and Wholesale and Retail Financing. These subjects were quite interesting and moreover Sir's teaching style made learning more fun and easy.

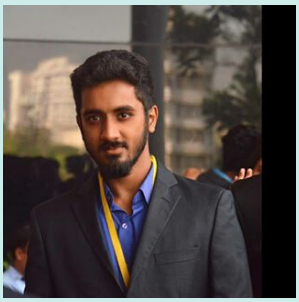
THE EDITORIAL TEAM

Rajat Garg

Aditya Agarwal

Smriti Agarwal

Srishti Gupta



Abhishek Vamsi

Abhishek Rathod

THE SENIOR COMMITTEE