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COVER STORY

BRICS & MORE IN DAVOS

IN BRIEF

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November IIP

-0.1%

HSBC Services PMI

55.6

(as for Dec 2012)

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PART ONE

KNOW YOUR BASICS: UPSIDE & DOWNSIDE

Upside is the potential percentage amount by which the market or a stock could rise. This is basically an educated guess on how high a stock could go in the near future. The upside can be derived through either technical analysis or fundamental analysis techniques. The estimate is used to get an idea of the attractiveness of an investment. The greater the percentage rise, the bigger the upside for the investment.

Downside is a negative movement in the price of a security, sector or market. Downside can also refer to economic conditions and it describes periods when an economy has either stopped growing or is shrinking. Movement to the downside is often expressed in terms of risk which is evaluated by fundamental and technical factors.

ECONOMIC INDICATORS

Index of Industrial Production: -0.1% as for November 2012 ET

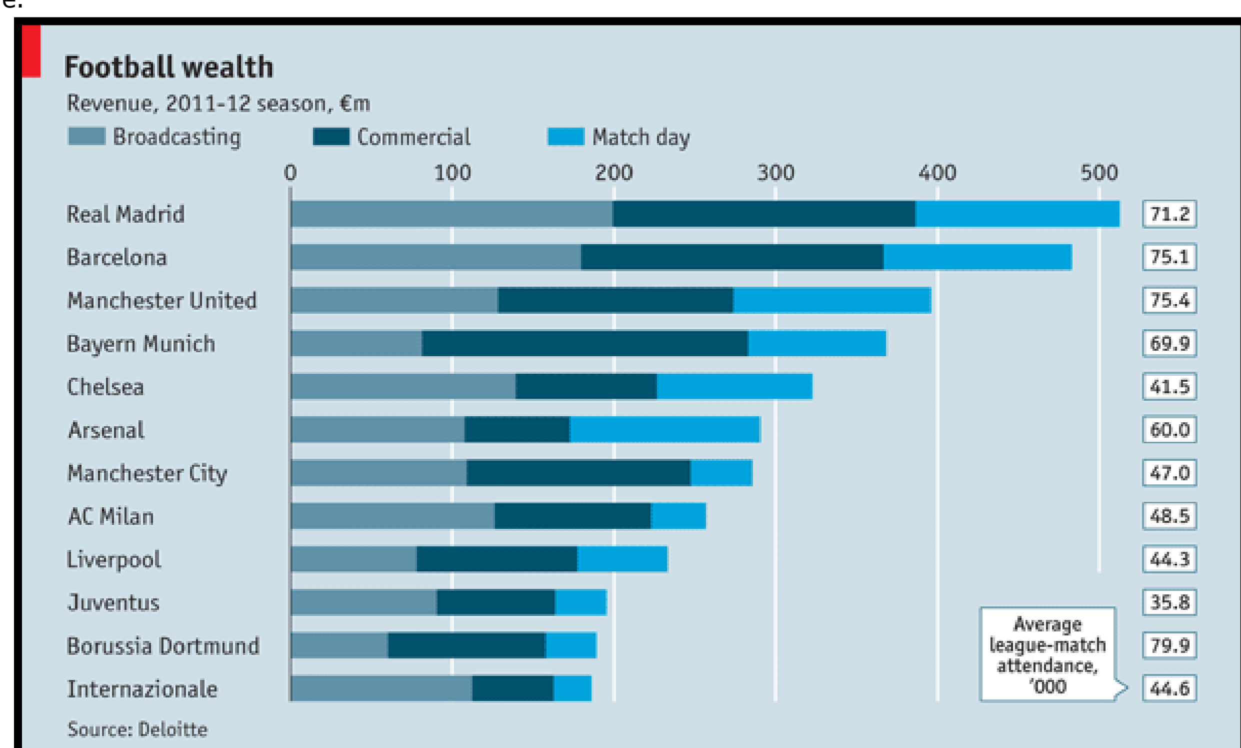
Industrial production in India fell by 0.1% in November 2012, according to data released by the Central Statistics Office. The dismal performance has reinforced views that October's strong growth of 8.3% was fuelled by the festival season and has increased the possibility of a rate cut by the RBI to boost an economy set to witness its lowest growth in a decade.

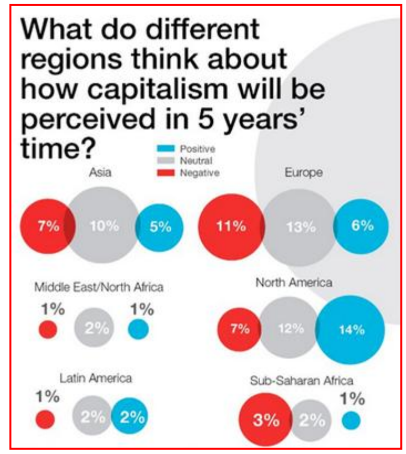
HSBC Services PMI: 55.6 (gain of 4.5 points) as for December 2012 Ibtimes.com

India's service activity expanded in December at the fastest pace in the last three months, according to the latest figures released by HSBC Services Purchasing Managers' Index (PMI). The Services PMI, which is a measure of the nationwide service activity, was up at 55.6 in December from 52.1 in November, indicating a sharp expansion.

CHARTS & GRAPHS – Deloitte's European Football Money League THE ECONOMIST

Spanish football club Real Madrid has topped Deloitte's European Football Money League for the season 2011- 2012. With revenues of €513m ($650 million), the La Liga giant topped the revenue charts among European clubs for the eighth consecutive year. With its revenues up 7% over the previous year, Real has now matched Manchester United's reign between 1996-97 and 2003-04. The top six places remained unchanged with Barcelona at second place, followed by Manchester United, German club Bayern Munich, Chelsea and Arsenal. Manchester City sprung the lone surprise by storming in the top ten at seventh place, with a 51% rise in revenue helped by its triumph in the English Premier League and a brief appearance in the UEFA Champions league. While the Spanish clubs have a firm grip on the top two spots, half of the top ten are English clubs. Income through broadcasting rights was the largest source of overall revenue.





It is not always easy to arrive at any strong consensus in a meeting where a large number of business leaders, investors, bankers, ministers and economic experts gather to discuss global issues. However, as far as conception about the global economy is concerned, people at the World Economic Forum Annual meeting in Davos seemed less pessimistic than they were in 2012, when talks about a possible Euro collapse were gaining momentum. The Fiscal Cliff has also been averted. Yet, many CEOs were cautious to speak too openly about the positive sentiment.

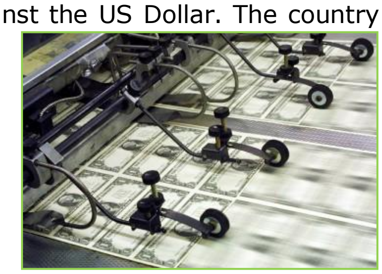
BRICS have always been a key attraction for investors at Davos. A lot has been said about the role of BRICS economies over the years, though only this time the talks seemed to have a definite purpose. There is a widespread concern about the future of state owned firms in China and the "closed" nature of Chinese economy. Many in China now believe that though the concerns are not entirely without merit, there are various misconceptions as well. One of the presentations made at Davos by a senior academician pointed out that in the World's top 30 technology firms list, there are several firms from China & the US (and also that there are none from Europe & UK). Entrepreneurship is the new face of Chinese economy where 90 per cent of the job opportunities now come from the private sector. Perhaps, there is a need for Europe to have a fresh look at its policy towards the East.

In a televised discussion which included representatives from BRICS, the Chinese counterpart admitted that there are severe demographic challenges ahead of China. The aspirational society in China, which has become much more informed and empowered over the years, may raise demands for democratic and transparent governance in future. However, one must also recall that the tremendous speed at which China has developed infrastructure and resources, has been possible only due to an absence of Democracy. The fact that the decision making is slow in democracies is amply supported by world's largest democracy India. A recent case has been the long delay over the decisions related with FDI. At the same time, both India & China have a common challenge of dealing with corruption.

Russia on the other hand seems to be an odd member of this group. For starters, it rejoices whenever there is a hike in oil prices. Secondly, where China and India have huge and ever growing human resources to experiment with, Russia has to deal with the issue of shrinking population. Moreover, the country has one of the lowest levels of public debt for any major economy. Still the investors are wary of Russia as starting a business there is a tough nut to crack. Some of the representatives still made an effort to attract investors at Davos by distributing pamphlets about the business opportunities in Russia. The country however seemed much more concerned about its G20 presidency. Meanwhile, Indonesia (claimed as the next "I" in BRICS), which will be hosting the next WTO meet in December, was also active at Davos. It wants to revive the long stalled Doha round of talks. The Doha round of talks which initiated in 2001, aim to lower the global trade barriers and may inject a trillion dollars into the global economy.

Much was expected out of David Cameron's "we exit the Euro" speech, which never came. On a different note, Cameron called for a larger action against tax avoidance. Earlier, France, Germany & even the US had made their apprehensions over the issue (UK turning its back to Euro) quite clear. The British PM however, still maintains that he will place a referendum on EU membership after 2015, if he wins the election. Cameron emphasized that with time, the 27-block Euro needs to change. ***"Europe is being out-competed, out-invested and out-innovated"*** he added.

Davos also provided an opportunity for Japan to gain support from the international community over its fiscal and monetary policies. It is feared that the nation might start a "currency war". Since September, the nation has artificially devaluated the Japanese Yen by 13 per cent against the US Dollar. The country aims to buy bonds and lower inflation to two per cent by the year end. This will further weaken the Yen prompting other nations to follow suit. Currency Wars are fought by nations who weaken their currencies to make their exports expensive and imports cheaper (which are the other way round when the currencies are stronger). The Japanese Economy Minister has claimed that there was no criticism against Japan's policies at Davos.



However, a similar activity affecting the value of currencies has also received attention from Davos participants. The universal money printing campaigns undertaken by the central banks to stimulate the economy have worried some investors. China - the biggest purchaser of the US treasury bonds - is perhaps the most worried. French Finance Minister Pierre Moscovici echoed same concerns saying that Quantitative Easing and similar actions by other Central banks have inflated the Euro in recent times. Such steps may lead to a surge in inflation.

What does all this means for India?

At the event, India had a first-hand assessment of the reforms it initiated last year. Commerce and Industry Minister Anand Sharma expressed satisfaction over the response he received from the global community at Davos. Nonetheless, gauging tangibles, probably would be a bit premature as the meetings at Davos are never intended for any decision making.

"I have all the ingredients I need to take this company to a great future."

"This is most retrograde. Our policy-makers should realize we don't live in isolation. We need FDI, foreign technology & capital."

Thorsten Heins – President and CEO, Research In Motion (IT & Telecom)

Thorsten Heins took over the reins of RIM in January 2012, when the company was rocked by operational blunders & falling share prices. RIM was once Canada's most valuable company – worth more than $70 billion, but is now a giant – with a market capitalization of mere $9 billion, struggling to survive in the highly competitive smartphone market. As the CEO, Heins has a pile of challenges to deal with: disgruntled shareholders, unhappy customers – who are switching to better offerings by Apple, Samsung and not to mention Google's Android, delayed product launches & falling revenues. The shy German has inherited an enormous responsibility; that of turning the company away from an early grave - where it is currently heading and back to its erstwhile glory. This would put to the test his long praised technical & organizational leadership skills.

Like any other RIM employee, except Mike Lazaridis & Jim Balsilliem, Heins is a lesser known personality who has been working with RIM since 2007 – holding important management positions. He shot to fame with his seven minutes introductory video as the new CEO of RIM, wherein he discussed the strategies to revive the company's sinking fortunes.

Heins earned his Master's degree in Science & Physics from the University of Hanover. He later joined the German technical giant and phone-maker Siemens AG. In his tenure of 23 years, Heins rose in the company, starting from the customer service department and finally leaving the company as the Chief Technology Officer. Unlike most other leaders, he does not hold a fancy management degree from any Ivy League School, but he has still held various key positions in two large technology enterprises. His exemplary technical skills and prescient knack for future technologies helped him rise through the hierarchy early and lead various departments like sales, product development & management. He has the ability to take tough decisions and is willing to sacrifice short term gains for long term success. After joining RIM in 2007, he soon became the senior VP for the handheld business unit. As the Chief Operating Officer, he has played a key role in creating RIM's product portfolio, including the most famous Blackberry smartphones & Blackberry OS. He is a big fan of "process discipline" & ensures that it is followed throughout the organization. He is also a Board member of the Canadian German Chamber of Industry & Commerce. Heins enjoys riding bikes – he prefers BMW bikes, skiing & hiking. He received an annual compensation of $1.92 million in 2011. Heins believes that RIM does not need any drastic change, and that the constant evolution with the introduction of innovative products – like Blackberry OS 10, will help the company regain its position in the long term. He is also focusing on a customer and market-based product approach, along with flawless execution and delivery.

Deepak Parekh – Chairman of Housing Development Finance Corporation (HDFC) (Banking & Finance)

The chairman of India's leading housing finance company is a "Pioneer in Mortgage Finance"; who has enabled the Indian middle class to own their houses or apartments through affordable loans. Besides being the Chairman, he is also the unofficial crisis consultant of the Indian Government. With his hard work and intelligence he developed HDFC into the huge financial multinational firm that it is today.

He pursued his Bachelor of Commerce degree from the Sydenham College of Bombay University & acquired a Chartered Accountant degree from England & Wales. He began his career with Ernst & Young in New York. He joined HDFC, founded by his uncle HT Parekh, in 1978, and got promoted to MD in 1985 & Chairman in 1993. He was instrumental in turning the fledgling company into a financial services conglomerate with assets of $65 billion and a one third share of India's mortgage market.

The man fulfilled the dream of middle class Indians to buy a house with affordable loans. Described as being honest, pragmatic & an open listener he is considered to be a CEO's dream board member. He is also considered a voice of reason among Industry heads & his counsel is considered invaluable. The government also accepts this fact and has shown its belief in the man by appointing him Chairman of the high level expert committee formed to recommend measures for strengthening the Unit Scheme in 1964. RBI appointed him Chairman of the Advisory Group for Securities Market Regulation, which was tasked to compare the level of adherence to international standards in India with that in other countries.

He is the non-Executive Chairman of Infrastructure Development Finance Company Ltd (IDFC) & Glaxo India Ltd. He is on the Board of Castrol BP India; Hindustan Lever; Siemens Ltd among others. He received the "Padmabhushan" & was the youngest recipient of the "Economic Times Lifetime Achievement Award".

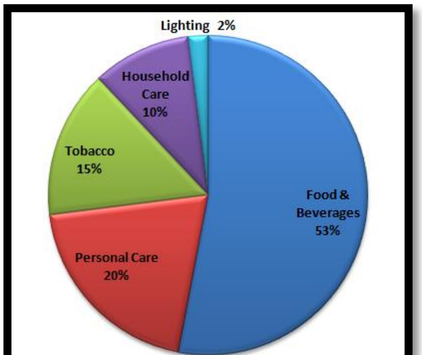
INDUSTRY ANALYSIS – INDIAN FOOD & BEVERAGES INDUSTRY

Overview: India is the world leader in milk production and is the second largest producer of vegetables & fruits. India has also emerged as a huge market for the food & beverage industry which is expanding rapidly and is estimated to touch $ 330 billion by 2013.

Product Chain	Leading Players
Fruits, Vegetable, Processed grain (includes biscuits, snacks, instant food)	Britannia, Dabur, MTR, Parle
Milk & Milk products	Amul, Gujarat co-operative society
Meat, Poultry & marine products	Venky's, Hind group, Allana
Confectionaries	Nestle, Cadbury
Non alcoholic beverages	Coco-Cola(aerated beverage), Pepsi(aerated & Juices-Tropicana), Dabur (Juice)
Alcoholic beverages	UB Group, Sab miller
Fast food retailers	KFC, Mc Donald, QSR

The Food & Beverage industry (F&B) is varied & has a huge product line which includes snacks, biscuits, processed food, convenience food, milk products, processed meat & beverages. It can be classified into three major subdivisions: **Farming** (involved in the collection & distribution of agricultural commodities such as rice, wheat and corn), **Processing** (involves the processing of raw food commodities into forms that can be easily distributed and sold to consumers) & **Distribution** (final stage of the F&B value chain and entails the distribution of finished or near-finished food products to consumers).

The F&B sector is becoming organized with the increasing presence of various international companies in diverse segments, for example, Coco-Cola in beverages, Dominos in fast food segment & Heinz in the spices segment whereas domestic players such as Dabur, ITC, Amul & HUL are also expanding their presence in foreign markets. Indian Food retail industry today stands at $ 70 bn & estimated to touch $ 150 bn by 2025. Studies on the impact of organized food retailing on the supply chain have shown that it helps in consolidation among farmers towards meeting consumer requirements, investments in infrastructure and a shift towards centralized distribution centers from the traditional wholesale markets.



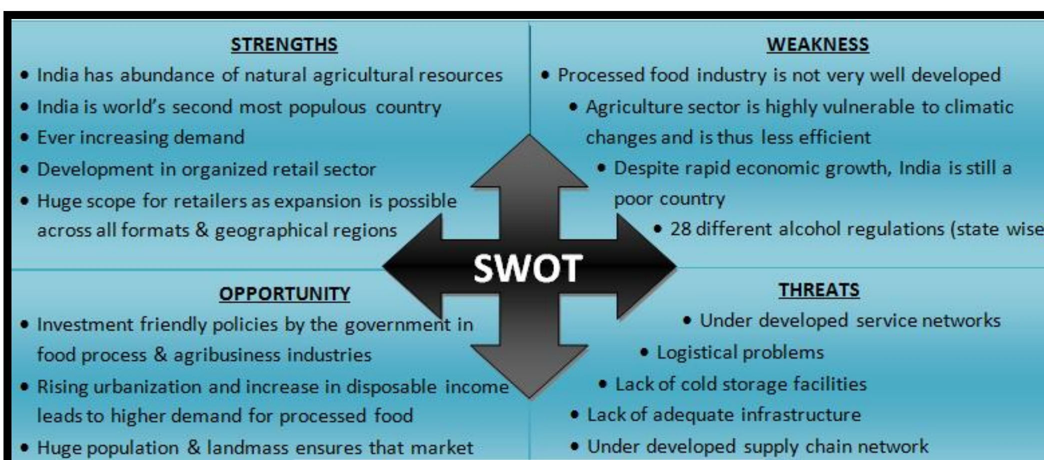
Market Segments of FMCG sector

Growth Drivers: The biggest growth driver for the domestic F&B industry is India's population; however, per capita income of Indians is still very low as compared to that of Malaysia, China & USA. Population is an important growth driver because of the emergence of a strong middle class with high disposable income, median age of twenty eight & most importantly, Indians have developed an experimental palate. Another important factor is the abundance of raw materials, cost competitiveness, favorable climate & India's geographical position (being near Middle East countries, India is the largest exporter of fruits & vegetables to them).

Current Scenario & Govt. policies: India is one of the leading producers of vegetables, fruits, milk, meat & sea food. It is an attractive market and has seen a downpour of investments by foreign multinationals. Aerated drink giant Coca-Cola will invest $ 2 billion in India in the next five years. According to analysts, Indian Food & Beverage industry will grow at 20% annually in the next five years. The industry has also witnessed a surge of investments by private equity players in the restaurant business. International brands with strong supply chain back up are increasing the number of outlets in the country. To promote private sector activity and invite foreign investments in the sector the Government has allowed 100% FDI in food processing & cold chain infrastructure.

Benefits of organized food retailing: Retail format in F&B industry is catching up with the rising number of families (rising middle class) switching from local kirana stores to supermarkets for their grocery shopping. Retail format is expected to grow at a CAGR of 30% in the next five years. It reduces the number of intermediaries and transaction costs. It also aids better understanding of consumer preferences as it is a vital link between the processors and consumers. Among the key categories that constitute the organized retail market, the food and beverages segment makes up a high 29%. Though current sales of processed foods through retail outlets are hardly 1% of total food sales, it is estimated to grow at an annual rate of 40% in the near future. Indian companies who have already ventured into this segment include ITC, Bharti, Reliance, Aditya Birla Group and Future Group.

Future Outlook: Demand drivers such as urbanization, increase in the number of nuclear families, higher disposable income, favourable government policies, abundance of raw materials and increasing penetration of organized retail will fuel industry growth. The future of the F&B industry looks good given rapid growth in the overall FMCG sector.



Indian Food & Beverage Industry

NEWS ANALYSIS

1) Hero MotoCorp commences operations in 3 Latin American countries – ET

IMPACT Two-wheeler giant Hero MotoCorp has started its operations in three different Latin American countries with an ambitious target of garnering around 10% of its total volumes from international markets within five years. According to a source in the industry with knowledge of the developments, the company has already dispatched the first consignment of two wheelers to El Salvador, Honduras and Guatemala just a few weeks back. The company has plans to eventually expand its international footprint to 30 countries across Africa, Central America, Latin America and South-East Asia in the next five years. The source also revealed that Hero has already finalised the distributor and channel partners for its new markets in Latin America and Africa, with the African operations set to commence any time now. "In just a matter of weeks, the company will announce the launch of Brand Hero in these new markets in Latin America and Africa. Hero is also actively exploring the possibility of setting up assembly units in some of these markets once the volumes picks up," the source added.

KEY PLAYERS: Hero MotoCorp, Latin America, Africa

WHY IT IS IMPORTANT The start of Hero MotoCorp's operations in Latin America mark the beginning of its long desired global foray, after its separation from erstwhile partner Honda. The company is facing strong domestic competition from rivals like Bajaj and Honda, who have broken Hero's stranglehold on bike segments. Developing new markets will balance the pressure on the domestic front.

2) Google report indicates online shopping fast increasing in India – Financial Express/Business Today

IMPACT Online Shopping in India grew by 128% in the year 2012 compared to 40% in 2011, according to a report released by Google India. The report identifies mobile phones as the major contributor to the surge in online shopping among Indian consumers, with Google receiving double the number of queries from mobile phones. Consumer Electronics was the most popular product category among online shoppers with 34% share of total orders, followed by Apparels and Accessories with 30% order share. "With approximately 8 million Indians shopping online in 2012, online shopping industry in India is growing rapidly and will continue to see exponential growth" said Rajan Anandan, VP and Managing Director, Google India. Consumers cited money back guarantee as the top benefit of online shopping, along with ability to pay on delivery, fast delivery, discounts and access to branded products. The report was compiled by Google with the help of online research conducted by Taylor Nelson Sofres (TNS) and combining consumer interests observed on Google search.

KEY PLAYERS: Google India, Taylor Nelson Sofres

WHY IT IS IMPORTANT The ecommerce industry in India is currently worth $10 billion and is expected to rise to $30 to $40 billion in the next three to four years. Experts in the field believe there is immense potential in the industry that is still lying untapped. There is a need for robust development of the e-commerce industry and expanding its ability to all parts of the country.

3) Air India puts Dreamliner planes for sale, leaseback – Business Today

IMPACT Air India has put all six of its newly acquired Boeing 787 Dreamliner planes for sale and leaseback, inviting bids from prospective lessors by the first week of February, even as all 787s remain grounded across the world on safety fears. The national airline's plan for sale and leaseback of its latest acquisitions has already been approved by the government as part of plans to turn around and financially restructure the carrier. Sale-leaseback is an arrangement in which an owner sells an asset to a leasing firm and immediately takes it on lease from the firm on a long-term basis to keep using the asset and retain its possession. The arrangement frees up capital that is tied up in the asset for the seller and assures a guaranteed lease for the buyer. The airline can also claim tax deduction as the asset is no longer owned, but leased. Air India has invited quotations from lessors on a Request for Proposal (RFP) document which states the company "would sell the aircraft to the lessor and immediately leaseback them under an operating lease for a period of 12 years, with an option to extend."

KEY PLAYERS: Air India, Boeing 787 Dreamliner

WHY IT IS IMPORTANT The step taken by Air India is of significance for an overhaul of the beleaguered company and returning it to financial viability and stability. However, the timing is not exactly conducive given that the 787 Dreamliners are under investigation for safety concerns and the response from potential buyers may be hampered by the prevailing sentiment.

4) Local bean helps Starbucks serve cheaper coffee – The Hindu Business Line

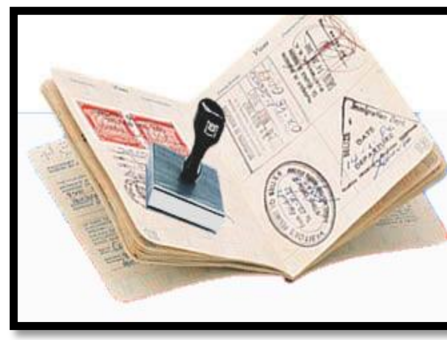
IMPACT Customers in India are paying far less for a Starbucks cuppa than those in any of the neighboring South-East Asian countries. The secret for the comparatively cheaper price lies in the company's local sourcing arrangement with Tata Coffee. "Starbucks prices in India are definitely lower than in Singapore and Malaysia. In fact, India is the only country where Starbucks is sourcing beans for its coffee chain. At the same time, the Starbucks experience in India can be compared to any of its outlets across the world," says Meera Harish, Vice President, Sales and Marketing at Tata Coffee. Unlike in India, Starbucks usually imports coffee in other countries where it operates. According to Mrs. Harish, Starbucks' decision to source coffee domestically was not just due to its joint venture with Tata Global Beverages (Tata Coffee's parent company). "Starbucks was impressed by the quality of our coffee and Tata Coffee having Asia's largest plantation. That is why Starbucks decided to source its coffee from us and also export it out of India," explained Mrs. Harish.

KEY PLAYERS: Starbucks, Tata Coffee, Tata Global Beverages

WHY IT IS IMPORTANT US based Starbucks, which operates a global chain of coffee shops, has entered India with the help of a partnership with Tata Global Beverages. Tata Coffee, which is a part of Tata Global Beverages, is India's third largest exporter of instant coffee. However, even as Tata Global Beverages operates as a B2C player catering to retail trade, Tata Coffee has continued as a B2B player supplying to private labels across the globe.

5) Legislation introduced in US for doubling H-1B visa, make Green Card easier – Business Standard

IMPACT Legislation has been introduced in the US Senate by a bipartisan group of senators, seeking to double the H-1 B Visa cap and establishment of a market based escalator. The Immigration Innovation (I2) Act of 2013, introduced by Senators Marco Rubio, Orrin Hatch and Amy Klobuchar, proposes to increase the cap on number of H1-B visas from 65,000 to 115,000 and establishing a market based H1-B escalator to adjust the cap according to the demands of the economy. The bill proposes a maximum ceiling of 3,00,000 on the ability of the escalator to move. The legislation seeks to focus on areas which are vital to keep the competitiveness of the US in the global economy intact. The legislation proposes better access to Green Cards for high-skilled workers by expanding the exemptions and eliminating the limits imposed on individual countries for employment based Green Cards. The legislation also proposes reforms in the fees charged for H1-B visas and Green Cards to promote retraining and education of American workers. Included in the bill is a proposal to increase portability of highly skilled foreign workers, by removing impediments and costs associated with changing employers.



KEY PLAYERS: H1-B Visa, Green Card, US Senate

WHY IT IS IMPORTANT The US economy is built on talented individuals who have immigrated to the country and scaled the heights of success in various fields. The increase in visa cap will allow more talent into the sagging economy, which the government is desperate to revive. The increase in the number of H1-B visas is also good for Indian IT companies, who usually acquire them on a big scale for their professionals to be eligible to work in the US.

6) Yahoo sees revenue rise for the first time in four years – New York Times

IMPACT Yahoo Inc reported surprisingly good quarterly results on Monday, showing an increase in revenue for the first time in four years, beating Wall Street expectations by 30%. The company said revenue increased to $1.35 billion, up 1.6 per cent, pushing its stock to a four year high in after-hours trading. Yahoo's revenue from search based ads rose to $482 million, an increase of 4% compared to the same period a year earlier. However, the improvement to its search business was negated by still continuing decline in the company's revenue from display ads. Yahoo made $591 million from display ad sales in the last quarter, a 3% decline compared to the $612 million in the same quarter a year earlier. Chief Executive Marissa Mayer attributed the growth to a renewed focus on "people and products" in a call with analysts on the eve of the results.

KEY PLAYERS: Yahoo Inc., Marissa Mayer

WHY IT IS IMPORTANT Yahoo, once a pioneer in the internet industry, has consistently lost market share in search and display ads to Google. The company has acknowledged that its future may well depend on its mobile strategy, a sector dominated by rival Google's Android system and its advertising prowess. Yahoo has recently initiated many changes to make its products more appealing and bring in more audience. However, bringing the company back to life remains one the most challenging jobs in Silicon Valley right now.

7) ING Group exits its insurance business in India – Reuters/DNA/BS

IMPACT: Dutch BFSI Corporation, ING group, has recently announced that it will exit the insurance business in India. It will sell of its 26% stake in the joint venture ING Vysya Life Insurance to Exide industries. The domestic battery maker – Exide, owns 50% share in the JV and plans to acquire 100% stake from ING and other investors thus gaining complete ownership of the company. ING group is currently divesting its insurance business in Asia. This move is a part of the group's overall strategy. However, ING will maintain its shareholding in Bengaluru based ING Vysya Bank and does not plan to shut its banking business. For Exide industries, this is a big leap of faith, as it shall acquire a company, whose business is very different from Exide's core business. The company is set to pay ₨550 crores in total for 50% stake and plans to look for a new international partner. Exide does not have the financial or strategic support for the newly acquired insurance business. Therefore, it has to look for a partner as early as possible or it could end up drying its funding pool, as it does not have the core competencies to run the insurance business.

KEY PLAYERS: ING Group, Exide Industries

WHY IT IS IMPORTANT: The Indian insurance industry is going through a rough phase with stagnant growth and economic uncertainty. It was a promising land for foreign insurance giants post economic liberalization in 1991. However, after a decade it is now on the verge of becoming a barren land – marred by slow economic growth and regulatory hurdles. Global insurance companies, which flocked the industry a decade ago, are now exiting their business. American and European companies like ING and New York Life, are making a quick exit whereas Japanese and Korean insurance companies are looking at entry points.

8) Aircel unifies call rates across the nation, eliminates roaming – The Hindu Business Line/TOI

IMPACT: Chennai headquartered Aircel is the first telecom operator in the country that has adopted the "One nation, one rate" policy that DoT (Department of Telecom) is in the process of implementing. It has squashed roaming charges across the country. Currently, all telecom operators fix mobile tariffs for both national and local calls. The roaming call charges on an average are ₨1.50 per min (outgoing) & ₨1 per min (incoming). National SMS charges are ₨1.50 per message. According to new tariff plans of Aircel: (No subscription to any other offers)

- Call rates for STD are same as rates for normal calls. Incoming calls in roaming are free.
- Local and national SMS will cost ₨1 per message
- Subscribers will also be able to carry the home circle rate while on roaming for both 2G and 3G-based data services (valid on certain offers)

Anupam Vasudev, CMO, Aircel, said the company expects to grow volumes which would compensate for any loss in revenue. "This is also our acquisition strategy to get more high-value subscribers," he said.

KEY PLAYERS: Aircel, DoT, TRAI

WHY IT IS IMPORTANT: The National Telecom Policy - 2012 was approved by the government last year. It aimed at waiving off the roaming charges and implementing mobile number portability across the nation. It was designed in order to increase the penetration of telecom services (especially rural areas) to approx 70% by 2017 and 100% (nationwide) by 2020. Many telecom operators except Reliance communications had voiced their concern over the policy. These operators had even threatened to discontinue roaming services as "One nation, one rate" policy would eat up around 10% of their revenues.

9) Kim Jong Un led North Korea threatens US and South Korea of nuclear war – Hindustan Times/CNN

IMPACT: In a classic example of "An eye for an eye", North Korea has pledged revenge against the United States for their influence in the UN's decision to impose stricter sanctions against the communist nation for conducting nuclear tests. In December, North Korea had launched long range rockets for military purpose which the United Nations had condemned. UN imposed sanctions on Pyongyang earlier this month which has infuriated the country's communist leader Kim Jong Un. In his recent interviews, he has mentioned that North Korea will not stop its nuclear programme. It will continue to launch missiles for both satellite purpose and military purpose. He has also mentioned that they are carrying out this exercise as a part of the country's future action plan against the US. "Settling accounts with the US needs to be done with force, not with words, as it regards jungle law as the rule of its survival," he said.

KEY PLAYERS: North Korea, Kim Jong Un, US, UN

WHY IT IS IMPORTANT: The United States has condemned North Koreas plans and has termed Kim Jong Un's comments as "needlessly provocative". By continuing the missile launches North Korea will attract harsher sanctions from the UN which would further isolate Pyongyang from the rest of the world.

10) Japan logs record trade gap in 2012 as exports struggle – Reuters

IMPACT: Inspite of Prime Minister Shinzo Abe's recent efforts to boost the world's third-largest economy and bring it out of its fourth recession since 2000, Japanese exports have shown a declining trend for the seventh consecutive month and taken Japan's trade deficit to 6.93 trillion yen (approximately $80 billion)-a record shortage in the country's history. Some of the factors which contributed to the huge deficit include-a weak demand from debt-hit Europe, a territorial dispute with biggest trading partner China (which led to the boycott of Japanese goods by the Chinese), the March 2011 earthquake, tsunami and ensuing nuclear crisis (which led to the closure of many nuclear plants and import of traditional and expensive fossil fuel) and a 'weak-yen policy' which has increased the relative costs of imports of consumer goods in resource-scarce Japan.

KEY PLAYERS: Japan, Japan's trading partners

WHY IT IS IMPORTANT: Though the figures look sombre for the East-Asian giant (which traditionally has heavily depended on its export strength), analysts believe that the decline may have bottomed out. They believe that, "exports and the broader economy will pick up gradually along with the global recovery, helped by the yen's weakening due to the Bank of Japan's continued monetary easing and Abe's expansionary budget policy". One silver lining to this story is that Japan had a trade surplus in 2012 with the United States (with exports climbing 12%) and it is on the strength of this that the country hopes to turn its balance of trade (BoT) into surplus by March 2014.

11) EU, U.S. on verge of 'difficult' free-trade negotiations – Reuters

IMPACT: After being put off for more than a decade, talks and negotiations for a Free Trade Agreement (an agreement which eliminates tariffs, import quotas, and preferences on most (if not all) goods and services traded between the signatory countries) between USA and the European Union may be all set to commence soon with a positive and attainable result expected. If passed, the agreement could rival the North American Free Trade Agreement (NAFTA) in scale and further encourage growth between EU and USA (which are already each other's biggest overseas trading partners). Tariffs on goods traded between the two entities are already low (less than 3%) but experts believe that a FTA, resulting even into a small increase the volume of trade could lead to economic benefits. According to the European Commission, "A deal could increase Europe's economic output by 65 billion euros a year, equivalent to a 0.52 percent rise into the EU's gross domestic product, benefiting industries from chemicals to automakers".

KEY PLAYERS: EU, USA

WHY IT IS IMPORTANT: The deal is a major stepping stone for the 27-nation EU which is pulling out all stops to get its economy back on track and bring about growth. It has already wrapped up FTAs with around 30 countries including South Africa, South Korea and India and is on the verge of signing one with Canada. With this background, it hopes that the deal with USA will successfully follow through as it is estimated to add around 1.5 percentage points of growth to both the territories. As trade between EU and USA is more-or-less flowing smoothly, this agreement would focus more on harmonizing regulatory standards between the two; especially in the automobile and pharmaceutical industries which would lower the costs of trading for companies.

12) RBI cuts repo rate and CRR by 25bps in its 3rd quarter monetary policy review – BL/ET

IMPACT: Meeting the expectations of the market, RBI cut the repo rate by 25 bps to 7.75% and the cash reserve ratio to 4%. Taking note of the fact that wholesale inflation in the country had come down since October (it currently stands at 7.18%), RBI believes that its move to reduce key policy rates will "create the appropriate macroeconomic environment to revive investments in the economy and thereby begin reversing the free fall in growth witnessed so far". True to its desired objective, the CRR cut is expected to inject Rs 18,000 crore into the economy from February 9. Following the announcement, banks such as IDBI and Royal Bank of Scotland (RBS) cut their prime lending rates with other lenders like SBI, HDFC and ICICI also expected to pass on the rate cut to their customers. Giving another positive (though seen by some as unrealistic) sign, RBI has revised its March-end inflation forecast to 6.8% from the earlier 7.5%.

KEY PLAYERS: RBI, Indian banking industry, investors

WHY IT IS IMPORTANT: What makes this move significant is that it is the first time in nine months (since April 2012) that RBI has lowered the repo rates. However, while announcing its quarterly monetary policy review, the RBI has also made clear its intentions of reversing the rate cuts if inflation surges up again or the Government fails to adequately control its fiscal deficit. This news led to the stock markets closing in red-Sensex was down by 0.56% and Nifty by 0.41%. Given that retail inflation rose to 10.56% in December from 9.90% in the previous month, experts believe that the central bank may not make any changes in its next policy review which might curtail the recently-found growth momentum. Also, given that the "policy initiatives of the government are yet to show up fully or definitively in data", these cuts by the RBI may take more time than expected to translate into a resurgence of growth (which has remained below potential for the fifth successive quarter).

MISCELLANEOUS NEWS

13) World's most watched video "Gangnam Style" has earned YouTube $8mn - The Hindu Business Line/Forbes

IMPACT: "Gangnam Style" - the pop song by South Korean artist Psy has taken the world by storm. After its release in July last year, the song has earned YouTube around $8 million. As per YouTube's policy, the creators of the content get half of the revenues earned through their video. Analysis show, Psy has made around $7.9 million through Gangnam Style till date, which includes revenues from digital downloads, advertisement deals and on demand services.

Kevin Allocca, YouTube's trends manager, attributed Psy's success "to the universal appeal of catchy music — and, er, great equine dance moves". The song refers to the most affluent Gangnam District in Seoul. After its popularity, the signature moves were attempted by various artists and politicians, including Barack Obama and David Cameron, across the globe.

KEY PLAYERS: Google, YouTube, Gangnam Style

WHY IT IS IMPORTANT: Gangnam Style became a rage soon after its release in South Korea and was the most watched video on the internet by December. It currently has approximate 1.23 billion views. Previously, Justin Bieber's "Baby" was the most watched video. Google earns over 95% of its revenues from advertisements. The video sharing website – YouTube, earns money whenever a viewer clicks on any ad in the 'Google Ads' section placed on the right hand corner of the website. YouTube has also started running advertisements before or after playing a video.

14) Dassault Falcon focuses on growing Indian market – eturbonews.com

IMPACT Dassault Falcon, an arm of French aircraft manufacturer Dassault Aviation, has begun investing heavily in India to cater to its rising customer base in the Indian Subcontinent and to prepare for future growth. These efforts will be on display, along with the company's full line of large-cabin long-range business jets, at Aero India whch opens in the first week of February at the Yelahanka Air Force Station in Bengaluru. Dassault's reputation for advanced aircrafts has been built in the region largely due to the Indian Air Force, which operates around fifty Mirage 2000 fighter jets. In January last year, its position was reinforced when the Defence Ministry chose Dassault's Rafale fighter jet for a multi-billion dollar deal to equip itself with the latest Medium Multi-Role Aircraft. The Rafale was chosen after intense scrutiny by the Air Force, as it outclassed other contenders including the F-18 Hornets. However, this reputation is now increasingly being driven by advanced business aircraft like the Falcon 7X, 900LX and others. The company has recently opened a new liaison office in New Delhi to serve its expanding business.

KEY PLAYERS: Dassault Falcon, Indian Air Force

WHY IT IS IMPORTANT Dassault is the market leader in India for large cabin business jets, with approximately 20 aircraft currently in operation and several more expected to be delivered in the next two years. It considers the Indian market as increasingly becoming more conducive to growth and therefore wants to be in the best position to take benefit.

15) RIM launches BB Z10 – ToI/ Firstpost

IMPACT: Desperate to make a comeback and reclaim its fast-dwindling market share, Research In Motion launched a long awaited (but long delayed) line of smartphones to compete with Apple and Samsung. According to a statement released by the company, this device will have the ability to flick words while typing, in effect translating into an experience that allows writing without typing. While similar in look and feel to many of the existing top phones in the market (though considered by experts to be faster and more efficient than them), the main USP of Z10 is a new feature called 'Blackberry Balance' which enables users to switch between a personal mode and a business mode-each with its own set of applications and settings. However, companies need to pay for Blackberry's Enterprise Server software to use this feature in return for complete control of their employees' content in the business mode.

KEY PLAYERS: Research In Motion Ltd.

WHY IT IS IMPORTANT: RIM has entered the smartphone market very late and thus has to cater to a wide variety of end-users namely loyal corporate users (who might change sides to rival companies), users who have already moved over to other smartphone makers and lastly, users which have not yet begun using smartphones. Although RIM has launched the devices, their sales in major markets like USA will not start till March 2013 and this is a disappointing fact. Thus, it remains to be seen how much of its lost sheen (and market share) will the Canada-based company manage to gain back with the help these devices.

SIMPLE

We have discussed two banking or financial services specific firms innovating their way to success, in this section in the past. The features also talked about the banking challenges that are unique to their specific countries and the problems they are trying to address. Banking in every country has its own distinctive flavor that is influenced by the socio-economic and business realities of that particular nation. In India, inclusiveness and addressing multiple segments and a heterogeneous environment where service costs matter a lot and a central bank that is one of the strictest in the world, are some of the issues that have created the Indian Banking system which until recently was dominated by PSBs.

On the other hand, the US banking system has been dominated by private banking from the very outset. India is an emerging market and banking is far from reaching maturity any time soon. Most things that today are being taken for granted in Indian banking, have been around for decades in the US. Banking in the US represents a monolith; consolidated, rarely changing and immeasurably powerful. However, it would seem that there are some Davids appearing on the field to challenge this Goliath that is traditional US Banking Industry. More on that later.

To be a retail bank customer in the US is to be at the mercy of innumerable charges that can fast deplete your account! If you think your credit card charges are astronomical, try one in the US. Sounds like an exaggeration? Well, most banking customers in the US wouldn't think so. Just go through a few banking forums and the litany of complaints you get to see in relation to excess charges like charges on conducting more transactions than a set number, is enough to give a fair idea of the dissatisfaction a significant majority have with large banks in the US.

One firm intends to make retail banking a breeze, getting rid of most of those pesky charges that drive customers insane. **Simple (earlier known as Banksimple)** is a good example of true innovation in the relatively static world of retail banking. Simple was the byproduct of the frustrations of one Joshua Reich.

How it all began:

Josh had his account in Chase, one of the largest US banks. One day he found that while paying his bills his account was overdrawn because the bank had charged him twice and the credit card connected with that account was racking up interest like no one's business mainly due to the policies of the bank. Josh had a grand total of Zero dollars in his account thanks to this mess and repeated calls to customer service were to no avail. Thankfully he had some cash.

Josh's experience drove him to reach out to his VC friend Jerry Neumann suggesting the idea that they should look into the possibility of launching a retail bank. Josh then got together with his batch mate from Carnegie Mellon (where he pursued his MBA), Shamir Karkal to start an enterprise that would transform banking. Shamir at the time was working for McKinsey, specializing in strategy consulting for financial firms in EU, US and the Middle East.

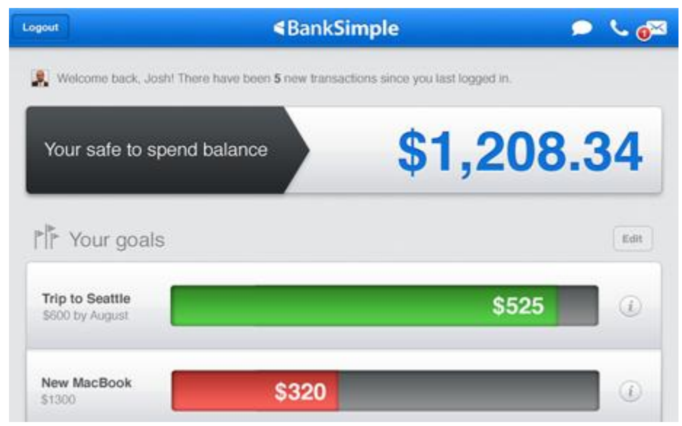
Joshua has an interesting background in mathematics and finance, the qualifications for which he earned in his native country Australia. He likes to play with data and lists tinkering with digital devices like cameras to enhance them, among his hobbies. This tinkering and understanding of what makes something tick led to Joshua understanding that there is hardly any difference in the types of banking products available to users from various banks. What actually matters and as a result is *the* differentiator is how these services are delivered to the customer. BankSimple or Simple as it is known now is the distilled idea that bases itself upon this very reasoning which emphasizes delivery. Simple was established in 2010, but launched its services only in 2012. Joshua's take on the traditional banking sector in the US can best be summed up by this "letter" that he put up on Simple's site. The letter's text has been sourced from businessinsider.com.

Dear Traditional Banks,
You suck and I want to break up.

I know, you never thought it would come to this, but it has for a couple reasons. ***First, we don't even talk anymore.*** *After you hooked up with a bunch of other banks in the 70s and 80s, it just hasn't been the same. You changed your look, repainted your branches, and didn't even do anything to change your underlying infrastructure, which hurt me, your customer, more. Everything got really complicated and your customer service started sliding as a result. One minute I'd be trying to work out my mortgage, and the next I'm being passed on to a credit card "expert" who doesn't know why he's taking my call.*
But with BankSimple's fluid online technology, perhaps I might be able to get what I need in one place. I could ping someone on Skype, send a quick email, or call and speak to a real live person—not a recording.
Second, I think we want different things. *I'm tired of being gouged at the ATM—just because I'm your customer and you're pissed about Dodd-Frank and the Durbin Amendment doesn't mean I should pay a $12 service fee to keep my checking account open or get dinged with overdraft charges just because you pulled a Macgyver and re-ordered my transactions all wocky (from highest to lowest amount spent, as opposed to the date they were made, according to SmartMoney).*
BankSimple features a "Safe to Spend Balance" that shows what I can actually spend, and because the bank partners with "back-end banks" as opposed to handling the cash itself, I can deal with my debit card, checking, and saving accounts all in one place and not ever pay fees.
Also thanks to the beauty of search and a sleek site that resembles a Tumblr page more than a clunky Web 1.0 castoff, for once maybe I can stop playing Columbo and figure out what is happening to my money.
Maybe the move will be better for both of us. You certainly don't seem to care whether I stay or go.

Sincerely,
Your ex-customer

What is Simple all about?



So what is Simple all about? Simple is an interface, in the form of a website, between banking and you that emphasizes your needs and concerns. When it was initially launched as BankSimple, the idea was to create a virtual bank that had no physical infrastructure. However, the founders soon realized that though their objective was to simplify banking, they did not intend to create a bank. Thus the name was changed to Simple. Simple is an invitation only web service that allows a person to conduct banking transactions online. Users get a Visa Debit card whose design itself is a breath of fresh air.

Simple does not maintain a balance sheet thus when users get notified of their transactions, it is shown in a manner that is useful to the user and not just the service provider. For example users can create fields under which they want transactions classified. So let us say, you create a field, "Eating out". Now whenever you pay via your card for dining out, the transactions get classified under that field allowing you to track expenses in a manner that makes sense to you. Simple also tells you your "safe to spend balance" which can help control spending especially when there are predefined bills and constant expenses. The other thing that differentiates Simple is that except for very few pre-defined heads, the service will not charge users for usage of the service. There is no minimum balance and transactions aren't charged unlike in the case of most traditional retail banking players. Simple simply focuses on user experience which gives customers an alternative to traditional banking in a manner that they find useful. Users simply make deposits online via their card or online transfer and withdraw using their Allpoint Debit card or use the card to conduct transactions. The Allpoint network gives users access to one of the largest ATM networks in the US and what's more, they do not get charged for using these network ATMs which might belong to different banks.

Simple also provides great customer service. There is no automated voice response when you dial their customer care number. You can directly interact with their representatives who connect with you via other mediums like social media as well.

To be continued next week…

FINANCE NEWS

1) RBI eases exporters' forex access norms – BS Jan 24

The Reserve Bank of India (RBI) has allowed exporters to access the foreign exchange market without having to first exhaust the funds in their foreign currency accounts. In May 2012, RBI had asked exporters to access the foreign exchange market only after utilising all the funds in exporter accounts. "In view of the operational difficulties faced by account holders and banks, as a measure of rationalisation, it has been decided to dispense with the stipulation," RBI said, referring to its previous circular. The move is expected to give smaller companies more flexibility in converting their dollar payments and receipts. Earlier, Exchange Earner's Foreign Currency (EEFC) account holders weren't allowed to access the forex market to purchase foreign exchange before fully utilising the available balances in EEFC accounts. This was aimed at curbing the rupee's fall. Some market participants saw this move as an indication of the central bank's comfort with currency levels.

2) US debt limit extension bill passes House – ET Jan 24

The US House of Representatives passed a Republican plan to allow the federal government to keep borrowing money through mid-May, clearing it for fast enactment after the top Senate Democrat and White House endorsed it. The measure avoids for the time being a repeat of the 2011 debt ceiling standoff that rattled markets and resulted in a downgrade of the government's triple-A credit rating. The U.S. Treasury is expected to exhaust remaining capacity under the $16.4 trillion debt limit between mid-February and early March. The House vote marked a sharp departure from Republican vows to use the debt ceiling issue as a way to extract spending cuts from President Barack Obama. The bill aims to draw Senate Democrats into the debate by requiring both chambers to pass a formal budget resolution by April 15. If either the House or Senate fails to meet this deadline, lawmakers' pay is suspended until they pass a budget. Republicans have named the bill the "No Budget, No Pay Act of 2013." Republicans backed the bill in the face of polls showing Americans blaming them, rather than Democrats, for the uncertainty surrounding the so-called "fiscal cliff" that was resolved around New Year's Day by raising taxes on the wealthy.

3) RBI raises FII limit in govt, corp bonds by $5 bn each – BS Jan 25

To attract foreign funds into the bond market, the Reserve Bank of India (RBI) on Thursday raised the ceiling for foreign institutional investors (FII)'s holdings in government securities and corporate bonds by $5 billion each. The cap on domestic debt now stands at $75 billion. Bond dealers and treasury executives said the interest of FIIs had been robust. The additional capital flows would help tackle the high current account deficit, which stood at a record 5.4 per cent of the gross domestic product in the quarter ended September. The three-year lock-in period for FIIs purchasing government securities (G-secs) for the first time has been done away with, RBI said. With rises of $5 billion in each of the two categories, FIIs and long-term investors can now invest $25 billion in G-secs and $50 billion in corporate debt instruments, including the sub-limit of $25 billion for infra bonds.

4) Differential rates only for deposits above Rs 1 cr – BS Jan 25

The Reserve Bank of India on Thursday revised the definition of wholesale (bulk) deposits for payment of differential interest rates. It said banks can pay differential rates of interest for deposits above Rs 1 crore. Earlier, this limit was Rs 15 lakh. RBI said banks should disclose in advance the schedule of interest rates payable, including deposits on which differential interest will be paid. The interest paid should be as in the schedule, not be subject to negotiation with the depositor. The regulator also said banks could, at their discretion, disallow premature withdrawal of deposits of Rs 1 crore and above by individuals and Hindu Undivided Families, besides institutions. A top public sector bank official said, "The focus should be more on containing the volatility and not just the amount".

5) Citibank's cash rewards for home loan referrals – BS Jan 26

Citibank has introduced a referral programme for its customers in India, offering cash rewards of up to Rs 75,000 if a customer refers his friend or family member to borrow money from Citibank to buy a house. The amount will depend on the loan disbursal. Cash rewards for reference is not a common practice among Indian banks and housing finance companies. A few bankers felt Citibank introduced this programme as it does not have an adequate number of branches in India. The restrictive branch licensing policy for foreign banks has left these lenders with a limited distribution network. For instance, Citibank is the third largest foreign bank in India in terms of distribution network but still has only 42 branches across the country. But many believe the referral programme also highlights Citibank's intent to expand its secured consumer loan business in India.

6) RBI to ask banks to increase frequency of interest payment on savings a/c deposits – BS Jan 28

The interest earned on your savings bank deposits is likely to be credited to your account every month, against the current practice of quarterly transfers. The Reserve Bank of India (RBI) is likely to ask banks to increase the frequency of interest payment on savings account deposits. According to bankers, the regulator feels banks now have a robust technology platform that can enable an increase in frequency of interest credit. Bankers confirm they have the required technology for this. Following the deregulation of interest rates on savings bank deposits in October 2011, banks have been free to decide their respective interest rates. In April 2010, RBI had also mandated them to compute savings deposit interest rates on a daily basis. They could now be asked to credit interest regularly, irrespective of whether or not an account is active.

7) IIFCL's London arm to extend takeout finance – BL Jan 28

India Infrastructure Finance Company Ltd's (IIFCL) London subsidiary will soon start extending takeout financing, a top company official has said. Under takeout financing, loans made by banks to infrastructure firms are sold to IIFCL so that banks recover their much needed funds ahead of the payment schedule under the loan agreement. The Indian Government has already given its nod for the London subsidiary to undertake takeout financing. Takeout financing at London will be on the similar lines of what IIFCL is doing under its takeout scheme in India. The Government had recently done away with the 80:20 rule that required the London subsidiary to give 80 per cent of its lendable resources to public private partnerships and rest to private projects.

8) RBI asks banks to ensure adequate credit flow to productive sectors – BL Jan 29

Noting that there has been a drop in credit to the industry so far this fiscal, the Reserve Bank today prodded banks to ensure adequate credit flow to the productive sectors of the economy. Conceding that there has been risk aversion among the lenders stemming from their rising asset quality concerns, the Governor said banks should lend to productive sectors, notwithstanding the importance of asset quality, by being "discerning". The system witnessed a 16.2 per cent year-on-year growth in non-food advances by mid-January, which nearly meets its expectations, the RBI said, but raised concerns over the slowdown in credit to industry. In absolute terms, the total flow of financial resources to the commercial sector till mid-January was Rs 9.6 trillion, up from the Rs 8.1 trillion observed during the same period a year ago, with the net incremental credit being about Rs 1.5 trillion, the RBI said. "This was due mainly to the increase in bank credit and subscriptions by non-banks to commercial papers," it said.

9) RBI plans inflation-indexed bonds; may let banks buy back gold – ET Jan 29

In a bid to wean away people from gold that is increasingly used as a hedge against inflation, the Reserve Bank today said it is toying with the idea of launching inflation-indexed bonds (IIBs), apart from allowing banks to buy back gold. Referring to possibility of disruption of G-Secs market due to launch of IIBs, Subbarao said, "One question which hunts us all the time is whether this will disrupt the G-Sec market. Because it is a wedge between the yield of IIBs and that of the G-Secs. However, if we educate investors they will see that this is pegged to inflation over a cycle and not to a particular point of time. Then, people will understand and invest in this". The Governor also said the government and the RBI are working on various proposals to reduce the gold import. "We are shortly going to also consider whether we should allow banks to buyback gold. There are some regulatory prescription, where it is implied not very direct, says banks can't buy back gold. That also we are examining." Higher gold import has taken a heavy toll on the economy with current account deficit touching 5.4 per cent in the second quarter. Recently, the government increased the import duty on gold to 6 per cent from 4 per cent to reduce inward shipments.

10) Lending rates may stress banks' margins – BS Jan 30

Banks' lending rates are set to become less expensive, following the cut in repo rate after a gap of nine months. But with deposit rates staying firm, most banks are likely to see a dip in their net interest margins in coming quarters. "Some banks said their margins will come under pressure. But the overall message we got was monetary policy transmission will take place. We are confident of transmission taking place because of the CRR cut. We had discussed it internally and the decision was to ensure monetary policy transmission we should do a CRR cut," RBI governor D Subbarao said, following the central bank's third quarter review of monetary policy for 2012-13. Bankers agree their margins are likely to narrow if lending rate cuts are not accompanied with a reduction in deposit rates. However, lenders were hopeful of being able to restrict the erosion in their margins once liquidity conditions improved.

I think most would rather have India's problems than the West's: Anshu Jain, co-CEO, Deutsche Bank

He built Germany's Deutsche Bank into a bond trading and investment banking powerhouse. Appointed as its co-CEO last year, ***Anshu Jain*** shares his thoughts with ET's ***MC Govardhana Rangan, Santosh Menon & Bodhisatva Ganguli***
on the global economy, India and the world of banking. The article contains a few edited excerpts from the interview.

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