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Informed Investor

A retail investor's take on the Indian stock markets

Gold Pricier as Investors Look to Hedge

Wary investors are slowly pulling out cash from other sources to deploy in the oldest hedge during uncertain times: Gold.

The yellow metal closed the week above the US$ 1000/oz mark and future predictions regarding gold metal are even more bullish.

Barrick Gold Corp, the world's largest producer is betting on gold prices rising further as investors flee the dollar and other major currencies.

Barrick said last week that it was eliminating its hedging program and that it had bought 2.4 million ounces since June last. The company is raising $3.5 bn. In equity to buy another 3 million ounces which would give Barrick control of a full one-third of the global gold production.

Analysts are predicting the beginning of a bull-run on the yellow metal.

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Investment Idea

TRF Limited

The Great Pension Fund Rip-Off

by Deepak Shenoy

An advertisement by *www.simpleinsurance.co.in* from ICICI shows you how, if you invest Rs 2,000 per month for 20 years, you could get a pension of Rs 15,315 monthly after 30 years (at 10 per cent annualized return).

But on closer examination a fixed deposit in a bank would be a more sensible option.

Here's how: the sum of Rs 2,000 per month, or Rs 24,000 every year, in a bank fixed deposit (FD) at a nominal 8 per cent interest compounded annually would get you a sum of Rs 29.36 lakh at the end of 30 years.

We are assuming here that the interest rate remains constant at 8 per cent.

Further, the accrued sum of Rs.29.36 lakh if reinvested again in an FD at 8 per cent would fetch Rs 2.35 lakh by way of interest annually or Rs 19,575 every month for life.

On the other hand if you can manage an annual interest of 10 per cent on your FD you'd end up with Rs 39.47 lakh after 30 years. This amount further invested in an FD or govt. bond at 8 per cent yield would give you an income of Rs 26,319 every month.

Now compare this with ICICI's Retirement Plan which gets an investor just Rs 15,315 per month. The FD with an 8 per cent yield for the first 30 years comprehensively beats ICICI's returns by a whopping Rs 4,260 per month or 21.8 per cent higher returns. With a ten per cent yield for the first 30 years, the FD will give, hold your breath, 40 per cent more than the "insurance" option.

And don't forget that the FD return is more or less guaranteed where as ICICI's 10 per cent return is risky and market dependent (it could be less or more). And a big plus with the bank FD is that the investor can pass on the accumulated principal of Rs 29.36 lakh or Rs 39.47 lakh to the next generation.

Not so if you went with ICICI. Under the ICICI Retirement Plan you would pay Rs 2,000 a month and in return get a pension of Rs 15,315 per month. After you die, they give the money to your spouse. And from the first take it seems after your spouse dies, the corpus is involuntarily donated to ICICI. (There is an option for the investor's heirs to get back the accumulated corpus but then the monthly pension would be lower by Rs 1500 per month.)

Apart from superior returns, the biggest advantage of an FD is flexibility. You can always break a fixed deposit if you need some money for hospitalization, starting a business or any emergency. This is not possible under ICICI's annuity plan.

ICICI's retirement plan - and to be fair, every single insurer's retirement plan - is a waste of money.

Simply buy long term FDs, long term government bonds or growth gilt funds; the return is far superior. If you want tax savings, get into a term plan and buy an ELSS mutual fund though the tax saving bit would disappear under the proposed Tax Code.

That's why I will never recommend the New Pension Scheme to anyone I know; because it's your money they don't allow you to touch.

Deepak Shenoy blogs on finance and investments at http://blog.investraction.com■

BSE: 505854
NSE: ……..
CMP (BSE): Rs 458.20
Market Cap (Rs Cr.): 504.22

P/E (TTM): 10.46
ROCE: 63
ROE: 55
Dividend Yield (%): 2.62
52Wk H/L (Rs) 523.55/90.03
Debt/Equity: 0.27
3 Yr CAGR Sales (%): 22
3 Yr CAGR Profit (%): 103

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Proxy in Infrastructure Space

TRF Ltd, a Tata group company is emerging as a major player in the infrastructure projects space providing a range of goods and services to industries as varied as steel plants, port builders, thermal power plants, etc.

While other Tata group companies remain major captive buyers of TRF's goods and services, the company has been steadily expanding its client list in India and abroad with a blueprint for both organic and inorganic growth.

The focus on power and port sectors in India has seen TRF concentrate on both with nearly 75 per cent of the company's revenues coming from these sectors in the past two years.

TRF has indicated that it would concentrate more on projects business where margins are higher in future. Presently, its revenues are spread across both products and projects businesses. Among the products supplied by TRF include engineering equipment, EPC (equipment procurement and construction) services, capital goods for steel plants like coal beneficiation systems, coal dust injection systems, etc.

TRF, whose core competency is the bulk material handling business, has begun to diversify as part of its inorganic growth strategy. In 2007 TRF acquired a majority stake in York Transportation Equipment Asia Pte (YTEA) of Singapore. The company has an option to acquire the remaining stake in York at 15.9 million Singapore dollars in April 2010. With the acquisition, TRF benefits from York's expertise in manufacturing and distributing trailer axles, mechanical and air suspensions, landing gears and wheel couplers.

The acquisition also brings with it a service network in 27 countries and a strong foothold in the Australian market despite it incurring losses in the past years.

Another acquisition is the Dutch Lanka Trailers which builds trailers. The company has a manufacturing facility in Sri Lanka and its output is sold around the world. With the end of the civil war in that country DLT, a profit-making entity, expects to benefit from the reconstruction of that country's economy.

TRF is also venturing into automotive applications business with its new subsidiary Aditya Automotive Applications. The venture will be in the business of fabricating and building equipments and vehicles used in tippers, trailers and refrigerated trucks.

Investment Rationale

TRF management has indicated that it is aiming to grow on the back of investments in the Ultra Mega Power Project (UMPP) segment. The UPA-2 government has set a target of about 16,000 MW in the UMPP segment thus allowing plenty of opportunities for TRF.

The company is aiming to corner a very large chunk of the capital expenditure which would be accounted for by bulk handling. In the major UMPPs awarded to companies like Reliance Power, Tata Power and other companies TRF has emerged as a major bidder.

TRF has an order book of Rs 1400 cr as on March 31, 2009. This does not account for the small orders awarded to the company during the current financial year though some analysts feel that the growth in orders may have slowed down.

The company's revenues have been growing at a healthy clip for the past few years. Its standalone revenues grew from Rs 200 cr in FY05 to Rs 530 cr in FY09. TRF has now unveiled an aggressive growth plan called Vision 2013 to achieve revenues of Rs 2500 cr. by the year 2013.

Risks and Concerns

TRF is vulnerable to rising prices of raw materials which accounts for nearly 58 per cent of its sales.

The company is also vulnerable to a slowdown in the economy which results in lower investments in the infrastructure space.

The company's diversification into developed markets like Australia also makes it vulnerable to any downturn in these economies.

Stocks like TRF are cyclical plays vulnerable to volatility in the metals and mining space. However the company venturing into projects is a positive sign for investors. ■