Table of Contents

1 Apna Money

1.1 Future Perfect : Penny wise

Small savings schemes offer assured returns as well as tax deduction

Related Tables

Take your pick

Despite the emergence of market-oriented tax-saving products like equity-linked savings schemes (ELSS), which combine market-linked returns with tax sops, the small savings segment continues to be a popular investment avenue. Schemes like Public Provident Fund (PPF) and National Savings Certificate (NSC) not only offer assured returns but are also eligible for tax deduction.

PPF

Features: A PPF account can be opened by any adult in his / her name or in a minor's name in the capacity of guardian on behalf of the minor. A non-resident Indian cannot open a PPF account. A person opening a PPF account has to make a declaration that he is not maintaining any other PPF account except as provided for in the rules.

Investments in PPF earn a return of 8% per annum and the scheme runs over a 15-year period. Investors are required to make contributions every year to keep their PPF accounts active, thereby ensuring regular savings. The minimum and maximum investment amounts per annum have been pegged at Rs 500 and Rs 70000, respectively.

Rate of Interest: Deposits are payable on maturity after 15 years along with interest at the rates declared by the government from time to time. Currently, the interest rate on PPF deposits is 8% per annum, compounded annually. The interest for the month is calculated on the minimum balance available in the account, from the 5th date to the end date of every month. Such interest is completely exempted from income-tax under sec 10(a)(i) of the Income-Tax Act, 1961.

Withdrawals: Withdrawals from PPF are permitted only after six years from the end of the financial year in which the first deposit was made. The amount that can be withdrawn is a factor of the balanced present in the PPF account during the earlier years.

Loans and Repayment: A subscriber can avail of loan facility in the third financial year from the financial year in which the PPF account is opened. If the loan is sought from the minor's account, the guardian will have to make a declaration that the money is for the use of the minor. Loan can be taken up to 25% of the amount in the subscriber's account at the end of the second year immediately preceding the year in which the loan is sought. This facility is available till the end of fifth financial year from the end of the financial year in which the initial subscription was made.

Tax Advantage: Under sec 80C of the Income-Tax Act, 1961, deduction up to Rs 1 lakh per annum is allowed if investments are made in specified securities. As the ceiling for investment in PPF is Rs 70000 per person, the assessee can claim deduction of this amount from this taxable income.

NSC

Features: NSC is available in post-offices across the country in various denominations ranging from Rs 100 to Rs.10000 depending on the requirement. Minimum investment is Rs 100. There is no maximum limit.

Rate of Interest: The earning on the instrument is 8% but the interest is compounded at half-yearly intervals. This pushes up the overall rate of return, or the yield, on the instrument to 8.16%. Every six months, the interest is accumulated. But this is not paid to the investor.

On maturity, the capital plus the accumulated interest is paid. As the life of the instrument is six years, the entire amount will be available to the investor only at the end of this period.

Withdrawals: Premature withdrawals are not allowed. NSC may be prematurely encashed in the event of death of the subscriber. If the certificate is encashed within one year from the date of issue, only the face value is payable. If the certificate is encashed after one year but before the expiry of three years from the date of certificate, an amount equivalent to the face value of the certificate together with simple interest is payable. If the certificate is encashed after three years from the date of issue, the amount payable, inclusive of interest for the denomination of Rs 100, is paid.

Loans: No loans are available against this scheme. But NSC can be used as collateral to raise loans from other sources.

Tax advantage: NSC qualifies for tax benefits under sec 80C. Deduction up to Rs 1 lakh per annum is allowed if investments are made in specified securities.

Investment in these instruments will enable a deduction from the taxable income for the buyer subject to a maximum limit of Rs 1 lakh in a year.

Post-Office Monthly Income Scheme

Features: The monthly income scheme (MIS) is ideal for those who have taken voluntary retirement or are retired and want a fixed monthly income. Deposits can start from Rs 1000 to Rs 3 lakh for single account and up to Rs 6 lakh for joint account. MIS is transferable from one post-office to another and nomination facility is also available. A depositor can open multiple MIS accounts

Rate of Interest: The interest on deposit is 8% compounded annually. The payment is made monthly on a fixed date, which is the date on which the account is opened. If the due date falls on Sunday or any holiday, the interest is paid on the immediate, preceding date. If the due date of interest falls on 29, 30 or 31 of the month and the date does not come in the month, then the deposit is paid on the last working day of the month.

The monthly interest can also be deposited in the post-office saving bank account of the depositor if the post-office is so authorised by the depositor. This is subject to the condition that the maximum limit of the saving bank account does not exceed after depositing the interest. The depositor has to produce the passbook every month for collection of interest. A depositor availing the facility of credit of interest in his savings account is required to present the passbook at least once in six months for making entries of payment of interest.

Withdrawal: An account can be closed any time after one year from the date of opening the account. An amount equal to 5% of the initial investment amount will be deducted from the payment if the account is closed before three years from the date of the opening the account. No amount will be deducted on withdrawal after three years.

Loans: No loans are available

Tax Advantage: The interest income accruing from a post-office MIS is exempt from tax under sec 80L of the Income-Tax Act, 1961. Moreover, no TDS is applicable on the interest income. The balance is exempt from wealth tax.

Senior Citizen Scheme

Features: A new savings scheme called Senior Citizens Savings Scheme was notified from 2 August 2004. The scheme is for the benefit of senior citizens. The maturity period is five years, extendable by another three years. Initially, the scheme will be available through designated post-offices throughout the country. The minimum investment is Rs 1000 and in multiples of Rs 1000 subject to a maximum of Rs 15 lakh.

Those of 60 years of age and above are eligible to invest. Single or joint account (with spouse only) can be opened. Citizens who have retired under a voluntary or a special voluntary retirement scheme and have attained of 55 years of age are also eligible, subject to specified conditions.

Rate of interest: The deposits carry an interest of 9% per annum (taxable), which is paid quarterly. The maturity period of the deposit is five years, extendable by another three years.

Withdrawals: No withdrawals are permitted under these rules before the expiry of five years from the date of opening of the account. However, one can foreclose the account. But there are severe penalties depending how much time the account has been open.

Loans: No loans are available

Tax advantage: No tax rebate is available on this scheme. But the finance minister inevitably gives attractive schemes for senior citizens in every budget.

Bank Deposits

Features: Fixed deposits (FDs) of banks are popular among risk-averse investors with the proposition of assured returns and safety of capital. A bank FD is meant for those investors who want to deposit a lumpsum for a fixed period, from a minimum 15 days to five years and above. The investor gets a lumpsum (principal + interest) on the maturity.

Bank FDs give a higher rate of interest than a savings bank account. The facilities vary from bank to bank. Some of the facilities offered by banks are overdraft (loan) facility on the amount deposited, and premature withdrawal before maturity period (which involves loss of interest). Bank FDs are insured upto Rs 1 lakh.

Rate of Interest: Presently, the returns on tax-saving FDs vary between 6%-9% per annum, depending on their maturity.

Withdrawals: Tax-saving FDs are subject to a five-year lock-in period. For all other FDs, there is usually penalty for early withdrawals. These days, private sector banks offer sweep facilities for FDs, or the so-called unfixed deposits, which offer the facility to use whole or part of the FD.

Loans: No loans are available in this scheme. But many banks make it easy to withdraw part or whole of FD with loss of interest.

Tax advantage: Tax-saving FDs with a lock-in of five years offered by banks are eligible for deduction up to Rs 1 lakh under sec 80C of the Income-Tax Act, 1961. However, interest accrued is taxable and deducted at source if the interest income exceeds Rs 5000 per annum.

Take your pick

Characteristics of small saving schemes

Scheme	Interest (%)	Min. Investment (Rs.)	Max. Investment (Rs.)	Features	Tax Breaks
National Savings Certificate	8 Compounded semi-annually	100	No limit	6-year tenure	Sec 80C benefit
Public Provident Fund	8 Compounded annually	500	70,000	15-year term; tax-free returns	Sec 80C benefit
Monthly Income Scheme	8 Compounded Annaully	1,000	Single A/c: 3 lakh Joint A/c: 6 lakh	6-year tenure; monthly returns; bonus after 6 years	No tax benefit
Senior Citizens Saving Scheme	9 Payable quarterly	1,000	15 lakh	5-year tenure; minimum age 55; also available with public sector banks	No tax benefit
Fixed Deposit	06-Sep	1000	No limit	Stating from 31 days up to 10 years.	A minimum of five-year fixed deposit for getting advantage under sec 80C

1.2 Commodities : Steaming up

As energy prices rise, so do precious metals

The sentiments in the domestic as well as international commodity markets were largely driven by a spurt in precious metals. Soaring energy prices provided excellent support to gold and silver. Both the commodities were instrumental in pushing MCXCOMDEX, the commodity futures index of the Multi Commodity Exchange, up 0.88% to close at 2163.12 in the fortnight ended 17 February 2007.

Agri commodities started on a flat note, with major essential commodities under the shadow of the ban on tur and urad futures. However, the markets soon returned to normalcy and active trading resumed in sensitive items like wheat, chilly and pepper.

Here is a round-up of the major commodities and trading strategies for the near term:

Precious metals: In the limelight

Gold and silver remained in the limelight as a strong push-up in crude oil prices enhanced the appeal of the precious metals as a hedge against inflation. Rising crude oil prices propped up Comex gold futures for April 2007, as steady buying emerged in the yellow metal. While the initial spurt, which pushed the contract to a high of $660 on 1 February 2007 was a result of crude oil prices, further support came from the waning strength of the US dollar, pushing up the Comex April 2007 gold to a seven-month high of $676.4 per ounce on 14 February 2007.

A softening US dollar tends to harden gold as an alternative asset class in the global markets. The late spurt in gold prices confirms the negative correlation between the two.

The US dollar was weakened to a low of 1.3165 against the euro on 15 February 2007 as upbeat economic data releases from the euro zone firmed up expectation of an interest-rate hike by the European Central Bank (ECB) in the coming weeks.

On the other hand, US economic slowdown continued. On 16 February 2007, the US Department of Labor released its report on wholesale prices and the Department of Commerce its report on housing starts in January 2007.

The Labor Department's producer price index dipped 0.6% in January 2007, following a 0.9% increase in December 2007, indicating easing inflationary pressure on the production front.

Housing starts fell 14.3% to an annual rate of 1.408 million units in January 2007, from a revised 1.643 million-unit rate in December 2006. With this decrease, housing starts fell to their lowest rate since August 1997. These data releases pushed the US currency down against other majors, enhancing gold's appeal.

MCX gold futures for April 2007 ended at Rs 9592 per 10 gram — up more than 2% in the fortnight ended 17 February 2007.

Silver also followed gold closely, and ended at Rs 20329 per kg — up 2.24%.

Trading idea: The open interest in the MCX April 2007 gold futures recorded a spurt of 23% in the fortnight ended 17 February 2007. Volumes have also been stronger and the commodity may gain at a consistent pace in the coming weeks.

Global economic data releases are likely to cause lot of volatility in the next fortnight. The US Producer Pure Index (PPI) data have generated some optimism about the possibility that the Federal Reserve lowering interest rates sometime in the near future on tame inflation, thereby hampering the US dollar and helping gold.

Energy: A reversal

Energy prices have been moving higher since the middle of January 2007 on a cold snap in the north-eastern US, which accounts for nearly 80% of the nation's heating and fuel oil. As a result, US distillate stocks started getting wiped out from the second week of January 2007.

This pushed up light, sweet crude oil prices from a low of $49.90 to $60.

Further positive cues came from the monthly report of the International Energy Agency (IEA), raising the oil demand forecast for 2006 and 2007, from its earlier estimates published in January 2007.

MCX Crude oil futures for March 2007 went up at a rapid pace from 19 January 2007 onwards and traded sideways in the fortnight ended 17 February 2007. The contract closed on a flat note at Rs 2643 per barrel.

Along with crude oil, natural gas soared, too. MCX Natural gas futures for March cruised along on buoyant sentiments triggered by the rise in crude oil prices and falling inventories of the commodity in the US.

On MCX, natural gas futures for delivery in March bottomed out in the first week of January 2007 and rose swiftly afterwards. The counter hit a high of Rs 356 per million british thermal unit (mmtu) on 5 February 2007 and witnessed some profit-booking afterwards. The contract closed the fortnight at Rs 331 per mmtu.

Trading idea: The cold snap in the US is likely to get over by next fortnight and the demand for heating and fuel oil should drift lower due to warm weather conditions. This should put some downward pressure on energy prices, specially crude oil. The inventories data suggest weekly stocks as in the US are still at the higher end compared with the previous year's level and oil may revisit $55 yet again.

Base Metals: Mixed movement

Base metals fell very sharply at the start of February 2007 on reports of hedge fund Red Kite registering heavy losses on account of the recent volatility in the prices of copper and zinc. However, mixed movement was noted afterwards, with nickel outperforming other base metals.

After coming back to earth at a rapid pace, copper stabilised in a band of $5500–$5700 per tonne on the London Metal Exchange (LME). The only global macro economic theme to drive prices up in the near term seems to be expectation of higher demand from China, the largest growing economy in the world.

MCX copper also rode high on a combination of bargain hunting and short covering and closed at Rs 262.4 per kg — up 7% in the fortnight ended 17 February 2007.

Aluminium, too, recorded some northward movement though the LME stockpiles dipped. The market was supported monetarily on reports of anti-government protests in Guinea, the largest producing country in North Africa.

MCX aluminium futures hit a high of Rs 127 per kg and closed at Rs 123.5 per kg for March delivery.

MCX Nickel futures went up at a blistering pace and emerged as the top-performing base metal. The commodity added 7% to close at Rs 1765.1 per kg for the MCX March contract.

Trading idea: The falling inventories of zinc and nickel on the LME are indicative of chronic supply constraints in both these commodities. We may well expect some upside in both these metals.

Agri Commodities: In the eye of the storm

Agri commodities have weathered the storm created by the knee-jerk decision of the Union government to ban futures trading in tur and urad. While it was expected that other essential commodities like wheat, chilly and edible oils would come under severe selling pressure following the ban on expectation of more drastic steps by the government to control spiralling prices of food articles and soaring inflationary pressures. However, trading in agricultural commodities soon returned to normalcy, with the underlying demand-supply dynamics driving market sentiments.

Commodities like wheat, chana, pepper and jeera, too, were traded rigorously with good volumes.

Wheat: Wheat has been in the thick of the action of the New Year. Initially, the commodity eased on expectation of a bumper crop this season as the area under wheat went up to 281 lakh hectares, recording a surge of nearly 7% over the previous year. However, a steady rise in the temperatures in Punjab, Delhi and some other parts of major wheat-growing regions of the country firmed up sentiments in the market as rising temperature affects the yield of wheat crop in a major way.

The activity in the previous weeks has been fairly mixed with the NCDEX February bouncing off the threshold of Rs 990 twice.

NCDEX February went up at a rapid pace as a result.

The contract shed more than 3% on 3 February 2007. The strong sell-off stemmed from reports of the Food Corporation Of India, (FCI) selling 4,00,000 tonnes of wheat in the open market before fresh arrivals.

However, the second advance estimates by the agricultural ministry, taking note of the rise in temperatures, put the wheat crop at a modest 72.5 million tonnes in the current rabi (October-March) season.

Following this, futures reflected a bullish bias, getting support at every moderate fall and closing on Rs 1056 — up 4.55% in the fortnight ended 17 February 2007.

Pepper: Since the beginning of December 2006, pepper prices have been on a gradual uptrend on expectation of lower domestic crop this season. The Spices Board of India reported production of black pepper might dip by about 10,000 tonnes–15,000 tonnes this season, fueling expectation of a steep rise in the prices of the commodity in the near future. The market rode high on these sentiments and futures clocked a high of Rs 13142 on 31 January 2007 for the near-month contract.

However, some profit-booking emerged afterwards and the contract ended marginally down on a fortnightly basis.

Jeera: Jeera remained the outperformer, not only among spices but among other agri commodities. The commodity was boosted due to the untimely rains in Gujarat, the largest producing state of jeera in the country, and recorded excellent gains.

The uncalled showers affected the quality of the standing crop, increasing the level of moisture in the commodity, thereby making traders and stockists buy in bulk in the spot markets. In the benchmark domestic market of Unjha, the commodity soared at a blistering pace to hit a high of Rs 10000 on 17 February 2007 — spurting by 11.50% in four weeks.

Futures also sparkled as a result, and closed at Rs 10412 for March 2007 delivery on NCDEX. The counter gained as much as 11.40% in the fortnight ended 17 February 2007 — a jump of 17.49% in the open interest.

Potato: Among other agricultural commodities, potato gathered a lot of steam as arrivals in the domestic mandies dipped. Potato is primarily a rabi crop in India and harvesting is in progress in major producing states of Utter Pradesh, Punjab and Bihar.

Potato arriving at major domestic mandies is from cold storages. Arrivals have been dipping since the start of February 2007. The trend is likely to continue till the domestic harvesting gets over by month end.

Spot prices hardened following this, making traders go long in the futures market.

NCDEX March 2007 potato futures zoomed from the third week of January 2007 and clocked a 10-week high of Rs 597 per quintal on 13 February 2007. Some more gains can be expected in the coming days before a sell-off early March 2007 as crop from the domestic rabi season starts to flood the local markets.

Trading idea: Commodity market participants are likely to keep a close watch on the soaring level of domestic wholesale prices, which shot up to a 26-month high of 6.73% in the week ended 10 February 2007. The persistent rise in prices is likely to result in some uncertainty in the markets as it may prompt the government to initiate further steps to control the steep rise in prices of food articles.

A reduction in import duty on soybean oil and imposition a ban on exports of a couple of spices cannot be ruled out, given the knee-jerk decision to ban tur and urad futures less than a month ago.

2 Bulletin

BOOK CLOSURES & RECORD DATES

Company	Dt. of Cl, Rec. Dt.	Purpose
Ashirwad Capital	10.03 to 17.03	AGM
Bank of Baroda	02.03 to 31.03	Payment of Int.
Bervin Invest.	10.03 to 16.03	Interim Div
Denisons Hydrau.	06.03 to 09.03	AGM & 30% Div
Dhampur Sugar	09.03 to 15.03	10% Div & AGM
I D B I	05.03 to 04.04	Redemption of Bonds
Mehta Integrated	28.02 to 28.02	AGM
SSI	01.03 to 07.03	AGM
Superhouse Ltd	26.02 to 03.03	Interim Div
Swasti Vin. Gems	10.03 to 17.03	AGM & 40% Div
Ugar Sugar Works	01.03 to 10.03	20% Div & AGM

FORTHCOMING BOARD MEETINGS

Date	Company	Purpose
26/02/2007	Ambica Agarbat.	Qtly Rslts
26/02/2007	NEPC Textiles	Qtly Rslts
27/02/2007	Atlas Copco (I)	Accts & Div
28/02/2007	Abbott India	Accts & Div
28/02/2007	Alfa Laval (I)	Accts & final Div
28/02/2007	Goodricke Group	Accts & Div
28/02/2007	Precision Cont	Qtly Rslts
28/02/2007	Vas Infra	Qtly Rslts
28/02/2007	Yashraj Contain.	Qtly Rslts
01/03/2007	Vesuvius India	Accts & Div
06/03/2007	DIC India	Accts & Div
15/03/2007	M I C O	Accts
16/03/2007	Bervin Invest.	Interim Div

RIGHTS / BONUS / STOCK SPLIT RECORD DATES & EX-RIGHTS / EX-BONUS / EX-STOCK SPLIT

Company	Ratio	Dt. of Cl, Rec. Dt, XR, XB, SS
BONUS		
Balaji Amines	1:1	R.D 06/03/2007 XB from 05/03/2007
HCL Technologies	1:1	R.D 16/03/2007 XB from 15/03/2007

3 Apna Money

3.1 Regulations : Din over MIN

After PAN and MAPIN, comes another identification number — this time for mutual fund investors

Americans have to quote their Social Security Number (SSN) for various transactions and to claim government benefits. Here, we have PAN (Personal Account Number), which has to be obtained by every individual falling under the taxable bracket. This has been done to keep track of earning and flow of money. The income-tax department wants to bring a larger percentage of the population under the tax-paying category. Most banks have now made it mandatory to either mention the PAN number or issue a declaration on Form 60 saying that the individual was not taxable. PAN also has to be mentioned in other transactions including buying and selling and stocks (above Rs 50000).

Recently, the Association of Mutual Funds in India (AMFI) has come up with the concept of Mutual Fund Identification Number (MIN). From 1 January 2007, MIN has to be furnished by all investors planning to invest more than Rs 50000 in a mutual fund scheme at one go. The application of MIN requires four documents: photo identity, age and address proofs, and a photograph. It is not required to submit these documents in person (although someone has to deliver them). MIN, says AMFI, in line with the direction by the Securities and Exchange Board of India (Sebi) to all financial intermediaries to come out with a separate set of KYC (Know Your Customer) norm.

All mutual fund houses have entered into agreement with CDSL Ventures to make appropriate arrangements for issuing MIN, which can be obtained from various points of services (POS) at selected mutual fund branch offices. Alternatively, the application can be downloaded from the AMFI website (www.amfiindia.com).

The investor, however, does not have to obtain a MIN if he invests less than Rs 50000 in a particular mutual fund. Thus, if Mr A invests Rs 40000 each in five schemes of five different asset management companies (AMCs), taking his total investments to Rs. 2 lakh, he can still do away without MIN. On the other hand Mr B will have to obtain a MIN in if he invests Rs 50000 in one mutual fund.

MIN is supposed to track the source of larg inflow into the market through mutual fund. But it will not address the issue of dividend stripping followed by investors to evade taxes. In dividend stripping, investments are made just before the mutual fund declares dividend. The dividend is tax-free income in the hands of the investors. The net asset value (NAV) of the scheme, however, falls after the dividend is paid. The investor, thus, books a short-term capital loss and earns tax-free dividends. To plug this loophole, Union Budget 2006-07 mandated that an investor needs to remain invested in a particular mutual fund for at least three months to claim short-term capital loss.

Sebi had mooted creating a sophisticated database of market participants based on biometric identification (MAPIN) through fingerprinting in early 2003. However, it may not implement this scheme fully. MAPIN did not receive a warm welcome, specially from the broker community, as most of their staff was unwilling to undergo this identity creation.

Undoubtedly, MIN is going to make life of mutual fund houses easier. The database will enable them to target prospective investors based on historical investment pattern and understand the risk-appetite of an individual.

The question is: is MIN actually required? What additional purpose would it serve? Sebi has already made it clear that all forms of deposits and investments would require PAN details. Wouldn't it have been more prudent to consolidate the whole process rather than issue separate identification like PAN, MAPIN and MIN? A simple solution is to have an extended version of the PAN. It does make sense to use this concept as it conserves the privacy of the individual and complies with the requirement of tracking investments. Instead of MIN, AMFI could have alternatively agreed on allotting a separate identification to mutual fund investors, which would be a unique code applicable besides PAN, which appears hidden on the mutual fund house's terminal. The fund house has access to investor's record limited only to mutual fund investments made by him.

SSN was introduced in the US in 1936 to ensure security. But, with time, it has been used for various purposes that are not related to administration. Similarly, in India, we already have a platform of PAN. The need is to consolidate the database integration and use extended alphanumeric codes to bring other services under its purview. This can include services like banking, investments, insurance, telecom, cooking gas, electricity, credit worthiness and medical emergencies.

The idea may sound unachievable given the size of our population. But with rising income levels and a higher percentage of the population falling under the taxable category, it will become inevitable to seriously consider the concept.

3.2 Tax Treatement : What is the price tag?

Dividends, bonus shares, stock-splits and share buybacks have strings attached

Related Tables

Rewarding shareholders
Increasing liqudity

It has been raining issue of bonus and stock splits, and with the ongoing bull market, a lot of companies are rushing to reward their shareholders with different alternatives.

Investors invest in equity for capital gain. They take the risk of investing in equity rather than the less-risky fixed income instruments to increase the value of their investment. Apart from capital gain, equity instruments can also offer certain other benefits to investors such as dividends, bonuses, stock-splits and share buybacks. Investors welcome all these corporate actions. But the taxation aspect should also be kept in mind before calculating the net returns earned..

Dividends: A company pays dividends to shareholders out of its reserves. During a bull market, capital gain takes precedence over dividends. This is because a dividend is always on face value and not on market value. Consequently, even if a company whose share price is, say, ruling at Rs 400 declares a healthy dividend of 60% (face value Rs 10), the dividend is a mere Rs 6 per share, and the dividend yield a meagre 1.5%. On an average, the dividend yield of all the shares stocks works out to 1.5%.

However, it doesn't mean that dividends are of no significance to shareholders. Apart from their utility during a bear phase, dividends are perceived by the market as an important signaling mechanism determining the health of the organisation. Lots of cautious investors with low-risk profile invest in companies paying dividends on a regular basis.

However, there is another school of thought that considers dividend pay-out as a waste. Fast- growing companies are often perceived to be much better off ploughing their profit back.

Equity dividends are tax-free in the hands of shareholders. However, the company distributing the dividend has to pay a dividend distribution tax of 12.81% to the exchequer. In effect, it is the shareholders who bears the tax as they receive that much less as dividend. Also, the dividend amount gets subjected to tax twice. Dividend is distributed from the post-tax profit. Second, dividends attract distribution tax. Hence, some companies opt for alternative options to distribute their surplus reserves.

Bonus shares: Bonus shares are issued free of cost to the shareholders of a company by capitalising part of the company's reserves. Instead of cash dividends, investors receive dividends in the form of stocks. Though the number of total outstanding shares increase following a bonus issue, the proportional ownership of shareholders does not change.

Some companies announce bonus issues with the aim to bring the market price to a more popular range and also promote active trading by increasing the number of outstanding shares (floating stock).

Also, post-bonus, the cum-bonus share price should fall in proportion to the bonus issue, thereby making no difference to the personal wealth of the shareholders. However, more often than not, a bonus is perceived to be a strong signal given out by the management about its future prospects. Because of this, there is a consequent demand push for shares which leads to price appreciation.

As no money is paid to acquire bonus shares, they are valued at nil cost while calculating capital gains. An incidental benefit is that as the price more or less falls in proportion to the bonus ratio, there may arise an opportunity to book loss on the original shares.

When an investor receives bonus shares, he does not pay any tax. As bonus shares are issued by capitalising free reserves, there is no outflow from the company to the shareholders. As no income accrues to the shareholder, there is nothing that can be taxed.

However, when the investor sells bonus shares, he has to pay capital gain tax. The cost of acquisition is taken as nil. The duration of the holding is taken into consideration for determining short-term (less than one year) or long-term (more then one year) capital gain (STCG/LTCG). In the current scenario, the STCG rate is 10%, while LTCG rate is nil.

For example, an investor has 100 shares of company ABC which declares 1:1 bonus when its share price is Rs 100. After the shares turns ex-bonus, their value halves to Rs 50. But the number of shares held by the investor doubles to 200.

If the investor sells his original holdings in the market at Rs 50, he will incur loss of Rs 50 per share (assuming his purchase price is Rs 100), which will offset with his existing STCG or LTCG, as the case may be.

But for the balance (bonus) 100 shares, the cost of acquisition will be zero and LTCG or STCG may be calculated at the point of selling. If he holds the bonus share for 12 months from the date of the bonus issue, the entire profit will be tax-free. Else, if he sells before 12 months, he will have to pay 10% STCG.

Stock-splits: Stock-splits are a relatively new phenomenon in India. A stock-split or sub-division of face value is when the number of shares in a stock is increased and the value per share decreased. This in no way affects the intrinsic value of investment and has no effect on the net wealth of the shareholders.

The primary reason for the company to resort to stock-splits is to infuse additional liquidity by making shares more affordable. For example, X Corporation has one million outstanding shares. The par value is Rs 10 and the current market price is Rs 1000 per share. If the management feels this price is resulting in a decrease in trading volumes, they can declare a 1-for-1 split. By doing this, there will be 2 million outstanding shares with a par value of Rs 5 and a theoretical market price of Rs 500 per share.

Sometimes, when the market price is very low, the company might announce a 'reverse stock- split' which has the opposite effect of the normal stock-split.

After a stock-split, the shares only appear to be cheaper. It makes no difference whether you buy one share for Rs 1000 or two for Rs 500 each. In the case of splits, there is no change in the reserves and surplus of the company, unlike bonus issues.

Though stock-splits make no difference to the wealth of the investor, mutual funds, foreign institutional investor (FIIs), financial institutions (Fis) and other big investors show interest only when the liquidity is decent. Thus, stock-splits boost floating stock, indirectly leading to price appreciation.

There aren't any tax implications for stock-splits. However, when the shares are sold, the capital gains tax implications are different for those applicable for bonus issues. Here, the original cost of the shares also has to be reduced.

For instance, if the original face value is Rs 10 each and the stock is split into two shares of Rs 5 each, and an investor is holding 100 shares (of Rs 10 each) at Rs 50 per share. His exposure to the share is, thus, Rs 5000. After the split, the cost of 200 shares (of Rs 5 each) would be reduced to Rs 25 per share, thereby keeping the total cost constant at Rs 5000.

Share buybacks/open offers: Share buybacks/open offers are comparatively new phenomena. Recently, many companies have bought back their shares for various reasons.

A buyback is essentially a financial tool that affords corporates flexibility in restructuring capital structure. A buyback in this case allows the company to sustain a higher debt-equity ratio. It is also a tool to defend against possible takeovers. Generally, companies buy back when they perceive their own shares to be undervalued or when they have surplus cash for which there is no ready capital investment needed. Buyback improves shareholder value. With fewer shares, earning per share of the remaining shares will increase. The company buying back its own securities has to compulsorily extinguish and physically destroy the securities so bought back within seven days of the last date of completion of buy-back.

The buyback may be from the existing securityholders on a proportionate basis; from the open market; from odd lots, where the lot of securities of a listed public company whose shares are listed on a recognised stock exchange is smaller than the marketable lot specified by the stock exchange; and by purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity. Last, but not the least, a buyback also serves as a substitute for dividend payment.

What is the implications of a buyback? A very important factor is whether the amount paid on buyback is dividend or consideration for transfer of shares. If it is indeed considered as dividend, it will not be taxable in the hands of the investors. But, to what extent, if at all, can the amount paid on buyback be taken as dividend? Can the entire amount paid be traded dividend or is it only the premium paid over the face value?

To remove this confusion, it was decided by the Union government that when any company purchases its own shares, then, subject to the provisions of sec. 48 of the Income-Tax Act, 1961, the difference between the consideration received by the shareholder and the cost of acquisition will be deemed to be capital gain.

Further, this will not be treated as dividend as the definition of dividend does not include payment made by a company on purchase of its own shares.

Rewarding shareholders

Bonus shares issued by some companies in the current fiscal

Name	Ratio (Num)	Ratio (DenO)
B H E L	1	1
Crompton Greaves	2	5
Dr Reddy’s Labs.	1	1
HCL Technologies	1	1
Infosys Tech.	1	1

Larsen & Toubro	1	1
O N G C	1	2
Satyam Computer	1	1
TCS	1	1
Unitech	12	1

This is an indicative list and not exhaustive. NUM- Numerator. dENO- Denominator. Bonus ratio 12:1 means an investor holding one equity share will get 12 bonus shares.

Increasing liqudity

Stock-split of shares by some companies in the current fiscal

Name	**Ratio (Num)**	**Ratio (DenO)**	**ex-spit FV**
Ansal Properties	1	2	5
Crompton Greaves	1	5	2
Essel Propack	1	5	2
Godrej Consumer	1	4	1
Gokaldas Exports	1	2	5
H T Media	1	5	2
Indian Hotels	1	10	1
Jubilant Organ.	1	5	1
Jyoti Structures	1	5	2
KPIT Cummins Inf	1	2.5	2

This is an indicative list and not exhaustive. NUM- Numerator. dENO- Denominator. FV- face value. Stock-split ratio of 10:1 means an investor holding 100 equity shares of Rs 10 each will get 1000 equity shares of Rs 1 each.

3.3 Trading : A booster dose

Retail investors can take a fresh look at options as brokerage will be applied only on premium and capped at 2.5%

Related Tables

Where is the money?

Related Articles

A guide to options trading

Volumes in option trading are lagging those in futures trading. The main reason cited is options are complex to understand, specially by retail investors.

A recently introduced circular by NSE asking trading members to revise the brokerage charging method for option contracts is going to be greatly beneficial to investors, and should boost volumes. Investors can expect their brokerage expense on option contracts to be cut down by half. Until now brokers were charging fees on option transactions by applying the brokerage rate on the sum of strike price and premium multiplied by the lot size. Other charges and related transaction costs were additional.

NSE has directed trading members to charge brokerage for options contracts on the premium at which the option contract was bought or sold, and not on the strike price. The brokerage charged cannot exceed 2.5% of the premium amount or Rs 100, whichever is higher.

There has been no drastic spurt in volumes in the options segment as one would expect out of such development. But, it seems, the effect would come gradually. Also, one needs to consider that transactions are executed more out of investment rationale and not brokerage rates.

Though options as hedging or investment instruments are comparatively complex than futures, options allow the investor an unlimited profit potential with limited risk, whereas in futures trading, the limited-risk-benefit is absent.

For instance, if an investor has to make a choice between buying a Nifty futures contract at Rs 4000 or a call option contract of strike price Rs 4000 (premium Rs 25), then the investor would expose himself to unlimited risk if he goes for the futures contract and the Nifty goes down below 4,000. But if he opts for the call option contract, then his loss would be restricted to Rs 25 (the premium).

If retail investors, do initiate taking positions in the options segment, it would likely be a single transaction, say, purchase of a call or a put. Once they get a proper feel of it, then maybe they might become more enterprising and take hedge positions or strategy-based positions using options.

Take the example of the Nifty call option contracts traded on the 19 January 2007 (*see table: Where is the money?*). In the first contract, an investor would incur a brokerage of Rs 205 by the conventional brokerage structure. The brokerage rate that we have taken for calculation by the conventional method is 0.05% on the (strike price + premium amount)*100. We multiply 100 because it is the lot size of Nifty contracts.

Now, if the broker wants to earn the same Rs 205 abiding the new norms of NSE, charging a mere 0.40% (517*100*0.40% = 206.80) on the premium would be sufficient. The upper cap is at 2.5% of the premium as per the revised rules. This is an example of 'deep-in-the money' contract where the strike price is much lower than the currently trading Nifty level.

In the second contract, which is an 'at-the-money' contract, an investor would incur a brokerage of Rs 206 by the conventional brokerage structure. Now, here, even if the broker applies the maximum possible rate of 2.5% on the premium, he would earn just Rs 74. At the most he can charge Rs 100, as it is the upper limit. But even if he is to charge Rs 100, it is less than half of Rs 206, that he would have earned through the conventional method.

In the third transaction, an investor would incur a brokerage of Rs 210 by the conventional brokerage structure. Again, here, if the broker applies the maximum chargeable of 2.5% on the premium of Rs 4.50, he would earn a mere Rs.12. So he would charge Rs 100, which is the upper limit, and even then be a loser by Rs 110 if he were to be apply brokage as per earlier practice.

So what we deduce is investors would come out as beneficiaries in at-the-money contracts and 'deep-out-of-money' contracts. But the broker has not lost much of his earning in 'deep-in-the money' contracts.

Going by trading patterns, approximately 50% of the option contracts traded across the market are 'at-the-money'. The balance contracts are divided between in-the-money and out-of-money contracts. Again, contracts with a strike price too far from the spot market price are very few. In short, the investor has emerged the gainer out of the development.

Some brokers have put up slabs for the premium amount to determine the brokerage rate. If the premium amount is low then the brokerage percentage is higher and vice versa.

Brokers, of course, have not given up the conventional practice of charging brokerage on a client-to-client basis — a practice that is widely followed irrespective of the segment, cash or future & options (F&O). Clients who have had a long and healthy trading history with them enjoy concessions in brokerage. Or those who give good volumes also get favorable terms from brokers.

"Today, the major players in the options segment are high networth investors (HNIs), foreign institutional investors (FIIs) and domestic institutional investors. The sellers or writers of options largely happen to be this category of investors. They operate on huge volumes. When they sell / write options, it is on the basis of sound strategy decisions. Quite often they are long on a security in the cash / futures segment and they have determined as to what level would they square up these long positions. It is very obvious that when they liquidate these huge positions, the underlying stock or index would correct under selling pressure," says Siddarth Bhamre, Derivatives Analyst, Angel Broking. "So to make more out of it, they sell/write call options at these levels and earn some decent premiums. The same can be applied in case of puts where it would work out the other way round. Even if retail investors get active in the option segment, there wouldn't be much impact on the income out of such option transactions for HNIs and institutional investors."

The brokerage paid by institutional investors is lower at 0.02% or 0.03% compared with the 0.05% that retail investors pay. And their transactions are on the basis of investment rationales and not brokerage rates. That's the reason, in spite of the reduced brokerage rates, there has been no significant rise in the volumes.

There has been no directive for charging the Securities Transaction Tax (STT) on options contracts after the new development (taking into consideration only the premium while calculating the brokerage for options contracts, and excluding the strike price). However, there has been no such revision in charging STT till now. If something on these lines does come up, then we would see a further marginal slash in the brokerage expenses for investors.

Where is the money?

Option contracts using varying trading strategies

Contract	**Premium (Rs) (Closing rate on 20 Jan 07)**
Nifty CE – 3600.00 – Jan	517
Nifty CE – 4090.00 – Jan	29.4
Nifty CE – 4200.00 - Jan	4.5

A guide to options trading

Options: Options are hedging/investment instruments, which allow the buyer the right but not the obligation to buy/sell the underlying stock/ index. The buyer of the option incurs a charge for this right, which is referred to as 'premium'. The option writer or seller is the other party to such a contract who earns the premium.

Call Option: Option to buy the stock at a specific price Mr A buys a Nifty call option with a strike price of 4000 at a premium of Rs 100. Mr B, the seller of the option earns this premium of Rs 100 taking unlimited risk whereas Mr A's risk is limited to Rs 100. If at the expiry date, Nifty is trading at 4250, then Mr A would exercise his option and earn a net amount of Rs 150. The strike price of the contract is 4000 and at the expiry, the Nifty is at 4250. So he stands gainer by Rs 250 (4250 – 4000). He, however, has incurred a premium of Rs.100, so his net earnings would be Rs 150 (Rs 250 – Rs 100).

Now, had the Nifty fallen to 3850, then Mr A would be a loser by only Rs 100, which is the premium amount. His call option would not exercise and Mr B would be a gainer by Rs 100.

Put Option: Option to sell the stock at a specified price.

Mr A buys a Nifty put option with a strike price of 4000 at a premium of Rs 100. Mr B, the seller/writer of the option, earns this premium of Rs 100 taking unlimited risk, whereas Mr A's risk is limited to Rs 100. If at the expiry date, Nifty is trading at 3750, then Mr A would exercise his option and earn a net amount of Rs 150. Here's how: The strike price of the contract is 4000 and at the expiry, the Nifty is at 3750. So, he stands to gain Rs 250 (4000 - 3750). He, however, has incurred a premium of Rs 100. So, his net earnings would be Rs 150 (Rs 250 – Rs 100).

American options: Can be exercised on any day prior to expiry date and inclusive expiration date (exercise price would be the closing price and not intra-day price as in the case of futures).

European options: Can only be exercised on expiration date (exercise price would be the closing price and not intra-day price as in the case of futures).

Now, had the Nifty risen to 4,150, then Mr A would be a loser by only Rs 100, which is the premium amount. He would not exercise his and Mr B would be a gainer by Rs 100.

Spot Market Price: It is the price at which the stock is trading in the cash market.

Strike Price: Specified price at which the underlying may be purchased or sold when the option is exercised.

At-the-money option: Refers to a call or put option where spot market price (SMP) = Strike price (SP).

In-the-money option: Call option whose SMP > Strike price **or p**ut option whose SP > SMP.

Out-of-the-money option: Call option whose SMP < SP, or a put option whose SP < SMP.

Expiry date: Last date for exercising the option by buyer (last Thursday of the relevant month in India).

Exercise date: Date on which the option is actually exercised by buyer.

3.4 Tax Matters

Our housing society is undertaking massive repairs. Are we liable for VAT audit?

Our building is under extensive renovation. The total budget is approximately Rs 5 crore and the project will last for two years. As we are a co-operative housing society, we are not selling any product. Hence there is no question of the application of Maharashtra Value Added Tax (MVAT). Still, are we covered under VAT audit provisions?

— Heena Sarguru, e-mail

Sec 61(1)(a) of the MVAT Act provides that every dealer liable to pay tax should get his accounts audited if his turnover of sales or purchases exceeds Rs 40 lakh. For MVAT audit to apply, three things are required to be satisfied: a person should be a dealer, such a dealer should be liable to pay tax, and turnover of sales or purchases should exceed Rs 40 lakhs in the financial year. If your co-operative society satisfies these three conditions, then it is liable for VAT audit.

The term 'dealer' has been defined as any person who, for the purposes of/in connection with/incidental to/ in the course of his business, buys or sells goods in the state, whether for commission, remuneration or otherwise and includes a factor, broker, commission agent, del credere agent or any other mercantile agent, an auctioneer, a non-resident dealer who buys or sells goods in the state, any society or club or association of persons who buys and sells goods from/to its members.

In addition to the above, certain persons are deemed to be dealers qua the activity of selling goods. Societies (whether incorporated or not) are specifically covered under the definition of deemed dealer. A society is said to be a deemed dealer if it sells any goods.

As your co-operative housing society is not selling any goods, it is not a 'dealer' under the MVAT Act. Thus, the very first condition is not satisfied in your case and, accordingly, you are not liable for VAT audit.

Some co-operative housing societies may be engaged in selling scrap or other goods/debris. In such cases, you might satisfy the first condition. But the second condition will not be satisfied, i.e., the dealer should be liable to pay tax. Liability to pay tax arises when both the following conditions are satisfied: turnover of sales exceeds Rs 5 lakh, and turnover of sale or purchases of taxable goods exceeds Rs 10000. Normally, on sale of scrap, the sales turnover is not likely to cross Rs five lakh and, hence, the second condition is also not likely to be satisfied. Thus, no applicability of VAT audit.

If, however, the turnover of sale of scrap/rubble exceeds Rs 5 lakh, then the second condition will also be satisfied. Consequently, one has to see if the third condition is satisfied, i.e., sales or purchase turnover exceeds Rs 40 lakh. On the sales side, turnover of the society does not exceed 40 lakh. The works contract undertaken by the society forms part of the purchase turnover and if the purchase turnover, i.e., value of repairs undertaken exceeds Rs 40 lakh in the financial year, then the third condition will also be satisfied. Thus, if all three conditions are fulfilled, then VAT audit will apply.

However, there is also a contrary view that if a co-operative housing society is selling scrap and not engaged in any other business, it should not be covered under the definition of 'dealer' and, therefore, sec 61 of MVAT Act should not apply.

Can you give me the various options available to save tax on long-term capital gains from selling a small property of Rs 3 lakh.

—Manbir Singh, e-mail

Various options are available depending on the capital asset, which has been transferred. However, you have not provided the exact nature of the property sold, i.e., whether it is a residential house property or anything else. In the absence of relevant information, you may consider the following options applicable to transfer of any long-term capital asset:

Section 54EC of the Income-Tax Act, 1961, provides for exemption from tax on long-term capital gains on transfer of any long-term capital asset provided: asset is transferred on or after 1 April 2000, and capital gains arising out of such transfer are invested in 'long-term specified asset' within a period of six months after the date of such transfer.

The requirement is only to invest amount of capital gains. Therefore, if only part of the capital gains are invested, then only that much of capital gains will be exempted and remaining will be taxed at the prescribed rate. For the purpose of sec 54EC, long-term specified asset means the bonds redeemable after three years issued by the National Bank for Agriculture and Rural Development (Nabard), the National Highways Authority of India (NHAI), the Rural Electrification Corporation (RECL), the National Housing Bank (NHB) and SIDBI. If the amount of capital gain is invested on or after 1 April 2006, the benefit of exemption will be available only if such capital gains are invested in the bonds of NHAI and RECL that are issued on or after 1 April 2006.

The section also provides for a lock-in period of three years for the investment made in the above long-term specified assets. In other words, such assets should not be transferred or converted into money within three years. Otherwise, the capital gains previously exempted will be taxed in the year of transfer of such long-term specified asset. The most advantageous factor of sec 54EC benefit is that it is available to any assessee, i.e., individual, HUF, company, a firm.

Section 54F provides for exemption from tax on long-term capital gains arising on transfer of any capital asset (other than a a residential house). To avail the benefit of this section, property sold by you should not be residential house. Second, you should invest the net sale consideration received on sale of property, in either purchase or construction of residential house. If you go for purchase, then you have to buy the house either one year before or two years after the date of sale of your small property. If you go for construction of residential house, then you have to construct it within three years of transfer of small property. If you transfer the house so purchased or constructed within three years of purchase or construction, then two capital gains will arise. Capital gains/loss on transfer of new house, which will always be short-term capital gains/loss. Capital gains exempt earlier under this sec, i.e., 54F the Income-Tax Act, 1961 (on transfer of your small property) shall be treated as long-term capital gains of the previous year in which the new asset is transferred.

You must not own more than one residential property (other than the new residential property to be bought under sec 54F) as on the date of transfer of your small property. Further, within the time mentioned under sec 54F for purchase or construction, you should not acquire any other residential house (other than the house purchased/constructed under sec 54F).

If it is not possible to utilise the net consideration for purchase or construction of residential house before the due date of filing the return, then such consideration has to be deposited in the Capital Gains Account Scheme, 1988, opened with any nationalised bank before the due date of filing the return. By such deposition, you will be able to get tax exemption in the year of sale of property. But you have to utilise the amount so deposited for the purchase or construction of residential house within the specified period as applicable under sec 54F. Otherwise, the long-term capital gains will be taxed in the year in which the period of three years expires from the date of sale of your small property. The benefit of this section is available only to individual and HUF.

You may also consider sec 54, which is applicable if the asset transferred is a residential house property. The gains arising on such transfer will not be chargeable to tax if they are invested within the prescribed time limits for purchase/construction of new residential house property.

Under sec 54B, exemption is available on transfer of agricultural land, if the gains on it are invested in another agricultural land, subject to conditions specified.

I am sending you the TDS statement received from my employer. Kindly suggest what measures should I take to get tax benefit.

— Santosh Naik, e-mail

The total deduction which you are availing under sec 80C of the Income Tax Act, 1961, is Rs 36318, whereas the maximum permissible is Rs 1 lakh. So you have unutilised 80C limit of Rs 63682. You can invest Rs 63682 in any one or more of the modes prescribed under sec 80C: PPF, life insurance premium, equity-linked savings schemes (ELSS) of mutual fund, repayment of housing loan. The better option is to invest in ELSS. Here, the lock-in period is only three years and returns generated are much more than PPF returns. Income earned on ELSS on account of dividend/long-term capital gains is also tax-free.

Second, medical insurance premium paid by you also seems to be on the lower side. At present, you are paying only Rs 553. Deduction for medical insurance premium is available up to Rs 10000 under sec 80D. You can consider increasing your health cover up to a premium of Rs 10000. Premium can be paid for yourself, your spouse, and your dependent parents/dependent children.

If you are staying in rented premises and paying house rent then deduction for HRA can also be claimed up to specified limits.

Children Education Allowance is exempt up to Rs 100 per month per child (up to maximum two children).

Reimbursement of medical expenses up to Rs 15000 is exempt from tax. Exemption is available only for expenses actually incurred. Fixed medical allowance is taxable. Medical bills must be related to your family, i.e., your parents, brothers and sisters, which are dependant on you, your spouse and children (dependent or independent).

Expenditure incurred on leave travel is allowable as exemption against leave travel allowance subject to conditions specified in sec10 (5).

There is lot of scope for tax planning in your case. For details of the referred sections, please consult your tax advisor so as to avail the maximum tax benefit.

3.5 MUTUAL FUND SCOREBOARD - Part I

Performance as on 13 February 2007

Scheme/ Index Name	N.A.V. (Rs)	Corpus Jan-07	Absolute 3 mon	6 mon	1 year	CAGR 3 years	5 years	Ranking Returns 3 mon	6 mon	1 year	3years	5 years
Equity Funds-Diversified												
HDFC Core & Satellite Fund (G)	25.341	721.61	-0.87	14.73	20.17	N.A	N.A	26	26	24	0	0
HDFC Top 200 Fund (G)	110.584	1787.97	2.25	18.5	28.19	37.98	47.58	22	21	20	8	4
HDFC Equity Fund - (G)	149.497	4167.65	4.63	19.3	29.27	40.23	48.58	9	19	17	4	2
HDFC Growth Fund (G)	48.272	397.66	3.43	20.27	32.39	36.17	41.78	14	18	12	9	8
HDFC Premier Multi-Cap Fund (G)	18.466	780.06	2.82	17.99	19.48	N.A	N.A	18	22	25	0	0
Reliance Vision Fund - (G)	181.7	2610.45	3.55	21.87	31.58	39.58	58.21	11	13	14	6	1
Reliance Equity Opportunities Fund (G)	21.3759	2355.51	4.68	22.27	33.5	N.A	N.A	7	11	11	0	0
Pru ICICI Dynamic Plan	66.1264	1723.28	8.06	27.53	41.64	44.74	N.A	1	4	2	1	0
Franklin	21.04	3642.39	2.78	18.8	28.21	N.A	N.A	19	20	19	0	0

India Flexi Cap Fund (G)											
Franklin India Bluechip Fund - (G)	132.65	2575.89	4.64	21.72	31.25	34.46	43.47	8	14	15	11	7
Franklin India Prima Plus - (G)	140.83	896.91	6.41	27.6	36.52	40.2	44.21	5	3	5	5	6
Franklin India Opportunities Fund - (G)	25.82	791.31	0.98	23.07	38	41.22	37.92	24	8	4	3	9
Templeton India Equity Income Fund (G)	12.29	1928.98	7.9	23.89	N.A	N.A	N.A	2	7	0	0	0
DSP ML Opportunities Fund (G)	55.675	1488.22	3.52	20.61	28.61	38.89	47.6	12	17	18	7	3
Pru ICICI Infrastructure Fund - (G)	18.4	1636.33	1.83	26.2	40.67	N.A	N.A	23	5	3	0	0
Birla Advantage Fund (G)	125.64	518.23	3.45	21.01	23.01	33.33	37.79	13	16	23	12	10
HSBC Equity Fund (G)	71.6335	1039.79	3.37	21.25	30.03	36.16	N.A	15	15	16	10	0
HSBC India Opportunities Fund (G)	28.2468	624.93	2.97	21.92	35.85	N.A	N.A	17	12	8	0	0
DSP ML	39.16	770.07	5.1	23.89	32.05	41.75	46.04	6	7	13	2	5

Equity Fund												
DSP ML India T.I.G.E.R. Fund (G)	33.372	1447.95	6.62	28.16	35.44	N.A	N.A	4	1	10	0	0
Reliance Equity Fund (G)	11.63	4885.18	2.65	15.03	16.3	N.A	N.A	20	24	26	0	0
UTI-Opportunities Fund (G)	14.08	558.19	0	7.07	-1.47	N.A	N.A	26	27	27	0	0
UTI-Basic Industries Fund (G)	27.89	767.83	4.3	25.29	41.93	N.A	N.A	10	6	1	0	0
Magnum SFU - Contra Fund (G)	37.82	1479.94	3.28	22.55	35.75	N.A	N.A	16	10	9	0	0
Magnum Multicap Fund (G)	15.51	1214.68	0.91	17.41	26.2	N.A	N.A	25	23	21	0	0
Magnum Comma Fund (G)	15.44	532.83	-4.57	14.8	24.32	N.A	N.A	27	25	22	0	0
Fidelity Equity Fund (G)	21.551	2612.92	7.79	28.09	36	N.A	N.A	3	2	7	0	0
Tata Infrastructure Fund (G)	23.5253	1206.44	2.34	22.65	36.37	N.A	N.A	21	9	6	0	0
Average			3.39	21.2	30.05	38.73	45.32					
Min			-4.57	7.07	-1.47	33.33	37.79					
Max			8.06	28.16	41.93	44.74	58.21					

Index											
Sensex	14090.98		4.61	22.77	38.51	32.8	31.95					
Nifty	4044.55		4.34	20.59	32.99	28.3	28.92					
CNX 500	3324.55		3.07	20.44	26.19	29.4	33.98					
CNX Midcap	5083.35		0.92	19.71	14	29.81	N.A					
Equity Funds - Pure Midcap Funds												
HDFC Capital Builder -(G)	62.479	749.71	0.45	16.63	14.76	38.22	43.33	6	6	6	4	3
Pru ICICI Discovery Fund (G)	26.38	1093.84	-4.32	8.56	16.83	N.A	N.A	7	7	5	0	0
Franklin India Prima Fund - (G)	207.9	1791.27	2.38	20.3	12.23	39.64	53.17	4	4	7	3	2
Pru ICICI Emerging S.T.A.R. Fund (G)	28.79	1245.94	9.05	27.22	27.39	N.A	N.A	1	2	4	0	0
Reliance Growth Fund - (G)	270.35	3214.06	5.23	26.1	29.89	51.61	63.17	3	3	3	2	1
Magnum Global Fund (G)	44.19	1138.22	6.51	29.86	40.37	N.A	N.A	2	1	1	0	0
Sundaram Select Midcap - (G)	91.5454	2022.58	2.11	18	39.77	56.23	N.A	5	5	2	1	0
Average			3.06	20.95	25.89	46.43	53.22					
Min			-4.32	8.56	12.23	38.22	43.33					
Max			9.05	29.86	40.37	56.23	63.17					

Index												
Sensex	14090.98		4.61	22.77	38.51	32.8	31.95					
Nifty	4044.55		4.34	20.59	32.99	28.3	28.92					
CNX 500	3324.55		3.07	20.44	26.19	29.4	33.98					
CNX Midcap	5083.35		0.92	19.71	14	29.81	N.A					
Tax Plans												
HDFC Long Term Advantage Fund (G)	93.113	601.82	3.22	18.07	16.88	42.41	52.73	9	9	9	4	2
HDFC TaxSaver Fund (G)	142.803	825.86	0.42	15.53	21.15	51.49	50.09	12	13	6	2	3
Magnum Tax Gain Scheme	56.39	1332.22	7.23	27.21	36	65.1	57.68	2	3	1	1	1
UTI-Equity Tax Savings Plan (G)	30.53	274.5	0.16	14.17	8.84	N.A	N.A	13	14	14	0	0
Tata Tax Saving Fund	42.9699	135.93	4.29	16.15	12.78	31.5	41.31	8	12	13	8	7
Sundaram Tax Saver	27.5353	138.42	4.5	24.01	17.9	N.A	N.A	6	6	8	0	0
ABN AMRO Tax Advantage Plan (ELSS) (G)	13.059	157.51	-2.18	16.35	16.55	N.A	N.A	14	11	10	0	0
Reliance Tax Saver (ELSS) Fund - (G)	14.61	1541.13	8.3	24.66	21.75	N.A	N.A	1	5	5	0	0
ING Vysya	26.77	47.12	5.27	25.8	19.83	N.A	N.A	5	4	7	0	0

Tax Savings Fund (G)												
Fidelity Tax Advantage Fund (G)	12.709	665.23	6.66	23.17	N.A	N.A	N.A	4	7	0	0	0
Birla Sun Life Tax Relief '96	149.31	292.54	4.44	28.13	33.89	30.95	38.35	7	1	3	9	9
Birla Equity Plan	56.96	105.78	1.59	20.07	24.07	37.3	48.96	11	8	4	6	4
Principal Tax Saving Fund	78.3	175.85	6.96	28.08	34.28	41.75	44.98	3	2	2	5	6
Prudential ICICI Tax Plan - (G)	89.42	613.49	-4.6	7.7	13.28	47.37	47.56	15	15	12	3	5
Franklin India Taxshield - (G)	127.81	350.23	2.69	17.21	15.77	34.81	38.88	10	10	11	7	8
Average			3.26	20.42	20.93	42.52	46.73					
Min			-4.6	7.7	8.84	30.95	38.35					
Max			8.3	28.13	36	65.1	57.68					
Index												
Sensex	14090.98		4.61	22.77	38.51	32.8	31.95					
Nifty	4044.55		4.34	20.59	32.99	28.3	28.92					
Balanced Funds												
HDFC Balanced Fund (G)	31.146	115.31	-2.24	10.21	16.42	21.72	24.46	14	15	12	12	13
HDFC Prudence	114.855	2324.09	4.98	19.17	28.33	34.7	39.96	1	2	1	1	1

Fund - (G)											
UTI-Balanced Fund (G)	55.25	1190.67	0	11.82	16.44	21.56	25.17	14	12	11	13	11
Tata Balanced Fund - (App)	50.0497	160.52	4.39	18.74	24.42	28.87	32.17	4	4	5	3	3
Birla Sun Life '95 Fund (G)	180.76	133.18	3.85	20.83	27.05	28.16	30.78	6	1	3	5	5
Birla Balance -(Growth)	28.19	122.53	1.77	16.39	19.75	21.73	25.95	12	7	9	11	9
DSP ML Balanced Fund - (G)	38.457	420.27	2.62	15.76	21.78	27.83	31.27	8	9	7	6	4
Sundaram Balanced Fund - (G)	32.4834	52.1	2.44	14.45	14.83	23.51	26.53	10	11	13	9	8
Magnum Balanced Fund (G)	35.31	273.97	2.2	16.57	23.76	N.A	N.A	11	5	6	0	0
Principal Balanced Fund - (G)	21.82	31.61	0.05	10.37	10.37	20.81	25.7	13	14	15	14	10
Pru ICICI Balanced Fund - (G)	35.03	498.29	4.44	16.3	21.38	28.68	30.58	3	8	8	4	6
Kotak Balance	23.708	104.3	2.59	11.55	14.82	33.97	32.23	9	13	14	2	2
JM Balanced Fund - (G)	23.14	14.57	4.19	16.4	26.03	25.57	25.06	5	6	4	8	12
ING Vysya	18.55	8.21	3.52	15.58	17.11	22.6	22.94	7	10	10	10	14

Balanced Portfolio (G)												
FT India Balanced Fund - (G)	33.4254	265.81	4.5	18.78	27.09	25.7	30.22	2	3	2	7	7
Average			2.62	15.53	20.64	26.1	28.79					
Min			-2.24	10.21	10.37	20.81	22.94					
Max			4.98	20.83	28.33	34.7	39.96					

3.6 MUTUAL FUND SCOREBOARD - Part II

Scheme/ Index Name	**N.A.V.**	**Corpus**	**Annualised**			**CAGR**		**Ranking Returns**				
	(Rs)	**Jan-07**	**3 mon**	**6 mon**	**1 year**	**2 years**	**3 years**	**3 mon**	**6 mon**	**1 year**	**2 years**	**3 years**
Income Funds												
HDFC Income Fund (G)	16.6405	234.14	-0.01	3.64	2.51	2.82	2.34	25	25	26	27	25
HDFC High Interest Fund (G)	24.3848	42.75	-1.82	1.93	2.46	2.94	2.17	29	27	27	26	27
Magnum Income Fund - (G)	19.7721	79.67	2.93	5.44	4.11	4.14	2.78	15	10	19	17	22

Templeton India IBA - (G)	24.9408	102.86	0.4	6.16	3.91	3.57	2.52	23	7	22	23	24
Templeton India Income Fund - (G)	25.6667	186.85	2.55	5.14	4.5	4.06	3	19	16	16	19	19
Prudential ICICI Income Plan - (G)	21.4715	284.84	-1.05	6.9	5.22	4.62	3.4	27	5	7	11	15
Grindlays Super Saver Income - Invest Plan (G)	16.7703	60.05	1.62	4.97	4.59	4	2.62	21	19	13	20	23
HSBC Income Fund - Invest Plan (G)	12.3564	30.85	2.42	5.34	5.07	4.55	3.62	20	12	9	12	14
DSP ML Bond Fund - Retail Plan (G)	24.8829	57.13	4.44	5.64	4.48	4.25	3.37	7	9	17	16	16
Birla Income Plus - Retail (G)	30.3196	231.22	1.2	5.13	5.16	4.4	2.99	22	17	8	15	20
Birla Bond Index Fund (G)	11.6009	1.86	4.79	5.18	5.05	4.47	3.13	3	15	10	13	18
Birla Sun Life Income Fund (G)	25.7135	33.66	4.71	9.17	7.49	5.67	4.24	5	1	1	6	9

BOB Income Fund (G)	12.605	0.46	4.72	4.38	3.95	3.75	4.26	4	23	21	21	8
Kotak Bond - Regular Plan (G)	19.4785	52.38	4.41	7.05	6.7	5.52	4.66	8	4	3	7	5
LICMF Bond Fund - (G)	19.9257	107.59	0.16	2.89	4.58	4.79	3.86	24	26	14	9	11
ING Vysya Income Portfolio - (G)	18.1355	10.47	3.41	4.67	4.13	3.65	2.97	13	22	18	22	21
Sundaram Bond Saver - Appreciation	22.7028	64.93	2.67	4.81	3.83	3.2	2.27	16	21	23	25	26
Sundaram Income Plus - (G)	12.7631	7.12	4.6	5.12	4.75	4.09	3.83	6	18	12	18	12
CanIncome (Growth)	13.1915	1.27	5.36	5.34	4.75	6.97	5.72	2	12	12	2	1
Chola Triple Ace - (Cumulative)	23.8937	14.79	-0.1	1.75	2.08	2.44	2.06	26	28	28	28	28
Deutsche Premier Bond Fund - Regular Plan (G)	12.137	2.07	-1.19	5.69	3.25	4.42	3.63	28	8	24	14	13
JM Income Fund - (G)	28.6373	27.21	3.44	4.28	3.21	3.42	2.99	12	24	25	24	20
Principal Income Fund	17.4743	657.53	4.18	7.47	7.12	5.73	4.52	9	3	2	5	6

- (G)											
Reliance Income Fund - (G)	23.1916	95.4	3.02	6.68	5.61	5.17	4.69	14	6	5	8	4
Tata Income Fund - (AO)	24.8955	43.9	3.69	5.4	3.97	6.99	5.06	10	11	20	1	3
Tata Income Plus - RIP (G)	12.608	3.94	8.53	8.4	6.31	6.1	4.35	1	2	4	4	7
UTI-Bond Advantage Fund - LTP (G)	18.7901	21.38	3.58	4.9	4.54	4.47	3.36	11	20	15	13	17
UTI-Bond Fund (G)	21.5967	313.33	2.59	5.2	4.79	6.61	5.19	18	14	11	3	2
Kotak Bond - Deposit Plan (G)	18.5543	52.38	2.64	5.24	5.35	4.65	3.87	17	13	6	10	10
Average			2.69	5.31	4.6	4.53	3.57					
Min			-1.82	1.75	2.08	2.44	2.06					
Max			8.53	9.17	7.49	6.99	5.72					
Income Funds - Institutional												
Tata Income Plus - HIP (G)	12.6415	3.94	8.55	8.39	6.31	6.1	4.35	1	1	2	2	2
HSBC Income Fund - Invest Plan (G)	12.3564	30.85	2.42	5.34	5.07	4.55	3.62	4	5	5	5	5
ING Vysya Income Portfolio -	18.8765	10.47	4.47	5.75	5.23	4.75	4.06	3	4	4	4	4

Inst (G)											
Principal Income Fund - Inst Plan (G)	12.3368	657.53	4.58	7.89	7.6	6.3	5.15	2	2	1	1	1
Prudential ICICI Income Plan - Inst (G)	22.0303	284.84	-0.57	7.42	5.76	5.26	4.14	5	3	3	3	3
Average			3.89	6.96	5.99	5.39	4.26					
Min			-0.57	5.34	5.07	4.55	3.62					
Max			8.55	8.39	7.6	6.3	5.15					
Gilt Funds - Short Term Plans												
HDFC Gilt Fund Short Term Plan (G)	13.6008	11.35	4.54	4.83	4.68	4.23	3.91	9	11	10	9	8
Magnum Gilt Fund - Short Term (G)	14.7451	12.26	7.17	5.58	4.98	4.3	3.74	2	5	9	8	9
Kotak Gilt - Savings Plan (G)	18.0255	14.66	3.12	5.17	5.5	5.12	5.1	11	9	6	5	2
HSBC Gilt Fund - Short Term Plan (G)	11.1074	2.01	6.1	5.39	4.59	4.11	3.43	4	8	11	10	10
Grindlays G Sec Fund - STP (G)	12.531	0.91	5.6	4.99	4.54	4.01	2.85	8	10	12	11	13
DSP ML G-Sec Fund - B	16.8032	4.8	3.11	5.43	5.67	5.39	4.9	12	7	5	3	4

(G)												
Birla Sun Life Govt Sec - Short Term (G)	15.8773	0.6	10.46	9.36	7.03	5.15	3.38	1	1	1	4	11
Birla Gilt Plus - Liquid Plan (G)	18.0645	21.72	6.56	7.47	6.63	5.66	5.39	3	2	2	1	1
UTI-G-Sec Fund - STP (G)	11.6382	89.8	5.91	5.68	6	5.62	5.05	6	4	4	2	3
Templeton India G-Sec Fund - Treasury Plan (G)	13.8909	94.65	5.72	6.07	5.08	5.1	4.76	7	3	7	6	5
Reliance Gilt Securities - STP (G)	11.4335	6.32	5.96	5.57	3.58	3.8	3.15	5	6	13	12	12
Principal Govt Securities - Savings (G)	14.0109	0.27	4.38	4.51	6.54	4.94	4.4	10	12	3	7	7
Pru ICICI Gilt Fund (Treasury) - (G)	17.8178	63.97	1.83	3.87	5.03	4.94	4.73	13	13	8	7	6
Average			5.42	5.69	5.37	4.8	4.21					
Min			1.83	3.87	3.58	3.8	2.85					
Max			10.46	9.36	7.03	5.66	5.39					
Gilt Funds - Long Term Plans												
HDFC Gilt	15.5859	36.77	0.51	4.47	2.08	2.24	1.24	13	17	20	17	20

Fund Long Term Plan (G)												
Templeton G-Sec Fund - Composite - (G)	24.1749	135.14	1.52	6.15	4.51	3.91	3.1	8	7	11	12	12
ING Vysya Gilt Portfolio (G)	12.1682	0.04	5.1	4.65	4.27	3.55	4.48	3	16	14	15	2
JM G-Sec Fund - Regular Plan (G)	21.1278	4.68	3.01	3.92	3.54	3.8	3.29	5	19	17	13	10
LICMF G-Sec Fund - (G)	18.8459	58.03	2.49	4.88	4.62	3.8	2.88	7	15	8	13	14
Reliance Gilt Securities - LTP (G)	12.6867	51.42	1.25	8.67	5.63	5.64	6.26	9	4	6	1	1
Sundaram Gilt Fund - (G)	13.3918	1.35	5.8	5.35	4.5	3.99	3.68	2	12	12	10	6
Templeton India G-Sec Fund - Composite (G)	24.1749	135.14	1.52	6.15	4.51	3.91	3.1	8	7	11	12	12
Templeton India G-Sec Fund - LTP (G)	16.5105	56.69	1	8.73	5.79	4.76	4.3	11	3	5	8	3

UTI-Gilt Advantage Fund - LTP (G)	15.1516	62.42	-0.29	5.45	4.59	4.91	3.55	14	11	9	5	7
Magnum Gilt Fund - Long term (G)	17.1042	67.13	2.93	6.43	4.81	4.12	2.65	6	6	7	9	15
Kotak Gilt - Invest Plan (G)	23.4397	33.68	-5.51	3.83	3.87	3.19	3	20	20	16	16	13
Pru ICICI Gilt Fund (Investment) - (G)	22.2995	95.05	-1.16	10.71	6.91	5.28	3.99	17	1	1	3	4
Principal Govt Securities - Invest (G)	15.9916	23.12	-5.63	4.28	3.91	4.84	3.53	21	18	15	6	8
Birla Gilt Plus - Regular Plan (G)	23.2711	59.49	-0.54	10.34	6.72	5.34	3.7	16	2	2	2	5
Birla Sun Life Govt Sec - Long Term (G)	19.7868	2.3	3.09	5.79	4.58	3.91	2.51	4	9	10	12	16
BOB Gilt Fund (G)	11.2689	4.62	6.2	5.69	6.02	4.8	2.5	1	10	4	7	17
Can Gilt (PGS)-(G)	18.2999	67.45	1.24	3.48	3.45	3.7	2.51	10	21	18	14	16
Chola Gilt Investment	18.4308	2.65	-1.63	6.14	-0.06	1.31	1.43	18	8	21	18	19

Plan-(G)												
DSP ML G-Sec Fund - A (G)	22.9333	32.77	-2.85	4.92	3.08	3.97	3.27	19	14	19	11	11
Grindlays G Sec Fund - Invst Plan (G)	13.6636	5.9	-0.42	6.83	6.1	5.04	3.39	15	5	3	4	9
UTI-G-Sec Fund (G)	19.0023	132.16	0.93	5.11	4.31	3.7	2.3	12	13	13	14	18
Average			0.84	6	4.44	4.08	3.21					
Min			-5.63	3.48	-0.06	1.31	1.24					
Max			6.2	10.71	6.91	5.64	6.26					
Gilt Funds - Long Term PF Plans												
UTI-Gilt Advantage Fund - PF Plan (G)	11.2671	62.42	-0.34	5.43	4.58	4.87	3.52	9	6	8	4	1
Templeton India G-Sec Fund - PF Plan (G)	10.6185	135.14	1.58	6.18	4.57	3.94	N.A	5	5	9	10	0
Magnum Gilt Fund - LTP - PF (G)	10.9388	6.04	3.04	6.61	5.01	4.36	2.91	3	3	5	6	5
Principal Govt Securities - Provident (G)	10.776	46.36	-5.83	3.14	3.3	3.88	N.A	13	12	12	11	0
Pru ICICI Gilt Fund -	11.3521	31.35	1.31	4.2	5.04	4.51	N.A	6	10	4	5	0

Treasury - PF Option											
LICMF G-Sec Fund - PF Plan (G)	10.8673	58.03	2.49	4.88	4.62	3.8	2.88	4	8	7	12	6
Kotak Gilt Invest - PF & Trust Plan (G)	23.7372	33.68	-5.11	4.25	4.29	3.61	3.41	12	9	10	13	4
JM G-Sec Fund - PF Plus (G)	11.0235	9.26	-0.57	3.35	3.27	3.97	3.47	10	11	13	9	3
JM G-Sec Fund - PF Plan (G)	22.1074	2.96	5	5.01	4.02	4.09	3.48	2	7	11	8	2
Grindlays G Sec Fund - PF Inst (G)	11.0918	21.47	-0.07	6.61	6.26	5.45	N.A	8	3	3	2	0
Grindlays G Sec Fund - PF (G)	11.0618	21.47	0.04	6.72	6.37	5.54	N.A	7	2	2	1	0
Chola Gilt - PF Plan (G)	N.A	N.A	N.A	N.A	N.A	N.A	N.A	0	0	0	0	0
BOB Gilt Fund - PF Plan (G)	10.6446	0.33	7	6.39	6.58	5.09	2.3	1	4	1	3	8
Birla Gilt Plus - PF Plan (G)	20.6497	93.51	-1.4	7.36	4.79	4.32	2.81	11	1	6	7	7
Average			0.55	5.39	4.82	4.42	3.1					
Min			-5.83	3.14	3.27	3.61	2.3					
Max			7	7.36	6.58	5.54	3.52					

3.7 MUTUAL FUND SCOREBOARD - Part III

Scheme/ Index Name	N.A.V. (Rs)	Corpus Jan-07	Annualised 3 mon	6 mon	1 year	CAGR 2 years	3 years	Ranking Returns 3 mon	6 mon	1 year	2 years	3 years
Monthly Income Plans - Short Term												
HDFC Multiple Yield Fund-Plan 2005 - (G)	11.0265	184.94	4.76	6.39	5.04	N.A	N.A	13	21	19	0	0
HDFC Monthly Income Plan - STP (G)	12.8982	352.97	2.79	7.6	4.86	8.03	7.86	19	20	23	15	10
HDFC Multiple Yield Fund (G)	12.1122	308.2	4.93	5.69	5.03	7.24	N.A	11	23	20	19	0
Tata Monthly Income Fund - (App)	14.3413	37.75	1.91	5.67	4.09	5.76	5.5	21	24	24	24	17
FT India Monthly Income Plan - (G)	20.7133	631.68	3.26	12.2	9.11	9.69	9.3	17	4	5	7	4
HSBC	12.3075	52.1	3.75	9.66	8.44	7.94	N.A	16	12	8	16	0

Monthly Income Plan (G)												
ING Vysya MIP Fund - Plan B (G)	12.2031	5.83	4.88	12.07	6.64	8.1	N.A	12	5	14	14	0
JM Monthly Income Plan - (G)	13.2196	15.73	1.58	8.58	6.87	9.42	7.6	23	16	12	8	11
Kotak Income Plus (G)	13.1397	103.93	6.18	8.84	6.61	10.22	8.76	5	14	15	6	6
LICMF Monthly Income Plan - (G)	24.1963	209.46	6.02	11.32	8.62	11.28	9.82	8	7	7	3	2
Magnum Monthly Income Plan - (G)	16.606	125.25	1.71	5.65	6.67	8.16	6.95	22	25	13	13	14
Principal Monthly Income Plan - (Growth Accum)	15.0885	60.03	3.02	7.92	4.91	6.49	6.05	18	18	22	21	16
Pru ICICI MIP (G)	18.9798	664.31	4.99	11.63	9.64	10.87	9.32	10	6	4	4	3
Sundaram Monthly Income Plan - (G)	12.792	51.73	6.09	8.2	5.78	9.33	8.58	7	17	18	9	7
Birla MIP -	11.5993	6.4	6.1	7.86	6.36	5.92	N.A	6	19	16	23	0

Savings 5 (G)												
Tata MIP Plus Fund - (G)	11.9492	57.06	4.68	8.82	5	6.7	N.A	14	15	21	20	0
Chola Monthly Income Plan (G)	13.3432	5.99	5.34	11.27	7.15	7.37	7.06	9	8	11	18	13
DSP ML Savings Plus Fund Conservative (G)	12.1269	12.84	9.16	10.36	7.89	7.51	N.A	3	11	10	17	0
DSP ML Savings Plus Fund Moderate (G)	15.2968	193.05	10.71	12.93	10.47	10.33	9.17	2	3	3	5	5
Deutsche Monthly Income Plan A (G)	12.6556	6.73	-1.98	9.14	6.13	8.42	8.23	24	13	17	12	8
Deutsche Monthly Income Plan B (G)	11.9681	1.38	-2.62	5.9	3.8	6.09	6.21	25	22	25	22	15
Templeton MIP - (G)	19.9202	138.11	3.8	10.45	8.66	9.04	8.05	15	10	6	10	9
ABN AMRO Monthly Income Plan (G)	13.09	56.39	18.51	21.05	13.24	11.88	N.A	1	1	1	2	0

Birla Monthly Income Plan - (G)	19.1383	178.43	2.22	11.08	8.39	8.58	7.39	20	9	9	11	12
Reliance Monthly Income Plan (G)	13.8938	516.15	7.72	13.69	12.58	14.25	11.58	4	2	2	1	1
Average			4.78	9.76	7.28	8.69	8.08					
Min			-2.62	5.65	3.8	5.76	5.5					
Max			18.51	21.05	13.24	14.25	11.58					
Monthly Income Plans - Long Term												
HDFC Monthly Income Plan - LTP (G)	14.8703	1194.72	9.48	15.63	11.68	14.91	12.75	3	3	4	2	1
UTI-MIS Advantage Plan (G)	14.1114	118.51	7.98	14.42	10.34	13.68	11.55	4	4	5	4	3
Reliance Monthly Income Plan (G)	13.8938	516.15	7.72	13.69	12.58	14.25	11.58	5	5	3	3	2
Pru ICICI Income Multiplier Fund - Regular (G)	14.4757	511.3	10.15	17.03	13.41	15.66	N.A	2	1	1	1	0
Principal Monthly Income Plus - (G)	12.6919	23.72	3.74	9.8	5.76	8.66	8.15	7	8	8	8	4

HSBC Monthly Income Plan - Savings (G)	13.2042	76.99	4.72	13.13	10.08	10.75	N.A	6	6	6	7	0
DSP ML Savings Plus Fund Aggressive (G)	13.9308	63.59	13.02	16.87	12.91	12.73	N.A	1	2	2	5	0
Birla MIP - Wealth 25 (G)	13.4537	118.85	0.55	11.73	8.43	11.34	N.A	8	7	7	6	0
Average			7.17	14.04	10.65	12.75	11.01					
Min			0.55	9.8	5.76	8.66	8.15					
Max			13.02	17.03	13.41	15.66	12.75					
Arbitrage Funds												
JM Equity & Derivative Fund (G)	11.406	343.48	7.29	6.68	7.49	N.A	N.A	3	3	3	0	0
Kotak Cash Plus (G)	11.0099	113.89	8.24	7.04	7.63	N.A	N.A	2	2	2	0	0
Pru ICICI Blended - Plan B (G)	11.1527	92.4	6.69	6.67	7.21	N.A	N.A	4	4	4	0	0
Pru ICICI Blended - Plan A (G)	11.3793	579.76	11.06	8.47	8.8	N.A	N.A	1	1	1	0	0
Average			8.32	7.22	7.78	0	0					
Min			6.69	6.67	7.21	0	0					
Max			11.06	8.47	8.8	0	0					

Dynamic / Flexi Debt Funds												
Tata Dynamic Bond Fund - Plan B (App)	11.9874	0.63	6.83	6.58	5.9	6.29	5.25	4	4	6	3	1
Sundaram Select Debt - DAP (G)	12.9931	0.43	4.13	4.11	3.86	3.45	2.71	6	7	7	7	4
Pru ICICI Flexible Income Plan	13.5818	71.7	7.53	7.4	6.61	5.95	4.74	2	3	3	4	2
Kotak Flexi Debt (G)	11.5161	526.86	7.5	7.43	7.38	6.61	N.A	3	2	2	1	0
Grindlays Dynamic Bond Fund - (G)	13.433	14.69	3.32	6.57	5.96	5.26	3.98	7	5	5	6	3
Birla Dynamic Bond Fund - Retail (G)	11.3509	5.38	4.46	6.29	6.08	5.59	N.A	5	6	4	5	0
ABN AMRO Flexi Debt Fund (G)	11.4646	223.56	9.11	9.33	8.77	6.51	N.A	1	1	1	2	0
Average			6.13	6.82	6.37	5.67	4.17					
Min			3.32	4.11	3.86	3.45	2.71					
Max			9.11	9.33	8.77	6.61	5.25					
Children Gift Funds - Savings Plan												
HDFC Children's Gift Fund-Savings Plan	14.802	56.98	-4.6	3.29	1.11	6.57	7.59	2	2	2	2	2

Prudential ICICI Child Care Plan-Study Plan	19.8471	29.7	15.87	18.83	13.36	14.8	12.09	1	1	1	1	1
Average			5.64	11.06	7.24	10.69	9.84					
Min			-4.6	3.29	1.11	6.57	7.59					
Max			15.87	18.83	13.36	14.8	12.09					

3.8 MUTUAL FUND SCOREBOARD - Part IV

Scheme/Index Name	**N.A.V.**	**Corpus**	**Annualised**					**Ranking Returns**				
	(Rs)	**Jan-07**	**1 WK**	**1 mon**	**3 MON**	**6 MON**	**1 year**	**1 WK**	**1 mon**	**3 mon**	**6 mon**	**1 year**
Short Term Plans												

HDFC High Interest Fund - STP (G)	13.5178	45.08	6.8	6.63	6.61	6.96	6.88	7	10	10	9	6
HDFC Short Term Plan (G)	13.3049	78.3	4.31	5.01	5.81	6.48	6.33	15	14	13	13	12
Birla Bond Plus - Retail (G)	13.7887	233.38	5.03	6.27	5.94	6.67	7.03	11	12	12	11	5
Templeton India Short Term Income (G)	1358.744	519.11	0.04	4.1	5.69	6.56	6.74	18	18	15	12	9
Pru ICICI Short Term Plan (G)	14.105	481.04	5	6.64	6.46	6.94	6.82	12	9	11	10	7
Grindlays Super Saver Income - Short Term (G)	14.6722	66.55	-3.27	3.64	4.73	5.6	6	20	19	18	18	16
Chola Freedom Income-Short Term Fund (Cumu.)	11.7727	111.45	7.32	7.48	7.58	7.88	6.72	3	6	4	1	10
Deutsche Short Maturity Fund (G)	12.4743	45.64	-6.22	3.11	4.78	6.19	6.12	21	20	17	15	14
DSP ML Short Term Fund (G)	12.9245	98.78	4.76	4.79	5.73	6.42	6.88	13	15	14	14	6
HSBC Income Fund - Short Term Plan (G)	12.4412	66.23	-2.09	2.16	3.96	5.63	6.03	19	21	19	17	15

ING Vysya Select Debt Fund (G)	11.1396	6.03	2.44	4.35	3.38	4.16	4.18	16	16	21	20	18
UTI-Liquid - Short Term Plan (G)	12.1562	34.21	2.4	4.3	3.94	5.48	6.18	17	17	20	19	13
Birla Sun Life Short Term Fund (G)	13.2146	35.64	8.93	8.4	8.41	7.77	7.24	1	3	1	3	3
JM Short Term Fund - (G)	13.254	41.99	6.78	6.12	6.73	7.11	6.36	8	13	9	8	11
Kotak Bond - Short Term Plan (G)	13.4136	223.3	4.63	6.55	7.28	7.65	7.13	14	11	6	4	4
LICMF Short Term Plan - (G)	11.9203	0.9	5.25	8.8	5.15	5.8	5.51	10	1	16	16	17
Principal Short Term Plan (G)	13.4261	470.48	6.88	7.29	6.94	7.38	7.24	6	7	8	7	3
Reliance Short Term Fund - (G)	12.9518	401.15	7.05	7.6	7.78	7.79	7.31	4	5	3	2	2
Sundaram Select Debt - STAP (G)	12.9648	17.13	8.18	8	7.34	7.48	7.57	2	4	5	6	1
Tata Short Term Bond Fund - (G)	13.205	46.09	6.68	8.78	7.89	7.79	6.77	9	2	2	2	8
ING Vysya Income Portfolio - Short Term	13.1647	115.22	6.9	7.04	7.24	7.53	7.13	5	8	7	5	4

(G)												
Average			4.18	6.05	6.16	6.73	6.58					
Min			-6.22	2.16	3.38	4.16	4.18					
Max			8.93	8.8	8.41	7.88	7.57					
Short Term Plans - Institutional												
Principal Income Fund - STP - Inst (G)	12.4717	470.48	7.08	7.49	7.14	7.58	7.37	3	2	2	2	1
JM Short Term Fund - Inst Plan (G)	12.5213	41.99	7.09	6.06	6.93	7.39	6.69	2	5	3	3	6
Grindlays SSIF - STP - Super Inst (G)	10.8703	66.55	-2.83	4.12	5.2	6.01	6.51	8	7	7	8	7
Chola Freedom Income-Short Term-Inst (Cum)	11.9142	111.45	7.32	7.57	7.62	7.91	6.9	1	1	1	1	4
Birla Bond Plus - Institutional Growth	13.9182	233.38	5.25	6.47	6.14	6.87	7.26	5	4	5	5	2
HSBC Income Fund - STP - Inst Plan (G)	12.6045	66.23	-1.86	2.51	4.34	6.03	6.45	7	8	8	7	8
Templeton India Short Term Income - Inst (G)	1086.028	519.11	0.14	4.2	5.79	6.67	6.88	6	6	6	6	5
Pru ICICI Short Term	14.2405	481.04	5.31	6.94	6.76	7.25	7.14	4	3	4	4	3

Plan - Inst (G)												
Average			3.44	5.67	6.24	6.96	6.9					
Min			-2.83	2.51	4.34	6.01	6.45					
Max			7.32	7.57	7.62	7.91	7.37					
Liquid Funds												
HDFC Liquid Fund (G)	14.7228	2374.76	7.73	7.82	7.52	7.24	6.81	1	1	3	3	5
UTI-Money Market Fund (G)	20.8292	184.08	6.92	7.22	7.71	7.33	6.97	17	13	2	2	2
Templeton India TMA - Reg (G)	1844.208	3434.43	7.03	7.08	7.05	6.85	6.54	13	18	14	15	14
Prudential ICICI Liquid Plan - (G)	18.1681	12396.2	7.18	7.24	7.1	6.85	6.58	10	11	12	15	12
DSP ML Liquidity Fund (G)	18.1505	2630.59	6.85	6.96	7.05	6.89	6.74	19	20	14	14	7
Birla Sun Life Cash Manager (G)	18.2231	407.26	7.51	7.47	7.48	7.18	6.7	3	5	4	5	8
Birla Cash Plus - Retail (G)	19.9548	9304.29	7.25	7.5	7.28	7.04	6.76	9	4	9	9	6
HSBC Cash Fund (G)	12.4833	2880.16	7.11	7.21	7.17	6.92	6.57	12	14	10	13	13
ABN AMRO Cash Fund (G)	11.3586	745.96	6.66	6.7	6.84	6.62	6.08	20	23	18	18	19
BOB Liquid Fund (G)	13.2789	44.87	7.47	7.23	6.96	6.82	6.6	5	12	17	17	10

Sahara Liquid - Fixed Pricing (G)	1328.246	15.68	7.11	7.32	7.31	6.93	6.36	12	9	8	12	16
UTI Liquid - Cash Plan (G)	1214.314	8289.45	7.35	7.37	7.28	7.12	6.69	7	8	9	7	9
Reliance Liquid Fund - Treasury Plan (G)	17.8886	1785.98	7.15	7.12	7.06	6.85	6.29	11	16	13	15	17
Chola Liquid Fund - Cum Plan	15.0034	408.09	6.93	6.95	7.04	7.01	6.81	16	21	15	10	5
Canliquid (G)	13.52	946.51	7.18	7.41	7.32	7.1	6.93	10	7	7	8	3
ING Vysya Liquid Fund - (G)	15.7169	2939.69	7.44	7.29	7.15	6.94	6.59	6	10	11	11	11
JM High Liquidity Fund - (G)	20.377	874.2	7.69	7.62	7.44	7.22	6.53	2	3	5	4	15
LICMF Liquid Fund - (G)	13.4713	7329.4	7.48	7.76	7.93	7.64	7.3	4	2	1	1	1
Principal Cash Mgmt - Liquid (G)	14.5772	4278.28	7.02	7.09	7.04	6.84	6.58	14	17	15	16	12
Grindlays Cash Fund - (G)	13.6691	406.02	6.65	6.89	6.63	6.58	6.12	21	22	20	19	18
Kotak Liquid - (G)	14.6653	5074.01	6.91	6.98	6.8	6.57	6.29	18	19	19	20	17
Deutsche Insta Cash Plus Fund (G)	12.4553	1209.07	6.96	7.29	7.44	7.13	6.87	15	10	5	6	4

Tata Liquid Retail Invest Plan - (G)	1717.314	4685.2	7.51	7.46	7.33	7.13	6.74	3	6	6	6	7
Sundaram Money Fund - Appreciation	15.5583	1044.74	7.32	7.17	6.99	6.85	6.53	8	15	16	15	15
Average			7.18	7.26	7.21	6.99	6.62					
Min			6.65	6.7	6.63	6.57	6.08					
Max			7.73	7.82	7.93	7.64	7.3					
Floating Rate Income Fund - Short Term												
Deutsche Floating Rate Fund (G)	12.005	106.79	7.39	7.44	7.39	7.16	6.87	9	8	8	9	5
Chola Floating Rate Fund (G)	11.4015	2.81	3.75	3.82	5.46	5.46	5.52	20	20	18	20	20
Templeton Floating Rate Income - ST (G)	13.3385	983.2	7.59	7.42	7.27	7.1	6.49	6	9	9	12	14
Pru ICICI Floating Rate - Option A (G)	11.5111	1292.89	6.99	7.13	7.13	6.86	6.59	15	14	11	14	13
Pru ICICI Floating Rate Plan Option B(G)	12.3506	1292.89	7.23	7.38	7.39	7.12	6.85	10	10	8	11	6
Principal FRF - SMP Regular (G)	11.5135	494.95	7.66	7.68	7.6	7.33	7.01	5	4	4	5	4
HSBC Floating Rate Fund - STP	11.3611	329	7.03	7.08	6.95	6.73	6.4	14	15	13	15	15

(G)											
Grindlays Floating Rate Fund - (G)	12.2971	266.96	6.5	6.53	6.63	6.55	6.23	17	17	14	17	18
ABN AMRO Floating Rate (G)	11.3563	136.87	6.11	6.12	6.27	6.28	6.07	18	18	17	19	19
Kotak Floater Short Term (G)	12.1902	341.9	7.54	7.5	7.56	7.32	6.8	7	7	5	6	9
UTI-Floating Rate Fund - STP (G)	1211.449	762.9	7.22	7.14	7.11	7.02	6.82	11	13	12	13	7
JM Floater Fund - STP (G)	12.2318	194.26	7.17	7.27	7.25	7.13	6.81	12	12	10	10	8
Reliance Floating Rate Fund (G)	11.5535	1476.64	7.77	7.81	7.81	7.53	7.02	2	2	3	2	3
Sundaram Floating Rate - ST (G)	11.2411	160.43	6.92	6.78	6.61	6.53	6.25	16	16	15	18	17
Tata Floating Rate Fund - STP (G)	11.8782	311.49	7.74	7.63	7.45	7.24	6.74	4	6	7	7	11
ING Vysya Floating Rate (G)	11.4534	24.13	7.16	7.3	7.84	7.52	6.6	13	11	2	3	12
LICMF Floating Rate Fund - STP (G)	11.8462	1450.75	7.76	8.1	8.31	7.92	7.41	3	1	1	1	1

Tata Floating Rate Fund - STP Inst (G)	11.5815	311.49	7.89	7.79	7.6	7.39	7.07	1	3	4	4	2
Magnum Floating Rate Plan-STP (G)	11.5055	66.31	4.58	5.99	6.51	6.6	6.31	19	19	16	16	16
Birla Floating Rate Fund - STP (G)	12.2097	830.45	7.44	7.67	7.52	7.21	6.75	8	5	6	8	10
Average			6.97	7.08	7.18	7	6.63					
Min			3.75	3.82	5.46	5.46	5.52					
Max			7.89	8.1	8.31	7.92	7.41					
Floating Rate Income Fund - Long Term												
Magnum Floating Rate Plan-LTP Regular(G)	11.4285	22.49	9.74	7	7.06	6.71	5.99	1	5	5	6	11
Tata Floating Rate Fund - LTP (G)	11.4869	5.85	6.41	6.46	6.9	6.25	5.6	10	9	7	11	13
Sundaram Floating Rate - LT (G)	11.2163	8.94	6.38	6.42	6.5	6.57	6.41	11	10	10	8	5
JM Floater Fund - LTP (G)	11.9026	8.27	5.66	5.35	5.44	5.81	6.02	12	12	13	12	9
Kotak Floater Long Term (G)	11.566	86.71	6.45	6.82	7.05	7.16	6.82	9	6	6	4	3
Principal FRF - FMP Regular (G)	11.5553	176.95	7.55	7.53	7.63	7.51	7.06	2	2	2	2	1

Pru ICICI Long Term Floating Rate Plan A (G)	11.4163	201.36	6.49	6.76	6.69	6.64	6.37	8	7	8	7	6
Birla Floating Rate Fund - LTP (G)	12.1968	51.89	6.93	7.44	7.33	6.97	6.25	6	3	3	5	7
Grindlays Floating Rate Fund LTP (G)	11.406	80	7.51	6.65	6.43	6.25	5.65	4	8	11	11	12
HSBC Floating Rate Fund - LTP (G)	11.3355	74.99	6.54	6.76	6.65	6.36	6.01	7	7	9	9	10
Templeton Floating Rate Income - LT (G)	13.3452	799.07	7.2	7.21	7.29	7.19	6.5	5	4	4	3	4
DSP ML Floating Rate (G)	12.2129	501.39	6.41	6.39	6.4	6.33	6.08	10	11	12	10	8
ABN AMRO Long Term Floating Rate (G)	10.8736	218.62	7.54	7.85	8	7.71	7.04	3	1	1	1	2
Average			6.99	6.82	6.87	6.73	6.29					
Min			5.66	5.35	5.44	5.81	5.6					
Max			9.74	7.85	8	7.71	7.06					

Returns are calculated for the respective period ended 13 February 2007.

3.9 Regulations : Will pulses stop racing?

The FMC ban on tur and urad futures casts a shadow on other agri commodities

In a surprise move, the Forward Markets Commission (FMC) banned futures trading in urad and tur, two major commodities in the pulses section, on online commodity futures exchanges in India on 22 January 2007.

Behind such an extreme measure were concerns of soaring inflation. The Wholesale Price Index (WPI) clocked a two-year high of 6.12% in the week ended 13 January 2006, well above the Reserve Bank of India's (RBI) comfort zone of 5.50%, indicating an overheating economy along with an asset price bubble.

A scorching rise in the prices of essential food articles like wheat, pulses and oilseeds was one of the prime reasons for the sweltering increase in inflation.

The ban spooked the commodity markets with traders becoming wary about futures of other sensitive items like wheat, maize and a couple of spices. All of these commodities have shown a furious rise in spot prices, primarily because of supply constraints, pushing futures up in tandem. There was a sharp sell-off in all agri commodities in the next couple of sessions.

Prices of tur and urad have moved in accordance with poor supply. Tur production was lower at 24.7 lakh tonnes in 2006 as against 25.7 lakh tonnes in 2005, leading to higher prices. A large chunk of urad production, which is primarily a kharif (April-September) crop, was affected due to the incessant rains in Andhra Pradesh and Maharshatra, two of the largest producing states of the commodity.

However, these figures carry much more weight when analysed from a historical perspective. Pulses and, indeed, most of the important items of mass consumption have a lop-sided demand-supply equation in the country. Production of tur was 17 lakh tonnes in 1950–51, while the latest figures suggest that over the last five-and-a-half decades, output has gone up by a mere 45% compared with a 300% rise in the country’s population in the same period.

Domestic prices of tur started shooting up since August 2006 onwards. The relative contribution of the price rise to the WPI was maximum in September and October 2006. New crop arrives in February and the strength in the prices was waning when the ban was imposed.

It can be argued that though the current measures may help in easing price concerns generated by soaring prices of these two pulses, they may not cool the overall price situation in the medium term.

It is important to realise the crucial role free-market forces have in creating a level-playing field for both procurers and consumers alike. The agricultural growth rate has been lagging behind the other sectors of the economy and the current move can only provide temporary relief from the fundamental mismatch in demand and supply of food articles in the second fastest-growing economy of the world.

3.10 Investing Strategies : Hands on

Why are more and more retail investors turning to portfolio management schemes over mutual funds?

Mutual funds are touted for those investors who cannot spare large sums requirement to invest, do not have the inclination or time to research the market, or are too timid to take a decision despite all the necessary information at their disposal. These investors, depending on their risk-profile, take exposure to debt or equity schemes offered by mutual funds. Yet, there is a growing numbers of investors who are getting put off by mutual funds' impersonal service or are not satisfied with fund managers' ability to deliver.

These are investors, with considerable surplus but yet dependent on expert advice, who are increasingly turning to the portfolio management services (PMS) offered by various financial intermediaries.

What is a PMS? PMS is a fund management and advisory service offered by professionals with experience and knowledge of a variety of investment instruments such as stocks, debt and futures and options (F&O). PMS is offered by various mutual fund houses, banking conglomerates and broking firms.

The PMS manager invests in equity shares, convertible stocks, preference shares, derivatives (index and stock futures and options), debentures, bonds, government and trust securities, mutual funds, bank deposits, treasury bills, commercial papers, certificates of deposits and other securities approved by the Securities and Exchange Board of India (Sebi).

Firms require prior permission from Sebi to undertake PMS activities. The market watchdog looks at various parameters such as minimum net worth and infrastructure before granting PMS licence. For redressal of grievances, the investor can approach Sebi, which takes up the issue with the concerned portfolio manager.

As per the regulatory guidelines, investment in derivatives should not exceed 10% of the total value of portfolio. The 10% exposure should represent the total contract value and not the margin amount payable. Most portfolio managers use this provision to hedge their investments and try to reduce the risk of sudden erosion in valuation. This is particularly helpful if the objective is to make short-term gains by churning the portfolio within a short span. In such instances, the portfolio manager can hedge risk by taking exposure to F&O products. Besides, the PMS manager can also invest in initial public offerings (IPOs) and even in follow-up public offerings.

As fund managers predominately invest in equities and equity-related instruments, PMS carries market risk. Hence, the value of the portfolio would keep on fluctuating as per market conditions. PMS does not guarantee return or even capital protection. It could end up incurring losses as well. As per Sebi guidelines, sharing of losses is not allowed. The investor needs to bear losses. Further, Sebi prohibits the portfolio manager in indulging in day trading.

As in mutual funds, PMS offer various kinds of schemes aimed at various investor classes. Fancy names are used to categorise these schemes, very much like mutual fund schemes.

Broadly, such schemes can be categorised as aggressive, core, short-term, dividend yield and so on. Under the aggressive portfolio scheme, the portfolio manager could invest in small- and mid-cap stocks, which can grow manifold. However, such stocks also carry high risk of capital erosion. The core scheme manager may invest a high portion of the corpus in a few quality large-caps and a small portion in small- and mid-caps. In the short-term scheme, the manager would enter and exit stocks in couple of months. Here, he would target 4% to 8% gains and holding period could be two to six months. Dividend yield schemes are not very popular. High dividend-yield stocks are slow moving and capital appreciation limited. However, it is definitely a low-risk investment strategy.

The increasing popularity of PMS hinges on the customised services offered to investors. The PMS manager studies the investor's investment objective, investment horizon, present and future monetary requirement and risk-profile. Based on this information, he suggests appropriate investment solutions. For instance, if the risk-taking ability of the investor is high and the overall investment objective is to earn higher returns, the PMS manager could suggest higher exposure to small- and mid-caps with good potential for capital appreciation.

Besides customisation in investment strategies, what makes PMS attractive is that the investor can bring in minimum participation amount in cash or transfer existing holdings, or both. However, the portfolio manager may accept or reject any of the securities brought in by the investor. For instance, Z group stocks (clubbed so by the stock exchange for non-compliance of various listing requirement by the company's management) with the investor might not fit the composition of the proposed portfolio. The investor then needs to bring in more cash to cover up for such shortfall in minimum participation amount so that the portfolio manager can realign the portfolio to suit his investment strategy.

Based on the decision-making process, PMS can be classified into discretionary and non-discretionary. Under the discretionary scheme, portfolio manager independently manages the funds of each investor as per pre-determined investment objective. A non-discretionary portfolio manager takes investment calls in consultation and discussion with the investor. The investor can withdraw funds from PMS on the condition that the corpus should not go below the minimum requirement.

PMS can charge fixed fees. Or, part of the fees can be fixed and the remaining based on profit sharing. Fixed charges vary between 1.5% to 3% per annum. This is irrespective of whether the portfolio generates profit or loss. This fee structure is not very popular with the market.

The second and the more popular is the fixed-plus-profit-sharing scheme. The investor pays 1% to 1.5% per annum as fixed fee. Further fees depend on the profit generated by the portfolio manager.

As per the current rates prevailing in the market, for a gain of less than 10%, no fees are applicable. Thereafter, profit sharing is based on pre-determined slabs. For instance, for 10% to 50% return, 25% of the profit would go to the PMS house. The fee structure is highly subjective and varies from player to player and scheme to scheme. It also depends on the amount invested by the client. More money means less fees and vice versa. Hence, fees are negotiable based on the size of the corpus. Other operational charges such as broking commission, demat charges and applicable taxes are billed separately and deducted from the overall portfolio.

The investor has to enter into a formal agreement with the PMS manager covering issues such as appointment, categorising the scheme into discretionary or non-discretionary, scope of the agreement, objective, rights, responsibilities and powers of the portfolio manager, fee structure, termination clause, risk factors and other points of dispute. The portfolio management agreement can be terminated by the investor or the portfolio manager by giving sufficient notice, usually 30 days.

The investor needs to sign power of attorney in favor of the portfolio manager. Through this power of attorney, the portfolio manager can operate investors' demat (DP) and banking accounts as the shares are held in the investor's name. This arrangement between portfolio manager and the investor ensures seamless and fast execution of trade and settlement (pay-in and pay-out of funds and securities). Though many portfolio managers have their own DP, the investor can opt for any DP of his choice.

Comparison between mutual fund and PMS would not be inappropriate. The PMS offers various benefits over mutual funds. At the same time, it also has certain shortcomings.

Generally, portfolio managers offer three to five types of schemes for different investor categories with varying risk profiles such as low, moderate and high. After accessing the risk appetite and expected returns apart from the overall investment objective and time horizon, the portfolio manager builds a tailor-made portfolio. The various schemes of mutual funds are standardised and not customised to meet individual investor's needs. The investor usually selects schemes as per his perception about his future requirement and risk-profile. Thus, PMS scores over mutual funds in terms of flexibility in constructing portfolio according to investor's suitability.

Not only this, if the investor is very bullish on particular sectors, say private banks, he can very well indicate his preference to the portfolio manager so that the PMS can take higher exposure to the sector. But investors should let the PMS manager take investment decisions. PMS managers are better placed to choose stocks as they track companies more closely, systematically and, of course, on a continuous basis. A mutual funds manager, on the other hands, picks stocks as per investment objective and guidelines mentioned in the mutual fund offer document.

A PMS investor can interact with the portfolio manager to express concerns or to understand the investment philosophy. Such one-to-one interaction definitely helps investor in understanding the investment strategy adopted by the PMS manager. Besides, the portfolio manager is a good and reliable source of market information. He can keep investors abreast with the latest market happenings and trends. However, frequency of interaction and quality of service depends on the amount invested by the investor. There is hardly any personal interaction with a mutual fund manager.

PMS investors can expect daily or weekly newsletters, research reports and updates from the portfolio manager. These would assist the investor to gauge the market movement. Many portfolio managers provide daily portfolio update through e-mail. Further, they also provide monthly and quarterly updates on the portfolio. This includes transaction statement (buy and sell), bank statement, holding statement including details of stocks, mutual funds and other instruments in the portfolio.

For those who believe in frequent churning of portfolio, PMS takes care of the subsequent taxation headache. The PMS manager keeps track of gains or losses generated through each transaction. A detail transaction statement lists the investor's tax compliance issues.

Today, PMS facilities are available for as low as Rs 5 lakh. It is actually in the last two to three years that the minimum amount for PMS has come down to this level compared with the earlier Rs 25 lakh to Rs 50 lakh due to competition and aggressive marketing and penetration strategies adopted by PMS firms. As per Sebi guidelines, minimum investment requirement for PMS is Rs 5 lakh. However, this is way higher compared with Rs 500 required for mutual funds if investors opt for the systematic investment plans (SIPs). Moreover, market experts believe mutual funds are less expensive compared with PMS.

As the minimum amount required for opening PMS account has gone down drastically, more and more small investors are opting for PMS. However, investors need to evaluate other options that are available, particularly mutual funds. True, PMS offers lots of flexibility and participation as the investor becomes part of the portfolio-building exercise. However, the product is primary for those investors who understand risk and believe in long-term investment.

4 Editorial : Qs for FM

Low consumer prices or booming stock markets? EETs or higher taxes?

The biggest favour Union Minister P Chidambaram can do investors, consumers and corporate and individual tax payers as he rises to present the budget for 2007-08 shortly is to announce that the document is merely a profit and loss account of the Indian government. In the course of the year, he would go round the country on a listening tour and act on the suggestions taking into account the environment at that point of time. In fact, without even embarking on this exercise, the finance minister has already demonstrated the government's flexibility in striking out by abolishing import duty on some types of cement, suspending futures trade in a couple of commodities, and banning exports of some others. In short, the government need not wait till 28 February to announce changes in taxation structure or reforms like raising foreign investment limits in certain sectors. Like the finance ministry's quarterly review of the economy, the Reserve Bank of India (RBI) too takes stock of the monetary situation every quarter and tightens or loosens credit. Yet, the central bank just as the finance ministry is not bound by this timetable to act if the condition demands an immediate intervention. It increased CRR barely a fortnight after its third-quarter credit policy review. Over the years, the hype associated with the budget has diminished, no doubt. But it would take a gutsy finance minister to hammer the last nail.

In the meanwhile, Chidambaram could take a pause and maybe try to answer the following questions in the run-up to the budget preparation:

Q. After the RBI raised the repo rate at which it lends to banks in its recent review of the monetary situation, you asked public sector banks not to raise interest rates on housing loans, though some private sector banks did. Was your advice aimed at keeping the real-estate sector on a bull run? If you wanted homes to be within the reach of every one, why are you not scolding states which are still retaining outdated laws like the Urban Land Ceiling Act, which are interfering with market forces and creating artificial scarcity?

Q.Is it sound governance to dictate to PSU banks business decisions likely to adversely affect their profitability? Many of them have been listed and have retail shareholders. Is it fair to this section of taxpayers who have bought shares thinking these banks would be allowed a fair degree of independence in running their business?

Q. With the Organisation of the Petroleum Exporting Countries deciding on production cuts to stem the fall in crude oil prices, how long will you go on supporting petroleum products and give a raw deal to shareholders of oil refineries? Instead of issuing oil bonds to bolster the health of these companies, don't you think a better idea would be to buy back all outstanding shares and delist them, providing ordinary investors an exit route?

Q. You have hinted at ushering in the exempt (investment in tax instruments)-exempt (returns on these investments)-tax (maturity proceeds) regime to make the tax code simple. Are you willing to accompany these reforms with deep income-tax cuts, specially as the service tax net is widening? If not, are you prepared to face the ire of the middle class, which wants stability in the taxation structure? Remember, how rural India and the middle class affected by corporate India's restructuring brought to a premature end the India Shining campaign?

Q. Transition from status quo is always painful, as the West Bengal chief minister Buddhadeb Bhattacharya will tell you as he clashes with landowners in Singur to facilitate Tata Motors's small-car project. Your government too has had been singed by the special economic-zone reform, requiring takeover of land. Surprisingly, while Bhattacharya has stood firm, your government has dithered. And, not only in this instance, but also in allowing foreign investment in retail and insurance. Are you willing to face the backlash of voters and still persist with the necessary liberalisation, which is the only way to attract more investment, create more jobs and sustain the growth rate?

Q. Recently, the prime minister released a book of your writings, no doubt trenchant criticism of your predecessors for mismanaging the fiscal health of the country, when you were out of the government. Are you willing to go back to being a columnist if the economy crashlands because the government turns timid or too overreaching? Do you agree that unpopular changes that are good for the country do not necessarily guarantee another tenure in your position? Are you aware that Mikhail Gorbachev, who proposed *perestroika* and presided over the breakup of the Soviet Union, is now a familiar byline in Western newspapers?

5 Cover Story : India Sectors : On a strong wicket

The rising inflation due to demand-driven growth in certain segments is likely to moderate on higher base effect, going forward

Corporate India witnessed strong growth in revenue and profit in the quarter ending December 2006 on rising domestic demand, improving global competitiveness and the benefit of expansion and modernisation of the past few years.

The 9% growth that the economy registered in FY 2006 is expected to accelerate by 9.2% in FY 2007. The accompanying spike in inflation is partly due to supply-side constraints in select agri commodities and cement. The strong demand growth in the real-estate and capital goods sectors is also leading to demand-led inflation in a few sectors. The third dimension is the surge in global prices, mirroring in the Indian economy, which is far more integrated into the world economy than ever before, thanks to its opening and sharp reduction in customs duties.

A sizeable stake of foreign institutional investors (FIIs) in most frontline scrips and their increased participation in the Indian capital markets have also intensified the vulnerability of India to global shocks. Yet, the country is emerging as one of the most resilient economies that FIIs cannot afford to miss.

The second half of the fiscal is invariably better than the first half for a host of industries like cement and capital goods. But the capital goods sector outperformed in all the three quarters of the current fiscal, and is posed for growth in the short to medium term.

The cement sector is witnessing one of the best years in recent times. Though the pace of growth may moderate in the quarter ending March 2007 over the March 2006 quarter as compared with the buoyancy displayed in the previous quarters of the current fiscal over the corresponding quarters in the previous fiscal, the last quarter of FY 2007, too, is set to record an impressive jump in profit despite the fact that there has been very little rise in cement prices in most regions after November 2006. The removal of customs duty on cement (excluding white cement and specialised cements) has so far not resulted in any fall in prices.

The reduction in the peak customs duties, currently at 12.5%, will impact many industries. But India has one of the largest number of anti-dumping initiatives. Also, domestic majors are becoming globally competitive through strategic and operational initiatives, and are not just banking on low-cost labour.

The Union Budget 2007-08 is expected to focus on agriculture and infrastructure, which will facilitate acceleration of India's long-term growth.

Inflation remains a thorn in the overall bright story. But with a slew of monetary measures by the Reserve Bank of India (RBI) and fiscal measures by the Central government, the country is set to shed the low-base effect of the last fiscal. Inflation will, thus, moderate, but at a slower pace.

The government, however, is running out of weapons in its armour to tame inflation, and may take populist and unconventional measures, which can hurt select sectors. Banning of sugar exports when global sugar prices were high and lifting the ban when prices hit a low are typical examples of how the government's obsession with high and rising inflation and its measures to control it can be counterproductive for select sectors.

In calendar year 2006, the Brent Crude Oil prices peaked at US$ 78.3 in August 2006 only to hit a low of US$ 52.96 mid-November 2006. But since then they have recovered and were quoting around US$ 58.95 on 16 February 2007. Given the excellent forward linkages that crude oil has, range-bound prices will facilitate industrial growth.

Copper, which is a raw material for many manufacturing industries, has crashed from a peak of US$ 8788 per tonne achieved on 12 May 2006, to a low of US$ 5225.50 on 8 February 2007. But since then it has rallied to US$ 5835 on 15 February 2007, thanks to strong buying at lower levels. If copper remains range bound, it will help the Indian power equipment sector.

Overall, Corporate India is on a strong wicket due to the diminishing role of the government in India's upswing. But India has a history of politics too often overtaking economics. We hope this does not happen at this golden moment. Within this constraint, India does shine and can enhance it sheen further on rising disposable incomes, accelerated growth in both consumption and investments, and improving global competitiveness.

In the last issue, we had discussed the performance and prospects of a few sectors like automobile, capital goods, cement, crude and refineries and telecom services. In this issue, we cover banks, consumer durables, steel and textiles.

6 Sector

6.1 Banks : Deposit growth trails advances

Rising fee income and ability to protect interest spread will rescue banks from rising interest rates

Related Tables

Satisfactory numbers

The sustained acceleration in the pace of growth in the industrial sector, buoyancy in the services sector and a sharp spurt in the real-estate sector bolstered advances of the banking sector in the December 2006 quarter. In the process, banks witnessed another quarter of hefty growth in their revenue and profit. The surge in operational income despite rising interest rates was the main characteristic of this growth.

Total bank credit of all scheduled commercial banks reached Rs 1766491 crore on 19 January 2007 — a growth of 29.7% against a rise of 30.1% a year ago. Though there was a marginal slowdown in the pace of credit offtake this year, the current levels of outstanding credit were still higher than a year-ago period.

Rising credit demand reflected in higher credit-deposit (CD) ratio at 74% on 19 January 2007 against 70% a year ago. The growth in deposit was faster than a year ago, but could not maintain the pace with the growth in credit offtake. Total deposits rose 22.8% to Rs 2389110 crore on 19 January 2007 compared with a growth of 17.1% a year ago.

Net profit of the banking sector increased 20% to Rs 6917.02 crore in the third quarter ended December 2006 over the December 2005 quarter. Operating profit (OP) was up a comfortable 27% to Rs 14647.82 crore. Both public sector banks (PUBs) and private sector banks (PVBs) posted satisfactory numbers. However, PUBs, contributing around 73% to net total income and net profit of the banking sector, underperformed PVBs, except for operating expenses and provisions. The growth in net interest income (NII) (32%) and other income (OI) (54%) pushed the net total income of PVBs by 40% compared with the 8% growth in net total income of PUBs. Even though PVBs' performance was on a lower base, the increase in net total income was one of the key reasons for their outperformance against PUBs. Nevertheless, a substantial increase in provisions (81%) restricted the growth in net profit of PVBs compared with that of PUBs.

The aggregates are based on the financial results of 43 banks (25 PUBs and 18 PVBs), that have declared their third quarter (Q3) ended December 2006 results till the date of compilation. NII of the overall banking sector moved up 13% to Rs 19471.32 crore on higher interest on advances. Total interest earned grained 26% in Q3 FY 2007 on account of increase in prime lending rates (PLR) rates and widening asset base. The NII growth could have been better if growth in interest expenses were moderate. But hardening of interest rates curtailed the expansion of NII, with interest expended rising 35% to Rs 33102.90 crore — higher than the increase in interest earned in this period.

Apart from fund-based income, the banking sector's non-fund-based income, too, showed a healthy rise. OI was up 22% to Rs 8788.72 crore in Q3 FY2007 due to the surge in commission and fee-based income. Most banks including UTI Bank, ICICI Bank, and Union Bank of India have become third-party distributors for financial assets of different financial companies, opening a new avenue for increasing their non-interest income. Here, too, PVBs outperformed PUBs, with a 54% increase in OI.

Despite the moderate growth in operating expenditure to 5%, the 54% surge in provisions restricted the growth in profit before tax (PBT) to 16% at Rs 5117.51 crore. However, with a modest 7% increase in provision for tax, profit after tax (PAT) jumped 20% to Rs 6917.02 crore.

Net profit of PVBs surged 39% compared with a 14% growth reported by PUBs on substantial increase in NII and total income. PVBs improved their NII by 32% and OI by 54% compared with PUBs' moderate increase of 8%, and 8% respectively. Thus, OP of PVBs (growth of 53%) outperformed PUBs (20%). However, PUBs reported a 2% fall in operating expenses compared with a 29% rise by PVBs on account of branch expansion and higher staff cost. Despite the decline in the growth of operating expenses of PUBs, the strong growth in net total income helped PVBs to repeat better growth than PUBs.

Further, in spite of higher provisioning for NPAs (81%) and tax (42%), net profit of PVBs soared 39%. At the same time, provisioning for PUBs stood high by 45% and the provision for tax remained unchanged. Yet, the net profit grew only 14%. Once again, the strong growth of 40% in net total income boosted net profit of PVBs.

PSUs: Slowing down

The growth in net total income of PUBs, occupying a major share of business and profit in the banking sector, slowed down compared with PVBs. Interest earned grew 20% to Rs 39973.04 crore, contributed mainly by interest income from core operations (lending). Interest expenses increased 29% to Rs 24979.21 crore on hardening interest rates.

With the rise in interest expenses, the net interest income edged up by a moderate 8% to Rs 14993.83 crore. NII of Bank of India (BoI) grew the highest at 31%, while that of the largest bank, State Bank of India (SBI), fell 6% in Q3 FY 2007 compared with Q3 of FY 2006. Syndicate Bank (SYN) posted the highest growth of 56% in interest income once. Again SBI reported the lowest growth of 2%. SYN also recorded the highest increase of 111% in interest expended, and SBI the least increase of 8%.

OI increased moderately by 8% to Rs 5503.28 crore, mainly due to the fall in treasury gain. The effect of increase in fee-based income of PUBs got nullified by the fall in treasury gains. OI of Nabard spurted from Rs 2.53 crore in Q3 FY2006 to Rs 33.25 crore in Q3 FY2007. OI of Corporation Bank and Bank of Maharashtra surged 50%. However, IDBI's OI declined the maximum at 41%.

Operating expenses were down 2% to Rs 9836.49 crore. Of this, staff expenses decreased 6% to Rs 6423.54 crore and other expenses increased moderately by 6% to Rs 3412.95 crore. The decline in staff cost was the largest for SBI (20%). The fall in other expenses was the largest for State Bank of Patiala (66%).

Total provision and contingencies for PUBs under consideration increased 45% to Rs 3609.33 crore compared with Rs 2484.82 crore in the December 2005 quarter. SBI, Andhra bank and State Bank of Patiala increased there provision significantly, while Allahabad Bank, Oriental Bank of Commerce, and Bank of Baroda lowered.

Owing to higher provisioning, PBT was up just 10% to Rs 7051.29 crore. Tax provision (including deferred tax and fringe benefit tax) remained almost at the same level of Rs 1994.81 crore, facilitating the net profit to a growth 14% to Rs 5056.48 crore. Tax provisioning showed a mixed trend. Provision of SBI (39%) and SYN (405%) fell, while that of Allahabad Bank (476%) and UCO Bank (291%) rose. Overall, tax provision of PUBs remained at the same level as that in the December 2005 quarter.

Net profit of most PUBs was healthy, except PUB major SBI's, which dropped 4%. So, also that of State Bank of Tranvancore, State Bank of Patiala, State Bank of Saurashtra, and Dena Bank.

Improving asset quality remained the focused area for most banks. Gross non-performing assets (GNPA) and net non-performing assets (NNPA) ratio of most banks continued the falling trend. Dena Bank had the highest NNPA on a percentage basis at 2.47% end December 2006. Andhra Bank (0.44%), PNB (0.42%), IOB (0.48%), and Corporation Bank (0.47%) had the least NNPA on percentage basis.

PVBs: Growing in leaps

Compared with PUBs, PVBs were able to achieve higher growth of 32% to Rs 4477.49 crore in NII mainly due to their lead in retail financing and rising PLR rates and asset growth. Retail portfolio continued to show good growth for most PVBs. Interest earned surged 48% to Rs 12601.18 crore with higher contribution coming from core business, i.e., advances (lending operations). At the same time interest expenses went up by 59% to Rs 8123.69 crore on account of increase in deposit rates.

NII of Kotak Mahindra Bank soared 88% and that of Yes bank 84% in Q3 FY2007 over Q3 FY 2006. NII of IndusInd Bank, however, dipped by 15%. Yes Bank had the highest increase of 183% in interest earned and 272% in interest expended. Similarly, Kotak Mahaindra Bank's interest earned jumped 96% and interest expended 104%.

OI of PVBs increased 54% to Rs 3285.44 crore mainly due to rise in fee-based income of most banks. Most of these banks have become third-party distributors for financial assets of different financial companies opening a new avenue for increasing their non-interest income. Kotak Mahindra Bank, which posted a 14% fall in OI in Q2 FY2007, recorded a 96% rise in OI in Q3 FY2007. OI of Bank of Rajasthan, which had the highest growth of 904% in Q2 FY2007, reported a 39% fall in Q3 FY2007.

Operating expenses jumped 29% to Rs 3285.44 crore mainly on branch expansion, increased business volumes and higher staff cost. Staff cost increased 95% for Kotak Mahindra Bank and declined 37% for Bank of Rajasthan. Yes Bank reported a 77% increase in other expenses and Karur Vysya Bank a 16% fall in the quarter ended December 2006 over the December 2005 quarter. Thus, OI for PVBs stood at Rs 3987.20 crore — a 53% growth over the quarter ended December 2005.

Provision and contingencies increased 81% to Rs 1507.18 crore. Provisioning shot up for Kotak Mahindra Bank, DCB, Centurion Bank of Punjab and ICICI Bank. Hence, the PBT growth was restricted at 40% to Rs 2479.02 crore in Q3 FY2007. Further, tax provisions (including deferred tax and fringe benefit tax) increased 42% to Rs 618.48 crore, restricting the net profit growth to 39% at Rs 1860.54 crore. Tax provision increased largely for Centurion Bank of Punjab (167%) and Dhanalakshmi Bank (149%). IndusInd Bank (158%) and Jammu and Kashmir bank (9%) reported a fall in tax provision.

Despite higher operating expense and high provisioning, net profit of PVBs rose 40%, aided by a 40% growth in net total income in Q3 of FY2007 over Q3 of FY 2006. Smaller PVBs surprised. Net profit of Dhanalakshmi Bank soared 199% and that of ING Vysya 195%. But PVB majors such as ICICI Bank (42%) and HDFC Bank (32%) recorded a moderate growth. Net profit fell by 21% for IndusInd Bank and 216% for DCB.

Monetary policy

The Reserve Bank of India (RBI) hiked short-term repo rate (the rate at which commercial banks borrow from RBI) by 0.25 basis points (bps) to 7.50%, whereas the repo rate (the rate at which commercial banks parked money with RBI) was kept unchanged at 6%. It was the second consecutive time when the central bank opted to widen a borrowing and lending gap. All the key rates were kept unchanged with the bank rate at 6%, reverse repo rate at 6% and CRR at 5.5%.

But, on 13 February, RBI raised CRR from 5.5% to 6% of the net demand and time liabilities (deposits). The revision will be implemented in two tranches of 25 bps, each effective from 17 February 2007 (to 5.75%) and 3 March 2007 (to 6%). Earlier, CRR was tightened from 5% to 5.25% from 23 December 2006 and to 5.5% from 6 January 2007.

RBI has cited inflation for hiking CRR. The earlier 0.5% increase in CRR was estimated to have absorbed Rs 13500 crore from the banking system. The current 0.5% hike is likely to suck up about Rs 14000 crore.

The central bank has opted for a series of monetary measures including raising repo rates, CRR and risk weight of advances to select sectors like real estate to curb inflation, which currently prevails at above 6%.

Considering the high credit growth in the real-estate sector, rising default rates on account of credit card receivables and personal loans, RBI also raised on 13 February 2007 the provisioning requirement to 2% for standard assets in the real-estate sector, outstanding credit card receivables, loans and advances qualifying as capital market exposure and personal loans (excluding residential housing loans).

Besides, RBI increased the provisioning requirement for banks' exposure to the standard assets category to non-banking financial companies (NBFCs) to 2%, from 0.4%, and the risk weight for banks' exposure to such NBFCs to 125%, from 100%. These stricter provisioning norms will affect the profitability of the banking sector. It may curtail the pace of credit disbursement as well.

Banks are also restrained from granting fresh loans in excess of Rs 20 lakh against Non-Resident (External) Rupee (NRE) and Foreign Currency Non-Resident (Banks) [(FCNR (B)] deposits and have been advised not to undertake artificial slicing of the loan amount to circumvent the ceiling. This will have an impact on the business growth of banks with a strong international presence.

Nowadays, many private and foreign sector banks have a choice to raise NRE deposits by increasing deposit rates to meet rising domestic credit demand. However, RBI has decided to reduce the interest rate ceilings on NRE and FCNR (B) deposits by 50 bps and 25 bps, respectively. This will have a marginal impact on the overall banking industry because NRE deposits constitute a 7% share of the total bank deposits.

Outlook

The strong growth in India's GDP by 9% in FY 2006 and the estimated 9.2% growth in the current fiscal have led to overheating of select sectors. Also, such growth achieved in the context of surge in inflation beyond 6% will adversely impact the economically vulnerable sections of the population. Hence, the monetary policies of RBI and fiscal policies of the government are tuned to bring down inflation from the current high levels.

The surge in advances without a corresponding pace of growth in deposits has tightened the liquidity of the banking sector, leading to a spike in interest on deposit rates, which has promptly been passed on, leading to a rise in lending rates as well. But PUBs have been advised not to hike interest rates on home loans. Also, provisioning norms have been tightened. These factors can impact select banks in the quarter ending March 2007.

Overall, we remain positive on the banking sector despite rising inflation and interest rates, thanks to the resilience of the Indian banking sector and its increasing fee income, which provides cushion against shrinking spread on advances and rising yield on investments.

Satisfactory numbers

Banking Sector Aggregates

Particulars	Total			PVBs			PUBs		
	200612(3)	200512(3)	Var(%)	200612(3)	200512(3)	Var(%)	200612(3)	200512(3)	Var(%)
Interest Earned	52574.22	41804.88	26	12601.18	8507.61	48	39973.04	33297.27	20
Interest expended	33102.9	24519.82	35	8123.69	5107.67	59	24979.21	19412.15	29
Net Interest Income	19471.32	17285.06	13	4477.49	3399.94	32	14993.83	13885.12	8
Other Income	8788.72	7217.68	22	3285.44	2132.04	54	5503.28	5085.64	8
Net total income	28260.04	24502.74	15	7762.93	5531.98	40	20497.11	18970.76	8
Operating expenses	13612.22	12980.55	5	3775.73	2921.96	29	9836.49	10058.59	-2
Operating profit	14647.82	11522.19	27	3987.2	2610.02	53	10660.62	8912.17	20
Provisions	5117.51	3318.41	54	1508.18	833.59	81	3609.33	2484.82	45
Profit before Tax	9530.31	8203.78	16	2479.02	1776.43	40	7051.29	6427.35	10
Tax provisions	2613.29	2433.59	7	618.48	434.68	42	1994.81	1998.91	0
Net Profit	6917.02	5770.19	20	1860.54	1341.75	39	5056.48	4428.44	14

Figures are in Rs crore. For aggregates 25 PUBs and 18 PVBs are taken into consideration. Source: Capitaline Corporate Database.

6.2 Steel : Shining

Profit doubles on rise in prices and demand, and improved operational efficiency

Related Tables

Sales, margin & PAT up

The Indian steel industry is witnessing a healthy rise in demand due to the accelerated pace of growth in the manufacturing sector, rising output of the capital goods sector and buoyancy in the real-estate and construction sectors. Steel prices were lower last year.
The low base effect coupled with rise in sales bolstered operating profit margin (OPM), facilitating the aggregate net profit of 78 steel companies to more than double (106% increase) in the quarter ended December 2006 over the quarter ended December 2005.

Aggregate sales were 36% higher to Rs 33670 crore over the December 2005 quarter. OPM inclined by 390 basis points (bps) to 23.4%. As a result, operating profit (OP) spurted 63% to Rs 7880 crore. Players witnessed near doubling of other income (OI) (up by 94%) to Rs 518 crore. As a result, the aggregate profit before interest, depreciation and tax (PBIDT) stood 65% higher to Rs 8398 crore.

The interest cost decreased 5% to Rs 920 crore while depreciation charges increased 13% Rs 1432 crore. The resultant profit before tax (PBT) surged 111% to Rs 6046 crore in the December 2006 quarter. The tax liability increased 120% to Rs 1909 crore, resulting in net profit soaring 106% to Rs 4137 crore.

On the flip side, there was a spurt in prices of vital inputs such as iron ore, coal and zinc. The Wholesale Price Index (WPI) of iron ore was 20% higher in the quarter ended December 2006 over the December 2005 quarter. Likewise, international coal prices have been higher. The average price of coal was 21% higher to US $49.93 per tonne in the quarter ended December 2006 compared with the December 2005 quarter. The average domestic zinc ingots prices zoomed 112% to Rs 224.07 per kg. Zinc is used to produce galvanised steel products from cold-rolled (CR) steel products like sheets / coils.

Output up

Net sales revenue of Tata Steel rose 21% to Rs 4469.98 crore backed by strong volume growth. Steel production was up 11.1% to 1.29 million tonnes per annum (mtpa), and sales 11.5% to 1.234 mtpa. OPM advanced 220 bps to 39.9%. The resultant OP moved up 28% to Rs 1783.62 crore. The ensuing PAT gained 41% to Rs 1063.75 crore.

Net sales of Sail rose 29% to Rs 8537.07 crore. OPM climbed up sharply by 810 bps to 28.5%. The resultant OP was 80% higher to Rs 2431.64 crore. The ensuing PAT surged 124% to Rs 1471.19 crore.

Sail’s profitability improved mainly due to higher production and sales of saleable steel coupled with better product-mix, productivity and techno-economic parameters as well as higher sales realisation. It achieved a record production of 3.3 mtpa of saleable steel and the highest-ever sales of three mtpa in the October-December 2006 quarter — a growth of 6.3% and 8.6%, respectively, over the December 2005 quarter.

JSW Steel’s net sales stood 51% higher to Rs 2301.50 crore. OPM increased sharply by 590 bps to 34.6% on account of cost savings in power and fuel costs and other expenditure. The resultant OP jumped 83% to Rs 796.73 crore. The ensuing PAT rose by an impressive 160% to Rs 362.15 crore.

The aggregate sales of seven sponge iron companies stood 60% higher to Rs 1496 crore in the December 2006 quarter compared with the December 2005 quarter. Aggregate OPM went up 120 bps to 32%. In the end, aggregate net profit increased 53% to Rs 256 crore.

Pig iron companies reported an impressive set of numbers in the quarter ended December 2006. Aggregate net sales revenue of the four pig iron companies was 36% higher to Rs 441 crore. Aggregate OPM moved up 190 bps to 9.3%. The subsequent aggregate PAT surged 500% higher to Rs 18 crore.

The global steel industry is witnessing massive consolidation with the Arcelor-Mittal merger followed by Tata Steel's acquisition of Corus. Tata Steel acquired Corus by placing a winning bid at a price of 608 pence in cash per Corus share. The terms of the revised acquisition valued the entire existing issued and to be issued share capital of Corus at approximately £6.2 billion.

The revised price was approximately 33.6% higher compared with the 455 pence price under the original terms of the acquisition and a premium of approximately 21.6% to the revised acquisition at a price of 500 pence per Corus share announced by Tata Steel on 10 December 2006: On an enterprise value basis, a multiple of approximately seven times earning before interest, tax, depreciation and amortisation (EBITDA) from continuing operations for the year ended 31 December 2005 and a multiple of approximately nine times EBITDA from continuing operations for the 12 months to 30 September 2006 (excluding the non-recurring pension credit of £96 million). Corus has immediately brought in a capacity of 19 mtpa to Tata Steel. The Tata Steel and Corus combination has became the fifth largest steel producer.

Rising costs, and accelerated consolidation bolstered global steel prices, which trickled down to the domestic markets as well. As a result, the average domestic steel price was higher in the quarter ended December 2006 compared with the December 2005 quarter.

As per the Joint Plant Committee (JPC), the average hot-rolled (HR) coil and CR coil prices was approximately Rs 33008 per tonne and Rs 36313 per tonne, respectively, in the quarter ended December 2006 — 19% and 10% higher compared with the December 2005 quarter. HR coil 2-mm prices in Kolkata were ruling around Rs 34650 per tonne early February 2007 — up from Rs 34150 mid-January 2007 and Rs 34000 early January 2007. Hence, prices are gradually improving, thanks to the traditionally busy construction period and heavy activity in the industrial and capital goods sectors in the quarter ending March.

Outlook

The steel industry has reported a healthy set of numbers on higher prices, improved operational efficiency and volume growth in the quarter ended December 2006. Going forward, the acceleration in the pace of consolidation augurs well for the industry, which faces highly consolidated raw material suppliers and user industries. In view of the gathering pace of consolidation, steel companies are expected to get better bargaining power, which can facilitate, at least over the medium to long term, in getting inputs at finer prices from raw material suppliers and better realisation from customers.

The Mittal-Arcelor deal and now the Tata-Corus deal, both of which happened in a span of little more than seven months, indicate the rapid pace as which the steel industry is consolidating. Thanks to robust construction activities and increased thrust on infrastructure, the pace of growth in domestic demand for longs is accelerating in recent times. But costs too are rising, and only integrated players and those that have expanded their facilities or are enriching their product-mix are relatively better placed.

Sales, margin & PAT up

Steel Sector Aggregates

Particulars	**0612(3)**	**0512(3)**	**Var.(%)**
Sales	33670	24788	36
OPM (%)	23.4	19.5	
Operating Profit	7880	4836	63
Other Income	518	267	94
PBIDT	8398	5103	65
Interest	920	966	-5
PBDT	7478	4137	81
Depreciation	1432	1265	13

PBT	6046	2872	111
Tax	1909	868	120
Net Profit	4137	2004	106

Figures in Rs Crore. Source: Capitaline Corporate Database.

6.3 Textiles : Fading charm

Huge debt and equity dilution hinder growth in market capitalisation

The textile sector is aggressively expanding and modernising capacities to garner a greater share of the global pie and also to optimally capitalise on the buoyancy in the domestic market. But the markets are not enthused.

First, the restrictions on China by the European Union (EU) and the US are likely to be lifted in 2008. Second, to fund expansion, domestic players have leveraged their balance sheets by significantly enhancing debt or equity, or both. In the process, the post-dilution EPS growth is slower for many companies. The street is now waiting to see how domestic players will fare once restrictions on China's textile exports to the US and EU are removed.

The union government provides 5% interest subsidy to textile units under the Technology Upgradation Fund Scheme (TUFS) to enhance capacity. Given the rising global and domestic opportunities, players are expanding by taking debt, or diluting equity by way of preferential issue or FCCBs. RSWM, Sangam India, and Spentex are a few examples. Few companies are mid-way though their expansion and integration or witnessing a slight delay due to bottlenecks. Therefore, the impact of the partial expansion, increase in depreciation and interest costs, potential dilution of equity and the resultant shrinkage of EPS growth despite relatively good rise in profit, and the possible deterioration in earning growth due to intensified competition from China post-2008 have taken the sheen off textile scrips despite decent earning growth.

For instance, the BSE Sensex hit a low of 8,929.44 points on 14 June 2006. From that nadir, it has recovered smartly by 61% to 14,355.55 on 15 January 2007. But in this period, the market capitalisation of RSWM (previously Rajasthan Spinning and Weaving Mills) increased by a mere 19% to Rs 242.73 crore, while that of Raymond inched up just 7% to Rs 2296.53 crore. But there have been exceptions as well. Frontline textile company Vardhman Textiles's market capitalisation rose 90% to Rs 1356.73 crore in this period.

Otherwise, most textile companies have underperformed the broad rally in the markets. The earning growth is, however, expected to improve once players get the full benefit of their expansion and integration and succeed in carving out a greater niche in the global markets.

The aggregate net profit of 183 textile companies jumped 43% to Rs 706 crore as turnover rose 22% to Rs 12398 crore in the quarter ended December 2006 over the quarter ended December 2005. Operating profit margin (OPM) improved 30 basis point (bps) to 14.1%, leading to a 25% rise to Rs 1749 crore in operating profit (OP). Other income (OI) advanced 88% to Rs 250 crore, resulting in a 30% rise to Rs 1999 crore in profit before interest, depreciation and tax (PBIDT). Interest and depreciation cost were up of 37% and 14% to Rs 460 crore and Rs 603 crore, respectively, while profit before tax (PBT) improved 40% to Rs 936 crore. Tax provision was 34% more at Rs 230 crore, from Rs 130 crore in the December 2005 quarter.

Segmentwise revenue

The segments that contributed positively included composite (net profit of Rs 13 crore as against Rs 5 crore in the December 2005 quarter), spinning/synthetic/blended (up 108%), textile products (50%), and processing (61% to Rs 124 crore).

However, the net profit surged of the manmade sector by 164% to Rs 122.28 crore was mainly due to income earned by SRF on account of carbon emission receipts (CERs). Similarly, companies like Aditya Birla Nuvo (ABN) and JBF Industries reported encouraging results. Barring these companies, the performance of the segment was lukewarm.

Net sales of ABN increased 70% to Rs 2288.78 crore in the quarter ended December 2006. OPM decreased 130 bps to 13.1%, from 14.4% in the December 2005 quarter. OP grew 54% to 299.44 crore. OI inched up 6% to Rs 8.48 crore, from Rs 8.02 crore, leading to a 52% rise to Rs 307.92 crore in PBIDT. Interest cost soared by a whopping 180% to Rs.112.88 crore, and depreciation 52% to Rs 119.29 crore. Net profit (after minority interest) advanced by a mere 1% to Rs 55.34 crore.

Raymond reported a 14% decline in sales. OPM also dipped 70 bps to 16.5%. The company made a forex gain of Rs 4.62 crore as against a loss of Rs 5.68 crore in the December 2005 quarter. OP was down 17% to Rs 48.94 crore. OI surged 90% to Rs 26.81 crore. Interest stood at Rs 7.22 crore — same as in the December 2005 quarter. Depreciation declined 29% to Rs 13.37 crore. PBT was up 17% to Rs 55.16 crore. Extraordinary (EO) expense (net) stood at Rs 0.30 crore as against Rs 2.47 crore in December 2005 quarter. EO item comprised surplus on divestment of the denim division and VRS payment made and written off in the quarter. Tax provision stood at Rs 16.49 crore as against Rs 14.39 crore in the December 2005 quarter, resulting in net profit climbing 26% higher to Rs 38.37 crore. The company hived off, from 1 August 2006, its denim division to the joint venture company, Raymond UCO Denim. The financials reflect the impact of this transaction.

Vardhman Textiles reported less than 1% growth to Rs 51.57 crore in net profit in the quarter ended December 2006, from Rs 51.30 crore in the quarter ended December 2006, on a modest 6% rise to Rs 543.79 crore in net sales. OPM fell by 90 bps to Rs 17.8 crore leading to just a 1% increase to Rs 96.80 crore in OP.

Segment wise, the revenue of the fabric segment advanced by an impressive 24% to Rs 105.60 crore. But, ironically, that led to a 22% fall to Rs 7.74 crore in PBIT of this segment. On the other hand, the yarn segment's PBIT rose 7% to Rs 48.08 crore on an 8% jump to Rs 361.06 crore in revenue. The sewing thread segment continued to lose grip, with an 8% fall to Rs 85.31 crore in sales and a 6% decline to Rs 10.78 crore in PBIT. The steel segment underperformed with a 19% dip to Rs 10.40 crore in PBIT despite an 8% incline to Rs 76.50 crore in revenue.

Vardhman Textiles is in the midst of expanding its Vardhman Yarns unit as Satlapur and Vardhman Fabrics unit at Budhni (both in Madhya Pradesh). The capex on these units increased to Rs 353.22 crore and December 2006 — up from Rs 45.09 crore end March 2006, and Rs 21.76 crore end December 2005.

Net sales of RSWM edged up 8% to Rs 235.80 crore in the December 2006 quarter. The yarn segment revenue improved 15%, from Rs 224.12 crore to Rs 257.05 crore. Revenue from the fabric business stood at Rs 21.3 crore. Exports grew 29% to Rs 153.6 crore. Both synthetic and cotton yarns did well, and the demand outlook for the products is strong. Revenue momentum in the yarn business is expected to be maintained. OPM improved 100 bps to 10.5%. The fabrics and garments business delivered a loss at the earning before interest and tax (EBIT) level, which somewhat neutralised the strong operating performance of the yarn operations.

RSWM's sales of the fabric and garment operations fell 38% to Rs 21.3 crore. This business was affected as the company shifted all its looms from other locations to Mordi in Rajasthan, leading to lower production. As a result, the fabrics and garment segment incurred a loss of Rs 1.96 crore in the quarter ended December 2006 as against profit of Rs 1.74 crore at PBIT level in the December 2005 quarter. Now the presence of looms in proximity to the processing facilities will facilitate sustained earning and margin benefit.

Interest costs increased 3% to Rs 4.95 crore, and depreciation 9% to Rs 11.82 crore due to expanded capacities going on-stream. RSWM saw significant increase in the current tax liability: up 147% to Rs 1.53 crore as against Rs 0.62 crore in the December 2005 quarter. Total tax liability was Rs 4.77 crore as against Rs 5.99 crore in the December 2005 quarter. Net profit jumped significantly by 122% to Rs 9.10 crore.

Net sales of Indo Rama Synthetics (IRSL) increased 35% to Rs 536.91 crore. OPM declined drastically by 295 bps to 1.6%, resulting in OP falling 53% to Rs 8.48 crore as against Rs 18.08 crore in the December 2005 quarter as the company was not able to pass on the full impact of the input cost increases to the customers. There was a 27% rise to Rs 24.93 crore in OI compared with Rs 19.66 crore in the December 2005 quarter. Interest costs piled up by 153% to Rs 12.67 crore, and depreciation 12% to Rs 28.01 crore There was a loss of Rs 7.27 crore at PBT before EO level against a profit of Rs 7.73 crore in the December 2005 quarter, and an EO income of Rs 12.16 crore from sale of a property in Mumbai. PBT after EO was 37% lower to Rs 4.89 crore. Tax provision dipped to Rs 1.85 crore, from Rs 3.10 crore in the December 2005 quarter, resulting in net profit falling 34% to Rs 3.04 crore against Rs 4.63 crore.

Outlook

India is in the midst of massive capacity addition in the entire textile chain in general and in the spinning segment in particular.

No doubt, there is immense potential after the abolition of the quota regime. But, for now, textile companies have undertaken capacity expense through huge debt and dilution of equity, resulting in restrained earning-per-share growth despite higher net profit. It is only after the full capacities get commissioned that these companies will witness the full benefit of the expansion.

The TUFS is scheduled to be terminated by 31 March 2007. But we expect it to be extended, with a few modifications. Also, the manmade fibre sector can expect some more level-playing field: it is paying 8% excise duty while the cotton textile sector has optional excise duty. Likewise, the customs duty on a few select textile machinery is likely to be reduced.

The reduction in peak customs will adversely impact yarn and manmade fabric producers, but can benefit the garment segment. Overall, the Union Budget 2007-08 is likely to be positive for the textile sector.

As of now, the odds are in favour of the textile industry thanks to the rapid strides made by it in the global markets and the buoyancy in the domestic market as well. Much depends on how the textile sector stitches the gaps in its value chain and takes on the imminent intensified competition from China.

6.4 Consumer Durables : Festive bonanza

Rise in volumes control pressure on margin due to rising input costs

Related Tables

Taxes surge, profit growth slows

Rising disposable incomes, acceleration in urbanisation, increasing popularity of organised retail, degeneration of joint families into nuclear families together power growth. India's healthy and rising economic growth is largely consumption-driven. Rising disposable incomes, favourable demographics with a greater share of working class and younger generation, increasing urbanisation, massive growth in organised retail, the degeneration of the traditional joint families into nuclear families, and rising aspirations of the middle class are boosting demand for consumer durables.

Traditionally, the quarter ending December is a good for the consumer durables industry on account of festival demand, starting from Diwali and lasting till New Year. This year was no different as reflected by the aggregate figures of the constituents of the BSE Consumer Durables Index. In particular, players like Blue Star and Lloyd Electric & Engineering, with presence in the central/commercial airconditioning market, have benefited by sustained demand growth emanating from the industrial and service sectors.

The aggregate revenue of six companies of the BSE Consumer Durables Index rose 34% to Rs 5491 crore in the quarter ended December 2006 over the December 2005 quarter. Earning increased 18% to Rs 310 crore. But for higher taxation (up 114%), the earning growth would have been steeper. The higher taxation was on account of higher tax provisions made by Lloyd Electric & Engineering and Videocon Industries, whose tax provisions more than doubled and increased 150% and 100%, respectively.

Higher input costs continued to exert pressure on margin. Players, however, did not fully pass on the rise in costs as demand for consumer durables is elastic to prices. In the process, players benefited from the surge in revenue, and a marginal fall in margin by 30 basis points (bps) to 10.4%. Nevertheless, in view of the healthy 34% growth in sales, operating profit (OP) grew 30% to Rs 549 crore.

Other income (OI) appreciated 39% to Rs 50 crore, thereby leading to a marginal spurt in profit before interest, depreciation, and tax (PBIDT) to 31% to Rs 599 crore. However, higher interest cost, which was up by 25% (to Rs 101 crore), and depreciation cost, up by 47% (to Rs 126 crore), have some what moderated the growth of profit before tax (PBT) to 28% at Rs 372 crore. Taxation stood higher by a steep 114%, thereby compressing the net profit growth to 18% (to Rs 310 crore).

Riding on the robust growth in the services sector, specially IT/ITES and retail, the air-conditioning majors continued to see a sharp increase in revenue and earning backed by expansion in margin. The performance of Blue Star and Lloyd Electric & Engineering, representing the airconditioning segment of the industry, reflects the strong trend in the quarter with a sharp rise in top as well as bottom lines.

Revenue of Blue Star, the market leader in central airconditioning, advanced 40% to Rs 370.13 crore on double-digit growth across all segments. The company increased margin (up 50 bps to 6.4%) despite the rise in material cost on better product mix and cost management. Building on the 52% jump in OP, profit after tax (PAT) finally closed with a growth of 66% to Rs 11.50 crore with no major damage or gain from interest as well as depreciation. The company maintained its dominance in central airconditioning, with a market share of 30%. The central airconditioning segment continued to be the largest growth driver in the December 2006 quarter as well, while the fast growing cooling products business led by split airconditioners and commercial refrigeration products, too, performed very well. In addition, the professional electronics business continued to contribute significantly to the bottom line.

Blue Star has indicated it would maintain its market share above 30% in the airconditioner market. Its order book was a robust at Rs 831 crore end December 2006. The company had also said commercial refrigeration segment was picking up, and the tangible benefits would be visible in the next financial year. Also, the company had succeeded in achieving a 73% growth in the exports of central airconditioning systems in the nine months ended December 2006. Blue Star has selective presence in the international markets, mainly in regions like Qatar, Malaysia and Bahrain.

Sales of Lloyd Electric & Engineering, manufacturer of airconditioning as well as evaporator coils and condensing units used in airconditioners, rose 49% to Rs 111.34 crore in the quarter ended December 2006 over December 2005 quarter. OPM expanded 194 bps to 13.01% on overall cost savings and strong growth in revenue, thereby boosting OP by a sharp 75% to Rs 14.48 crore. There was a significant rise in overall taxation of 150% to Rs 1.25 crore. Thus, PAT surged 74% to Rs 10.90 crore.

Jewellery sales sparkle

Companies in the jewellery segment such as Titan industries and Rajesh Exports witnessed a strong December 2006 quarter, reaping the benefits of the festival season and the rise in gold prices.

Titan Industries witnessed a rise in both volume and value, with sales soaring 43% to Rs 529.14 crore, and earning by a phenomenal 155% to Rs 27.54 crore. This was the best quarter in terms of retail sales of both the jewellery and watch divisions. The revenue growth, however, was driven mainly by the jewellery division, expanding 64% of Rs 366.51 crore. OPM shot up by a whopping 323 bps to 10.62%, due to the rise in gold prices. Buoyancy in revenue growth as well as expansion in margin led the company to post a strong 155% growth in net profit.

Rajesh Exports, one of the leading exporters of gold jewellery to the US, UK, Singapore, and UAE, clocked an attractive sales growth of 44.7% to Rs 1872.45 crore, backed by increase in the prices of the yellow metal. Margin improved to 2.12%, from 2.01%, in the December 2005 quarter on strong revenue growth. OP was, thus, higher by 52.6% to Rs 39.77 crore. Nil depreciation and taxation boosted net profit 57.71% to Rs 28.12 crore.

Sales of Gitanjali Gems were higher by 67% to Rs 548.52 crore. OP growth was limited to 43% (to Rs 35.79 crore) as OPM eroded by 110 bps. Spurred by higher OI (up by Rs 44 lakh against nil), lower interest cost (down 3% to Rs 8.45 crore), and flat depreciation (at Rs 50 lakh), PBT was higher by 73% to Rs 27.28 crore. Net profit surged 86% to Rs 24.83 crore, spurred by lower tax incidence.

Gitanjali Gems acquired 97% shares of Samuels Jewelers Inc, US, the tenth largest American jewelry chain operating through 97 stores across 18 states in the US. On 14 February 2007, Gitanjali Gems purchased a majority interest in Tri-Star Worldwide LLC, a direct customer of BHP Billiton and a Canadmark-licensee. It is both a manufacturer and global distributor of the Canadia brand diamonds and diamond jewelry. By partnering with Tri-Star, Gitanjali gets an opportunity to be a part of the 'Mined in Canada' brand.

Revenue of Videocon Industries, the home appliances major, advanced 16% Rs 2058.67 crore in the quarter ended December 2006 over the December 2005 quarter. The volume growth in television sets, driven mainly by flat panel color televisions, pushed up revenue. The company amalgamated EKL Appliances with itself from 1 January 2005. The scheme became effective on 21 July 2006. Profitability in the quarter was plagued by higher interest outgo, depreciation cost and taxation. Therefore, PAT was almost flat at Rs 206.16 crore as against Rs 204.99 crore in the December 2005 quarter.

With the prices of wheat, pulses, maize and host of other agri commodities hardening significantly along with remunerative prices for cash crops such as sugarcane and cotton, rural income is getting a boost. As the penetration of various consumer durables is sharply lower in the rural areas, the rising in rural income can facilitate impressive demand growth in rural areas.

Due to the rising inflation, interest rates on loans have gone up by over 200 bps in the last few months. Though the interest rates are going up, the faster pace of growth in disposable incomes and rising consumerism overwhelm the effect of rising interest costs. Overall, rising disposable incomes, improving rural income, expansion of market with innovative variants and introduction of newer technologies bolster demand growth of consumer durables. Further, event- driven demand for consumer durables like colour television sets are likely to kick in given the start of the countdown to Cricket Work Cup.

Outlook

Going forward, the revenue growth for consumer durables is expected to be strong in the medium term, driven by rising consumption and backed by higher disposable income. The penetration levels of most consumer durables are low in urban areas and deplorably so in rural areas. The rising disposable incomes, increasing consumerism, and surge in popularity of organised retail together should bolster demand for consumer durables.

Copper prices have tumbled down from the peaks achieved in May 2006. Further, the government has cut customs duty on non-ferrous metals and alloy steel. The ensuing Union Budget 2007-06 can further favour the consumer durables segment, if peak customs duties are reduced.

Overall, the consumer durables sector is on a strong wicket on volume growth. But it has to actively manage their costs and entice customers with newer and wider range of products to ensure growth in profit.

Taxes surge, profit growth slows

Consumer Durables Aggregates

	0612(03)	0512(03)	Var. (%)

Sales	5491	4102	34
OPM (%)	10	10.3	
OP	549	421	30
Other Income(OI)	50	36	39
PBIDT	599	457	31
Interest	101	81	25
PBDT	498	376	32
Depreciation	126	86	47
Profit Before Tax	372	290	28
Tax	62	29	114
Net Profit	310	262	18

Figures in Rs crore. Source: Capitaline Corporate Database.

7 Market Beat : Busting the ‘foreign hand' myth

Increase or decrease in holding by FIIs does not have a major impact on share valuation

Related Tables

The FII impact

The conventional investing wisdom is that investment by foreign institutional investors (FIIs) in a stock boosts its valuation. There are two reasons supporting this premise. First, FIIs are supposed to focus on a stock only if they are convinced of its liquidity. Second, they see growth potential to make some money from it either in the short, medium or long term.

Many companies have indeed urged their shareholders to pass resolutions to increase the ceiling for FII ownership to boost their share prices. Some are splitting the face value of the shares to increase the floating stock.

On the flip side, prices of stocks have either stagnated or declined whenever the Reserve Bank of India announced that the FII holding in them have touched the maximum permissible limit.

A close look at the FII investment in the December 2006 quarter and the variation over the September 2006 quarter, however, shows that the link between FII holding and share prices is at best tenuous.

Of the 283 companies in the BSE 500 index (reflecting over 90% of the market capitalisation of the listed stocks) in which FII investment went up in the December 2006 quarter over the September 2006, less than half (104) saw an appreciation in their share prices, while the share prices of 179 depreciated. Of the 172 companies, where the FII holding came down, share prices of 121 companies appreciated, while those of only 51 declined.

Thus, the belief that FII investment in a company has a positive influence on a company's share price is proved wrong, at least by the trends in December 2006 quarter.

Out of the 500 companies, the December 2006 quarter numbers for 471 companies were available.

FIIs pumped in a net of Rs.107.61 crore in the 471 companies. They were net buyers in 283 companies and net sellers in 172 companies. In the balance 13 of the BSE 500 companies, their holding end September 2006 quarter as well as 31 December 2006 quarter stood nil.

FIIs took a fresh exposure to seven companies in the December 2006 quarter: Goodlass Nerolac Paints, Gilette India, Peninsula Land, Orient Paper & Industries, Unichem Laboratories, Orchid Chemicals and Pharmaceuticals, Apollo Tyres and Andhra Bank. The share prices of all the above companies, with the exception of Peninsula Land and Unichem Laboratories, dipped in the December 2006 quarter over the September 2006 quarter.

FII holding came down to zero from the September 2006 quarter in Apollo Hospitals and Man Industries.

FII purchased a net of 9.23 crore shares, comprising 19.03% of Andhra Bank's total shareholding. The FII holding in the bank was nil beginning December 2006 quarter. This was the highest stake increase as a percentage among the covered stocks in the December 2006 quarter. Andhra Bank's trailing 12-month (TTM) Price/ Earning ratio (P/E) as on 30 September 2006 was 7.93x. The stock, on 31 December 2006, was trading on a marginally lower valuation of 7.47x despite FIIs talking a huge exposure in the stock.

The valuation of Asian Electronics, the second-ranking company in terms of increase in FII holding in percentage, went significantly lower from the previous PE of 13.11x (30 September 2006) to 8.24x (31 December 2006).

Mahindra Gesco, the company with the third largest increase in FII holding in percentage, lost a huge 50 times in valuation. The EPS of the company was around three times that of the previous quarter (September 2006). The share price, however, did not rise commensurately and, hence, the fall in the valuation.

In stocks like IVRCL Infrastructures & Projects and Deccan Chronicle, where FII holding increased, the reverse happened. The former's P/E valuation went more than twice in the quarter from 14.35x as on 30 September 2006 to 36.55x as on 31 December 2006. Deccan Chronicle, too, went expensive as its P/E went up to 21.81x from 15.08x in the covered period.

So it would be wrong to deduce that every time FIIs increase their exposure in a company as a percentage of the total share capital of a company, the share price valuation goes up.

Now let's see what happened to companies where FIIs decreased their holding in the December 2006 quarter over the September 2006 quarter.

FII holding in Matrix Laboratories declined from 20.01% in the September 2006 quarter to 8.32% in the December 2006 quarter (11.68 percentage points) in the December 2006 quarter. However, the valuation ratio surged from 24.25x (30 September 2006) to 42.29x (31 December 2006).

The valuation of Welspun Gujarat, the company to see the second highest fall in FII shareholding in percentage, stayed more or less unchanged: dipping from 10.71x to 10.41x. FII holding in the company came down by 8.52% of the total share capital in the December 2006 quarter.

Other companies like Simplex Infrastructure, Anant Raj Industries and IL& FS Investsmart lost some 6% of FII holding. But all appreciated in their valuation.

Once again, this reiterates the fact that just as a higher FII holding in a company does not push up share price valuation, a decline in FII holding does not mean an erosion in valuation.

The share holding of FIIs in HDFC stood at 69.23% of the total share capital as on 31 December 2006. This is the highest FII holding in any company under our coverage.

In Supreme Industries, the FII holding stands the lowest at 0.0014%, after excluding companies where the FII holding is zero.

The FII impact

Variation in FII holding in the December 2006 quarter over the September 2006 quarter in %

Andhra Bank	19.0331
Asian Electronics	18.8098
Mahindra Gesco Developers	17.4602
IVRCL Infrastructures & Projects	14.1526
Deccan Chronicle	10.5369

The share price of Deccan Chronicle shot up 61.26% In the quarter, but that of Asian Electronics declined.

IL & FS Investsmart	-6.0615
Anant Raj Industries	-6.1562
Simplex Infrastructures	-6.45
Welspun Gujarat Stahl Rohren	-8.5231
Matrix Laboratories	-11.6892

Except for Matrix Laboratories, the other four companies witnessed a quarter on quarter appreciation in their share prices despite FIIs shedding their holdings.

8 IPO Centre

8.1 Page Industries : Good business but tight price

Good business but tight price **Will spend money on brand building, expansion and modernisation**

Related Tables

Issue Highlights

Page Industries (PIL) commenced operations in Bangalore in 1995 with the key objective of bringing the innerwear brand, Jockey to India. Over the last 11 years, the company has grown from three factories to eight, and from 249 employees to over 3,200 employees. From 800 stores in 1996, its products are now sold in over 14,000 outlets in over 1,100 cities and towns spanning across the country.

Presently, PIL has a capacity of around 33 million pieces per annum. The company generates 70% of its revenue from men's wear, 15% from women's wear, and 15% from leisurewear. It currently focuses on the premium segment and plans to enter the super-premium segment in each of these categories.

PIL plans to raise around Rs 100.94 crore - Rs 110.75 crore (depending on the price band). Of this, Rs 50-55 crore will be through offer of sale by the promoters. The balance will be used to fund brand building, expansion and modernisation. The company will spend around Rs 23.35 crore over the next three years on brand building.

Post-expansion, PIL's capacity will increase to 47 million pieces per annum in FY 2008 and 74 million pieces in FY 2009.

Strengths

* 'Jockey' is a well-established brand in the market.

* PIL has a good and growing retail presence. Brisk expansion of organised retail is positive for the branded innerwear segment.

Weakness

* PIL could face severe competition from the existing apparel brands that have now launched innerwear as their brand extension. Moreover, many foreign brands are lined up to enter the Indian market. Overall, the innerwear market will remain highly competitive and the competition in the premium segment will also grow.

* The company is the licencee of the Jockey brand and does not own the brand. It pays royalty to Jockey International, i.e., around 5% of its net sales.

Valuation

The annualised EPS for the six months ended September 2006 stood at Rs 16 resulting in a price to earning (PE) multiple of 22.5 to 24.7 times at the lower and upper band of Rs 360 to Rs 395. While the textile sector is attracting low PEs, the comparable listed company Maxwell Industries (which owns the more popular VIP and Lovable brand) trades at a TTM P/E of around 26 times. Notably, Maxwell is undergoing restructuring through merger of group companies/strategic tie-ups and the current price is factoring the benefits of that restructuring, which is not visible in its EPS currently. Moreover, Maxwell owns the its brands, while PIL is only a licencee of the Jockey brand.

Issue Highlights

Sector	Textiles-Products
Amount raised through IPO	Rs 100.94 - Rs 110.75
Price band (Rs)	Rs 360 - Rs 395
No. of shares as per price band	28,04,000
Post-issue equity (Rs crore)	11.15
Post-issue promoter stake (%)	72.35
Issue open / close	23-02-2007/27-02-2007
Listing	BSE/NSE

8.2 Tubeknit Fashions : Focused on exports to EU

Expanding and backward integrating into spinning

Related Tables

Issue Highlights

Tubeknit Fashions (TFL) derives almost its entire revenue from exports of knitted garments. It has a diverse customer base with concentration on the European Union (EU) market.

TFL has now embarked on an expansion plan which includes setting up a cotton-yarn spinning mill of 20,400 spindles and additional facilities for garment dyeing, printing, cutting, stitching and embroidery. It also proposes to invest Rs 10 crore in a 50:50 joint venture with a partner from Switzerland. This joint venture would manufacture garments primarily for exports. In addition, it proposes to invest in developing and enhancing recognition of its brand in the domestic market.

The spinning unit is expected to commence commercial production in August 2008, while the other expansions would be completed by 1 June 2007. Post-expansion, the capacity of the company would increase from 38,000 pieces per day to 78,000 pieces per day.

TFL sells its products to retailers like Tesco, which are high-volume, low-cost retailers, thereby putting pressure on margin. The company has been making losses at the operational level. It was only in FY2006 and in the nine months ended December 2006 that it witnessed a positive operating margin. The other income (mainly labour charges and cash incentives) contributed significantly to the profit.

The annualised EPS stood at Rs 7.7 in the nine months ended December 2006, resulting in a price to earning (PE) multiple of 13 to 16 times at the lower and upper band of Rs 100 to Rs 120. The comparable listed company SPL Industries (which is also into export of knitted garments) trades at a TTM PE of around 8.3 times. Larger companies like Gokaldas Exports trade at a TTM PE of around 13.8 times.

Issue Highlights

Price band (Rs)	Rs 100- Rs 120

No. of shares	4275000
Post-issue promoter stake (%)	73.74
Issue open / Close	21-02-2007/27-02-2007

9 Market watch : Movers and shakers

Prices as on 15 February 2007 with variation over the fortnight

Company	**Share Price**	**Var.(%)**
Autoline Industries	412.9	37.54

The Pune-based auto ancillary firm has scheduled a board meet on 21 February 2007 to consider buying a 49% stake in a subsidiary. The subsidiary on the company's radar is Autoline Dimensions Software. The board will also consider a proposal to acquire a domestic/foreign company on the same day along with a proposal to issue share warrants to promoters, directors and other eligible entities for not less than Rs 400 per warrant.

Punjab Tractors	341.4	37.08

The Hinduja group's Ashok Leyland (ALL) was the latest entrant in the race for 43.5% stake held by Actis and the Burmans together in the Mohali-based tractor maker Punjab Tractors (PTL). ALL has made a bid for both Actis' and Burman's stake in PTL. While Actis holds a 29% stake, the Burman family owns about 14.5% in PTL. Both Actis as well as the Burmans had decided to put their stake on the block. Following this, Mahindra and Mahindra, TAFE, Sonalika Tractors, and Escorts had shown interest in buying their stake. Tata Motors tied up with Fiat's CNH, and has also placed its bid. Acquisiton of PTL, which has a market share of 9%, can alter the fortunes in the Rs 9000 crore tractor market.

Bharat Electronics	1734.05	26.36

The state-owned electronic equipment manufacturer signed an MoU with Lockheed Martin to explore business opportunities on potential co-production avenues for domestic aerospace and defence electronics needs. This would also cover Lockheed Martin's export needs. BEL also signed two more MoUs. The first was with Elbit Systems Electro Optics ELOP, Israel, for setting up a joint venture company (JV) for development, production and marketing of thermal imaging cameras and forward looking infra red (FLIRs) for the Indian and global markets. Further, BEL ordered Elbit to manufacture tactical computers. In return Elbit gave approximately $ 0.45-million supply order to the company for gun display unit and other accessories required for Ireland. The second was with Northrop Grumman Corporation to explore business opportunities in the Indian government's current and future aerospace and defence electronics requirement as well as Northrop Grumman's international market requirement.

Fairfield Atlas	94.6	23.41

OC Oerlikon Corporation, Pfaffikon, Switzerland, and TH Licensing Inc., US, decided to acquire all equity shares of the its associate auto ancillary company at Rs 81 per share. The offer will open on 30 March 2007 and close on 18 April 2007. TH Licensing held 75.77% in Fairfield Atlas as of December 2006.

Seamec	224.85	20.01

The MNC associate shipping services provider's net profit surged 64.60% to Rs 25.86 crore in Q4 December 2006 compared with Rs 15.70 crore in Q4 December 2005. Net sales were up 124.6% to Rs 61.59 crore (Rs 27.41 crore).

Syngenta India	447.65	14.65

The MNC associate agrochemical products manufacturer will seek members' approval on 15 March 2007 to delist its shares from the BSE, following a de-listing proposal received from Syngenta South Asia AG, which along with affiliates, holds 84.02% in the Indian company. Syngenta India reported a sharp fall in net profit in the December 2006 quarter to Rs 13.71 crore, from Rs 35.80 crore in the

10 Market Report : Rally interrupted

The central bank steps in to suck liquidity and slow down credit offtake

Related Tables

Sensex snapshot
How the indices have fared
Institutional investment
Movement of the Sensex stocks
Top Gainers
Top Losers

The market seems to be on a roller coaster ride. A surge, followed by a correction, and then a bounceback. This has been its path since the beginning of 2007. The market had staged a remarkable comeback after a cooling period early January 2007, following the strong beginning to the earning reporting season.

From 13,362.16 on 10 January 2007, the benchmark BSE 30-share Sensex had surged to 14,217.75 points on 18 January 2007 — adding 855.5% points. It had moved in narrow band for a few days before moving up again. From 14,090.92 on 31 January 2007, the Sensex had gained 561.17 points, or 3.98%, in a short while to a close at 14,652.09 on 8 February 2007, boosted by US Federal Reserve's decision on 31 January 2007 to keep interest rate unchanged and strong Q3 December 2006 results.

The Union government's forecast, on 7 February 2007, of a robust GDP growth of 9.2% in the financial year ending March 2007, further bolstered sentiment before a sudden selloff gripped the market.

Correction materialised from 9 February 2007 on the eve of the Reserve Bank of India's (RBI) surprise decision after trading hours on 13 February to increase the cash reserve ratio (CRR) by 50 basis points (bps) and tightened lending norms to certain other borrowers. The idea was to slow credit offtake, particularly to sectors like real estate. The strong response to the IPO of Idea Cellular, the sixth largest cellular services provider, however, aided a rebound on 15 February 2007.

Some of the key takeaways of the fortnight ended 15 February 2007 were:

* Central Statistical Organisation predicted a robust 9.2% GDP growth rate for the financial year ending March 2007.

* RBI raised CRR, banks' cash impounded by the central bank, from 5.5% to 6%, in two stages: the first on 17 February 2007 and the second on 3 March 2007. This measure will suck out Rs 14000 crore from the banking system.

* Vodafone emerged as top bidder for the fourth largest cellular provider Hutch Essar, at a stunning enterprise value of nearly $19 billion.

* Hindalco entered into a definitive agreement to acquire US-based. Novelis in an all-cash transaction at about $6billion, including approximately $ 2.40 billion of debt.

* IPO of Idea Cellular got subscribed nearly 50 times

Index movements

Benchmarks: The Sensex lost 48.22 points (0.33%), to 14,355.55, in the fortnight ended 15 February 2007. The S&P CNX Nifty shed 37.30 points (0.89%), to 4146.20.

Niche indices: Mid-cap shares which had staged a solid surge since since mid-December 2006, too, witnessed a correction. The CNX Nifty Junior index, representing mid-cap shares, lost 112.45 points or 1.5%, to 7,284.65.

The fortnight that was

5 February: In continuation of the uptrend witnessed at the onset of the month triggered by US Federal Reserve's decision, on 31 January 2007, to keep interest rates unchanged, the Sensex surged 112 points. The market mood was uplifted by telecom stocks, which extended the previous day's gains after the Telecom Regulatory Authority of India (Trai), on 2 February, decided to lower port charges, paid by cellular operators to connect to BSNL and MTNL lines, by up to 29%. The move is expected to result in tariff cuts. Auto shares rose on renewed buying on decent-to-strong sales in January 2007.

7 February: The government's prediction of a robust GDP growth of 9.2% in the financial year ending March 2007 propped up the Sensex 165 points.

8 February: Three state-run power firms — Rural Electrification Corporation, Power Grid Corporation and National Hydroelectric Power Corporation — got the green signal to raise funds through IPOs, trigging a rebound on the bourses from an intra-day fall. The Sensex settled nine points higher, to a lifetime closing high of 14,652.09.

9 February: The market's winning streak was cut short as a surge in inflation to an over-two-year high raised concerns that interest rates might rise further. The heating up of oil prices to above $60-a-barrel played the spoilsport. The decline was spread across the small- and mid-cap segments. The Sensex lost 113 points.

10 February: The benchmark index plunged 348 points — the biggest single-day point fall since 12 December 2006 — in volatile trade. On 12 December 2006, the Sensex had crashed 404.41 points after data showed lower-than-expected 6.2% growth in industrial production in October 2006, sparking concerns of an economic slowdown. A day before, i.e., on 11 December 2007, RBI's surprise hike of 50 bps in CRR after trading hours on 8 December 2006 had resulted in a 400-point fall.

13 February: The Sensex lost 100 points in volatile trade. The barometer index fluctuated a massive 960 points between some vital intra-day tops and bottoms.

14 February: A debacle in bank shares pulled down the Sensex 81 points in another volatile session after the RBI announced after market hours on 13 February 2007 an unexpected steep hike of 50 bps in CRR, reigniting worries of rising interest rates.

Besides sucking out lendable cash with banks, RBI also tightened norms for credit to sectors that showed signs of a speculative bubble. Considering the high credit growth in the real-estate sector, rising default rates on account of credit card receivables and personal loans, RBI raised the provisioning requirement to 2% for standard assets in the real-estate sector, outstanding credit card receivables, loans and advances qualifying as capital market exposure and personal loans (excluding residential housing loans).

The central bank increased the provisioning requirement for banks' exposure to the standard assets category to non-banking financial companies (NBFCs) to 2%, from 0.4%, and the risk weight for banks' exposure to such NBFCs to 125%, from 100%.

15 February: The market staged a remarkable comeback taking a cue from firm Asian markets, a strong response to the IPO of Idea Cellular and overnight gains in Indian ADRs. Short-covering in the futures and option (F&O) market ahead of the expiry of the February 2007 derivative contracts also aided the surge. The Sensex's 346-point jump was the biggest single-day absolute gain in a little over a month. The benchmark had spurted 425.82 points to 14,056.53 on 12 January 2007, at the onset of the Q3 December 2006 earning season, with Infosys unveiling strong numbers on that day.

Institutional investment

FIIs: FIIs had stepped up buying beginning February 2007. FII inflow was a robust Rs 2909.90 crore in the five trading sessions from 2 to 8 February 2007. The strong inflow was triggered by an upgrade in India's sovereign rating to investment-grade by global rating agency S&P on 30 January 2007. But FIIs pressed sales of index-based futures worth a net Rs 1764 crore in two trading sessions, from 9 to 12 February 2007. The outflow increased to Rs 239.60 crore on 13 February 2007.

Mutual funds: Mutual funds resorted to heavy selling. Domestic funds liquidated shares worth a net Rs 1431 crore till 14 February in February 2007.

Stock-specific action

Telecom: Telecom shares were in demand on expectation of aggressive bidding for Hutch-Essar, the fourth largest telecom services provider according to subcribers. On 11 February 2007, Vodafone emerged as the top bidder for Hutchison's 67% stake at an enterprise value of $18.8 billion. Both Bharti Airtel and Reliance Communications struck all-time highs.

Telecom shares also got a lift from the strong response to the IPO of Idea Cellular, which opened for subscription on 12 February 2007 and closed on 15 February 2007. The IPO was subscribed nearly 50 times, with FIIs bidding aggressively.

RIL: Reliance Industries (RIL) found support at the lower level. The stock settled at a lifetime closing high of Rs 1406.90 on 15 February 2007. On 8 February 2007, the upstream regulator said that crude production from RIL's deepwater gas block, off the country's east coast, was commercially viable.

Hindalco: Hindalco Industries witnessed a setback due to worries that the company will not reap the benefits of the $5.9-billion buyout of Novelis, US, for some time. On 11 February 2007, Hindalco said it would pay $3.5 billion in cash and take on debt of $2.4 billion under the agreement to acquire the world's largest flat-rolled products player, with a 19% share of the global markets.

Novelis made a loss of $170 million the nine months ended December 2006 on account of some fixed-price contracts as it could not pass on the high input prices (these accounted for 20% of 2005 sales). Effective from January 2007, half of the contracts with price ceiling have expired and the remaining will by 2009-10.

Bank shares: Bank scrips drifted lower on worries of rising interest rates cooling off growth in credit offtake. The Bankex, the BSE's banking sector index, lost 77.38 points (1%) to end at 7,182.71 points in the fortnight.

Bank shares had held firm at the beginning of the month and the major portion of the fall in their prices materialised in three trading sessions, from 12 to 14 February 2007, when the Bankex tumbled 583.43% points to 6,976.88 on 14 February 2007, from 7,560.31 on 9 February 2007.

RBI, on 13 February 2007, raised CRR requirement of banks, from 5.5% to 6%, to be effective in two stage, the first on 17 February 2007 are the second on 3 March 2007. The CRR hike will suck out Rs 14000 crore from the banking system. Banks do not earn any interest on CRR funds kept with RBI. A day after the CRR hike, three state-run banks — Bank of India, Bank of Baroda and Punjab National Bank — raised their benchmark prime lending rates by 50 basis points each.

Bajaj Auto: Bajaj Auto gained 8.33% to Rs 3009.20. On 12 February 2007, the company clarified there was nothing concrete on demerging its investment arm. A newspaper had reported recently that the company had put the plan to spin off the cash and investment assets on a fast track.

Infosys: Infosys Technologies advanced 5% to Rs 2374.35 on reports that the company was scouting for mid-sized BPO companies, with a value of over Rs 400 crore, in Europe.

Suzlon Energy: Suzlon Energy plunged 14.73% to Rs 1039.75 on concerns of short-term strain on its financials due to plans for a big acquisition overseas. It offered $1.33 billion for REpower Systems AG, trumping the offer by Areva of France by 20%. Suzlon Energy is bidding in consortium with Martifer, Portugal, a steel construction company.

Listings

Global Broadcast News: News broadcaster Global Broadcast News debuted at Rs 417.10 on 8 February, at a premium of 66.8% over the IPO price of Rs 250.

The stock, which had settled at Rs 510.10 on the day of debut, surged to Rs 599.25 by 15 February 2007 after Reliance Capital acquired 16.75 lakh shares, representing 6.27% stake in the company, through open market transactions on 12 February.

Cinemax India: Theatre chain operator Cinemax India began trading on BSE on 14 February at Rs 175 — a premium of 12.9% over IPO price of Rs 155. The stock closed the day at Rs 152.35 — a discount over the IPO price. It spurted the next day to end at Rs 182.80.

Redington (India): Redington (India) debuted at Rs 140 compared with the IPO price of Rs 113 and closed at Rs 163.25 on 15 February. Redington distributes IT products in India, the Middle East and Africa.

House of Pearl Fashions: House of Pearl Fashions (HOPF) listed at Rs 500 versus the IPO price of Rs 550, and ended at Rs 469.40 on 15 February. HOPF is a ready-to-wear apparel company operating in three distinct business streams: manufacturing, marketing and distribution, and sourcing of garments.

Market outlook

The near-term trend on the bourses will be driven by budget expectations. The focus of the market will be more on sectors expected to benefit from the budget proposals.

There are concerns that the short-term capital gain tax on sale of shares, currently at 10%, may be increased. Another worry is that the securities transaction tax (STT) may go up further. The previous budget had increased STT. The removal of 10% corporate surcharge may be offset by scrapping certain open-ended exemptions.

The Sensex is up 4.1% in calendar 2007 so far. It is off 2% from its lifetime closing high of 14,652.09 of 8 February 2007.

Strong corporate earning growth in a booming Indian economy and investors' confidence in the long-term growth prospects of the Indian economy remain the key drivers of the bull run that began about four years ago. Earning growth has in recent years hovered near a breakneck pace of more than 20%. Global liquidity has only added to the upward momentum of share prices.

Meanwhile, the number of IPOs has increased sharply in the New Year. This is likely to suck liquidity from the secondary market.

Sensex snapshot

		Var(%)*
Current (15 Feb-07)	14,355.55	—
Lifetime closing high (8 Feb-07)	14,652.09	-2
End of calendar 2006	13,786.91	4.1

One-year ago (15 Feb-06)	10,113.18	41.9

* As on 15 February 2007

How the indices have fared

	15-Feb-07	Variation over (%)			
		Fortnight	Month	Quarter	Year
BSE 30	14355.55	-0.3	1.6	6.6	41.9
NIFTY (S&P CNX)	4146.2	-0.9	1.7	7	37.2
BSE 500	5428.32	-1.6	0.2	5.3	33
BSE IT Sector	5565.7	3.2	3.1	11.6	53.5
BSE FMCG Sector	1892.73	-1.4	-2.1	A-7.3	-3
BSE Capital Goods	9639.9	-1.9	4	9.4	33.5
BSE Healthcare	3803.39	-1.3	-2.7	-0.1	6
BSE PSU	6188.56	-2.5	-0.6	0.8	11
BANKEX	7182.71	-3	-3	1.7	39.1
CNX IT	5805.65	2.7	3.1	15.5	50.2
BSE Auto	5635.89	0.7	-0.3	5.8	16.7
BSE Metal	8876.23	-6.1	-4.3	-1.1	26.9
BSE Oil&Gas	6705.34	0.8	1.4	7.9	50.4
BSE Mid-Cap	5953.01	-2.7	-1.7	6.4	23.9
BSE Small-Cap	7290.26	-3.6	-2.6	12.1	15.8

Institutional investment

	FIIs	Mutual Funds
Date	**Rs crore**	**Rs crore**
05-Feb-07	664.6	-165.53
06-Feb-07	345	-28.28
07-Feb-07	656	-37.84
08-Feb-07	545.4	-193.07
09-Feb-07	698.9	-190.83
12-Feb-07	274.6	-389.38
13-Feb-07	218.7	24.87
14-Feb-07	-239.6	-481.14

Movement of the Sensex stocks

	15/02/2007	02/02/2007	VAR(%)
Bajaj Auto	3009.2	2777.65	8.3
Infosys Tech	2374.35	2259.85	5.1
Wipro	676	643.45	5.1
Hero Honda	743.6	716.1	3.8
Bharti Airtel	791.75	771.05	2.7
Reliance Inds	1406.9	1372.3	2.5
Cipla	254.7	249.65	2
Reliance Energy	542.15	534.1	1.5
Larsen & Toubro	1692.1	1677.4	0.9
ICICI Bank	948.45	944.55	0.4
ONGC	905.4	903.4	0.2
NTPC	142.2	142.35	-0.1
Tata Consultancy	1290.3	1299.4	-0.7
Satyam Computer	485.45	490.9	-1.1
ITC	173.85	176.1	-1.3
Hindustan Lever	205.75	208.45	-1.3
Dr Reddy's Lab.	734.9	745.15	-1.4
ACC	1017.55	1040.5	-2.2
HDFC	1694.5	1743.75	-2.8
Gujarat Ambuja	136.5	142.8	-4.4

Tata Motors	869.6	910.1	-4.5
Tata Steel	442.1	462.95	-4.5
Ranbaxy Lab	393.5	413.3	-4.8
BHEL	2386.45	2508.95	-4.9
Reliance Commn	466.5	490.55	-4.9
State Bank of India	1123.15	1181.35	-4.9
Maruti Udyog	892.1	944.7	-5.6
Grasim Industries	2653.65	2811.55	-5.6
HDFC Bank	1041.85	1105.15	-5.7
Hindalco Industries	151.5	183	-17.2

Figures in Rs

Top Gainers

NAME	**Price (Rs) 15/02/2006**	**15/02/2007**	**VAR.(%)**
A			
Adani Enterprises Ltd	57.95	226.6	291.03
JSW Steel Ltd	190.45	464.7	144
CMC Ltd	522	1146.2	119.58
Bharti Airtel Ltd	364.65	791.75	117.13
Kotak Mahindra Bank Ltd	237	482.35	103.52
B1			
Unitech Ltd	25.25	392.25	1453.47
Binani Industries Ltd	58.05	314.7	442.12
Goldstone Technologies Ltd	19.8	93.2	370.71
Praj Industries Ltd	104.5	404.65	287.22
Rama Newsprint & Paper Ltd	10.23	39.4	285.14
B2			

Hasti Finance Ltd	3.7	31.65	755.41
GEE Ltd	12.1	102.05	743.39
Kamanwala Housing Construction Ltd	29.9	232.8	678.6
Swan Mills Ltd	13.48	97.85	625.89
Vertex Spinning Ltd	8.27	58.75	610.4

Top Losers

NAME	Price (Rs) 15/02/2006	15/02/2007	VAR.(%)
A			
VisualSoft Technologies Ltd	214.45	84.5	-60.6
Ramco Systems Ltd	288.1	166.8	-42.1
Novartis India Ltd	596.05	347.05	-41.78
Arvind Mills Ltd	97.95	57.1	-41.7
TVS Motor Company Ltd	119.2	72.55	-39.14
B1			
Amforge Industries Ltd	234.2	12.92	-94.48
Upper Ganges Sugar & Industries Ltd	371.03	89.85	-75.78
Sutlej Industries Ltd	294.7	76.65	-73.99
Dwarikesh Sugar Industries Ltd	276.95	79.55	-71.28
Shree Renuka Sugars Ltd	1014.5	320.2	-68.44
B2			
Empee Sugars & Chemicals Ltd	29.7	8.86	-70.17
Oudh Sugar Mills Ltd	217.6	68.4	-68.57
Promact Plastics Ltd	13.02	4.52	-65.28
Kosian Industries Ltd	32.25	11.65	-63.88
Dhampur Sugar (Kashipur) Ltd	47.05	17.2	-63.44

11 Stock Watch

11.1 Watch list

The following are fundamentally strong companies identified by Capital Market analysts. The list is constantly reviewed and updated, adding scrips with upward potential and removing those that have, in our opinion, exhausted their run.

Company	**Ind. No.**	**Price (Rs) 19.02.07**	**TTM YEAR**	**TTM EPS (Rs)**	**P/E**
3i Infotech	28	290	200612	8.7	33.4
A B B	39	3917	200612	80.3	48.8
ACC	18	1017	200612	58.3	17.4
Ador Welding	41	233	200612	25.5	9.1
Ashok Leyland	5	46	200612	3.1	15.1
Asian Paints	63	786	200612	25.8	30.5
Atlas Copco (I)	25	777	200609	29	26.8
Aventis Pharma	73	1349	200609	74.8	18
B H E L	39	2380	200612	87	27.3
Bajaj Auto	8	3026	200612	119.2	25.4
Ballarpur Inds.	64	117	200612	13.8	8.5
Balmer Law. Inv.	50	108	200612	4.2	26
BASF India	22	212	200612	19	11.2

Beck India	22	357	200612	21.3	16.8
Bharat Bijlee	39	1355	200612	71.4	19
Bharat EarthMove	44	1144	200612	52.8	21.7
Bharat Electro.	43	1685	200612	79.9	21.1
Bharat Forge	17	336	200612	10.5	32.1
Biocon	70	462	200612	14.3	32.2
Blue Star	2	223	200612	7	32
BOC India	22	146	200612	9.5	15.4
Castrol India	22	224	200612	12.5	17.9
CCL Products	89	380	200612	31.6	12
Century Textiles	107	600	200612	21.8	27.5
Clariant Chemica	22	301	200609	21.4	14.1
CMC	26	1170	200612	34.6	33.8
Colgate Palm.	66	330	200612	13.3	24.8
CRISIL	106	2900	200609	50.2	57.8
Cromp. Greaves	39	206	200612	4.7	43.7
Cummins India	46	286	200612	11.6	24.7
Deepak Fert.	49	95	200612	9.5	10
Deepak Nitrite	22	156	200612	15.6	10
DIC India	77	182	200609	13.3	13.7
Dr Reddy’s Labs	70	730	200612	53.4	13.7
Eimco Elecon	44	285	200612	15	19
Engineers India	45	511	200612	24.8	20.6
Esab India	41	383	200609	26.4	14.5
Fag Bearings	13	682	200612	44.3	15.4
Foseco India	22	385	200612	25.5	15.1
GlaxoSmith C H L	54	569	200612	30.2	18.8
Glaxosmithkline	73	1148	200612	42.7	26.9

Godrej Consumer	65	153	200612	5.4	28.5
Goodyear India	105	157	200609	16.7	9.4
Grasim Inds.	107	2651	200612	139.1	19.1
Guj. Gas Company	106	1301	200609	63.6	20.5
Gujarat Apollo I	44	209	200612	21.5	9.7
H D F C	51	1692	200612	55.9	30.3
H T Media	47	170	200612	4.6	37.4
HDFC Bank	12	1033	200612	33.6	30.8
Hind.Construct.	31	126	200612	3.5	35.7
Honda Siel Power	39	184	200612	16.6	11.1
Honeywell Auto	43	1726	200612	65.6	26.3
Hyd.Industries	20	217	200612	27.3	7.9
I-Flex Solutions	27	1965	200612	42.9	45.8
Indian Hotels	57	152	200612	4.3	35.7
Indian Hume Pipe	20	453	200612	30.1	15
Indraprastha Gas	106	114	200612	9.1	12.5
Infosys Tech.	27	2378	200612	59.5	40
Ingersoll-Rand	25	350	200612	15.3	22.9
Intl. Combustion	44	316	200612	32.6	9.7
JK Lakshmi	18	152	200612	24.2	6.3
K C P	19	281	200612	31.5	8.9
Kalpataru Power	102	1173	200612	47.7	24.6
Karur Vysya Bank	12	279	200612	28.1	9.9
Kirl. Oil Engine	46	262	200612	15.7	16.7
KPIT Cummins Inf	28	162	200612	4.9	33.1
Lanxess ABS	69	167	200612	15.2	11
Larsen & Toubro	45	1693	200612	39	43.4
M & M	7	893	200612	37.9	23.6

M I C O	10	3563	200609	135.2	26.4
Monsanto India	68	1529	200612	66.7	22.9
Nestle India	54	999	200609	34.1	29.3
Nicholas Piramal	70	248	200612	9.2	27
Orchid Chem.	71	260	200612	13.9	18.7
Paper Products	62	393	200612	23.9	16.4
Petron Engg.	45	153	200612	9	17
Porritts&Spencer	97	235	200612	22.1	10.7
Ranbaxy Labs.	70	392	200612	10.9	36
Rayban Sun Optic	66	96	200609	4.9	19.7
Raymond	97	372	200612	18.8	19.8
Reliance Inds.	80	1418	200612	75.2	18.9
S E Asia Marine	82	217	200612	17.3	12.5
Shanthi Gears	44	69	200612	4.2	16.6
Shree Cement	18	1353	200612	57.1	23.7
Siemens	43	1199	200612	24.1	49.7
SKF India	13	297	200609	15.8	18.8
St Bk of Bikaner	11	3795	200612	476.2	8
St Bk of India	11	1131	200612	74.1	15.3
Steelcast	17	275	200612	30.3	9.1
Sundram Fasten.	48	73	200612	4	18.4
Tata Chemicals	49	226	200612	19.3	11.7
Tata Elxsi	28	294	200612	15.3	19.2
Tata Motors	5	868	200612	46.5	18.7
TCS	27	1310	200612	35.9	36.5
Thermax	44	394	200612	15.9	24.8
Torrent Cables	15	179	200612	22.9	7.8
TRF	44	530	200612	26	20.4

Unichem Labs.	70	265	200612	23.2	11.4
UTI Bank	12	548	200612	21.3	25.7
Valecha Eng.	31	256	200612	19.4	13.2
Vesuvius India	81	268	200609	13.2	20.3
Voltas	107	102	200612	2.8	36.7
VST Till. Tract.	7	147	200612	20	7.4
Wockhardt	70	346	200609	23.4	14.8

TTM: Trailing 12 months

11.2 Torrent Cables : Powering ahead

Improved prospects of the power sector bodes well for the company's future

Related Tables

Torrent Cables: Financials

Torrent Cables (TCL) is a leader in high-tension (HT) XLPE power cables. Its integrated manufacturing facility located at Nadiad, about 40 km from Ahmedabad, is equipped with the most advanced and well-accepted technology for the manufacture of XLPE-insulated cables up to 66 KV.

The major customers of TCL consist of private players engaged in the distribution of power, industrial houses, engineering, procurement and contractor (EPC) construction and state electricity boards (SEBs).

Of its various listed competitors (Universal Cables, Industrial Cables, Cable Corporation of India, Nicco Corporation, Fort Gloater Industries, RPG Cables, Polycab Wires, and Uniflex Cables), TCL is the most preferred and financially sound. Private sector power distributors — TCL's main clients — are performing well and they are expected to maintain a similar trend. Public sector companies are also going private and working very hard to cut their T&D losses to improve their bottom line.

Insulated power cables are very safe means to transmit and distribute power among a large numbers of customers, eliminating power theft and reducer transmission and distribution losses considerably. Liberalisation in the power sector is expected to create competition among distribution companies and the pressure to perform better will result in higher demand for insulated power cables. Overall, the entire sector is expected to do well in future.

TCL bravely faced rough weather in the recent past. During the turbulent times, TCL undertook a program for massive optimisation of its operations and reduction in cost. The company adopted the policy of cost-consciousness, waste reduction and improving competitiveness. Infusion of Rs 20-crore interest-free funds by the promoters in FY 2004 significantly supported the company's efforts into reduce interest expenses. Today, TCL is one of fastest-growing and its products are perceived in the market as one of the highest quality yet available at competitive prices. Besides, unlike most others, the company is meeting all its delivery commitments on time.

Apart from internal reconstruction, there has been a marked improvement in the industry scenario. Overall, the economy is on the upswing and investment in power is picking up. Besides, the Accelerated Power Development and Reform Programme (APDRP) of the government aims to reduce transmission and distribution (T&D) losses. This is expected to give a major boost to the demand of power cables.

Besides, the government's initiatives on power sector reforms have resulted in an increase in demand for power-related products, including cables. Presently, India faces a 10-12% gap in supply of and demand for power. A rural electrification programme has been initiated to ensure electrification of all villages by 2009. There has also been a continued effort to upgrade and modernise the power distribution network. With all these developments, the power industry would attract increased investment. This means more demand for power cables. With this in mind, the cable industry is also working towards increasing its capacities.

Currently, TCL is operating at near full capacity. The company is also investing to remove bottlenecks and improve the performance of its machines. It is evaluating expansion plans.

TCL's sales rose 55% to Rs 50.73 crore and net profit was up 66% to Rs 7.02 crore in the quarter ended December 2006 over the quarter ended December 2005.

Sales surged 29% to Rs 126.88 crore, but net profit was down 5% to Rs 11.86 crore in the nine-months ended December 2006. High/volatile copper prices and floods in Gujarat had temporarily affected its performance in the first half. However, the company is out of these blues since the third quarter and is expected to report a decent growth in the full year.

In FY 2007, we expect TCL to register sales and net profit of Rs 186.88 crore and Rs 18.95 crore, respectively. On an equity of Rs 7.48 crore and face value of Rs 10 per share, EPS works out to Rs 25.3. At Rs 179, PE is just 7.1.

Torrent Cables: Financials

	0303 (12)	0403 (12)	0503 (12)	0603 (12)	0703 (12P)
Sales	54.12	96.5	125.93	146.35	186.88
OPM (%)	16.5	21.7	22.6	21.1	17.6
OP	8.93	20.96	28.52	30.85	32.83
Other inc.	0.61	0.44	0.87	0.28	0.37
PBIDT	9.54	21.4	29.39	31.13	33.2
Interest	1.37	0.58	0.57	0.78	1.1
PBDT	8.17	20.82	28.82	30.35	32.1
Dep.	3.4	5.5	3.51	3.36	2.99
PBT	4.77	15.32	25.31	26.99	29.12
Tax	0	3.54	10.44	9.27	10.17
PAT	4.77	11.78	14.87	17.72	18.95
EPS (Rs)*	6.4	15.7	19.9	23.7	25.3

*On current equity of 7.48 crore, Face value Rs 10. (P): Projections; Figures in crore. Source: Capitaline Corporate Database

12 Capitaline Corner : FAG Bearings India : Fast growth

Over the last three years, sales have grown at a CAGR of 27% and net profit at a CAGR of 48%

Related Tables

FAG Bearings India: Financials

FAG Bearings India is a 51.33% subsidiary of German major FAG Kulgelfishcer Georg

Schafer AG. Net sales revenue jumped 29% to Rs 147.53 crore in the quarter ended December 2006. Operating profit margin (OPM) increased 30 basis points (bps) to 23.1%. Thus, operating profit (OP) was up 30% to Rs 34.03 crore. Profit after tax (PAT) before prior-period adjustments (PPA) rose 33% to Rs 20.54 crore.

Net sales surged 33% to Rs 550.73 crore in the year ended December 2006. OPM moved up 290 bps to 23%. Thus, OP soared 53% to Rs 126.83 crore. PAT before PPA zoomed 50% to Rs 74.85 crore.

FAG Bearings India has been growing consistently at an attractive rate. Over the last three years (FY 2003 to FY 2006), sales have grown at a CAGR of 27% and net profit at a CAGR of 48%. OPM improved every year, from 17.2% to 23% in this period. The return on capital employed (ROCE) at 42.5% (in FY 2005) is one of the highest in the manufacturing sector.

FAG Bearings India, manufacturer of ball bearings, cylindrical roller bearings and spherical roller bearings, is a leading supplier to the automotive industry, mechanical and electrical engineering industry, besides the Railways.

The customer list consists of leaders in their respective industries. In the automobile industry, FAG Bearings India's clients are Maruti Udyog, Ashok Leyland, Bajaj Auto, Eicher Tractors, Ford India, General Motors, Hero India, Hyundai India, M&M, New Holland, Tata Motors, and TVS Motors. In the engineering industry, the buyers are ABB, Bhel, Bharat Bijlee, Crompton Greaves, and Siemens. In the machinery sector, the company supplies to LMW, HMT, and Textools. Elecon Engineering and Neyveli Lignite in the material-handling sector and Bhel and NTPC in the thermal power sector are also its clients. Besides, FAG Bearings has many customers in the electric fan, transmission product, steel, paper, construction machinery, pump and rolling mill sectors. It also caters to the Indian Railways.

FAG Bearings had planned a Rs 80-crore capex in calendar year (CY) 2006. It is understood that it has carried our capex as per plans. Full benefit of this capacity expansion will help it to sustain its healthy sales growth in FY 2007.

The recent launch of the diesel version of Swift will give significant additional volume to FAG Bearings India — the sole supplier of bearings to Maruti’s Swift. The company also has good export business (around 18% of sales). Exports had come to its rescue even when domestic growth had slowed down in the past.

The automotive industry, the main user of bearings, remains in high gear with most categories of vehicles registering robust year-on-year growth. With road and other infrastructure poised for accelerated development as well as penetration of personalised transport set to increase with rising disposable income, the potential of continued healthy growth for the automobile industry is considered good.

The increasing exports of automotive products from India and the sourcing policy of global majors have resulted in India developing into a manufacturing hub for auto component manufacturers. As a cost effective and quality supply source, FAG Bearings India is well positioned to benefit from this indirect exports also.

The demand from the Railways, another important market segment, and other user industries such as thermal power plants, transmission products, steel, paper, construction machinery, pumps, material handling is also expected to be buoyant.

In FY 0712, we expect FAG Bearings India to register sales and net profit of Rs 688.41 crore and Rs 96.01 crore, respectively. EPS works out to 57.8. At the current share price of Rs 680, PE stands at just 11.8.

FAG Bearings India: Financials

	0312 (12)	**0412 (12)**	**0512(12)**	**0612 (12)**	**0712 (12P)**
Sales	270.5	327.19	412.56	550.73	688.41

OPM (%)	17.2	17.4	20.1	23	23.4
OP	46.5	56.86	82.82	126.83	161.09
Other Inc.	3.7	3.25	2.63	2.18	1.74
PBIDT	50.2	60.11	85.45	129.01	162.83
Interest	2.49	-0.28	0.86	1.26	1.51
PBDT	47.71	60.39	84.59	127.75	161.32
Dep.	16.74	16.99	16.83	18.3	20.13
PBT	30.97	43.4	67.76	109.45	141.19
Tax	7.81	12.52	18.02	34.6	45.18
PAT	23.16	30.88	49.74	74.85	96.01
EPS* (Rs)	13.9	18.6	29.9	45	57.8

*Annualised on current equity of Rs 16.62 crore. (P): Projections. Face Value of Rs 10. Figures in Rs crore. Source: Capitaline Corporate Database.