

HINDALCO RIGHTS ARBITRAGE

Hindalco Industries had issued the right equity shares at INR 96. The allotment was made on February 15th, 2006 by making a payment of INR 24 per share (i.e. 25%) as application money. As per the terms of the offer, further 25% of the issue price i.e. INR 24 per share would be payable any time between 9 to 12 months from the date of Allotment and remaining 50% i.e. INR 48 in 18 to 24 months from date of allotment.

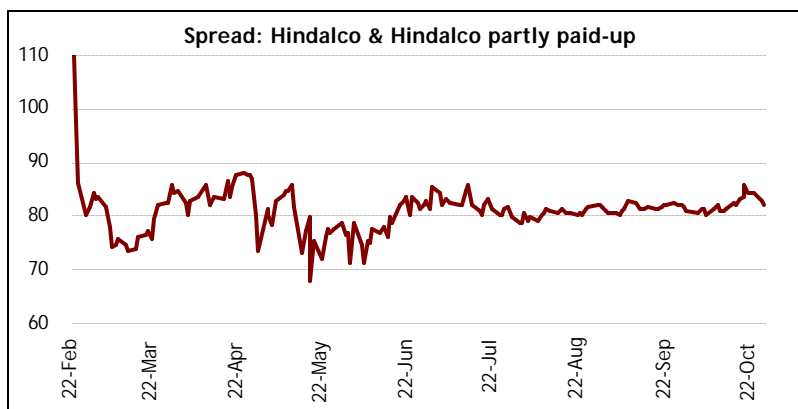
The payment of first call of INR 24 has just been concluded and the partly paid up shares got listed yesterday. The total amount left to be paid for converting the partly paid-up shares into fully paid-up is INR 48. Hence the theoretical spread between Hindalco shares and partly paid-up shares should be INR 48. The closing price of the partly paid up yesterday was INR 115 while the futures closed at INR 171.

Strategy

We recommend buying partly paid up shares and selling Hindalco futures. Reverse the trade when the spread narrows down. The strategy would yield a return of 7%.

Details	
Rights Issue Price	INR 96
Application Money paid on 15th Feb	INR 24
First call on 6th Nov	INR 24
Total money remaining to be paid i.e. theoretical spread between Hindalco & Hindalco Partly paid-up	INR 48
Current Price of Hindalco Futures	INR 171
Theoretical Hindalco Partly Paid share price	INR 123
Hindalco Partly Paid close price	INR 115
% arbitrage	7.0%

The chart shows the historical spread between Hindalco and Hindalco Partly Paid-up after the payment of application money i.e. INR 24 implying a theoretical spread of INR 72.



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Hindalco

Bloomberg Code	NHNDL
Cash Price	170.2
Futures Price	171.2
Partly Paid-up (27-Nov)	114.8
Market Cap	206,297
52 Week High/Low	251/106

* Mkt. Cap & Volume in INR mn

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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

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