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Informed Investor

A retail investor's take on the Indian stock markets

SEBI scores one for the investor

Mutual fund investors who saw a part of their capital paid out as fees to agents must rejoice at the new SEBI order banning such practices.

Henceforth investors will receive all the units in a fund they pay for at the end of a trading day. The only catch is that intermediaries like brokers and banks may charge their fees separately without limit.

Sadly, SEBI has not yet put a ceiling on the fees that may be charged by them. The last bull market saw most brokers including banks aggressively push new fund offers (NFOs) without any attempt to educate the investor.

The lessons were of course learnt the hard way when the markets sank!

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Investment Idea

Amara Raja Batteries

SEBI Needs Comprehensive Outlook

SEBI's move to bring down the overall cost of transacting in equities is a very welcome.

Last week the market regulator moved to halve fees it levies on the market intermediaries.

Turnover charges have been brought down to Rs 10 per Rs 1 cr. turnover from Rs 20. Transaction fees for debt securities have been similarly slashed to Rs 2.5 from Rs 5 for per Rs 1 cr. turnover. FIIs too will pay just US$ 5000 for registering for a three-year period, half of what they did earlier.

The market watchdog has also recommended to the government that the Securities Transaction Tax be reduced in the forthcoming budget by 50 per cent.

The benefit to long-term investors is doubtful since STT amounts to just around Rs 6.40 for a transaction worth Rs 1 lakh. But day traders and arbitrageurs who play the markets on a daily basis for margins as low as a few rupees will welcome the measure.

Long-term investors would only gain if the regulator leans on brokers to reduce brokerage fees that amount to as much as 0.5 per cent of the transaction. The actual brokerage would be far higher for a retail investor investing a few thousand rupees at time if one considers the minimum brokerage fees levied by most brokers.

Not surprisingly, transaction charges in India are the highest in the world going up to around 0.70 per cent. This despite the exchanges and brokerages adopting technological innovations like online trading that have caused volumes to go up several times in the past decade.

The NSE and the some of the brokerages, especially those run by banks, have benchmarked their fees to their counterparts in the developed markets even while enjoying India's low-cost advantages thus allowing for margins as high as 50 per cent.

It is high time SEBI looked into the entire fee structure adopted by brokerages so that investors are not charged usurious rates under various heads like account opening fees, tele-trading/ online transaction charges, internet/bandwidth charges and the like.

Brokerages are also coming up with various new methods to burden the average investor. Many brokerages arbitrarily disallow trading in scrips that do not enjoy high volumes. Often, investors are not even allowed to exit a counter after having been allowed to take positions earlier.

One retail brokerage famous for its one paisa brokerage fees has sharply cut costs by not mailing contract notes to investors. Instead these documents are emailed to a specially created address on an email interfacing system outsourced to Microsoft.

Now, the brokerage's trading site has been rendered incompatible with operating systems other than Windows and browsers except Internet Explorer. This despite browsers like Firefox and Opera being safer than the older versions of IE.

Considering that the government's objective of adopting open source software like Linux, brokerages should be forced to make their trading sites compatible with such technologies.

SEBI's regulatory brief will thus have to extend beyond the narrow confines of finance and the markets and become more holistic in order to benefit the retail investor.■

Amara Raja

BSE: 500008
NSE: AMARAJABAT
CMP (BSE): Rs 88.40

P/E (TTM): 7.4
ROCE: 31
ROE: 33
Dividend Yield: 0.5
52Wk H/L(Rs) 118.57/30.50
Debt/Equity: 1
3 Yr CAGR Sales (%): 66
3 Yr CAGR Profit (%): 121

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Bright Spark Under the Hood

An aggressive player in the automotive segment, Amara Raja Batteries has managed to increase sales despite a downturn. The company managed to grow gross sales from Rs 1,350 cr. in FY 08 to Rs 1,583 cr. in the last financial year and has set for itself a growth target of 20 per cent in FY10.

As part of its efforts to de-risk its business from the cyclicality of the automobile industry, ARB has been ramping up capacities in the industrial and battery replacement markets. The company has undertaken massive capacity expansion to ramp up production in newer segments.

With margins getting squeezed in the original equipment market (OEM) ARB has been concentrating on the battery replacement market for the past several quarters. This strategy has paid off and 62 per cent of ARB's sales come from this segment. The company now has 28 per cent of the market share of the replacement market where the unorganized sector dominates.

In the OEM market, ARB has managed to tie up with Maruti Suzuki India Ltd for retailing Amaron MGB (Maruti Genuine Battery) through Maruti Authorized Service Centres. It is also entering global markets by tying up with Tata International Ltd for export of automotive batteries to select African Countries under the AmaronR brand name.

The company has informed that its industrial battery division is growing at a steady clip with booming demand from the telecom and UPS segments. Other major buyers include the railways and companies in the IT, banking and retail segments.

To cope with increased demand, ARB doubled capacity of Large VRLA battery (PowerstackTM) to 900 Million Ah.

FY 10 will see the company increase capacity in the Medium VRLA battery (QuantaTM) segment by 50 per cent.

The past four years have seen this division grow 50 per cent on CAGR basis with ARB enjoying preferred supplier status with leading telecom operators and UPS manufacturers.

Investor-Analysis

ARB has reported excellent response to its motor cycle batteries (using VRLA technology) under the brand Amaron Pro Bike RiderTM which was launched last year. The company has already initiated capacity expansion in this segment from 1.8 million annually to 2.40 million in FY10.

A sum of Rs 95 cr. has been earmarked for capex.

Investment Rationale

Sales of passenger cars and commercial vehicles have been on an upswing for the past several years though the sector experienced some sluggishness in FY09.

Year-on-year growth in passenger cars in 2006-07 and 2007-08 were 20.7 and 12.3 per cent respectively. During the same period commercial vehicle sales grew 33.3 and 4.9 per cent respectively.

With the recession in the economy showing signs of bottoming out and newer models of vehicles hitting the markets, the automobile sector may see a period of renewed growth for the next several quarters.

To service this demand ARB has been revamping its retail network. It has more than 18,000 retail outlets and exclusive brand stores under the name Amaraon Pitstops. The company is rolling into the rural market as well and has so far more than 600 stores in the interiors of the country.

The company has also roped in franchisees to further deepen the market especially in the rural areas.

Downside Risks

The company faces a major risk from volatility in the prices of lead, the basic raw material for batteries. Rising lead prices have hit the company's margins in the past year since it had a stockpile of the raw material purchased at higher prices.

ARB's leverage is also on the higher side with debt equaling equity. It could face pressure from rising interest costs. However so far, the company has managed to hold interest payouts at a steady one per cent of turnover.

The company also faces continued risk from foreign exchange rate fluctuations. It had suffered a forex loss of Rs 32 cr. in FY 09 as the rupee depreciated against the dollar.

ARB has been volatile in the past. But as a long-term investor I would accumulate on declines.