November 2013

# MARKET PULSE

*a monthly report*

Debt

Currency

Equity

Derivative

Mutual Fund

Forex

Currency

Technical

Commodity

**Asit C. Mehta**
INVESTMENT INTERRMEDIATES LTD.

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Dear Investors,

MARKET PULSE, the monthly from ACMIIL, aims to provide insightful perspectives on all aspects of the market, the equity, debt, derivatives, forex, commodities and money markets.

Discerning and intuitive comments from the analyst teams of each of these segments aim to enlighten our clients on the developments in these segments and their impact on the respective markets. For instance, stock picks from the equity team would help investors zero down on stocks that have attractive valuations and good earnings potential. The team's sharp observations and opinions based on in-depth research on the debt markets provide would our clients a thorough understanding of the money markets.

Further, technical perspectives on the futures, forex, and commodities markets would assist our clients to identify the opportune moments to enter and exit the markets and help them derive benefits from a falling as well as rising market with the right research information at the right time.

MARKET PULSE aims to capture the market in all its hues and colors and provides a range of information that helps in making wise investment decisions.

Regards,
Research Team
ACMIIL

# MARKET PULSE

*a monthly report*

## Contents

Outlook 4

Equity 5

Technical 7

Debt 8

Commodity 9

Currency 10

Mutual Fund 11

# OVERALL OUTLOOK

## MARKET MOMENTUM SLACKENS

The market showed a sharp rise from 5700 on Oct 1 to 6350 by Diwali and euphoria started building up about a strong possibility of a new high very soon. However, strong profit-taking took the market down back to 6150. Banking counters which were the chief architects of the rally saw strong profit-taking and the Bank Nifty after touching 11700 slipped below 11000.

While the correction was more or less expected, the heartening part of this rally was the broad participation of small and mid-cap counters, which hardly showed any spark in the previous rallies.

Going ahead the market might continue to see select profit-taking based on results and re-rating of stocks could see decisive movement in select counters. Ideally it would be better to focus on select stocks rather than getting engrossed in index movement. Such identification of stocks is done by us from time to time and investment in such counters could be considered.

Happy investing!!!!

Retail Research Team

# THERMAX-RIGHT SCRIP FOR PATIENT INVESTORS

### Introduction

Thermax is a global solutions provider in energy and environment engineering. The company offers products and services in heating, cooling, waste heat recovery, captive power, water treatment and recycling, waste management and performance chemicals. It caters to a wide range of industries such as cement, fertilisers, petrochemicals, power, textiles, dairy, sugar, food, pharmaceuticals, refineries, distillery and aluminum, covering business areas such as boilers and heaters, absorption cooling, chemicals, water and waste solutions, power and air pollution control. It has presence in over 75 countries.

### Investment rationale

The sluggishness in the industrial activity in the past 2-3 years has had its negative impact on the company with margins getting squeezed.

Increasing exports is a priority across businesses. The management recently stated the same that the focus was to try and make up for the shortfalls in domestic order bookings.The depreciation in the rupee is being viewed positively as exports become competitive and import substitution possibilities increase.

Despite sluggish revenue and pressure on margins, the company has been steadily increasing its investments in gross block. Interest cover is at 30 times as of March 13, which is excellent for a capital-intensive industry. Any improvement in the investment climate would lead to improvement in margins which has been hovering around 10-11 % . For FY14 the company could be expected to post EPS of approximately ₹ 30.The current market price discounts the same by 22 times .The stock has been trading in a band of 550-630 .Gradual buying near the lower band is advised for a possible price target of 700-725.

### Financials

(₹ in crore)

| Particulars | Q1FY14 | Q1FY13 | % Chg (YoY) | Q4FY13 | % Chg (QoQ) | FY13 | FY12 | % Chg |
|---|---|---|---|---|---|---|---|---|
| Net Sales | 862.82 | 983.47 | -12.27% | 1,468.20 | -41.23% | 4,690.88 | 5,303.86 | -11.56% |
| Expenditure | 781.40 | 887.08 | -11.91% | 1,300.95 | -39.94% | 4,183.75 | 4,719.95 | -11.36% |
| Ebidta | 81.42 | 96.39 | -15.53% | 167.25 | -51.32% | 507.13 | 583.91 | -13.15% |
| Other Income | 8.14 | 18.7 | -56.47% | 24.43 | -66.68% | 73.01 | 70.50 | 3.56% |
| PBIDT | 89.56 | 115.09 | -22.18% | 191.68 | -53.28% | 580.14 | 654.41 | -11.35% |
| Depreciation | 14.24 | 13.21 | 7.80% | 14.52 | -1.93% | 54.86 | 46.96 | 16.82% |
| Interest | 0.79 | 3.74 | -78.88% | 0.47 | 68.09% | 9.65 | 6.55 | 47.33% |
| PBT & exceptional item | 74.53 | 98.14 | -24.06% | 176.69 | -57.82% | 515.63 | 600.90 | -14.19% |
| Exceptional Item | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Tax | 24.28 | 30.93 | -21.50% | 61.37 | -60.44% | 165.67 | 194.04 | -14.62% |
| PAT | 50.25 | 67.21 | -25.23% | 115.32 | -56.43% | 349.96 | 406.86 | -13.99% |
| No. of shares | 11.92 | 11.92 | | 11.92 | | 11.92 | 11.92 | |
| EBIDTA % | 9.44% | 9.80% | -3.72% | 11.39% | -17.16% | 10.81% | 11.01% | -1.80% |
| NPM % | 5.82% | 6.83% | -14.78% | 7.85% | -25.85% | 7.46% | 7.67% | -2.75% |
| Adjusted EPS | 4.22 | 5.64 | | 9.68 | | 29.37 | 34.14 | |

Source: Company

# Mahindra & Mahindra Financial Services Ltd.

### Introduction

Mahindra & Mahindra Financial Services Limited (MMFSL), a subsidiary of Mahindra & Mahindra Limited was incorporated on January 1, 1991. Being one of the leading NBFCs, the company provides vehicle finance (for utility vehicles, tractors, CVs, construction equipment, and Cars) and housing finance, focusing on the rural and semi-urban segments. MMFSL has a wide distribution network of 675 branches as on June 30, 2013 spanning 80% of the districts in India. MMFSL is one of the leading rural financers with AUM of `295.39 bn as on June 30, 2013

### Investment rationale

**Strong Distribution Network:** As on June 2013, MMFSL has 675 branches covering ~80% of the districts in India. This spells a huge advantage as such a strong distribution network in rural areas creates high entry barriers for the competitors. Widespread rural presence, strong parentage, and low loan disbursement time compared with banks has conferred a strong brand recall upon the company. Despite continuous branch expansion, the cost to income ratio has declined from 36.3% in FY11 to 32.6% in FY13 signaling operational efficiency.

**Rural Advantage:** More than 60% of the Indian population resides in rural areas, which remain a huge untapped opportunity. MMFSL is expected to benefit from growing per capita income in rural areas resulting due to the increasing focus of the government, launch of various rural development schemes such as NREGA, and the rising Minimum Support Prices for various crops. The increasing disposable income boosts consumption demand and in turn increases demand for vehicles and farm equipment.

### Valuation:

MMFS has well placed asset-liability management profile coupled adequate pricing power, which allows cost increase to be passed on to its customer. The structural and cyclical drivers are conducive for long-term growth of the company. At the CMP of ₹280, the stock is trading at 17.20x its TTM EPS of ₹16.28 and 3.57x its book value of ₹ 78.34. We assign 18x FY14E EPS of ₹ 18. We reiterate our ‘Accumulate’ call on the stock with a target price of ₹ 325.

### Financials

(₹ in crore)

| Particulars | Q2FY14 | Q2FY13 | % Chg (YoY) | Q1FY14 | % Chg (QoQ) | FY13 | FY12 | % Chg |
|---|---|---|---|---|---|---|---|---|
| Net Sales | 1,285.80 | 969.79 | 32.58% | 1,164.68 | 10.40% | 4,094.99 | 2,884.90 | 41.95% |
| Expenditure | 377.80 | 278.46 | 35.67% | 358.71 | 5.32% | 1,096.58 | 788.88 | 39.00% |
| Ebidta | 908.00 | 691.33 | 31.34% | 805.97 | 12.66% | 2,998.41 | 2,096.02 | 43.05% |
| Other Income | 4.879 | 5.834 | -16.37% | 5.976 | -18.36% | 17.974 | 25.46 | -29.41% |
| PBIDT | 912.88 | 697.17 | 30.94% | 811.94 | 12.43% | 3,016.39 | 2,121.48 | 42.18% |
| Depreciation | 6.256 | 5.928 | 5.53% | 6.625 | -5.57% | 23.66 | 20.29 | 16.63% |
| Interest | 547.746 | 401.55 | 36.41% | 494.757 | 10.71% | 1,670.59 | 1,139.90 | 46.56% |
| PBT & exceptional item | 358.88 | 289.69 | 23.88% | 310.56 | 15.56% | 1,322.14 | 961.30 | 37.54% |
| Exceptional Item | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 30.52 | 0.00 | 0.00 |
| Tax | 123.565 | 96.716 | 27.76% | 106 | 16.57% | 423.75 | 316.78 | 33.77% |
| PAT before minority int. | 235.31 | 192.97 | 21.94% | 204.56 | 15.03% | 928.91 | 644.52 | 44.12% |
| Minority interest | 2.82 | 0.47 | 505.38% | 1.51 | | 1.87 | 1.02 | 82.81% |
| PAT after minority int. | 232.50 | 192.51 | 20.77% | 203.06 | 0.15 | 927.04 | 643.50 | 44.06% |
| No. of shares | 56.88 | 10.36 | | 56.88 | | 56.88 | 10.36 | |
| EBIDTA % | 70.62% | 71.29% | -0.94% | 69.20% | 2.05% | 73.22% | 72.65% | 0.78% |
| NPM % | 18.30% | 19.90% | -8.03% | 17.56% | 4.20% | 22.68% | 22.34% | 1.53% |
| Adjusted EPS | 4.14 | 18.62 | | 3.60 | | 16.33 | 62.20 | |

Source: Company

## Bank Nifty:

**Closing: 11614 (on 3rd Nov)**


### Bank Nifty Constituents

| Company's Name | Weights(%) |
|---|---|
| ICICI Bank Ltd | 28.75 |
| HDFC Bank Ltd | 27.3 |
| State Bank of India | 12.75 |
| Axis Bank Ltd | 9.77 |
| Kotak Mahindra Bank Ltd | 5.86 |
| IndusInd Bank Ltd | 4.03 |
| Yes Bank Ltd | 2.72 |
| Bank of Baroda | 2.71 |
| Punjab National Bank | 2.28 |
| Bank of India | 1.35 |

The Bank Nifty Index comprises of 10 banks, half of which are private sector banks. The top 5 constituents comprise almost 85% of the index. These are the stocks responsible for the major movements in the Bank Nifty index. During the last couple of sessions we saw huge buying in all frontline as well as midcap PSU banks.

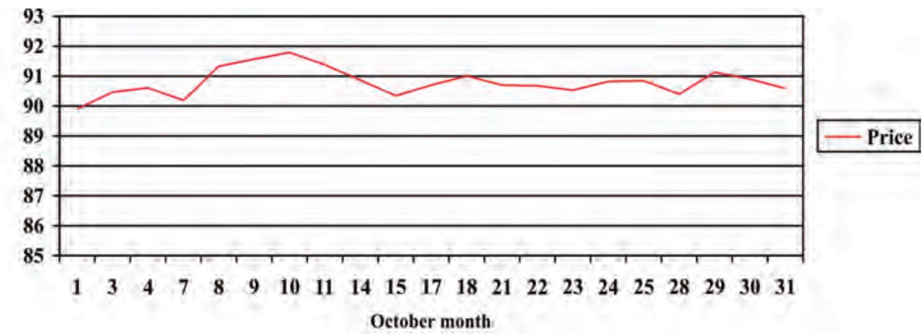
On daily charts it is clearly visible that prices have been trading above the 61.8% retracement of the previous decline. This is a good sign in favor of bulls. Although the level is being held, the candlestick pattern suggests a possible reversal. As it is on the upside 11680-11720 is a strong resistance area. Hence upside looks limited as of now and the risk-reward is in the favor of bears here. A break below the 11475-11465 zone could pronounce more weakness for Bank Nifty.

# DEBT MARKET REPORT

October began with RBI reviewing the prevalent liquidity conditions.

**As a continuation of the calibrated unwinding, RBI decided to:**
1. Reduce the marginal standing facility (MSF) rate by further 50 basis points from 9.5% to 9.0%
2. Provide additional liquidity through term repos of 7-day and 14-day tenor for a notified amount equivalent to 0.25% of net demand and time liabilities (NDTL) of the banking system through variable rate auctions on every Friday, beginning October 11, 2013

**Further, the RBI announced the following policy measures at its monetary policy meeting on October 29, 2013:**
1. It reduced the marginal standing facility (MSF) rate by 25 basis points from 9.0% to 8.75%
2. It increased the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 7.5% to 7.75%
3. The liquidity provided through term repos of 7-day and 14-day tenor has been increased from 0.25% of net demand and time liabilities (NDTL) of the banking system to 0.5%




| As on 31st October | T-Bill | CD |
|---|---|---|
| 1m | 8.60% | 8.62% |
| 3m | 8.61% | 8.75% |
| 6m | 8.60% | 9.15% |
| 1yr | 8.57% | 9.00% |

| As on 31st October | G-Sec | Corp bond |
|---|---|---|
| 3yr | 8.68% | 9.36% |
| 5yr | 8.64% | 9.49% |
| 10yr | 8.62% | 9.47% |
| 15yr | 9.05% | 9.65% |

October has seen banks' credit-to-deposits ratio rise to all time high of 78.52%, indicating that banks were borrowing from the market to lend rather than from lower-cost deposits to lend for projects and working capital.
The government also has plans to launch trading of government bond futures within the next two months as a part of the efforts to deepen its presence in the financial market.

**Outlook:**
Unwinding of the special forex window to oil marketing companies (OMCs) may see long-term interest rates moving northwards because of dollar demand in the market. Further, whether the RBI keeps the window open for stability in the forex market remains to be seen. Market also expects further rate increase by 25 basis points depending on inflation numbers.

# MCX- Copper

**Copper -** The Metal Leader made a life time high of ₹ 512 on MCX August 2013 futures contract. The rally started from ₹ 410 since end of July 2013; a rise of 25% in the span of a month. A sharp rise was hard to believe by traders and open interest rose to the highest level on MCX contract. However the prices were unable to sustain higher levels and corrected from ₹ 500. It was mainly due to a combination of short buildup of positions and profit taking by traders, the prices fell back to the ₹ 450 levels. A consolidation is seen in the range of ₹ 440-460 as of now.

Looking at the current chart, the price is taking support on the rising trendline. Also the 100DMA is at ₹ 445 where price was seen hovering since couple of sessions. The positive divergence on momentum oscillator indicates a bounce in price from trendline.

**Trading View:** - Buy Copper At 445-447 for targets of 458-464 SL below 440(Closing basis)
If copper trades below 440 then,

Sell Copper At 439-438 for targets of 422-416 SL above 445(Closing Basis)

## USD-INR:

**Fundamental View :**

Last week, the rupee consolidated in the 61.95 to 61.23 range and settled at 61.71 against the dollar, up by 0.70%. Although the Sensex and Nifty traded near their historical high levels of 21000 and 6300 respectively, the rupee ended on a weaker note. On a weekly basis, Indian Rupee depreciated around 0.5 percent on the back of month end dollar demand from importers coupled with strength in the DX. In later part of the week, fears of QE tapering by the Federal Reserve in its December monetary policy meeting also acted as a negative factor.

However, sharp downside in the currency was restricted due to statement from RBI (Reserve Bank of India) that inflation is the prime target and necessary measures will be taken to control it. Additionally, US Federal Reserve's decision to delay its QE tapering program during the early part of the week and rising inflow of foreign funds cushioned sharp downside in the currency. The Indian Rupee touched a weekly low of 62.01 and closed at 61.74 on Friday.

The weakness witnessed in the rupee was preceded by the weakening of the euro and the rising of the Dollar index. The emerging market currencies also settled on a weaker note against the dollar, supporting the downside in the rupee. The euro weakened after the European labor department showed that the unemployment rate rose to a record high level of 12.2%. The euro-zone's inflation slowed to 0.7% in October, the lowest level since November 2009 and well below the European Central Bank's target rate of 2%. Other economic releases also turned out negative for the euro last week. This supported gains in the Dollar index even though the US economic releases mostly remained mixed.

# War Creates Winner – MF perspective

***Make sure that you invest in Warriors. Mutual Funds are fighting it out like warriors in these challenging times and are likely to emerge winners in the long run.***

Currently, it is a war between the equity and debt markets, as the markets are poised to break out in the medium-to-long term. It is possible for both the equity and debt markets to break out simultaneously. Therefore, it is crucial as an investor, looking to beat high inflation, to keep pace with growing demand for better lifestyle and increasing prices for a better living. One can achieve this cautiously through ideal asset allocation across products and sectors.

Today, inflation is rulling around 7%, fiscal deficit is on the higher side, GDP growth is constantly dipping, and Fitch, S&P, and other credit rating agencies are contemplating India's credit rating downgrade. Further, given government's inaction on reforms or policy, the country is left in despair. However, we see bright light at the end of the tunnel.

A thumb rule, which usually worked well for investors, was to invest when most of the common investors are moving away from the markets even on low to moderate valuations and peak point of interest rates. Today, although markets are at a five-year high, we should not forget that they have only achieved this based on the position created five years ago. During this period, although there were some quarters with lower and sometimes negative growth, Indian companies have still registered descent growth well above what they achieved five years ago. Considering the current valuation, markets look moderately valued and provide investors with considerable opportunities in terms of future. Nifty stocks are well positioned, with Nifty's current trailing P/E levels of 18x expected to deliver above-average returns in the long term.

On interest rates, there is consensus that for now, vertical movement of interest rates has almost ended and soon RBI would start pulling down interest rates to push credit growth. Coupled with this, if government acts faster on the reforms process in next one year, we could expect some good news on FDI and capital market inflows. Although RBI's hands are tied on lowering interest rates due to high fiscal deficit and high inflation, the government could control inflation by working on the supply side.

RBI is likely to lower interest rates, as inflationary pressure settles, which would augur well for the economy. Once consumption starts moving upward, it will result in positive numbers for some frontline sectors. Fall in interest rates would also help the debt markets deliver double-digit returns. From the current focus of short-term papers, markets would move towards medium-to-long term papers, creating better demand for long-term bonds.

**Mutual Fund Performance**

- In the past three months, on an average, equity-diversified funds have delivered more than 11% returns and large-cap funds were able to deliver around 10% returns.
- Among sector funds, IT sector generated more than 16.1% and the banking and finance sectors delivered more than 11.7% returns.
- Banking funds are expected to do well in the long term, once banking reforms are in place and credit growth starts picking up.
- Among debt funds, ultra short-term funds have given around 9% average returns in a year and are expected to clock descent returns in the coming months due to RBI's current stand on interest rates.

Although there could be fluctuations in the economic growth leading to volatile markets, this is only likely to create a good opportunity for investments for long-term gains.

War creates winners, but this war between economic growth, deficit, inflation, and interest rates is expected to benefit the equity and debt markets soon. You have to invest in both the equity and debt markets in a descent proportion and the best way is through the mutual fund route.

We recommend investing certain allocation into pure equity funds, which is further divided into large-cap, mid-cap, flexi-cap, and sector funds. Further, some proportion should be invested across income funds and short-term plans with some percentage of it holding as cash component in liquid funds to add to your equity investments in case of some correction with 2-3 years investment horizon.

Talk to our 'Financial Advisor' to get insights on your risk profile, ideal asset allocation, and best-suited portfolio of mutual fund schemes.

November 2013

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## Analyst Panel

| Equity & Derivative | |
|---|---|
| K Subramanyam | 022 2858 3739 |
| Sumeet Jain, CMT | 022 2858 3740 |
| Akhil Rathi | 022 2858 3733 |
| Shrenik Gujrathi | 022 2858 3209 |
| Umesh Ghadi | 022 2858 3208 |
| | |
| **Commodities** | |
| Kiran Jani | 22 2858 4600 |
| | |
| **Currency** | |
| Kamaljeet Kaur Saini | 022 2858 3766 |
| | |
| **Mutual Fund** | |
| Manish Tawde | 022 2858 3251 |
| | |
| **Debt Market** | |
| Vrushti Shah | 022 2858 5959 |
| Sachin Kathar | 022 2858 5959 |


Retail Research Desk:

91 22 2858 3739

retailresearch@acm.co.in






| Disclosure of Interest | MARKET PULSE - November 2013 |
|---|---|
| 1. Analyst ownership of the stock | NO |
| 2. Broking Relationship with the company covered | NO |
| 3. Investment Banking relationship with the company covered | NO |
| 4. Discretionary Portfolio Management Services | NO |