ARIHANT's VALUE Plus

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Monthly Newsletter (For private circulation only) Issue : October, 2012

FDI in retail - Divide in coalition

ARI - Movers & Shakers

INDIAN INDICES

Indices	Sep-12	Aug-12	Change %
SENSEX	18763.00	17429.00	7.65
S&P CNX NIFTY	5703.00	5258.00	8.46
BANK NIFTY	11457.00	9990.00	14.68
CNX MIDCAP	7840.00	7066.00	10.95
S&P CNX 500	4504.00	4130.00	9.06
CNX IT	6314.00	6072.00	3.99
CNX REALTY	245.00	199.00	23.12
CNX INFRA	2526.00	2234.00	13.07

(Source: BSE & NSE)

BSE-SECTORAL INDICES

Indices	Sep-12	Aug-12	Change %
AUTO	10413.00	9240.00	12.69
BANKEX	13139.00	11516.00	14.09
CD	6940.00	6241.00	11.20
CG	10957.00	9447.00	15.98
FMCG	5507.00	5356.00	2.82
HC	7528.41	7496.00	0.43
IT	5923.00	5742.00	3.15
METAL	10528.00	9688.00	8.67
OIL&GAS	8662.00	8212.00	5.48
PSU	7416.00	6939.00	6.87
REALTY	1847.00	1511.00	22.24
TECk	3417.11	3252.00	5.08

(Source: BSE)

GLOBAL INDICES

Indices	Sep-12	Aug-12	Change %
DOW JONES	13437.00	13090.00	2.65
NASDAQ	2799.00	2772.00	0.97
HANG SANG	20840.00	19482.00	6.97
FTSE	5742.00	5711.00	0.54
NIKKEI	8870.00	8840.00	0.34

(Source: Telequote software)

COMMODITIES and FOREX

Particular	Sep-12	Aug-12	Change %
MCX GOLD	31535.00	31206.00	1.05
MCX SILVER	62780.00	58404.00	7.49
MCX CRUDE OIL	4887.00	5358.00	-8.79
MCX-SX USDINR	53.05	55.78	-4.89

(Source: Telequote software)

FII ACTIVITY (₹ in cr)

Date	Gross Purchases	Gross Sales	Net Pur/Sales
Total for Sep 2012	66,752.50	47,491.20	19,261.50
Total for 2012 *	486,892.50	404,561.69	82,331.00

(Source: SEBI)

MF ACTIVITY (₹ in cr)

Date	Gross Purchases	Gross Sales	Net Pur/Sales
Total for Sep 2012	10,427.20	13,625.90	-3,198.70
Total for 2012 *	91,929.10	104,917.60	-12,988.50

* Till Sep 2012

(Source: SEBI)

Market Commentary

September 2012 brought cheers to the Indian equities as markets stayed buoyant most part of the month on the back of announcement of bold economic reform initiatives by the Indian government like the long-awaited opening of FDI in aviation and retail sector and cap on cooking gas subsidy and hike in diesel prices, proposal to defer General Anti-Avoidance Rules (GAAR) until 2016 (that boosted investor sentiments) and the gush of liquidity provided by central banks of developed countries globally. The index reached its highest closing level in nearly fourteen months during the month of September 2012.

During the month, the BSE Sensex jumped 7.65% to 18763 and S&P CNX Nifty surged 8.46% to settle at 5703, its highest closing level since 26th July, 2011. Not only did the broader indices end in green but even the sectoral indices inched up and led the rally. As the markets registered strong gains, all the sectors also ended the month on a positive note. BSE Realty jumped a whopping 22.24% during the month followed by CG that moved up 15.98% and Bankex (14.09%).

The foreign institutional investors (FIIs) pumped in an amount of Rs 19,261.50 crore during the month, the highest monthly flow recorded in the past seven months. While FIIs turned bullish, domestic institutions took this opportunity to book some profits and turned net sellers of equities to the tune of Rs 3,198.70 crore during the month.

Interestingly, the Indian government roared back to life in a dramatic fashion by announcing big bang reforms during the middle of the month as part of a package of measures by opening up its supermarket sector to foreign chains and also allowing more foreign investment in airlines and broadcasters. It also approved the sale of stakes in four state-run industries. Meanwhile, ministers of the Trinamool Congress party, a part of coalition government withdrew their support to the Congress-led UPA, in protest against FDI in retail.

Indian equity markets gave a big thumbs-up to the government's first major action to reduce the burgeoning fiscal deficit by raising diesel price by Rs 5 per liter and limiting the number of subsidized cooking gas cylinders per household to six per year. The current move to hike diesel prices is expected to reduce the under-recovery of oil marketing companies by about Rs 15,000 crore of the total expected Rs 1.03 lakh crore in the current fiscal.

The Indian rupee appreciated against US dollar that also brought some cheer to the markets. In fact, USD-INR depreciated against most global currencies ending up by a stark -4.89% lower during the month to settle at 53.05. The Indian rupee saw its strongest level in five months, which was mainly on account of quantitative easing program announced by the Fed chairman.

The Reserve Bank of India announced a reduction of 25 basis points in the cash reserve ratio (CRR) in its mid-quarter monetary policy review, a move that is expected to inject Rs 17,000 crore liquidity into the system. The move is widely expected to induce banks to cut the deposit rates or even a cut in base rates.

The wholesale price index (WPI) rose to 7.55% in August 2012 from a year earlier, mainly driven by higher food prices due to deficient monsoon. The index of industrial production (IIP) grew at a meager 0.1% in July as against 3.7% in the same month last year. Poor show by manufacturing, mining and capital goods sectors, reflecting weak economic activity added to the woes of IIP pressure.

A poor show by the manufacturing sector and global economic headwinds affected India's merchandise exports also in August, which fell at a sharper pace than imports, widening the trade deficit marginally to $15.6 billion from July's $15.5 billion.

On the global front, US Federal Reserve announced to buy $40 billion worth of mortgage back securities per month to keep borrowing rates low and would keep its benchmark interest rates "exceptionally low" until the middle of 2015. The QE3 program is widely expected to trigger capital flows back to emerging markets.

Gold prices surged in the month on the back of poor economic data from most countries. Poor manufacturing in China, tepid job reports in the US and stimulus measures by several countries increased demand for the bullion. On the other hand, crude prices on MCX fell by 8.79% during the month on the back of sub-par economic news from several countries.

Going forward, the markets would take direction from the forthcoming results reason when companies will announce their performance for the September 2012 quarter and discuss their future outlook. Indian economy is still clocking a strong growth compared to other economies in the world and there are good investment opportunities that investors should spot and continue to deploy their money in. Any adverse international cues could result in knee-jerk reaction which should be utilized as an opportunity to buy the resurrected "India Story" as the world liquidity chases it.

Auto Sales Registered growth in Sep 2012

Sales numbers reported by auto companies for the month of September 2012 have not shown clear signs of improvement. Due to the time lag difference of the Diwali festival season (this year it is 1 month late), the yoy wholesale numbers give the artificial impression of a strong correction. Even based on the trailing 3 months average, numbers continue to be weak in the light of challenging macro trends. The only segments which have performed well in the domestic market are SUV's, LCV's and scooters. M&HCV's, motorcycles and cars have been amongst the worst performers.

The sharp correction in yoy % wholesales for all two wheeler companies in September is skewed due to the impact of the difference in time lag of the Diwali festival season (this year Diwali is one month late).Hero Moto, Bajaj and TVS's domestic numbers fell by 26%, 18% and 22% respectively. Maruti's domestic numbers improved with resumption of production following their labour disputes, their growth came at 13%. Tata Motors overall domestic numbers fell 3%, due to the continued slowdown in the Heavy commercial vehicle space, which fell by 16%. Mahindra's automotive segment registered a 10% growth, but their all important domestic tractor segment is still struggling to grow in FY13YTD. Ashok Leyland's "Dost" LCV continues to receive a positive response in the sub 1.5 tonne commercial vehicle category, sales have averaged about 2600 over the past 6 months.

Outlook: The trailing 12 month yoy% growth trend in the domestic market shows continuing weakness post January 2012. Growth has fallen sharply in August, with overall auto sales (all segments) falling to -4% in August. September numbers released over the last 3 days also confirm the negative trend. We don't expect the situation to improve significantly in FY13, however easing of macro pressures in FY14 can result in re-entry of deferred purchases and improved sentiment.

Key News and Events in Sept 2012

Domestic News

- July 2012 IIP number: The Index of Industrial Production (IIP) grew marginally by 0.1% during July 2012 as against 1.8% contraction in the previous month of June 2012.
- August 2012 inflation shockingly spurts to 7.55%: The wholesale price index (WPI), India's main inflation gauge, shockingly rose at 7.55% for the month of August 2012, as compared to 6.87% for the previous month and 9.78% during the corresponding month of the previous year. The increase was mainly driven by higher food prices due to deficient monsoon, as per the government data release.
- Monetary Policy: The Reserve Bank of India (RBI), in its mid-term monetary policy review has cut cash reserve ratio by 25 basis points (bps) or 0.25% to 4.5% keeping the other policy rates unchanged. The move is expected to infuse Rs 17,000 crore liquidity into the system.
- FDI in July 2012 jumps up by 60% to $1.76 billion: After declining for three consecutive months , country's foreign direct investment (FDI) in India has now increased by about 60% to $1.76 billion in July 2012 from $1.10 billion in the corresponding month of the previous year. However, the FDI inflows dipped to $6.18 billion from $14.6 billion for the period of April-July 2012 in the corresponding month of the last year.
- Indian exports decline by 9.7% in August 2012: Indian exports dropped by 9.7% in August 2012 to $22.3 billion on account of global economic slowdown. The sluggish demand in Europe and US made the exports difficult. However, imports declined by 5.1% to $38 billion leading to a large trade deficit of $15.7 billion in August.
- India's balance of payments: In Apr-Jun 2012, current account gap stood at $16.4 bln compared with $17.4 bln a year ago, as per data release by the Reserve Bank of India. However, as a percentage of gross domestic product, current account deficit in Apr-Jun 2012 was 3.9%, higher than the 3.8% recorded a year ago.

ARI - Equity Outlook & Currency Pick

Technical Equity Market Outlook

Markets witnessed strong upside momentum in the month of September 2012 as the ruling government took firm steps towards economic reforms. On the sectoral front Realty, Auto, Bankex and Consumer Durables ended with handsome gains. The Sensex closed with a net gain of 7.65% whereas the Nifty gained 8.46% vis-à-vis the previous month.

Technical Observation

On the monthly chart

- We are observing strong bull candle which has closed convincingly above the 5&20-Month EMA. This reflects that undertone is positive.
- The momentum indicator viz CCI is gaining strength. This suggests further upside momentum in coming months.

On the weekly chart

- We are observing a narrow range body formation which resembles a "Spinning Top". This gives a small clue that the prior uptrend is losing breath.
- At present, prices are now heading towards the upper trendline of the channel.

On the daily chart

- We are observing that for current uptrend, 5-days EMA is acting as support for the prices. This reflects that the undertone is positive.
- The trend following indicator viz. CCI is gaining momentum. This suggests strength going forward.

Conclusion

Combining all the above pattern formations on three different time frames, it is evident that the undertone in the market is positive. At present, 5740 level is the immediate supply zone going forward. Any sustainable up move beyond 5740 level may lead nifty to test 5800 – 5862-5963 levels. On the downside, 5600 – 5500 may act as support for the month.

Broadly, at 5962 level a Harmonic Gartley pattern gets completed. Hence, we expect some resistance near the above mentioned level of 5962.

Currency Pick: USD-INR SELL

USD-INR currency pair has been plummeting continuously from its high of Rs 57.52 in June 2012 to Rs 53.05 in September 2012 owing to strengthening rupee. Technically, prices are expected to remain on the downside due to the following reasons:

- On the monthly price chart, rising wedge trend reversal pattern has been witnessed
- Prices have settled below the short- term moving averages
- Prices are currently sustaining below 52.90 which is 38.2% Fibonacci projection of the range 43.83-54.5-48.83. As per the projections, next support level is seen at 51.30-48.80
- The momentum indicator RSI (14) is treading at 0.55 and is in negative divergence with the prices.

Events to watch out for:

- World Economic Outlook by IMF. Any positive outlook might bring some correction for the dollar.
- Oct 11th: Index of Industrial Production (IIP) data for the month of August is set to be released by CSO (previous IIP stood at 1% against -1.8%; that could extend bearish trend for USD-INR if the figures come higher from July data).
- On Oct 14th: the WPI inflation for September 2012 is due to be released by the Commerce and Industry Ministry which could create volatile sessions.
- Oct 30th: RBI's second quarter monetary policy review.
- Additionally, positive sentiments of foreign investors into local share market is likely to bring selling activities in the pair.

In the view of above analysis, we expect that the bearish mode may remain intact for the coming month also .

Hence, we recommend sell on USD-INR in the range of Rs 53.00-52.80 with stop loss of Rs 53.80 and a prices target of Rs 51.80-51.50 for short to medium term.

ARI - Commodity Pick

NATURAL GAS BUY

In last 6-7 years, Natural Gas has become an important source of energy worldwide and the credit to enhance its production technology goes to America. Today, USA is in a position to extensively start exporting Natural Gas to other countries as it has gluts of storages with an impressive 28% rise in production. If we see the price

behavior of Natural Gas in last few years then it becomes clear that volatility levels have remained higher in comparison to other sources of energy with prices ranging from \$2 to \$11. It is a commodity for traders who can digest the electrifying price movements and never question its roller coaster ride since the core fundamentals are highly dynamic in nature due to their collaboration with more dynamic factor-Weather. Talking of the current scenario, prices were at their all time lows in April this year and are slowly forming a strong base to move up from here. Looking at demand and supply scenario, it seems that worst is over for Gas as more and more countries including India are now preparing to shift their consumption towards natural gas as fundamentals associated with crude oil invites geopolitical volatility. Thus, natural gas simply is a better choice for traders.

Technically, prices have given positive breakout of a falling channel and are now moving upward with rising volumes and Open Interest. Momentum indicators like MACD and RSI are in their positive crossover while ADX is coming out of its shy range on daily chart. If the consolidation phase from April'12 to August'12 is taken as base then we can comfortably call the current small rally that of an impulsive wave structure and this structure signals a big reversal from here. Hence, we recommend buy and accumulate on Natural Gas in the range of Rs 168-165 with stop loss of Rs 159 and a prices target of Rs 188/199 for short to medium term.

SOYBEAN BUY

Jump in soybean imports by China, which was mainly sourced from the US, may be one of the major fundamental factors which may boost the prices of soybean going forward. Apart from this, Statistics of Canada said the Canola harvest was lesser than what farmers expected which could shift some of the demand for the oilseed to US

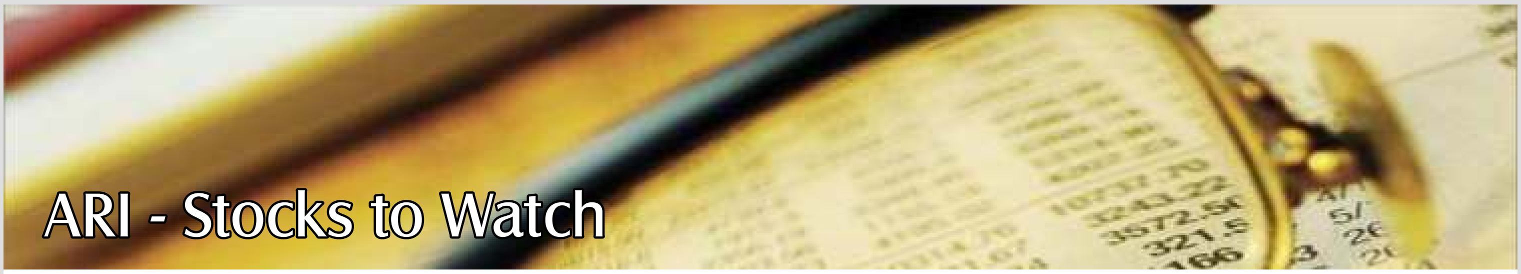
soybeans. In India, demand for soy oil is expected to rise due to upcoming long festival season which in turn will directly impact the prices of soybean. Also, the recent correction is likely to attract stockists as the overall crop output in India is estimated to be on lower side.

Meanwhile, the USDA will issue its monthly report on demand and supply of agricultural products on 11th Oct, which may be an important factor to watch.

Analyzing soybean daily chart by Elliot wave study, we conclude that the C wave structure is over and we may see some rebound in the trend from here. Prices are expected to rebound till at least 3350 which is 38.2 % Fibonacci retracement of wave C.

Daily chart of Soybean Nov contract, is trading far below the short and medium term moving averages signaling a rebound in the prices. Candle stick pattern along with the volume is also suggesting short term trend reversal. The momentum indicator RSI (14) is treading 0.29 and is clearly showing a rebound as it is ascending from the oversold zone. Also, there is a positive cross over between RSI (14) and it Moving Average (9).

In view of the above technical analysis, we expect a relief rally in the soybean prices. Hence, we recommend buy and accumulate on Soybean in the range of Rs 3,050-3,020 with stop loss of Rs 2,900 and a prices target of Rs 3,220/3,330 for short to medium term.



ARI - Stocks to Watch

PETRONET

Target Price: ₹ 174-184

CMP: ₹ 161.45

Stop-Loss: ₹ 148.00

Moving Averages	
13-DMA	163
50-DMA	154
200-DMA	152

Trends	
Short	Up
Medium	Down
Long	Up

Support / Resistance	
R2	184.00
R1	174.00
CMP	161.45
S1	155.00
S2	148.00

Petronet LNG Ltd (Petronet) is an Indian oil and gas company formed by the government of India to import liquefied natural gas (LNG) and set up LNG terminals in the country. It has been trading in downtrend from its peak of Rs 179.80 on 21st Feb, 2012. The stock made a 52-week low of Rs 122.25 on 18th May, 2012 and a 52-week high of Rs 178.75 on 21st Feb, 2012. The stock has bounced from Rs 122 level. The stock is taking strong support at 200 DMA and trading around multiple support areas, which are around Rs 158-155. The said pattern suggests that stock can move further upside in couple of weeks.

Hence, we recommend a BUY and accumulate on Petronet at Rs 160-155 with a stop loss of Rs 148 and a price target of Rs 174-184 for short to medium term.

RANBAXY

Target Price: ₹ 565-585

CMP: ₹ 528.20

Stop-Loss: ₹ 518.00

Moving Averages	
13-DMA	535
50-DMA	525
200-DMA	480

Trends	
Short	Up
Medium	UP
Long	Up

Support / Resistance	
R2	580.00
R1	560.00
CMP	528.20
S1	530.00
S2	515.00

Ranbaxy Laboratories Limited (Ranbaxy), India's largest pharmaceutical company, is an integrated, research based international pharmaceutical company, producing a wide range of quality, affordable generic medicines trusted by healthcare professionals and patients across geographies.

The stock made a 52-week low of Rs 366.50 on 19th Dec, 2011 and a 52-week high of Rs 578.30 on 4th Sep, 2012. The stock has been trading in "consolidation trend" on daily chart. The said pattern suggests that stock can move further upside in couple of weeks.

Hence, we recommend a BUY and accumulate on RANBAXY at Rs 540-525 with a stop loss of Rs 518 and a price target of Rs 565-585 for short to medium term.

ARI - Mutual Fund Update

Mutual Fund Roundup

The Indian equity markets ended the month of September 2012 on a positive note with S&P CNX Nifty closing the month at 5703.00, up 8.46% and BSE Sensex settling at 18763.00 gaining 7.65%. Markets saw positive momentum on the back of some positive development like proposal to defer General Anti-Avoidance Rules (GAAR) until 2016 that boosted investor sentiments, huge liquidity from FIIs inflows and reform measures initiated by the government like FDI approvals in aviation, retail, power and broadcasting carriage services sectors.

The sentiments remained jubilant throughout the month. All the sectoral indices also ended the month with gains. BSE Realty was the star of the month clocking a 22.24% return in Sep 2012 followed by CG up 15.98%, Bankex up 14.09%, Auto up 11.20% and Metal up 8.67%.

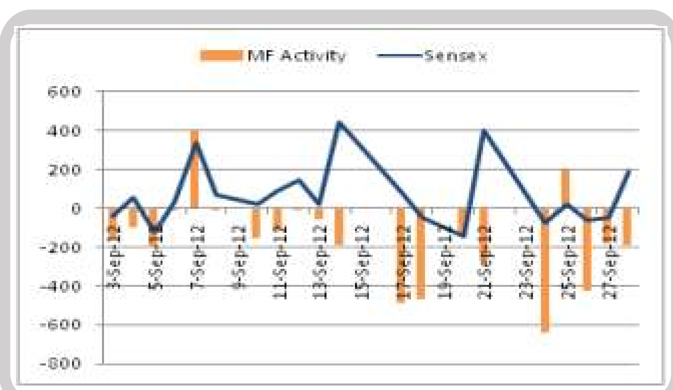
Mutual Fund Activity

The positive movement in the equity markets gave the fund managers an opportunity to book some profits. The Indian mutual fund houses turned net sellers of equity for September 2012 to the tune of Rs 3,198 crore. The highest selling by fund houses was seen in the third week of the month with net sales of Rs 1,363 crore. Continuing the trend, as domestic institutions turn net sellers, the foreign institutional investors (FIIs) turned bullish and bought Rs 19,261.50 crore worth of equities over the same period.

MF Activity in Sept, 2012

(₹ in Crores)	Gross Purchases	Gross Sales	Net Investment
1st Week	1,918.50	1,985.10	-66.50
2nd Week2,109.20	2,642.00	-533.00	
3rd Week	2,777.70	4,141.30	-1,363.50
4th Week	3,621.80	4,857.50	-1,235.70
Total	10,427.20	13,625.90	-3,198.70

(Source : SEBI)



Capital Movement

The nervous sentiments of Indian equities dissuaded to some extent in last 4-6 weeks on the back of recent rise in the equity markets. This coupled with increase in the liquidity in the system led to a 7.89% rise in the average assets under management (AUM) of the mutual fund industry to Rs 7,47,332.70 crore for the quarter ending Sep 2012.

The breadth of the mutual fund industry was positive with 34 of 44 fund houses recording a rise in their AUM. UTI Mutual Fund was the biggest gainer during the quarter, in absolute terms, with its AUM rising by Rs 9,860.17 crore or 16.18% to Rs 70,782.78 crore followed by Birla Sun Life Mutual Fund that recorded an increase of Rs 5,698.54 crore or 8.48% to Rs 72,904.49 in its AUM.

HDFC Mutual Fund continued to stay the largest fund house of the country in terms of AUM with a corpus of Rs 97,773.66 crore followed by Reliance MF that had an AUM of Rs 86,326.9 crore.

Among the 10 fund houses that saw their asset base decline at the end of the September 2012 quarter, BNP Paribas Mutual Fund saw the highest erosion in its AUM, in absolute terms, of Rs 720.05 crore or 15.78% taking down its AUM to Rs 3,841.99 crore as on 30th Sept 2012. Sahara Mutual Fund witnessed the steepest decline in AUM, in percentage terms, as its corpus fell 69.71% or Rs 548.73 crore to Rs 238.44 crore in September 2012.

AUM of Top 10 Mutual Fund Houses

MF Name	Average AUM (Rs in cr)		Q-o-Q Change	
	Sep 2012	June 2012	Absolute	In%
HDFC MF	97,773.66	92,624.52	5,149.14	5.56
Reliance MF	86,326.90	80,694.47	5,632.43	6.98
ICICI Prudential MF	76,387.61	73,049.66	3,337.94	4.57
Birla Sun Life MF	72,904.49	67,205.95	5,698.54	8.48
UTI MF	70,782.78	60,922.62	9,860.17	16.18
SBI MF	50,958.80	47,184.11	3,774.69	8.00
Franklin Templeton MF	39,045.58	35,532.66	3,512.92	9.89
Kotak Mahindra MF	30,316.03	25,323.53	4,992.51	19.71
DSP BlackRock MF	30,227.33	30,001.76	225.56	0.75
IDFC Mutual Fund	28004.19	27146.53	857.66	3.16

Movers & Shakers

Undoubtedly the performance of mutual fund schemes brought cheers to the portfolios of the equity investors, thanks to the stellar performance of Indian equities. In the equity diversified fund category, schemes across different styles and market capitalization delivered positive returns.

Escorts Growth Plan topped the best performer chart in the diversified category with a return of 12.57% in Sept 2012 followed by HSBC Progressive Themes Fund that delivered 12.30% return.

Monthly Best Performer: All Equity Diversified Funds

Scheme Name	NAV (Rs)	Last 1-Month return (%)
Escorts Growth Plan - G	67.14	12.57
HSBC Progressive Themes Fund - G	11.33	12.30
Reliance Regular Savings Fund - Equity - G	31.42	12.09
JM Basic Fund - G	13.26	12.09
Canara Robeco FORCE Fund - Institutional – G	14.82	11.76

(Returns are absolute as on 30th Sept 2012)

In sectoral fund category, the best performer list was dominated by banking funds with UTI Banking Sector Fund outperforming all the sector funds with 15.16% return followed by Reliance Banking Fund (14.98%) and Sahara Banking and Financial Services Fund (14.57%). All the sectoral funds gave positive return.

Monthly Best Performer: All Sectoral Funds

Scheme Name	NAV (Rs)	Last 1-Month return (%)
UTI Banking Sector Fund - G	44.35	15.16
Reliance Banking Fund - G	106.39	14.98
Sahara Banking and Financial Services Fund - G	30.84	14.57
Escorts Infrastructure Fund - G	5.28	14.56
Reliance Media & Entertainment Fund - G	32.89	14.20

(Returns are absolute as on 30th Sept 2012)

In the debt fund category, the top performing debt funds were DWS Hybrid Fixed Term Fund - Series 5 (6.90%), DSP BlackRock Dual Advantage Fund - Series 4 - 36 Months (6.84%) and ICICI Prudential Multiple Yield Fund - Series 2 - Plan E (6.09%).

Monthly Best Performer: All Debt Funds

Scheme Name	NAV (Rs)	Last 1-Month return (%)
DWS Hybrid Fixed Term Fund - Series 5 - G	10.60	6.90
DSP BlackRock Dual Adv Fund - Series 4 - 36 Months - G	11.33	6.84
ICICI Pru Multiple Yield Fund - Series 2 - Plan E - G	10.52	6.09
DWS Hybrid Fixed Term Fund - Series 2 - G	10.29	5.21
JPMorgan India Hybrid Fund - Series 1 - G	11.28	4.80

(Returns are absolute as on 30th Sept 2012)

Outlook

We have been reiterating for quite some time that India's growth story has been intact and blips are time to invest rather than hit the panic button offload. Investors who stayed invested and pumped in money have had certainly seen good returns in their portfolio. We continue to recommend disciplined regular investments in good schemes. Systematic Investment Plan (SIP) is one of the best ways to do that. Hence as an investor, you should continue to have a good portion of total investible corpus in equity.

Festive Special

e-gold: The best way to invest in gold

"An investor can convert even a small quantity of 1gm of e-gold into physical gold"

With the festive season round the corner many investors would be saving or planning to make their gold purchases. Today an investor has a much wider choice in avenues for gold investment. E-gold, i.e. electronic gold investment, offered by National Spot Exchange Limited (NSEL) is one of the best ways to invest in gold for a retail investor. Below we have given a brief on how e-gold works and its comparison with other avenues of gold investment like gold ETF, another popular avenue of investment in gold by investor.

1. If you could give a brief overview of how well have the commodities on NSEL performed and which have been the best performing commodities? Has this platform revolutionized the way investors can invest in commodities?

Ans. The e-series products offered by NSEL are basically commodity investment products. NSEL's e-series products has certainly revolutionized the way investors can invest in

commodities, as it is a one-of-a-kind product, i.e. electronic cash market of commodities. Until now anyone willing to invest in commodities had to either go to the futures market for electronic trading or go to physical mandi and buy commodity against cash settlement. But with the NSEL platform, the clients get the best of both – cash settlement on electronic platform.

To put it simply, the NSEL e-series platform is the cash segment of the commodities market wherein the investors can buy and sell the e-series products like gold, copper, silver, etc with the help of a trading and a demat account, just like investment in equity shares. These products offer retail investors and portfolio managers an additional asset class, i.e. commodity, to diversify their portfolio from the traditional investment avenues (like real estate, fixed deposits or equity) in even small denominations like 1 gram of gold, which was, until now, unheard of.

2. What advantage does trading on NSEL provide over trading on MCX or NCDEX? Also, how is this more suitable platform for a retail investor? What is the ease of the minimum quantity bought or minimum amount invested on this platform for any commodity?

Ans. The two key advantages NSEL e-series offer over MCX and NCDEX is investing in commodities without leveraging and opportunity to invest in commodities in small denominations contracts.

NSEL provides a delivery based platform for investment in commodities in electronic form. However, contracts on MCX/NCDEX are future contracts which provide a leverage to the investor and hence the risk gets increased. For retail investors, NSEL based contracts provide convenience in terms of small denominations contracts, eg they can buy 1 gram of gold and 100 grams of silver. Therefore, say an investor with even as small as Rs 3000 can buy one gram of gold.

Also since it is a delivery based contract, the hassle of daily mark to market margin pay-in is resolved. NSEL also provides the option to convert the holdings of gold, silver etc from electronic form to physical form at any time. Additionally, they save the investor from the risk of theft. All this together makes is a very good product for retail investors.

> "An investor can convert even a small quantity of 1gm of e-gold into physical gold"

An investor can buy gold, silver or copper, and one unit of the E-Series is equivalent in the following way:

1. E-Gold: 1 gram
2. E-Silver: 100 grams
3. E-Copper: 1 kilo
4. Zinc: 1 kilo
5. Lead: 1 kilo

3. What is a better way of investing in gold – e-gold or gold ETF?

Ans. As far as a comparison of commodity ETFs and e-series products go, the e-series clearly scores over ETFs because e-series offer the option of investing in multiple commodities including gold, silver, lead, copper and zinc while in the ETF segment, only gold ETFs are available currently in India.

Another important advantage that investing in e-gold has over gold ETF is that it offers the investor a choice of taking physical delivery of gold, which is restricted in the gold ETF category. Hence e-gold is a suitable gold avenue for an Indian investor as it bridges the gap between buying gold for investment and turning that investment into gold jewelry, if required in the future.

An investor can convert even a small quantity of 1gm of e-gold into physical gold, while gold ETFs offer the option of physical delivery but only for a denomination of over a kilogram. Accumulating such a huge amount of gold is not feasible for small investors. Besides, not all gold ETFs offer the option of converting their gold ETFs into physical form. In fact the most popular product in the gold ETF segment, Gold BeES, does not offer the option of converting the ETF in physical form. Besides, the delivery centres of the National Spot Exchange are located in multiple cities across India, while ETFs have only one delivery centre in Mumbai.

Another area where e-gold scores over gold ETF is that it is a lot more cost-effective for people who have a long investment horizon. E-gold involves no management costs or other recurring expenses. The only charges involved are a one-time transaction fee of 2-3 paisa per gram and a brokerage fee of 0.2-0.3%. In addition to the fund management charges, both these charges are also levied in case of gold ETFs, which are much higher.

The liquidity and impact cost of e-gold is also more favourable compared to gold ETF. When investing in any asset class, liquidity is of utmost importance for a retail investor as it makes buying and selling more efficient by reducing the impact cost. The liquidity in e-gold is increasing phenomenally, with the current average daily turnover being Rs 250-300 crore compared with Rs 15-20 crore in case of gold ETFs. Also, the impact cost of buying and selling e-gold is nearly zero whereas gold ETF can incur an impact cost of upto Rs 5.

Since gold ETFs are traded on stock exchange, an investor can only execute a buy or sell order in gold ETF upto 3.30pm, whereas NSEL is a commodity exchange and is open uptil 11.30pm for trading, providing investors greater flexibility as they can track global cues before making their buy or sell decision.

However, there are a few areas where gold ETF has some advantages over e-gold. Firstly unlike gold ETF where the investor can buy and sell gold through his existing equity trading account, the investor requires a separate trading and demat account with an authorised participant of NSEL to buy and sell e-gold. However, this is just a onetime exercise.

The second downside is the tax angle. Gold ETFs are treated as debt funds and hence do not attract any wealth tax. However, e-gold has the same tax treatment as physical gold and therefore is liable for wealth tax. However it must be noted that if the investor converts the Gold ETF into physical gold, it will also attract wealth tax.

Investor Awareness Programme in Commodities

Arihant Capital Markets Limited (Arihant) conducted an investor awareness seminar with MCX and Forward Market Commission on 15th September, 2012 at Pune. Mr. Shivanshu Mehta, Vice President, Business Development from MCX and Ms Swati Jain, Asst Vice President, Arihant were the key speakers at the conference.

Mr. Shivanshu explained investors at length regarding importance of investing in commodities and benefit of taking delivery of gold and silver through MCX platform in light of festive season.

Ms. Swati Jain explained investors regarding opportunities available in commodities markets for retail investors and also briefed them about the products and services provided by Arihant in this segment.

Mr. Nishchal Singh Bais, Commodities Head at Arihant and Mr. Koushik Ghosh, Branch Manager graced the occasion and attended investor queries. Mr. Navdeep Sinha presented vote of thanks and concluded the seminar.

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24-09-2012

Thought of the Day: "I think you have to learn that there's a company behind every stock, and that there's only one real reason why stocks go up. Companies go from doing poorly to doing well or small companies grow to large companies."
- Peter Lynch

18-09-2012

Thought of the Day: "In this business if you're good, you're right six times out of ten. You're never going to be right nine times out of ten."
- Peter Lynch

14-09-2012

Thought of the Day: "Time is the friend of the wonderful company, the enemy of the mediocre."
- Warren Buffett

12-09-2012

Thought of the Day: "It just seems logical that sticking to investing in only a small number of companies that you understand well, rather than moving down the list to your thirtieth or fiftieth favorite pick, would create a much greater potential to earn above-average investment returns."
- Joel Greenblatt

06-09-2012

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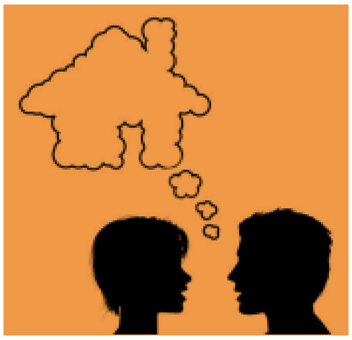

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