ARIHANT's VALUE Plus

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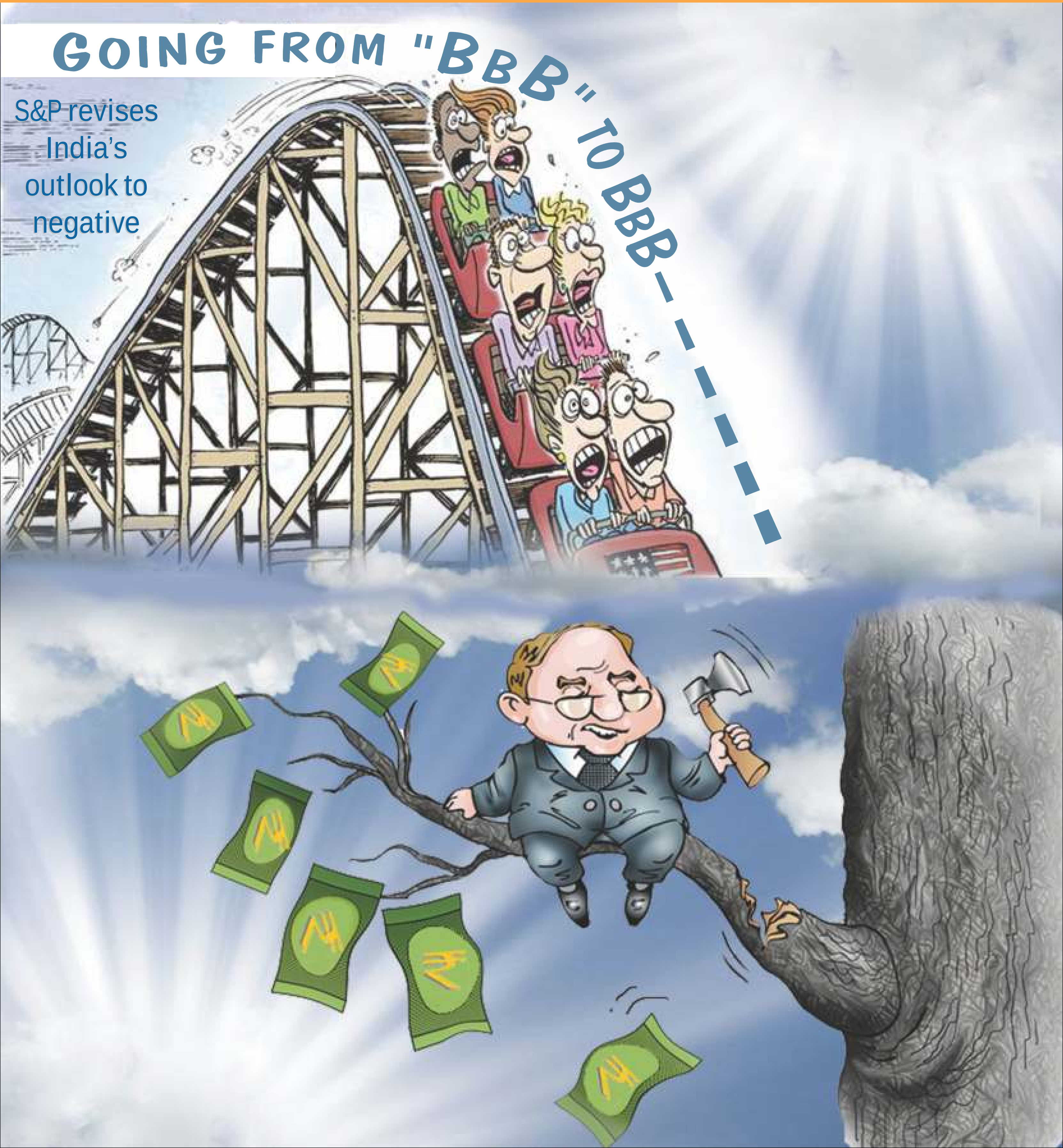
Monthly Newsletter (For private circulation only) Issue : May 2012

GOING FROM "BBB" TO BBB-

S&P revises India's outlook to negative



ARI - Movers & Shakers

INDIAN INDICES

Indices	Apr-12	Mar-12	Change %
SENSEX	17318.81	17404.00	-0.49
S&P CNX NIFTY	5248.15	5295.55	-0.90
BANK NIFTY	10276.80	10212.75	0.63
CNX MIDCAP	7471.05	7711.40	-3.12
S&P CNX 500	4178.35	4221.80	-1.03
CNX IT	6085.40	6516.00	-6.61
CNX REALTY	226.70	239.05	-5.17
CNX INFRA	2362.80	2509.15	-5.83

(Source: BSE & NSE)

BSE-SECTORAL INDICES

Indices	Apr-12	Mar-12	Change %
AUTO	10645.52	10134.88	5.04
BANKEX	11828.63	11751.18	0.66
CD	6591.92	6402.49	2.96
CG	9409.09	10027.92	-6.17
FMCG	4772.07	4493.10	6.21
HC	6795.59	6625.74	2.56
IT	5704.31	6081.87	-6.21
METAL	11066.55	11346.31	-2.47
OIL&GAS	7964.63	8087.50	-1.52
PSU	7248.96	7311.47	-0.85
REALTY	1692.57	1776.96	-4.75
TECk	3326.09	3562.41	-6.63

(Source: BSE)

GLOBAL INDICES

Indices	Apr-12	Mar-12	Change %
DOW JONES	13213.00	13212.00	0.01
NASDAQ	2723.00	2755.00	-1.16
HANG SENG	21094.00	20555.00	2.62
FTSE	5737.00	5768.00	-0.54
NIKKEI	9520.00	10083.00	-5.58

(Source: Telequote software)

FII ACTIVITY (₹ in cr)

Date	Gross Purchases	Gross Sales	Net Pur/Sales
Total for Apr 2012	41,091.90	42,200.50	-1,109.10
Total for 2012 *	2,35,252.09	1,92,410.59	42,841.70

(Source: SEBI)

MF ACTIVITY (₹ in cr)

Date	Gross Purchases	Gross Sales	Net Pur/Sales
Total for Apr 2012	9,054.20	9,593.20	-539.00
Total for 2012 *	45,001.00	51,118.30	-6,117.30

* Till Apr 2012

(Source: SEBI)

Market Commentary

Indian equity markets remained clueless looking for direction in the month of April 2012 but both the bulls and bears maintained a strong hold on the markets, which resulted in Sensex and Nifty ending the month flat, down 0.49% and 0.90% respectively. Among the sectoral indices, the defensive sector, BSE FMCG recorded healthy performance amidst the uncertain environment, registering gains of 6.21%. BSE Auto and BSE Consumer Durables were also in limelight gaining 5.04% and 2.96% respectively, while BSE TECk and BSE IT were the biggest dampeners during the month, recording declines of 6.63% and 6.21% respectively.

Despite several eventful activities, investors opted to keep market participation at bay leading to decline in volumes. The results season that kickstarted in April 2012 (4QFY12 results) also failed to have a meaningful impact except for specific stocks.

The monetary policy announcement by Reserve Bank of India (RBI) with a 50 bps rate cut turned out to be a key trigger for the markets during the month. On the other hand, fall in India's industrial growth (IIP), S&P downgrade on India's long-term rating to negative from stable and Finance Ministry's proposal to implement General Anti-Avoidance Rule (GAAR) provisions created uncertainty amidst Foreign Institutional investors (FIIs) sending a wave of pessimism on the bourses.

From the earnings point of view, disappointing FY13 guidelines of Infosys dampened investor sentiments, leading to a sell-off in information technology (IT) stocks. Earnings disappointment from companies like Reliance Industries, Ambuja Cements and ACC also kept markets under pressure.

After a long period of continuous net positive inflows, April turned out to be the first month in the year 2012 to have recorded negative outflows by FIIs that sold equities to the tune of Rs 1109 crores. Even Indian mutual fund houses turned out net sellers of equities to the tune of Rs 539 crores during the month. The uncertainty over GAAR provision loomed large, leaving FIIs jittery. On the global front, firmness in crude oil prices and European debt crisis played major havoc on the sentiments.

Industrial production data (IIP) continued to show a tad performance with a growth of 4.1% in February 2012. Further, the growth for the month of January was also revised downwards to 1.14% from the 6.8% expansion reported earlier, citing error in sugar output data.

The HSBC manufacturing Purchasing Managers' Index (PMI), eased to 54.7 in the month of March from 56.6 in February. Growth in the Indian services sector also slipped to a five-month low in March as optimism about the business outlook in the coming year faded to its weakest level since 2009. The HSBC Market Business Activity index fell sharply to 52.3 in March from 56.5 the previous month.

The RBI, in a surprise move, slashed repo rate by 50 basis points to 8% in its annual monetary policy for 2012-13 to give a boost to the flagging economic growth. However, in its policy statement, RBI hinted that risks to inflation may limit the scope of further reductions in policy rates, fizzling the euphoria of rate reversal. The wholesale price index (WPI) inflation eased to 6.89% in March, 2012 compared to the previous month's 6.95% and 9.68% during the corresponding month of the previous year.

Meanwhile, the rupee remained under pressure throughout the month and retreated to a three-month low against the dollar. Strong demand from importers and oil refiners coupled with huge FII outflows contributed to the negative rupee tone.

Given the current scenario, the domestic economy continues to face various challenges in the form of sticky inflation, fiscal deficits, a weak currency, policy paralysis and dwindling investor sentiment. Thus, the macro-economic backdrop is not conducive for the equity markets at the moment with risk aversion being still high. Broadly, in terms of market view, we expect investors should continue to tread a cautious approach for the coming month, however they can take these corrections as an opportunity to invest in good stocks at reasonable valuations.

Key News and Events in April 2012

Domestic News

- Inflation falls marginally to 6.89% in March:

  Headline inflation as measured by the wholesale price index (WPI) fell marginally to 6.89 % in March as compared to 6.95% for the previous month. However, the major dampener turned out to be the prices of essential items like pulses, potato and milk that remained disturbingly high.

- February IIP unexpectedly slows to 4.1%:

  The industrial production grew at a slower-than-expected 4.1% in February, weighed down by a contraction in consumer durables and consumer goods. The government also sharply revised the January production number to 1.1% growth from the previously reported 6.8%, in the wake of errors noticed in sugar production data in January. The manufacturing sector output, which constitutes over 75% of the index, rose just 4% in February, compared with 7.5% in February, 2011, while mining rose to 2.1% compared to 1.2% in February, 2011.

- India's exports grow by 21% in FY12; trade deficit zooms to record high:

  India's exports grew by 21% and touched $303.7 billion for the fiscal year 2011-12 while imports rose 32.1% to $488.6 billion, leaving highest-ever trade deficit of USD 184.9 billion. Imports remained a major cause for concern with the main spoilers being crude oil imports and gold imports.

- RBI cuts repo rate by 50bps:

  The Reserve Bank of India (RBI), in a surprise move, sent ripples of a feelgood factor by cutting interest rates for the first time in three years by a hefty 50 basis points in its monetary policy, reviving the sagging economic growth. Consequent to this, repo rate now stands at 8%, while the reverse repo rate stands at 7%.

- FDI increases by a whopping 74% to $2.21 billion in February:

  India's Foreign Direct Investment (FDI) flows increased by a whopping 74% to $2.21 billion in February as compared to the same month last year. This takes the cumulative FDI inflows to 28.4 billion dollars for April-February period of the fiscal year, 2011-12.

- S&P revises India's outlook to negative and downgrades 11 financial institutions:

  Credit ratings agency, Standard & Poor (S&P) revised India's economic outlook to negative from stable, citing its large fiscal deficit and expectations of modest progress on reforms in the light of political constraints, battering stocks, bonds and the rupee the primary reasons for the downgrade. Meanwhile, the ratings agency affirmed its lowest investment grade rating of BBB(-) for the Indian economy.

  The ratings agency also revised its outlook on long-term counterparty credit ratings of eleven financial institutions to negative from stable. These financial institutions include State Bank of India, Axis Bank, Bank of India, HDFC Bank, Indian Overseas Bank, Indian Bank, Infrastructure Development Finance Company and Union Bank of India.

Auto Sales registered growth in April 2012

Indian automobile manufacturers reported a steady sales growth for the month of April. However, exports slowed down a bit during the month. India's biggest sport utility vehicle maker, Mahindra & Mahindra (M&M) reported 27% jump in sales at 40,719 units for the month of April. Diesel denominated product portfolio and new launches aided the rise in sales, however, falling tractor share in the overall product portfolio remains a concern going forward at M&M. Total sales of passenger car market leader, Maruti Suzuki increased by 3.4% during the month and stood at

1,00,415 units from 97,155 units sold in the corresponding month of last year. As expected, sales continued to be driven largely by diesel models at Maruti as consumers continue to shift from petrol variants. However, Tata Motors' total sales declined by 7% and stood at 60,086 units in April due to an overall drop in commercial as well as passenger vehicle demand. Two-wheeler major, Hero Moto Corp, reported its best-ever monthly sales for last month at 5,51,557 units from 5,17,099 units sold in April, 2011. The other two-wheeler maker, TVS Motor, registered a 4% growth in its total sales at 1,71,551 units with decent growth at domestic front while Bajaj Auto, the country's second largest two wheeler maker's total sales was recorded at 3,81,590 units, up by 4% from April, 2011, led largely by exports.

Q4FY12 Result Update: Nifty Companies

Positive Performance:

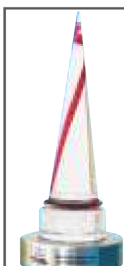
- Axis Bank, the country's third largest private sector lender bank reported a 25.20% jump in its net profit, y-o-y, at Rs 1,277.27 crore for the quarter ending 31st March 2012. The total income of the bank during fourth quarter increased 31.47% to Rs 7,647.94 crore, from Rs 5,817.06 crore in the same quarter of the previous fiscal.
- HCL Technologies, India's fourth-largest software services exporter, reported a 20.59% rise in quarterly net profit, after customers boosted orders to cut operational costs, amid the global economic uncertainty. The Company has posted a net profit of Rs 400.15 cr for the quarter ended March 31, 2012 as compared to Rs 331.81 cr in the same quarter of the previous year.
- HDFC Bank, the country's second largest private sector lender bank, reported 30.35% jump in its net profit at Rs 1,453.08 crore for the fourth quarter ended March 31, 2012 as compared to Rs 1,114.71 crore for the same quarter previous year. The bank's total income increased to Rs 8,880.02 crore for the quarter under review from Rs 6,724.31 crore for the corresponding quarter of the previous year, up by 32.06%.
- ICICI Bank, country's largest private sector lender reported net profit at Rs 1,901.76 crore for the fourth quarter of the 2011-12 fiscal, a jump by 31%. It had made a profit of Rs 1,452.11 crore in the Jan-Mar quarter of 2010-11. Moreover, its total income increased to Rs 11,403.10 crore, from Rs 8,797.12 crore in the same quarter of the previous fiscal.
- IDBI Bank posted a rise of 49.30% in its net profit at Rs 770.78 crore for the quarter ended March 31, 2012 as compared to Rs 516.25 crore for the same quarter in the previous year.
- Infosys' consolidated net profit jumped by 27.39% stood at Rs 2,316 crore as compared to Rs 1,818 crore for the quarter ended March 31, 2011. Its total Income increased by 23.99% at Rs 9,504 crore for the quarter ended March 31, 2012 from Rs 7,665 crore for the quarter ended March 31, 2011.
- Tata Consultancy Services (TCS), the country's largest software company reported a rise of 19.04% in its net profit of Rs 2,558.34 crore for the fourth quarter of 2011-12 as compared to Rs 2,149.18 crore in the corresponding quarter of 2010-11. Its total income registered a growth of 29.65% at Rs 10,615.17 crore for the quarter under review vis-à-vis Rs 8,187.64 crore in the corresponding quarter of the previous year.
- UltraTech Cement, the country's largest cement company reported a rise of about 19.33% in its net profit at Rs 867.32 crore for the March quarter as compared to Rs 726.77 crore. The company's net sales rose 18.8% over the same period to Rs 5,536.57 crore.
- Wipro, India's third-largest software services exporter, reported a standalone net profit of Rs 1,351.30 crore for the fourth quarter of 2011-12 as compared to Rs 1,337.60 crore in the corresponding quarter of the previous year.

Negative Performance:

- ACC has posted a fall of 55.69% in its net profit at Rs 155.37 crore for the quarter ended March 31, 2012 as compared to Rs 350.66 crore for the same quarter in the previous year.
- Ambuja Cements, India's third biggest cement producer has reported a fall of 23.38% in its net profit at Rs 312.22 crore for the quarter ended March 31, 2012 as compared to Rs 407.48 crore for the same quarter in the previous year.
- Cairn India has reported an 11.05% fall in its cons net profit at Rs 2,186.23 crore for the fourth quarter ended March 31, 2012 as against Rs 2,457.79 crore in the same quarter a year ago.
- Maruti Suzuki India, India's leading car maker company net profit for the fourth quarter of FY12 slipped by 3.03% at Rs 639.84 crore as compared to Rs 659.86 crore for the quarter ended March 31, 2011. Its total income has increased by 18.79% to Rs 12,023.86 crore for the quarter under review from Rs 10,121.71 crore for the quarter ended March 31, 2011 .
- Reliance Industries, India's largest private sector enterprise has reported a fall of 21.21% in its net profit at Rs 4,236 crore for the quarter ended March 31, 2012 as compared to Rs 5,376 crore for the same quarter in the previous year. However, total income has increased by 18.87% at Rs 8,747.70 crore for quarter under review as compared to Rs 7,359.1 crore for the quarter ended March 31, 2011.
- Sesagoa, reported a 20.50% decline in its consolidated net profit to Rs 1,162.11 crore for the fourth quarter ended March 31, 2012. The company registered a net profit of Rs 1,461.76 crore in the same period last fiscal.

Diversify your portfolio by investing in gold, silver, platinum and other commodities through the spot market.

- You can invest in gold, silver, platinum, copper and zinc through National Spot Exchange (NSEL) e-series even in smaller denominations (for example as low as 1 gram of gold, 100 grams of silver & 1 gram of platinum)
- Get your commodity's delivery in electronic form, i.e. dematerialized form, with an added convenience of converting them into even physical form*
- Transparent pricing as buying and selling is done through electronic trading platform and price is same across the country
- Hassle free as you don't have to worry about the quality or price, its guaranteed
- No bank locker charges or theft worry as your units are held in demat form
- No risk as you are buying in the spot market without any leveraging
- Invest in gold and silver every month through SIP



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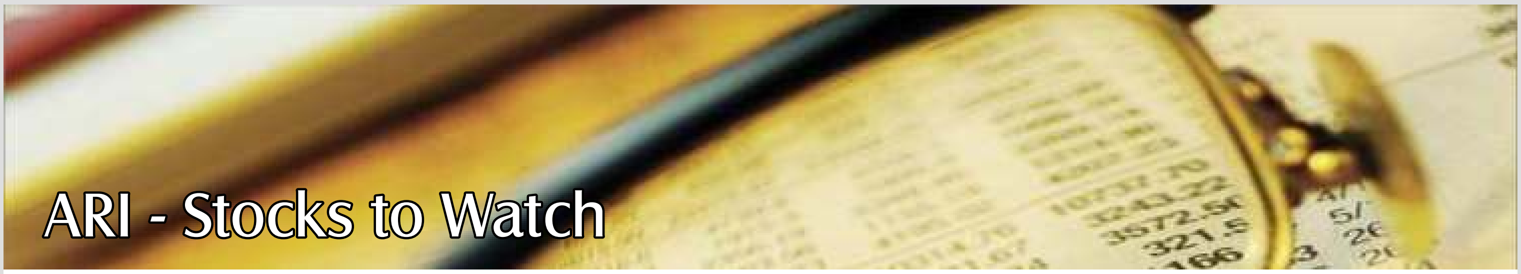
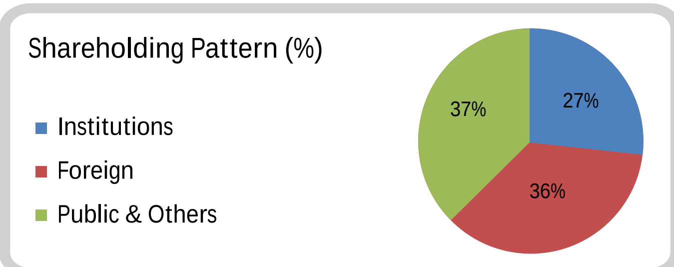


ICICI Bank: BUY — Target: ₹ 1000-1100

Value Parameters	
BSE Code	532174
NSE Symbol	ICICIBANK
CMP (Rs)	868
Face Value (Rs)	10
52 Week High/Low (Rs)	1111/641
Market Cap (Rs in cr)	101637.9
Q4 FY12 EPS (Rs) (Standalone)	66.4



ICICI Bank India's second-largest bank offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and subsidiaries.

Investment Rationale:

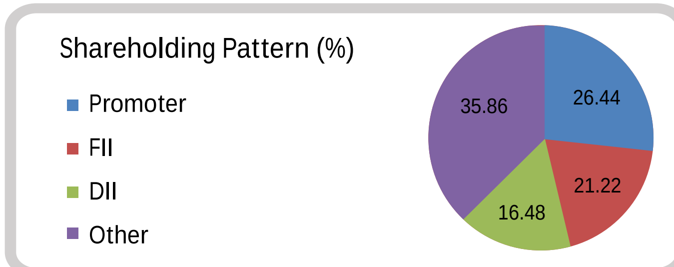
- Private sector banking space showing healthy growth: Q4 results for FY12 of the bank were in good shape qualitatively with the bad debts or the NPAs being well under control and decent growth being generated from net interest income as well as other income.
- Change in focus to loan growth and improving margins: The bank is showing tremendous improvement in almost all the core parameters focusing upon credit growth, CASA, costs, credit quality and customer centricity that augurs well for the stock. The focus of the bank has shifted to loan growth with corporate and secured retail loans being key drivers.

Valuation:

We expect the core ROEs to improve from here-on as the bank delivers growth with quality, driving lower valuation discount to peers. Also, correction in the stock above 15% levels in the first 3 months of calendar year 2012, superior asset quality performance and business growth visibility in domestic book makes it a valued investment. The stock is currently trading at 1.63X P/BV FY12 and 1.52X P/BV FY13E. We recommend investors to buy ICICI Bank with a price target of Rs 1,000 and then Rs 1,100 for a medium to long term horizon.

KPIT Cummins: Accumulate — Target: ₹117

Value Parameters	
BSE Code	532400
NSE Symbol	KPIT
CMP (Rs)	103
Face Value (Rs)	2
52 Week High/Low (Rs)	107/68
Market Cap (Rs in cr)	1358
Q1 FY13 EPS (Rs) (Consolidated)	2.2



KPIT Cummins is a mid-cap IT company which mainly caters to three verticals namely, Enterprise Solutions, Auto and Engineering and Integrated Enterprise Solutions.

Investment Rationale:

- Stellar revenue performance: In USD terms, KPIT's revenues grew by 29.9% QoQ at $95.4mn and in INR terms, its revenue went up by 26.6% QoQ to Rs 480 crore while its bottom line grew by just 6.6% to Rs.43.7 crore. Company has given a strong guidance of 32%-35% Y-o-Y growth in USD terms for FY13 and 15%-20% growth in bottom line.
- Strong margin improvement: KPIT improved its EBIDTA margins by 53bps for Q4FY12. However, we expect that the margins of 15.8%, which it recorded in the present quarter, will not be sustainable in the coming quarters.

Valuation:

We remain positive on the stock after a sustained strong financial performance. However, the present stock outperformance has stretched its valuation at 10.5(x) for FY13 earnings which is 10% higher than its historical averages of 9.5(x). Presently, at CMP of Rs 100, the stock trades at 10.2(x) for its FY 13 earnings of Rs 9.8 which limits the upside potential in the stock. Hence, we advice investors to enter into the stock at the price levels of Rs 90-92 with a target price of Rs 117 for near term.

Technical Equity Market Outlook

Nifty

Despite a repo rate cut by RBI in its monetary policy, markets sentiments were not lifted as depreciating rupee kept the mood cautious. On the sectoral front, FMCG, Auto and Consumer Durables were on gaining side, whereas, Tech, Capital Goods and Realty ended on losing side. The Sensex closed with a net loss of 0.49% whereas the Nifty lost 0.90% vis-à-vis the previous month.

Technical Observation

On the Monthly chart

- After a "Flag" pattern breakout for two consecutive months, we are witnessing a narrow range body formation which indicates indecisiveness prevailing at the current levels.
- Prices for second consecutive month have managed to close above 5&20 month EMA which indicates that the undertone is still positive.

On the Weekly chart

- At present, we are witnessing a time wise correction of the previous rise which started from 4531 to 5629. However, the upper trendline of the downward sloping channel holds significance. As long as it holds, there is a probability that prices would again head higher.
- The slope of the upper trendline of the downward slopping channel is decreasing. Hence for the first week of the month, the trendline value is approximately in the range of 5020-5000 level.

On the Daily chart

- The downward sloping trendline joining the two significant high of 5629 and 5342 is the immediate resistance for the indices. The said trendline value is in the range of 5360 level.
- On the downside the 200-day SMA which is at 5120 level is the crucial support for the indices.

Conclusion

We reiterate our previous month's view that as long as prices holds the upper trendline of weekly channel, we are of the opinion that a retest of prior swing high of 5630 and the channel target of 5800-5900 levels looks achievable in next few months. On the downside, Fibonacci Retracement (FIB) support levels below 5150 is at 5086-4950-4766.

Commodity Pick: Crude Oil SELL

Correction mode in crude oil prices is foreseen in the coming month as:

In the monthly chart, prices are trading in negative divergence with RSI (14) signaling weakness. Declining volumes during an uptrend is also signaling bearish mode for the coming month. Prices are sustaining far above the short and medium term moving averages signaling correction for short term.

A double top trend reversal pattern is spotted in the weekly chart. However, the pattern is not yet confirmed as prices have not gone below the valley floor prices.

We recommend going short in Crude Oil June MCX futures at Rs 5,260 for the target of Rs 5,020 and then Rs 4,800 with a stop loss of Rs 5,420.

Moving Averages	
9-EMA	5,066
21-EMA	4,652
34-EMA	4,362

Trends	
Short-term	Down
Medium-term	Up

Support / Resistance	
R1	5,370
R2	5,510
R3	5,650
S1	5,020
S2	4,780
S3	4,620

ARI - Currency Pick

Currency Pick: USD-INR BUY

Economic conditions are hunting Rupee:

Main causes for Rupee depreciation:

- As imports, led by oil and gold, outpaced exports, India's trade gap widened to an all-time high of $184.9 billion in the fiscal year ended 31 March 2012, as per the data released by the Ministry of Commerce, reflecting mounting risks in the external sector.
- Reserve Bank of India (RBI) cut its policy rate by 50 basis points in its annual policy review, bringing the repo rate at 8% from 8.50% earlier. However, it hinted of no further scope of reduction in its policy statement raising concerns in the coming period.
- The growth in February industrial production (IIP) stood at a dismal 4.1%. In addition, the January IIP number had been revised downwards to 1.1% from 6.8%, earlier.
- The wholesale price index (WPI) rose a faster-than-expected 6.89 per cent in March from a year earlier, mainly driven by higher food prices. Volatility in global commodity prices is also leading to currency depreciation.
- Concerns over Standard & Poor's downgrade on India's long-term credit rating to negative from stable has hurt the sentiments of foreign investors and led to huge fund outflows hurting the currency at large.
- Further, the Finance Ministry's proposal to implement General Anti-Avoidance Rule (GAAR) provisions created uncertainty amidst foreign institutional investors.

On the monthly chart, USD-INR is trading near to its previous swing of Rs 54.50. If it sustains above this level, it could test its next resistance level of Rs 55.40. Technically, USD-INR is now sustaining above Fibonacci projection line of 50%, suggesting that it could test Rs 55.40 which is 61.8% of the projection line.

On the weekly chart, same conditions are persisting, as prices are trading above the projection line of 38.2% suggesting that it could test Rs 54.20-55.50 levels. Weekly RSI is treading at 0.70 which is in over bought zone, but still has an upside potential till 0.80 levels. Volume levels are constant in uptrend, which are signifying continuance of bullish mode for short term.

Major events and their impact on USD-INR during the month of May:

On May 11th, Index of Industrial Production (IIP) data for the month of March is expected to be released by CSO (Previous IIP stood at 4.1% against 6.8%; it could extend bullish trend for USD-INR if the figures come down from March data). On May 14th, WPI inflation for April is due to be released by the Commerce and Industry ministry which could create volatile sessions. While on May 31st, GDP estimates for Jan-Mar and revised estimates for 2011-12, by CSO and Government finances for 2011-12 (Apr-Mar) and April by CGA, will drive its trend. Any disappointment from trade data may hurt rupee value.

Conclusion:

From the above analysis, we expect that USD-INR should remain on a positive note during this month. However, any intervention by the RBI could help in strengthening the value of rupee. We recommend traders to go long in USD-INR May futures contract at Rs 52.40-52.50 for the target of Rs 54.10 and then Rs 54.70 with stop loss of Rs 51.60.

ARI - Mutual Fund Update

Mutual Fund Roundup

The seasonally bullish month of April turned out to be a no show month with equity indices remaining range-bound throughout the period and settling down at the end with a negative bias. The Sensex dropped by 0.49% to settle at 17318 while the S&P CNX Nifty was down by 0.90% and settled at 5248. CNX Midcap Index, on the other hand, declined considerably by 3.12% during the month. On the sectoral front, FMCG and Auto showed impressive gains registering a growth of 6.21% and 5.04%, respectively. On the other hand, Tech was down by 6.63%, IT was down by 6.21% and CG also ended in red with a decline of 6.17% during the month.

Mutual Fund Activity in April, 2012

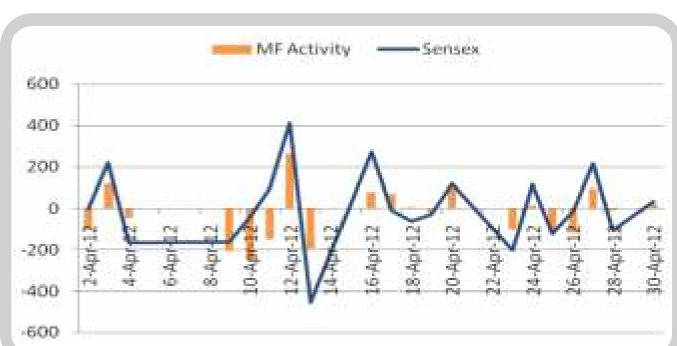
(₹ in Crores)	Gross Purchases	Gross Sales	Net Investment
1st Week	1,232.40	1,259.40	-27.00
2nd Week	2,337.70	2,875.80	-538.10
3rd Week	2,368.80	2,134.00	235.00
4th Week	2,752.20	2,983.00	-231.00
5th Week	363.10	341.00	22.10
Total	9,054.20	9,593.20	-539.00

(Source : SEBI)

Mutual Fund Activity

In continuation of last month's trend, the Indian mutual fund houses turned net sellers of equities to the tune of Rs 539 crore in April 2012. Highest selling was recorded in the second week of April when the fund houses made total net sales of Rs 538 crore of equity on gross sales of Rs 2,875 crore.

It comes as no surprise that fund managers maintained a cautious approach given uncertain global environment and policy indecision on the domestic front by the government that has left domestic and international investors jittery.



Gainers and losers

The breadth of the mutual fund scheme performance was positive during the month. In the equity diversified category, among the leading the pack were SBI Magnum Sector Funds Umbrella generating a return of 5.55%, followed by IDFC Sterling Equity Fund with a return of 4.05% during the month. On the other hand, negative returns was generated by Sundaram CAPEX Opportunities Fund (- 4.65%) and Tata Ethical Fund (-4.10%).

Monthly Best Performer: All Equity Diversified Funds

Scheme Name	NAV (Rs)	Last 1-Month return (%)
SBI Magnum Sec Funds Umbrella - Emerg Buss Fund - G	47.01	5.55
IDFC Sterling Equity Fund - G	18.91	4.05
Reliance Long Term Equity Fund - G	14.65	3.64
ICICI Prudential MidCap Fund - IP - G	13.04	3.25
Sundaram SMILE Fund - Inst - G	29.75	2.72

(Returns are absolute as on 30th Apr 2012)

In the sectoral fund category, ICICI Prudential FMCG Fund topped the chart with a handsome return of 6.90%, closely followed by UTI Transportation and Logistics with a return of 6.28%. On the other hand, Sundaram Select Thematic Funds Energy Opportunities generated a negative return of 8.50%.

Monthly Best Performer: All Sectoral Funds

Scheme Name	NAV (Rs)	Last 1-Month return (%)
ICICI Prudential FMCG	91.12	6.90
UTI Transportation and Logistics Fund	30.97	6.28
Reliance Pharma Fund	58.5	4.51
SBI Magnum Sector Funds Umbrella - Pharma	49.66	3.98
Birla Sun Life Buy India Fund	39.23	0.49

(Returns are absolute as on 30th Apr 2012)

On the debt side, the top performing debt funds were Religare Fixed Maturity Plan - Series XIII and Tata Floating Rate Fund - Long Term that generated absolute returns of 2.49% and 1.69% respectively.

Monthly Best Performer: All Debt Funds

Scheme Name	NAV (Rs)	Last 1-Month return (%)
Religare Fixed Maturity Plan - Series XIII - Plan E	10.27	2.49
Tata Floating Rate Fund - Long Term	15.84	1.69
Axis Triple Advantage Fund	11.40	1.67
Canara Robeco InDiGo Fund	12.38	1.58
IDFC Monthly Income Plan	11.62	1.41

(Returns are absolute as on 30th Apr 2012)

Understanding Currency Derivatives - Lesson 2

In the last issue, we discussed regarding the concept of currency derivatives and various strategies to hedge foreign currency exchange positions. We will now understand the mechanism of currency contracts.

Understanding currency contracts

Currency contracts are always traded in pairs and are also called currency pairs. If you buy a contract for US dollars, you are trading its value relative to another currency for example Indian Rupee. The currency is always traded alongside its pair.

Each currency contract has its own specifications which include the date of the contract expiration (one month, 2-months, three months, one-year, etc), the minimum lot size of a contract and initial margin. Each options or futures contract represents multiple quantity of the underlying asset. For instance, one futures contract in dollar-rupee is $1000; so one contract equals $1,000, two contracts equal $2,000 and so forth. Buying a currency contract also requires paying an initial margin as dictated by the Exchange, which varies from contract to contract and also changes depending on the volatility in the underlying currency pair.

The exchange traded currency derivatives contracts in India are settled in cash, which means the actual delivery of the currency does not take place – the profit or loss arising from the derivatives contract has to be settled in cash by the investor.

	Dollar-Rupee	Pound Sterling-Rupee	Euro-Rupee	Yen-Rupee
Symbol	USDINR	GBPINR	EURINR	JPYINR
Contract Size	1 unit denotes 1000 USD	1 unit denotes 1000 GBP	1 unit denotes 1000 Euro	1 unit denotes 100000 Japanese Yen
Underlying	US Dollar	Pound Sterling	Euro	Japanese Yen
Trading Hours	Monday-Friday 9am to 5pm	Monday-Friday 9am to 5pm	Monday-Friday 9am to 5pm	Monday-Friday 9am to 5pm
Trading Cycle	12 month trading cycle	12 month trading cycle	12 month trading cycle	12 month trading cycle

The final settlement day of all the contracts is the last working day (excluding Saturdays) of the expiry month. The last working day will be the same as that for Interbank Settlements in Mumbai.

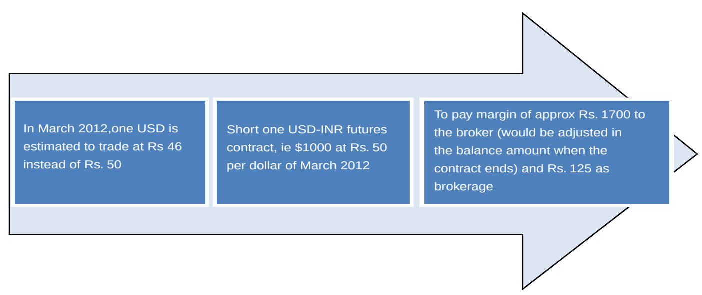
How currency futures work?

Just like equity futures, in order to trade in currency futures contracts you need to keep a margin on the value of your contract in your trading account with your broker. This allows you to trade in currency by deploying a very small amount, so you can take an exposure of Rs 50,000 in US dollar by just paying a margin of approximately Rs 1,700.

In addition to the margin that you keep as a deposit with the broker, you have to pay a fee, brokerage, (which is often charged as a percentage of your total turnover) to the broker for using their trading services along with exchange fees and other taxes. The brokerage varies between 0.03% to 0.25% depending on the broker you choose, the level of service you require and also your volume.

Whether you enter either by buying (long) or selling (short) a futures contract, you can close your contract obligations by squaring-off your positions at any time during the life of that contract by taking opposite position in the same contract.

- If you long (buy) position you have to short (sell) the contract to square off your position or vice versa.
- If you don't do anything your contract will automatically square off on the expiration date.



What happens in March 2012?

Scenario 1: $1US = Rs 52: Against your expectation

Loss of Rs 2,125 on $1,000 that I sold

Gross Loss = (Sell Price less Buy Price)

X Total quantity

= (50-52) x 1,000 = -2,000

Net Loss = Gross Loss+ Brokerage**

= (2,000 + 125) = Loss of Rs 2,125

Scenario 2: $1US = Rs 46: As per your expectation

Profit of Rs 3,875 on $1,000 that I sold

Gross Profit = (Sell Price less Buy Price)

X Total quantity

= (50-46) x 1,000 = 4,000

Net Profit = Gross Profit – Brokerage**

= 4,000 – 125 = Rs 3,875

** Brokerage is assumed to include exchange charges and taxes

Am I allowed to trade in currency derivatives?

Any resident Indian or company including banks and financial institutions can participate in the futures market. However, at present, foreign institutional investors (FIIs) and non-resident Indians (NRIs) are not permitted to participate in currency futures market.

Factors that affect a currency

Like any other financial instruments, movement in the prices of a currency depends on a lot of factors like market dynamics and economic environment. One of the most important factors to look out for when trading in a particular currency is the macroeconomic indicators like the political and economic events pertaining to that country as they can have a huge impact on exchange rates. Inflation expectations are also crucial. For example, if prices would rise in India, then the Reserve Bank of India is likely raise interest rates. This makes the rupee more attractive relative to other currencies, driving up the exchange rate.

Also watch the balance of payments; this tells you whether a country is a global net provider, which means it has a surplus, or a consumer of goods and services. A large growing deficit is often complemented with a weakening currency. How much currency the country is printing also influences the money supply and in turn the exchange rate. Broadly speaking, the larger the supply of notes and coins, the lower their value will be against a less abundant currency.

Which currency can I trade in?

When the exchange currency derivatives started in 2008, only USD-Rupee (INR) Futures were available to trade, however since then the product basket of the currency pairs in futures have expanded to Euro-Rupee, British Pound-Rupee and Yen-Rupee. Currency option trading is also allowed on NSE but currently only in dollar-rupee.

Why exchange traded derivatives?

Currency derivatives is not a new concept in India as OTC market already exists which allows its primary users, banks and corporates, to take exposure in the currency. However, it is the first time that the retail investors have been allowed the access to take exposure in currency directly, helping them to add a new asset class in their portfolios. Moreover, the exchange traded derivatives offer the added benefits of greater accessibility to participants, high price transparency, high liquidity, standardized contracts and counterparty risk management through Clearing Corporation, eliminating risk for the market participants.

In addition to these benefits, an affordable margin requirement and a considerably small lot or contract size makes these instruments a reasonable prospect for all classes of market participants, whether big or small.

As the market participants are realizing the benefits of exchange traded markets in currency, they are gradually moving to these markets as opposed to the OTC markets.

Going Forward

While Indian financial newspapers and channels are all talks about equity, mutual funds and commodities, it is a known fact that globally foreign exchange is the biggest financial market with an average daily turnover estimated at $4 trillion. That shows the tremendous growth potential of currency trading in India, which has less than 1% pie of the global markets.

Globally foreign exchange markets attract a lot of retail participation, which is almost negligible in India. Even corporates have very low awareness level regarding the availability of this product in Indian markets. Focus on investor education and increasing awareness about the product would help in increasing the depth of exchange traded currency derivatives market in the country. Moreover, currently the NRIs are not allowed to trade in India, but if this ban is lifted we could see some surge in volumes.

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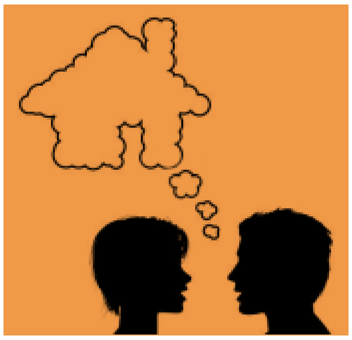

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