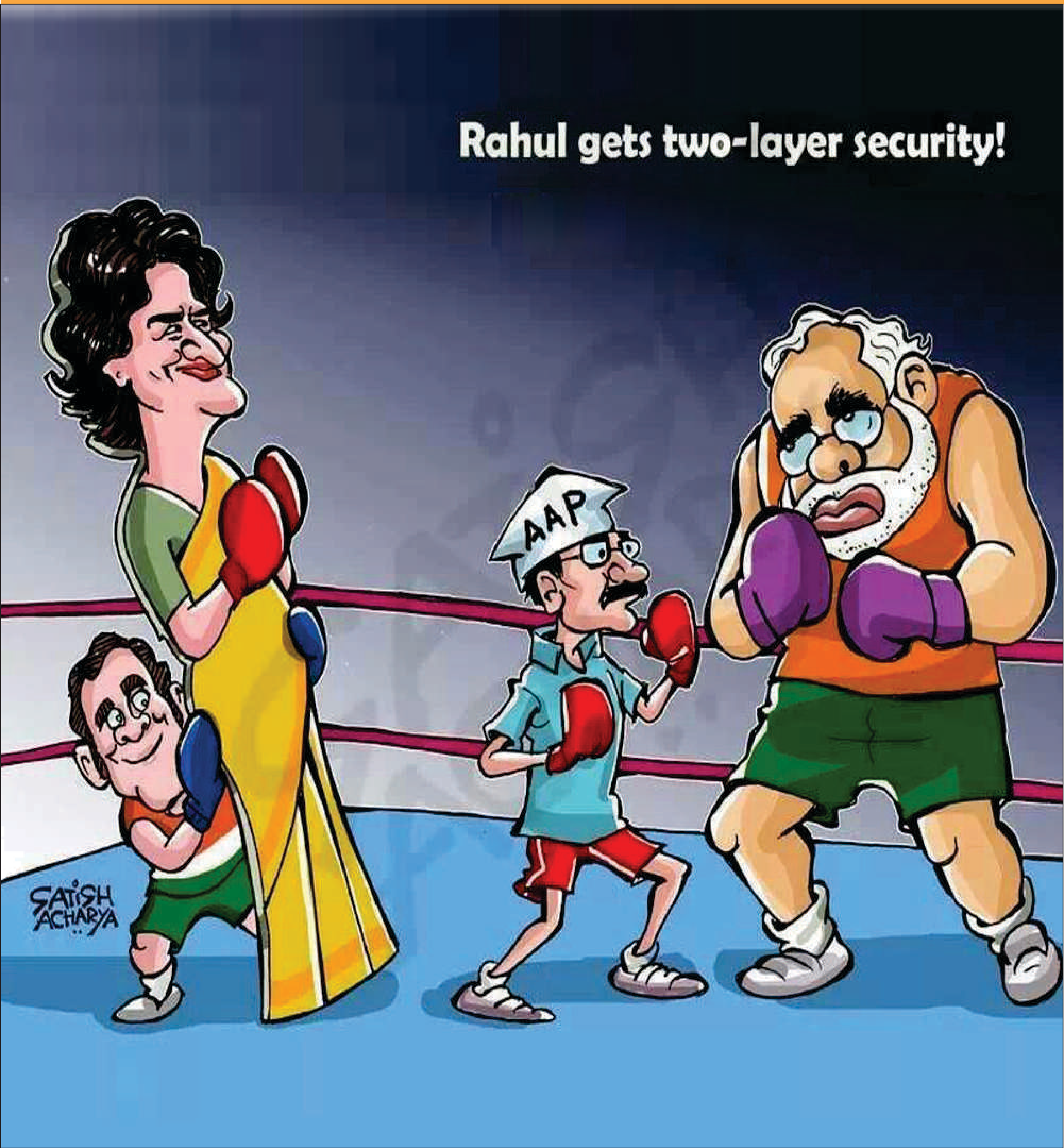
ARIHANT's VALUE Plus

www.arihantcapital.com

Monthly Newsletter (For private circulation only) Issue: May, 2014



ARI - Movers & Shakers

INDIAN INDICES

Indices	Apr-14	Mar-14	Change%
SENSEX	22417.80	22386.27	0.14
S&P CNX NIFTY	6696.40	6704.20	-0.12
BANK NIFTY	12855.85	12742.05	0.89
CNX MIDCAP	8783.65	8612.45	1.99
S&P CNX 500	5255.65	5224.85	0.59
CNX IT	9227.95	9298.00	-0.75
CNX REALTY	179.20	189.05	-5.21
CNX INFRA	2609.55	2615.05	-0.21

(Source: BSE & NSE)

BSE-SECTORAL INDICES

Indices	Apr-14	Mar-14	Change%
AUTO	13372.23	13280.27	0.69
BANKEX	14706.66	14572.46	0.92
CD	6517.26	6526.14	-0.14
CG	12118.32	12011.23	0.89
FMCG	6763.06	6971.02	-2.98
HC	10757.33	10083.63	6.68
IT	8751.78	8789.38	-0.43
METAL	9981.03	10059.10	-0.78
OIL&GAS	9548.47	9485.72	0.66
PSU	6493.06	6354.61	2.18
REALTY	1396.79	1468.40	-4.88
TECK	4879.94	4904.71	-0.51

(Source: BSE)

GLOBAL INDICES

Indices	Apr-14	Mar-14	Change%
DOW JONES	16579.87	16457.66	0.74
NASDAQ	4114.56	4198.99	-2.01
HANG SENG	22133.97	22151.06	-0.08
FTSE	6780.03	6598.37	2.75
NIKKEI	14304.11	14827.83	-3.53

(Source: Telequote software)

COMMODITIES & FOREX

Indices	Apr-14	Mar-14	Change%
MCX GOLD	28887.00	28536.00	1.23
MCX SILVER	41329.00	42805.00	-3.45
MCX CRUDE OIL	6015.00	6115.00	-1.64
MCX-SX USDINR	60.32	59.95	0.62

(Source: Telequote software)

FII ACTIVITY (₹ in cr)

Date	Gross Purchases	Gross Sales	Net Pur/Sales
Total for April 2014	74,985.40	65,383.30	9,602.40
Total for 2014 *	275,839.69	244,041.70	31,798.00

(Source: SEBI)

MF ACTIVITY (₹ in cr)

Date	Gross Purchases	Gross Sales	Net Pur/Sales
Total for April 2014	12,017.50	14,715.40	-2,698.10
Total for 2014 *	42,136.50	52,584.80	-10,448.90

*From Jan - Apr, 2014

(Source: SEBI)

Market Commentary

Indian equity markets made record highs during the month and kick-started the new financial year with a bang on hopes of a stable government at the centre that will kick start the reform process and revitalize the economy. Strong buying by foreign institutional investors (FIIs) also propelled the markets higher. However, second half of the month witnessed some profit booking and rising concerns over the geopolitical conflict between Russia and the West over the Ukraine crisis dragged indices lower. The BSE Sensex touched a new record high in April and ended the month 2% below its record high. The month finally ended on a mixed note with S&P BSE Sensex delivering positive returns of 0.14% for the month to settle at 22417.80, after hitting a new high of 22939.31 and CNX Nifty losing 0.12% ending the month at 6696.40, after hitting a new high of 6869.85.

On the sectoral front, Healthcare turned out to be the best performing sector in April 2014 clocking gains of 6.68%, followed by PSU (2.18%) while Realty (-4.88%) and FMCG (-2.98%) were among the worst. Small-cap and mid-cap indices outperformed the large-cap index.

On the institutional side, FIIs remained bullish during the month and bought equities worth Rs 9,602.40 crore in April 2014 while they turned sellers in the futures market at Rs 5,204.64 crore and the domestic mutual fund houses sold Rs 2,698.10 crore of equities during April 2014.

The three Es are the near-term key drivers of the markets, namely – Economic indicators, Elections and Earnings. During April we saw two of the three Es failing to deliver with economic indicators delivering below average numbers and even the fourth quarter earnings failed to boost equity sentiments. In fact even the stock performances post the result were muted during the month with energy sector delivering the weakest performance and financial being the best in terms of stock performance. However, the third and the most important E, and the current sentiment driver, i.e. the hopes from the election result, offered some support that lead to upbeat movement in the markets during the first half.

On the macro-economic front there were a lot of negatives. India's HSBC manufacturing purchasing Managers' Index for March 2014 declined to 51.3 from a 12 month high of 52.5 in February 2014. HSBC services PMI fell to a three month low of 47.5 in March 2014 from an eight month high of 48.8 in February 2014. Car sales declined 6% yoy.

Index of industrial production (IIP) contracted 1.9% in February 2014 as compared to expansion of 0.8% (revised from 0.1%) in January 2014. Wholesale Price Index (WPI) rose to a three month high of 5.7% in March 2014 against 4.68% in February 2014 and 5.65% a year ago. The Consumer price index (CPI) or retail inflation rose to 8.31% in March 2014 from a 25 month low of 8.03% a month ago. In fact during the month the India Meteorological Department (IMD) declared that India may witness below-normal monsoon due to the possibility of El Nino.

India's trade deficit widened to a five-month high of $10.51 bn in March 2014 as compared to $8.13 bn in February 2014 and $10.41 bn a year ago, led by lower exports. India's merchandise exports declined 3.2% on year in March 2014 to $29.58 bn from $30.54 bn. Imports were also down 2.1% on year to $40.09 bn. Indian Rupee (INR) depreciated against the USD and the Euro by 0.6% and 1.4% during the month.

The Q4FY14 earnings season continued and better earnings by corporate bigwigs like Axis Bank, Cairn India, Bharti Airtel, HCL Tech, HDFC Bank, Hindustan Unilever, ICICI Bank, Indusind Bank, Infosys, TCS and Wipro supported the market. However, there were some that failed to deliver; companies like ACC, IDFC, Kotak Mahindra Bank and Maruti Suzuki, delivered disappointing numbers.

On the international front, the European Central Bank left its interest rate unchanged at 0.25%. Euro Zone retail sales rose 0.4% in February 2014 from 1% on month. The producer price inflation (PPI) in the euro zone fell more than expected, down by 0.2% in February 2014, compared to expectations for a 0.1% decline. Industrial production in the eurozone rose 0.2% in February 2014 on month and by 1.7% from a year ago. Production of durable goods fell 1.2% in February 2014 on month and 0.6% on year. China's official manufacturing PMI climbed to 50.3 in March 2014 from 50.2 in February 2014. China's consumer price index rose 2.4% in March 2014 from 2% in February 2014. China's economy grew at a 7.4% annual rate in the first quarter, its slowest pace in 18 months. China's Industrial production increased 8.8% in March 2014, below expectation of 9.1%. China's HSBC Flash Manufacturing PMI rose to 48.3 in April 2014 from 48 in March 2014.

US core retail sales rose 0.7% in March 2014 versus 0.3% in February 2014 and retail sales grew 1.1% in March 2014 versus 0.7% a month ago. US industrial production grew faster than expected, rose 0.7% in March 2014. US flash manufacturing PMI fell to 55.4 in April 2014 from 55.5 in March 2014. US GDP grew 0.1% in the first quarter 2014 as compared to 2.6% in the fourth quarter 2013. Fed continued its tapering and kept the rates unchanged. On 30 April, the US Federal Reserve tapered its quantitative stimulus programme by another $10 bln, bringing it down to $45 bln per month and kept the rates unchanged.

The global markets ended the month of April 2014 on a mixed note. Japan's Nikkei was the worst performer, which ended the month with loss of 3.53% followed by Nasdaq (2.01%) and Hang Seng (0.08%). FTSE was the positive performer with gain of 2.75% followed by Dow Jones (0.75%).

Going forward

Until the election results are declared, the next batch of Q4FY14 results will dictate near term trend on the bourses along with global sentiments. The market would also keep a close eye on trend in investment by foreign institutional investors (FIIs), trend in global markets, the movement of rupee against the dollar and crude oil price movement. On the global front, it is the re-emergence of Ukraine worries which may impact the global equities. However in the short term markets, election results will have a major impact on the Indian equity markets and until then the markets will remain volatile. Expectations are high from the election results which will be declared on 16 May 2014 after which India will get a new government. The markets are already witnessing some profit booking in the cyclical and high beta sector and the trend will continue till we near the election outcome.

Once the election results are declared, the immediate threat for the equity markets would be El Nino as forecast of a sub-par monsoon has increased uncertainty on India's current year growth and inflation. The timing of this risk is also complicated as already the country is facing some challenges with the investment cycle already being extremely weak, inflation is high and governments' fiscal situation is also under pressure.

In the last two results the market timers had seen their fortunes vanishing and hence our recommendation to investors is to remain cautious of any market predictions. Whatever is the election outcome, eventually fundamentals will return as the dominant factor. We therefore recommend investors to continue to invest and hold a well-diversified portfolio comprising of fundamentally strong companies that would deliver in the long term, despite the results.

Key News and Events in April 2014

- **RBI keeps key policy rates unchanged:** The Reserve Bank of India kept key policy rates unchanged in its first bi-monthly monetary policy review for 2014-15. Repo and Reverse Repo rate were left unchanged at 8% and 7% respectively. Further, the cash reserve ratio (CRR) of scheduled banks, Marginal Standing Facility and bank rates were also left the same.
- **March trade deficit widens to 5 month high of $10.51 bn:** India's trade deficit widened to a five-month high of $10.51 bn in March 2014 as compared to $8.13 bn in February 2014 and $10.41 bn a year ago. The increase in trade deficit was mainly attributed to lower exports. India's merchandise exports declined 3.2% on year in March 2014 to $29.58 bn from $30.54 bn. Furthermore, imports were down 2.1% on year to $40.09 bn. India's oil imports in March 2014 rose 17.7% to $15.78 bn, while non-oil imports was down 11.8% at $24.30 bn a year ago. Trade deficit in 2013-14 (Apr-Mar) narrowed to $138.59 bn from $190.34 bn a year ago.
- **India February industrial output falls 1.9%, lowest in 9 months:** India's industrial output contracted 1.9% in February 2014, the lowest in nine months, as capital goods and consumer goods continued to decline. The Index of Industrial Production had accelerated by 0.8% (revised to 0.8% from 0.1%) in January 2014 and grew 0.6% a year ago.

Sector	Feb 2014 YoY
Capital Goods	-17.4%
Manufacturing Sector	-3.7%
Consumer Goods	-4.5%
Electricity	11.5%
Intermediate Goods	4.2%
Mining Output	1.4%

- **India March WPI inflation rises to 3 month high of 5.7%:** India's headline inflation rate, based on the Wholesale Price Index (WPI), rose to a three-month high of 5.7% in March 2014 as prices of food articles and manufactured products inched up. The WPI inflation rate was 4.68% in February 2014 and 5.65% a year ago. The core inflation also rose in March 2014. The non-food manufactured products inflation, which is a proxy for core inflation, rose 3.5% in March 2014 compared to a rise of 3.2% a month ago. Food articles inflation rate snapped a three-month easing trend in March 2014 to rise to 9.9% from a 10-month low of 8.12% a month ago. The primary articles inflation also increased to 7.66% in March 2014 from 6.33% a month ago, while manufactured products inflation rose to 3.23% from 2.76% a month ago. India's inflation rates based on retail prices rose in March 2014, the inflation rate based on the new Consumer Price Index rose to 8.31% in March 2014 from a 25 month low of 8.03% a month ago.
- **India's FDI inflows up 12% in February:** Foreign direct investment (FDI) into India grew for the second consecutive month in February 2014 to $2.01 bn, up 12.29%. Foreign direct investment (FDI) had increased 1.5% at $2.18 bn in January 2014 and $1.79 bn a year ago. However, for the April-February period of last fiscal, FDI inflows dipped 0.6% to $20.76 bn, from $20.89 bn. Mauritius led the inflows into India with $4.48 bn, followed by Singapore ($3.91 bn), UK ($3.21 bn) and the Netherlands ($2.20 bn).

Auto Sector April Sales

Automobile April 2014 sales: Strong growth in two-wheelers and three-wheelers; sluggish CV sales

Passenger vehicle segment continues to remain weak: Maruti, M&M and Tata Motors see a drop in volumes. India's largest car manufacturer, **Maruti Suzuki**'s, PVs volume was down 11.4% yoy to 86,196 units in April, with the fall partially cushioned by the recently-launched Celerio hatchback spiking volumes of the compact segment (up 9.9%). Company's domestic volumes went down 12.6% yoy to 79,119 units while exports rose by 4.4% yoy. Even the second largest **Hyundai** (unlisted) posted 8.8% rise in total sales while exports were down sharply at 39% yoy. **Mahindra & Mahindra** PV shipments were down 13% yoy, while its total sales down 12%. Sales of the company's 4W CVs were up 19% at 11,677 units and its exports were up by 42% to 2,167 units. The **downrun continued for Tata Motors** in its total sales while its domestic PV volumes registered a 36% drop yoy to 7,441 units. Company's CV sales witnessed a 36% decline to 30,670 units, with medium and heavy CV sales falling 16% yoy to 8,425 units. The total sales of the company were down 34% yoy to 33,892 vehicles.

2Ws: Hero Motocorp, Honda and TVS reported strong volume growth, Bajaj volume drops

Volumes jump for country's largest two-wheeler maker, **Hero MotoCorp** registered 14.4% growth in April 2014, whereas its toughest competitor, **Honda** (unlisted), saw its 2W shipments grow strongly by 21% yoy driven by 29% yoy growth in scooters and 12% yoy in motorcycles. **Bajaj motorcycles** witnessed a drop of 0.39% yoy at 299,636 units while company's total sales were also drop 4% yoy at 331,529 units while its total exports upped 16%. **TVS** domestic 2W volumes increased 11% yoy and its total sales registered 15% growth yoy pushed by a jump of 41% yoy in exports.

3-wheeler continued to report good growth

Atul Auto, India's leading 3W manufacturer, registered 6.8% growth in April of 2,403 units. Sales of **TVS**'s 3W also recorded a strong growth of 59% at 7,504 units.

Tractors volume disappointed

M&M's domestic tractor sales down 10% yoy while **Escorts** registered 17.95% drop in total sales to 5,366 tractors in April 2014.

Commercial vehicles volume shrunk

The trend in the medium & heavy commercial vehicle (M&HCV) segment remained weak – **Ashok Leyland**'s sales were down by 14% to 4,523 units while **Tata Motors** reported a decline of 16% yoy to 8,425 units. **Tata Motor's** large commercial vehicle (LCV) shipments also registered a decline of 43% yoy to 14,804 units, followed by poor performance by **Ashok Leyland**, in LCV, with 39% dip in sales to 1,374 units.

Eicher Motors also recorded a drop of 26% in domestic CV market. The Eicher branded trucks and buses have recorded sales of 3,434 units in April 2014 compared to 3,917 units in April 2013, ~12% drop. In the domestic CV market (5T and above), Eicher's sales dropped 25.9% while its exports, also recorded sales of 643 units in April 2014 a growth of 325.8%.

What to expect?

Automobile industry has started the new financial year on a bad note. The passenger vehicle segment has reported disappointing sales data for the month of April as demand continued to be subdued due to uncertain macro-economic conditions. However, two-wheeler and three-wheeler segment reported strong growth in April sales. Auto industry has not seen an uptrend over the last two months in spite of a reduction in excise duty and the medium term outlook of the sector looks bleak.

Q4FY14 Result Update: Nifty Companies

Positive Performance:

- **Ambuja Cement** reported a rise of 6.58% in net profit, yoy, at Rs 520.01 crore for the quarter ended Mar 31, 2014.
- **Axis Bank** reported a 18.47% rise in net profit, yoy, at Rs 1,842.32 crore.
- **Bharti Airtel** reported a 89.96% rise in net profit, yoy, at Rs 2,059.90 crore.
- **Cairn India** reported a 12.95% rise in net profit, yoy, at Rs 1,755.93 crore.
- **HCL Technologies** reported a 69.58% rise in net profit, yoy, at Rs 1,412.54 crore.
- **HDFC Bank** reported a 23.11% rise in net profit, yoy, at Rs 2,326.52 crore.
- **Hindustan Unilever** reported a 10.79% rise in net profit, yoy, at Rs 872.13 crore.
- **ICICI Bank** reported a 15.10% rise in net profit, yoy, at Rs 2,652.01 crore.
- **Indusind Bank** reported a 28.84% rise in net profit, yoy, at Rs 396.05 crore.
- **Infosys** reported a 25.08% rise in net profit, yoy, at Rs 2,883 crore.
- **Reliance Industries** reported a 0.75% rise in net profit, yoy, at Rs 5,631 crore.
- **TCS** reported a 53.53% rise in net profit, yoy, at Rs 4,628.52 crore.
- **Ultratech Cement** reported a 15.40% rise in net profit, yoy, at Rs 838 crore.
- **Wipro** reported a 58.74% rise in net profit, yoy, at Rs 2,353.10 crore.

Negative Performance:

- **ACC** reported a decline of 8.90% in net profit, yoy, at Rs 398.73 crore for the quarter ended Mar 31, 2014.
- **IDFC** reported a 52.77% decline in net profit, yoy, at Rs 213.04 crore.
- **Jindal Steel and Power** reported a 9.76% decline in net profit, yoy, at Rs 430.83 crore.
- **Maruti Suzuki** reported a 35.46% decline in net profit, yoy, at Rs 800.05 crore.
- **SSLT** reported a net loss of Rs 326.11 crore as compared to a net loss of Rs 174.93 crore (yoy).
- **Kotak Mahindra Bank** reported a 6.70% decline in net profit, yoy, at Rs 407 crore.

ARI - Equity Outlook

Nifty Technical Outlook

Markets traded in a narrow range in month of April which clearly reflects that they are awaiting the outcome of ongoing general elections. On the sectoral front Healthcare, PSU and Bankex ended on the gainers side whereas Realty and FMCG ended on the losing side. The Sensex closed with a marginal gains of 0.14% whereas the Nifty ended with marginal losses of 0.12% vis-à-vis the previous month.

Technical Observation

- On the **monthly chart**, after a strong trendline breakout, we are observing a narrow range body formation which clearly reflects indecisiveness prevailing at current level.
- On the **weekly chart**, we are observing that the previous wave has retraced almost by 200% Fib level and formed a bearish fractal.
- On the **daily chart**, we are observing that the negative divergence in the momentum oscillator viz the stochastic is gaining momentum. This suggests that downside momentum is likely to continue.

Future Outlook:

Combining the above technical observations, it is evident that the two time frames viz the weekly and daily charts suggest that markets could witness a correction. In such scenario, if Nifty trades and closes below 6651 level, it may test 6515 - 6403 levels. On the other hand, the doji on the monthly chart reflects a breather but not weakness of current upmove. Hence we are of the opinion that buying near the demand zone of 6432 to 6500 cannot be ruled out. In such case Nifty is likely to retest 6800 or extend in its gains up to 7000 - 7200 levels.

Broadly, markets are waiting for general election outcome which is going to dictate the direction of the trend.

Trading Glossary

Doji

The doji is a commonly found pattern in a candlestick chart of financially traded assets (like stocks and futures) in technical analysis. It is characterized by being small in length—meaning a small trading range—with an opening and closing price that are virtually equal.

The doji represents indecision in the market. A doji is not as significant if the market is not clearly trending, as non-trending markets are inherently indicative of indecision. If the doji forms in an uptrend or downtrend, this is normally seen as significant, as it is a signal that the buyers are losing conviction when formed in an uptrend and a signal that sellers are losing conviction if seen in a downtrend.

RSI

A technical momentum indicator that compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions of an asset. The RSI helps to measure the strength of a security's recent up moves, compared to the strength of its recent down moves. This helps to indicate whether a security has seen more buying or selling pressure over the trading period. A trader using RSI should be aware that large surges and drops in the price of an asset will affect the RSI by creating false buy or sell signals. The RSI is best used as a valuable complement to other stock-picking tools.

Selling a naked put

A strategy designed to profit from shorting an unhedged Put to collect a premium. If you believe that a stock won't drop very much and have a bullish bias on it, you might consider a short put. The max loss is the strike price minus the premium plus transaction costs. The problem: you have no hedge. Hence, you're "naked"—meaning, you're exposed, without a safety net.

Shorting

To short is to sell an asset, such as an option or stock that you don't own in order to collect a premium. The idea being that if you believe the price of the asset will decline, you can buy back (or "cover") your short at a lower price later. Your potential profit would be the difference between the higher price you shorted at and the lower price you covered.

ARI - Stocks to Watch

Apollo Hospitals Enterprises Ltd **BUY**

CMP: ₹ 956.85 (As on 06th May 2014)

Buy: ₹ 956.85-925

Target Price: ₹ 990-1,027-1,070

Stop-Loss: ₹ 900

Apollo Hospitals Enterprise Ltd (AHEL) was incorporated as a public limited company in the year 1979. Promoted by Dr. Prathap C Reddy, it is the first group of hospitals that pioneered the concept of corporate healthcare delivery in India. AHEL, is the leading private sector healthcare provider in Asia and owns and manages a network of specialty hospitals and clinics, a chain of pharmacy retail outlets across the country, and provides consultancy services for commissioning and managing the specialty hospitals. Apollo Hospitals started as a 150 bed hospital in Chennai. Its presence encompasses over 10,000 beds across 61 hospitals in India and overseas. It also has diagnostic clinics, a chain of retail pharmacies, medical BPO, telemedicine, health insurance services and clinical research divisions. Its major competitors are Fortis, Max Healthcare, and Wockhardt.

Technical Outlook:

On the daily chart, the stock has taken a good support at the lower trendline of the channel. Further it has given a triangular breakout with good volumes. This suggests that upside momentum is likely to continue.

We recommend BUY on the stock at current level or on a decline up to Rs 925 levels with a stop loss of Rs 900 for a target of Rs 990 – 1,027 – 1,075 levels.

Titan Company Ltd **BUY**

CMP: ₹ 271.20 (As on 06th May 2014)

Buy: ₹ 271.20-265

Target Price: ₹ 288-304

Stop-Loss: ₹ 257

Titan company Ltd, formerly Titan Industries Ltd, is engaged in manufacturing of watches/accessories, jewelry, precision engineering and eyewear. The company has four divisions watches/accessories, jewelry, precision engineering and eyewear. The brands under the watches/accessories division include Titan, Sonata, Fastrack, Xylys and others. Tanishq is Titan's line of jewelry with a range of jewelry, studded with diamonds or colored gems in 18-karat gold, 22-karat gold and platinum jewelry. Under eyewear division, there is a brand named Titan Eye plus. The precision engineering division includes machine building and automation solutions and tooling solutions. With over 1,040 retail stores across a carpet area of over 1.4 million sq. ft. Titan Company has India's largest retail network spanning over 220 towns. The company has over 370 exclusive 'World of Titan' showrooms and over 150 Fastrack stores. It also has a large network of over 740 after-sales-service centres.

Technical Outlook:

On the daily chart, the stock has taken a good support at the lower trendline of the channel. At present Rs 272 is immediate resistance for the stock. Any close above the mentioned level would resume the upside momentum.

We recommend BUY on the stock at current level or on a decline up to Rs 265 levels with a stop loss of Rs 257 for a target of Rs 288 – 304 levels.

ARI - Commodity Pick & Currency Pick

GOLD BUY

CMP: ₹ 28,935 (As on 05th May 2014)

Buy: Above ₹ 29,100

Target Price: ₹ 29,900-30,700

Stop-Loss: Below ₹ 28,650

The year 2014 has so far been good for International Gold prices at least in statistical terms with present gains at over 8% that went as high as 15% on year to year basis. Before trying to figure out any trading opportunity, let it be made very clear that the primary trend in yellow metal is bearish and technically the current positive run is just a halt after more than two years of fall. But the big question is -will this halt get extended and shape-up into a relief rally? The answer lies in technical charts and their mathematical and logical reasoning.

From Elliott wave theory's perspective, international Gold is presently in its 4th wave on weekly chart. The corrective 4th wave must have three legs (a-b-c) structure, opposite to the five leg structure of the main bearish trend. Now if we look at this year's price movement, a double bottom formation can be seen which when combined with mathematical Fibonacci reciprocals indicates a much larger third leg formation of the bearish 4th wave. Thus, a very basic technical analysis theory of resistance being tested time to time may come into picture and can trigger a relief rally towards earlier important 'support now turned resistance' zone of $1500-$1525 before returning back to its primary trend. Reciprocal Fibonacci price projections are indicating a rally towards $1440 or Rs 30,700 at MCX June contract only if immediate resistances at $1333 (~Rs 29,100) are cleared with huge volumes.

Mid-term traders can buy MCX June contract only above Rs 29,100 for targets in the range of Rs 29,900-Rs 30,700 while maintaining a strict stop loss below Rs 28,650.

USD-INR BUY

CMP: ₹ 60.27 (As on 06th May, 2014)

Buy: ₹ 59.90-59.70

Target Price: ₹ 61.20-62.20

Stop-Loss: ₹ 58.70

The Indian rupee stayed flat the whole of April to finally settle the month at 60.55. It retreated from an eight-month high 59.95, after data showed the trade deficit widened to a five-month high in March. Meanwhile, the dollar index continue to trade lower against most major currencies after weak manufacturing numbers from China and escalating tensions in Ukraine. Towards the end of the month, the Reserve Bank of India signaled that it will not let the rupee appreciate beyond 60 to the dollar as it shifts to consumer prices as a basis for calculating the real effective exchange rate or REER. For now, investors should maintain caution as the country inches closer to the final phase of elections.

Whatever will be the election result but the major currency pair on the Indian platform is still in the bullish phase. We can clearly identify it on a monthly chart. Prices have corrected till the lower trend line of the trend channel pattern. Crucial support is seen at Rs 59.70-59.50, (as it is lower trend line support and also 61.8% retracement of the recent rally) if it sustained trade below, along with the sufficient volumes, then it may come down till Rs 58.80-58.20. However, for the monthly perspective it is still in the state of indecision as a long shadowed candle stick has been formed.

As per the Elliot wave theory, 4th corrective wave with a-b-c legs have been formed and USD-INR prices are now expected to come up for the 5th wave formation.

For the month of May 2014 we recommend high risk traders to go long in USD-INR May Futures at Rs 59.90-59.70 levels with strict stop loss below Rs 58.70 for the targets of Rs 61.20-62.20.

Key Data and Events:

- **India**
  - **12th May**: Industrial Production for March
  - **15th May**: WPI Inflation for April
  - **16th May**: General election results
  - **30th May**: GDP

ARI - Mutual Fund Update

Mutual Fund Roundup

Indian equity markets registered mixed returns in April 2014, with Sensex registering gains of 0.14% closing the month at 22417.80 and Nifty ending with 0.12% loss settling at 6696.40.

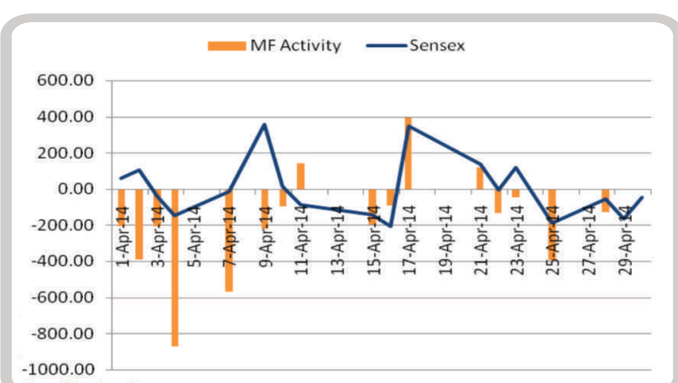
MF Activity

While the markets continue to stay buoyant, the fund managers continue to book profits and turned net sellers of equities for the eighth consecutive month in April 2014, clocking net sales of Rs 2,698.10 crore. In fact of the 18 trading sessions in the month, MFs were net sellers in 14 sessions. Highest selling was recorded in the first week of the month when the fund houses made total net sales of Rs 1,673.40 crore of equities. While the domestic fund houses were net sellers, foreign institutional investors (FIIs) turned net buyers of Indian equities to the tune of Rs 9,602.40 crore. However, after four months of buying, the FIIs turned net sellers in the debt market at 9, 184.90 crore.

Mutual Fund Activity in April 2014

(₹ in Crores)	Gross Purchases	Gross Sales	Net Investment
1st Week	1974.90	3648.00	-1673.40
2nd Week	3061.70	3807.20	-745.30
3rd Week	2308.20	2208.10	100.10
4th Week	3085.00	3536.80	-451.90
5th Week	1587.70	1515.30	72.40
Total	**12017.50**	**14715.40**	**-2698.10**

(Source : SEBI)



Movers and Shakers

Equity Category

As far as the performance of various categories of mutual funds is concerned, in the equity diversified category, Sundaram Infrastructure Advantage Fund delivered positive returns of 97.97% followed by ICICI Prudential MidCap Fund (12.46%) and HSBC Small Cap Fund (10.18%).

Monthly Best Performer: All Equity Diversified Funds

Scheme Name	Last 1 Month %
Sundaram Infrastructure Advantage Fund - Dir - Dividend	97.97
ICICI Prudential MidCap Fund - IP - Growth	12.46
HSBC Small Cap Fund - Dir - Dividend	10.18
Birla Sun Life Pure Value Fund - Dir - Dividend	9.83
Sundaram SMILE Fund - IP - Dividend	8.99

(Source : Mutual Fund India)

In the sectoral category, the schemes generated positive returns with PineBridge Infrastructure and Economic Reform Fund being the best performer of the month with a return of 13.77% followed by ICICI Prudential Infrastructure Fund (12.04%) and Escorts Infrastructure Fund (7.79%).

Monthly Best Performer: All Sectoral Funds

Scheme Name	Last 1 Month %
PineBridge Infrastructure and Economic Reform Fund - IP - Growth	13.77
ICICI Prudential Infrastructure Fund - Inst - I - Growth	12.04
Escorts Infrastructure Fund - Dir - Dividend	7.79
Sundaram Energy Opportunities Fund - Dir - Growth	6.47
HDFC Infrastructure Fund - Dir - Dividend	6.33

(Source : Mutual Fund India)

Debt Category

Among the debt fund category, during the month of April 2014, SBI Dual Advantage Fund delivered positive return of 1.07% followed by HDFC FMP Fund (0.78%), Pramerica Fixed Duration Fund (0.77%), FT FTF - Series XV Fund (0.65%) and Tata FIP Fund (0.63%).

Monthly Best Performer: All Debt Funds

Scheme Name	Last 1 Month %
SBI Dual Advantage Fund - Series I - Dir - Dividend	1.07
HDFC FMP - 372D - January 2013 (23) - 2 - Dir - Growth	0.78
Pramerica Fixed Duration Fund - Series 17 - Dir - Growth	0.77
FT FTF - Series XV (3 Years) - Dividend	0.65
Tata FIP Fund - Series A2 - Dir - Growth	0.63

(Source : Mutual Fund India)

Mutual Fund Portfolio Recommendation

We have hand-picked mutual fund schemes for investment after a rigorous analysis based on various qualitative and quantitative parameters including scheme performance, risk-return analysis, consistency of performance, fund manager's profile and track record, portfolio churning and fund house's investment process. The recommendation consists of three mutual fund model portfolios designed for investors with different risk appetite, namely, aggressive, moderate and conservative. Please note that this is just an indicative portfolio, actual scheme selection may vary after careful analysis of investor's profile and existing portfolio.

Aggressive: High Risk, High Return

Scheme Name	Latest NAV*	Launch Date	Asset Allocation	Returns (%)			
				One Year	Three Years	Five Years	Since Inception
HDFC Equity Fund	342.82	Jan-95	15%	21.74	6.18	21.94	20.06
HDFC Top 200	258.49	Sep-96	25%	17.48	6.29	19.15	20.24
DSP BlackRock Opportunities Fund	102.24	May-00	10%	17.70	5.55	17.42	18.12
IDFC Premier Equity Fund	46.57	Sep-05	25%	24.17	12.64	25.68	19.62
DSP BlackRock Small and Midcap Fund	22.25	Nov-06	10%	25.45	7.56	25.19	11.32
Tata Pure Equity Fund	122.04	Dec-93	15%	14.52	7.65	17.65	16.94

Moderate: Medium Risk, Medium Return

Scheme Name	Latest NAV*	Launch Date	Asset Allocation	Returns (%)			
				One Year	Three Years	Five Years	Since Inception
HDFC Equity Fund	342.82	Jan-95	22%	21.74	6.18	21.94	20.06
DSP BlackRock Equity Fund	19.21	Jun-07	18%	16.62	4.55	17.69	9.92
DSP BlackRock Small and Midcap Fund	22.25	Nov-06	10%	25.45	7.56	25.19	11.32
UTI Dividend Yield Fund	36.87	May-05	20%	10.86	3.59	17.04	15.71
ICICI Prudential Focused Bluechip Equity Fund	21.75	May-08	30%	18.79	8.96	20.13	13.98

Conservative: Low Risk, Low Return

Scheme Name	Latest NAV*	Launch Date	Asset Allocation	Returns (%)			
				One Year	Three Years	Five Years	Since Inception
ICICI Prudential Focused Bluechip Equity Fund	21.75	May-08	20%	18.79	8.96	20.13	13.98
HDFC Top 200 Fund	258.49	Sep-96	10%	17.48	6.29	19.15	20.24
Nifty BeES	673.29	Dec-01	15%	15.07	6.51	15.11	16.39
DSP BlackRock Top 100 Equity Fund	119.06	Mar-03	20%	11.70	5.28	15.39	24.89
HDFC Prudence Fund	274.61	Feb-94	35%	20.21	8.26	21.24	17.77

[Note these are equity recommendations, and equity by its very nature is a risky asset class. So a conservative portfolio is not for investors who do not want exposure to equity, it is for people who are willing to take risk, but within equity are looking for relatively safer investments, i.e. high exposure to large caps.]

From Arihant's Blog

Understanding Currency Derivatives

Derivative is a security whose value is 'derived' from the value of some underlying asset and they do not have an independent value. Derivatives can broadly be divided in two categories, i.e. futures and options. Futures and options contracts are primarily used for hedging as a way to minimize risk or for speculation. They can be used to bet about the future prices of anything from the price of gold to the movements of the American stock market to currencies.

First started in August 2008 in India, currency derivatives are currently traded on three exchanges – National Stock Exchange (NSE), MCX-SX and Bombay Stock Exchange (BSE). Globally foreign exchange markets attract a lot of retail participation, which is almost negligible in India. Even many corporates are also having very low awareness of the availability of this product in Indian markets. This article aims to explain how can currency derivatives be a useful tool for retail investors as well as corporate and how to use them.

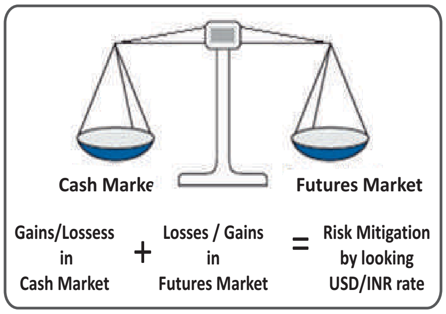
Use of currency derivatives

Currency derivatives can be used for hedging foreign currency exchange positions, speculation against movement of currencies or arbitraging.

HEDGING: The most important use of currency derivatives is to mitigate risk by offsetting currency fluctuations using hedging. Hedging can be used by individuals who have bought foreign currency for travelling abroad or who receive income from their family or friends earning abroad, producers shipping goods to different countries where they will be paid in that country's currency, by exporters and importers shipping internationally and by banks involved in worldwide trade to minimise the risks owing to their exposure to foreign currencies.

For example, I am an individual travelling with my family to the US and I decide to take with me $10,000 which is equivalent to Rs 6,00,000 at the current rate of Rs 60 for 1 USD. Now considering the financial turbulence in the US region I am worried that when I return back and want to sell the unused dollars, I might lose money if the dollar falls. I believe that I would spend about $2,000 during my trip, so I decide to hedge the risk and sell 8 currency futures contracts of USD/INR on exchange, which is equivalent to $8,000 (1 contract denotes $1,000).

As I expected, by the time I returned after a month, the dollar was trading at Rs 57 due to sharp correction in USD and since I hedged my position I could save myself from a potential loss of Rs 24,000.



SPECULATION: Speculation is seeking to predict changes of market trends and then betting on currency value movements to make profits. For example, if you believe that an increase in exports from the Indian services and manufacturing sector combined with strong investment inflows from foreign investors will translate into a stronger rupee, you can sell the dollar-rupee pair.

ARBITRAGING: Market participants often get opportunities to exploit the price differential of currency pair between different markets and make profit from it. Price differential can potentially exist between over the counter (OTC), currency futures and non-deliverables forwards and can be leveraged for arbitrage. Arbitrage will ideally be used by more matured market participants who understand the technicalities involved and have access to higher capital.

DIVERSIFICATION: Currency derivatives can be used an additional asset class to diversify your portfolio. Since the currency derivative contracts in India are valid for up to twelve months, they are apt for investment purpose. However a good understanding of the currency market is needed to take investment exposure in any currency. A novice or a beginner should restrict the use of currency derivatives for hedging and only once they have a good understanding of the variables that affect the currency rates should they use it as an additional asset class for investment.

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 like USD-INR or EUR-INR.

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. Buying a currency contract also requires paying an initial margin as dictated by the exchange, which varies from contract-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.

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 US$1000 (or Rs 60,000) by just paying a margin of Rs 2,778*.

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. The brokerage varies between 0.01% to 0.10% depending on the broker you choose, the level of service you require and also your volume.

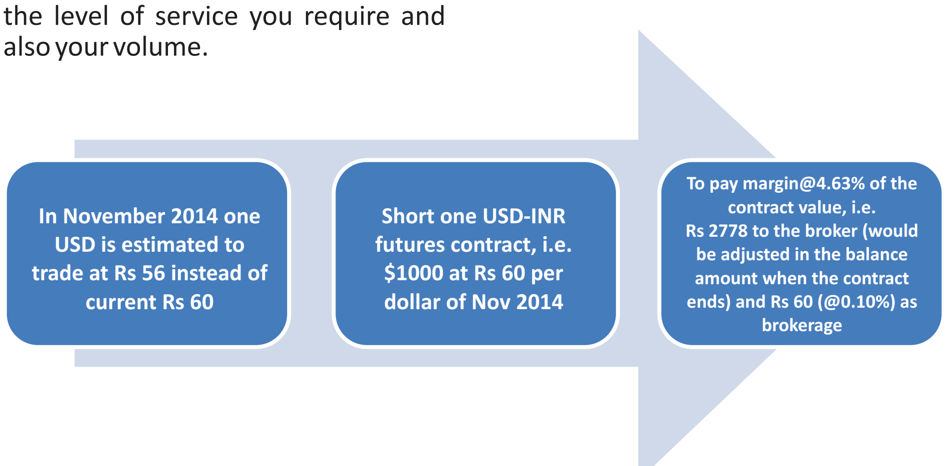
Whether you enter either by buying (long) or selling (short) a futures contract, you can close your contract obligations by squaring-off your positions at any time during the life of that contract by taking opposite position in the same contract.

- 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

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.

To trade in currency derivatives you need to open a trading account with a currency broker. Arihant Capital offers currency derivatives trading services to its client.



What happens in November 2014?

Scenario 1: $1US = Rs 62

Loss of Rs 2,060 on $1,000 that I sold

Gross Loss = (Sell Price less Buy Price) X

Total quantity

= (60-62) x 1000 = -2,000

Net Loss = Gross Loss - Brokerage

= -2,000 - 60 = Rs -2,060

Scenario 2: $1US = Rs 56

Profit of Rs 3,940 on $1,000 that I sold

Gross Profit = (Sell Price less Buy Price) X

Total quantity

= (60-56) x 1000 = 4,000

Net Profit = Gross Profit - Brokerage

= 4,000 - 60 = Rs 3,940

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, like what we are observing now, then the Reserve Bank of India is likely to have to raise interest rates in response. 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.

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 India having less than 1% share of the global markets. That shows the tremendous growth potential of currency trading in India.

To trade in currency derivatives or for more details

SMS <Arihant> to 56677

*The initial margin requirement keeps varying and is fixed by the exchange.