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# INFOLINE

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## From the Managing Director's Desk

### Time to Relook Equities!

#### Market Overview

The BSE Sensex touched an all time high of 21,483 on the day after the State Election results were announced, where the people gave a clear mandate in favour of Shri Narendra Modi. But unfortunately the gains did not hold for even a single day and the markets fell by 800 points in the next four trading sessions. This has been the phenomenon for the whole year, where the Sensex crossed 20,000 levels five times, but was unable to make further momentum. But, if you see the recent movements, there seems to be some strength in the market as the Sensex has been consistently trading above the 20,000 mark in the last three months. Strong FII buying, improved current account deficit, better agricultural production, hopes of return of rural demand, etc are the reasons for this strength. Though many mid cap and small cap shares are showing some strength, it has to be mentioned here that a large majority of the stocks are lagging far behind. Even today, the CNX Midcap index is 21% below its peak, while BSE Small cap index is at a whopping 56% lower. The positive angle is that at the current index levels, the valuations have become very attractive, compared to the levels in January 2008. During this period the earnings of Sensex companies have jumped almost 55% and since the index is at the same level, valuations have improved from 28 PE to around 16 PE. Moreover, many midcap and small cap stocks are available at very cheap valuation because of lack of interest in these segments. Once participation broadens, midcap and small cap segment are expected to move up very fast. Globally too, many major markets like the US, Japan and Germany are witnessing smart rallies, on expectation of a recovery in the global economy.

#### Green Shoots Visible!

Though the GDP and IIP data continue to languish at around 5% and near zero respectively, the first signs of economic recovery are now visible. Thanks to the depreciation of the Rupee, our exports have become competitive and for the fourth consecutive month exports have grown by double digits in \$ terms. During the same period, imports remained muted due to lower gold imports and thereby the current account deficit has remained restricted at manageable levels. Recent data from RBI shows during Q2 of FY14, current account deficit narrowed significantly to US \$5.2 Billion against \$21 Billion in the year-ago period. We have had one of the best monsoons in recent years and it should lead to bumper harvests in agricultural commodities, which has to bring down food inflation as well as revitalize the rural economy. Our currency has also shown some stability around the current levels, that is a positive on the market sentiments. Due to good exports and agricultural output in Q2 of FY14 the GDP has grown by 4.8% against 4.4% during Q1, giving hopes of an economic turnaround. But the chances of a full year GDP touching 5% is still remote.

#### Foreign Investors Remain Bullish

A divergent trading pattern has been evident in our markets for quite some time, with foreign investors continuing to buy Indian equities while domestic institutions and retail investors remain net sellers in the market. In the current calendar, till November, foreign investors have bought into the tune of US \$17.4 Billion worth of Indian equities, while mutual funds have net sold 20,730 Cr, due to redemption pressures. With more than five years of negative returns, tired retail investors are continuing to exit the equity market, if the record of about five lakh mutual fund folios getting closed every month,

is any indication! While there are some signs of stability in the markets, we expect that the selling from retail investors could abate soon, but fresh investment is expected to emerge only if the market continues to rally without much volatility.

#### Leadership Change at the Centre

Every person that I happen to speak to on this subject wants a change of guard at the Centre, especially those related to any industry or business. And the markets have always a unique ability to predict somehow the events to come. Even before the outcome of the State Elections, the markets had already run up in anticipation of the people giving a clear mandate to Shri Narendra Modi. The poll outcome so far vindicates it and the results reflect the minds of the people. The markets are clearly expecting a change in guard at the Centre with a decisive mandate. The Congress, having got a beating in the elections already will not take any unpopular measures till the Central Elections are over. So, we cannot expect any strong economic initiatives till the new Government takes over. So, many are skeptical about any dramatic turnaround in the economy, immediately.

Until a few months back, India was being treated on a par with countries having a high current account deficit, consequent to which the rupee fell sharply on heavy selling by foreign investors. But the situation has now changed as the Government took a couple of appropriate steps and the CAD has become an yesterday's problem.

So, considering India's structural positives like the high savings rate and the younger earning population, it is possible to make a strong turnaround in the economy, if only the new Government at the Centre takes a few cogent, corrective steps.

#### Taper Fears

Apart from the general Elections the biggest event the market fears is the tapering off the US Federal Reserves bond buying program, which may affect the liquidity flowing into emerging markets like ours. As the US economy continues to show strength it is reasonable to expect US Fed will start tapering off soon enough. But the incoming Federal Chief has clearly indicated that they will taper off in a way it will not affect the growth in the economy or create panic in the system. Moreover India is in a much better off position now than six months ago, with the building up of adequate Forex reserves and improved current account deficit to face the event.

#### Market Outlook

Equities have underperformed other asset classes like gold and real estate in the last six years. We have to remember that the economy always moves in cycles. It is after such long periods of a down trend does the retail investor lose complete hope and will vow that he shall never come back to the stock markets again. If history is anything to go by, this signals the end of a bear market. I personally feel that the market will start to move up even before the Elections are over, to new highs, in anticipation of a new Government at the Centre. And, once a new Government with a decisive mandate is in place, and once they start to take few bold steps to bring the economy back on its rails, and once we see the first signs of a turn around in the economy, say a GDP going above 5%, we are in for great times in our Markets.

Sincerely yours  
**Rajendran. V**

#### In This Issue

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# Stocks In Focus

## Infosys (CMP: 3457\*\*)

Infosys is a global leader in consulting, technology and outsourcing solutions. As a proven partner focused on building tomorrow's enterprise, Infosys enables clients in more than 30 countries to outperform the competition and stay ahead of the innovation curve. Infosys has a growing global presence with 160,000+ employees worldwide, across 73 offices and 94 development centers in the United States, India, China, Australia, Japan, Middle East, and Europe. They help enterprises transform and thrive in a changing world through strategic consulting, operational leadership and the co-creation of breakthrough solutions, including those in mobility, sustainability, big data and cloud computing. The company also provides software products to the banking industry. They have developed finance, a universal banking solution to large and medium size banks across India and overseas. Infosys stock has underperformed its peers in recent past due to some issues, but with leadership change the company is likely to regain some of its lost ground. Recovery in the US economy and a favorable currency will act as tailwind to Infosys business in the immediate future.

## Tata Steel (CMP: 415 \*\*)

Tata Steel is among the top ten global steel companies, with an annual crude steel capacity of over 28 million tonnes (mtpa). The company was incorporated in the year 1907 with the name Tata Iron & Steel Company Ltd. It is now one of the world's most geographically-diversified steel producers, with operations in 26 countries and a commercial presence in over 50 countries. Tata Steel's larger production facilities include those in India, the UK, the Netherlands, Thailand, Singapore, China and Australia. Operating companies within the Group include Tata Steel Limited (India), Tata Steel Europe Limited (formerly Corus), NatSteel, and Tata Steel Thailand (formerly Millennium Steel). The company also involves in prospecting, discovering, and mining iron ore, coal, ferro alloys, and other minerals; designing and manufacturing plants and equipment for steel, oil and natural gas, energy and power, railways, ports, aviation, and space industries and agricultural implements. Tata Steel which has a long history of operations suffered a lot in the last couple of years due to the poor performance of its European business which accounts for nearly 58% of the Group's turnover. Currently we are seeing the first signs of European operations getting stabilized, while domestic operations showing healthy volume growth.

## Idea Cellular (CMP: 170\*)

Idea is a pan-India, integrated GSM operator offering 2G and 3G services, and has its own NLD and ILD operations, and ISP licence. The company belongs to the Aditya Birla Group. With revenues in excess of \$4 billion, revenue market share of nearly 15%, and a subscriber base of over 121 million in FY 2013, Idea is India's 3rd largest mobile operator. The company ranks among the top 10 country operators in the world, with a traffic of over 1.5 billion minutes a day. Their robust pan-India coverage is built on a network of over 100,000 2G and 3G cell sites, spread across over 55,000 towns in India. Using the latest in technology, Idea provides world-class service delivery through the most extensive network of customer touch points, comprising nearly 4,500 exclusive outlets and over 7,000 call centre seats. Idea offers a range of high-speed mobile broadband devices including Android based 3G smart phones, dongles etc. Idea's wide portfolio of 3G smart phones offer the latest in 3G applications and high-end data services, such as Idea TV, games, social networking etc. at most affordable prices. With some of the major regulatory hurdles getting cleared Idea offers decent growth prospects.

## Biocon (CMP: 438\*\*)

Biocon is a research-driven, global healthcare company with a strong matrix of

capabilities along the biopharmaceutical value chain. Biocon's fully integrated business model spans the entire drug value chain, from pre-clinical discovery to clinical development and through to commercialisation. The company's businesses in custom research (Syngene), clinical development (Clinigene) and biopharmaceuticals (Biocon) provide multiple revenue streams to balance risk, drive innovation, deliver products and accelerate growth. Biocon has an impressive track record of commercialisation capabilities. They have brought to the market a considerable portfolio of biopharmaceuticals, led by their blockbuster Statins. The commercialization of Insulin, Immunosuppressant and a range of Biogenerics demonstrates their highly advanced process development and manufacturing expertise. Biocon also markets a basket of branded formulations in India, among them INSUGEN®, BIOMAb EGFR® and EPO. The recent results of the company are very encouraging and the management has indicated decent growth to continue in the coming days. Valuations of the company look reasonable considering its investment on research and growth potential.

## Jammu & Kashmir Bank (CMP: 1313\*\*)

Jammu & Kashmir Bank (J & K) started its business operation in 1939 in the Kashmir State. The Bank was the first in the country as a state owned bank. It functions as a universal Bank in the state of Jammu & Kashmir and as a specialised Bank in the rest of the country. It is also the only private sector bank designated as RBI's agent for banking business, and carries out the banking business of the Central Government, besides collecting Central taxes for the CBDT. It is the undisputed leader in the State and currently has around 555 branches in the state with 509 ATM. It has branches in every block of J&K and serves 47 lakh account holders. J&K Bank offers banking services under three major divisions as Support services, Depository services and Third party services. The Bank scores well in most of the key banking parameters like CASA Ratio, Credit Deposit Ratio, Provision Coverage Ratio and is comparable with top quality private Banks in the country.

## TVS Motors (CMP: 58\*\*)

TVS Motor Company is one of the largest two-wheeler manufacturer in India, belongs to the reputed TVS Group. The company currently manufactures a wide range of two-wheelers from mopeds to racing-inspired motorcycles as well as three wheelers. The company has 4 plants - located at Hosur and Mysore in South India, in Himachal Pradesh, North India and one in Indonesia. TVS Motor's strength lies in design and development of new products. The company has always stood for innovative, easy to handle, environment friendly products, backed by reliable customer service. Due to the slowdown in the Indian economy auto sales got hit for the last one year. But there are strong signs of a turnaround in two wheeler segment with double digit volume growth in the months of September and October. This augurs well for TVS Motors which consistently launches new products. Recent launch of TVS Jupiter received good review from auto experts and is likely to do well in the market. The company's export performance is encouraging and is expected to aid profitability for the company.

SCRIP	BV ₹	EPS ₹	P/E
Infosys	661	166	20
Tata Steel	351	5	73
Idea Cellular	43	4	39
Biocon	134	18	20
Jammu & Kashmir Bank	1003	237	5
TVS Motors	26	5	10

\* CMP as on 18-12-2013

\*\* Capstocks PMS have holdings

BV - Book Value

EPS - Earnings Per Share

# SPECIAL OPPORTUNITIES

The general perception about the stock market is that it is a high risk, high return game. It may be true to a certain extent but the risk factor can be reduced substantially by scaling down the return expectation. Investors use various strategies while buying shares to balance risk and return. Among them, buying a share based on a special situation is one of the strategies to make money, with reduced risk. Various special opportunities that commonly arise in the Indian stock market are open offer, demerger, delisting and arbitrage. The timeframe to invest based on these strategies is generally short- to-medium term. If investors follow corporate announcements closely, then chances of making money with these strategies are very high. We will discuss various special situations in detail:

## Open Offer:

Buying a stock from the market and tendering it in the open offer is one of the ways of making risk-free returns. Open offer means an acquirer buying a specific quantity of shares from shareholders at a pre-determined price. Open offer for a company will fall under two categories and these are voluntary open offer and mandatory open offer.

### Voluntary Open Offer:

If a promoter or a promoter group wants to raise its stake in the company, it will come out with an offer to its shareholders. The offer price is generally higher than the current market price and it will be attractive to get enough subscription from the shareholders. In the recent past Hindustan Unilever and CRISIL promoters came out with voluntary open offers to raise their stake.

### Mandatory Open Offer:

An acquirer has to make a mandatory open offer for 26% of capital to non-promoter shareholders if any of the following situations arise:

- If the acquirer has bought more than 25% of voting rights in the company.
- Any change in management control through a corporate takeover.
- If the acquirer has less than 55% of shares with voting rights and a creeping acquisition exceeds 5% in a financial year.
- If the acquirer holds shares between 55% and 75% and creeping acquisition exceeds 5%, he can acquire further shares only after making an open offer.

Recently, Mahindra Forgings, Thinksoft have come out with mandatory open offers. Investors should analyze the shareholding pattern carefully before investing in open offer shares.

## Delisting:

Delisting means a permanent removal of a company's shares from the stock exchanges for trading. As a consequence, the company's shares will no longer be traded in the stock exchanges. Delisting in all stock exchanges is generally done if the promoters feel their share is undervalued or to avoid disclosing the company's data like financials, etc in public, which need to be disclosed if listed. During the delisting process, the promoters acquire all the shares from the market and they will hold the entire shareholding of the company by themselves. When a company wants to delist its shares it has first to get shareholders' approval and then it should provide an exit mechanism to all the shareholders at a price which is determined by the reverse book building mechanism. The exit price is generally much higher than the 26-week average price. So, the investors in these companies will get a higher

exit price during delisting. The general risk in this strategy is that sometimes promoters will not get enough response to the delisting offer, which makes the delisting exercise a failure. Two of the companies that have delisted shares in the past from the Indian stock exchanges are Fairfield Atlas and Denso India.

## Demerger:

Demerger is a form of corporate restructuring in which the company's business operations are segregated into one or more companies. A demerger can take place through a spin out by distributing or transferring the shares to a subsidiary holding the business. Demerger can also occur by transferring the business to a new company. The company's shareholders are issued shares in the new company. A Corporate normally goes for demerger for various reasons and some are to unlock the hidden value of the company, to get tax benefits and to have focused business management. In most cases, post demerger, the child company will get listed. Generally, the sum of the value of the parent and child will be higher than the value of the company prior to demerger. More importantly, the demerged companies tend to do well since businesses are getting focused management attention. Time horizon for investing in demerged companies is generally one to 2 years since demerger needs shareholder's, debtor's and the High Court's approvals

## Arbitrage:

Arbitrage is a transaction that involves positive cash flow by taking minimum or zero risk. It involves simultaneous purchase and sale of an asset. Arbitrage is possible when one of three conditions is met.

1. The same asset does not trade at the same price on all markets
2. Two assets with identical cash flows do not trade at the same price
3. An asset with a known price in the future does not today trade at its future price discounted at the risk-free interest rate

The transaction must occur simultaneously to avoid exposure to market risk or the risk that prices may change on one market before both transactions are complete. Missing one of the legs of the trade is called "execution risk" or more specifically "leg risk". Arbitrage exists as a result of market inefficiencies. Given the advancement in technology it has become extremely difficult to profit from mispricing in the market. Any inefficient pricing setups are usually acted upon quickly and the opportunity is often eliminated in a matter of seconds.

Company	Special Situation
Reliance Broadcast	Delisting
Ricoh India	Delisting
Videocon Industries	Demerger
Thinksoft Global	Open Offer
GSK Pharma	Open Offer
Pfizer, Wyeth	Arbitrage

Special Situation	Investment Time Frame - Months
Open Offer	3 - 6
Delisting	4 - 12
Demerger	15 - 24

## CAPSTOCKS SERVES YOU IN MORE WAYS !

### FLIP & NOW in Android supported mobile

FLIP, a mobile trading platform that suits the ANDROID (mobile app for smart phones and Tablet computers) IOS for Apple phone is one of the desires of Capstocks investor community and we are proud to announce that we are going to launch that facility to our esteemed customers on 1st January 2014. Through this feature the client can view Real time cash management and portfolio update, 24\*7 accesses to their ledger balance, offline order management etc. Customer can view FAO, Cash Market , Currency Derivatives and BSE on a single market watch.



NOW (NSE on Web) is a new initiative of the National Stock Exchange to provide a low-cost trading platform to the end-users. Capstocks is offering NOW in android-supported mobile use for getting the latest market trends and share prices. This is absolutely free of cost and in no time to log into the market and its really hassle-free solutions for trading-related issues for both veterans and beginners alike.

### New Offices

Recently, we opened 17 more branches: Byraveshwara Nagar in Bengaluru, Alwarthiru Nagar in Chennai, Karpakam Nagar and Rajappanagar in Thanjavur, South Mada Street in Madurai, North Pradhakshanam Road in Karur, Valliyoor in Tirunelveli, Pavorchatram, Marthandam in Nagercoil, Nurani in Palakkad, Chittoor and Aluva Pump Jn. in Ernakulam, Pala in Kottayam, Cherthala in Alapuzha, Karunagapally and Kottiyam in Kollam District.

### Publishing Reports through Finahub

Finahub platform is a unique service that enables us to e-mail relevant research reports and investment advice to the clients. With its report category and user subscription features, Finahub helps Capstocks to customise its research report service to the needs and wants of the individual customer.

## CAPSTOCKS EVENTS

### Regional Investors Meet

Regional Investors' Meet was held at Quality Inn Sabari in Chennai and at King's Royal Court at Tirunelveli. Our MD Mr. Rajendran.V delivered presentations on "The Road Ahead" and "Current Market Scenario". Hundreds of clients attended both the events.

Joint awareness programmes were held at Parassala, Attingal and Nedumangad in association with Bombay Stock Exchange (BSE) and Central Depository Services Ltd. (CDSL). An awareness program was arranged at the Venjaramoodu Rubber Marketing Society in association with the National Multi Commodity Exchange ( NMCE).

### Investor Awareness Programmes

Investor Awareness Programmes on equities as well as commodities were held at several locations like Mangalore, Salem, Thrissur, Irinjalakkuda, Aluva, Angamali, Alappuzha, Neerkunnam, Arattuvazhi, Thiruvalla, Karunagapalli, Tirunelveli, Nagercoil, Vembayam, Peroorkada, Sasthaman galam and Pattom.

### Technical Training Sessions

Technical Training Sessions on Commodities were held at Ernakulam, Nagercoil and Trivandrum. These sessions were taken by Technical Experts and were highly informative, focusing on various trading strategies

### Capstocks Commodities-Query Point

Capstocks Commodities inaugurated Customer Query Point for commodity clients at the Head Office.

Branches/customers can interact with our research room through chat facility for clearing their commodity-related doubts or queries .



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Member: NSE, BSE, MCX\*, NCDEX\*, NMCE\*, NSEL\*, MCX-SX, DP:CDSL, Portfolio Manager\*\*

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