I.T.S FINANCE CLUB

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MONEY LAUNDERING – a severe disease

Money Laundering is a process of concealing the source of money obtained by illicit means.

Money Laundering is a process by which illegal money or black money is transformed in such a way that it looks like legal money. The illegal money generates from some criminal activities such as smuggling, drugs, sale of illegal arms and human trafficking etc.

It includes following steps:

Placement - the depositing of funds in financial institutions

Layering - Layering involves sending the money through various financial transactions to change its form and make it difficult to follow

Integration - At the integration stage, the money re-enters the mainstream economy in legitimate-looking form- it appears to come from a legal transaction.

The main aim of the persons having black money is that they want their illegal money to convert into legal which can freely move in the economy in order to prevent it from being traced and their criminal work move smoothly.

In March 2013, the COBRA INVESTIGTION and its sting operation revealed that three leading private banks in India namely ICICI BANK, HDFC BANK, AXIS BANK were indulged in money laundering activities. This case was disclosed just when RBI has given green signal to open private bank. This is a big question mark on the working of private banks as well as the entire banking sector and its regulatory body.

Such activities can undermine the integrity and stability of financial institutions and systems, discourage foreign investment, and distort international capital flows. They may have negative consequences for a country's financial stability and macroeconomic performance, resulting in welfare losses, draining resources from more productive economic activities, and even have negative effects on destabilizing the economies of other countries.

In an increasingly interconnected world, the negative effects of these activities are global, and their impact on the financial integrity and stability of countries is widely recognized. Money launderers are especially attracted to jurisdictions with weak or ineffective controls where they can move their funds more easily without detection. Moreover, problems in one country can quickly spread to other countries in the region or in other parts of the world.

INSIDE THIS ISSUE:

Money Laundering Investigations	FY 2012	FY 2011	FY 2010
Investigations Initiated	1663	1726	1597
Prosecution Recommendations	1411	1383	1240
Indictments/Information's	1325	1228	1066
Sentenced	803	678	751
Incarceration Rate*	84.7%	86.1%	83.8%
Average Months to Serve	64	70	69

*Incarceration includes confinement to federal prison, halfway house, home detention, or some combination thereof.

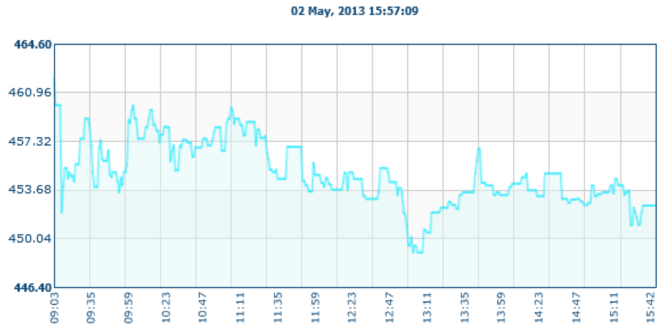
This is a statistical data from: Criminal Investigation Management Information System. It shows during 2010-12 incarceration rate has been increased from 83.80% to 84.70% and sentenced cases is increased from 751 to 803, which is clear that laundering cases is increasing at fast speed .

In 1989 Financial Action Task Force on Money Laundering (FATF), a 36-member inter-governmental body established in G-7 Summit in Paris to overcome from money laundering. It works in close cooperation with other key international organizations, including the IMF, the World Bank, the United Nations, and FATF-style regional bodies (FSRBs). KYC norms were started by the banks after the guidelines of the RBI so the banks can have the full detail of the customers so that the money laundering can be minimized.

In April 2009, the IMF launched a donor-supported trust fund—the first in a series of Topical Trust Funds (TTF)—to finance technical assistance in Anti money laundering activity. In light of the success of the program, and in light of continuing high demand for technical assistance in this area, a new five-year phase of the TTF is currently under discussion for the period 2014-2019.

Finvest Star

Federal Bank Ltd



Fundamental Buy,

CMP : 456.45

Target (Price and %) : 525.00 (13.88 %)

Stop Loss (Price and %) : 414.90 (10.00 %)

Strategy Initiation Date : 26 Apr 2013

Target Date : 26 Jul 2013

Time Horizon : Short Term

Current Gain/Loss (%) : -4.55 (-0.99 %)

BUSINESS OVERVIEW

Federal Bank (FEDBAN) is a Kerala-based private sector bank. It has an asset base of ~INR 645bn as on Q3FY13 and a market cap of INR 75bn, branch network of over 1024 (54% in Kerala). SME and retail lending are the bank's focus areas and constitute 30% and 29.6%, respectively, of its loan book. The bank's merger with Ganesh Bank has added 32 branches to its existing network, increasing its foothold in western India. The bank also has a joint venture agreement with IDBI Ltd & Fortis Insurance International N V for a Life Insurance Company under the name of IDBI Fortis Life Insurance Company Ltd. During the year 2007-08, FBL has opened its representative office in Abu Dhabi, Capital of U.A.E. for the gateway

of the bank to the whole of West Asia.

INVESTMENT THEME

After a subdued FY13 where banks were beaten down for multiple reasons like high interest rates and inflation, going forward earnings trajectory is expected to pick up over the next two years for following reasons.

(1)Utilisation of excess capacity and pent up demand will boost corporate capex, reviving credit demand in FY14;

(2) multiple levers for margins improvement: continued re-pricing of high cost liabilities, improving CD ratio and, stable bond spreads;

(3)improvement in asset quality. We expect banks core earnings (extreasury) to increase by 15 - 20% over FY13-14.

Federal Bank is one of the best regional-based private banks in the country. We like the bank for its strong regional presence, good technology network, possible M&A play, robust loan growth and best in class margins. SME and retail loans, which constitute a bulk of the bank's loan book, are likely to continue to lead its growth in future. The loan book is expected to grow at 18-20% (CAGR) over the next two years through network expansion and increased penetration. FEDBAN generates best in class net interest margins of ~3.5% on the back of its structurally strong deposit franchise. .Around 29.2% of its deposits comprise low-cost current account and savings account (CASA) deposits, (where the bank pays ~4 to 6%), which collectively enable the bank to contain its deposit costs. Going forward, after

NRE deposits hike. FEDBAN is adequately capitalised with tier-1 capital at 14%, it has one of the highest capital adequacy ratios of 14.9%, as of Q3FY13 in the sector that can be deployed to ramp up business as the economic scenario improves. Federal Bank enjoys an attractive franchise, characterized by high

return ratios and employee/branch productivity against regional peers. It is currently undergoing a restructuring, putting people and processes in place to further enhance productivity and growth while

maintaining high credit standards. After touching a peak of 1.5x, the stock has significantly corrected and is currently trading at 1.1x FY14E ABV. We believe, as benefits of restructuring flow in, it has the

potential to deliver stronger returns and trade closer to 1.6-1.8x book.

INVESTMENT RISKS

Asset quality: In this current scenario, there is a greater risk of NPA accretion for FEDBAN than its peers. System wide economic slowdown will lead to a sharp deterioration in asset quality and lower than anticipated recoveries. The bank's high dependence on the NRI segment (20% of its deposits come from the segment) exposes it to regulatory risks.

OUTLOOK AND VALUATIONS

FEDBAN is moving in the right direction addressing two key concerns – profitable growth and asset quality. On our FY13E and FY14E EPS estimate of Rs. 50.6 and Rs. 58.3, the stock is currently trading at a P/E of 9.0x and P/ABV of 1.3x on FY13E basis and at a P/E of 7.8x and P/ABV of 1.1x on FY14E basis. Given these attractive valuations and its growth prospects, we believe the stock offers upside potential in the near term.

RATIOS - COMPARATIVE VALUATIONS

Company	Federal Bank	Axis Bank	IndusInd Bank	ING Vysya Bank	Kotak Mahindra Bank	Yes Bank
1 Wk Price performance (%)	(2.6)	11.1	8.2	8.9	3.8	11.9
3 M Price performance (%)	(14.8)	(2.0)	(1.8)	(4.3)	5.0	(8.5)
PE (x)	10.3	15.7	22.5	19.4	24.1	13.2
Price to Book Value (x)	1.3	2.3	3.4	2.2	3.8	3.0

FINANCIAL SNAPSHOT

Year to March (Rs. mn)	FY12	FY13E	FY14E
Net revenue	24,857	29,209	33,699
Operating expense	9,793	11,459	12,550
Preprovision profit	15,065	17,750	21,149
Provisions	3,370	4,169	4,385
Profit before tax	11,695	13,581	16,764
Provision for tax	3,927	4,550	5,616
Profit after tax	7,768	8,656	9,981
Diluted EPS (Rs.)	45.4	50.6	58.3
Diluted P/E (x)	10.0	9.0	7.8
Adjusted Book Value (Rs.)	325.0	364.0	412.0
P/ABV (x)	1.4	1.3	1.1
ROAE (%)	14.4	14.8	15.5

NEWS WATCH

ICICI prudential gets over Rs. 130 crore tax notice

The Finance Ministry has asked private sector insurer ICICI Prudential to cough up over Rs 130 crore for alleged evasion through non-payment of service tax. The Directorate General of Central Excise Intelligence (DGCEI) has issued a show-cause-cum-demand-notice recently to the firm alleging irregularities including fudging records of commission paid to field agents or channel partners in lieu of policies being sold by them among others, official sources said. Officials of the DGCEI, an investigative arm of Revenue Department under the Ministry, verified the accounts book of the company for the last five years–2007-08 to 2011-12—and claimed to have found irregularities vis-a-vis adherence to service tax laws.

The officials found non-payment of appropriate service tax on the commission paid to their channel partners for the generation of life insurance business and collection of service tax from their corporate agents without any authority in law and not depositing the same to the government nexchequer, they said.

"The DGCEI has raised a demand for payment of about Rs 136 crore on account of alleged service tax evasion to ICICI prudential," a source said. An ICICI Prudential spokesperson said the company will respond to the notice issued to it.

"The department has followed procedure by issuing the showcause notice. We will respond to the notice within the stipulated time period," an official company spokesperson told PTI in an email response.

The officials alleged that the company was paying huge sums of money to their channel partners under different heads in lieu of commission, thereby not paying service tax on the correct amount paid.

In some instances, up to 80 per cent of the premium paid by the unsuspecting customers was given to the channel partners as commission for the sale of life insurance products in gross violation of Insurance Regulatory and Development

Authority (IRDA) norms.The DGCEI, which began probe last year to unearth alleged service tax evasion by various life insurance firms, is likely to issue show-cause-cum-demand notices to other firms also, the sources said. Investigations have found alleged service tax evasion of at least Rs 300 crore by private sector life insurance companies.

The insurance companies under probe are found to be allegedly maintaining wrong data of commission paid and not paying service tax being deducted from their corporate agents, they said.

All life insurance companies are required to pay service tax at the rate of 12.36 per cent on the total commission paid to the corporate agents and the individual agents under the reverse charge mechanism, where as brokers and referrals are individually liable to pay service tax at the rate of 12.36 per cent on the commission amount received from the insurance companies.

At present, there are 24 general insurance companies including the Export Credit Guarantee Corporation (ECGC) and Agriculture Insurance Corporation of India and 23 life insurance companies operating in the country.

Hindustan Unilever deal largest Indian inbound M&A on record

Unilever Plc's USD 5.4 billion bid for a 23 per cent stake in Hindustan Unilever is the largest Asia Pacific cross border inbound merger and acquisition (M&A) deal so far this year and is the fifth largest India Inbound M&A transaction on record till date.

According to global deal tracking firm Dealogic,Unilever is the the fifth largest India Inbound M&A transaction on record, the largest being, Vodafone's 67 per cent stake acquisition in the Hutchison-Essar Ltd (HEL) from Hong Kong-based Hutchison Group in 2007.

Moreover, the Unilever deal is the second largest Asia (ex-Japan) targeted transaction in 2013, behind CP All plc's USD 6.6-billionn takeover bid for Siam Makro pcl, announced on April 23. On April 30, Anglo-Dutch consumer goods giant Unilever Plc will spend USD 5.4 billion (over Rs 29,380 crore) to hike stake in its Indian arm Hindustan Unilever to 75 per cent through an open offer. Unilever will pay Rs 600 a share in an open offer to raise its stake in Hindustan Unilever to 75 per cent from the current 52.48 per cent. Some of the major inbound deals wherein a foreign company or its subsidiary had acquired an Indian entity in the past, includes BP's USD 9 billion acquisition of Reliance Industries' oil & gas assets and the acquisition of Cairn India by NRI billionaire Anil Agarwal led-Vedanta Resources for over USD 8 billion.

The United Kingdom has been one of the top acquirers of Indian assets over the years as another most prominent inbound deal also involved a UK entity Vodafone Group. Other key inbound transactions include Japanese drug major Daiichi Sankyo Company's acquisition of majority stake in Ranbaxy Laboratories Ltd for up to USD 4.6 billion and US-based Abbott's acquisition of Piramal Healthcare's domestic formulation business for USD 3.72 billion.

Hyundai Motor India total sales up 4% in April

Country's second-largest car maker Hyundai Motor India Ltd (HMIL) today reported 4.30 per cent rise in total sales at 56,954 units in April, 2013.

The company had sold 54,606 units in the corresponding month of previous year, HMIL said in a statement.

In the domestic market, the company recorded a decline of 7.60 per cent in sales at 32,403 units compared to 35,070 units in the year-ago period, it added.

Exports of the company, however, went up by 25.67 per cent to 24,551 units during the month under review from 19,536 units in the same period last year, the statement said.

"The exports have shown good growth on account of strong demand from non-European markets, while the domestic market continues to witness pressure...there are signs of recovery with the increase in demand for petrol cars," HMIL Senior Vice President (Sales and Marketing) Rakesh Srivastava said.

In the current difficult times, HMIL is continuously gaining market share, he claimed.

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Petrol price cut by Rs 3, steepest rate cut in 5 years

Petrol price was today slashed by Rs 3 per litre, the steepest reduction in rates in over five years.

The fourth reduction in rates since March means that petrol in Delhi will cost Rs 63.09 a litre with effect from midnight tonight as against Rs 66.09 per litre currently.

Rates will vary from city to city depending on local sales tax or VAT.

In Mumbai, petrol price has been cut by Rs 3.15 to Rs 69.73 per litre, while the fuel in Kolkata will cost Rs 70.35 from tomorrow as against Rs 73.48 per litre. The reduction in rates in Chennai would be Rs 3.18 per litre to Rs 65.90.

Today's price cut comes after three consecutive rate reductions on the back of falling international oil prices.

State-owned oil firms, which revise rates every fortnight, had from April 16 cut petrol price by Rs 1.20 a litre in Delhi.

On March 16, the rates were cut by Rs 2.40 per litre and by Re 1 in the following fortnight.

The price cut announced today is the steepest since December 2008 when rates were slashed by Rs 5 to Rs 45.62 per litre.

Announcing the reduction, Indian Oil Corp (IOC), the nation's largest fuel retailer, said that since the last price change, international prices have declined from USD 116.61 per barrel to USD 107 a barrel.

Rupee-US dollar exchange rate too improved from Rs 54.51 to a US dollar to Rs 54.26. "Thus, it has been decided to pass on the benefit to customers and accordingly the aforesaid reduction in the retail selling price of petrol is being affected," an IOC statement said.

Direct cash through Aadhaar to save 0.5pc of GDP for India: IMF

Integration of direct cash transfer with Aadhaar will take time but the scheme will help Indian government save 0.5 per cent of the GDP, International Monetary Fund (IMF) said today.

"... the total savings could be substantial: if the combination of direct cash transfer and Aadhaar eliminates the estimated 15 per cent leakage cited above for the programmes being integrated, savings could total 0.5 per cent of GDP in addition to the gains from the better targeting of spending on the poor," the IMF said in a report.

Direct cash transfers, which entail direct payments from the government to recipients, can bring down costs and diversion by phasing out middlemen and complex bureaucracies, it added.

The 'Regional Economic Outlook: Asia and Pacific' report further said the integration of these two programmes – Aadhaar and direct cash transfers – promises further savings.

"...but will involve many challenges: the timeframe for bringing India's population of 1.2 billion into the Aadhaar programme could extend beyond 2014, and integrating this database with information on individuals eligible for subsidised fuel will take time," it added.

As per the Unique Identification Authority of India, (UIDAI) which issues the Aadhaar numbers, about 320 million such cards have been issued so far. UIDAI has plans to issue 600 million Aadhaar cards by 2014.

India has initiated a wide-ranging project to shift many subsidy programmes toward direct cash transfers.

The Indian government has started transferring cash directly into the bank accounts of beneficiaries of selected schemes using the Aadhaar payment gateway in a phased manner.

The first phase started in January covering 43 districts and 78 more would be brought covered from July 1.

Currently, India maintains large subsidy programmes for food, fertiliser and fuels. Subsidised food and kerosene are available from government-owned stores at below-market prices for eligible residents.

While all fertiliser sales are at subsidised prices, LPG cylinders are distributed directly, with a limit on each household's subsidised purchase.

Referring to kerosene, IMF said given that the fuel is consumed by the poorest in the Indian population, "replacing the current system on a broad basis will have to be done with care".

Pilot programmes delivering subsidised kerosene using Aadhaar-based identification have been set up in Rajasthan.

A pilot scheme replacing subsidised LPG with direct cash transfers was also launched in Mysore, Karnataka.

Terminology

Loan to value ratio (LVR)

your loan amount shown as a percentage of the market value of the property or asset that will be purchased. The ratio helps a lender work out if the loan amount can be recouped in the event a loan goes into default.

Baby Bond

Fixed income securities issued in small denominations, generally with a maximum face value of $5,000. The small denominations enhance the attraction of baby bonds to the average retail investor.

V-Shaped Recovery

A type of economic recession and recovery that resembles a "V" shape in charting. Specifically, a V-shaped recovery represents the shape of the chart of certain economic measures, such as employment, GDP and industrial output. A V-shaped recovery involves a sharp decline in these metrics followed by a sharp rise back to its previous peak

S&P 600

An index of small-cap stocks managed by Standard and Poor's. The S&P 600 Small Cap Index covers a broad range of small cap stocks in the United States. The index is weighted according to market capitalization and covers about 3-4% of the total market for equities in the United States.

Ba1/BB+

This is generally one of the lowest investment grade ratings that a ratings agency assigns to a security or insurance carrier. This rating signifies a low to moderate level of risk for investors or policyholders.

Superannuation

money set aside for retirement, that must be paid into a complying superannuation fund.

Market Watch

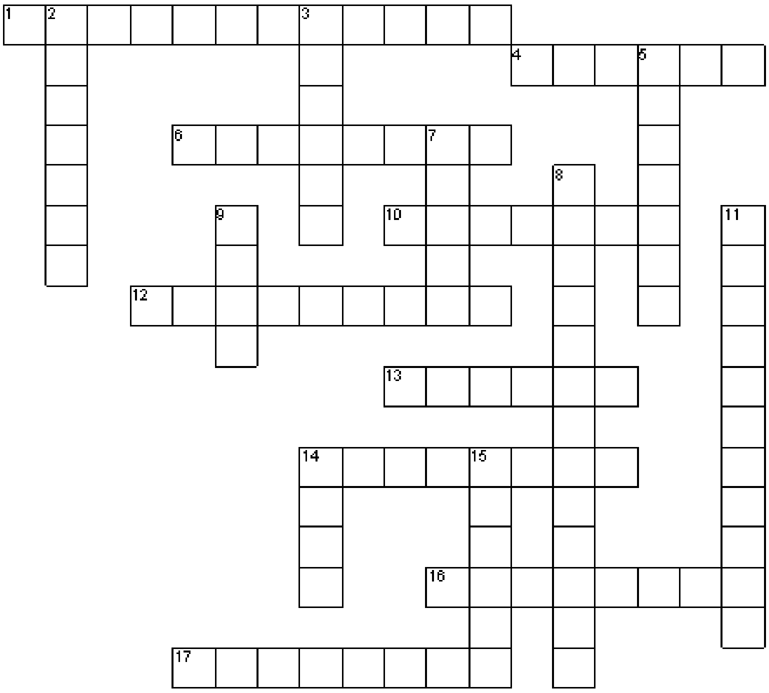
SENSEX

RBI RATES

BANK RATE	8.50%
REPO RATE	7.50%
REVERSE REPO RATE	6.50%
CRR	4.00%
SLR	23.00%

Brain Storming

CROSSWORD



Across

1. rate and efficiency of work
4. ask the bank to advance money
6. money paid for a loan
10. wealth of person or business
12. promise to repair or replace
13. amalgamation of two companies
14. legal agreement
16. total sales of a company
17. share of profits paid to shareholders

Down

2. proof of payment
3. put money into a company or business
5. money paid to owner of copyright or patent
7. part of the capital of a company
8. where shares are bought and sold
9. money lent
11. amount of money spent
14. neither cheque nor credit card
15. money returned

Identify the person

ANSWER TO LAST PERSONALITY

Zvi Bodie

Dhirubhai Ambani

Dhirajlal Hirachand Ambani (Dhirubhai Ambani) was born on 28 December 1932, at Chorwad, Junagadh (now the state of Gujarat, India) to Hirachand Gordhanbhai Ambani and Jamnaben in a Modh family of very moderate means.He was the second son of a school teacher.

Dhirubhai Ambani is said to have started his entrepreneurial career by selling "pakora" to pilgrims in Mount Girnar over the weekends. When he was 16 years old, he moved to Aden, Yemen. He worked with A. Besse & Co. for a salary of Rs.300. Two years later, A. Besse & Co. became the distributors for Shell products, and Dhirubhai was promoted to manage the company's filling station at the port of Aden.

He was married to Kokilaben and had two sons, Mukesh Ambani and Anil Ambani and two daughters, Nina Kothari and Deepti Salgaocar.

In 1962, Dhirubhai returned to India and started the Reliance Commercial Corporation with a capital of Rs.15,000.00. The primary business of Reliance Commercial Corporation was to import polyester yarn and export spices.The first office of the Reliance Commercial Corporation was set up at the Narsinathan Street in Masjid Bunder. It was a 350 Sq. Ft. room with a telephone, one table and three chairs. Initially, they had two assistants to help them with their business. In 1965, Champaklal Damani and Dhirubhai Ambani ended their partnership and Dhirubhai started on his own. It is believed that both had different temperaments and a different take on how to conduct business. While Mr. Damani was a cautious trader and did not believe in building yarn inventories, Dhirubhai was a known risk taker and he considered that building inventories, anticipating a price rise, and making profits through that was good for growth.

During this period, Dhirubhai and his family used to stay in one bedroom apartment at the Jaihind Estate in Bhuleshwar, Mumbai. In 1968, he moved to an upmarket apartment at Altamount Road in South Mumbai. Ambani's net worth was estimated at about Rs.1 million by late 1960s.

Ambani's his great achievement was that he showed Indians what was possible. With no Oxford or Yale degree and no family capital, he achieved what the Elite "brown sahibs" of New Delhi could not: he built an ultramodern, profitable, global enterprise in India itself. What's more, he enlisted four million Indians, a generation weaned on nanny-state socialism, in an adventure in can-do capitalism, convincing them to load up on Reliance stock.

Still, Ambani seems destined to be remembered as a folk hero—an example of what a man from one of India's poor villages can accomplish with non-shrink ambition.

FINVEST— Finance Club

INSTITUTE OF TECHNOLOGY & SCIENCE

Mohan Nagar, Ghaziabad

FINVEST which symbolizes finance and investment is a student managed club and it aims to spread knowledge to all those who aspire to learn the nitty gritty of Finance. The uniqueness about this club is its focus on practical aspects of finance and regular research by students which keeps them updated with the changing scenario.

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