I.T.S FINANCE CLUB

Finvest Times

Inspiring The Future Professionals....

ISSUE 35 | 1 AUGUST 2013

INSIDE THIS ISSUE:

MONEY DEVALUATION IN INDIA

The Indian rupee has been losing massively to the USD since the beginning of May, with a tremendous acceleration of this movement over the last few days. This is effecting Indian Economy very negatively. The loss incurred peaked 8.5%, receding somewhat to 7.8% at an exchange rate of USD/INR 58.00 since then. Although this dramatic loss may come as a surprise for many investors – a similar movement with a loss of 7.7 % over a period of 8 weeks could be observed at the start of October 2012.

The Indian rupee hit record low of 60.72 per dollar on 27 June 2013. It has been under intense pressure and fell around 7 per cent in the month of June due to both global and domestic factors.

Rupee has ends at 60.40 on 31st July 2013; this is slumped 1.7% for the month, its third successive loss for this month.

India has a past experience of money devaluation of 1966 and 1991.In 1966 and 1991 the Indian currency was 7.55 Rupee per US$ and 17.504 US$ respectively and year by year the devaluation of money is going.

In 1966, Government of India had a budget deficit problem and could not borrow money from abroad or from the private corporate sector, due to that sector's negative savings rate. As a result, the government issued bonds to the RBI, which increased the money supply, leading to inflation.

In 1991, India started having balance of payments problems since 1985, and by the end of 1990, it found itself in serious economic trouble. The government was close to default and its foreign exchange reserves had dried up to the point that India could barely finance three weeks' worth of imports. As in 1966, India faced high inflation and large government budget deficits. This led the government to devalue the rupee.

Currently the Indian rupee is devaluating due to following reasons:-

1) TRADE DIFICIT:- India is importing more goods and exporting less items, so the problem of trade deficit has arrived, currently the trade deficit is 4.8% of the GDP.

Because of having high trade deficit demand for the dollar in India is more than its supply, the dollar appreciates and the rupee depreciates. Demand for dollars have created by importers requiring more dollars to pay for their imports and also by Foreign Institutional Investors (FII's) withdrawing their investments and taking the dollars outside India, thus it is creating a shortage of dollar supply, due to which the prices of dollars as compare to Indian rupee is going up.

2) LOW CAPITA INFLOW:- Although India has become an attractive destination which can woo foreign capital as well as money from non-resident citizens, it is not enough to make up for the trade deficit.

In 2011-12, India received foreign direct investment of more than $30bn, in addition to a net inflow of $18bn from foreign institutional investors in stocks and bonds.

But uncertainty about India's commitment to economic reforms, high inflation, retrospective taxes, and policy paralysis within the government have forced foreigners to either postpone their investment decisions, or take money out of Indian stock markets

3) PRICE OF CRUDE:- The price of crude puts tremendous stress on the Indian Rupee. India is the 4rth largest importer of crude oil. Globally, the price of oil is quoted in dollars. . India has to import a bulk of her oil requirements to satisfy local demand, which is rising year-on-year

Therefore, as the domestic demand for oil increases or the price of oil increases in the international market, the demand for dollars also increases to pay our suppliers from whom we import oil. This increase in demand for the dollar (see earlier point) weakens the rupee further.

4)DOLLAR GAINING STRENGTH AGAINST THE OTHER CURRENCIES:- The central banks of Euro zone and Japan are printing excessive money due to which their currency is devalued. On the other hand, the US Federal Reserve has shown signs to end their stimulus making the dollar stronger against the other currencies including the Indian rupee, at least in the short term.

5) VOLATILE EQUITY MARKET:- Our equity market has been volatile for some time now. So, the FII's are in a dilemma whether to invest in India or not. Even though they have brought in record inflows to the country in this year, if they pull out, it will result in a decrease of inflow of dollars into the country. Therefore, the decrease in supply and increase in demand of dollars results in the weakening of the rupee against the dollar.

Business Today reported today that overseas investors pulled out a record Rs 44,162 crore (over $7.5 billion) from the Indian capital market in June 2013. The widening current account deficit and the depreciating rupee are definitely caused for concern. A weaker rupee further erodes the returns earned by the foreign investors in the Indian market.

6) LOW ECONOMIC GROWTH AND HIGH INFLATION:- Annual economic growth of nearly is 4.8% and inflation is 4.86% as per wholesale price index .It is divided into three groups: Primary Articles (20.1 percent of total weight), Fuel and Power (14.9 percent) and Manufactured Products (65 percent). Food Articles from the Primary Articles Group account for 14.3 percent of the total weight. The most important components of the Manufactured Products Group are Chemicals and Chemical products (12 percent of the total weight); Basic Metals, Alloys and Metal Products (10.8 percent); Machinery and Machine Tools (8.9 percent); Textiles (7.3 percent) and Transport, Equipment and Parts (5.2 percent).

In this scenario, most foreigners as well as Indians tend to take money abroad, or keep it away from India due to which inflow of dollars are decreasing and demand of it is increasing due to which prices of dollars are going up.

As the devaluation of currency is effecting Indian economy, Government and RBI are taking different actions to recover from this. Government are increasing the duty charges on the import of goods and supporting the exports by giving benefits on taxes. To control the inflation RBI increasing the different rates as REPO rates, Bank rate , MSF (Marginal Standing Facility) etc so that the supply of money to the economy can be controlled.

Currently the RBI has issued 1.9lakh Cr. of bonds which will be issued by state power distribution companies (Discoms), will be valued at their current market price.

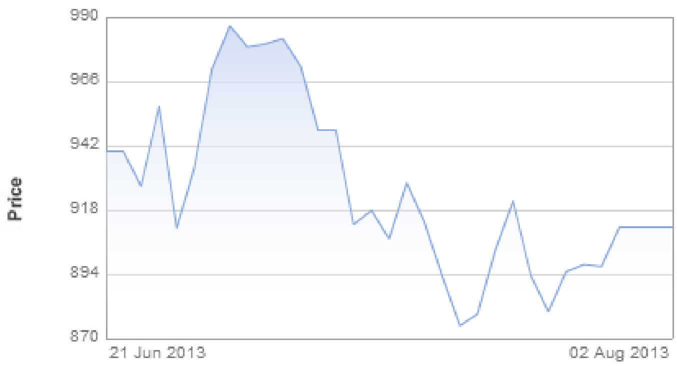
As India has high Current Account Deficit so Domestic Production of goods and services should be increase so that we can be self dependent and be able to export it .This will help in improving GDP by increasing the production and also help in controlling inflation problems by supplying the goods and services as per the demand.

Finvest Star

Re-iterate BUY Mahindra & Mahindra Ltd

Mahindra

RETURNS	LTP (chg%)	Close date	Target Price	Target Return %	
-2.52%	871.50 (-4.38%)	26 Oct 2013	1,080.00	20.81	BUY



Asset Class	Equity
Type	Fundamental Buy
Investment Style	Momentum
Profile Name	Balanced
Time Horizon	Short Term

BUSINESS OVERVIEW

Mahindra & Mahindra Ltd (MAHMAH) operates in nine segments-automotive, which involves sales of automobiles, spare parts and related services; farm equipment, which involves tractors, spare parts and related services; financial services, which consists of services related to financing, leasing and hire purchase of automobiles and tractors; steel trading & processing, which consists of trading and processing of steel; infrastructure, which consists of operating of commercial complexes, project management and development; hospitality, which involves sale of timeshare; IT services, which involves services rendered for information technology (IT) and telecom; Systech, which consists of automotive components and other related products and services, and Others, which consists of logistics, after-market, two wheelers and investment.

INVESTMENT THEME

- Mahindra & Mahindra dominates the domestic tractors market, commanding ~40% market share. Three key structural factors-higher farm product prices, firmer labour wages (notably NREGA), and greater commercial usage of tractors-have significantly increased rural incomes and brought smaller farmers (owning <4 hectares of land) into the "tractor purchasing" ambit. These factors are likely to drive long-term tractor demand, which Mahindra & Mahindra (M&M) is well-positioned to capitalize on. The company has increased its FY14 guidance for tractor volumes owing to expectations of better volumes.

- MAHMAH is the leader in the utility vehicle (UV) segment with market share 48% currently. MAHMAH, as the leader in the utility vehicle segment, is well entrenched with strong brands. Utility vehicle demand is benefitting from: (1) use of utility vehicles as commercial vehicles; and (2) availability of bank financing.

- We expect tractor's volume to pick up on expectation of a normal monsoon. In UVs, M&M plans to launch three-four refreshes in FY14 and is working on three new models in the UV segment and one in the tractor segment, which are likely to be launched in 2015. Consequently, we expect M&M's UV and tractor domestic volumes to grow 11%/16 and 9%/15% in FY14E/FY15E, respectively.

- We believe, Ssangyong Motors acquisition is a strategic fit with MAHMAH's ambitions of being a global SUV player. Ssangyong's current financial performance seems to suggest a turnaround. MAHMAH expanding business portfolio has the potential to add value over the medium term. Apart from the M&HCV space, other new businesses (two wheelers, defence or logistics) require minimal investments. The returns over a three year period though could be substantial, particularly considering MAHMAH's impressive track record in unlocking value of subsidiaries.

- Despite strong growth in automotive segment, M&M is trading at discount to its peers (8x FY15E core earnings). M&M, being tractor segment leader, is best positioned to gain from expected demand recovery. Also, given the reversal in investor sentiments on expectation of interest rate cut by RBI, we expect the multiple to expand to the average multiple of 11x in future.

QUICK DATA

Face Value (Rs)	5.0
Div. Yield (%)	1.3
No of shares ('mn)	614.0
52 week High/Low(Rs)	1026/674
NSE Symbol	M&M
BSE Code	500520
Edel Code	MAHMAH
Market cap (Rs. bn.)	581

SHAREHOLDING PATTERN (%)

Promoters	25.4
MFs, FIs & Banks	18.6
FIIs	30.0
Others	26.0

EDELWEISS CLASSIFICATION

Market Cap	Large Cap
Liquidity	High
Relative Reco	Sector Outperformer
Relative Risk	Medium
Sector Rating	Auto – Underweight

GROWTH METRICS (%)

Year to March	FY13	FY14E	FY15E
Revenues	22.1	17.1	18.6
EBITDA	28.1	9.6	19.3
EPS	22.7	13.8	22.5

INVESTMENT RISKS

MAHMAH is well-diversified and growing in different directions. This clearly adds to the complexity of the business and requires strong systems and management width. Though the company has thus far managed diverse businesses and numerous JVs/acquisitions admirably, a stretch in management bandwidth remains a risk.

Diesel prices which so far has remained insulated from any substantial rise as witnessed in petrol prices, any announcements with respect to rise in diesel prices could affect its operations given the high dependency on diesel vehicle sales to overall vehicle sales.

OUTLOOK AND VALUATIONS

With Mahindra & Mahindra in a strong position in core businesses, a strong balance sheet coupled with a sound management, the company's growth momentum remains strong across key segments - utility vehicles and tractors. With a rich product pipeline, we believe the company is an ideal play on the Indian economy. On our FY14E and FY15E EPS estimate of Rs. 65.7 and Rs. 80.5, the stock is currently trading at a P/E of 14x and EV/EBITDA of 8.1x on FY14E basis and at a P/E of 11.8x and EV/EBITDA of 6.4x on FY15E basis. Given these attractive valuations and its growth prospects, we believe the stock offers upside potential in the near term.

FINANCIAL SNAPSHOT

Year to March (Rs. mn)	FY12	FY13E	FY14E
Income from operations	318,535	397,170	463,514
Materials costs	234,998	297,966	341,203
Total SG&A expenses	23,819	29,501	35,602
Expenses capitalised	735	772	811
Total operating expenses	280,829	352,204	406,262
EBITDA	37,707	44,967	57,252
Depreciation & Amortization	5,761	6,441	7,566
Non-Operational Income	4,658	5,256	5,980
Interest expenses	1,628	1,947	1,947
Profit before tax	34,976	41,834	53,719
Provision for tax	7,270	10,459	13,430
Net profit	27,706	31,376	40,289
Extraordinary income/ (loss)	1,083	-	-
Profit After Tax	28,789	31,376	40,289
Diluted EPS (Rs.)	45.1	51.1	65.6
Diluted P/E (x)	17	15	11.7
EV/EBITDA (x)	9.4	8.1	6.4
ROAE (%)	26	24	25

TECHNICAL VIEW

Resistance
Resistance 1 - 970
Resistance 2 - 1011

Support
Support 1 - 913
Support 2 - 885

India's first infrastructure debt fund assigned 'AAA' rating

Ratings agency Crisil Friday assigned 'AAA' ratings to India Infradebt Limited, the country's first infrastructure debt fund under the non-banking finance company structure.

The fund, jointly promoted by ICICI Bank, Bank of Baroda, Life Insurance Corporation (LIC) and Citicorp Finance (India), awarded its first sanction letter to a road project.

Economic Affairs Secretary Arvind Mayaram said a high ratings would make infrastructure debt funds competitive in the refinancing market.

The first sanction letter was given to a project by Jaiprakash group for refinancing of NHAI-bid road-project of Zirakpur-Parwanoo section of NH-22 built by Himalayan Expressway Limited.

Mayaram said debt funds would play an important role in financing of infrastructure projects in the country.

India targets to invest nearly $1 trillion in infrastructure between 2012-17. Half of this money is expected to come from private sector.

"We require about $1 trillion for infrastructure sector, out of which $500 billion have to come from private sector. Therefore, we have to provide multiple instruments to the private sector to raise funds," Mayaram said at a function organised at the finance ministry in North Block.

Managing director and chief executive of ICICI Bank Chanda Kochhar said the "rating would enable Infradebt to access long-term funds for Indian infrastructure sector at low interest rates from domestic markets as well. (IANS)

Sebi gets more powers

In a bid to enable the Securities and Exchange Board of India (Sebi) to crack down on illegal investment schemes more effectively, the government has given more powers to the capital market regulator.

Sebi has been allowed to pass orders for search, seizure and attachment of properties, as well as for the arrest and detention of defaulters. The regulator is now also bale to pass disgorgement directions to recover the unlawful gains generated through menaces like ponzi schemes.

The regulator can also seek any information regarding a case from other regulators with retrospective effect. The power will enable the regulator to collect of details regarding cases pending for years due to lack of information.

In addition, Sebi investigators can now break open the lock of any door, locker, box etc to get hold of information from suspected entities.

In order to tackle growing nuisance of ponzi schemes, the government has classified any money collection of more than Rs 100 crore as Collective Investment Schemes (CIS) operation.

However, any government-notified schemes of Rs 100 crore or more have been kept out of the CIS framework.

The changes are part of around two dozen of amendments made in three main Acts, viz. Sebi Act, the Depositories Act, and the Securities Contracts Regulation Act (SCRA)

India defends rupee amid gathering economic gloom

The RBI intervened in the foreign exchange market on Thursday to stop the rupee's slide toward a record low as its defence of the currency, built around draining cash from money markets, came under rising pressure.

With the Reserve Bank of India struggling to hold the line, investors are sceptical whether the government will take swift, credible action to reduce a gaping current account deficit despite Finance Minister P. Chidambaram's assurances.

"The market wants real action," said Param Sarma, chief executive at NSP Forex, a consultancy in Mumbai. "The government and RBI want to keep rupee under control to check inflation and to ultimately reverse tightening measures so they can support growth."

Sarma and many others believe New Delhi could opt to issue a bond aimed at drawing inflows from expatriate Indians, as the central bank has voiced opposition to a sovereign bond issue.

The rupee has lost 11.4 percent since the start of May, and by afternoon was quoted at 60.65 per dollar, as RBI dollar selling brought it off a session low of 60.90 and forestalled a move back toward a July 8 record low

of 61.21.

The need to shore up the economy with economic reforms grows more urgent given the prospect the Federal Reserve will at some point start removing its U.S. monetary stimulus, making the global investment environment even more difficult for India.

Goldman Sachs downgraded Indian equities to "underweight" from "market-weight" late on Wednesday, noting the RBI's liquidity tightening measures add to the woes of an economy that grew at a decade-low 5 percent in the last fiscal year and is showing "no signs" of a pickup in investment demand.

RBI Governor Duvvuri Subbarao, whose term ends early next month, reiterated that the central bank's extraordinary liquidity tightening measures last month to curb currency volatility will be maintained until the rupee stabilises."These measures will continue until the volatility in the exchange rate is curbed and we are as anxious as everyone else that that is sooner (rather) than later," he said during a speech in Chennai.

HARD TIMES

Subbarao also spelled out the challenges facing Asia's third-largest economy

Govt. in search of new RBI chief as Subbarao wants to move on

The government is in search of a successor to Reserve Bank of India (RBI) Governor D. Subbarao as he does not want an extension in his term.

Union Finance Minister P. Chidambaram told reporters that Subbarao had told him that he wanted to move on and would not like to be considered for an extension.

Speaking on the topic, Chidambaram said, "Dr. Subbarao had met me a few weeks ago and said he would like to move on and he would not like to be considered for another term. I accepted. So now we are in search mode."

The Governor himself told Reuters earlier in July that he wanted to move on but rumors continued that the government could offer him an extension.

Sixty-three-year-old Subbarao's ongoing term will come to an end in September this year. He was appointed as RBI governor in September 2008.

Terminology

Accrual Bonds

Bonds that do not make periodic interest payments, but instead accrue interest until the bond matures. Also known as zero-coupon bonds

.

Cash Cow

A business that generates a continuing flow of cash. Such a business usually has well-established brand names whose familiarity stimulates repeated buying of the products. Stocks that are cash cows have dependable dividends.

Ex-Dividend

The interval between funds distribution's record date and payable date. During this period, investors who purchase shares are not entitled to the distribution payment.

Global Depository Receipt (GDR)

Receipt of shares in a foreign-based corporation traded in capital markets around the world. The advantage to the issuing company is that they can raise capital in many markets, as opposed to just their home market. The advantage of GDRs to local investor

LIBOR (London Interbank Offered Rate)

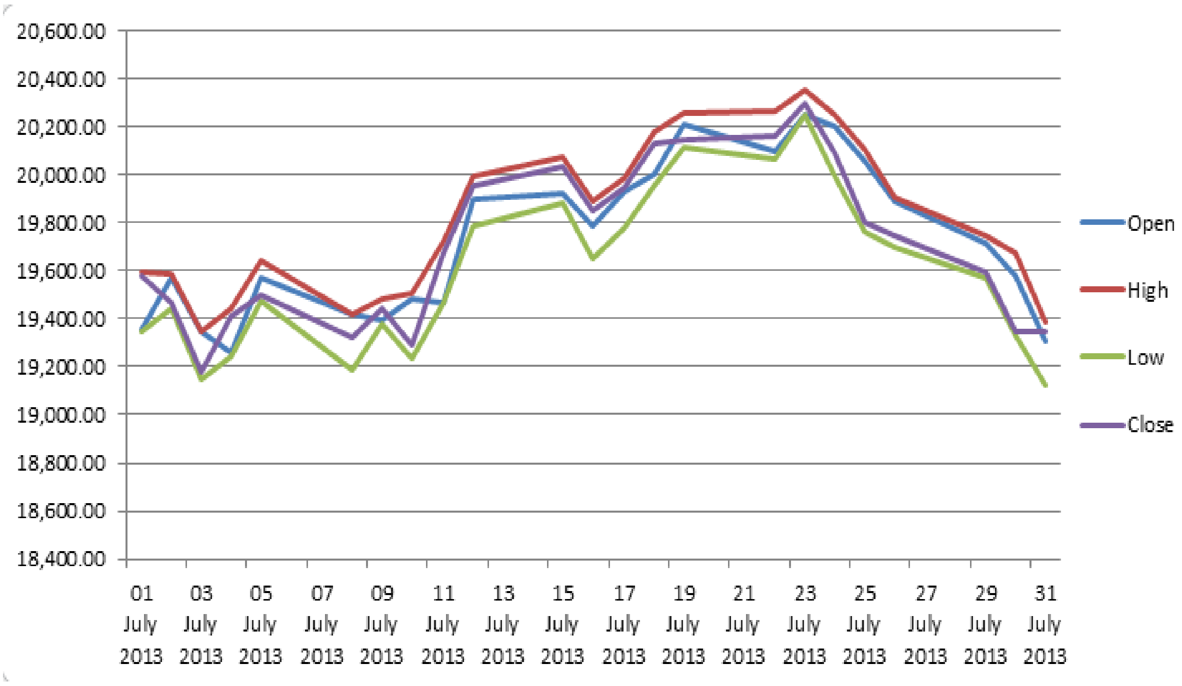
The rate banks charge each other for short-term Eurodollar loans. LIBOR is frequently used as the base for resetting rates on floating-rate securities.

Over the Counter (OTC)

Market in which securities transactions are conducted through a telephone and computer network connecting dealers in stocks and bonds, rather than on the floor of an exchange.

Market Watch

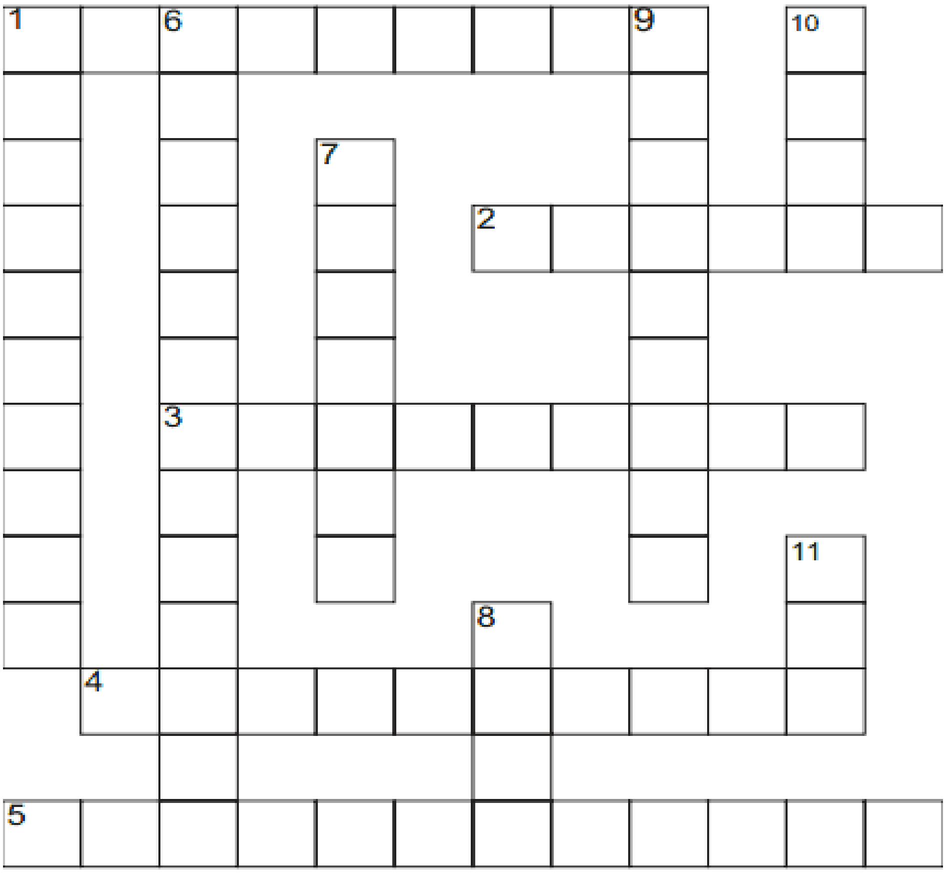
SENSEX



RBI RATES

BANK RATE	10.25%
REPO RATE	7.25%
REVERSE REPO RATE	6.25%
CRR	4.00%
SLR	23.00%

Brain Storming



Identify the person

Across

1. a Russian astronaut

2. shack or hut

3. _____________ industry – businesses involved banking and buying and selling stocks

4. the street in New York City where most banking and trading occurs

5. someone who creates and runs a business

Down

1. feeling concern for someone

6. the best, most advanced there is

7. food produced without man-made chemicals

8. five-___________– top quality, offering the finest standards

9. an exercise machine

10. a remarkable achievement

11. trans _________ – the hydrogenated oil found in foods that is especially harmful for the heart.

ANSWER TO LAST PERSONALITY

JOHN WOODS

ANSWERS TO LAST CROSSWORD

M	O	N	E	Y	M	O	N	E	Y	M	O	N	E	Y
A		O		R		I		B	A	R		O		T
R	E	F	I		C	L	A	I	M		B	I	N	D
G		A		P	H		K	T		P	A		D	
I	N	I	T	I	A	L		D	E	A	D	C	A	T
N	O	R		C	F	O		A		Y		A		R
	B			K	I	L	L		B	O	U	N	C	E
E		B		S	N			I		U		D	U	N
T	E	A			G	O	L	D		T		L	E	D
F	U	N	D	S		R			L		M	E		
		K			E	C	O	N	O	M	I	S	T	S
E		L	I	F	E		B		B	E	S	T		A
F	L	O	O	R		D	I	V	E	R	S	I	F	Y
T		A		E	G	O		N		G		C		S
	I	N	V	E	S	T	E	D		E	L	K	S	

Kumar Mangalam Birla

Dr. Chakravarthi Rangarajan (born 1932) is an Indian economist. He served for over a decade as a Deputy Governor of the Reserve Bank of India, after which he served as the Governor of the Reserve Bank of India between December 22, 1992 and December 21, 1997. He also served as the Governor of Andhra Pradesh from 24 November 1997 to 3 January 2003. After demitting that office, he took charge as the Chairman of the Twelfth Finance Commission. From 2005 onwards, he was the Chairman of the Prime Minister's Economic Advisory Council. In August 2008, he resigned as the Chairman of the Prime Minister's Economic Advisory Council and was nominated as a member of the Rajya Sabha. He is succeeded by Prof. Suresh D. Tendulkar. While serving as the governor of Andhra Pradesh, he also received additional charges as governor of Orissa from 1998 to 1999 and as governor of Tamil Nadu from 2001 to 2002. He was the deputy governor of the Reserve Bank of India from 1982 to 1991. He obtained his Ph.D. in economics from the University of Pennsylvania in 1964. He has teaching experience at institutions such as the University of Pennsylvania, the Indian School of Business and the IIM-A. He was awarded the title of Honorary Fellow of IIM-A in 1997. In 2002, the Government of India awarded him the Padma Vibhushan, India's second highest civilian award. Presently, he is a member of the Rajya Sabha and Chairman of the Madras School of Economics, Chennai.

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.

FINVEST— Finance Club

INSTITUTE OF TECHNOLOGY & SCIENCE
Mohan Nagar, Ghaziabad

Disclaimer:

This newsletter is just a compilation of news from various sources (newspapers, websites, journals and magazines) and hence, no personal analysis is being done by the members. Thus, readers are expected to cross-check the facts before relying upon them. Though much care has been taken to present the facts without error, still if errors creep in, necessary feed backs will be always welcomed. Editors would not be responsible for any undertakings.

Send us your articles at:

- ⇒ **manjulamba@its.edu.in**
- ⇒ **anupammaity@its.edu.in**
- ⇒ **vijayabharti@its.edu.in**

Winning articles will get prizes
And their article will be published in FINVEST TIMES
You can also send your suggestions, feedback, stories etc.

Editors:- *ANUPAM MAITY, VIJAYA BHARTI,*
Finvest Article:- *VIJAYA BHARTI*
News watch:- *ANUPAM MAITY.*
Terminology & Brain storming:- *ANUPAM MAITY*