


CAPSTOCKS

INFOLINE

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From the Managing Director's Desk

Sensex near all time highs! Still no retail participation!?

Retail investors exiting equities

The Sensex is at 20000 levels, just around 5% from its all time highs. But, there is no participation from retail investors. In fact, retail investors are exiting the markets and if history is anything to go by, this signifies a further rise in the markets. Let us analyse why retail investors are avoiding the markets.

In January 2008, when the global financial meltdown unfolded itself, the world's stock markets went into a tailspin and our markets were no exception, with the Sensex crashing from 21200 to 7700 in a matter of 11 months, a fall so steep that even veteran investors lost confidence. The retail investors, who predominantly invest in mid-cap and small-cap stocks, saw their investments being wiped off almost 80% in a short period. Even though later the frontline stocks moved up, as reflected in the rise in the Sensex and Nifty, the broader markets never recovered much. Many of the high beta segments, like real estate and infrastructure, which had ballooned in the earlier bull market, never recovered at all and so the retail confidence still remains completely shattered.

In the last five years, there has been a continuous inflow of negative news, like the fear of European countries defaulting one after the other, domestic issues like GAAR, retrospective taxation, and the government's general inaction and policy paralysis, all of which made the markets nervous and volatile. Unable to digest this volatility, retail investors were exiting the markets at every rise. Even now, around five lakh mutual fund equity folios are being closed every month.

FII's remain bullish

But, in spite of all these issues, sensing India's long-term growth story, foreign institutional investors were buying heavily in the Indian markets. Since the sell off in 2008-09 the FIIs have pumped in nearly US\$57 bn into the Indian markets. In 2012 alone FIIs have pumped in nearly US\$24.3 bn and in rupee terms it comes to 1.28 lakh crore. This is the highest the Indian Stock Markets have ever received in any calendar next to 2010 and the highest share of FII money among Asian countries this year. This has moved our markets higher in spite of selling off by domestic institutions and retail investors. Currently Indian markets are driven by FII money and their flow will be very vital for our markets to sustain the uptrend which we are seeing now. Even in this first month of 2013 we have already received more than one billion US dollars till 8 January, and if this continues unabated, we are sure to see an all time high in our indices in the immediate future!

Positive Signals from the Government

Our Government has finally broken its policy paralysis by announcing a slew of reforms. Some of the measures will have a huge positive impact on the economy, over a period of time, like domestic LPG subsidy reforms and the direct cash transfer of other subsidies. FDI in retail is now a reality and soon FDI in insurance and pension funds will be hiked. Railway passenger fare hike across the board after a decade reconfirms Government intention on reforms. I hope the Government will come out with sensible pricing in PSU dis-

investments, similar to what they did in the NMDC issue, so that good response will flow from all segments of investors. All these measures will infuse confidence among all sections of investors and also remove the fear of rating downgrades from international agencies.

Valuations at historical lows

Historically, the Indian markets have seen bubble-like valuations during the peaks of previous bull markets, be it the Harshad Mehta scam of 1992 or the Ketan Parekh tech bubble of 2000, when the P/E touched 54 and 34 respectively. The markets could never sustain such high valuations and eventually they crashed. In the beginning of the bull phase that started in 2003, the P/E of the Sensex was only 13.5 at Sensex levels of 3000. In five years the markets rallied to 21000 in January 2008, and the valuations touched a high of 28. And the earning of our companies in the Sensex, or Sensex earnings went up from 280 to 775 during this period, which meant that the markets went up on strong fundamentals.

The current P/E of the Sensex is only 15, and if you see the one-year-forward consolidated P/E, assuming even a 10% growth in earnings, it is only 13.5, which is on the lower side of fair valuations. So, this is a great opportunity for investments. Historically the P/E has never fallen below 13 except in the market crash of November 2008, when the P/E touched 10.36

In the last five years, we have had huge issues, both globally and domestically, but if you compare the markets in January 2008 and the present, the earnings of the Sensex have gone up by 50% but the Sensex is still down 5%. Going forward, earning growth will improve on reduction in interest rates and general recovery in the economy. If that happens, there is scope for P/E expansion from current levels. So, markets will go up on earning improvement as well as on P/E expansion in the coming days.

Markets in 2013

Already we have seen markets going in for time wise correction in last five years where excess valuations of 2007 have been corrected. There is a very good chance of earnings improvement in the future. Moreover abundant liquidity is available globally, with investors searching for places to park their funds which can give them reasonable returns, as the global interest rates are at very low levels. Domestically too, I feel optimistic as retail interest will again start coming in when investors see markets stabilizing. And, as the first signs we are already sensing retail interest in the oversubscribed primary issues like "CARE". Forced selling from State-owned insurance companies and other financial institutions will also abate when disinvestments of PSUs are priced sensibly so that they do not need to bail out PSU disinvestment issues. Policy action, ample liquidity, attractive valuations and improvement in macroeconomic fundamentals are going to drive our broader markets. Overall, we are going to see good activity in the secondary as well as primary markets. If things go well as we expect, then 2013 may well be the base year for the start of a new multiyear bull phase in the Indian Stock Markets!

Sincerely yours
Rajendran. V

In This Issue

1. From the Managing Director's desk
2. Stocks in Focus
3. 23rd Anniversary Celebrations

Stocks In Focus

TCS : (CMP 1347*)

Tata Consultancy Services is an IT services, business solutions and outsourcing organization that delivers real results to global businesses, ensuring a level of certainty that no other firm can match. TCS belong to TATA group and is among the top 10 technology firms in the world. It offers a consulting-led integrated portfolio of IT and IT-enabled services delivered through its unique Global Network Delivery Model™ (GNDM™), recognized as the benchmark of excellence in software development. TCS was established in 1968 as a division of Tata Sons Limited and got incorporated as a separate entity on January 19, 1995. It has over 2,60,000 of the world's best-trained IT consultants in 44 countries. The company is the world's first organization to achieve an enterprise-wide Maturity Level 5 on CMMI® and P-CMM® based on SCAMP-ISM, the most rigorous assessment methodology. TCS is consistently growing above industry rate and recent comments from the management indicates the trend likely to continue in future.

Bharti Airtel: (CMP 342*)

Bharti Airtel limited is India based leading global telecommunications company with operation in twenty countries across Asia and Africa. In India, the company's product offerings include 2G, 3G and 4G services, fixed line, high speed broadband through DSL, IPTV, DTH, enterprise services including national & international long distance services to carriers. In the rest of the geographies, it offers 2G, 3G mobile services. Bharti has been ranked among the top five mobile service providers globally in the world in terms of subscribers and had 246 million customers across its operations. In June 2010, the company acquired Zain Group's mobile operations in 15 countries across Africa for an enterprise valuation of \$10.7 billion. With this, the Bharti has become the first Indian brand to go truly global with a skyprint over 1.8 billion people. Currently in India there are major regulatory changes happening in telecom sector which will have long term positive impact on Bharti.

Tata Motors DVR: (CMP 180**)

Tata Motors Limited is India's largest automobile company, with consolidated revenues of INR 1,65,654 crores (USD 32.5 billion) in 2011-12. It is the leader in commercial vehicles in each segment, and among the top three in passenger vehicles with winning products in the compact, midsize car and utility vehicle segments. It is the world's fourth largest truck and bus manufacturer. Established in 1945, Tata Motors' presence indeed cuts across the length and breadth of India. Over 7.5 million Tata vehicles ply on Indian roads, since the first vehicle rolled out in 1954. Through subsidiaries and associate companies, Tata Motors has operations in the UK, South Korea, Thailand, Spain and South Africa. Among them is Jaguar Land Rover, a business comprising the two iconic British brands that was acquired in 2008. Tata motors have transformed successfully from a domestic automaker to a global player and international sales are performing very well. Currently Tata Motors DVR share is trading at steep discount to Tata motors ordinary shares which are likely to get narrow in the coming days.

IDFC: (CMP 172**)

Infrastructure Development Finance Company Ltd (IDFC) is India's leading integrated infrastructure finance player providing end to end infrastructure financing and project implementation services. The compa-

ny's main business is to provide finance for infrastructure projects including through ownership of infrastructure assets. They operate a full range of business lines, from project and corporate finance to asset management (mutual funds and alternatives) and investment banking. They are engaged in providing finance and advisory services to the above segments. The company commenced their business activities on June 9, 1997. The four categories of their business are corporate investment banking, alternative asset management, public market asset management and the IDFC foundation. Professional management and a huge scope for business growth have made IDFC one of the best bet in infrastructure financing.

Bajaj Corp: (CMP 254**)

Bajaj Corp Ltd is one of India's leading hair care FMCG Company with major brands in Hair care category. The company's principal product is Almond Drops, which is in the light hair oil segment. The company manufactures their products at two company-operated facilities in Parwanoo, Himachal Pradesh and Dehradun, Uttarakhand. In addition, they also engage third-party manufacturers at Parwanoo, Himachal Pradesh for hair oils. The company markets their hair oil under the brand names Brahmi Amla, Amla Shikakai and Jasmine Hair Oil. They are consistently showing growth on topline and bottomline. Volume is growing at decent pace, with rural growth rate outspacing urban. Company has handsome dividend distribution policy as there is no major immediate capex plans. Investors wishing to own a FMCG stock at decent valuation can consider buying Bajaj Corp.

Everest Industries: (CMP 265*)

Everest is one of India's fastest growing building solutions company. Everest offers a complete range of world-class building solutions: roofing, ceiling, wall, flooring, cladding, door and pre-engineered steel buildings for the industrial, commercial and residential sectors. It has continuously introduced innovative and modern building products with a promise of strength, speed and safety. The Everest brand of products are produced at state-of-the-art manufacturing facilities located at Kymore, Nashik, Coimbatore, Kolkata and Roorkee. It has 6000 retail points spread across the nation, together with the strength of over 1285 highly qualified and experienced engineers, designers and technicians. Historically, Everest has provided rural shelters, by making corrugated roofing sheets available to farmers at a competitive price. The company is poised to capitalize on the opportunities in rural India, where various housing and infrastructure initiatives are envisaged by the Government.

SCRIP	BV ₹	EPS ₹	P/E
TCS	150	67	19
Bharti Airtel	133	9	35
Tata Motors DVR	104	45	4
IDFC	81	10	16
Bajaj Corp	29	10	24
Everest Industries	164	39	6

* CMP as on 16.01.2013

** Capstocks PMS have holdings

BV - Book Value

EPS - Earnings Per Share

23rd Anniversary Celebrations

Stock Markets, 2013: What the experts foresee!

As investors look to 2013 with optimism, experts came together in Trivandrum to offer their take on elements that can influence market movement in the New Year. The event was organized in association with the Economic Times to celebrate the 23rd anniversary of Capstocks. Mr.Ravi Varanasi, Vice President, The National Stock Exchange; Mr.Abheek Barua, Chief Economist of HDFC Bank; Mr.Vijay Bhambhwani, renowned Technical Analyst from Mumbai, along with our MD, Mr.Rajendran.V, made interesting insights into the micro and macro environment in which market is expected to unfold in the days ahead. The meeting was held at Subramoniam Hall (Trivandrum Club) on the 14th December, 2012 before a packed house of our loyal and valued clients.



Technical Analyst Mr. Vijay Bhambhwani would advise investors to appreciate the fact that equity, bond, forex and commodity markets move in confluence and rarely operate in isolation. "Knowledge is key in investing – it is not about running a marathon or lifting weights", says he.



There are other reasons why opportunities abound for the Indian investor in 2013. Mr. Abheek Barua, chief economist of the HDFC Bank, agrees that we are still in an uncertain world, given the fact that the next big risk is how the US fiscal cliff is tackled, but he expects the fiscal cliff issue to be sorted out soon. He also feels Europe is slightly better off from the situation some months back, though China may remain flat. Barua feels the India sentiment is up, particularly because inflation is on the decline.

Our MD, Mr. Rajendran, pointed to the massive government expenditure on subsidies, and interest incurred on borrowing, as the key factors that impacted the nation's fiscal management. "The Index of Industrial Production is near zero, inflation appears to be stubborn and there is the uncertainty in policies", he said, pointing to the reasons for the fears of the investor community. But, he sees brighter days, ahead. He feels that, "we are presently past the market bottom and that five years is the longest bear market I have ever seen". He also feels that a one year forward Sensex P/E of 13.5 promises good opportunities for investors, and that experience shows that a lack of retail investment is a sign of the market bottoming.

According to Mr. Ravi Varanasi, Senior Vice President of the National Stock Exchange, India can deservedly take pride in having one of the fastest trading systems in the world. The investors' risks are also adequately addressed. "We have a robust risk management system, which extends right to the client level", he said.



CAPSTOCKS SERVES YOU IN MORE WAYS !

SIP IN E-SERIES PRODUCTS

National Spot Exchange (NSEL) has introduced the facility of Systematic Investment in e-series products like Gold, Silver, Copper, Lead, Zinc, and Nickel. Daily, weekly and monthly options are available. SIPs can be purchased online, using the platform of NSEL. This product is meant for those who do not track markets regularly.

Features of E-Series SIP.

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- **Purity Guarantee:** Investors can be assured of the purity of buying such gold.
- **Safety:** Storage or safety hassles are conspicuous by its absence

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CAPSTOCKS EVENTS

New Offices

Recently, we have opened 15 more branches: Vasudevanallur, Panagudi, Kalakkadu, and Sankaran Kovil in Tirunelveli, Adam bakkam and T-Nagar in Chennai, Karur; Thanjavur; Panachikkadu in Kottayam, Payyannur in Kannur, Kattappana and Kumaly in Idukki, Thiruvalla; Mottamoodu in Thiruvananthapuram, and Neerkunnam in Alapuzha.

Regional Investors Meet

Regional Investors Meet were held at Hotel Woods Manor at Ernakulam, Hotel Udupi International at Nagercoil and Hotel Das Continental at Thrissur. Our MD Mr. Rajendran.V delivered a presentation on Tempting Valuations! Time to Buy? Hundreds of clients attended the events.

Investor Awareness Programs.

Investor Awareness Programs on equities as well as commodities were held at Parapur, Punnathur, Irinjalakuda, Tiruvalla, Vasdasserikara, Neerkunnam, Nagercoil and Peroorkada for developing product awareness and maximizing the customer service.

Business Orientation program

A one-day Business Orientation Program for Dealers (Ernakulum Region) was arranged at Hotel Woods Manor, Ernakulum. All the Branches & Franchise Dealers in Ernakulum Region attended the program

GOLDEN TRADING RULES

- **Capital Management**
Never lose more than 10% of your capital in a single trade, so that if you lose, you still have 90% of your capital left to trade better the next time, and your capital will never be wiped out completely.
- **Stop Loss**
Never make a trade without putting a stop loss at the time of initiating the trade and never shift or cancel it.
- **Booking Profit**
Never allow a profit position to run into loss. Also don't be in a hurry to book profits, but protect your profits with trailing stop loss i.e., progressively increasing the stop loss level, as the price increases.
- **Averaging**
Never average when in loss, but only when in profit. Averaging in profit (pyramiding), gives you maximum profit without risk.
- **Overnight Position**
Never sell what shows profit and keep what shows loss. If you want to keep overnight positions, square off loss making ones and keep the profit making ones.



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