

INFOLINE

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From the Managing Director's Desk

INFLATION AND STOCK PRICES

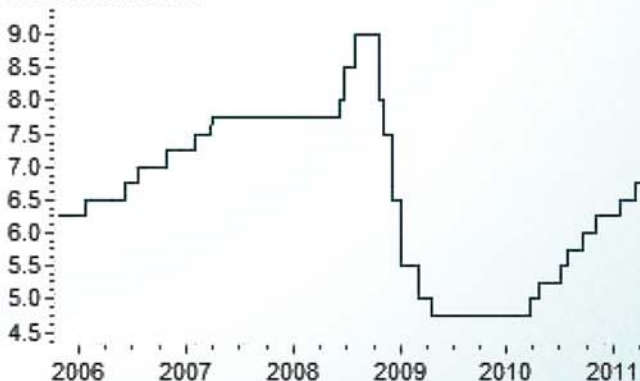
Dear Investor,

Inflation is the current buzz word. We are seeing prices rising in all asset classes, be it in precious metals like gold and silver, base metals, commodities, crude oil or real estate. Though various fundamental justifications is made out for the current run up in prices, the basic reason for inflation is excess liquidity flushing around the world. The US has exercised quantitative easing (QE) in two stages. Monetary expansions by the European Union to clean up the banking system, and Japan to compensate for the financial problems due to the unexpected earth quake, have both worsened the situation. The result of higher commodity prices is impacting India, and we are seeing the inflation well above the comfort levels and it seems very reluctant to come down below 8% levels.

Interest Rates

RBI on its part has been hiking the benchmark interest rate to reduce demand and control inflation. Interest rate hikes have helped to reign in inflation, but it has already started showing its negative impacts - sluggishness in domestic growth and the headline IIP growth rate slowing down considerably to lower single digit. Auto sales which were famously strong till March 2011, have shown some sign of slowdown in April. Though the impact of inflation on the common man is supposedly minimized on wage hikes, the corporate sector is feeling the heat. Already capital goods manufactures are complaining about slowdown in their order inflows. Any significant increases in interest rate from hereon will impact the capex plans of our companies further, aggravating supply side inflation. Margin compression is clearly visible in the Q4 results of the corporate sector.

Interest rate hike chart



Booming Exports

Surpassing everybody's expectations, exports are doing exceedingly well, and the balance of payment has gone well in favor of exports. Exports were at \$245.9 billion for the FY2011, a rise of about 35%, comfortably higher than the government's original target of \$200 billion, while imports rose by only 22% to \$351 billion. Last year one of the main concerns from the FII's perspective for the Indian economy was the very high current account deficit. But now, due to the surge in exports, the severity of current account deficit has eased a lot and it is likely to be below 3% of GDP. Besides, we have high forex reserves and the external debt is

less than 20% of GDP. Considering this, there is a good chance of the rupee appreciating over a period of time, which in turn will trigger more FII interest into India.

Global companies turns focus on India

To capitalize on the India growth story, many global companies are actively increasing their presence in India. BP one of world's leading international oil and gas companies, announced a \$7.2 billion deal with Reliance for 30% stake in 23 oil and gas blocks, in spite of the reduced gas output from the KG basin. Similarly, US-based International Paper bought Hyderabad-based AP Paper, paying a huge premium. Siemens and ABB have raised stake in their listed Indian subsidiaries through open offers. Schneider Electric is scouting for opportunities in India. Japan's biggest life insurance company Nippon Life is to buy 26% stake in Reliance Life. These recent deals in various sectors, be it oil & gas, financials or capital goods, reiterate the bullishness of leading global companies on India's long term growth story.

Infrastructure

If you need crude oil, food or any other stuff these can be imported, whereas infrastructure cannot be. There is no way, except to develop it. Decades of neglect of this supremely important sector of development has led to serious problems that now stare in our face through out the country. There are some States in India where we have 3 to 4 hours of daily power outage, and the life of the common man is sabotaged. So, Government needs to act fast to attract huge investment in the much-needed infrastructure sector particularly power. Lack of reforms from Government side has frustrated everyone and the time is not far off for the Government to be forced to act like in 1991, when the situation compelled the initiation of economic liberalization.

Finally, when will Stock Prices move up?

Most of the excess liquidity floating around the world has found its way into the commodity markets, and at some point of time in the future, this liquidity may move vigorously to emerging economies like India.

The top line growth of the corporate sector, for a sample of 2264 companies, for the last quarter was 22% while profits were up by only 13%. This was mainly due to increase in commodity prices seen over the last several quarters. For the Sensex shares, the full year ending March 2011, the sales were up by 21.1% and net profits were up 20.3%, mainly because of the surge in profits of Tata Steel and Tata Motors.

But, considering the strong top line growth, we can definitely see strong earning growth, provided inflation is reined in and there is a fall in interest rates. There is already a cooling of commodity prices and a fall in inflation as a consequence of RBI rate hikes. If the RBI also tapers off interest rate hikes, and the IIP data recovers, which we are already seeing, if the data for March is to be believed and the Government goes ahead with the almost stalled reform process, well, we will definitely see an improvement in the bottom line of our corporates in the coming quarters. These prospects are all likely to happen in the second half of the current fiscal, which will attract foreign flows that in turn are going to take up our stock prices.

Of course, this price rise is most welcome to all of us!

Sincerely yours
Rajendran. V

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Stocks In Focus

ITC (CMP: 195**)

ITC is one of India's foremost professionally managed private sector company, with a diversified presence in Cigarettes, Hotels, Paperboards & Specialty Papers, Packaging, Agri-Business, Packaged Foods & Confectionery, Information Technology, Branded Apparel, Personal Care, Stationery, Safety Matches and other FMCG products. While ITC is an outstanding market leader in its traditional businesses of Cigarettes, Hotels, Paperboards, Packaging and Agri-Exports, it is rapidly gaining market share even in its nascent businesses of Packaged Foods & Confectionery, Branded Apparel, Personal Care and Stationery. ITC's diversified status originates from its corporate strategy aimed at creating multiple drivers of growth anchored on its time-tested core competence: unmatched distribution reach, superior brand-building capabilities, effective supply chain management and acknowledged service skills in hoteliering. Over time, the strategic foray into new businesses is expected to garner a significant share of these emerging high-growth markets in India. ITC will remain one of the major beneficiaries of the home-grown consumption culture.

Bharti Airtel (CMP: 381*)

Bharti Airtel is a leading India based global telecommunication company with an operation in nineteen countries across Asia and Africa. They offer mobile voice & data services, fixed line, high speed broadband, IPTV, DTH, turnkey telecom solutions for enterprises and national & international long distance services to carriers. Bharti has been ranked among the six best performing technology companies in the world by Business Week, and had 200 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. Also, the company has become a major Indian MNC, with operations in 18 countries across Asia and Africa with a customer base of over 180 million. The company is in the process of launching 3 G services in India, whose impact is likely to be seen in the future.

Lupin (CMP:455*)

Lupin is an innovation-led, transnational pharmaceutical company, producing a wide range of quality, affordable generic and branded formulations and APIs for the developed and developing markets of the world. Lupin first gained recognition when it became one of the world's largest makers of Tuberculosis drugs. Over the years, it has moved up the value chain and has not only mastered the business of intermediates and APIs, but has also leveraged its strengths to build a formidable formulation business globally. Currently, the company's activities include pharmaceuticals, bulk drugs, formulations, fermentation, biotechnology, natural products and agro chemicals. Currently, many multinational pharma companies are searching for partners in India for contract manufacturing to reduce production cost. Lupin is one of the ideal candidates which will fit into any MNC's expectation for long term association.

HCL Tech (CMP:513*)

HCL Technologies is a leading global IT services company, working with clients in the areas that impact and redefine the core of their businesses. HCL focuses on 'transformational outsourcing', underlined by innovation and value creation, and offers an integrated portfolio of services, including software-led IT solutions, remote infrastructure management, engineering and R&D services and BPO. HCL leverages its extensive global offshore infrastructure and network of offices in 26 countries to provide holistic, multi-service delivery in key industry verticals including Financial Services, Manufacturing, Consumer Services, Public Services and Healthcare. HCL Technologies, along with its subsidiaries, had consolidated revenues of \$ 3.3 billion (Rs. 15,160 crores), as on 31 March 2011 (on a trailing twelve month basis).

IDFC (CMP:138**)

The Infrastructure Development Finance Company Limited (IDFC) is India's leading integrated infrastructure finance player, providing end-to-end infrastructure financing and project implementation services. The company'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. IDFC is engaged in providing finance and advisory services for infrastructure projects, asset management. It was incorporated on January 30, 1997 as a public limited company with registered office at Chennai and commenced 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 has made IDFC one of the best bet in infrastructure financing.

GMDC (CMP:145*)

Gujarat Mineral Development Corporation is a mining and mineral processing company. They are the largest merchant seller of lignite in India, producing lignite, bauxite, calcined bauxite, fluorspar and manganese ore, plus power generation. The company offers lignite for various industrial units, including textiles, chemicals, ceramics, bricks, and captive power producers. GMDC was set up by the Government of Gujarat, in 1963, for developing the major mineral resources of the State. Currently, due to the steep rise in commodity prices, globally there is a fancy for natural resource companies. Since coal prices have increased domestically and internationally, the company's main product lignite is likely to witness a strong pricing trend in the future, which augurs well for its shareholders. Investors who are looking for exposure to a natural resource company at a reasonable valuation can consider buying GMDC.

Fag Bearings (CMP:1107*)

Fag Bearings is a leading player in the Indian bearing industry and fabricates a wide range of quality bearings. It is a 51% subsidiary of Fag Kugelfischer GmbH, a Schaffler group company, Germany. FAG India is a leading OEM supplier to the automotive, mechanical and electrical engineering industries, besides the Railways. It is a zero debt, cash-rich company and the products are well accepted in India. The company's past performance is consistent with increase in both top line and bottom line. It is well positioned to capitalize on the current auto boom witnessing in the domestic market. In the current scenario, most of the listed MNC companies are either delisting their shares or the foreign promoters are raising their stake in the Indian subsidiary. So, there is a scarcity of MNC company stocks available to the Indian investors. Fag provides an excellent opportunity for investors to own an MNC stock at a reasonable valuation.

Amara Raja Batteries (CMP:212**)

Amararaja makes batteries for the automotive and industrial segments. It is the second largest maker of batteries in India, after Exide Industries. The company's most advanced battery making plant is located at Karakambadi in Andhra Pradesh. In 1997 they entered into joint venture agreement with the US battery major Johnson Control Inc. for importing technology for making automotive batteries. Johnson Control Inc. holds 26% equity stake in the company. The company sells its batteries under the brand name AMARON. It is likely to continue its growth trajectory thanks to the huge demand from the industrial segments. Capacity expansion with fall in lead prices is going to benefit significantly in the future. Valuation looks compelling when compared with Exide Industries and investors with a medium term investment horizon can start accumulating the stock to see handsome gains in the future.

SCRIP	BV Rs.	EPS Rs.	P/E
ITC	18.1	6.1	29.9
Bharti Airtel	128	15.9	23.0
Lupin	57.5	19.1	21.8
HCL Tech	91.5	17.8	29.8
IDFC	69.9	8.7	15.7
GMDC	44.2	11.0	12.2
Fag Bearings	343.7	86.4	12.3
Amararaja Batteries	63.6	16.4	11.6

* CMP as on 02-06-2011

** Capstocks PMS have holdings

Investment in Commodities

NATIONAL SPOT EXCHANGE

National Spot Exchange Limited or NSEL is the national level, institutionalized, demutualised and transparent Electronic Spot Exchange set up by Financial Technologies India Limited (FTIL) and the National Agricultural Co-operative Marketing Federation of India (NAFED) to create a delivery- based, pan India spot market for commodities.

Commodities traded on the NSEL platform

NSEL conducts spot trading in various agricultural commodities like rice, wheat, barley, black pepper, cardamom, rubber, etc and non agricultural commodities, including gold and silver.

E-Series is the new segment launched by the NSEL, which is exclusively designed to develop a cash segment of commodities for promoting savings and investment by retail investors in commodities in demat form. E-Gold is the first instrument launched by the NSEL under E-Series, followed by E-Silver, which tracks physical commodity (e.g., gold and silver) prices and makes it available in smaller denomination (in multiples of 1 gram and 100 grams) in demat form for small investors. E-Series of contracts launched by the NSEL are compulsory demat contracts. For taking delivery of such units, you must have a demat account. Similarly, for selling in E-Series contract, you must hold demat units in your beneficiary account

Retail investors can now trade and invest in commodities like they invest in the equities. This is a unique market segment, which functions just like the cash segment in equities, but offering commodities like gold, silver and copper in the demat form in smaller denominations. Systematic investments in E-series products promote savings in a secured way, offering ease of transaction and flexibility of trade timings. This instrument provides ample opportunities to the masses as secured investment in their product basket diversification.

Key features:



- ❖ Promotes Systematic investment and savings
- ❖ Can invest in small quantities (1 gm gold and 100 gm silver)
- ❖ Transparent and uniform pan India pricing
- ❖ Convenient and secure online buying and selling
- ❖ No storage or holding costs
- ❖ Physical delivery of accumulated demat units at multiple centers possible

Dematerialization of Commodities

Dematerialization of commodities implies storage of commodities in Exchange designated vaults/ warehouses and keeping record of its ownership in the electronic form. The legal and beneficial owner of the goods gets a credit in his account electronically, which is similar to holding a pass book in a bank. Similarly, transfer of ownership against buy and sale is done from one account to the other, just like money transfer, through a cheque. The depository keeps records of holdings and transfers in the electronic form. For holding equities and commodities, we have to open a separate demat account for NSEL. However, if you have a demat account opened for MCX trading, the same account can be used for NSEL. But, if you have demat account for other stock exchanges/ commodity exchanges, then you have to open separate demat account

Delivery in the physical form v/s delivery in the demat form

In the case of physical delivery, a person gets a warehouse receipt in paper form, while in the case of delivery in demat form, he gets a credit entry in his demat account. All non-perishable commodities, which include gold, silver, zinc, nickel, etc. will be available in the demat form.

Timings for trading in dematerialised commodities on NSEL platform

Trading in E-Gold as well as other contracts, is done on Mondays through Fridays, from 10:00 am to 11:30 pm. Trading in E-Series products is not allowed on Saturdays and other holidays notified by the Exchange.

Contract Specifications- E-Series

Commodity	Trading unit	Tick size
E-GOLD	1 unit of E-GOLD, which is equivalent to 1 gram of Gold	10 paise per unit
E-SILVER	One lot of 100 demat units of E-Silver, which is equivalent to 100 grams of Silver.	10 paise per trading unit
E-COPPER	1 unit of E-COPPER, which is equivalent to 1 kilogram of Copper	0.05 per 1 kilogram/unit
e-Zinc	1 unit of E-Zinc, which is equivalent to 1 kilogram of Zinc	0.05 per 1 kilogram/unit
e-Lead	1 unit of E-Lead, which is equivalent to 1 kilogram of Lead	Rs. 0.05 per 1 kilogram/unit

Investing in Gold

Gold, always a symbol of wealth, has been traditionally considered as a hedge against inflation, mostly moving in tandem with rising inflation and inversely with the dollar. It is a highly effective portfolio diversifier due to its low-to-negative correlation with all major asset classes. Over the last 20 years, gold has shown statistically no significant correlation with equities. The fundamental reason for this low correlation is that the factors driving gold prices are not the same as the ones that determine the returns on other assets. While, as a rule, gold shows no statistically significant correlation with mainstream asset classes, there is, however, evidence that when equities are under stress—in other words, when shares are falling rapidly in value—an inverse correlation can develop between gold and equities. The value of goods and services that gold can buy has remained largely stable, unlike currencies, which have seen significant fluctuation.

The reasons why gold should form a part of your portfolio are many. Here are some of them:

- ❖ Gold improves the stability and predictability of portfolio returns. It is not correlated with other assets, because gold price is not necessarily driven by the same factors that are responsible for driving the performance of other assets.
- ❖ Adding gold to a portfolio introduces an entirely different class of asset. Gold is unusual because it is both a commodity and a monetary asset.
- ❖ Gold is one of the few financial assets that is not linked to a liability. It can provide 'insurance' against extreme movements on the value of traditional asset classes.

Investing in Silver

Silver has traditionally been considered the poor cousin of gold. Most Indians who are dedicated investors in gold have shied away from investing in this other precious metal. But, with gold prices at their all-time highs and silver prices still a distance away from theirs, it's time to take another look at silver. Silver is often compared to gold as a precious metal, but what makes it such an interesting investment is its industrial use. Largely a by-product of zinc, lead, copper and gold mines, silver has an intrinsic value because of this natural industrial demand. While gold and silver prices have tended to follow each other over time, silver, over a long historical period, has outperformed gold (by about a percentage point annually in rupee prices). That said, silver also has a comparatively high risk than gold. In fact, it can be considered a geared play on gold because silver prices outperform gold prices on the upside, and crash more quickly on the downside.

Why e-gold or e-silver?

- ❖ Holding gold or silver in demat form
- ❖ Opportunity for retail investors to diversify portfolio;
- ❖ No worry for daily MTM pay-in/payout as in derivative buying;
- ❖ No risk of theft. Purchase in safe custody;
- ❖ Hassle-free and low-cost investing; and
- ❖ High liquidity at low costs.

For further queries contact Commodity department +919847427685

CAPSTOCKS SERVES YOU IN MANY WAYS !

MOBILE TRADING

Now, with Capstocks m-Trade one can trade and track their trading activities through mobile. Capstocks m-Trade is another initiative from Capstocks for hassle free investment activities for our valued customers. With Capstocks m-Trade, one can place orders real-time through their mobile phone in BSE & NSE. An average internet enabled mobile phone with Java can do the job. Capstocks m-trade is a low bandwidth webbrowser version for Securities Trading through mobile. For further information Call Senjith 91 93874 40168



ADDITIONAL BRANCHES

Twenty nine more branches have been opened:

Surat and Anand in Gujarat; Pallavaram and Royapettah in Chennai; Gandhiji Road in Thanjavur, Myladuthurai in Nagapatanam; Karaikkudy in Sivaganga; Gopalakothan Street in Madurai; Vadakkankulam and Sreepuram in Tirunelveli; Anjugramam in Kanyakumari; Kanjhangad in Kasargode; Taliparamba in Kannur; Manjeri in Malappuram; Kacherippady, Ooramana, Vytila, Karukutty, Kalady, Kathrikadavu in Ernakulam; Kottayam Railway Station Road, Kanjikuzhy, Karukachal and Paippad in Kottayam; and Vanchiyoor, Sasthamangalam Lady's branch, Udayankulangara, Murukkumpuzha and Kallayam in Trivandrum.

Exclusive Lady's Branch

Capstocks has opened an exclusive branch for ladies at Sasthamangalam, Trivandrum. Justice D. Sreedevi, Chairperson, Kerala Women's Commission inaugurated the branch. Shri Rajendran V, Managing Director and Mrs. Leela Jeyakumar, Director attended the function.



Shri. Oommen Chandy, the Hon.Chief Minister, inaugurating the office of Capstocks at Kanjikuzhy, Kottayam when he was opposition leader. Others in the picture include Rev. Fr. Thomas K Oommen, Capstocks MD, Shri. Rajendran V, Shri. George Mathew and Shri. Ashon. Mr. Saji P Mathew is the Branch Incharge of the office.

CAPSTOCKS EVENTS

21st ANNIVERSARY CELEBRATIONS

Capstocks celebrated its 21st Anniversary at a grand function organized in Trivandrum with a seminar featuring expert speakers on the topic of stock market behavior. Over 600 people from Trivandrum attended the function. Mr. Rajrishi Singhal, Head of Policy & Research, Dhanlaxmi Bank, Mr.Nanda Kumar, Senior Vice President, National Stock Exchange and Mr. Prakash Gaba, Certified Technical Analyst spoke on the occasion regarding aspects and attributes of the Indian economy and its implication on the Indian Stock markets. The seminar concluded with an interactive session, wherein the panel addressed the investor queries.



Mr. Rajrishi Singhal, Head of Policy & Research, Dhanlaxmi Bank, Mr. Prakash Gaba, Certified Technical Analyst, Mr. Nanda Kumar, Senior Vice President, National Stock Exchange and Mr. Rajendran V, Managing Director, Capstocks addressing the investor queries.

CORE Team

Core Team is the frontline business development arm of Capstocks. It consists of a team of three to four marketing personnel who travel in our branded demo van, doing road shows at various locations in Kerala & Tamilnadu. Road show activities include handbill distribution, explaining products to prospective clients, lead generation etc. Our core team activities have found to be highly effective in generating new clients and above all bringing our brand name to people who are out of bounds to conventional methods of advertising. Core Team recently concluded 'Operation Malabar' covering all our offices in the Malabar region. This operation lasted for six weeks.

Joint Awareness Programs & Investors Meet

Joint awareness programs were held at Calicut in association with BSE and CDSL, with NMCE and BSE at Alappuzha and with MCX at Aluva. Investors meet were held at Vanchiyoor, Poojappura, Sasthamangalam, Karamana, Neyyattinkara, Ernakulam, Angamaly, Travancore club at Thiruvalla, Calicut, Kodakara, Kallara, Mala, Monday Market, Ooramana, Tirunelveli, Nagercoil, Melepalayam, Thrissur, Payyangi and Chennai as part of the effort to create awareness among investors



Member: NSE, BSE, MCX*, NCDEX*, NMCE*, NSEL*, MCX-SX, DP-CDSL, Portfolio Manager**
SEBI REG. NOS. : INB231167439, INF231167439, INE231167439, INB011167435, INF011167435, MCX-12580*, NCDEX-00977*, NMCE-CL0465*,
INE261167439, IN-DP-CDSL-203-2003, INP 000001066. FMC-UMC Nos: MCX/TCM/CORP/0036, NMCE/TCM/CORP/0390, NCDEX/TM/CORP/0952

- Equities ● Derivatives ● Depository Services ● Internet Trading ● Equity Research ● Knowledge Centre
- Portfolio Management ● Commodity Trading* ● Currency Derivatives ● Distribution of Mutual Funds & Insurance*

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