

# Indbankonline

## MARKETS FOR YOU

Private Circulation only

July - 2013

Issue - 74

### From the President's Desk

What a month June has been. The markets were pounded and it was free fall of the indices across the spectrum. It was one hectic month, with market fall, rupee depreciation, intervention of RBI, landmark regulations by SEBI, curbs on gold imports by RBI, to ravaging floods in Uttarakhand.

The main question was what triggered this huge fall. From the opinion gathered from the market this fall has been attributed to selling by Foreign Institutional Investors. This data is also correlated by information available in the SEBI's website. One main trigger was the statements by Mr. Ben Bernanke, Chairman of US Federal Reserve. His announcement on 19<sup>th</sup> June 2013, that FED is planning to pull back its Quantitative Easing (QE) program later this year, sent not only the Indian markets but Global markets into a spin off. However, the points to be noted are that, he added that if the US economic numbers don't improve then, the tapering of QE might not happen. However, from the global spin off we could detect that the second part of his conditional statement was hardly taken into consideration. The impact was so profound, that a host of good macroeconomic developments like revision of India's sovereign rating to "Stable" by Fitch, some landmark legislations by SEBI, the moderate inflation numbers, etc - all failed to check the slide in capital market indices. Further, the Rupee went into a downward spiral touching its all time low of Rs. 60.34 against US dollar due to persistent foreign exchange outflow.

What is Quantitative Easing? We have dealt with the same in our Beginner's Corner. We trust that the information provided will be useful to you. Now, why had funds flown out and what is the reason for the steep depreciation in value of Rupee?

Due to Quantitative Easing, the interest rates in US and Euro Zone are at near Zero level. When the QE is stopped, the interest rates of treasury bills will go up and the investing entities would like to invest there, as these bills are relatively risk free. As to the second question, currency price like other commodities is determined by demand and supply of the particular currency. When the supply increases, the value falls and vice versa. Hence, the fall is more due to the higher demand for dollar rather than over supply of rupee. Will the trend continue? Well, the answer depends on the macro factors.

Summarizing, predicting the course of global events is an uphill task. However, this is the time to hunt for stocks with better valuations. Let's do the same and start our investment plan.

**TILL THE NEXT ISSUE, HAPPY AND DILIGENT INVESTING!!!**



**Mr. BANABIHARI PANDA**  
President & Whole time Director  
Indbank Merchant Banking Services Ltd

01/07/2013

**Banabihari Panda**  
President and Whole Time Director  
Indbank Merchant Banking Services Ltd



**Our website : [www.indbankonline.com](http://www.indbankonline.com)**

## IMPORTANT HAPPENINGS

### A. Economic Updates

1. RBI leaves the Repo Rate (7.25%), Reverse Repo Rate (6.25%) and Cash Reserve Ratio (4%) unchanged in its Quarterly Review of Monetary Policy held on 17.06.2013.
2. BSE and MCX-SX get SEBI's approval for separate Debt Trading Platforms. MCS-SX gets approval for SME Trading Platform. MCX Platform went live from 10<sup>th</sup> July 2013.
3. Commodity Transaction Tax (CTT) comes into effect from July 1, 2013.
4. RBI bans import of gold by domestic consumers through Bank credit and makes the overseas purchase a cash and carry business. Further, the Government of India hiked the import duty to 8% from the current 6%. However the base for imposing import duty on gold has been reduced from \$459 to \$421 per 10 gram.
5. The 1<sup>st</sup> tranche of Inflation Indexed Bonds subscribed more than 4 times. Moody's terms the launch as a "radical policy adjustment". Auction of 2<sup>nd</sup> tranche of bonds worth Rs. 1000 Cr. maturing in 2023 conducted on 25.06.2013.
6. RBI imposes a fine of Rs. 5 Cr. on Axis Bank, Rs. 4.5 Cr. on HDFC Bank and Rs. 1 Cr. on ICICI Bank for violation of KYC norms.
7. Fitch upgrades India's outlook to "Stable".

### B. Regulatory Updates

8. SEBI notifies Regulations for Issuance and Listing of Non-Convertible Redeemable Preference Shares.
9. To make OFS more attractive, SEBI has allowed employees of Public Sector Undertakings the option to subscribe upto 5% of the issue size at a discount.
10. SEBI makes it compulsory for investment advisors and their associated persons to get the requisite certifications to operate in Stock Markets.
11. SEBI cuts the timeline for carrying out an OFS. Companies can announce the offer just a day ahead of the proposed buy-back.
12. According to SEBI, 105 firms have failed to meet the minimum public shareholding norms set by SEBI. The promoters and directors of such companies are barred from accessing capital markets and their voting rights and corporate benefits frozen.
13. SEBI gets the power to analyze the call details of the entities under its scanner.
14. SEBI notifies tightened Buyback Regulations, introduces uniform entry norms for existing FIIs, Sub Accounts and Qualified Foreign Investors, by combining them into a single category called Foreign Portfolio Investor (FPI).
15. SEBI allows start-up companies and small and medium enterprises to list themselves on Institutional Trading Platform (ITP) without having to come out with an IPO. This would allow investors of startups to exit and would also make it easier for new investors to come on board. They have also been exempted from "Minimum Public Shareholding" norm.
16. SEBI has allowed entities to apply for setting up of Single Self Regulatory Organization (SRO) for Mutual Fund Distributors.

## Snap Shots

Inflation (%)	4.70 (May 2013)	4.89 (April 2013)	4.89 (April 2013)	5.96 (March 2013)
Particulars	21 <sup>st</sup> June 2013	14 <sup>th</sup> June 2013	07 <sup>th</sup> June 2013	31 <sup>st</sup> May 2013
91-Day Cut-off (%)	7.4353	7.4769	7.3521	7.3105
10-yr G-Sec yield (%)	7.5671	7.4729	7.3627	7.4068
1-10 yr spread (bps)	10	14	5	1
USD/INR(Rs)	59.3505	56.7445	56.7445	56.4958
USD 6m LIBOR	0.41	0.41	0.41	0.42
10 Y US Treasury	2.51	2.13	2.16	2.16
USD/Euro Spot	0.762631	0.750093	0.755683	0.770358

## Global Indices

Indices	Country	Index as on 29 <sup>th</sup> May 2013	Index as on 28 <sup>th</sup> June 2013	Variation (%) (Inc/ Dec)
NASDAQ	United States	3,467.52	3,403.25	(1.85)
DJIA	United States	15,302.80	14,909.60	(2.57)
S&P 500	United States	1,648.36	1,606.28	(2.55)
Hang Seng	Hong Kong	22,554.93	20,803.29	(7.77)
Nikkei 225	Japan	14,326.46	13,677.32	(4.53)
Shanghai Composite	China	2,324.02	1,979.21	(14.84)
Straits Times	Singapore	3,367.47	3,150.44	(6.44)
FTSE 100	United Kingdom	6,627.20	6,215.50	(11.85)
CAC 40	France	3,974.12	3,738.91	(5.92)
DAX	Germany	8,336.58	7,959.22	(4.53)
SENSEX	India	20,147.64	19,395.81	(3.73)
NIFTY	India	6,104.30	5,842.20	(4.29)

## Institutional Investments

Category	Debt / Equity	Gross Purchases (Rs Crores)	Gross Sales (Rs Crores)	Net Investment (Rs Crores)	
FII Investments (in June up to 28.06.2013)	Equity	55321.40	66348.50	(11026.90)	
	Debt	11676.20	44811.00	(33134.90)	
Mutual Fund (in June up to 27.06.2013)	Equity	8834.90	8935.40	(100.60)	
	Debt	146634.60	82711.30	63923.10	
FII Derivative Trades (in June up to 28.06.2013)	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS	
	- Buy	47887.68	373997.41	64133.47	19324.73
	- Sell	58578.69	366141.78	59199.16	19355.06

## Editorial Team

**Banabihari Panda**  
President and Whole-time Director

**S. Rajalakshmi**  
SSO

# IPO and NFO Review

## IPO NEWS

- Air Asia Malaysia is aiming for an IPO of its Indonesian Unit to raise USD 200 Million in the 4<sup>th</sup> quarter of this year.
- CavinKare Group, has raised Rs. 250 Cr. from ChrysCapital, a PE firm. The firm is looking for more such investments, before it decides to go public in FY 2015.
- Intas Pharmaceuticals Ltd. has filed the DRHP for its IPO of Rs. 225 Cr. The objective of the issue is to give an exit opportunity for the existing shareholders.
- Cochin Shipyards Ltd. the largest ship building and maintenance facility in India is mulling an IPO to raise 400-500 Cr. and has approached the Government of India of approval.

## CORPORATE ACTIONS

### FORTH COMING CORPORATE ACTIONS

Company Name	Symbol	Record Date	Ex Date	Purpose
Ashoka Buildcon Limited	ASHOKA	04-Jul-13	03-Jul-13	Bonus 1:2 And Face Value Split Rs.10/- To Rs.5/-
PNB Gilts Limited	PNBGILTS	04-Jul-13	03-Jul-13	Bonus 1:3
Advanta India Limited	ADVANTA	08-Jul-13	05-Jul-13	Face Value Split From Rs.10/- To Rs.2/-

### NEW LISTINGS

Company Name	Offer Price (Rs.)	Exchange	Listing Date	List Price (Rs.)	Latest Traded Price	% Change to List Price (Rs.)
Onesource Techmedia Ltd.	14.00	BSE – SME	05.06.2013	13.00	6.50	(50.00)
Just Dial Ltd.	530.00	BSE & NSE	05.06.2013	590.00	650.10	10.19
India Finsec Ltd.	10.00	BSE- SME	11.06.2013	10.00	10.00	0.00
ObjectOne Information Systems Ltd.	10.00	BSE- SME	13.06.2013	30.00	41.00	36.67
Nivvyah Infrastructure Ltd.	15.00	NSE- SME	20.06.2013	1.50	1.65	10.00
EDynamics Solutions Ltd.	25.00	BSE- SME	26.06.2013	25.40	26.65	4.92
Cerebra Integrated Technologies Ltd.	60.00	NSE- SME	26.06.2013	22.85	18.00	(21.23)

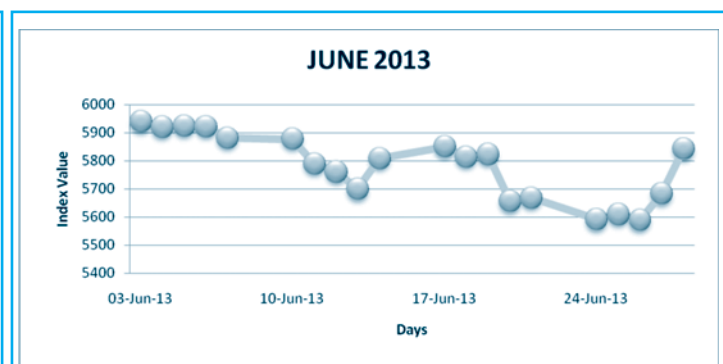
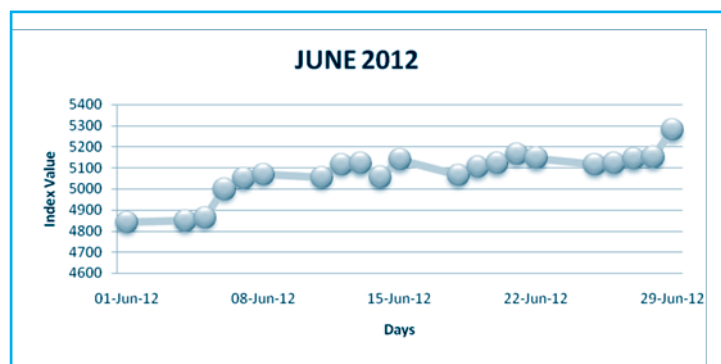
### OFFER FOR SALES

Company Name	Floor Price (Rs.)	Date of Offer	No. of shares offered	Cumulative shares bid	Allotment Type	Latest Traded Price (as on 28.06.2013)
BGR Energy Systems Limited	163.00	03.06.2013	4422830	2247466	Multiple Price	129.50
Tata Communications Limited	196.00	03.06.2013	2750000	4305853	Multiple Price	160.80
Balashri Commercial Limited	100.00	03.06.2013	495926	505720	Multiple Price	—
MMTC Limited	60.00	13.06.2013	93312000	144261341	Multiple Price	102.05

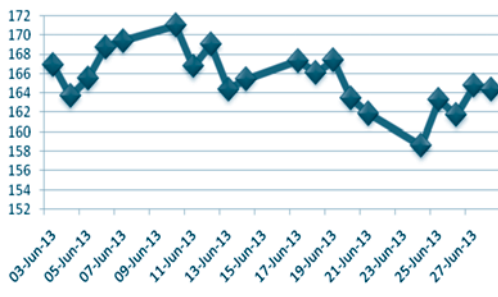
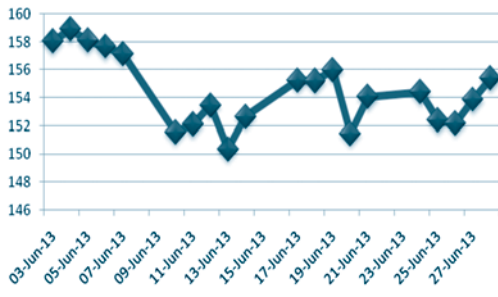
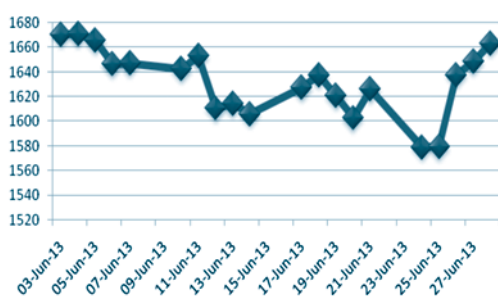
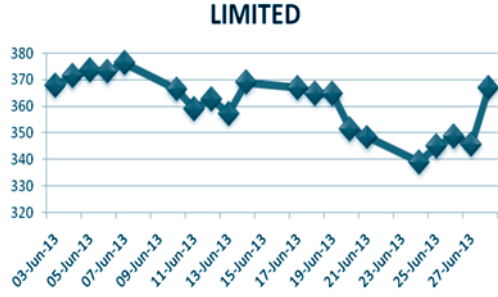
### NEW FUND OFFERS

Scheme	Type	Class	Open Date	Close Date	Offer Price	Min. Inv. Amount
DSPBR FMP S103 12M	Close	Debt – FMP	04.07.2013	04.07.2013	10	5000
HDFC AMC	Close	Debt – FMP	04.07.2013	09.07.2013	10	5000
HDFC FMP 370D July 13	Close	Debt – FMP	04.07.2013	09.07.2013	10	5000

## MARKET COMPARISON



# OUR PICKS

<p><b>UNICHEM LABORATORIES LTD.</b> An integrated, international, speciality pharmaceutical company.</p> <p><i>Investment Rationale</i></p> <ul style="list-style-type: none"> <li>↖ India's oldest &amp; largest pharmaceutical company.</li> <li>↖ Vertically Integrated API business.</li> <li>↖ Good Restructuring and Corrective measures.</li> <li>↖ Robust domestic formulation business.</li> <li>↖ Debt free B/S.</li> <li>↖ EPS: 12.50.</li> <li>↖ PE Ratio: 13.10.</li> <li>↖ Book Value: Rs. 80.40.</li> </ul>	<p style="text-align: center;"><b>BUY – Long Term</b></p> <p><b>CMP : Rs. 164.50*</b></p> <p><b>Target : Rs. 190.00</b></p> <p><b>52W H/L : Rs. 217/122.4</b></p> <p><b>Potential Upside – 16%</b></p>	<p style="text-align: center;"><b>UNICHEM LABORATORIES LIMITED</b></p>  <p style="text-align: center;">BSE Code: 506690 NSE Code: UNICHEMLAB</p>
<p><b>DABUR INDIA LTD.</b> India's leading consumer goods company with interests in Hair Care, Oral Care, Skin Care, Home Care and Foods.</p> <p><i>Investment Rationale</i></p> <ul style="list-style-type: none"> <li>↖ Significant presence in 60 countries, contributing 30% of revenues.</li> <li>↖ Expansion across various businesses.</li> <li>↖ Focus on rural distribution.</li> <li>↖ Moderate growth in Q4FY 13 financials.</li> <li>↖ Strategic Acquisitions.</li> <li>↖ EPS: 4.40.</li> <li>↖ PE Ratio: 35.90.</li> <li>↖ Book Value: Rs. 12.20.</li> </ul>	<p style="text-align: center;"><b>BUY – Long Term</b></p> <p><b>CMP : Rs. 156.00*</b></p> <p><b>Target : Rs. 180.00</b></p> <p><b>52W H/L : Rs. 165.7/100.6</b></p> <p><b>Potential Upside – 15%</b></p>	<p style="text-align: center;"><b>DABUR INDIA LIMITED</b></p>  <p style="text-align: center;">BSE Code: 500096 NSE Code: DABUR</p>
<p><b>HERO MOTOCORP LTD.</b> World's largest manufacturer of 2-wheelers and its parts &amp; ancillary services based in India.</p> <p><i>Investment Rationale</i></p> <ul style="list-style-type: none"> <li>↖ Entry into Colombia, Sri Lanka, Bangladesh and Nepal.</li> <li>↖ Foray into Retail Financing solutions to customers.</li> <li>↖ New launches to boost sales.</li> <li>↖ Strong Financials</li> <li>↖ <b>Risk: Significant Expansion.</b></li> <li>↖ EPS: 106.10.</li> <li>↖ PE Ratio: 15.10.</li> <li>↖ Book Value: Rs. 250.70.</li> </ul>	<p style="text-align: center;"><b>BUY – Long Term</b></p> <p><b>CMP : Rs. 1670.00*</b></p> <p><b>Target : Rs. 1809.00</b></p> <p><b>52W H/L : Rs. 2149.9/1434.1</b></p> <p><b>Potential Upside – 18.00%</b></p>	<p style="text-align: center;"><b>HERO MOTOCORP LIMITED</b></p>  <p style="text-align: center;">BSE Code: 500182 NSE Code: HEROMOTOCO</p>
<p><b>BHARAT PETROLEUM CORPORATION LTD.</b> India's leading Navratna Company engaged in refining, marketing &amp; distribution of Petroleum products.</p> <p><i>Investment Rationale</i></p> <ul style="list-style-type: none"> <li>↖ E&amp;P activities in Mozambique and Brazil.</li> <li>↖ Recent decontrol of Diesel prices.</li> <li>↖ Fall in global crude oil prices.</li> <li>↖ Export Parity Pricing implementation.</li> <li>↖ <b>Risk: Falling Rupee.</b></li> <li>↖ EPS: 26.00.</li> <li>↖ PE Ratio: 13.40.</li> <li>↖ Book Value: Rs. 232.00.</li> </ul>	<p style="text-align: center;"><b>BUY – Long Term</b></p> <p><b>CMP : Rs. 367.50*</b></p> <p><b>Target : Rs. 400.00</b></p> <p><b>52W H/L : Rs.449/315.6</b></p> <p><b>Potential Upside – 15.00%</b></p>	<p style="text-align: center;"><b>BHARAT PERTOLEUM CORPORATION LIMITED</b></p>  <p style="text-align: center;">BSE Code: 500547 NSE Code: BPCL</p>

## OUR PICKS FOR MEDIUM TERM BUYING

<p><b>GODREJ INDUSTRIES LIMITED.</b> Diversified conglomerate with interests in chemicals, personal care, processed foods &amp; beverages, animal feeds, poultry, rural retailing etc.</p> <p><b>Stock Return</b></p> <ul style="list-style-type: none"> <li>● 3 Months – 2.80</li> <li>● 6 Months – (1.30)</li> <li>● 1 Year – 29.00</li> </ul> <p>↕ Beta: 0.80 ↕ Market Cap: Rs. 99.99 Billion</p>	<p><b>BSE Code</b> : 500164 <b>NSE Code</b> : GODREJIND</p> <p><b>CMP</b> : Rs. 310.00* <b>Target</b> : Rs. 329.00 <b>Stop Loss</b> : Rs. 284.00 <b>52WH/L</b> : Rs. 332/221</p>
<p><b>ASHOK LEYLAND LIMITED.</b> Company engaged in manufacturing of commercial vehicles and related components.</p> <p><b>Stock Return</b></p> <ul style="list-style-type: none"> <li>● 3 Months – (1.80)</li> <li>● 6 Months – (18.10)</li> <li>● 1 Year – (15.60)</li> </ul> <p>↕ Beta: 0.80 ↕ Market Cap: Rs. 59.60 Billion</p>	<p><b>BSE Code</b> : 500477 <b>NSE Code</b> : ASHOKLEY</p> <p><b>CMP</b> : Rs. 20.10* <b>Target</b> : Rs. 25.00 <b>Stop Loss</b> : Rs. 21.00 <b>52WH/L</b> : Rs. 29/18.75</p>
<p><b>CRISIL LIMITED.</b> India's leading rating agency, operating in Ratings &amp; Research.</p> <p><b>Stock Return</b></p> <ul style="list-style-type: none"> <li>● 3 Months – 27.90</li> <li>● 6 Months – 10.70</li> <li>● 1 Year – 7.10</li> </ul> <p>↕ Beta: 0.10 ↕ Market Cap: Rs. 82.80 Billion</p>	<p><b>BSE Code</b> : 500092 <b>NSE Code</b> : CRISIL</p> <p><b>CMP</b> : Rs. 1110.00* <b>Target</b> : Rs. 1159.00 <b>Stop Loss</b> : Rs. 1084.00 <b>52WH/L</b> : Rs. 1170/855</p>
<p><b>UNITED SPIRITS LIMITED.</b> Largest manufacturer of beverage alcohol in India.</p> <p><b>Stock Return</b></p> <ul style="list-style-type: none"> <li>● 3 Months – (34.10)</li> <li>● 6 Months – (29.10)</li> <li>● 1 Year – 32.39</li> </ul> <p>↕ Beta: 0.40 ↕ Market Cap: Rs. 323.60 Billion</p>	<p><b>BSE Code</b> : 532432 <b>NSE Code</b> : MCDOWELL-N</p> <p><b>CMP</b> : Rs. 2180.00* <b>Target</b> : Rs. 2650.00 <b>Stop Loss</b> : Rs. 2300.00 <b>52WH/L</b> : Rs. 2605/606</p>
<p><b>BERGER PAINTS LIMITED.</b> 2<sup>nd</sup> largest paint maker in India, established in 1923.</p> <p><b>Stock Return</b></p> <ul style="list-style-type: none"> <li>● 3 Months – 19.50</li> <li>● 6 Months – 56.70</li> <li>● 1 Year – 74.90</li> </ul> <p>↕ Beta: 0.20 ↕ Market Cap: Rs. 80.30 Billion</p>	<p><b>BSE Code</b> : 509480 <b>NSE Code</b> : BERGEPAIN</p> <p><b>CMP</b> : Rs. 228.70* <b>Target</b> : Rs. 270.00 <b>Stop Loss</b> : Rs. 200.00 <b>52WH/L</b> : Rs. 254.7/124.6</p>
<p><b>UNITED PHOSPHORUS LIMITED.</b> India's largest producer of crop protection products including fumigants and fungicides among others.</p> <p><b>Stock Return</b></p> <ul style="list-style-type: none"> <li>● 3 Months – 30.40</li> <li>● 6 Months – 29.80</li> <li>● 1 Year – 36.60</li> </ul> <p>↕ Beta: 1.00 ↕ Market Cap: Rs. 68.50 Billion</p>	<p><b>BSE Code</b> : 512070 <b>NSE Code</b> : UNIPHOS</p> <p><b>CMP</b> : Rs. 136.30* <b>Target</b> : Rs. 170.00 <b>Stop Loss</b> : Rs. 130.00 <b>52WH/L</b> : Rs. 161/101.6</p>
<p><b>APOLLO HOSPITAL ENTERPRISE LIMITED.</b> Pioneer of integrated healthcare delivery in India.</p> <p><b>Stock Return</b></p> <ul style="list-style-type: none"> <li>● 3 Months – 21.90</li> <li>● 6 Months – 22.90</li> <li>● 1 Year – 58.50</li> </ul> <p>↕ Beta: 1.00 ↕ Market Cap: Rs. 139.60 Billion</p>	<p><b>BSE Code</b> : 508869 <b>NSE Code</b> : APOLLOHOSP</p> <p><b>CMP</b> : Rs. 1065.00* <b>Target</b> : Rs. 1103.00 <b>Stop Loss</b> : Rs. 948.00 <b>52WH/L</b> : Rs. 1096/605</p>

For detailed analyst reports, please visit: [www.indbankonline.com](http://www.indbankonline.com) ⇨ Reports & Downloads ⇨ Equity Research \*Closing price as on 28.06.2013 on NSE

## Mutual Fund Corner

### Scheme of the Month

#### SBI FMCG FUND - DIVIDEND

**Fund Manager:** Mr. Saurabh Pant

**Investment Objective :** To provide the investors maximum growth opportunity through equity investments in stocks of growth oriented sectors of the economy. There are four sub-funds dedicated to specific investment themes viz. Information Technology, Pharmaceuticals, FMCG, Contrarian (investment in stocks currently out of favour) and Emerging Businesses.

Current Statistics & Profile	
Latest NAV	44.60 (27.06.13)
52-Week High	55.45 (10.05.13)
52-Week Low	40.86 (04.07.13)
Fund Category	Equity-FMCG
Type	Open End
Launch Date	July 14 1999
Net Assets (Cr)	176.03 (31.03.2013)
Benchmark	S&P BSE FMCG


#### Trailing Returns

As on 27.06.2013	Fund Return	Category Return
Year to Date	4.42	4.33
1-Month	(4.26)	(4.09)
3-Month	6.07	6.42
<b>1-Year</b>	<b>28.94</b>	<b>25.02</b>
3-Year	25.76	24.18
5-Year	29.91	25.69
Return Since Launch 15.13		

Note: Return up to 1 year are absolute and over 1 year are annualized

Asset Allocation	
As on 31/05/2013	% Net Assets
Equity	98.66
Debt	1.92
Cash & Cash Equivalents	(0.58)

Investment Details	
Minimum Investment Amount	Rs.2000
Additional Investment	In multiples of Rs.500
SIP	Yes; Min Rs.500; Min Months:12
Options	Growth
Expense Ratio (%)	2.57 (Regular); 1.68 (Direct)

Fund Style	Portfolio Characteristic - As on 31.05.2013
<b>Investment Style</b> Growth Blend Value 	Avg. Mkt. Cap – 39065.24 Cr <b>Market Capitalization</b> Giant – 46.72% Large – 18.09% Mid – 17.01% Small – 18.18% Portfolio P/B Ratio: 11.88 Portfolio P/E Ratio: 31.62

#### PORTFOLIO – Top 10 Holdings as on 31/05/2013

Sl. No.	Name of Holding	Instrument	% Net Assets
1.	ITC	Equity	41.77
2.	United Spirits	Equity	6.48
3.	Kansai Nerolac Paints	Equity	5.34
4.	Hindustan Unilever	Equity	4.32
5.	Nestle India	Equity	4.27
6.	Emami	Equity	4.25
7.	Navneet Publications	Equity	4.23
8.	Dabur India	Equity	3.96
9.	P&G Hygiene and HealthCare	Equity	3.88
10.	VST Industries	Equity	3.74

#### Top Sector Weightings – As on 31/05/2013

Sector	% Net Assets
FMCG	88.31
Chemical	5.34
Consumer Durables	3.14
Services	1.87

## QUANTITATIVE EASING (QE)

Quantitative Easing is an oft repeated term used in various communication channels in the recent months. In, this issue we throw some light on QE. However, before we deal with QE, let's have a look at the monetary policy followed by Central Banks and their impact.

**What is Monetary Policy?** Monetary Policy is the process by which the monetary authority of a country, generally the Central Bank, controls the quantitative supply of money in the economy and regulates key interest rates with the objectives of propelling growth while maintaining price stability (both domestic price stability by way of controlling inflation and external price stability by way of exchange rate management) and financial stability.

**The tools used by RBI to execute the same are Quantitative and/or Qualitative:**

### 1. QUANTITATIVE TOOLS:

**Open Market Operations:** It is the process of buying and selling of Government Securities/ Corporate Bonds from or to public. RBI sells Eligible Securities/Bonds to reduce liquidity in the banking system and thereby the flow of credit. Conversely, RBI buys Securities/ Bonds to augment liquidity in the system and increase the flow of credit by banks.

**Cash Reserve Ratio (CRR):** Broadly, it is the percentage of bank deposits which banks are required to keep in their Current Account with the Reserve Bank of India (RBI). Higher the CRR, lower will be the liquidity in the banking system and to that extent their capacity of credit creation is reduced. Opposite is the case with lowering of CRR.

**Statutory Liquidity Ratio:** Every Scheduled Bank has to maintain certain percentage of its total time and demand liabilities as liquid assets in prescribed form like Cash Balance, Eligible Securities/Bonds at any point of time. The ratio of such liquid assets to time and demand liabilities is the Statutory Liquidity Ratio.

**Bank Rate:** Bank Rate is the rate of interest charged by RBI for providing funds or loans to the banking system. Funds are provided either through direct lending or buying/re-discounting of money market instruments like commercial papers and treasury bills. Increase in Bank Rate increases the cost of borrowing by banks, which in turn results in decreased money supply and reduction in volume of bank credit. Increase in Bank Rate is a dear money policy measure by RBI. Vice versa is true when the Bank Rate is decreased.

**Credit Ceiling:** RBI issues instructions to banks enforcing guidelines/limits on lending to certain sectors.

**Repo Rate:** Repo Rate is the rate at which RBI lends to banks against Eligible Securities as collaterals. Any decrease in repo rate increases the liquidity as the banks will be able to get money at cheaper rates. Similarly increase in Repo rate decreases the liquidity in the system.

**Reverse Repo Rate:** Reverse Repo Rate is the rate at which banks park their surplus funds as deposits with RBI. Increase in Reverse Repo Rate decreases the money flow in the markets and vice versa.

**2. QUALITATIVE TOOLS:** These are RBI's Moral Suasions, guidelines/clarifications on policy measures, direct actions like imposing penalty for non-adherence to policy guidelines etc.

Using these tools RBI controls the availability of money and credit and thus "INFLATION". Higher inflation lowers country's export competitiveness as goods become expensive for other countries resulting in decreased demand for the rupee, which in turn leads to depreciation in value of rupee. Similarly, higher interest rate attracts foreign investor which increases the demand for rupee, resulting in appreciation in value of rupee.

**What is Quantitative Easing?** The process of a Central Bank buying assets and pumping liquidity into the economy is known as "Quantitative Easing". The goal of this policy is to increase the money supply rather than to decrease the interest rate, which cannot be decreased further.

**Quantum of QE in G4 countries:** In the aftermath of financial crisis of 2008, mainly, the USA, the European Union, Japan and UK (known as the G4 countries) have released unprecedented quantum of liquidity into their banking system (through purchase of eligible assets/securities) to stimulate their economy by encouraging higher credit and consumption, which in turn is expected to increase their employment level and trade flows. The asset of G4 Central Banks reportedly expanded from \$3.5 trillion (1000 billion = 1 trillion) in 2007 to \$9 trillion presently and still rising. The present level represents 23% of their GDP from about 12% in the pre-crisis period. In the USA alone, the Federal Reserve has reportedly over \$2trillion of treasury notes now compared to about \$800 billion in the pre-crisis period. In the latest round of QE3 (3<sup>rd</sup> phase of Quantitative Easing), the FED proposes to purchase \$40 billion of mortgage backed assets per month as long as their unemployment level remains above 6.5%.

**Impact of QE:** Since interest rates in the G4 economies remain at near Zero level and their economies remain stagnant, capital from these economies flow into emerging economies like India in search of higher risk-adjusted returns. It is estimated that about 1/3 of the increase in the US monetary base in the QE1 and QE2 phases leaked out in the form of increased growth of capital outflows and most of the capital flew to emerging economies in the form of portfolio investments which are prone to sudden and volatile movements as witnessed in Indian bourses recently. Because, the moment the QE is halted in US and/or interest rate in USA rises and/or the growth rate in US economy picks up, the volatile money in Indian bourses will flow back to USA, resulting in higher demand for dollar/ depreciation of rupee and unpredictable volatility in Indian bourses. Moreover, lured by very low interest rates of foreign currencies, Indian corporate with eligible credit ratings, borrow abroad at comparatively cheaper rates and bring in the foreign currency loan funds into India, leading to increased money supply in India. But, these borrowing corporate are exposed to unexpected changes in the interest rates in borrowing currencies and exchange rate volatility during the currency of their borrowing arrangement. Thus, the overall impact of this capital inflow is expansionary, inflationary and distortionary.

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HAPPY INVESTING!!!

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