

# Indbankonline

## MARKETS FOR YOU

Private Circulation only

March - 2013

Issue - 70

### From the President's Desk

*Another year and another budget!!! There is a lot of guesses on what the budget would and would not be; the implications of the budgetary allocations on the markets and the economy at large. Statements are being garnered from everyone spread across the spectrum of the country right from the CEO of a firm to our neighborhood shop owners.*

*This hype raises one pertinent question. Are Indian Budgets so important for the economy? How many of them have been game changers for the Indian economy? What is actually a budget? A budget is simply an annual statement of income and expenditure and the projected financials for the upcoming year. It gives the actuals and also a projection for a year ahead. In India, Budgets have been presented since 1947. Searching through the pages of Indian history, two budgets are considered historical and are said to have laid to road map for progress of Indian economy.*



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

*First is the one presented by Dr. Manmohan Singh during the year 1991, the one which eliminated license raj and threw open the doors for globalization. The second is the one presented by Mr. P Chidambaram during 1998, which furthered the economic reforms, lowered income tax rates, reduced corporate taxes etc. Now the pertinent question, what was the reaction of the market to the budgets? The answer is not much. The markets did not go on an upheaval or downslide post these budgets. The seeds sown in 1991, started flowering in the early 1990's, tended to carefully by the subsequent Governments, and furthered by the manure of 1998, finally resulted in the boom during the last decade. At this stage, do remember that reforms are a continuous process.*

*So, are we to be immune to the budget? No, definitely not. Budget teaches us the importance of planning and that your investment should not be decided every February. The foundations of the Indian economy are laid on strong foundations which can only go up for atleast a few more decades and equity investments channelize the disposable income from the investors to corporates, which furthers the development of various sectors. Finally, Budget 2013 and their implications will be dealt by us in our next issue.*

*So, as always, plan your investments, execute your plan diligently and review periodically. Any help, we are always at your service!!*

**HAPPY INVESTING!!**

25/02/2013

**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

- Financial Budget for the year 2013- 2014 to be presented on February 28, 2013 and the Railway budget on February 26, 2013.
- Key measures expected to be announced in the budget are.
  - Plans to contain fiscal deficit to 4.8% in FY 2013- 2014.
  - Discussion of Key Reform Bills namely, Land Reform Bill, Direct Tax Code (DTC), Goods & Services Tax (GST) and insurance bills.
  - Reducing the Current Account Deficit and promote savings.
  - Efforts to improve investments.
- Final Guidelines for New Banking Licenses issued by RBI. Final date for receipt of application is July 1, 2013. The key highlights are:
  - Successful track record for 10 years.
  - Minimum Capital of Rs. 500 Crores.
  - Should lend 40% to priority sector and have 25% of its branches in un-banked areas.
  - Foreign Shareholding capped at 49%.
  - No exposure to the Promoter Group Companies.
- Companies lining up for new bank licenses are M&M Finance, Bajaj Finance, L&T Finance, IDFC, Reliance Capital, TATA Capital, LIC Housing, Aditya Birla Nuvo and Shriram Group.
- Government exempts merger and takeover plans for loss-making and failing banks from the purview of Competition Commission for a period of 5 years.
- Bombay Stock Exchange (BSE) has formed a strategic partnership with S&P. All BSE indices to be co-branded along with S&P.
- RBI makes investments in gold deposit schemes of banks more attractive by lowering the investment time period and allowing mutual funds to participate in the schemes.
- India's WPI based inflation declines to 38-month low of 6.62% in January 2013 from 7.18% in December 2012.

### B. Regulatory Updates

- SEBI extends pre-open auction call mechanism to all scrips in the equity market, from blue-chips at present. Also a new concept of hourly trading through call auction introduced.
- SEBI fines a penalty of Rs. 150,000 on GMR Holdings Pvt. Ltd. for violation of takeover norms with regards to GMR Industries Ltd.
- SEBI indicates a complete over-haul in Insider Trading Regulations.
- Large number of pump-and-dump activities has come under the scanner of SEBI due to suspicion on certain brokers and other intermediaries.
- The IPO issue of Sai Silks Ltd with a price band of Rs. 70-75 which closed on 14<sup>th</sup> February 2013 has a safety net for its IPO. The promoters of the company has committed to buy-back shares upto a maximum of 1000 equity shares from each retail individual investor if the stock price falls below the issue price within the first six months of its listing.

## Snap Shots

Inflation (%)	6.62 (Jan. 2013)	7.18 (Dec. 2012)	7.24 (Nov. 2012)	7.24 (Nov. 2012)
Particulars	22 <sup>nd</sup> Feb. 2013	8 <sup>th</sup> Feb. 2013	1 <sup>st</sup> Feb. 2013	25 <sup>th</sup> Jan. 2013
91-Day Cut-off (%)	8.0187	7.9770	7.9353	7.9770
10-yr G-Sec yield (%)	7.8596	7.8793	7.9801	7.9268
1-10 yr spread (bps)	5	11	12	8
USD/INR(Rs)	54.4270	53.9885	53.3238	53.8515
USD 6m LIBOR	0.46	0.46	0.47	0.48
10 Y US Treasury	1.97	1.95	2.01	1.95
USD/Euro Spot	0.759591	0.748082	0.730431	0.743154

## Global Indices

Indices	Country	Index as on 28 <sup>th</sup> Jan. 2013	Index as on 22 <sup>nd</sup> Feb. 2013	Variation (%) (Inc/ Dec)
NASDAQ	United States	3,154.30	3,161.82	0.24
DJIA	United States	13,881.93	14,000.57	0.85
S&P 500	United States	1,500.18	1,515.60	1.03
Hang Seng	Hong Kong	23,671.88	22,782.44	(3.76)
Nikkei 225	Japan	10,824.31	11,385.94	5.19
Shanghai Composite	China	2,346.50	2,314.16	(1.38)
Straits Times	Singapore	3,273.91	3,288.13	0.43
FTSE 100	United Kingdom	6,294.40	6,335.70	0.66
CAC 40	France	3,780.89	3,706.28	(1.97)
DAX	Germany	7,833.00	7,661.91	(2.18)
SENSEX	India	20,103.35	19,317.01	(3.91)
NIFTY	India	6,074.80	5,850.30	(3.70)

## Institutional Investments

Category	Debt / Equity	Gross Purchases (Rs Crores)	Gross Sales (Rs Crores)	Net Investment (Rs Crores)
FII Investments (in Feb. up to 22.02.13)	Equity	65941.10	42905.70	23035.40
	Debt	13325.30	11083.00	2242.40
Mutual Fund (in Feb. up to 21.02.13)	Equity	6695.00	8118.40	(1423.30)
	Debt	83668.30	57399.90	26268.30
FII Derivative Trades (in Feb. up to 22.02.13)	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
- Buy	18927.56	161849.91	32802.00	18674.73
- Sell	23269.65	153523.03	29666.78	18440.93

## Editorial Team

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

**S. Rajalakshmi**  
SSO

# IPO and NFO Review

## IPO NEWS

- Ortel Communications Ltd, Odisha's leading multi-system operator (MSO) has filed the DRHP with SEBI for raising over Rs. 1000 Cr.
- Nasdaq OMX Group Inc. is in initial talks with U S Securities and Exchange Commission for a possible settlement over the botched up IPO of Facebook, which could include \$5 Million penalties for Nasdaq. If SEC's fine happens, it would be only the 2<sup>nd</sup> time a regulator has fined a stock exchange. SEC is also charging NYSE with the same penalty non compliance. This is the first instance of fine being imposed on NYSE.
- GMR Infrastructure Ltd. is contemplating the sale of some of its Toll Road assets via an IPO in Singapore. The company is looking to raise around \$500 Million by listing the assets as a business unit.

## CORPORATE ACTIONS

### NEW LISTINGS

Company Name	Offer Price (Rs.)	Exchange	Listing Date	List Price (Rs.)	Latest Traded Price	% Change to List Price (Rs.)
Aptus Industries Ltd.	10.00	BSE	06.02.2013	63.00	117.65	86.75
Esteem Bio Organic Food Processing Ltd.	25.00	BSE	07.12.2013	25.25	33.70	33.47
V Mart Retail Ltd.	210.00	BSE & NSE	20.02.2013	216.00	194.90	(9.77)

### OFFER FOR SALES

Company Name	Floor Price (Rs.)	Date of Offer	No. of shares offered	Cumulative shares bid	Allotment Type	Latest Traded Price
NTPC Ltd.	145.00	07.02.2013	783262880	1328455619	Multiple Price	149.60
Oil India Ltd.	510.00	01.02.2013	60113157	154142457	Multiple Price	528.30

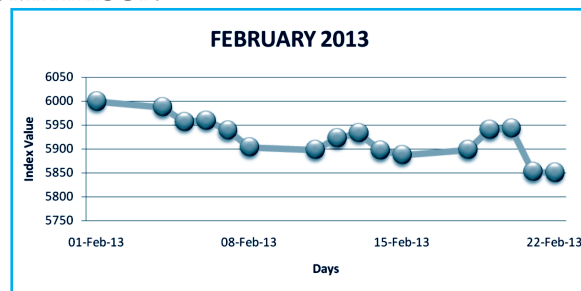
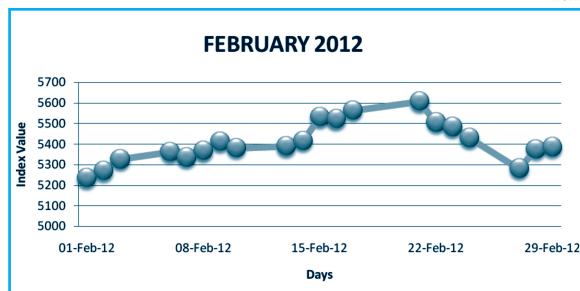
### FORTHCOMING CORPORATE ACTIONS

Company Name	Symbol	Record Date	Ex Date	Purpose
Hi-Tech Gears Limited	HITECHGEAR	26-Feb-13	25-Feb-13	Interim Dividend Re 1 Per Share
SRF Limited	SRF	26-Feb-13	25-Feb-13	Interim Dividend Rs 5 Per Share
Take Solutions Limited	TAKE	26-Feb-13	25-Feb-13	Interim Dividend Re 0.30 Per Share
Bliss GVS Pharma Limited	BLISSGVS	26-Feb-13	25-Feb-13	Interim Dividend Rs 0.30 Per Share
Goldiam International Limited	GOLDIAM	26-Feb-13	25-Feb-13	Interim Dividend Re 1 Per Share
Nestle India Limited	NESTLEIND	26-Feb-13	25-Feb-13	Interim Dividend Rs 12.50 Per Share
Kewal Kiran Clothing Limited	KKCL	26-Feb-13	25-Feb-13	Interim Dividend 6.50 Per Share
VTM Limited	VTMLTD	27-Feb-13	26-Feb-13	Interim Div. Of Re. 0.70/- Per Equity Share Re.1/- Each
MPS Limited	MPSLTD	27-Feb-13	26-Feb-13	Interim Dividend Rs 5 Per Share
The United Nilgiri Tea Estates Co. Ltd.,	UNITEDTEA	28-Feb-13	27-Feb-13	Interim Dividend Re.1/- Per Share
VKS Projects Limited	VKSPL	28-Feb-13	27-Feb-13	Face Value Split From Rs 10 To Re 1
Kaveri Seed Company Limited	KSCL	01-Mar-13	28-Feb-13	Interim Dividend Rs 8 Per Share
NMDC Limited	NMDC	01-Mar-13	28-Feb-13	Interim Dividend Re 1 Per Share
NTPC Limited	NTPC	04-Mar-13	01-Mar-13	Interim Dividend
Raj Rayon Industries Limited	RAJRAYON	05-Mar-13	04-Mar-13	Face Value Split From Rs 10 To Re 1
IDFC Limited	IDFC	06-Mar-13	05-Mar-13	Interest Payment
Oil & Natural Gas Corporation Limited	ONGC	25-Mar-13	22-Mar-13	Second Interim Dividend

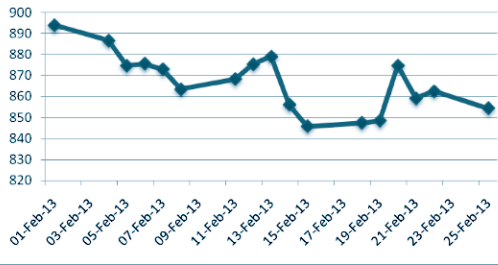
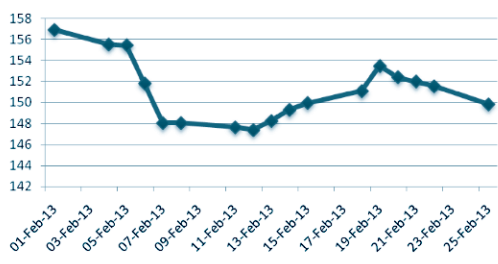
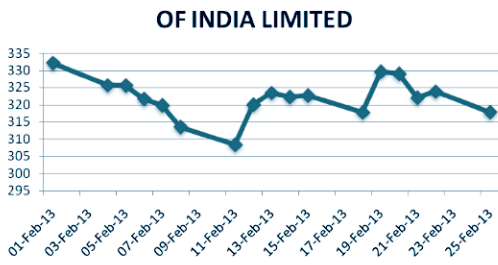
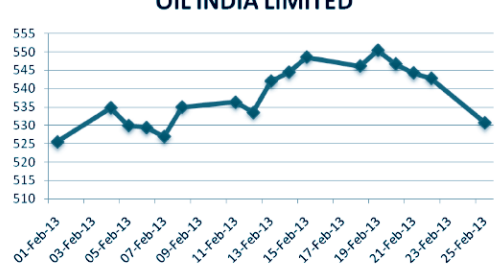
### NEW FUND OFFERS

Scheme	Type	Class	Open Date	Close Date	Offer Price	Min. Inv. Amount
DWS Banking & PSU	Open	Debt - Income	22.02.2013	05.03.2013	10	5000
SBI Sensex ETF	Open	Equity- Index Fund	09.02.2013	08.03.2013	10	5000
UTI RGESE	Close	Equity- Index Fund	09.02.2013	08.03.2013	10	5000
HDFC RGESE	Close	Equity- Index Fund	18.02.2013	08.03.2013	10	500
R*Shares CNX 100	Open	Equity- Index Fund	19.02.2013	15.03.2013	10	5000

## MARKET COMPARISON



## OUR PICKS

<p><b>RELIANCE INDUSTRIES LIMITED</b> Indian conglomerate ranked 99 in the Fortune Global 500 list.</p> <p><i>Investment Rationale</i></p> <ul style="list-style-type: none"> <li>Leading private enterprise in India.</li> <li>Excellent Financial performance.</li> <li>Capital infusion into petrochemical business.</li> <li>Natural Gas price amendment.</li> <li>Shale gas input.</li> <li>EPS: 66.20.</li> <li>PE Ratio: 13.50.</li> <li>Book Value: Rs. 568.80.</li> </ul>	<p><b>BUY – Long Term</b></p> <p>CMP : Rs. 851.15*</p> <p>Target : Rs. 1027.00</p> <p>52W H/L : Rs. 955/671</p> <p>Potential Upside – 15.00%</p>	<p><b>RELIANCE INDUSTRIES LIMITED</b></p>  <p>BSE Code: 500325      NSE Code: RELIANCE</p>
<p><b>NTPC LIMITED</b> India's biggest utility company into engineering, construction and operation of power generation plants.</p> <p><i>Investment Rationale</i></p> <ul style="list-style-type: none"> <li>Growth in the standalone bottom line.</li> <li>Robust Capacity Addition.</li> <li>Greater demand for power.</li> <li>Coal allocation and shipment through inland waterways.</li> <li>EPS: 11.90.</li> <li>PE Ratio: 12.40.</li> <li>Book Value: Rs. 90.80.</li> </ul>	<p><b>BUY – Long Term</b></p> <p>CMP : Rs. 149.60*</p> <p>Target : Rs. 185.00</p> <p>52W H/L : Rs. 190.8/137</p> <p>Potential Upside – 25.00%</p>	<p><b>NTPC LIMITED</b></p>  <p>BSE Code: 532555      NSE Code: NTPC</p>
<p><b>ONGC LIMITED</b> Leading PSU in India.</p> <p><i>Investment Rationale</i></p> <ul style="list-style-type: none"> <li>De-regulation of bulk diesel prices.</li> <li>Increasing production capabilities.</li> <li>Stringent Acquisitions.</li> <li>Huge exploration acreage.</li> <li>EPS: 32.90.</li> <li>PE Ratio: 9.80.</li> <li>Book Value: Rs. 159.50.</li> </ul>	<p><b>BUY – Long Term</b></p> <p>CMP : Rs. 316.95*</p> <p>Target : Rs. 380.00</p> <p>52W H/L : Rs. 354.1/240.1</p> <p>Potential Upside – 18.00%</p>	<p><b>OIL &amp; NATURAL GAS CORPORATION OF INDIA LIMITED</b></p>  <p>BSE Code: 500312      NSE Code: ONGC</p>
<p><b>OIL INDIA LIMITED</b> A Navaratna PSU and the 2<sup>nd</sup> largest national upstream oil and gas company.</p> <p><i>Investment Rationale</i></p> <ul style="list-style-type: none"> <li>Commencing of production at the Venezuela oil fields.</li> <li>Excellent management team.</li> <li>Aggressive acquisition plans.</li> <li>Zero Debt Company.</li> <li>EPS: 57.30.</li> <li>PE Ratio: 9.50.</li> <li>Book Value: Rs. 294.80.</li> </ul>	<p><b>BUY – Long Term</b></p> <p>CMP : Rs. 528.30*</p> <p>Target : Rs. 615.00</p> <p>52W H/L : Rs. 617.4/431</p> <p>Potential Upside – 13.30%</p>	<p><b>OIL INDIA LIMITED</b></p>  <p>BSE Code: 533106      NSE Code: OIL</p>



## OUR PICKS FOR MEDIUM TERM BUYING

<b>IDEA CELLULAR LIMITED</b> <b>3<sup>rd</sup> largest wireless operator in India.</b> <b>Stock Return</b> <ul style="list-style-type: none"> <li>● 3 Months – 30.50</li> <li>● 6 Months – 38.90</li> <li>● 1 Year – 40.70</li> </ul> ↗ Beta: (9.40) ↗ Market Cap: Rs. 376.70 Billion	<b>BSE Code</b> : 532822 <b>NSE Code</b> : IDEA  <b>CMP</b> : Rs. 113.40* <b>Target</b> : Rs. 132.00 <b>Stop Loss</b> : Rs. 101.00 <b>52W H/L</b> : Rs. 123.5/65.6
<b>ADANI POWER LIMITED</b> <b>Power business arm of Adani Group. India's largest thermal and solar power producer.</b> <b>Stock Return</b> <ul style="list-style-type: none"> <li>● 3 Months – 21.90</li> <li>● 6 Months – 39.80</li> <li>● 1 Year – 28.00</li> </ul> ↗ Beta: (37.80) ↗ Market Cap: Rs. 144.60 Billion	<b>BSE Code</b> : 533096 <b>NSE Code</b> : ADANIPOWER  <b>CMP</b> : Rs. 47.55* <b>Target</b> : Rs. 75.00 <b>Stop Loss</b> : Rs. 52.00 <b>52W H/L</b> : Rs. 96.8/36.8
<b>DIVI's LABORATORIES LIMITED</b> <b>Company engaged in manufacturing generic Active Pharmaceutical Ingredients (APIs) &amp; other speciality chemicals.</b> <b>Stock Return</b> <ul style="list-style-type: none"> <li>● 3 Months – (11.00)</li> <li>● 6 Months – (8.20)</li> <li>● 1 Year – 37.20</li> </ul> ↗ Beta: 0.50 ↗ Market Cap: Rs. 137.40 Billion	<b>BSE Code</b> : 532488 <b>NSE Code</b> : DIVISLAB  <b>CMP</b> : Rs. 1040.10* <b>Target</b> : Rs. 1200.00 <b>Stop Loss</b> : Rs. 950.00 <b>52W H/L</b> : Rs. 1234.4/710.6
<b>UNITED PHOSPHOROUS LIMITED</b> <b>Largest producer of crop protection products in India.</b> <b>Stock Return</b> <ul style="list-style-type: none"> <li>● 3 Months – 12.30</li> <li>● 6 Months – 6.60</li> <li>● 1 Year – 16.30</li> </ul> ↗ Beta: 1.30 ↗ Market Cap: Rs. 56.30 Billion	<b>BSE Code</b> : 512070 <b>NSE Code</b> : UNIPHOS  <b>CMP</b> : Rs. 123.60* <b>Target</b> : Rs. 144.00 <b>Stop Loss</b> : Rs. 120.00 <b>52W H/L</b> : Rs. 170.4/101.6
<b>BHARTI AIRTEL LIMITED</b> <b>Leading global telecommunications company.</b> <b>Stock Return</b> <ul style="list-style-type: none"> <li>● 3 Months – 5.60</li> <li>● 6 Months – 20.60</li> <li>● 1 Year – (9.70)</li> </ul> ↗ Beta: 2.00 ↗ Market Cap: Rs. 1193.80 Billion	<b>BSE Code</b> : 532454 <b>NSE Code</b> : BHARTIARTL  <b>CMP</b> : Rs. 307.00* <b>Target</b> : Rs. 370.00 <b>Stop Loss</b> : Rs. 284.00 <b>52W H/L</b> : Rs. 370.6/215.8
<b>TITAN INDUSTRIES LIMITED</b> <b>World's 5<sup>th</sup> largest wrist watch manufacturer and India's leading producer of watches.</b> <b>Stock Return</b> <ul style="list-style-type: none"> <li>● 3 Months – (11.10)</li> <li>● 6 Months – 19.30</li> <li>● 1 Year – 12.70</li> </ul> ↗ Beta: 1.20 ↗ Market Cap: Rs. 234.60 Billion	<b>BSE Code</b> : 500114 <b>NSE Code</b> : TITAN  <b>CMP</b> : Rs. 251.65* <b>Target</b> : Rs. 320.00 <b>Stop Loss</b> : Rs. 230.00 <b>52W H/L</b> : Rs. 313.4/204.2
<b>LANCO INFRATECH LIMITED</b> <b>A company engaged in execution of various civil contracts.</b> <b>Stock Return</b> <ul style="list-style-type: none"> <li>● 3 Months – (4.10)</li> <li>● 6 Months – (1.30)</li> <li>● 1 Year – (45.90)</li> </ul> ↗ Beta: 1.90 ↗ Market Cap: Rs. 27.90 Billion	<b>BSE Code</b> : 532778 <b>NSE Code</b> : LITL  <b>CMP</b> : Rs. 11.35* <b>Target</b> : Rs. 14.00 <b>Stop Loss</b> : Rs. 10.50 <b>52W H/L</b> : Rs. 23.1/10.5

For detailed analyst reports, please visit: [www.indbankonline.com](http://www.indbankonline.com) ⇨ Reports & Downloads ⇨ Equity Research \*Closing price as on 25.02.2013 on NSE

## Mutual Fund Corner

### Scheme of the Month

#### QUANTUM TAX SAVING - GROWTH

**Fund Manager:** Mr. Atul Kumar

**Investment Objective :** The investment objective of the Scheme is to achieve long-term capital appreciation by investing primarily in shares of companies that will typically be included in the BSE 200 index and are in a position to benefit from the anticipated growth and development of the Indian economy and its markets.

Current Statistics & Profile	
Latest NAV	24.933 (22/02/13)
52-Week High	25.864 (18/01/13)
52-Week Low	20.144 (23/05/12)
Fund Category	Equity-Tax Planning
Type	Open End
Launch Date	December 23 2008
Net Assets (Cr)	8.48 (31.12.2012)
Benchmark	BSE 30 TRI Sensex

### Trailing Returns

As on 22.02.2013	Fund Return	Category Return
Year to Date	0.25	(3.09)
1-Month	(2.96)	(4.46)
3-Month	5.49	2.31
1-Year	9.91	8.60
<b>3-Year</b>	<b>11.36</b>	<b>6.47</b>
<b>5-Year</b>	<b>—</b>	<b>2.94</b>
Return Since Launch 24.50		

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

Asset Allocation	
As on 31/01/2013	% Net Assets
Equity	82.79
Debt	16.92
Cash & Cash Equivalents	0.29

Investment Details	
Minimum Investment Amount	Rs.500
Additional Investment	Rs.500 & in multiples of Rs.500
Options	Dividend
Lock In	1095 days

Fund Style	Portfolio Characteristic - As on 31-01-2013															
<table><tr><th colspan="3">Investment Style</th></tr><tr><th>Growth</th><th>Blend</th><th>Value</th></tr><tr><td><div></div></td><td></td><td></td></tr><tr><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td></tr></table> <div>Large Medium Small</div> <div>Capitalisation</div>	Investment Style			Growth	Blend	Value	<div></div>									<div>Avg. Mkt. Cap – 46630.90 Cr</div> <div>Market Capitalization</div> <div>Giant – 54.12%</div> <div>Large – 20.56%</div> <div>Mid – 22.25%</div> <div>Small – 3.07%</div> <div>Portfolio P/B Ratio: 3.43</div> <div>Portfolio P/E Ratio: 20.35</div>
Investment Style																
Growth	Blend	Value														
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### PORTFOLIO – Top 10 Holdings as on 31/01/2013

Sl. No.	Name of Holding	Instrument	% Net Assets
1.	Bajaj Auto	Equity	6.43
2.	Tata Consultancy Services	Equity	5.88
3.	Zee Entertainment Enterprises Ltd	Equity	5.39
4.	Infosys	Equity	5.27
5.	HDFC	Equity	4.97
6.	HDFC Bank	Equity	4.67
7.	ONGC	Equity	4.61
8.	Container Corporation of India Ltd	Equity	4.06
9.	Maruti Suzuki India Ltd	Equity	3.86
10.	Indian Hotels	Equity	3.40

### Top Sector Weightings – As on 31/01/2013

Sector	% Net Assets
Financial	18.66
Services	15.30
Energy	14.72
Technology	11.15
Automobile	10.29

## DERIVATIVES – PART VI – FUTURES

We have been detailing the options and the option pay-offs during the last few issues. The basics of Futures have been dealt in our October 2012 issue. In this concluding part of our series on Derivatives we have explored the pay-offs in the Future segment.

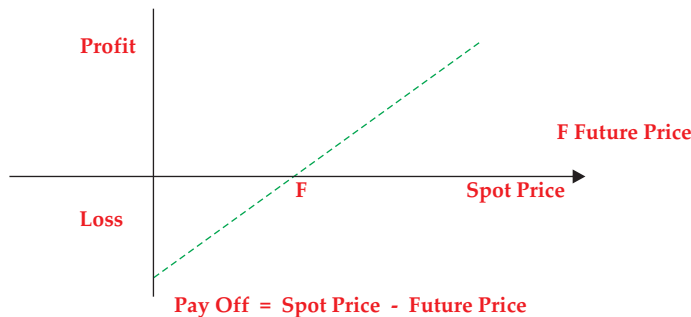
### Pay Off's for Futures

The pay-off of a futures contract depends on the spot price of the underlying asset. There are two positions that could be taken in a futures contract, namely Long and Short.

- A. Long : One who buys the asset at the Future Price (F)
- B. Short : One who sells the asset at the Future Price (F)

### 1. Pay Off – Long Futures

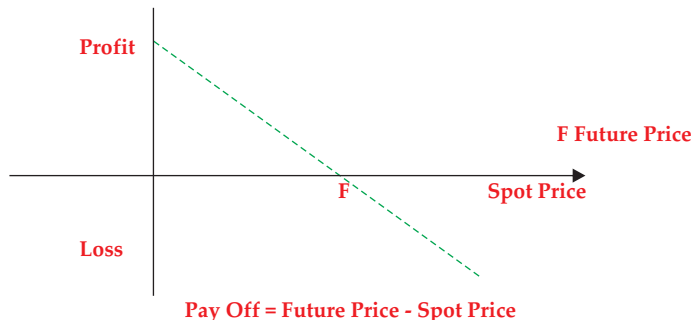
The pay-off chart for the above strategy is given below:



Spot Price is the price of the asset at expiry of the contract i.e. closing price on the expiry date. The long position holder is obligated to buy the asset at the spot price. Here the investor makes a profit if the spot price on the expiry date is higher than the future contract price and makes a loss if the opposite happens.

### 2. Pay Off - Short Futures

The pay-off chart for the above strategy is given below:



Here the investor makes a profit if the spot price at expiry is below the futures contract price and makes a loss if the opposite happens.

**The most important parameter to be considered before taking Future positions is Beta  $\beta$**

Beta measures the sensitivity of stocks responsiveness to market factors. It measures how much a stocks' price will rise or fall if the market rises/ falls. Here the market is the movement of indices like Sensex, Nifty etc.

### Illustration

Beta of a reference index like Sensex or Nifty is treated as 1.

A stock with a beta of (+) 1.5% will rise/fall by 1.5% when the index rises/falls by 1%.

Further the stock will move in the same direction as that of the index. However, a stock with a beta of (-) 1.5% will move in the opposite direction to that of the index.

Similarly, Beta of a portfolio, measures the portfolios responsiveness to market movements. The weighted average of the individual stocks beta is the beta of the portfolio.

**Futures can be used as a risk management tool.** For example, an investor who holds the shares of the company sees the value of the security falling from Rs. 450 to Rs. 390. In the absence of stock futures, he has no other option but to bear the loss. With the security futures, he can offset the loss by taking a short futures position.

Assuming the spot price of the security which he holds is Rs. 390. 2-month futures cost him Rs. 402, for which he has to only pay an initial margin. If the price of the security falls, the losses he suffers on the security is offset by the profits he makes on the short futures position and vice versa. Some of the other strategies are

- ❖ **Speculation: Bearish Security, Sell Futures**
- ❖ **Speculation: Bullish Security, Buy Futures**
- ❖ **Arbitrage: Overpriced Futures: Buy Spot, Sell Futures**
- ❖ **Arbitrage: Underpriced Futures: Buy Futures, Sell Spot**

We trust that our series on Derivative Trading was useful. Look out for the subsequent issues of our magazine for more information.

**HAPPY INVESTING!!!**

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