

From the President's Desk

### Trading in a volatile market : A few thoughts

Markets are still not behaving quite the way we would wanted it to , and you are still not very confident about carrying out your investing/trading activities as before . We feel that such a situation warrants that we should take forward the discussion from where we left in the previous edition of our newsletter

Scams, breakdown of governance, rising prices, inflation, slowing foreign direct investments, rising interest rates, commodity prices and crude oil are some of the threats intimidating India's growth story. Listed here are some of the investment advices related to stock markets which should be given proper thought before betting your money on them.

We often hear that you are not ready to invest in the market because the markets are volatile and you are waiting for the markets to 'stabilize'. In fact this is what an experienced investor would be saying right now: "I am getting great deals on the stocks of my choice so why not buy them now with a medium to long term horizon as the prices are expected to go up when markets go up". At 21,000 level some stocks would have been too costly for you, but now they are within your reach, it's a perfect occasion for you to accumulate them. In a volatile market one cannot survive if one sticks to a bearish approach. In case you find it too difficult or time consuming to track the market when it is volatile, we suggest that you invest in Mutual Funds. We can offer you the best funds to match your requirements; again you will be gaining more units by investing a smaller amount in this kind of market

Now, a very relevant question that you may ask is whether the market will go down further or will it rebound from here. The truth is that no one knows the answer for sure. We can only predict the movements in the markets. No one can forecast the same, if anyone claims to do so then please steer clear of such a person. We will have to analyze the markets based on our understandings of the macroeconomic factors, the industry conditions, market sentiments and the effects of upcoming events. Accordingly, we can predict that the markets will find a resistance at 16,000 points level and will not drop further. We expect that the markets will stay in the current range till the Budget announcements are made, after which markets are expected to move northwards

In fact all these predictions and analysis will fade to the background if we follow the simple logic of investing in companies with good fundamentals and staying invested on a long term basis. There are certain stocks which are fundamentally so strong that investors are holding on for the long term to reap huge profits even to the tune of 200 percent or more. Do not worry about the marked-to market position during a volatile market, stay invested in strong avenues and profits are sure to follow

Another misconception that is making the rounds is that you need to diversify your portfolio at any cost to counter the current market trend. Diversification is just a mean and not the end. We diversify in order to reach our goals but we should never set our goals in accordance to the diversification strategy. It is always better to hold 100 shares in a fundamentally strong company than to hold 20 shares each in five weaker companies. Diversification across sectors are advisable, but we need to consider if we want to enter all the sectors in the first place. Again studies have revealed that diversification fails to dilute risk beyond an optimum level of 20 different allocations. At no point are we trying to put across that diversification is not advisable, but rather we are strongly emphasizing on the fact that given the option between a strong stock and a diversified group of weaker stocks you should always opt for the former and even more so during this volatile market scenario

In conclusion we must add that the only way to combat volatile market is to trade actively. Active trading does not imply gambling with all your holdings, rather it is all about trading regularly with 25-30% of your holdings and holding the other lot for long term gains. In these volatile times one should be extremely disciplined and far-sighted in their approach. Keep yourself informed and make intelligent decisions

Happy Trading!!!!

**G. RANGARAJAN**  
CEO, President and Whole Time Director  
Indbank Merchant Banking Services Ltd

04/03/2011

## Snap Shot

Particulars	28 <sup>th</sup> Jan. 2011	4 <sup>th</sup> Feb. 2011	11 <sup>th</sup> Feb. 2011	18 <sup>th</sup> Feb. 2011
Inflation (%)	7.48% (Nov. 2010)	8.43% (Dec. 2010)	8.43% (Dec. 2010)	8.23% (Jan. 2011)
91 Day Cut-off(%)	7.2274	7.1858	7.1443	7.1443
10 yr G-Sec yield(%)	8.1565	8.2128	8.1947	8.1394
1-10 yr spread (bps)	83	85	107	106
USD/INR(Rs)	45.74	45.64	45.76	45.18
USD 6 m LIBOR	0.45	0.46	0.46	0.47
10 Y US Treasury	3.33	3.65	3.65	3.59
USD/Euro Spot	0.734991	0.736189	0.739426	0.733837

### Domestic Developments

- Food Inflation stands at 13.07%
- Factory output stagnates at 1.6%
- Deposits growth stands at 15.90%
- Credit growth stands at 23.2%

### International Developments

- Demands for treasuries weaken
- US Treasury yield ends the fortnight ended on 11.02.2011 at 3.63%
- Crude oil prices for the fortnight stood at USD 85.58

### Government Securities Markets

- G-Sec yields remain low
- GOI borrows Rs. 20000 crores
- Yield on 12-year paper stands at 8.21%

### Money Market

- Liquidity position eases
- Call rates stand at 6.65%
- CBLO rates stand at 5.61%

### Forex Market

- Rupee strengthend
- Rupee ends the fortnight ending on 11.02.2011 at 45.69/USD
- 3 m and 6 m forward annualized premia stood at 6.68% and 6.33% for the fortnight ended on 11.02.11

### Equity Market

- FII outflow continues
- Sensex down by 3.63%
- Nifty down by 3.66%
- FMCG and Real Estate stocks take huge hits
- Food Inflation comes down and in turn injects positivity into the markets

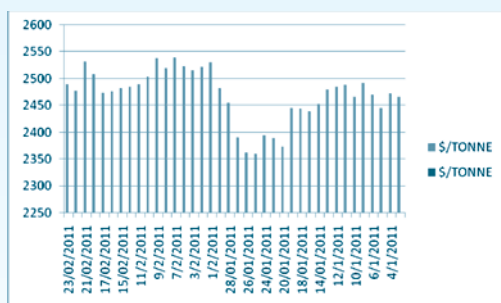
## Global Indices

Indices	Country	Index as on 18 <sup>th</sup> January 2011	Index as on 24 <sup>th</sup> February 2011	Variation (%) (Inc/ Dec)
NASDAQ	United States	2,765.85	<b>2,737.90</b>	(1.01)
S&P 500	United States	1,295.02	<b>1,306.10</b>	0.855
Hang Seng	Hong Kong	24,153.98	<b>22,972.50</b>	(4.89)
Nikkei 225	Japan	10,518.98	<b>10,526.76</b>	0.07
Straits Times	Singapore	3,249.58	<b>3,009.72</b>	(7.38)
FTSE 100	United Kingdom	6,056.40	<b>5,919.98</b>	(2.25)
CAC 40	France	4,012.68	<b>4,009.64</b>	(0.07)
DAX	Germany	7,143.45	<b>7,130.50</b>	(0.18)
Shanghai Composite	China	2,708.98	<b>2,878.58</b>	6.26
SENSEX	India	19092.05	17632.41	(7.64)
NIFTY	India	5724.05	5262.70	(8.05)

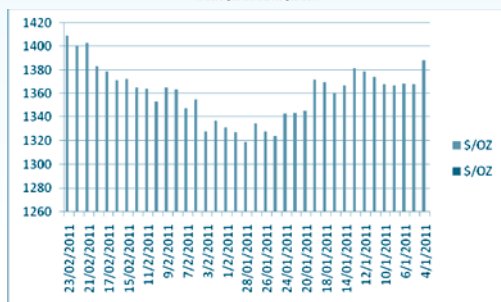
## Institutional Investments (As on 24.02.2011)

Category	Debt / Equity	Gross Purchases (Rs Crores)	Gross Sales (Rs Crores)	Net Investment (Rs Crores)
FII Investments	Equity	51338.90	53145.50	(1806.30)
	Debt	15329.10	13734.90	1594.20
Mutual Fund	Equity	10363.3	9324.4	1038.8994
	Debt	47421.902	27818.7	19603.203
FII Derivative Trades	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
- Buy	62358.52	158356.34	63240.40	9543.54
- Sell	62590.40	156552.88	59811.18	9584.66

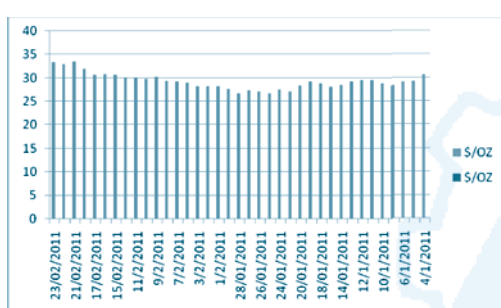
## Commodities Trend



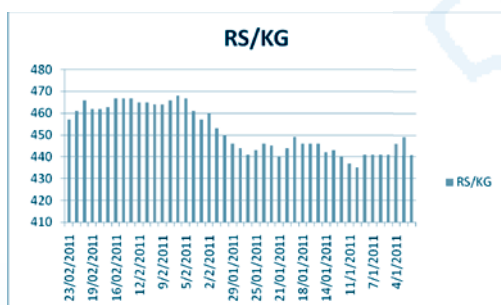
### Aluminum



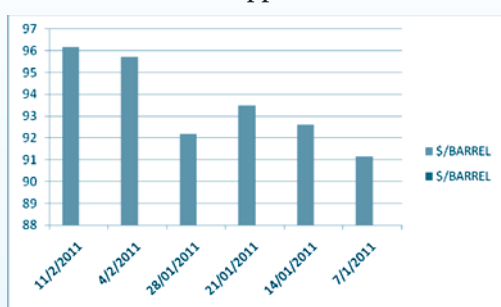
### Gold



### Silver



### Copper



### Crude Oil

## Exchange Traded Funds

Fund Name	Category	Price as on 19 <sup>th</sup> January 2011	Price as on 25 <sup>th</sup> February 2011	Variation (%) (Inc/ Dec)
NIFTYBEES	Equity	578.91	<b>540.25</b>	(6.67)
JUNIORBEES	Equity	113.50	<b>105.00</b>	(7.48)
BANKBEES	Equity	1065.25	<b>1043.05</b>	(2.08)
PSUBNKBEES	Equity	409.76	<b>415.00</b>	1.27
SHARIABEES	Equity	131.00	<b>120.80</b>	(7.78)
UTISUNDER	Equity	910.00	<b>940.00</b>	3.29
KOTAKPSUBK	Equity	419.00	<b>427.00</b>	1.90
RELBANK	Equity	1069.80	<b>1090.50</b>	1.93
QNIFTY	Equity	572.01	<b>532.00</b>	(6.99)
LIQUIDBEES	Liquid	1000.00	<b>1000.01</b>	0
GOLDBEES	Gold	1973.15	<b>2019.00</b>	1.94
GOLDSHARE	Gold	1980.55	<b>2019.00</b>	0.019
KOTAKGOLD	Gold	1977.10	<b>2024.95</b>	2.42
RELGOLD	Gold	1921.35	<b>1960.00</b>	2.01
QGOLDHALF	Gold	984.50	<b>1004.00</b>	1.98
SBIGETS	Gold	2018.90	<b>2057.25</b>	1.89

### Editorial Team

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# IPO and NFO Review

## NEWS FROM IPO

- In order to raise Rs 7000 crore for state-run lending agency Power Finance Corporation through the follow-on public offer, the power ministry has sent a note to cabinet seeking the approval for the same. The company is going to come in the first quarter of next financial year
- *Fineotex Chemical Ltd IPO subscribed by 1.57 times*
- In order to raise funds pertaining to thermal power plant, Jindal Poly Films Ltd, a maker of flexible packaging films is planning to sell its stake to raise US\$200 million.
- Jindal Poly Films Ltd, a maker of flexible packaging films, is also evaluating the option of hitting the capital market in order to raise \$200 million for thermal power projects.
- India's defence behemoth Hindustan Aeronautics Ltd (HAL) is awaiting the government's green signal to go public soon to raise funds and improve its corporate governance
- Owing to unfavorable market conditions and rising global crude oil prices, there would be a delay in the \$4.4 billion planned share sale of Indian Oil Corp (IOC).
- The government has begun a road show to sell 5% stake in ONGC. It expects to raise Rs 12,000 crore at current prices. The show will conclude in Hong Kong and Singapore early this week. The government holds 74.14% in the company which can go down to 69.14% after the sale.
- The fluctuating markets may further delay the launch of state-run SAIL's follow-on public (FPO) offer

Symbol	Series	Record Date	Bc Start Date	Bc End Date	Ex Date	No Delivery Start Date	No Delivery End Date	Purpose
AARTIDRUGS	EQ	08/02/2011	-	-	07/02/2011	-	-	INTERIM DIVIDEND-RS.2.50 PER SHARE (PURPOSE REVISED)
AARTIIND	EQ	08/02/2011	-	-	07/02/2011	-	-	INTERIM DIVIDEND-RS.1.25 PER SHARE (PURPOSE REVISED)
ACE	EQ	14/02/2011	-	-	11/02/2011	-	-	INTERIM DIVIDEND-RE.1/- PER SHARE (PURPOSE REVISED)
AMBIKCO	EQ	23/02/2011	-	-	22/02/2011	-	-	INTERIM DIVIDEND-RS.2/- PER SHARE
AMBUJACEM	EQ	-	15/02/2011	22/02/2011	11/02/2011	-	-	FINAL DIVIDEND-RS.1.40 PER SHARE
AMRUTANJAN	EQ	22/02/2011	-	-	21/02/2011	-	-	INTERIM DIVIDEND RS.5/- PER SHARE
ARIES	EQ	12/02/2011	-	-	10/02/2011	-	-	INTERIM DIVIDEND-RE.1/- PER SHARE
AUROPHARMA	EQ	11/02/2011	-	-	10/02/2011	-	-	FACE VALUE SPLIT FROM RS.5/- TO RE.1/-
BEL	EQ	03/02/2011	-	-	02/02/2011	-	-	INTERIM DIVIDEND-RS.6/- PER SHARE (PURPOSE REVISED)
BSL	EQ	18/02/2011	-	-	17/02/2011	-	-	INTERIM DIVIDEND-RE.0.75 PER SHARE (PURPOSE REVISED)
CARBORUNIV	EQ	15/02/2011	-	-	14/02/2011	-	-	INTERIM DIVIDEND-RS.1.50 PER SHARE
COALINDIA	EQ	21/02/2011	-	-	18/02/2011	-	-	INTERIM DIVIDEND-RS.3.50 PER SHARE (PURPOSE REVISED)
CROMPGREAV	EQ	04/02/2011	-	-	03/02/2011	-	-	2ND INTERIM DIVIDEND-RE.0.80 PER SHARE (PURPOSE REVISED)
CUMMINSIND	EQ	11/02/2011	-	-	10/02/2011	-	-	INTERIM DIVIDEND-RS.7/- PER SHARE (PURPOSE REVISED)
DBCORP	EQ	04/02/2011	-	-	03/02/2011	-	-	INTERIM DIVIDEND-RS.2/- PER SHARE
DYNAMATECH	EQ	15/02/2011	-	-	14/02/2011	-	-	2ND INTERIM DIVIDEND-RS.3/- PER SHARE (PURPOSE REVISED)
EDELWEISS	EQ	03/02/2011	-	-	02/02/2011	-	-	INTERIM DIVIDEND-RE.0.25 PER SHARE
EIHOTEL	EQ	22/02/2011	-	-	21/02/2011	-	-	RIGHTS 5:11 @ PREMIUM RS.64/- PER SHARE
ESCORTS	EQ	-	14/02/2011	25/02/2011	10/02/2011	-	-	ANNUAL GENERAL MEETING AND DIVIDEND RS.1.50 PER SHARE
FINANTECH	EQ	08/02/2011	-	-	07/02/2011	-	-	3RD INTERIM DIVIDEND-RS.2/- PER SHARE
GAEL	EQ	11/02/2011	-	-	10/02/2011	-	-	INTERIM DIVIDEND-RE.0.60 PER SHARE
GANDHITUBE	EQ	04/02/2011	-	-	03/02/2011	-	-	INTERIM DIVIDEND-RS.5/- PER SHARE (PURPOSE REVISED)
GEODESIC	EQ	23/02/2011	-	-	22/02/2011	-	-	INTERIM DIVIDEND-RS.1.35 PER SHARE
GLODYNE	EQ	11/02/2011	-	-	10/02/2011	-	-	FACE VALUE SPLIT FROM RS.10/- TO RS.6/-
GOLDIAM	EQ	23/02/2011	-	-	22/02/2011	-	-	INTERIM DIVIDEND-RE.1/- PER SHARE
GREAVESCOT	EQ	07/02/2011	-	-	04/02/2011	-	-	2ND INTERIM DIVIDEND-RE.0.40 PER SHARE



### **SIP holds potential in volatile markets 14/02/2011 The Economic Times**

Over the last couple of years, the support for systematic investment planning (SIP) has become louder with even mutual funds going all out to increase the investor base under this concept. In fact, figures of 50 lakh accounts within the next couple of years are being talked about in the mutual fund industry circles. With the average SIP value in India pegged at Rs 2,500, the corpus at stake is mind boggling.

### **Citi, BofA & JPMorgan to outsource \$5 bn of IT and back office projects to India 14/02/2011 The Economic Times**

America's top banks including Citigroup, JP Morgan and Bank of America are set to outsource IT and back office projects worth nearly \$5 billion this year to India, as they seek to lower costs of complying with new regulations and integrate banking systems.

According to at least a dozen senior executives at Tata Consultancy Services, Infosys, Wipro, HCL and Cognizant, apart from outsourcing consultants advising these banks, new investments in compliance and regulatory norms, apart from ongoing integration with acquired assets are among top drivers for this spend

### **Corruption, inflation major concerns, finds JP Morgan survey 15/02/2011 Business Standard**

Corruption and inflation were major concerns among Indian investors, according to a survey done by ValueNotes on behalf of JP Morgan Asset Management in December. However, investors were less worried about the global economy, keeping the overall confidence high, the survey showed. 'Even as Indian investors appear less worried about the global economy, domestic concerns have resurfaced. Worries over inflation are still dominant, but corruption has emerged as a major issue,' said Arun Jethmalani, managing director, ValueNotes. 'This has kept investors' confidence down and is impacting fresh investments,' he added. The survey was conducted in Mumbai, Delhi/NCR, Kolkata, Chennai, Ahmedabad, Bangalore, Pune and Hyderabad.

### **Power sector needs run up against bank sector limits 15/02/2011 Business Standard**

Major banks which regularly lend to the power sector are shying away from lending more, as most are hitting sector exposure limits. Banking sources say as many as six major banks which regularly lend to infrastructure are rejecting proposals to lend to power projects. While group exposure limits to a sector are fixed by the Reserve Bank of India (RBI), the board of directors of each bank fixes limits for individual segments within each sector. On an average, banks fix a limit of 15-20 per cent of their net worth for infrastructure. As the power sector has gone through massive expansion in the past three years, most banks have exhausted these limits

### **Wholesale price inflation eases to 8.23% 15/02/2011 Business Standard**

Wholesale price-based inflation moderated to 8.23 per cent in January from 8.43 per cent a month ago, despite food

inflation rising over two percentage points. The impact of food prices will however be felt in February with a sharp decline in prices of onion and other vegetables this month. The government has said inflation will fall to seven per cent by March-end, but economists pointed out that food prices have to fall further to get to that number. Food inflation during the month rose to 15.65 per cent from 13.55 per cent in December.

### **Kingfisher shifts focus to domestic sector 19/02/2011 Business Standard**

With IndiGo set to replace Kingfisher Airlines as the second-largest airline in the country, in terms of the number of passengers, Kingfisher is planning to focus more on the domestic sector. 'Our focus is more on increasing our domestic presence and network. Also, our domestic passenger numbers are set to increase after we join the One World Alliance by the end of this calendar year,' said Kingfisher Airlines Chief Executive Officer, Sanjay Aggarwal. He added that the carrier has no major plans for international expansion.

### **Marico buys 85% in Vietnamese firm 19/02/2011 Business Standard**

The international business unit of Mumbai-headquartered Marico Ltd, which contributes 23 per cent to the firm's overall revenues, has strengthened its presence in the male grooming segment with the acquisition of Vietnamese company International Consumer Products Corporation (ICP). The company today announced that it had acquired equity of 85 per cent in ICP for an undisclosed sum. ICP, whose turnover stood at '110 crore in 2010, operates, among others, in the male grooming, cosmetics and condiments segments. Male grooming is a significant contributor to ICP's revenues, and the brand X-Men is a major contributor in this segment, says Vijay Subramaniam, chief executive officer, international business, Marico.

### **Interest rates near peak level: SBI chief 19/02/2011 Business Standard**

Hinting that interest rates may have little room left to move up, State Bank of India (SBI) Chairman O P Bhatt today said rates were ruling near the peak level. Interest rates had peaked or were near the peak levels, he said, adding they may not come down immediately

### **Sebi to simplify IPO form 19/02/2011 Business Standard**

If the capital market regulators thrust on primary market reform continues unabated under the new chairman, one could soon see a simplified form for applying in public issues. Also on the agenda is a common form for Application Supported by Blocked Amount (Asba) and non-Asba applicants.

These issues were discussed at the last board meeting of the Securities and Exchange Board of India (Sebi) held on February 7 wherein the regulator made ASBA mandatory for all non-retail applicants in a public issue from May 1 onwards.

# Budget Analysis 2011 : A brief Analysis

## **Budget 2011: What it means for the investors**

### **Cap on voting rights in pvt banks to go**

Laws may be changed to scrap the 10% cap on voting rights in private banks and allow holding companies to own banks. This will help business houses lobbying for a banking licence. The FM also hinted at tabling the Bill to allow 49% FDI in insurance firms, but few think it will happen in a hurry.

### **High premium, less bonus for policyholders**

Premium on life insurance policies will rise. For every Rs. 100 premium, there will be a tax of 15 paise. This will mean that policyholders will receive less bonus — the return that policyholders receive. The new rule applies to all endowment policies.

### **High DDT for money market, debt funds**

Money market and debt funds will pay a higher dividend distribution tax (DDT) for investments made by firms. DDT will rise to 30% from 25%, but stay unchanged at 12% for individual investors. Banks will be happy as a higher DDT will place these MF plans on par with fixed deposits.

### **Easier to meet priority sector targets**

Banks will find it easier to meet priority sector targets as home loans up to Rs 25 lakh (as against Rs 20 lakh) will qualify for this. Also, lending to farmers is expected to go up as borrowers with a good repayment record will be charged 3% (as against 2%) lower than the floor rate.

## **Budget 2011: What it means for consumers**

### **Excise levy on food mixes**

An excise levy of 1% will be imposed on items such as coffee and tea pre-mixes, sauces, ketchup, soups and broths, fruit pulp, fruit juice-based drinks, food mixes, ready-to-eat packaged foods and toothpowders. Since the levy is small, it will not trigger price increases.

### **Hospital, medical bills to rise**

Medical bills, including diagnostic tests, will be 5% higher at private hospitals as the government brings these under the service tax net.

### **Now pay more for air travel**

Passengers to pay Rs 50 more on domestic air travel and Rs 250 on foreign travel because of a 2% increase in service tax.

### **Branded garments to cost more**

Branded garments to cost a tenth more as retailers plan to pass on the 10% excise levy on such clothes to consumers.

### **Food bills, hotel tariffs slither up**

Eating out in restaurants serving liquor will become 3% costlier. Staying in hotels with room rents higher than Rs 1,000 will become 5% more expensive.

## **Budget 2011: What it means for economy**

### **Financial reforms get going**

A big push for financial sector reforms, on hold for the last 6 years. Laws to raise overseas investment in insurance to 49% from 26%, hike the share capital of India's largest life insurer, LIC, from Rs 5 crore to Rs 100 crore are on the anvil. So are two new Bills to create a pension fund regulator and to reform archaic banking laws. Intentions are fine, but will the government have the majority in the Rajya Sabha to push these reforms through?

### **Divestment to boost revenue**

The exchequer will end up with Rs 22,144 crore after selling stakes in PSUs this fiscal. While stake sales in ONGC and SAIL could happen this year, the proceeds from the SAIL sale could go on the government's books next year. Next year's target is Rs 40,000 crore, with stakes of several PSUs including PFC on the block. If successful, these sales could help the FM meet his tight deficit targets.

### **Towards a leaner debt profile**

The government seems to be on track in its mission to reduce public debt as a percentage of GDP. It has set next year's target at 44.2%, much lower than the 52.5% target of the 13th Finance Commission.

## **Budget 2011: What it means for new economy**

### **PCs likely to cost more**

The levy of 5% excise duty on microprocessors as well as DVD writers is likely to make PCs costlier. AMD said that instability in policy is not good for the industry. Intel says it's still reading the fine print, but a marginal price rise may be imminent.

### **Sops on mobile phone parts to continue**

No hike in customs duty of 5% on mobile phone parts, as was widely expected, will give local manufacturers some relief. Full exemption from special additional customs duty on handset components and accessories will help lower costs marginally.

### **Nokia to increase prices marginally**

Phone maker Nokia is expected to pass on the 1% increase in central excise to customers, but other phone makers say it is too small a number and are not expected to do anything. Nokia phones may cost Rs 100-200 more.

### **Push for rural broadband, but will it work?**

Rural broadband has got a big push, but earlier efforts have not clicked. The government planned to set up 2,50,000 citizen service centres in villages to drive e-governance. Many of the one lakh CSCs that were set up have shut down, raising questions about the model.

### **Budget 2011: What it means for business**

#### **Cement prices will rise, say dealers**

The government has added a fixed excise duty of Rs 160 per tonne on cement and reduced Customs duty on petcoke and gypsum, key inputs for the sector. Cement dealers and stockists say the price of a 50 kg bag is likely to go up by Rs 5 from March 1.

#### **Tax on iron ore exports to improve domestic supplies**

Tax on iron ore exports increased to 20% from 15%. This is expected to improve domestic supplies and arrest rising input costs of steelmakers.

Full export duty exemption to iron ore pellets to encourage the value-addition process.

#### **Foreign investors can now invest more**

Big boost to infrastructure as more foreign funds allowed to invest in the sector. Allocation raised by nearly a quarter to Rs 2,14,000 crore. Further, government bodies can issue tax-free bonds adding up to Rs 30,000 crore.

### **Budget 2011: What it means for India Inc**

#### **No major cut, but some relief**

The cut in surcharge on corporate tax for domestic firms will bring down their overall tax rate by 0.77%. Though this is not a major reduction, it is a welcome relief. Also, the minimum alternate tax has been raised marginally to off-set the reduction in surcharge, meant to be a temporary levy. Surcharge will end once the DTC kicks in by April 2012.

#### **Lower tax on foreign dividends**

With the aim of providing incentives to domestic firms to repatriate money from their overseas subsidiaries, the Budget has halved the rate of tax on dividends received by a company from its foreign subsidiary to 15%. This will encourage local companies to bring back cash from their overseas arms. Joint ventures, where an Indian company owns less than 50% equity, will not enjoy the concessions.

### **Transfer pricing norms tweaked**

Multinational companies doing business in the country will find it tough to shift hefty profits to off-shore group firms to escape tax. The tax department will now have additional powers to clamp down on MNCs mis-pricing products or services. But disputes could come down once the government fixes a markup or acceptable deviation from the market price.

### **Tax break for cheaper foreign funds**

Debt funds for financing infrastructure will get tax exemptions. The government is betting big on cheaper overseas funds, with FII investment cap in corporate bonds of infrastructure firms raised from \$5 billion to \$25 billion. NRIs and others investing in infrastructure funds will now enjoy a lower withholding tax of 5%, encouraging them to bring back the money they may be holding on behalf of residents.

### **Budget 2011: What it means for India Inc**

#### **Garment industry to take a hit**

Branded readymade garments and textile made-ups now face a mandatory central excise rate of 10%. However, manufacturers can avail credit of tax paid on inputs, capital goods and input services. According to the industry the move will lead to increase in prices of branded retail garments and made-ups as there is no scope for a duty credit for the imposed duty.

#### **FMCG, pharma firms to pay more taxes**

Companies such as ITC, Hindustan Unilever and pharma companies will face pressure on the bottomlines because of imposition of excise duty. Packaged food to attract a 1% excise duty. Vaccine makers to also face 1% excise duty sans cenvat credit facility. Medicaments, intravenous fluids and surgical gloves manufacturers to face 5% excise duty.

#### **A dampener for hospitality sector**

Hotel accommodation above Rs 1,000 per night will now be charged a 5% service tax. Similarly, air-conditioned restaurants serving liquor will be charged 3% service tax as well. And while the brunt of both these tax changes will ultimately fall on the consumer, industry observers say the new rates could well turn away foreign tourists.

#### **Not something the doctor ordered**

All private air-conditioned hospitals with more than 25 beds will face 5% tax on their services. This will increase cost of health care in most corporate hospital chains. Health-care providers such as Apollo Hospitals, Fortis Healthcare, Manipal Healthcare, Super Religare Laboratories may have to bear the brunt of service tax or pass it on to consumers. Bottomline of these providers is likely to be impacted.

Courtesy : ET Bureau



# Mutual Fund Corner

## Scheme of the Month

### FIDELITY TAX ADVANTAGE FUND (G)

**Fund Manager:** Mr. Sandeep Kothari

**Investment Objective :** To provide the dual benefits of Tax Savings and stable returns

## Returns Analysis

Returns (as on Feb 25, 11)		
Period	Returns (%)	Rank #
1 month	-5.2	7
3 months	-8.5	10
6 months	-5.5	11
1 year	16.2	1
2 years	49.8	6
3 years	7.6	4
5 years	15.6	2

\* Returns over 1 year are Annualised

## Absolute Returns (in %)

Year	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Annual
2010	3.2	7.6	14.7	-1.1	28.7
2009	-0.4	41.1	20.1	6.7	83.4
2008	-25.8	-12.1	1.4	-22.2	-50.2
2007	-2.5	22.3	12.2	21.0	57.0
2006	7.7	-15.0	18.0	11.5	23.4

## Investment Information :

<b>Fund Type</b>	Open-Ended
<b>Investment Plan</b>	Growth
<b>Asset Size (Rs cr)</b>	1,296.25 (Sep-30-2010)
<b>Minimum Investment</b>	Rs.500
<b>Last Dividend</b>	N.A. View Dividend History
<b>Bonus</b>	N.A.
<b>Launch Date</b>	Jan 31, 2006
<b>Benchmark</b>	BSE 200
<b>Fund Manager</b>	Sandeep Kothari
<b>View performance of schemes managed by the Fund Manager</b>	
<b>Notes</b>	N.A.
<b>Entry Load</b>	N.A.
<b>Exit Load</b>	N.A.

## Top Holdings (Aug. 31, 10)

Equity	Sector	Value (Rs cr)	Asset %
Reliance	Oil & Gas	74.96	6.09
HDFC Bank	Banking/Finance	57.59	4.68
Infosys	Technology	57.25	4.65
ITC	Tobacco	50.98	4.14
Larsen	Engineering	48.15	3.91
SBI	Banking/Finance	42.25	3.43
Rallis India	Chemicals	39.17	3.18
HDFC	Banking/Finance	38.95	3.16
TCS	Technology	38.72	3.14
Bajaj Auto	Automotive	35.24	2.86

## Sector Allocation (Aug 31, 10)

Sector	%	— 1-Year —	
		High	Low
Banking/Finance	26.85	26.85	24.37
Oil & Gas	11.80	12.55	11.15
Engineering	10.41	10.47	10.27
Technology	9.78	9.90	9.70
Pharmaceuticals	8.73	10.93	8.73
Media	5.41	5.41	5.00

Asset Allocation (%)	(Aug. 31, 10)
Equity	97.84
Others	0.98
Debt	0.00
Mutual Funds	N.A.
Money Market	0.00
Cash / Call	1.19

## Concentration

Holdings	%
Top 5	23.47
Top 10	39.24
Sector	%
Top 3	49.06



## Sectoral Allocation (Aug 31, 2010)

Sector	%
<b>Banking &amp; Financial Services</b>	<b>26.85</b>
HDFC Bank	4.68
State Bank of India	3.43
Housing Development Finance Corporation	3.16
Bank Of Baroda	2.31
ICICI Bank	2.31
Shriram Transport Finance Corporation	2.26
Axis Bank	1.82
Infrastructure Development Finance Company	1.47
Rural Electrification Corporation	1.44
LIC Housing Finance	1.12
Punjab National Bank	0.95
Kotak Mahindra Bank	0.84
Union Bank of India	0.57
SKS Microfinance	0.49
<b>Oil &amp; Gas</b>	<b>11.80</b>
Reliance Industries	6.09
Oil and Natural Gas Corporation	2.56
Gujarat State Petronet	1.58
GAIL India	1.57
<b>Engineering &amp; Capital Goods</b>	<b>10.41</b>
Larsen and Toubro	3.91
Bharat Heavy Electricals	2.08
Crompton Greaves	1.13
Mcnally Bharat Engineering	0.91
Mundra Port and Special Economic Zone	0.88
Texmaco	0.61
KEC International	0.50
Esab India	0.39
<b>Information Technology</b>	<b>9.78</b>
Infosys Technologies	4.65
Tata Consultancy Services	3.14
CMC	1.03
NIIT	0.62
OnMobile Global	0.34
<b>Pharmaceuticals</b>	<b>8.73</b>
Lupin	2.37
Dr Reddys Laboratories	1.85
Cipla	1.82
Natco Pharma	1.24

GlaxoSmithKline Pharmaceuticals	1.02
Aventis Pharma	0.43
<b>Media &amp; Entertainment</b>	<b>5.41</b>
Sun TV Network	2.47
Zee Entertainment Enterprises	1.48
Jagran Prakashan	1.12
DB Corp	0.34
<b>Chemicals</b>	<b>4.65</b>
Rallis India	3.18
Gujarat Fluorochemicals	0.84
Castrol India	0.63
<b>Tobacco</b>	<b>4.14</b>
ITC	4.14
<b>Automotive</b>	<b>3.95</b>
Bajaj Auto	2.86
Motherson Sumi Systems	1.09
<b>Metals &amp; Mining</b>	<b>2.73</b>
Sterlite Industries (India)	1.18
Jindal Steel & Power	0.98
APL Apollo Tubes	0.57
<b>Utilities</b>	<b>1.96</b>
NTPC	1.00
JSW Energy	0.96
<b>Consumer Non-durables</b>	<b>1.74</b>
Jyothy Laboratories	1.16
Dabur India	0.32
Eveready Industries India	0.26
<b>Cement &amp; Construction</b>	<b>1.56</b>
IVRCL Infrastructure and Projects	0.61
Ahluwalia Contracts India	0.55
UltraTech Cement	0.40
<b>Consumer Durables</b>	<b>1.47</b>
Whirlpool of India.	1.47
<b>Miscellaneous</b>	<b>1.39</b>
Titan Industries	1.39
<b>Telecommunication</b>	<b>0.77</b>
Bharti Airtel	0.77
<b>Manufacturing</b>	<b>0.50</b>
Max India	0.50
<b>Cash / Call</b>	<b>1.19</b>
<b>Others / Unlisted</b>	<b>0.98</b>

## Inflation - Effects and How to Survive It

**Inflation** is a serious problem, with many negative effects, it's time you become aware of it, and eventually be prepared for it, just in case, the worldwide economy is not looking great, therefore being prepared is better than being sorry, you can always learn from the past. Here you will find tips about:

### What's Inflation?

Inflation is divided into two types: **Price Inflation** and **Monetary Inflation**, the first type (about prices) is when there is a rise in the general level of prices of goods and services over a period of time, the second type (monetary) is when there is a rise in the quantity of money in an economy. Both types are in many times interrelated, and both have negative effects on the economy and individuals.

### Effects of Inflation

Most effects of inflation are negative, and can hurt individuals and companies alike, below is a list of negative and "positive" effects of inflation:

#### Negative effects are:

1. Hoarding (people will try to get rid of cash before it is devalued, by hoarding food and other commodities creating shortages of the hoarded objects).
2. Distortion of relative prices (usually the prices of goods go higher, especially the prices of commodities).
3. Increased risk - Higher uncertainties (uncertainties in business always exist, but with inflation risks are very high, because of the instability of prices).
4. Income diffusion effect (which is basically an operation of income redistribution).
5. Existing creditors will be hurt (because the value of the money they will receive from their borrowers later will be lower than the money they gave before).
6. Fixed income recipients will be hurt (because while inflation increases, their income doesn't increase, and therefore their income will have less value over time).
7. Increased consumption ratio at the early stages of inflation (people will be consuming more because money is more abundant and its value is not lowered yet).
8. Lowers national saving (when there is a high inflation, saving money would mean watching your cash

decrease in value day after day, so people tend to spend the cash on something else).

9. Illusions of making profits (companies will think they were making profits while in reality they're losing money if they don't take into consideration the inflation rate when calculating profits).
10. Causes an increase in tax bracket (people will be taxed a higher percentage if their income increases following an inflation increase).
11. Causes mal-investment (in inflation times, the data given about an investment is often deceptive and unreliable, therefore causing losses in investments).
12. Causes business cycles (many companies will have to go out of business because of the losses they incurred from inflation and its effects).
13. Currency debasement (which lowers the value of a currency, and sometimes cause a new currency to be born)
14. Rising prices of imports (if the currency is debased, then it's purchasing power in the international market is lower).

#### "Positive" effects of inflation are:

1. It can benefit the inflators (those responsible for the inflation)
2. It be benefit early and first recipients of the inflated money (because the negative effects of inflation are not there yet).
3. It can benefit the cartels (it benefits big cartels, destroys small sellers, and can cause price control set by the cartels for their own benefits).
4. It might relatively benefit borrowers who will have to pay the same amount of money they borrowed (+ fixed interests), but the inflation could be higher than the interests, therefore they will be paying less money back. (example, you borrowed Rs. 1000 in 2005 with a 5% fixed interest rate and you paid it back in full in 2007, let's suppose the inflation rate for 2005, 2006 and 2007 has been 15%, you were charged %5 of interests, but in reality, you were earning %10 of interests, because  $15\% (\text{inflation rate}) - 5\% (\text{interests}) = \%10 \text{ profit}$ , which means you have paid only 70% of the real value in the 3 years.

**Note:** Banks are aware of this problem, and when inflation rises, their interest rates might rise as well. So don't take out loans based on this information.

5. Many economists favor a low steady rate of inflation, low (as opposed to zero or negative) inflation may reduce the severity of economic recessions by enabling the labor market to adjust more quickly in a downturn, and reducing the risk that a liquidity trap prevents monetary policy from stabilizing the economy. The task of keeping the rate of inflation low and stable is usually given to monetary authorities. Generally, these monetary authorities are the central banks that control the size of the money supply through the setting of interest rates, through open market operations, and through the setting of banking reserve requirements.
6. Tobin effect argues that: a moderate level of inflation can increase investment in an economy leading to faster growth or at least higher steady state level of income. This is due to the fact that inflation lowers the return on monetary assets relative to real assets, such as physical capital. To avoid inflation, investors would switch from holding their assets as money (or a similar, susceptible to inflation, form) to investing in real capital projects.

The first three effects are only positive to a few elite, and therefore might not be considered positive by the general public.

### How to Survive Inflation?

Tips to avoid the negative effects of inflation are only suggestions and don't constitute any legal advice, therefore you're free to use your own judgment depending on circumstances, to be more prepared to face inflation effects you need to be aware of those effects, so if you haven't done so, please read some of them above, here are some tips:

1. Be wise when holding cash, whether in your home or in your savings account, if you're earning 5% interest on the money you have in your bank, and inflation rate is 10% then you're in reality losing 5% and not earning anything.
2. Be careful when buying bonds, high inflation rates completely destroy the value of long-term bonds.

3. If you have a variable-rate mortgage, fix it if you can find a good deal, have a low fixed interest rate or 0% interest if you can find one.
4. Invest in durable goods or commodities rather than in money. Check out our commodities list.
5. Invest in things that you're going to use anyway and will serve you for a long time.
6. Invest for long-term capital gains, because short term investments tend to give deceptive results or sense of making profits while in reality you're not making profits.
7. Learn about bartering which is trading goods or services without the exchange of money (it was very popular in hyperinflation times).
8. Manage wisely your recurring monthly bills such as (phone bills, cable TV...), it would help to reduce them or eliminate some of them.
9. Same goes with ephemeral items (movies, restaurants, hotel rooms...) they're not bad if you spend money on them in moderation.
10. Ask yourself, do I really need these things I'm spending my money on? Think how much and how often you will need something before buying it.
11. Use the money saving tips such as: you need to reduce your consumption of things that are rising rapidly in price (eg, gas) without having to reduce your consumption of goods that are rising less rapidly or even falling in price (eg, clothes).
12. Buy only what you need, especially objects that have multi-tasks, and are considered durable goods.

### Money and Inflation

Money is considered a storage of value. Inflation weakens the function of money as a storage of value, because each unit of money is worth less with the passing of time and increase of inflation, so people tend to spend money on something else which can play the role of "the storage of value".

*Courtesy:* Data available on [crisistimes.com](http://crisistimes.com)

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