

Indbankonline

MARKETS FOR YOU

Private Circulation only

November - 2012

Issue - 66

From the President's Desk

Throughout my banking career and now as President of Indbank, I have the privilege of meeting people across the spectrum of the society. Invariably, the first question I encounter is Where and When do I invest? This simple question is the most difficult to answer as there is no single cure for all ills.

The most important part in the question is "I". The point is, the success of any investment is co-related to the object of the investment. If you are a retired salary earner, then it makes sense in investing in financial products that gives monthly income along with security of the investment. If you're a young person who's saving up for marriage, house or education expenses, investment in equity is recommended as it will yield higher returns. But remember, a high return comes with high risk. The approach for an investment decision should always be bottom up.

We should fix up goals both long term and short term and create our portfolio according to its needs. The return from investment is always a trade-off against the risks we are willing to take. There is no short route to success and our quest to earn short-term gains is only leading to increasing number of Ponzi Schemes. That a flightless Australian bird could be center of a financial scam in Tamilnadu is an example of the depth of financial illiteracy in India. Not that, information is not available. If you Google "Emu farming" it will throw up hundreds of websites advertising for the product and articles about the scam. While the advertisements talk about the great markets and fabulous returns, the articles talk about ruined investors and vanishing promoters. This is not the first time such schemes have been played out. Remember, the teak plantations, chit scams, multi-level marketing companies, jatropa plants and the stories of investors who lost their hard earned money investing in these schemes.

Here comes the basic question. Why do a large number of people fall for such things which occur at uncanny regularity? The answer lies in our greed to be rich quickly and the belief that investment is the domain of a very few who have secret formulae and the gullible people fall prey to toxic investment marketing. This belief is the cause of origin for such scams. Of course, the truth is far removed from this myth.

*Finally wishing our readers a **HAPPY DIWALI!!!***



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

03/11/2012

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



Our website : www.indbankonline.com

IMPORTANT HAPPENINGS

A. Economic Updates

- RBI lowers CRR to 4.25% from 4.50%. Keeps the other rates unchanged (Repo Rate: 8%; Reverse Repo Rate: 7%; Bank Rate: 9%) in its monthly review held on October 30, 2012. RBI says that while the recent Government measures were steps in right direction, further corrective measures are required to contain the fiscal deficit within sustainable limit.
- RBI raises provisions for restructured standard accounts to 2.75% from 2%, which is expected to affect the profitability of Bank and liquidity in the banking system.
- Finance Minister Mr. P Chidambaram proposes a 3-point formulae to revive country's economic growth
 - Boosting Foreign Inflow.
 - Improving Productivity.
 - Controlling Subsidy.
- FM expects India's current account deficit shrinking to 3.7% of GDP in the current financial year compared to 4.2% last year.
- Investors can now hold Fixed Deposit Products, Insurance Policies and Investment Products of Post Offices in DEMAT Form.

B. Regulatory Updates

- SEBI notifies Framework for "REJECTION OF OFFER DOCUMENTS". Entities whose draft offer documents are rejected will not be allowed to access capital markets for atleast one year.
- SEBI allows loss making listed companies to come out with Follow-on Public Issues
- SEBI agrees to setup a Self Regulatory Organization to regulate the MF distribution business.
- SEBI is planning to sign bilateral treaties with seven countries to allow wealthy individuals from these jurisdictions to invest in capital markets.
- SEBI initiates probe into the "flash crash" of NSE index and will soon put in place risk management measures to avoid such errors again.
- IRDA says that increase in FDI limit in insurance sector will attract huge investments and will boost the sector.

C. International Updates

- The European Union Leaders have agreed on a time-table to set up a single Eurozone banking supervisor.
- The European Central Bank (ECB) announces its "Outright Monetary Transaction" program, an attempt to stem the debt crises.
- EU Leaders praise Greece for "Good Progress" on efforts towards structural reforms.
- The US Federal Reserve extended "Operation Twist" to mid 2015, along with a host of new quantitative easing measures.

Snap Shots

Inflation (%)	7.81 (Sept. 2012)	7.55 (Aug. 2012)	6.87 (July 2012)	6.87 (July 2012)	6.87 (July 2012)
Particulars	26 th Oct. 2012	19 th Oct. 2012	12 th Oct. 2012	05 th Oct. 2012	28 th Sept. 2012
91-Day Cut-off (%)	8.1022	8.1022	8.1022	8.0604	8.1439
10-yr G-Sec yield (%)	8.1739	8.1707	8.2094	8.2190	8.2234
1-10 yr spread (bps)	2	3	7	16	14
USD/INR(Rs)	53.6300	53.7175	52.7000	51.6185	52.6970
USD 6m LIBOR	0.55	0.57	0.60	0.62	0.64
10 Y US Treasury	1.75	1.77	1.66	1.73	1.64
USD/Euro Spot	0.773056	0.768203	0.772481	0.765968	0.777856

Global Indices

Indices	Country	Index as on 27 th Sept. 2012	Index as on 29 th Oct. 2012	Variation (%) (Inc/ Dec)
NASDAQ	United States	3,136.60	Closed	NA
DJIA	United States	13,485.97	Closed	NA
S&P 500	United States	1,447.15	Closed	NA
Hang Seng	Hong Kong	20,762.29	21,511.05	3.61
Nikkei 225	Japan	8,949.87	8,929.34	(0.23)
Straits Times	Singapore	3,059.43	3,029.61	(0.97)
FTSE 100	United Kingdom	5,779.40	5,795.10	0.27
CAC 40	France	3,439.32	3,408.89	(0.88)
DAX	Germany	7,290.02	7,203.16	(1.19)
SENSEX	India	18,762.74	18,635.82	0.30
NIFTY	India	5,703.30	5,665.60	0.28

Institutional Investments

Category	Debt / Equity	Gross Purchases (Rs Crores)	Gross Sales (Rs Crores)	Net Investment (Rs Crores)	
FII Investments (in Oct.up to 29.10.2012)	Equity	53837.00	42290.10	11546.90	
	Debt	15013.70	8300.40	6713.50	
Mutual Fund (in Oct.up to 29.10.2012)	Equity	8309.30	10563.20	(2253.90)	
	Debt	83870.80	65471.50	18399.40	
FII Derivative Trades*	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS	
	- Buy	39275.41	251784.80	49235.40	30287.74
	- Sell	37172.12	245416.47	53242.04	30638.69

*(in October up to 30.10.2012)

Editorial Team

Banabihari Panda
President and Whole-time Director

S. Rajalakshmi
SSO

IPO and NFO Review

IPO NEWS

- Kerala based Wonderla Holidays, part of the listed V Guard Company, is planning to dilute as much as 25% equity via the IPO route to partly fund a Rs. 250 Cr. amusement park it plans to set up in Hyderabad.
- Abhijeet Group has withdrawn its IPO plans for its power unit after reports that Central Bureau of Investigation is investigating AMR Iron & Steel, an arm of it in connection with the allocation of five coal blocks.
- Credit Analysis & Research Ltd. (CARE) has got the nod from SEBI for its proposed IPO. All the proceeds from the IPO would go to the selling stakeholder's viz. IDBI Bank and Canara Bank.
- International Tractors Limited (ITL) is planning an IPO to raise Rs. 800 Cr in two years. The proceeds will be used to fund its expansion and future growth plans.
- Religare Health Trust and Fortis Healthcare raised around S\$510.7 Million and S\$510 Million respectively through their IPOs in the Singapore Stock Exchange.
- Bharti Airtel has stated that it is awaiting SEBI clearance for the Rs. 5500 Cr. IPO of its mobile tower unit Bharti Infratel.

CORPORATE ACTIONS

NEW LISTINGS

Company Name	Offer Price (Rs.)	Exchange	Listing Date	List Price (Rs.)	Latest Traded Price	% Change to List Price (Rs.)
Star Delta Transformers Ltd.	10.00	BSE	01.10.2012	249.75	425.35	70.31
Anshu's Clothing Ltd	27.00	BSE – SME	10.10.2012	27.50	27.00	(1.82)
RCL Retail Ltd.	10.00	BSE – SME	16.10.2012	10.10	9.00	(10.89)

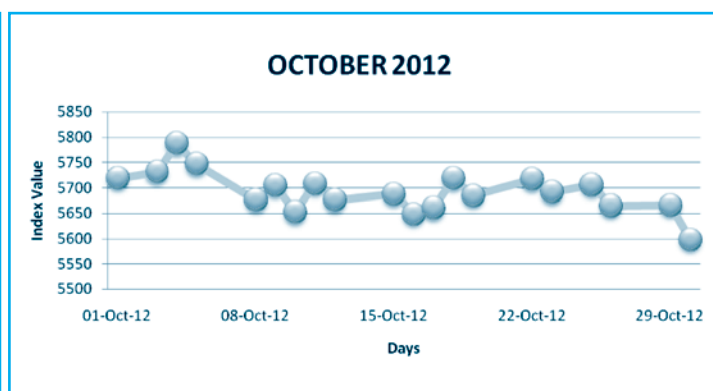
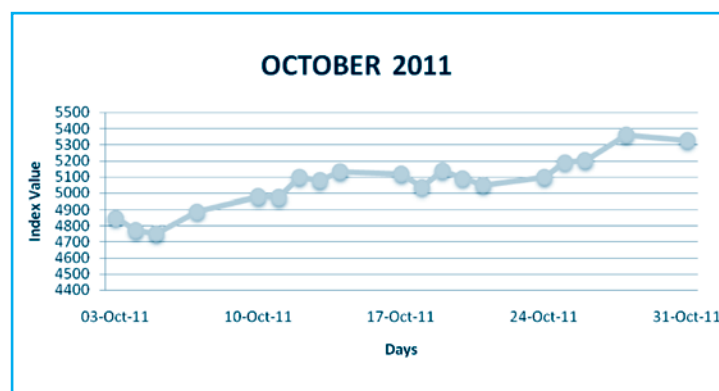
FORTHCOMING CORPORATE ACTIONS

Company Name	Symbol	Record Date	Ex Date	Purpose
Dewan Housing Finance Corporation Ltd.	DHFL	03-Nov-12	01-Nov-12	Interim Dividend Rs 2 Per Share
IRB Infrastructure Developers Limited	IRB	05-Nov-12	02-Nov-12	Interim Dividend
Aarti Industries Limited	AARTIIND	06-Nov-12	05-Nov-12	Interim Dividend
Cairn India Limited	CAIRN	06-Nov-12	05-Nov-12	Interim Dividend
Aarti Drugs Limited	AARTIDRUGS	06-Nov-12	05-Nov-12	Interim Dividend
Sasken Communication Technologies Ltd.	SASKEN	07-Nov-12	06-Nov-12	Interim Dividend Rs 2.50 Per Share
Marico Limited	MARICO	08-Nov-12	07-Nov-12	Interim Dividend
MRF Limited	MRF	08-Nov-12	07-Nov-12	2nd Interim Dividend Rs 3 Per Share
Financial Technologies (India) Limited	FINANTECH	09-Nov-12	08-Nov-12	2nd Interim Dividend
Bombay Burmah Trading Corporation Ltd.	BBTC	09-Nov-12	08-Nov-12	Face Value Split From Rs 10 to Rs 2
Thinksoft Global Services Limited	THINKSOFT	09-Nov-12	08-Nov-12	Interim Dividend Rs 3 Per Share
Godrej Consumer Products Limited	GODREJCP	09-Nov-12	08-Nov-12	2nd Interim Dividend
Madras Cements Limited	MADRASCEM	12-Nov-12	09-Nov-12	Interim Dividend
Page Industries Limited	PAGEIND	16-Nov-12	15-Nov-12	Interim Dividend
MT Educare Limited	MTEUCARE	16-Nov-12	15-Nov-12	Interim Dividend
Mayur Uniquoters Ltd	MAYURUNIQ	16-Nov-12	15-Nov-12	Interim Dividend

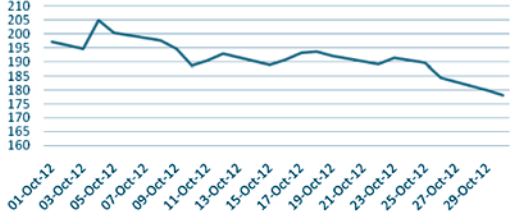



NEW FUND OFFERS

Scheme	Type	Class	Open Date	Close Date	Offer Price	Min. Inv. Amount
BirlaSL CPO Series 13	Close	Debt – Income	22.10.2012	05.11.2012	10	5000
UTI Credit Opportunities	Open	Debt – Income	25.10.2012	08.11.2012	10	5000

MARKET COMPARISON



OUR PICKS

<p>ZEE ENTERTAINMENT ENTERPRISES LTD.</p> <p>One amongst the largest producers and aggregators of Hindi Programming in World.</p> <p><i>Investment Rationale</i></p> <ul style="list-style-type: none"> ↪ Constant return to shareholders. ↪ Foray into international markets. ↪ Benefits of digitization. ↪ Growth in Ad revenues. ↪ EPS: 6.10. ↪ PE Ratio: 31.20. ↪ Book Value: Rs. 35.80. 	<p style="text-align: center;">BUY – Long Term</p> <p>CMP : Rs. 178.25*</p> <p>Target : Rs. 220.00</p> <p>52W H/L : Rs. 208.4/112.2</p> <p>Potential Upside – 19.5%</p>	<p style="text-align: center;">ZEE ENTERTAINMENT ENTERPRISES LIMITED</p>  <p>BSE Code: 505537 NSE Code: ZEEL</p>
<p>DEEPAK FETILIZERS & PETROCHEMICALS LTD.</p> <p>The only IPA & TAN manufacturer in India with market share of 30%.</p> <p><i>Investment Rationale</i></p> <ul style="list-style-type: none"> ↪ Strengthened presence in TAN segment. ↪ Additions to Capacity. ↪ Robust revenue growth. ↪ Divergent Product Portfolio. ↪ EPS: 24.00. ↪ PE Ratio: 5.60. ↪ Book Value: Rs. 137.60. 	<p style="text-align: center;">BUY – Long Term</p> <p>CMP : Rs. 131.00*</p> <p>Target : Rs. 162.00</p> <p>52W H/L : Rs. 170.5/118.2</p> <p>Potential Upside – 20.00%</p>	<p style="text-align: center;">DEEPAK FERTILIZERS & PETROCHEMICALS LIMITED</p>  <p>BSE Code: 500645 NSE Code: DEEPAKFERT</p>
<p>BAJAJ AUTO LTD.</p> <p>2nd largest 2-wheeler manufacturer in India.</p> <p><i>Investment Rationale</i></p> <ul style="list-style-type: none"> ↪ 3rd largest motorcycle manufacturer in the world. ↪ Revival in Sales. ↪ Dual Brand Strategy. ↪ Tie-up with Kawasaki. ↪ EPS: 105.20. ↪ PE Ratio: 16.60. ↪ Book Value: Rs. 210.20. 	<p style="text-align: center;">BUY – Long Term</p> <p>CMP : Rs. 1798.10*</p> <p>Target : Rs. 1988.00</p> <p>52W H/L : Rs. 1850/1410</p> <p>Potential Upside – 14%</p>	<p style="text-align: center;">BAJAJ AUTO LIMITED</p>  <p>BSE Code: 532977 NSE Code: BAJAJ-AUTO</p>
<p>JET AIRWAYS LTD.</p> <p>2nd largest Indian Airliner with a fleet strength of 155 aircrafts operating over 500 daily flights.</p> <p><i>Investment Rationale</i></p> <ul style="list-style-type: none"> ↪ Depreciation of Rupee, rise in ATF prices. ↪ Improved Load Factor & higher yields ↪ Launch of JetKonnnect. ↪ Possibility of FDI. ↪ EPS: (164.50). ↪ PE Ratio: - ↪ Book Value: Rs. 15.20. 	<p style="text-align: center;">BUY – Long Term</p> <p>CMP : Rs. 322.00*</p> <p>Target : Rs. 476.00</p> <p>52W H/L : Rs. 450/166.7</p> <p>Potential Upside – 25.40%</p>	<p style="text-align: center;">JET AIRWAYS LIMITED</p>  <p>BSE Code: 532617 NSE Code: JETAIRWAYS</p>

OUR PICKS FOR MEDIUM TERM BUYING

<p>ADANI PORTS AND SEZ LIMITED. Formerly Mundra Ports, engaged in the business of developing, operating and maintaining port related infrastructure facilities.</p> <p><i>Stock Return</i></p> <ul style="list-style-type: none"> ● 3 Months – 8.60 ● 6 Months – (0.90) ● 9 Months – (13.60) <p>↕ Beta: 0.70 ↕ Market Cap: Rs. 253.40 Billion</p>	<p>BSE Code : 532921 NSE Code : ADANIPTS</p> <p>CMP : Rs. 125.00* Target : Rs. 165.00 Stop Loss : Rs. 117.00 52WH/L : Rs. 170/105</p>
<p>LARSEN & TOUBRO LIMITED. Leading player in the EPC segment with global operations.</p> <p><i>Stock Return</i></p> <ul style="list-style-type: none"> ● 3 Months – 29.50 ● 6 Months – 39.50 ● 9 Months – 29.00 <p>↕ Beta: 1.60 ↕ Market Cap: Rs. 1044.70 Billion</p>	<p>BSE Code : 500510 NSE Code : LT</p> <p>CMP : Rs. 1637.80* Target : Rs. 1960.00 Stop Loss : Rs. 1630.00 52WH/L : Rs. 1718.4/971</p>
<p>HCL TECHNOLOGIES LIMITED. Leading global IT services company with focus in “Transformational Outsourcing”.</p> <p><i>Stock Return</i></p> <ul style="list-style-type: none"> ● 3 Months – 26.30 ● 6 Months – 20.40 ● 9 Months – 44.90 <p>↕ Beta: 0.20 ↕ Market Cap: Rs. 419.20 Billion</p>	<p>BSE Code : 532281 NSE Code : HCLTECH</p> <p>CMP : Rs. 606.60* Target : Rs. 650.00 Stop Loss : Rs. 580.00 52WH/L : Rs. 606.8/374</p>
<p>CRISIL LIMITED. Global analytical company providing services in research, risk and policy advisory.</p> <p><i>Stock Return</i></p> <ul style="list-style-type: none"> ● 3 Months – (3.10) ● 6 Months – (9.40) ● 9 Months – 6.50 <p>↕ Beta: 0.50 ↕ Market Cap: Rs. 68.90 Billion</p>	<p>BSE Code : 500092 NSE Code : CRISIL</p> <p>CMP : Rs. 938.00* Target : Rs. 1080.00 Stop Loss : Rs. 930.00 52WH/L : Rs. 1262/750</p>
<p>GLAXOSMITHKLINE PHARMACEUTICALS LIMITED. A pharmaceutical company established in the year 1924 in India.</p> <p><i>Stock Return</i></p> <ul style="list-style-type: none"> ● 3 Months – (3.90) ● 6 Months – (9.40) ● 9 Months – 0.50 <p>↕ Beta: (0.20) ↕ Market Cap: Rs. 166.80 Billion</p>	<p>BSE Code : 500660 NSE Code : GLAXO</p> <p>CMP : Rs. 2005.00* Target : Rs. 2250.00 Stop Loss : Rs. 1920.00 52WH/L : Rs. 2338/1830</p>
<p>NATIONAL ALUMINIUM COMPANY LIMITED. Integrated aluminium complex operating in 3 segments.</p> <p><i>Stock Return</i></p> <ul style="list-style-type: none"> ● 3 Months – (15.00) ● 6 Months – (17.30) ● 9 Months – (13.00) <p>↕ Beta: 0.80 ↕ Market Cap: Rs. 128.60 Billion</p>	<p>BSE Code : 532234 NSE Code : NATIONALUM</p> <p>CMP : Rs. 46.70* Target : Rs. 65.00 Stop Loss : Rs. 45.00 52WH/L : Rs. 68.5/48</p>
<p>JUBILANT FOODWORKS LIMITED. One of emerging companies in India.</p> <p><i>Stock Return</i></p> <ul style="list-style-type: none"> ● 3 Months – 6.20 ● 6 Months – 10.60 ● 9 Months – 74.30 <p>↕ Beta: 0.40 ↕ Market Cap: Rs. 85571 Million</p>	<p>BSE Code : 533155 NSE Code : JUBLFOOD</p> <p>CMP : Rs. 1267.00* Target : Rs. 1484.00 Stop Loss : Rs. 1257.10 52WH/L : Rs. 1397/666.6</p>
<p>MAX INDIA LIMITED. Manufacturer of speciality plastic films for packaging industry.</p> <p><i>Stock Return</i></p> <ul style="list-style-type: none"> ● 3 Months – 19.50 ● 6 Months – 35.40 ● 9 Months – 57.40 <p>↕ Beta: 0.60 ↕ Market Cap: Rs. 60580 Million</p>	<p>BSE Code : 500271 NSE Code : MAX</p> <p>CMP : Rs. 242.00* Target : Rs. 264.50 Stop Loss : Rs. 204.10 52WH/L : Rs. 247/140.1</p>

For detailed analyst reports, please visit: www.indbankonline.com ⇔ Reports & Downloads ⇔ Equity Research *Closing price as on 30.10.2012 on NSE

Mutual Fund Corner

Scheme of the Month

HDFC PRUDENCE - GROWTH

Fund Manager: Mr. Prashant Jain / Mr. Rakesh Vyas

Investment Objective

The investment objective of the Scheme is to provide periodic returns and capital appreciation over a long period of time, from a judicious mix of equity and debt investments, with the aim to prevent/ minimise any capital erosion.

Current Statistics & Profile	
Latest NAV	227.694 (29/10/12)
52-Week High	231.76 (04/10/12)
52-Week Low	183.131 (20/12/11)
Fund Category	Hybrid - Equity Oriented
Type	Open End
Launch Date	February 01, 1994
Net Assets (Cr)	6032.60 (30.09.2012)
Benchmark	Crisil Balanced

Trailing Returns

As on 29.10.2012	Fund Return	Category Return
Year to Date	22.90	21.17
1-Month	(0.41)	(0.19)
3-Month	9.05	8.51
1-Year	9.64	9.46
3-Year	12.41	8.61
5-Year	8.71	3.58
Return Since Launch 16.19		

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

Asset Allocation	
As on 30/09/2012	% Net Assets
Equity	75.26
Debt	23.29
Cash & Cash Equivalents	1.45

Investment Details	
Minimum Investment Amount	Rs. 5000
Minimum SIP Amount	Rs. 500 for Monthly ; Rs. 1500 for Quarterly
Options	Dividend Payout and Dividend Reinvestment

Fund Style	Portfolio Characteristic - As on 30-09-2012												
<p>Investment Style</p> <table border="1"> <tr> <td>Growth</td> <td>Blend</td> <td>Value</td> </tr> <tr> <td></td> <td style="background-color: #0070C0;"></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> </tr> </table> <p>Capitalisation Large Medium Small</p>	Growth	Blend	Value										<p>Avg. Mkt. Cap – 13559.15 Cr Market Capitalization</p> <p>Giant – 25.29% Large – 19.04% Mid – 37.64% Small – 17.96%</p> <p>Portfolio P/B Ratio: 3.19 Portfolio P/E Ratio:16.05</p>
Growth	Blend	Value											

PORTFOLIO – Top 10 Holdings as on 30/09/2012

Name of Holding	Instrument	% Net Assets
State Bank of India	Equity	5.96
ICICI Bank	Equity	5.92
Infosys	Equity	3.48
Tata Motors DVR	Equity	2.80
Page Industries	Equity	2.75
IPCA Laboratories	Equity	2.65
Bank of Baroda	Equity	2.54
8.97% GOI 2030	GOI Securities	1.94
Larsen & Turbo	Equity	1.90
9.4% LIC Housing Fin. 08/12/2012	Bonds/NCDs	1.61

Top Sector Weightings – As on 30/09/2012

Sector	% Net Assets
Financial	23.36
Healthcare	5.63
Energy	5.53
Automobile	5.25
Metals	4.98

DERIVATIVES – PART II - OPTIONS

We begin our series with the discussion on OPTIONS. Unlike an Over the Counter (OTC) derivative like Forward Contract, options are a type of standardized exchange traded derivatives where a stock exchange plays the role of a mediator (who has the responsibility of settling the deals) between the buyers and sellers of options and among other things, sets the standards for type of underlying asset, size of the deal, price, maturity date etc. Why Options? Options limit the scope of loss to the extent of premium paid but open the possibility of higher profits based on the market prices. Let's now have a look at the commonly used **Option Terminologies**.

Types of Options

Call option: A call option (called 'Teji' in Indian markets) gives the holder the right but not the obligation to buy an asset by a certain date for a certain price.

Put option: A put option (called 'Mandi' in Indian markets) gives the holder the right but not the obligation to sell an asset by a certain date for a certain price.

Persons Involved

Writer / Seller of an option: The Writer / Seller of a call/put option is the one who receives the option premium and is thereby obliged to sell/buy the asset if the buyer exercises the option. To fulfill this obligation, the seller maintains margin money with the Exchange.

Buyer of an option: The buyer of an option is the one who, by paying the option premium, buys the right but not the obligation to exercise his option on the seller/writer.

Features of Options

Strike price: The price specified in the option contract is known as the strike price. It is the price at which the underlying asset must be bought or sold. Strike prices are decided by a Stock Exchange.

Option Price/Premium: Option price is the premium which the option buyer pays to the option seller. It is also referred to as the option value.

Expiration date: The date specified in the option contract is known as the expiration date or the exercise date or the strike date or the maturity date.

Options Underlying

Index options: These options have the index as the underlying, e.g. Nifty options, Mini Nifty options etc. The options can also be based on International Indices. Currently NSE has options based on indices like FTSE 100, DJIA and S&P 500.

Stock options: Stock options are options on individual stocks. A stock option contract gives the holder the right to buy or sell the underlying shares at the specified/strike price.

Settlement Types

American options: American options are options that can be exercised at any time upto the expiration date. Most of the Stock Options traded in India are American Options

European options: European options are options that can be exercised only on the expiration date itself. The Index Options traded are European Options.

Others

In-the-money option: An in-the-money (ITM) option is an option in which the option buyer makes profit if it is exercised immediately. A call option on a stock is said to be in-the-money when the current spot price is higher than the strike price (i.e. **spot price > strike price**). If the stock price is much higher than the strike price, the call is said to be deep ITM. In the case of a put, the put is ITM if the stock price is below the strike price.

At-the-money option: An at-the-money (ATM) option is an option that would lead to zero cash flow if it were exercised immediately. An option on a stock is at-the-money when the current stock price equals the strike price (i.e. **spot price = strike price**).

Out-of-the-money option: An out-of-the-money (OTM) option is an option that would lead to a loss if it is exercised immediately. A call option on a stock is out-of-the-money when the current spot price is lesser than the strike price (i.e. **spot price < strike price**). If the spot price is much lower than the strike price, the call is said to be deep OTM. In the case of a put, the put is OTM if the spot price is above the strike price.

Intrinsic Value of an option: The option value or the option premium can be broken down into two components i.e. intrinsic value and time value. Intrinsic value is the amount the buyer will get if the option is exercised. If the Spot Price is less than the Strike Price, a Put Option is ITM. Conversely, if Spot Price is more than the Strike Price, a Call Option is ITM.

Time Value of an option: The time value of an option is the difference between its premium and its intrinsic value. Both calls and puts have time value. An option that is OTM or ATM has only time value. Usually, the maximum time value exists when the option is ATM. The longer the time to expiration, the greater is an option's time value, all else being equal, because Time Value represents the interest for the period the funds are deployed. At expiration, an option should have zero time value.

Let's summarize with an example:

The current price of Reliance Industries is **Rs. 805.20 (Spot Price)**

The Stock Option Quote of Reliance Industries for expiration in November 2012 quoted in NSE is: RIL – Call 800 – 29 Nov 2012 - Premium **Rs. 20.70**.

Here

RIL – Scrip Code of the Company whose share is the underlying asset of the option.

Call – Call Option

800 – indicates Strike Price at which the call option is sold for a premium of Rs. 20.70.

29th November 2012 is the date of expiry of this call option

Rs. 20.70 is the option premium

Intrinsic Value will be Rs. 805.20 - Rs.800 = Rs. 5.20

Time Value will be Rs. 20.70 – Rs. 5.20 = Rs. 15.50

Since the Spot Price is greater than the Strike Price, the call option is **"In the Money"**. The option value depends upon factors like spot market price, strike price, volatility in the spot price of the stock, time to expiry, corporate actions like dividends, rights issues, share splits etc. during the life of the option.

Look out for the subsequent issues of our magazine for more details on Options.

HAPPY INVESTING!!!

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**INAUGURATION OF
OUR TERMINAL
IN PURASAIWALKAM,
CHENNAI
ON
18th OCTOBER 2012**



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