

INFOLINE

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From the Managing Director's Desk

Have we seen the end of a very painful bear market?

The fall of our markets from the high of 6338, nifty levels on Diwali day, 5 November, 2010, to the low of 4531 on 20 December 2011, may have been one of the most painful bear markets that I have ever seen. The markets grinding down lower and lower for 14 months to fall by 1807 points or just 28% was more painful than the swift crash of 2008, when it took only 11 months to fall a whopping 4100 points or 65%.

For all of us involved in the Indian stock markets, the year gone by is best forgotten. Not only had our markets given the second worst negative returns in the last 30 years, but also was one of the worst performing markets in the world in calendar 2011. The Nifty and Sensex fell by 25% (in dollar terms it was 37%), compared with a rise in US markets, where the Dow Jones went up by 6%. The other major markets also performed much better with the European markets, FTSE, CAC and DAX falling by only 6%, 17% and 14% respectively, and the Asian markets in general fell by less than 20%, with Hang Seng down by 19% and Nikkei 17%. And if you compare the recovery from the falls of the highs of 2010, our markets have recovered only 45% compared to Dow Jones which recovered 100% and the NASDAQ crossed the high of 2010 by 12% and the European markets had recovered by an average of 70%. So, even if we do a catch up play we still have a long way on the upside.

Unlike previous bear markets, where retail participation became a trickle, sentiment was so bad this time that even seasoned and professional traders (those rare species who trade and make a living out of it) completely stopped trading. Many of our sub brokers were on the verge of shutting shop, and a few actually did so, and even several smaller broking houses surrendered their stock exchange memberships, a phenomenon last seen in early 2000, after the Ketan Parekh fiasco.

Typically, all the signs of markets bottoming out were seen from November onwards, and this was clearly presented at our regular second Saturday meeting in December at Trivandrum, if our esteemed clients who attended the meeting remember and also those who might have seen our presentation made for this purpose, which was sent to all our branches.

The markets have already recovered by around 900 points or 20% in a short period of less than two months, from a low of 4550 recorded on 20 December. The recovery can be attributed to several factors, the main being of course the FII fund flow which is already Rs17,000 crore in around 45 days in the New Year, compared to nil last year. The second of course is the softening and bottoming out of inflation, which also signalled the end of the interest rate hike by the RBI. The heavy FII inflow further reversed the trend of the depreciating rupee that touched an all-time low of INR 54.26 and appreciated by 10% in a jiffy.

The midcap stocks usually bottom out before the peaking the interest

rate cycle. They had and still provide the best buying opportunities with even short term investment horizons. And with the rupee appreciating fast their fortunes changed many fold with their ECB loan burdens diminishing on top of that, the expectations of domestic interest rate softening. In fact positive developments are heaping up so fast that we are unable to comprehend the compounding effect of all these which ultimately saw the stock markets spiralling up and up beyond anyone's wildest imagination.

The market valuations were also nearing historical lows. If you see the historical PEs of the Sensex, the PE at the beginning of the current long term bull phase which started in April 2003 at Sensex levels of 3000 was 13.5, while the stand alone PE of the markets were at 17 at Sensex levels of 15100 in December last year. The consolidated PE, (the PE if you consider the consolidated profits of Sensex shares) was at 14 levels, which meant that even if the markets were to go down further if could have hardly fallen down by another 5 to 10%.

After the recent run up in stock prices, markets have reached fair valuations from an over sold regions. Markets currently need a fillip from Government in the form of reforms, and post state elections, the Union budget may address the much needed reforms in sectors like oil, power and infrastructure. And another important step that we expect is some measures to boost the retail investor confidence, which is desperately needed for the Government's hitherto unrealised huge disinvestment plans.

Technically, we have been moving in a downward channel from November 2010 onwards. A breakout from such a long term channel in either direction signifies a substantial movement in the direction of the breakout. From the chart shown on page 4, it is clear that we have made an upward breakout at 5200 levels, which is a very bullish signal. If one has to go by proven technical theory, the upward movement should be equal to the width of this channel, which is around 850 points, that translates to Nifty levels of over 6000 and Sensex levels of over 20000, very near to their historical highs. Besides, a close above 5650 will signal a 61.8% retracement of the fall from November 2010 to December 2011. On the fibonacci scale, this implies that a new high is on the cards.

So, it seems that, not only have we seen the bottom of a very painful bear market, but are also likely to see an all-time high in our indices in the near future.

The markets have already run up almost 20% at the time of going to press and a sharp correction is imminent. But remember that from now onwards all corrections are buying opportunities!

Sincerely yours

Rajendran. V

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Stocks In Focus

Raymond (CMP : 366**)

Raymond Limited, the largest, integrated manufacturer of worsted fabrics in the world was incorporated as the Raymond Woollen mills during the year 1925 in the area around the Thane Creek in the present-day Mumbai. The company has three business divisions, such as Textiles, Engineering and Aviation. Textiles have a distribution network of more than 4,000 multi-brand outlets and over 400 exclusive retail shops in the domestic market itself. Suitings are available in India in over 400 towns through 30,000 retailers and an exclusive chain is present in over 150 cities across India and overseas especially the products are exported to over 55 countries, including USA, Canada, Europe, Japan and West Asia. Raymond Ltd. is one of the first Corporate Houses in India to launch Air Charter Services and they have a fleet of 3 helicopters and an executive jet for the busy corporate executive. Currently, India is seeing a paradigm shift in customers' preferences towards branded apparels and Raymond is best positioned to seize the opportunity at full throttle.

LIC Housing Finance (CMP : 265**)

LIC Housing Finance is promoted by India's largest insurance company the LIC, which is engaged in the business of providing loans for purchase, construction, repairs and renovation of houses/flats to individuals, corporate bodies, builders and co-operative housing societies and has its operations throughout India. Around 89% of the loan portfolio is derived from the retail segment and the rest from large corporate clients. They possess one of the industry's most extensive marketing network in India. Registered and Corporate Office at Mumbai, 6 Regional Offices, 13 Back Offices and 181 marketing units across India. In addition the company has appointed over 773 Direct Sale Agents (DSAs), 3400 Home Loan Agents (HLAs) and 615 Customer Relationship Associates (CRAs) to extend its marketing reach. Mortgage business in India is under-penetrated and the business is likely to grow consistently in the next decade. LIC Housing stands to benefit from the expansion of the mortgage business.

Tata Motors (CMP : 250*)

Tata Motors is India's largest automobile company, with consolidated revenues of INR 1,23,133 crores (USD 27 billion) in 2010-11. It is the undisputed leader in commercial vehicles in each segment, and among the top three in passenger vehicles, with winning products in the compact, midsize car and utility vehicle segments. The company is the world's fourth largest truck manufacturer, and the world's third largest bus manufacturer. The company currently have over 25,000 employees. Through subsidiaries and associate companies, Tata Motors have operations in the UK, South Korea, Thailand, Spain and South Africa. Among them is Jaguar Land Rover, a business comprising the two iconic British brands that were acquired in 2008. Apart from this Tata Motors have joint ventures with various auto companies throughout the world. They have transformed themselves successfully from a domestic automaker to a global player. Global sales continue to perform well.

Coal India (CMP : 333*)

Coal India is a PSU maharatna company and is the single largest coal producer in the world. Coal India produces 81.1% of India's overall coal output and commands nearly 74% of the Indian coal market. Operating through 81 mining areas CIL is an apex body with seven wholly-

owned coal producing subsidiaries and 1 mine planning and consultancy company spread over 8 States of India. Apart from owning strategic mining assets in India, the company has a strong balance sheet and owns more than Rs.50,000 crore of cash and cash equivalents as on Sep 2011. Coal India sells through long term contracts as well as through e-auction. Prices of e-auction are relatively higher than long term contract prices. Recently, Coal India likely to switch over coal pricing to gross calorific value (GCV) against the useful heat value method, which is very positive for them in the long run. The company's efficiency is likely to improve significantly in the coming days.

Goodyear (CMP : 320*)

Goodyear's presence in India has been for over 90 years, with two plants, one each in Ballabgarh and Aurangabad. The parent Goodyear is one of the world's largest tyres companies. It employs approximately 72,000 people and manufactures its products in 55 facilities in 22 countries around the world. Goodyear USA holds 74% stake in the Indian subsidiary. In the passenger car segment, Goodyear supplies tyres to many of the leading Original Equipment Manufacturers in India. They have been a pioneer in introducing tubeless radial tyres in the passenger car segment. In the farm segment, Goodyear tyres are supplied to all the major tractor companies. Similarly, for buses and trucks, vehicles rolling out of the assembly lines of the leading OEMs are often seen with Goodyear tyres. Goodyear India is a potential delisting candidate, with many MNC's opting to delist their subsidiaries from stock exchanges. If delisting happens then it will be at a significant premium to the current price.

Vijaya Bank (CMP : 59**)

Vijaya Bank, is a PSU, founded on 23 October 1931 by the late Shri A.B.Shetty and other enterprising farmers in Mangalore, Karnataka. The bank became a scheduled bank in 1958. Vijaya Bank steadily grew into a large All India bank, with nine smaller banks merging with it during the 1963-68. The bank was nationalized on 15 April 1980. The bank has built a network of 1250 branches, 48 Extension Counters and 663 ATMs as on 31.10.2011, that span all 28 States and 4 Union Territories in the country. Vijaya Banks' performance was affected by a rise in the non performing assets caused by a slowdown in the economy. Since the interest rate cycle has peaked, the Banks' future performance is likely to be better than the immediate past. Vijaya Banks' trading at an attractive valuation makes it a good dividend-yield candidate, and there is enough scope for capital appreciation.

SCRIP	BV Rs.	EPS Rs.	P/E
Raymond	199	30	11
LIC Housing Fin	88	16	14
Tata Motors	60	29	7
Coal India	53	22	16
Goodyear	116	29	10
Vijaya Bank	70	10	5

* CMP as on 08.02.2012

** Capstocks PMS have holdings

BV - Book Value
EPS - Earnings Per Share

Tax Planning Instruments

ELSS (Equity-Linked Saving Scheme)

An ELSS (Equity Linked Saving Scheme) is a mutual fund that has to invest a minimum of 80% in Equity Shares. The balance of 20% can be in debt, money market instruments, cash or even more equity. There is a 3 year lock-in period for the ELSS mutual funds. Post the 36 months, the funds remain invested and work like any other open-ended mutual fund.

It has been an established fact that in the long run equity gives much higher inflation-adjusted returns when compared to any other investment class. ELSS is part of Section 80C instruments which are cumulatively eligible for a deduction from income up to Rs1 Lakh. The return, maturity and the dividend (if opted for) from the ELSS is also tax free under the present EEE (Exempt – Exempt – Exempt) regime. However, in the DTC regime, tax benefits are likely to be phased out but could come up for reconsideration before it is implemented later this year. The 3-year lock-in period makes sure one stays invested. The above logic is proved in the higher returns and better wealth creation achieved by the ELSS funds, when compared to the market returns.. Another reason people were attracted to ELSS Mutual Funds was the fact that it was the only investment option that allowed interim cash flow during lock-in periods under the 1961 Income Tax Act. Please note that the DTC is just a draft Bill and is yet to be passed into a law.

Types of ELSS options

There are two types of ELSS plans, growth option and dividend option: **Growth option:** In this option, the investor will not get regular income during the duration of investment. It is only when the tenure is complete or when the investment is prematurely cancelled that he receives the interest generated.

Dividend option: This is the exact opposite of the growth option and the investor will have a steady sum flowing every month through the duration of investment. But there is a risk as the income will be unpredictable and the flow erratic. The main disadvantage of this type of investment is that at the end of the 3 years the final value of the investment will not be much.

Infrastructure Bonds

In the Union Budget 2011-12, the Government retained the additional income tax benefit of Rs20,000 available under section 80CCF of the Income Tax Act, 1961 for investments made in long-term infrastructure bonds (as notified by the Central Government). This move is intended to provide a fillip to infrastructure finance and provide an opportunity to tax payers to reduce their tax liability.

The minimum tenure of Infrastructure Bonds is 10 years. There will be a lock-in period of 5 years. After the lock-in period, the investor may exit either through the secondary market or through a buyback window, as specified by the Issuer in the offer document at the time of issue. Interest received in these Bonds is not tax-free. The investor is liable to pay tax on the interest received.

Life Insurance:

People buy life insurance because they keenly realize the need for protection for their families after their death or for a reserve for emergencies in future or to earn additional income in later years.

Who needs life insurance?

If there is someone in the family who would suffer income-wise hardship if you died, then you need life insurance.

Types of Life Insurance policies

1. **Term Life Policy:** It is a pure risk cover policy that protects the person insured for a specific period. A fixed sum of money called "Sum Assured" is paid to the beneficiaries (family) if the policy holder dies within the policy term. If the holder survives the policy term, the premiums paid are not returned. Term life policies are designed to cover 100% risk. Premiums under these policies are tax free. These policies carry the lowest premium in the life insurance category.
2. **Whole Life Policy:** This policy covers the holder throughout his life term. The advantage is validity of this policy is not defined hence the individual enjoys life coverage throughout his life. Under this policy, the holder pays regular premiums until his death. Premiums paid under this policy are tax-exempt
3. **Endowment Policy:** It combines both risk cover and financial savings. If the holder dies within the policy term, the beneficiary will get the sum assured. If the holder survives, he gets back the premiums paid with bonus. ULIP versions are available under this policy. Under the ULIP, the customers are provided with the option of investing premium in the markets, depending on their risk appetite. The premiums and returns under this policy are tax-exempt.
4. **Money back policy:** Under this policy, a portion of the sum assured is paid back at regular intervals. If the holder survives the term, he gets the balance sum assured. In case of death during the policy term, the beneficiary gets the whole sum assured. Premiums paid and returns are tax-exempt.
5. **ULIP:** These are market-linked insurance products. A part of the premium goes towards providing life cover, while the rest is invested in equity and debt instruments for maximizing returns.
6. **Annuities and Pension:** Under this category, the Insurer agrees to pay the Insured a stipulated sum of money periodically. The purpose of the Annuity plan is to protect against financial risk as well as provide money in the form of pension at regular intervals.

For details, please contact Manoj Kumar. P, Sales & Distribution Dept at 9387440823, 0471-4013886

Consolidated PE of Sensex

BSE web site always calculates the PE on the stand alone profits of the Sensex shares. Till a few years back, it made only a marginal difference, even if you considered the consolidated profits of the Sensex shares. But, after the Tata group had taken over Corus and JLR and the Tatas started churning out huge profits from these loss-making companies, to the utter disbelief and dismay of the world industry, there is a substantial difference in valuations when you consider the consolidated profits of Tata Steel and Tata Motors, which have a good weightage in the Sensex. So it make sense to see consolidated PE of sensex which will be 10 to 15% lower than stand-alone PE.

CAPSTOCKS SERVES YOU IN MANY WAYS !

NEW PRODUCTS IN COMMODITY SEGMENT

New features in Internet Trading

We have added some extra information in our Internet Trading Platform through the new tab: MI (Market Intelligence). Information like Historical Index movement, World Indices, Resistance & Support etc is integrated. Apart from these, 'Company Info' is introduced in the Market Watch screen, where, detailed information of individual stocks like Quarterly results, Profit & Loss statement, Balance Sheet, Company Snapshot etc are available.

KRA

KRA or KYC Registration Agency is an agency registered under the Securities and Exchange Board of India {KYC (Know Your Client) Registration Agency} Regulations, 2011. The KRA maintains KYC records of an investor centrally, on behalf of capital market intermediaries registered with SEBI. KRA enables an investor to invest through various intermediaries, after undergoing the KYC process only once through an intermediary. KRA process results in uniformity of data of investors maintained across intermediaries, which would enhance compliance standards.

The new KRA rules are effective since 1st January, 2012. CAPSTOCKS is registered as an intermediary, and provides services to our clients since the inception of this regulation.

CAPSTOCKS EVENTS

Joint Awareness Programs & Investors' Meet

Joint awareness programs were held at several places in Kerala and Karnataka in association with various Exchanges and Government agencies.

Joint awareness programs were held at Kollam, in association with NSE on at Bangalore in association with MCX-SX at Oyor in association with NMCE & Rubber Board on and at Kallara in association with NMCE & FMC .

Investors meeting were held at Virudhunagar, Kannur, Thrissur, Ernakulam, Tirunelveli, Nagercoil, Varkala as a part of the effort to create greater awareness among investors.

Capstocks Kiosk/Demo Van Activities

As part of marketing campaign various activities were conducted using CAPSTOCKS Kiosk & CAPSTOCKS Demo Van at various centres like State Youth Festival 2012 at Corporation Stadium, Thrissur and road shows at Mayyanad, Kadakkal, Pothencode & Kallara.

New Branches

Recently we have opened five more branches: Saligram in Chennai, Mayyanad & Oyor in Kollam District, Pattom & Thachotukavu in Trivandrum District.

Nifty Channel-Upward Break out



CAPSTOCKS
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Member: NSE, BSE, MCX*, NCDEX*, NMCE*, NSEL*, MCX-SX, DP:CDL, Portfolio Manager**

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