Is Buffett's Teflon Finally Wearing Off?
MARKETS ▸▸ 12

Short Takes

Margin Pressure Fears Drag Down RIL, Axis Bank

MUMBAI Reliance Industries and Axis Bank plunged after their earnings prospects dimmed, following their Q4 earnings that showed pressure on profitability may remain. Reliance Ind, the most-valuable company, tumbled 3% to ₹1,009.30 and Axis Bank fell 5% to ₹1,377.15.

Markets ▸▸ 12

GREEN TIP OF THE DAY
Do not throw away misprinted papers
You can use such papers for scribbling or packing something. Can help save a lot of paper and trees.
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'India Better Placed Than China To Control Credit Flow'

KOLKATA Fitch Ratings has said India is better placed than China to regulate the flow of bank credit. India's regulators have focused on controlling credit growth while China's growth has been funded by bank credit, it said.

Banking & Finance ▸▸ 14

Sebi Seeks Changes in CCI's Takeover Norms

Capital markets watchdog Sebi has sought changes in the takeover norms prescribed by the competition regulator to ensure consistency in regulations across the laws. It has written to the corporate affairs ministry and Competition Commission to align open offer norms with those prescribed by Sebi.

Economy ▸▸ 15

Life Insurers See a Drop in Sale of New Policies

MUMBAI Birla Sun Life, MetLife and SBI Life saw a big fall in the sale of new life insurance policies last fiscal even as new premium income rose on the back of companies and customers raising the value of insurance policies. The sales of new policies fell 10% to 48 million in FY11, from a year earlier, Irda data show.

Economy ▸▸ 19

Market Trends

SENSEX	19584.31	0.09% ↘
NIFTY	5874.50	0.17% ↘
NIKKEI	9671.96	0.14% ↘
STRAIT TIMES	3187.72	0.22% ↘
SHANGHAI COMPO	2964.95	1.51% ↘
US	$44.49	0.28% ↗
EURO	65.03	0.35% ↗
DUBAI CRUDE	$117.40	0.42% ↗

Fund Tracking Insider Trading Beats Market

Fund returns more than benchmark by buying into cos like Smartlink when promoters hiked stake

SANJAY VIJAYAKUMAR
CHENNAI

A fund for wealthy individuals tracking insider transactions has outperformed the market and has shown that such deals are an indicator of a potential merger & acquisition event in some companies.

Insider Shadow Fund of the Chennai-based Unifi Capital, which buys into companies where insiders have traded, has returned double that of the benchmark since it was launched in June 2010. It invested in shares of companies such as SmartLink Systems, drug maker Alembic and Triveni Engineering that either sold off, or spun off divisions.

The fund that raised ₹100 crore from 120 high wealthy clients last year is up 9%, compared with a 4% gain in its benchmark, BSE Midcap Index.

Promoters of SmartLink Systems, which sold its digilink business to Schenider Electric for ₹503 crore in March, raised their stake to 67.3%, from 62.3% before the deal. Unifi bought shares in the company between July and August 2010 at an average cost of ₹54 a share and sold at around ₹70. Alembic promoters raised their stake to 63.5%, from 60 between March 2009 and March 2010. In June 2010, it spun off its pharma business and wound up loss-making vaccine business to develop real estate. Unifi had bought shares at an average cost of ₹56.

"The underlying assumption behind the strategy is that the managers and controlling shareholders have a clear advantage over other market participants and are well positioned to take sensible investment decisions, especially in the case of small and under-tracked companies," said G Maran, vice-president of Unifi Capital and head of products.

The fund is up 9%, compared with a 4% gain of its benchmark, the BSE Midcap Index

Companies report purchase and sale by insiders in their filing with stock exchanges.

Although most of the deals need not necessarily be based on secret insider information, some investors use that as an indicator of the strength or weakness of a company. It could be straight transactions, or share buybacks and some value buying by promoters. Warren Buffett, the legendary investor at Berkshire Hathaway, follows this.

"We searched for companies that were large re-purchasers of their shares," Buffett had said. "This often was a tipoff that the company was both undervalued and run by a shareholder-oriented management."

In the March quarter, when midcap index fell the most, insider buys grew significantly. Some of the cases include Aarti Drugs, Everest Kanto, Gitanjali Gems, Cera Sanitaryware, Pennar Industries, Graphite Industries, KCP Sugar, PVR, Dhampur Sugar, GVK Power, JP Associates and Texmaco. Big ones include Asian Paints, Apollo Tyres and Chambal Fertiliser, filings show.

It is not necessary that some corporate actions follow immediately and in some cases there may never be one for a long time.

"Since such corporate actions take time to materialise, one has to maintain a medium-term perspective," said Maran. "The outperformance was nil in six months, about 5%-6% in nine months and we target to achieve an outperformance of 15% over an 18-month period."

Triveni Engineering promoters raised their stake to 68% from 60%, and then announced an equal joint venture with General Electric for its power turbines business.

The fund has ignored insider stake increases in case of companies with a free float of less than ₹100 crore, or if the intention is for strategic reasons and not due to fundamentals. For example, in case of GMR Infrastructure, promoters are increasing stake to maintain their holding after it dropped due to sale of shares to institutional investors.

Fund Raised ₹100 cr from 120 Clients

- **Insider Shadow Fund** looks to profit from companies where insiders have traded.
- **It made big gains** by investing in Alembic and Triveni Engineering that either sold off, or spun off divisions.
- **The fund raised ₹100 cr** from 120 high wealthy clients last year. It is up 9%, compared with a 4% gain for its benchmark BSE Midcap Index

Nifty Support Seen at 5840-5800 Level

F&O Tracker

Nifty remained subdued on Monday, trading in a narrow range and closing at 5,874. Nifty futures open interest saw an intra-day high of 25.5 million; however, we saw traders squaring up almost all the incremental positions formed during the day before market close, bringing the Nifty premium down from over 15 pts to 2 pts at the day's close. This indicates indecisiveness among traders, hinting at uncertainty over the market's direction.

Among Options, we observed Put writers highly active during the last week at 5800 and 5900 strikes, indicating their bullish stance.

On Monday, we did not see much of these positions getting squared up despite markets remaining subdued, taking cues from RIL and Axis Bank reporting earnings below estimates. On the downside, we believe Nifty should take support at 5840-5800. On the upside, we expect Nifty to move up and face some resistance at 5988, post which it may move up to the levels of 6150, smoothly sailing through the psychological level of 6000, where we have highest concentration of Calls.

For risk-averse traders, we advise to go for a non-directional bet. Consider buying a Call and a Put at 5900 (at-the-money) strike.

The trade will become profitable on any wild swing in Nifty on either side. Also, it would be prudent to place this trade in May 2011 series for traders who intend to carry the position overnight so that the decay in the value of the options due to passage of time is minimal.

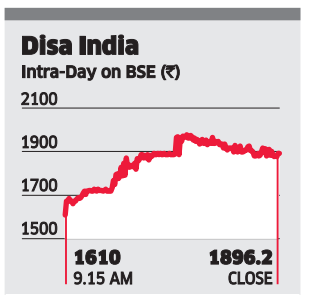
Overseas, the Dow moved up by 1.3% and the tech-heavy Nasdaq moved up by almost 2% during the last week. For the coming week, eyes are now on the FOMC meet rate decision on April 27 and 1Q US GDP data on April 28. Back home, the street is expecting mixed corporate earnings in the days to come.

Shshank Mehta,
Derivatives Strategist, Nirmal Bang Securities

Heard on the Street

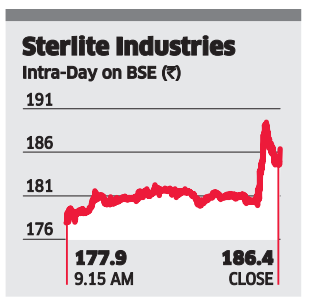
Disa Soars on Open Offer Hopes

Disa India, a subsidiary of Denmark-based Disa Holding, outperformed the broader market significantly on hopes of an open offer from the promoters. The company is yet to announce any such proposal, but investors, according to brokers, have been betting on the possibility after a few MNCs successfully completed their offers recently. The stock climbed nearly 15% to end at ₹1,896 on higher volumes on the BSE on Monday. MNC shares have been in demand as investors expect their foreign parents to buy back shares at premium in a volatile market. The surge in Disa India is also attributed to a low floating stock, which causes the stock to jump even on small buy orders of a few hundred or thousand shares, say brokers. On Monday, only 3,386 shares were traded in Disa India, of which 52% actually changed hands on the BSE.



Sterlite up 4% on Good Numbers

Sterlite Industries emerged as one of the top gainers among large-cap companies as its earnings enthused the market, prompting investors to buy the stock in large quantities in an otherwise dull market on Monday. The stock rose 4.4% to ₹186.4, while the Sensex ended flat on the day. Nearly 32 lakh shares changed hands, as against the two-week average of 8.7 lakh shares on the BSE. Brokers said Sterlite's earnings boosted investor sentiment; the company announced a 35% jump in net profit for the year ended March 31, 2011.



Contributed by Vijay Gurav

BNP Paribas May Hike Stake in Brokerage JV

APURV GUPTA
MUMBAI

BNP Paribas, Europe's largest bank, may raise stake in its domestic brokerage joint venture BNP Paribas Financial Services, as it plans to capitalise on the growth opportunities when valuations are low, said two people familiar with the thinking.

The French bank, which bought stake in 2007 may raise it either through new issue of shares, or by buying from the secondary market, said those people who did not want to be identified. The third option considered is to buy from Indian promoters, they said. There is no certainty that a deal will happen soon, they said.

"It may hike its stake through secondary market purchase in accordance with the takeover norms," said one of the persons. "It is also looking to up its stake by buying the stake from Indian promoters and investors, but so far no commitment has been received," he said.

A BNP Paribas spokesperson said, "We do not comment on speculation."

CJ George, MD, Geojit BNP Paribas, said he has no such information. The plans need not necessarily translate into a transaction.

BNP owns 34% stake in the Kochi-based Geojit BNP Paribas Financial Services. George, along with his family members, hold around 20%. Billionaire investor Rakesh Jhunjhunwala owns 8% and Kerala State Industrial Development Corporation holds 9% in the promoter category. The promoters cannot hike their stake beyond 75% and cannot buy more than 5% in a single financial year.

"Brokerages are trading at the cheapest levels since their IPOs; it is attractive to buy them at these levels," says Santosh Singh, analyst at Espirito Santo Securities. Most retail brokerages are trading at around 10 times their financial year 2012 earnings. From a peak price of ₹125 in January 2008, Geojit is currently trading at ₹24 per share, below the allotment price of ₹26 at which BNP bought the stake in 2007.

Geojit BNP Financial Services has more than 5.75 lakh retail clients and ₹13,000 crore of assets under management. It executes around 2 lakh trades a day through its 550 branches spread across India. The 26-year-old broking firm also has two joint ventures in the Middle East — Barjeel Geojit in UAE and Aloula Geojit in Saudi Arabia. For the year ended March 2011, the company recorded ₹235 crore revenue and net profit of ₹49 crore.

BNP may raise stake through sale of new shares only when there is a fund requirement, possibly for an acquisition. "This will happen only if the specific requirement of the funds will be finalised for an acquisition in the brokerage space," said the same person.

The valuation, that has fallen since the industry is facing margin pressure, may also be appropriate for a stake increase.

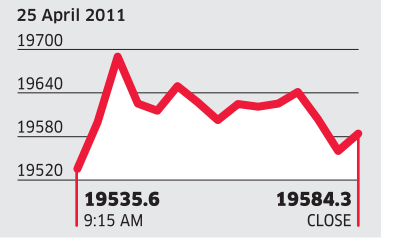
In India, BNP Paribas funds companies, does private and retail banking, asset management, mutual funds, retail brokerage among others.

French Bank Has 34% in JV

- **BNP Paribas may** raise its stake either through new issue of shares, or by buying from the secondary market
- **BNP currently owns 34%** stake in the Geojit BNP Paribas Financial Services. Billionaire investor Rakesh Jhunjhunwala owns 8%
- **The valuation of the** Kochi-based firm has fallen due to margin pressure. This may be an appropriate time for the French bank to raise its stake, say sources

'Lower' RIL Numbers End Sensex Rally

Sensex Intra-Day
25 April 2011



AMI SHAH
MUMBAI

The BSE Sensex shed 0.1% on Monday, snapping a three-session rally, as lower-than-expected earnings from Reliance Industries overshadowed the Reserve Bank's move to ease provisioning norms and strong results from other companies. Energy giant Reliance Industries, which has the heaviest weight on the main index, dropped 3% after it reported on Thursday quarterly profit that lagged street expectations due to flat production from gas blocks and disappointing refining margins.

Maruti Suzuki reversed early losses and closed up 1.4% after the car maker posted slightly higher quarterly earnings and beat estimates, as strong demand helped offset the impact of rising input costs.

The 30-share BSE index declined 0.09%, or 17.92 points, to 19,584.31 points in a choppy trading session, with 18 components losing ground. The 50-share NSE index shed 0.2% to 5,874.50. Market breadth was negative, with losers beating gainers in the ratio of 1.3:1 in the broader market.

"Reliance pulled the market down. Sterlite and Maruti surprised people and, together with State Bank of India, saved it from a big damage though," said Prakash Diwan, head of institutional business at Networth Stock Broking.

Sterlite Industries jumped 4.2%, after it posted a 35% increase in its March-quarter net profit.

Diwan said he expected trade to remain volatile till most of the larger companies complete reporting results. — Reuters

Matrix Plans to Invest ₹70 cr in Soham Energy

DIVYA RAJAGOPAL
MUMBAI

Matrix Partners, a private equity firm from the US, is in talks to buy a 20% stake in Soham Renewable Energy India for ₹70 crore, valuing the company at ₹350 crore, people familiar with the discussions said. Soham Renewable Energy plans to produce power from hydro resources.

This is the fourth private equity funding that Soham would receive in three years. Matrix did not respond to e-mail queries and Soham could not be reached for comment.

The other private equity investors in the company are DE Shaw, FE Clean Energy and Praxair India. Soham has an installed capacity of 22 mega watts in Karnataka. It also has five hydro power projects under construction. The company had said it planned to raise as much as ₹700 crore for expansion.

India's renewable energy investment potential is estimated to be around $2 billion, but experts say investors are seeing demand only for hydro power generation while solar power and wind energy are stuck with taxation and regulatory issues. One of the biggest deals in the sector was the $420 million investment in Asian Genco by Morgan Stanley, Everstone Partners and Norwest Ventures, who picked up 44% in the company.

S&P 500 Options Highest in 4 Yrs Signal Gains

Traders pay most since Lehman collapse for protection against stock declines in the event of quantitative easing being halted

JEFF KEARNS & WHITNEY KISLING
NEW YORK

The end of the Federal Reserve's Treasury repurchase programme is prompting options traders to pay the most in four years for protection against stock declines, a signal that proved bullish in the past.

The cost of three-month put options to sell the Standard & Poor's 500 Index is almost twice the price of calls to buy, the highest ratio since July 2007, according to data compiled by Bloomberg. The last 17 times that so-called skew rose as high, the benchmark gauge for American equities climbed a median 3.9% over three months, data compiled by Bloomberg show.

Traders are loading up on insurance in the options market on speculation policy makers will halt their programme of quantitative easing in June. Similar purchases preceded gains in the past because they meant professional investors who use the contracts as hedges are buying stocks, said Pam Finelli, head of European equity derivatives research at Deutsche Bank.

"Risk management and portfolio protection is a huge theme in the market and it's not unusual to see people expanding their equity allocation, but doing so with a hedge in place," Finelli said in an interview from London. "The equity market goes up but the puts stay bid because there's an underlying hedge that's being put on at the same time. This has been a major trend."

The S&P 500 rose 1.3% to 1,337.38 last week, the most in almost a month, after the biggest US companies reported profits that beat estimates

Sergi Martin Amoros, chief executive officer at Credit Andorra Asset Management in Andorra, added to equities following the March 11 earthquake in Japan, he said in a telephone interview on April 21. He's also buying protection on the firm's 4 billion euros ($5.8 billion) in investments. "We made the most of the March sell-off to add to positions as equities had weakened," he said. "There were good prices and we took the opportunity. We are buying puts and protection across the board. There are many open fronts, too many question marks."

The S&P 500 has climbed 6.3% this year as the US unemployment rate unexpectedly dropped to a two-year low of 8.8% in March as companies created more jobs than forecast, the Labor Department said this month. The economy probably expanded at a 1.9% annual pace in the first quarter and will grow at an average rate of 3.1% though 2013, according to the average of estimates in a Bloomberg survey.

China's decision to raise its reserve requirement for the biggest lenders to a record 20.5% to cool inflation sent the S&P 500 down 1.1% on April 18, the most in a month. Oil climbed for a third day to $112.29 in New York on April 21, bringing its advance in the past year to 32%. Japan's Nikkei-225 (NKY) Stock Average plunged to a two-year low of 8,605.15 on March 15 after the earthquake and ensuing tsunami.

"Skew is really driven by net buying pressure of index puts and as that buying pressure increases, the skew gets steeper," said Robert Whaley, a finance professor at Vanderbilt University in Nashville, Tennessee, who designed the Chicago Board Options Exchange Volatility Index, or VIX. "There's a significant effort going into managing the economy and people are more confident than they were, but there's still that demand for protection."

The S&P 500 rose 1.3% to 1,337.38 last week, the most in almost a month, after the biggest US companies reported better-than-estimated profits. Of the 121 S&P 500 constituents that have reported earnings since April 11, 82% have beaten analysts' per-share earnings estimates, according to data compiled by Bloomberg.

The gauge climbed 1.4% on April 20 after Santa Clara, California-based Intel Corp, the world's biggest chipmaker, forecast second-quarter sales above analysts' estimates. Cupertino, California-based Apple reported profit that almost doubled amid rising demand for the iPhone. United Technologies Corp, the Hartford, Connecticut-based maker of Carrier air conditioners and Pratt & Whitney jet engines, said 2011 sales will be at the high end of its forecast. — Bloomberg