I.T.S FINANCE CLUB

# Finvest Times

**Inspiring The Future Professionals....**

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## INSIDE THIS ISSUE:




## Investors and Traders: Are they two faces of the same coin?

***How do you differentiate between "trading" and "investing"? I'm always curious to hear what people think is the difference.***

The main difference between "trading" and "investing" is time horizon. Investors are long term players. They are investing in a business and are making an optimistic bet about the fundamentals of that business in the future. If they pay a reasonable price, and their analysis of the business prospects are correct, they will make money over time (regardless of overall market environment) because over the long term both valuation and earnings determine the value of a business, and thus the per share price of a company's stock.

Furthermore, since investors are willing to take a long term view (years rather than days, weeks, or even months) on an investment, they are likely to buy more shares as a stock drops in price. The main goal is to minimize one's cost basis in order to maximize profits over time. Temporary drops in share price aren't likely to change an investor's opinion of a stock's long term investment merit, unless of course the fundamental outlook changes in a meaningful way.

Conversely, traders are short term oriented. They tend to care very little about valuation or the long term earnings power of a business. Since they won't own the stock long enough for future business fundamentals to influence share price, they are more likely to use chart patterns and follow the momentum when buying stocks.

Since traders are more like speculators (making educated guesses as to short term price movements) than investors are, they are likely to use stop loss orders to limit downside risk. If a trade goes against them, they cut their losses quickly and look for other opportunities. Even if the market reaction in the short term is illogical and unsubstantiated, since they aren't willing to hold the stock long term and wait for the inefficient market to correct itself, they cannot afford to wait things out until cooler heads prevail.

Here is an analogy for you; investors are the casinos, whereas traders are the gamblers. Investors have the odds stacked in their favor, just as the casinos are guaranteed winners over time because the games they offer have a win percentage built-in. Over time, the economy grows and corporate earnings grow, hence stock prices rise over long periods of time. Thus, investors (who by definition are long term players) have the odds stacked in their favor.

Traders, on the other hand, are trying to win big on short term trends, much like a blackjack player hopes for a hot shoe and then cashes out his/her chips. The gambler knows that they don't have a statistical advantage but they play nonetheless, trying to make some money and getting out before they give it all back. Now, I grant you that traders aren't at a statistical disadvantage, so the comparison isn't perfect, but whether or not the market goes up or down tomorrow is pretty much a coin flip, so traders' odds are about 50/50, although they try and boost those numbers with technical analysis, momentum trading, etc. Much like a trader's stop loss order will limit losses in the market; many gamblers will come to a casino with a certain amount in their wallets, to ensure they don't incur severe losses.

Casinos and investors know very well that in the short term they might lose money to a hot table or an analyst downgrade, but over time they feel comfortable because they know the odds are in their favour to make money. They are patient enough to wait for their payout, whether it comes from the 5% edge at the roulette table they operate, or long term earnings growth generated by a publicly traded company they have invested in.


# Finvest Star

Infosys

## Infosys Ltd. (INFLTD)

| RETURNS | LTP (chg%) | Close date | Target Price | Target Return % | |
|---|---|---|---|---|---|
| 0.07% | 3,013.00 (0.21%) | 27 Dec 2013 | 3,300.00 | 9.60 | BUY |

## BUSINESS OVERVIEW

- Infosys Ltd. is the second-largest IT services company in India providing consulting and IT services to clients globally. It is also among the fastest growing IT services organization in the world and a leader in the offshore services space with a pioneer in Global delivery model. Infosys provides business consulting, application development and maintenance and engineering services to 798 active clients spread across Banking, Financial Services, Insurance, Retail, Manufacturing, and Utilities verticals and 50 countries. The company has also its own proprietary core banking software - Finacle used by some of the leading banks in India, Middle East, Africa and Europe. Infosys' total employee force stands at 156,688 and the company's TTM revenues stood at INR403.4bn (USD7.4bn).

## INVESTMENT THEME

- Infosys has appointed NR Narayana Murthy as executive chairman of the board and as additional director with effect from June 1 2013 for a period of five years. KV Kamath who was appointed non-executive chairman on Murthy's retirement in 2011 will step down and take up the position of lead independent director effective June 1. We believe the above move to bring back NR Narayana Murthy as executive chairman will help the company to not only strengthen leadership in a challenging environment but also improve growth amid stiff competition from players like TCS and HCL.

### QUICK DATA

| | |
|---|---|
| Face Value (Rs) | 5.0 |
| Div. Yield (%) | 1.4 |
| No of shares ('mn) | 574.2 |
| 52 week High/Low(Rs) | 3188 / 2060 |
| NSE Symbol | INFY |
| BSE Code | 500209 |
| Edel Code | INFLTD |
| Market cap (Rs. bn.) | 1734 |

### SHAREHOLDING PATTERN (%)

| | |
|---|---|
| Promoters | 16.0 |
| MFs, FIs & Banks | 18.3 |
| FIIs | 39.4 |
| Others | 26.3 |

### EDELWEISS CLASSIFICATION

| | |
|---|---|
| Market Cap | Large Cap |
| Relative Risk | Low |
| Relative Reco | Sector Outperformer |
| Sector Rating | I.T - Overweight |

### GROWTH METRICS (%)

| Year to June | FY13 | FY14E | FY15E |
|---|---|---|---|
| Revenues | 19.6 | 17.6 | 6.7 |
| EBITDA | 7.8 | 13.1 | 6.6 |
| PBT | 9.4 | 9.2 | 10.1 |
| Net Profit | 13.3 | 8.2 | 13.0 |
| EPS | 13.3 | 8.2 | 13.0 |

- Infosys, in the recent past, lost market share to peers like TCS and HCL Technologies due to lack of strong presence in Infrastructure management services, lack of presence in emerging geographies and its aversion to provide flexibility in structuring contracts and offer discounted pricing to clients. The restructuring exercise also led to some distractions which led to slower growth compared to peers. Going forward, Infosys is unlikely to bridge the gap in revenue growth with peers but will deliver decent growth rate of 10-12%.

- Infosys outperforms its peers in terms of operating metrics such as cash flow generation and margins. It has well managed its margins across cycles with EBITDA margins remaining in a narrow 31-35% band despite the sharp swings in the currency over the past few years. We believe, Infosys will sustain its margins at this band, which makes it a better play compare to its peers in challenging & volatile environment.

- Infosys has healthy cash & equivalent of ~Rs. 23,958 crore in hand (~10% of the Mcap) as of March 2013. Effective usage of cash remains a key issue for long-term investors. Any special dividend to shareholders or value accretive acquisition can be a positive trigger for the stock.

- Infosys trades at attractive valuations at P/E of 17x FY14E and at a P/E of 15x FY15E. Also, INR depreciation would support the earnings of the companies. Hence, stocks are unlikely to correct sharply in the near term. We expect Infosys's valuation discount to peers to narrow on the back of potential trigger of large deal being won, inline growth compared to larger peers and likely margin improvement in coming two quarters.

## INVESTMENT RISKS

- Sustained slowdown in the US;

- Failure in maintaining margins at current levels, while pursuing large deals;

- Appreciation of the Rs. against the USD, EUR and GBP.

## OUTLOOK AND VALUATIONS

### COMPARATIVE VALUATIONS

| Company | Infosys | HCL Technologies | Tata Consultancy Services | Wipro |
|---|---|---|---|---|
| 1 Wk Price performance (%) | (1.5) | (4.7) | (0.2) | (0.2) |
| 3 M Price performance (%) | 23.9 | 31.3 | 37.4 | 37.4 |
| PE (x) | 18.2 | 17.7 | 26.6 | 17.4 |
| Price to Book Value (x) | 4.6 | 5.4 | 10.0 | 4.4 |
| EV to EBITDA (x) | 10.9 | 18.6 | 19.7 | 12.4 |

## FINANCIAL SNAPSHOT

| Year to March (INR mn) | FY12 | FY13 | FY14E | FY15E |
|---|---|---|---|---|
| Net revenue | 337,340 | 403,520 | 474,616 | 506,405 |
| Cost of revenues | 188,740 | 241,580 | 290,357 | 308,733 |
| Gross profit | 148,600 | 161,940 | 184,260 | 197,672 |
| Total SG&A expenses | 41,470 | 46,430 | 53,623 | 58,362 |
| EBITDA | 107,130 | 115,510 | 130,637 | 139,310 |
| Depreciation & Amortization | 9,340 | 11,220 | 13,075 | 13,181 |
| EBIT | 97,790 | 104,290 | 117,562 | 126,129 |
| Other income | 19,040 | 23,554 | 21,984 | 27,510 |
| Profit before tax | 116,830 | 127,844 | 139,546 | 153,639 |
| Provision for tax | 33,670 | 33,660 | 37,597 | 38,410 |
| Profit After Tax | 83,160 | 94,184 | 101,950 | 115,229 |
| Diluted EPS (INR) | 145.5 | 164.8 | 178.4 | 201.7 |
| Diluted P/E (x) | 20.5 | 18.1 | 16.8 | 14.8 |

## TECHNICAL VIEW

**Resistance**

Resistance 1 - 3150

Resistance 2 - 3230

**Support**

Support 1 - 2890

Support 2 - 2850


Post Q1FY14 result, the asking CQGR to achieve high-end of guidance stands at 1.5%. We believe with return of Mr. Murthy all the levers will fall in place and a series of steps taken by him—change in pay structure, wage hikes—will reap benefits going forward. Also, his focus on cutting additional costs and utilising bench via higher growth will play out in the future. On our FY14E and FY15E EPS estimate of Rs. 178 and 202 the stock is currently trading at a P/E of 17x on FY14E basis and at a P/E of 15x FY15E basis. Given these attractive valuations and its growth prospects, we believe the stock offers upside potential in the near term.

# Why Indians love it when government makes gold expensive

Government of India makes gold more expensive by hiking duties four times in 20 months, hoping this will deter citizens of India from holding more gold. But not only does gold remain attractive for Indians, expectations of a high price regime have increased its attractiveness.

This is not a perverse outcome. It's more a case of wrong official logic.

Economics 101 says high prices dampen demand for a product or a service. But Investing 101 says expectations that an asset class will get pricier can increase demand for that asset. Gold is an asset class.

Plus, sharp rupee depreciation has also made gold holdings more attractive.

Investors who expect gold price to rise say they will invest the same amount of money even if they buy a few grams less - the only risk, ironically for the government, is that import duty may come down at some stage.

The World Gold Council's data for April-June this year shows higher appetite for gold in India, despite government measures to curb demand. Consumer demand was 310 tonne, up 71% on last year. Bar and coin investment rose 116%, while jewellery demand rose by 51%.

K Bhaskar Reddy, a Chennaibased software engineer, chose to buy a 5 gram gold coin. He was initially planning to purchase a 10 gm coin but the higher cost of gold made him settle for less. Riddhima Banerjee, a housewife in Kolkata, took a leaf out of Reddy's book and bought an 8 gm gold earring instead of 10 gm. But they, and thousands of other Indians, still bought gold - and are happy that gold price is increasing thanks to GOI.

Jewellers also say government action has not changed the mindset of Indian buyers. Biren Vaidya, managing director, Rose Group of Companies that sells high-end branded jewellery, said in a country deeply rooted to the culture of savings through jewellery, gold will always find favour. High price is not a deterrent, he said.

"At Rose, we have also seen our patrons creating investment through jewellery not just purely in value terms but also as heirlooms which they can pass on to their generations," Vaidya noted. In the past six months, gold has already delivered returns of 15%-20%, largely due to the weak rupee.

Those who bought gold at Rs 26,000 per 10 gm got a chance to offload it at Rs 31,000 - Rs 32,000 in the last week of August when rupee slipped to nearly 69 against dollar.

Leading Mumbai-based gold scrap dealer Anish Jitendar Jain of Jugraj Kantilal & Co said the last week of August saw scrap gold of 10 kg arriving every day.

"Indians still believe that gold is a safe investment product. So, duty hikes can't check gold consumption.

People will keep on buying, more so when high prices mean better returns" said Amit Sampat, director of Mumbaibased Pushpak Bullion.

In urban India, people invest 10% -15% of their investible surplus in gold. This, gold traders and financial firms say, hasn't changed despite a price increase.

In fact, say gold watchers, GoI may have created expectations of higher returns than would have been the case.

In rural India, where banking penetration is low, affluent farmers typically park 50% of their surplus funds in gold. "Gold is extremely precious to them and they see it an easy route to get liquid cash. In case of any crisis they mortgage the gold with the local moneylender to get easy cash," said Sampat.

For the rich farmer, too, gold experts say, high domestic gold prices are a positive development for his portfolio.

And there's another outcome that officials don't want but may happen because of their policies: illegal gold trade.

## Lok Sabha passes long-pending Pension Bill

MUMBAI: In order to boost foreign fund inflows into India, a Sebi study today suggested a slew of measures including simpler registration norms for overseas investors and removal of various quantitative restrictions in the government bond market.

The study, 'Foreign Investment in Indian Government Bond Market', conducted by Sebi's Development Research Group (DRG), said that there is foreign appetite for rupee denominated debt, but India has placed many restrictions on foreign investment in rupee denominated bonds.

The study is part of an initiative by Sebi's Department of Economic and Policy Analysis and is aimed at undertaking "quick and effective policy-oriented research, essentially on subjects contributing clarity and solutions to challenges" faced by the regulator.

However, market regulator Sebi said that the views expressed in the study are essentially of the authors and do not reflect its opinions.

The study, co-authored by Ila Patnaik, Sarat Malik, Radhika Pandey and Prateek, further said: "The existing framework of quantitative restrictions on foreign investment in government bond market should be dismantled.

"This will encourage greater engagement of foreigners in the government debt market."

In case restrictions need to be imposed at some stage, the existing quantitative restrictions could be replaced by percentage limits on foreign ownership.

Foreign ownership should be capped at a certain percentage of the outstanding government debt, such as at 10 or 15 per cent of the total government debt.

"Under this framework, the government debt market should be made operationally similar to the equity market. The regulator should allow free investments till the prescribed limit at any time," it noted.

The 25-page study noted that Know Your Client (KYC) regime for foreign investors should be simplified and the current practice of submitting documents to multiple agencies should be done away with.

Sebi has as such been taking various steps in the recent past to simplify the KYC requirements for overseas investors.

The study recommended that government should clarify the tax treatment of foreign asset managers who build permanent establishments in India.

The country has placed many restrictions on foreign investment in rupee denominated bonds. These include caps on the total as well as limits by investor class, maturity and issuer and have been implemented through a complicated mechanism for allocation and reinvestment.

# DIPP proposes 100% FDI in railway projects

NEW DELHI: The department of industrial policy and promotion (DIPP) on Wednesday circulated a cabinet note proposing 100% FDI in railway projects involving infrastructure development. A major step towards opening up the railways sector to foreign investment, the move is expected to provide significant relief to the resource-starved Indian Railways.

According to the proposal, foreign investors would be allowed to hold 100% stake in the special purpose vehicles (SPVs) constructing port connectivity projects as well as railway lines that will connect mines and industrial hubs to the existing rail network, which in turn would allow smoother evacuation of raw materials.

"On the Railways' recommendation, we have proposed 100% FDI be allowed in only infrastructure projects for building lines and maintaining it. The operations side will remain with the Railways," said a senior DIPP official adding that FDI will be permitted for first-to-last mile connectivity projects between ports and mines. Currently, no FDI is allowed in railways at all. DIPP will send the note for Cabinet approval after receiving comments from various ministries.

The severe financial crunch has slowed down railway infrastructure development including construction of new lines, gauge conversion and doubling projects. This has led to at least Rs 2 lakh crore in throw-forward projects even while huge losses in the passenger segment, currently amounting to about Rs 25,000 crore owing to subsidized fares, have aggravated the problem.

The Railways have a target of raising Rs 6,000 crore through Public-Private Partnership this year and Rs 1 lakh crore for the XIIth Plan. In order to attract private investors who have largely given railway PPP projects a miss, the railways ministry also formulated five participative models for rail connectivity and capacity augmentation projects. This was approved by the CCEA last year.

# Service tax on skill development companies rolled back

NEW DELHI: In a big relief for youth pursuing vocational training courses to land a job, Finance Minister P Chidambaram has rolled back the 12.36% service tax on skill development and training firms imposed in the Finance Bill of 2013-14.

Experts had warned that the service tax introduced this year on all training firms working in tandem with the National Skills Development Corporation (NSDC) could jeopardise the government's ambitious goal of training 500 million people by 2022 by raising the effective fees payable by students. The NSDC, set up by the finance ministry as a public private partnership , has been assigned the task of fostering and funding private sector skill development initiatives to 150 million people.

Though the government had put training firms in the negative list of activities attracting service tax last year, this year's Budget fine print explicitly omitted NSDC-affiliated training providers, from that list - making over 100 such firms liable to pay service tax.

The government has set a target of skilling 9 million youth this year. The finance minister, who had addressed the National Skills Development Corporation board in June, personally ensured that a fresh notification was issued earlier this month to correct the anomaly. As per the new notification, service tax is not payable on any services provided by the National Skills Development Corporation or any training institutes, assessment agencies and sector skill councils approved by it.

"This has resolved the uncertainty about service tax being levied on the course fees charged by our training partners for skill development programmes and related activities," Dilip Chenoy, chief executive officer and managing director of NSDC, told ET.

# Terminology

## Trickle-Down Theory

An economic idea which states that decreasing marginal and capital gains tax rates - especially for corporations, investors and entrepreneurs - can stimulate production in the overall economy. According to trickle-down theory proponents, this stimulus leads to economic growth and wealth creation that benefits everyone, not just those who pay the lower tax rates.

## Floating-Rate Note - FRN

A debt instrument with a variable interest rate. Also known as a "floater" or "FRN," a floating rate note's interest rate is tied to a benchmark such as the U.S. Treasury bill rate, LIBOR, the fed funds or the prime rate. Floaters are mainly issued by financial institutions and governments, and they typically have a two- to five-year term to maturity.

## Deed Of Reconveyance

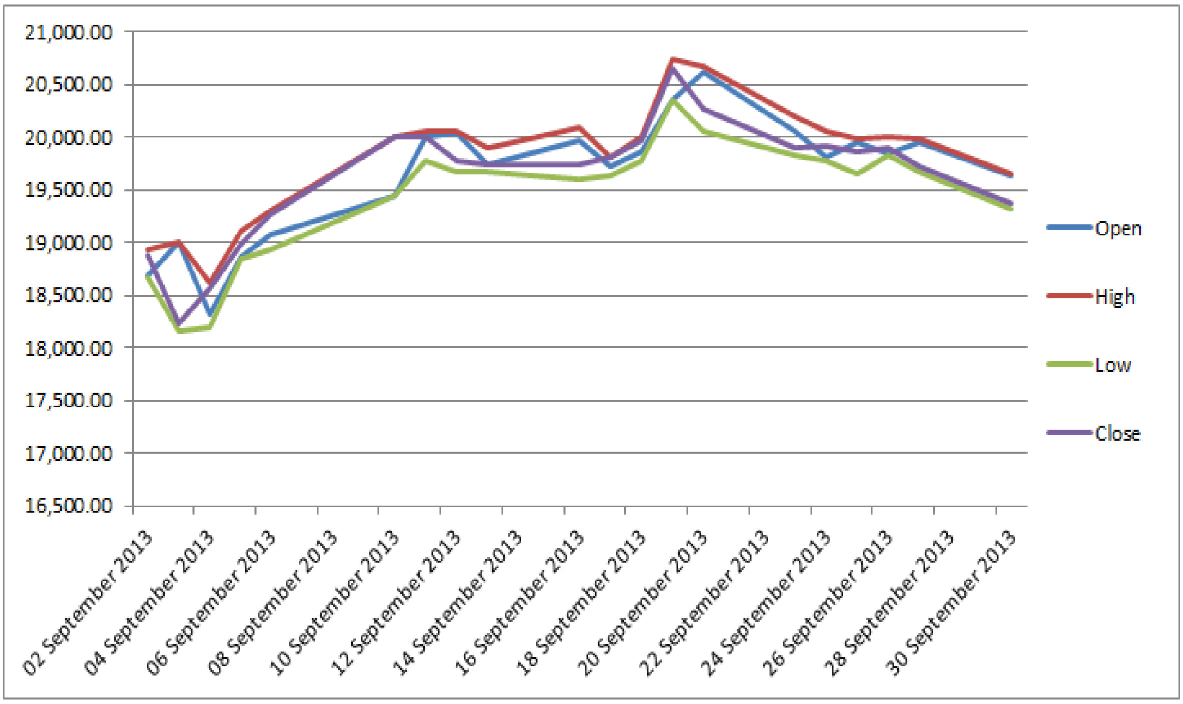
A document issued by a mortgage holder indicating that the borrower is released from the mortgage debt. The deed of reconveyance transfers the property title from the lender (also called the beneficiary) to the borrower (also called the trustor). This document is most commonly issued when a mortgage has been paid in full. It contains a legal description of the property and the property's parcel number and is often notarized. Some states use a satisfaction of mortgage document instead of a deed of reconveyance.

## B-Share

A class in a family of multi-class mutual funds. This class is characterized by a back-end load structure that is paid only when the fund is sold.

# Market Watch

SENSEX

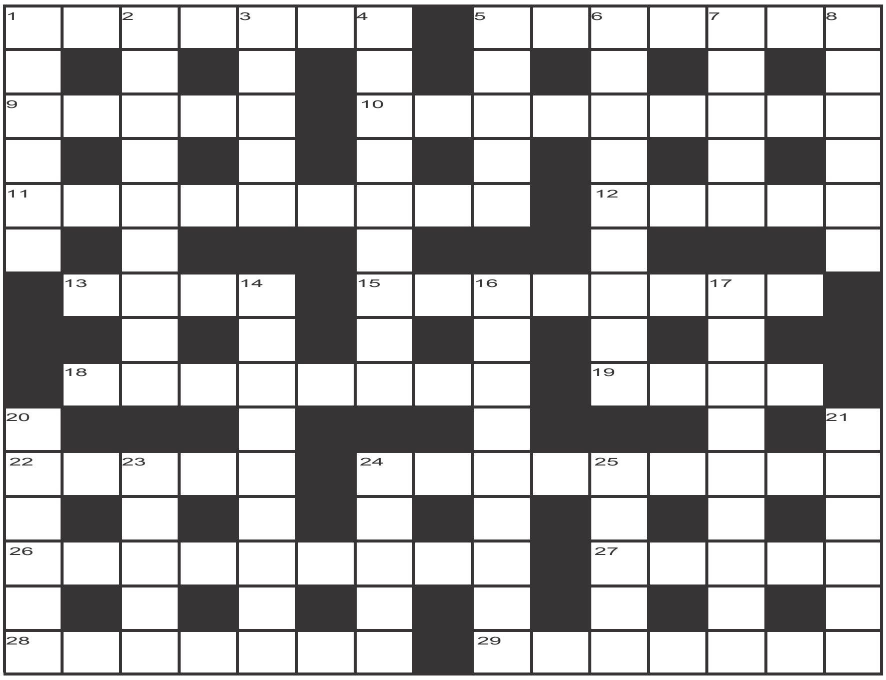



RBI RATES

| | |
|---|---|
| BANK RATE | 9.50% |
| REPO RATE | 7.50% |
| REVERSE REPO RATE | 6.50% |
| CRR | 4.00% |
| SLR | 23.00% |

# Brain Storming

## CROSSWORD



## Identify the person

**Across**

1 Celebrity set about establishing new business (7)

5 It could pose terrible danger beginning to explode (7)

9 Great performer in posh car and fast car (5)

10 They could put end to smear in the French knickers etc (9)

11 Having no bits of news is absurd (9)

12 Man maybe at the end of a passage (5)

13, 15 Set off for match and escaped from everyone? (4,2,6)

18, 19 Competitors better this year maybe with Chelsea exhibit? (8,4)

22 Feature of mountain journey – catching glimpse of grouse (5)

24 Square dance I'll dare to dance when led by queen (9)

26 Human being not half demanding? Keep going! (9)

27 Spies leaving a toilet (5)

28 Bird coming from altitude, one landing in bed (4-3)

29 Unhealthy pantry is lacking a substance to help digestion (7)

**Down**

1 Bands making journey aboard ship (6)

2 Designer terribly hectic with drawings maybe spread around (9)

3 Card run including ace (5)

4 A real spat developing in old gymnasium (9)

5 Grand fool entertaining university mathematician (5)

6 "For ever --- ----"? Try to hear what's missing (9)

7 A young lady not functioning properly (5)

8 Feast has apple, seconds included (6)

14 Was inclined for the most part to lay up, being most sore (9)

16 Sponsor relocation of pet dragon (9)

17 Mummy bird has them – slings ten out? (9)

20 I left to go north getting cold– beyond here there's no sun overhead? (6)

21 The French boy reading in church (6)

23 Malevolent goddess needs special guard (5)

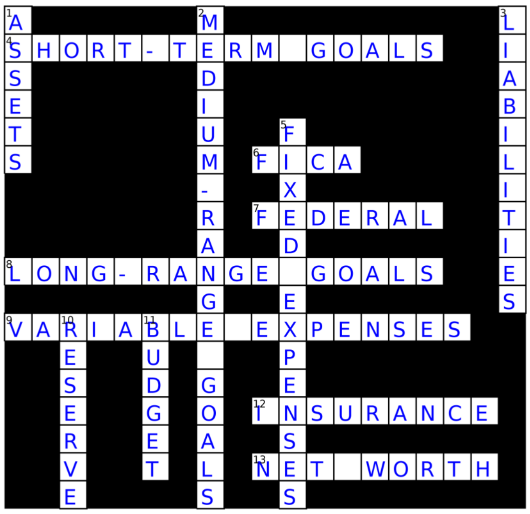
24 What Parisian found on street making search (5)

25 Something on the floor next to game (5)

## ANSWER TO LAST PERSONALITY

## Meeker Mary

## ANSWERS TO LAST CROSSWORD



# A.M. Naik


**Early Life**

A.M. Naik was born into a family of teachers in June 3, 1942 in Endhal in Southern Gujarat. His father was a teacher and also a strict Gandhian. Naik received his early education in Navsari. He finished a degree in mechanical engineering from the prestigious Birla Viswakarma Mahavidyalaya Engineering College in VV Nagar in Anand.

**Career**

In 1965, Anil. M. Naik joined Larsen & Turbo as a junior engineer and became the youngest manager in the history of the organisation. In 1985, he was made the 'General Manager' as he rose quickly through the ranks. In 1989, he took over as the Vice-President of the organisation and became the member of the Director Board. Anil M. Naik's broader perspective enabled the company to expand its horizons beyond domestic borders and reach a position which enabled it to become a global player. He restructured the company into several operating divisions and focused on improving shareholder value. The emphasis on HR and IT as twin engines of growth yielded the organization fruitful results. In 1995, Anil became the President of L&T and in 1999, took over as the 'Chief Executive Officer' and the Managing Director. In 2003, he became the Chairman and Managing Director of the organisation.

In the early nineties, Anil M. Naik came up with the idea of manufacturing engineering equipments which saw the organization treading down the manufacturing path. It began manufacturing plastic machinery, tire machinery and custom engineering products. This enabled L&T to achieve major success in the indigenization of technology and in the technology and nuclear sectors. This paid rich dividends and the turnover of the company grew fifty times in eight years. This happened when Anil M. Naik took over as the Chief Executive Officer. Under his leadership, the company expanded its horizons in the IT sector and made huge profits. Anil.M. Naik has involved himself in many social activities and is currently into the development of an educational institution set up by his father in Navsari in Gujarat. He is also associated with several educational and charitable institutions that help support the rural population of India. He is also a member of the Board of Trustees of the Indian Business Trust for HIV/AIDS.

**Contributions**

As soon as he took over as the CEO of L &T, he came up with a 90 days action plan. He brought back a merit system to attract the younger generation to the company. According to him, the best way to attract young engineers to an organization was to change the way of rewarding them. Anil Manibhai Naik was also instrumental in leading the organization through a manufacturing path which helped raise the turnover of the company fifty times over in around eight years.

**FINVEST— Finance Club**

**INSTITUTE OF TECHNOLOGY & SCIENCE**

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