

## Summary



# Infrastructure Theme an Advantage to India: Ferrous Metals Shine

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**I**nfrastucture theme is a long-term story, but the expensive valuations that these stocks command currently might cap returns. Avoid new fund offers, as there are existing funds that ride this theme. The set of funds to be identified should have a good performance track record in their respective categories. Most top performing diversified funds already offer some exposure to Infrastructure sector. To have more focused exposures, there are opportunities in investing in infrastructure theme funds. As there tends to overlap between portfolios of different infrastructure funds there should be limit to one infrastructure fund. However, there is caution to moderate return expectations.

### Top 10 Stocks

Current	6 Months Ago	1 Year Ago
Jaiprakash Associates	BHEL	Infosys Technologies
SBI	Larsen & Toubro	Jaiprakash Associates
Bharti Airtel	Punj Lloyd	Larsen & Toubro
Reliance Communication	Jaiprakash Associates	BHEL
Grasim Industries	MICO	Nagarjuna Construction
Punj Lloyd	Bharti Airtel	TCS
Thermax	Reliance Communication	Tata Motors
Larsen & Toubro	Thermax	Mahindra & Mahindra
ICICI Bank	Pantaloon Retail	Maruti Suzuki India

### Fund Talk

Any Infrastructure Fund is an open-ended, theme-based equity fund. Its objective is to invest primarily in themes that capitalise on economic reforms and development in India. The fund appears to churn its portfolio actively, booking profits on opportunities. Capital goods, which had cornered one-fourth of the assets a year ago, saw reduced exposure to 9.4 per cent. Holdings in stocks such as BHEL, Siemes and Thermax were trimmed substantially. The fund accumulated the construction stocks just before the rally. Jaiprakash Associates, Punj Lloyd and B.L.Kashyap turned out to be good picks and these stocks surged more than 100 per cent from the time of acquisition. The fund has gradually reduced holdings in these stocks at higher prices over the past two quarters. The fund has also pruned exposure to telecom stocks Bharti Airtel and Reliance Communication. It preferred to reduce

exposure in VSNL over the past quarter as the stock rose to a new high.

Over the past six months the assets under management have moved up marginally, while the NAV has grown by 28 per cent. This implies that the fund has witnessed net outflows during this period. The fund had 40 stocks in its December portfolio and the top ten stocks accounted for 41 per cent of the portfolio. During last quarter the fund's holdings in the stock were pared by almost 50 per cent. The fund had stepped up exposure to banking stocks over the past year. In the December portfolio, the sector accounted for a 13 per cent weight. Frontline stocks ICICI Bank and State Bank of India were accumulated. The fund held Axis Bank, Allahabad Bank and Central Bank of India for a short duration. The key omission in the banking space was HDFC Bank; the stock fails to appear in the portfolio over the past one year. The key sector that saw enhanced exposure was ferrous metals. The sector weight six months ago was hardly 1 per cent, but rose to 6 per cent in December. PSL and Welspun Gujarat Stahl Rohren were new additions, while holdings in Jindal Steel and Power were pruned substantially.

### Identifying Risk

A fund that has demonstrated an ability to contain downside relatively better than its peers would be typically less risky. The simplest way to identify a fund's risk profile is to first understand a fund's objective as defined in its offer document or fact sheet. Funds that intend to take concentrated exposures to sectors or to stocks or certain themes are more risky than typical diversified funds. A quick look at the top holdings will also give you an idea of a fund's investment style. If the top ten stock holdings add up to 50 per cent or more or the top three sector holdings to more than 40 per cent, the portfolio is aggressively managed.

This means that the fund's performance is highly dependent on a handful of stocks or one sector outperforming the market. Portfolio strategy apart, one key measure of a fund's risk profile is its ability to contain downside or market volatility. Portfolios that are heavily biased towards mid-cap and small-cap stocks (stocks with a market capitalisation of less than Rs 5,000 crore) would be more risky, as these stocks are subject to greater volatility. While checking out a fund's track record, look at its performance vis-à-vis its benchmark and peers over periods of high volatility such as the kind in May-June 2006 and the recent correction in January. However, no equity fund can or does promise capital protection. All equity funds are subject to downside risk. It is only the extent of downside that varies depending upon the fund's risk control measures and investment strategy.

## TDS Call

TDS for banks causes considerable inconvenience, as banks have to collect huge numbers of TDS certificates from thousands of borrowers and customers. Often the tax benefit is lost, because the I-T department does not grant credit if it does not receive the TDS certificates from the borrowers/customers (who may not have obtained their certificates on account of delays). This results in unnecessary tax liability. As banks have been given exemption on interest income other than on securities, a similar blanket TDS exemption should be given to banks to facilitate a "hassle-free administrative mechanism". Allowing this exemption will not cause any revenue loss to the Government, since TDS is only a means of advance collection of tax; also, banks, in any case, pay advance tax.

## Infrastructure Loans to Seek Exemption from TDS

Tax concessions will enable banks to offer lower rates on

infrastructure loans. Tax concession on interest earned on infrastructure loans, and exemption from tax deduction at source are some of the demands made by Indian Banks' Association in its Budget memorandum to the Government. Earlier, banks were allowed to claim interest earned on long term lending to infrastructure industries, as an allowable deduction, which was removed in the Budget of 2006. As infrastructure is a key focus area for economic growth, tax concessions enable banks to offer lower rates on infrastructure loans. The industry is also expecting incentives for the infrastructure sector. At a recent CII seminar, Mr Y.M. Deosthalee, Chief Financial Officer, L&T, had said that as the infrastructure industry needs a lot of investments, there is need to incentivise investment for the infrastructure sector.



## SAIL bags FICCI Award for Rural & Community Development Initiatives '06-07



Steel Authority of India Limited (SAIL) was on January 15th honoured with the FICCI Annual Award 2006-07 for outstanding achievement in the category of Rural & Community Development Initiatives. SAIL Chairman Mr. S.K. Roongta received the award from Prime Minister Dr. Manmohan Singh at a function held at the FICCI Golden Jubilee Auditorium in New Delhi. SAIL was selected for the annual award by an eminent jury headed by former Chief Justice of India Mr. P.N. Bhagwati.

The FICCI award recognises the developmental activities undertaken by SAIL during the last five years for rural development, including application of science & technology, animal husbandry and growth of rural industry, infrastructure, education, health and family welfare. The scope and coverage of the activities included the extent to which SAIL has contributed beyond its formal allotted assignments to undertake or stimulate

new initiatives on rural development like skill development and empowerment of rural people through training programmes; women's empowerment; promotion of rural enterprises like handlooms and handicrafts; involvement of panchayats; linkage with ongoing rural development/anti-poverty or other programmes of the Government, etc. The prospects of continuity of developmental activities and potential for future growth was also considered by the jury for the award.

The award states, "Steel Authority of India Ltd has done commendable work in supporting educational, charitable and welfare institutions. SAIL has taken major initiatives towards promoting education, healthcare, drinking water, infrastructure and economic development of communities, covering wider areas adjoining its plants. SAIL has allocated 2% of its budgeted distributable surplus towards these developmental activities. The community development initiatives of SAIL in coordination with state and central governments involve local panchayats to ensure that the benefits arising out of their activities reach the masses at the grassroots level." SAIL was also the first PSU to receive the Businessworld-FICCI-SEDF Corporate Social Responsibility Award for the year 2006.

