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IDBI Bank to create another infra debt fund with ₹1,000 cr

IDBI Bank is setting up its second infrastructure debt fund (IDF) with authorized capital of ₹1,000 crore through the non-banking financial company (NBFC) route.

The plan, with the bank as the primary sponsor, includes Punjab National Bank, Union bank Of India, Corporation Bank, Canara Bank, Syndicate Bank, Indian Overseas Bank, Dena Bank and Life Insurance Corporation of India as strategic partners.

Of the ₹1,000 crore of authorised capital, IDBI Bank has committed ₹300 crore and is looking at business of about ₹15,000 crore by the end of 2014-15 through the IDF.

New IIP coming after Holi havoc

The government is set to form a committee to revise the Index of Industrial Production (IIP) series after an embarrassing discrepancy in the January data. Apart from revising the current series, the committee will suggest ways to improve the reporting of data.

Strict norms on the anvil for tax-free infrastructure bonds

The finance ministry is set to come out with strict guidelines on tax-free infrastructure bonds in this financial year on matters concerning brokerage, commission and spending on advertising. This follows the irregularities noticed in the issuance of such bonds last year.

Finance minister Pranab Mukherjee had announced in the Union Budget that the government would allow ₹60,000 crore worth of infra bonds as against ₹30,000 crore brought in 2011-12.

Air India invites merchant bankers to raise $1 bn from markets abroad

After the government okayed a turnaround plan, cash-strapped government carrier Air India invited merchant bankers to raise working capital loans up to $1 billion from markets abroad.

The move follows the government allowing Air India to borrow up to $1 billion annually through the external commercial borrowing (ECB) route. The airline has floated an "invitation of offers" for raising funds through the ECB route.

Inflation falls in March; rise in food prices remains a concern

Overall inflation fell to 6.89 per cent in March, compared with 6.95 per cent in the previous month, owing to the easing inflationary pressure on manufactured products, official data released on 16th April 2012 showed. Food inflation rose to a five-month high of 9.94 per cent in March, compared with 6.07 per cent in February, and deflation in January.

RBI surprises with 50 bps rate cut

First repo rate cut in 3 years comes because of dip in growth, easing inflation. The RBI Governor, Dr D. Subbarao, cut key policy rates for the first time in 3 years on 16th April
The repo rate (the rate at which the RBI lends money to banks) was cut by 50 basis points from 8.50 per cent to 8.00 per cent. Consequently, reverse repo rate (normally fixed at a spread of 100 basis points below the repo rate) is now 7.0 per cent.

Project completion highest in years, pipeline robust

In a season of bad news, the Centre for Monitoring the Indian Economy (CMIE) has sprung a pleasant surprise. In its latest data, the research body has said projects worth ₹4 lakh crore were completed in FY12, the highest in the last few years. In the previous couple of years, the corresponding numbers were ₹3.4 lakh crore and ₹3.8 lakh crore, respectively.

PNB, ICICI Bank reduce lending, deposit rates

There is some relief for borrowers, as large banks have started reducing their lending rates across the board after a gap of three years. Punjab National Bank, the second largest lender in the country, and ICICI Bank, the largest private sector lender, on 18th April 2012 reduced their base rate by 25 basis points (bps) each to 10.5 per cent and 9.75 per cent, respectively.

FY12 exports up 21% at $303.7 bn; trade deficit at record $184.9 bn

Merchandise exports reached $303.7 billion in 2011-12, a rise of 21 per cent over $251.1 billion in 2010-11, while imports stood at $488.6 billion, rising 32.1 per cent compared with $369.8 billion in the previous financial year. Thus, though exports surpassed the government’s target of $300 for 2011-12, the surge in imports led to the highest-ever trade deficit of $184.9 billion, and this is expected to raise the current account deficit (CAD) to four per cent of the gross domestic product, against the forecast of 3.6 per cent by the Prime Minister’s Economic Advisory Council.

FIIs pump in $109 million in April so far

FII Investments in the Indian stock market this year have reached close to the $9-billion mark, of which $109 million has been pumped in so far this month.

After pouring hefty funds into the Indian equity market during the first three months of 2012, Foreign Institutional Investors (FIIs) seem to be cautious now and have invested only $109 million (₹548 crore) in April. With the latest infusion, FIIs’ investment in the country has reached to $8.98 billion (₹44,499 crore) in the stock market so far in 2012. Of this, $2 billion was poured in January, $5.12 billion in February and the rest $1.68 billion in March.

RBI clears Axis-Enam deal, integration likely in 3rd qtr

Axis Bank’s proposed acquisition of Enam Securities’ businesses has received the final approval from the Reserve Bank of India (RBI). The bank now aims to integrate these operations by the end of the third quarter of this financial year. Initially, Axis will use the Enam brand. A rebranding exercise will be done a few months after the integration.
International News

Sanjeet Kumar [I MBA J]

Facebook acquires team behind Tagtile

Facebook Inc is acquiring the team of developers behind customer-loyalty application Tagtile, adding to its expertise in mobile software. The financial terms of the deal weren’t disclosed.

China gives yuan more freedom

China took a milestone step in turning the yuan into a global currency on 15th April 2012 by doubling the size of its trading band against the dollar, pushing through a crucial reform that further liberalises its nascent financial markets. The Peoples Bank of China said it would allow the yuan to rise or fall one per cent from a mid-point every day, effective from Monday, compared with its previous 0.5 per cent limit.

IMF funds drive caught in global power shift

Tensions among some of the world’s leading economies have boiled up over a plan to raise new resources for the International Monetary Fund to contain the euro zone debt crisis, and a quest by emerging economies to win more say in the global lender.

World financial leaders gathering in Washington in coming week will focus on proposals for countries to contribute more money to the IMF so it is better prepared in case of fallout from any further escalation of Europe’s debt problems.

Tax issue: Vodafone serves notice on Govt

British telecom major Vodafone Plc on 17th April 2012 served a notice of dispute on the Indian government under the international bilateral investment treaty. It asked the government to abandon or amend retrospective aspects of the proposed Finance Bill 2012 or face arbitration proceedings.

Audi to buy motorbike maker Ducati for $1.1 bn

Volkswagen’s Audi is poised to purchase Italian motorcycle maker Ducati Motor Holding SpA from owner Investindustrial SpA for about 860 million ($1.1 billion) including debt, a person familiar with the matter said.

IMF raises global growth forecast for first time since early 2011

The International Monetary Fund (IMF) raised its global growth forecast for the first time in more than a year, with the US boosting the outlook while recent improvements remain “very fragile.” The world economy will expand 3.5 per cent this year, compared with a January projection of 3.3 per cent, the Washington based IMF said on 17th April 2012 in its World Economic Outlook. It sees growth of 4.1 per cent in 2013, up from four per cent. It raised its forecasts for the US to gains of 2.1 per cent this year and 2.4 per cent in 2013.
European banks may have to shed up to $3.8 trillion: IMF

European banks could be forced to shed $3.8 trillion in assets through 2013 and curb lending if governments fall short of their pledges to stem the sovereign debt crisis or face a shock their firewall can’t contain, the International Monetary Fund said.

Europe urged to quell crisis as IMF wins $430-billion boost

European governments were warned against relaxing their efforts to end two years of debt turmoil as the International Monetary Fund won more than $430 billion to safeguard the world economy. IMF Managing Director Christine Lagarde push for a doubling in lending power paid off despite complaints from emerging markets wanting more say in how the fund is run and calls from some richer nations for aid to be more tightly controlled.

Nestle acquires Pfizer baby food unit for $11.85 bn

Swiss food group Nestle is to buy US drugmaker Pfizer’s baby food business for $11.85 billion, beating French rival Danone in the battle for dominance of fast-growing emerging markets.

Vodafone agrees to buy C&W for $1.7 bn

Mobile phone group Vodafone has agreed to buy Cable & Wireless Worldwide (CWW) for £1.04 billion, but a top shareholder in Cable & Wireless has declined to back the bid it considered too low. Vodafone needs support from shareholders owning 75 per cent of CWW to proceed with the deal in its current form. It has secured acceptances from 18.6 per cent.

Facebook pays Microsoft $550 mn for AOL patents

Facebook will pay Microsoft Corp $550 million (341 million pounds) in cash for hundreds of patents recently sold by AOL, the social networking company’s latest move to bulk up its intellectual property in the wake of a lawsuit filed by Yahoo.

The deal will give Facebook 650 patents and patent applications, as well as a license to another 275 patents and applications owned by Microsoft.

Apple profit up 94% on growing iPhone demand globally

Apple Inc profit almost doubled last quarter, reflecting robust demand for the iPhone in China and purchases of a new version of the iPad, allaying the growth concerns that sliced shares 12 per cent in two weeks.

Net income in the fiscal second quarter climbed 94 per cent to $11.6 billion, or $12.30 a share, as sales rose 59 per cent to $39.2 billion.

UK returns to recession in first quarter on building slump

The UK economy shrank in the first quarter as construction output slumped, pushing Britain into its first double-dip recession since the 1970s. Gross domestic product contracted 0.2 per cent from the fourth quarter of 2011, when it shrank 0.3 per cent, the Office for National Statistics said on 25th April 2012 in London.
Rates

Pankaj Sharma [I MBA J]

Repo Rate
Reverse Repo
Call rate
Inflation
Forex Reserve
91day T-Bill
IIP
6.90 GS 2019
8.00%
7.00%
7.50%-8.40%
+6.89% for March 2012
$294.602 Billion as on 23rd March 2012
8.3946%
4.1% for February 2012
8.0907-8.0907%

Graphs

Pankaj Sharma [I MBA J]

Rs/$

Gold(per 10 gram)

16-Apr  19-Apr  22-Apr  25-Apr  28-Apr
Rs/$

Gold(per 10 gram)

16-Apr  19-Apr  22-Apr  25-Apr  28-Apr
GAAR– Ambiguous Act

Dhruv Chopra [I MBA I]

FIIs have net purchased about ₹47,000 crore in Indian equities this year but buying has slowed this month and the sole reason for this slowdown is the introduction of a contentious new tax proposal by the government, called the General Anti-Avoidance Rule, which has spooked market sentiments and is likely to hurt foreign investments.

Many analysts believe that such an introduction would definitely hamper the market sentiments which would ultimately lead to low investment in the equities. This will in turn dent India’s image of being Pro FIIs.

The General Anti-Avoidance Rule was introduced with the objective to "counter aggressive tax avoidance schemes." It empowers officials to deny the tax benefits on transactions or arrangements which do not have any commercial substance or consideration other than achieving tax benefit. It contains a provision allowing the government to retroactively tax overseas deals involving local assets (like Vodafone). It could also be used by the government to target participatory notes (P-Notes). GAAR would also empower the tax authorities to overcome the Double Taxation Avoidance Agreement (DTAA) and deny the benefits of Tax Avoidance to the FIIs which route their investment through Mauritius which is a Tax Haven.

On the other hand, the Indian Government has reiterated many times that India is not a Tax Haven and would take cautious steps in consolidating this stance. There are also apprehensions that GAAR would deter foreign investment tap on which the government has stated that the double taxation avoidance treaty has been exploited by foreign investors, especially in the capital market, to avoid capital gains taxes in India but with GAAR they are bound to prove that they have more than an address in Mauritius.

It is not only a domestic issue rather tax avoidance is of international concern now and several countries have either already codified GAAR in their tax statutes or are in the process of doing so. GAAR has been a part of the tax code of Canada since 1988, Australia since 1981, South Africa from 2006 and China from 2008. Australia and China also have SAAR (Specific Anti Avoidance Rule) in place to check abuse of tax treaties and transfer pricing.

But what is alarming is the clear indication of how and on whom the GAAR would be imposed, this is what is spreading an alarming negative sentiment across the economy. Then the concern of treaty override needs to be handled carefully otherwise it would lead to violation of international convention. Analysts also feel that the timing of introduction of GAAR was not appropriate when the image of our country was reeling with negativity like policy paralysis, CAD and Fiscal Deficit. So, the stern tax face that the country is now projecting may probably add to the loss of attraction.

So let’s wait and watch how the Finance Ministry would act on this ambiguous proposal.

Alternative Investment Market– Leveraging Growth and Opportunities

Sharnitha Ramachandran [I MBA I]

AIM is a sub-market of the London Stock Exchange that was set-up in 1995 to facilitate as a listing venue for small, mid-size, established or early-stage companies who have good potential that investors would like to get returns from. AIM has survived the dotcom boom in the early 2000’s unlike its counterparts like the NeurMarkt and EASDAQ and this makes it attractive for many firms till now chiefly due to Sarbanes-Oxley Act. AIM with its tagline “where ideas take off” believes in creating a future for companies that have potential to make it big.

AIM has less demanding features in contrast to its parent London Stock exchange and other listing avenues as well. There is No minimum company size, No trading history, No minimum number of shares, No threshold market capitalization. Though it makes one wonder how it works despite waiving off important criteria as said above, what makes it reliable is the regulatory system which practices close scrutiny. AIM is not directly monitored by the British regulator but by the London Stock Exchange. So Nominated Advisors, known as NOMADS are merchant bankers or financial consultants there and are equivalent to a lead manager in India. The financial and accounting systems of the company wanting to be listed are reviewed to be seen as suitable for listing by intensive admission and filing process.

The NOMADS verify due-diligence, manage the entire flotation process as an advisor in preparing documents that comply with prescribed rules of AIM and make the directors of the company aware of their duties and responsibilities and disclosures. They also make sure that the company waiting to be listed has the potential to increase the market reputation and has capabilities to deliver value to its shareholders. A stock broker which is a securities house is also involved after the market-listing to raise funds from institutional clients. Also investor relations officers, public relations officers, lawyers etc are to be compulsorily involved during the pre-listing and the post-listing period.

The procedures are clearly made known by AIM and NOMADS. Preparations start a year or two before actual listing and three to six months before listing, the NOMADS are made known. The admission document contains vital information like background, legal-financial-accounting aspects and enough working capital for at least 1 year from the date of admission to AIM so as to protect the interests of the investors. Companies can opt for listing through admission document route or fast-track route. Even after listing, the new AIM-listed companies need to satisfy requirements as spelt out by UKLA (United Kingdom Listing Authority) and avoid malpractices or be complacent. De-listings have occurred – some due to reverse takeover, others being acquisitions or few moving to the main market. Roughly 2000 companies are said to be listed on AIM.

A report also states that a number of India-related companies and investment funds raised almost 2.7 billion dollars on the AIM. Out of this total amount, approximately two million dollars itself were raised by real estate funds, promoted by Indians. Some of the 20 Indian listed companies listed in AIM are UTV Motion Pictures, Unitech, Eros International etc with a collective capitalization of around 4 billion dollars. The institutional investors here are Goldman Sachs, Bank of New York among many others. Some are currently trading at 50-110% higher than in the same period last year and are gaining a favourable response from foreign investors. LSE officials also agree that Indian companies can raise capital from the London exchange fairly easily.
Thus it becomes clear to us that AIM is a route preferred due to its credibility and regulations apart from easy accessibility. Considering that many Indian origin companies are listed here, the message has only become louder and clearer— that India is scaling great heights internationally and is becoming a popular investment destination. AIM is only set to grow stronger and larger in the coming years.

**Aim in News**

Recently, The Bahamas Petroleum Company's (BPC) share price rose by 0.3 pence to close at 7.80 UK pence on London's Alternative Investment Market (AIM). This was after it saw more than 25 per cent of its market fall few days back as global investors picked up cues from Prime Minister Hubert Ingraham's comment that his government would not permit exploration/drilling in the nation by BPC. BPC has pending renewal over existing licenses but has reassured investors that it would renew soon for a period of another 3 years. BPC raised over $70 million from its investors to begin the oil exploration process. The major institutional investors for this project include Fidelity Worldwide Investment, Barclays Wealth, Standard Life Investments. Further, this news has dented BPC’s standing in the eyes of both existing and potential investors as well as other companies that it was negotiating with over joint ventures for drilling wells. Due to this crisis, even Bahamas’ image is at stake as global investors are involved and it will stand to lose as it is already weighed down by mounting debts and slowing economy.

Source: Bahamas Tribune

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**Buzz Word**

**Prachi Sharda [ I MBA J]**

**Crack Spread**

The spread created in commodity markets by purchasing oil futures and offsetting the position by selling gasoline and heating oil futures. This investment alignment allows the investor to hedge against risk due to the offsetting nature of the securities.

The name of this strategy is derived from the fact that "cracking" oil produces gasoline and heating oil. Therefore, oil refiners are able to generate residual income by entering into these transactions. During the summer of 2005, the effects of hurricanes in the South eastern United States created large volatility in the crack spread.

Source: http://www.investopedia.com/terms/c/crackspread.asp#ixzz1q7VSkuvR
RBI’s Closed-Eye Bonanza?

Dhruv Chopra [I MBA I]

In RBI’s annual monetary policy review meeting, a surprise was unfolded by the central bank:

- With Repo Rate cut by 50 basis points (bps) after a long time.
- Reverse Repo and Marginal Standing Facility was placed above and below by 100 bps.
- MSP now stands at 2 percent of their outstanding Net Demand and Time Liabilities (NDTL) from 1 percent before.

These major changes in the monetary policy really boosts RBI’s expected GDP growth rate of 7.3% in 2012-13 but the point to be contemplated upon is: Will this estimation turn out to be a reality? Many experts believe that monetary easing alone would not be sufficient to boost the growth projection and it is absolutely correct because until our Fiscal deficit and Current Account deficit is not tamed the projected momentum is an elusive dream. This clearly points out the policy paralysis in which our system is currently entangled. Even in the recent budget there has not been an impressive reform to boost our economic condition.

On the other hand though with persistent rate hikes by the RBI it has clearly succeeded in bringing the inflation under control but still there are Inflationary pressures, especially food inflation, have regained momentum and the upside risks have risen. In coming months, consumer goods and services inflation would also be adversely impacted due to indirect tax increases. Inflation declined temporarily after November 2011, but has remained stubborn at 6.9 per cent in the fourth quarter of 2011-12. Finally, coal and electricity prices are already being revised upwards and the process is likely to continue throughout the year. The wage-price spiral in India has strengthened since last year, because wages in the rural economy now rise in line with inflation, with inflation-linked wages under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) setting the floor. All these inflationary alarming bells can get louder if ignored.

External factors like demand from the Rest of the world has also been bearish, rising fuel prices and the world economic volatility has also applied brakes on the exports growth of our country and putting appreciative pressure on the rupee. Coupled with all these factors the slowdown in the investment has also been attributed for this tepid growth rate. Hence, for growth to revive, the investment climate, supported by appropriate policy reforms, will have to improve.

So it can be concluded that though RBI did its part by easing up of the monetary policy but still it cannot alone provide the required impetus to the economic momentum, it definitely needs Government’s support to push the reforms ahead for prosperity and economic stability.

Sources: Crisil Report on Monetary Policy Easing and Times of India’s Editorial.
Coal India Limited

Deebadwita De [I MBA J] and Shashank Mishra [I MBA N]

Coal India Limited is considered as the single largest coal producer in the world. It is an organized state owned coal mining corporate which came into existence in November 1975 with the government taking over private coal mines. Today India is among the top three fastest growing economies of the world. India's energy needs are fast expanding with its increased industrialization and capacity addition for power generation. This is where 'Coal' uses come into existence. India is the third largest coal producing country in the world after China and USA. Coal is a main input for major infrastructure industries like Power, Steel and Cement. It is not only the most dominant energy source in India's energy scenario but it also meets around 52% of primary commercial energy needs of India. Around 66% of India's power generation is coal based. Since the company could fulfill the financial and other regulations so it was granted the Maharatna recognition in April 2011. Maharatna is the privileged status conferred by the Government of India to a selected state owned enterprises in order to empower them to expand their operations and emerge as global giants.

Company Profile:

- Coal India Limited is an Indian state-controlled coal mining company. It is headquartered in Kolkata, West Bengal, India. Coal India Limited is considered as the world's largest coal miner.
- Previously the company was owned entirely by the Union Government of India, but in April 2011, Coal India was conferred the Maharatna status and ranked as one of India's most valuable company by its market value.
- Coal India Limited also bagged a prestigious international award in Geneva on March 7, 2011 named "Century International Quality ERA Award (CQE)" in the Gold Category.
- Coal India Limited also signed a Memorandum of Understanding with the Shipping Corporation of India Limited in December 2010 to promote a Joint Venture Company.
- Coal India's IPO is the largest so far in the Indian capital market. It was over-subscribed 15.3 times. On October 21, 2010 the day when Coal India's IPO was closed is regarded as a historic event.

Key Highlights:

- There are 149 ongoing projects in Coal India Limited that has been sanctioned of the capacity of 438.73 MTY.
- Out of these, 100 projects are expected to contribute 237.67 MT during 2011-12.
- Coal India Limited has achieved an aggregate pre-tax profit of ₹16463.23 cores in 2010-11.
- On November 4, 2010 Coal India Limited's stock was listed in stock exchanges i.e. BSE and NSE. It was a historic day for Coal India Limited when its share closed over at ₹342/- on the first day of trading against the offer price of ₹245/- .
- CRISIL, the leading credit rating agency in the country assigned maximum grading of five to Coal India's IPO, the best till date for any public sector.
• Coal India Limited has also made to 'Dow Jones SAFE 100 Index', the leading global index provider.
• Central Mine Planning and Design Institute Limited (CMPDIL), the consultancy arm of Coal India Limited has bagged the prestigious SCOPE Meritorious Award for the year 2009-10. CMPDIL is the first subsidiary of Coal India to have been also awarded coveted SCOPE trophy.
Stock Info:

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Stock Performance Over the Months:

Recommendation for the Stock:

With an improved industry outlook in coming time, it is expected that the stock will breakeven. The recommendation for the stock is “BUY” for a period of 12 months.

Call: Buy
CMP: ₹359.40
Target Price: ₹405
Time Period: 12 months
Pepper (Black Gold)

Srinivas Prasad K [I MBA J]

Pepper, known as black gold, is an important commodity traded globally since ancient times. Black pepper (Piper nigrum) is a flowering vine in the family Piperaceae. Hot and pungent black pepper is one of the most popular spices in the world. The fruit, when dried, is approximately 5 mm in diameter. Black pepper is used for both its flavor and medicinal properties. In India harvesting starts from December and extends till March whereas the arrivals in the physical markets start from February.

World pepper production is around 2.6 MT to 3.1 MT per year. Vietnam is the world's largest producer and exporter of pepper, producing almost one-third of the world's Pepper crop. Other major producers include India (19%), Brazil (13%), Indonesia (9%), Malaysia (8%), Sri Lanka (6%), China (6%), and Thailand (4%). India produces about 50,000 MT of pepper every year with Kerala & Karnataka accounting to more than 95% of the domestic production. Indian pepper is traded at a premium in international markets owing to its superior quality.

India was the largest pepper producer and exporter in the world till the 1990s. Vietnam emerged as the major pepper producer and exporter by the turn of last century and dislodged India’s leadership in global pepper trade.

Global pepper production is estimated between 300,000-330,000 ton per year. And Global pepper demand in terms of export is estimated between 200,000-225,000 ton per year. The main suppliers to the global market are Vietnam, India, Indonesia and Brazil. Major destinations of pepper export are the US, Europe, Japan and Australia.

India is rated as the highest pepper consuming country in the world. Though demand for pepper exists throughout the year, a surge is noticeable during the winter months. The main season of pepper harvests in India is between January-March. The main physical markets of pepper in India are Sulthan Batherryand Kalpetta in Wayanad and Kochi in Kerala. Apart from the physical markets, pepper is one of the important commodities now traded in futures exchanges in the country.

Recently, the National Commodity and Derivatives Exchange (NCDEX) had imposed total cash margin of 15% on the long side with effect from April 3 to counter rising volatility in pepper. Pepper output in Vietnam is expected to be revised upwards to 1.35 -1.40 lakh tonnes as compared to earlier forecast of 1.00-1.10 lakh tonnes tracking the fresh arrivals in the domestic market.

Exports of Pepper from Indonesia in 2011 witnessed a sharp decline of 42% at 36500 tonnes as compared to 62,600 tonnes in 2010. Exports of Pepper from Vietnam during January 01, 2012 to February 15, 2012 stood at 6736 tonnes up 16.3 percent as compared to
corresponding period last year. Exports of Pepper from India during Apr 2011 - Jan 2012 rose by 49 percent to 22300 tonnes as compared to 14950 tonnes in the same period previous year.

Factors influencing the price of pepper are:

- Domestic Fundamentals
- World production & Exports
- International trading price
- Domestic and Export demand
- Year ending stocks and stocks-to-consumption ratio
- Sowing and Harvesting of all producing nations
- Climatic conditions
- Government policies with regard to imports and exports
- Soil Moisture and Rainfall.

The pepper market this week moved up on buying interest amid limited availability. All active deliveries increased after witnessing high volatility throughout the day. There was good demand for high bulk density pepper and it was not available as some of the agents of multinational companies were reportedly buying it from the growers in the high ranges at a premium of \( ₹4 \) to \( ₹5 \) a kg above the terminal market price.

Activities were mainly on pepper below 550 GL and that was concentrated in Karnataka, which was selling the grades 550 GL and below at \( ₹360 \) to \( ₹370 \) a kg apart from selling at \( ₹380 \) a kg delivered anywhere in India. May contract on the NCDEX increased by \( ₹545 \) to the last traded price (LTP) of \( ₹38,650 \) a quintal. June and July moved up by \( ₹285 \) and \( ₹220 \) respectively to the LTP of \( ₹39,030 \) and \( ₹39,400 \) a quintal.

**Turnover**

Total turnover fell by 1,433 tonnes to close at 3,480 tonnes. Total open interest moved up by 98 tonnes to 5,785 tonnes. May open interest declined by 37 tonnes to 4,778 tonnes while that of June increased by 139 tonnes to 878 tonnes showing additional buying. July declined by 3 tonnes to 99 tonnes. Spot prices in tandem with the futures market trend and buying interest amid limited availability went up by \( ₹300 \) to close at \( ₹37,300 \) (ungarbled) and \( ₹38,800 \) a quintal. Indian parity in the international market was marginally up at around \( $7,550 \) a tonne (c&f) for the Europe and \( $7,850 \) a tonne for the US.

Sources:

- http://www.commodityonline.com/commodities
- http://www.ncdex.com
- http://www.thehindubusinessline.com/markets/commodities
ISRO Spectrum Allocation Scam

Ankita Pagaria [I MBA J]

A bigger scam than the 2G was reported in the media. The newspaper reports indicated that the Government lost about Rupees 2 lakh crore in the spectrum deal of ISRO (Indian Space Research Organisation) with a private company, Devas Multimedia. It is owned by a former ISRO official M G Chandrasekhar.

ISRO spectrum allocation scam was out-of-turn allocation of the S-band (which is defined as radio waves with frequencies that range from 2 GHz to 4 GHz) spectrum by Antrix to Devas without going through a formal bidding process. Devas enjoying the S-band, gained unlimited leverage in the telecommunication space in terms of high speed mobile communication. It has to be remembered that the auction of just 15 MHz of similar airwaves for 3G services led to the government gaining a whopping ₹67,719 crores to its coffers. This is when the freebie deal 70 MHz enjoyed by Devas as part of satellite launch deal with ISRO came under the scanner for a mere 1000 crore. This happened when industry bigwigs like MTNL and BSNL had to pay ₹12,847 crore for 20 MHz.

In February 2011 one of the findings by the Comptroller and Auditor General (CAG) blew the lid off a spectrum deal between ISRO-arm Antrix and a private company Devas Multimedia with reference to the usage of the 70 MHz S-band by the private player Devas Multimedia for a period of 20 years.

Parties involved in ISRO spectrum allocation scam are ISRO's commercial arm Antrix Corp and Devas Multimedia. ISRO is accused of allocating to Devas 70 Mega Hertz of scarce S-band spectrum for a 20-year period.

ISRO and the Department of Space have scored many successes and enjoyed a good, clean reputation over the decades. Fortunately, in late 2009 some outraged insiders with the help of media blew the whistle on the secret deal.

The CAG reported that this scam caused a revenue loss of ₹2,00,000 crore to Government of India exchequer. Government sources said the process to scrap the deal was underway. Sources said ISRO Chief K Radhakrishnan had written to the PMO demanding cancellation of the agreement on the ground that it favored Devas Multimedia.

Sources:
- http://howtoprepare4cat.blogspot.in/2012/01/isro-spectrum-allocation-scam-know.html
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Green Shoe Options

Vinay Goel [I MBA L]

A Green Shoe Option is an option of allotting equity shares in excess of what was offered in the public issue to stabilize the price after post listing. Investor buy shares of a company in an initial public offering in the hope that shares would trade in the market at a price higher than the original selling price. The price of the shares in the secondary market is highly volatile immediately after the listing date. Such volatility is detrimental to the investor confidence, to the image of the issuer company and the issue managers and to capital markets at large.

Green shoe options was introduced by the SEBI (Securities and Exchange Board of India), in 2003 to stabilize the aftermarket prices of shares issued in IPOs. The objective of this mechanism is to reassure investors who are known as retail individual investors, that they would have an exit route after 30 days of listing of shares which is known as the GSO window period at a price closer to the issue price. The issuer company also benefits from this mechanism as confident investors will find it as a lucrative offer.

Investors could be anxious about various things before the allotment of shares, they are generally anxious about whether they will get the shares, they worry about how the secondary market will react in the period immediately following the day of listing. Will the market open above the issue price or will it open below? If the market price immediately following the listing day is higher than the issue price, it implies that the issue price was underestimated, a phenomenon known as the underpricing. On the other hand if the market price immediately following the listing day is lower than the issue price it implies that the issue price was overestimated, a phenomenon known as overpricing.

As per investor’s perspective both the underpricing and overpricing are worrisome. The investors to whom the shares are allocated may find underpricing as beneficial but according to the study done by Jenkinson and Ljungqvist (2001) reveal that such shares perform badly in the future. Overpricing may also cause panic among the most vulnerable investors.

Rationale for including GSOs in IPO program

- **Avoiding panic among small investors:**

  The price of the shares in the aftermarket may fall immediately just after the listing because of the activities of flippers. Flippers, in financial jargon are also known as stags who bid for shares only to sell them in the aftermarket, hoping to make a huge profit in a short period. Aggarwal (2003) argues that GSOs can counteract the sales pressure generated by flippers.

- **Signaling confidence:**

  The price at which the shares are issued in a book built IPO is determined in two stages. In the first stage, the issuer company and the merchant banker decide the price band within which investors can bid or the floor price above which investors are required to bid. This price band or floor price is decided based on
various qualitative and quantitative factors. In the second stage, the issuer company and the merchant bank that are designated as the book running lead manager decide the issue price after receiving the bids from the investors.

Many investors, especially small investors are unable to make up their minds whether to bid or not to bid for the shares at the stated price bands, as they stand lose if the price turns out to be unsuitable. The issuer company and the merchant bank can signal confidence in the issue by availing of the GSO mechanism. By doing so, the merchant banks back up their claims of the price being fair by proposing to buy shares from the secondary market if their claims were to be disproved and the aftermarket price were to fall below the issue price.

- **Merchant bank reputation:**

  Merchant bankers face the ire of risk of the investors if the share trades at a price below the issue price in the aftermarket. Merchant banks can prevent such a loss by availing the green shoe mechanism.

- **Liquidity:**

  Green shoe options helps in improving the liquidity of the markets in two ways. First, due to overallocation of shares, more shares would go to the investors then it would have if GSOs were not present. Secondly, if the market price of shares were to go below the issue price during the GSO window period, the stabilizing agent would buy share from the market, thereby enhancing liquidity.

- **Favoring preferred investors:**

  In some jurisdictions, merchant bankers avail of GSO so that they can issue shares to some of their preferred clients, who happen to be institutional investors. During the planning phase of IPOs, merchant banks go on a road show meeting institutional investors, in order to gauge the potential demand for the IPO and the price at which shares could be sold.

Source:

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