Housing Market in South is Still Very Robust
BANKING & FINANCE ▸▸ 16

Short Takes

Bonus-driven Wealth Managers Slip on Quality

Growth in wealth in the past few years has led to a crop of financial advisors chasing clients offering unrealistic returns, at times with products and practices that may be violating regulatory norms.

MARKETS ▸▸ 14

'Europe's Problems Go Way Beyond Greece'

Europe's financial problems aren't confined to Greece and a reorganisation of the continent's banking system is necessary, Laurence D Fink, chief executive officer of BlackRock.

BANKING & FINANCE ▸▸ 16

Commodities Snap Best Winning Streak Since '80

Commodities headed for the worst month in a year, snapping the longest winning streak since 1980, as accelerating inflation in China and a sovereign-debt crisis in Europe fanned concern the economic recovery may slow.

COMMODITIES ▸▸ 25

Crisis-hit Japan Faces Debt Downgrade

Japan's debt rating was put on review for a downgrade by Moody's Investors Service, adding to Prime Minister Naoto Kan's fiscal challenges after an increase in joblessness and smaller-than-forecast gain in factory production.

INTERNATIONAL ▸▸ 27

India Inc Raises $15.7 b in 2011 via Debt Securities

NEW DELHI Indian companies have raised a total of $15.7 billion so far this year through debt securities, out of which mining major Vedanta Resourcez' $1.7 billion bond issue was the biggest. Ac-cording to global deal tracking firm Dealogic, India Debt Capital Market (DCM) volume has reached $15.7 billion through 81 deals so far this year, out of which Vedanta Resources' $1.7 billion high yield issue is the largest India debt offering in 2011 year-to-date.

HC Asks CCI to Submit Dissent Note Details to NSE

MUMBAI The Delhi High Court on Tuesday directed the Competition Commission of India (CCI) to submit a copy of its dissent note to the National Stock Exchange (NSE) by Friday to support a case where the bourse has been accused of abusing its dominant position. The High Court has also directed NSE to reply on the penalty notice by CCI by June 10.

Market Trends

SENSEX	18503.28	1.49% ↗
NIFTY	5560.15	1.59% ↗
NIKKEI	9693.73	1.99% ↗
STRAIT TIMES	3159.93	0.62% ↗
HANGSENG	23684.13	2.16% ↗
SHANGHAI COMPO	2743.47	1.37% ↗
US $	45.06	0.04% ↘
DUBAI CRUDE $	109.39	0.84% ↗

Quantitative Funds Get the Returns Matrix Right

Contrarian bets on energy & technology sectors help computer-driven funds to beat broad market returns

SHAILESH MENON
MUMBAI

Funds managed using the so-called quantitative techniques have generated decent returns for Indian retail investors, beating broader markets by betting on sectors like energy and technology, which are not among the top favourites among managers of conventional funds.

Quant or computer-driven funds use mathematical models to decide which stocks to invest. In portfolio managers structure models encapsulating a series of factors that could influence the price and volume of a stock.

In a pure quant fund, the decision to buy or sell a stock depends on the model.

Funds such as Reliance Quant Fund, which manages over ₹87 crore, and Religare AGILE, with over ₹77 crore in its kitty, have returned about 15% over the past one year. The 50-share Nifty, against which these funds are benchmarked, has generated just over 7% in an year's time.

"The AGILE fund has done well because of low market volatility. Historically, this fund has performed in stable or range-bound markets. We manage this fund on just 11 large-cap stocks, which are rebalanced at every month-end," said Vetri Subramaniam, head — equity funds, Religare Mutual Fund adding, "this fund should trail other actively managed funds in times of high volatility."

Not all quant funds have beaten the market. Edelweiss Absolute Return Fund, which manages about ₹47 crore — which fund tracker Value Research describes as an equity hybrid scheme — have returned 8% lower than the 9%, equity hybrid schemes have returned during the year.

A spokesperson for the fund disputes the categorisation. "We've been wrongly classified as an equity-hybrid fund... our net equity exposure is just about 30%. We cannot be classified into any specific fund category," said a senior spokesperson for Edelweiss Mutual Fund's investment advisory team.

"We managed to participate in the upside and cap losses in times of a market fall," the spokesperson said, adding, "quant funds is an upcoming fund category... it will take years of consistent performance for quant funds to become popular among retail investors."

Around 12-15% of global fund industry assets are managed quantitatively. If one adds index funds to the list, overall quant share moves up to just about 22%, quant experts said.

Portfolio managers and model engineers tweak the model regularly. Such models seek to correlate stock price to macro factors like inflation, manufacturing and production data, GDP growth and currency movements.

Computer-driven funds are said to have a smaller correlation with benchmark indices as this strategy avoids the 'herd mentality' or the propensity to buy stocks that everyone else is buying, that beset some fundamental or qualitative analysis.

Edelweiss Absolute Return Fund, for example, has allocated over 20% of its equity portfolio to energy stocks.

Energy, as a sector, is currently not favoured by many fund managers as a results of low government spending, problems in getting approvals, long gestation period and cost escalation. 11% of the portfolio is devoted to banking and 5% to FMCG companies, which are usually favoured by qualitative fund managers. Similarly, Religare AGILE has 19% of its pool in the rate-sensitive automobile sector and only 9% of its money to FMCG stocks. Currently, there are only five quant-based retail funds in India.

Quant funds, however, have not done well when confronted with sudden market movements and volatility. Several computer-driven funds suffered huge losses after completely unexpected events like the Japanese earthquake and tsunami. US-based Graham Capital saw its $4-billion flagship fund lose around $300 million in the weeks following tsunami.

London-based Winton Capital, which manages around $17 billion, saw its flagship fund drop 3.6% post the disaster.

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Play Math, Earn Smart

One-year returns of domestic quantitative funds

FUND	AUM (₹Cr)	One -year Returns (%)
Reliance Quant	87	15.3
Religare AGILE	77	14.69
Edelweiss Absolute Return	46.6	8.1
Edelweiss Diversified Growth	1.01	10.4
Edelweiss Nifty Enhancer	0.16	10.6

What are quantitative funds?

Quantitative funds, or quant funds, are investment funds that select securities based on quantitative analysis. In a quant fund, the managers build computer-based models to determine whether a particular stock is worth investing or exiting.

How are they designed?

In a quant fund, the final decision to buy or sell is made by the model. But as the model can't take into account external variables, often there is a human intervention to account for macro factors like inflation, manufacturing & production data, GDP growth and currency movements.

12-15% Of the global mutual fund industry assets are managed through quant funds

How are they different from traditional funds?

▶ Quant funds have a very small correlation with benchmark indices, something that helps them avoid the 'herd mentality' or the tendency to buy stocks that everyone else is buying.

Are quant funds fail-safe?

▶ Not really, because these funds cannot automatically take into account sudden market movements and volatility. That explains why they have not been very successful.

How many quant funds are there in India?

▶ Currently, there are only five quant-based retail funds in India.

PRABHAKAR

Heard on the Street

Punj Lloyd's Stellar Q4 Show Takes Street by Surprise

Shares of Punj Lloyd surged 18% on Tuesday to ₹68.15 after the company's fourth quarter results beat Street expectations. It reported a consolidated net profit of ₹18 crore in the quarter as against a net loss of ₹02 crore in the corresponding quarter last year. Prior to the upmove, the stock has been an underperformer as0 penalty damages and litigations forced investors to offload the stock. The stock has fallen 50% so far in 2011, while the benchmark indices dropped 11% during the same period. Analysts continue to remain cautious about Punj Lloyd's prospects and say the company needs to post good results for the next two-three quarters with improvement in its net margin to 4-5% for the view to change.

The main concern has been the company's inability to execute overseas projects within the stipulated period, increasing costs and affecting margins.

Contributed by Harish Rao

Expect Resistance at 5600-5650 Levels

F&O Tracker

Nifty witnessed a relief rally after May expiry, led by short covering. Nifty rolled to June expiry with 58% rollover with the negative cost of carry, indicating a short rollover. Still out of Nifty 50 stocks, 30 stocks are trading below the 200-day moving average, which indicates a bear market relief rally. Nifty could face stiff resistance in the range between 5600 and 5650. Hereafter, the range of 5400-5650 will remain crucial in the near term. A breach of 5400 level could see the index declining sharply to 5200 levels. The put-call ratio of open interest increased during the week closing at 1.34, indicating put writing after end of May expiry. The options' open interest concentration shifted to the 5400-strike put option with open interest of above 62 lakh shares followed by 5300 with 60 lakh shares. So, these levels should act as a crucial support in the current expiry. The 5800 call-option strikes added open interest during the week with an open interest of 62 lakh shares. The implied volatility of call options closed at 14.50% on Tuesday, while the average IV of put options was 17.35%. There is a fair chance of increase in volatility in the later part of the month.

Nitin Murarka, Head Derivatives SMC GLOBAL Securities

Sensex Bounces Back, Climbs 271 Points on Global Cues

The Bombay Stock Exchange-Sensex rose, paring the biggest monthly loss since January, as gains in Asian equities prompted some investors to overlook data that showed the nation's economic expansion slowed last quarter.

HDFC Bank jumped 3.2%, pacing gains among lenders. ITC rallied 3.07%. The BSE Sensex added 271, or 1.5%, to 18503. The benchmark has lost 3.3% this month, the most since the 11% slump in January. Nifty on the National Stock Exchange of India rallied 1.6% to 5561. Its June futures traded at 5552.20. The BSE 200 Index added 1.6%. FIIs bought a net ₹254 crore of Indian equities on May 27, paring total outflows from equities this year to ₹2,020 crore, according to Sebi data. —Bloomberg

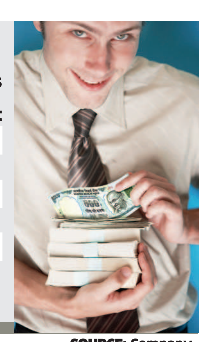
IL&FS Fin to Raise $5 B to Fund Infra Projects

Building for the Future

Financial Closure of Some of ILFS Financial Services' Ongoing Projects

Project	Debt Closure	Total Project Cost
MP Border Checkpost Devpt	945	1,350
Vandana Vidyut	960	1,200
Chenani Nashri Tunnelway	3,348	3,720
Warora Chandrapur Ballarpur Toll	336	336
Jorabat Shillong Expressway	740	824
Total	6,329	7,430

(₹ Crore)



SOURCE: Company

APURV GUPTA & PRADEEP PANDEY
MUMBAI

IL&FS Financial Services (IFIN) plans to raise $5 billion through debt and equity in the next one year to fund infrastructure projects, a top company official said.

The investment banking subsidiary of Infrastructure Leasing & Financial Services will raise around $1 billion from overseas market and the rest locally, managing director and chief executive officer Ramesh C Bawa told **ET** in an exclusive interview.

"We need to raise around $5 billion in the next one year. The fund will be used to meet our project syndication requirements for the use of other companies, where we have partnered. Of this amount, around one-fifth will come from overseas borrowing," he said.

IFIN, one of the largest infrastructure development and finance firms in India, will use the money to finance infrastructure projects such as power plants, roads, and ports. IFIN will raise the money via external commercial borrowings and loan syndication. The company will tap overseas markets for about one-fifth of the fund to take advantage of the favourable interest rate abroad. Its branches in Dubai, Singapore, and London will facilitate fund raising.

"Despite good relations with institutions, it is not easy to raise funds of this size in the domestic market. Many banks do not have adequate room for lending for infrastructure space. Some of the overseas investors have deep pockets, which help us in raising funds quickly and comparatively at a cheaper cost," Bawa said.

With local rates creeping up, several Indian companies and banks have been raising funds from overseas debt markets. Funds have become relatively expensive in India with the Reserve Bank of India increasing policy rates nine times since April 2010 to tame stubborn price pressures. The government plans to spend about ₹31 lakh crore in infrastructure projects in the next 20 years, according to the latest report from urban development ministry.

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Sensex May Rise 19%, says Morgan Stanley

Global financial services firm has Coal India, Adani and DLF among its top picks

OUR BUREAU
MUMBAI

The Bombay Stock Exchange's (BSE) Sensitive Index (Sensex) can climb as much as 19% even as investors debate whether soaring inflation will eat into growth and lead to earnings downgrades, said Morgan Stanley.

Adani Enterprises, DLF and Coal India are top picks and small-cap companies are an attractive lot which can surprise on the upside, Morgan Stanley said. "Indeed, the dispersion in valuations, earnings growth and stock returns appear to be favourable to stock picking," said analysts led by Ridham Desai. "Earnings growth dispersion has been rising whereas return dispersion has been falling. The bottom line is that the micro environment is appealing for stock picking."

Morgan Stanley's Sensex forecast is 22100. It ended at 18503.28 on Tuesday. "India's biggest tail risk is that the MENA (Middle East and North Africa) crisis is prolonged and crude oil prices stay higher for longer," he said.

The strategist and head of India equity research believes the market is only 9% away from their bear case level for 2011. "Near term, we think the market is operating in a range of 17500 to 21000. As such we remain buyers of Indian equities with a 12-18-month view. The market is cautiously positioned if our sentiment indicator is a guide," he added.

Inflation risks remain on higher commodity prices, says Chetan Ahya, Asia Pacific & India economist at Morgan Stanley. "We believe that prices of global commodities, including crude oil, will be key to the inflation outlook," he said. "However, considering that the cost of capital might stay higher for longer, we see downside risks to our growth outlook -- to the extent of 0.25-0.5% points," says economist Chetan Ahya who forecasts GDP growth to fall to 7.7% in 2012 from 8.6% in 2011. He expects the central bank to hike the repo rate by another 75 basis points.

"The market is pricing in slower near-term growth and implying an attractive 14.5% long-term return," says Desai. According to him earnings growth appears to be nearing a trough given the margin compression that has already happened. Return on equity, too, is off the bottom.

He favours stock picking in the current environment since he believes the "macro effect" has peaked. He sees more rewards in small- and mid-caps and stocks down the quality curve. Sectorally, Morgan Stanley has shifted from global cyclicals (materials) to domestic consumer cyclicals. They remain overweight on industrials but are cognizant of the downside to capital expenditure.