KARVY
India's premier integrated financial services enterprise

the Finapolis

FORTNIGHTLY UPDATE

1st July to 15th July 2006 PF/FF/300606/02

FINANCIAL PLANNING

A systemic approach to your finances!

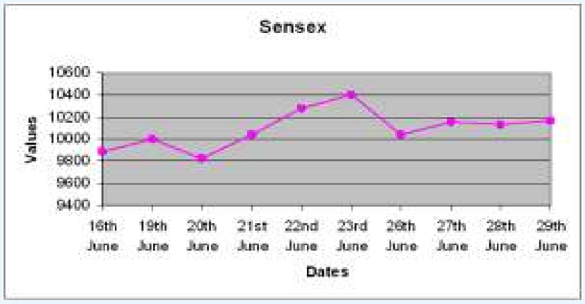
Personal financial planning essentially comprises of the following broad aspects :-

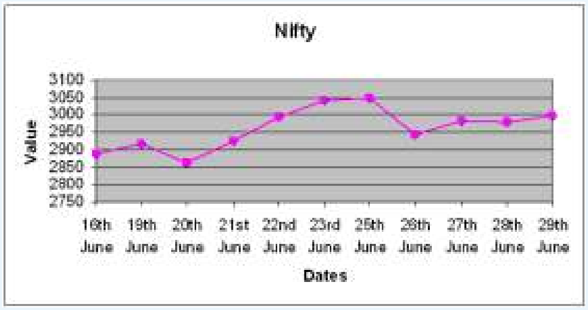
- Intelligent management of money
- Securing the future and still living a life of luxury and comfort
- Make the money work harder
- Make money the last thing to worry about during emergencies
- Creating wealth for self and family
- Make money last as long as we last

Financial planning does not mean living frugally. It means spending on your needs and desires and at the same time making the required investments that will be essentially for the fulfillment of your goals and objectives. In this context it becomes necessary to distinguish between the financial planning approach and the conventional approach.

Old approach	New approach (Financial planning approach)
Spend less by living frugally	Control your expenses and manage your debt, but live a life of luxury and comfort
Save what you do not spend and put the same in a bank	Save after maintaining a comfortable life style
Invest in gold and FDs	Invest in equities and mutual funds
Investments need not necessarily beat inflation	There arises a strong need to beat inflation HOLLOW!

Market Meter





The markets witnessed a sharp bounce back during this fortnight with the Sensex surging with a break away gap. Previously the markets plunged from the highs during the month of June. The intensity of the sell-off had been drastic resulting in the breach of all major support levels. However, the volumes had been declining all through the fall due to lack of investor participation. The recent surge had been on the back of improving volumes with sudden shift towards the fundamental shine of the stocks.

The markets witnessed breach of two crucial support levels in the month of June, one being the long term 200 day EMA which was then placed at 9845 levels and the crucial 61.8% retracement level placed at 9570 made from the low of 7656 and high of 12670. However, the market found support at the 76.4% retracement level which was placed at 8840 levels.The markets are expected to be range bound in the coming sessions constricted to a wide range of 9500-11200 levels. The coming sessions could be phased interestingly due to the intense battle between the bulls and bears trying to emerge the leaders which could give a clear direction to the markets.

Source : KARVY Research

Insurance Corner - Life Partner Plus plan from MNYL

A conventional endowment plan typically covers the risk of dying early.

However, the Life Partner Plus, which is an endowment plan offering guaranteed returns till the age of 75 years, essentially covers the risk of dying early and also the risk of living long (till age 75 years)

The Endowment to Age 75 Plan is the recent plan from the stable of MNYL. This is a conventional endowment plan up to age 75. This plan has been designed to take care of the changing needs of the individual which include asset creation, investing for retirement, children's education, marriage etc. This plan matures when the policyholder reaches 75 years of age. The key highlight of this plan is that from age 61 to age 75 (for 15 years) of life insured, the policy returns a guaranteed amount equal to 7.5% of the sum assured every year. These guaranteed payouts can be used to live a hassle free retirement life.

Some of the key benefits under this plan are:-

(i) Maturity benefit - This policy matures when the policyholder reaches 75 years. On maturity, the sum assured along with the sum assured of paid up additions (if any) is paid to the policyholder.

(ii) Living benefits - From age 61 to age 75, a guaranteed amount of 7.5% of the sum assured is paid to the policyholder every year.

(iii) Death benefits-In the event of the unfortunate death of the policyholder, the sum assured along with sum assured of paid up additions is paid to the nominee without deducting the earlier payouts.

(iv) Additional benefits-This is a participative endowment plan. This plan declares non-guaranteed bonuses which are reversionary in nature. The bonuses will be declared from the 3rd year onwards. In this context, it is important for policyholder to be aware of the various bonus options that are available to the policyholder. The various bonus options are:-

- Premium offset - With the yearly bonuses, the policyholder may choose to offset his annual premiums.
- Paid up additions Considering the fact that an individual's sum assured needs increases over the years, the policyholder may choose to purchase increased sum assured with the yearly bonuses.
- Encashment of bonuses In case the policyholder is in need of funds, he may also exercise his option of taking the bonuses in cash.

(v) Tax benefits-This premium paid towards this plan will be eligible for a deduction under section 80C up to a maximum of Rs.1,00,000. The guaranteed payouts will once again be fully exempt from tax under section 10(10D).

Critical plan parameters The essential plan parameters are:-

(i) Entry age 91 days to 55 years. 20 years to 55 years for all riders except term renewable and convertible rider where the maximum entry age is 50 years)

(ii) Maturity age is 75 years

(iii) Premium payment term 3, 7, 10, 20 years

(iv) Premium payment options annual, semi-annual, quarterly and monthly

Rider options It is possible to enhance the utility of the plan by adding the riders like (i) Personal accident benefit rider, (ii) Term rider, (iii) Dread disease rider, (iv) Waiver of premium rider, (v) Term renewable and convertible rider and (vi) Payor benefit rider

Mutual Funds Corner

MF Theme-Arbitrage Funds

The basic premise upon which the arbitrage funds function is the difference in the pricing of any particular stock in the cash and derivatives market.

Suppose an investor buys a share at Rs.100 in cash market and sells same in the future market at a price of Rs.105. In a bullish phase the price of the stock moves to Rs.110 in the cash market at the time of the expiry. When he sells the stock in the cash market, a profit of Rs.10 is earned. Since the futures and cash market prices tend to align towards the expiry of the contract, the futures price of the stock will trade at Rs.110. To close the position, the future will be bought back which means a loss of Rs. 5. This results in a net gain of Rs.5 during this period. This net gain remains at the same level of Rs.5 even when the market price decline. The only difference being that he will gain in futures market (Rs.15) and lose in the cash market (Rs. 10). Hence when the settlement period approaches, it doesn't matter to an investor with the changes in stock prices. It is immaterial with the rise or fall in price of that particular stock

Buy stock X @ Rs.100 in cash market and sell future @ Rs.105

	Bullish phase (Rs.)	Bearish phase(Rs.)
Price in cash @ expiry	110	90
Profit/loss on Cash	10	(10)
Profit/loss on Future	(5)	15
Net profit for investor	5	5

Advantages of arbitrage fund

❖ No price and Leverage risk : Cash positions completely hedged with futures, thus insulated by market volatility in the market. ❖ Reduced maturity risk : As the future maturity contracts are from 1-3 months, it reduces the average maturity of the portfolio. ❖ No tax on long term capital gains.

Suggested fund : JM Arbitrage Advantage Fund

Forthcoming NFOs

- ❖ SBI One India Fund
- ❖ HDFC Prudence Dynamic Fund
- ❖ Gold Benchmark Exchange Traded Scheme
- ❖ UTI Wealth Builder
- ❖ ING Vysya C.U.B.
- ❖ Reliance Agri Fund

Mutual Fund Recommendations

Recommended schemes to invest		Historical returns as on June 28 (%) 6 months (abs)	1 year	3 year (ann)	Crisil Ranking for qtr end Mar 06
Aggressive(Equity)	DSP ML Tiger	6.57	56.27	N.A.	-
	Tata Infrastructure	13.62	50.82	N.A.	-
	Reliance Growth	2.10	42.80	70.81	1
Moderate(Equity)	Fidelity Equity Fund	2.18	35.83	N.A.	-
	HDFC Core & Satellite	7.56	51.26	N.A.	-
	Reliance Vision	5.54	44.88	55.81	3
Conservative(Equity)	HDFC Top 200	4.40	46.27	53.02	3
	Sundaram India Leadership	5.50	55.64	N.A.	-
	SBI Magnum Multi Cap	7.14	N.A.	N.A.	-
ELSS	Franklin India Taxshield	2.04	38.21	50.07	3
	HDFC Taxsaver	2.10	43.76	65.43	1
	SBI Magnum Tax Gain	2.75	44.60	85.55	1
Balanced	DSP ML Balanced	6.47	33.77	36.15	3
	HDFC Prudence	2.39	35.71	40.64	2
	Kotak Balance	11.24	39.82	40.75	2

Equity Corner

IPO : MULTI COMMODITY EXCHANGE OF INDIA LTD.

Key Information	
Book Running Lead Managers	CITI Group, DSP Merrill Lynch, Kotak Investment Banking
Registrars	Intime Spectrum Registry Ltd.
Shares On Offer	5,000,000 Equity Shares of Rs 10 each
Issue Type	100% Book Building Issue
Issue Objective	Upgradation of Technology, Strategic Initiatives, Acquisition etc.

Key Financials As on 31-12-2005 (mentioned in DRHP)	
EPS	Rs 7.88
RONW	35.23%
EBIDTA Margin	52.59%

Investment rationale:
Leader in the commodity futures industry among the national exchanges in India, its market share for gold and silver is approximately 89% and 73%, respectively. It is among the top ten exchanges in the world, and the second largest silver exchange, the third largest gold exchange and the fourth largest crude oil exchange in terms of the value of contracts in 2005.

Strong Network & Alliances
The investor list of MCX is quite respectable. It consists of various scheduled Banks like Union Bank, Canara Bank, Corporation Bank, SBI, and Bank of India, Private Banks like HDFC and Agri Bank like NABARD. It has a MoU with NYMEX and strategic alliances with various exchanges. Some of them are London Metal Exchange, New York Mercantile Exchange, Tokyo Commodities Exchange and various other commodity exchanges.

Huge potential in the commodity futures trading
In just three years of starting its operations, the commodity futures market has grown manifolds. Considering the fact that, world over the volume in the commodities markets is much higher than the equity & financial derivatives markets, there is a huge potential for the growth of the commodities market in India. The first and foremost beneficiary of this growth is the exchange itself.

Risk Factors
- Limited operating history
- Exposure to credit risk of third parties
- Extensive regulation

Source : KARVY Research

Forthcoming IPOs

- Shirdi Industries Ltd
- Multi Commodity Exchange Ltd
- GMR Infrastructure Ltd
- DLF Universal Ltd
- Power Finance Corporation
- Parasvanath Developers Ltd
- MSPL Ltd
- Bharath Hotels Ltd
- Tanla Solutions Ltd
- JHS Svendgard Laboratories Ltd
- Surya Chakra Power Corporation Ltd
- Chemical Biotech Ltd

TECHNICAL RECOMMENDATIONS

Scrip	Action	CMP(Rs.)	Entry(Rs.)	Stop Loss(Rs.)	Target(Rs.)	Time Frame
Reliance	Buy	1048	1020-1040	1000	1095,1120	1-2 Weeks
Tata Motors	Buy	810	795-805	784	835,870	1-2 Weeks
MTNL	Buy	153	148-153	142	167,175	1-2 Weeks
BHEL	Buy	1940	1910-1930	1875	2040	1-2 Weeks

FUNDAMENTAL RECOMMENDATIONS

Scrip	Action	CMP(Rs.)	Entry(Rs.)	Stop Loss(Rs.)	Target(Rs.)	Time Frame
SUBEX SYSTEMS	Buy	436	-	-	540	9-12months

Fundamental view on Subex Systems : With a slew of acquisitions in its fold over the last few years (including the recently acquired Azure), Subex has emerged as a leading telecom software product company, by collaborating with some of the leading global telecom carriers by offering solutions in the niche "revenue maximization" and "revenue assurance" segments, with a suite of products. These acquisitions have enabled it to run past some of the leading names, to emerge as the world's leading provider of fraud management solutions. Without factoring the Azure acquisitions, the previous acquisitions made by the company have facilitated it to double the number of installations to 120, among 65 odd clients, making it the largest player in the revenue maximization space. The table shows the financial estimates for the company, in line with company guidance. The benefits of the Azure business will start accruing in the next fiscal as by then the integration would be complete. Having said that, the Azure acquisition brings tremendous potential for scaling up the company's business as it will broaden the product portfolio and give Subex a good presence in the segments where it is not present.

Source : KARVY Research

Tax Corner - FAQs on Naya Saral

Government of India has recently introduced a new Form 2F for filing Income-tax returns by specified categories of persons. It is a detailed four page form wherein two pages are main return of income, while another two pages are for filling out 9 schedules to such return containing information on income form house property, exempt incomes, incomes not included, income from other sources, cash flow statement, TDS, advance tax and self assessment tax. This form is more elaborate compared to the old Saral form (2E) as it not only includes declaration of income, but also contains details of expenditure incurred during the year, including household expenditure. The cardinal objective of the tax authorities in introduction of this form is simplification and encouraging taxpayer-friendly measures in the benefit of the taxpayer including e-filing of return.

Q.1 What is new Form 2F?

Ans. Form 2F is a new income-tax return form recently introduced on 1st June, 2006 by the Government which is simpler and easier as compared to the old form but contains much detailed information which can easily be filled up by the assessee on its own.

Q.2 What types of income are covered under the new Form?

Ans. Form 2F applies on the employee assessees and HUFs having income from the sources mentioned below only:

- Salary income
- Income from House Property (only one)
- Income from other sources
- Capital gains on which Securities Transaction Tax has been paid

Q.3 On what types of income the new Form does not apply?

Ans. In the case of an assessee where

(a) the total income includes income chargeable to income-tax under the head "Profits and gains of business or profession" or "Capital gains" or agricultural income;

(b) relief under section 89 in respect of arrears or advance of salary is claimed; and

(c) he owns more than one house property, the new Form 2F does not apply.

Q.4 What kinds of income are covered under the head income form other sources in the new form?

Ans. Income from other sources may come from

- Interest income
- Dividend income
- Other incomes

Q.6 What are the other informations which are required to be furnished in new Form 2F?

Ans. Yes, apart from the income and expenditure disclosures, an assessee is also required to furnish details regarding number of dependents of the assessee, bank account details, change of address etc, besides cash flow statement.

Q.7 What is the difference between new Form 2F and old Form 2E?

Ans. Form No. 2E came into force on from 14th May, 2003 and it was optional. Whereas Form 2F is mandatory. Form 2F is much more elaborate and different in its contents as compared to the old Saral. Form 2F focuses on expenditure and cash flow statement unlike Form 2E.

Q.8 What kinds of expenses of an assessee are included in the new Form 2F?

Ans. The Form states that outgoings during the year will include:

- Expenses, investment under which deduction is claimed under Chapter VI-A
- Outgoings by way of other investments and other outgoings

Q.9 Is it mandatory for the assessees using the new form for filing returns for the current year to prepare cash flow statement also?

Ans. No., for the assessment year 2006-07, furnishing of the cash flow statement is optional under Form 2F. An assessee may choose not to submit cash flow statement while filing Form 2F.

Q.10 Can the Form be used in respect of long-term capital gains from transactions in securities on which Securities Transaction Tax (STT) has been paid?

Ans. Yes, the assessees having long term capital gain from transactions in securities on which STT is paid can also use Form 2F.

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