

An innovative over the counter insurance product

Connect 2 Life Plan

from Reliance Life Insurance

Finance
Zindagi ka safar

The element of finance has a profound relationship with an individual's life cycle. At various stages in a person's life, his approach to finance changes significantly. This can be best described as the relationship between "life-cycle" and "finance". Basically, the life cycle of financial planning can be broadly classified into the following categories:-

The above aspects can be put in perspective by identifying the different stages in the life of an individual investor and his/her perspective towards finance.

1. **0-8 years** - No scent of money.
2. **9-16 years** - Piggy bank – the only place the money can go
3. **17-24 years** - Money – the attraction for a better life style
4. **25-32 years** - Start earning. Spend to obtain what u wanted in your teens, no planned approach for future requirements
5. **33-40 years** - Prime earnings with least commitment. But money management takes back seat.
6. **41-48 years** - Understand the value and start conserving for future

7. **49-56 years** - Repent what you could have done in your prime earning, but not done
8. **57-64 years** - No regular income. Health takes importance over wealth
9. **Over 64** - Both wealth & health problems??

Hence, this speaks volumes about the importance of finance. It is critical to have financial planning accompany you throughout your life.

To put things in perspective, it is necessary to differentiate between the old approach of money management to the new scientific financial planning approach.

Old approach

- ❖ Spend less than what you earn by living frugally
 - ❖ Save what you do not spend in a bank
 - ❖ Invest what you save in gold and FDs
- Investments need to just match inflation

The financial planning approach

- ❖ Control expenses but live a life of luxury and comfort and don't under spend
- ❖ Save after maintaining a comfortable lifestyle
- ❖ Invest what you save in Equities and Mutual Funds
- ❖ Investments need to beat inflation hollow

Financial planning thus helps an individual to lead a comfortable life allthrough.

Market Meter



Sensex



Nifty

The markets took the buying route after consolidating between a broad range of 10600-11000 and 3100-3200 levels during the fortnight. Both Sensex and Nifty broke past the much hyped levels of 11000 and 3200 respectively. The volumes remained low during the consolidation process and caught the increasing momentum by the end of the fortnight. The domestic calamities could be taken as a reason behind the dull volumes and the global interest scenario had a bearing on our markets too. The FOMC paused the benchmark rate hike spree, however; it stated concerns over their raising inflation. This decision had given the much awaited positive trigger to the Indian markets.

Sensex and Nifty staged a break-out of their stiff resistance levels and had

sustained convincingly on the back of increasing volumes. This indicates fresh buying emerging in both the index components. There was broad based buying witnessed in mid-cap and small-cap stocks too. The sectors like Banking, Cements, Textiles and Oil & Gas stocks witnessed significant rallies by the end of the fortnight. Technical indicators have generated a buy signal in both the indices. Sensex and Nifty may face some hiccups crossing their immediate resistances placed at 11250 and 3280 levels respectively. A breach of these levels could trigger fresh buying coupled with desperate short covering in the derivatives segment which may guide the indices towards the targeted levels of 11400-11500 and 3340-3380 in the forthcoming sessions.

Insurance Corner - Reliance Connect 2 Life Plan

An endowment assurance plan is a life insurance product providing both the death benefit in the unfortunate event of death of the life assured during the policy period. In case the individual survives the policy term, he will be entitled to the maturity benefits also.

Connect 2 Life plan is a special endowment assurance plan from Reliance Life Insurance Company, an associate company of Reliance Capital Ltd., Anil Dhirubhai Ambani Group (ADAG) enterprise.

The plan is a first of its kind insurance product to be sold on lines of an initial public offer (IPO) with a limited offer period.

Features of the plan

Fixed term plan available for 15 years duration.

No medical check ups required for purchasing the policy.

Minimum documentation to be submitted just the duly filled plan form and photo identity and address proofs.

Instant insurance cover commences as soon as the form is completed and handed over to insurance advisor / PFE. Cover note to the policy is issued instantly.

Enhanced insurance cover provides the flexibility of maximum cover of Rs.10 lacs (under Gold plan option) within 2 years of inception of policy.

Death / maturity benefit as equal to sum assured and vested bonuses is payable as the death or maturity benefit.

Convenient payment options - Premium is payable on an annual or monthly basis. Payment can be made as cash, or through cheque, credit card or electronic clearing service (ECS).

Loan can be availed against the policy after 3 years of policy commencement.

Entry age minimum is 18 years and maximum 45 years as on last birthday

Tax benefits as under Section 80C and 10(10D) of the Income Tax Act are available under the plan.

As a unique feature, plan offers a **special insurance cover** to existing and new subscribers of Reliance cellular services.

Two plans available under Connect 2 Life Gold and Silver can be described with the assistance of the below table.

Particulars	Silver Plan	Gold Plan
Sum assured at policy inception	Rs.100000	Rs.200000
Option to increase sum assured at first policy anniversary to a total of	Rs.300000	Rs.500000
Hence, maximum additional purchase of sum assured at first anniversary policy is	Rs.200000	Rs.300000
Option to increase sum assured at the second policy anniversary to a total of	Rs.500000	Rs.1000000
Hence, maximum additional purchase of sum assured at second anniversary policy is	Rs.200000	Rs.500000
Maximum sum assured allowed per life	Rs.500000	Rs.1000000

Option to increase cover on second policy anniversary is available only if enhancement option has been exercised on first policy anniversary.

Illustration for the premium payment :

For a life assured aged 30 years, initial premium payable under the silver plan is Rs.6765. The second premium, when additional sum assured option for Rs.200000 is exercised, is Rs.6765 + Rs.13530 (for additional sum assured) i.e. Rs.20295. Likewise, the third premium, when additional sum assured option for Rs.200000 is exercised, will be Rs.6765 + Rs.13530 + Rs.13530 (for additional sum assured), i.e. Rs.33825.

Mutual Funds Corner - ING Vysya C.U.B. Fund

Snapshot

Offer period	July 25, to August 21
Offer price	Rs.10
Benchmark index	Nifty Junior
Scheme type	Equity
Minimum investment	Rs. 5,000
Plans offered	Growth, Dividend and Bonus
Entry load (during NFO period)*	Nil
Exit load (during NFO period)*	Nil
Fund Manager	Mr. Paras Adenwala
Liquidity	Once in a quarter*

Source: **ING Vysya Mutual Fund**

*An early exit charge equivalent to the unamortized NFO expenses will be recovered from the investor in case of redemption before expiry of 3 years from the date of allotment.

ING Vysya C.U.B. (Competitive Upcoming Businesses) Fund is a close-ended equity oriented scheme which will automatically convert into an open-ended scheme at the end of the maturity period of 3 years. The scheme will invest primarily in equities of small cap companies which may offer high growth opportunities in the long term.

Why invest in small cap stocks?

Historically, the small sized companies have exhibited higher growth as compared to larger firms.

1. Due to the small base of earning figures, the growth rate of earnings of such firms is higher.
2. As the firm expands, it starts to gain benefits from the economies of scale. Thus, this unexploited potential makes these firms a hot favourite among savvy investors.

Other than these factors, such firms are less researched upon, providing an investment opportunity that is yet to be identified by the market.

NFO - Corner

Tata Capital Builder Fund

- ❖ Open till August 18
- ❖ 3 year close-ended equity scheme

Birla Long Term Advantage Fund

- ❖ Open till September 8
- ❖ 5 year close-ended equity scheme

Kotak Twin Advantage Series III

- ❖ 3- year close-ended debt scheme, closing on August 25
- ❖ investment in debt and equity index options

Analyst's view : Since the fund is close-ended, the fund manager will have the flexibility to take long-term calls on account of low redemption pressure.

Suitability: Due to its inclination towards small cap stocks, the fund can be placed in the aggressive category on the risk-return grid (refer risk-return profile). However, its close ended nature, exposure of not more than 2% (of the portfolio) to a single stock,

buy and hold strategy and investments in derivative instruments limit its downside thereby making it less risky than other small cap funds. Investors willing to give an aggressive touch to their portfolio could consider this fund.

Preferred investment duration: Due to its investment focus on small and mid-cap stocks, the fund should be looked upon as a long-term investment; ideally 3 years

Mutual Fund Recommendations

Recommended schemes to invest		Historical returns as on August 11 (%)			Crisil Ranking for qtr end June - 06
		6 months (abs)	1 year	3 year (ann)	
Aggressive(Equity)	DSP ML Opportunities	5.36	40.77	54.74	2
	Tata Infrastructure	9.45	47.63	N.A.	-
	Reliance Growth	0.75	29.31	65.19	1
	Sundaram Select Midcap	18.57	59.02	73.30	1
Moderate(Equity)	Fidelity Equity Fund	5.06	33.18	N.A.	-
	HDFC Equity	6.36	45.02	53.14	2
	Reliance Equity	N.A.	N.A.	N.A.	-
	SBI Magnum Contra	9.14	44.71	74.67	1
Conservative(Equity)	DSP ML Top 100	8.62	45.56	48.78	3
	Sundaram India Leadership	-2.04	37.88	N.A.	2
	Franklin India Bluechip	6.56	40.48	49.07	4
	Templeton India Equity Income	N.A.	N.A.	N.A.	-
ELSS	Franklin India Taxshield	-2.66	25.98	47.67	3
	HDFC Tax saver	2.52	29.33	64.81	2
	SBI Magnum Tax Gain	5.64	33.68	85.30	1
Balanced	DSP ML Balanced	4.61	29.54	35.27	3
	HDFC Prudence	6.36	30.69	40.56	1
	Kotak Balance	2.65	29.05	40.31	2

Equity Corner - IPO - ICRA LIMITED.

Key Information on the Issue

Book Running Lead Managers	SBI Capital Markets Limited, Kotak Mahindra Capital Company Limited
Registrars	Intime Spectrum Registry Limited
Shares on Offer	2,581,100 Equity Shares of Rs. 10 each.
Issue Type	100% Book Built Issue
Issue Objective	To achieve the benefits of listing on the Stock Exchanges, enhance brand name and provide liquidity to existing shareholders.
Application Details for Retail Investors	At least 35% of the issue to be allocated for Retail Investors on a proportionate basis with total application value not more than Rs 1 lakh with margin amount to be 100% of bid amount.
Issue Open	To be announced.

Source: Draft Red Herring Prospectus- ICRA LIMITED

Investment Rationale

One of the leading credit rating agencies in India

The Issuer is the major player in business of rating and grading services and research based information services in India and operates as a professionally managed commercial entity. It provides rating services, consulting services, information technology based services, information services and outsourcing services along with its three subsidiaries, namely, IMaCS, ICTEAS and ICRA Online.

Strategic Partners

Moody's Corporation is the strategic partner of the issuer.

- ❖ Moody's Investors Service entered into a technical services agreement with the issuer for providing technical services.
- ❖ In addition, Moody's Corporation has invested in the company through its indirect subsidiary Moody's India, which holds 29.10% of the issuer's pre Preferential Allotment and Offer equity share capital.

Revenue Drivers

- ❖ Development of Corporate Debt market and penetration of ratings in the domestic bond market.
- ❖ In Corporate sector, the demand for ratings is influenced by choice of sources of funding which in turn depends on liquidity condition in the banking system, prevailing interest rate and changes in currency expectations, etc.
- ❖ Through credit ratings of banks, financial institutions and NBFCs (including asset financiers, capital market related entities and housing finance companies). The growth prospects for the financial sector ratings are driven by the economic fundamentals. This in turn leads to increase in demand for funds by banks, financial institutions and NBFCs,

Risk Factors

- ❖ Changes in the interest rates and volatility in the financial markets.
- ❖ The Issuers rating business is dependent on volume and number of debt securities issuance in the capital markets in India.
- ❖ Cyclical nature of consulting business.

Equity Recommendations

TECHNICAL RECOMMENDATIONS

Scrip	Action	CMP(Rs.)	Entry(Rs.)	Stop Loss(Rs.)	Target(Rs.)	Time Frame
Reliance Comm.	Buy	279.95	275-280	267.10	295-300	5-6 Days
Gitanjali	Buy	167.70	163-168	158.10	178-180	4-5 Days
Sail	Buy	77.45	75-78	70.10	88-90	8-10 Days
Zee Tele	Buy	269.95	266-270	258.80	290-295	5-6 Days

FUNDAMENTAL RECOMMENDATIONS

Scrip	Action	CMP(Rs.)	Entry(Rs.)	Stop Loss(Rs.)	Target(Rs.)	Time Frame
Wockhardt	Buy	366.8	-	-	440	12months

WOCKHARDT (Rs. 366.8)

Recommendation : Buy
Target Price : Rs 440

Wockhardt enjoys the unique distinction of being among the first Indian pharmaceutical companies to have a range of biotech products and now being an exporter to the various unregulated markets around the

world. Wockhardt's US operations are also clocking incremental revenues after the first part of the investment phase was over, a year ago. In line with de-risking its revenue profile, revenues from the regulated markets are now accounting for over 50% of Wockhardt's overall revenues.

Domestic Operations : Domestic

formulations revenues which were aided by VAT in Q1 CY 2006 have managed a growth of 26 % for H1 2006. This segment should end the current year with a growth of 8 % for CY 2006E.

US Operations : The US business should do well in the second half with 4- ANDA launches. The company should close the year with revenues of Rs 1.22 bn higher than previous estimates of Rs 1.5 bn for CY06.

Biotech : The biotech business should do well with revenues of USD 20 mn for the current year which includes USD 4 mn of exports. Next year Biotech revenues should scale up to USD 30 mn for the CY 2007.

Valuation : The stock is currently trading at 14.4x and 11.9x its FY06E and FY07E earnings respectively. We give a BUY recommendation with a one year price target of Rs 440.

Tax Corner - Investments and Taxes

It is vitally important in this current day and age for all of us to begin taking control of our financial situation and start planning for our future.

People have started investing in income producing assets now, so that they will have time to grow and develop so that we will be financially independent for our retirement years.

With 5-8 per cent annual growth rates in the last few years, many salaries, especially those in the corporate sector, have doubled and, in some cases, even tripled. As a result, a significantly large number of Indians are now able to create wealth and enjoy its benefits: acquiring homes, bigger cars, feature-loaded mobile phones, laptops and other gizmos and, not to forget, domestic and international travel.

So, to attain your financial goals and objectives which may be, buying a luxurious car or a lavish house or giving your children the best available education facilities, your mainstream income would not suffice, it is here where the concept of investment arises.

People want to be financially successful without depending upon their professional income for their livelihood.

However what one must understand tax implications of the above investment avenues, in order to optimize your returns from your investments.

We shall discuss about all the related tax implications of investments related to capital markets.

We will cover tax implications of the following investments

1. Tax implications involved in the purchase and sale of shares in the secondary market
2. tax implication involved in the purchase and sale of shares in the primary market

Purchase/acquisition of shares:

No tax benefit is available in case of purchase of shares, whether it is purchased from the primary market or the secondary market.

Dividends on shares:

These refer to the periodical incomes received from the company in which one holds the shares. Dividends received are totally exempt in the hands of the receiver.

Ex: If Mohan holds the shares of Bata India, and receives an annual dividend of Rs.4,500, then no tax is payable on the dividend received. The whole dividend of Rs.4,500 is tax free in Mohan's hands.

Capital gains:

Capital gains arise on the sale of shares, as shares of a company/firm are considered to be capital assets.

For computation of capital gains, the shares are first to be divided into long term and short term shares. Shares held for more than 12 months are considered to be long term and if shares are held for a period of 12 months or less than 12 months are considered as short term.

As any other capital gain (as we have discussed in the earlier issue), capital gain on the sale of shares is to be computed in the following manner:

Details	Amt (Rs.)
Sale proceeds	(A)
(less) expenses related to sale	(B)
Net sale proceeds	(A)-(B) = (C)
(less) cost of acquisition of shares	(D)
Long/short term capital gain	(C)-(D)

Taxability of capital gains:

Long term capital gains on shares are fully exempt i.e. no tax is payable

Short term capital gains on shares are taxable at 10% (this does not include education cess and surcharge)

Few important aspects to be kept in mind:

- ❖ The benefit of indexation does not apply to computation of capital gain on shares
- ❖ If the shares are received through inheritance, then the cost to the previous owner will be considered as cost of acquisition on the shares.
- ❖ If shares are gifted, then the cost of acquisition will be the cost to the previous owner.
- ❖ In case of ESOP (if it is a recognized scheme), then the cost of acquisition will be the actual price which is paid to acquire the shares.

Disclaimer

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