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the Finapolis
FORTNIGHTLY UPDATE

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Wants are unlimited and resources are limited

Perhaps, this is one of the rare instances where finance joins hands with economics with respect to the fundamental principle - "Wants are unlimited and resources are limited".

People's dreams could range from a basic desire like buying a car to buying a luxurious house in a posh residential area. While embarking on a journey to achieve the financial objectives, it is necessary to prioritize amongst them. Following the heard mentality and making investments in a haphazard manner may not yield the desired results. Any investment choice should ideally depend upon one's own profile and requirements. The key to financial empowerment and success is to prioritize amongst a number of financial goals so that an investor does not end up splurging money on objectives which are desirable but not critical in the larger context of life.

This point can be better understood by studying the case of 2 professionals Ram and Kishore. Both believed in the power of investments, however, Ram took the help of a professional financial planner. Ram's planner studied Ram's income and expenditure pattern, analyzed his cash flows, identified his financial goals and prioritized amongst the various goals. Hence, Ram followed a disciplined investment pattern and his investment portfolio consisted of avenues which best suited his unique profile. Hence, he was able to realize his financial goals at critical phases of his life.

On the other hand, Kishore did not believe in the need for a financial planner and made ad-hoc investments. Needless to say, in his greed for earn higher returns he was heavily exposed to equities and other risky avenues. A slight dip in the market took a heavy toll on his investments. The result of non-diversification across asset classes! Whatever returns Kishore earned, he ended up splurging on desirable but not critical goals.

Any investment choice should be preceded by a careful introspection of one's one needs and requirements, analysis of income and expenditure and last but not least, an objective prioritization of the goals. This exercise not only requires inputs of time but also dedicated and sincere effort. Considering the present working style of individuals, it is indeed a fact that not many will be in a position to spare time and carry out this exercise with such sanctity.

The question that now arises is "Is there any way out of this quandary?"

Let us join together in welcoming the new generation of wealth doctors – The Financial Planner!

Financial Planning is the art of meeting one's financial aspirations with given resources in a scientific manner. Its helps one manage personal financial affairs in the best possible manner.

These could be quantified in terms of aspirations of lifestyle maintenance and retirement planning, capital required to become an entrepreneur, education marriage of children, owning an asset or even of philanthropic nature.

Most individuals are not able to quantify their life and hence cannot plan for them. They rather believe in their destiny and wait for things to happen for them. If they do not succeed, they do compromise and accept whatever comes to them.

There could be a better approach than this, i.e. to hire the services of a financial planner who helps them to plan their lives and guide them along the correct or realistic path in achieving their required life goals.

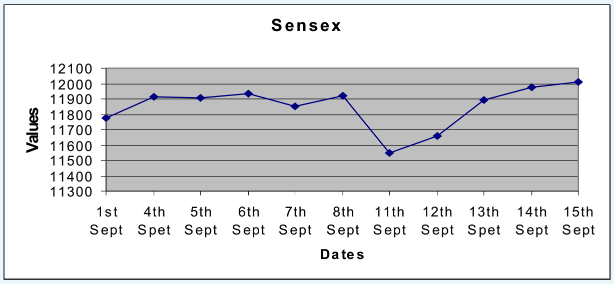
Financial planning is very important for each and every body who earns. When it comes to money the question of managing them efficiently comes along. Financial planning is about efficiently managing ones finances. Every one has few goals or dreams in their lives, to fulfill them on time it is very important to manage your finances.

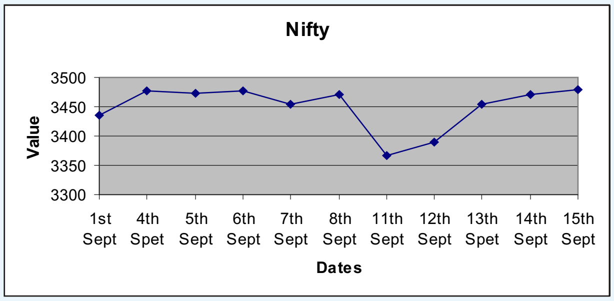
However, it is by and large understood that financial planning is the Rich's shoes, but in fact it is all the more important for the middle income group. "It's not just for the well-to-do; it's how you become well-to-do."

As India is a growing economy, the problem of understanding the various investment option is also growing. Also attached is the problem of understanding the risk return trade off is important. On these lines we can discuss these few importance of financial planning for any investor or for that matter saver.

- ❖ Financial planning provides direction and meaning to your financial decisions.
- ❖ It allows you to understand how each financial decision you make, affects other areas of your finances. For example, buying a particular investment product might help you pay off your debts faster or it might enhance your goal of buying a car by a year or two.
- ❖ By viewing each financial decision as part of a whole, you can consider its short and long-term effects on your life goals.
- ❖ You can also adapt more easily to life changes and feel more secure that your goals are on track.

Market Meter





The market continued its upward journey, attracting buyers at every decline. The Sensex opened on a strong note at the start of the month but found strong resistance at the psychological barrier of 12000 levels. The average volumes traded were also on increase indicating the return of investor's confidence. A further fall in the crude oil prices and strong growth expected numbers helped the index to register robust gains. Expectations that the US Federal Reserve might leave the interest rate unchanged on reports of slowing inflation in the US further boosted the sentiments in the domestic market.

The Sensex managed to move above the 76.40% retracement levels placed at 11757.29 levels made from a high of 12671 to a low of 8800 levels. However, profit booking at around 12000 levels chipped in last Monday, which forced the index to shed more than 350 points intraday. Bargain hunting at lower levels helped the Sensex to recover the losses and close above the barrier of 12000 levels by the end of the week. The index is expected to trade in the positive territory in the coming sessions. The 14-day RSI has cut the trigger line from below, thereby generating a buy signal. Immediate resistance for the Sensex is placed at around 12250-12300 region. A move above that level will induce fresh buying interest which might guide the index to test all time high levels of 12671. A slide below 12000 levels might force the index to test 11600 levels. The Sensex is expected to trade in the range of 11600-12650 with a positive bias for the fortnight.

Insurance Corner - Invest Assure II from Tata AIG Life Insurance

Invest Assure is a unit linked insurance plan from the stable of Tata Aig Life Insurance Company.

The features are:-

Choice of policy term - A choice of 3 terms is available - 15 years, 20 years, or 30 years.

Choice of sum assured - The sum assured is a multiple of the regular annual premium that is payable under the policy. This multiple may vary according to age at entry and policy term. Also, when the fund value exceeds the sum assured the death benefit will automatically be the fund value death benefit will be either the sum assured or the fund value at the time of death of the life assured, which ever is higher.

Enhancement of sum assured - The policyholder has the option to choose an additional sum assured equal to the premium multiple times the top up premium.

Choice of a variety of funds -

Fund Type	Premium Allocation		
	Equity	Government Securities & Fixed Income Instruments	Money market instruments
Equity Fund	Primary investment in equities	N.A	N.A
Income Fund	N.A	Primary investment in G'Secs	N.A
Aggressive Growth Fund	50% to 80%	20% to 50%	N.A
Stable Growth Fund	30% to 50%	50% to 70%	N.A
Short-Term Fixed Income Fund	N.A	Upto 100%	Upto 20%

Each of the above funds will at all times be substantially invested in their respective asset categories.

Flexibility to switch between the funds - The entire investment value can be shifted (switched) from one fund to another. Four of such switches will be free in a policy year.

Flexibility of top-up premium - The policy offers the flexibility of increasing the amount of the premium payable at any time during the policy term.

Plan parameters - The minimum and maximum age will depend upon the term selected under this plan. The same is illustrated below:-

Term of the policy	Minimum age	Maximum age
15 years	30 days	60 years
20 years	30 days	55 years
30 years	30 days	45 years

Charges under this plan - are as enumerated below:

(i) Premium allocation charge - deducted as a percentage of regular premium, and varies with policy term and issue age.

(ii) Mortality charge - deducted from regular premium account every month, towards life insurance cover available under policy.

(iii) Policy administration charge - deducted from regular premium account on a monthly basis, and subject to a maximum of 5% p. a.

(iv) Fund management charge - varies between 0.90% to 1.75% for above five funds.

(v) Surrender or partial withdrawal charge - calculated as percentage of fund value of the withdrawn amount in case of full surrender or partial withdrawal.

(vi) Fund switching charge - of Rs.250 per switch, applicable for every additional switch the first four 'charge-free' switches, and subject to a revised maximum Rs.500.

(vii) Premium redirection charge - of Rs.1000 applicable for every premium re-direction, after the first 2 'charge-free' premium redirections, subject to a revised maximum of Rs.2000.

(viii) Premium holiday charge - of 3% of regular premium applicable for the revival period in case the policy holder is unable to pay the regular premium within the grace period.

Fund Corner - UTI Wealth Builder Fund

Snapshot

Snapshot	
Offer period	September 7, 2006 to October 11, 2006
Offer price	Rs.10
Benchmark index	BSE Sensex
Scheme type	Equity
Minimum investment	Rs. 5,000
Plans offered	Growth and dividend
Entry load (during NFO period)	Nil
Exit load (during NFO period)	Nil*
Fund Manager	Mr. Amandeep S. Chopra
Liquidity	Once in six months*

Source: UTI 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 5 years from the date of allotment.**

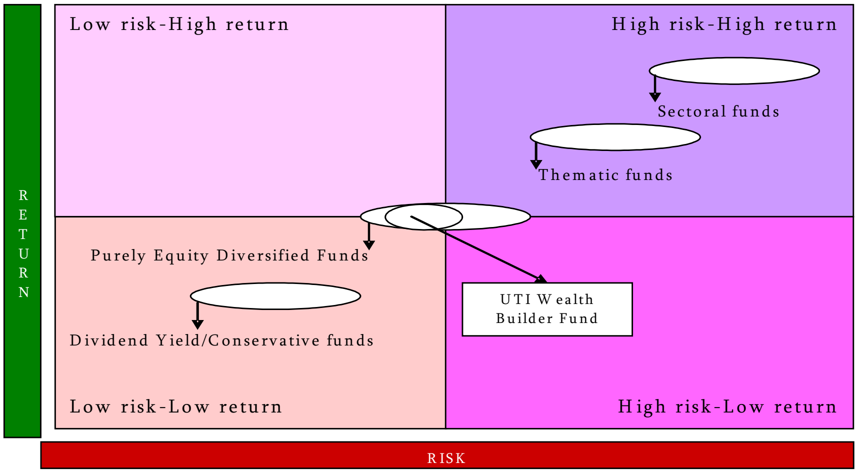
UTI Wealth Builder Fund is a closed-ended diversified equity scheme which will invest in equities across all market capitalizations. The scheme has a lock-in period of five years. Upon maturity, the scheme shall automatically be converted into an open-ended scheme.

Suitability:

The fund aims to diversify its investment across all market caps which will reduce its risk towards any specific market cap. Due to its multi cap structure, the fund is placed in the moderate risk-return category (refer risk-return profile below). Investment in derivative instruments limits the downside of the fund, further lowering its risk. Also, investment in international market will offer the benefit of international diversification. The scheme is suitable for an investor looking to include a moderate fund in the portfolio.

Preferred investment duration:

An investor, with a moderate risk-return profile, aiming for market linked returns over a period of 5 years can opt for this fund.



*Read the offer document carefully

Mutual Fund Corner - Recommendations

Recommended schemes to invest		Historical returns as on September 15 (%) 6 months (abs)	1 year	3 year (ann)	Crisil Ranking for qtr end June - 06
Aggressive(Equity)	DSP ML Opportunities	5.00	41.21	53.68	2
	Tata Infrastructure	3.40	47.73	N.A.	-
	Reliance Growth	2.25	29.14	65.22	1
	Sundaram Select Midcap	12.92	53.84	69.67	1
Moderate(Equity)	Fidelity Equity Fund	6.17	32.22	N.A.	-
	HDFC Equity	8.11	47.12	54.58	2
	Reliance Equity	N.A.	N.A.	N.A.	-
	SBI Magnum Contra	8.31	42.32	77.29	1
Conservative(Equity)	DSP ML Top 100	7.19	45.63	49.65	3
	Sundaram India Leader	-3.33	34.62	N.A.	2
	Franklin India Bluechip	7.97	40.55	49.68	4
	Templeton India Eq. Inc.	N.A.	N.A.	N.A.	-
ELSS	Franklin India Taxshield	-0.35	28.50	48.62	3
	HDFC Taxsaver	3.49	29.70	64.26	2
	SBI Magnum Tax Gain	4.75	29.26	83.56	1
Balanced	DSP ML Balanced	5.09	31.58	35.47	3
	HDFC Prudence	9.25	32.08	41.71	1
	Kotak Balance	2.53	28.51	40.00	2

Equity Corner - IPO - RICHA KNITS LIMITED

Key Information on the Issue

Book Running & Lead Mgr.	KJMC Global Market (India) Ltd.
Registrars	Intime Spectrum Registry Ltd.
Shares On Offer	90,00,000 Equity shares of Rs 10 each with net issue to public of 56,25,000 Equity Shares of Rs 10 each.
Issue Price	Equity shares of 10 each are offered at a premium of Rs.20.
Issue Objective	The objective of the issue is to raise capital for setting up new unit for processing & dying with a capacity of 3960 tons and new unit for Knitting with a capacity for 480 tons. Company is also looking for enhancing its existing capacity for Garmenting and to fulfill long term working capital requirements.
Application Details	Minimum Application 180 shares in multiples of 180 thereafter, Maximum Retail Bid Amount Rs 100,000

Investment Rationale

High Growth Expectations with dismantled quota system

The textile and garment industry is growing at 7.87% compounded and with dismantling of quota system growth is expected to florish. It is one of the prominent sectors of the Indian economy for foreign exchange earnings and employment generation. It accounts for one fifth of country's total export earnings and accounts for 2.3% of the country GDP (at factor cost). Going by the New Textile Policy, 2000 India's textile exports are expected to grow to US $50 bn by 2010 from current levels. Apparel industry would be the key driver and is expected to reach US $25 bn by 2010. The company is all set to capitalize on the available opportunities.

Developing nations have an edge over developed counterparts

Developing nations always have an edge over developed countries in a sense that labour cost as a percentage of total cost is very high for the textile value chain. Apparel industry is being touted as the most labour intensive and with lower labour costs developing nations are set to gain.

Government initiates key growth schemes

GOI has initiated few growth schemes like Technology up gradation, Duty exemption, setting up of modern laboratories, apparel parks for exports schemes and apparel international marts to promote growth of Indian textile industry.

Risk Factors

- ❖ Company has not made any definite arrangements for procurement of equipments and machinery which may cause delay in project implementation. Company is still in the process of converting agriculture land into non agricultural one for expansion purposes.
- ❖ No acquisition of land being done and Government approvals are still waited. Company has expanded the capacity without any firm client base and long term contracts.
- ❖ Opening up of International markets poses pricing pressures over the products.

*Read the offer document carefully

Equity Recommendations

TECHNICAL RECOMMENDATIONS

Scrip	Action	CMP(Rs.)	Entry(Rs.)	Stop Loss(Rs.)	Target(Rs.)	Time Frame
Zee Tele	Buy	319.70	316-320	308.50	340-345	5-6 Days
EKC	Buy	473.50	465-470	455.80	500-505	4-5 Days
JP Associates	Buy	472.95	466-470	455.20	495-500	3-4 Days
A.C.C	Buy	954.50	948-955	942.10	980-985	5-6 Days

FUNDAMENTAL RECOMMENDATIONS

Scrip	Action	CMP(Rs.)	Entry(Rs.)	Stop Loss(Rs.)	Target(Rs.)	Time Frame
Satyam Computer Services	Buy	820.50	-	-	900	12months

Satyam Computer Services (Rs.820.50)

Recommendation : Out Performer

Target Price : Rs. 900

Satyam Computer Services Ltd. is a leading global consulting and IT services company, offering a wide array of solutions customized for a range of key verticals and horizontals. From strategy consulting right through to implementing IT solutions for customers, Satyam is practically hovering over the entire IT space.

We expect the net revenues of the company to be Rs62,258 mn at a growth rate of 30% for the current year and Rs80, 807mn for FY2008E. We expect the company to report earnings growth of 27% and 25% respectively for the next two years. The net profit for the company is expected to be Rs12, 519mn for FY2007E and Rs15, 655mn for FY2008E. At the current market price the shares of the company are trading at 20XFY2007E EPS and 16XFY2008E EPS, with return ratios improving modestly. In addition to that, we expect the company to have cash and bank of Rs103 per share which itself is 13% of the stock price. We rate it an Out performer with a price target of Rs900.

Growth triggers: IT spending would grow by 3-5% globally to US$863bn whereas; offshore activities are expected to post 12-14% growth. Having said this, it is a known fact that Indian IT companies have universal acceptance of their global delivery model and touted as the most cost effective. Company is also gearing up for vertical expansion of services provided like integrated engineering and animation. These verticals would account for one-third of revenues over the next couple of years from the current 20-22%.

Tax Corner - Bonds & Taxes

In the earlier issue, we had discussed the tax implications of investments in the equities market. However, any investment portfolio needs to be diversified across diverse asset classes. It is always important to have a debt component comprising of debt instruments as a part of the investment portfolio.

Here we throw light on the tax implication of popular debt instruments. The tax implication of each debt instrument has been dealt with under the following categories:-

(i) Tax implication at the time of making the contribution

(ii) Tax implication of any accretion of the investment.

(iii) Tax implication at the time of withdrawal.

The overall risk return profiling of the above investment avenues is LOW RISK and LOW RETURN. Hence, these investment avenues are ideal for conservative investors who believe in capital preservation.

Bonds

We will discuss the tax implications of the following instruments available in the debt market.

1. **Bonds issued by the Central and State Governments**

   These bonds are issued by the Central or the State governments. These are basically suitable for people who want a guaranteed coupon rate. The terms of the bone with respect to the interest yield and lock-in-period would depend upon the notification given by the governments, which is published in the official gazette.

2. **Capital gains bonds:**

a. **Sec. 54EC of the IT Act:**

   Any individual who has capital gains can look at section 54EC bonds for saving the capital gain tax. While investing in Sec.54EC bonds, one claim exemption from long term capital gains arising out of the sale of any capital asset (except shares and equity oriented units). According to section 54EC, any person (individuals, HUFs, partnership firms, companies etc.) can avail exemption in respect of long-term capital gains (arising from the sale of long term capital asset other than equity shares and securities)

b. **Issuers:** the following institutions can issue these bonds

   i. NABARD
   ii. REC
   iii. NHAI
   iv. SIDBI
   v. NHB

c. **Tax benefits available:**

   i. **At the time of contribution:**

   The amount invested in these bonds will be reduced from the long term capital gains, this result in a reduction in your taxable income and will reduce your taxability.

   ii. **Interest accrued:**

   Interest amount accrued is fully taxable

d. **Other restrictions:**

   i. The investment is to be made within a period of 6 months from the date of transfer of the asset.

   ii. These bonds are subject to a lock-in-period of three years. It means that if the bonds are sold or transferred within a period of 3 years from the date of acquisition, the capital gains which were earlier exempt are taxable in the year of sale or transfer of the bonds.

e. **Suitability:**

   i. For saving long term capital gains tax.
   ii. For people who can lock their funds for 3 years.
   iii. For people who believe in capital preservation with a guaranteed coupon rate

3. **Infrastructure bonds**

   These bonds are issued by financial institutions like ICICI, IDBI, IFCI etc. Such bonds come with a lock in period of 3 years. The tax implications of such bonds are:-

   ❖ The contribution towards these bonds will be eligible for a deduction under section 80C. The maximum amount of investment that is eligible for a deduction will be Rs.1,00,000.

   ❖ Interest accretion will be fully taxable.

   ❖ Once these bonds are sold after 3 years, the gains will be subject to tax.

BONDS- Purchase through the secondary market:

Just as shares of a company are purchased or sold in the secondary market, one can purchase or sell bonds in the secondary market. Most of the bonds are traded in dematerialized form. Different kinds of instruments are available in the secondary market such as government securities, bonds of public sector units such as HUDCO, NABARD, IOC, PGC etc., and even bonds of banks and financial institutions such as IOB, SBI, Syndicate bank, Vijaya bank etc. While applying for public sector bonds in the secondary market, the minimum investment size of Rs.10 lacs is necessary.

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