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Volume-7

SAFE FINANCIAL ADVISOR PRACTICE JOURNAL

Journal Of The Security Academy And Faculty Of e-Education

The engine for growth is accumulation of human capital – of knowledge.

SAFE UPDATE - KEEP INFORMED

The Securities Academy And Faculty Of e-Education

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1- KNOWLEDGE ECONOMY

The engine for growth is accumulation of human capital – of knowledge.

An economy that creates disseminates and uses knowledge to enhance growth and development. It leverages the existing knowledge to improve overall productivity across industries. Competitiveness of nations depends not just on their physical assets but also on their ability to effectively capitalise their knowledge assets. In spite of having a strong intellectual capital base, India has still a long way to go in utilising her resources towards creating a strong knowledge economy. As per a World Bank publication, India is at the top of the bottom third in the global knowledge economy. India's position has not improved much over the past ten years.

We have long period ourselves as belonging to a great and ancient tradition of learning. However, our performance on the ground is less impressive. The size of our population means we almost have a presence in all areas of knowledge. However our performance on a composite index that measures our ability to create, absorb and diffuse knowledge is 98 in a tally of 128 countries. Our peers, such as China, Brazil, Russia, and Philippines are some 30 to 50 places ahead. We are low on indices that measure the ability of a country to exploit its knowledge resources. For example, our legal system is weak in protecting copyrights and patents, and in punishing harshly any infringement of intellectual property (IP). Our financial system is still infantile in its ability to provide venture capital finance to knowledge economy infrastructure. The World Bank's works in this area demonstrate we have to work on two fronts.

FIRST, WE HAVE TO ENHANCE OUR KNOWLEDGE AND SECONDLY, CREATE AN ENVIRONMENT IN, WHICH THEY CAN BE HARNESSED EFFECTIVELY.

1.1 Education a fundamental right

Prime Minister has reiterated the government's commitment to facilitate the enactment of an appropriate law that would enable making education a fundamental right as required by the 86th Constitutional Amendment Act. Even five years after the Constitution was amended making education a fundamental right, the enabling Right to Education legislation is yet to be notified. The primary reason for the delay is that the cost involved would be far beyond the financial capabilities of the government.

1.2 Universalise education up to class ten

The government is all set to consider private sector participation in the secondary education segment. The working group of secondary education has also suggested encouraging private-public partnership as one way of saving public funds. The group is of the view that involving the private sector would provide students with the opportunity to receive work-oriented education. "This would be particularly relevant for vocational and skill education so as to overcome a major weakness of the current school system where students are kept away from real life situations." During the Eleventh Plan period, the Union HRD ministry will universalise secondary education up to class ten.

Private sector high schools

Of the 101,177 high schools in the country, private players run 58,053 high schools. These schools are of two types – aided and unaided. The former, which make up the bulk of private sector schools, receive almost full salary of the teaching staff from respective state governments and have to provide only for capital expenditure. Private unaided schools do not receive any grants and have to be financially sustainable on their own. However, most of the unaided schools may have received land on concessional rates from the government.

1.3 University and college network

The Prime Minister's Office has announced a massive expansion of university and college network. A central university will be set up in every state while each district will get a degree college. At present, there are 20 Central universities in 12 states and of the 604 districts, 254 have degree colleges. This would mean that 16 new universities and 350 new degree colleges would be set up. The PM said that each Central University should become a symbol of excellence, a model of efficiency and an example in terms of academic standards and university governance for other state universities to emulate.

1.4 Independent regulator of open learning

The government is considering setting up an independent statutory educational regulator to promote, coordinate, and regulate the standards of open learning. At present the distance education council (DEC) is a unit within IGNOU. It has been argued that a unit within IGNOU, which is a central university, is not in a position to regulate distance-learning courses by other institutions. "It is a case of player taking the role of a regulator". The ministry of human resource development is of the view that the Council needs to be made independent. The proposed regulator will regulate the entire gamut of open and distance learning offered through correspondence, ICT and satellite channels.

1.5 Washington accord

At present, Indian engineer degrees are not recognised by institutions in most countries particularly developed ones. IIT degree is recognised, because of the global standing of the institute, while degrees from an AICTE accredited engineering colleges are not recognised. However, If it is granted provisional membership of the accord, engineers from AICTE accredited engineering schools will be able to work in signatory countries without having to go through equivalency programme.

1.6 Company backed education institute

The concept of corporate universities has been around since the late '80s with many companies setting up their own universities around the world. Companies are increasingly recognising that developing people is a top priority in today's competitive environment. Additionally, a corporate university offers a unique branding opportunity and a powerful model for learning that compels learners to grow and develop. For instance, Atlanta-based cola giant is developing a unique concept of Retail University. It would also teach Kirana shop-owners some tricks of modern selling and storage techniques.

Kirana shops

Though, the emergence of modern trade has altered the retail scenario in India, the fact remains that a bulk of FMGC sales still comes from Kirana shops. Regardless of consumers' lifestyles, the Kirana stores would continue to serve consumers as before. So, the importance of neighbourhood stores and traditional trade would still remain. And Kirana stores also have some distinct advantage over their big-ticket counterparts in terms of reach and convenience.

There are foreign universities such as Disney University, McDonald's Hamburger University, Motorola University, and Oracle University etc. Even back home there are company backed education institutes like Bharti Telecom School, Nirma's business school, Amul backed Indian Institute of Rural Management, and Pantaloon's retail school etc.

Educational institutions in India are also gearing up big time to meet the increasing demand for training professionals in the real estate sector. The universities are realising the huge potential of this sector and have courses especially designed to meet industry standards.

1.7 In-house training programmes

Training issues in India have become a major bugbear because of the huge skill gap where almost 90% of our graduate and a third of engineers are unemployable. With skilled manpower in short-supply, companies in new industry domains like information technology, pharma and retail are relying on in-house training programmes. For instance, Satyam Computer Services has implemented an organisation-wide virtual learning environment – Satyam Learning World (SLW) – to enhance performance of its professionals at the project and service offering levels, and to work more effectively with partners and customers.

1.8 Open up educational sector to the foreign universities

Minister of science & technology Kapil Sibal said: "We are going to open up our educational sector to the foreign universities and it is going to be one of the largest FDI earners." The minister advocated a two-tier treatment for foreign universities – those of international repute would be exempt from national treatment and the rest would be treated at par with Indian universities.

1.9 Easy procedure for higher educational loans

An Assocham study said that less than 3% students, majority of whom belong to the middle class, avail of loan in India against 85% in UK, 77% in the US. Since the procedure to get the loan is cumbersome, the number of students seeking educational loan in the country is extremely low.

1.10 Increase aid on higher education

The Assocham study also pointed out that US spend nearly $ 80 billion annually, most in the form of aid on higher education, while India has allocated merely *$ 3.5 million* for merit-cum- means scholarship schemes.

1.11 Set up a higher education refinance company

It may be possible for students to finance their education through loans at low interest rates. The government is considering setting up a HERC that would provide loans at low interest rates. A fund of Rs 2,500 crore would be provided to the corporation during the 11th Five Year Plan.

Coordinate better with students

University representatives are sending SMS messages to students that convey details of on the spot registration, scholarship offered and even information on work permits. Communication through text messages and e-mails has enabled to coordinate better with students all over India. This has also led to quicker response by students. The number of students that counselors are able to cater to has increased at least 10 times in two years.

2. SECURITY MARKET

1. The spotlight these days seems to be on embedded values or subsidiary valuations

Investors should be wary of companies, which use future businesses to build heavy premiums into their valuations. The lesson is: "Stay away from companies where FY10 numbers are being used to justify the current price or where new businesses, which are more than three years from making any contribution to the bottom line, accounting for a big chunk of a company's valuations." The spotlight these days seems to be on embedded values or subsidiary valuations. Both market and analysts are valuing future businesses – some of which are in embryonic stage, while others are still years away from making money. Core business cash flows are no longer sufficient to justify heavy premiums that are being built into valuations.

2. Mutual funds continued to be in stark contrast with that of FIIS

The FIIs have continued to stock up on Indian equities during January-March '07. They bought net shares worth $ 1.6 billion during the quarter. Sectors in favour with foreign investors included banking, utilities, telecom and engineering. Surprisingly, the portfolio of domestic mutual funds continued to be in stark contrast with that of FIIS, with consumer staples being a major overweight, a sector on which FIIs were negative. Funds are underweight on telecom, utilities and metal sectors, where FIIs were positive. Also, contrary to the FIIs, mutual funds were big sellers in banking stocks during the quarter.

3. Corporate India hits the street like never before

India Inc has raised more money from the capital markets in the first six months of 2007 than it has in any single year since 1998. According to Prime Database, corporates raised Rs 30,914 crore in April-June 2007, surpassing the Rs 30,510 crore mopped up in 2004. Unlike 2004, when PSU disinvestments in the first half of the year fuelled the primary markets, this time it's India Inc's demand for growth that is leading to fund mobilisation.

4. India is an oasis in a global welter of fears

As per the strategy report by brokerage house Enam Securities, multiple secular trends make India an oasis in a global welter of fears. It claims India is on a better footing compared with other emerging markets. The Sensex at 17 times forward earning is "not so cheap", but feels that 'Global paucity of real investment growth for geo-political reasons, will drive capital into countries like India, which have a good record of growth and entrepreneurship.

RTI act to keep stock exchanges on high alert

The central information commission's decision to bring stock exchange within the purview of RTI act will keep the bourses on high alert and ensure operators make the necessary information available to public in case of manipulation.

INDIA: THE BIRD OF GOLD

There is enough space one of us to grow together (Chinese leader Hu Jin Tao).

1. Consolidation in airline industry

The UB Group chairman has struck a deal with Air Deccan, which clearly gives him an opportunity to gain management control over the company that pioneered low-cost flying in the country. Effectively, Mr Mallya will control a low-cost and a premium airline. Kingfisher and Air Deccan will together have 71 aircraft covering 65 destinations and a market share of about 33%, way ahead of rivals. A compelling reason for this marriage was that the merged entities of Air India and Indian and Jet and Sahara – both plan to offer premium and low-cost services.

2. Entertainment firms bet big on India

A media research report indicated that global media and entertainment firms are racing for a piece of a fast-growing Indian market and the pace will quicken because of global consolidation, India's buoyant economy, resurgent advertising market and rollout of new technologies in broadcast and distribution. Entertainment in India is set to go digital as the analogue cable will soon become extinct in most parts of the country. In a bid to promote digitalisation in the country, no new analog cable operators would be allowed to register in all most all major cities and towns of the country. The existing analog cable operators would be given time to prepare for conditional access system by 2011.

3. The Bharat diamond bourse (BDB)

It's good news for the diamond industry. Now nobody can stop India from becoming the trading hub for polished diamonds. The BDB is being established at Bandra-Kurle complex at an estimated cost of Rs 1,000 crore with the objective of promotion of export of diamond and providing infrastructure to the overseas buyers. The BDB is in its final stage and it will start operations by Diwali. Now, the trading of polished diamonds, which was concentrated in the Opera House area in South Mumbai, will be shifted to the Bandra-Kurle complex. The BDB will be equipped with the world-class facilities under one roof and that it will contribute to 90% of the country's diamond trading activity

4. Advance tax collections

Corporate tax collections for the three-month period ending June 15 indicate continuing buoyancy in the Indian economy as most companies have registered a significant increase in tax payment over the corresponding period last year. Though not a precise estimate, the first installment is considered 15% of the total advance tax to be paid in a year. SBI paid Rs 503 crore (up 40%). The rise in tax payment is attributed to the bank being able to transfer high interest cost to borrowers. Reliance Industries paid Rs 290 crore (up 38%). RIL, which was a zero-tax company for a long time, has started figuring in the list of top 10 taxpayers since last year.

Leadership is everything

The international trend of executive movement affecting stock price has arrived in India. Western analysts are more clued into the effect of people movement on share prices. Leadership is everything in the West unlike India, where till a few years back, there were either MNC or family-owned businesses. This concept is changing now and professionals as being acknowledged.

INDIA INC: OPEN FOR NEW HORIZONS

1. Navratna status

The government conferred Navratna status on Bharat Electronics (BEL), Hindustan Aeronautics (HAL) and Power Finance Corp (PFC) and said that public sector companies should be encouraged to list on stock exchanges to unlock their full potential. The PSUs will now be able to enter joint ventures both at home and abroad. Moreover, the PSU board will also have the power to decide on mergers and acquisitions and eventually have autonomy to compensate employees like the private sector.

Also, the government is all set to add to the bottom-line of at least some of the big guns of the India private sector. Centre may grant some of the India Inc the Raksha Udyog Ratna status (RUR) status. This would ensure these companies are treated at par with PSUs for defence procurement and production.

2. Wi-Fi certifying company

Wi-Fi, or wireless fidelity, allows users to connect devices such as laptops, mobile phones, gaming devices and digital cameras wirelessly to the Internet. A Wi-Fi enabled area also called a hot spot typically has a radius of 300 feet. India currently has about 1000 Wi-Fi hot spots, against over 10,000 in China. However, this is beginning to change now. The Wi-Fi Alliance, the global body which sets standards for wireless local area networking, will soon authorise Wipro to certify all Wi-Fi products.

3. AMUL becomes billion-dollar brand

The Taste of India will get a billion-dollar tag. What began as a diary co-operative movement in the 1940s has become country's largest food business. The white-revolution has finally created a billion-dollar brand, all due to some aggressive marketing and foresight of India's milkman Dr Varghese Kurien, who created the brand Amul.

4. TITAN move from 'best-in-class' to 'world-class'

Brand Titan is now in the fast track mode of being in the marquee league of a Tiffany, Swatch, Fossil or Zara. This move received a boost with a recent S&P report that has named Titan among the top eight Indian companies expected to emerge as challenges to the world's leading blue chip companies. Titan's aspirations are now to move from 'best-in-class' to 'world-class'.

Cost advantage of Chinese commercial cities is shrinking

Survey conducted by Japan External Trade Organisation, concluded that the monthly wage of workers for general industries in and around New Delhi and Mumbai are now lower than Shanghai and Guangzhou. The survey has demonstrated that China is losing its earlier charm in many comparatives indicators of cost. Significantly, for the Japanese companies operating in Asia, the worker wage increase is considered to be a major problem. According to Japanese government statistics, total Japanese-investment in China amounted to $ 6169 mn in 2006, a drop of 6.2% from $ 6575 mn in 2005. Contrary to that Japanese investment to India registered a growth of 92.7% from $ 266 mn in 2005 to $ 512 mn in 2006. "The wave is in favour of India."

FOREIGN INTITUTIONAL INVESTORS

1. Foreign borrowing hit record $ 25.35 billion

For Indian companies, borrowing abroad is attractive considering that local banks have tightened rates over the last few months. The final figure of $ 25.35 billion is way above the internal cap of 22 billion that the finance ministry had fixed in 06-07. The two Ambani group companies have been the biggest fund-raisers from India in the overseas debt market raising a combined $ 6.5 bn.

2. Posco India's steel project in Orissa

The proposal for the steel plant and the pending clearances over the mines were recently taken up by the Prime Minister's Office. The Centre is pulling out all shops for the country's largest FDI proposal. The Korean steel major Posco's $12-billion investment proposal is set to get vital captive iron ore linkage. Posco's steel project in Orissa got a booster of sorts with Centre giving the much- awaited environmental clearance to its port project to be set up a captive port near its proposed site.

3. BNP Paribas turned more aggressive in India

French company BNP Paribas buys 50% stake in Srei arm for Rs 775 crore is, so far, the largest transaction in the country's non-banking finance space. The development reflects a larger trend where foreign entities have been buying into NBFCs.

In the absence of stringent regulations to expand as a bank, NBFCs offer a way to make inroads into the asset financing market. In the last few years, BNP has turned more aggressive in India. According to Frederic Amoudru, BNP India head, the group has invested around $ 500 million in the country including $ 160 million in its branch operations.

4. Cisco lining up acquisitions targets for expansion in India

Cisco, the $ 33.5 billion technology giants, is bullish on making acquisitions in India and committed to invest of over one billion dollars spread over the next 3 – 4 years. Cisco now has an array of products going beyond its traditional market of switches and routers.

It has moved into new product areas where solutions are built around the Internet protocol net-work focused on voice, video, data and mobility. Cisco is looking at developing products from India, which will be first introduced in the developing countries and then exported to developed nations. They call this as a process of 'reverse innovation'. It is looking at building a critical mass in India and was not here for labour arbitrage.

Goldman Sachs going long on India

Goldman Sachs, which snapped its ties with Kotak last year, is clearly going long on India. It has opened an investment bank, bought stakes in several Indian companies, and acquired minority holdings in local commodity and stock exchanges. One of the most formidable names in Wall Street, Goldman's has bagged the biggest capital market mandate from India – ICICI Bank's $ 5 billion equity offering. The company has long term plans to enter asset management, private wealth management, fixed income and commodities.

WARNING SIGNALS

1. Central banks around the world are raising interest rates

Central banks around the world are raising interest rates to curb inflation and damp down accelerating economic growth. In-deed, there is a sense globally that the days of low-cost loans and cheap money – which fuelled everything from consumer spending and investment strategies to company mergers – may be over.

2. Asia's prosperity is under threat

While rapid economic development has benefited Asia enormously, it has been accompanied by a widening gap between the rich and poor. The rising disparity in Asia, where one Asia is growing well and the other Asia is struggling behind, has in itself the seeds of some very grave social or political tensions, which actually can threaten the entire prosperity of this region.

3. Unwinding of "yen carry trade".

Yen – the currency in which international investors borrow to buy stocks across the world – is behaving strangely and this could trigger what all markets fear: the unwinding of "yen carry trade".

It can act on the markets like a double-edged sword: If yen rises against dollar (which it has), investors find their borrowing cost go up; this makes the investment less attractive and many are forced to unwind. In other words, they sell stocks to repay the yen loan. Such selling unnerves the markets and the ripples touch emerging markets like India.

Interestingly, it can happen even when yen falls against the US dollar. "If yen keeps depreciating against dollar, people who have entered into carry trades at higher levels get a chance to book greater profits. Thus, the falling yen pushes such players towards booking profits."

4. Chinese checkers

Soaring stock valuation in China, mean sleepless nights to investors worldwide. Though there is hardly any global involvement in this bull-run, a crash in China can spark off a global meltdown. In its most recent report on Chinese economy, the World Bank flashed warning signals of a probable sharp correction in the stock market of that country.

Slippage of the inflation rate from the expected level of 5%, unexpected decline in the economic activity, and strong capital inflows may play spoilsport to the financial sector

Goldman Sachs upgrades its stance on Indian financial services to attractive from neutral The report of the global major is based on factors like stabilisation of inflation rate, continued strong growth outlook and likely moderation in the credit growth. However, it has also pointed out some of the risk factors that may play spoilsport to the financial sector. 'Slippage of the inflation rate from the expected level of 5%, unexpected decline in the economic activity, strong capital inflows requiring intervention from the RBI and continued rise in US long-bond yields affecting long-bond yield locally too' are some of the downsides to the sector.

MUTUAL FUND

1. New offering incorporates some new characteristics

A huge amount of financial advice is available these days. The good thing is that such advice serves to guide investors and remove false perceptions. However, there is also a danger of investors applying a suggestion given in a particular context to all situations. One such area is the 'new fund offers' of mutual funds.

The general advice is that an existing fund with a track record is a safer option than a new fund. And, it is factually correct that the offer value of Rs 10 per unit in no way makes the new fund superior to an existing fund with Rs 100 as its NAV. However, there is a danger of stretching the case against NFOs too far. It is indeed quite possible that the new offering incorporates some new characteristics that make it different from the existing fund. It is for the investors to question advisors about the special investment need the new fund offering is trying to address. If the new feature of the NFO matters to you, it may be worth considering the offering.

2. More innovative and sophisticated products

With the investors' base crossing the 30-million mark, the mutual fund space has witnessed the launch of 83 new diversified equity funds and nine open-end equity tax planning funds by 32 fund houses since the beginning of 2005. These were not only vanilla diversified equity funds, but also the focus varied from as wide as 'international opportunities' or 'rural India' and from 'service industry' to 'life style'. Fund houses are now increasingly dabbling with innovative ideas and offering more complex and sophisticated products.

3. Too big to manage

Even in the case of a new fund not substantially different from an existing one, the decision (not to invest) is not a foregone conclusion. Many times, the premier leading scheme of a fund house can become too large, there is a fear that large funds slow down in terms of returns.

Consider the case of equity funds; most of them are big, but these funds mostly invested in the top 500 listed companies. Here, there is no problem with liquidity. These counters have good volumes and if, at any time, a fund manager wants to exit a stock, he could do so without any problem. But there could be problems with focused funds such as midcap funds, which have a limited investment horizon. In this case, the funds could actually run out of options if there is not sufficient floating stock available. The result – some of the large sized midcap funds have invested in around 100 stocks. And, increasing fund inflows could create problems in fund management.

4. Kotak gold ETF

Kotak Mahindra AMC is the third fund house in the country to launch a gold exchange traded fund. Gold ETF is a mutual fund scheme that invests in gold and aims at tracking the spot price of gold without the investor actually taking physical delivery of gold. While traditionally, Indians have been purchasing physical gold, Gold ETFs offer a better investment option, considering the hassles in purchasing and storing physical gold. As in the other two existing gold ETFs, each unit in Kotak Gold ETF will be equal to approximately 1 gram of gold at the time of allotment.

Gold ETF

Investors can look at investing a small part of their savings in gold ETF, since it offers an excellent diversification for the portfolio.

DOLLAR-RUPEE FUTURES

1. Go 'long' or 'short' on the dollar

A financial products which allow an entity to go 'long' or 'short' on the dollar depending on whether its feels the US currency will rise or dip against the rupee. Just as an investor puts margin money to take position in stock futures, the proposed dollar-rupee futures will enable exporters, importers and even FIIs to hedge the risk from currency fluctuation. Dollar-Rupee Futures will be traded on Indian exchanges if regulators get their act together.

2. Need for an independent currency derivative exchange

The Indian rupee has been experiencing significant movement in the recent past. It is affecting the interest of both importers and exporters. With the economy and trade growing and Indian economy being increasingly linked to the world economy, such volatilities are exposing the participants to currency risks. In such a scenario, it is necessary to have an independent currency derivative exchange so as to enable all to manage effectively currency risks.

3. Trading of Indian rupee on overseas bourse

Currently the Indian rupee is not fully convertible on capital account and there are restrictions on remittances of foreign currency funds in and out of India. The RBI through FEMA regulates the entire flow of foreign currency. Significantly, the move is being initiated at a point when Dubai is launching rupee-dollar contracts that will be traded on the exchange. Experts feel that RBI has reservations on the Dubai initiative and is not comfortable with the idea that rupee – a currency that is not convertible – will be officially traded on overseas bourse.

4. Rupee futures contracts

The Dubai Gold and Commodity Exchange (DGCX) began trading the world's first contracts on the rupee without the blessing of RBI, which may lose some control over the partially convertible currency. According to DGCX chairman Collin Griffith, Each futures contract would provide a cover for Rs 20 lakh, while prices will be quoted in US cents per Rs 100. The minimum price fluctuation for a contract would be around $ 2 per contract. Within India, this product would be available for both, importers and exporters, who wish to guard themselves from volatile rupee. If Indian laws permit, even local residents could use this tool to bet on the rising rupee. DGCX has around 105 members offering clearing of operations and all contracts would have to be routed through these members.

Every investor wants India in his portfolio

This comes on the back of high growth in the economy and appreciating rupee. Rupee-denominated debt instruments floated outside India cannot be settled in rupee since the Indian currency is not fully convertible. The underlying valuation of the transaction is driven by the rupee, even though the settlement in dollars. This implies that, at the time of settlement of the loan, the borrower will pay back the dollar equivalent of the rupee. Since the expectation is that the rupee will appreciate against the dollar, the lender expects to get back more dollars per rupee lent. For instance, if at the time of the debt issue, the rupee is trading at 41 per dollar and the issue size is a $ 100 million (Rs 410 crore) and at the time of repayment, the rupee is trading at 40 per dollar, then the final valuation of the settlement will vary according to the rupee and the borrower will have to pay back $ 102.5 million (4100/40).

The global demand for rupee-denominated assets will continue to strengthen

3. FINANCIAL SECTOR – TRANSFORMING TOMMORROW

1. it's never too late to learn

There was a time, when being a graduate was enough to get a decent pay-package, lead a decent life and be seen as a responsible person. But those days are long gone as aspirations have spiraled, standard of living is high and there is a need for better education, better jobs and a better life.

And now, the need for better education has caught the imagination of others including that of the government servants, who aspire for a successful second innings after retirement. Whatever the reason, the bottom-line is that higher education and specialised training is scaling new heights. Educational programmes are getting endorsement from unexpected quarters, as it's never too late to learn.

2. Irrationality in behavioural finance

The standard theory is that the investors are logical, objective and quite rational. However, given limited cognitive ability, willpower and so on and incomplete information too, people fail to be rational. It is known, for example, that individuals do want to save for their retirement. Yet, it is an observed fact that people save less for retirement then they would like to.

3. Human psychology in market trends

Investors and market players in general prefer to be in the denial mode for a while before accepting deeper shifts in market trends. It is known, for example, that the dollar might be witnessing a long-term decline in its relative value. But the world in general has been in some short of denial that this could happen anytime soon. This is because most emerging economies have over 50% of their forex reserves in US dollars. So no one wants to believe that there could be a precipitate decline in the dollar value. There would be a global financial upheaval if that were to happen. Everyone is hoping that there is a smooth rebalancing of relative currency values.

4. Indian HNIs in India are not willing to look beyond India

In its annual monetary policy, RBI has liberalised the overseas investment limit for individuals. However, RBI scheme has found few takers, leaving wealth managers a worried lot. The India growth story is not going to last forever. So, investors should be looking overseas to derisk their portfolios. Several central Asian economies had attractive rates of returns for those investors looking at diversifying and adding flavour to their portfolio.

Indian dollar millionaires

India has added over 17,000 dollar millionaires in 2006, recording the highest growth in the population of high net-worth individuals after Singapore. At the end of the year, the number of millionaires in India rose to 1 lakh from 83,000 in the previous year. India has been one of the fastest wealth creators.

5. Commodity broking: A new career option

With just half a decade of organised growth, the commodity broking industry in the country operating in the futures market segment is reeling under impact of high levels of stall attrition rates. For the broking industry as a whole the employee attrition rate could be as high as 30% though in commodity broking it might be close to 50% since the trading hours extend to 11.30 pm in two shifts.

A booming commodity future is presenting the youngsters with many new opportunities. Many firms offer a weeklong induction course and job training for employees. Apart from salary, the employees are also offered incentives, profit shares and ESOPs in many firms. Still the industry has not been able to arrest the rising trend in job shifts. The commodity exchanges are also feeling pinch of large scale employee job shifts. The exchanges are facing around 20% attrition rate.

6. Tata Capital: Tatas make big return to finance

Five years after the Tata Group merged its finance unit Tata Finance with Tata Motors, the wheel has turned a full circle for the conglomerate. Tata Sons – the group's holding company – said it has formed a new firm, Tata Capital for financial services that will operate in large growing segments within the financial sector that also includes business that Tata Finance earlier operated in. besides private equity, which has become a buzzword in India due to recent large deals,

Tata Capital would also function in capital market services, merchant banking, housing finance, assets and vehicle financing and retail finance. The Tatas is aimed at exploiting the vast opportunities in the country's booming financial service sector. The group has strong brand name in Tata, which will help it gain immediately recognition and equity among customers.

7. BFSI sector: Leaders in it spend

Banking, financial services and insurance sector emerged the highest spender on IT in 2006 and is expected to do an encore this year, according to a Nasscom study. With the increase in average spending in these verticals expected to be in the range 12 – 27% this year, the tech-user ranking are expected to remain the same in 2007.

Mission - motivation - fined errors - correct them

1. Identify a problem to solve and define the solution.
2. Have a team that is behind solving this problem.
3. In 12 months the product has to be stable and out the door. If you don't see results in 12 – 18 months then you have to start rethinking what you are doing.

Undoubtedly there is some virtue to the adage "try till you succeed", but it is important to make sure that the very foundation that the business plan is based on is steady.

4.1 TAX UPDATES

1. Prove motive to conceal income: SC

The Supreme Court has ruled that the revenue cannot initiate penalty proceedings if there is 'absence of motive' on part of an assessee to conceal the actual income. The order-imposing penalty is quasi-criminal in nature and, thus, burden lies on the department to establish that the assessee had concealed his income. It is said: the 'concealment of income' and 'furnishing the inaccurate particulars' carries different connotations. Concealment refers to deliberate act on the part of the assessee. A mere omission or negligence would not constitute a deliberate act of suppressio veri or suggestio falsi"

Since burden of proof in penalty proceedings varies from that in the assessment proceeding, a finding in an assessment proceeding that a particular receipt is income cannot automatically be adopted, though a finding in the assessment proceeding constitute good evidence in the penalty proceeding. In the penalty proceedings, thus, the authorities must consider the matter afresh as the question has to be considered from a different angle.

2. 100% disallowance u/s 40a (3) of I-T Act

The existing provisions of Section 40A(3) provide for disallowance of 20% of the expenditure incurred, payment in respect of which is made in a sum exceeding Rs 20,000 otherwise than by an account payee cheque drawn on a bank or by an account payee bank draft.

The provisions of the said sun-section were to act as anti-evasion measure. It has come to that a disallowance of 20% only has diluted the deterrence potential of the provisions. Therefore, to re-strengthen the deterrence potential, the Finance Minister has amended to provide 100% disallowance of payments, which are made in violation of its provisions. Also, when deduction of expenditure is claimed in one year and the payment against such expenditure is made in any subsequent year in violation of the provisions of the said sub-section; in such cases, the existing provisions for recomputation of the total income of the earlier year has been simplified by deeming the payment as profit and gains of business or profession of such year in which payment is made in violation of law.

3. Retailers, realtors move court against service tax on rentals

Modern retailers and real estate developers are now legally challenging the government notification to impose service tax on rentals. A writ petition was filed in the Bombay High Court under the aegis of the Retailers Association of India (RAI), the Multiplex Association of India (MAI) and the Confederation of Real Estate Developers of India (CREDI) challenging the move. Economic Law Practice, a large legal firm has been roped in to argue the case on behalf of the retailers as a detrimental move on the business profitability. Rentals are now expected to touch over 15% of sales from around 7 - 8% in the previous years and retailers are worried over the losing margins further. Globally, rentals constitute 3 – 4 % of sales for retailers and no service tax is charged on rentals.

In the prosperity of the industry lies our success

We are two wheels of the same cart and one can't work without the others." It would be difficult to believe that a taxman spoke the words. But, winds of change are blowing at Central Board of Excise, which got a new chairman in Shushil K Singhal on June 1. The roll of a taxman is now that of a facilitator and emphasis is on having full faith in assessees. Improvement in excise administration, through combination of taxpayer-friendly policies and some tough ones will be in focus during his tenure.

4.2 DIVIDE YOUR STOCK PORTFOLIO AND SAVE TAX

Characterisation of income assumes significance because under the Indian tax laws, gains arising from the sale of securities when held as stock-in-trade are considered as business income and when held as investments are considered as capital gains.

Further, tax rate concessions are available in respect of transactions in listed securities, on which securities transaction tax is payable, only where income is treated as capital gains. However, where income is treated as business income, the gains are generally taxed at a higher rate without any exemptions for short-term and long-term holding.

FOR the first time individuals, corporates and FIIs will have the leeway to classify their stock investments to lower their tax liability and minimise litigation with revenue authorities.

That it is possible for a tax payer to have two portfolios, i.e., an investment portfolio comprising of securities which are to be treated as capital assets and a trading portfolio comprising of stock-in-trade which are to be treated as trading assets. Where an assessee has two portfolios, the assessee may have income under both heads i.e., capital gains as well as business income.'

An investor pays a lower tax than trader in shares. But taxpayers will have to produce records and evidence to prove that the stocks are held as a capital asset or a trading asset.

- In the case of Commissioner of Income Tax (Central), Calcutta Vs Associated Industrial Development Company (P) Ltd (82 ITR 586), the Supreme Court observed that: Whether a particular holding of shares is by way of investment or forms part of the stock-in-trade is a matter which is within the knowledge of the assessee who holds the shares and it should, in normal circumstances, be in a position to produce evidence from its records as to whether it has maintained any distinction between those shares which are its stock-in-trade and those which are held by way of investment.
- In the case of Commissioner of Income Tax, Bombay Vs H. Holck Larsen (160 ITR 67), the Supreme Court observed : The High Court, in our opinion, made a mistake in observing whether transactions of sale and purchase of shares were trading transactions or whether these were in the nature of investment was a question of law. This was a mixed question of law and fact.

The principles laid down by the Supreme Court in the above two cases afford adequate guidance to the assessing officers.

Assessing officers are advised that the above principles should guide them in determining whether, in a given case, the shares are held by the assessee as investment (and therefore giving rise to capital gains) or as stock-in-trade (and therefore giving rise to business profits). The assessing officers are further advised that no single principle would be decisive and the total effect of all the principles should be considered to determine whether, in a given case, the shares are held by the assessee as investment or stock-in-trade.

Portfolio Investors

Over the last one-year or so, there has been ambiguity over taxation of portfolio investors in India, with one view being that they are traders in stocks and another view that they are investors in stocks. Currently, all PMS profits are shown as capital gains. With the circular, PMS investors, like other market players, will have to segregate their portfolio of stocks – as capital assets and trading assets – something they don't do now. The tax liability may rise as the profits from the two classes of assets will attract different taxes.

Foreign Institutional Investors

The CBDT quoted recent ruling of the Authority for Advance Ruling on tax disputes, that says:

The first principle: Where a company purchases and sells shares, it must be shown that they were held as stock-in-trade and that existence of the power to purchase and sell shares in the memorandum of association is not decisive of the nature of transaction;

The first principle requires us to ascertain whether the purchase of shares by a FII in exercise of the power in the memorandum of association/trust deed was as stock in-trade as the mere existence of the power to purchase and sell shares will not by itself be decisive of the nature of transaction. We have to verify as to how the shares were valued/held in the books of account i.e. whether they were valued as stock-in-trade at the end of the financial year for the purpose of arriving at business income or held as investment in capital assets.

The second principle: The substantial nature of transactions, the manner of maintaining books of accounts, the magnitude of purchases and sales and the ratio between purchases and sales and the holding would furnish a good guide to determine the nature of transactions;

The second principle furnishes a guide for determining the nature of transaction by verifying whether there are substantial transactions, their magnitude, etc., maintenance of books of account and finding the ratio between purchases and sales.

It will not be out of place to mention that regulation 18 of the SEBI Regulations enjoins upon every FII to keep and maintain books of account containing true and fair accounts relating to remittance of initial corpus of buying and selling and realizing capital gains on investments and accounts of remittance to India for investment in India and realizing capital gains on investment from such remittances.

The second principle: Ordinarily the purchase and sale of shares with the motive of earning a profit, would result in the transaction being in the nature of trade/adventure in the nature of trade; but where the object of the investment in shares of a company is to derive income by way of dividend etc. then the profits accruing by change in such investment (by sale of shares) will yield capital gain and not revenue receipt.

The third principle suggests that ordinarily purchases and sales of shares with the motive of realizing profit would lead to inference of trade/adventure in the nature of trade; where the object of the investment in shares of companies is to derive income by way of dividends etc., the transactions of purchases and sales of shares would yield capital gains and not business profits.

Permanent establishment (PE) in India

Also the FIIs tax obligations are subject to provisions of the bilateral tax treaty applicable to them. According to such tax treaties*,* FIIs are not obliged to pay tax on business income earned as traders, unless they have a permanent establishment (PE) in India. Thus, even Mauritius-based FIIs, who pay no tax now on the back of a treaty that India has with the country, may find the going tough if the tax authorities can prove that they have a PE here. PE does not necessarily mean an office in India, but also depend on FIIs' relationship with banks and custodians in India.

5. BANK & SECURITY LAWS

1. Inclusive banking

This is about the participation of low-income families in the financial system as part of the agenda of inclusive growth. The ministry of finance has established a Committee on Financial Inclusion. The result has been a series of measures to facilitate financial services to low income families.

The Reserve Bank of India has recently cleared the use of third parties for extending banking services. This is aimed at reducing banks' transaction costs and taking the 'inclusive banking' drive a step further. RBI has floated two separate concepts – business facilitator model and business correspondent model – for this.

- **Business facilitator model –** Banks are allowed to engage NGOs, post offices, insurance agents, agri business centres and even gram panchayats for identifying new customers, collecting and processing loan applications, and monitoring of loan.

- **Business correspondent model –** Banks can use NGOs, MFIs, cooperative agencies, Pos and section 25 companies for mobilising small value deposits and disburse small-ticket loans.

2. Reverse mortgage loan: age limit relaxed

The National Housing Bank, the housing finance regulator relaxed the age restriction for availing loan facility for senior citizens under the reverse mortgage loan scheme. The restriction on married couples being eligible borrowers both are above the age of 60 years has been relaxed so as to include those couples also wherein one of the borrowers is below the age of 60.

3. Banks can open lockers if un-operated for a year

The RBI permitted banks to break open a locker if it remains un-operated for over one year, even if the rent is paid regularly. The banks will give notice to the customer asking the reason for the non-operation of the locker before opening it. The RBI issued these guidelines to tackle increasing security threat in the wake of a recent incident where explosive and weapons were found in a locker.

4. Loss of regulatory effectiveness

There is a concern over the entry of very large foreign banks in the country, as recent regulatory action has not affected these banks. Thus, there is a loss of regulatory effectiveness as a result of the presence of such financial conglomerates. Hence, there is inevitable tension between the benefits that such global conglomerates bring and some regulatory and competition issues that may arise.

Smugglers coin

There are two bits to the story: the crime and the end use. The crime is confirmed: Indian coins of small denominations like 25 paisa, 50 paisa, Rs 1 and Rs 2 are being smuggled out to Bangladesh, where they are melted and put to varied use. The end-use is a subject of intense speculation. While some say idols of gods and goddesses are being made out of them. Some others think the steel in the coins is turned into small beads for ornaments.

6. MISCELLANEOUS UPDATES

1. Judicial activism makes the judiciary a target: SC

The Supreme Court said that under the Constitution, the judiciary, legislation and the executive have their own broad spheres of operations. Thus, it was important that these organs do not encroach on each other's proper spheres. The time has come to do some introspection and use self-restraint so as to avoid a knee-jerk reaction from the elected representatives.

2. Pushy salesmen are huge source of customer dissatisfaction

Salespeople generally employed to work on a commission basis. We felt that isn't right and sales force should get fixed salaries. They then leave the customer alone because he has no incentive to push any particular brand and will help when he's asked. Pushy salespeople are huge source of customer dissatisfaction. If customers say we want to check prices at the competing store, such a salesperson would start bargaining with the customers

3. A simple comma changing the entire profile of a community!

It may sound unbelievable, but this is what happened in the report of National SC/ST. Recognising the miserable living conditions of Bhil Meenas, the SC/ST Commission, which had been mandated by the government headed by late Pandit Jawahar Lal Nehru to rework the list of SC/STs, made out a case for awarding the ST status to the Bhil Meenas. The printed version of the SC/ST Commission's report, however, had an entirely different story to tell. It advocated granting ST status to "Bhil, Meenas." The Meenas have little in common with the Bhil Meenas. It enabled the Meenas being inducted in the list of STs. No one knows how the comma came to be inserted in the report's printed version, but that was all the Meenas needed claw their way into government jobs in a big way

4. The multi-brand loyalty

For generations daybreak was synonymous with the white toothpaste. But the changing India is ready to experiment with the reds and blues. Armed with better purchasing power, wider options and desire to experiment, the Indian consumer is redefining the concept of brand loyalty. This is now paving way for concept of multi-brand loyalty from mono-brand loyalty. For instance, a consumer who has been using a brand of tea for years is now switching between as many as three different tea brands.

5. CA shortage

India is set to face a shortage of practicing chartered accountants as they find working in industries more lucrative. The growth of BPO firms in accounting, finance and investment domains will only make the shortage more acute. In 2006, 30% of all FAO work outsourced came to India, creating a demand for chartered accountants.

Legal process offshoring (LPO)

Law firms across India Inc aren't excited about running LPO business. While the opportunity is huge, lawyers who have tried their hand at its say that law firms won't be able to create a great LPO. This is despite the fact that back office legal service is a $ 250 billion global business annually. The reasons are not far to see: lawyers see themselves as consultants and not as runner of a back office desk for overseas clients. They do not want headcount business as they are focused on high-end services.

7. KNOWLEDGE RESOURCES

7.1 CHANGING BPO LANDSCAPE

The global BPO sector is likely to see only a modest growth of 2% in 2007, after growing at a compound annual rate of 14% during the last five years. There is also a shift from large multi-process BPO agreements to single function contracts of a smaller size.

1. Spiraling costs and lack of integration and management support

Multinationals operating call centres in India are finding it difficult to operate captive offshoring centres. The companies are running into hurdles with spiraling costs, rising attrition rates and lack of integration and management support. Many early entrants have sold their captive units and others have realised that with these mounting issues, it is no longer makes sense to do it themselves.

2. Questions over the quality of service and turnover of staff

A new industry survey reveals a high level of customer dissatisfaction with the quality of service provided by call centres in India. There are questions over the quality of service and turnover of staff, which is about 75% pa. While customers would not start a wholesale restructuring of their operations there had been a “segmentation” of work, with premium accounts being dealt with at home.

3. Dual enrolment hurts BPOs in more than one way

Cashing in on the employee-friendly policies of the BPO industry, a large number of freshly minted graduates call in sick just a few days after joining duty, avail medical leave and join a rival BPO while continuing on the payroll of the previous employer. According to industry estimates, two out of every 10 employees indulge in such practices. Such dual employment hurts BPOs in more than one way. The employees who resort to such practices also play one company against other. Such deviant employees could pose data security threats as well. All this has raised concern about IP theft by such employees.

4. Employees turning up drunk at work

Players in BPO industry are considering medical tests including HIV/AIDS tests as part of the recruitment process. Experts say that the point of all medical tests is to find out if a person is, in any way, unfit for the job. It is also said that there are many BPOs that have had trouble with employees turning up drunk at work. These companies are looking for at testing employees for alcohol.

6. BPO waves in china

China has already started making waves in BPO space. According to reports, by 2015, China, currently placed second, would have overtaken India. Experts believe that similar industries in China are expected to grow at a faster rate. India continues to be the global offshoring hub but is likely to lose its share of two-third of offshored staff in the next 10 years. According to reports, some 200 million Chinese people are currently learning English. China’s share of offshored labour is already rising, with a third of financial institutions now having back-office processes based in China.

Chalking out a viable rural outsourcing model

DesiCrew, a project of TeNet Group IIT Madras commenced with a specific objective of chalking out a viable rural outsourcing model. It may be boon for the women folk, who would otherwise face societal objection for pursuing a career in a city. Since inception, these centres have completed more than 20 projects, mostly in the area of data entry and conversion that have minimal skill requirements. Each Centre employs 3 to 15 people, headed by a business associate or team leader.

7.2 INSURANCE

1. Life insurance launches Jeevan Amrit scheme

LIC has launched a product called Jeevan Amrit, which would target customers who would like to have a shorter period for payment of premium, but at the same time, would prefer a longer period of insurance cover and at a low cost. There is no limit on the maximum cover.

The premium payable decreases after the first year of the policy and premium payment is limited to a term of three, four or five years. Individuals in the age group of 12 to 60 years can avail of this scheme. While the minimum sum assured is Rs one-lakh, the plan has no upper limit. The policy term available is 10 to 30 years. Also, bonuses are payable on the total premiums paid rather than the sum assured. When the policy matures, the total amount of premium paid along with vested bonuses will be payable. In the event of death, the sum assured along with vested bonuses will be payable.

2. LIC says no to foreign JV for managing new pension scheme

LIC has decided not to enter into joint venture with foreign entities if it is allowed to manage funds for the central government's new pension scheme. The scheme has about one-lakh central government employees who have joined after January 2004 with a total corpus of Rs 4000 crore. The number will eventually grow as more employees take up central government jobs. Additionally, the number will see a quantum jump as more states join the new pension scheme.

3. LIC has got a new mission: Bring down transaction costs

After selling policies to most of the country's insurable public, the corporation is looking at ways of making insurance more inclusive by making it possible to profitably deliver products to small buyers. LIC is close to finalising a public sector bank partner, and moving to finalise the partner with domain expertise. Other IT initiatives undertaken by the corporation are also aimed at bringing down costs.

LIC's corporate active data warehouse project, for instance, will allow LIC to consolidate policyholder accounts. This will result in enormous cost savings as most customers have more than one policy and a common account number would help bring down mailing costs. Similarly, the document imaging service would enable the corporation to store all policy documents in a remote location and do away with the need to ship documents whenever a policyholder moves house.

4. Insurers may've to verify policies

It may soon become illegal for a life insurance company to refuse to honour a claim on the ground that the policyholder had misstated facts while buying the policy. Insurance firms will be given five years to verify all the facts in a proposal form and repudiate policy in case false information is detected. After this the validity of a policy can't be questioned even on the ground that wrong statement were made knowingly or fraudulently. The Department of Economic Affairs (DEA) has proposed to amend the provisions of the Insurance Act, 1938 to bring 'a finality to the contract and remove uncertainty'.

No rejection of claims for missing facts while buying policy

According to the current provision, a life insurance policy cannot be called into question on the ground of misstatement after two years 'unless the insurer shows that it was done knowingly or fraudulently'. There have been cases in which insurance companies have taken advantage of this clause and repudiated a policy at the time of setting the claim.

7.3 VENTURES WITHOUT CAPITALSTS

The lack of early stage venture capital funds in India is not a roadblock to building successful companies. Entrepreneurs have built their companies in the old-fashioned way, making personal sacrifices and growing the business organically while maintaining financial discipline.

In fact, some entrepreneurs have even decided not to borrow in the early stage. Unless it turns profitable at a reasonable scale, what is the point of raising money? So, if you are an entrepreneur who is finding it difficult to raise money for a new venture, don't lose hope. If you take care of a few basic things and have the willpower to stay in the game, here's how you too can build a successful business.

1. Be cash positive from year 1

When there is no external money to fall back on, it is absolutely necessary for the company to have a business model that generates revenue from the first year. So, make sure that you must accept business from customers who can pay in cash; and work on individual modules and started marketing them, instead of waiting for the complete product. Be upfront with your customers about your needs. Hire a good CFO; "Engineers often confuse accounting with finance", it's very different.

2. Run a tight ship

Running a tight ship is absolutely essential for survival. The teething problems of infrastructure and problems of setting up process could land up creating a frustrating environment at work. Be creative and go about things the way without much restriction. Since the budget is at your disposal, you will be able to from time-to-time tweak the plans and customise them the way best suited to run the business.

3. Make personal sacrifice

No successful company has ever been built without personal sacrifices by its founders. You would be working at the time you could have otherwise spent with friends, family, and pursuing your hobbies or relaxing. It's important to be patient as it could pay rich dividends once the business gets established.

4. Raise money at the right time

Apart from getting the seed money, one has to ensure a consistent flow of capital as the gestation period of the business to break even varies. That could take any where from 6 months to three years and may be more. Consistence inflow of capital and expertise in the area of business are the two most important ingredients in a start-up. Eight out of 10 times new start-ups fail due to lack of equity, expertise or both. Moreover, an entrepreneur has to bear in mind that at any point of time if things don't work out, the company will have to be closed.

While funds are critical;

Without venture capital some of the biggest names of this century, Apple, Yahoo, Cisco, Google and Oracle would not have reached these heights. None of the promoters said no to venture capital. But what these companies have proved is that while funds are critical, the more important factor for success is entrepreneurial zeal and good financial discipline.

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