SAFE

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SAFE UPDATE - KEEP INFORMED

The Securities Academy And Faculty Of e-Education

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1. KNOWLEDGE ECONOMY

1. Skill development mission to create thousands of vocational courses

The mission will aim at creating thousands of vocational courses**.** Though the government will facilitate the process by various means, the private sector will play the major role. The size of the Mission could run into several thousands of crores.

India has about 5100 Industrial Training Institute (ITIs) and 1745 Polytechnics as against 500,000 in China. Even as the economy is booming aided by a robust growth, it is up against shortage of skilled, semiskilled and unskilled workers. According to a survey: Banking & financial sector, IT, biotech and pharma are some of the worst affected sectors.

The banking and financial sector last year faced an acute shortage in several professional categories: risk managers (90% shortage), IT professionals (65%), treasury managers (50%), credit operation professionals (75%), financial analysts (80%), wealth managers (80%) and economic and planning analysts (80%).

2. Open up the education sector to run like a corporate entity

Seeking opening up of the education sector for the corporates to set up equivalents of IITs and IIMs, the Nasscom said suck a move would ensure better industry-oriented graduates with specific skillsets. The education system should be liberalised and allowed to run like a corporate entity.

This will bring in more investments also. We can become an international hub for education. We will get international students here, instead of our students going abroad and spend $ 3 billion for education in foreign universities. In fact, we can generate $ 10 billion if such institutions are set up. The long term changes in the education system are necessary. Substantial reforms are also necessary.

3. An apex regulatory body to ensure uniformity in higher education

There are 13 existing regulatory bodies of higher education. In the present set up, individual regulatory agencies work independently of the UGC and some of these are not even administered by the HRD ministry, which is the nodal administrative ministry for education. Experts say that in the current arrangement, the regulatory bodies work at cross-purposes pretty often. As a result, higher education policy loses focus. An apex regulatory body would ensure uniformity.

The government is planning to set up a National Commission for Higher Education to ensure uniformity in higher education policy across all sectors – medical, agriculture, management, and engineering. All the existing regulatory bodies would work under the supervision of the new commission. This would mean that bodies like the Medical Council of India, Indian Council of Agricultural Research, Dental Council, and All India Council for Technical Education would function under the supervision of the proposed Commission. Even UGC would merge with the new entity.

The new body would determine and ensure maintenance of standards of teaching, examination and research in areas where none of the regulatory bodies are mandated. It would also encourage research in emerging professional areas. It would have the power to resolve disputes among various councils as well as look into the financial needs of universities and other higher educational institutions.

4. CA Institute is aiming to offer campus environment on the lines of modern B-school

With changing business environment and expectation from chartered accountants, world's second-largest accounting body, The Institute of Chartered Accountants of India (ICAI) is now contemplating making residential classes for CA studies compulsory in coming days.

ICAI is in the process of setting up the network of Centre of Excellence in parts of country that will be utilised to conduct special training programmes for our members. Also, stay facility would be created in the proposed centres to attend classes for a certain period instead of just studying through distant learning process. The classes would be made compulsory with the availability of adequate infrastructure. It may be mentioned here that so far there was no provision for CA students to attend any classes. They had to study from the material sent by ICAI.

Recently, ICAI started offering study material in digital format and virtual classes through e-learning platform. ICAI is aiming to offer campus environment on the lines of modern B-school, which is missing in studies for chartered accountancy so far. It is believed that ICAI's existing infrastructure would take care of certain portion of syllabus while the proposed centres would train students in crucial subject areas through residential classes.

5. It is now the educations sector that real estate majors are eyeing in a big way

After hospitality, healthcare and sports, it is now the educations sector that real estate major Ansal API is eyeing in a big way. Their focus now is on expending their education chain in the northern region by bringing in some of the best domestic and international expertise for school in their townships. Investments in infrastructure, technical know how and quality education system will be on their agenda for the new projects.

6. India to dominate Global Knowledge Processing Offshoring

India, already known as the back office of the world, will account for two-third of the global Knowledge Processing Offshoring (KPO) segment that could create up to 1.8 lakh new jobs here by 2011, according to the study by business research and analytics firm Evalueserve. The sub-sectors within the KPO industry that are expected to do well are banking, finance, securities and insurance research, data mining and analytics, contract research organisations and biotech services. However, lack of highly educated professionals such as MBAs, chartered accountants and architects may affect the growth of the KPO sector.

7. Finance minister highlighted the importance on the need of financial literacy

Finance minister P Chidambaram has stressed on the need for financial literacy and installing confidence among investors who burnt their fingers twice in two major security scams in the stock markets in early 1990s and 2001. "I think people understand markets, and more and more people prefer markets.' He highlighted the importance of financial literacy and the role of regulators to better manage markets.

2. SECURITY MARKET

1. Keep an eye on possible changes in government policies

Investors should not only understand government policies but also keep an eye on possible changes as well. Ideally, he should identify those stocks in their portfolio, which are more susceptible to government policy intervention. The investors, who buy stocks in policy-sensitive sectors, may sometimes make major gains if they can pre-empt the possible policy changes.

Many smart investors anticipate a possible government policy change well in advance and take a decision on time. But how does an investor know that there could be a major policy change by the government. Experts have a few tips. They assure that the government policy changes don't happen all of a sudden. "It doesn't happen in a vacuum. Usually, policy makers make noises well in advance".

No doubt, in a democratic country, the government has the mandate to intervene in every policy and when required. So, it's the responsibility of the investors to follow the government policies very carefully and pre-empt major developments. It is quite difficult to pre-empt, but one can listen to the noise level of the respective industry lobby. One has to keep ear on the ground and prepare in advance for a policy announcement. It is like reading the fine print in advance. Media as well as the respective websites of the government agencies/ministries can help the investors.

However, one needs to avoid some stocks, which have more political bearings. The trick is to select those industries that do not overlap with the electorates, at least directly, like sugar where pricing can impacts large section of rural voting population. The government can directly or indirectly, through fiscal or monetary policy, determines the future direction of these industries.

Though most sectors could be influenced by the major policy decisions of the government, some sectors are more vulnerable to government interventions. "Food processing industries such as edible oil, rice, tea etc. are vulnerable to policy decision by the government. Cigarette is always dependent on annual excise duty revision in the Budget. So can be the steel and plastic industry."

In fact, policy changes could come from all directions – restriction on exports, taxation changes, and reduction in import duties etc. So, quite a lot of sectors could be impacted by such decision. Experts argue that if the government reform process is complete, the state impact on sectors and stocks will reduce substantially.

2. Movement in Sensex & Nifty

July'06 – Sensex and Nifty hit new closing peaks

With Sensex crossing 15K mark, some players are now predicting 20K levels for the index without anybody laughing at them. The BSE benchmark crossed 15K mark for the first time. The 30-share index hit an all time high of **15,007.** It ended the day at 14,964. Nifty ended at a new closing high of 4385, after having peaked at 4,411 for the day.

The Sensex took 146 sessions to cover the 1,000-point from 14,000 till 15,000. This is the highest since the index took 371 trading sessions to move up from 6000 to 7000.

July'13 – Bulls lifted benchmark indices to a new high

The 30-share Sensex hit a new peak of **15,331**, before setting at its highest closing level of 15,273. The 50-share Nifty saw a new peak of 4,514 before ending the day at 4,504, also a new closing high.

The traded turnover of around Rs 70,000 crore, including the derivatives segment, was nearly 40% higher than the daily average turnover seen over the past few months.

July'20 – Both the stock market indices hits new peaks

The bellwether indices scaled new peaks on a day-to-day basis for the third week in a row as FIIs poured in money into Indian equities. The BSE 30-share Sensex was at a new peak of **15,565.** Similarly, the broad-based S&P CNX Nifty of the NSE ended the week at a new record high of 4,566.

Though the market can be considered to be in overbought zone, it surged to new heights on the back of encouraging first quarter earnings released by major corporates. FIIs have been consistent net buyers in equities so far in the month and pumped in a massive Rs 15,614 crore till July 19.

The market, however, is in overbought zone and the expiry of derivatives contract on July 26 is likely to create volatility during the next week.

July'26 – Market turnover volume to Rs 1 trillion

Traded turnover in the cash and derivative segments combined crossed Rs 1 trillion for the first time. The surge in trading volumes was due to the settlement day for the current month derivative contracts. The traded turnover in the NSE's derivatives segment touched a new high of Rs 80,000 crore. The 30-share Sensex ended 76.98 points higher at **15,776**, while 50-share Nifty rose 31.10 points to close 4,620.

Prices of some of the advanced stocks in the benchmark indices were much higher on the NSE than on the BSE. Dealers said this indicated that the bulls were trying to ensure a higher closing level for the Nifty. This is mainly done to trap the short sellers in the market by forcing them to roll over their positions to the next month at a higher cost.

July'27 – 541 downing street

Three weeks is a long time when it comes to stock markets. Three Fridays ago sensex crossed the psychological 15000 mark for the first time ever. Indian equities have managed to defy the weakness in key global markets over the last couple of weeks. Three weeks on – the 3-4% decline in benchmark indices – was once again a reminder that the Indian market remains vulnerable to a sharp correction in global markets. US shares have been under pressure over the last couple of trading sessions due to concerns that defaults in the subprime loan market may spill over to other asset classes.

On Friday, second line indices fared marginally better their largecap counterparts. The BSE Small Cap indices fell less than 3% each, while among sectoral indices; the BSE Metal and BSE Realty were worst performers with 5% decline each. The FMGC index was the least impacted by the today's sell off in the market. Sensex falls to **15,234**, Nifty slips below 4,500 Mark.

Global stock markets fells sharply on Tuesday as investors fled risky assets for safe havens. While tightening credit markets threatened to make it increasingly difficult to finance corporate deals. The Buyout activity has been a big contributor to the stock market's rise for 18 months but several high-profile deals have been cancelled or postponed as credit spreads widened recently.

US earnings loom after painful week

US economic growth rebounded during the second quarter to its strongest pace since the beginning of the of the last year on a surge in business investment, more government spending and a better trade performance, the Commerce Department reported on Friday July 27.

Better economic performance was not enough to ward off another bad day on the stock market, though, as worry about a riskier outlook for takeover financing cast a dark shadow. Oil prices also rose, a further dampens on the outlook. The Dow Jones Industrial average fell 208 points to end 13,266.

President George W Bush and his top economic advisors tried to talk up prospects early, meeting at the White House before sending a brace of advisers before television cameras to say US and global economies were strong. But investors, worried that access to credit might tighten in future, fled stocks and drive bond prices higher.

2.1 INDIA: THE BIRD OF GOLD

1. Indian Depository Receipts (IDRs) by foreign firms

Overseas companies can now look forward to raising capital from the Indian market with ease. The government simplified the rules relating to issue on Indian Depository Receipts (IDRs) by foreign firms, a move that will facilitate greater outflow from the domestic economy.

The overseas firm can raise money from India in a financial year up to 25% of its post-issue number of equity shares. It should be making profits for at least three preceding years. And the foreign company should have a continuous trading record on a stock exchange in the parent country for at least three immediately preceding years. This will ensure better financial sustainability/liquidity of the securities to be issued.

2. India recorded biggest increase in equity issues among Asian countries

India has recorded the biggest increase in equity issues this year among Asian countries. The biggest increase, on an annualised basis, where total issuance has been almost $ 10 billion, compared to $ 12 billion for the whole of 2006.

Equity supply is a self correcting mechanism. The boom in private equity and ongoing share buyback programmes mean that the supply of equity has shrunk over the period the time. Equity pipeline simply reflects strong markets and IPOs after listing continue to perform well.

3. India outbid China and ranked second in PE investment chart after Japan

India outbid China in private equity investments, and ranks second on the Asian PE investment chart. According to Centre for Asia Private Equity Research data, India has seen $ 3.7 billion in PE investments. For the first half of the year, Australia has dropped from the last year's first position to sixth this year, with Japan being number one, followed by India and People's Republic of China.

4. Demand for second and third airport

As of now, two airports serve no Indian city. The unprecedented boom sparked off by budget carriers has led to so much traffic that existing facilities are finding it difficult to cope up. Hence, the increasing demands for new airports. According to government estimates, AAI and private players are expected to invest Rs 36,000 crore over the next four-and-a half years to develop airports.

Plans are afoot for development of a second airport at the four metros while Mumbai is even pushing for a third. Even not-so-busy airports are seeking modernisation. Such is the importance attached to such projects that backing of the prime minister has been sought for several airport development and upgrade plan. The PMO is flooded with demands from various states.

5. NRIs invest inherited property into stocks

More and more NRIs are putting the money they inherit in India into stocks instead of taking it out of the country. For long time most of the money received from selling properties, ancestral land and family settlement found its way across the boarder. NRIs preferred to deploy the money in banks and markets of countries they are based in.

Today, this money is being invested in IPOs and buying shares from the secondary market.

2.2 INDIA INC: OPEN FOR NEW HORIZONS

1. Public Sector Undertakings (PSUs) are now producing 10 times more revenues with same, and in some cases, almost half the number of employees

The age of the stodgy Indian PSU is over. Throw the age-old pictures of rickety PSUs mired in losses out of the window as the public sector has seen an image makeover like never before. They have become savvier and profit motivated. A pre and post, liberalisation analysis shows that India's largest companies of 1991 – IOC, SAIL, SBI, HPCL, BHEL and BPCL – are now producing 10 times more revenues with same, and in some cases, almost half the number of employees. *Remember that the top 10 companies of the country during the pre-liberalisation period were all PSUs.*

2. PSUs can now invest 30% surplus in MFs to maximise returns on surplus funds

The cabinet committee on economic affairs gave its approval for investment for PSUs to invest up to 30% of the funds in the equity mutual funds to maximise returns on surplus funds of public sector enterprises. This could see a flow of more than Rs 60,000 crore in the buoyant capital market. Blue-chip companies such as ONGC, IOC, BHEL and SAIL, sitting on huge cash reserves of over Rs 2,50,000 crore, can now ride the booming equities market. *However, these funds would be channelised only through funds managed by public sector financial institutions.*

3. Rubber footwear firm's production achieves milestone

The footwear sector has set a landmark. Last year, annual production is the highest reported since 2003. Apparently, the strong overseas demand has resulted in the impressive surge in 2006-07. India's share of the global footwear imports is 1.5%, as against China's share of 14%. The industry is targeting women's and kids footwear segment. It is also eyeing hugely untapped market in the US.

Rubber footwear has made a healthy recovery of 12.4% after a 2.5% fall registered during last year. The demand has been shifting from low-priced footwear to the medium and high range. Several footwear firms are on the tie-up mode. For instance, Bata India is engaged in talks with Reliance Retail for a business arrangement.

According to a council of Leather Export India's footwear manufacturing, even today is concentrated in the unorganised small-scale sector, which accounts for 55% of the total footwear production. India is also witnessing an influx of very low priced footwear from Malaysia, Vietnam, Indonesia and Nepal. After the anti-dumping duties of 47% to 67% on Chinese footwear, imports from the Chinese mainland have started going down.

4. Small companies, big shoppers

As many as 46 overseas acquisitions have been recorded in the past one year alone by small and medium sized companies in India. The IT industry had the maximum number of acquisitions to its credit. While big Indian companies have been shying away from large acquisitions, mid-size IT players have been setting more aggressive acquisition targets.

5. Non-life Insurance sector see fierce competition after full detariffing

The non-life insurance industry could see premium rates dropping by 15 – 20% when the regulator withdraws the floor rates for covers that have recently been freed from tariff. The regulator will continue to monitor a solvency margin that is the excess of capital and investments over the value of the insured liabilities. *The financials of insurers will depend on claims during monsoon. A large number of scattered claims would eat into insurers' profits, thereby affecting margins.*

2.3 FOREIGN INTITUTIONAL INVESTORS

1. Private equity groups – saddling companies with debts

PE groups borrow cheaply and take control of large firms. The companies they acquire are being saddled with debt. Several top private equity groups such as Blackstone, Carlyle Groups, Warburg Pincus, CVC, Actis and Temasek have invested in scores of firms in India, driven by expectations of good returns in a growing economy.

Government is working to track them closely, especially the kinds of companies they are investing in, the duration of such investments, and their entry and exit patterns.

PE investments in India have been propelled by a deal featuring Warburg Pincus, which made over $ 1 billion after selling a good part of its holding in Bharti. Indian regulators may be nursing the feeling that turf is shrinking with the emergence of a new class of investors.

2. Blank cheque firms – acquiring good Indian companies

A new group of investors is on the prowl in India's red-hot M&A market. Blank cheque firms – also called special purpose acquisition companies (SPAC) – which raise funds through public offerings for acquiring small and mid-sized companies in a particular sector or geography, are getting active in India. Blank cheque firms are one way for western investors to get access to good Indian companies.

Typically these firms are mandated by their investors, to acquire companies within two years of launching initial public offers, otherwise they are dissolved. This means over the next few months, we are likely to see more such SPAC-led M&A deals in India. Close to 10 such India-focused blank cheque firms, which have raised anywhere between $ 350 – 500 million over the past one-and-a-half years, are waiting the wings to buy into Indian companies.

The first movers have been Millennium India Acquisition Company (MIAC) and Indian hospitality Corporation (IHC). The US-listed MIAC acquired 14.9% stake in Delhi-based brokerage firm SMC Global for about $ 40 million last month while London's based AIM-listed IHC has just announced the acquisition of Mars Restaurants and Sky-Gourmet Catering for $ 110 million.

3. Hedge funds – operating outside KYC norms

The international financial markets are currently dominated by private equity funds like hedge funds, which are largely operating outside the Know-your-customer / Know-your-investor norms. Over two years ago, the Indian central bank started expressing its concern over unregulated funds making their way into the Indian stock market.

The government and financial regulators in India are now slowly gearing up to the new challenges posed by private equity and other unregulated funds (read hedge funds). The first step has been taken in terms of collecting data. Once the data is in, policymakers will need to sit down to work out a response, considering that private equity as a form of inward foreign investment is at the forefront.

4. Foreign firms are moving into brokerage and investment banking in a big way

Slowly but surely, India's financial sector is seeing a change in ownership patterns. The process has been on for a while now but it has gathered pace with the growing global integration of the Indian economy. It is most visible in areas directly linked to the capital market – brokerage and investment banking – but others such as asset management, insurance and banking are not entirely immune.

Foreign firms are moving into brokerage and investment banking in a big way. The writing was on the wall when Goldman Sachs broke off its collaboration with Kotak, Merrill Lynch gained control over its joint venture with DSP and Morgan Stanley parted ways with J M Financial.

Several foreign firms have made their moves into the retail space: Citibank (Sharekhan), Merrill Lynch (India Infoline), BNP Paribas (Geojit Securities), and Standard Chartered Bank (UTI securities).

Wherever regulatory barriers have been dismantled; the international financial giants have come marching in and domestic players have fallen by the wayside. Will this story replicated here? It is possible but it is not inevitable. India's geographical size and lack of financial penetration hold out the possibility that, despite the entry of the foreign firms, there is a vast space for Indian firms.

5. The captive BPO model still holds strong

Despite BPO experts ruling in favour of third party BPO model, the captive BPO model still holds strong. For instance, insurance major, Aviva, pulled out its processes from third party vendors and moved them in house.

Computer maker Dell has also been seeing shifting capacities from third party BPO companies to its captive units. In fact, Dell has over 10,000 people in its captive operations in India.

According to sources, HSBC is moving out of Convergy's Gurgaon facility. HSBC has captive units in Hyderabad and Vizag. HSBC's back office in India handles credit card and mortgage processes for global customers.

Companies like Standard Chartered Bank, American Express, Axa and Prudential still own captives for back office processing in India. They all have a significant presence with a large number of employees doing work like claim processing, financial modeling, risk assessment, mortgage processing, and collections and so on.

With the recent Supreme Court ruling to not tax global profits of the parent, the captive BPOs model is bound to gain momentum. Software and service association Nasscom said the Supreme Court judgment on Morgan Stanley's captive centre in India would provide clarity on taxation issues regarding captive units.

Captive BPO units are offshore centres of a multinational company, unlike third part BPO which cater to multiple clients. The Supreme Court ruled that the income tax department can't tax a part of the global income of a foreign company by attributing it to its India-based BPO.

The parent would not be at risk of being taxed in India as long as it is compensating its outsourcing unit on an arm's length basis. Arm's length pricing means the MNC pays its Indian captive the same payment as it would to an outside agency. The ruling has removed uncertainty about how captives are going to be treated and put things in a good framework.

2.4 WARNING SIGNALS

1. Sustainability of the rise in dollar reserves

Central banks' holding of US dollars continue to mount, despite talk of diversification into other currencies, but the questions remain about the sustainability of the rise in dollar reserves. Though the greenback's total share of reserves slipped slightly while the euro's share edged up, it is due to valuation rather than active diversification accounted for the change.

Overall US dollar holdings, which cover about two-thirds of the world's currency reserves, remained near the level that's prevailed over the last three years. When all is said and done, it appears there's much more said than actually done regarding reduction in dollar holdings.

The euro's share in global reserves has remained stable since 2005, suggesting the greenback is still the currency of choice among central banks. Though they don't report the composition of their reserves, emerging market countries such as China, Russia and the Middle East oil exporters, along with Japan, are thought to be the main dollar holders. It seems that trend may not last for ever.

2. Use of public money for purpose other than what it was meant for

Ministry of corporate affairs had started last year to scrutinise all IPOs since 2004 to find out if anyone has utilised public money for purposes other than those stated while raising funds. Minister of corporate affairs has ordered an inspection into the books of accounts of all the subsidiaries of Suzlon Energy to find out whether Asia's largest wind turbine manufacturer has utilised public money for purpose other than what it was meant for.

The inspection of Suzlon subsidiaries follows a report by the Mumbai registrar of companies (RoC) and the regional director (RD) that said an inspection was needed to allay doubts about certain entries in balance-sheet for the fiscal ended 2006. After a technical scrutiny, the RoC wondered why advances to certain parties not been paid back to the company. Also, debtors have not paid a large sum to the company back in cash or kind. This has raised questions and apprehensions that the company may have diverted Rs 2,200 crore to various parties. Therefore, an inspection under section 209A of the Companies Act is needed.

3. India ranked among least friendly for small businesses

India may have entered into top league of world economies on the back of robust economic growth and booming stock markets, but it ranks among the bottom ten when it comes to promoting small businesses. The country has been ranked 46 among 53 countries in a list compiled by global media conglomerate CNN – Time Warner group's *Fortune Small Business* magazine for their friendliness to small businesses. The less-friendly approach toward small businesses reflected performance of small-size companies.

4. China raises interest rates on deposits to cool economy

China raised interest rates for the third time since March to cool the fastest pace of economic growth in 12 years and restrain inflation. The benchmark one-year leading rate has increased to 6.84% - the highest in more than eight years. The one-year deposit rate will rise to 3.33% from 3.06%. Consumer prices are up the most in almost three years in June '07 and factory and property spending have surged. Rising food prices, high stock and property prices and excessive liquidity from the trade surplus may in combination push the inflation further.

1. One of the most important tools is looking at the benchmarks

When your broker or banker advises you to buy a particular product, don't take his advice blindly. A simple analysis will help you choose a fund that fits your financial needs. One of the most important tools is looking at the benchmarks.

A fund's benchmark is an index that is chosen by a fund company to serve as a standard for its returns. A fund should be deemed to have done well if it manages to beat the benchmark. Besides it gives you a rough indication as to what kind of stocks the fund is likely to invest in.

Compare between the fund schemes based on similar benchmarks. For example, Reliance Growth, which has BSE 100 as its benchmark, cannot be compared with Reliance Equity that has BSE Sensex as its benchmark. But it can be compared with UTI Mastershare, which also shares the same benchmark.

2. Over-investing in equities is dangerous and one should invest only that much that fits an investor's risk appetite

There are thousands of investors that could be found across the corners of the country, those hitherto risk-averse investors have suddenly started getting interested in stock investments. From garment shop owners to automotive parts dealers, the ambit of stock investors seems to know no limits. While some are starting to trade in equities in smaller measures compared to their overall portfolio, some are overdoing it and dangerously so. With market appreciation, they feel that stock market could go only one way. What investment experts warn is that over-investing in equities is dangerous and one should invest only that much that fits an investor's risk appetite.

3. Hybrid option could be the best way to test the equities water for the hitherto fixed deposit lovers

Hybrid fund portfolio typically comprises investments in stocks of companies as well as bonds, debentures and government securities. As both the markets of equity and debt often tend to have a negative relationship, it provides a kind of cushion. There are a number of hybrid funds with the maximum equity component in portfolio varying from 15% to 35%. If the equity market tanks, hybrid fund managers have options to increase exposure to debt investment that could earn some basic yield.

4. Consider balanced funds for slightly higher risk appetite

The balanced fund category typically puts anywhere between 40 - 60% of investments into equities. It would be important to specify that there are funds which have higher exposure than others and hence, the need to look at its portfolios before zeroing in on a fund. It needs to be known that equities are important for giving a boost to portfolio returns, but then the overall asset allocation plan shouldn't be tempered with. Avoid the bandwagon approach to investing and build a portfolio of diversified assets that matches your risk appetite.

5. Switching is actually a good investment tool for investors to efficiently alter their MF portfolio

Mutual funds provide the investor today with a switching option, whereby one can swift investments from one scheme to another. Many mutual funds charge switching fees, which keeps changing from time to time. Though it is nothing like the normal entry and exit loads that you anyway pay when redeeming and buying units the traditional way.

3.1 GOLD

The glitter of gold has been the origin of numerous fables and adages. And, nothing else lures Indians more than this precious metal. We all have heard stories about how our ancestors use to hide their personal ornaments in the backyard.

But now gold has come out of those backyards and is fast emerging as an alternative investment option. Today, besides jewellery, one can buy gold in the form of bars, coins, certificates or Exchange Traded Funds (ETFs). Here’s what experts have to say on investing in the yellow metal as an intelligent decision and not an emotional one.

“Traditionally, people are comfortable investing in gold. But it is yet to emerge as an alternative asset. Indians suffer from a psychological barrier, when it comes to selling gold. So, before buying gold, one should clearly differentiate, whether they are investing in gold for booking profits later on or just for wealth creation.”

The price of gold in India is dictated by the international gold prices and the changes are instant. Though, India is the largest consumer of gold (almost 40% of annual production worldwide), still we don’t dictate prices of the metal. The demand currently exceeds supply by 40% (2500 MT produced versus 3500 MT bought annually). The shortfall is met by resale of gold by central banks and others. Supply inconsistencies can often aggravate the situation.

With increased affluence, gold demand in India is also going up. As the world’s largest gold consumer by far and with increased participation in gold trading on future exchanges, experts believe that India is likely to dictate gold prices worldwide in future.

1. US withdraws the generalised system of preferences for gold

Although the Indian industry had tried hard for extension of duty-free access to Indian gold jewellery in the US market, the US government withdrew the generalised system of preferences (GSP) benefit for the product as part of annual review of the GSP scheme.

The GSP scheme provides preferential duty free entry into the US market to select products from developing countries. Jewellery exporters will now have to pay an import duty of 6.7%, which is going to push up prices and lower competitive-ness of the industry in the US market.

2. US GSP withdrawal leaves Jaipur jewellers in the cold

The US government’s withdrawal of GSP for Indian gold jewellery in the US market has come as a rude shock to the Jaipur jewellery industry which constitutes around 7% of the total jewellery exports to US. The withdrawal of benefit has come as a double blow for jewellery exporters from India who is batting an appreciating rupee that is leading to lower realisation.

Now, American would prefer Chinese and other jewellery as compared to Indian jewellery. It will have a deep impact on the economy of the country. Now, that the competition become stiff and margins low, exporters will have to find a new market. Else they will have to focus on domestic market which doesn’t offer much promise. This blow has clipped the wings of exporters who were about to flutter its wings.

4. FINANCIAL SECTOR – TRANSFORMING TOMMORROW

1. Why so few Indians – 3.5 million out of a working population of 319 million in the 18- 59-age group – invest in stocks?

According to the IIMS Dataworks' countrywide research, Invest India Incomes & Savings Survey, 2007 (IIISS 2007): "Across educational levels, only a handful believe that over a long period, returns from scrips and mutual funds score over bank deposits."

However, a large majority of individuals understand that investments that garner higher returns also imply higher risk. This understanding of inherent risk in stocks and mutual funds is a sign of a developed financial market. The paradox probably calls for a focused, consumer-led campaign by the market regulator or marketing-savvy bourses to create a more enlightened environment around stock market investing.

2. Small brokerages must spread out to de-risk themselves from market uncertainties

With bigger players entering broking business, smaller ones have already begun taking a hit. Brokerages used to charge 2.5% per hundred trades in 1990; now it is down 0.25%. The market is getting increasingly institutionalised. Bigger players who are going retail are investing heavily on technology as they believe that more and more people will prefer the Internet to trade stocks.

However, Indian still wants to go out and sit in a local brokerage before they trade. Indians want a personal touch, which the Internet is not able to provide. Functional segments like focused retail broking, NRI client servicing and investment advisory services is the best bet for small brokerages. There is a huge demand for advisory services especially for those people who cannot afford a portfolio management service but have enough funds and require experts to show the way.

Small brokerages must spread out to de-risk themselves from market uncertainties. Even if broking revenue streams dry-out in a bearish phase, small brokerages will be able to sustain themselves by offering non equity financial products and investment advisory services. Investors who trade through small broking firms need professional advice and these firms should gear up to does exactly that.

3. Holding companies – a new ways to unlock valuation hidden in operating companies, as well as improve their overall valuations to facilitate fresh capital raising

The Indian corporate sector is suddenly witnessing a mushrooming of holding companies. A large number of companies – especially those in the financial service sector – are rushing to set up holding companies. Here's a sampler: ICICI Bank has floated a separate company, called ICICI Financial Services, to hold its stakes in the insurance (both life and general) and asset management companies. The new holding company has received handsome valuation from the market.

The country's largest commercial bank, SBI, is also looking to emulate the above example. That is, create holding companies below the bank level to hold its investments in only its insurance and MF businesses. The aim seems to be unlocking the value since the bank plans to sell 10% equity of the new holding company to investors.

The Tatas plan to return to the financial services business – which was earlier wound up following problems faced by Tata Finance (which was merged with Tata Motors) – through a new company called Tata Capital is going to be the holding company for the group's foray into financial services – private equity, asset and vehicle financing, housing finance, capital market services, merchant banking as well as retail finance. Many of these activities are likely to be held in various one-down subsidiaries.

Actually, holding companies are nothing new. They have been around for over 100 years, in different shapes and sizes. The managing agency structure that was favoured during the first wave of industrialisation in British India could also be called as a precursor to the current format. Under the arrangement, somebody would own a company and somebody else (managing agency) would run it for a fee. This arrangement suited many sterling firm shareholders who were based in Britain but had their operations in India.

Sometimes the managing agency also owned substantial stakes in the operating companies. Indian entrepreneurs to gain control over their own operating companies finessed this system: As a result, over time, managing agencies were transformed into proxy holding companies.

Cut to the late-1990, when a host of Corporate India's A-listers rushed to set up holding companies. The trend then was facilitated and by income-tax laws (which exempted mergers and amalgamations from capital gains tax) as well as Sebi's takeover laws, which granted inter-se transfers of holding between promoters immunity from open offer.

So, what's fuelling the rush now? With benchmark indices crossing into frontier territory every day, promoters are looking for new ways to unlock valuation hidden in operating companies, as well as improve their overall valuations to facilitate fresh capital raising. Take the example of ICICI Financial Services. Once it was created as a vehicle to hold ICICI Bank's stake in the insurance and MF businesses, overseas investors made a firm commitment to buy 5.9% in it, valued at Rs 2,650 crore, thereby valuing the entire company close to $ 11 billion. ICICI Bank is valued at $ 25 billion today.

4. The policy of financial inclusion is to make available a basic banking account to vast sections of the population

Large majority of the poor in India are outside the formal banking system. The policy of financial inclusion sets out to remedy this by making available a basic banking 'no frill' account either with nil or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population. The poor households want to save and, contrary to the common perception, do have the funds to save. For the poor household, who lack access to the formal insurance system and to lesser extent the credit system, savings provide a safety net and help them tide over crises. Savings can also keep them away from the clutches of moneylenders. The poor even if they want to save, do not have an account to save on or a place to keep their money safely.

However, the mere opening of a bank account in the name of every household or adult person may not be enough, unless the account holders use these accounts and financial services offered to them. The banking sector can discover the 'fortune at the base of the pyramid' by using this scheme/policy to provide real financial inclusion for the poor and also benefit in the process. Till now, banks were looking at these accounts from a purely credit perspective. Instead, they should look at this from the point of view of meeting the huge unmet need of the poor for savings.

5. it's do or die for emerging sectors

Dearth of talent has kept the management of emerging sectors like BSFI (banking, finance, securities & insurance) and even the mutual fund industry on their toes. Leading players in these sectors are either tying up with reputed educational institutions to roll out specialised programmes or are embarking on recruitment branding initiatives on the campuses. For starters, ICICI Prudential Life Insurance has recently joined hands with XLRI Jamshedpur to launch a one-year specialised management course for the insurance industry. ICICI Bank too had tied up with NIIT to set up a training institute for the financial services sector, christened institute of Finance, Banking and Insurance. Such tie-up with educational institutes ensures predictability in supply of quality talent at a time when companies in these emerging sectors are rapidly scaling up their operation.

5. TAX UPDATES

1. Expenditure on advertisements can be fully deducted to arrive at the taxable income

The Delhi Income-tax Appellate Tribunal (ITAT), on an appeal filed by the Nestle India, has said the expenditure on advertisements can be fully deducted to arrive at the taxable income. The income-tax department has disallowed this on the ground that such spending helped the parent company, Nestle SA, to establish its brands and products. The assessing officer disallowed 50% of the expenditure (about 52 crore) in this case.

2. Companies can claim tax relief on provisional leave encashment

According to a recent ruling given by Calcutta High Court, companies will be able to claim deduction based on provision for leave encashment. The decision came in response to a petition filed by Exide Industries. The court has termed the amendment carried out by the government as arbitrary and struck is out. What the high court held is, for other items covered under section 43B like statutory duties, payment to excise department, contribution to provident funds, interest payments to banks, giving deduction only on account of actual cash flow was appropriate as public money was involved in these payments and the government wanted to stop any misuse of public money. But, leave encashment is not a statutory liability and does not involve public money in any way.

3. One-way traffic: I-T department yet to process e-returns

Being tech savvy can have its flip side too – as many taxpayers may be realising. E filing of income-tax returns launched last year with much fanfare has landed a large number of taxpayers, in a spot. Their returns have not been processed holding up tax refunds to the tune of Rs 15,000 crore. E-filed returns have to be downloaded before they are processed and that's where the main problem lies. The department is facing immense problems in downloading the forms. E filing of income-tax return was made compulsory last year while it was optional for other taxpayers. But, the last date for filing of returns for individuals drawing near, e filing could go out of favour. Corporates, however, do not have much choice in this regard.

4. Fund houses are now selling PAN cards along with MF

Fund houses are now selling PAN cards along with Mutual Funds to rope in investors turned off by mandatory PAN requirements. They go together now - the PAN card and the NFO application. Sebi made a PAN card or application proof mandatory for Mutual Fund investments. Since then, retail investments have fallen 40 to 50%. Fund houses like Reliance, SBI and others have begun to provide customers with PAN card application forms along with Mutual Fund forms.

5. Customs duty cut on edible oils

The government resorted to another round of Customs duty cut on edible oils, the fourth this year, to provide cushion against spiraling prices on palm oil, soya bean and sunflower oil in international markets. The duty has been reduced in from refined palm oil including refined bleached and deodorised palm oil from 57.5% to 52.5%. Custom duty on soyabean oil has been reduced from 45% to 40% and on refined sunflower oil from 60% to 50%. The government has slashed import duty on edible oils in August 2006, January 2007, and March 2007 and again in April 2007. It may be noted that in the budget, finance minister had done away with the special additional custom duty of 4%.

6. BANK & SECURITY LAWS

1. Its raining deposits

It is pouring deposits for banks. After four months after fund starved banks launched special schemes to raise deposits to fund runaway growth in credit, savings are being directed from all other investments into bank deposits. The gap between the saving deposits is widening, prompting a migration from saving deposits to term deposits. While, some of the money is migrating from small savings schemes, there is a lot of institutional money coming in as well. Even provident funds and mutual funds have parked their funds in term deposits from commercial banks.

Though the deposits are hitting the roof, banks are seeing their loans dipping. So, how long can this trend last. If deposit growth gets unsustainable, it will trigger a correction. Already lending rates have eased as reflected in falling commercial paper rates. What will separate the men from the boys is a possible decline in interest rates which, if it happens, will result in bulk deposits flowing out again.

2. Loans to companies, individuals see a dip

For long the central bank has been uncomfortable with the fierce loan growth. Since last year, it has pushed through a series of rate hikes to cool down the economy and diffuse bubbles in different markets. Its action may be finally showing results. Though a slow credit demand is normal in the first quarter, which is the lean season, for the first time in 24 quarters, banks are seeing their loan portfolio shrink. Significantly, it's happening at a point when deposits parked in the banks are recording the highest quarterly growth of over RS 100,000 crore.

Some bankers attribute the dip in loans to corporates unwilling to go in for reprised loan products, which are seeing a slowdown. Also, some big-ticket loans were repaid while some corporates did not agree to the reprising of loans at the time of reset in the first quarter. Corporates that have borrowed at high rates in the last fiscal are bargaining for a lower rate at the time of reset. Besides, some corporates could be exploring other fund-raising options like commercial papers (CPs). There has been a surge in issuance of CPs, and even interest rates on CPs have dipped since early May.

As for retail loans, banks have been exercising caution out of fear of defaults. As far as borrowers are concerned, many are going slow on their home purchase plans, waiting for the interest rate cycle to turn around.

3. NBFCs banking on MFs to raise funds

With more and more banks refusing to lend to them, finance companies – whose presence in the stock market is often overlooked – have found an alternatives in mutual funds. Finance companies of all kinds have issued instruments like commercial papers, debentures and loan securitisation receipts to MFs to raise money. A large part of this money has found its way to the stock markets – finance firms have lent to retail investors and HNIs to buy shares, and funded promoters of different companies to raise their holdings, participate in right issues, carry out creeping acquisitions, buy warrants and even go for acquisition.

As such as Rs 25,000 crore may have been deployed by NBFCs in such activities in the last two years. Interestingly, a slice of this money will not even figure as capital market exposure in the books of NBFCs. While funding promoters, finance firms show such loans as working capital credit to trading and investment companies, and not as market exposure. Many NBFCs also keep shares as collateral for funding small and medium-sized companies. Unlike banks, which have a cap of Rs 20 lakh per individual, there is no cap on loan against shares an NBFC can give.

4. Multipurpose national identity cards (MNICs)

MNICs finally saw the daylight when a small group of residents in Delhi were issued their cards on May 26,'07. These smarts cards are equipped with 16k chip to store a lot of personal information and are also to serve as holder's proof of identity and address. However, MNIC for every Indian is a distant dream and still such time, furnishing documentary evidence of one's identity and address will continue to be tough and challenging task.

Today, proof of identity (POI) and proof of address (POA) are the essential documents required for every thing 'official'. There is a long enough list for everyone to be easily able to provide a proof of identity and address, but that is far from reality. There are three major issues that need to be urgently addressed:

1. The government needs to draw up a comprehensive list of documents that constitute POI, POA and make it mandatory for all authorities to follow the 'standard list'. For example, what is sufficient for opening a bank account may not be adequate for obtaining a driving licence? This requires an immediate correction.

2. The process of creating an individual's first POI cum POA needs to be eased, while building up a good document trail at the same time for quick verification. For example, unemployed youth and house-wives seldom have documents to prove their identity and the address. Further, a photograph/certificate signed by MP/MLA/MLC or a gazetted officer, as identity/address proof, is neither easily obtainable nor widely acceptable. It is in this context, the process of creating an individual's first POI cum POA needs to be eased.

3. The process of validating address change needs to be made simpler. For example, When people move into houses for which they do not posses an ownership title or a rent agreement, they are rendered POA-less.

7. MISCELLANEOUS UPDATES

1. IT pays well, but only to a few

IT sector is generally perceived as among the best paymasters in India. However, the reality is that only a minuscule number get into the magic circle with six figure monthly salaries. Six figure monthly salaries is still a dream for majority working in IT sector.

To be specific, TCS employed 85,582 persons in FY07, of which 221 employees get salaries over Rs 2 lakh per month accounting to just 0.25% of its total staff strength. What do these figures tell you? Well, that one has to be among the high performers or have special or niche skills to get there.

2. Green signals for pan-African e-network to link 53 countries

The government has approved the pan-African e-network project proposed by President APJ Abdul Kalam. At a cost of Rs 542 crore, the network would link 53 countries to enable Africa to catch up with the rest of the world in terms of modern communication. The e-network would enable India share its expertise in healthcare and education with all member countries of the African Union.

3. Predatory pricing to kill the competitor and to recoup the losses later on

It is selling a product cheaper than the cost of production. Predatory pricing as a strategy works on the assumption that once the smaller competitor is finished off through unsustainable pricing, the dominant player can hike prices to recoup earlier losses and make a killing on top.

The MRTP Act leaves very little room for a market leader to price its produce below the cost of production. In the new law of Competition, it would be an offence only if it is adopted with the intention to kill the competitor and to recoup the losses later on.

4. Sachet revolution – Small is big again

Size matters. Leading FMGC firms are set to bring back the sachet culture as they are fast realising the value delivered by small or single-serve packs. Increasing aspiration levels and high competition with modern retail have compelled several companies to strongly believe that small is beautiful. The consumers increasingly prefer single serve, affordable and easy-to-use packs.

Sachet revolution started decades back with companies offering shampoos in small sachets. It later moved on the detergents, soaps, toothpaste, sauces and lot more. But lately, sachets have been facing tough competition from large or multi-serve packs, which have been attracting consumer attention, and in some cases, also found to be more pocket-friendly. However, now the retailers expect the sachet revolution to stir the market yet again in low-penetration categories like health food, baby products and more. Also, the single-serve packs are good way to get the non-user try the product.

5. IT is a new media of learning

Interest in new media is leading recent graduates to pick career in the IT industry. Men tends to pick these jobs because they ‘enjoy technology’, while women are attracted by the career possibilities. Companies said they frequently observed lack of confidence among their female workers but that young women were often more mature than their male counterparts. Male job applicants generally displayed more confidence and had greater knowledge about the field. But they were overly confident about their skills and often displayed a lack of communication skills.

7.1 A REAL TIME STUDY ON RISING RUPEE

1. Finding best way to sponge up liquidity

The surge in capital inflows into the country has posed major challenges to monetary and fiscal policy managers. Since March '07, the rupee has appreciated by over 8.5% compared to the end of last fiscal when it was being quoted at around 44.25 levels. A rising local currency largely impacts equilibrium in the balance of payments. Hence, the RBI has been intervening at regular intervals to prevent the rupee from rising too sharply.

The central bank also issued bonds under the market stabilisation route to manage excess liquidity. But it bares an interest cost burden at around 7%. The RBI's investment in terms of dollars in US treasuries is around 5.25 – 5.50%. Thus, there is a net loss of about 1.75%. This is a normal loss but non-intervention by RBI involves a lot of social cost, which is difficult to quantify.

However, this time around, capital inflows have been so robust that the impact of the available liquidity management measures got restricted, resulting in a massive expansion in overall money supply in the economy. The rise in money supply leads to a growth in inflation. In a real sense, rising prices of manufactured products, seasonal nature of prices of food articles and possible hike in domestic prices of fuel products sustain pressure on inflationary expectations. Hence, it may not mark the end of liquidity management and monetary tightening

2. A package for exporters

The government announced a package for exporters, which was expected to give some relief to the community. The package sought to increase the drawback and DEPB rates by 5% to neutralise the state and local duties not being refunded. Other measures including reducing interest rates on packing credits and premium for ECGC coverage and conversion of exchange earner's foreign currency accounts to an interest-bearing instrument were also announced.

Commerce and industry minister said that the government does not want to artificially tinker with the rupee to check its rise; the Centre wants to have a back-up plan in place in case things worsen.

3. A meeting seeking the levels to which exports were affected

Senior officials from the commerce department held a meeting with exporters seeking details on the levels to which exports were affected and the markets and products particularly hit due to rupee appreciation. Details were also sought on the package for exporters announced by the government which was expected to give some relief to the community.

While the package has come as a relief for exporters claiming drawback and DEPB, those who do not claim such benefits would not profit from the move. Small exporters in sectors such as textile, leather and handicraft claim that stronger measures need to be taken to bail them.

4. Prime minister is in consultation with RBI governor

Prime Minister is in consultation with RBI governor on macro measures that might need to be taken if the rupee continues to move northwards. The PM has been bombarded with petitions from the exporting community on the need to check the rising rupee, which, they claim, has disrupted their business. The PM may form a high-level group to propose steps for ministering the adverse effects of rupee appreciation.

RBI has made interventions and prevented Rupee from appreciating to the psychological Rs 40 a dollar mark. The central bank besides sucking out liquidity through the market stabilisation scheme could go for a hike in cash reserve ratio again.

5. Insurance gain for exporters

Exporters can now save 10% on insurance premium being paid to the Export Credit Guarantee Corporation of India (ECGC). Insurance rates for exporters vary from country-to-country depending on the risk profile. While ECGC had not decreased its insurance premium rates, it had upgraded risk rating of some countries leading to a lowering of premiums for exporting to such countries. The recent 10% cut, however, has been made across the board irrespective of the risk profile of the exporting destination.

6. Exporters' refund arrears released

The finance ministry has cleared arrears of excise and CST refund to exporters worth Rs 500 crore pending in some cases for over the year. Commerce department officials said that the amount would be disbursed to exporters soon. The move is being viewed as one of the measures taken by the government to ease the burden of the appreciating rupee faced by the exporters.

7. Infosys' First-quarter of FY08: Rupee virus may bite off IT companies' bottom line

During Q4 of the last fiscal, the average rupee-dollar rate for Infosys was 43.75 while in Q1 it was 40.66, indicating rupee appreciation of 7%. The appreciating rupee forced Infosys to revise its top line guidance for the current fiscal downwards. It is for the first time that the tech giant has gone in for a downward revision. For the year ending March 31, 2008, Infosys expects to have a top line growth of 16.9 – 18.3%, much lower than 22.6 – 24.6% growth it had forecast while announcing the Q4 results.

Even though the company witnessed a healthy 7.5% sequential growth in its top line (in dollar terms) in a traditionally weak quarter for the IT sector, the hardening rupee took the seen away from the company's performance. Infosys reported a sequential 5.7% decline in consolidated net profit, which could see more than Rs 1,000 crore shaved off its top line in FY08.

8. Rs 1,400-crore relief package

The package includes a hike in drawback rates on most items and inclusion of some more items in the drawback list. The 3% increase in duty drawback rate is expected to arrest the recent decline in export.

The government has also relaxed the monthly and quarterly ceiling on reimbursement claims in respect to deemed export benefits. Pending claims of Rs 600 crore will be reimbursed expeditiously. Concessional pre-shipment and post-shipment credit for small and medium exporters is also part of the package.

Announcing the package, finance secretary said: "The enhanced rates of tax refunds through duty drawback scheme on nearly all products will be effective from April 1 this year." The package is government's response to demands for relief on account "an unprecedented appreciation" of the rupee vis-à-vis the dollar. It would enable the country to meet the '07-08 export target of $ 160 billion. "There was no reason to apprehend that the target would not meet." There is no one-to-one relationship between Rupee appreciation and decline in exports, which depend on many other factors too.

9. Rupee rise starts hurting over 2.75 lakh jobs at risk

Sharp rise in rupee has begun to hurt, with exporters considering lay-offs, which could affect 2.75 lakh jobs by December, and the government mulling to scale down export target to last year's level of $ 125 billion.

10. Growing pains send BPOs on global hunt

The rising rupee, the need to penetrate new markets and to acquire new skills & customers are driving BPO companies to look at overseas buyouts. With the rupee rising against the dollar and wage hikes of about 15% annually, companies are looking to diversify geographical spread. With more geographical presence, BPOs can shift capacities in case of currency fluctuation. In case the dollar falls further, most BPOs won't have much option but to re-negotiate contracts or look at strategic buyouts to enhance delivery capability.

8.1 KNOWLEDGE RESOURCES

1. MULTIPLEXES

Looking for safe investments in a sector that boasts of a high margin business, tax holidays and strong growth prospects, among many other positives? If these factors looks enticing enough, then multiplexes are where the money should be put in, says a recent report by brokerage house Smifs Securities. And investment in this sector is easy as there are quite a few major multiplex players are listed on the stock exchanges – Sringar Cinemas, Inox leisure, PVR Cinemas, Cinemax India and Adlabs Films.

The report talks about the organised players in the movie exhibition industry and the aggressive expansion plans that they intend to execute in 2-3 years. Most of these players intend to expand their domestic presence by setting up multiplexes in Tier II and Tier III cities that offer strong growth prospects. The organised retail boom in the country is likely to complement the growth of multiplexes over the medium term.

Interestingly, government support for the sector is also very much visible by way of tax holidays. While India has one of the highest entertainment tax rates, which vary from 20% to 125%, many state governments have come forth to offer tax benefits to multiplexes.

On a different note, the few downsides that the report talks about include the sector's dependant on real estate developers, piracy, direct-to-home and IPTV and the tenure of tax holidays that are typically for a period of five years.

An Indian summer for Hollywood

After a stupendous run at the box office this summer, Hollywood flicks are only getting bigger with each release. Starting with Spider-3, Pirates of the Caribbean-3, Harry Potter and the Order of the Phoenix, Die-Hard-4 and now Paramount Picture's, Transformers, Hollywood's fab five raked in more than Rs 170 crore in the last three months, almost 40% higher compared to the same period last year.

Bollywood, on the other hand, has taken a backseat, with only small budget films doing well at the box office and the top five grosser managing only Rs 120 crore, down 15-20%, compared to last year. As projected at the start of the season, Hollywood has dominated the box office by far in comparison to Bollywood. There has been no Bollywood blockbuster hit till now, compared to Rs 70-80 crore hits like Krissh (last year).

Animation films

Ratatouille (Hindi title: Bindaas Bawarchi), a new Disney/Pixar animated feature about Remy, a rat who wants to become a chef. The film in its first week in the US managed to displace the latest episode in the well-established Die Hard series to claim top spot. In the subsequent weeks Transformer and Harry Potter hit it, but it has stayed high on the chart.

The perception of animation films is charging. There are new audiences for them, and multiplexes are keen to screen them. The film has a compelling story based on that 'The Food has universal appeal". It ends happily, but in a real way and that adds to the satisfaction.

Regional films

Sivaji, a new Tamil Cinema feature has given Indian cinema its biggest blockbuster of all times. The regional film sector is divided between the four languages, with Telugu having had the largest share, followed by Tamil, Kannada and Malayalam. Among the four languages, production of Telugu and

Tamil films has shown an increasing trend in the past few years, while Kannada and Malayalam's films have not changed significantly. The industry has no entry barriers, and of late, diverse people with non-film backgrounds are also getting into film production.

Moser Baer shoots into movie production

Top of the drawer optical media outfit, Moser Baer is foraying into the entertainment sector in a major way. The company has picked up rights to some 7,500 titles, comprising largely movies, across a basket of languages for home video release. With this initiatives gathering steam, Moser Baer has also stepped into the movie production business. Around Rs 50-60 crore will be earmarked for financing nearly a dozen films annually. In the same breath, rights of about 100 films will be acquired monthly for the home video segment.

Now, Era to entertain

New Delhi based construction major Era Group is set to foray into the entertainment business. The Group's plans entail setting up multiplexes under the Era E Zone brandname, and have earmarked an investment of Rs 200 crore for the venture over a five-year period. Era E Zone, which is looking to leverage on Group's real estate infrastructure, is targeting 200 screens during the period.

2. EXTENDED STAY

Globally in many countries, service apartments have eaten into the business of hotels. Major brands both national and global are entering the service apartment business. They are setting up stand alone service apartments, which provide tailor-made, cost effective, private facilities, sans the hotel feel. These apartments offer smaller lobbies, private health club and pool with flexi hours, lower overheads, therefore a lower cost accommodation and other charges.

Worldwide, the concept of serviced apartments was introduced in 1950s in the US, with extended-stay hotels for long staying travelers. Now, many hotel owners consider service apartments as an alternative investment option in market where occupancy levels could be erratic at times. Compared to hotels, service apartments are sometimes a more attractive and lucrative investment due to their lower fixed costs, greater reliance on variable costs and higher levels of efficiency and thus profitability, resulting in higher cash flows.

Service apartments make a lot of sense. If the city occupancy is less than 75 – 80%, these apartments are more feasible. Location is also not that important for service apartments. This cuts down the land and construction cost considerably.

With economic growth and globalisation, there has been an increase in the number of professionals coming for medium to short term stays. MNCs increasingly need to send top-rung executives on projects to India. Also, these apartments with their personalised services are a suitable alternative for families relocating to India and looking for interim accommodations.

3. TAKING HOUSE ON RENT

Fools build houses and wise men buy them. This old English proverb clearly establishes that buying a house is an intelligent choice. But in this era of soaring property prices and interest rates, is renting a house a better option? Well, there's no blanket answer for this because the choice depends on various factors. Given that both buying and renting a house have their unique set of costs attached, as well as advantages and disadvantages, you must evaluate both options carefully and then make an informed choice.

Simple strategies

In the present scenario, the EMI of the housing loan should not exceed 30% of your net monthly disposable income. However, individual should not have pre-existing debts before taking a home loan. Before firming up any strategy to rent or buy a house, figure out how long you expect to stay in a particular locality. If you have a long-term horizon, buying a house makes sense. But if your option is short term, go for the rent option.

A simple strategy for new home loan takers: “Borrow as low as possible and only much as your savings will allow; make as much down-payment on your home loan as possible. The strategy to avoid getting into a debt trap is that “borrowers should stretch themselves only to the extent of their present financials positions.” The home loan should never be based on anticipated improving financial positions.

Pros & cons

A house can be considered an asset or investment, which appreciates in value over a period of time. Moreover, buying a house gives you a sense of ownership. You can decorate your house the way you want. However, you cannot renovate the rented house as per your wish. The landlord may ask you to increase the rent and vacate the house, so you may have to change the house frequently.

9. INSURANCE

1. Anti-Moneylaundering norms for insurers are up for review

The move comes less than a year after the government made it mandatory for insurers to track individuals using unaccounted money to buy insurance policies. Moneylaundering is a practice of moving illegally acquired cash through the financial system to make it legal.

Indian authorities have shifted their focus to insurance since investment products rather than protection policies have driven the life industry in recent years. Insurers are now required to identify income source and also report suspicious transactions to Fiu-Ind – the government agency that tracks and probes Moneylaundering.

Fiu-Ind officials met both general and life insurers earlier this month to take stock of their compliance levels. The results reveal a mixed bag, with some firms yet to come on board. But insurers say there are a few glitches in implementing these guidelines. State-owned insurers, for instance, want a hike in the Rs 50,000 limit for accepting cash payments, as rural customers do not have access to banking facilities. From Fiu-Ind's perspective, a higher limit for premium payments in cash would mean adding more cash transactions in the economy. Their goal is to encourage all stakeholders in the financial sector to move towards a cheque economy as this would help curb Moneylaundering."

2. Mortality calculation

A study by the insurance industry reveals mortality rates very across geographies & economic classes. Mortality rates have changed over a period of time. It has gone up for some customer segments while it has fallen for others. So there is a need to capture this difference in the premium costs as well. And the cost of the life cover may vary according to the wealth and location of the insured.

If you want to take a fresh life insurance policy, it makes sense to cool your heels. It is likely that the premium rates may fall over the next six months. This could be across spectrum of insurance policies like term, endowment or whole life. This is because life expectancy of male as well as female has increased and this could actually reduce claim ratios and ultimately premiums. Good times are expected for those taking insurance policies in future. And if you are willing to wait a while, you may actually benefit from lower premiums.

Danger Zone

Buying a ULIP scheme? Check out what's being offered and what you are actually getting. A unit-linked insurance policy that a agent says won't only provide life cover but also grow your money at over 15% per annum. The plan requires you to invest a fixed sum of Rs 20,000 for three years, which the agent assures will be at least get a minimum amount of RS 10 lakh in twenty years. But little does poor investor realise that the projections made by the agent are no less than castles in the air.

In fact, there are many people today who get disappointed when they don't get the benefits as guaranteed. In ULIPs, the agent cost, underwriting cost and other costs such as policy stamp costs form a major percentage of your premium payment in the first year. Ordinary investors don't understand the intricacies of a financial product, which the agents exploit to their maximum advantage. The agents misuse the presence of a cover continuance option in ULIPs into a selling point. The three year premium payment option is a big hogwash.

For the uninitiated, ULIPs include a 'cover continuance' option, which is exercisable at the time you purchase the policy. This option ensures that the policy continues even if a policyholder is unable to pay premiums after the first three years.

Before opting for a ULIP, there are certain factors you need to look at. For instance, fund management charges, administrative charges, mortality charges, top-up charges, withdrawal charges, and surrender charges need to be looked in carefully. The bottomline is what your fund value is at the end of the benefit period for different ULIPs because this will take care of all the charges.

Buying a ULIP and a term policy does not fall in the same bucket. You buy a term policy only for covering the risk whereas a ULIP is primarily bought from an investment perspective and the risk cover is an additional benefit. The investment and return angle bought in by ULIPs is really not insurance. You can buy a ULIP at any time but the ideal route will be to go in the MF SSP route.

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