ABCHLOR™
Investment Advisors (P) Ltd.
REG. NO. : MAHENG11667/13/1/2008-TC

Monthly magazine on guide for investment opportunity ! Oct, 2009

INVEST GUIDE

Your partner for success in future Vol. : 4, Issue : 4

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The New Direct Tax Code

A new trap for more freedom !

Wish you a happy diwali & prosperous New Year

What does the world's tallest tree have in common with Kotak 30 and Kotak Opportunities?

A strong foundation and growth, of course.

Enjoy the advantage of sound investing.

A solid foundation is the only assurance of growth over time. It's the reason why the world's tallest tree is still growing even at 378.1 feet, after a lifespan of over a 1000 years. It's also why Kotak 30 and the Kotak Opportunities Fund are amongst our top-performimg and long-running mutual funds in the market today. And it has been the solid investment principles that we follow which has helped these funds deliver over time, helping those who invest with us to get the most out of their money.

Over 8 times your investment in 10.6 yrs in **Kotak 30**	Amount (Rs.)
Investment amount (Since inception on 29th Dec, 1998)	100000
Value of investment (31st August, 2009) 21.95% CAGR	832481

Over 3.6 times your investment in 4.9 yrs in **Kotak Opportunities**	Amount (Rs)
Investment amount (since inception on 9th Sept, 2004)	100000
Value of investment (31st August, 2009) 30.26% CAGR	372854

Kotak 30 NAV: Rs 29.143 (Div Option) on 31st August 2009, **Returns <= 1 yr: absolute; Returns >1 yr: CAGR.** Rs 1 lakh invested in Kotak 30 would have become Rs 104520 (4.52%) in 1 year, Rs 143868.73 (12.89%) in 3 yrs and Rs 334829.90 (27.34%) in 5 yrs. Rs 1 lakh invested in S&P Nifty would have become Rs 106890 (6.89%) in 1 year, Rs 136541.44 (10.94%) in 3 yrs, Rs 285558.95 (23.35%) in 5 yrs and Rs 534307.43 (16.99%) since inception. Returns assumed re-investment of dividend.

Kotak Opportunities NAV: Rs 37.289 (Growth Option) on 31st August 2009, **Returns <= 1 yr absolute; Returns >1 yr: CAGR.** Rs 1 lakh invested in Kotak Opportunities would have become Rs 107870 (7.87%) in 1 year and Rs 153480.36 (15.35%) in 3 yrs. Rs 1 lakh invested in CNX 500 would have become Rs 110010 (10.01%) in 1 year, Rs 136726.14 (10.99%) in 3 yrs, and Rs 274630.45 (22.5 %) since inception.

Past performance may or may not be sustained in future.

Avg AUM - Rs. 37,060.55 Crs for August, 09

SMS 'KMF' to 5676788
www.kotakmutual.com

kotak® Mutual Fund

Risk Factors: Kotak Mahindra 30 unit is an open-ended equity growth scheme. Investment Objective: To generate capital appreciation from a portfolio of predominantly equity related securities. The portfolio comprise of equity and equity related investments of around 30 companies which may go up to 39 companies, and that these companies may or may not be the same which constitute the BSE Sensitive Index or the NSE Fifty (S&P CNX Nifty) index. Review and rebalancing will be conducted if the investment in companies exceed above 39.

Kotak Opportunities is an open-ended equity growth scheme. Investment Objective: The investment objective of the Scheme is to generate capital appreciation from a diversified portfolio of equity and equity related securities. Risk Factors: Mutual Fund investments are subject to market risks; there is no assurance that the Scheme's objective will be achieved. NAV of the Scheme's Units can go up / down depending on factors and forces affecting securities markets. Past performance of Sponsor / AMC / Fund does not indicate the scheme's future performance. Kotak Opportunities & Kotak 30 are only the Scheme's names and do not indicate their quality, future prospects or returns.

Statutory: Kotak Mahindra Mutual fund is a Trust (Indian Trust act, 1882) Investment Manager: Kotak Mahindra Asset Management Company Ltd. Sponsor: Kotak Mahindra Bank Ltd. (Liability Rs. Nil) Trustee: Kotak Mahindra Trustee Company Ltd. Please read the Scheme Information Document (SID) and Statement of Additional Information (SAI) carefully before investing, SID & SAI are available on www.kotakmutual.com

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by abhinav angirish *managing director & c.e.o.*

Dear Investors,
Seasons Greetings !

Markets have risen sharply this year on increased global risk appetite triggered by hopes of a recovery in the global economy after a setback from a financial sector crisis. But No one expects a 'V' shaped recovery in the stock market. Even if we assume that we have hit the bottom history shows that stock markets always tests the previous low before a new bull market gets under way.

The Indian economy has shown some distinct signs of improvement in the past few months; but again the recovery is not widespread and has yet to trickle down to the major indicators (industrial growth, exports, etc). India's current GDP growth at 6.1% .Despite drought panic it is above 6%. Any numbers around 6 or above 6% is positive for Economy & for markets too. But, again growth less than 8% will not help India in achieving its basic dreams.

The Sensex closed above the 17000 mark for the first time since May 21, 2008 on 30th Sep 2009. The Nifty was just sniffing distance away from the 5300 level. The BSE bankex outperformed all the other sectoral indices; it was up nearly 4%. Strong buying was seen in metals, auto, realty, capital goods, IT, power and oil & gas stocks.

BSE data showed that in the month of September net buying by FIIs in the secondary market alone was at a whopping Rs 18,200 crore, nearly $4 billion. Although a 6.1% GDP growth and the gradual improvement in industrial production point towards the formation of a base for economic recovery, certain factors in recent months such as the deficient monsoon and inflation pose significant downside risk to the revival process. The deficiency in monsoon could not only be detrimental for the agriculture sector but might also dampen domestic demand conditions. All this will have adverse impact on stock market.

The market is looking for new triggers so the new tax code might become the next trigger for the market.

This New Direct Taxes Code will replace the current Income-tax Act, 1961 and the Wealth-tax Act, 1957. Once the draft direct code is implemented, the market is likely to witness a big change. As code propose abolition of the STT it also suggests reintroduction of tax on long term capital gains on securities trading, so equity & equity mutual fund will no longer be exempted from LTCG. Tax slabs have been liberalized, According to new tax slabs he has to pay only 10 per cent tax of income up to Rs 10 lakhs while under the existing regime this relief is limited to people with income of Rs 3 lakh only but taxable income will increase because of inclusion of perquisites like HRA, LTA in the salary and brought under the tax net.

The new tax code will impact the markets in many ways. The proposal to have a 25 percent flat corporate tax rate will certainly boost profitability for organizations. Also the proposal to increase individual income tax slabs will lead to more disposable incomes and possibly more investments in the capital markets.

On the occasion of the festive season, I take this opportunity to wish you and your loves ones **A Very Happy Diwali and a prosperous New Year!**

Regards,

ABHINAV ANGIRISH

MAHENG11667/13/1/2008-TC

FII'S IMPACT ON INDIAN STOCK MARKET

Institutional Investor is any investor or investment fund that is from or registered in a country outside of the one in which it is currently investing. Institutional investors include hedge funds, insurance companies, pension funds and mutual funds. The growing Indian market had attracted the foreign investors, which are called **Foreign Institutional Investors (FII)** to Indian equity market.

Foreign Institutional Investors. -the term is used most commonly in India to refer to outside companies investing in the financial markets of India. International institutional investors must register with the Securities & Exchange Board of India (SEBI) to participate in the market. One of the major market regulations pertaining to FIIs involves placing limits on FII ownership in Indian companies. They actually evaluate the shares and deposits in a portfolio. The major source (almost 50%) of money the FIIs invest is from the issue of Participatory Notes (P-Notes) or what are sometimes called Offshore Derivatives.

After 1991, due to our liberalization process, there was large flow of foreign funds from abroad. India opened its stock market to foreign investors in September 1992, and in 1993, received portfolio investment from foreigners in the form of foreign institutional investment in equities. This has become one of the main channels of FII in India for foreigners. Initially, there were many terms and conditions which restricted many FIIs to invest in India.

But in the course of time, in order to attract more investors, SEBI has simplified many terms such as: -

- The ceiling for overall investments of FIIs was increased 24% of the paid up capital of Indian company.
- Hedge funds to comply with FII rules to invest in India.
- Investment in government securities was increased to US $ 5 Billion.
- The increase in limits for FII investment in corporate bonds from $6 billion to $15 billion.
- Simplified registration norms.

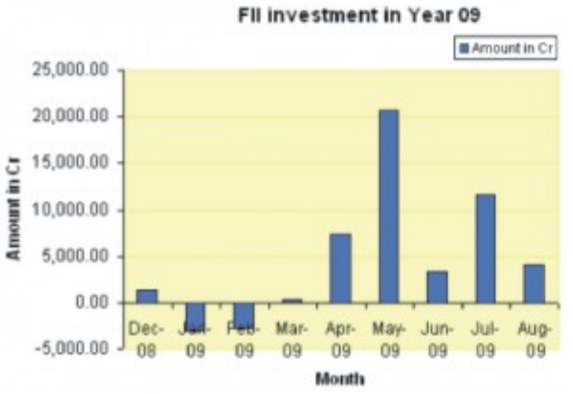
Influence of FIIs on Indian Stock Market

The current investments of FIIs is Rs. 2,58,822.37 Crores. Large part of stock market is occupied by FII's. In other words we can also say that they are rulers of market. To explain the things in simple terms, market pundits often attribute the rally of stock market and fall of stock market to the flow of funds by FIIs. We often hear the terms "FIIs Fuel the Market Run". If we analyze the impacts, then the major impacts are: -

- They increased depth and breadth of the market.
- They played major role in expanding securities business.
- Their policy on focusing on fundamentals of the shares had cause efficient pricing of shares.

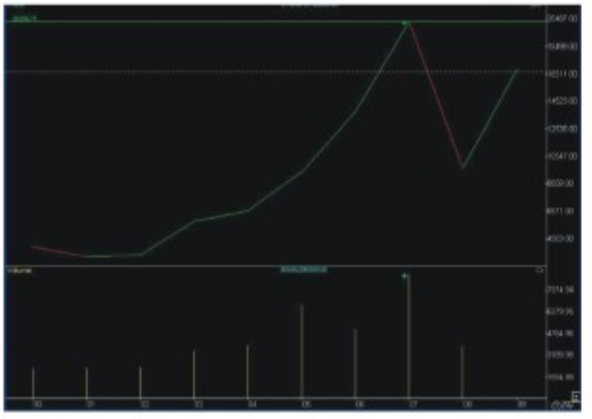
FII investment in last 10 yrs

Current investments by FII is Rs 2,58,822.37 Crores(As on august 2009) as compared to Rs. 2,83,468.40 Crores by the end of 31 December 2007. In 2007 FIIs buys the Indian stocks worth 14 billion US $ which was the highest investment in a particular year so far. But Year 2008 was the worst year ever for the indian and the world stock market. Sensex lost almost 60% of the value from its peak. And FIIs pull out 10 billion US $ from indian market. This was the first time in the last 10 yrs when FIIs was net sellers.



In 2008 - the sub-prime crisis and other economic conditions had caused a liquidity crunch for these institutions. So they are forced to withdraw money from Indian market so as to repay loans they had taken. These withdrawals had caused panic in market, and even domestic investors were forced to sell their shares.Net investment in 2008 was Rs. 230,056.37 crores. There was Sharpe decline as compare to previous year.

Market movement over last 10 years



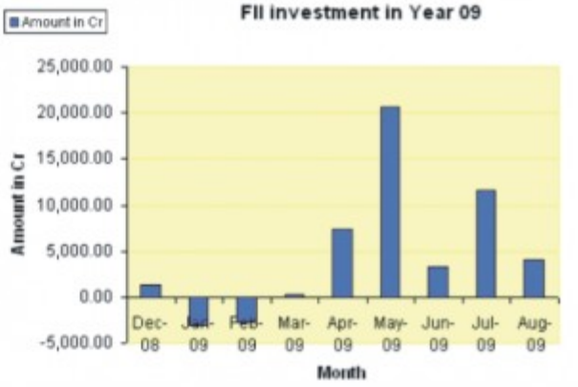
When we analyze the net investments' graph from 2000 to 2009, we can see that there is an increase in net investments till 2005 and there was small decrease in investments in the year 2006. But there was a steep increase in the year 2007-08. This was the best period in Indian stock market where stock prices were increased and the market was in good mood.

When we take the investments in 2008, the net investments is negative. And we know the market is volatile in this year. The biggest fall in stock markets occurred in 2008.. In 2008, the net buying is only Rs. 5603 Crores compared to Rs. 36,869 Crores in 2007. So we find that there is direct relation between net investments and movement of stock market.

FII investment in 2009

In May 2009 FIIs purchase stocks worth 4.2 billion US $. This was the higest investment in a month by FIIs in the history of indian stock market. Last 5 month data also shows that FIIs are in buying mood now.

A more investments by FIIs indicate that they are confident in Indian market. Usually, the mode of operations of FIIs was taking loans from countries where interest is low (like Japan) and invest in booming markets like India.



But one aspect we should agree on is that the FII's increased role had changed the face of Indian stock market. It had brought both quantitative and qualitative change. It had also increased the market depth and breadth. The emphasize on fundamentals had caused efficient pricing of shares. Since there is no condition on FIIs that they should disclose in which company they are investing, those figures are not available.

Conclusion

From the graphs drawn in the above parts, we can see that the major falls in stock market is accompanied by the withdrawal of money by FIIs. So there is a direct relation between the FII's money flow and the movement of sensex. ■

Life after No Entry Load

Securities and Exchange Board of India (SEBI) has announced removal of entry load. Now with entry load completely gone from the Mutual funds investments, the benefit will be to all MF investors.

The primary benefit that accrues from this move is that some investors stand to benefit from the savings in upfront load of 2.25% on their investments. Since all close-end funds are typically no-load schemes, it would be open-end funds that are primarily in contention.

When an entry load is charged, it has a direct impact on the amount invested - the entry load is deducted from your cheque before the money is invested. Thus, if you are investing Rs. 1000, and entry load is 2.25%, only Rs. 977.5 is actually invested on your behalf.

It looks like a small difference, doesn't it? Let's see how compounding works here using numbers.

	With Entry Load	No Entry Load	
Your Cheque	10000	10000	
Entry Load	2.25%	0.00%	
Actual Investment	9775	10000	
Rate of Return	12%	12%	
Amount at the end of years:			Difference
5	17226.89	17623.42	396.53
10	30359.67	31058.48	698.82
15	53504.11	54735.66	1231.55

The transparency factor that this decision brings will be beneficial to the Mutual fund investors in the long run.

Today, many retail investors depend on distributors for investment advice. Ultimately, the cost of sound financial advice will be levied to the investor but the investor can choose who he wants the advice from and the amount of money that he is willing to pay for the advice.

Prudent investors will have the opportunity to claim better value-add from the distributor or lower the entry load on their investments.

Though Entry Load has been abolished, SEBI said that brokers can charge their investors seperately. So normally, brokers can charge for the services render by them. But *Abchlor Invetment Advisors* will not be charging their customers anything. Customer can register themselves on www.investonline.in and buy/redeem/switch mutual fund online. This site is very convenient and user friendly. It gives multiple options to investors like performance monitoring tool where *Abchlor* tracks the returns of your investment. You can setup your desired returns once and the moment they are achieved, we will intimate you for further action. Also features like SIP calculator, detail portfolio report, choice of multiple banks are also provided among many others. And the most important is all this services are provided free of cost and investors are not charged anything.

■ *email your queries on finance and investments to response@abchlor.com*

Some Mutual Fund Asset Management Companies are also worried that unless the distributor does not come up with value-add to clients, they will be forced into selling other financial products such as Stock Broking, Insurance, ULIP and Post Office Savings and avoid Mutual Funds.

The `Cons` of no entry load :

Market is anyway under severe pressure and all constituents - business has taken a serious dip - introducing variable entry loads at this juncture, in the manner proposed, can be potentially disruptive and confusing and will bring in additional challenge.

Operational complications could figure out (especially in the second option, where 2 cheques are to be issued) - it could lead to cumbersome investment process. This could be a welcome step over the longer term.

This move is great, and a step towards attaining international standards. The biggest positive is that it will push the distributors towards providing better advice and service. The timing is inappropriate from the perspective of current market trends and investor sentiments. The Mutual Fund industry also fears that such a move will encourage distributors to sell high commission yielding investment instruments, which could hit the MF business further (especially in the long term) and may actually achieve the opposite of the stated objective.

Impact on mutual fund Industry :

Though there was fear that distributor will not welcome this decision and it will affect sell of open ended mutual fund. There was no visible impact of the new regulation in the first month as the average assets under management (AUM) for the industry rose significantly during the month. AUM for the mutual fund industry rose 8.71 per cent to Rs. 750,643 crore.in August 2009 .While the retail flows have been normal, much of the money has come from the institutional investors and HNI's. ■

RECENT ANNOUNCEMENT

RECENTLY ANNOUNCED DIVIDENDS

Sno	Company	Type	%	Announcement	Record	Ex-Dividend
1	Pantaloon Retail	Final	30	29/09/2009	-	25/11/2009
2	Grauer and Well	Final	4	30/09/2009	-	11/09/2009
3	Nakoda Textiles	Interim	7	30/09/2009	20/10/2009	16/10/2009
4	Bajaj Steel	Final	20	16/09/2009	-	10/08/2009

RECENTLY ANNOUNCED BONUS

Sno	Company	Ratio	Announcement	Record	Ex-Bonus
1	Anil Modi	01:01	02/09/2008	26/10/2009	14/10/2009
2	Sundaram - Clayto	01:01	26/08/2008	10/12/2009	10/09/2009
3	Transoceanic Pr	03:01	22/08/2008	10/08/2009	10/072009

INDICES PERFORMANCE (27 FEB. 2009 - 31 MARCH 2009)

S No.	Index	Close (30-09-2009)	Prev. Close (31-08-2009)	% Change
1	BSE Auto	6552.87	5878.23	11.48
2	BSE Metal	14133.59	12382.92	14.14
3	BSE Midcap	6302.4	5882.97	7.13
4	BSE Oil & Gas	10497.51	9774.73	7.39
5	BSE SmallCap	7579.88	6997.03	8.33
6	BSE Bankex	9619.18	8344.62	15.27
7	BSE_CDS	3520.62	3295.34	6.84
8	BSE_CGS	13629.61	13151.15	3.64
9	BSE_FMCG	2594.29	2553.52	1.60
10	BSE_HCS	4397.05	3900.93	12.72
11	BSE_IT	4560.54	4172.52	9.30
12	BSE_PSU	8918.65	8382.38	6.40
13	BSE200	2084.1	1930.45	7.96
14	BSE500	6520.72	6044.61	7.88
15	BSETeck	3259.32	3046.83	6.97
16	SENSEX	17018.83	15666.64	8.63
17	CNX 100	4941.1	4527.9	9.13
18	CNX Bank	8812.35	7431.65	18.58
19	CNX IT	5122.1	4618.35	10.91
20	CNX500	4118.65	3840.25	7.25
21	CNX Midcap	6713.3	6117.9	9.73
22	NSE Index	5083.95	4662.1	9.05

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STOCK PERFORMANCE

THE MONTH THAT WAS

Sno	Index	Close (30/09/09)	Prv. Close (01/01/09)	% Change
Best Performers of - 2009 - 'A' Group				
1	Bushan steel ltd	1404.20	326.00	330.74
2	Torrent Power ltd	318.55	75.00	324.73
3	Mphasis ltd	666.90	167.00	299.34
4	Oracle Finance Ser	1840.55	466.00	294.97
5	JSW Steel & power	587.00	157.00	273.89
6	Bajaj Auto ltd	1494.25	410.00	264.45
7	Tech Mahindra ltd	936.15	262.00	257.31
8	JSW Steel	832.60	238.00	249.83
9	Tata Motors ltd	591.15	171.00	245.70
10	Bharat Forge ltd	276.85	87.00	218.22
Best Performers of - 2009 - 'B' Group				
1	Choice International	137.10	7.00	1858.57
2	S J Corporation ltd	797.20	52.00	1433.08
3	Kwality Dairy ltd	660.45	53.00	1146.13
4	Bridge Securities	22.45	2.00	1022.50
5	Lincoin Pharmace	32.90	4.00	722.50
6	Rich Capital And	69.45	9.00	671.67
7	Keltech Energies	240.80	32.00	652.50
8	Parsharti Invest	22.07	3.00	635.67
9	Kanani Industries	407.15	59.00	590.08
10	Natura Hue Chem	16.25	3.00	441.67
Worst Performers of - 2009 - 'A' Group				
1	Koutons Retails India	330.05	518.00	-36.28
2	Sterling Biotech	117.95	158.00	-25.35
3	Glenmark Pharma	237.50	296.00	-19.76
4	Akruti City ltd	546.40	654.00	-16.45
5	M&M Finance services	230.05	249.00	-7.61
6	Tata Communications	484.85	499.00	-2.84
7	EIH ltd	123.25	125.00	-1.40
Worst Performers of - 2009 - 'B' Group				
1	Glory Polyfilms ltd	27.10	189.00	-85.66
2	Gujarat Cotex ltd	5.83	35.00	-83.34
3	Bio Green Industries	12.58	74.00	-83.00
4	Temptation Foods	42.00	163.00	-74.23
5	Alchemist Realty	19.30	61.00	-68.36
6	GI Engineering Solutions	10.23	32.00	-68.03
7	Crystal Software Solutions	3.00	8.00	-62.50
8	RTS Power Corpor	79.00	203.00	-61.08
9	Conventry Coil	8.00	20.00	-60.00
10	EPSOM Properties ltd	3.80	9.00	-57.78

IDEAL PORTFOLIO REVIEW

Scrip	Portfolio Allocation %	No. of Shares Purchased*	Stock Price as of June 29, 2008 (Recommendation Date)	Value of Stock as of June 29, 2008	Current Stock Price as of September 30, 2009	Current Stock Value	Absolute Return%	Annualsied Return%
Reliance Ind.	14	7	2093.00	14000	2,201.65	14727	5.19	4.06
Bharti Airtel#	12	17	722.00	12000	418.75	13920	16.00	12.50
L & T**	12	5	2183.00	12000	1689.20	18571	54.76	42.80
Rel. Comm	14	32	442.40	14000	309.35	9790	-30.07	-23.51
B H E L	10	7	1380.00	10000	2,328.85	16876	68.76	53.74
HDFC Bank	10	10	1001.00	10000	1650.50	16489	64.89	50.71
N T P C	10	66	151.60	10000	213.75	14100	41.00	32.04
GMR Infrastructure	9	113	80.00	9000	140.30	15784	75.38	58.91
Jyoti Structures	9	87	103.00	9000	155.25	13566	50.73	39.65
	100%			100000		133820	33.82%	26%

*Assume Investment of Rs.100000 ** BONUS # Stock Split

IPO'S IN 2009

Sr. No.	Company	List Date	Offer Price	List Price	Open	High	Low	Last Price (As on Sep. 30, 09)	Gain/ Loss
1	Edserv Softsys	03/02/2009	60.00	55.00	21.60	21.60	21.60	127.00	67.00
2	Rishabhdev Techn	29/06/2009	33.00	42.00	42.00	47.00	25.85	19.80	-13.20
3	Mahindra Holiday	16/07/2009	300.00	315.00	370.00	374.50	311.35	351.90	51.90
4	Excel Infoways	08/03/2009	85.00	93.05	93.05	102.40	91.80	79.70	-5.30
5	Raj Oil Mills	08/12/2009	120.00	125.05	120.00	133.50	115.25	80.90	-39.10
6	Adani Power	20/08/2009	100.00	105.00	105.00	107.90	98.50	101.90	1.90
7	NHPC Ltd	09/01/2009	36.00	39.00	39.00	39.75	36.60	34.50	-1.50
8	Jindal Cotex Ltd	22/09/2009	75.00	75.00	75.00	93.45	75.00	86.85	11.85

THE MONTH THAT WAS

Indices	As on 30 th Sep-09	As on 31st Aug-09	Difference Points
SENSEX	17018.83	15666.64	1352.19
NIFTY	5083.95	4662.10	421.85
NIFTY JUNIOR	9360.65	8542.40	818.25
CNX MIDCAP	6713.30	6117.90	595.40
BSESMLCAP	7579.88	6997.03	582.85

The New Direct Tax Code

The current Income-tax Act was enacted in 1961 to replace the earlier Act which had been legislated before Independence in 1922. More than 50 years have elapsed since the introduction of the current Income-tax Act. The Government had, therefore announced its intention to introduce a revised and simplified Income-tax Bill while presenting the Union Budget for 2005-06.

Subsequently, work was undertaken on drafting a Direct Taxes Code to replace the current Income-tax Act, 1961 and the Wealth-tax Act, 1957. The direct tax code would replace the Income Tax Act 1961 and the new direct tax code would become a law only by 2011. The new code is aimed at eliminating the scope of litigation as far as possible.

The most prominent change is in the widening of the income tax slabs, which could provide a major relief to income tax payers.

Changes in Income-tax Act, 1961

New Income Slabs & tax rates

Though, the draft proposes to retain the present ceiling of income tax exemption at Rs.1, 60,000 (for male citizens) in a year, tax slabs have liberalized. According to new tax slabs he has to pay only 10 per cent tax of income up to Rs 10 lakhs while under the existing regime this relief is limited to people with income of Rs 3 lakh only.

Income between Rs 10 lakh and Rs 25 lakh would be taxed at the rate of 20 per cent and earnings thereafter would attract a rate of 30 per cent, as per the draft of the new Direct Taxes Code which is aimed at radical direct tax reforms. At present, 20 per cent rate is imposed on income between Rs 3 lakh and Rs 5 lakh. Income beyond Rs 5 lakh attracts 30 per cent tax. "In new direct tax code, individuals who fall in the income brackets of Rs. 3 Lakhs to Rs.10 Lakhs are the biggest beneficiaries."

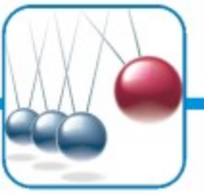
This move of government surely boost saving rate, as there is more money in the hand of individuals. This will also increase liquidity in market and people will have more disposable income, which will in turn make our economystrong. But the carrot comes with its stick. It is not all together a win -win situation as taxable income will increase because of inclusion of perquisites like HRA, LTA in the salary and brought under the tax net.

Also though people are motivated for investment, are they actually going to benefit?

As per existing tax regime when you invest in PPF, you get deduction from your taxable income. The return is tax free and finally on maturity the whole lumpsum is also not taxed. Which is also called EEE method.

New code proposes to introduce EET (exempt –exempt-tax) method for taxation of saving. As per new method you get first two benefits, once you withdraw your saving i.e on maturity your laumbsum is taxed. So withdrawals from saving schemes such as Employee Provident Fund (EPF), Public Provident Fund (PPF), Gratuity Provident Fund (GPF), approved

> **"In new direct tax code, individuals who fall in the income brackets of Rs. 3 Lakhs to Rs.10 Lakhs are the biggest beneficiaries."**



and life insurance would follow Exempt, Exempt and Tax (EET) structure.

On the other hand section 80C (investment made under sec 80C are exempted from tax) will now be renamed as Section 66, and overall limit will be hiked to Rs. 3 lakh fromcurrent Rs. 1 lakh..

Payment towards the principal amount of home loan will no longer fall under Section 80C i.e Section 66.Again there is a catch, if your house is given on rent then the interest paid on home loan will be allowed as deduction against rental income from let out property. Five year bank deposits will also not qualify for exemption.

Again, the retirement benefits would be exempt from taxes if saved in the Retirement Benefit Amount (annuity). However, the proceeds from life insurance policy, including bonus, would be exempt from tax if it is a pure life insurance policy.

Tax Incentives on Savings Schemes

Investment Options	Current Code	Existing Upper Limit	Proposed Change
Tax incentive on saving schemes		100,000	300,000
• Pension Scheme	80 ccc	✓	✓
• Public Provident Fund	80 c	✓	✓
• Life Insurance Premium	80 c	✓	✗
• ULIP	80 c	✓	✓
• NSC	80 c	✓	✓
• Infrastructure Investment	80 c	✓	✗
• MF (Specific scheme)	80 c	✓	✗
• ELSS	80 c	✓	✓
• Term Deposit	80 c	✓	✓
• Pension Fund	80 c	✓	✓
• Tution Fees Paid	80 c	✓	✗
• Home Loan Repayment	80 c	✓	

Source: Direct Tax Code 2009, Income Tax Act.

While the code proposes abolition of the controversial STT, it also suggests reintroduction of tax on long term capital gains on securities trading, so equity & equity mutual fund will no longer be exempted from LTCG. Currently one of the major incentives for equity investors is tax exemption on capital gains earned on investments in equities or equity-oriented f50unds over long-term. So this move of introducing LTCG may curtail retail investor's participation in equities or equity-oriented funds. So this move is great for traders, but not so good for long term investors.

Another aspect is the changes brought in minimum alternate tax provisions. MAT was introduced in 1996 to counter the rapid increase of zero-tax companies who thrived on a cocktail of tax exemptions, deductions and high rates of depreciation.

Although MAT is payable by all entities in the current regime also, the code proposes to levy MAT even when the entities do not generate profits. This is because the code has changed the basis of levying MAT, from book profit to gross assets.

The tax code says MAT will be levied at 0.25 per cent of the value of gross assets in the case of banking companies and 2 per cent for all other companies.

The new tax code proposes to charge MAT at 2 per cent of gross assets instead of the present system of charging it at 15 per cent of book profits. Moreover, credit for MAT paid will not be set off against future tax liability.

Industry players also said a 2 per cent MAT computed on gross assets is extremely high by global standards. Internationally around 0.5-0.7 per cent MAT is charged by countries as a fixed percentage of the assets of the business.

In a nutshell, MAT will be the final tax.

Changes in wealth tax 1957

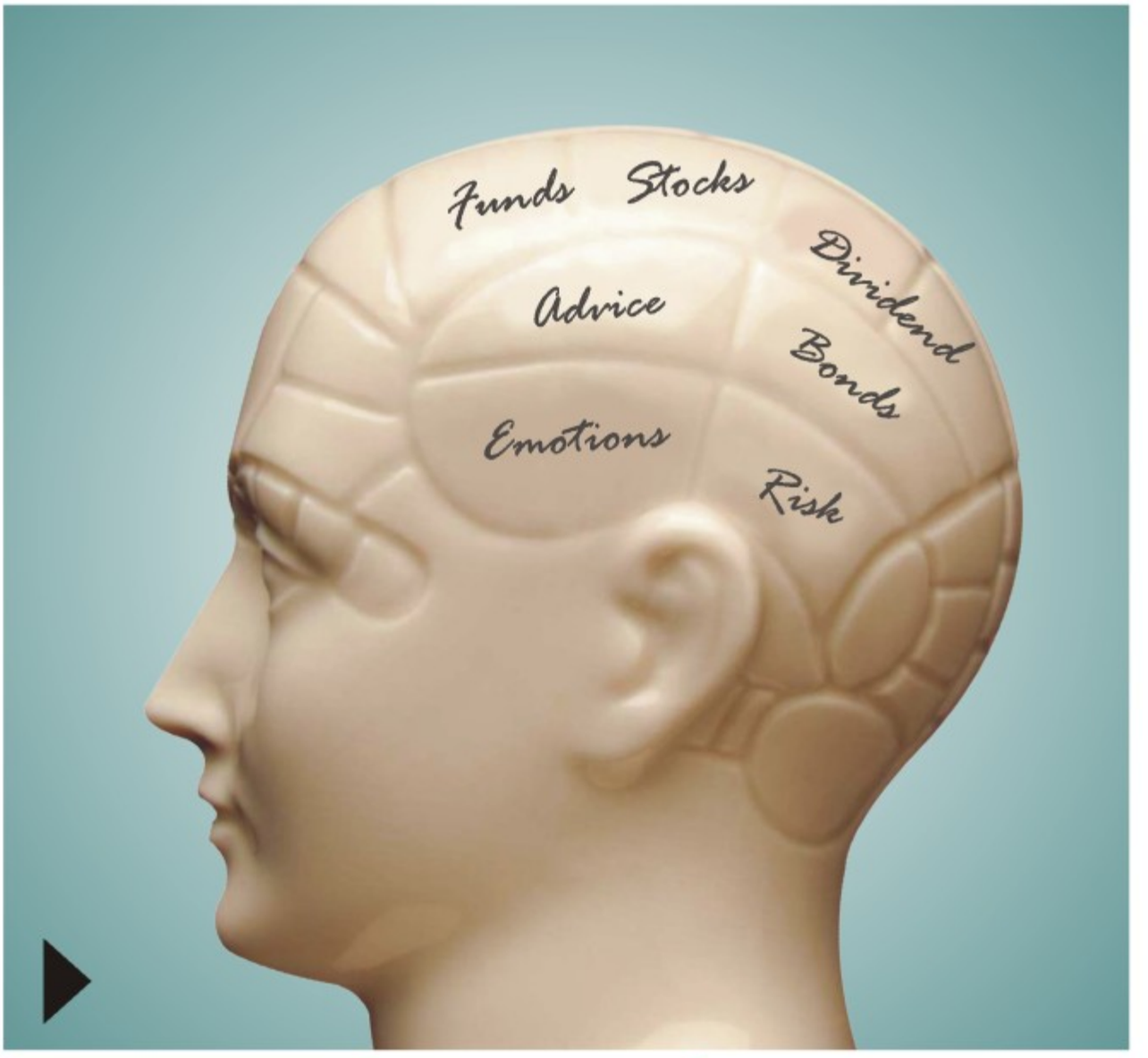
The wealth tax is currently levied under the Wealth Tax Act, which is proposed to be subsumed in the new Direct Taxes Code that will replace the Income Tax Act 1961.All Individual, HUF and private discretionary trusts liable to pay wealth tax.

The Direct Taxes Code proposes to substantially raise the threshold limit for levy of wealth tax to Rs 50 crore from Rs 30 lakh, a suggestion, if accepted, would save many people from paying tax on their wealth. The rate of wealth tax according to the draft Direct Taxes Code should be reduced to 0.25 per cent from one per cent currently.

Also wealth will now include mutual fund holdings and investment in equities. But like other transforms happen in tax code even this will not affect most individuals. Since the total assets have to be Rs 50 corore or more to be eligible for tax.

Afterall the New tax code is not an amendment of Income tax Act 1961; Rather it is a radically new reform.

New Direct tax code has its own positive and negative sides. And one should not compare it with Income tax Act 1961.As Mr. Chidambaram emphasized that the Code should not be read by keeping the Income-Tax Act 1961 next to it. This new code will induce more transparency in decision-making and tune it to tax boards of countries like the US, Canada and Britain. ■



Which is better option?
Dividend / Growth / Dividend Reinvestment
BE A BETTER INVESTOR

Investors tend to give a lot of time and importance to the process of selecting a mutual fund. However, once a particular fund is chosen, choosing an investment option is done on an almost arbitrary basis. However, choosing the correct option is perhaps as important to the health of the investment as choosing the particular mutual fund is.

Mutual Funds offer three options :

- **Dividend**
- **Dividend Reinvestment and**
- **Growth**

It's important to first get an overview of the all options before we venture into explaining why there is a discrepancy between them. Broadly, mutual funds have two options - growth and dividend. Under the dividend option, income generated by the mutual fund scheme on its investments is distributed to the investor.

Dividend v/s Dividend Reinvestment :

Under the Reinvestment option, instead of actually physically receiving the dividend in your bank, the Mutual Fund itself ploughs it back at source by allotting additional units in the scheme to the investor

People choose dividend option as one is of course, needing the funds for day to day life. But dividends from mutual funds are at the discretion of the mutual funds. One never knows how much would one receive and when. In other words, the fund manager may decide not to distribute dividend. Or he may decide to distribute much less than what you need.

So instead of that you can ask for the dividend i.e withdraw the required amount. We all know that after one year, withdrawals (capital gains) from a mutual fund are tax-free (Equity Scheme) and 10.30 % tax on debt scheme. which is far more cheaper than dividend on which we pay 14.163 %DDT Therefore, for your annual dividend requirement, do not depend upon the whims of the mutual fund concerned, instead withdraw the funds as per your requirement.

Though all MF dividends are tax-free, dividends received from non equity-oriented schemes are subject to a distribution tax of 14.163% This means that though such dividend is tax-free in your hands, you are receiving 14.163% less than what you would have otherwise received. This by inference means that it is you who is bearing the 14.163 % tax, the MF only pays it on your behalf. Dividends from equity schemes do not suffer this distribution tax and hence are truly tax-free.

Dividend Reinvestment v/s Growth :

In the absence of dividend distribution tax on equity-based funds and no long-term capital gains tax, there is absolutely no difference between the Growth option and the Dividend Reinvestment option.

But in presence of long term capital gain tax Dividend Reinvestment would prove superior to the Growth option.

Investment in the growth option :

The first investment is made on 1st of January 2006. 10000 units are purchased @ Rs. 10 each for a total outlay of Rs. 1,00,000. The scheme performs well and after one year on 1st of January, 2007, the NAV of the scheme stands at Rs. 13.

Date	Particulars	No. of Units	NAV (Rs.)	Amount (Rs.)
January 01, 2006	First Investment	10000	10	100,000
January 02, 2007	Growth in value @30%	10000	13	130,000

Now, if the investment is sold, the investor would earn a capital gain of Rs. 30,000 and @10.30%, the tax would work out to Rs. 3090.

Dividend Reinvestment :

Assume that as on January 1st, 2007, there is no difference in Dividend Reinvestment and the Growth option. Then, the MF declares its first dividend of 20% or Rs. 2 per unit. The ex-dividend NAV stands at Rs. 11 (Rs. 13 – Rs. 2). The investor will receive Rs. 20,000 as dividend (10,000 units @ Rs. 2 per unit). This Rs. 20,000 gets reinvested at the ex-dividend NAV of Rs. 11 thereby yielding 1818.182 units.

Capital Gain calculation	No. of units	NAV (Rs.)	Amount (Rs.)
Sale value (10000+1818.182) x 11	11818.182	11	130,000
Less : Cost			
Original units	10000	10	100,000
Units representing Dividend Reinvested	1818.182	11	20,000
			120,000
Long term capital gain			10,000
Tax Thereon @10.30%			1,030

To sum up - So now we understand....the battle of dividend v/s Dividend Reinvestment v/s Growth is decided by the current tax policy. ■

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IPOs – Not as simple and lucrative as it seems!

Investor should consider companies past performance before investing in IPO. There are many factors which need to be considered.

Who is the promoter? Is this a "good" promoter? As the promoter is okay, almost all other factors will automatically get taken care of. What is the promoters' background and experience?

How has been the performance of the company? Like Number of years in the business Size of the company Growth rate, Market share and growth etc.

Are the financials, specially the recent ones, reliable? Look at balance sheet- One should see fixed assets, Investments, Loan and advances, Return on capital, cash flows etc.

What is the size of the issue? A large issue ensures better allotment as also better liquidity.

Performance analysis of IPO launched recently :

With the revival in the secondary market, primary markets have started witnessing some action too. While, investors have shown interest in initial public offerings (IPOs), expensive pricing may have a negative impact on the IPOs in pipeline.

After a lull of a year i.e. Reliance IPO launched in Feb 11, 2008 at Rs.450 which is according to expert was highly priced .Currently or so, a few large IPOs made their debut. However, these could not leave a great impression on listing. Adani Power listed on 20 Aug 09 & National Hydroelectric Power Corporation (NHPC) listed on 1 Sept 09.

Experts blame it on their high pricing; so the primary reason for lackluster listing could be the expensive pricing of the issue. Adani Power had an issue size of Rs 3,000 cr but it was oversubscribed by more than 20 times. Similarly, the issue size of NHPC was around Rs 6,000 cr but it received bids worth more than Rs 140 k cr and subscribed by more than 24 times. This shows that there is sufficient amount of money in the market lying for even bigger issues but the pricing has to be attractive.

Also recently launched (7 Sept 2009) IPO of Oil India Ltd had an issue size of Rs. 2,64,49,982 with a price brand of Rs. 950-1050 .It is also over subscribed by 30.82 times on an overall basis. The company plans to raise around Rs 2,500 to 2,700 cr. Though almost all IPO launched recently have been oversubscribed, none of them able to perform well in market. Above data also shows that almost all the IPO launched in last 1 year have been facing downgrade.

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Following this dismal performance, high networth individuals who had resorted to leverage trading were incurring huge losses on both issue i.e NHPC and Adani Power.

Upcoming IPO :

Adi Godrej, Godrej group Chairman said Godrej Properties' (GPL) initial public offering (IPO) would be launched in 3 months. The market regulator SEBI (Securities & Exchange Board of India) has cleared GPL's draft red herring prospectus (DRHP). The company will offer 3.5% stake in pre-IPO placement and to offer 10% stake via IPO.

Performance of IPO launch in last one year (Sept 2008-2009)

Data As On: Wednesday, September 16, 2009					At BSE		
Company Name	**Listed On**	**Issue Price**	**Current Price**	**Profit /Loss**	**High**	**Low**	**Volume**
NHPC Limited	Sep 01, 2009	36	34.65	-3.75%	34.80	33.95	5,659,752
Adani Power Limited	Aug 20, 2009	100	101.85	1.85%	102.40	101.00	394,867
Raj Oil Mills Limited	Aug 12, 2009	120	84.00	-30.00%	86.45	83.00	71,159
Excel Infoways Limited	Aug 03, 2009	85	79.05	-7.00%	81.60	78.60	152,310
Mahindra Holidays and Resorts India Limited	Jul 16, 2009	300	337.90	12.63%	339.00	334.10	1,881
Rishabhdev Technocable Limited	Jun 29, 2009	33	15.90	-51.82%	16.40	15.85	42,390
Edserv Softsystems Limited	Mar 02, 2009	60	126.85	111.42%	133.15	126.85	
Alkali Metals Limited	Nov 06, 2008	103	254.15	146.75%	258.80	254.15	5,854
Chemcel Biotech Limited	Oct 13, 2008	16	8.37	-47.69%	8.87	8.10	559,758
20 Microns Limited	Sep 06, 2008	55	41.75	-24.09%	43.80	41.75	511,293
Austral Coke & Projects Limited	Sep 04, 2008	196	29.05	-85.18%	31.20	29.05	71,960
Resurgere Mines & Minerals India Ltd	Sep 01, 2008	270	114.50	-57.59%	117.80	114.10	58,172

As per the DRHP filed in 2008, GIL will issue 9,429,750 Equity Shares. IPO proceeds will be used for acquisition of land development rights for forthcoming projects, construction of forthcoming projects and repayment of loans. ICICI Securities and Kotak Mahindra are bankers to the issue. Godrej Industries currently holds 80.3% in GPL.

MUTUAL FUND REPORT - SEPT. 09

MF INDUSTRY UPDATE

- SEBI revises Code of Conduct for MF intermediaries- The Securities and Exchange Board of India, or SEBI, has revised the Code of Conduct for intermediaries of mutual funds. The market regulator has said that intermediaries will have to disclose material information, including their commissions. Moreover, SEBI has also said that distributors will also have to disclose their commissions for all schemes.

- Axis AMC gets SEBI nod to launch mutual fund business- Axis Asset Management Company (Axis AMC) announced that it has received the final regulatory approval from the Securities & Exchange Board of India (SEBI) to launch its mutual fund business in the country. Axis AMC now aims to launch its first set of products in October 2009.

- After Benchmark, now Reliance MF proposes global ETF -A week after Benchmark mutual fund (MF) sought approval for launching a global exchange traded fund, India's largest MF is now following suit. Reliance MF today filed a draft offer document with the market regulator for launching a global exchange traded fund (ETF).

- Sahara Star Value Fund reopens for sale- Sahara Mutual Fund has announced the reopening of its equity scheme "Sahara Star Value Fund" with effect from September 18, 2009. As per the provision of the scheme, units will be offered for purchase and redemptions on all business days on an ongoing basis.

- Mirae Asset MF launches China Advantage Fund- Mirae Asset Mutual Fund has launched new fund - Mirae Asset China Advantage Fund, an open-ended fund of funds - overseas scheme. The face value of the new issue will be Rs. 10 per unit. The new fund offer (NFO) opens for subscription on September 14, 2009 to October 9, 2009.

- Templeton MF launches Fixed Tenure Fund -Series XII -Plan A-It is a close-ended income scheme. The new fund offer (NFO) opens for subscription on September 10, 2009 to September 30, 2009. The face value of the new issue will be Rs 10 per unit. The tenure of the scheme is 3 years from the date of allotment. The date of maturity date is October 14, 2012.

- L&T Fin frontrunner for acquiring DBS Chola MF -DBS Cholamandalam is looking to exit from the mutual fund business. They have made a loss of about Rs 38 crore as of March this year. What we understand at this point of time is that L&T Finance is the front runner and is looking to acquire DBS Cholamandalam Mutual Fund.

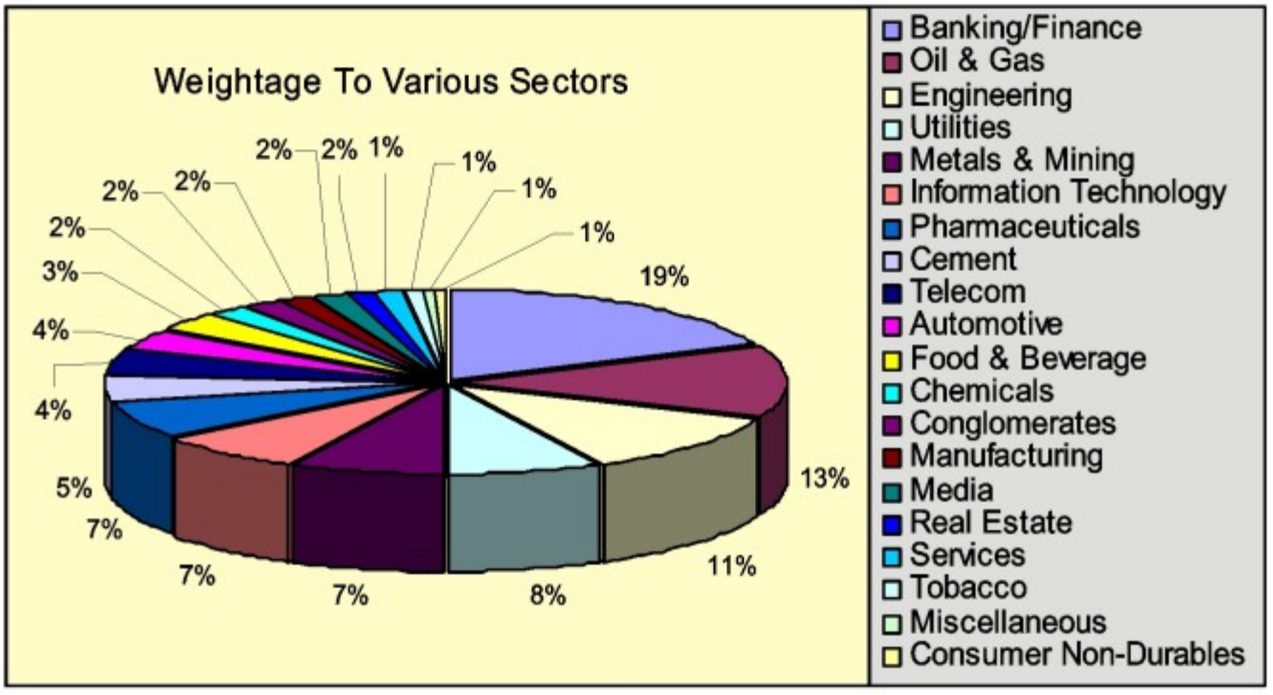
MUTUAL FUND REPORT - SEPT. 09

FAVORITE STOCK PICKS IN THE PORTFOLIOS OF MF

An analysis has been undertaken indicating the favorite picks of fund managers for the month of September 2009:

Stocks	Market Value (Rs. cr)
State Bank of India	1,672.12
Reliance Industries	1,544.08
ICICI Bank	1,456.61
Oil and Natural Gas Corporation	1,268.22
Reliance Infrastructure	1,093.81
Jindal Steel & Power	771.09
Jaiprakash Associates	714.97
Divis Laboratories	643.34
Bharti Airtel	617.63
Infosys Technologies	609.07

MF WEIGHTAGE TO VARIOUS SECTORS IN SEPT. 09



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BULK DEALS IN SEPT. 09

Exc	Date	Company	Client	Tran	Qty	Price Traded
NSE	30-09-2009	Everonn Edu	Jp Morgan Funds	Buy	265046	426.01
BSE	29-09-2009	Era Infra Eng	Reliance Capital Trustee Co Ltd Ac Reliance Infrastructure Fund	Buy	5000000	145.00
BSE	29-09-2009	Era Infra Eng	Reliance Mutual Fund A/c Longterm Equity Fund	Buy	2000000	145.00
BSE	24-09-2009	AIA Engineering	Genesis Asset Managers Ltd A/c Genesis Indian Investment	Buy	3703889	276.00
NSE	24-09-2009	MindTree	Reliance Mutual Fund A/c Reliance Banking Fund	Buy	700000	583.00
BSE	23-09-2009	Diamond Cables	Reliance Infrastructure Fund	Buy	288000	205.01
NSE	23-09-2009	Globus Spirits	Idfc Mutual Fund	Buy	200000	99.03
NSE	23-09-2009	Jaiprakash Asso	Hsbc Global Emerging Markets Equity Fund	Buy	11200510	238.00
NSE	22-09-2009	Jindal Cotex	Ajay Asset Management Private Limited	Buy	204956	87.75
NSE	22-09-2009	Jindal Cotex	Ajay Asset Management Private Limited	Sell	204956	87.86
BSE	22-09-2009	Nu Tek India	Balyasny Europe Asset Management Llp A/c Balyasny Venture Si Limi	Sell	450000	100.65
NSE	18-09-2009	Classic Diamond	Gaurav Asset Management Private Limited	Sell	238888	26.84
NSE	18-09-2009	ICI India	Sbi Mutual Fund A/c Mglf	Buy	450000	565.00
NSE	16-09-2009	GMR Ferro Alloy	Ajay Asset Management Private Limited	Buy	95058	35.63
NSE	16-09-2009	GMR Ferro Alloy	Ajay Asset Management Private Limited	Sell	70058	35.80
BSE	16-09-2009	SpiceJet	Sundaram Bnp Paribas Tax Saveropen Ended Fund	Buy	2102900	30.67
BSE	16-09-2009	SpiceJet	Sundaram Bnp Paribas Mutual Fund A/c Sundaram Select Midcap Fund	Buy	1308387	29.90
NSE	14-09-2009	MRO-TEK	Ajay Asset Management Private Limited	Sell	96807	44.38
NSE	14-09-2009	Sundarmfin	Reliance Mutual Fund	Buy	568000	305.00
NSE	11-09-2009	Archies	Ajay Asset Management Private Limited	Buy	55856	110.47
NSE	11-09-2009	Archies	Ajay Asset Management Private Limited	Sell	45092	110.14
NSE	11-09-2009	MRO-TEK	Ajay Asset Management Private Limited	Buy	127028	41.80
NSE	11-09-2009	MRO-TEK	Ajay Asset Management Private Limited	Sell	74528	40.91
BSE	08-09-2009	MindTree	Franklin Templeton Mfa/c Franklinindia High Growth Companies Fund	Buy	277000	540.00
BSE	08-09-2009	MindTree	Templeton Mutual Fund A/c Franklin India Taxshield	Buy	200000	540.00
BSE	08-09-2009	MindTree	Tempelton Mutual Fund A/c Franklin India Flexi Cap Fund	Buy	555000	540.00
BSE	08-09-2009	MindTree	Credit Agricole Asset Mgnt.a/c Credit Agricole Funds India.	Buy	200000	540.00
BSE	08-09-2009	Uniphos Enterpr	Templeton Mutual Fund	Buy	437000	27.95
BSE	08-09-2009	Uniphos Enterpr	Hdfc M F A/c Hdfc Prudence Fund	Sell	457000	27.94
BSE	04-09-2009	Diamond Cables	Reliance Infrastructure Fund	Buy	485000	197.01
BSE	04-09-2009	Rico Auto	Sundaram Mf A/c Sundaram Bnp Paribas Select Midcap	Buy	2180759	26.25
BSE	03-09-2009	Mold-Tek Plast	Reliance Capital Asset Management Ltd.	Sell	51863	33.02
NSE	02-09-2009	Redington	Sbi Mutual Fund A/c Mglf	Buy	943000	250.00

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THE FUNDS WITH HIGHEST INCREASE AND DECREASE OF AUM IN TERMS OF VALUE IN SEPTEMBER 2009

AUM (in crores)

Fund Name	AUGUST 09	SEPT 09	CHANGE(CR)	% CHANGE
Increase in AUM				
ICICI Prudential Mutual Fund	77,967	80,120	2,153	2.76
Reliance Mutual Fund	117,314	118,251	938	0.80
JP Morgan Mutual Fund	3,629	4,546	917	25.27
SBI Mutual Fund	34,056	34,873	817	2.40
DSP Black Rock Mutual Fund	17,142	17,587	446	2.60
Decrease in AUM				
HDFC Mutual Fund	93,874	90,427	-3,447	-3.67
IDFC Mutual Fund	24,855	23,793	-1,063	-4.27
Baroda Pioneer Mutual Fund	5,414	4,487	-928	-17.14
HSBC Mutual Fund	8,405	7,503	-902	-10.73
Religare Mutual Fund	14,744	13,854	-890	-6.03

This month was not as lucrative as last month for Mutual Fund Industry as Average Assets under Management decline by 0.94% compare to increase of 8% last month. So in absolute terms AUM of mutual fund Industry dipped by Rs. 6,992cr.

In the month of Sept, ICICI prudential has grabbed the top position with maximum increase of Rs.2153 cr. in AUM. This is noticeable increase as ICICI prudential was not amongst top five funds in the last month.

Reliance MF continues to hold its position as the largest fund house in the country with minor change of 0.80% corresponding to 938cr. During the month, the assets of the fund house change from Rs.117,314cr. to Rs.118,251cr.

HDFC MF being last months toper in AUM with increase of Rs. 10,508 cr saw a decline of Rs. 3447 cr in its asset base in the month of September. In the month of September 2009, the fund house with the highest decrease in its AUM (percentage wise) is Baroda Pioneer MF.AUM of Baroda Pioneer decline by 17% corresponding to Rs.928cr. decrease.

AUM of HSBC mutual fund is also constantly declining. In September fund house again saw a decline of Rs.902cr.(10.73%). It is matter of concern for investors, who have invested in HSBC mutual fund.

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THE PAST PERFORMANCE INDICATED BY THE ONE AND TWO YEAR RETURNS.

Equity Diversified	3mth	6mth	1yr	2yr	3yr
Reliance RSF - Equity (G)	18.9	87.3	43.0	29.1	80.5
IDFC Premier Equity - A (G)	20.7	81.8	40.9	20.5	109.9
Sundaram S.M.I.L.E Fund -RP (G)	29.9	115.7	52.3	16.8	71.5
ICICI Pru Discovery Fund (G)	34.5	125.5	67.8	22.6	40.6
Birla SL Dividend Yield (G)	24.8	79.9	54.7	24.5	57.5

Equity Tax Saving	3mth	6mth	1yr	2yr	3yr
Can Robeco Eqty TaxSaver (G)	20.0	90.1	59.0	19.4	85.0
Religare India Tax Plan (G)	21.3	75.6	39.7	9.6	--
ICICI Pru Tax Plan (G)	24.6	92.2	38.5	5.5	19.0
Sundaram Tax Saver (G)	22.9	79.1	40.9	15.6	72.2
HDFC Tax Saver (G)	23.6	87.6	36.7	4.4	39.1

Balanced	3mth	6mth	1yr	2yr	3yr
Reliance RSF - Balanced (G)	12.7	66.4	49.0	27.9	62.7
Birla Sun Life 95 Fund (G)	15.6	63.9	48.6	14.3	58.9
HDFC Prudence Fund (G)	18.2	75.0	40.6	17.5	56.6
ICICI Pru CCP - Gift Plan	21.8	83.6	23.4	-10.9	24.8
UTI CRTS 81(G)	5.7	20.7	22.3	17.8	30.2

Debt - Short Term	3mth	6mth	1yr	2yr	3yr
ICICI Pru Income Opp. - RP (G)	0.9	10.1	25.2	--	--
Can Robeco Income (G)	0.5	5.6	19.1	39.2	48.0
Fortis Flexi Debt Fund -RP (G)	0.8	7.9	17.3	29.5	40.2
IDFC SSIF - MTP - Reg. A (G)	1.9	8.3	13.6	21.2	29.8
UTI Short Term Income - RP (G)	1.4	6.1	9.6	19.2	27.4

All the returns stated for less than one year are absolute and for more than one year, the returns are annualized.

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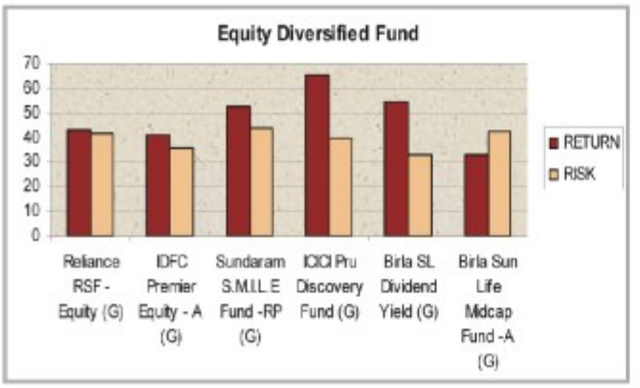
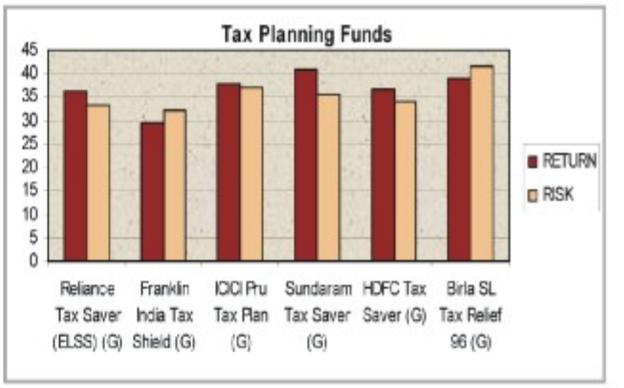
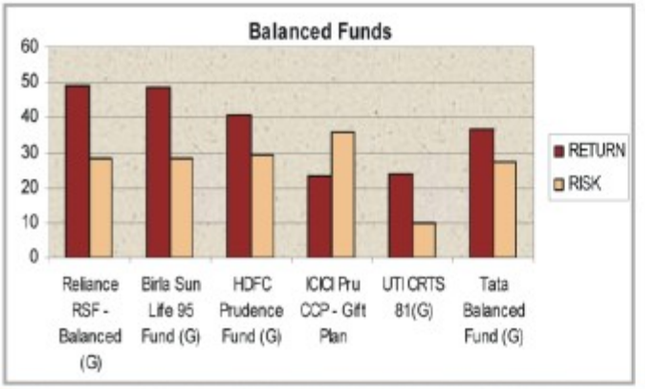
RISK-RETURN ANALYSIS

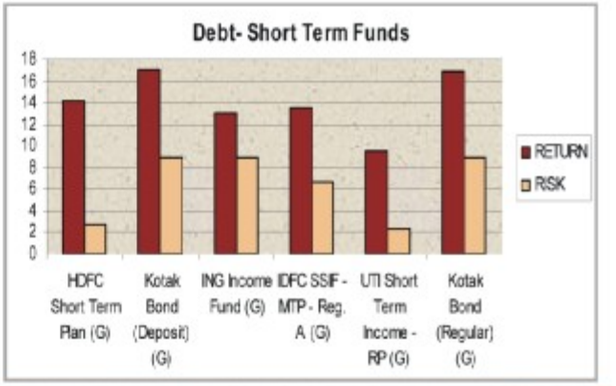
The following charts give you a snapshot of how the mutual funds have performed on the risk-return parameters in the past.

The risk is measured by standard deviation, which measures the average deviation of the returns generated by a scheme from its mean returns, while returns are measured as one year average rolling returns.









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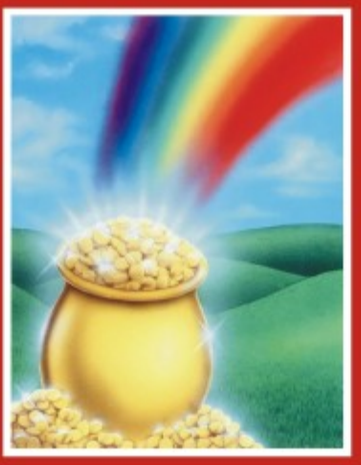

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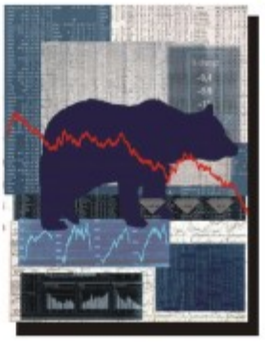

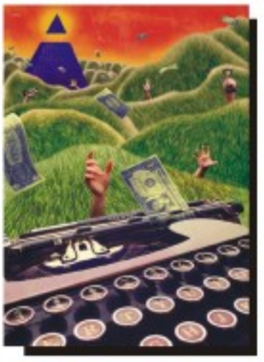

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