Stock queries

Arun Kejriwal, director, Kejriwal Research and Investment Services, answers your queries:

Is Air Deccan a good buy now?
—*Parul Gupta*

Air Deccan shares have finally taken off, and on Friday, they crossed their IPO price of Rs 148 for the first time. The stock closed at Rs 147.70 after touching a high of Rs 150. The share was trading below Rs 100 during October 2006, and in 15 days, it has appreciated 50%. The company reported a loss of Rs 340.55 crore for the 15 months ended June 2006. The performance in the quarter ended September 2006 has improved with the loss falling to Rs 42.94 crore.

The company has been able to increase its market share and its seat load factor is increasing. The company has also signed a term sheet in October 2006, under which the company will receive a cash flow of $100 million in four tranches over the next 15 months. A correction in the immediate future looks most likely and fresh investment at current levels is not recommended.

The high and low of the share have been Rs 150 and Rs 61, respectively. I recommend buying in the Rs 125-130 price range for a target price of Rs 180-190 in about six to eight months time.

How good are ICICI Bank shares?
—Praveen Sharma

ICICI Bank is another big performer in the markets in recent weeks. The share has moved up from a low of Rs 758 to a high of Rs 925 in just eight sessions. The share closed for trading at Rs 875, having gained Rs 43 or 5.17% for the week. The recent high and low of the share have been Rs 925 and Rs 673, respectively. The bank reported a strong set of numbers for the quarter ended September 2006 with the earnings up 30% compared to the same period a year ago. This was due to a 65% increase in core operating income led by rising fee income and a strong topline growth. The bank, after having raised its capital, has a very comfortable capital adequacy ratio of 14.34%.

It has five subsidiaries and if one was to take into account the value of these investments after a discount, they would still come to a value of Rs 166-170. The stock seems to have run too fast and at these levels there seems little or no upside available. The performance of the bank for the year ended March 2006 was an EPS of Rs 31.23 on a consolidated basis. In the current half year, there is an improvement in the same and the bank is expected to end the year March 2007 with earnings of Rs 34.25 to Rs 34.50. I would advise investors to book profits at current levels and look to buy after the stock at the 900 or lower level.

Sebi disclaimer: I have investment in the first scrip. The writer invites comments at kejriwalarun @rediffmail.com

MY FINANCES

Stick to a balanced savings portfolio

Avoid high tilt towards debt instruments

Rajesh Dalmia

Sanjay Gupta(45) is a manager with a private company dealing in chemicals. His wife is a home maker. He has two children. Ashish, his 18-year-old son is currently studying in B.com 1st Year, and plans to do an MBA from a recognised institute. This should cost him Rs 3 lakh. Swati, his 13-year-old daughter, is studying in Class VIII. The marriage cost in his community today is Rs 5 lakh. Gupta has an annual income of Rs 6.50 lakh and his yearly expenses are Rs 4.64 lakh. He has 15 years left for retirement.

His current assets include the house (valued at Rs.15 lakh) he lives in, Rs 10 lakh in National Savings Certificate (NSC), Public Provident Fund(PPF) & bank fixed deposits (FDs) and a savings bank account balance of Rs 50,000. He has an endowment policy of Rs 5 lakh maturing in 2015 for which he pays a premium of Rs 20,000 annually.

Sanjay Gupta has done well to support his family and has also been able to build up some savings in the form of NSC, PPF and bank FDs. What he lacks is the growth on his savings portfolio, which is highly tilted towards debt instruments. However, his accumulated savings seem to be sufficient for taking care of his near term goals, but he should plan for his retirement immediately.

Gupta is also concerned about his retirement as being in a small private sector firm, he is not entitled to any pension and employer supported benefit for his retired life. He wants to spend his retirement days in his current home in Kolkata and would not like to be dependent on either of his children.

Financial goals

- Ashish's MBA education after 2 years, cost is Rs 3 lakh in today's terms
- Swati's marriage in year 2016, cost is Rs 5 lakh in today's terms
- Planning for life after retirement in the 2021

Plan for Gupta

The first priority for Gupta is to have an emergency fund of Rs 1,00,000 covering at least 4 months expenses. He already maintains a balance of Rs 50,000 in savings account. He needs to put aside Rs 5,000 per month for next 10 months to build up this corpus.

Current cash flow of Gupta

	(in Rs)
Salary	6,50,000
Expenses	4,64,000
Insurance	20,000
Surplus	1,66,000

This fund will take care of any unwanted need for cash. This fund can become a source of some extra income with the facility of sweep in accounts offered by some banks.

He is the only earning member of the family and has the liability of funding Ashish's education, Swati's marriage and his spouse's expenses, in case of any mishap. His current insurance coverage of Rs 5 lakh through endowment policy is not enough for his profile. He should take an additional insurance of Rs 10 lakh for a term of 10 years. This would cost him around Rs 5,000 per annum. A ten year term is suggested as by 2016, his two major goals of Ashish's education and Swati's marriage will be achieved.

He should also consider buying a personal accident policy for Rs 10 lakh. Personal accident policies are very cheap and are available for Rs 1,500 per annum approximately. The benefits payable against such policies are many fold in case of disability and death.

He has not taken a medical insurance plan. The cost of medical treatment is increasing day by day and it is recommended to go for a mediclaim policy covering all the members of his family. He should take a policy with a family cover policy of Rs 4 lakh. The premium of up to Rs 10,000 per annum will qualify for a tax deduction under section 80D of the Income Tax Act.

The cost of Ashish's MBA study will be Rs 3,63,000 after 2 years considering an increase in fees of 10% every year. The cost can be funded by withdrawals from NSC and Bank FDs.

The cost of Swati's marriage in the year 2016 will be Rs 8,95,000 considering an inflation of 6% per anum. This goal can be achieved by the maturity proceeds of endowment policy, which will pay him above Rs 9 lakh based on current bonus declarations.

His retirement is 15 years from now. Taking the inflation @ 6% and retirement expenses at 80% of pre retirement stage, Gupta will need a retirement corpus of Rs 72.29 lakh yielding him an inflation adjusted return of 3.07% post retirement.

The left over savings of Rs 7 lakh after earmarking Rs 3 lakh for Ashish's education, together with an investment of Rs 5,000 per month for the next 15 years will make him through with his retirement corpus. This is based on asset allocation of 65%: 35% in favour of equity during the accumulation phase.

Current cash flow (in Rs)

Salary	Expenses	4,64,000
	Insurance premia	20,000
	Mediclaim	7,500
	Term insurance	5,000
	Personal accident policy	1,500
	Emergency fund	50,000
	Retirement investment	60,000
6,50,000	Total	6,08,000

For the equity part he should look at equity linked saving schemes for which tax deductions are allowed under section 80C of the Income Tax Act. For the debt part he should look at floating rate mutual fund schemes. These schemes have a better post tax returns compared to traditional debt products.

With the above planning in place, he will have a surplus of Rs 42,000 this year and will have surplus of Rs 92,000 from next year to enjoy his current lifestyle. However the above recommendations once implemented will call for periodic reviews.

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The case study is only a model for illustrative purposes