



# KARVY BAZAAR BAATEIN

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## Realty Bites

If you have been reading the business dailies even with a cursory glance, there is one bit of news that would have caught your eye at a greater frequency – **Real Estate Funds**. The obvious question on top of the discerning investor's mind is – How would they be governed and operated?

Commonly said, investing in real estate, costs only Rs. X a square yard. However, the irony is that one can never buy a couple of sq. yards. So, here comes the investment option through Real Estate Funds. One can invest very low amounts and gain from the advantage of growing real estate industry, which is the reason why a real estate investment trust (REIT), is so attractive. Securities and Exchange Board of India (SEBI) has drafted guidelines on REITs to be launched in India for the first time during 2006. The regulator was expected to issue the final guidelines to this investment option before the end of the year 2006. However, it took more than two years for SEBI to nod its head for REIT.

### **Draft prepared when the REITs were originally planned to be launched in India:**

A REIT will be structured in a way similar to a mutual fund. The sponsor company will need to set up a real estate investment management company that will manage the funds on a day-to-day basis and will report to a real estate investment trust, in whose hands your money will be entrusted. The investment management company and the trust will then launch real estate schemes that will solicit the money to be invested in real estate. The schemes will only be close-ended and will be listed on the stock exchanges within six months of their launch.

A REIT will then invest the money it collects in various real estate projects. It will not be allowed to invest in equity and debt securities of real-estate companies, it must invest only in

real estate directly. REITs will not be allowed to invest in vacant plots either. They would need to invest in developed properties that they can then rent out. The rental income from these will be your i.e. the unitholder's returns. So, these are essentially income-earning rather than capital-growing instruments.

REITs will be income generating instruments, as they will have to distribute at least 90 per cent of the gains made in a year as dividends. A REIT would not be allowed to invest more than 15 percent in a single real estate project and more than 25 percent in real estate projects developed and marketed by a single group of companies.

REITs will have to appoint an independent property valuer. The principal valuer will have to value all the underlying real estate once a year or when a new scheme is launched. Based on the valuer's reports, a REIT scheme will disclose its Net Asset Value (NAV).

The SEBI draft guidelines were, however, not clear on the frequency of NAV disclosures. Real estate experts had earlier objected to daily NAV declarations on the ground that valuing real estate on a daily basis was neither feasible nor did it make sense as prices do not change noticeably every day. The draft guidelines indicated that NAVs will need to be declared once a year on an average.

When the draft was originally framed it was thought that all underlying real estate would have to be valued once a year, but the NAV will need to be updated or declared every time any underlying real estate is valued. To understand this better, assume that a REIT scheme buys four properties at the end of each quarters of a given year, in March, July, September and December. If these properties need to be valued after each of them completes a year, the REIT will have to declare NAV four

times a year, once every time it's underlying property is valued. After two years of preparing a draft on REITs, SEBI has finally come up with a final framework for the implementation and functioning of Real Estate Mutual Funds in India.

## Sebi's Notification On Real Estate Mutual Fund Schemes (REMFs)

SEBI, has amended SEBI (Mutual Funds) Regulations, 1996 to permit mutual funds to launch REMFs. The salient features of REMFs are as under:

- ❖ Every real estate mutual fund scheme shall be close-ended and its units shall be listed on a recognized stock exchange.
- ❖ Provided that the redemption of a real estate mutual fund scheme may be done in a staggered manner.
- ❖ The units issued by a real estate mutual fund scheme shall not confer any right on the unit holders to use the real estate assets held by the scheme and any provision to the contrary in the trust deed or in the terms of issue shall be void.
- ❖ The title deeds pertaining to real estate assets held by a real estate mutual fund scheme shall be kept in safe custody with the custodian of the mutual fund.
- ❖ A real estate mutual fund scheme shall not undertake lending or housing finance activities
- ❖ All financial transactions of a real estate mutual fund scheme shall be routed through banking channels and they shall not be cash or unaccounted transactions.
- ❖ Existing Mutual Funds are eligible to launch real estate mutual funds if they have adequate number of experienced key personnel/directors.
- ❖ Sponsors seeking to set up new Mutual Funds, for launching only real estate mutual fund schemes, shall be carrying on business in real estate for a period not less than five years. They shall also fulfill all other eligibility criteria applicable for sponsoring a MF.
- ❖ Net Asset Value (NAV) of the scheme shall be declared daily.
- ❖ At least 35% of the net assets of the scheme shall be invested directly in real estate assets. Balance may be invested in mortgage backed securities, securities of companies engaged in dealing in real estate assets or in undertaking real estate development projects and other securities.
- ❖ Taken together, investments in real estate assets, real estate related securities (including mortgage backed securities) shall not be less than 75% of the net assets of the scheme.
- ❖ Each asset shall be valued every 90 days from date of purchase by two valuers, who are accredited by a credit rating agency. Lower of the two values shall be taken for the computation of NAV
- ❖ Caps will be imposed on investments in a single city, single project, securities issued by sponsor/associate companies etc.
- ❖ No mutual fund shall transfer real estate assets amongst its schemes.
- ❖ No mutual fund shall invest in any real estate asset which was owned by the sponsor or the asset management company or any of its associates during the period of last five years or in which the sponsor or the asset management company or any of its associates hold tenancy or lease rights.
- ❖ The amended regulations have also specified accounting and valuation norms pertaining to Real Estate Mutual Fund schemes.

## Valuation of real estate assets and declaration of Net Asset Value

- 1) The real estate assets held by a real estate mutual fund scheme shall be valued.
  - (a) at cost price on the date of acquisition; and
  - (b) at fair price on every 90th day from the day of its purchase which is in accordance with the norms specified in Schedule IXB.
- 2) The asset management company, its directors, the trustees and the real estate valuer shall ensure that the valuation of assets held by a real estate mutual fund scheme are done in good faith, in accordance with the norms specified

in Schedule IX B and that the accounts of the scheme are prepared in accordance with accounting principles specified in Schedule IX.

- 3) The Net Asset Value of every real estate mutual fund scheme shall be calculated and declared at the close of each business day on the basis of the most current valuation of the real estate assets held by the scheme and accrued.

### Advantages of Real Estate Mutual Funds:

REMFs have many advantages over direct investment in real estate.

- ❖ It allows investors to invest according to their income and financial circumstances.
- ❖ The portfolio of real estate assets will be a lot more diversified than investment in a single asset like a home. It could range from office space to residential properties all around the country as well as securities based on the real estate sector.
- ❖ Investors don't have to deal with the legal and maintenance hassles of owning property and can instead rely on the professional expertise of the AMCs. Finally if they need quick money, these funds are liquid assets which can be sold conveniently and rapidly

### Should one need to be cautious while investing in Real Estate Funds?

Yes a cautious approach needs to be prevalent in the investor's minds while investing in Real Estate Funds primarily because of:

Long gestation periods in completion of projects.

Leaving the one factor said above real estate is one such sector which has still got lot of positives in the growing Indian economy.

- ❖ The contribution towards the growth in infrastructure during the XI five year plan period has been fixed at 8% of GDP from the existing 4.65% of GDP.
- ❖ The planned expenditure on infrastructure spending has been allocated as Rs.20,18,709 Crores during the XI five year plan period

With such huge investments into the infrastructure and real estate developments there is always a chance for the investors to benefit from the growing real estate sector.

However, one needs to wait for a little while to become wealthier through real estate funds as the AMCs and real estate companies are waiting to launch these Real Estate Funds. The interest rate scenario has not been giving proper support to either AMCs or real estate companies to launch real estate funds.

## Product Showcase – Wealthsurance

Wealthsurance is a unit linked insurance plan from IDBI Fortis Life Insurance Company Limited. The policy aims at the growth of wealth under the protective cover of insurance.

### Unique features

The policy holder has the choice of either managing the investment funds himself or letting the insurance manage the funds on his behalf. If the policy holder is letting the company manage the funds he will have to choose a risk levels out of the 3 levels available, i.e. cautious, moderate and aggressive. The equity exposure to the investment funds is restricted on the basis of this risk level choice.

The policy provides protection against a range of events such as death, terminal illness, 17 major diseases, sickness requiring hospitalization or serious accidental injuries. These benefits allow the insured / policy holder to meet additional expenses without

affecting the wealth creation required under the plan. Here, the life assurance cover and terminal illness cover will be in-built while the covers for the critical illnesses, sickness requiring hospitalization, etc. are optional.

The policy allows the policy holder to pay premiums and get tax benefits for self, with the insurance benefits covering his / her spouse or child.

Policy provides the option for choosing a ready policy or customizing the policy as per ones unique individual requirements. The ready made plans are aimed at the provision of specific insurance and savings needs. The five steps that go towards the customization of the plan are:

**Step 1:** Choice of the premium payable

**Step 2:** Choice of the investment option

**Step 3:** Choice of the sum assured for the life assurance cover and the terminal illness cover.

**Step 4:** Choice of the option insurance benefits, if any.

**Step 5:** Choice of the policy term for wealth creation and insurance cover.

**Other features:**

1. Policy can be opted for as either a single premium policy or a regular premium policy. As a regular premium policy the premium is payable for a limited term.
2. Policy provides the flexibility of changing the premium and the benefits to suit changing needs.
3. Withdrawals (in form of partial withdrawals) are available under the policy to provide the necessary financial liquidity.
4. In case if the insured person is a minor, the policy will vest in the minor only upon attaining majority at the age of 18 years.
5. Investment choice options available: (a) assured fixed returns, (b) variable returns linked to market performance or (c) returns linked to equity market but with protection of capital.

**Policy Benefits**

The policy provides two accounts, viz. (1) Investment Account and (2) Insurance Account. The investment account provides the basis for the build up of the wealth over the policy term and as per the choice of the investment funds & options available under the 'IDBI Fortis Investment Basket'. The insurance account provides for the choice of the insurance benefits available under 'IDBI Fortis Insurance Basket'. The policy holder will need to pay for only the chosen benefits.

**The main benefits available under the policy are:**

**Death benefit:** In the event of death (due to any cause, natural or accidental) of the life assured during the policy term, the sum assured or the investment fund value (which ever is higher) will be payable as a death benefit. On payment of the death benefit the policy is terminated.

**Terminal illness benefit:** In case if the life assured is diagnosed as terminally ill and is expected to live for not more than six months, the policy provides for the payment of the terminal illness

benefit. This benefit amount is equal to the sum at risk (i.e. sum assured less fund value) subject to maximum of Rs.25,00,000. If the fund value is greater than the sum assured, the sum at risk will be nil and the terminal illness benefit does not apply.

On payment of the terminal illness benefit, the sum assured will be reduced by the amount of the benefit paid. The policy continues as before except with reduced Sum Insured.

**Important:** Death or Terminal Illness Benefit is not paid before completion of 7 years of age if the insured person is a child. In above cases, only the Fund Value will be paid.

Terminal Illness Benefit is not paid in the event of attempted suicide or self-injury

**The optional benefits available under the policy are:**

**Major diseases benefit:** In the event of diagnosis of the insured person with any of the 17 specified major diseases, a lump sum benefit amount is payable. This benefit is intended to take care of medical expenses and loss of earning resulting from a major / critical illness. The benefit amount is subject to maximum of Rs.20,00,000 and should not be more than life and terminal illness benefit sum insured. The diseases covered under this benefit are (1) Heart Attack, (2) Coronary Bypass Surgery, (3) Heart Valve Replacement, (4) Surgery of the Aorta, (5) Cancer, (6) Stroke, (7) Kidney failure, (8) Major organ transplant, (9) Paralysis, (10) Coma, (11) Multiple Sclerosis, (12) Alzheimer's Disease, (13) Parkinson's Disease. (14) Benign Brain Tumor, (15) Major Head Trauma, (16) Major Burns and (17) Primary Pulmonary Arterial Hypertension.

**Hospitalization cash benefit:** On hospitalization of the life insured on the medical advice for treatment of any illness or injury, a daily cash allowance and other benefits as specified are paid. Hospital cash benefit is available in capsules that one can buy subject to a maximum of 8 capsules. Depending upon the number of capsules bought, the hospitalization cash benefit (normal benefit) varies from Rs.500 to Rs.4,000 for each day of hospitalization from the third day onwards. Normal benefit is paid if the admission is in a ward other than the Intensive Care Unit (ICU). In case of admission to ICU, the ICU benefit is paid which varies from Rs.1,000 to Rs.5,000 per day. Recovery Benefit is paid in case of hospitalization for more than 5 days and is equal to twice the normal benefit payable per day.

**Accidental death benefit:** In the event of the death of the life assured due to an accident, an additional lump sum cash amount is paid as benefit. One can choose the benefit amount, which can be a maximum of Rs.50,00,000 but not more than the applicable life and terminal illness benefit sum insured.

**Accidental death & disablement benefit:** In the event of the death or permanent disablement of the life assured due to an accident, a lump sum cash amount is paid as benefit. Different types of accidental injuries are covered with entitlement specified as a percentage of benefit amount. One can choose the benefit amount, which can be a maximum of Rs.50,00,000 but not more than the applicable life and terminal illness benefit sum insured.

## Eligibility parameters

- ❖ **Age at entry (for life assured):** minimum – 1 month; maximum – 65 years. The age of the proposer for the policy should be at least 18 years.
- ❖ **Maximum age at maturity:** 75 years
- ❖ **Minimum sum assured:** for single premium policy – 1.25 times the single premium amount; for regular premium – 5 times of the regular annual premium amount or 0.5 times of the regular annual premium amount multiplied by the policy term, whichever is higher.

- ❖ **Maximum sum assured:** is subject to underwriting guidelines and decisions.
- ❖ **Minimum premium:** for single premium policy – Rs.20,000; for regular premium – Rs.10,000 (for annual, semi-annual and quarterly premium payment frequency) or Rs.1,000 (for monthly premium payment frequency).
- ❖ **Minimum premium payment term (for regular premium plan):** 3 years

## Top-up premium

In case of top-up premiums, minimum premium amount is Rs.5,000 at a time and can be paid whenever feasible and any number of times until the maturity of the plan. Top-up premium can be paid only if all the regular premium due till date have been paid.

If total of top-up premiums paid exceeds 25% of basic premiums paid (whether single or regular premium) at any point of time, the excess amount of top-up premium will provide for a life insurance cover equal to 125% of this excess amount.

## Investment fund choice

The investment funds available under the IDBI Fortis Investment Basket are:

Fund Name	Investment Objective	Risk Profile	Investment Allocation in	
			Fixed income investments*	Equities
Fixed Return Options: Provide fixed, assured returns				
Money Interest Account	To provide smoothed interest returns	Low	100%	0%
Guaranteed Return Fund	To provide assured, fixed returns for a specific period	Low	100%	0%
Capital Guaranteed Options: Provide investments in stocks without losing the principal				
Capital Guaranteed Funds	To provide equity linked returns with the guarantee or return of principal	Medium	40% to 100%	0% to 60%
Market Fund Options: For investing in the stocks and debt instruments				
Equity Growth Fund	To generate high investment returns	High	0% to 50%	50% to 100%
Nifty Index Fund	To generate returns closely tracking the Nifty Index	High	0% to 20%	80% to 100%
Bond Fund	To generate returns from interest coupons and the opportunities in changing yield curves	Medium	100%	0%
Income Fund	To generate returns from low risk fixed income investments	Low	100%	0%
Liquid Fund	To generate returns from liquid investment avenues	Low	100%	0%

\* government securities, treasury bills, bank deposits, certificates of deposit, corporate securities, commercial paper, securitized papers, structured products, money market instruments, etc.

Other than the above investment funds, the policy also provides for Asset Allocator Funds wherein the insurance company will manage the investment allocation based on the choice of risk profile (cautious, moderate & aggressive) by the policy holder.

## Policy Charges

### Premium allocation charge

For single premium and top-up premium: charge will be applicable depending on the amount of the single or top-up premium.

Single or Top-up premium amount	Rs.20,000* to Rs.49,999	Rs.50,000 to Rs.99,999	Rs.1,00,000 to Rs.2,49,999	Rs.2,50,000 & above
Premium allocation charge	1.50%	1.00%	0.50%	Nil

\* in case of single premium. For top-up premium minimum contribution value is Rs.5,000.

### For regular premium

Charge will be applicable depending on the regular premium amount payable and the premium payment term chosen by the policy holder.

Premium amount p.a.	Premium payment term (in years)				
	3 to 4	5 to 9	10 to 14	15 to 19	20 & more
Rs.10,000 to Rs.29,999	4.00%	3.75%	3.50%	3.25%	3.00%
Rs.30,000 to Rs.47,999	3.75%	3.50%	3.25%	3.00%	2.75%
Rs.48,000 to Rs.71,999	3.50%	3.25%	3.00%	2.75%	2.50%
Rs.72,000 to Rs.95,999	3.25%	3.00%	2.75%	2.50%	2.25%
Rs.96,000 to Rs.2,39,999	3.00%	2.75%	2.50%	2.25%	2.00%
Rs.2,40,000 to Rs.5,99,999	2.75%	2.50%	2.25%	2.00%	1.75%
Rs.6,00,000 & above	2.50%	2.25%	2.00%	1.75%	1.50%

This charge is deducted from the premium paid the balance amount is invested in the chosen investment fund.

**Mortality and terminal illness charge:** This charge forms the basis for the provision of the mortality (death) and terminal illness benefit under the policy. These charges are calculated on the sum at risk.

**Policy administration charge:** This is fixed charge of Rs.60 per month and is deducted by cancellation of units in the investment account.

**Fund management charge:** This charge ranges between 1% p.a. and 2% p.a. depending on the choice of the investment fund. For Asset Allocator Funds, additional fund management charges of 0.25% p.a., 0.50% p.a. and 0.75% p.a. will be applicable for cautious, moderate and aggressive funds respectively.

## Tax benefits

Premiums under the policy are eligible for deduction under Sec 80C of the Income Tax Act, 1961. Also, the insurance charges for health benefits are eligible for deduction under Sec 80D of the Act. Benefits payable under the policy are tax-free under Sec 10(10D) of the Act.

**Important:** In this policy, the investment risk in the investment portfolio is borne by the policy holder.

**For information on PORTFOLIO MANAGEMENT SERVICE contact: 1800 425 8282 or visit: [www.thefinapolis.com](http://www.thefinapolis.com)**

## Product Showcase – Accident Guard

Accident Guard is a personal accident cover policy from Tata AIG General Insurance Company Limited

### Sum assured

The sum assured under the policy is in terms of units, 1 unit being equivalent to Rs.10. lacs. The policy can be taken in multiple units of Rs.10 lacs up to maximum of Rs.1 crore (i.e. maximum 10 units). As an optional add-on benefit, one can also take an Accidental Weekly Benefit in multiples of Rs.2,000 up to maximum of Rs.10,000. Here, the number of units of Accidental Weekly Benefit should not exceed the number of units for Accidental Death and Dismemberment.

On renewal of the policy, the sum assured increases by 5% each year, up to 5 years, for the same premium. For example, if the sum assured is for 1 unit i.e. Rs.10,00,000, after the policy renewal it will become Rs.10,50,000 as the sum assured for the next year.

### Policy options

**Self option** insures oneself for accidental death and dismemberment, or accidental death and dismemberment along with permanent total loss of use.

**Family option** allows for the insuring the family for accidental death and dismemberment, or accidental death and dismemberment along with permanent total loss of use.

### Additional features (available with family option)

**Education allowance:** In case of an accidental death, 10% of principal sum assured is paid towards the children's education benefit.

**Repatriation of remains:** Maximum of Rs.5,000 will be reimbursed for the repatriation of the insured person's remains.

**Modification allowance:** In case of permanent total disability or dismemberment, maximum of Rs.1,00,000 will be reimbursed towards the cost of modifying the house / vehicle, to combat disability.

**Double Dismemberment benefit for children:** For the children of the insured who are automatically insured, the dismemberment benefit gets doubles.

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