MONEY

They're Still Standing Some newly-launched IPOs have bucked the bear market to emerge winners. Are they worth a buy today? By Anand Adhikari

When sometime last December, the world was busy buying perfumes and tiepins to give away as Christmas gifts, one young man in New Delhi was gifting himself and his family a key to great returns. Educomp Solutions had just launched its initial public offer (IPO) at Rs 125 per share, and 32-year-old finance professional Rahul Yadav spent Rs 6,250 to pick up 50 shares. Today, his investment is valued at about Rs 18,750 (current market price: Rs 375), and it's one Christmas gift that nobody is exchanging at the neighbourhood supermarket.

At the time, most investors did not have too many expectations from this e-learning solutions provider, and Educomp was lucky to have tapped the market when it was still booming. The market was climbing steadily and established names like Reliance Petroleum, Sun TV and M&M Financial Services were readying to take the plunge.

Although nobody knew much about Educomp, especially since it was the first in its business segment to be listed, savvy investors like Yadav liked the business model of this small company (market cap: Rs 600 crore) and backed the dark horse. Today, they are laughing their way to the bank. In fact, Yadav's Educomp investment was worth Rs 23,300 in early May this year, when the stock price skyrocketed to its all-time high of Rs 466 per share.

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They say a falling market is the true test of any company at the bourses, and there is little doubt that Educomp has passed the test. It is today the best performing of the IPOs launched around that time, with returns of about 200 per cent despite the 15 per cent fall in the BSE Sensex from its May 11 high of 12,671 points.

On the one hand, you have several investors mourning heavy losses, as many recently listed high-profile IPOs trade below their offer prices. On the other hand, there are new issues like Educomp that have rewarded investors handsomely. Says Yadav: "Educomp will see explosive growth in the next two to three years." Which are the other IPOs of this ilk? Bombay Rayon, Gateway Distriparks and Shree Renuka

Sugars are some that have given more than 100 per cent returns to investors since listing (see Beating The Street). "The fact that these IPOs have held on to their gains since listing reflects market acceptance," says S. Swaminathan, National Head (Mutual Funds), IDBI Capital Market Services.

And what is it about these companies that generates this confidence in the market? Well, most of them have unique business models and all have turned in impeccable corporate performances. Here is a closer look at five such gems that have beaten the odds comprehensively to emerge unscathed, and why they continue to look like hot buys today (see Peaks & Troughs).

Educomp Solutions

Promoted by husband and wife team Shantanu Prakash (IIM, Ahmedabad) and Anjalee Prakash (PhD in education), Educomp Solutions provides digital learning content and it education for schools. Educomp's offer price of Rs 125 supported a P-E of 5.29, and today it trades at 70.88 times its trailing FY 05-06 earnings. Earnings and profits have practically doubled for the year ended March 2006 (year-on-year), and Goldman Sachs and Morgan Stanley have each just bought 3 per cent stakes in the company.

Shree Renuka Sugars

From an offer price of Rs

New And Improved

Habib's: Dressing for an IPO

One striking feature of the Indian capital market in the last year and a half has been the ability of a fairly large cross-section of businesses to raise money from the public. The number of new and unusual sectors that now tap the public for investment has risen sharply.

Media, for instance, had a lot of listed companies but recently the totally new sub-segment of multiplexes has hit the limelight with companies like Shringar Cinemas, PVR, and Inox Leisure going public. Aviation is another new entrant, with Jet Airways and Air Deccan the prominent listed entities.

This trend is expected to continue, with more emerging and novel businesses getting set to take advantage of the liquidity splashing around. Odyssey, the bookshop chain, Habib's, the trendy hairdresser, and Renaissance Jewellery are just some of the new companies that have filed IPO applications. "It really is an indication of the maturity of the capital market," says a merchant banker. The market is likely to take a while to understand how some of these new sectors operate and investors, therefore, could take a while to understand valuations. The bottomline, as always, will be caution.

-Krishna Gopalan

285, the share now quotes at around Rs 668 -that translates into a 134 per cent return in roughly eight months since listing. Profits are climbing nicely, and things are looking really sweet for this integrated sugar company. With its attention also turned towards power generation and ethanol production, the future looks good. "The company has benefited from the upturn in sugar prices," says S. Ramesh, Executive Director, Kotak Mahindra Capital. Analysts say the company's performance has been above investor expectations. Says Vikram Sheth, Senior Vice-President, Edelweiss Capital: "The management has been able to demonstrate a well-differentiated business model and this has kept up the scrip's momentum." One caveat: experts say its sugar trading revenues could be under pressure following the government policy on sugar.

Bombay Rayon

Poised to become India's largest maker and exporter of fashion label shirts after a major capacity expansion, Bombay Rayon Fashions has a global client list that includes C&A, DKNY, Liz Claiborne, Wrangler, Tom Tailor and Guess. An UTI Securities report says: The greatest asset backing the (company's) high valuations is its foray into garment manufacturing and capacity additions that would result in a distinct shift in its business mix. Profits have more than doubled for March 2006 (year-on-year), and investor returns are about 136 per cent since it listed in December 2005. At current prices, the stock trades at about 20 times its FY 2006-07E earnings.

Slow To Go Public

PSUs: Going slow on divestment

The promised slew of IPOs from public sector units (PSUs) has just not happened. Six names come to mind-Power Finance Corporation, National Minerals Development Corporation, Bharat Earth Movers, Rural Electrification Corporation, Power Grid Corporation and National Hydroelectric Corporation. On the face of it, the government seems in no hurry. With the Neyveli Lignite disinvestment running into rough weather, the whole issue seems to have been put on the backburner. "It appears that there is now status quo on PSU IPOs. If the government can convince the Left, it might go through but the market remains sceptical," says Amit Rathi, Director, Anand Rathi Securities. The Maruti disinvestment seemed a key trigger but the government did not capitalise on the positive sentiment that reigned immediately after. The worry: each delay probably reduces the ability of the PSUs to raise money at high valuations.

-Krishna Gopalan

Gateway Distriparks

For fiscal 2005-06, Gateway Distripark's EPS has jumped to Rs 9.07 from Rs 5.38 last fiscal. Net profits for this port-related logistics services provider have doubled in March 2005-06 over the previous financial year, while the share has climbed more than 100 per cent since listing last September. "The promoters of Gateway Distriparks took reasonable care to price the issue keeping investor interests in mind," says Kotak Capital's Ramesh. With Gateway now showing interest in plying its own container trains, additional revenues are expected to flow in, which could justify its valuations. It is trading at about 13 times its FY 2006-07E earnings.

Reading The Spin
Be careful how you hear the buzz around new offers. Is it just sound or is there substance too?

DLF IPO: Dizzy valuations

There is little chance that the average investor is unaware of the existence of a company named DLF Universal or its plans for an initial public offer (IPO). Although DLF's offer document is yet to get the go-ahead from SEBI (Securities & Exchange Board of India), the static around the issue continues. It is touted as the largest public offering ever, at dizzy valuations: a 10 per cent dilution is expected to generate Rs 13,500 crore, which would place the company's valuation at a mammoth Rs 1,35,000 crore. Then there's the endless flow of news reports and high-voltage advertising.

Strictly speaking, after filing the offer document, companies are supposed to go into silent mode until the actually listing-a rule followed mostly in the breach. Now, SEBI Chairman M. Damodaran has announced the need for stricter regulations to enforce this rule.

Obviously, pre-IPO hype could mislead unwary investors and needs to be curbed. Some months ago, Prime Focus, a low-profile post-production company, announced a public issue and immediately went into overdrive. Suddenly everybody knew that Anil Ambani and Rakesh Jhunjhunwala were stakeholders, and company ads were splashed everywhere. The IPO was over-subscribed 1.34 times, but from an offer price of Rs 417, the stock today quotes at around Rs 325. The GVK Power & Infrastructure IPO also got a lot of attention and was over-subscribed 25.57 times. From an offer price of Rs 315, it now quotes in the Rs 145 band.

How should investors handle hype? First, as J. Niranjan, Head (Investment Banking), ICICI Securities, points out, investing in the primary market is not a zero-risk transaction. Investments here are as risk-prone as those in the secondary market. Investors should learn to recognise that hype is hardly a barometer to an IPO's success. "Investors often do not take a call on the company, they take a call on the issue," says Niranjan. Confusing a good PR job with healthy fundamentals is obviously fraught with danger. The primary market needs as much research as the secondary market does. You need to analyse the industry, the company's prospects, market, competition and past performance. "The investor also has to look for cues like the merchant banker's reputation and the track record of the promoters," says Sanjay Sharma, Head (Equity Origination & Capital Markets), DSP Merrill Lynch. While SEBI's proposal for IPO ratings is one answer, there is really nothing to beat old-fashioned research when it comes to the equity market.

-Krishna Gopalan

Everest Kanto

With an 80 per cent share of the Indian market, Everest Kanto makes high-pressure, seamless gas cylinders for industrial, automotive and medical use. "It is the second largest player in high pressure cylinders in the world after Faber Industries SpA, Italy (7.5 lakh units)," says Ajay Parmar, Head (Ideas Research), Emkay Share & Stock Brokers. Kanto's global expansion plans are expected to help it de-risk significantly. Its Dubai capacity, for instance, is expected to increase from 96,000 gas cylinders per annum to 200,000 p.a., and it plans to enter the Chinese market with a 500,000 units p.a. plant. Earnings per share have doubled from Rs 11.30 last fiscal to Rs 24.37 for 2005-06.

The prices of these IPOs today reflect the overall shaky market, presenting a downside that simply asks to be exploited. Especially since the potential of these stocks to climb in a strong market seems unmistakeable. "Even the stocks that are quoting above their offer price are far below their peak levels," points out Sheth. There is definitely enough value to tap in these recently listed stocks, if you can wait for long-term returns.

From The Horse's Mouth

With the market still at its volatile best, what do portfolio management services advise their clients today?

By Shalini S. Dagar

So, the equity market continues to see-saw in wild abandon; Fed chief Ben Bernanke and our own 'Yaga' Reddy are busy raising interest rates; and the number of investment avenues capable of generating good returns are declining. At this time, where are the rich and super-rich investing their money? While experts are quick to point out the absence of readymade solutions even for the rich, it is worth finding out what portfolio management services (PMS) advise their high net worth (HNI) clients today. After all, for the sophisticated and savvy investor, the game never changes, just the game plan.

"For the discerning investor, equity continues to be good investment," says Nikhil Kapadia, Managing Director (Private Wealth Management), Deutsche Bank. The rationale? The Indian growth story remains intact, despite volatility. Economic growth is forecast in the 7-8 per cent range over the near future, and corporate earnings are expected to grow at over 15-16 per cent.

Market Outlook
Here are some broad indicators to where markets are headed.

» The US Fed rate is expected to be close to peaking. If inflation does not recede, there may be some more rate hikes. This could pressurise rates globally, including in India
» The India story remains intact. Economic growth is forecast in the 7-8 per cent range, and corporate earnings are expected to grow at over 15-16 per cent
» The Sensex now trades at a reasonable 14 times (10,876 points) one-year forward earnings, compared to the April 2006 high of 17 times
» Given the overall outlook, large-caps continue to be safer than mid- and small-caps, at least over the short and medium term. However, select mid-caps that exhibit high earnings growth could be considered
» Sectors driven by domestic demand (auto, capital goods, cement, FMCG) continue to be safe bets
» With interest rates headed up, conventional debt products again come into their own as safe avenues

"Corporate earnings for the first quarter of 2006-07 continue to show signs of robustness," says Kapadia. Equity clearly remains a strong long-term play: stay invested for three to five years to see your money grow.

Capital Protection

The wealthy are willing to participate in the growth story, but not by putting their capital at risk. With interest rates headed up, conventional debt products are again in the limelight. Taking a cue from the US Federal Reserve's repeated rate hikes, the Reserve Bank of India has also hiked short-term rates, with the repo rate now at 7 per cent and the reverse repo rate at 6 per cent. PMS managers point out that fixed maturity plans (FMPs), with 8-9 per cent returns over a one-year horizon, look good now. There is no risk of capital erosion or mark-to-market risk, and often the possibility of double indexation benefits.

Bank fixed deposits are also back in favour, with cash-strapped banks offering attractive rates: ICICI Bank has announced 8 per cent for 390-day deposits, while Kotak Mahindra Bank has a Monsoon Mania plan that offers 8 per cent on 290-day term deposits.

Though the Reserve Bank of India is somewhat unhappy with the pace at which realty is soaking up liquidity, this asset class remains a safe haven for the moneyed during uncertain times. Now, with SEBI (Securities & Exchange Board of India) approving Real Estate Investment Trusts (reits), the avenue is poised to expand further. "Usually, HNIS invest in real estate through leveraged funds. The proposed reits will allow investment without leverage, which will be a significant advantage," says Sonu Bhasin, Senior Vice President (Wealth Management & Retail Banking), UTI Bank.

In commodities, gold and silver are clearly popular among precious metals. "We have been advising a reasonable exposure to bullion as the metal is in a secular bull market," said K. Ramachandran, Head (Advisory Desk, Private Banking), BNP Paribas. The more adventurous among the HNIs are also exploring futures and options, while art too gains favour. However, as Ramachandran says: "It is not yet clear how value accretion will happen in art." Although these newer asset classes are beginning to evolve, the overwhelming bulk of HNI investment continues in debt and equity.

As the market matures, safety of capital with equity-like returns is fast becoming the common refrain. In response, wealth managers have plans to launch some sophisticated, structured products like the close-ended scheme from Prudential ICICI that ensures capital preservation while capturing the upside of equity.

Tracking, however, remains the chief concern. Says Abhay Aima, Head (Private Banking & Equities), HDFC Bank: "You have to take portfolio decisions based not just on best returns but also on the time investors have to monitor portfolios." A point that Anup Bagchi, General Manager, ICICI Bank, reiterates when he says allocations must be based on risk profiling: "You must consider estimated cash flows and investment horizons first."

Ultimately, there is no one-size-fits-all strategy to making money, but what better place to get tips than from the wealthy?

NEWS ROUND-UP

The Return Of Offshoring

With IT spending inching up in the West, mid-cap infotech companies can look forward to good times ahead.

By Amit Mukherjee

According to recent reports, the average corporate it spending in 2006 across all industry sectors in the us and Canada rose to 2 per cent of revenues. This can mean only one thing for Indian it services companies: there's money to be made.

Good times ahead: For companies like Sasken (above)

The 17th annual Computer Economics it Spending and Staffing study suggests that the median growth in it spending on a dollar basis is 4.1 per cent, outpacing the 2005 US GDP growth rate of 3.5 per cent. This is the highest since 1997, when companies were gearing up for Y2K.

The effects are already being felt, as several glowing quarterly results from the IT sector show. iGate Global Solutions, the first mid-cap it company to announce q1 2006-07 results, has posted a 23 per cent growth in revenues to Rs 181.6 crore. Patni Computers has announced a 31.6 per cent increase in revenues for q2 cy2006. "Patni added 23 new clients in this quarter," says Surjeet Singh, CFO.

Analysts point out that compared to the faltering bottomlines that many mid-cap companies suffered last year, earnings growth this year is expected to be much higher and more stable. Though margins may not be as high as that of star it firms, the stronger among the mid-caps are expected to grow revenues by around 20 per cent. Operating margins are projected at 17-19 per cent vis-à-vis 25 per cent for the large-caps. IT is coming back into play, says

Ravi Sardana, Senior Vice President, ICICI Securities, and "mid-cap companies are faring better than ever before". The fact that the rupee has depreciated by about 2.4 per cent in the first quarter of the fiscal has contributed significantly to this growth.

However, mid-cap companies cannot hike billing rates because of wage inflation pressures. "The challenge will be to rope in the best talent and crack big accounts. But the sector looks promising and valuations are attractive," says a Morgan Stanley research analyst. "Mid-cap firms now need to specialise in specific verticals or horizontals, and restrict themselves to niche areas," he adds. Basically, these companies cannot afford to spread their footprint like their big brothers.

For the big boys in it, times could not be better. "The year has definitely seen a surge in global demand for service providers like HCL," says Anant Gupta, COO, HCL Infrastructure Services Division. He points out that the surge was triggered by factors like the expansion of the capability portfolio of Indian firms, which has generated a lot of traction in the global market.

"New geographies have opened up in a big way in recent years, and we have seen demand accelerate," adds Gupta. European companies seem to be finally taking the plunge when it comes to large-scale offshoring. With proven expertise and impressive case-study references now having built up, the Indian outsourcing story is possibly entering a new phase of growth.

Mid-cap it companies are expected to sustain the 20 per cent growth rate for at least the next one to two years. "Those companies that showed good growth last fiscal will continue to show growth in the next two years," says Manoj Shroff, a research analyst with Parag Parikh Securities.

What's On Their Mind?
There's more than investor concern behind the new love for close-ended funds.

In the three months since April 2006, six of 10 new fund offers that tapped the market have been close-ended funds. Of these, five are equity funds-Standard Chartered Enterprise Equity Fund, Tata Equity Management Fund, Tata Capital Builder Fund, ING Vysya CUB Fund and Birla Long Term Advantage Fund-while Kotak AMC launched a close-ended debt fund. The sudden shower of close-ended funds in the market comes soon after SEBI (Securities & Exchange Board of India) came out with guidelines for the rationalisation of initial issue expenses in April 2006.

Most market-watchers point out that fund houses are taking advantage of a SEBI provision that allows close-ended funds (unlike open-ended ones) to amortise up to 6 per cent of their initial issue expenses over the tenure of the scheme. Fund houses, of course, disagree. They say the close-ended structure gives the fund manager more flexibility to invest in non-liquid but potentially strong stocks. Says Ved Prakash Chaturvedi, Managing Director, Tata AMC: "The intention is to ensure a stable corpus and give flexibility to the fund manager to invest in upcoming businesses without thinking about redemption pressures."

While this is true, with the amortisation option now shut for open-ended funds, fund houses are obviously counting pennies. Open-ended schemes have to meet fund expenses from the entry load (2.25 per cent), and not through initial issue expenses. Yes, close-ended funds give fund managers more time to consolidate investments but other concerns are also obviously at play here.

-Mahesh Nayak

SMARTBYTES

Window Of Opportunity

Now, you can link your unit-linked insurance plans (ULIPs) more closely to the market. The new IRDA (Insurance Regulatory and Development Authority) guidelines for ULIPs, which came into effect from July 1, 2006, include a provision that allows ULIP-holders a chance to switch their investments up to 45 minutes after the close of market. The idea is to standardise the net asset value of ULIP units but smart players can use the time to switch allocations, especially in volatile markets. Insurance companies give policyholders four free (and unlimited paid) switches a year but few take advantage of it. ICICI Pru Life Insurance, for instance, reports that less than 1 per cent of its ULIP-holders switch between assets; those that do, switch once a year. "The facility allows flexibility, letting policyholders adjust their asset allocations at will," says Puneet Nanda, CIO, ICICI Pru.

-Mahesh Nayak

Premium Worries

With IRDA (insurance regulatory and development Authority) now doing away with the threatened cap on premiums, the rules of the detariff regime are getting clearer. And despite media reports to the contrary, motor insurance is to be detariffed along with the

Come January: And motor insurance will be detariffed rest come January. This means premium prices can now go anywhere, though moving south seems unlikely given that insurers will fight to protect margins. However, says C.S. Rao, Chairman, IRDA: "Competition among companies will ensure reasonable pricing." That may not be the case. Private insurers' entry into motor insurance will see prices zooming since they see this as a high-risk space, and health cover tariffs will also increase. Burglary and fire covers may get cheaper but this benefits individuals the least.

-Nitya Varadarajan

Flying High

New financing options promise to make life easy for students going overseas.

By Nitya Varadarajan

So you've got admission to an Ivy League college, you've got aid; you've even got the visa. But before you start packing your bags and planning those frat parties, remember, you've still got to buy your air ticket. And you need to get insurance and foreign exchange for sundry expenses. All this, without bankrupting your parents. Time was when you had to run around madly from pillar to post, from travel agent to bank. But now, thanks to travel agencies and banks tapping the student market, you can get easy terms on tickets and insurance, as well as other value-added services-often under one roof.

Life's good: For students going abroad

Under a new scheme, Parry Travels offers tickets, insurance and forex at a single window, as well as loans of up to Rs 3 lakh to pay for them. The 18 per cent diminishing interest loan can be paid off in 12-36 equated monthly installments. No security is taken for the loan, but there is a 2 per cent processing charge.

Thomas Cook has also launched a scheme for students, valid till September 30. The University 2Home City loan, in partnership with Lufthansa and Lonely Planet, is available to students who buy air tickets, take foreign exchange for $1,500 (Rs 70,500) or more, and buy Tata AIG's ScholarCare insurance plan. Thomas Cook helps arrange a loan from State Bank or UTI Bank to pay for this.

Both Parry Travels and Thomas Cook also offer student counselling.

How To Decide

Parry Travels has the advantage, since its offer is valid through the year while the Thomas Cook scheme is time-bound. Apart from competitive airfares, Parry Travels also offers a good insurance plan through Cholamandalam ms. Coverage is door-to-door, and the policy covers nervous disorders, drug abuse, alcoholism, pregnancy, child care benefits and sports injury. All benefits are available through the year and the maximum sum insured is $250,000 (Rs 1.18 crore approx.).

Thomas Cook, on the other hand, offers a more limited cover through Tata AIG. Medical benefits are limited to the first 90 days of policy duration, though other benefits such as personal accident, emergency medical evacuation, etc. are valid for one year. The maximum sum insured is $200,000 (Rs 94 lakh).

However, if you don't mind a little running around, you could consider taking a loan directly from a public sector bank. These loans come at 11 per cent diminishing interest and, according to RBI norms, education loans of under Rs 7.5 lakh can be taken with no collateral or security.

Banks are also trying to woo students with special offers. For instance, if you take a loan from Bank of Baroda, you get a reduction of 1 per cent in interest at the end of the tenure if your repayments have been prompt. The loan can be taken to cover the cost of travel, insurance and the like, says Mukund Hari Jachak, Head (Sales), Bank of Baroda.

It makes sense to opt for a bank loan, as the interest rates are far lower than those offered by travel agents through private banks. And unlike in the past, when a loan took forever to be sanctioned, today you can get your loan approved in 24-48 hours if all the documents are in place.

If you don't mind the extra effort, you'll end up saving a packet if you opt for a loan from a public sector bank but for the convenience of a single window and no running around, products like the one from Parry Travels score high.

Low Fares, High Price

Cheap flights are costly when it comes to the hassles. Are they worth the trouble?

By Kushan Mitra

Budget airlines: Making you seat the small stuff

With airfares crashing, Mumbai-based insurance agent Sanjay Rao (name changed) decided to take a flight to Hyderabad to visit his parents. He booked his Air Deccan ticket more than a month in advance and paid Rs 2,000-plus-a tad more than the price of a 2-tier ac train ticket. But when the flight was delayed by over six hours, Rao was soon regretting his decision to eschew land travel.

Crash The Barriers
Want to fly cheap but don't want a low-cost airline?

It's not just about getting a meal on board. in case of delays, full-service carriers don't leave you to fend for yourself or, for instance, they won't charge extra for a wheelchair. So, trying to fly cheap on a regular airline does make sense. Getting these deals could be easy across most major metro routes but on more lightly served but popular routes (such as Mumbai-Aurangabad), and during peak travel season (October-November), getting discount fares on full-service carriers is nearly impossible. Here are a few pointers:

If you book your ticket very close to the date of travel, the really cheap seats on the low-cost carriers will usually be over. This is when the full-service carriers such as Jet Airways, Indian or Kingfisher actually start getting competitive, so try your luck

Then, there are the night flights. For example, the Mumbai-Kolkata route is one sector where Jet Airways runs a 'red eye' (late night) service, and tickets on this route start at under Rs 4,000 one-way. Including taxes and surcharges, it is possible to get a return fare on this sector for under Rs 8,500. An Air Deccan ticket booked a week before travel will be only Rs 1,000-1,200 cheaper, particularly if you are flying weekends

Look out for check fares. An Air Sahara ticket booked at the very last minute could come very close to budget airline levels, so if your plans are flexible exercise this option

He lost his temper and had a flaming row with the ground staff. Explaining his outburst, Rao says: "It's the principle of the thing; the airline doesn't inform us of delays. Also, all its flights to other destinations were taking off, so why were we the only ones stuck?" Of course, making bad matters worse, budget airlines do not serve food or water or do the other little things that soothe frayed travel nerves. So, there you are: cheap ticket, yes, but endless delays and nobody spoiling you either.

Air Deccan possibly faces the most flak on this front; it cancels eight to 10 flights almost every day. But, says Managing Director Captain G.R. Gopinath: "The problem is two-sided. Yes, there are problems on our side, but there is also a lack of awareness among passengers. Just because your flight is delayed or cancelled does not give you the right to damage property or block the passage of other travellers. You don't protest when a train gets cancelled, so this violent reaction should not take place when a flight gets cancelled."

And yes, flights will get

cancelled or delayed. Gopinath says this is because of rapid expansion. "We send our aircraft to stations where there are no other airlines operating, and if one of our planes was to go 'tech' (get grounded) at a place where there are no spare parts, it takes time to 'recover' the plane. And one plane out of the equation usually means that there will be knock-on cancellations all day."

But is this problem unique to Indian budget carriers or do low-cost airlines elsewhere in the world also have to deal with such crises? It's a problem all budget carriers face. The difference is that low-cost airlines abroad deal with it better. Jeh Wadia, Managing Director, GoAir, says: "They have a single aircraft type and they also keep a spare aircraft in the network to deal with such emergencies. Or they (as we do) increase their turnaround time (the time it takes to prepare a plane for its next sector), giving the airline more flexibility."

Teething Troubles

It's easy for large low-cost carriers such as Ryanair or Southwest, which have fleets of over 200 aircraft, to keep a spare aircraft. "However, even they faced teething troubles when they started," claims Gopinath. And, he adds, increasing turnaround time is just not possible. "The low-cost model demands high aircraft utilisation. Planes have to fly 10 sectors a day on a very tight schedule if the carrier has to be profitable."

The other problem has to do with the country's rapid aviation expansion and the severe lack of trained engineers and ground staff. This results in poor passenger communications and planes being grounded for lack of people to service it. "One day, another airline picked up my airport manager for twice the salary, and another day I lost 30 engineers to a rival carrier. Who will repair the planes? Who will handle the passengers?" asks Gopinath.

Wadia adds that infrastructure has simply not kept pace with growth. Over the last few years, there has been an explosion in the number of low-cost airlines, and over time, they will have to come up with different solutions to deal with this problem.

So, does this mean that Rao will have to continue to put up with delayed, and even cancelled flights? Sadly, yes. Says Gopinath: "We are trying very hard to ensure that we can fly all our routes everyday and have no cancellations, but until then I'm afraid there will be heartbreak for some passengers. However, we will still be the cheapest airline around."

There are other issues as well that plague budget

Flight Plan
Your low-cost flight is cancelled. What can you do?

Hassled passengers: For now, delays seem inevitable on budget flights

The answer is not to go on a rampage because chances are you might end up behind bars. Your options are fairly limited: You could ask for a full refund of your ticket or ask to be booked on to the next available flight. If you have to cancel your return trip, then ask for a complete refund on both sectors. However, since low-cost carriers run at very high load-factor levels, getting a seat on the next available flight might mean a two to three day delay. Again, this depends on how smooth a talker you are; screaming at the ground staff is unlikely to help you get a seat.

Air Deccan has recently signed a deal with Jet Airways, under which its passengers can, in case of a cancellation, get their boarding passes endorsed for travel on Jet Airways if it flies the same sector. However, since this depends on the number of seats available on the Jet flight, you might have to negotiate your way to an endorsed boarding pass, if possible. Of course, flying on a sector where Air Deccan has a monopoly limits your options totally.

Bottomline: Be prepared for the eventuality of delays and cancellations when you fly on a low-cost carrier. The best you can do is grin and bear it.

airlines like the high cost of cancellations and various extra charges like passenger service fee and so on. These are criticised, but fares still reign way low. Our advice: try for low fares from regular carriers (see Crash The Barriers) first. Failing which, grit your teeth and fly low-cost. After all, you can endure a lot in the interest of cutting your journey down from 26 hours to two.

Twice As Smart

The new LPG Wagon R Duo: Is it worth a look?

Petrol costs the earth and diesel is polluting. Should you junk your car in favour of a bicycle or should you look at cheaper, cleaner fuels? Maruti suggests you stick with a car- specifically its new Wagon R Duo, which runs on both petrol and LPG.

There are cars on road today that run on both fuels, but the LPG kits are retrofitted and not entirely safe. With its factory-fitted kit, the Duo stresses safety. Says a Maruti spokesperson: "We have certification from the Automotive Research Association of India and the department of explosives."

And what about economy? According to Maruti, the cost of running a car on LPG is two-thirds that of using petrol. And for this, you pay around Rs 20,000 more: the Wagon R Duo costs Rs 3.45 lakh (base model, ex-showroom, Delhi) vis-à-vis Rs 3.23 lakh for the standard petrol model.

More: the new gas car has been given a facelift and no longer looks like a slightly oversize box on wheels. In terms of speed, while there is a definite loss of power, the car's zippy enough for city driving.

It won't be an entirely smooth ride though. There are only 160 LPG filling stations across the country, so tanking up could be a problem. Maruti says there are filling stations in 42 cities but that's hardly enough. When you do manage to find an LPG station, fill the 28-litre tank-you can travel about 300 km on that. After that, the 35 litres of petrol will take you an additional 500 km till you find the next LPG station.

According to Harish Mehta of Mansha Auto Financials, a Delhi-based automobile dealer, there are still some safety issues to be addressed. He says it will take at least two to three months on the road for the Wagon R Duo to prove that it really is safe.

On the whole, the new Wagon R seems worth it. But ideally, wait a few months to be completely sure that all glitches have been ironed out.