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Indian Major Stock Indices

	Jan 01, '08	Jan 31, '08	% Change
Sensex	20312.90	17648.71	-13.12
S&P Nifty	6144.35	5137.45	-16.39
Smallcap	13348.37	10124.42	-24.02%
Midcap	9789.49	7766.62	-20.66%
Banking	11450.44	10713.91	-6.43
Healthcare	4437.17	3603.52	-18.79
FMCG	2368.30	2167.34	-8.49
IT	4517.09	3710.11	-17.87
PSU	10575.78	8186.70	-22.59
Auto	5713.62	4832.48	-15.42
Capital Goods	19767.59	16387.70	-17.10

Data source: BSE

Monthly FII & MF transactions (equities)

	Dec '07	Jan '08
FII - Net inflow	5,579.10	-1,3035.70
MF - Net inflow	3,024.40	5,568.00

Amt in Rs. Cr.

Data source: SEBI

Monthly MF - AMC - AUM transactions

	Dec '07	Jan '08	% Change
AUM	5,49,942.03	5,47,880.93	-0.37

Amt in Rs. crores

Data source: AMFI

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Highlights

- ◆ **Sensex witnessed worst ever losses**
- ◆ **FII's sold more than Rs.9,500 crores**
- ◆ **Gold prices touch record highs.**
- ◆ **Crude prices slowdown on global economic worries**

Equity Market

The market saw extreme volatility during the month both Sensex and nifty have lost around 13% and 16% respectively. While this fall was evidenced, the month has also seen both Sensex and nifty touching their all time high levels owing to strong buying interest in select sectors. The loss in the second half of the month can mostly be attributed to fears of recession in US which triggered a selling spree in the markets across the globe. FII's have during the month remained as net sellers to the tune of 13,305 crores. Though the FII's have started pumping lot of money during the start of the month they have been sellers to the extent of Rs.9,500 crores during the third week which resulted in Sensex witnessing one of its worst ever fall.

A huge public offering by Reliance Power diverted investor's interest to primary markets. Reliance power came out with a public offering of around 11,700 crores and that was subscribed 72 times the issue size. This resulted in a huge liquidity crunch in the economy. IT and PSU sector indices were the major losers during the month.

Debt Market:

Corporate Bond market: Corporate bonds witnessed high demand at the start of the month, as comfortable liquidity conditions kept market sentiments bullish. Yields eased by more than 5 bps. However, T-bill and G-sec auctions of liquid securities reduced investor interest in corporate bonds. Towards the end of the month, yields firmed up as mutual funds turned sellers to fund redemptions in their debt schemes.

Government Securities: During the month, Govt. of India raised Rs.10,000 crore through the regular auction of dated securities as per the auction calendar. In addition, it raised Rs.9,000 crore through a dated security sale under MSS. Under regular auction, 10-yr paper 7.99% GOI 2017 and 28-yr paper 8.33% GOI 2036 were reissued for a notified amount of Rs.6,000 crore and Rs.4,000 crore respectively.

Money Market: In money markets, call rates have touched their historical highs of 61.00 from 0.600 during the start of the day. This was on account of failure in the RTGS system. Also crash in stock markets resulted in panic borrowing as banks apprehended a payment crisis.

Key statistics

	Dec 31, '07	Jan 31, '08
7.27% (5 Yr G-Sec Yield)	7.67%	7.50%
7.99% (10 Yr G-Sec Yield)	7.78%	7.54%
FII – Debt Net inflow	3312.00	1953.80
MF – Debt Net inflow	1,288.20	-4,511.60

Amt in Rs. Cr.

Source: SEBI

Leaving this stray incident call market has been steady during the month, as liquidity conditions remained easy. Foreign inflows into huge IPO offerings and subsequent Central Bank intervention in Forex market kept funds flowing into the system. In an attempt to suck excess liquidity from the system, MSS auctions to the tune of Rs.13,000 crores were conducted by the central bank. Still ample liquidity subsisted in the system and demand remained sluggish.

Outlook:

The concerns on US recession still loom large. The financial data being received from banking majors in US clearly indicates that the sub prime woes are far from over. These concerns have created liquidity problems in the US markets. FIIs who have invested in the emerging markets have during the month, liquidated their positions in emerging markets to tide over the liquidity problem. In spite of a mid term 125 bps fed rate cut, the reaction from the US markets are far from being normal.

However, domestically, the earnings have been robust for the Q3 FY08 which came out during the month. While India is not completely decoupled from the international markets, it is believed that there is basic independence of the Indian markets and hence is not expected to have direct correlation to the international markets. While in the short term, technical concerns across the globe in general and US in specific may affect the markets, the growth potential and basic fundamentals continue to remain strong and points towards burgeoning economy. Further, as seen in Jan 2008, the emergence of domestic institutions as buyers when the international players have been selling in the market, coupled with robust MF and Insurance collections domestically forecasted in the months and years to come is expected to keep the markets in the steady state.

Also in the coming month, bond yields are expected to range bound with a cautious undertone due to high auction supply. Rs.13000 crore securities are expected to be auctioned under regular and MSS mode.

While the long term looks positive, in the short term, volatility is here to stay. RBI's decision of not reducing interest rates may have not gone down well with the investors and they will be keenly looking at the budget for the direction provided by the government with regard to the market.

Domestic Developments:

RBI announces third-quarter monetary policy review 2007 - 08:

As against market expectations of a reduction in key interest rates, RBI maintained status quo. However, RBI paved the way for softer interest rates by nudging banks to cut deposit and lending rates.

Enlisted below are some observations of RBI in the policy review:

- RBI expressed concerns over high level of broad money expansion which is growing at rates much higher than the targeted rate of 17.0% - 17.50%.

Key Indicators

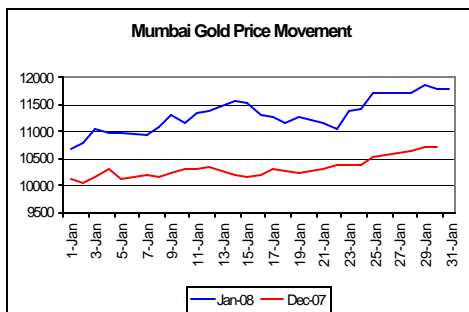
	31 Dec, 2007	31 Jan, 2008
Dollar exchange rate	39.42	39.38
Gold (Rs.10/gm)	10,700	11,794
Crude Oil	95.98	91.75

Data source: Bloomberg

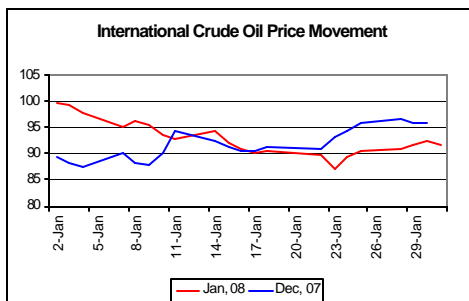
Foreign Major Stock Indices

	Dec 31, '07	Jan 31, '08	% Change
MSCI World Index	1588.80	1466.34	-7.71
FTSE	6456.90	5879.80	-8.94
Dow Jones	13264.82	12650.36	-4.63
Strait Times	3482.30	2981.75	-14.37
KLSE	1447.04	1393.25	-3.72
HangSeng	27812.65	23455.74	-15.67
Nikkei	15307.78	13592.47	-11.21

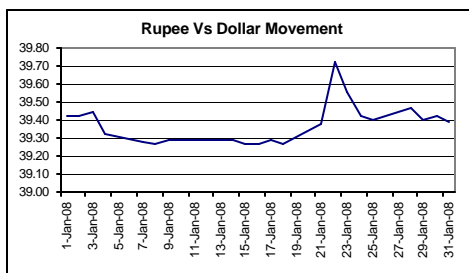
Data source: Bloomberg



Data source: Bloomberg



Data source: Bloomberg



Data source: Bloomberg

- While industrial growth has declined in the recent past, RBI indicated that further assessment would be needed on whether some of the segments are reflecting correction of the excesses in the previous years or whether there are sector-specific factors which require attention.
- Potential reversal in capital flows - Since none of the Fed rate cuts, subsequent to the rate cut in September, was followed by huge capital inflows, expectations of interest rate differential resulting in abundant liquidity have declined.

Impact in the RBI policy review:

- Status quo maintained by RBI disappointed the debt market that had rallied for close to a month on expectations of a softer monetary stance.
- After easing by around 50 bps since December, yield on 10-yr benchmark security firmed up to 7.54% post-policy review. Yields across the curve firmed up with considerable hardening in longer tenor securities.
- With RBI reprimanding banks for making huge investments in SLR securities, credit growth is expected to pick up proportionate to the growth in the deposit base.

International Developments:

US Federal Reserve cuts Fed funds rate by 125 bps In the US treasury market, expectations of interest rate cuts in the upcoming FOMC meet due to increased likelihood of recession any trends kept the market sentiments positive. Although stock markets rallied following news of new acquisitions in the financial sector, reports of increased losses in the financial sector owing to deepening housing and mortgage crisis renewed recession any fears. Along with recession as fears, statement by a Fed official expressing support for near-term growth rather than curbing long-run inflation reinforced expectations of a 50 bps cut in interest rates.

Forex Market: In Forex market, with domestic equity markets witnessing their worst falls, rupee declined against USD. Weakness in global equity markets spurred FII outflows pulling down the rupee further. Rupee ended the month at 39.38/\$, which is lower than previous months close of 39.42/\$.

Commodity markets: In commodities market, though global equity markets slumped to its one-month low, crude prices however eased on global economic slowdown worries. US recessionary concerns pulled down crude to a three-month closing low. Despite 75 bps cut in key interest rates, crude eased, as the rate cut was seen as being insufficient to prevent US economy's recession. Crude prices ended the month at USD 91.75 a barrel, lower than the previous month's USD 95.98 a barrel.

NFO at a glance: NFO's open for subscription

Scheme	Open Date	Close Date
Lotus India AGILE Fund	15.11.07	15.02.08
Lotus (I) Mid N Small Cap	07.01.08	19.02.08
ICICI Pru Fusion Series - 3	08.01.08	21.02.08
HDFC Infrastructure Fund	08.01.08	21.02.08
HSBC Emerging Markets Fund	28.01.08	25.02.08
SBI Tax Advantage Fund	03.12.07	03.03.08
HSBC Small Cap Fund	19.01.08	03.03.08
LIC Infrastructure Series - 1	04.02.08	04.03.08
Standard Cha. Small & Midcap Equity	09.01.08	15.03.08
Reliance ELSF - Series - 1	18.12.07	17.03.08
UTI Long Term Advantage Series 2	19.12.07	19.03.08
JM Tax Gain Fund	24.12.07	25.03.08

Forthcoming NFO's

Sl. No.	Scheme Name
1	Principal Mid and Small Cap Fund
2	"Sundaram BNP Paribas Select Thematic Funds - Financial Services Opportunities
3	Kotak Infrastructure Fund
4	Kotak Banking and Financial Services Fund
5	Franklin Build India Fund
6	ICICI Prudential Long Short Fund
7	DSP Merrill Lynch Green World Fund

Note: The above given funds are awaiting for SEBI's approval.

MF Recommendations: Equity Long & Medium Term:

Recommended schemes to invest		Historical returns as on Feb 4 '08 (%)		
		6 months (abs)	1 year (ann.)	3 year (ann.)
Equity	DSP Merrill Lynch Opp. Fund	23.06	34.41	43.34
	DSP Merrill Lynch Top 100 Equity	23.99	36.89	44.58
	HDFC Capital Builder Fund	20.26	40.17	36.88
	ICICI Prudential Service Industries	21.76	32.26	--
	Reliance Diversified Power Fund	57.74	95.62	76.72
	Reliance Growth	27.23	43.01	51.10
ELSS	Sundaram BNP Paribas CAPEX Opp.	28.14	49.42	--
	DSP Merrill Lynch Tax Saver Fund	29.47	52.47	--
	Principal Personal Tax saver	13.36	34.16	18.23
	Reliance Tax Saver Fund	12.00	13.90	--
Balanced	Sundaram BNP Paribas Tax saver-(O.E)	34.30	38.98	42.71
	DSP ML Balanced	10.09	22.08	31.85
	Franklin India Balanced	16.10	23.45	20.38
	HDFC Prudence	21.96	33.58	34.15

Debt Short & Ultra Short Term:

Recommended schemes to invest		Historical returns as on Feb 4 '08 (%)		
		6 months (abs)	1 year (ann.)	3 year (ann.)
Short Term	ICICI Prudential FRF - Plan D	4.29	8.69	--
Floater	Tata FRF - ST	4.08	8.34	6.83
Debt Short Term	HDFC HIF - S T P	5.24	10.23	7.36
	Tata Short Term Bond Fund	4.63	10.02	7.67
Debt Ultra Short Term	DWS Insta Cash Plus Fund	4.02	7.99	6.73
	LIC MF Liquid Fund	4.05	8.03	7.02

For more information on MUTUAL FUNDS call 18 00 42582 83 or contact your nearest Karvy branch.

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