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Highlights

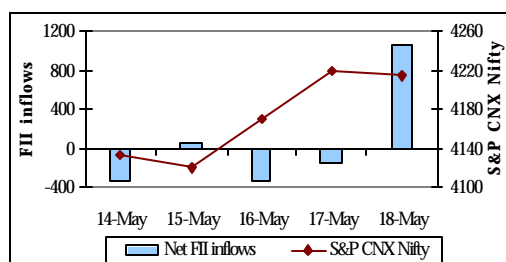
- ◆ **Markets get positive**
- ◆ **The trend likely to continue**
- ◆ **Bond yields drop**
- ◆ **Inflation decline for 3rd consecutive week**

The week in retrospect -Equities

The markets shrugged of the previous week's losses and continued with their northwards journey on the back of firm global markets, robust earnings results and reports of early onset of monsoons. Sensex gained 507.25 points to settle at 14303.41 and Nifty jumped by 137.85 points during the week to close at 4214.50 level SBI announced strong earnings results on May 12. On Tuesday, Lok Sabha passed a bill allowing SBI to reduce its stake in its 7 subsidiaries to 51% from the existing 55%. The government would proceed with its purchase of RBI's stake in SBI in Jul-Aug, 07. On account of these factors, a huge rally was witnessed in SBI during the week. The Indian Meteorological Department has forecasted that monsoons could hit the Kerala coast as early as May 24 compared to the normal arrival date of June 1. On Friday, a drop in the market was triggered by a bomb blast in Hyderabad (in the Mecca Masjid near Charminar) and a hike in Chinese interest rate. China hiked its interest rate (lending) to 6.57% from 6.39%, the highest in 8 years. On the sectoral side, BSE Bankex zoomed by 10.12% on the back of RBI's permission to banks, to trade credit default swaps in order to hedge credit risk. IT stocks were in the red as rupee appreciated to Rs.40.7 per USD.

During the week, FIIs emerged as net buyers in the equity market, amounting to Rs. 314.9 crores. Mutual funds, also, turned out to be net buyers to the tune of Rs. 905.20 crores.

FII movement relative to Nifty



FII inflows in Rs. Crores Source: NSE, SEBI

Weekly FII transactions (equities)

	May 14 to May 18	May 7 to May 11
Gross purchases	12254.5	9430.6
Gross sales	11939.6	9129.3
Net inflows	314.9	301.3

Amt in Rs. crores

Data source: SEBI

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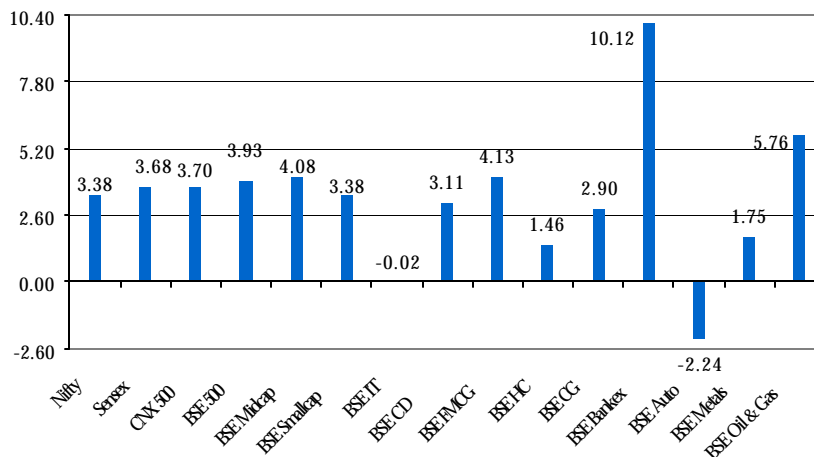
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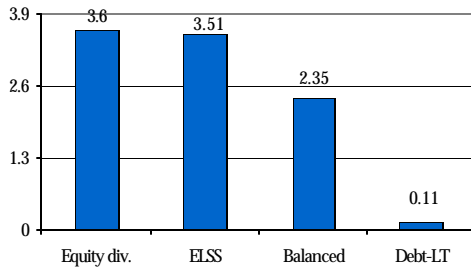
Weekly Equity Indices Return (absolute %)



As on May 18

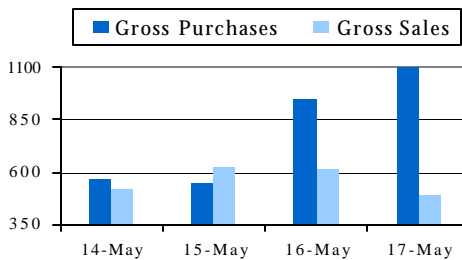
Datasource: BSE, NSE

Weekly category returns (%)



Abs. returns as on May 18 Datasource: Bloomberg

Weekly MF transactions (equities)



Amt in Rs. crores

Data source: SEBI

In the equity market, mutual funds emerged as net buyers to the tune of Rs.905.20 crores.

Outlook:

Short-term: The markets are likely to remain positive on the back of strong expectations of earnings results and cooling down of inflation. Inflation has declined to 5.44% and is expected to moderate further. Jindal Steel, SAIL, Bank of India, Bharat Forge, PNB, NIIT Technologies, Bombay Dyeing, BPCL, ITC, Godrej Industries, Torrent Pharma, Alembic, Gokaldas Exports, TV Today Network, Punjab Tractors, NDTV, Divi's Lab, Monsanto India, Adani Enterprises, and Parsvnath Developers would announce their quarterly results next week. Crude oil is trading at its 8month high of \$70 per barrel. Any sharp increase in the price could instil negative sentiments.

Long-term: Rise in interest rates is likely to result in slowdown in credit growth in the retail segment (more pronounced in mortgages segment). However demand for credit from corporates is not likely to slow down immediately as they usually borrow overseas and also, interest rate hike results in reduced credit with a lag. RBI has projected the GDP growth for 2007-08 at 8.5%. Industrial output for FY2006-07 has soared by 11.3% as against 8.9% the previous year. Robust corporate earnings, strong domestic consumption, high infrastructure spending, retail sector growth and real estate boom are likely to support the long-term bullish story.

Recommended schemes to invest	Returns as on May 18 (%)			Crisil Ranking*	
	6 months (abs)	1 year	3 year (ann)		
Aggressive (Equity)	DSP ML Small & Midcap	7.04	N.A.	N.A.	--
	DSP ML TIGER	15.24	30.27	N.A.	1
	ICICI Prudential Services	18.55	36.28	N.A.	--
	Reliance Equity Opport.	10.78	20.57	N.A.	2
Moderate (Equity)	DSP ML Equity	16.60	28.03	56.35	1
	Fidelity Equity	15.52	29.35	N.A.	--
	Fidelity Ind. Special.	9.49	N.A.	N.A.	--
	Pru ICICI Dynamic	14.17	27.52	59.59	1
Conservative (Equity)	DSP ML Top 100	14.97	31.78	48.60	2
	HSBC Equity	7.12	23.57	43.51	4
	Franklin India Bluechip	7.83	22.12	43.16	4
	Templeton India Eq. Inc.	16.32	N.A.	N.A.	--
ELSS	Franklin India Taxshield	6.40	12.35	41.76	3
	Fidelity Tax Advantage	14.38	26.35	N.A.	--
	SBI Magnum Tax Gain	10.45	25.82	75.63	1
Balanced	DSP ML Balanced	11.53	22.04	33.82	3
	HDFC Prudence	9.24	23.69	39.75	1
	FT India Balanced	8.36	20.14	30.94	2

*For qtr end Mar' 07

Datasource: Bloomberg

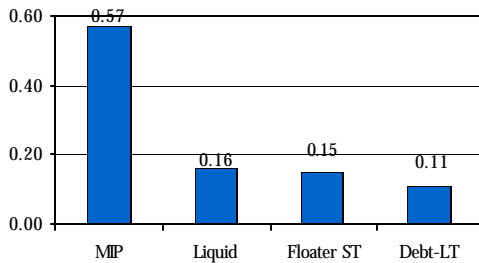
**Classification based on fund's portfolio concentration & exposure to various market segments.

Recommendations

Fresh investments: Since volatility is expected to prevail in short-term, investments should be made with a long-term perspective (preferably 3 years or more). Investors could look at equity diversified and opportunities funds to build their core portfolios. Thematic funds and midcap oriented funds would be apt for enhancing portfolio returns. Derivative funds can be considered to adopt a hedged style. Portfolio diversification can be further achieved by considering GETFs and funds offering exposure to international markets.

Existing investments: We reiterate our long-term bullish view on the markets. Hence, we suggest continuing with the existing holdings. However, one needs to be particular about the schemes forming part of the portfolio.

Weekly category returns (%)

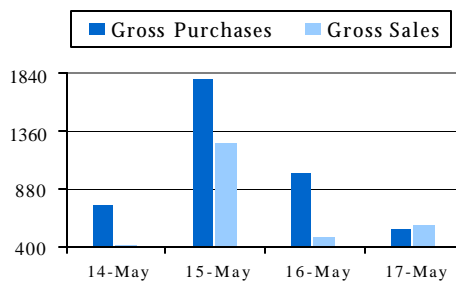


Abs. returns as on May 18 Data source: Bloomberg

Key statistics

	May 18	May 11
8.07% GOI 2017 yield	8.15%	8.18%
Call rate	8.25%	2.5%
WPI inflation (week ending May 5 and Apr 28)	5.44%	5.66%
Dollar exchange rate	40.70	41.22
Forex reserves (\$ bn)	203.991 (May 11)	204.009 (May 4)

Weekly MF transactions (debt)



Amt in Rs. crores

Data source: SEBI

In debt market, mutual funds emerged as net buyers to the tune of Rs.1361.10 crores.

The week in retrospect-Debt

The bond market witnessed the yields come down on the back of eased liquidity conditions, low inflation data and increased expectations that the interest rates may not be hiked in the near term. The benchmark 10-year g-sec yield ended the week at 8.15% against 8.18% the previous week. However, after a 3-day downfall, yields went up slightly on Thursday after the Finance Minister announced that further fiscal and monetary measures could be taken to bring inflation below 5% mark. On Friday, yields edged higher on the back of higher-than-expected inflation. Market-men had expected 5.30% inflation for the week-ending May 5. On the forex front, rupee appreciated to 40.70 after the news that China would widen the daily trading band for the yuan against the dollar by 0.5%. This widening of trading band led to a jump in major Asian currencies against dollar.

Outlook:

Short-term: The government would auction 7.38% 2015 bonds worth Rs.50 bn and 8.35% 2022 bonds worth Rs.30 bn on May 25. The central bank has been selling Market Stabilization Bonds since March to absorb excess liquidity in the system. With no MSS scheduled for the coming week, bond yields and call rate are expected to remain in the comfortable zone. Although inflation has been showing a declining trend for the third consecutive week, it still remains a concern since the figure is above market expectations. Market men are expecting a CRR hike by June-end.

Long-term: With measures to control inflation beginning to show their impact, the inflation figure may ease down and as a result, yields are likely to cool down in July-August

Recommended schemes to invest		Return as on May 8 (%)			Expense ratio	Crisil ranking*
		1 m	3 m	1 yr.		
Liquid Plus	HSBC Liquid Plus	0.72	2.21	N.A.	0.65	-
Liquid	LIC MF Liquid	0.73	2.09	7.80	0.53	2
	Canliquid Retail	0.71	2.04	7.42	0.23	-
Arbitrage	StanChart Arbitrage	0.49	2.49	N.A.	N.A.	-
FMPs	HSBC Fixed Term Series 30 (3 years)	Net indicative yield: 9.25% NFO closes: May 25				

*For qtr end Mar' 07

Datasource: Bloomberg

Recommendations:

Short-term investors: Very short-term investors (for investment duration up to 1 month) should invest in liquid funds. Investors with investment duration of 1-3 months should consider liquid plus funds. Arbitrage funds could be looked at by investors who wish to invest for a period of more than 3 months (subject to the period, before which redemption would attract exit load). For other investors for whom instant liquidity is not an issue, FMPs (shorter duration of 3 months to 6 months) can be considered as the yields are quite attractive.

Long-term investors: Investors with a horizon of more than one year could consider FMPs (longer duration) in place of bank deposits as present yields on short-term papers are quite attractive. Due to lower taxation on FMPs, the post-tax returns on these products could be higher.

News Briefs

- ◆ ICICI Prudential AMC has revised load structure in ICICI Prudential Equity and Derivatives Fund-Wealth Optimiser Plan. The scheme will charge exit load of 0.5% if redeemed or switched-out within 6 months from the date of investment.
- ◆ Reliance AMC has introduced exit loads in its 4 equity funds: Reliance Growth, Reliance Vision, Reliance Equity and Reliance Equity Opportunities. These funds will charge an exit load of 1% if redeemed within 6 months and 0.50% if redeemed after 6 months but before 1 year.

NFO Corner

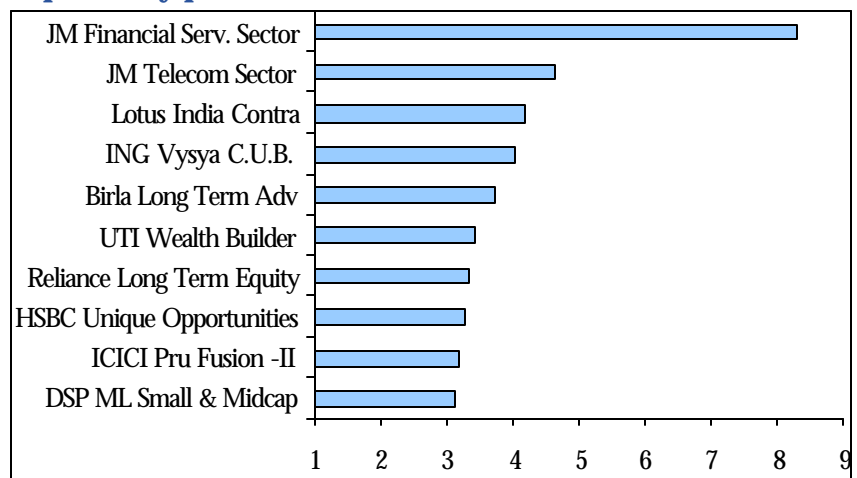
NFOs open for subscription:

- ◆ DSP ML MF has launched DSP ML Micro-cap Fund. The 3-year close-ended scheme would invest in companies with market-cap less than those of smallcap companies. The NFO period closes on May 25, 07.
- ◆ AIG Fund House has launched its maiden fund, AIG India Equity Fund. The purely diversified equity scheme is open for subscription till May 31, 07.
- ◆ HDFC Fund House has launched HDFC Midcap Opportunities Fund. The midcap-oriented scheme is open for subscription till June 8, 07.
- ◆ SBI MF has launched SBI Infrastructure Fund. The infrastructure-theme based fund will be available for subscription till June 8, 07.
- ◆ Tata AMC has launched Tata SIP Fund which is a 36-month close-ended scheme. It will initially invest in debt and money market instruments and then subsequently allocate assets to equities in a systematic manner. The offer period would close on June 14, 07.

Forthcoming New Fund Offers:

- ◆ JM Fund House is planning to launch JM Contra Fund.
- ◆ UTI AMC is coming up with UTI Lifestyle Fund. It would be a 3-year close-ended scheme which would invest in companies which play a role in driving Indian demographics or consumer patterns.
- ◆ Sahara AMC is planning to come up with Sahara R.E.A.L. Fund. The scheme would invest in companies in the **R**etailing, **E**ntertainment & media, **A**uto & auto ancillaries and **L**ogistics sector.
- ◆ Lotus India AMC is planning to launch Lotus India Equity Fund. The scheme would be an open-ended equity diversified one which would invest across sectors and market-cap ranges.

Top weekly performers-NFOs*



* Weekly return in % as on May 18, 07

Datasource: MFI Explorer

Note: Funds launched since Apr 06 have been considered.

Performance analysis of equity NFOs (quarter -wise) as on May 18, 2007

S.No.	Scheme	Issue Date	Current Nav (Rs.)	Corpus Size (Rs. Cr) as on Apr 30' 07	Absolute Return(%)		Current Value(Rs.)	
					Since Launch	Weekly	Before Load	After Load
1	Lotus India Midcap	30-Mar-07	10.26	58.61	2.60	1.28	10,260.00	10,260.00
2	Kotak Emerging Equity	16-Mar-07	10.52	254.83	5.16	2.61	10,516.00	10,516.00
3	ICICI Pru Fusion-II	16-Mar-07	10.69	1064.64	6.90	3.19	10,690.00	10,690.00
4	Lotus India Contra	15-Mar-07	10.70	104.59	7.00	4.19	10,700.00	10,464.55
5	Taurus Infra Tips	5-Mar-07	10.50	44.72	5.00	1.45	10,500.00	10,268.95
6	HSBC Unique Opportunitis	26-Feb-07	11.31	684.89	13.10	3.28	11,310.00	11,310.00
7	Principal Long Term Equity	21-Feb-07	10.72	227.04	7.20	1.71	10,720.00	10,720.00
8	Sundaram Equity Multiplier	31-Jan-07	10.36	559.85	3.59	2.26	10,359.00	10,359.00
9	Sundaram Select Smallcap	24-Jan-07	10.18	301.01	1.82	1.67	10,182.00	10,182.00
10	Can Multicap Fund	4-Jan-07	10.41	223.10	4.10	2.66	10,410.00	10,410.00
Abs. returns for New Funds released Between Jan 07 to Mar 07					5.65	2.43	105,647.00	105,180.50
1	LICMF India Vision	22-Dec-07	9.95	242.82	-0.50	2.97	9,950.00	9,950.00
2	SBI One India Fund	22-Dec-07	10.22	1842.70	2.20	1.39	10,220.00	10,220.00
3	Escorts High Yield Equity	11-Dec-06	10.59	14.15	5.88	2.44	10,588.00	10,355.01
4	Reliance Long-Term Equity	14-Nov-06	10.74	2157.17	7.41	3.35	10,741.00	10,741.00
5	IN G Vysya C.U.B. Fund	14-Nov-06	13.14	70.55	31.40	4.04	13,140.00	13,140.00
6	JM Financial Sector	2-Nov-06	11.38	5.43	13.8	8.28	11,380.00	11,129.58
7	JM Telecom Sector	2-Nov-06	11.97	8.93	19.7	4.63	11,970.00	11,706.60
Abs. returns for New Funds released Between Oct 06 to Dec 06					11.41	3.87	77,989.00	77,242.19
1	DSPML Small & Midcap	29-Sep-06	10.93	1490.61	9.27	3.14	10,927.00	10,686.55
2	UTI Wealth Builder	7-Sep-06	11.13	969.35	11.3	3.44	11,130.00	11,130.00
3	Birla Long-term Adv.	7-Aug-06	11.13	415.21	11.3	3.73	11,130.00	11,130.00
4	Tata Capital Builder	18-Jul-06	11.32	271.53	13.16	2.37	11,316.40	11,316.40
Abs. returns for New Funds released Between Jul 06 to Sep 06					11.26	3.17	44,503.40	44,262.95
1	Tata Equity Managmt.	15-May-06	10.87	387.43	8.71	0.69	10,871.30	10,871.30
2	Stanchart Enterprise Equity	19-Apr-06	12.18	1569.67	21.8	2.16	12,180.40	12,180.40
Abs. returns for New Funds released Between Apr 06 to Jun 06					15.26	1.42	23,051.70	23,051.70

Note: Current value shows the latest market value of an investment of Rs.10,000 in each NFO.

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

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