

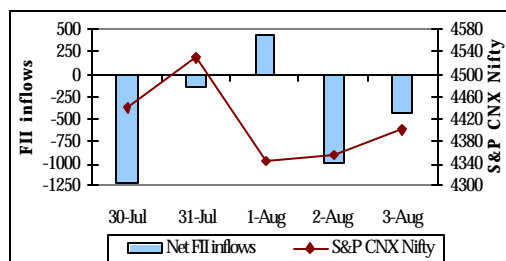
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Highlights

- ◆ **Markets dive down**
- ◆ **US Fed Reserve Policy Meet – a watching factor**
- ◆ **Bond yields edge up**
- ◆ **Upcoming RBI auction to give direction**

FII movement relative to Nifty



FII inflows in Rs. Crores

Source: NSE, SEBI

Weekly FII transactions (equities)

	July 30 to Aug 3	July 23 to July 27
Gross purchases	15925.7	19994.7
Gross sales	18266.1	16201.1
Net inflows	-2340.4	3793.6

Amt in Rs. crores

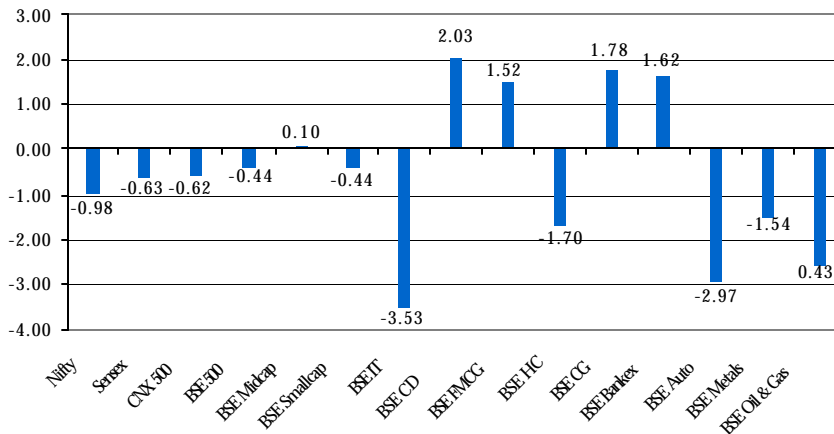
Data source: SEBI

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The week in retrospect-Equities

The markets took cues from the correction witnessed across global markets and ended the second consecutive week in the red. Sensex lost nearly 96 points to settle at 15138.40 and Nifty closed at 4401.55 after declining by nearly 44 points. On Tuesday, RBI, in its Monetary Policy Review, hiked the CRR by 50 bps to 7% (effective from fortnight starting Aug 4, 07). Despite that, markets registered handsome gains as heavy buying was witnessed in capital goods stocks on the back of expectations of their strong revenue growth. On Tuesday, worries over slowdown of the U.S. economy and yen carry trade (as dollar slid significantly against yen) led to a huge global sell-off. Soaring crude oil prices (around \$77 per barrel) also added to the negative sentiments. Following the trend, domestic bourses slumped heavily on Wednesday. On Friday, a weaker-than-expected employment data and also slow growth in the U.S. service sector in July against the previous month deepened the concern over U.S. economy slowdown. However, domestic markets recovered slightly as some buying interest was witnessed in frontline stocks. On the sectoral front, capital goods and banking stocks were in high demand. IT stocks remained low as rupee kept appreciating. Auto stocks declined due to weak sales in July, 07. During the week, FIIs turned out to be net sellers in the equity market, amounting to Rs.2340.40 crores. Mutual funds however emerged as net buyers in equities to the tune of Rs.554.90 crores.

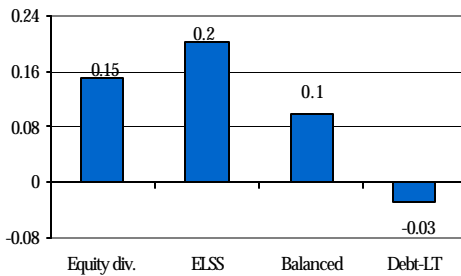
Weekly Equity Indices Return (absolute %)



As on Aug 3

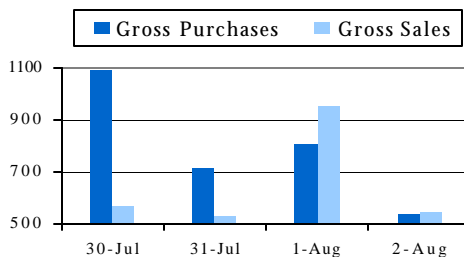
Datasource: BSE, NSE

Weekly category returns (%)



to Abs. returns as on Aug 3 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. 554.90 crores.

Outlook:

Short-term: Markets may continue to remain volatile and extend negative sentiments, taking cues from the global trends which may remain weak due to global selling pressure (triggered by concerns over U.S. economy slowdown). A series of rate hikes by U.S. has brought a slump in the U.S. subprime mortgage market, a threat to the U.S. financial system and to firms of other markets, which had grabbed a slice of the booming U.S. mortgage market few years back. Thus, all eyes are set on the U.S. Fed meet on Aug 7. Further unwinding of yen carry trade could also weaken the sentiments. Crude oil prices (\$76 per barrel) remain a concern. Although FII inflows have reduced, inflows from domestic insurance firms & MFs may support the markets.

Long-term: Slowdown in global credit market and worries over slowdown of the biggest economy of the world has triggered global sell-offs and increase in foreign outflows. However, this impact may be short-lived since the Indian economy, with its strong fundamentals, is largely driven by domestic consumption and hence the long-term story remains bullish. Robust corporate earnings, high infrastructure spending, retail sector growth and real-estate boom would support the growth. GDP growth estimates for 2006-07 have been revised to 9.4% on the back of 2.7% growth in agriculture, 10% growth in industry and 11.2% growth in services sector.

Recommended schemes to invest		Historical returns as on Aug 3 (%)			Crisil Ranking*
		6 months (abs)	1 year	3 year (ann)	
Aggressive (Equity)	DSP ML Small & Mid	7.46	N.A.	N.A.	-
	DSP ML T.I.G.E.R	13.43	63.14	55.26	1
	ICICI Pru Services	8.79	71.01	N.A.	-
	Reliance Equity Oppor.	4.46	43.90	N.A.	3
Moderate (Equity)	Fidelity Equity	12.05	56.88	N.A.	-
	ICICI Pru Dynamic	4.83	47.68	58.56	1
	DSP ML Equity	11.34	52.97	54.29	1
	Fidelity Ind. Special.	6.44	49.90	N.A.	-
Conservative (Equity)	DSP ML Top 100	10.59	47.67	47.55	1
	HSBC Equity	6.26	42.42	42.10	3
	Franklin India Bluechip	8.19	44.19	43.93	4
	Templeton India Eq. Inc.	10.83	45.54	N.A.	-
ELSS	Franklin India Taxshield	8.63	38.39	41.81	3
	Fidelity Tax Advantage	12.09	50.79	N.A.	-
	SBI Magnum Tax Gain	5.62	48.49	70.47	2
Balanced	DSP ML Balanced	8.68	35.90	33.64	1
	HDFC Prudence	10.30	42.41	41.74	2
	FT India Balanced	9.11	38.44	32.40	2

*For qtr end June, 07

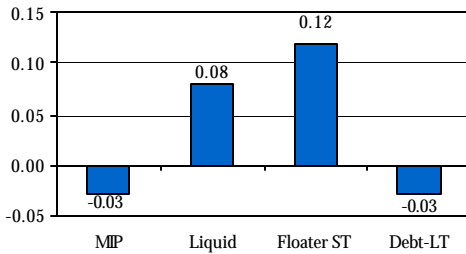
Datasource: Bloomberg

Recommendations

Fresh investments: Given the cautious sentiment prevailing in the market, lump sum investors can adopt a deferred investment approach to pick funds at lower NAVs. Selective investment is important at this juncture and therefore a fund's portfolio & holdings should be a key factor in its selection. Diversified, contra and opportunities funds could form the core portfolio. Midcap and thematic funds could be added to the portfolio to generate additional returns. SIP investors can continue with their investments as we reiterate our bullish view on markets over the long term.

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

Weekly category returns (%)

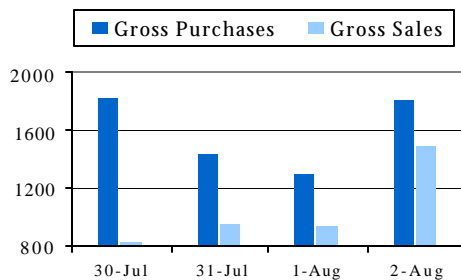


Abs. returns as on Aug 3 Datasource: Bloomberg

Key statistics

	Aug 3	Jul 27
7.49% GOI 2017 yield	7.85%	7.83%
Call rate	2.25%	0.25%
WPI inflation (week ending Jul 21 and Jul 14)	4.36%	4.41%
Dollar exchange rate	40.35	40.48
Forex reserves (\$ bn)	225.350 (Jul 27)	222.043 (Jul 20)

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.2133.20 crores.

The week in retrospect-Debt

The bond yields increased on the back of rise in CRR, expectations of a tight liquidity scenario in the system and concerns over rising crude oil prices. The 10-year bond yield closed at 7.85% against 7.83% the previous week. On Monday, the yields remained steady as the market sentiments were cautious ahead of the Monetary Policy Review. On Tuesday, RBI, in the policy hiked the CRR by 50 bps to 7%. This move is expected to suck out Rs.160 bn from the banking system. RBI has withdrawn the Rs.30 billion ceiling on daily reverse repo auctions (w.e.f. Aug 6), enabling banks to park more funds with it. The monetary tightening measures by RBI kept the market sentiments negative on worries over possible cash squeeze. On Wednesday, RBI sold Rs. 50 bn worth of Market Stabilisation Scheme bonds and Rs.40 bn worth of T-bills. On expectations of tighter liquidity, all rates edged up to 2.25%. Inflation declined to 4.36% for the week ending July 21 from 4.41% due to decline in the prices of food items. Rupee continued its northward journey on the back of strong capital inflows and closed at 40.35 against 40.48 last week.

Outlook:

Short-term: On Aug 8, RBI would auction Rs.40 bn worth of MSS bonds and Rs.35 bn worth of T-bills, which may keep the liquidity condition slightly tight (with RBI measures already in the backdrop). Call rates and bond yields may therefore edge up slightly. As yields on short-term papers have improved, returns on short-term funds and FMPs would improve marginally. Worries over slowdown in global credit market may weaken the rupee slightly. Market men expect Bank of Japan to hike rates in its forthcoming meeting on Aug 23.

Long-term: With 50 bps hike in CRR, RBI has tried to address the issue of high deposits rate (24.4%) and money supply (21%) which is still above the comfort level. Though inflation has been in the 4%-5% range, RBI continues to maintain a cautious stand on the same. The question whether interest rates have peaked out or not will be answered by developments in these watch out factors.

Recommended schemes to invest		Return as on Aug 3 (%)			Expense ratio	Crisil ranking
		1 m	3 m	1 yr.		
Liquid plus	HSBC Liquid Plus	0.64	2.09	N.A.	0.65	-
Liquid	LIC MF Liquid	0.46	1.75	7.81	0.50	3
	Canliquid Retail	0.47	1.73	7.44	0.23	-
Arbitrage	StanChart Arbitrage	0.91	2.42	N.A.	--	-

*For qtr end June, 07

Datasource: Bloomberg

Recommendations:

Short-term investors: Very short-term investors who desire T+1 redemption should invest in liquid funds. Liquid Plus funds and short-term floater funds are recommended (due to their tax efficiency) for investors who can go for T+2 redemption and are looking for 1-3 months of duration. Arbitrage funds are recommended for investors with investment duration of 6 months-1 year. Other investors for whom instant liquidity is not an issue, FMPs (shorter duration) 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 due to FMP's attractive rates and favourable tax status which offers higher post-tax returns.

Forthcoming New Fund Offers:

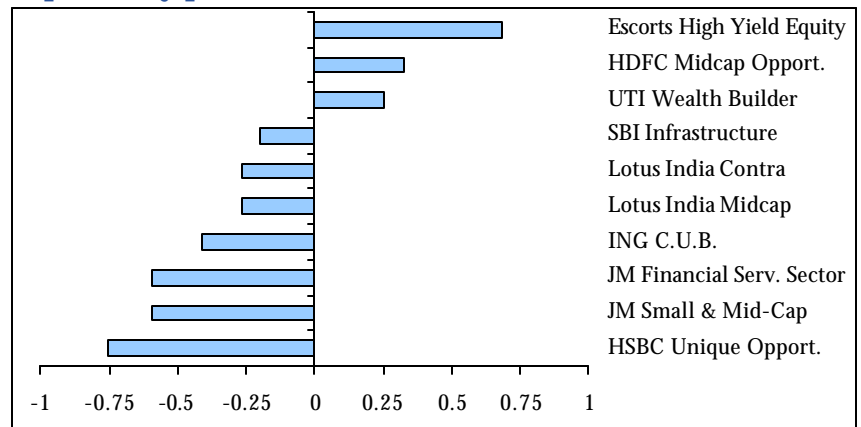
- ◆ DBS Chola is launching Chola Infrastructure fund which is a close ended infrastructure fund. The fund would be available for subscription from Aug 7, 07.
- ◆ ICICI Prudential is planning to launch ICICI Prudential Indo Asia Equity Fund. The open-ended fund would invest in Asian equities.
- ◆ Birla Sunlife AMC is planning to come up with Birla Sunlife International Equity Fund. The equity scheme would invest in both domestic and international markets.
- ◆ Tata AMC is launching Tata Global Infrastructure Fund. The 3-year close-ended equity fund would invest in both domestic and overseas companies, which are related with infrastructure sector.
- ◆ JM Fund House is planning to launch JM Agri & Infra Fund. The 3-year close-ended equity scheme would invest in companies that focus on agricultural and infrastructure development of India.

NFO Corner

NFOs open for subscription:

- ◆ Sundaram BNP Paribas AMC has launched Sundaram BNP Paribas Capital Protection Oriented Fund. The fund offers two plans viz. 3-year and 5 years and is open for subscription till Aug 7, 07.
- ◆ JM Fund House has come up with JM Contra Fund. The open-ended equity fund would be open for subscription till Aug 14, 07.
- ◆ DSP ML Fund House has launched DSP ML World Gold Fund which would invest predominantly in gold mining companies across the world. The open-ended fund is open for subscription till Aug 23, 07.
- ◆ Escorts Fund House has launched Escorts Infrastructure Fund. The NFO would be open till Aug 24, 07.
- ◆ Kotak Mahindra AMC has launched Kotak Global Emerging markets Fund. The 3-year close-ended equity fund would invest in emerging markets and would be open for subscription till Aug 24, 07.
- ◆ DWS MF has launched DWS Global Thematic Fund. It is a fund of fund which would invest in overseas mutual funds. The scheme is open for subscription till Aug 28, 07.
- ◆ HSBC AMC has launched HSBC Dynamic Fund, an open-ended equity fund. It would have the flexibility to shift 100% to debt instruments depending on market scenario. The NFO is open till Aug 30, 07.
- ◆ Principal AMC has launched Series 2 of its Principal Long-term Equity Fund. The NFO of the 3-year close-ended fund is open till Aug 31, 07.

Top weekly performers-NFOs*



* Weekly return (%) as on Aug 3, 07

Datasource: MFI Explorer

Note: Funds launched since Aug. 06 have been considered.

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