

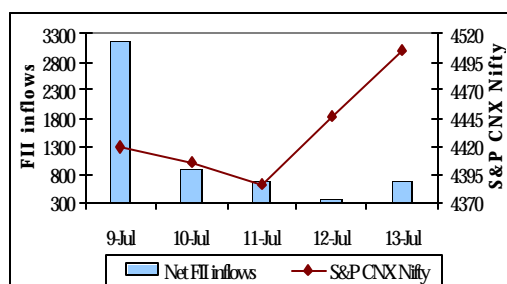
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Highlights

- ◆ **Markets zoom up to touch higher levels**
- ◆ **May edge up further amidst high volatility**
- ◆ **Bond yields drop below 8%**
- ◆ **All eyes set on RBI Monetary Policy Review**

FII movement relative to Nifty



FII inflows in Rs. Crores

Source: NSE, SEBI

Weekly FII transactions (equities)

	July 9 to July 13	July 2 to July 6
Gross purchases	18395.2	18799.7
Gross sales	12561.3	10252.1
Net inflows	5833.9	8547.6

Amt in Rs. crores

Data source: SEBI

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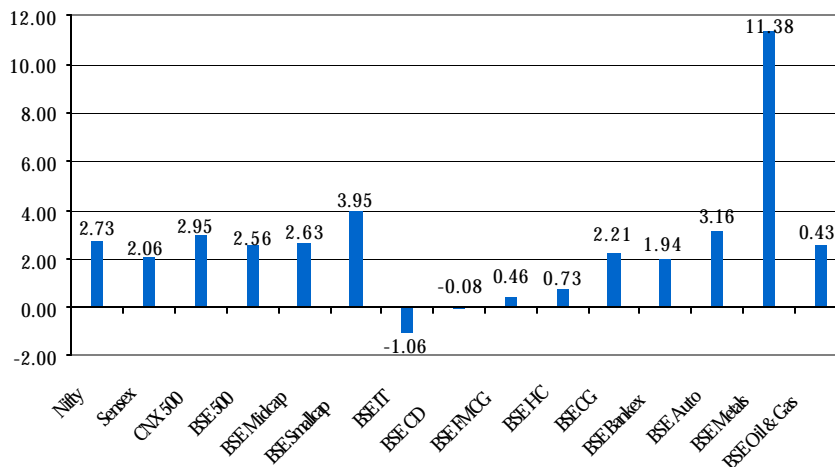
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The week in retrospect-Equities

The markets continued with their northwards journey on the back of positive global markets, high liquidity and stock specific buying triggered by expectations of robust corporate earnings results for the first quarter, 2007. Sensex jumped by 308.60 points to settle at its record closing high of 15272.72. Nifty followed suit and closed at a record high of 4504.55 after gaining 119.70 points during the week. On Tuesday, markets remained cautious ahead of the announcement of earnings results of the IT giant, Infosys. On Wednesday, Infosys reported lower revenue guidance (in rupee terms) due to appreciating rupee, which triggered weak sentiments in the market. Followed by this, other IT stocks also remained in the red. However, strong industrial output data (industrial production grew by 11.1% during May, 07) led the markets to recover their losses in the later trading sessions. Amidst the positive trend, high volatility was witnessed on account of profit booking. On the sectoral front, BSE metal jumped by a whopping 11.38% led by significant buying in metal stocks like Hindalco, Sesa Goa, Tata Steel, Hindustan Zinc and Sterlite Industries. Infrastructure stocks like GMR, BHEL, L&T and ACC remained investor's favourite. During the week, FIIs turned out to be net buyers in the equity market, amounting to Rs.5833.90 crores. Mutual funds however emerged as net sellers in equities to the tune of Rs.566.20 crores.

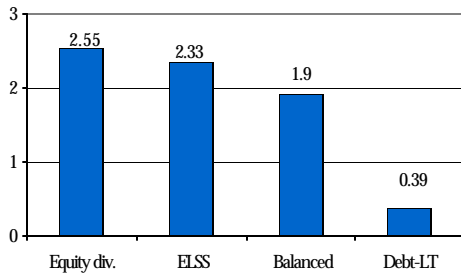
Weekly Equity Indices Return (absolute %)



As on July 13

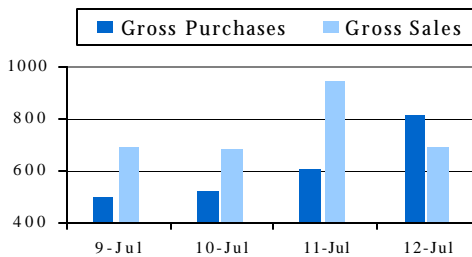
Datasource: BSE, NSE

Weekly category returns (%)



Abs. returns as on July 13 Datasource: Bloomberg

Weekly MF transactions (equities)



Amt in Rs. crores

Data source: SEBI

In the equity market, mutual funds emerged as net sellers to the tune of Rs. 566.20 crores.

Outlook:

Short-term: Markets are at their all-time highs and on the back of positive factors like expectations of strong earnings results, increasing inflow of foreign funds and inflation being in a comfortable zone, markets may edge up further. However, profit booking at higher levels may cause markets to exhibit high volatility. At the same time, upcoming FOMC meet on July 17-18 to decide on the fed rate remains a watching factor. A hike of U.S. interest rate may instil negative sentiments. Crude oil prices, which have currently risen to \$73.87 per barrel, also remain a concern due to demand-supply gap.

Long-term: According to the finance ministry, per capita income in 2005-06 increased by 7.4%, savings rate is estimated at 32.4% and investment rate at 33.8%. The finance ministry has revised the GDP growth estimates for 2006-07 to 9.4% on the back of 2.7% growth in agriculture, 10% growth in industry and 11.2% growth in services sector. With markets backed by strong economic fundamentals, long-term story remains bullish. Robust corporate earnings, strong domestic consumption, high infrastructure spending, retail sector growth and real-estate boom are likely to support this growth.

Recommended schemes to invest		Historical returns as on Jul 13 (%)			Crisil Ranking*
		6 months (abs)	1 year	3 year (ann)	
Aggressive (Equity)	DSP ML Small & Mid	12.63	N.A.	N.A.	-
	DSP ML T.I.G.E.R	20.19	66.36	58.20	1
	ICICI Pru Services	14.91	81.64	N.A.	-
	Reliance Equity Oppor.	10.09	47.56	N.A.	2
Moderate (Equity)	Fidelity Equity	16.77	62.35	N.A.	-
	ICICI Pru Dynamic	7.58	49.83	61.95	1
	DSP ML Equity	18.73	59.78	59.98	1
	Fidelity Ind. Special.	10.74	58.32	N.A.	-
Conservative (Equity)	DSP ML Top 100	16.68	51.68	51.21	2
	HSBC Equity	10.95	43.96	46.03	4
	Franklin India Bluechip	12.65	45.76	46.76	4
	Templeton India Eq. Inc.	19.29	49.86	N.A.	-
ELSS	Franklin India Taxshield	12.55	38.77	44.19	3
	Fidelity Tax Advantage	15.97	54.88	N.A.	-
	SBI Magnum Tax Gain	10.63	50.36	77.61	1
Balanced	DSP ML Balanced	14.80	41.22	36.64	3
	HDFC Prudence	10.53	42.78	43.18	1
	FT India Balanced	12.08	41.07	33.47	2

*For qtr end Mar 07

Datasource: Bloomberg

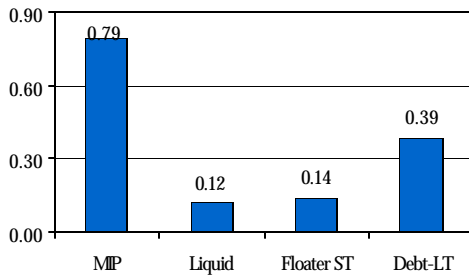
Note: Funds have been classified as aggressive, moderate and conservative on the basis of their portfolio concentration and exposure to various market segments.

Recommendations

Fresh investments: Markets are at their all-time highs. This climb has been led by some set of sectors (capital goods, metals, banking etc.). Sectors like IT, auto, consumer durables, textile, sugar etc. did not contribute to the recent rally. Some of these sectors are expected to come up in the near future. This factor, combined with the expectations of strong results may take the markets further high. Hence, it is an opportune time to invest. Diversified, contra and opportunities funds could form the core portfolio. Midcap & thematic funds could be considered for additional return generation. Derivatives funds are apt for slightly cautious investors

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 (%)

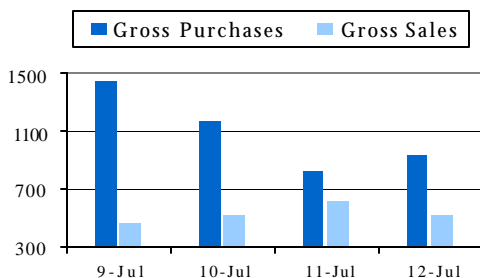


Abs. returns as on July 13 Datasource: Bloomberg

Key statistics

	Jul 13	Jul 6
7.49% GOI 2017 yield	7.94%	8.01%
Call rate	0.5%	0.4%
WPI inflation (week ending Jun 30 and June 23)	4.27%	4.13%
Dollar exchange rate	40.43	40.45
Forex reserves (\$ bn)	214.835 (Jul 6)	213.486 (Jun 29)

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.2259.50 crores.

The week in retrospect-Debt

The bond yields witnessed volatility during the week. However, on Friday the yields moved up as there is a possibility of large short-term borrowings by the government from the central bank which may create more supplies in the market. The government is expected to borrow Rs.319.49 bn from RBI. However, after the market hours on Friday, RBI announced that Rs. 180 billion worth of bonds will be auctioned next week. The 10-year bond yield closed at 7.94% against 8.01% the previous week. Rs.419.50 billion was received on Friday's reverse repo auction compared with Rs.40.05 billion in the last month. Call rates remained at low levels due to sufficient liquidity as inflows in the markets remained huge. Inflation rate increased to 4.27% for the week ended June 30 from 4.13% due to increase in the prices of food and manufactured products. Rupee continued its northward journey despite central bank intervention in the currency market. Rupee closed at 40.43 per dollar against 40.45 last week due to large inflows from FIIs into the equity market.

Outlook:

Short-term: More cash supplies are expected in the coming week on the back of upcoming government spending and RBI's intervention in the forex market to buy dollars. At the same time auction worth Rs.180 bn may keep the liquidity in the desired range and call rates may improve. With the RBI's monetary policy review slated on July 31, investors may adopt a cautious approach. A CRR hike may be in store to counter the effect of high liquidity in the system.

Long-term: Credit growth (earlier at a high of 30%) has come down to 26%, which is slightly above the RBI's range of 20%-25%. Inflation has also tamed down to the 4%-5% range. It is therefore expected that yields may cool down in the coming months.

Recommended schemes to invest		Return as on Jul 13 (%)			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	0.57	1.95	7.91	0.50	2
	Canliquid Retail	0.57	1.88	7.50	0.23	-
Arbitrage	StanChart Arbitrage	0.48	2.07	N.A.	--	-
FMPs	ICICI Quarterly Interval Plan (87 days)	Opening date: July 13, 07			Closing date: July 23, 07	
	ICICI FMP Series 38 (370 days)	Opening date: July 12, 07			Closing date: July 19, 07	

*For qtr end Dec, 06

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:

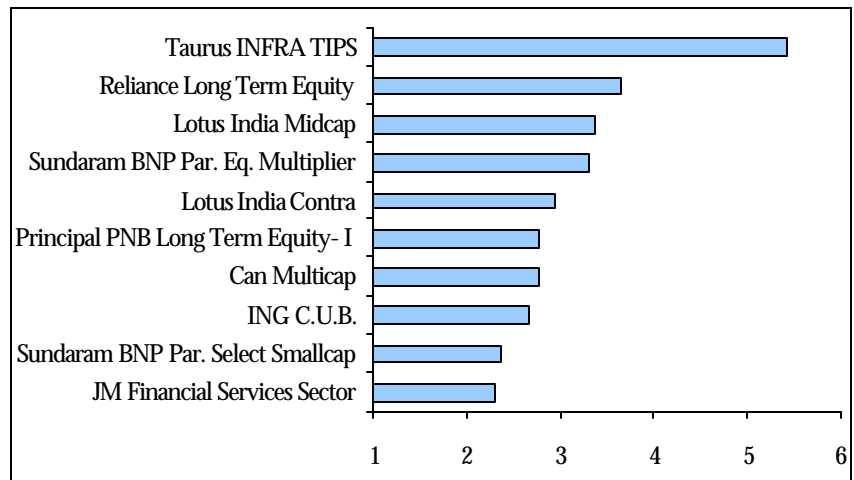
- ◆ JM Fund House is coming up with JM Contra Fund. The open-ended equity fund would be open for subscription between Jul 16 - Aug 14, 07.
- ◆ Sundaram BNP Paribas AMC is also launching Sundaram BNP Paribas Global Advantage Fund. It is an open-ended fund of fund which would invest in overseas mutual funds and exchange traded funds. The NFO opening date is July 16, 07.
- ◆ 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:

- ◆ Lotus India AMC has come up with Lotus India Growth Fund, an open-ended equity diversified scheme. The NFO opened on July 9, 07 and is available for subscription till July 19, 07.
- ◆ UTI AMC has launched UTI Lifestyle Fund on July 2, 07. The 3-year close-ended scheme would invest in stocks which are likely to benefit from the growing consumerism and changing demographics. It will be available for subscription till July 25, 07.
- ◆ 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.

Top weekly performers-NFOs*



* Weekly return in % as on July 13, 07

Datasource: MFI Explorer

Note: Funds launched since Jan 06 have been considered.

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

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