

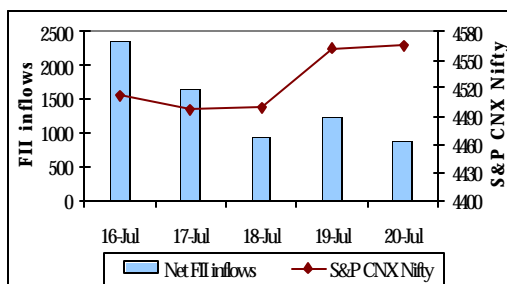
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Highlights

- ◆ **Markets touched all time high levels**
- ◆ **May edge up further amidst high volatility**
- ◆ **Bond yields touched 7.81%**
- ◆ **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 16 to July 20	July 9 to July 13
Gross purchases	21596.2	18395.2
Gross sales	14526.6	12561.3
Net inflows	7069.6	5833.9

Amt in Rs. crores Data source: SEBI

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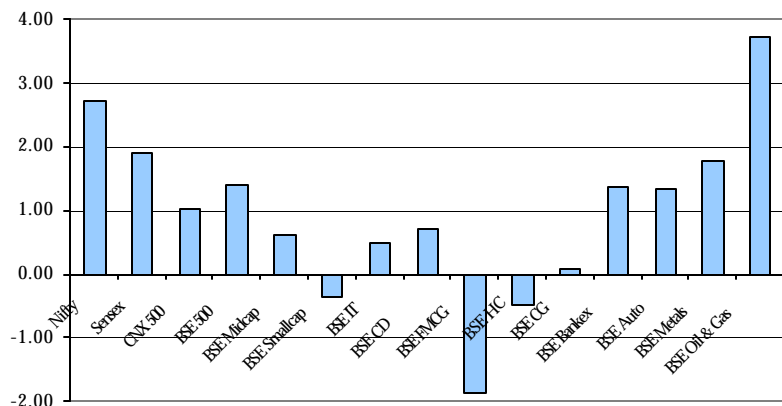
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The week in retrospect-Equities

The benchmark indices touched their all-time high levels as strong global markets, healthy foreign inflows and easing fear of interest rate hike supported positive sentiments amongst the market participants. Sensex jumped by 292.83 points to settle at its record closing high of 15565. Nifty followed suit and closed at a record high of 4566.05 after gaining 61.50 points during the week. The week started on a positive note as Sensex rose 38.50 points. Tuesday was the only day during the last week when Sensex closed lower due to weak European markets. RIL touched its life-time high of Rs. 1925 on Thursday as it found the first well in the Cauvery basin and it holds 100% stake in this oil bck. Resultantly, Sensex jumped 248.96 points on that day and BSE Oil & Gas index closed 3.73% higher on the weekend. IT stocks moved in different directions with TCS gaining on the back of strong quarterly results, but Satyam and Wipro slipping due to fall in net profits and lower-than-expected returns. Reliance Energy also moved as it acquired two mega power projects of 4,000 MW each. BSE Auto inched 1.32% higher on the news of Bajaj Auto seeking acquisition in the European motorcycle market. L&T was also in the limelight as it grabbed contracts worth \$177.75 in the Gulf region.

During the week, FIIs turned out to be net buyers in the equity market, amounting to Rs. 7069.60 crores. Mutual funds also emerged as net buyers in equities to the tune of Rs. 7216.30 crores.

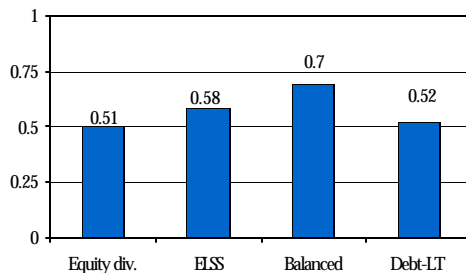
Weekly Equity Indices Return (absolute %)



As on July 20

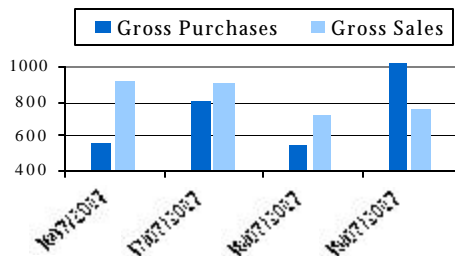
Datasource: BSE, NSE

Weekly category returns (%)



Abs. returns as on July 20 Datasource: Bloomberg

Weekly MF transactions (equities)



Amt in Rs. crores

Data source: SEBI

In the equity market, mutual funds emerged as net purchasers to the tune of Rs. 7216.30 crores.

Outlook:

Short-term: Sentiments are upbeat in the market despite markets being at their all-time high levels. Foreign investors are continuing to pump in monies, as many concerns on factors such as high inflation, impact of rising interest rates have eased. However, profit booking at higher levels may cause markets to exhibit high volatility. At the same time, upcoming monetary review on July 31 will be watched closely. Crude oil prices continue to remain a concern due to demand-supply gap as they hovered above \$77 level during the last week.

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 20 (%)			Crisil Ranking*
		6 months (abs)	1 year	3 year (ann)	
Aggressive (Equity)	DSP ML Small & Midcap	10.37	--	--	NA
	DSP ML India Tiger Fund	18.36	78.84	57.49	1
	ICICI Prudential Service	12.47	89.45	--	NA
	Reliance Equity Oppor.	7.53	54.71	--	2
Moderate (Equity)	DSP ML Equity Fund	--	--	--	NA
	Fidelity Equity Fund	17.08	72.45	--	1
	Fidelity India Special	10.75	67.71	--	1
Conservative (Equity)	ICICI Prudential Dyn amic	7.60	59.86	61.24	NA
	DSP ML Top 100 Equity	16.35	59.60	50.77	2
	Franklin India Blue	12.26	53.63	46.79	4
	HSBC Equity Fund	10.76	53.82	45.54	4
	Templeton India Eq	20.30	57.83	--	NA
	Fidelity Tax Advantage	16.18	63.48	--	3
ELSS	Franklin India Taxshield	13.53	47.33	44.20	NA
	SBI Magnum Tax Gain	--	--	--	1
Balanced	DSP ML Balanced Fu	12.97	45.55	35.60	3
	Franklin India Balan ced	12.08	46.99	33.60	1
	HDFC Prudence Fund	10.75	48.68	42.76	2

*For qtr end Mar 07

Datasource: Bloomberg

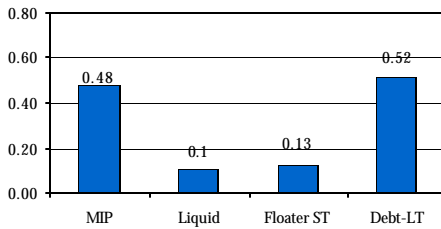
Note: Funds have been classified as aggressive, moderate and conservative on the basis of their portfolio concentration and exposure to various market segments

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 and thematic funds could generate additional returns. Slightly cautious investors may adopt the hedged style through derivative funds.

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 (%)



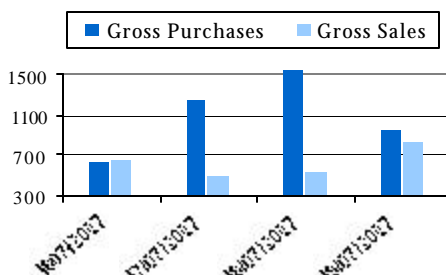
Abs. returns as on July 20 Data source: Bloomberg

Key statistics

	Jul 20	Jul 13
7.49% GOI 2017 yield	7.81%	7.94%
Call rate	0.25%	0.5%
WPI inflation (week ending July 7 and June 30)	4.27%	4.27%
Dollar exchange rate	40.32	40.43
Forex reserves (\$ bn)	218.96 (Jul 13)	214.835 (Jul 6)

Source: bseindia.com

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. 2108.8 crores.

The week in retrospect-Debt

Bond yields eased at the weekend as the 10-year g-sec closed at 7.81% on account of plenty of cash lying with the banks and low inflation level. Inflation remained unchanged at 4.27% for the week ended July 7 and it was 5 basis points below the forecasted inflation level. Finance Minister stated that high oil prices and food prices do not mean that interest rates may be hiked. Liquidity in the bond market has been abundant for the last couple of weeks as the central bank has been buying dollars in the forex market to check rupee appreciation. Though the government auctioned two bonds worth Rs. 90 billion on Friday, liquidity remained ample. Call rates continued to remain at lower levels and closed at 0.25% on Friday. Rupee continued to appreciate due its strong foreign inflows and closed at 40.32. Crude oil prices are another concern as they are hovering above \$77 per barrel.

Outlook:

Short-term: With the RBI's monetary policy review slated on July 31, investors may adopt a cautious approach. As RBI's intervention in forex market is injecting liquidity in the system, a hike in CRR may be introduced to counter the affect. At the same time, a low level of inflation has triggered talks that the central bank may leave rates unchanged.

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 20 (%)			Expense ratio	Crisil ranking *
		1 m (abs)	3 m (abs)	1 yr.		
Liquid plus	HSBC Liquid Plus	0.67	2.05	N.A.	0.65	-
Liquid	LIC MF Liquid	0.55	1.90	7.88	0.05	2
	Canliquid Retail	0.54	1.82	7.47	0.45	-
Arbitrage	StanChart Arbitrage	0.70	2.12	N.A.	--	-
FMPs	ICICI Quarterly Interval Plan (87 days)	Opening date: Jul 13			Closing date: Jul 23	
	Can FMP - 1 month	Opening date: Jul 12			Closing date: Jul 24	
	LIC FMP Series 31	Opening date Jul 18			Closing date: Jul 31	

*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 15 days-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 (1 month and 3 months) can be considered as the yields are still higher than those offered on other avenues.

Long-term investors: As interest rate outlook remains uncertain, it is advisable to avoid long-term funds to avoid interest rate risk. Investors with a horizon of more than one year could consider FMPs.

Forthcoming New Fund Offers:

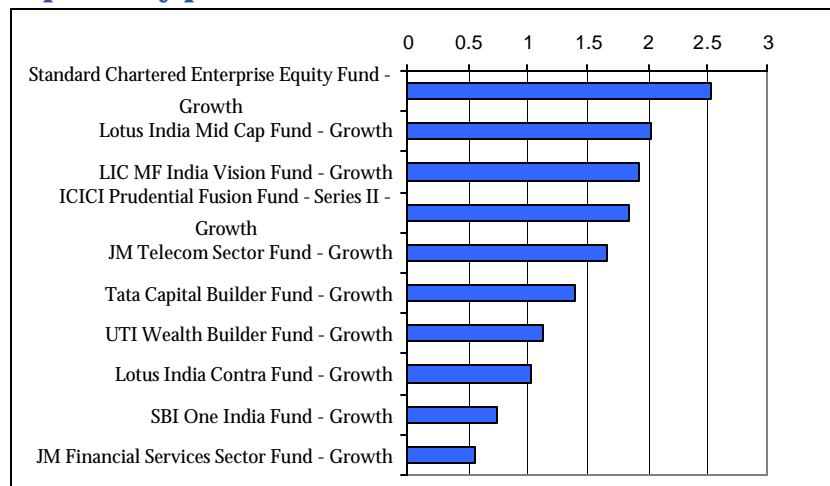
- ◆ DSP ML is launching a World Gold Fund which will invest not in gold but companies engaged in gold mining. This open ended fund is first of its kind in India and will be launched on July 25.
- ◆ Kotak MF is launching Kotak Global Emerging Market Equity Fund which will invest in equities of emerging markets. The fund offer is opening on July 25.
- ◆ HSBC mutual fund is planning to launch HSBC Dynamic Fund which will invest in Indian equities. The fund will be having an open-ended structure. The fund aims to use cash and derivative instruments dynamically depending on the market conditions. The fund is likely to be launched in the first week of August.
- ◆ Principal MF is launching Principal Long-term Equity Fund-series II in the near future. This is a 3 years close-ended fund.
- ◆ ICICI Prudential is planning to launch ICICI Prudential Indo Asia Equity Fund. This will be an open-ended fund which will 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

NFO Corner

NFOs open for subscription:

- ◆ 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.
- ◆ 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 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. It has also launched Sundaram BNP Paribas Global Advantage Fund which offers the benefit of diversification by investing in different classes beyond India equities. 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.

Top weekly performers-NFOs*



* Weekly return in % as on July 20, 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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