PF / MFW / 15102007 / 313 Oct 8, 2007 to Oct 12, 2007

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Highlights

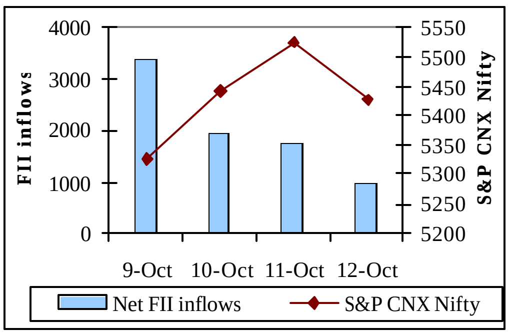
- **Sensex crossed 18000**
- **Q2 results expected to drive the markets.**
- **Inflation reaches its 5 year low.**
- **All eyes on RBI's monetary policy**

The week in retrospect-Equity

Continued strong buying by foreign institutional investors, firm global markets and expectations of good Q2 FY08 results from corporate India, took the market up further last week. BSE Sensex gained 645. 68 points or 3.63% to close at 18,419.04, during the week ended on 12 October. On Monday the market drifted lower on speculation of mid-term polls after Congress President Sonia Gandhi on Sunday, indicated her party's readiness to face elections. On Tuesday, BSE Sensex gained 788.85 points, or 4.51%, to close at 18,280.24 surpassing the 18000 barrier in the process. On Friday (12 October 2007), the three-day bull-run came to a halt as mixture of profit booking and global negativity acted against the market uptrend. The BSE Sensex, on that day, fell 395.03 points, to close at 18,419.04. During the week BSE IT index fell 1.10% to 4,687.79, following a slump in software stocks after Infosys Technologies reported an earnings growth rate of just 2% as against the expectations of investors which was 6%-7%. During the week companies like L&T, BHEL, Reliance Energy, etc rose by 8.79%, 8.72% and 13.07% respectively pulling BSE CG Index more than 5% on account of swelling order books of these companies and government's proposal to bring power under priority sector lending for banks.

Also, during the week FII's remained as net buyers in the equity market to the tune of Rs.8109.7 crores while mutual funds ended as net sellers to the tune of Rs.1027.00 crores respectively.

FII movement relative to Nifty



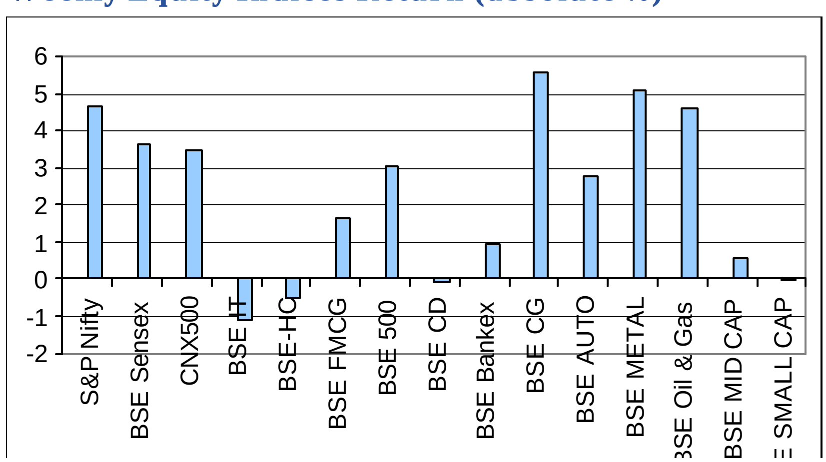
FII inflows in Rs. Crores *Source:* NSE, SEBI

Weekly FII transactions (equities)

	Oct 8 to Oct 12	Oct 1 to Oct 5
Gross purchases	26869.6	23835.6
Gross sales	18759.9	14409.8
Net inflows	8109.7	9425.8

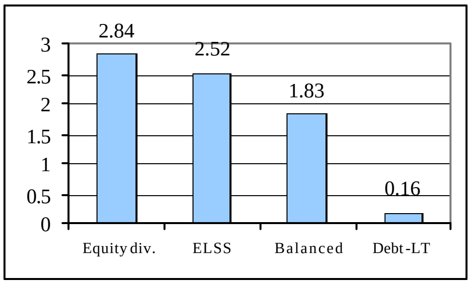
Amt in Rs. crores *Data source:* SEBI

Weekly Equity Indices Return (absolute %)



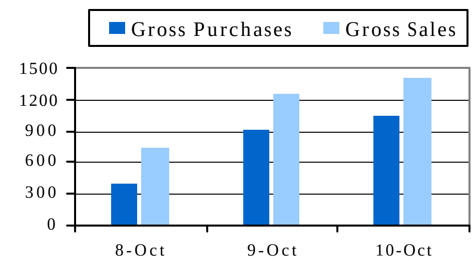
Kirti Singh
Pradeep Kumar S.
Murugavel A.
Email: kirti.s@karvy.com
pradeep.s@karvy.com
amurugavel@karvy.com
Ph: +914023312454 Ext: 304
☏: +91 40 23312454
Ext: 304

Weekly category returns (%)



Abs. returns as on Oct 12 Data source: 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.1027.00 crores.

Outlook:

Short-term: Indian markets have witnessed a sharp rise over the past few days and correction is expected after such sharp rise. Q2 FY08 results remain the near term trigger for the market. Q2 results are expected to be fair in cement, steel, and telecom firms. Q2 results for ING Vysysa, Maruti Udyog, TVS Motors, etc are expected during the forthcoming week. FII inflow may remain strong due to ample global liquidity further enhanced by US Federal Reserve's last month's steep cut in the key benchmark interest viz. the fed funds rate by 50 basis points to 4.75%.

Long-term: GDP is expected to grow above 8% in the coming years, fuelled by robust performance in the manufacturing, construction and services sectors and a noticeable improvement in the agriculture sector. Also other important factors such as more than 35% saving rate, improving tax to GDP ratio (18%) indicate that corporate earnings growth rate are sustainable for long term.

Recommended schemes to invest		Historical returns as on Oct 12 (%)			Crisil Ranking
		6months (abs)	1 year (ann.)	3 year (ann.)	
Aggressive (Equity)	DSP ML India Tiger Fund	53.95	72.03	62.93	1
	Reliance Equity Opportunities	38.80	42.67	--	3
	ICICI Prudential Services Ind.	27.74	57.07	--	
Moderate (Equity)	Fidelity Equity Fund	34.88	50.84	--	-
	Fidelity India Special Situations	29.10	36.49	--	-
	ICICI Prudential Dynamic	26.63	41.50	55.97	1
Conservative (Equity)	DSP ML Top 100 Equity	43.38	56.15	51.86	1
	Franklin India Bluechip	41.30	45.61	47.88	4
	HSBC Equity Fund	41.76	50.89	46.06	3
	Templeton India Equity Income	34.45	52.38	--	-
ELSS	Fidelity Tax Advantage	35.56	49.01	--	-
	Franklin India Tax shield	19.20	25.64	36.98	3
	SBI Magnum Tax Gain	37.41	20.32	27.99	2
Balanced	DSP ML Balanced	30.4	37.31	35.79	1
	Franklin India Balanced	16.61	29.86	32.12	2
	HDFC Prudence	23.13	30.92	40.15	2

*For qtr end Sep, 07 *Data source: Bloomberg*

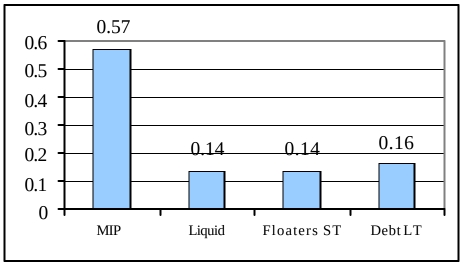
Note: Funds have been classified as aggressive, moderate and conservative on the basis of their portfolio concentration and exposure to various market segments.

Recommendations

Fresh investments: Market analysts visualise a small correction during the week ahead. This could be used for building position in funds by investors with cash surplus. Companies which are likely to benefit from the domestic growth story of India such as energy, telecom, construction, capital goods and banks are likely to grow further. Investors having duration of more than 3 years could look at midcap oriented funds. Also, diversified, contra and opportunities funds continue to remain worth considering for a minimum investment period of over 2 years.

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 (%)



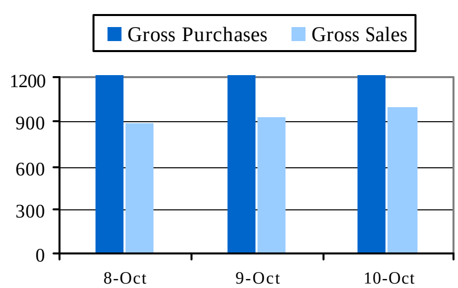
Abs. returns as on Oct 12 Data source: Bloomberg

Key statistics

	Oct 12	Oct 5
7.49% GOI 2017 yield	7.91%	7.93%
Call rate	5.00	6.00
WPI inflation (week ending Sep 22 and Sep 29)	3.26%	3.42%
Dollar exchange rate	39.30	39.49
Forex reserves ($ bn)	251.33 (Oct 05)	248.00 (Sep 28)

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.3703.30 crores.

The week in retrospect-Debt

Indian Government bond yields edged during the week with strong industrial production data that erased a chance of any monetary easing. Data showed that the industrial output rose by 10.7% from what it was during the same period last year. Also during the week the MSS bonds limit has been increased to Rs.200000 crores from Rs.150000 crores. During the week, rupee has reached its strongest level ever from March 98 i.e., 39.29.However, it closed at 39.30 for the week ended on 12 Oct. Gold prices shot up to Rs 9,540 per 10 gm in Mumbai on Friday, whereas the metal quoted at Rs 8,500 during the same period of the previous year. In international markets, gold continued to hover around 28-year high of $747 per ounce. Crude oil closed for the week at $83.58 per barrel in New York on Friday.

Outlook:

Short-term: All eyes are now set towards the RBI's policy review meeting scheduled for October 31. After the industrial output numbers were released on Friday, a CRR hike seems possible. However, increase in MSS limit reduces the chance of CRR hike. To curb the excess liquidity in the system the Central Bank is likely to resort to the open market operations than adopting a measure of rate hike as it will directly result in further rupee appreciation. Traders are therefore expected to avoid taking large positions. The market will also look at the developments in US treasuries for cues on the credit policy review scheduled for October 31. If the US Fed Reserve decides to maintain a status quo on its key rates then liquidity may ease off a bit but a rate cut may force the RBI to take severe monetary tightening steps.

Long-term: Inflation is easing out because of the comfortable supply of essential goods and high base effect. Due to the increasing FII's inflows, liquidity has again become a point of concern for RBI. So, it will try to attain optimum trade off between rupee value and liquidity in the system. Other factors like credit growth seem to be under control. Structurally, Indian rupee is likely to strengthen against the dollar in the long-term as the outlook for the US economy remains bearish.

Recommended schemes to invest		Return as on Oct 12 (%) 1 m	3 m	1 yr.	Expense ratio	Crisil rankin
Liquid Plus	HSBC Liquid Plus	0.66	1.91	–	0.65	-
Liquid	Can liquid	0.61	1.74	7.59	0.45	-
Arbitrage	StanChart Arbitrage	0.68	2.07	–	1.5	-
ICICI Pru	570 days FMP closing on 15 Oct,07.Net indicative yield: Retail:8.40% and Institutional 8.90%.					

*For qtr end June, 07 *Data source: Bloomberg*

Recommendations:

Short-term investors: Liquid funds could be considered for investment period up to 15 days. Liquid Plus funds are suitable for period between 15 days and 3 months. Arbitrage funds are recommended for investors with investment duration of 3 months to 1 year. These funds attract equity funds tax treatment, they offer additional advantage. Other investors for whom instant liquidity is not an issue, FMPs (shorter duration) can also be considered.

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 favourable tax status which offers higher post-tax returns. Others looking to invest in liquid options could consider arbitrage funds and MIPs depending on the risk profile

Forthcoming New Fund Offers:

- 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.

- Sundaram BNP Paribas AMC is expected to launch two thematic funds which would invest in the entertainment and energy industries respectively.

- Birla Sun life Fund house expected to launch a new scheme named Birla Sun life Special Situations fund. The Scheme would follow an investment strategy that would take advantage of Special Situations and Contrarian investment style.

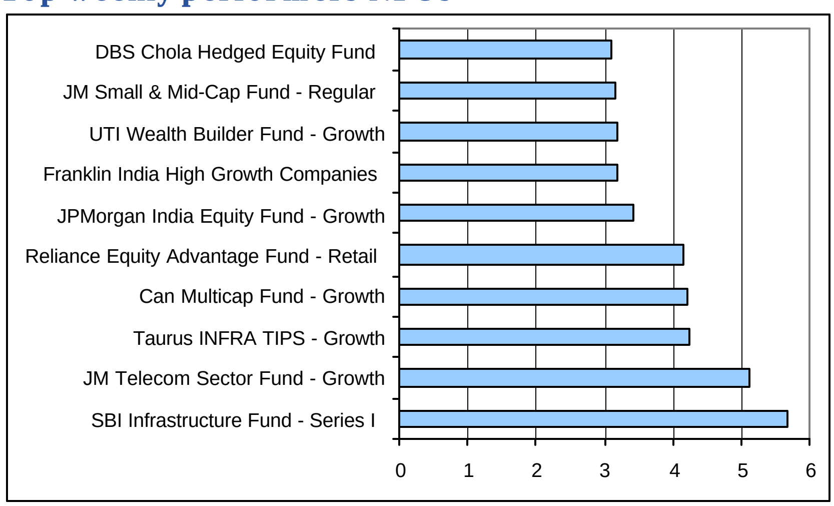
- Quantum Mutual Fund house is planning to launch Quantum Gold Fund. This fund is waiting for approval from SEBI to make investments in gold related instruments.

NFO Corner

NFO's open for subscription:

- Tata AMC has launched 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. This scheme is open till 17, Oct 07.
- Birla Sun life AMC has launched Birla Sun life International Equity Fund. The open ended equity fund would invest in equity and equity related instruments of International markets. This scheme is open till 16, Oct 07.
- HDFC AMC has launched HDFC Arbitrage Fund. The open-ended equity scheme would invest through arbitrage opportunities between cash and derivative market. This scheme is open till 15, Oct 07.
- Lotus India AMC has launched a new fund named Lotus India Infrastructure Fund which will predominantly invest in companies involved in developing Indian Infrastructure. This fund is open till 24, Oct 07
- Sahara AMC has launched Sahara R.E.A.L. Fund. The close ended equity scheme would invest predominantly in equity/equity related instrument of companies in the retailing, entertainment & media, auto and auto ancillaries and logistics sector. This fund is open till 2, Nov 07.

Top weekly performers-NFOs*



* *Weekly return in % as on Oct 12, 07* *Data source:* MFI Explorer

Note: *Funds launched since Jan 06 have been considered.*

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