

INDIA MARKET ANALYSIS

September 12, 2005

Equities Market Overview

- Flush with foreign institutional investors' funds, the BSE Sensex created history last week and breezed past the 8000-level. The momentum in the bourses, especially over the last three months, has rendered records and 'all time highs' largely irrelevant, but the crossing of the psychological barrier of 8000 by the Sensex is seen as major milestone by market participants. The Sensex gained 2.036% for the week to close at 8060 and the Nifty registered a gain of 1.66% to close at record high of 2456.

- The action was, however, not restricted to just the large caps, which is evident from the near 1.4% gains witnessed in the CNX Mid-cap Index. Resurrection in FII inflows helped the markets scale new peaks this week.

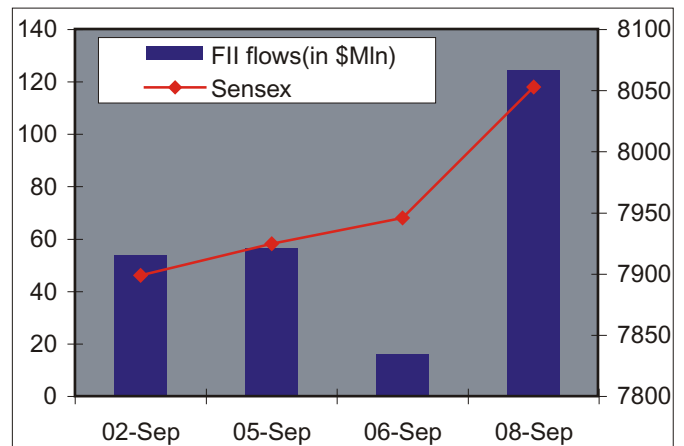
- Domestic markets scaled new heights during the year helped by a string of positive news on the corporate and economic fronts. More importantly, FII flows continued at a robust pace lending support to the bourses, which is reflected in the fact that India has witnessed inflows of around \$7.8 billion in 2005 already (About 91% of the flows witnessed in 2004).

- The government has finally bit the bullet on fuel prices it raised prices of petrol by Rs.3/litre and diesel by Rs.2/litre. However, prices of politically sensitive LPG and Kerosene have been left alone. It will be issuing bonds to the oil marketing companies to compensate them for some of the losses in domestic cooking fuels.

- Indicating the growing capex plans of corporate India, Tata Steel announced that it plans to augment its steel making capacity to 33-34 mt per annum by 2015 at an estimated investment of Rs.1000 bn.

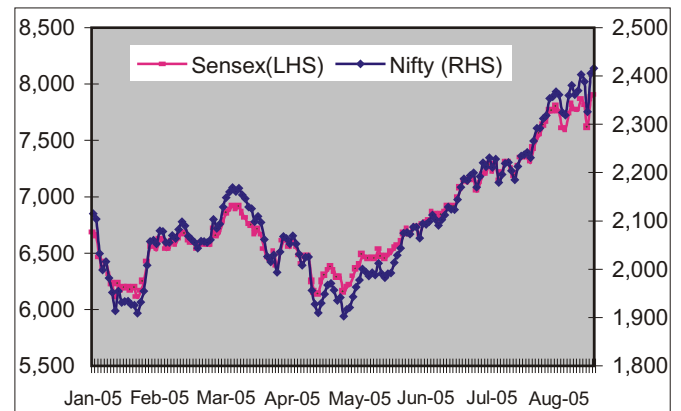
- Equities have outperformed other asset classes over a longer period of time. Over last few years the mid-cap funds have performed better than large-cap funds. Mid-cap stocks however are volatile over the shorter term. Investors should have a blend of large & mid-cap funds in their total equity portfolio. Conservative investors who have never invested in equity markets should start their investment with funds having large-cap bias.

Sensex & Weekly FII Flows



Source: SEBI & BSE

Sensex & Nifty Performance (YTD)



Source: BSE & NSE

Annualized Returns (in %) as on 9th September 2005				
Index Name	1Yr	2 Yrs	3 Yrs	5 Yrs
BSE Sensex	52.13	34.90	37.62	11.53
S&P CNX Nifty	48.91	32.05	34.94	11.10
CNX 500	55.84	38.32	44.52	15.26
BSE 200	50.24	34.46	41.34	15.42

Source: Crisil MFPT

Bond Market Overview:

- Last week, the debt markets were range bound despite easy liquidity & lower-than-expected inflationary numbers, as concerns remained over the level of government borrowings in the second half.

- The annual wholesale price index-based inflation fell to 3.01% for week ended August 27th, down from the previous week's level of 3.08%. The fall in the y-o-y inflation rate was mainly on account of decrease in the prices of manufactured products and the base effect.

- The yield on the 10-year benchmark, 7.38% 2015 bond ended flat at 7.04%. The yield on the 15-year paper fell by 3bps to end the week at 7.39% levels.

- Liquidity eased substantially due to inflows of Rs 200bn from the maturity of 6.18% 2005 security. The amount placed under RBI's reverse repos averaged at Rs.492 bn up significantly from Rs 267 bn in the previous week. The call rates closed at 4.95-5.1% on Friday.

- In the corporate debt market, the yield on the benchmark 5-year AAA rated corporate bond remained at 7.10% levels and the corporate spread over gilt contracted to 48 bps.

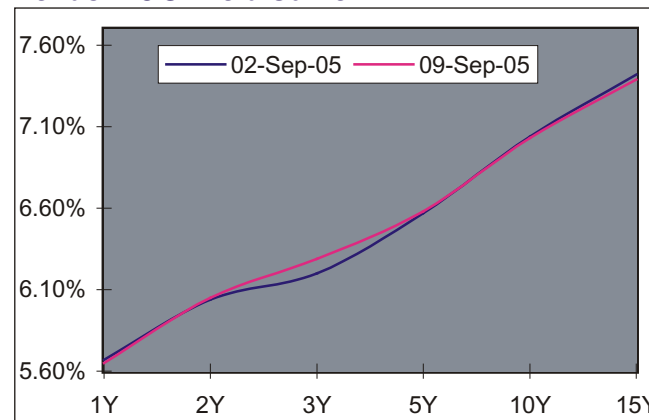
- The government announced the issue of 7% Oil Companies Government of India Special Bonds, 2012 worth Rs.57.63 bn to the oil marketing companies to subsidise the under-recoveries.

- Going ahead, a lot will now depend on the evolution of the global uncertainties that RBI has mentioned in the quarterly review of Monetary Policy. While liquidity has eased considerably, it could tighten going ahead due to advance tax outflows. The key events to look forward to are the interest rate

direction in US, especially after Hurricane Katrina and the borrowings calendar for the second half of the year.

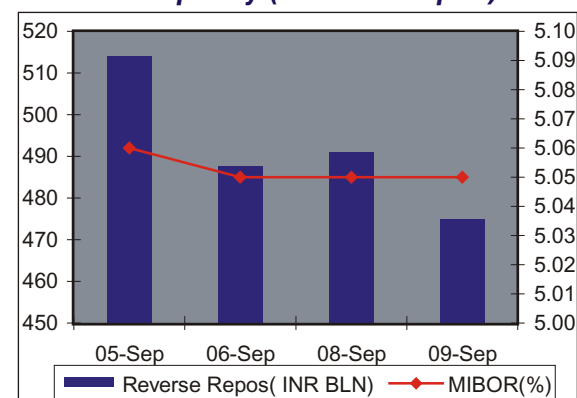
- Investors with a short to medium term horizon should consider investing into liquid or short term floating rate funds, while investors with a slightly longer-term perspective may look at investing into long term floating rate funds. Given that the slope of the yield curve has medium term horizon one can consider investing into short-term income funds. During the last 5-6 months, the steepness of the yield curve at the short end offered an opportunity to investors. Hence, despite a reverse repo rate hike over this period, short-term income funds have delivered a good performance compared to liquid & floating rate funds.

Trends in GOI Yield Curve



Source: Reuters

Trends in Liquidity (Reverse Repos)



Source: Reuters

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