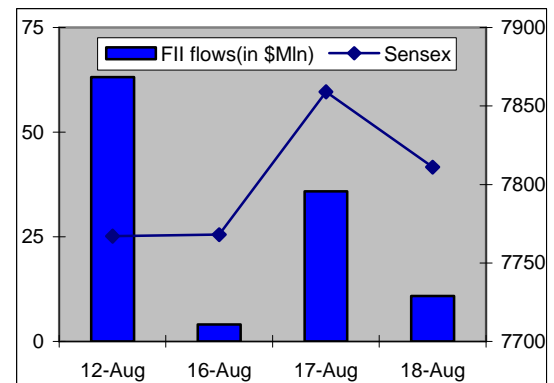

INDIA MARKET ANALYSIS

August 22, 2005

Equities Market Overview

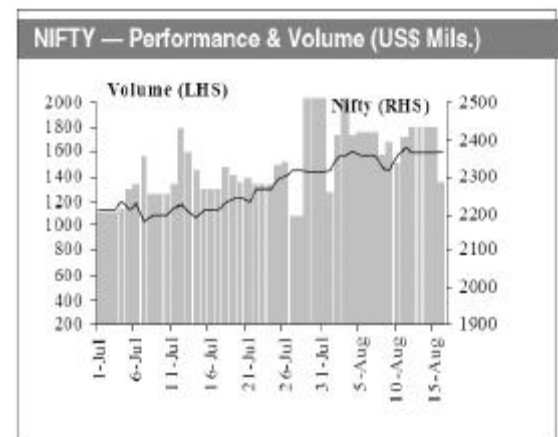
- Last week, the domestic markets did not make much headway as investors booked profits at higher levels and FII flows were tepid. The BSE Sensex finally closed the week at 7781 registering a modest gain of 0.17% and the NSE Nifty closed at 2383 levels up 0.93% for the week. With this gain, the Sensex has posted a weekly gain for the record 16th week in a row.
- Cement sector has been witnessing buying interest since the last few weeks on the back of strong earnings expectations as demand for cement remains strong. Cement manufacturers have been running at almost full capacity in recent times driven by the boom in housing sector and robust industrial activity. This was reflected in the healthy 1QFY06 earnings numbers. All of this has led to strong buying interest in cement stocks with ACC (up 6%) being the top gainer amongst the index stocks. However, the real action was in the smaller cement companies' stocks like, Mysore Cements, India Cements & Prism Cement.
- On the economic front, despite the floods that hit the JNPT port in Mumbai, India's exports rose 26.8% yoy in July to US\$7.2bn, higher than expectations. Imports rose 33.2%, to US\$9.9bn, led by oil (29.5%) and non-oil (35.5%) imports. Imports at US\$9.9bn were lower than Citigroup estimate of US\$11bn - similar to the May and June levels.
- The April-May trends in commodity composition support an investment upturn - capital goods imports +54%, chemicals +60% and textile yarn +33%. Going ahead, Citigroup has maintained the view that exports will be buoyant, led by garments, auto & auto-components, pharmaceuticals and engineering goods
- 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

Nifty – Performance & Volumes (in USD Mln)

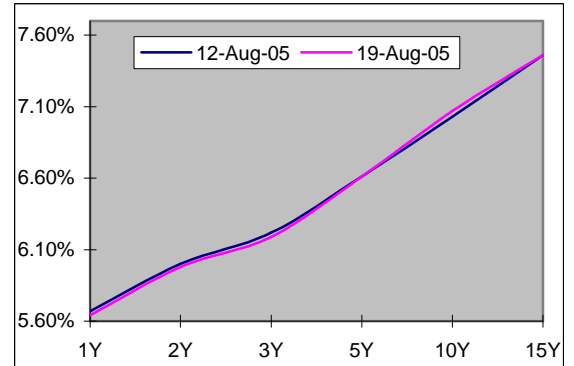


Source: Bloomberg

Bond Market Overview:

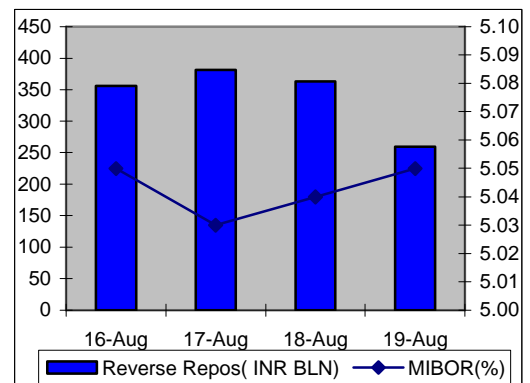
- Last week, the debt markets were range bound despite easy liquidity & lower-than-expected inflationary numbers, as global oil prices continued to weigh on investors.
- The yield on the 10-year benchmark, 7.38% 2015 bond closed the week at 7.07% up 4 bps for the week. The yield on the 15-year paper remained unchanged at 7.46% levels.
- Liquidity remained easy during the week despite the auction outflows and the average amount placed under RBI's reverse repo remained at around Rs 340 bn. The call rates closed at 5.00- 5.05% on Friday.
- The annual wholesale price index-based inflation fell to 3.35% for week ended August 6th, down from the previous week's level of 3.84%. The fall in the y-o-y inflation rate was mainly on account of decrease in the food prices and the base effect.
- In the corporate debt market, the yield on the benchmark 5-year AAA rated corporate bond rose by 3 bps to close the week at 7.18% and the corporate spread over gilt remained stable at 45 bps.
- 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. Over the near term markets are expected to remain range bound and the investors would look forward to the quantum of the possible fuel price hikes to take further directions.
- 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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