investor's eye

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Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
3i Infotech	06-Oct-05	132	**176**	244
Cadila	21-Mar-06	595	**657**	850
NIIT Tech	31-Mar-06	204	**204**	296
Selan Exploration	20-Mar-06	58	**78**	94
TVS Motor	03-Apr-06	140	**153**	210

Pulse Track

Economy spearing ahead—February 2006 IIP grows at 8.8%

The Index of Industrial Production (IIP) grew by a strong 8.8% year on year (yoy) for February 2006 as compared with a 7.9% growth in January 2006 and a 5.9% growth in February 2005. The growth was much higher than the consensus estimate of 6.5-6.6%.

The manufacturing sector witnessed another month of strong growth with a 9.5% growth in output as the Index of Capital Goods jumped up by 13.5% yoy. The remarkable growth came from machinery and equipment whose production grew by 18% for February 2006. The growth in the Index of Capital Goods was in fact the highest ever since February 2004.

The production of electricity also bounced back with a 9.0% growth. The mining sector also sprang a positive surprise with a growth of 0.9% after six consecutive months of declining production.

In %	Feb-06	Feb-05	Jan-06	2005-06 Apr-Feb	2004-05 Apr-Feb
IIP	8.8	5.9	7.9	8.0	8.2
General					
Manufacturing	9.5	7.4	8.8	9.0	8.9
Mining	0.9	-1.6	0.8	0.5	4.1
Electricity	9.0	-0.8	6.4	5.3	5.4
Use based					
Capital goods	13.5	10.0	25.4	16.5	12.7
Consumer goods	12.4	11.9	7.0	11.7	11.8
- Durables	18.2	13.8	12.8	14.1	14.8
- Non-durables	10.6	11.2	5.4	11.0	10.9

The growth in the manufacturing sector was broad based with almost all its constituents registering a double-digit growth. The key among them were food products, textiles, cement, machinery and transport equipment.

Key constituents of manufacturing sector

	Weight	Nov-05	Dec-05	Jan-06	Feb-06
Food products	9.1	4.7	4.2	9.9	16.2
Beverages, tobacco and related products	2.4	12.6	7.8	10.6	7.9
Cotton textiles	5.5	10.3	2.4	5.8	10.7
Wool, silk and man-made fibre textiles	2.3	2.5	9.9	-2.1	13.4
Textile products (including wearing apparel)	2.5	8.5	11.3	15.3	15.5
Basic chemicals & chemical products	14.0	3.4	-0.5	-1.3	2.3
Rubber, plastic, petroleum and coal products	5.7	1.5	12.1	9.0	3.9
Non-metallic mineral products	4.4	8.3	15.9	18.4	13.5
Basic metal and alloy industries	7.5	13.4	11.5	12.7	13.9
Metal products and parts	2.8	4.0	-5.2	3.4	5.7
Machinery and equipment	9.6	10.1	10.3	17.9	13.5
Transport equipment and parts	4.0	11.7	11.5	12.5	14.7
Other manufacturing industries	2.6	18.6	28.7	37.0	20.3

While analysing the IIP numbers of the third quarter we had mentioned that we viewed the slow-down in the IIP numbers during Q3FY2006 as a brief pause taken by the economy. Our view was based on three facts: (1) the crude production was lower in the quarter due to the fire at the Bombay High fields; (b) there were floods in a couple of areas in southern India during the third quarter; and (c) the sales were high in the September-October period of 2005 owing to the period being a festive season. We had expected the economy to bounce back in the last quarter of FY2006 and our expectations were not misplaced, as is evident from the growth in the leading indicators like cement dispatches, motorcycle sales and the sales of commercial vehicles over the last quarter of FY2006.

Monetary policy review

Sharekhan Special

The Reserve Bank of India (RBI) will announce the Monetary and Credit Policy statement for 2006-07 on April 18, 2006. We discuss below our expectations of the apex bank.

- The RBI increased the benchmark repo and reverse repo rates in two consecutive moves during the last two quarterly reviews. In the forthcoming policy statement the RBI will have to strike a balance between the tightening liquidity and the surging oil prices as well as the rising asset inflation.
- We do not expect the RBI to tinker with the cash reserve ratio (CRR) as the liquidity situation is easing out. Nevertheless the same may be taken up in the quarterly review of the policy some time in July 2006.
- The RBI may announce some more safety measures in relation to the banking sector's exposure to the capital market and the real estate sector.
- The central bank's inflation guidance for FY2007 is likely to remain at 5.0-5.5%.

Interest rates: the tussle of two

The central bank had earlier raised the benchmark interest rates, viz the reverse repo rate and the repo rate, in two successive quarters (see our note *Monetary policy review* dated January 24, 2006 and *Monetary policy review* dated October 26, 2005). In the forthcoming policy statement the RBI will have to strike a balance between two factors as discussed below.

- *Tightening liquidity:* After the redemption of the India Millennium Deposit (IMD) bonds in December 2005 liquidity had tightened in the market. Even though the liquidity situation in the banking system is beginning to ease, the system might still need a breather.
- *Inflation:* Inflation has remained under control so far. However, the RBI has maintained that the full impact of the dramatic rise in crude oil prices has yet not been felt in India because the government has desisted from increasing the fuel's price. However if the government decides to raise the price of the fuel in line with the recommendations of the Rangarajan Committee, then inflation might go up.

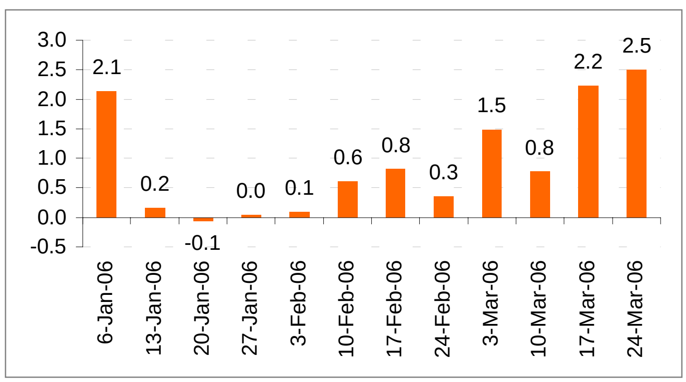
The RBI has been wary of not only commodity inflation as mentioned earlier but also inflation in assets like equities and real estate. That is because the prices in both the markets, ie the capital and realty markets, have shot up substantially over the last couple of quarters due to excess liquidity.

CRR cut may be postponed

The tightening liquidity in the banking system has made a good case for a cut in the CRR. However, the RBI may not deal with the issue in the forthcoming policy for several reasons.

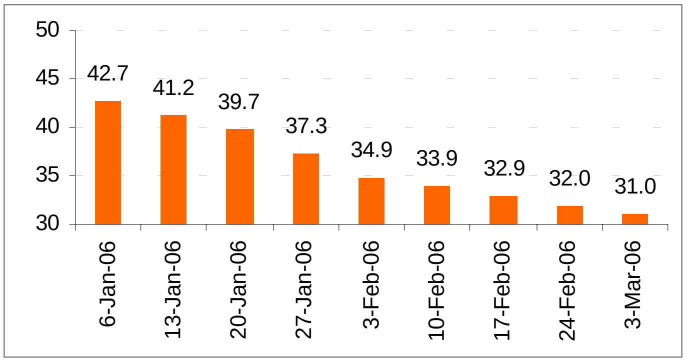
For one, in the short term liquidity has eased up a bit in the last fortnight as is visible from the increased outstanding reverse repo balance. The call money rate that shot up to as high as 7.5% in January 2006 has now come down to 5.7%. The liquidity has eased mainly because the RBI has infused money in the market through the repo route and because there has been substantial accretion to foreign exchange reserves in March 2006 which the RBI has not sterilised. This is evident from the reducing balance of the outstanding Market Stabilisation Scheme (MSS) bonds (see *Annexure I*).

Accretion to foreign exchange reserves ($ bn)



Source: RBI

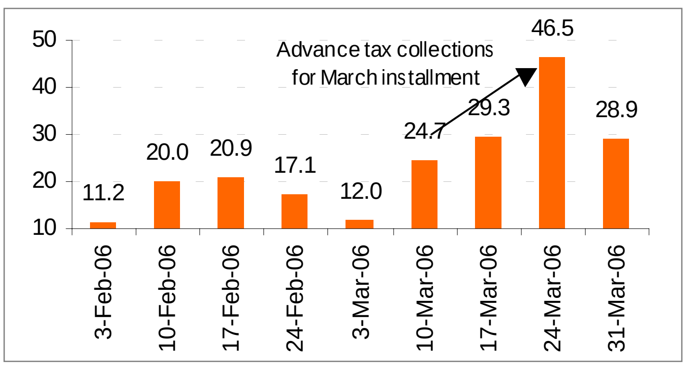
Outstanding MSS on decline (Rs thousand crore)



Source: RBI

Also the burden of infusing liquidity has now partly been shifted to the government's shoulder as the latter has increased its spending significantly over the last few weeks. The central government's cash balance with the RBI fell from Rs46,464 crore as on March 24, 2006 to Rs28,928 crore as on March 31, 2006. Over the next quarter the government's spending will be significantly higher owing to the various schemes and infrastructure projects announced in the Union Budget for 2006-07.

Government balance with the RBI (Rs thousand crore)



Source: RBI

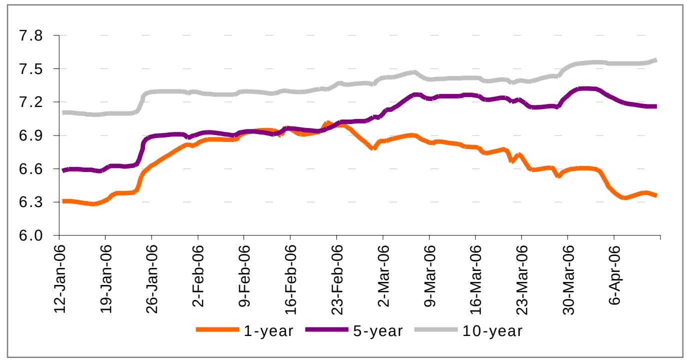
However, the RBI may have to reduce the CRR in the next quarterly review of the monetary policy scheduled some time in July 2006. The banks borrow money from the RBI under the reverse repo route by pledging their securities, which are classified under the statutory liquidity ratio (SLR; see *Annexure II*). However, over the last one year the banks have substantially reduced their SLR securities portfolio to meet the increased credit demand. Thus there is limited scope for increasing liquidity through the reverse repo route now and hence the RBI may have to reduce the CRR if need be.

What do the yields say?

Usually a reverse repo rate increase affects the short-term yields whereas a CRR cut affects the long-term yields (as the latter move releases funds for the long term). However, the current trend pertaining to the shorter end of the yield curve does not seem clear. That is because even though the yield on the one-year government securities (G-Sec) has come down, the same has been possible because of the easing of liquidity for the reasons discussed earlier. Thus, there seems to be some ambiguity in the market as to whether the RBI would hike the rates or maintain the status quo.

However, looking at the long-term yield it seems that the market is no longer expecting a CRR cut. The ten-year G-Sec yield has gone up by nine basis points in April 2006 which signifies that the market does not expect the RBI to touch the CRR at least in the forthcoming monetary policy.

G-Sec yields (%)



Source: Bloomberg

Some precautionary measures to contain asset inflation

The RBI has frequently voiced its concerns over the rising exposure of the Indian banks to the real estate sector and the capital market. In the mid-term review of its monetary policy for 2005-06 the central bank had increased the general provisioning requirement for "standard advances" by 15 basis points to 0.40% of the advances to contain asset inflation.

The RBI may announce some other measures to curb the rampant growth in the banks' exposure to the real estate and equity markets. In this regard the RBI had already announced some measures earlier:

- the risk weightage on housing loans for calculating capital adequacy ratio of banks had been increased from 100% to 125% ; and
- a bank's aggregate capital market exposure had been restricted to 40% of its net worth on solo and consolidated bases whereas its direct capital market exposure had been limited to 20% of its consolidated net worth.

Inflation target to remain at 5.0-5.5%

The RBI is likely to maintain the 2006-07 inflation target at 5.0-5.5% despite the surging oil prices. Over 2005-06 inflation remained benign at 4.47% as the same in the manufacturing sector was low at 3.17%. Inflation for primary articles, viz food articles and minerals, was also low at 2.17%. With the excise and customs duty cuts announced in the Union Budget 2007 recently, inflation should remain in the 5.0-5.5% range.

Annexure I

MSS bonds: The RBI buys all the foreign exchange that comes into the country and converts the same into rupees, thereby increasing the amount of currency in circulation in the country. It then sterilises this flow of money by selling the MSS bonds and absorbing the excess money flow as mentioned earlier.

Annexure II

SLR securities: The Indian banks have to keep 25% of their demand and time liabilities (read current and savings account, and fixed deposits) in the form of government securities. These securities are termed as SLR securities.

The author doesn't hold any investment in any of the companies mentioned in the article.

Maruti Udyog

Apple Green

Stock Update

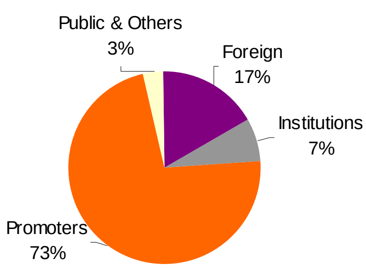
Owning all of MSAIL

Hold; CMP: Rs870

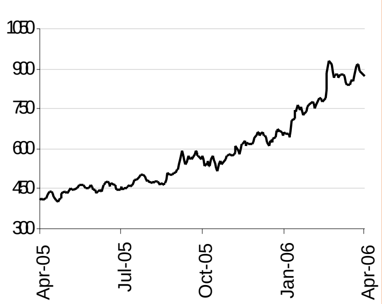
Company details

Price target:	Under review
Market cap:	Rs25,135 cr
52 week high/low:	Rs922/904
NSE volume: (No of shares)	15.9 lakhs
BSE code:	532500
NSE code:	MARUTI
Sharekhan code:	MARUTIUD
Free float: (No of shares)	7.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.2	26.9	47	107.1
Relative to Sensex	-9.2	4.8	10.3	16

Maruti to buy out Suzuki's stake in MSAIL—a big positive for Maruti

Maruti Udyog Ltd (MUL) would be buying out the entire stake of its joint venture partner, Suzuki Motor Company, Japan (SMC), in Maruti Suzuki Automobile India Ltd (MSAIL) and merging the subsidiary with itself. At present, MUL holds a 70% stake in MSAIL whereas SMC holds the remaining 30%. We view MUL's decision to buy out the entire SMC stake in MSAIL as a big positive for the domestic car major.

History of the joint venture

- Initially SMC had announced that it would form a joint venture called Suzuki Maruti India Ltd (SMIL) to set up a car assembly plant, which had been earlier planned under MUL. This had led to confusion regarding SMC's plans for India and speculations that SMC was setting up a subsidiary to directly compete with MUL had gathered steam.
- However, later on SMC cleared the doubts over the deal and formed a joint venture named MSAIL with MUL in which MUL was given a 70% stake and SMC held the balance. That MUL had the majority stake in the joint venture was viewed positively since it indicated that SMC had no intention of competing with MUL in India.
- The joint venture was formed to carry out only manufacturing activities at the new plant to be set up at Manesar. All other critical functions like branding, marketing and distribution, research and development, and vendor development were to be handled by MUL.
- The initial capacity of the new plant was pegged at 100,000 cars per annum, with a plan to scale the same up to 250,000 cars per annum by 2008-09. The new plant is slated to begin commercial production by the end of 2006.
- The joint venture was designed to reduce the financial commitment of MUL on account of the large investment involved in setting up the new assembly plant.

Implications of the buy-out

We see MUL's decision to buy out SMC's stake in MSAIL as a big positive for the company for two reasons.

1. The buy-out would clear the ambiguity surrounding certain issues like the visibility of MUL's earnings from the cars sold by it on behalf of MSAIL.
2. The new plant would manufacture high-end cars (C segment and above) which would help MUL to diversify its overall portfolio. At present the C segment cars, viz Esteem and Baleno, constitute 6.8% of the company's total domestic car sales. We expect the new plant to aid the growth in this segment.

MUL's volumes	FY2005	FY2004	% yoy growth
M800	89,223	116,262	-23.3
Omni, Versa	66,366	65,019	2.1
Alto, WagonR, Zen	335,136	271,280	23.5
Baleno, Esteem	31,939	29,637	7.8
PV	522,664	482,198	8.4
MUV, Gyspy, Vitara	4,374	5,204	-15.9
Domestic sales	527,038	487,402	8.1
Exports	34,781	48,899	-28.9
Total	561,819	536,301	4.8

Earnings table

Year to March 31	FY2004	FY2005	FY2006E	FY2007E
Net profit (Rs cr)	538.4	762.7	1,134.6	1,344.0
% y-o-y change	-	*41.7*	*48.8*	*18.5*
Shares in issue (cr)	28.9	28.9	28.9	28.9
EPS (Rs)	18.6	26.4	39.3	46.5
PER (x)	46.8	33.0	22.2	18.7
RoCE (%)	15	22.8	24.7	23.6
RoNW (%)	19.4	20.4	23.4	21.7

The author doesn't hold any investment in any of the companies mentioned in the article.

Reliance Industries

Evergreen

Stock Update

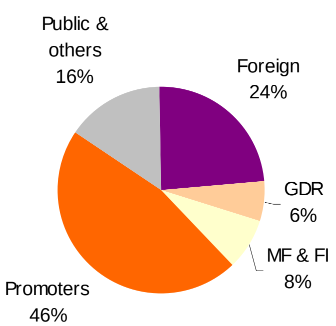
Value unlocking

Buy; CMP: Rs847

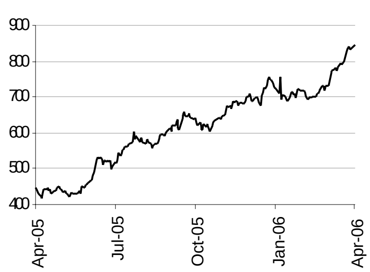
Company details

Price target:	Rs870
Market cap:	Rs118,071.8 cr
52 week high/low:	Rs937/512
NSE volume: (No of shares)	61.5 lakhs
BSE code:	500325
NSE code:	RIL
Sharekhan code:	RIL
Free float: (No of shares)	65.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.2	21.4	36.6	91.1
Relative to Sensex	7.3	0.2	2.5	11.5

RPL starts unlocking value for RIL

We had mentioned in our report *Price target revised to Rs870* dated March 17, 2006, on Reliance Industries (RIL) that the forthcoming initial public offering of its subsidiary Reliance Petroleum will add an upside of approximately Rs75 per share to RIL's value. The recent stake sale by RIL to global oil and gas major Chevron just vindicates our view.

The US-based oil and gas major Chevron would pick up a 5% stake (22 crore shares) in RPL (from RIL) for $300 million (about Rs1,350 crore) or at Rs60 per share. The investment, subject to the approvals from the regulatory authorities, will be made by Chevron India Holdings Pte Ltd, Singapore, a wholly-owned subsidiary of Chevron Corporation. This will bring down RIL's holding in RPL to 75%.

Chevron has an option to buy another 24% of the equity from RIL in the future and take its total stake to 29% at a price to be decided then. RIL's holding in that case will come down further to 51%.

RIL may tie-up with foreign partner for retailing

There are unconfirmed media reports that Reliance Retail Private Limited, a 100% subsidiary of RIL is in talks with Hong Kong-based retailing major Li and Fung for sourcing its private labels. RIL's sourcing deal with Li & Fung could cover mostly soft goods like apparel, furnishings and household products. The Li & Fung group is engaged into managing the supply chain for global retailing majors for high-volume, time-sensitive consumer goods which includes fashion accessories, furnishings, gifts, handicrafts, home products, promotional merchandise, toys, sporting goods and travel goods.

Reliance Industries also plans to invest over Rs4,000 crore in the food retail sector. The company plans to build warehouses, cold storage units, processing plants and distribution outlets.

Reiterate buy

At the current market price of Rs847, RIL is quoting at a PER of 12.7x its FY2007E earnings per share. We maintain our Buy recommendation on the stock with a price target of Rs870 based on the sum-of-parts valuation.

Sum-of-parts valuation (RPL at Rs60 per share)

	Enterprise value (Rs crore)	Per share*	Comments
Refining & marketing	51,393.0	420.6	At 6.0x FY2007E EBIDTA
Petrochemicals	34,338.0	281.0	At 6.0x FY2007E EBIDTA
Upstream oil and gas	21,258.0	174.0	
IPCL	2,256.4	18.5	At a 20% discount to CMP Rs247
RPL	13,500.0	73.6	At the issue price of Rs60 per share
Less: debt	13,000.0	106.4	
Fair market cap	110,458.0	861.3	

The author doesn't hold any investment in any of the companies mentioned in the article.

What's In—What's Out

Mutual Fund

Fund Analysis: April 2006

An analysis has been undertaken on equity and mid-cap funds' portfolios, indicating the favourite picks of fund managers for the month of March 2006. Equity funds comprise of all diversified, index, sector and tax planning funds, whereas mid-cap funds include a universe of 16 funds such as Reliance Growth, Franklin India Prima Fund, HDFC Capital Builder, Birla Mid-cap Fund etc.

What's in

Top new stocks added to the equity funds' portfolios.

Company name	No of shares	Mkt value (Rs cr)
Adhunik Metalliks	--	14.49
BL Kashyap	1003042	117.67
Electrosteel Castings	1318926	49.16
Gitanjali Gems	1397716	23.89
Hindustan Motors	2999846	11.97
Indo Tech Transformers	713783	15.47
Infosoft Technology	--	8.71
JK Lakshmi Cement	6202702	73.41
KEC International	144000	6.20
Kotak Mahindra Primus	--	15.01
Mahindra & Mahindra Financial Services	657706	15.88
Mysore Cements	7119942	34.32
Nitco Tiles	3038486	61.13
Ruchi Soya Industries	1856759	65.61
Shrenuj & Company	1272869	6.73
Solar Explosives	220646	7.74
Sunil Hitech Engineers	538460	7.08
Tata Metaliks	864421	13.26
Uttam Sugar Mills	--	13.71
Visa Steel	2778501	14.85

Top new stocks in the mid-cap funds' portfolios.

Company name	No of shares	Mkt value (Rs cr)
Aurobindo Pharma	39974	2.73
BL Kashyap	12978	1.52
Esab India	104606	5.29
Gitanjali Gems	679815	11.61
Godrej Industries	27898	1.68
Gujarat Heavy Chemicals	2999998	49.73
Indo Asian Fuse Gear	230547	3.84
Indo Tech Transformers	214291	4.65
Mirza Tanners	511766	8.19
Nava Bharat Ferro Alloys	288845	2.19
Nitco Tiles	315445	6.35
Phoenix Mills	35381	3.45
Reliance Capital	30087	1.56
Reliance Natural Resources	31010	1.65
Simplex Infrastructures	8528	1.62
Solectron Centum Elec	848990	27.26
Sunil Hitech Engineers	144230	1.90
Tata Metaliks	470180	7.21
UltraTech Cement	50102	3.42
Welspun India	3040262	36.36

What's out

Complete exits in the equity funds' portfolios.

Company name
DCM Shriram Industries
Everest Industries
Shri Ramrupai Balaji Steel

Complete exits in the mid-cap funds' portfolios.

Company name	Company name
ABB	NIIT
Bank Of India	Oil & Natural Gas Corpn
Coromandel Fertilisers	Oriental Bank of Commerce
Corporation Bank	Satyam Computer Services
DCM Shriram Consolidated	Shreyas Shipping
Dredging Corporation of India	Simbhaoli Sugar Mills
Eicher Motors	TRF
GTC Industries	Geometric Software Solutions Co.
Hindustan Oil Exploration Company	J K Paper
Indian Petrochemicals Corporation	Mawana Suger
Ind-Swift Laboratories	Astra Microwave Products
Industrial Development Bank Of India	Rane Madras
Maral Overseas	Sadbhav Engineering

Favourite picks for the month

Top additions to the existing holdings of equity funds' portfolios.

Company name	No of shares added	Mkt value added (Rs cr)
Areva T and D India	1520933	130.96
Associated Cement Companies	1378334	107.80
BL Kashyap	1003042	117.77
Bharat Earth Movers	846290	125.29
Bharati Tele-Ventures	3473388	143.40
Century Textiles & Industries	2091689	92.89
Crompton Greaves	1095200	114.93
Deccan Chronicle Holdings	1929910	88.14
Emco	2977818	234.35
Grasim Industries	1426013	293.47
Gujarat State Fertilisers & Chemicals	2236248	104.63
Hindalco Industries Ltd	14289110	260.70
Mphasis BFL Ltd.	6082631	126.70
Reliance Communication Ventures	20366124	629.11
Reliance Energy Venture	45793903	198.52
Tata Consultancy Services	1702581	325.90
UltraTech Cemco	1689415	115.63
Wipro	1800772	100.58
Yes Bank	19520060	195.98
Zee Telefilms	10576225	252.19

Top additions to the existing holdings of mid-cap funds' portfolios.

Company name	No of shares added	Mkt value added (Rs cr)
Aban Loyd Chiles Offshore	157760	17.36
Alok Industries	1451496	10.70
Areva T and D India	152529	13.13
Dena Bank	3564916	12.98
Emco	2162250	170.17
Gammon India	1174923	63.62
Gitanjali Gems	679815	11.61
Gujarat Heavy Chemicals	2999998	49.51
Hexaware Technologies	2001536	33.26
Hindustan Zinc	379378	19.85
Jain Irrigation Systems	2010166	50.40
JSW Steel	696132	21.07
Lupin	500445	50.98
Matrix Laboratories	630000	17.74
Monnet Ispat	429743	12.47
Mphasis BFL	1559884	32.49
Mukand	1362726	15.67
Solectron Centum Elec	848990	27.15
Tulip IT Services	349009	10.80
Welspun India	3040262	36.36

Popular stocks in mid-cap funds

Company name	No of shares	Mkt value (Rs cr)
Aditya Birla Nuvo	2000000	148.59
Bharat Earth Movers	1237206	183.6
Crompton Greaves	1145520	120.27
Cummins India	3700895	87.88
EID Parry (India)	4243909	121.38
Fag Bearings India	1600751	86.32
Goodlass Nerolac Paints	1327788	119.65
Hindustan Zinc	1862172	97.43
IPCA Laboratories	2516742	87.95
Jaiprakash Industries	4811315	300.42
Jindal Saw	2079866	90.22
Jindal Steel and Power	494956	93.83
Kirloskar Brothers	3074024	119.93
Maharashtra Seamless	1559511	105.62
Matrix Laboratories	3550001	99.97
MICO	333863	97.08
Mphasis BFL	8440634	175.84
Raymond	1742939	90.22
Reliance Industries	1525543	121.33
State Bank of India	900000	87.16

Exclusive stocks

Some stocks held by only one fund.

Company	Fund house
Bag Films	UTI Mutual Fund
Bharat Seats	UTI Mutual Fund
Control Print (I)	HDFC Mutual Fund
DIC India	UTI Mutual Fund
Disa India	Kotak Mahindra Mutual Fund
JK Pharmachem	UTI Mutual Fund
Kenna Metal	Kotak Mahindra Mutual Fund
Kirloskar Pneumatic	HDFC Mutual Fund
Sanjivani Paranteral	Tata Mutual Fund
Synergy Multibase	HDFC Mutual Fund
Tezpore Tea Company	UTI Mutual Fund
ZF Steering Gear (India)	Kotak Mahindra Mutual Fund
Zicom Electronic Security Systems	SBI Mutual Fund

Cash rich funds: Top 10 funds having more cash compared to the others (%)

Principal Global Opportunities Fund, Standard Chartered Imperial Equity Fund, Chola Contra Fund, UTI Master Value Fund and SBI Magnum Bluechip Fund are some of the cash rich equity diversified funds waiting for right valuations to invest.

Scheme	Equity (%)	Debt (%)	Cash & equivalent (%)
PRINCIPAL Global Opportunities Fund - Growth	61.86	0	38.14
Standard Chartered Imperial Equity Fund - Growth	68.63	0	31.37
Chola Contra Fund - Growth	72.24	0	27.76
JM Emerging Leaders Fund - Growth	72.98	0	27.02
UTI Master Value Fund - Growth	75.85	0	24.15
UTI Leadership Equity Fund - Growth	77.01	0	22.99
SBI Magnum Bluechip Fund - Growth	68.99	9.39	21.62
Principal Resurgent India Equity Fund - Growth	79.61	0	20.39
LIC MF Growth Fund	80.92	0	19.08
Prudential ICICI Blended Plan - Option A - Growth	51.06	30.17	18.77

Industry Update

Mutual Fund

Mutual Funds' AUM soars with strong fund flows and continued rally

Industry news

- **Sanjay Sachdev resigns as CEO of Principal Mutual fund**

  Mr Sanjay Sachdev, Managing Director and Country Manager-India for Principal International and CEO of Principal AMC has resigned to pursue other entrepreneurial opportunities, after being with the company for the past 12 years.

- **Benchmark Bank BeES net assets fall**

  Benchmark Asset Management's popular Banking Exchange Traded Scheme (Bank BeES) has seen a fall of over Rs2,400 crore since December, due to numerous investors having logged out of the scheme since January 2006, on account of the underperformance of the banking sector in the fourth quarter among all the sectoral indices.

- **Reliance Equity mop-up: largest by equity MF ever**

  Reliance Mutual Fund's new Reliance Equity Fund received an overwhelming response and has collected over Rs5,700 crore from over 9.25 lakhs investors, making Reliance Mutual Fund India's number one private sector fund house. No equity mutual fund has come close to collecting such a large amount so far.

- **Templeton appoints Vivek Kudva as India Head**

  Franklin Templeton Investments (India) has appointed Mr. Vivek Kudva as President-India. Based in Mumbai, he will be responsible for overseeing the India asset management business. He will be working closely with the Managing Director for Asia & CEEMEA region, Rajiv Vij.

- **No initial issue expenses in NFOs**

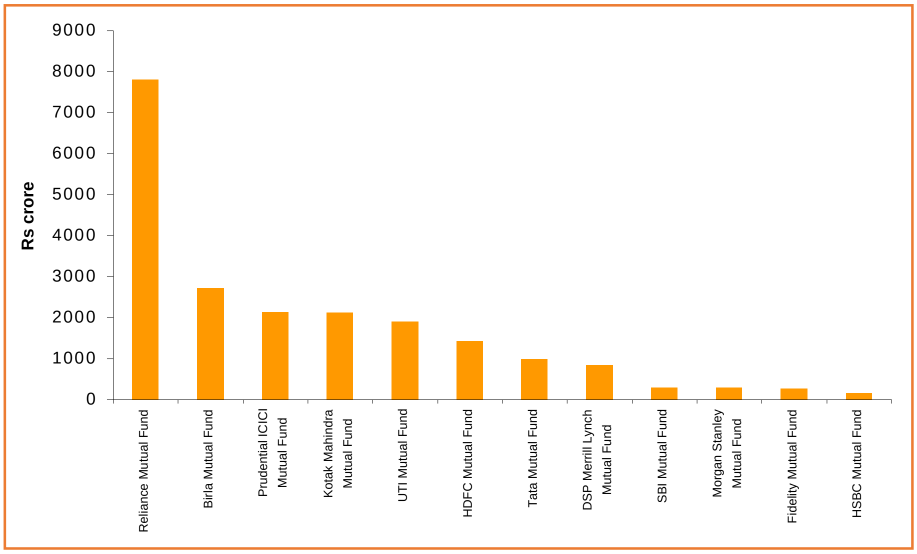
  As per SEBI's new regulation, initial issue expenses will be permitted for closed-ended schemes only. Open-ended schemes will have to meet sales, marketing and other expenses connected with sales and distribution of the schemes from the entry load and not through the initial issue expenses. Since closed-ended schemes are allowed to charge initial issue expenses, they shall not charge entry load.

Highlights

- The industry's assets under management (AUM) increased by 6.5% to Rs231,862 crore in March 2006; The AUM for equity funds increased by 18% to Rs111,602 crore.
- Fund Managers made purchases worth Rs15,770 crore and turned net buyers after three months to the tune of Rs4,483 crore in the equity markets.
- The net inflow into equity mutual funds amounted to Rs11,316 crore in March 2006; highest ever recorded new fund offerings (NFO) collections of Rs10,228 crore.
- Domestic mutual funds are sitting on huge piles of cash amounting to Rs17,990 crore, comprising of Rs10,228 crore raised through NFOs and the remaining Rs7,762 crore held by existing schemes.
- Sentiments have once again turned bullish in March 2006, as mutual funds have decreased their cash holdings.
- Mutual funds have slashed exposure to auto, oil & gas and chemical companies and have bought stocks in the telecom, diversified and steel sectors.

- **Major Movers for March 2006**

The assets under management (AUM) increased by 6.5% from Rs217,707 crore in February 2006 to Rs231,862 crore in March 2006. Also, the AUM for equity funds has risen from Rs94,653 crore in February to Rs111,602 crore in March 2006, an increase of 18%. The increase in the AUM is primarily due to the rally in the equity markets and the large amounts of money flowing into equity mutual funds.



Reliance Mutual Fund clocked the highest increase in absolute terms of Rs7,810 crore to Rs24,670 crore followed by Birla Mutual Fund and Prudential ICICI Mutual Fund, whereas Standard Chartered Mutual Fund posted the highest decline of Rs2,402 crore, followed by LIC Mutual Fund and JM Financial Mutual Fund.

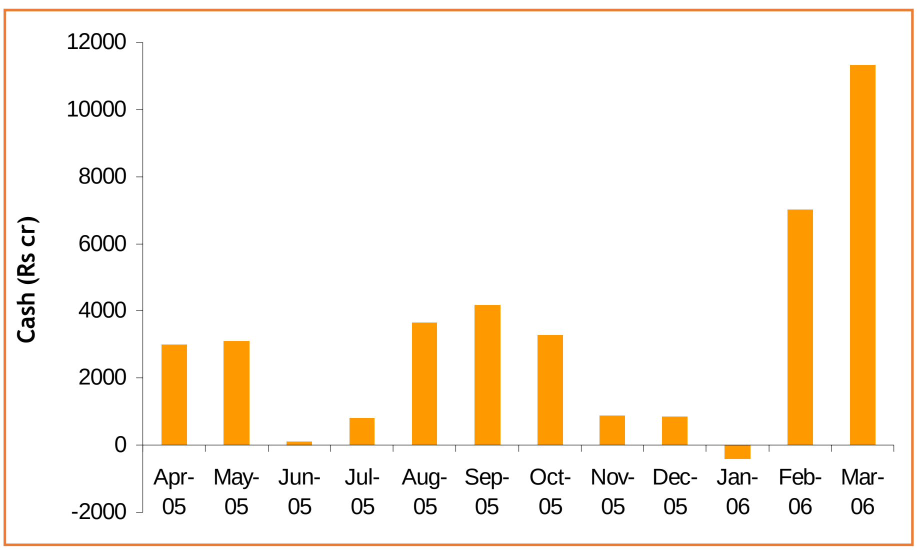
- **Stock Market Activities for Mutual Funds**

Mutual Funds turned net buyers of equities in the month of March 2006.

Month	Purchase (Rs cr)	Sales (Rs cr)	Net (Rs cr)
Mar-06	15,770	11,287	4,483

Equity fund flow

Money poured into equity funds in the month of March 2006, with a net inflow of Rs11,316 crore. This huge inflow is mainly attributed to the large amount of money (Rs10,228 crore) which flowed into new fund offerings (NFOs) made in March 2006. Notable amongst these, was the whopping Rs5,750 crore garnered by Reliance Equity fund. Even though the amount of redemptions (Rs6,294 crore) was high, as investors booked profits in a rising market scenario, the NFO collections, along with the amount flowing into existing schemes (Rs7,382 crore) were enough to counter the redemptions.

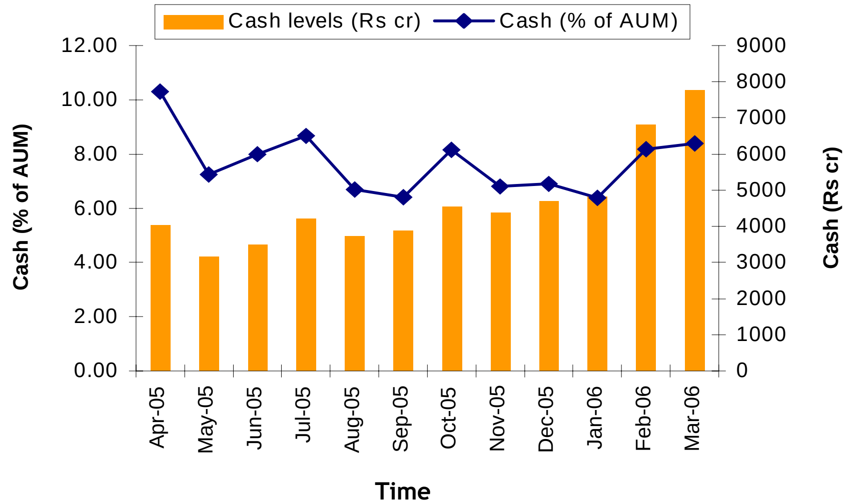


Cash levels

Liquidity

The absolute cash levels for all equity funds launched before March 2006 increased to Rs7,762 crore from Rs6,811 crore in February 2006. However, cash as a percentage of the AUM also increased only marginally from 8.2% in February 2006 to 8.4% in March 2006, indicating the bullish undertone of fund managers.

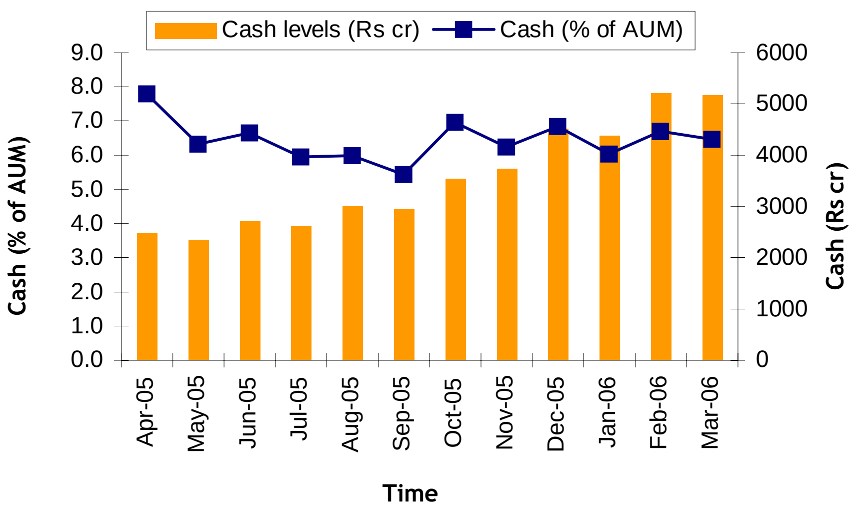
The fact that mutual funds are sitting on such enormous piles of cash surely indicates that the mutual fund industry now has the power to propel the markets forward.



Note: includes all equity funds in the industry launched before March 2006

Sentiments

Mutual funds have reverted back to the strong investment mode, with the cash levels falling from 6.7% of the total corpus in February 2006 to 6.5% of the total corpus in March 2006, indicating that the sentiments amongst the investor community are yet bullish.



Note: Includes all equity funds in the industry with a NAV track record of 3 months+.

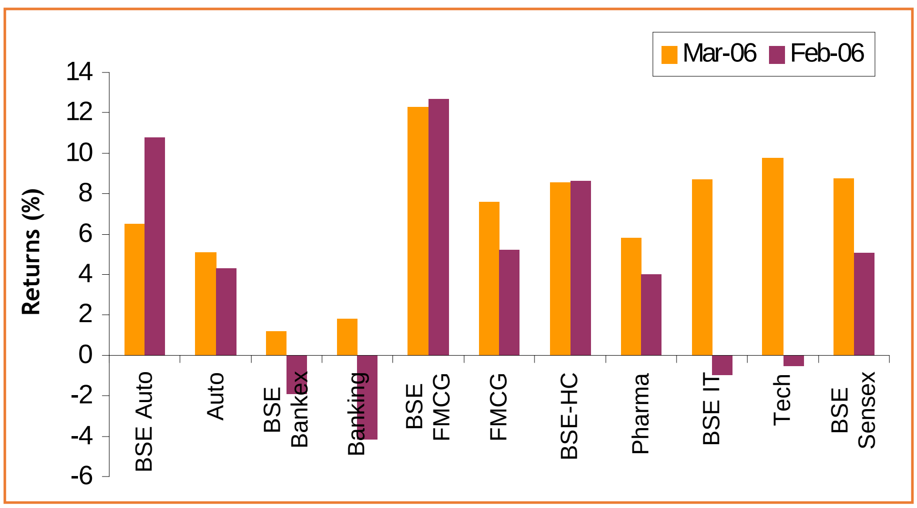
Sector allocation

Major shifts in the sector allocation for the equity-diversified category are as under:

Sector name	March 2006		February 2006		Change
	Amount (Rs cr)	%	Amount (Rs cr)	%	
Increase in exposure					
Telecom	2985.9	3.9	1394.7	2.4	1.5
Diversified	11065.9	14.6	7740.4	13.6	1.0
Steel	2418.8	3.2	1374.9	2.4	0.8
Metals	2025.0	2.7	1215.7	2.1	0.5
Computers - Software & Education	7230.5	9.5	5217.2	9.1	0.4
Cement	2228.8	2.9	1488.6	2.6	0.3
Decrease in exposure					
Auto & Auto ancilliaries	6571.4	8.6	5668.8	9.9	-1.3
Oil & Gas, Petroleum & Refinery	2569.8	3.4	2348.8	4.1	-0.7
Chemicals	1538.4	2.0	1446.8	2.5	-0.5
Electricals & Electrical Equipments	3281.2	4.3	2748.4	4.8	-0.5
Finance	899.8	1.2	949.4	1.7	-0.5
Banks	6278.8	8.3	4927.9	8.6	-0.4

Performance of sector funds

All fund categories seem to have generated higher returns in March 2006, as compared with the lower returns clocked in February 2006. Funds in the technology sector outperformed the Sensex, whereas auto, banking, pharma and fast moving consumer goods (FMCG) funds underperformed the Sensex.



Additionally, funds in the auto, FMCG and pharma sectors have underperformed their respective benchmark indices (the BSE Auto index, the BSE FMCG index and the BSE Healthcare) whereas the funds in the banking and technology sectors have outperformed the BSE Bankex and the BSE IT index respectively in March 2006. Technology funds gave the highest returns in March 2006, followed by FMCG and pharma funds.

Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Associated Cement Companies
Bajaj Auto
Balrampur Chini Mills
Bharat Bijlee
Bharat Heavy Electricals
Corporation Bank
Crompton Greaves
Godrej Consumer Products
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotel Company
ITC
Mahindra & Mahindra
Marico Industries
Maruti Udyog
MRO-TEK
Lupin
Nicholas Piramal India
Omax Auto
Ranbaxy Laboratories
Satyam Computer Services
Sintex Industries
SKF India
State Bank of India
Tata Motors
Tata Tea
Unichem Laboratories

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India

For Private Circulation only

Emerging Star

3i Infotech
Aarvee Denim and Exports
Aban Loyd Chiles Offshore
Alok Textile Industries
Alphageo India
Cadila Healthcare
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Solectron Centum Electronics
Television Eighteen India
Thermax
Tube Investments of India
TVS Motor Company
UTI Bank
Welspun Gujarat Stahl Rohren
Welspun India

Ugly Duckling

Deepak Fertilisers & Petrochemicals Corporation
Genus Overseas Electronics
HCL Technologies
ICI India
Jaiprakash Associates
JM Financial
KEI Industries
Nelco
NIIT Technologies
Numeric Power Systems
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
Sun Pharmaceutical Industries
Surya Pharmaceuticals
UltraTech Cement
Union Bank of India
Universal Cables
Wockhardt

Cannonball

Cipla
Gateway Distriparks
International Combustion (India)
JK Cements
Madras Cement
Shree Cement
Transport Corporation of India

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