industry update

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Strong fund flows strengthen equity AUM

Industry news

- **UTI MF to merge some schemes under revamp:** UTI Mutual Fund, the largest mutual fund in the country, is looking to restructure its portfolio further. The exercise includes the merger of some schemes and the launch of new fund offerings. The fund is planning to merge 5-6 existing schemes, which have common features and structures by December, in order to streamline its portfolio. The biggest merger could be between UTI Balanced Fund and Unit Scheme 2002, both balanced funds with an equity portfolio accounting for 40-60% of the total fund size.

- **Trustee of one MF can't be on board of another:** The securities and exchange board of India (SEBI) is planning to bar trustees of one mutual fund from being on the board of trustees or asset management company of another mutual fund. The proposal, which has the support of the finance ministry, has already been discussed with the association of mutual funds of India.

- **Sabharwal joins JM Financial:** Sandip Sabharwal, the erstwhile chief investment officer (CIO) of Lotus India Mutual Fund, has joined the Nimesh Kampani-controlled JM Financial group in a senior position.

- **Mutual funds can invest up to $3 billion abroad:** The Reserve Bank of India, in its October policy review, has raised the ceiling for overseas investment by mutual funds from $2 billion to $3 billion. The rationale behind this increase is to respond to a potential need for Indian investors diversifying into international assets. The impact is expected to hasten launches of new fund offerings targeted at overseas investments by the Indian MF industry.

- **DSP Merrill awaits nod for gold fund:** Leading fund house DSP Merrill Lynch has filed a draft document for a World Gold Fund to explore opportunities in non-conventional fund ideas like investing overseas in gold, gold mining, energy and alternative energy and related sectors.

- **Schroders in the race for Standard Chartered Mutual Fund (SCMF):** The race for SCMF may take some time to be completed with new buyers continuing to emerge. The UK-based asset management company Schroders is believed to be the latest contender for SCMF's assets in India. Schroders, which manages assets of $226 billion worldwide, is understood to have evinced interest in the assets, which amounted to around Rs11,764 crore as at the end of September.

Highlights

- The assets under management (AUM) for equity funds increased by 4.9% to Rs127,943 crore in October 2006. The strong fund flows arising out of new fund offering (NFO) collections aided the equity AUM.

- Fund managers made purchases worth Rs9,945 crore and turned net sellers to the tune of Rs3.5 crore during the month.

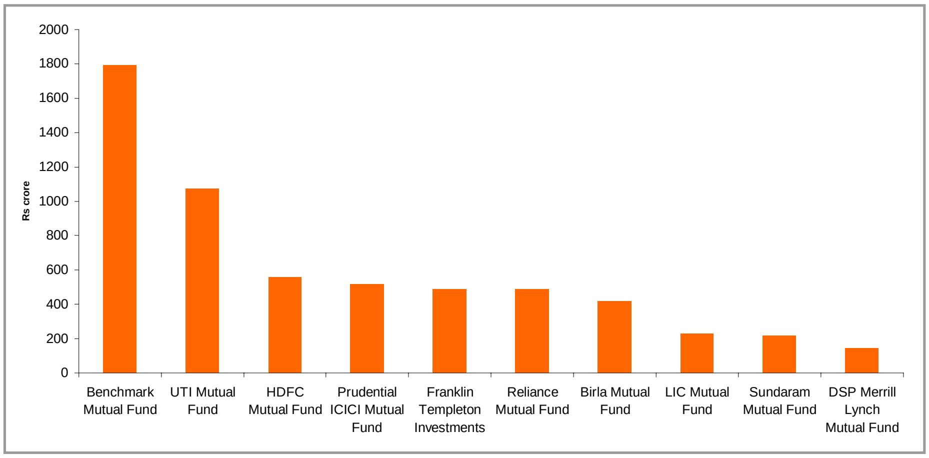
- Equity mutual funds registered a net inflow of Rs1,432 crore. Even as the redemption volumes were marginally higher compared to the previous month, the inflows into new schemes were strong enough to counter the high redemption volumes.

- Mutual Funds are sitting on Rs8,155 crore of cash, waiting to be deployed in the market. Of this, Rs6,689 crore of cash lies with existing mutual funds, while the remaining Rs1,466 crore has been mobilised through NFOs.

- Amongst all sector funds, technology funds have generated the highest returns in October 2006. Banking and technology funds have outperformed the Sensex, whereas funds in the auto, fast moving consumer goods (FMCG) and pharmaceutical sectors have underperfomed the Sensex.

- Mutual funds have slashed their exposure to banking, auto and cement companies, and have bought stocks in the housing & construction, computers and electronics sectors.

- **Major movers for October 2006**



The AUM of equity mutual funds increased by 4.9% from Rs121,924 crore in September 2006 to Rs127,943 crore in October 2006. The rise in the equity AUM was higher than the market movement of 4%. The AUM for the equity-diversified funds surged by 3.3%, whereas that of tax planning and sector funds rose by 7.3% and 4.3% respectively. The index funds saw a massive increase of 52.3% in their AUM.

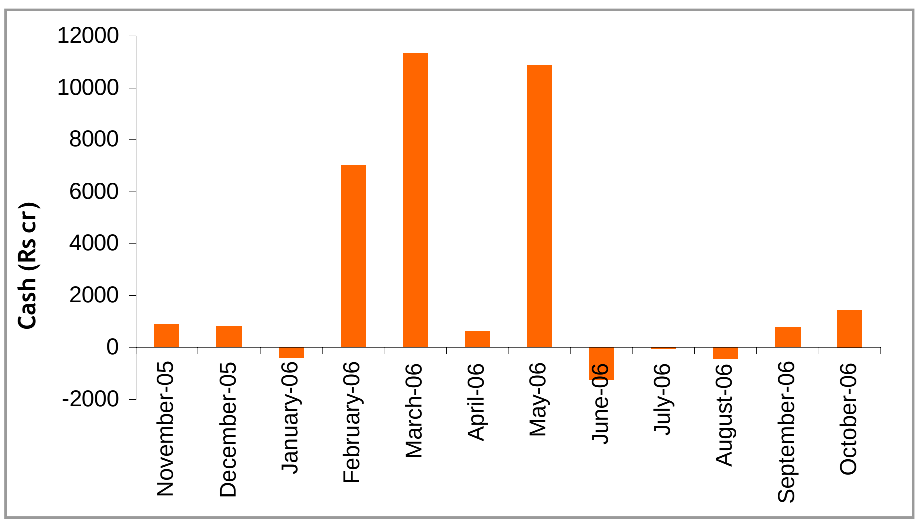
Benchmark Mutual Fund clocked the highest increase of 50.4%, amounting to Rs1,793 crore in its AUM. UTI Mutual Fund and HDFC Mutual Fund followed Benchmark Mutual Fund and recorded increases of Rs1,074 crore and Rs560 crore respectively in their equity AUM. The top loser was SBI Mutual Fund, which saw its equity AUM declining by Rs106 crore, followed by JM Financial Mutual Fund and Standard Chartered Mutual Fund.

- **Stock market activities for mutual funds**

Mutual funds turned net sellers of equities in October 2006.

Month	Purchase (Rs cr)	Sales (Rs cr)	Net (Rs cr)
Oct-2006	9944.46	9947.97	-3.51

Equity fund flow

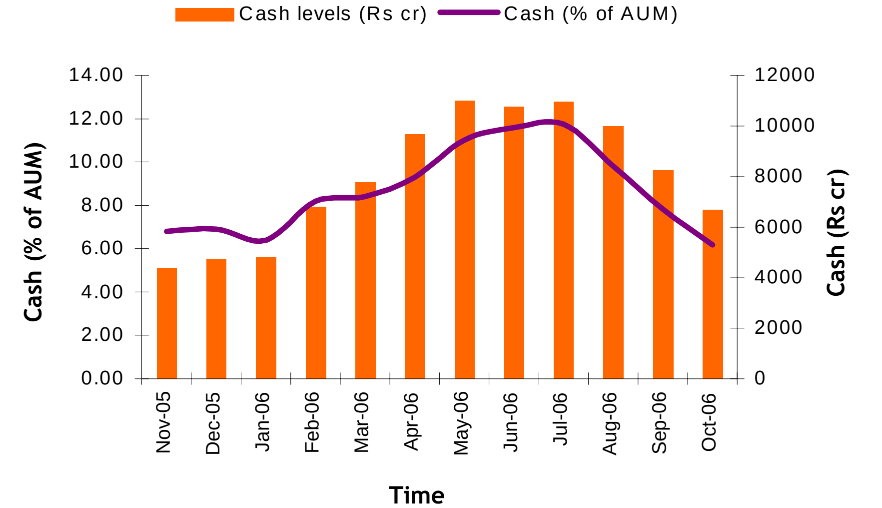


Fund flows into equity mutual funds continued their upward trend, with equity mutual funds registering a net inflow of Rs1,432 crore in October 2006. The almost doubling of the fund flows in October as compared with September is mainly attributable to the significantly higher amounts mobilised by NFOs. (Rs1,466 crore in October 2006 as compared with only Rs330 crore in September 2006). Even though the redemption volumes stood marginally higher at Rs5,811 crore and the money flowing into existing schemed declined marginally to Rs5,777 crore as compared with the previous month, the near five-fold jump in the NFO collections was high enough to result in a doubling of the net funds flowing into equity mutual funds. The NFO collections include the amounts raised by Birla Long-term Advantage Fund, ING Vysya Dynamic Asset Allocation Fund and UTI Wealth Builder Fund, but do not include the collections made by DSP Merrill Lynch Small & Midcap Fund and SBI Arbitrage Opportunities Fund which were launched but did not close in October, as the allotment of the units for these funds is not yet complete. The collections made by these funds (approximately Rs1,650 crore) will be reflected in the next month's fund flow figures.

Cash levels

Liquidity

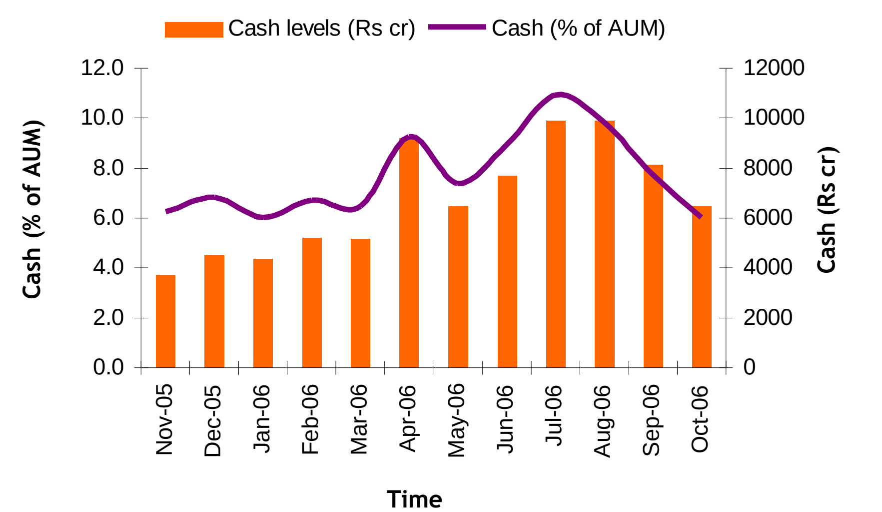
The absolute cash levels for all equity funds launched before October 2006 declined from Rs8,249 crore in September 2006 to Rs6,689 crore in October 2006, as mutual funds started deploying their cash aggressively, with the strong upward momentum in the market. The cash as a percentage of the total corpus also followed a similar trend declining to 6.2% of the total corpus in October 2006 from 7.8% in September 2006.



Note: Includes all equity funds in the industry launched before October 2006

Sentiments

With the market sentiment improving and the market on a continuous upward march, mutual funds have continued to be in a strong investment mode. Cash as a percentage of the total corpus (for all funds which are at least 3 months old) declined from 7.8% in September 2006 to 6.0% in October 2006.



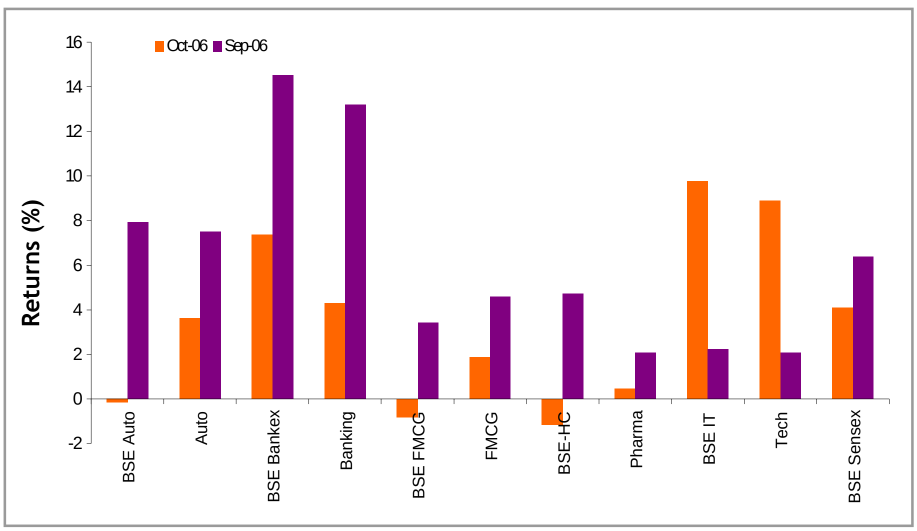
Note: Includes all equity funds in the industry with a NAV track record of three months+.

Sector allocation

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

Sector name	October 2006		September 2006		% change
	Amount (Rs cr)	% of net assets	Amount (Rs cr)	% of net assets	
Increase in exposure					
Miscellaneous	4660.1	5.5	3655.6	4.4	1.0
Housing & construction	3988.1	4.7	3262.4	4.0	0.7
Computers - software & education	8944.3	10.5	8056.4	9.8	0.7
Electronics	1758.9	2.1	1451.0	1.8	0.3
Tobacco & pan masala	2007.4	2.4	1748.4	2.1	0.2
Engineering & industrial machinery	2839.0	3.3	2551.9	3.1	0.2
Decrease in exposure					
Banks	6829.4	8.0	7307.5	8.9	-0.9
Auto & auto ancilliaries	6618.8	7.8	7011.7	8.5	-0.8
Cement	2664.3	3.1	3025.8	3.7	-0.6
Entertainment	1743.1	2.0	2005.3	2.4	-0.4
Pharmaceuticals	3779.2	4.4	3922.0	4.8	-0.3
Electricals & electrical equipments	3094.3	3.6	3170.7	3.9	-0.2

Performance of sector funds



Despite the Sensex advancing by an appreciable 4.1% in October, most fund categories except technology funds have generated significantly lower returns in October 2006 as compared with the returns clocked in September 2006. Banking and technology funds have outperformed the Sensex, whereas funds in the auto, FMCG and pharmaceutical sectors have underperfomed the Sensex by margins of 1-4%. Additionally, funds in the auto, FMCG and pharmaceutical sectors have outperformed their respective benchmark indices (the BSE auto index, the BSE FMCG index and the BSE healthcare index) whereas the funds in the banking and technology sectors have underperformed the BSE Bankex and the BSE IT index respectively in October 2006. Technology funds gave the highest returns in October 2006, followed by banking and auto funds.

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