

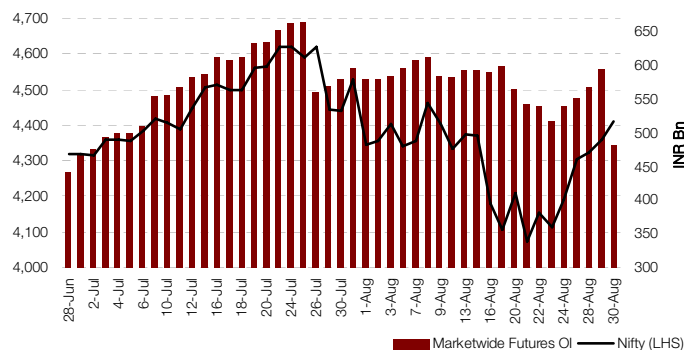
September view: Worst over, for the time being

- **IT: Start accumulating**
- **Banking: Attractively valued**
- **Power: Earnings visibility to drive valuations**

August retrospective

- **Markets gets lighter on leverage positions**

The turbulence in global markets acted as a catalyst which fuelled the unwinding process in the futures segment. After touching a new all-time high of INR 664 bn in July 2007, futures open interest at the market wide level was down by over 22% in August. The cost of carry during the month had also entered into a discount, indicating unwinding of long positions. The steep correction in markets in August has resulted in a shake out and pushed most of the short term momentum money (or what we call weak hands) out of the market. The rollovers to the September series were also in line with the previous expiries; however, the rollovers cost had remained subdued throughout the expiry week.

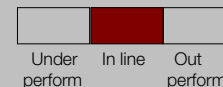
Leverage positions unwind during the month

- **FII's witness highest monthly outflow in cash market; MFs use this correction as buying opportunity**

The subprime crisis that hit developed markets in August 2007 resulted in a net FII outflow of USD 2.03 bn in the month from Indian markets. This, after a record monthly inflow of USD 4.53 bn in the cash market in the previous month. The total outflow in cash markets forms 20% of the YTD inflows in the country. Adjusted for futures, the net outflow in the month stands at USD 1.4 bn, compared to net inflow of USD 2.04 bn in July 2007. Outflows in the month were equally dominated by directional selling and unwinding of cash-future arbitrage positions. Among global markets, only Indonesia remained insulated from the broader trend, with an inflow of USD 547 mn. Taiwan saw the highest outflow of USD 5.71 bn, which is 75% of the total YTD inflows. Mutual funds, on the other hand, considered the ongoing uncertainty as a buying opportunity and bought USD 922 mn during the month, their highest monthly purchase since May 2006. They were buyers during most of the days of market correction.

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August Retrospect**India vs. Global Markets****Fund Flows**

- FII
- MF

**Sectoral performance**

- **Outperformers** –Engineering & Capital goods, FMCG, Metals
- **Underperformers** – IT, Pharma and Banking

September – Sectors to watch

- **Outperformers**
 - Metals
 - Banking
 - Power
- **Underperformers**
 - Cement
 - Auto

September: What lies ahead...

September view: Worst over, for the time being

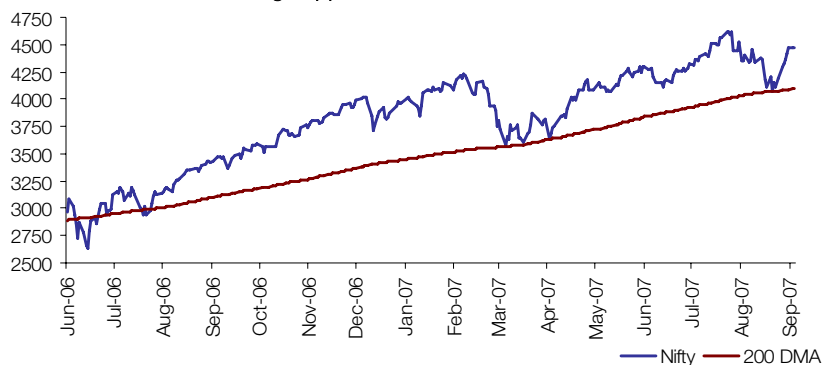
The trouble which started with the subprime problem in developed markets was aggravated by the unfolding of domestic political events. Although India has no direct exposure to the US subprime market, it felt the ripples as liquidity evaporation became a major concern. The emergence of political uncertainty soon after, resulted in the underperformance of Indian markets vis-à-vis their global counterparts.

We believe that we have already seen the worst of the correction for the time being. Both the factors that resulted in the market correction have improved. On one hand, politicians have realized that an early election will not benefit anyone and on the other, the Federal Reserve chairman and the US President have been giving positive signs to markets with their statements indicating their commitments to pull out US financial markets from the subprime mortgage crisis. Besides a cut in the discount rate by the Fed, the US President has announced tax sops to home owners for mortgage refinancing. As a result, there seems to be a positive approach towards the whole issue.

On the domestic front, the Indian economy seems to be in great form. On one hand, growth has sustained at above trend levels and on the other, inflation continues to be at comfortable levels. India's Q1FY08 GDP grew by 9.3% Y-o-Y, over a strong 9.7% growth during the corresponding period of the previous year. The latest growth number compares with a 9.1% growth during the previous quarter. The upside surprise to India's GDP numbers came from agriculture and industry, while services growth cooled off more than expected. Manufacturing continued to reflect strong growth, though it has declined from the previous quarter. Inflation fell to a 15-month low of 3.94% Y-o-Y for the week ended August 18; the 16bps fall was aided by primary articles and manufactured products inflation.

Technically, the 200 DMA has acted as a very strong support in the past and this time too markets tested that before bouncing back (see chart below).

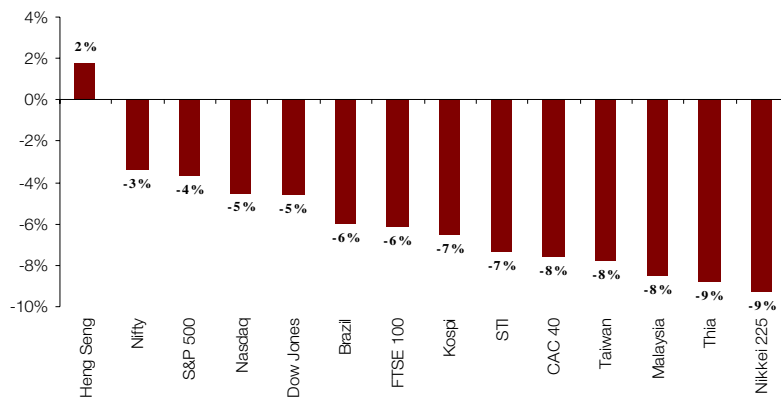
Markets have taken a strong support at 200 DMA



Indian markets have actually outperformed other markets (emerging and developed) in the current correction, which is different from previous corrections. This shows that the investors are confident about Indian markets being able to withstand the subprime debacle.

September: What lies ahead...

Global equity markets from the high level touched in July 2007

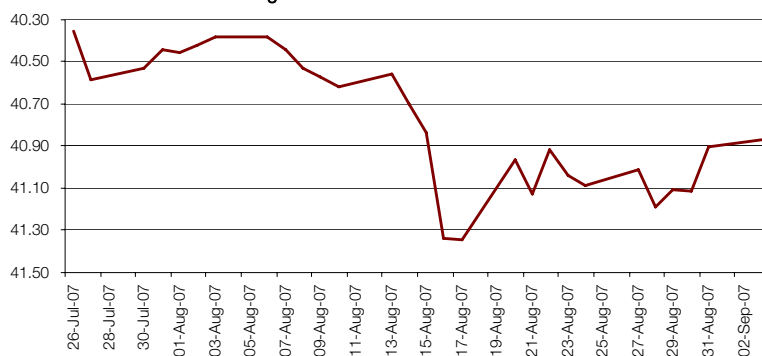


We believe markets may climb from here as subprime fears recede, domestic political uncertainty reduces, and announcement of better-than-expected GDP growth for the April-June quarter. The unwinding of long positions in the latest correction has made markets lighter and removed the weak hands from the market. However, volatility in Indian markets has risen recently and we expect the trend to continue.

IT: Start accumulating

The IT sector continues to underperform the broader index with the BSE IT further correcting by 5.7% over the past month. The total underperformance of the BSE IT index vis-à-vis Sensex in 2007 stands at 25%. With the uncertainty in the US bearing down Indian IT stocks, the correction in mid-tier IT stocks has been sharp and in some cases, overdone. We believe that the risk-reward profile of select mid-cap Indian IT companies has become more favorable for investors. Moreover, rupee depreciation during the month (see chart below) has given hedging opportunity to IT companies to protect themselves against the possible rupee's appreciation going ahead. For large cap IT stock, a gradual US slowdown will act as a driver for further outsourcing by companies as they are keen to retain their competitiveness. We recommend investors to start accumulating selective IT stocks. Our top picks in large cap include Infosys and TCS. Among mid-cap stocks we like Rolta and Infotech Enterprise.

INR/USD movement in Aug 08



September: What lies ahead...

Metals: Steel prices set to increase

In the ferrous metals segment, steel prices are expected to increase by about USD 20 per tonne in near future on the back of sharp rise in input prices and sustained demand in most regions. Iron ore prices have significantly escalated through out the year with a sharp increase of about 20% in spot prices in China. Given the strong historical correlation between iron ore and steel prices, the latter are expected to increase in the short term. Domestic steel prices had actually been cut in July and now with further pressure from input prices we expect steel prices to go up. On the stock front, we like Jindal Stainless and JSW Steel at these levels.

On the non-ferrous metal side, the price movement will remain mixed. Most of the metals are going into surplus next year due to increased supplies. However, in the short term, aluminum and zinc prices may rise, while copper may feel downward pressure. In the non-ferrous pack we like Sterlite Industries.

Banking: Attractively valued

The banking sector has underperformed overall markets in the previous month. The Sensex has corrected by 3% in the fortnight, whereas the correction in the Bankex was much sharper at 6%. However, post this correction, valuations have become attractive. With inflation and credit growth under control, further tightening by RBI looks highly unlikely and we expect interest rates to remain stable.

On the stock specific side, State Bank of India's (SBI) merger with State Bank of Saurashtra (SBS) is a first step towards absorbing all seven banking subsidiaries. ICICI Bank has received FIPB approval to divest its 24% stake in ICICI Financial Services to foreign entities. This is positive for the bank as it will help in unlocking value in its subsidiary business as well as help fund its insurance businesses. However, RBI's approval is awaited.

Power: Earnings visibility to drive valuations

High revenue growth and improved visibility are likely to be key drivers of movement on the upside for power sector stocks. Even though companies are likely to face margin pressure in the light of high margins in FY07, robust revenue growth has translated in to high earnings growth and returns, making the sector lucrative for investments as a whole. There has been a temporary slowdown in order intake during August, but it is likely to increase in the near future. With likely resolution of conflict between the World Bank and Power Grid, we expect improvement in the order intake scenario for power transmission and distribution companies. Further, Power Grid's IPO is due in September, which is expected to be well received.

Cement: Priced in

The cement sector outperformed the Sensex in August, with 7.5% M-o-M returns vis-à-vis (2.7%) M-o-M Sensex returns. Cement prices remained stable during monsoons and overall cement demand grew by 10.8% Y-o-Y in April-July 2007. YTD cement off take was supported by strong demand growth in the South (12% Y-o-Y) and West (15% Y-o-Y). While cement imports from Pakistan will start from September, we believe quantity will not be significant given the logistic hurdles. While price of imported cement will be lower than prevailing domestic prices (~20% lower in case of direct imports and ~4-8% lower when imported through an agent), the total quantum will not exceed ~1.5-2 mn tonnes owing to logistic constraints (~1% of all India FY08E consumption). Cement prices are expected to be stable in September. Ambuja Cement will receive an open offer with Holcim acquiring 3.9% stake in it at INR 154/share. This move signals greater ownership and interest of Holcim in the Indian cement sector. Overall, we believe the sector will remain a market performer over the next month.

Nifty: Neutral-Positive

Short Term: Neutral

Intermediate Term: Positive



August finally saw a correction in markets, which was followed by a sharp bounce-back in the last week of the month. Nifty made a bottom near 4000 levels during the fall, but never closed below the 200 day moving average. The indices have been on a prolonged run up after the correction and should see correction in the short term. 4530 will now be a critical level for Nifty, closing above which, the index can reach new highs. The 200 DMA currently stands at near 4080 levels, which is at a distance away from the month's closing level of Nifty. The index should take a breather from here on before starting a fresh upward move.

Reliance Energy

Short Term: Positive

Intermediate Term: Positive

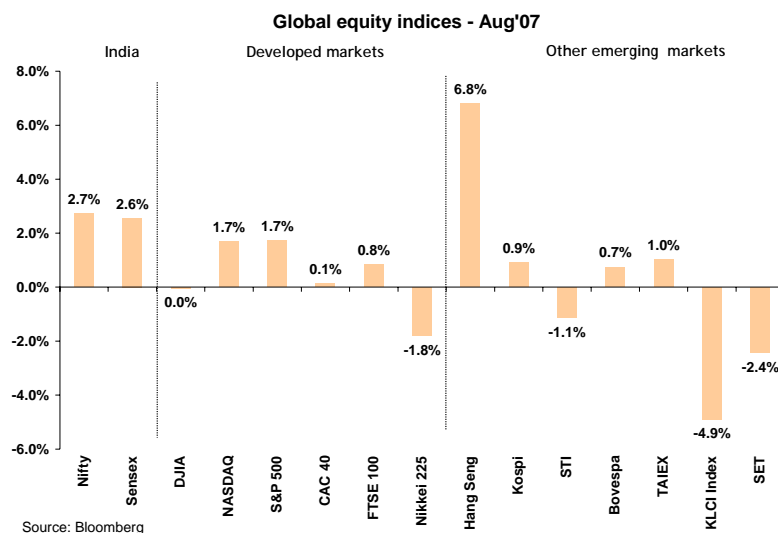


REL is currently trading above the INR 815 level, which it had previously tested in early 2004 and latest in June 2007. The scrip had completed the saucer pattern in June this year, but failed to break out of it. The scrip managed to close above this crucial resistance in early September. The oscillators are in comfortable territory (although a bit over-bought). The scrip should continue with its momentum in the short term and could test INR 900 levels in the current month. The medium-term trend also looks good for REL and the scrip should test INR 1000 levels in the medium term.

The relentless bulls take a breather as sub prime fears begin to lurk around global markets. Sensex and Nifty post marginal gains of 2.72% and 2.56%, respectively, in August 2007

Indian markets witness massive sell offs on back of turmoil on the global front; however, recover sharply towards the end of the month

- In August 2007, fortunes of Indian markets fluctuated in tandem with their global counterparts.
- The strong impetus seen across global markets in the past few months lost steam at the start of the month. One of the critical factors dictating market movements across the globe was the sub prime mortgage crash in the US. The slump in the sub prime market certainly left its footprints all over the place as global indices fell due to redemption pressure. The strengthening of the Yen against the green back further added fuel to fire.
- The broader indices, however, ended the month in the green, with the Nifty gaining 2.72% (118 points) and Sensex registered gains of 2.56 % (383 points).
- Global indices, at start of the month, were sluggish due to concerns pertaining to sub prime lending in the US. August 2007 will also be remembered as the month in which gigantic institutional investors succumbed to subprime fears. On the domestic front too the picture was not different, as Indian markets drew strong cues from their global counterparts. The political turmoil also added to prevailing woes. However, the Fed's punitive initiative of hiking discount rates for funds lent to banks certainly proved to be a breather of sorts as it aided some recovery in global markets. Indian indices also recovered sharply towards the end of the month due to the gradual improvement on the political and global fronts.
- Most of the emerging markets registered marginal gains as they felt the heat of the global downturn. Among the gainers, TAIEX was up 1%, and among the losers, KLCI was battered by 5%.
- Developed markets were at the helm of the sub prime crisis. However, their recovery was remarkable as most of them ended the month in green. Among major gainers, both NASDAQ and S&P500 posted gains of 1.7% over the month.

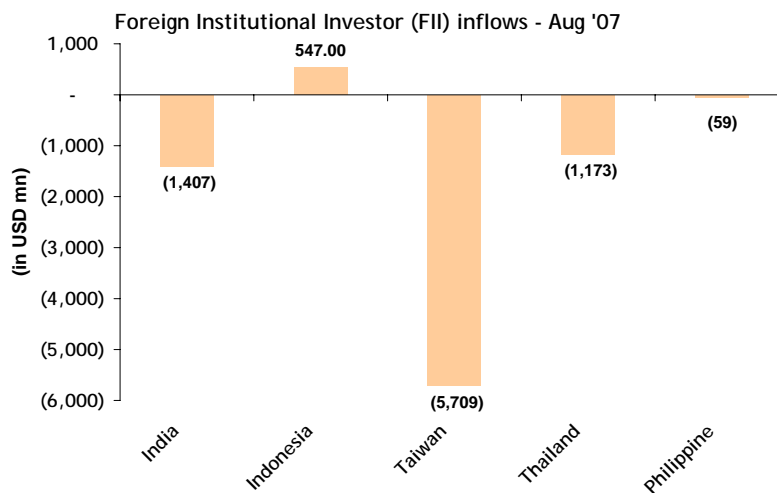


Global FII flows

Massive outflow of FII money from emerging markets due to concerns on the global front

FII turn net sellers in India in the cash segment; global issues influence FII disposition towards emerging markets

- In August 2007, FIIs donned the role of net sellers in the cash segment for the first time in the past eight months.
- FIIs have been net sellers of USD 2,028 mn in the cash segment, followed by a net purchase of USD 621 mn in the derivatives segment in Indian markets for August 2007.
- Over the past three months, FIIs have bought USD 1,285 mn (derivatives net seller of USD 2975 mn + cash net buyer of USD 4,260 mn) in Indian markets.
- The repercussion of the sub prime crisis was clearly visible as most of the emerging markets witnessed massive outflow of FII funds. FIIs liquidated substantial positions in emerging markets as a safeguard against the global crisis.
- Among emerging markets, barring Indonesia, all other markets witnessed negative FII flows. The Indonesian markets, unlike other emerging markets, garnered FII inflows worth USD 547 mn. Taiwan, with funds of USD 5,709 mn, led the race in terms of FII outflows. India too witnessed FII outflow of USD 1,407 mn.

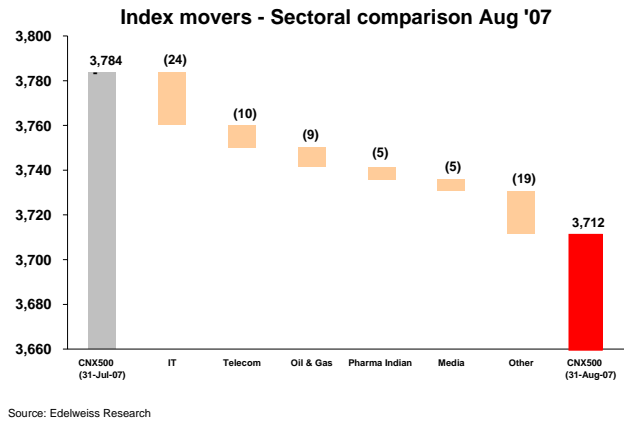
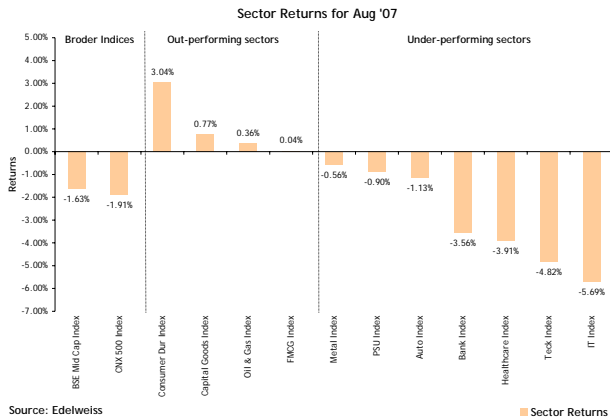


On the domestic front

Consumer goods and oil & gas post good gains; CNX 500 dips by 1.9% over the month

IT stocks beaten down by good margins; consumer durables register good gains

- IT stocks continued their slump on the back of an appreciating rupee. The sub prime meltdown in the US raised further questions on the future of these companies.
- In a month distinguished by selling spree across the board, out performers were rarely seen.
- Few of the out performers include consumer goods and capital goods stocks, with gains of 3.04% and 0.77%, respectively



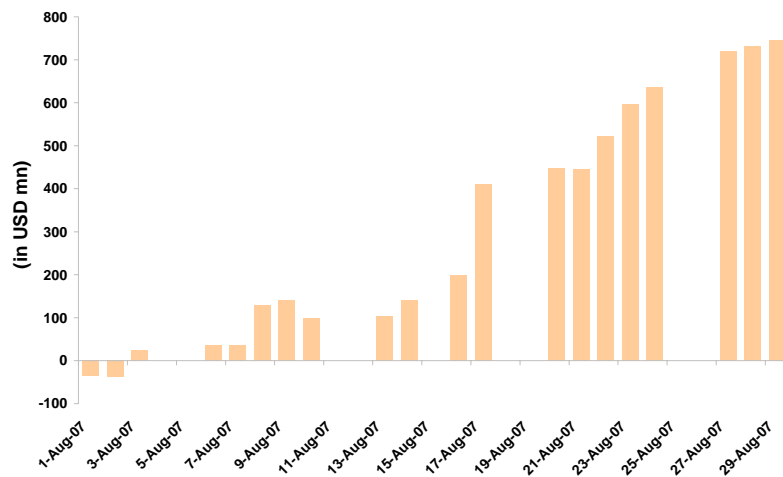
Domestic funds on a buying spree

- Domestic funds turned net buyers; they bought USD 922.50 mn in August 2007.
- The market crash has encouraged domestic funds to go for some value buying considering the fundamental and growth prospects of stocks.
- Cumulative FII flows in the current year depict a net buyer position of USD 748 mn.

Domestic funds net buyers in August 2007

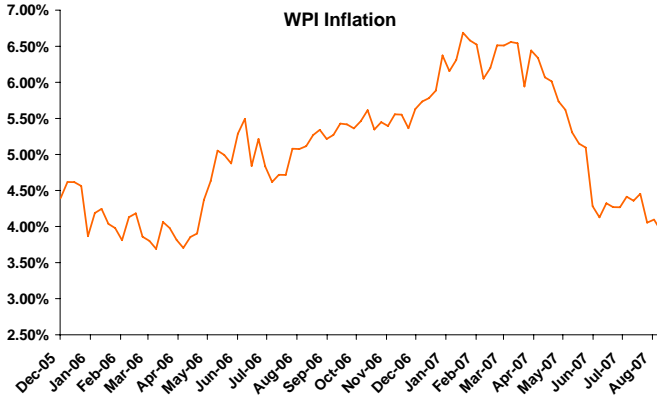
Till Aug '07	Domestic Flows (fig in USD Mn)
CY-00	(135.40)
CY-01	(1,050.00)
CY-02	(630.70)
CY-03	179.30
CY-04	(203.90)
CY-05	2,998.20
CY-06	3,555.90
CY-07	748.40

Cumulative domestic funds' inflow - Aug '07

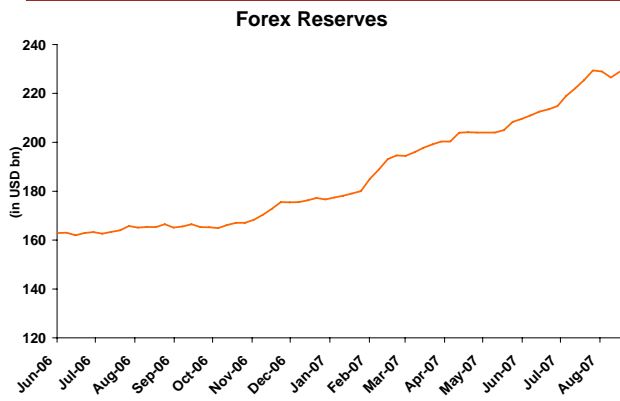


Macro environment: India

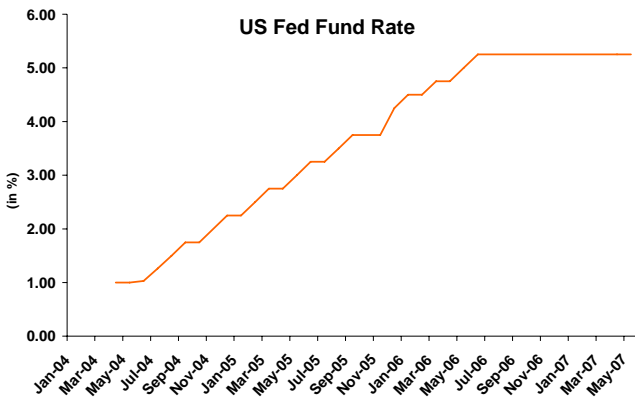
Inflation dips down to 3.90% levels



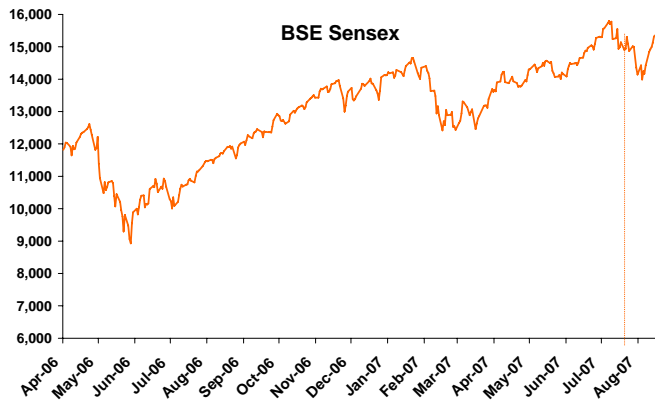
Steady accretion to reserves continues; currently at USD 228.85 bn



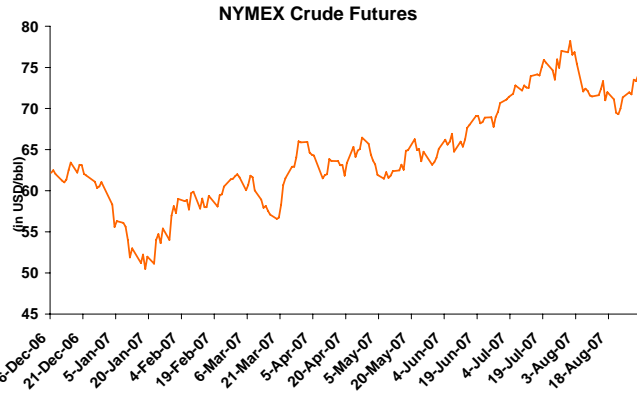
Fed rate unchanged at 5.25%



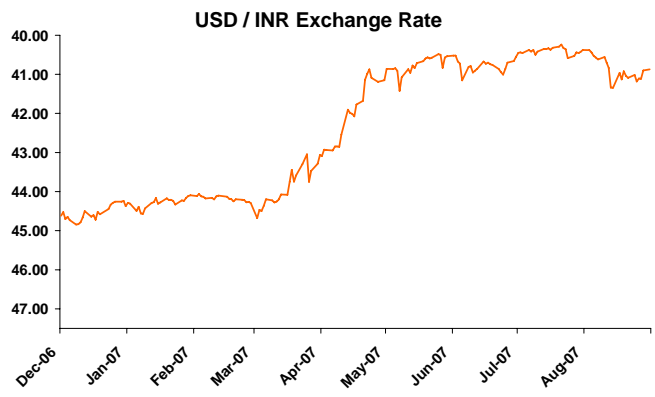
Sensex gains 382 points M-o-M



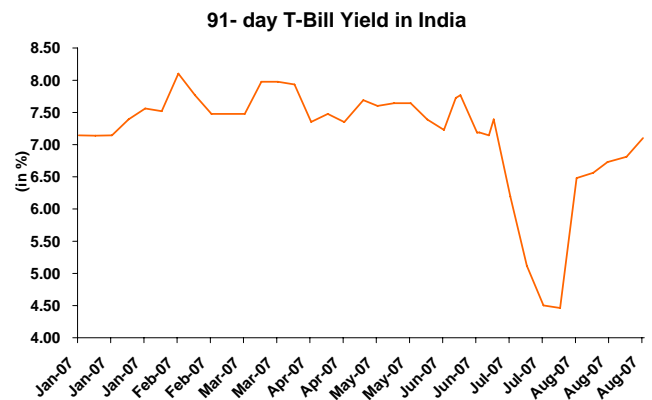
Crude stays at USD 74.04 on back of supply concerns



Rupee stays firm at 40.87 levels on August 31, 2007



Indian short-term yields head back to normal levels of 7.10%



Metal prices dip, but lead registers good gains Y-o-Y

Commodities	Price	1Mth % Chg	3Mth % Chg	1 Year % Chg
Steel	USD/ton	540	-	(10.00)
Tin	USD/ton	15,425	(4.78)	9.40
Zinc	USD/ton	3,110	(12.27)	(15.83)
Copper	USD/ton	7,460	(6.87)	1.08
Aluminium	USD/ton	2,215	1.61	(0.89)
Nickel	USD/ton	29,800	(5.23)	(35.22)
Lead	USD/ton	3,110	0.16	33.42
Gold	USD/T.Oz.	673	0.00	0.19
Silver	USD/T.Oz.	12.11	(7.28)	(11.67)

Source: Bloomberg

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 Earnings Strength Comparison (ESC)
 Edelweiss Corporate Action Tracker (e CAT)
 Edelweiss Fund Insight (EFI)
 Edelweiss Market Scan (EMS)
 Edelweiss Technical Reflection (ETR)
 Edelweiss Value Scanner (EVS)
 F&O Crossover
 hEDGE
 Insider Trades
 Pair Strategy
 Rollovers Analysis
 RSC Tracker (RSC)

Special Situation Trades

ADS Conversion
 Alpha Trades
 Buy Back
 Delisting
 De-Merger
 Directional (Long / Short)
 Merger
 Open Offer
 Option Trading
 Restructuring (Value Unlocking)
 Rights Arbitrage
 Secondary Offerings
 Spread Trade

Date	Reports
01-Jan-07	IPO Radar: A Snapshot of IPOs in CY06
08-Jun-07	Master Moves; Opportunities from open offer, buyback, de-listing
03-Aug-07	hEDGE: The alternative insights monthly
06-Aug-07	Earning Strength Comparison
03-Aug-07	Enhanced Nifty: Nifty with an edge
14-Aug-07	Edelweiss Value Scanner; Adding Value to investments

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