MODEL PORTFOLIO

IL&FS INVESTSMART | INDIA'S FINANCIAL MULTIPLEX |

APRIL 2008

India …..Best performing market of 2007, has turned out as one of the worst performers in 2008 (corrected more than 23%) . There seems to be crisis of confidence as hope of recovery seems to be receding. Question arises whether it is the right time to invest…. ???

With the fear of US recession getting more pronounced, we saw high turbulence in the global markets. $200 bn temporary bailout package of mortgage backed securities and economic stimulus package to boost consumption failed to cheer market. Fear of default by Bear Stearns forced Fed to act overnight, raising apprehension on the magnitude of problem. No wonder, the markets went into tailspin. Fear of more write down by Citi Group, UBS, Merrill and strengthening of Yen to 100 against USD , for the first time since 1995, saw further erosion in risk appetite. Hedge funds continued to reduce equity exposure.

Inflation was the main problems besides the fear of US recession that major economies continued to struggle with. Crude inching up to over $100 and rising commodity prices continue to be major headache for global economies. While base metals are flirting with all time high levels, inflation is at multi year high, forcing IMF to cut world growth expectation for the year - third time -from 5.2% predicted in July last to 3.7%.

Back home, economic data doesn't give much sign of comfort. While budget focuses on increasing domestic consumption, measures for stock market failed to cheer. Treatment of STT and increase in ST Capital gain tax has affected volume significantly. Inflation at 6.68% for last week, is at 13 month high and has surprised the market. Fear of Repo rate and/or CRR hike is keeping the markets nervous. FM has already gone on record to say that he would prefer to compromise on growth rather than inflation. Weak IIP numbers, which fell sharply to 5.3% from 11.6% in January 2007 (Primarily due to slowdown in consumer durable and capital goods) is already raising doubts on sustainability of economic growth. Rising subsidy burden on account of rising crude oil prices, waiver of farm loan and recommendation of VI th pay commission is expected to push up fiscal deficit. On the other hand, current account deficit has worsened due to widening merchandise trade deficit.

Exotic derivatives instruments used by corporates to hedge forex exposure is threatening to blow off into a dirty war between corporates and banks. In a dramatic decision announced late Saturday, ICAI has asked all companies to follow with immediate effect a new accounting norm that forces companies to disclose and/or provide all losses in derivative contracts. Exact extent of losses will be known over next few weeks. Banks have exposure of Rs. 1.28 trillion to derivative instruments. Losses to the industry could be in excess of $ 3 bn. thereby affecting corporate profitability and market sentiment. Banking performance will also be affected by likely losses on their investment portfolio in Q4 due to depreciation in value of G Sec (Losses in Held For Trading portfolio which constitutes nearly 30% of the G Sec portfolio) as inflation took most by surprise.

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Market Outlook :

We feel that valuations at current level has become reasonable. Irrationality which had gripped market on higher side is now seeing the same level of irrationality on lower side. Market trades at 15X FY 09 and 13.25X 2010 earnings without adjusting for valuations of embedded assets

With the result season getting underway in a week's time, market will be closely watching for guidance for FY09. Though advance tax has been healthy, we don't expect major surprises in Q4 numbers. Underperformers are likely to be punished severely by the market. Potential risks to earnings have emerged in many sectors. Step increase in commodity prices is expected to put pressure on margins for user industry including auto and auto ancillary, downstream oil and gas sectors. Strengthening in rupee (Central bank is expected to maintain strong rupee policy in order to contain inflation) and deteriorating global credit and economic conditions as also withdrawal of DEPB(Duty Entitlement Passbook Scheme) benefit will hurt earnings potential for export oriented industry including auto ancillary, IT and global commodities. Loan waiver, rising inflation and ruling on forex derivatives is likely to hurt banking sector. Also there is risk of potential downgrade to sectors like Real Estate, telecom & cement.

We don't see possibility of strong rally/making new highs in near future. Market participants have shown accumulation tendency in such basing exercise. We expect market to oscillate between a broad band of 4500 and 5400 in near future. One should use weak market sentiment and volatility to build positions in fundamentally strong companies.

We continue to be overweight on sectors with dual India themes of domestic consumption and infrastructure including capital goods, engineering and construction sector due to strong order backlog which increases earnings visibility. Our Top investment themes are **BHEL, L & T, ICICI Bank, RI L and J P Associate and Reliance Comm. Adhunik Metallic, Gujarat NRE Coke and KLG Systel** have seen deep correction and offers immense value at current level.

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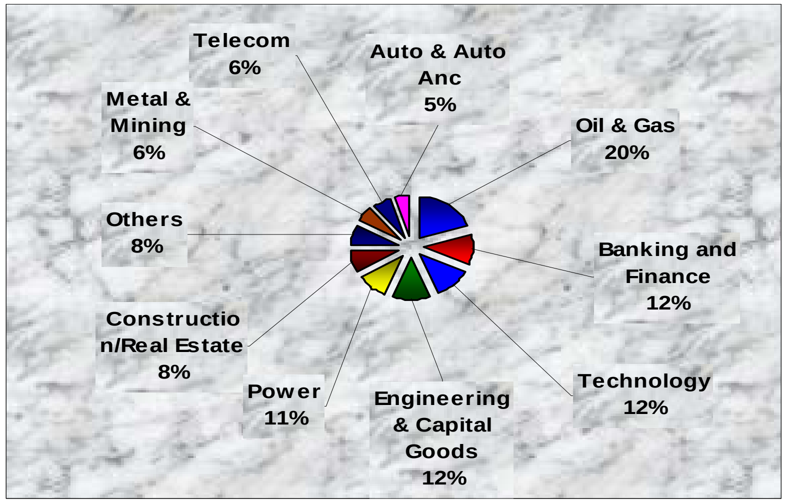
Risk: High To Medium Risk
(For Private Circulation Only)

Security Name	% of Total Portfolio	CMP	Target	EPS 08	EPS 09	PE 07	PE 08
Auto & Auto Anc	**5.00**						
Maruti Udyog	5.00	786	900	65.0	75.0	12.09	10.48
Banking and Finance	**12.00**						
ICICI Bank	6.00	786	900	38.5	47.0	20.42	16.72
HDFC Bank	6.00	1325	1500	45.0	57.0	29.44	23.25
Construction/Real Estate	**8.00**						
Jaiprakash Associates	5.00	234	300	5.0	7.0	46.80	33.43
GMR Infra	3.00	143	175	1.6	2.3	89.38	62.17
Engineering & Capital Goods	**12.00**						
Larsen & Toubro	5.00	2840	3300	95.0	130.0	29.89	21.85
Bhel	4.00	1750	2200	65.0	93.0	26.92	18.82
Hindustan Dorr	3.00	107	125	5.0	8.5	21.40	12.59
Metal & Mining	**6.00**						
Adhunik Metal	2.00	137	175	7.0	20.0	19.57	6.85
Gujarat Mineral	4.00	278	350	21.0	29.0	13.24	9.59
Oil & Gas	**20.00**						
Cairn India	5.00	228	275	1.7	13.0	134.12	17.54
Reliance Industry	7.00	2360	2500	110.0	160.0	21.66	14.89
Ongc	4.00	1020	1100	105.0	110.0	9.71	9.27
Gail	4.00	435	500	32.0	35.0		12.43
Power	**11.00**						
Power Grid	5.00	99	120	5.0	6.0	19.80	16.50
ABB	3.00	1140	1300	33.0	45.0	34.55	25.33
Suzlon Energy	3.00	272	300	8.0	11.0	34.00	24.73
Telecom	**6.00**						
Reliance Communi	6.00	511	550	23.0	30.0	22.22	17.03
Technology	**12.00**						
Tanla Solution	5.00	491	600	30.0	40.0	16.37	12.28
Rolta	3.00	288	325	35.0	45.0	8.23	6.40
KLG Systel	4.00	545	650	45.0	60.0	12.11	9.08
Others	**8.00**						
Great Offshore	4.00	630	725	55.0	56.0	11.45	11.25
Gujarat NRE coke	4.00	140	170	5.5	8.0	25.45	17.50
	100						

**New Stocks*

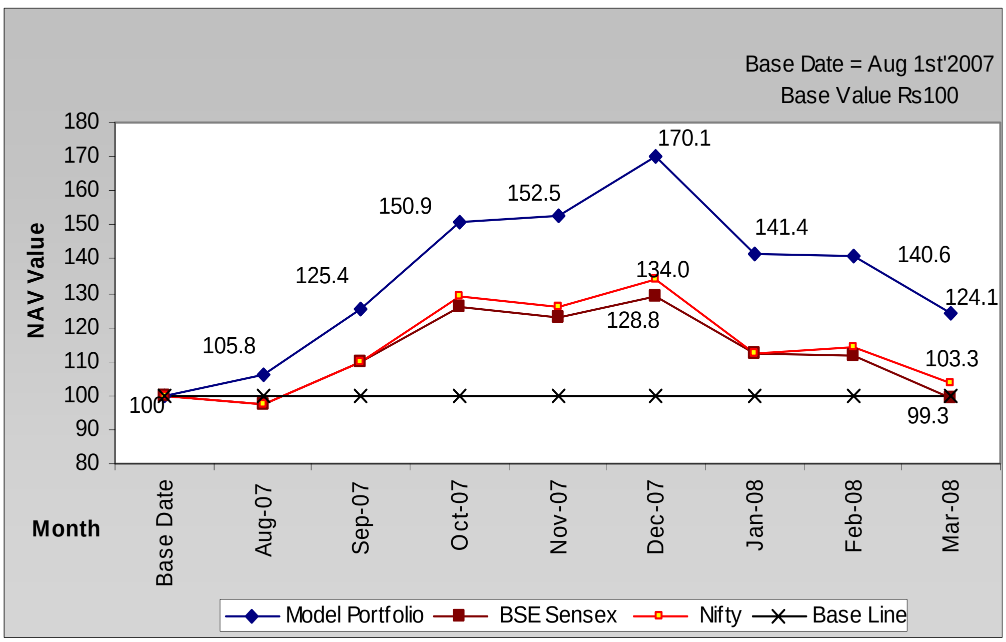
Sectoral Holding :

Sectoral Holding (High Risk) Sector	% of Total Portfolio
Oil & Gas	20.00
Banking and Finance	12.00
Technology	12.00
Engineering & Capital Goods	12.00
Power	11.00
Construction/Real Estate	8.00
Others	8.00
Metal & Mining	6.00
Telecom	6.00
Auto & Auto Anc	5.00
Total	100.00



Performance Snapshot:

Model Portfolio Vs Sensex & Nifty



Nav Based Return:	Nav Value 1st Aug 08	Nav Value 31st Mar 08	Absolute Return	Annualized Return
Model Portfolio	100	124.1	24.08%	46.01%
BSE Sensex	100	99.3	-0.66%	-1.26%
Nifty	100	103.3	3.32%	6.35%