investor's eye

Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aban Offshore	03-Mar-05	330	**2,757**	4,829
Axis Bank	24-Feb-05	229	**497**	901
Bharti Airtel	08-Jan-07	625	**710**	1,100
Lupin	06-Jan-06	403	**683**	840
Ranbaxy	24-Dec-03	533	**409**	575

Marico

Apple Green

Stock Update

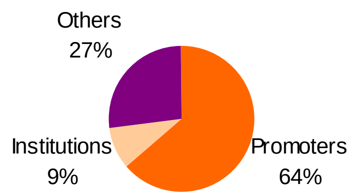
Annual report review

Buy; CMP: Rs50

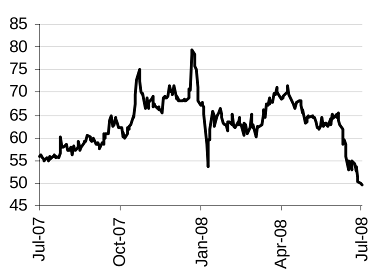
Company details

Price target:	Rs77
Market cap:	Rs2,983 cr
52 week high/low:	Rs83/47
NSE volume: (No of shares)	3.4 lakh
BSE code:	531642
NSE code:	MARICO
Sharekhan code:	MARICO
Free float: (No of shares)	22.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-22.7	-27.5	-25.7	-8.9
Relative to Sensex	-12.2	-14.5	14.7	3.2

Key points

- Marico's net sales increased by 22.5% to Rs1,906.7 crore in FY2008 from Rs1,556.9 crore in FY2007. The sales growth was achieved on the back of a strong volume growth of 13%, a price hike of 5% and an inorganic growth of 4.5% during the year.
- Marico's focus portfolio delivered a strong performance in FY2008. Its flagship brand *Parachute*, premium edible oil brand *Saffola* and hair oil basket achieved a healthy volume growth of 11%, 22% and 16% respectively during the fiscal.
- During FY2008, despite a rise in the number of creditor days to 57.6 from 54.8 in FY2007, the working capital cycle increased from 27.5 days to 33.5 days on account of an increase in both the inventory (from 41.5 days in FY2007 to 46.1 days in FY2008) and the loans & advances (from 14.6 days in FY2007 to 17.0 days in FY2008).
- With a good growth in the bottom line, the RoNW improved to 63.3% from 45.1% in FY2007. The RoCE increased to 39.8% from 32.9% in FY2007. Also, the huge improvement in the return ratios was possible on account of the restructuring of the balance sheet undertaken by the company in FY2007 (including an adjustment of the intangible assets against the special reserves to the extent of Rs309 crore).
- Marico is aiming at rationalising its portfolio to focus on its beauty and wellness business. It divested its processed food business operated under the brand *Sil* to Scandic Food India Pvt Ltd, the Indian subsidiary of Good Food A/S, for a profit of Rs10.6 crore in FY2008.
- The growing urbanisation of the Indian population and the increasing acceptance of specialised products and services provide a good opportunity for Marico to strengthen its roots in the country's lowly-penetrated beauty and wellness segment. To become a major player in this segment the company is continuously looking to expand its focus portfolio in both organic and inorganic ways.
- Though we like Marico's strategy of achieving an inclusive growth through organic and inorganic initiatives, we believe its profitability will remain under pressure

Valuation table

Particulars	FY2006	FY2007	FY2008	FY2009E	FY2010E
Net profit (Rs cr)	86.3	102.0	166.0	185.8	236.7
Share in issue (cr)	58.0	60.9	60.9	60.9	60.9
EPS (Rs)	1.5	1.7	2.6	3.1	3.9
% yoy growth		*12.7*	*57.3*	*15.7*	*27.4*
PER (x)	33.3	29.6	18.8	16.2	12.7
Book value (Rs)	4.5	3.2	5.2	8.2	12.1
P/BV (x)	11.1	15.7	9.6	6.0	4.1
EV/Ebidta (x)	23.0	16.7	13.4	10.8	8.4
RoCE (%)	26.1	32.9	39.8	35.3	34.7
RoNW (%)	36.3	45.1	63.3	45.6	38.3

in the near term because of its surging input cost and higher marketing spends. Consequently, even though we expect a good 18.8% growth in its top line, we foresee a nominal growth of 9.9% in its bottom line to Rs185.8 crore in FY2009.

- At the current market price of Rs50, the stock trades at 16.2x and 12.7x its FY2009E and FY2010E earnings per share (EPS) of Rs3.1 and Rs3.9 respectively. We maintain our Buy recommendation on Marico with a price target of Rs77.

Focus brands—strong performance

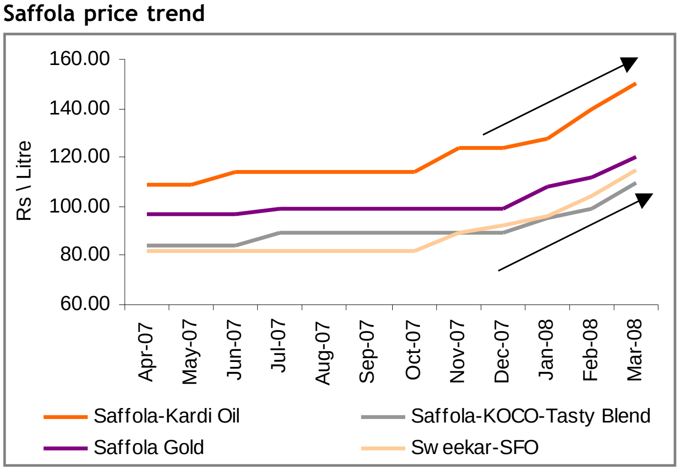
FY2008 performance	% of Sales	Volume growth (%)	Category	Market share (%)
Parachute coconut oil (India)	32	11	Coconut oil	48
Parachute Jasmine, *Shanti AmlaHair & Care*, *Nihar*	15	16	Hair oils	23
Saffola	15	22	Refined safflower Oil and its blends	98

Source: Company

Marico's focus portfolio (including *Parachute* coconut oil, other hair oils and *Saffola* refined edible oil) delivered a strong performance in FY2008. *Parachute*, Marico's flagship brand, recorded a volume growth of 11% compared with the previous financial year. In FY2008, the brand's market share in the domestic market stood at 48% in volume terms. To combat the increase in copra prices the company had hiked the prices of *Parachute* brand of oils by 3% in July 2007; in June of 2008, it increased the brand's prices by another 5.7% as copra prices continued their northward march.

Saffola, refined edible oil, which has been positioned on the "good for the heart" platform, grew by 22% in volume terms in FY2008. Prices of most of the edible oils have shown an upward trend at the global level in recent times owing to the diversion of some of the edible oils for bio-

Saffola price trend



Source: Company, Sharekhan Research

fuel production. Also, locally, the demand for edible oil has outpaced its supply, contributing to the increase in the price of edible oils. The steep increase in its input cost forced Marico to hike the prices of its edible oils in FY2008.

In the last quarter of FY2008, the company increased the prices of its edible oils by over 20% on account of a steep surge in the prices of the key raw materials during that period. The increase in the prices of *Saffola* oils did not affect the volumes, as it caters to health conscious and premium consumers.

Marico's hair oil portfolio (includes *Parachute Jasmine*, *Shanti Amla*, *Hair & Care* and *Nihar* perfumed oil) delivered a healthy performance in FY2008 by achieving a growth of 16% in volume terms. In the perfumed coconut oil segment, *Parachute Jasmine* and *Nihar* perfumed oils jointly grew by 12% in volume terms. With *Nihar* focusing on the north-eastern market of India and *Parachute Jasmine* concentrating on the other parts of the country, Marico secured the lion's share of 78% in the perfumed coconut oil market. *Shanti Badam Amla* achieved a growth of 24% with a market share of 9% in the amla oil category. *Hair & Care* continued its strong performance in FY2008, by registering a 15% volume growth and achieving a market share of 17% in the non-sticky hair oil market during the fiscal.

Banking on inorganic growth

Marico has identified acquisitions as one of the avenues for growth. In FY2008, the company's revenue growth was achieved through 17% organic growth and 5% inorganic growth. The company is continuously looking to expand into new and diverse geographies for growth. In FY2008, it acquired Enaleni Pharmaceuticals Consumer Division (Pvt) Ltd (EPCD) for Rs53 crore, which is about 1.3 times EPCD's FY2008 annualised turnover. EPCD is the consumer division of South Africa-based Enaleni Pharmaceuticals. It operates in the South African ethnic hair care and health care markets through its three leading brands, *Caivil* in the premium ethnic hair care segment; *Black Chic* in the value-for-money hair care segment; and *Hercules* in the over-the-counter (OTC) health care segment. The ethnic hair care and OTC health care markets are together worth about Rs600 crore in South Africa and are growing at over 20% per annum. EPCD's market shares in the hair care and OTC healthcare markets are about 6% and 10% respectively. The acquisition provides an opportunity to Marico to participate in the rapidly growing South African ethnic hair care market. During FY2008, Marico achieved revenues of Rs20 crore in South Africa.

The Egyptian brands *Fiancee* and *HairCode* performed as per expectations in FY2008, jointly recording a turnover

Inorganic growth Rs (crore)

Brands	Products	Primary markets	Year of acquisition	Contribution
Camelia and Aromatic	Soaps	Bangladesh	2005	--
Nihar	Coconut and perfumed oils	India	2006	80
Manjal	Soaps	South India	2006	--
Fiancee and HairCode	Hair cream and gels	Egypt	2006	88
Hercules	OTC health care	South Africa	2007	40*
Caivil and Black Chic	Hair care and health care	South Africa	2007	

* Annualised basis Source: Company

of about Rs88 crore during the year. The combined market share of the two brands in Egypt stands at 62% at present.

However, Marico is exposed to foreign currency risks associated with such overseas expansions. It is earning its revenues in currencies such as US Dollars, Bangladeshi Taka, UAE Dirham, Egyptian Pound and South African Rand. Though Marico has implemented an appropriate foreign exchange hedging strategy, any significant fluctuation in these currencies can have an adverse impact on its profitability.

International business achieved robust growth in FY2008

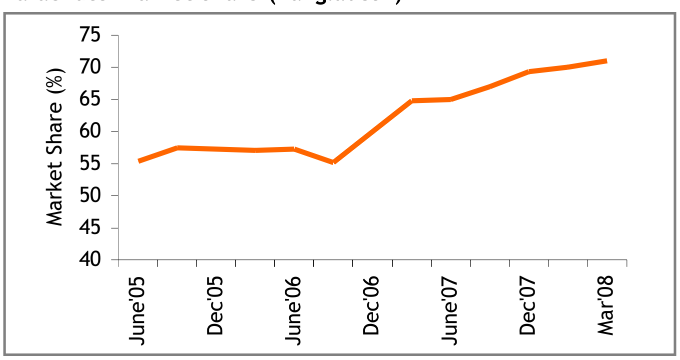
Marico's international business grew by a robust 59% to Rs307 crore in FY2008, that's an organic growth of 21% over FY2007. In Bangladesh, *Parachute* continued its strong performance and gained market dominance with the market share jumping from 65% in FY2007 to 71% in FY2008. *Parachute* will focus on expanding the branded market by encouraging conversions from loose oil.

In the Middle East, the company's focused marketing efforts for *Parachute Cream* yielded good results as the brand's market share improved from 19% in FY2007 to 22% in FY2008. The brand has achieved no.1 position in the UAE and is close to securing leadership in the Gulf Cooperation Council (GCC) countries.

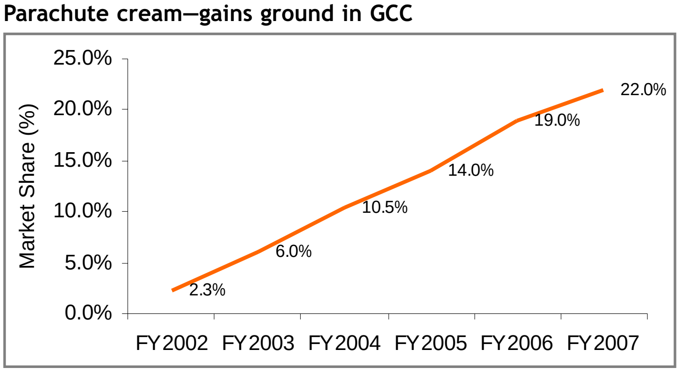
Marico is on the verge of consolidating its position in the African market, as *Fiancee* and *HairCode*, its two Egyptian brands, are performing as per expectations. Marico is also planning to put up in Egypt a greenfield project that would serve as a manufacturing hub for the Middle East and the north African regions.

Thus, the brilliant performance of its brands in the international markets coupled with the acquisitions in diverse geographies helped Marico to increase the revenue contribution of its international business to 18% in FY2008 (from 10% in FY2005) to Rs307 crore.

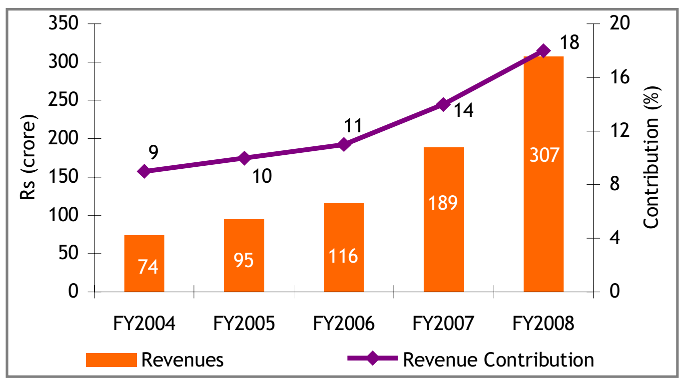
Parachute market share (Bangladesh)



Parachute cream—gains ground in GCC



International business contribution



Kaya—future growth driver

Marico is leveraging its strength in the beauty and wellness segment through the *Kaya Skin* business, which is recognised as a pioneer in the skin care and beauty service segments. *Kaya Skin*, which currently has 56 skincare clinics in India and nine such clinics in the Middle East, contributed around Rs98.5 crore to Marico's total revenues during FY2008. Marico's aim is to add 15 Kaya Skin clinics every year to maintain its leadership position in the beauty and wellness segment in India.

Kaya Skin clinics

Particulars	FY2005	FY2006	FY2007	FY2008
No of stores	**34**	**45**	**48**	**66**
Service contribution	17.5	41.3	64.6	87.0
Product contribution	2.9	6.7	10.5	13.0
Revenues (Rs crore)	**20.4**	**48.0**	**75.1**	**100.0**
% yoy growth		*135.3*	*56.5*	*33.2*

Kaya Skin has also launched a range of skin care products that are an outcome of an extensive skincare research. The products account for 13% of Kaya Skin's total revenues.

Exit from non-focus businesses to focus on beauty and wellness segment

- Marico is aiming at rationalising its portfolio to focus on its beauty and wellness segment. It has divested its processed food business operated under the brand *Sil* to Scandic Food India Pvt Ltd, the Indian subsidiary of Good Food A/S, for a profit of Rs10.6 crore. Sil had contributed around 1% (Rs20 crore) to the company's top line with an operating profit margin of around 20% (Rs4 crore) in FY2007.

- Marico has also ended its distribution alliance with Indo Nissin Foods Ltd (INFL) for distributing the *Top Ramen* range of products in India. Marico's income from the distribution of the *Top Ramen* range of products was about Rs3 crore in FY2008.

FY2008 financial performance

In FY2008 Marico's net sales increased by 22.5% to Rs1,906.7 crore on the back of a strong volume growth of 13%, a price hike of 5% and an inorganic growth of 4.5%. In FY2008, the company effected hefty price hikes (especially of above 20% across its edible oil brands during Q4FY2008) to combat the pressure on its input cost. This led to a decline of 60 basis points in its raw material cost, which as a percentage of its sales dipped to 51.4% in FY2008 from 52.0% in FY2007. Thus, the operating profit margin improved by 47 basis points to 12.9% and the operating profit increased by 27.1% to Rs246.3 crore in FY2008. A decline in the depreciation charge coupled with a lower incidence of tax led to a hefty year-on-year growth of 57.3% in the adjusted net profit to Rs160.6 crore in the year. The sale of the *Sil* brand resulted in a pre-tax profit of Rs10.61 crore (post-tax profit of Rs8.49 crore), leading to a hefty growth of 49.8% in the reported net profit to Rs169.1 crore for FY2008.

Balance sheet highlights

- Despite an increase in the number of creditor days to 57.6 from 54.8 in FY2007, the working capital cycle increased to 33.5 days from 27.5 days in FY2007 on account of an increase in both the inventory (from 41.5 days in FY2007 to 46.1 days) and the loan & advances (from 14.6 days in FY2007 to 17.0 days). Consequently, even though the operating profit (before working capital changes) increased to Rs263 crore from Rs219 crore in FY2007, the cash flow from operating activities declined to Rs143 crore from Rs188 crore in FY2007.

- With a good growth in the bottom line, the RoNW improved to 63.3% from 45.1% in FY2007. The RoCE increased to 39.8% from 32.9% in FY2007. Also, the huge improvement in the return ratios was possible on account of the restructuring of the balance sheet undertaken by the company in FY2007 (including an adjustment of the intangible assets against the special reserves to the extent of Rs309 crore).

- For FY2008 the company has declared a dividend of 65.5%, which is the same as that declared for FY2007.

Management perspective

Focus brand to continue strong performance: Marico's flagship brand, *Parachute*, has grown by 10% in volume terms during the last two years. The company expects this brand to continue its strong performance in future on the back of an increase in the penetration of coconut hair oil. Marico is banking on the upcoming beauty and wellness industry in India with its *Saffola* brand. *Saffola* edible oil grew by around 22% in volume terms in FY2008 and is expected to grow by 15% year on year as it caters to the premium niche consumers who are more health conscious.

Introduction of new products in beauty and wellness segment: Marico is focusing on the beauty and wellness segment by introducing new products in this segment. Marico has launched *Saffola Active*, a blend of rice bran and soy bean oil, to expand its edible oil basket and maintain its strong position in the premium edible oil market. *Saffola* enjoys substantial equity for its perceived heath benefits. Banking on *Saffola*'s strong brand equity, Marico launched *Saffola Diabetes Management Atta Mix*, the functional food product for health conscious people in India. It also introduced the *Parachute Advansed Starz* range of hair care products for kids and *Maha Thanda* hair oil (making its entry into the Rs400-crore cooling hair oil market) in the second half of FY2008.

Margins to be under pressure in near term: A surge in crude oil prices and the corresponding increase in the international palm oil and vegetable oil prices will continue to exert pressure on Marico's input cost. A higher input cost would lead to lower margins in the near term.

Scouting for acquisition in domestic and international markets: Marico is looking to make acquisitions both in India and overseas to boost its overall growth. The company's aim is to foray into the developing market and grab opportunities in its focus segment of beauty and wellness.

Outlook

The growing urbanisation of Indian population, and the acceptance of specialised products and services provide a good opportunity for Marico to strengthen its roots in the country's lowly-penetrated beauty and wellness segment. To become a major player in this segment the company is continuously looking at expanding its focus portfolio in organic and inorganic ways. Though we like Marico's strategy to achieve an inclusive growth through organic and inorganic initiatives, we believe its profitability will remain under pressure in the near term because of a rising input cost and higher marketing spends. Consequently, though we expect the top line to grow by a good 18.8% in FY2009, we expect the bottom line to grow by a meagre 9.9% to Rs185.8 crore in the same period. At the current market price of Rs50, the stock trades at 16.2x and 12.7x its FY2009E and FY2010E EPS of Rs3.1 and Rs3.9 respectively. We maintain our Buy recommendation on Marico with a price target of Rs77.

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

Edelweiss Capital

Viewpoint

Focus on diversification

CMP: Rs482

Q1FY2009 result highlights

- Edelweiss Capital (Edelweiss) reported a top line of Rs268.9 crore in Q1FY2009, indicating a growth of 87.1% on a year-on-year (y-o-y) basis, but a decline of 33% on a quarter-on-quarter (q-o-q) basis. The sequential decline of 33% reflects the changed dynamics for the industry and the company, as it is in stark contrast with a 25% q-o-q growth seen by the company in the previous quarter.
- From the revenue stream perspective, the sequential decline in the revenue stems from weakness in fee and commission segment (down 38.7%) and 'treasury, arbitrage and trading' income (down 47.7%). The weakness in these segments outweighed the strong growth in investment and dividends, which nearly doubled on a sequential basis.
- The operating expenses, in line with the decline in the top line, too registered a decline owing to semi-variable nature of certain expenses. The operating expenses stood at Rs115.5 crore, up 88% on a y-o-y basis, but down 33% on a q-o-q basis.
- Consequently, the bottom line came in at Rs63.8 crore, indicating a 23% sequential decline. The sequential decline in the bottom line, though disappointing reflects the industry dynamics characterised by declining brokerage volumes and weaker investor interest.

Business update

Considering the challenging macro situation for the brokerage sector currently, many broking companies are increasingly focusing on diversifying their revenue streams with a view to reduce their risk. In line, Edelweiss is also investing in building its presence in new businesses. In fact, the company is one of the most diversified broking companies in India.

- *Increasing retail focus:* In the conference call, the management was explicit about its plans to focus on expanding its retail business further. In specifics, the company intends to participate in retail brokerage and third party distribution opportunity. Moreover, the company is considering both organic and inorganic approach for building its retail business. For retail broking, the company indicated preference towards online channel over the franchisee model. Under third party distribution business, the company plans to offer mutual funds, personal loans, insurance and other financial products. In line with the retail expansion plans, the company has already built a team of 80 employees and 300 contractual employees. In terms of pay back period, the company expects its retail business to start contributing meaningfully by FY2010 only.
- *Wholesale financing gains size:* The asset base of the wholesale financing business of the company has crossed Rs1,000 crore. The management expects the interest

Results table Rs (cr)

Particulars	Q1FY2009	Q1FY2008	% yoy chg	% qoq chg
Income from operations	268.9	143.7	87	-33
Fee and Commission income	88.6	81.5	9	-39
Treasury, Arbitrage and trading income	70.2	44.6	57	-48
Investment and dividends	33.7	7.8	332	101
Interest income	76.3	9.8	679	-30
Total expenditure	115.5	61.6	88	-33
Operating cost	65.8	25.3	160	-27
Employee cost	49.7	36.3	37	-40
Operating profit (PBIDT)	153.4	82.1	87	-34
Interest	43.9	14.9	195	-47
Depreciation	3.3	0.9	267	1
PBT	106.2	66.3	60	-28
Taxes	36.1	22.9	58	-31
PAT before minority interest	70.1	43.4	62	-25
Share of minority interest	6.3	1.4	350	-45
PAT after minority interest	63.8	42.0	52	-23

income from the financing business to become a major contributor to the revenues.

- *Foray into mutual fund business:* The alternative asset management business, which invests in real estate, private equity and multi-strategy funds, currently manages funds of about Rs2,400 crore. With a view to further strengthen its asset management business, the company intends to launch niche mutual fund schemes soon. The company has already received the necessary regulatory approval from the Securities & Exchange Board of India (SEBI).

Valuation

At the current market price, the stock trades at 11.9x 2009 consensus earnings pre share (EPS) estimate and 8.8x 2010 consensus EPS estimate.

Valuation table

Particulars	*2009E	*2010E
PAT (Rs cr)	309.4	433.4
EPS (Rs)	40.5	54.5
PE (x)	11.9	8.8

* consensus estimates

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

Mutual Gains

Mutual Fund

Sharekhan's top equity fund picks

The market has tanked by over 35% from its January 2008 peak, wiping out most of the gains made during its steep rally in 2007. After touching its all-time high of 21,207 in January this year, the market has sunk to 13,000 levels in a matter of just six months. In June alone it shed almost 2,000 points, with FIIs in a heavy selling mode. FIIs sold Indian equities to the tune of $2.5 billion at net level in June alone and have taken out $6.6 billion from our stock market in the calendar year so far. Investors have taken a massive hit on their portfolios in probably the worst stock market downturn in recent times. There is a general sense of pessimism and the dawn of each day brings fears of new lows.

The macro-economic environment has deteriorated in the past six months due to the rally in the prices of crude oil and the other raw commodities in the global markets. Most importantly, the unprecedented rally in crude oil is not only pushing inflation to unsustainable levels but also putting immense pressure on government finances in terms of bloating the fiscal deficit. To deal with the situation the government and the central bank have taken a series of fiscal and monetary measures including the sucking out of excess liquidity and pushing up of the overall interest rates in the economy. As a result, the earnings estimates of interest sensitive sectors such as banks, automobiles and real estate are being downgraded considerably and the risk of a downward revision in the earnings of companies in several other sectors is also growing.

The downside risk in the earnings is also mirrored in the continuous contraction of the price/earnings (PE) multiples and has resulted in the de-rating of the Indian markets itself. For instance, the Sensex, which commanded a one-year forward PE multiple of around 19-20x over the December 2007-January 2008 period, is now trading at close to 13-14x one-year forward earnings multiple. The current valuation largely factors in the change in the fundamentals.

Throwing all projections awry, inflation in Indian economy has skyrocketed to a 13-year high of 11.89% for the week ended June 28, 2008. Inflation has now stayed above the Reserve Bank of India's (RBI) comfort zone of 5% for 21 weeks in a row. This inflation is being caused by the rising prices of crude oil and the other commodities, especially raw foods and metals, in the global markets. To tame inflation the RBI has tightened the monetary screws further. It has hiked the repo rate twice in a month, by 25 basis points to 8% on June 11 and by 50 basis points to 8.5% on June 24. The cash reserve ratio has also been increased in two stages to 8.75%, starting from July 5 and July 19. Given the low base of inflation in the same period of last year and the fact that global commodity prices are not showing any signs of softening, we expect inflation to stay at high levels for some time.

Meanwhile, due to the RBI's monetary tightening measures, the economy's growth has moderated. The industrial growth stood at a modest 3.8% in May 2008, far lower than the 10.6% growth recorded in April last year. The performance of the manufacturing sector, which is plagued with the high costs of input and working capital, continues to drag the Index of Industrial Production down. Growth in the manufacturing sector slowed down to 3.9% in May 2008 from 11.3% in last May and 9% in FY2008. As for the GDP, while the annual GDP growth estimate for FY2008 has been revised upward to 9% by the Central Statistical Organisation, the consensus forecast for GDP growth in FY2009 has been revised downwards from 8.0-8.5% to about 7.5%. If crude oil continues its northward march, the GDP growth could slow down further.

Crude oil is expected to continue its relentless rise for some time, what with the Organisation of Petroleum Exporting Countries (OPEC) refusing to increase oil production. Any escalation of geo-political tensions or supply shortage could also push up crude oil prices higher. Though all kinds of forecasts are flying around, the consensus is that crude oil will see another spike from here and then come down, as demand will be unable to sustain at very high levels. Any appreciation in the dollar or any regulatory action against the speculators could hasten the softening process.

Even though the outlook is bleak for the near term, the economy is expected to grow at a respectable rate in the medium term since its fundamentals remain strong and it is in a better shape to cope with inflationary pressures today than it was in the past. In face of the rising interest rates, the corporate sector too has shown remarkable resilience so far. The same is evident from the 32.6% surge in corporate tax collections in the first quarter of FY2009. Direct tax collections have also gone up by 38.6% in the first quarter of FY2009 to Rs57,373 crore from Rs41,391 crore in Q1FY2008, pointing to continued buoyancy in the economy. If going ahead crude oil prices do a U-turn as expected, our fiscal situation would get better, inflation would come down, interest rates would soften, corporate earnings would improve and economic growth would pick up.

We have identified the best equity-oriented schemes available in the market today based on the following three parameters: the past performance as indicated by the one and two year returns, the Sharpe ratio and Fama (net selectivity).

The past performance is measured by the one- and -two year returns generated by the scheme. Sharpe indicates risk-adjusted returns, giving the returns earned in excess of the risk-free rate for each unit of the risk taken. The Sharpe ratio is also indicative of the consistency of the returns as it takes into account the volatility in the returns as measured by the standard deviation.

FAMA measures the returns generated through selectivity, ie the returns generated because of the fund manager's ability to pick the right stocks. A higher value of net selectivity is always preferred as it reflects the stock picking ability of the fund manager.

We have selected the top 10 schemes upon ranking on each of the above four parameters and then calculated the mean value of each of the four parameters for the top 10 schemes. Thereafter, we have calculated the percentage underperformance or over performance of each scheme (relative performance) in each of the four parameters vis a vis their respective mean values.

For our final selection of schemes, we have generated a total score for each scheme giving 30% weightage each to the relative performance as indicated by the one and two year returns, 30% weightage to the relative performance as indicated by the Sharpe ratio and the remaining 10% to the relative performance as indicated by the FAMA of the scheme.

All the returns stated on next page, for less than one year are absolute and for more than one year, the returns are annualised.

Aggressive Funds

Mid-cap Category

Scheme Name	NAV	Returns as on Jun30, 08 (%)		
		3 Months	1 Year	2 Years
Birla Sun Life Mid Cap	66.02	-17.72	-11.24	17.64
HDFC Capital Builder	64.17	-16.58	-12.36	12.81
IDFC Premier Equity	18.11	-11.09	3.65	36.32
Reliance Growth	301.71	-11.84	-1.86	22.94
Indices				
BSE Sensex	13461.60	-17.77	-8.07	12.63

Opportunities category

Scheme Name	NAV	Returns as on Jun 30, 08 (%)		
		3 Months	1 Year	2 Years
DWS Investment Opportunity	29.19	-13.97	11.01	28.41
IDFC Imperial Equity	12.87	-14.94	0.70	15.88
Kotak Opportunities	32.30	-17.32	0.29	19.47
PRINCIPAL Global Opportunities	17.54	6.88	8.81	15.58
UTI Opportunities	15.38	-14.56	-1.65	11.40
Indices				
BSE Sensex	13461.60	-17.77	-8.07	12.63

Equity diversified/conservative funds

Scheme Name	NAV	Returns as on Jun30, 08 (%)		
		3 Months	1 Year	2 Years
DSP Merrill Lynch Top 100	63.86	-12.87	-1.99	21.05
DWS Alpha Equity	57.91	-14.54	3.47	18.30
HDFC Growth	53.47	-15.98	-2.22	21.78
HSBC Equity	79.99	-12.02	4.39	20.90
Kotak 30	74.18	-16.42	-1.26	17.48
Sundaram BNP Paribas Select Focus	68.98	-12.12	7.36	21.39
Indices				
BSE Sensex	13461.60	-17.77	-8.07	12.63

Thematic/Emerging trend funds

Scheme Name	NAV	Returns as on Jun30, 08 (%)		
		3 Months	1 Year	2 Years
ICICI Prudential Infra	22.27	-20.52	4.72	31.14
SBI Magnum COMMA	18.37	-13.35	4.06	21.54
Tata Infrastructure	26.83	-18.20	-1.18	23.14
Templeton India Equity Income	14.05	-5.47	4.25	21.45
Templeton India Growth	77.04	-10.05	4.00	21.68
Tata Equity P/E	29.90	-11.62	-1.62	23.29
Indices				
BSE Sensex	13461.60	-17.77	-8.07	12.63

Balanced funds

Scheme Name	NAV	Returns as on Jun30, 08 (%)		
		3 Months	1 Year	2 Years
DSP Merrill Lynch Balanced	43.30	-9.08	-0.86	17.35
SBI Magnum Balanced	35.52	-14.08	-7.00	11.10
Tata Balanced	52.08	-13.84	-6.77	13.76
Indices				
Crisil Balanced Fund Index	2558.52	-14.51	-1.34	10.76

Tax planning funds

Scheme Name	NAV	Returns as on Jun30, 08 (%)		
		3 Months	1 Year	2 Years
Fidelity Tax Advantage	12.68	-15.29	-11.36	16.25
Principal Personal Taxsaver	74.53	-14.60	-10.20	21.32
Sundaram BNP Paribas Taxsaver	29.95	-12.11	2.46	19.51
Indices				
BSE Sensex	13461.60	-17.77	-8.07	12.63

Risk-return analysis

The charts on the following pages give you a snapshot of how the mutual funds have performed on the risk-return parameters in the past. We have used the bubble analysis method to measure their performances on three parameters viz risk, return and fund size. The risk is measured by standard deviation, which measures the average deviation of the returns generated by a scheme from its mean returns. We have tried to explain the same with the help of a diagram, which is divided into four quadrants, with each quadrant containing funds of a particular risk-return profile. The size of the bubble indicates the size of the fund.

The funds in the **high-risk high returns** quadrant follow a very aggressive approach and deliver high absolute returns compared to its peers albeit at a higher risk.

The funds in the **low-risk high returns** quadrant outperform the peer group on the risk-adjusted returns basis as they deliver higher returns compared to its peers without exposing the portfolio to very high risk.

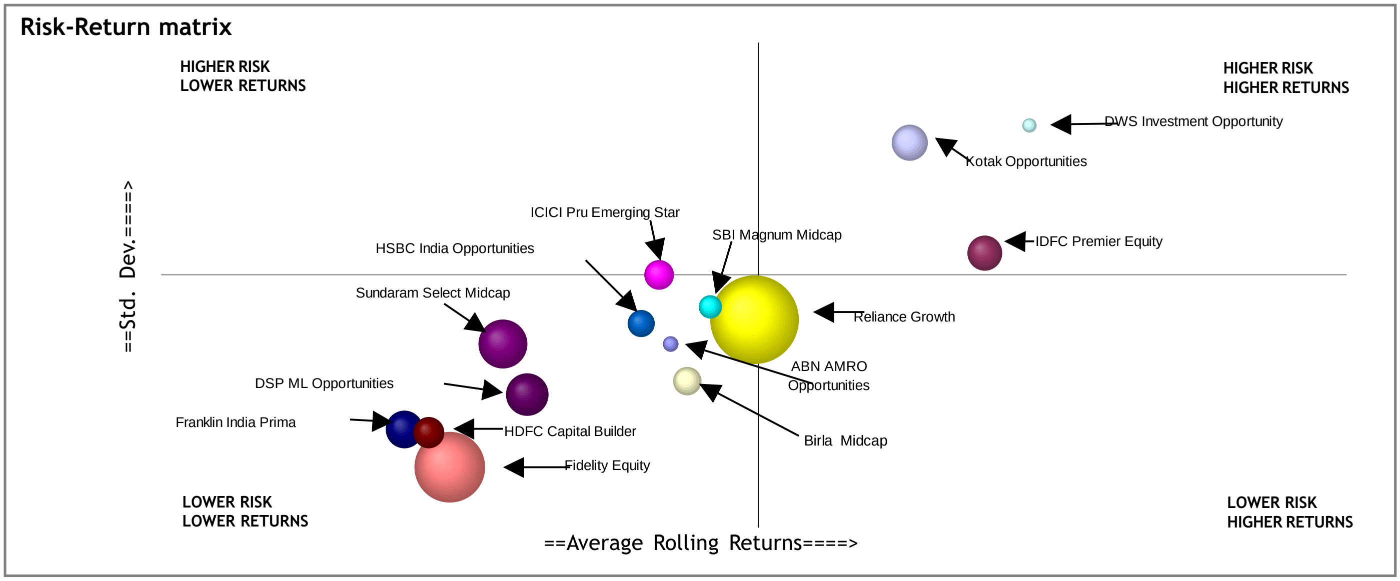
The funds in the **low-risk low returns** quadrant are not very aggressive and provide lower absolute returns, taking lower risks.

The funds in the **high-risk low returns** quadrant underperform the peers on the risk adjusted returns basis as they adopt a high-risk strategy but the returns fail to compensate the risk taken by the fund.

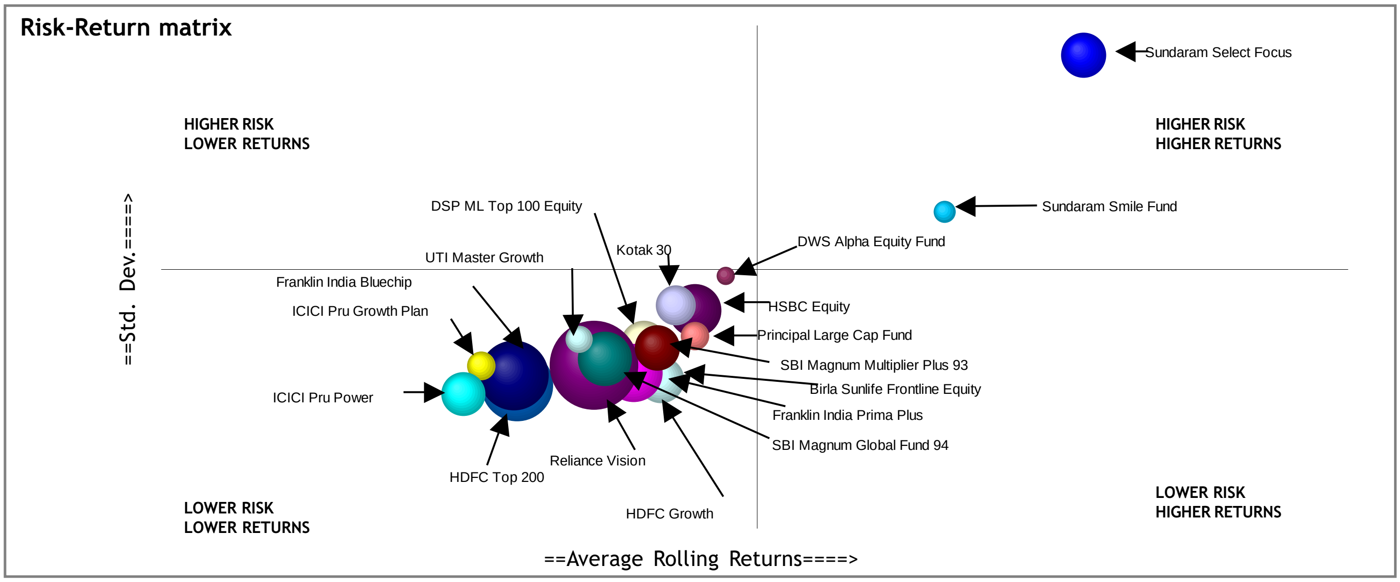
For aggressive, conservative and tax planning funds, risk is measured in terms of two years' volatility while returns are measured as two years' average rolling returns as on June 30, 2008. For thematic and balanced funds, risk is measured in terms of one year's volatility while returns are measured as one year's average rolling returns as on June 30, 2008.

Every individual has a different investment requirement, which depends on his financial goals and risk-taking capacities. We at Sharekhan first understand the individual's investment objectives and risk-taking capacity, and then recommend a suitable portfolio. So, we suggest that you get in touch with our Mutual Fund Advisor before investing in the best funds.

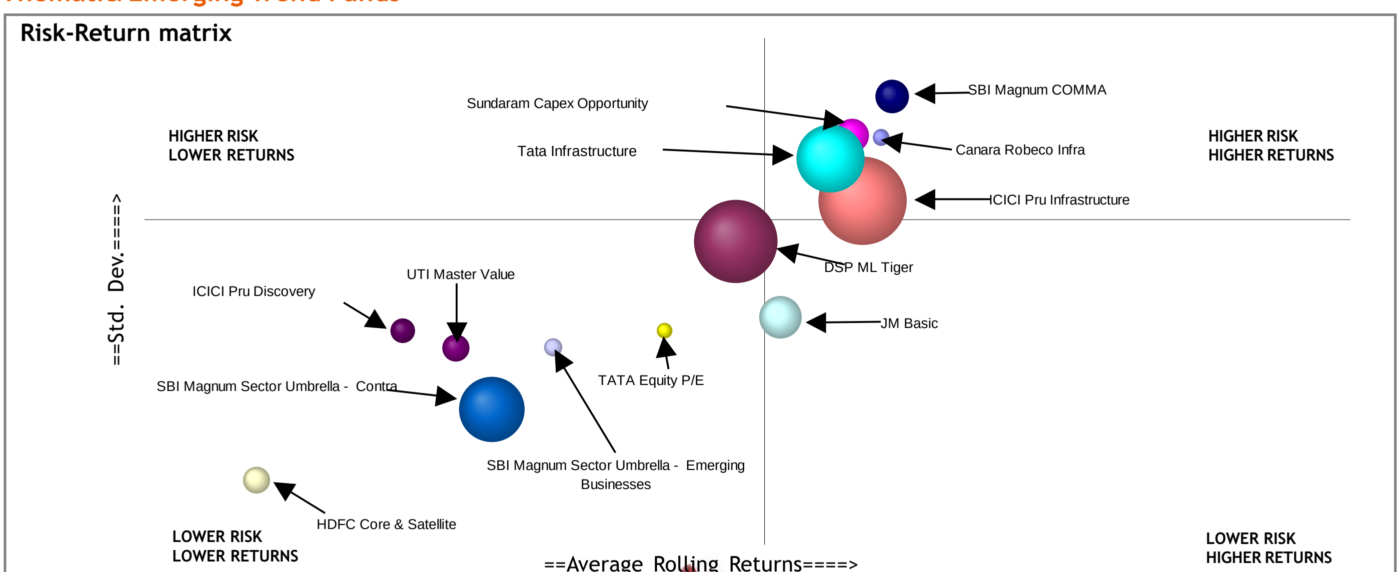
Aggressive Funds



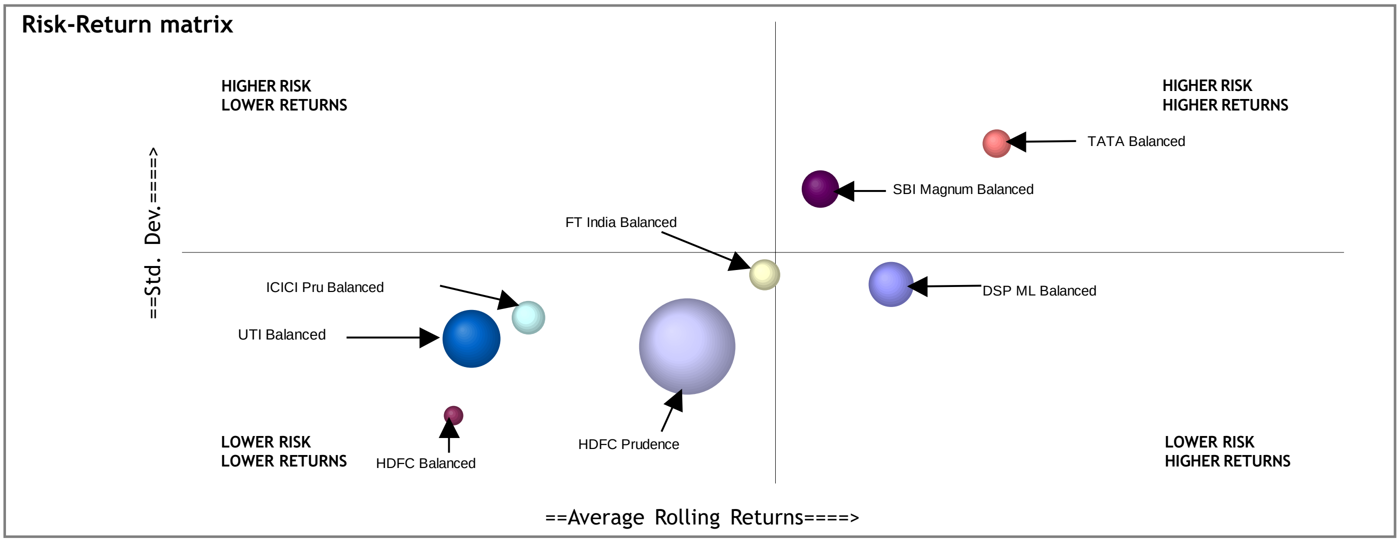
Equity Diversified/Conservative Funds



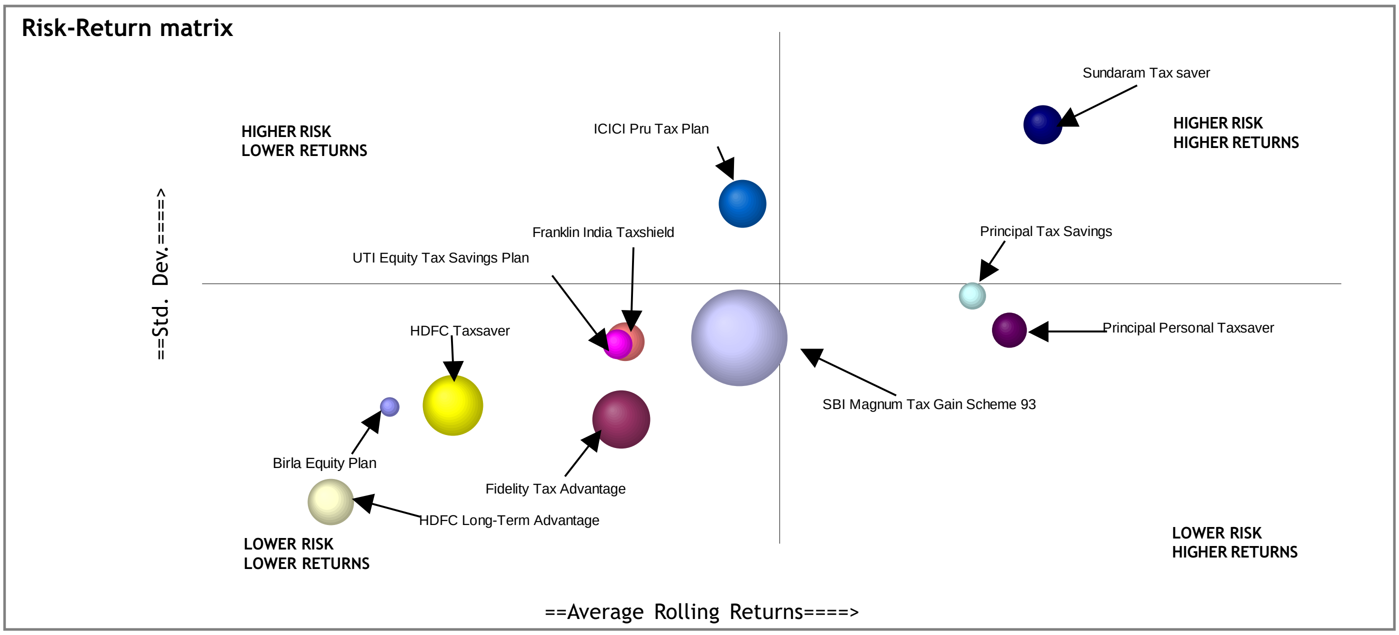
Thematic/Emerging Trend Funds



Balanced Funds



Tax Planning Funds



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What's In—What's Out

Mutual Fund

Fund Analysis: July 2008

Favourite stock picks in the portfolios of equity and mid-cap funds

An analysis has been undertaken on equity and mid-cap funds' portfolios, indicating the favourite picks of fund managers for the month of June 2008. Equity funds comprise of all diversified, index, sector and tax planning funds, whereas mid-cap funds include a universe of 24 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)
Anu S Laboratories	--	0.02
Clutch Auto	755215	2.81
Diamond Power Infrastructure	20000	0.69
Exxon Mobil Corporation	--	97.02
Hexaware Technologies	45000	0.23
Jai Engineering Works	--	0.28
NPIL Research & Development	15671	0.40
Shyam Star Gems	--	0.64

Top new stocks in the mid-cap funds' portfolios

Company name	No of shares	Mkt value (Rs cr)
Arvind Mills	2615614	8.41
Dena Bank	210000	0.85
Diamond Power Infrastructure	20000	0.69
Everest Kanto Cylinder	19629	0.52
HDFC Bank	70813	7.13
Hexaware Technologies	45000	0.23
Mastek	14600	0.53
Nagarjuna Fertilizers & Chemicals	244993	0.86
Octav Investments	--	0.02
Orbit Corporation	78001	2.38
Orchid Chemicals & Pharma	389364	8.76
Piramal Healthcare	23249	0.70
Rolta India	90093	2.22
Sasken Communication Tech	966265	13.05
Spice Communications	960000	6.94
Unitech	33000	0.57

What's out

Complete exits in the equity funds' portfolios

Company name
Centurion Bank of Punjab
Seshasayee Paper & Boards
Whirlpool of India
J M Financial
C M C
LG Household & Health Care

Complete exits in the mid-cap funds' portfolios

Company name	
XI Telecom	Mphasis BFL
Aries Agro	Deccan Aviation
KLG Systel	Techno Electric & Engg Co
Asian Electronics	Gas Authority Of India
SHRIRAM EPC	Centurion Bank of Punjab
Hindustan Oil Exploration	

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)
Bharti Airtel	6939282	500.77
Reliance Petroleum	20486653	349.20
Suzlon Energy	11125704	240.20
Tata Power Company	2196096	231.30
Dr Reddys Laboratories	2705967	181.45
IDFC	13506835	139.66
Piramal Healthcare	4389847	132.05
Bajaj Electricals	2867606	107.61
Punj Lloyd	5010619	106.83
Reliance Communication	2290882	101.35
Balrampur Chini Mills	8417293	66.96
Unitech	3859406	65.86
Bombay Rayons Fashions	2047224	57.65
Jindal Stainless	4154280	51.22
Cipla	2039566	43.06
Hindustan Lever	2056605	42.39
Apollo Tyres	12259937	39.91
India Cements	2852428	39.11
3 i Infotech	3720606	37.04
Shree Renuka Sugars	3654832	36.02

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

Company name	No of shares added	Mkt value added (Rs cr)
Bharti Airtel	1157611	83.54
Britannia Industries	505775	72.58
Dr Reddys Laboratories	441952	29.64
Gujarat Alkalies & Chemicals	992108	15.62
Shree Renuka Sugars	1467560	14.46
Gokul Refoils & Solvents	703797	14.30
Ballarpur Industries	3907804	13.11
Sasken Communication Tech	966265	13.04
Thermax	335750	12.53
Bata India	624440	9.12
Cairn India	325834	8.95
Orchid Chemicals & Pharma	389364	8.76
Balrampur Chini Mills	1079047	8.58
Arvind Mills	2615614	8.42
Spice Communications	960000	6.94
Crompton Greaves	302929	6.71
Shriram Transport Finance Co	229273	6.57
Marico	1211897	6.42
Amara Raja Batteries	450000	6.29
NIIT	533003	5.71

Popular stocks in mid-cap funds

Company name	No of shares	Mkt value (Rs cr)
Adani Enterprises	2152826	132.10
Bank of Baroda	4583695	93.23
Bharti Airtel	1647211	118.81
Bombay Dyeing & Mfg Co	1633713	95.05
Britannia Industries	816201	117.45
Crompton Greaves	6804495	150.96
Divis Laboratories	1738578	232.42
Exide Industries	14497966	93.95
Federal Bank	5610967	102.14
GMDC	6063798	151.08
IPCA Laboratories	1820632	102.28
Jain Irrigation Systems	2104770	102.67
Jindal Saw	2635807	131.88
Jindal Steel and Power	981848	171.97
Lupin	2358445	157.21
New Delhi Television	2811927	106.73
Reliance Industries	899251	188.40
Sintex Industries	3375473	104.29
Tata Chemicals	4145598	118.92
United Phosphorus (New)	4249213	119.96

Exclusive stocks

Some stocks held by only one fund

Scrip Name	Fund House
Kenna Metal	Kotak Mahindra Mutual Fund
Omax Autos	PRINCIPAL Mutual Fund
Pearl Global	PRINCIPAL Mutual Fund
Stone India	PRINCIPAL Mutual Fund
TTK Prestige	DSP Merrill Lynch Mutual Fund

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

UTI Spread Fund, Kotak Equity Arbitrage Fund , UTI long Term Advantage Fund, Reliance Natural Resources, Birla Sunlife Pure Value Fund, Reliance Equity Fund, UTI Infrastructure Advantage Fund and ICICI Prudential Blended Plan are some of the cash rich equity diversified funds waiting for right valuations to invest.

Scheme	Equity (%)	Debt (%)	Cash & equivalent (%)
UTI Spread	0.60	16.77	82.63
Kotak Equity Arbitrage	0.43	22.00	77.57
UTI Long Term Advantage	49.12	0.10	50.78
UTI Infrastructure Advantage Fund - Series I	57.69	2.18	40.13
ICICI Prudential Blended Plan - Option A	63.89	0.58	35.53
Birla Sun Life Pure Value	65.02	0	34.98
Reliance Natural Resources	67.70	0	32.30
Reliance Equity	67.89	0	32.11
DBS Chola Contra	68.58	0	31.42
Tata Equity Management	68.60	0	31.40

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Sharekhan Stock Ideas

Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys Technologies
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Apollo Tyres
Bajaj Auto
Bajaj Finserv
Bajaj Holdings & Investment
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Nicholas Piramal India
Punj Lloyd
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Tata Motors
Tata Tea
Wipro

Cannonball

Allahabad Bank
Andhra Bank
Gateway Distriparks
International Combustion (India)
JK Cement
Madras Cement
Shree Cement
Tourism Finance Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Axis Bank (UTI Bank)
Balaji Telefilms
BL Kashyap & Sons
Cadila Healthcare
Jindal Saw
KSB Pumps
Navneet Publications (India)
Network 18 Fincap
Nucleus Software Exports
Opto Circuits India
Orchid Chemicals & Pharmaceuticals
Patels Airtemp India
Television Eighteen India
Thermax
Zee News

Ugly Duckling

Ashok Leyland
Aurobindo Pharma
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Genus Power Infrastructures
ICI India
India Cements
Indo Tech Transformers
Ipca Laboratories
Jaiprakash Associates
KEI Industries
Mahindra Lifespace Developers
Mold-Tek Technologies
Orbit Corporation
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Selan Exploration Technology
SEAMEC
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Surya Pharmaceutical
Tata Chemicals
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
Unity Infraprojects
Wockhardt
Zensar Technologies

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India