industry update

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Equity AUMs rise in line with market movement

Industry news

- **Mutual funds (MFs) see 5% fall in assets due to strong redemptions in liquid schemes:** Despite the buoyancy in the equity and bond markets in September, the total assets under management (AUM) of domestic mutual funds fell by around 5%, compared with the previous month. The total AUM as on September 30 touched Rs291,199.81 crore, compared with Rs306,991 crore in August, according to the data available with the Association of Mutual Funds in India (Amfi). A large chunk of the redemptions during the month has been made in liquid schemes by banks and corporates in order to comply with the requirements of advance tax and to shore up the balance sheet for the half-year and quarter ended September 30.

- **Banks, MFs may get commodity entry:** The commodity futures market may see the entry of new players soon. The government is planning to amend the Banking Regulation Act and the Securities and Exchange Board of India (SEBI) regulations to allow banks and mutual funds to invest in commodity markets. The proposal is likely to be taken up at the next meeting of the National Development Council. The existing provisions in these regulations do not allow banks and mutual funds to deal in commodities and commodity derivatives.

- **RBI discontinues overdraft facility, SEBI advances cut-off time:** SEBI has given mutual funds more elbowroom to deploy funds in the market by advancing the cut-off time for the purchase of units in liquid fund schemes. This follows the Reserve Bank of India's (RBI) decision to discontinue the overdraft facility. According to the new norms, a mutual fund can now receive applications for liquid fund schemes only up to 12 noon, as against 1 pm earlier. While the investors will have an hour less to subscribe to liquid schemes, fund houses stand to gain, as they can deploy the funds in the money market on the same day they receive the subscriptions from investors.

- **ABN AMRO mutual fund changes Tax Plan fund manager:** ABN AMRO Asset Management (India) Ltd has appointed Amit Nigam as the fund manager of the Rs125 crore Tax Advantage Plan. Nigam replaced Prateek Agrawal, the firm's equities portfolio head.

Highlights

- The AUM for equity funds increased by 6.2% to Rs121,332 crore in September 2006. The rise was in line with the general upward movement seen in the equity markets.

- Fund managers made purchases worth Rs10,345 crore and remained net buyers to the tune of Rs1,340 crore during the month.

- Equity mutual funds registered a net inflow of Rs780 crore. Even as the redemption volumes were higher compared to the previous month, the inflows into new and existing schemes were strong enough to counter the high redemption volumes.

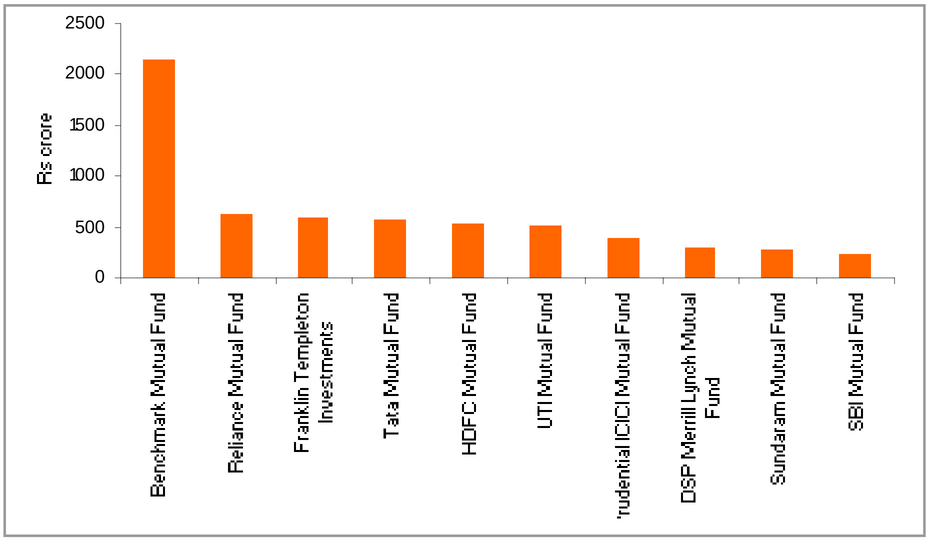
- With the market sentiment improving, mutual funds have started deploying their cash. Cash levels have declined to Rs8,249 crore in September 2006.

- Amongst all sector funds, banking funds have generated the highest returns in September 2006. Funds in the auto and banking sectors have outperformed the Sensex while funds in the fast moving consumer goods (FMCG), pharmaceutical and technology sectors have underperformed the Sensex.

- Mutual funds have slashed their exposure to entertainment, computer and diversified companies, and have bought stocks in the banking, housing & construction and telecom sectors.

- **Major movers for September 2006**

The AUM of equity mutual funds increased by 6.2% from Rs114,215 crore in August 2006 to Rs121,332 crore in September 2006. The rise in the AUM was more or less in line with the market trend. The AUM for the equity-diversified funds surged by 4.6%, whereas that of tax planning funds rose by 10.7%. The Index funds saw a massive increase of 125.8% in their AUM, while the sector funds posted a decline of 3% in their AUM.



Benchmark Mutual Fund clocked the highest increase of 151%, amounting to Rs2,143 crore in its AUM. Reliance Mutual Fund and Franklin Templeton Mutual Fund followed Benchmark Mutual Fund and recorded increases of Rs640 crore and Rs592 crore respectively in their equity AUM. The top loser was Standard Chartered Mutual Fund, which saw its equity AUM declining by Rs34 crore, followed by Sahara Mutual Fund.

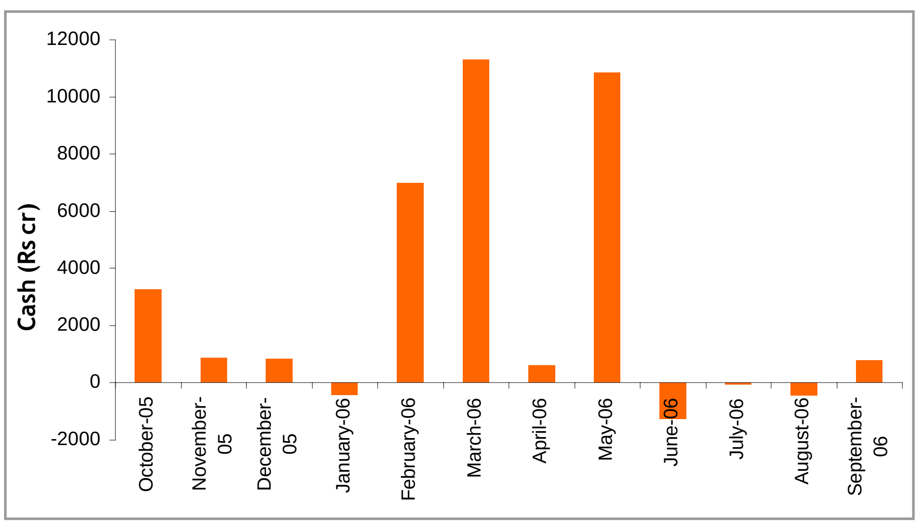
- **Stock Market Activities for Mutual Funds**

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

Month	Purchase (Rs cr)	Sales (Rs cr)	Net (Rs cr)
Sep-06	10,345.23	9,005.54	1,339.69

Equity fund flow

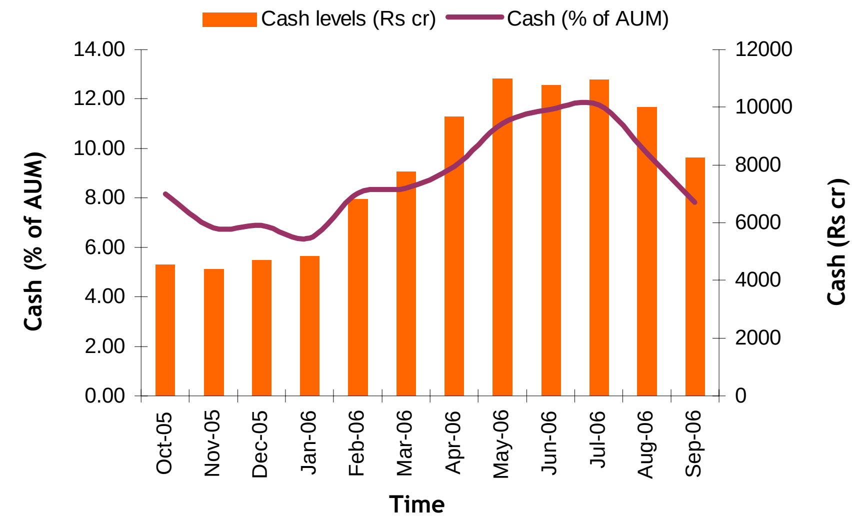
Fund flows into equity mutual funds charted into positive territory once again, with equity mutual funds registering a net inflow of Rs780 crore in September 2006. Even though the redemption volumes stood higher at Rs5,714 crore as compared with the previous month, the amount flowing into new (Rs330 crore) and existing (Rs6,164 crore) schemes was high enough to compensate for the higher redemption volumes. The new fund offering (NFO) collections include the amounts raised by Tata Capital Builder Fund and ING Vysya C.U.B. Fund but do not include the collections made by Birla Long-term Advantage Fund which was launched in September, as the allotment of the units for this fund is not yet complete. The collections made by Birla Long-term Advantage Fund will be reflected in the next month's fund flow figures.



Cash levels

Liquidity

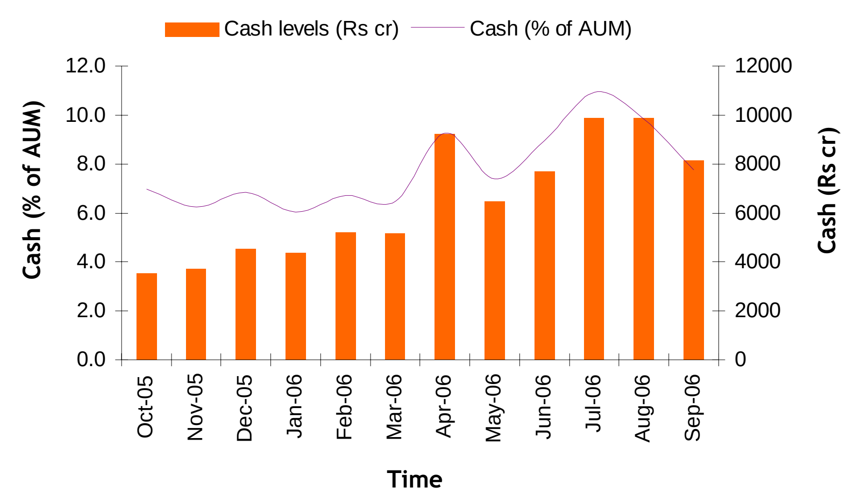
The absolute cash levels for all equity funds launched before September 2006 declined from Rs10,002 crore in August 2006 to Rs8,249 crore in September 2006, as mutual funds started deploying their cash aggressively, with the market sentiment improving. The cash as a percentage of the total corpus also followed a similar trend declining to 7.8% of the total corpus in September 2006 from 9.8% in August 2006.



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

Sentiments

With the market sentiment improving, and the market witnessing a correction in the early part of the month, mutual funds have reverted back to being 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 9.8% in August 2006 to 7.8% in September 2006.



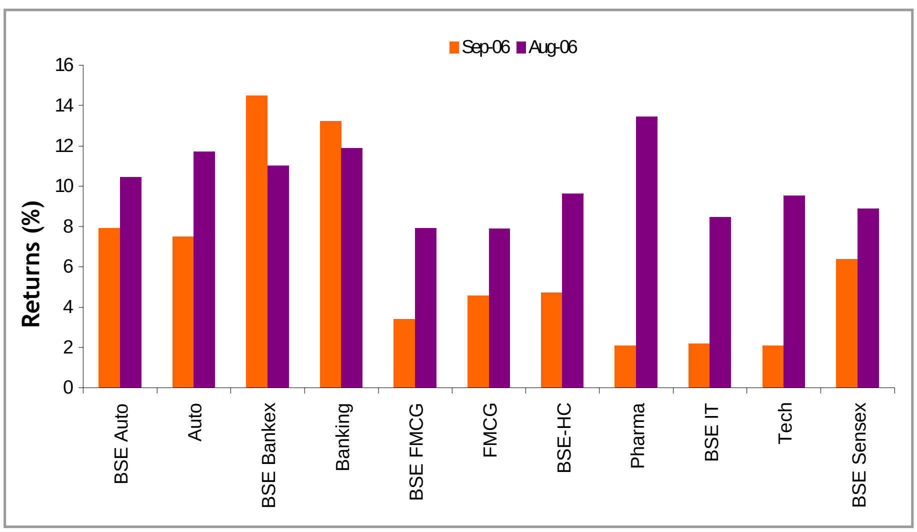
Note: Includes all equity funds in the industry with a NAV track record of 3 months+.

Sector allocation

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

Sector name	September 2006		August 2006		% change
	Amount (Rs cr)	% of net assets	Amount (Rs cr)	% of net assets	
Increase in exposure					
Banks	7307.5	8.9	6040.4	7.8	1.1
Housing & construction	3262.4	4.0	2705.0	3.5	0.5
Telecom	3556.6	4.3	3045.7	3.9	0.4
Steel	2000.9	2.4	1758.5	2.3	0.2
Transport & travel	561.5	0.7	418.9	0.5	0.1
Auto & auto ancilliaries	7011.7	8.5	6477.3	8.4	0.1
Decrease in exposure					
Entertainment	2005.3	2.4	2230.7	2.9	-0.5
Computers - software & education	8056.4	9.8	7851.3	10.2	-0.4
Diversified	11651.0	14.2	11150.8	14.4	-0.3
Electronics	1451.0	1.8	1566.6	2.0	-0.3
Pharmaceuticals	3922.0	4.8	3872.3	5.0	-0.2
Tobacco & pan masala	1748.4	2.1	1797.1	2.3	-0.2

Performance of sector funds



Despite the Sensex advancing by an appreciable 6.3% in September, most fund categories except banking funds have generated lower returns in September 2006 as compared with the returns clocked in August 2006. Auto and banking funds have outperformed the Sensex by wide margins. Banking funds have generated returns in excess of 13% in the month, way above the average market returns. On the other hands, funds in the FMCG, pharmaceutical and technology sectors have underperfomed the Sensex by margins of 2-4%. Additionally, funds in the FMCG sector have outperformed the BSE FMCG index whereas the funds in the auto, banking, pharmaceutical and technology sectors have underperformed their respective benchmark indices (the BSE Auto index, the BSE Bankex, the BSE Healthcare index and the BSE IT index respectively) in September 2006. Banking funds gave the highest returns in September 2006, followed by auto and FMCG funds.

Disclaimer: mutual fund investments are subject to market risk. Please read the offer document carefully before investing. Past performance may or may not be sustained in the future.