

Monthly Market Round-up - Equity

January 2009

The new year starts on a weak note..

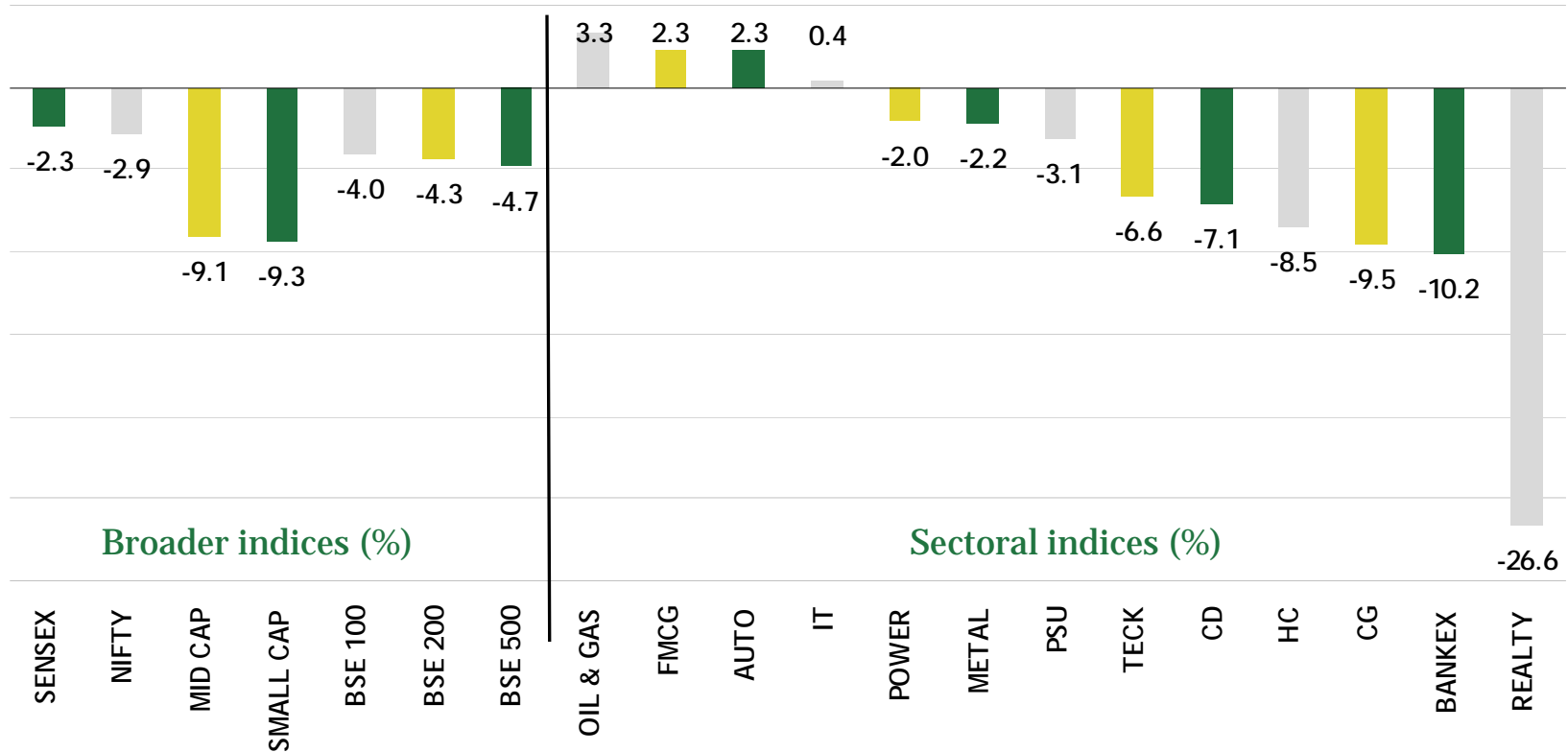
- Equity markets were down across the globe this month but Asia managed to outperform
- Global economic data continues to point down with growth forecasts still being cut
- In India, as we had expected, the poor earnings season had been reasonably discounted by the market and there were no major surprises
- The spotlight was on corporate governance, accounting practices, pledged shares & borrowing, post the revelation of long running fraud in Satyam
- RBI stayed put in its credit policy review but it did cut rates earlier in the month in response to weak economic data
- Fuel prices were cut during the month and inflation looks to be heading to below 1% or even zero in the months ahead

Global Equities

Index	Country	Closing Price*	1 Month Return (%)	YTD Return (%)	Category
SSE Composite Index	China	1990.66	9.33%	9.33%	EM - Asia
BSE Sensex	India	9424.24	-2.31%	-2.31%	EM - Asia
Kospi	South Korea	1162.11	3.35%	3.35%	EM - Asia
Taiwan Weighted	Taiwan	4247.97	-7.48%	-7.48%	EM - Asia
Thailand SET 50 Index	Thailand	303.59	-3.25%	-3.25%	EM - Asia
Jakarta Composite Index	Indonesia	1332.67	-1.68%	-1.68%	EM - Asia
KLSE	Malaysia	884.45	0.88%	0.88%	EM - Asia
Ibovespa Sao Paulo Index	Brazil	39300.79	4.66%	4.66%	EM
Mexico IPC	Mexico	19565.14	-12.58%	-12.58%	EM
Russian RTS Index	Russia	535.04	-15.33%	-15.33%	EM
Philippine PSEi	Philippines	1825.09	-1.99%	-1.99%	EM
Merval Buenos Aires Index	Argentina	1077.09	-0.24%	-0.24%	EM
HangSeng	Hong Kong	13278.21	-7.71%	-7.71%	Developed - Asia
Nikkei	Japan	7994.05	-9.77%	-9.77%	Developed - Asia
Strait Times	Singapore	1746.47	-0.86%	-0.86%	Developed - Asia
Dow Jones	USA	8000.86	-8.84%	-8.84%	Developed
CAC 40 Index	France	2973.92	-7.58%	-7.58%	Developed
All Ordinaries Index	Australia	3478.10	-4.95%	-4.95%	Developed
DAX Index	Germany	4338.35	-7.79%	-7.79%	Developed
Swiss Market Index	Switzerland	5290.05	-4.42%	-4.42%	Developed
FTSE 100	UK	4149.64	-6.42%	-6.42%	Developed
MSCI World Index	--	838.83	-8.85%	-8.85%	--

* as on 31st January 09. Source : Bloomberg
EM - emerging markets, Developed - developed markets.

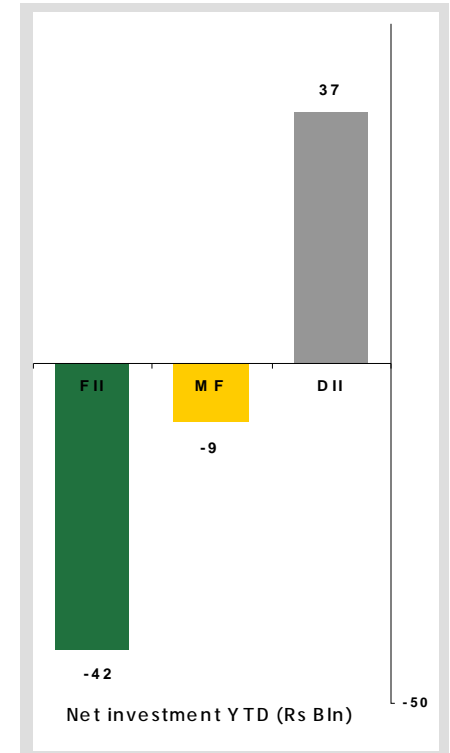
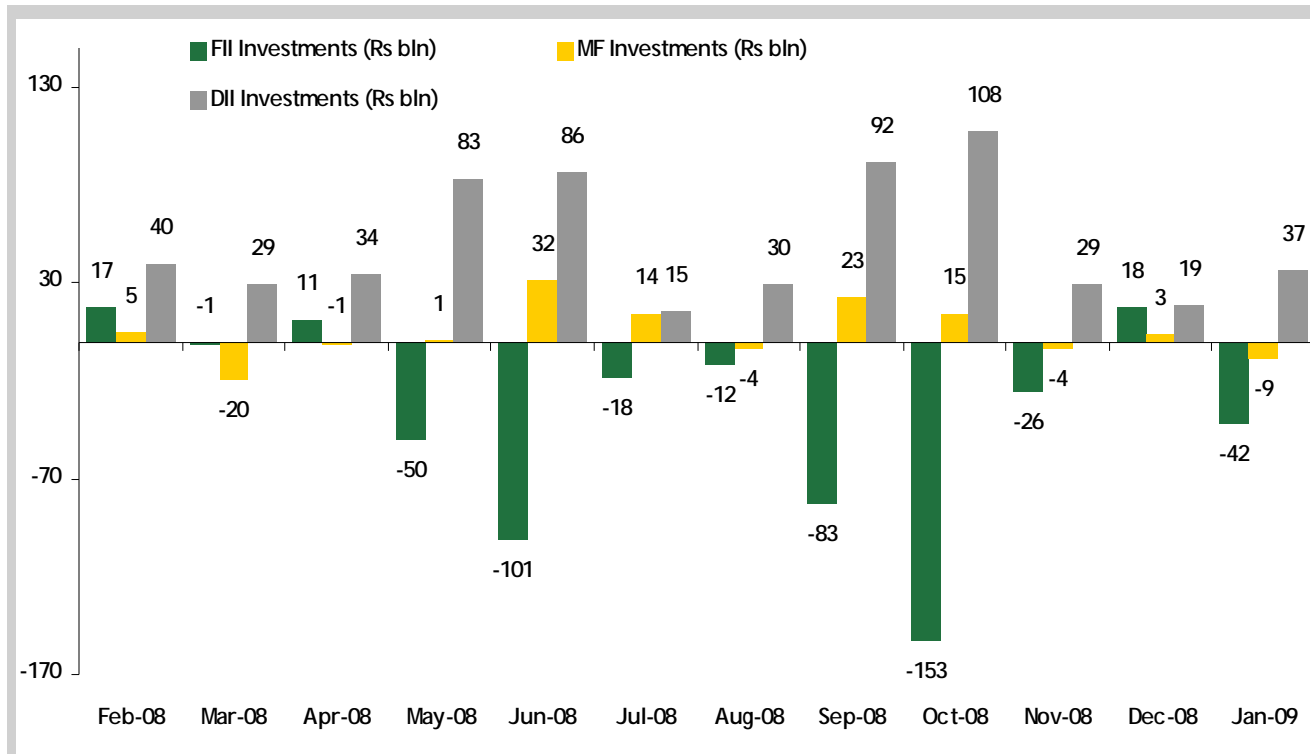
Role reversal in sector performance



- The realty sector reported miserable earnings numbers and was the worst hit sector this month
- Banks delivered the strongest earnings for the Dec quarter due to gains in their gilt holdings but still ended up losers as the focus shifted to deterioration in their asset book
- Smaller companies were hit badly post the 'Satyam fiasco' and did far worse than the larger companies

*Source: BSE, NSE. one month performance as on 31st January 09.

Domestic Institutional buying matches FII selling



- After a brief one month hiatus FIIs turned sellers again
- Insurance company premium inflows have slowed dramatically in recent months, dropping 5% yoy in November
- The Jan-March quarter is a seasonally strong quarter for the insurers and hence they should provide buying support to the markets

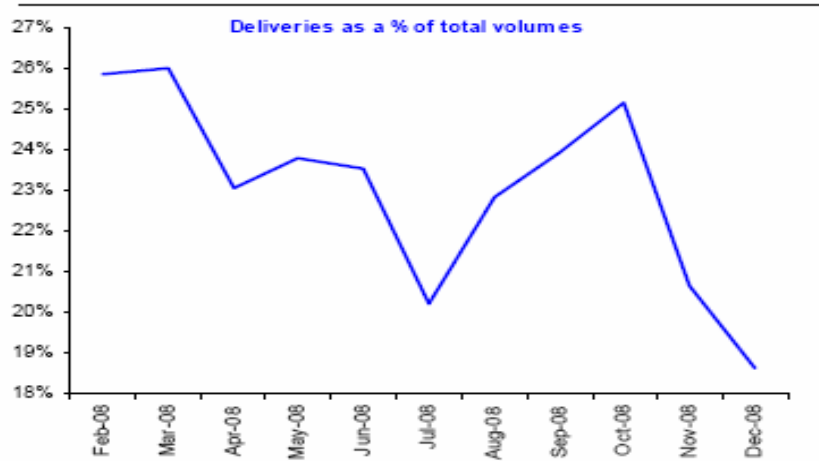
Top Gainers / Losers - Nifty

Top Gainers for the month			
Gainers	52 week H/L	Last Price#	% Gain*
Infosys Technologies Ltd.	1993.55 / 1102.3	1306.65	17.14%
Mahindra & Mahindra Ltd.	698.15 / 243.2	302.25	10.11%
Maruti Suzuki India Ltd.	940.2 / 460	568.3	9.25%
Hero Honda Motors Ltd.	888.4 / 638.1	876.85	9.11%
Reliance Industries Ltd.	2688.95 / 1019.5	1323.6	7.37%
Top Losers for the month			
Losers	52 week H/L	Last Price#	% Loss*
D L F Ltd.	890.1 / 161.3	177.65	-37.04%
Siemens Ltd.	1712.2 / 187.85	206.35	-28.09%
Reliance Communications Ltd.	686.1 / 160.3	170.05	-25.15%
Suzlon Energy Ltd.	338.4 / 36.9	47.25	-24.16%
Punjab National Bank	701.6 / 350.9	400.6	-23.94%

closing price as on 30th January 09.* one month performance as on 30th January 09. Source: cmie prowess

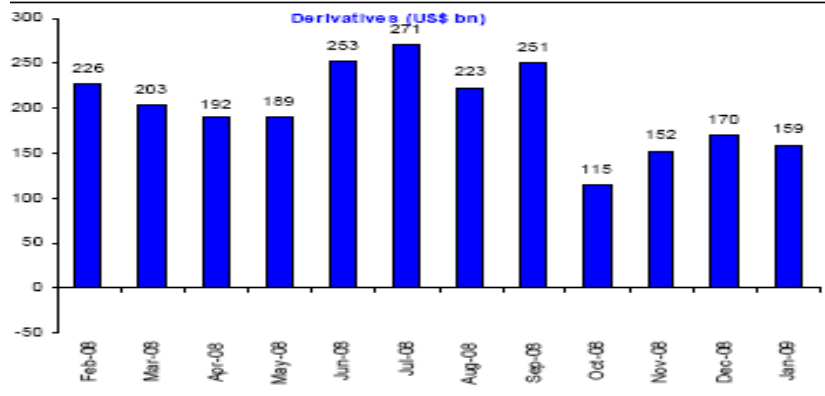
Market indicators - Disenchantment

Deliveries to Total Trading



Source: BSE, NSE, Morgan Stanley Research

Derivatives Volumes

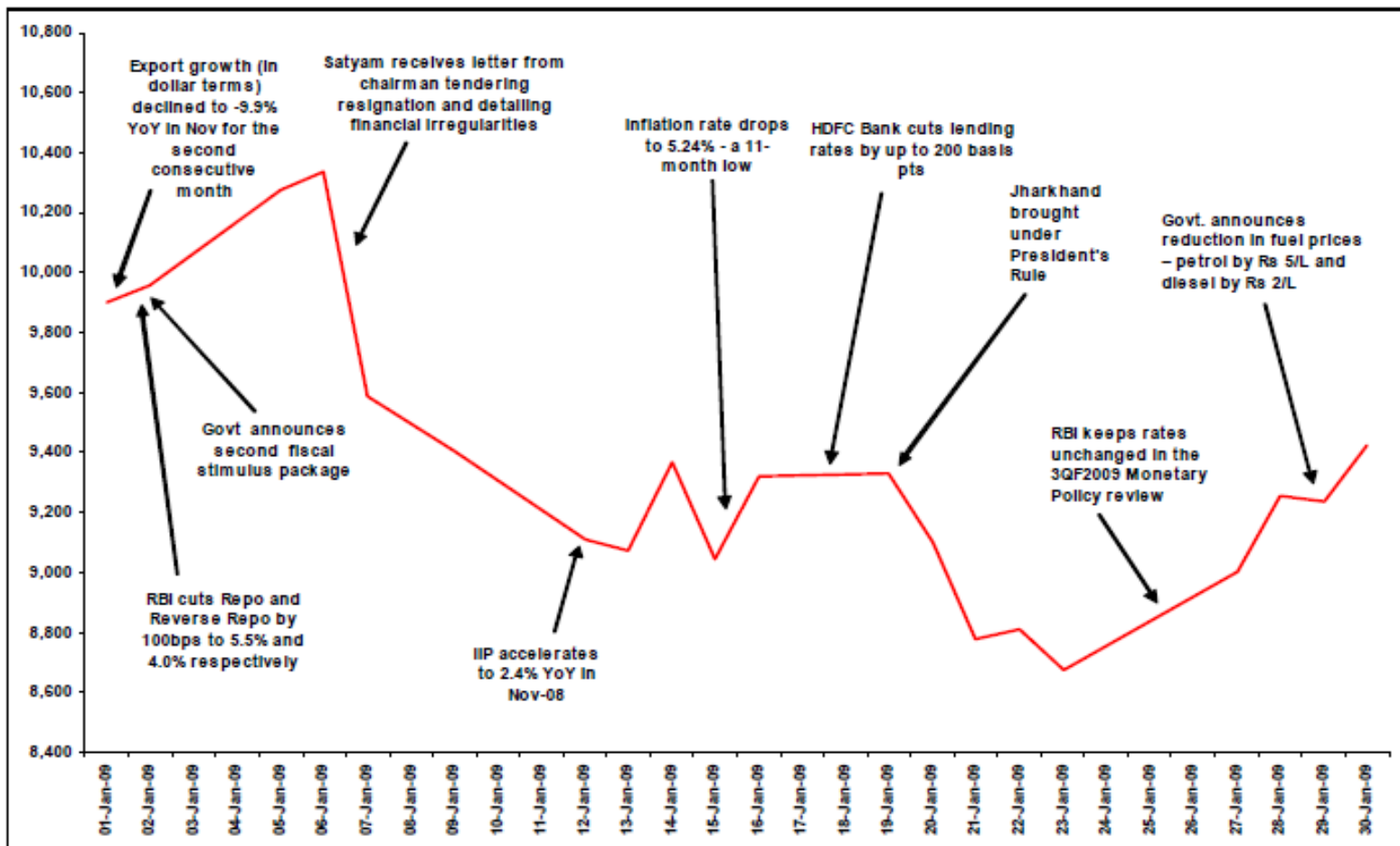


Note: Only NSE

Source: Bloomberg Morgan Stanley Research

- Shares settled for deliveries have collapsed to a 4½ year low over the past two months
- Trading volumes (value) fell 30% MoM and are now 74% below their October 2007 peak
- Futures market activity was subdued in January with derivative trading volumes falling 6% MoM. Derivative volumes were 66% off their October 2007 peak

January timeline



Source: Bloomberg, Economic Times, Business Standard, Morgan Stanley Research

India Market Summary

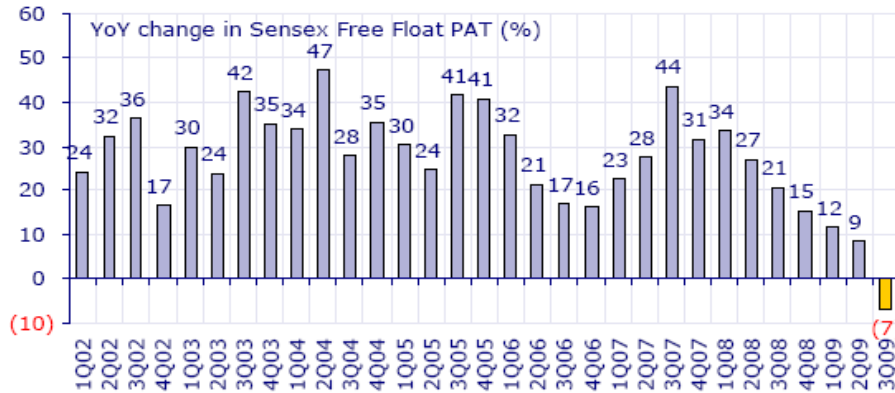
- Markets continued to swing to global tunes and subdued Q3 corporate earnings, but, clawed its way back towards the end of the month. The benchmark index Sensex was down to 9424 during the month falling by 2.3% in the month, in spite of a 8.5% rally in the last week
- Midcap and Small caps underperformed their Large cap counterparts significantly. BSE Midcap and Small Cap index lost by 9.1% and 9.3% respectively
- FII's turned negative once more and were net sellers with an outflow of Rs 42.4bn. Domestic Institutional investors (DIIs) were net buyers to the tune of Rs 37bn
- Investors confidence was shaken by IT major Satyam Computer's mega accounting scandal, estimated at over Rs 7,000 crore, which came to light on 7th January 2009
- SEBI has announced a series of steps including peer review of audits and disclosure of pledges by promoters to restore confidence

Highlights for the month

- WPI inflation based on the wholesale price index (WPI) has come down to 5.64% in the week ended 17th January'09 compared to last month's 6.4%
- The Index of Industrial Production (IIP) YoY showed an improvement and came in at 2.4% from (-) 0.4% in previous month on the back of weak manufacturing activity and base effects
- India's exports declined for the second month in a row by 9.9% to \$11.5bn in Nov08 from \$12.7bn in the same month previous fiscal. Imports grew by 6.1% to \$21.5bn from \$20.3bn in the year ago period, taking the trade deficit to \$10bn
- To ease the liquidity situation and pump-prim the economy, the RBI has cut repo & reverse repo rates by 100 bps to 5.5% and 4% respectively. Thus repo rates have fallen by 350 bps from 9% and reverse repo rates 150 bps since September 08. CRR was also cut by 50 bps to 5%, thus CRR is down 400 bps since September
- India cut petrol prices by Rs 5 per litre, diesel prices by Rs 2 per litre and Rs 25 cut per cylinder for cooking gas
- Government will seek a "vote on account" rather than a full budget for the new financial year starting April 09, but will give an overview of the economy and the challenges it faces
- During January the rupee depreciated 0.6% against the USD while it appreciated 8.1% against the euro

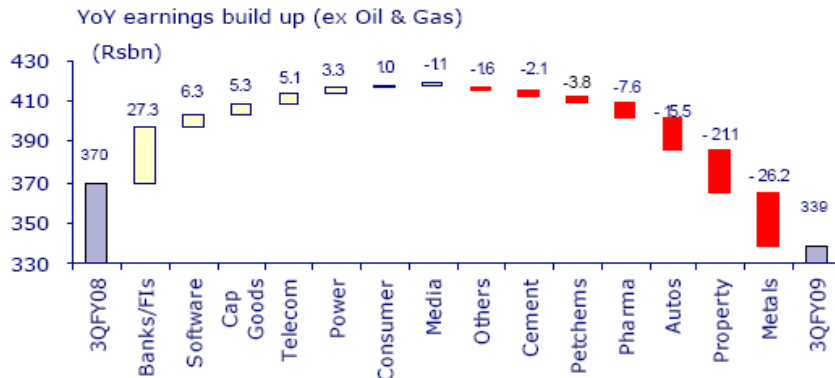
Review of earnings for Dec 2008

Sensex earnings declined 7% YoY, marginally lower than expectations



Source: CLSA Asia-Pacific Markets. Note: Free-float adjusted

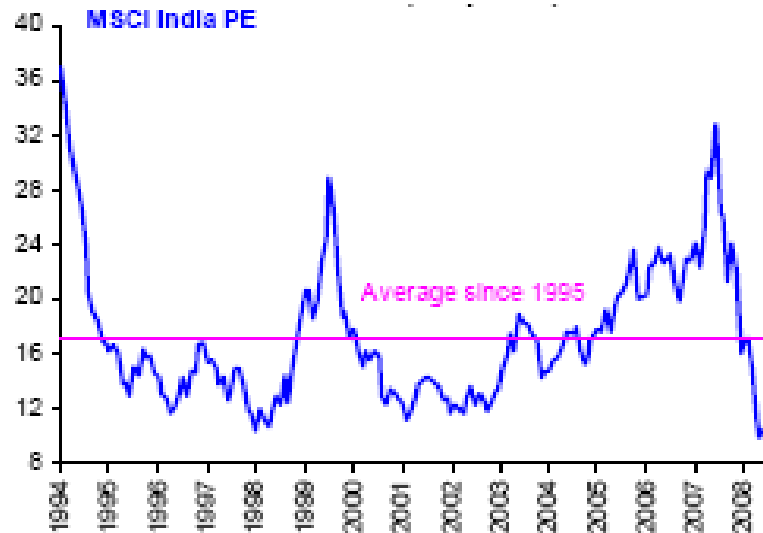
Metals and property accounted for 150% fall in incremental profits*



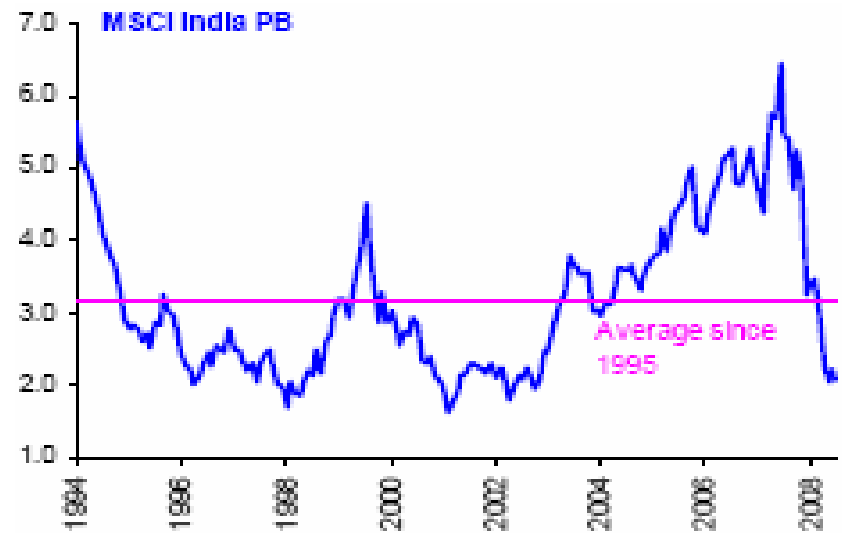
* - for CLSA Universe, ex oil & gas Source: CLSA Asia-Pacific Markets

- Earnings for the quarter ended Dec 2008 were worse than already lowered expectations
- Sensex earnings declined by 7% yoy, the first time in 6 years
- Sales growth at 5.7% was the lowest in 5 years
- Operating margin contraction was sharper than expected and interest costs went up sharply
- On pre-exceptional basis, negative surprises were in autos, metals, property and media
- Petrochemicals, pharma and banks surprised on the positive side.

Valuations



Sources: Bloomberg, FactSet, MSCI, Morgan Stanley Research



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- Absolute valuations are as cheap as they have ever been
- Only P/B (price to book ratio) is 27% above its all time low in Sep01
- As compared to bond yields, equity valuations are as attractive as they have ever been

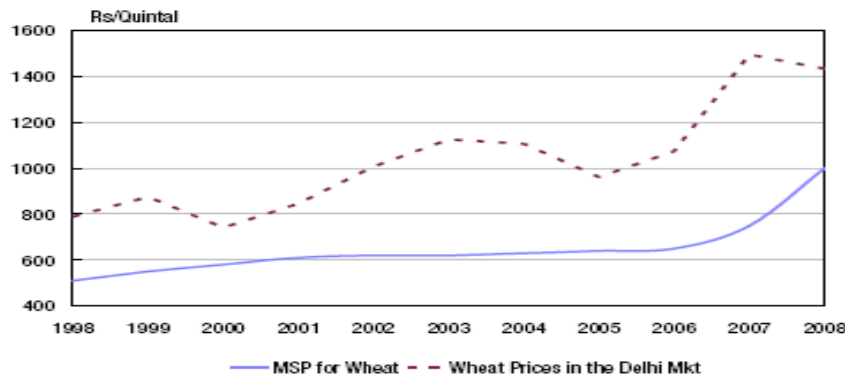
Spotlight : Rural demand

Rural Share of Consumer Demand (%)

	FY96	FY02	FY10E
Scooters	33.1	39.4	39.9
Motorcycles	47.3	39.8	48.3
Mopeds	52.7	58.2	57.7
Cars/jeeps	2.1	8.0	10.9
Automotive	37.9	36.0	37.9
TVs	54.0	54.5	44.2
Other white goods	23.8	23.9	23.7
All fans	50.0	56.9	56.7
Other low-cost items	58.1	60.1	61.3
Shampoos	27.2	31.9	33.0
Edible oils	64.3	67.1	62.9
Washing cakes	68.7	71.4	75.6

Source: NCAER

Trends in the MSP and Retail Prices



Source: Ministry of Agriculture

- Our interaction with companies suggests that rural demand is holding up better than urban demand
- A sharp increase in the prices of agriculture produce over the last 2 years and good monsoons have resulted in a significant rise in rural prosperity
- The loan waiver scheme and the rural employment guarantee scheme have further strengthened rural consumption trends
- The rural market typically accounts for over 50% of consumption
- Companies with significant exposure to rural markets are benefiting from this tailwind

Looking Ahead....

- Earnings for December 2008 disappointed as they came in below expectations and the operating and financial metrics suggest the trend will persist
- The Banks appear to be gradually dropping their rates, but borrowing rates for individuals and companies remain elevated compared to benchmark Gilt rates
- The environment remains challenging in terms of sluggish domestic demand, a decline in external demand (exports) and reduced availability of capital and higher cost of capital
- We remain of the opinion that a significant degree of the macro risk has been discounted by the markets, our bigger concern is stock specific risk

Investment view

Short term

- Challenging growth environment with GDP growth likely to decelerate next year to under 6%
- We now estimate that earnings during FY08-10 are likely to drop by 5-10%
- Inter-sector and Intra-sector performance variations are likely to increase

Long term

- India will double in size, adding \$1trillion to GDP over the next 5-7 years.
- Over the same period earnings should match nominal GDP growth @12-14% p.a but will be back ended
- If growth accelerates from 2010 then returns would be boosted by an improvement in valuations

Events Calendar

Date	Economy	Data release / Event	Period	Prior
12-Feb	India	Industrial production (% ,Y-o-Y)	December	2.4
13-Feb	India	Railway Budget	FY10	--
16-Feb	India	Vote-on-Account	FY10	--
27-Feb	India	Real GDP (% , Y-o-Y)	Q3FY08	7.6
	India	WPI Inflation	Every Thursday	--

Date	Economy	Data release / Event	Period	Expectations	Prior
5-Feb	Eurozone	ECB interest rate announcement	5-Feb	2.00	2.00
5-Feb	UK	BoE interest rate announcement	5-Feb	1.00	1.50
6-Feb	US	Unemployment Rate	Jan	7.5	7.2
13-Feb	Eurozone	Real GDP (% , Y-o-Y)	Q4CY08	--	0.6
19-Feb	Japan	BoJ interest rate announcement	19-Feb	--	0.10
27-Feb	US	GDP (Q-o-Q, annualised)	Q4CY08	--	--

Source: Bloomberg

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