

## Indian Equity Market

### Global Update

MSCI India was the second best performing emerging market in March, while still being in the bottom 5 performers in 2011. In March, the MSCI India Index has gone up 11.1%, while being down 5% YTD and showing an 8% upside on a trailing 12m basis.

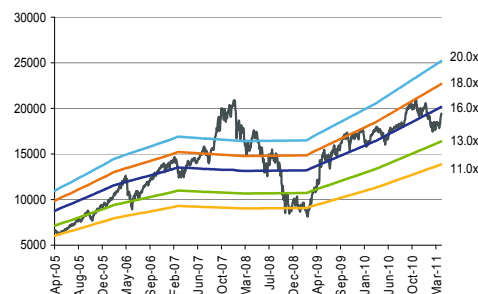
### Domestic market review

- ▶ **Sensex/Sectors:** The BSE Sensex Index moved up 9% during March, bouncing back to touch a 2 month high. It is up 10.9% on a trailing 12m basis, though still being down 5% YTD. On a 1-month basis, Financials was the best performing sector with 2.8% contribution, while Pharma and Cement were to the two worst performing sectors. On a 12m trailing basis, Financials contributed the 5.3%, and Capital Goods sector being the worst performer contributing (-)0.8% on an absolute basis (refer to charts on the next page).
- ▶ **Large/Mid/Small Cap:** The large cap index (BSE 100) outperformed the mid-cap and small cap indices by approx. 1.2% and 4.4% respectively during March. On a 1-year basis as well, the large cap index has outperformed the other two indices by a significant margin.
- ▶ **Flows:** FII inflows in the cash market were positive with FIIs buying in excess of USD 1.5bn, during the month of March. In the futures market as well, FIIs were net buyers to the tune of USD 1.3bn. Domestic mutual funds were positive for the fourth consecutive month while domestic insurance companies were marginal sellers.
- ▶ **Equity market activity:** Market activity remained weak. Cash volumes and turnover reached a 13 month low. Derivatives turnover was also down during the month, though market breadth was up 20% m-o-m.
- ▶ **Earnings expectations:** The consensus expects Sensex EPS growth of 23.3% and 18.7% in FY11 and FY12 respectively.
- ▶ **Corporate activity:** 3-month rolling equity issuances show a downward trend as does the 3-month rolling trend for debt issuances. M&A activity, however, showed a pickup.
- ▶ **Valuation:** MSCI India's absolute valuations rose to a 4-month high during March. Relative to emerging markets, the India's valuations are currently at a 58% premium to the MSCI EM valuations. The Sensex Index is trading at 15.4(x) 1-year forward earnings (refer chart alongside).

### About DSP BlackRock

- ▶ DSP BlackRock Investment Managers, one of the premier asset management companies in India, currently manages assets, including advisory and offshore funds of USD 8.85bn (as at March 31, 2011) offering investment products across the risk-reward spectrum. DSP BlackRock Investment Managers is a joint venture between the DSP Group and BlackRock Inc. The DSP Group is owned by Mr. Hemendra Kothari and has a track record of over 140 years. BlackRock Inc. is one of the largest quoted asset management companies in the world, managing assets in excess of USD 3.56 trillion.

**Sensex 1-year forward PE Band Chart**



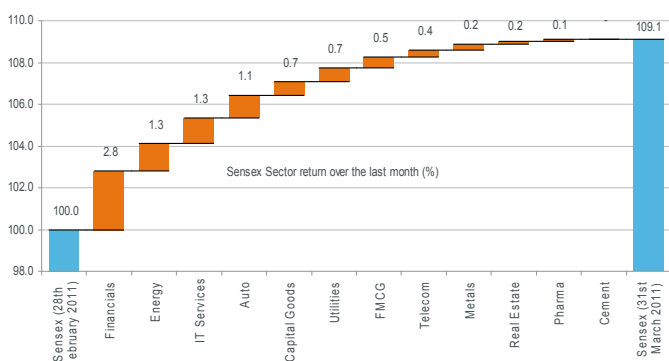
Source: Bank of America, Merrill Lynch Research

**MSCI Returns**

Country	1M	YTD
Russia	5%	16%
Korea	12%	6%
USA	0%	5%
Indonesia	10%	5%
Malaysia	5%	4%
Thailand	7%	3%
Australia	2%	3%
China	5%	3%
Brazil	4%	2%
Emerging Markets	6%	2%
Hong Kong	1%	-1%
Taiwan	2%	-4%
Philippines	8%	-4%
India	11%	-5%
Japan	-10%	-6%

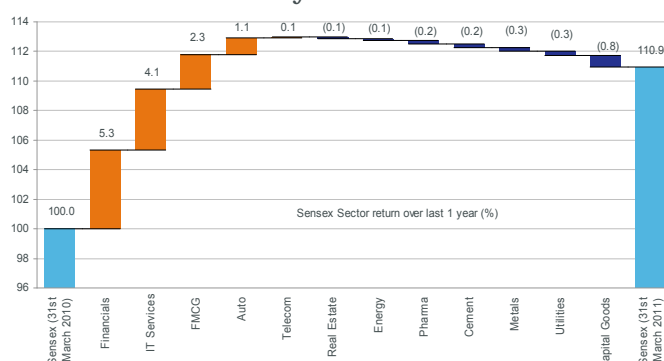
Source: Bloomberg; as at March 31, 2011, All data in USD. Values sorted by YTD.

## Index Returns: One month



Source: IIFL; as at March 31, 2011

## Index Returns: One year



## Macroeconomic Review

- ▶ The **Industrial Production (IP)** growth for January picked up 3.7% y-o-y compared to 2.5% (revised upwards from 1.6% y-o-y) in the previous month. On a seasonally adjusted basis, the IP index was up 1.1% m-o-m in January compared to 1.9% m-o-m in December. On a quarterly basis, IP growth decelerated to an average of 3.3% y-o-y during the quarter ended January 2011. Growth in the manufacturing and electricity segments picked up to 3.3% y-o-y (compared to 2% y-o-y in December) and 10.5% y-o-y (compared to 6% y-o-y in December) respectively. Growth in the mining segment decelerated to 1.6% y-o-y (compared to 5.7% y-o-y in December).
- ▶ The **WPI headline inflation** accelerated marginally to 8.3% y-o-y in February 2011, compared to 8.2% in the previous month. The seasonally adjusted WPI Index was up 0.9% m-o-m. Food inflation (primary and manufactured) decelerated to 7.3% y-o-y in February against 9.5% in the previous month while non-food inflation accelerated to 8.7% this month from 7.7% in January.
- ▶ **India's current account deficit** narrowed to USD 9.7bn for quarter ended (QE) December 2010, compared with a deficit of USD 16.8bn in quarter ended September 2010. Trade deficit narrowed to USD 31.6bn during QE Dec-2010 compared to a deficit of USD 37.8bn on account of higher export growth. On a y-o-y basis, trade deficit growth decelerated to 2.1% in QE Dec-2010 while net invisibles were up 17.7%. Capital account surplus reduced to USD 14.9bn for QE Dec-2010. The Balance of Payments surplus improved slightly to USD 4bn for QE Dec-2010 compared to a surplus of USD 3.3bn in QE Sept-2010.

## Non-Equity Market Update

- ▶ **Fixed Income:** During March, the treasury yield curve (between 10-yr and 1-yr Government Bonds) narrowed by 4 basis points (bps) m-o-m to 46 bps. The 10-year bond yield moved from 8.02% pa to 7.99% pa during the month while the 1-year bond yield moved from 7.52% pa to 7.53% pa during the same period.
- ▶ **Currency:** In March, the Indian Rupee appreciated 1.51% against the US Dollar but depreciated 1.19% against the EURO. The USD/INR FX rate closed the month at 44.59 against 45.27 as at previous month end. The EURO/INR FX rate closed the month at 63.39 against 62.65 as at the previous month end.
- ▶ **Gold:** Gold price moved up 1.5% in March to close the month at USD 1,432/ounce.
- ▶ **Oil:** WTI crude moved up 10% to close the month at USD 106.7/barrel. Brent crude was significantly higher at 117/barrel as on March 31, 2011.

## Equity Market Outlook

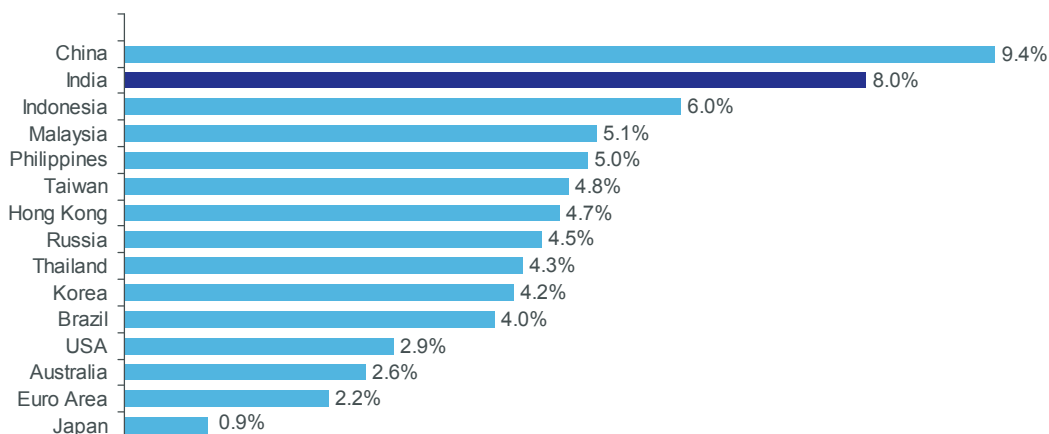
- ▶ The Indian equity markets have held their own inspite of various global issues, such as the Japanese tsunami and the nuclear aftermath as well as the geopolitical risks in various other parts of the world. The BSE Sensex Index climbed 9% in March, on the back of 1.5bn equity inflows, inspite of worries on rising oil prices and high inflation. A steady depreciation in the Dollar Index and containment of nuclear disaster in Japan have been the major catalysts for this market bounce back.
- ▶ The geopolitical tension in the middle east has made oil reach \$117/barrel, exerting immense upward pressure on inflation. Consequently, the RBI has in its mid-quarter policy review raised the key policy rates by 25 basis points each, signaling its anti-inflationary stance. This rising inflation has also been impacting corporate profitability, even as investors continue to look for a kick starting of the cap-ex cycle which has shown some signs of pick-up.
- ▶ The government's borrowing calendar for FY12, signals some relief as it is pegs the borrowing below market expectations. This should result in downward pressure on interest rates.
- ▶ From a valuation perspective, the Sensex is currently trading close to its long term average 1-year forward PE multiple of 14.5x. Keeping in mind the expected corporate earnings growth in the vicinity of 18% for FY12, the valuations look reasonable.

## Did You Know?

- ▶ India is the world's premier centre for diamond cutting and polishing – Nine out of every 10 stones sold in the world pass through India.

Source: IIFL Research

## GDP Growth (2011e, India FY 2012e)



Source: JP Morgan Research; as at March 31, 2011

Source: Internal as of March 31, 2011

The views expressed are as of March 2011 and may change as subsequent conditions vary

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**Statutory Details:** DSP BlackRock Mutual Fund was set up as a Trust and the settlors/sponsors are DSP ADIKO Holdings Pvt. Ltd. & DSP HMK Holdings Pvt. Ltd. (collectively) and BlackRock Inc. (Combined liability restricted to Rs. 1 lakh). **Trustee:** DSP BlackRock Trustee Company Pvt. Ltd. **Investment Manager:** DSP BlackRock Investment Managers Pvt. Ltd. **Risk Factors:** Mutual funds, like securities investments, are subject to market and other risks and there can be no assurance that the Scheme's objectives will be achieved. As with any investment in securities, the NAV of Units issued under the Scheme can go up or down depending on the factors and forces affecting capital markets. Past performance of the sponsor/AMC/mutual fund does not indicate the future performance of the Scheme. Investors in the Scheme are not being offered a guaranteed or assured rate of return. Each Scheme/Plan is required to have (i) minimum 20 investors and (ii) no single investor holding >25% of corpus. If the aforesaid point (i) is not fulfilled within the prescribed time, the Scheme/Plan concerned will be wound up and in case of breach of the aforesaid point (ii) at the end of the prescribed period, the investor's holding in excess of 25% of the corpus will be redeemed as per SEBI guidelines. For scheme specific risk factors, please refer the Scheme Information Document (SID). For more details, please refer the Key Information Memorandum cum Application Forms, which are available on the website, [www.dspblackrock.com](http://www.dspblackrock.com), and at the ISCs/Distributors. Please read the Scheme Information Document and Statement of Additional Information carefully before investing.