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Mutual Fund

Equity Markets:

Current Environment and Outlook

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Current Environment

- Global Equity markets were sharply negative in June 2013, with the MSCI World Index falling by -2.61% for the month
- In USD terms, Indian markets underperformed the global market and fell by 6.9%
- Commodity prices continued to outperform equities, as benchmark CRB Reuters Jefferies total return index declined by 2.1% during the month
- IT and Oil & Gas delivered the best return for the month, while Consumer Durables and Realty were the worst performing sectors during the month*
- FII outflows during the month were at Rs.110 bn. MF's were net sellers at Rs.3bn, while DII's were net buyers of Rs.84 bn during the month
- Trading Activity was lower in June as cash market trading turnover fell by 22% MoM, while average open interest also fell by 15% MoM

* Please refer slide 4 for sector performances

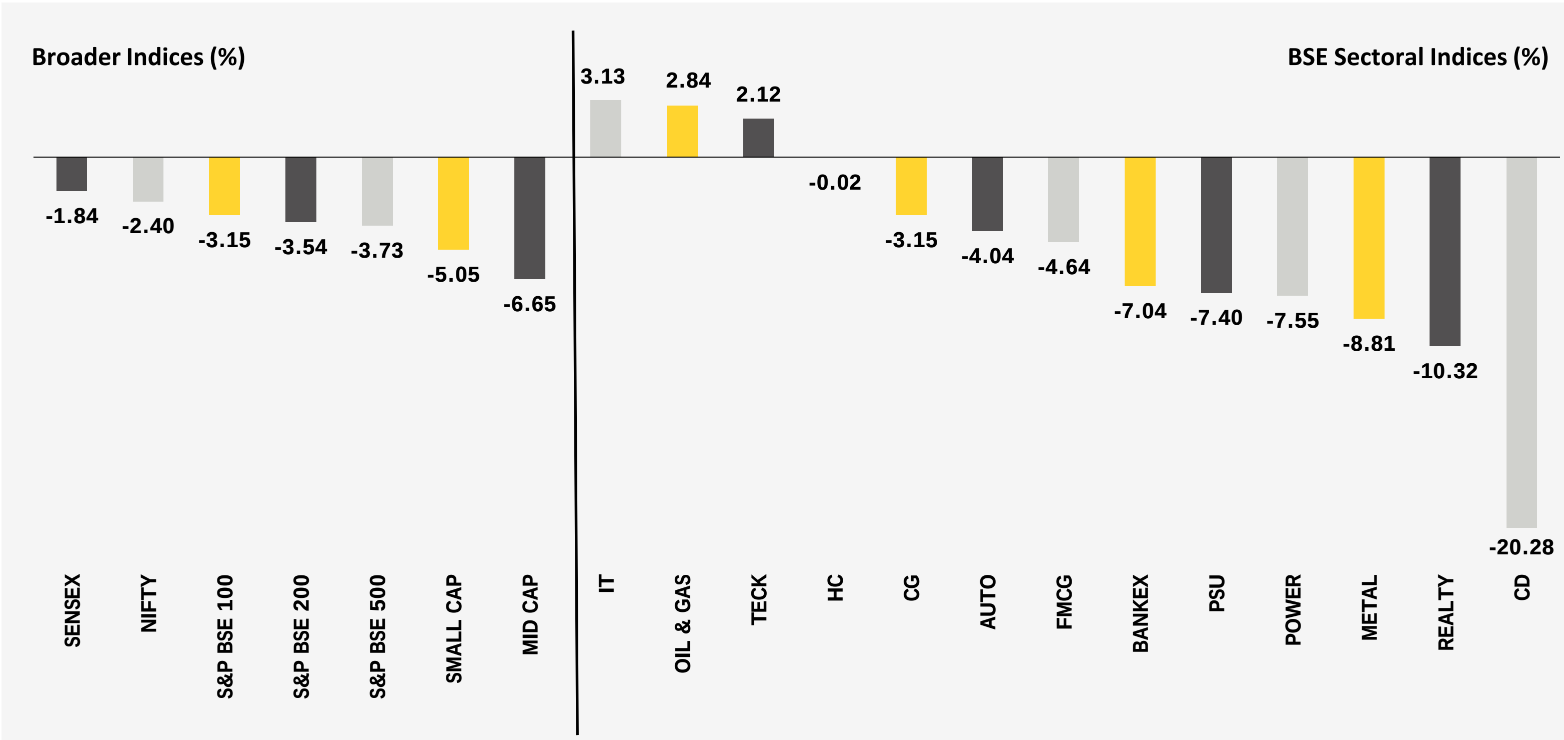
Source: RIMF, Bloomberg

Global Equities

Index	Country	Closing Price*	1 Month Return (%)	YTD Return (%)	Category
SSE Composite Index	China	1979.21	-13.97%	-12.78%	EM - Asia
S&P BSE Sensex	India	19395.81	-1.84%	-0.16%	EM - Asia
Kospi	South Korea	1863.32	-6.88%	-6.70%	EM - Asia
Taiwan Weighted	Taiwan	8062.21	-2.33%	4.71%	EM - Asia
Thailand SET 50 Index	Thailand	982.99	-4.47%	3.98%	EM - Asia
Jakarta Composite Index	Indonesia	4818.90	-4.93%	11.63%	EM - Asia
KLSE	Malaysia	1773.54	0.24%	5.01%	EM - Asia
Ibovespa Sao Paulo Index	Brazil	47457.13	-11.31%	-22.14%	EM
Mexico IPC	Mexico	40623.30	-2.32%	-7.09%	EM
Russian RTS Index	Russia	1275.44	-4.21%	-16.47%	EM
Philippine PSEi	Philippines	6465.28	-7.93%	11.23%	EM
Merval Buenos Aires Index	Argentina	2976.27	-14.71%	4.27%	EM
HangSeng	Hong Kong	20803.29	-7.10%	-8.18%	Developed - Asia
Nikkei	Japan	13677.32	-0.71%	31.57%	Developed - Asia
Strait Times	Singapore	3150.44	-4.86%	-0.53%	Developed - Asia
Dow Jones	USA	14909.60	-1.36%	13.78%	Developed
CAC 40 Index	France	3738.91	-5.31%	3.28%	Developed
All Ordinaries Index	Australia	4775.41	-2.82%	1.92%	Developed
DAX Index	Germany	7959.22	-4.67%	4.56%	Developed
Swiss Market Index	Switzerland	7683.04	-3.32%	12.61%	Developed
FTSE 100	UK	6215.47	-5.58%	5.39%	Developed
MSCI World Index	--	1433.55	-2.61%	8.04%	--

* as on 28th June, 2013. Source: Bloomberg. EM – emerging markets, Developed – developed markets

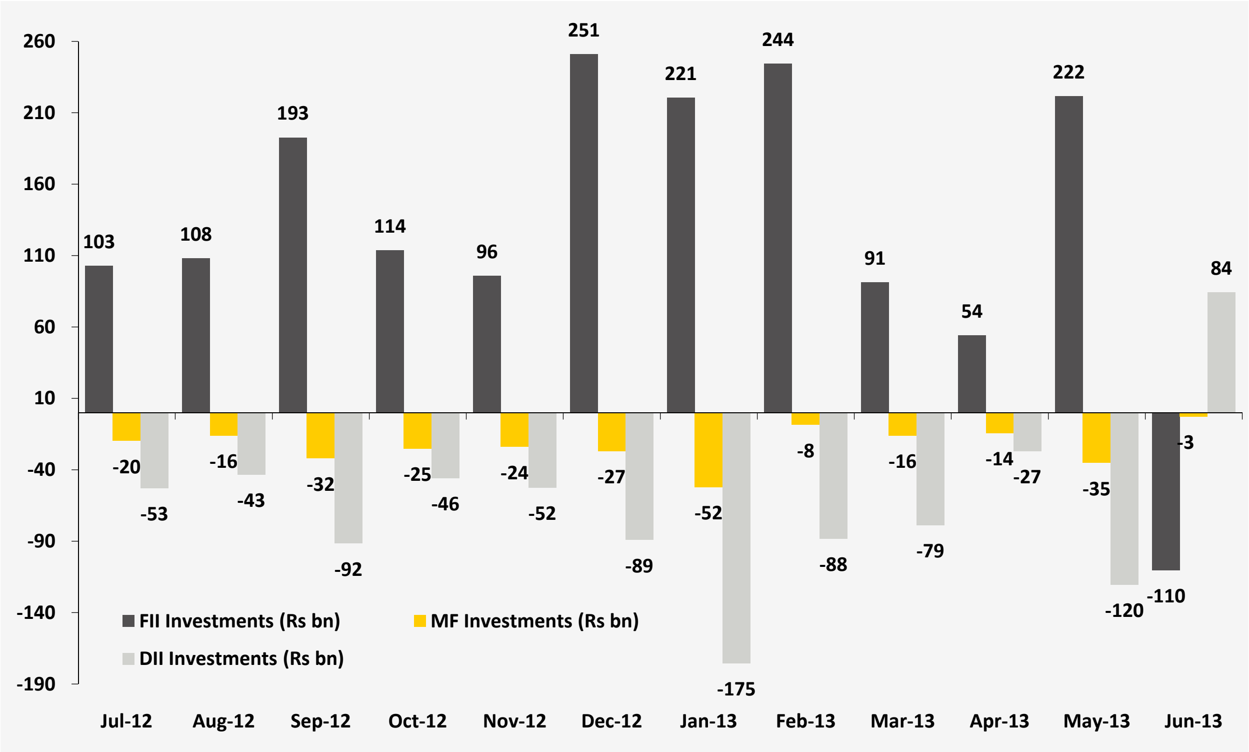
India : Sector Performance

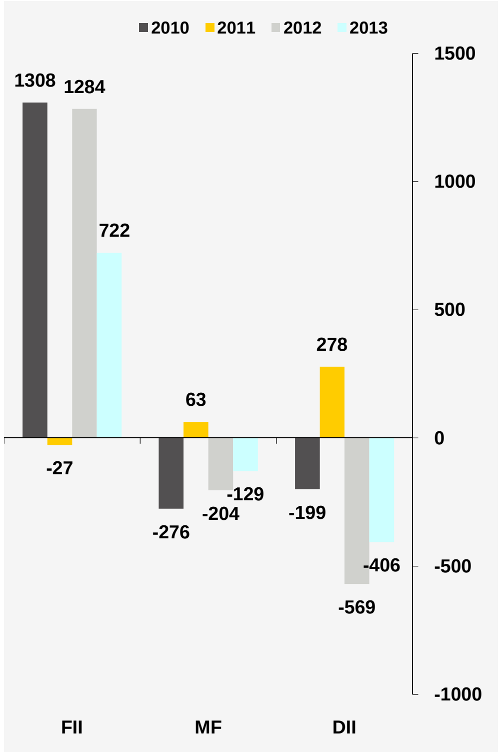


- Nifty fell by 2.4% over the previous month
- Midcaps (represented by S&P BSE Midcap) and Smallcaps (represented by S&P BSE Smallcap) underperformed Large caps with -6.65% fall and -5.05% fall respectively
- IT and Oil & Gas sectors delivered the best return for the month
- Consumer Durables and Realty were the worst performing sectors

Source: BSE,NSE. one month performance as on 28th June, 2013. SMAL CAP: S&P BSE Small Cap Index, MID CAP: S&P BSE Mid Cap Index, CD: Consumer Durables, CG: Capital Goods, HC: Health Care. FMCG: Fast Moving Consumer Goods

FII & DII Inflows





- Institutional activity was mixed for the month.
- FII inflows were negative as compared to previous months at Rs. 110 bn during the month
- MF's continued to be net sellers at Rs.3 bn and DII were net buyers at Rs.84 bn during the month
- Calendar YTD, FII inflows have been around Rs. 722 bn whereas MF's and DII's have been net sellers to the extent of Rs.129 bn and Rs.406 bn respectively

FII - Foreign Institutional Investors, DII - Domestic Institutional Investors (Includes Bank, DFIs, Insurance and MF). Source: SEBI, BSE

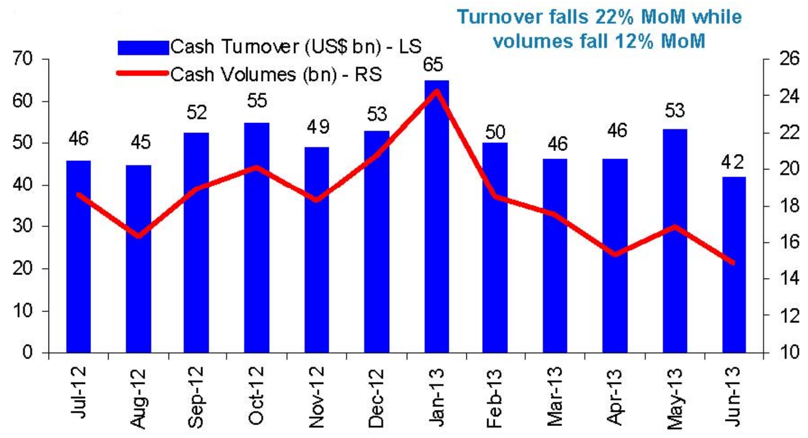
Top Gainers / Losers - Nifty

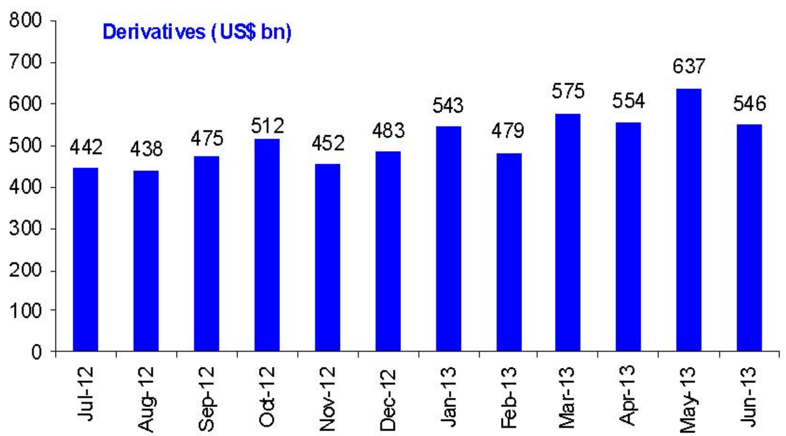
Top Gainers for the month			
Gainers	**52 week H/L**	**Last Price#**	**% Gain***
Reliance Industries Ltd	955 / 682.35	862.60	6.98%
Dr. Reddy's Laboratories Ltd	2233.90 / 1527.55	2218.85	6.06%
Lupin Ltd	811 / 496.4	781.45	5.93%
Cipla Ltd	435 / 306.25	391.95	5.78%
Bajaj Auto Ltd	2229 / 1425.1	1923.95	5.68%

Top Losers for the month			
Losers	**52 week H/L**	**Last Price#**	**% Loss***
Bharat Heavy Electricals Ltd	272.35 / 162.05	174.25	-13.11%
Punjab National Bank	920 / 633.1	650.85	-14.37%
Ranbaxy Laboratories Ltd	578.4 / 301.5	309.05	-17.66%
Jaiprakash Associates Ltd	106.7 / 48.45	53.60	-18.35%
Jindal Steel Power Ltd	480.35 / 194.65	217.45	-23.55%

closing price as on 28th June 2013 * one month performance as on 28th June 2013 Source: Capitaline

Market Activity (NSE & BSE)





- In June 2013, cash market trading turnover fell by 22% MoM
- At the end of June 2013, average open interest also fell by 15% MoM to $23 bn

Sources: Bloomberg, Morgan Stanley

June 2013 events timeline

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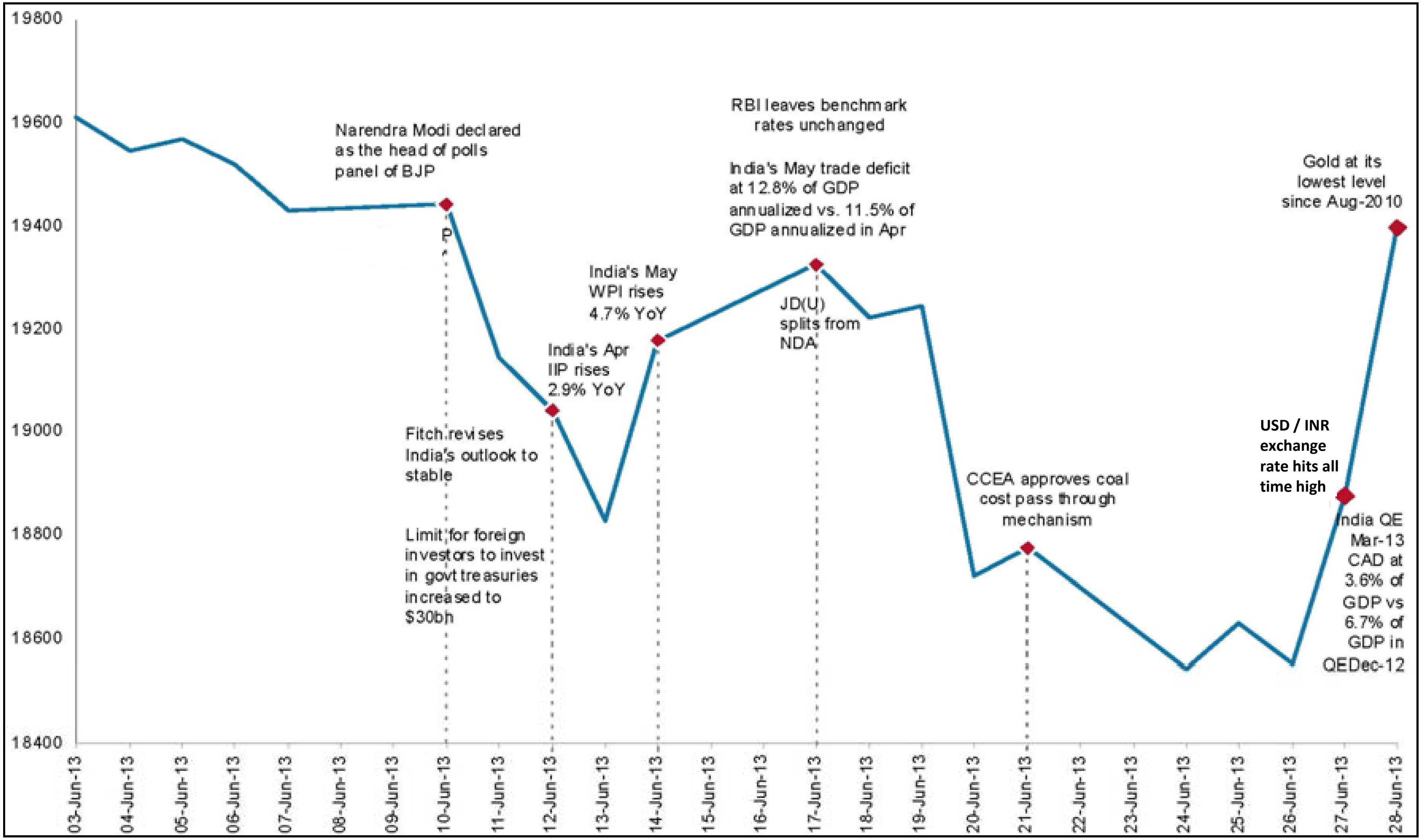


Source: Bloomberg, Economic Times, Business Standard, Morgan Stanley Research. **Note:** The above shown index is S&P BSE Sensex .

Equity Market Outlook and Opportunities

Equity Market Outlook

- So far, benefits of quantitative easing are reflected more in financial markets than real economy
- Fear of tapering of quantitative easing has been a major source of global risk aversion in the financial markets
- While further risk aversion and capital outflows from emerging markets cannot be ruled out, they are better placed to handle the crisis as compared to 1997 Asian crisis
- Despite high current account deficit, India is relatively better placed in terms of overall macro-economic vulnerability indicators on the external front
- On domestic front, India's macro data points continue to be a mixed bag – key negatives being fall in new project announcement, shortfall in government's revenue targets, high current account deficit and lack of any visible traction in exports despite weakened currency. Key positives being moderating inflation, good monsoon progress in June 2013 and government's thrust on reforms
- While there is room for monetary easing , scope is limited due to high current account deficit and weakening currency
- Consensus expects FY14 earnings to grow by around 12.7% over FY13

Source: Markit Economics, CSO, Morgan Stanley Research, MOSPI, CEIC, RCML, CGA, Capitaline, Quant Global Research, Factset, IBES

Global Macro – Quantitative Easing – Benefitting financial market more than real economy

Growth in Monetary base has not led to either money supply growth or inflation

Average annualized growth, Q3 2009 to Q1 2013

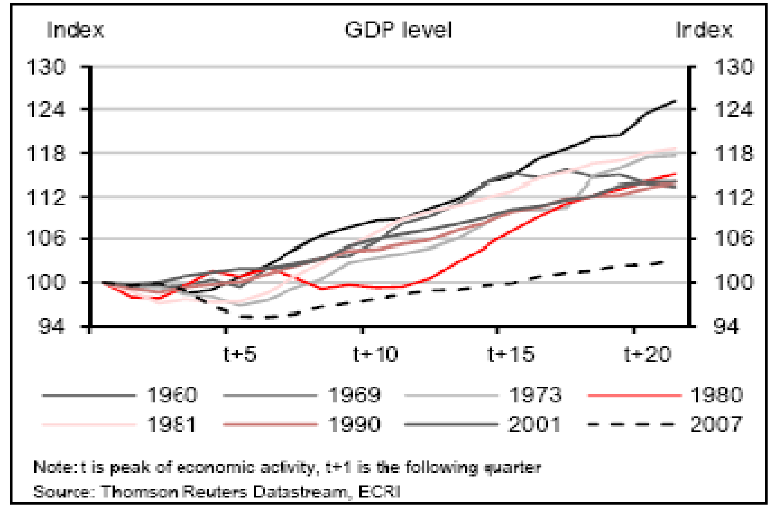
Region	Monetary Base (%)	M2 (%)	Core CPI (%)
US	26.2	6.4	1.6
UK	32.8	4.7	3.5
Euro Area	11.7	3.2	1.4
Japan	9.4	2.8	-0.9

Unprecedented monetary stimulus has ,however, fuelled financial market gain

	YE 2007 - YE 2012		Trough - YE 2012	
	Equity	Bond	Equity	Bond
US	9.3%	45.5%	72.7%	33.2%
UK	-9.4%	54.7%	56.3%	35.7%
Japan	-18.9%	18.6%	11.5%	14.5%
Europe	-17.3%		46.2%	
- Germany	-17.8%	54.2%	55.6%	35.3%
- Italy	-50.7%	38.6%	-2.6%	25.7%
- Spain	-36.2%	26.1%	0.8%	13.8%
Brazil	-15.6%	65.6%	27.6%	56.6%
Turkey	-2.5%	68.1%	100.9%	56.3%
South Africa	34.1%	68.7%	85.9%	52.2%
India	-31.3%	29.3%	26.6%	15.3%
China	-15.6%	29.8%	27.7%	10.2%

Note: Trough is US business cycle trough, taken as 22/06/09. Bond returns are Gov 10Y Indices for all except Brazil & Turkey. Brazil and Turkey use the EMBI+ Index, which covers a wider range of maturities

US Growth recovery – weakest compared to past

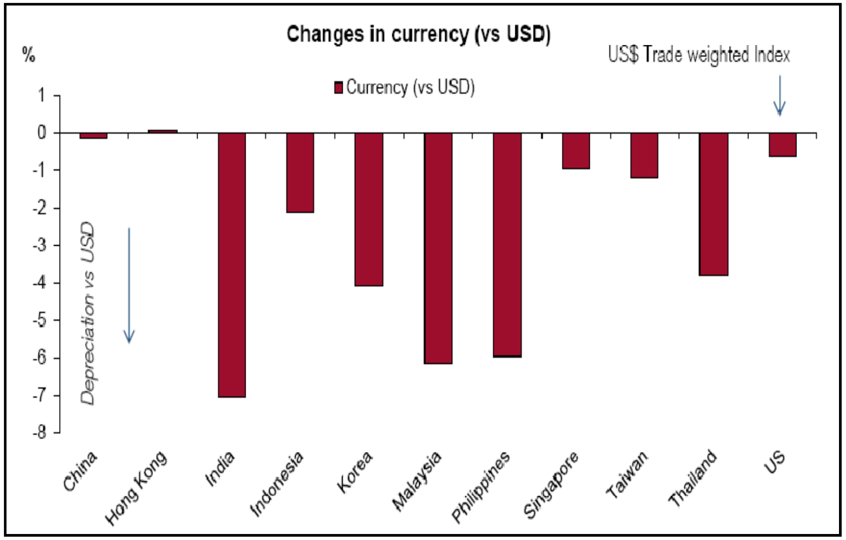


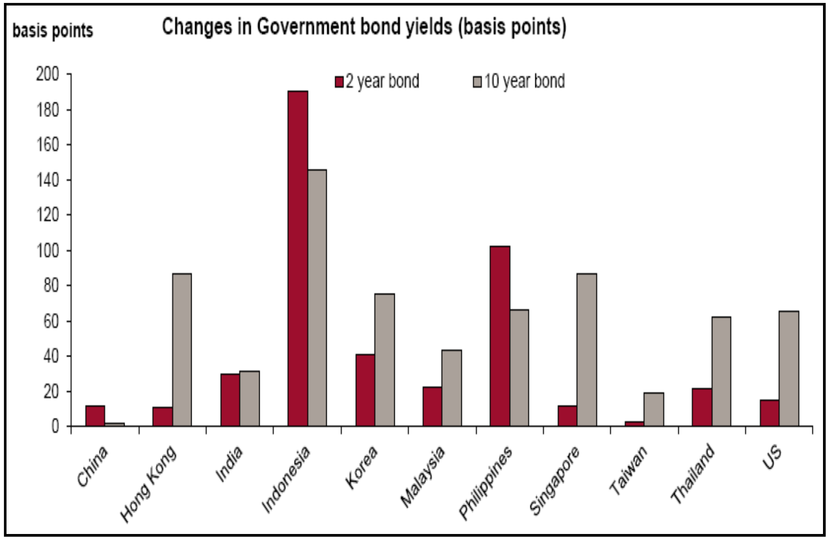
- Quantitative easing so far has neither led to money supply growth nor inflation in any of the developed economies since 3Q2009
- While US has recovered the most among developed nation, recovery has been slowest as compared to previous recessions
- Impact, however, is more visible in financial market gains

Source: Federal Reserve, Bank of Japan, Bank of England, ECB, US Bureau of Labor Statistics, UK ONS, EuroStat, Japanese Ministry of Internal Affairs and Communication via Federal Reserve of St Louis; Thomson Reuters, Datastream, ECRI,. M2: A category within the money supply . CPI: Consumer Price Index

Global Macro – Fear of 'tapering' Quantitative Easing- Pressure on financial markets

Emerging markets currencies facing pressure



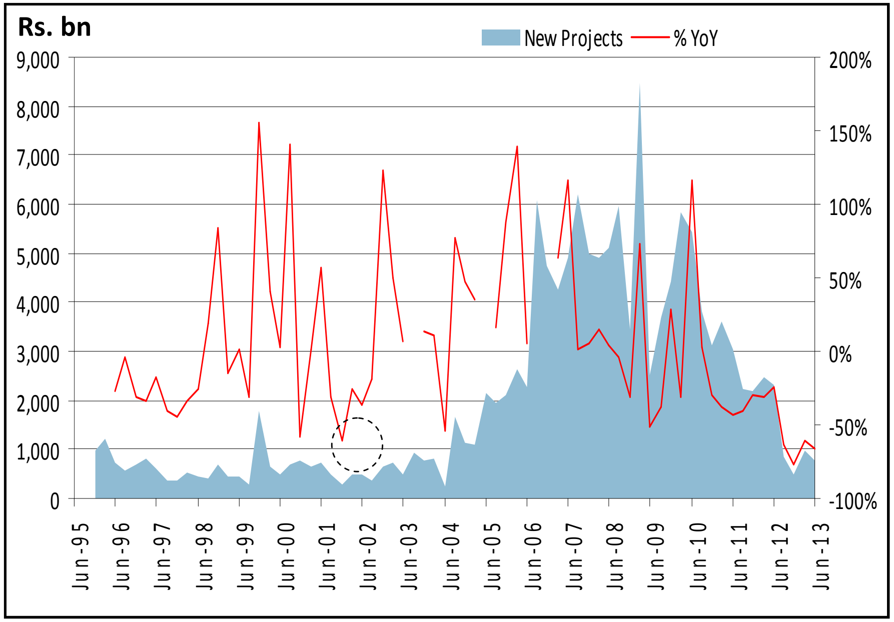


- In the latest Fed Open Market Committee (FOMC) meeting, Federal Reserve signalled "tapering" of Quantitative easing provided Unemployment, growth and inflation outcomes are in line with their projections
- Fear of 'tapering' of quantitative easing has led to local currency depreciation versus USD and rise in bond yields for most emerging markets
- India has also been negatively impacted as currency has depreciated the most among emerging markets and bond yields have also gone up
- However "tapering" is contingent upon US Fed's economic projects which since 2009 have proven to be optimistic when compared to actual outcomes

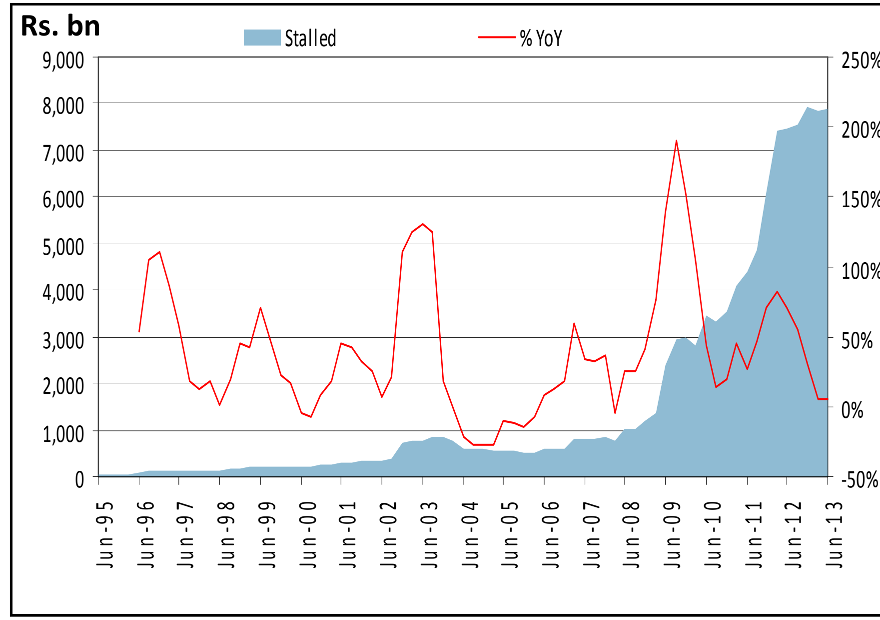
Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service

India Macro –Capex Cycle continues to remain weak

New Projects Announcement Rs bn and YoY Growth %



Projects Stalled Rs bn and YoY %



- India's capex cycle continues to remain weak as latest project data in 1Q14 signal continued slowdown in new investments
- New project announcement fell by 68% YoY and 18% QoQ – 11th consecutive quarter of decline
- New project announcements have fallen 91% from the peak level of 4Q09 of Rs. 8481 bn
- Stalled projects have gone up to Rs. 7893 bn (+6% YoY and 1% QoQ)
- Stalled projects as percentage of Projects under implementation stand at 10%

Source: CMIE, Phillip Capital

India Macro – Mixed trends - Negatives

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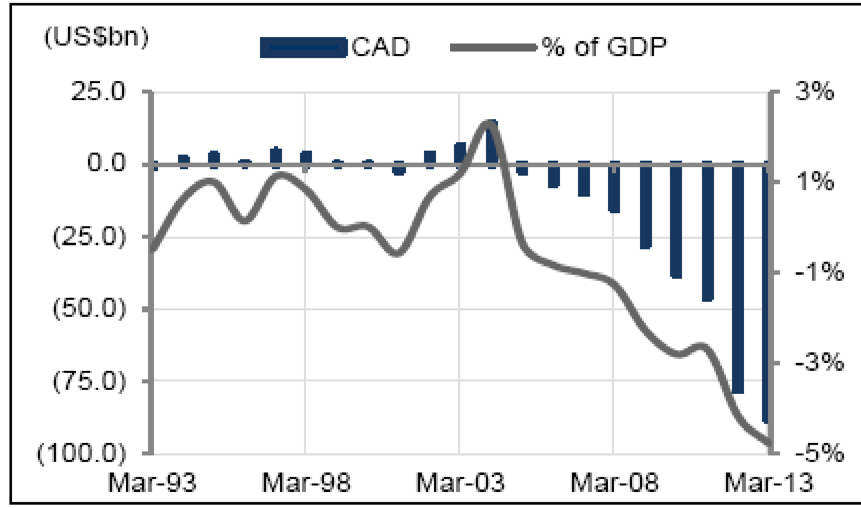
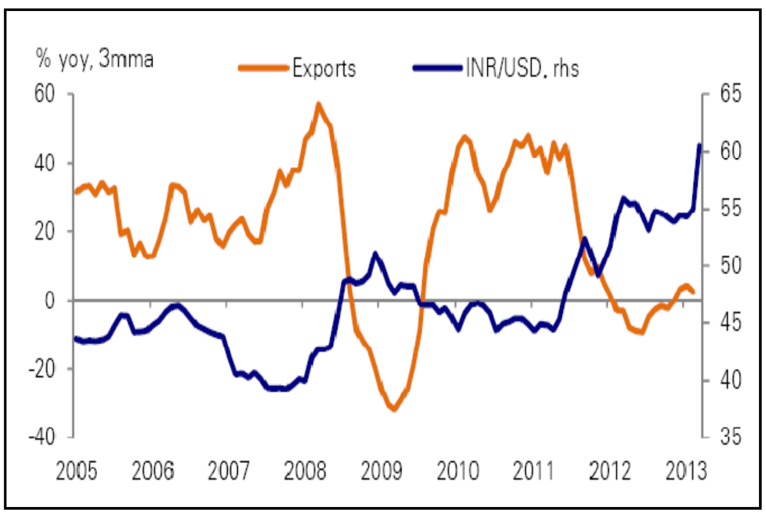
Fiscal Deficit (12M trailing sum % of GDP)

Annual Current Account Deficit Trend (20 Years)



Exports and INR/USD Trends



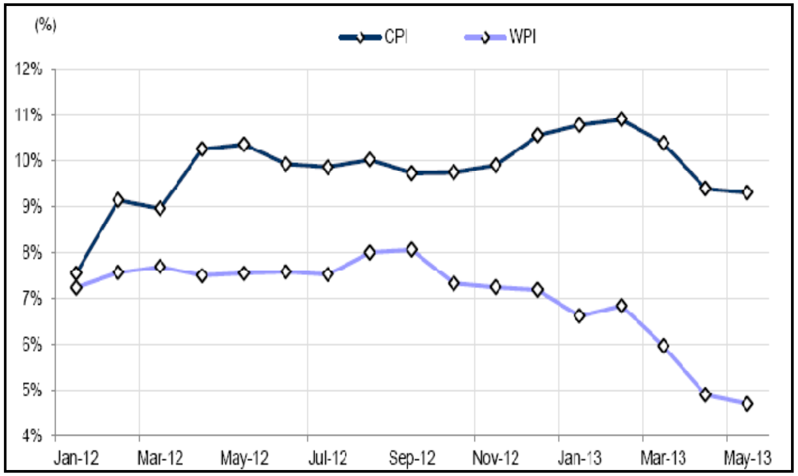
- While expenditure growth on a Fiscal year to date (May 2013) is 13.9% versus 18.2% budgeted, gross tax collections declined by 7.9% compared to a growth expectation of 19.2% thereby putting pressure on Fiscal deficit

- While the current account deficit remains high at 4.8% of GDP for FY13, exports are yet to respond to sharp currency depreciation due to weak global demand

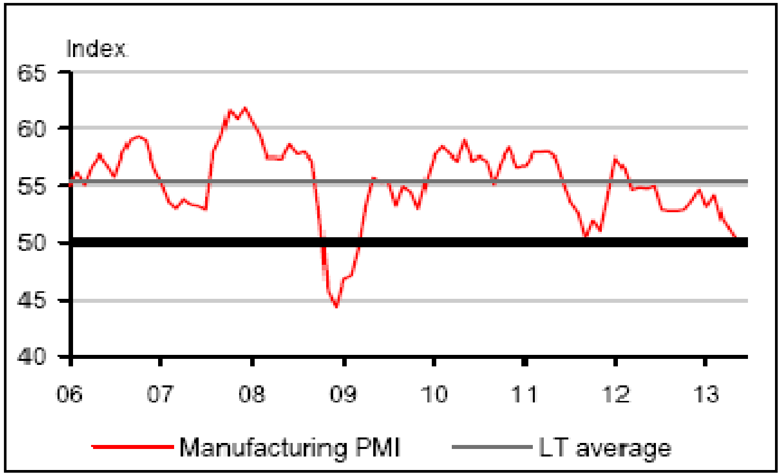
Source: RBI, RCML Research, CGA, Morgan Stanley Research, CEIC, Duetsche Bank

India Macro – Mixed trends - Positives

Inflation – Moderating



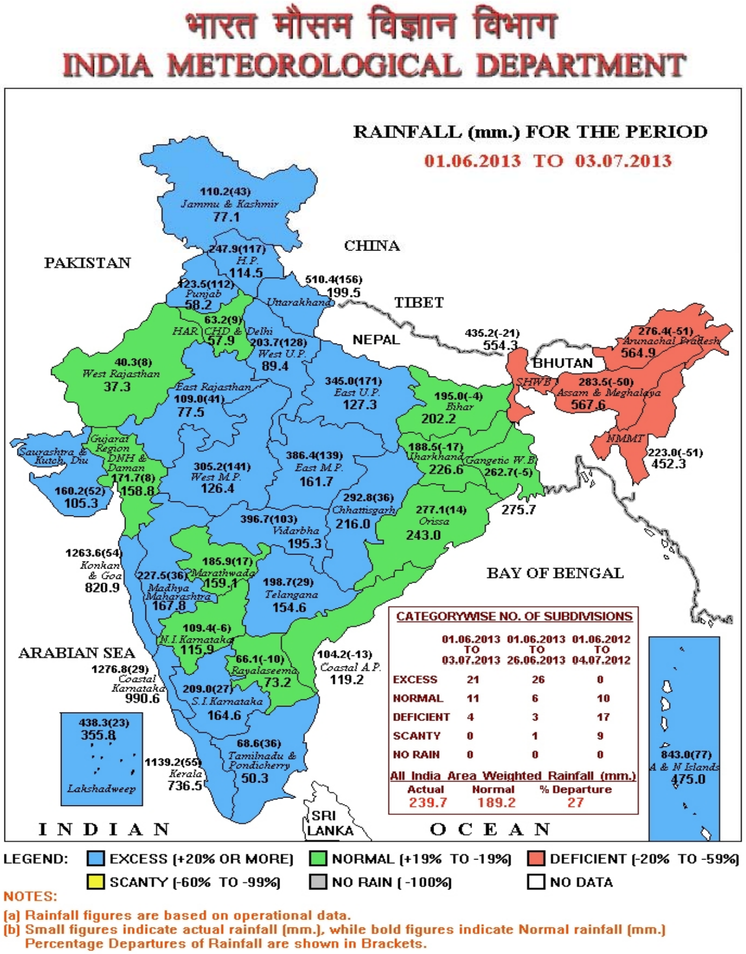
India PMI up marginally to 50.3



- Composite PMI was up marginally to 50.3 in June as compared to 50.1 for May 2013
- Inflation (both WPI and CPI) continued to trend lower with WPI for May'13 at 4.7% and CPI at 9.3%
- However, food inflation accelerated to 7.9% in May'13 as compared to 7% in April'13
- Fall in inflation was expected to create room for monetary easing for the Central Bank
- However sharp currency depreciation has raised concerns on further fall in inflation and also has shifted Central Bank's focus to address concerns on the external front over domestic growth challenges thereby limiting the scope of monetary easing

Source: Markit, HSBC,MOSPI, RCML Research. PMI: Purchasing Manager Index

India – Monsoon Progress – Silver Lining

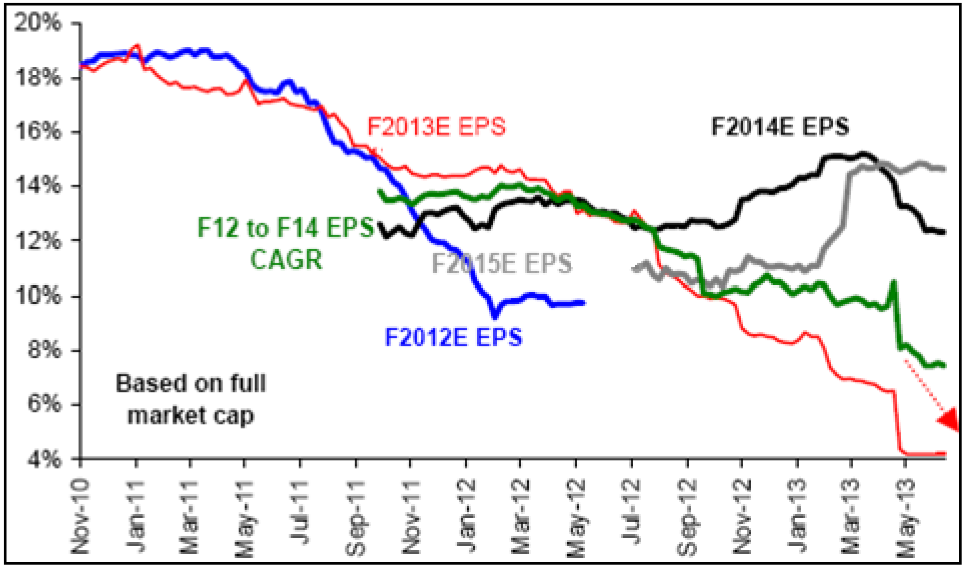


- Rainfall in aggregate for the country was 27% above normal for the period (01/06/2013 to 03/07/2013)
- Most of the states (except North Eastern states) have witnessed excess to normal rainfalls for the above period

Source: IMD

Earnings Expectations – Tough task

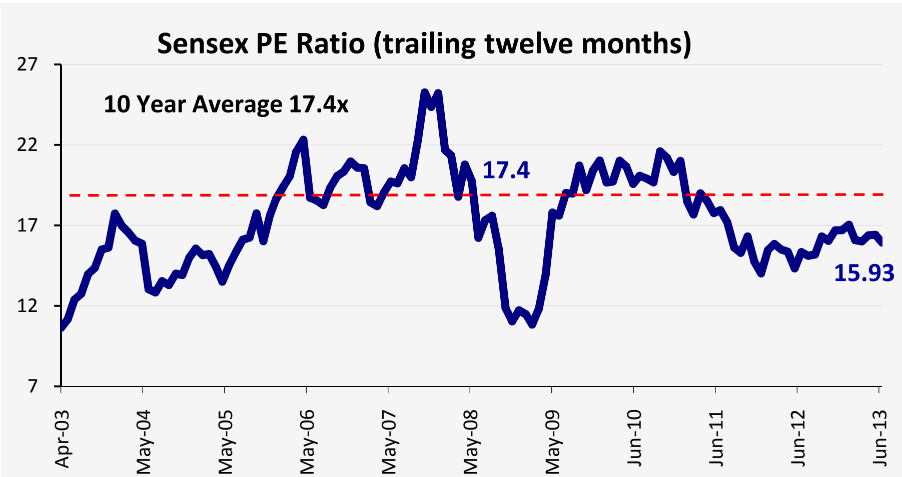
S&P BSE Sensex consensus EPS growth trend

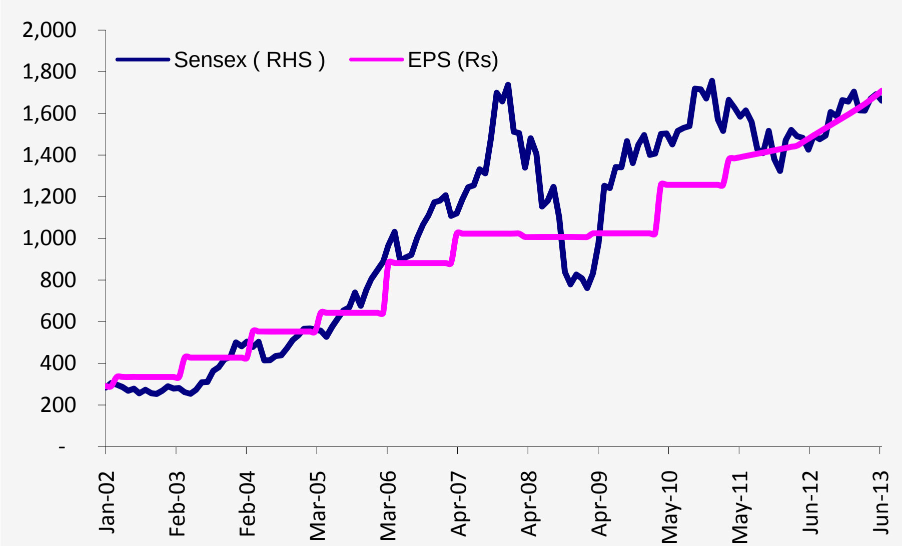


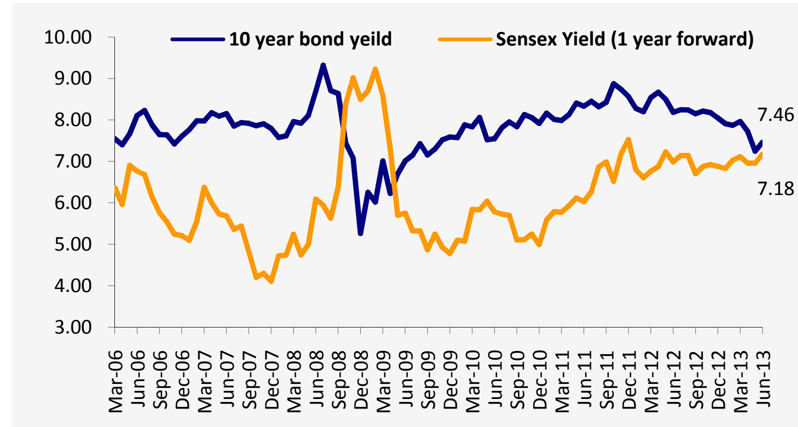
- Consensus EPS estimates for S&P BSE Sensex companies have been revised downwards by 0.2% and now stand at 12.7% for FY14E
- Despite the downward revisions, 12.7% for FY14E seems a tough ask, considering that earnings growth for FY13 was 2.8% and overall economic environment continues to remain weak

Source: Factset, IBES, Morgan Stanley Research

Valuations – At Reasonable Levels



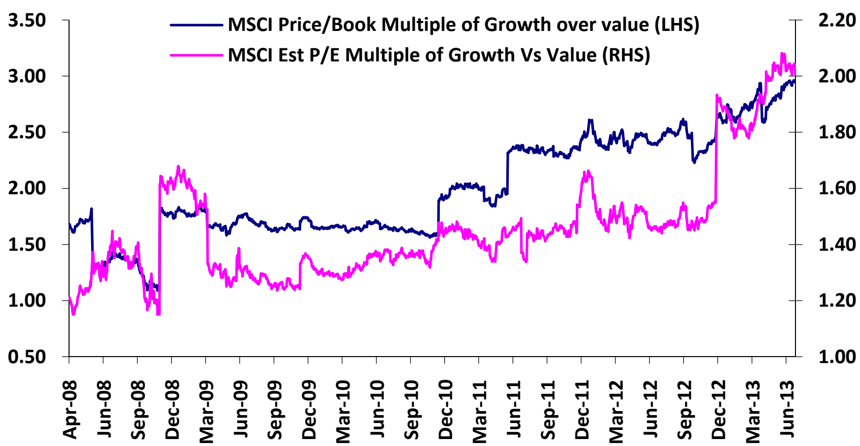




- Sensex is currently trading at 15.93x its trailing earnings. It is now 9% lower than its historical 10-year average trailing PE of 17.4x.
- Though FY14 Sensex earnings are at risk, forward earnings yield is converging with 10-year bond yield, which is supportive for equities
- The de-rating of market since 2007 is evident in the accompanying chart with earnings considerably above the 2007 levels whereas the markets have not progressed much over past 5 years

Source: Bloomberg, Religare Invesco AMC Research

Valuations – Huge Disparity between growth and value



- MSCI India growth Index has significantly outperformed Value index by a wide margin for more than a decade
- YTD outperformance has been 15.4%
- Value index continues to widely underperform even MSCI India standard Index
- Resultantly, the valuation gap between MSCI India growth Index and Value index is at a 5 year high
- As of June 2013, valuation premium of growth index over value index stands at 2.94x in terms of Price/Book and 2.07x in terms of Est Price/Earnings

Source: Bloomberg, Morgan Stanley Research, IBES Consensus Estimates, Religare Invesco Research

Looking Ahead…

- Global growth remains an area of concern – it is patchy and uneven
- US Fed signal of tapering Quantitative easing - timely reminder to financial markets that unprecedented monetary stimulus is not bound to stay forever
- India's macro trends continue to provide mixed trends; no sign of growth acceleration
- While there is room for monetary easing, scope is limited due to high current account deficit and weakening currency
- However, Government's actions in areas of energy pricing, subsidy reduction, cost pass through mechanism for power projects, etc. are steps in the right direction and are crucial to improving the long-term growth outlook
- Based on current trends, the FY14E consensus growth expectations of 12.7% looks challenging, however, valuations (on a trailing basis) are reasonable at 9% discount to long-term averages.
- Growth companies valuation premium to Value companies is at a 5 – year high
- Overall emphasis on bottom up stock selection continues
- Our attempt is to find a balance between two risks-the risk of overpaying for quality businesses and the risk of being early in buying good businesses albeit with poor visibility at attractive valuations

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully

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