



India Equity Market Update: 2008

Outlook neutral, bottom up approach preferred

Equities: Neutral Outlook

Background: The discussion was initiated in November 2007 (Sensex at 19,000) and a downside target of 16,000 was set; later the target was revised to 14,000 (February 2008), and to 12,000 (June 2008). In September 2008 the target was revised downwards to 10,000. Since the Sensex is close to achieving the target of 10,000, it is time for review.

FII's flows to impact market direction and exchange rate

FII's view on emerging markets including India; redemption pressure on these FII's (mainly of Europe and US origin) would impact their action in Indian market. FII flows would also impact exchange rate for Indian rupee and the exchange rate would have impact on equity market.

Benign inflationary environment to reduce volatility

Recent fall in oil and commodity prices may bring the inflation down; if these prices don't move up again and inflation is under control then domestic interest rates may soften; that would help stabilizing Indian equities.

Globally cautious; long term downturn to continue

Globally, the significance of fiscal policies may increase as monetary policies may have limited impact in handling the current situation. Coordinated action by central banks globally would help restoring the confidence and reducing uncertainty. Slow process of increasing regulations and financial system overhaul would start. Having said so, losses from sub-prime may take time to get absorbed by the system.

Indian equity to move sideways

Indian equities may remain range bound, though currently it is not feasible to ascertain the range; market itself would indicate formation of such range. Mid and small caps may underperform large-caps. Bottom-up approach would yield better results. The view on performance of Indian companies as mentioned in our September 2008 newsletter prevails.

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All prices are closing prices for October 13, 2008. Data is sourced from Bombay Stock Exchange (BSE) and Bloomberg. Investors should consider this report as only a single factor in making their investment decision.

For Disclosure and Research certification refer to Appendix I

13 October, 2008

BSE Sensex 11,309



BSE Sensex Performance (%)	1m	3m	12m
Absolute	-16.4	-10.1	-40.7

Key Indicators	Sensex	BSE-100
PE	13.2	13.8
P/BV	2.7	2.6
Div. Yield (%)	1.8	1.6
Energy and Precious Metal		
Crude Oil Futures (USD/bbl)		62.7
Gold 100 OZ FUTR (USD/t oz.)		713.3
Forex and Money Market		
India GSec Yield (10 Year %)		6.7
USD/INR		46.6

APPENDIX I

Disclosure Section

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