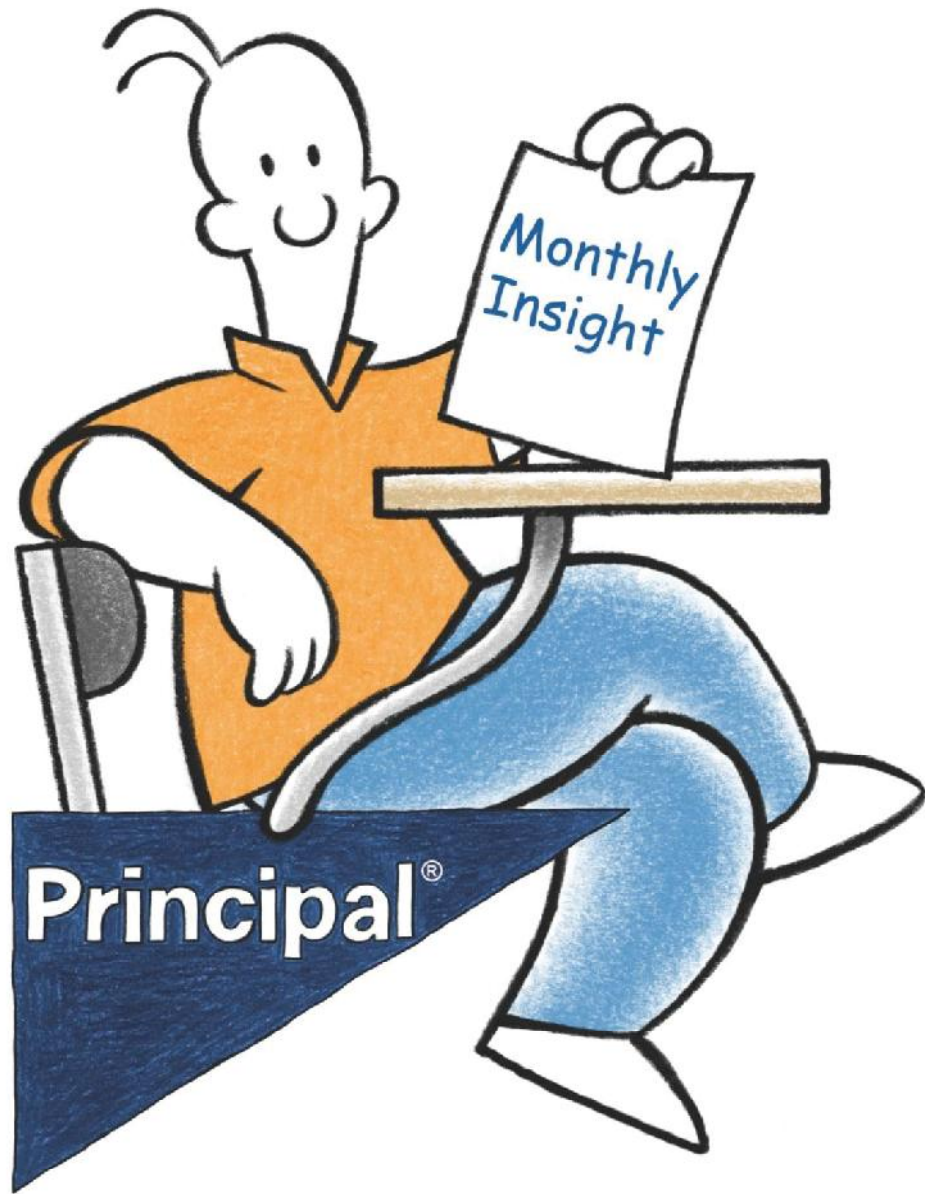


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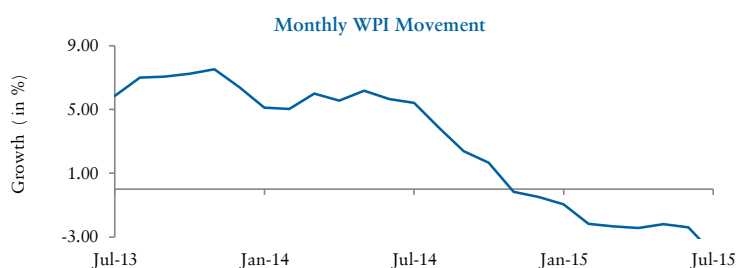
August 2015

Indian Economy

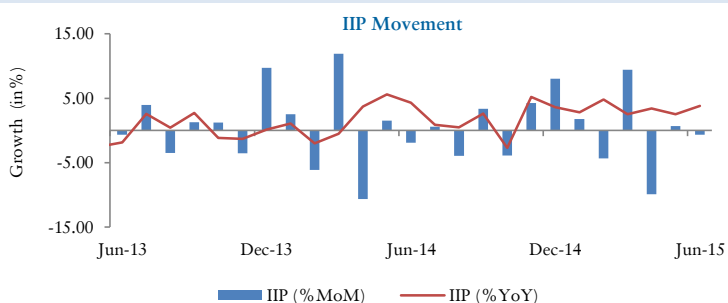
Economic Releases in August-2015

Policy Rates	Period	Actual	Previous
Repo Rate [^]	31-Aug-15	7.25%	7.25%
Reverse Repo [^]	31-Aug-15	6.25%	6.25%
CRR [^]	31-Aug-15	4.00%	4.00%
Key Indicators	Actual	Previous	
Index Of Industrial Production (IIP)	3.80% (Jun-15)	2.50% (May-15)	
Wholesale Price Index Inflation (WPI)	-4.05% (Jul-15)	-2.40% (Jun-15)	
Export (Y-o-Y)	-10.30% (Jul-15)	-15.82% (Jun-15)	
Import (Y-o-Y)	-10.28% (Jul-15)	-13.39% (Jun-15)	
Current Account Deficit (\$ Billions)	-1.29 (Mar-15)	-8.26 (Dec-14)	
Fiscal Deficit FYTD (INR Trillion)	385.10 (Jul-15)	286.70 (Jun-15)	

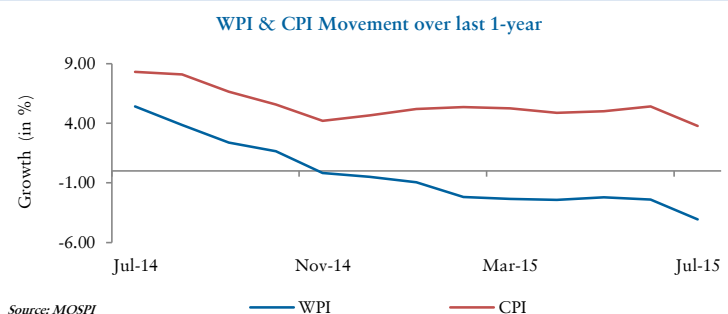
Source: RBI, Reuters; [^]Based on RBI Bi-monthly Monetary Policy Statement on 4-Aug-2015



Source: Office of the Economic Adviser, Ministry of Commerce & Industry



Source: MOSPI



Source: MOSPI

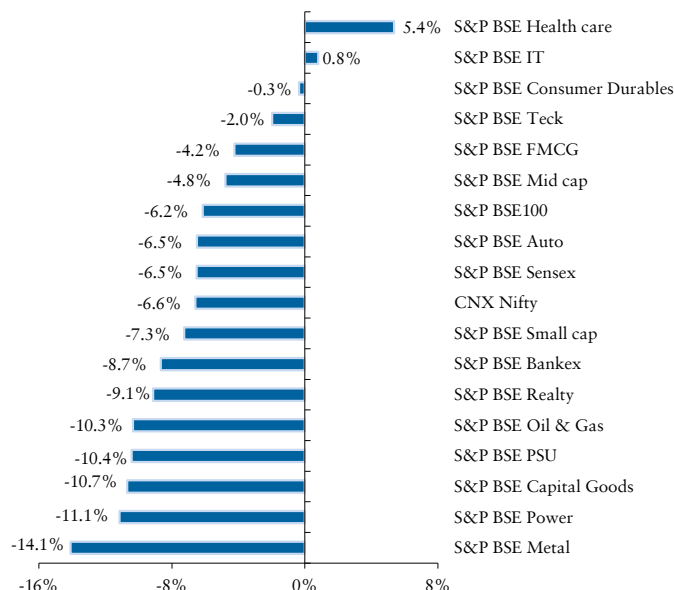
- India's Gross Domestic Product (GDP) grew 7% during the June quarter of FY15-16, slower than 7.5% recorded in the previous quarter but slightly faster than 6.7% recorded a year ago. Gross Value Added (GVA) growth stood at 7.1% compared to 7.4% a year ago. Sector wise, manufacturing growth GVA fell to 7.2% in the June quarter compared to 8.4% rise recorded a year ago. Agricultural (including forestry and fishing) growth also slowed down to 1.9% against 2.6% recorded during the similar period.
- The Central Bank at its third bi-monthly monetary policy review kept its key policy rates unchanged at 7.25%. The Central Bank Governor opined that headline inflation remains at elevated level and banks are yet to pass on the full benefits of previous rate cuts.
- The Government's fiscal deficit stood at Rs. 3.85 lakh crore for four months till July of the current financial year or 69.3% of the annual target that ends in March 2016. It is higher than the deficit of 61.2% witnessed for the similar period a year ago. Net tax receipts stood at Rs. 1.54 lakh crore.
- India's trade deficit widened to \$12.81 billion in July 2015 from \$10.83 billion in June 2015. While imports fell by 10.28% on a yearly basis to \$35.95 billion in July, exports also fell by 10.30% to \$23.14 billion during the same period. Oil imports were down 37.91% in July over last year, while non-oil imports were higher by 3.80%, suggesting improving domestic demand.
- Consumer Price Index (CPI)-based inflation rose by 3.78% in July, much lower than 5.40% recorded in June due to sharp fall in prices of food and beverages. Consumer food price index-based inflation also fell to 2.15% from 5.48% witnessed in the previous month.
- The Index of Industrial Production (IIP) increased 3.8% on a yearly basis in June, higher than 2.5% recorded in May but lower than 4.3% posted a year ago. The cumulative growth for the first three months till June stood at 3.2%. IIP for the Mining, Manufacturing and Electricity sectors growth stood at (-) 0.3%, 4.6% and 1.3% annually, respectively.
- Wholesale Price Index (WPI)-based inflation contracted for the ninth consecutive month to an all-time low of 4.05% in July compared to 2.40% in June. Wholesale price inflation stood at 5.41% in the same month last year.

Indian Equity Market

Index PE Ratio & Returns	Closing Values [#]	1 Year	3 Year	5 Year
CNX Nifty*	7,971.30	0.21	14.87	8.09
CNX Nifty PE	18.59	15.99	14.42	20.13
S&P BSE Sensex*	26,283.09	-1.32	14.67	7.90
S&P BSE Sensex PE	18.41	15.86	15.04	19.40

Source: NSE, BSE, * Returns less than 1 year are absolute, greater than 1 year are Compounded Annualized, [#] As on 31-Aug-2015

Monthly returns as on August 31, 2015



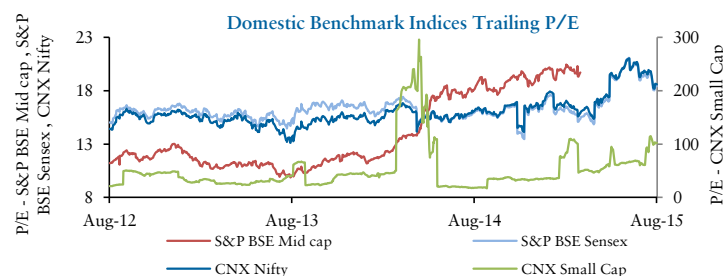
Source: MFI Explorer

Growth of Rs 1,000 over Last 10-Yrs



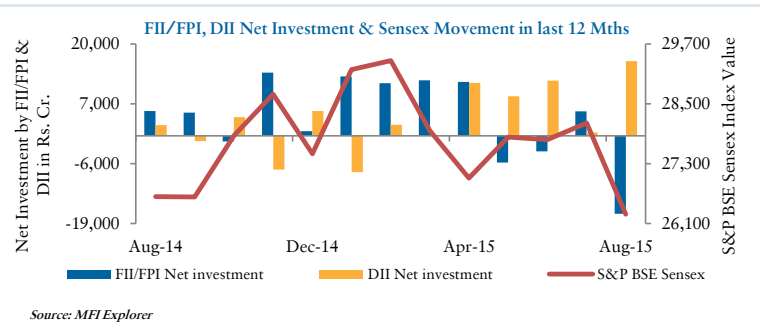
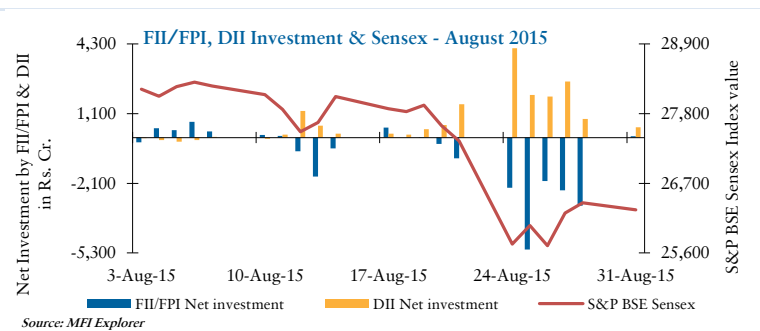
Source: MFI Explorer

Domestic Benchmark Indices Trailing P/E



Source: Reuters, NSE

- Indian equity markets fell sharply during the month under review. Concerns over global growth, particularly in China, political uncertainty in Greece and possibility of a hike in interest rates in the U.S. hit market sentiments. Investors were disappointed after the Central Bank kept interest rates unchanged at its monetary policy review. Uncertainty over the passage of key bills in the monsoon session of Parliament also hit the bourses.
- Key benchmark indices, S&P BSE Sensex and CNX Nifty, fell 6.51% and 6.58% to close at 26,283.09 points and 7,971.30 points, respectively. S&P BSE Mid-Cap and S&P BSE Small Cap fell 4.78% and 7.27%, respectively.
- According to data from the Central Depository Services (India) Ltd., Foreign Portfolio Investors (FPIs) were net sellers of domestic stocks in most of the trading sessions during the month. The maximum outflow was seen during the second half of the month. On the other hand, mutual fund industry remained net buyers in the equity space to the tune of Rs. 10,016.50 crore.
- Bourses witnessed a range-bound movement initially during the month. Investor sentiments improved after final reading of a private survey showed that the manufacturing activities rose to a six-month high in July.
- Markets got more support after the Government proposed capital infusion to the tune of nearly Rs. 20,000 crore in the Banking sector over the next two months to boost their capital base. Besides, the Services Purchasing Managers' Index touched a 2-year high in July. However, gains proved to be short-lived as the Central Bank, at its third bi-monthly policy review held during the month, kept key rates unchanged. Investor sentiments dampened further after the India Meteorological Department forecasted below-normal monsoon rainfall in the remaining two months of the four-month season. Disappointing quarterly results from blue-chip companies also weighed on investor sentiments.
- As the month progressed, investors became worried whether the Goods and Services Tax (GST) Bill would be passed in Parliament. Markets witnessed selling pressure later as the same bill could not be passed in the monsoon session of Parliament. Meanwhile, positive economic data, including retail inflation and factory output numbers, supported investor sentiments to some extent.
- Markets lost momentum again after Moody's Investors Service scaled down its projections for India's economic growth for 2015-16 to 7% from an earlier estimate of 7.5%. Bourses plunged towards the end of the month on concerns over foreign fund outflows.



- A series of weak global cues prompted overseas investors to reduce exposure in developing economies like India. Concerns over Chinese economic growth outlook, coupled with an unexpected slowdown in the U.S. manufacturing sector in August weighed on investor sentiments. Worries about Greece's bailout program resurfaced after the nation's Prime Minister resigned. Besides, continued fall in oil prices increased concerns over global economic outlook. Faster-than-expected growth in the U.S. economy in the second quarter renewed the possibility of an interest rate hike by the U.S. Federal Reserve towards the end of the year.
- On the BSE sectoral front, barring S&P BSE Healthcare and S&P BSE IT, all the indices closed in red. S&P BSE Metal was the major laggard, down 14.10%, followed by S&P BSE Power and S&P BSE Capital Goods, which fell 11.15% and 10.68%, respectively. S&P BSE Oil & Gas and S&P BSE Realty fell by 10.34% and 9.13%, respectively. Metal stocks fell as commodities extended losses amid possibility of lower demand from China. Meanwhile, export-led pharmaceutical stocks rose on expectations that weakness in the rupee would help boost revenue.

Regulatory Update

- The Central Bank has doubled the limit on investments in corporate bonds by primary dealers or bond houses. The objective of the move is to deepen the corporate bond markets and facilitate greater level of participation in corporate bonds.
- The Government gave approval to the spectrum-sharing guidelines in which sharing of airwaves has been allowed between telecom companies. The move is expected to optimize the use of radio frequency spectrum for telecom services, improve quality of calls and data speed, and lower tariffs as well.
- Capital market regulator Securities and Exchange Board of India (SEBI) has notified a new set of listing norms for start-up entities, including e-commerce ventures, on a separate platform of domestic stock exchanges. As per the new norms, SEBI has provided significant relaxations in the disclosure requirements. Besides, SEBI has also relaxed its delisting, takeover and Alternative Investment Fund regulations for such new entities who are engaged in IT, data analytics, intellectual property, bio-technology or nano-technology like activities. SEBI has kept the minimum trading lot and the minimum application size at Rs. 10 lakh so that only sophisticated and large investors come in.
- SEBI has approved the merger of Forward Markets Commission with itself. SEBI also announced new norms for commodities derivatives market under which exchanges and brokers in this segment will need to comply with rules applicable to their stock market peers. The new regulations will also come into effect on September 28, 2015.
- According to SEBI, sale and purchase of shares under Employee Stock Options Program will not be considered as 'trading'. However, SEBI added that companies need to comply with disclosure norms in this regard.
- SEBI has approved the removal of current restriction on the maximum number of anchor investors, which is 25 at present for anchor allocation of public issue worth over Rs. 250 crore. The objective of the move is to boost fund raising through primary markets.
- SEBI has asked clearing corporations to provide elaborate monthly reports with details on settlements, actions taken against trading members as well as information about corporate governance aspects of the corporations themselves. The objective of the move is to ensure more transparency in the functioning of clearing corporations.

Source : Reuters

Indian Fixed Income

RBI Policy Rates

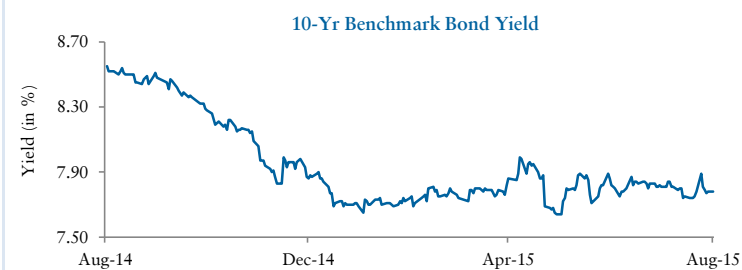
Key Rates (%)	Current [^]	Previous
Reverse Repo Rate	6.25	6.25
Repo Rate	7.25	7.25
CRR	4.00	4.00
SLR	21.50	21.50
Bank Rate	8.25	8.25

[^]Based on RBI Bi-monthly Monetary Policy Statement on 4-Aug-2015

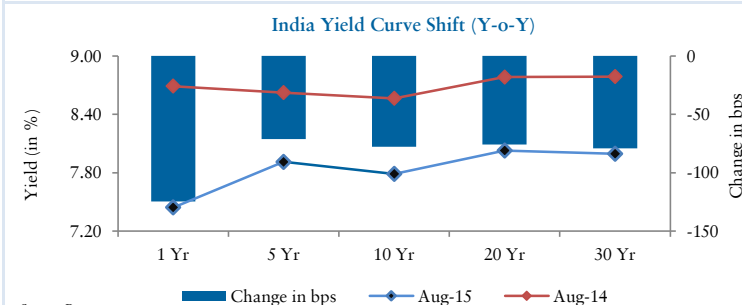
Debt Indicators (Yield %)	Aug-15	Jul-15
Call Rate	7.13%	7.09%
1 Mn NSE Mibor	7.58%	7.66%
10-Yr Benchmark Bond	7.78%	7.81%
91-Day T-Bill [#]	7.39%	7.69%
182-Day T-Bill [#]	7.50%	7.75%
364-Day T-Bill [#]	7.56%	7.75%

[#]Indicates Monthly Average cut off during Auction

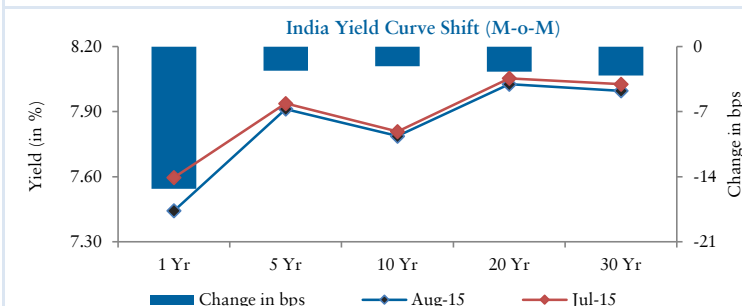
Source: RBI



Source: CCIL

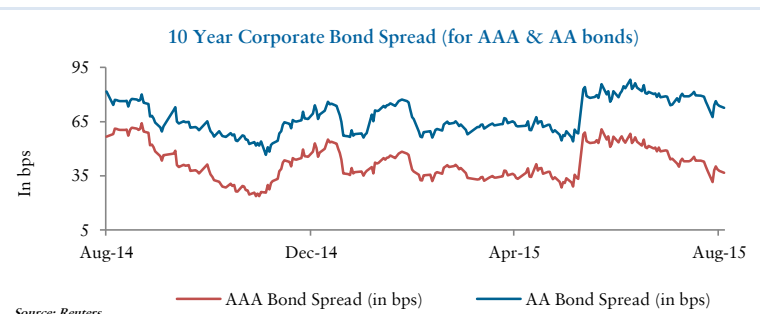
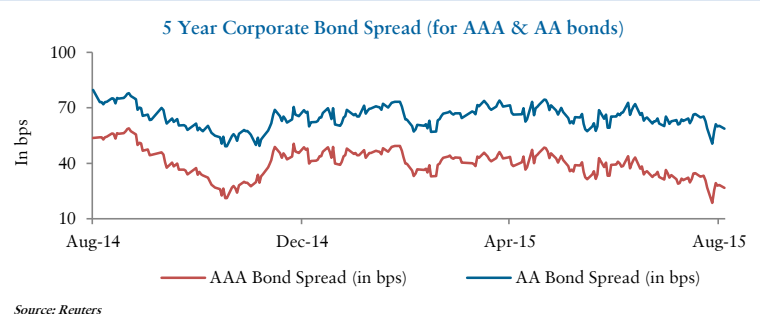
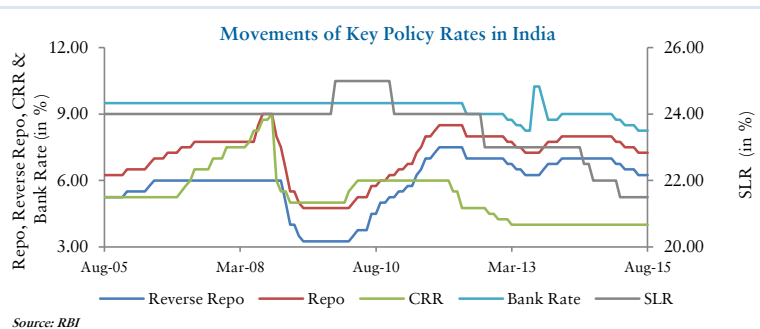
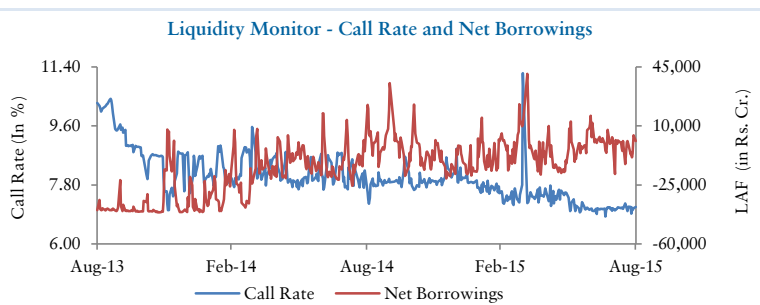


Source: Reuters



Source: Reuters

- Bond yields changed little during the month under review after witnessing a range-bound movement. The yield on the 10-year benchmark bond eased 3 bps to close at 7.78% against the previous month's close of 7.81%, after trading in the range of 7.78% to 7.89%.
- Initially, bond yields rose after the Central Bank did not provide any timeline for further monetary easing at its policy meet. The Central Bank said that further monetary easing will depend on inflation and monsoon outlook. The Central Bank, at its third bi-monthly monetary policy review, kept its key policy rates unchanged at 7.25%. The RBI Governor opined that headline inflation remained at elevated level and banks were yet to pass on the full benefits of previous rate cuts. He also said that the Central Bank was waiting for greater transmission of its front-loaded past actions and would monitor developments for more accommodation.
- Bond yields started declining after fall in international crude oil prices, which helped improve investor sentiments. Lower oil prices might help ease inflationary pressure, which in turn would provide scope for further rate cuts. Bond prices got more support after Consumer Price Index-based inflation eased to a record low level in July.
- After remaining steady for some time, gains were wiped out as concerns over a slowdown in the Chinese economy triggered fears of a global economic slowdown. Fall in the domestic currency also hit bond markets.
- The trend reversed soon, tracking recovery in the rupee, as concerns over global economic slowdown eased. This improved investors' risk appetite for emerging market assets. Markets got more support after China's Central Bank cut its policy rate by 25 bps and reserve ratio requirements by 50 bps.
- Yield on Gilt Securities (annualized) fell by up to 13 bps across the yield curve. Corporate Bond yields also dropped across the maturities in the range of 5 bps to 11 bps barring 3-year paper that increased by 3 bps. Spread between AAA Corporate Bond and Gilt contracted in the range of 3 bps to 8 bps across the segments barring 1 to 3-year papers that expanded by up to 9 bps. The maximum and minimum contraction was seen on 10-year and 4-year papers, respectively.



- According to the Central Bank money market operations under Liquidity Adjustment Facility, liquidity in the banking system remained at comfortable levels. On a daily average basis, the RBI squeezed liquidity from the system as banks parked higher amount of money (through reverse repo auctions) with the Central Bank than what they borrowed (repo auctions). Banks' net average borrowing through the Liquidity Adjustment Facility (LAF) window stood at Rs. 1,654.68 crore in August, compared to the previous month's average lending of Rs. 2,017.96 crore.
- Banks' average borrowings under the Marginal Standing Facility (MSF) window stood at Rs. 627.52 crore in August, compared to the previous month's average borrowing of Rs. 147.69 crore. Interbank call money rate closed at 7.13% in August compared to 7.09% in July. Call rates hovered in the range of 5.45% to 7.24% during the month under review compared to that of the previous month when call rates moved in the range of 5.68% to 7.12%.
- The Central Bank also conducted auctions of 91-days, 182-days and 364-days Treasury bills for an aggregate amount of Rs. 56,000 crore in August compared to that of July when the amount stood at Rs. 70,000 crore. The cut-off yield stood in the range of 7.27% to 7.58% during the month compared to that of the previous month when the cut-off yield stood in the range of 7.48% to 7.66%.
- The Central Bank conducted the auction of dated securities for the notified amount of Rs. 42,000 crore. The cut-off yield remained in the range of 7.75% to 8.06% during the month compared to 7.80% to 8.12% in July. The Central Bank also conducted the auction of State Development Loans for the notified amount of Rs. 19,050 crore. The cut-off stood in the range of 8.25% to 8.31% compared to 8.28% to 8.36% in the prior month. The highest yield of 8.31% was seen in case of Kerala while the lowest yield of 8.25% was seen in case of Himachal Pradesh and Punjab.
- The Central Board of Directors of the Reserve Bank of India approved the transfer of surplus amounting to Rs. 658.96 billion for the year ended June 30, 2015 to the Government of India. The amount stood at Rs. 526.79 billion for the year ended June 30, 2014.
- As per the Sectoral Deployment of Bank Credit, non-food bank credit increased by 8.4% in July 2015, much slower than 12.6% rise recorded a year ago. Credit to agriculture and allied activities increased by 12.2% compared to 19.5%. Credit to the services sector increased by 6.4%, much lower than 11.8% rise.

Currency

Movement of Major Currencies (Denominated in Indian Rupee)

Currency	Value(as of 31-Aug-2015)	1 Mth Ago	3 Mths Ago	1 Year Ago
INR/1 USD	66.31	64.01	63.76	60.47
INR/1 EURO	74.50	70.16	69.91	79.86
INR/1 GBP	102.31	99.84	97.80	100.35
INR/ 100 YEN	55.00	52.00	51.00	58.00

Source: RBI

Rupee Versus Dollar during the year



Source: RBI

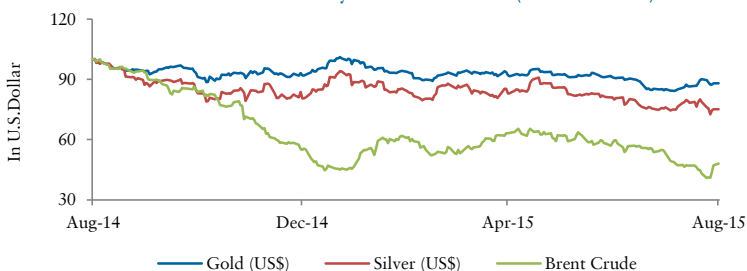
Commodity

Performance of various Commodities

Commodities	Value(as of 31-Aug-2015)	Returns (in %)			
		1 Wk Ago	1 Mth Ago	6 Mths Ago	1 Year Ago
Crude Brent (\$/Barrel)	48.51	17.49	-9.56	-22.43	-51.78
Gold (\$/Oz)	1134.10	-1.78	3.53	-6.47	-12.07
Gold (Rs./10 gm)	26556.00	-2.25	7.99	0.94	-4.90
Silver (\$/Oz)	14.60	-1.22	-1.15	-12.05	-25.32
Silver (Rs./Kg)	34467.00	-3.08	2.55	-5.74	-19.23

Source: Reuters, MCX

Movement of Commodity Prices Over 1 Year (Rebased to 100)



Source: Reuters

INR

- The rupee plunged against the dollar after the People's Bank of China unexpectedly devalued its currency to boost export competitiveness, which increased concerns over a China-driven global economic slowdown. Losses in the domestic equity markets and dollar demand from importers also weighed on the rupee. However, losses were restricted after the Chinese Central Bank lowered its key lending rates and reserve ratio requirements, which supported the domestic currency to some extent.

Euro

- The euro rose against the dollar amid global growth concerns after the Chinese Central Bank devalued the yuan. The trend continued after minutes of the U.S. Federal Reserve's policy meeting in July lowered the possibility of an interest rate hike in the U.S. in the near term. The euro touched a seven-month high against the greenback after Chinese manufacturing activity shrank in August, compounding investor concerns over global growth. However, gains were capped after the People's Bank of China cut its key lending rates and the U.S. economic growth accelerated in the second quarter.

Crude

- Brent crude prices remained under pressure initially on concerns of over-supply by the Organization of the Petroleum Exporting Countries (OPEC). Oil prices witnessed more pressure after China's unexpected move to devalue the yuan triggered the possibility of a new round of currency wars. Disappointing Chinese industrial output data further weighed on crude prices. However, losses were capped following recovery in European and U.S. equity markets to some extent, which improved the global demand outlook of the commodity. Oil prices found additional support after Venezuela asked other members of OPEC for an emergency meeting with Russia to come up with a plan to boost prices.

Gold

- Gold prices rose during the month as the safe-haven appeal of the metal improved on concerns over global economic growth. Weak U.S. economic data raised hopes of a delay in interest rate hike by the U.S. Fed. China's unexpected move to devalue the yuan raised concerns over the health of the Chinese economy and also triggered worries over a currency war. The bullion got further support following weak Chinese factory data. However, gains were restricted as the U.S. economy grew higher than initially estimated in the second quarter.

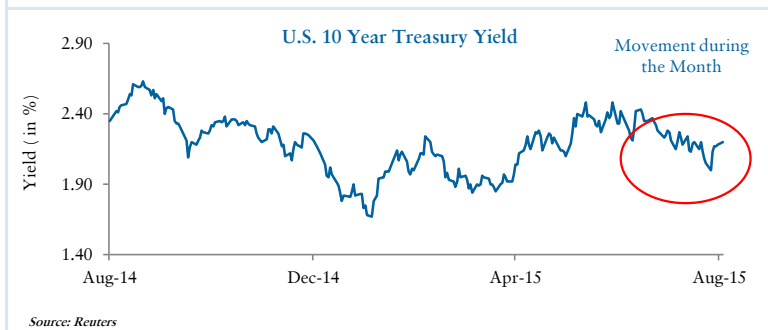
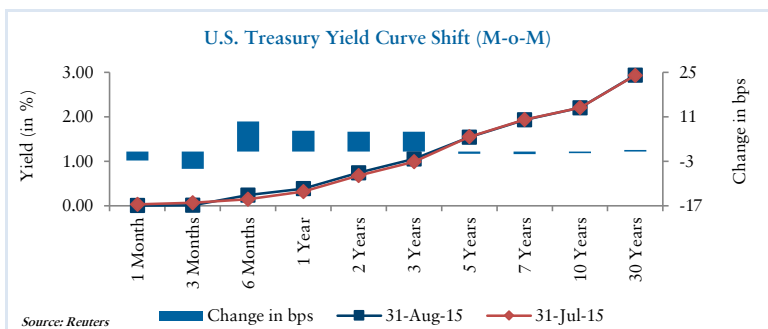
Global Equity Market

Performance of Major International Markets (as on August 31, 2015)

Indices	Country	1 Mth
United States		
Nasdaq 100	U.S.	-6.85
S&P 500	U.S.	-6.26
DJ Industrial Average	U.S.	-6.57
Asia Pacific		
SET IDX	Thailand	-4.01
JSX Composite	Indonesia	-6.10
FTSE Straits Times	Singapore	-8.78
KOSPI	S. Korea	-4.37
Hang Seng	Hong Kong	-12.04
NIKKEI 225	Japan	-8.23
Shanghai SE Composite	China	-12.49
S&P BSE Sensex	India	-6.51
S&P/ASX 200	Australia	-8.64
Europe		
FTSE 100	U.K.	-6.70
CAC 40	France	-8.45
FSE DAX	Germany	-9.28

Source: MFI Explorer & Reuters

Global Fixed Income - U.S.



United States

- The U.S. markets fell as uncertainty over the U.S. Fed's stance on interest rate hike and concerns over Chinese economic slowdown weighed on investor sentiments. Minutes of the Fed's policy meeting in July showed that most participants believed that the conditions for raising interest rates were approaching but not yet achieved.

Europe

- European bourses witnessed pressure following weak cues from Asian markets and concerns over U.S. interest rate outlook. Mixed corporate earnings reports and continued weakness in the Greek stock markets weighed on investor sentiments. Besides, the pace of growth in Euro zone economic activity slowed at the start of the third quarter. Investor sentiments dampened further after growth in the U.K.'s services sector slowed in July, while Euro zone retail sales declined in June. However, losses were restricted as the Bank of England kept its key rate unchanged at a record low.

Asia

- Asian markets fell in tune with other global peers. Chinese markets witnessed selling pressure despite continuous supportive measures from policymakers. A series of devaluation in the yuan by the Chinese Central Bank weighed on investor sentiments.

- The yield on the 10-year U.S. Treasuries fell by 1 bps to close at 2.20% compared to the previous close of 2.21% after trading in the range of 2.00% to 2.27%.

- The U.S. Treasury prices witnessed considerable volatility in August. Treasury prices rose earlier during the month following weak U.S. factory activity data for July. Bond prices rose further after the People's Bank of China unexpectedly devalued its currency, which raised concerns over Chinese economy and global growth. Treasury prices received further support after minutes of the U.S. Federal Reserve's meeting in July increased uncertainty over the interest rate outlook in the U.S. region.

- However, most of the gains were wiped out after the People's Bank of China assured investors that there was no basis for the yuan to drop further. Treasury prices fell further after the Chinese Central Bank unexpectedly lowered interest rates and reserve ratio requirements to boost growth. Upbeat U.S. retail sales and producer prices data for August also weighed on Treasury prices.

Bonus Stripping and Dividend Stripping

Bonus stripping is a practice of avoiding tax by acquiring shares just before the record date of declaration of bonus shares by the company and subsequently selling the original shares ex-bonus at a loss. The loss, so incurred, is adjusted against any other short-term capital gains, thereby reducing the income chargeable to income tax. Meanwhile, dividend stripping refers to the practice of buying before the record date and selling of securities or units after the record date of dividend paid. It is applicable mainly in direct equities and mutual funds.

While the practice of bonus stripping is applicable in case of share trading, the same is not allowed in case of mutual fund units. Under Section 94(8) of Income Tax Act 1961, any loss arising from sale of original units of mutual fund will be ignored for the purpose of determining the taxable income of a person subject to following conditions:

1. The person buys or acquires any unit within 3 months prior to the record date regarding issue of bonus units.
2. Such person is allotted bonus units on such record date.
3. The person sells all or some of the original units within nine months after the record date.
4. On the date of sale or transfer, the person holds at least one additional unit allotted to him.

However, the loss so incurred will be treated as cost of acquisition of the additional unit(s) held on the date of such sale or transfer. Moreover, the above mentioned section will not be applicable if all the additional units are transferred before original units are sold.

Dividend stripping is similar to bonus stripping. It is a process where an investor would invest in a mutual fund just before the fund declared dividend and would sell units after receiving the dividend. Buying the securities used to fetch investors dividend, and by selling it immediately, a short-term capital loss was incurred. This loss was set off against a short-term capital gain, thereby reducing the tax liability. However, such benefit has been stopped following introduction of Section 94(7) in Income Tax Act 1961. Accordingly,

1. if a person buys or acquires shares or units within 3 months prior to the record date for declaration of dividend and
2. sells such shares within 3 months after such record date or mutual fund units within 9 months after such record date and
3. such dividend received by such person is exempted from tax

the loss, if any, arising from the sale of such shares or units shall be ignored for the purpose of computing taxable income. However, the amount of loss, so ignored, will be restricted to the amount of dividend received.

Once the provision of bonus stripping becomes applicable, the concept of dividend stripping will not be applicable. Besides, the provision of bonus stripping is applicable only for units of mutual funds, while provision of dividend stripping is applicable both for shares and units.

For example, Mr. A purchased 8,000 units on August 24, 2014 for Rs. 10.00 lakh. On November 23, 2014 the mutual fund house announced bonus issue in the ratio of 1:1. On December 28, 2014, Mr. A sold 4,000 units of the original issue for Rs. 4.50 lakh. Accordingly, the short-term capital loss will be Rs. 0.50 lakh [Rs. 4.50 lakh - Rs. 5.00 lakh (being proportionate cost of acquisition for 4,000 units)]. By virtue of Section 94(8), the loss of Rs. 0.50 lakh will be ignored while computing the taxable income of Mr. A. However, the same will be considered as cost of acquisition for the additional units held on the date of sale.

The concept of dividend stripping can be explained by following example:

Assuming that a person buys a share at Rs. 105 and the company declares a dividend of Rs. 3 per share (for which income tax is exempt) and the share price, post dividend, falls to Rs. 102 per share. The assessee, in such a case, achieves two benefits. Firstly, he receives the tax-free dividend of Rs. 3 and at the same time he books a short-term capital loss of Rs. 3, which can be set off against other short-term capital gains.

Source for data, graphs and analysis, unless otherwise specified: ICRA Online Research

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