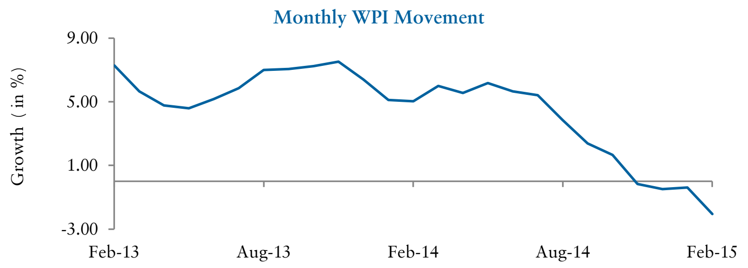
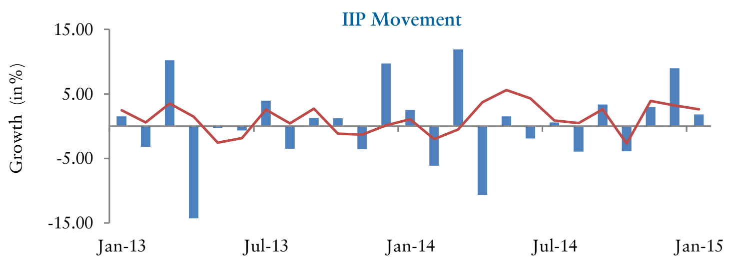
Indian Economy

Economic Releases in March-2015			
Policy Rates	**Period**	**Actual**	**Previous**
Repo Rate^	31-Mar-15	7.50%	7.75%
Reverse Repo^	31-Mar-15	6.50%	6.75%
CRR^	31-Mar-15	4.00%	4.00%
Key Indicators	**Actual**	**Previous**	
Index Of Industrial Production (IIP)	2.60% (Jan-15)	3.20% (Dec-14)	
Wholesale Price Index Inflation(WPI)	-2.06% (Feb-15)	-0.39% (Jan-15)	
Export (Y-o-Y)	-15.02% (Feb-15)	-11.19% (Jan-15)	
Import (Y-o-Y)	-15.66% (Feb-15)	-11.39% (Jan-15)	
Current Account Deficit ($ Billions)	-8.23(Dec-14)	-10.11(Sep-14)	
Fiscal Deficit FYTD (INR Trillion)	602.53(Feb-15)	568.14(Jan-15)	

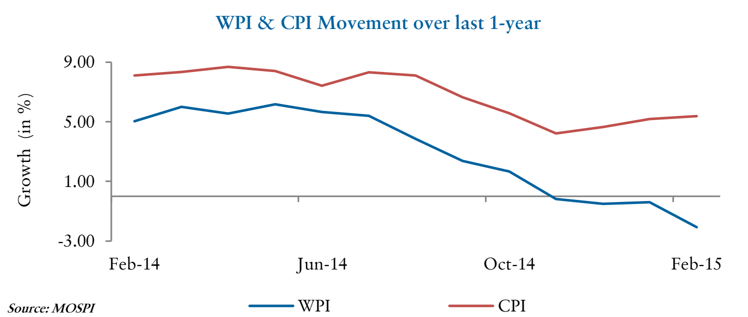
Source: RBI, Reuters; ^Based on RBI Announcement released on 04-Mar-2015



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



Source: MOSPI



Source: MOSPI

- *The Central Bank, on the back of fiscal consolidation and reduced inflationary pressures, has lowered the key policy repo rate by 25 basis points (bps) from 7.75% to 7.50%.* Consequently, the reverse repo rate under the Liquidity Adjustment Facility (LAF) stood at 6.50%, the Marginal Standing Facility (MSF) and the Bank Rate each at 8.50%. This is the second time in less than two months that the Central Bank has cut interest rates outside the regular policy review.

- The Index of Industrial Production (IIP) in January stood at 2.6% against 3.20% in December, 2014. Growth in the Capital Goods sector stood at 12.8% during the month under review.

- The Consumer Price Index (CPI)-based inflation rose to 5.37% in February against 5.19% in January. The statistics department started using 2012 as the new base year in place of 2010 for measuring retail prices last month. It has lowered the weightage for food and fuel items in the modified price index.

- The Wholesale Price Index (WPI)-based inflation fell to (-) 2.06% in February as prices of food articles, manufactured items and fuel products fell during the month. *This is the fourth consecutive month when the WPI-based inflation remained in the negative zone.* The WPI stood at (-) 0.39% in January and 5.03% in February last year.

- The Current Account Deficit (CAD) stood at $8.2 billion, or 1.6% of Gross Domestic Product (GDP) in the December quarter compared to $10.1 billion or 2.0% of GDP in the September quarter and $4.2 billion, or 0.9% of GDP in December 2013. But the balance of payment surplus almost doubled to $13.2 billion, which is the fifth consecutive quarter of surplus.

- Trade deficit narrowed to a 17-month low of $6.8 billion in February as oil imports declined by over 55% from a month earlier. Imports fell 15.66% on a yearly basis in February to $28.39 billion. Exports also declined 15.02% on a yearly basis to $21.55 billion.

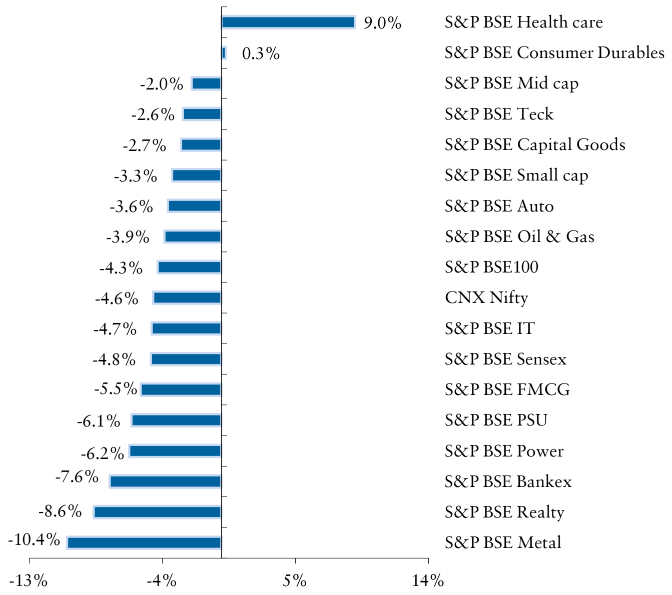
- Foreign Direct Investment (FDI) in India more than doubled to $4.48 billion in January. *This was the highest inflow in the last 29 months.* During the period from April to January of the current fiscal, foreign inflows have grown by 36% on a yearly basis to $25.52 billion.

Indian Equity Market

Index PE Ratio & Returns	Closing Values#	1 Year	3 Year	5 Year
CNX Nifty*	8,491.00	26.65	17.03	10.09
CNX Nifty PE	15.88	16.60	14.84	19.71
S&P BSE Sensex*	27,957.49	24.89	17.10	9.78
S&P BSE Sensex PE	15.36	17.18	14.74	19.88

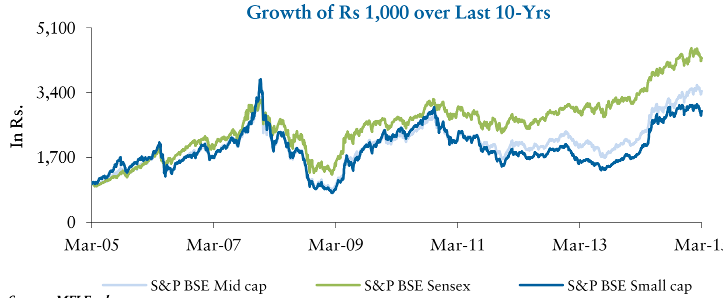
*Source: NSE, BSE, * Returns less than 1 year are absolute, greater than 1 year are Compounded Annualized , # As on 31-Mar-2015*

Monthly returns as on March 31, 2015



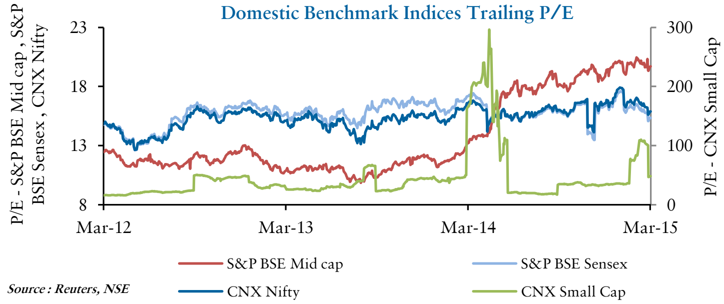
Source: MFI Explorer

Growth of Rs 1,000 over Last 10-Yrs



Source : MFI Explorer

Domestic Benchmark Indices Trailing P/E



Source : Reuters, NSE

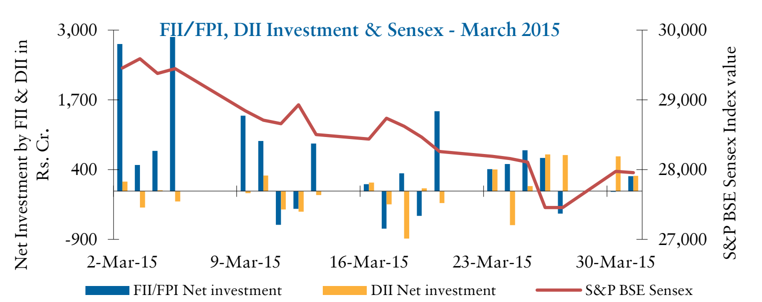
- Indian equity markets witnessed a sharp fall during the month on the back of weak global cues and some disappointing domestic economic data. *Geo-political crisis in the Middle East and concerns over possible interest rate hike in the U.S. mainly dictated market movements in March.* Meanwhile, bourses posted the highest gains in the financial year that closed in March since 2009-10 on hopes of revival of growth in India.

- The key benchmark indices, S&P BSE Sensex and CNX Nifty, touched record-high level of 30,024.74 and 9,119.20 points, respectively on March 4. However, the indices could not hold on to their gains and closed more than 4% lower during the month.

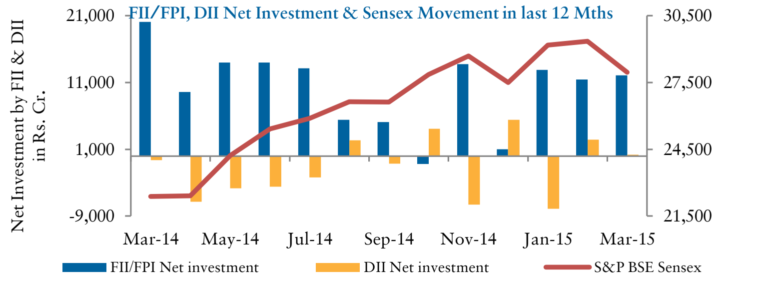
- According to data from the Central Depository Services (India) Ltd., Foreign Portfolio Investors (FPI) remained net buyers of Indian stocks worth Rs. 12,078.12 crore in March against Rs. 11,475.53 crore in the previous month. Domestic mutual funds also remained net buyers in the equity to the tune of Rs. 3,940.30 crore in March.

- *Initially, bourses got support following the Union Budget announcements.* Investor sentiments improved after the Government projected that the Indian economy will grow by 8-8.5% and will touch double digit in the subsequent years. The Finance Minister has also pegged fiscal deficit for 2015-16 at 3.9% of GDP and proposed to lower it to 3% by 2017-18. Bourses found additional support after the Central Bank unexpectedly cut repo rate by 25 bps outside the regular monetary policy review. However, some of the gains were wiped out as HSBC Purchasing Managers' Index showed that the country's manufacturing activity expanded at its slowest pace in five months in February. Moreover, upbeat U.S. jobs data in February renewed concerns over an imminent rate hike by the U.S. Federal Reserve (Fed).

- Later during the month, *investor sentiments dampened after trade deficit widened sequentially in the December quarter as exports fell 7.3% and imports declined 4.5%.* Slowdown in industrial production in January, coupled with rise in CPI in February also hit the bourses. The fall was restricted as the International Monetary Fund (IMF) said that the Indian economy is recovering and its ability to withstand external shocks has improved. The Finance Minister's comments that the country's CAD is likely to be less than 1% of GDP in the next fiscal provided more support. The CAD narrowed to 1.6% of GDP in the December quarter from 2% of GDP in the September quarter. Meanwhile, inflation based on the Wholesale Price Index contracted to 2.06% in February compared to a contraction of 0.39% in the previous month, mainly on account of a fall in fuel prices. Bourses got additional support after the U.S. Federal Reserve indicated that it was in no rush to raise interest rates.



Source: MFI Explorer



Source: MFI Explorer

- The trend reversed after a heavyweight company from the metal sector fell following the Government's rejection of bid made by the company during the auction of coal blocks held recently. Meanwhile, the Asian Development Bank said that the Indian economy is projected to grow by 7.8% in 2015-16, against 8.1-8.5% pegged in the Economic Survey.

- *Towards the end of the month, various sectors like infrastructure, metals & mining and oil & gas witnessed selling pressure as a major global rating agency stated that companies from the said sectors have high debt levels.* Moreover, political unrest in the Middle East renewed concerns over foreign fund inflows in the domestic markets.

- On the BSE sectoral front, barring S&P BSE Healthcare and S&P BSE Consumer Durables, all the indices closed in red. S&P BSE Metal was the major laggard, down 10.45%, followed by S&P BSE Realty and S&P BSE Bankex, which fell 8.64% and 7.57%, respectively.

Regulatory Update

- The commodity market regulator Forward Market Commission (FMC) in a circular to all national commodity bourses informed that FMC has decided that KYC (Know Your Customer) document of the commodity derivatives market will be identical to that prescribed by the Securities and Exchange Board of India (SEBI) for the securities market.

- SEBI has decided not to make listed companies disclose details about their earnings, prospects for future earnings or dividends and projected profits. The market regulator has also decided to tighten its corporate disclosure norms for listed companies by asking them to disclose board decisions within 30 minutes and details of other 'material' developments within 24 hours. SEBI has also provided stricter penal actions for non-compliance.

- SEBI has notified easier delisting rules. The new regulations will reduce the time for completing the process and provides for relaxation on case-to-case basis. The timeline for completing the delisting process has been reduced to 76 working days from 137 calendar days before (about 117 working days). Apart from reducing the timeline, SEBI has retained the reverse book-building process for discovering the price of shares for the purpose of delisting.

- SEBI has decided to allow mutual fund houses and alternative investment funds (AIFs) to set up their establishment in international financial service centres (IFSCs). According to SEBI's guidelines, an asset management company operating in IFSC shall have a net worth of not less than $2 million, which will be increased to $10 million within three years of commencement of business in IFSC. It has also mandated that the mutual funds and AIFs operating in IFSCs can accept money from eligible investors only in foreign currency.

- SEBI has eased IFSC norms for intermediaries. It has relaxed net worth and shareholding limit for market intermediaries planning to open offices within the IFSC. SEBI allowed domestic and foreign stock exchanges and clearing corporations to form a subsidiary to provide their services by having an initial minimum net worth of Rs. 25 crore and Rs. 50 crore, respectively, which could be enhanced to Rs. 100 crore and Rs. 300 crore over the period of three years from the date of approval.

- The Central Bank has eased norms for Non-Performing Assets (NPA) provisioning. According to the new norms, banks can use 50% of their floating provision for specific NPA provision against 33% earlier.

Source : Reuters

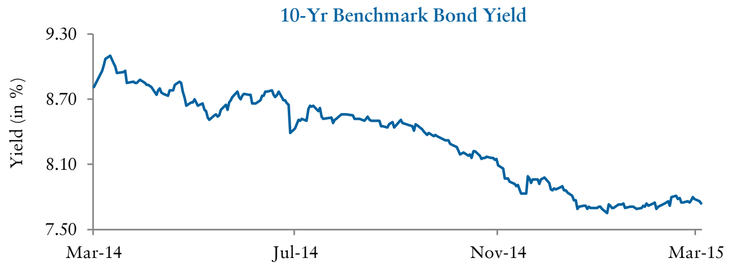
Indian Fixed Income

RBI Policy Rates		
Key Rates (%)	**Current^**	**Previous**
Reverse Repo Rate	6.50	6.75
Repo Rate	7.50	7.75
CRR	4.00	4.00
SLR	21.50	21.50
Bank Rate	8.50	8.75

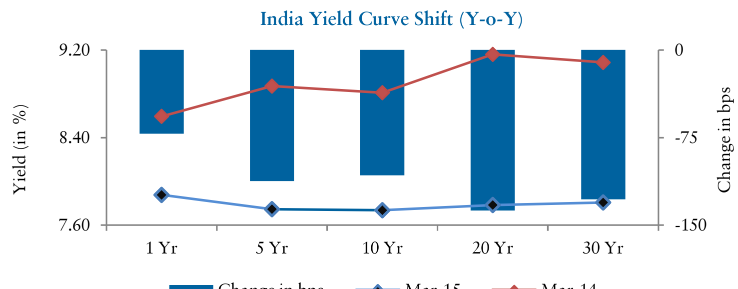
^Based on RBI Announcement released on 04-Mar-2015
Source: RBI

Debt Indicators (Yield %)	Mar-15	Feb-15
Call Rate	11.21%	7.55%
1 Mn NSE Mibor	8.76%	8.38%
10-Yr Benchmark Bond	7.74%	7.72%
91-Day T-Bill#	8.28%	8.32%
182- Day T-Bill#	8.15%	8.29%
364-Day T-Bill#	7.94%	8.04%

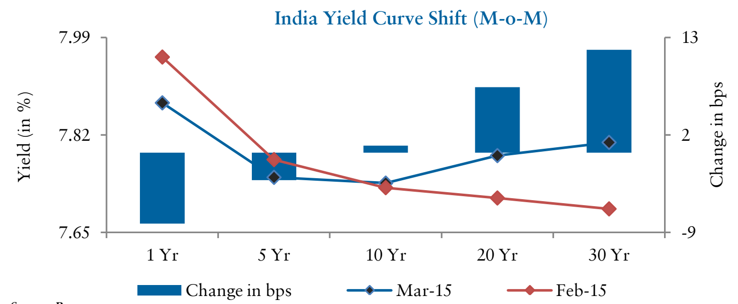
 # Indicates Monthly Average cut off during Auction
Source: RBI



Source: CCIL



Source: Reuters



Source: Reuters

- Bond yields moved in a range-bound manner and inched up 2 bps during the month under review. *The movement of the bond yields was mainly impacted by the Central Bank's second rate cut outside the policy review cycle, concerns over the timing of the U.S. Federal Reserve's rate hike and hopes of increase in foreign investment limit in domestic bond markets.* Bond prices were also influenced by the movement of global crude oil prices.

- The yield on the 10-year benchmark bond closed at 7.74% against the previous month's close of 7.72%, after moving in the range of 7.69% to 7.80%.

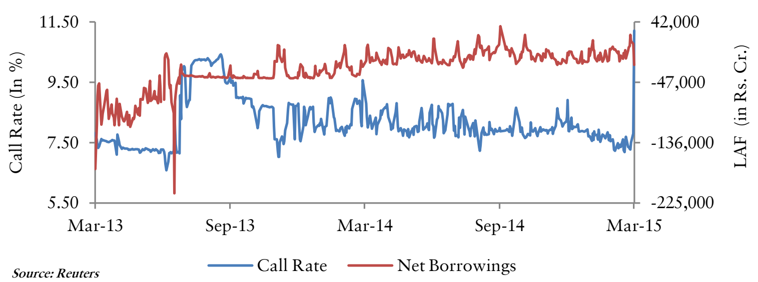
- Bond yields rose initially after the Government in its Union Budget increased the fiscal deficit target for 2015-16 to 3.9% of GDP from 3.6% of GDP estimated before. However, bond markets got support after the Central Bank cut its key policy rates by 25 bps on March 4 outside its regular policy review. Gains could not be sustained as CPI rose faster than expected in February.

- Amid higher fiscal deficit target, expectations of higher Government borrowing for the new financial year emerged, which increased hopes of rise in foreign investment limit for Government Securities. This boosted bond prices in the first half of the month. Markets also got support from the Government's borrowing plan for the first half of FY15-16 but sentiments dampened after a Central Bank official said that there were no immediate plans to increase the foreign investment limit in Government bonds. This raised concerns about lower demand for Government debt. The Government will borrow Rs. 3.6 lakh crore from April to September 2015, the first-half of FY15-16. This amounts to 66.7% of the full-year borrowing target of Rs. 6 lakh crore announced in the Union Budget on February 28.

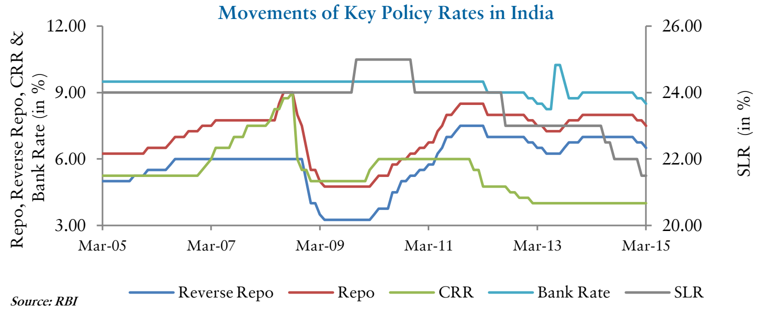
- *Bond prices fell further on concerns over the possibility of a mid-year rate hike by the Fed.* However, such concerns eased as the U.S. Fed in its monetary policy review said that it will not hurry in raising interest rates, increasing demand for emerging market assets.

- The Central Bank, in consultation with the Government, has converted two securities from its portfolio, maturing in 2015-16 (for a total face value of about Rs. 30,228 crore) to a longer tenure security maturing in 2026-27 on March 20 at market prices.

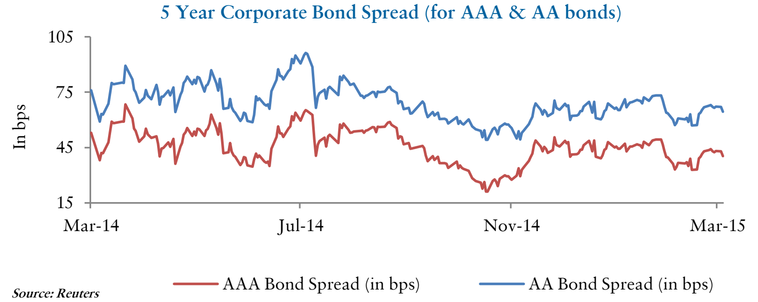
Liquidity Monitor - Call Rate and Net Borrowings



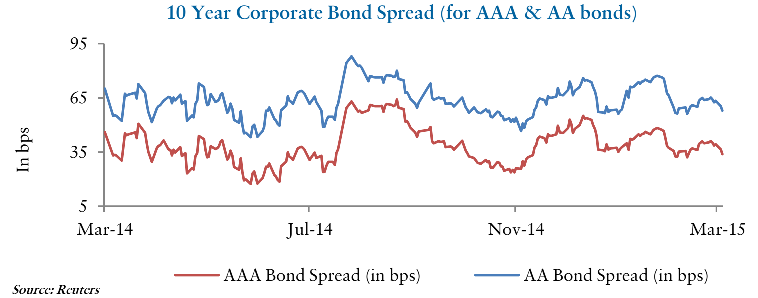
Movements of Key Policy Rates in India



5 Year Corporate Bond Spread (for AAA & AA bonds)



10 Year Corporate Bond Spread (for AAA & AA bonds)



- Government bond yields increased towards the longer end of the yield curve while the rest fell or remained unchanged. The highest rise of 12 bps was seen on 24 and 30-year papers while the maximum fall of 17 bps was seen on 1-year maturity. In case of corporate bonds, yields declined mainly in short to medium end but increased marginally toward the longer end of the curve. Spread between AAA Corporate bond and Gilt witnessed a mixed trend.

- The Government and the Central Bank have agreed on a monetary policy framework, which will make managing inflation the key determinant in the latter's policy decisions. *According to the agreement, the Central Bank will aim to bring inflation below 6% by January 2016.* The target of financial year 2016-17 and all subsequent years will be 4% inflation with a band of (+/-) 2%.

- The Central Bank announced that it will conduct the auction of 91-days, 182-days, and 364-days Treasury bills for the notified amount of Rs. 1,10,000 crore, 36,000 crore and Rs. 42,000 crore, respectively for the period April to June 2015.

- Although interbank call money rate remained lower than the ongoing repo rate, it jumped to 11.21% on the last day of the month. Banks' net average borrowing through the Liquidity Adjustment Facility (LAF) window stood at Rs. 309.05 crore, much lower than the previous month's average borrowing of Rs. 4,822.28 crore. Banks' average borrowings under the Marginal Standing Facility (MSF) window surged to Rs. 3,085.60 crore compared to the previous month's average borrowing of Rs. 512.14 crore.

- The Central Bank continued to conduct term repo auctions under its revised liquidity framework to ensure that liquidity condition within the system remains comfortable. Banks were also focusing more on the term repo auctions to meet their liquidity requirements rather than approaching the LAF and MSF windows. The Central Bank conducted term repo auctions and allotted Rs. 2,28,895 crore in March and the cut-off stood in the range of 7.51% to 8.20% compared to Rs. 1,77,382 crore in February.

- The Central Bank also conducted the auction of State Development Loans and allotted Rs. 20,460.38 crore out of the notified amount of Rs. 21,160.38 crore. The cut-off stood in the range of 8.02% to 8.12%. 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 during the month. The cut-off yield stood in the range of 7.90% to 8.31%.

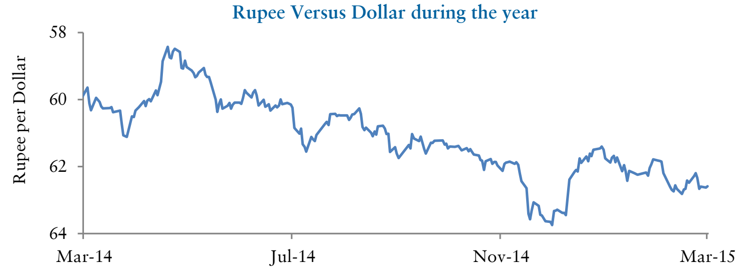
Principal Monthly Insight

Currency

Movement of Major Currencies (Denominated in Indian Rupee)				
Currency	Value(as of31-Mar-2015)	1 Mth Ago	3 Mths Ago	1 Year Ago
INR/1 USD	62.59	61.79	63.33	60.10
INR/1 EURO	67.51	69.29	77.00	82.58
INR/1 GBP	92.46	95.42	98.58	99.85
INR/ 100 YEN	52.00	52.00	53.00	59.00

Source: RBI

Rupee Versus Dollar during the year



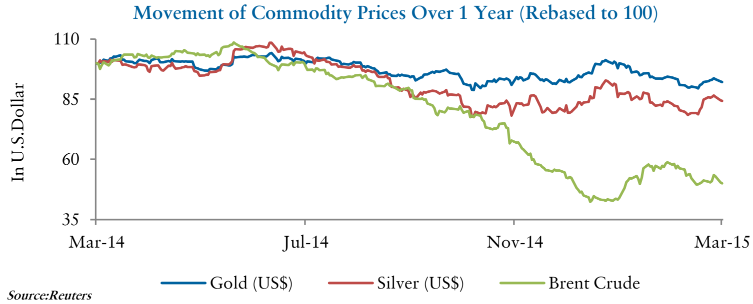
Source: RBI

Commodity

Performance of various Commodities					
Commodities	Value(as of31-Mar-2015)	Returns (in %)			
		1 Wk Ago	1 Mth Ago	6 Mths Ago	1 Year Ago
Crude Brent ($/Barrel)	53.29	-0.78	-14.79	-43.56	-49.92
Gold ($/Oz)	1183.10	-0.81	-2.43	-2.12	-7.83
Gold (Rs./10 gm)	26232.00	0.00	-0.29	-2.02	-8.34
Silver ($/Oz)	16.62	-1.54	0.12	-1.89	-15.68
Silver (Rs./Kg)	36983.00	-1.90	1.14	-4.64	-14.05

Source: Reuters, MCX

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



Source:Reuters

INR

- *The rupee weakened against the dollar earlier during the month after the Central Bank Governor opined that an "excessively strong rupee" may trigger disinflationary pressure.* The possibility of interest rate hike by the Fed during the middle of the year hit the rupee further. Weakness in domestic equity markets and dollar demand from oil importers also weighed on investor sentiments. However, losses were restricted after the Fed indicated that it will not hurry in raising interest rates. Dollar selling by banks and exporters also supported the rupee.

Euro

- The euro plunged to a twelve-year low against the dollar after the European Central Bank (ECB) commenced its quantitative easing program and indicated that the program may continue until September 2016, or beyond if necessary. Concerns over Greece's debt situation also weighed on the currency. *However, losses were restricted after the Fed downgraded its outlook for the U.S. economy* and indicated that it will not hurry in raising interest rates.

Crude

- *Oil prices fell by around 15% during the month amid persistent concerns about oversupply, following signs of a possible* nuclear deal with Iran. A deal may result in lifting of sanctions imposed on Iran that could bring more of its oil to an oversupplied market. Oil prices fell further due to weakness in China's vast manufacturing sector and higher Libyan crude output. A rising U.S. crude oil inventories also kept prices under pressure. Prices fell further after Kuwait said that the Organisation of the Petroleum Exporting Countries had no choice but to keep its market share and shun oil output cuts.

Gold

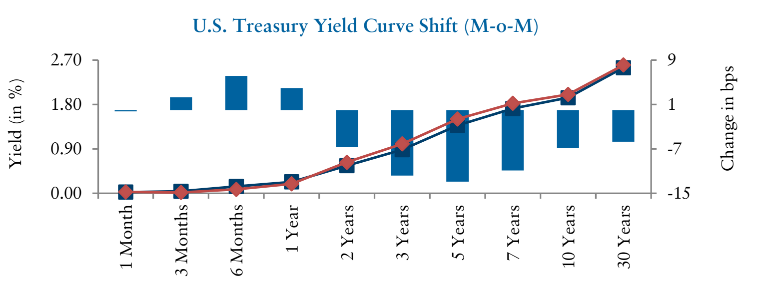
- *Gold prices fell by around 2% during the month amid* uncertainty over the U.S. Federal Reserve's stance on interest rates. The U.S. Fed Chief indicated that the Central Bank may raise interest rates later this year following sustained improvement in the U.S. economic condition. The bullion fell further on the back of strength in the dollar against the euro after the European Central Bank launched its massive bond-buying program. However, rising political unrest in the Middle East provided some support to the safe-haven gold.

Global Equity Market

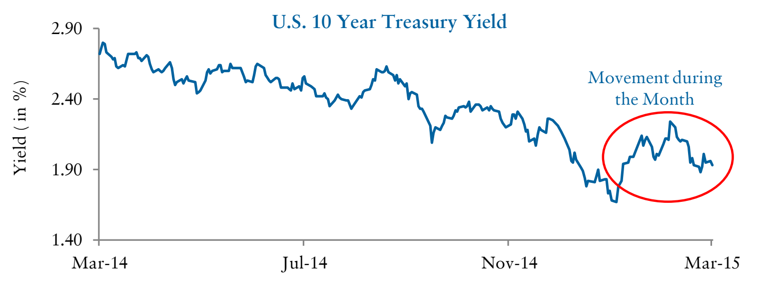
Performance of Major International Markets (as on March 31, 2015)		
Indices	**Country**	**1 Mth**
United States		
Nasdaq 100	U.S.	-2.41
S&P 500	U.S.	-1.74
DJ Industrial Average	U.S.	-1.97
Asia Pacific		
SET IDX	Thailand	-5.11
JSX Composite	Indonesia	1.25
FTSE Straits Times	Singapore	1.30
KOSPI	S. Korea	2.78
Hang Seng	Hong Kong	0.31
NIKKEI 225	Japan	2.18
Shanghai SE Composite	China	13.22
S&P BSE Sensex	India	-4.78
S&P/ASX 200	Australia	-0.63
Europe		
FTSE 100	U.K.	-2.50
CAC 40	France	1.66
FSE DAX	Germany	4.95

Source: MFI Explorer & Reuters

Global Fixed Income - U.S.



Source: Reuters



Source: Reuters

United States

- The U.S. markets remained under pressure during the month. *Concerns over the U.S. Fed's stance on interest rates weighed on investor sentiments.* The U.S. Fed Chief indicated the possibility of interest rate hike later this year but stressed that any rate hike is likely to be gradual and would depend on how the economy performs. Besides, some weak economic data hit the bourses.

Europe

- Most of the European markets remained firm after the ECB President suggested that the quantitative easing program will continue until the inflation reaches the ECB's target of near 2%. *The ECB also raised its economic growth forecast for 2015.* In addition, some better-than-expected economic data provided support to the bourses. However, concerns over Greece's debt situation capped the gains.

Asia

- Asian markets exhibited strong performance, led by Chinese bourses which hit a seven-year high. *Market rose after the Chinese Central Bank cut its benchmark interest rates and hinted at further stimulus measures to revive the sluggish economy.* Besides, risk appetite improved after the Bank of Japan kept its quantitative easing program intact. However, gains were capped following geopolitical tensions in the Middle East.

- The yield on the 10-year U.S. Treasury bond fell by 7 bps during the month under review to close at 1.93% compared to the previous month's close of 2.00%. The paper moved in the range of 1.88% to 2.24%.

- The U.S. Treasury prices fell initially amid possibility that the U.S. Fed Reserve may increase interest rates during the middle of the year. *Treasury prices fell further after the U.S. jobs data for February came better than expected and the unemployment rate fell to a six-and-a-half-year low of 5.5%.*

- However, the trend reversed and Treasury prices rose after the ECB commenced its massive bond-buying program on March 9. Moreover, the Fed lowered its outlook for the U.S. economic growth and inflation for 2015 and indicated that it will not hurry in raising interest rates. Concerns over Greece's debt situation and uncertainty over talks between Iran and major global powers regarding the former's nuclear program also boosted Treasury prices.

Investment Classroom

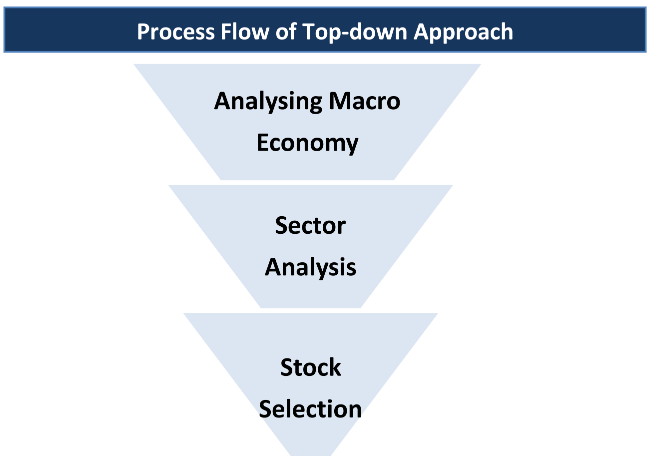
Where to go in turbulent times- Top Down or Bottom Up?

Stock selection involves two traditional strategies, namely ‘top-down’ and ‘bottom-up’ approaches. Though the strategies are different in nature, the objectives are same - both hunt for the best stocks available in the market.

Top-down approach

In the top-down approach, investors primarily analyse the broader economic aspects, both domestic and global. Economic factors like Gross Domestic Product (GDP), industrial production, interest rates, inflation, commodity prices and exchange rates are majorly considered as vital parameters. Consequently, investors narrow down their choices to different sectors to get better understanding of which industry or sector is likely to outperform in the near future. Subsequently, investors identify the most promising companies within the sector to add to his portfolio.

For instance, if Mr. XYZ anticipates that the rate of interest in the economy is likely to come down in near future, he will prefer to bank on the rate-sensitive sectors like Automobile, Banks or Realty. Now he might zero in on his choice to some best performers in the industry.



Pros & cons of the strategy-

In the top-down approach, investors take into account all the economic factors and sectoral performances before picking up any stock. This allows all these factors to be considered before investment and thus adaptation towards any change on the macro-economic front can be restrained.

The strategy also helps investors to take a clear comprehensive view and also provides a mechanism to filter out the poor performing sector as well as to eliminate the market players accordingly.

The minus point of this strategy is that some good companies which are fundamentally sound and have good growth prospects can be missed out if they belong to poor performing sectors. Also the strategy is effective only when the immediate future is certain. If the macro-economic condition is not stable, then the strategy of narrowing down the choice to a particular sector or selecting sector-specific stocks might not be a good strategy.

Bottom-up approach-

In the bottom-up approach, investors primarily focus on individual security and mainly consider the fundamental attributes of the company. Investors who prefer to follow this strategy mostly overlook the macro-economic trends and sectoral performances. Rather they put thrust on parameters like earning growths, P/E ratio, cash flow, profit retention, etc.

For instance, Mr. ABC, the investor who advocates the bottom-up approach, might want to buy a stock which holds a strong ground in respect to financial, operation and managerial aspects but belongs to a poor performing sector.

Process Flow of Bottom-up Approach

Pros & cons of the strategy-

The bottom-up approach involves rigorous study on intrinsic value of a company. Accordingly, if the fundamental of a company is good, the stock can be selected regardless of whether the outside factors like sector performance, economic condition are favourable or not.

The strategy is good to follow in the bear market when the stocks are traded at lower prices but are likely to be recovered with the upswing of the market. This mechanism provides scope to pick up good stock during poor market condition and takes benefit of price appreciation once the market sentiment improves.

However, in adverse economic situation, regardless of how competent a company is, it will suffer when the economy falters. Thus overlooking the market cycle and other macro-economic factors might impact the stock and limit the investors' scope to reap benefit.

The prudent path

Both the top-down and bottom-up strategies are different in their approach on macro-economic and financial parameters as well as individual company information and research process. However, in recent time, the whole financial domain has emerged as an integrated sphere and thus it is difficult to opt for any mutually exclusive strategy. In order to reduce both the systematic and unsystematic risks, investors should apply the right strategy by mixing up the top-down and bottom-up approaches to optimize the portfolio returns.

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

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