Indian Equity Market

January 2010

Global Update

- The MSCI India Index underperformed some of the emerging markets as well as other major global indices during December. On a year to date basis, India is the third best performing emerging market. The MSCI India index moved up by 3.4% during December, MSCI China moved up by 0.5% and MSCI Brazil moved up by 1.2% while MSCI USA and MSCI Japan showed movement of 1.9% and 0.7% respectively. During calendar year 2009, MSCI India gave returns of 100.5% while MSCI China, MSCI Brazil, MSCI USA and MSCI Japan had ytd returns of 58.8%, 121.2%, 24.2% and 4.4% respectively (refer to table alongside).

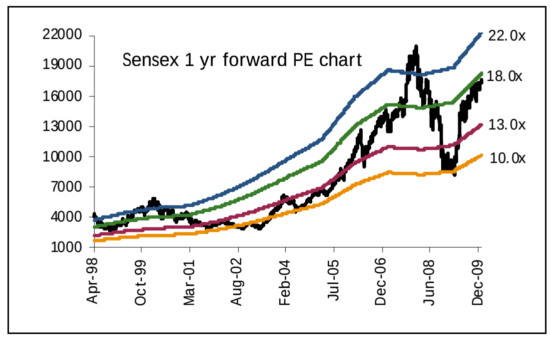
Domestic market review

- **Sensex/Sectors:** The BSE Sensex Index closed the month up 3.2% m-o-m. On a year on year basis, the BSE Sensex Index has gone up by 81.0%. On a 1-month basis, IT Services was the best performing sector contributing 1.3% to the absolute Sensex increase while Capital Goods was second contributing 0.5%. The FMCG sector was the worst performing sector contributing -0.3% to the absolute Sensex returns. On a 1-year basis, Financials is the best performing sectors contributing 18.8% to the Sensex increase while Telecom was the worst performing sector having contributed -1.1% to the overall index return (refer to charts below).
- **Large/Mid/Small Cap:** On a monthly basis, the Large Cap Index (BSE 100) with returns of 3.5% underperformed both the BSE Mid Cap as well as the BSE Small Cap Index, which had returns of 4.7% and 11.1% respectively. The indices have shown a similar trend on a 1-yr basis, with the BSE 100 Index having gone up 85% compared to 107.7% for the BSE Mid Cap Index and 126.9% for the BSE Small Cap Index.
- **Flows:** FII flows in the cash segment, during October, were positive for the tenth consecutive month amounting to US$ 1,235 million. FIIs have bought equities in excess of US$ 17 billion in 2009. In the derivatives segment, FIIs were sellers of futures for during the month of December having sold futures worth US$ 706. Domestic insurance companies were buyers for the seventh consecutive month buying worth US$ 478 million.
- **Mutual Fund Activity:** In December, domestic mutual funds were net sellers for the fourth consecutive month, selling worth US$ 368 million. Flows into domestic equity mutual funds were negative as well, with outflows of INR 10.7 billion, for the month of November (data available with a one month lag).
- **Trading:** Cash trading volumes and derivatives volumes both declined during December. Trading value in the cash segment declined by 9% m-o-m while average open interest rose for the fourth consecutive month to its highest level since Jan 2008.
- **Earnings:** In December, the consensus EPS growth estimates for the BSE Sensex constituents were revised down for FY2010 by 1.9% while FY2011 estimates were raised 1.5%. The consensus now expects Sensex EPS growth of 3.6% in FY2010 and 21.7% in FY2011.
- **Valuation:** The MSCI India's relative PE premium compared to MSCI EM remained in the 20-25% range during December, while the Sensex Index was trading at 17.26(x) 1 year forward earning (refer table chart alongside).

DSP BLACKROCK
INVESTMENT MANAGERS

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 INR 28,008 crore (as at December 31, 2009) 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 1.4 trillion.

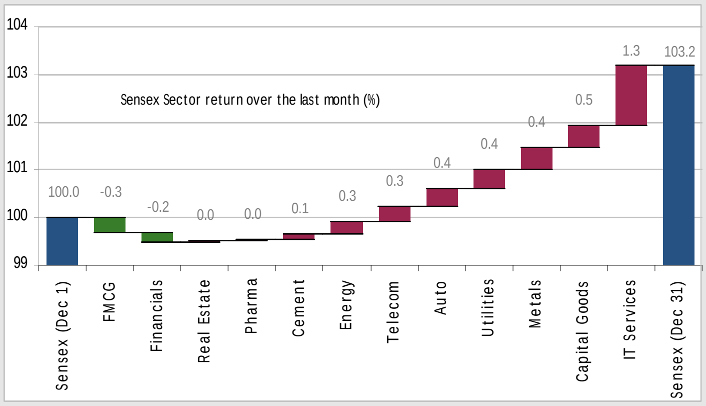


Source: Merrill Lynch, Bank of America Research

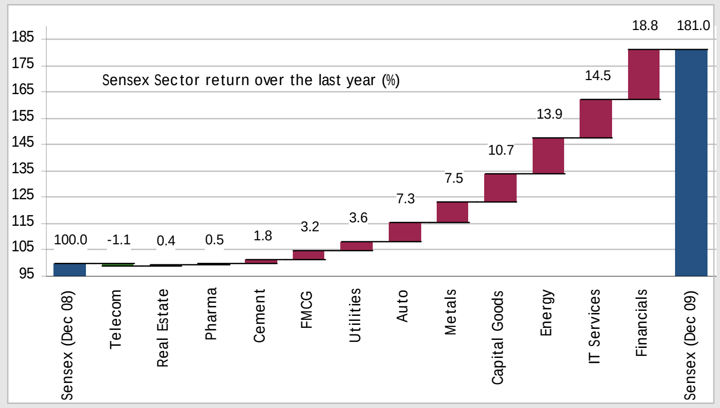
Country	1-month	CY2009
MSCI Indonesia	6%	121%
MSCI Brazil	1%	121%
MSCI India	3%	101%
MSCI Russia	3%	100%
MSCI Thailand	7%	70%
MSCI Korea	8%	69%
MSCI Taiwan	9%	75%
MSCI Australia	2%	69%
MSCI Hong Kong	2%	55%
MSCI Philippines	3%	60%
MSCI China	0%	59%
MSCI Malaysia	0%	48%
MSCI EMU	1%	27%
MSCI USA	2%	24%
MSCI Japan	1%	4%

Source: Bloomberg; as at Dec 31, 2009. All data in USD.

Index Returns: 1 month



Index Returns: 1 year



Source: IIFL; as at Dec 31, 2009

Macro-economic review

- **The Index of Industrial Production** (IIP) for the month of October rose by a 10.3% y-o-y, compared to 9.6% y-o-y (revised upwards from 9.1% y-o-y) in September and 11.0% y-o-y in August. The cumulative growth for the period April-October 2009-10 stood at 7.1% over the same period last year. Growth in the electricity sector moderated to 4.75% y-o-y while growth in the mining and manufacturing sectors accelerated to 8.7% and 11.1% compared to the same period last year. As per used based classification, growth in intermediate and consumer goods was good, while that in basic and capital goods was moderate.
- **Headline inflation**, as measured by the monthly Wholesale Price Index (WPI), stood at 4.78% y-o-y for November 2009, based on higher manufactured products prices. On a month on month basis, the Index for primary articles increased by 2.6% with the food articles group rising by 3.2%, the manufacturing products index, which has a 63.75% weight, rose by 1.25% while the fuel, power, light and lubricant index showed a marginal decline.
- **Balance of Payments** surplus increased to US$ 9.4 billion for the quarter ending September 2009 compared to a surplus of US$ 0.1 billion in the previous quarter. The current account deficit increased significantly during the September quarter, increasing from US$ 5.9 billion to US$ 12.6 billion while the trade deficit widened to US$ 32 billion during the same period from US$ 26 billion in the previous quarter. Net invisibles declined by 25% y-o-y for the quarter ended September 2009, while the capital account balance increased sharply to US$ 23.6 billion compared to a surplus of US$ 6 billion in the previous quarter.
- **Exports** for the month of November increased by 18.2% to US$13.2 billion y-o-y while **imports** declined by 2.6% to US$ 22.9 billion y-o-y during the same month. The trade deficit for the period April-November 2009 was estimated at US$66.2 billion which was lower than the deficit of US$100.2 billion, for the same period last year.

Non-equity market update

- **Currency:** In December, the Indian Rupee depreciated by approximately 0.02% against the US Dollar and appreciated by 4.62% against the EURO. On a yearly basis, the Rupee has appreciated by 4.67% against the US Dollar and by 2.06% against the EURO. The USD/INR FX rate closed the month at 46.53 against 46.52 as at previous month end. The EURO/INR FX rate closed the month at 66.61 against 69.84 as at the previous month end.
- **Gold** prices were lower by 7.01% during December, to close the month at US$ 1,097/ounce.
- **Oil** prices went up 2.7% during December to close the month at USD 79.36 per barrel.

Equity market outlook

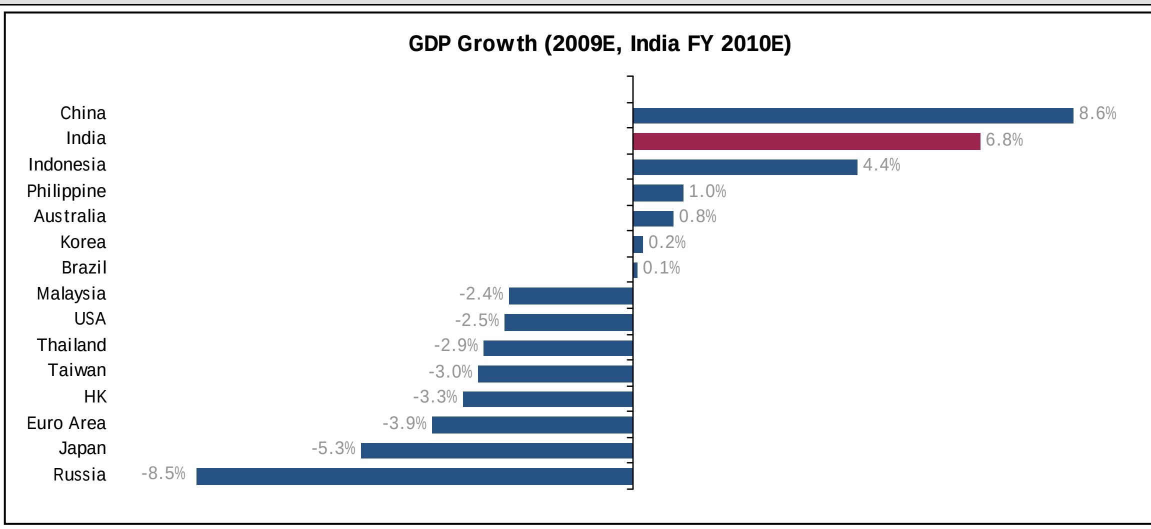
The Indian equity market has risen considerably during 2009, with the BSE Sensex having gone up 81%. The leading macro economic variables have shown a steady up-trend over the past few months, industrial production has consistently been picking up and consumption demand and foreign flows remain strong. The GDP growth for the last few quarters has also been showing an upward trend proving that economic recovery is truly underway. Consequently, India has been one of the best performing emerging markets last year. During December, the BSE Sensex has risen approx. 3.2%.

Globally, economic recovery has been taking shape, but how far into 2010 it can be sustained, yet remains to be seen. On the domestic front, FII flows have remained strong, and should continue based on India's economic growth trajectory. The Rupee has appreciated during the year and is expected to be range bound over the medium term with a strengthening bias. Oil could head higher and commodities can be expected to show a similar trend helped by strong demand from emerging markets and a possible recovery in developed markets in the medium term. Export growth, having remained weak for the past many months, has slowly started picking up.

Inflation continues to be a medium term concern. Food price inflation has been moving up through the year, and the Reserve Bank of India (RBI) can be expected to start monetary tightening over the next few quarters. In its most recent policy review, the RBI initiated the process of exiting its expansionary monetary policy stance by discontinuing the special measures that were put in place to safeguard the economy from the global crisis, but had left the key policy rates unchanged in order to not impact the economic recovery.

Going forward, private consumption should be the key driver of the Indian economy, supported by higher disposable incomes, better job prospects and strength of the rural economy. India's rural economy comprises of approx. 152 million households (70% of India's total households), whose disposable income has been steadily going up on the back of rise in non-farm income, led by rising government spends (NREGA), and rise in farm incomes due to high produce prices/minimum support prices, rising productivity and a change in production mix.

In the near/medium term, while Indian equities could benefit from strong foreign inflows, steady pick in economic activity and strong consumption demand, rising inflation, strength of the global recovery and a possibility of withdrawal of stimulus could ensure that the market remains range bound. Over the long term, India's GDP growth should remain steady as India is a largely domestic demand driven economy, while the government's thrust on infrastructure development and positive impact of policy changes could likely provide further upside.



Source: JP Morgan Research; as at December 30, 2009

Did you know? (India Specific Facts)

- Seven of the world's top 10 best selling dailies are published in Asia with China, Japan and India accounting for 60 of the top 100 newspapers. India is at second slot with 88.9mn newspaper copies sold everyday compared to 98.7mn in China. (Source: Mint)
- India can meet its entire power requirement by covering 0.16% of its land area with solar panels. (Source: Emerging trends in Alternate Energy report, Credit Suisse)

Disclaimer:

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, and at the ISCs/Distributors. **Please read the Scheme Information Document and Statement of Additional Information carefully before investing.**