Chapter II

CURRENT TRENDS
• MUTUAL FUNDS
• STAKE TRADING
CURRENT TRENDS IN MUTUAL FUNDS

A lone UTI with just one scheme in 1964, now competes with as many as 400 odd products and 34 players in the market. In spite of the stiff competition and losing market share, UTI still remains a formidable force to reckon with.

Last six years have been the most turbulent as well as exiting ones for the industry. New players have come in, while others have decided to close shop by either selling off or merging with others. Product innovation is now passé with the game shifting to performance delivery in fund management as well as service. Those directly associated with the fund management industry like distributors, registrars and transfer agents, and even the regulators have become more mature and responsible.

The industry is also having a profound impact on financial markets. While UTI has always been a dominant player on the bourses as well as the debt markets, the new generation of private funds which have gained substantial mass are now seen flexing their muscles. Fund managers, by their selection criteria for stocks have forced corporate governance on the industry. By rewarding honest and transparent
management with higher valuations, a system of risk-reward has been created where the corporate sector is more transparent than before.

Funds have shifted their focus to the recession free sectors like pharmaceuticals, FMCG and technology sector. Funds performances are improving. Funds collection, which averaged at less than Rs.100bn per annum over five-year period spanning 1993-98 doubled to Rs.210bn in 1998-99. In the current year mobilization till now have exceeded Rs.300bn. Total collection for the current financial year ending March 2000 is expected to reach Rs.450bn. [1]

What is particularly noteworthy is that bulk of the mobilization has been by the private sector mutual funds rather than public sector mutual funds. Indeed private MFs saw a net inflow of Rs.7819.34 crore during the first nine months of the year as against a net inflow of Rs.604.40 crore in the case of public sector funds.

Mutual funds are now also competing with commercial banks in the race for retail investor's savings and corporate float money. The power shift towards mutual funds has become obvious. The coming few years will show that the traditional saving avenues are losing out in the current scenario. Many investors are realizing that investments in savings
accounts are as good as locking up their deposits in a closet. The fund mobilization trend by mutual funds in the current year indicates that money is going to mutual funds in a big way. The collection in the first half of the financial year 1999-2000 matches the whole of 1998-99.

India is at the first stage of a revolution that has already peaked in the U.S. The U.S. boasts of an Asset base that is much higher than its bank deposits. In India, mutual fund assets are not even 10% of the bank deposits, but this trend is beginning to change. Recent figures indicate that in the first quarter of the current fiscal year mutual fund assets went up by 115% whereas bank deposits rose by only 17%. (Source: Thinktank, The Financial Express September, 99) This is forcing a large number of banks to adopt the concept of narrow banking wherein the deposits are kept in Gilts and some other assets which improves liquidity and reduces risk. The basic fact lies that banks cannot be ignored and they will not close down completely. Their role as intermediaries cannot be ignored. It is just that Mutual Funds are going to change the way banks do business in the future.
## BANKS V/S MUTUAL FUNDS[2]

<table>
<thead>
<tr>
<th></th>
<th>BANKS</th>
<th>MUTUAL FUNDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returns</td>
<td>Low</td>
<td>Better</td>
</tr>
<tr>
<td>Administrative exp.</td>
<td>High</td>
<td>Low</td>
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<tr>
<td>Risk</td>
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<td>Moderate</td>
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<td>Investment options</td>
<td>Less</td>
<td>More</td>
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<tr>
<td>Network</td>
<td>High penetration</td>
<td>Low but improving</td>
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<tr>
<td>Liquidity</td>
<td>At a cost</td>
<td>Better</td>
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<tr>
<td>Quality of assets</td>
<td>Not transparent</td>
<td>Transparent</td>
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<tr>
<td>Interest calculation</td>
<td>Minimum balance between 10th. &amp; 30th. of every month</td>
<td>Everyday</td>
</tr>
<tr>
<td>Guarantee</td>
<td>Maximum Rs.1 lakh on deposits</td>
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</table>

## GLOBAL SCENARIO

### SOME BASIC FACTS:

- The money market mutual fund segment has a total corpus of $1.48 trillion in the U.S. against a corpus of $100 million in India.
- Out of the top 10 mutual funds worldwide, eight are bank-sponsored. Only Fidelity and Capital are non-bank mutual funds in this group.
- In the U.S. the total number of schemes is higher than that of the listed companies while in India we have just 277 schemes.
- Internationally, mutual funds are allowed to go short. In India fund managers do not have such leeway.
• In the U.S. about 9.7 million households will manage their assets on-line by the year 2003, such a facility is not yet of avail in India.
• On-line trading is a great idea to reduce management expenses from the current 2% of total assets to about 0.75% of the total assets.
• 72% of the core customer base of mutual funds in the top 50-broking firms in the U.S. are expected to trade on-line by 2003. [3]

(Source: The Financial Express September, 99)

Internationally, on-line investing continues its meteoric rise. Many have debated about the success of e-commerce and its breakthroughs, but it is true that this aspect of technology could and will change the way financial sectors function. However, mutual funds cannot be left far behind. They have realized the potential of the Internet and are equipping themselves to perform better.

In fact in advanced countries like the U.S.A, mutual funds buy-sell transactions have already begun on the Net, while in India the Net is used as a source of Information.

Such changes could facilitate easy access, lower intermediation costs and better services for all. A research agency that specializes in
internet technology estimates that over the next four years Mutual Fund Assets traded on-line will grow ten folds from $128 billion to $1,227 billion; whereas equity assets traded on-line will increase during the period from $246 billion to $1,561 billion. This will increase the share of mutual funds from 34% to 40% during the period. [4]

(Source: The Financial Express September, '99)

Such increases in volumes are expected to bring about large changes in the way Mutual Funds conduct their business.

Here are some of the basic changes that have taken place since the advent of the Net.

- Lower Costs: Distribution of funds will fall in the online trading regime by 2003. Mutual funds could bring down their administrative costs to 0.75% if trading is done on-line. As per SEBI regulations, bond funds can charge a maximum of 2.25% and equity funds can charge 2.5% as administrative fees. Therefore if the administrative costs are low, the benefits are passed down and hence Mutual Funds are able to attract more investors and increase their asset base.
- Better advice: Mutual funds could provide better advice to their investors through the Net rather than through the traditional investment routes where there is an additional channel to deal with the Brokers. Direct dealing with the fund could help the investor with their financial planning.

- In India, brokers could get more Net savvy than investors and could help the investors with the knowledge through get from the Net.

- New investors would prefer online: Mutual funds can target investors who are young individuals and who are Net savvy, since servicing them would be easier on the Net.

- India has around 1.6 million net users who are prime target for these funds and this could just be the beginning. The Internet users are going to increase dramatically and mutual funds are going to be the best beneficiary. With smaller administrative costs more funds would be mobilized. A fund manager must be ready to tackle the volatility and will have to maintain sufficient amount of investments which are high liquidity and low yielding investments to honor redemption.
• Net based advertisements: There will be more sites involved in ads and promotion of mutual funds. In the U.S. sites like AOL offer detailed research and financial details about the functioning of different funds and their performance statistics. a is witnessing a genesis in this area.

FUTURE SCENARIO

The asset base will continue to grow at an annual rate of about 30 to 35 % over the next few years as investor’s shift their assets from banks and other traditional avenues. Some of the older public and private sector players will either close shop or be taken over.

Out of ten public sector players five will sell out, close down or merge with stronger players in three to four years. In the private sector this trend has already started with two mergers and one takeover. Here too some of them will down their shutters in the near future to come.

But this does not mean there is no room for other players. The market will witness a flurry of new players entering the arena. There will be a large number of offers from various asset management companies in the time to come. Some big names like Fidelity, Principal, Old Mutual etc. are looking at Indian market seriously. One important reason for it is
that most major players already have presence here and hence these big names would hardly like to get left behind.

In the U.S. most mutual funds concentrate only on financial funds like equity and debt. Some like real estate funds and commodity funds also take an exposure to physical assets. The latter type of funds are preferred by corporate’s who want to hedge their exposure to the commodities they deal with.

For instance, a cable manufacturer who needs 100 tons of Copper in the month of January could buy an equivalent amount of copper by investing in a copper fund. For Example, Permanent Portfolio Fund, a conservative U.S. based fund invests a fixed percentage of it’s corpus in Gold, Silver, Swiss francs, specific stocks on various bourses around the world, short –term and long-term U.S. treasuries etc.

In U.S.A. apart from bullion funds there are copper funds, precious metal funds and real estate funds (investing in real estate and other related assets as well.). In India, the Canada based Dundee mutual fund is planning to launch a gold and a real estate fund before the year-end.

In developed countries like the U.S.A there are funds to satisfy everybody’s requirement, but in India only the tip of the iceberg has been
explored. In the near future India too will concentrate on financial as well as physical funds.

The mutual fund industry is awaiting the introduction of DERIVATIVES in the country as this would enable it to hedge its risk and this in turn would be reflected in its Net Asset Value (NAV).

SEBI is working out the norms for enabling the existing mutual fund schemes to trade in Derivatives. Importantly, many market players have called on the Regulator to initiate the process immediately, so that the mutual funds can implement the changes that are required to trade in Derivatives.
### LIST OF VARIOUS FUNDS ALONG WITH ITS FUND MANAGERS

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Major Schemes</th>
<th>Fund manager</th>
<th>Telephone no.</th>
<th>Website</th>
</tr>
</thead>
</table>
| Alliance Capital Mutual Fund | 1) Alliance '95 Fund  
2) Alliance Equity Fund  
3) Alliance Liquid Income Fund | Samir Arora  
Vineet Udeshi | 4960094  
4975604  
4978000 | http://www.alliancecapital.com/ |
| Birla Mutual Fund       | 1) Birla Advantage Fund  
2) Birla Income Plus | Bharat Shah  
Vineet Udeshi | 8326000  
8326100  
8326200 | http://www.biramutual.com/ |
| Kothari Pioneer Mutual Fund | 1) Kothari Pioneer Prima Plus  
2) Kothari Pioneer Blue Chip | R.Sukumar  
Vineet Udeshi | 8240674  
8240744 | http://www.kotharipioneer.com/ |
| SBI Mutual Fund         | 1) SBI Magnum Multiplier Scheme '90  
2) SBI Magnum Taxgain Scheme 1993  
3) SBI Magnum Bond Fund  
4) SBI Rising Income Scheme | Ved Prakash Chaturvedi  
Sandeep Sabarwal  
Mihir Vora | 2185696  
2180221-27 | http://www.sbimf.com/ |
| Prudential ICICI        | 1) Prudential ICICI Growth Plan  
2) ICICI Premier | Dileep Madgavkar V.Kannan | 2679676 | http://www.pruiciciamc.com/ |
| DSP Merrill Lynch Fund  | DSP Merrill Lynch Equity Fund | James Leighton  
V.Kannan | 2884831  
2884822 | http://www.ml.com/ |
| Morgan Stanley Fund     | Morgan Stanley Growth Fund | Vinod Sethi  
C.S. Madhav Rao | 2096600  
2881190 | www.msgfindia.com |
| Tata Mutual Fund        | Tata Balanced Fund | Shyam Bhat  
C.S. Madhav Rao | 2836950  
2836951 | www.tata.com/mutualfund |
| Canbank Mutual Fund     | Canganga | ------- | 2693590  
2793590 | Canbank.cimboml@  
canbank.gms.vsnl.net.in (e-mail) |
| Templeton Asset Management Ltd. | Templeton India Income Fund | Nilesh Shah and Shobit Mehrotra | 2886123  
2886132 | http://www.templeton.com/ |
| Unit Trust of India     | UTI MIP 94 (III) | ------- | 2180221 | http://www.unittrustofindia.com/ |
TRENDS IN MUTUAL FUND FLOWS

Equity fund sales are picking up... But it remains to be seen whether the queues will shrink if the bull phase ends.

RECENT trends in mutual fund flows suggest that the Indian investor is regaining his appetite for equities. But is he willing to make them a part of his regular diet? The evidence on this is not conclusive. For this, the robust inflows into equity funds since 2003 will have to be sustained through the ups and downs of the stock market.

Equity funds are certainly making a comeback, judging by their sales numbers over the past year and a half. Equity funds notched up average sales of about Rs 2,700 crore a month in 2004. This is a hefty 70
per cent increase over the number for 2003 and about five times the monthly sales registered during the bull market of 1999.

With new investments steadily building up the corpus and rising equity values lending a helping hand, equity funds have doubled their asset base over the past year.

❖ CONSISTENTLY HIGHER SALES

Sales numbers have also been more consistent than they have been at any time in the past. Since August 2003, the monthly sales have consistently remained above the Rs 1,800-crore mark, except in one month. This is a healthy sign, as inflows into equity funds in the period before 2003, tended to yo-yo month to month.

With fund sales keeping up a steady tempo the last 18 months, market watchers are drawing a parallel with the American experience of the 1980s. Then, rising household incomes and a steady acceleration in fund sales saw the household penetration of American mutual funds climb from 5 per cent to over 20 per cent in just six years.
**YET TO BE TESTED**

But an analysis of trends in Indian mutual fund flows over a five-year period shows that it may be early days yet to expect such a jump. It is only in the 22 months since August 2003 that equity fund flows accelerated sharply, and this has been a particularly buoyant period for the stock market.

![Equity fund sales pick up in a buoyant market, dry up in a depressed one.](image)

Judging from the experience until 2003, investors appear typically comfortable entering an equity fund midway through a stock market rally, when the NAVs (net asset values) are trending steadily upwards. Few investors venture into equity funds in a moribund market, confident that they will gain upon recovery.
Robust monthly inflows into equity funds usually follow a month or two of good stock market returns. In this respect, the period since August 2003 has been quite conducive to equity fund sales. The stock market has either notched up positive monthly returns or has stayed flat in 18 of the 22 months between May 2003 and February 2005. With the market marching predictably upwards and the returns on equity funds outpacing the market by a big margin, recent investors have tasted the rewards of equity investing, without experiencing its risks.

❖ QUESTION OF SUSTAINABILITY

Investors are now allocating a larger portion of their savings to equities, it is not clear if this represents a sustainable trend. The recent sharp reversal. Over the past year and a half, there was just one month when the stock market suffered a significant reversal. In May 2004, the Nifty lost 17 per cent in value, on post-election jitters. Sure enough, the following month was the only one in recent history when equity fund sales plummeted below the Rs 1,800-crore mark. They were at Rs 912 crore.

Smaller corrective phases in the market, such as in January 2004 or in January 2005, had no noticeable impact on equity fund flows. But
before concluding that more Indian investors are now willing to make equity funds a part of their portfolios, we would have to wait for a corrective phase that lasts longer than the previous one did.

❖ NO PANIC ON PULLOUTS

In contrast, the pattern of redemptions or pullouts from equity funds in recent times does show that, once in, fund investors are a patient lot. Equity funds do not seem to experience any panic pullouts in the midst of, or even after, a sharp corrective phase in the market.

If equity fund sales slumped in June 2004, so did the pace of redemptions. Pullouts from equity funds, which hovered between Rs 1,500 and Rs 2,500 crore a month over the preceding 12 months, shrank to Rs 906 crore in June 2004 following the stock market rout in May.

But investors do seem to use a buoyant phase in the stock market to cash in on their fund investments. As the market climbed, monthly pullouts from equity funds also picked up pace over the past year and half, though they remained at much lower levels than the inflows.

This is probably healthy for the mutual fund industry over the long term. Traditionally, the bulk of inflows into equity funds has come in at,
or close to, peaks in the stock market. As a result, investors who entered equity funds in 1994, end-1999 or early 2000 have probably had to wait several years to earn a reasonable return.

The steady pace of pullouts from equity funds in recent months signals that a good number of these investors may be trying to exit from their investment. This trend could help mitigate the poor experience that many Indian investors seem to have with investing in equity funds, despite the latter's good return numbers.

❖ LOWER CHURN

Another welcome trend is the reduced rates of churn — the proportion of inflows and outflows to equity fund assets. With the equity assets rising sharply over the past year, flows into and out of equity funds have caused fewer upheavals in fund size in 2004.

After rising steadily through 2003, monthly inflows and outflows taken together accounted for as much as 33 per cent of the average equity fund assets in December 2003. Such a high proportion of inflows and outflows from an equity fund may not be healthy from the investors' perspective. It could force the fund manager to replace a large proportion
of the stocks in his portfolio at a time when market conditions are less than ideal.

But with the assets managed by equity funds swelling sharply over the past year, inflows and outflows, as a proportion of the fund size, have been waning. By February 2005, the churn rates for the inflows and pullouts taken together added up to just 20 per cent of the average assets. This shows that fund managers probably have to contend with lower volatility on the corpus they manage now, than was the case a year ago.

❖ DISCONCERTING TREND

However, the one disconcerting feature of the recent inflows is that new funds garnered a significant portion of the money flowing into equity funds. Over the past year, about 16 per cent of all inflows into equity funds (or Rs 5,168 crore) poured into initial public offerings from fund houses. Though old funds with an established record have garnered much more (Rs 27,000 crore), investments routed through an IPO suffer from a couple of disadvantages.

One, many investors who take the IPO route make one-off investments in equity funds and are not regular investors. This may not
be the ideal way to invest in equity funds, as the returns from such an investment would depend heavily on the timing of the IPO. Should the market enter a corrective phase, these investors may be vulnerable to a sharp erosion in the value of their entire investment.

Two, many investors who prefer a new fund over an established one do so under the mistaken notion that entering a fund at an NAV of Rs 10 reduces the downside risk associated with an equity investment.

These investors may be less prepared (than those who invest in established funds) for a blip in the value of their investments, in the event of a market correction.

Instead of rolling out new funds, fund houses need to put greater effort into persuading investors to place faith in established funds that have a good track record. Regular monthly investments in mutual funds also need to encouraged, rather than one-off investments prompted by a booming stock market.

They have made a beginning on this, by announcing entry load waivers on investments routed through the systematic investment route.
If the fund industry, through its distributors, does manage to convince a larger proportion of investors to make systematic investments in equity funds, one can look forward to fund flows that are not too influenced by the ebb and flow of the stock.
CURRENT TRENDS IN STAKE TRADING

Strong global cues led most of the Asian markets to end the week on a strong note. In fact, the Indian markets led the pack of gainers, with the BSE-Sensex recording a weekly gain of 4.5%. According to Bloomberg, gains in Asian stocks were seen on the back of higher than estimated profits and US economic reports, which improved confidence that the global economy is strengthening. The Singaporean and Japanese markets ended the week higher by 3.8% and 2.9% respectively. They were followed by the European markets, namely France, UK and Germany, which reported weekly gains of 2%, 1% and 0.4% respectively. China and Hong Kong, on the other hand ended the week on a negative note as their markets fell by 3.4% and 0.5% respectively. It is believed that losses in China were seen on concerns that the government's measures to curb lending and production in industries (including steel and cement) would lead to a slowdown in economic growth. Further, Brazilian markets ended the week on a flat note.
Coming to the performance of sectoral indices in India, buying activity was witnessed in stocks across sectors as all the indices ended with positive weekly gains. The pack was however led by the realty space, as the BSE-Realty Index ended higher by about 11%. It was followed by stocks forming part of the consumer durables and IT sectors as their respective indices, the BSE-Consumer Durables Index and the BSE-IT Index, ended higher by 8% each. Gains in stocks from the IT sector were on the back of the belief that the improving economic activity in developed countries would enable these companies to perform better going forward. In addition, some of the IT heavyweights also announced some large sized deals during the week. Moving on, strong buying activity was witnessed in stocks from the smallcap space, as the BSE-Smallcap Index ended higher by about 8%. Stocks form the banking,
FMCG and power sectors were amongst the lowest gainers during the week. While the BSE-Bankex ended higher by 1%, the BSE-FMCG and BSE-Power indices recorded gains of about 2% and 4% respectively. [8]

Coming to corporate news, two companies announced their FY09 results this week. P&G Hygiene was one of them. The company reported a topline growth of 20% YoY for the year. Revenues were driven by two of the company's segments - feminine hygiene and 'Vicks'. In addition, growth was also aided by its brand building initiatives and expansion in distribution network. On the flipside, the rising cost of operations arrested the growth as operating profits grew at a slower pace of 18% YoY. P&G Hygiene however managed to record a strong growth at the bottomline level as net profits increased by 36% YoY. This growth in net profits was mainly due to a lower tax outgo and higher other income (up

Source: BSE

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by 147% YoY). On excluding the other income (in both the years), net profits were higher by 22% YoY.

The other company that announced its results during the week was HCL Tech. The company reported a strong 40% YoY growth for the year led by better volumes across geographies and verticals. The company's operating margins expanded by 0.4% YoY, mainly on account of cost containment measures, particularly in core software services. However, the company's net profits for the year increased by 14% YoY only. During FY09, the company profits were impacted by forex losses, lower other income and a higher tax outgo. On excluding the adjustment for these forex losses from both the years, the net profit improved significantly by 30% YoY.

Tata Steel announced its consolidated 1QFY10 results during the week as well. True to the grim situation faced by the industry, the company reported a 47% YoY decline in sales during the quarter. In fact, it recorded losses at both the operating and net levels. At the net level, its losses stood at Rs 22 bn for the quarter as compared to a profit of Rs 39 bn in 1QFY09. This was on the back of a 20% demand slowdown from the European and US markets. However, on the bright side, demand from India and China grew by 4%. It may be noted that losses would have
been higher by another Rs 27 bn had the company followed its earlier practice with respect to accounting for actuarial gains and losses and accounting for derivatives. While the stock of Tata Steel recorded a weekly loss of 1% on the day the company announced its results, it ended lower by about 5% during the week. A leading business daily reported that Mr. Ratan Tata, the chairman of Tata Steel, indicated that while the auto industry in Europe and US (a key consumer of steel) is showing some signs of a recovery, there are opposite signals emanating from iron ore prices, which continue to be soft.

A leading business daily has reported that IT major, Tata Consultancy Services (TCS) is aiming to double its revenues from the domestic markets to nearly US$ 1 bn in the next three to four years. Currently, domestic operations contribute nearly 10% to the company's total revenues. According to CEO, Mr. Ramadorai, the growth in domestic business will primarily flow in from three key segments - government, large enterprises and small-medium enterprises. Giving his view on the overall demand outlook, Mr. Ramadorai mentioned that the economy has stabilised and that demand is not likely to deteriorate from here on. It may be noted that during the week, TCS along with its peer group companies, Infosys and Wipro, together won a sizeable chunk of a
US$ 1.5 bn 5-year deal from the British oil major, BP. While the independent size of the contracts of these companies is not yet available, this deal must bring some respite IT sector as a whole, which has been battered by the slowdown.

**MOVERS AND SHAKERS DURING THE WEEK**

<table>
<thead>
<tr>
<th>Company</th>
<th>21-Aug-09</th>
<th>28-Aug-09</th>
<th>Change</th>
<th>52-wk High/Low</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top gainers during the week (BSE-A Group)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aban Offshore</td>
<td>1,175</td>
<td>1,571</td>
<td>33.8%</td>
<td>2,506 / 224</td>
</tr>
<tr>
<td>GMDC</td>
<td>92</td>
<td>112</td>
<td>22.1%</td>
<td>125 / 25</td>
</tr>
<tr>
<td>Videocon Industries</td>
<td>200</td>
<td>240</td>
<td>19.9%</td>
<td>284 / 82</td>
</tr>
<tr>
<td>Praj Industries</td>
<td>86</td>
<td>102</td>
<td>18.4%</td>
<td>179 / 45</td>
</tr>
<tr>
<td>G.E. Shipping</td>
<td>255</td>
<td>295</td>
<td>15.8%</td>
<td>398 / 139</td>
</tr>
<tr>
<td><strong>Top losers during the week (BSE-A Group)</strong></td>
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<tr>
<td>BPCL</td>
<td>531</td>
<td>494</td>
<td>-7.0%</td>
<td>535 / 227</td>
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<tr>
<td>HPCL</td>
<td>367</td>
<td>342</td>
<td>-6.8%</td>
<td>398 / 164</td>
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<td>Koutons Retail</td>
<td>387</td>
<td>366</td>
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<tr>
<td>Mahindra Finance</td>
<td>229</td>
<td>218</td>
<td>-4.9%</td>
<td>295 / 162</td>
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<tr>
<td>Max India</td>
<td>191</td>
<td>183</td>
<td>-4.4%</td>
<td>254 / 81</td>
</tr>
</tbody>
</table>

Source: Equitymaster
Inflation (as measured by the wholesale price index) for the week ending August 15 stood at 0.95%, higher by 0.58% as compared to the previous week. A key reason for the rise in inflation was the erratic monsoons, which led to a rise in prices of food products including sugar, milk, fruits and vegetables. It may be noted that inflation has been in the negative zone for 11 weeks in a row. However, the general consensus is that this trend will not last beyond a couple of weeks as food prices are on the rise. During the week, prices of items such as milk and fruit & vegetables increased by 3% to 5%. During the corresponding week last year, inflation stood at 12.82%.

The last week was an important one for the Indian telecom industry as the much delayed process of 3G or third generation spectrum allocation (which will provide telecom users access to high speed data services) took a step forward. However, the enthusiasm levels of the telecom industry remained quite varied. While some were purely content with the process moving in the right direction, others were of the belief that the price is 'too high' and that rolling out services would be unviable. This has somehow turned out to be a bummer for the industry, considering that it was looking forward to roll out 3G services since the past few years.
According to a report in a leading business daily, Mr. V Balakrishnan, the Infosys CFO gave his view on the current business environment. He pointed out that even though there were slightly better macro-economic indicators, the situation at the customer level has not changed at all when compared to the earlier quarter. Mr. Balakrishnan indicated that "The velocity of our business has come down due to the spending pressure on customers. We have to wait and see how the coming quarter will pan out. For now, there is no reason (for us) to relook at the guidance we have given". It may be noted that Infosys has given a guidance of a QoQ de-growth of 1% to 2.8% for the September 2009 quarter.

In fact, a spokesperson from Wipro too had similar things to say, and expressed his surprise at the sudden bullishness of investors with regards to IT stocks in light of the fact that nothing much has changed in the company this month (August) compared to the last (July). The business environment remains tough for the companies' customers with no increase in their subdued spending levels. According to the company, if at all robust growth were to return, it will not be before at least 1 to 1.5 years from now.
Coming to economic news, during the week, the Indian government stated that it would aid the exporters and export-oriented sectors like information technology, textiles and diamonds, which have been hit badly by slump in demand from the major markets in the US and Europe by introducing tax cuts and waive duties on imports of capital goods for technology upgrades. It may be noted that the export figures have been in a downward trend for the past ten months. Moreover, in order to boost exports to emerging markets in Latin America, Africa, Oceania and East Europe, the government aims to offset credit risk and high cost of trade associated with exporting to these regions. The Commerce ministry has cautioned that the export growth is expected to slow down to levels of 15% in FY11 as compared to levels of 25% growth that was achieved in FY09. We hope that the government is prompt in implementing its plans and they do fructify well.
REFERENCES


2. ibid.


4. ibid.


6. ibid.

7. ibid.
