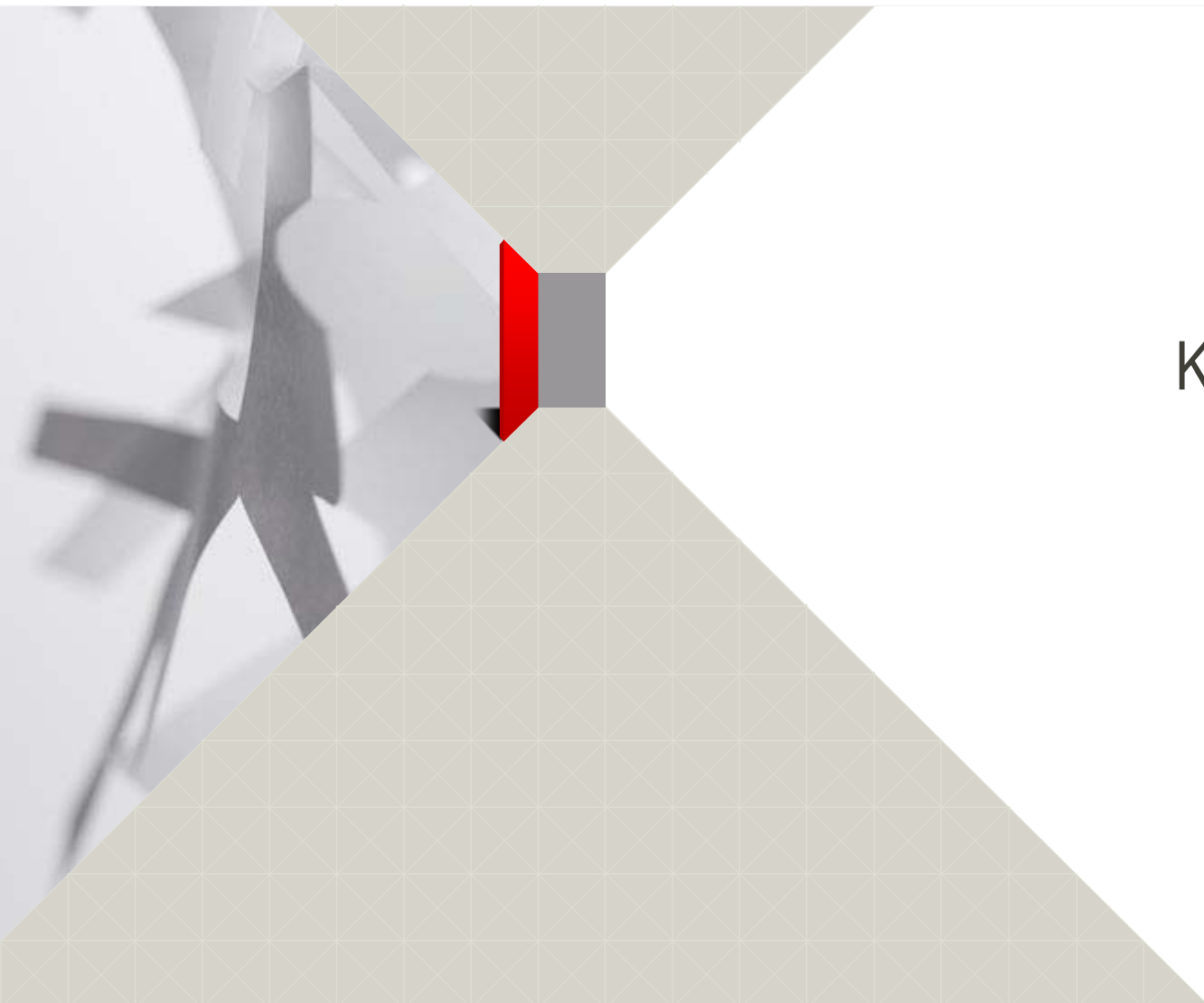


India Strategy

June 2011



Key Economic Forecasts

June – Strategy

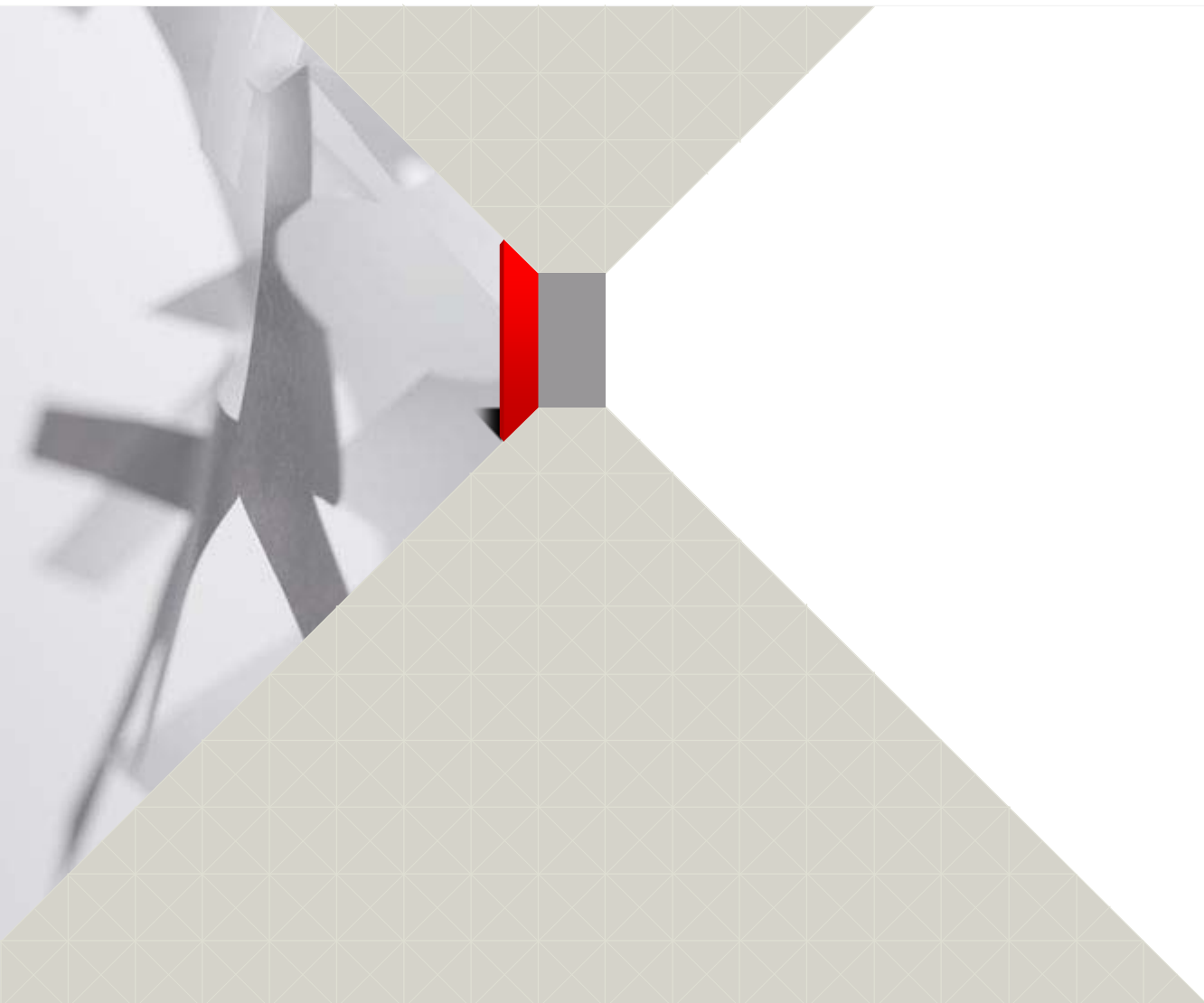
India - Key Macro Economic Forecasts

▶ Snapshot of key Indian economic forecasts

	2006	2007	2008	2009	2010	2011f	2012f
Production, demand and employment							
GDP growth (% y-o-y)*	9.6	9.3	6.8	8.0	8.7	7.9	8.4
Nominal GDP (USDbn)*	947	1,210	1,249	1,331	1,690	2,092	2,462
GDP per capita (USD)*	779	985	1,027	1,083	1,364	1,695	1,980
Private consumption (% y-o-y)*	8.3	9.3	7.7	7.3	8.4	7.1	8.2
Government consumption (% y-o-y)*	3.7	9.5	10.7	16.4	2.6	3.5	3.5
Investment (% y-o-y)*	13.8	16.2	1.5	7.3	8.4	8.0	10.0
Net Exports (contribution to GDP growth, ppt)*	-1.0	-1.5	-3.1	-0.8	0.7	-1.10	-0.99
Industrial production (% y-o-y)	10.4	10.4	4.9	6.6	10.4	6.3	8.5
Gross domestic saving (% GDP)*	34.8	35.6	32.3	32.3	35.6	35.7	36.5
Prices & wages							
CPI, average (% y-o-y)	6.3	6.4	8.3	10.9	12.0	10.3	7.4
CPI, end-year (% y-o-y)	6.7	5.5	9.7	15.0	9.5	8.7	7.4
Core WPI, average (% y-o-y)	4.3	5.3	6.7	-0.8	4.7	6.6	5.3
Core WPI, end-year (% y-o-y)	6.9	4.5	4.4	0.7	5.4	6.8	4.9
WPI, average (% y-o-y)	5.9	5.0	8.7	2.1	9.5	8.7	6.7
WPI, end-year (% y-o-y)	7.1	4.0	6.6	6.9	8.4	7.7	6.6
Money, FX & interest rates							
Central bank money M0, average (% y-o-y)	17.3	15.0	18.9	16.1	21.0	18.0	15.0
Broad money supply M3, average (% y-o-y)	19.6	21.9	20.4	18.9	16.0	14.0	17.0
Real private sector credit growth (% y-o-y)	18.3	15.6	14.0	6.8	12.0	15.0	15.0
Policy rate, end-year (%)	7.75	7.75	6.50	4.75	6.25	7.50	7.50
5yr yield, end-year (%)	7.52	7.67	5.35	7.31	8.00	7.90	7.90
INR /USD, end-year	44.25	39.42	48.46	46.69	44.81	42.00	42.00
INR /USD, average	45.22	40.88	44.58	48.39	45.77	42.95	42.00
INR /EUR, end-year	58.40	57.55	67.35	66.76	60.04	58.80	58.80
INR /EUR, average	56.83	56.82	64.92	67.62	60.42	58.84	58.80

Source – HSBC Global Research

Asian Economics Second Quarter 2011



Equities

June – Strategy

Markets trading in a range with a downward bias. Q4 FY 11 earnings selectively disappoint, domestic macro headwinds & Euro zone sovereign debt concerns impact sentiments.

- ▶ RBI's approach towards managing higher inflationary expectations, Q4 FY 11 earnings disappointment despite a healthy top line growth, sharp increase in petrol prices accentuating inflation further, concerns of downward revisions in earnings growth, increasing Euro zone sovereign debt concerns impacted market sentiments in May.
- ▶ Markets continued its downward trend for the second consecutive month.
- ▶ The BSE Sensex ended the month of May at 18503 (↓3.3% M-O-M) and the NSE Nifty ended the month at 5560 (↓ 3.3% M-O-M). As flight towards safety was witnessed as defensives were the most sought after, while interest rate sensitives and commodity stocks trailed.
- ▶ BSE FMCG (↑ 2.7%), BSE Healthcare (↑ 2.6%) BSE Cons Durable (↑ 2.4%) were the major sector gainers. BSE Auto (↓6.6%), BSE Metals (↓ 4.8%) and BSE Oil (↓4.1%), BSE Power (↓4%) were the major sector losers.
- ▶ Mid & Small cap indices lost 2.6% & 5.5% respectively during the month of May.
- ▶ During the month, India trailed the MSCI EM Index (dn 2.99%) and the MSCI World Index (dn 2.45%)

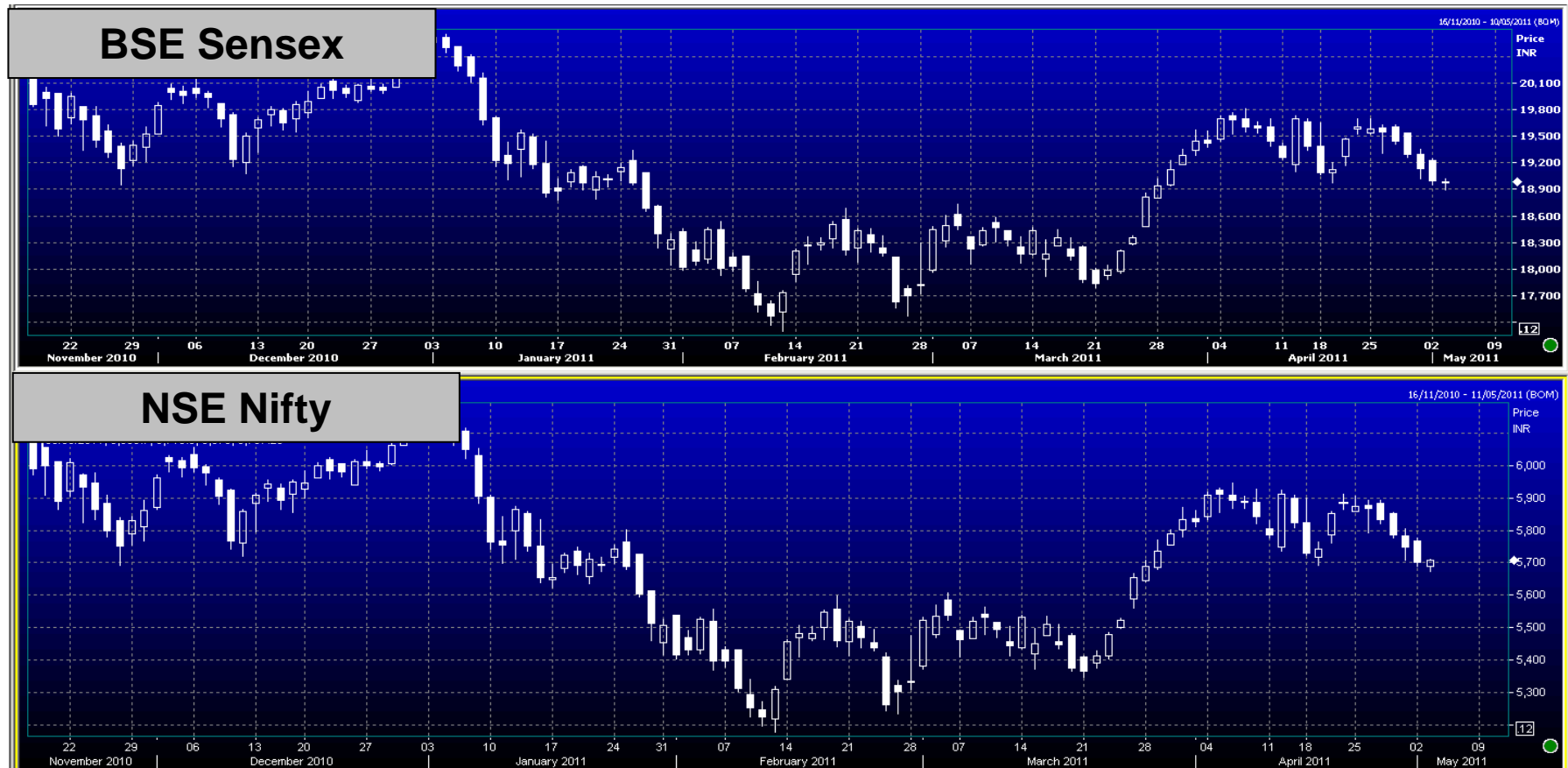
Index	Change	Index	Change
BSE FMCG	2.7%	BSE 100	-2.7%
BSE Healthcare	2.6%	S&P CNX Nifty	-3.3%
BSE Consumer Durables	2.4%	BSE Sensex	-3.3%
BSE Capital Goods	0.4%	BSE Power	-4.0%
BSE Realty	-0.1%	Bankex	-4.1%
BSE IT	-2.4%	BSE Oil & Gas	-4.1%
BSE Mid cap	-2.6%	BSE Metal	-4.8%
BSE 500	-2.6%	BSE Small Cap	-5.5%
BSE 200	-2.6%	BSE Auto	-6.6%

Source – Capitaline

M-O-M Month on Month

June – Strategy

Market undertone was negative, inflationary pressures remain a near term concern



Source - Reuters

June – Strategy

High frequency indicators hinting towards further moderation in growth. FY 11 GDP at 8.5% and FY 12 at 7.9%

- ▶ The index of industrial production's (IIP) in March '11 surprised on the upside as it rose by 7.3% y-o-y as against consensus expectations of 4%. Capital goods production witnessed a significant sequential jump during the month.
 - Capital goods output rose by 13% y-o-y, following an 18% decline in January and February. Growth in Consumer Durables however softened to 7.7% y-o-y (vs 11% in Feb). Growth in basic goods (4.3% vs 6% in Feb) and intermediate goods (5.4% vs. 8.6% in Feb) also slowed.
 - Going forward we expect IIP to slowdown after the strong recovery witnessed in FY 2011 predominantly due to the ongoing monetary tightening. Growth is expected to slow down and we estimate the RBI continuing its tightening cycle.
- ▶ Momentum in India's manufacturing PMI eased in May, but only slightly
 - PMI declined slightly to 57.5 vs 58 in April driven by moderation of sequential output growth (63.2 vs 63.9) and a slower expansion in order books.
 - The sequential increase in input prices eased further to 63.4 in May as against 63.3 in April.
 - The strong build up in input costs and the resilient domestic demand in addition to any possible adjustment in diesel, kerosene and LPG prices will push up input costs and will eventually impact output prices.
 - Bottom Line: While the momentum slowed a bit and is set to ease going forward, growth expectations remains buoyant
- ▶ WPI inflation for April 2011 stayed at elevated levels at 8.7% y-o-y (vs. 9% in March) marginally higher than consensus estimates
 - Core inflation (non-food manufacturing) slowed (6.2% y-o-y vs. 7.3% y-o-y in March, 2011). February WPI reading was revised upwards by a whopping 1.2ppt to 9.5% y-o-y.
 - Rising energy prices countered easing food and primary articles.
 - Moreover with demand led pressures now a key driver of inflation dynamics, we expect the RBI to continue tightening policy rates.
- ▶ Q4 FY 11 GDP eased to 7.8% y-o-y from 8.3% in the previous quarter and was below consensus estimates of 8.1%
 - Growth in agricultural output eased (7.5% vs. 9.9% in Q3). Within the industrial sector, growth in manufacturing output slowed, but held up well at 5.5% y-o-y. Utility output also held up (7.8% vs 6.4% in Q3). However, output in mining grew by just 1.7% y-o-y and construction activity also grew at a slower clip (8.2% vs. 9.7% in Q3).
 - Private consumption grew at a slightly slower pace while government consumption bounced back and investment growth slowed noticeably.
 - Growth is expected to remain strong enough to ensure that capacities remain tight.

Source: Bloomberg/HSBC

June – Strategy

High frequency indicators hinting towards further moderation in growth. FY 11 GDP at 8.5% and FY 12 at 7.9%

- ▶ Core sector growth in April slowed down to 5.2% (vs 7.5% in April 2010)
- ▶ Exports during April 2011 rose by 34.4% in USD terms to USD 23.85B while imports rose by 14% in USD terms to USD 32.83B. Oil imports during April rose by 7.7% on a year on year basis. Non oil imports were higher by 17.3%. The trade deficit for April 2011 was estimated at \$8.9Bn (vs. \$11Bn in April 2010).
- ▶ Bank credit growth remains robust (22.5% y-o-y as on 6th May, 2011).
- ▶ Global economy update - uncertainty prevails as unexpected events challenge the outlook.
 - Substantial cost increases driven by higher commodity prices, are both threatening the economic recovery in the developed world and contributing to heightened political instability in select economies
 - Key reasons for the commodity price rise globally – structural tilt in global economic growth led by emerging economies, unforeseen ‘carry trade’ efforts of Western monetary stimulus, and more recently, the political upheavals in the MENA region
 - On the back of this, we have trimmed some of our global growth forecasts – notably in the US (2.9% from 3.4% for 2011) & UK (1.4% from 1.7% for 2011) and have raised our inflation forecasts.

However we are not expecting another financial crisis on par with Lehman any time soon, though remain concerned over the sovereign debt situation in the Eurozone and on absence of the deficit reducing intent of the US

 - We have not made major changes to our global economic forecasts as a consequence of the tragic events that befell Japan early March. Too often, the economic and financial consequences of such human tragedies prove to be smaller than feared and contrary to the knee-jerk downgrades in economist forecasts.
 - On policy implications, the European Central Bank raised policy rates by 25 bps in April while the US Federal Reserve has intended on maintaining low policy rates for an extended period of time.

Source: HSBC/Bloomberg

June– Strategy

High inflation, macro headwinds, uncertainty over further US QE, Euro zone debt concerns, likely earnings revisions post the Q4 FY 11 results and movement of crude oil prices to affect market sentiments.

- ▶ Q4 FY 11 earnings have come marginally lower than expectations. Though broader results indicate decent revenue growth, margins have compressed due to the lagged impact of higher rates and commodity prices.
- ▶ Post the recently concluded Q4FY11 results, markets are expected to trade sideways in the near term given the uncertainties on several fronts (inflation, political uncertainty, global macro risks) .
- ▶ However, India's long-term earnings outlook continues to remain bullish given its robust economic growth prospects, while India's minimal exposure to global structural risks may result in continuance of foreign investment funds into the country.
- ▶ At 18,503, the Sensex trades at a P/E of 13.9X CY12e (HSBC EPS estimate of Rs.1,325).
- ▶ Our year end 2011 Sensex target is 20,000. We forecast that EPS will grow at 15% over the next two years.
- ▶ We advise staggered entry into equities to take advantage of the ongoing volatility in the markets.
- ▶ We continue to favour select large caps given the valuations at which they are trading, while a stock specific approach is advised towards mid-cap stocks. Key events that may impact the markets in the near term are: Inflation, global economic data-flows (clarity on US Quantitative expansion, Euro zone debt issues) and progress of the domestic monsoons.
- ▶ We recommend booking profits at periodic intervals to reduce equity exposures thereby aligning portfolios towards strategic asset allocations. For clients with under allocation to equity, we still recommend a systematic investment plan approach towards investing. .
- ▶ At the sector level, we favor IT services and Banks. We are neutral on industrials, consumer staples, telecoms , utilities and healthcare. We recommend under weights on energy, materials, autos and property

June – Strategy

Overweight – IT services & Banks; Neutral – Industrials, consumer staples, telecoms, utilities and healthcare.

- ▶ **Financials** – Overweight – We expect 2011 to be the second consecutive year of credit up cycle with loan growth expected in excess of 20%. Given the higher earnings visibility and fewer concerns for private sector banks coupled with valuations at their 5-year near average levels we continue to prefer private sector banks to PSU banks.
- ▶ **Information Technology** – Overweight – We are raising IT Services from Neutral to Over-weight as concerns over global demand recede and 2011 revenue growth prospects look strong for the IT sector.
- ▶ **Industrials** – Neutral – The pace of order book inflows has receded over the last couple of quarters as companies postponed their capex decisions owing to higher interest rates, shortages in fuel supplies and uncertainty on demand outlook. Not a lot has changed in terms of the demand outlook, where in companies are positive on pricing but cautious on margins and market expectations.
- ▶ **Utilities** – Neutral – With rising energy costs and stable electricity prices, the utilities sector is facing a margin squeeze, which is the reason for our neutral stance on the sector though we expect acceleration of power capacity addition (18GW in FY12 versus 31GW commissioned over the last four years) and high sector capex during FY12 (the last year of the 11th five-year plan). The sector will continue to face an overhang regarding project execution, fuel availability and financial health of SEBs (State Electricity Board)
- ▶ **Consumer Staples** – Neutral – Key themes for playing this sector are product re-pricing and earnings recovery. Things have changed during the last three to four months as companies have developed strategies to deal with rising food prices.
- ▶ **Healthcare** – Neutral – Key themes to play the sector are – strength in emerging markets, development of new growth areas such as bio similars & several block buster drugs losing patent exclusivity in the US and EU during 2011- 15. Further, rising incomes and ageing populations, coupled with pension and insurance reform, could lead to continued strong demand.
- ▶ **Telecom** – Neutral - We expect the outlook for the Indian telecom sector to improve in 2011, driven by progress on the regulatory front, stabilization of tariffs and launch of 3G services. Increasing penetration and consumer spending remain strong growth drivers for the sector. Better volumes and price stability offers increased earnings visibility.
- ▶ **Energy** – Underweight– Environment is challenging for upstream and refineries as margins are likely to remain moderate. Also the sector faces government policy risk.
- ▶ **Consumer Discretionary** – Underweight – We downgrade the sector to Underweight taking into consideration the inflationary concerns and the interest rate sensitivity of the sector. Rising rates tend not to be conducive to discretionary spending. Indeed, the reaction to slower consumer spending often comes with some time lag particularly in the automobile sector.
- ▶ **Materials** – Underweight – While there are positive developments within the industry, ranging from steel mergers and government measures, we believe this is offset by risks to global demand for metals, which is the basis for our rating.
- ▶ **Real Estate/Property** - Underweight - Recent data suggests demand volume in India's top 7 cities has either been flat or declined over the past two quarters, with Mumbai and Pune reporting sharp drops. While developers could hold prices firm in the near term due to stable balance sheet liquidity, we think this will only hurt demand as interest rate rises and higher property prices will curtail affordability.

Source HSBC Global Research

June – Strategy

Derivatives parameters indicate profit booking tendency on rallies

Equity Derivatives:

- ▶ Nifty near month future lost 3.46% during the month of May
- ▶ Open Interest for near month Nifty future was down by about 3.88%.
- ▶ Bank Nifty near month future lost 5.05% for the month.
- ▶ Open Interest for Bank Nifty future was up by about 29.68%
- ▶ CNX IT near month future lost 2.32% during the month.
- ▶ CNX IT futures open interest increased by about 12.12% though on a small base

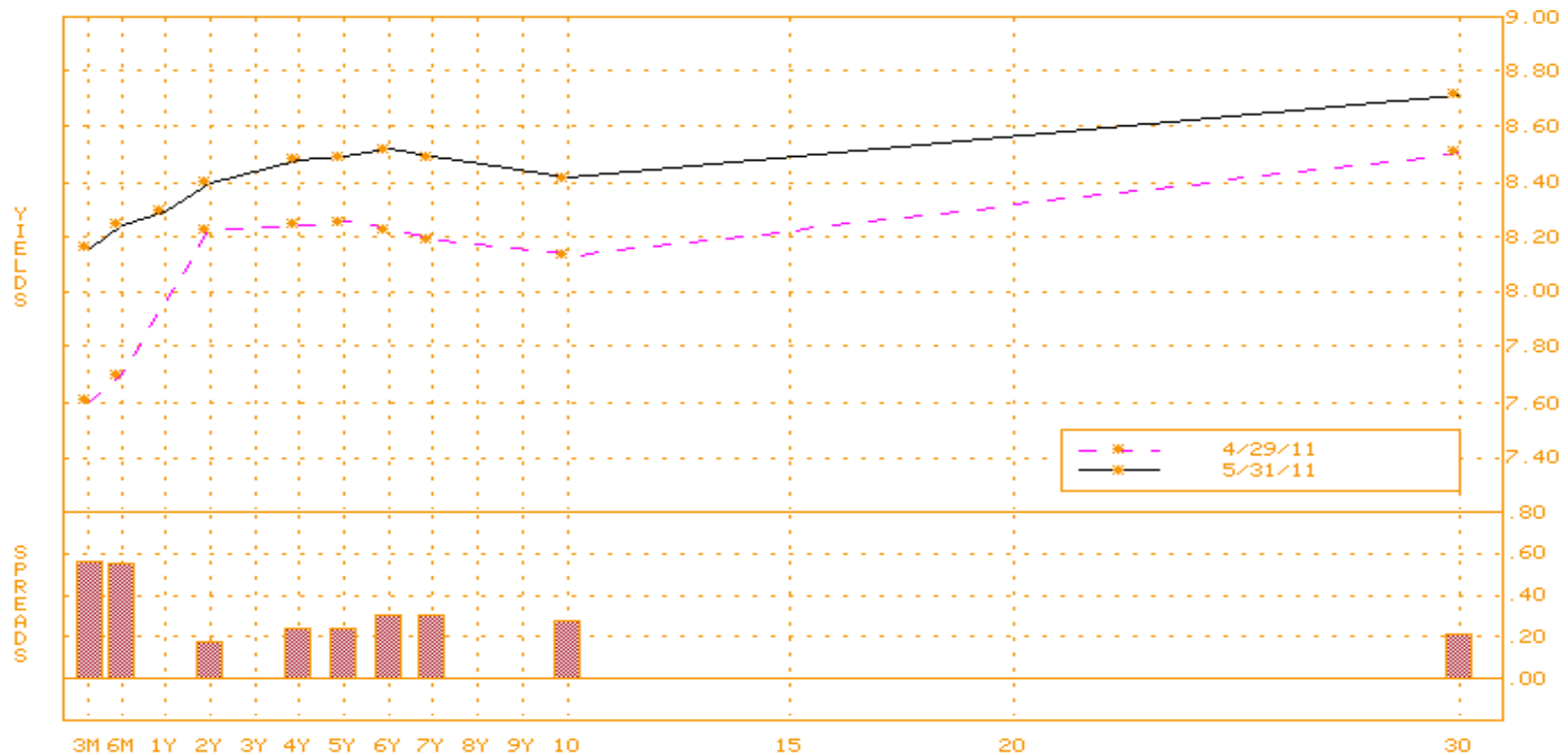
Source – Reuters



Fixed Income

June – Strategy

Fixed Income



Indian Government Yield Curve

Source: Bloomberg

- The ten year bond yield in May '11 traded in a range of 8.14% to 8.46% and ended the month at levels of 8.46% (Source Bloomberg) predominantly on account of core inflation being higher than consensus estimates and on expectations of a price hike in diesel, LPG and kerosene which would add to inflationary pressures. Furthermore, the weekly government borrowing also impacted sentiments as few issuances were placed at yields higher than consensus expectations. We expect the longer end of the yield curve to remain volatile until inflation shows signs of easing.
- The RBI in May '11 on a daily basis infused liquidity amounting to INR 534B (month's average) as against INR 42B (month's average) in April '11 (Source: Bloomberg)

June – Fixed Income Strategy

Inflationary pressures persist – policy rates expected to head higher

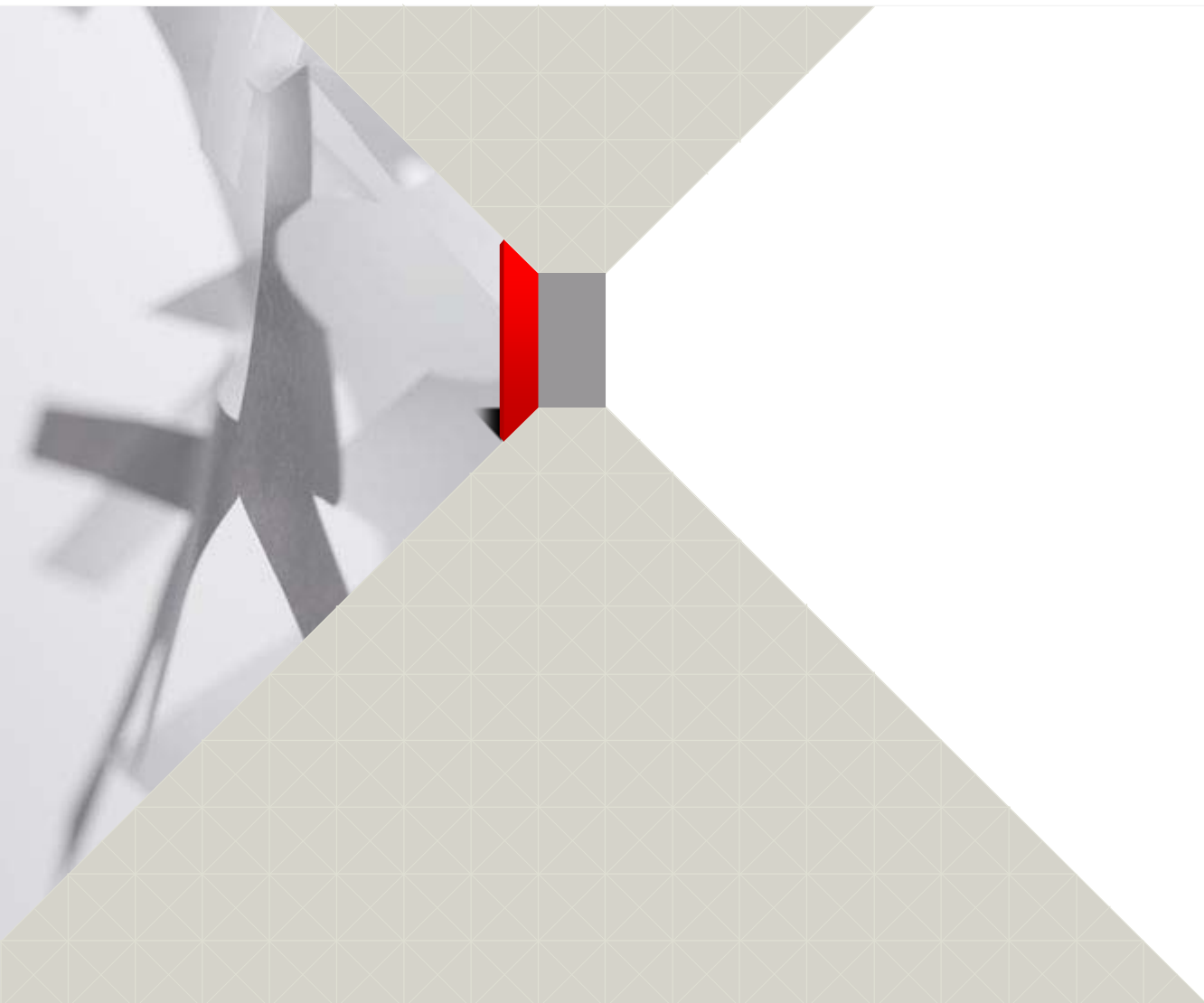
- ▶ The Indian economy grew by 8.5% in FY11 as against 8.0% in FY10. According to the RBI's survey of professional forecasters, real GDP growth for FY12 is expected at 8.2% as against 8.5% as per the last survey.
- ▶ India's fiscal deficit for FY11 was 4.7% of GDP as against the government's earlier estimate of 5.1% of GDP. On an absolute basis, the fiscal deficit was INR 3.69T as against the budgeted amount of INR 4.00T. (Source: Government of India)
- ▶ The government in May '11 borrowed INR 480B or 24.5% of the total planned amount for FY12.
- ▶ WPI Inflation in April '11 was 8.66% (provisional numbers and on a year on year basis) as against 9.04% (year on year basis) witnessed in March '11. WPI Inflation reading for February '11 was revised upwards from 8.31% to 9.54%. According to the RBI's survey of professional forecasters, forecasters have assigned the highest possibility (30.2%) of inflation to range between 7.0-7.9% by end March 12. (Source: RBI)
- ▶ We estimate WPI Inflation will average 8.3% in FY12 and expect the RBI to increase policy rates (repo & reverse repo) by further 75 bps in CY11 and by 25 bps in CY12. We expect the RBI to increase the repo and reverse repo by 25 bps in their upcoming June meet.
- ▶ Systemic liquidity which had eased in April '11 tightened in May '11 due to the ongoing government borrowing programme. We expect the RBI to infuse liquidity in June due to advance tax considerations and on the quarter end requirements of companies.

Data Source: HSBC/ Reuters/ Bloomberg

June – Fixed Income Strategy

Short term rates are expected to head higher

- ▶ We expect the short term rates to remain at elevated levels over the near term, hence investors may seek to capitalize on such opportunities by investing into ultra short term & short term bond funds that have been predominantly focusing on accrual income.
- ▶ In view of the elevated short term rates, investors having a predefined investment horizon and are willing to lock-in their monies may consider investing into Fixed Maturity Plans.
- ▶ Investors having a medium term investment horizon may consider products that undertake exposure to issuances maturing between 1-2 years as apart from earning accrual income there exists the possibility of trading gains.
- ▶ Stubbornly high inflation along with the government's weekly borrowing programme may cause the longer end of the yield curve to remain in a range over the near term. Investors having a long term investment horizon during periods of volatility may consider investing into long term bond yields.



Currencies

June – Strategy

We expect interest rates to remain the key driver

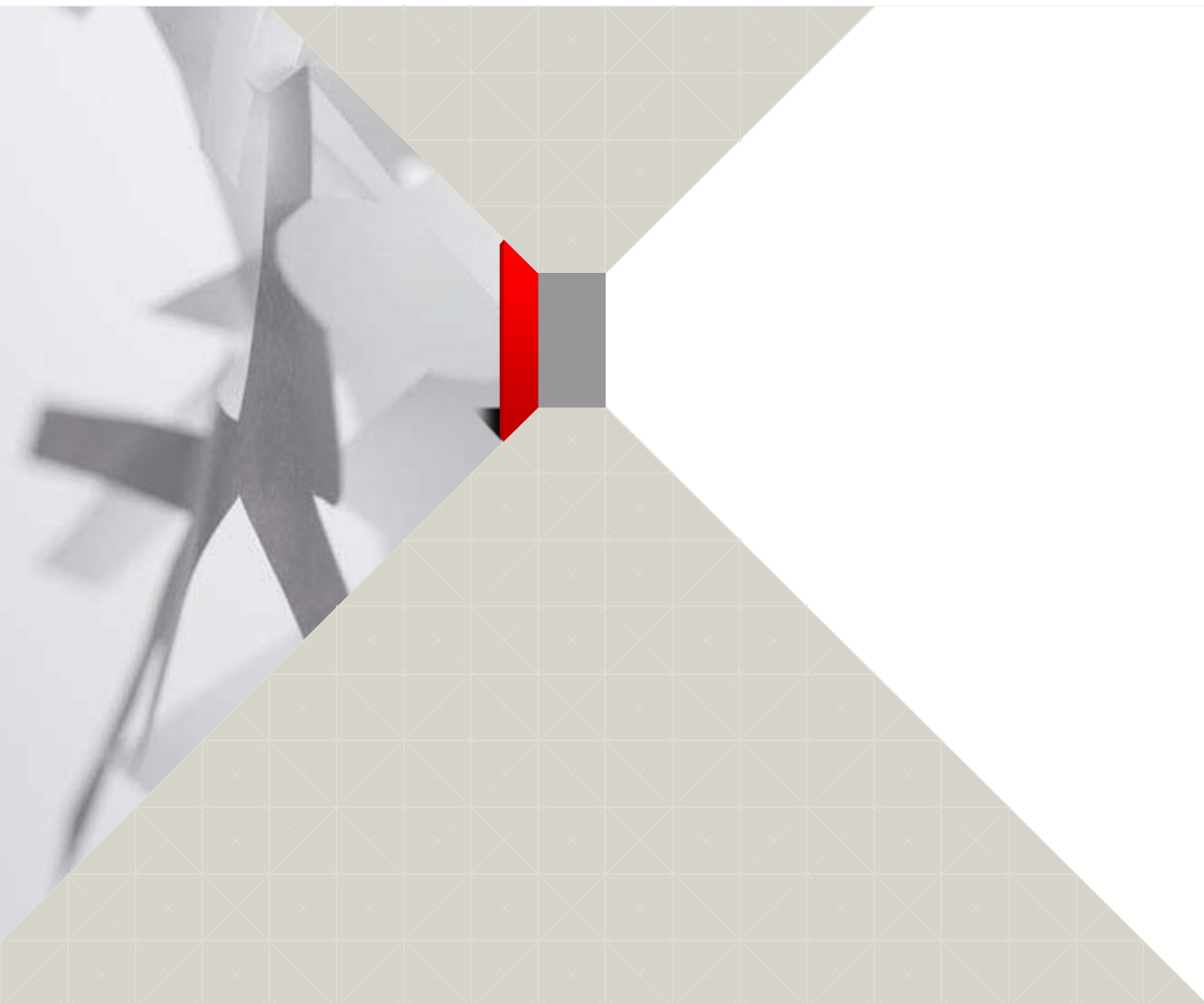
- ▶ **INR** – The INR weakened marginally during May and ended the month at 45.05 against the USD (Source: Reuters). Our Dec 2011 target for INR stands at 42.
- ▶ **USD** – In our view, interest rate differentials continue to be the key driver for currencies, even if risk factors are on the rise and may play a bigger role in the future. Over the near term we believe the USD may continue to trade on the weaker side, as the Federal Reserve remains ultra-accommodative. Further out, the USD may be more balanced as the Federal Reserve may initiate interest rate hikes while strong growth momentum should be supportive. We hold a Neutral view on USD for the next 12 months.
- ▶ **Euro & GBP** – While the more hawkish tone of the European Central Bank is providing underlying support to EUR, the recent resurgence in sovereign debt concerns have weighed on the single currency. However, we expect this to be rather short-lived as the US has debt concerns as well. Nonetheless, risk appetite could return as an additional driver of currency movements, implying increased volatility for the Euro. For the GBP, although the market believes some interest rate hikes are on the cards before year end, the weak economic backdrop may keep the currency in check. We hold Neutral view with negative bias for GBP and Neutral view on Euro for the next 12 months.
- ▶ **JPY** – Safe haven currencies are near their peaks again as inflation fears in the emerging markets and ongoing tensions in the Middle East support a flight to safety, supporting the Japanese yen. JPY may have more limited upside potential given already record highs, but they are likely to remain in demand as long as instability and uncertainty rule. Additional intervention against the JPY cannot be excluded, as an excessively strong JPY could hurt the recovery of the Japanese economy. We hold a Neutral view on JPY with negative bias for the next 12 months.
- ▶ **Emerging Markets (EM)** – We believe emerging market currencies will continue to appreciate, particularly as we expect investors' search for yield to continue in the low yield environment. Further, EM countries may use currency appreciation as a tool to fight inflation. We favour currencies that are less likely to see government intervention in an attempt to curb appreciation. We hold a positive view on Emerging market currencies for the next 12 months.

June – Strategy

Currency movements....



Source - Reuters

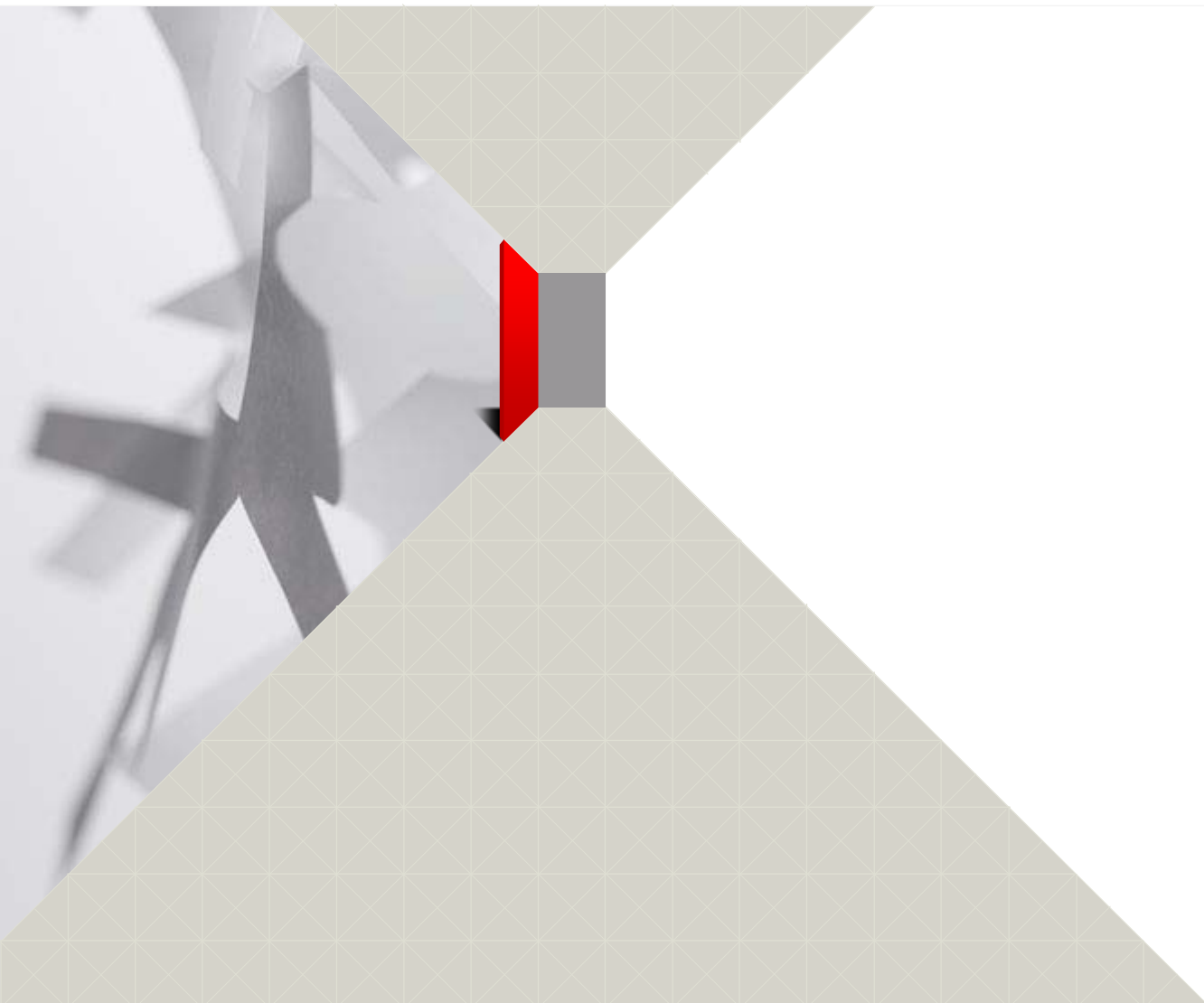


Commodities

June – Strategy

We believe demand will remain underpinned

- ▶ Middle East unrest, rebuilding efforts in Japan and emerging market growth should underpin commodities prices. However, volatility may remain elevated with prices at high levels, and progressive tightening monetary policy. We have a neutral view on commodities with a positive bias.
- ▶ **Gold:** Gold corrected marginally during May and ended the month at US\$1533.35 (Source: Reuters). Gold should remain in demand thanks to its status as a safe haven asset, an inflation hedge, and a commodity that benefits from a weaker US dollar. Middle East tensions as well as renewed worries about the Euro zone periphery should help gold reach higher levels as uncertainty persists. Rising inflation in EM and fears of future inflation in the developed world should provide further support to prices. Although interest rate hikes increases the ‘opportunity cost’ of holding gold (as it does not pay a coupon) and as the US quantitative easing is coming to an end, gold still seems to be a good alternative to Western currencies, which may see their value deflate due to high government debt. For the next 12 months, we hold a neutral view with a positive bias on Gold.
- ▶ **Oil:** Light crude oil corrected for the first time in last 9 months and ended the month at \$102.7/bbl (Source: Reuters). Oil prices have spiked since the Middle East crisis broke and we believe they will continue to benefit from instability in the region. However, we do not expect an uncontrollable spike at this time – and as long as Saudi Arabia remains quiet – as the economic recovery may then become vulnerable. In the longer term, we expect higher-trending oil prices to remain supported by EM demand. For the next 12 months, we hold a neutral view on oil.
- ▶ **Industrial Metals:** In our view, industrial metal price appreciation may be subdued in the latter part of the year as growth slows, but they have shown solid underlying demand and should benefit from the strong Chinese economic outlook and growth in emerging markets. For the next 12 months, we hold a neutral view on Industrial Metals.
- ▶ **Agricultural Commodities :** We expect agricultural commodities to continue to appreciate in light of uncertain harvest conditions and EM demand in the longer term, although prices tends to be volatile given uncertain weather patterns. For the next 12 months, we hold neutral view with a positive bias on agricultural commodities.



Summary of Views

June – Strategy

Asset Class	Sub Class	Current Month	Previous Month
Equity		=/+	=/+
	Industrials	=	=
	Utilities	=	=
	Metals	-	-
	Cement	-	-
	Real Estate	-	-
	Financials	+	+
	Information Tech	+	+
	Consumer Staples	=	=
	Consumer Discretionary	-	-
	Healthcare	=	=
	Telecom	=	=
	Energy	-	-
Debt		=	=
	Liquid Assets	+	+
	Duration	=	=
	Credit	=	=
Currency			
	INR	=/+	=/+
	USD	=	=
	GPB/ USD	=-/	=-/
	Euro/USD	=	=
	USD/JPY	=/+	=/+
	Emerging Markets	+	+
Commodities		=/+	=/+
	Gold	=/+	=/+
	Oil	=	=/+
	Industrial Commodities	=	=/+
	Agri Commodities	=/+	=/+

Guide to Symbols in this document

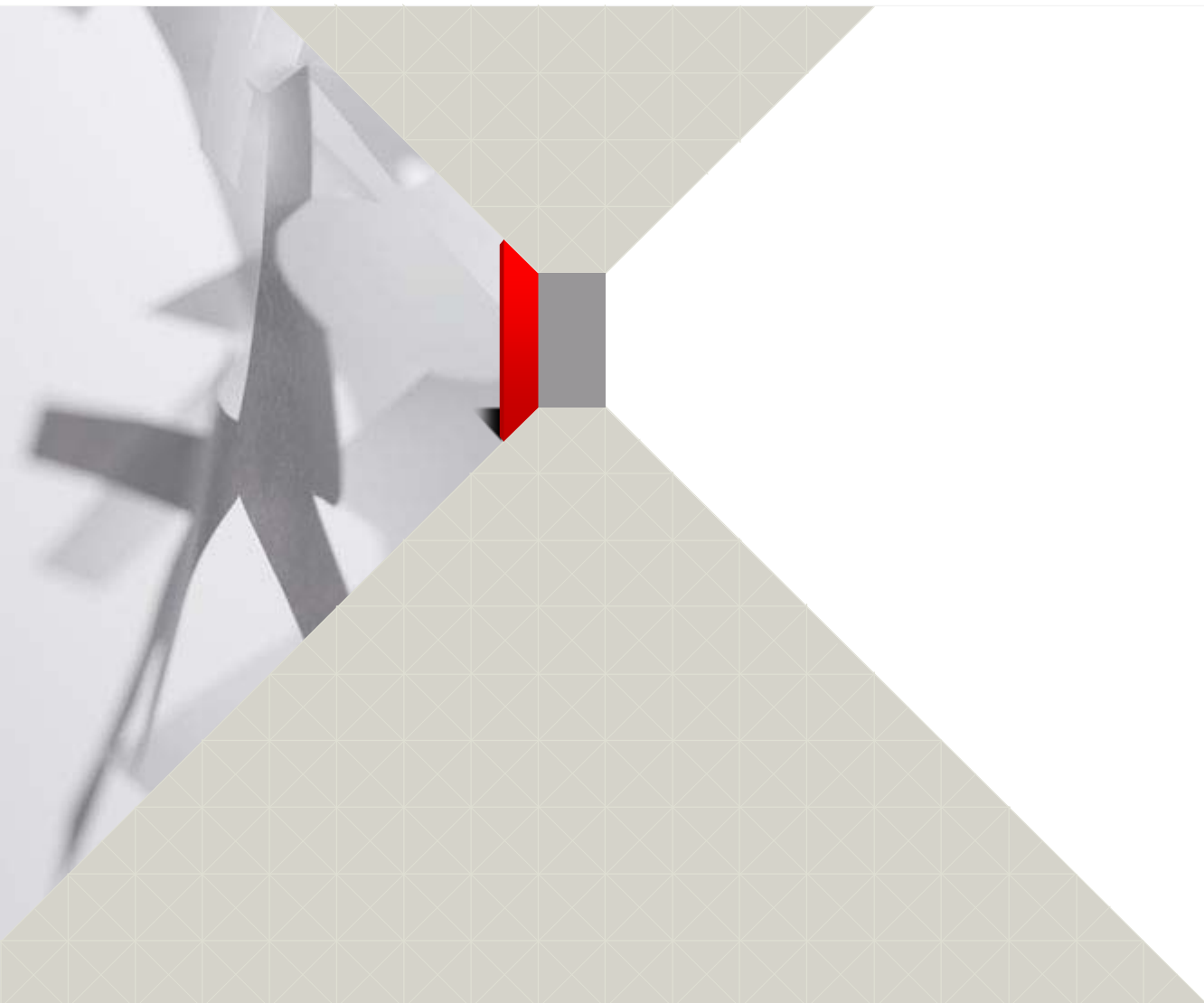
- Negative

=/- Neutral with a negative bias

= Neutral

=/+ Neutral with a positive bias

+ Positive



Glossary

GLOSSARY

Alpha - A measure of performance on a risk-adjusted basis. Alpha takes the volatility (price risk) of a mutual fund and compares its risk-adjusted performance to a benchmark index. The excess return of the fund relative to the return of the benchmark index is a fund's alpha. Simply stated, alpha is often considered to represent the value that a portfolio manager adds to or subtracts from a fund's return.

AMC - Asset Management Company - A company that invests its clients' pooled fund into securities that match its declared financial objectives. Asset management companies provide investors with more diversification and investing options than they would have by themselves.

Arbitrage - The simultaneous purchase and sale of an asset in order to profit from a difference in the price. It is a trade that profits by exploiting price differences of identical or similar financial instruments, on different markets or in different forms. Arbitrage exists as a result of market inefficiencies; it provides a mechanism to ensure prices do not deviate substantially from fair value for long periods of time.

Benchmark - A standard against which the performance of a security, mutual fund or investment manager can be measured. Generally, broad market and market-segment stock and bond indexes are used for this purpose.

Buyback - The repurchase of outstanding shares (repurchase) by a company in order to reduce the number of shares on the market. Companies will buy back shares either to increase the value of shares still available (reducing supply), or to eliminate any threats by shareholders who may be looking for a controlling stake.

CAGR - Compound Annual Growth Rate - The year-over-year growth rate of an investment over a specified period of time. The compound annual growth rate is calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period being considered. This can be written as follows:

$$\text{CAGR} = \left(\frac{\text{Ending Value}}{\text{Beginning Value}} \right)^{\left(\frac{1}{\# \text{ of years}} \right)} - 1$$

CBLO - Collateralized Borrowing and Lending Obligation - They were developed by the Clearing Corporation of India (CCIL) and Reserve Bank of India (RBI). The details of the CBLO include an obligation for the borrower to repay the debt at a specified future date and an expectation of the lender to receive the money on that future date, and they have a charge on the security that is held by the CCIL.

CD - Certificate of Deposit - A savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by commercial banks and can be traded.

Corpus - The overall amount invested by the fund as on the reporting date.

CP - Commercial Paper - Unsecured promissory notes with a fixed maturity of one to 270 days; usually sold at a discount from face value

Dividend Yield - A financial ratio that shows how much a company pays out in dividends each year relative to its share price. In the absence of any capital gains, the dividend yield is the return on investment for a stock. Dividend yield is calculated as follows:

$$= \frac{\text{Annual Dividend per Share}}{\text{Price per Share}}$$

Emerging Market Economy - A nation's economy that is progressing toward becoming advanced, as shown by some liquidity in local debt and equity markets and the existence of some form of market exchange and regulatory body.

Entry Load - It is the load charged by the fund when one invests into the fund. It increases the price of the units to more than the NAV and is expressed as a percentage of NAV. For example a 1 % entry load will increase the NAV from Rs 11 to Rs 11.11 and therefore the number of units allotted will be lesser to that extent.

Exit Load - It is the load charged by the fund when one redeems the units from the fund. It reduces the price of the units to less than the NAV and is expressed as a percentage of NAV.

FII - Foreign Institutional Investor - An investor or investment fund that is from or registered in a country outside of the one in which it is currently investing. Institutional investors include hedge funds, insurance companies, pension funds and mutual funds. In India International institutional investors must register with the Securities and Exchange Board of India to participate in the market.

FY - Fiscal Year - Any 12-month period that a company uses for accounting purposes.

FX Market - Forex Market - The market in which participants are able to buy, sell, exchange and speculate on currencies. The forex markets is made up of banks, commercial companies, central banks, investment management firms, hedge funds, and retail forex brokers and investors. The currency market is considered to be the

largest financial market in the world, processing trillions of dollars worth of transactions each day.

High Net Worth Individual - is a person with a high net worth. In the private banking business, these individuals typically are defined as having investable assets (financial assets not including primary residence) in excess of US\$1 million.

IIP - Index of Industrial Production - in simplest terms is an index which details out the growth of various sectors in an economy. E.g. Indian IIP will focus on sectors like mining, electricity, Manufacturing & General. Also base year needs to be decided on the basis of which all the index figures would be arrived at. In case of India the base year has been fixed at 1993-94 hence the same would be equivalent to 100 Points.

IPO - Initial Public Offering - It is referred to simply as an "offering" or "floatation," is when a company issues common stock or shares to the public for the first time. They are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately-owned companies looking to become publicly traded.

Large Cap - A term used by the investment community to refer to companies with a market capitalization value of more than a specified threshold. We have classified large cap companies with market capitalization between INR 50 billion to INR 250 billion.

Mega Cap - A term used by the investment community to refer to companies with a market capitalization value of more than a specified threshold. We have classified large cap companies with market capitalization over INR 250 billion.

MIBOR - Mumbai Inter-Bank Offer Rate - The interest rate at which banks can borrow funds, in marketable size, from other banks in the Indian interbank market. The Mumbai Interbank Offered Rate (MIBOR) is calculated everyday by the National Stock Exchange of India (NSEIL) as a weighted average of lending rates of a group of banks, on funds lent to first-class borrowers.

Mid Cap - A company with a market capitalization between INR 25 billion to INR 50 billion, which is calculated by multiplying the number of a company's shares outstanding by its stock price. Mid cap is an abbreviation for the term "middle capitalization".

Modified Duration - A formula that expresses the measurable change in the value of a security in response to a change in interest rates.

MSCI - Morgan Stanley Capital International - A leading provider of equity, fixed-income and hedge fund indexes. MSCI has been providing global equity indexes for more than 30 years. In 2003, it launched a new family of U.S. equity indexes.

MSCI Emerging Markets Index - An index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets.

MTM - Mark To Market - The accounting act of recording the price or value of a security, portfolio or account to reflect its current market value rather than its book value.

NAV - Net Asset Value - A mutual fund's price per share or exchange-traded fund's (ETF) per-share value. In both cases, the per-share value amount of the fund is calculated by dividing the total value of all the securities in its portfolio, less any liabilities, by the number of fund shares outstanding.

NCD - Non Convertible Debenture - It is a type of debt instrument that is issued for a fixed maturity and in which, no part of the debenture is convertible into equity.

Neutral - An analyst's opinion regarding the future performance of a security. Underweight will usually mean that the security is expected to underperform either its industry, sector, or even the market altogether.

Open Ended Fund/Scheme - It is a type of a scheme/fund where purchase or sale of units is offered on a continued basis at NAV related prices.

Overweight - An analyst's opinion regarding the future performance of a security. Overweight will usually signify that the security is expected to outperform either its industry, sector or, even, the market altogether.

P/B Ratio - Price-To-Book Ratio - A ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

$$\text{Calculated as:} = \frac{\text{Stock Price}}{\text{Total Assets - Intangible Assets and Liabilities}}$$

PE - Price Earnings ratio - A valuation ratio of a company's current share price compared to its per-share earnings.

$$\text{Calculated as:} = \frac{\text{Market Value per Share}}{\text{Earnings per Share (EPS)}}$$

PMI - Purchasing Managers' Index - An indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

Private Placement - Raising of capital via private rather than public placement. The result is the sale of securities to a relatively small number of investors. Investors

involved in private placements are usually large banks, mutual funds, insurance companies, and pension funds.

PSU - Public Sector Undertaking - In India, public sector undertaking is a term used for a government-owned corporation (company in the public sector). The term is used to refer to companies in which the government (either the Union Government or state or territorial governments, or both) owned a majority (51 percent or more) of the company equity.

PTC - Pass through certificates - A pool of fixed-income securities backed by a package of assets. A servicing intermediary collects the monthly payments from issuers, and, after deducting a fee, remits or passes them through to the holders of the pass-through security

Reserve Requirements - Requirements regarding the amount of funds that banks must hold in reserve against deposits made by their customers. In India The Cash Reserve Ratio (CRR) refers to this liquid cash that banks have to maintain with the Reserve Bank of India (RBI) as a certain percentage of their demand and time liabilities. For example if the CRR is 10% then a bank with net demand and time deposits of Rs 1,00,000 will have to deposit Rs 10,000 with the RBI as liquid cash.

Rights Offering (Issue) - Issuing rights to a company's existing shareholders to buy a proportional number of additional securities at a given price (usually at a discount) within a fixed period.

Risk-Adjusted Return - A concept that refines an investment's return by measuring how much risk is involved in producing that return, which is generally expressed as a number or rating. Risk-adjusted returns are applied to individual securities and investment funds and portfolios.

ROE - Return On Equity - The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE is expressed as a percentage and calculated as:

Return on Equity = Net Income/Shareholder's Equity

Rolling Returns - The annualized average return for a period ending with the listed year. Rolling returns are useful for examining the behavior of returns for holding periods similar to those actually experienced by investors. Also known as 'rolling period returns' or 'rolling time periods'.

Sharpe Ratio - A ratio developed by Nobel laureate William F. Sharpe to measure risk-adjusted performance. The Sharpe ratio is calculated by subtracting the risk-free rate

from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns.

Small Cap - Refers to stocks with a relatively small market capitalization. The definition of small cap can vary among brokerages, but generally it is a company with a market capitalization less than INR 25 billion.

Standard Deviation - A measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. Standard deviation is calculated as the square root of variance. In finance, standard deviation is applied to the annual rate of return of an investment to measure the investment's volatility. Standard deviation is also known as historical volatility and is used by investors as a gauge for the amount of expected volatility.

Term Deposit - A deposit held at a financial institution that has a fixed term. These are generally short-term with maturities ranging anywhere from a month to a few years. When a term deposit is purchased, the lender (the customer) understands that the money can only be withdrawn after the term has ended or by giving a predetermined number of days notice.

Treasury Bills - Short-term debt obligations of a national government that are issued to mature in three to twelve months.

Underweight - An analyst's opinion regarding the future performance of a security. Underweight will usually mean that the security is expected to underperform either its industry, sector, or even the market altogether.

V-Shaped Recovery - A type of economic recession and recovery that resembles a "V" shape in charting. Specifically, a V-shaped recovery represents the shape of the chart of certain economic measures, such as employment, GDP and industrial output. A V-shaped recovery involves a sharp decline in these metrics followed by a sharp rise back to its previous peak.

WPI - Wholesale Price Index - An index that measures and tracks the changes in price of goods in the stages before the retail level. Wholesale price indexes (WPIs) report monthly to show the average price changes of goods sold in bulk, and they are a group of the indicators that follow growth in the economy.

YTM - Yield To Maturity - The rate of return anticipated on a bond if it is held until the maturity date. The calculation of YTM takes into account the current market price, par value, coupon interest rate and time to maturity. It is also assumed that all coupons are reinvested at the same rate. Sometimes this is simply referred to as "yield" for short.

Disclaimer:

This document is prepared by the **Private Banking Unit** of The Hongkong and Shanghai Banking Corporation Limited in India (HSBC) for the information of its customers only. The contents of this document are not and should not be construed as an offer to sell any investment, instrument or service. Furthermore, this document does not constitute the solicitation of an offer to purchase or subscribe for any investment, instrument or service in any jurisdiction where, or from any person in respect of whom, such a solicitation of an offer is unlawful.

While this information has been prepared in good faith, no representation or warranty, express or implied, is or will be made and no responsibility or liability is or will be accepted by **HSBC** or the HSBC Group or by any of their respective officers, employees or agents as to or in relation to the accuracy or completeness of this document. The information stated, opinions expressed and estimates given constitute best judgement at the time of publication and are subject to change without notice. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may have been discussed in this document.

HSBC, its affiliates, and/or their officers, directors and employees may have positions in securities of any companies mentioned herein (or in any related investments) and may from time to time add to or dispose of any such securities (or investments). Moreover, HSBC or its affiliates may perform or seek to perform investment banking or underwriting services for or relating to such companies and may also be represented in the supervisory board or any other committee of these companies.

HSBC makes no representations that the products or services mentioned in this document are available to persons of any other country or are necessarily suitable for any particular person or appropriate in accordance with their local law. Among other things, this means that the disclosures set forth in this document may not conform to rules of the regulatory bodies of any other country and investment in the products discussed will not afford the protection offered by the local regulatory regime in any other country.

It is important to note that the capital value of your investment may go down as well as up and you may not get back the full amount invested.

Private Banking may be carried out internationally by different HSBC legal entities according to local regulatory requirements. A complete list of private banking entities is available on the following website - www.hsbcpriatebank.com.

© Copyright. The **Hongkong and Shanghai Banking Corporation Limited**. ALL RIGHTS RESERVED

No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of The **Hongkong and Shanghai Banking Corporation Limited**.