

Quick Glance - Funds Performance

(Funds with AUM of more than ₹125 crores as on 30th December 2011)



A new look at life

IN THIS POLICY, THE INVESTMENT RISK IN INVESTMENT PORTFOLIO IS BORNE BY THE POLICYHOLDER.



Saravana Kumar
Chief Investment Officer

Message from CIO's Desk

December 2011 brought to a close a rather lack luster year for the Indian equities as the benchmark indices lost almost 25% over the calendar year 2011. Weak global macro-concerns coupled with a slowing domestic growth trajectory played itself out over the course of 2011. The weak revenue collections and higher subsidy outgo could keep the government finances under pressure in FY12 as the fiscal deficit in the eight month period of April-November stood at 86% of budgetary estimates. The market experts estimate earnings growth of 13% and 16% for FY12 and FY13 respectively. While there are bouts of disappointing news flow on a sustained basis, we believe that the markets have priced in a substantial portion of the weak global growth expectations and domestic concerns due to stalled reform agenda. The markets present an attractive entry point for a long term investor with a 2-5 year view.

Equity Funds

Life Equity Fund (ULIF 001 04/02/04 TEL 110)

Fund Details		Fund Performance					Asset Allocation																																													
Investment Objective : The primary investment objective of the fund is to generate long - term capital appreciation from a portfolio that is invested pre-dominantly in equity and equity linked securities Fund Manager : Mr. Saravana Kumar NAV as on 30 Dec, 11 : ₹26.34 Benchmark : BSE Sensex - 100% Corpus as on 30 Dec, 11 : ₹2404.36 Crs.		<table border="1"> <thead> <tr> <th>PERIOD</th> <th>DATE</th> <th>NAV</th> <th>BSE Sensex</th> <th>NAV Change</th> <th>INDEX Change</th> </tr> </thead> <tbody> <tr> <td>Last 6 Months</td> <td>30-Jun-11</td> <td>33.37</td> <td>18845.87</td> <td>-21.07%</td> <td>-17.99%</td> </tr> <tr> <td>Last 1 Year</td> <td>31-Dec-10</td> <td>36.21</td> <td>20509.09</td> <td>-27.25%</td> <td>-24.64%</td> </tr> <tr> <td>Last 2 Years</td> <td>31-Dec-09</td> <td>30.11</td> <td>17464.81</td> <td>-6.46%</td> <td>-5.93%</td> </tr> <tr> <td>Last 3 Years</td> <td>31-Dec-08</td> <td>17.72</td> <td>9647.31</td> <td>14.14%</td> <td>17.01%</td> </tr> <tr> <td>Last 4 Years</td> <td>31-Dec-07</td> <td>42.99</td> <td>20286.99</td> <td>-11.52%</td> <td>-6.58%</td> </tr> <tr> <td>Last 5 Years</td> <td>29-Dec-06</td> <td>25.05</td> <td>13786.91</td> <td>1.01%</td> <td>2.31%</td> </tr> <tr> <td>Since Inception</td> <td>02-Mar-04</td> <td>10.00</td> <td>5823.17</td> <td>13.16%</td> <td>13.27%</td> </tr> </tbody> </table>	PERIOD	DATE	NAV	BSE Sensex	NAV Change	INDEX Change	Last 6 Months	30-Jun-11	33.37	18845.87	-21.07%	-17.99%	Last 1 Year	31-Dec-10	36.21	20509.09	-27.25%	-24.64%	Last 2 Years	31-Dec-09	30.11	17464.81	-6.46%	-5.93%	Last 3 Years	31-Dec-08	17.72	9647.31	14.14%	17.01%	Last 4 Years	31-Dec-07	42.99	20286.99	-11.52%	-6.58%	Last 5 Years	29-Dec-06	25.05	13786.91	1.01%	2.31%	Since Inception	02-Mar-04	10.00	5823.17	13.16%	13.27%		
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Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

Whole Life Mid-Cap Equity Fund (ULIF 009 04/01/07 WLE 110)

Fund Details		Fund Performance					Asset Allocation																																							
Investment Objective : The primary investment objective of the fund is to generate long - term capital appreciation from a portfolio that is invested pre-dominantly in Mid Cap Equity and Mid Cap Equity linked securities. Fund Manager : Mr. Saravana Kumar NAV as on 30 Dec, 11 : ₹11.26 Benchmark : NSE CNX Midcap Index - 100% Corpus as on 30 Dec, 11 : ₹1403.75 Crs.		<table border="1"> <thead> <tr> <th>PERIOD</th> <th>DATE</th> <th>NAV</th> <th>NSE CNX MIDCAP</th> <th>NAV Change</th> <th>INDEX Change</th> </tr> </thead> <tbody> <tr> <td>Last 6 Months</td> <td>30-Jun-11</td> <td>13.79</td> <td>7971.50</td> <td>-18.33%</td> <td>-23.33%</td> </tr> <tr> <td>Last 1 Year</td> <td>31-Dec-10</td> <td>14.89</td> <td>8857.20</td> <td>-24.39%</td> <td>-31.00%</td> </tr> <tr> <td>Last 2 Years</td> <td>31-Dec-09</td> <td>12.17</td> <td>7432.80</td> <td>-3.81%</td> <td>-9.32%</td> </tr> <tr> <td>Last 3 Years</td> <td>31-Dec-08</td> <td>6.84</td> <td>3735.60</td> <td>18.06%</td> <td>17.83%</td> </tr> <tr> <td>Last 4 Years</td> <td>31-Dec-07</td> <td>16.23</td> <td>9199.85</td> <td>-8.74%</td> <td>-9.72%</td> </tr> <tr> <td>Since Inception</td> <td>08-Jan-07</td> <td>10.00</td> <td>5156.45</td> <td>2.41%</td> <td>3.47%</td> </tr> </tbody> </table>	PERIOD	DATE	NAV	NSE CNX MIDCAP	NAV Change	INDEX Change	Last 6 Months	30-Jun-11	13.79	7971.50	-18.33%	-23.33%	Last 1 Year	31-Dec-10	14.89	8857.20	-24.39%	-31.00%	Last 2 Years	31-Dec-09	12.17	7432.80	-3.81%	-9.32%	Last 3 Years	31-Dec-08	6.84	3735.60	18.06%	17.83%	Last 4 Years	31-Dec-07	16.23	9199.85	-8.74%	-9.72%	Since Inception	08-Jan-07	10.00	5156.45	2.41%	3.47%		
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Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

Life Large Cap Equity Fund (ULIF 017 07/01/08 TLC 110)

Fund Details		Fund Performance					Asset Allocation																																	
Investment Objective : The primary investment objective of the fund is to generate long - term capital appreciation from a portfolio that is invested pre-dominantly in equity and equity linked securities. Fund Manager : Mr. Saravana Kumar NAV as on 30 Dec, 11 : ₹9.14 Benchmark : NSE Nifty 50 Index - 100% Corpus as on 30 Dec, 11 : ₹678.34 Crs.		<table border="1"> <thead> <tr> <th>PERIOD</th> <th>DATE</th> <th>NAV</th> <th>S & P CNX Nifty</th> <th>NAV Change</th> <th>INDEX Change</th> </tr> </thead> <tbody> <tr> <td>Last 6 Months</td> <td>30-Jun-11</td> <td>11.20</td> <td>5647.40</td> <td>-18.39%</td> <td>-18.12%</td> </tr> <tr> <td>Last 1 Year</td> <td>31-Dec-10</td> <td>11.99</td> <td>6134.50</td> <td>-23.77%</td> <td>-24.62%</td> </tr> <tr> <td>Last 2 Years</td> <td>31-Dec-09</td> <td>9.98</td> <td>5201.05</td> <td>-4.30%</td> <td>-5.71%</td> </tr> <tr> <td>Last 3 Years</td> <td>31-Dec-08</td> <td>5.98</td> <td>2959.15</td> <td>15.21%</td> <td>16.04%</td> </tr> <tr> <td>Since Inception</td> <td>07-Jan-08</td> <td>10.00</td> <td>6279.10</td> <td>-2.23%</td> <td>-7.40%</td> </tr> </tbody> </table>	PERIOD	DATE	NAV	S & P CNX Nifty	NAV Change	INDEX Change	Last 6 Months	30-Jun-11	11.20	5647.40	-18.39%	-18.12%	Last 1 Year	31-Dec-10	11.99	6134.50	-23.77%	-24.62%	Last 2 Years	31-Dec-09	9.98	5201.05	-4.30%	-5.71%	Last 3 Years	31-Dec-08	5.98	2959.15	15.21%	16.04%	Since Inception	07-Jan-08	10.00	6279.10	-2.23%	-7.40%		
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Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

Future Equity Pension Fund (ULIF 020 04/02/08 FEP 110)

Fund Details		Fund Performance					Asset Allocation																																	
Investment Objective : The primary investment objective of the fund is to generate long - term capital appreciation from a portfolio that is invested pre-dominantly in equity and equity linked securities. Fund Manager : Mr. Saravana Kumar NAV as on 30 Dec, 11 : ₹10.36 Benchmark : NSE Nifty 50 Index - 100% Corpus as on 30 Dec, 11 : ₹186.86 Crs.		<table border="1"> <thead> <tr> <th>PERIOD</th> <th>DATE</th> <th>NAV</th> <th>S & P CNX Nifty</th> <th>NAV Change</th> <th>INDEX Change</th> </tr> </thead> <tbody> <tr> <td>Last 6 Months</td> <td>30-Jun-11</td> <td>12.83</td> <td>5647.40</td> <td>-19.27%</td> <td>-18.12%</td> </tr> <tr> <td>Last 1 Year</td> <td>31-Dec-10</td> <td>13.79</td> <td>6134.50</td> <td>-24.89%</td> <td>-24.62%</td> </tr> <tr> <td>Last 2 Years</td> <td>31-Dec-09</td> <td>11.35</td> <td>5201.05</td> <td>-4.47%</td> <td>-5.71%</td> </tr> <tr> <td>Last 3 Years</td> <td>31-Dec-08</td> <td>6.61</td> <td>2959.15</td> <td>16.12%</td> <td>16.04%</td> </tr> <tr> <td>Since Inception</td> <td>04-Feb-08</td> <td>10.00</td> <td>5463.50</td> <td>0.90%</td> <td>-4.18%</td> </tr> </tbody> </table>	PERIOD	DATE	NAV	S & P CNX Nifty	NAV Change	INDEX Change	Last 6 Months	30-Jun-11	12.83	5647.40	-19.27%	-18.12%	Last 1 Year	31-Dec-10	13.79	6134.50	-24.89%	-24.62%	Last 2 Years	31-Dec-09	11.35	5201.05	-4.47%	-5.71%	Last 3 Years	31-Dec-08	6.61	2959.15	16.12%	16.04%	Since Inception	04-Feb-08	10.00	5463.50	0.90%	-4.18%		
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Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

Life Select Equity Fund (ULIF 024 06/10/08 TSE 110)

Fund Details		Fund Performance					Asset Allocation																																	
Investment Objective : The primary investment objective of the fund is to provide income distribution over a period of medium to long term while at all times emphasizing the importance of capital appreciation. The fund will invest significant amount in equity and equity linked instruments specifically excluding companies predominantly dealing in Gambling, Lotteries/Contests, Animal Produce, Liquor, Tobacco, Entertainment (Films, TV etc) Hotels, Banks and Financial Institutions. Fund Manager : Mr. Saravana Kumar NAV as on 30 Dec, 11 : ₹15.47 Benchmark : S & P India 500 Shariah Index - 100% Corpus as on 30 Dec, 11 : ₹167.83 Crs.		<table border="1"> <thead> <tr> <th>PERIOD</th> <th>DATE</th> <th>NAV</th> <th>S & P India 500 Shariah Index</th> <th>NAV Change</th> <th>INDEX Change</th> </tr> </thead> <tbody> <tr> <td>Last 6 Months</td> <td>30-Jun-11</td> <td>18.17</td> <td>1307.25</td> <td>-14.89%</td> <td>-13.52%</td> </tr> <tr> <td>Last 1 Year</td> <td>31-Dec-10</td> <td>19.07</td> <td>1436.15</td> <td>-18.91%</td> <td>-21.29%</td> </tr> <tr> <td>Last 2 Years</td> <td>31-Dec-09</td> <td>15.86</td> <td>1269.50</td> <td>-1.24%</td> <td>-5.63%</td> </tr> <tr> <td>Last 3 Years</td> <td>31-Dec-08</td> <td>10.25</td> <td>669.21</td> <td>14.71%</td> <td>19.10%</td> </tr> <tr> <td>Since Inception</td> <td>06-Oct-08</td> <td>10.00</td> <td>844.46</td> <td>14.44%</td> <td>9.44%</td> </tr> </tbody> </table>	PERIOD	DATE	NAV	S & P India 500 Shariah Index	NAV Change	INDEX Change	Last 6 Months	30-Jun-11	18.17	1307.25	-14.89%	-13.52%	Last 1 Year	31-Dec-10	19.07	1436.15	-18.91%	-21.29%	Last 2 Years	31-Dec-09	15.86	1269.50	-1.24%	-5.63%	Last 3 Years	31-Dec-08	10.25	669.21	14.71%	19.10%	Since Inception	06-Oct-08	10.00	844.46	14.44%	9.44%		
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Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

Quick Glance - Funds Performance

(Funds with AUM of more than ₹125 crores as on 30th December 2011)



A new look at life

Super Select Equity Fund (ULIF 035 16/10/09 TSS 110)

Fund Details

Investment Objective : The primary investment objective of the fund is to provide income distribution over a period of medium to long term while at all times emphasizing the importance of capital appreciation

Fund Manager : Mr. Saravana Kumar

NAV as on 30 Dec, 11 : ₹10.22

Benchmark : S & P India 500 Shariah Index - 100%

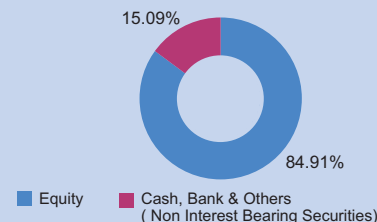
Corpus as on 30 Dec, 11 : ₹307.96 Crs.

Fund Performance

PERIOD	DATE	NAV	S & P India 500 Shariah Index	NAV Change	INDEX Change
Last 6 Months	30-Jun-11	11.85	1307.25	-13.73%	-13.52%
Last 1 Year	31-Dec-10	12.47	1436.15	-18.03%	-21.29%
Last 2 Years	31-Dec-09	10.34	1269.50	-0.56%	-5.63%
Since Inception	16-Oct-09	10.00	1217.76	1.00%	-3.32%

Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

Asset Allocation



Balanced Funds

Life Aggressive Growth Fund (ULIF 006 01/07/06 TAL 110)

Fund Details

Investment Objective : The primary investment objective of the fund is to maximize the returns with medium to high risk.

Fund Manager : Mr. Saravana Kumar

NAV as on 30 Dec, 11 : ₹14.01

Benchmark : BSE Sensex - 65%, CRISIL Composite Bond Index - 35%

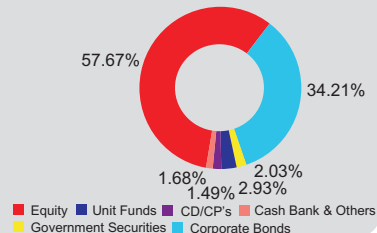
Corpus as on 30 Dec, 11 : ₹290.44 Crs.

Fund Performance

PERIOD	DATE	NAV	NAV Change	INDEX Change
Last 6 Months	30-Jun-11	16.11	-13.00%	-10.24%
Last 1 Year	31-Dec-10	17.01	-17.61%	-13.60%
Last 2 Years	31-Dec-09	14.83	-2.77%	-1.78%
Last 3 Years	31-Dec-08	10.10	11.56%	12.85%
Last 4 Years	31-Dec-07	16.16	-3.50%	-2.14%
Last 5 Years	29-Dec-06	11.04	4.89%	3.69%
Since Inception	01-Jul-06	10.00	6.33%	6.77%

Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

Asset Allocation



Whole Life Aggressive Growth Fund (ULIF 010 04/01/07 WLA 110)

Fund Details

Investment Objective : The primary investment objective of the fund is to maximize the returns with medium to high risk

Fund Manager : Mr. Saravana Kumar

NAV as on 30 Dec, 11 : ₹13.29

Benchmark : Nifty - 65%, CRISIL Composite Bond Index - 35%

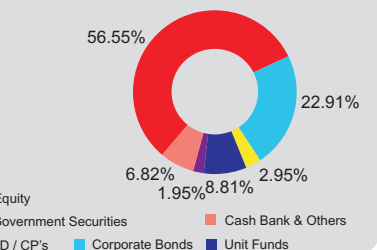
Corpus as on 30 Dec, 11 : ₹289.51 Crs.

Fund Performance

PERIOD	DATE	NAV	NAV Change	INDEX Change
Last 6 Months	30-Jun-11	14.94	-11.09%	-10.32%
Last 1 Year	31-Dec-10	15.57	-14.70%	-13.59%
Last 2 Years	31-Dec-09	13.38	-0.34%	-1.64%
Last 3 Years	31-Dec-08	9.21	12.98%	12.22%
Last 4 Years	31-Dec-07	13.64	-0.65%	-2.31%
Since Inception	08-Jan-07	10.00	5.87%	4.34%

Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

Asset Allocation



Life Growth Fund (ULIF 004 04/02/04 TGL 110)

Fund Details

Investment Objective : The primary investment objective of the fund is to maximize the returns with medium to high risk.

Fund Manager : Mr. Saravana Kumar

NAV as on 30 Dec, 11 : ₹21.85

Benchmark : Nifty - 65%, CRISIL Composite Bond Index - 35%

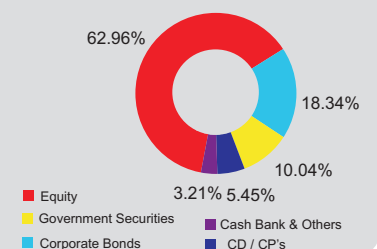
Corpus as on 30 Dec, 11 : ₹144.11 Crs.

Fund Performance

PERIOD	DATE	NAV	NAV Change	INDEX Change
Last 6 Months	30-Jun-11	25.43	-14.09%	-10.24%
Last 1 Year	31-Dec-10	26.92	-18.83%	-13.60%
Last 2 Years	31-Dec-09	23.67	-3.92%	-1.78%
Last 3 Years	31-Dec-08	16.51	9.78%	12.85%
Last 4 Years	31-Dec-07	29.43	-7.17%	-2.14%
Last 5 Years	29-Dec-06	19.22	2.59%	3.69%
Since Inception	02-Mar-04	10.00	10.49%	10.40%

Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

Asset Allocation



Fixed Income Funds

Whole Life Income Fund (ULIF 012 04/01/07 WLI 110)

Fund Details

Investment Objective : The primary investment objective of the fund is to generate income through investing in a range of debt and money market instruments of various maturities with a view to maximizing the optimal balance between yield, safety and liquidity. The fund will have no investments in equity or equity linked instruments at any point in time.

Fund Manager : Mr. Saravana Kumar

NAV as on 30 Dec, 11 : ₹13.64

Benchmark : CRISIL Composite Bond Index - 100%

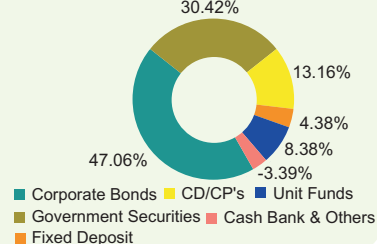
Corpus as on 30 Dec, 11 : ₹143.26 Crs.

Fund Performance

PERIOD	DATE	NAV	Crish Composite Bond Fund Index	NAV Change	INDEX Change
Last 6 Months	30-Jun-11	13.05	1687.72	4.60%	4.14%
Last 1 Year	31-Dec-10	12.62	1644.23	8.15%	6.90%
Last 2 Years	31-Dec-09	11.94	1566.53	6.89%	5.93%
Last 3 Years	31-Dec-08	10.99	1513.49	7.47%	5.11%
Last 4 Years	31-Dec-07	10.14	1387.81	7.71%	6.08%
Since Inception	08-Jan-07	10.00	1298.79	6.44%	6.27%

Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

Asset Allocation



Guaranteed NAV Funds

The fund would be predominantly invested in equity at inception, wherein the dynamic asset allocation mechanism allocates the portfolio between equity and debt. This dynamic asset allocation is based on the performance of equity markets and movements in interest rates. The equity allocation may be reallocated to debt if the equity markets or interest rates fall, to safeguard the guarantee.

Over time, the asset mix will predominantly shift to debt to protect the guarantee. This dynamic asset allocation process will drive the returns generated by the Apex Return Lock-in Fund. The dynamic asset allocation shifts the allocation of the fund from an equity bias to a debt bias, overtime. This would mean that the Guaranteed NAV would not mimic the highest level of the equity market, over the period the guarantee is applicable. Any unexpected and sharp falls in equity market and/ or interest rates, during the period the guarantee is applicable, may trigger the allocation to completely move towards debt, to protect the highest NAV achieved prior to the fall. Overall, it is an ideal fund for an investor who wants to take advantage of high returns in a positive market scenario while safe-guarding the investment during any downturn.

Quick Glance - Funds Performance

(Funds with AUM of more than ₹125 crores as on 30th December 2011)



A new look at life

APEX Return Lock-In Fund (ULIF 032 18/02/09 ARL 110)

Fund Details

Investment Objective : The investment objective for Apex Return Lock-in Fund is to use the participation in an actively managed well diversified equity portfolio of large cap companies to generate capital appreciation and use high credit quality debt instruments to lock-in that capital appreciation. The initial asset allocation in equities is targeted at 80% to 100%.

Fund Manager : Mr. Saravana Kumar

The highest NAV recorded

on reset date : ₹12.76

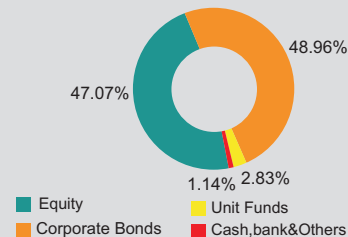
Corpus as on 30 Dec, 11 : ₹335.69 Crs.

Fund Performance

PERIOD	DATE	NAV	NAV Change
Last 6 Months	30-Jun-11	11.80	-9.53%
Last 1 Year	31-Dec-10	12.50	-14.58%
Last 2 Years	31-Dec-09	11.01	-1.55%
Since Inception	10-Jun-09	10.00	2.58%

Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

Asset Allocation



APEX Return Lock-In Fund II (ULIF 033 03/08/09 AR2 110)

Fund Details

Investment Objective : The investment objective for Apex Return Lock-in Fund II is to use the participation in an actively managed well diversified equity portfolio of large cap companies to generate capital appreciation and use high credit quality debt instruments to lock-in that capital appreciation. The initial asset allocation in equities is targeted at 80% to 100%.

Fund Manager : Mr. Saravana Kumar

The highest NAV recorded

on reset date : ₹11.83

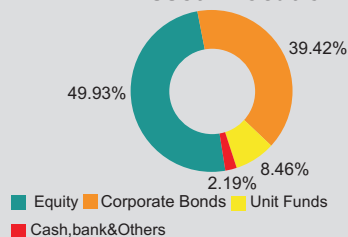
Corpus as on 30 Dec, 11 : ₹212.69 Crs.

Fund Performance

PERIOD	DATE	NAV	NAV Change
Last 6 Months	30-Jun-11	11.07	-10.36%
Last 1 Year	31-Dec-10	11.66	-14.88%
Last 2 Years	31-Dec-09	10.25	-1.60%
Since Inception	10-Nov-09	10.00	-0.36%

Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

Asset Allocation



Equity Outlook

The Indian equity markets rounded a forgettable 2011 with a weak December 2011 performance, with the benchmark indices, the BSE Sensex and CNX Nifty losing 4.15% and 4.30% with the CNX Midcap index shedding close to 8% over the month.

Over the month the FIIs were marginal net buyers of Indian equities to the tune of around USD 32 million even as the insurance companies and domestic mutual funds were net buyers of USD 66 million and USD 111 million respectively in December 2011. The calendar year 2011 saw the FII outflows to the tune of USD 357 million even as the insurance company's net purchases were around USD 4.6 billion and the domestic mutual funds bought around USD 1.3 billion of Indian equities.

The MSCI India index lost 6% in dollar terms over December 2011, and underperformed the emerging market index-MSCI EM index, which closed down 1%. The Indian equity market underperformance in December 2011 can be largely attributed to domestic factors, such as a sharp fall in industrial growth, elevated inflation and a moderation in the GDP growth. The political gridlock in the winter session of parliament meant that a large number of crucial bills could not be passed and that contributed to the overall negative sentiment for the Indian equities. For the calendar year 2011, the Indian equity market gave negative monthly returns in nine months, the maximum negative return months in recent times.

In contrast, the policymaking in many emerging markets were directed to supporting growth and that resulted in the emerging market index stabilizing aided by some positive surprises from the improving US macro.

Given the weak Indian macro-economy as well as a host of concerns regarding the stalled reforms agenda, it is heartening to note that Indian market witnessed relatively less FII selling in 2011, with net foreign selling of just USD 357 million as against a huge outflow of USD 15.6 billion out of Emerging Asia (ex.China). This can be seen as a reflection of the confidence of the FIIs in the long term potential of the Indian market in spite of a 15% downgrade of the 2012 consensus EPS over the last year as compared to 12% for the region during the same period.

During the month of December 2011, the consensus earnings estimates for the broad market (MSCI India) were reduced by 1.2% for FY12 and the market experts estimate earnings growth of 13% for FY12 and the breadth of earnings revisions was negative.

It is to be noted that the fall in the benchmark indices by almost 25% in the calendar year 2011 was substantially more than the extent of earnings downgrades, indicating that a substantial portion of the market decline resulted from a de-rating of PE multiples.

The benchmark indices are currently trading below its long term valuations on a price earnings basis though it is still at a premium to the other BRICs equity markets. As per the market capitalization to the GDP ratio, the Indian equity market as of December 2011 is trading at around 62%, considerably lower than the last 10 year average of 73%. To put this number in perspective, this ratio was around 150% at the 2007 peak and fell to 55% in the 2009 trough.

The market in December 2011 has been trading at less than the long term forward multiple of around 14 times and offers an attractive entry point for a long term investor with a 2-5 year view.

Debt Outlook

The month of December 2011 saw the benchmark 10 year Government security (G-sec), starting the month at 8.74% and easing by 35 bps to close the month at 8.39%.

The easing in the G-sec yields is largely on account of the continued Open market operations (OMOs) by the RBI as they purchased around ₹31,000 crores of G-sec in December 2011, taking the total purchase in the fiscal 2011-12 to around ₹41,000 crores. This considerable easing can also be attributed to a slight moderation in the November 2011 inflation reading confirming that the headline inflation had already peaked over the past few months, with an expectation of a further fall in headline inflation trajectory in December 2011 and beyond. The massive contraction in October IIP growth as well as the RBI's mid-quarter monetary policy review on 16th December 2011 acted as key enablers to sustain the rally in the government securities over the month of December 2011.

The corporate bond yield easing was in line with the G-secs as they started the month of December at 9.69% and closed the month at 9.35%, a rally of 34 bps. As a consequence, the corporate bond spread over the 10 year G-sec stood at 70-80 bps, very similar to November 2011 spread.

The systemic liquidity deficit was clearly outside the RBIs comfort zone of within 1% of banks' net demand and time liabilities (NDTL), as it started the month at a negative ₹70,000 to 80,000 crore, and worsened to a negative ₹1,20,000 crores to ₹1,60,000 crores primarily on the back of the advance tax payouts during the month.

On 30th December 2011, the government announced its intention to borrow an additional ₹40,000 crores in the fiscal 2011-12, clearly suggesting that the extent of fiscal slippage would be considerably beyond the budgeted 4.6%.

The government revised borrowing for 2011-12 would stand revised upwards by ₹92,900 crores to clock ₹5,10,000 crores as against the initial budgeted borrowing of ₹4,17,100 crores.

Two new G-secs were issued by the RBI, the 8.97% 2030 government security and the 8.83% 2041 government security in December 2011, each attracting investments to the tune of ₹6,000 crores during the month.

Wholesale price index (WPI) inflation for November 2011 came in at 9.11%, marginally above consensus of 9.02%, though considerably below the October 2011 reading of 9.73%. The drop in the November 2011 headline inflation was largely on account of a sharp fall in food inflation, although price pressures in fuel and manufacturing segments increased. Inflation in food and non-food primary articles is trending lower and there would be a continued fall in these sub segments, as we hit a favorable base effect in the months ahead. Going forward, the December 2011 WPI inflation reading would be closely watched by the market experts, as it could come in lower at 8% levels, largely due to base effects.

On December 16th 2011, the RBI announced the mid-quarter monetary policy wherein it decided to keep the repo rate unchanged at 8.50% and the cash reserve ratio (CRR) unchanged at 6%. Consequently, the reverse repo rate under the Liquidity adjustment facility (LAF) will remain unchanged at 7.5% and the marginal standing facility (MSF) rate unchanged at 9.5%.

The RBI clearly pointed out to growth risks in the Indian economy as the GDP growth moderated to 6.9% in the second quarter of 2011-12 from 7.7% in the first quarter and 8.8% in the corresponding quarter a year ago. On the expenditure side, investment showed a significant slowdown.

The RBI was concerned that inflation and inflation expectations were currently above its comfort zone, though, reassuringly, inflationary pressures were expected to abate in the coming months despite high crude oil prices and rupee depreciation. The RBI was particularly concerned about the elevated levels of non-food manufactured products inflation but expressed satisfaction on the moderating headline momentum indicators, such as the seasonally adjusted month-on-month and 3-month moving average rolling quarterly inflation rate and has maintained its March 2012 inflation target of 7%.

The RBI reiterated that further Open market operations (OMO's) will be conducted as and when seen to be appropriate as borrowings from the LAF were persistently above the Reserve Bank's comfort zone.

The RBI maintained the guidance that in view of the moderating growth momentum, higher downside risks to growth and a lower projected inflation trajectory; further rate hikes might not be warranted. From this point on, monetary policy actions are likely to reverse the cycle, responding to the risks to growth. However, considering that risk of inflation recurring remains high and rupee remains under pressure, the timing and magnitude of further actions will depend on a continuing assessment of how these factors shape up in the months ahead.

Going forward, we could expect headline WPI inflation to moderate to around 6.5-7.0% by March 2012 and the RBI to start the reversal cycle of rate cuts after the Union budget. The G-sec yields could remain in a tight range in the near term as the series of OMOs from the RBI could offset the impact of the increased second half borrowing and the benchmark 10 year G-sec could trade in a range of 8.25%-8.50%.

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