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Quarterly Newsletter for the Kotak Family

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Dear Investor

Dear Investor,

As we proceed into the 2nd quarter of the current financial year, the expectation of an early revival in the Indian economy continues to gain strength. The performance of the equities market - which although is not a perfect barometer - is still indicative, that the business sentiment regarding the economy is improving.

It just serves to refresh ourselves that in the April-June 09 quarter, the Sensex & Nifty indices have registered a growth of 49% and 42% respectively. This is the best quarterly performance in last 4 years. To give a perspective, during the Apr-June period, the FIIs have brought in nearly US$ 2.57 bn. To consolidate and confirm the trend, the equities market await in eager anticipation of the first-quarter corporate results. Any signs of cost-efficiency in the operations numbers in these results would go extensively in verifying the shape, scale and period of the economic recovery.

The Union Budget was another event that has a major bearing on the performance of the economy. The size of the Budget has expanded by 36% over the previous year; graphing a spending splurge of Rs 10, 20,838 crs for FY10. This is the highest such increase in budget expenditure in last five years. It's clear, that the rationale behind the size and scope of the budget is to provide a demand stimulus to the economy.

The FY10 budgetary plan outlay provides for nearly Rs 100,000 cr each (and more) for Energy sector, Social sector and Transport infrastructure. This may provide the much-needed boost to the social and physical infrastructure; and induce demand in core industries.

The budgetary spending far outpaces the internal resource accrual of the government (by more than 40%). Thus, the financing of the budget will be done by an aggressive borrowing programme. The hardening of the interest rate yields seems to be a possibility. Added to that, the private commercial enterprise, which up until now has been the key growth driver, may get edged-out of the debt market.

The rapidity of change in our time is incomparable with any other point in recent history. As an unabashed believer in the India story, I remain confident that changes, for more than one reason, will lead to a more stronger and vibrant nation.

Regards,
Sandesh Kirkire
CEO

Fund Manager Speak

India: Inflation and Growth outlook

Much has changed since the severe credit crunch that the world witnessed in October 2008. The liquidity situation has improved on a relative basis and so have some of the macro economic fundamentals of India.

So what has changed in the Indian context?

a) New Union Government: The incumbent Congress-led UPA alliance achieved a near majority in the general elections, the results for which were announced in May 2009. This was an almost best-case scenario and was certainly not along expected lines. The election results is a key positive and should translate into a stable government for next five years enabling greater policy flexibility and higher chances of economic reforms and thrust on infrastructure spending.

b) Inflation: Last year was plagued with inflation in the double digits. Now, inflation as measured by the wholesale price index (WPI) has fallen into negative territory. WPI for the week-ended June 6, 2009 stood at -1.61% YoY. The fall in the headline inflation largely reflected the base effect of high WPI in June 2008 owing rising commodity prices. As per the latest reading, the WPI index for the week-ended June 13, 2009 headline (WPI) inflation rate stood at -1.1% as compared to -1.6% in the previous week.

So does this signify a deflationary trend in the Indian economy?
One does not think so. Inflation as measured by the consumer price index (CPI) still remains high. CPI for agricultural laborer as well as rural labor returned to double digits as per the latest reading. On the WPI side as well, it is unlikely that the phase of negative inflation will last beyond 2 months. High liquidity and food prices and the possible pass through of higher oil and commodity prices and a low base effect would likely push up inflation closer to 6-7% by March 2010.

c) Growth outlook: The Central Statistical Organization revised the FY09 GDP growth estimate from 7.1% to 6.7%. Much of the growth was led by public consumption which grew at 20%- the highest since 1960s. This is mainly reflective of the impact of the pay commission. Investment growth on the other hand slowed down from double-digit growth to 8.3%. The growth outlook for FY10 now largely hinges on the monsoons which would have a direct impact on agriculture and indirect impact on consumption especially rural.

d) Interest rates: with lower growth and inflation rates and limited scope for further fiscal stimulus, RBI has been aggressively reducing policy rates in an attempt to boost demand in the economy. From its peak, the Cash Reserve Ration has been reduced by 400 bps to 5% while the repo rate has been reduced by 425 bps to 4.75%. The soft interest rate regime is reflected in the presence of abundant liquidity, with close to Rs 1.3 trn being parked every day with RBI through the Liquidity Adjustment Facility (LAF) window.

What do we watch out for now?

a) The Union Budget

The Union Budget was presented on July 6. 2009. While the initial market reaction was negative we believe that the Finance Minister has attempted to present a true and fair picture of the government finances and most of the assumptions behind the numbers seem realistic. Further, while the Finance Minister clearly reiterated the plan to disinvest Government stake in PSU entities, the budget did not factor in any target on the disinvestment front. This in turn could act as a buffer to the fiscal deficit in FY10 which was budgeted to be 6.8% of GDP.

The budget continued to focus on inclusive growth with thrust on consumption expenditure. With the budget being largely tax neutral, the attempt was to preserve the consumption stimulus. Further, the budget has provided an expenditure stimulus for growth and outlays for most infrastructure projects have been significantly enhanced.

b) Monsoons

The joker in the pack is likely to be the monsoons. India Meteorological Department's (IMD) latest forecast for monsoon rainfall projects ~93% of the long period average (LPA) rainfall for India as a whole. This is a downward revision of the department's earlier forecast of ~96% of LPA (projected in late April). The qualitative stance of IMD on rainfall for the current season also changes from "near normal" monsoon to "below normal".

In the spotlight

Kotak Mutual Fund now available through Bank of Baroda:

Kotak Mahindra Asset Management Company has entered into a distribution tie-up with Bank of Baroda. Under the agreement, Bank of Baroda will offer the entire bouquet of Kotak Mutual Fund products through its extensive network of branches. The MOU was signed by Mr. Sandesh Kirkire, Chief Executive Officer, Kotak Mutual Fund along with Mr. M.D.Mallya, Chairman & Managing Director and Mr. R.K.Bakshi, Executive Director in Bank of Baroda Ballroom on 3rd June 2009 in Mumbai.

Free Float Methodology:

Many different types of investors like the government, “founders” or “directors” of the company and FDIs hold the shares of a company. Free-float market capitalization is defined as that proportion of total shares issued by the company which are readily available for trading in the market. It excludes the promoters' holding, government holding, strategic holding and other locked-in shares, which will not come to the market for trading in the normal course. The free-float method is seen as a better way of calculating market capitalization because it provides a more accurate reflection of market movements.

Source: - www.bseindia.com

Market Capitalisation:

The stock market is a place where companies are valued. And the best measure of how much a company is valued for is its market capitalisation. Mathematically, a company's market cap is its share price multiplied by the total number of its equity shares. Illustratively, a company with 10,000 shares trading at a price of Rs 100 has a market capitalisation of Rs 10,00,000. Market cap is one of the several criteria used to classify stocks. Based on their market cap, the universe of stocks can further be classified into large caps, mid caps and small caps.

Source: - www.expressindia.com

Sensex and Nifty:

An index is basically an indicator whether most of the stocks have gone up or down. While Sensex is an index that represents the companies that are traded on the Bombay Stock Exchange, BSE, the Nifty is an indicator of all the major companies of the NSE (National Stock Exchange).

One of the key differences between the two indices (Sensex and Nifty) is that the NIFTY comprises 50 stocks while Sensex has 30 stocks. Hence nifty is more broad based than the sensex.

The sensex is the most reputed index of Bombay Stock Exchange (BSE) while Nifty is the most reputed index of National Stock Exchange (NSE). These are the major stock exchanges in the country.

Source: - www.indiahowto.com

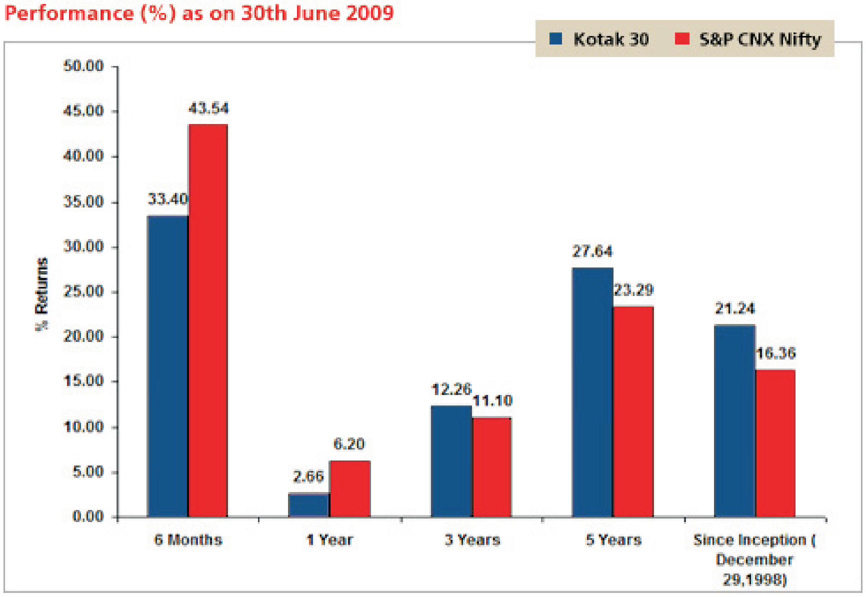
Know-a-scheme

Now that you have a fair idea as to what is market cap and sensex and nifty, let us understand more about KOTAK 30 which is the flagship product of Kotak Mutual Fund

About the scheme:

The investment objective of the scheme is to generate capital appreciation from a portfolio of predominantly equity and equity related securities. The portfolio comprises equity and equity related instruments of around 30 companies which may go up to 39 companies and these companies may or may not be the same which constitute the BSE Sensitive Index or the S&P CNX Nifty index.

Performance (%) as on 30th June 2009



Invest Now

To invest in Kotak 30 you can log on to www.kotakmutual.com and invest online or SMS K30 to 5676788. Alternatively you can contact your financial advisor or visit your nearest Kotak Mutual Fund office.

Source: Mutual Fund Explorer. Kotak 30 NAV: Rs.26.503 (DIV Option). Returns assumed reinvestment of the tax free dividend declared. Returns <= 1 year: Absolute; Returns > 1 year: CAGR (Compounded Annualised Growth Rate). Past performance may or may not be sustained in future.

Amazing Facts about India and Indians!

- India is the **world's largest, oldest, continuous civilization**.
- India **never invaded any country** in her last 10000 years of history.
- India is the **world's largest democracy**.
- **Varanasi**, also known as Benares, was called "the ancient city" when Lord Buddha visited it in 500 B.C.E, and is the oldest, continuously inhabited city in the world today.
- India invented the **Number System**. Zero was invented by Aryabhatta.
- **Sanskrit** is the mother of all the European languages. Sanskrit is the most suitable language for computer software - a report in Forbes magazine, July 1987.
- **Ayurveda** is the earliest school of medicine known to humans. Charaka, the father of medicine consolidated Ayurveda 2500 years ago. Today Ayurveda is fast regaining its rightful place in our civilization
- India is one of the few countries in the World, which gained **independence without violence**.
- India has the second largest pool of **Scientists and Engineers** in the World.

Ha ha hee hee...

A blonde, wanting to earn some money, decided to hire herself out as a handyman-type and started canvassing a wealthy neighborhood. She went to the front door of the first house and asked the owner if he had any jobs for her to do.

"Well, you can paint my porch. How much will you charge?"

The blonde said, "How about 50 dollars?" The man agreed and told her that the paint and ladders that she might need were in the garage. The man's wife, inside the house, heard the conversation and said to her husband, "Does she realize that the porch goes all the way around the house?"

The man replied, "She should. She was standing on the porch."

A short time later, the blonde came to the door to collect her money.

"You're finished already?" he asked. "Yes," the blonde answered, "and I had paint left over, so I gave it two coats."Impressed, the man reached in his pocket for the $50. "And by the way," the blonde added, "that's not a Porsche, it's a Ferrari."

A man went to the Police Station wishing to speak with the burglar who had broken into his house the night before.

"You'll get your chance in court." said the Desk Sergeant.

"No, no no!" said the man. "I want to know how he got into the house without waking my wife. I've been trying to do that for years!"

Source: - www.nirol.com

Get in touch

We would love to hear from you. Please give us your feedback / suggestions on how we can make Rishtey better. Please write into rishtey@kotak.com. For any product / service related queries you can always call our service desk on 1800-222-626 (MTNL / BSNL lines)

Risk Factors

Kotak 30 is an open-ended equity growth scheme The investment objective of the scheme is to generate capital appreciation from a portfolio of predominantly equity and equity related securities. The portfolio comprise of equity and equity related instruments of around 30 companies which may go up to 39 companies, and that these companies may or may not be the same which constitute the BSE Sensitive Index or S&P CNX Nifty index.

Mutual Funds investments are subject to market risks and there is no assurance or guarantee that the objectives of the Schemes will be achieved. As with any securities investment, the NAV of the Units issued under the Schemes can go up or down depending on the factors and forces affecting the capital and money markets. Past performance of the Sponsor/ AMC/ Fund or that of existing Schemes of the Fund does not indicate the future performance of the Schemes.

Kotak Mahindra Mutual Fund has been established as a trust under the Indian Trusts Act, 1882, by Kotak Mahindra Bank Limited (liability Rs. NIL) with Kotak Mahindra Trustee Company Limited as the Trustee and with Kotak Mahindra Asset Management Company Limited as the Investment Manager. Please read the Scheme Information Document (SID) and Statement of Additional Information (SAI) before investing.