

Accumulation Time

After a pasting in January, February was expected to heal the wounds. However nerves were soothed only by the budget and as we speak, the market seems to be forming a base around 18300 levels. February was volatile although the broader indices remained largely flat. There was no respite for midcaps and small caps. The FII continued to sell as they exited stocks worth ₹4,586 Crore taking their year to date selling to ₹9,399 Crore in just 2 months. However the heartening feature was the revival of interest among domestic investors manifesting itself in MF registering net inflows to the tune of ₹1,427 Crore for February and ₹2,018 Crore for the current calendar year 2011.

1. Inflation starts moderating

Headline inflation came in at 8.2% Y-o-Y for January versus 8.4% in the previous month. With this, the build-up in inflation stands at 7.4% during April-January FY11 compared to 9.4% in the corresponding period of the previous fiscal. The moderating trend which began in Q1FY11 had stalled late last year as unseasonal rains in November had led to reversal in food inflation's declining trend. This uptick in vegetable prices is over and going ahead, softening in vegetable prices will result in softening of WPI as well. However, price pressures in other segments such as non-food articles (including cotton and jute) and industrial metals (reflecting higher global commodity prices) continue to persist. Additionally, non-food manufacturing inflation eased Y-o-Y, primarily on base effect, while sequential momentum remains intact. Further, inflation in some protein-based food items continues to remain elevated, reflecting rising incomes and changing consumption patterns. Overall, it is expected that inflation would ease to 7% by March 2011, but any meaningful softening thereafter looks unlikely.

Impact

Moderating inflation coupled with fall in manufacturing growth in all likelihood may restrain the RBI from moving on interest rates for the next 3 months.

2. Middle East- North Africa (MENA) crisis

The crisis in the Middle East and North Africa (MENA) region, which led to the ouster of President Ben Ali in Tunisia

and President Hosni Mubarak in Egypt, has spread much further, with Yemen, Libya, Algeria, Bahrain and Iran being the most vulnerable. After Egypt, Libyan leader Muammar Gaddafi could be the next one to go. Algeria also remains very vulnerable; protests have already led the Algerian government to lift the 19-year old state of emergency last week, and the country remains a stronghold of Islamic militants. However, the exact extent of the geopolitical risk and its impact is difficult to ascertain with the crisis spreading like wildfire.

Impact

Speculation in Crude Oil has increased fourfold with punters going for a kill as a nervous world waits with a bated breath. India is clearly unprepared for any prolonged (3 months or more) spike in oil prices. Currently the Indian basket that closely tracks the Brent is well above the comfort zone at USD 117/bbl. The Indian markets will remain nervous till oil falls below USD 100/bbl.

3. Union Budget 2011-12

The Union Budget 2011-2012 continues to stress on inclusive growth (increasing allocation to social sector by 17% Y-o-Y to INR 1.61 trillion), while having an optimistic assessment of fiscal deficit target. On the reform front, the government has liberalized portfolio flows and indicated its intention to move towards direct transfer of cash subsidy for kerosene/ LPG and urea, big-ticket reforms such as FDI have largely been absent.

The budget was neutral for most sectors, although there were pockets of positive as well as negative announcements on the margin. Sectors which stand to benefit include fertilizers (benefit of investment linked deduction extended to fertilizer production) and FMCG (no increase in excise duty) while the imposition of MAT on profits from SEZs is expected to impact both SEZ operators and units functioning within them. Further, ad valorem export duty of 20% both on lumps and fines is expected to be negative for iron ore exporters. Among others, no mention of liberalization of FDI norms is a negative for the retail sector.

Impact

The market heaved a sigh of relief as the FM made the right noises about curbing expenditure and reducing fiscal deficit to 4.6% of GDP. Although doubts have been expressed about government's ability to achieve its stated objectives of fiscal discipline, the street is willing to be patient for some time before it forms its opinion.

Investment Strategy

The market is currently responding to macro factors such as geo-politics and its related impact on Crude. It is futile to discuss individual stocks in such a scenario and it is broadly top down approach that will bear fruit over the next 6 to 9 months. We are avoiding sensitive sectors on an incremental basis while we remain invested in our bottom up stories although some of them have suffered major price damages. The business fundamentals are intact and it is a matter of time before the prices will start reflecting their intrinsic value. We prefer to wait for such times.

P. Phani Sekhar

(Fund Manager - Angel Bluechip, Angel Growth)

Strategy: Angel Bluechip

Strategy Objective: To create Wealth over the medium to long term by investing in market leaders, mostly large caps which have a consistent track record/potential to deliver superior growth and return on networth as compared to that of the overall market.

Investment Strategy:

- At least 65% of the portfolio constituted by NIFTY/MNC (Multi-National Company) stocks.
- Markets' propensity to over-react to near term events and triggers are exploited to create Wealth over the long term. As the market overreacts to events in the short term, Companies with fundamentally strong business models and growth potential often provide interesting valuation led opportunities for long term investors.

Angel Bluechip Strategy- Sector Allocation

Oil & Gas	20.8%
Banking & Financial Services	15.8%
IT & ITES	14.6%
Infrastructure & Capital Goods	14.3%
Auto & Auto Ancillaries	9.0%
Metals & Mining	7.5%
Power	4.8%
Pharma	4.4%
FMCG	2.9%
Telecom	2.8%
Cash	3.1%

*As on 28th February, 2011

Strategy: Angel Growth

Strategy Objective: To create Wealth over the medium to long term by investing mostly in mid caps and small caps; blending the philosophy of Value and Growth investing.

Investment Strategy:

- Growth is viewed through the prism of value. A unique matrix of Growth - Profitability - Value employed to choose select businesses among thousands of listed stocks.

Angel Growth Strategy- Sector Allocation

IT & ITES	28.2%
Infrastructure & Capital Goods	13.2%
FMCG	12.0%
Auto & Auto Ancillaries	9.4%
Construction	8.1%
Shipping	7.9%
Metals & Mining	5.8%
Media	2.8%
Chemicals & Fertilizers	1.6%
Consumer Durables	1.6%
Cash	9.5%

*As on 28th February, 2011

Disclaimer: The sector allocation indicated above is on an aggregate portfolio basis for each strategy. Individual clients may witness variations in their portfolios depending on their entry/profit booking in each strategy. The sector allocation is dynamic and subject to change without any prior intimation. Investments in securities are subject to market risks and other related risks and there is no assurance or guarantee that the objectives/strategies of the portfolio management scheme shall be fulfilled/successful.