The Market Overview

Equity Market Outlook

Technicals (Data Source : Bloomberg)

Investments by Institutions in the cash segment (Rs. Cr)	Dec-15	Nov-15
FIIs (Net Purchases / Sales)	-288	-7629
MFs (Net Purchases / Sales)	4233*	6548

* Data till December 29, 2015

Avg Daily Open Interest (Rs. Cr)	Dec-15	Nov-15
Index Futures	15331	17100
Stock Futures	51369	47731
Index Options	70000	66204
Stock Options	3204	2925
Total	**139,903**	**133,960**
Avg Daily Volumes (Rs. Cr)	**Dec-15**	**Nov-15**
Cash Segment		
BSE	2806	2673
NSE	15225	16237
Total	**18,031**	**18,911**
Derivative Segment		
NSE	210508	228792
Total	**210,508**	**228,792**
Avg Advance Decline Ratio	**Dec-15**	**Nov-15**
BSE	1.33	1.17
NSE	1.24	1.42
Valuation Ratios	**Dec-15**	**Nov-15**
P/E ratio- Sensex	19.88	20.62
P/E ratio- Nifty	21.05	21.36
Price/Book Value Ratio-Sensex	2.73	2.75
Price/Book Value Ratio-Nifty	3.11	3.17
Dividend Yield-Sensex	1.43	1.43
Dividend Yield-Nifty	1.47	1.44
Indices Movement	**Dec-15**	**Nov-15**
S&P BSE Sensex	-0.11%	-1.92%
Nifty 50	0.14%	-1.62%
S&P BSE Auto	-2.35%	4.39%
S&P BSE Bankex	-2.95%	0.72%
S&P BSE Capital Goods	-3.15%	-2.40%
S&P BSE Consumer Durables	-3.76%	5.00%
S&P BSE Fast Moving Consumer Goods	-0.51%	0.83%
S&P BSE Healthcare	3.72%	-9.79%
S&P BSE Information Technology	1.02%	-2.79%
S&P BSE Metals	3.93%	-2.59%
S&P BSE MidCap	1.40%	0.14%
S&P BSE Oil & Gas	2.44%	2.90%
S&P BSE PSU	-0.99%	1.54%
S&P BSE Realty	0.03%	-2.02%
S&P BSE SmallCap	1.72%	2.84%
S&P BSE Teck Index	1.85%	-2.82%

Data Source: NSE and BSE

Global economy

The global economy sees no sign of improvement and the outlook remains bleak. The International Monetary Fund (IMF) Chief Christine Lagarde warned that global economic growth will be disappointing next year and the medium-term outlook has also deteriorated, as prospects of rising interest rates in the US and an economic slowdown in China were feeding uncertainty and a higher risk of economic vulnerability worldwide.

The seven-year period of near-zero interest rates in the US finally ended after the Federal (Fed) Reserve hiked key interest rates by a quarter point to 0.25-0.50%. However, the Fed signaled that announcements of further hikes will be slow-paced, as the economy gains strength.

Meanwhile, the European Central Bank (ECB) lowered the deposit facility rate by 10 basis points (bps) to -0.30%, however, kept its main refinancing rate unchanged at 0.05%. It further added that its monthly bond-buying scheme will be extended till at least March 2017. The IMF warned that uncertainty on the outcome of Britain's referendum on leaving the European Union could hurt its economy.

In China, the National Bureau of Statistics (NBS) said the economy is showing early signs of recovery and there will be more positive signs in coming months, as government support policies gain traction. The central bank expected annual economic growth to slow to 6.8% in 2016 from an expected 6.9% this year. China also unveiled a new blueprint to make its monetary policy more flexible as it embraces supply-side reforms to arrest economic slowdown and power its transition to a consumption-based model. In an important development, the IMF included the Chinese currency yuan to its basket of reserve currencies, making it the third most powerful currency in the basket.

Japan's GDP was revised up to 1.0% on year in Q3 2015 from preliminary reading that suggested a contraction of 0.8%. Minutes of the Bank of Japan's meeting showed that members noted the satisfactory pace of economic recovery.

Source: CRISIL Centre for Economic Research (CCER)

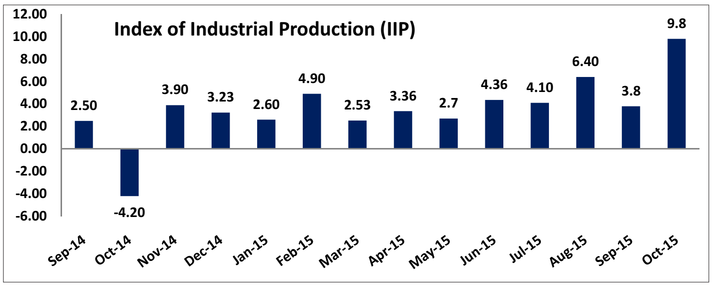
FUNDAMENTALS AND ECONOMICS:

Growth

India's gross domestic product (GDP) saw a growth rate of 7.4% in the July-September 2015 as compared to 7% in the previous quarter (April-June). The economy grew 8.4% in the same quarter last year.

Industrial growth, as measured by the Index of Industrial Production (IIP), jumped up to 9.8% in October 2015 as compared with 3.8% in September 2015, the highest growth since October 2010. This was majorly driven by a weak base effect from last year. On a month-on-month basis, IIP growth was stagnant.All sub-indicators, except for electricity, saw higher growth in October 2015. Manufacturing index recorded higher growth, buoyed by a pick-up in both consumer and investment-oriented sectors.

India's core sector output contracted by 1.3% in November from a year ago period due to sharp decline in steel, cement and crude oil production.



Source: Mospi.Nic.in, CRISIL Centre for Economic Research (CCER)

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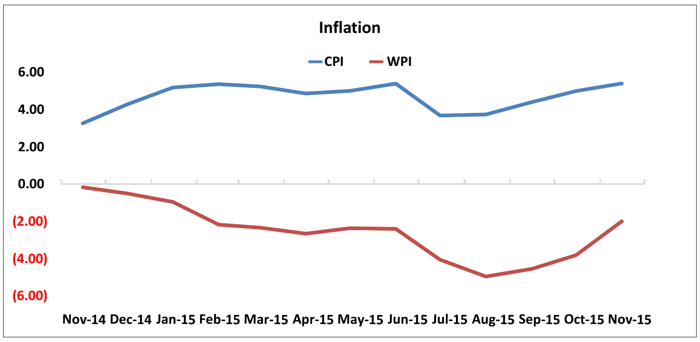
Inflation

India's Consumer Price Index (CPI)-based inflation rose to 5.41% in November 2015, from 5% in October 2015. Two factors drove inflation (i) sharp rise in food inflation, mainly in pulses, oils and fats and vegetables, and (ii) an increase in transport and communication inflation. Pulses with inflation surged to 46.1% from 42.4%. Inflation in the 'fuel and light' category stayed unchanged for the third consecutive month, at 5.3%; but overall fuel inflation rate (fuel and light, petrol and diesel) jumped to 2.5% in November 2015, from 1.6% in October 2015, as a hike in excise duty on petrol and diesel drove up retail prices. With subdued global crude prices, fuel inflation does not pose a risk.

Wholesale Price Index (WPI)-based inflation remained in the negative territory in November 2015; however, the pace of decline slowed to an annualized 1.99%, compared with a fall of 3.81% in October 2015.



Source: Mospi.Nic.in, CCER

Deficit

India's fiscal deficit during April-November reachedRs4.84 trillion or 87% of the target for the 2015/16 fiscal year; the deficit was 98.9% during the same period a year ago.

India's current account deficit (CAD)narrowed to $8.2 billion (1.6% of gross domestic product (GDP) in the quarter ended September 2015 from $10.9 billion (2.2% of GDP) in the quarter ended September 2014. The contraction was primarily on account of lower trade deficit. CAD was also supported by narrowing of the deficit in the primary income account - comprising investment income (payments on direct investment, portfolio investments, other investments and compensation to employees). However, secondary income - largely representing remittances by Indians employed overseas - saw some pressure as it slowed down. Foreign exchange reserves on the balance of payment basis declined by $ 0.9 billion in the quarter ended September.

For the April-September 2015 period, CAD declined to $14.3 billion (1.4% of GDP) from $18.4 billion (1.8 % of GDP) during the same period last year. The decline was due to contraction in trade deficit and marginal improvement in net invisibles.

Exports contracted 24.4%, on-year to $20.0 billion in November 2015, marking the 12th consecutive month of decline. Not only was the pace of decline higher than in the previous month, the fall was more broad-based, with both oil and non-oil exports declining steeply. While oil exports continued their free fall, amidst declining international prices, plunging 53.9% on-year in November 2015, the decline in non-oil exports by 18.1% too became overarching.

The fall in imports was sharper than that in exports for the third consecutive month. At $29.8 billion, imports were down a hefty 30.2% on-year in November 2015, partly on account of the high base effect (imports had grown 26.4% last year) and partly, as the decline in core imports intensified, amidst falling oil imports. However, core (non-oil, non-gold) imports fell 22.1% in November 2015, compared to an average 3.8% decline in the last three months on account of a sharp fall in imports of chemical products, coal and machinery.

Resultantly, the trade deficit shrank to $9.78 billion in November 2015, from $16.2 billion last year.

Source: CCER

Currency

The rupee strengthened nearly 1% against the US dollar in Decemberas sentiment received a boost from the US Fed's decision to hike rates. The soft guidance provided by the central bank helped revive risk appetite and buoyed the rupee. Dollar sales by foreign banks noting gains made by domestic equity indices, also augured well for the local unit. Among other cues, the rupee benefitted from the OPEC's(Organization of the Petroleum Exporting Countries) decision to maintain current levels of production, sporadic weak US economic data, India's GDP data for the second quarter, and upbeat comments from some credit rating agencies on India's economic outlook. However, oil importers purchased the dollar through the month to make payments, which kept the rupee under pressure.

One-year CD rate

One-year certificate of deposit (CD) rate was7.60% on December 31, 2015vs7.55% on November 30, 2015.

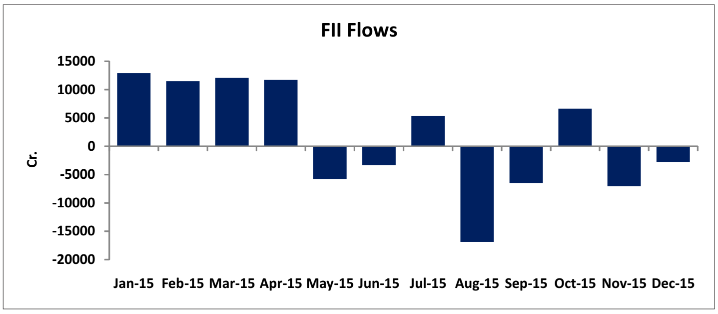
Source: CRISIL Fixed Income Database

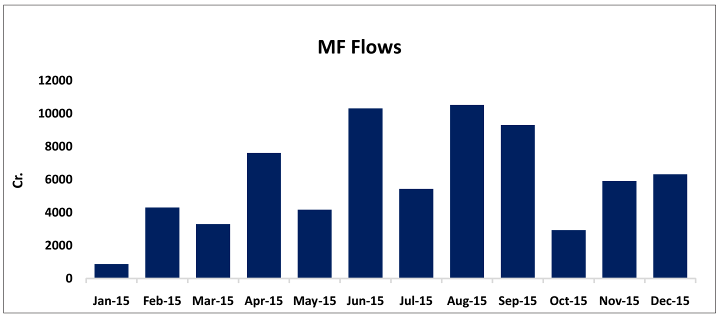
Market sentiment

Flows

FIIs(Foreign Institutional Investor) continued to be sellers of equities though less than the previous month. They sold equities worth Rs1,393crin December 2015 (until Dec 30) vis-à-vis sales of Rs 7,629 crin November 2015. Mutual funds remained buyers of equities in December 2015. They bought equities worth Rs4,234cr in December 2015 (until Dec 29) compared with purchases worth Rs 6,548 crin November 2015.

Source: SEBI





Source: NSDL

Market performance

Indian equity market remained volatile and ended flat in the last month of 2015. Among benchmarks, Nifty 50 gained 0.14% while S&P BSE Sensex fell 0.11%. For the calendar year, Nifty 50 and S&P BSE Sensex recorded fall of 4% and 5%, respectively for the first time since 2011 (when the markets fell nearly 25%).

The Market Overview

Host of domestic and global developments impacted market direction during the month.Investors cheered the release of encouraging domestic macroeconomic numbers, including upbeat industrial output and narrowing of CAD. Some gains were seen after Fitch affirmed India's long-term foreign currency and local currency issuer default ratings at 'BBB-'. Globally, the rally in equities with the intermittent recovery in crude oil prices and US Federal Reserve's interest rate hike, amid strengthening of the US economy, also augured well for the indices.

Source: NSE, BSE

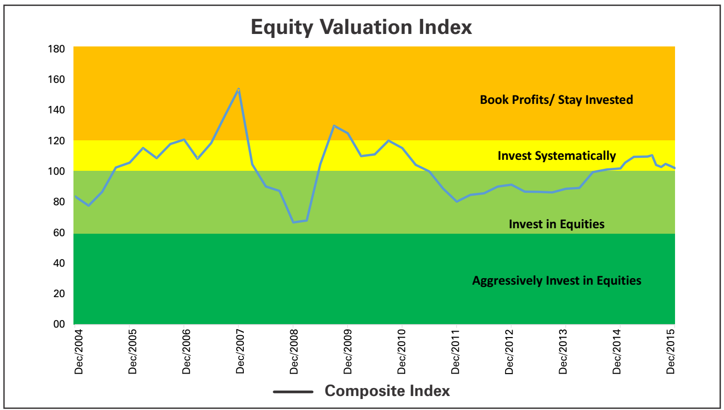
Market Outlook and Triggers

Currently, capacity utilisation in the manufacturing sector is at a multi-year low. We believe that strong operating leverage and gradual improvement in demand will improve the utilisation rate and drive corporate earnings over the next three to four quarters. We also expect government to support capital expenditure in the transportation and defense sectors. Higher capacity utilisation coupled with reduction in non-performing assets in the banking space, would boost the economy.

The expectation of a good monsoon after two years for failure, improvement in asset quality of banks, speedy implementation of reforms, higher capacity utilisation and eventual earnings growth are likely triggers for the markets in 2016.

Further, we believe that oil prices will bottom out and recover this year, which could bring about some stability in global markets and halt foreign investors from selling in emerging markets such as India. As the equity market is expected to be volatile till commodity prices remain weak, we recommend Dynamic Asset Allocation Funds as they are likely to outperform and invest systematically in pure equity funds in 2016.

Equity Valuation



Equity market valuations as displayed by Composite Index shows that the broader market is in fair value zone and suggests that investors should look at systematic investment towards equities.

Recommendations

Invest lump sum in:	
ICICI Prudential Dynamic Plan	Markets may remain volatile until crude and other commodity prices bottom. Hence, dynamic asset allocation funds can be viable investment idea for 2016.
ICICI Prudential Balanced Fund	
ICICI Prudential Balanced Advantage Fund	
ICICI Prudential Equity Income Fund	
Invest systematically over next 6 months in:	
ICICI Prudential Focused Bluechip Equity Fund	Equity markets may bottom in 2016. Investors may invest systematically in these funds for long-term wealth creation.
ICICI Prudential Value Discovery Fund	
ICICI Prudential Long Term Equity Fund (Tax Saving)	
ICICI Prudential Balanced Advantage Fund (SMART SIP)	
Aggressive investment ideas for next three years:	
ICICI Prudential Select Largecap Fund	These funds may be suitable for aggressive investors with a clear three-year and above investment horizon.
ICICI Prudential Top 100 Fund	
ICICI Prudential Multicap Fund	

None of the aforesaid recommendations are based on any assumptions. These are purely for reference and the investors are requested to consult their financial advisors before investing.