Deutsche Bank AG

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# India Equity Strategy: Stay Bullish, Sensex target at 22,000


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Deutsche Bank

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# India Equity Strategy: Maintain positive view; Sensex target at 22,000

- **2010 annual Sensex target of 22,000**
  - Our target implies an upside of ~24% from current levels, and a PE of 20x based on DB FY11 EPS estimates
  - Although our target multiple seems steep, strong economic recovery should drive robust earnings upgrades leading to mid-cycle valuations
- **We are banking on a return to 8-9% GDP growth trajectory to drive market performance**
  - Our 2010 outlook is premised on two broad themes: a shifting paradigm in the composition of global economic growth towards key emerging markets and restoration of India's GDP growth to an 8-9% trajectory in next 12 months;
  - Govt of India's Economic Survey has indicated a base case GDP growth of 8.5% in FY11, driving our confidence on return to an 8-9% GDP growth trajectory
- **Union budget underscores government's growth bias**
  - The FM managed to strike a delicate balance between prudence and profligacy, by ensuring more money in the hands of consumer through tax relief and still managed to show a credible trajectory for fiscal consolidation
  - Cyclical rebound in taxes, ambitious disinvestment target and falling share of non-plan expenditure should help in containing fiscal deficit. We are optimistic on disinvestment agenda, although we believe pricing should be relatively more attractive
- **Robust consumption, high capacity utilization, and government push to mark turn in capex cycle**
  - Domestic consumption, rising capacity utilization and strong governmental push on infrastructure creation should drive a turnaround in capex cycle leading to GDP and earnings upgrades and re-rating of the market
  - CMIE, an independent think tank, estimates a very high level of capacity commissioning of ~US$145bn in FY11
- **Monetary tightening – we do not see risk of policy error**
  - Current monetary conditions are still benign, and needs to align with the expected high-growth-phase
  - Empirically a gradual and prolonged tightening has been associated with high GDP growth and positive equity returns
  - Bond yield concerns seem exaggerated; However, inflation sticking sustainably above 8% could be a worry
- **Prefer Domestic consumption and its beneficiaries, infrastructure and industrial recovery plays:**
  - Our key buy ideas are: **ICICI Bank, Maruti, M&M, ITC, BHEL, L&T, Tata Motors, Reliance Industries, JSW Steel** and **Sterlite**
  - We also highlight key mid cap picks: **Aurobindo Pharma, Dabur, Titan, OnMobile,** and **Thermax**
- **Crude oil spike, deluge of issuances, inflation, sovereign defaults and US$ strength are key risks**
  - We believe a sharp spike in crude prices could impact market sentiment, while a deluge of issuance holds potential to affect market volume
  - Amongst key exogenous risks are any sovereign defaults and continuation of US$ strength that may lead to decline in risk appetite

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# Sector view, Top Picks and Model Portfolio

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# Sector summary

| Sector Classification | Sector summary |
|---|---|
| Consumer Discretionary | |
| Autos | We believe that strong momentum in disposable incomes and a return of liquidity (except in 2W) will continue to support the strong consumer demand. Besides, budget has also provided tax relief to end consumer, which should be supportive for discretionary expenses. While factors such as input costs, interest rates, excise duty and emission norms will lead to higher costs, we believe there are two mitigating factors – strong liquidity to support the demand and the ability of most of the auto companies to raise prices. We expect strong momentum in MHCVs to continue in FY11E (15% growth). We expect car demand growth to outpace two-wheeler growth over the next few years. |
| Media | Consolidation favours incumbent broadcasters in the broadcasting vs. distribution divide. No single winner is likely to emerge in the short term in the cable vs. satellite dispute. DTH is likely to be a key driver for last mile cable consolidation, favouring MSOs. |
| Consumer Staples | |
| Food, Beverage & Tobacco | Cigarettes, paints, watches, jewellery, alcoholic drinks remain the best categories to invest in within the Indian context. Headwinds however, relate to relatively higher commodity prices (for HPC, foods, paints, alcoholic beverages and jewellery) |
| House & Personal Products | The big home, personal care and foods category face a couple of headwinds going forward despite the good long term demographics, higher income and consequently purchasing power of the Indian middle class. |
| Energy | High inventories, substantial OPEC production capacity and plenty of excess refining capacity still suggest oil markets in 2010 will not climb precipitously. We still anticipate some oil price weakness. Upstream refiners focus may shift to potential to sustain growth in reserves and production volumes as oil prices may remain range bound after the CY09 rally and potential for a stronger dollar could cap oil prices. Prospects for global economic recovery over the next 12-18 months and near term capacity closures could revive outlook for refining margins going ahead |
| Financials | |
| Banks | We expect loan growth to pick up as economic activity gains momentum, confidence of retail borrowers increases and excess liquidity is taken out. Margin pressure could resume after a period of recovery based on deposit re-pricing. Credit quality is likely to be stable to improving in 2010 if the economic momentum is maintained and capital markets remain supportive. Within that, retail asset quality is likely to get better faster and corporate credit quality could still see some selective deterioration, especially for small borrowers. |
| Real Estate | While we are positive on the L-T prospects of the sector (driven by demographics and demand potential as also local nature of players), we are worried on the N-T prospects. We are more positive on the Mumbai developers market. Demand momentum for mid-end housing may not sustain on high base. Developers should cut prices and focus on execution to drive demand. |
| Health Care | |
| Pharmaceutical & Bio | Significant volume growth potential across markets and the recent trend of declining threat of non-compliance with US FDA norms is also a significant positive. However, competition is intensifying and INR appreciation is main threat for the revenues. |

*Source: Deutsche Bank*

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# Sector summary

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|---|---|
| Industrials | |
| Capital Goods | Based on better demand prospects and bottom-up expectations of new order inflow awards, we now estimate that India could award ~ 95GW of power generation equipment during FY11-13e (over the above 138GW, about 95% of installed capacity, is already under implementation). Payback period of <1 year, easy availability of gas as well as bulk tendering converging at one time for a spike in ordering. Non-tariff barriers imposed by Government of India on project imports as well as upward pricing trend would help domestic equipment suppliers like BHEL, Thermax to benefit significantly. |
| Information Technology | |
| Software | Demand momentum for offshore sourcing of services remains strong, with India as a key destination. With a steady pick-up in global GDP growth, Indian IT services companies will benefit structurally from the increase in outsourcing. We believe growth in the Banking and financial services vertical will continue to be strong in FY11E and manufacturing and telecom vertical should lead this momentum in the latter half of the year. Though currency fluctuations remains a key risk to our positive stance, we believe that Infosys and TCS in particular would operate at the high employee utilisation rates of 80-83% to negate any margin disadvantage. On an average we expect earnings growth in FY11 for the top tier to be in the range of 22-27% against a modest revenue growth of 14-17%. |
| Materials | |
| Building Materials | Cement industry has entered into a cyclical downturn with capacity utilisation likley to fall by 400-500 bps in Fy11e v/s Fy10e. The demand- supply gap across the country is anyway at ~ 12-14%, which is likley to get more adverse with rising production from new units especially of Jaiprakash, Grasim and Ambuja. Despite falling utilisations the industry has seen a rally in cement prices which look largely as a result of production arrangements. We find predictability of pricing to be low especially at a time when utilisation levels are falling and accordingly would recommend underwieght in the sector. Our preference would either be divderisfied plays such as Grasim or Shree Cement which is increasingly deployng capital in the power sector space. |
| Metals & Mining | We believe Indian metals producers are headed into a sweet spot. The confluence of materials intensive growth in India, coupled with captive access to raw materials should result in above trend earnings growth. We remain positive on global commodity prices where a combination of the higher involvement of the financial markets and shifting composition of global growth from less materials intensive, developed markets to the more populous and far higher materials intensive developing markets, will result in higher pricing buoyancy. Our preferences would be companies with captive raw materials and execution capabilities to expand production in line with the structural rise in above trend demand growth. inflation wary government of India remains the only risk for steel producers. |
| Telecoms | We believe investors need to be tactical about telecom sector in 2010. The Indian telecom sector would continue to remain hyper-competitive in 2010 as the "incumbent-entrants" and new entrants continue to expand their networks. The tariff wars which re-ignited in 4QCY09 are likely to continue for the next 12 months. |
| Utilities | Based on better demand prospects and bottom-up expectations of new order inflow awards, we now estimate that India could award ~ 95GW of power generation equipment during FY11-13e (over the above 138GW, about 95% of installed capacity, is already under implementation). Payback period of <1 year, easy availability of gas as well as bulk tendering converging at one time for a spike in ordering. Non-tariff barriers imposed by Government of India on project imports as well as upward pricing trend would help domestic equipment suppliers like BHEL, Thermax to benefit significantly. |

*Source: Deutsche Bank*

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# Sector Positioning

| Overweight | Neutral | Underweight |
|---|---|---|
| Metals | Banks & Financials | Heathcare |
| Industrials | Real Estate | Telecom |
| Automotives | Energy | Consumer Staples |
| IT Services | Utilities | Cement |

*Source: Deutsche Bank*

# Top Picks

| Top Buys | | | | | | | Top Sells | |
|---|---|---|---|---|---|---|---|---|
| Industrial Recovery | | Infrastructure | Domestic Consumption | | | | | |
| Reliance Industries | JSW Steel | BHEL | ITC | ICICI Bank | Maruti | | DRL | Tata Power |
| Tata Motors | | L&T | M&M | Sterlite | JSW Steel | | Ranbaxy | |

*Source: Deutsche Bank*

| Top Mid cap Buys | | | | |
|---|---|---|---|---|
| Aurobindo Pharma | Dabur | Titan | OnMobile | Thermax |

*Source: Deutsche Bank*

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# Top Buys

| Stock | Code | Investment Case | Share Price (INR) | Target Price (INR) | Upside (%) | DB Rec |
|---|---|---|---|---|---|---|
| ICICI Bank | ICBK.BO | We believe ICICI Bank's strategy to correct its funding mix is working already and should improve margins in the medium term. Retail NPLs could be peaking soon resulting in lower credit costs, as the high-risk part of the book is rapidly winding down and other loans seasoning. Since it now appears ready and willing to resume growth, particularly in retail, the impact of the operating leverage arising out of growth, higher margins and lower credit costs could be significant on the bottom line and RoE. The insurance value unlocking theme could resurface in 2010 as the government is likely to take up legal amendments in the next session of Parliament. In view of the above, we rate the stock a Buy. | 953 | 1,050 | 10.2 | Buy |
| Maruti | MRTI.BO | Maruti's recovery in profitability from the lows of FY09 has surprised us on the upside. Strong domestic growth and ramp-up of its exports to Europe should provide the positive catalysts required in the medium term. While increasing competition in the domestic market could impact profitability, the growth in volumes along with a reduction in costs should drive earnings growth. We rate the stock a Buy given the above and the upside potential based upon our target price. | 1,393 | 1,650 | 18.4 | Buy |
| M&M | MAHM.BO | Our Buy recommendation on M&M is based on: 1) Relative strength of the rural market 2) dominant position in its operating niche of utility vehicles and tractors which underpin its profitability and growth. M&M's buoyant volume growth has underlined this dominance as the company continues to increase marketshare and profitability. We have increased our estimates to reflect the improvement in the company's financial metrics which underpins our increased target price. Maintain Buy. | 534 | 660 | 23.5 | Buy |
| ITC | ITC.BO | Worst is over for ITC in terms of excise duty hike and state VAT increases which was a big event risk for the company. High excise duty hike is now factored in the price and with 4 states (AP, UP, Bihar and Chattisgarh) declaring their budgets with a VAT hit in only one of the relatively smaller states we believe that the event risk for ITC is behind us. We expect the hike in the Central excise duty to be passed on with a hike in cigarette prices. Every double digit hike in excise has led to a volume decline and we expect FY11 to be no different. Historically, ITC has sacrificed volumes but maintained per stick profitability and a hike in excise is relatively better than a higher VAT. Buy with TP of INR 295 | 264 | 295 | 11.7 | Buy |
| BHEL | BHEL.BO | Our Buy rating is premised on: (1) a new phase of capex is likely to kick off with India likely to award 95GW of capacity between FY11-13e, notwithstanding the 138GW (95% of installed capacity) under implementation; (2) reduced international competition from high non-tariff barriers such as labour, specifications that could drive up BHEL's market share as well as long-term EBITDA margins; accordingly, our revised order inflow forecast for FY11e is 40% higher than FY10e; (3) We believe BHEL management could protect market share by picking up minority interest in projects, which would also ensure sustainability of margins in the medium term (4) a capacity increase would enhance production milestones resulting in faster revenue recognition | 2,416 | 3,000 | 24.2 | Buy |

*Source: Deutsche Bank*

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# Top Buys (contd…)

| Stock | Code | Investment Case | Share Price (INR) | Target Price (INR) | Upside (%) | DB Rec |
|---|---|---|---|---|---|---|
| L&T | LART.BO | We believe L&T should remain a core infrastructure play with dynamics closely linked to the Indian economy. India's 6% GDP growth, one of the highest in the world, would entail significant benefit for L&T. Also, L&T should benefit from up scales in manufacturing capacity in power equipment, forging, defence and ship building. Our earnings estimates play largely on infrastructure capex pick up suggest EPS CAGR of 24% over FY09-12e. | 1,651 | 1,770 | 7.2 | Hold |
| Tata Motors | TAMO.BO | Tata Motors' consolidated profitability has significantly improved over the last six months due to better-than-expected recovery in Jaguar Land Rover (JLR) and continued buoyancy in the India business. We believe that the improvements in JLR are sustainable and that the continuing measures by management can yield further benefits. Management's accelerated move to deleverage the balance sheet is an additional positive, in our view. We rate the shares Buy. | 778 | 900 | 15.7 | Buy |
| Reliance Industries | RELI.BO | We rate the stock a Buy as we see significant upside potential owing to : 1) the ramp-up in gas, refining volumes from KG D6/new Jamnagar refinery boosting earnings to 35.1% CAGR over FY10-12e; and 2) the potential re-rating from thrust on E&P and reinvestment of cash for growth and acquisitions. Also, in the longer term, the annuity earnings from KG D6 gas are likely to de-risk RIL from cyclical earnings in refining/petrochemicals. | 1,092 | 1,235 | 13.1 | Buy |
| JSW Steel | JSTL.BO | We are initiating coverage on JSW Steel with a Buy rating and target price of Rs1,500/share, implying total return upside of 21% from current levels. Our Buy rating is premised on the following (1) 48% CAGR in consolidated earnings over FY10-12 driven by aggressive organic growth at JSW's flagship Vijayanagar plant, (2) reduction in operating costs and value addition from enhanced product mix, (3) potential to reduce its cost disadvantage relative to Tata Steel India – among the world's lowest cost producers of steel – by raising raw material self sufficiency. In the immediate term, investors will also be assessing the ability of steel companies to pass on steel making raw material costs. | 1,236 | 1,500 | 21.4 | Buy |
| Sterlite | STRL.BO | Our Buy rating is premised on three key factors: (1) a 54% CAGR in earnings over FY10-FY12 driven by an aggressive organic growth pipeline in high return zinc business, (2) potential to unlock further value by buying out the government's minority stakes in Balco and Hindustan Zinc and value unlocking in Sterlite Energy where Sterlite owns 100% of equity, and (3) attractive valuation - stock trades at a discount to the valuation of its global peers. Sterlite is building the strategic architecture to achieve global scale efficiencies in its aluminum, zinc and power businesses. We believe this will allow the company to create a sustainable first mover advantage as a local company with global scale in the world's most unique and compelling metals geography. | 857 | 962 | 12.3 | Buy |

*Source: Deutsche Bank*

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# Model Portfolio

| Company | DB Rec | Close INR | Mcap USD Mn | MSCI wt. | DB wt. | O/U wt. | P/E (x) FY10e | P/E (x) FY11e | EPS Gth (%) FY10e | EPS Gth (%) FY11e | P/BV (x) FY10e | P/BV (x) FY11e | ROE (%) FY10e | ROE (%) FY11e |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **CONSUMER DISCRETIONARY** | | | | **4.7** | **7.0** | **235 bps** | | | | | | | | |
| M&M | Buy | 534 | 6,880 | 1.3 | 3.5 | 221 bps | 16.9 | 15.0 | 83.2 | 12.7 | 4.2 | 3.4 | 30.4 | 25.9 |
| Maruti | Buy | 1,393 | 8,961 | 0.8 | 3.0 | 217 bps | 18.9 | 15.2 | 57.9 | 24.6 | 3.6 | 3.0 | 21.2 | 21.5 |
| Titan | Buy | 1,873 | 1,851 | | 0.50 | 50 bps | 36.4 | 29.3 | 28.7 | 24.4 | 10.9 | 8.4 | 34.2 | 32.4 |
| **CONSUMER STAPLES** | | | | **5.2** | **3.5** | **-167 bps** | | | | | | | | |
| ITC | Buy | 264 | 22,441 | 2.5 | 3.5 | 100 bps | 25.2 | 22.5 | 18.4 | 12.0 | 6.2 | 5.4 | 26.3 | 25.7 |
| **ENERGY** | | | | **15.9** | **15.5** | **-40 bps** | | | | | | | | |
| Reliance Industries | Buy | 1,092 | 79,509 | 12.4 | 15.5 | 314 bps | 22.1 | 14.5 | -0.4 | 52.2 | 2.6 | 2.2 | 20.2 | 16.7 |
| **FINANCIALS** | | | | **24.5** | **24.0** | **-45 bps** | | | | | | | | |
| Axis Bank | Hold | 1,174 | 10,569 | 2.24 | 2.50 | 26 bps | 18.0 | 16.8 | 25.7 | 7.3 | 2.9 | 2.5 | 18.5 | 16.1 |
| HDFC | Hold | 2,783 | 17,779 | 5.1 | 5.5 | 44 bps | 28.9 | 25.9 | 17.5 | 11.8 | 5.2 | 4.6 | 19.3 | 19.2 |
| HDFC Bank | Buy | 1,939 | 19,762 | 4.6 | 5.0 | 35 bps | 27.0 | 22.4 | 27.7 | 20.2 | 3.8 | 3.4 | 16.0 | 16.0 |
| ICICI Bank | Buy | 953 | 23,641 | 6.4 | 9.0 | 260 bps | 25.1 | 17.7 | 9.0 | 41.9 | 2.0 | 1.8 | 8.0 | 10.6 |
| DLF | Hold | 312 | 11,775 | 1.1 | 1.0 | -9 bps | 29.4 | 22.3 | -69.0 | 31.9 | 2.0 | 1.9 | 7.1 | 8.8 |
| HDIL | Buy | 290 | 2,234 | 0.3 | 1.0 | 70 bps | 22.6 | 12.5 | -53.5 | 80.2 | 1.6 | 1.4 | 8.3 | 11.8 |
| **HEALTH CARE** | | | | **3.6** | **0.0** | **-361 bps** | | | | | | | | |

*Source: Deutsche Bank*

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# Model Portfolio (contd…)

| | DB | Close | Mcap | MSCI | DB | | P/E (x) | | EPS Gth (%) | | P/BV (x) | | ROE (%) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Rec | INR | USD Mn | wt. | wt. | O/U wt. | FY10e | FY11e | FY10e | FY11e | FY10e | FY11e | FY10e | FY11e |
| **INDUSTRIALS** | | | | 9.6 | 13.0 | 342 bps | | | | | | | | |
| L&T | Hold | 1,651 | 22,130 | 2.9 | 4.5 | 160 bps | 27.3 | 22.4 | 2.3 | 22.2 | 4.8 | 3.9 | 26.6 | 19.4 |
| BHEL | Buy | 2,416 | 26,328 | 2.4 | 5.0 | 256 bps | 27.3 | 20.4 | 35.7 | 33.7 | 7.2 | 5.7 | 29.3 | 31.1 |
| Tata Motors | Buy | 778 | 8,948 | 1.45 | 3.00 | 155 bps | 43.6 | 13.2 | NA | 229.4 | 6.0 | 4.2 | 15.7 | 40.3 |
| Thermax | Buy | 701 | 1,859 | | 0.5 | 50 bps | 29.3 | 22.0 | -4.5 | 33.5 | 7.0 | 5.8 | 25.8 | 28.8 |
| **INFORMATION TECHNOLOGY** | | | | 16.6 | 17.8 | 122 bps | | | | | | | | |
| Infosys | Buy | 2,670 | 34,115 | 10.5 | 12.3 | 173 bps | 25.0 | 19.7 | 5.7 | 27.1 | 7.0 | 5.7 | 30.6 | 31.7 |
| TCS | Buy | 808 | 35,199 | 3.3 | 5.0 | 173 bps | 24.0 | 19.4 | 28.5 | 24.0 | 8.6 | 7.5 | 38.9 | 41.5 |
| Onmobile | Buy | 397 | 517 | | 0.50 | 50 bps | 20.4 | 15.2 | 28.2 | 34.3 | 2.7 | 2.3 | 14.6 | 16.7 |
| **MATERIALS** | | | | 13.1 | 14.4 | 133 bps | | | | | | | | |
| JSW Steel Ltd | Buy | 1,236 | 5,149 | 0.8 | 3.0 | 219 bps | 14.8 | 11.9 | 47.7 | 24.2 | 2.6 | 2.1 | 18.8 | 19.3 |
| Sterlite | Buy | 857 | 16,024 | 2.8 | 5.0 | 221 bps | 15.9 | 8.6 | 11.3 | 85.5 | 1.9 | 1.6 | 13.0 | 20.2 |
| Tata Steel | Buy | 652 | 12,882 | 1.6 | 3.0 | 141 bps | 306.6 | 8.6 | -98.1 | 3472.0 | 4.1 | 3.1 | -3.2 | 21.2 |
| Sesa Goa Ltd | Buy | 473 | 8,285 | 1.33 | 1.90 | 57 bps | 16.1 | 7.9 | 15.9 | 104.9 | 5.1 | 3.2 | 39.0 | 50.1 |
| SAIL | Buy | 252 | 23,182 | 1.0 | 1.5 | 51 bps | 14.6 | 10.8 | 5.5 | 35.5 | 2.9 | 2.4 | 21.3 | 24.1 |
| **TELECOMMUNICATION SERVICES** | | | | 1.3 | 0.0 | -126 bps | | | | | | | | |
| **UTILITIES** | | | | 5.7 | 4.8 | -92 bps | | | | | | | | |
| GVK Power & Infra. | Buy | 45 | 1,579 | | 1.0 | 100 bps | 33.1 | 16.2 | 67.9 | 104.8 | 2.1 | 1.8 | 6.9 | 11.9 |
| NTPC | Buy | 208 | 38,127 | 1.6 | 3.8 | 220 bps | 17.9 | 16.1 | 14.7 | 11.4 | 2.6 | 2.4 | 15.4 | 15.7 |

*Source: Deutsche Bank*

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# India poised for higher GDP growth - fired by both consumption and investment engines

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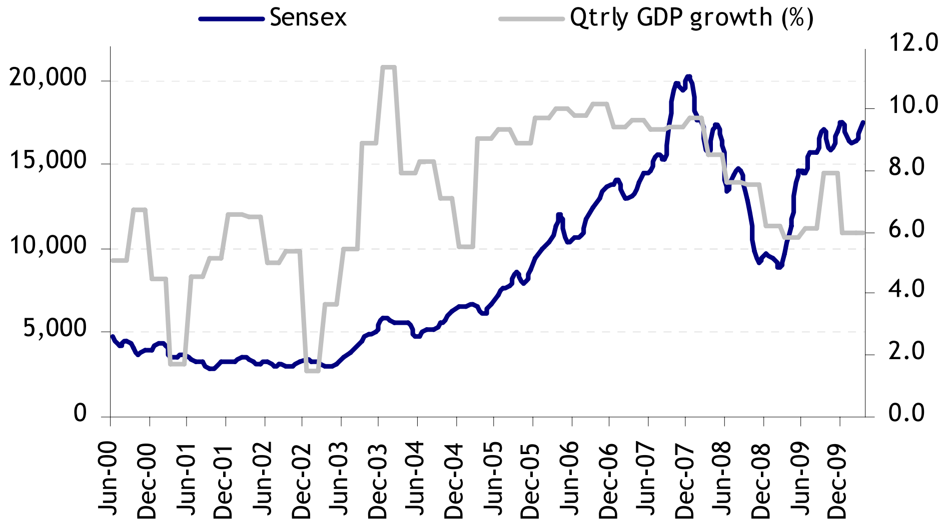
# Growth gaining deeper roots

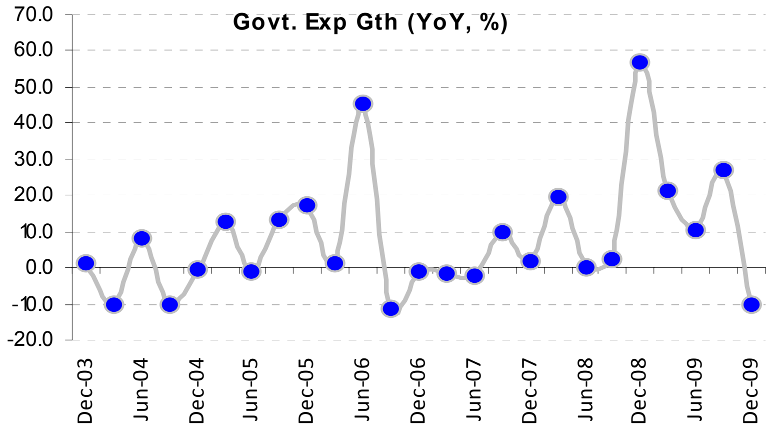
## Sensex and GDP growth – strong association




*Source: Deutsche Bank, CMIE, CSO*

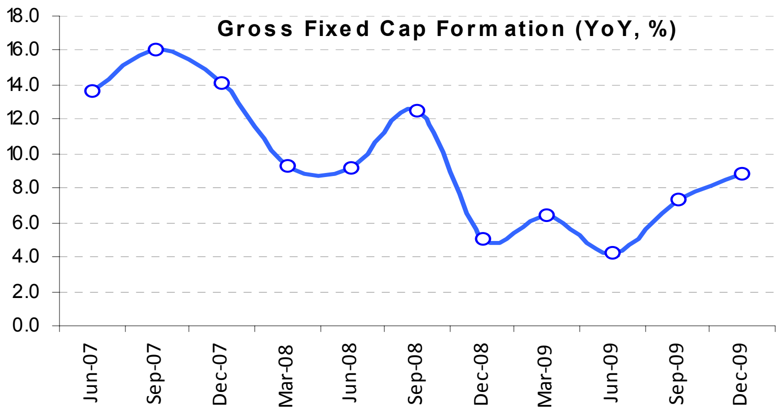
- **We might have seen the last of low growth numbers in Dec-09; PM's economic advisor expects GDP growth to average 8.5% in next 5 quarters**
- **Rising minimum wages, rising disposable personal incomes and turnaround in job market are key to driving GDP growth**
- **We expect the consumption dynamic to remain strong due to rising prosperity across the country driven by above trend growth in hinterland**
- **We expect PFCE to start accounting for higher share in GDP growth as stimulus starts to recede**

## Govt. expenditure on a gradual decline




*Source: Deutsche Bank, CMIE, CSO*

## Capital formation gaining momentum




*Source: Deutsche Bank, CMIE, CSO*

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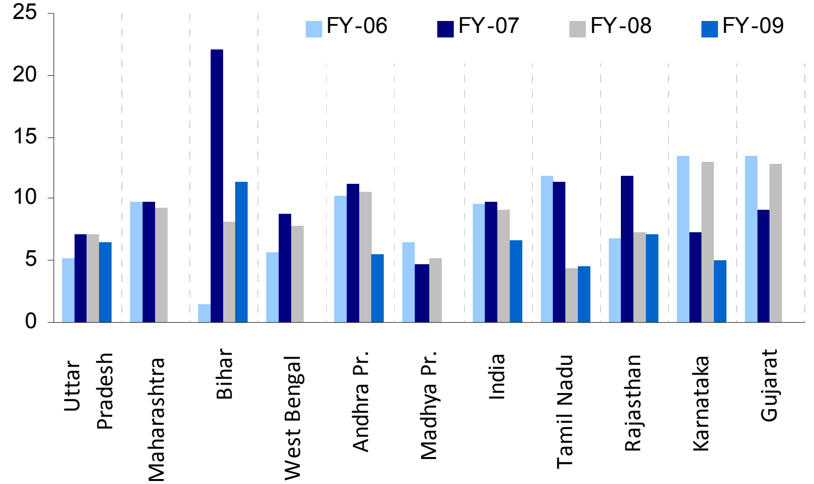
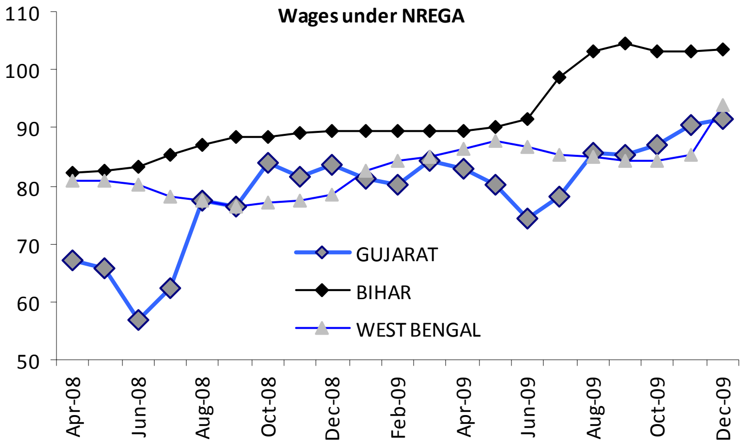
# Inclusive GDP growth unfolding a paradigm shift

## GDP growth rates in key populous states




*Source: Deutsche Bank, CSO*

## Trend in wages under NREGA




*Source: Deutsche Bank, www.nrega.gov.in*

- Importantly, India's growth in the current cycle has also turned more inclusive with the hinterland states – traditionally regarded as laggards, showing rising GDP growth
- Wages paid under the government's NREGA scheme has moved up very sharply, thus handing over purchasing power to the rural poor
- With rising prosperity across the country driven by above trend growth in the hinterland (Bihar, Gujarat, etc), we expect consumption dynamic to remain strong and continue driving consumption, across India

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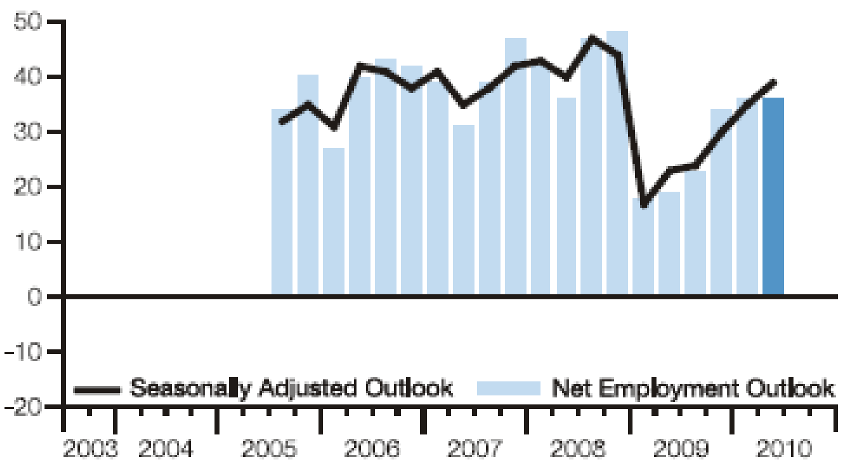
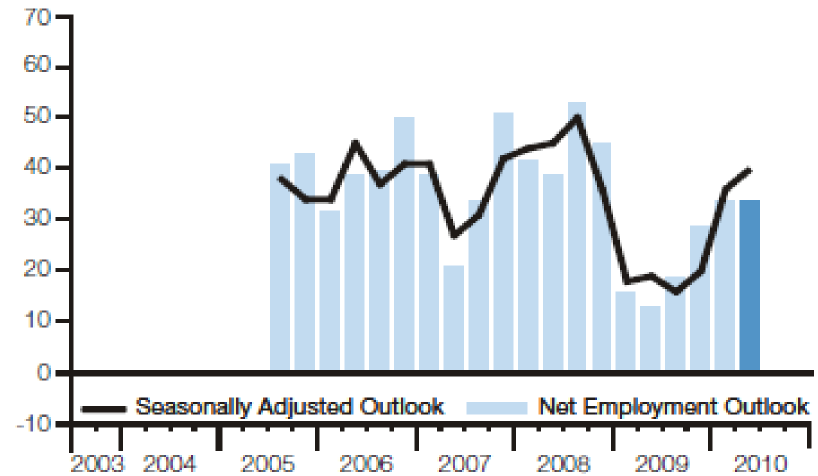
# Labor market - hiring and pay-scale on an upswing

## Employment outlook across India




*Source: Manpower Employment Outlook Survey, 2Q 2010*

## Employment outlook in financial services




*Source: Manpower Employment Outlook Survey, 2Q 2010*

- Job scenario in Indian private sector is clearly improving. Latest Manpower survey on employment outlook concludes that India continues to be the most optimistic nation on hiring plans over next three months
- Payments and bonuses across sectors have witnessed significant yoy hike while companies especially in IT & Financial services and consumer durable goods manufacturers have plans to hire strongly
- We believe an improving job outlook along with higher pay scales will drive the consumption sentiment, specially as strong momentum is seen in sectors in which employees display strong consumption propensity

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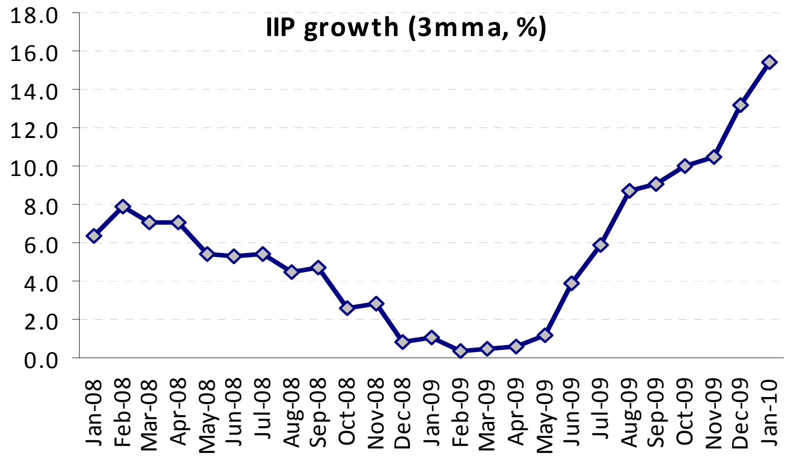
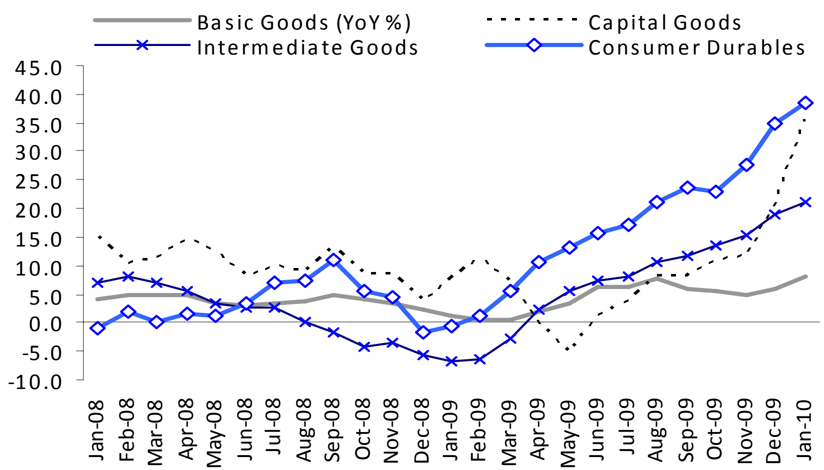
# IIP: Capital Goods also join in high growth bandwagon

## IIP growth (3mma, %)




*Source: Deutsche Bank, Bloomberg*

## Growth in components of IIP (3mma, %)




*Source: Deutsche Bank, Bloomberg*

- Over the past six months, industrial production has grown by an average of 13%, hinting at the strong industrial recovery already underway
- The strong momentum in IIP growth has sustained strongly into 2010, with Jan-10 growth coming in at 16.7%, on top of 17.6% growth in Dec-09
- Consumer Durables has been the best performing segment with 6 month average growth of 31%, while capital goods has now started to catch up with a stellar 56% yoy growth in Jan-10. Consumer Non durables however, continues to lag behind

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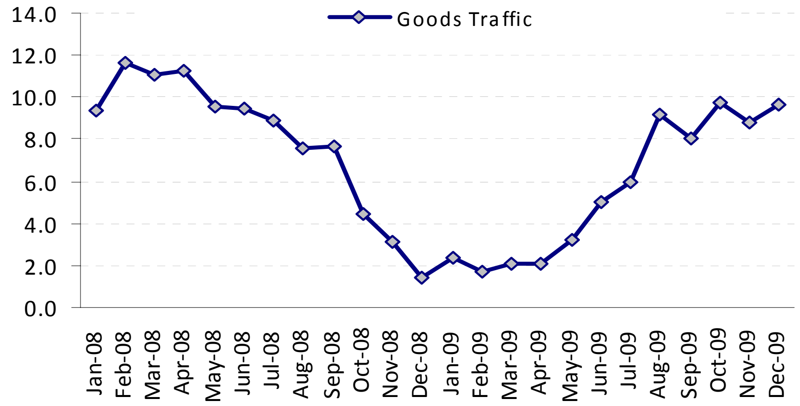
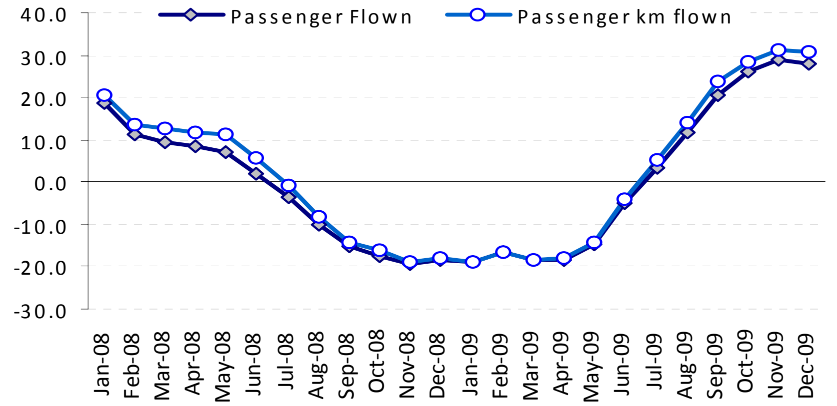
# Leading indicators show robust strength in consumption

## Railways operational metrics (3mma, yoy%)



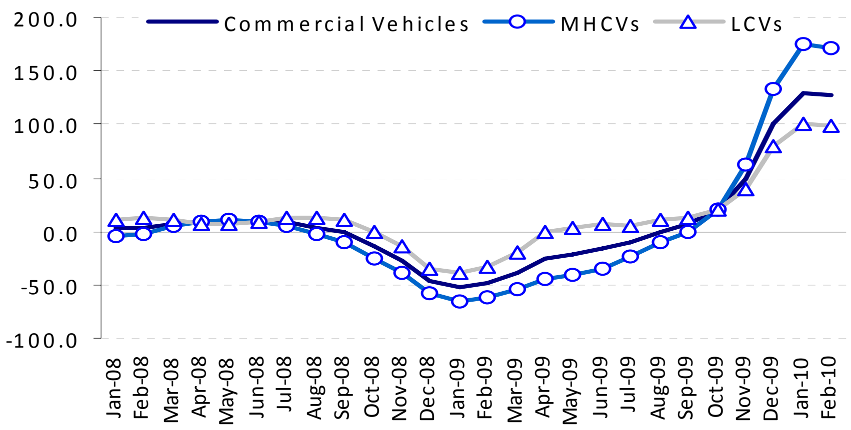

*Source: Deutsche Bank, CMIE*

## Airlines operational metrics (3mma, yoy%)



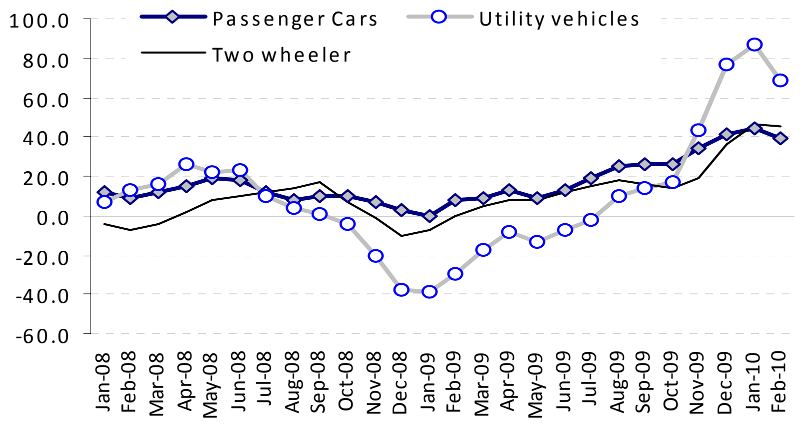

*Source: Deutsche Bank, CMIE*

## Growth trend in CVs (3mma, yoy%)




*Source: Deutsche Bank, CMIE*

## Growth trend in 4W-2W (3mma, yoy%)




*Source: Deutsche Bank, CMIE*

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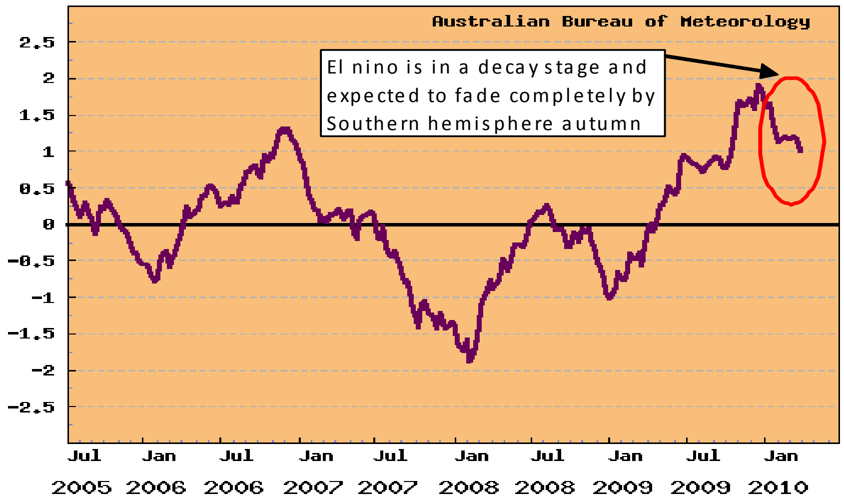
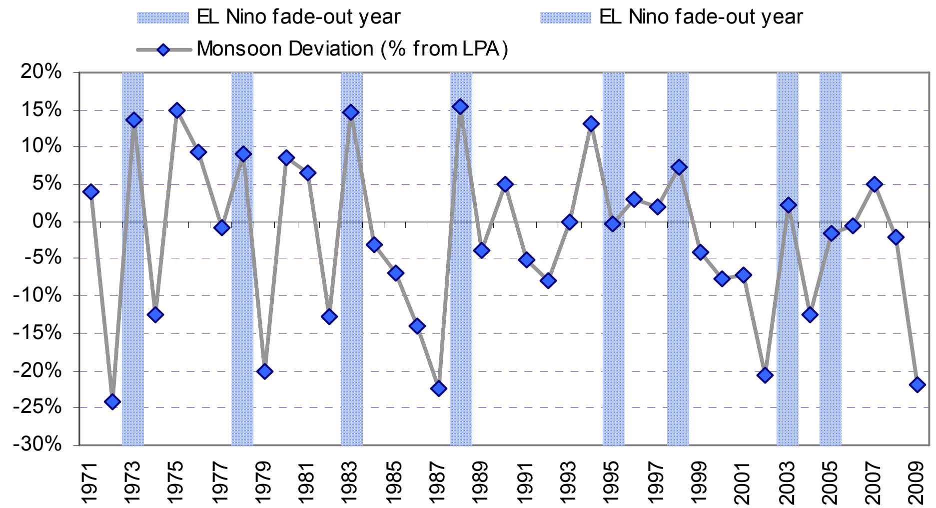
# Concerns over monsoon and agri GDP seem premature

## El Nino is fading out…




*Source: Australian Bureau of Meteorology*

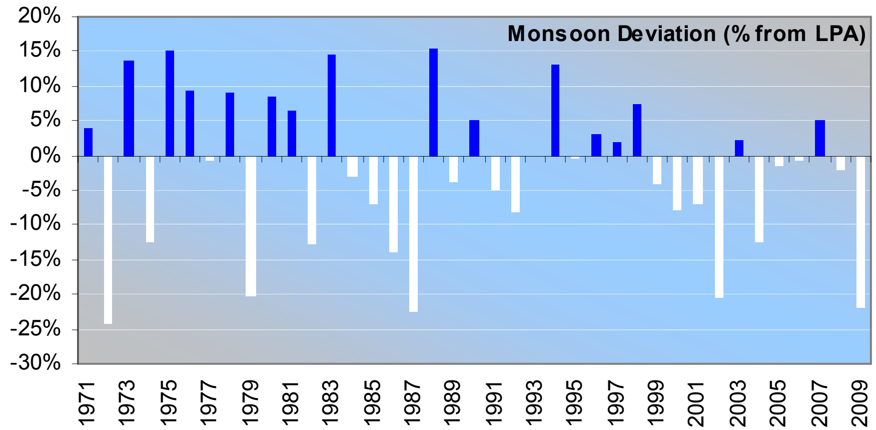
## … and should be beneficial for monsoon




*Source: CMIE, Australian Bureau of Meteorology*

- Although pre monsoon rainfall is deficient, we believe it is still premature to infer a deficient monsoon in 2010
- El Nino is expected to fade completely by May 2010
- A fading El Nino is typically suggestive of a normal or above-normal monsoon season for Indian peninsula
- Besides, two successive years of a meaningfully deficient monsoon is a rare occurrence –last seen in 1986 and 1987
- Hence our belief that current concerns over a monsoon driven weakness in GDP and equity market seem unfounded and premature

## Monsoon’s deviation from normal




*Source: CMIE*

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# Investment cycle set to turn around

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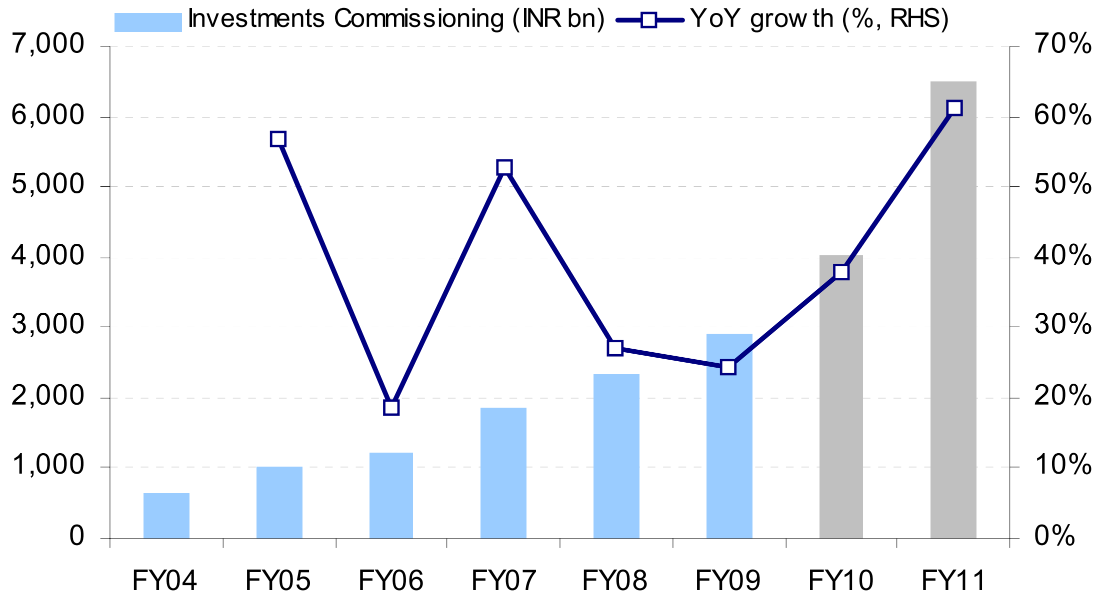
# Very high capacity commissioning expected in FY11




*Source: Deutsche Bank, CMIE*

- CMIE, an independent think tank on the economy, estimates that projects worth INR6500bn (~US$145bn) are scheduled to be commissioned in FY11
- This will be the highest ever annual capacity commissioning in the history of corporate India
- Infrastructure segment is expected to account for highest share of incremental capacity creation
- Electricity should account for >20% of the total capacity commissioning
- This is in line with our view that investment cycle is set to return, and leading to earnings upgrades

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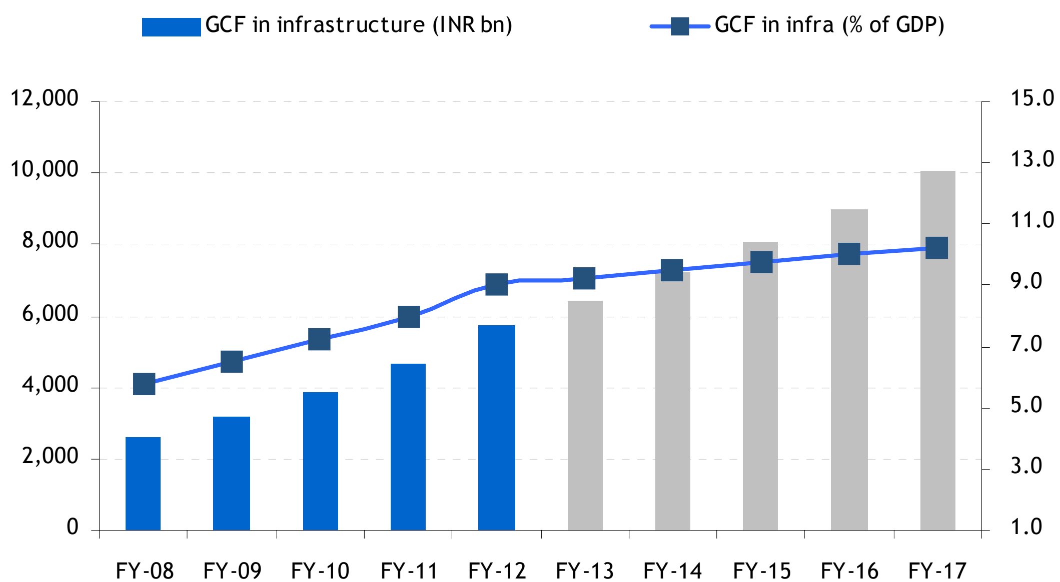
# Looking beyond the Eleventh Plan




*Source: Planning Commission of India*

- Planning commission estimates that the GCF in infrastructure could be much higher at ~INR45750bn (~US$1000bn) in the XIIth Plan, with the GCF in Infra rising to 10.25% of GDP by the end of the XIIth plan
- This would imply a doubling of the plan investments in infrastructure over the XIth 5-year plan

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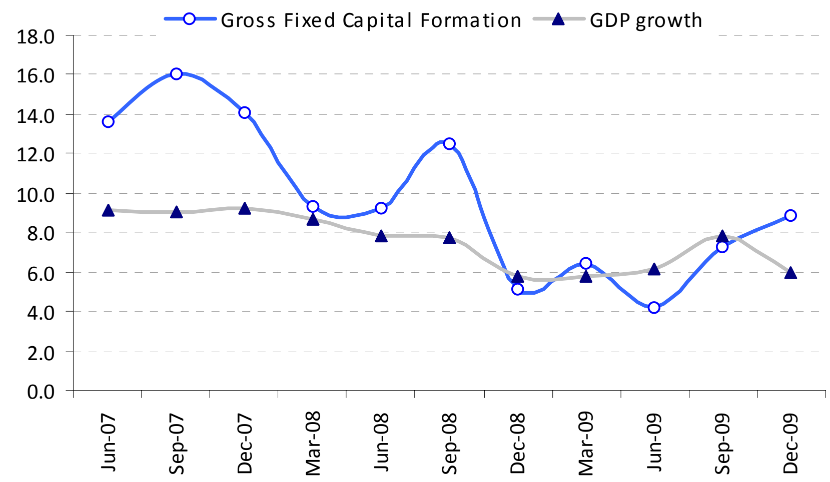
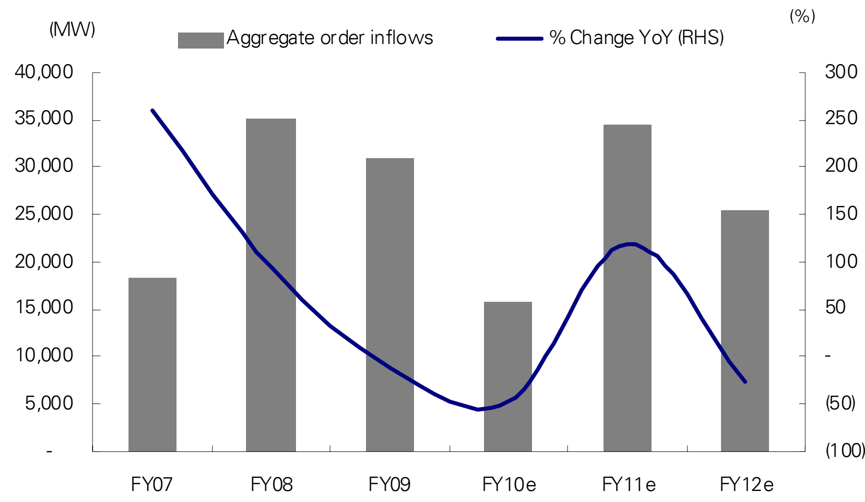
# Return of the capex cycle

## GDP and GFCF growth (3mma, yoy%)




*Source: Deutsche Bank, CMIE, CSO*

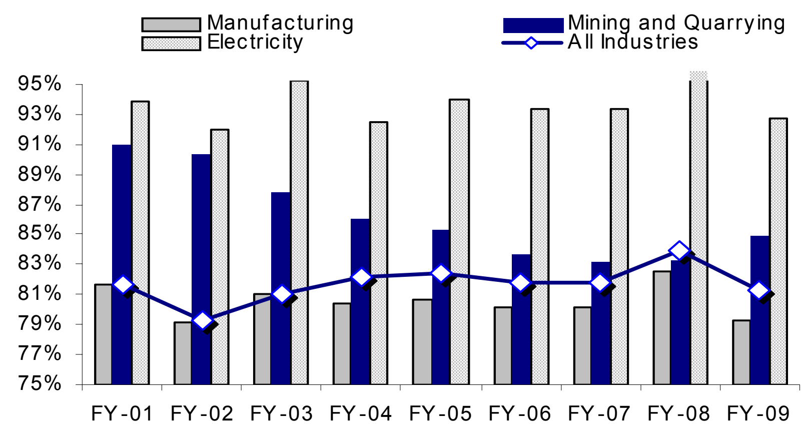
## Order growth of power equipments




*Source: Deutsche Bank, Ministry of Power, CERC, Central Electricity Authority*

- **Private capex should be fortified by governmental push for infrastructure**
- **Indian companies' capex plans which had recoiled during the global liquidity crisis, seem at the threshold of a new upswing**
- **Capacity utilization has started to creep up in FY10 and may lead to higher capex if demand remains robust**
- **Going forward, we expect Indian power generation equipment market to witness a trend reversal. India could award ~95GW of equipment supplies over FY11-13e with ~35GW coming in FY11e.**

## Capacity utilization in the economy




*Source: RBI*

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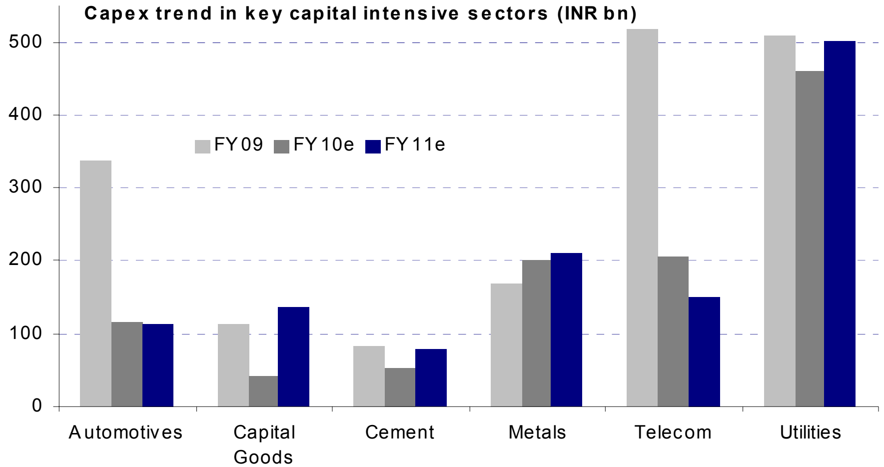
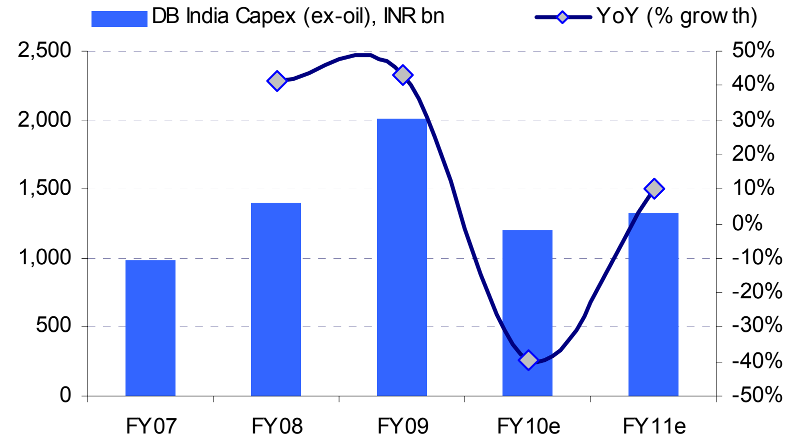
# Revival of capex apparent in DB India universe

## Capex in capital intensive sectors (DB univ)




Source: Deutsche Bank

## Overall Capex trend




Source: Deutsche Bank

- Ex-oil & gas the growth in capex intentions is witnessing a turnaround after in FY11e after declining 38% in FY10.
- Metals and Utilities to account for significant increase in capex, while Telecom capex would be constrained due to raging pricing pressure
- Rising capex should also lead to higher credit demand and our economics team believes that the currently moderate credit growth will likely move up to >20% in the second half of FY11.

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# High growth likely to allay fiscal deficit concerns

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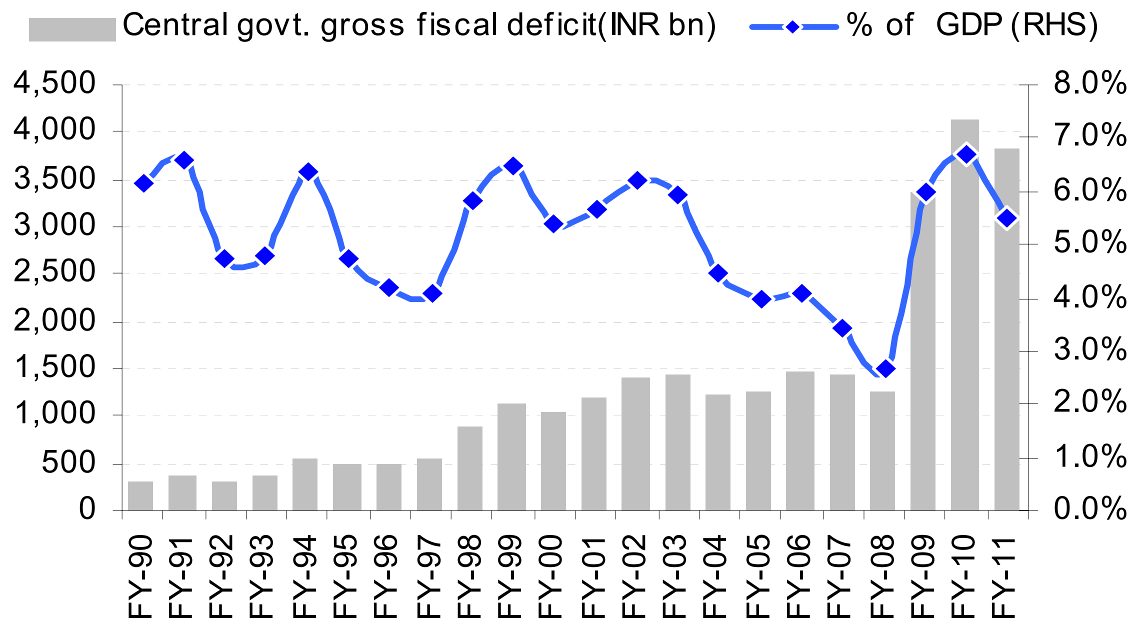
# Govt. banking on rising growth trajectory to allay fiscal concerns




*Source: Deutsche Bank, CMIE*

- High growth should lead to a cyclical rebound in tax collections and lesser need to pump prime; this should keep fiscal deficit from ratcheting upwards sharply
- Empirical analysis corroborates the thesis that fiscal deficit (as % of GDP) eases during high growth period
- Absolute fiscal deficit tended to be flat in times of rising or high GDP growth (i.e FY94-97 and FY04-08), while it increases in times of flattish GDP growth (i.e. FY98-03)

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# Disinvestments to also help allay fiscal worries

## List of qualifying listed PSUs with 90%+ govt.

| | Govt. Stake (%) | PAT (INR cr) | Stake to be divested | Mkt Cap (US$mn) | Amt that can be raised (US$ mn) |
|---|---|---|---|---|---|
| Ircon International Ltd. | 99.7 | 140 | 9.7 | 33 | 3.0 |
| MMTC Ltd. | 99.3 | 200 | 9.3 | 37,448 | 3494.0 |
| Haryana Financial Corpn. | 99.3 | 1 | 9.3 | 86 | 8.0 |
| National Fertilizers Ltd. | 99.2 | 97 | 9.2 | 689 | 63.0 |
| Maharashtra Elektrosmelt Ltd. | 99.1 | 41 | 9.1 | 261 | 24.0 |
| Fertilizers and Chemicals, Travancore Ltd. | 98.1 | 43 | 8.1 | 304 | 25.0 |
| Andrew Yule & Co. Ltd. | 94.4 | 5 | 4.4 | 414 | 18.0 |
| Neyveli Lignite Corpn. Ltd. | 93.6 | 820 | 3.6 | 5,566 | 198.0 |
| Rashtriya Chemicals & Fertilizers Ltd. | 92.5 | 212 | 2.5 | 877 | 22.0 |
| State Bank of Mysore | 92.3 | 335 | 2.3 | 475 | 11.0 |
| India Tourism Dev. Corp. Ltd. | 92.1 | 44 | 2.1 | 195 | 4.0 |
| Engineers India Ltd. | 90.4 | 345 | 0.4 | 1,706 | 7.0 |

*Source: Deutsche Bank, CMIE*

- We are excited with the momentum that the government's disinvestment plan is gathering
- Apart from the listed PSUs (with 90%+ govt. holding), the government can tap into few unlisted PSUs, which can potentially become large cap companies upon listing (such as Coal India). Besides the govt. has also announced its intentions to offload stakes in few other listed but relatively more actively traded PSUs such as SAIL.
- In line with our view the government's disinvestment target has been raised materially higher to INR400bn (~US$8.7bn) for FY11
- However, a key challenge remains in actualising the lofty disinvestment target. We believe it is feasible, but pricing needs to be made much for attractive for qualitatively-better absorption

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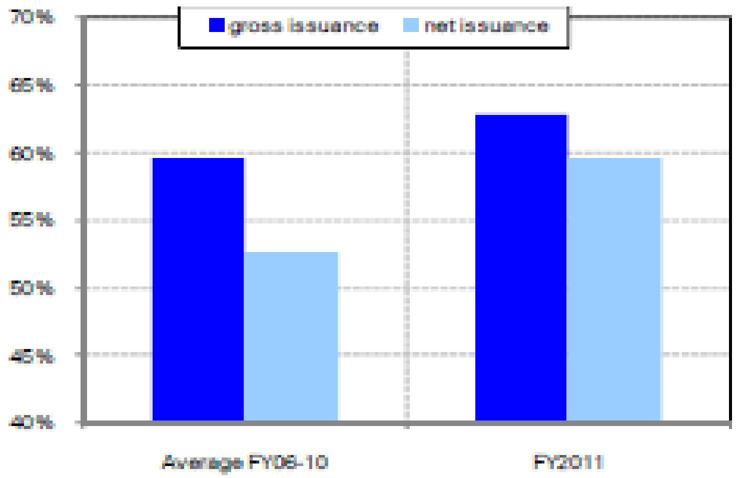
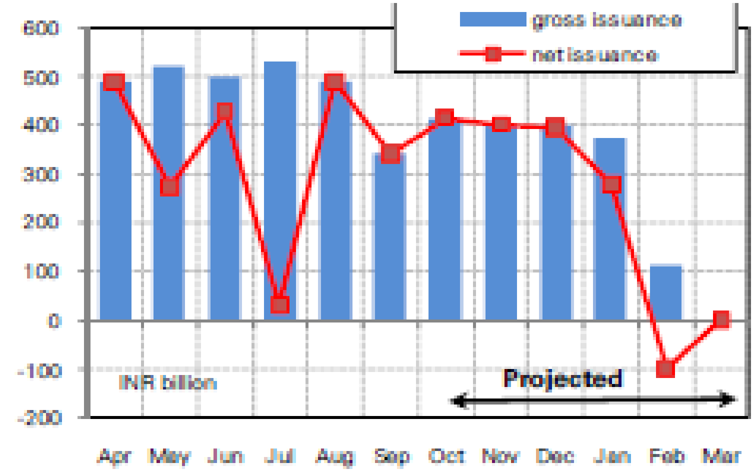
# Govt. 1H borrowing program throws up positive surprise

## Issuance front loading %- lower than est.




*Source: Deutsche Bank, Reserve Bank of India*

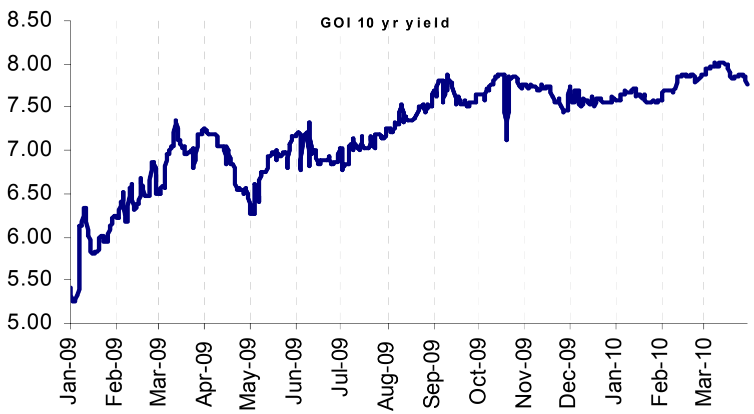
## Issuance outlook for FY11




*Source: Deutsche Bank, Reserve Bank of India*

- GOI to raise only 63% of its FY11 gross borrowing program (~US$100bn) in first half. This was lower than consensus est. - thus easing pressure on bond yield for near term
- However, the issue has only been postponed to 2H and our rates team reckons that the 10Yr yield should grind upwards to 8.5%.
- BUT, a positive surprise on actualizing US$8bn of disinvestment target, higher cyclical rebound in tax collections and an earlier moderation in inflation could partially allay concerns of 2H

## Bond yield declined post announcement




*Source: Deutsche Bank, Bloomberg*

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# Union Budget: good balance between prudence and profligacy

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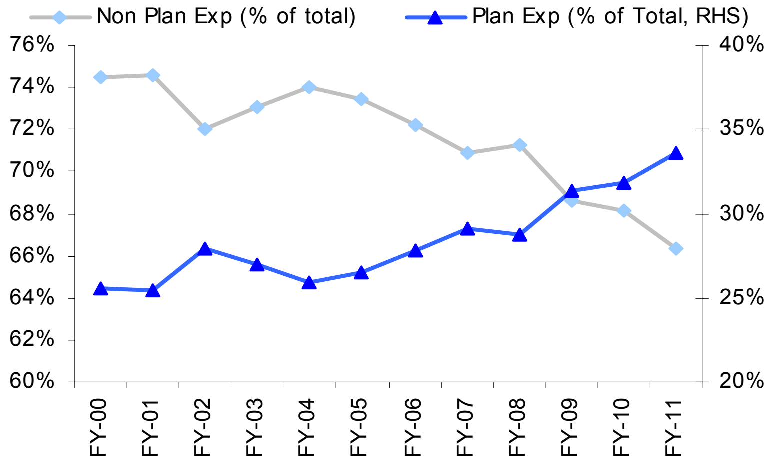
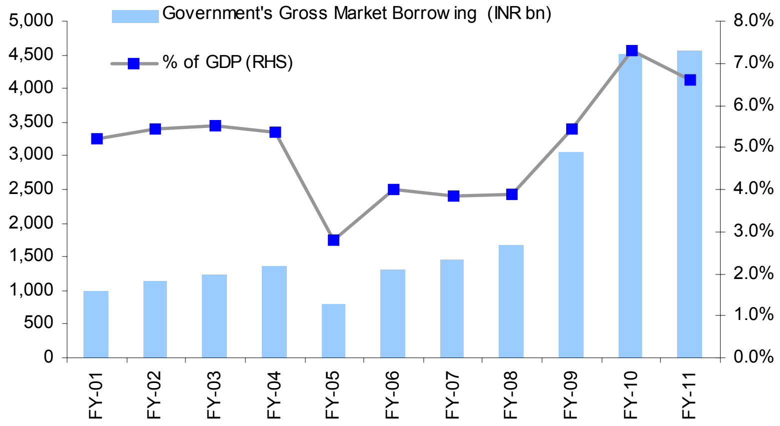
# Union Budget: underscoring FM's growth bias

## Share of Non Plan expenditure's declining




*Source: Deutsche Bank, Finance Ministry*

## Govt's borrowing falling as % of GDP




*Source: Deutsche Bank, Finance Ministry*

- Union budget achieved a fine balancing act by continuing to focus on domestic consumption but simultaneously showing a credible fiscal consolidation path
- The FM continued to focus on quality of expenditure by further lowering the share of non-plan expenditure in overall expenditure.
- Few other progressive steps were : (i) bringing oil subsidies on budget, (ii) exhibiting intent to decontrol the oil prices, (iii) setting a disinvestment target of INR400bn (~US$8.7bn) – if achieved this will be the highest ever annual mobilisation from disinvestments

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# Monetary tightening: we do not see risk of policy error

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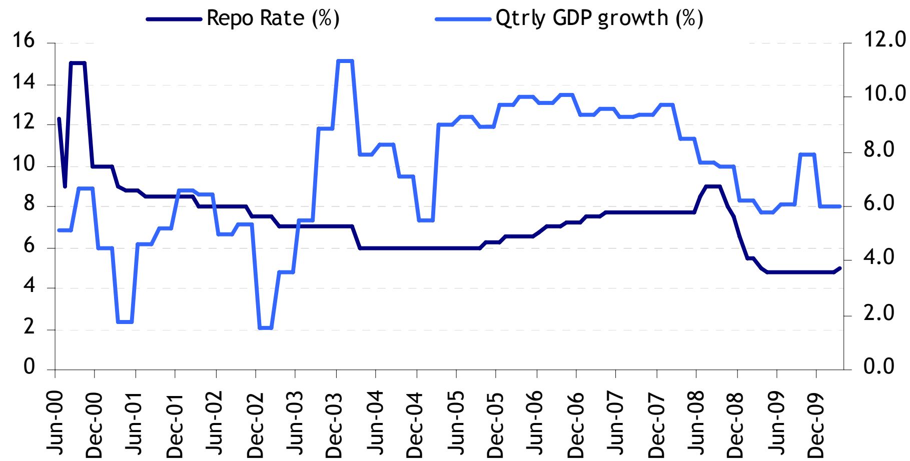
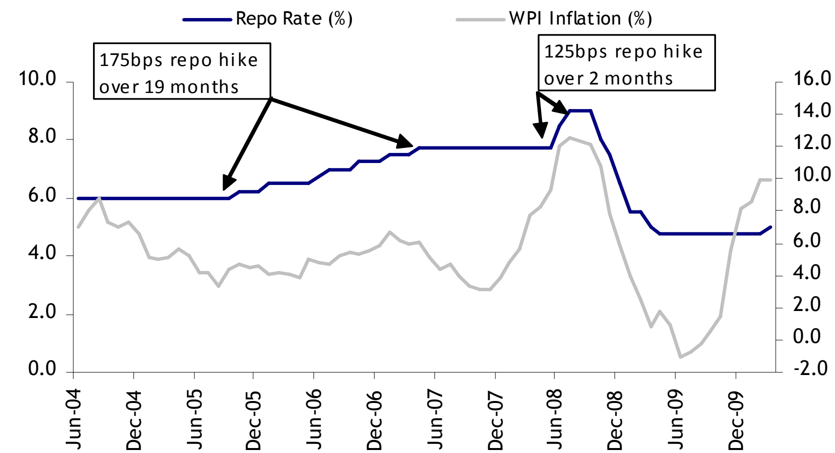
# Despite rate hikes, monetary conditions are still easy and…

## Repo rate and the GDP growth



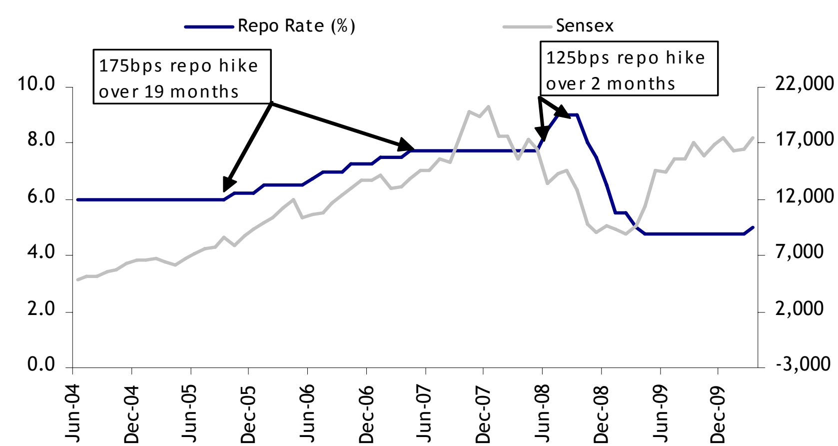

*Source: Deutsche Bank, Bloomberg*

## Repo rate and WPI inflation




*Source: Deutsche Bank, Bloomberg*

## Repo rate and Sensex




*Source: Deutsche Bank, Bloomberg*

- **We are not unduly concerned over earlier tightening and agree with governor's view that monetary policy should now recalibrate to high growth environment**
- **Although RBI may sacrifice a bit of growth in the near term, a gradual tightening of policy rates will prevent economy from over heating, reducing probability of hard landing**
- **Historically, a gradual and prolonged tightening has meant a strong growth environment and positive equity returns**
- **However, sharp tightening has been mainly indicative of high inflation and has been negative for equities**
- **WHAT DOES THE CURRENT ENVIRONMENT IMPLY?**

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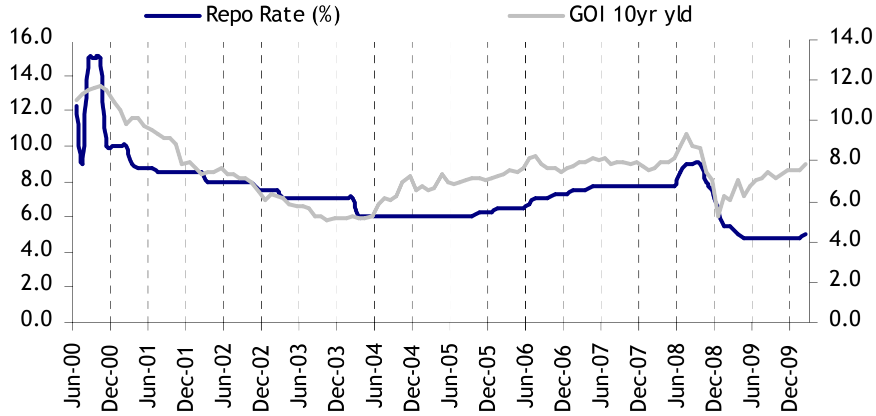
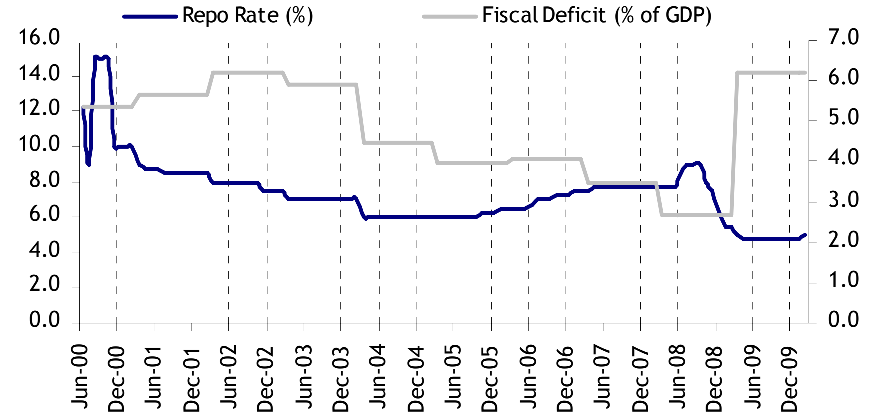
# …needs to realign with the expected high-growth-phase

## Repo rate and GOI bond yield




*Source: Deutsche Bank, Bloomberg*

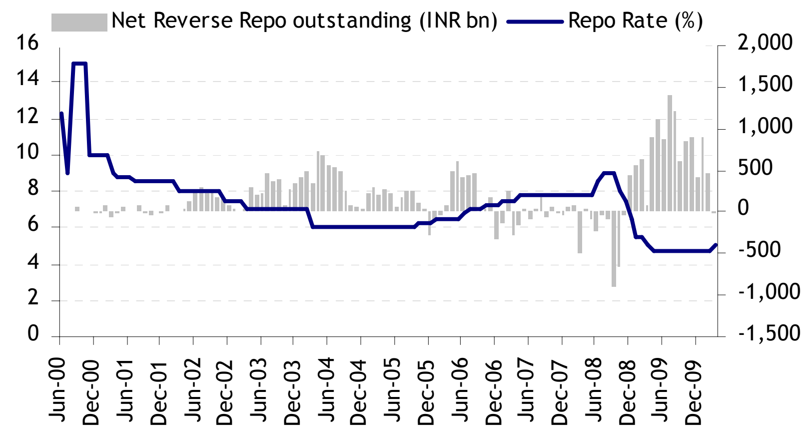
## Repo rate and fiscal deficit




*Source: Deutsche Bank, Bloomberg*

- …we believe tightening in current environment is mainly driven by inflationary concerns, BUT,
- We do not expect sharp hikes in policy rates, as government would want to normalize growth
- Concerns over bond yields, though valid, seem exaggerated
- Taylor rule implies a neutral policy rate of 6-6.25%, meaning a further rate hike of 100-125bps without much disruption to growth environment
- However, a higher sustained inflation (>7%) could force RBI's hands to hike even more aggressively - an unlikely scenario in our view

## Repo rate and net repo amount




*Source: Deutsche Bank, Bloomberg*

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# Valuations and Earnings

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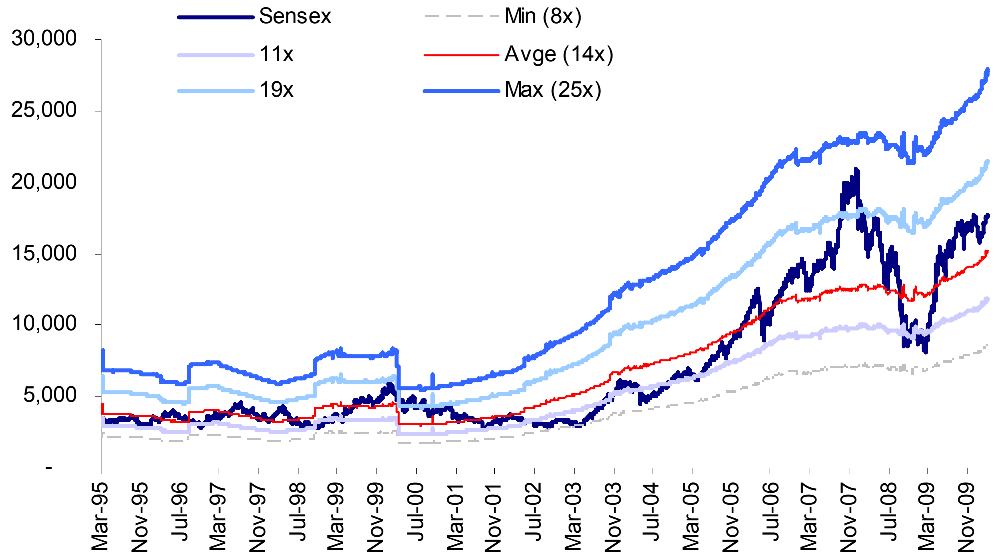
# Absolute valuation not yet in the exuberance zone

## BSE Sensex PE band chart




*Source: Deutsche Bank, Bloomberg*

- Sensex' valuation at 16.1x 1yr fwd EPS, though above average, is much below the euphoric valuations seen at the height of liquidity driven boom
- With India potentially offering 8-9% GDP growth trajectory we believe that foreign inflows will keep supporting the market at current valuation level

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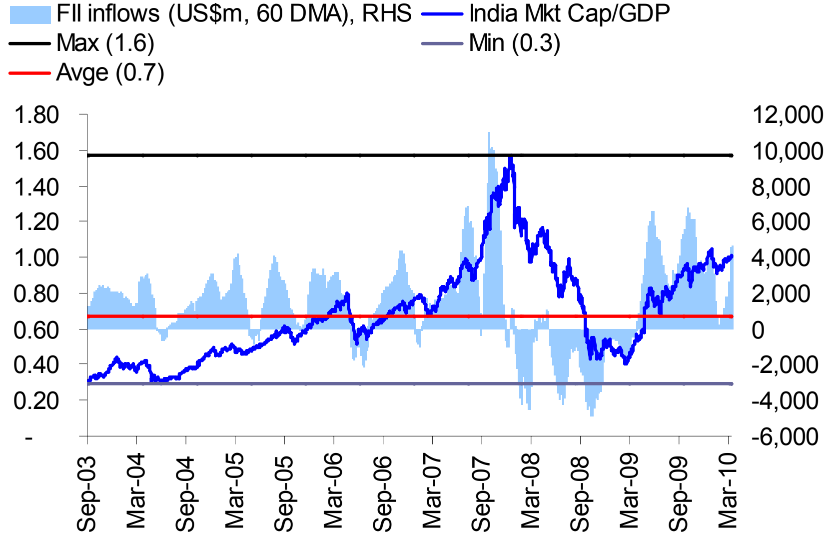
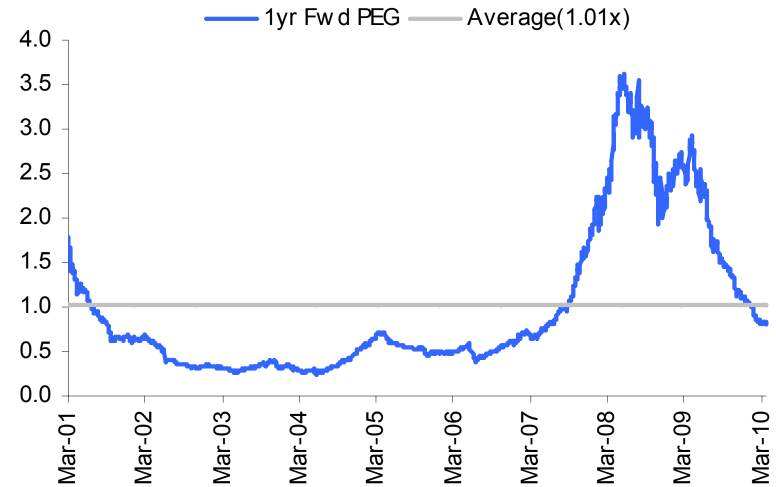
# Market Cap/GDP is significantly below the cyclical peak

## Mkt Cap to GDP has potential to expand




*Source: Deutsche Bank, Bloomberg, IMF*

## 1yr Fwd PEG close to historical average




*Source: Deutsche Bank, Bloomberg,*

- India currently trades at ~1x on M Cap/GDP, which is much lower than the peak of 1.6x seen in 2008
- This is ~25% discount to valuation seen during previous periods when GDP averaged ~9% accompanied by very strong flows
- We believe that the multiple has scope to expand, as government's LT GDP growth expectation is not yet factored completely be the market
- On a PEG basis too the market seems to be not too much in an exuberance zone, with current PEG being lower than the LT avge.

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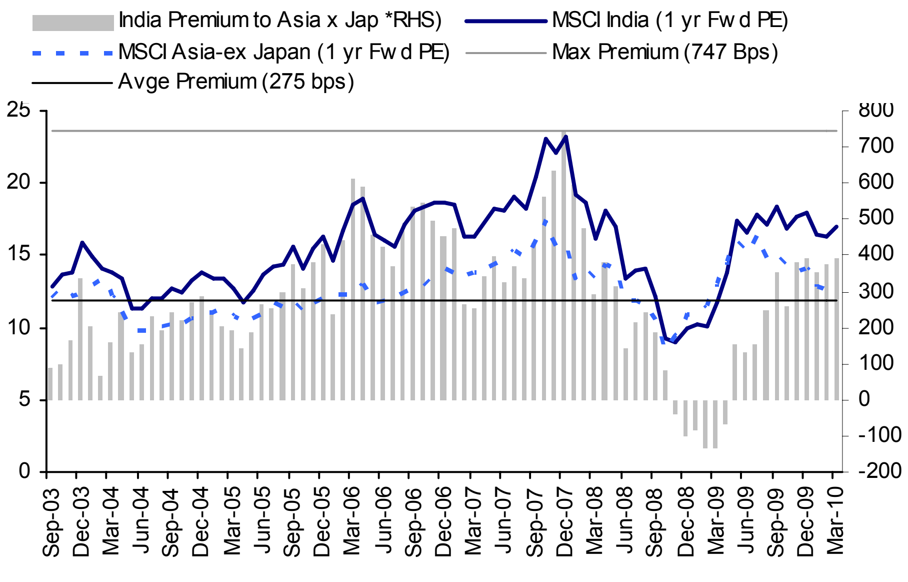
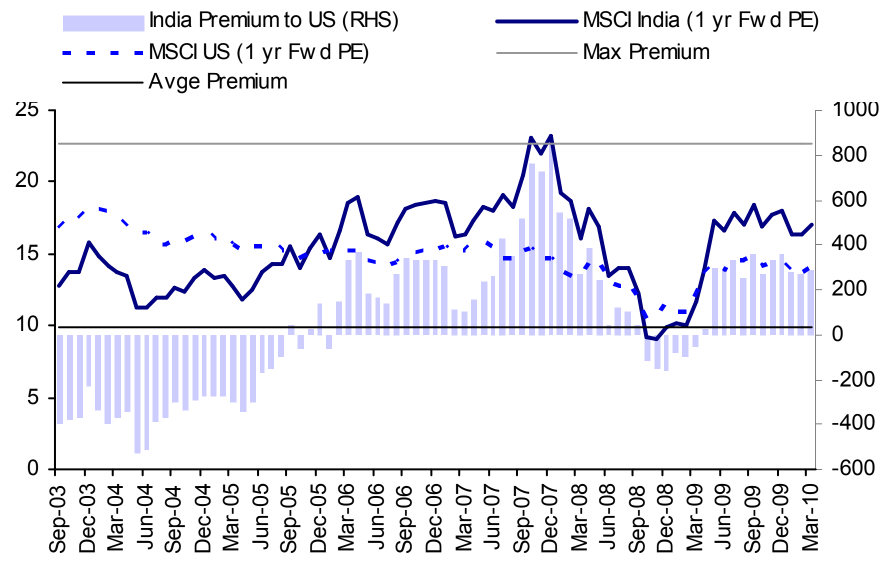
# Relative valuation, though rich, still not too steep

## MSCI India and Asia-x Japan 1 yr Fwd PE




*Source: Deutsche Bank, Bloomberg*

## MSCI India and MSCI US 1 yr Fwd PE




*Source: Deutsche Bank, Bloomberg*

- Although MSCI India has one of the highest PE multiple within Asia, it has traditionally traded at a premium
- The average premium level during 2003-09 has been 275bps, while maximum premium has been 747bps
- Though current premium of 392bps is higher than average, India has traded at such premium levels for a prolonged period of time - i.e. 25% since 2003

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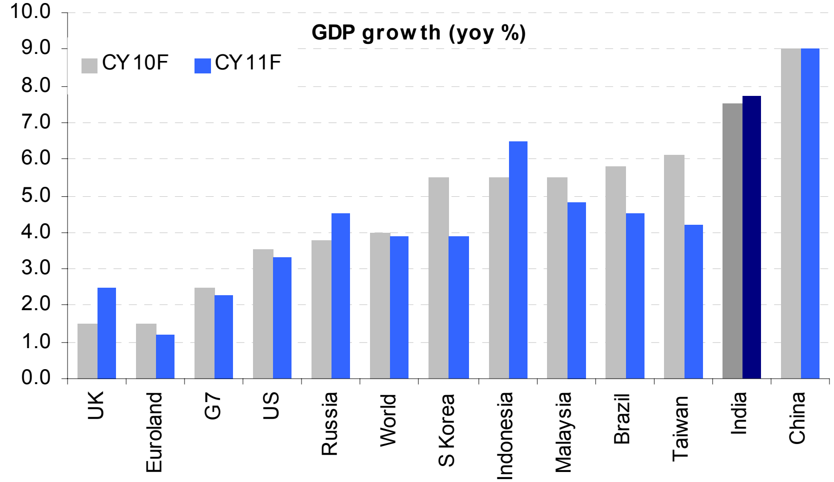
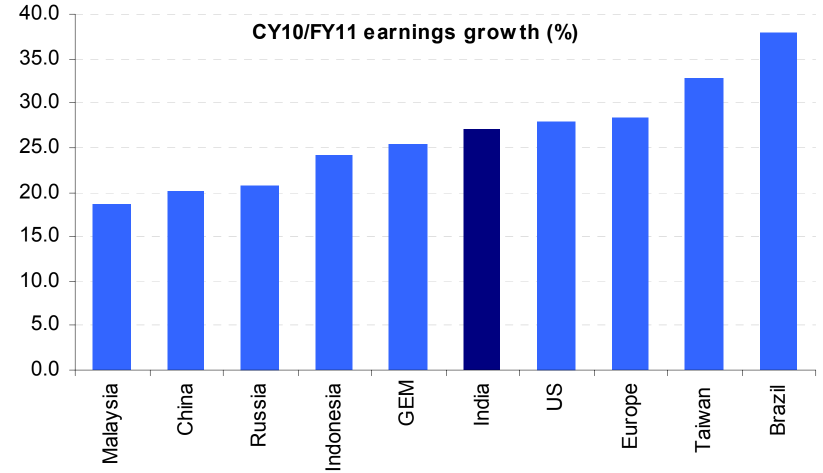
# …given that India offers one of the highest growth potential

## DB's GDP growth estimates for key economies




*Source: Deutsche Bank estimates*

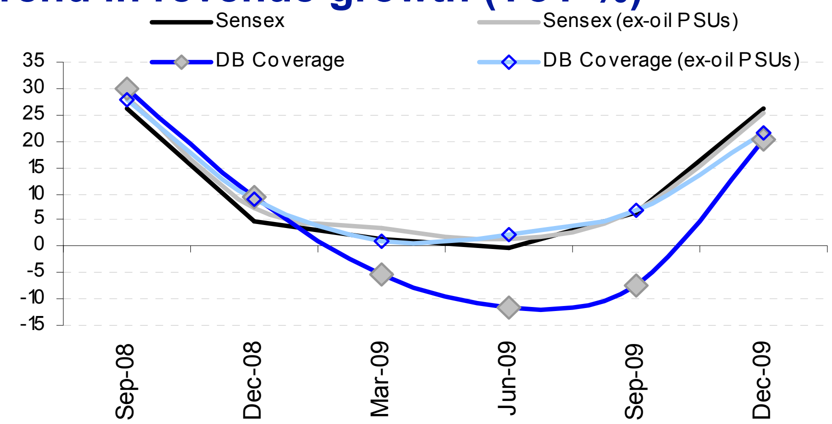
## DB's earnings growth estimates




*Source: Deutsche Bank estimates*

- **India's growth potential is second highest amongst key global economies**
- **Currently expected earnings growth stands at 20%+, we see upside risk to the growth with strong momentum building up in domestic consumption**
- **The turn in consumption confidence is likely to show up in Dec-09 numbers with top line expected to grow by 20% plus in the quarter**
- **Although somewhat driven by base effect, a good part is due to rebounding aggregate demand**

## Trend in revenue growth (YoY %)




*Source: Deutsche Bank estimates, Company data*

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# Valuations and Eco forecasts of key global economies

| | PE | | EPS Growth | | EV/EBITDA | | PB | ROC |
|---|---|---|---|---|---|---|---|---|
| | 09E (X) | 10E (X) | 09E (%) | 10E (%) | 09E (%) | 10E (%) | 09E (X) | 09E (%) |
| China | 15.2 | 12.4 | 14.5 | 20.2 | 8.0 | 6.9 | 2.3 | 2.0 |
| **India** | **20.5** | **16.1** | **1.0** | **27.1** | **11.9** | **9.8** | **3.0** | **15.4** |
| Korea | 12.5 | 9.4 | 27.7 | 40.0 | 6.6 | 5.4 | 1.4 | 9.4 |
| Malaysia | 18.5 | 16.3 | -13.0 | 18.7 | 9.2 | 8.6 | 2.3 | 12.1 |
| Taiwan | 19.1 | 14.0 | 20.0 | 32.7 | 9.2 | 6.6 | 2.3 | 8.2 |
| Russia | 10.5 | 9.5 | -26.2 | 20.7 | 6.1 | 5.3 | 1.3 | 10.3 |
| South Africa | 13.1 | 13.8 | -2.4 | 22.6 | 12.5 | 7.5 | 2.5 | 15.9 |
| Brazil | 18.6 | 14.3 | -14.5 | 37.9 | 9.2 | 7.5 | 2.1 | 10.4 |
| Mexico | 17.4 | 16.0 | 24.1 | 20.1 | 8.5 | 7.5 | 3.8 | 19.8 |
| **ASIA** | **15.7** | **12.5** | **14.4** | **24.4** | **8.4** | **7.0** | **2.2** | **12.6** |
| **GEM** | **15.1** | **12.5** | **3.4** | **25.5** | **8.0** | **6.9** | **2.1** | **12.4** |
| **US** | 17.6 | 14.9 | -1.0 | 27.8 | | | | |
| **EUROPE** | 15.5 | 12.8 | -20.5 | 28.3 | | | | |
| **JAPAN** | 32.6 | 17.6 | nm | 83.9 | | | | |

*Source: Deutsche Bank, Bloomberg,*

**Forecast of key economic parameters**

| | GDP growth (%) | | | Inflation (%) | | | Current A/c (% of GDP) | | | Fiscal Balance (% of GDP) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CY09 | CY10f | CY11f | CY09 | CY10f | CY11f | CY09 | CY10f | CY11f | CY09 | CY10f | CY11f |
| US | -2.4 | 3.8 | 3.5 | -0.3 | 2.0 | 1.9 | -2.9 | -2.8 | -2.9 | -10.2 | -8.6 | -6.3 |
| Japan | -5.2 | 2.8 | 0.9 | -1.4 | -1.2 | -0.6 | 2.8 | 4.4 | 5.5 | -5.6 | -6.2 | -6.4 |
| Euroland | -4.0 | 1.1 | 1.2 | 0.3 | 1.3 | 1.3 | -0.6 | 0.2 | 0.1 | -6.1 | -6.7 | -5.5 |
| G7 | -3.5 | 2.9 | 2.5 | -0.1 | 1.4 | 1.3 | | | | | | |
| Asia (ex-Japan) | 5.6 | 8.2 | 7.6 | 0.8 | 4.6 | 4.0 | 5.1 | 3.8 | 2.8 | -3.5 | -3.0 | -3.0 |
| India | 6.5 | 7.7 | 7.6 | 2.1 | 9.0 | 6.7 | -1.5 | -0.9 | -1.1 | -10.1 | -8.8 | -8.2 |
| China | 8.7 | 9.8 | 9.3 | -0.4 | 3.4 | 2.5 | 7.4 | 6.1 | 5.1 | -2.8 | -2.5 | -2.0 |
| Lat Am | -2.4 | 4.2 | 3.8 | 6.0 | 7.7 | 8.1 | -0.7 | -1.3 | -2.2 | -3.2 | -2.2 | -2.2 |
| Brazil | -0.2 | 5.8 | 4.5 | 4.2 | 4.2 | 4.0 | -1.5 | -2.9 | -4.4 | -3.3 | -2.0 | -2.7 |
| EMEA | -5.5 | 3.7 | 4.3 | 7.8 | 7.7 | 7.5 | 1.0 | -1.4 | -1.4 | -6.3 | -4.6 | -2.7 |
| **World** | **-1.1** | **4.3** | **4.0** | **1.3** | **3.2** | **3.0** | | | | | | |

*Source: Deutsche Bank*

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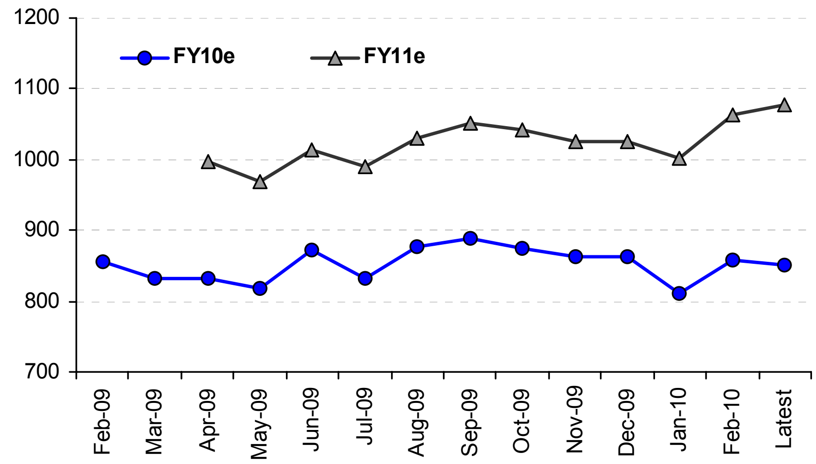
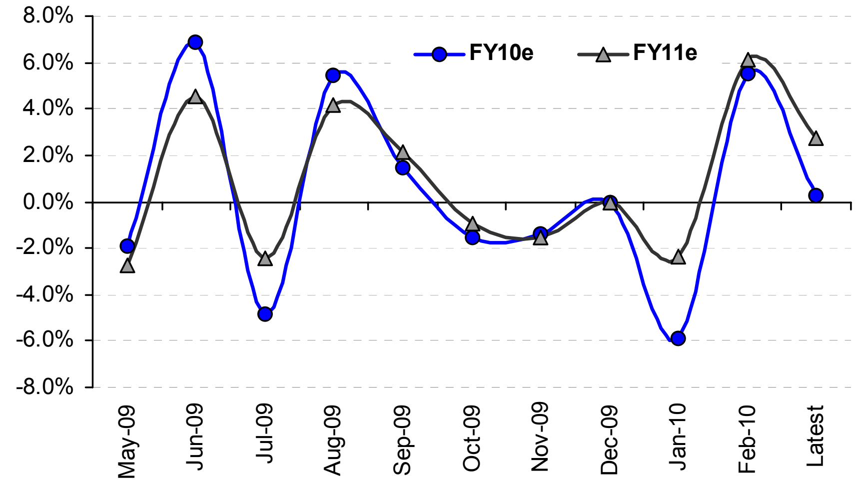
# We expect a fresh round of sustainable earnings upgrades

## Trend in DB's Sensex EPS estimates




*Source: Deutsche Bank, Bloomberg*

## Trend DB's Sensex earnings momentum




*Source: Deutsche Bank, Bloomberg*

- After a period of flat to negative revision in late 2009, DB estimate for Sensex EPS has seen sharp upgrades in the first three months of 2010.
- FY11 EPS being upgraded by 8% in 2010 YTD while FY10 EPS has been revised upwards by ~5%.
- We expect further momentum in the earnings upgrade cycle as economic recovery gains deeper roots

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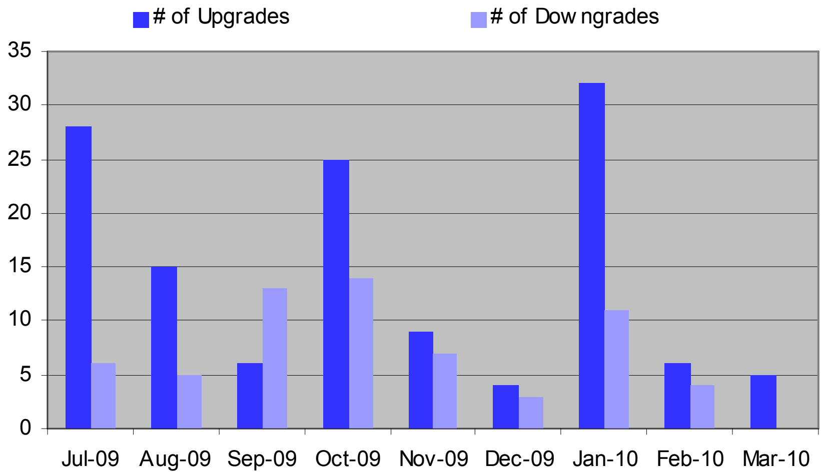
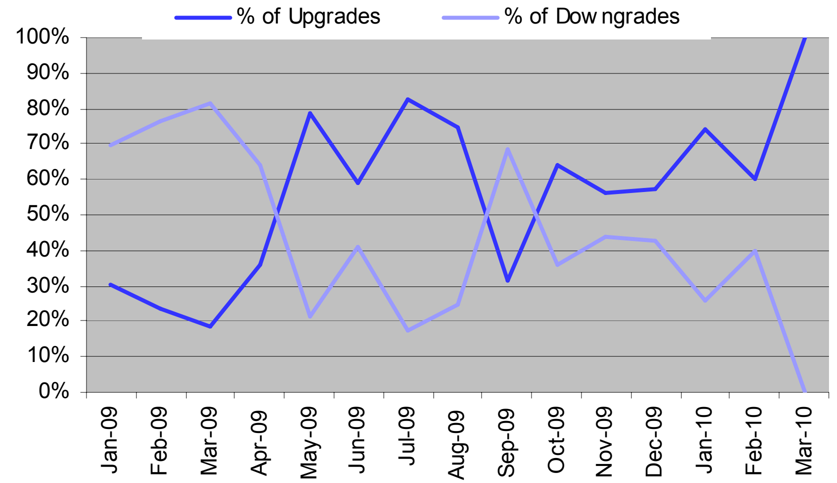
# More and higher upgrades witnessed in DB covered stocks

## Earnings revision trend in DB coverage..




*Source: Deutsche Bank*

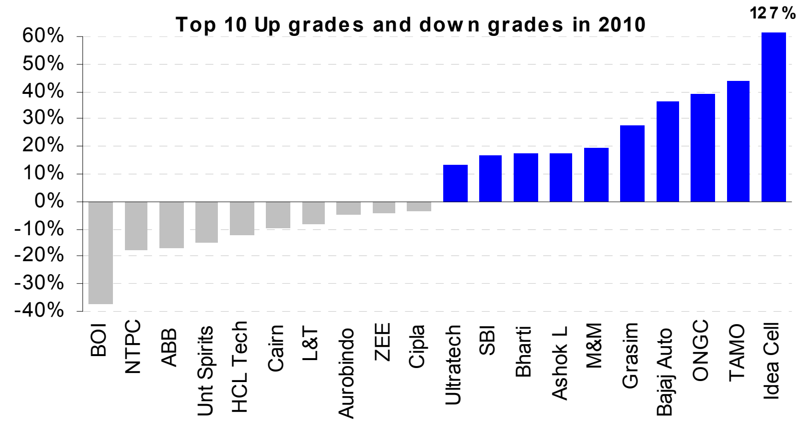
## High % of positive revisions




*Source: Deutsche Bank*

- In March-10 all earnings revision to our DB universe were positive - a rare development
- Apart from higher upgrades the degree of positive revision has also been much stronger in 2010 with top 10 upgrades averaging 26%, while top 10 downgrades averaged -13%
- With growth getting stronger, we believe that positive earnings momentum should continue

## Upgrade quantum relatively much higher




*Source: Deutsche Bank*

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# Liquidity & Risk Appetite

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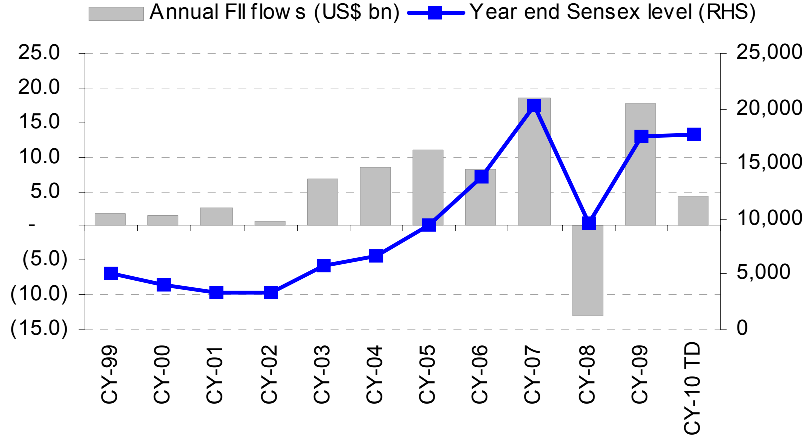
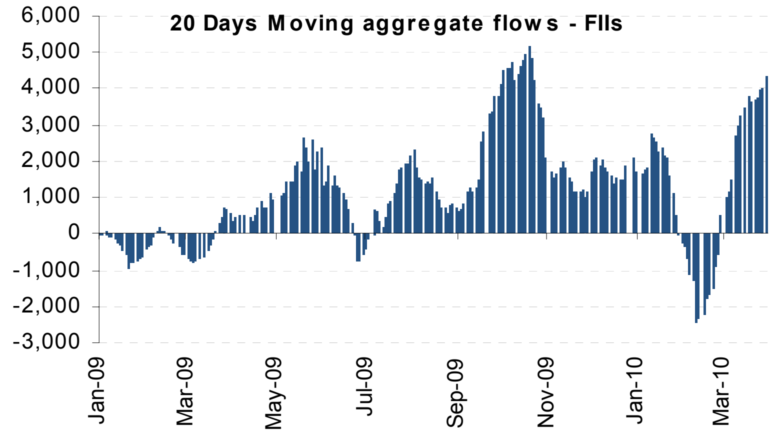
# FIIs most likely to retain faith in high growth India market

## Annual FII inflows (US$mn)




*Source: Deutsche Bank, Bloomberg*

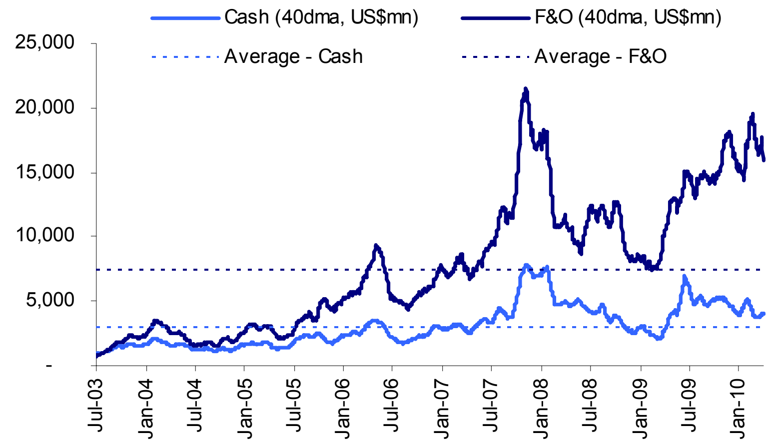
## Pattern of FII flows (moving average)




*Source: Deutsche Bank, Bloomberg*

- We believe that India will maintain its position as destination of foreign capital
- Indeed, post the growth-friendly balanced budget, India has witnessed FII inflows to the tune of ~US$4.4bn.
- However, market volumes have moderated with few IPOs and government divestments hitting the market
- We remain sanguine over the liquidity and flows environment, which should support the market going forward

## Cash and F&O volumes




*Source: Deutsche Bank, Bloomberg*

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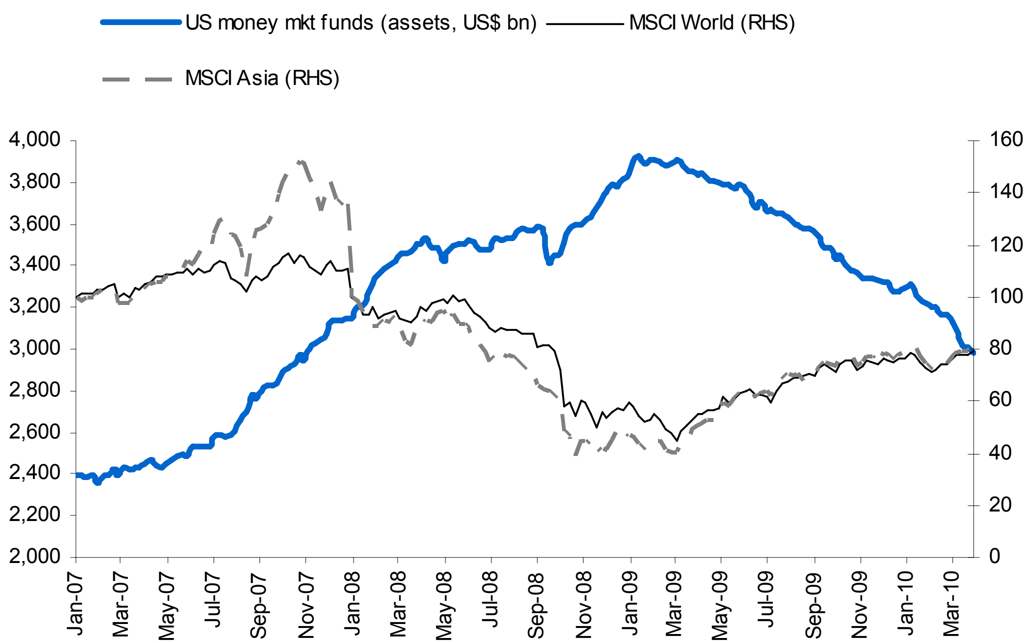
# US money market funds assets still at relatively high level




*Source: Deutsche Bank, Bloomberg*

- Although all the money that had flown into the US money market funds, following the Lehman bankruptcy, have been drawn down, we believe that as risk appetite improves, the low-risk/low yielding money market funds might see further drawdown of assets
- Moreover, currently the AuM as a percentage S&P500 market cap is ~31%. This is a massive 13% points above the historical average of 18%
- Any outflow from the USMM funds should gravitate towards risky asset classes such as emerging market equities, which should be beneficial for India as well

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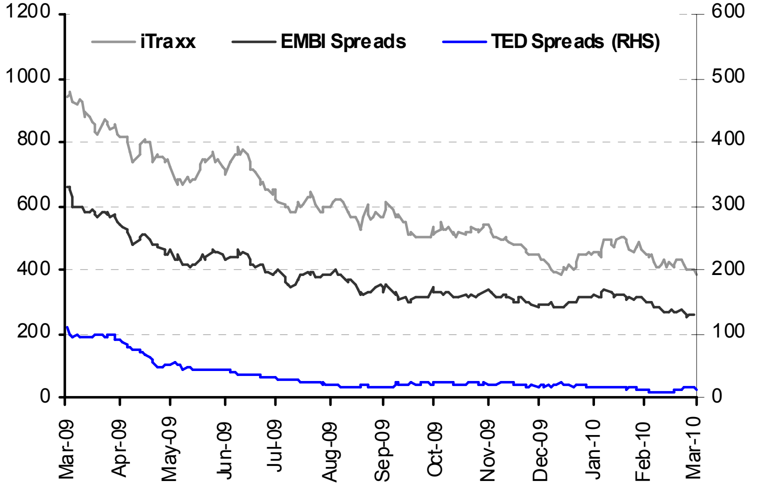
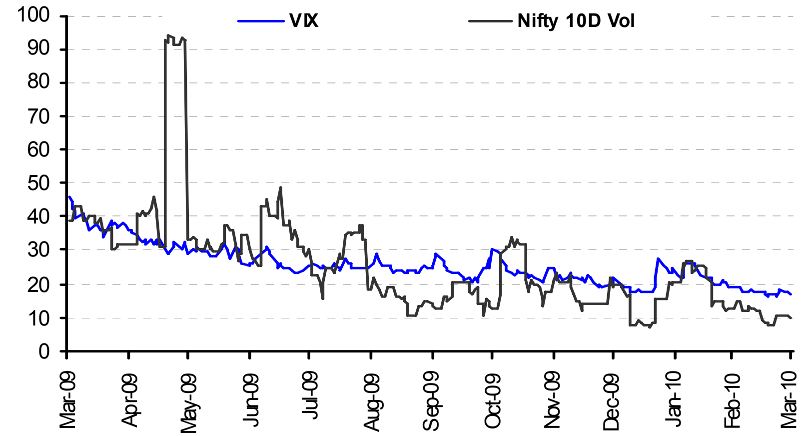
# All key risk indicators point to elevated risk appetite

## Key credit spreads




*Source: Deutsche Bank, Bloomberg*

## Volatility Indices




*Source: Deutsche Bank, Bloomberg*

- A massive provisioning of liquidity by Central Banks has meant that credit spreads across geographies and asset classes have narrowed significantly.
- Risk appetite seem extremely strong currently and we believe will continue to remain so until key developed economies start to tighten monetary policies or a global shock materializes
- Both India VIX and CBOE VIX are also indicating very low level of volatility

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# Risks to the positive outlook

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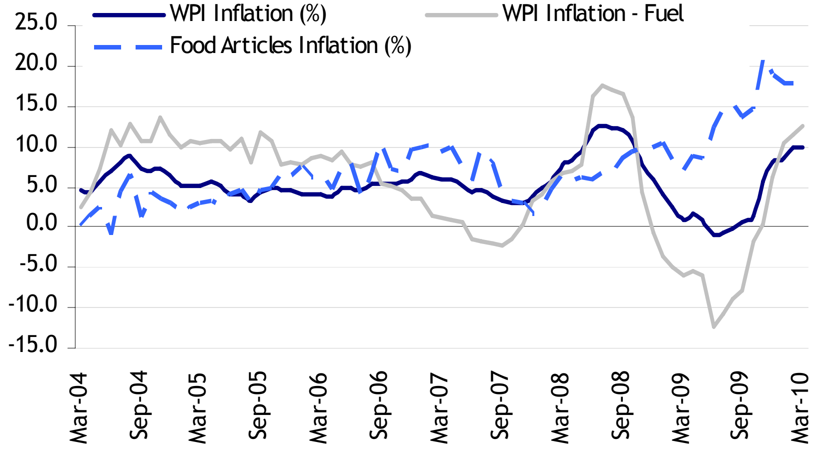
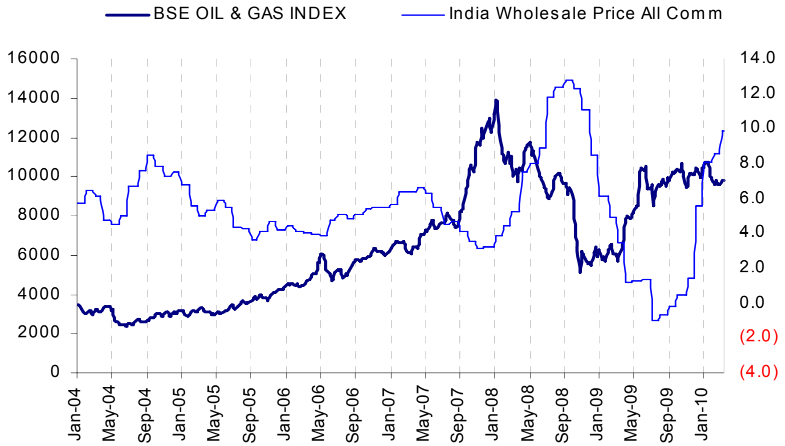
# Inflation in double digits – but expected to cool down

## Fuel inflation is rising as food prices ease




*Source: Deutsche Bank, Bloomberg*

## WPI inflation and BSE Oil & gas index




*Source: Deutsche Bank, Bloomberg*

- Increasing WPI inflation may emerge as a worry for the markets and a risk to our positive investment thesis.
- Inflation has already breached the RBI's twice-raised inflation estimate of 8.5%. However, it is expected that inflation should start to moderate before mid 2010, as better supply chain management and record rabi foodgrain production should help cool food prices
- Hence we expect that the monetary policy response will be calibrated unless oil and manufacturing inflation rise sharply.

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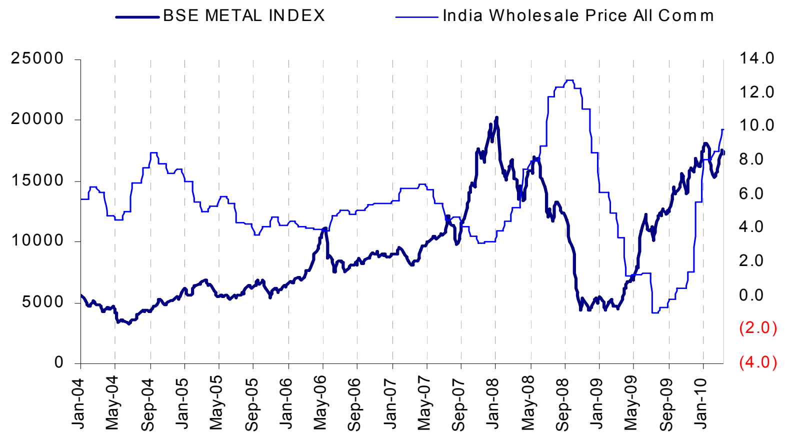
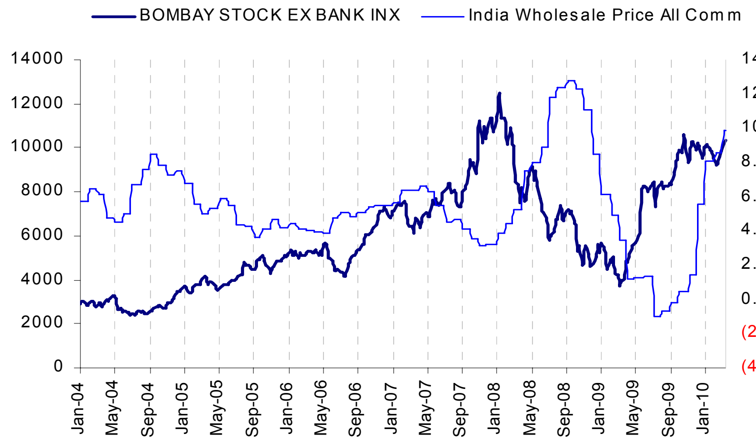
# Overhang of inflation-wary government could return

## WPI inflation and BSE Metal index



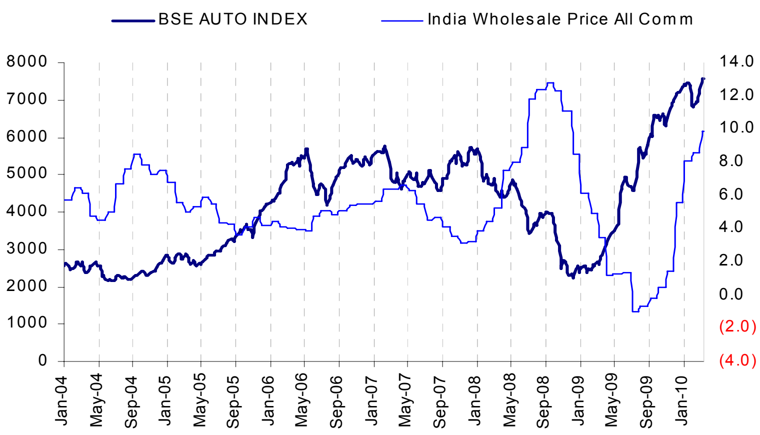

*Source: Deutsche Bank, Bloomberg*

## WPI Inflation and BSE Bank index




*Source: Deutsche Bank, Bloomberg*

## WPI Inflation and BSE Auto index




*Source: Deutsche Bank, Bloomberg*

- Inflation-wary government can prevent commodity producers from passing on the rising input costs
- Sectors with administered prices may also come under stress
- Generically Oil & Gas, power, metals and cement sectors should be negatively impacted

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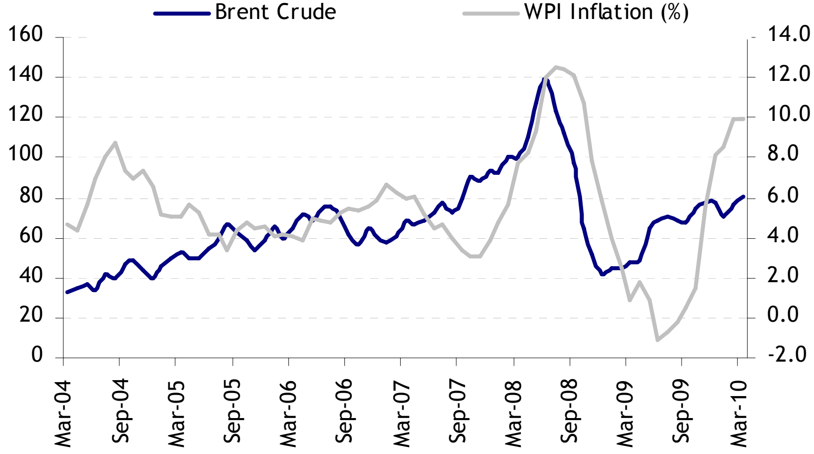
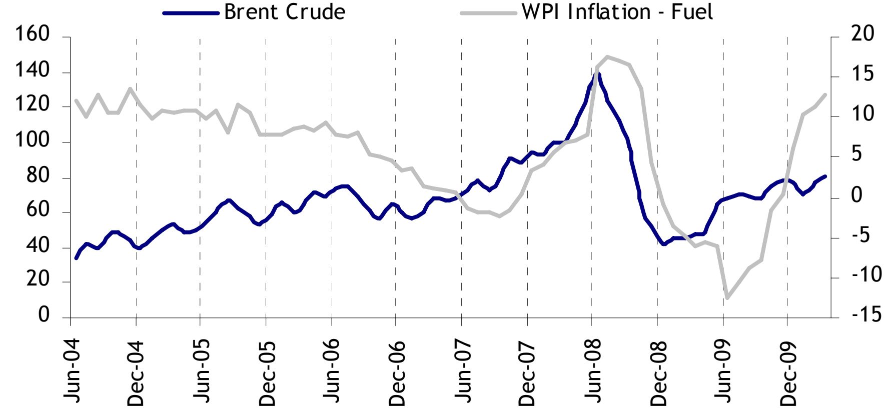
# Crude oil price rise will add to inflation

## Brent Crude and WPI inflation



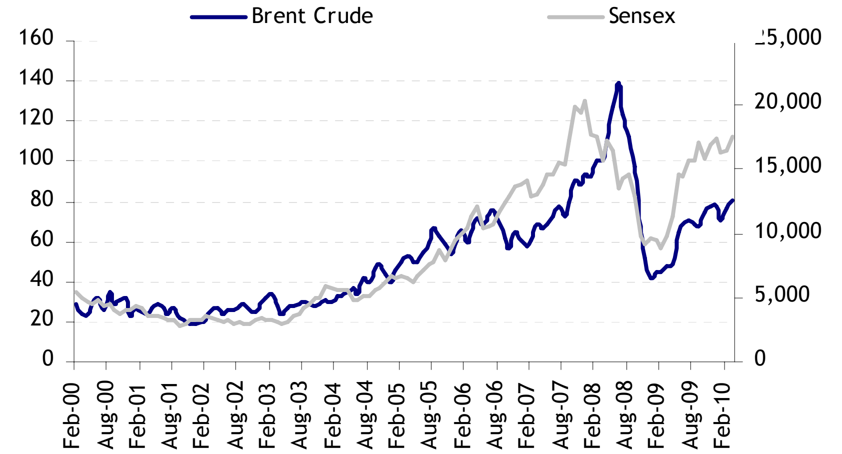

*Source: Deutsche Bank, Bloomberg*

## Brent Crude and WPI fuel inflation




- Rising crude prices will add to the already high WPI fuel inflation
- This holds potential to spill over into the final consumer inflation if Kirit Parikh committee report is adopted
- Empirically, Sensex and Crude have had strong positive correlation, but if price hikes are allowed to pass through to consumers the equation may change

## Brent Crude and Sensex

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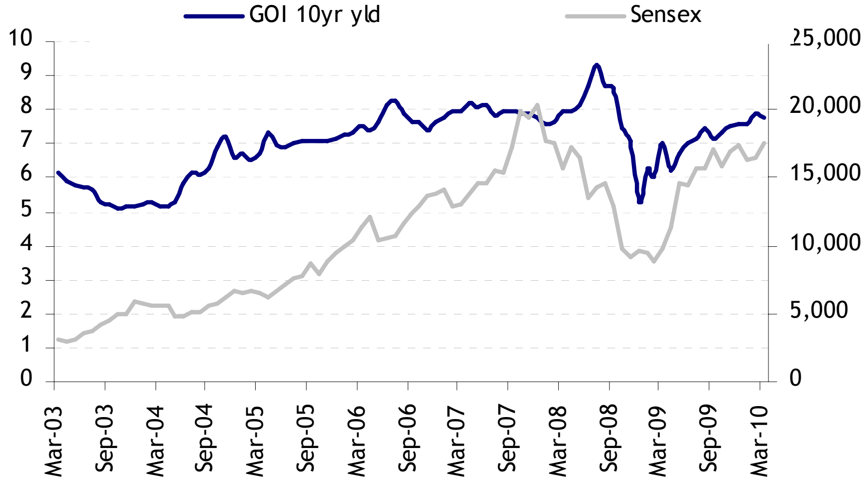
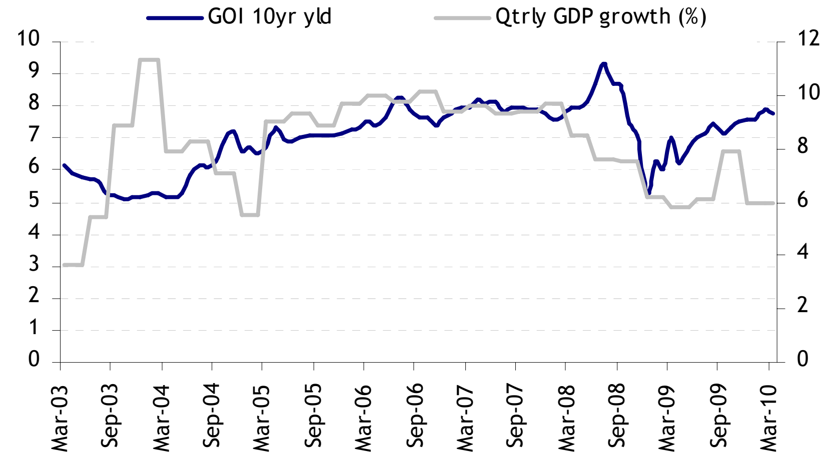
# How concerned should we be over bond yields?




Source: Deutsche Bank, Bloomberg




Source: Deutsche Bank, Bloomberg

- Concerns abound over the risk of bond yields moving up further on account of high government borrowing, leading to high cost of capital for the private sector as well and affecting growth
- We believe that concerns are indeed valid but somewhat exaggerated
- During the high growth phase in FY05-08, we note that while bond yield were in the range of 8% for a long duration growth remained elevated at ~9%
- Besides, bond yield and Sensex have also exhibited strong positive correlation for a good duration
- However, a key issue this time is the high level of fiscal deficit, which did not exist during the previous phase of high growth and bull market in equities

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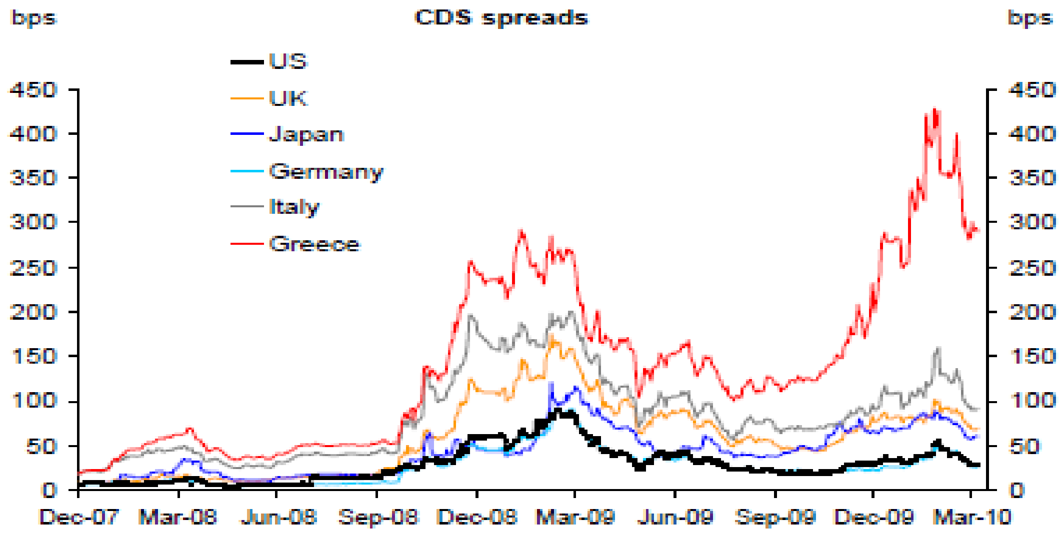
# Sovereign defaults are a key risk to our positive outlook




*Source: Deutsche Bank, Bloomberg*

- A key exogenous risk stems from prospects of sovereign defaults in developed markets
- Dubai and Greece crisis had earlier lead to weakness in equity market- although a short lived one
- Currently the fate of sovereign debts of smaller economies is uncertain, with uncertainty still looming over Greece's debt crisis
- Any decisive default in large developed economy may lead to a prolonged period of weakness across all the key asset classes - we do not think India will be able to escape such global crisis
- However, we believe that India will be one of the earliest and swiftest to recover from such crisis

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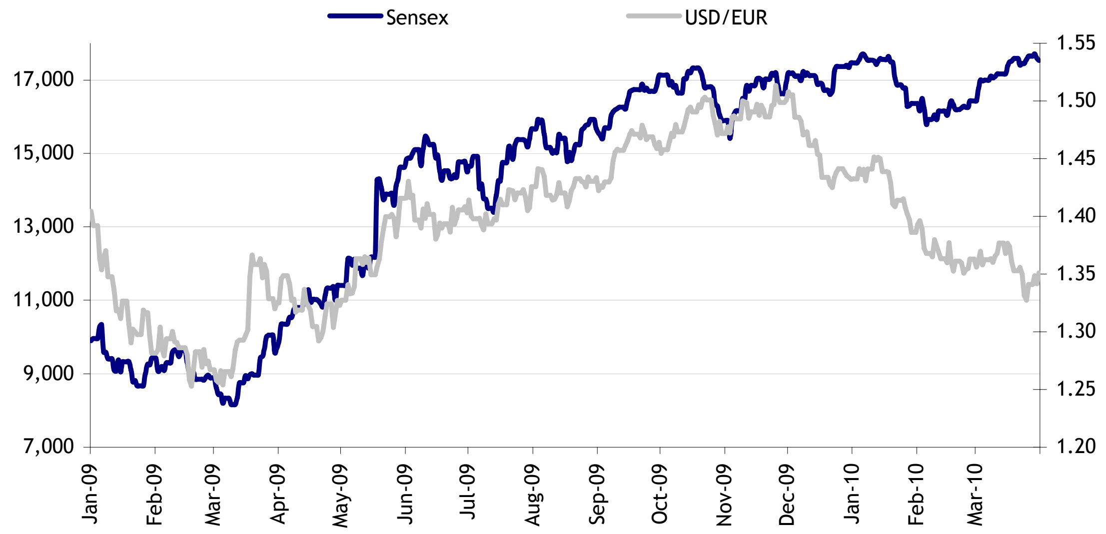
# Is Sensex' negative correlation with US$ weakening?




*Source: Deutsche Bank, Bloomberg*

- While US$ weakness and Sensex strength were strongly correlated through out CY09, the same seems to be now showing sign of weakening
- Currently DB's currency team sees US$ fair value to 1.35/EUR, which implies little upside for US$
- However even if US$ were to strengthen and risky asset classes to weaken, we believe India will remain a destination of choice for risk capital due to its structural higher growth potential
- We may see a correction driven by further US$ strength, but this should at best be short-lived,
- Already despite US$'s strength vs. key developed market currencies (Dollar index being up 4%), INR has strongly held its ground and has infact appreciated 3% vs. USD – clearly vindicating our view that India's growth environment acts as strong attraction for capital inflows

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# Appendix 1

**Important Disclosures**
Additional Information Available upon Request

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## Equity Rating Key

**Buy:** Based on a current 12-month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

**Hold:** We take a neutral view on the stock 12 months out and, based on this time horizon, do not recommend either a Buy or Sell.

**Notes:**

1. Newly issued research recommendations and target prices always supersede previously published research.

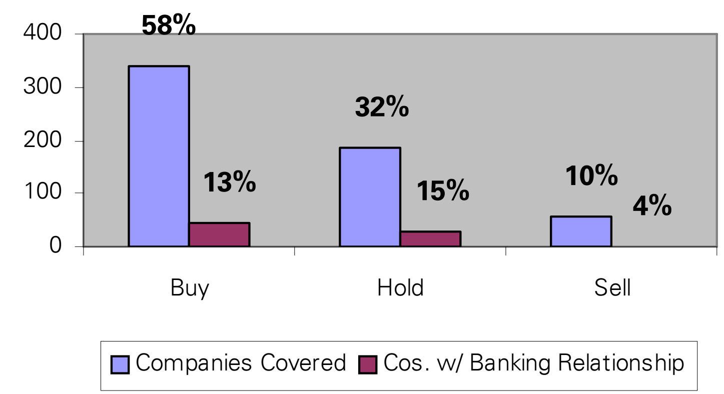
2. Ratings definitions prior to 27 January, 2007 were:

Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

## Equity Rating Dispersion and Banking Relationships




Asia-Pacific Universe

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