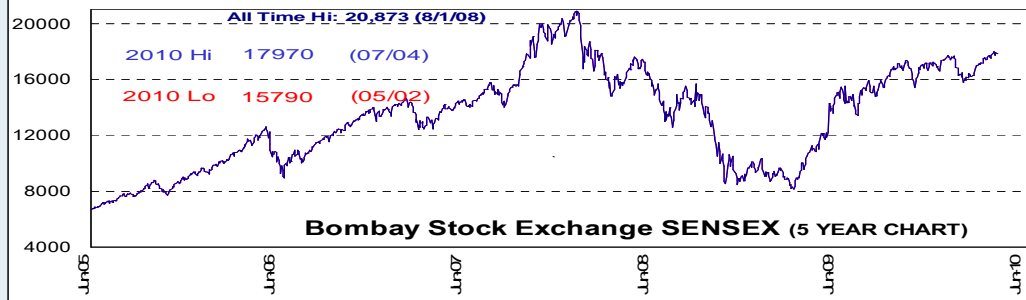




The India Report Deepak N. Lalwani OBE : Director - India

25 June 2010



Source, chart & following table: Bloomberg

	Close 25 June 2010		Pts	% Chg	2010/11	5 Yr	5 Yr	5 Yr
	Index	Day						
SENSEX 30	17,574	-158	+0.6	17.0x	25.0x (1/08)	8.1x (11/08)	18.7x	
NIFTY 50	5,269	-52	+1.3	N/A	N/A	N/A	17.2x	

ECONOMIC NEWS

- India finally took a politically tough decision and pushed through a much-watched reform on freeing up state-subsidised petrol prices so that it will be market driven, and raised the prices of kerosene by Rs3 per litre, diesel by Rs 2 per litre and cooking gas by Rs 35 a cylinder. The price rises are higher than expected. While petrol is used by the middle class for transport vehicles, kerosene is used by the poor as cooking fuel. The Government finally bit the bullet and has been bold in wanting to reduce the fiscal deficit from the 5.5% forecast for the year to March 2011. This is despite knowing that inflation will rise further at a time when it has caused great discomfort to the authorities. **We estimate the move today will add about 1.1% to inflation as it feeds through the system.** In early June the Congress-led Government backed off the price rise decision on fears of a voter backlash in state elections due later in 2010 and 2011.
- Congress won the general elections last year on the promise of sharing years of economic gains with the wider (mainly poor) strata of society and protecting millions living below the poverty line. Against this background the Government has been bold with today's decision, despite fears of voter backlash in state elections. Congress, for example, held back a few months ago from freeing up farm prices after street protests at stubbornly high inflation which has seen food inflation above 15%pa since last November. Last year's failed monsoons resulted in the worst drought in 37 years and pushed prices of some food articles by 50%+. We think the bold decision today is an important signal by the Government that it wishes to push through tough economic reforms. **This will cheer investors, in our view, as it is a good sign for fiscal prudence over the long term; this is despite the unfortunate pain it will cause in the short term, especially to the poor.**
- With price pressures remaining stubbornly high, spreading to non-food items and the price rise in fuel prices today which will further add inflationary pressures, market speculation is rife that the RBI may have to increase interest rates before the next policy review on 27 July. Headline annual inflation (WPI) rose to a higher-than-expected 10.16% in May. The RBI has raised interest rates twice already since March this year by 0.25% each time. The repo rate, at which the RBI lends to banks, now stands at 5.25%. The reverse repo rate, at which

it absorbs excess cash from the banking system, is at 3.75%. **We expect an increase in both by another 0.50% before July 27 and another 0.25% before the end of 2010. We felt the RBI will want to be seen as being ahead of the curve. It is currently viewed as being behind.**

- Indian companies continue to spread their global footprint. According to data from Thomson-Reuters, overseas acquisitions by Indian companies crossed \$40bn in the January-June 2010 period, up about 400% vs the same period last year. This year's figure is the best since the bull market of 2007. Indian transactions accounted for one-sixth of all Asian deals (+21% vs this time last year) of \$242.1 bn from 5,078 deals. Bharti Airtel's \$9 bn acquisition of Zain is the largest outward investment. Reliance yesterday acquired 45% of a U.S. shale gas company, Pioneer Natural Resources, for \$1.3 bn, after acquiring a 40% stake in Atlas Energy (USA) for over \$400m about two months ago. Outbound acquisitions by Indian companies were three times that of inbound deals. The largest inbound acquisition was by Abbott Laboratories of Piramal Healthcare for \$3.72 bn. Private equity into India was also up, although by a more sober 52%, at \$1.7bn as rich valuations deterred buyers. **We expect Indian companies to continue their trend of overseas acquisitions.**

MARKET NEWS

- Top and bottom BSE Sector performance year-to-date:

TOP 5	25 Jun	BOTTOM 5	25 Jun
	%		%
1. Consumer Dur.	+21.7	1. Metals	-12.9
2. FMCG	+15.9	2. PSUs	-2.9
3. Hlth. Care	+14.7	3. Power	-2.3
4. Auto	+11.4	4. IPOs	-0.5
5. Banks	+ 9.6	5. I.T.	+4.1

(source: Reuters)

SENSEX : + 0.6 %

- Domestic stocks do better than exporters. Consumer sectors outperform. Many sectors outperform the SENSEX. Future interest rates rises may hit consumer durables.

SELECTED SHARE PRICES

GDR OFFER PRICES (US\$) LONDON – 25 June 2010: 15:00 GMT							
Company	Day's Price	Day's Change	Premium/Discount	Company	Day's Price	Day's Change	Premium/Discount
L&T	\$38.00	+72¢	-0.1%	SBI	\$ 99.20	-\$1	-0.2%
M&M	\$13450	+1¢	+1.3%	Suzlon Energy	\$5.18	-2¢	-0.1%
Ranbaxy	\$9.82	-1¢	+0.4%	Tata Power	\$28.54	n/c	+0.9%
Rel. Inds	\$46.19	+90¢	+0.5%	Tata Steel	\$10.74	+80¢	+2.0%

Source : Bloomberg

ADR OFFER PRICES (US\$) NEW YORK – 25 June 2010: 15:00 GMT							
Company	Day's Price	Day's Change	Premium/Discount	Company	Day's Price	Day's Change	Premium/Discount
Dr.Reddy	\$31.80	+10¢	-0.8%	Satyam	\$5.08	+6¢	+29.1%
HDFC Bank	\$144.50	-\$1.28	+14.4%	Sterlite	\$14.47	-6¢	-0.6%
ICICI Bank	\$37.31	-17¢	+0.7%	Tata Com (ex VSNL)	\$11.11	+16¢	+0.5%
Infosys	\$61.80	+25¢	+3.0%	Tata Motor	\$17.38	-30¢	+4.6%
MTNL	\$2.82	+1¢	+1.0 %	WIPRO	\$12.64	-2¢	+49.6%

Source : Bloomberg

AIM (LONDON): in GB p unless stated otherwise (indicative only) – 25 June 10: 15:00 GMT							
Company	Day's Price	Day's Change	YTD Change	Company	Day's Price	Day's Change	YTD Change
DQE	113	+0.25	+12%	KSK	520	n/c	+26%
Dhir India	100	n/c	-5%	Naya Bharat	\$0.345	n/c	-14%
Eredene	18.75	n/c	+10%	Noida Toll	\$3.60	+0.15¢	-20%
Eros	206	-0.50	+28%	OPG Power	68	n/c	-25%
Gt Eastern	490	n/c	+11%	Prometh. (Eleph.Cap)	65	n/c	+8%
Greenko	154	n/c	+31%	Trinity	59	-0.25	+6%
HIRCO	139	-2	-12%	Unitech	26	+0.75	+8%
Indian Films	40	n/c	-5%	W. Pioneer	22	n/c	-12%
Ishaan	65	-0.50	+23%				

Source : Bloomberg

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