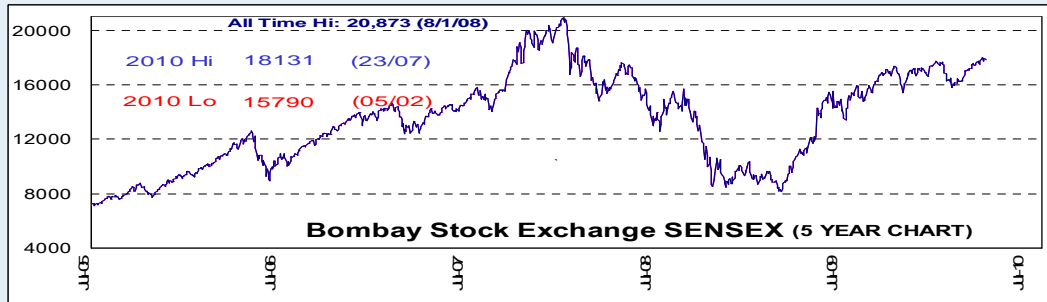




The India Report Deepak N. Lalwani OBE : Director - India

28 July 2010



Source, chart & following table: Bloomberg

Close 28 July 2010	Index	Pts Chg Day	% Chg YTD	2010/11 PER	5 Yr PER Hi	5 Yr PER Lo	5 Yr Avg
SENSEX 30	17,957	-120	+2.8%	17.2x	25.0x (1/08)	8.1x (11/08)	18.7x
NIFTY 50	5,398	-33	+3.8%	N/A	N/A	N/A	17.2x

ECONOMIC NEWS

- The Reserve Bank of India raised interest rates again at the policy review meeting yesterday. Stubbornly high inflation, which has remained stuck over 10% p.a. for 5 consecutive months, coupled with a strengthening economy influenced the decision. India has the highest inflation rate of any G20 country and is very concerned about it. The repo rate (at which the RBI lends to banks) was raised by another 0.25% to 5.75%. The reverse repo rate (at which the RBI absorbs excess cash from the banking system) was raised by a higher-than-expected 0.50% to 4.50% in a hawkish effort by the RBI to dampen inflation. Of particular concern to the average man on the street is food inflation which has remained over 10% for 14 consecutive months. This has led to street protests and has caused great discomfort to the Government. The RBI also announced it will undertake mid-quarter policy reviews henceforth in September, December, March and June. The next mid-quarter policy review is to held on September 16 and the next main policy review will be held on November 2. **We feel it is progressive to review interest rates every 6 weeks rather than every 12, and announce changes on set dates rather than in-between meetings.**
- India's monsoon rainfall in the crucial crop planting month of July has been close to normal, recovering sharply from a 16% deficit in June. In the 4 month monsoon season (June-September) July is normally the wettest and accounts for about a third of the rainfall. Mr Ajit Tyagi, director general of the India Meteorological Department, expects rains to increase in the next two months due to the La Nina effect and produce an overall rainfall of 102% of the 50-year average for this season. La Nina causes wetter-than-normal rain conditions in Asia and drier weather in the Americas. Mr Tyagi's predictions will be followed with keen interest this year after last year's failed monsoons caused the worst drought in 37 years and badly hit farm income due to much lower agricultural output. The drought and lower crop production sharply pushed up food prices and raised inflation, which in turn pushed interest rates higher. However, despite the worst drought since 1972, the economy grew 7.4% to March 2010, up from 6.7% a year earlier.
- The monsoons are crucial for many farmers as only about 40% of farms (mainly larger, mechanised ones) are irrigated; the majority are small and rely on monsoon rains for summer-

sown crops such as rice, soybean, sugarcane and cotton. Agriculture accounts for about 17% of India's GDP, but provides a livelihood for over 60% of the country's 1.1bn people. Poor monsoons cause negative sentiment as they can lower rural demand, hit corporate profitability and adversely affect sentiment on financial markets. A drought in 2002 caused a drop in GDP growth to 3.8% from 5.8%. Normal rains the following year helped GDP growth to spurt to 8.5%. Robust rains often lead to bumper harvests which have a multiplier effect on incomes and demand. The cost to irrigate the 60% balance of arable land is estimated at about \$100 bn. With so many social programmes vying for funding the roll out to irrigate farm land takes a back seat – especially if there is a good monsoon and the pressure to irrigate reduces.

- Defence Minister A.K. Antony told Parliament in a written reply yesterday that India does not plan to raise the Foreign Direct Investment ceiling in the defence equipment sector. The Trade Ministry had suggested in May that the sector cap should be raised from 26% to 74%, so as to open up the market to more competition once foreign investors are allowed. India has the 10th largest defence budget in the world as it tries to modernise its defence security. **We feel that powerful domestic vested interests have managed to have the cap retained at 26% - not a progressive move.**

MARKET NEWS

- The economy has been strengthening better-than-expected as consumer demand has remained buoyant. Our forecast of companies posting earnings growth of about 22% for the year to March 2011 remains unchanged, despite recent interest rate hikes. The huge domestic market (about 60% of GDP) and exports of only 15% of GDP provide the economy with a useful insulation against anaemic growth in global trade. The SENSEX touched an YTD high of 18,131 last week and has been hovering around the 18,000 level. Were it not for negative sentiment from global markets, which are still wary about the European sovereign debt crisis, the SENSEX would be 1,000 points higher.
- £ 100 invested 5 years ago is worth today (excluding dividends and inflation):

India's SENSEX: £ 247 ; UK's FTSE: £101 ; US's Dow Jones Indus Avg: £ 110

BOMBAY

INR/US\$ Rs46.76

INR/GB£ Rs72.90

INR/EUR Rs60.71

The SENSEX closed 0.7% lower as heavyweight Reliance Inds dragged the market lower. Its results showed decent profits, but investors expected much better. Cadilla Health posted net profits +58% as it increases its scale in the US.

LONDON / NEW YORK

GDRs + ADRs show a mixed picture. L&T is down 2.6% on profit booking. HDFC touches a new high for 2010 in New York. The undertone for Indian shares is firm.

SELECTED SHARE PRICES

GDR OFFER PRICES (US\$) LONDON – 28 July 2010: 15:30 GMT							
Company	Day's Price	Day's Change	Premium/Discount	Company	Day's Price	Day's Change	Premium/Discount
L&T	\$38.83	-\$1.48	-0.5%	SBI	\$104.75	+\$1	-0.6%
M&M	\$13.90	+20¢	+0.8%	Suzlon Energy	\$5.22	-1¢	+2.5%
Ranbaxy	\$9.58	+10¢	+0.4%	Tata Power	\$28.40	n/c	-0.3%
Rel. Inds	\$43.70	-\$1.63	+0.1%	Tata Steel	\$11.43	n/c	-2.6%

Source : Bloomberg

ADR OFFER PRICES (US\$) NEW YORK – 28 July 2010: 15:30 GMT							
Company	Day's Price	Day's Change	Premium/Discount	Company	Day's Price	Day's Change	Premium/Discount
Dr.Reddy	\$28.35	+27¢	-0.6%	Satyam	\$5.05	-5¢	+32.7%
HDFC Bank	\$158.41	+\$1.25	+18.3%	Sterlite	\$15.01	-13¢	-1.4%
ICICI Bank	\$38.75	-54¢	-0.5%	Tata Com (ex VSNL)	\$12.33	-1¢	+1.0%
Infosys	\$60.56	-23¢	+0.1%	Tata Motor	\$18.99	+2¢	+4.1%
MTNL	\$2.90	+4¢	-0.9%	WIPRO	\$13.69	-17¢	+49.1%

Source : Bloomberg

AIM (LONDON): in GB p unless stated otherwise (indicative only) – 28 July 10: 15:30 GMT							
Company	Day's Price	Day's Change	YTD Change	Company	Day's Price	Day's Change	YTD Change
DQE	115	-1.50	+21%	KSK Power Ventur	425	-8	-17%
Dhir India	100	n/c	+5%	Naya Bharat	\$0.35	n/c	-11%
Eredene	20.50	+0.25	+26%	Noida Toll	\$3.80	n/c	-5%
Eros	198	-1	+25%	OPG Power	84	n/c	-6%
Gt Eastern	465	n/c	+7%	Prometh. (Eleph.Cap)	65	n/c	+8%
Greenko	144	-4	+24%	Trikona Trinity	67	+1.50	+21%
HIRCO	120	+3	-20%	Unitech	30	+3.50	+23%
Indian Films	42	n/c	+4%	W. Pioneer	22	n/c	-2%
Ishaan	68.5	-2.25	+32%				

Source : Bloomberg

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