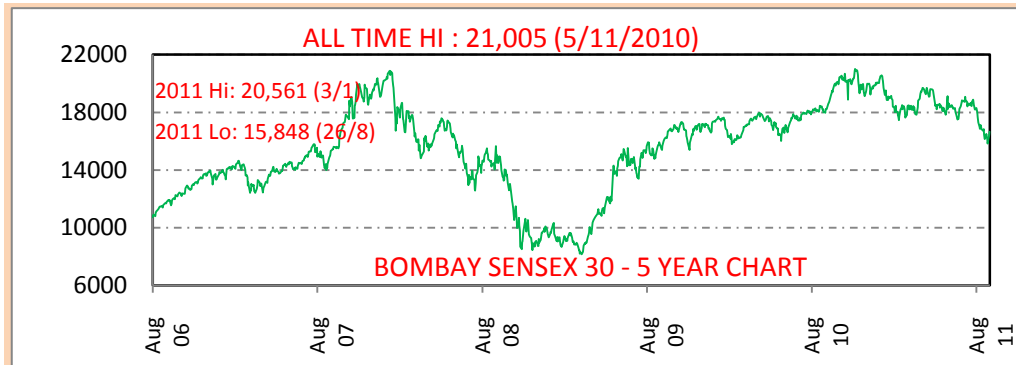




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31 August 2011



Source: chart & following table: Bloomberg

MARKETS SHUT FOR ID HOLIDAY TODAY		% Chg	2011/12	5 Yr	5 Yr	5 Yr	
CLOSE: 30 August 2011	Index	Day	YTD	PER	PER Hi	PER Lo	Avg
SENSEX 30	16,676	+261	-18.7%	13.7x	25.0x	8.1x	18.3x
NIFTY 50	5,001	+ 81	-18.5%	13.5x	N/A	N/A	18.0x

ECONOMIC NEWS

- ⇒ **India's GDP for Q1 2012 (April-June 2011) grew at an annualised 7.7%, the weakest pace in six quarters since December 2009.** Yet, it outperformed even the gloomiest forecasts. GDP grew at 7.8% in the previous quarter. 11 interest rate hikes since March 2010 to cool stubbornly high inflation (9.22% WPI in July) have hit both consumption and investment, and in turn slowed down the economy. Construction in particular was weak with an annual rise of just 1.2% vs +7.7% a year ago. In Bombay, India's largest and most expensive city for real estate, residential sales slumped to a 30-month low in the quarter to June, leaving more than 100 million sq. feet of unsold real estate. The manufacturing sector grew at a slower rate this quarter of 7.25% vs 10.6% a year ago. Services continued to perform strongly with growth of 10.0%. With the economy faring slightly better than expected, no pause in interest rate hikes is expected. We expect another 0.25% rise at the RBI meeting on September 16.
- ⇒ **A parliamentary panel on a pending pensions bill is to recommend allowing foreign investment of up to 26% in the sector.** Most of the 23 life insurance players in India have a foreign partner with a 26% stake and wish to enter the pensions sectors. Currently a pool of pension assets of only about \$ 2 billion is managed. This is minuscule for a country with a population of 1.2 billion. As the organised workforce grows the pensions and insurance sector will accelerate in growth.
- ⇒ **Will social activist Mr Anna Hazare's successful fasting tactic to force the Government to accept key clauses for an anti-corruption bill see the end of graft soon in India?** No. The bill is no magic wand. But, it is a very useful starting mechanism to improve governance in a country plagued by endemic corruption that affects all strata of society. And, according to some economists, costs the country 1-2% growth in GDP. This cost is over and above the loss of 1 -2% in GDP due to poor

BOMBAY

INR ₹ /US\$ Rs46.09

INR ₹ /GB£ Rs75.12

INR ₹ /EUR Rs66.65

Markets closed today for ID festival. August ended as the 4th consecutive month of losses. It was also the worst month for investors since January 2011. Mid/ small caps underperformed (-26%) large cap stocks (-19%) due to poor investor interest.

LONDON / NEW YORK

Most GDRs/ADRs outstrip the SENSEX's loss YTD. On AIM some Indian shares still manage to show profit. IEnergy is +28% YTD.

infrastructure. Foreign investors are heartened by a move finally being made to cut corruption levels, which in turn should prune the maze of bureaucracy which aids and nurtures such corruption. The anti-corruption bill originated about 40 years ago and was until now cleverly shelved by politicians and bureaucrats who would most be held accountable and brought to book. Were it not for the rising anger of millions of a growing middle class that supported Mr Hazare, out-of-touch- politicians would have played further political football with this bill to make it toothless against corrupt high office. However, the Government's dithering response to Mr Hazare, briefly arresting him before releasing him after a protestor backlash, only confirmed how out of touch elderly ministers were with the mood of a people increasingly frustrated and angered at the political class. Corruption in India, according to Transparency International's corruption index, has worsened over time. In 2010 India ranked 87th (level with Albania) vs 84th in 2009 and 69th a decade ago.

- ⇒ **A number of very interesting points have come out of Mr Hazare's success with the anti-corruption bill:**
 1. Anger by millions in India, against a scourge of this magnitude which affects all strata of society, has been voiced in a largely peaceful way, echoing Mr Hazare's Gandhian tactic of fasting to death. This is in sharp contrast to violent street protests seen in many Arab countries, and which many foreign investors feared was only a matter of time before it hit Indian streets as well;
 2. The standing of the Government has, according to Indian press, actually gone up now that they have listened to the people;
 3. A growing change in attitudes by a middle class created by the economic reforms started in 1991. A collective guilt of giving bribes, and thus being part of the process, seems to have gripped them. Until now, it has been rare for India's middle class to put aside their material attitudes to protest on streets against politics;
 4. Will the middle class, which is expected to surge to 267 million by 2016 from 160 million today and account for almost 40% of the population by 2025 (source: National Council for Applied Economic Research, Delhi) set good examples by refusing to pay bribes to "speed up" things in a country with excessive and burdensome bureaucracy?
 5. Overall, foreign investor confidence and interest in India should go up.

**SELECTED SHARE PRICES****GDR OFFER PRICES (US\$) LONDON – 31 Aug 2011 : 1615 GMT**

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
L&T	\$35.38	- 22%	SBI	\$ 95.10	- 28%
M&M	\$16.30	- 9%	Suzlon Energy	\$ 3.27	- 41%
Ranbaxy	\$10.50	- 24%	Tata Power	\$ 25.00	n/c
Rel. Inds	\$34.65	- 29%	Tata Steel	\$ 10.39	- 35%

Source : Thomson Reuters

ADR OFFER PRICES (US\$) NEW YORK – 31 Aug 2011 : 1615 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
Dr.Reddy	\$ 32.86	- 12%	Patni	\$12.66	- 41%
HDFC Bank	\$ 32.96	- 7%	Sterlite	\$11.34	- 32%
ICICI Bank	\$ 39.04	- 26%	Tata Com (ex VSNL)	\$ 8.98	- 23%
Infosys	\$ 52.20	- 32%	Tata Motor	\$16.68	- 44%
MTNL	\$ 1.66	- 31%	WIPRO	\$10.15	- 36%

Source : Thomson Reuters

AIM (LONDON): in GB p unless stated otherwise – 31 Aug 2011 : 1615 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
Caparo Energy	87	- 23%	Jubilant Energy	52	- 22%
DQE	72	- 43%	Kolar Gold	23	- 32%
Eros	213	- 2%	OPG Power	63	- 19%
Greenko	175	- 8%	Photon Kaathas	46¢	- 12%
HIRCO	56	- 17%	SKIL Ports	174	- 30%
IEnergizer	235	+ 28%	Trinity Cap.	25	+ 2%
Indus Gas	565	- 9%	Unitech	20	- 36%
Ishaan	50	- 22%	W. Pioneer	18	- 32%

Source : Thomson Reuters

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INDIA REPORT

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