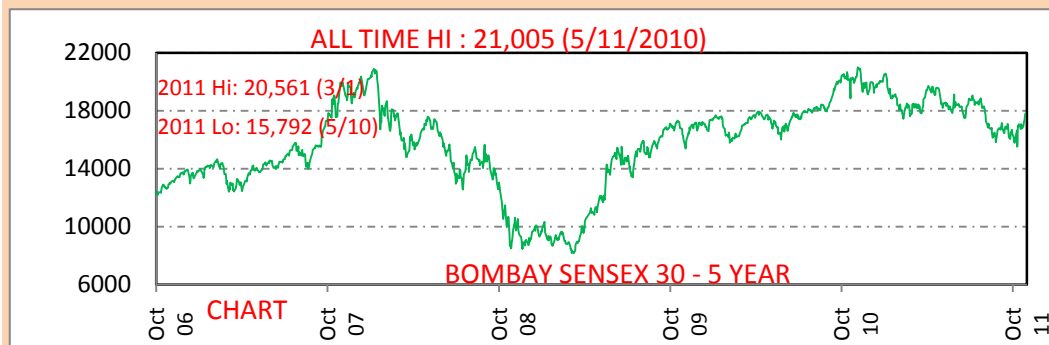




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31 October 2011



Source: chart &amp; following table: Bloomberg

	Index	Pts Chg	% Chg	2010/11	5 Yr	5 Yr	5 Yr
CLOSE: 31 Oct 2011		Day	YTD	PER	PER Hi	PER Lo	Avg
SENSEX 30	17,705	-99	-13.2%	14.9x	25.0x	8.1x	18.7x
NIFTY 50	5,327	-34	-12.6%	N/A	N/A	N/A	17.2x

**BOMBAY**

INR ₹ /US\$ Rs48.61

INR ₹ /GB£ Rs78.37

INR ₹ /EUR Rs68.15

The SENSEX closed down 0.5% as profit taking set in after recent strong rises. The European debt crisis again looms heavy on investor minds as they realise the recent agreement has only bought time for Europe. the underlying problems still exist.

**LONDON / NEW YORK**

GDRs and ADRs have bounced back over the last 10 days in line with Bombay's better performance. In London AIM shares also fare better.

**ECONOMIC NEWS**

- ⇒ Will the direction of Indian interest rates be downwards from here on? Central banks from Brazil to Singapore and Indonesia have loosened monetary policy as risks have shifted from cooling inflation to stimulating weak economic growth. For India, it all depends on whether the expected decline in inflation rate materialises. Last week the Reserve Bank of India (RBI) raised for the 13th time the benchmark repo rate by another 0.25% to 8.50%. It also raised the reverse repo rate to 7.5%, and retained the Cash reserve ratio at 6%. Although the RBI's tone remains hawkish, as it does not want to lose focus on inflation, it said a rate move at the next scheduled review in December is "relatively low".
- ⇒ India's inflation rate has remained stubbornly high - over 9% for 10 consecutive months. It is largely driven by high food and global commodity prices. Manufacturing inflation is now adding pressure together with the near 12% fall in the Rupee since July which makes imports more expensive. India imports nearly 80% of its oil needs. India's latest inflation figure of 9.72% in September is the highest among major Asian economies and also BRIC countries. The RBI has stuck to its inflation forecast of inflation easing to 7% by end-March 2012. Despite its previous forecasts being optimistic we believe this one is reasonable. The RBI also revised downwards its GDP forecast to March 2012 to 7.6% from 8% earlier. Our forecast remains 7.4%.
- ⇒ Although economic growth has averaged 8%p.a. in recent years, job creation has been low. This is worrying for a country, especially one with a young population with about 50% under the age of 30. About 15+ million new jobs need to be created each year to absorb youth and people moving away from rural areas. In order to address this issue and also boost economic growth through manufacturing the Government cleared a flagship policy. This creates new industrial zones and parks where easier labour and environment rules apply. India needs to catch up urgently with China's manufacturing and export capability and this policy is aimed to boost that. India's manufacturing has struggled to be competitive and attain global quality standards. The share of manufacturing in GDP has languished around 16% for about 30 years. Trade Minister, Mr Sharma hopes the new policy will create 100 m jobs in the next 10 years and lift manufacturing to

30% of GDP. The use of green technology will be encouraged with incentives.

**OTHER NEWS**

- ⇒ The fall in the stock market this year has taken its toll on the wealthy in India. The SENSEX has been down in double digits for most of this year. The Forbes Rich List (\$370 m to enter the list, down from \$ 500 m last year) of 100 richest Indians saw the number of billionaires drop to 57, from 69 last year. Mukesh Ambani, head of Reliance Industries, tops the list with a value of \$ 22.6 bn, despite his net worth falling by \$ 4.4 bn. Azim Premji, Chairman of WIPRO, India's number three software services company is the only one from India's showpiece IT sector. He ranked third with a worth of £ 13 bn.
- ⇒ Hopes of consumption in booming Asian economies counterbalancing weaker demand in developed economies have come under question. A recent survey of affluent households (defined as wealth of \$ 100, 000+ in liquid assets) by research firm TNS found that 80% of such people live in Western countries. The US has the most prosperous households which total 31 million, compared to 3 million in India and China. India's affluent make-up 1.25% of the country's population of 1.2 bn people. In USA it is 27%, in Canada 20%, in the UK 11% and in China 0.75%. However, in numbers China has surpassed Germany, France and the UK. Researchers had to drop the wealth threshold to \$ 40,000 for Brazil to find a large enough sample.
- ⇒ Infosys, India's number 2 software services exporter is looking for acquisitions worth up to \$ 700 m. Executive Chairman Kris Gopalkrishnan said the European financial crisis had affected growth in the region. Also, further pricing pressure and decline in new orders are expected as Europe grapples with its debt crisis and America struggles with weak economic growth. Infosys is now hunting for acquisitions in the healthcare and life sciences sectors and for firms with niche platforms or geographical presence. Infosys also sees China as a big market with growth of 30% next year.

**Comparison of population of top 20 populous Indian states with countries:**

Rank	Indian State/Union Territory	Population (million) - 2011 census	Equivalent country	Latest census population (million)
	<b>INDIA</b>	<b>1,210</b>		
1.	Uttar Pradesh (UP)	200	Brazil	190
2.	Maharashtra	112	Mexico	112
3.	Bihar	104	Philippines	94
4.	West Bengal	91	Philippines	94
5.	Andhra Pradesh (A.P.)	85	Germany	81
6.	Madhya Pradesh (M.P.)	73	Turkey	73
7.	Tamil Nadu	72	Turkey	73
8.	Rajasthan	68	France	65
9.	Karnataka	61	U.K.	62
10.	Gujarat	60	Italy	60
11.	Orissa	41	Argentina	40
12.	Kerala	34	Canada	34
13.	Jharkhand	33	Morocco	32
14.	Assam	31	Uganda	31
15.	Punjab	28	Malaysia	28
16.	Haryana	25	Saudi Arabia	27
17.	Chattisgarh	25	Ghana	24
18.	NCT of Delhi	16	Netherlands	17
19.	Jammu & Kashmir	13	Cambodia	13
20.	Uttarkhand	10	Belgium , Greece	11

- There are 28 states and 7 Union territories in India
- 2011 census for India shows a total population of 1.21 bn or about one in six of people in the world are Indian
- Many Indian states have a population equivalent to European countries
- The combined population of India's two most populous states (U.P. and Maharashtra) with a combined population of 312m is greater than the population of USA
- Likewise, the combined population of India's five most populous states (UP, Maharashtra, Bihar, West Bengal, Andhra Pradesh) at 592 m is more than the population of the European Union's 28 member states of about 550 m
- A little more than 60% of Indians live in one of seven states: UP, Maharashtra, Bihar, West Bengal, Andhra Pradesh and Tamil Nadu
- The rising middle class will drive India's economy for the next 3 decades at least. The sheer numbers will help now
- However, India's huge population will keep it only as a middle income country on per capita GDP basis even in 30 years, despite it becoming the 3rd largest economy in the world
- %age decadal growth of population in India : 1951-61 to 2001-2011:
  - 1951-61 : 21.64%
  - 1961-71 : 24.85%
  - 1971-81 : 24.66%
  - 1981-91 : 23.87%
  - 1991-2001 : 21.54%
  - 2001-2011 : 17.64%

The latest census shows the lowest decadal growth since after Independence in 1947

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