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INDIA REPORT

LALCAP

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Source: chart & following table: Bloomberg

CLOSE: 29 June 2012	Index	Pts Chg Day	% Chg YTD	2012/13 PER	5 Yr PER Hi	5 Yr PER Lo	5 Yr Avg
SENSEX 30	17,429	+439	+ 10.0%	14.0x	25.0x	8.1x	18.7x
NIFTY 50	5,279	+130	+ 11.4%	13.5x	N/A	N/A	17.2x

BOMBAY

INR ₹ /US$ Rs55.50

INR ₹ /GB£ Rs87.02

INR ₹ /EUR Rs70.85

The SENSEX closed 2.6% higher as optimism in Europe (even if it may be short-lived there) boosted sentiment. Hope that Dr Singh will kick start reforms brought back buyers. The 3% rise in the Rupee aided sentiment as well. The mood has turned positive for now.

LONDON / NEW YORK

GDRs/ADRs closed higher across the board. Tata Motors is + 27% and L&T +23% YTD. The mood has turned more positive.

ECONOMIC NEWS

➪ Mr Pranab Mukherjee stepped down on June 26 as Finance Minister to run in the Presidential elections. His appointment in mid-July is a virtual certainty. Mr Mukherjee, a veteran politician and loyal Congress supporter, also served as Finance Minister in 1982-85. He was then boss to the current Prime Minister, Dr Manmohan Singh who was the Governor of the Reserve Bank of India at that time.

➪ Dr Manmohan Singh, in addition to being Prime Minister now will also act as Finance Minister until about September. There is optimism that Dr Singh may take more practical steps to lead India out of a difficult economic situation. He is largely credited with ushering in the economic reforms of 1991 which set an upward economic path in India for the last 20 years. However, great challenges face him this time around. He will be 80 in September and has had a multiple coronary bypass operation in 2009. He heads a fragile Government with fractious Coalition partners that have stalled the economic reforms process. He takes charge of the economy when it has slid to its slowest pace in nine years, and the Rupee has touched an all time low against major currencies. The ballooned fiscal and current deficits and mis-steps on the tax front have hit foreign investor sentiment. The challenges for Dr Singh are great. But if he is able to take quick positive steps to boost investor (domestic and foreign) sentiment then optimism could fast replace the current pessimism and boost markets.

➪ The Indian Rupee posted its biggest daily gain in three years of 3.1% on Friday after the Government confirmed it will not impose retroactive taxes on foreign investors. Also boosting sentiment was news from Europe of a single supervisory body being set up to move towards a Euro zone banking union. The rally in the Indian Rupee to Rs 55.50 vs the US$ came as a great relief after the near 25% depreciation in the last year.

➪ The first half of 2012 had a mixed bag of winning investments among different asset classes. The two quarters making up the half year have seen very different results. The first quarter's rally in risky assets was driven by massive bank liquidity injections by the ECB. However, increasing worries on Euro debt problems and a slowing global economy eroded gains in the second quarter of 2012.

➪ In H1 2012 the big winner in Government bonds was Portugal which in Euro terms gained 30%, after being battered last year. High yield (junk) corporate bonds and USD emerging market corporate bonds gained about 7% each. Oil, commodities, Greek and Spanish bonds did badly. In emerging market equities Egypt stormed ahead with a gain of 30%. Stocks in Turkey and Philippines gained more than 20% in dollar terms. India managed a gain of 10% in local terms. Brazil, Russia, Indonesia and Morocco were all down.

➪ Foreign Direct Investments (FDI) to March 2012 showed an increase of 88% at $36.5 bn compared to $ 19.4 bn last year. The fiscal year ends in March each year. FDI into India can be made under one of two routes. The automatic route (not needing Government clearance) or the approved route through the Foreign Investment Promotion Board (FIPB) which provides Government clearance. Most sectors are now under the automatic route. FIPB clearance is required in some sectors - mainly of national security or in politically sensitive area - atomic energy, defence, media, aviation, trade, telecoms, trade and multi brand retail. What is interesting is that with many sectors opening up over the years the share of FIPB approvals to total FDI has steadily gone down. For example, in the latest period only 9% of total FDI required Government clearance. This is the lowest in 5 years and reflects the growing openness of sectors to foreigners. But their disappointment is at the speed and that key sectors like retail and financial sector are not fully open.

➪ Page 2 of our report shows latest FDI statistics on top 10 foreign investors and top 10 sectors.

➪ India's large consumer market continues to attract long term investors, despite current negative sentiment. Coca Cola is to invest another $ 3bn, on top of $ 2bn announced last November, over the next 8 years. Coca Cola returned to India in 1993 after pulling out in 1977 when a Government ruling would have forced it to share its secret formula. Swedish retailer IKEA, the world's largest furniture maker, is to invest 1.5 bn Euros to open 25 stores in India where it currently has none. It sourced $450m worth of goods last year from India.

EQUITY FOREIGN DIRECT INVESTMENT (FDI) INTO INDIA : TOP 10 COUNTRIES

source: DIPP, Govt. of India in US$ million

Rank	Country	2009-10 (April-March)	2010-11 (April-March)	2011-12 (April - March)	CUMULATIVE INFLOWS (Apr 2000-Mar 2012)	%age to total Inflows
1.	MAURITIUS	10,376	6,987	9,942	64,169	38 %
2.	SINGAPORE	2,379	1,705	5,257	17,153	10 %
3.	U.K.	657	755	9,257	15,896	9 %
4.	JAPAN	1,183	1,562	2,972	12,313	7%
5.	U.S.A.	1,943	1,170	1,115	10,564	6%
6.	NETHERLANDS	899	1,213	1,409	7,109	4 %
7.	CYPRUS	1,627	913	1,587	6,400	4 %
8.	GERMANY	626	200	1,622	4,621	3 %
9	FRANCE	303	734	663	2,927	2 %
10.	U.A.E.	629	341	353	2,243	1 %
	TOTAL FDI INFLOWS	25,834	19,427	36,504	170,407	

- Mauritius leads by a wide margin because many countries route their investments via this island because of their favourable tax treaty with India;
- The top 10 countries above account for nearly 75% of FDI into India since 2000;
- After a slow start through the 1990s (up to $5 bn per annum) FDI has accelerated in the last 5 years. The last 3 years account for about 50% of $ 170 bn invested since 2000;
- The cumulative figure of $ 170 bn since 2000 is still small compared to what China attracts - $115 bn FDI in 2011 alone.

TOP 10 SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS: *US$ in million*

Rank	Sector	2009-10 (April-March)	2010-11 (April-March)	2011-12 (April-March)	Cumulative Inflows (April '00 - March 12)	% age to total Inflows (last decade)
1.	SERVICES SECTOR (financial & non-financial)	4,176	3,296	5,216	32,351	19 %
2.	TELECOMMUNICATIONS	2,539	1,665	1,997	12,552	7 %
3.	CONSTRUCTION ACTIVITIES (including roads & highways)	2,852	1,103	2,796	11,433	7 %
4.	COMPUTER HARDWARE & SOFTWARE	872	780	796	11,205	7 %
5.	HOUSING & REAL ESTATE	2,935	1,227	731	11,113	7 %
6.	CHEMICALS	366	398	7,252	9,844	6%
7.	DRUGS & PHARMACEUTICALS	213	209	3,232	9,195	5 %
8.	POWER	1,272	1,272	1,652	7,299	4 %
9.	AUTOMOBILE INDUSTRIES	1,236	1,299	923	6,758	4%
10 .	METALLURGICAL INDUSTRIES	420	1,098	1,786	6,041	4%

source: DIPP, Govt. of India

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