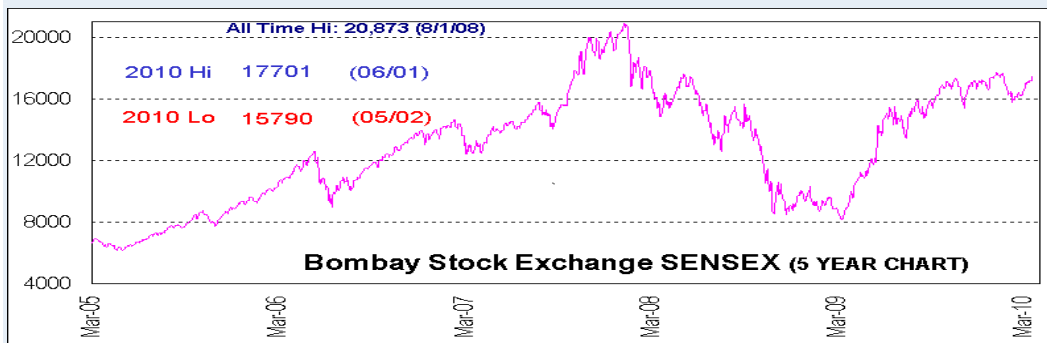




The India Report

Deepak Lalwani: Director - India

17 March 2010



Source, chart & following table: Bloomberg

Close 17 Mar 2010	Index	Pts Day	% Chg YTD	2009/10 PER	5 Yr PER Hi	5 Yr PER Lo	5 Yr Avg
SENSEX 30	17,490	+107	+0.1	21.2x	25.0x (1/08)	8.1x (11/08)	18.7x
NIFTY 50	5,232	+34	+0.6	25.2x	N/A	N/A	N/A

ECONOMIC NEWS

- **India's headline inflation exceeded expectations in February and nearly touched double digits.** Annual wholesale inflation accelerated to 9.89% in February (vs 3.5% in February 2009), the highest in 13 months. Contributing factors were food inflation remaining stubbornly high near 18% and manufacturing inflation accelerating to 7.42% in February from 6.55% in January as the economy gathers momentum. The RBI at its January policy review raised its end-March wholesale price inflation to 8.5% from 6.5% with an upward bias forecast earlier. Our forecast of 10.2% by end-March remains unchanged, although this may prove to be conservative. Rising prices have sparked street protests, backed by opposition parties. This has restrained the Indian government from pushing through reforms like relaxing fuel and farm price controls, despite the ruling Congress party not facing any risk of losing power nationally.
- **At its next policy review in April we expect the RBI to raise interest rates (reverse repo and repo) between 0.25 - 0.50% and the CRR by another 0.5% (after a massive 0.75% hike in January to 5.75%).** With industrial output accelerating to 16.7% in January 2010 and wholesale price inflation expected to exceed 10% by end-March, the RBI is under pressure to contain inflationary pressures building up in the economy. Capacity utilisation is approaching highs last seen in 2007 and increasingly companies are reporting labour shortages, despite rising salaries. For example, recent reports in the press suggest 8-12% wage increases from April in major I.T. firms TCS, WIPRO and Infosys on an improved business environment.
- **A Bill to finally allow foreign education institutions to set up campuses and offer degrees in India was unanimously passed by the Union Cabinet for onward approval by Parliament, hopefully in the Monsoon session.** Mr Kapil Sibal, Union Minister for Human Resource Development (MHRD) said "Though 100% FDI is allowed in the education sector the current legal structure in our country does not allow granting of degrees by foreign educational institutions on Indian soil". The Bill was first introduced in August 1995. The long journey for this Bill involved several years of debate and being on the back burner; as with many other major and controversial policies (opening sectors to foreigners), most India watchers

developed a healthy scepticism of it ever getting through because of lack of political will. The Bill aims to regulate the entry, operation and maintenance of quality assurance and prevention of commercialisation by foreign education institutions. It will allow them to invest at least 51% of the total capital expenditure needed to establish in India and be granted university status. The demand in India for graduates over the next five years is estimated to be 13.8m and with only 13.2m expected to graduate, a shortage of 600,000 graduates is expected.

- **So what is a brief background to the education system in India?** Largely, it is a legacy from the days of the British Raj – but, with a big difference. While British schools and universities over the centuries have encouraged independent thinking and actively developed analytical skills, it was not in British interests to do this in a colony it wished to rule. So, rote of learning and "not to question" was encouraged in India rather than "to question and challenge ideas". This has produced, to a large extent, masses that often are inadequately prepared for industry and business which requires initiative and on-going analytical skills. The paradox for India today is that in a land of plenty of people there are few "rightly educated and trained" ones for the economy. Also, inadequate funding for education by the Indian Government, poverty among masses and low morale among teachers (especially in state-run schools) over decades has left education for the masses in a parlous state in India.

- **We believe this education reform to be very important and long overdue.** Our view is that education and skilling is a major risk for India as it restrains economic growth (through inadequately educated and trained personnel), raises costs for industry as employers compete to hire the best and are forced to pay higher salaries/poach people. Opening the sector and allowing foreign competition will raise Indian standards. Also, it may tempt (through lower costs in India) part of the estimated annual 160,000 students who go abroad for higher studies, and cost an estimated \$4bn in foreign exchange to India p.a., to stay home.

MARKET NEWS

- **Top and bottom Bombay Stock Exchange sectors YTD are:**

Top 3: 1.Consumer Durables: + 9.9%; 2. I.T.: + 5.4%;
3. Auto: +2.6% ;

Bottom 3: 1. Realty: -12.0%; 2. PSU: -6.2%; 3. Power: -3.7%.

SELECTED SHARE PRICES
GDR OFFER PRICES (US\$) LONDON – 17 Mar. 2010: 15:00 GMT

Company	Day's Price	Day's Change	Premium/Discount	Company	Day's Price	Day's Change	Premium/Discount
L&T	\$35.80	+60¢	+0.1%	SBI	\$92.60	+80¢	+3.6%
M&M	\$25.00	+\$1.20	+0.8%	Suzlon Energy	\$6.65	+5¢	+0.5%
Ranbaxy	\$10.44	+15¢	+0.2%	Tata Power	\$30.05	n/c	-0.1%
Rel. Inds	\$47.20	+21¢	+0.4%	Tata Steel	\$14.50	+5¢	-1.1%

Source : Bloomberg

ADR OFFER PRICES (US\$) NEW YORK – 17 Mar. 2010: 15:00 GMT

Company	Day's Price	Day's Change	Premium/Discount	Company	Day's Price	Day's Change	Premium/Discount
Dr.Reddy	\$27.31	+43¢	+0.6%	Satyam	\$5.28	-1¢	+22.6%
HDFC Bank	\$132.47	+\$1.61	+10.6%	Sterlite	\$18.73	+31¢	+2.0%
ICICI Bank	\$42.51	+\$1.02	+1.6%	Tata Com (ex VSNL)	\$12.61	+3¢	+0.3%
Infosys	\$60.80	+67¢	+0.7%	Tata Motor	\$18.66	+15¢	+8.5%
MTNL	\$3.23	-1¢	+1.8 %	WIPRO	\$23.90	+47¢	+46.6%

Source : Bloomberg

AIM (LONDON): in GB p unless stated otherwise (indicative only) – 17 Mar. 2010: 15:00 GMT

Company	Day's Price	Day's Change	YTD Change	Company	Day's Price	Day's Change	YTD Change
DQE	126	+1	+25%	KSK	585	-2	+13%
Dhir India	100	n/c	-5%	Naya Bharat	\$0.39	+0.01	-3%
Eredene	18	n/c	+6%	Noida Toll	\$4.00	-0.30	-11%
Eros	172	+1	+7%	OPG Power	68	n/c	-25%
Gt Eastern	510	+1	+16%	Prometh. (Eleph.Cap)	70	n/c	+17%
Greenko	155	-3	+31%	Trinity	50	n/c	-10%
HIRCO	138	+3	-13%	Unitech	28	n/c	+17%
Indian Films	42	n/c	0%	W. Pioneer	27	n/c	+8%
Ishaan	70	n/c	+32%				

Source : Bloomberg

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