



Source, chart & following table: Bloomberg

	Close 21 May 2010		Pts	% Chg	2009/10	5 Yr	5 Yr	5 Yr
	Index	Day						
SENSEX 30	16,446	-74	-5.8	15.8x	25.0x (1/08)	8.1x (11/08)	18.5x	
NIFTY 50	4,931	-16	-5.2	N/A	N/A	N/A	17.2x	

ECONOMIC NEWS

- **The Indian economy took over 60 years from independence in 1947 to cross the \$ 1 trillion GDP mark in the fiscal year to 31 March 2008.** The next trillion is expected to be crossed before 31 March 2015. So why will the second trillion be crossed so much faster than the first? Because of compounding of growth at higher rates to 2015 compared to the first 60 years. Real GDP growth per annum was a mere 3.5% for three decades from 1950. It rose to 5.4% in the decade to 1990 and 5.9% in the next ten years to 2000. Our forecast for the decade to 2010 is 7.3% p.a. Going forward to 2015 real GDP growth should accelerate to over 7.5% p.a. as infrastructure is incrementally improved, albeit slowly, and the economy recovers to grow 8 - 9% from 2012. If average inflation of 5% p.a. is added to the real rate, a nominal GDP growth rate of about 12.5% pa will result in a doubling of the economy in about seven years using current USD/INR rates. **We feel this is easily achievable and broadly follows the path of China, which started its reforms process 12 years before India.** In China it took 50 years to cross the first \$ 1 trillion mark in 1998, 6 years to reach the second trillion, 3 years to cross the third trillion and only 1 year to cross the fourth trillion in 2008. We believe the Indian economic journey will follow a similar path, although the pace may not be as scorching as China's. This is because there is a cost to India of having a democratic system, which needs consensus opinion to push through badly needed and tough policies. The frustratingly slow pace of this political process acts as a drag to higher economic growth.
- **The Indian Rupee fell 3.8% this week to Rs 46.95 vs the USD; the biggest weekly fall since July 1996 (when it fell 11.7%).** The SENSEX declined 3.2% this week, its third decline in four weeks. Foreign Institutional Investors (FIIs) have sold \$1.45bn of Indian shares this month, lowering their net inflow into Indian shares in 2010 to \$5.1bn. They have wanted to book profits in markets which still have them, as nagging concerns persist for investors that the unfolding European sovereign debt crisis will derail the fragile global economic recovery. This has led to a sharp increase in risk aversion and volatility. Emerging market stocks have extended losses to hit 8-month

lows and bond market spreads are at their widest in 8 months. Investors remain unconvinced about the resolve of Euro zone members to enforce austerity measures to solve their debt crisis.

- **The Indian rupee has lost 5.5% so far in May due to capital outflows, and is 0.9% down year-to-date.** Last year it rose 4.7% on very strong FII inflow of \$17.5 bn into Indian shares. The RBI states that its policy is not to target a particular level for the currency, but to smooth excessive volatility. **Our view is that the INR may test Rs 47.50 vs the USD in the next 4 weeks.**

OTHER NEWS

- **Centennial Steel, a 100% subsidiary of Tata Steel, has raised a \$1.26bn loan for a new steel plant at Jamshedpur, India.** Steel continues to be very much in demand as India continues to address its creaking infrastructure. India's Ministry of Steel stated in its 2009-10 annual report that India has now become the world's fifth largest steel producer and is likely to become the second largest by 2015-16.
- **Road Transport Minister, Mr Kamal Nath, said that India plans to award \$50bn of road projects for the year ending March 2011 to build 18,000 – 20,000 kms of roads.** He expects as much as 70% to be funded by the private sector. Last year Mr Nath set a target of building 20 kms of roads a day. Actual road building is about 12 kms a day. Despite 100% foreign investment being allowed in the roads sector, few foreign players have been attracted to invest in this potentially large and seemingly attractive sector, which Mr Nath says offers 16-18% returns. Multiple problems like land acquisition, a slow adoption of the toll-road model in India and hitherto stringent exit clauses (in December 2009 this was amended to allow road developers to move out of a project after 2 years of its completion against the previous requirement of 20 years) have deterred potential investors. Foreign investors now feel more comfortable having local partners in a consortium. India's undeveloped bond market, with few investors attracted to long-term debt, coupled with political resistance and inertia to further open up the insurance (from 26%) and pensions sectors to foreign capital have contributed to a lack of committed funds for infrastructure. India now plans to launch an \$11 bn infrastructure fund by the end of this year that will help develop the domestic bond market and refinance high-cost debt. Indian Government officials estimate that about \$ 1 trillion will be required to improve infrastructure over the 5 years from 2012.

BOMBAY

INR/US\$ Rs46.93

INR/GB£ Rs67.85

INR/EUR Rs59.06

The SENSEX closed 0.5% lower in a volatile session amid growing concerns about the European debt crisis. Power and realty shares led the losers, but late buying was seen in autos and FMCG. Losers outpaced winners 3:1 in the broader market. Sentiment is nervous.

LONDON / NEW YORK

GDRs + ADRs recover from earlier losses, with many showing gains on the day. Despite the recent selling, no arbitrage opportunities exist.

SELECTED SHARE PRICES

GDR OFFER PRICES (US\$) LONDON –21 May 2010: 15:00 GMT							
Company	Day's Price	Day's Change	Premium/Discount	Company	Day's Price	Day's Change	Premium/Discount
L&T	\$34.19	-10¢	-0.2%	SBI	\$96.50	+\$3.00	-0.3%
M&M	\$11.70	+20¢	+1.8%	Suzlon Energy	\$5.20	+20¢	+4.0%
Ranbaxy	\$8.80	-3¢	-0.9%	Tata Power	\$26.98	n/c	+0.7%
Rel. Inds	\$42.35	+\$1.15	-0.2%	Tata Steel	\$11.20	n/c	-1.4%

Source : Bloomberg

ADR OFFER PRICES (US\$) NEW YORK – 21 May 2010: 15:00 GMT							
Company	Day's Price	Day's Change	Premium/Discount	Company	Day's Price	Day's Change	Premium/Discount
Dr.Reddy	\$27.47	+52¢	-1.7%	Satyam	\$4.74	+1¢	+36.7%
HDFC Bank	\$134.75	+\$1.78	+15.5%	Sterlite	\$13.34	+10¢	-2.5%
ICICI Bank	\$35.70	+58¢	+0.3%	Tata Com (ex VSNL)	\$10.19	+3¢	-1.3%
Infosys	\$55.50	+31¢	+0.7%	Tata Motor	\$15.74	-19¢	+4.0%
MTNL	\$2.39	+4¢	-1.7%	WIPRO	\$20.30	+15¢	+48.5%

Source : Bloomberg

AIM (LONDON): in GB p unless stated otherwise (indicative only) – 21 May 2010: 15:00 GMT							
Company	Day's Price	Day's Change	YTD Change	Company	Day's Price	Day's Change	YTD Change
DQE	115	-8	+14%	KSK	605	-2.50	+16%
Dhir India	100	n/c	-5%	Naya Bharat	\$0.38	n/c	-5%
Eredene	18.5	n/c	+9%	Noida Toll	\$3.10	-0.15	-31%
Eros	192	-6.50	+19%	OPG Power	75	-2	-18%
Gt Eastern	505	n/c	+15%	Prometh. (Eleph.Cap)	65	n/c	+8%
Greenko	162	-4.50	+37%	Trinity	61	n/c	+10%
HIRCO	140	-0.25	-11%	Unitech	27.5	-1.75	+15%
Indian Films	42	n/c	0%	W. Pioneer	25	n/c	+0%
Ishaan	66	-1.50	+25%				

Source : Bloomberg

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