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INDIA REPORT

LALCAP

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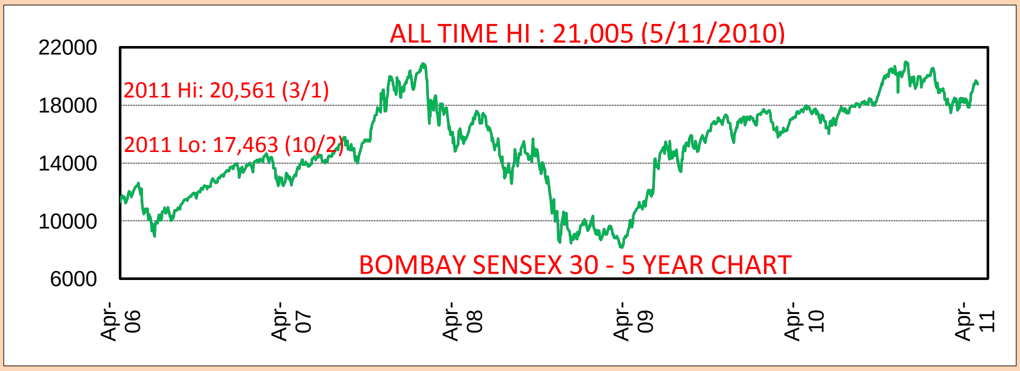
19 April 2011



Source: chart & following table: Bloomberg

CLOSE: 19 Apr 2011	Index	Pts Chg Day	% Chg YTD	2010/11 PER	5 Yr PER Hi	5 Yr PER Lo	5 Yr Avg
SENSEX 30	19,121	+ 31	- 6.9%	18.3x	25.0x	8.1x	18.7x
NIFTY 50	5,740	+12	- 6.6%	18.5x	N/A	N/A	17.2x

BOMBAY

INR ₹ /US$ Rs44.45

INR ₹ /GB£ Rs72.30

INR ₹ /EUR Rs63.46

The SENSEX closed + 0.2% at the end on bear closing in the final hour. Top gainers: Bharti Tel (Rs 375.80 +2%), Reliance Comm (107.80 + 2%), L&T (1706.80 +2%). Top losers: Hero Honda (177.20 -5%), BHEL (2135 -2%), Hind. Lever (227 -1%).

LONDON / NEW YORK

Most GDRs/ADRs in our table show YTD losses. On AIM the Indian property sector shows a sharp YTD contrast: Unitech:+50%; HIRCO: -32%.

ECONOMIC NEWS

⇨ The Wholesale Price Index, India's main inflation indicator rose faster than expected in March due to higher fuel and manufacturing prices. The provisional figure for March was 8.98% YoY vs 8.31% in February. This adds pressure on the Central Bank to continue with its monetary policy tightening, despite eight increases in interest rate since March 2010. The March reading is above the Central Bank's projection of 8% for the last month of the fiscal year, and also above our projection of 8.5%. To exacerbate woes, in a sign that provisional data could be underestimating actual figures, the January inflation figure was revised sharply upwards to 9.35% from 8.23% earlier. This raises fears that the final March figure may well be in double digits. The RBI is walking on a tightrope and trying to balance between stimulating economic growth and containing stubbornly high inflation. There is now a clear risk that it will raise interest rates on May 3 or before by 0.50% rather than 0.25% factored in by the market, and also signal a more hawkish stance going forward. We had earlier expected two more interest rises totalling 0.50% this year; this is now being doubled to up to 1%. The knock-on effect will be a higher cost of capital, margins eroded and possible delays in investments.

⇨ **In India manufacturing accounts for 80% of the industrial production figure.** The February reading of 3.5% vs 16% a year ago points to a slowing economy, sabotaged by rising oil and commodity prices. The Government's GDP forecast for the year to March 2012 of around 9% may prove optimistic. Rapidly growing India is vulnerable to inflation (eg, caused by a poor monsoon affecting crop yields or higher oil prices) as capacity constraints caused by years of under-investment in infrastructure (roads, power, ports, education and skilling to name a few) are beginning to bite. This under-investment needs urgent remedy.

⇨ **Indian exports leapt 43.9% or $29bn in March, the highest ever, as Western economies see some economic recovery.** Export growth has mainly been led by engineering goods. The Government's export target of $200bn for the fiscal year has been exceeded very comfortably as exports rose 37.5% to $245.9 bn for the year. The current account deficit, according to Trade Secretary Mr Rahul Khullar, is estimated at 2.5 - 2.7% of GDP this fiscal year - this is well within prudent norms.

⇨ **The Government today forecast "normal" rains for the 2011 monsoons. "Normal" = between 96-104% of a 50-year average of 89 cms during the four month June - September monsoon season.** Only about 40% of arable land in India is irrigated; 60% of farms depend on the kindness of the Rain Gods for a good harvest. In 2009 the worst drought in nearly 40 years caused food prices to rise sharply, and with it inflation. The farm sector contributes about 15% to the overall economy, but has to provide income to about 720 m people because about 60% of India's 1.2 bn population lives in rural areas. About half of farm output comes from crops sown in the monsoon period. Normal monsoons are important for various reasons: (a) India is among the world's leading producer and consumer of wheat, rice, sugar and edible oils. A bad monsoon reduces crop yields and farm output. Food prices go higher, causing social discontent, and forcing the Government to take populist decisions by increasing subsidies, welfare schemes and easing repayment of loans by distressed farmers; (b) International food prices are affected by a bad monsoon as demand for imported food in India rises; (c) A good monsoon boosts farm incomes and with the multiplier effect boosts demand for consumer goods, cars, motor cycles and tractors. Farmers are fond of investing extra cash in gold jewellery - boosting prices for the metal; (d) Monsoons replenish reservoirs, increase ground levels and improve irrigation; (e) Poor rains often result in a cut in power generation as water is diverted to households; (f) A good monsoon helps bring down food prices and help to lower inetrest rates.

SELECTED SHARE PRICES

GDR OFFER PRICES (US$) LONDON – 19 Apr 2011 : 1530 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
L&T	$38.41	-16%	SBI	$129.60	- 2%
M&M	$16.49	- 8%	Suzlon Energy	$ 5.02	- 3%
Ranbaxy	$10.35	-24%	Tata Power	$ 27.60	- 7%
Rel. Inds	$45.50	- 5%	Tata Steel	$ 13.94	- 11%

Source : Thomson Reuters

ADR OFFER PRICES (US$) NEW YORK – 19 Apr 2011 : 1600 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
Dr.Reddy	$ 37.28	+ 2%	Patni	$21.06	- 1%
HDFC Bank	$172.77	+ 2%	Sterlite	$15.24	- 8%
ICICI Bank	$ 49.20	- 3%	Tata Com (ex VSNL)	$11.50	+ 2%
Infosys	$ 63.13	- 17%	Tata Motor	$27.28	- 5%
MTNL	$ 2.18	- 9%	WIPRO	$14.01	- 9%

Source : Thomson Reuters

AIM (LONDON): in GB p unless stated otherwise – 19 Apr 2011 : 1615 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
Caparo Energy	107	- 9%	Ishaan	59	- 10%
DQE	110	-13%	Jubilant Energy	67	+ 2%
Eredene	18	- 4%	OPG Power	89	+10%
Eros	238	+ 6%	Photon Kaathas	48¢	- 8%
Greenko	211	+ 9%	SKIL Ports	184	- 25%
HIRCO	52	-32%	Trinity Cap.	38	+50%
IEnergizer	195	+10%	Unitech	25	- 18%
Indus Gas	765	+23%	W. Pioneer	21	- 24%

Source : Thomson Reuters

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