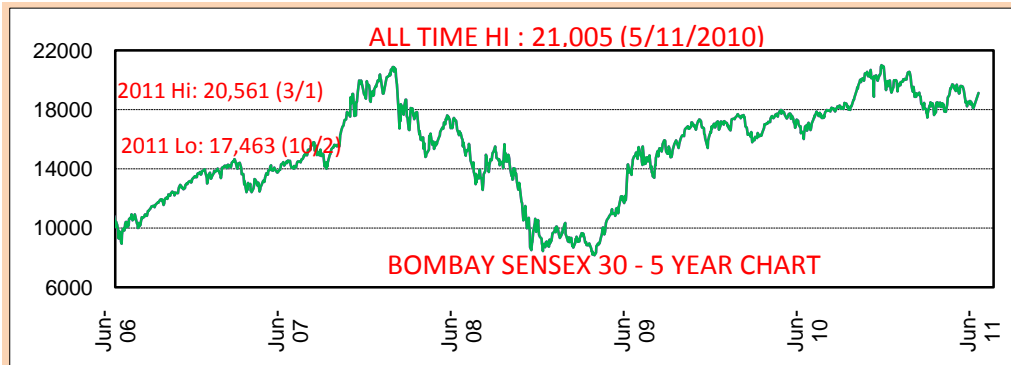




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13 June 2011



Source: chart & following table: Bloomberg

		Pts Chg	% Chg	2011/12	5 Yr	5 Yr	5 Yr
CLOSE: 13 June 2011	Index	Day	YTD	PER	PER Hi	PER Lo	Avg
SENSEX 30	18,266	-3	-10.9%	14.7x	25.0x	8.1x	18.4x
NIFTY 50	5,483	-3	-9.6%	14.5x	N/A	N/A	17.0x

ECONOMIC NEWS

⇒ **Economic headwinds in India are increasing.** Nine interest hikes since mid-March 2010 totalling 250 basis points have started to bite and slow down the economy. The RBI is walking a tightrope between sacrificing economic growth (through interest rate hikes) to (unsuccessfully) try and tame stubbornly high inflation. We still expect hikes totalling at least another 50 basis points by the end of the year. Latest economic indicators point to a slowing economy. India's services sector (about 58% of GDP and employing 25% of labour force) expanded at its slowest pace in 20 months in May. The seasonally adjusted HSBC Markit Business Activity Index, based on 400 firms, slipped to 55.0 in May from 59.2 in April. The index has been above 50.0 (which divides growth from contraction) for 25 consecutive months, and although the May reading confirms a solid pace of growth the deceleration is of concern.

⇒ **Adding to evidence of a slowdown is the latest industrial output growth data.** In April the annual expansion in production at factories, mines and utilities was 6.3% vs 8.8% in March. Manufacturing (which contributes 80% of overall industrial output) grew in April at an annual growth rate of 6.9% vs 10.4% a month earlier. Higher input costs (rising wage bills, higher borrowing and material costs) are hurting manufacturing margins also. Capital goods output grew an annual 14.5% in April. Growth in production of consumer durable goods including cars slumped to 3.8% from 14% in March. Car sales in May rose at their slowest pace in two years. Business confidence in May sunk to its lowest level since July 2010.

⇒ **So, is the India growth story over?** No. We expect the economy to grow at (a still respectable) 7.8% in the

BOMBAY

INR ₹ /US\$ Rs44.72

INR ₹ /GB£ Rs72.60

INR ₹ /EUR Rs64.41

The SENSEX closed virtually flat. Index top 3 gainers: Jaiprakash (Rs 84.25 + 3.1%), NTPC (180.10 +2.3%), CIPLA (338.90 +2.0%). Top 3 losers: Hindalco (180.35 - 2.2%), Reliance Inds (926.65 -1.8%), Tata Steel (562.80 -1.1%).

LONDON / NEW YORK

All GDRs/ADRs in our table continue to show losses, with Patni leading the way. On AIM, Trinity maintains its lead: + 42% YTD.

fiscal year to March 31, 2012. Three important factors which will help to revive the economy are: 1. Crucially, lowering and taming the stubbornly high inflation rate; 2. This should lead to an end of the current cycle of interest rate rises and help spur demand; 3. A normal monsoon which helps stimulate demand in the economy, especially in rural areas. However, the Government's hope to ratchet GDP growth back to 9% and above this coming year looks for now an aspiration for future years. It may be worth emphasising that India took 60 years since Independence to achieve the first trillion dollars of GDP because growth averaged a paltry annual 3.5% for 30 years from 1950-80. This rose to an average of 7.3% p.a. for the last decade. India's economy by the end of this decade is expected to be over four times the figure of \$ 1 trillion achieved in 2008, with growth in most sectors.

⇒ **What is worrying for global growth is that big emerging economies like India and China are cooling at the same time as recoveries are stalling in Europe and the U.S.**

This is in stark contrast to the post-Lehman period in 2008-2009 when emerging economies bounced back faster than developed ones because the former's banking system were in relatively better health. World stocks have fallen to a 12-week low and the MSCI world equity index has fallen to its weakest since mid-March. The index has lost nearly 8% since hitting a three-year peak in late-April and is very close to erasing all its 2011 gains. Exacerbating woes of the cooling economies of the two Asian giants is the uncertainty of the effect of any restructuring of Greek debt, an issue which has created a confrontation between the European Central Bank and Germany. Uncertainty over future US monetary policy after the Fed's \$600 billion bond buying programme ends this month has added to risk aversion among investors. And, this is happening at a time when economists want Americans to cut down on debt and boost spending at the same time, even though fuel costs are rising and home values in many states there are still falling.

**SELECTED SHARE PRICES****GDR OFFER PRICES (US\$) LONDON – 13 June 2011 : 1530 GMT**

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
L&T	\$38.26	-14%	SBI	\$101.80	- 21%
M&M	\$14.89	-16%	Suzlon Energy	\$ 4.84	- 4%
Ranbaxy	\$11.97	-13%	Tata Power	\$ 27.60	- 1%
Rel. Inds	\$41.52	-11%	Tata Steel	\$ 12.76	- 17%

Source : Thomson Reuters

ADR OFFER PRICES (US\$) NEW YORK – 13 June 2011 : 1615 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
Dr.Reddy	\$ 35.03	- 5%	Patni	\$15.60	- 27%
HDFC Bank	\$163.72	- 2%	Sterlite	\$14.66	- 11%
ICICI Bank	\$ 46.41	- 9%	Tata Com (ex VSNL)	\$ 9.51	- 15%
Infosys	\$ 63.70	- 17%	Tata Motor	\$22.34	- 24%
MTNL	\$ 2.03	- 17%	WIPRO	\$13.61	- 11%

Source : Thomson Reuters

AIM (LONDON): in GB p unless stated otherwise – 13 June 2011 : 1630 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
Caparo Energy	102	- 9%	Ishaan	55	- 14%
DQE	93	- 27%	Jubilant Energy	69	+ 4%
Eredene	18	- 4%	OPG Power	86	+ 7%
Eros	210	- 6%	Photon Kaathas	48¢	- 8%
Greenko	235	+20%	SKIL Ports	198	- 21%
HIRCO	56	- 14%	Trinity Cap.	36	+42%
IEnergizer	188	+ 6%	Unitech	22	- 24%
Indus Gas	760	+27%	W. Pioneer	22.5	- 17%

Source : Thomson Reuters

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