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Source: chart & following table: Bloomberg

		Pts Chg	% Chg	2011/12	5 Yr	5 Yr	5 Yr
CLOSE: 13 Feb 2012	Index	Day	YTD	PER	PER Hi	PER Lo	Avg
SENSEX 30	17,773	+24	+14.8%	15.5x	25.0x	8.1x	18.7x
NIFTY 50	5,390	+ 9	+16.4%	15.2x	N/A	N/A	17.2x

BOMBAY

INR ₹ /US\$ Rs49.14

INR ₹ /GB£ Rs77.47

INR ₹ /EUR Rs65.28

The SENSEX closed up 0.1% in a volatile session. Gainers included: Hero Motors + 2.1% @ 2017, Tata Steel +2.1% @ 485, Sun Pharma +1.9% @ 552. Losers included: WIPRO -2.6% @ 436, Tata Power - 2.5% @ 108, SBI - 2.0% @2129.

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GDRs/ADRs are mixed. Demand remains active. Suzlon stands out with a gain YTD of 68%, while Tata Motors is + 53% YTD.

ECONOMIC NEWS

- ⇒ Has the sharp deceleration in the Indian economy, caused by 13 interest rate hikes over 20 months until October 2011, come to an end? It is too early to say. Economic data are still mixed. Industrial production in December 2011 increased just 1.8% from a year earlier. Investment remains anaemic. Capital goods production, a proxy for investment, shrank for the fourth straight month, contracting 16.5% from a year earlier. Annual car sales are expected to register their first decline in a decade after January sales increased only by 7.2%. High financing and petrol costs have hurt demand. Indian car sales have risen every year since April 2002 and grew 30% in the fiscal year to March 2011. Sales are mainly driven by a rapidly expanding middle class that relies on loans to finance purchases. On the positive side the manufacturing sector grew at its fastest pace in eight months in January, as factory output surged on increased domestic and international demand.
- ⇒ With increasing risks to economic growth the Reserve Bank of India is under pressure to reduce interest rates. However, until last October it had to increase interest rates 13 times by a cumulative 375 basis points to 8.5% to tame stubbornly high inflation. Hence, it will want to be sure that inflation is under control before reducing rates. The inflation readings for January and February at least will be watched to see if prices are finally under control. If they are, we expect the RBI to start reducing interest rates from around March-April. About 100-125 babsis points cuts are expected this year, with 50 babsis points by June to spur economic growth.
- ⇒ Finance Minister Pranab Mukherjee will present India's annual budget for 2012/13 on March 16. The government will present the economic survey (document on the state of economy) on 15 March. The railways budget will be presented on 14 March. The budget session of parliament will start on 12 March.
- ⇒ Foreign Institutional Investors (FIIs), who greatly influence the direction and speed of Indian stock markets, have bought nearly \$ 4bn of shares year-to-date. In January they bought \$2 bn worth and in February so far they have bought \$2 bn more. In 2011 they were net sellers of a net \$ 358m and contributed to India being the worst performing stock market (-25%) in 2011 among major Asian markets. The strong capital inflows by FIIs this year have

contributed to making India the best performer in Asia and among BRIC economies. However, after the recent strong rally, a consolidation is expected ahead of the Budget which normally sets the tone for the market for the following 4-6 weeks.

- ⇒ Although economic growth has averaged 7.3% p.a. from 2000-2010, job creation has been low. This is worrying for a country, especially one with a young population with about 50% under the age of 30. About 15+ million new jobs need to be created each year to absorb youth and people moving away from rural areas. The Government introduced a new flagship policy last year to boost industrial activity, especially manufacturing. Currently seven large manufacturing hubs are being built and five more are proposed. The share of manufacturing in GDP has languished around 16% for about 30 years. Trade Minister, Mr Sharma hopes the new policy will create 100 m jobs in the next 10 years and lift manufacturing to 30% of GDP. One area of promise is to increase car production.
- ⇒ With no FDI caps global car manufacturers find India attractive, especially as labour costs rise in China. According to Ernst and Young FDI into India's auto industry increased by 48% to \$ 7.4 bn in 2011. Gujarat and Tamil Nadu are two states welcoming investment by offering cheap land and speedy clearances. Capacity is expected to increase in India from 4.8 million units in 2010 to 12 million in 2018, according to a recent report by investment bank Rothschild. India, according to them, is forecast to become the third largest auto market in the world by 2015. Small cars account for 70% of the domestic market. Exports account for 15% of auto output. Hyundai uses India as a global source for all their small cars. Last year it exported nearly 250,000 cars made in India - double the 2007 figure. Ford is increasing export of cars made in India to over 50 countries. Toyota plans for the first time to export cars made in India when it ships them to South Africa this year. Alas, the old problems in India of poor infrastructure, skills shortage and a generally slow bureaucracy will pose challenges to the country's manufacturing ambitions.

**GDP: TOP 20 INDIAN STATES: FY to 3/2011, GROWTH RATE %, EQUIVALENT COUNTRY AND GDP**

source: Central Banks, IMF, Wikipedia

Gross Domestic Product (GDP) in Nominal terms

Rank	Indian State/ Union Territory	GDP \$ Bn March 2011	Equivalent Country	2010 GDP \$ Bn
	INDIA		WORLD	
1.	Maharashtra	224	Hong Kong	224
2.	Uttar Pradesh (UP)	128	Hungary	130
3.	Andhra Pradesh (A.P.)	123	Qatar	127
4.	Tamil Nadu	119	Qatar	127
5.	Gujarat	105	Bangladesh	105
6.	West Bengal	97	Vietnam	103
7.	Karnataka	87	Slovakia	87
8.	Rajasthan	66	Sudan	65
9.	Kerala	58	Syria	59
10.	Haryana	56	Oman	58
11.	Madhya Pradesh (M.P.)	52	Dominican Republic	52
12.	Punjab	48	Sri Lanka	49
13.	Bihar	47	Slovenia	47
14.	NCT of Delhi	46	Burma	45
15.	Orissa	41	Guatemala	41
16.	Chattisgarh	28	Ethiopia	29
17.	Jharkhand	23	Latvia	24
18.	Assam	23	Cyprus	23
19.	Uttarkhand	17	Uganda	17
20.	Himachal Pradesh	11	Cambodia	11

- The above tables the top 20 Indian states by GDP with their equivalent in countries of the world. The Indian fiscal year runs to March 31. The nearest equivalent world country's GDP is at end 2010 per IMF tables;
- A number of Indian states are more populous than many developed countries. However, their GDP lags seriously behind, and are more comparable to that of developing/frontier economies;
- Maharashtra: India's second most urbanised state, with highest GDP. Contributes 15% of India's industrial output and 40% of the country's national revenue. Bombay, the capital of the state, is India's main financial centre;
- Uttar Pradesh (UP): The most populous state. Tourism major contributor;
- Andhra Pradesh: 4th largest state. Ranks 2nd in India for mineral wealth. Home to many IT and biotech firms;
- Tamil Nadu: One of the most literate states and highly urbanised. One of leading industrial states in India. Major sectors: autos, garments and heavy industries;
- Gujarat: Surat is India's diamond centre. Although India barely produces any diamonds, the country dominates the world's diamond polishing industry. Rapidly industrialising state. Has world's largest oil refinery owned by Reliance Industries;
- West Bengal: Services sector contributes over 50% of state's GDP. Agriculture is main source of income. Lacks strong industrial base due to labour unrest and militancy. Until May this year had the world's longest-serving (34 years) democratically-elected communist government;
- Karnataka: Bangalore, India's Silicon Valley, is a major contributor to IT software exports and call centres;
- Kerala: One of the highest ranked states on Human Development index. Produces over 90% of India's natural rubber;
- Delhi: Capital of India and one of 7 Union Territories. The city's GDP exceeds Burma's;
- Punjab: Produces 20% of India's wheat and 12% of rice. Among very few states to have 100% rural roads connectivity;
- Orissa: Rich in mineral reserves - has 33% of bauxite, 25% of iron ore and 20% of coal reserves in country. In top 3 of destinations for investments - which are mainly in power generation, mining and iron & steel sectors;
- Himachal Pradesh: First state to achieve goal of having a bank account for every family. High hydroelectric resources.

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