



Deepak N. Lalwani OBE, FCSI, FCCA: Director - India E: dl@lalcap.com

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Source: chart & following table: Bloomberg

		Pts Chg	% Chg	2012/13	5 Yr	5 Yr	5 Yr
CLOSE: 23 Apr 2012	Index	Day	YTD	PER	PER Hi	PER Lo	Avg
SENSEX 30	17,097	-227	+12.4%	12.8x	25.0x	8.1x	18.7x
NIFTY 50	5,201	-90	+16.4%	12.5x	N/A	N/A	17.2x

BOMBAY

INR ₹ /US\$ Rs52.38

INR ₹ /GB£ Rs84.46

INR ₹ /EUR Rs68.90

The SENSEX closed down 1.6% in a volatile session. Negative news on Spain and slow EU growth+ news that Macquarie is to reduce its India exposure due to proposed tax changes hit sentiment. Investors also turn cautious as the Rupee remains below the 52 level.

LONDON / NEW YORK

GDRs/ADRs closed lower in line with Bombay. Tata Motors is + 77% YTD as the auto sector rebounds with the latest interest rate cut.

ECONOMIC NEWS

- ⇒ Will last week's cut in interest rate, the first in almost three years and twice as large as expected, be the precursor for more such cuts this year? The RBI cut the key interest rate, the repo rate, by 0.5% to 8%. Corporate India wants rate cuts of another 50-100 basis points this year to make real interest rates look realistic. However, expectations for further cuts were tempered by the RBI Governor, Dr Subbarao. He sees limited space for further reduction in policy rates. This is because although the economy has slowed slightly below trend the bigger problem remains the persistent upside risk to inflation. The RBI also warned that India's current account deficit which widened to 4.3% in the quarter to December 2011 was "unsustainable" and will be difficult to finance given projections of lower capital inflows to emerging markets in 2012. Given the RBI's guidance, expectations for further rate cuts are muted for the next few months.
- ⇒ Foreign Direct Investments (FDI) to February 2012 showed an increase of 55% at \$28.4 bn compared to \$ 18.5 bn in the same period last year. The fiscal year ends in March each year. FDI into India can be made under one of two routes. The automatic route (not needing Government clearance) or the approved route through the Foreign Investment Promotion Board (FIPB) which provides Government clearance. Most sectors are now under the automatic route. FIPB clearance is required in some sectors - mainly ones of national security or politically sensitive ones - atomic energy, defence, media, aviation, trade, telecoms, trade and multi brand retail. What is interesting is that with many sectors opening up over the years the share of FIPB approvals to total FDI has steadily gone down. For example, in the latest period only 9% of total FDI required Government clearance. This is the lowest in 5 years and reflects the growing openness of sectors to foreigners. But their disappointment is at the speed and that key sectors like retail and financial sector are not fully open.
- ⇒ Until last October the RBI had to increase interest rates 13 times by a cumulative 375 basis points to 8.5% to tame stubbornly high inflation. Hence, a reverse trend now of cutting rates is welcome. But interest rate cuts alone will not restore confidence in Indian businessmen. Increased investment in capital spending is required. For this reforms are urgently required to ease supply bottlenecks which are exacerbated by poor infrastructure and shortages of land and power. With political gridlock in Delhi, reforms seem remote to local businessmen in India. Foreign investors, who are very keen on doing business in India because of its vast potential, lament that India often looks long on potential but short on execution.
- ⇒ Page 2 of our report shows latest FDI statistics on top 10 foreign investors and top 10 sectors.
- ⇒ India's economy which grew by 6.1% in the December quarter, the slowest in almost 3 years is forecast by the RBI to grow at 7.3% in the fiscal year to March 31, 2013. The RBI sees inflation at 6.5% in March 2013, little different from 6.89% for the latest reading in March 2012.
- ⇒ Finance Minister Mr Pranab Mukherjee in Washington last weekend for the IMF meeting expressed confidence that lawmakers will approve key financial sector reforms this year. This is despite the current political gridlock and lack of any meaningful reforms being passed. India's parliament is currently holding the first of three yearly sessions. Mr Mukherjee expressed hope that three important legislations - pensions, insurance and banking - are likely to be passed in the current session of parliament or the next.
- ⇒ A recent RBI report pointed out that Foreign Direct Investment (FDI) could have been 35% higher than actually received last year if the Government had not increased "policy uncertainty".
- ⇒ Fresh inflows has dried up from Foreign Institutional Investors (FIIs), who greatly influence the direction and speed of Indian stock markets. In January they bought \$2 bn worth and in February over \$5 bn in anticipation of friendly Budget on March 16, with continuing reforms. In March this slowed down to \$1.6 bn and in April so far is just \$ 171m. Fears of the proposed tax changes is alienating foreign investors and adversely affecting their sentiment towards India.

EQUITY FOREIGN DIRECT INVESTMENT (FDI) INTO INDIA : TOP 10 COUNTRIES

source: DIPP, Govt. of India in US\$ million

Rank	Country	2009-10 (April-March)	2010-11 (April-March)	2011-12 (April - February)	CUMULATIVE INFLOWS (Apr 2000-Feb 2012)	%age to total Inflows
1.	MAURITIUS	10,376	6,987	9,426	63,653	39 %
2.	SINGAPORE	2,379	1,705	5,070	16,965	10 %
3.	JAPAN	1,183	1,562	2,869	12,210	8%
4.	U.S.A.	1,943	1,170	976	10,425	6%
5.	U.K.	657	755	2,758	9,397	6 %
6.	NETHERLANDS	899	1,213	1,219	6,919	4 %
7.	CYPRUS	1,627	913	1,429	6,241	4 %
8.	GERMANY	626	200	1,549	4,548	3 %
9	FRANCE	303	734	615	2,879	2 %
10.	U.A.E.	629	341	339	2,229	1 %
	TOTAL FDI INFLOWS	25,834	19,427	28,403	162,306	

- Mauritius leads by a wide margin because many countries route their investments via this island because of their favourable tax treaty with India;
- The top 10 countries above account for over 70% of FDI into India since 2000;
- After a slow start through the 1990s (up to \$5 bn per annum) FDI has accelerated in the last 5 years. The last 3 years account for about 50% of \$ 162 bn invested since 2000;
- The cumulative figure of \$ 162 bn since 2000 is still small compared to what China attracts - \$115 bn FDI in 2011 alone.

TOP 10 SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS: US\$ in million

Rank	Sector	2009-10 (April-March)	2010-11 (April-March)	2011-12 (April- February)	Cumulative Inflows (April '00 - February 12)	% age to total Inflows (last decade)
1.	SERVICES SECTOR (financial & non-financial)	4,176	3,296	5,059	32,193	20 %
2.	TELECOMMUNICATIONS	2,539	1,665	1,995	12,550	8 %
3.	CONSTRUCTION ACTIVITIES (including roads & highways)	2,852	1,103	2,520	11,157	7 %
4.	COMPUTER HARDWARE & SOFTWARE	872	780	741	11,150	7 %
5.	HOUSING & REAL ESTATE	2,935	1,227	708	11,090	7 %
6.	DRUGS & PHARMACEUTICALS	213	209	3,211	9,174	6 %
7.	POWER	1,272	1,272	1,616	7,262	4 %
8.	AUTOMOBILE INDUSTRIES	1,236	1,299	793	6,627	4%
9.	METALLURGICAL INDUSTRIES	420	1,098	1,765	6,020	4%
10.	PETROLEUM & NATURAL GAS	266	556	2,021	3,3339	2 %

source: DIPP, Govt. of India

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REGISTERED OFFICE: LALCAP LTD, LEVEL 7, TOWER 42, 25 OLD BROAD STREET, LONDON EC2N 1HN

REGISTERED IN ENGLAND NO: 07245357

LALCAP: E: info@lalcap.com

AUTHOR: Deepak N. Lalwani OBE, FCSI, FCCA T:+44 (0)20 3519 0909

W: lalcap.com

Director - India

E: dl@lalcap.com