



INDIA REPORT

500+ issues over 17 years

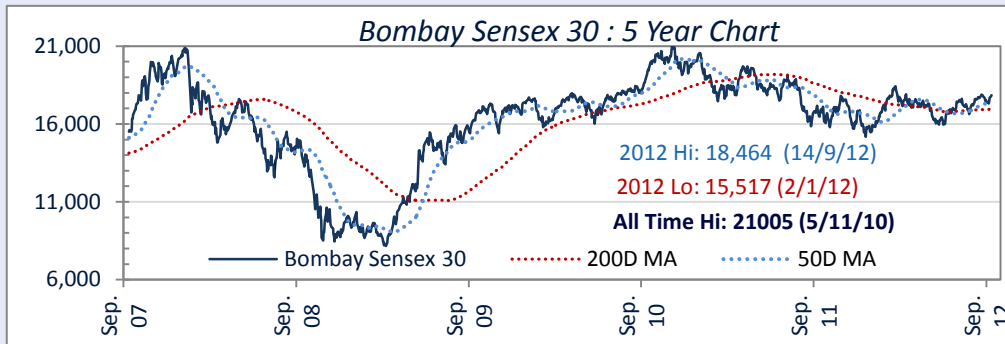


LALCAP

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Source: chart & following table: Bloomberg

Close: 14 Sep 2012	Level	Index Pts Chg- Day	% Chg YTD	PE 2012/13	High	5 Year PE Low	Avg
SENSEX 30	18,464	+443	+16.5%	14.3x	25.0x	8.1x	17.4x
NIFTY 50	5,577	+ 142	+17.4%	14.3x	N/A	N/A	17.3x

BOMBAY

INR ₹ / USD \$1= Rs54.30

INR ₹ / GBP £1= Rs88.03

INR ₹ / EUR €1= Rs71.23

The SENSEX rocketed 2.5% higher to close at a new 2012 high. Sentiment and risk appetite have improved greatly in the last 6 weeks in anticipation of the proposed reforms. FIIs have invested about \$ 12.8bn in Indian equities in 2012.

LONDON / NEW YORK

Most GDRs/ADRs in our table show gains. MTNL stands out with a gain of 81% YTD. AIM shares show mixed results with many showing 20% + gains or losses.

ECONOMIC NEWS

⇒ **Wholesale Price Inflation, the main gauge of inflation, rose higher than expected to 7.55% in August from a year ago vs 6.87% in July.** Higher food prices, due to a deficient monsoon, mainly contributed to this.

⇒ **In less than 24 hours the Indian Government announced more measures to liberalise the economy than it has done in the last 8 years.** So, why now? This was aimed at reviving flagging economic growth and avoiding a credit rating downgrade to sub-investment (or "junk") status if the fiscal deficit is not reined in and if more big reforms were not announced. India's government finally bit the bullet and announced big bang reforms. If these are not rolled back, they will be viewed as "game changers" by investors frustrated by the policy paralysis over the last six months. However, two major allies - the Samajwadi Party (Uttar Pradesh state) and Trinamool Congress Party (West Bengal state) have said they will oppose the moves to protect jobs in their states. **The long-awaited reforms drove the stock market to a new 2012 high.**

⇒ **On Thursday the price of diesel was raised after 15 months by Rs 5 per litre (+14%) and will help to contain the ballooning fiscal deficit.** Today more reforms were announced. The multi brand retail sector is to allow 51% foreign ownership, the aviation sector is to be opened up to foreign carriers, and four state run firms are to be privatised to raise \$2.3 bn. These cumulative proposals will help buy time for the Government as it is hoped that the ratings agencies - S&P and Fitch who have put India's investment grade rating on negative outlook - may wait for the fiscal deficit number around next April/May before taking a decision. 1 in 3 negative outlooks normally result in a downgrade. If that occurred India would be first BRIC country to have "junk" status credit. The cost of overseas borrowings would go up, combined with pressure on the Rupee.

⇒ **Diesel subsidies cost New Delhi about \$7.4 bn in 2011/12 or 0.7% of GDP.** Diesel accounts, per Government data, for nearly 44% of fuel consumption vs 35% in 2003. The case for helping

the poor by subsidising diesel has weakened over time. Farmers use diesel for electric pumps to irrigate land. 55% of arable land in India is not irrigated. But it is economical to mechanise only farms over one or two hectares. Often only the wealthy farmers benefit the most, eg, in states like Punjab, the country's grain bowl, where rural incomes are nearly double the national and over half the farms are over five hectares. Trucks and buses still consume the bulk of diesel. And diesel cars now account for about 40% of new sales in India vs about 20% a few years ago because petrol costs about 42% more than diesel. Almost all large, expensive SUVs and jeeps have diesel engines, as do many luxury saloons like Audi or BMW. Diesel generators are used for air conditioning and lighting in rich homes and hotels when power breaks down. So, the middle class has also benefited from the diesel subsidy. Hence the case to trim it to reduce the fiscal deficit.

⇒ **FDI of 51% in multi brand retail was first announced last November but was shelved after a political backlash.** It is now being re-introduced with stiff conditions for foreign investors in the hope that opposing allies, vested interests and the main opposition party, BJP, may be calmed that the "small man" is being protected. Also, it will be left to state Governments to decide if they will allow this policy. This removes the hitherto impossible task of getting agreement from all states. New Delhi is keen to introduce this reform to unclog supply bottlenecks that cause about 35% of fresh produce to rot before it reaches the final consumer. It is hoped that global chains will be able to offer farmers better prices by cutting out the middleman. Foreign retailers will only be allowed if: 1. They invest at least \$100m, half of that in rural areas to boost infrastructure; 2. They open stores in towns with a population of at least 1 m; 3. At least 30% of goods must be sourced from local, small industries. This is positive news for all in the value chain from farmers to consumers.

⇒ **The aviation sector is to be opened to foreign airlines which will be allowed a 49% stake in local airlines.** Previously foreign airlines were not allowed, although foreign investors and NRIs were. India has six main airlines. However, any global carrier will have to balance the long term potential of a huge market against slim margins due to fierce competition, high costs and alleged predatory pricing by the loss-making state subsidised national carrier, Air India.



SELECTED SHARE PRICES

GDR OFFER PRICES (US\$) LONDON – 14 Sep 2012 : 1630 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
L&T	\$28.31	+ 33%	SBI	\$ 78.15	+ 12%
M&M	\$14.25	+ 2%	Suzlon Energy	\$ 1.30	- 17%
Ranbaxy	\$ 11.01	+ 26%	Tata Steel	\$ 7.62	- 2%
Rel. Inds	\$31.20	+ 9%			

Source : Thomson Reuters

ADR OFFER PRICES (US\$) NEW YORK – 14 Sep 2012 : 2100 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
Dr.Reddy	\$ 31.83	+ 11%	Patni	\$19.18	+ 14%
HDFC Bank	\$ 37.15	+ 38%	Sterlite	\$ 7.67	+ 3%
ICICI Bank	\$ 38.20	+ 38%	Tata Com (ex VSNL)	\$ 9.00	+ 11%
Infosys	\$ 48.44	- 8%	Tata Motor	\$25.43	+ 42%
MTNL	\$ 1.48	+ 81%	WIPRO	\$ 8.90	- 12%

Source : Thomson Reuters

AIM (LONDON): in GB p unless stated otherwise – 14 Sep 2012 : 1630 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
Caparo (now Mytrah)	48	- 50%	Jubilant Energy	17	- 41%
DQE	36	- 11%	Kolar Gold	8	- 44%
Eros	227	- 1%	OPG Power	43	+ 23%
Greenko	123	+ 2%	Photon Kaathas	28¢	- 30%
HIRCO	42	- 10%	SKIL Ports	106	- 33%
IEnergizer	368	+ 35%	Trinity Cap.	12	- 24%
Indus Gas	980	+ 41%	Unitech	34	+ 33%
Ishaan	34	- 7%	W. Pioneer	7	- 65%

Source : Thomson Reuters

OTHER : in GB p unless stated otherwise – 14 Sep 2012 : 2100 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
Essar Energy	132	- 33%	<u>Collective Funds</u>		
Vedanta Resources	1085	- 5%	<u>London:</u>		
			Aberdeen New India	212	+ 5%
			JP Morgan India	335	+ 5%
			<u>New York:</u>		
			MS India	\$17.11	+ 19%
			The India Fund	\$22.95	+ 18%

Source : Thomson Reuters

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