



# INDIA REPORT

500+ issues over 17 years

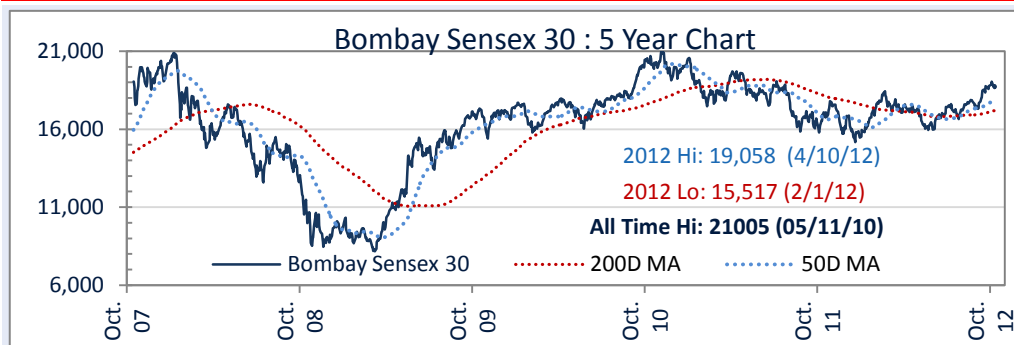


LALCAP

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15 October 2012



Source: chart & following table: Bloomberg

Close: 15 Oct 2012	Level	Index Pts Chg- Day	% Chg YTD	PE 2012/13	High	5 Year PE Low	Avg
SENSEX 30	18,713	+ 38	+20.8%	15.6x	25.0x	8.1x	18.4x
NIFTY 50	5,577	+ 11	+22.7%	14.6x	N/A	N/A	18.0x

## BOMBAY

INR ₹ / USD \$1= Rs52.97

INR ₹ / GBP £1= Rs84.87

INR ₹ / EUR €1= Rs68.62

The SENSEX edged 0.2% higher on expectations of good Q2 earnings figures. Consolidation in the market has set in after last month's strong 8% gain. Further bold reforms are expected to be difficult to achieve. Latest inflation figures displease.

## LONDON / NEW YORK

Most GDRs/ADRs we follow show double-digit gains YTD. L&T is + 65%, Tata Motors +52%, ICICI Bank +49%. IT companies still show losses YTD.

## ECONOMIC NEWS

⇒ **Wholesale Price Inflation, the main gauge of inflation, rose higher than expected to 7.81% in September from a year ago vs 7.55% in August.** This is a 10-month high. Higher fuel prices were the main contributor and the recent diesel price hike will probably see inflation rise to around 8.5% by December. The annual reading for July was revised to 7.52% from 6.87% earlier. Inflation has been above 7% in each month since late 2009 - far higher than the Central Bank's comfort level of 5%. **This makes cutting interest rates, to lift economic growth, at the next RBI policy meeting on 30 October more complicated.**

⇒ **The last interest rate cut was made in April - of 0.5% to 8% - and has been on hold over the last three policy meetings because of stubbornly high inflation, and a need for fiscal consolidation.** Fighting inflationary pressures has been the RBI's priority vs stimulating economic growth. The slowing economy grew at "only" 5.5% (low by recent standards) in the April-June quarter of 2012, making it the slowest pace in three years. India's Finance Minister, Mr P. Chidambaram, has called on the RBI to take "calibrated risks" to support the sharply slowing economy as a reciprocal measure to support the Government's recent efforts to lift economic growth. Big bang reforms and a cut in fuel subsidy have been announced in the last month. However, the RBI has remained hawkish in its tone stating that more fiscal discipline is required before interest rates can be cut meaningfully. This exposes tensions between the country's policy makers. So will even a 0.25% token cut in interest rate take place on 30 October? **A very close call, although a further cut in the cash reserve ratio (CRR) is expected from the current 4.75% to inject further liquidity in the system.**

⇒ **The services sector grew at its fastest pace in 7 months in September as a rebound in new business orders encouraged firms to hire more staff.** Employment hit a 15-month high. Recent economic data suggest that the worst may be over. **But returning to a high growth trend of 8%+ will be a challenge.**

⇒ **India removed a cap on foreign investment in single-brand retail investment in January by allowing 100% foreign ownership.** Since then Sweden's IKEA and UK's shoe retailer Pavers applied for permission to enter India through a wholly-owned business. Indian media reports that US accessories manufacturer Fossil Inc is to enter the Indian market through a 100% owned company. The firm already has a distribution agreement to sell leather goods, jewellery, watches and handbags in India. Last month 51% foreign ownership in multi-brand retail was allowed. **The momentum to enter India's \$ 450bn retail market will increase.**

⇒ **Finance Minister Mr Chidambaram hopes that a proposal will be cleared soon by the cabinet to reduce the bureaucracy and regulatory hurdles that delay the start of badly needed infrastructure projects.** A National Investment Board (NIB) headed by PM Dr Singh is planned. It is seen as the boldest attempt yet to clear infrastructure bottlenecks that have held back economic growth. Poor infrastructure, according to Government estimates, shaves 1-2% from economic growth. Government officials say such delays have held up projects worth about \$40bn in the power, roads, coal and mining sectors alone. It is estimated that to start an infrastructure project an average of 56 permissions from different federal, state and local agencies is required. This can easily take 24 months. And, often much longer. India's investment rate has fallen to 32% from 38% in 2007-08 (before the global financial crisis). Hence, foreign and domestic private capital is badly needed. But, with a maze of regulatory hurdles and inordinate bureaucratic delays foreign investors are not rushing in to invest in India's infrastructure. Unless there are "bankable" projects - ie all clearances in place. **The NIB will not be a magic wand to sort out all delays as it deals with clearances at Central Government level. State Governments often create long delays as they pander to local vested interests. But, an excellent start compared to existing conditions.**

⇒ **Cabinet clearance for the NIB is not a certainty. It was supposed to have had clearance last week but the Environment Minister raised objections.** Turf wars within the cabinet, friction among coalition partners and a populist mood setting in ahead of General Elections latest by May 2014 is impeding further bold reforms. The land acquisition bill is one such victim which is stalled in cabinet.



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## SELECTED SHARE PRICES

## GDR OFFER PRICES (US\$) LONDON – 15 Oct 2012 : 1630 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
L&T	\$31.09	+ 65%	SBI	\$ 86.60	+ 35%
M&M	\$16.25	+ 23%	Suzlon Energy	\$ 1.20	- 31%
Ranbaxy	\$ 10.35	+ 30%	Tata Steel	\$ 7.95	+ 12%
Rel. Inds	\$31.20	+ 9%			

Source : Thomson Reuters

## ADR OFFER PRICES (US\$) NEW YORK – 15 Oct 2012 : 2100 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
Dr.Reddy	\$ 31.92	+ 9%	Sterlite	\$ 7.71	+ 10%
HDFC Bank	\$ 37.71	+ 43%	Tata Com (ex VSNL)	\$ 9.52	+ 19%
ICICI Bank	\$ 40.00	+ 49%	Tata Motor	\$25.08	+ 52%
Infosys	\$ 44.57	- 13%	WIPRO	\$ 8.48	- 16%
MTNL	\$ 1.08	+ 39%			

Source : Thomson Reuters

## AIM (LONDON): in GB p unless stated otherwise – 15 Oct 2012 : 1630 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
Caparo (now Mytrah)	62	- 32%	Jubilant Energy	16	- 45%
DQE	39	- 12%	Kolar Gold	78	- 50%
Eros	224	- 3%	OPG Power	56	+ 56%
Greenko	139	+ 17%	Photon Kaathas	28¢	- 30%
HIRCO	42	- 10%	SKIL Ports	106	- 33%
IEnergizer	367	+ 35%	Trinity Cap.	10	- 15%
Indus Gas	995	+ 39%	Unitech	34	+ 33%
Ishaan	32	- 27%	W. Pioneer	7	- 65%

Source : Thomson Reuters

## OTHER : in GB p unless stated otherwise – 15 Oct 2012 : 2100 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
Essar Energy	128	- 33%	<u>Collective Funds</u>		
Vedanta Resources	1085	- 5%	<u>London:</u>		
			Aberdeen New India	224	+ 15%
			JP Morgan India	370	+ 16%
			<u>New York:</u>		
			MS India	\$17.69	+ 25%
			The India Fund	\$23.11	+ 21%

Source : Thomson Reuters



**Investment conferences :** Halkin Services, London : Please contact directly

**HALKIN SERVICES CONFERENCE - 18 OCTOBER 2012**

Speakers: Dr Marc Faber : "Deflationary Bust or government profligacy and money printing"

Bill Bonner : "The Great Softening – why growth is disappearing from the developed world despite the best conditions for progress in history."

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