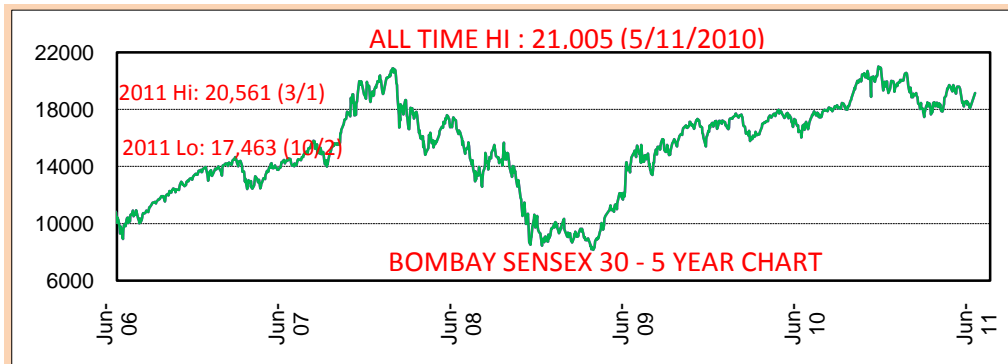




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20 June 2011



Source: chart & following table: Bloomberg

		Pts Chg	% Chg	2011/12	5 Yr	5 Yr	5 Yr
CLOSE: 20 June 2011	Index	Day	YTD	PER	PER Hi	PER Lo	Avg
SENSEX 30	17,506	-364	-12.9%	14.0x	25.0x	8.1x	18.4x
NIFTY 50	5,258	-108	-12.5%	14.0x	N/A	N/A	17.0x

ECONOMIC NEWS

⇒ **As expected the RBI raised interest rates for the 10th time since mid-March 2010 in an effort to tame stubbornly high inflation.** Rates have gone up by 275 basis points in this period. The repo rate, at which the RBI lends to banks, was raised by 0.25% to 7.5% and the reverse repo rate, at which the RBI absorbs excessive liquidity, was also raised by 0.25% - to 6.5%. The continual rise in the cost of credit and high inflation has hurt both investment and consumption. GDP in the January - March 2011 quarter slowed to a lower-than-expected 7.8%, the slowest in five quarters. Wholesale prices, India's main inflation indicator, rose 9.06% in May as price pressures have worryingly spread from food and energy to manufacturing.

⇒ **According to a survey of millionaires in 25 countries by Deloitte LLP investments controlled by the world's richest families is expected by 2020 to more than double to \$202 trillion from \$92 trillion this year.** In the developed world the number of families with more than \$1 million will rise by two-thirds, while in the developing world (including China and India) the number will more than double. The U.S. is to continue to dominate having the most number of millionaires. California, New Jersey, Florida and New York will have the highest density of U.S. millionaires. Among emerging markets Deloitte expects China to be the driving force, followed by Brazil and Russia. In the developed markets Australia will have the fastest growth of millionaire households. India's average millionaire by 2020 will be wealthier than the average American millionaire. Singaporean millionaires should surpass Switzerland's (Swiss average in 2011: \$4.2m) as having the highest per capita wealth with \$4.5m in 2015. Singapore has now become a hub for wealth management in the Far East and increasingly a major competitor to Switzerland in private banking.

⇒ **India and Mauritius are to review a 30-year old tax treaty, but no definite timetable has been set.** The Indian Government is under increasing pressure from opposition parties to stem tax revenue losses estimated at about \$600m by Indian officials. India wants to renegotiate the treaty (Double Taxation Avoidance Agreement - "DTAA") which was originally set up to spur trade between the two countries in the early 1980's. 30 years ago (when India's economy was not yet open and foreign investments were low) it was not envisaged by officials that many Indian and multinational companies may mis-use the treaty to avoid paying tax or that Indian individuals may round trip "black money" (unaccounted and hidden from Indian tax authorities). Round tripping here refers to untaxed money leaving Indian shores and routed back through tax-free investment vehicles to be invested in India, but sheltered from Indian tax because of the double tax treaty. Also, 30 years ago it was not envisaged that investors from third countries would use Mauritius' tax treaty to route investments into India - "treaty shopping" in tax jargon. In the past 11 years over 40% of all FDI into India has been through Mauritius (\$55 bn) as many countries have routed their investments through Mauritius for tax planning reasons. Portfolio investments (including via Mauritius) by foreigners in Indian capital markets totals \$122 bn in the last 19 years.

⇒ **India, in particular, now seeks to re-negotiate the Capital Gains Tax issue - currently a Mauritius registered company pays no CGT on any gains made in India.** No CGT is payable in Mauritius. In India for gains made in under one year ("short term") there is CGT, but none on long term gains made after one year. India has been insisting with Mauritius on a DTAA review since 2006 and the last meeting was in 2008. Press reports suggest that Mauritius has agreed during the visit there by Indian President, Mrs Patil, earlier this year to re-open the treaty.

⇒ **Any loss of tax benefit will hit foreign investor sentiment.** Our forecast SENSEX band for 2011 made on 1 January of 17,000 - 25,000 is now being reduced to 15,500 - 21,000.

BOMBAY

INR ₹ /US\$ Rs44.79

INR ₹ /GB£ Rs72.40

INR ₹ /EUR Rs63.96

The SENSEX slumped to close 2% down after even worse losses earlier. Investors were rattled by news that foreign investor sentiment will be hit badly on any renegotiating of the Mauritius tax treaty. The market undertone is very nervous.

LONDON / NEW YORK

Kolar Gold, India's first gold company, lists on AIM. But its debut is hit by poor global sentiment for equities. Issued at 40p - closed at 34p today.

**SELECTED SHARE PRICES****GDR OFFER PRICES (US\$) LONDON – 20 June 2011 : 1530 GMT**

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
L&T	\$37.22	-14%	SBI	\$ 97.65	- 23%
M&M	\$14.19	-18%	Suzlon Energy	\$ 4.49	- 11%
Ranbaxy	\$11.89	-10%	Tata Power	\$ 27.41	- 11%
Rel. Inds	\$37.29	-18%	Tata Steel	\$ 12.70	- 17%

Source : Thomson Reuters

ADR OFFER PRICES (US\$) NEW YORK – 20 June 2011 : 1615 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
Dr.Reddy	\$ 33.70	- 7%	Patni	\$14.80	- 30%
HDFC Bank	\$156.74	- 5%	Sterlite	\$13.82	- 16%
ICICI Bank	\$ 43.35	- 9%	Tata Com (ex VSNL)	\$ 8.48	- 21%
Infosys	\$ 60.85	- 19%	Tata Motor	\$20.83	- 26%
MTNL	\$ 1.93	- 21%	WIPRO	\$12.81	- 17%

Source : Thomson Reuters

AIM (LONDON): in GB p unless stated otherwise – 20 June 2011 : 1630 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
Caparo Energy	115	+ 3%	Jubilant Energy	67	+ 3%
DQE	83	- 33%	Kolar Gold (new entry)	34	- 12%
Eros	208	- 8%	OPG Power	83	+ 3%
Greenko	218	+13%	Photon Kaathas	45¢	- 12%
HIRCO	54	- 23%	SKIL Ports	192	- 21%
IEnergizer	190	+ 7%	Trinity Cap.	36	+41%
Indus Gas	767	+24%	Unitech	22	- 24%
Ishaan	50	-22%	W. Pioneer	22	- 17%

Source : Thomson Reuters

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