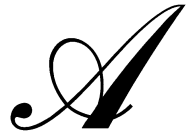


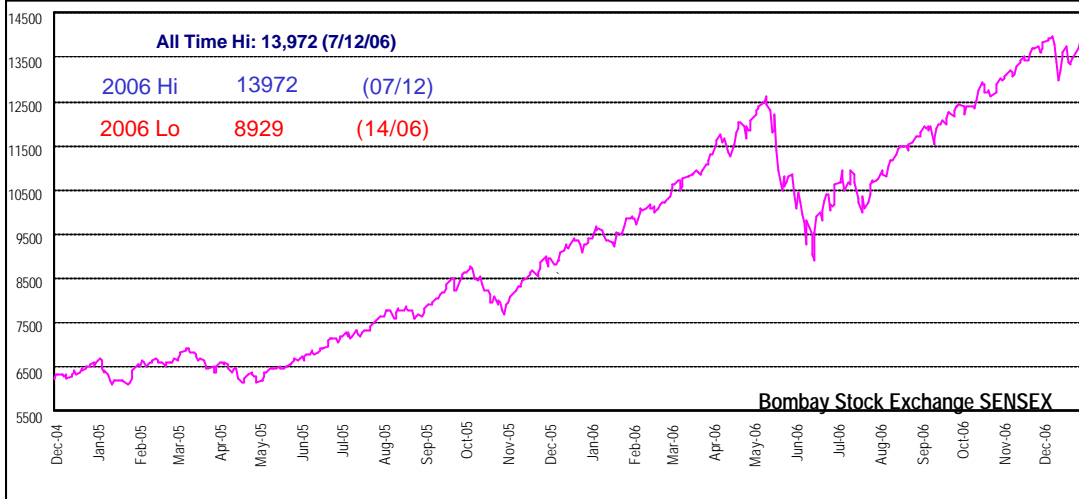


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**The India Report  
Astaire Research**  
London, December 29, 2006



**Deepak Lalwani, Director**



**BOMBAY**

INR/US\$ = Rs 44.25  
INR/GB£ = Rs 86.78  
INR/EUR = Rs. 58.28

The SENSEX closed 59 points (-0.4%) lower at 13,787 on persistent profit-taking in the last 2 hours. Gammon India (up Rs 36.25 or 9.5% @Rs 419.50) has led a winning consortium for the Rs 12bn offshore container terminal at the Mumbai Port Trust. The market undertone is optimistic ahead of Q3 results due around 10 January.

**LONDON**

GDR trading closed early at 12.30pm today in light volumes on the last trading day of the year. The market undertone is neutral.

	2006	Forward	6 Yr	6 Yr	15 Yr
BOMBAY CLOSE (Dec. 29)	Chg	PER	PER Hi	PER Lo	Avg PER
SENSEX 30: 13,787 (-59)	+46.7%	20.2x	27.1(15/4/00)	11.0(26/4/03)	18.4
NIFTY: 3,966 (-4)	+39.8%	N/A	23.8(12/2/00)	11.7(31/5/03)	N/A

**SELECTED GDR & ADR OFFER PRICES** (with day's price, change and premium/discount – indicative only):

**GDRs (LONDON):**

Bajaj Auto	\$59.90	(+50¢)	+1.2%	Grasim	\$63.40	(+25¢)	+0.8%	G.Ambuja	\$3.23	(+2¢)	+0.9%
Hindalco	\$4.05	(+1¢)	+2.9%	Hind.Cons	\$3.40	(+1¢)	-0.2%	ITC	\$4.01	(+5¢)	+0.8%
L & T	\$33.00	(+50¢)	+1.5%	M&M	\$20.70	(+20¢)	+1.1%	Ranbaxy	\$9.05	(+10¢)	+2.2%
Rel.Enrg	\$36.00	(+50¢)	+2.1%	Rel. Inds	\$58.10	(+10¢)	+1.2%	SBI	\$74.40	(+\$1)	+32.1%
<b>ADRs (NEW YORK) : (28/12/06)</b>											
Dr.Reddy	\$18.21	(+20¢)	-0.8%	HDFC Ban k	\$76.05	(+\$2.16)	+4.8%	ICICI Bank	\$42.45	(+\$1.1)	+5.5%
Infosys	\$55.01	(+29¢)	+11.1%	MTNL	\$6.46	(-2¢)	+0.0%	Patni	\$20.34	(+9¢)	+7.8%
Rediff	\$18.34	(+37¢)	N/A	Sat. Comp	\$24.11	(+2¢)	+10.2%	SIFY	\$9.31	(-12¢)	N/A
TataMotor	\$20.55	(+5¢)	+1.9%	VSNL	\$18.75	(-15¢)	-2.3%	WIPRO	\$16.23	(+11¢)	+18.7%

**MARKET COMMENTARY**

•The SENSEX closed 2006, a year of high volatility in Indian stock markets, with a gain of 46.7 %, after gains of 42% in 2005, 13% in 2004 and 73% in 2003. It has shown an average annual return of 43.5% over the last 4 years when the bull market started. Over a longer period of 16 years, since the economic reforms process started in India in 1991, the average annual return on the SENSEX has been 22.2%, vs 11.2% for the Dow Jones Industrial and 8.0% for U.K.'s FTSE 100. The beta is higher for India being an emerging market compared to developed markets and the bouts of correction can be severe, but the market seems to recover and rise to touch new highs.

**•So, what is the forecast for 2007 and what are the assumptions, risks and sectors?**

Based on GDP growth of 8.7% for the year to March 31, 2007 and 7.7% for March 2008, earnings growth of 17-20% across sectors, a gently rising interest rate scenario which does not kill credit growth and domestic demand, continued FII interest and supportive global markets the expected SENSEX band in 2007 should be 11,000-15,000.

So, what are the risks? They are, inter-alia: 1. Political instability (coalition Government / 4 state elections in 2007); 2.Monsoons failing; 3. Steep rise in interest rates; 4. FII risk aversion rising/favouring other markets; 5.Weak global markets; 6. External/unforeseen shocks (oil/wars/other).

**Sectors favoured** Infrastructure (Cements, Construction, Capital Goods), Real Estate, Telecoms, I.T., Retail, Autos and Hotels.

**The overall positive view of the India growth story should continue. The trend for more foreign acquisitions by Indian companies, and of higher values, should continue.**

INDEX (source: Bloomberg)	Index at 29.12.06	2006 %Chg	2005 %Chg
<b>ASIA PACIFIC:</b>			
AUSTRALIA 200 INDEX	5670	+19.0	+16.2
CHINA SHANGHAI 'A'	2,675	+130.4	-8.3
CHINA SHENZEN 'A'	551	+97.5	-11.7
HONG KONG HANG SENG	19,964	+34.2	+4.5
INDIA NIFTY 50	3,966	+39.8	+36.3
INDIA SENSEX 30	13,787	+46.7	+42.3
INDONESIA J'KRTA COMP	1,805	+55.3	+16.2
JAPAN NIKKEI 225	17,225	+7.0	+40.2
MALAYSIA K.L. COMP.	1,096	+21.8	-0.3
PAKISTAN KSE 100	10,050	+5.1	+52.7
PHILIPPINES PSEI	2,983	+42.2	+21.6
SINGAPORE STI	2,986	+27.2	+11.6
SRI LANKA ALL SHARE	2,722	+41.6	+27.6
STH. KOREA KOSPI	1,434	+4.0	+53.9
TAIWAN TAIEX	7,823	+19.5	+6.7
VIETNAM STOCK INDEX	752	+144.5	+27.3
<b>WESTERN:</b>			
UK FTSE 100	6,221	+10.7	+16.7
US DOW JONES IND.	12,463	+16.3	-0.6
USA NASDAQ COMP	2,415	+9.5	+1.4

•All markets in the table above have shown a rise this year, with Asian markets doing well. China and Vietnam stand out in 2006 with gains of over 100%. India closed higher for the 5<sup>th</sup> consecutive year.

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