

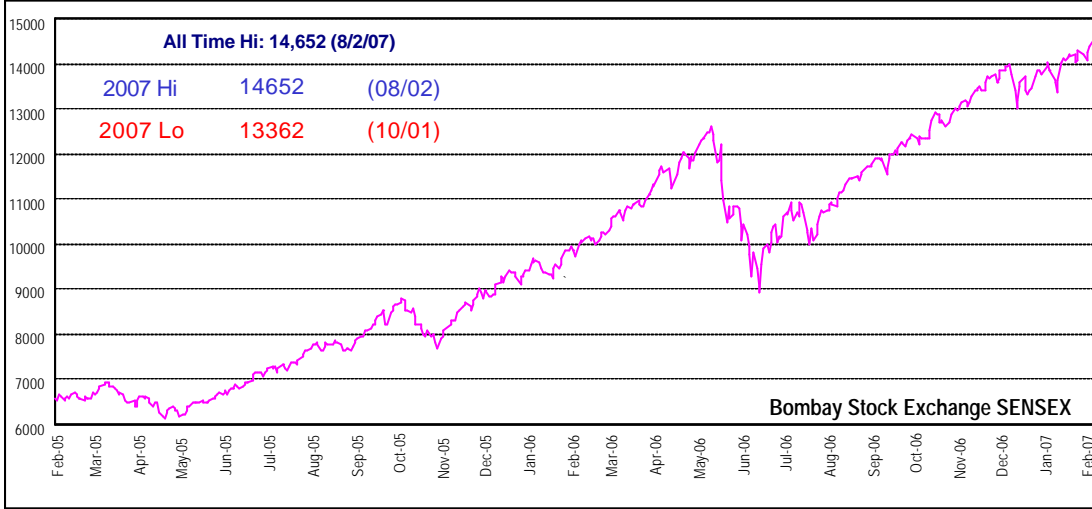


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The India Report
Astaire Research
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BOMBAY

INR/US\$ = Rs 44.18
INR/GB£ = Rs 86.18
INR/EUR = Rs. 57.46
The SENSEX closed 113 points (-0.8%) lower at 14,539 on persistent profit-booking as the SENSEX has been touching new life highs in 2007. Engineering major ABB has won power and automation orders worth Rs 3bn from Grasim (cement division) and Ultratech Cement and closed +Rs3.80 (+0.1%) up at Rs 3,836.26. The market undertone is cautious.

LONDON

Most GDRs trade lower and close to parity. Bajaj GDRs continue to attract interest on restructuring talks. The undertone is cautious.

BOMBAY CLOSE (9 Feb.)	2007 Chg	Forward PER	6 Yr PER Hi	6 Yr PER Lo	15 Yr Avg PER
SENSEX 30: 14,539	(-113)	+5.4%	20.7x	25.7(5/1/07)	10.1(4/5/03)
NIFTY: 4,187	(-36)	+5.6%	N/A	25.9(15/2/01)	10.4(28/10/02)

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

GDRs (LONDON):

Bajaj Auto	\$69.90	(+30¢)	+1.3%	Grasim	\$64.50	(-60¢)	+0.8%	G.Ambuja	\$3.14	(-3¢)	-0.2%
Hindalco	\$3.97	(-8¢)	+1.2%	Hind.Cons	\$3.20	(-25¢)	+5.8%	ITC	\$3.98	(-2¢)	-0.3%
L & T	\$39.20	(-30¢)	+0.9%	M&M	\$21.20	(-50¢)	+2.1%	Ranbaxy	\$9.66	(-3¢)	+2.4%
Rel.Enrg	\$38.00	(-75¢)	+0.7%	Rel. Inds	\$62.90	(-10¢)	-0.1%	SBI	\$69.80	(+95¢)	+28.7%

ADRs (NEW YORK):

Dr.Reddy	\$16.46	(-27¢)	-0.5%	HDFC Bank	\$78.30	(+40¢)	+3.9%	ICICI Bank	\$46.47	(-27¢)	+3.5%
Infosys	\$60.27	(-28¢)	+12.7%	MTNL	\$6.98	(-34¢)	-1.9%	Patni	\$24.13	(-2¢)	+21.9%
Rediff	\$19.60	(-34¢)	N/A	Sat. Comp	\$23.85	(-36¢)	+12.3%	SIFY	\$8.84	(-24¢)	N/A
TataMotor	\$20.90	(+65¢)	+1.9%	VSNL	\$21.85	(-55¢)	-1.5%	WIPRO	\$17.87	(-16¢)	+22.9%

MARKET COMMENTARY

India Inc continues to surprise on the upside. Economic data (see below) is the best in nearly two decades and the robust economy helps corporate earnings to please investors and support the premium given to Indian shares. The underlying India growth story remains intact and the stock market is only restrained by the high P/E valuations where the forward P/E is almost 21x while Far East markets trade between 14-18x. Our 2007 SENSEX forecast of 15,000 and a band of 11,000 – 15,000 for the year was based on GDP growth of 8.7% for the y/e March 31, 2007. This target may well be exceeded and the SENSEX could touch 16,600 this year. However, until we see future confirmation of high and sustained corporate earnings and robust economic data we are happy to stick to 15,000.

ECONOMIC NEWS

- The Government in its first official growth estimate for 2006/07 (to March 31, 2007), through the Central Statistics Office, expects GDP growth at 9.2%, higher than the 8.5-9% estimate by the Central Bank. The growth will again be largely driven by services and manufacturing, both of which are expected to grow by over 11% while agriculture is expected to grow by 2.7%. A senior Finance Ministry official said there were no signs of overheating in the Indian economy despite high growth and capacity was being added in several sectors. Our estimate is 8.7%, but this may well prove conservative as the economy continues to surprise on the upside. The Indian economy seems to have had a structural shift upwards as the average annual GDP growth over the last 3 years since 2003 has been 8.3% vs 5.9% pa for the 10 previous years.
- Are the higher new economic growth rates in India sustainable in the medium term? An annual average figure of 8% looks credible on the following calculation. Services (60%) and industry account (20%) together account for 80% of

India's GDP. With growth in both these sectors currently over 11%, even if a figure of 10% is taken then these two sectors can deliver 8% (80% x 10%) annual average growth even without taking into account any contribution from agriculture.

- An annual international survey of 7200 private businesses in 32 countries by international accounting firm Grant Thornton concluded for a fourth consecutive year that Indian firms are the world's most optimistic when it comes to rating national economic prospects. Almost all Indian companies surveyed expect a good 2007, with an optimism balance of +97, the highest among all countries. As regards globalisation, 82% in India saw it as an opportunity, more than in any country. This is in stark contrast to 5-10 years ago when businessmen were fearful of it. Confidence has slowly been built up over the last 3 years and the trend to acquire globally is now firmly upwards. Figures from Dealogic, the data provider, show that Indian companies acquiring abroad in 2006 spent \$22.4bn (including \$12bn on the Tata/Corus deal) vs \$4.5bn in 2005 and \$1.5bn in 2004. According to Ernst & Young's European Investment Monitor India is now only second to the U.S. in investing in London (number of projects rather than value) and has overtaken Germany and Japan.
- India's Commerce and Industry Minister, Mr Kamal Nath, said that FDI for the year ending March 31, 2007 could more than double to \$12bn on rising investor confidence in India. FDI inflows for the eight months to November 2006 were \$7.2bn, the highest amount received for FDI since India opened its economy in 1991.
- The annual Budget on February 28 is expected to be growth oriented but restrained by coalition politics again this year.

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