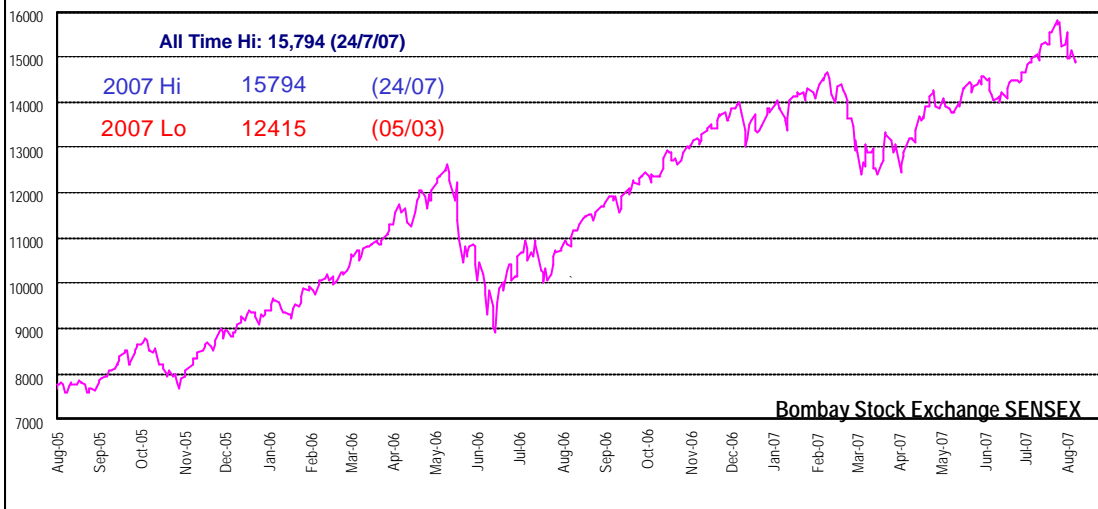




Deepak Lalwani, Director



**BOMBAY**

INR/US\$ = Rs 40.42  
INR/GB£ = Rs 81.90  
INR/EUR = Rs 55.73

The SENSEX close +30 points higher at 14,933 in yet another volatile session. Software major WIPRO acquired NASDAQ listed Infocrossing for \$600m, its 12<sup>th</sup> acquisition in the IT sector and 9<sup>th</sup> in the last 24 months, so as to have pan-American access to technology infrastructure services business. The market undertone is firm.

**LONDON**

GDRs are mixed in moderate trade. Grasim and SBI trade at all-time highs. The market undertone is firm.

	2007	Forward	6 Yr	6 Yr	15 Yr	
BOMBAY CLOSE (Aug 7)	Chg	PER	PER Hi	PER Lo	Avg PER	
SENSEX 30:	14,933 (+30)	+8.3%	18.7x	25.7(5/1/07)	10.1(4/5/03)	18.4
NIFTY 50:	4,356 (+17)	+9.8%	19.3x	25.9(15/2/01)	10.4(28/10/02)	N/A

**ECONOMIC NEWS**

▪ Even though Indian exports to Pakistan doubled in the year to March 2007 over the previous year and exports to India from Pakistan grew by 70%, the two countries have announced an ambitious goal to increase trade six-fold from \$1.6bn to \$10bn by 2010, in an attempt to ease obstacles that have curbed bilateral trade. Banks are to be allowed to open branches, transport links are to be improved, the number of goods and services traded is to be expanded and tariffs are to be lowered to spur official trade and reduce smuggling.

Although the two nuclear armed neighbours are leading members of a South Asian economic association that launched a free trade group last year the two nations have not fully embraced free trade due to political differences over Kashmir which has created mistrust and suspicion for nearly sixty years. India granted a Most-Favoured Nation (MFN) status to Pakistan in 1966 but Islamabad has not reciprocated because it feels the Kashmir issue should be resolved first.

Despite the obstacles, over the last three years a strategy of cementing cultural and business ties has produced positive results. The age-old saying that "once nations start to trade goods they stop to trade blows" seems to find favour between the neighbours who celebrate 60 years of Independence this month - Pakistan on the 14th and India on the 15th.

▪ According to a Reuters report A.T.Kearney, which compiles the Global Retail Development Index, put India at the top of the most attractive emerging markets for retail for the third year. However, foreign companies may only have two years to avail of the Indian opportunity before local companies win the battle. Mr Hemant Kalbag, Chief Executive at A.T.Kearney, India said "The window of opportunity is open today, tomorrow and next year. From then on, even though the market is nowhere near peaking, it will be a diminishing opportunity".

Timing - identifying markets close to embracing modern retail - and building a presence before competition is critical to success, A.T. Kearney said. Foreign retailers may find it

difficult to build economies of scale quickly given soaring property prices, looming skilled staff shortages, regional differences and poor infrastructure. "Two out of three retailers do not succeed outside their home market and at least 10% withdraw, particularly in Asia, which has unique requirements in terms of customer understanding and infrastructure issues" Mr Kalbag said.

Currently, foreign single-brand retailers are only allowed a 51% JV with an Indian partner and multiple brand retailers are limited to wholesale cash and carry and franchise deals. So, with the Indian retail industry valued at about \$312bn and estimated to double in size by 2015 why are foreign retailers with capital, technology and management experience in the industry not permitted full entry into India? The Indian Government is under pressure from the "mom and pop" units not to open the sector to foreign competition because of the **acute fear of job losses in a country where no social security net exists** and many unskilled people from rural areas turn entrepreneurial and set up retail units to earn a livelihood. Solutions to these challenges will be within the framework of the country's democratic polity. As in the past reform in India will be a gradualist process, even though this may frustrate many foreign investors. There is also opposition from political parties and street vendors to large Indian companies who have already started opening retail units.

Only 3% of the Indian retail sector is in the "organised" sector (run as chain stores) and 97% in the unorganised sector - 12 million "mom and pop" units which typically operate in shops less than 500 sq.ft. in size and from stalls and handcarts scattered across more than 600,000 villages and 5,000 towns. In China the organised sector accounts for 20% and in Thailand for 40% and it is estimated that the Indian organised sector would grow in 5 years to 15-18% from 3% now. This is what attracts many foreign branded retailers. Moreover, according to McKinsey & Co., India will have 65m. middle income households by 2010, up from 40 m, with 351m people.

However, some industry players believe foreign retailers have time to gain a foothold in India. Mr Andrew Levermore, Chief Executive of HyperCity Retail India said "there are at least another five years before we even start to see a solid countrywide offering of modern retail. Consolidation will take another 10 years after that. Full maturity is 20 years away."



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Deepak Lalwani, Director

**The India Report**  
**Astaire Research**  
 London, August 7, 2007

**SELECTED SHARE PRICES:****GDR & ADR OFFER PRICES: in US\$** (with day's price, day's change and premium/discount – indicative only):**GDRs (LONDON):**

Ambuja	\$3.15	(+1¢)	+0.1%	Baj. Auto	\$56.60	(+10¢)	+0.5%	Grasim	\$73.00	(+70¢)	+1.0%
ITC	\$4.10	(-5¢)	-0.8%	L&T	\$61.10	(-20¢)	+0.7%	M&M	\$17.14	(-11¢)	+2.1%
Ranbaxy	\$9.20	(-8¢)	+0.8%	Rel. Inds	\$88.80	(+60¢)	-0.6%	SBI	\$99.50	(+80¢)	+19.5%

**ADRs (NEW YORK):**

Dr.Reddy	\$15.56	(+27¢)	-1.0%	HDFC Bank	\$84.31	(-91¢)	+0.6%	ICICI Bk	\$42.64	(-89¢)	-1.0%
Infosys	\$47.85	(-38¢)	+2.9%	MTNL	\$6.91	(+2¢)	-2.0%	Satyam.	\$26.01	(-14¢)	+13.5%
Sterlite	\$14.61	(-56¢)	-1.8%	Tata Motor	\$16.50	(+15¢)	+1.4%	VSNL	\$20.90	(+20¢)	-1.8%
WIPRO	\$13.65	(-18¢)	+20.1%								

**AIM (LONDON): most in GB pence** ( with day's offer price, day's change and year-to-date performance – indicative only )

Dev Prop.	83.50	+2	-16.5%	Dhir India	165	n/c	+10.0%	Eredene	25	n/c	+0%
Eros	510	+1	+59.9%	Evolvece	\$1.10	n/c	+10%	Gt Eastern	155	n/c	+19.2%
HIRCO	398	+12	-7.4%	Indian Films	94.00	n/c	-6.0%	India Hosp	\$7.20	+2¢	+20.0%
Ishaan	103.00	n/c	-1.9%	KSK	265	+6	+67.7%	Naya Bharat	\$1.12	n/c	+12%
Noida Toll	\$3.65	n/c	-6.4%	Promethean	108	n/c	+8%	Trinity	88.00	n/c	+6.7%
Unitech	98.00	-1	+4.5%	UTV	\$2.85	n/c	-1.7%	W. Pioneer	130	n/c	+33.3%

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