

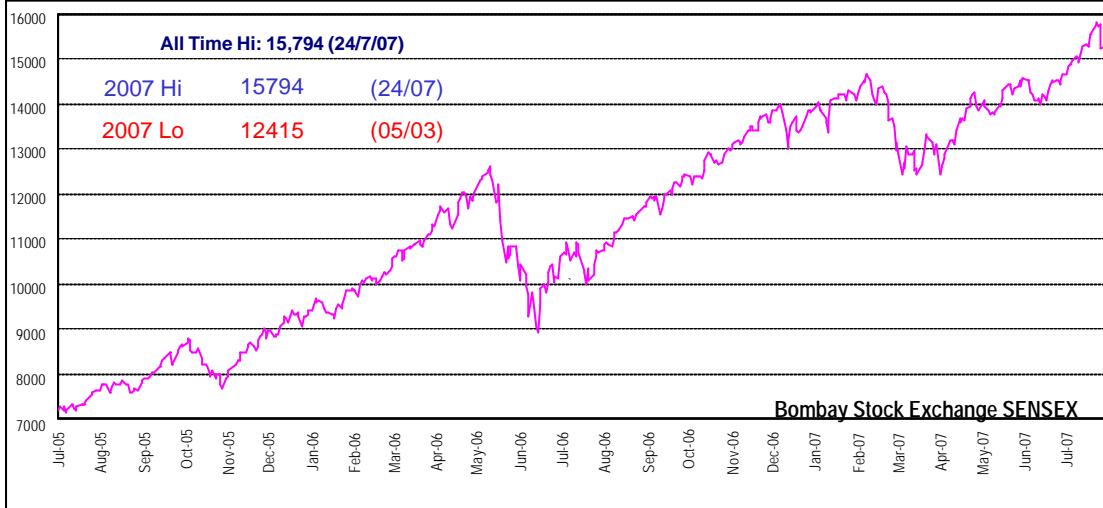


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**The India Report
Astaire Research**
London, July 31, 2007



Deepak Lalwani, Director



BOMBAY

INR/US\$ = Rs 40.38
INR/GB£ = Rs 82.08
INR/EUR = Rs 55.32

The SENSEX bounced back strongly to close +290 points higher at 15,551 in a volatile session. Reliance Power, a subsidiary of Reliance Energy, has won a 4,000MW bid at Rs 1.19 per unit for the Sasan power project, which is expected to fuel Reliance Energy's top line growth. The market undertone is firm.

LONDON

GDRs are firm in moderate trade. ITC, L&T, Ranbaxy, Reliance and SBI all show gains of 3%+ with L&T standing out with a near 8% rise. The market undertone is firm.

	2007	Forward	6 Yr	6 Yr	15 Yr	
BOMBAY CLOSE (July 31)	Chg	PER	PER Hi	PER Lo	Avg PER	
SENSEX 30:	15,551 (+290)	+12.8%	19.5x	25.7(5/1/07)	10.1(4/5/03)	18.4
NIFTY 50:	4,529 (+89)	+14.2%	N/A	25.9(15/2/01)	10.4(28/10/02)	N/A

ECONOMIC NEWS

- As expected, the RBI at its quarterly monetary policy meeting today left the key interest rate unchanged at 7.75%. It has raised interest rates by 0.25% five times since June 2006 to contain inflation. However, unexpectedly the Cash Reserve Ratio (CRR) was raised by 0.5% to 7% to drain liquidity from the banking system. Credit growth has been strong over the last two years and the Central Bank is concerned about asset bubbles being formed, especially in property and the stock market.
- The IMF in its latest World Economic Outlook revised upwards India's GDP growth rate for the current year by 0.6% to 9% from its April forecast. It also revised upwards the forecast for 2008 by 0.6% to 8.4%. The IMF also revised the 2007 forecast for world growth to 5.2%, up 0.3%; for the Euro area and Japan to 2.6%, up 0.2%; the US at 2%, down 0.2% from the April forecasts.
- Finance Minister Mr Chidambaram told Government officials that the country will require \$475bn investment in infrastructure in the 5 year period 2007/12, higher than the \$320bn previously estimated. India is building more ports, airports, highways, roads, railway tracks, power plants, residential and office complexes to sustain an average economic growth rate of 9% in the next 5 years, from an annual average of 8.6% in the last 4 years. Government officials estimate that 1.5-2% of annual growth is lost due to India's creaky infrastructure. Mr Chidambaram said that massive private investment, probably around \$20bn a year or about \$100bn over 5 years, will be required as the Government alone cannot meet the funding requirement and noted that global private equity funds were interested in investing in India. Also the Finance Ministry is in discussions with the Reserve Bank of India to use part (perhaps \$5bn annually) of India's record foreign exchange reserves of \$222bn for infrastructure. Highways, which move about 80% of goods transported in India, account for only 2% of the country's 2.1m miles of roads. It takes an average 85 hours to unload and reload a ship at India's

- major ports, 10 times longer than in Hong-Kong or Singapore, according to Government figures. Indian manufacturing has not reached anywhere near Chinese levels because of very poor infrastructure (power shortages, poor roads, ports etc) and inflexible labour laws. Manufacturing would provide badly needed jobs and help absorb rural people who migrate to towns and cities in search of a better life.
- The RBI said that India received Foreign Direct Investment (FDI) of \$17.7bn for the y/e March 2007 vs \$7.7bn a year ago. This is a record and after many years of only \$3-6bn pa there seems to be a spurt, reflecting India's increasing attraction as an investment destination for overseas companies.
- Rising incomes and a growing middle class continue to make their mark on consumption, especially in the telecoms sector. A record 7.3m new mobile phone users were added in June, according to the regulator. In all of 2000 only 3 m were added. The cumulative total of all mobile users at June 2007 stood at 185m, while the total number of telephone users, including fixed line customers stands at 225m, or 19.86% of the population. The cheapest wireless costs in the world have also helped to make India the fastest growing mobile phones market in the world. However, the country has a long way to catch up with China which had more than 500m mobile users at end June, double that of the U.S.
- Selected profit-making state-run firms are to be allowed to invest up to 30% of their surplus funds in equity mutual funds managed by public sector companies like SBI, UTI and LIC. The decision by the Cabinet Committee of Economic Affairs to allow this follows a near 9 year ban. The stock market could witness up to \$15bn of equity investments and this would provide a useful cushion in case of any market correction. Currently 60% of the mutual fund industry's products are in fixed income schemes.



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

Ambuja	\$3.30	(+6¢)	+1.1%	Baj. Auto	\$58.80	(+\$1.50)	+0.5%	Grasim	\$74.00	(+70¢)	+1.0%
ITC	\$4.18	(+13¢)	-1.1%	L&T	\$65.00	(+\$4.2)	+0.7%	M&M	\$18.50	(-\$1.40)	+2.5%
Ranbaxy	\$9.65	(+33¢)	-0.1%	Rel. Inds	\$93.50	(+\$1)	-0.2%	SBI	\$94.90	(+\$1.50)	+17.9%

ADRs (NEW YORK):

Dr.Reddy	\$15.93	(+2¢)	+1.5%	HDFC Bank	\$89.51	(+\$1.96)	+0.6%	ICICI Bk	\$46.25	(+23¢)	+0.8%
Infosys	\$51.33	(+63¢)	+4.9%	MTNL	\$7.54	(+4¢)	+1.2%	Satyam.	\$27.04	(+13¢)	+13.0%
Sterlite	\$16.43	(+3¢)	+0.3%	Tata Motor	\$17.60	(-20¢)	+1.6%	VSNL	\$23.18	(+7¢)	+3.0%
WIPRO	\$15.21	(+18¢)	+24.0%								

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

Dev Prop.	90.50	n/c	-9.5%	Dhir India	165	n/c	+10.0%	Eredene	25	n/c	+0%
Eros	535	+17	+67.7%	Evolvece	\$1.09	n/c	+9%	Gt Eastern	155	-2.5	+19.2%
HIRCO	405	-2	-5.8%	Indian Films	94.00	n/c	-6.0%	India Hosp	\$7.10	n/c	+18.3%
Ishaan	105.00	n/c	-0.0%	KSK	270	+9	+70.9%	Naya Bharat	\$1.07	n/c	+7%
Noida Toll	\$3.65	n/c	-6.4%	Promethean	108	n/c	+8%	Trinity	90.0	n/c	+9.1%
Unitech	97.00	n/c	+3.2%	UTV	\$3.00	n/c	+3.4%	W. Pioneer	127	n/c	+30.3%

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