Astaire

The India Report

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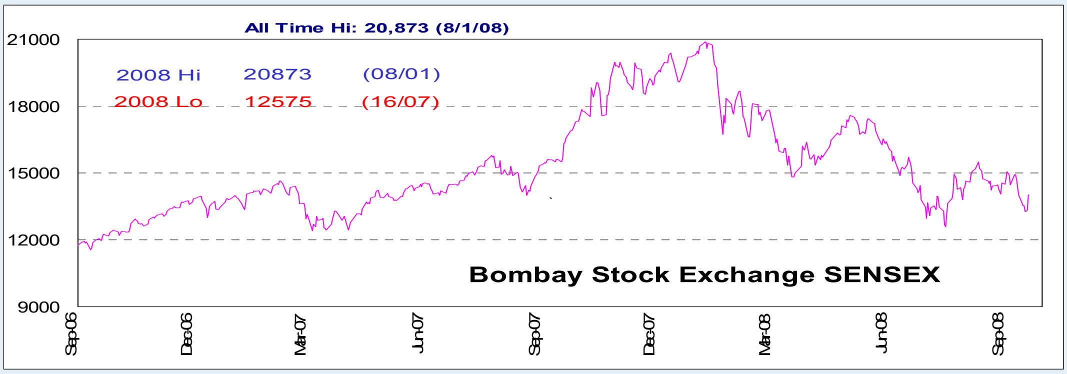

Close Sep 19	Index	Pts Chg Day	% Chg YTD	Forward PER	7 Yr PER Hi	7 Yr PER Lo	15 Yr Avg PER
SENSEX 30	14,042	+727	-30.8	14.0	31.1(13/1/08)	10.1(4/5/03)	15.7
NIFTY 50	4,245	+207	-30.8	14.8	28.5 (13/1/08)	10.4(28/10/02)	N/A

Source: Bloomberg

BOMBAY

INR/US$	Rs 45.83
INR/GB£	Rs 82.85
INR/EUR	Rs 64.49

The **SENSEX** closed 727 points (+5.5%) higher at 14,042 in a massive rally as global markets surged from oversold positions. Gains were seen across the board although some profit booking was seen in auto, energy and banking shares.

LONDON / NEW YORK

GDRs are higher across the board. Small discounts are seen in Ambuja, Hindalco, Ranbaxy and SBI. On AIM Gt. Eastern shows a gain of 85% YTD, in contrast to many property companies being 50%+ lower this year. **ADRs** open firmly in NY.

MARKET COMMENTARY

➤ **Hurricane force winds battered global financial markets earlier this week as contagion spread from the U.S.** In the most spectacular week in modern financial history, one of the most venerable names collapsed (178-year old Lehman Brothers) while other financial giants had to be rescued (AIG and Merrill Lynch in the US and HBOS in the UK). And this was despite the Fed's very recent rescue of Freddie Mac and Fannie Mae to avoid systemic risk. The resulting acute fear factor as investors worried "who's next?" and the heightened volatility resulted in the biggest flight to safety since the 1940s. T bill yields plunged to their lowest in 60 years. Risk appetite was killed. The US housing market, the leveraged toxic products pushed by investment banks and short sellers are the root causes of the recent turmoil. Until the US housing market is perceived to have bottomed and begins to stabilise, more pain, high volatility and risk aversion should be expected, despite today's massive global rally after the US authorities took some action to address the current crisis.

So, how does all this affect India? Perversely, the very bureaucratic and regulatory controls that have frustrated many international investors now actually proved to be a good firewall against the current virus from the West. India was already facing problems of its own – a clearly slowing economy, inflation near a 13-year high, interest rates at a seven-year high, a depreciating currency and record selling by FIIs ($8.8bn YTD reversing record purchases of $17 bn last year). So, what is/will be the short (up to six months) effect on India of the US-led credit crunch? (a) A leap in risk aversion making FIIs sell and reduce India exposure in light of the slowing economy; (b) Credit/liquidity becoming scarce for foreign firms. This will affect foreign funds led investment in Indian projects; (c) Sentiment for emerging markets being severely dented as there is a flight to quality. Despite these factors, it should be remembered that the Indian economy is expected to grow around 7.5% in this fiscal year, lower than the 9.1% last year, but much higher than most developed economies. However, the SENSEX valuation at 14x, while more realistic than earlier this year, is not yet compelling in the current climate. Expect high volatility to continue.

➤ **Year-to-date performance of selected Asian and western markets in the half-year to June 30, 2008:** (source: Bloomberg)

INDEX	Curr.Year P/E Ratio	Index at 30.6.08	2008 %Chg
ASIA PACIFIC:			
AUSTRALIA 200 INDEX	13.7	5,215	-18
CHINA SHANGHAI COMP. IX	20.7	2,736	-48
CHINA SHENZEN COMP. IX	25.5	793	-45
HONG KONG HANG SENG	14.5	22,102	-21
INDIA NIFTY 50	13.4	4,040	-34
INDIA SENSEX 30	13.5	13,461	-34
INDONESIA J'KRTA COMP	14.3	2,349	-14
JAPAN NIKKEI 225	17.1	13,481	-12
MALAYSIA K.L. COMP.	12.7	1,187	-18
PAKISTAN KSE 100	14.2	12,289	-13
PHILIPPINES PSEi	11.2	2,460	-32
SINGAPORE STI	14.1	2,947	-15
SRI LANKA ALL SHARE	N/A	2,458	-3
STH. KOREA KOSPI	11.6	1,675	-12
TAIWAN TAIEX	11.9	7,523	-12
THAILAND SET	10.4	769	-10
VIETNAM STOCK INDEX	N/A	399	-57
WESTERN:			
GERMANY DAX	10.8	6,418	-20
UK FTSE 100	10.8	5,626	-13
USA DOW JONES	12.4	11,350	-14
USA NASDAQ COMP	22.0	2,292	-14

All the Asian markets above show double digit losses YTD, with China, Vietnam and Pakistan being the top 3 losers in 2008. India is -31%, with a P/E higher than most peers. In the six years to 31.12.07 the SENSEX gained 622% - the fall this year is healthy. India is less export reliant than China. Western markets lose less than Asian (emerging) markets, despite their economies slipping into/being close to recession. Risk aversion hits appetite for emerging markets after strong gains there in the previous 3 years.

SELECTED SHARE PRICES

GDR OFFER PRICES (US$) LONDON

Company	Day's Price	Day's Change	Premium/ Discount	Company	Day's Price	Day's Change	Premium/ Discount
Ambuja	$1.78	+6¢	-3.0%	**M&M**	$12.30	+37¢	+2.0%
Baj. Hldg (ex-Bajaj)	$9.5000	+25¢	-0.4%	**Ranbaxy**	$7.65	+46¢	-1.8%
Grasim	$42.50	+$2.10	+1.6%	**Rel. Inds**	$91.50	+$5.40	+2.2%
ITC	$4.30	+30¢	+4.2%	**SBI**	$67.50	+$2.70	-1.1%
L&T	$57.80	+3.70	+0.1%				

ADR OFFER PRICES (US$) NEW YORK

Company	Day's Price	Day's Change	Premium/ Discount	Company	Day's Price	Day's Change	Premium/ Discount
Dr.Reddy	$11.75	-8¢	+2.0%	**Satyam.**	$17.30	+$2.70	+23.5%
HDFC Bank	$85.37	+$6.33	+8.3%	**Sterlite**	$9.70	+$1.05	+4.9%
ICICI Bk	$25.86	+$2.40	+3.6%	**Tata Com (ex VSNL)**	$20.98	+27¢	+6.1%
Infosys	$36.67	+$1.71	+3.5%	**Tata Motor**	$9.57	-17¢	+4.0%
MTNL	$4.18	-7¢	+4.0%	**WIPRO**	$10.33	+65¢	+22.6%

AIM (LONDON): most in GB pence (indicative only)

Company	Day's Offer	Day's Change	YTD Change	Company	Day's Offer Price	Day's Change	YTD Change
Dhir India	165	n/c	-8%	**KSK**	300	-10	-19%
Eredene	17	n/c	-21%	**Naya Bharat**	$0.44	n/c	-66%
Eros	310	n/c	-25%	**Noida Toll**	$6.25	n/c	-11%
Gt Eastern	300	+20	+85%	**OPG Power**	54	n/c	-10%
Greenko	93	n/c	-9%	**Promethean**	111	n/c	-15%
HIRCO	147	+12	-61%	**Trinity**	69	+1	-27%
Indian Films	46	-2	-40%	**UMP (ex-UTV)**	$2.28	n/c	-32%
Indus Gas	170	n/c	+4%	**Unitech**	33	+3	-71%
Ishaan	76	-1	-28%	**W. Pioneer**	85	n/c	-35%

Source Bloomberg

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