



India Update

Market Overview

- Indian stocks tracked global markets lower in January, on fears over potential monetary tightening and withdrawal of fiscal stimulus. The central bank left its key lending rates unchanged, but raised banks' cash reserve requirement by a larger-than-expected 0.75% to curb accelerating inflation.
- The continued rise in food prices drove inflation, with the widely tracked wholesale price index climbing 7.31% from a year earlier in December, substantially higher than previous month's annual increase of 4.78%.
- Healthy domestic demand fuelled industrial production growth in November, while exports rose for the second consecutive month in December.
- The government hopes to raise about US\$2 billion by selling its 5% stake in state-owned power company NTPC, the first of several expected in the coming weeks.
- In a development that could minimise bureaucratic red tape, the government is mulling a single telecom licence in place of 17 service-specific ones.

Model Portfolio News

There were no major changes to the portfolio in January.

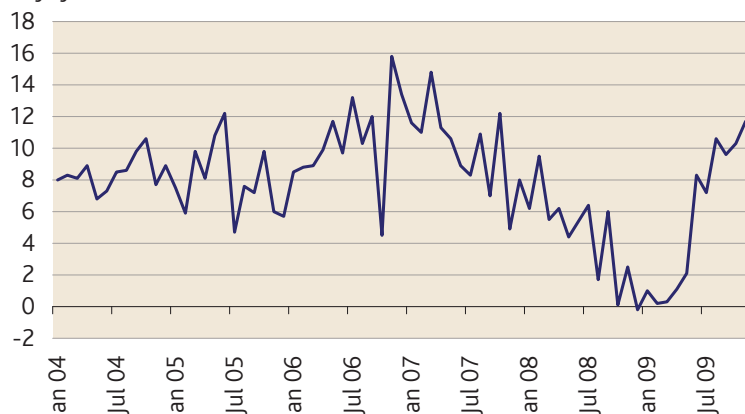
Corporate News

In earnings news, most of our holdings with domestic market exposure, such as **Hero Honda, Hindustan Unilever, Godrej Consumer Products** and **ITC** reported good results, while our financial holdings benefited from improving margins. **Bharti Airtel** reported steady revenue and profits for the December quarter, despite facing an aggressive price war in the domestic telecom market. The mobile phone operator recently acquired a 70% stake in Bangladesh-based Warid Telecom for US\$300 million, which will facilitate its expansion into the market. IT companies also did well; both **Infosys** and **TCS** were aided by the rebound in IT spending, and **CMC's** focus on higher-margin activities boosting its profits.

We hold the companies highlighted above.

Focus – India's strengthening industrial production

% yoy



Source: Bloomberg, 9 Feb 10

India's industrial production grew sharply by 11.7% in November from a year earlier, the fastest pace in two years, as stimulus measures drove domestic demand. The chart shows that industrial production growth may peak again soon if the momentum continues. The solid output data followed recent upbeat economic indicators that showed India recovering from the global crisis more strongly than many regional counterparts. Local equities have surged, exports have rebounded from a deep slump, while private consumption has remained robust. But accelerating inflation is posing a challenge for policymakers who are under increasing pressure to hike interest rates while trying not to stifle growth.

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