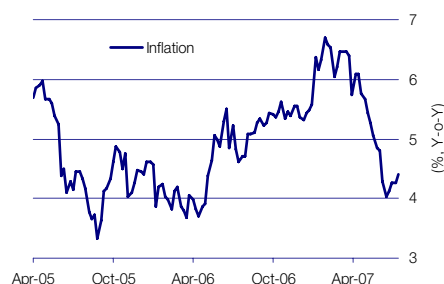


INFLATION

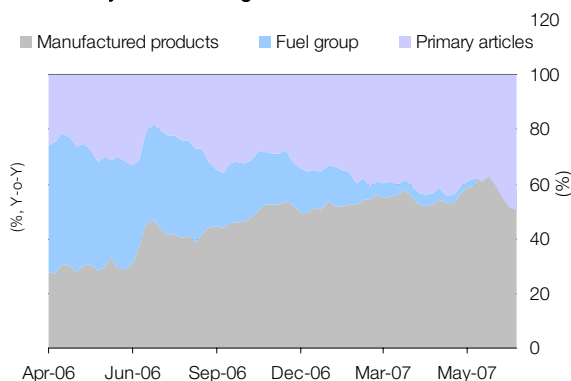
Inflation on the rise

WPI Inflation-on the rise



Source: Bloomberg, Edelweiss estimates

Primary articles rising contribution to inflation



Source: Bloomberg

July 27, 2007

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- ◆ **Inflation rose to 4.41% Y-o-Y** for the week ended July 14; above our and consensus estimates of 4.35% Y-o-Y and 4.36% Y-o-Y respectively. Inflation is also higher than the previous week's level of 4.27% Y-o-Y. This is the fifth consecutive week when inflation has either strengthened or remained unchanged from the previous week.
- ◆ **Primary articles inflation rose again** – this time to a strong 10%, up from 9.51% during the previous week. **Manufactured products' inflation strengthened as well**, (from 4.52% Y-o-Y to 4.63% Y-o-Y) while the fuel group continued to reflect deflation (at 1.44% Y-o-Y).
- ◆ Elevated primary articles inflation has led to a proportionately higher contribution by the group to overall inflation of 50%. However, **manufactured products still contributes to the maximum increase over the year of 57%** (with the fuel group balancing with a 7% decline in index).
- ◆ **Supply side pressures on WPI inflation are evident** from the rise in primary articles prices. Rising crude prices also indicate that a hike in petrol and diesel prices is a possibility. **These factors put our forecast of softening inflation numbers over the remaining part of the year at risk.** At present, we forecast average FY08 inflation at 4.36% Y-o-Y.
- ◆ For the week ended July 21, we expect inflation to be at 4.35% Y-o-Y.

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Ashutosh Goel - 2286 4287	Automobiles, Auto Components	Vikrant Oak - 4019 4712
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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

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