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Asia Pacific: Portfolio Strategy

India: Off with the froth; stay underweight

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Pricing: The market's down, but not excessively

We keep our underweight view despite market weakness: India has sold down but other markets have corrected as much or more.

Valuation: Still elevated

India trades at 20x 2008E earnings, 4.4x trailing book value, 18x cash and a 1.1% dividend yield. It is also valued at close to a 50% P/E premium to the region and implies an 18.4% 10-year EPS growth rate.

Fundamentals: Good, but less positive

The growth/inflation/rate/currency tradeoff is less favorable now than it was in 3Q07, when the market began its last bull move. Earnings growth, while good, is not likely to surprise positively.

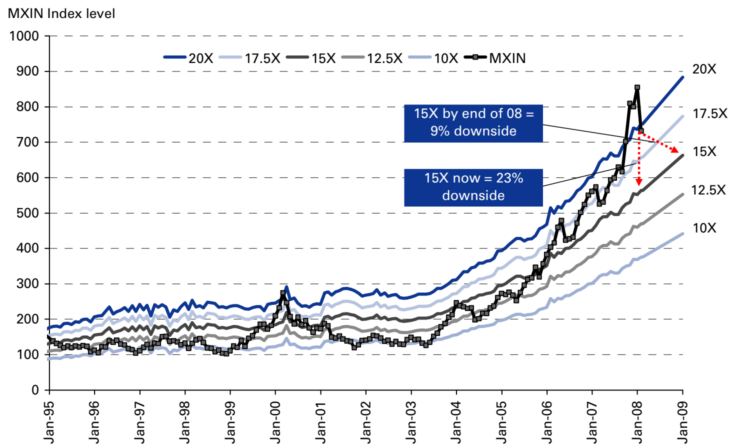
Flows: Retail investor speculation dampened

Retail speculative enthusiasm has been hurt by poor performance of the high-profile Reliance Power IPO, in our view.

Implementation: Support at 15x; buy/sell ideas

We estimate valuation support at 15x P/E, which equates to 20% downside or a range-bound market to end-2008. We feature long/short stock screens to generate alpha ideas.

The market could find support at 15x forward P/E
12M forward P/E band for MSCI India



Source: FactSet, I/B/E/S, MSCI, Goldman Sachs Strategy Research.

India: Off with the froth; stay underweight

We recently moved to an underweight stance on India, notwithstanding our continuing enthusiasm for its longer-term investment prospects and our view that India's economy and corporate profits are likely to be among the most resilient to the risks posed by a slowdown in the US and other developed economies. The key reasons for changing our previously positive view were (a) stretched valuations, (b) a less favorable macro and earnings outlook than the conditions that prompted our market upgrade last August, and (c) signs of excessive retail investor speculation.

With valuations still elevated, notwithstanding recent market weakness and domestic investor sentiment bruised by poor performance of the high-profile Reliance Power IPO, we reiterate our underweight stance and expect the market to retrace further, or at best mark out a volatile trading range. In essence, our view and call is that good absolute and relative fundamentals have been well-priced, which impairs the market's risk/reward profile.

We organize this piece around five axes:

- **Pricing**: We place the recent sell-down in the context of the market's performance as well as that of regional counterparts. India is still well up on its August 2007 lows and its decline is comparable to or less than most other Asian indices.
- **Valuation**: We review valuation parameters, which are clearly high in absolute terms, relative to the market's historical ranges and relative to other regional alternatives.
- **Fundamentals**: Macro and earnings growth prospects remain good in absolute terms, but the mix of key macro variables is less favorable than it was in the latter part of 2007 when the market was in a bull trend. Moreover, the potential for earnings to positively surprise consensus expectations is low, in our view.
- **Positioning/flows:** Retail investors have been a key driver of the market's strong rise from August 2007-January 2008, and, as noted, their speculative enthusiasm has been dampened. Foreign investors are not as influential on price formation as they have been (or are perceived to be), but we expect further net selling as more receive FII status and are able to trade around positions more freely.
- **Implementation**: At the index level, we view 15x forward earnings as fundamental support, which is about 20% below current levels. Our year-end Sensex index target of 18,000 equates to slightly above 15x earnings. We would have a cautious or short bias until valuations decrease, either through lower price levels or the passage of time (which would allow the market to accrue earnings and thereby reduce its valuation). At the stock level, we feature long and short screens to help focus on alpha generating strategies. From a regional perspective, we note that China has significantly underperformed India during the past five months and that its valuations are now at a 21% discount to India's. While we think it is too early to buy China given policy tightening headwinds, we would expect China to outperform India once policy begins to normalize.

Pricing: The market's down, but not excessively so

The recent sharp decline in the Indian equity market has many investors wondering if the correction has run its course and if current levels represent an attractive entry point. We remain wary of valuations (which we address in the next section) and also note that the market's decline is not excessive relative to price action elsewhere in the region (see Exhibits 1–4). Specifically:

- **Market is still well up from late-2007 lows.** The MSCI India index has fallen 17% from its recent peak, but is still up 30% from its August 2007 lows, having risen about 60% in less than five months. In contrast, the regional index has corrected to levels close to the August lows.
- **Relative performance has faltered, but remains strong**. India's strong performance versus the region has been dented, but remains well above the ranges during most of 2007. The market appears far from "oversold" on a relative basis.
- **India's decline is comparable to other market sell-offs**. Although painful, India's decline is not unique: the larger and more liquid Asian markets have all had sharp sell-offs of comparable, or greater, magnitude.

Exhibit 1: Indian equities: down 17% from Jan peak but still well up from 2007 lows
Price performance of MSCI India index (local currency)

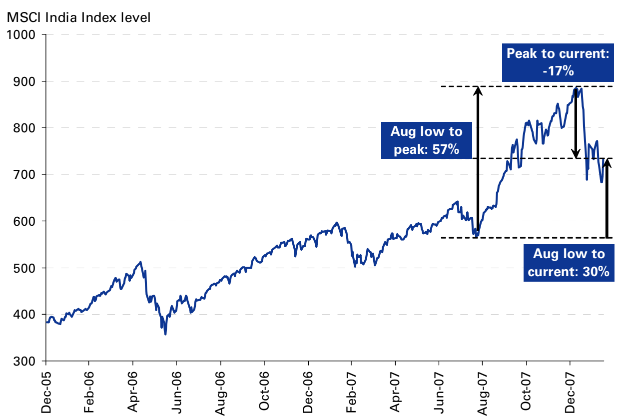


Exhibit 2: The decline has been broad-based; recent leaders have tended to fall furthest
Price decline of MXAPJ sectors (local fx) from Jan peak

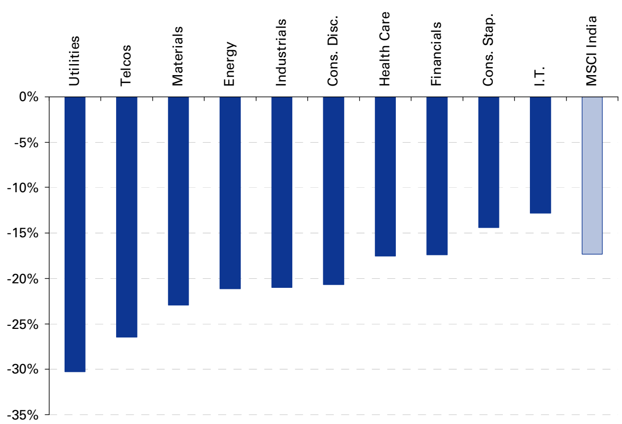


Exhibit 3: India's relative performance has faltered but is still well above recent lows
Relative performance of India vs. MXAPJ

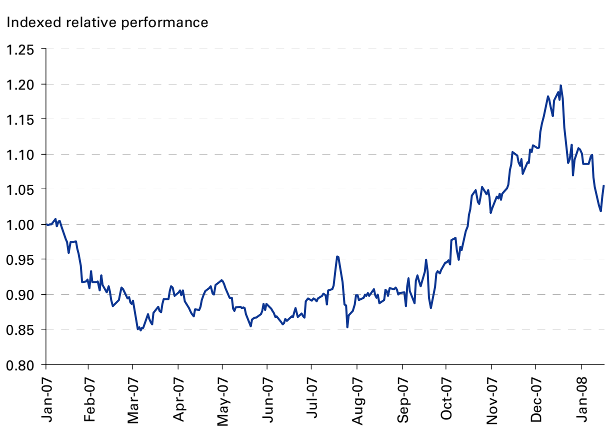
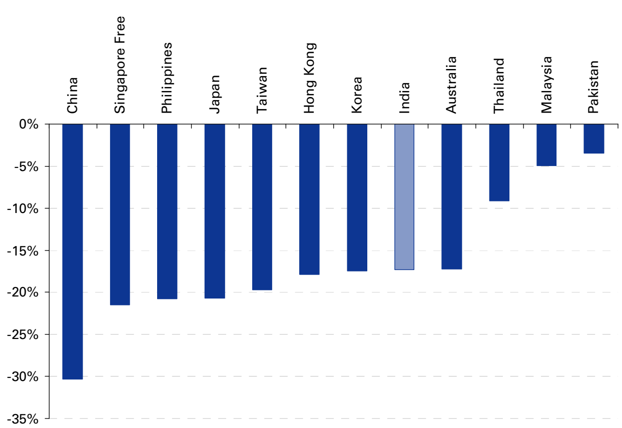


Exhibit 4: India's decline is comparable to the sell-offs of many other markets
Price decline of MXAPJ markets from Jan peak



Source: Bloomberg, FactSet, Goldman Sachs Strategy Research.

Valuation: Still rich in absolute and relative terms

The main concern we have regarding the Indian equity market is that the positive underlying story is well priced. Simply put, valuations are rich in absolute terms and relative to other regional markets, which in our view makes the risk/reward less attractive than elsewhere (see Exhibits 5–8).

Key points:

- **High absolute valuations**: Even after the recent setback, India is trading at nearly 20x 2008E earnings, 4.4x trailing book value, 18x 2008E cash flow, and a 1.1% dividend yield. Even allowing for 20% return on equity and earnings growth that is likely to be in the high teens, we view these as high valuations, especially in a less-forgiving investment environment. The depth of the market allows for picking attractively valued stocks, but we believe the aggregate valuation is demanding.

- **High relative valuations**: India currently trades at close to a 50% premium to the region on a forward P/E basis, which is both high in absolute terms and is at the top of the market's relative valuation range for the past fifteen years. The market is also richly priced compared to other regional markets on many other valuation metrics, including book value, sales, cash flow and dividends. Furthermore, on an implied growth basis, which is the 10-year EPS growth that the market is pricing in based on current profitability and discount rates, India's pricing implies an expectation of 18% EPS compound annual growth compared to mid-single digits for most other markets and 13% for China.

- **Large caps look expensive**. The top 20 MSCI India stocks still look richly valued, even after recent share price declines; 15 of these names trade at or well above 20x forward earnings, and the ones with cheaper valuations tend to have low expected earnings growth rates. Since this group of stocks makes up over 70% of index capitalization, it will be difficult for the overall market to move up meaningfully even if more attractively valued mid caps do well.

Exhibit 5: India's valuation is high in absolute terms, relative to its historical range
Time series of India forward P/E and trailing P/B

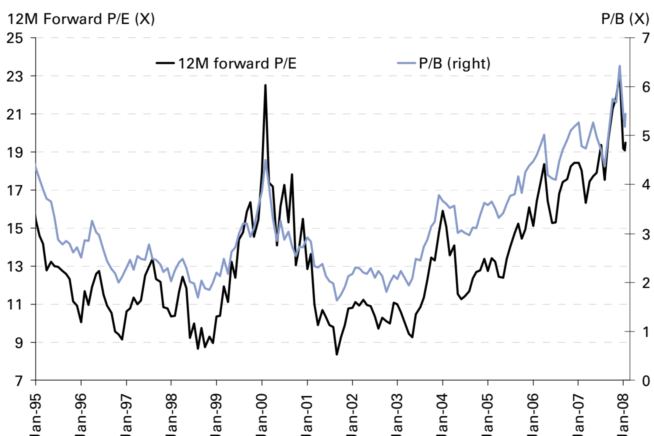
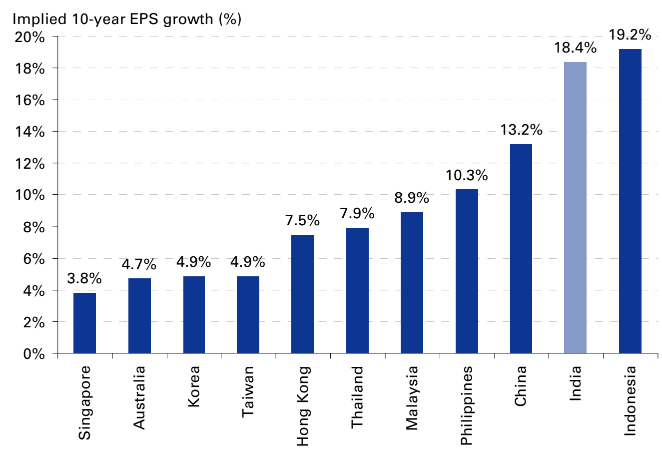


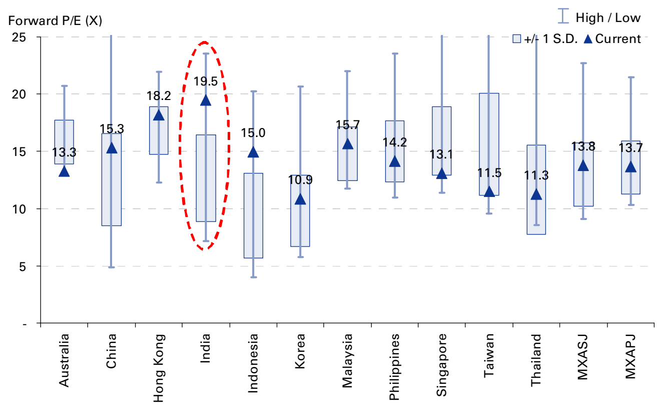
Exhibit 6: India's implied 10-year EPS growth is high in absolute terms and relative to regional markets
10-year EPS Implied growth of MSCI APJ markets



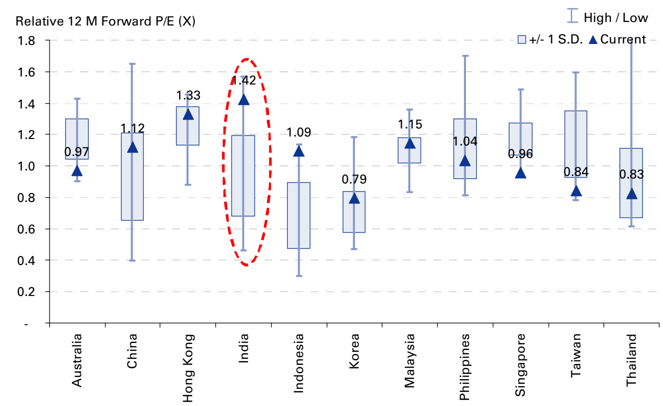
Source: Bloomberg, Datastream, FactSet, I/B/E/S, MSCI, Goldman Sachs Strategy Research estimates.

Exhibit 7: India's valuations look stretched relative to its range and other markets

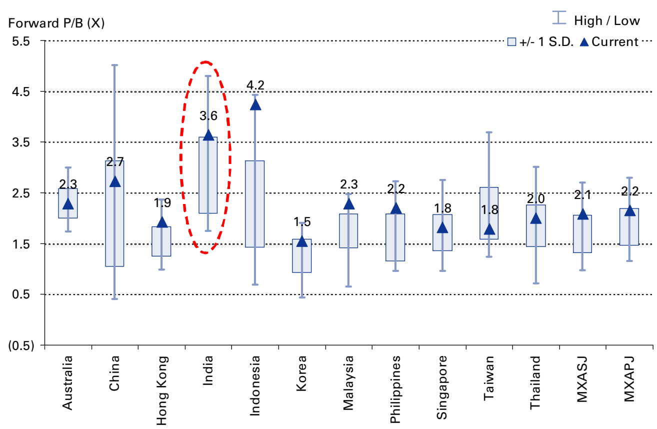
Forward P/E with 10-year range



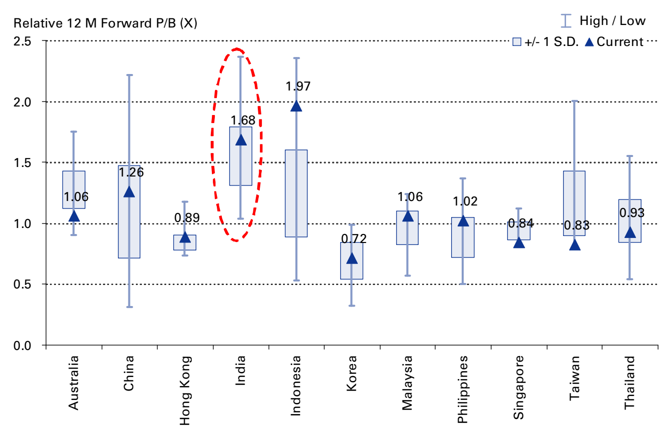
Relative forward P/E with 10-year range



Forward P/B with 10-year range



Relative forward P/B with 10-year range



Source: FactSet, I/B/E/S, MSCI, Goldman Sachs Strategy Research estimates.

Exhibit 8: The top 20 index stocks look expensive

Valuation of top 20 stocks by free-float adjusted market cap in MSCI India

Bloomberg ticker	Company name	GICS industry classification	Listed market cap (US$ mn)	MSCI free-float adjusted market cap (US$ mn)	6M ADVT (US$ mn)	CY08/09 EPS growth CAGR (%)	CY2008 ROE (%)	CY2008 P/E (X)	CY2008 P/B (X)	CY2008 DY (%)	CY2008 EV/ EBITDA (X)
NRIL IS	Reliance Ind	Oil Gas & Consumable Fuels	92,275	38,341	305	32.3	18.9	21.9	3.8	0.6	3.1
NICICIB IS	ICICI Bank	Commercial Banks	32,127	20,676	119	24.5	10.8	25.8	2.6	1.1	-8.5
NINFO IS	Infosys Tec	IT Services	22,323	17,802	81	15.5	32.7	16.7	4.8	1.1	NA
NHDFC IS	Housing Dev Finance Corp.	Thrifts & Mortgage Finance	20,460	12,390	58	16.1	21.1	32.7	6.2	1.1	NA
NLT IS	Larsen & Toubro	Construction & Engineering	25,820	8,964	108	31.5	28.8	30.7	8.8	0.5	NA
NRCOM IS	Reliance Communications	Wireless Telecom	31,769	8,892	148	25.5	22.4	20.5	4.1	0.3	4.4
NHDFCB IS	HDFC Bank	Commercial Banks	13,763	8,518	27	31.6	16.8	27.7	4.2	0.7	14.3
NONGC IS	Oil & Natural Gas Corp.	Oil Gas & Consumable Fuels	55,379	6,065	57	6.0	27.3	9.9	2.5	3.8	NA
NBHEL IS	Bharat Heavy Elecs	Electrical Equipment	27,581	5,565	65	32.8	28.5	27.9	7.9	0.9	NA
NITCL IS	ITC	Tobacco	18,973	5,104	36	17.6	26.1	21.0	5.5	2.0	16.9
NSCS IS	Satyam Computer Svcs	IT Services	7,413	5,029	34	15.2	26.0	15.0	3.5	1.1	NA
NAXSB IS	UTI Bank	Commercial Banks	8,974	4,886	21	36.3	16.0	26.2	3.8	0.6	7.8
NRCFT IS	Reliance Capital	Diversified Financial Services	12,367	4,727	147	19.1	15.8	48.4	7.2	0.2	NA
NHUVR IS	Hindustan Lever	Household Products	11,177	4,317	16	14.1	67.0	22.1	14.2	3.7	13.2
NDLFU IS	DLF	Real Estate Mgmt & Dev	37,219	4,091	88	45.1	46.6	16.2	6.0	0.6	8.4
NRELE IS	Reliance Energy	Electric Utilities	10,199	3,965	240	5.6	9.7	41.3	4.0	0.5	NA
NJPA IS	Jaiprakash Associates	Construction & Engineering	8,018	3,749	73	40.0	16.6	42.3	7.0	0.3	7.6
NTTMT IS	Tata Motors	Machinery	7,137	3,371	26	9.2	20.7	15.0	3.1	2.3	8.7
NSBIN IS	State Bank of India	Commercial Banks	35,155	3,267	92	18.4	14.8	19.6	2.7	0.8	8.3
NJSP IS	Jindal Steel & Power	Metals & Mining	9,157	3,154	67	73.5	31.0	20.9	6.5	0.2	NA
Top 20 simple average			**24,364**	**8,644**	**90**	**25.5**	**24.9**	**25.1**	**5.4**	**1.1**	**7.6**

Source: FactSet, I/B/E/S, MSCI, Goldman Sachs Strategy Research.

Fundamentals: Good, but less positive, macro and earnings outlook

We continue to think India's fundamental investment story is appealing, particularly given robust economic and corporate earnings growth that is likely to be well-insulated from weakness in the US. However, the more subtle point is that the mix of macro variables is less favorable now than two quarters ago and earnings growth is less likely to surprise consensus expectations on the positive side. Thus, in the context of high absolute and relative valuations, this macro and earnings outlook may not be sufficiently strong to allow the equity market to advance meaningfully or even hold its current level.

Main points:

- **Less positive macro mix**. While we expect India to deliver close to 8% GDP growth this year, the combination of key macro variables is less favorable now than it was two quarters ago at the start of the market's recent strong rally. Specifically, **industrial production** is moderating, **inflation** is picking up, **interest rates** are unlikely to fall much (and are therefore likely to stay at elevated levels), and the **currency** is likely to remain range-bound (at least over the next quarter or so). This contrasts with the set-up in 3Q07 when economic momentum was firm, inflationary pressures had been contained, monetary policy was moving from a tightening orientation, and the currency was strengthening, which provided a tailwind to dollar-based investors' returns. Of note, our recently introduced **GS-India Surprise Index**, which captures the overall trend in economic activity, has been weakening (see *Asia Economics Analyst, The India Surprise Index: Making surprises count*, Feb 11, and Exhibits 9–18).
- **Earnings: Unlikely to surprise on the upside**. One of the key drivers of the powerful bull run since 2003 is the persistent strong earnings growth that Indian companies have delivered, not just in absolute terms but also relative to consensus expectations. Importantly, however, 2007 looks to be the first year since 2003 when earnings fall short of starting year expectations. Furthermore, a shortfall in earnings growth relative to expectations could threaten the market's ability to sustain its premium valuation, and the prospect for earnings to surprise positively in 2008 and 2009 does not look good to us for three reasons:

    1. **The level of growth expectations for 2008 and 2009 is high** in absolute terms and relative to history: the current figures are 19% and 22%, the latter figure being the highest since the bull market began.
    2. **Estimate revisions for both 2008 and 2009 earnings have recently flattened** and are starting to turn down.
    3. Six sectors — energy, banks, software, industrials, property and steel — account for close to 80% of the market's earnings growth in 2008. Comparing sales growth and EBITDA margins for these sectors for 2008-2009 versus 2006-2007, it appears that **expectations are full to optimistic relative to the operating environment**. For example, bank and industrial revenue growth forecasts appear ambitious, and margins for the energy, software and industrial sectors look high.

Exhibit 9: The GS-India Surprise Index has weakened
Domestic data surprises and the SENSEX index

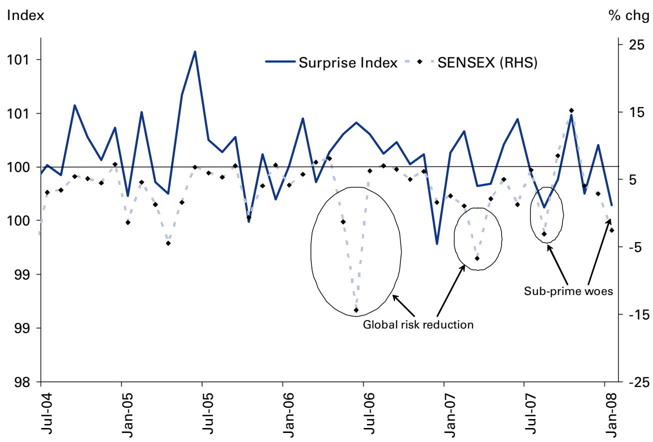


Exhibit 10: IP momentum is moderating
Time series of industrial production

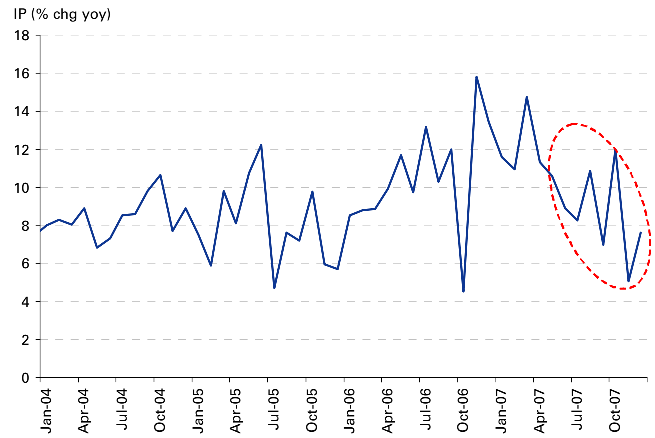


Exhibit 11: Inflation is ticking up again
Time series of wholesale price index

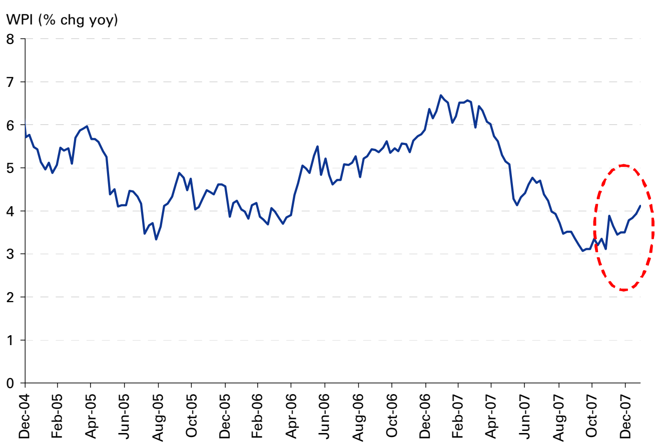


Exhibit 12: Bond yields have moderated but are likely to remain elevated
Time series of 10-year T-bond yield

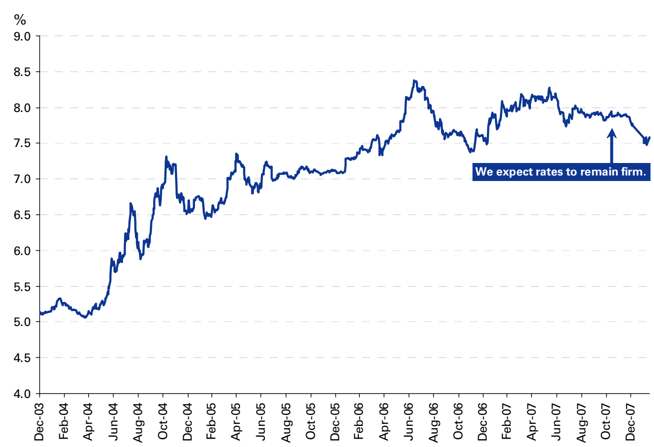


Exhibit 13: The rupee is likely to remain range-bound in the near term
Time series of exchange rate (USD/INR)

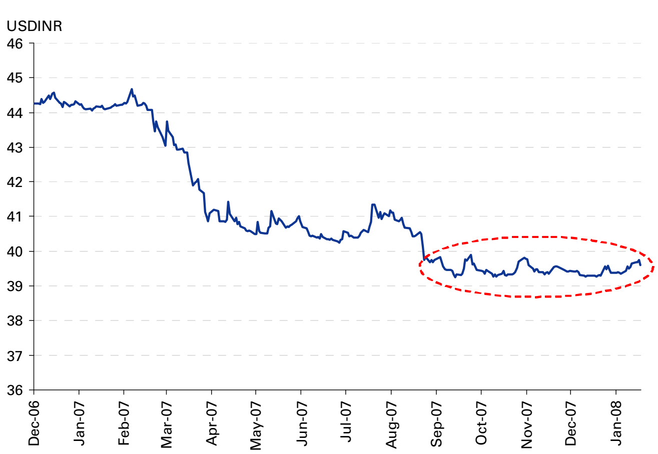
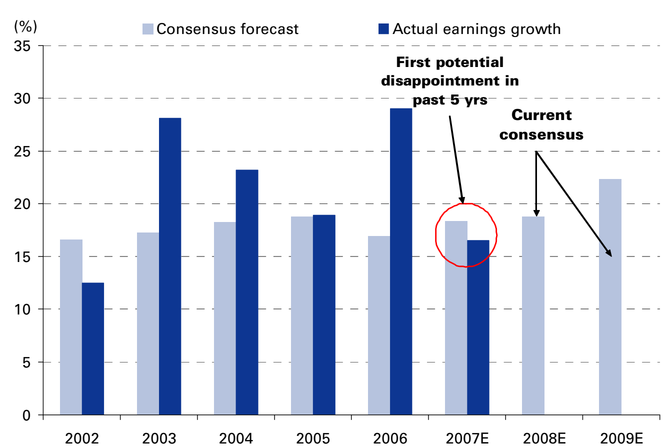


Exhibit 14: EPS growth may start to disappoint after consistently exceeding expectations since 2003
Actual EPS growth vs. start of year consenus estimate



Source: Bloomberg, CEIC, Goldman Sachs Economics Research.

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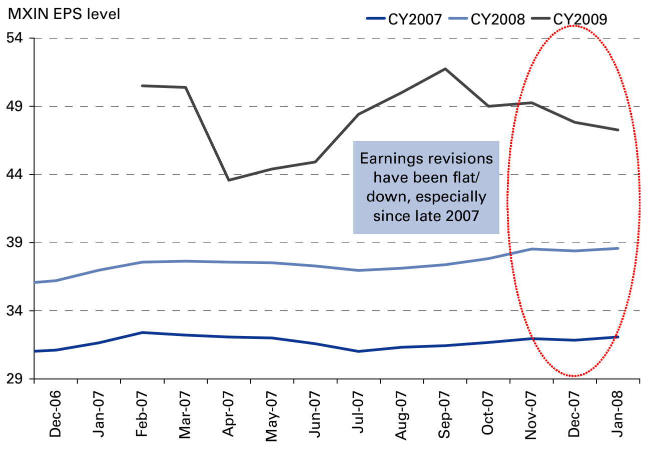
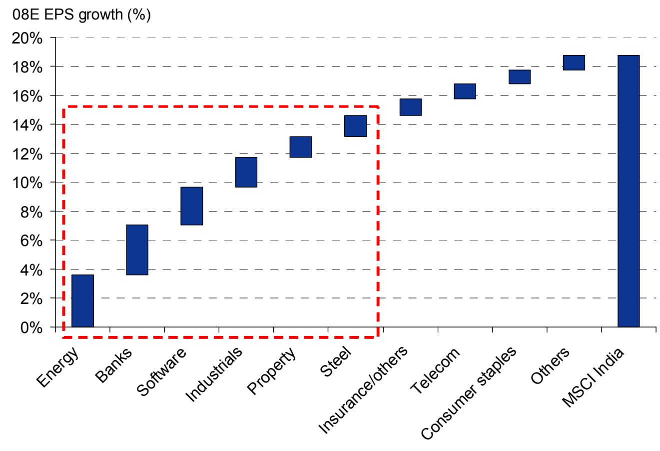
Exhibit 15: Estimate revisions for 2008 and 2009 are flattening or reducing
MXIN EPS revisions time series



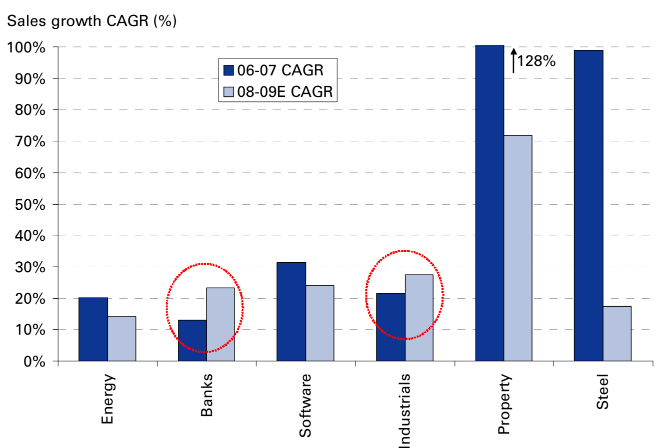
Source: FactSet, I/B/E/S, Worldscope, Goldman Sachs Strategy Research.

Exhibit 16: Six sectors make up 80% of 2008 EPS growth
MXIN 08E EPS growth breakdown by GS sectors



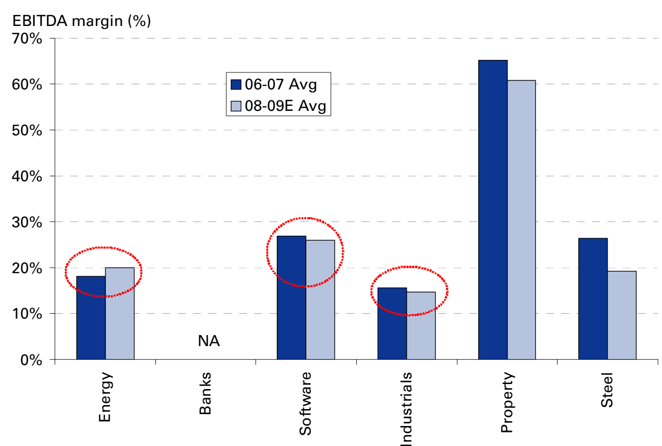
Source: FactSet, I/B/E/S, Goldman Sachs Strategy Research.

Exhibit 17: Bank and industrial revenue growth looks optimistic
Sales growth CAGR of key sectors



Source: FactSet, I/B/E/S, Worldscope, Goldman Sachs Strategy Research.

Exhibit 18: Energy, software and industrial margin expectations look high
EBITDA margin for key sectors



Source: FactSet, I/B/E/S, Worldscope, Goldman Sachs Strategy Research.

Positioning/flows: Retail speculative enthusiasm dampened

The recent rise in the Indian equity market had many signs of unsustainable speculative retail investor excess, in our view. This may now be quelled, at least in the near term, which would neutralize one of the key drivers of the market's positive momentum.

Our logic:

- **Foreigners are no longer the drivers of the market and may be net sellers in the near term**. One common perception (particularly by domestic Indian investors) is that foreign investors set the tone for the Indian equity market. According to our analysis, recent evidence contradicts this. Foreigners have been net sellers of Indian equities since September 2007 and the market has risen meaningfully during this time (until a few weeks ago). This implies that domestic investors have been more influential in setting share price levels. Furthermore, foreign ownership levels for both large- and mid-cap stocks have moderated during the past year, which also shows the rising influence of domestic investors. Looking ahead, as more foreign investors receive FII (foreign institutional investor) status, those foreigners who have been holding stock through participatory notes (which were significantly restricted by the Securities and Exchange Board of India last October) may now be more willing to trade more actively. Given widespread recognition that India's valuation is stretched, this could result in more foreign selling.
- **Retail investor activity has risen notably, fueling domestic speculation**. In contrast to lower foreign investor participation since mid-2007, domestic retail activity has increased meaningfully. Mutual fund net inflows have soared during the past two years, and the retail share of market trading has risen sharply during the past two quarters to nearly 70% of daily turnover. As we see it, the sharp run-up in the market from August 2007 to January — over 50% on surging volumes — bears the hallmarks of speculation among retail investors.
- **Losses on the Reliance Power IPO could curb retail investor enthusiasm**. The success of new listings has been one of the factors propelling retail investor enthusiasm. This could change following the disappointing performance of the Reliance Power IPO, which was the market's largest new issue to date, attracting subscriptions of roughly 70x the $3bn of stock being sold. Compared to a listing price of Rs450 and gray market prices as high as Rs600, the stock closed the first day of trading at Rs372 and fell still further to Rs351 two days later, down 22% from the issue price. A turn in retail sentiment, coupled with continuing foreign selling, could prove challenging for the equity market.

Exhibit 19: Foreigners have been moderate net sellers for two quarters
Cumulative net foreign buying time series

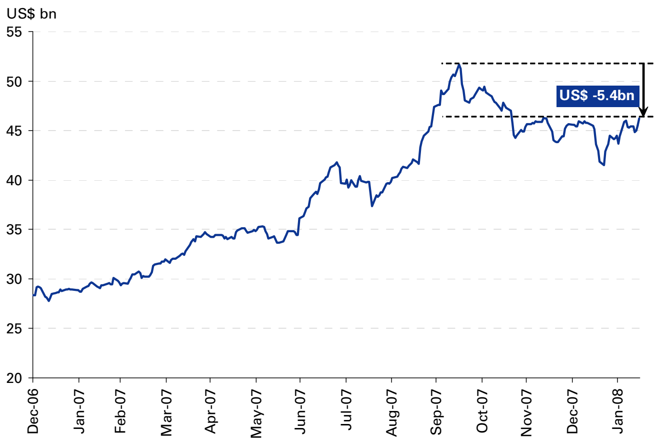


Exhibit 20: Foreign ownership levels have moderated
Foreign ownership as % of total market by cap stratum

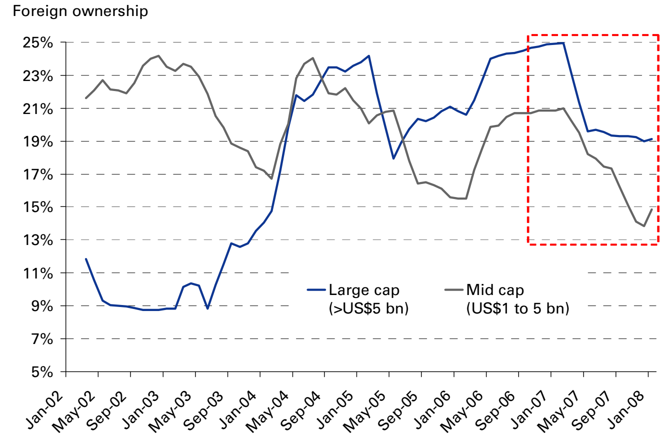


Exhibit 21: Mutual fund subscriptions have soared
Mututal funds cumulative net inflow since 2003

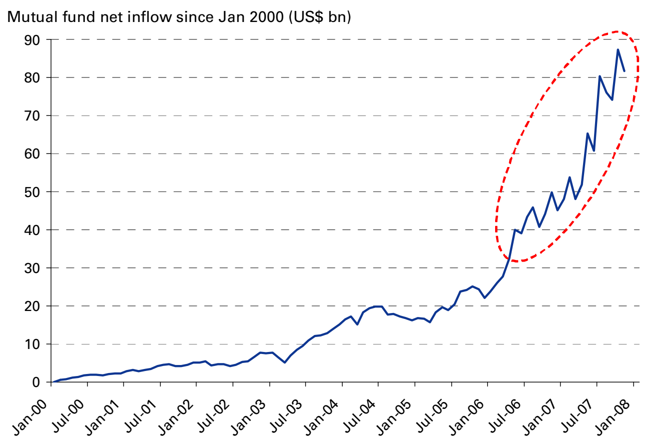


Exhibit 22: Retail investors dominate trading volumes
BSE+ NSE turnover breakdown by investor group

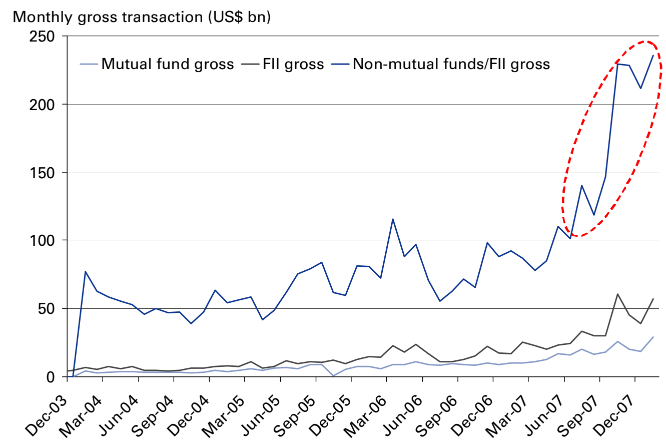


Exhibit 23: The bull run from Aug 07-Jan 08 had the hallmarks of retail investor speculation, in our view
NIFTY index performance vs. volume

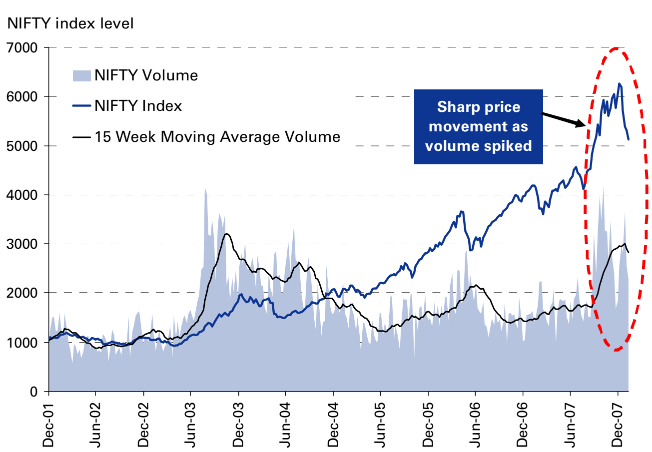
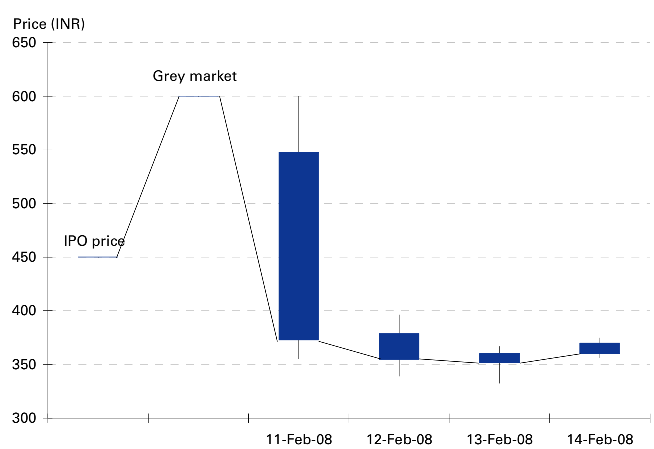


Exhibit 24: The poor performance of the Reliance Power IPO could curb retail enthusiasm
Price performance of Reliance Power since IPO



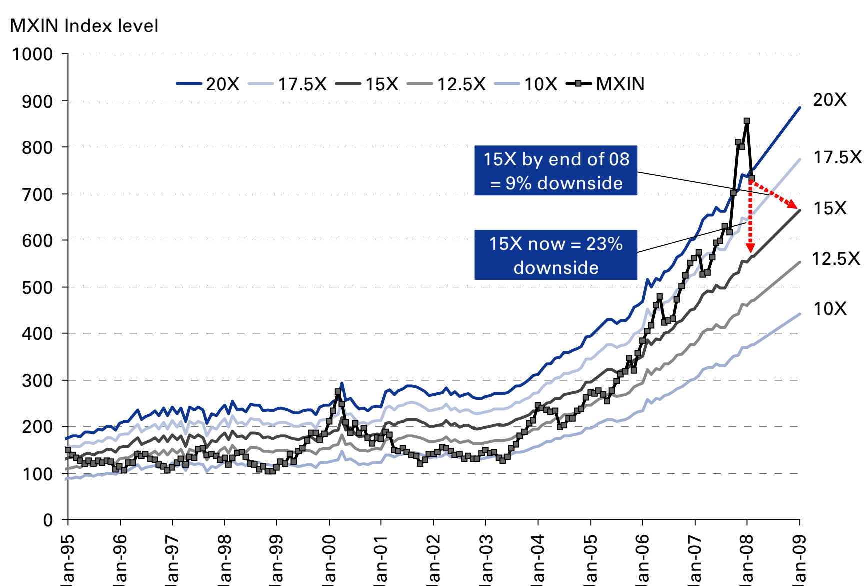
Source: Bloomberg, BSE, NSE, SEBI, Goldman Sachs Strategy Research, World Federation of Exchanges, Goldman Sachs Strategy Research.

Implementation: Stock ideas, fundamental support levels

Our core view is that India's fundamental investment attractions remain intact, but high valuations, a less positive macro and earnings outlook, and reduced retail investor speculation dim the near-term prospects for the equity market. Against this backdrop, we have several implementation ideas:

- **Index support: around 15x earnings or 20% lower than current levels; our 2008 Sensex target of 18,000 equates to slightly above 15x P/E**. We would take a more constructive investment stance at more attractive valuations. Based on the market's trading history, the likely resilience of earnings to global growth risks and several valuation approaches, we believe the market would find support around the 15x forward P/E level, which on current earnings estimates is about 20% lower than current index levels. We would have a cautious or short bias until valuations reduce, either through lower price levels or the passage of time (which would allow the market to accrue earnings and thereby reduce its valuation). Our 2008 Sensex year-end target is 18,000, or just 1% up from current levels, which equates to slightly above 15x forward earnings (see Exhibits 25–27).
- **Long and short stock screens to help focus on alpha-generating strategies**. We show screens of stocks to generate both buy and sell ideas. The buy screen focuses on stocks that offer good growth prospects at attractive valuations. The sell screen identifies names that are richly priced and could be vulnerable to valuation compression, especially if earnings estimates are revised down (see Exhibits 28–29). Given our aggregate market views, we expect returns in India to be driven more by alpha (stock picking) as opposed to beta (market directional) strategies.
- **China vs. India**: We note that (HK-listed) China equities have underperformed India stocks since October and that China now stands at a 21% valuation discount (see Exhibits 30–31). While we think it is too early to buy China equities given policy-tightening headwinds, we would expect China to outperform India once policy begins to normalize.

Exhibit 25: The market may find support at 15x forward P/E
12M forward P/E band for MSCI India



Source: FactSet, I/B/E/S, MSCI, Goldman Sachs Strategy Research.

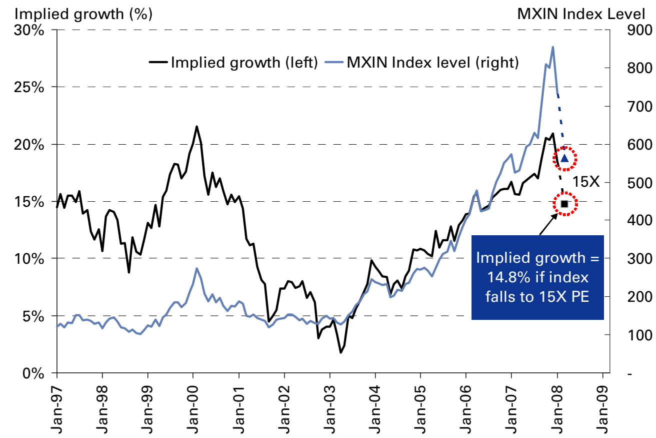
Exhibit 26: India index reckoner: Sensex levels at varying P/Es and EPS growth rates

SENSEX	08E EPS growth						
08E P/E	12%	14%	16%	18%	20%	22%	24%
13.5	12,221	12,439	12,657	**12,874**	13,092	13,310	13,527
14.0	12,674	12,900	13,125	**13,351**	13,577	13,803	14,028
14.5	13,126	13,360	13,594	**13,828**	14,062	14,296	14,529
15.0	13,579	13,821	14,063	**14,305**	14,547	14,789	15,031
15.5	14,032	14,282	14,532	**14,782**	15,032	15,282	15,532
16.0	14,484	14,742	15,000	**15,258**	15,516	15,775	16,033
16.5	14,937	15,203	15,469	**15,735**	16,001	16,267	16,534
17.0	15,390	15,664	15,938	**16,212**	16,486	16,760	17,035
17.5	15,842	16,124	16,407	**16,689**	16,971	17,253	17,536
18.0	16,295	16,585	16,875	**17,166**	17,456	17,746	18,037
18.6	**16,865**	**17,166**	**17,466**	**17,767**	**18,067**	**18,368**	**18,668**
19.0	17,200	17,507	17,813	**18,119**	18,426	18,732	19,039
19.5	17,653	17,967	18,282	**18,596**	18,911	19,225	19,540
20.0	18,105	18,428	18,751	**19,073**	19,396	19,718	20,041
20.5	18,558	18,889	19,219	**19,550**	19,880	20,211	20,542
21.0	19,011	19,349	19,688	**20,027**	20,365	20,704	21,043
21.5	19,463	19,810	20,157	**20,504**	20,850	21,197	21,544

2008 P/E (C)

Exhibit 27: Implied 10-year EPS growth would be 14.8% if the market fell to 15x forward earnings

Implied growth time series



Source: FactSet, I/B/E/S, MSCI, Worldscope, Goldman Sachs Strategy Research.

Exhibit 28: India sell screen: Stocks that appear richly valued

Valuation summary of sell candidates

Bloomberg ticker	Company name	GICS industry classification	Listed market cap (US$ mn)	6M ADVT (US$ mn)	CY08/09 EPS growth CAGR (%)	CY2008 ROE (%)	CY2008 P/E (X)	CY2008 P/B (X)	CY2008 DY (%)	CY2008 EV/ EBITDA (X)
			>=1000	>=3	<30	<30	>20			
NNATP IS	NTPC	Independent Power Producers	41,784	80	12.9	14.5	20.1	2.9	1.9	12.3
NICICIB IS	ICICI Bank	Commercial Banks	32,127	119	24.5	10.8	25.8	2.6	1.1	-8.5
NRCOM IS	Reliance Communications	Wireless Telecom	31,769	148	25.5	22.4	20.5	4.1	0.3	4.4
NHDFC IS	Housing Dev Finance Corp.	Thrifts & Mortgage Finance	20,460	58	16.1	21.1	32.7	6.2	1.1	NA
NITCL IS	ITC	Tobacco	18,973	36	17.6	26.1	21.0	5.5	2.0	16.9
NRCFT IS	Reliance Capital	Diversified Financial Services	12,367	147	19.1	15.8	48.4	7.2	0.2	NA
NPWGR IS	Power Grid Corp. of India Ltd.	Electric Utilities	10,943	30	13.9	11.5	25.8	3.0	1.3	NA
NRELE IS	Reliance Energy	Electric Utilities	10,199	240	5.6	9.7	41.3	4.0	0.5	NA
NTPWR IS	Tata Power	Electric Utilities	7,023	42	5.7	8.8	41.2	3.6	0.8	79.5
NNLC IS	Neyveli Lignite Corp.	Independent Power Producers	6,456	32	15.5	12.1	21.6	2.6	1.2	3.2
NABNL IS	Aditya Birla Nuvo	Industrial Conglomerates	4,212	8	3.8	9.3	51.0	4.7	0.4	5.5
NVSNL IS	Videsh Sanchar Nigam	Diversified Telecom	3,612	12	7.1	6.9	30.5	2.1	0.9	8.6
NSUNTV IS	Sun TV Network	Media	3,229	4	22.8	27.3	27.7	7.6	1.1	8.2
NGVKP IS	GVK Power & Infra	Electric Utilities	1,994	3	3.7	5.8	42.8	2.5	0.6	NA
NPEC IS	Patel Engg	Construction & Engineering	1,046	4	29.9	16.3	27.7	4.5	0.2	NA

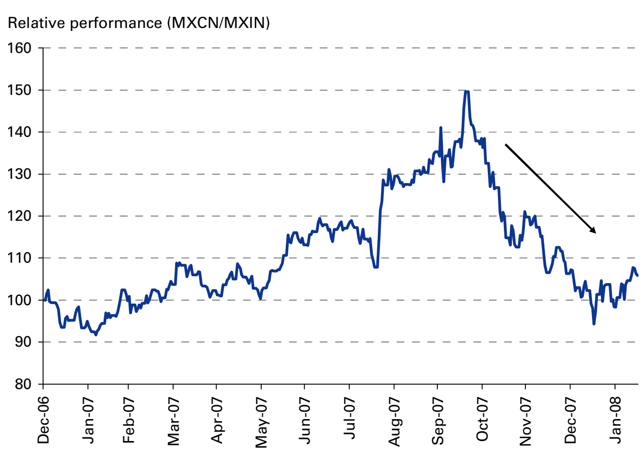
Source: FactSet, I/B/E/S, MSCI, Goldman Sachs Strategy Research.

Exhibit 29: India buy screen: Inexpensive stocks with good growth prospects
Valuation summary of buy candidates

Bloomberg ticker	Company name	GICS industry classification	Listed market cap (US$ mn)	6M ADVT (US$ mn)	CY08/09 EPS growth CAGR (%)	CY2008 ROE (%)	CY2008 P/E (X)	CY2008 P/B (X)	CY2008 DY (%)	CY2008 EV/ EBITDA (X)
			>=1000	>=3	>15	>15	<15			
NTCS IS	Tata Consultancy Svcs	IT Services	21,594	33	15.8	43.3	14.8	5.5	1.7	10.5
NSCS IS	Satyam Computer Svcs	IT Services	7,413	34	15.2	26.0	15.0	3.5	1.1	NA
NBOI IS	Bank of India	Commercial Banks	4,959	18	27.5	22.1	9.5	2.1	1.3	NA
NPNB IS	Punjab Nat'l Bank	Commercial Banks	4,931	12	18.9	16.6	9.1	1.5	1.9	NA
NJSTL IS	JSW Steel	Metals & Mining	4,721	22	25.7	23.2	11.1	2.3	1.1	NA
NBOB IS	Bank of Baroda	Commercial Banks	3,667	8	18.2	15.6	9.4	1.4	1.9	NA
NABAN IS	Aban Offshore	Energy Equipment & Services	3,455	16	143.0	136.5	10.4	6.1	0.2	NA
NCBK IS	Canara Bank	Commercial Banks	3,066	6	16.1	15.4	7.0	1.0	2.6	NA
NUNBK IS	Union Bank of India	Commercial Banks	2,509	7	22.3	19.8	7.5	1.5	2.2	NA
NINBK IS	Indian Bank	Commercial Banks	2,396	5	16.6	24.0	8.7	2.1	1.9	NA
NTECHM IS	Tec Mahindra	IT Services	2,061	7	30.6	47.0	9.4	3.7	0.6	5.0
NOBC IS	Oriental Bank of Commerce	Commercial Banks	1,733	3	16.3	15.7	7.0	1.1	2.0	5.4
NUNTP IS	United Phosphorus	Chemicals	1,674	5	36.7	16.3	13.5	2.2	0.4	2.9
NTTCH IS	Tata Chem	Chemicals	1,645	8	20.9	19.4	10.1	1.8	3.9	18.3
NPARSV IS	Parsvnath Developers	Real Estate Mgmt & Dev	1,277	18	74.0	37.7	5.9	1.9	1.4	NA
NDECH IS	Deccan Chronicle	Media	1,234	4	23.3	26.6	14.6	3.9	0.7	NA
NOAXE IS	Omaxe Ltd.	Real Estate Mgmt & Dev	1,169	13	37.4	45.4	6.2	2.3	0.4	4.9
NBHUS IS	Bhushan Steel	Metals & Mining	1,114	5	41.1	26.7	9.5	2.3	0.5	NA
NANDB IS	Andhra Bank	Commercial Banks	1,102	4	15.4	17.6	6.3	1.1	4.6	9.7
NGNC IS	Gujarat NRE Coke	Metals & Mining	1,039	12	51.8	35.2	9.2	2.7	1.2	6.1

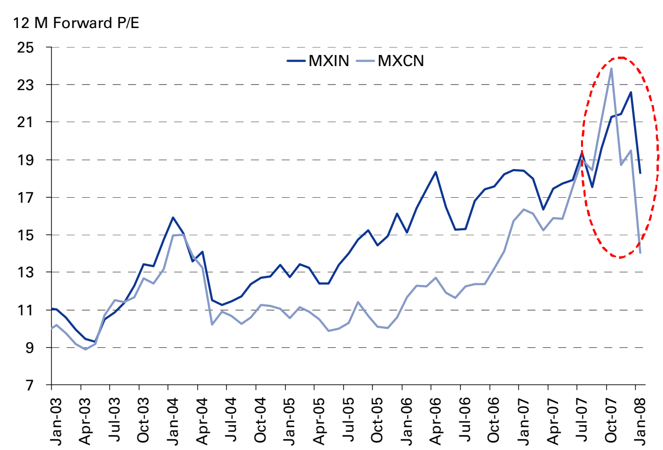
Source: FactSet, I/B/E/S, MSCI, Goldman Sachs Strategy Research.

Exhibit 30: China has underperformed India in recent months: this may change when China's policy tightening eases
MXCN vs. MXIN relative performance



Source: Bloomberg, MSCI, Goldman Sachs Strategy Research.

Exhibit 31: China now trades at a wide discount to India
MXIN vs. MXCN 12M forward P/E time series



Source: FactSet, I/B/E/S, MSCI, Goldman Sachs Strategy Research.

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