January ‘2010

India’s New Face

Growth … Growth … & GROWTH

Ambit Capital Pvt. Ltd

AMBIT
Acumen at work

Murali Krishnan
Director - Research
Tel.: +91-22-3043 3299
muralikrishnan@ambitcapital.com

Research Team
Tel.: +91-22-3043 3000

Contents

Executive Summary

1991: Year of first reforms process initiation altered the growth pattern of economy in the mid-90s…

Growth adopted a fast track post initiation of reforms, as for the first time since independence, a huge investment pattern and good gross asset formation characterized the economy. Both Industries and services grew by 10% between 95-97 and the GDP growth averaged 7.% in that period.

……The period 1997 to 2003 was a six-year down-cycle

The global down-cycle occurred post the Asian currency crisis which impaired the economy for 6 years. Capacity additions were at the peak of the cycle that got accentuated with poor monsoons that led to a drought in 2002. We note the tough times also included the global dotcom bubble. Despite this growth was impressive in a global context.

…. The downcycle led to corporate restructuring and capital efficiencies

During the downturn, Indian corporates went through a restructuring process. De-leveraging has been the theme and the D/E ratio came down from its peak of 4x in FY93 to 2.6x in FY08 With lower raw material prices and buoyant government fiscal measures, operating leverage will help corporates maintain positive bias on margins led by cost and capital efficiencies.

…. India is now on a strong broad-based economic recovery that we saw from 2004…

India treaded the high growth phase again, when GDP growth was 8.9% above the long term average trend line of 6.4%. The reform process initiated over the years has benefited via greater public-private participation (PPP) that has reflected in gross asset formation rising to 39% of GDP.

India's structural growth impulses continue to remain strong, given the high domestic saving rate, sound financial system and growth-supportive macroeconomic policy environment.

The external position is comfortable and the forex reserves strong and the country has seen massive FDI inflows that today is at 2.9% of GDP.

Post the global recession there has been a trend reversal but we believe, given the lead indicators this to reverse over the next few quarters. We expect the sustained and strong industrial capex to accelerate going forward

….Consumption in place key growth driver as India is a predominantly domestic market.

Increasing affluence and rising savings rates will lead to increasing consumption particularly in discretionary spending. Increasing affluence and rising savings rates pushes higher spend on financial intermediation: bank loans, mortgages, life insurance. By 2016E more than 50% of the current households will merit classification as 'middle class'. The 'high income' segment could more than triple. Share of 'low-income' households could halve to 7% from the current 16%. **Income profile has undergone a change with 1.2mn households in the >1mn income bracket per annum.** Rise of middle class expected to be more than 50% of households in 2013; expected to drive the consumption theme

Executive Summary (contd.)

Infrastructure spend surges

India always had poor infrastructure and the current huge thrust on infrastructure has largely driven the Indian growth story. The growth has largely been driven by Power, Oil and Gas and Transport.

Roads have seen steady progress, while Telecom has been on fast track and finally the Power sector has been made very conducive for large investments that are finally on track.

Power and investments in power transmission (Electricity) has seen the largest spend.

With infrastructure improving the economy spurted and this led to the highest ever corporate capex cycle witnessed in India.

Gross domestic capital formation surges

Since 1951, private sector gross domestic capital formation (GDCF) as a % of the GDP has increased from 7.4% to 28.5% in FY2008.Over the same period for the public sector it has increased from 2.9% to 9.1%.

This has been led by greater Private Public Participation (PPP)

Projects under implementation (PPP) are at historic highs both in terms of absolute figures and YoY% growth. Ongoing projects are more pronounced in the case of private sector v/s public sector.

Investment in projects under implementation has risen 458% on an absolute basis over the past decade since March 1999. Growth has been at 15% CAGR.

As of Sep 2009, total ongoing investments amounted to Rs41.8tn compared with Rs8.9tn in Sep 1999.

There is a significant jump in the value of projects announced at 63% of GDP as of 4QFY09 v/s 8% of quarterly GDP a decade ago

FDI inflows surges

A surging economy and a sustained capex cycle brings in FDI in drives.

As on FY2006, FDI was 1.1% of India's GDP. Quality of the FDI was more important versus size. One important policy for the manufacturing sector was the setting up of SEZs.This led the FDI as a % of GDP to move up to 2.9% as of FY2009 (P).

And finally valuations

Valuations have surged and market cap is more widely dispersed across sectors.

With reforms initiated during 1993-94, we saw market cap of the Information Technology sector moving at 62% CAGR during 1994-2004 , other sectors which have yielded higher returns were Power, at 37% and Pharma, at 23% CAGR.

Over 2004-2009 the sectors which have delivered the highest returns CAGR are Power at 78%, Telecom at 50% , Steel at 46% and Capital Goods at 46%. Real estate was the clear outlier, as the housing boom picked up resulting in returns CAGR of 136%

SECTION 1

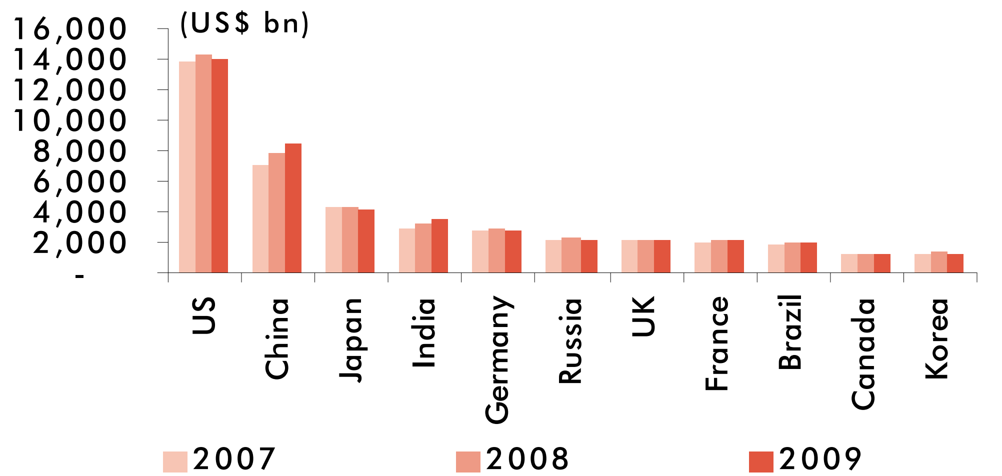
India In The Global Context

Large & fast-growing economy

Macroeconomic View

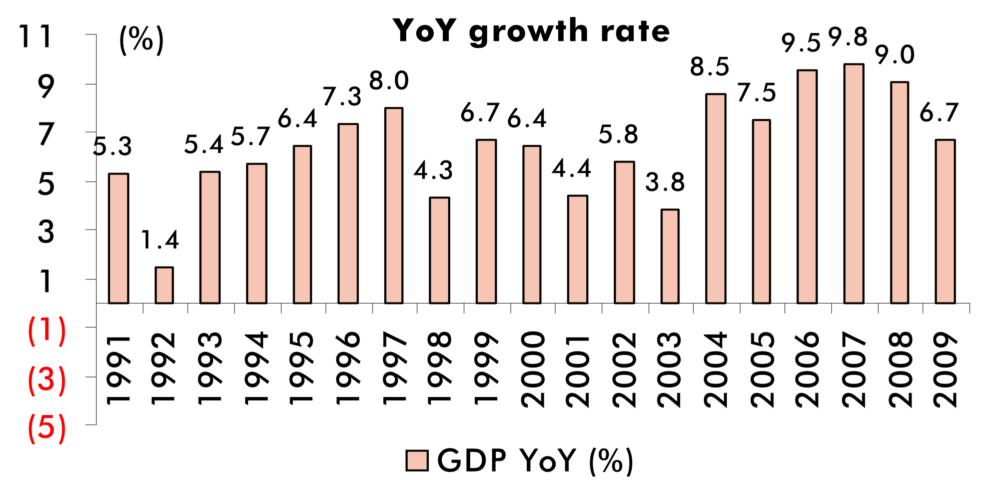
- India is the 4th largest economy in the world adjusted for PPP
- Predominantly a domestic economy with exports accounting for over 16% of its GDP. Indian trade as a percentage of world trade is below 2%.

Exhibit 1: GDP (PPP – Adjusted) for regional and global economies



Source: IMF, Ambit Capital Research

Exhibit 2: Primarily a domestic economy



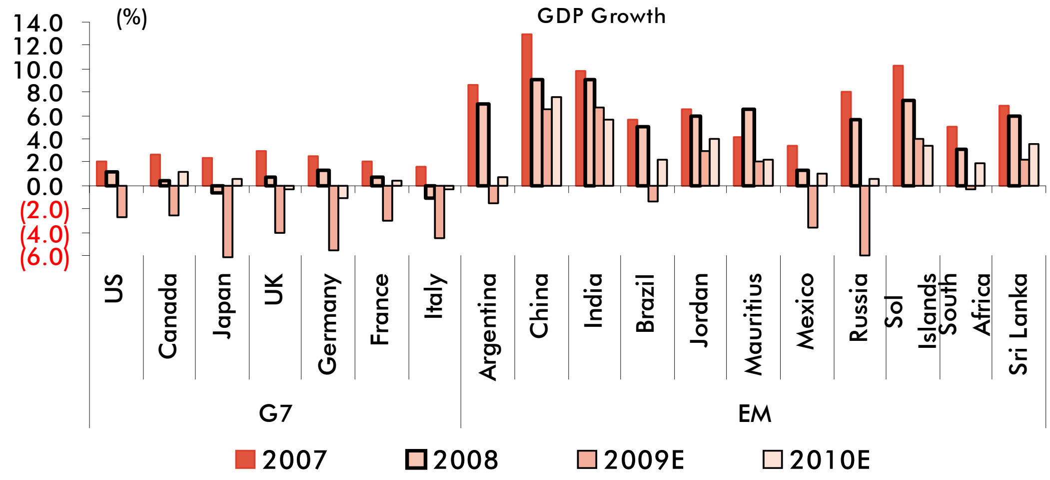
Source: CMIE, Ambit Capital Research

GDP buoyant even in the current global cycle

Macroeconomic View

- India's GDP grew by an average 7% over the last decade. The trend-line of growth had picked up over the past three years on the back of a bullish global market. We note even in the current global cycle, GDP reflects its long term average trend of 6.4%. Lead indicators suggest the trend-line growth to move above its long term average.

Exhibit 3: Growth rates (IMF estimates for year 2009E & 2010E) of regional and global economies



Source: IMF, Ambit Capital Research

Exhibit 4: Strong presence in key sectors

- Largest consumer of gold
- Largest producer of sugar
- World's largest producer and consumer of tea
- Second largest producer and consumer of two-wheelers
- Second largest producer of cement
- Largest number of pharmaceutical plants approved by USFDA outside of the US
- Largest producer of movies
- Rapid progress in science and research

AMBIT

SECTION 2

GDP & Industry Trends

GDP growth has been strong since 1991 but cyclical

Macroeconomic View

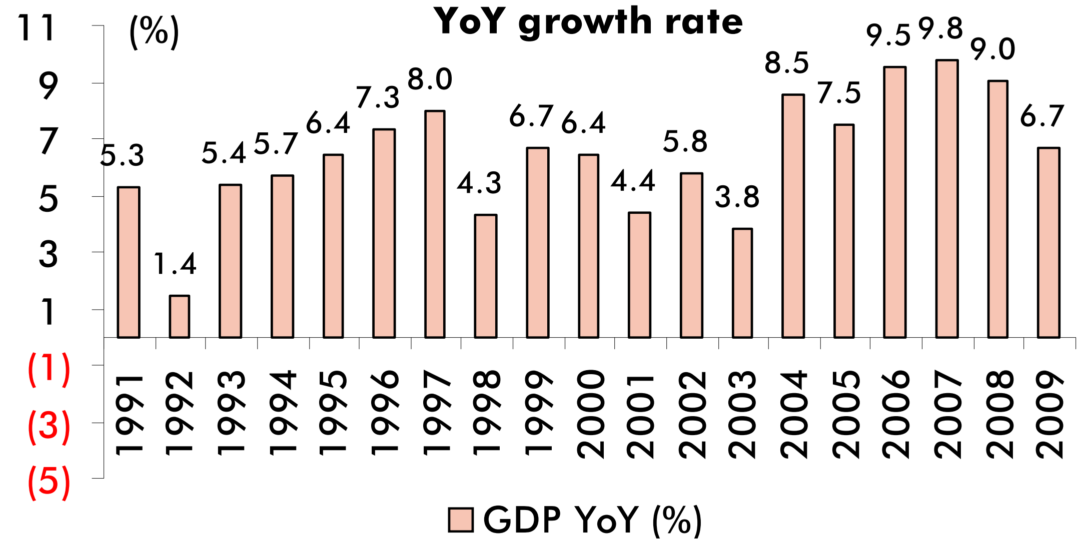
- **1991:** Year of first reforms process initiation, which altered the growth pattern of economy. Growth adopted a fast track until 1997, as for the first time since independence, a huge investment pattern and good gross asset formation characterised the economy.

- **1997-2003:** The scenario, post the Asian currency crisis, was impaired for about 6 years. We note the tough times also included the global dotcom bubble.

- **2004-2008:** India treaded the high growth phase again, when GDP growth was 8.9% above the long term average trend line of 6.4%. The reform process initiated over the years has benefited via greater public-private participation that has reflected in gross asset formation rising to 39% of GDP.

- Post the global recession there has been a trend reversal but we believe, given the lead indicators this to reverse over the next few quarters. We expect the sustained and strong industrial capex to accelerate going forward.

Exhibit 5: GDP growth trend (% YoY)



Source: CMIE, Ambit Capital Research

Output as % of GDP: Agri dominance reduces, Services leads

- In 1951, Agriculture contributed 55% to Indian GDP, Industry 11% and Services, 34%. This ratio has reversed significantly since 2000, as the country integrated with global economies and dominance of Agriculture has reduced significantly.

- Industrial growth has been clocking in double digits or near-double digits for the last couple of months.

Exhibit 6: Annual output

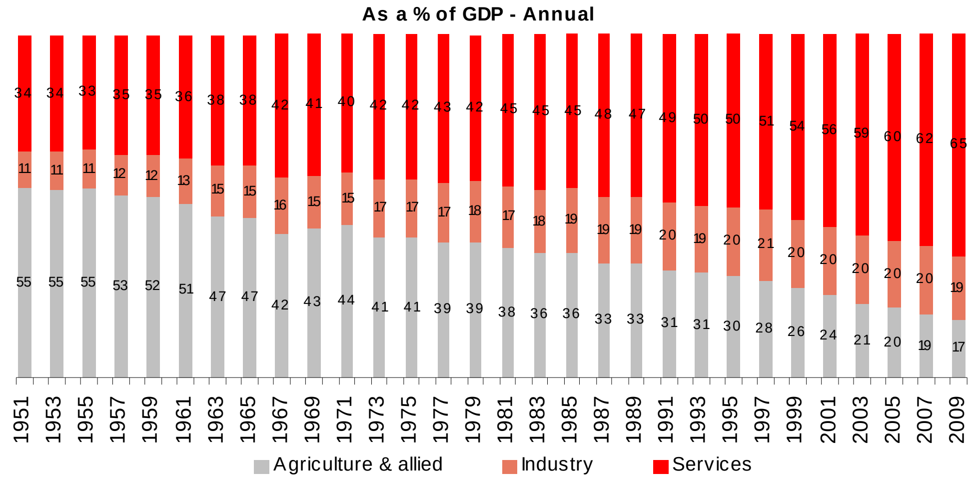
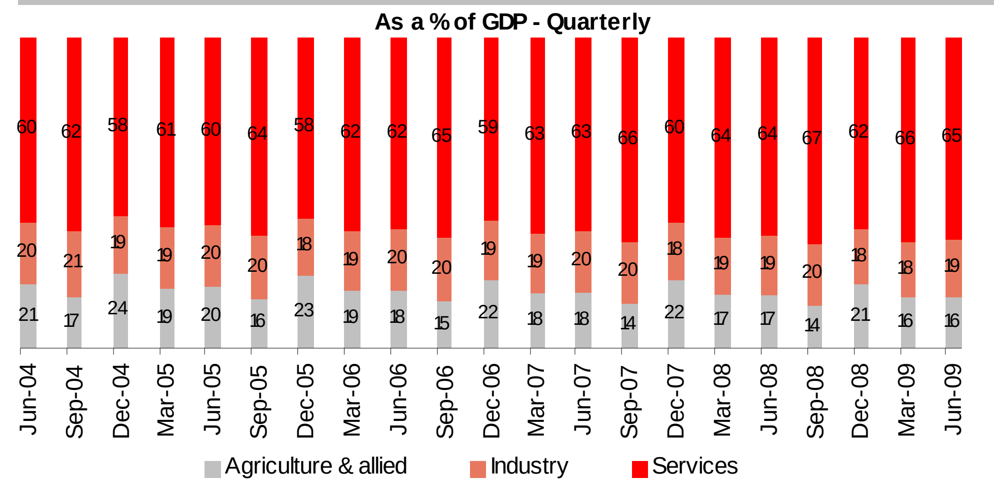


Exhibit 7: Quarterly output



Source: CMIE, Ambit Capital Research

1991: Inflection point; 2004: Absolute growth phase

Exhibit 8: What went wrong in 1991?

- A closed economy not open to foreign investments and rupee not convertible
- A very high deficit and combined with states, persistently high
- BOP crisis - sharply reduced foreign exchange reserves
- Industry not globally competitive as License Raj prevailed
- Inflation at high double digits
- Banks struggling with high NPAs

Exhibit 9: First generation reforms

- Industry got a fillip as the licensing Raj was dismantled and sectors were removed from the restricted list
- Protectionism was set free
- The current account saw full currency convertibility
- FDI was permitted to enter the country
- FIIs were allowed to participate in domestic markets
- Tax reforms were put in place

Exhibit 10: Second generation reforms

- Privatization was the new buzzword
- Private participation and ownership were allowed in the infrastructure space
- FDI policy was further diluted to enhance greater participation
- Trade barriers were removed, tariff rates started getting aligned to Asian levels and India had to keep greater commitments with the WTO
- Increased number of reforms were initiated in capital markets and labor reforms were started

Services balances choppy industry growth

Macroeconomic View

- Industry growth has been volatile and industrial capex accelerated underpinned by reforms initiated in 1991 that lasted till 1997, the year the Asian crisis hit global markets and industrial capex went into a tailspin until 2003.
- Beginning 2004 Investment climate was in top gear aided by strong GDP growth, an offshoot of the strong global economy that lasted till Mid 2008 that went into a lull in the current global crisis
- The second quarters of FY10 have shown remarkable recovery and resilience post GoI's fiscal reforms.
- As industry went into a downturn from mid-90s to FY00, growth was supported entirely by the Services sector that grew at an average of 11.0% and went up from 49% in 1991 to 65% in June '09.
- The Services sector recorded moderation in growth during 2008-09, which was particularly visible from 2Q of that year. The strong GDP for FY10 in Services reflected the higher share of fiscal spending by the GoI.

Exhibit 11: Industry growth trend

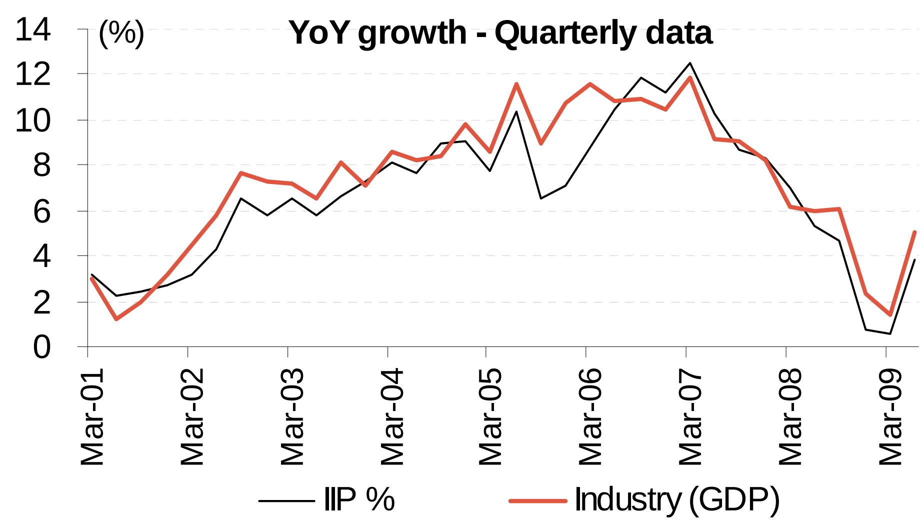
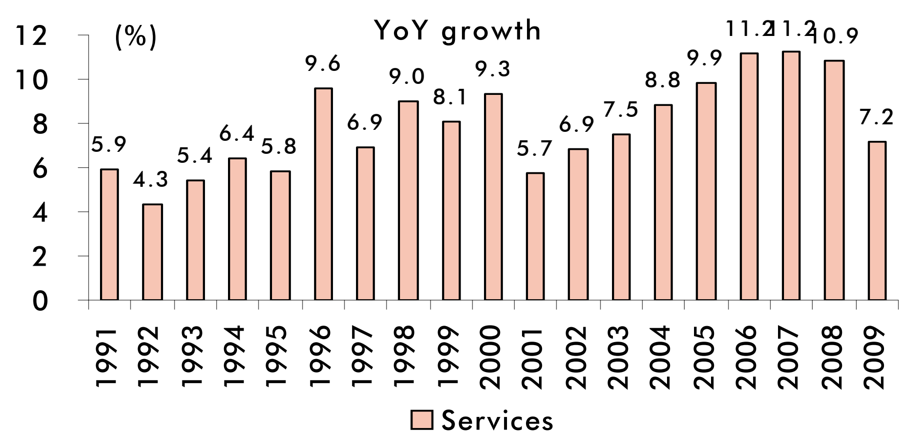


Exhibit 12: Services sector growth trend



Source: CMIE, Ambit Capital Research

Agriculture: No more a wild card

- Until the early 1990s India has been an agrarian economy. Post reforms initiation, Services has largely led the country's GDP growth. Agricultural growth is heavily dependant on the monsoons as 40% of cropped land is irrigated.

- In terms of consumption, agri-contribution to India's economy has reduced and today rural economy is supported by government-spend on infrastructure that promotes rural jobs. Hence rural income levels are higher versus earlier.

- Monsoons have been good over the past five years both in terms of quantum and spatial distribution as most received normal to excess rainfall. This had a ripple effect on industry and services between FY03-08.

- In FY09 the cumulative seasonal rainfall for India has been 21% below the long period average (LPA). This would reflect in: (i) targeted GDP growth rates declining; and (ii) government's higher spend worsening the fiscal deficit.

Exhibit 13: Agriculture growth trend

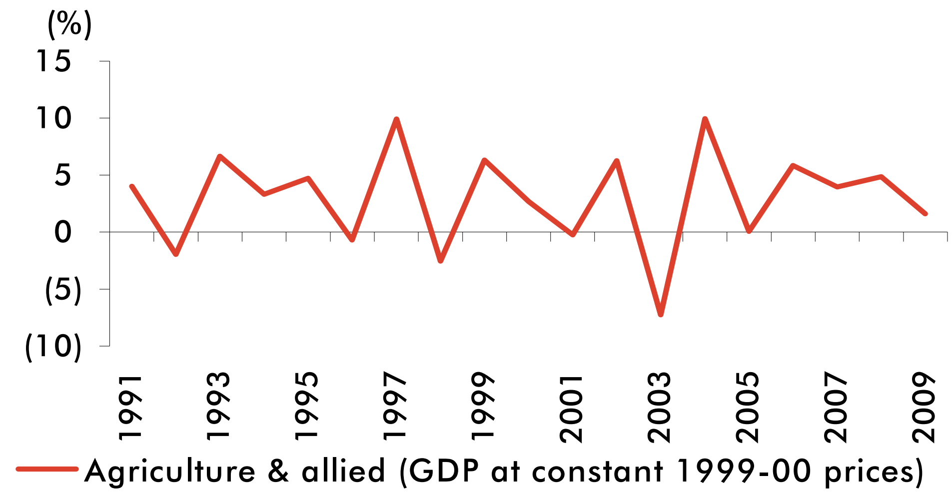
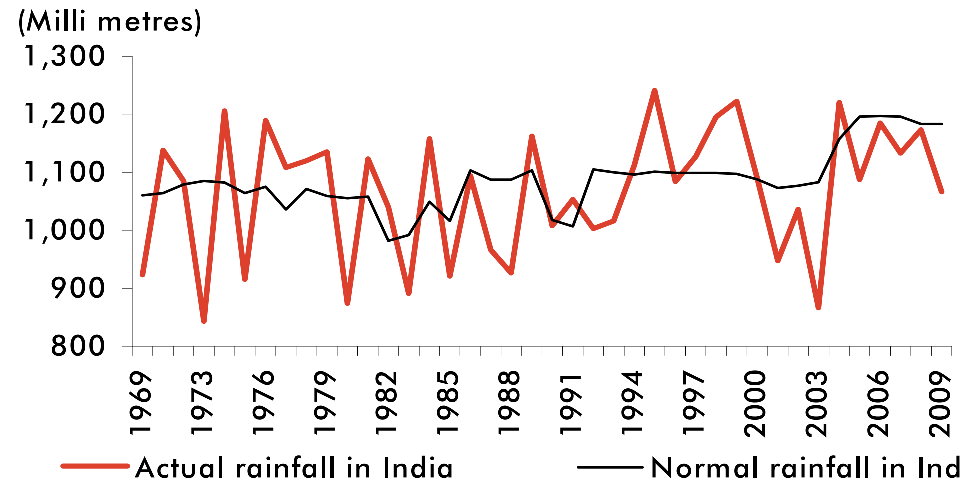


Exhibit 14: Monsoons performance trend



Source: CMIE, Ambit Capital Research

India Inc. has adopted restructuring

Macroeconomic View

- De-leveraging has been the theme during past recessions. D/E ratio has come down from its peak of 4x in FY93 to 2.6x in FY08 and over 4QFY08-FY09 again gone up to 4.9x FY09.

- With the return of liquidity, corporate's are restructuring their business, raising equity capital and de-leveraging their balance sheets.

- On the back of economic slowdown, corporate's deferred their capex, resulting in order cancellation, margins reduced on the back of high fixed costs, lower capacity utilization and extended working capital requirement.

- With lower raw material prices and buoyant government fiscal measures, operating leverage will help corporate's maintain positive bias on margins led by cost and capital efficiencies.

Exhibit 15: Debt/Equity trend

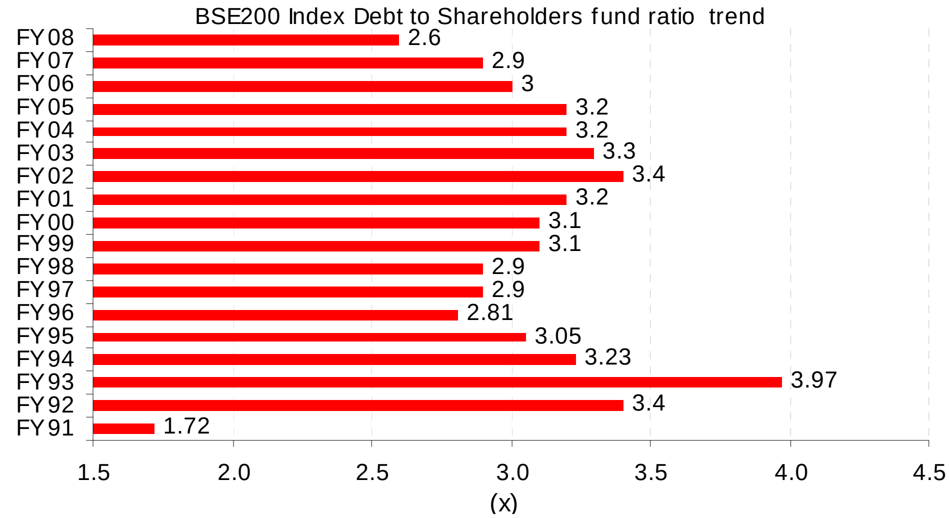
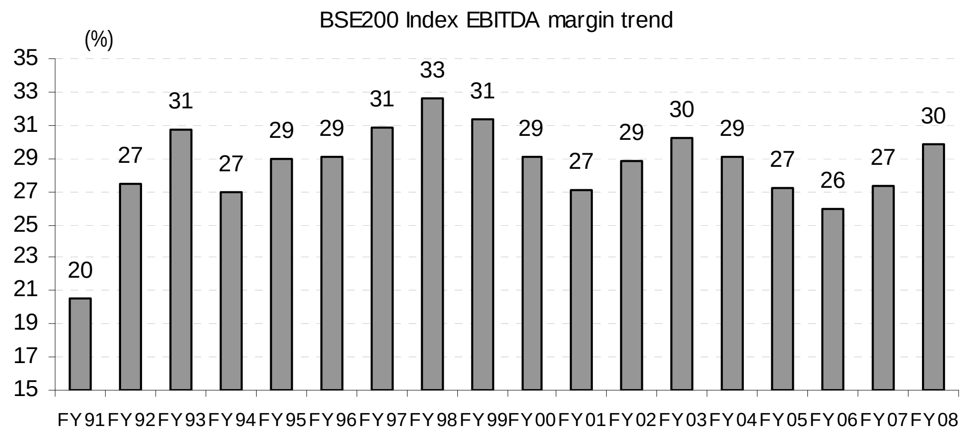


Exhibit 16: EBITDA margin trend



Source: CMIE, Ambit Capital Research

SECTION 3

Government Finances On Shaky Turf

Fiscal deficit largely reined in - loses grip amid global downturn

Government Finances

- India always had a high fiscal deficit and that came off on wider tax net and compliance. The deficit was on account of more social spending than capex driven. The non-plan expenditure was driven more by interest and subsidies.
- Revenue deficits still form two-thirds of the fiscal deficit. The deceleration in private consumption expenditure was partly offset by a sharp increase in government consumption expense in 3Q08 owing to discretionary fiscal stimulus measures and committed expenditure that has ballooned the fiscal deficit again.
- The GoI's key deficit indicators viz. revenue deficit and gross fiscal deficit as per the revised estimates for 2008-09, were therefore, significantly higher than: (i) the budgeted level, as well as (ii) that of the preceding year as a result of implementing the fiscal stimulus packages.

Exhibit 17: Government revenue and fiscal deficit (US$mn)

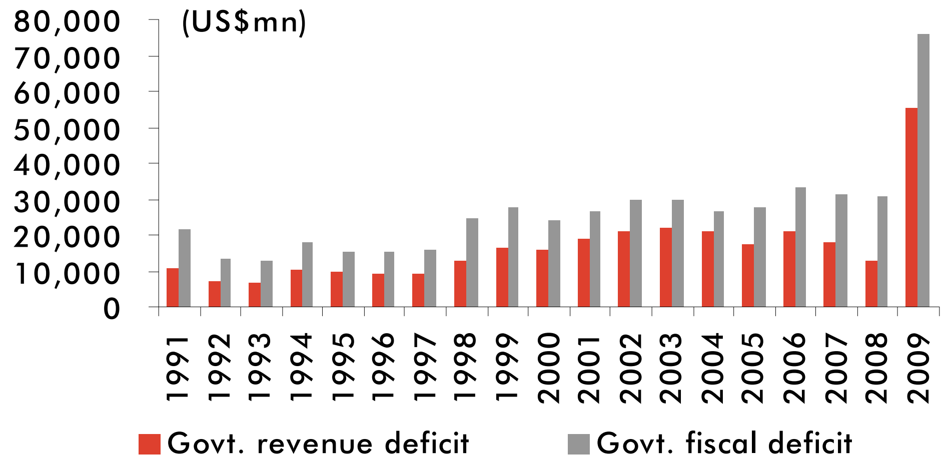
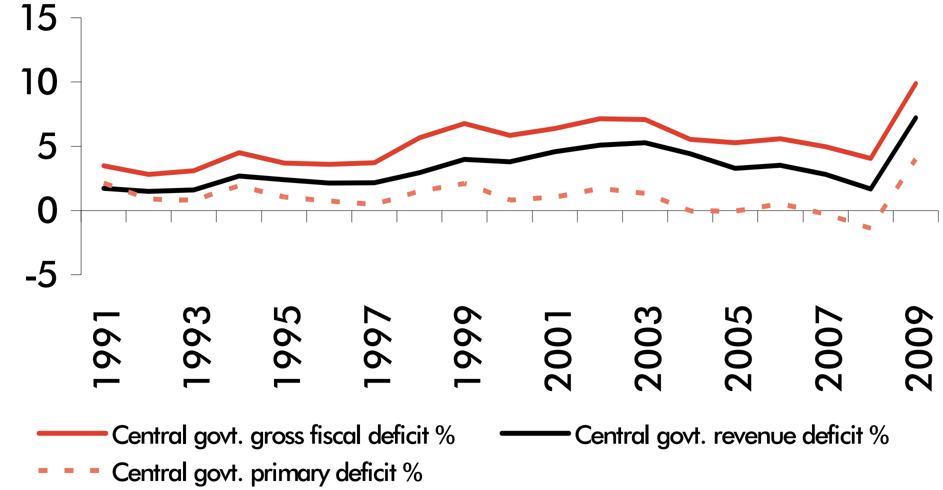


Exhibit 18: Central government deficit (%)



Source: CMIE, Ambit Capital Research

Tax base supports rising (non-productive) expenditure

- Tax collections have been healthy since 1991 on the back of increased compliance. Tax collections have been increasingly buoyant since 2005 on the back of VAT implementation and levy of service charges across sectors. The bounce was also aided by the economy, which was in a high growth phase between 2005 and 2008. However, global slowdown has kept tax collections muted in FY2009.
- The ratio of gross tax receipts to GDP has declined to 12.7% in 2008-09 and is budgeted to drop further to 10.9% given the tax cuts as a form of the stimulus package in an economic slowdown.
- The fiscal concerns relate to mounting subsidies in the segments of fertilizers, oil and power has impacted the fiscal even more, as the government is in the pump priming mode.
- Aggregate expenditure has increased mainly on account of: (i) implementation of the waiver scheme for farmers; (ii) rural employment program; and (iii) increased infrastructure spend.

Exhibit 19: Tax revenue trend

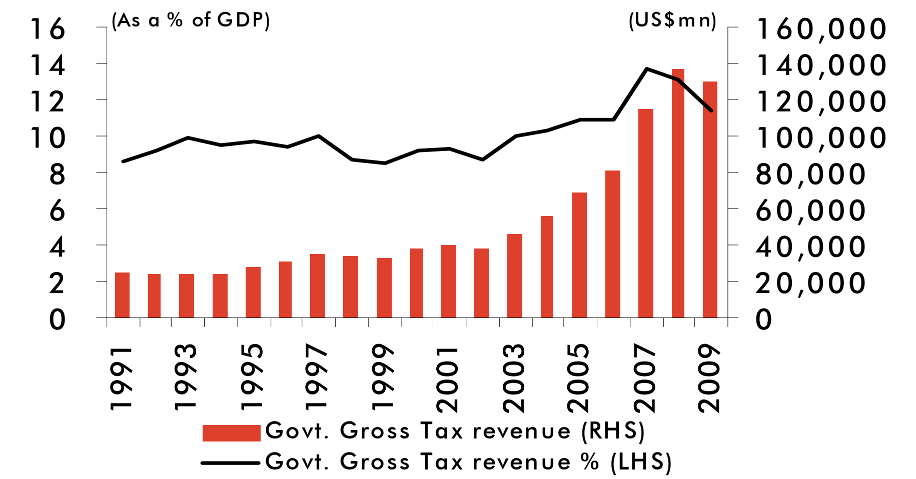
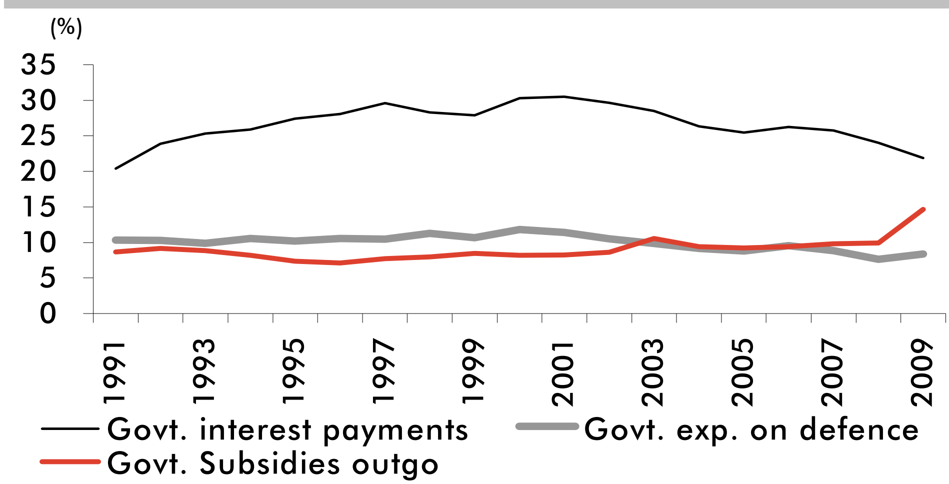


Exhibit 20: Govt. non-plan expenditure as % of total expenditure



Source: CMIE, Ambit Capital Research

SECTION 4

Economy Poised For Sustained Recovery

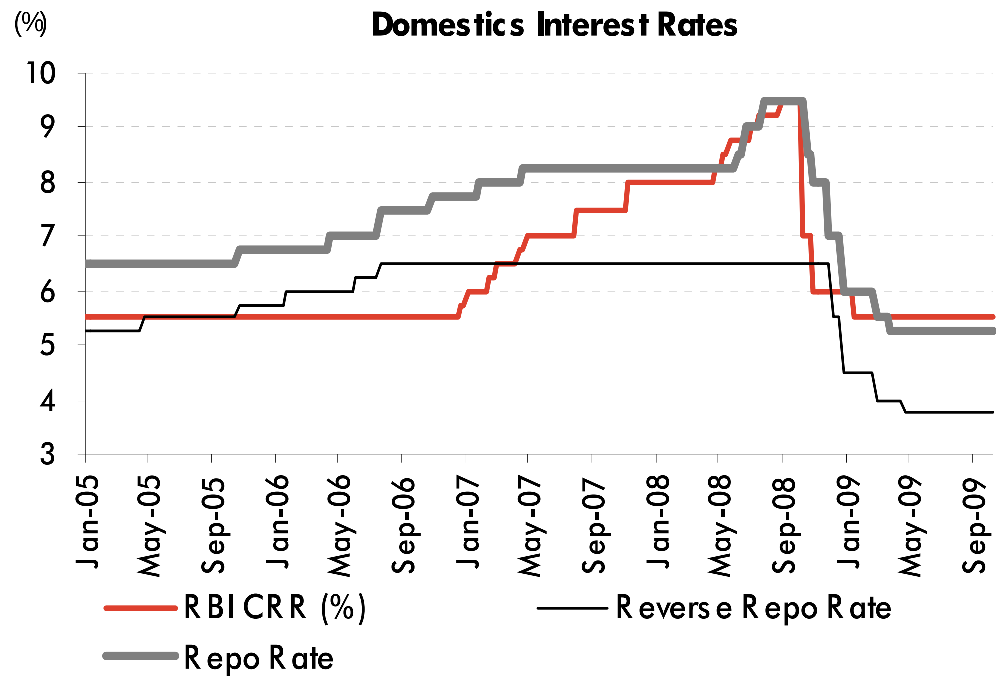
Key Variables Supportive

Interest Rate

Key Variables Supportive

- The sharp fall in interest rates was post the RBI's favorable policy measures to maintain a soft interest rate regime post the global meltdown. This provided ample liquidity.
- Liquidity indicators are very comfortable with banks parking over US$20bn in low-yield reverse-repo with the RBI (until 15th Dec 09).
- We believe current bond yields may have bottomed out and we expect interest rates to harden going forward.

Exhibit 21: Domestic interest rates trend



Source: Ambit Capital Research

AMBIT

External position still comfortable

Key Variables Supportive

- For the first time since deregulation in 1991, the rupee has been strengthening against the dollar the surge has been aided by the globally weak dollar, increased FDI and portfolio inflows.
- The trend appeared weak in the latter part of September 2008, as portfolio flows reversed, but turned positive again on the strength of flows and surplus in the current account – consequent to crude prices coming off their peaks.
- India's forex reserves before the global slowdown were at record levels as external debt had fallen as a % of GDP on the strength of the rupee and huge domestic liquidity. The decline was after the slowdown and as global liquidity waned servicing of US$ denominated debt eroded the forex reserves. We expect this to reverse as the economy is picking up and exports normalise.

Exhibit 22: Re v/s US$ trend

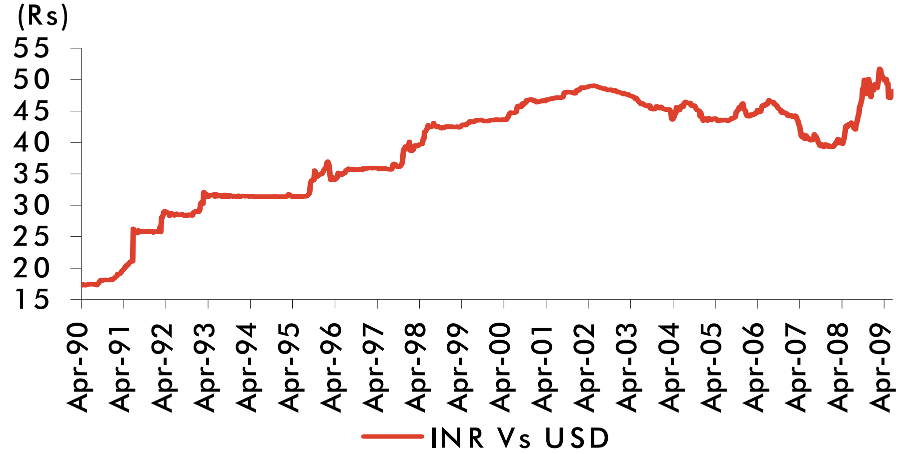
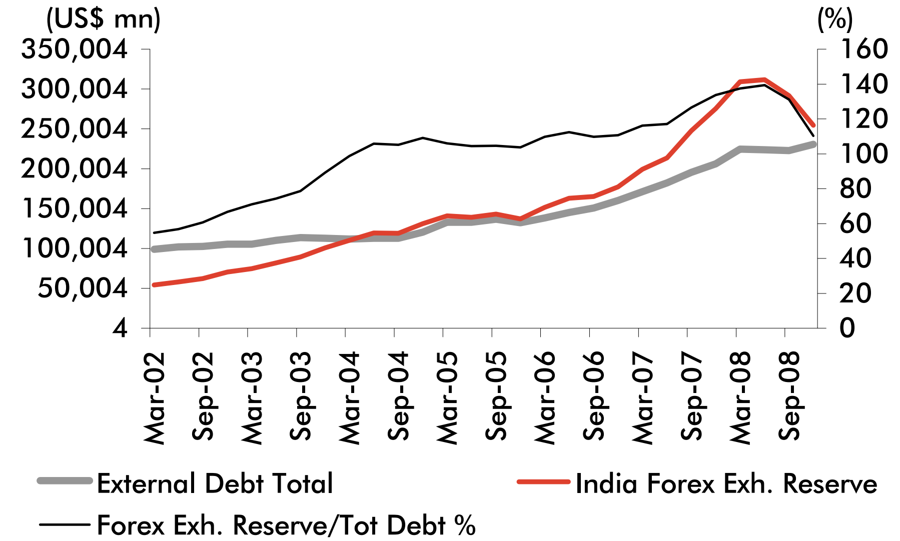


Exhibit 23: Forex reserves trend



Source: CMIE, Ambit Capital Research

Inflation could be alarming

Key Variables Supportive

- Inflation in India was structurally moving to the lower regime in consonance with movements in international energy and commodity prices.
- Inflation, as measured by YoY variation in the WPI, declined from its intra-year peak of 12.9% recorded on August 2, 2008 to 0.3% as on March 28, 2009. After nearly three months in negative territory, headline inflation has reverted to marginally positive territory for the week ended November 3, 2009.
- We expect inflation to gradually move to 5-6% as IIP picks up.
- The inflation in India is more input led which reflects volatility in commodity prices (fuel and metals) that have higher weight in the WPI.
- Contribution of manufactured products waned in the declining phase of inflation whereas that of primary articles remained positive. We expect manufacturing inflation to inch up as IPP is reviving.

Exhibit 24: WPI inflation trend

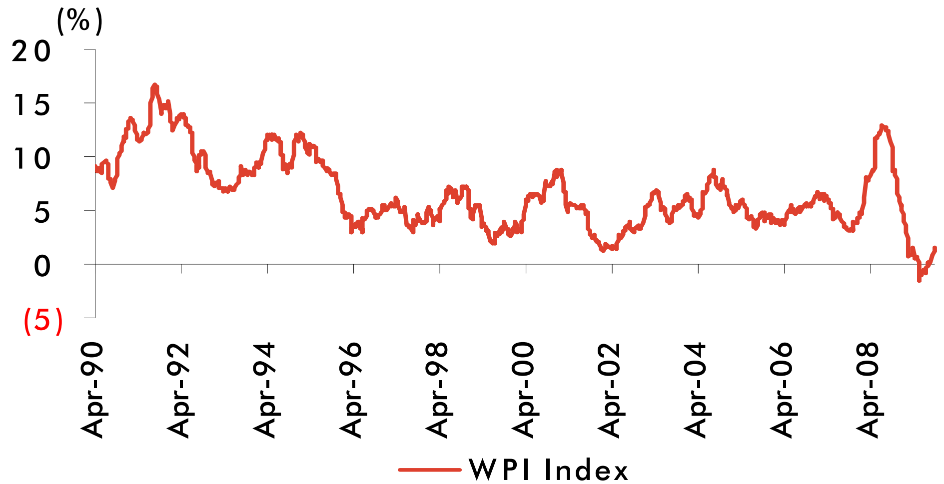
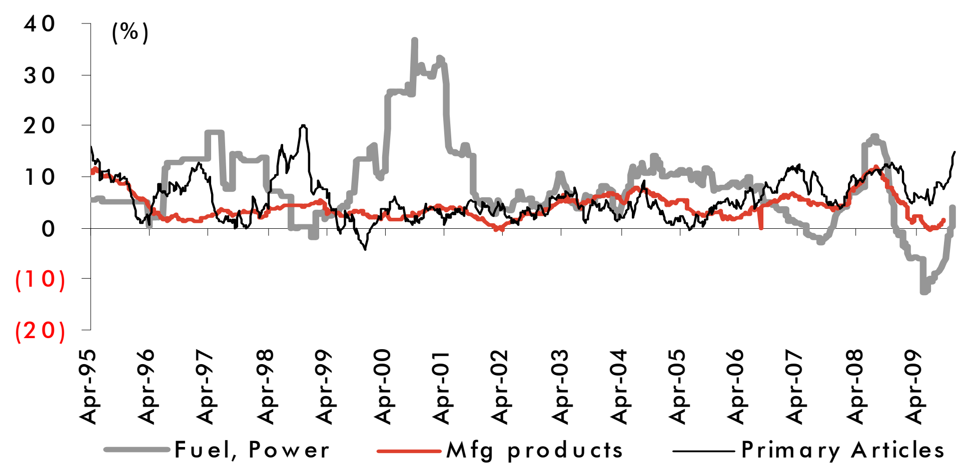


Exhibit 25: WPI inflation breakdown



Source: CMIE, Ambit Capital Research

Domestic lead indicators suggest recovery

Key Variables Supportive

- In terms of use-based classification, growth in basic goods, capital goods and consumer goods sectors recorded a deceleration, while intermediate goods production registered a decline during 2008-09. The lead indicators point to a pick up in industrial activity over the next two quarters on the back of a very low base.

- Under use-based classification norms, the capital goods sector has been a laggard in an otherwise strong manufacturing sector, with a revival in consumer durables as well as intermediate goods. Oil imports have trended downward sharply on the back of cooling off in international crude prices.

Exhibit 26: Industrial growth breakdown across sectors

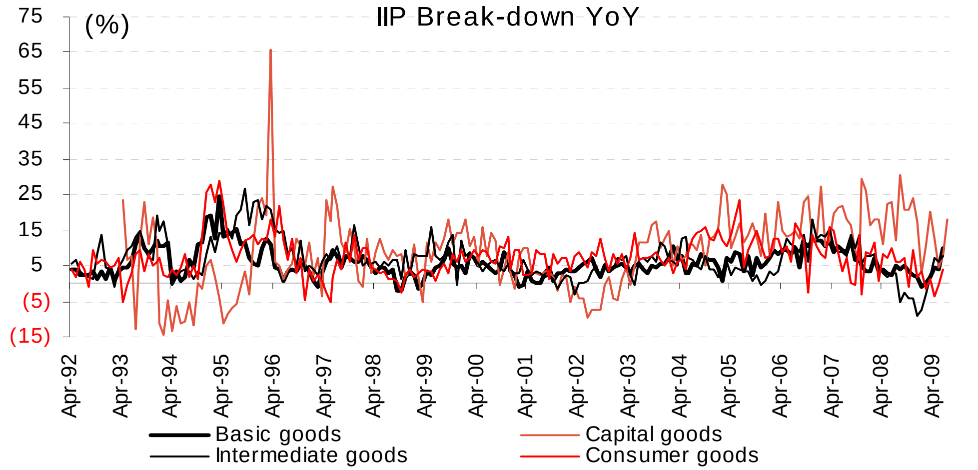
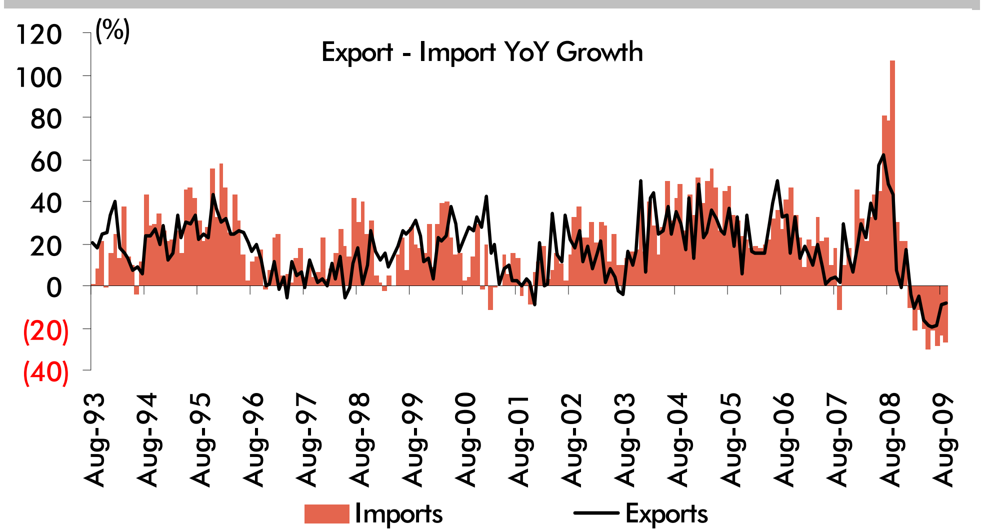


Exhibit 27: Import growth breakdown



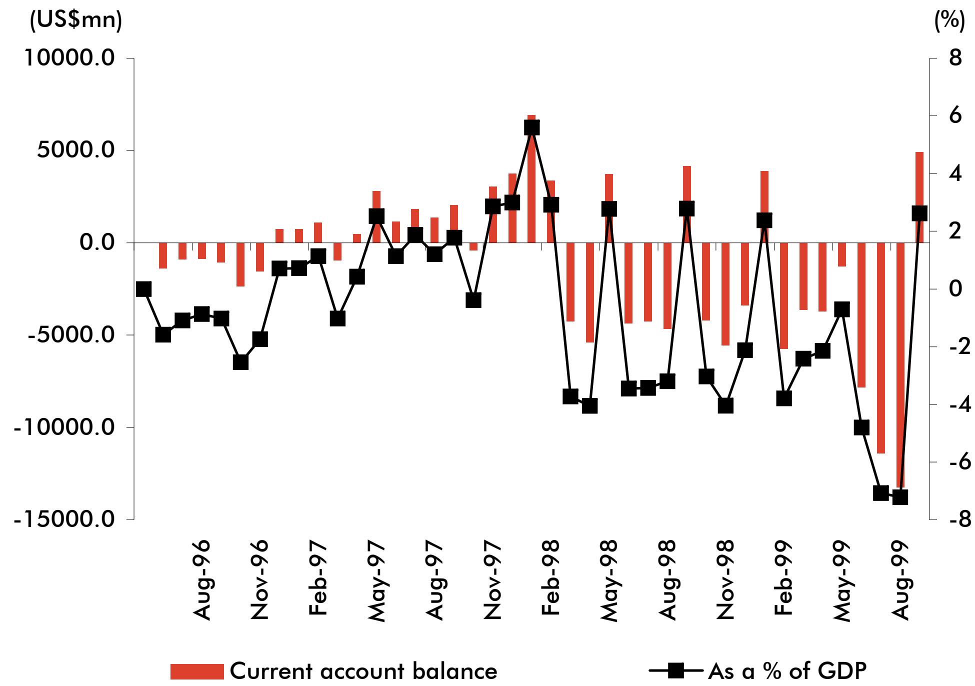
Source: CMIE, Ambit Capital Research

Global slowdown hurts trade

Key Variables Supportive

- The impact of global slowdown was felt more severely on India's external trade. Merchandise exports, which remained buoyant until August 2008, decelerated in September the same year and has been recording continuous negative growth until November 2009.
- Imports growth also witnessed sharp slowdown in tandem as domestic activity slowed rapidly.
- We expect this to reverse as the global economy stabilises.
- Benign oil prices have kept the external position comfortable.

Exhibit 29: Current account balance trend



Source: CMIE, Ambit Capital Research

SECTION 5

Banking Supports With Its Structural Reforms

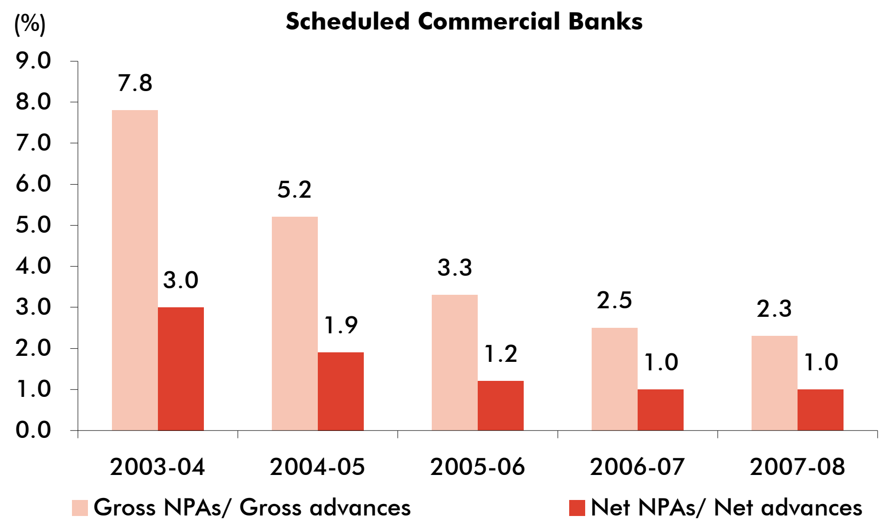
Structural reforms in place

- The RBI has been an extremely prudent and pro-active regulator whose predominant role has been to strengthen health of the Indian banking system
- Stringent capital adequacy norms enforced on all scheduled commercial banks, thereby:
  - Relatively insulating the banking system from any spillover effect of the systemic solvency/liquidity crisis that banks across the world were facing
  - GoI support for the recapitalisation needs of nationalised banks (either with budgetary support or through World Bank aid).
- NPAs have come off significantly. The RBI policies over the years have had a positive impact that reflects in the structural improvement in the asset quality of the banking system in India.

Exhibit 30: Reforms of banking sector

- Securitisation and foreclosure laws passed by Parliament
- Asset Reconstruction Companies set up\FDI limit increased to 74% in private sector banks
- Easing of norms for foreign banks for acquisitions
- Structural shift to low interest rate regime mooted

Exhibit 31: NPA trend



Source: Ambit Capital Research

Robust retail/corporate lending

Banking

- A regional comparison suggests that the robust credit growth in this decade had been to the household sector marking a shift in banks' strategy to service a more under-penetrated retail sector
- This is also a result of corporate de-leveraging with increased capital market access
- Retail credit off-take has picked up in last few months with banks reducing rates for Automobiles and other consumer durables. Housing sector has also been a beneficiary of reduced mortgage rates
- Loan/Deposit ratio in India at 0.72 is in line with other regional countries, the rate of deposit growth has been higher, and with credit growth expected to pick up, the ratio will trend upward
- A lower loan/deposit ratio also implies that as economy picks up there is enough with financial institutions to service the increased consumption demands of households and corporates

Exhibit 32: Regional comparison for loan growth

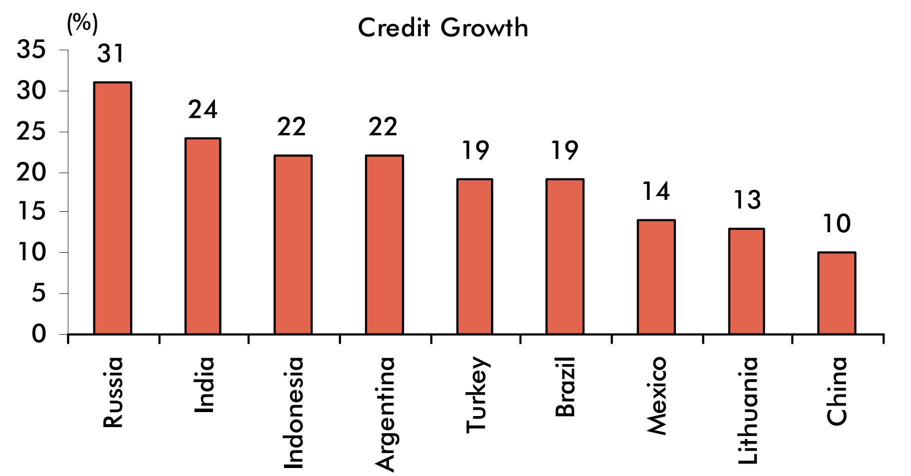
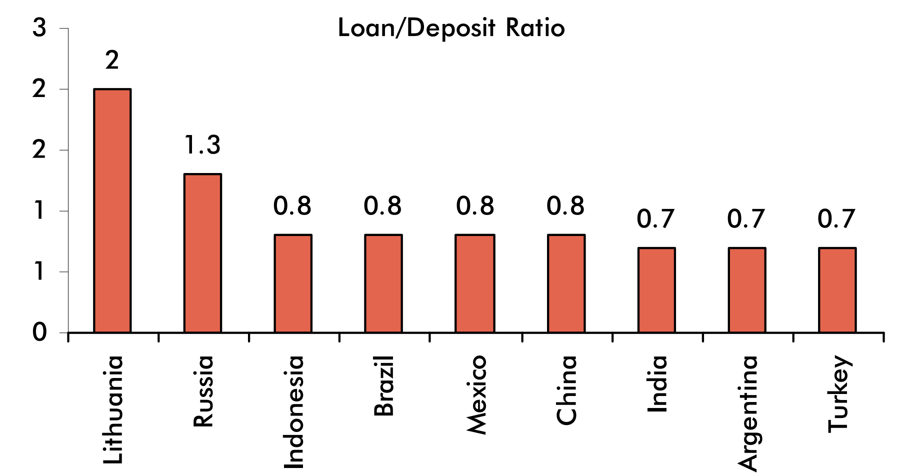


Exhibit 33: Regional comparison for loan/deposit ratio



Source: FRBNY, Ambit Capital Research

SECTION 6

Changing Demographic Pattern Drives Consumption

India's profile favors consumption

Demographics

- Increasing affluence and rising savings rates will lead to increasing consumption particularly in discretionary spending
- Working population in India rising is changing in favor of the working age group. we expect this category, currently 63% of the population, to rise to 69%.
- In spite of the changing demographic profile, it is the older age group that earns more. The 55-65 year age group constitutes 2.6% of the population at the all-India level but 3.1% of the total income. Households with chief earning members in the 45-65 age band account for 21.9% of the all-India population and 25.2% of all-India income.
- In both rural and urban households: Chief earning members in the 36-45 age band account for the highest share of both the total population as well as total income. At the all-India level, 36.5% of households have a chief earning member in the 36-45 age group and these households account for 34.6% of total income.

Exhibit 34: Population comparison

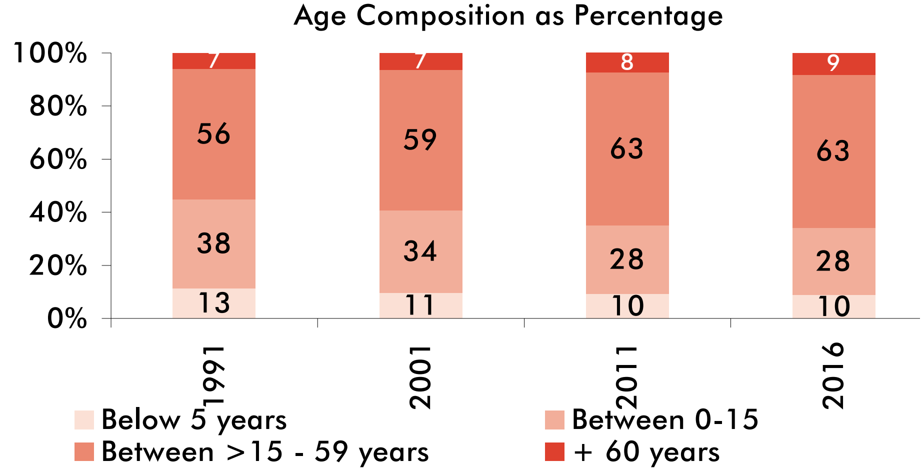
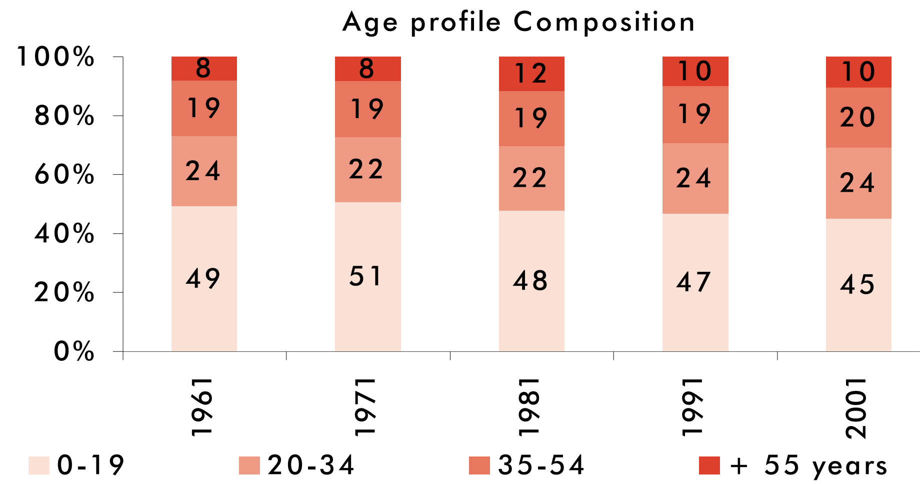


Exhibit 35: Age profile



Source: Marketing White Book, Ambit Capital Research

Consumption in place; rides on demographic changes

Demographics

- Consumer behavior is changing with discretionary spend expected to rise from 30% in 2008 to 32% by 2013
- Expenditure on basic necessities expected to reduce as the allocation for food reduces and expenditure on fuel, transport and communication expected to rise by 2013, owing to increase in durables ownership
- Savings and investments expected to increase as allocation to equity and other financial instruments rise

- Income profile has undergone a change with 1.2mn households in the >1mn income bracket per annum
- Rise of middle class expected to be more than 50% of households in 2013; expected to drive the consumption theme

Exhibit 36: Household consumption forecast

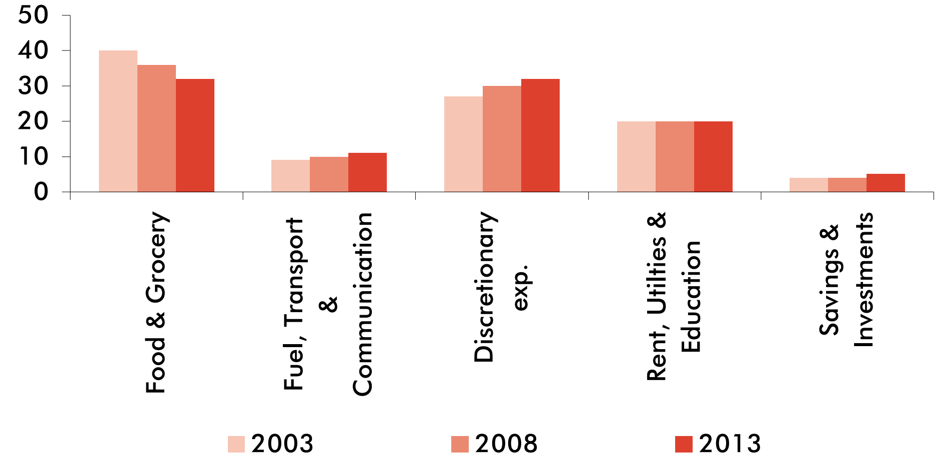
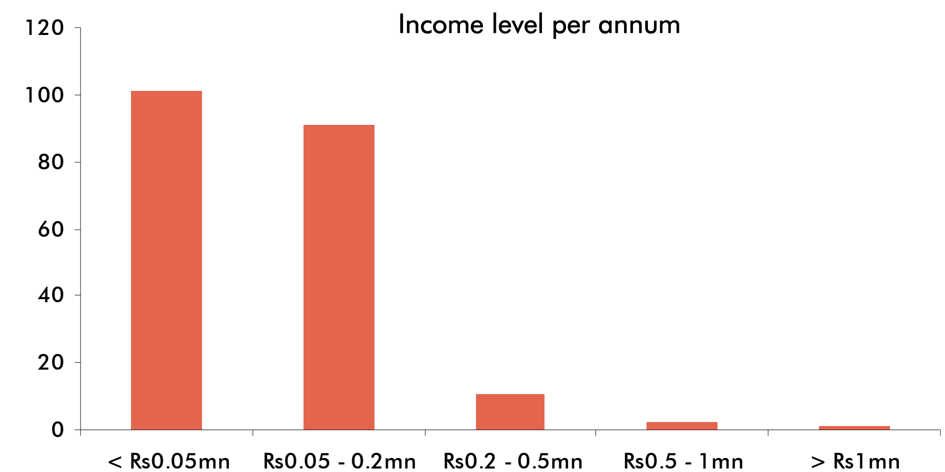


Exhibit 37: Income profile



Source: Technopak, Ambit Capital Research

Routine/non-routine spend

Demographics

- Indian households spend about three-fourths of their income on routine and non-routine expenditure. Routine expenditure includes basic and discretionary spending and non-routine large spend on ceremonies, leisure and medical.
- Expenses on food drops as a share of both income and expenditure as households get richer and the literacy level is higher for the chief earner.
- Changing consumption pattern will favor higher spending on discretionary, education, healthcare and less on basics like food and clothing as the economy and income levels expands

Exhibit 38: Distribution of routine expenses by major sources of Income

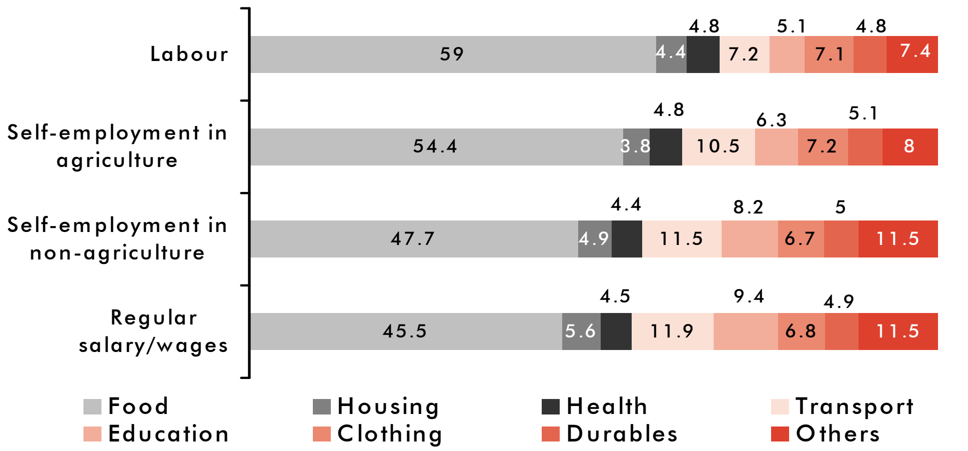
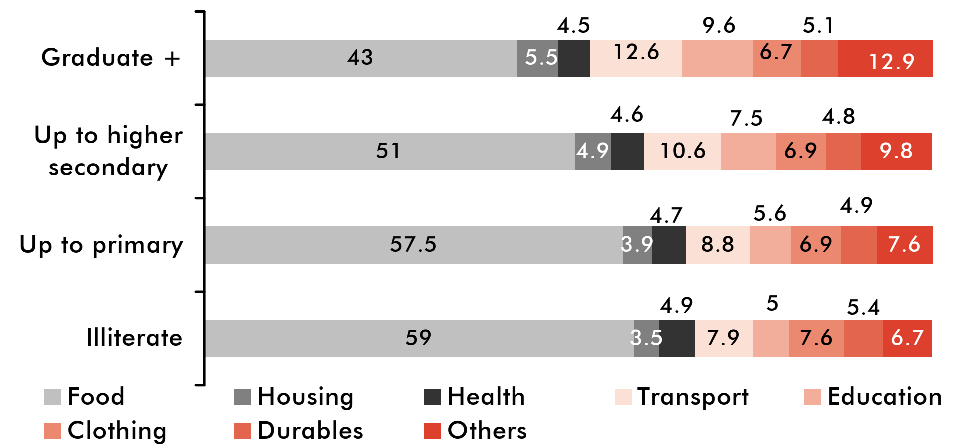


Exhibit 39: Distribution of routine expense of chief earner (educationwise)



Source: Marketing White Book , Ambit Capital Research

AMBIT

Rising affluence ups spend on savings

Demographics

- Increasing affluence and rising savings rates pushes higher spend on financial intermediation: bank loans, mortgages, life insurance
- Although investments in the stated 3 financial instruments are confined to a small proportion of households, the number of HHs is expected to increase, particularly in life insurance.
- At the all-India level, investments in these financial instruments accounts for about 3% of estimated household income.
- Of these, investments in stock markets and small savings account for 0.5% each but share of life insurance is higher at around 2%.
- Salaried class, comprising 18.4% of total HHs in the country, accounts for the highest proportion of investing households (over 40%), irrespective of the mode of investment.
- The investment pattern is observed to be a function of the level of education of a household's chief earner.

Exhibit 40: Distribution of investments in households by major source of income

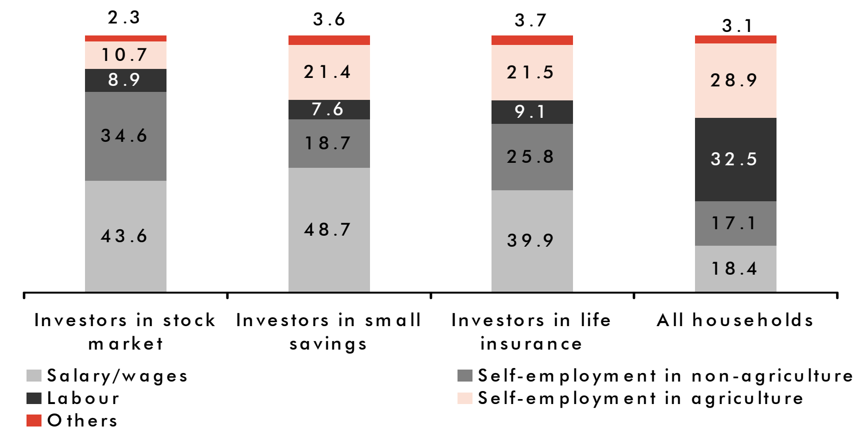
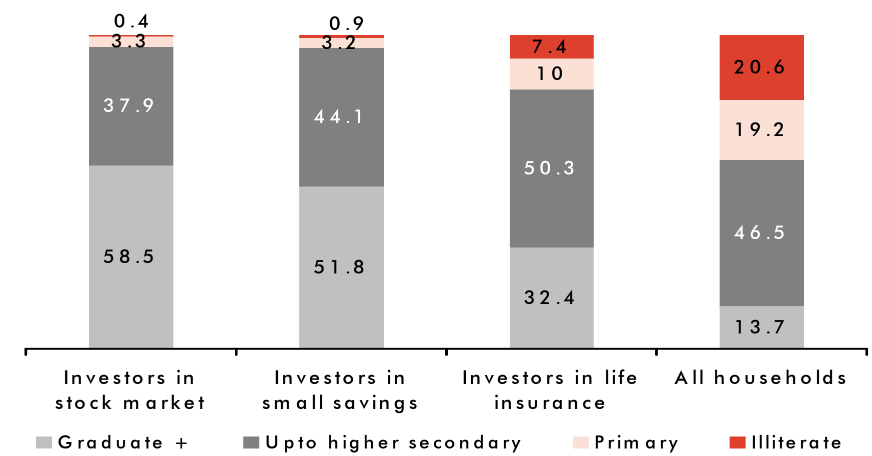


Exhibit 41: Distribution of investments in households by education of chief earner



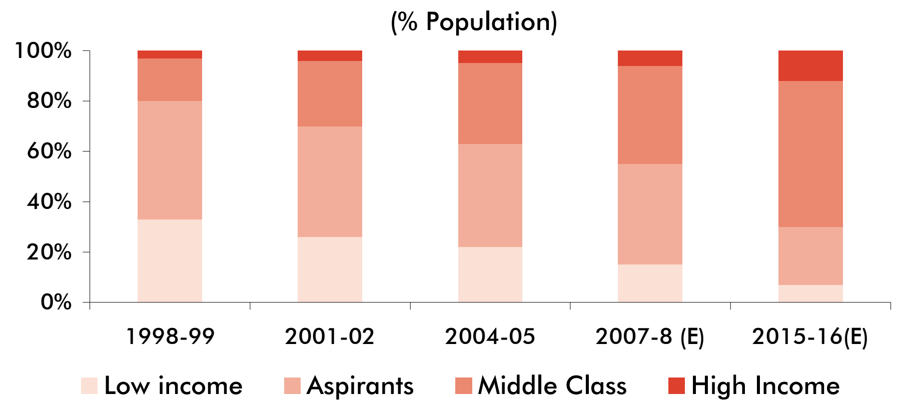
Source: Marketing White Book, Ambit Capital Research

Affordability could rise multifold to 2016

Demographics

- By 2016E more than 50% of the current households will merit classification as 'middle class'
- The 'high income' segment could more than triple
- Share of 'low-income' households could halve to 7% from the current 16%.

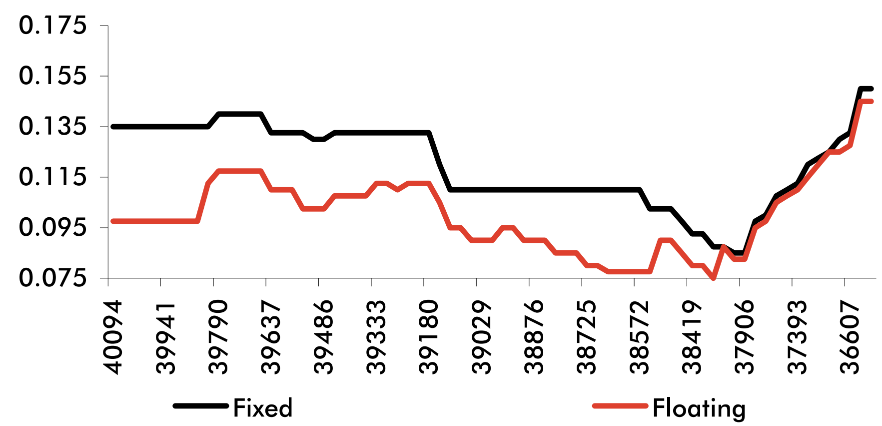
Exhibit 42: 50% of households will be middle class by 2016



Source: NCAER/FCR, Ambit Capital Research

- Mortgage rates have come down from the peak of 15% in 1999 to a low of 7.5% in 2005 , resulting in falling mortgage EMIs and boosting overall real estate purchases.
- Sub-prime crisis increased the EMI burden for mortgage buyers as the rates moved north before peaking till 11.8%
- With rates again trending down to 9.8% we expect pick up in mortgage buying

Exhibit 43: Falling mortgage EMIs–indicates rising affordability



Source: HDFC, Ambit Capital Research

SECTION 7

Recovery Mode For Economy

Growth and ratios (non-financials)

Corporate Finance

- Corporate (non-financials) YoY EBITDA and PAT growth trended down over FY07-FY09 while interest paid saw an upward spike as debt was the only available source of funding.
- With economy in the recovery mode, interest growth is expected to remain flat or trend downward.
- Debt/equity, current ratio and interest coverage ratio remained flat. This was a result of prudent measures adopted by corporates by not over-leveraging balance sheets so as to call for bankruptcy risks.
- We expect debt/equity to trend down, while interest cover, upward.

Exhibit 44: Corporate growth rate (%)

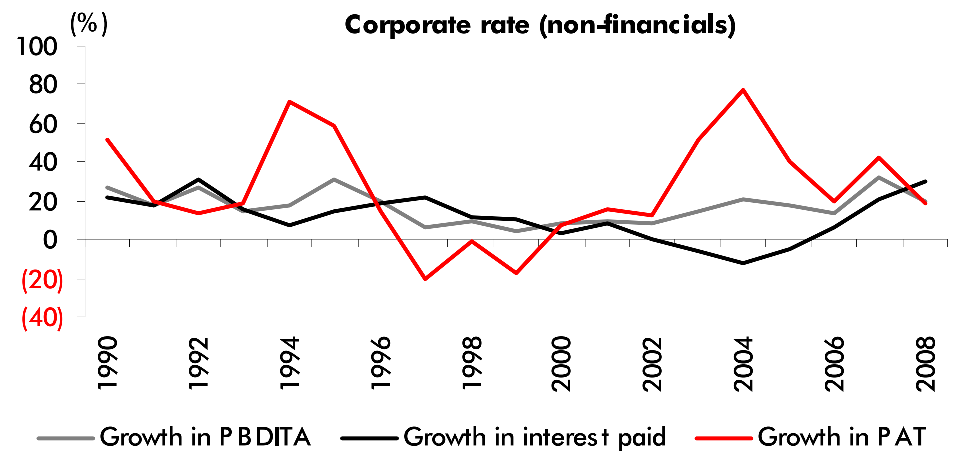
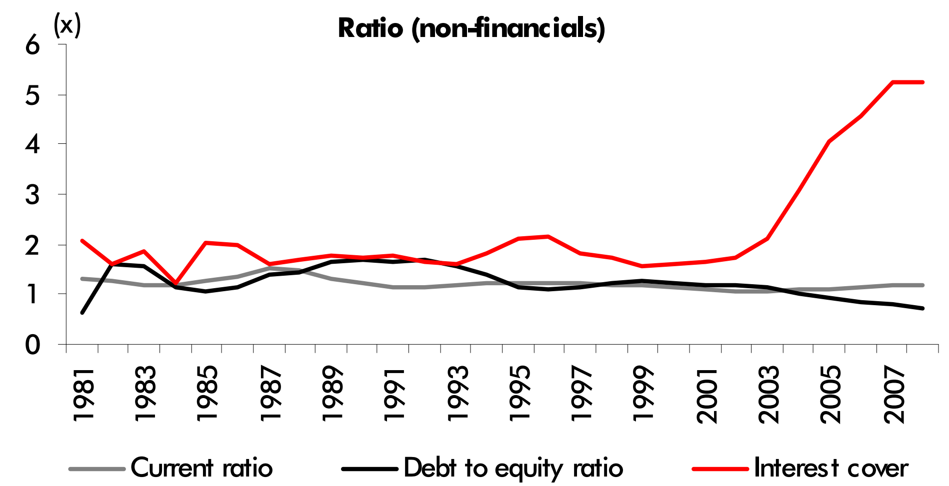


Exhibit 45: Corporate ratio (x)

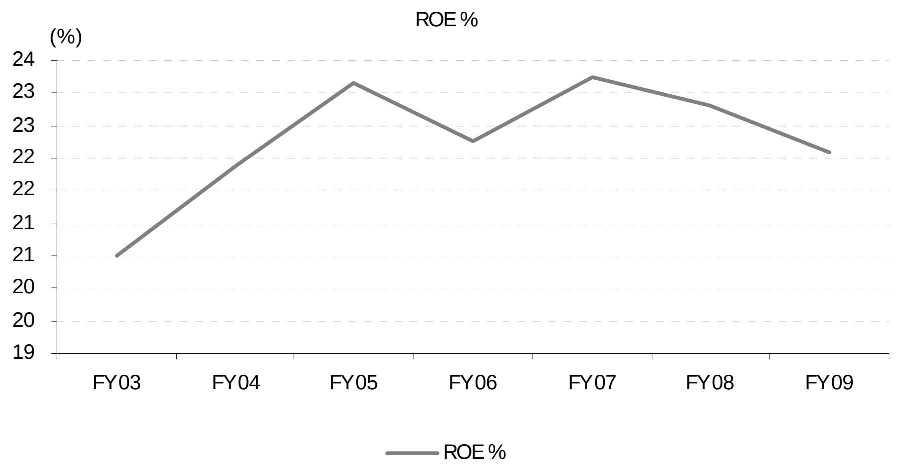


Source: CMIE, Ambit Capital Research

Capital efficiency

Corporate Finance

Exhibit 46: BSE 30 Index



- Over FY03-09 corporate net margins saw a peak in FY07 at 16.3% before trending down to 14.7% in the successive two years.
- RoE % also peaked in FY07 at 23.8% before trending down by 170bps to 22.1%. This was due to net margins trending down in the same period.
- RoCE % trended flat with a downward bias, this was due to higher balance sheet gearing for investments in long gestation projects.

Exhibit 47: BSE 30 Index

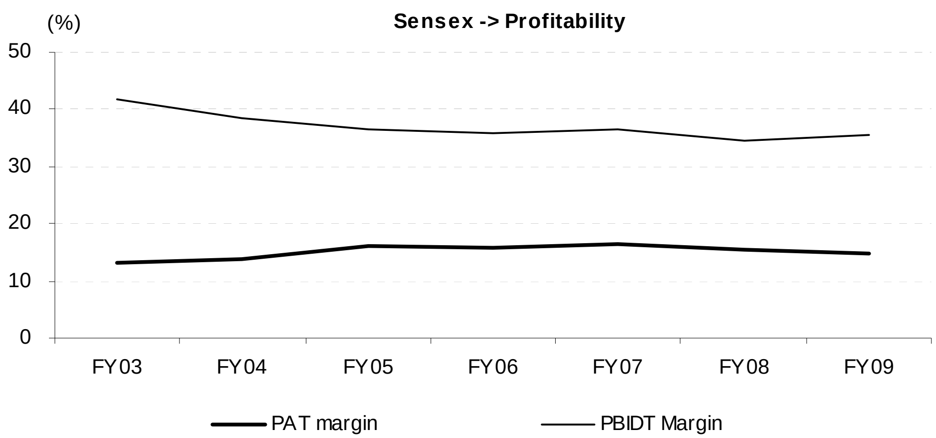
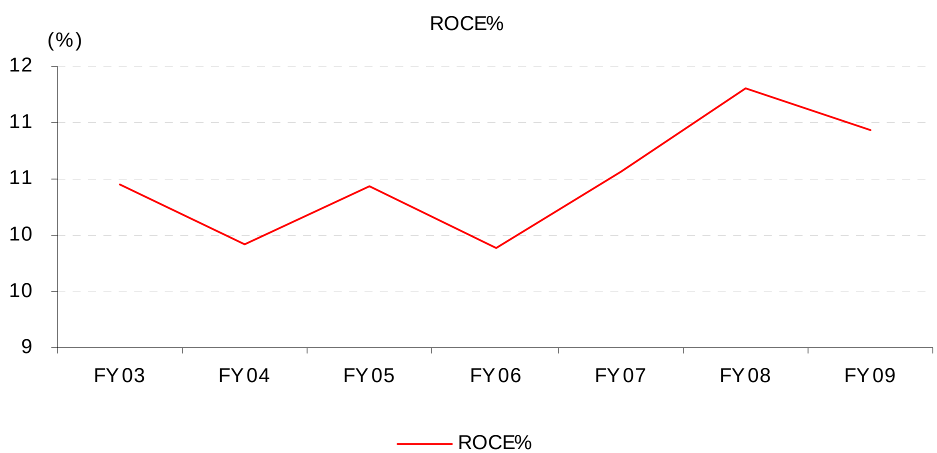


Exhibit 48: BSE 30 Index



Source: CMIE, Ambit Capital Research

AMBIT

SECTION 8

Infrastructure Spend Surges – Favours Sustained Capex Cycle

Infrastructure spend to surge

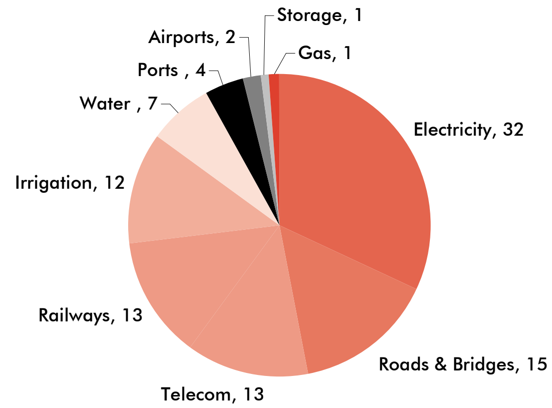
Infrastructure

- 11th Five Year Plan (FY07-FY12) envisages a total US$411bn in infra investments and this is expected to go up to US$780bn during the 12th Five Year Plan.
- Focus sectors to be: Power, Roadways, Railways, Telecom
- Roadways and Railways have been laggards and ordering activity is expected to be robust going forward.
- Power is expected to contribute about 32%, Roadways 15%, Telecom 13%, Railways 13% and Irrigation, about 12%.
- While Roadways, Power, Airports, Railways are well poised to attract private investments, we believe irrigation and water sanitation to be driven more by government investments.

Exhibit 49: Infrastructure spend forecast -11th Five Year Plan

Sector	$bn
Electricity	133
Roads & Bridges	63
Telecom	52
Railways	52
Irrigation	51
Water	29
Ports	18
Airports	6
Storage	4
Gas	3
Total	411

Exhibit 50: Infrastructure drivers (in %)



Total = $411bn

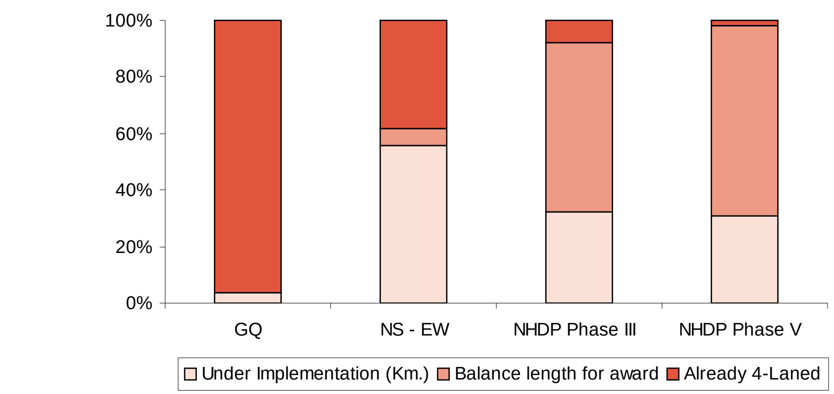
Source: CMIE, Ambit Capital Research

Roadways make steady progress

Infrastructure

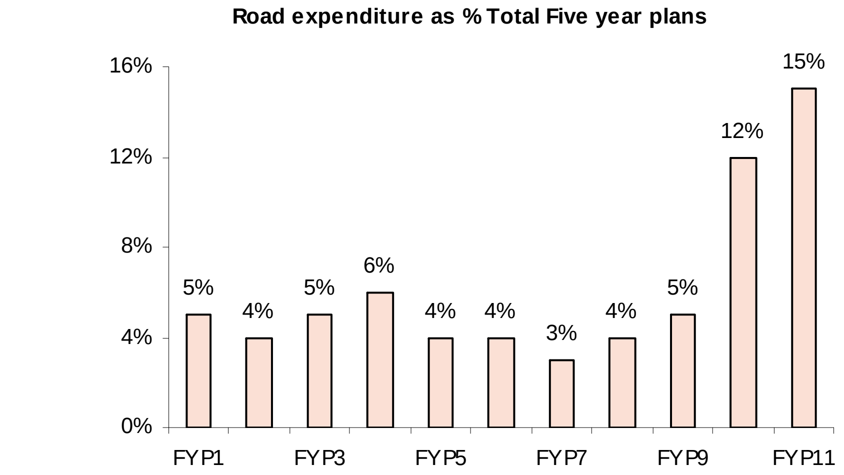
- A total of US$78bn has been allocated to the Roadways sector in the XI[th] Five Year Plan
- NHAI represents a total 44% of the planned expenditure.
- The allocated expenditure on Roadways has been increasing during successive Five Year Plans from 5% (FYP 1) to 15% (FYP 11)
- The road and transport ministry's ambitious plans of building highways at 20km/day is a step in the direction of faster execution
- The new policy changes in land acquisition norms and proposed changes in NHAI's terms would thrust speedy implementation of the highways program

Exhibit 51: Progress on NHDP



Note: NHDP (National Highway Development Program)

Exhibit 52: Momentum on road projects to continue



Source: CMIE, Ambit Capital Research

Telecom rides the fast track

Infrastructure

- Large subscriber base growing at an exponential pace
- Funding growth not a problem for most operators
- Active government support for increasing tele-density
- Free hand to competition
- Large untapped potential market
- Utilisation of USO funds for enhancing rural connectivity
- Increased infrastructure sharing
- New entrants to enhance tower business valuation
- Growth in VAS market
- Rationalisation of government levies

Exhibit 53: Wireless subscribers' growth trend

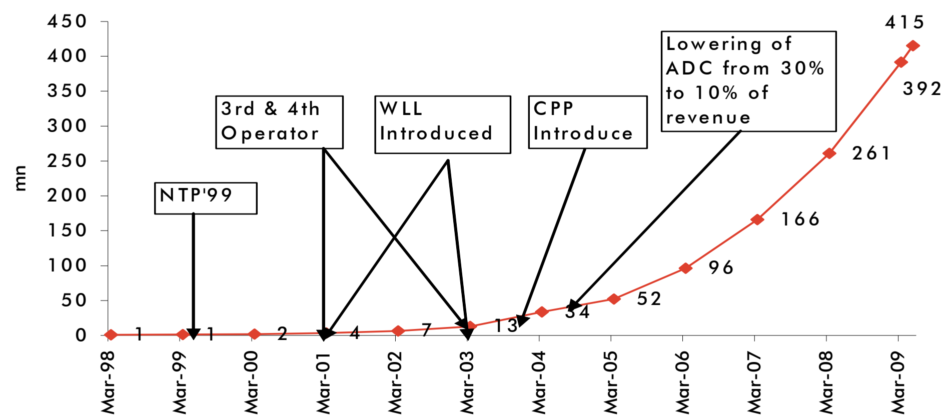
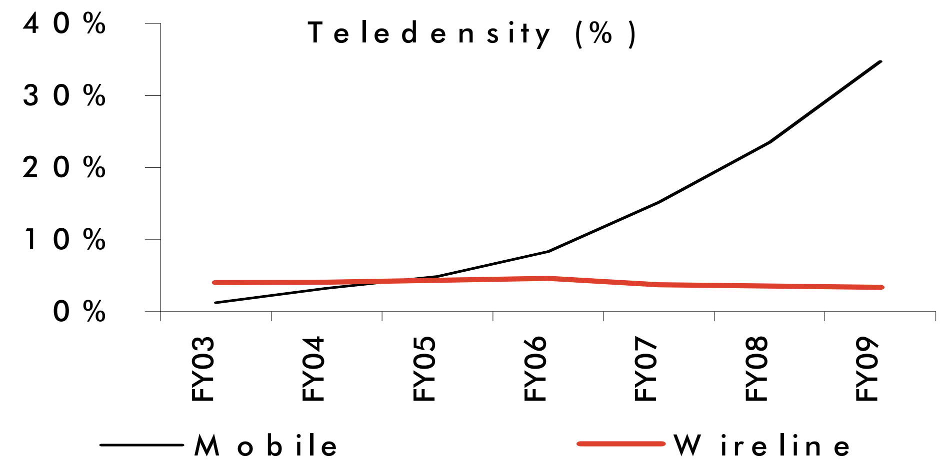


Exhibit 54: Penetration trend Telecom subscribers



Source: CMIE, Ambit Capital Research

Power policy more conducive for investment

- Policy framework has evolved as being more producer friendly and consumer friendly (ensuring lower costs for consumers)
- Electricity Regulatory Commissions (ERCs) put in place to ensure checks and balances for greater producer and consumer flexibility by way of open access purchase / sale
- Tax holidays for the power sector reduces costs
- Allowing captive power generators to sell power to the grid enables tapping of latent capacity

Exhibit 55: Progress of power sector reforms

1991	Generation segment opened to private sector
1998	Electricity Regulatory Commission Act enables setting up of CERC and SERCs
2000	APDP scheme introduced (now APDRP)
2003	Electricity Act, 2003 replaces Indian Electricity Act, 1910. Iincludes measures for development of electricity industry, encourages competitive environment and supply of electricity to all areas; tariff rationalization, transparent policies for subsidies and constitution of CERC, among others
2005	National Electricity Policy
2006	Rural Electrification Policy
2008	Hydro Power Policy

Source: CMIE, Ambit Capital Research

Power reforms finally on track

Infrastructure

- Peak deficit levels continue to be high, prompting policy makers to raise capacity addition targets in the successive five year plans
  - 11 FYP 78,700MW
  - 12 FYP (initial estimate) 92,000MW
- Construction in progress at two of four UMPPs already awarded
- Capacity addition rate expected to be higher in 11th FYP & 12th FYP due to concerns over power shortage, higher-than-warranted under-construction projects and the infrastructure monitoring committee being chaired by the prime minister

Exhibit 56: Actual generation capacity trend (MW)

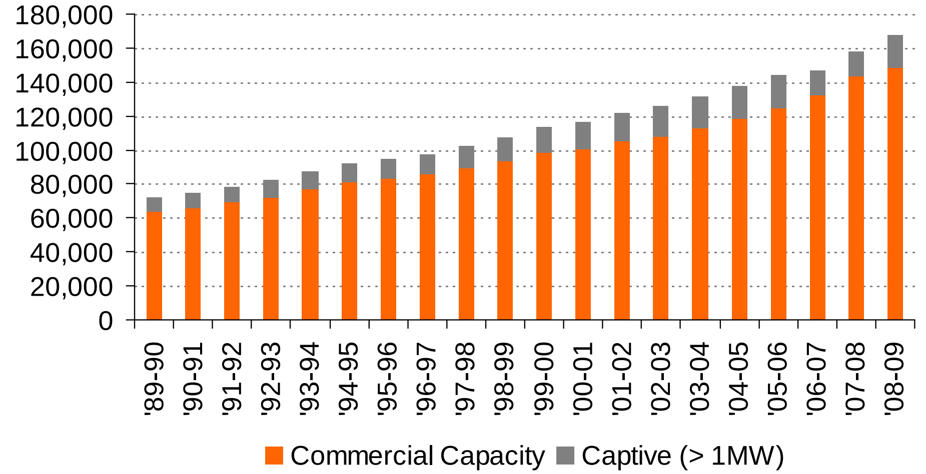
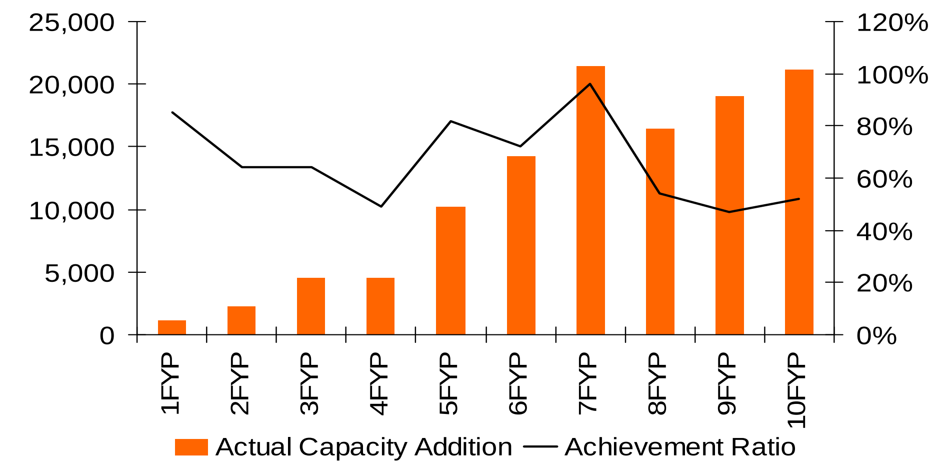


Exhibit 57: Planwise achievement of generation capacity expansion (MW)



Source: CMIE, Ambit Capital Research

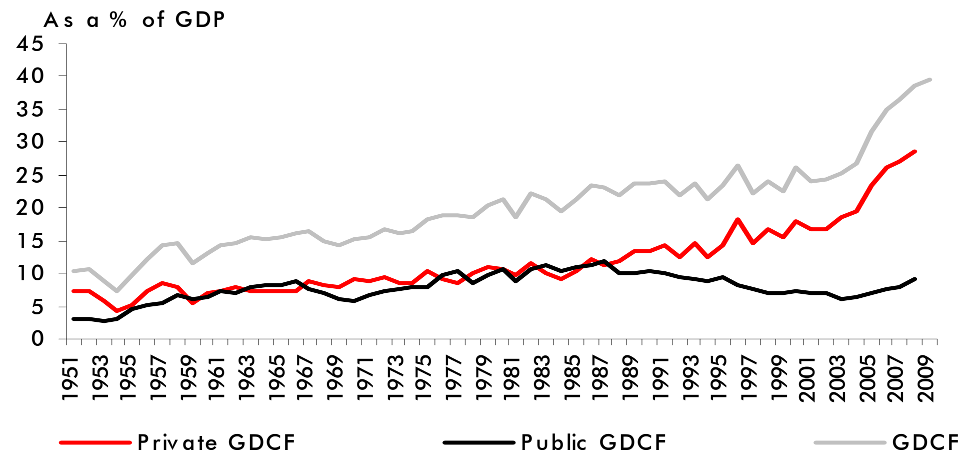
SECTION 9

Private Public Participation (PPP) – The New Buzzword

GDCF as a % of GDP

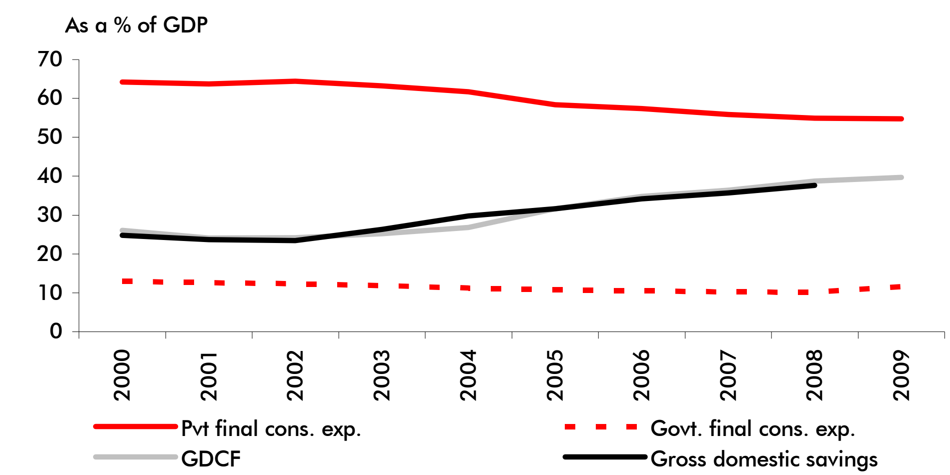
- Since 1951, private sector gross domestic capital formation (GDCF) as a % of the GDP has increased from 7.4% to 28.5% in FY2008.
- Over the same period for the public sector it has increased from 2.9% to 9.1%.
- The private and household sectors have and are expected to shoulder the burden to increase productive capacity in the economy going forward in order to drive consumption.

Exhibit 58: Private & public GDCF % of GDP



- Private final consumption expenditure has been trending down from 64% in 1999 to 55% in 2008.
- Over the same period for the public sector it has come down from 12.3% to 10.1%.
- GDCF, overall, has risen from 22.6% in 1999 to 38.7% in 2008.

Exhibit 59: Consu. exp., GDCF & G D savings as a % GDP



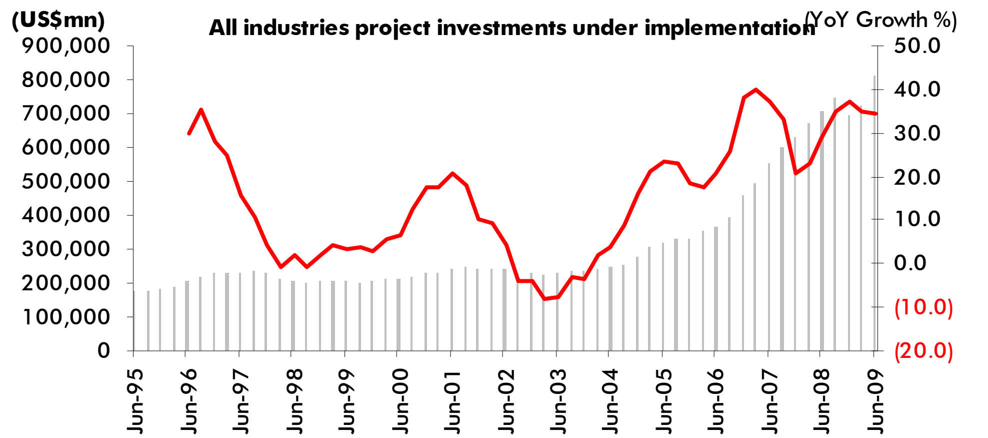
Source: RBI, CMIE, Ambit Capital Research

Investments, all-industry at historic high

Project Finance

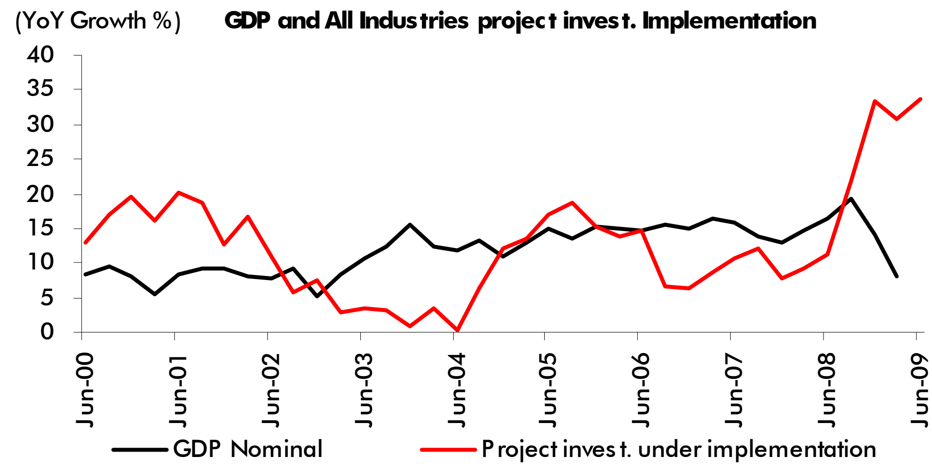
- Projects under implementation (public & private sector) are at historic highs both in terms of absolute figures and YoY% growth. Ongoing projects are more pronounced in the case of private sector v/s public sector.
- Investments in projects under implementation rose 458% in the past decade since March 1999. Growth has been at 15% CAGR.
- As of Sep 2009, total ongoing investments amounted to Rs41.8tn compared with Rs8.9tn in Sep 1999.

Exhibit 60: All-industry project invest. under implementation



- There is a negative correlation of -0.1 between growth in total investments in projects and growth in nominal GDP. This is due to bias on fiscal measures during the recessionary environment
- There is a significant jump in the value of projects announced at 63% of GDP as of 4QFY09 v/s 8% of quarterly GDP a decade ago

Exhibit 61: Project invest. implementation and GDP (YoY %)



Source: CMIE, Ambit Capital Research

Ratio favours private sector

Project Finance

- The ratio of govt./pvt. investments in total projects was 54:46 in December 1999. That peaked to 67% in March 2004 as the government stepped up investments. The ratio as of Sep 2009 is 40:60.
- Although in absolute terms, public sector investment is higher, YoY% growth of private sector investment has been on the rise since June 2004.
- Private sector investment has far outstripped government investments in the economic growth phase.
- At end-Sep 2009 YoY% growth for public sector stands at 31% lower than private sector growth of 37%.
- The government has initiated growth in project implementation.
- Up to the quarter ending December 2004, the government stepped up its infrastructure spend and made the lion's share of investments.
- Since June 2004, the private sector also started investing substantially and by Sep 2009 on an absolute basis the private sector had invested Rs25.1tn v/s the GoI's Rs16.7tn.

Exhibit 62: As a % with total projects under implementation

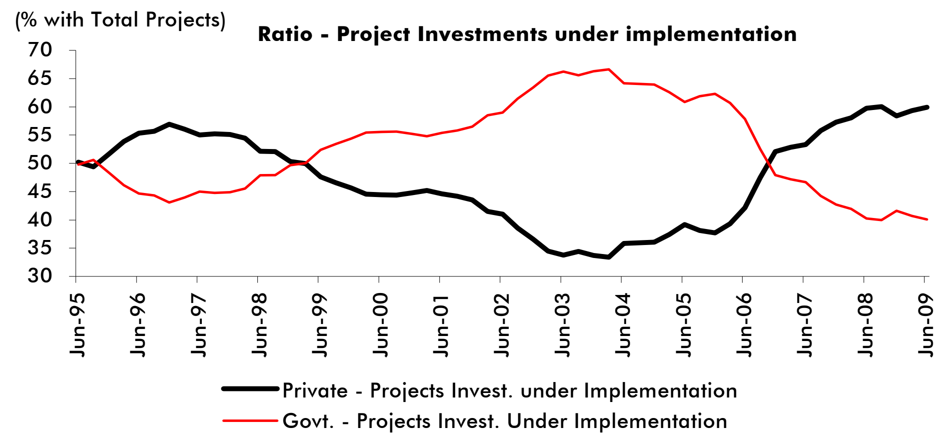
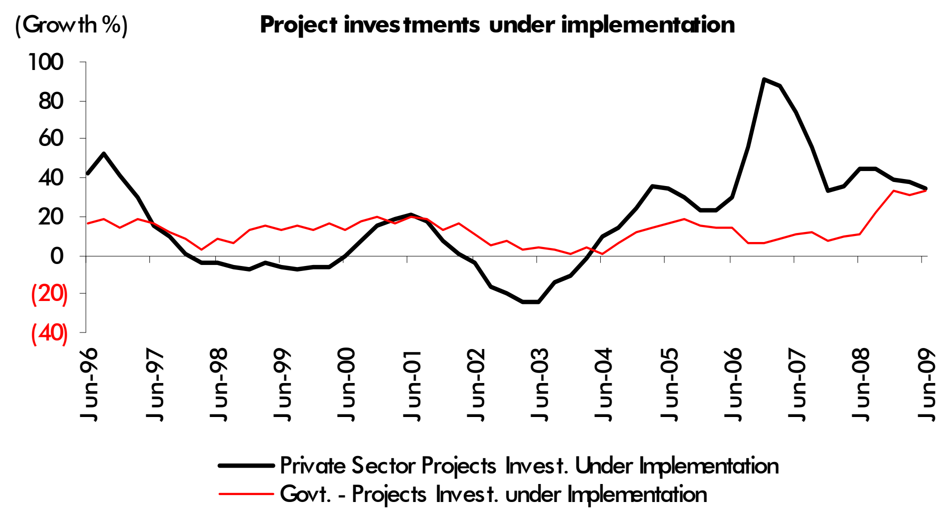


Exhibit 63: Growth YoY %



Source: CMIE, Ambit Capital Research

Growth YoY% in investment (P&P)

Project Finance

- In the public sector, projects under implementation have historically remained above the numbers announced and proposed, except between September and March 2007, where there has been a declining trend.
- Since March 2008 public sector investment, as expected, has risen given pump priming by the government to fuel investments and consumption.
- The last 3 quarters have seen MoM growth of >30%.

- Private sector investment picked up since September 2000 and increased until December 2001 before turning negative in the run-up to March 2004.
- June 2004 onward, investment levels have risen phenomenally, in line with the superior economic growth phase.
- At end-Sep 2009 we note private sector investment has grown nearly in line with government investments in spite of the latter resorting to pump priming.

Exhibit 64: Government projects YoY growth %

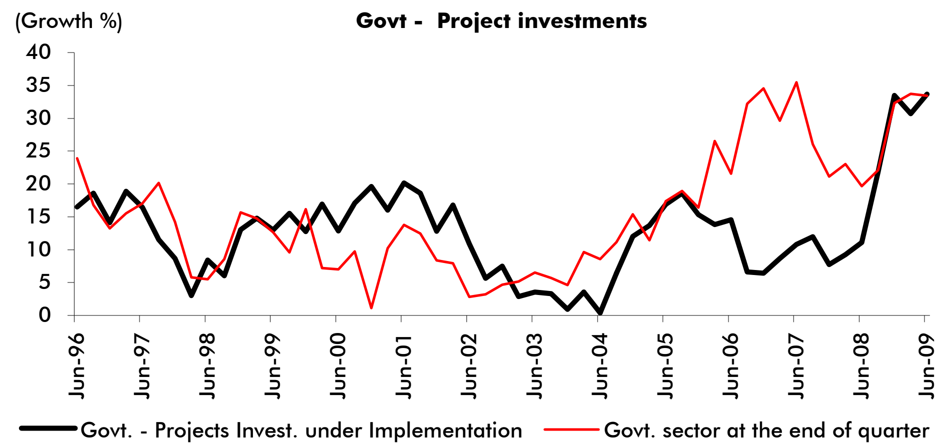
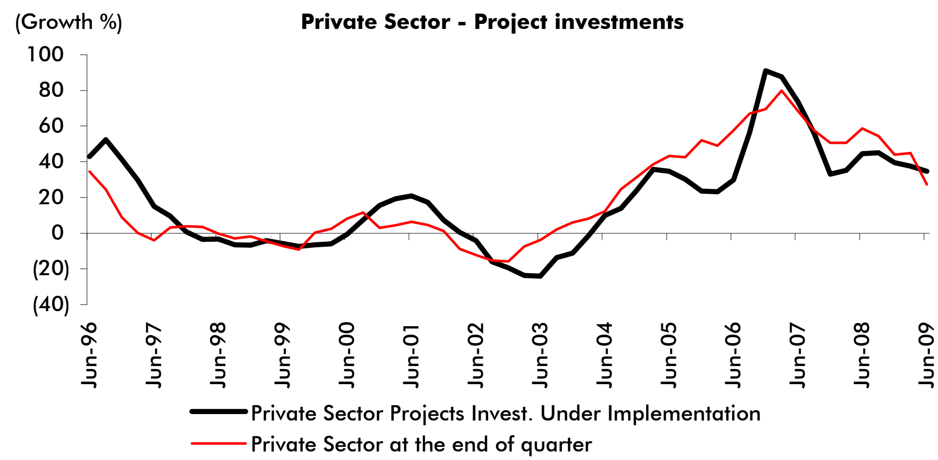


Exhibit 65: Private sector projects YoY growth %



Source: CMIE, Ambit Capital Research

P&P - investment outlay

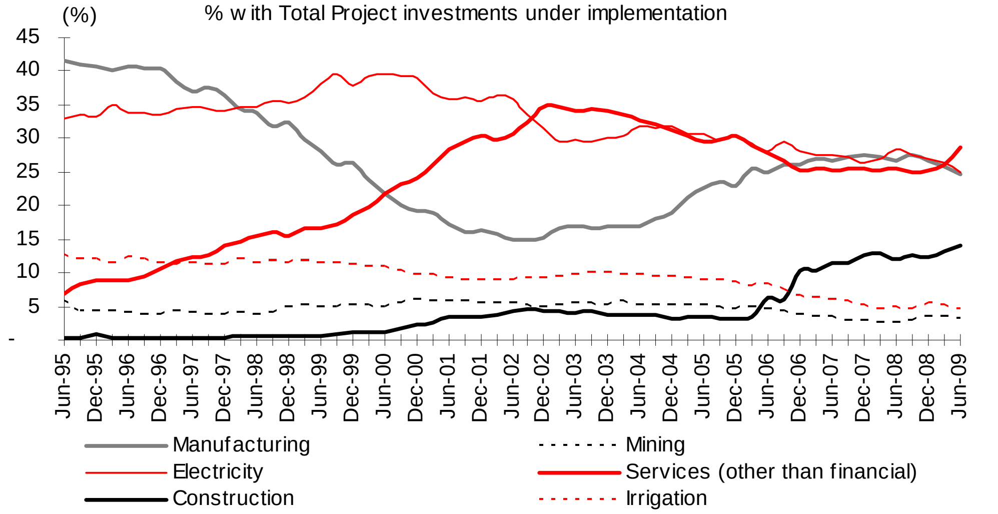
Project Finance

- Since September 1999 the primary focus had always been in favor of Manufacturing, Irrigation and Electricity

- At end-Sep 2009 we note the share of each sector in overall investment under implementation by both public and private as:

  - Services (other than financials) -- 28.5%
  - Electricity -- 24.9%
  - Manufacturing -- 24.8%
  - Mining -- 3.1%
  - Construction -- 14.0%
  - Irrigation -- 4.7%

Exhibit 66: Sector - Project investments



Source: CMIE, Ambit Capital Research

P&P - investment under implementation

Project Finance

- Public sector reforms in Electricity and Services are clear indicators of the higher ongoing investments.
- Investment in electricity has picked up over the last decade. The larger focus has been on construction given the focus on infrastructure. Investment in mining has remained low resulting in poor coal and crude oil throughput in India.
- Share of each sector in public investment under implementation as at the quarter ended Sep 2009:
  - Electricity 33.7%
  - Services 35.3%
  - Manufacturing 22.3%
  - Mining 4.9%
  - Construction 3.8%

- Private sector focus has been on profitable sectors such as Construction, Mining and Manufacturing, indicated by the higher ongoing investments.
- Investment in Construction has picked up markedly since 2005; that in Manufacturing and Electricity has also picked up.
- Share of each sector in private investments under implementation as at the quarter ended Sep 2009:
  - Electricity 21.8%
  - Services 26.2%
  - Manufacturing 28.0%
  - Mining 2.3%
  - Construction 21.6%

Exhibit 67: Govt sector - project investments under implementation growth

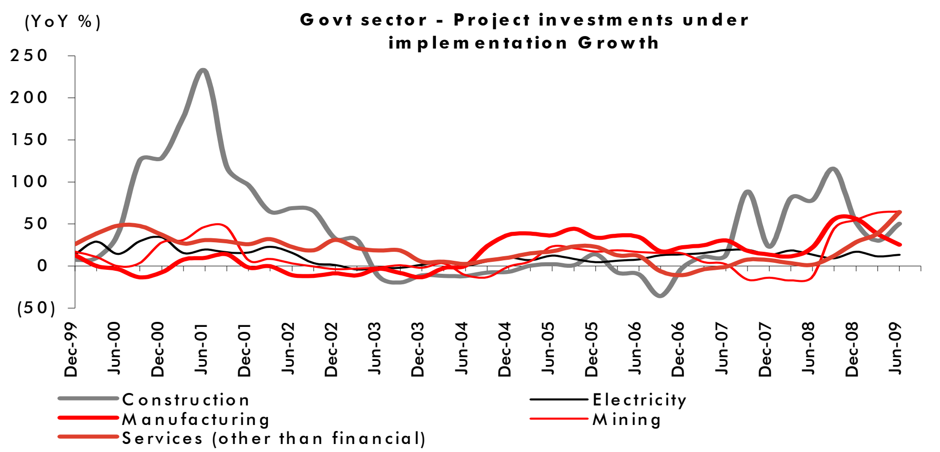
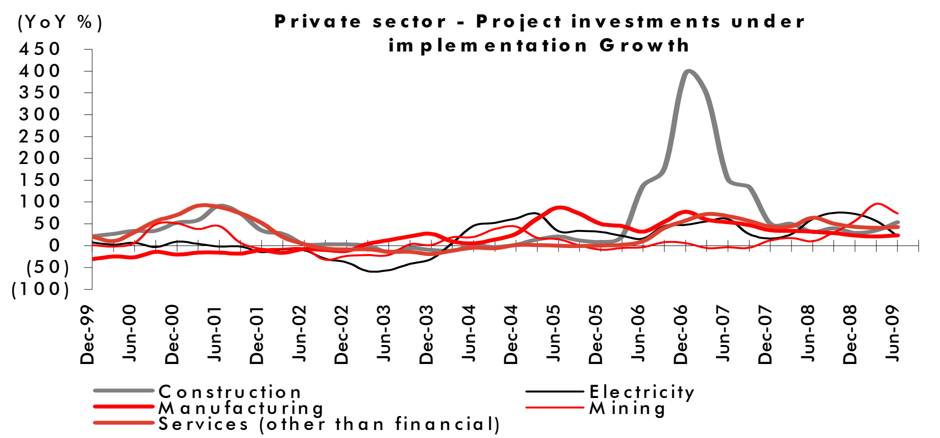


Exhibit 68: Private sector - project investments under implementation growth

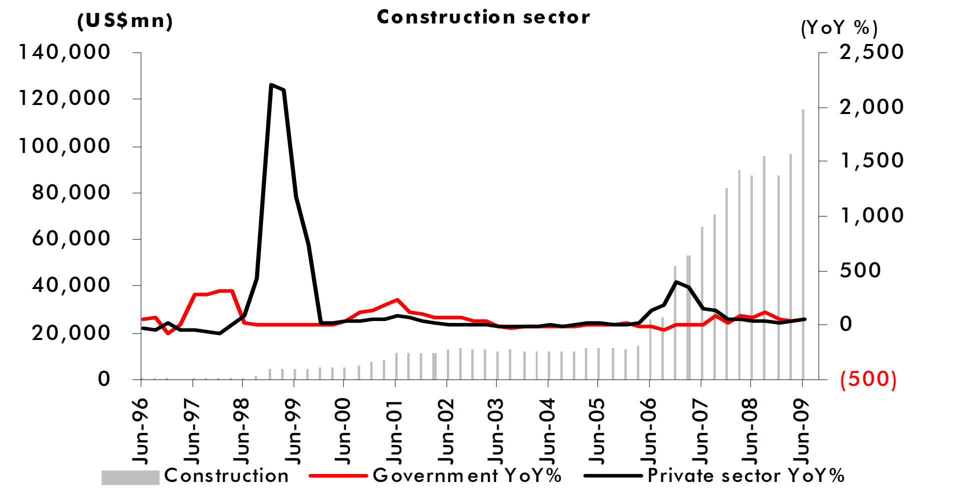


Source: CMIE, Ambit Capital Research

Outlay - Construction & Electricity

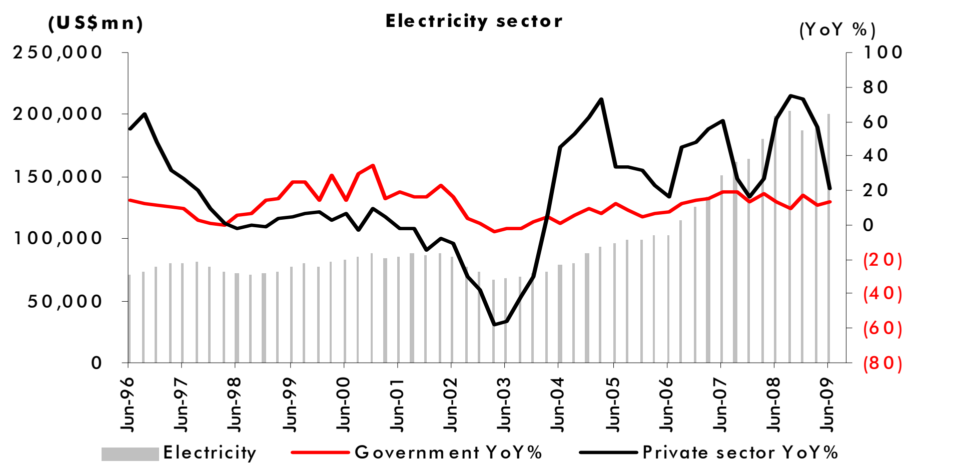
- YoY growth in Construction sector investment, representing residential and commercial complexes, has remained robust over the past decade for public and private sectors.
- Private sector has been the prime mover but public sector has kept pace.
- Of the total average investment entering the Construction sector, 90.6% is contributed by the private segment and 9.4% by the public segment. Public sector investment picked up only from September 1999.
- Public sector investment has grown at 30% CAGR over Sep-99 to Sep-09 (last decade). Over the same period, private sector investment growth has been ahead at 38% CAGR.

Exhibit 69: Construction sector



- Public-private sector gap in investment in the Electricity sector has narrowed recently. The government needs to improve the pace of ongoing reforms and funding to increase private sector participation.
- The investment under implementation in this sector has grown at a CAGR of 10% between Sep-99 and Sep-09.
- The public sector on an average has put to work 61% of the total investment in electricity sector with the remainder 39% coming from the private sector between Sep-99 and Sep-09.

Exhibit 70: Electricity sector

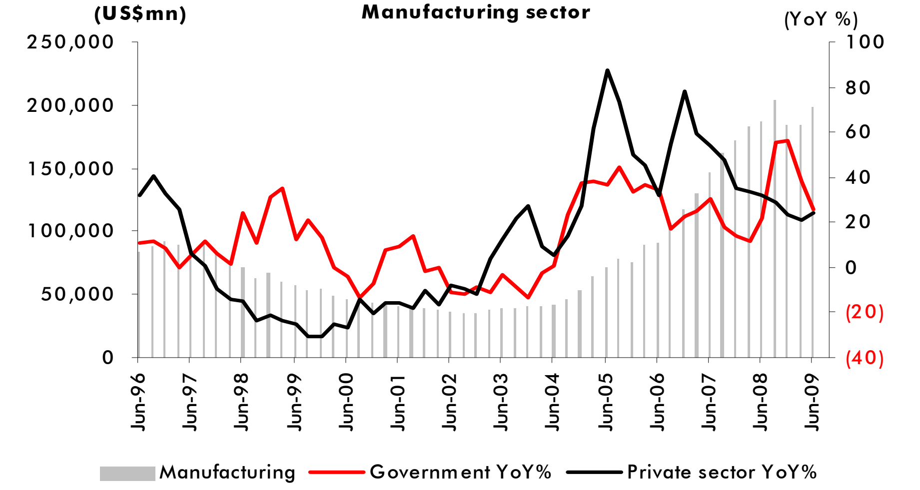


Source: CMIE, Ambit Capital Research

Outlay - Manufacturing & Mining

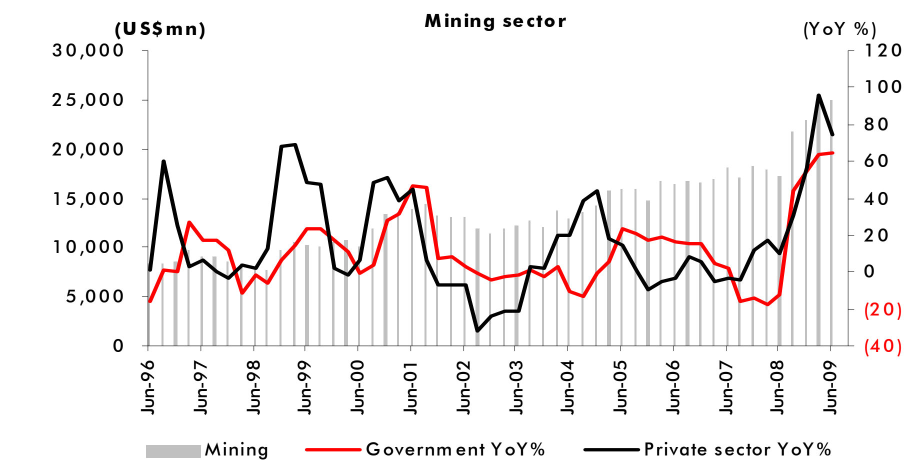
- The Manufacturing sector has experienced CAGR of 13% over the last decade, implying growth from existing capacities.
- New capacity has been added in the last few years.
- Public sector contributes on an average 41% to the total investment. Healthy pick up in private sector investment since 2004
- The average annual growth rate of public sector investment in manufacturing is at 13% with private sector growth ahead at 17%.
- The growth is led by higher investment in machinery which grew at a CAGR of 18%, metals at 25%, transport equipment by 12% and chemicals by 6%.

Exhibit 71: Manufacturing sector



- Overall investment under implementation in Mining is poor.
- Much of the investment has arisen from the public sector. Private sector investment has picked up only from June 2008.
- The sector has experienced CAGR of 9.7% over the last decade.
- Public sector contributes an average 55% to total investment.
- Private sector investment has picked up since April 2004.
- The average annual growth rate of public sector investment in Mining is at 9.4% in line with the private sector at 10%.

Exhibit 72: Mining sector

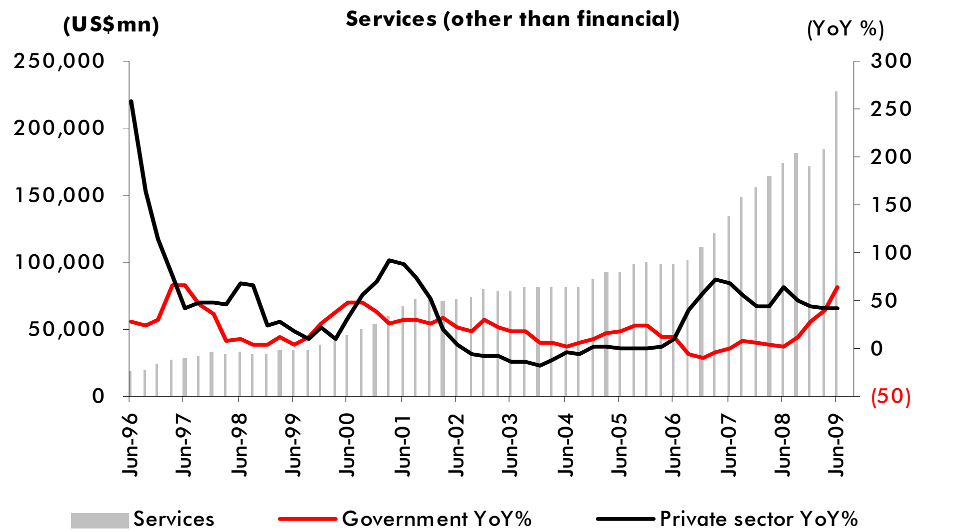


Source: CMIE, Ambit Capital Research

Outlay – Services (ex-financials)

- The Services sector contributed 56% to GDP, which has grown owing to the higher investments by both the public and private sectors.
- This sector has registered significant growth in investments at a CAGR of 19% in the last decade.
- In terms of growth rates, the private sector experienced an annual average growth rate of 22% compared with 16% for the public sector.

Exhibit 73: Services (other than financial) sector



Source: CMIE, Ambit Capital Research

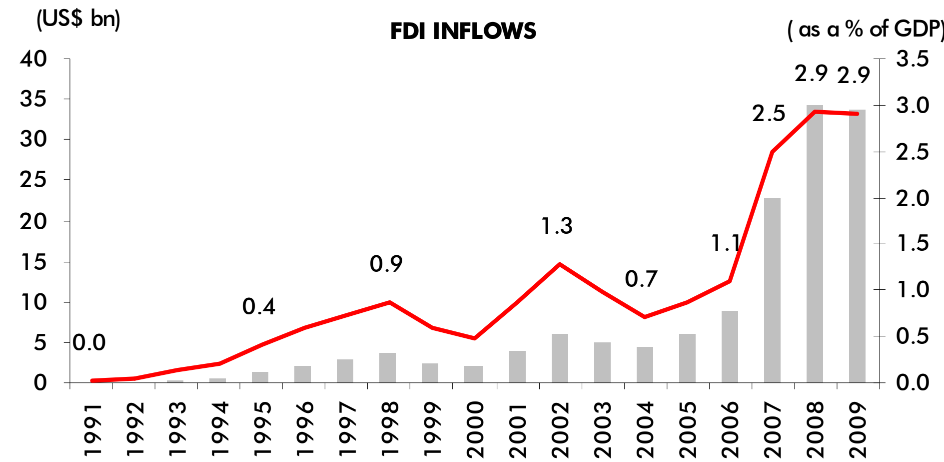
SECTION 10

A Surging Economy And Sustained Capex Cycle Kicks In FDI

Keeps pace with economic growth

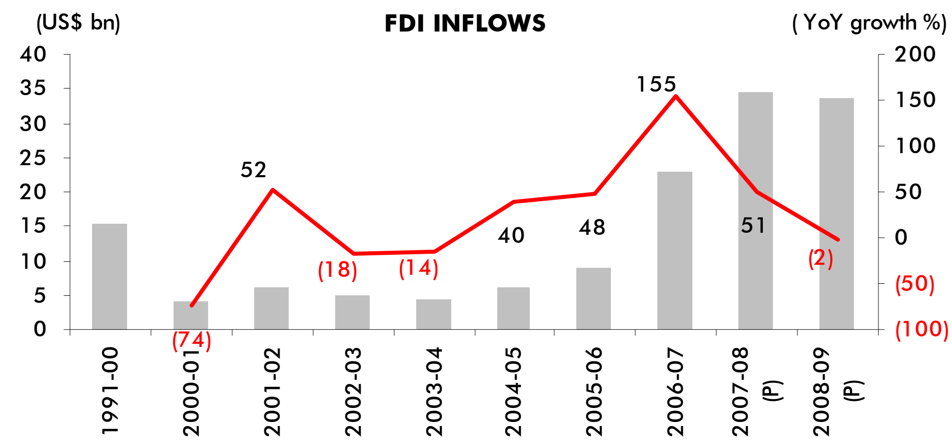
- As on FY2006, FDI was 1.1% of India's GDP. Quality of the FDI was more important versus size.
- One important policy for the manufacturing sector was the setting up of SEZs.
- This led the FDI as a % of GDP to move up to 2.9% as of FY2009 (P).

Exhibit 74: FDI inflows as a % with GDP



- YoY% growth in FDI has flagged over FY2008 given global economic slowdown, and domestically, the high growth phase was tempered.
- But FDI still remains robust at (2%) in FY2009 (P) over the previous fiscal.

Exhibit 75: FDI growth YoY (%)



Source: Dept of Industrial Policy and Promotion, Ambit Capital Research

Leading country and sectorwise

FDI

- FDI flows were a delayed potential in the past but are surging ahead on the back of strong domestic demand growth.
- From April 2000-April 2009, Mauritius at US$3,830bn commands 44.26% of the total FDI inflow into India.
- Between 1999-2006, India received US$50bn in FDI. The lag has been on vacillating policies and selective approach to FDI owing to adopting a protectionist stance.
- Empirically, economic growth and FDI are positively correlated. Growth attracts FDI. Initially, FDI was bunched, mainly into the Information and Technology (IT) sector. But as growth kicked in, FDI became more broad based.
- Higher growth in the economy saw US$90.8bn flows between 2007 and 2009 (P), nearly twice what the country received over the last 15 years.

Exhibit 76: Countrywise FDI inflows

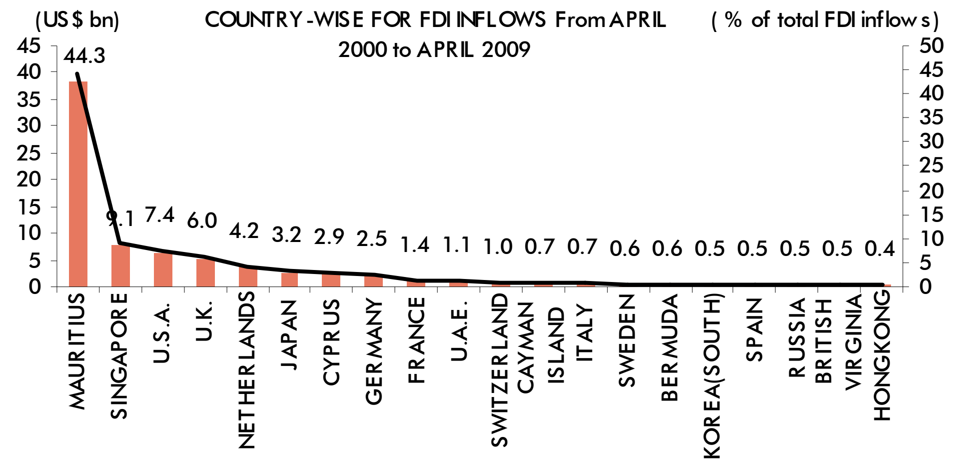
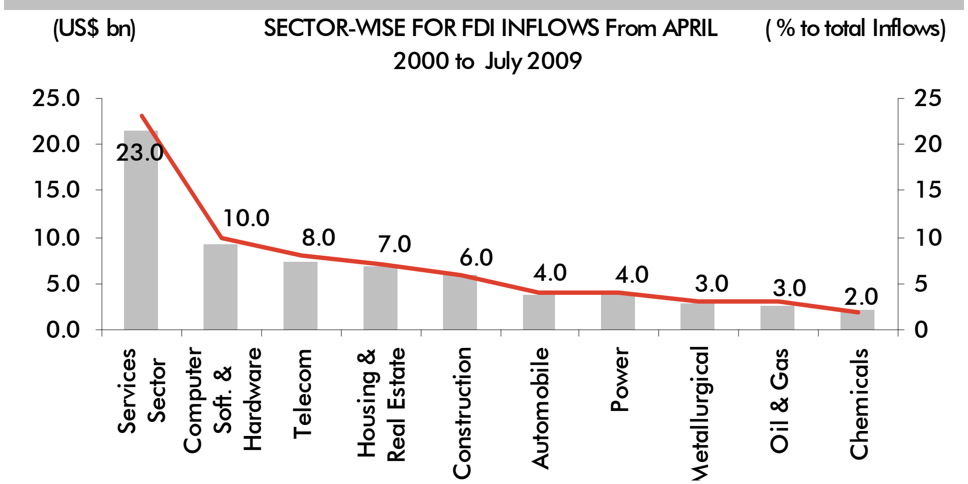


Exhibit 77: Sectorwise FDI inflows



Source: Dept of Industrial Policy and Promotion, Ambit Capital Research

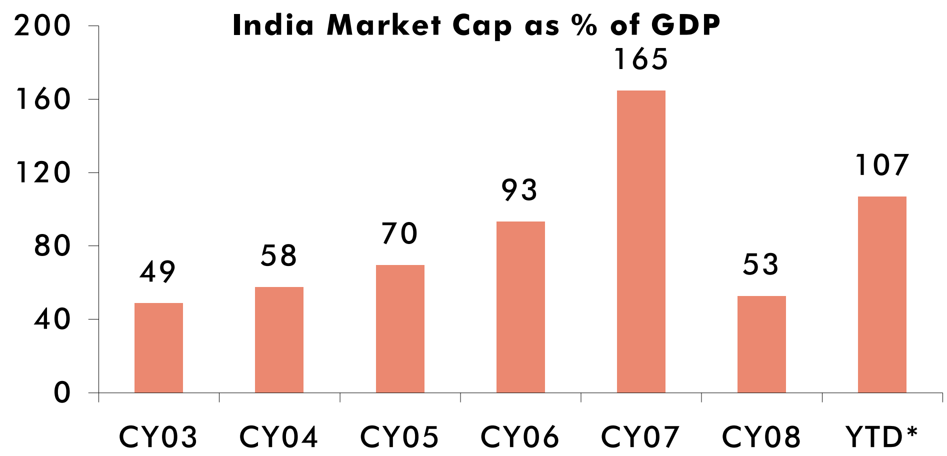
SECTION 11

Valuations Have Surged And Sector Market Cap Is Now Widely Dispersed

Market cap / GDP

Mcap/GDP still reasonable

Exhibit 78: India market cap % of GDP



Source: Bloomberg, Ambit Capital Research

- The mcap/GDP ratio long term average (LTA) has been at 80 levels for the US markets and is considered an attractive entry point
- India's market is trading at the 107 level, and represents reasonable valuations in context with high GDP growth
- Anecdotally, whenever the ratio crosses the level of 150, the markets become overbought; even developed economies have not traded beyond these levels; over an extended period markets do not trade beyond 200 and mean revert.

Exhibit 79: US market cap % of GDP

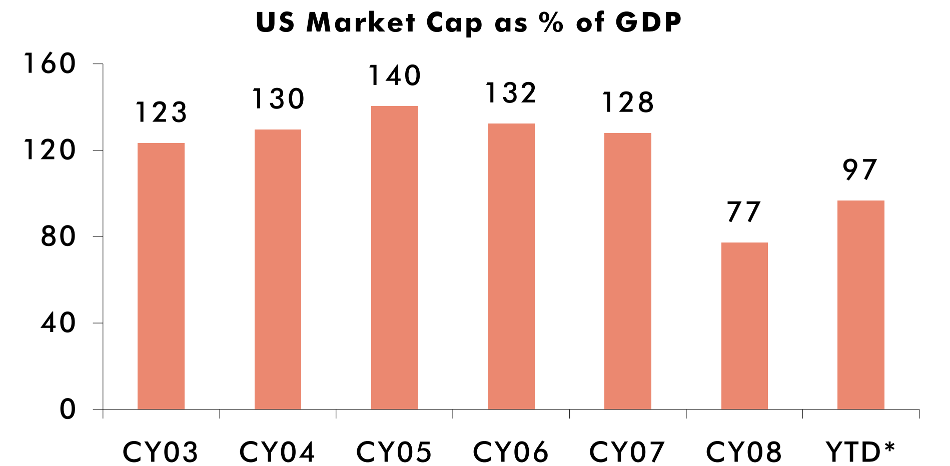
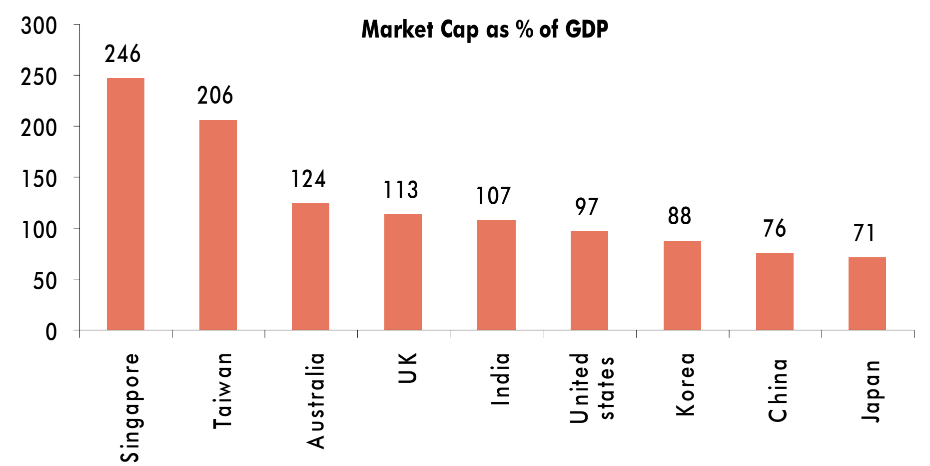


Exhibit 80: Market cap % of GDP



Source: Bloomberg, Ambit Capital Research

Sectoral market cap movement

Services key mcap. drivers

- We have analysed the sectoral market cap over last two decades
- With reforms initiated during 1993-94, we saw market cap of the Information Technology sector moving at 62% CAGR during 1994-2004 , other sectors which have yielded higher returns were Power, at 37% and Pharma, at 23% CAGR.
- Nifty, over the similar period, delivered 17% CAGR returns while market returns – ex-financials, were at 17%
- Over 2004-2009 the sectors which have delivered the highest returns CAGR are Power at 78%, Telecom at 50% , Steel at 46% and Capital Goods at 46%
- Real estate was the clear outlier, as the housing boom picked up resulting in returns CAGR of 136%
- Nifty, over the similar period, delivered 28% CAGR returns while market returns – ex-financials were at 27%

Exhibit 81: Market cap of sectors 1994 to April 2004

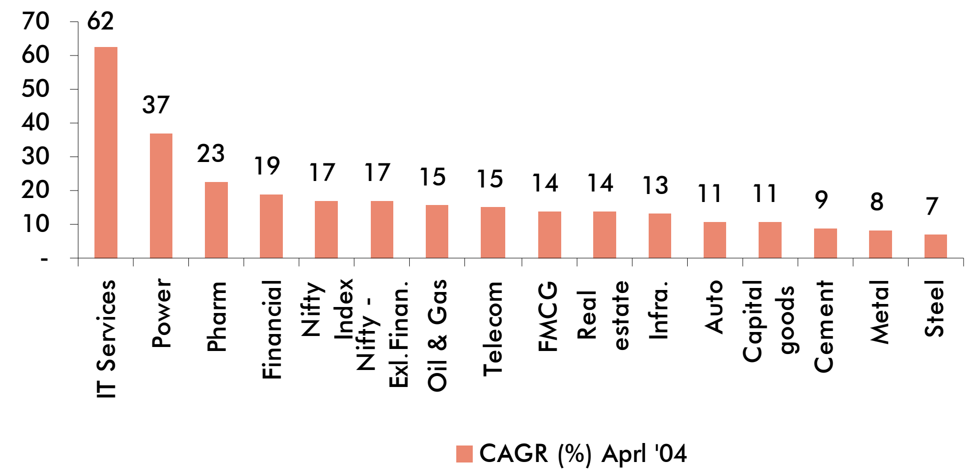
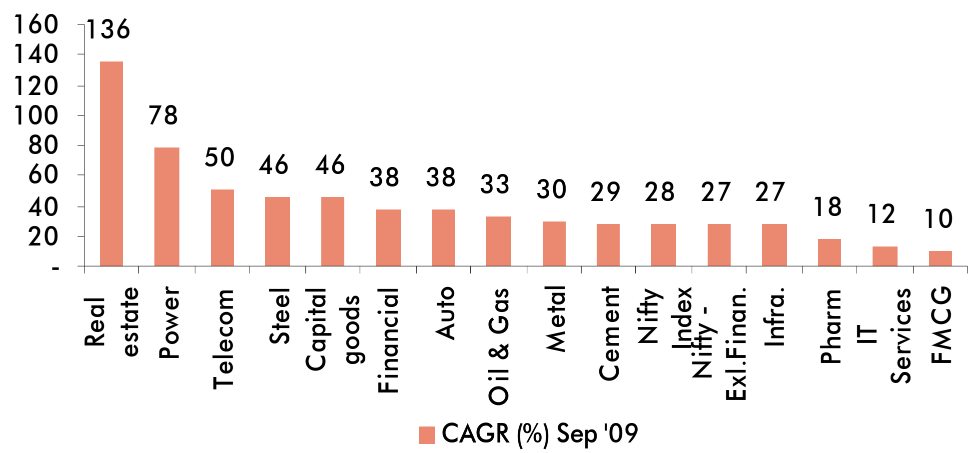


Exhibit 82: Market cap of sectors post April 2004



Source: Capital line, Ambit Capital Research

FII and MF flows

Liquidity driving markets

Exhibit 83: FII investments - India

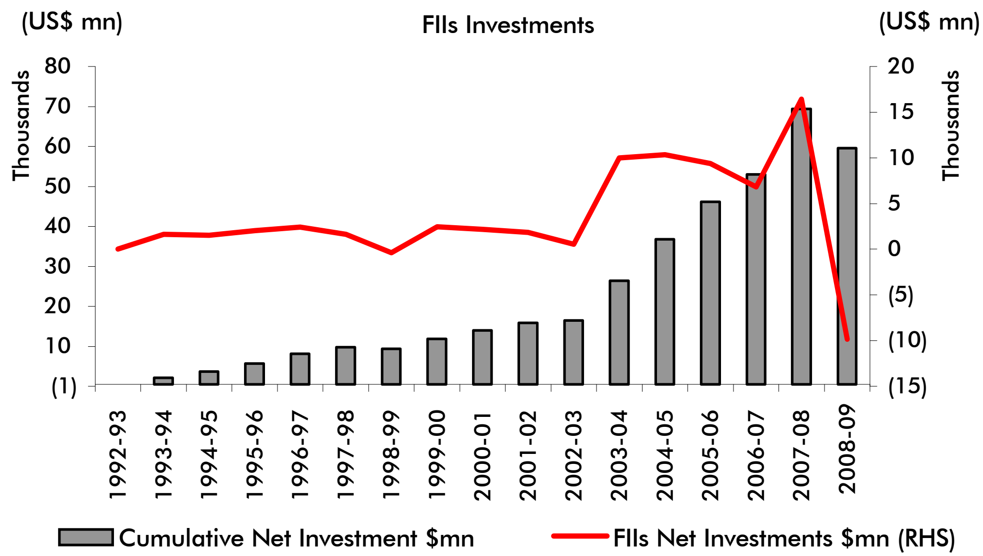
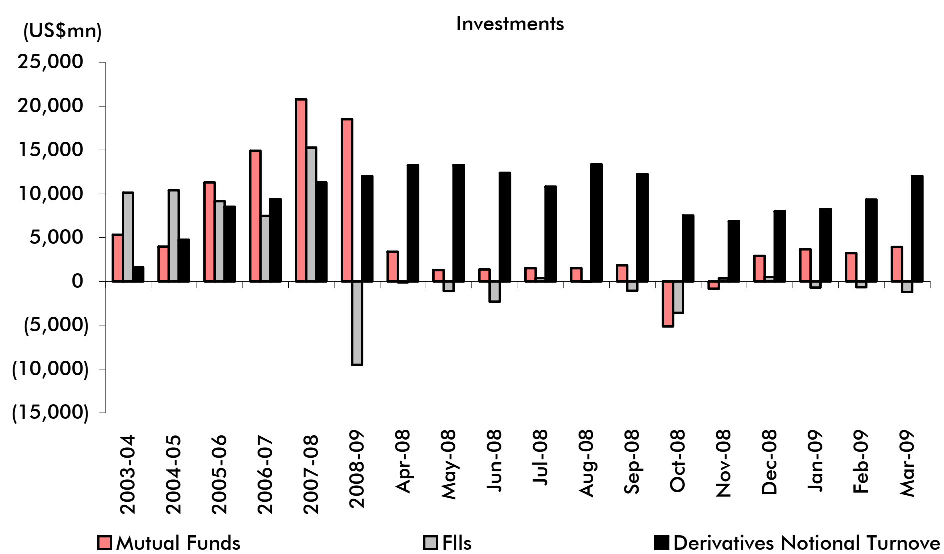


Exhibit 84: India investments



Source: SEBI Annual report, Ambit Capital Research

- FII investment in India has grown at a 25% CAGR during 1994-2009 to US$59bn
- Domestic institutions have invested (equity+debt) US$18.5bn in markets during FY09 while FIIs had withdrawn about US$9.5bn (equity+debt) over the same period. Apr'09-Dec'09 FII's have invested about US$ 21.7bn in markets while Domestic institutions invested US$3.2bn over the same period.
- Derivatives' notional turnover has also grown and as of 2008-2009 stands at US$12bn. Most recent derivatives turnover as of Mar 2009 is US$12bn

Sensex performance v/s EMs

Valuation

Exhibit 85: Sensex % prem./disc. To EM

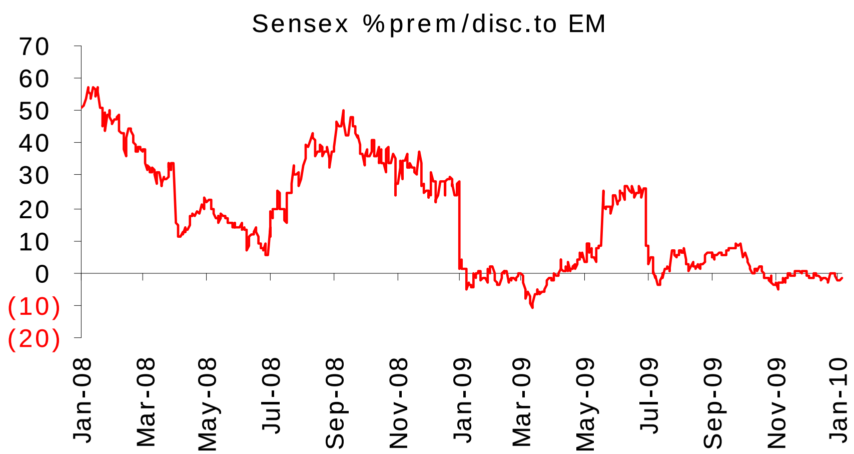
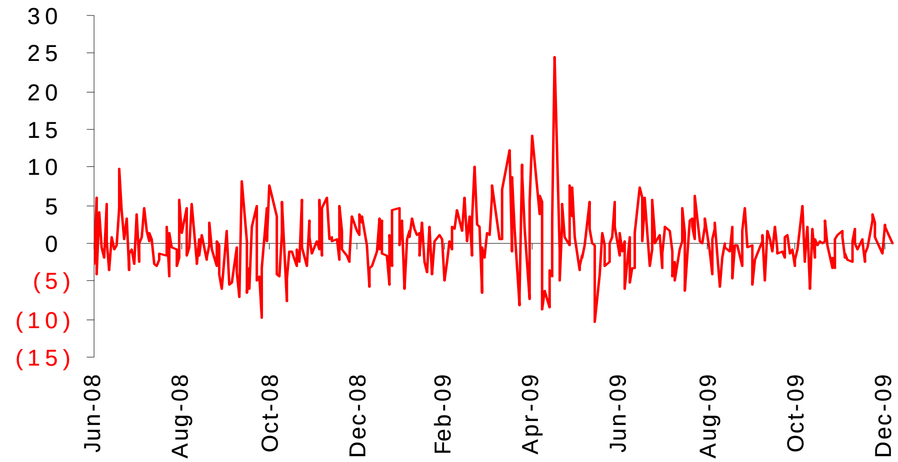


Exhibit 86: 6m forward Sensex relative return to EM%



Source: Bloomberg, Ambit Capital research

- Sensex P/E premium over emerging markets (EM) has vanished and now it trades at a marginal discount to EMs
- Sensex has outperformed EMs as it has delivered positive 6-mth forward relative returns v/s EMs

Disclaimer

1. If you are dissatisfied with the contents of this complimentary Report or with the terms of this Disclaimer, your sole and exclusive remedy is to stop using the Report and AMBIT Capital Private Limited (“AMBIT Capital”) shall not be responsible and/ or liable in any manner.
2. This Report has been issued by AMBIT Capital for the information of its clients/potential clients only.
3. If this Report is received by any client of an affiliate of AMBIT Capital, in addition to the provisions setout in this Disclaimer, its provision to the recipient is subject to the terms of business in place between the AMBIT Capital and such affiliate.
4. AMBIT Capital is a Stock Broker registered with Securities and Exchange Board of India Limited (SEBI) and so it is regulated by SEBI.
5. This Report is not and should not be construed as an investment advice to any client to acquire, subscribe, purchase, sell, dispose of, retain any securities or an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment.
6. If ‘Buy’, ‘Sell’, or ‘Hold’ recommendation is made in this Report such recommendation or view or opinion expressed on investments in this Report is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this Report are those of the analyst which are subject to change and do not represent to be an authority on the subject. AMBIT Capital may or may not subscribe to any and/ or all the views expressed herein.
7. AMBIT Capital makes best endeavor to ensure that the analyst(s) use current, reliable, comprehensive information and obtain such information from sources, which the analyst(s) believes to be reliable. However, such information has not been independently verified by AMBIT Capital or the analyst(s).
8. The information, opinions and views contained within this Report are based upon publicly available information and rates of taxation at the time of publication, which are subject to change from time to time without any prior notice. Reports may be updated anytime without any prior notice to any and/ or all client(s).
9. AMBIT Capital makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or current ness of the information in this Report.
10. Please note that past performance is not necessarily a guide to evaluate future performance.
11. AMBIT Capital and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this Report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment).
12. Affiliate(s) of AMBIT Capital may from time to time render advisory and other services to companies being referred to in this Report and receive compensation for the same.
13. AMBIT Capital may act as a market maker or risk arbitrator or liquidity provider or may have assumed an underwriting commitment in the securities of companies discussed in this Report (or in related investments) or may sell them or buy them from clients on a principal to principal basis or may be involved in proprietary trading and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented in the supervisory board or on any other committee of those companies.
14. AMBIT Capital may sell or buy any securities or make any investment, which may be contrary to or inconsistent with this Report.
15. This Report should be read and relied upon at the sole discretion and risk of the client.
16. The value of any investment made at your discretion based on this Report or income there from may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suiExhibit for all investors.
17. This Report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this Report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other country including United States (to US Persons), Canada or Japan or to any resident thereof. The distribution of this Report in other jurisdictions may be strictly restricted and/ or prohibited by law, and persons into whose possession this Report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition.
18. Neither AMBIT Capital nor its affiliates or their directors, employees, agents or representatives, shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this Report or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the Report or inability to use or access our service or this Report or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits or any loss or damage that may arise from or in connection with the use of or reliance on this Report or inability to use or access our service or this Report.

Thank You

Ambit Capital Pvt Ltd.
Ambit House, 3rd Floor,
449, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India.
Phone : +91-22-3043 3000, Fax : +91-22-3043 3100