

India Update



Market Overview

- Indian equities fell in May as risk aversion rose sharply amid continuing fears over the European debt crisis.
- Exports accelerated in April on the back of the global recovery generally, but monthly industrial production slowed.
- The central bank will gradually remove monetary stimulus because of escalating inflationary pressures.
- In policy news, the government proposed a US\$11 billion fund for infrastructure needs; separately, it blocked the import of telecom equipment made by Chinese companies, citing security concerns.

Model Portfolio News

There were no major changes to the portfolio in May.

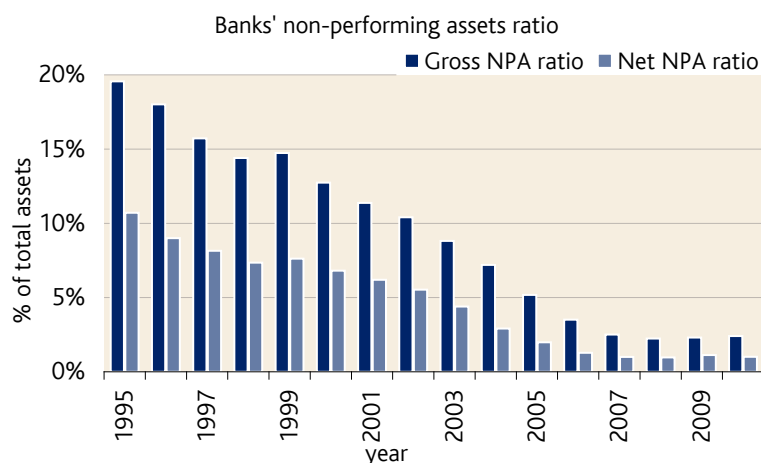
Corporate News

ABB India's parent will buy the company's shares at a significant premium, offering 900 rupees a share to lift its stake in the Indian unit to 75%. **Piramal Healthcare** plans to sell its domestic formulations business to US-based Abbott Labs for US\$3.7 billion to focus on contract manufacturing and anaesthetics. **Godrej Consumer Products** completed the acquisition of the 51% of Godrej Sara Lee it did not own from its joint venture partner, consolidating its position in the Indian fast-moving consumer goods space. **ICICI Bank** will buy Bank of Rajasthan in a move that will add over 460 branches to its network.

Our holdings posted positive results: **HDFC** full-year results benefited from solid loan growth and **Grasim** gained from healthy cement demand.

We hold the companies highlighted above.

Focus – A tight leash on bad loans



Source: Citi Investment Research - India Macroscope, 20 May 2010, RBI, CIRA

The domestic banking sector remains healthy. Although non-performing loans have crept up, they are well below their peak of the mid-1990s. This is due largely to strict regulatory oversight, ample reserve requirements and a domestic focus (with minimal reliance on offshore funding). This bodes well for our bank holdings, which include ICICI and HDFC Bank.

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