



# India Update

## Market Overview

- Indian equities lagged the broader regional benchmark in July, as the larger-than-expected interest rate hike, which overshadowed upbeat economic data and corporate results, affected sentiment.
- Headline inflation stayed in the double-digit region for a fifth month, with core inflation continuing to rise. The central bank hiked its key policy rate from 5.25% to 5.50% to address rising price pressures.
- In politics, the opposition organised a one-day protest against the government's liberalisation of fuel prices. In other news, the authorities will conduct banking sector stress tests every six months.

## Model Portfolio News

There were no major changes to the portfolio in July.

## Corporate News

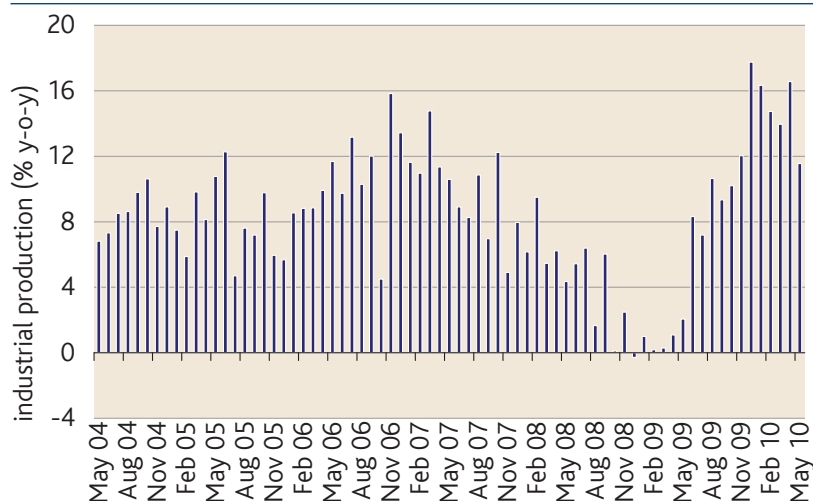
Our holdings generally benefited from solid domestic demand in the quarter ended June. They included lenders **HDFC** and **HDFC Bank**, as well as drugmaker **GlaxoSmithKline India**. Consumer sector holdings **Hindustan Unilever** and **Hero Honda** also enjoyed better sales growth but profits were pared from rising costs.

Conversely, **Container Corporation** and **ABB India** suffered from pricing pressure and higher costs. Software company **Infosys'** profits were affected by salary hikes but we were encouraged by the recovery in IT spending, as well as the company's guidance for better earnings for the full year.

In other news, **Piramal Healthcare** will sell its non-core diagnostics business and **Tata Power** will sell stakes worth US\$300 million in two units that own Indonesian coal mines.

We hold the companies highlighted above.

## Focus – Industrial output moderates



Source: CSO/CitiGroup - India Macroscope (India's Growing Labor Force - Boon or Bane?), 23 Jul 10

May industrial production remained positive, but growth fell below market expectations particularly in the capital and consumer goods segments. There is no cause for concern yet, however, given that in absolute terms expansion in factory production is still in double digits.

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