INDIAN ECONOMY

The Indian economy is the fourth largest economy of the world on the basis of Purchasing Power Parity (PPP). It is one of the most attractive destinations for business and investment opportunities due to huge manpower base, diversified natural resources and strong macro-economic fundamentals. Also, the process of economic reforms initiated since 1991 has been providing an investor-friendly environment through a liberalized policy framework spanning the whole economy. India has been ranked 17th in financial market sophistication, 24th in terms of banking sector, 39th in innovation, 44th in business sophistication and 51st in global competitiveness.

Indian economy acted as per the expectations in the year 2010-11. In the second half and last quarter of the fiscal year, the Indian economy witnessed a substantial deceleration in growth consequent to the high inflation rate & lower rate of growth of manufacturing output and other industrial subsectors. The financial markets witness high volatility on account of direction and magnitude of foreign capital flows and movement in industrial production and inflation. In present scenario, inflation is a major challenge in front of the government. Inflation was elevated through the year caused by soar in the prices of some vegetables and fruits; augment in the prices of international crude oil etc.

On the external front although the outlook for global economy continues to improve, downside risks are many and varied. Europe’s debt problem, Downgrade of US credit rating, elevated commodity prices, overheating in certain emerging markets and geopolitical tensions are some of the major risks that have the potential to derail the global recovery.

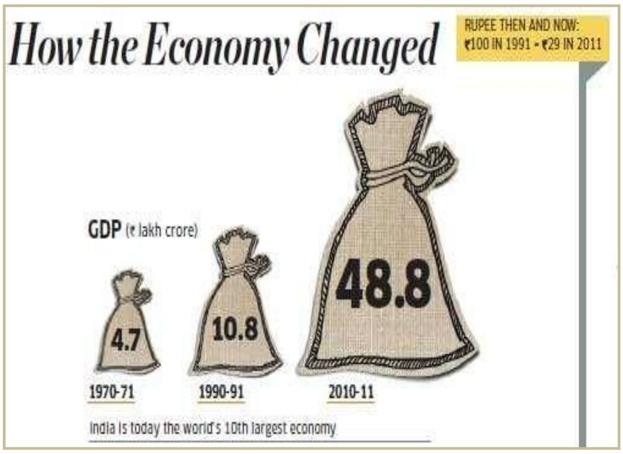
Recently, the United States lost its top-notch triple-A credit rating from Standard & Poor's. S&P cut the long-term U.S. credit rating by one notch to AA-plus on concerns about growing budget deficits. The downgrade of US Credit affected severely on US as well as global market. The Dow Jones industrials fell 634.76 points, the first trading day since S&P downgraded American debt. Crude oil, natural gas and other commodities fell sharply on worries that a weaker global economy will mean less demand. Oil fell 6.4 percent to $81.31 per barrel, its lowest price of the year. Only Gold set a record. It rose $61.40 an ounce to settle at $1,713.20. Europe’s debt crisis is also an immense concern.

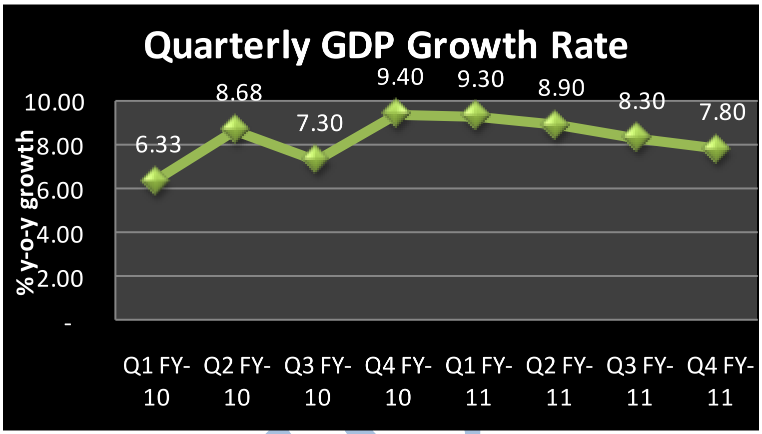
The infrastructure improvement in India is vital as Infrastructure will be both a cause and a consequence of economic growth. Liberalization of Foreign Direct Investment regulations, extended tax holiday periods and introduction of Public Private Partnership (PPP) are some of the factors that have led to the growth of infrastructure sector in India. The economic growth would be slower than government projections on account of high inflation, rising rates and global financial turbulence etc.

According to an Ernst & Young Rapid Growth Markets (RGMs) forecast, starting in 2013, India's real GDP growth rate will be the highest among all the RGMs - at 9.5%, followed by China at 9%. In 2014, India is expected to see an expansion of 9% while China will see a growth of 8.6%.

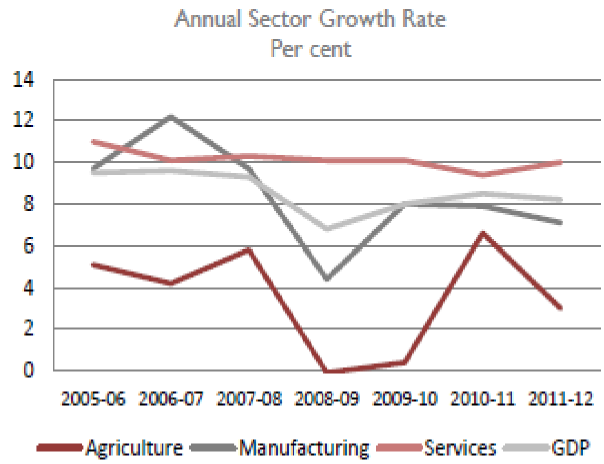
GDP

Indian economy is World's fourth largest (after US, China and Japan) in terms purchasing power parity (PPP) which is $ 4.06 Trillion and world's tenth largest economy in terms of nominal GDP, which is $1.53 Trillion. India is positioned at 54th place with a real per capita GDP of $3,298 in 2010.





Source: CSO

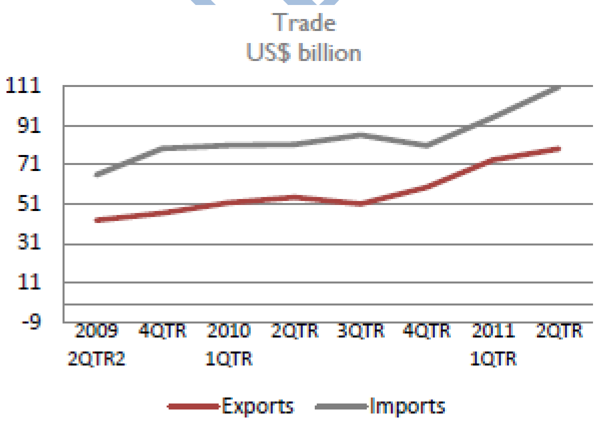


Source: PMEAC

The GDP growth rate indicates the growth of an economy. The fourth quarter of 2010-11 highlights the GDP growth rate of 7.80 percent which has pulled down on account of the poor data shown by manufacturing and mining sectors. Traditionally, from Q1 of FY-10 until Q4 of FY-11, India's GDP growth rate witness high of 9.40% in Q4 of FY-10 and low of 6.33% in Q1 of FY-10.

Indian economy has been growing at an average annual rate of 5.8% for the last two decades. The chart depicts the GDP growth rate has decelerated in all quarter of 2010-11. In Q1 of FY 11, the GDP growth rate recorded at 9.30 percent, but afterwards the growth rate started to plunge and reached to a level of 7.80 in Q4 of FY 11.

TRADE

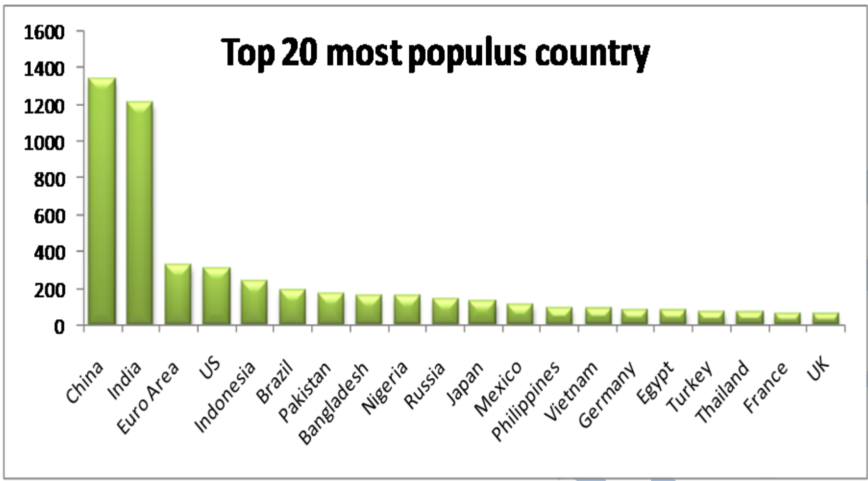


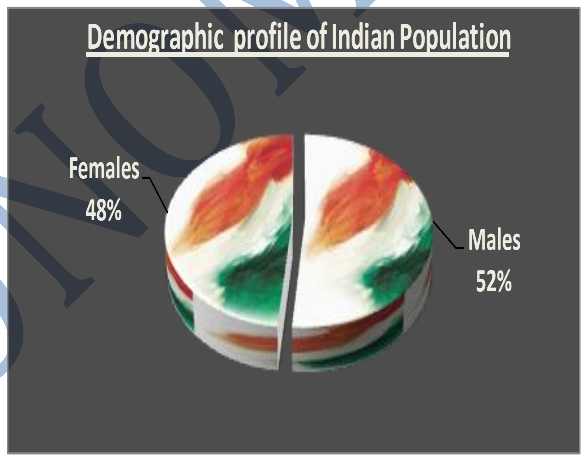
Source: CSO

Both India's Export and imports have recorded consistent growth. In September 2011, India's exports maintained their growth momentum, rising by 36 per cent year-on-year to $ 24.8 billion while imports grew by 17 per cent year-on-year to $ 34.6 billion. Exports amount to 22% of India's GDP. Services sector has been a major contributor to increased exports from India while the petroleum products are the major contributors towards India's growing import.

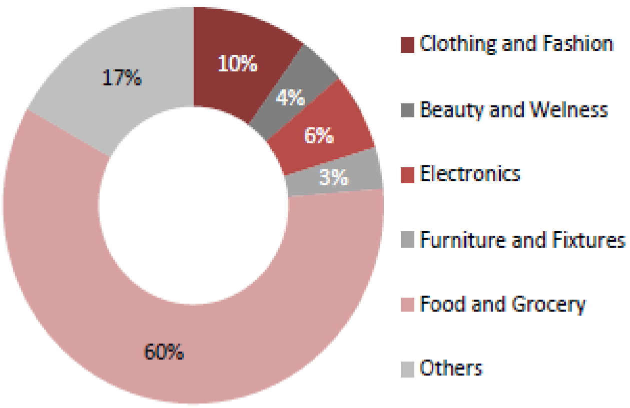
POPULATION

India is the second most populous country in the world with 1.21 billion people while **China** is on the top with over 1.35 billion people. India represents almost 17.31% of the world's population. Now India has as many people as the United States, Indonesia, Brazil, Pakistan, Bangladesh and Japan put together. India's population in 1901 was about 0.24 billion, which has increased by more than four times in 110 years to reach a population of 1.21 billion in 2011. The total male and female population in India is 0.62 billion and 0.59 billion respectively. The sex ratio is 940 females per 1,000 males. This grown about 0.75 percent in last 10 years. In 2001, the sex ratio was 933. According to the 2011 Census, 56.9 per cent of India's total population comes in the 15-59 age groups, which implies higher number of young people in the country. About 72 percent of the population lives in villages and the rest 28 percent in towns and urban agglomerations.





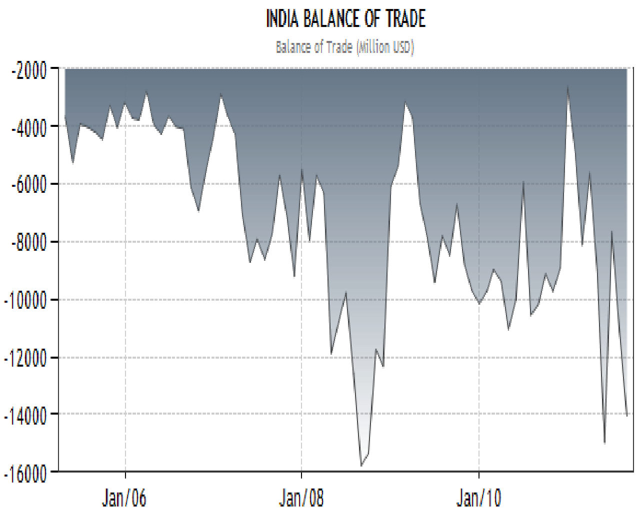
CONSUMER SPENDING



Source: India Retail market, August 2010, Deloitte

India is the second most populous country in the world with 1.21 billion people. The chart highlights India's consumer spending in various segments. The consumer spending in Food and grocery segment is highest compared to other segment. The Food and grocery segment contribute 60 percent share while Beauty and Clothing contribute 17 percent and 10 percent share respectively.

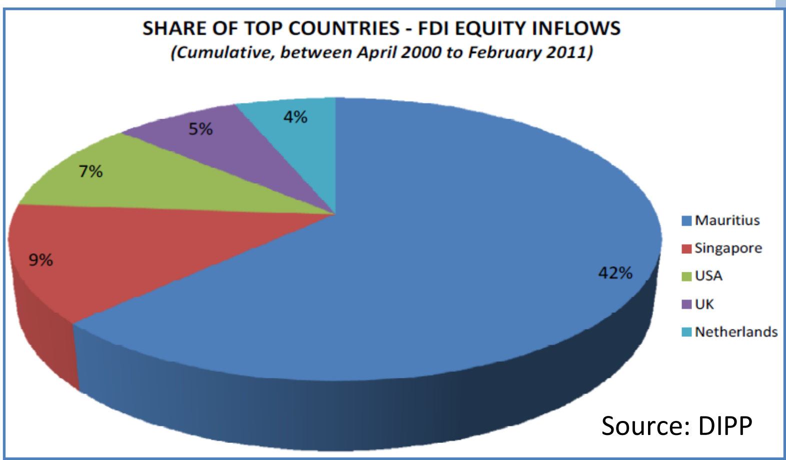
BALANCE OF TRADE



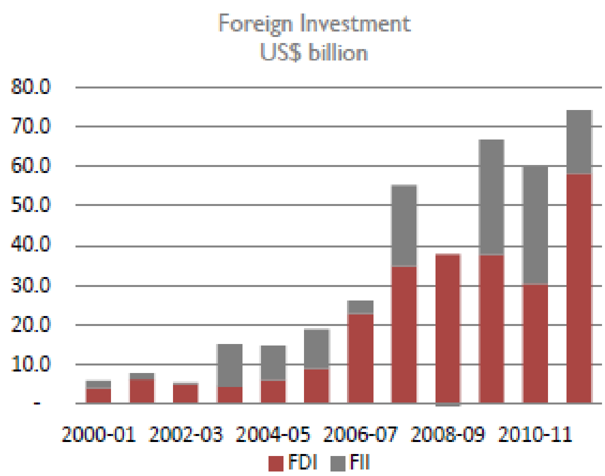
In August 2011, India reported a trade deficit of $ 14041 Million. India is leading exporter of gems and jewelry, textiles, engineering goods, chemicals, leather manufactures and services. For the energy need, India is heavily dependent on coal and oil. India is importing more than 70 percent of oil from the foreign countries. Few factors which are severely impact on trade deficit are increase in the oil prices, stronger dollar etc. Along with the oil, India is importing products such as machinery, gems, fertilizers and chemicals. The main trading partners are European Union, United States, China and UAE.

INVESTMENT

Foreign direct investments have become the major economic driver of globalization. FDIs not only gives foreign capital and funds, but also facilitate domestic countries with an exchange of skill sets, information



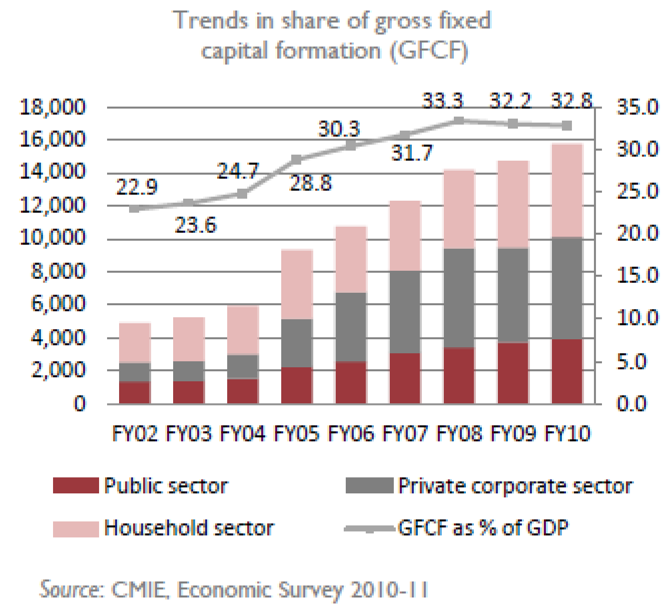
and expertise, job opportunities and improved productivity levels. Economies like China, South Korea, Singapore and the Philippines benefitted enormously and experienced high levels of economic growth at the onset of foreign direct investment into their economies. India has received maximum FDI from countries like Mauritius (42%), Singapore (9%), and the USA (7%) during April 2000 - Feb 2011.



Source: DIPP. *expected as per actual till July 2011

The chart highlights the total foreign investment (FDI and FII) for the period from 2000-01 to 2011-12. The FDI investment is increasing year on year. The total foreign investment is likely to be reach at $ 74 billion in 2011 - 12.

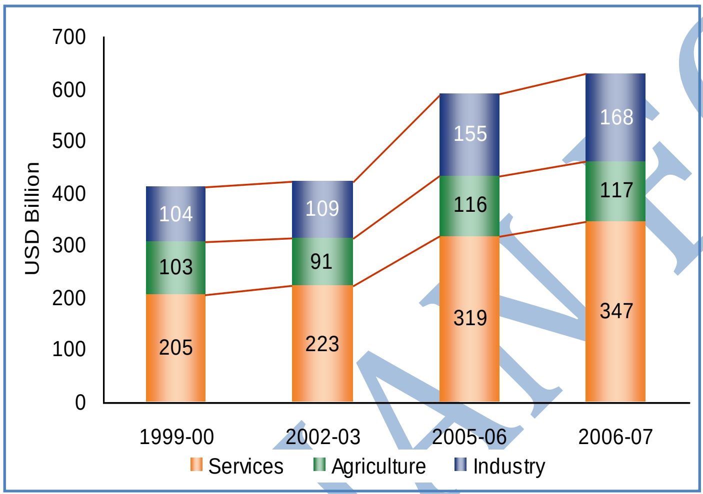
CAPITAL FORMATION

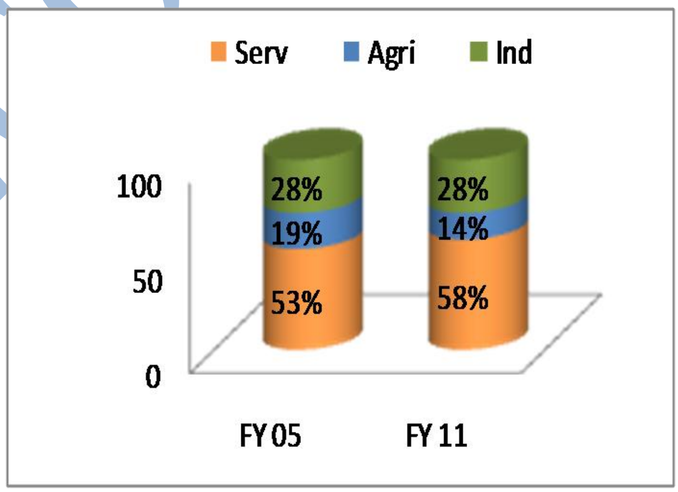


The chart depict trends in share of grow fixed capital formation from FY 02 to FY 10. The contribution of private corporate sector has increased tremendously while the household sector shows somewhat stable contribution throughout the past 7 years. The gross fixed capital formations as a % of GDP shows increasing trend.

GROWTH ENGINES

Historically, agriculture was the major source of economic growth but now the trend has permuted. At present, services are the major source of economic growth accounting for more than half of India's output.





Service sector is the largest in terms of annual GDP contribution equal to 54% followed by agriculture 28% and industrial sector 18%.

The economy has recorded an unprecedented growth on account of booming services and industry sector. The chart highlights the performance of industry segment from 1999 – 00 to 2006-07. The contribution of services sector has increased from 50 % in 1999 – 00 to 55 % in 2006-07. Also the contribution of Industry sector has increased from 25 % in 1999 – 00 to 27 % in 2006-07. The contribution of Agriculture sector has decreased from 25 % in 1999 – 00 to 19 % in 2006-07.

The share of the service sector in India's GDP has increased from 53% in FY 05 to 58% in FY 11. The share of agriculture sector has reduced from 19 % in FY 05 to 14% in FY 11. The industry sector has recorded constant share of 28 %.

CAPITAL MARKET

Bombay Stock Exchange is the fourth largest capital market in Asia and eighth largest in the world. Indian economy managed the downturn of 2008 better than most, based on its robust domestic market. But since then, India has suffered some jolts, such as galloping inflation, a downgrading of its growth forecast, a string of corruption scandals that undermined its credibility etc. In 2010, Equity markets across the world delivered positive returns, even though sovereign issues in Europe caused periods of market volatility.

INFLATION

Inflation has become a household name for millions of Indians who are finding it extremely difficult to make both ends meet. Prices are growing faster than the household income almost for all products and services including real estate, food, transportation, luxuries.

India's most closely watched inflation gauge, the Wholesale Price Index (WPI) stayed well above the RBI's comfort zone at more than 9% in September, underscoring India's difficulty in bringing down stubbornly high inflation.

The policymakers are also worried with it as it is evident from the various policies being declared quarterly to curb it. For the last two years India is witnessing double digit food inflation which had reached a high of around 18% in December 2010 with prices of onions, garlic and tomatoes skyrocketing. Lentils, milk and meat have witnessed a steady rise in prices which is putting pressure on the home budget of millions of Indians. Millions of poor people in India are struggling to arrange a two-square meal for their family members. We are running the risk of having an entire generation of malnourished children who are otherwise considered the future of India. WPI headline inflation and non-food inflation have moderated to 7.5 percent YoY and 7.9 percent YoY in November 2010 from the peaks of 11 percent YoY and 8.9 percent YoY (in April 2010) respectively. Recently, Reserve bank of India raised repo and reverse repo rate in a bid to tame inflation. But a big question is whether these measures actually tame inflation or choke the growth rate. India's inflation rate is the fastest after Russia among major emerging economies.

SECTOR UPDATE

IT

The Information Technology (IT) industry has played a crucial role in putting India on the global map. Between April 2000 and February 2011, the computer software and hardware sector received cumulative foreign direct investment (FDI) of US$ 10,705 million.

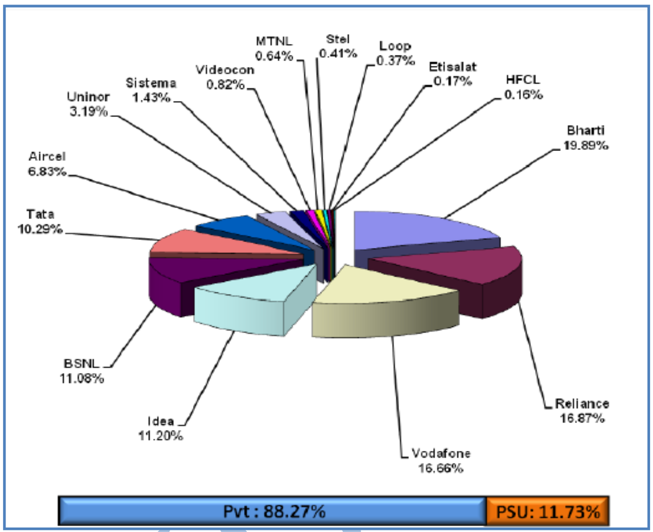
Auto

The Indian automobile industry, the seventh largest in the world, has demonstrated a phenomenal growth. The automobile industry contributes 22 per cent to the manufacturing GDP and 21 per cent of the total excise collection in the country. With the gradual liberalization of the automobile sector since 1991, the number of manufacturing units in India has grown progressively. Presently, 100 per cent Foreign Direct Investment (FDI) is permissible under automatic route in this sector.

Telecom

The Indian telecommunication network is the third largest in the world and the second largest among the emerging economies of Asia. In the month of February 2011, more than 20.2 million new subscribers were added; thereby the total mobile phone subscription is 791.38 million. The telecom sector is largely dominated by private operators which control a share of 88 per cent of the entire sector. Among the top players in the telecom sector, Bharti Airtel hold the prime share at 19.89 per cent, followed by Reliance (16.87 per cent), Vodafone (16.66 per cent), Idea (11.20 per cent)and BSNL (11.08 per cent).

Market share of service provider as on 31-Jul-2011



Source: TRAI

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