NextGen India Investments

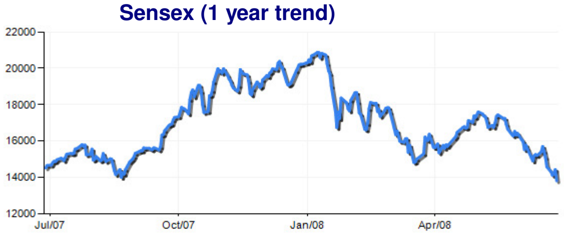
Market Outlook
Underweight (UW)

Equity Strategy

29 June 2008

BSE Sensex	13,802

Sensex (1 year trend)



BSE Sensex Performance (%)	1m	3m	12m
Absolute	-12.6	-14.2	-4.3

Key Indicators	Sensex	BSE-100
PE	18.2	18.7
P/BV	4.1	4.3
Div. Yield (%)	1.1	1.1

Energy and Precious Metal	
Crude Oil Futures (USD/bbl)	122.3
Gold 100 OZ FUTR (USD/t oz.)	867.9

Forex and Money Market	
India GSec Yield (10 Year %)	8.2
USD/INR	42.4

Issuer of the report: NextGen India Investments
Tel: +1 647 478 7735
Email: research@nextgeninvestment.com

India Equity Market Update 2008

Higher oil prices to trigger fall in Indian rupee; equities to decline further

Equities: Negative Outlook

In our February 2008 newsletter we revised BSE Sensex target to 14,000, since Sensex has met the target the new downside target is revised at 12,000.

Higher energy prices and interest rates to impact profitability

Persistently high oil prices may make some business models unviable, increasing losses in corporate sector. The reason for high inflation is increase in prices of non-discretionary goods (oil, fertilizers and agri-commodities). Though it seems that fall in equity valuations reflect high oil prices, the impact of monetary tightening (high interest rate) and high inflation is yet to be discounted by Indian markets.

Global economy: Delicately poised

Financial asset price readjustment due to past expansionary monetary policies may continue for some more time. Till that time, physical asset class (oil, fertilizers, gold, agri commodities) may continue to over perform; risk aversion from equities is expected to increase.

Indian equities: Higher risk premium warranted

Political uncertainty in India, absence of reforms, increase in global geo-political risks (Middle East Asia) indicate higher risk premium for Indian equities.

Equity valuations: Going forward

Market may remain subdued till parliament election next year. Sectors related to infrastructure and industrial growth may underperform, while companies having stable and predictable cash flows would outperform. Mid caps and small caps may see unexpected price levels on downside. Change in market sentiment to negative is assisting in keeping expectations low. Market recovery would be U shaped indicating longer consolidation period.

Market outlook: Negative

Downside target is revised to 12,000

We initiated the discussion about being cautious on Indian equities in November 2007 (Sensex at 19000) and a downside target of 16000 was set; later the target was revised to 14000 (February 2008). Since the Sensex has achieved the target of 14000, its time for another review. Now, the downside target is revised to 12000. As expected, the adverse impact of high energy prices on Indian equity prices with lag effect and influence of sub-prime on Indian equities have been driving the markets.

Higher energy prices and interest rates to impact profitability

High energy prices to increase current account deficit and trigger fall in currency

Persistently high oil prices may make some business models unviable, increasing losses in corporate sector. For Indian economy, it is resulting in high current account deficit (similar to the levels of 1992), though the Forex reserve position is much better than 1992 still constantly high current account deficit often becomes reason for large outflow from capital account (Forex reserve). High fertilizer prices may further put pressure on current account balance. It may result in further depreciation in rupee and may adversely impact equity prices

The reason for high inflation is increase in prices of non-discretionary goods (oil, fertilizers and agri-commodities). It is uncertain that how hike in interest rates would manage such high inflation? Insufficient focus on supply side economics of non-discretionary goods may put further upward pressure on prices of these goods.

Impact of monetary tightening is yet to be discounted in equity prices

Though it seems that fall in equity valuations reflect high oil prices, the impact of monetary tightening (high interest rate) and high inflation is yet to be discounted by Indian markets. In addition to impacting equity discounting (P/E) these factors also impact corporate profits, resulting in further downward pressure in equity prices.

Global economy: Delicately poised

Global risk aversion from equities to increase

Globally, financial assets (equity, bonds and currency) continue to be delicately poised. Financial asset price readjustment due to past expansionary monetary policies may continue for some more time. Till that time, physical asset class (oil, fertilizers, gold, agri commodities) may continue to over perform. Further write-downs and job cuts in US may initiate contagious effect impacting corporate profits and increasing risk aversion from equities.

Indian equities: Higher risk premium warranted

Central banks' expansionary monetary policies to lead new bubble

For India, any potential liquidity constraint for any influential FII may trigger a temporary sell-off. Political uncertainty in India, absence of reforms, increase in global geo-political risks (Middle East Asia) indicate higher risk premium for Indian equities. Valuations of Indian equities continue to be high as per historical standards. Traditionally monsoon has been important for market sentiment. In case it is good, then the impact may be neutral; however in the case its below par the impact may be adverse.

Equity valuations: Going forward

Markets to remain subdued. Sectors related to industrial growth may underperform

Market may remain subdued till parliament election next year. Banks, infrastructure, capital goods, and real estate sectors may underperform the broad market. Pharmaceuticals may outperform due to low valuation, stable cash flows, high dividend yield and defensive nature. It is not yet the time for bottom picking until adverse news-flow from international markets stops and there is stability in Indian rupee. Companies and sectors (hospital, hospitality, media and logistics) witnessing structural changes may become attractive with long term perspective. However lack of earning visibility for these sectors may drift valuations quite low and may present opportunity for bargain hunting with long term perspective. A larger proportion of mid-caps and small-caps may see unexpected price levels on downside. Liquidity constraints may prevail in these counters.

Recovery to take time therefore U shaped

A positive aspect of current fall is change in market sentiment to negative. Majority of market players are negative, a precursor for establishing long term bottom, though the condition of extreme pessimism is still far away. Further underlying fundamentals (global economic fundamentals, domestic external accounts and prospects of corporate profitability) are still witnessing change. It indicates that recovery would be U shaped (rather than V shaped) and would take time to establish bottom; therefore it is prudent to wait for the market to bottom out rather than buying in small lots in falling markets. Markets would technically indicate establishing such bottom. During bottom forming process, Indian equities would follow its historical trend more than following global trend.

Due to consensus about the market fall, the fall from 14000 to 12000 may be gradual. Also the prevalence of numerous intermediate term technical support levels around 12000 may further decrease the intensity of fall.

APPENDIX I

Disclosure Section

Research Certification

NextGen India Investments is principally responsible for the preparation of this research report herby certifies that, all of the views expressed in this research report accurately reflect its views about the company or the market. In addition, any analyst of NextGen India Investments research group has not and will not receive any compensation from the subject company for providing a specific recommendation or view in this report. Clients of NextGen India Investments and analysts of NextGen India Investments research group may be holding equity shares of the subject company at the time of issuing this report therefore it is safe to assume that the research group may have vested interest in issuing the report. NextGen India Investments

Equity rating key for long-term investment opportunities

Stock ratings

NextGen India Investments assigns ratings based on relative rating system such as Overweight (OW), Neutral (N), Underweight (UW) and Not-Rated (NR). NextGen India Investments does not assign ratings of Buy, Sell or Hold to the stocks we cover. Overweight (OW), Neutral (N), Underweight (UW) and Not-Rated are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all the ratings used in NextGen India Investments Research. In addition, since NextGen India Investments Research contain more comprehensive information concerning analyst views, investors should carefully read NextGen India Investments Research, in its entirety, and not infer the contents from the rating alone. In any case ratings (or this report) should not be relied as an investment advice.

Rating definitions

Overweight (OW) – The stock's total return is expected to exceed the total return of the MSCI India Total Return Index, on a risk adjusted basis over the next 12-24 months
Neutral (N) – The stock's total return is expected to be in line with the total return of the MSCI India Total Return Index, on a risk adjusted basis over the next 12-24 months
Underweight (UW) – The stock's total return is expected to be below the total return of the MSCI India Total Return Index, on a risk adjusted basis over the next 12-24 months
Not-Rated (NR) – Currently we do not have adequate conviction about the stock's total return relative to the MSCI India Total Return Index, on a risk adjusted basis over the next 12-24 months
Unless otherwise specified, the time frame for price targets included in NextGen India Investments Research is 12 to 24 months.

Important Disclaimer

NextGen India Investments conducts India centric independent investment research. The firm does not have any investment banking or consulting relationship with the companies mentioned in this report. No trading commission or referral income is generated by issuing this report. Investors can refer terms of use at www.nextgeninvestment.com

Issuer of the report
NextGen India Investments
206-102, St. George Street
Toronto, ON M5R 2N6, Canada
Telephone- +1 647 478 7735
Website: www.nextgeninvestment.com

The information contained in this report is provided for information purposes only and does not constitute or form part of and should not be construed as an offer to sell or an invitation to subscribe or any invitation to offer to buy or subscribe to any securities. The information and opinions herein have been compiled or arrived at from current public information and sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to their accuracy, completeness and correctness. The right to change any such information, at any time, without notice, is fully reserved. Readers using the information contained herein are solely responsible for their actions and are advised to satisfy themselves before making any investments. Any analyst of NextGen India Investments research group, NextGen India Investments or Nextgeninvestment.com are not responsible for any losses/damages arising consequent upon using the information contained in this publication.

The risk of equity investments can be substantial. There may be high volatility, large losses on original investments, and high degree of psychological pressure for investor. Each investor must consider whether this is a suitable investment for him/her. Past performance is not necessarily indicative of future results. Analysts of NextGen India research group, NextGen India Investments, or NextGeninvestment.com do not represent or imply any performance level, results or guarantee in relation to any content nor do they make any claim that the use of this publication will result in a particular profit or prevent any loss for a user. In no event shall this publication be liable to any party for any damages including without limitation, any direct, indirect, special, punitive, incidental or consequential damages (including, but not limited to, damages for loss of business profits, business interruption, or loss of savings), or any other damages arising - in any way, shape or form - out of the availability, use, reliance on, even if this publication shall have been advised of the possibility of such damages, and regardless of the form of action, whether in contract, tort, or otherwise. Because some jurisdictions do not allow the exclusion or limitation of incidental or consequential damages, the above exclusions of incidental and consequential damages may not apply to you, but shall apply, in any event, to the maximum extent possible.

Some financial products described in this report are indexed to Bombay Stock Exchange, National Stock Exchange, S&P, Bloomberg, MSCI etc. These trademarks are owned by respective owners. The financial securities referred to herein are not sponsored, endorsed, or promoted by these entities and such parties bear no liability with respect to any such financial securities. Third party data providers make no warranties or representations of completeness or accuracy of the data mentioned in this publication and they shall not have any liability for any damages of any kind related to such data.

For detailed disclosure and terms of use please refer to www.NextGeninvestment.com.