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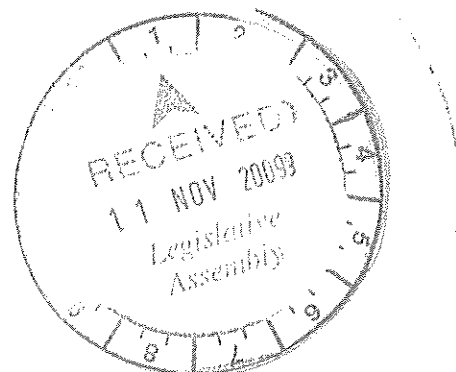
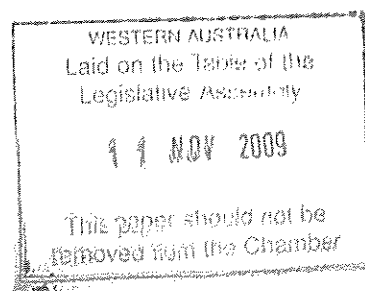
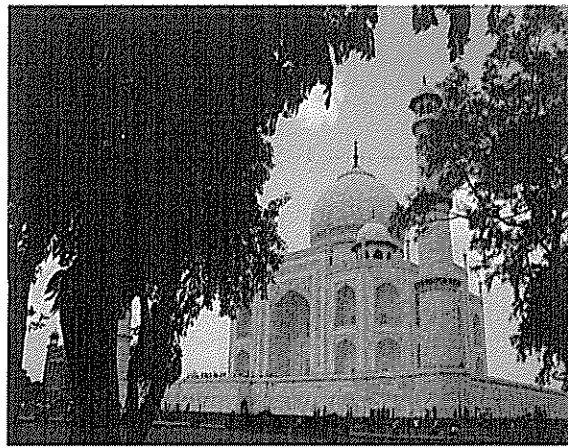
LOAN COPY

HON BRENDON GRYLLS MLA

*Minister for Regional Development; Lands
Minister Assisting the Minister for State Development
Minister Assisting the Minister for Transport*

INDIA VISIT REPORT

5 TO 11 SEPTEMBER 2009



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INTRODUCTION

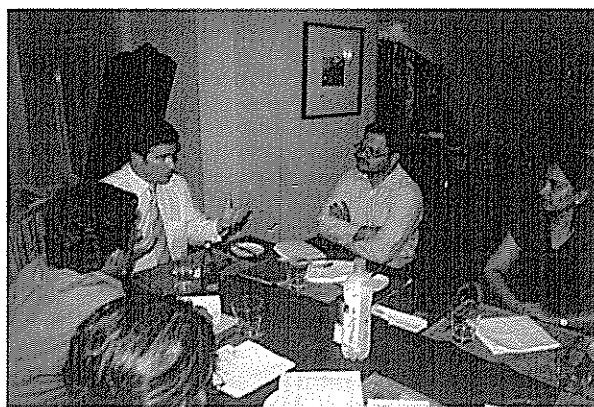
India is Western Australia's fifth largest trading partner with exports in 2008/09 totalling \$6.4 billion. Western Australia accounts for 58 percent of Australia's total exports to India. Exports from WA include gold, copper ores and concentrates, alumina and wool. In future years LNG exports from WA will further increase the level of exports to market.

Western Australia is India's preferred investment destination in Australia with Indian investment to date totalling \$680 million. In addition, committed Indian investment in Western Australian resources projects to date is \$14 billion with the Petronet LNG purchase from the Gorgon Project and the Perdaman coal-to-urea fertilizer facility development at Collie.

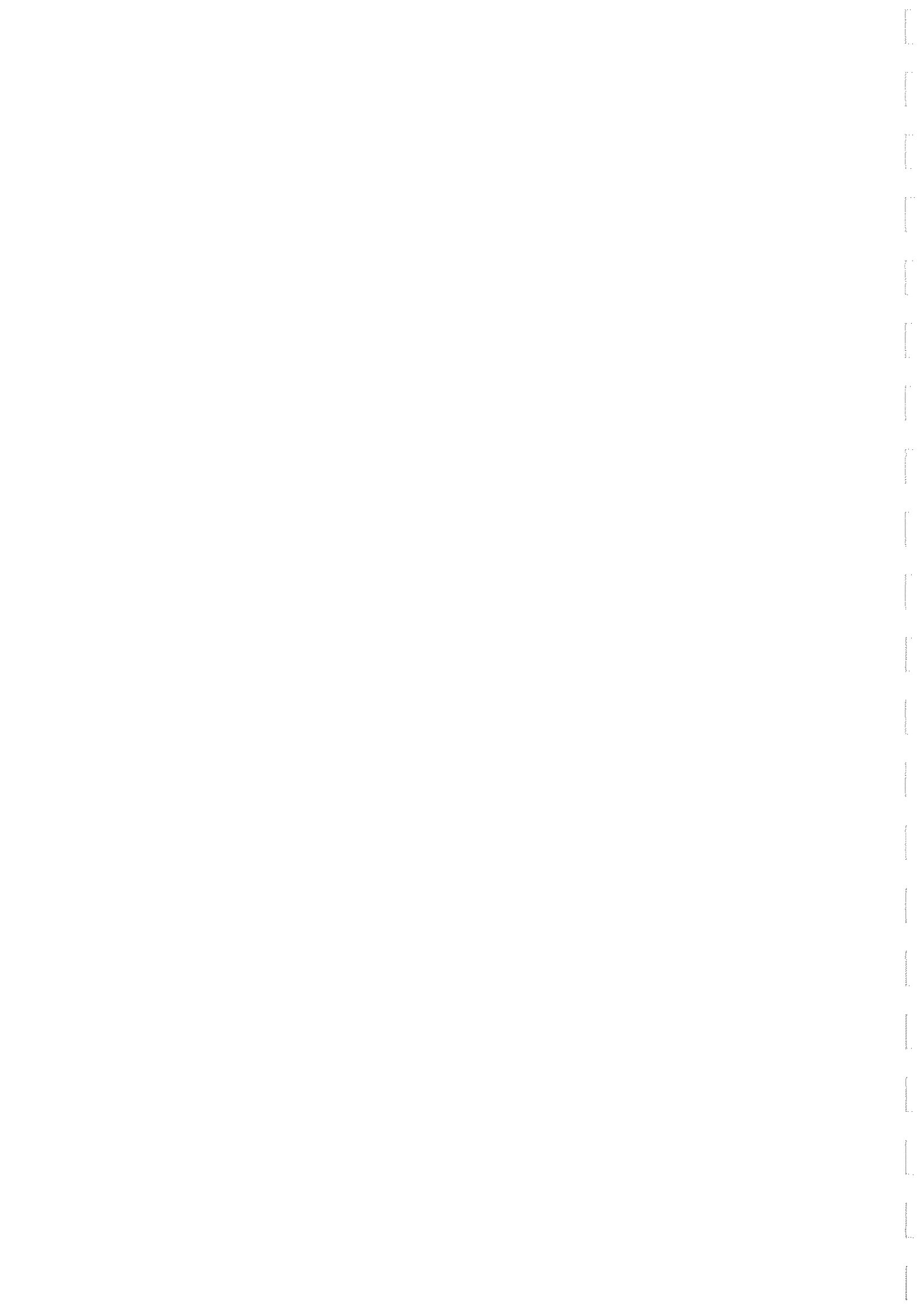
I undertook the visit to India on behalf of the Premier of Western Australia and Minister for State Development in my capacity as Minister Assisting the Minister for State Development.

The purpose of the visit was to:

- Reaffirm India's significance as a trading partner. India is Western Australia's fifth largest export market.
- Strengthen government-to-government relations.
- Promote investment opportunities for Indian companies in Western Australia's new infrastructure projects, as well as in other industry sectors, through meetings with existing investors as well as with Indian government agencies and industry associations.
- Promote Western Australia as a leading destination for investment and a reliable, cost effective destination for resources including LNG, gold and diamonds.



MINISTER HOLDS MEDIA CONFERENCE IN MUMBAI



NEW DELHI PROGRAM

Meeting with Dr Nik Senapati, CEO Rio Tinto India

Rio Tinto operates several subsidiary companies in India. It has a joint venture with Orissa Mining Corporation, a company wholly owned by the Government of Orissa. In addition, Rio Tinto Diamonds has a representative office in Mumbai which provides technical and marketing support to its Indian clients. More than 90 percent of Rio Tinto Diamonds are used in India for jewellery manufacturing.

Rio Tinto Minerals sells borates through an agent in Mumbai and is working in partnership with Indian agronomy experts to raise awareness of the need for micronutrients in crop management and boron deficiency.

The company also exports coking coal from Australia to India. It is currently investigating opportunities in thermal coal as India's power sector expands.

Discussion

- Mr Senapati said the current downturn in the global economy had resulted in reduced capital flows into India and consequently, delayed start up operations on some projects.
- Rio Tinto's mining interests in India relate to exploration for diamonds and iron ore. The company has acquired mining licences for exploration in six states and includes a joint venture (JV) with the Orissa Mining Corporation. In addition, the company operates a pilot plant in Andhra Pradesh.
- India is among the top five producers of iron ore in the world. Rio uses local geologists and scientists as their skill level and experience are of a high standard.
- India's diamond processing industry is in its infancy but going from strength to strength. Prior to the global economic downturn, India's leading export was diamond jewellery.
- Western Australia has an MOU with the Gem and Jewellery Council of India. Mr Senapati referred the delegation to Ms Joanne Farrell, HR Manager, Perth Office as a contact to explore further discussion to develop a program that may allow WA jewellery designers to link with their Indian counterparts as more than 90 percent of Rio Tinto diamonds are manufactured into jewellery in India.
- Rio sells its aluminium technology in India to the state of Orissa.

- Energy supplies are very important to India. However, clean coal production is very basic. Mr Senapati sees the export of Australian coking coal to India as a high growth area.
- The company operates vocational training programs in India. This provides an opportunity for Western Australia's TAFE to provide in-situ training programs for mining employees in India.
- Rio Tinto out-sources its procurement, financial and accounting services to Indian company, Infosys.
- Petronet's purchase of LNG from Western Australia has resonated in India and provides an opportunity for the Western Australian Government to capitalise on investment opportunities in regional Western Australia.
- India's Mining Legislation Reform Bill was discussed. The current status of the Bill is that it has been passed by Cabinet and is awaiting promulgation through Parliament. Essentially the new legislation provides (1) greater control over mining tenements by individual Indian states; and royalty payments to go to the states.

Likely outcomes of the legislation for mining exploration companies are (1) Security of Title and (2) Approval to transfer leases from one company to another.

Meeting with Ms Santha Sheela Nair, Secretary of Mines, Ministry of Mines



The Indian Union (Federal) Ministry of Mines is responsible for the survey and exploration of all minerals except gas, petroleum and radioactive minerals. It is also responsible for the mining of non-ferrous metals such as aluminium, copper, zinc, lead, gold and nickel.

The Ministry conducts exploration and survey under the Geological Survey of India and the Mineral Exploration Company Ltd. Mining regulation and deposit development work are undertaken by the Ministry's Indian Bureau of Mines.

Discussion

- I informed the Secretary of Mines that Western Australia remained keen to build on its relationship with India and that the recent signing by Petronet with ExxonMobil for supply of LNG from Western Australia was one of many opportunities for Indian investor companies.
- I made the Secretary aware of ongoing exploration to define the potential of a large thermal coal resource in the Canning Basin south west of Fitzroy. I conveyed to her that REY Resources Ltd (a listed Australian public company) was one of the major proponents wanting to bring the field into production.
- The Secretary mentioned that the MOU between the Indian and Western Australian Governments was due for renewal in 2010. She said that her government was interested in expanding the MOU to include:
 - geological survey collaboration;
 - an officer exchange program; and
 - inclusion of private companies into aspects of the MOU.

She suggested that there may be other areas of interest requiring further discussion with the Federation of Indian Minerals Industries (FIMI) and the WA Chamber of Minerals.

- I suggested that her Department may be interested in our Landgate program which maps and superimposes many aspects about land holdings, uses and infrastructure sites on an on-line system. Further information about Landgate is to be forwarded to Mr Vijay Kumar, Additional Secretary, Department of Mines.
- I reaffirmed the Western Australian Government's interest to develop its relationship with India and that we are keen to attract greater Indian interest and investment to the State. I recognised Western Australia's need to provide the Government of India and Indian companies with current information about resources development and opportunities in Western Australia.
- Mrs Nair mentioned that the Minister for Coal who was currently travelling in Australia may be interested in coal exploration opportunities in Western Australia's north. The delegation would be briefed about the opportunity as part of its Perth program.
- I informed Mrs Nair about the forthcoming visit to Delhi on 12 and 13 October 2009, by representatives from the Geological Surveys Division of the Department of Mines and Petroleum (DMP), and offered a presentation to her Department on Western Australia's geology and exploration opportunities. She welcomed the offer. DMP officers were scheduled to brief her Department on 13 October 2009.

- I also made her aware that Western Australia is keen to attract foreign investment to develop and provide the expertise to expand its rich resources base and develop the required infrastructure as the State does not have the capital to undertake enormous projects of the size required.
- The Secretary invited the Western Australian Government to comment on the proposed new legislation as she appreciated the advanced state of Western Australia's mining laws.
- The matter of Oropa Ltd (WA diamond mining company with a tenement in India) and its long and protracted dispute to resolve the impasse with its mining tenement in Chhattisgarh was raised. Mrs Nair offered to look into the matter and asked that documentation be forwarded to Mr Thakeral, the Joint Secretary of the Ministry of Mines. The report is currently being prepared.
- I discussed the Premier's proposed Centre of Excellence in Mining in Western Australia to be established through the University of Western Australia (UWA) and Curtin University. The Secretary said that her Department was interested in providing postgraduate study opportunities for Indian geologists and mining engineers. She thought that this could be a further aspect for inclusion for the MOU renewal whereby Indian postgraduate students are sponsored by the Government of India to study in Western Australia. She mentioned that the Indian School of Mines should explore a partner relationship with UWA and Curtin universities.
- I concluded the meeting by reaffirming that Western Australia sees India as a partner and not a client, and that we are keen to see the relationship develop and grow. I welcomed forthcoming Ministerial mining and petroleum delegations from India to Western Australia.

Meeting with Mr Rikab Jain, General Manager - International Business Pearls International

The Pearls Group is a 26-year-old major Indian business house worth approximately US\$6 billion and spread across 13 industry sectors; including infrastructure, real-estate, hospitality, food and beverage, tourism, education, healthcare, and financial services.

The Group has been assisted by Austrade to partner with a Queensland based company, Resort Corp, and invested A\$100 million to form a new organisation, 'Pearls Australasia', in order to develop/acquire 5 star hospitality projects.

Discussion

- I informed the meeting that the Western Australian Government welcomed Indian investment and that a reason for my visit to India was to promote investment opportunities and robust interaction.
- I also mentioned Western Australia's tourism opportunities in regional Western Australia and our wine and agri-food industry as opportunities. I offered to showcase to Mr Jain Western Australia's Margaret River region and its investment opportunities.
- Mr Jain told me of his company's most recent partnering with Fosters to bring VB beer to India. He stated that Pearls is seeking healthcare, tourism and education investments in Australia.
- I underlined the many investment opportunities in regional Western Australia for innovative housing as well as boutique hotel developments in mining towns in Western Australia's North which also have tourism development potential. I cited the Ningaloo coast as a possible future opportunity for tourism-related investment.
- Mr Jain expressed an interest in nurse training and aged care training. I asked him for further information regarding his proposal. This is to be forwarded to Mr Michael Carter.
- Austrade Trade Commissioner. The Western Australian Trade Office in India is to work with Austrade to put a program together for Mr Jain to visit Western Australia in the near future.

Meeting with Mr R K Sharma, Secretary General Federation of Indian Minerals Industries

FIMI was formed in 1966 when the individual mine operators and associations established an all-India federation and a non-profit corporate body. The organisation's purpose is to promote the interests of mining, mineral processing, metal making and other mineral-based and mineral derived sectors such as granite, stone, marble and slate industries. These include private, joint and public sector companies.

FIMI represents all of the nation's non fuel, mining and mineral processing activities. The association attends to the problems companies face in lease grants, renewals, tenures, production, taxation, trade, exports and labour. The organisation began with a small membership of 40 federating associations and individual units. It is now a 350 member body.

Discussion

- I thanked Mr Sharma for his support for Western Australia and the Western Australian Trade Office in India over the years. I communicated the Premier's message that WA welcomes Indian investment and wants to build a strong and continuing relationship with the Indian Government and companies. I stated that Western Australia wants a partnering relationship with India and not simply a "client" relationship.
- Mr Sharma acknowledged FIMI's long term relationship with Western Australia and looked forward to continuing the support through extending the MOU of which his organisation is a signatory.
- He mentioned that the new mining legislation was based around a central framework but included greater participation and responsibility by the states.
- He said that the proposed "auctioning" of leases included in the new legislation is somewhat contentious - sites will be auctioned based on geological estimation value. In his opinion, the proposed process is flawed. He has put the matter to the central government and is confident that the matter will be addressed soon.
- He said there was room for improvement for Australia to better market its mining events and investment opportunities in India.
- He said that he would like to see the mining MOU that exists between us expanded to include non ferrous metals as well as lead, zinc and copper. It should also include coal.
- I suggested that all vested interested parties need to come together soon to discuss new inclusions for the MOU.

Meeting with Australian High Commissioner, Mr Peter Varghese

Discussion

- Mr Varghese outlined the Australian Government's strategy to expand and grow the bilateral relationship between Australia and India. It included building a strategic relationship based on:
 - bilateral trade and investment;
 - provision of energy security for India – Australian coal and LNG are important to India;
 - broadening out the political strategic dialogue;
 - multilateral cooperation – historically we have been on opposite sides; and

- developing people to people relationships through education and migration (India today comprises Australia's second largest source of migrant intake).
- I informed the High Commissioner Designate that Western Australia is keen to widen its investment streams to include India. We do not want to be seen to be captive to only one investor country. I stressed that the Premier also wanted to see greater participation in Western Australia's development by second tier company investors.
- I mentioned that Western Australia and India have a common platform upon which to build a long term relationship on the back of Gorgon, Pluto and Browse Basin projects.
- Western Australia's plan is to grow Karratha and Port Hedland into major northern cities, over time. Issues that needed to be tackled included the high cost of living and social infrastructure that needs to be developed around such centres.
- Mr Peter Linford, the Senior Trade Commissioner, Austrade acknowledged the growing relationship between his office and the Western Australian Trade Office in Mumbai.
- I mentioned the potential for Muresk College to play a role in agri-food sector training of Indian farmers in new farming technology and methods.
- I was advised that the Australian Federal Government was pushing for lupin market access for Australian producers and that Australia would like to have greater access to Indian markets for its wine exports. Fluctuating prices make wheat exports somewhat volatile.
- I was informed that India would like to export its mangoes and table grapes to Australia.
- I outlined the Ord River development project in the East Kimberley region and the investment opportunities in that project for Indian proponents.

Meeting with Mr Sanjiv Batra, Chairman and Managing Director Mineral and Metal Trading Corporation (MMTC)

MMTC Ltd is a Government of India enterprise under the Ministry of Commerce and Industry, and India's largest trading company with an annual turnover of approximately US\$6 billion.

The company is a major global player in the mineral trade and is the single largest exporter of minerals from India. MMTC is also a leading player in fertilisers and fertiliser raw materials. MMTC is the largest importer of gold and silver in the Indian sub-continent, handling about 100 Mt of gold and 500 Mt of silver annually.

Discussion

- I affirmed Western Australia's commitment to and interest in developing strong partnership relations with Indian companies and our interest to attract greater Indian investment into Western Australia.
- Mr Batra informed me that 15 per cent of India's imports from Australia are through the MMTC, a Government of India trading entity. The entity imports a range of commodities including wool, rice, pulses, gold and silver and coal to name a few. Last year it imported 200 tonnes of silver and 90 percent of India's wool requirement.
- Mr Batra informed me that in recent years the MMTC had diversified and is now building an investment portfolio that potentially included a gold and silver refinery. The company has a JV with the Tata Group.
- MMTC has an interest in investing in Western Australia. Its preference is to invest with a local partner. They have a particular interest in hematite iron ore. Mr Batra said that an initial investment of up to US\$200 million could be made by the MMTC. Greater amounts required Government approval but could also be considered.
- I informed Mr Batra that I would arrange for a special briefing for his agency during the forthcoming visit to India by representatives from the Department of Mines and Petroleum's Geological Surveys Division. The meeting was scheduled to take place in Delhi on 13 October 2009.
- I mentioned Western Australia's interest in developing a steel-making facility in Western Australia especially in the Mid West region as part of the Oakajee development. An Indian investor would be welcomed.
- Mr Batra said that the Indian Minister for Steel would like to visit Western Australia. He asked if a letter of invitation could be arranged. This will be undertaken.
- MMTC owns and operates two steel making facilities in Africa; two palletisation plants and one beneficiation plant.
- Mr Batra was interested in the proposed Perdaman coal-to-urea fertiliser facility in Collie and has requested further information about the venture.

National Mineral Development Corporation (NMDC)

The meeting with Mr Batra was also attended by Mr Rana Som, Chairman/Managing Director of the State-owned NMDC Corporation who expressed his corporation's interest in Western Australian resources.

Mr Som has since advised that NMDC is firming up an expression of interest to be published in Australian media for potential joint venture partners in iron ore and coal.

HYDERABAD PROGRAM

The Chief Minister of Andhra Pradesh died in a helicopter accident two days prior to the delegations visit to Hyderabad. The Western Australian Trade Office advised that it was not safe to travel there as the situation could become unstable. Therefore the one day program was cancelled.

AGRA PROGRAM (Road trip Delhi-Agra)

Business leaders' luncheon

- Mr Rajiv Narain, President of Tourism Guild of Agra
- Mr Vinay Bansal, Vice-president, National Chamber of Industries and Commerce, U.P
- Dr Pankaj Mahindereru, Managing Director, Apollo Pankaj Hospitals
- Dr V. N. Kaushal, consultant Apollo Pankaj Hospitals, Agra
- Mr Jitendra K. Garg, President Taxation Bar Association, Agra
- Mr Vikas Rambal, Perdaman Group

The Agra visit included a visit to the Taj Mahal as guests of the Agra Tourism Guild and a tour of the Apollo group's 450-bed private hospital.

Discussion

- Mr Bansal, from the Chamber of Industries and Commerce expressed the desire to create tourism awareness between the Agra region and Western Australia. He cited potential for trade and technology exchange between the agriculture sector in Western Australia and his region.
- Dr Pankaj Mahindereru (Apollo group) spoke of the growth of medical tourism in India i.e. elective surgery being undertaken by foreign patients within the Apollo group of hospitals. He cited the burgeoning medical tourism in Thailand and saw potential for Australian patients to travel to India for their elective procedures.

- Mr Rambal spoke of his group's interest in a 10,000 hectare Jatropha oil-seed project north of Agra and the possibility of establishing a similar pursuit in Western Australia, possibly in the Pilbara, should the ban on Jatropha be lifted in Western Australia in the future.
- (Jatropha is a declared noxious weed in Western Australia, Queensland and the Northern Territory). The Jatropha plant is suitable for the manufacture of biodiesel. Mr Rambal made me aware of his interest in the Apollo medical group.

MUMBAI PROGRAM

Meeting with Mr D. Battacharya, Managing Director Hindalco Industries (Birla Group)

The Aditya Birla Group is a US\$28 billion corporation with a market capital of US\$31.5 billion. The Group operates in 20 countries. Hindalco Industries Limited, a flagship division of the Group, is structured into two strategic businesses – aluminium and copper. It has a turnover in excess of US\$14 billion; Hindalco is the world's largest aluminium rolling company and one of the largest producers of primary aluminium in Asia. Its copper smelter is the world's largest custom smelter at a single location.

Hindalco operates the Nifty Copper Operation in Western Australia located approximately 350 kilometres south-east of Port Hedland, and the Mt Gordon Copper Mine in Queensland, which are managed and operated under Aditya Birla Minerals Limited.

Discussion

- Mr Battacharya stated that of all of Hindalco's overseas operations and investment, those in Australia (Western Australia and Queensland) were the most favoured. He thanked the Western Australian Government for its ongoing support. Given a favourable investment opportunity, his company would invest further in Western Australia. It was currently making a further investment in Queensland.
- He raised several issues of concern which included:
 - Congestion at Port Hedland making demurrage costs expensive;
 - Native Title was becoming an issue for the company in negotiating with the local community;
 - The need to speed up the approvals process, and
 - The need to reform the labour market as access to labour was becoming an issue.

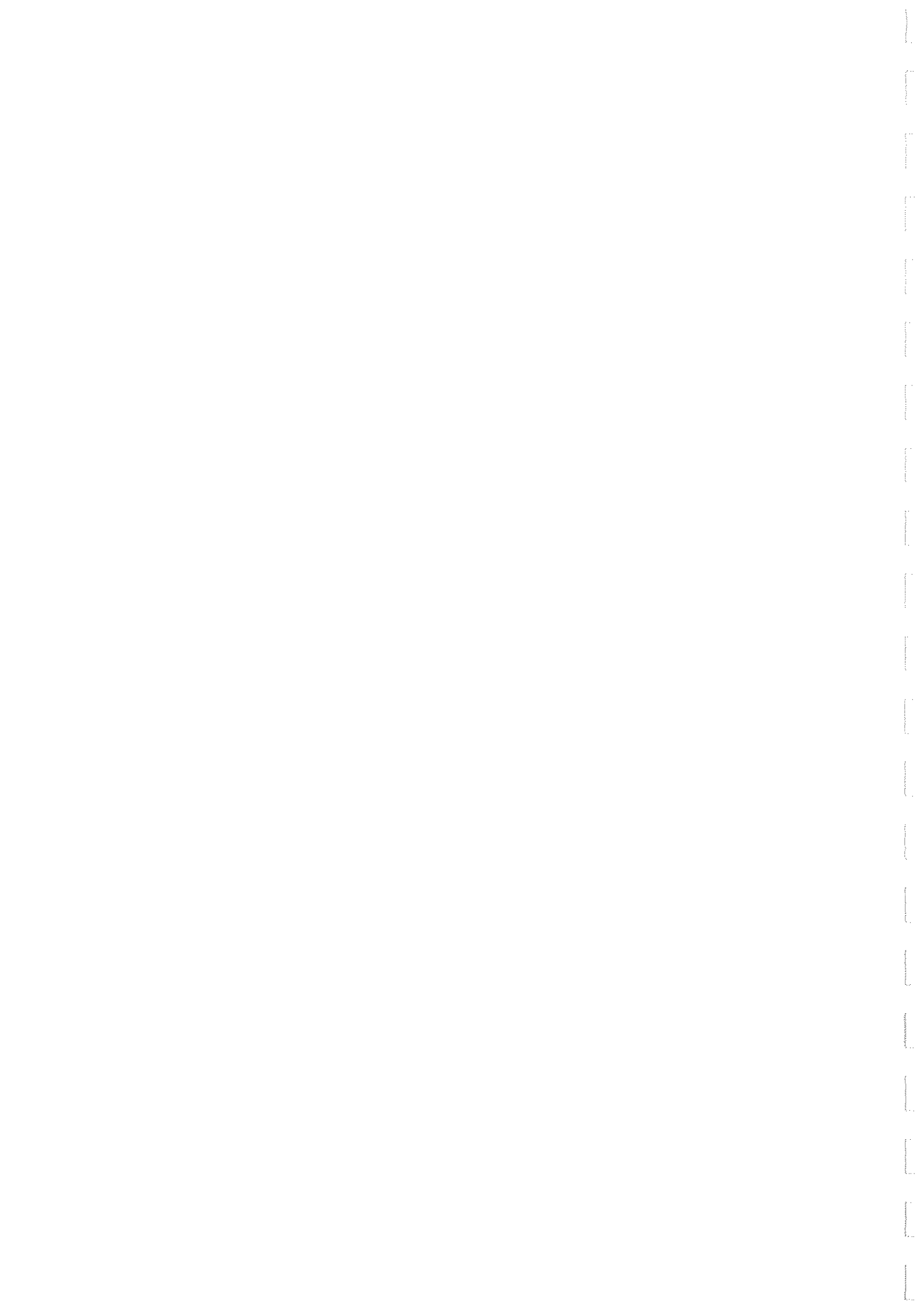
- Mr Battacharya said that Hindalco was no longer looking to the Mitchell Plateau's bauxite potential because of excessive silica content.
- He advised that there was a projected 14 years of mine life remaining in the Nifty Copper Mine and his company was anxious to pursue exploration in the region to the east of the current resource.
- He was not aware of the exploration mining incentive scheme announced under the State's Royalties for Regions program and requested a copy which has since been forwarded to him.
- I agreed to meet his company's Perth representatives upon my return to Perth.

Meeting with Australian banking and company representatives in Mumbai including:

- Mr Andrew Mouat, Executive Director, Macquarie Securities -India
- Mr Varun Bajpai- Executive Director, Macquarie Bank - India
- Mr Peter Forby – Australian Consul General and Trade Commissioner
- Mr Vikram Merchant, Manager, Rio Tinto Diamonds – India
- Mr Cameron Jones, Chairman, ANZBAI
- Mr Neeraj Chandra, Executive Manager, Commonwealth Bank - India
- Representative from Westpac
- Representative from National Australia Bank
- Representative from Leighton group

Discussion

- I informed the group that WA was seeking Indian investment to help diversify its foreign investment profile and that the Western Australian Government did not wish to be viewed as courting only investment from China and Japan. I provided an overview of the ExxonMobil and Petronet and Gorgon project developments.
- Leighton informed me that they are building a number of port facilities in India. The company struggles to bring into the country the equipment it needs. Requires Australian government support with these issues.
- Macquarie Bank – India is essentially a domestic demand story. The recent Union Government elections returned the Congress Party with a bigger majority than that previously.
- Energy supply is the Government's immediate concern. There is now more investment into rural areas, therefore lessening the reliance on agricultural farming for the less educated.



- In the current global downturn India's jewellery and auto component parts industries have suffered. However, expenditure on infrastructure is increasing.
- India's tax reform has helped the country increase the rate of industrial recovery.
- The Government of India owns 80 percent of its coal resources. It has established a taskforce to examine its investment portfolio.
- I was advised that the Western Australia Government should identify investments that it wants Indian investors to take up. It needs Ministerial delegations to articulate the opportunities that are available.
- Energy security is a major issue for India and in this Western Australia is well placed to attract Indian investment.
- The group suggested that Western Australia should use the Commonwealth Games to promote investment opportunities in Western Australia.

Meeting with Mr Brijesh Gupta, Vice President Business Development, ESSAR Ltd

Founded in 1969, the Essar Group is an Indian based, diversified business group with business interests in steel, oil and gas, power, telecom and IT, shipping and logistics and construction. The Group, through its six sectoral holding companies, has a value of over US\$50 billion and employs over 30,000 people worldwide.

Discussion

- Essar is in the process of building its seventh vertical investment venture from mining through to processing and manufacturing. Last year the company produced 4.6 million tonnes of steel. This will increase to 10 million tonnes in the next financial year.
- The company is also building power plants – gas and coal fired. It has a requirement for 20 million tonnes of thermal coal. Currently looking at coal investments on the east coast of Australia.
- Essar prefers to own and operate outright its investments.
- I mentioned the Oakajee port and rail development and the Petronet acquisition of LNG supplies recently completed. I advised that the Western Australian resources sector was continuously seeking capital investment to bring resources online.

- I informed Mr Gupta of the Western Australian government's exploration incentive package. A copy has since been forwarded to him.
- Essar informed me of the small village/townships that it has built in Indonesia and Gujarat to service its mining interests and retain and reward loyal workforce in those locations. Housing up to several thousand employees, the company sees the towns as an investment in workers and their families.
- I invited Essar executives to come to Western Australia to explore investment opportunities. Mr Gupta said that the company may be interested in acquiring or farming in to an LNG exploration permit in Western Australia.
- The company has also been looking at the Pilbara region for an investment opportunity.
- Essar recently acquired an iron ore mine in Minnesota in the United States and is now building a pellet plant nearby.
- I also offered that representatives from the Department of Mines and Petroleum's Geological Surveys Division provide a presentation to Essar executives. This offer would help raise awareness of the Western Australian mining tenement system and provide an overview of the mineralogy of the State. The offer was welcomed and Essar undertook to send some of its people to Delhi on 13 October 2009 for the briefing.
- I was advised that Mr Mittal the Managing Director may visit Perth at the end of the month. I offered my assistance to facilitate the visit.

COSTS (Mission – Hon Brendon Grylls MLA and Mr Douglas Cunningham Chief of Staff)

Airfares -	\$9868.44
Other -	
Accommodation, Meals, Transport, Issuing of Passports, Vaccinations	
	<u>6029.68</u>
Total	<u>\$15,898.12</u>

ATTACHMENT 1

India: The new economic cycle (*Macquarie Economics Research*)

India

The new economic cycle

Rajeev Malik

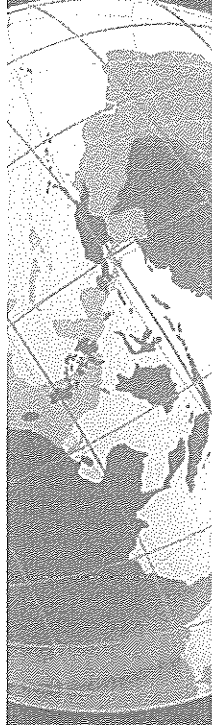
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September 2009

In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader. Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. Please see disclaimer.

Building blocks of our India macro view

- EM economic downturn a function of:
 - Trade-related openness and dependence on capital inflows
 - Health of domestic demand, especially consumer spending
 - Cushion from aggressiveness of monetary and fiscal response
- India relatively less affected than most other economies
 - Relatively less open economy to trade
 - Economic growth downturn fuelled by credit-related financing hit to investment
 - Monetary and fiscal response has been exceptionally aggressive
- A new economic upturn is under way in India
 - New economic upturn partly fuelled by the game-changing election outcome
 - Government to be more stable and slightly more reformist
 - Investment upturn poised to take hold
 - Hit from poor monsoon is a hiccup for the evolving India growth story



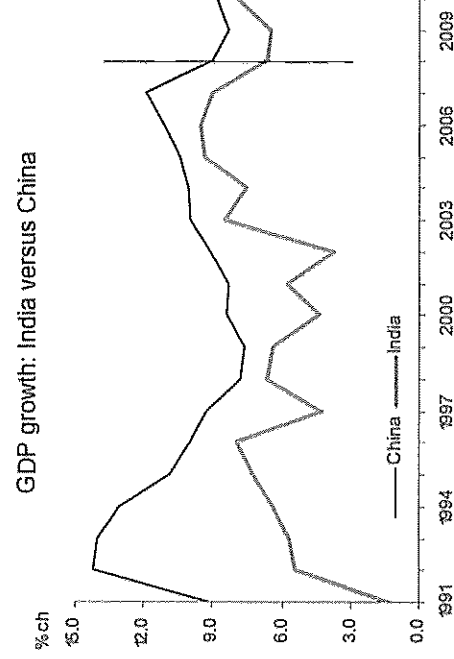
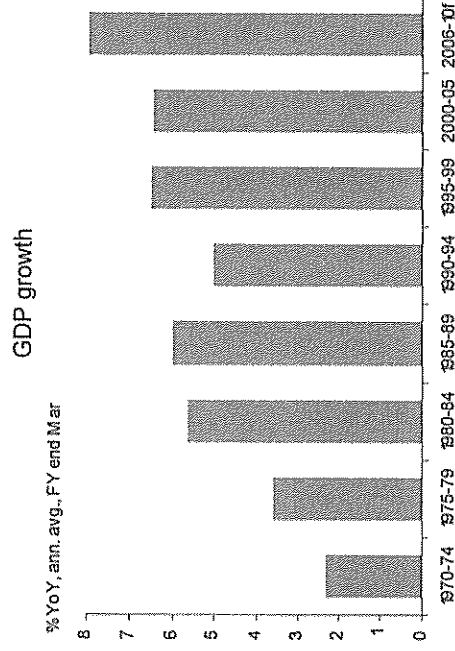
India's boom-bust-recovery cycle

- Acceleration in growth in recent years driven by:
 - Favourable domestic structural factors
 - Strong global cyclical uplift
 - Excessive foreign capital inflows
- Structural foundations of India's economic rise – minus the hype – remain intact
- However, the other two factors have been in reverse play in the last year
- India remains supply constrained and capital starved. Thus, it is different from China
- Game-changing election outcome positive for medium-term growth outlook
- Federal budget a victim of unrealistic expectations
- Poor monsoon will have only a small impact on GDP growth owing to several offsetting forces in place

7.1 - 8%

Favourable structural growth drivers intact

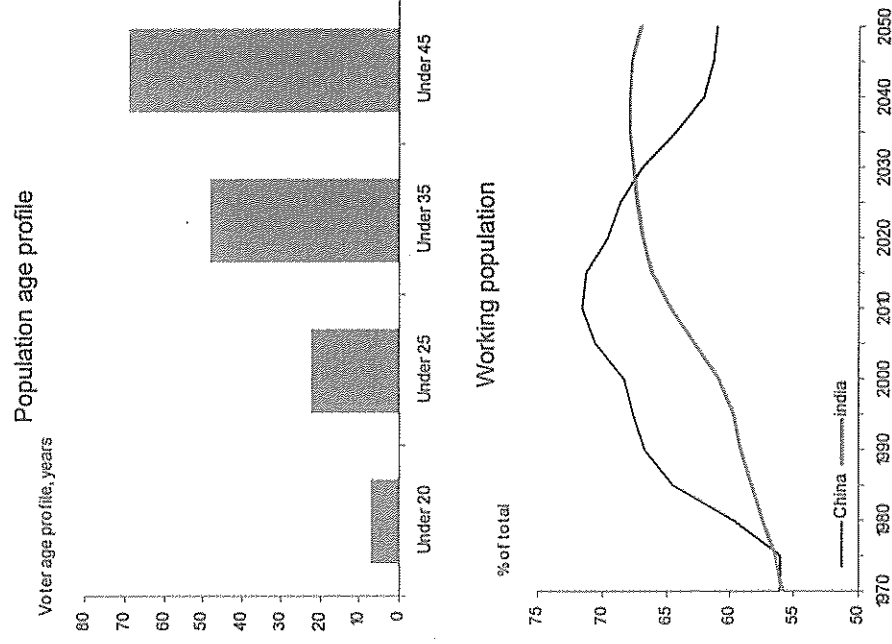
- India offers a delectable mix of favourable structural factors that have increased its sustainable growth rate
- Realisable potential growth likely to be in the 7.5-8.0% range annually over the medium term
- 10% annual GDP growth a distant dream unless governments push ahead with far-reaching reforms
- Education, infrastructure (roads, power), agriculture and finance sectors screaming for fast-track reforms



Source: CEIC, Macquarie Research, September 2009

Consumption has strong structural underpinnings

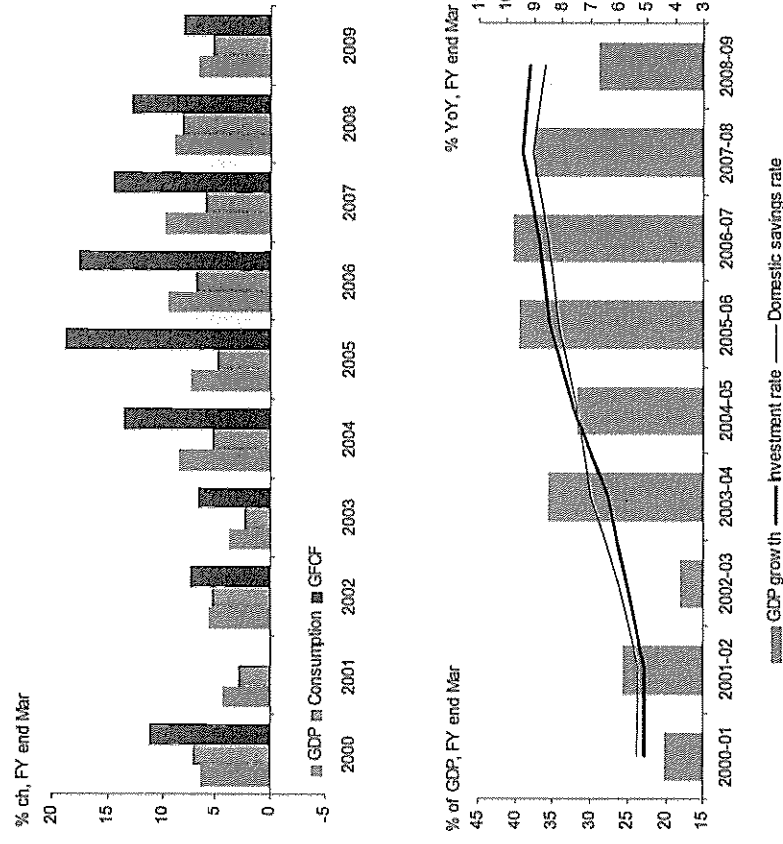
- Sizeable and rapidly growing middle class
- Household incomes and purchasing power on the rise
- Favourable demographics
- Structural decline in local interest rates
- Greater and easier access to bank credit
- Secular shift toward more conspicuous consumption
- Rural consumerism on the increase



Source: CEIC, UN, Macquarie Research, September 2009

Recent growth powered by domestic demand

- ➔ Sharp acceleration in investment has been a key driver of high GDP growth in recent years
- ➔ In the five years to 2007-08, growth in GFCF averaged 15.5% pa, compared to average GDP growth of 8.9%
- ➔ Over the same period, average growth in real total (public plus private) consumption was much lower (at 6.4% pa)
- ➔ Real export growth (21.7%) was also impressive owing to a combination of favourable global demand and higher commodity prices
- ➔ Contribution of exports to overall GDP growth was lower than that of investment owing to the smaller share of exports in GDP
- ➔ Saving rate poised to decline in the short-term owing to higher public dissavings and the hit to corporate profits



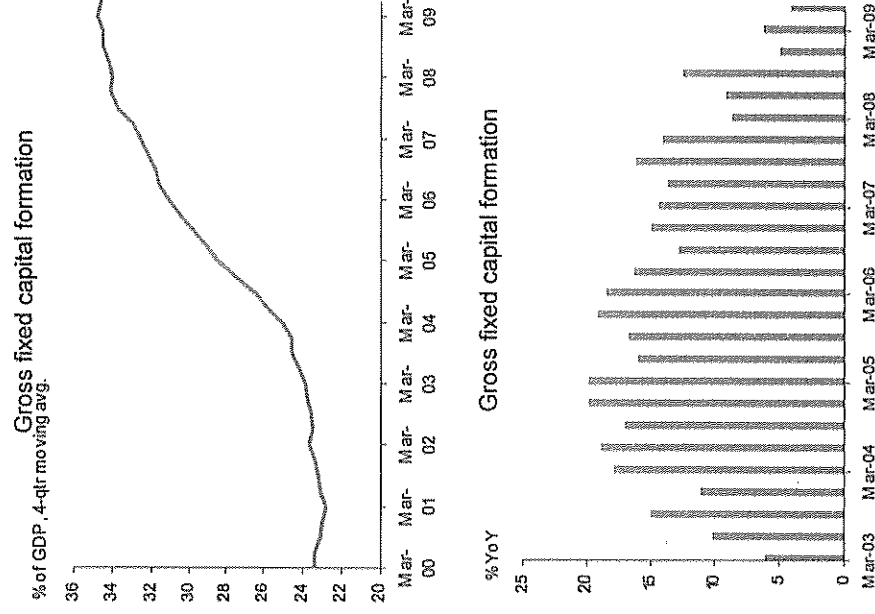
Source: CEIC, Macquarie Research, September 2009

New economic upturn gaining traction

- Economic growth to show an earlier shift towards realisable trend growth of 7.5-8.0% annually
- Economy to grow “only” 6.5% in FY3/10 owing to a poor monsoon
- Post-drought rebound to push up FY3/11 GDP growth to 8.0%
- Investment turnaround in the domestically-driven, supply-constrained economy likely to be sooner and stronger than previously expected
- Fiscal boost has been sizeable; Monetary easing over but rate hike early next year
- GDP growth for Apr-Jun 2009 improved marginally to 6.1% YoY
- Industrial activity will pickup more meaningfully
- Overall balance of payments likely to improve
- Rupee remains structurally undervalued, but cyclically challenged

Investment spending will gradually turn up

- ➔ Domestic spending on private capex has been the main casualty of the global credit crisis
- ➔ Capex was affected by slowing demand (domestic and external), higher borrowing costs, and inadequate financing (domestic and external)
- ➔ Infrastructure spending will remain elevated to provide a cushion but won't fully offset the initial hit to non-infrastructure capex
- ➔ High government borrowing increases the risk of crowding out private investment but not until next year
- ➔ Pickup in foreign capital inflows and revival of equity markets positive for private investment spending
- ➔ Aggressive monetary easing and sizeable fiscal stimulus has been the right mix of policy response



Source: CEIC, Macquarie Research, September 2009

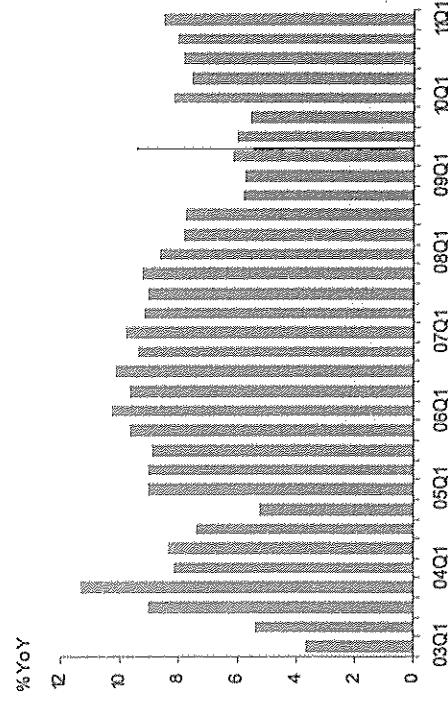
Growth trajectory shifting up towards 7.5-8.0%

- ➔ GDP to increase 6.5% and 8.0% in FY3/10 and FY3/11, respectively, following 6.7% last FY
- ➔ GDP forecast signals an earlier shift towards realisable trend growth of 7.5-8.0% annually
- ➔ Industrial activity pickup stronger than expected
- ➔ Small hit from poor monsoon in current FY's GDP growth owing to many offsetting forces, including stronger growth in non-agriculture sectors
- ➔ Typical post-drought rebound in agriculture will push up next FY's growth to 8.0%
- ➔ Game-changing election verdict boosts confidence, and also offers scope for more reforms, including disinvestment
- ➔ Reforms likely to be in baby steps rather than a big bang - don't over-expect

Sector GDP forecast

India: real GDP (production) % ch, FY end Mar	FY06	FY07	FY08	FY09	FY10E	FY11E
Agr & allied	5.8	4.0	4.9	1.6	-2.5	5.0
Industry	10.2	11.0	8.1	3.9	8.0	8.5
Services	10.6	11.2	10.9	9.7	8.4	8.5
GDP	9.5	9.7	9.0	6.7	6.5	8.0
GDP-nonagriculture	10.4	11.2	9.9	7.8	8.3	8.5

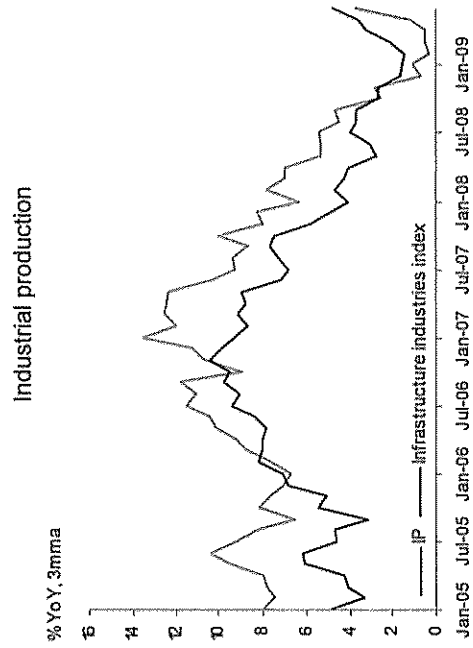
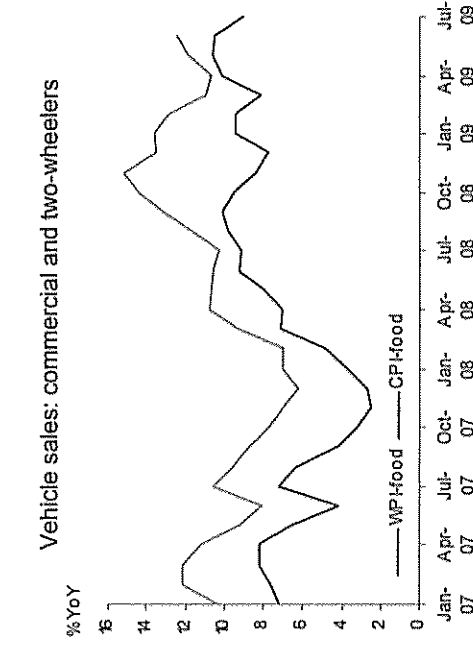
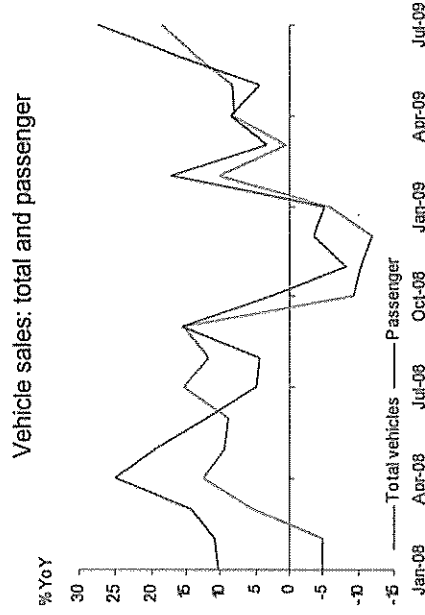
Real GDP growth



Source: CEIC, Macquarie Research, September 2009

Industrial recovery better than expectations

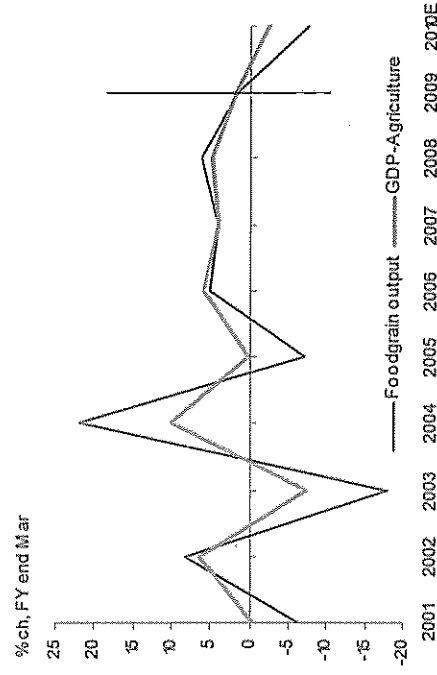
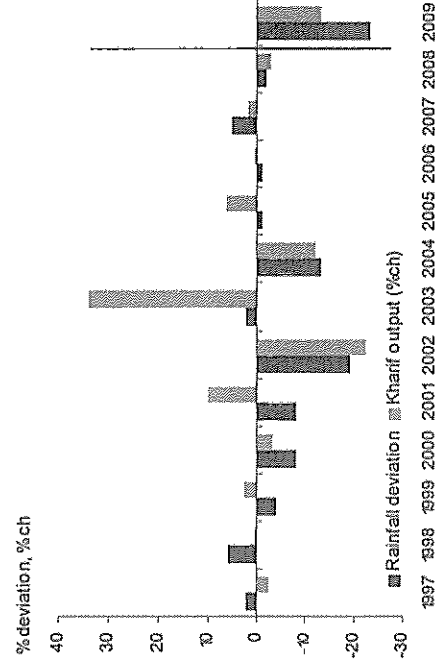
- Industrial production (IP) is recovering faster than expectations, with IP up 7.8% YoY in June and 7.0% in July
- Combination of aggressive monetary and fiscal policies that has been implemented paying dividend
- Improving external demand – even if global GDP growth remains sub-par - will also be positive for industrial activity
- Near-term, the key policy response will be higher food subsidy and sector-specific measures
- Push towards higher infrastructure spending already having a positive impact on industrial activity



Don't get parched by poor monsoon

- Hit to GDP growth from poor rains will be less than that after 2002 severe drought, despite rainfall shortfall being more
- Agriculture output will decline only 2.5% this FY, as rains in July (the key month for sowing) were relatively decent
- Several offsetting forces in place to mitigate the effect of poor monsoon

- India's rural spending more diversified into non-agriculture sources of income
- Ongoing recovery in industry and service sectors will cushion the hit from weaker farm income
- Aggressive monetary and fiscal measures (including the upcoming payout from Pay Commission) will also cushion the hit



Source: CEIC, Macquarie Research, September 2009

Higher fiscal spending cushioned domestic demand

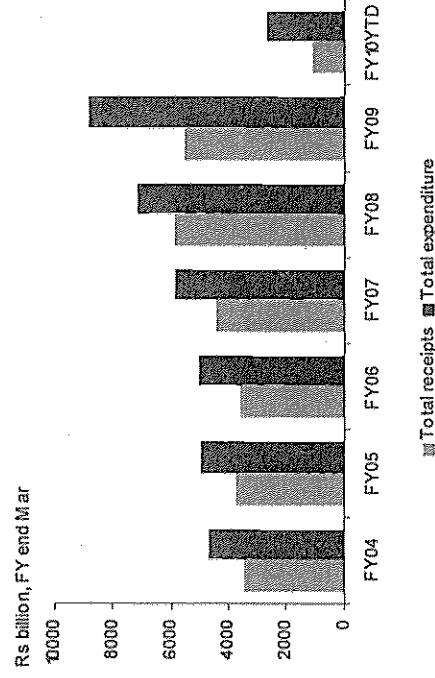
Fiscal deficit



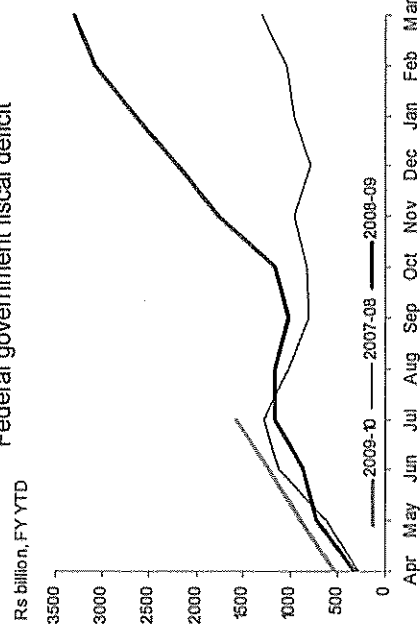
Note: Official federal and consolidated deficits do not include off-budget special bonds totalling around 0.6% of GDP in 2007-08 and 1.8% of GDP in 2008-09

- ➔ Expansionary fiscal policy has been key in cushioning the hit from the global credit crisis
- ➔ Consolidated fiscal deficit (including off-budget subsidy bonds) likely to be 11.0-11.5% of GDP in 2009-10 versus an estimated 11.2% in 2008-09
- ➔ Fiscal consolidation has to be a key focus of the government with a renewed focus on disinvestment and tax reforms

Federal government receipts and spending



Federal government fiscal deficit



Source: CEIC, Macquarie Research, September 2009

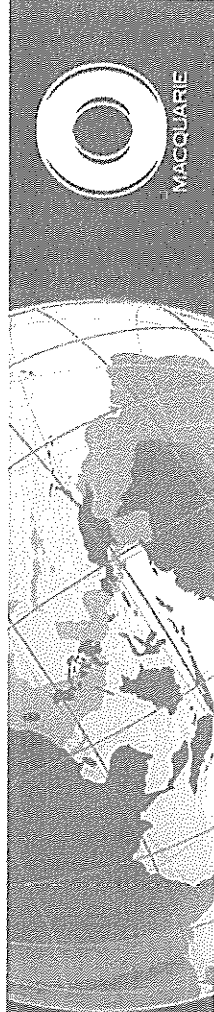
Fiscal slippage must be checked

- Government announced a higher-than-expected federal fiscal deficit of 6.8% of GDP in 2009-10
- The pro-growth budget was partly owing poor monsoon-related newsflow in the runup to budget
- The abnormally low disinvestment (Rs11.2bn) in the budget hints that the actual fiscal deficit could be lower than the official forecast
- The Budget was a victim of unrealistic expectations. It is pro-growth and reformist, and the details are better than headline deterioration
- The government will have little choice but to announce a credible plan for fiscal consolidation
- It expects the fiscal deficit to narrow to 5.5% of GDP in 2010-11 and 4.0% in 2011-12
- More details on fiscal consolidation likely in the recommendations (due in October 2009) of the Finance Commission headed by Vijay Kelkar

India federal budget, 2009-10

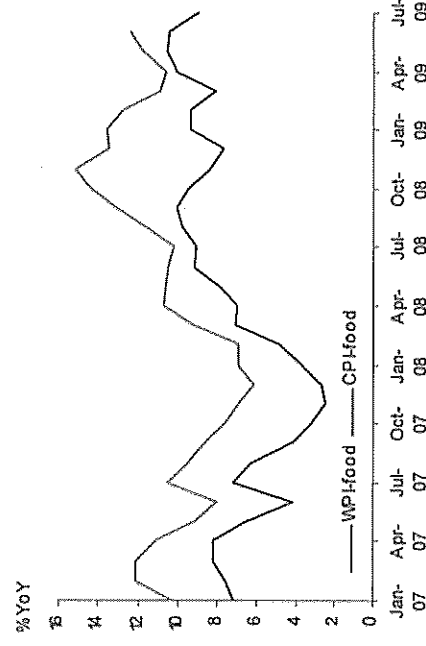
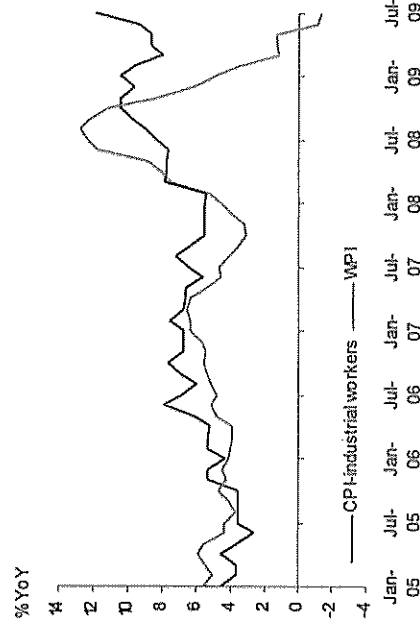
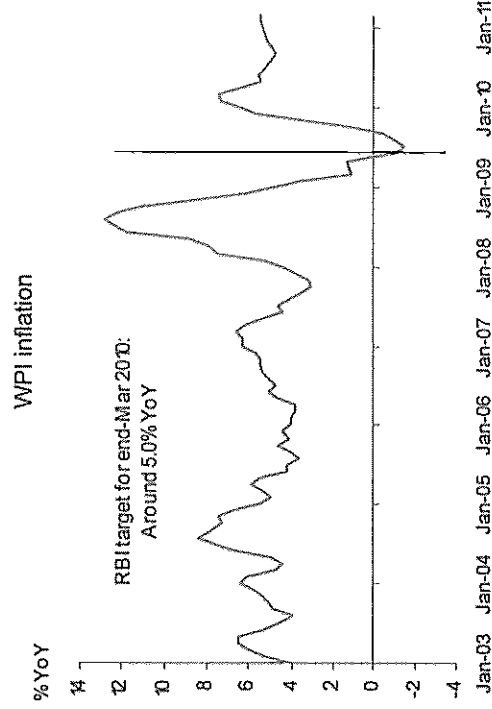
	FY08 Actual	FY09 BE	FY09 FY10 BE RE Feb 09	FY10 BE Jul 09
% of GDP, FY end Mar				
Total receipts (incl. nondebt capital receipts)	12.4	11.6	10.8	10.3
Revenue receipts	11.5	11.4	10.6	10.5
Tax (net)	9.3	9.6	8.8	8.3
Gross	12.6	13.0	11.8	11.1
Less states' share	3.2	3.4	3.0	2.8
Non-tax	2.2	1.8	1.8	1.9
Nondebt capital receipts	0.9	0.3	0.2	0.2
Recovery of loans	0.1	0.1	0.2	0.1
Other receipts	0.8	0.2	0.0	0.0
Total expenditure	15.1	14.2	16.9	17.4
Interest payments	3.6	3.6	3.6	3.7
Defense	1.9	2.0	2.2	2.4
Direct subsidies	1.5	1.3	2.4	1.7
Revenue expenditure	12.6	12.4	15.1	14.1
Capital expenditure	2.5	1.7	1.8	1.7
Revenue (operating) balance	-1.1	-1.0	-4.5	-4.0
Primary balance	0.9	1.1	-2.5	-1.8
Fiscal balance	-2.7	-2.5	-6.1	-5.5

Note: The official federal deficit does not include off-budget special bonds totalling around 0.6% of GDP in 2007-08 and 1.8% of GDP in 2008-09.



Food inflation remains a legitimate worry

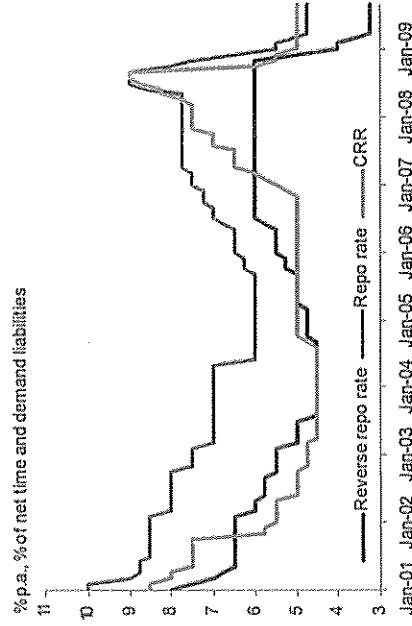
- Different indications from CPI and WPI inflation measures complicate policy setting. Food basket has a higher weighting in the CPI basket than in the WPI basket
- WPI inflation poised to increase owing to dissipating effect of last year's base and higher food inflation from poor monsoon
- WPI inflation will breach RBI's "around 5.0% YoY" guidance
- Near-term, the key policy response will be higher food subsidy and sector-specific measures
- Hiking policy rates now will not affect food inflation but will create more downside risk to growth



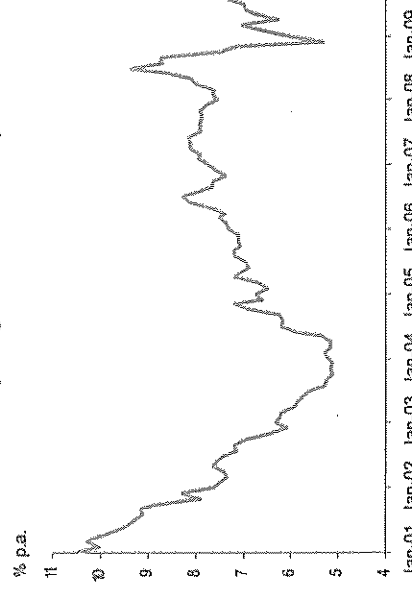
Source: CEIC, Macquarie Research, September 2009

Mother of all monetary easing has ended

Cash reserve ratio and policy interest rates

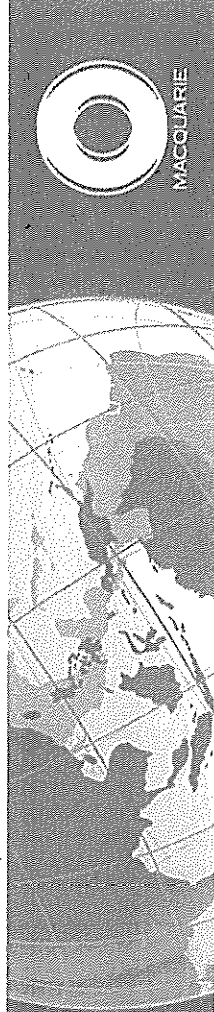


10-year government bond yield



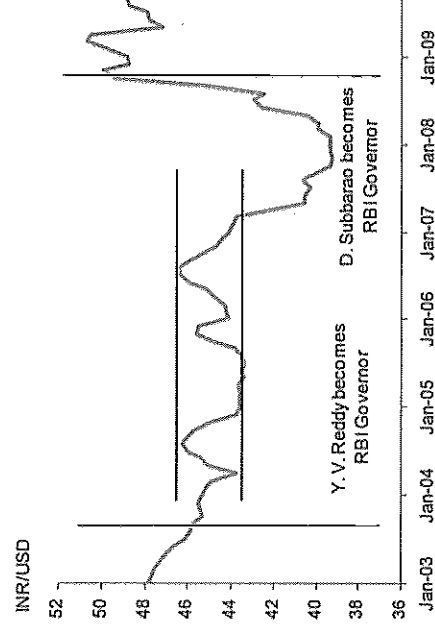
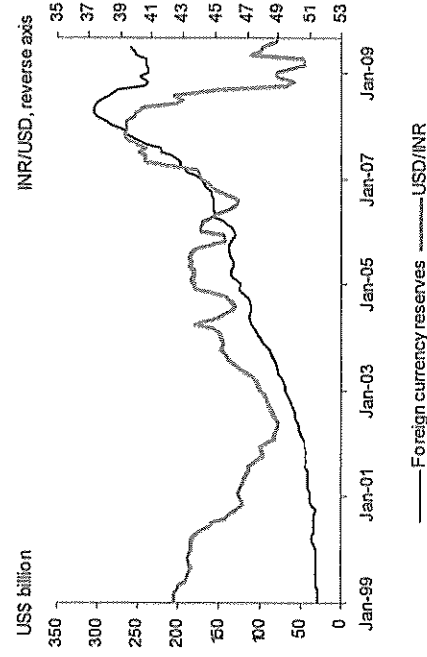
Source: CEIC, RBI, Macquarie Research, September 2009

- RBI transitioned to a neutral stance in July
- Decline in overnight rates has been an impressive 575bp, much more than the decline in policy rates
- We expect the first policy rate hike in April 2010. High food inflation complicates monetary policy but hiking policy rates immediately is not the solution
- RBI will begin to withdraw excess liquidity (first via open market operations) before hiking rates



More appreciation expected for the rupee

- Strengthening USD, global credit squeeze and India's worsening balance of payments were behind INR's depreciation
- CA deficit poised to narrow in 2009-10, despite lower remittances and software exports
- Capital inflows likely to improve; policy moves to encourage more capital inflows likely
- Improving balance of payments owing to new capacity in oil and gas will also benefit INR
- Productivity-driven foundation of a stronger INR over the medium- to longer-term in place
- We expect INR/USD to appreciate to 46 by Dec09 and 43 by Jun10
- Key risks: Shifts in global risk aversion and any USD rebound



Source: CEIC, Macquarie Research, September 2009