



The Indian Story

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Presented by

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INDIA: the land of Maharajahs



Comparative returns: India vs China vs MSCI World

<HELP> for explanation. Index **COMP**
 Hit 1<GO> for Options, Hit <Page> for table.

COMPARATIVE RETURNS

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60 Mo. Period

Range 1/31/03 - 1/31/08 Period M Monthly

Securities	Crcny	Prc Appr	Total Ret	Difference	Annual Eq
1 SHCOMP Index	USD	236.84 %	266.27 %	-349.91 %	29.63 %
2 SENSEX Index	USD	559.02 %	616.18 %		48.22 %
3 GDDUWI Index	USD	113.58 %	113.58 %*	-502.60 %	16.38 %

(* = No dividends or coupons)



Source: Bloomberg. Past performance is not indicative of future results.

Presentation Overview

- I. Indian Macros
- II. Discussion on India Corporate and Economic Fundamentals
- III. Indian Advantage: The Longer Term Story
- IV. Market Valuation
- V. AIG's India Capabilities
- VI. Q&A

Stock Exchanges – Basic facts

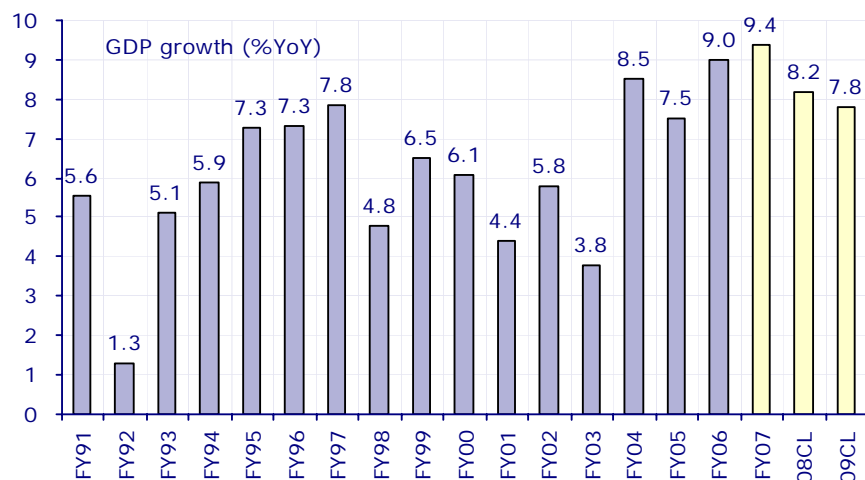
Particulars	National Stock Exchange	Bombay Stock Exchange
Inception	1994	1875
Listed Companies on the exchange	Approx. 1,100 companies	Approx. 7,500 companies
Market Capitalization (as of November 7, 2007)	USD 1.4 trillion	USD 1.6 trillion
Average Daily Turnover (spot)	USD 5.2 billion	USD 2.8 billion
Average Daily Turnover (derivatives)	USD 12 billion	Not material

Source: Bloomberg; November 7 2007

India on a stronger growth path compared to regional peers

India could sustain 7-9% GDP growth . . .

. . . even as global/regional growth slows in 2008



GDP growth projections 2007-08

	2006	2007 ¹		2008	
		Consensus	CLSA	Consensus	CLSA
China	10.7	11.3	11.5	10.5	9.0
Hong Kong	6.9	5.5	5.5	5.0	3.7
India	9.4	8.3	9.2	8.4	8.4
Indonesia	5.5	6.1	5.8	6.3	4.5
Japan	2.2	2.6	1.5	2.0	0.3
Korea	5.0	4.7	3.9	4.4	2.8
Malaysia	5.9	5.6	5.7	5.8	3.9
Philippines	5.4	6.0	5.9	5.8	3.7
Singapore	7.9	7.0	6.2	5.7	3.3
Taiwan	4.7	4.3	3.0	4.3	2.2
Thailand	5.0	4.2	3.9	4.8	2.9

¹ For India, CLSA forecast estimate for FY08

Source: CLSA Strategy report November 2007. There can be no assurance that these targets will be achieved.

Earnings growth may sustain for a longer period

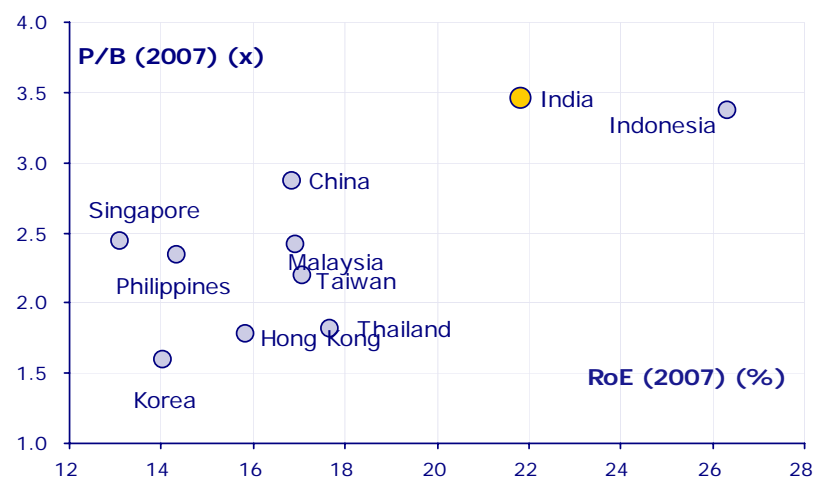
Sensex @ 17766	FY06	FY07	FY08 CL	FY09 CL
EPS	518	678	801	982
EPS Growth	20.9%	30.8%	18.3%	22.6%
P/E	34.3	26.2	22.1	18.1
Dividend Yield	1.0%	0.9%	1.0%	1.2%
ROAE	23.7%	25.4%	22.2%	21.1%

- Earnings growth momentum may sustain beyond the next year
- Valuations as a result are not too challenging
- Domestic growth can be a large driver for earnings due to its low correlation to developed markets

Source: CLSA Strategy report June 2007. Past performance is not indicative of future results.

Strong corporate sector fundamentals

Superior ROE



Sensex estimate of EPS growth is buoyant for FY07-09

Sensex@19,543	FY03	FY04	FY05	FY06	FY07	08CL	09CL
EPS	250	321	428	518	678	801	982
EPS growth (%)	32.1	28.5	33.4	20.9	30.8	18.2	22.6
ROAE (%)	19.5	22.0	24.3	23.7	25.4	22.2	21.2
Net gearing (%)	25.5	11.8	4.3	6.0	7.9	5.6	(0.5)
PE (x)	61.2	47.6	35.7	29.5	28.1	23.8	19.4
Price/book (x)	11.3	9.8	7.8	6.3	6.3	4.5	3.8
EV/Ebitda (x)	35.3	30.1	22.2	18.7	17.4	15.2	12.1
Dividend Yield (%)	0.6	0.8	0.8	1.0	0.9	1.0	1.2

Source: CLSA Strategy report November 2007. Past performance is not indicative of future results.

Also the strongest earnings in the region

Market	P/E (x)		EPS growth (%)		P/B (x)	Div yld (%)	ROAE (%)	Net gearing (%)
	2007	2008	2007	2008	2007	2007	2007	2007
China	25.2	20.3	28.4	24.1	4.1	1.1	17.7	12.0
Hong Kong	14.4	18.5	17.0	(22.4)	2.0	3.4	15.0	20.2
Indonesia	18.2	14.8	41.8	22.9	4.4	2.9	26.4	24.2
India	22.9	18.6	44.0	23.3	4.4	1.0	21.4	14.7
Korea	13.7	12.2	31.4	11.9	1.9	1.7	14.9	9.9
Malaysia	16.5	15.2	41.2	8.7	2.4	4.1	15.8	29.2
Philippines	17.8	15.2	24.9	16.8	2.4	2.3	14.9	29.8
Singapore	19.6	16.9	5.8	16.0	2.6	2.9	14.2	24.7
Thailand	14.7	12.8	13.2	14.9	2.4	3.4	17.5	42.2
Taiwan	13.8	11.9	47.4	16.1	2.5	4.6	18.8	10.5

- One of the highest earnings growth and Returns on Assets

Source: CLSA Strategy report November 2007. Past performance is not indicative of future results.

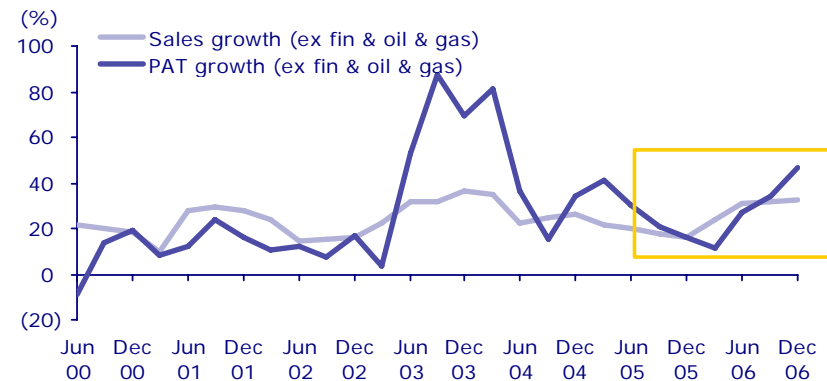
Earnings have sprung constant surprises making P/E discussions less valid

- Consistent earnings surprises in previous years
- For FY07, earnings growth = 31%
- FY08 most estimates of Sensex EPS now higher than a year ago
- Surprises primarily driven by strong topline growth . . .
- . . . suggesting broad-basing of economic boom

Profit growth ahead of expectations



Strong topline growth driving profit growth



Source: CLSA Strategy report November 2007. Past performance is not indicative of future results.

Challenges Ahead

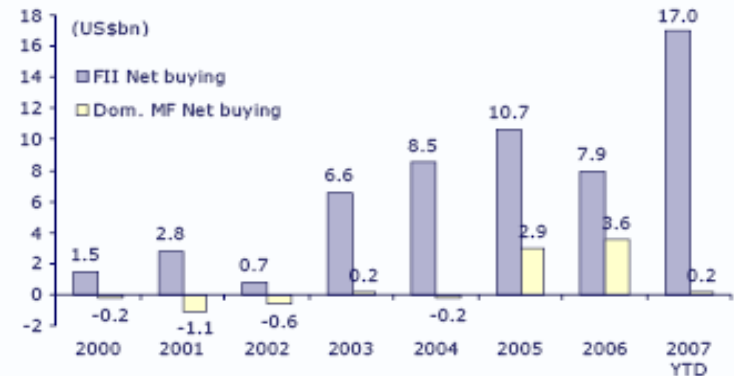
Foreign Flows into Indian Equities has been very strong in the recent past

If global risk appetite wanes this can be a long term overhang for valuations

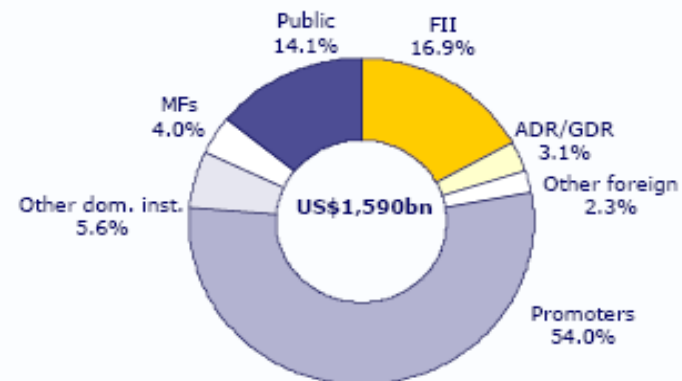
With tepid domestic inflows this could be a one way street

Foreign ownership has already crossed a significant proportion of free float

FII's remain dominant players in India . . .



. . . accounting for +40% of free float

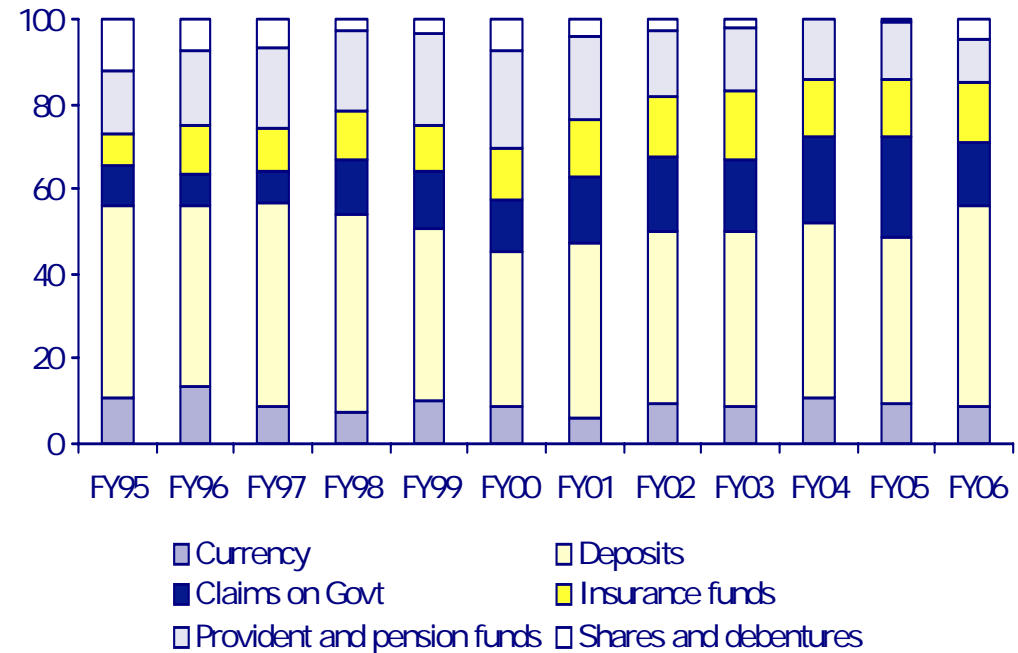


Source: CLSA Strategy report June 2007

Long Term Drivers of Growth

- India's economic growth profile is not dependent on global trades
- India becoming a global-sized market for many products
- Corporate sector now targeting global scale and presence!
- Potential for significant scale up in inflow from domestic institutions and retail investors

Distribution of households' financial savings



Source: CLSA Strategy report June 2007

The Indian Advantage: the long term story

India versus China: A comparison

India

- A Parliamentary Democracy
- Long history of corporate culture, one of the oldest stock exchanges in the world
- High accounting disclosure standards and corporate governance
- High level of entrepreneurship as most companies owned by founders and focus on return on capital employed and profitability
- Able central bank with a wide network of banking infrastructure already in place. Indian banks today display the healthiest books in its history and are adopting BASLE II norms
- Long history of dividend and tax payment
- Foreign Institutional Investors make up a significant part of ownership in Indian companies, second only to promoter holdings

China

- One party rule – Communist legacy
- Most companies largely owned and run by the government
- Accounting standards are yet evolving
- Anecdotal evidence suggest that market share dominance pre-occupies management thought with little regard to any concept of return on capital employed
- Opaque disclosures to not lead to any confidence in the estimates for quality of loan books with most banks. Artificially administered domestic interest rates are susceptible to liquidity crises
- One of the youngest stock markets in the region
- Minimal share of foreign ownership in companies, restrictions exist

Source: CLSA

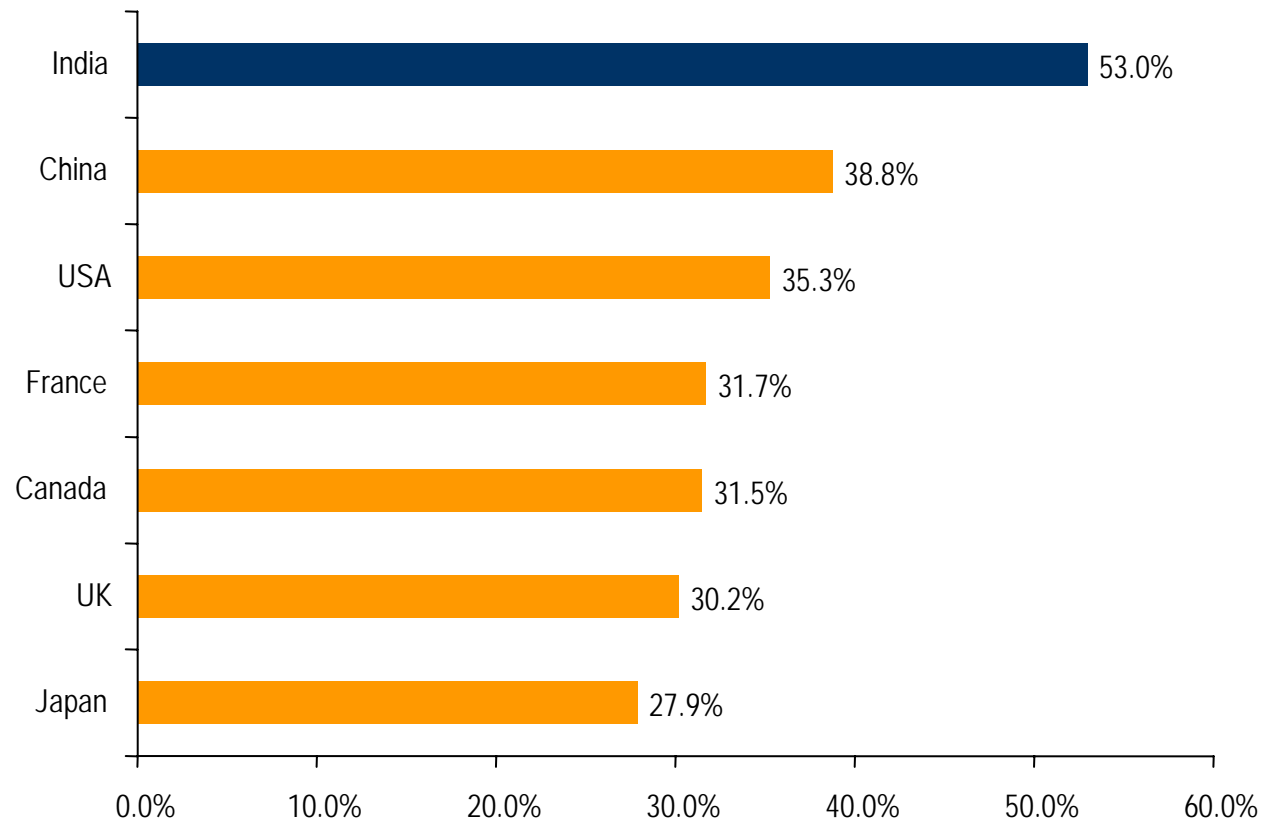
The World's Biggest Exporter Of Talent

- World-renowned institutes such as IIT and IIM
- 250 universities, 1500 research institutions, 10,000 higher education institutes
- Pool of 23 million professionals - increasing by half a million every year
- 34% of Microsoft's & 28% of IBM's development team, and 17% of Intel's scientists are Indians
- 40% of Silicon Valley start-ups are run by Indians
- 2nd Largest Pool Of Scientists & Engineers In The World

Source: CLSA Strategy report June 2007

Demographics Favor Consumption Boom

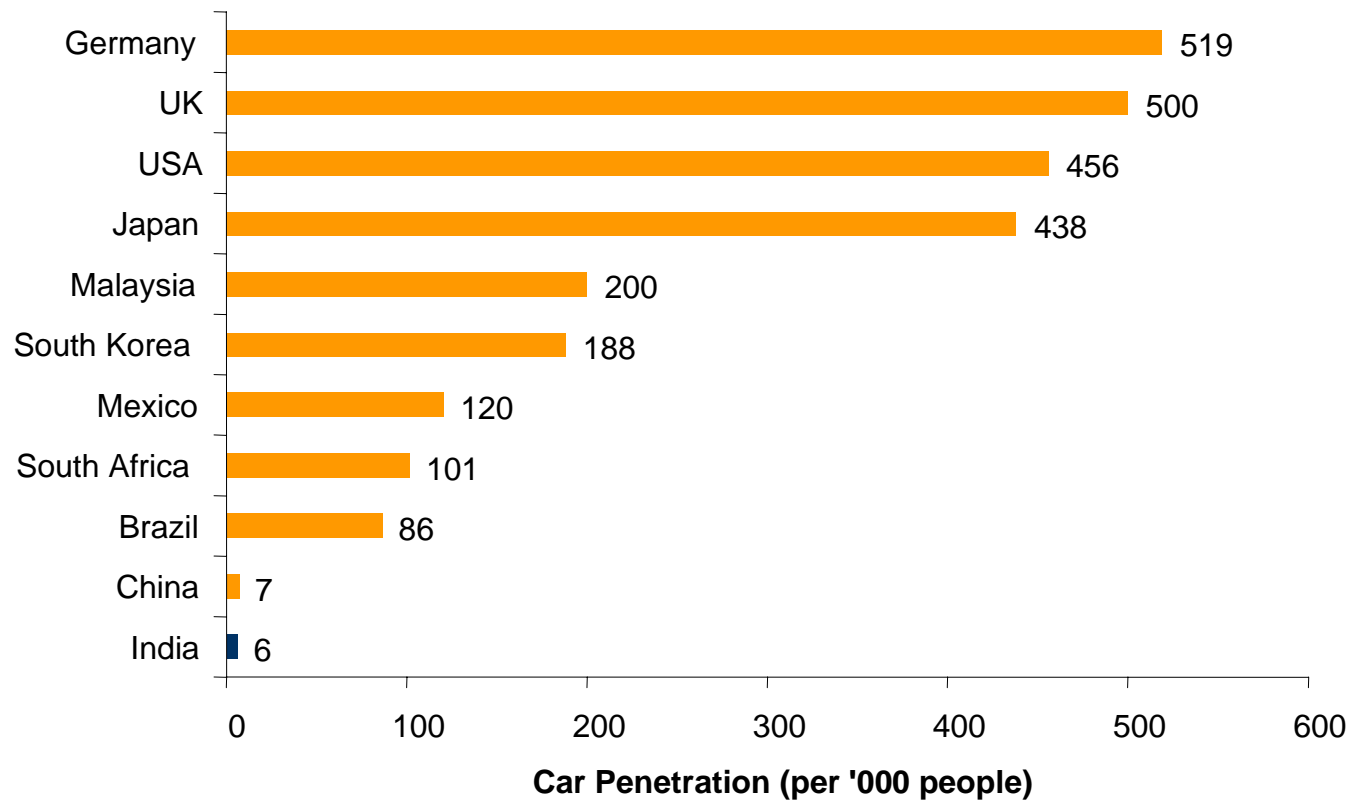
India has the highest population below 25 years



Source: ML Research; India Growth Engine 2006

Low penetration levels in basic goods such as automobiles

Cars are still considered luxury items



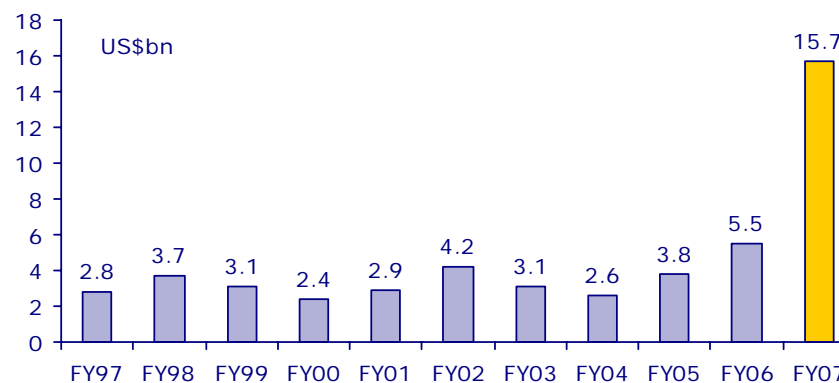
Source: ML Research; India Growth Engine 2006

Rising Infrastructure Spend and FDI inflows

- US\$16bn BOT contracts to be awarded in roads by March 08, 3x since 1999
- Power project awards set to cross 20,000MW in FY08, versus sub-10,000MW in FY07
- Investment in key infrastructure sectors to more-than-double to US\$195bn over XI plan
- Manufacturing capex of US\$240bn is getting underway
- FDI in Indian industry has almost trebled over last year; Commerce Ministry is targeting US\$30bn of FDI this year

Rsbm	Expected investments in 10th plan (2003-07)	Expected investments in 11th plan (2008-12)	% growth
Roads	1,020	2,150	110.8
Ports	125	560	348.0
Railways	606	2,340	286.1
Power	1,800	3,720	106.7
Total	3,551	8,770	147.0

FDI – finally taking off



Source: CLSA Strategy report June 2007

Market Performance and Valuations

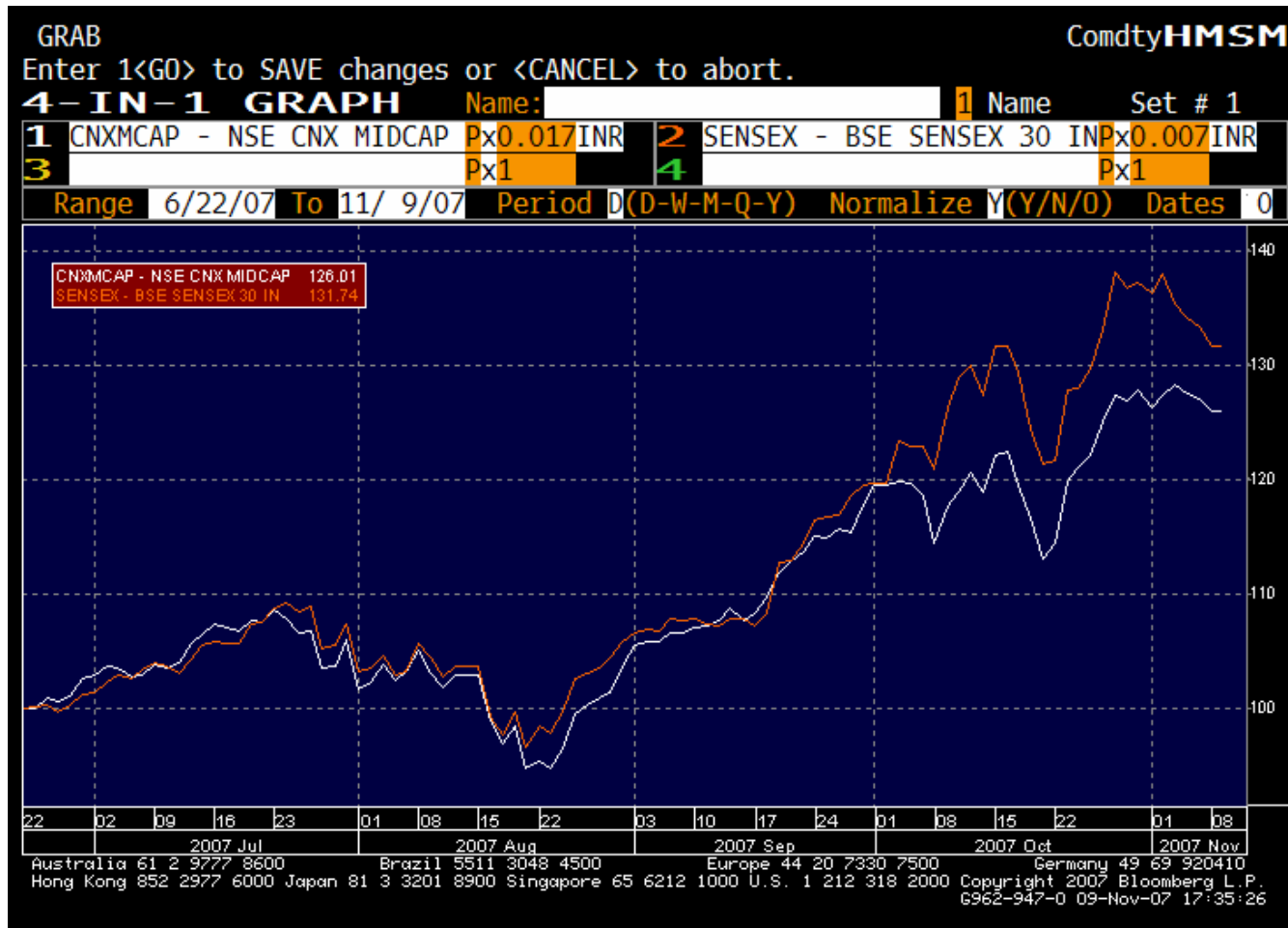
Performance Review:

- Sensex was up 47.2% in 2007 and was down (13.0) ytd (1/31/08)
- Narrow rally: few big weights in the Index have contributed mostly to the gain;
- Broader indices are lagging the Sensex and the mid caps & IT companies have fared poorly
- Top 5 movers contribute to 62.7% of the index move
- Leaders: Reliance Industries, Larsen & Toubro, ICICI Bank, BHEL, Reliance Energy
- Laggards: Infosys, TCS, Satyam, Wipro, Cipla

Source: Bloomberg.

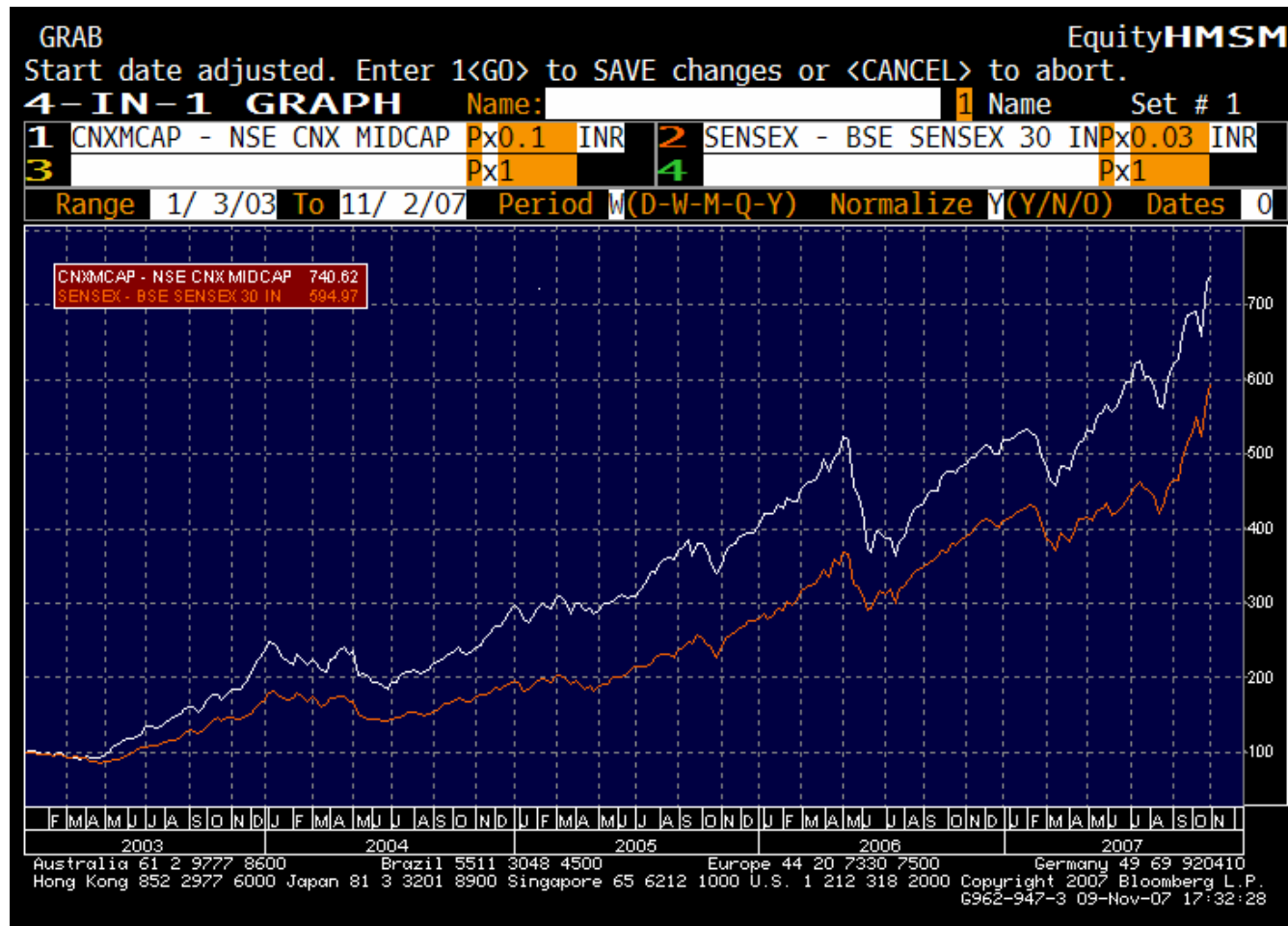
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In the near term the Sensex has beaten the Mid Caps however...



Source: Bloomberg. Past performance is not indicative of future results.

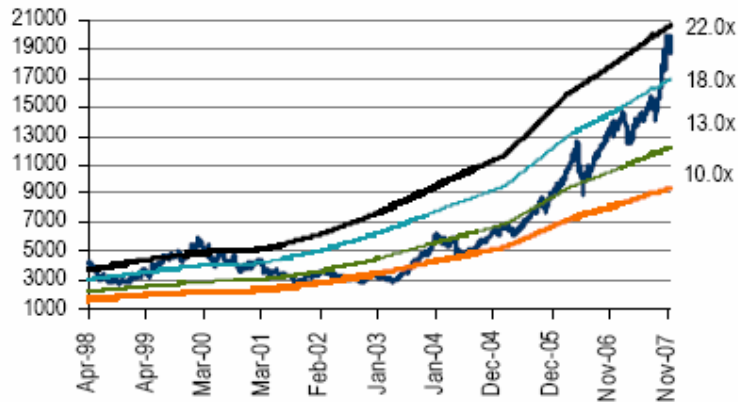
In the long run Mid Caps Outperform



Source: Bloomberg. Past performance is not indicative of future results.

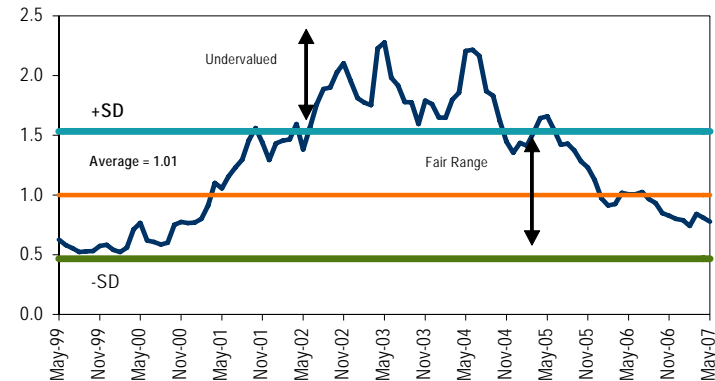
Conclusions

While Market P/E's rise..

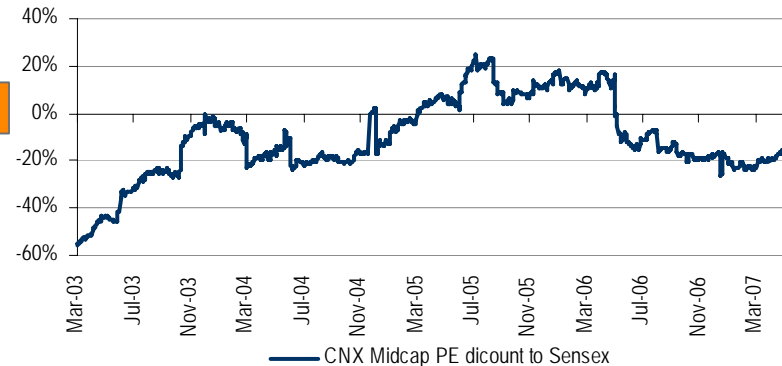


Source: DSP Merrill Lynch Research 2007

..and Earnings Yields come down



There is opportunity elsewhere..



There are significant opportunities to be found that are not part of the Sensex

Bottom-up stock selection will be key

A patient and diligent approach will win in the long term

Past performance is not indicative of future results.

Conclusions:

The opportunity exists in the longer term themes:

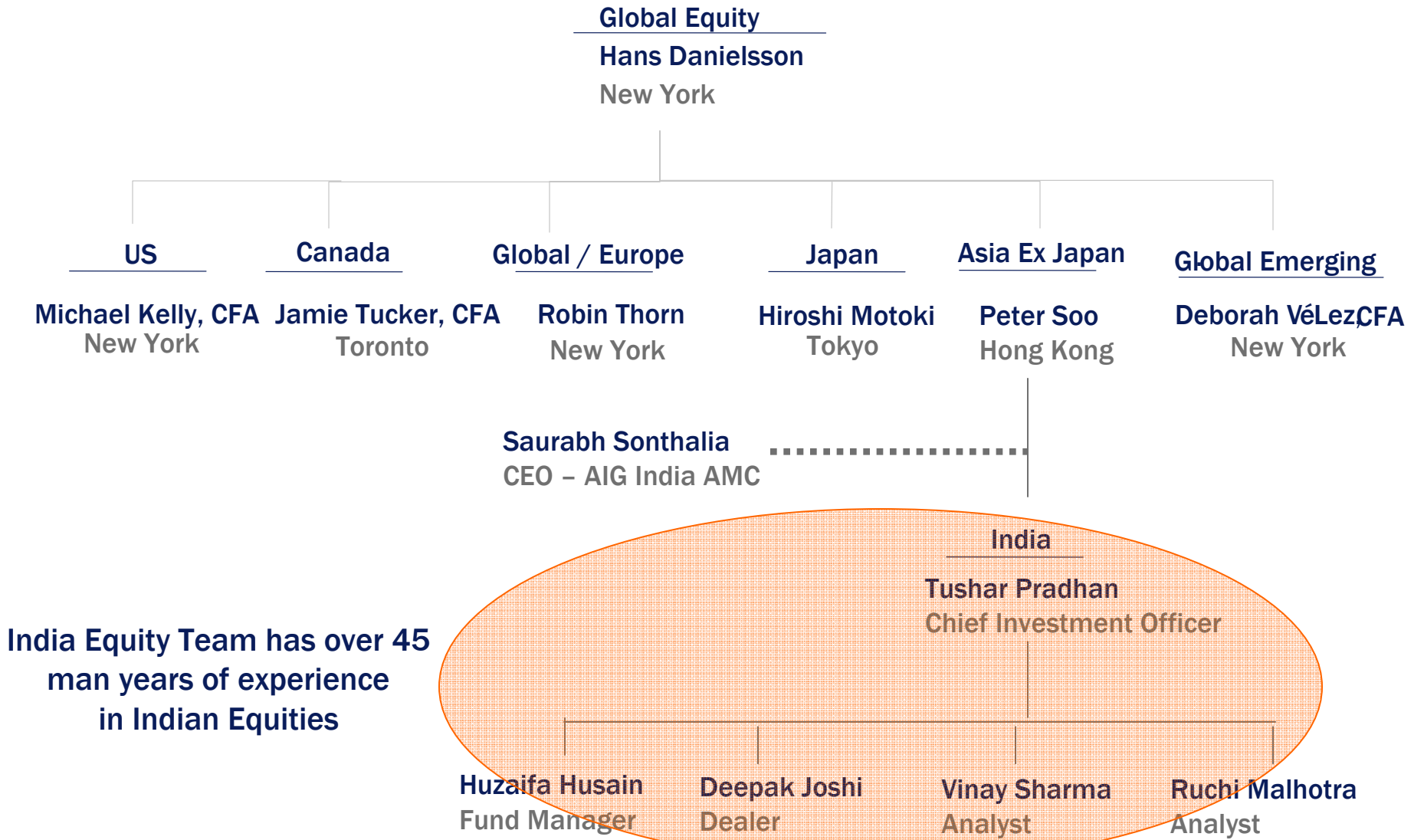
- **Consumption:**
 - Largest Industrial Paints company in India is still a mid-cap, so is the largest air conditioner, manufacturer in India – the list is long: footwear, textiles to name a few
 - Low user penetration of consumer goods and durables
- **Construction:**
 - Only 7 credible construction companies exist in India with slated infrastructure spending estimated to cross USD200 billion in the next few years
 - India could experience near term shortages in cement and aggregates
- **Commercial vehicles:**
 - Duopoly with Tata Motors being the dominant shareholder of the market; considerable barriers to entry
- **Logistics:**
 - Most companies in their infancy should grow after infrastructure gets built up

Interesting facts relevant to Latin American investors:

- India's growth is not driven by external sector or China but more by consumption and investment (81%)
- India has one of the best demographic pyramids in the world (53% of population <25 years)
- Great education systems (particularly tertiary) and hence has been known as the “talent pool” of the world
- India currently makes the cheapest car (US\$2,500) and the cheapest mobile phone (US\$20)
- Infrastructure investments thought to be at the cusp of taking off; currently “bottlenecks” estimated to clip 200bp off GDP
- Stock markets in India has both depth and breath with good corporate governance and will have great diversification benefits to Latam portfolios
- Valuations: not cheap but considering the secular trends and higher ROEs and less dependent on export markets, India is attractive
- Recent pull back could be a great entry point for long term investors

Source: CLSA. We are not recommending or soliciting any action based upon this material. Past performance is not indicative of future results.

AIG India Capabilities



THANK YOU!

Q&A

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