

India Equities Fund Ltd (INE)

INDIA
EQUITIES FUND LTD
ABN 15 121 415 576

A Growth Opportunity at a Substantial Discount

UPDATE

22 September 2009

- **INE offers an asset growth opportunity at a substantial 36% discount to its Net Tangible Asset (NTA) Value of \$0.72 ps.**
- **The NTA discount is expected to narrow considerably, with further growth in its portfolio and improved sentiment.**
- **The growth for INE reflects the strong Indian economy, which along with strong profit growth and foreign investment will result in Stock Market strength.**

The India Equities Fund (INE) gives direct exposure to India and the Indian Stock Market, both expected to grow strongly.

India has one of the more dynamic global economies, recently generating GDP growth of around 9%. Despite the impact of the Global Financial Crisis (GFC), the economy has continued to grow and avoid recession, with forecast growth of 5 - 6% in 2009.

A return to stronger growth in 2010, with IMF forecasts of 6.5% with continued strong growth of over 7% pa for the next 5 years. This is supported by:

- stable government and continued economic reform;
- continued growth in domestic consumption;
- an increasing population base with a substantial increase in household income; and
- further capital investment and rising capital efficiency.

While the Indian Stock Market has experienced a substantial recovery, after falling sharply during 2008 and early 2009, it remains over 30% below peak 2008 levels. A continued recovery in the market will be driven by:

- a return to stronger economic growth;
- an improved profit outlook for Indian companies and strong global equity markets;
- Strong foreign investor inflows; and
- Attractive valuation levels for the Indian market

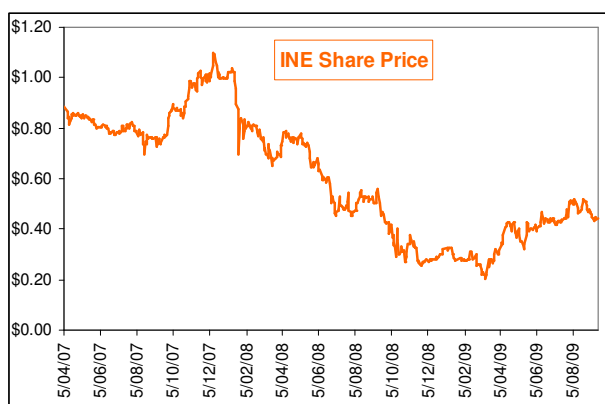
Although the recent recovery in the Indian Stock Market has resulted in a substantial increase in NTA, from lows in early March 2009, the substantial share price discount to NTA had remained. This discount is expected to narrow with a focus on the strong economic growth and Stock Market growth, and recently announced INE initiatives.

THE INVESTMENT CASE

An investment in INE is attractive, as:

- INE offers direct exposure to the Indian economy and stock market, both expected to grow strongly;
- With a strong growth outlook and different parameters, INE provides an opportunity for investors to diversify exposure;
- There is the prospect of a narrowing of the current 36% price discount to the NTA per share; and
- the recent changes in the investment management structure and other initiatives are expected to result in an improved performance, a reduced cost base and increased efficiency.

Current Price – Ordinary Shares	\$0.46
- Options	\$0.10
ASX Code – Ordinary Shares	INE
Options	INEO
Issued Ordinary Shares	99.1m
Options	23.5m
Market Capitalisation	\$45.6m
Shareholder Funds	\$74.8m
Net Tangible Assets - pre-tax (diluted for rights issue and placement)	\$0.68 ps
Net Tangible Assets - post-tax	\$0.72 ps
Total Assets	\$75.3m
Investment Portfolio	\$67.2m
52 week trading Range	\$0.24 - \$0.60
www.Indiaequitiesfund.com.au	



Activities:

INE is an ASX listed investment company focused purely on India, seeking to achieve long-term capital growth by investing in listed equity securities of Indian companies

BACKGROUND

India Equities Fund Limited (INE) is an ASX listed investment company focused purely on India, seeking to achieve long term capital growth by investing in listed Indian equities on the Bombay Stock Exchange (BSE) or National Stock Exchanges in India. INE remains the only listed investment company (LIC) providing investors with direct exposure to India.

Following changes in the Investment Management arrangements, INE's portfolio will be managed by Olympus Funds Management (Olympus), with Prudential Asset Management Singapore (PAMS) providing portfolio and transaction advice, effective from the end of September 2009. Olympus has a Foreign Institutional Investor Certificate from the Securities and Exchange Board of India, enabling it to invest directly into India. PAMS is the asset management division of the Prudential Group and is Asia's 4th largest retail fund manager.

INE has just completed a 1:3 fully underwritten rights and options issue, which along with the subsequent placement of 5m shares, raised \$11.4m. Some \$10m of these proceeds have now been transferred to India to expand the portfolio.

INVESTMENT FOCUS

The assets of INE are managed with the aim to:

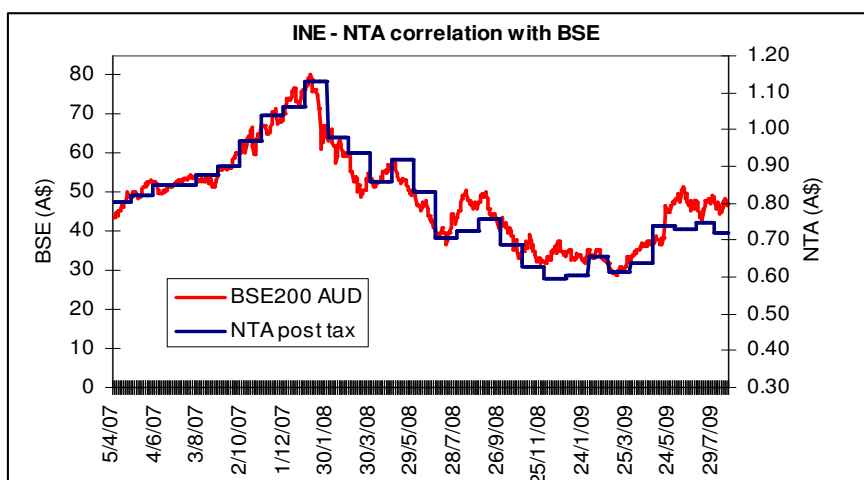
- exceed an absolute return of 20% pa.
- exceed the return of the BSE 200 Index in A\$.

The focus is on long term capital growth and to identify companies with strong business fundamentals, quality management and superior growth prospects, with a large market capitalisation focus. Currently, INE's investment policy is to be ungeared and unhedged on currency.

The INE investment portfolio has recovered strongly, in line with the recovery in the Indian market. While the NTA of INE (adjusted for the Rights Issue), fell sharply from a high of \$1.25 ps in January 2008 to the low of \$0.53 ps in early March 2009, with the downturn in global equity markets and the Indian stock market, it has recovered to \$0.72 as at 31/8/09.

India Equities Fund NTA (adjusted for the Rights Issue) as at					
	Establishment on 30-Apr-07	30-Jun-07	30-Jun-08	30-Jun-09	31 – Aug-09
NTA (after-tax)	\$0.82	\$0.87	\$0.64	\$0.67	\$0.72
Change from pcp (%)		+5.2	-15.0	+3.6	+2.1
Change from Establishment (%)		+5.2	-22.0	-22.0	-11.9

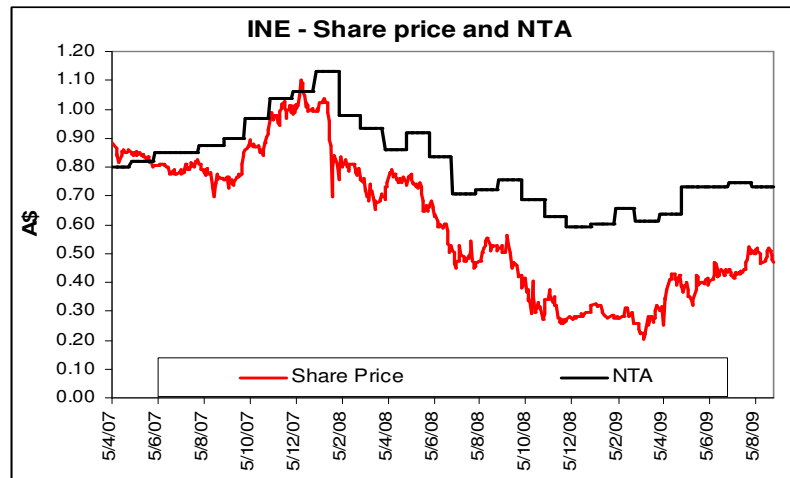
While INE NTA has broadly tracked its benchmark index in A\$ terms (as outlined below), the return since inception has been 3.3% below the benchmark. However, with the poor performance during 2008-09, when the return was 12.4% below the benchmark, only exceeded it in 6 out of the 12 months, INE has reviewed its investment management arrangements



After consideration of available alternatives, INE terminated its previous Investment Management Agreement, and has entered into the new investment arrangement with Olympus and PAMS. This will result in a reduction in fees paid and expected improvement in investment performance. PAMS through its Joint Venture with ICICI Bank in India, has an established track record in India and has traditionally delivered returns in excess of the BSE 200 Index

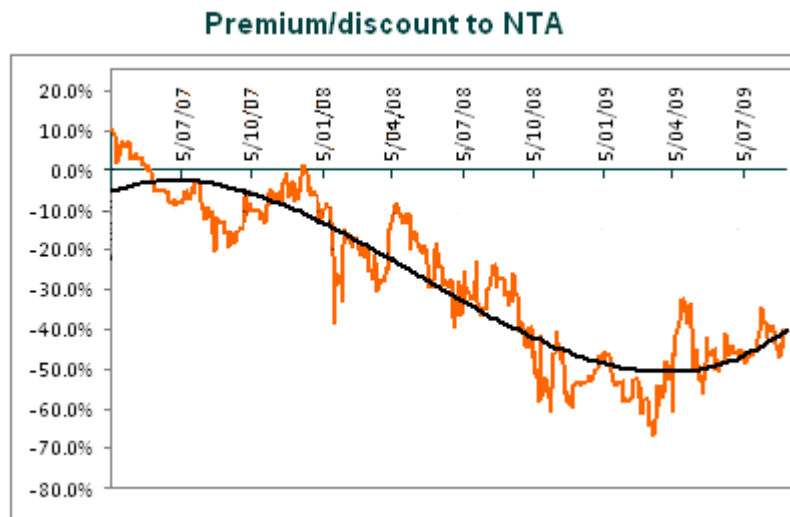
VALUATION

The INE share price has underperformed the NTA, since initially trading at a small premium, with the discount ranging up to over 66% in March 2009, recovering to a 36% current discount.



The low discount in January 2008 and greatest discount in early March 2009 corresponded to the recent highs and low in the both global and the Indian markets, illustrating the alignment of the INE price to the market performance.

The discount of the INE share price to NTA per share reflected concern about the size of the correction to the Indian market and the uncertainty ahead of the Indian Election, a short term lack of liquidity in INE and selling pressure. The trend reversed in March, which signaled the low in global markets, including the Australian market, when the discount reached 66%. The discount has since narrowed with the recovery in global markets, the favourable election result and forecasts of a strong recovery in GDP growth and company profits.



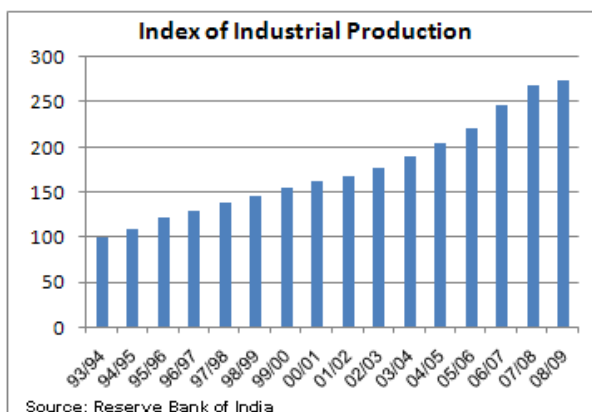
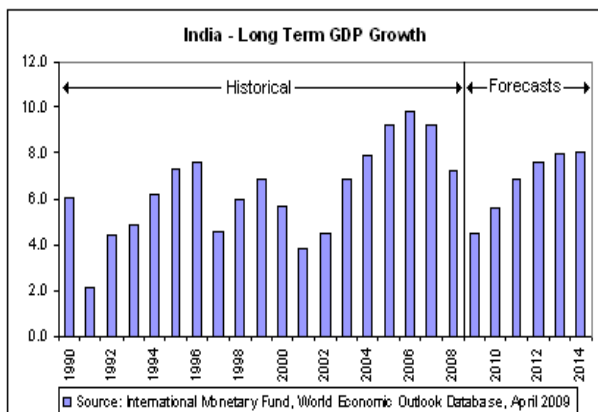
In order to reduce the volatility in NTA, increase operational efficiency, increase long term returns and diversify exposure to a wider range of assets, INE has:

- internalised investment management and reduced the cost base of INE;
- undertaken a rights issue to increase the portfolio size and increase market liquidity;
- indicated an intention to pay half yearly dividends, subject to returning to a surplus on Reserves and Retained Earnings; and
- Increased communications with shareholder, the investment and wider community.

THE INDIAN ECONOMY

The Indian economy is the largest free market democracy and one of the most vibrant global economies, with:

- **Strong GDP Growth** - with growth of 9% pa for the five years to 2008, driven predominantly by Private Domestic Consumption growth, which accounts for 57% of India's GDP. Despite the Global Financial Crisis, The World Bank is still forecasting growth of 5% to 6% in 2009 and 8% in 2010, with forecasts of average growth of 7.2% pa in the 5 years to 2014.
- **Industrial Production** - strong growth in Industrial Production, financed by net inflows of foreign capital and foreign financing, which combined reached over 23% of GDP in 2008.



- **Increasing Productivity** – with rising capital efficiency and productivity gains, the average return on capital employed in the Indian corporate sector at about 21% is comparable with major economies and double China.
- **Attractive Demographics** – with a population of 1.2 billion, increasing at a rate of 22million pa, one of the youngest populations globally with 54% under 25 and a rapidly expanding middle class.
- **Rising Income levels** – rising per capita income, with and increasing level of education, continued urbanisation and longer life expectancy, resulting in increasing disposable income;
- **Political Stability** - a favourable election result, resulting in stable government, continuity in policies, an increase in the pace of economic reform and market deregulation and encouragement for overseas investors.
- **Financial Stability** - a robust banking system with an average capital adequacy ratio well above the normal global ratios, no exposure to the subprime of securitisation issues and limited defaults;
- **Increased Awareness** - increasing global recognition, especially in business process outsourcing, information technology and telecommunications;
- **Lower Inflation** - reduced inflation pressures as a result of reduced import and domestic prices as a result of the global financial crisis.
- **Reduced Oil Dependency** - Recent major oil and gas discoveries substantially increases domestic reserves and further reduces future oil costs.

THE INDIAN STOCK MARKET

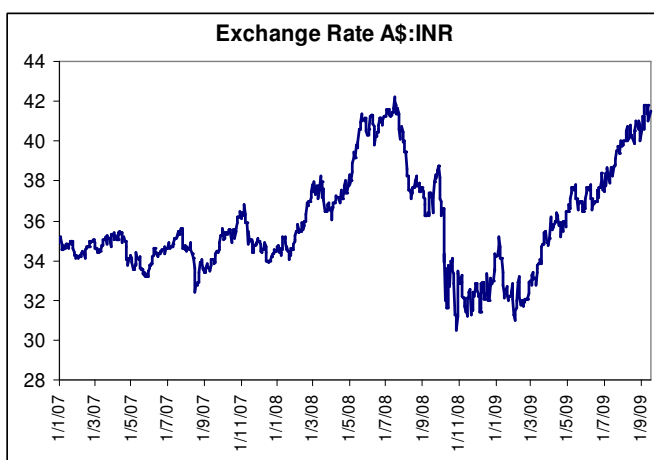
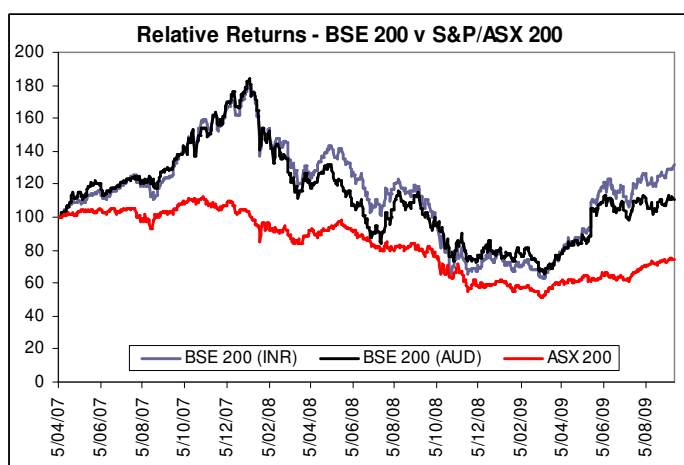
The Indian Stock Market has a market capitalisation of over US\$700 billion, around 1% of global market capitalisation, with over 6,400 listed stocks, second in number only to the New York Stock Exchange.

The Indian market has been extremely volatile over the last 30 months, underperforming on the decline, but significantly outperforming on the recovery, with:

- a 60% increase in the benchmark BSE 200 Index in Calendar Year 2007;
- a 65% fall in the Index from the peak level on 7 January 2008 to a daily low on 9 March 2009; and
- a 109% increase from the low to 15 September 2009. However, the Index still remains 32% below the peak level.

The recovery in May and June was helped by the recovery in global markets and the favourable Indian election result, which resulted in a reversal of foreign investment outflows to strong inflows.

The Indian Stock Market has substantially outperformed the Australian Stock Market since the inception of INE, in both Indian Rupee (INR) and A\$ terms. This has been particularly evident since the lows in the markets in March, despite a weakening in the Indian Rupee, which has depreciated significantly since the market low in March 2009.



Attractions of the Indian Stock Market

The attractions of investing in the Indian Stock market are:

- exposure to strong and a continuing growth economy;
- investment in a broad and well defined capital market with over 6,400 companies spread across a wide variety of defined sectors, enabling a targeting of sector investments;
- expected strong foreign investment fund inflows, with the favourable election result and strong growth outlook;
- compatible culture, language and regulation. and
- the Indian Market is trading at a substantial discount to its long term Price Earnings Ratio range, Dividend Yield and Price to Book ratio, leaving room for a further re-rating, especially with stronger economic growth and company profits and improved sentiment.

THE PORTFOLIO

As at 31 August, the top 20 comprise over 67% of the portfolio of 52 stocks, with a heavy weighting to large capitalisation stocks. Currently 94% on the invested portfolio is in major stocks above A\$1 billion in market capitalisation.

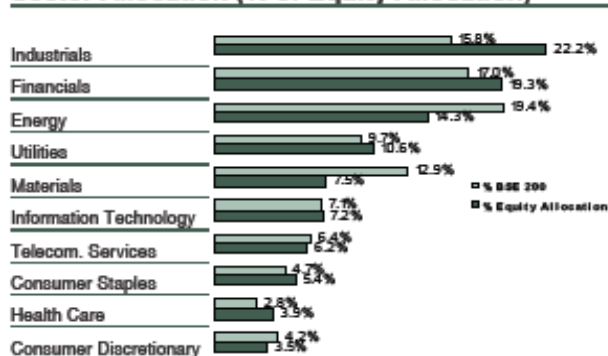
Top 20 Holdings

Security Name	Sector	Mkt Cap A\$ Bn	Holding	% of Portfolio
Reliance Industries	Energy	82.3	↑	7.8
ICICI Bank	Financials	20.1	↓	5.5
Larsen & Toubro	Industrials	23.8	–	4.9
Infosys Technologies	Info. Tech.	26.3	–	4.7
ITC	Cons. Staple.	18.6	–	4.1
Bharti Airtel	Telco. Serv.	39.4	↓	3.9
HDFC Bank	Financials	16.5	–	3.7
Bharat Heavy Electricals	Industrials	27.9	–	3.2
Reliance Infrastructure	Utilities	7.0	–	3.1
State Bank of India	Financials	28.6	–	3.0
Oil & Natural Gas Corp.	Energy	59.0	↓	2.8
NTPC	Utilities	41.6	↑	2.6
Tata Power	Utilities	6.6	↑	2.4
Hindustan Construction	Industrials	0.7	↑	2.4
IVRC Infra & Projects	Industrials	1.2	↑	2.3
HDFC	Financials	17.2	–	2.3
Crompton Greaves	Industrials	2.8	–	2.2
Reliance Communications	Telco. Serv.	15.4	↑	2.0
GMR Infrastructure	Industrials	6.7	–	1.9
GVK Power & Infrastructure	Utilities	1.5	–	1.8
Total				66.7

Holding relates to the change in quantity of respective holdings during the quarter.

The major weightings are Industrial (22.2%), Financials (18.3%), and Energy (14.3%). The overweight position in Industrials is offset by an underweight position in materials. INE Has been increasing exposure to both Financials and Materials with a change in focus and a reduction in Energy and Information Technology

Sector Allocation (% of Equity Allocation)



Following the recent right issue and placement the INE Portfolio has increased by A\$10.8m to A\$67.2m.

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