

Source: chart & following table: Bloomberg

Close: 9 Dec 2013	Level	Index Pts Chg- Day	% Chg YTD	PE 2014/15	High	5 Year PE	
						Low	Avg
SENSEX 30	21,327	+ 330	+9.8%	14.3x	25.6x	9.1x	17.2x
NIFTY 50	6,364	+ 104	+7.8%	13.9x	25.0x	9.0x	17.4x

BOMBAY

INR ₹ / USD	\$1=	Rs61.13
INR ₹ / GBP	£1=	Rs100.08
INR ₹ / EUR	€1=	Rs83.84

The SENSEX rose 1.6% to a new all-time high as the BJP swept to victory in state elections. Infrastructure and construction stocks rose as these sectors are viewed as winners if the BJP also wins at the national elections in April. SENSEX 22,000 is possible by the year-end.

LONDON / NEW YORK

Most GDRs/ADRs are lower YTD. The only gainers are in NY. WIPRO:+54% YTD, Infosys:+30% YTD, Dr Reddy: +22% YTD and Tata Motor: +12% YTD.

POLITICAL & ECONOMIC NEWS

⇒ **Results of the recent 5 state elections are out.** In a clear rejection of the Congress Party, despite its populist handouts, voters gave a clear victory to the main opposition party, the BJP in 3 states. The BJP retained Madhya Pradesh and Chhattisgarh, and ousted Congress in Rajasthan. Congress won in the tiny state of Mizoram. In New Delhi, BJP was the biggest winner with 32 seats, but short of the 36 required to form government. Congress, in Delhi, was pushed from first to third place by a sparkling debut from the anti-corruption party, Aam Aadmi Party (AAP). The Congress Party suffered a bruising defeat overall in the latest major state elections ahead of general elections, probably due in April 2014. This is just under 20 weeks away. Voter anger at corruption and high food inflation affected sentiment for the Congress Party.

⇒ **The clear vote of confidence for the BJP has greatly strengthened its PM candidate, Narendra Modi.** His ability to deliver such results will help to silence some of the critics within BJP. He has managed to highlight his business friendly and reformist credentials as Chief Minister of Gujarat since 2001. Voters appear to be disillusioned with the Congress Party's poor handling of the economy where growth has almost halved in just two years; and the high food inflation has hurt the common man. Modi's promise of re-invigorating the economy and creating jobs appears to have appealed more to the aspiring masses in India.

⇒ **The BJP's latest success does not ensure similar success at the general elections.** Modi has an uphill task of winning in large states like U.P. and Bihar, which are crucial for a national mandate. And in the south and east of India where the BJP has struggled in the past to build its presence. For an outright majority at the general elections a party needs to have at least 273 seats. Few expect either of the two main rival parties to get anywhere near this figure. Regional parties will again play a pivotal role in coalition politics to decide which of the two parties will form government. BJP needs at least 175 seats,

compared to just 116 it could win at the last election in 2009, to be in a position to form a coalition government. Surprises are not uncommon in Indian politics. There has always been a peaceful transfer of power in the world's largest democracy. There have been no military coups in India's 66 years of independence from Britain.

⇒ **The biggest win, however, was for the Aam Aadmi Party (AAP) which was born only a year ago out of an anti-corruption movement.** It shocked both the main parties by winning a close second place in Delhi with 28 seats. This is not far behind BJP's win of 32 seats. The AAP is led by a mild-mannered former civil servant, Arvind Kejriwal. His aim is to end the grip of the two largest parties, Congress and BJP, on Indian politics. And, in the process clean up the rotten elements of Indian politics. Kejriwal was fighting the current Congress Chief Minister, Mrs Sheila Dixit, in her own constituency. He won more votes than Mrs Dixit and Congress combined. The challenge ahead for the AAP is to grow the movement nationally in time for national elections. Even though it has 309 committees across 22 out of 28 states in India this is a tall task. Kejriwal promises transparent political funding in a country where funding for parties often comes from dubious sources. And where parties have offered populist policies in the past to secure votes. One internal survey ahead of the Delhi elections found about a third of the party's supporters wanting Modi as Prime Minister. If the AAP, at national elections, is able to continue its current success, it may become an important voice in any coalition. With its strong anti-corruption stance, it would mark an interesting phase in Indian coalition politics.

⇒ **Could Modi, if elected Prime Minister at the general elections, be a "game changer" for the Indian economy and markets?** Very possibly. In the short run, BJP's win is positive for the market. The SENSEX closed at another new all-time high today of 21,327, and the Indian Rupee touched a four-month high. This marks an astonishing turnaround compared to June-August when India seemed trapped in its worst economic crisis since 1991. Foreign investors abandoned Indian markets. This led to steep falls in the stock markets and the Indian Rupee. So far in 2013 FIIs have invested \$ 18.1 bn, the third highest ever in the 20 years they have been allowed to invest in Indian shares. Not bad, considering 2013's plethora of bad news.

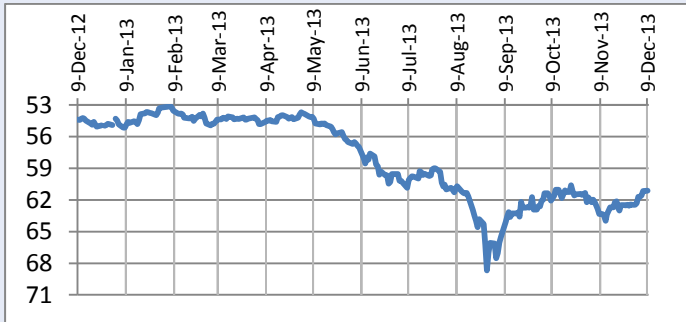


ECONOMIC & MARKET CHARTS

Chart source : Govmt. of India, SEBI

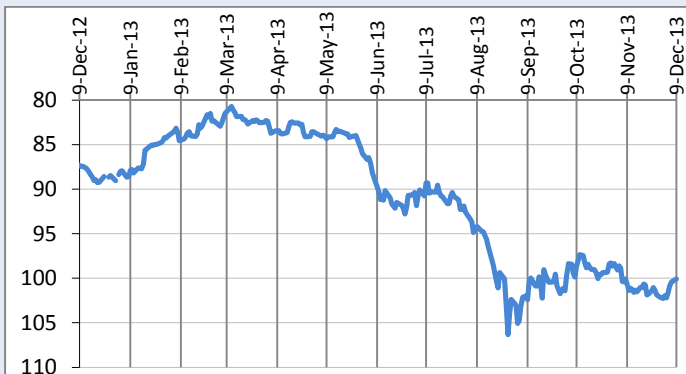
Comments : Lalcap, UK

INR/USD - 1 YEAR CHART



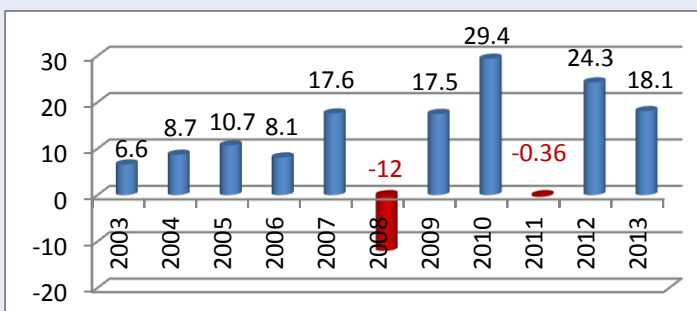
- The fall accelerated from mid-May (c. Rs 55 then, and up 0.1% year-to-date) after the US Fed announced plans to withdraw monetary stimulus
- The INR/USD rate touched an all-time low on 28 August 2013 of 68.80, a fall 25% year-to-date
- A sharp recovery started in September and more than half the losses have been clawed back. The rate today was 61.13, a fall of 11% year-to-date
- The worst drop, since 1991, for a full year was in 2008 (global financial crisis) - down 19.2%

INR/GB£ - 1 YEAR CHART



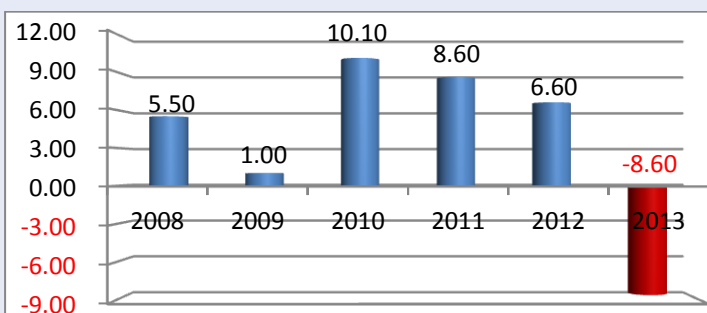
- The fall accelerated from mid-May (c. Rs 84 then, and **up** nearly 6% year-to-date) after the announced plans by the US Fed to withdraw monetary stimulus
- The INR/GBP rate touched an all-time low on 28 August 2013 of 106.82, a fall 20% year-to-date
- A sharp recovery started in September, and nearly half the losses have been clawed back. The rate today was 100.08, a fall of 12% year-to-date
- The Central Bank states that it does not target a rate for Rupee against major currencies. It simply tries to ensure an orderly market.

FII EQUITY INVESTMENTS : 2003 - 2013 (US \$ BN)



- In 2013 FIIs have invested a net \$ 18.1bn in Indian shares, despite outflows of \$ 3.8bn between June and August.
- \$ 18.1 bn is the third highest in 20 years. Not bad, bearing in mind the dreadful news flow this year
- Contrary to perceptions FII inflows are not "hot money". Over the last 20 years that FIIs have been allowed to invest in Indian shares they have only net sold shares in 3 years (15% of time in India). And in money terms have only sold about 8% of money put in

FII DEBT INVESTMENTS : 2008 - 2013 (US\$ BN)



- Since 2008, this is the first calendar year that FIIs have net sold Indian debt - about \$ 8.6bn
- The Rupee's slide due to the high Current Account Deficit rattles FIIs as they are losing more on currency depreciation (about 11% YTD vs the US\$) than the yield made on debt instruments of about 8% pa
- Further selling of FII debt is expected
- The Central Bank has wisely said that India will not impose capital controls on foreign investment



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- Introductions of funds (long only, hedge and private equity) to banks, family offices and asset managers in Europe
- Introduction of clients to Private Banks globally
- Consultancy - with a focus on promoting business with India.

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Deepak N. Lalwani also acts as Consultant - India at stock broker WH Ireland (est. 1872), London, where all stock broking activities (GDRS/ADRS/AIM shares + bonds) are executed. The old team from Astaire, where he worked for 16 years, moved to WH Ireland.

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REGISTERED OFFICE: LALCAP LTD, LEVEL 7, TOWER 42, 25 OLD BROAD STREET, LONDON EC2N 1HN

REGISTERED IN ENGLAND NO: 07245357

LALCAP: E: info@lalcap.com

AUTHOR: Deepak N. Lalwani OBE, FCSI, FCCA

T:+44 (0)20 3519 0909

W: lalcap.com

Director - India

E: dl@lalcap.com