



# INDIA REPORT

500+ issues over 18 years

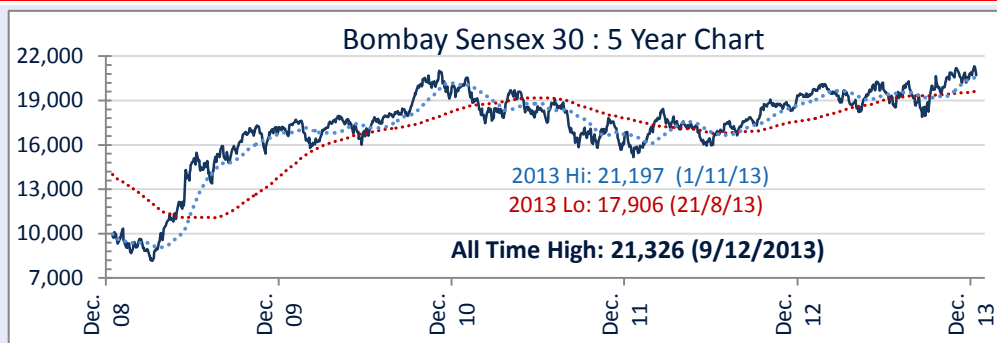


LALCAP

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Source: chart & following table: Bloomberg

13 Dec 2013	Index		% Chg YTD	PE 2014/15	5 Year PE		
	Level	Pts Chg-Day			High	Low	Avg
SENSEX 30	20,716	-210	+ 6.6%	14.0x	25.6x	9.1x	17.2x
NIFTY 50	6,168	- 69	+ 4.5%	13.5x	25.0x	9.0x	17.4x

## BOMBAY

INR ₹ / USD	\$1=	Rs62.19
INR ₹ / GBP	£1=	Rs101.38
INR ₹ / EUR	€1=	Rs85.45

The SENSEX closed 1% lower as profit-taking continued. The Central Bank is widely expected to hike interest rates again on the 18th, to curb inflation. Eyes are also on the US Fed's meeting next week - for clues on tapering the current economic stimulus.

## LONDON / NEW YORK

Most GDRs/ADRs are lower year-to-date (YTD). IT shares outperform. Infosys is: +28% and WIPRO: +50%. On AIM, HIRCO stands out with a loss of 52% YTD.

## ECONOMIC NEWS

⇒ **A sharp rise in food prices drove retail inflation to a record level of 11.24% year-on-year in November.** Food prices soared by an annual 14.72%. This is very politically sensitive in a country where, despite a growing middle class, about 800 m people live under \$2 a day according to the World Bank. Stubbornly high inflation for about two years (led by soaring vegetable prices) combined with high interest rates have hit India's domestic demand driven growth. The domestic side accounts for about 57% of India's economy. The production of consumer goods, a proxy for consumer demand, fell an annual 5.1% in October. The sector has grown in only one out of the last six months. The Wholesale Price Index (WPI) for November is to be released on Monday, the 16th. It is also expected to show inflation at elevated levels. In October the WPI was 7.0% - far higher than the Central bank's comfort level of 5%.

⇒ **India's industrial production contracted for the first time in four months in October, down by 1.8% year-on-year.** The manufacturing sector, which accounts for 76% of industrial production fell 2% vs a year ago. Capital goods, a barometer for investment in the economy, grew 2.3% in October vs a year ago. Such mixed data suggest that although an economic recovery is underway, it appears to be fragile. And, faltering.

⇒ **The Central Bank, Reserve Bank of India (RBI), meets on the 18th.** We expect interest rates to rise again. They were raised by 0.25% in September and again in October. The repo rate (key policy rate) is currently 7.75%. The extent of the next increase is not clear. Our view is that simply based on rising inflation, especially in food prices, there is a case for a hike of 0.50%. However, with lower industrial production signalling that the economic recovery is still shaky there is a case to increase interest rates by just 0.25%. So as not to kill the fragile growth. The latter is what we think the RBI will do on the 18th, as it still continues to focus on anchoring inflation.

⇒ **High inflation, especially of vegetable prices, contributed in a**

**major way to the recent debacle for the Congress party in the recent state elections.** With national elections due in less than 20 weeks the Congress party is hoping that the recent good monsoon will yield bumper crops; and help in cooling down food prices very soon. The party's vote bank mainly consists of the rural poor. However, to bring down food inflation on a sustainable basis requires structural reforms and pro-active policies to the supply chain. Like much better warehousing, vastly improved distribution and transport infrastructure. And to dramatically lower the estimated 30%+ wastage in fresh food rotting from farm to market. All this has been woefully absent, and takes time to implement. The failure by Congress to address these key issues angered voters at the recent state elections. And may do so again at the national elections, due latest by May 2014.

⇒ **Despite the sharply slowing economy there are many success stories.** One of them is unlisted company, Micromax. It has become India's No. 2 smart phone brand in just five years after selling its first handset. It started in business selling a cheap \$ 30 made-in-China mobile phone. It is now on track to cross \$ 1 bn in sales for the year to 31 March 2014. Micromax built up its business by selling basic and cheap handsets in a very price sensitive market among the masses. It was able to gain rapid market share by introducing a cheap model which could take two SIM cards. Hence, users could take advantage of bargains from competing mobile line providers. It has "moved up the ladder" by selling smart phones starting at just \$50. This is almost half the price of a comparable Samsung. About 250 mn handsets are sold annually in India, about a fifth of which are smart phones. Among all types of mobile phones, Micromax ranks third after Nokia and Samsung. The company now wants to tap overseas markets like Russia and Romania.



**HAPPY CHRISTMAS  
& ALL GOOD WISHES FOR 2014**



## SELECTED SHARE PRICES :

## GDR OFFER PRICES (US\$) LONDON – 13 Dec 2013 : 1630 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
L&T	\$16.82	- 14%	Rel. Inds	\$27.49	- 10%
M&M	\$15.36	- 8%	SBI	\$55.90	- 38%
Ranbaxy	\$ 6.62	- 27%	Tata Steel	\$ 6.56	- 17%

Source : Thomson Reuters

## ADR OFFER PRICES (US\$) NEW YORK – 13 Dec 2013 : 2100 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
Dr.Reddy	\$ 38.50	+ 16%	Infosys	\$54.37	+ 29%
HDFC Bank	\$ 34.10	- 16%	Tata Motor	\$30.15	+ 5%
ICICI Bank	\$ 35.83	- 18%	WIPRO	\$ 11.70	+ 50%

Source : Thomson Reuters

## AIM (LONDON): in GB p unless stated otherwise – 13 Dec 2013 : 1630 GMT

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
Caparo (now Mytrah)	79	- 4%	Indus Gas	900	- 12%
DQE	17	- 20%	IEnergizer	222	- 36%
Greenko	162	- 23%	OPG Power	60	+ 28%
HIRCO	20	- 52%	SKIL Ports	78	- 26%

Source : Thomson Reuters

## OTHER : in GB p unless stated otherwise – 13 Dec 2013 : 1630 GMT (UK shares) and 2100 GMT (US shares)

Company	Day's Price	YTD % Change	Company	Day's Price	YTD % Change
Essar Energy	68	- 43%	<u>Collective Funds</u>		
Vedanta Resources	781	- 33%	<u>London:</u>		
			Aberdeen New India	202	- 9%
			JP Morgan India	327	- 13%
			<u>New York:</u>		
			MS India	\$16.96	- 9%
			The India Fund	\$20.23	- 3%

Source : Thomson Reuters

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Deepak Lalwani is chairing the event, but Lalcap Ltd is not organising it.

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