



# INDIA REPORT

500+ issues over 18 years

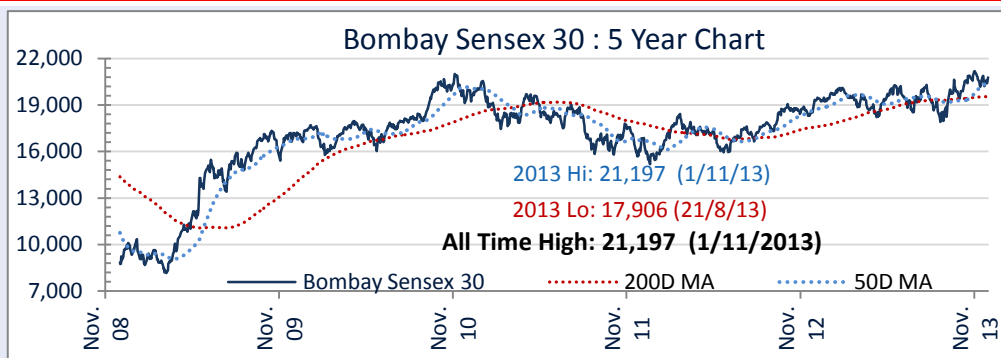


LALCAP

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29 November 2013



Source: chart & following table: Bloomberg

| Close:<br>29 Nov 2013 | Level  | Index<br>Pts<br>Chg-<br>Day | % Chg<br>YTD | PE<br>2013/14 | High  | 5 Year PE<br>Low | Avg   |
|-----------------------|--------|-----------------------------|--------------|---------------|-------|------------------|-------|
| SENSEX 30             | 20,792 | +257                        | +7.0%        | 16.3x         | 25.6x | 9.1x             | 17.2x |
| NIFTY 50              | 6,176  | + 84                        | +4.6%        | 15.8x         | 25.0x | 9.0x             | 17.4x |

## BOMBAY

|             |      |          |
|-------------|------|----------|
| INR ₹ / USD | \$1= | Rs62.38  |
| INR ₹ / GBP | £1=  | Rs101.89 |
| INR ₹ / EUR | €1=  | Rs84.73  |

The SENSEX rose 1.2%. It posted its biggest gain in 6 weeks. Domestic institutions turned buyers. The Rupee ended the week with its second consecutive weekly gain, although for November as a whole it ended 1.5% down. The undertone is firm.

## LONDON / NEW YORK

Most GDRs/ADRs are lower YTD. The only gainers are in NY: WIPRO: +49%, INFOSYS: +27%, Dr Reddy: +22% and Tata Motors: +13%.

## ECONOMIC & POLITICAL NEWS

⇒ **The latest GDP quarterly figure for July - September 2013 (Q2 2013-14) showed growth of 4.8% year-on-year.** It was the fourth successive quarterly expansion below 5%. However, it was higher than expected, and showed a slight rise vs the previous quarter's growth of 4.4%. There is cautious optimism that the worst of the economic slowdown is probably over. However, a recovery looks unlikely to be strong enough to influence the national election due by May 2014.

⇒ **There is some hope of at least achieving overall growth of 5% for the whole year to March 2014, the same as last year.** But the figure will be known only after the elections. Hope comes from this year's strong monsoon which raised crop yields and has resulted in a pick-up in rural spending. However, a sharp rebound in economic growth is not expected as stubbornly high inflation is keeping interest rates high. This has hurt consumer demand, especially in urban areas, and also made credit expensive for businesses that want to borrow to expand. Capital investment to expand output and jobs is still on hold due to rising interest rates and political uncertainty ahead of national elections. The government in the past has stated that an average growth rate of 8% pa is needed to reduce poverty and create enough jobs for India's growing youth population.

⇒ **State Assembly election results for 4 states and Delhi will be declared on 8 December.** They will be an important indicator of voter thinking ahead of the general elections. At the national level, what is certain is that the 15+ year trend in Indian politics of coalition governments will continue. Who will lead one - Congress, BJP, or a loose collection of regional parties - is still uncertain. What counts above all to markets and investors is a stable and credible government. And with enough majority, and co-operative allies, to push through badly needed reforms to accelerate economic recovery and create jobs. Markets and investors view the loose collection of regional parties, or "3rd Front", as undesirable because they would pander to regional, and not pursue national, interests.

⇒ **Narendra Modi, 63, BJP's PM candidate has portrayed himself as a "man of the people", rising from humble roots.** He wishes to appeal to masses, especially the crucial rural vote of 600+ million. His father was a tea vendor or "chai wallah". He is Chief Minister of Gujarat since 2001. He has promised quick reforms and an early end to policy paralysis that has contributed to the sharp economic slowdown. Modi is widely seen as a business-friendly reformer who has attracted major investments to Gujarat. And boosted economic growth along with badly needed jobs. Modi's political campaign focuses on Congress' failure to control inflation (especially high food prices which hurt the poor), the sharply decelerating economy which touched a decade-low last year, a lack of job creation and poor governance. He urges people to dream of a better future. However, nationally Modi remains a divisive figure tarnished by riots 11 years ago. He strenuously denies failing to stop the violence, and a Supreme Court inquiry found no evidence to prosecute him.

⇒ **Rahul Gandhi, 43, and not related to Mahatma Gandhi, is likely to lead the Congress Party.** He is the "Prince" and scion of the Nehru-Gandhi dynasty that has ruled India for most of its independence from Britain 66 years ago. If elected PM he will be the fourth from his family to be India's PM. Although very well educated and with youth on his side in a country where over 50% of the people are under 30, Gandhi has so far failed to match Modi's increasing mass appeal. Even though the latter is far less well known nationally.

⇒ **For decades, Congress relied on its subsidies and other favourable policies to farmers that won it rural votes.** Over 60% of India lives in rural areas. Congress pours at least \$ 20 bn a year into rural India, apart from free education, healthcare and cheap food. In the May 2009 elections Congress' support spread to large towns and cities as economic growth rose very sharply from 2004 - 2008 up to a very impressive average of 8.8% pa. This helped them to win a second 5-year term. However, urban goodwill is fast disappearing. Because of sharply rising food prices, corruption, lack of enough job creation and a sharply lower economy where growth has almost halved in just two years. Modi's track record in Gujarat has excited the rural and urban youth who want economic growth and jobs, not subsidies, to improve their lives. And realise their dream of a better future.

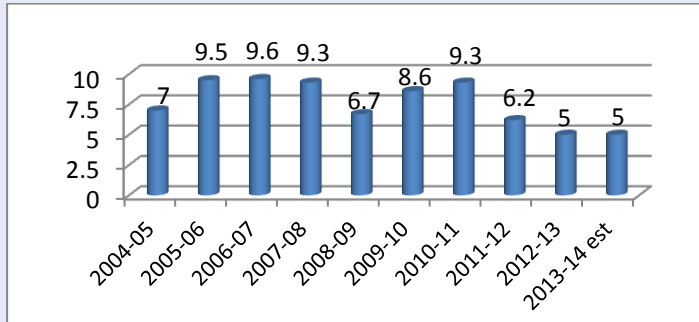


## ECONOMIC &amp; MARKET CHARTS

Chart source : Govmt. of India, SEBI

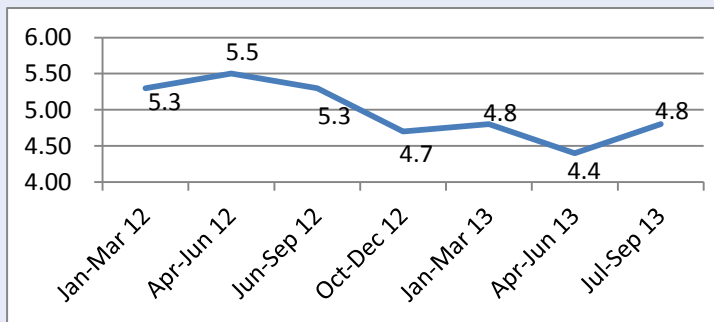
Comments : Lalcap, UK

## REAL GDP % GROWTH : 2005 - 2014 (est)



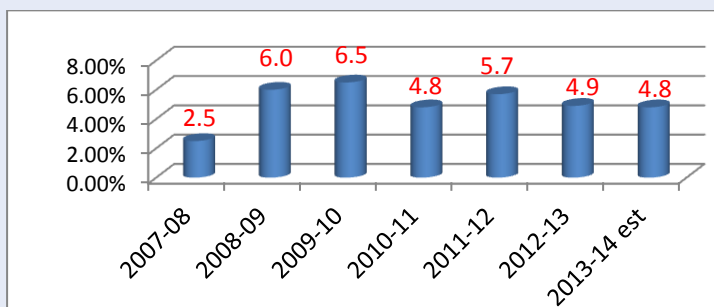
- Real GDP growth for the fiscal year to :
  - March 2013 : +5.0%
  - March 2012 : +6.2%
  - March 2011 : +9.3%
  - March 2010 : +8.6%
- In the last 8 years there have been 5 years with growth over 8.5%. The Government has said in the past that 8% pa average economic growth is required to reduce poverty and create jobs for its growing young population.

## REAL GDP % GROWTH OVER LAST 7 QUARTERS TO JUL - SEP 2013



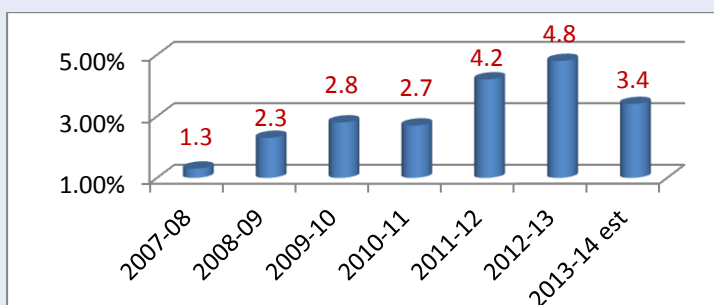
- Last 4 quarters have shown sub-5% expansion
- A sharp economic deceleration started in 2011 as stubbornly high inflation kept interest rates high for too long. This resulted in damaging consumer demand
- The pick-up in growth this quarter raises hopes that the worst may be over. But a sharp rebound seems misplaced. Achieving 5% growth overall for the year to March 2014 will be a good result in the current difficult environment.

## FISCAL DEFICIT AS % OF GDP : 2008 - 2014



- Through tough spending and subsidy cuts the fiscal deficit has been decisively taken below 5% of GDP
- The F.M. has stated that the forecast deficit of 4.8% of GDP will be a "red line" that will not be breached. This is to avert the potential downgrade of India's international credit status to "junk", from investment grade
- If downgraded, India would be the only BRIC economy to have "junk" status.

## CURRENT ACCOUNT DEFICIT AS % OF GDP : 2008 - 2014



- The deficit to March 2013 touched a record high of 4.8% of GDP (-\$87.8bn), largely due to oil and gold imports. Foreign capital is crucial to fund the CAD
- Steps taken to sharply reduce gold imports, increase exports and make some oil payments by swaps will hopefully cut the CAD
- Government forecast for current year is: -\$ 60 bn or -3.4% of GDP, which is credible. But still too high.

**EVENT: PRIVATE WEALTH LEADERS INDIA****LONDON, 29 JANUARY 2014 - CROWNE PLAZA HOTEL, 51 BUCKINGHAM GATE, LONDON SW1E 6AF****Excellent networking event combined with updates on:**

- Global economic outlook + insights on Indian elections
- Where to invest in 2014
- Recent investment and regulatory changes in India
- Offshore centres for efficient structures
- Navigating the tax ocean in India

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

Please book directly with event organiser, IBC INFORMA : <http://www.iirbcfinance.com/FKW52679DLNL>

**India Report readers may avail of a 20% discount by quoting VIP code: FKW52679DLNL on the booking form**

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