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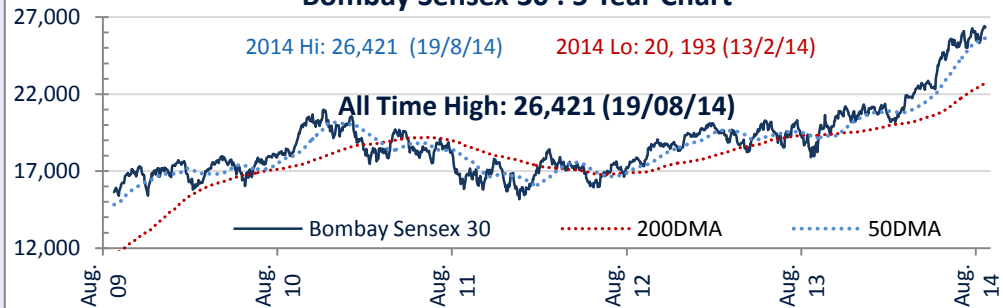
LALCAP

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Bombay Sensex 30 : 5 Year Chart



Source: chart & following table: Bloomberg

Close:	Index			PE	5 Year PE		
22 Aug 2014	Level	Pts Chg-Day	% Chg YTD	2014/15	High	Low	Avg
SENSEX 30	26,420	+ 59	+24.8%	17.2x	25.6x	9.1x	17.2x
NIFTY 50	7,913	+ 22	+25.5%	17.0x	25.0x	9.0x	17.4x

BOMBAY

INR ₹ / USD	\$1=	Rs60.47
INR ₹ / GBP	£1=	Rs100.18
INR ₹ / EUR	€1=	Rs80.07

The SENSEX rose 0.2%. Better economic data raises hopes of "green shoots" of recovery in the economy at last. New all-time highs are expected in the run up to Diwali (Oct 23), despite caution that high food inflation will delay interest rate cuts.

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Most GDRs/ADRs show double-digit gains. Top 3 gainers are: M&M: + 66%, Tata Motors: + 52%, Ranbaxy: + 44%. IT companies continue to languish.

⇒ **Government officials are sending positive signals on the economy.** Momentum seems to be building up after the longest period of sub-5% growth in over 25 years. Growth rates of less than 5% p.a. for the last 2 years have been too low to create new jobs for the large numbers entering India's labour force. However, recent economic data suggest a turnaround may be occurring. Industrial production is in its best spell since last September, infrastructure output growth is at a 9-month high and manufacturing activity is growing at its fastest for 17 months. Car sales, a proxy for consumer demand, are also up. According to Finance Secretary Arvind Mayaram, growth is now on a recovery path to reach an annual rate of c5.8% by year-end March 2015, up from 4.7% in the previous (fiscal) year. **He indicated that "green shoots of recovery" are beginning to appear in the economy. We feel the momentum will increase once interest rates are cut.**

⇒ **Finance Minister Arun Jaitley also gave a boost to investor confidence on Thursday by addressing prolonged concerns with the health of India's banking system.** Speaking at a banking event in New Delhi, he affirmed that the government is working to tighten up risk management in the sector. Indian banks' balance sheets have been hard hit by the economic slowdown. Figures released in the Reserve Bank of India's (RBI) annual report (also on Thursday) show that bad loans rose to 4.1% of gross advances in March from 2.4% in March 2011, while restructured loans rose to 5.9% of gross advances in March from 2.5% in June 2011. The sector is dominated by state banks. Although the economic downturn bears the brunt of the blame for the rise in distressed assets, the RBI also criticised banks' lending to certain "excessively leveraged" groups. State controlled Syndicate Bank is being investigated for corruption. This has raised broader concerns about politically-directed lending at state banks and implications of weak oversight and graft. **The acid test will be how quickly and fairly justice will be handed out to the guilty. That will send a strong signal to others that the new government means business in "cleaning-up" the system.**

⇒ **Rising inflation has kept interest rates high and stifled investment.**

This has resulted in weak industrial activity and capital investments - these have been a core problem in India's recent attempts to re-achieve growth rates of 8%+ seen between 2004 - 2011. Hopes are now pinned that PM Modi might replicate his success as Chief Minister of Gujarat in boosting investment. His efforts to attract more foreign capital and revive the economy have achieved varied results thus far. Cabinet approval for reform plans was widely expected after the recent budget. The recent announcement that the Planning Commission is to be abolished is an important signal of a shift away from Soviet-style institutions. This week's news that a panel is being set up to suggest an overhaul of a state-run food grain procurement agency (the FCI) is a right step in the effort to reduce wastage and help control runaway food prices. The FCI buys about 1/3 of India's total wheat output to run welfare programmes and maintain stocks for emergencies. It operates the world's largest public food distribution programme, but is notoriously inefficient.

⇒ **Thus far the Modi government had stuck to the traditional tools to combat the country's stubbornly high food-inflation, namely curbing food exports and cracking down on hoarders.** However, as food inflation gets closer to 10% the new government faces accusations that it is doing no better at slowing prices than the previous Congress party led government. It is vital that food inflation be brought under control so as to enable India to cut interest rates and achieve a broader revival from the 2-year slowdown in growth. Food bills account for 35% of household incomes, leaving little for discretionary spending. The RBI, which wants to reduce retail inflation to 6% p.a. by 2016, recently kept interest rates unchanged, citing the risk that inflation could get higher due to weak monsoon rains affecting output of summer crops. The RBI retained its economic growth forecast of 5.5% for 2014/15, citing weak monsoons and geo-political tensions as risks. It recognises that the crucial goal for India is the creation of enough jobs to absorb its rapidly increasing workforce, and growth of below 5% in each the last two years was too low to achieve that end. **Industrialists have been clamouring for many months for lower interest rates. But the RBI firmly feels that inflation must first be brought under control to enable sustainable growth. Hence all eyes are on inflation data.**

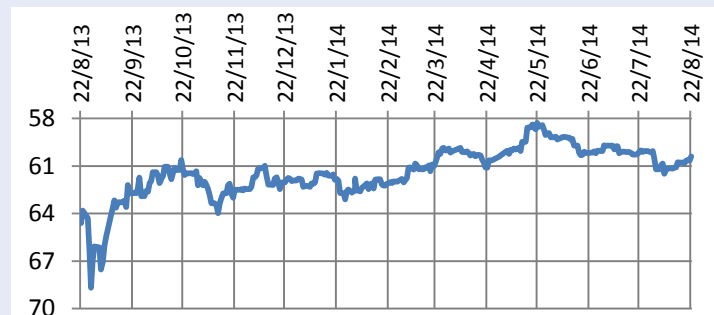


ECONOMIC & MARKET CHARTS

Chart source : Govmt. of India, RBI

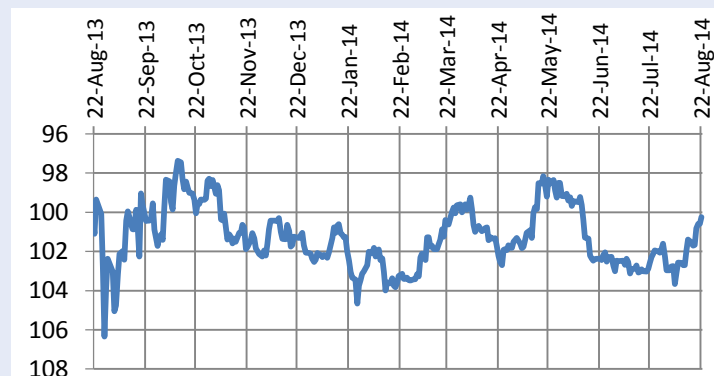
Comments : Lalcap, UK

INR/USD RATE - 12-MONTH CHART



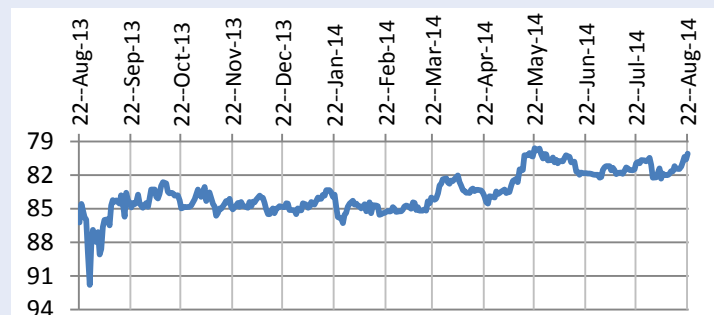
- The Indian Rupee is up 2.3% vs the USD so far in 2014
- Last year the INR/USD rate touched an all-time low on 28 August 2013 of 68.80, a fall of 25% in 2013 to-date
- The fall had accelerated from mid-May (c. Rs 55 then, and up 0.1% year-to-date) after the US Fed announced plans to withdraw monetary stimulus
- A sharp recovery started in September. The rate ended 2013 at 61.90, a fall of 12.5% for the year vs - 3.7% in 2012. The worst drop, since 1991, for a full year was in 2008 (global financial crisis) : down 19.2%

INR/GB£ RATE - 12-MONTH CHART



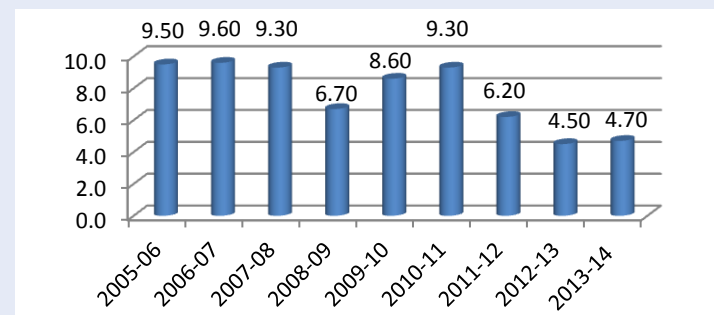
- The Indian Rupee is up 2.1% vs the GB£ so far in 2014
- The INR/GB£ rate touched an all-time low on 28 August 2013 of 106.82, a fall of 20% year-to-date then
- The fall accelerated from mid-May (c. Rs 84 then, and **up** nearly 6% year-to-date) after the announced plans by the US Fed to withdraw monetary stimulus
- A sharp recovery started in September, but petered out after end-October. The rate closed 2013 at 102.00, a fall of 14.5% vs - 8.1% in 2012

INR/EUR RATE - 12-MONTH CHART



- The Indian Rupee is up 5.7% vs the Euro so far in 2014
- The INR/Euro rate touched an all-time low on 28 August 2013 of 91.78, a fall of 26% year-to-date then
- A sharp recovery started in September. The rate ended 2013 at 85.36, a fall of 17% for the year
- The Central Bank states that it does not target a rate for Rupee against major currencies. It simply tries to ensure an orderly market.

REAL GDP % GROWTH : 2005 - 2014



- In the last 9 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 to create jobs for its growing young population. Our estimate for 2014-15 is: +5.5%
- The last time sub-5% growth occurred for 2 or more consecutive years was in FY 1985-86
- Under PM Rajiv Gandhi GDP growth for 4 years from 1985 was below 4.5% pa. Before very handsomely leaping up to 10.2% (highest ever) in 1989-90.



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Lalcap Ltd is a London based consultancy (FCA regulated) which specialises in investment opportunities in India, but which also promotes business activity with other areas of the world.

The activities of Lalcap include:

- Introductions to capital providers for funding of businesses, project finance/cross border and private equity deals. With a focus on India, but also opportunities in other parts of the world
- 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.

Over a number of years relationships have been established and nurtured with capital providers across the globe, including banks, hedge funds, family offices and high net worth professional clients. With the Indian economy growing, enquiries are seen from there for funding needs. Lalcap does business through an international network of associates.

Lalcap offers no dealing/stock broking activities.

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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