



INDIA REPORT

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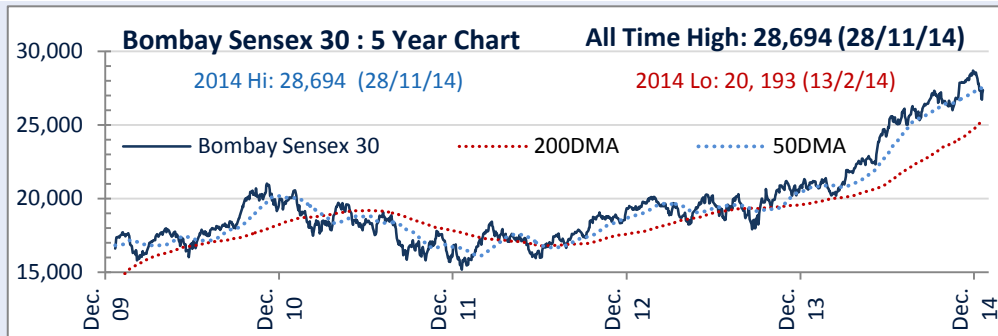


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Source: chart & following table: Bloomberg

Close: 22 Dec 2014	Index Level	Pts Chg- Day	% Chg YTD	PE 2014/15	High	5 Year PE Low	Avg
SENSEX 30	27,702	+ 330	+30.6%	18.3x	25.6x	9.1x	17.2x
NIFTY 50	8,324	+ 99	+32.0%	18.1x	25.0x	9.0x	17.4x

BOMBAY : 22 DEC

INR ₹ / USD \$1= Rs63.21

INR ₹ / GBP £1= Rs98.74

INR ₹ / EUR €1= Rs77.52

The market was closed +1.2% higher on sentiment aided by higher Asian markets and hope of reforms. Foreign investors have been net sellers this month. They normally lighten their positions towards the year-end and start fresh buying in the New Year.

LONDON / NEW YORK : 22 DEC

Many GDRs/ADRs show double digit gains. Auto and banking stocks shine. IT shares continue to languish.

⇒ **Despite Indian PM Modi's personal participation in election rallying, his BJP party is unlikely to form government in the northern state of Jammu and Kashmir.** The party had hoped to take control of the state for the first time. It is estimated that the BJP will win only around 30% of the 87-seat state assembly. Jammu is Hindu-oriented, Kashmir is Muslim-dominated and Ladakh has mainly Buddhists. However, in the eastern state of Jharkhand the BJP is expected to form government in the 81-seat assembly. The BJP, although it has a majority in the lower house of parliament, lacks a majority in the upper house. Hence, it cannot push through tough reforms. Winning state elections is crucial because their votes count in electing members to the upper house, where elections are next due in 2016.

⇒ **The winter session of parliament ends tomorrow and it seems that the increasingly unruly Indian parliament will not pass laws to open up the insurance and coal sectors.** If so, PM Modi may consider resorting to a rarely-used executive order to lift the foreign investment limit in the insurance sector to 49% from 26%, and to renew another order opening up the coal industry to the private sector. Such an order will need approval by lawmakers within six weeks of the opening of the next session of parliament - scheduled for early February. India's president would also need to agree to the decree. We had expected Modi to push through the insurance and coal reforms because they enjoyed rare bipartisan support. However, opposition parties have been protesting in parliament for more than a week on a religion conversion issue. If the insurance and coal sector reforms do not go through there will be growing impatience among investors for a quicker pace of reforms.

⇒ **Despite the above, there is some very good news on a crucial reform.** India's cabinet approved a constitutional amendment bill to finally rationalise state and central indirect taxes into a unified goods and services tax (GST). The bill will need to be approved by two-thirds of lawmakers in the next session of parliament and ratification by state legislatures. The government aims to introduce the tax from 1 April 2016. We estimate that the new GST may well add up to 2% to GDP. The introduction of GST has been held up for many years due to a lack of political consensus where some of India's 29 states feared revenue losses. However, Finance Minister Arun Jaitley offered to compensate the states for any loss due to

GST. Very positive news and a strong signal to markets that the government wishes to carry on with economic reforms. When it can.

⇒ **PM Modi has taken direct control of a Project Monitoring Group (PMG) and brought it under the aegis of the Prime Minister's Office (PMO).** The PMG was set-up last year by former PM Dr Manmohan Singh in an effort to expedite project clearances which often were stuck for many years. The PMG was previously under the Cabinet Secretariat and we feel will be far more effective under the PMO. Previously, under the old government, ministers and bureaucrats were blamed for procrastinating in clearing projects. This led to the term "policy paralysis" which was cited as a major contributor to the Indian economy slowing down to sub-5% growth for two consecutive years to 2013-14, the worst in 25 years.

⇒ **Since it was formed last year the PMG has facilitated nearly 200 stalled projects worth just over \$100bn.** PM Modi, though being seen as very pro-business has faced growing criticism and impatience from investors who want to see faster action on project clearances, reforms and kick-starting a sluggish economy. Especially since Modi was elected on the strongest mandate in nearly thirty years to deliver on these expectations. Also, at stake is his flagship "Make in India" policy as manufacturing and industrial output contracted in October to its lowest level in three years. The PMG is now to be headed by a bureaucrat who worked closely with Modi when he was Chief Minister of Gujarat. Projects worth about \$ 300 bn are stuck and awaiting clearance. South Korean steel maker POSCO has waited nine years to get approval of its \$12 bn steel plant, which would be India's largest foreign direct investment. It is hoped that the PMG, now under the PMO, will fast-track clearances through a complex maze that can need up to 180 approvals.

⇒ **Aided by the stronger US economy and sharply lower oil prices, business sentiment among Asia's top companies rebounded in Q4 to the second-highest level in almost three years, a Thomson Reuters/INSEAD survey revealed.** Indian businesses provided the strongest boost to the index, with companies reporting a maximum 100 for the third consecutive quarter. They view PM Modi with confidence to accelerate the economic recovery. Chinese firms, worried about an economic slowdown, were among the least positive with a reading of 50, below recession-stuck Japan, at 56.



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2014 : TABLE OF WORLD EQUITY MARKET CAPITALISATION

- The world market capitalisation of all bourses is US\$ 63 trillion (trn). The US dominates with \$ 23.4 trn or 37% of world share, making the US equity market the largest and most liquid globally;
- China has now overtaken Japan to the No.2 leader position;
- India joins the top 10 for the first time;
- BRIC countries account for \$ 7.6 trn or 12% of world market capitalisation. China with 7.8% accounts for almost two-thirds of the 12%. Russia's market capitalisation has crashed 52% this year on political woes;
- The growth of Hong Kong (aided by large Chinese listings) as a global financial centre is noteworthy. The market capitalisation of this tiny ex-colony of the UK now exceeds that of London;
- Many markets in Asia are still very small. For example, the combined market capitalisation of Malaysia, Thailand, Indonesia, Pakistan, Philippines, Sri Lanka, and Vietnam is about 2.4% of the world figure. Or about the same as India;
- The market capitalisation as a % of GDP is also shown. Conventional wisdom is that a figure under 100% indicates room for market expansion. Hong Kong is an exception due to its small economy but very large listings, especially Chinese shares.

COUNTRY	\$ Trillion Market Capitalisation	% of World	YTD 2014 % Chg	% of GDP
At 22 Dec 2014				
WORLD	63.4	100.00	+2.1	
TOP 10:				
USA	23.4	36.9	+5.0	143
CHINA	4.9	7.8	+46.3	46
JAPAN	4.3	6.9	-2.7	78
HONG KONG	3.8	6.2	+9.8	1427
UK	3.6	5.7	-10.2	163
CANADA	2.0	3.2	+5.0	120
GERMANY	1.9	3.0	-8.0	56
FRANCE	1.9	3.0	-9.0	77
SWITZERLAND	1.6	2.5	+5.0	232
INDIA	1.5	2.4	+33.6	61
BRIC				
BRAZIL	0.8	1.2	-20.0	39
RUSSIA	0.4	0.6	-52.4	40
INDIA	1.5	2.4	+33.6	61
CHINA	4.9	7.8	+46.3	46
OTHER ASIA PACIFIC:				
AUSTRALIA	1.17	1.8	-10.8	94
SOUTH KOREA	1.16	1.8	-3.0	108
TAIWAN	0.9	1.4	+0.1	182
SINGAPORE	0.6	0.9	-3.6	236
MALAYSIA	0.5	0.7	-11.0	172
THAILAND	0.4	0.6	+22.1	100
INDONESIA	0.4	0.6	+17.4	41

Source: Bloomberg



BEST WISHES FOR 2015

Christmas gift suggestions:

To your enemy, forgiveness.

To an opponent, tolerance.

To a friend, your heart.

To a customer, service.

To all, generosity.

To every child, a good example.

To yourself, respect.

~ Oren Arnold



Season's Greetings

and Best Wishes for 2015

Deepak Lalwani

& Team

As before, no corporate Christmas cards are being sent this year. Instead, Lalcap will donate to the Help for Heroes charity. In addition, to The Samaritans UK where I have had the great privilege of serving as a volunteer



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