



INDIA REPORT

500+ issues over 18 years

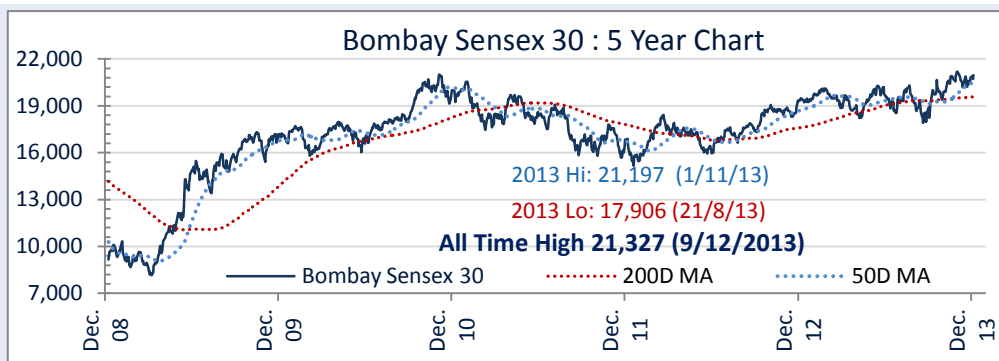


LALCAP

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Source: chart & following table: Bloomberg

Close: 27 Dec 2013	Level	Index Pts Chg- Day	% Chg YTD	PE 2014/15	High	5 Year PE Low	Avg
SENSEX 30	21,194	+ 119	+9.1%	14.2x	25.6x	10.0x	17.4x
NIFTY 50	6,314	+ 35	+7.0%	13.8x	25.0x	10.2x	17.1x

BOMBAY : 27 Dec

INR ₹ / USD	\$1=	Rs61.85
INR ₹ / GBP	£1=	Rs101.92
INR ₹ / EUR	€1=	Rs85.04

The SENSEX rose 0.6% and is close to the all-time high seen on 9 December. The Rupee has strengthened with continued strong interest from FIIs. IT stocks continue to outperform the market. The pre-election rally is expected to resume from early January.

LONDON / NEW YORK : 27 Dec

Most GDRs/ADRs are lower YTD. The only gainers are in NY. WIPRO:+60% YTD, Infosys:+38% YTD, Dr Reddy: +24% YTD and Tata Motor: +6% YTD.

POLITICAL & ECONOMIC NEWS

⇒ **What was considered impossible in Indian politics only two years ago became possible today.** The 2011 anti-corruption movement, which many cynics thought would fizzle out like many other protests, produced the next Chief Minister for Delhi. The 2011 movement was the catalyst for the formation of a new political party in India, the Aam Aadmi Party (Common Man's Party or AAP). The AAP's leader, Arvind Kejriwal, 45, was sworn in today as the youngest ever Chief Minister of Delhi. In the recent state assembly elections no party won a majority so as to form government. The Hindu nationalist BJP, the main opposition party, won the largest number of seats; but fell short of a majority. The one-year old AAP astounded many by winning second place, and pushed the incumbent Congress party to third place. Indian business and industry view Kejriwal as Chief Minister very positively.

⇒ **In an unusual move for India in citizenship politics, the AAP consulted the people of Delhi by SMS, via their website and at meetings - on whether it should form government with the aid of the Congress party.** It got the approval of the people. The AAP was formed only last year. Ironically, it was set up in response to the anti-corruption movement started two years ago against the Congress-led government's poor governance, especially on corruption. An anti-corruption bill had been on the cards for 46 years. But this political football had deftly been kicked into the long grass by successive governments. Until it was passed this month - with great credit to Congress that took heed of reasons for their poor results.

⇒ **The AAP has achieved noteworthy success for such a new party because it has tapped into a growing middle-class anger against politicians.** In many parts of the developing world, politicians are often perceived by their own people as running a business - of siphoning off public funds. Rather than being elected by the people and for the people - by providing them essential public services and protecting citizens' rights. Latest election results and opinion polls show there is deep anger and long brewing frustration against inept politicians. Especially

by India's growing educated, middle class in urban and semi-urban areas. Economic growth at a 10-year low, brazen corruption scandals and stubbornly high food inflation have stirred this mood of anger. This new breed of voters, which includes many under 25 years, may possibly bring about a change in governance for the better. Because they have higher expectations than their parents did.

⇒ **What also made a political miracle today was the manner in which Arvind Kejriwal arrived to be appointed as Chief Minister of Delhi.**

There was no motorcade or pomp normally associated with politicians. Instead, this mild mannered and soft-spoken former revenue official travelled on a crowded metro train. This would hitherto be considered unheard of in India. The AAP promised in its manifesto to send the city's corrupt lawmakers to jail within one year. Kejriwal has pledged to set-up an anti-bribery helpline. Indian and foreign media report that nationally about 25%+ of India's lawmakers face criminal charges; and many take advantage of, and are shielded by, the slow-moving legal system. The AAP has a radical agenda to "clean up" politics in Delhi, where about 16 million people live. However, there are risks to the AAP's tenure in office. Congress is providing "outside support". This means it will back Kejriwal only on an issue by issue basis. May prove tricky for both parties.

⇒ **So what implications do the above points have for much needed foreign investment into India?**

Foreign investors need good governance to protect their investments, and welcome AAP's approach. They are aware of, and factor in, governance risks in developing markets. However, over the last 2+ years corruption scams being investigated have led to policy paralysis in India. Some may argue that this paralysis may deepen if policy makers are under constant scrutiny for graft. The AAP's excellent performance has drive home the point that voters now expect cleaner governance and decisive policy action. Voters want higher economic growth, which in turn should create badly needed extra jobs. Foreign investors often ask if India needs a revolution, like the Arab Spring, to achieve change. Recent developments have shown that India can, albeit frustratingly slowly, initiate change without bloodshed. India's stock market indices are near all-time highs. More are expected in 2014.

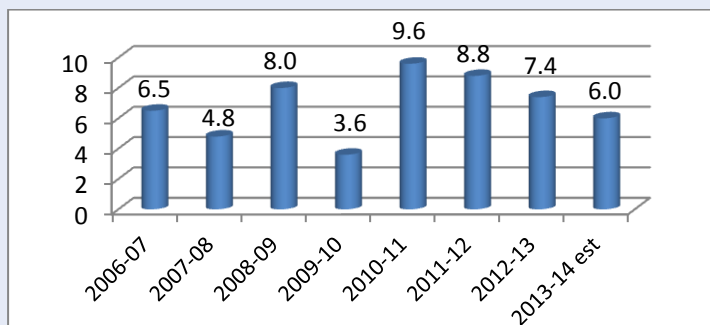


ECONOMIC & MARKET CHARTS

Chart source : Govmt. of India

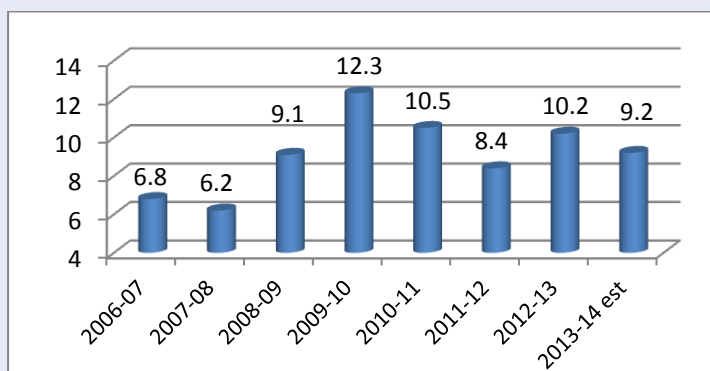
Comments : Lalcap, UK

WHOLESALE PRICE INDEX (WPI) : average % increase year-on-year : 2007-2014(est)



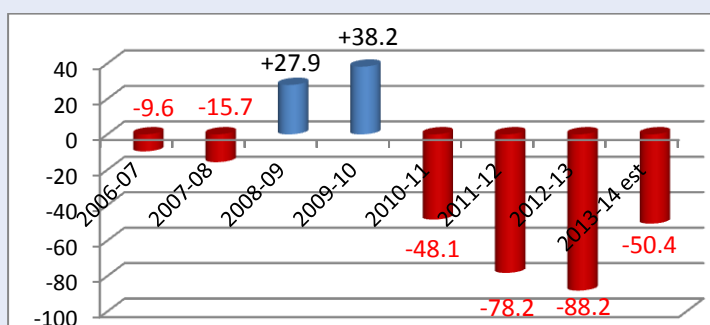
- In India the WPI is the main monthly inflation indicator followed, rather than the CPI
- However, the Central Bank is reviewing whether to switch to the CPI in 2014
- Since 2010-11 WPI has remained at elevated levels - driven by high fuel and food costs
- Persistently high WPI has led to interest rates remaining high to anchor inflationary expectations
- The Central Bank's comfort level on wholesale inflation is 5%.

CONSUMER PRICE INDEX (CPI) : average % increase year-on-year : 2007 - 2014 (est)



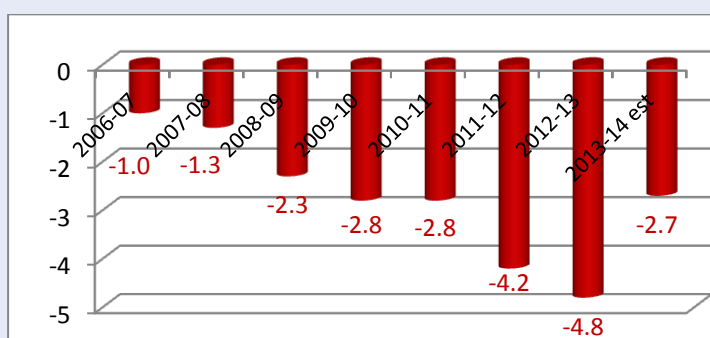
- Until 2011 there was no single all-India CPI index. There were 4 CPI measures, covering different segments of the population
- Since 2011 there is 1 common CPI which measures retail inflation, with further disaggregation to measure rises in urban and rural India
- The CPI is deemed to be a better gauge of domestic inflation as about 35% weighting is assigned to the services sector
- CPI has had higher readings than the WPI because of increased weightings to food and services.

CURRENT ACCOUNT DEFICIT (\$ BN) : 2007 - 2014 (est)



- India has not always had a CAD. 2008-09 and 2009-10 showed surpluses, despite the global financial crisis
- Gold imports, in addition to fuel imports, have contributed to the surging deficit in the Current Account
- India imports about 80% of its oil needs and is the 4th largest oil importer in the world. About 30% of India's energy needs come from oil
- Until recently India was the world's largest gold importer.

CURRENT ACCOUNT DEFICIT AS % OF GDP : 2007 - 2014 (est)



- Since 2011-12 the CAD has ballooned to over 4% of GDP on high fuel + gold imports
- Last year (to 3/2013) it touched an all-time high of 4.8% of GDP. This is unsustainably high
- Pressure continues from international rating agencies to reduce the CAD. Or India may face a downgrade of its credit status to "junk"
- Policy action to sharply cut gold imports and reduce \$ payments for oil imports should reduce the CAD to about 2.7% of GDP in the coming year to 3/2014

**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.iiribcfinance.com/FKW52679DLNL>

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