



INDIA REPORT

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LALCAP

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Source: chart & following table: Bloomberg

Close: 30 Jan 2014	Level	Index Pts Chg- Day	% Chg YTD	PE 2014/15	High	5 Year PE	
						Low	Avg
SENSEX 30	20,498	- 149	-3.7%	13.8x	25.6x	9.1x	17.2x
NIFTY 50	6,074	- 47	-3.7%	13.6x	25.0x	9.0x	17.4x

BOMBAY

INR ₹ / USD	\$1=	Rs62.56
INR ₹ / GBP	£1=	Rs103.18
INR ₹ / EUR	€1=	Rs84.79

The SENSEX closed 0.7% lower. Worries persist that the US Fed further "taper" of economic stimulus would turn FIIs into sellers. Eyes are now on FII activity. Banks and other interest rate sensitive shares led falls.

LONDON / NEW YORK

Most GDRs/ADRs are lower in 2014. Ranbaxy is -31% YTD, while IT shares show gains. On AIM, OPG stands out with a 24% gain.

ECONOMIC AND POLITICAL NEWS

- ⇒ **Major Central Bank reforms proposed.** A central bank panel set up by the Reserve Bank of India (RBI) Governor Raghuram Rajan has published a report proposing the biggest changes in monetary policy in 15 years. Its recommendations include: 1) giving precedence to inflation management as the main objective of monetary policy over the bank's two other current main objectives of economic growth and financial stability; 2) using the Consumer Price Index (CPI) as the main inflation measure (the wholesale index has been used historically); 3) adopting an eventual CPI inflation target of 4% p.a. (and +/- 2% band of tolerance) after an initial reduction from the current 9.87% to 8% over the next 12 months and 6% in the following 24 months; 4) that monetary policy be set by a committee instead of the current practise whereby the RBI Governor, although advised, is the sole decision maker. The proposals are aimed at making policy-setting more effective and transparent in a country that has long struggled with high inflation. They would put the RBI in sync with most central banks, and are widely expected to be accepted. Although most can be implemented directly by the RBI Governor, others require legislative changes. They represent the most dramatic reform yet by Mr. Rajan. He who took office on 4 September 2013 with an ambitious agenda and amid high expectations. Whatever the outcome of the general elections, Business regards Mr Rajan highly and views him as being the right man to steer India's economy through troubled times.
- ⇒ **The key policy interest rate was raised by ¼% to 8% on 28 January to anchor inflation.** India has the highest interest rates among BRIC countries. Prime Minister Singh's government has been paralysed by corruption scandals. These have stifled efforts to implement reforms, and remove bureaucratic hurdles that would attract investment to ease the country's inherent inflation pressures. It now faces an election by May, the outcome of which is uncertain. It is unclear if there is political support at this stage to bring down inflation. The previous RBI Governor, Duvvuri Subbarao, repeatedly

called for reforms by New Delhi to ease investment rules, clear infrastructure bottlenecks and cut government subsidies. But with little success. The new policy proposals will certainly raise the stakes for the government to act. But this may be a big ask. Especially if the election results in another fragmented, and less than stable coalition.

- ⇒ **Election polls show main opposition party in the lead.** According to polls by CVoter and the India Today media group published last week, the BJP is predicted to win the national election due by May with twice as many seats (188) in the 543-seat parliament as the current coalition leader, the Congress party. However, given India's diverse and fragmented electorate, no single party is expected to win the 273 seats needed for an outright majority. Another poll, by CSDS /CNN-IBN news, forecasts the BJP would be the main winner of votes in many of the big states that typically decide the outcome of Indian elections. The party, led by Narendra Modi, stands to win 41-49 of the 80 seats in Uttar Pradesh, India's most populous state, 16-24 of Bihar's 40 seats, and well over half of the 48 seats in Maharashtra along with a long-term ally. Indian election results are notoriously hard to forecast in terms of seat wins per party as opposed to a straight percentage votes tally. The new anti-corruption Aam Aadmi Party (AAP) has brought more uncertainty to the fray after its surprise victory in local elections in New Delhi last month. Many seasoned commentators feel that over the next 5-10 years AAP may possibly overtake the Congress to become one of the two main parties, along with the BJP.
- ⇒ **India private equity deal value up 12% in 2013 and M&A deal value rose 25%, according to annual transactions data released by VCCEdge.** Conversely, PE deal volume fell 13% to 655 deals from 751 deals in 2012, indicating that PE investors invested larger monies in fewer companies. This may reflect winning companies attracting larger capital from choosier investors. The 3 most targeted sectors were Financials, Consumer Discretionary, and Information Technology. With investments worth US\$2.7 bn, US\$1.8 bn, and US\$1.6 bn, respectively, and accounting for c.58% of the total PE capital invested in 2013. PE exit transactions closed 2013 at c.US\$3.6 bn from 158 exit deals, compared to US\$4.86 bn worth of exits across 172 deals in CY2012. M&A deal value increased to US\$26.17 bn in 2013 from US\$20.93 bn in 2012, while volume inched up from 761 deals to 781 deals led by the Energy and Materials sectors with 43% of M&A value.

**EQUITY FOREIGN DIRECT INVESTMENT (FDI) INTO INDIA : TOP 10 COUNTRIES IN US\$ MILLIONS**

source: DIPP, Government of India

Rank	Country	2011-12 (April- March)	2012-13 (April - March)	2013-14 (Apr-Oct 13)	CUMULATIVE INFLOWS (Apr 2000-Oct 2013)	%age to total Inflows
1.	MAURITIUS	9,942	9,497	3,099	76,765	37 %
2.	SINGAPORE	5,257	2,308	2,865	22,325	11 %
3.	U.K.	7,874	1,080	1,893	19,442	9 %
4.	JAPAN	2,972	2,237	460	15,011	7 %
5.	U.S.A.	1,115	557	535	11,656	6 %
6.	NETHERLANDS	1,409	1,856	1,085	10,050	5 %
7.	CYPRUS	1,587	490	317	7,207	4 %
8.	GERMANY	1,622	860	614	6,094	3 %
9	FRANCE	663	646	173	3,746	2 %
10.	U.A.E.	353	180	194	2,616	1 %
	TOTAL FDI INFLOWS FROM ALL COUNTRIES	35,121	22,423	12,603	205,885	

- The figures above and below are to October 2013 - the latest data available. Mauritius leads by a wide margin because many countries route their investments via this island to benefit from their favourable tax treaty with India;
- The top 10 countries above account for 85% of FDI into India since 2000;
- After a slow start through the 1990s (up to \$5 bn per annum) FDI has accelerated in the last 5 years. The last 4 years account for about 44% of \$ 206 bn invested since 2000;
- The cumulative figure of \$ 206 bn since 2000 is still small compared to what China attracts - \$118 bn FDI in 2013 alone.

TOP 10 SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS : US\$ MILLIONS

source: DIPP. Govt. of India

Rank	Sector	2011-12 (April- March)	2012-13 (April-March)	2013-14 (Apr-Oct 13)	Cumulative Inflows (April '00 - Oct '13)	% age to total Inflows
1.	SERVICES SECTOR (financial / non-financial)	5,216	4,833	1,360	38,595	19 %
2.	CONSTRUCTION (including townships, housing, built up infrastructure)	3,141	1,332	699	22,779	11 %
3.	TELECOMMUNICATIONS	1,997	304	33	12,889	6 %
4.	COMPUTER HARDWARE & SOFTWARE	796	486	488	12,179	6 %
5.	DRUGS & PHARMACEUTICALS	3,232	1,123	1,082	11,400	6 %
6.	CHEMICALS (excl Fertilisers)	4,041	292	433	9,314	5%
7.	POWER	1,652	536	320	8,155	4 %
8.	AUTOMOBILE INDUSTRIES	923	1,537	784	9,079	4%
9.	METALLURGICAL INDUSTRIES	1,786	1,466	245	7,752	4%
10.	HOTELS & TOURISM	993	3,259	169	6,800	3%



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The activities of the company include:

- Introductions to providers of capital funding for 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;
- Introductions of clients to Private Banks globally;
- Consultancy - with a focus on doing 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 professional high net worth clients.

Lalcap offers no dealing/stock broking activities.

Deepak N. Lalwani also acts as Consultant - India at UK stock broker WH Ireland (London office), 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 Stock broker WH Ireland (est. 1872).

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