INDIA REPORT

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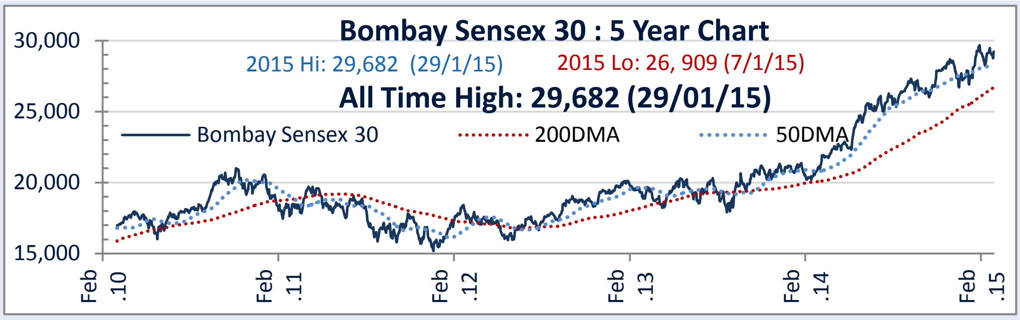
28 February 2015



Source: chart & following table: Bloomberg

Close: 28 Feb	Index			PE	5 Year PE		
	Level	Pts Chg-Day	% Chg YTD	2015/16	Avg	High	Low
SENSEX 30	29,362	+141	+26.6%	17.1x	17.7x	24.3x	13.9x
NIFTY 50	8,902	+ 57	+27.5%	17.0x	17.4x	23.8x	13.6x

BOMBAY : 28 FEB

INR R / USD	$1=	Rs61.65
INR R / GBP	£1=	Rs95.14
INR R / EUR	€1=	Rs69.01

The market was specially opened on a Saturday, because of the annual budget. The SENSEX closed 0.5% higher in a volatile session as news unfolded. Overall, India Inc is pleased with a very positive budget.

LONDON / NEW YORK : 28 FEB

Markets closed.

⇨ 2015/2016 ANNUAL BUDGET (Y/E 31.3.2016)

On 28 February Finance Minister, Mr Arun Jaitley presented the first full-year Budget by the new BJP government. He said "Domestic and international investors are seeing us with renewed interest and hope" and added " While being mindful of challenges...this gives us reason to be optimistic". Salient features, inter - alia, are:

1. **GDP growth** of 8-8.5% (new method) seen for y/e 31.3.2016. Budget focus on economic growth, jobs, modernising infrastructure with a roadmap for double-digit growth "achievable soon". Between 2004 and 2008, and again in 2009-10 and 2010-11, the growth rate was over 8 per cent and crossed 9 per cent in four of those six years;

2. Fiscal deficit: Predecessor's 4.1% of GDP for 2014/15 retained. Forecast of 3.9% for 2015/16. The previous target of 3.6% by 2015/16 pushed back one year to 2016/17 to allow the state to fund infrastructure and social programmes. The aim is to show that government is investing funds in infrastructure at a time when private investors are still holding back. FM Jaitley is committed to meeting medium-term fiscal deficit target of 3% of GDP with fiscal discipline in mind, despite a need for higher investment;

3. Privatisations target: For 2015/16: $6.7bn and $9bn for 2016/17;

4. Defence: + 9.87% to $40.7bn to modernise the military;

5. Infrastructure: a) Additional $11.25bn investment over last year; b) National investment infrastructure fund to be set up; c) New tax-free infrastructure bonds; d) Additional 100,000 kms of roads- seems ambitious to us, given the government's past record;

6. Policy reforms: a) Comprehensive new law on black money, with jail penalties for non-disclosure of foreign assets and undeclared income; b) Proposal to create a universal social security system for all Indians; c) To launch a national skills mission to enhance employability of rural youth; d) To raise threshold for application of transfer pricing rules to Rs 200m from Rs 50m currently; e) To extend visa-on-arrival facility to 150 countries from current 43;

7. Market reforms: a) RBI Act to be amended this year to provide for a UK-style Monetary Policy Committee; b) A public debt agency to be set up; c) Commodities regulator to be merged with SEBI - will broaden and strengthen the commodities markets; d) New bankruptcy code to be introduced, to make doing business easier in India; e) Introduction of a public contract resolution of disputes bill;

8. Taxation: a) Expected from 1 April 2016: Goods and Services Tax (GST), which will streamline taxes, boost revenues, make it easier to do business across states and increase GDP by up to 2%; b) Corporate tax to be cut from 30% to 25% over four years to make businesses more profitable and competitive; c) Wealth tax abolished and replaced by a 2% surcharge on the super rich; d) Service tax and education cess rate increased to 14% from 12.36%; e) Modification of "permanent establishment" rules so that the mere presence of a fund manager in India does not constitute a "permanent establishment" of the offshore fund, resulting in an adverse tax position. The aim is to bring back to India fund managers who have located offshore, eg, to Hong Kong, Singapore and Dubai; f) No change in personal income tax brackets; g) More generous allowances for health insurance premiums; h) Higher deductions for pension fund contributions;

9. General Anti-Avoidance Rules (GAAR): a) Roll-out of anti-avoidance rules under GAAR deferred from 1 April 2015 for two years to 1 April 2017. Good move as current rules are still confusing; b) Importantly, GAAR to apply prospectively from 1 April 2017, and retrospective tax provisions will be avoided;

10. Foreign Investors: Distinction removed between Foreign Direct Investments and Foreign Portfolio Investors (shares + debt markets). Composite caps to now apply; b) 5% withholding tax on debt purchases extended for another two years. Aim is to encourage foreign investors to buy Indian debt to fund infrastructure; c) Foreign investment allowed in Alternative Investment Funds.

⇨ BUDGET ANALYSIS:

VERY POSITIVE, BALANCED, PRAGMATIC BUDGET AIMED AT GROWTH, JOBS, INFRASTRUCTURE AND ADDRESSING NEEDS FROM ACROSS SOCIETY. DESPITE NO "BIG BANG" REFORMS, INDIA INC IS LARGELY HAPPY AS THIS BUDGET IS SEEN AS THE START OF AN UPWARD ECONOMIC JOURNEY

1. Positives include: a) A social security net has been started; b) Intent to reduce the fiscal deficit, with an eye on fiscal prudence while spurring economic growth; c) GST expected to be introduced on 1 April 2016; d) Infrastructure spending to continue to support economic growth; e) Forecast tax collection targets are reasonable and should remove the need on tax officials to be over-zealous and reduce pressure on them to harass taxpayers; f) GAAR postponed.

2. Negatives include: a) Rather rosy assumptions made of growth - calculations could go awry especially if oil prices spike sharply higher; b) No details are given on what will drive growth to such levels; c) Very ambitious target for privatisations.

Overall, a very good budget. The key, as always in India, lies in implementation and speed of delivery.

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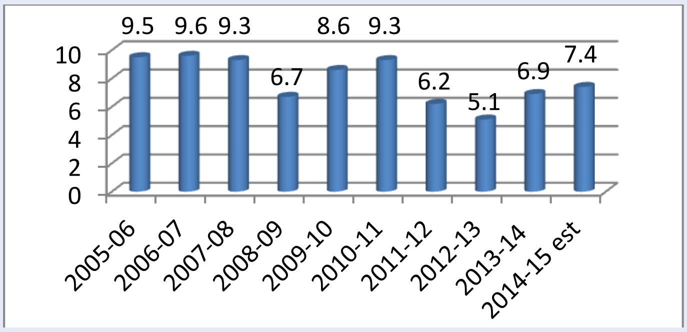
ECONOMIC CHARTS

Chart source : Govmt. of India

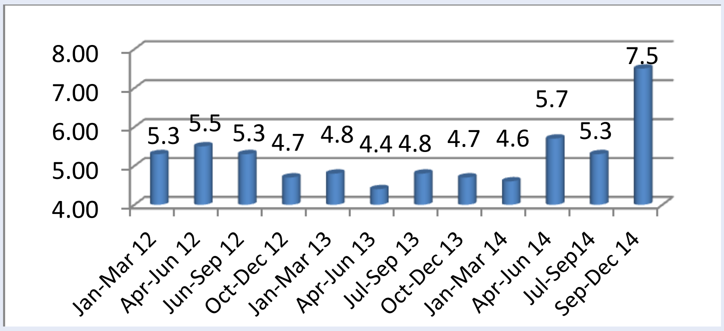
Comments : Lalcap, UK

REAL GDP % GROWTH : 2005 - 2015



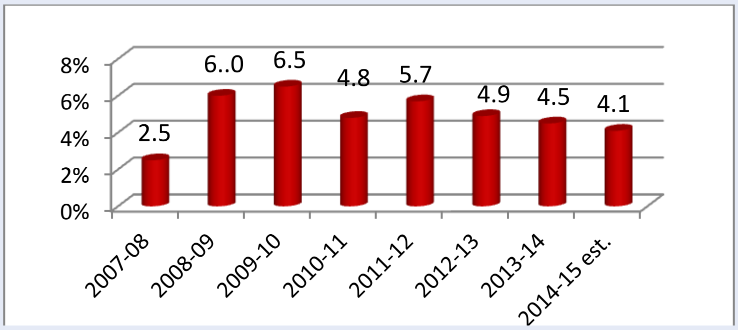
- In the last 10 years there have been 5 years with growth over 8.5%. The Government has said in the past that 8% pa average economic growth is required to reduce poverty. And to create jobs for its growing young population
- The last time sub-5% growth occurred for 2 or more consecutive years was in 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.

REAL GDP % GROWTH OVER LAST 12 QUARTERS TO SEP - DEC 2014



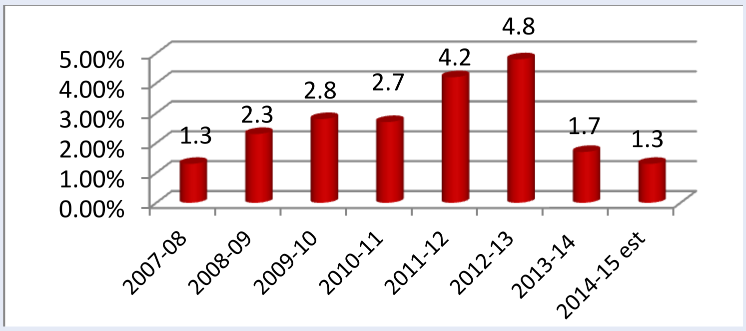
- The method of calculation of GDP was changed in early 2015. The chart shows results until Jul-Sep 2014 using the old method. The Sep-Dec 2014 figure is based on the new method
- We are confounded by the results of the new method. The data on industrial production, trade and other figures do not show such a sharp acceleration in the economy to arrive at growth of 7.5% in Sep-Dec 2014

FISCAL DEFICIT AS % OF GDP : 2008 - 2015



- The budget estimate for 2014-15 is a deficit of 4.1% of GDP, the same as set by outgoing FM Chidambaram
- The forecast for 2015/16 is 3.9% and for 2016/17 is 3.6%
- The aim is to reduce the fiscal deficit down to 3% of GDP in the medium term
- FM Jaitely says he is following a policy of fiscal prudence, while spurring economic growth

CURRENT ACCOUNT DEFICIT AS % OF GDP : 2008 - 2015



- The 2014-15 CAD is estimated at 1.3% of GDP
- After 32 quarters of deficits the Jan-Mar 2015 quarter is expected to show a surplus, largely due to the steep fall in the price of oil imports
- The forecast CAD for 2015-16 is to be half of 2014-15. Down to just 0.6% of GDP
- The deficit to March 2013 touched a record high of 4.7% of GDP (-$87.8bn), largely due to oil and gold imports. Foreign capital is crucial to fund the CAD

LALCAP LTD'S ACTIVITIES

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
- Publishing the "India Report" which is an independent, objective and succinct macroeconomic analysis on India. The first report was authored by Deepak N. Lalwani on 6 March 1995 at the request of the Indian High Commission, London, for an investor meeting there. Since then 600+ reports have been published.

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.

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