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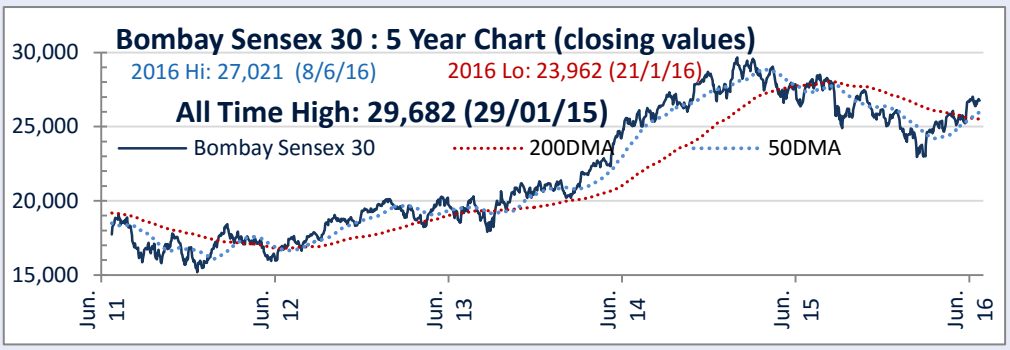
LALCAP

Deepak N. Lalwani OBE, FCSI, FCCA **E: dl@lalcap.com**

24 June 2016



Source: chart & following table: Bloomberg

Close: 24 Jun 2016	Index			PE	5 year P/E		
	Level	Pts Chg-Day	% Chg YTD	2016/17	Avg	High	Low
SENSEX 30	26,398	-604	+1.0%	16.9x	17.7x	24.3x	13.9x
NIFTY 50	8,089	-182	+1.8%	16.8x	17.4x	23.8x	13.6x

Other Markets: Level & % YTD

ASIA: CHINA Shanghai: 2,854 (-19%)
JAPAN Nikkei 225: 14,952 (-21%)
EUROPE: UK FTSE: 6,163 (-2%)
GERMANY DAX: 9,561 (-11%)
USA: Dow Jones: 17,559 (+1%)
GOLD: $1318.20 (+24%)
SILVER: $17.75 (+29%)
BRENT OIL: $46.02 (+22%)

Indian Currency

INR ₹ / USD	$1=	Rs67.81
INR ₹ / GBP	£1=	Rs92.31
INR ₹/ EUR	€1=	Rs75.37

SPECIAL EDITION OF THE INDIA REPORT TO COVER THE

10th Annual India Seminar
"India: An Enigma?"

A flagship seminar titled "India: An Enigma?" was held in London on 17 June 2016 at The Guildhall, London EC2. "Chatham House" rules applied for reporting.

Event Partners included: Aegean Telecom, City of London, Institute of Directors (India), Jersey Finance, Nerine Trust, TFS (Indian Sandalwood) and UHY Hacker Young. The Principal Event Partner and organiser was Lalcap Ltd.

The seminar had over 200 bookings from contacts of Deepak Lalwani. This was not a commercial event, but a "knowledge" one. The audience, all with an interest in India, included senior persons from: global investment and private banks, family offices, private equity firms, hedge funds, asset managers, pension funds, high net worth investors, accountancy and legal firms, trust companies, Indian High Commission, UK's House of Lords and H.M. Treasury.

The Keynote Speaker was: **Dr Virander Paul,** Deputy High Commissioner of India to the UK. He gave a comprehensive, upbeat and insightful update on where India is today. And a positive vision on the path going forward.

The eminent panel of speakers consisted of:

- **Vindi Banga**, Partner, Clayton, Dubilier and Rice LLP, Independent Senior Director at Marks & Spencer, GlaxoSmithKline
- **Lord Desai**, Labour Peer, House of Lords
- **Robin Griffiths,** Global Technical Strategist, ECU Group
- **James Kynge,** Emerging Markets Editor, Financial Times
- **Nasser Munjee**, Chairman, Development Credit Bank, Director, Jaguar Land Rover (UK)

The Chairman was: **Deepak Lalwani** OBE, Chairman, Lalcap Ltd

The speakers give their updates on:

- Whether they considered India to be an enigma
- The political and economic landscape
- Foreign investors: India bulls or bears?
- Ground realities in India
- Can India achieve China's former high rates of economic growth
- Outlook for Indian financial markets for next 12 months

It should be noted that the seminar was held the day before the RBI Governor, Dr Rajan, announced that he would not seek re-election of his term in September this year; and also before the government followed this with announcements of further liberalisation of FDI limits in various sectors. It was also before the Brexit vote was held.

⇨ Speakers' views expressed, inter alia:

Overall, the speakers were split whether India is an enigma. India is equal to the size of the EU. No one questions the variations and diversity within the EU, so why expect more of India?

⇨ **Positives for India after 2 years of the present Government:**

1. 7.6% economic growth is good. Things are better than 2 or 3 years ago. Real economy is in good shape with inflation under control. India is benefitting from lower oil prices. Charts on oil prices suggest that despite the strong rise this year the oil price will fall back again to the mid-$20s level later this year and continue into 2017. This will help India again;
2. Although one cannot take the growth rate for granted, 2 years of good monsoons ahead will spur rural demand and help lift economic growth and lower inflation because of increased food grains supply. These will in turn help interest rates to be cut further. That will aid corporate profits. A higher growth rate should aid election victory in 2019 for PM Modi's BJP party. If this occurs then a continuation of current policies and plans will result for several years;
3. There is a contrast between the old and new economy. Several sectors are growing strongly: SME sector, large companies,

Positives for India after 2 years of the present Government: (continued)

E commerce, start ups and transportation. State Bank of India is now among top 100 banks globally;
4. Lots of positives: macroeconomic management by the RBI has been excellent, fiscal responsibility by the government has supported a stable economic situation, there are major moves on digitisation;
5. A truly amazing energy shown by the Modi government with purposeful foreign visits which have put India firmly on the global stage;
6. Foreign investors are very happy that bad debts at banks are finally being addressed. This is an excellent admission and departure from the past. Foreign investors welcome the new Bankruptcy Code. They are also pleased by the sense they get that at the top there is a noticeable change for the better in corruption;
7. Growth picking up since March 2016, with good investment in railways roads, ports and power of about $90 bn;
8. Decentralisation noticed from the Centre to States like Madhya Pradesh, Andhra Pradesh and Rajasthan;
9. Compared to China India's macroeconomic stability looks better: Debt:GDP in India is 120% vs 250% for China. Very low Corporate Debt:GDP in India of 45%, which is lower than any developed economy. China's is the highest in the world. The Indian Elephant looks liberalised vs the Chinese Dragon which looks hobbled;
10. E-commerce holds huge promise and potential for India and could follow China's footsteps as there is a considerable marketplace due to the huge population.

⇨ **Negatives for India after 2 years of the present Government:**

1. People often misunderstand PM Modi and have built up huge expectations that are unrealistic sometimes. That is not his fault. He is not, and never has been, a free marketer; hence privatisations are at a low level. He has chosen a path of hard slog and change management for which he must be given due credit. Because PM Modi is not a risk taker no major labour reforms should be expected and any such reforms should be expected via state level;
2. Despite many positives nothing has really changed on the ground. GDP curve is the same. Is 7% good enough for India when the country's potential is for more? That is an enigma;
3. Money flows are very transient, contrary views exist on taxation and foreign investors cannot see major initiatives. Execution is a major problem. Make in India and other initiatives are all very good but everyone is waiting for "the rubber to hit the road";
4. Industrial growth is virtually static, although an uptick in the quarter ending March has been noticed. Factory output has been falling and most factories operate at below 50% of capacity. This has implications as capital investment, which helps accelerate economic growth, will be further delayed because of excess capacity;
5. Banks: clean up in process but there is a need to recapitalise banks with $100 billion which will take some time. This reduces their ability to lend to companies that need to grow;
6. Tax system not simplified and varied signals given. Implementation on clear regime is not there and more implementation is required.
Ease of doing business: no change.
Maximum governance/minimum government: no change.
Make in India (where auto sector has good promise) will only succeed if ease of doing business and maximum governance/minimum government are first sorted out. Reforms cannot move forward without consensus and therefore support of the Opposition party is needed;
7. After suggesting 4 S's last year (speed, scale, simplification and synergy) 3 C's are recommended: Clarity regarding infrastructure financing and investment programme; Certainty regarding tax and policy regimes; Consistency of application;
8. A major concern is the debasing of institutions because independent, vibrant and world class universities, schools and research institutions are badly needed in India. The vital areas of culture and education are under threat. Rather than creating anew the ones already there are being defended;
9. Another major concern is that if local Indians are not investing (confidence issues, excess capacity, banking issues), then foreign investors feel why should they? This needs to be addressed urgently. New foreign investors are sitting on the fence. Waiting and watching as purposeful reforms are still stalled;
10. India is a good bet, but as yet not a great bet. So, bet small for now but the timing is right to enter. Patient capital is better suited to India and required to avoid disappointment on returns and payback expected.

⇨ **Outlook for Indian financial markets for next 12 months:**

1. All western markets are in a secular downtrend and have been so since the year 2000;
2. UK's FTSE index is down 20% in the period. India is up over 400% and China 800%;
3. Asia is in uptrend and the west is in a down trend. Demographics are the reason. Good in India, but poor in the West until 2020;
4. Many global investors will wish to diversify internationally and into markets like India;
5. Share valuations are attractive in India where the price/earnings ratio is 16 compared to 19 in the world's largest stock market, USA;
6. India's economy is now growing at 7.6% annually. With the right policies and reforms brought in economic growth could reach 10% and compound at that for a decade;
7. The Rupee has been in a downtrend but has recently broken that trend and is now stronger against the £ sterling;
8. The RBI Governor has been doing a brilliant job and is a source of confidence for foreign investors.

⇨ **The Chairman remarked while "setting the scene" for the panel discussion that India was on a journey of economic catch-up which would unfold over the next 20-25 years.** Pent-up aspirations of people meant that unrealistic expectations had built up of changes that could be delivered by the new Government in the first two years. But time is required – the Government's mandate is for 5 years and not just for two, the Chairman said. OVERALL, THE SPEAKERS WERE MORE POSITIVE THIS YEAR THAN LAST YEAR. HOWEVER, MUCH STILL WAS NEEDED TO BE DONE. IN THE MEDIUM TERM THE OUTLOOK WAS POSITIVE BECAUSE OF STRONG ECONOMIC FUNDAMENTALS. A GOOD MONSOON THIS YEAR AND NEXT COULD SET THE ECONOMIC DIRECTION AHEAD AS CONSUMER DEMAND AND LOWER INFLATION SHOULD LIFT ECONOMIC GROWTH.

Photos of seminar on pages 3 to 5.

Dr Virander Paul, Keynote Speaker and Deepak Lalwani

Above and below: Attendees at the networking lunch before the seminar started

All photos courtesy of: Bao Chi and Ruthairat La-Ongthong

Above: Keynote Speech by Dr Virander Paul

Below: Welcome remarks by Chairman, Deepak Lalwani

Above and below: Attendees at the seminar

LALCAP LTD'S ACTIVITIES

Lalcap Ltd is a London based firm 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 750+ 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 offers no dealing/stock broking activities.

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REGISTERED OFFICE: LALCAP LTD, LEVEL 7, TOWER 42, 25 OLD BROAD STREET, LONDON EC2N 1HN **REGISTERED IN ENGLAND NO: 07245357**

LALCAP: E: info@lalcap.com **AUTHOR: Deepak N. Lalwani OBE, FCSI, FCCA** **T:+44 (0)20 3519 0909**

W: lalcap.com **Chairman** **E: dl@lalcap.com**