INDIA REPORT

500+ issues over 17 years

LALCAP

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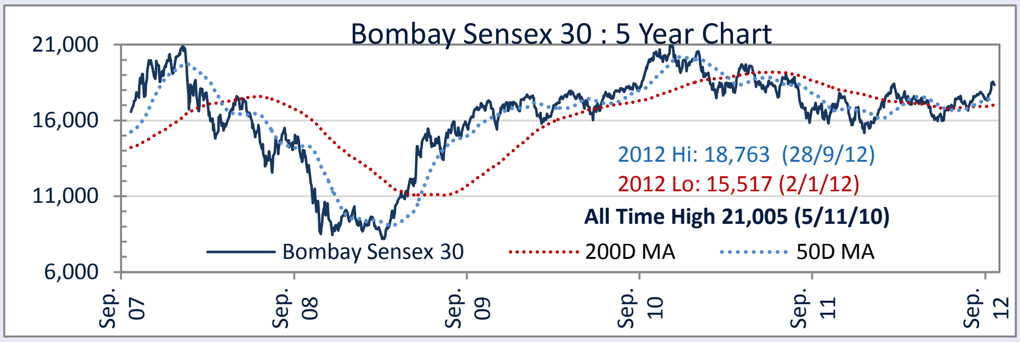
30 September 2012



Source: chart & following table: Bloomberg

Close: 28 Sep 2012	Index Level	Index Pts Chg- Day	Index % Chg YTD	PE 2012/13	5 Year PE High	5 Year PE Low	5 Year PE Avg
SENSEX 30	18,763	+ 183	+21.4%	15.6x	25.0x	8.1x	18.4x
NIFTY 50	5,703	+ 54	+23.3%	14.8x	N/A	N/A	17.0x

BOMBAY : 28 Sep

INR ₹ / USD	$1=	Rs52.84
INR ₹ / GBP	£1=	Rs85.41
INR ₹ / EUR	€1=	Rs68.11

The SENSEX rose 1% to a new 2012 and 15-month high. The index has risen 7.6% this month on domestic positive news on reforms and fiscal consolidation. Stimulus measures from the Fed and ECB have also aided sentiment. New highs are expected.

LONDON / NEW YORK :28 Sep

Most GDRs/ADRs show gains this year. 6 of them are up 40%+. L&T leads with a +57% gain in 2012. On AIM there are more losers than gainers - many +/- 20%.

ECONOMIC NEWS

⇨ **With ex-ally Trinamool Congress (TC) leaving the coalition the Government pushed through another move which the TC had previously opposed.** A 3.7% tax on rail freight tariffs and higher passenger fares from 1 October are to be imposed, barely six months after the TC forced the rollback of the first increase in rail fares in eight years. The additional revenue will help rail infrastructure upgrades and contribute to reducing the Government's 2012/13 fiscal deficit forecast of 5.1% (Rs 5.7 trillion or $ 108 bn) of GDP. Our forecast is about 6% of GDP. The rail fare increase is a further signal by PM Dr Singh's coalition that fiscal consolidation and economic reforms will continue after the recent most daring reforms since 2004 were announced in the last fortnight. To further ease the fiscal deficit the Government is looking to raise revenue through sales of state-run firms, an auction of cancelled second generation mobile phone licenses and more efficient tax collections. The new Finance Minister, Mr P. Chidambaram, is showing the coalition's earnest desire for fiscal consolidation and reforms to avoid a possible downgrade of India's investment grade status by international credit agencies.

⇨ **The slowing economy in India has hit the management education sector there. Although GDP grew at an average rate of 7.7% in the decade from 2000, the recent sharp deceleration in growth is taking a toll.** The number of business schools (popularly called B-schools in India) almost tripled to 4000 in the last five years. About 150 schools offering Master of Business Administration (MBA) courses are expected to close this year. Crisil, the local ratings agency, found that 35% of places were vacant in 2011-12 compared to about 15% five years earlier. MBA courses may be offered in two ways - as a degree or as a diploma. MBA degrees are offered by B-schools accredited by the All India Council for Technical Education (AICTE), the regulator for higher education. These schools have to be associated to a university, have a maximum of 120 students and fees are capped by State Governments. On the other hand, diplomas are offered by colleges not accredited by ACTIE. Hence, there is no standardised curriculum, class size and fees can be higher. This has led to B-schools offering diplomas being set up as businesses to tap into demand by students who seek a well-paid jobs. And when the going gets tough economically these businesses are shut down. Only 29% of graduates from B-schools - excluding those from the top 20 schools - get a job straightaway vs 41% in 2008. The economy had grown at an average rate of 9%+ per year in the previous three years. Competition is fierce for the relatively few places at India's state-run super-elite Indian Institute of Management (IIM) and for the Indian School of Business (ISB), an autonomous college associated with international schools like London Business School, Wharton (University of Pennsylvania, USA), MIT's Sloan Management School and Kellogg (Northwestern University, USA). The Indian Institutes of Management (IIMs) are a group of 13 public, autonomous institutes of management education in India. They were first created in 1961 by India's first PM Jawaharlal Nehru.

⇨ **In a slowing global economy India, the world's fourth largest steel producer, is emerging as a market to export to.** Buoyant demand and a shortfall of production makes India a reluctant importer. In 2012/13 domestic steel demand is expected to be 80 m tonnes, but output is forecast to be 72 m tonnes, leaving a shortfall of 8 m tonnes to import. India's imports of finished steel products surged 40% from a year earlier to 3.34 m tonnes from April - August. India's imports mainly consist of flat steel which is used to make cars, trucks, machinery components and consumer goods. India's needs for imports is good news for China, Japan and South Korea which have rising stockpiles because of weak domestic demand. Imports from Japan and South Korea have been rising because of the free trade pacts signed with the two countries. This reduces import duty from the normal 7.5% to under 4%. China, the world's largest steel producer, has seen domestic prices at three-year lows. It also exports to India.

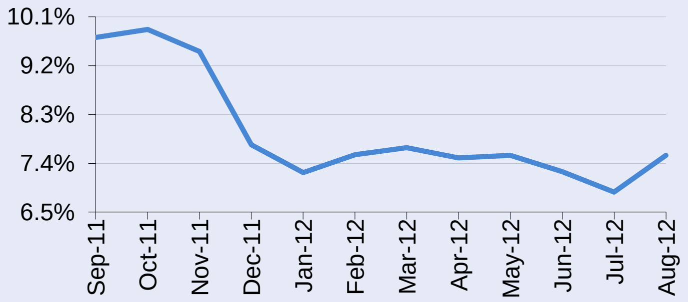
⇨ **The call made by Foreign Institutional Investors (FIIs) to turn positive on Indian shares from July has proved correct.** In anticipation of reforms being pushed through FIIs resumed buying, after abandoning Indian shares from March on tax mis-steps by the Government. Increased capital flows have helped the Indian Rupee to recover smartly. To-date FIIs have invested nearly $ 16 bn in equities far outweighing last year when they were net sellers of $ 358m.

ECONOMIC CHARTS

Chart source : Decimal Point Analytics, India

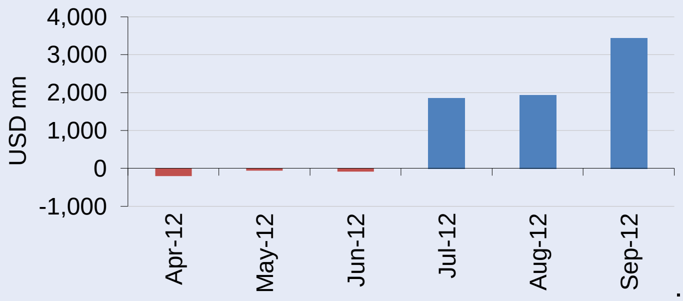
Comments : Lalcap, UK

INFLATION : WPI



- After touching a near 3 year low of 6.87% YoY in July, inflation has bounced back up again in August to 7.55% YoY on rising food prices
- The RBI firmly maintains that fighting inflation is a priority over stimulating demand
- With inflation rising again in August the RBI decided not to cut interest rates in September despite a wave of policy reforms.

FII EQUITY INVESTMENTS



- On optimism of economic reforms continuing FIIs have returned to Indian equities, with $15.8 bn invested year-to-date. $20 bn + by year end is possible. FII inflows helped make India the best BRIC performer this year YTD.
- Apr - Sep 2012 FII inflows/outflows:

Sep :	+$ 3.56 bn	June :	- $ 86 m
Aug :	+$ 2.0 bn	May :	+ $ 15 m
July :	+ $ 1.85 bn	April :	- $ 205 m

INR/USD - 1 YEAR CHART

- The INR/USD rate has appreciated from Rs 56 to just under Rs 53 in under 3 weeks as FII inflows have increased into Indian equities
- 2012 low of Rs 57.32= 1 USD touched on 22 June. It is now virtually unchanged YTD
- If the momentum on reforms and capital inflows is maintained the Rupee could test Rs 52 in 2 weeks.

INR/GBP - 1 YEAR CHART

- The reasons for the INR appreciating vs the GB£ are the same as that for the USD/INR
- The Rupee has depreciated 3.7% this year vs the £
- 2012 low of Rs 89.70=GB£1 on 14 Sep
- Rs 84 could be tested in 2 weeks

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