INDIA REPORT

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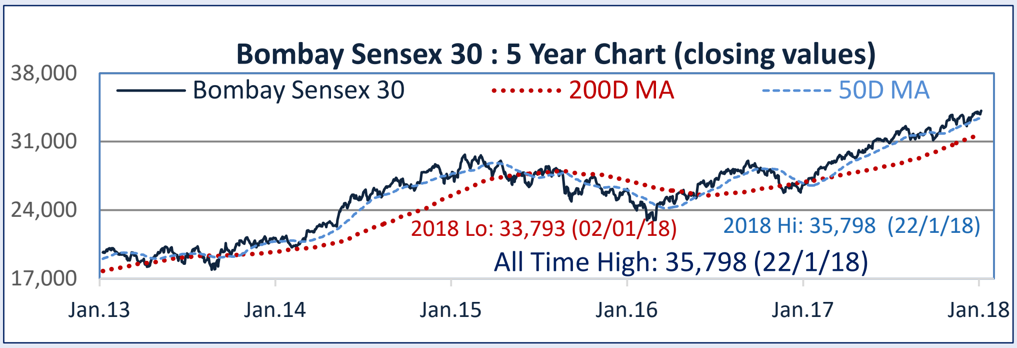

Source: closing values, chart & following table: Bloomberg

Close: 22 Jan 2018	Index Level	Pts Chg-Day	% Chg YTD	PE 2018/19	5 Year PE Avg	High	Low
SENSEX 30	35,798	+ 286	+4.9%	21.1x	18.0x	24.4x	14.2x
NIFTY 50	10,966	+ 72	+4.1%	19.5x	17.7x	22.7x	13.8x

Other Markets: Level & % YTD

ASIA: CHINA Shanghai: 3,501 (+6%)

JAPAN Nikkei 225: 23,816 (+5%)

EUROPE: UK FTSE: 7,720 (+1)

GERMANY DAX: 13,455 (+4%)

USA: Dow Jones: 26,094 (+6%)

GOLD: $1,333.70 (+2%)

SILVER: $17.03 (+1%)

BRENT OIL: $68.91 (+3%)

Indian Currency

INR ₹ / USD	$1=	Rs63.90 (-0.1%)
INR ₹ / GBP	£1=	Rs89.20 (-3.4%)
INR ₹/ EUR	€1=	Rs78.34 (-2.3%)

⇨ **India signed many investment treaties with foreign countries from the 1990s, after it liberalised its economy.** Major economic reforms were ushered in from 1991. The reforms were forced on India because its foreign exchange reserves fell to such a critically low level that only a bailout from the IMF staved off bankruptcy, ie, inability to pay its import bills. Foreign capital was necessary to grow the economy and hence investment treaties were signed giving protection to foreign investors to safeguard their investments. However, the current government feels that these treaties have also left India too exposed to potential claims awarded by international arbitrators. Currently, India is involved in over 20 international arbitration cases and could potentially end up paying billions of dollars in damages if it loses. UK's Vodafone and Cairn Energy and Germany's Deutsche Telekom have started arbitration proceedings against India seeking to protect their investments against retrospective tax claims and cancellation of contracts. Japanese carmaker Nissan is the latest company to sue India. **Under a bilateral trade and investment agreement between India and Japan, Nissan is claiming damages of over $770 million in unpaid tax incentives.**

⇨ **Last March India cancelled investment treaties with about 50 countries, with many still being protected by the old treaty for a few years after termination.** India has drafted a new model agreement to reduce its exposure to potential claims awarded by international arbitrators. The government feels that the country is in a far stronger position now than in 1991 when foreign exchange reserves were a mere $1.5 billion and covered only a few weeks worth of imports. This month the forex reserves touched a new high of $413 billion. The new model agreement drafted is similar to those used by other big emerging market economies like Brazil and Indonesia. However, India is struggling to convince some of the new terms. For example, the EU and its member states. They are big trade and investment partners and are unhappy with India's decision to unilaterally terminate treaties. **They say it discriminates between existing investors who will continue to be protected by the old treaties for a few years after termination and new ones who will have fewer safety and protection clauses.**

⇨ **A major concern for foreign investors in the draft new model agreement is a requirement for investors to first fight any case in Indian courts for at least 5 years before going to international arbitration.** Also causing concerns are other provisions narrowing the scope for companies to make claims. Several countries limit the type of tax-related claims that can be made, but India's plans to exclude all tax matters is perceived as being loaded against foreign investors as it could leave them vulnerable to sudden changes in taxation or retrospective claims. Investors need certainty and stability of policies in order to safeguard their investments. It is hoped by foreign investors that the draft new model agreement is work-in-progress and a fair and level-playing set of rules will eventually emerge. **After all, as more Indian companies make major investments abroad they too would like their investments to be properly protected by bilateral treaties.**

⇨ **India receives twice or more sunshine as many European countries and yet has not fully tapped into this source of energy.** It wants renewable energy to make up 40% of installed power capacity by 2030, and for solar to be a key part of this renewable expansion. Installed renewable power capacity is currently about 60 gigawatts (GW) and India plans to complete the bidding process by the end of 2019/20 to add a further 115 GW of installed renewable energy by 2022. In 2015 India said it needed investments of $ 100 billion in the 7 years to 2022 to finance its solar ambitions and to meet its renewable energy goals. **This figure has now been increased to $125 billion by the Power Ministry. Foreign capital is hoped to be the major source of funding. But challenges abound here.**

⇨ **Several foreign private equity companies are already investors or lenders in India's renewable energy sector, including Goldman Sachs, JP Morgan, Morgan Stanley, Engle and EDF.** But India's appetite for foreign funding to finance the bulk of the $125 billion needed is over - ambitious. To put this in context global corporate funding for the solar industry, which is the world's fastest growing electricity source, was $12.8 billion in 2017, or only 10% globally of what India on its own needs over the next 4 years. Most of the funding so far has come from domestic banks. **But, domestic lenders, despite increasingly tapping markets at home and abroad, cannot finance such a tall ambition.**

AT 31 DECEMBER 2017 : DEVELOPED VS EMERGING EQUITY MARKETS

TABLE OF RETURNS IN US$ FOR 1, 5 AND 10 YEARS

- The table below gives a snapshot of the returns in US$ at end 2017 – 1year, 5 years and 10 years;
- MSCI indices have been used to show US$ returns. The countries that make up each index may be found at: https://www.msci.com/market-cap-weighted-indexes.
- MSCI ACWI index combines the MSCI World Index (Developed Markets) and MSCI Emerging Markets Index;
- Developed markets (23 countries) account for about 88% of MSCI ACWI index, emerging markets (24 countries) for about 10%. The table below shows the countries that make up the bulk of each category.
- Frontier markets are not covered, as they are outside the scope for this comparison;
- In developed markets the US, Canada, Germany, Switzerland, Japan and Hong Kong show positive returns across all periods, and in emerging markets only China and India;
- Currency translations into US$ make a material difference, especially for periods when the US$ has been strong;
- In 2017 most emerging markets have fared better than developed markets;
- 5-year period: The best performing market was the US and all the developed markets showed positive returns. Brazil and Russia show losses;
- 10-year period: The US was the best market among developed markets, followed by Germany. China and India did better than most developed markets in this period.

	COUNTRY	1 Year To 31 Dec 2017	5 Years To 31 Dec 2017	10 years To 31 Dec 2017
		% returns in US$ at 31 December 2017		
DEVELOPED MARKETS:				
AMERICAS:	USA (Dow Jones 30)	+25	+89	+98
	USA (S&P 500)	+19	+88	+89
	USA (NASDAQ)	+28	+129	+186
	CANADA	+14	+4	+17
EUROPE:	UK	+18	+9	-15
	FRANCE	+25	+33	- 13
	GERMANY	+28	+54	+79
	SWITZERLAND	+19	+29	+34
ASIA:	JAPAN	+24	+67	+40
	HONG KONG	+35	+31	+49
EMERGING MARKETS:	BRICs account for 48% of Emerging Markets			
	BRAZIL	+25	-23	+11
	RUSSIA	n/c	-24	-40
	INDIA	+37	+52	+84
	CHINA	+30	+53	+137

Source: Bloomberg

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