

HALL CAPITAL
PARTNERS LLC

INDIA TAKEAWAYS

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Challenges and Opportunities

	Challenges	Opportunities
Short/Medium Term	<ul style="list-style-type: none"> > Inflation <ul style="list-style-type: none"> – Structural – Supply / Demand > Imported Oil Dependency > High Cost of Capital / Base Rate > Lack of Infrastructure > Volatile Foreign Capital Flows > Current Account Deficit > Policy Uncertainty / Corruption <p><i>Viewed as “Addressable”</i></p>	<ul style="list-style-type: none"> > Managerial Talent > Entrepreneurship Culture > Underpenetrated Products > Addressing Fragmented Markets > Solving Supply Chain Challenges > Low Cost Providers > High FCF / ROE Businesses > Productivity from Technology <p><i>Low Hanging Fruit</i></p>
Long Term	<ul style="list-style-type: none"> > Employing Growing Workforce > Infrastructure > Geopolitical Stability > Policy Errors <p><i>Challenging to Evaluate</i></p>	<ul style="list-style-type: none"> > Positive Demographic Trends > Rising Per Capita Income > Increased Consumption > Informal to Formal Economy (Disorganized → Organized) > Increased Participation in Equity Markets <p><i>Overwhelmingly Positive</i></p>

Detailed Discussion Points

Growth	<ul style="list-style-type: none">> Real GDP expected to grow 7% – 8%> However, GDP growth is bifurcated (agriculture = low / industry = high)> Many industries and services growing 2x GDP (14 – 16%)> Stronger companies able to grow 2x Industry (25 –30% or more)
Capital Scarcity	<ul style="list-style-type: none">> High savings rates funding gov't debt, crowding out capital for corporations> Current account deficit drains liquidity (central bank takes in rupees)> High cost of capital reduces investment
Foreign Capital	<ul style="list-style-type: none">> FDI and external corporate borrowing important sources of long-term funding> FII flows are more volatile, significantly impact markets
Policy/Politics	<ul style="list-style-type: none">> Know what they need to do, but entrenched interests are tough to negotiate> Pursuing inclusive growth, in part due to large voter base

Detailed Discussion Points (continued)

Infrastructure	<ul style="list-style-type: none">> Build for current capacity versus building for future> Investors are return seeking (more about development than buy and hold)> Distribution / ability to execute is significant advantage for businesses
Consumer	<ul style="list-style-type: none">> Significant growth expected as per capita income is passing \$1,000> High savings and wage increases can buffer against rising costs
Supply Chain / Inflation	<ul style="list-style-type: none">> Inefficiency in system, middlemen and corruption are costly / constrain supply (one manager estimated 14 layers of middlemen in supply chain)> Inflation accelerates as demand increases marginally> Inflation may NOT be addressable by raising interest rates

Opportunity Set

Public Equity

- > Limited public equity penetration in retail (< 5%)
- > Management focused on ROC, growth, competitive advantages
- > Sharp differences between strong and weak businesses, large inefficiencies
- > Can differentiate in distribution, value creation, service, and complex market
- > Local market knowledge is absolutely critical
- > Management starting to understand corporate governance is critical/
rewarded
- > Fundamental stock-pickers w/ long time horizons and tolerance for volatility
are well-positioned
- > Opportunity probably best in mid-cap space where price inefficiency is
highest

Opportunity Set (continued)

Private Equity

- > Entrepreneurs are resistant to giving up control
- > Bar for listing companies is generally low
- > Entrepreneurs can access (1) cheaper and (2) less restrictive capital from public
- > Little leverage, not many turnarounds or opportunities to implement management change
- > Market is very heavily intermediated (proprietary sourcing is difficult)
- > Results in fewer deals, more bids, higher valuations, and limited control
- > Most attractive where public comps aren't available, opportunity is being created (e.g., venture capital), or where speed is primary criteria

Opportunity Set (continued)

Other

- > Credit markets still developing, no market depth, no secondary market
- > Culturally averse to debt / large corporations get cheaper financing externally
- > Real estate need is significant - especially in residential
- > Real estate opportunity is substantial but risks are meaningful also (development versus acquisition opportunity)
- > Individual infrastructure projects less interesting while infrastructure companies more attractive – provides exposure to multiple projects and growth

India Statistics

Nominal Data (\$bn)	FY08	FY09	FY10	FY11 est
GDP	1,233	1,214	1,310	1,430
Per Capita GDP (in \$)	1,096	1,065	1,134	-
Direct Investment	15.4	17.5	26.0	28
Portfolio Investment	29.6	(14.0)	25.0	29
FX Reserves (ex. Gold)	299.2	241.4	260.4	279.3

GDP (% Change)	FY08	FY09	FY10	FY11 est
Real GDP	9.2	6.7	7.4	8.5
GDP - Supply Side				
Agriculture	4.7	1.6	0.2	5.0
Industry	9.5	3.9	9.3	9.0
Services	10.5	9.8	8.5	9.1

Government Debt (% of GDP)	FY08	FY09	FY10	FY11 est
Deficit	5.0	8.8	9.5	8.5
Domestic Debt	70.2	70.3	71.9	69.4
External Debt	4.3	4.7	5.2	4.7

Rates (%)	FY09	FY10	FY11
1 Month Deposit Rate	7.25	4.00	7.00
Repo Rate	5.50	4.75	6.50

GDP (% GDP)	FY11 est
Real GDP (\$bn)	\$1,430
GDP - Supply Components	
Agriculture	16.1
Industry	28.6
Services	55.3
GDP - Demand Components	
Consumption	70.6
Investment	35.1
Gross National Savings	36.1
Current Account Balance	(2.4)
Inflation (Average Price)	
Wholesale Price Index	8.0

India Demographics	FY10
Population (bn)	1.17
Population Growth	1.4%
Urban Population	29%
Labor Force	48.7%
Population Below Poverty Line	25%
Average Age	25.9
Literacy	61%

Sources: IMF, World Bank, CIA World Factbook

*Note: The India fiscal calendar year is April to March (e.g. FY11 is the period from April 2010 to March 2011)

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