January 2015

INDIA

A view from the ground

- MACRO OVERVIEW
- SECTOR IN FOCUS: PAINT
- COMPANY IN FOCUS: BERGER PAINTS

www.oceandial.com

OCEAN DIAL

David Cornell
Chief Investment Officer

2014 was a strong year for the Indian markets as the Reserve Bank of India managed the volatility of the currency and the new administration initiated a credible reform agenda. The collapse in commodity prices, especially oil, has underpinned the revival in sentiment. Inflation is moderating and the Government is showing a commitment to fiscal prudence, thereby increasing the likelihood of monetary easing from the Central Bank. Whilst confidence is now high and the market appears fully valued (albeit at the bottom of the earnings cycle), India still offers copious bottom up stock picking opportunities. This quarter we delve into the paint sector to illustrate this.

Real income per capita has risen from US$1147 to US$1500 over the past five years and the consumption of paint has shown a strong correlation to this increase. An examination of the sector (page 8) reveals a concentrated list of corporates that are taking advantage of this by building barriers to entry through branding power and distribution strength. A case study of Berger Paints Ltd (page 10) demonstrates how a highly fragmented informal sector has been a source for growth, as well as how changing consumption attitudes are providing scope for higher margins at the premium end of the market.

Our research driven investment decisions are facilitated by a fully resourced and experienced team of professionals based in India who are able to provide you with a unique "view from the ground" into the challenges and opportunities of this dynamic country. We provide a detailed quarterly macroeconomic and political outlook of India and delve more deeply into a chosen sector and a specific company within it.

THE COMPANY

Ocean Dial Asset Management is a London based company with its primary focus on India. Owing to the nature and complexity of the Indian market, we firmly believe that local expertise is crucial to the long term performance of our funds and as such, we have a team of advisors on the ground in Mumbai. We have an experienced management team with excellent contacts among those who matter in our chosen investment sectors. We adhere to a disciplined investment process: bottom-up, value-orientated stock selection, focused on economic value analysis, overlaid with management of macro risk.

THE PRINCIPAL ADVISOR

Sanjoy Bhattacharyya has a career in the Indian capital markets that spans 25 years, initially as Head of Research at UBS Warburg Securities India, before becoming CIO of HDFC Asset Management. Latterly he joined New Vernon Advisory as a Partner before setting up Fortuna Capital to manage the Aristos Fund and domestic equities for a local fund manager. He has an MBA from the Indian Institute of Management, Ahmedabad.

HEAD OF EQUITIES

Gaurav Narain has been immersed in the Indian equity markets for the previous 21 years. He has held senior positions as both a fund manager and an equities analyst in New Horizon Investments, ING Investment Management India and SG (Asia) Securities India. He holds a Masters degree in Finance and Control and a Bachelor of Economics degree fromDelhi University.

CONTACT

For further information about Ocean Dial or its funds, please contact:

Amul Pandya
Sales & Marketing Manager

Ocean Dial Asset Management Limited
Cayzer House, 30 Buckingham Gate, London, SW1E 6NN
D +44 20 7802 8907
M +44 7554 000 201
Email amulp@oceandial.com
Twitter @OceanDial

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MACRO OVERVIEW

OUTLOOK

This was the fourth consecutive quarter of positive returns for equity markets in India, as both overseas and more recently domestic funds participated in the change that is underway.

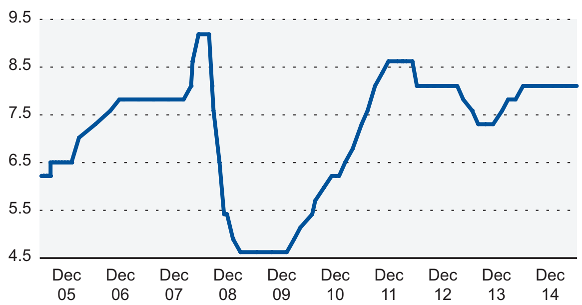
2014's stellar performance will in itself dampen investor expectations for this year, but despite this India still offers copious bottom up stock picking opportunities, and particularly in the market's midriff. It is encouraging to note that the performance of the Rupee versus developed and emerging market currencies alike has been robust, indicating ongoing positive sentiment. In our view, shareholders' confidence in the India investment situation has not yet extended to complacency; the story still has legs, further catalysts are abundant, and the economy is recovering, albeit tepidly. The oil price collapse should prepone the anticipated recovery in profitability as operating margins improve through lower fuel/power costs in addition to lower input prices, thereby providing the initial tonic to earnings. A subsequent recovery in aggregate demand, driven by a combination of cheaper money, confidence levels (both corporate and consumer) at a sustainably improved level, and a degree of pent up demand from a prolonged period of economic stagnation is all expected to extend the earnings recovery. This, combined with the macro economic and political benefits of cheaper oil, working alongside a Government focused on raising the level of economic activity, will sustain portfolio valuations despite current elevated levels.

In our view, shareholders' confidence in the India investment situation has not yet extended to complacency; the story still has legs.

Key risks emanate from a reversal of global fund flows away from the emerging world if the US Dollar continues to strengthen in step with stronger economic data; or indeed if global risk aversion "spikes" causing a flight to quality. On the domestic front, risks are concentrated on the extent and timing of the recovery in corporate earnings and the market's patience in this regard, plus any perceived shortfall by the Government on its promise of meaningful reform. "Key man risk" stalks the market, as the Indian economic recovery currently built into the investors' expectations is unthinkable without Modi at the helm.

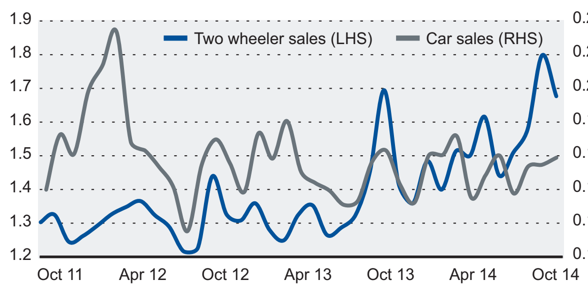
December's oil price collapse overwhelmed markets globally, but aside of the noise surrounding the event, India is a clear winner. The immediate benefit is felt on the current account via a reduction in the oil import bill, though weaker oil has also granted the Government a window of opportunity to dismantle the diesel subsidy system removing a long term structural weakness in India's fiscal position. It has grabbed this opportunity with both hands, reducing the country's economic vulnerability to future upward moves in the oil price. Providing the policy is adhered to when oil prices rise, it is highly supportive of the long term credit outlook of the country, inflation and the stability of the currency. On that note the Reserve Bank of India (RBI) has been pro-actively managing the volatility in the currency by selling INR into the market to further plump the FX reserves cushion, as well as instructing the public sector oil companies to buy forward more oil, thereby taking the opportunity to strengthen oil reserves and prevent the INR from appreciating. The inflation effect is also constructive as demonstrated by November's WPI

Chart 1: Low interest rates expected in 2015



Source: Bloomberg

Chart 2: A gradual recovery in consumption (sales in millions)

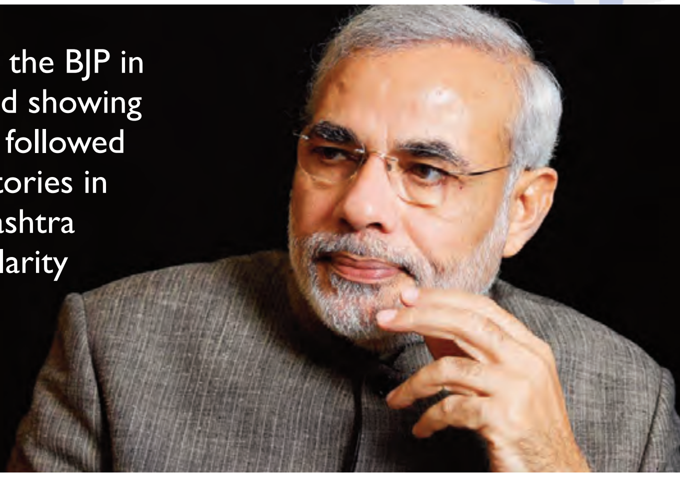


Source: Bloomberg

print of 0.0%, close to historical lows, whilst CPI also came in below expectations at 4.4%. The broad based fall in inflation reflects subdued demand, and combined with weaker commodity prices globally, has made room for significant monetary easing.

Short term however, the fiscal deficit remains a challenge; principally because of weak tax collection (a 7% increase year-on-year to date), providing further evidence of subdued demand. The Finance Ministry is working hard to address the shortfall. Thus in early January excise duties on petrol and diesel were further hiked, whilst previous duty cuts on cars and motorbikes have not been extended. These measures suggest that the Government is responding well to the challenge whilst emphasising how tough it is across all the key sectors contributing to growth. Recent quarterly results highlight that demand for credit within the banking system remains weak and that corporate India's leverage is still high, whilst the banks remain under-capitalised potentially capping any pick-up in credit. In turn, the industrial sector reported weak growth and margins, and though there is evidence of a small pickup in order book activity, the signal is not yet conclusive. The extent of the malaise in critical industries such as power, materials, railways, the need for regulatory overhaul on PPP concession arrangements, and better tax transparency, is to list just a few of the problems that need to be resolved before the country can really move ahead. Furthermore, consumer activity was disappointing during the festival season, and this is adding to anxieties. Year to date the numbers across all consumer sub sectors look OK, but much of this was driven by a post-election splurge on the back of heightened optimism. A meaningful pick up in consumption will lag the investment cycle, as spending can only recover once employment and income levels pick

Recent triumphs for the BJP in Jharkhand and a good showing Jammu and Kashmir, followed on from autumn victories in Haryana and Maharashtra suggest Modi's popularity remains intact but also confidence and political chutzpah is on the up.



up. Lastly, as was also recently demonstrated, exporters are no longer seeing the benefit of INR weakness.

Some of these issues will be temporary given the strong sense of purpose from the Government in keeping the reform agenda on track. Recent triumphs for the BJP in Jharkhand and a good showing Jammu and Kashmir, followed on from autumn victories in Haryana and Maharashtra suggest Modi's popularity remains intact but also confidence and political chutzpah is on the up. Over the Christmas period ministers have been in overdrive issuing ordinances in Coal, Insurance, revisions to the Land Act, and revising timelines on arbitration disputes. The ordinance process forces these parliamentary bills onto the statute books immediately thereby passing the parliamentary system, providing they receive Presidential approval following debate in the next session of Parliament. In effect the Government is using its muscle to push through change without being distracted by opposition attempts to delay the process. Crucially a major breakthrough has also been achieved by the successful tabling of the Goods and Services Tax (GST) for debate in the next session, suggesting consensus has finally been reached amongst the States. Although expected to pass into law in 2015, it will only deliver a substantial boost to GDP from 2016 once fully operational; but execution thus far will act as a strong upward catalyst for the market.

On the subject of tax, recent victories for Vodafone and Shell over transfer pricing disputes suggest the Government is finally softening its stance. We understand that Shell was waiting on the outcome before deciding to make sizeable follow on investments into the market. The next move in the Government's long running dispute with Vodafone over the potential tax liability incurred from the sale of Indian assets held offshore, will be an important in determining sentiment for direct investment, and indicate Modi's real appetite for attracting long term foreign capital to India.

Although the market remains in a hiatus before the improved macro environment translates meaningfully into corporate profitability, the Government is meeting (and in some cases beating) expectations on delivering incremental steps to reform; hence we encourage investors to keep the faith. Although India's equity returns in 2015 are unlikely to mirror the recent run, the right foundations are being laid for an extended period of healthy returns for patient investors.

MACRO OVERVIEW

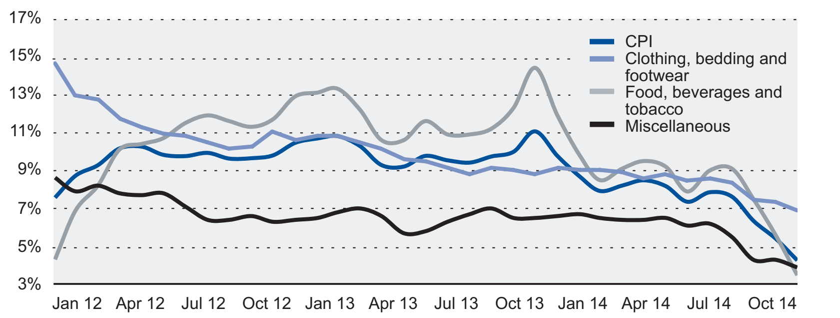
CHARTS & COMMENTARY

Chart 3: India's performance relative to Asia (MSCI)

Source: Bloomberg

India's relative outperformance continues, despite continued higher stock maret returns from China in 2014. Fund flows for the year were recorded at US$16.2bn, the fourth highest on record. A recovery in corporate earnings and a reduction in India's valuation premium to the emerging market asset class is needed for this outperformance to sustain.

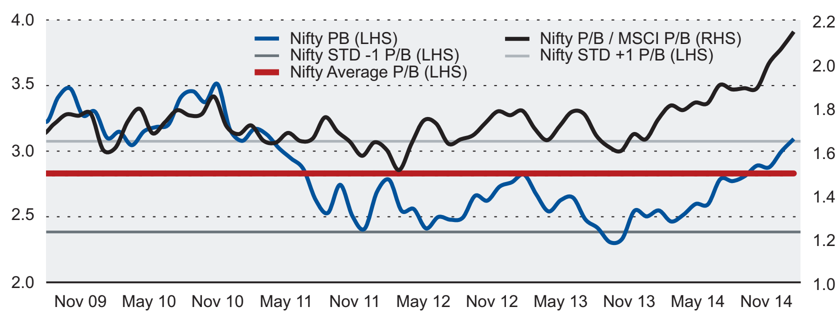
Chart 4: India's Consumer Price Index (CPI) and Components



Source: Bloomberg

In November CPI dropped to 4.4%, an eight year low, vs 5.5% in October. The high base effect for food inflation combined with ongoing measures to improve supply explain the food component's fall to 3.6%. The base effect is expected to reverse in the next quarter. Elsewhere commodity price weakness and ongoing subdued demand continue to exert downward pressure. The RBI's March 2015 CPI target at 6% looks OK. Monetary policy easing is expected shortly.

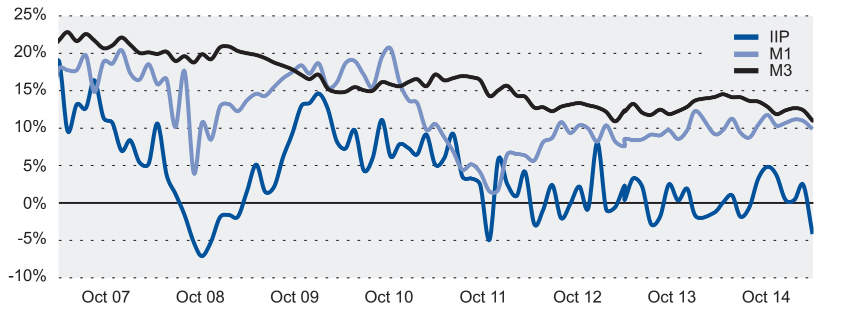
Chart 5: Nifty P/BV (LHS) & Nifty P/BV relative to MSCI EM P/B (RHS)



Source: Bloomberg

The delayed earnings recovery combined with ongoing positive macro economic and political sentiment explains the rise in India's standalone price to book multiple. The ongoing compression in the GEM multiple as a consequence of individual emerging markets' malaise combined with India's expansion is the reason for India's historic premium.

Chart 6: India's Industrial Production (IIP) and money supply (M1 and M3)



Source: Bloomberg

October industrial production (IIP) contracted 4.2% versus consensus estimates of positive 2.3%. Sectors which registered big falls were Radio & TV, down 70% (standalone production issue) and Manufacturing, down 7.6%. Ex TV, IIP would have registered a 0.2% fall. Electricity and Mining were up 13% and 5% respectively. M1 and M3 continue to stagnate highlighting subdued demand for credit.

Chart 7: MSCI India Earnings Revision Index

Source: Bank of America Merrill Lynch

This was another quarter of disappointing earnings. Demand for credit in the banking system remains weak, industrial order books are showing some signs of recovery, but results were poor due to the ongoing completion of low margin business and high cost overruns. Corporate leverage remains high. Following a post election spurt, consumer activity is still lacklustre.

Chart 8: Government of India 10 year bond yield

Source: Bloomberg

The collapse in yields this quarter highlights the sharp falls in inflation. India's macro balances are benefitting from the oil price weakness, plus the market is reassured by the Government's efforts to reach the fiscal deficit target for March 2015 of 4.1% inspite of poor tax collection numbers as a result of weak corporate performance.

SECTOR OVERVIEW

INDIA'S PAINT SECTOR – A PALATABLE PROPOSITION

Any business executive, holiday maker or backpacker who has ever visited India will confirm that colour plays both a significant and diverse role in the various local cultures that coexist. Whether it is for the array of religious festivals that take place throughout the year, in the classrooms, the temples or in the home; Indians rarely opt for decorative subtlety. When it therefore comes to idea generation for a long term investor in India, the paint sector offers an interesting case study.

The growth of the paint industry has been a success story, with a concentrated but talented list of corporations taking advantage of the opportunity. The expansion of the middle class alongside rising discretionary spending power has seen the sector grow annually at 12.4% over the past five years. Demand drivers continue to remain in place with the sector clearly geared to economic growth. Indeed, the data shows that paint volume increases from 1.6x to 2x real GDP growth. We believe that this will continue to be a double digit growth story, especially as rising real incomes help India catch up with the rest of the world both in terms of per-capita consumption (see Chart 9) and as the length of the repainting cycle continues to shrink (it is down from seven years to five years over the past decade).

The industry structure has enabled the existing players to gain market share from the unorganised space whilst protecting margins and pricing power. Entry barriers are high as the top four players have more than 90% share of the organised market. The unorganised space now constitutes 30% of the sector having diminished by 10% over the last 10 years. It continues to be highly fragmented with over 2,500 constituents each catering only to their immediate vicinity with inferior quality products. Their market share will continue to be a source of growth for the organised players going forwards.

The highly oligopolistic nature of the market (see Chart 10 for the breakdown) is a consequence of the inherent challenges and managerial nous required to build scale, pricing power and a sticky customer base. The lack of wholesale distributors makes building a distribution chain a long and difficult process. A company with the vision of a pan-India presence has to be able to tie up with thousands of dealers, whilst managing suitable credit and inventory agreements. An example of ensuring customer retention is demonstrated by the fact that companies have provided larger dealers with a tinting machine that generates only their catalogue of paint shades. The reasoning behind this is that the device itself requires approximately 30ft^2 of space and therefore takes up a significant portion of the dealer's shop floor. Alongside helping to reduce the dealer's inventory burden, once he has one (or at most two) tinting machines he is unlikely to need to - and more importantly be able to – sell from a competitor's paint catalogue. Furthermore, companies have focused on building relationships amongst key opinion formers within the industry, namely architects, builders, painters and interior designers. Whilst companies in the FMCG sector for example employ large scale advertising spending, paint companies have to accompany this with more targeted marketing to these intermediaries who have significant influence over decision making of the end consumer. As such, brand building is a much more complex and time-consuming process but provides a significant barrier against new entrants.

This is evidenced by the fact that despite strong growth no new player has been able to achieve relevance over recent years. Indeed the sector is open to foreign competition and various international giants such as Jotun (Norway), Nippon (Japan) and Sherwin Williams (USA) have entered the Indian market in the past few years without being able to dent the position

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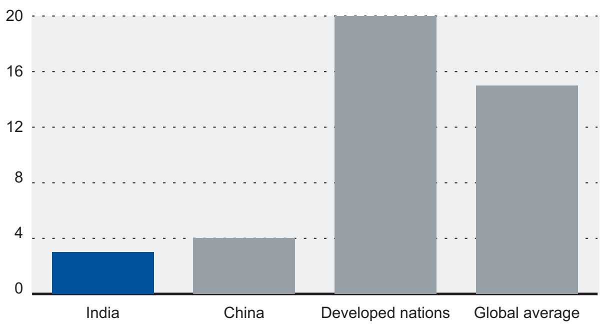
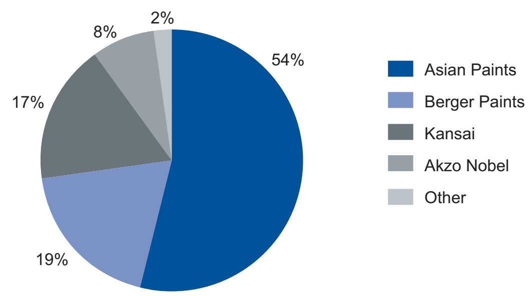
Chart 9: 2013 Paint consumption per capita (Kg)



Source: Kansai Nerolac

Chart 10: Market share of organised players



Source: Ocean Dial Asset Management

of the top four domestic companies. Given the market dynamics, companies from overseas have chosen to get a piece of the action via the inorganic route. Global industrial paints company PPG partnered with Asian Paints while Dutch paints major Akzo Nobel entered India by acquiring ICI India and the Japanese paints major Kansai bought a majority stake in Goodlass Nerolac.

In terms of pricing power and margin stability, the sector has managed to weather recent challenges. 60% of cost of sales is driven by raw materials, the majority of which are imported and have been increasing in price over recent years, not helped by a depreciating domestic currency. Due to the lack of competition however, the oligopoly led by market leader, Asian Paints, has been successful in passing on sharp increases in raw materials prices to the consumers and thereby sustaining margins without meaningfully impacting volumes.

The stability of the business model has enabled valuations to expand across the sector and as such risks to the downside are now greater. Companies across the broader consumer discretionary space have recently witnessed a slowdown in volume growth, due to a prolonged weakness in the macro environment. Whilst this has not yet translated into slower growth for paint, should it do so stock prices for paint companies will derate. Nevertheless we remain positive on the potential for the sector over the long run. This is especially true for companies which have a footprint in rural and urban India with a diverse portfolio of premium, mid-tier and value products. Sales of mid-tier and value offerings are growing at 10-15% driven by smaller cities which is primarily where the unorganised players' market share is being eroded. However, it is at the premium end of the spectrum where we are see the greatest scope for profitability.

Premium products account for 20% of the decorative paints market growing at 28-30% annually for the last four years. Not only is this growth considerably faster than for lower value products discussed above, but it also offers 10-12% higher profit margins. The Indian consumer is shifting away from seeking low cost commoditised offerings towards demanding a service which not only focuses on quality but adds a convenience factor to the equation. It is within this space where advertising expenditure and relationship building with opinion formers is key. Companies have launched premium water based paints as they dry quickly, smell less and are easier to wipe with additional differentiated features like warranties and crack bridging. To push sales of premium products, companies are setting up exclusive boutique outlets such as Asian Paints' signature stores or Kansai's 'Nerolac Impression Style Zones'. They are also witnessing traction in terms of customer loyalty by offering home painting services as a bolt-on to making a purchase. Asian Paints provides this service in 13 cities, Akzo Nobel in six and Berger offers it in 14. As the repainting cycle continues to shorten, this will aid business retention in the medium term.

Volume growth has held up well despite price increases and a stalling economy. A slowdown is the biggest risk to valuations at their current levels. Historically however, a strong management team with a sensible but dynamic expansion strategy supported by high barriers to entry has allowed investors to participate in the delivery of stable, predictable and consistent earnings. A discussion of Berger Paints on page 10 illustrates how this can be played over the long run in further detail.

COMPANY IN FOCUS

Berger Paints

A family owned, professionally managed company that specialises in manufacturing and distributing decorative and industrial paints. The company has risen from being a marginal participant from north east India to become the second largest player.

Berger Paints has risen from being a marginal participant from north east India to become the second largest player (in terms of capacity), still some way behind Asian Paints. This growth has been largely organic, successfully increasing its market share over five years as revenues have compounded annually at 18.9% versus the industry average of 12.4%. It has won business in decorative paints, which contribute 80% to revenues, predominantly from the unorganised sector, but also from established players across all market segments. The company has focused its efforts in smaller cities and rural areas where competition is less intense and where real incomes have been growing incrementally faster. Berger is also a major player in industrial paints, with a strong presence in protective coverings, automotive paints and powder coatings. This has dragged the business in recent years as industrial activity has been disappointing, diluting group margins. However should economic activity recover Berger's dominant position here will drive future growth. The company has operations in Nepal and Bangladesh, as well as in Poland through an acquisition made in 2006. International revenues account for 7% of total, but management has no plans to expand the business further afield for now. The shares are tightly held with the Dhingra family owning 75% of the stock, whilst foreign investors own 12% currently.

Berger's strategy has been to sweat its broad product portfolio, catering for all market segments in the regional cities and rural areas where other organised competitors have presence. Central to this strategy has been the creation of a core distribution network. Owing to the lack of an organised wholesale distribution system in India, the paint manufacturers are required to work directly with thousands of local retailers across the country; Berger has been able to turn this shortfall to its advantage, recognising the importance of "push based demand" as a substantial driver of sales. Berger believes that dealers who understand the benefits of the product and can access it easily on attractive credit terms will naturally push it to the end user, thereby acting as direct selling agents. The company has built strong

The company has focused its efforts in smaller cities and rural areas where competition is less intense and where real incomes growth has been faster

customer loyalty amongst 16,000 dealers, 11,000 of whom have onsite tinting machines supplied by the company. This is common practice (see page 9), but Berger has been winning a disproportionately higher share of sales by supplying tinting machines to the more disparate market. It has enhanced this effort with a series of additional initiatives to support customer loyalty, providing more attractive credit terms, an automated call centre to manage dealer orders thereby reducing delivery time, and providing higher levels of training to the network. The establishment of regional distribution centres has helped to improve working capital intensity which has reduced from 61 days to 53 days.

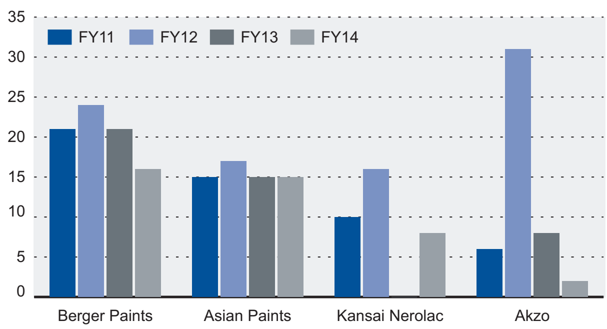
The company has also focused on differentiating its product portfolio in the highly competitive decorative space, particularly in the premium segment adding features such as "Easy Clean", and "Weather Coat All Guard" and exterior wall paint with enhanced water resistance. Berger has increased its advertising spend from 4.5% to 5.8% of sales, concentrating on building market share in premium products.

Berger's EBITDA margins have historically been lower than the industry but have gradually improved as the premiumisation and distribution network strategies bear fruit. The capital expenditure programme to increase capacity was recently completed, as was the acquisition of Sherwin Williams' Southern based paint division. Consequently the company is expected to turn cash positive shortly. Return on invested capital has risen from 14.7% to 17.8%, and is expected to remain stable.

The outlook for the industry remains attractive and Berger has established a strong position in the market with a differentiated product portfolio and an expansive distribution network. Though the P/E already reflects this, Berger's earnings will further benefit from the market as the unorganised sector shrinks and strong barriers protect the industry from new entrants. Shareholders face a number of key risks. A volume growth slowdown will cause the stock to de-rate sharply, more so if demand slows abruptly in rural areas. Additionally the company may consider an M&A strategy which could lead to a major misallocation of capital. Any change in ownership or key management personnel will be disruptive. However the competitive threat is low as any foreign competition wishing to enter the market could only achieve this inorganically, which may over time ensure Berger's investor base stays loyal.

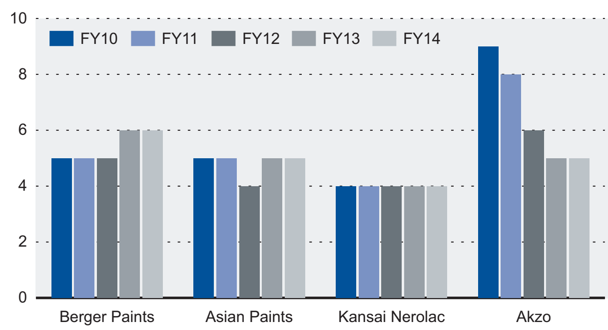
Company statitsics	
Market Cap	US$2.7bn
10 year sales CAGR	18.5%
10 year net profit CAGR	22.2%
Ratios	
P/E (FY16e)	42.2x
ROIC	17.8%

Chart 11: EBITDA Growth



Source: IIFL

Chart 12: Advertising Spend (% of Net Sales)



Source: IIFL

MACRO OVERVIEW

ECONOMIC DATA

Change over	2009	2010	2011	2012	2013	2014	Last Qtr. (Jun-Aug)	This Qtr. (Sep-Nov)
Real GDP % Annual Change	6.7%	8.6%	8.9%	6.7%	4.5%	4.7%	5.7%	5.3%
Avg. IIP % Annual Change	2.9%	5.3%	8.3%	3.1%	1.2%	-0.1%	1.9%	-0.7%*
Exports % annual Change	14%	-4%	40%	22%	-2%	4%	+6.5%	+1.4%
Fiscal Deficit % of GDP (Central Govt.)	6.0%	6.5%	4.9%	5.8%	4.9%	4.6%	Govt. FY15 Est: 4.1%	
Inflation (WPI) (Monthly Avg.)	8.1%	3.9%	9.6%	9.0%	7.4%	6.0%	5.0%	1.4%
Inflation (CPI) (Avg.)	9.1%	12.3%	10.5%	8.4%	10.2%	9.5%	7.7%	5.5%
Money Supply (M3) (Avg.)	20.5%	19.4%	15.9%	16.2%	13.5%	13.4%	12.9%	12.0%
Interest Rates (Repo) (Avg.)	7.4%	4.8%	5.9%	8.0%	8.0%	7.5%	8.0%	8.0%
10 year GOI Bond Yield (Avg.)	7.6%	7.2%	7.9%	8.4%	8.3%	8.6%	8.8%	8.5%
FII Flows (US$bn) (CY)	+17.6	+29.3	-0.5	+24.5	+19.8	+16.2	+4.8	+3.4
INR vs. US$ (CY)	+3.7%	+4.0%	-18.9%	-2.8%	-13.0%	-2.3%	-2.4%	-2.5%
INR vs. GBP (CY)	-7.2%	+7.7%	-18.5%	-7.8%	-15.3%	+3.4%	-1.5%	+3.0%
MSCI GEM (US$) (CY)	+74%	+16%	-20%	+15%	-5%	-5%	+5.8%	-7.6%
MSCI Asia (US$) (CY)	+68%	+17%	-19%	+19%	+1%	+2%	+5.9%	-4.2%
Sensex (INR) (CY)	+81%	+17%	-25%	+26%	+9%	+30%	+10.0%	+7.7%
S&P India (US$) (CY)								
BSE Midcap (INR) (CY)	+108%	+16%	-34%	+39%	-6%	+55%	+9.8%	+10.4

* September to October only

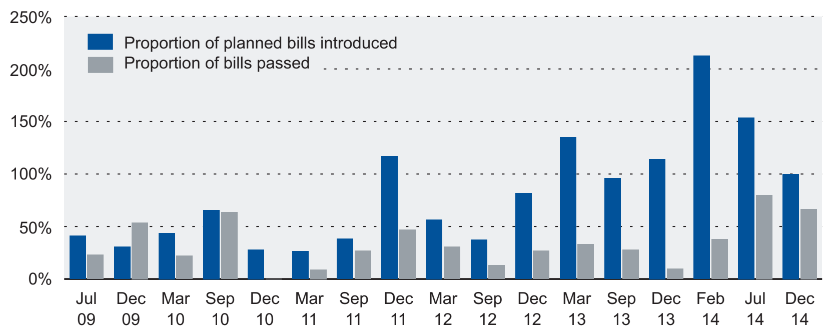
MACRO OVERVIEW

UPCOMING EVENTS

Event	Timeline	Comments
Union Budget	February	The Government only had 45 days since its election to prepare for the last Budget. With some time under its belt to formulate a longer term strategy, this will be a closely watched event that will provide a gauge of the sustainability of current reform momentum.
Monetary policy	February	With retail inflation coming down significantly and within RBI's targets, monetary easing is expected in early H1CY15.
Goods and Service	February	With all States in agreement now, this is expected to be passed in the Budget Tax Bill session of parliament in February / March 2015.
Coal Auctions	March	The Supreme Court recently cancelled coal blocks dating back to 1993 on account of misallocation. 65 blocks are to be re-auctioned by March 2015.
Direct Benefit Transfer (DBT)	March	Direct cash transfer for LPG subsidies commenced in 54 districts on 15 November 2014 – this is set to cover the entire country by March 31, 2015. The implementation of all food and fuel subsidies under this system will reduce leakages in the current public distribution system
Public sector divestment	March	The Government is planning to sell a 10% stake in Coal India, 5% in ONGC and 10% in MOIL. This is expected to raise approximately US$6.5bn in revenue.

Although the BJP has a majority in the Lower House, it only controls 45 seats out of 245 in the Upper House, and it is here where opposition parties have frustrated the legislative reform process on key issues. The Government has circumvented this by issuing executive ordinances which have allowed these reforms to be enacted when Parliament is out of session. These ordinances still need to be debated by the legislature to become law and lapse without subsequent approval. They are traditionally only used in exceptional circumstances and as such are not a feasible method of passing bills going forwards. The other option is for the Government to call a joint session with both Houses, thereby providing an absolute majority. This is very rare however and has only been used three times in India's history. The BJP will gain a majority in the Upper House at the earliest by 2018 (this is assuming it continues its electoral success in the state elections that will be due). Until then the Government will have to work hard to build consensus, particularly with the GST Bill, as an ordinance cannot be used for legislation that requires constitutional amendments.

Chart 13: Parliamentary speed and activity



Source: PRS legislative research

In the news

INVESTMENT WEEK, ANNABELLE WILLIAMS

Hidden gems: 19 buyers choose their under-the-radar funds (22 September)

Michael Paul, fund analyst, Brewin Dolphin

"Ocean Dial is a niche, single-country focused, fund management company, formed following a management buyout of the Indian investment team from Caledonia Investments. Although small, the group boasts a strong on-the-ground presence in India, and a fully resourced support team based in London. The manager, Sanjoy Bhattacharyya, has an exceptional long-term track record running Indian equity portfolios. He adopts a GARP style, constructing a concentrated portfolio of high-quality companies which are trading at reasonable valuations relative to the through-cycle earning power of the business. We identified this opportunity at an early stage of the fund's life cycle and, as such, it is still relatively small in size at just around £40m."

FUNDWEB, PHILIP SCOTT

Why Sarasin's Lucy Walker is not afraid to be different (13 October)

"Walker has gone off-piste to gain access to the nation, investing in the world's second most populated country via Ocean Dial's Gateway to India fund. But such a move is not unusual for the manager who likes to tailor her portfolios so as to not echo other managers. She says: "We are happy to support smaller up-and-coming funds that do not face the challenges of some of the larger portfolios."

MONEY WEEK, MATTHEW PARTRIDGE

Buy into booming India (13 November)

"A perhaps more intriguing if riskier option is Ocean Dial's India Capital Growth Fund (LSE: IGC). This trust is focused on small and medium-sized Indian companies in sectors such as industrials, financials and healthcare. This is a more aggressive bet on the Indian market, and it has shot ahead of both the aforementioned funds over the past 12 monts – It's up around 60%."

FT ADVISER, NYREE STEWART

Snapshot: Asia-focused trusts outperform peers (8 December)

"the best-performing trusts so far this year are focused on India, with these vehicles apparently benefiting from the boost to the country following the election of Narendra Modi in May. Excluding venture capital trusts, the best-performing investment vehicle is India Capital Growth, managed by Ocean Dial Asset Management, which has delivered a 47.5 per cent return"

ASSOCIATION OF INVESTMENT COMPANIES

India and Biotechnology & Healthcare dominate investment company performance in 2014 (8 December)

India has dominated performance over 2014 to date, driving up the average for their sector, Country Specialists: Asia Pacific. David Cornell, Chief Investment Officer, Ocean Dial Asset Management (Manager of India Capital Growth Fund), said: "India has often flattered to deceive, commonly described as "long on potential, short on execution". The current changes taking place however, show that this is a country that can no longer be ignored by investors. Thanks to sound monetary policy from the globally respected RBI Governor, Raghuram Rajan, India is much better placed to weather a tighter global monetary environment. Furthermore, for the first time in the country's history, there is both the electoral mandate and strong leadership under the helm of Narendra Modi, to create a cleaner political system which delivers long-term economic growth. The size of the opportunity on offer to overseas investors, coupled with the depth of managerial talent available in the stock market presents an exciting chance to take part in a structural long-term growth story that is only at the beginning."

THE GUARDIAN, PATRICK COLLINSON

How India proved to be the jewel in the crown for investors in 2014 (20 December)

"In 2016 we could even see India growing faster than China," said Ben Gutteridge, Brewin Dolphin's head of fund research. He is recommending a relatively unknown fund, Ocean Dial Gateway, for next year."

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www.oceandial.com

Ocean Dial Asset Management Limited
Cayzer House, 30 Buckingham Gate, London SW1E 6NN
T +44 20 7802 8907 F +44 20 7802 8909