Quarterly Newsletter

August 2010

Highlights

- NAV (unaudited) of 89p at the end of August 2010[1]
- In June, Elephant Capital announced that it had acquired a significant minority stake in Amar Chitra Katha Pvt. Ltd. (“ACK”) for £3.2m; Elephant Capital’s co-investment vehicle invested £0.5m and Gaurav Burman, managing partner of Elephant Capital LLP personally invested £0.3m
- In August, Elephant Capital announced that it had acquired a 28.6% stake in ClinTec Luxembourg S.A. (“ClinTec”) for £8m; Gaurav Burman personally invested £0.15m and James Hauslein, non-executive director of Elephant Capital Plc personally invested £0.2m
- Between July – August, Elephant Capital sold its remaining shares in NIIT, achieving a total IRR across this investment of 23%
- In June, the Board for Control of Cricket in India (“BCCI”) announced that it had rescinded its agreements with World Sports Group (“WSG”), in relation to the media rights pertaining to the IPL; Global Cricket Ventures (“GCV”), one of Elephant Capital’s investee companies is the sub-licensee of various online and mobile rights from WSG. Little definitive information has since been forthcoming. Elephant Capital has made a formal announcement to the market, and will update as appropriate
- After the investments announced in August and disposal of its investment in NIIT, Elephant Capital has £11.7m cash remaining on the balance sheet
- The team is working on transactions in the financial services, real estate services and hospitality sectors, which are in privately held, unlisted businesses
- We are confident that we will make significant progress on these transactions in the coming quarter, and will update the market accordingly

(1) The NAV has not been adjusted to reflect potential changes in the status of the assets held by GCV, since this situation is yet to be resolved

Economic Update

- Q12010-11 GDP growth came in at 8.8% above the previous year, the fastest pace for over two years; key drivers were manufacturing with year-on-year growth of 12.4%, and the industry group “trade, hotels, transport and communication” at 12.2%
- In its First Quarter Review of Monetary Policy, the Reserve Bank of India (“RBI”) revised upwards its baseline projection for GDP growth for 2010-11 to 8.5%, up from 8.0% “with an upside bias”, as indicated in its April 2010 policy statement;
  - The upwards revision was primarily based on better industrial production, and its favourable impact on the services sector
- At the same time, the RBI raised its baseline projection for inflation for March 2011 to 6.0% from 5.5%
  - The repo rate and reverse repo rate were raised at this time, and again in September, and currently stand at 6.0% and 5.0% respectively; the cash reserve ratio has been left unchanged at 6.0%
- The key risks to inflationary projections are considered to be i) a faltering of the global economic recovery – although less exposed than its emerging market peers, a slowdown in global trade would adversely impact Indian manufacturing and service sectors, and ii) a slowdown in capital flows – increasing global risk aversion could reduce global capital flows to India, which has historically supported growth and investment
- The most recent economic indicators continue to be positive:
  - The Index of Industrial Production stood at 13.8% in July; although the momentum has slowed in recent months, most analysts consider that current growth rates are more sustainable, with previous rates being attributable inventory restocking and the “base effect”
  - Exports were up 13.2% in July; exports were in the red for 13 consecutive months, only turning positive in November
- In July, the IMF revised its GDP growth projections, with India now expected to achieve growth of 9.4% in 2010 (up from 8.8% estimated in April) and 8.4% in 2011 (unchanged)

Economic Update

- The South West Monsoon has been strong this year, with cumulative rainfall currently 1% above average, and normal or excess rain recorded in 29 out of 36 regions (vs.15 in 2009)
- The Sensex was up 5% over the period, and has rallied a further 9% since, currently standing at around 19,500 points; the last time the index was over 19,000 points was in January 2008
- Foreign Institutional Investors were net buyers of Indian equities in June, July and August and foreign direct investments stood at US$5.8bn for the April – June quarter, down 17.2% on the previous year
- In a recent survey of business confidence and performance, 56% of respondants expect macro-economic conditions to improve in the next quarter against the previous quarter vs. 59% in June and 77% in March
  - For the July – September quarter, 69% of respondants expect sales growth to rise, with 67% expecting order books to grow and 46% expected profitability to increase – all up on the previous quarter’s response
  - 69% have or will sign off in capex in the coming quarter, vs. c.60% over the last two quarters

Portfolio Update

7% NAV

ACK

- In June, Elephant Capital announced that it had acquired a significant minority stake in Amar Chitra Katha, for £3.2m; the co-investment vehicle invested £0.5m and Gaurav Burman personally invested £0.3m
- ACK is one of the leading children's media companies in India, with a catalogue of over 500 print and 100 digital products, and is the owner of three highly recognisable brands in India: "Amar Chitra Katha", India's no.1 children's book series, "Tinkle", India's no.1 children's magazine and "Karadi Tales", an audio / visual series for pre-school children
- ACK has started to diversify its product range, to leverage these brands across new media platforms, and this remains a very significant opportunity for Elephant Capital
- At the end of August, ACK launched a new book on Mother Theresa, to coincide with her 100th birth anniversary; the book is aimed at 8-14 year olds, and will be available on the Amazon Kindle and iPhones as a mobile comic
- In May 2010, ACK announced the acquisition of India Book House, which at the Q111 stage, was already profitable

18% NAV

ClinTec

- ClinTec is a full service Clinical Research Organisation ("CRO") established in 1997 in the UK, providing clinical research personnel ("Global Resourcing") and project management services to pharmaceutical, biotechnology, medical device and larger CROs globally
- ClinTec has a very strong business in emerging markets, with 10 years' experience in Central and Eastern Europe, 8 in Asia and 7 in Latin America and the MENA region; it has strategically located regional offices in Bangalore, New York, Mexico City, London, Krakow, Beirut and Dubai
- ClinTec is headed by Dr Rabinder Buttar, who was recently awarded Regional Director of the Year by the Institute of Directors and in June 2010 was named Scottish Entrepreneur of the year
- In July, ClinTec was selected by one of the leading, international pharmaceutical majors, as one of four global clinical research suppliers

Portfolio Update

Elephant Capital
INVESTING IN INDIA

GCV

GLOBAL CRICKET VENTURES

15% NAV

- In June, the Board for Control of Cricket in India (“BCCI”) announced that it had rescinded its agreements with World Sports Group (“WSG”), in relation to the media rights pertaining to the IPL; Global Cricket Ventures (“GCV”), is the sub-licensee of various online and mobile rights from WSG. Little definitive information has since been forthcoming
- Elephant Capital has made a formal announcement to the market, and will update as appropriate

EIH

Oberoi Hotels & Resorts

18% NAV

- In its Q111 results, EIH reported net sales down 6% YoY, after adjusting for an insurance claim in respect of the disruption of business at the Oberoi and Trident hotels in connection with the Mumbai terrorist attacks in 2009
- In July, the press reported that the Oberoi family was considering raising its stake in EIH to help protect against a possible takeover approach by ITC, which owns 14.98% of the company but in August, it emerged that the Oberoi family had sold a 14.2% stake to Reliance Industries, led by Mukesh Ambani in a friendly deal; this is described as a long term financial investment for Reliance although there is speculation that it may lead to a larger offer from the Reliance Group
- Nita Ambani, wife of Mukesh Ambani is rumoured to be joining the board

Portfolio Update

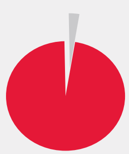
Mahindra Forgings

8% NAV

- In its Q111 results, Mahindra Forgings reported YoY revenue growth of 34% (51% but for the adverse impact of currency translation) and an EBITDA margin of 10%, up from -9% last year
- This performance has been driven by stronger than anticipated growth in Europe, which saw revenue up 55% YoY and 15% QoQ, and the EBITDA margin increase to 10.1% vs. -15% last year; the outlook for Europe however is uncertain, given the recent crisis in the Eurozone area, although the region has shown strong signs of recovery, and so far Germany, a key market for Mahindra has been insulated by its manufacturing competence and competitiveness
- In India, temporary problems relating to the availability of steel affected performance in April and May, but all segments of vehicle production are expected to record growth of 10-15% in the current year
- In July, Mahindra Forgings announced that Chairman Anand Mahindra would be stepping down, and would be replaced by Hemant Luthra, presently a director

Nitco

3% NAV



- In its Q111 results, sales were down 11% YoY, with an EBITDA margin of 10%, vs. 7% last quarter
- Sales of vitrified and marble tiles were suspended for four months pending an investigation by the Directorate of Revenue Intelligence into alleged customs duty evasion; performance was therefore adversely affected but the suspension was lifted in December 2009, and hence sales have rallied on a quarter-on-quarter basis, up c.36% in Q410 and c.22% in Q111
- The group has sought to re-orientate itself towards the retail segment (currently c.60% of sales, but targeting 80%) and should benefit from the strong recovery in residential property, where demand and spending power has been strong, particularly in Tier 1 cities such as Mumbai, Delhi, Bangalore, Chennai and Pune
- The more general appreciation of real estate values has revived interest in the possible sale of Nitco's real estate assets, although Nitco has not made any such commitments

Portfolio Update

Obopay

4% NAV

- In Q210, Deepak Chandnani was appointed President of Obopay Inc; he will be based in India, and will lead global operations for Obopay across all markets and geographies
- “Nokia Money”, the mobile money service launched with YES Bank went from pilot to full commercial launch in Pune, whilst another pilot service was launched with YES Bank in Chandigarh and a third is planned for Gurgaon in conjunction with Union Bank of India in the next quarter
- In Kenya, “YuCash” is currently piloted, with 52,000 customers currently holding active accounts and in Senegal, Société Générale and Obopay launched Yoban’tel, by Obopay, a carrier-agnostic mobile money transfer and bill payment service which is offered by Société Générale de Banques au Senegal to anyone with a mobile phone
- Total revenue for the half year to June 2010 stood at US$2.96m, up from US$293k for the whole of 2009, reflecting strong “Development and customisation fees” of US$2.88m (vs. US$234k for FY09), which is “lumpy” as fee income from professional services engagements is deferred until completion; the net loss was US$15m

Investment Summary

Valuation

(£m) Company (1)	Investment at Cost	Market Value 31 August 10	Gain / Loss
Amar Citra Katha	3.2	3.2	0.0
ClinTec	8.0	8.0	0.0
Global Cricket Ventures (2)	5.9	6.9	0.9
EIH Ltd	5.4	7.8	2.4
Mahindra Forgings Ltd	7.3	3.7	(3.6)
Nitco Ltd (3)	1.4	1.4	0.0
Obopay	1.2	1.8	0.5
Total	**32.4**	**32.8**	**0.3**
Cash Balance (4)		11.7	
Total		**44.4**	
NAV per share (£) (unaudited)		**0.89**	

(1) For listed investments, EIH, Mahindra Forgings and Nitco, market value is based on the closing share price and exchange rate as at 31 August 2010; for Obopay and GCV, market value is per the most recent balance sheet, 28 February 2010 (adjusting for exchange rate changes in Obopay's case, which is valued in US$) and for Amar Chitra Katha and ClinTec, market value is at cost since they have yet to be revalued

(2) NAV of GCV has not been adjusted to reflect potential changes in the status of the assets held by GCV, since this situation is yet to be resolved

(3) Original investment cost £5.5m (see note 9 of the 2009 annual report for further details)

(4) Does not account for income and expense accruals

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