Elephant Capital
INVESTING IN INDIA

Quarterly Newsletter

May 2010

Highlights

- NAV (unaudited) of 88p at the end of May 2010
- Prior to the third IPL (Indian Premier League) tournament, and building on the success of its partnership with Google announced in January, GCV, our newest portfolio company, agreed further partnerships with "new media" providers to fully monetise the licenses it holds with respect to the IPL
- In mid-April, there was speculation in the Indian press relating to the manner in which the internet rights to the IPL tournament were granted. Elephant Capital conducted a comprehensive due-diligence exercise before it invested in GCV and has consistently been transparent in its dealings with GCV, maintaining the highest standards of corporate governance. This is further re-enforced by the fact that no authority, including the BCCI, has approached either GCV or Elephant Capital
- Obopay successfully trialed "Nokia Money" at a pilot launch in Pune, India; the next stage will be a city-by-city roll out, leveraging Nokia's retail network
- Further opportunistic selling of NIIT, with 100,000 further shares sold in the quarter
- Interim results announced in May; NAV per share of 89p at 28 February 2010
- The team is working on a number of transactions in the engineering, media, financial services and pharma sectors. All are in privately held, unlisted businesses, with one being a control situation; the team has signed term sheets on all of these potential transactions and completed due diligence on some
- We are confident that we will make significant progress on these transactions in the coming quarter, and will update the market accordingly

Economic Update

- FY2009-10 GDP growth came in at 7.4%, ahead of the Government's estimate of 7.2%
  - Q4 GDP growth was 8.6%, matching the Q2 rate, and significantly ahead of the Q3 rate of 6.5%
- In its Annual Policy Statement, the Reserve Bank of India ("RBI") forecast GDP growth for the coming 2010-11 year at 8% "with an upside bias"
- On inflation, the WPI for March 2010 came in at 9.9%, significantly exceeding of the RBI's own forecast of 8.5%
  - The RBI have placed their WPI forecast for March 2011 at 5.5%, with three key uncertainties identified, i) the prospects for the monsoon, ii) continued volatility of crude oil prices, and iii) the build up of demand-side pressures
- Key policy rates, the cash reserve ratio, the repo rate and the reserve repo rate were each raised 25bps, to 6%, 5.25% and 3.75% respectively; the second time each had been raised since the accommodative policy stance was adopted in September 2008
- The most recent economic indicators continue to be positive:
  - The Index of Industrial Production stood at 13.5% in March, although the momentum has slowed slightly from January and December, when growth rates of 16.7% and 16.8% respectively were recorded, with 15.1% in February
  - Exports grew strongly in April, up 36%; exports were in the red for 13 consecutive months, only turning positive in November
- In April, the IMF raised its GDP growth projections, with India now expected to achieve growth of 8.8% in 2010 and 8.4% in 2011, supported by rising private demand; this represents an increase of 110 bps and 60bps respectively from the January update
  - "Advanced Economies" are expected to grow 2.3% and 2.4% in 2010 and 2011 respectively
- In May, the auction of 3G licences was completed, raising INR 670 bn (US$15 bn) for the Government, over twice the sum expected

Economic Update

Elephant Capital
INVESTING IN INDIA

- The South West Monsoon hit the coast of India on 31 May, with most forecasters expecting a near normal monsoon this year
- In a recent survey of business managers in India, 80% of respondents said that economic conditions were stronger in Q110 (January – March) than in the previous quarter and 70% expected conditions to be even stronger in June; banking and financial services managers emerged as the most positive, closely followed by manufacturers and other services firms
  - 70% reported stronger sales growth in Q110, and 77% expected this to be sustained into the current quarter
  - Half have made new capital expenditures in the quarter, with two thirds expected to do so by the end of June
- The Sensex had gained 9% by early April, but with global concerns on sovereign risk worsening in the wake of the crisis in Europe, closed the three month period up just 3% at 16,945, vs its April high of 17,970
- Foreign Institutional Investors were net buyers of Indian equities in March and April, but net sellers in May, as markets around the world reacted negatively to the worsening crisis in the Eurozone
- Foreign Direct Investments stood at US$26bn for the 2009-2010 (Apr – Mar 10), 5% below the previous year
- Private equity activity in India hit a six quarter high in Q1 Mar 10, with 69 deals bringing in US$2.2bn
  - This represents an increase of nearly 200% by value and 77% by volume YoY; QoQ, Q1 Mar 10 was up 89% by value, but down 12 % by volume
  - The key trend, was the emergence of larger deals

Portfolio Update

GCV

16% NAV

- Following its successful partnership with Google, and to fully monetise its IPL-related rights, GCV formed partnerships with a number of "new media" companies, enabling it to deliver the IPL tournament across multiple platforms:
  - Partners include Indiagames.com, Apalya Technologies, July Systems, and vRock Mobile
- The IPL enjoyed an excellent third season in March / April, reaching 142 million TV viewers in India, against 102 million in 2008 (the 2009 tournament was held in South Africa)
- YouTube, which screened the matches, saw 54 million cumulative channel views, with 4 million channel views on the day of the finals
  - The world average time spent per visitor on live matches was 50 minutes, demonstrating the attraction of the tournament globally; the India average time spent per visitor on live matches was 37 minutes
- The official IPL website, which GCV has the contract to develop and maintain ranked in the top 100 websites in March with 10 million page views, according to internet consultancy "Vizisense"

EIH

16% NAV

- Sales were down 13% for FY 2009-10; and the EBITDA margin fell to 35%, from 45% the previous year, reflecting the impact of the global slowdown, and terrorist attacks in Mumbai, which resulted in the temporary closure of the Oberoi Mumbai
- The Oberoi Mumbai re-opened in April, following a INR 1.5bn restoration programme; the Trident Bandra Kurla, which opened in December is reported to have been well received, with occupancies stabilising
- In May, EIH bought out its JV partner in EIH Holdings Limited, based in the British Virgin Islands, for US$45m; the JV, which is now wholly owned by EIH has interests in Mauritius, Indonesia and Egypt

Portfolio Update

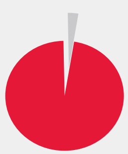
Mahindra Forgings

9% NAV

- In its FY10 results, Mahindra forgings reported YoY net revenue down around 40%, and made a loss of INR 90m at the EBITDA level; however, on a quarterly basis, sales were up 6% YoY and EBITDA moved into the black, compared to a loss of INR 60m in Q409 and INR 120m last quarter
- The company is upbeat on its prospects both in India and Europe; the broader Indian vehicle market is forecast to grow by 10-15% in FY11 whist in Europe, where heavy truck production declined by over 60% in FY10, there has been a revival in Q4 production numbers, which have reached 20,000, vs. 16,500 in the previous quarter
- Mahindra Forgings has also reported that Daimler AG, one of its key customers has advanced its regular production schedule, and will end its shortened working hours with effect from May – June 2010; others are expected to follow suit

NIIT

1% NAV



- In its FY10 results, NIIT reported YoY net revenue growth of 4% and EBITDA growth of 32%; the EBITDA margin was up 275 bps at 13%
- The schools business performed very strongly, with net revenue growth of 45% YoY, the margin remained roughly constant at c.15%; Individual Learning Solutions saw net revenue growth of 7%, and 136 bps margin improvement to 23%
- Corporate Learning Solutions saw sales decline of 6% YoY, reflecting ongoing difficulties in the corporate sector, particularly the US, but with product change and effective cost management, the margin improved 490 bps to 8%
- Elephant Capital substantially sold out of NIIT in December / January and in the current quarter, sold a further 100,000 shares; this investment will be fully exited as and when market conditions are favourable

Portfolio Update

Nitco

3% NAV

- In its FY10 results, Nitco reported sales down 33% and an EBITDA margin of 7%, vs. 12% last year; Nitco's performance was adversely affected by the suspension on the sale of imported tiles which followed the Directorate of Revenue Intelligence ("DRI") investigation into custom duty payable on imported marble slabs
- In early December, the suspension was lifted, and as a result, Q410 sales were c.36% ahead of Q310 sales
- Nitco has voluntarily paid INR 250m by way of a revenue deposit to the custom authorities, but no showcause notice has yet been received in respect of this investigation
- In terms of its real estate business, the Business Park at Thane, Maharashtra is nearing completion, and "Leave & License" agreements have been finalised with two parties, effective May and September 2010

Obopay

4% NAV

- "Nokia Money" was launched to a pilot user group in Pune in January – March; customers there can now use the service to transact money P2P, pay utility bills and top up SIM cards, with the latter being the principal use
  - A city-to-city roll out is planned, leveraging Nokia's 200,000 retail network
- In Kenya, "YuCash" was piloted, and is gaining traction with users; a full commercial launch is being planned upon the availability of local language support
- Work is progressing to implement the service in Senegal, together with Société Générale – roll out expected later in 2010
  - Obopay is also beginning to explore Cameroon, as the next possible target for this partnership
- Total revenue for the quarter stood at US$904k, boosted significantly by "Development and customisation fees" of US$857k (vs. US$186k for FY09) as fee income from professional services engagements is deferred until completion; gross profit for the period was US$508k and net loss was US$7.9m

Investment Summary

Valuation

(£m) Company (1)	Investment at Cost	Market Value 31 May 10	Gain / Loss
Global Cricket Ventures	5.9	6.9	0.9
EIH Ltd	5.4	7.0	1.6
Mahindra Forgings Ltd	7.3	3.8	(3.4)
NIIT Ltd	0.4	0.5	0.1
Nitco Ltd (2)	1.4	1.3	(0.1)
Obopay	1.2	1.9	0.6
Total	**21.6**	**21.3**	**(0.3)**
Cash Balance (3)		22.5	
Total		**43.8**	
NAV per share (£) (unaudited)		**0.88**	

(1) For listed investments, EIH, Mahindra Forgings, NIIT and Nitco, market value is based on the closing share price and exchange rate as at 31 May 2010; for unlisted investments, 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$)

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

(3) Does not account for income and expense accruals

Contact Information

Gaurav Burman (UK)

+44 207 292 6072

gburman@elephantcapital.com

46A Great Marlborough Street, 3rd Floor, London W1F 7JW (UK)

Amit Jain / Joanna Allen (India)

+91 11 4320 8000

ajain@elephantcapital.com

ASHI Bhawan, 1st Floor, 19 Rouse Avenue, Near ITO, New Delhi – 110002 (India)

www.elephantcapital.com