Quarterly Newsletter

November 2010

Highlights

- NAV (unaudited) of 84p at the end of November 2010
  - Elephant Capital is currently in the process of restructuring its investment in GCV; the NAV as at the end of November is not adjusted for this, as the outcome is not yet known
- Nitco, in its annual report disclosed plans to monetise its real estate assets, in line with Elephant Capital's recommendation
- The roll out of the Obopay service in India has not progressed as quickly as expected, but a new working arrangement with Nokia should enable a more efficient roll out going forward
- In September, Elephant Capital announced that Niraj Agarwal would be leaving the Board, but had kindly agreed to stay on as Special Advisor
- In October, Elephant Capital was pleased to announce that Vikram Lall had joined the Board; Vikram has nearly 40 years' corporate finance experience in the UK, most recently at Brewin Dolphin Holdings PLC, where he was a Corporate Finance Director and a Board member for ten years
- The team is working on transactions in the consumer, engineering, logistics and medical sectors, which are in privately held, unlisted businesses and will update the market as appropriate

Economic Update

- Q22010-11 GDP growth came in at 8.9%, above expectations, and just ahead of the Q1 growth rate of 8.8%; key drivers were manufacturing with year-on-year growth of 9.8%, and the industry group “trade, hotels, transport and communication” at 12.1%
- In its Second Quarter Review of Monetary Policy, the Reserve Bank of India (“RBI”) held unchanged its baseline projection for GDP growth for 2010-11 at 8.5%; indicators of industrial production and service sector activity continue to encourage, and following a normal monsoon, agriculture is showing a good performance
- Whilst acknowledging that headline inflation had moderated in recent months, the RBI said that it remained above their “comfort zone”
  - As a result, the repo rate and the reverse repo rate were raised by 25 bps each, to 6.25% and 5.25% respectively; the cash reserve ratio was left unchanged at 6.0%
  - The baseline projection for WPI inflation for March 2011 has been placed at 5.5%, which is below the 6.0% estimated at the time of the July review, but due to changes in the manner in which the WPI is calculated, the forecast is essentially unchanged; WPI is currently 7.5%
- The RBI consider the key risks to the Indian recovery as being i) a prolonged slowing and halting recovery process in advanced economies, ii) the acceleration of inflationary pressures in India and iii) that the surplus liquidity generated in advanced economies (e.g. as a result of “quantitative easing”) will cause appreciating exchange rates and rising asset prices in emerging market economies, which could destabilise recovery
- The most recent economic indicators continue to be positive:
  - The Index of Industrial Production stood at 10.8% in October; momentum has slowed in recent months, as last year’s higher base starts to take effect, and as these indicators return to a more sustainable “trend rate of growth”
  - Exports were up 21.3% in October; exports were in the red for 13 consecutive months, only turning positive in November

Economic Update

- In October, the IMF revised its GDP growth projections, with India now expected to achieve growth of 9.7% in 2010 (up from 9.4% estimated in July) and 8.4% in 2011 (unchanged)
  - Advanced economies are expected to see growth of 2.7% in 2010 and 2.2% in 2011
- The Sensex was up 8.6% over the period, and in early November reached an all time high of 21,005, but slipped back towards the end of the month in the wake of the debt crisis in Ireland and as China raised rates and signaled a more contractionary stance
- September and October saw very strong buying of Indian equities by foreign institutional investors, with US$12 billion in net purchases in these months alone, vs. a total of US$13 billion over the previous six months; November also saw strong buying, but tailing off towards the end of the month
- In a recent survey of Indian firms on business confidence and outlook, nearly all indicated that they were strongly positive on the overall operating environment and on the prospects for their firms
  - 65% of respondents expect firm revenues to rise by more than 20%
  - Over 80% expected profits to increase by more than 10%, with almost no-one expecting profit shrinkages in 2010-11; Banking, Financial Services & Insurance and Pharmaceuticals & Healthcare were the most bullish sectors
- The private equity market has shown strong recovery in 2010
  - For the first three quarters, private equity deal value stood at US$7.2 billion, vs. US$4,4 billion for the whole of 2009; deals by value were similar with 294 for YTD 2010, and 318 for the whole of 2009
  - The most active sectors were financials, utilities and industrials

Portfolio Update

ACK

8% NAV

- Recent new launches include hardback books to accompany the Karadi Tales audio books, a new ACK Junior series, and “Brainwave” a monthly science magazine, targeting 8-13 year olds, which will be the lead in a new series of science releases
- The Home video catalogue was expanded, with 10 new titles of Karadi Tales and ACK stories for 8+ year olds, and with Hindi titles added for the first time
- The second series of the ACK TV show will shortly be aired on Cartoon Network, and ACK is in discussions with children’s channels for a season two of Karadi Tales; season 1 of the “Suppandi” TV show is in production
- Over Diwali, ACK test launched a programme to increase children’s emotional intelligence by the telling of ACK classics in a workshop format
- In September, Elephant Capital’s investment in ACK won the Entertainment & Media Deal of the Year award, at the Asia Pacific Atlas Awards, organised by Global M&A Network

ClinTec

19% NAV

- ClinTec has strengthened is geographic footprint in recent months, with the addition of strategic legal entities in Bulgaria, Austria, Hungary, Finland and Singapore; the South African staff count has doubled to 24 and several highly experienced new managers have been added to the regional hub in Bangalore
- In September, ClinTec appointed Dr Dianne Kikta, former executive vice-president of global clinical strategic resourcing at drugs giant Wyeth, to the new role of executive vice-president in the US to help grow the business there further
- In October, Rabinder Buttar was awarded Female Business Leader of the Year at the Scottish Leadership awards, 2010 and Business Woman of the Year at the first ever Sikh Awards in London

Portfolio Update

16% NAV

GCV

- 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.
- Since June, WSG has been locked in a legal battle with the BCCI arguing the validity and merits of their licensing agreements. As the bulk of GCV's rights are licensed from WSG this has caused extreme stress to GCV's business.
- Despite several attempts to contact the BCCI and discuss the rights that GCV licenses directly from the BCCI there has been limited communication.
- As a result, Elephant Capital has decided to restructure its investment in GCV, and will update the market when this process is complete

14% NAV

EIH

- In its H111 results, EIH reported net sales for the half year up 9% YoY, including last year's insurance claim contribution, which was paid post the Mumbai attacks; sales for the second quarter were 28% ahead YoY, although the margin was lower at 6% vs. 13% in the same quarter last year
- In September, EIH announced a Rs 13 bn rights issue; Reliance Industries, acquired a 14.8% stake in the company in August and ITC Welcomgroup also hold just less than 15%
- In December, SEBI, the Indian financial regulator gave its approval for the rights issue to proceed

Portfolio Update

Mahindra Forgings

8% NAV

- In its H111 results, Mahindra Forgings reported YoY revenue growth of 40% (57% but for the currency translation loss, due to the depreciation of the euro), and an EBITDA margin of 9.6%, compared with -0.2% last year
- Performance in Europe remains stronger than anticipated, with revenue up 64% YoY (in euro terms) over the half year, and 72% YoY over the last quarter; the EBITDA margin in the half year was 9%, vs. -6% at the same stage last year
- The German commercial vehicle segment showed signs of recovery towards the end of last year, which have persisted into the first half of FY11; however, strong growth in production has led to pressure on input prices, such as steel and wages
- The Indian business recorded a lower EBITDA margin in the current half year as a result of internal operational issues, such as higher rejection rates and missed volume targets, which the company is now working to correct

Nitco

5% NAV

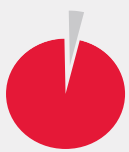
- In its H111 results, Nitco announced sales up 27%, reflecting last year's low base when sales of vitrified and marble tiles were suspended for nearly five months pending an investigation by the Directorate of Revenue Intelligence into alleged customs duty evasion (quarterly YoY sales were up nearly 100%); EBITDA was ahead, with a margin of 11%, vs. 9% over the half year period last year
- Nitco recently disclosed plans to monetise its real estate assets (with the exception of an IT park in Thane, which is nearing completion); the process should take around three years, and will help deleverage the company. Elephant has been advocating such a strategy for some time, and are pleased that this has now been adopted by the board

Portfolio Update

Obopay

- The roll out of the Obopay service in India has been slower than forecast, and as a result, Obopay has developed a new working relationship with Nokia, which will result in Nokia taking over the “go to market” functions of the service in India; Obopay will provide a managed service which will enable the Nokia offering
- The service is currently being offered in Pune and Chandigarh, and is ready to launch in Nashik (Maharashtra) and Gurgaon (near Delhi) when key contracts are executed
- Total revenue for the first nine months to September 2010 was US$3.8m (vs. US$ 293k for the whole of 2009) reflecting strong “Development and customisation fees” of US$3.6m (vs. US$234k for FY09), which is “lumpy” as fee income from professional services engagements is deferred until completion; the net loss was US$22.6m

4% NAV



Investment Summary

Valuation

(£m) Company (1)	Investment at Cost	Value 30 November 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	5.9	0.5
Mahindra Forgings Ltd	7.3	3.2	(4.1)
Nitco Ltd (3)	1.4	2.0	0.6
Obopay	1.2	1.8	0.5
Total	**32.4**	**30.9**	**(1.5)**
Cash Balance (4)		11.1	
Total		**42.0**	
NAV per share (£) (unaudited)		**0.84**	

(1) Elephant Capital formally values its investments twice a year at the annual and interim stage; for the purposes of the quarterly valuation, for listed investments, the value of EIH, Mahindra Forgings and Nitco is based on the closing share price and exchange rate as at 30 November 2010; for Obopay and GCV, value is per Elephant Capital's most recent balance sheet, 28 February 2010 (adjusting for exchange rate changes in Obopay's case, which is valued in US$); for Amar Chitra Katha and ClinTec, value is at cost since they are recent acquisitions and have yet to be revalued

(2) Elephant Capital is currently in the process of restructuring its investment in GCV; the NAV as at the end of November is not adjusted for this, as the outcome is not yet known

(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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