MSFL – STRATEGY OUTLOOK
INDIAN ECONOMY

PRESENTED BY:
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INDIAN ECONOMY

2009 - 2011

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2011 - 2012

Market Overview

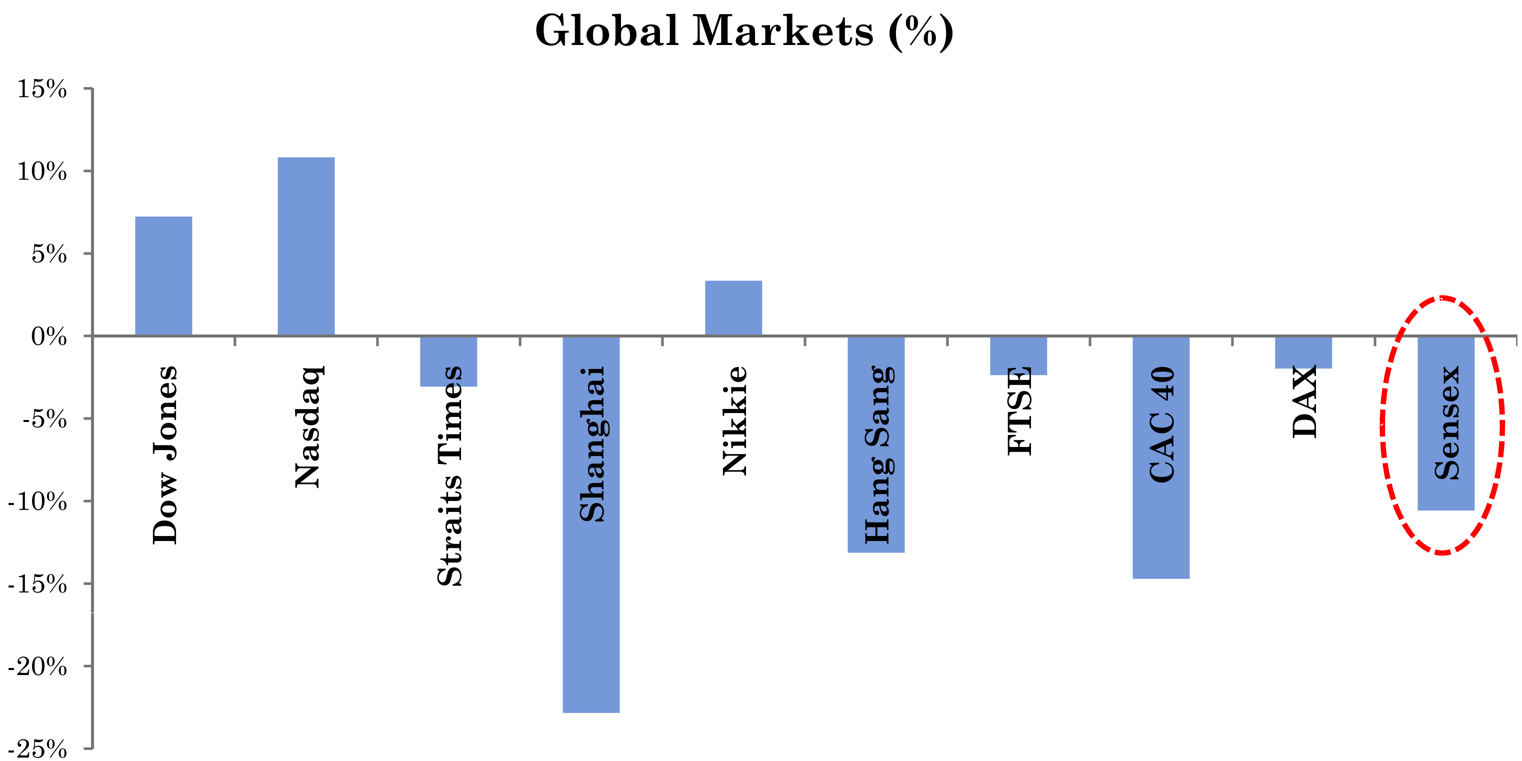
Can Chidambaram pull off growth back to 8% + by proper policy actions..???

Will Subbarao do timely rate reversal & manage rupee crisis effectively to bring back high growth..???

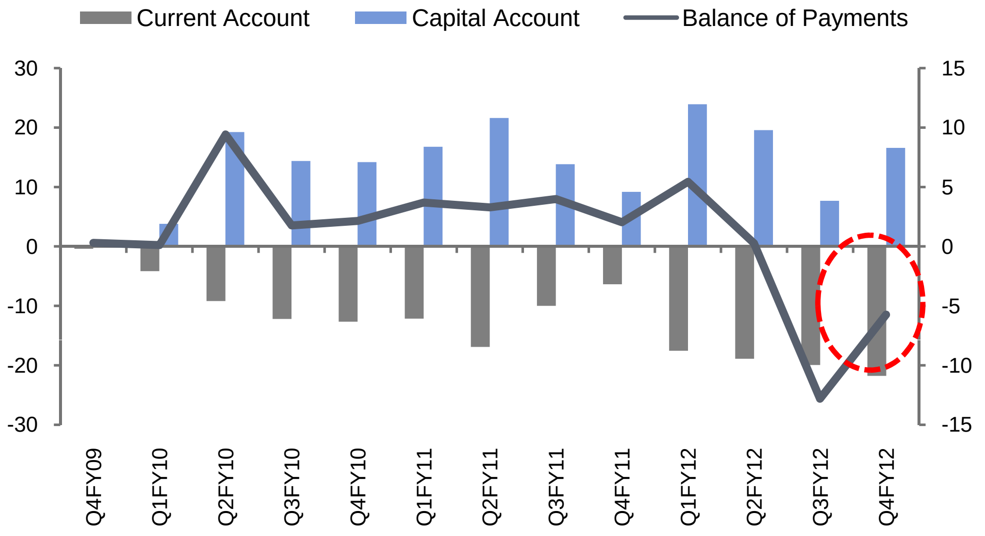
Is worst of European debt crisis far from over or its just the tip of the iceberg..???

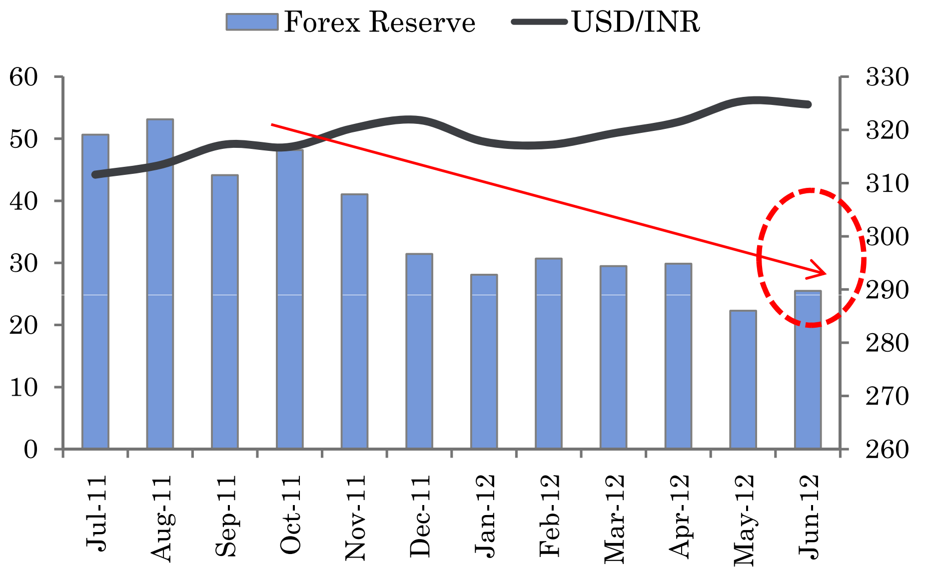
Will India ever see normal inflation or high inflation has become new normal…???

DISMAL PERFORMANCE OF 2011-12…!!



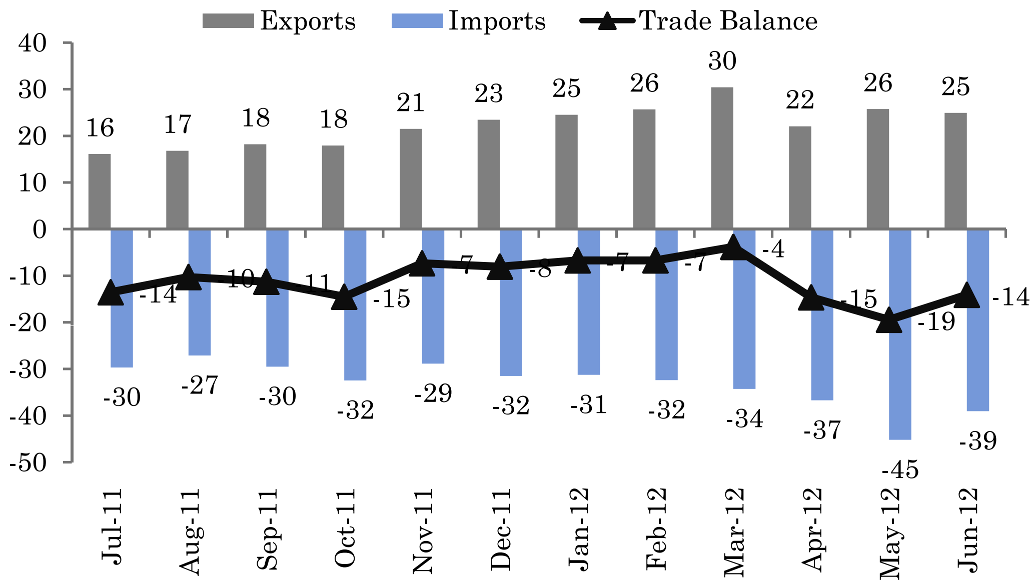
RS 50/$ NEW NORMAL FOR RUPEE…???

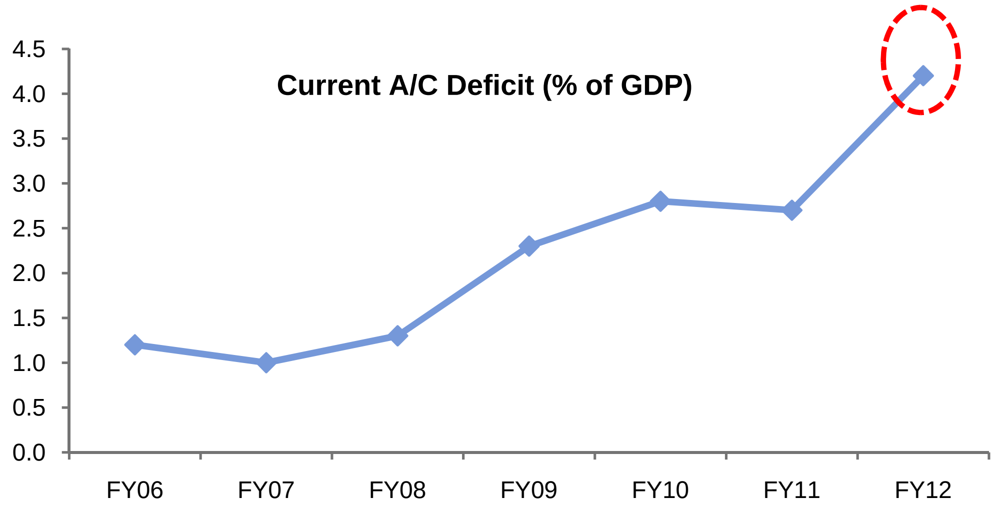




- ✓ India's overall Balance of Payment position has deteriorated since 2QFY10 because of widening current account deficit
- ✓ Even though exports have shown some improvement but strong dollar aggregated by high crude oil prices have taken its toll on overall current account deficit
- ✓ Worrisome feature of BOP is the capital account – wherein foreign investments have fallen while foreign commercial borrowings has increased significantly
- ✓ Even after strong measure taken by central bank and government in tandem to support falling rupee, we believe Rs50/$ seems to be the new normal

COSTLY AFFAIR TO MANAGE…!!!





- ✓ Oil prices remained at elevated level for FY11 and FY12 largely due to political unrest in MENA region especially in countries like Libya & Syria while no respite is expected even in FY13 due to rising tension in Iran

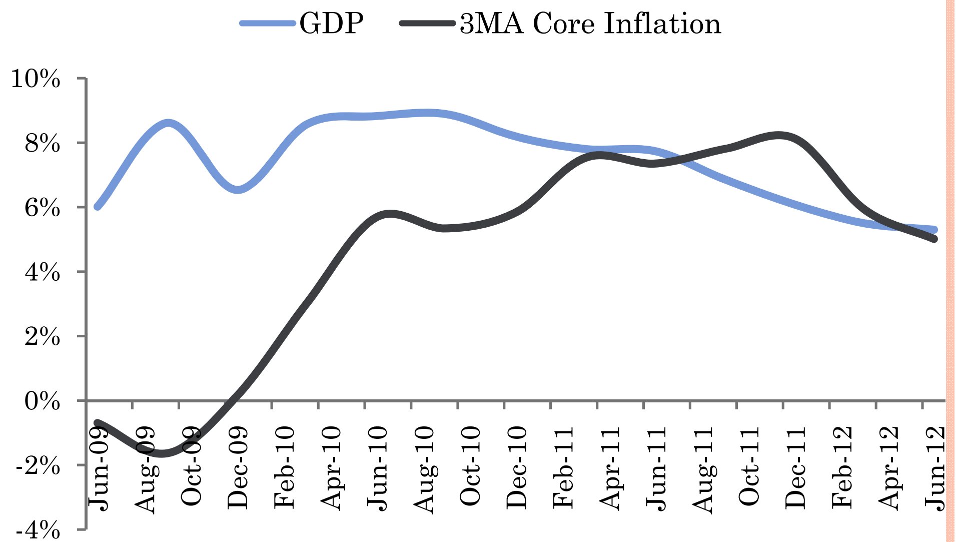
- ✓ Strong measures like diesel and petrol price hike, increase in FDI limits in insurance and aviation, on policy front supported by falling crude prices would act as a positive trigger to counter falling rupee

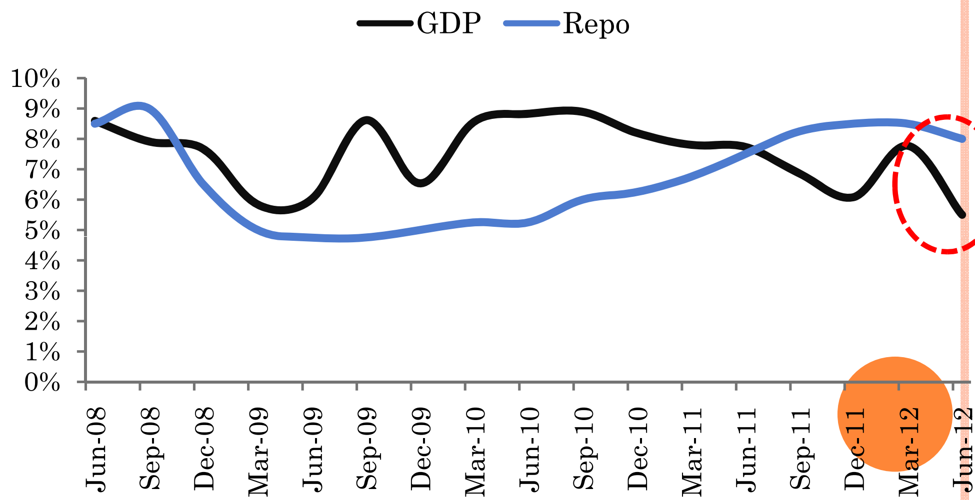
- ✓ Recently government has taken strict measures by imposing import duty on gold but its effects on trade balance could only be measured in coming months

- ✓ Going ahead, we expect trade balance to remain volatile due to uncertainty in euro zone, high crude oil prices and lack of strong export growth

RATE REVERSAL – GO OR NO GO…???

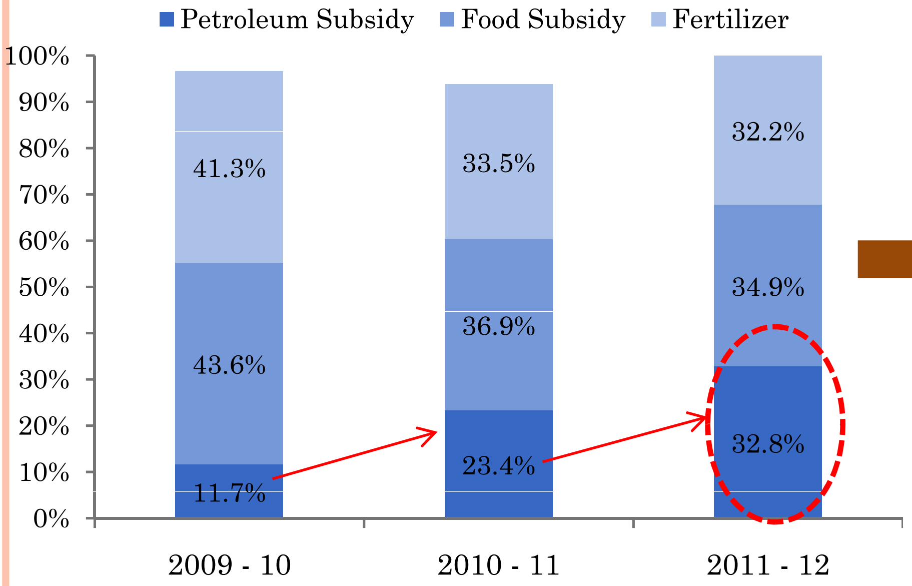
- ✓ In 2008 growth was largely affected by global financial turmoil
- ✓ Growth in 2011-12 has remain subdued mainly by stubbornly high inflation, crude oil prices and consequently high interest rates
- ✓ In our view stubbornly high inflation would make it a difficult case for RBI to make aggressive rate cut in FY13
- ✓ Tightrope walk between managing growth and inflation would continue
- ✓ High interest rates would keep cost of borrowing at elevated levels aggregated by high input cost would keep profit margins of companies under check, resulting into below average growth of 7% in FY13
- ✓ We believe that expectations of 100 bps rate cut seems overdone by the markets while we expect 50bps cut in H2FY13 and further action would depend upon monsoon



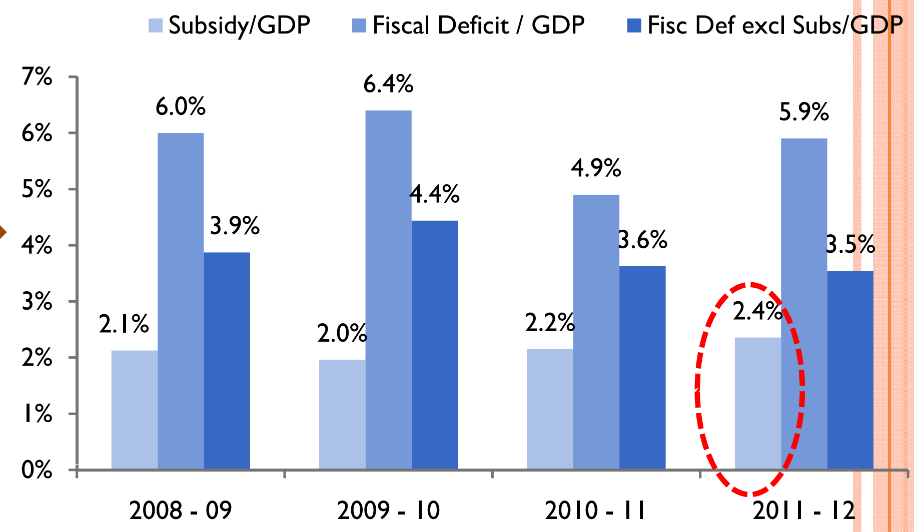


FISCAL DEFICIT – DEVIL IN DISGUISE…!!!

Petroleum Subsidy reveals rising allocation….

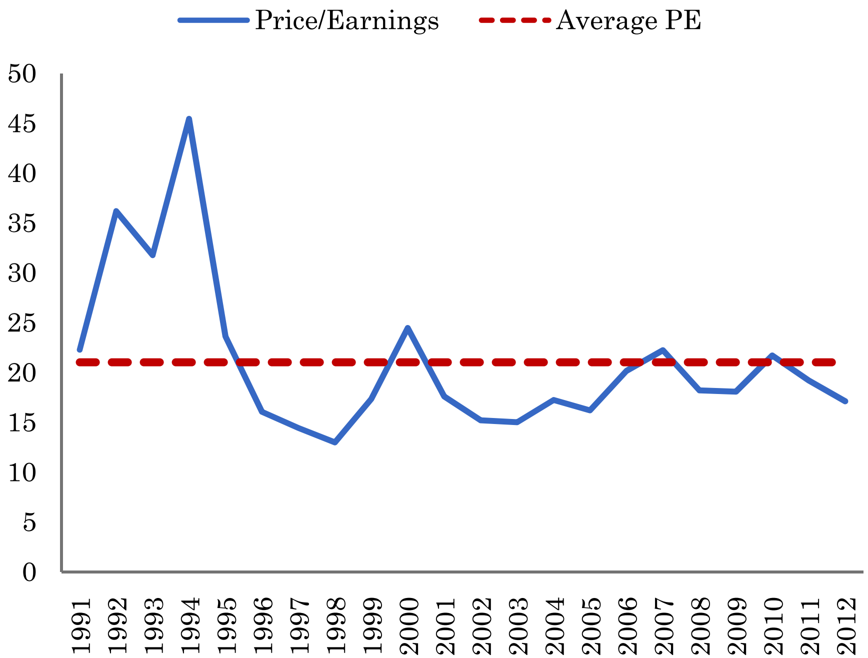


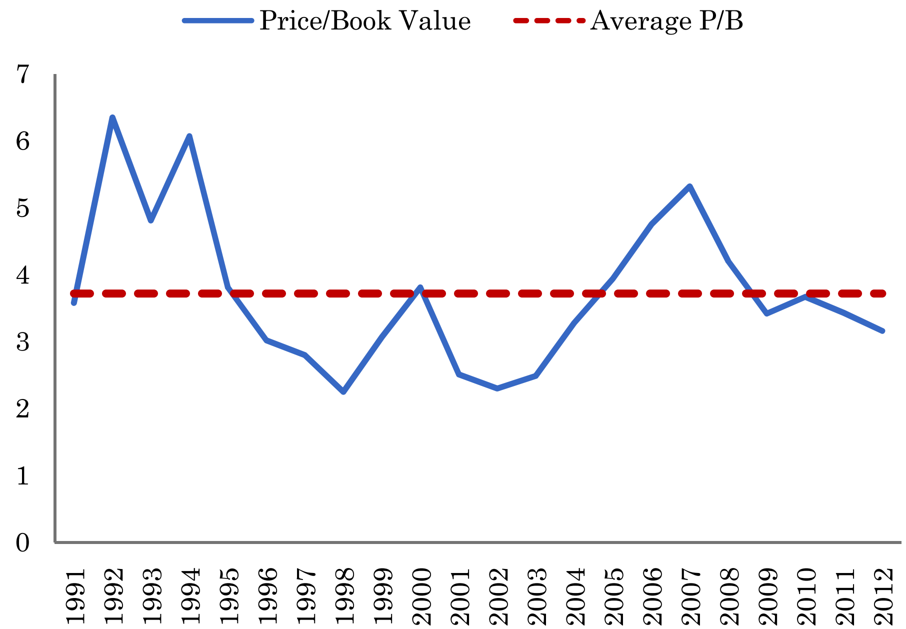
Fiscal Deficit worsening on account of higher subsidies…



- ✓ Even if we observe closely Subsidy/GDP has shown an increasing trend wherein allocation towards petroleum sector has shown steep rise due to soaring crude oil prices as well as weak rupee
- ✓ Weak economic growth, a high subsidy bill and a likely undershoot of targeted asset sales by the government may miss its budgeted target of 5.1% of GDP for FY13
- ✓ Moreover with general elections due in May 2014 the risk of populist measures pertains which would further put pressure on fiscal consolidation, going forward
- ✓ It's a unique scenario wherein combination of high fiscal deficit with slow reforms is accelerating inflation and worsening growth scenario

MARKET - SNAPSHOT...!!!





- ✓ It's a tough period for India Inc. as high fiscal deficit with lack of reforms has affected India's growth
- ✓ In our view India decoupling story has become more of a sour myth as we are highly dependant on foreign flows for things to revive
- ✓ If we do a simple math FY 09 EPS – Rs 750, Sensex closed at 15644, while today EPS – Rs 1170 & Sensex trades at 17404 i.e. Prices have increased by a mere 11% compared to almost 56% rise in earnings
- ✓ We believe valuations look compelling vis-à-vis past records but remain cautiously bullish due to policy paralysis while any major step targeting reforms would see significant re-rating of Indian economy and provide reasonable upside from current levels

Where do you think markets are headed ?

Which stock is the best buy from current levels ?

How can I double my money in short run ?

Do you think we should stop investing into equity markets as returns are negative?

INVESTMENT FUNDA'S

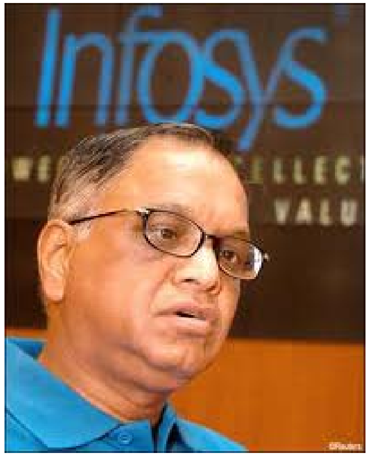
INVEST IN BUSINESS NOT COMPANY

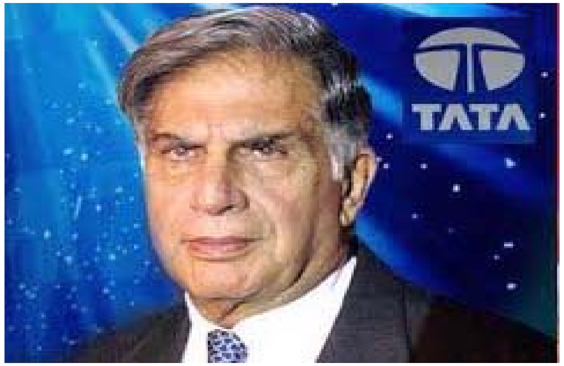
- *Investment in stocks are not about speculation and short term returns*
- *It is like being a partner/owner in that business*
- *Most of businesses have their cyclical nature and would hardly yield return from Day 1 of investment*
- *In slump period most business tend to face hard times to stay afloat but it does not mean future prospects would never improve for its owners*

"I am a better investor because I am a businessman and a better businessman because I am no investor" - Warren Buffett

BETTING ON MANAGEMENT…!!

- *Trustworthy and smart*
- *Management with highest credibility and ethics*
- *Company with highest corporate governance practices*
- *Proven past track record*
- *Management who thinks like owners of the business*





"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently" – Warren Buffett

SIMPLE BUSINESS…!!!

- *The company model should be simple with few variables, and not a lot of money needed to maintain the business model.*

- *Business should be understandable with consistent earning power, good return on equity/capital, comparatively control debt.*

- *Does the business have a consistent operating history ?*

- *If you own a company which you don't understand, it is impossible to accurately interpret developments and therefore impossible to make wise decisions.*

- *For e.g. Person who works with a bank understand its business very well which is his competitive advantage. So it is preferable that he should consider investing into financial companies.*

"I try to buy stock in businesses that are so wonderful that an idiot can run them. Because sooner or later, one will" – Peter Lynch

SUSTAINABILITY

- *Competitive Advantage - It is what you, your company or your department does better than anyone else.*

- The easiest way to find competitive advantage is to answer these questions:
  - What is my company best at in my markets?
  - Why it is the best ?

- *E.g. Pager which was launched as one of the most important form of communication, became outdated within few years at the onset of mobile phones*

- *Sustainable business generates good cash flows which would reap handsome returns in form of high dividends apart from increase in companies valuation.*

IT'S MORE THAN JUST OIL.
IT'S LIQUID ENGINEERING.™

"Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years" - Warren Buffett

FINANCIAL TENANTS – THE TRUMP CARD

- Mr. Market swings as per the mood and quote different prices everyday
- Accept Mr. Market offer when he acts out of irrationality and buy stocks at a bargain
- Intrinsic Value - The actual value of a company based on an underlying perception including all aspects of the business, in terms of both tangible and intangible factors
- Companies with high profit margins.
- Focus on return on equity/capital & free cash flow
- Calculate "owner earnings" to get a true reflection of value.
- Rate of compounding on money retained

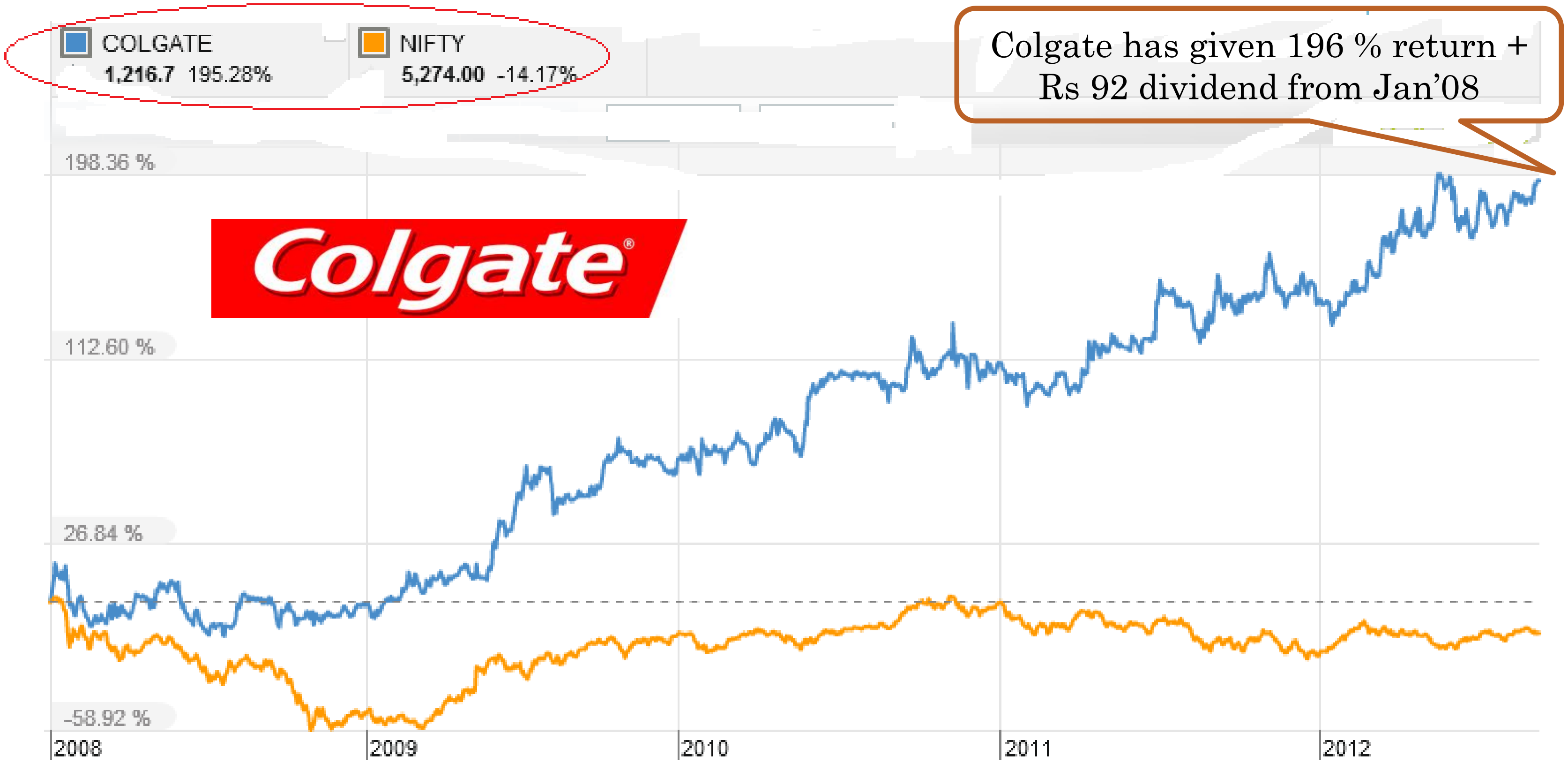
"Price is what you pay. Value is what you get." – Warren Buffett

INVESTOR PSYCHOLOGY

- Success in investing doesn't correlate with IQ
- Temperament to resist speculating
- Act Rational & Don't be bias
- Confidence per se is not a bad thing but overconfidence can be damaging
- Our favourite holding period is forever

"Be fearful when others are greedy, be greedy when others are fearful" – Warren Buffett

WHY WE BELIEVE THIS THEORY WORKS…???



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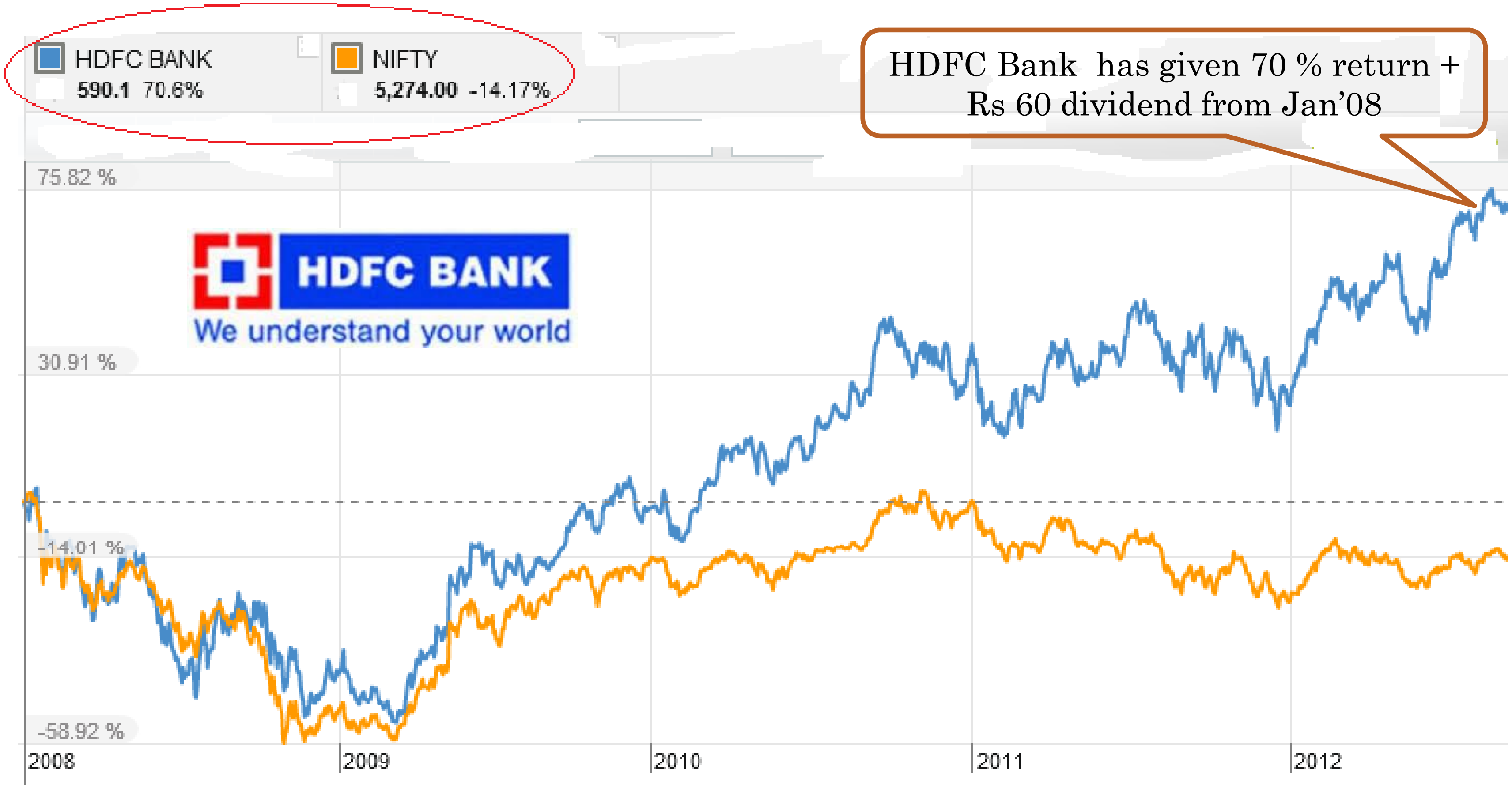
HDFC Bank has given 70 % return + Rs 60 dividend from Jan'08



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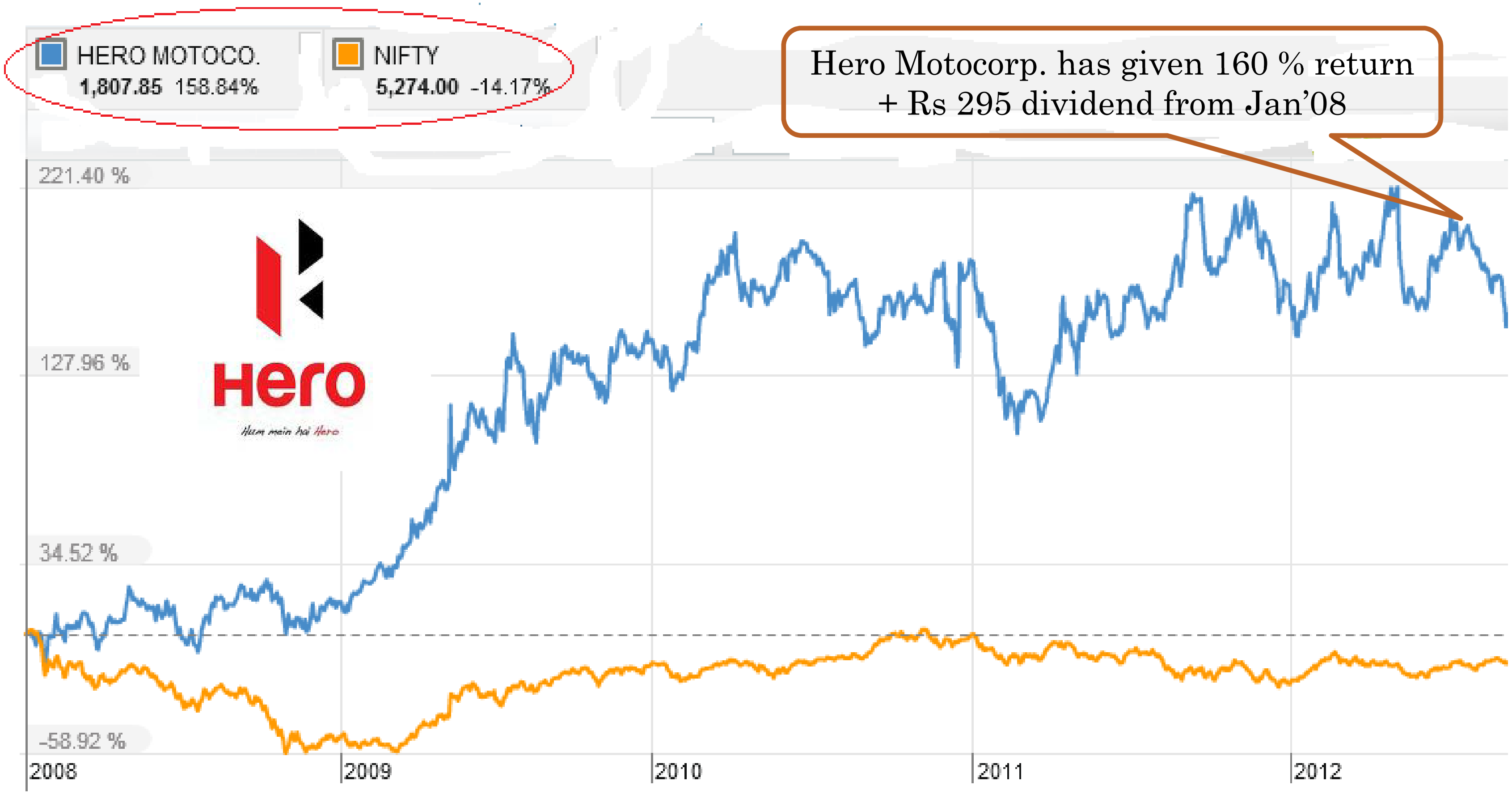

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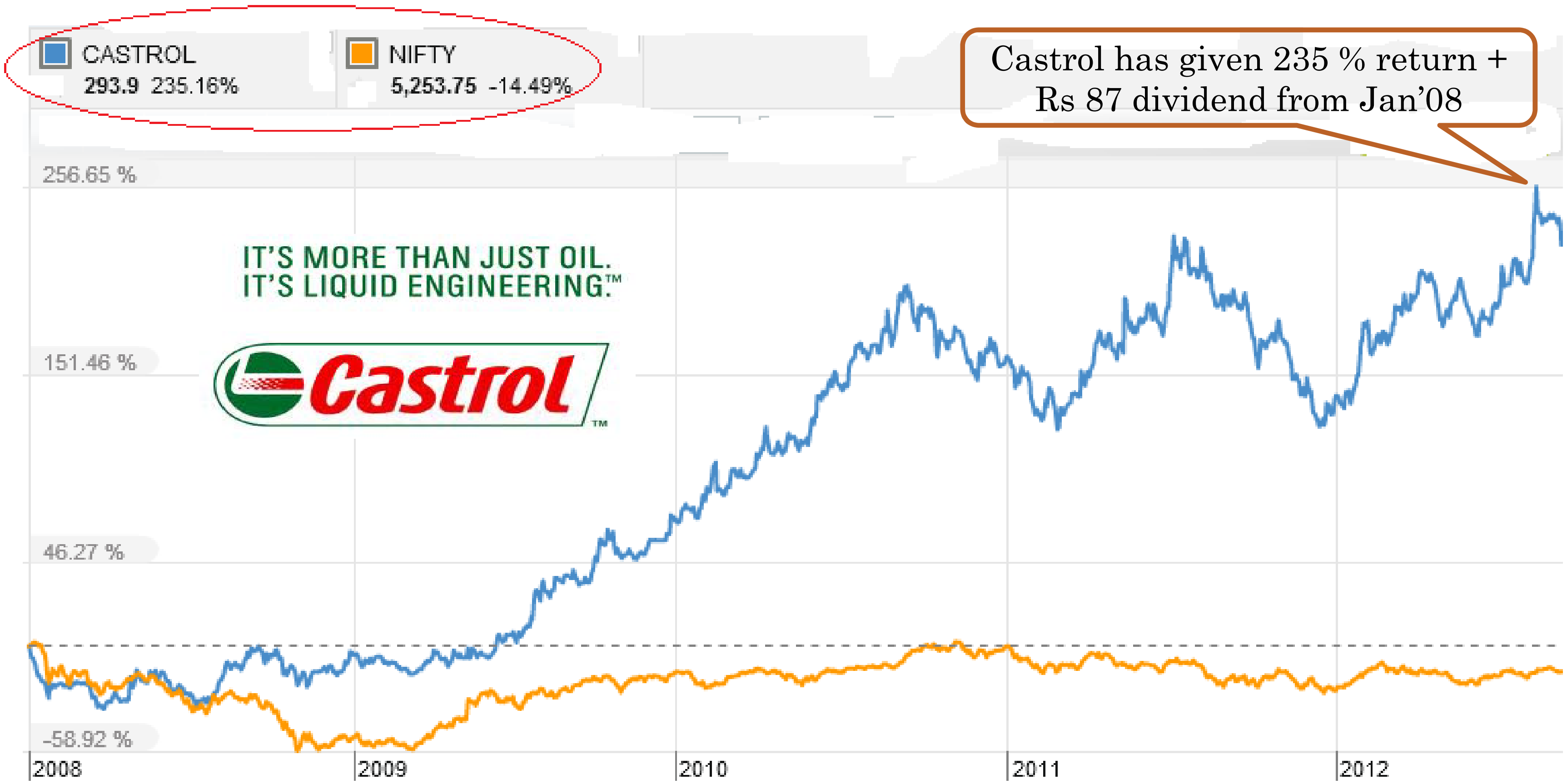


Thank You