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POWERING YOUR FINANCIAL GROWTH

Stock Market Outlook

2009

Market View

The long term direction

Synopsis- Risks to the Market

- What Have been the key risks to the markets in past?
  - High commodity prices-oil, metals
  - High interest rates, tight liquidity & stubbornly high corporate bond spreads leading to a slowing economy
  - Political instability in the country & stalling of reforms process.
  - Global financial turmoil
  - Global tensions.
- What would be the future area of concerns?
  - Fiscal deficits to widen as Govt borrowings increase out of investment growth.
  - Poor Monsoon to affect agricultural output & hence economic growth

Synopsis-Risks to the markets

- How many of these Risks have got mitigated over the past six months?
  - Commodity prices have cooled off significantly (~50-60% of their peaks) over the last few months & started to look up again in anticipation of economic revival.
  - Fallen commodity prices to reduce pressure on inflation going forward; interest rates are expected to stabilize & help economic growth momentum.
  - With Political instability haven resolved, we expect economic growth & earnings growth to revive rapidly going forward.
  - Global financial turmoil has stabilized. Negative impact of the same going forward is likely to be muted for India.
  - Geopolitical tensions have somewhat increased with the North Korea issue rekindling
  - Liquidity globally and domestically has eased off significantly and corporate bond spreads are now back to pre Lehman days.
  - Funds flow by FII's into emerging markets has revived with an inflow of USD 8 billion in India since march 2009.
- **Therefore incrementally things are much better than six months ago.**

Market View - fundamental

	2009	2010E	2011E
Sensex EPS (consolidated)	850	919	1100
PE @ 15000	17.6x	16.3x	13.6x

- Economic activity has bottomed out and is showing clear signs of revival.
- 1QFY10 results have been better than expectations in general.
- Valuation of the Indian markets are reasonable for the medium term and visibility of growth is among the highest in emerging markets
- Most emerging economies ex of China and India unlikely to show any significant positive momentum in economic growth in the near term
- Investment choice for foreign investors getting restricted, thus opening opportunities of strong FII flows over the next two years.
- The year 2011 will show strong profit growth and there is excessive pessimism surrounding the same, this will lead to earning upgrades and strong market performance over the next 18 months.
- **Indian markets are now integrated with the world and prone to global shocks (e.g.. MAY 2006/FEB2007/OCT2008)**

Market View – fundamental

Corporate Profits Surpass Index Growth

Date	Sensex	Agg BSE 500 Net Profit (Rs Crs)
Apr-99	**3519**	**31101**
Apr-00	5053	37019
Apr-01	3566	45487
Apr-02	3506	45371
Apr-03	3117	70028
Apr-04	5788	90077
Apr-05	6604	119719
Apr-06	11747	136909
Apr-07	12455	195769
Mar-08	16217	254500
Mar-09	**9708**	**260000**
10 yr growth	**2.7 times**	**8.4 times**

10 year data reveals that ….

…profits in the broader market have grown faster than the Sensex

Market View – fundamental

Consistent Earning Growth

	EPS	Growth (%)	Sensex	Sensex growth
FY98	247.0	6.9	3,969.6	15.8%
FY99	240.5	(2.6)	3,686.3	-7.1%
FY00	274.4	14.1	5,001.3	35.7%
FY01	235.8	(14.1)	3,604.4	-27.9%
FY02	251.3	6.6	3,500.2	-2.9%
FY03	293.7	16.9	3,081.0	-12.0%
FY04	354.1	20.6	5,740.9	86.3%
FY05	435.7	23.1	6,605.0	15.1%
FY06	478.4	9.8	11,280.0	70.8%
FY07	653.3	36.6	13,072.1	15.9%
FY08	865.0	32.4	15,800.0	20.9%
FY09E	870	5.0	9708.0	-39.5%

• Indian corporates have been delivering consistent growth for last several years .

• In FY07 and FY08; Sensex grew slower than the Sensex EPS growth; thereby anticipating a slowdown in future earnings

•The fall in the markets in FY 09 has also been much more severe relative to earnings growth

• As the growth outlook improves; Sensex likely to give disproportionate returns

Source: Bloomberg; Edelweiss

Economic Fundamentals - Robust

	Real GDP	Inflation	Investments as a % of GDP	Savings as a % of GDP
	% Y-o-Y	% Y-o-Y	%	%
1997-98	4.30	4.40	25.3	23.80
1998-99	6.68	5.95	23.3	22.26
1999-00	6.44	3.27	25.9	24.81
2000-01	4.35	7.16	24.3	23.74
2001-02	5.81	3.60	22.8	23.47
2002-03	3.84	3.41	25.2	26.40
2003-04	8.52	5.46	28.2	29.81
2004-05	7.45	6.48	32.2	31.77
2005-06	9.40	4.38	35.5	34.28
2006-07	9.62	5.42	35.9	34.77
2007-08	8.73	4.21	36.3 *	35.05*

Source: CSO, CMIE, RBI, Edelweiss, * estimates

- **Economic fundamentals have been robust and key metrics have consistently improved**
- **Current level of Saving and investments can sustain 8% growth**

Market View – fundamental

Which way will the economy recover

- Economic growth has fallen from 9% a year back to around 5%
- Contributors for the same were
  - Global economic crisis and the resultant fall in investor confidence
  - Lack of liquidity and high interest rates
  - Fall in exports and imports
  - A sudden fall in domestic demand

- China had a golden decade in the 1990's as it could grow with low inflation as commodity prices remain subdued after the big boom in the 1980's
- Low interest rates and strong liquidity led to a 15 year boom
- When India started to grow in 2003 it was a part of global boom which led to high inflation and high interest rates, easy liquidity also led to a strong asset bubble which finally burst in early 2008

- **So what is in store for India going forward?**

Wave Theory – Wave 1

- Wave 1 was the bull market of 2003-2007 which lasted for a period of 58 months
- During this phase, markets moved up from 3000 to 21000
- The upmove was part of the global upmove with nearly 124 countries growing at over 4% during 2006/07.
- The move was backed by strong liquidity flows and ended with the financial sector meltdown and high inflation which led to severe monetary tightening
- Although there was a big asset bubble, Indian corporates did not indulge into indiscriminate borrowings and capacity expansions
- Despite the agitation, balance sheets of most of the big corporate & financial services remained reasonably robust
- A bubble did form in the real estate market but was a muted one in the overall context of the economy
- **Earnings of corporate India grew 200% in this period and markets that had bottomed at 3000 in the earlier bear market bottomed at 8000 this time**

Wave Theory – Wave 2

- As commodities, real estate, stocks etc. all turned into a bubble, we entered into WAVE 2 when subsequently all bubbles burst
- Commodities continued to defy gravity much after the stock markets had started to fall driven by huge inflows into commodity hedge funds and a weak dollar
- By the middle of 2008 the commodity bubble burst
- Wave 2 was a nerve shattering move where all asset classes crashed and led to a huge flight to safety
- At one point, investors were willing to buy US Government treasuries at a zero yield
- As risk aversion grew, there was a huge outflow from most of the equity and hedge funds thereby accelerating the fall in the markets
- **This phase which was also global in nature which came to an end in March 2009**

Wave Theory - Wave 3

- The Indian markets moved up in tandem with most of global markets (as a part of Wave 1 of the long term uptrend that started in 2003) and ended in 2007. This was a global boom and India was a part of it
- Wave 2 was again a global correction which saw the markets correcting sharply over the 15 month period from January 08 to March 09
- Wave 3 has started from March 09 which will be the most dynamic and rapid upmove and will involve huge structural drivers for the economy
- The economy will go back to a growth of 8-9% over the next 3-5 years with an average earnings growth of 20-25%
- **The Sensex EPS should conservatively reach a value of 2000+ by the end of financial year 2013**

Wave Theory - Wave 3

- Given the state of the global economy, specifically the USA, Europe and Japan nearly 50% of the world economy is unlikely to participate in the next big upmove
- A shattered financial system, low savings rate and high fiscal deficits will take years to repair
- Given the fact that a large part of these economies is driven by consumption, rising unemployment and pressure on wages will subdue economic growth
- In the short run these economies can be pump primed through fiscal measures
- However over the next 5-10 years economic growth in these countries is likely to be between 0-2%
- High fiscal deficits will lead to a reduction in spending and increase in taxes which will further drag economic growth

- **However in this period, India will stand out and show strong economic growth**

Wave Theory - Wave 3

- The key contributors to the strong economic growth will be -
  - Political stability
  - High saving rate
  - High capital inflows
  - A strong financial system
  - Huge investments into infrastructure development

Wave Theory - Wave 3

- As a huge deluge of dollar looks for better returns, most developing economies with potential for reasonable returns will get huge inflows
- This will be a period of growth with low inflation as 50% of the world will not grow and demand pressures will be low
- On the supply side there is a huge oversupply in most commodities like Oil, Steel, Copper, Aluminum etc.
- External borrowings will remain cheap with LIBOR falling to 0.6% from over 5% in October 2008 (which is an all time low)
- Fiscal deficit will not be a concern for fast growing economies like India as growth will lead to higher tax revenues and there are disinvestment possibilities
- Consumption will revive strongly as the situation stabilizes. Credit availability will be strong as NPA levels have been well controlled
- Power deficit will reduce significantly with a large number of power plants getting commissioned. This in turn will reduce power costs

Wave Theory - Wave 3

- An increased emphasis on “Roads” will have a big impetus on economic growth
- There will be huge investments into various kinds of low cost and mass housing projects which will be a big multiplier for employment and consumption
- Unlike West where Govt has turned towards nationalization, Indian Govt is capable of raising huge resources out of minority stake sales of PSUs

Conclusion - Wave 3

- Wave 3 will be backed by low inflation, high liquidity and low interest rates
- A stable government will be an additional contributor
- Whereas in the boom years (of Wave 1) in 2006 and 2007 nearly 124 countries grew at over 4%, in the next four years only a handful of countries will grow rapidly
- Over the past 30 years the global economy has doubled every 10 years. It was $ 31 trillion in 1999 and 2008 was $ 62 trillion
- Countries like India and China will standout and get a disproportionate share of attention and inflows
- Pace of upmove in WAVE 3 will be very strong and fast and will be much bigger than WAVE 1
- During this upmove there will be continuous upgrades to GDP and earnings growth

- **This move should take the Sensex to a level of 34000-35000 over the next 45-50 months**

Where can the Sensex go?

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
EPS growth		5.6	20	25	20	20	20	17	17	17
Sensex EPS	870	919	1100	1375	1650	1980	2376	2780	3253	3805
P/E										
12	10440	11028	13200	16500	19800	23760	28512	33359	39030	45665
13	11310	11947	14300	17875	21450	25740	30888	36139	42283	49471
14	12180	12866	15400	19250	23100	27720	33264	38919	45535	53276
15	13050	13785	16500	20625	24750	29700	35640	41699	48788	57081
16	13920	14704	17600	22000	26400	31680	38016	44479	52040	60887
17	14790	15623	18700	23375	28050	33660	40392	47259	55293	64692
18	15660	16542	19800	24750	29700	**35640**	42768	50039	58545	68498
19	16530	17461	20900	26125	31350	37620	45144	52818	61798	72303
20	17400	18380	22000	27500	33000	39600	47520	55598	65050	76109
21	18270	19299	23100	28875	34650	41580	49896	58378	68303	79914
22	19140	20218	24200	30250	36300	43560	52272	61158	71555	83720

Pls note: the above calculations are based on hypothetical assumptions about the EPS growth rate and the P/E ratio

Winners from the past!!

Can a 3 Year Horizon Maximize Returns?

Absolute return on scrips for a 3 year period	
2004-2006	
	% returns
United phosphorus	4192.80%
Praj	2887.80%
Nagarjuna	1160.40%
IVRCL	1116.20%
Crompton	1034.90%
Sintex	932.30%
Havells	895.60%
Jaiprakash Associates	560.60%
Kotak Mahindra bank	545.70%
Thermax	402.90%
M&M	337.40%

Source: Bloomberg

Disclaimer: *Case studies are illustrative examples to indicate investment strategies. PL PMS may or may not have had any exposure in these stocks at any point of time*

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Conclusion

- Indian markets although not cheap in the near term are looking good with a one to three year perspective.
- In the short run complacency has set in and we have seen "Panic Buying" post elections which has resulted in mid cap and large cap indices virtually doubling in just 4 months
- Momentum and greed has taken over in the near term
- Over the next 4-6 weeks markets might correct by 15-20% from the peak
- Post correction Indian markets can move up by 40 % in the next 6 to 9 months,
- There seems to be no change in the long term trend of the market.
- Given the structural change in the Indian economy, there is less likelihood of a bear market in the near term in India.

Portfolio Management Services

- PL Multi Strategy Portfolio

Why PMS?

- As a discerning investor, who understands the risk-reward ratio, you want
  - A portfolio comprising of select ideas
  - Ability to take focused bets both in stocks and sectors
  - Efficient allocation among assets, viz. Equity, Futures, Options and Cash
- PMS portfolios combine the benefits of professional money management with the flexibility & control.

Why PMS?

- **Competitive and Flexible Fee structure**
  - As the costs of garnering assets is typically lower, PMS offerings have attractive fee structures
  - Investors can choose a variable fee structure that is dependent on the performance of the portfolio
- **Customization**
  - More choice in terms of portfolios to suit individual client needs and risk appetite
  - Ability to structure products that meet specific investment objectives
  - Alternate investment products that were traditionally available to the very wealthy
- **High Service Standards**
  - Total transparency of the portfolio
  - More information will lead to informed decision making
  - Access to the portfolio management team

Why PMS?

- **Higher flexibility in investments:**
  - Mutual fund equity funds are required to retain a portfolio that is at least 65% into equity at all times
  - There is daily NAV pressure in order to compare with the peer group, which is not the case in a PMS as the aim is to make money for clients and not outperform

At the helm

- **Mr. Sandip Sabharwal, CEO - Portfolio Management Services**
  - An IIT (Delhi) and IIM (Bangalore) alumni holds extensive experience of over 14 years into Fund Management.
  - Key achievements at SBI Mutual Fund:
    - Awarded Business Standard Fund Manager of the year for 2004-05 by the Finance minister of India– Mr P Chidambaram
    - Recipient of 4 ICRA MF awards in 2004.
    - Managed 4 of the top 5 best performing equity diversified funds in India from a universe of over 130 funds (for the year ended November 2005)
  - Key achievements at J.M. Financial AMC
    - Was responsible for managing 3 JM equity schemes which were among the Top 10 Indian Funds and within Top 51 of the World performing equity funds in 2007 (source: Lipper)
    - JM Basic Fund and JM Emerging Leaders Fund were among the top 5 performing funds among 162 diversified equity funds for the year 2007

Research Capabilities

Research desk is headed by Mr. Apurva Shah having a total experience of 10 years

Strong team	• 15 Member team with cumulative experience of over 60 years
Wide Coverage	• Over 130 stocks covered and growing • Covering over 15 mid and large sectors
Best Corporate Access	• Rated as having one of the best corporate access in the market • Close relationships (first name basis) with over 200+ corporates
Unique Investor Events	• 'Corporate Month'; 'Sector Week', Conferences, Roadshows, Tours
Winning Ideas	• Produced several multi-bagger ideas over the past many years • Key strength in mid-caps ideas due to strong IB relationships of PL

PL PMS-Edge

- **Market Analysis: Our Forte**
  - Early Identification of market trends based on macro fundamentals & technical analysis.
  - Identification of stocks./ themes based on likely movement of markets.
- **Strong research based investment strategy**
  - Strategy is based on strong fundamental research with an experienced research team, supplemented by technical analysis.
- **Experienced team**
  - CEO PMS has demonstrated a track record of managing schemes with different strategies- Contra, Midcap & Large Caps.
- **Focused Approach**
  - A Dedicated PMS set up is more focused and customer centric than PMS's of large fund houses which remain neglected due to it being a secondary business.
  - Low Transaction cost (brokerage on trades at 0.25%, one of the lowest in the industry).

Static Strategy- A Limitation

- Most existing portfolios are theme based with a static strategy.
- For ex: a Midcap fund focuses only on Midcaps, a Largecap fund on large caps & an infra fund on infrastructure sectors.
- A static strategy does not change the portfolio based on expected market movements.
- So, ideally one requires a portfolio that can change the strategy depending on the market outlook.

Why a dynamic Strategy?

- Markets remain volatile affected by both global & local factors- crude oil, inflation, interest rates, politics etc
- The market alterations between bullish & bearish cycles despite long term up trend- the trends /cycles have become shorter.
- Difficult for investors to change portfolio composition over these shorter cycles- increase risk.
- A dynamic strategy seeks to match the risk vs. return during these interim cycles of the market by changing the portfolio composition to suit the market movements.

Our Target

To generate steady returns in varying market conditions.

Portfolio Investment Approach

- Portfolio mix will be 50% large caps and 50% mid caps
- Typically portfolio will have
  - 5-10 stocks from the large cap space & 10-15 stocks from the mid cap universe.

Portfolio Investment Approach

- **Minimum return targets for -**
- Mid cap stock 75% over 3 years
- Large cap stock 20% out performance over Nifty (Since performance of sectors is cyclical , volatile environment would provide ample opportunities to pick out potential out performers in the large cap universe.)

- **Mid Cap stock targets**
- 3 year earning growth 25% CAGR
- 1 year forward Price to Earning ratio 5-8X
- P/E expansion 10% per annum

"AIM IS TO MEET TARGETED RETURNS EVEN WITHOUT P/E EXPANSION"

Investment Strategy

- This is going to be a diversified investment strategy with no sectoral bias.
- The portfolio will not follow a static investment strategy but rather use a dynamic one.
- Here, the call will be taken on the direction & momentum of the market at periodic intervals to decide on a strategy to be followed for the ensuing period.
- Portfolio strategy may change or remain the same depending on the fund management view on the outlook of the market.
- Ultimately , the fund will play on the relative attractiveness of mid caps and large caps.

Investment Strategy

- Strategy will use a combination of macro call on the market & bottom- up stock picking.
- All positions shall be taken using a combination of fundamental & technical analysis.
- Flexibility to vary cash levels (can go up to 100%).
- Ability to hedge the portfolio and take directional calls using derivatives
- Relatively higher portfolio turnover to achieve the desired strategy.
- Seeks to provide positive returns in all market conditions.

Investment Strategy

- Aims to use multiple investment strategy to suit the market scenario:
  - **Bullish scenario:** The portfolio will predominantly invest in high growth stocks & will have a concentrated portfolio of 10-20 stocks; the beta of the portfolio will be greater than 1 & will have a higher degree of volatility.
  - **Bearish Scenario:** The portfolio will predominantly invest in value stocks & have a diversified portfolio of 20-35 stocks; the beta of the portfolio will be less than 1 & will have a lower degree of volatility.
  - **Range bound Scenario:** The portfolio will predominantly invest in a mix of growth & value stocks & have a diversified portfolio of 15-25 stocks; the beta of the portfolio will be close to1 & volatility will be close to market volatility.

Market Scenario	Inv. Strategy	Portfolio	Turnover	Portfolio Characteristics
Bullish	Aggressive	Concentrated	Low	High Beta, High P/E, High earnings growth
Bearish	Defensive	Diversified	Low	Low Beta, Low P/E, Low earnings growth
Range Bound	Trading	Diversified	High	Market Beta, Avg. P/E, Avg. earnings growth

Investment Strategy

- Aims to use futures and options to implement ‘Hedging strategy’
  - Use short on index futures to reduce the downside for investors when the markets are euphoric and overextended in terms of fundamentals
- All positions to be taken using a combination of fundamental and technical analysis unlike a P/E based hedging strategy which is the most prevalent practice because:
  - A P/E based shorting strategy does not work as in bull markets, P/E expands and in bear market P/E contracts
  - As such short positions based on P/E will lead to portfolio being less net long during bullish markets and more net long during bear markets.

Investment Risk

Metrics	Guidelines
Portfolio discipline – Long side	Limit of 10% on long positions at cost and 12.5% on market value Maintain at least 15 stocks 25% limit on sector exposures
Liquidity	50% of long positions can be liquidated in 3 trading days
Stop loss Review	For Longs – 20% loss

PL PMS PRODUCTS

- **Equitra Portfolio -** It's an investment cum trading portfolio with the objective to take advantage of volatility in the market in short to medium term horizon.

  The portfolio will have a universe of highly liquid, fundamentally strong F&O stocks. The investment will be in 5-10 stocks up to a maximum limit of 20% per stock.

  There is no lock-in period for this scheme & investors can exit by giving us 10days of prior notice.

- **Equigrow Portfolio** - It aims at giving high returns by investing in growth stocks across sectors & market capitalization.

  The portfolio will invest not more than 12.5% in one stock, up to a maximum of 10-12 stocks.

  There is no lock-in period for this scheme & investors can exit by giving us 10days of prior notice.

Disclaimer

- "All information contained herein is subject to the provisions of the Disclosure Document which has been prepared in accordance with the SEBI (Portfolio Managers) Regulations, 1993 and has been filed by us with SEBI. The purpose of the Disclosure Document is to provide essential information about the Portfolio Management Services in a manner to assist and enable the clients in making an informed decision for engaging us as a Portfolio Manager. The Disclosure Document contains the necessary information about the Portfolio Manager required by a client before investing. The client is advised to request and retain a copy of the Disclosure Document prior to executing any agreement engaging us as a Portfolio Manager.

- Notwithstanding any contrary interpretations that may arise out of the contents of the presentation, Regulation 14(3)(a) of the SEBI (Portfolio Managers) Regulations, 1993 require the Portfolio Manager to expressly declare that the Portfolio Management Services are offered without guaranteeing or assuring, either directly or indirectly, any return. Consequently, we hereby declare that the Portfolio Management Services proposed to be rendered in accordance with the contents hereof, shall be so rendered without guaranteeing or assuring, either directly or indirectly, any return.

Thank You