



# From here where?

***Alchemy Capital Management***

***7th December 2006***

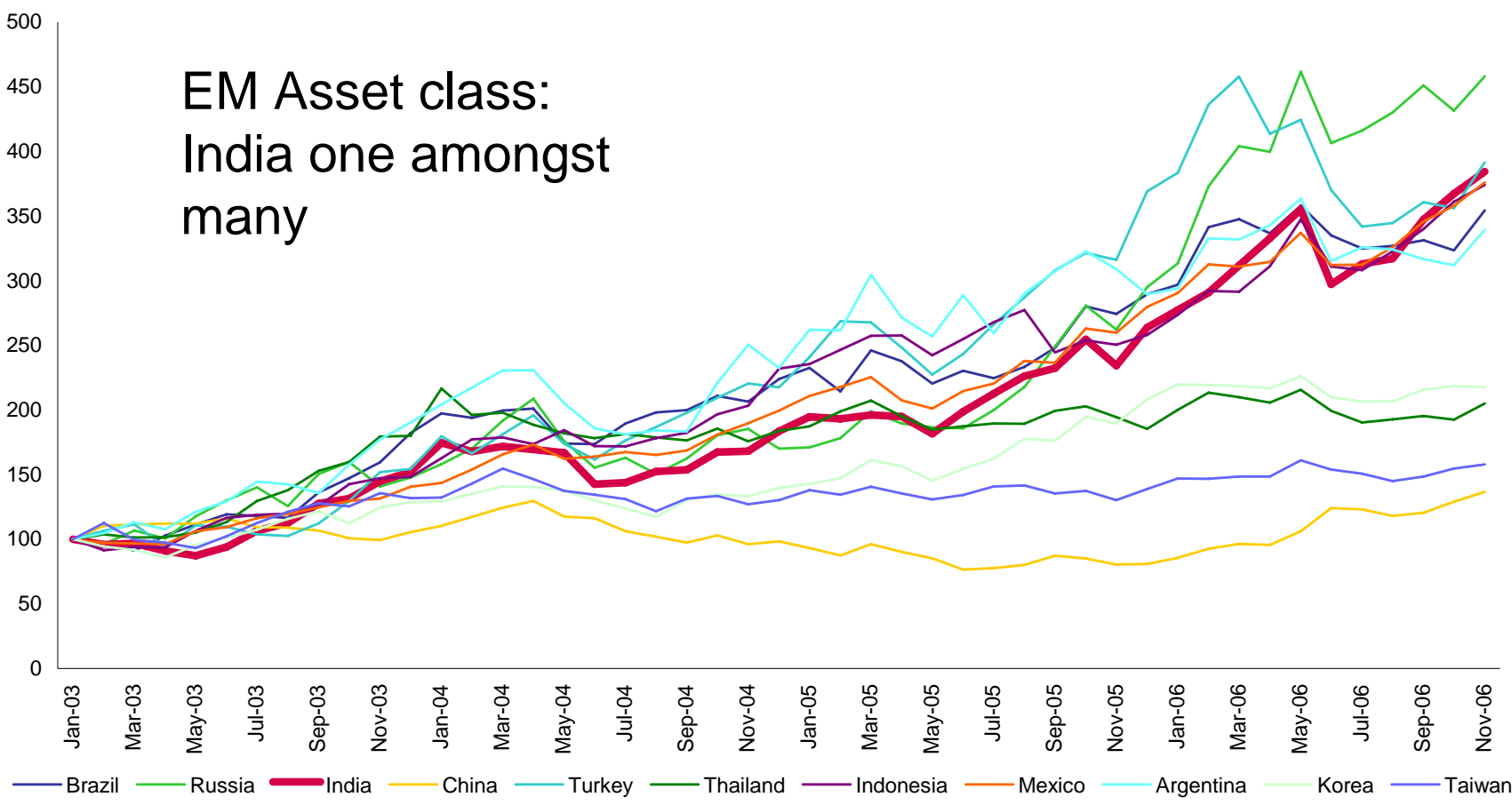


# Yes, It is indeed a Bull market





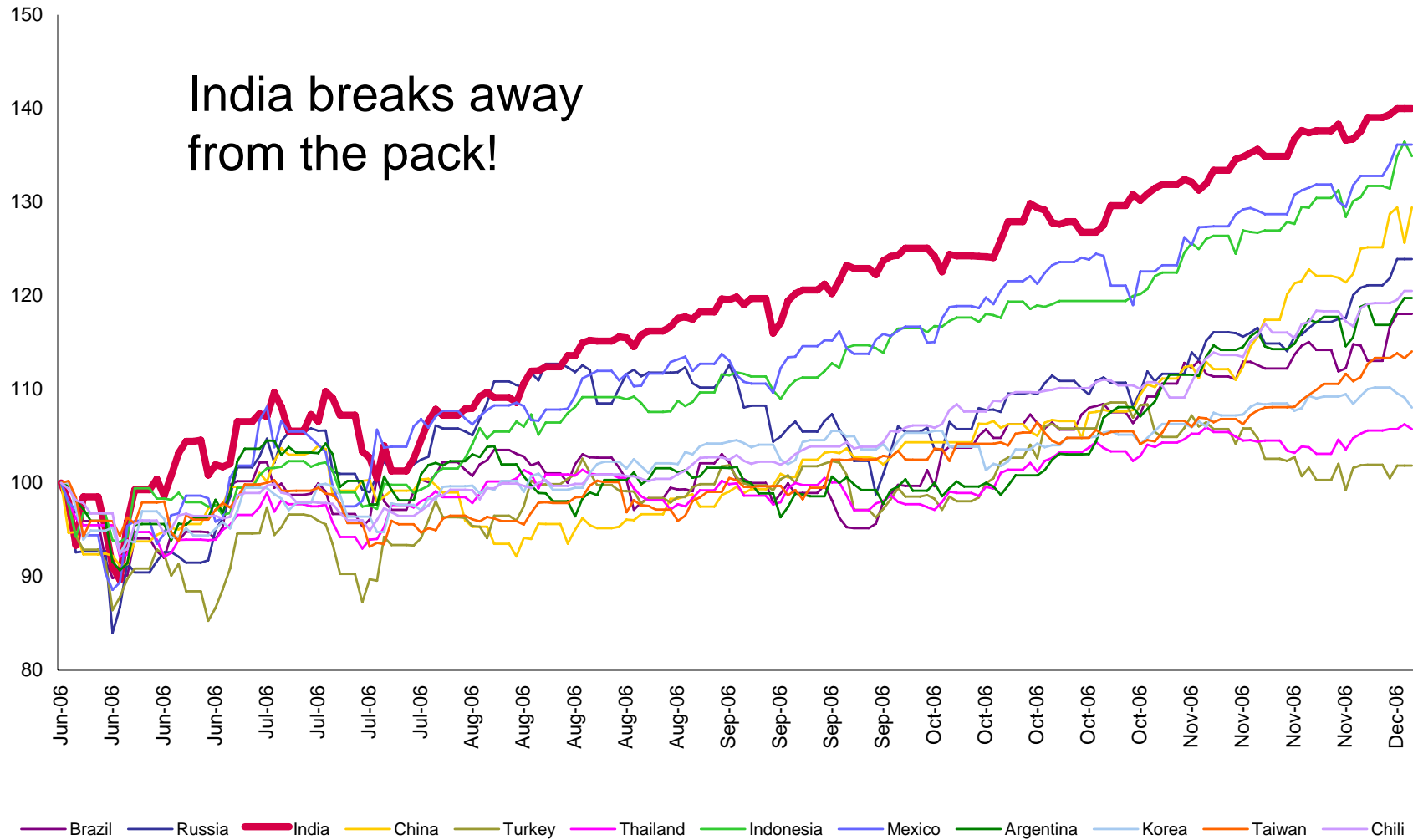
# EM bull run- High Correlation



Source: Bloomberg



# EM bull run- Differentiation



Source: Bloomberg



# Significant Head Room ahead

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## Global FII Perspective

- EM Markets Bull Case is secular and getting stronger

## Domestic Investor Perspective

- Getting better but....
- .....still wanting
- ICBC IPO- A case Study



# We are far from peaking

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- ◆ Global Valuations
- ◆ Possibilities
- ◆ Risks



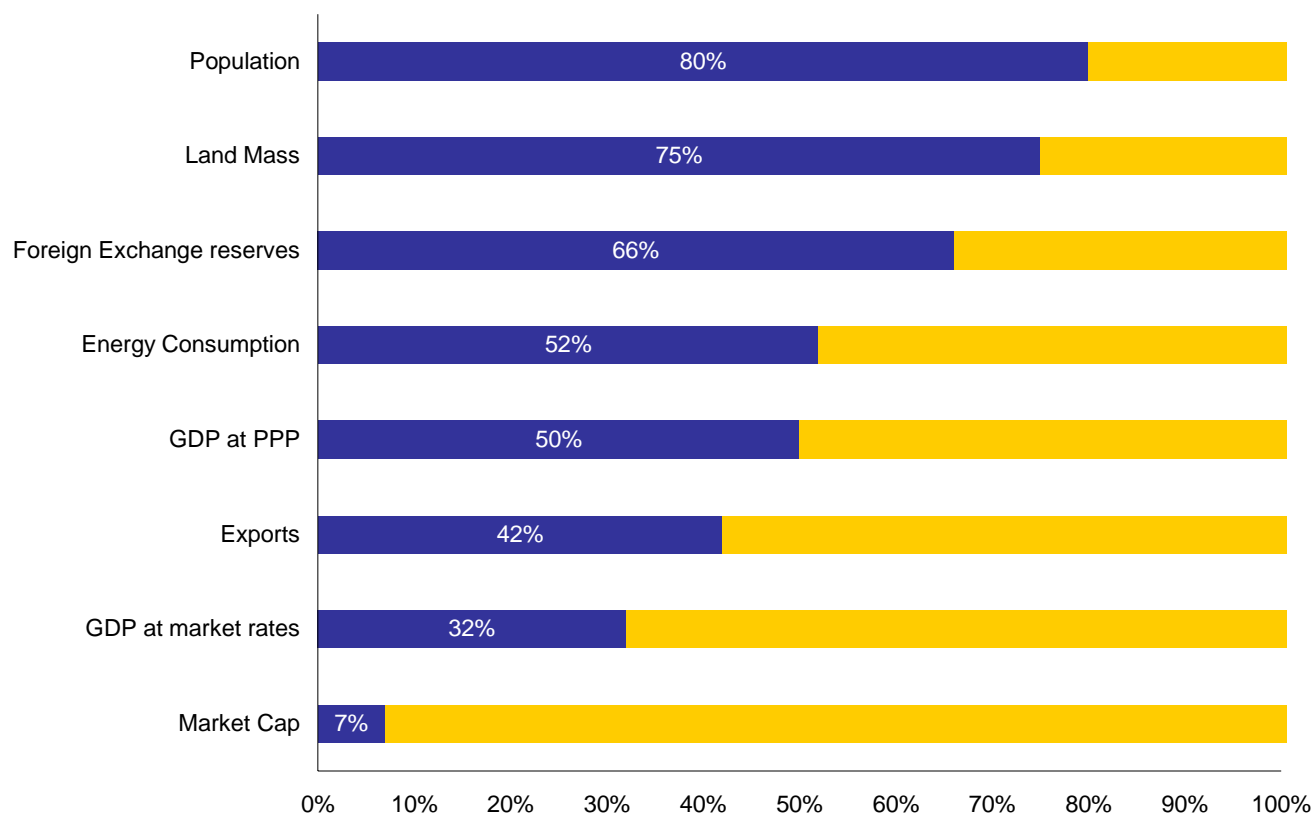
## In Sum

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- ◆ DO NOT BE INSECURE ABOUT YOUR GAINS!!
- ◆ The major trend is up
- ◆ There is substantial head room
- ◆ Only those consistently committed will benefit
- ◆ Corrections are part of markets- take advantage
- ◆ Have a long term investment horizon



# Why emerging markets matter?

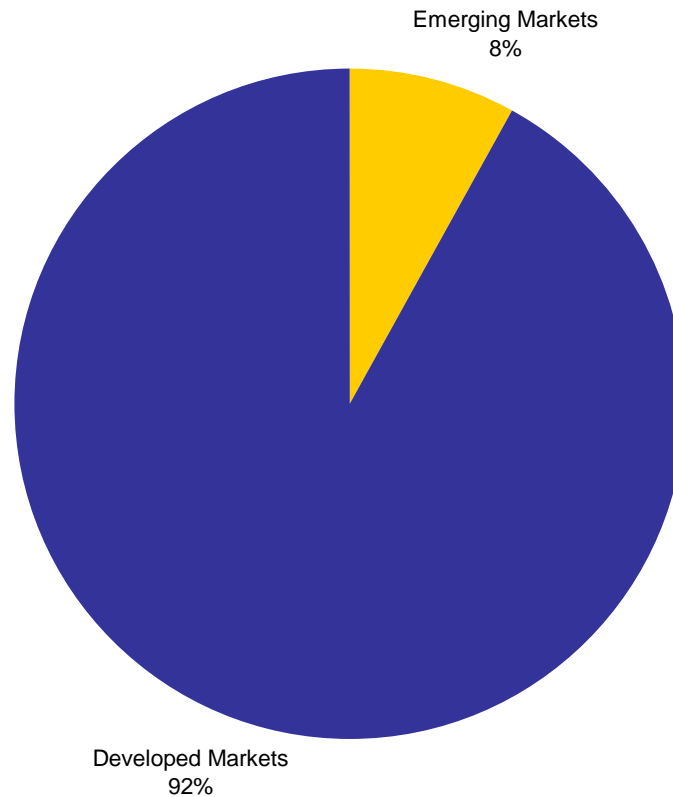


- ◆ EM = 80% world pop, 75% land mass, 66% FX reserves, 50% of GDP...
- ◆ ... and just 7% of world equity market capitalization



# Emerging v/s Developed markets

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- ◆ EM equities= \$2.1 trillion of market cap versus \$25.8 trillion for developed markets
- ◆ EM in midst of big bull market: 35% annualized returns over the past four years



# Under- Owned

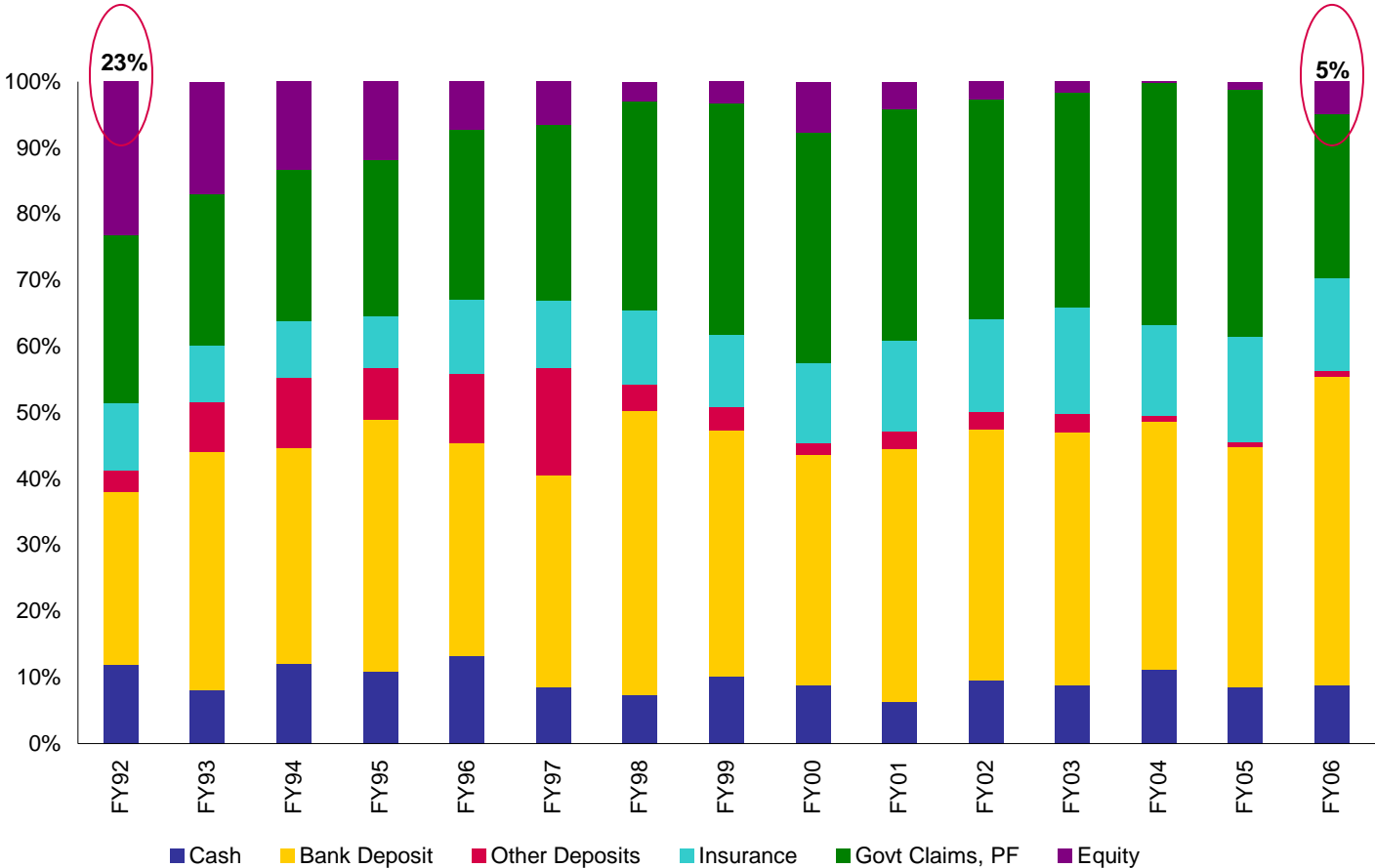
	Total Assets of domestic pension funds		Pension fund asset allocation, % allocation to:		
	US\$	% GDP	Equities	Fixed Income	Other
Emerging Markets	390 billion	12.0	10.7	79.6	12.3
Developed Markets	15 trillion	39.2	25.4	44.7	34.3

- ◆ Massive Room for pension fund allocation to EM to grow
- ◆ Since 1996, \$1.3 trillion of inflows into US equity funds
- ◆ Since 1996, \$40 billion of inflows into EM equity funds (source ICI)



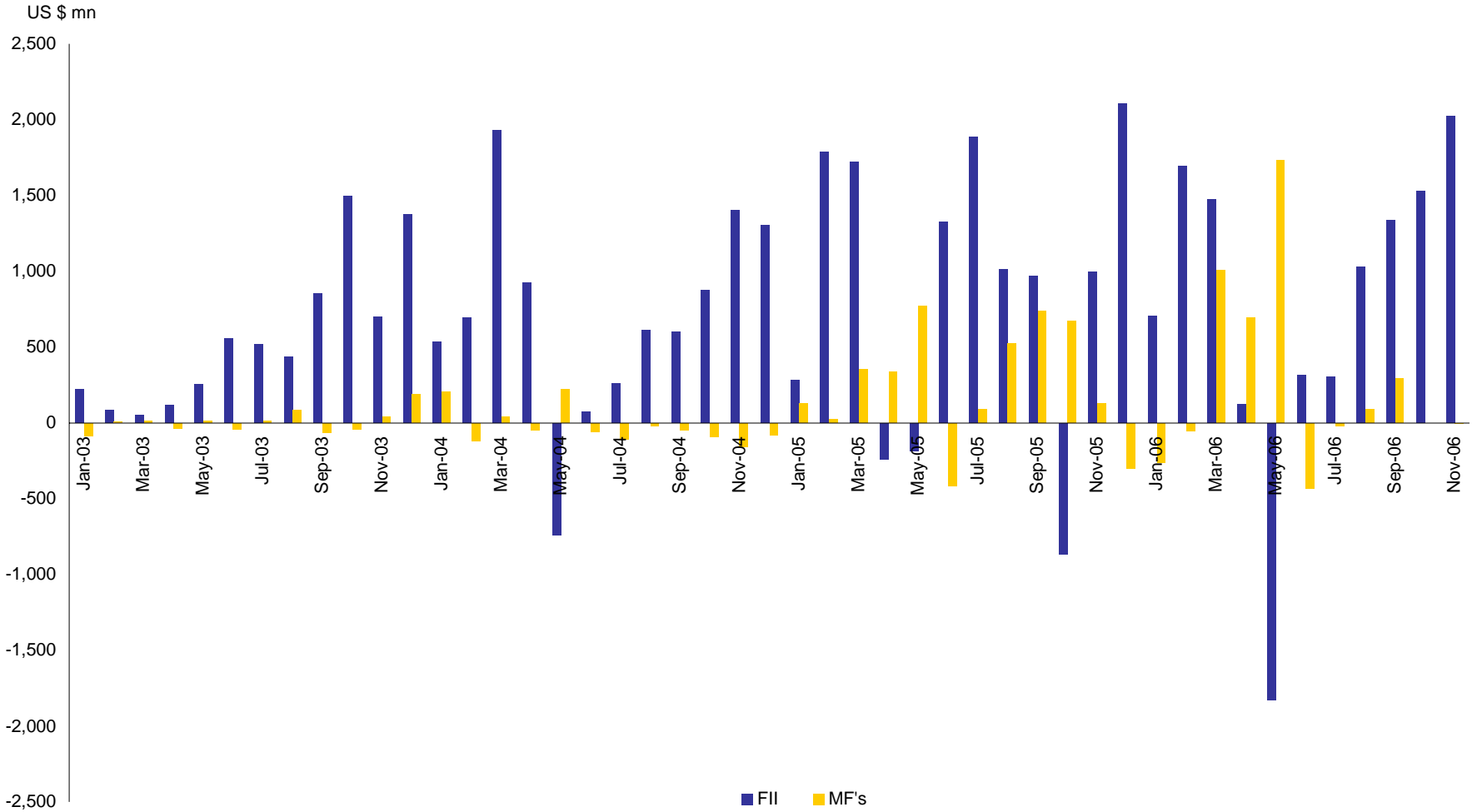


# Huge under-ownership of Indian equities in local asset allocation





# Disbelievers – Missing the Ride



Source: SEBI





# ICBC IPO- A Case Study

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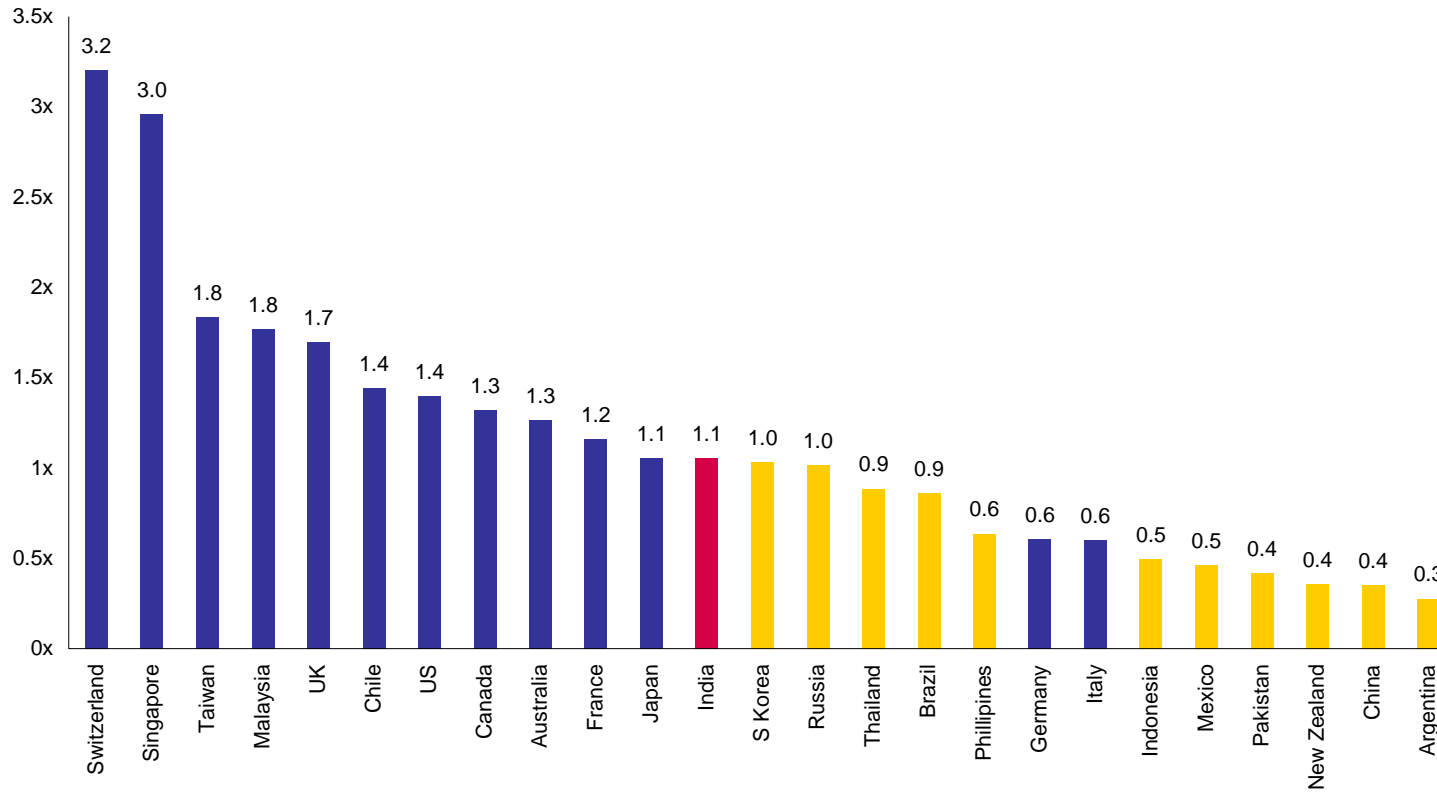
- ◆ Industrial & Commercial Bank of China (ICBC) raised - \$21.9billion, world's largest IPO till date
- ◆ Out of this the FII investment was \$16 billion! The net FII inflow in India YTD is \$9 billion
- ◆ Currently, ICBC's market capitalization is \$165 billion. The total market capitalization of the BSE BANKEX Index in India is \$66 billion!





# Current valuations - not peak

Market Capitalization to GDP



Country/ Index

Peak P/E

US- Dow Jones

30x

Japan- Nikkei

100x +

India- Sensex

?? (current FY07E P/E- 20x)





# Sensex Scenario- 2012

Sensex Scenario: 2012 (after 5 years)				
P/E	Earnings Growth			
	10%	15%	20%	25%
10x	11274	<b>14080</b>	17418	21362
15x	16910	21119	26127	32043
20x	22547	<b>28159</b>	34836	42725
25x	28184	35199	43546	53406
30x	33821	42239	52255	64087

**\* Sensex Earnings 2007 - Rs700/Share**

Real GDP Growth- 9%, inflation- 5-6%, Nominal GDP Growth- 14-15%





# Risks

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- ◆ Inflation/Interest rates
- ◆ US recession – not slow down
- ◆ US Dollar fall
- ◆ Asset Price bubble – Real Estate
- ◆ Infrastructure development
- ◆ Politics – more fear than warranted

