
Walking The Talk

Indian Equities *Strategy & Path*

Opportunities Markets Offer



Euphoria ☺ to Depression ☹

Markets are prone to

Manic Depressions & Irrational Exuberance

and therein lies the Opportunity

Irrational Exuberance and Manic Depression

March 2000

- Revenues: Rs. 882 crores
- Net Profit: Rs. 293 crores
- Market Cap: Rs. 59000 crores

201 Times Earnings
67 Times Sales

September 2001

- Revenues: Rs. 2600 crores
- Net Profit: Rs. 816 crores
- Market Cap: Rs. 15000 crores

18 Times Earnings
5.8 Times Sales

Infosys Stock Price

(Estimated Figures)

Irrational Exuberance and Manic Depression

March 2000

- Revenues: Rs. 55 crores
- Net Profit: Rs. 20 crores
- Market Cap: Rs. 520 crores

26 Times Earnings
9 Times Sales

August 2001

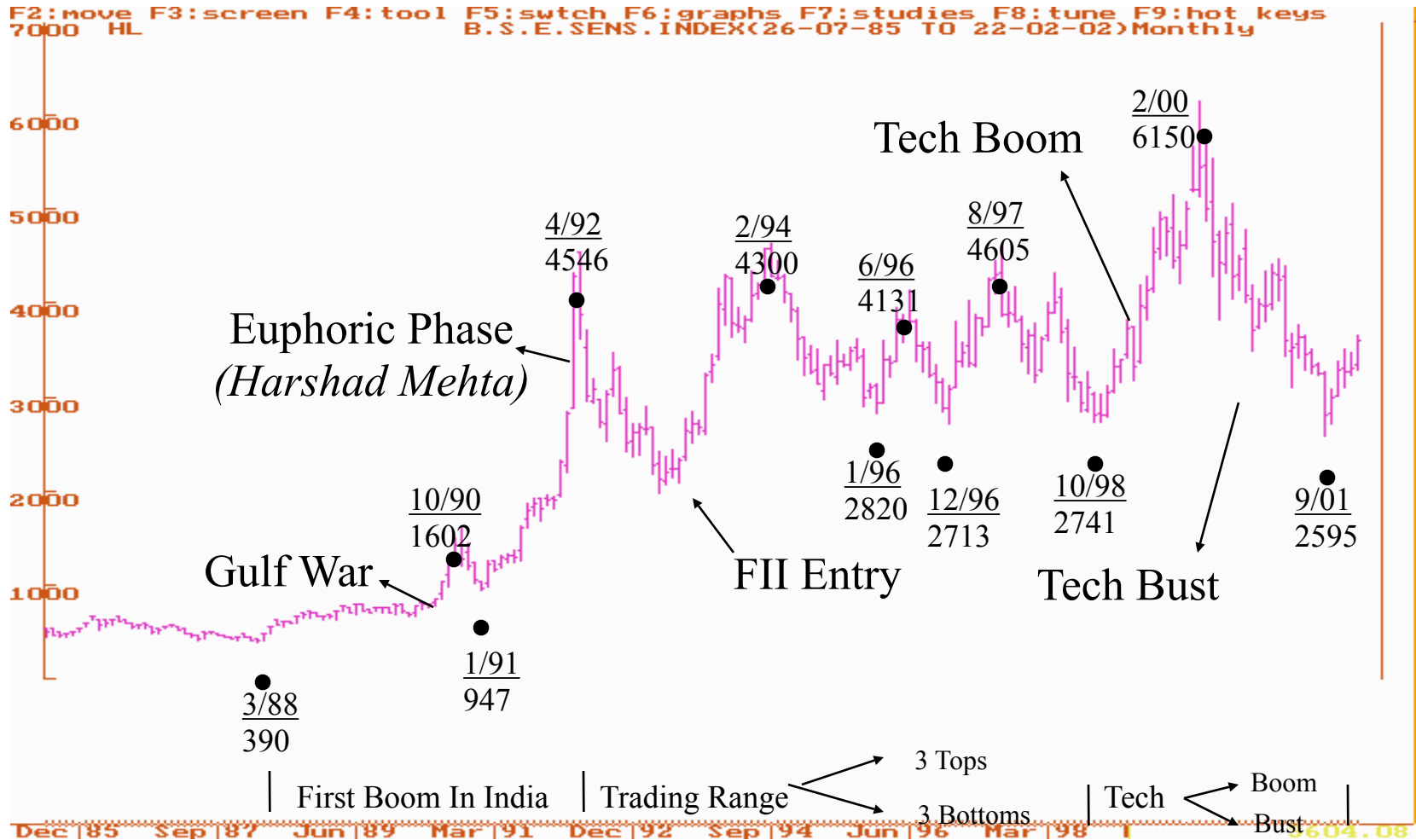
- Revenues: Rs. 48 crores
- Net Profit: Rs. 9 crores
- Market Cap: Rs. 27 crores

3 Times Earnings
0.5 Times Sales

Geometric Software Stock Price

(Estimated Figures)

Indian Equities | Past Decade



Why No Sustainable Bull Market In Last 10 Years?

- Time required to absorb the 1989-92 bull run
 - scam/scams
- Transitory phase of reforms
- Government's inability/unwillingness to speed up reforms
- Corporates adjusting to open economy and competition

Indian Equities | Immediate Past



Indian Equities | Immediate Past



- **Tech Bubble & Irrational Exuberance . . . (A)**
 - Unrealistic Expectations – Greed
 - Dream Valuations
 - Deteriorating Global Economic Environment
- **Ray of hope continues . . . (B)**
 - ↓ Stock Market Scam, Tehelka Expose
 - ↓ UTI Crisis, Government Inaction
 - ↓ Tech sector hits air pocket, Liquidity squeeze

But
Markets keep sliding

9/11 – Panic & Capitulation

- Complete **Despair** and **Fear**
- Uniform reaction:- **“SELL”**
- Aversion to Equities at its highest
- Money moves to safe havens

RBI bonds is **“Hot Property”!!!**

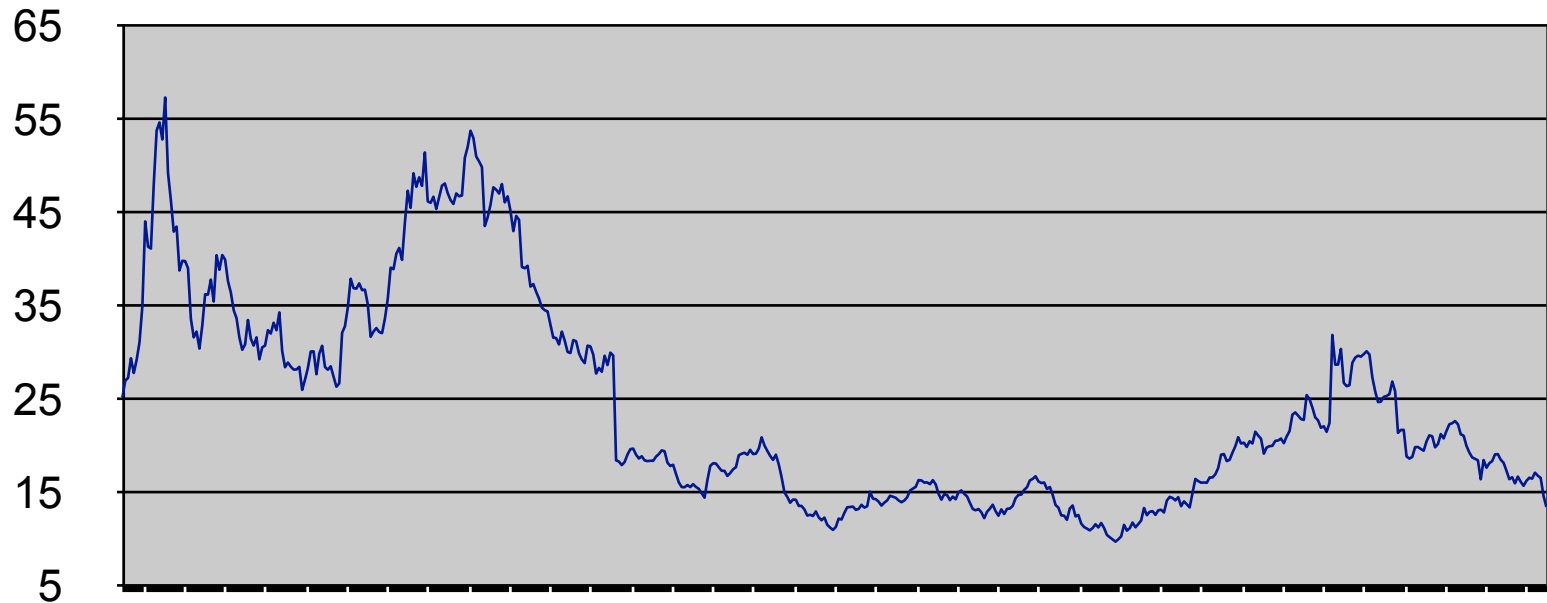
In Crisis Lay Opportunity As Always

- **Valuations at record lows**
 - **Sensex PE slides**
 - **Sustained RoE and RoCE**
 - **Revenue growth ~ EBITDA margin stable
~ cash flow growth**
 - **Under-valuation signals:**
 - **Predators**
 - **Corporates buybacks**
 - **Increase in promoters' stake**
-
-

Abysmal Valuations

September 2001	P/E	P/BV
Hero Honda	9	4.5
BPCL	5	1.2
Concor	4	1.1
Infotech Enterprises	3	1.2
SCI	2	0.2

Sensex PE



[REDACTED]

— Sensex PE

What now?

“The toughest thing to **PREDICT...**
...is the **FUTURE**”

Is it different now?

This Is Why It May Be...



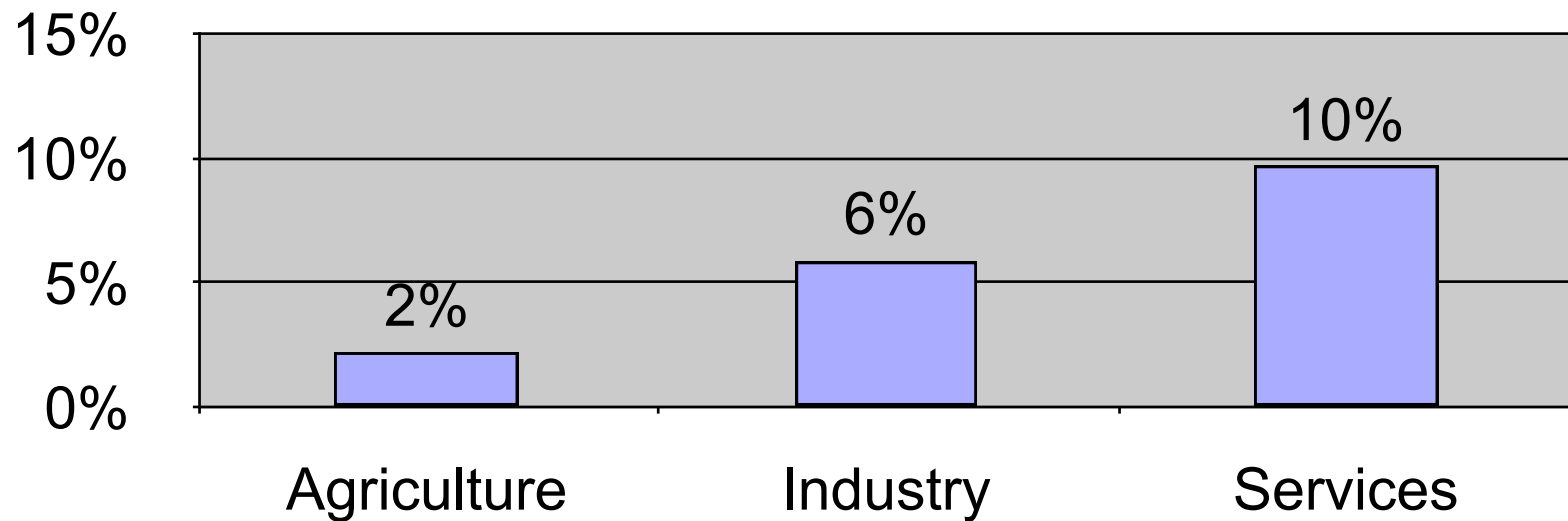
Structural Changes
+ Compelling Valuations
+ Southward interest rates
+ Favourable Fund Flow
= Potent Combination

Structural Changes | Macro



- **Real GDP growth at 5% +**
- **Services sector the new growth driver**
- **Benign Inflation rates**
 - **Down from 11.5% (1995) to 1.1% now**
- **... helped to lower interest rate regime**
 - **10 yr GoI paper - 14% (1996) to 7.5% now**
 - **easing GoI interest payments**
 - **spurring consumer demand**
- **External sector stable, orderly rupee management**
 - **Record Forex reserves - US\$ 50 bn**

Sectoral Growth Rates



Structural Changes | Reforms



- **Financial sector reforms**
 - **Banking**
 - **Benchmarking to international norms**
 - **Insurance**
 - **Huge trigger to channel long term savings**
- **Telecom & road development**
 - **spurs economic growth**
 - **big kicker to productivity**
 - **reduces costs, improved competitiveness**

Structural Changes | Reforms



- **Petroleum sector reforms**
 - initiated in 1997
 - APM to be dismantled by 2002
- **Power sector reforms are underway**
- **Agriculture Reforms**
 - Futures markets opened up
 - Distribution bottlenecks removed
- **Fiscal Responsibility Act initiated**

Structural Changes | Reforms



- Reasonable direct tax regime
- Rationalized indirect tax regulations
- Customs duty structure in line with WTO

Structural Changes | Privatisation



- **Privatisation - the new *'Mantra'***
- **"Path of most resistance" has been broken**
 - **Modern Foods: A soft divestment target**
 - **Balco: Taking on a rigid state government**
 - **Paradeep Phosphates: Selling below reserve price**
 - **IBP: Jewel sets the benchmark**
 - **VSNL: Asset stripping!**
 - **CMC: Unlocking Value**

Central Government on the learning curve
State Governments to follow

Structural Changes | Next Challenges



- **Financial pressure on Government will push reforms further**
 - **Point of no return**
- **Silent acceptance of Phase II reforms**
- **Labor reforms initiated**
 - **State Governments falling in line**
 - **Willingness to take on the Government workforce**
- **Next challenge**
 - **Infrastructure investment**
 - **Better targeting of subsidies**
 - **Reduction in Government staff/expenditure**

Reforms to gather critical mass & catapult growth

Disinvestment Minister - Mr. Arun Shourie

- “In 1991, central government had found themselves in the same position as the states now find themselves”
 - “Liquidity problems faced by state governments will soon force them to sell assets to improve deteriorating accounts”
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STATES: KERALA

Writ of the People

Chief Minister A.K. Antony's attempt to break the striking unions' stranglehold on the administration receives a strong public backing



"The employees should not demand the impossible."
A.K. Antony, chief minister, Kerala

- **Profitable in a de-licensed and competitive environment**
- **Aggressive cost-cutting in a soft demand scenario**
- **Focus shifts from asset creation to asset sweating**
- **Consolidation through M&A and alliances**
- **Value creation for all stake holders**
- **Accounting standards and disclosure norms**
- **Corporate governance – an enforced reality**
- **Increased capacity utilization will lead to pricing power**
- **Several world class companies built in the last decade**

Survival of the fittest

- **Electronic trading systems**
- **Dematerialization**
- **Derivatives – liquidity & hedging**
- **Risk management systems**
- **Disclosure standards have improved**
- **Among the lowest transaction costs...
...With world class transparency**

Fund Flows

- **Increasing flows to financial assets**
- **Composition of domestic savings – equity is the bete noire**
- **FII flow – smart money or money on the margin . . .**
- **Money likely to flow to emerging markets in this year**
- **Pension funds, provident funds yet to invest in equities**

...

Especially in a free float scarcity environment like ours

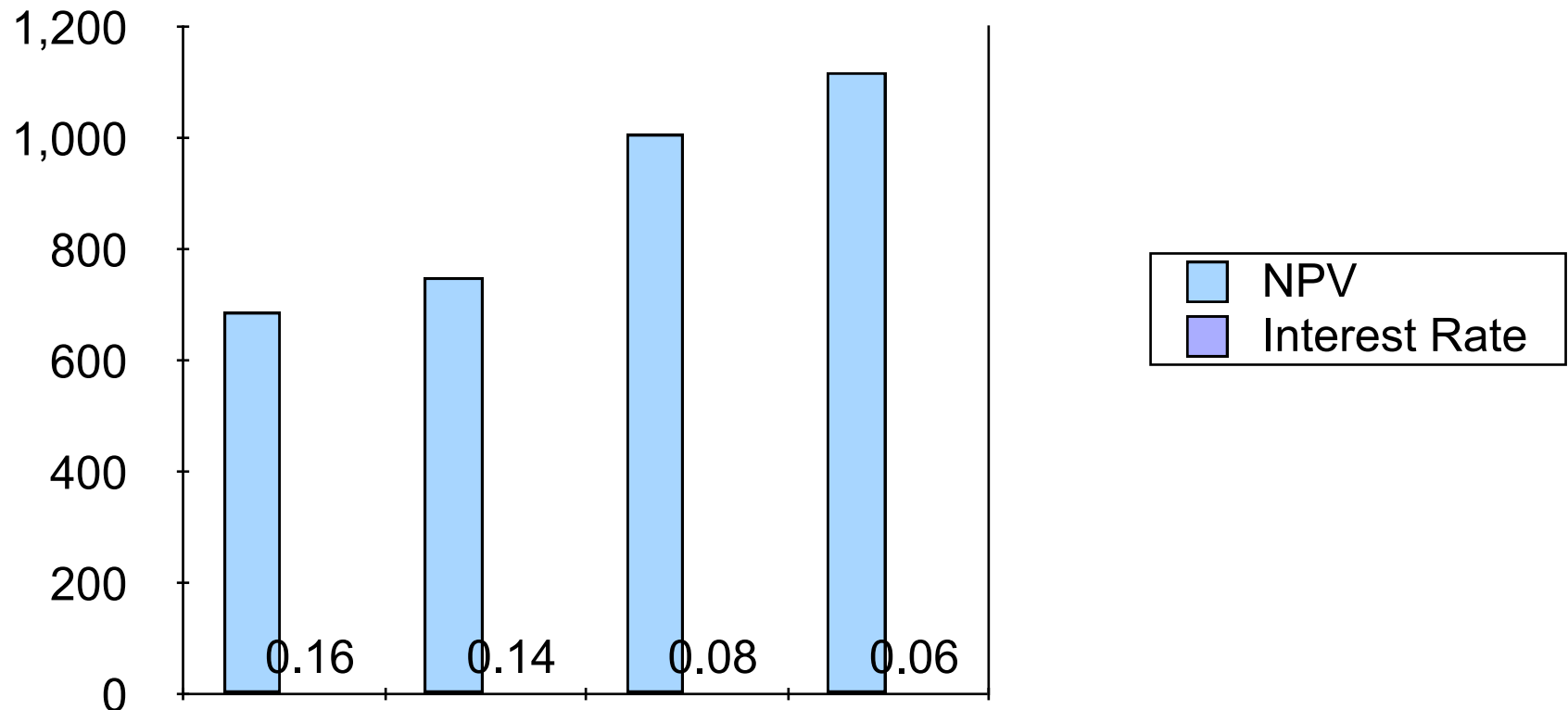
Interest Rates



- **Lower interest rates**
 - Improved corporate profitability
 - Makes equity more attractive vis-à-vis debt
- **The basic determinants of asset/stock valuations**

"Interest acts like gravity on all financial assets"
- Warren Buffett

Interest Rates & Valuation

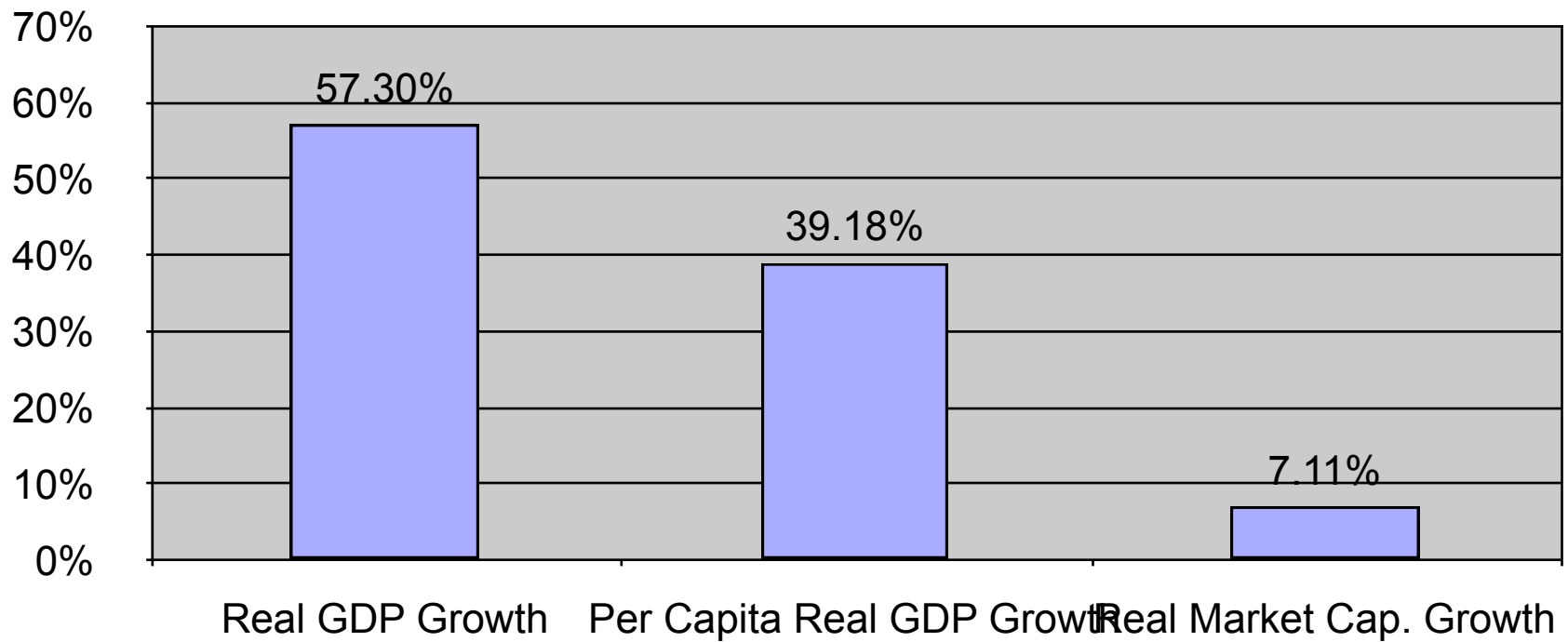


Valuations

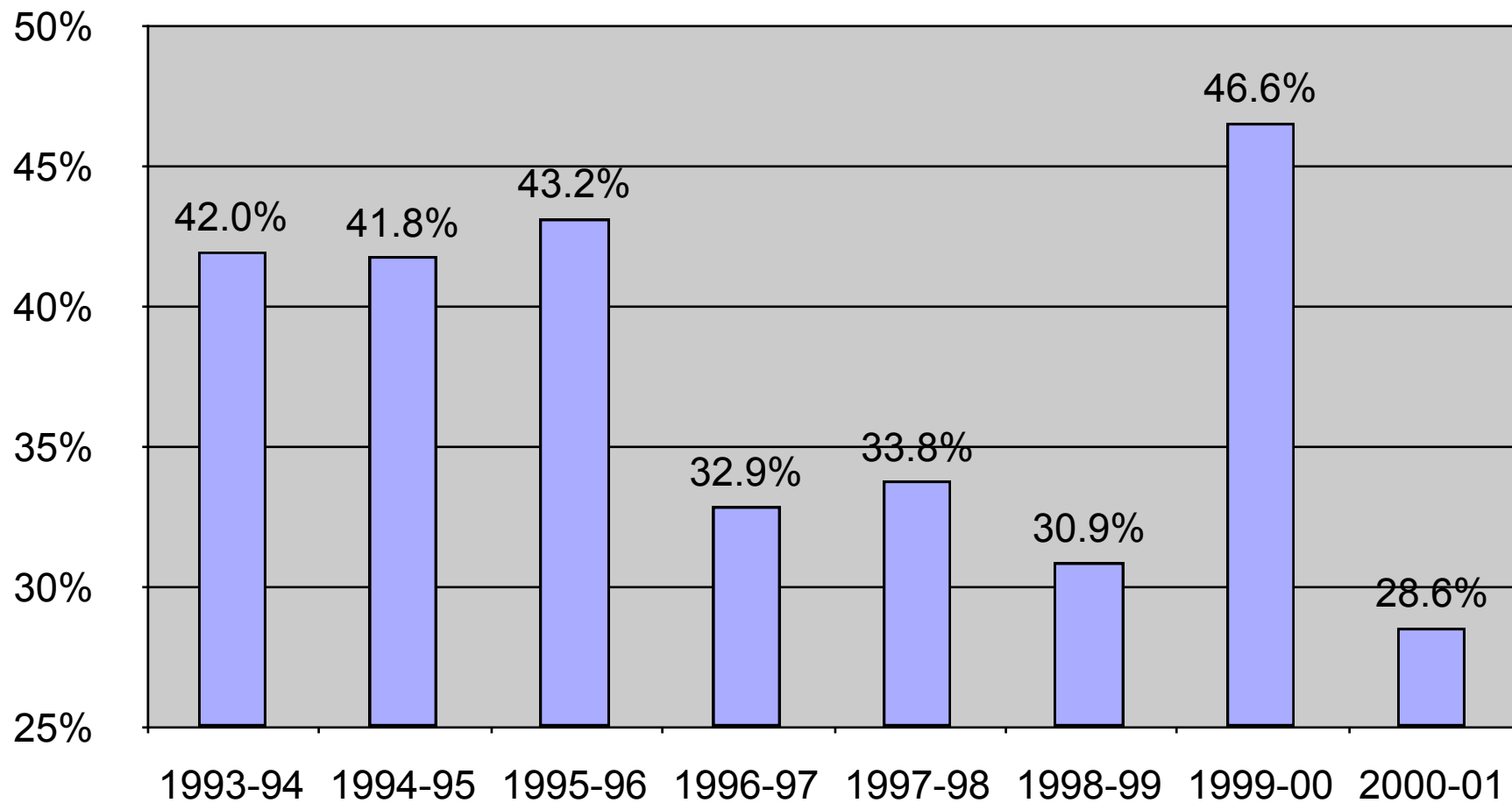
- **GDP growth vs. market cap growth**
- **Market cap / GDP**
- **PER**

***Valuation even after recent rise offers
margin of safety and immense
opportunities***

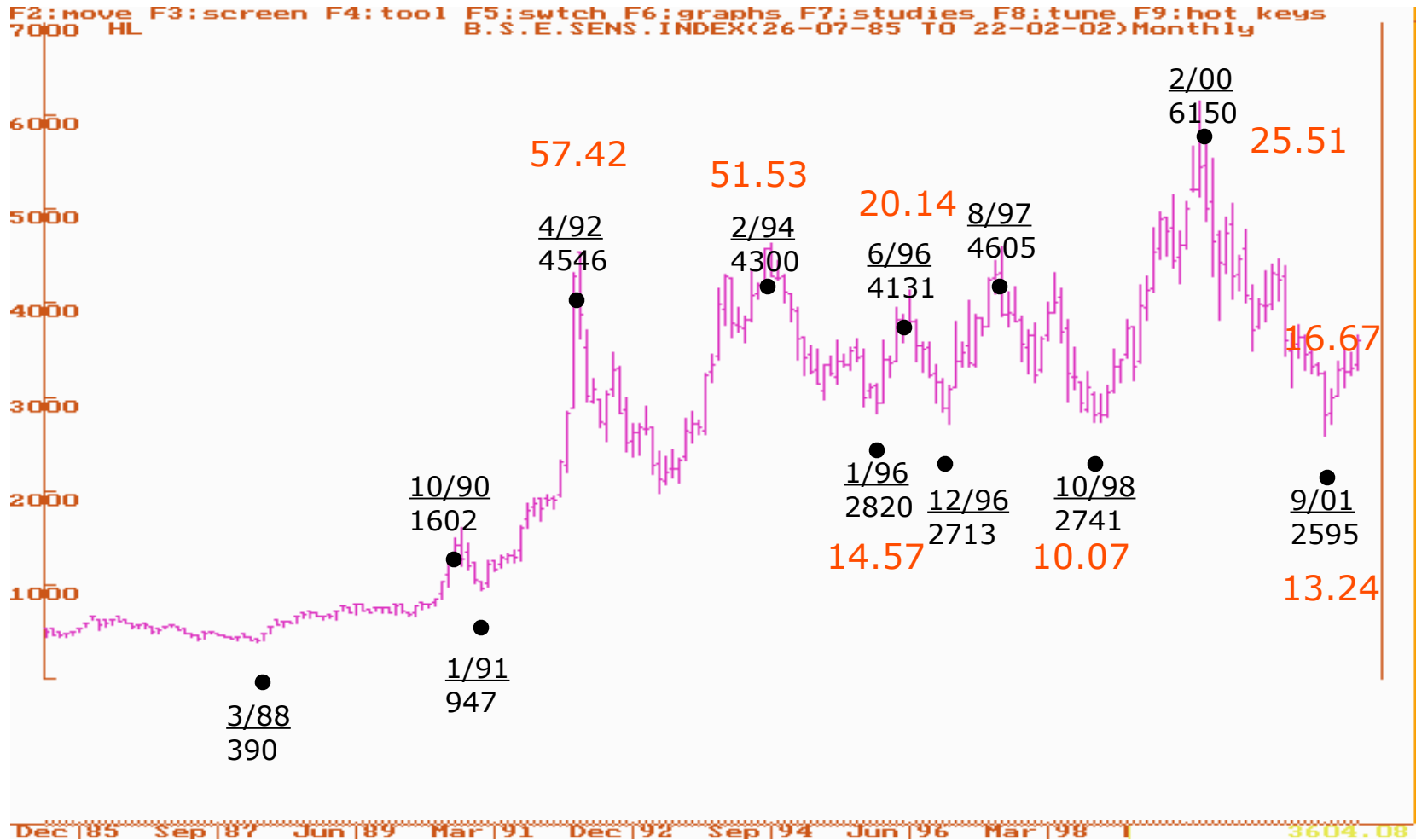
GDP Growth vs. Market Cap Growth



Market Cap / GDP



Sensex PE Multiples

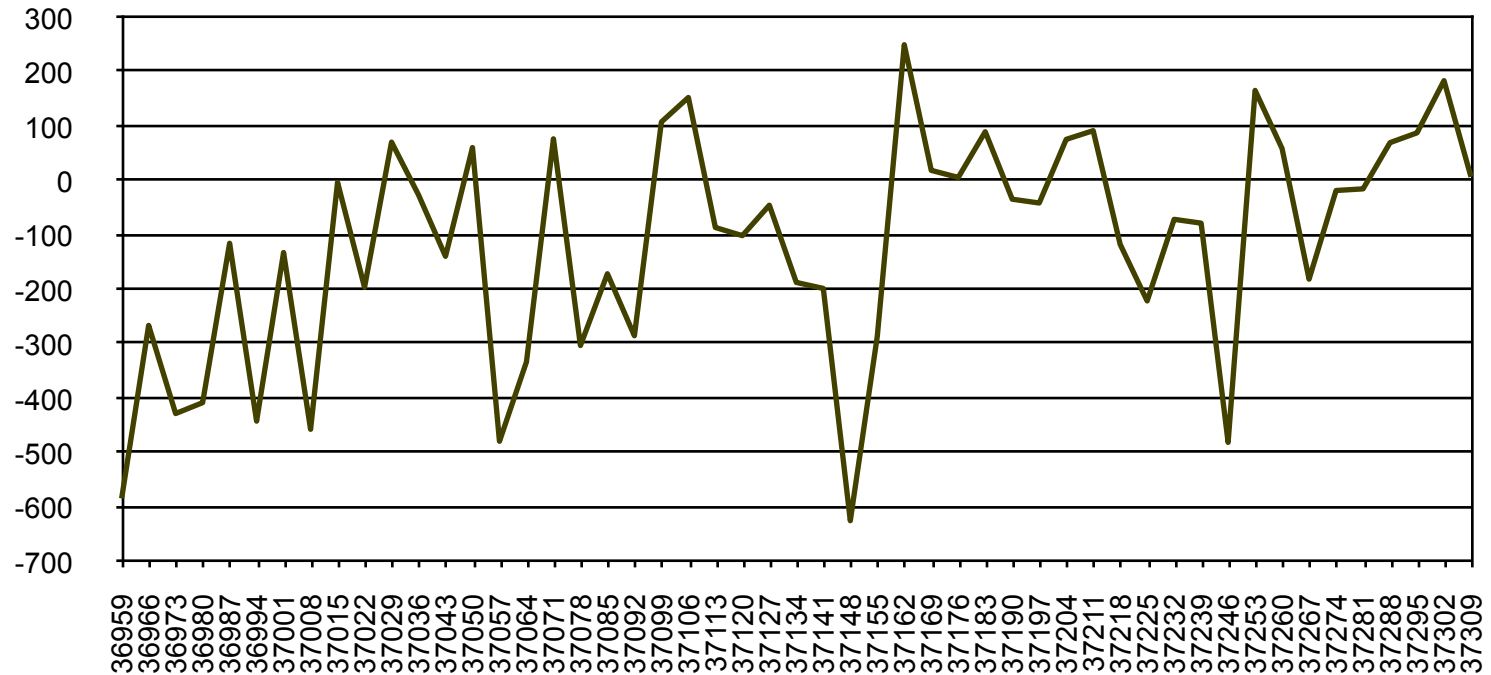


Further Indications Of A Sustained Rise

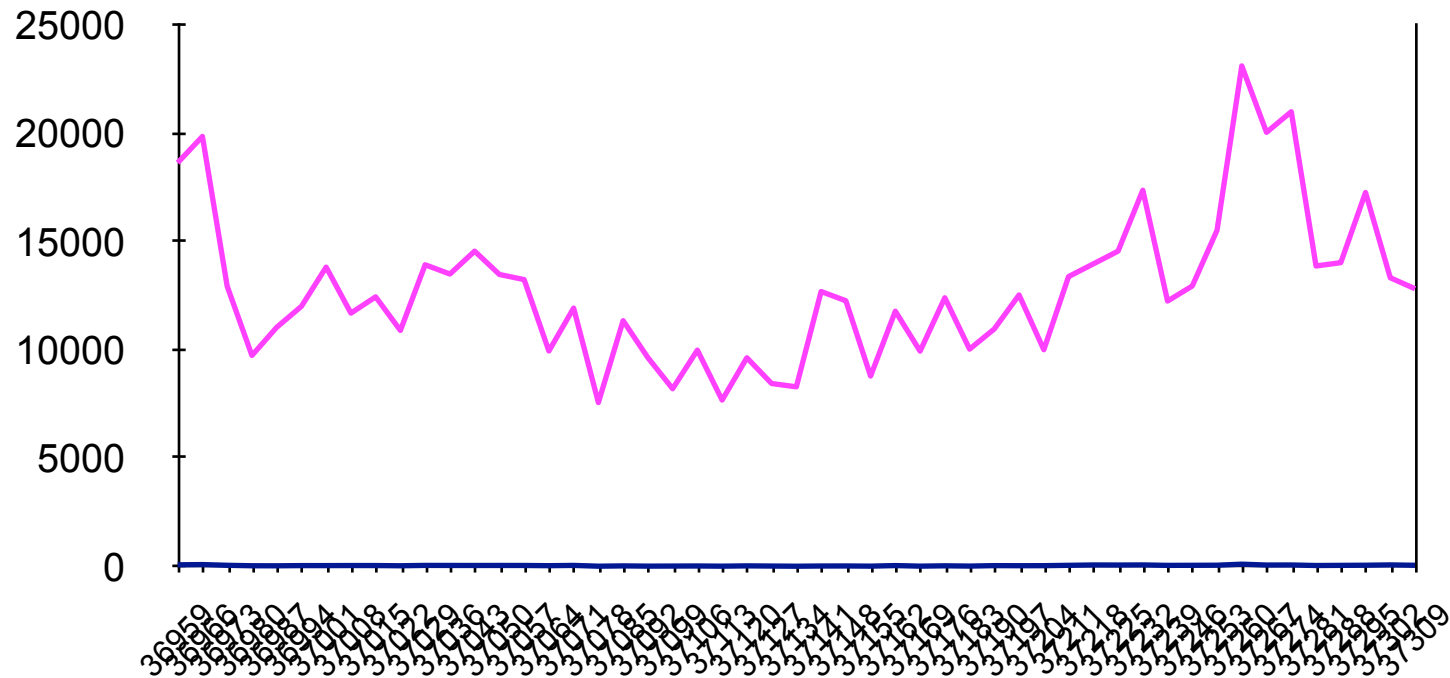
- **Favorable market internals**
 - positive advance decline ratio
 - increased volumes
 - stocks crossing 6150 Sensex highs
 - general sense of disbelief and caution

Current rise is showing all these characteristics

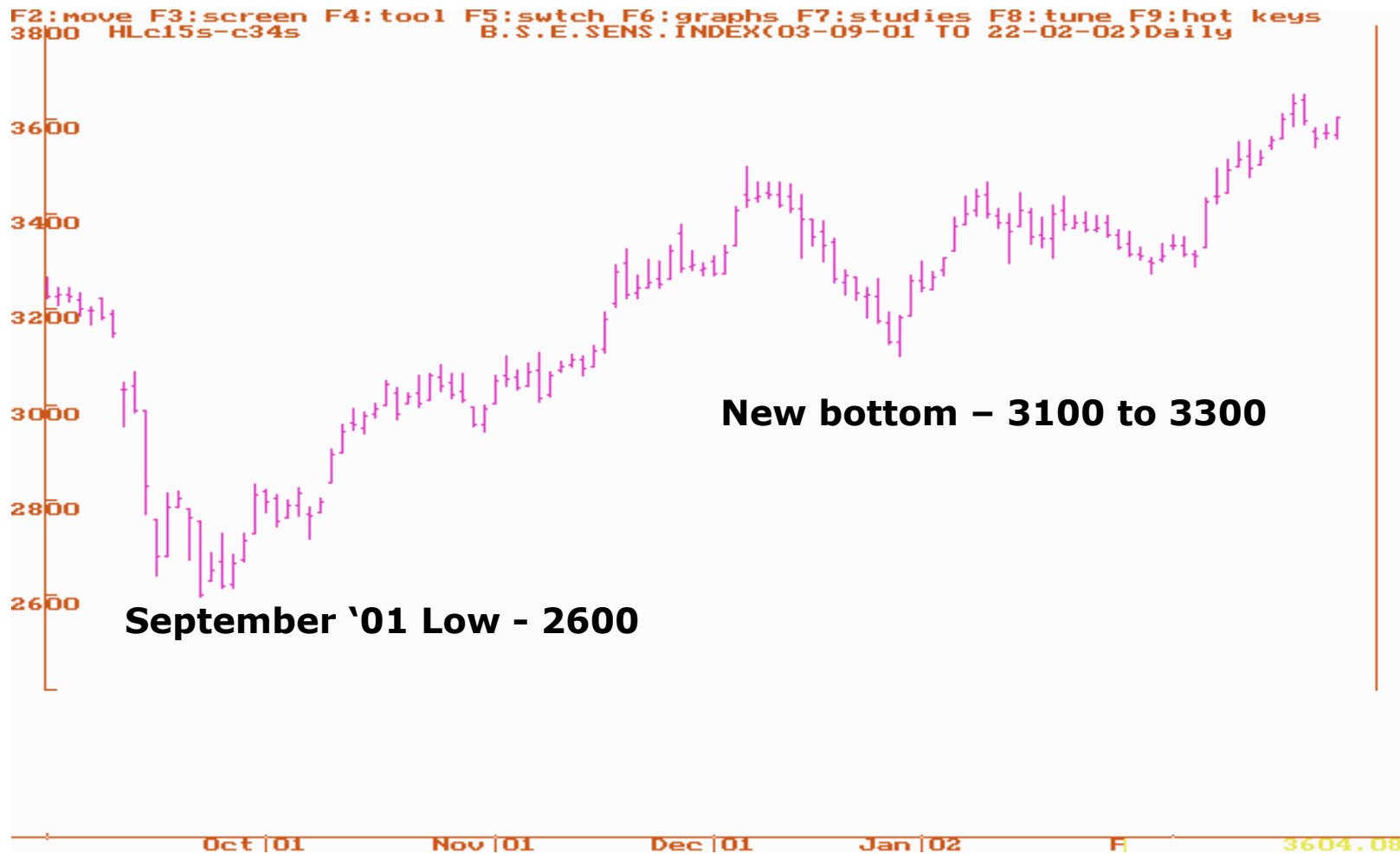
Advance Decline



Volumes



Favorable Market Internals



And the Elephant...
...has started to **DANCE**

So we believe . . .

Possible Party Spoilers

- Political instability
 - Global recession/deflation
 - Erratic monsoons
 - Indo-Pak tensions
 - Surprise terrorist attack
-
-

Not 'Old Jungle Sayings'



***"Be fearful when others are greedy...
...and greedy when others are fearful"***

***"Bull markets are born from the depths of
depression...
...and climb the wall of worries"***

Recent Magazine Covers



Investment Dynamics

Investment Dynamics | Alternatives

- Asset allocation drives returns. . .are investors shortchanging themselves?
- Equities – measured risk, superior return
- Fixed Income securities – credit risk, interest rate risk
- Real estate – Inefficient market, . . .
- Gold / Silver – Store of value, no yield, transaction inefficiency

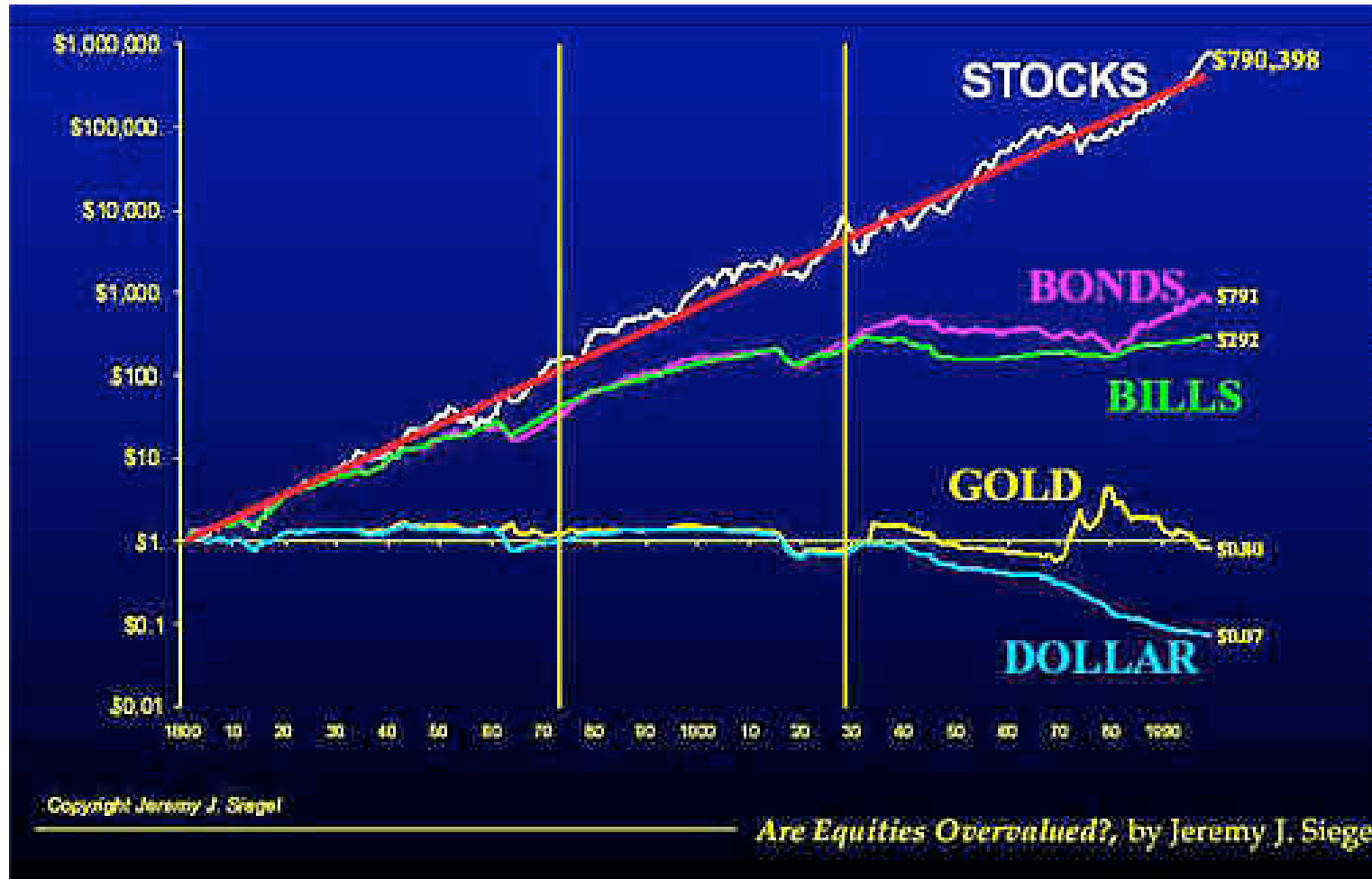
Investment Dynamics | Alternatives

- Assets rather than earnings determine wealth
 - Power of compounding
 - Balance of risk – return
 - Myths of market manipulation
 - Capital market systems efficiency
-
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Investment Dynamics | Concept

- Empirical evidence
 - Best performing asset class
- Loaded odds
 - Highest transactional efficiency
 - Favourable tax treatment – Wealth tax, Long-term capital gains, tax free dividends
 - High liquidity . . .

Comparative Returns From Asset Classes



Alchemy Proposition

- Philosophy
 - Capital protection as a religion
 - Absolute returns as a passion
 - Realism as a conviction
 - Rigidity as a taboo

Eternal Truth



“Making a million legally has always been difficult.
Making a million illegally has always been a little easier.
Keeping a million when you have made it is perhaps the
most difficult of all”

Jeffery Archer

“Not a penny more, Not a penny less”

Retaining and Enhancing Your Millions . . .

Thank You



Portfolio Management Services

Alchemy Capital Management
July 2003

Scheme - mechanics

Amount

- Minimum Amount – Rs. 50.00 lacs
- Can be given in Cash/Shares (to be valued as per the cut-off date)

Tenor

- Minimum – 1 year lock in
- Shorter time frames could impact returns

How does it work....

- PMS & Client Broker Agreements - terms
- Bank Account & Demat Account opened in the joint names of the investor & Alchemy Capital
- POA executed in favor of Alchemy Capital
- All Buy/Sell decisions are discretionary
- All corporate actions taken care – dividends, bonus, split, rights etc.

How does it work....(2)

Reporting

- Monthly statements on NAV
- Details of transactions – contracts/bills/
dividend warrants
- Quarterly – detailed briefing

Charges & Costs

Fees

- 2.5% p.a. , charged quarterly on closing NAV of every quarter
- Brokerage charges – 0.56%
- Demat charges and other incidental costs additional - on actuals
- 0.5% of corpus set aside for other incidental costs (excluding brokerage)

Risk Management

- Well diversified portfolio – 10/12 companies
- Not more than 12% in a single stock
- Not more than 30% in a single industry

Returns & Performance

- No guarantee of returns – nature of asset class
- But safety of Capital important
- Generate reasonable returns - over sustainable period of time
- One year gross returns – 26%
- Beaten all Benchmarks – Sensex, NIFTY, BSE 100, 200 & 500

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