India's Spring Awakening

INVESTING IN ASIA FORUM, ZURICH

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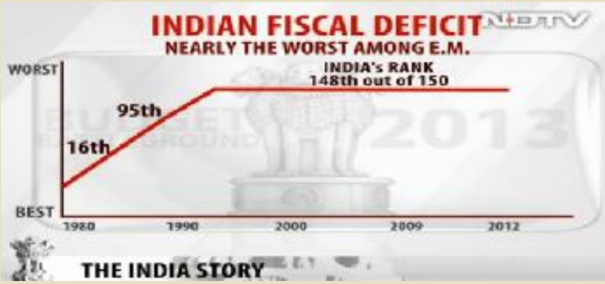
India Growth Story - Perception Vs Reality

Negative News Surrounding Indian Economy



Negative News


BAD REPORTS FOR INDIA

India's central govt is the single biggest factor weighing on business confidence and the economic outlook

Confidence among Indian firms has been crushed by weak demand, elevated interest rates, high inflation, and most significantly, the instability created by a weak central government that has badly lost its way

MOODY'S ANALYTICS (AUGUST 2012)

Divided leadership at the Centre may be the biggest hurdle...Paramount political power rests with the leader of the Congress party, Sonia Gandhi... while the govt is led by an unelected prime minister, Manmohan Singh, who

High Returns are Generated During Period of Crisis

INVESTMENT MADE DURING GOOD TIMES

Time	Sensex Level	1 Year Forward P/E	Main News/ Reasons	Total Returns after 3 years#	Total Returns after 5 Years#
Jan – 2000	5,205	25	High optimism in technology stocks	-38%	26%
Dec – 2007	20,287	26	Booming global economy, optimistic markets	1%	-15%*

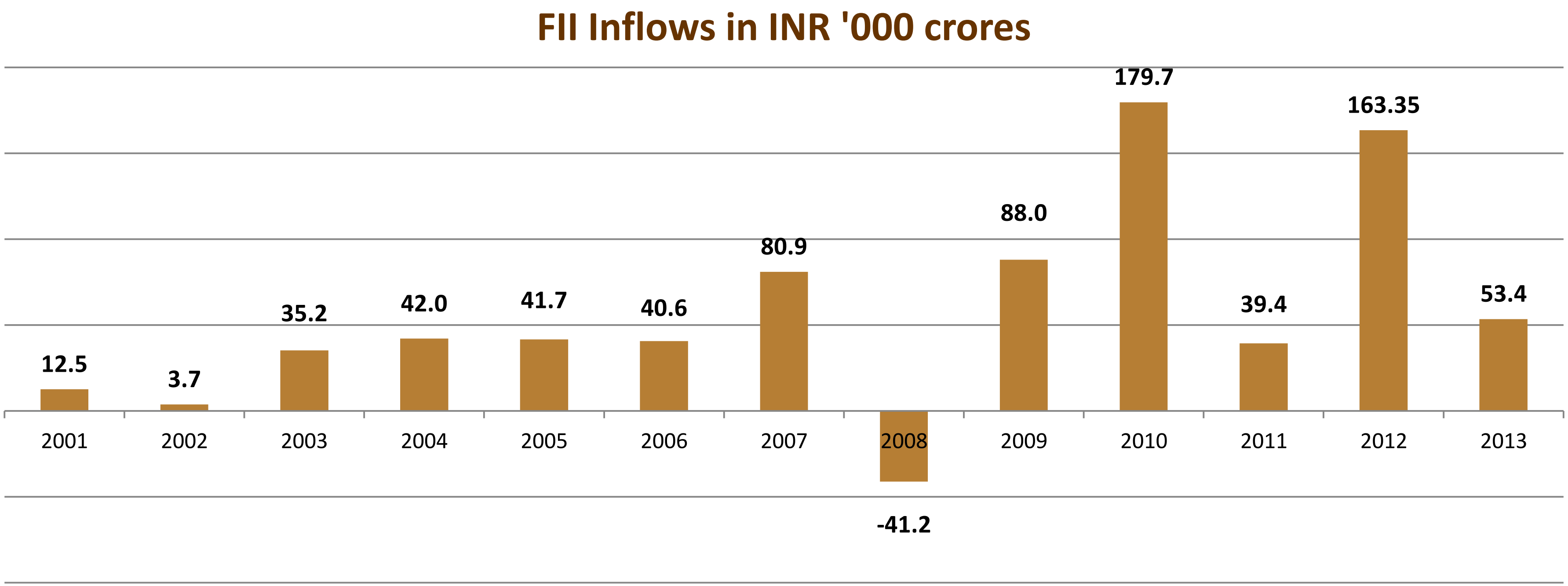
INVESTMENT MADE DURING ADVERSE TIMES

Time**	Sensex Level	1 Year Forward P/E	Main News/ Reasons	Total Returns after 3 years#	Total Returns after 5 Years#
Oct - 2001	2,989	11	9/11 attack on WTC, global markets collapse	91%	334%
June -2004	4,795	10	Unexpected defeat of BJP in general elections	206%	202%
Nov – 2008	9,093	11	Sub-prime crisis – Lehman collapse	77%	NA

	Jan' 08	Sep'12	Difference
Sensex	20,873	18,763	-10.11%
Earnings	875	1,189	35.89%

FIIs Have and Would Always Continue to Invest in India

India has received positive net inflows from FIIs in each of last 12 years except for 2008



**Flows into equity and debt are on calendar year basis. For calendar year 2013 the data is till 28 Feb 2013. Source: SEBI; Bloomberg*

Indian Government and Period of Crisis

Indian Government Acts During Period of Crisis

1991-1992 REFORMS

India's foreign exchange reserves were less than $1 billion in June 1991, adequate to cover just two weeks of import
India was only weeks away from defaulting on its external balance of payment obligations.
Gross fiscal deficit was at 12.7%

REFORMS ANNOUNCED BY THE GOVERNMENT

Rupee was devalued by 18%
About 80% industries were de-licensed .
51% FDI allowed in important sectors.
Fertilizer prices were hiked to reduce deficit.
Many import curbs were lifted

IMPACT

Total foreign investment in India grew from US$ 132mn. to US$ 5.3bn. in 1995 -96

1996 – 1998 REFORMS

India's growth was constrained by inadequate infrastructure, high real interest rate, cumbersome bureaucratic procedures

REFORMS ANNOUNCED BY THE GOVERNMENT

Corporate surcharge was cut to 7.5%.
Automatic FDI approval for 48 industries.
Consumer electronics were de-licensed.
100% NRI investment in private sector.
Fixed interest rate regime relaxed

IMPACT

US becomes India's largest investment partner, with total U.S direct investment at US$ 7 bn and US company's providing US$ 8 bn in foreign portfolio investment

2012 REFORMS

India sovereign rating is at risk of downgrade.
Indian Rupee continues to have a free fall.
Government is criticized for corruption and its inability to carry out reforms.

REFORMS ANNOUNCED BY THE GOVERNMENT

Partial diesel decontrol
FDI in multi brand retail up to 51%.
FDI in aviation up to 49%
Foreign investments into power exchanges up 49%
Increase in FDI limit in broadcasting to 74%.
Increase in FII debt limit for government and corporate

IMPACT

FIIs pumped in approx $8.4 bn during Oct'12 to Dec'12 into Indian equities.
FII have pumped in approx 1.28 bn in Jan and Feb'13.
Key reform announcements despite stiff opposition has led to significant improvement in the investor sentiment

Reform Provides Gateway To India

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Issues Surrounding World Economy

China economic growth worst in over a decade

IMF cuts world economic growth forecast for 2013

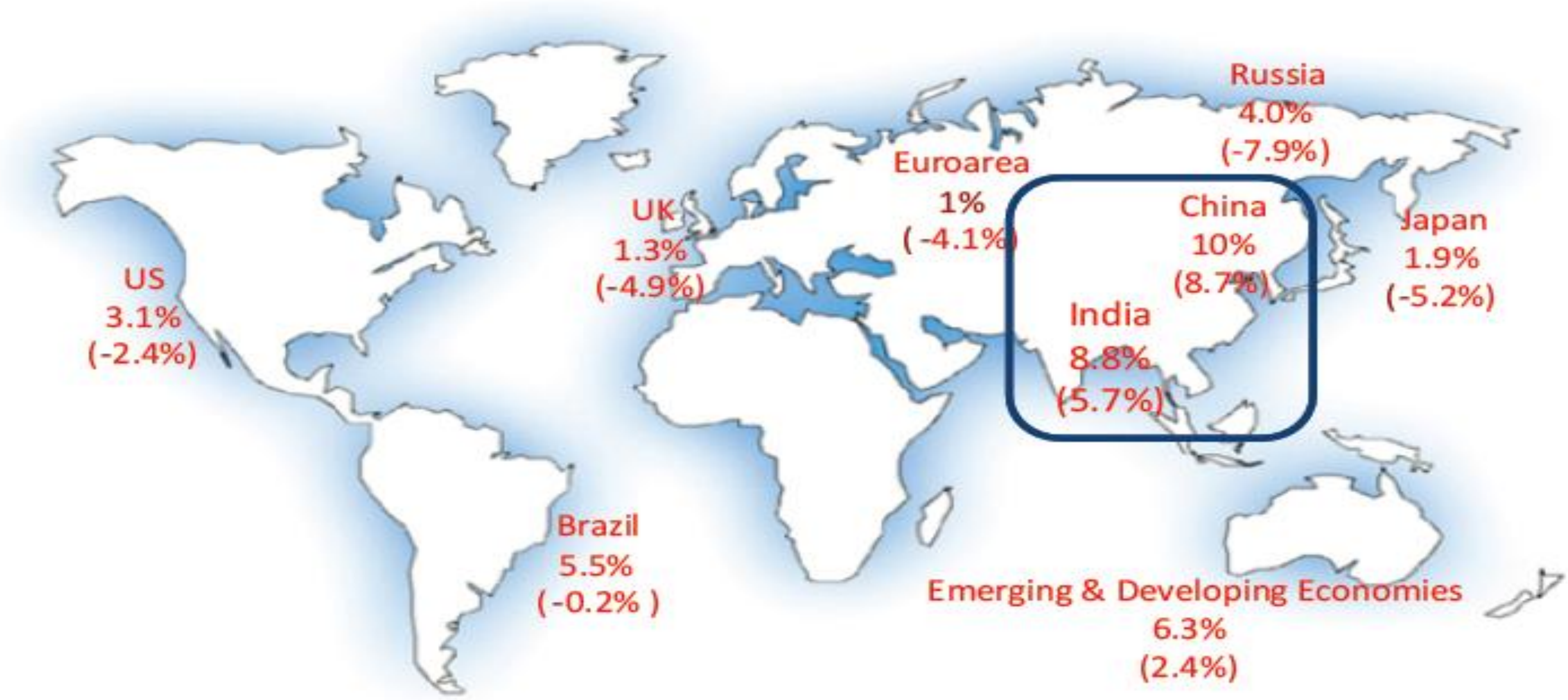
Is Cyprus the sub prime of the Euro crisis?

IMF says Euro zone remains vulnerable

Despite the bad news and gloom surrounding it, can India continue to grow impressively in the future

In the Past India has …..

India & China: The twin propellers of world growth, to contribute ~45% of World growth in 2010 & 2011 together

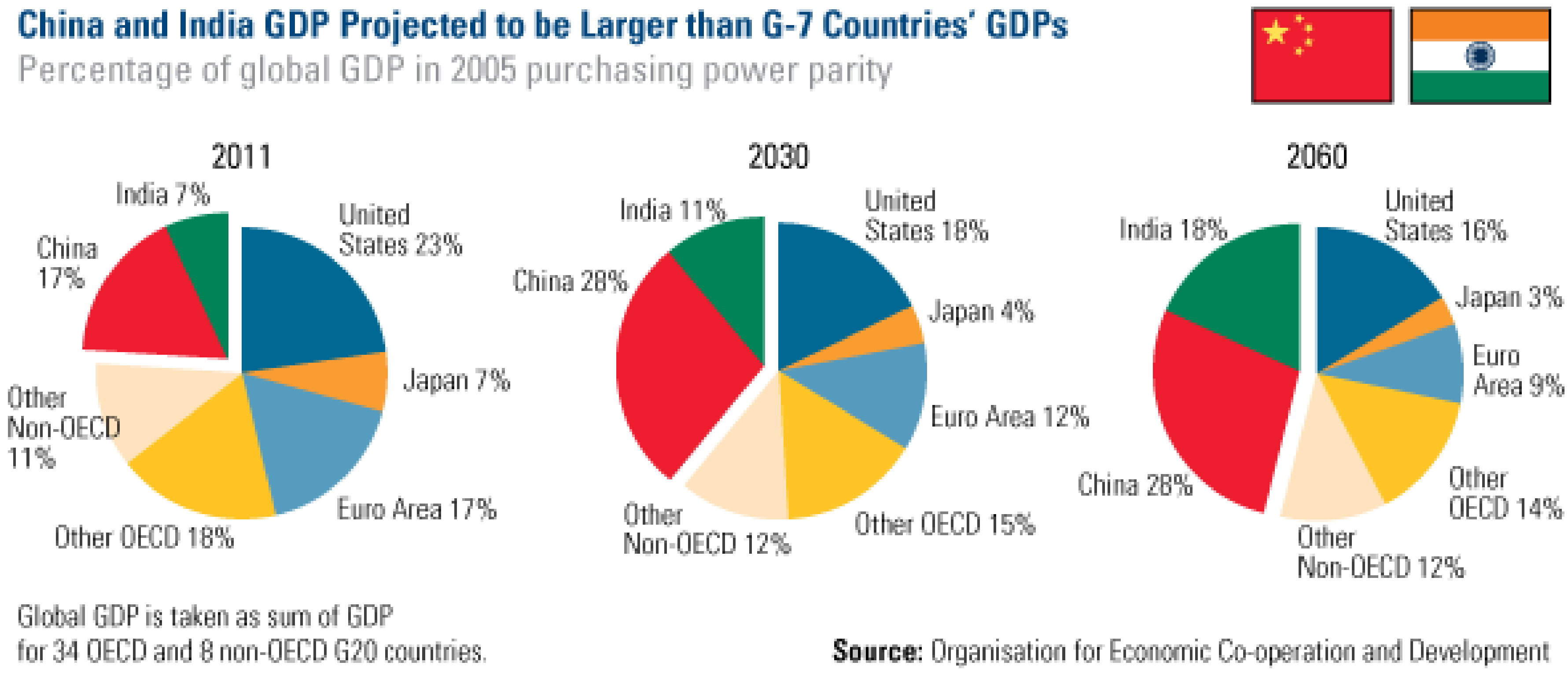


Source: IMF's growth forecast for CY2010. Figure in bracket shows actual growth for CY2009

And it can do so in the future as well…

In future India would…..

In 2030 India's contribution to Global GDP would be 11% and China's 28%. But if we look at 2060 India's share would increase to 18% and China's would remain constant at 28%.



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Pillars of the Indian Economy

Demographic | Consumption | Infrastructure

Demographic – India's favorable demographic is its best insurance for next generation

- The favorable demographic that India enjoys as we move into the future is the best insurance for our next generation.
- It is estimated that around **141mn** people will be added to the workforce in India by 2018. This would not only help in creating value for the country but also give tremendous impetus to consumption.
- Over half of the country's **1.3 bn** population is below the age of **30**. In fact, the median age of the country is **25.7 years** , which is about **10** years younger than **China (34.9)** and the **United States (37.0)** as a result growth in India's working age population from **2010 to 2030** is supposed to be positive **31%,** this compares to **negative 1.1% for China.**
- By 2015, India's middle class should be **north of 250 million**, and it could reach close to **600 million by 2025** versus a total **U.S. population of 350 million** at the end of the same period. It is also estimated that the middle class may account for 41% of the country's population by 2025 versus just 14% today.

Consumption:
Aspiration > Awareness > Availability > Affordability

- The soaring consumption will vault India into the premier league among the world's consumer markets. Today India comprises about 5% of global middle class consumption, while Japan, The Unites States and the European Union cover 60%. By 2025 those numbers are expected to equalize.
- It is estimated that 80% of the consumption growth will come from rising income, while 16% of the increase will be due to growth in the number of households. Only 4% will come from change s in India's household saving rate.
- Discretionary spending will account for 70% of all spending by 2025.
- India's mortgage to GDP ratio is 8% when compared to other markets. For other markets its as follows: China (20%), Germany (47%), US (77%) and UK (85%).
- A report by Crisil showed that consumption in rural India is growing at a faster pace than in cities and towns for the first time in two decades.
- Between 1985 and 2005 there were 400 million Aspirers (people moving out of poverty); while from 2005 to 2025 over 400 million people will be Seekers (lower middle class) and 120 million will be Strivers (upper middle class), further fuelling the consumption boom.

Infrastructure – Is currently in its developing stage, once it approaches maturity stage it would reap huge benefits

- The Indian infrastructure sector is clearly at an inflection point. Policy makers are pushing for infrastructure growth and have planned a huge outlay over the 11th (2007-2012) & 12th Plan (2012-2017).
- The nation's infrastructure spending is expected to grow to 9.9 per cent of gross domestic product (GDP) during the 12th Five-Year Plan from 7.5 per cent during the 11th plan.
- India plans to spend USD 1 trillion on infrastructure in next 5 years.
- Indian airports require investments worth USD 13 billion in next five years; private sector to contribute USD 10 billion.
- India has the world's fourth-largest rail network in the world after the US, Russia and China, and the second-largest network under a single management. Only around 10,000 km has been added to the railway network in the last 62 years. The sector has a huge opportunity to grow and the rail share in cargo and passenger services can increase significantly. Its current share of freight traffic in India is only about 36 per cent as compared to about 50 per cent in the US and China.
- The country has a road network spanning 41.09 million km and ranks among the largest in the world. Although India has a large road network in comparison with other countries, it stands at a low rank of 85 in terms of the quality of its roads. Only half the roads are paved, as compared to more than 100% in the UK and 67% in the US.

India - Land of Investment Opportunities?

Indian capital markets provide an opportunity

Indian Equities | Indian Fixed Income

Indian Equities

When MSCI India fwd PE is	No of Obs	Average Return		% Success ratio	
		2-yr	1-yr	2-yr	1-yr
11x or less	53	52%	31%	83%	77%
11x to 12x	21	52%	29%	86%	71%
12x to 13x	27	41%	13%	81%	67%
13x to 14x	17	50%	23%	88%	82%
14x to 15x	21	37%	12%	71%	71%
15x to 16x	13	24%	10%	62%	62%
16x to 17x	24	15%	12%	79%	83%
17x or more	31	-14%	-4%	23%	52%

- Currently, Indian market is trading at 13.8 times on a 1 yr forward PE multiple basis. Historically, by investing at similar PE multiple, returns averaged 23% in 1 year and ~50% in the next 2 years, with near 90% probability of positive returns.
- Markets have remained virtually unchanged in the last 5 years but during this period there has been earnings growth. P/E's have moderated from 18-20x to 14x. This is lower than long-term averages.
- History tells us that market returns are not linear. There are pockets of very high return and vice versa.
- History suggest that high growth economies may go through a soft patch even in secular bull cycles. With favorable demographic translating into growth dividend and high savings rate, India has a lot of potential in the longer term to generate 7-8% GDP growth.

Indian Fixed Income Market

Security Name	Yield	Credit Rating
SBI London Aug 2017	3.10%	BBB-
Morgan Stanley August 2017	2.25%	A-

Security Name	INR Yield	Hedging Cost	Hedged Yield (USD)	Short term Rating	Long term rating	USD Mkt Cap (bn)
HDFC Ltd	9.10%	6.90%	1.75% – 1.85%	A1+	AAA	$23.53
IDFC Ltd	8.90%	6.90%	1.60% - 1.70%	A1+	AAA	$3.96
ICICI Home Finance*	9.20%	6.90%	1.85%-1.95%	A1+	AAA	$22.40

- The spread between SBI London and Morgan Stanley similar maturity papers is very low
- Is the market actually indicating lower risk for Indian papers and better credit rating going forward.
- Today, one can derive approximately 1.50%-2.00% USD returns from top notch names in India for 1 year
- Comparative yields in US corporate would be in the range of 0.4-0.6%

**For ICICI Home Finance, the market is for the parent entity – ICICI Bank*


Truly, India's Spring Awakening . . .
Thank You