

THE ECONOMIC TIMES



TOTAL MISMANAGEMENT BY THE GOVT, POLICY PARALYSIS AND LACK OF REFORMS TAKE HEAVY TOLL

This is a make-up call for the government... The latest figures have shaken up investors and will shake the confidence of foreign investors too
CHIRANJIT MUKHERJEE, Chairman, IIMC

Govt will take all necessary steps to address imbalance on fiscal front & current a/c
PRANAB MUKHERJEE, Finance Minister

EXPERTS TAKE ON ECONOMY
 • Adil Ghafoor • Uday Kohak • Sujay Jha
 • C Rangarajan • Ajit Ranade

EX
 THE NEW YORK STOCK EXCHANGE...
 72% IN... 25% IN... 3% IN...
airtel
 click to pay
 Now you can pay for your mobile phone bill online

Real Bharat Banch Continues A currency in decline, wobbly markets, economic growth for the latest quarter at a nine-year low, soaring deficits, deadlocked politics, paralysed policymaking and images of protesters throwing stones and burning tyres... welcome to UPA II-ruled India

Goodbye 2020, Hello 1991!

MISUSE OR MIS-ALLOCATION? CVC Calls for CBI Probe into Coal Blocks



COALBLOCKS: 80% IN THE SCORCHING SUN
COAL IS BURNING
 The Central Vigilance Commission (CVC) has recommended a Central Bureau of Investigation (CBI) probe into the misallocation of coal blocks. The CVC has also recommended an inquiry into the alleged misuse of coal blocks by the government. The CVC has also recommended an inquiry into the alleged misuse of coal blocks by the government.

Inside story
IMC's response to mandate via K&N
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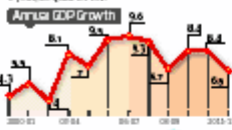
FREE
TRADING ACCOUNT
SMC

IMC's response to mandate via K&N
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Do we need a BIGGER SHOCK?



Libra to Cheer!
Libra to Cheer!
Libra to Cheer!

Act, at Least Now

Act, at Least Now
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‘OPTIMISTIC’ INVESTING

**20 YEARS OF
CONCERNS, CHANGES, OPPORTUNITIES & ASPIRATIONS**

JUNE-2012

CONCERNS

- Indian BoP crisis
- Gold reserves pledged to raise funds
- INR devalued by ~ 40%
- FY92 GDP growth expectations were at 1.2%
- Rajiv Gandhi assassinated in May'91
- Crumbling Soviet Union - dissolved in Dec'91
- Gulf war starts post Iraq invading Kuwait

ECONOMIC, REGULATORY & TECHNOLOGICAL DEVELOPMENTS

- Congress under the stewardship of PV Narsimha Rao as PM and Manmohan Singh as FM unleash liberalization of Indian economy
- Amendment to Industrial & Trade Policy, opening of more sectors for foreign investors, reduction of trade barriers etc.
- MRTP ordinance removes substantial restrictions on expansion of businesses
- Tax Reforms Initiated – India's peak direct tax, excise & custom duty rates were ~ 50% , ~40% & ~150% respectively > [page 22](#)

ENTREPRENEURS SEIZE THE ENSUING OPPORTUNITIES

- Corporate India seized opportunities post-liberalization > [page 23](#)



CONCERNS

- Harshad Mehta Scam unearthed– Sensex plunges
- Babri Masjid demolished in Dec'92

ECONOMIC, REGULATORY & TECHNOLOGICAL DEVELOPMENTS

- SEBI established / CCI abolished
- FIIs allowed to invest in Indian equities
- Raja Chelliah Report on taxation accepted
- Telephony & Mobile opened to the private sector
- Mega power project policy (for >1000MW) announced
- Private airlines begin to roll out services(1991-93)
- Cable TV started in India > [page 24](#)
- US-Russia cold war formally ended
- US lifted trade sanctions against China
- NAFTA signed

ENTREPRENEURS SEIZE THE ENSUING OPPORTUNITIES

- Zee TV started in Oct'92 > [page 25](#)



CONCERNS

- Mumbai bomb blasts in Mar'93 - over 250 dead
- Latur earthquake in Sep'93 – over 20,000 dead
- 16th Sept'92 “Black Wednesday” – UK decides to withdraw from European Exchange Rate Mechanism – Soros made \$1 bn shorting pound

ECONOMIC, REGULATORY & TECHNOLOGICAL DEVELOPMENTS

- National Mineral policy announced
- Interest rate de-regulation picks up pace
- Private sector Mutual Funds start operations
- European Union formally established in Nov'93

ENTREPRENEURS SEIZE THE ENSUING OPPORTUNITIES

- Infosys IPO in 1993
(Issue undersubscribed; the Underwriter had to buy the unsubscribed portion of the issue) > [page 26](#)



Aug'94- Jan'96

CONCERNS

- Further INR depreciation in 1995
- MS Shoes Scam dampens the market mood
- Major bond market correction globally
- Mexican financial crisis in 1994
- Jan'95 Japan – Kobe earthquake - 5,500 dead. Economic loss of USD 200 bn
- Collapse of Barings

ECONOMIC, REGULATORY & TECHNOLOGICAL DEVELOPMENTS

- Internet commercialized in 1995
- India joins World Trade Organization(WTO)
- National Telecom Policy-NTP'94 announced with licenses given for mobile services in metros & 19 circles > [page 27](#)
- New Private sector banks start operations
- NSE (equity segment) started in Nov'94

ENTREPRENEURS SEIZE THE ENSUING OPPORTUNITIES

- Titan launches Tanishq jewellery in 1994 > [page 28](#)
- Sun Pharma IPO -1994
- HDFC Bank IPO -1995



CONCERNS

- 1996 - Jain Hawala Scam unearthed. 24 politicians jailed
- May'96–Vajpayee Government falls in a fortnight
- Sep'96 – Taliban captures Afghanistan's capital Kabul

ECONOMIC, REGULATORY & TECHNOLOGICAL DEVELOPMENTS

- Chidambaram presented the “dream” budget in Feb 1997
 - Income Tax, Corporate Tax and Customs Duty lowered.
 - Tax Base widened.
 - Tax on dividends abolished.
 - Voluntary Disclosure of Income Scheme (VDIS) announced

ENTREPRENEURS SEIZE THE ENSUING OPPORTUNITIES

- Steve Jobs re-joins Apple as CEO in 1996 > [page 29](#)
- Sabeer Bhatia launches Hotmail in July'96
- Shift from scooters to fuel efficient bikes continues to hasten > [page 30](#)



CONCERNS

- Asian financial crisis
- Industrial slowdown intensifies coupled with high interest rates

ECONOMIC, REGULATORY & TECHNOLOGICAL DEVELOPMENTS

- Independent statutory regulatory body Telecom Regulatory Authority of India (TRAI) established
- VDIS collects an income tax of Rs. 100 billion

ENTREPRENEURS SEIZE THE ENSUING OPPORTUNITIES

- Lakshmi Mittal continues to buy steel mills in distress. Indian steel sector too faces the heat > [page 31](#)



CONCERNS

- May'98 - Pokhran nuclear test. Fear of economic sanctions pushes stock market down
- Aug'98 - Russian debt crisis. Russia defaults on its debt obligations

ECONOMIC, REGULATORY & TECHNOLOGICAL DEVELOPMENTS

- Central Electricity Regulatory Commission(CERC) constituted
- National Highway Authority of India(NHAI) constituted
- SBI Resurgent India Bonds collect over \$ 3.5bn
- Consumer loan cult picks up led by new private sector banks
- Banks starts Large-scale ATM roll-outs
- 1999 – BJP budget promises boost to infrastructure sector
- New Telecom Policy(NTP'99) migrates the telecom sector from fixed license fee regime to a revenue sharing mechanism and opens up long distance phone services to private competition

ENTREPRENEURS SEIZE THE ENSUING OPPORTUNITIES

- HDFC Ltd. capitalizes on low penetration of mortgage finance > [page 32](#)
- Indian IT companies scale up capitalizing on the back of Y2K opportunity



CONCERNS

- Dot.com / Technology bubble bursts
- UTI suspends US-64 for 6 months in Jul'01
- Economic crisis in Argentina. Argentina defaults on its debt obligations
- 9/11 Terrorist attack on WTC
- Attack on Indian Parliament in Dec'01

ECONOMIC, REGULATORY & TECHNOLOGICAL DEVELOPMENTS

- Disinvestment started with Balco, HZL, VSNL etc.> [page 33](#)
- Goldman came out with the BRICs report
- Private Insurance Companies start operations
- NHA1 Phase 1 approved in Dec.'00 with GQ project
- Delhi Metro begins services in 2002

ENTREPRENEURS SEIZE THE ENSUING OPPORTUNITIES

- Dr Reddy's becomes the first Indian company to get 180 day marketing exclusivity in the US generics market for 40mg Fluoxetine in Aug' 01



CONCERNS

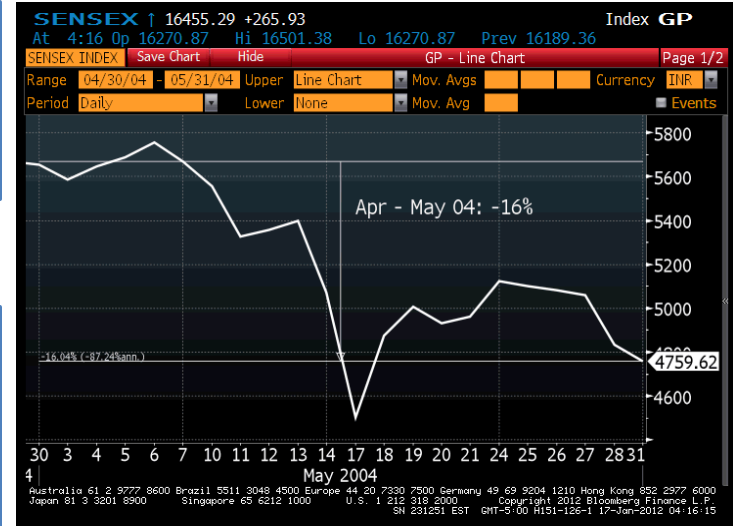
- Sensex falls ~25% in a week as BJP loses general elections unexpectedly and NDA Govt. falls
- Dec'04 - Tsunami hits South India & SE Asia

ECONOMIC, REGULATORY & TECHNOLOGICAL DEVELOPMENTS

- New electricity act enacted in 2003 > [page 34](#)
- Gold/Silver imports freed in 2004
- National broadband policy announced
- North-South 4-lane Highway corridor work started
- Right to Information (RTI) Act enacted in 2005
- VAT implemented from 2005 onwards
- Google – which signifies the full use of internet prowess – lists in Aug'04 with a market cap of USD 27 billion. Today's market cap ~ USD 200 bn
- First year of low cost airlines – Air Deccan –launched in 2003, gains traction – benefits the consumers and the economy > [page 35](#)

ENTREPRENEURS SEIZE THE ENSUING OPPORTUNITIES

- Investment Rate crosses 30% of GDP in FY05>[page36](#)
- TCS IPO >[page37](#)



CONCERNS

- US real estate bubble bursts
- Global Financial crisis engulfs the world economy
- Lehman collapses & Madoff's Ponzi Scheme unearthed
- Run on Northern Rock – a British Bank

ECONOMIC, REGULATORY & TECHNOLOGICAL DEVELOPMENTS

- Government announces stimulus package and RBI aggressively eases the monetary policy
- 6th Pay Commission with ~ 40% increase in salaries for Government employees announced
- Bush signs an energy bill requiring 40% increase in mileage by 2020 over 2007 standard
- Limited Liability Partnership (LLP) structure allowed
- Spectrum for the launch of 3G auctioned in 2010

ENTREPRENEURS SEIZE THE ENSUING OPPORTUNITIES

- E-commerce and internet companies gain traction in India. Makemytrip, RedBus, Flipkart, IRCTC.in, Snapdeal, Naukri.com, Shaadi.com etc. changing the way we live our lives
- Jubilant Foodworks (Domino's) started operations in 1996, listed in 2010 - captures the changing consumption pattern in India



- INVESTORS UNDERAPPRECIATE THE OVERALL BENEFITS OF TECHNOLOGICAL CHANGES – STAY MORE GLUED ON TO ECONOMIC POLICY SETTING
- WEALTH IS ULTIMATELY CREATED BY ENTREPRENEURS CAPTURING THE OPPORTUNITIES AVAILABLE
- ‘OPTIMISTIC’ INVESTING IS ALL ABOUT THE STAUNCH BELIEF IN THE HUMAN INGENUITY TO PROGRESS AND IN THE SPIRIT OF ENTREPRENEURSHIP

- WHILE WE BELIEVE IN HUMAN INGENUITY AND THE PROGRESS OF THE MANKIND, WE ALSO UNDERSTAND THAT ALL GROWTH MAY NOT BE PROFITABLE GROWTH.

- INVESTORS ALSO NEED TO BE AWARE OF THE ‘SCHUMPETER EFFECT’ – I.E. – ‘CREATIVE DESTRUCTION’
 - FOR THE SUCCESS OF AN ‘APPLE INC.’
 - INVESTORS HAVE HAD TO CONTEND WITH THE SETBACKS FACED BY A SONY, NOKIA, R.I.M ETC.

CONCERNS

- Lingering world economic crisis
- Corruption issues from 2G /Common Wealth
- Failure on policy implementation due to inter-ministerial issues
- Inability to enact economic legislations stemming from political weakness
- Populist measures and slowing growth impacting fiscal deficit
- Persistent high inflation
- High interest rates & slowdown in capex
- High oil prices adding to CAD & INR weakness
- Asset quality concerns hit the banking sector



- Unique Identification Number (UID) – Better transmission of subsidies
- Goods and Services Tax (GST) – The Impending biggest tax reform in India
- Power sector reforms / Franchisee route for distribution
- Implementation of Right to Education Act
- Opening up of the mining sector
- Deregulation of the auto fuels
- Financial Inclusion
- Advancement in modern medicine continues to improve the quality of life and the longevity
- Increasing participation of women in the work force – Boost to consumption
- Digital Inclusion / “J” curve in data consumption
- Mobile and E-Commerce
- Expanding E-Governance
- Energy efficient technologies e.g. LED / Alternate sources of power e.g. solar power

THE MARCH FORWARD

- THERE WILL ALWAYS BE CONCERNS
 - YET ECONOMIC, REGULATORY, TECHNOLOGICAL AND SOCIAL CHANGES WILL CONTINUE
 - ENTREPRENEURS WILL CAPTURE THE AVAILABLE OPPORTUNITIES

AND THIS WILL CREATE WEALTH

SO BE AN OPTIMIST AND

CONTINUE TO INVEST SYSTEMATICALLY IN EQUITIES

[23/32 YEARS OF POSITIVE RETURNS >page 38](#)

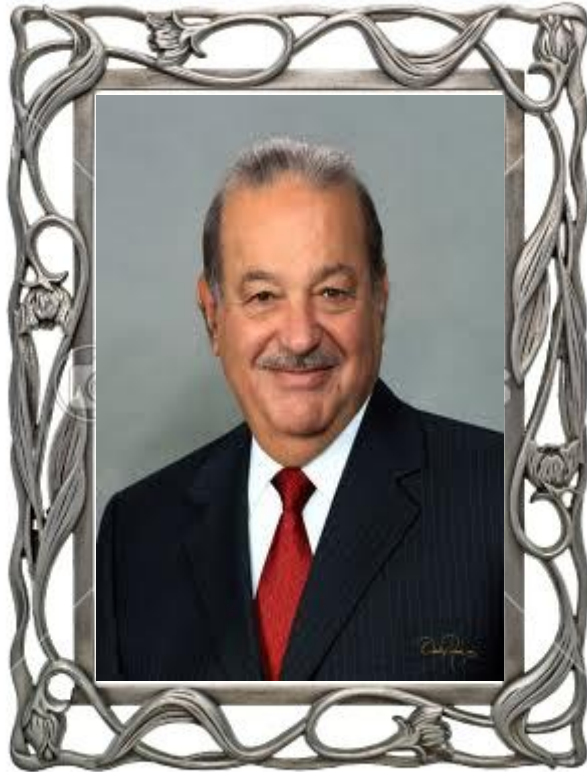


AN OPTIMIST WHO BUYS IN A PESSIMISTIC ENVIRONMENT.....



- Part of his empire, which stretches from telephones to mining, was built during Mexico's repeated currency devaluations in 1976 and 1982, when many business owners sold on the cheap.
- In 1982, the Mexican economy contracted rapidly as oil prices fell and interest rates rose worldwide. Banks and other businesses were nationalized, crippled or collapsed. The peso was devalued. He invested heavily in this phase.
- Entered the phone business in 1990 – by buying Mexico's state telephone monopoly.
- Early 2000s - Bought into Argentina's mobile market at the height of the country's financial crisis and then Brazil's when many thought the country might default on its debt.
- TODAY – Looking to Buy companies in Europe – the epicentre of the global financial crisis.

He is....



Carlos Slim

- The world's richest man.
- Ranks #1 in the list of Forbes Billionaires.
- His traditional playbook is buying assets in difficult times.
- “He is very good at buying good assets and management in a depressed market,” - ---
-Damian Fraser, head of equities for Latin America at UBS.



AT TATA MUTUAL FUND – OUR WORLD VIEW AND PHILOSOPHY



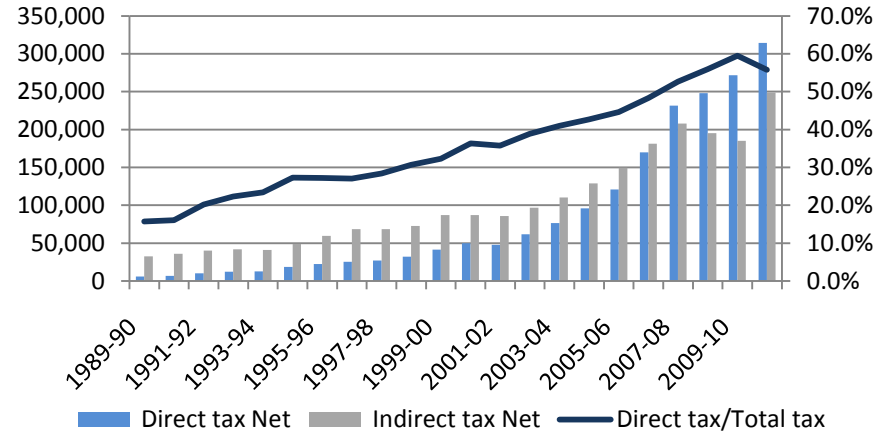
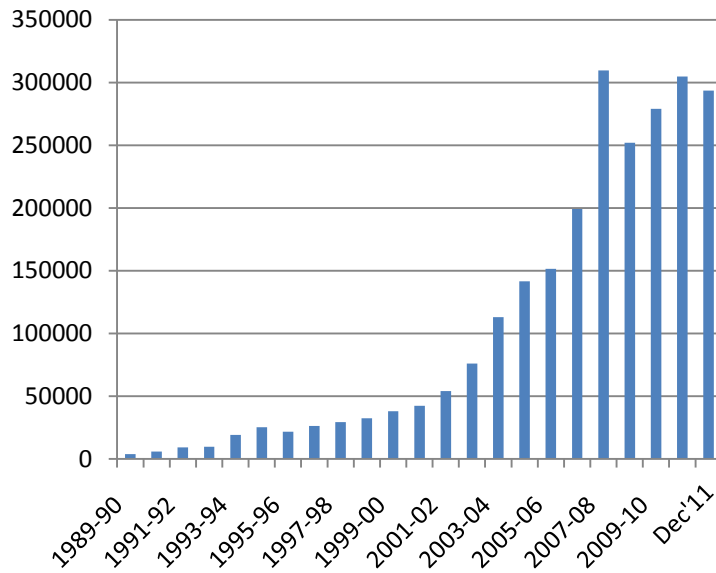
- WE BELIEVE IN HUMAN PROGRESS.
- WE BELIEVE IN HUMAN INGENUITY.
- WE BELIEVE IN THE SPIRIT OF ENTREPREUNERSHIP.
- WE ARE PERPETUALLY ON THE LOOK OUT FOR COMPANIES ON THE WAY UP, AND CAUTIOUS OF COMPANIES ON THE DECLINE.
- WE BELIEVE WE ARE RATIONAL OPTIMISTS AND ALWAYS ON THE LOOKOUT FOR GOOD OPPORTUNITIES IN TIMES OF PESSIMISM.



Thank You

India's BoP & Taxation : 1991 to 2011

India FX Reserves \$ mn



	1991	2011
Highest marginal tax rate	50%	30%
Direct tax revenue Rs cr	6,900	314,606
Direct tax /Total tax revenue	19.2%	55.8%
Direct tax /GDP	2%	6.7%

(Source: RBI, Dept of Economic Affairs, NIPFP Study papers, Tata AMC)

From FX reserves hardly sufficient for 3 weeks of imports in 1991, India now has FX reserves enough for 9 months of imports

	Tax/GDP				
India	10.6%	UK	34%	US	24%

(Source: OECD)



Corporate India seized opportunities post-liberalization

	PAT FY 2012 Rs. Cr.
RIL	19,964
L & T	4,656

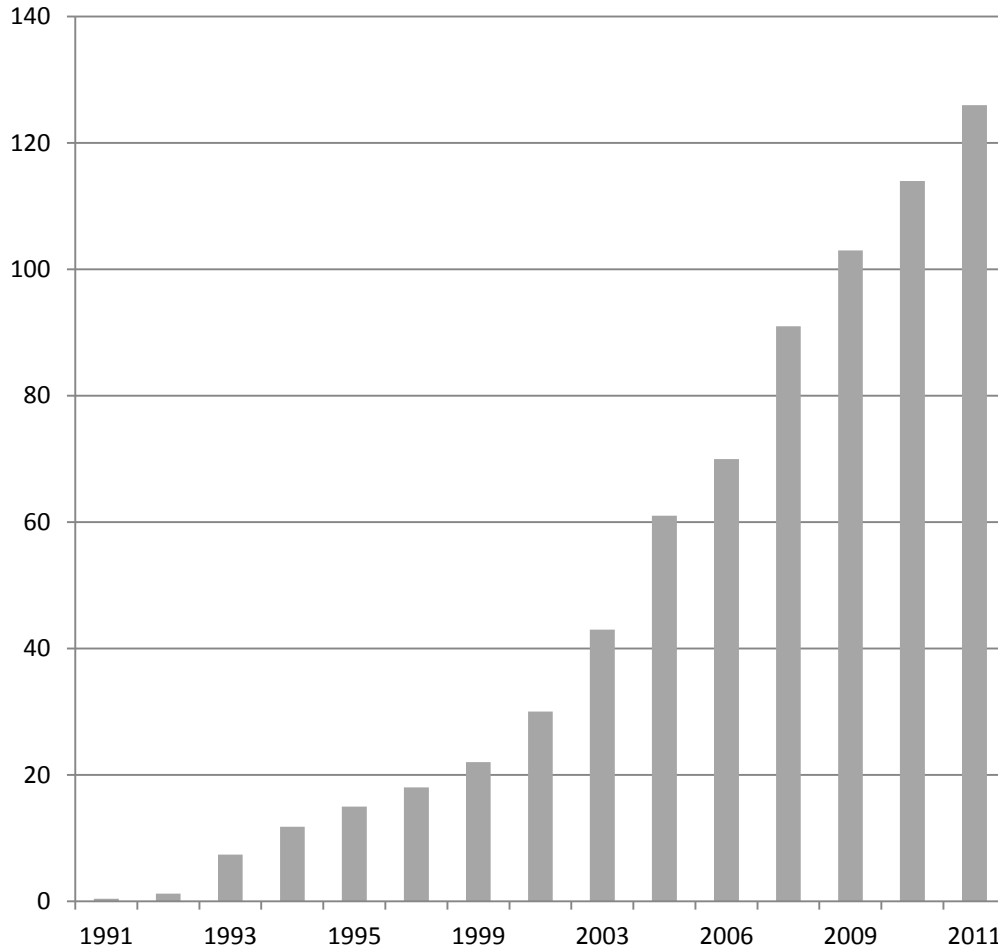
PAT FY 1990 Rs. Cr.	% CAGR
91	28
43	24

SOURCE: CAPITALINE PLUS, CLSA



Cable & Satellite TV Households growth

C&S Subscribers mn



From 0.4 million in 1991, cable & satellite TV connections have reached 120 million households (estimated) by 2011

No. of channels increased from 2 to over 400

Monthly subscription charges continue to be competitive



Source: Frank Small Studies (Up to 1999), KPMG, Hathway Cable, Tata AMC internal research (for 2000-11)

Zee TV

Rs. Cr.	FY12
Revenue	3041
Profit	589

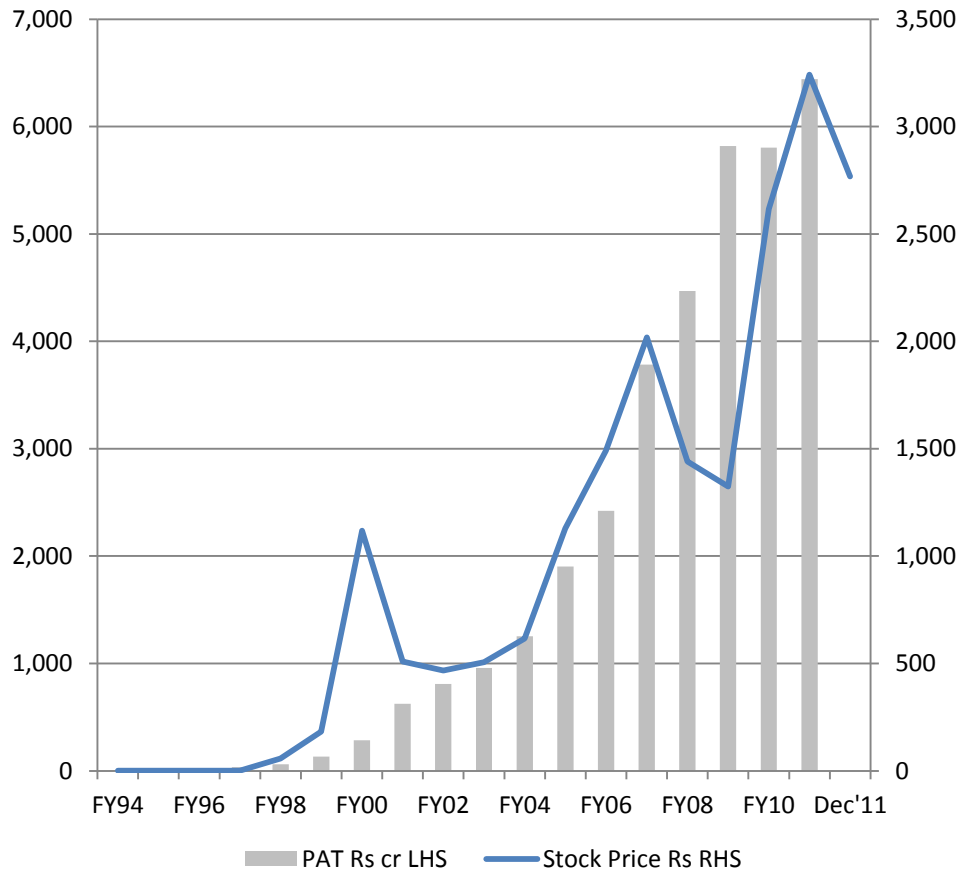
FY94	% CAGR
23	31
9	26

Subhash Chandra, bought the transponder on AsiaSat – the only satellite beaming into India at that time - in 1991, and launched Zee TV

SOURCE: BLOOMBERG



Infosys IPO June'93 FY94-12 PAT CAGR 47%
 Mar'94-Dec'11 Market Cap CAGR 45%



Source: Company, Bloomberg

India' IT Story

IT -BPO sector revenue \$ 88.1 bn
 IT-BPO sector exports \$ 59.4 bn

Direct employment 2.5 mn
 Indirect employment 8.3 mn

Sector revenue / GDP
 1998 1.2%
 2011 6.4%

IT,BPO exports/ Total exports
 1998 4%
 2011 26%

M Cap (Top 3 Listed co) Rs 483,921 cr

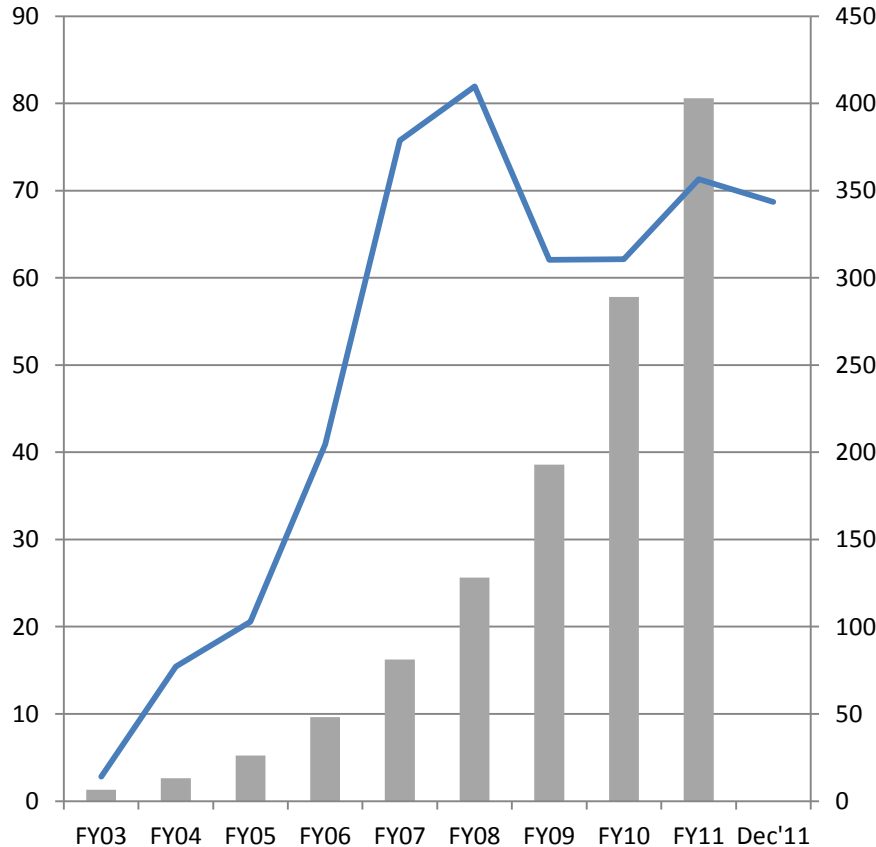
(Source: NASSCOM website
 – all figures Fy-11 estimates)

*M Cap based on 30/12/11 prices



NTP'94: Bharti Airtel capitalizes on the revolution in telephony

Bharti IPO'02 Mar'02-Dec'11 Stock Price CAGR 34%



India Wireless Subs Cr LHS Bharti Stock Price Rs RHS

Source: Company, Bloomberg



India Telecom Story

1991 MTNL subscriber share : ~25%
 1991 Bharti subscriber share : 0%

2011 MTNL subscriber market share : ~ 1.2%
 2011 Bharti subscriber market share : ~ 25%
 (Source: 2011 Calculated from TRAI active subscriber numbers)

1995 Mobile charge/min : ~Rs. 17.0
 2011 Mobile charge/min : ~Rs.0.44

FY-11 India wireless revenue : Rs 102,230 cr
 (Source: Voice & Data)

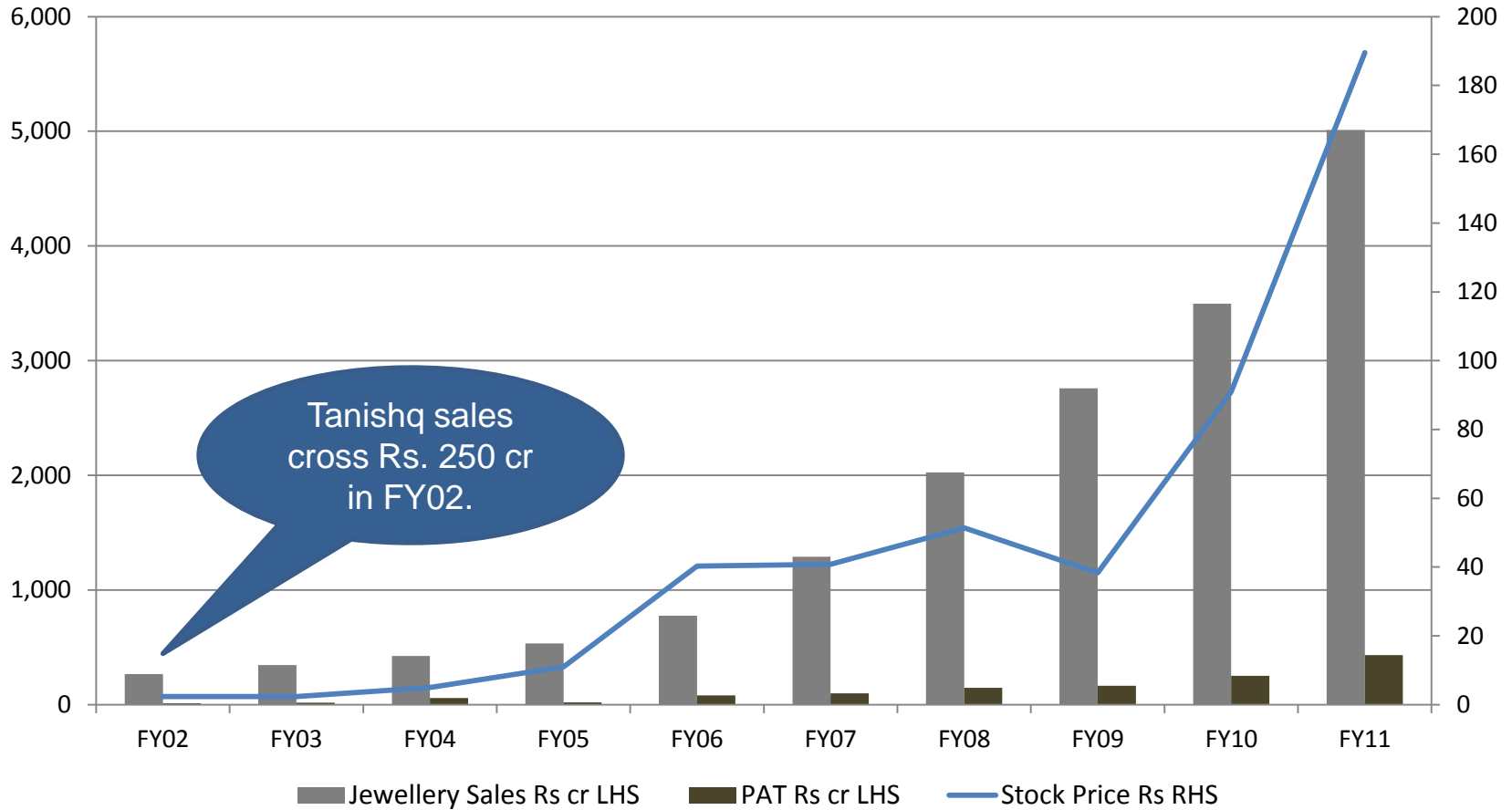
FY-10 Telecom's contribution to Govt exchequer through revenue share and service tax (per ann.) Rs. 17,000 cr

(Source: DoT, Govt website on service tax)

FY-11 3G/ Broadband auction Rs. 105,000cr

Source: COAI-PWC Aug'11 Report on Indian mobile sector

Mar'94-Dec'11 Stock Price CAGR 19%

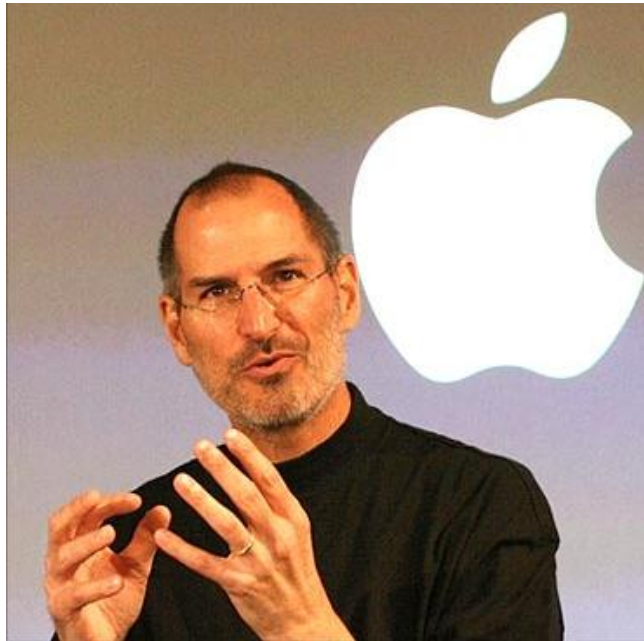


Source: Company, Bloomberg



Apple: An example of rejuvenation and transformation

Steve Jobs re-joins Apple in 1996 & transforms the company



	Launch	Cumulative Sales Till Dec'11 (mn pieces)
iPod	Q2-02	321
iPhone	Q3-07	146
iPad	Q3-10	40

Source: www.applinvestors.net

From a loss-making company in 1996, Apple made profits of USD26bn in 2011

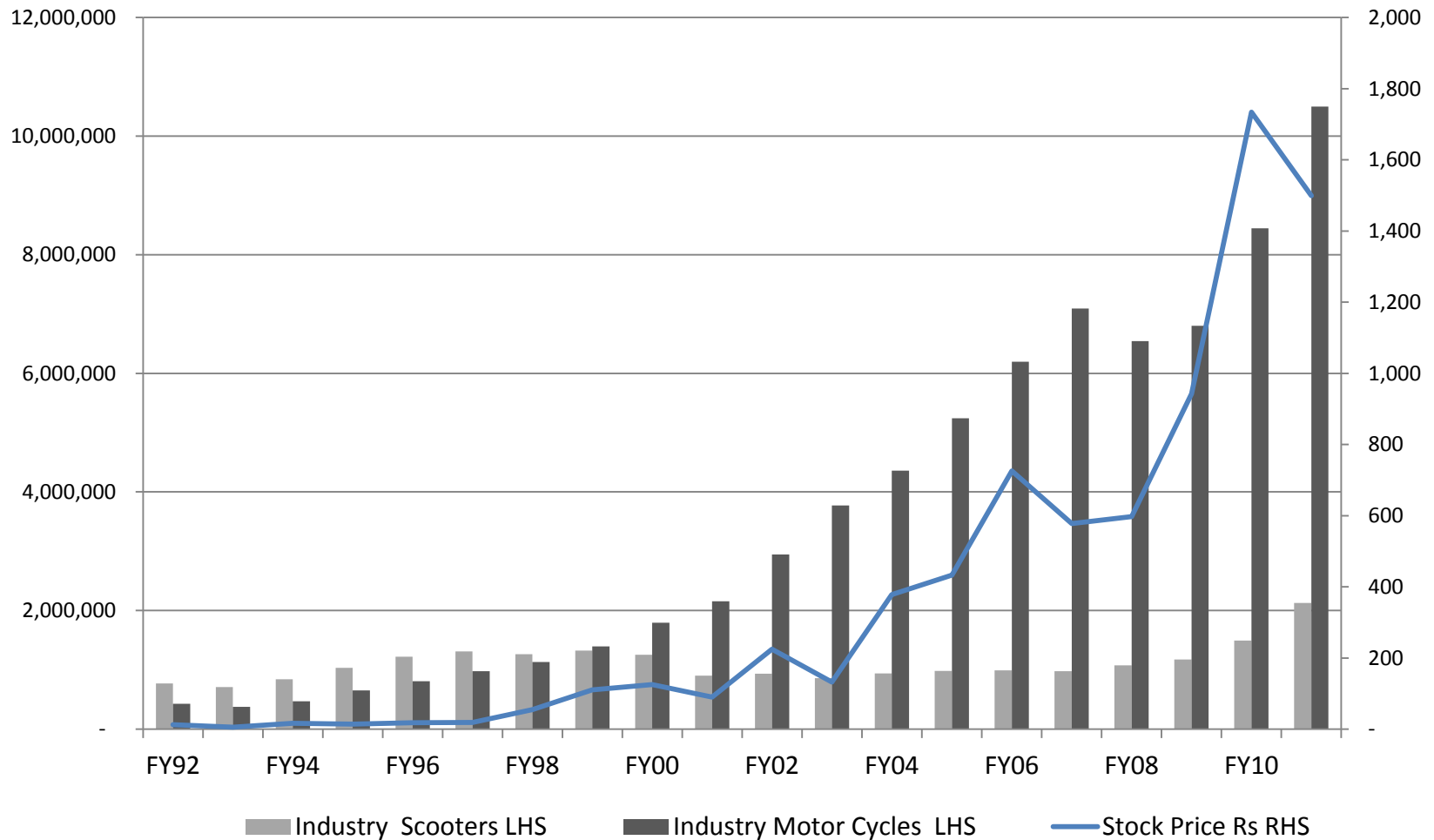
Apple Inc. now is amongst the top two most valuable companies in the world with a M cap of USD 376bn (as of Sep'11)



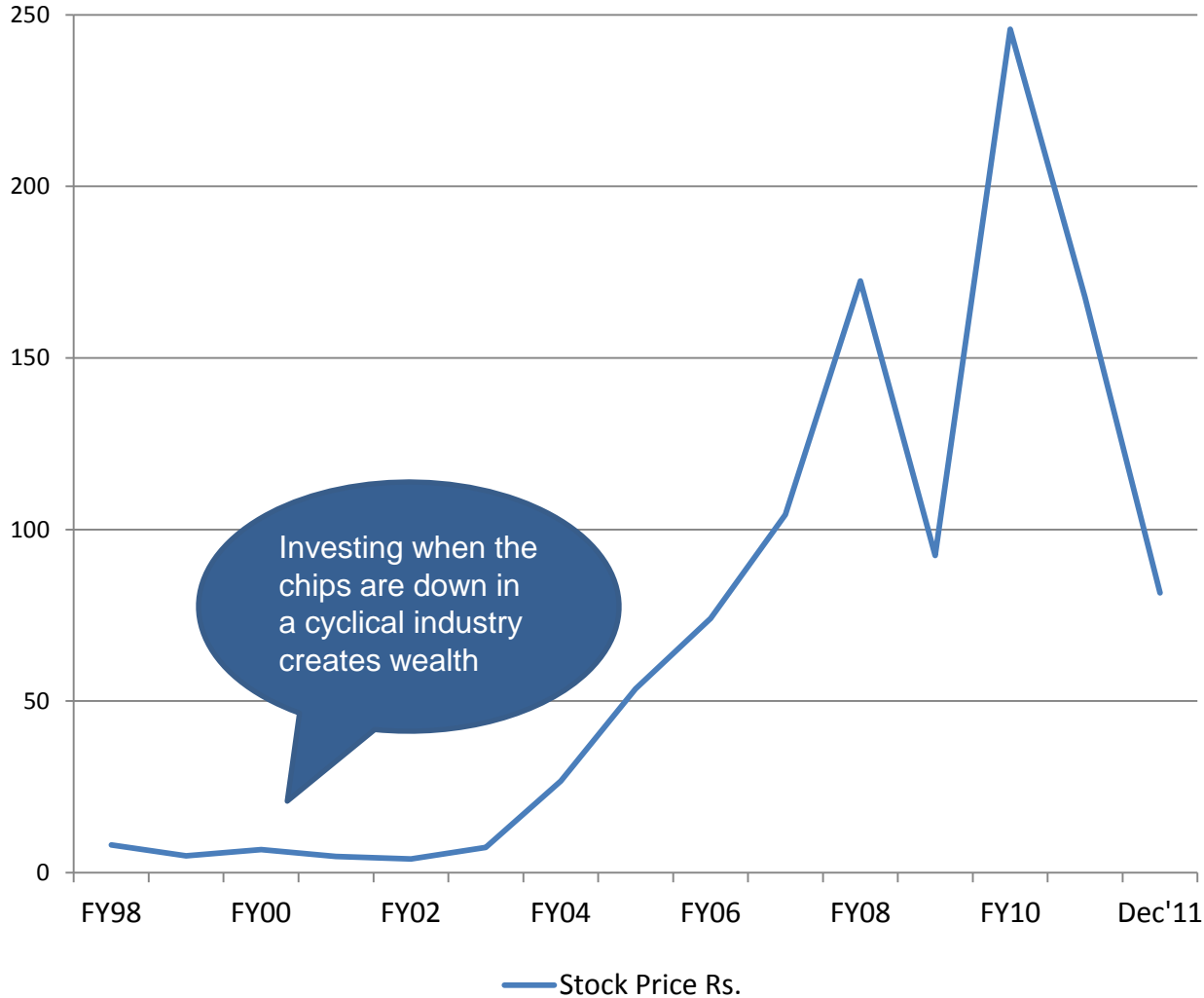
Hero MotoCorp

Catalyzed the Shift from Scooters to Motorcycles

Mar'96-Dec'11 Stock Price CAGR 30%



Mar'98-Dec'11 Stock Price CAGR 17%



Lakshmi Mittal

6th Richest in the world with net worth of \$31 bn

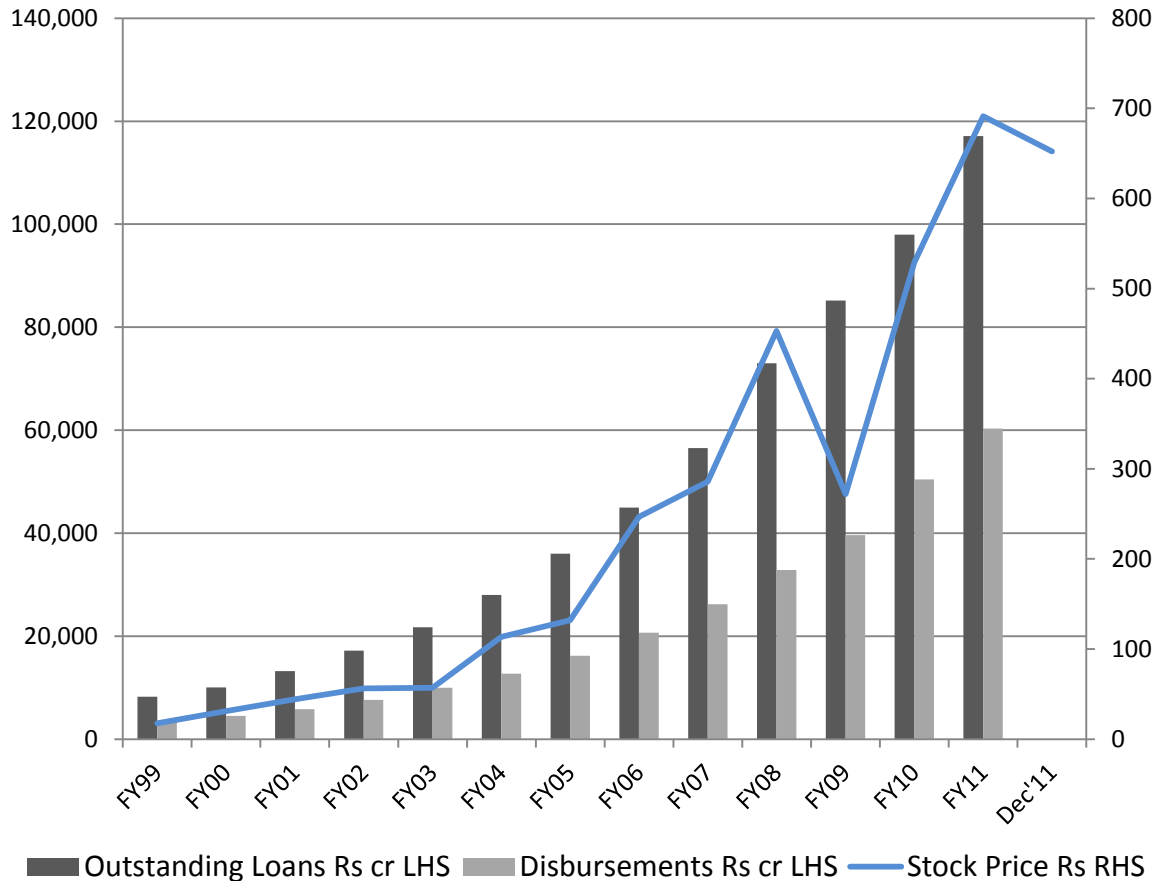
(Source: Forbes Richest List'2011)



HDFC Ltd.

Capitalizing on the under-penetration in housing finance

Mar'99-Dec'11 Stock Price CAGR 30%

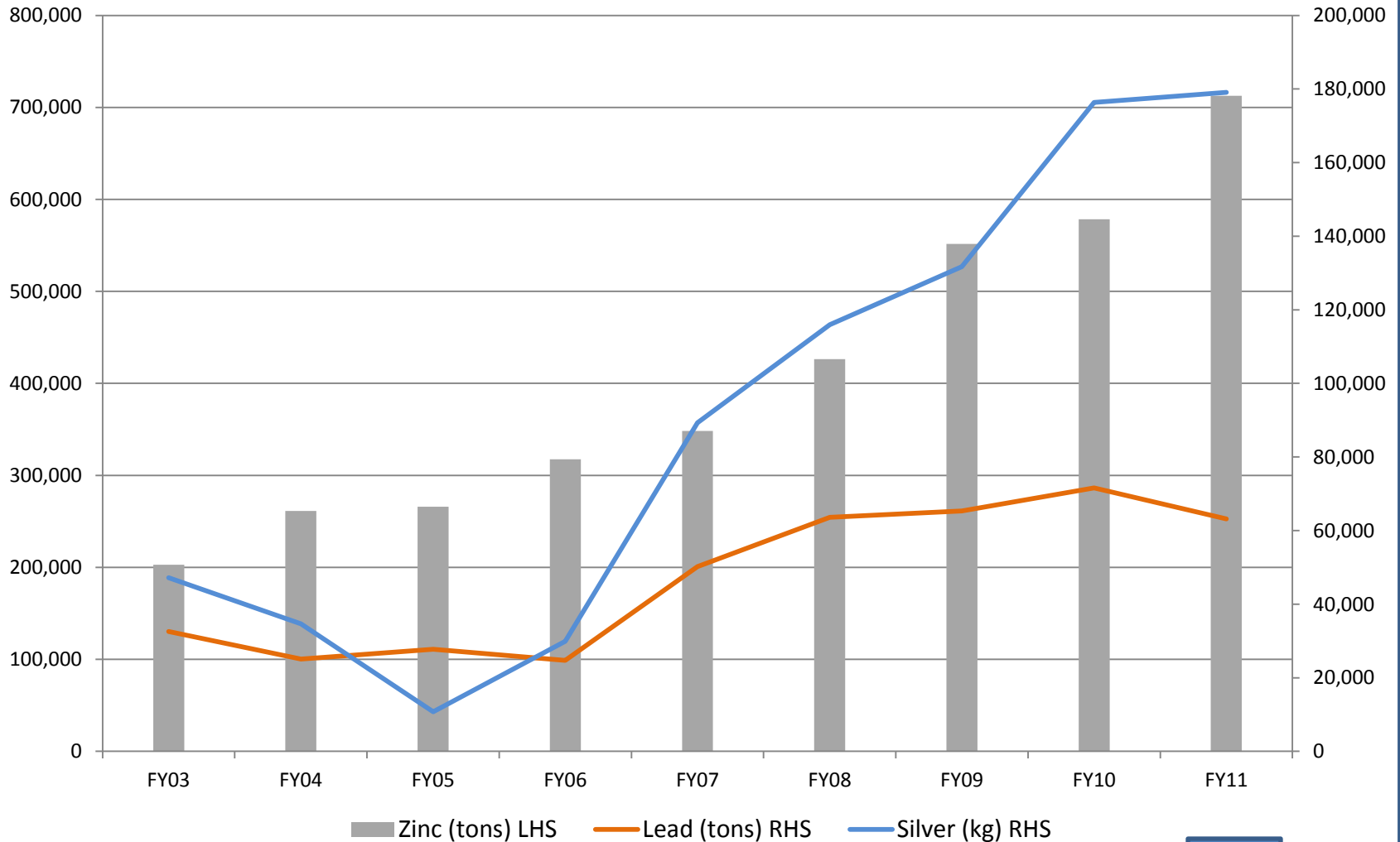


Tax deduction on interest on home loans doubled from Rs. 15,000 to Rs. 30,000 in the 1998 Budget and then to Rs. 75,000 in 1999 Budget.

Source: RBI, Bloomberg



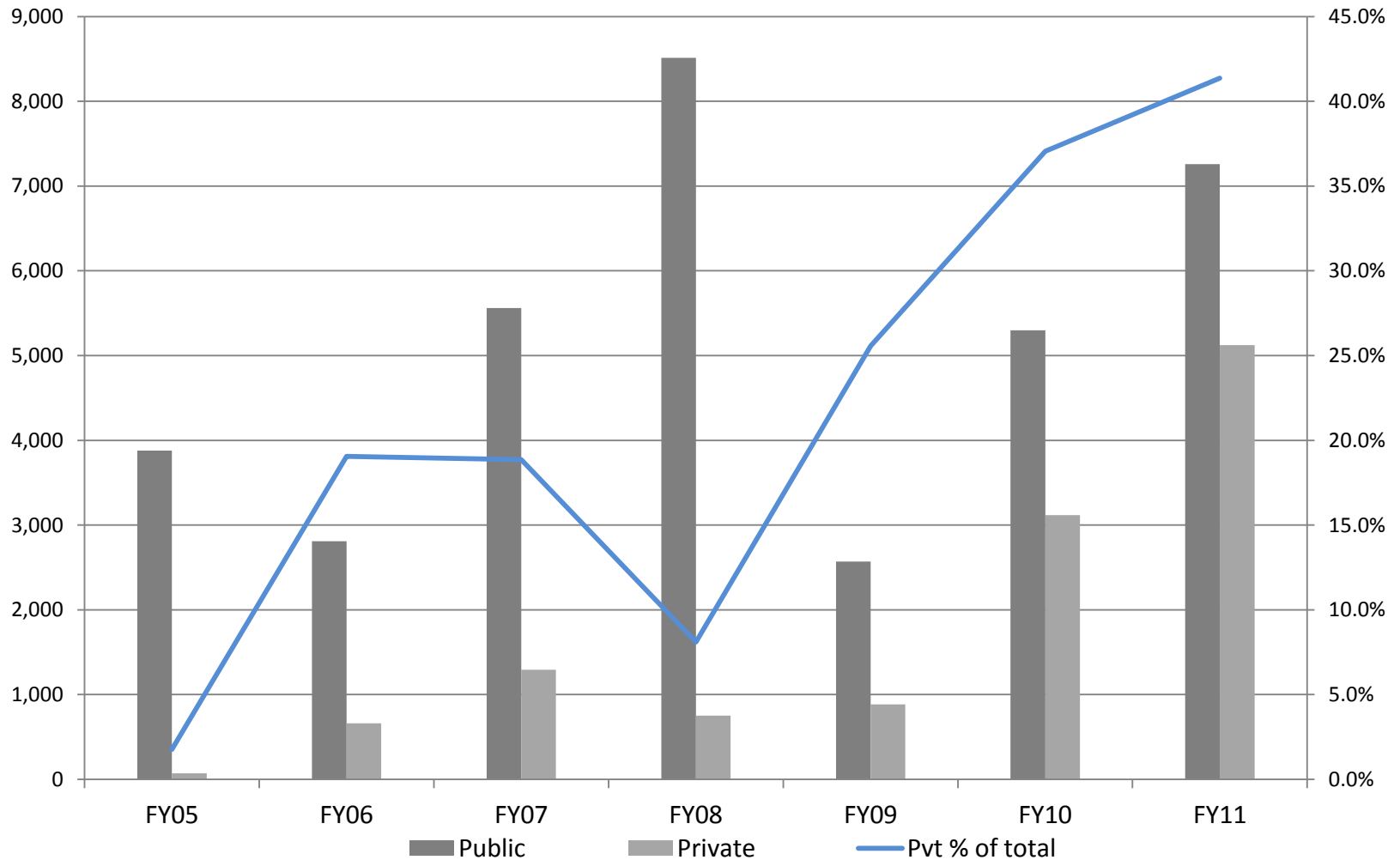
Disinvestment & Productivity improvement: Hindustan Zinc Ltd.



Source: Company



Pvt sector contributes almost 40% of incremental power capacity now



Source: CEA

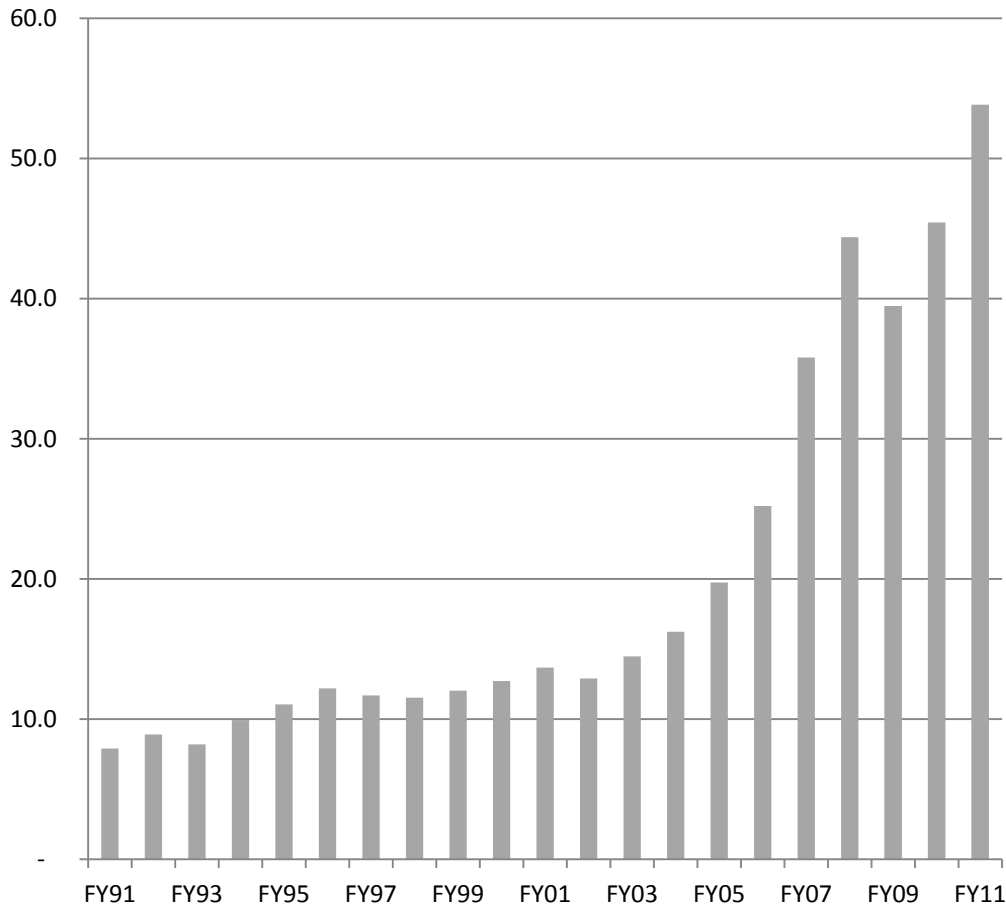
LHS-MEGA WATT ADDITION



Air traffic spurts

After the advent of Budget Airlines in 2003

Domestic Air Passenger Traffic (mn)



Source: DGCA

India Aviation Story

1991 Domestic traffic 7.9 mn
 2011 Domestic traffic 53.8 mn

1991 Pvt carriers' share 0.4%
 2011 Pvt carriers' share 68.5%

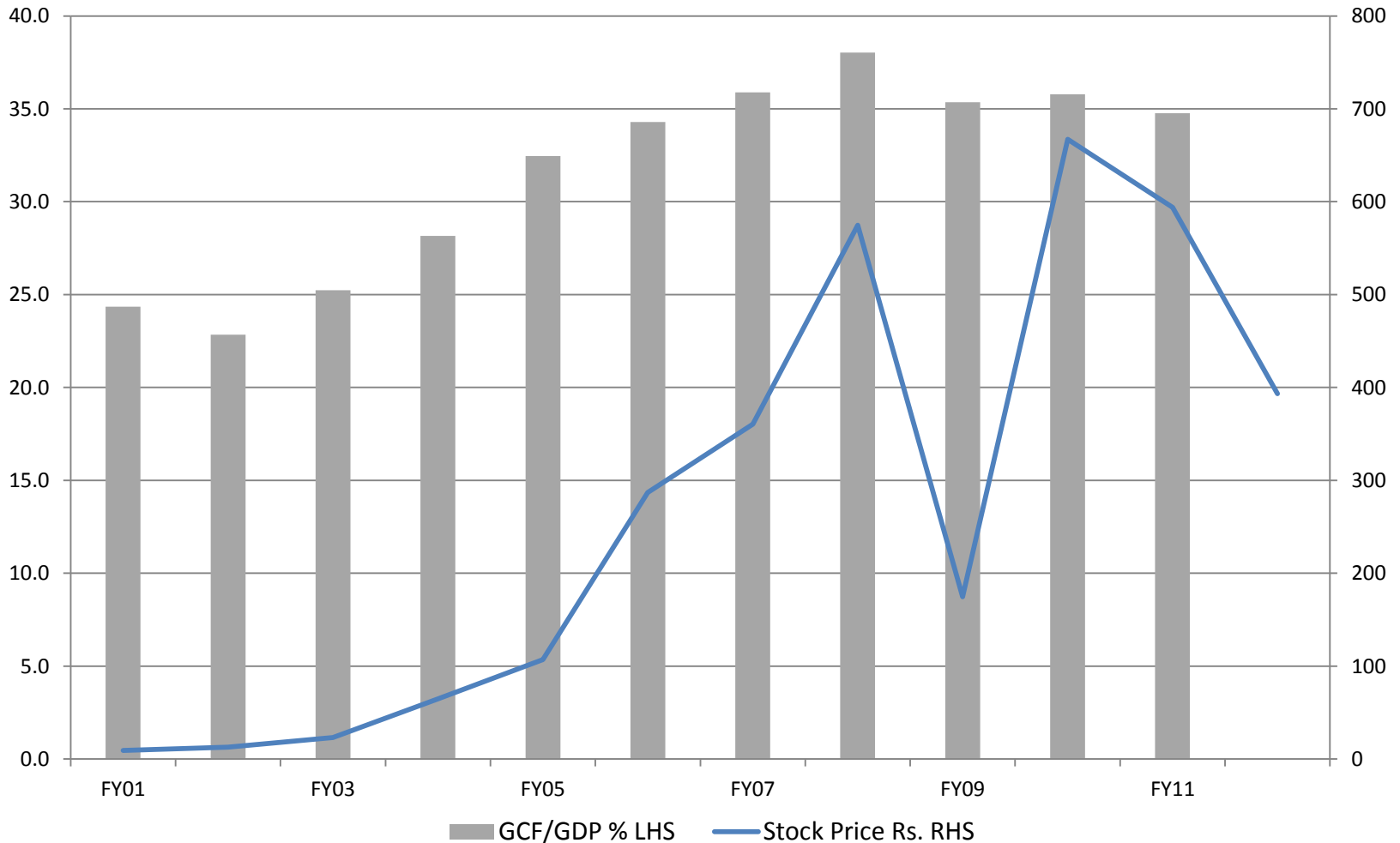
Airline ticket rates have remained at similar levels for the last 10 years



THERMAX

BENEFITS FROM INCREASING GCF/GDP RATIO

Mar'05-Dec'11 Stock Price CAGR 19%



Source: CSO, Company, Tata AMC

GCF-GROSS CAPITAL FORMATION
GDP – GROSS DOMESTIC PRODUCT

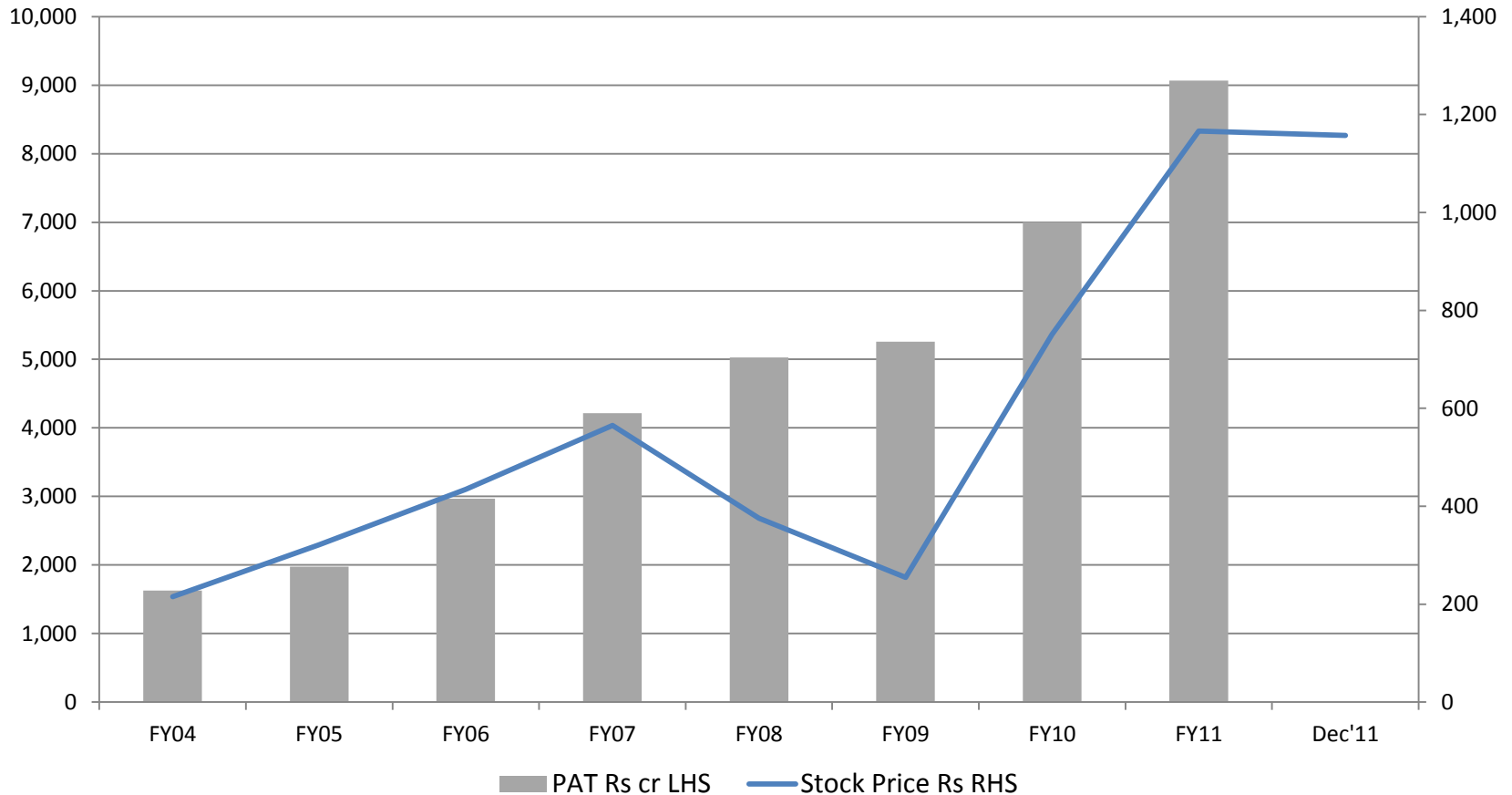




TATA CONSULTANCY SERVICES (TCS)

IPO HAPPENED WHEN IT HAD A FAIRLY SIZEABLE BUSINESS -
YET HAS GIVEN DECENT RETURNS TO THE SHAREHOLDERS

FY04-12 PAT CAGR 26%
RETURNS SINCE IPO – AUG'04-Dec'11 Stock Price CAGR 26%



Source: Company, Bloomberg



BSE SENSEX – Calendar Year Returns – Last 32 Years....

Positive Years	23
Negative Years	9

Only thrice have two consecutive years been negative

It pays to be an optimist...
 $23/32 = 72\%$ odds

2 worst years in history of Sensex happened in recent past

Year	% Return
2011	-25
2008	-52

Year	% Return
2001	-18
2000	-21
1998	-16
1996	-1
1995	-21
1987	-16
1986	-1

Year	% Return
2010	17
2004	13
2002	4
1997	19
1994	17
1993	29
1989	17
1984	7
1983	7
1982	4
1980	25

Year	% Return
2007	47
2006	47
2005	42
1992	37
1990	35
1988	51
1981	54

Year	% Return
2009	81
2003	73
1999	64
1991	82
1985	94

> -25 - 25 to 0 0 to 30 30 to 60 > 60





Statutory Details



Statutory Details: Constitution: Tata Mutual Fund (TMF) has been set up as a Trust under the Indian Trust Act, 1882. Sponsors: Tata Sons Ltd.& Tata Investment Corporation Ltd. **Trustee:** Tata Trustee Company Ltd., **Investment Manager:** Tata Asset Management Ltd.

Mutual Fund Investments are subject to market risks, please read Scheme Information Document carefully before investing

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