Investor Conference

Posted on 14th February 2000

Email this page to Friend
<<<<< Back

FOREWORD

Capital Ideas Online convened an Investor Round Table Conference at Cooch Behar, 'The Cricket Club of India', on the 29th of January 2000. The eminent panel consisting of India's best-known investors discussed issues concerning capital markets in India. The full transcripts of the interview are available below.

If a theme emerged from three hours of good-natured if occasionally sharp verbal jousting that constituted CIO's Roundtable, it was that India as a country was poised for huge growth.

We hope that you find the same readable, informative and useful. Whilst we would not like to take any responsibility for investment decisions that you may take on the basis of this conference, we would invite any comments that you may find would enrich the quality and perspective of this work.

Capital Ideas Online will be convening such Investor conferences on a semi-annual basis. The endeavor is to bring out the passion, the discipline and the sheer excellence that these talented investors have in such great abundance.

Note : These are rush Transcripts. The refined and edited version will be posted later.

INTRODUCTIONS

Mr. RAMESH DAMANI [Moderator]: Hello, good morning to everybody and thank you for coming here on behalf of capitalideasonline.com. I think it's a very small group and almost everybody knows everyone else out here but just in case they are a few people not familiar with the panelists, I will briefly introduce you to our panel this morning:

On my right, of course, is someone I call the Sachin Tendulkar of the mutual fund industry. He is one of the great performers among the fund managers today and is known for his passion for software stocks, his liking for the fast growth New Economy as he'd like to call it. Mr. Bharat Shah, is the chief investment officer with Birla Global.

To his right, of course, is a gentleman who has made a great name for himself, investing in the high tech economy of today, Mr. Vibhav Kapoor. He is the Managing Director of IL&FS AMC. He has had a number of firsts to his name, picking stocks like Visual, Aftek . . . He has been very successful, as a strategist and has made some lovely early calls on the so-called boom in the software economy. So we will be delighted to

hear from him if the NASDAQ is a bubble or we are going to see more growth ahead for the technology sector.

To his right, of course, is a man whom I once called the most influential merchant bankers of our time and I think he is going to go through life as the man who brought Infosys public. So he needs no introduction, since it�s been one of the most staggering stocks. You can compare it in terms of shareholder returns with Microsoft in United States of America, up 1200 times since its inception. So Vallabh Bansali of course needs no introduction. He is the man who has brought many a great public issue to the secondary markets.

To his right, of course, is the dean of all of us. Someone -- whenever we have doubts about the market, when we have doubts about ourselves, whether it's on a personal level or whether it's on an intellectual level, the man we often go to, Mr. Chandrakant Sampat. And he's always as you all know been the great value investor. Not growth, not momentum, not what's in fashion, but a great value investor and it's a good time to ask him for some self introspection because clearly value stocks have been, out of favor in the last, say, 12 months to 18 months. So, can he still intellectually defend his position with value stocks? We'll turn to Mr. Chandrakant Sampat for some answers.

And to the extreme right of the table is, of course, a very old, very good, and dear friend of mine. But one who has very strong opinions. He is the one who manages swings both ways of the market. He can go long; he can go short. He's not only been Bombay's highest taxpayer two years back, he's also known widely as Rakesh Jhunjhunwala.

I would like you to put your hands together, and welcome our very distinguished panelists here.

Let me just brief the panel on what we plan to do today. Since we are going to put the transcripts of this round table on the Internet, I'd appreciate more concise and clear answers rather than long-winded ones, unless there's a point you really want to elaborate.

And in the first half I'll restrict my comments to some general areas about how the markets are doing, what the government is doing, that sort of thing.

And in the second half I'd like to bring out their [panelist'] investment styles and particularly what sectors or what stocks they favor at this time, looking ahead into the next few years or so.

MACRO - THE BIG PICTURE

It could have been better; not that it has been disappointing.

Since Rakesh is the one who has the most opinions on everything and strong opinions at that, let me just start with him first. How do you rate the performance of the BJP government over the last six months, they've been in power?

Mr. RAKESH JHUNJHUNWALA: Well, I would start with saying it could have been better, but not that it has been disappointing. I feel that they have inherited enormous problems and we have to realize that it's not essentially a BJP government - they have coalition partners with them. But I think what is important is that people in power have recognized essentially what has to be done. And I think, to have what we call second generation of reforms requires strong political support, for we have just seen a power strike, the recent opposition to the diesel price hike, and all of that. The first part of the reforms really required legislation, the second part of the reforms, I identify essentially as two things -- one is, getting the government out of business, and second I would think is a better targeting of government subsidies and expenditure. I think these two are the essence of second generation reforms, which are politically very sensitive matters. So I think with a handicap they are carrying in terms of the fact that they are a coalition government and have inherited a very touchy fiscal situation, they have done well. I think the elections in Bihar are important. But if the BJP and their coalition partners fare very badly, then the reform process could suffer some setback. But if they sail through, they will get a big push.

Mr. RAMESH DAMANI: Vallabh, Rakesh seems to think the government has shown some backbone, would you agree with him?

<u>On their tip toes</u>

Mr. VALLABH BANSALI: I think very much so. I think...

Mr. RAMESH DAMANI: Can you give us an example?

Mr. VALLABH BANSALI: The way they have handled the UP power situation, the way they handled the diesel situation. Not only that they stood very firmly, but at no point of time they gave an impression that they are going to crack. They have been very steadfast, and very solid. They have not been very melodramatic nor have they politicized the issue. They did it in a very matter-of-fact manner. That's what gives me great confidence. They are not tomtoming about reforms. They are just going about their work in a very quiet manner.

Within the constraints, the government has done reasonably well

Mr. RAMESH DAMANI: Mr. Kapoor, does this give you hope for the budget ahead?

Mr. VIBHAV KAPOOR: I think, generally the government has performed well, in terms of the reforms they have carried out. But we have to look at the overall constraints, which any government would face in this country. We have to look at the socio-economic situation, the political situation and there are going to be constraints as far as economic reforms are concerned. I think ultimately whether it's BJP, the Congress, or anybody, the pace is always going to be slower than what we would like it to be. And within the constraints, the government has done reasonably well. But as far as the budget is concerned, again, there are a lot of constraints - the fiscal situation is not all that good, it's going to be difficult to cut subsidies. And I think that is the major challenge that the government faces, as also getting revenues out of privatization where again they are falling well short of the targets. The interest burden itself is a major element of expenditure, where they have made a beginning by cutting interest rates on PPF, but I think there is a long way to go. So as far as the budget is concerned I don't think one should expect very radical events to take place.

Capital flows are the masters and there are no national boundaries

Mr. RAMESH DAMANI: Mr. Sampat, your take on the government?

Mr. CHANDRAKANT SAMPAT: Well I would say this. The two factors that have emerged in the last 10 years are a) the capital flows are the masters and b) there are no national boundaries. Any government trying to resist this reality will not stay and it is this compulsion that will bring about the reforms and nothing else.

Mr. RAMESH DAMANI: It doesn't seem to be happening in China though.

Mr. CHANDRAKANT SAMPAT: Well, it will happen. There's no other way out.

Mr. RAKESH JHUNJHUNWALA: But when, is the question.

Mr. RAMESH DAMANI: Do you think communism will survive in China?

Mr. CHANDRAKANT SAMPAT: It is already dead. Where is the question of dying? It's already dead.

Mr. RAKESH JHUNJHUNWALA: Communism is dead, but the Communists are not, that's the problem.

Privatization and foreign investment, key to the economic lock

Mr. RAMESH DAMANI: Would you extend this analogy to socialism in India, Bharat bhai. Is it a part of our history now?

Mr. BHARAT SHAH: I think the biggest problem is in terms of not working adequately towards privatization and towards attracting the foreign investment. I very strongly believe that if you just attack those two areas virtually most of India's economic problems can very clearly be solved. At the end of it our fiscal deficit is some very minor number of our external borrowings, which itself is less than US$100 billion, and that's not a big bill. There are people waiting to put tons and tons of money into telecom and roads and ports and there are fantastic opportunities to attract that money. The government is not doing enough to attract that money in time and we are not laying down the road map very clearly. So the potential investor is not very clear about how to go and in what direction.

Equally, Foreign Direct Investment (FDI) is one of the most efficient sources of funding. If you look at the history of capitalism anywhere in the world every big economy that has grown, has grown based on that. You attract low-cost or no-strings-attached kind of funding and put it to risk and make it grow into long or an elongated kind of projects which may not pay off immediately but which are the backbone of the economy. And the American history along with the history of plenty of European economies, show that. I think we have failed in that. We are not doing adequately on that score. If we do this . . .

Pace is the issue

Mr. RAMESH DAMANI: Would you point to Cogentrix as an example of the failure of the government to attract the FDI?

Mr. BHARAT SHAH: That's one of the examples. As Vibhav mentioned, I think, the pace is the issue. We are doing a lot of good things, there's no doubt about that. There are plenty of good things happening and I think, directionally we are in the right course. But we have to recognize that the whole world is changing and the pace and the timing are also equally critical. And to do a good thing late is not valuable enough.

Chaos, the only catalyst to change

Mr. RAMESH DAMANI: Chandrakant bhai, in a democracy can you open up faster than we have? Can governments ignore the so-called backward classes and push reforms faster?

Mr. CHANDRAKANT SAMPAT: It's question of compulsion. The way the world is moving, if we don't do the right things, we will be left behind. For instance, we talk about high-tech and what not. The basics of it are the soft infrastructure. What are we doing about this soft infrastructure? This entire information technology is going to be based on this soft infrastructure. I am of the view that **we will not do anything about it till we are faced with chaos**. It's the only bet that can change us because our mind-sets are still political, and still socialistic, to some extent. How soon I don't know, but it all depends on the chaos, how fast it happens. I think, **chaos is the only catalyst to change**.

Democracy has it's own problems

Mr. RAKESH JHUNJHUNWALA: Chandrakant bhai, here I would like to interrupt and say one thing, that part of the problem does not arise out of the backward classes. I think part of the problem is of a democratic society. Look, you can have the initial pace of change or reform much faster in a society, which is not governed by the democratic process. Today a lot of projects are getting stuck up because people are going in for litigation. And in a democratic process how do you stop that? And in a democratic society people say there is chaos in this country, there's a port strike, the power workers go on strike, people are opposing a diesel price hike. In a non-democratic society everything could theoretically be imposed. Personally, I feel that **to retain our democratic process is the most important thing which, we must do at all costs**. So, partly **our reforms are getting slowed down because we live in a democratic society, but I think, we are paying too low a price**. Our democracy has to be retained at all costs.

Mr. VIBHAV KAPOOR: I think democracy of course is one part of it, no doubt about that. But you really have to also look at the social structure of the country, which is something we have to live with. It's been there for too long to be just written off at one go. For example, if you look at the legal structure, there has been so much public litigation on everything. Here you can get away with anything. For the smallest of things you can get a stay in the court or something like that. So it is not only democracy. I mean democracies can probably function much better than what democracy has been functioning here, in terms of having a better legal structure, in terms of being able to change the mind sets of people. So I think there are a lot of issues which need to be looked at, which are actually slowing down this process of economic reforms. It's just not the fact that we are a democracy. That's only one part of it.

Mr. VALLABH BHANSALI: Can I just express an opinion about the democracy part?

Mr. RAMESH DAMANI: Yes, sure . . .

Slow and steady

Mr. VALLABH BHANSALI: I think, you know, when we look at GDP growth rates and the statistics we forget that the underlying realities are very, very different. South Korea so to say is a geographic territory and called a country for its sovereignty. But I think if you look at what lies under it, it's completely different. So, to compare one country with another country and to say that if this model can migrate to another country and work as effectively, I think, we miss the point altogether. For example look at the IT boom. Until ten years ago we did not recognize that our IITs would be as valuable and that our workforce could be a major opportunity for the whole world in terms of IT enabled services and English language could be such a great advantage and so on. So I think the **assets and liabilities of a country, unfold over time** only and I quite agree with Rakesh that **we are coming out of 50 years of bureaucratic socialism** and **it takes time**. I for one don't always get very enamored of setting a very high pace when I don't know what the consequences will be. I feel quite satisfied with what is happening currently in the country. And I think we are making sure that we are more right then just following a hectic path.

Mr. RAMESH DAMANI: Fair enough, Bharat would you want round off this discussion?

Let's take the mid-path between the tortoise and the hare

Mr. BHARAT SHAH: Well, I think that there are a lot of things going for this country. My personal opinion is that at no other stage in the evolution of this country have I felt as excited as I feel about it today. There are several things that are going right for this country and this country is coming out of its sense of low self-esteem that it has always suffered from. Historically, both the country and its population have viewed themselves as underdogs in any situation and I think for the first time, a more realistic assessment is being placed on the capabilities and the values of this nation. Now it's for us, to galvanize it into the economic prosperity, and uplift the Nation. Phrases like upliftment of the Nation always sound very socialistic and bombastic, but I think it is the duty of any responsible decision-maker in this country to ensure that our masses are in better shape than what they have been condemned to for long decades, if not centuries.

What we're going to do in this next five to ten years to my mind is going to make a critical difference to the fate and the prosperity of this nation. My belief is that we're going to do them, and most of them right. But the two aspects that worry me are the **same slow pace of evolving what is right and even slower pace of execution of we judge to be right**.

I agree with Vallabh bhai that doing something in a tearing hurry can be damaging especially when you're talking about institutions and a long rich history and traditions. You cannot just tear apart and reconstruct everything because that can have a lot of rupturing effects. But, I think, between the current relative slow pace and the tearing hurry kind of extreme, **there is an acceptable level of an adequately rapid pace that is in synch with our capabilities and aspirations, which is something we must go for**. Otherwise we run the risk of not achieving as much as we are capable off.

Mr. VIBHAV KAPOOR: I think I'll just add one sentence. I think as far as the pace is concerned, have we not always erred on the too conservative? And I think we have always been much slower and much behind in everything. Maybe for once we should really look at being on the faster side of things and take that risk.

BUDGETS

Lowering interest rates, one point agenda for me

Mr. RAMESH DAMANI: Talking of faster sides, fast approaching is the budget, something that we are all going to look forward to a month from today. I'd like to ask the panelists two things that they think are going to be in the budget and one thing that they would like to see in the budget, whether it comes or not, one thing that they would really wish Mr. Sinha would do. And why don�t I start with you Vallabh because you go to Delhi frequently.

Mr. VALLABH BANSALI: I avoid the North block and the South block though. If the government could do something about the interest rates . . . I think there is every pointer in the economy that interest rates can go down further, if they can unfold a blue print for that. That's what I would look for and that in itself could mean the accompanying measures. But I would say whatever be the measures, **pulling down of interest rates by as much as three percent in the next three years -- I think, that's the one line agenda for me**.

Government serious about PSU divestment

Mr. RAMESH DAMANI: Sensex goes to ten thousand of course, but to pull down the interest rates what are the kind of measures that you think would be necessary? Would they have to privatize the PSUs or cut down government expenditure, what kind of policy measures would they likely have to make?

Mr. VALLABH BANSALI: If you look at the government expenditure, it's quite inelastic. So there's **not much hope for cutting down government expenditure**.

But I think definitely they could do much faster PSU divestment and I believe Mr. Jetly is the kind of person who at least is promising to do something about it. I think that will be one area.

The other area could be conversion of debt into equity kind of schemes which has not been tried at all and I think there is tremendous scope in that area. I have heard some good sounds from the finance minister who told the banks the other day that look, "I'm not going to support you, you can't expect any help from the budget". I hope, he means what he says. So I think at this point of time it seems that the one biggest thing that the **government is serious about is, PSU divestment**.

PSU divestment will unlock tremendous value

Mr. RAMESH DAMANI: Rakesh, what's your view?

Mr. RAKESH JHUNJHUNWALA: Yes, I totally agree with Vallabh that public sector divestment is one of the most important acts the government should do and I think it is important. You know, I'm in the stock market, besides being a shareholder of CMC, so when I think of government divestment my mouth waters. But I think there is something more important than that. **We have got Rs. 300,000 - 400,000 crores (US$70 - 90 billion) of capital invested in public sector enterprises. The rate of return on this capital does not exceed 2, 2 1/2 percent. Once government divests this money, I think the rate of return on this capital can go up to 15 to 20 percent**. **And imagine if you can raise the rate of return by 15 percent on an investment of Rs. 300,000 - 400,000 crores, you're talking of an addition to GDP of Rs. 40,000 - 50,000 crores (US$9 - 11.50 billion) a year. Which adds 2 to 1/2 percentage points to our economic growth**. So I think the public sector divestment is very important not only from the point of view of what effect its going to have on the stock markets but what effect it is going to have on the economy as a whole.

Secondly, **I think our public sector is far underrated**. I think that the skills of Indians are not exclusive to Indians living abroad or to Indians living in the private-sector. The skills of Indians belong to India.

As far as the interest rates go we should not forget, **we live in a country having US$80 to 100 billion of household savings. We import US$10 to 12 billion of gold into this country every year**. I think, if we take right measures to properly regulate, develop infrastructure, then a large part of these household savings can be tapped. You know I also have my grandmother asking me whether she should buy stocks? It's not out of greed. I think that if we take steps to develop our financial sector, the amount of Indian money that can come into this sector is just mind-boggling. Instead we are always looking to FDI.

Mr. Sinha has pointed out very correctly that normally whatever amounts the finance minister raised by way of divestment was being credited to the revenue account. Now, I am told that they have taken a decision to credit this to a separate fund. I think these are steps which give me hope that the government is taking the right steps and in actual manner. **The divestment is no longer going to be used of fudging of budget revenues**. I think that's important.

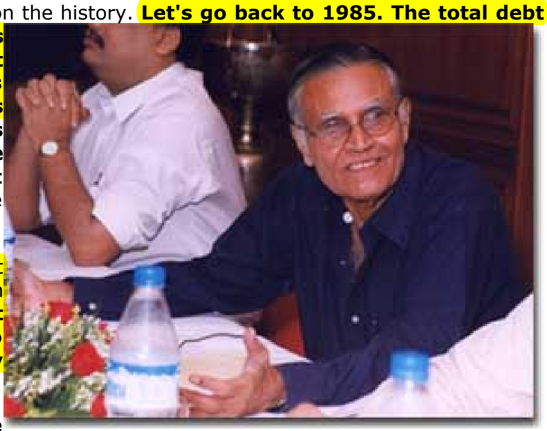
As far as interest rates go, I think **interest rates cannot decline by the government's actions**. **They will decline only when capital is more efficiently used and more of the household savings of this country are channeled to fund this efficient use**. If you look at the FDI figures, you can raise it from US$ 3 billion to US$ 10 billion, or US$ 12 billion. But I think the household savings that can be tapped are quite mind-boggling.

Thirdly, I think the government should take effective steps, while respecting the democratic process, to ensure that flow of foreign investment or Indian investment into the infrastructure projects is made with ease. I think the budget can play a role. For public interest litigation or **for all projects costing more than Rs. 500 crores (US$115 million), the government can have a tribunal and from the tribunal the matter can go directly to the Supreme Court bench**. I think these are the kind of decisions which government can take in the budget or announce them as part of the budget, which can really have an effect.

Open that is good; close that is bad

Mr. RAMESH DAMANI: Chandrakant bhai, as a part of the discipline that both Vallabh and Rakesh talked about, would it mean convertibility or something else?

Mr. CHANDRAKANT SAMPAT: Let me first dwell on the history. **Let's go back to 1985. The total debt of government of India was Rs. 42,000 crores (US$ 9.70 billion in today's dollars). The last years budget has provided Rs. 88,000 crores (US$20 billion) as an interest burden. It is compounding at a rate of 17 percent.** **At this rate by 2001 or 2002 the entire revenue of the government of India will become an interest payment**. So basically the question is how do we deal with this situation?



Secondly, coming back to the question of interest rates, I believe in **Fedrick Hayek** more than anyone else. Well he says that when the **interest rates are lowered, the economy goes into mala-coordination**. **When the money is easily available the economy loses the productivity**.

The third thing is that if you look at **last three years consumer price inflation, it has increased by 28% [cumulative]**. So if you go on lowering the interest rates what you're really doing is that you are taxing the people who save and handing it over to those cannot use it well.

The basic question that the new economy needs is very simple. **Open that is good; close that is bad**. Unless we do this, this question of government deficits are not going to be solved. Government has no business to do any business.

Another way is and the simpler way is this: lets for a moment imagine that tomorrow's 'Economic Times' carries the headline, 'Foreign Direct Investment is totally open and there is no FDI board'. You can do anything in this country that you choose to. The only condition is that anyone coming in this country will have to share this with the Indian public by getting itself quoted/listed on the stock exchange. At least to the extent of 26 percent i.e. by offering 26% of it's equity to the public. That will do two things. It will close what is bad because the tremendous force of competition will pump in productivity and innovation, which is the real wealth. The real wealth in this new millennium is not money. It is the mind, it is education which needs competition. Open up totally. Get quoted.

Now let us imagine for a moment, Microsoft India is quoted here, Coca-Cola India is quoted here, General Electric India is quoted here, Intel India is quoted here. What happens is that the money gets channelized into productivity and innovation. Let's forget the South East Asian episode where the money went into Chaebols, where money went into the hands of those who could not use it well. The money went into the property speculation and at some point of time in the absence of productivity and innovation the capital flows started moving out. So the lesson is, **attract FDI by opening up**. Let it be shared with the people. Just think, what happens to this country by opening up - if we get US$ 40 billion worth of FDI and another US$40 billion worth of other capital flows coming in. This tremendous money can be used for, a number of things. For instance, you can have a program for VRS, for writing off what does not work. **The basic thing in the new millennium is one simple thing: close what is bad; open that is good**.

Now let me give you two instances before I close my argument. Let's look at Tata Iron & Steel. Fifty thousand people produce US$1.6 billion worth of steel. Look at Nucor, four thousand people producing US$ 14 billion worth. Now where is the productivity, where is the innovation. Or let's look at, TELCO for instance. Production per worker - four trucks per year. Compare that with Toyota - 86 trucks per worker per year. Now in this globalized economy how long can we do this? The only way is to become efficient and the only way to become efficient is by opening up and inviting competition, which inherently breeds innovation and productivity. That is the budget. Budget is not the money transfers. Basically the question is - how is the money being used?

<u>To grow we must share, and sharing requires reciprocity</u>

Mr. RAMESH DAMANI: Chandrakant bhai, two follow up questions. Are you saying Mr. Tata should close down TELCO because he can't compete in the global market?

Mr. CHANDRAKANT SAMPAT: Of course anything that doesn't work will have to close down and if we don't... Whatever it is, we have to provide for VRSs, and what not. We have the resources for it. It's not that we are without resources. **This country by 2020 or 2025 will have the highest number of 25-year olds**. **The market that this country has is unmatched in the world**. Only open up. Only say we are open. We just don't want any thing, do whatever you like, share it with our public.

Now let me come to this since you have asked this question. There is a social side to this. And the social side is very simple. We use two words in politics. The first is Uni-polar and the second one is multi-polar. Uni- polar is something, which sees everything within. Multi-polar is a something, which sees, everything around. Now let's put these two words, at the corporate level. Let's look at the multinationals. And let's look at the uni- nationals. Now these multinationals are really the uni- nationals. They are not really the multinationals because they look within themselves. They forget that, **they can't make any money out of this US$ 375 billion economy**. **This economy has to become a trillion dollar economy and then only they can make tremendous amount of money**. Once this is done, I don't know what will government do with the budget. I mean, there will be budgetary surpluses. There will be tremendous budgetary surpluses. The only thing we need to do is -- have a dream. The difficulty is, we are not dreaming. Open this up.

Perhaps some of my friends who are brokering get a buy order for 100,000 shares of Coca-Cola India, or 100,000 of say General Electric India. And mind it, it'll all be productive. And anyone, who is not productive, will have no place. It will have to be closed down. Just closed down.

<u>With one leg tied, you can't expect to kick ass</u>

Mr. RAMESH DAMANI: Mr. Sinha is of course having sleepless nights, while Chandrakant Sampat is talking about dreaming out here. Mr. Kapoor, would you add to the discussion on the budget?

Mr. VIBHAV KAPOOR: I think, you've got to look at the constraints. Talking basically about the fiscal deficit, the finance minister has said recently that four items: **interest burden, subsidies, defense expenditure and the devolvements to states, is itself Rs. 1,82,000 crores (US$42 billion), which is equal to the total revenue of the government**. So these four elements itself are taking away the entire revenue of the government today. And as I think somebody mentioned, the interest burden is growing at 17 percent per annum. So two or three years from now the interest burden alone will take away all the revenues. So there is certainly a great matter of concern here. It needs to be sorted out very soon. Otherwise we are going to be in a very, very difficult situation, much more difficult than we are at this point of time. But if you look at the elements, individual elements of this lineup, you find that there aren't too many options.

It's very difficult to reduce the interest burden. Perhaps you can do some juggling here and there to reduce interest rates, but ultimately interest rates are a function of supply and demand for money and beyond a point it'll be very difficult to reduce them.

Subsidies in this particular social milieu, I think, beyond a point, **it is very, very difficult to reduce subsidies at a fast pace**. You may be able to do it on a gradual basis, which the government is doing, but I think beyond a point its going to be very tough.

Defense expenditure actually is going to go up. What with the situation in the country being as it has been in the last one-year, with the Kargil situation and so and so forth. And actually if you look at the defense expenditure as a percentage or in real terms, it has actually been coming down in the last three or four years. The defense forces are now very clearly saying that they are not being modernized. They are, may be 20 years or 15 years behind world standards. So defense expenditure actually has to go up. It just cannot go down any longer.

And devolvements to states, we know about what the state government positions are like. If the central government is in this situation, **most of the state governments are almost bankrupt.** They are far worse off than the central government is. So there's always going to be a clamor and particularly in the type of political situation we have where different parties are ruling in different states, it's almost impossible to cut this down.

So on the expenditure side it's pretty obvious that we can't hope for too much. May be a little bit here and there in terms of interest rates and subsidies but it's not going to make too much of a difference. So ultimately what do we do? **We have to increase the revenue**. That's the only way out. And again here you have very few options. **Privatization of course is one major thing**, which should be done at a much faster pace than it's being done. But again we've seen that it is very easy to say it. But it's a decision or a process, which in the current political and social situation in this country is not so easy to carry out. We are looking at it only from one side. But you also have to see that there are labor unions, there is a high degree of unemployment, the poverty situation and so on and so forth. Now, it may be desirable, I'm not saying it's not desirable. Certainly it is desirable. A way has to be found out. All I am saying is that it's not that easy to do it. It's very easy to say but you have look at the ground realities of the situation and it's not that easy to carry it out at a very fast pace.

However, surprisingly nobody talks about **tax compliance**. You know this is a country where probably today **tax evasion is become a social sort of thing**. You know it's a socially accepted norm. It's something, which everybody talks about, yes, I don't pay tax, I pay 30 percent tax, I pay 20 percent, its socially accepted in this country. And that's why I come back to that. Whereas tax compliance if you really look at it is something, which can bring in huge revenues in this country. There is a lot of money, I don't think there's a shortage of money at all in this country. There is a huge amount of money but unfortunately nobody talks about it. The press doesn't talk about it, the politicians don't want to about it, the bureaucrats don't want to talk about it and I think this is where, the real issue lies. A lot of money is there, and a lot of revenues can come in for the government.

Somebody mentioned something about **Gold imports**. Now that's **another area from where I think a huge amount of money can be channelized/diverted into our productive machinery**. But again it is a social/cultural issue. Gold is something that is considered as a social status sort of thing in this country. If you go to any gold shop, it's still full whether it's a festive situation or otherwise. So, the social mindset and the social complications we have in this country, huge as they are though not insurmountable, cannot be settled or sorted out by two or three actions of the government.

So I think there are lot of constraints and I'm hopeful that, a lot of these things will happen. All I am saying is that I don't think we can expect anything to be redressed in one single budget.

There is no Utopia. All we need is a vision and unanimity on key tenets of that vision.

Mr. RAMESH DAMANI: No miracles, Bharat bhai, can you hit a sixer or no?

Mr. BHARAT SHAH: I think we come to expect too much from a single budget and I don't think budget can really do much. Budget is merely a summary of what has happened in the course of a year and putting across some viewpoints for the year ahead. And **I don't think that in the economic history of the nation one budget has anything significant to do or to change**. **I think what is critical is to layout a roadmap and to lay out the integrity of the vision and ensure that we have the mechanisms to comply with the key tenets of that vision**. How that will be crafted and how to get people to agree with that, I think, is a matter of political process. But **I think we need to have some kind of unanimity on the key tenets and lay down a roadmap on that**.

As I see it, I think there are four or five key aspects of that. **One is how do we rectify misallocation of resources**? Second, **how do we get the fresh resources, which are so very essential to achieve the critical mass so that we can move and launch an assault from that point onwards**? Third is **how do we ensure that the resources come in at an appropriate cost so that we are not encumbered or we are not unable to service the burden emanating from those resources?** Fourth is **how do we lay down a framework to achieve efficient and transparent utilization of those resources as per the roadmap laid out for them?**

So if we talk about misallocation of resources, something that Rakesh talked about earlier - the gross poor returns earned from the resources committed - and the difficulties in privatizing many of those assets, I think we need to lay down a vision on that. While Vibhav is right about privatization being difficult to achieve at the desired pace and there being a lot of difficulties, but I think something, which is achievable, is also not being done. Something like Modern Foods, in my opinion, need not have a taken this length of time. Why should it have been prolonged for so long? Or take the example of CMC limited, there's no issue involved. I mean companies like these can very conveniently and easily be privatized without really raising any heckles anywhere. And it is a win-win for every single party involved including the employees, including the government and the outside shareholders. So I see no issue there as to why that is not happening. So there is clearly an issue about setting a pace and setting the vision about achieving this. I think that's the first and foremost thing we need to do and as I mentioned earlier time is of essence in any of these things because even the investors who are waiting don't have indefatigable patience.

The second is in terms of attracting more money and I think clearly the most elegant source for that is foreign direct investment.

Third is in terms of the cost at which we are able to raise resources. Again if we raise more foreign direct investment in the form of equity we are ensuring that there's no explicit immediate cost to burden us and I fully agree with what Rakesh said that you cannot bring down the cost by a fiat. You have to improve the efficiency of the system to bring down naturally the cost of raising or using money in the country.

The last element is that of laying down a transparent and comprehensive set of guidelines and there after not forever creating more guidelines of doing business in this country. You mentioned about Cogentrix but there are several illustrations of this kind. There are known areas where we can attract money, and attract big-time money. Why are we not able to take the stance forward?

And by the way, there is nothing called utopia. It's not as if you have to angle for the best solution in one go. That will never happen. In no complex economic situation you will achieve a perfectly fine and well-crafted utopian solution in one go. That's not going to happen. So why not we start with a base level, critically move forward, achieve some success and inspired from that the success move further. And I think that's the way to move forward. Unfortunately we are delaying too much. We argue too much and act little and I think that's where the dilemma is.

Acceleration in the pace of creation and destruction

Mr. RAMESH DAMANI: Okay, Bharat...

Mr. CHANDRAKANT SAMPAT: I would like to say something on what we have been talking about. I was going through a survey from the Federal Reserve of Dallas that appeared in their Annual Report for 1996. They have listed 25 new industries to take over in next 15 years. The whole write-up suggests and if you really put it in a situation in which we are in, **that 85 percent of the quoted companies on the stock exchanges in India today will not be around in 15 years**. If we don't participate with the global economy, this is what is going to happen. Each of these 25 industries has been narrated in five lines, what it is and what is going to take over. So let's not look at the money resources. Let's look at the education resources. Let's look at the technology resources that are going to lead us in next 10 or 15 years. Unless we have that kind of a dream, I don't think the things are going to change.

Please look at those 25. This is going to take over. So, what are we doing about it? Why are we merely talking about the interest rates? Just look at what's looming large. How do we contend with this New World where there is continuous discontinuity? Let's deconstruct what we're thinking. Let's think it little differently. That our needs are different. That our needs are not that of today. That the continuity of an episode is no longer fifty years. The continuity of the new economy is about 20 years out of which I believe 15 years are over. We have only five years to catch up.

Let me conclude this is with a quote from **'The Economist'**. "Those countries, which do not divert their resources to these new ways of doing things, will only have the crumbs on their table". Are we trying to be ambitious to have only crumbs on the table? Are we trying to think that perhaps by 2010 we can become one of the biggest economies in the world. This country is English-speaking. This country has the mind. This country has property relationships. This country has everything in place. The only thing is, we have no dreams. Please put this to dream. Each of these 25 industries, will take over in next 10 years, please understand, next 10 years. And as 'The Economist' suggests, the new economy episode will be only 25 years out of which we have already done 17. So we have lots to catch up. The budgets are merely, you know, as Bharat bhai said, documentation of what has happened. More important is what is going to happen.

If wishes were horses, beggars would be riders

Mr. RAMESH DAMANI: Well, lets take a reaction to what Chandrakant bhai said. Hesaid that we need to open up the country. 76 percent foreign investment, 26 percent Indian investment. Everything will be okay. Shangrila will come to India. Rakesh, what do you think of that?

Mr. RAKESH JHUNJHUNWALA: Well, if wishes were horses, beggars would be riders, is the only thing I would say. Firstly, I don't think every foreign company is going to agree to come just because it sees an opportunity in India. **It may not come here unless it gets 100 per cent ownership**. That's not the caveat that's an attraction - no questions asked. And I don't carry Mr. Sampat's thinking that, we should allow foreign direct investment into our country in every part without any questions at all. I think, we should create conditions in terms of the decision-making rather than the absolute permissions so that people are not hindered.

And secondly, I disagree that the Intels and the Cokes are the only companies in the world that can use capital efficiently. I think, in that case, we are still part of the British Raj. I think we have Indian companies also using capital efficiently. So I don't believe that Intel or Coke or the multinationals are the only companies in the world that can use capital efficiently. I don't buy that argument at all.

We don't want idle dreamers. We need pragmatic leaders

Mr. RAMESH DAMANI: Vallabh bhai, with 76 percent foreign ownership and everything going public, you are going to be a busy man. Do you agree with this?

Mr. VALLABH BANSALI: Well I do a lot more than investment banking. In any case, if I have to do that and if Rakesh and Chandrakant bhai both can be put together, where we really get to do the good companies rather than just names, then why not?

But I want to continue from where he left off. And he talked of dreams. If you look at the history of the last 40-50 years and I think that's very relevant history from our point of view because the political paradigms, the social paradigms have been quite different in the last fifty years, post-colonialism, as I would say, we find that what has made the difference is not really economic dogma, but leadership. Whether it is Lee Kuan Yew in Singapore or whether it is a Den Zio Peng in China, or whether it is a Margaret Thatcher in England or a Vajpayee in India. And wherever we have seen pragmatic leadership, it didn't matter what the prevalent dogma was, what the resources were, the changes have come, greatly and quickly. And that's what I think when I look back at fifty years of our history, 'have we had good pragmatic leaders?' Nehru was a great person, but he was a passionate person, he was not a pragmatic person. And then in between was a period of complete darkness. We got Narasimarao who seemed to be a pragmatic person but he also got lost. I hope Mr. Vajpayee doesn't get lost. Because when you go to a state like Andhra Pradesh where all the economics and the statistics can be so horrible and yet within six months you start seeing a change, then you know, there is a glimmer of hope. I went to meet Mr. Naidu and he said, "look please don't talk about resources, I can get as many resources as I want, that's not important. Please tell me how I can do better? With those resources how can I get 2 percent better?"

So you have a bunch of people asking the right questions and that makes me feel that things can change in the future. As I said, **what seems to be an asset changes very quickly to a liability and vice versa**. My agenda is therefore national pride, self-respect, as Bharat bhai rightly mentioned that this is the first time that we're feeling a sense of self-respect. So, coming back to dreaming, that�s the word he used, do we have dreamers, **we don't want idle dreamers**.

I heard someone yesterday and I was deeply impressed. He said, he was a non-finance person. He was the CB chairman. And, he can say that he is not so many of the things because people identify him very differently, but he simply said that I'm a management student. He said we can come up with very attractive theories, very attractive anecdotes and examples, but carrying them out in a given situation -- that's the challenge. That's where panels like ours do not realize because it is very easy to take-up an example or an idea and say well this is the magic touch that I need to give, to get a solution for the problem. And therefore if we get a leader who is pragmatic, so far we haven't had that, but if we have a Krishna, and a Chandrababu and a Vajpayee accompanied by the Jetlys and a few of the bunch of good people for five years, this country will be different.

Mr. BHARAT SHAH: I share the view of Vallabh bhai. I think . . .

Mr. RAKESH JHUNJHUNWALA: After all Vallabh bhai has been going to Delhi fruitfully. Maybe not to the South blockJ

[Laughter]

Mr. BHARAT SHAH: I think for a long period of time this country has been on a self-denial mode. It never believed in its capabilities and was always ridden roughshod by rest of the world community for no rhyme or reason. And I share the view of Rakesh that I don't think every company going to come in this country is going to teach us. There are several things that we can teach the world. There are several areas where Indian companies can be an example and can show that how we can do a fantastic job of leadership, how we can create ideas and not only create ideas but even successfully execute them in a profitable and win-win situation for everyone.

What we need are catalysts, we need people who can think differently, people who will dare to dream and make it happen and who will not get bogged down in too many unnecessary details. When you are talking about rectifying a task as complex as this, to start with a complete solution is an aberration in itself. There's nothing called complete solution. You have to start somewhere, you have to make that happen, create an example out of it and move forward. I think the problem with this nation is that we just don't want to move forward. We don't want to believe in ourselves. When others express their belief in us, we want to deny that and remain in a self-mired pity all the time. And because of that we inflict similar standards on the rest of the population, which is in a position to actually move ahead and create a different area.

But I believe that the new businesses, the new economy, and the new ideas that are being created will break all these shackles. And it is going to break and it is going to create a far more powerful India. And that's the India, which the world is going to respect. An India that explodes a nuclear device may or may not be respected, but the economic power speaks far bigger than any other power and that's the **India, which is going to occupy its due place in the center stage of the world**. And I believe it is going to happen . . .

Leadership is important, but that's just a part of the story

Mr. RAMESH DAMANI: Mr. Kapoor, could you round off that argument?

Mr. VIBHAV KAPOOR: I generally agree with what Vallabh and Bharat said. I believe firmly that, the whole thing is actually inside of us as a country.

FDIs, opening up and so many other things that we spoke about, are certainly going to help if done the right way, and certainly need to be done. But as I said earlier, as a Nation we have to look inside of us. Of course, as Vallabh said, charismatic leadership is necessary to have, and we have examples all over the world where **leaders have managed to change countries, but that's just a part of the story, not the entire story**.

If each of us Indians, the 100 odd crores that we are, just did our work honestly, not in the sort of self-centered way as we do today, but if we looked upon India as a society and made our contribution to it, I think that is something that would make the crucial difference.

So we can have different types of policies, we can approach the same problem from different sides. I don't think that there is only one given solution to a problem. We can reach our objectives by going through different ways. But ultimately both, the people and the leaders have really got to do it.

So unless we get to change the mindset of the people, I think it's going to take much longer than we think. Yes, you can have new technologies; you can have a lot of things. But, even if you look at the new technologies of today or what we're talking of in the next five years, ten years, a lot of them are going to be based on education. We're talking of the English language, we're talking of computerization, IT, so on and so forth and what are they based on? They are based on the human mind. They are based on knowledge. And as we all know, the world is going to a knowledge era from an industrial era. And ultimately the building blocks of knowledge, is education. So unless we have all these issues sorted out, I think it is going to take much longer than we think or wish.

The two pillars of productivity and innovation are our guideposts

Mr. RAMESH DAMANI: Chandrakant bhai, the final-word on that . . .

Mr. CHANDRAKANT SAMPAT: Well let me quote Drucker on this. He says, two things. He says, "**if there are no profits but if there is productivity and innovation, then profits will follow. But if there are profits but if there is no productivity and no innovation they will disappear**". The only way to get into productivity and innovation is competition, which is free for all. If I want to play Wimbledon I have to face, you know, Agassi, I have to face anyone. I can't say well I'm an Indian and therefore, I must have the Cup.

Open this up. For I can tell you, the way I see it, perhaps in the next 25 years, there will be no borders. There maybe common currencies, some five to six banks issuing them, but there will be nothing national. It is the globe that is taking over. You look at the entire history, right from say the medieval Europe, right to China which chose to be closed. The Europe, you know, opened up. Or you look at the American situation. It's totally open. Either you do it or you disappear and the function of that is competition where productivity and innovation plays the part. Whatever we do, whatever resources we get, if we are not in productivity and innovation we are not there. And anything that has no productivity and innovation is not going to survive. The new cycles are not in years; they are in web years. That is ten years is equivalent to 2 1/2 years in the web-world. So don't project anything on the basis of longevity in technology. At the best 2 1/2 years. That's what is going to happen.

CONVERTIBILITY, A SIGN OF MANHOOD/NATIONHOOD?

Mr. RAMESH DAMANI: All right, what I'm going to do now, is ask you a question. I want a quick one or two-line answer on this, as we have a lot more area to cover. First of all **someone once told me that convertibility is a sign of manhood**. Once you see your currency convertible that's when you know you've arrived in the nations of the world. So just quick answers, Bharat bhai are we ready for convertibility?

Mr. BHARAT SHAH: No, I don't think so.

Mr. RAMESH DAMANI: Why not?

Mr. BHARAT SHAH: Well I think that would depend upon the maturity of critical businesses to be able to provide support to the economy and to be able to fight out the changes, which happen in the global system. That calls for an amount of war chest and that calls for the robustness in businesses to be able to really fight out these changes which may happen. You could have currency guys invading your markets. You could have exponent changes seeping in and impacting the system and creating an imbalance like what

happened in Far East Asia. I don't think in terms of the economic preparedness we are matured enough to be able to do it. In my opinion it would require more time.

Mr. RAMESH DAMANI: Mr. Kapoor?

Mr. VIBHAV KAPOOR: I entirely agree with Bharat, for the reasons he mentioned. I don't think we are ready for full convertibility and I think the fact that India managed to stay out of the Asian crisis last year was partly because we didn't have full convertibility. If we had that we would have been in serious trouble. I don't think the economic strengths are enough at this point of time to warrant a full convertibility.

Mr. RAMESH DAMANI: Vallabh?

Mr. VALLABH BANSALI: I think the statement that you made that convertibility is a sign of manhood is as good as the statement that ignorance is bliss. I don't look at the issue at all from a perspective that proves one thing or the other. I think it's a policy of the country and it's a functional policy. I mean if it serves our purpose we have it, if it doesn't serve our purpose we don't. You know I don't think of it at all really.

Mr. RAMESH DAMANI: No big shakes?

Mr. VALLABH BANSALI: I don't think it's big shakes.

Mr. RAMESH DAMANI: Chandrakant bhai?

In the next 25 years there will be world citizens and not Indian citizens

Mr. CHANDRAKANT SAMPAT: Well I believe convertibility will do great things for this country. As I said, the first requirement of convertibility is total openness. What happens to this country when you start getting US$ 80 billion dollars as capital inflows? The convertibility is there. Then the question is how do you employ your resources and that is what the competition does. So the moment you open up, there is convertibility. The difficulty, you know, with most of these East Asians was there was half convertibility and not the full one. What we need is full convertibility. Come, do anything. Ultimately as I see **in the next 25 years there will be world citizens and not Indian citizens**. Well that's a different kind of dream. I may not be there to see it . . .

Convertibility, yes, but with some caveats

Mr. RAMESH DAMANI: Rakesh?

Mr. RAKESH JHUNJHUNWALA: Well, I would advocate convertibility. First if you look at the South East Asian crisis or the crisis in Mexico or in the other parts of the world, the caveats are that the investment in stocks and in real estate should be restricted. I think subject to that we should have convertibility. And secondly, I feel, one fact that we may be ignoring whilst considering convertibility is, the large part of Indian wealth which is lying abroad that may come into the country much faster because of convertibility. Whenever people realize that they can get their money back when they so choose, money will easily come by, it'll flow in. It may come in, in various forms, OCBs or whatever they are called. Some estimates suggest that the Indian wealth lying with Swiss Banks is greater than India's total debt, both domestic and external.

Mr. VIBHAV KAPOOR: Well that's exactly the point I was making.

Mr. RAKESH JHUNJHUNWALA: I think, convertibility could be a blockade when the stability of the country is at question. I think India is beyond those questions today.

Mr. VIBHAV KAPOOR: That's exactly the point I was making earlier.

[Cross talk]

Mr. VIBHAV KAPOOR: I agree, there is a lot of money. I don't think money is the issue in this country. As you said, more than the total debt is outside. There is not enough tax compliance.

SOFTWARE - IS THE BOOM FOR REAL?

Mr. RAMESH DAMANI: Now we are getting to something that will excite all of us because it sets the pulse racing and gets people interested anytime they stand outside Dalal Street. And then of course, is the software boom for real? I mean is this just crazy valuations or is there a merit to it and I want to start with the guy who has been arguing that this is all a bubble. Chandrakant bhai, is the software boom for real?

Nothing can grow forever, let alone at an exponential rate

Mr. CHANDRAKANT SAMPAT: Well, let me put it this way. Let's look at what it is today and then decide whether it's a bubble or not. Let's go to the benchmark company. I have great respect, for Infosys, and Mr. Murthy. So I must not be misunderstood, about what I'm talking. Infosys is expected to generate revenues of roughly around US$220 million for FY2000. **If revenues compound at 85 percent per annum up to 2010, it will be around US$102.55 billion**. Put it to your computers. **The market capitalization at 50 times of that sale will work out to US$5.13 trillion**. I use 50 times sales, since that is what the market is valuing Infosys at today. These are the statistics - US$5.13 trillion. **Even if the GDP of India which is around US$370 billion today, compounds at 17% (12% real plus 5% inflation), then by 2010 the whole country's GDP will be around US$1.78 trillion**. What we are trying to say is that **one company in this country would be valued at approximately three times the Indian GDP**.

The whole thing, regarding this compounding of 85 percent has to be looked at little differently. Robert Rubin has put it very well. He says that he has no doubt that technology will and has been improving the life of the people throughout the history of this globe's existence. But he says that the **market has a tendency to go in two extremes**. And **the markets** now **will have to learn to de-risk themselves**.

He says further that this de-risking factor that was earlier the duty of the Welfare State, has now becomes the duty of the free market. And if we do not de-risk this, he says then the very existence of the free market, is in danger. And the second thing **I'd like to say is that nothing in this world grows exponentially for a long time**.

Mr. RAKESH JHUNJHUNWALA: Including Coke J

[Laughter]

Mr. CHANDRAKANT SAMPAT: Yes, anything, anything. It hasn't, you can see it. [Regarding the latest debacle of Coke]

Mr. RAKESH JHUNJHUNWALA: I'm just making an observation Mr. Sampat.

Mr. CHANDRAKANT SAMPAT: I think it is [Coke] included in that. Let me talk about this person, **Carl Sagan, the cosmologist**. He says that the bacteria, doubles every 15 minutes. In a day it doubles 96 times and becomes a mountain. In two days it becomes a sun. And in three days it becomes a universe. But that doesn't happen. Some obstacle always impedes this kind of exponential growth. The bacteria run out of food, or they poison each other and somehow die. **The lesson is; nothing can grow forever, let alone at an exponential rate**.

Given the growth rates, software stocks are not too expensive as compared to traditional stocks

Mr. RAMESH DAMANI: Mr. Kapoor, can Infosys keep growing at 85 percent?

Mr. VIBHAV KAPOOR: One thing he mentioned was a growth rate of 85 percent. Now to start with, that's debatable. The point I would like to make is that if the software sector were to grow at 85 percent, why do we talk of 50 P/E. I don't know what the P/E will be at that point of time. But at today's price, even if we were to grow only at 80 percent through to 2005, and lets take that as a base premise - I'm chopping off five years and I'm chopping off five percent - you would have a P/E of less than three.

[Apparently Mr. Chandrakant Sampat was talking about 50 times revenue, which Mr. Vibhav Kapoor mis-understood as 50 p/e.]

So the issue is not whether it will be 50 P/E or 40 P/E. The question really is, **what is the market seeing in terms of growth rates for the software sector vs. the non-software sector or let's say the traditional companies**. And having made some assumptions of growth rates, how would they look five years from now or seven years from now. If you assume a 70-80 percent growth rate for the software sector vs. 18-20 percent for the traditional sectors, the software valuations look good. Going down further to 2010, they'd look still better. **Given the growth rates**, you find that even today **software stocks are not too expensive as compared to traditional stocks**. The debatable point therefore is whether these growth rates are possible or not.

Now the issue about whether 85 percent is possible or not for eight years in a particular company, I don't know. Because companies change, managements change, their abilities change at times, things happen. So, to be able to predict, particularly in this sort of sector where technological changes are going to be very rapid as we already mentioned, its hard to say. I don't know -- I don't have a case for Infosys as such. I don't know what's going to happen. But I'd rather talk about the sector as a whole and I think the sector certainly has the potential to grow at very, very high growth rates. There have been independent studies carried out in the U.S. **As far as the Indian software industry is concerned the growth rates are predicated upon global growth rates**. We are not talking about what's going to happen to the Internet expansion in India and so on and so forth. I think nobody is even looking at that at this point of time because that's probably still far away.

Now whether something can grow at 80 percent or 85 percent for all times to come, certainly not. If you ask me whether the software sector is going to grow for the next two hundred years at 85 percent, the answer obviously is no. I don't think anything can grow that fast that long. But five years, eight years, ten years, or fifteen years, I think it is certainly possible, considering the sector is still very young. For example if you look at the steel industry or the cement industry, these sectors are as old as 200 years, 300 years or 400 years. Let me give an analogy on the other side. A baby can grow at a certain rate from the age he/she is born to 18 years or 21 years. After that the growth rate stops. So it's really a question of when it stops. But **to say that it cannot grow for eight years or ten years at 85 percent just because it has to stop one day, I don't think makes any sense at all**.

Mr. RAMESH DAMANI: Bharat bhai, do you agree with that?

Growth is always more sexy, while value is a matter of judgement

Mr. BHARAT SHAH: Well, I think I'll make two points about it. One is that **the human mind is always trained by its very character to look at things from an arithmetic perspective rather than a geometric perspective**. So **the moment it faces a geometric situation it gets puzzled**. And it creates lots of dissonance in the frame of mind. Secondly I think, human nature will intuitively understand growth little more easily than value because **value is a matter of judgment**. It's a matter of application of mind to figure out what it should be. For growth, we don't need to make a judgment; growth is something that you can see that it has happened. **So growth always is more sexy and appealing to a larger number of people because it is so much more visible and apparent**. Comparatively value requires much more application of mind and far more cerebral application to be able to filter out what it is and what it should be.

A US$350 billion opportunity, and our share of it - a pitiable one percent

Having made these two basic remarks about the human nature, let's look at the business itself from the Indian context and let's look at it from the international perspective. We're talking about only software services here. And what is euphemistically called technology here is nothing but using of technology to provide service to your customers. I don't think technology comprises of only that business. So the one we're talking about is purely the normal software service, project export kind of a model of typical Indian companies that we see around. Now if you look at that business **the size of the opportunity available globally is about US$ 350 billion dollars**. And it is anybody's case that while a good percentage of it today is done in house increasingly people are realizing that they cannot do it in-house. That there are better people who are available outside who can do it cheaper, more efficiently and probably will have far more touch with the reality as it happens on an on-going basis to be able to do so rather than do it yourself. So I have no doubt that **it is increasingly going to move from in-house to out house**.

Out of the US$ 350 billion opportunity, the size of opportunity that the Indian market today is addressing probably will be less than US$ 4 billion. So what we are talking about is one percent. **And the cake is not just big but is also growing at the rate of something like 11 to 12 percent**. This means that the incremental addition that is being made to the cake is a pretty large number by itself, sufficiently large enough to fire our imagination as to the size of the opportunity.

Third thing is: when we see that India's market share is so pitiably low, I see no reason why it has got to be that. There's nothing to believe that the Indian market share cannot grow. It has got to grow because it is good, it is high quality, it is delivered efficiently, it knows its customers much better than many others do and it has got a tremendous adaptability advantage of that inane Indian capability of being able to adapt very quickly to new situations and are able to perform. When you put it as a package, **I don't see any reason why in ten years time that market share instead of being around one percent cannot be more like fifteen or 20 percent**. And there is every reason to believe that that is possible. Whether it will happen or not, I don't know. But I certainly believe that it is possible and that there are enough enablers in the place for that to happen.

Now look at the other opportunities. What we spoke about so far is purely software services. Then **there are opportunities in IT education, whether face-to-face or the distant education or Web enabled distant education imparted anytime anywhere customized for you type of education**. That's a big area of opportunity.

The third area of opportunity is the pre packaged technology solutions. Indians typically are referred to as software coolies or software workers. I am sure that over next few years Indian talent will show its full power. It will show that Indian technology, Indian capability and Indian thinking can deliver original innovative solutions and not just execute the dictates and demands of the outsiders. I'm sure that revolution is going to be visible to us in the next five to ten years, probably a lot earlier.

The fourth big area of opportunity is the Web itself. Whether it is in terms of Web services which is a plethora of services surrounding that or it is in the actual transaction opportunities in the commerce area, whether business to business or business to customers or customer to customer C-to-C kind of opportunity. I think all the opportunities are there where Indians are going to be able to leave their mark. Finally there are in the Web world, opportunities for the plumbers and masons and the architects of the Internet world. I mean those are predictable models, those are predictable revenues with a definite clear identifiable bottom line and identifiable top line. Those businesses are not existing in virtual world. Those businesses are existing in the real world with an identified delivery capability. I don't see any reason why those businesses cannot get valuable and why India cannot acquire a legitimate share of that.

And finally if you look at the whole host of technology services opportunities, IT enabled services, you need not necessarily be a technology creator but a good user of technology and use it very intelligently to come up with superior business solutions. And I think there is a plethora of new opportunities which are coming up and that's a big area of opportunity because it is enveloping the entire day-to-day activities of a human being in variety of things that you do. So you are not talking of something which is residing outside your system. You are talking of something, which is going to touch you on a day-to-day basis.

Growth will always be factored in the price, whether we like it or not

When you see all these opportunities and if you believe that India has quality, India has the talent and India has the fire in the belly to go for it, then I do believe that the growth ahead is significant for a fairly long period of time and is easily sustainable for a decade or probably more. An while it is going to last, as I talked about those human attributes, while growth is there people will appreciate it and people will put it in the price [valuations] no matter what we do. No matter whatever arguments we make, when growth is visible it's going to get reflected in the price [valuations] whether we like it or not.

India's software boom is one thing, software stock market boom another

Mr. RAMESH DAMANI: Fine, thanks, that was brilliant. Rakesh, with all due respect to Chandrakant bhai, does he just not get it about the software industry, or do you also share his fears?

Mr. RAKESH JHUNJHUNWALA: Well, I will **distinguish distinctly between a software boom and a software stock market boom**. **As far as India's software boom is concerned, I think it's there for real**. It's very much for real. But as far as an investment in today's market in software is concerned, I'd use two words: Buyer Beware. And I make this observation only for two reasons. The first reason I think is that the **stocks today are adequately valued and the risk-reward ratios are not something which are appealing to many investors, at least not to me**. If you'd ask me one year, 1 1/2, or two years back about investment in software stocks, I would certainly have advised an investor to put in his money. But **at today's valuation, I think we have factored in the best**.

Secondly, I think that the market can place a unique valuation to something that cannot be reproduced easily. And **I don't see in many software companies in India the ability or the uniqueness by which they cannot be reproduced**. I think that is going to be a factor.

Thirdly, when I look at the **software companies**, I doubt their ability to generate cash. If you look at their collection figures, **none of them have debtors, which is less than 60 to 75 days**. I think these are the negatives against them.

As far as the Indian software exports are concerned and the Indian software boom is concerned, I think it's very much for real. Well, I personally believe we will grow, we may not grow at 100 percent but we will grow at rates, which will far outstrip even something that we can even imagine. But as far as investments are concerned, I think, may be six months or three months or two years down the line, I don't know when, software stocks will correct. I think it is at that time that we should invest in software stocks.

And I think the Indian software boom is very real, and I'm not afraid of any Chinese competition, any Philippine competition for one simple reason, and that is, our educational base allows us to produce engineers at a cheap cost. See today, the basic raw material for all these software exports is the engineers.

I went to Hong Kong along with a cousin of mine who runs a school for Tata Infotech in Delhi. We met a New Zealander who taught English, and we met a German who taught music. Their salaries were prohibitive when compared to their counterparts in India. My cousin observed that in Delhi, she could get a tutor for her school for Rs. 12,000. While in Hong Kong a bus driver's salary is around Rs. 12,000 in Indian terms. **Thus the ability of the educational system in India to produce engineers at low cost, certain inherent genetic qualities of Indians may be, along with a substantial external market, are in my opinion, the contributing factors for the software opportunity in India being real**. Besides, I believe that the Indian companies are also reaching critical mass.

Marc Faber has observed in one of his writings that one of the greatest software companies of the world ten years down the line is going to be an Asian company. He hasn't referred to an Indian company but an Asian company. And I believe all that, but I think overall, the valuations in this sector look stretched. I also feel that **a particular sector peaks out when the retail enthusiasm for it is at its peak**. Today if you look at the CNBC commentator, the first thing he asks, "Aapko Infosys mein kya lagta hain?" The day Infosys goes down, whether it is Star News, whether it is CNBC, the commentators are all disturbed. That's the first question on their lips. So you know, that gives me a general feeling that stocks in this sector are over valued.

Current profits are future costs

Mr. RAMESH DAMANI: Vallabh bhai, would you summarize the opinions and give us your views?

Mr. CHANDRAKANT SAMPAT: Before that, please let me give you, one small study by McKinsey. And that is on Amazon's valuations. According to the study the valuation of Amazon is around US$ 25 billion today. And by 2008 or 2009 the valuation is expected to be around US$60 billion. The compounding rate works out to around 11 percent, provided Amazon's asset turnover ratio is 3.5. That's a provision.

Now please look at the **Indian software companies. The input/output ratio is 1:0.9**. Most of them do not have a positive cash flow. Also let me again quote form Professor Drucker. He says, "what you call profit is not really a profit, it's a cost of staying in business tomorrow". It's merely segregated by the calendar. Now if you look at software companies in India from that perspective, they do not have any surpluses. The amounts they transfer to the reserve rather are really the future costs. They are not the profits. The profits therefore according to him [Drucker] are free cash flows, which as I mentioned, are conspicuous by their absence in the case of software companies in India. Also durability in a fast changing technological landscape is a big question mark. Besides, I do not see any entry barriers in this business. So, positive cash flow, durability of that cash flow and entry barriers, the three things that I look for before making an investment, I don't see them anywhere in the software sector.

Mr. RAMESH DAMANI: Vallabh bhai can you summarize?

Mr. VALLABH BANSALI: I think fairly comprehensive comments have been made and I think very relevant...

Software is creating the Renaissance of this country

Mr. RAMESH DAMANI: Should I buy Infosys tomorrow?

Mr. VALLABH BANSALI: We take Western Europe as a leader in so many things, we don't question that, and we take that as a priori. And that a priori has happened because something called Renaissance took place in Europe. And I think what **software is doing to India is that it is creating the Renaissance of this country**. Mr. Narayana Murthy may have been just one of the early leaders of that age.

I agree and I think that he [Rakesh] put it very succinctly when he said, "software boom is one thing, software stock boom is another thing". I think the software boom is here to stay. And I think the market intuitively did one thing. It projected that the sales growth in this sector is likely to continue at a fairly brisk rate for quite some time. It also decided that the profit growth will slowdown somewhere. But in my opinion, there will be companies that will manage this divergence better than other companies. I think that's the discrimination one is looking for in the market. So wherever you see this discrimination fall off, one is worried about the market's understanding of the IT. And I think we're going to see phases of this.

There are large chunks of the global market which are yet to open up to IT, for example, the IT spending in Japan, the IT spending in Europe is relatively much, much less compared to what it has been in the U.S. And India itself, our survey shows **the software purchases in India have started to go up**. People have started to pay better prices for software solutions in India. So India itself is going to open up. But there are going to be several things that will keep investors confused about it. Therefore my suggestion to investors is that they better look for companies that are going to manage this divergence, or possess the ability to do so. And I second what Chandrakant bhai said that the common parameters that we apply to any investment must be applied to this. So, I think, when it is Infosys or other quality companies, I think what people are saying is that yes, they [the quality companies] have seen the future better than others, and the adaptability part, the innate ability of this country etc. are reflected a lot more in those companies. I think IT is going to be a very, very important sector for many years to come in this country.

Mr. RAMESH DAMANI: I hear you. What we'll do now is some housekeeping. We'll just finish one more question, then we'll take a break for 10 minutes, you can have a cup of tea, stretch your legs, whatever you want.

Nasdaq - Correlated or not?

My last question and I start with Bharat bhai on that. Again a simple yes, no, or two line answers that I want for this. We are all afraid of the bull market ending in United States. Should the NASDAQ or the Dow go down 25 percent, would the bull market survive in India?

Mr. BHARAT SHAH: It is difficult to say only yes or no, so I'll to add two more sentences.

Mr. RAKESH JHUNJHUNWALA: That can't be a fund manager. He has to take a position J

[Laughter]

Dissimilarity in the composition of businesses

Mr. BHARAT SHAH: I think **the technology companies on the NASDAQ have a pretty dis-similar composition of businesses compared to what you typically see in India today**. In my opinion, over a period of time the composition of businesses in India would look radically different. I completely disagree with Rakesh when he says that there is no uniqueness in Indian companies. I think there is a fantastic amount of innovation that is brewing, it may not be visible at a surface level but at a subterranean level there is a fantastic amount of innovation that is happening. It will take a while to show its full head, but once it is there then you will see the full power of it. To give you an example, last year, **of the total funding that happened in U.S. venture funding industry, 38 percent went to Indian promoted start-ups**. Now that shows the level of confidence that is riding behind Indian quality. And start-ups by definition are a cutting edge, new kind of technology domain. So I disagree entirely that there's no uniqueness amongst Indians...

Mr. RAKESH JHUNJHUNWALA: But that is the Silicon Valley, sir.

Mr. BHARAT SHAH: What you have seen so far is one evolving model, one which is working and you need that critical mass. I mean, every company in this country whether they admit or not, started with body shopping. Now if you continue to do body shopping for the rest of your life then you'll be consigned to the dustbin. But if you are able to migrate to the next value system in the value chain then you'll work okay.

So as I see it, the **impact of NASDAQ falling will occur in India only because of the imitation effect that we see in the market place**. **But that in my opinion will be short lived given the dissimilarity in the composition of businesses**, the earnings visibility, durability and the hard profit numbers. I am not worried about it.

Mr. RAKESH JHUNJHUNWALA: I'd like to add to Bharat bhai. Nowadays there is more funding and less work in the software business here.

A leader always gets hit in a correction

Mr. RAMESH DAMANI: Okay Rakesh, why don't you take up and analyze the question as Bharat answered it. Do you think we [India] will survive a bear market in the U.S.?

Mr. RAKESH JHUNJHUNWALA: Once the Dow crossed 4,100, it never went back to that level. I believe that India has crossed that 4,100 level and will never go back at least in my lifetime. So I believe that this bull market in India today is independent of whatever happens globally. However we are surely going to be affected by what could happen temporarily. I also believe that **if the Dow and the NASDAQ come down, it could have an adverse effect on the software sector which, today is the leader, and the leader always gets badly hit in a correction**.

Mr. RAMESH DAMANI: Mr. Kapoor? If the NASDAQ and Dow falls 25 percent and U.S. goes into the bear market can we keep the bull market intact here?

Mr. VIBHAV KAPOOR: I think there is some bit of correlation in the short term between the NASDAQ and the software sector in India. That is very much obvious on a day-to-day basis. Today people get up early in the morning at 6 o'clock and first see what happened to the NASDAQ...

Mr. RAKESH JHUNJHUNWALA: No, we stay awake up to 2:30 J

[Laughter]

Market to market, India is poised for a course of its own

Mr. RAMESH DAMANI: Can we survive a U.S. bear market?

Mr. VALLABH BANSALI: I think market to market, enough has been said about software and NASDAQ and I think the point about software services was very relevant to us. I think market to market India is poised for a course of its own. I do not see much worry at all.

Absence of durability, the real cause for concern

Mr. RAMESH DAMANI: Chandrakant bhai, before the break - last answer?

Mr. CHANDRAKANT SAMPAT: Well I'm very clear about it. And the question that I raise to myself is about durability. And that's where, I think most of us are missing the point. Paul Krugman has put it very rightly. We talk of the new economy but we forget that there is Schumpeter's creative destruction. Every time something new comes, the old gets destroyed and the rate at which the old economy, old technology is getting destroyed is phenomenal and that will be the root cause of the bear market even in the U.S.

Mr. CHANDRAKANT SAMPAT: Before that, please let me give you, one small study by McKinsey. And that is on Amazon's valuations. According to the study the valuation of Amazon is around US$ 25 billion today. And by 2008 or 2009 the valuation is expected to be around US$60 billion. The compounding rate works out to around 11 percent, provided Amazon's asset turnover ratio is 3.5. That's a provision.

Now please look at the **Indian software companies. The input/output ratio is 1:0.9**. Most of them do not have a positive cash flow. Also let me again quote form Professor Drucker. He says, "what you call profit is not really a profit, it's a cost of staying in business tomorrow". It's merely segregated by the calendar. Now if you look at software companies in India from that perspective, they do not have any surpluses. The amounts they transfer to the reserve rather are really the future costs. They are not the profits. The profits therefore according to him [Drucker] are free cash flows, which as I mentioned, are conspicuous by their absence in the case of software companies in India. Also durability in a fast changing technological landscape is a big question mark. Besides, I do not see any entry barriers in this business. So, positive cash flow, durability of that cash flow and entry barriers, the three things that I look for before making an investment, I don't see them anywhere in the software sector.

Mr. RAMESH DAMANI: Vallabh bhai can you summarize?

Mr. VALLABH BANSALI: I think fairly comprehensive comments have been made and I think very relevant...

Software is creating the Renaissance of this country

Mr. RAMESH DAMANI: Should I buy Infosys tomorrow?

Mr. VALLABH BANSALI: We take Western Europe as a leader in so many things, we don't question that, and we take that as a priori. And that a priori has happened because something called Renaissance took place in Europe. And I think what **software is doing to India is that it is creating the Renaissance of this country**. Mr. Narayana Murthy may have been just one of the early leaders of that age.

I agree and I think that he [Rakesh] put it very succinctly when he said, "software boom is one thing, software stock boom is another thing". I think the software boom is here to stay. And I think the market intuitively did one thing. It projected that the sales growth in this sector is likely to continue at a fairly brisk rate for quite some time. It also decided that the profit growth will slowdown somewhere. But in my opinion, there will be companies that will manage this divergence better than other companies. I think that's the discrimination one is looking for in the market. So wherever you see this discrimination fall off, one is worried about the market's understanding of the IT. And I think we're going to see phases of this.

There are large chunks of the global market which are yet to open up to IT, for example, the IT spending in Japan, the IT spending in Europe is relatively much, much less compared to what it has been in the U.S. And India itself, our survey shows **the software purchases in India have started to go up**. People have started to pay better prices for software solutions in India. So India itself is going to open up. But there are going to be several things that will keep investors confused about it. Therefore my suggestion to investors is that they better look for companies that are going to manage this divergence, or possess the ability to do so. And I second what Chandrakant bhai said that the common parameters that we apply to any investment must be applied to this. So, I think, when it is Infosys or other quality companies, I think what people are saying is that yes, they [the quality companies] have seen the future better than others, and the adaptability part, the innate ability of this country etc. are reflected a lot more in those companies. I think IT is going to be a very, very important sector for many years to come in this country.

Mr. RAMESH DAMANI: I hear you. What we'll do now is some housekeeping. We'll just finish one more question, then we'll take a break for 10 minutes, you can have a cup of tea, stretch your legs, whatever you want.

Nasdaq - Correlated or not?

My last question and I start with Bharat bhai on that. Again a simple yes, no, or two line answers that I want for this. We are all afraid of the bull market ending in United States. Should the NASDAQ or the Dow go down 25 percent, would the bull market survive in India?

Mr. BHARAT SHAH: It is difficult to say only yes or no, so I'll to add two more sentences.

Mr. RAKESH JHUNJHUNWALA: That can't be a fund manager. He has to take a position J

[Laughter]

Dissimilarity in the composition of businesses

Mr. BHARAT SHAH: I think **the technology companies on the NASDAQ have a pretty dis-similar composition of businesses compared to what you typically see in India today**. In my opinion, over a period of time the composition of businesses in India would look radically different. I completely disagree with Rakesh when he says that there is no uniqueness in Indian companies. I think there is a fantastic amount of innovation that is brewing, it may not be visible at a surface level but at a subterranean level there is a fantastic amount of innovation that is happening. It will take a while to show its full head, but once it is there then you will see the full power of it. To give you an example, last year, **of the total funding that happened in U.S. venture funding industry, 38 percent went to Indian promoted start-ups**. Now that shows the level of confidence that is riding behind Indian quality. And start-ups by definition are a cutting edge, new kind of technology domain. So I disagree entirely that there's no uniqueness amongst Indians...

Mr. RAKESH JHUNJHUNWALA: But that is the Silicon Valley, sir.

Mr. BHARAT SHAH: What you have seen so far is one evolving model, one which is working and you need that critical mass. I mean, every company in this country whether they admit or not, started with body shopping. Now if you continue to do body shopping for the rest of your life then you'll be consigned to the dustbin. But if you are able to migrate to the next value system in the value chain then you'll work okay.

So as I see it, the **impact of NASDAQ falling will occur in India only because of the imitation effect that we see in the market place**. **But that in my opinion will be short lived given the dissimilarity in the composition of businesses**, the earnings visibility, durability and the hard profit numbers. I am not worried about it.

Mr. RAKESH JHUNJHUNWALA: I'd like to add to Bharat bhai. Nowadays there is more funding and less work in the software business here.

A leader always gets hit in a correction

Internet stocks with no earnings have been leading the rally on NASDAQ

Mr. VIBHAV KAPOOR: That's still better. So people look at the NASDAQ and then decide what they are going to do today, whether they are going to buy Infosys or sell Infosys. There is no doubt that in the very short term there is certainly some correlation between the NASDAQ and what's happening in the software sector here. And therefore if there were to be a major correction or a bear market as far as the NASDAQ is concerned it could have a short-term impact on valuations in software stock prices in India.

But I entirely agree with Bharat bhai that over the medium-term, over the long-term, I don't think it will have any impact unless there is a total change in the fundamental picture of information technology sector globally. If the NASDAQ were to go into a bear market for that reason, then obviously the Indian IT sector is going to be affected because the fundamentals are going to get affected. But if the NASDAQ goes down on interest rate hike fears or some such thing, I don't think that'll impact prices here, not at least on a longer-term basis.

If you look at the components of the NASDAQ and the way it's going up, it's really the Internet stocks which have led this NASDAQ boom. It's not the software services stocks. If you look at NASDAQ, you'll find that actually the software services stocks have not done so well. It's the **Internet stocks with no earnings at all, with losses, which have really been leading this rally**.

Mr. BHARAT SHAH: In fact the Microsofts of the world have not done so well.

Mr. VIBHAV KAPOOR: Sure, they have not so well.

[Cross talk]

Mr. VIBHAV KAPOOR: So the major rise in the NASDAQ has been because of the Internet stocks. Now it's very obvious that as of today, most Internet companies in the U.S. are not making profits. I mean, even if you look at the fourth quarter results for some of the big names, again, they have made losses. So at some point of time it is very much possible that the NASDAQ stock market boom could slow down or there could be a long correction because people get sort of fed up with companies which are nowhere near making a profit. They're making huge losses. However, if you look at the fundamental picture of the Indian software sector, it's entirely different. Here companies, whether it is Infosys or anybody else, are showing real earnings. And they are showing real earnings growth.

Valuation is a matter of judgment. Valuations can change a little bit here and there from time to time. You can have technical corrections. But as Bharat said, when investors see quarter after quarter, year after year, the earnings coming through, growth coming through, even if there are some short-term fluctuations, prices are going to remain up or go up further.

As far as the larger market is concerned, BSE with relation to the Dow, I don't think there's too much of a relation. Now if the Dow were to go into a major bear trend because of the fundamentals of the global economy changing and in turn impacting real growth rates in India's GDP, then of course, you could see some correlation taking place.

And I also tend to agree with what Rakesh said. If we're looking at the BSE Index, we have remained in the 2,800 to 4,000 range long enough, may be five or six years. If you take an average of 3,500 - 3,600 for the index five years ago and compare it to the present, our money has barely doubled. Even money put in the post office savings or a fixed deposit would double in five years. I don't think that the market, on an index basis, is over priced at this point of time. I too like Rakesh, wouldn't expect it to come down below 4,400 - 4,500.

Mr. RAMESH DAMANI: Vallabh bhai?

Mr. VALLABH BANSALI: I have forgotten the question . . .

[Laughter]

Mr. RAMESH DAMANI: Okay Rakesh, why don't you take up and analyze the question as Bharat answered it. Do you think we [India] will survive a bear market in the U.S.?

Mr. RAKESH JHUNJHUNWALA: Once the Dow crossed 4,100, it never went back to that level. I believe that India has crossed that 4,100 level and will never go back at least in my lifetime. So I believe that this bull market in India today is independent of whatever happens globally. However we are surely going to be affected by what could happen temporarily. I also believe that **if the Dow and the NASDAQ come down, it could have an adverse effect on the software sector which, today is the leader, and the leader always gets badly hit in a correction**.

Mr. RAMESH DAMANI: Mr. Kapoor? If the NASDAQ and Dow falls 25 percent and U.S. goes into the bear market can we keep the bull market intact here?

Mr. VIBHAV KAPOOR: I think there is some bit of correlation in the short term between the NASDAQ and the software sector in India. That is very much obvious on a day-to-day basis. Today people get up early in the morning at 6 o'clock and first see what happened to the NASDAQ...

Mr. RAKESH JHUNJHUNWALA: No, we stay awake up to 2:30 J

[Laughter]

<u>Internet stocks with no earnings have been leading the rally on NASDAQ</u>

Mr. VIBHAV KAPOOR: That's still better. So people look at the NASDAQ and then decide what they are going to do today, whether they are going to buy Infosys or sell Infosys. There is no doubt that in the very short term there is certainly some correlation between the NASDAQ and what's happening in the software sector here. And therefore if there were to be a major correction or a bear market as far as the NASDAQ is concerned it could have a short-term impact on valuations in software stock prices in India.

But I entirely agree with Bharat bhai that over the medium-term, over the long-term, I don't think it will have any impact unless there is a total change in the fundamental picture of information technology sector globally. If the NASDAQ were to go into a bear market for that reason, then obviously the Indian IT sector is going to be affected because the fundamentals are going to get affected. But if the NASDAQ goes down on interest rate hike fears or some such thing, I don't think that'll impact prices here, not at least on a longer-term basis.

If you look at the components of the NASDAQ and the way it's going up, it's really the Internet stocks which have led this NASDAQ boom. It's not the software services stocks. If you look at NASDAQ, you'll find that actually the software services stocks have not done so well. It's the **Internet stocks with no earnings at all, with losses, which have really been leading this rally**.

Mr. BHARAT SHAH: In fact the Microsofts of the world have not done so well.

Mr. VIBHAV KAPOOR: Sure, they have not so well.

[Cross talk]

Mr. VIBHAV KAPOOR: So the major rise in the NASDAQ has been because of the Internet stocks. Now it's very obvious that as of today, most Internet companies in the U.S. are not making profits. I mean, even if you look at the fourth quarter results for some of the big names, again, they have made losses. So at some point of time it is very much possible that the NASDAQ stock market boom could slow down or there could be a long correction because people get sort of fed up with companies which are nowhere near making a

profit. They're making huge losses. However, if you look at the fundamental picture of the Indian software sector, it's entirely different. Here companies, whether it is Infosys or anybody else, are showing real earnings. And they are showing real earnings growth.

Valuation is a matter of judgment. Valuations can change a little bit here and there from time to time. You can have technical corrections. But as Bharat said, when investors see quarter after quarter, year after year, the earnings coming through, growth coming through, even if there are some short-term fluctuations, prices are going to remain up or go up further.

As far as the larger market is concerned, BSE with relation to the Dow, I don't think there's too much of a relation. Now if the Dow were to go into a major bear trend because of the fundamentals of the global economy changing and in turn impacting real growth rates in India's GDP, then of course, you could see some correlation taking place.

And I also tend to agree with what Rakesh said. If we're looking at the BSE Index, we have remained in the 2,800 to 4,000 range long enough, may be five or six years. If you take an average of 3,500 - 3,600 for the index five years ago and compare it to the present, our money has barely doubled. Even money put in the post office savings or a fixed deposit would double in five years. I don't think that the market, on an index basis, is over priced at this point of time. I too like Rakesh, wouldn't expect it to come down below 4,400 - 4,500.

Mr. RAMESH DAMANI: Vallabh bhai?

Mr. VALLABH BANSALI: I have forgotten the question . . .

[Laughter]

Market to market, India is poised for a course of its own

Mr. RAMESH DAMANI: Can we survive a U.S. bear market?

Mr. VALLABH BANSALI: I think market to market, enough has been said about software and NASDAQ and I think the point about software services was very relevant to us. I think market to market India is poised for a course of its own. I do not see much worry at all.

Absence of durability, the real cause for concern

Mr. RAMESH DAMANI: Chandrakant bhai, before the break - last answer?

Mr. CHANDRAKANT SAMPAT: Well I'm very clear about it. And the question that I raise to myself is about durability. And that's where, I think most of us are missing the point. Paul Krugman has put it very rightly. We talk of the new economy but we forget that there is Schumpeter's creative destruction. Every time something new comes, the old gets destroyed and the rate at which the old economy, old technology is getting destroyed is phenomenal and that will be the root cause of the bear market even in the U.S.

STOCK PICKS - THE RIGHT NEEDLE IN THE HAYSTACK

To me, bull markets are bullshit markets

Mr. RAMESH DAMANI: We will now continue with our debate with the panelists. What we'll do in this round is that rather than go round the table with each question, I'm going to take each participant and go through with him, his investment style, the kind of stocks he likes, the kind of sectors he likes. So we will go more one-on-one with each of the panelists rather than go round the table all the time. I think, I'll start with Vallabh because he's got some time engagement so we'll at least get his views on the record first. Vallabh bhai, what's your call on the market over the next eleven months or so?

Mr. VALLABH BANSALI: There are some concern areas and some positive areas in the market. And the concern areas are you know, I mean, I'm not a bull market person basically. And **to me bull markets are bullshit markets**. Because generally you see people becoming indiscrete and as an investment banker I'm quite amazed by the response to the issues that we lead. People are ready to pay large amounts of interest to acquire some shares. To me it seems that, that's not intuitively right, even if the interest is going to a bank. That tells me, well here is a stampede like situation, I don't know what will go wrong or how it will go wrong but intuitively I feel the something will go wrong. Also you worry about the source of funds coming into the market. I don't really have a great hang of where the money is coming from into the market and whenever that happens, I worry. Maybe it's all legit and proper.

Also, you know, as Rakesh said that whenever the retailers know it all, it's a big legend in the market in any case, that's the time to worry . . . So those are the two, three areas that I worry about.

But I feel very positive that we are seeing good leadership emerge. And I think whether it's a home country, individual life or whatever, leadership matters the most and I see good leadership in the country. And I see that they could bring about good changes. I also think that something could happen on the interest rates front. And **if we continue to see pressure on interest rates, equities have to get a big boost**. I think productivity itself is on the rise in many areas. I think, the M & A market will hot up further which will create greater value, where the private value of assets is much greater than public value. So these are several areas which make me optimistic about the market.

Mr. RAMESH DAMANI: Vallabh, you are primarily a merchant banker. You see a number of companies as you travel across this country. How do you size the good ones from the bad ones? What are the key distinguishing factors when you spot a gem in the making?

Vision, top management, organizational structures, and financial structure - the four-point breakup of a company - I look for

Mr. VALLABH BANSALI: I think 80 percent of it is in the vision of the management and that vision is very broadly defined. Its not just a vision statement which is a bunch of a few words, but a dynamic vision in terms of how the management sees the organization structure, I mean the elements of business. And to me, **I have a four-point breakup of a company**. First is the **vision**, second is **top management**, third is **organizational structures** which is the lower part of the management and the forth is **financial structure**. And whether the vision encompasses all these and if there's a fine balance, or a mechanism to correct the imbalance, because inevitably imbalances come in.

I don't really care what the business of the company is

So that's what I look for. And very frankly **I don't really care what the business of the company is**. To me that's immaterial because. A lot of people think we have some kind of leadership in technology business etc. I don't think that there is anything great about technology because it's all people. When I look at the history of the world I find it was naval power which was very extraordinary one point of time, the martial power later, and all kinds of things. There was nothing extraordinary about it. There is always something for the moment. But I find these four elements in every organization or every entity very, very significant. So that's what we look for and I don't really care what the business of the company is.

To survive, you must be mighty and you must take risks

Mr. RAMESH DAMANI: But you talk about financials, do you look at the return on investments, the return on capital?

Mr. VALLABH BANSALI: Yes that's what I mean by financial structure, maybe I could elaborate a little on that part. When we talk of financial structure, financial structure probably is a good summary, statistical view of the balance. I have a nature model of things. Which means that the inherent risk in the world outside will not let you live. **You must be mighty to survive**. And does your financial structure enable you to do that, number one. And number two, if you have **to survive you must take risks and therefore do you have a financial structure and an organization structure, which will let you take risks from time to time or you will be forced to become very complacent**. So these are the two things and what it translates to in more mundane ratios probably is that: Do you have reserves? Do you build reserves i.e. do you have liquidity? Are you cash surplus etc . . . And then if you have to raise resources in competition with others, do you continue to bring down your cost of capital? So these are the two very generic pillars that I look for.

I'm finding value in people who are younger

Mr. RAMESH DAMANI: In your travels and the number of companies you meet where are you finding a great value, where are you finding the great managements that you look for? Could you share some ideas with us?

Mr. VALLABH BANSALI: I'm finding it in people who are younger rather than older. Almost empirically I could say that these are the people born in post independent India, people in their 30's and 40's. Because I think, you know, fortunately they missed the manipulative way of doing business. So I'm finding it in them. I think very happily yesterday itself I met some one who was a scion of a old business family and I was very, very pleasantly surprised that this man was completely different from the image that we had of his father, and uncle and grandfather and all. So I think it's happening in all parts of the country, in all kinds of people whether it is the second generation of the traditional industrial houses or new people coming in.

Mr. RAMESH DAMANI: Share with us some ideas.

Mr. VALLABH BANSALI: I find that the national pride and self-confidence which builds nations, builds companies, that's starting to happen in this country. And people are no more thinking that we have to go and discount our product. I don't hear that language very often now. People are thinking that why can't we be a world-beater?

I like to share a story from Panchatantra where an orphan cub of a tiger is brought up by a mother wolf along with her own cubs. And one day all these siblings are going around the jungle together and the tiger cub that is grown-up suddenly sees an elephant and says, lets go and attack it. Now all the wolf cubs are completely confused. They say, hey, what are you talking about? How can you do that? The tiger cub insisted: Why can't we do it? We have to do it. And that's the difference. I think we have gone from the wolf era where, you know, you always wanted to attack from the rear or do only certain things. I think I see a lot of these tiger cubs in the country. And they want to do the biggest and the best of what is happening in the world. And I see that in areas like transport, in telecom, in pharma you name it and people are ready to go. And I think one great example of that has been Gujarat Ambuja Cement. That a company which was founded as recently as 1986, has now obtained strategic control of the largest cement company in the country, in a very quiet manner, is amazing. So I see great things happening all-around the country.

Mr. RAMESH DAMANI: We are going to persist in asking you for a few ideas though, some stock recommendations.

Mr. VALLABH BANSALI: In terms of technology, for example, we are no more talking of people wanting to send ten people to do banking software and things like that.

Mr. RAKESH JHUNJHUNWALA: You can't beat around the bush for long now J

[Laughter]

Mr. VALLABH BANSALI: Let's see [laughs]. We meet companies that are talking of glued to technologies or companies that are now members of the protocol and standard group. In fact, companies like Intel, Erickson, Nokia and the very best in the world populate the protocol and standard group. These companies have had and continue having Indians who represent them in these groups. Now, you know, we Indians have such a great defensive mind. I'm talking for myself, and I've heard people day this many times, that, you know, who will talk to me, how will they treat me and all of that . . . However the landscape is changing fast. Now there are young people who just don't think of it. Now I ask, "how did you become a protocol member?" And they say, "we just applied and they said yes. You just present your credentials that this is the kind of work that we do -- this is a vision we have and, you know, we would like to be a part of your protocol group and they said your welcome". So I think suddenly a big change has taken place and they are in all kinds of areas from Linux to very advanced, what we call fourth-generation wireless...

Mr. RAMESH DAMANI: Out of the universe of 6000 stocks listed on the Bombay Stock Exchange (BSE), where do you see value? I'm not going to let you get away with dodging J

[Laughter]

Mr. VALLABH BANSALI: I'm very happy to play the part of an investment banker for some time now J

Mr. RAMESH DAMANI: You wear many hats . . .

Public sector - a happy hunting ground

Mr. VALLABH BANSALI: A lot of work that I do is on their private [merchant banking] side and we try and go to these companies, three months, six months, two years in advance of their IPOs etc. A lot of those names therefore cannot be mentioned. Someone mentioned earlier that its naive to think that the excellence of Indians resides only in the private-sector and, some feel that when you just enter the portals of the public sector company, it [excellence] vanishes. I think the public sector can give you a big surprise because people have understood that the public sector has not been able to perform due to bureaucratic control over there. It's not political control; its bureaucratic control. And it's amazing. If you look at the country, while intuitively we think it's governed, the fact is that it's not governed at all. And we take lots of decisions thinking that it is governed. I think that's the truth. And therefore the moment somebody realizes that, well, it was never governed, he is able to do something. And I find that a lot of people in this Government are realizing this and I think you're going to see big changes. Let's say for example, VSNL suddenly says that okay we are going to spin off our ISP. It has been an idea thrown at them for many years now. I think you're going to see a lot of those decisions being implemented. So **I would say PSUs as a basket, is a happy hunting ground**. Now if you look at a company like say BPCL, it owns a lot of its distribution and I don't think petrol will ever be sold on the Internet.

Mr. CHANDRAKANT SAMPAT: Possibly 20 years from now there may be no petrol.

Mr. VALLABH BANSALI: No petrol, yes, it could be so.

Mr. RAMESH DAMANI: Any of the panelists have any questions to ask him on his style, his stock selections, which he hasn't mentioned really, or any of that before we round up with him and start with someone else?

Mr. RAKESH JHUNJHUNWALA: Well he has talked of the basket but not of the specific eggs J

Indian Renaissance will be complete when Chandrakant bhai starts quoting some Indian companies

Mr. VALLABH BANSALI: I think **there are Indian FMCG companies like Nirma that I like a lot**. For long we have, you know, ridiculed some of our own Indian ideas and I think **Indian Renaissance will be complete when Chandrakant bhai will be quoting some Indian**, you know, instead of all foreigners.

Mr. RAMESH DAMANI: So in essence you're putting up a buy on a basket of PSU stocks, Nirma and Gujarat Ambuja perhaps.

The cement industry in India is globally competitive . . .

Mr. VALLABH BANSALI: Yes I like Gujarat Ambuja Cement. I like the cement sector a lot. I think as people experience Delhi-Agra or Bombay-Pune more often, there has to be a greater demand for cement and India is globally competitive in that area. So that would be another area [cements] and their are good companies in that sector.

Mr. RAMESH DAMANI: Thanks for those insights. We'll go to Mr. Kapoor now.

Mr. Kapoor, you've been **the darling of the so-called momentum investors**, people who are taking a big bet on the fast moving stocks. Let's just get a view of the market first. Over the next 11 months where is the index headed?

Our strategy has always been to look at both, management and business . . .

Mr. VIBHAV KAPOOR: As I said earlier, I think it's very difficult to make a call on the index, whether it's going to be 6,000 or 4,000, it's very difficult to say. But if you talk broadly in terms of the index, I think as I said earlier, the market more or less had been range bound in the 2,800 to 4,000 area for long. I don't think that we're going to go back to that range again. I think **we are definitely headed in a higher range**. I don't know where the market is going to be in a year's time, but I'm pretty much certain that we are not going to go back to that range of 2,800 - 4,000.

As far as the sector wise or stock wise selections are concerned **our strategy has always been to look at both management and business**. While it may be fine to say that management is the only thing that really makes a company, but as far as stock prices are concerned, in the medium to long-term, valuations do get set by the prospects of the business that the company is in. And while the prospects of the business can change from time to time, as an investor I need to focus on both the factors at the same time. And if you get a company where both management quality and business are looking up or look good to you, I think that's the ideal company to buy. That's the company where you tend to make money to the maximum.

Valuations are not the primary factor . . .

Mr. RAMESH DAMANI: What are the valuation criteria that you would apply?

Mr. VIBHAV KAPOOR: From the point of view of a fund manager or an investor, valuations of course are important. But over the long haul there may be a case in saying one really has to value the company and not the price. There is a difference there. We certainly do look at **valuations** but that's **not the primary factor**. The **primary factors are management quality and the prospects of the business**.

Mr. RAMESH DAMANI: And you are looking typically to outperform the index in your investments on an absolute rate of return. What are your goals as an investment manager?

I wish the markets weren't so competitive

Mr. VIBHAV KAPOOR: Well unfortunately the **market is so competitive. I wish it weren't**. I think it causes undue pressures on fund managers and I would be the happiest person if that were not to be so. It would make life so much simpler for me. But unfortunately the investor doesn't look at it that way. The mutual fund investor seeks to maximize his profits in the short-term. And that's an unfortunate situation. It puts unnecessary pressures and constraints on the type of analysis that I would ideally like to do. So I invest in stocks where I'm convinced about it over a reasonable frame of time, say, 12 to 30 months. While I cannot invest with a 7 or 12-day perspective, neither do we have a case for a 10-year time horizon because nobody is going to have the patience to hang on that long. Having said that, competition is something that whatever said and done, I don't think we can wish it away. It's there.

Mr. RAMESH DAMANI: Are you fond of meeting managements? Do you go down and talk to them to get clarity in your investment process?

Mr. VIBHAV KAPOOR: Absolutely, we do that on a very regular basis, both our team of analysts as well as myself. We go and meet the management and try and judge for ourselves what the management quality of that company is, especially when making a new investment.

Mr. RAMESH DAMANI: Well, you manage a large amount of money at IL&FS. When you take an investment decision, do you go through a period of dissonance, have I done this right or have I done this wrong kind of thing?

Mr. VIBHAV KAPOOR: Well as far as possible we try to go through that phase before we make the investment. Once we've made the investment we monitor it continuously.

Cement is certainly one sector, which we like . . .

Mr. RAMESH DAMANI: What are the areas or sectors that you are puzzling over? Where are you finding values? Where are you putting your money to work now?

Mr. VIBHAV KAPOOR: Well, cement is certainly one sector, which we like. It has many advantages vis-�-vis other cyclical sectors in the country. One, because it is fairly independent of the international situation. And we believe that at some point of time the infrastructure development is definitely going to grow at a more rapid pace than it has and therefore that's one sector which we like.

Mr. RAMESH DAMANI: Which companies would you recommend?

Mr. VIBHAV KAPOOR: Well as I said we always try and identify the companies, which we think are well managed and companies where there is efficiency of operations. If you have these two combinations I think those are the companies that we would like to go for.

Mr. RAMESH DAMANI: For instance?

Mr. VIBHAV KAPOOR: Gujarat Ambuja Cements certainly is a company, which has shown efficiency, which has shown quality of management and I certainly like that company.

Software sector to witness much higher growth rates . . .

Mr. RAMESH DAMANI: How about software, which has been your darling? Give us some specific ideas?

Mr. VIBHAV KAPOOR: As a sector the fundamentals are extremely strong. I have no doubt in my mind that this sector is set to grow at much more than average growth rates for the next several years to come. I'm not talking of a year or two years but maybe five years, eight years, 15 years, I don't know. There could be a difference of opinion on the percentage of growth rates, but certainly in my view, **the growth rates of the software sector are going to be much higher than the growth rates in any other sector over an eight-year period of time**.

So we certainly like this sector. For valuations, as discussed earlier in the morning, one needs to look at specific companies. One has to look at the growth rates, quality of management, their ability to be able to adapt to technological changes and the businesses they are in, because within the software sector also there could be so many areas or businesses. Every company is not doing the same thing.

Mr. RAMESH DAMANI: Which companies are you looking at?

Mr. VIBHAV KAPOOR: We've invested in companies like **Infosys** and **NIIT**. We like what we see there.

Mr. RAMESH DAMANI: Would you buy these again at these levels [current prices], with a one-year time horizon?

Mr. VIBHAV KAPOOR: If you're looking, at horizons of two, three, four years I would certainly buy them.

Mr. RAMESH DAMANI: I'm starting Monday morning with investments [money in the bank] and I have one year horizon and I want to know three stocks from Mr. Vibhav Kapoor who is amongst the most successful fund managers as to what I should buy on Monday? Give us three ideas.

Mr. VIBHAV KAPOOR: I don't think they have to be restricted to the software sector.

Mr. RAMESH DAMANI: Any sector you want, that's your choice.

Mr. RAMESH DAMANI: You've put Gujarat Ambuja down as one of your picks. Give us some other ideas.

VSNL, undervalued when compared to its comparable universe

Mr. VIBHAV KAPOOR: Well **from the public sector, I like VSNL a lot**. I think, VSNL is grossly undervalued as compared to its comparable universe of stocks. We have seen at what prices or valuations much smaller companies have been valued at when they have been sold or acquired and I think VSNL has much greater capabilities and potential.

Mr. RAMESH DAMANI: Undervalued because of its ISP angle or because of its long distance telephony?

Mr. VIBHAV KAPOOR: Obviously the long distance telephony is not something which is going to do very well because rates are coming down. But this company, as Vallabh mentioned earlier, is going to hive off the Internet business [ISP business]. The decision making process, since they are a public sector company, is certainly slower than we'd like it to be, but, I think, at some point in time they will get into value added services. They may also acquire a portal.

Mr. RAMESH DAMANI: Aren't they too late? They don't have a portal . . .

Mr. VIBHAV KAPOOR: As I said, they are slow and that's one of the disadvantages of being in the public sector. And perhaps the markets are factoring that in its price. I think lots of developments would take place over the next few months. I certainly hope so.

Value migration from scooters to motorcycles

Mr. RAMESH DAMANI: Give us one more idea.

Mr. VIBHAV KAPOOR: If you look at the auto two wheeler sector, there has been a fundamental change, and that is a shift from scooters to motorcycles. I think this change is gradually getting reflected in the valuations and I think one company which has really done extremely well as far as that change is concerned is **Hero Honda**. I think there's a lot of growth going to happen here. So that's another company we like.

Mr. RAMESH DAMANI: Thanks so much. Well, let me now move over the table to a person who never has a problem giving opinions. We'll go on to Rakesh because he always has the whole range of thoughts in mind so he'll make it a little livelier going forward. He has always had longs, shorts, picks, whatever. It might be easier to get things out from this particular participant. Rakesh, what's your view of the market over the next 11 months?

I'm not just bullish on the stock market, I'm bullish on the country itself

Mr. RAKESH JHUNJHUNWALA: Well, I don't know although I play both sides of the market. As far as investment goes I cannot restrict my perspectives to 11 months because I would like to invest for a much longer period of time. As far as markets over a period of time go, I'm very bullish. And I am bullish on the markets not because of the stock market in isolation but I'm bullish on the country itself. I have learned in life that there are three things that make a society or a country progress. The first one is the skills of the people and not the resources. And I think Indians have skills in abundance. And this has been demonstrated in every field. The second thing is some kind of democracy. We might say that the democracy we've had has been a weak or feeble democracy, but of what I have read on history, no society has been able to progress beyond a point without social strife unless or until there was democracy. So, I think, we must celebrate fifty years of the Indian Republic. We have deep rooted and deep-grounded democracy in this country. Look at what has happened to our neighbors where they have military rule constantly.Thirdly, I feel that what has been missing in India is the critical mass. But with the second-generation reforms and the worldwide importance of knowledge base industries in which Indians have great skills, I think, we are reaching that critical mass. **So, I feel bullish not because I am bullish on the stock market in isolation, but because I'm bullish on the country as a whole.** In fact, I'd like to quote a friend, who says, "India has always been an elephant but the elephant is now morphing into a cheetah". We are where China was in 1985. We have just entered the first stage of real reforms and I'm quite sure that by 2015 we will be there, **we'll be where China will be in 2015**. That's how bullish I feel.

I'm a very disorganized person . . .

Mr. RAMESH DAMANI: Rakesh, could you just share with us how you pick stocks and what's your investment methodology? Is it just Street news or do you actually go through balance sheets or visit company managements or an assortment of them? Share with us your views.

Mr. RAKESH JHUNJHUNWALA: Well Ramesh, I'm a very disorganized person so I don't do anything in an organized manner. I myself don't know how I pick stocks.

[Laughter]

Mr. RAMESH DAMANI: There has to be some method to the madness, I'll tell you that.

Everything for me is a risk-reward ratio. I'm not wedded to any stock

Mr. RAKESH JHUNJHUNWALA: Well I look upon everything as a risk-reward ratio. While I invest in anything and everything, I don't think I'm making a lifetime investment. My perspective may be more than 11 months but it doesn't mean that I'll hold on to a thing forever. I always look at risk-reward ratio. Before investing the three things that I look for or ask are:

a. Is there an external opportunity;
b. How is that particular company placed in that opportunity and
c. What do the valuations look like i.e. what are the possible upsides in relation to the possible downsides.

That's how I invest.

Mr. RAMESH DAMANI: Typically, do you like to visit managements?

Invest first, investigate later

Mr. RAKESH JHUNJHUNWALA: No, I believe in: invest first, investigate later. You know familiarity breeds contempt. Sometimes knowing too much is itself a problem.

Mr. RAMESH DAMANI: You have an accounting [Mr. Jhunjhunwala is a chartered accountant] background. What kind of ratios do you look at? Do you look at cash flow models, do you look at the dividend discount model, what do you look at?

Mr. RAKESH JHUNJHUNWALA: I told you I'm very disorganized. I am intuitive more than anything else.

I tend to invest in what the market ignores

Mr. RAMESH DAMANI: You use judgment and intuition I'm sure, but don't you also use some sort of financial alchemy?

Mr. RAKESH JHUNJHUNWALA: I look at the sheer size of the opportunity and I also tend to invest in what the market tends to ignore. Because I think in investment, that's where the greatest opportunities lie. I may be a momentum player as far as trading goes but where investments are concerned, I don't believe in momentum at all. Investments should be in those areas, which the market does not favor. I was much intrigued by the fact that both Mr. Kapoor and Bharat bhai are very much disillusioned with India's public sectors and the possibility of divestment. It makes me draw conclusion that there is great opportunity in this sector.

Mr. RAMESH DAMANI: Rakesh, would you call yourself a contrarian investor?

Mr. RAKESH JHUNJHUNWALA: Yes, you could say that.

I can trade in anything and everything, but I won't invest an anything and everything

Mr. RAKESH JHUNJHUNWALA: You are known as a large trader. How do segregate your trading positions from your investment positions. Is there a discipline that you enforce on yourself?

Mr. RAKESH JHUNJHUNWALA: Yes, my trading and my investment have nothing to do with each other. My investment is totally independent of my trading. I would sometimes short stocks that I hold as investments. **I can trade in anything and everything but I won't invest an anything and everything**.

Mr. RAMESH DAMANI: You've said you are very bullish about the markets and you are bullish about India and you see great external opportunities. Which are the companies that you're seeing them [opportunities] in?

I'm bullish on the public sector, FMCGs selectively, and on private equity

Mr. RAKESH JHUNJHUNWALA: Well at the moment I'm bullish on the public sector, selectively on FMCGs and on private equity.

The access provider has always been protected . . .

Mr. RAMESH DAMANI: Let's go through the first one, the public sector. What are your calls there?

Mr. RAKESH JHUNJHUNWALA: I'm bullish on **MTNL** but I'm not so bullish on VSNL. As per my observation, in the last one-year, **the access provider has always been protected irrespective of the changes in telecommunications**. Look at Global Crossing for example. Global Crossing was able to lay an optic fiber cable across Europe and America and still had to go and merge itself with a Baby Bell. **MTNL has access to some of the richest parts of India.** If you look at Mumbai and Delhi, you have a mini Paris. I think, MTNL has a lock-in and nobody else can easily access its customer base. And **I anticipate MTNL to be privatized in the course of the next 12 months.**

Mr. RAMESH DAMANI: The World is moving towards wireless and data transfer. Isn't MTNL a dinosaur in this age?

Mr. RAKESH JHUNJHUNWALA: But even MTNL a moving there. You are going to have cellular technology from MTNL. And even though you may move to new technology, **how you are going to access the customer**? Which entity has that access to the customer base? **MTNL is like an FMCG company, they have the customer base**.

Mr. RAMESH DAMANI: In a wireless loop you can bypass the copper wire network . . .

Mr. RAKESH JHUNJHUNWALA: But there is a large base of Indian customers who still cannot afford that wireless loop. Besides, even MTNL is coming with cellular technology.

Mr. RAMESH DAMANI: Any more ideas?

The risk-reward ratios are absolutely in favor of investors for Shipping Corporation

Mr. RAKESH JHUNJHUNWALA: Well the results have come, **I'm bullish on Shipping Corporation. I think the risk-reward ratios are absolutely in favor of the investor.**

Mr. RAMESH DAMANI: Risk-rewards may be in favor but the results were fairly poor.

Mr. RAKESH JHUNJHUNWALA: Firstly, I'm bullish on the shipping industry in general. Secondly, I feel that these are non-priority areas that are going to be restructured first. I expect them to be run far more efficiently than they are being run today. So inspite of a fall in profits, I'm bullish on Shipping Corporation.

Should the Tetley merger come through . . .

Mr. RAMESH DAMANI: All right, what about FMCGs?

Mr. RAKESH JHUNJHUNWALA: I'm bullish on Tata Tea. Tata Tea is making the single largest acquisition any Indian company has made ever. It is taking over one of the world's largest tea marketing company and it is doing it in a manner, which is quite unique. It is going to pay Rs. 1,900 crores (US$ 437 million) to take over Tetley. According to me, Tata Tea has a base profit of about Rs. 30 per share before tax. And it's subsidiaries earn around Rs. 50 crores (US$11.5 million) a year. And Tata Tea has got non-tea assets which are valued at around Rs. 500 to 750 crores (US$ 115 - 172 million). Sure, the acquisition has risks involved. After all the acquisition is going to cost them Rs. 1,900 crores (US$437 million) out of which around Rs. 500 crores (US$115 million) are going to be self-funded and the balance of Rs. 1,400 crores (US$322 million) from debt. But that debt has no recourse to Tata Tea. And you know if the takeover is done successfully, I can envision Tata Tea earning Rs. 500 crores (US$115 million) on an equity of Rs. 55 crores in four to five years time.

Mr. RAMESH DAMANI: Are you bullish because of the Tetley deal or would you even buy it otherwise?

Mr. RAKESH JHUNJHUNWALA: I would be bullish even without Tetley deal. But **the Tetley deal would be the ultimate driver**.

Mr. RAMESH DAMANI: There have been some questions on the whole Tata group because all the companies are in disfavor. Are your contrarian instincts putting you into Tata Tea?

Mr. RAKESH JHUNJHUNWALA: I'm not bearish on the Tata group as a whole. I think they are a group who will ultimately be able to professionalize the most, and who really have no family members in ownership. And they are going through a process of change. I think, **of the largest industrial houses in this country, the Tatas have exited from the largest number of businesses in the last 12 months**. People also forget that the largest information technology business in India is owned by the Tatas. **I'm bullish on some of the Tata companies like Tata Donnelley**.

Tata Donnelley is in all sorts of key businesses

Mr. RAMESH DAMANI: What's the case for Tata Donnelley?

Mr. RAKESH JHUNJHUNWALA: It's in all sorts of businesses which I would call **key businesses, where payments are received in advance, where the cash generation profile is very good**. It is the largest publisher of special interest publications in India. It has the largest marketing database in India. It has the largest directory on the net in India as of today. It is the monopolist in the Yellow Pages and this year it will earn about Rs. 20 per share after full payment of taxes or Rs. 30 per share before taxes. And it is valued today at say around 10 to 12 times its earnings. I'm very bullish on it.

For the first time the external environment is in favor of entrepreneurship

Mr. RAMESH DAMANI: All right. You also spoke of private equity. What's the case for making investments in private equity?

Mr. RAKESH JHUNJHUNWALA: India has very good entrepreneurs and **for the first time the external environment is also in favor of entrepreneurship**. So, I think, if you can identify an opportunity, a good entrepreneur and build a financial superstructure around it, the returns can be mind-boggling. I would like to risk my money far more in private equity then I would in listed issues.

Mr. RAMESH DAMANI: What percentage of wealth would you recommend be apportioned towards private equity?

Mr. RAKESH JHUNJHUNWALA: Well, as I told you I'm not a very organized person.

Mr. RAMESH DAMANI: Nevertheless, how much should it be. One in five . . .

Mr. RAKESH JHUNJHUNWALA: Well, I have invested at least 5 to 7 percent of my net worth in private equity.

Mr. RAMESH DAMANI: Okay, Bharat bhai, let me come to you. Thank you Rakesh. First your outlook on the market for the next year or so?

India of tomorrow would be radically different from the India of today

Mr. BHARAT SHAH: Well, **I wouldn't really like to make predictions about the course of the market in the next one-year or so**. But let me basically talk about the major changes that are happening in the economic landscape of the country, as I see it. Let's analyze what has happened and what kind of businesses will be successful in that changed environment.First, as I mentioned earlier, there is a tremendous sense of belief and a tremendous sense of self-esteem that has come back to the system at least in the right pockets. Second, I see lots of companies thinking globally rather than locally. And these are the companies that are strategizing and formulating solid game plans to conquer not just at the local level but also at a global level. Third, the powerful forces of the two ubiquitous rules of the wired world - sharing and connectivity - are more visible today than ever before. I think there is a genuine attempt at sharing the wealth with people around. People are realizing that the only way to grow is by sharing and not by pocketing. And if you try to pocket then you'll not even be left with what you're trying to pocket. So I think the wise ones and the progressive ones are working very solidly on creating a model of sharing.

The other ubiquitous rule of the wired world - connectivity - is again something, which is being adopted in a big way by new generation businesses. By new generation business, I don't necessarily mean new companies or companies in the arena of technology, but companies with new and innovative ideas applied to products, processes or what have you. So there you are seeing the power of the networked economy, power of alliances and power of doing it together rather than in an exclusive manner for yourself, with lots of strategizing and lots of abilities going into it. Earlier Chandrakant bhai spoke about growth rates in the software business and he specifically mentioned Infosys, vis-�-vis growth rates for India's GDP. I don't think those are mutually exclusive issues. If we indeed are going to witness a big growth in many of these New Age businesses, then I don't think we can say that the GDP growth itself will continue to remain at a particular level. The GDP growth rate has to reflect the new dynamism.

So when I put these things together and combine them with the fact that India possesses tremendous capability and tremendous intellectual capital, I am inclined to think that there are whole lot of businesses where India is going to rule the roost. And those are the businesses, which are actually allowing or can allow India to leap frog rather than remain mired in the kind of poverty and destitution in which it has lived all this time.

So given these facts I believe that in the next 10, 15 or 20 years, **India of tomorrow would be radically different from the India of today** and I think that will have to come from the power of the economic enterprises. The economic prosperity is going to bring many of these changes and economic prosperity would happen because many people are thinking this way. Both are synergistic issues where people who are making these things happen create economic prosperity which in turn stimulates people to pursue that path. Never before has the spirit of entrepreneurship been as visible as it is today.

A lot of people say that India doesn't have entrepreneurial capability. I think nothing is further from the truth. India always had entrepreneurial capability but earlier the only ways to get rich was through inheritance or some how, through dubious means, acquire it. It is for the first time that people are realizing in this country that it is possible to get rich or be rich by doing things the honest way. This spirit combined with the dominance of mind over matter is spurring people to take the plunge, to do things differently. The mood now is; to win or loose doesn't matter, I'll still take the plunge and do my honest best.

Deciphering signals from the noise

Mr. RAMESH DAMANI: Bharat bhai, how do you translate that picture you painted whilst picking stocks. Do you visit companies, do you look at balance sheets? Share with us your methodology for picking stocks.

Mr. BHARAT SHAH: Well, I think, the balance sheet part honestly comes much later. Not that I don't read balance sheets [Annual Reports]. I go through income statements as a part of the due diligence but I think when things are changing so fast, you're not going to get your ideas just by reading balance sheets or by reading only the printed word around.

I think, one needs to observe things around, sift through the environment in the hope of deciphering trends. Given that changes are happening at such a furious pace, one has to work very hard in identifying businesses that stand a chance to be successful or remain successful amidst so much turbulence and chaos. And to top it all one will need to build a conviction around it.

And that conviction will have to be supported by the ground level work that one does which itself stems from those broad brush ideas or broad brush suggestions that one gets from the environment. Meeting managements and reading annual reports, in my opinion is relatively incidental and secondary. There is a phenomenal rate of change happening at the margin, and my energies are occupied in trying to diagnose that change and understand it. To understand where that rate of change is highest and where there is likely to be a high degree of sustainability, I think, 80 to 90 percent of the battle is won.

Mr. RAMESH DAMANI: And I think the change is sometimes anecdotal. It doesn't easily lend itself to quantitative measures. It's instinctive. How do balance that up against the fund manager's duty of financial disciplines?

Mr. BHARAT SHAH: We never want to invest in something that is purely an idea and will remain a callow idea forever. Or something that will never translate into an identifiable bottom line which can be appealing and tangible to a sufficient number of market participants so that they can put a value on it and accordingly I can get my returns.

So obviously we follow it up by doing strong work in terms of meeting the management not just within the company at various levels but outside. We meet a variety of people and try to identify their strengths and weaknesses. We also read up as much as is possible about their business or about the people running those businesses and try and arrive at some kind of view. But I think that's pretty much routine. I don't think there is anything eureka about it.

Mr. RAMESH DAMANI: Everyone knows that you have made an aggressive bet in software. Where are you finding value in the software sector at least for now?

Mr. BHARAT SHAH: I think, whilst investing, we look for either a business which appeals, or an idea which is powerful, or some kind of an innovation, or a capability which is very different from the others, or simply, people per se. In some cases the idea of the business itself can be so powerful that even if the management is mediocre, it can deliver fantastic returns, merely because the business itself is on a right prop. There are other cases, where some fantastic people with very different set of capabilities, make the difference. In some other cases there is a phenomenal level of innovation, the kind of world beating innovation capability that surprises us. Sometimes we marvel at how people sitting in the backyards of this country can dream, and think of new and innovative ways of doing things, and not only think but execute it successfully. And there are examples of people who have done that. And sometimes we bet on the traditional businesses that demonstrate a can-do kind of belief/attitude in making a difference to the business.

Archies continues to appeal to me

Mr. RAMESH DAMANI: Give us some ideas.

Mr. BHARAT SHAH: One thing, which continues to appeal to me, is Archies. Because I think it's a wonderful business. **It has tremendous scalability**. It is a very efficient user of capital. And the beauty of that business is that it need not remain confined to the underlying actual visible businesses that you see today. In the sense, if it is greeting cards today or some gifts and other stuff tomorrow, day after it could be something else. So it need not remain confined to just those greeting cards or the goggles or the gifts or what have you.

Mr. RAMESH DAMANI: But in a wired world, is there a threat to the basic franchise for greeting cards at least? You can go to a bluemountain.com and send a greeting card. Is there a threat to the model that they have?

Mr. BHARAT SHAH: No, if you analyze the business there are various components of that business. One component is the heart to heart meeting and that particular business is operating purely in the physical world. You are not likely to send an email or an e-greeting to your wife or daughter or parents or to someone who is very dear to you.

Mr. RAKESH JHUNJHUNWALA: Someone told me that your wife doesn't have your e-mail address.

Mr. BHARAT SHAH: Well that incidentally is the case. There is a very large segment that stems from human emotions, the human touch, the feelings and the expression. And it is a very large segment of that [Archies'] business. Because a greeting card to someone very dear is nothing but an expression to somebody saying that I care, that I like you, and that you mean something to me.

The electronic medium opens up a whole new market opportunity

Mr. RAMESH DAMANI: You can even send a greeting electronically, not an email but go to bluemountain.com and send an electronic greeting card. In a broadband world is there any danger of cannibalization?

Mr. BHARAT SHAH: There is the corporate category for example, where on an occasion like Christmas or Diwali, people may exchange greetings electronically. There is going to be a segment, where the relationship is not so personal, that could be occupied by an e-greeting situation. But do you know, in a country like America, which is one of the most wired countries in the World, the physical greeting card business has grown at a compounded rate of 14 percent over the last three years. So physical business has not being impacted by the wired world; it has witnessed a major growth.

I think they are going to be pockets where the business may migrate to the electronic medium. In fact, I view the very real threat of the electronic medium as an opportunity. It goes a long way in expanding the market. Today, the electronic medium offers the possibilities of browsing from the comfort of your home [computer], placing an order, and making sure that the greetings are delivered at the right time and place.

That�s a fresh new business. So I think there is a threat of some business going away and there is a whole brand-new opportunity of creating new business.

The ability is the knowledge of the customer and what appeals to him and an ability to distribute something effectively in a manner, which is constantly going to keep the customer energized and enthused about your business. So the wired world, I think, allows you a fantastic opportunity to reach out. If your emotion, expression, packaging is superior there is no reason why you can't do better than the American Greetings or the Hallmarks of the world.

Mr. RAMESH DAMANI: Okay, after Archies?

Visual Software continuously keeps surprising me in a positive manner

Mr. BHARAT SHAH: Well in terms of sheer innovation capability, **one company which continuously keeps surprising me in a positive manner is Visual Software**. I think the prolific pace at which they are creating one creative innovation after another is astounding. And not just innovation but innovation which is absolutely path breaking and in absolute contemporary technology in a particular area in which they are operating. This, furthermore, is backed by a very strong capability to convert an idea into a commercial reality and thereafter to put it in such a big global bazaar in a manner where it effectively sells after taking into account the time-to-market-sensitivity. I think the sheer pace of innovation in that company is absolutely mind-blowing. Apart from its technological prowess and its ability to pump out very successful products and all that, what impresses me the most about that company is its innovation capability. And it does this sitting in some part of India, not Silicon Valley. For coming up with ideas which are superior to and acknowledged as stronger to what Silicon Valley guys have developed in many cases requires some kind of lateral thinking, and an ability to go beyond the mundane. And I think this ability has been amply demonstrated not only through the current bunch of products that they sell but a pipeline of products that they have created. So I like that business immensely.

In terms of facilitating convergence in the telcom area, I like Subex

Mr. RAMESH DAMANI: You have been a very public and very fervent believer in Infosys and Visual Soft, fair enough. You are also for a lot more software companies. Give us your fresh ideas, something new that investors can look at in terms of the software sector first.

Mr. BHARAT SHAH: In terms of the sheer convergence thing which is so powerful and something which is going to take the world to the new paradigm as is expected or at least many of the businesses to the new paradigm, there are several players available to you. Somebody could be an architect in that or somebody could be a plumber and a carpenter there or somebody could be an original creator of an idea itself in that. Today the 'creating' kind of ideas are not many which are available for one [the public] to buy into, but there are other ideas which are enabling that structure and edifice to come about. One of them, which **I like, is a small-company but doing a pretty quick and smart work is somebody like Subex**.

Mr. RAMESH DAMANI: It's the telecom company based in Hyderabad.

Mr. BHARAT SHAH: Yes, it is basically a testing and measurement, systems integration company, in the telecom area. It is also into the business of creating customized software solutions that are typically project software exports for the telecom area. It has also created new telecom pre packaged products for the fraud management and the churn management solutions, as in basically in the area of the customer care. And there is a pipeline of products that they are looking at establishing again in the pre packaged solution area. So they are basically creating technology rather than just using technology. Subex is in an amalgam of businesses starting from relatively mundane testing and measurement and systems integration to project solutions as per the needs of the customer to actually creating, conceiving solutions and putting it in the global market.

Mr. RAMESH DAMANI: A suite of telecom products.

Telecom is in the heart of the convergence game

Mr. BHARAT SHAH: Yes, **it is a suite of offerings in the telecom area**. And I think that telecom is something which is at the heart of the convergence game apart from the other enablers. So I quite like that business. I like the people because they are aggressive and they understand the value of time to market. They are good enough to come up with new solutions and new offerings quickly. And they have shown an ability to identify a good acquisition, put it together quickly, execute it efficiently and put it behind them. I think, it calls for a lot of ability for one to be able to go through and compete for a young company like that. So I quite like that.

Mr. RAMESH DAMANI: Good. Is there any other sector that you can care to name other than software?

Mr. BHARAT SHAH: In respect to the sheer capability in a traditional business, I like Punjab Tractors. I think a lot of people have pretty different views about tractors. Our biases and our beliefs about tractors stem from what we see in the global market. But I think that's completely untrue. What may be true for America or what may be true for Europe, need not be true in this country where agriculture itself, in a professional manner, has to transit from an old paradigm to a new one. And that is going to call for very different breed of agriculturists and very different breed of people who are going to make it happen. And accordingly, I don't view tractor as a cyclical business at all. To my mind, it's a fairly long-term secular growth kind of a business. And given the fact that agriculture growth is definitely going to happen in this country, tractors to my mind even on a 15 year basis is a secular long-term sustainable growth story. And one of the players that I like very much in a traditional business like this is Punjab Tractors.

Again their model is not to sell machines. Their model really is to offer a mind clinching level of customer service and occupy a share of his mind. It is one of the exceptional companies that don't have to carry inventory in its backyard because all its products are presold. And it has sufficient hold over the customer, enough to sell only on a cash basis rather than on credit.

In a traditional business like this, where a high working capital investment would be expected, Punjab Tractors operates on a negative working capital basis. It uses it's capital very efficiently. Now that calls for an ability to do something different. They are quick to understand customer needs. They understand what motivates a typical buyer to buy a product and they have an ability to constantly innovate and come out with products with requisite features that are relevant and important to the milieu in which those tractors have to operate. I think they are a very practical bunch of people with superb execution skills. I like that business.

Mr. VIBHAV KAPOOR: I would like to add to that. In terms of management quality, I think Punjab Tractors has one of the best managements that I have come across in this country. Whether it is in terms of transparency, in terms of accounting, in terms of the sheer ability of that management to meet what the customer requires, they come out tops.

Mr. RAKESH JHUNJHUNWALA: I'm happy to say that I have invested with Mr. Chandramohan, the man who founded Punjab tractors and ran it for 20 years.

[Mr. Chandramohan promoted a company in which he invited private equity investment.]

Mr. RAMESH DAMANI: We'll turn to the wisest man on Dalal Street, last but not the least because we must benefit from his wisdom and experience. He has seen many a bull market, many a bear market, the man who survived the test of all of them. We'll ask Chandrakant bhai, first of all is he bullish or bearish as we stand today?

Mr. CHANDRAKANT SAMPAT: Well I would say that I'm fairly confident that this country's GDP will start expanding at not less than 12 percent per annum. If it grows faster than that then, by 2015 India would be an even bigger economy than USA on purchasing power parity (PPP) basis. Now that makes me very bullish on this country. This country has property laws in place. The education is there. We have a huge middle-class, there is everything ready in this country. So I'm very bullish in the long-term on the market. Of course it will have its ups and downs. Nothing goes up continually. For instance by 2015 or 2020, this country will have highest number of 25 years olds. Look at the demography. It's demography that is going to make this country totally different then what it is. So that's my view. I'm very, very bullish.

Mr. RAMESH DAMANI: Can you come up with some ideas that will benefit from this demographic explosion you are seeing?

Mr. CHANDRAKANT SAMPAT: Let me give you an instance. It's not that I'm trying to recommend something for your investment. These are two different things. I'm now only talking about the demography. Let's look at it this way. In the U.S. today the consumption of chocolates is around 10 kg per person per year. In UK it is 14 kg per person per year. In India today, it is merely 20 grams per person per year. Now juxtapose that with the GDP growth that I just spoke about. By 2015 or 2017, if we become as big an economy as the U.S., factoring in only a thousand grams per person per year, the potential opportunity can be huge.

Mr. RAKESH JHUNJHUNWALA: We will need lots of dentists also J

[A voice from the audience prompted that this could bode well for toothpaste manufacturers like Colgate and Pepsodent.]

Mr. CHANDRAKANT SAMPAT: Let's look at it this way - 20 grams to 1000 grams is around 50 times in 15 years i.e. a CAGR of 30% in volume terms. Now look at Cadbury, which has a turnover of Rs. 500 crores (US$115 million). If Cadbury can keep pace with the market i.e. maintain market share, assuming constant prices, at this rate it would translate to a turnover of Rs. 25,000 crores (US$5.75 billion) by 2015 or 2017. All I need to ask myself is, do I have the resources to stay with it for this long.

Now if you look at the statement made by Nestle's chief (Mr. Donati) here. He said that Nestle was looking at a Rs. 10,000 crore (US$2.30 billion) turnover by 2008 and perhaps he says that in 25 years India could be amongst the top five in Nestle's family. Can we imagine what that means. Nestle is a US$60 billion company that itself is growing at 3 to 4 percent per annum. The opportunity certainly is huge.

Mr. RAMESH DAMANI: So is this a good time to stock up on Cadbury and Nestle?

Mr. CHANDRAKANT SAMPAT: No, I'm not saying that.

Mr. RAMESH DAMANI: We want your ideas.

Mr. CHANDRAKANT SAMPAT: At these prices I like Colgate, Nestle and Procter and Gamble. Look at the Procter & Gamble story.

Mr. RAMESH DAMANI: The stock made a new low yesterday though.

Mr. CHANDRAKANT SAMPAT: Yes, but look at the story. Let's not look at the quarters. Let's look at the story. According to the National Economic Survey there are four million millionaires in this country at 1995-96 prices. By 2006 the anticipated figure is 40 million. Out of this 40 million, let's assume that 25 million would use high quality feminine hygiene and 33 per cent of this market share goes to Whisper [A P&G brand]. A year's worth of Whisper costs around Rs. 1,250 per user. This means that Whisper's market could balloon from the Rs. 88 crores it is today to a mind-boggling figure of Rs. 1,000 crores by 2006, a CAGR of around 50 per cent. Now where do you get this kind of opportunity? I don't think anywhere else in the world you'll see these kinds of opportunities. This is a company with free cash flow, negative working capital and no debt on them.

Mr. RAMESH DAMANI: Do they have pricing power left though?

Mr. CHANDRAKANT SAMPAT: Well, look at how Whisper is priced here as compared to the other brands. It offers superior quality at a premium price and still is market leader. And by the way Procter & Gamble has around 1700 patents on them. One of them is this. So Whisper is not just another sanitary pad, there's lots of technology in there, like the Mach 3, which is not just another shaving system.

Mr. RAMESH DAMANI: Yes, but there's some risk in these investments in terms of these FERA managements [wholly owned subsidiary risk]. Look what happened to Xerox, ultimately they privatized it and robbed us of our investment. Aren't there similar risks in this case?

Mr. CHANDRAKANT SAMPAT: Well, let me tell you one thing. When you invest in equity there's always a risk. There's no risk free equity. It doesn�t exist you know. Now the only question is, are we meeting the equation of risk and reward? Today when we talk of, say for instance, software, we are only talking about returns. We are not looking at the risk. Let's look at both, risk and the returns. Unless we look at both, the risk and returns, we are purely gambling. We are playing roulette.

Mr. RAKESH JHUNJHUNWALA: Chandrakant bhai some of these multinational management have turned out to be worse thieves than Indian managements.

Mr. CHANDRAKANT SAMPAT: Quite true. I said there is a risk. I'm not saying that there is no risk. Please, don't misunderstand me. There is no gain without risk. I have admitted that there are risks and what kind of risk you want to take, is a very personal question.

Mr. RAKESH JHUNJHUNWALA: There is a risk of them transferring business to their wholly owned subsidiaries.

Mr. RAMESH DAMANI: What we'd like to do is to open up to the panel. So I'd like to ask you to summarize your views. Could you tell us your top three ideas right now for the next say two to three years?

Mr. CHANDRAKANT SAMPAT: Well I don't invest for two to three years even at 71. I'm looking at 20 years.

Mr. RAMESH DAMANI: Okay, what are your top three ideas for the next 20 years?

Mr. CHANDRAKANT SAMPAT: I don't have more than seven scripts in my portfolio, so I'll talk about seven. They are Birla 3M, Cadbury, Colgate, Hindustan Lever, Indian Shaving Products, Nestle and Procter and Gamble. That's it.

Mr. RAMESH DAMANI: They are all FERA companies and so he's been rightly called the...

Mr. CHANDRAKANT SAMPAT: But the basic idea is very simple. I look for durability, entry barriers, positive cash flow, negative working capital, and asset turnover ratio of not less than 3.50.