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R^RE Enterprises

Outline

- History of Markets
- India's Economic Growth and it's Equity Markets
- Inevitability of India's Economic Growth
- Indian Equity Markets in the Long-Run
- Asset Allocation and Compounding
- Investment Approach
- Exiting from an Investment
- My Life and Career
- Advice

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HISTORY OF MARKETS

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CAPITAL MARKETS | EVOLUTION

Industrial Revolution

Financing/ Risk Sharing

Separation of ownership from management

Investors

EXIT / LIQUIDITY

RAISON D'ETRE OF CAPITAL MARKETS

CAPITAL MARKETS | FUNCTION

- Temples of Capital Allocation . . .
- . . . To channelise Capital to most productive Assets
- Condition precedent for Risk Capital to exist and to grow
- Barometer of Economic environment, Corporate confidence and Capital flows
- In an Efficient Capital Market, appropriate Valuation may be delayed, but cannot be denied

INDIA'S ECONOMIC GROWTH AND IT'S EQUITY MARKETS

- Valuation are a slave of Earnings

- Earnings are a function of Economic growth

- Earnings growth = 1-1.5x of Nominal GDP growth
  - If Real GDP growth = 9%, Inflation is 5%,
  - Then Nominal GDP growth= 9%+5%=14%
  - Hence, Earnings growth = 14 - 21% (1-1.5x of NGDP)

- The bull market in Indian equities (present and future) is a direct derivative of India's economic growth

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INEVITABILITY OF INDIA'S ECONOMIC GROWTH

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INGREDIENTS OF INEVITABLE GROWTH

- Culture of Tolerance
- Skill-sets
- Entrepreneurship
- Democracy
- Demographics
- Savings rate
- Orderly evolution
- Take-off

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CONFLENCE OF REFORMS→ TAKE OFF

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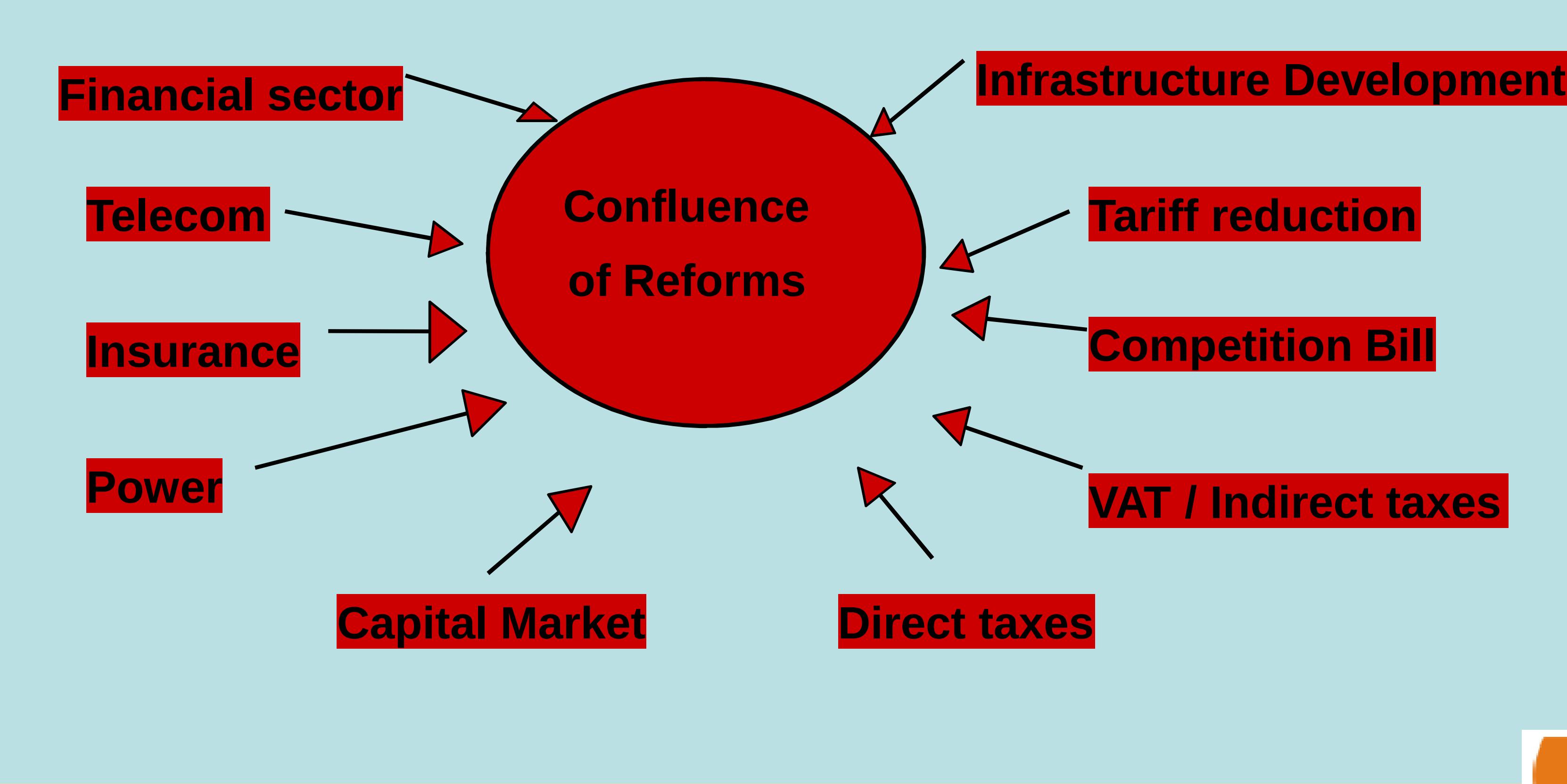

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INDIAN EQUITY MARKETS IN THE LONG RUN

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MARKET INFRASTRUCTURE IN PLACE

- **Infrastructure for equity flows in place**
  - Modernized trading system + Dematerialization
  - Corporate governance thru market's sword
  - Effective Regulatory environment
  - Competitive private sector Mutual Fund industry
  - Blossoming Insurance Sector
  - Inevitability of FII Investments
- **Tax paradise**
  - Short term capital gains at 15%
  - No Long term capital gains tax (STT regime)
  - Dividend tax free

POTENTIAL TO ENHANCE EQUITY OWNERSHIP

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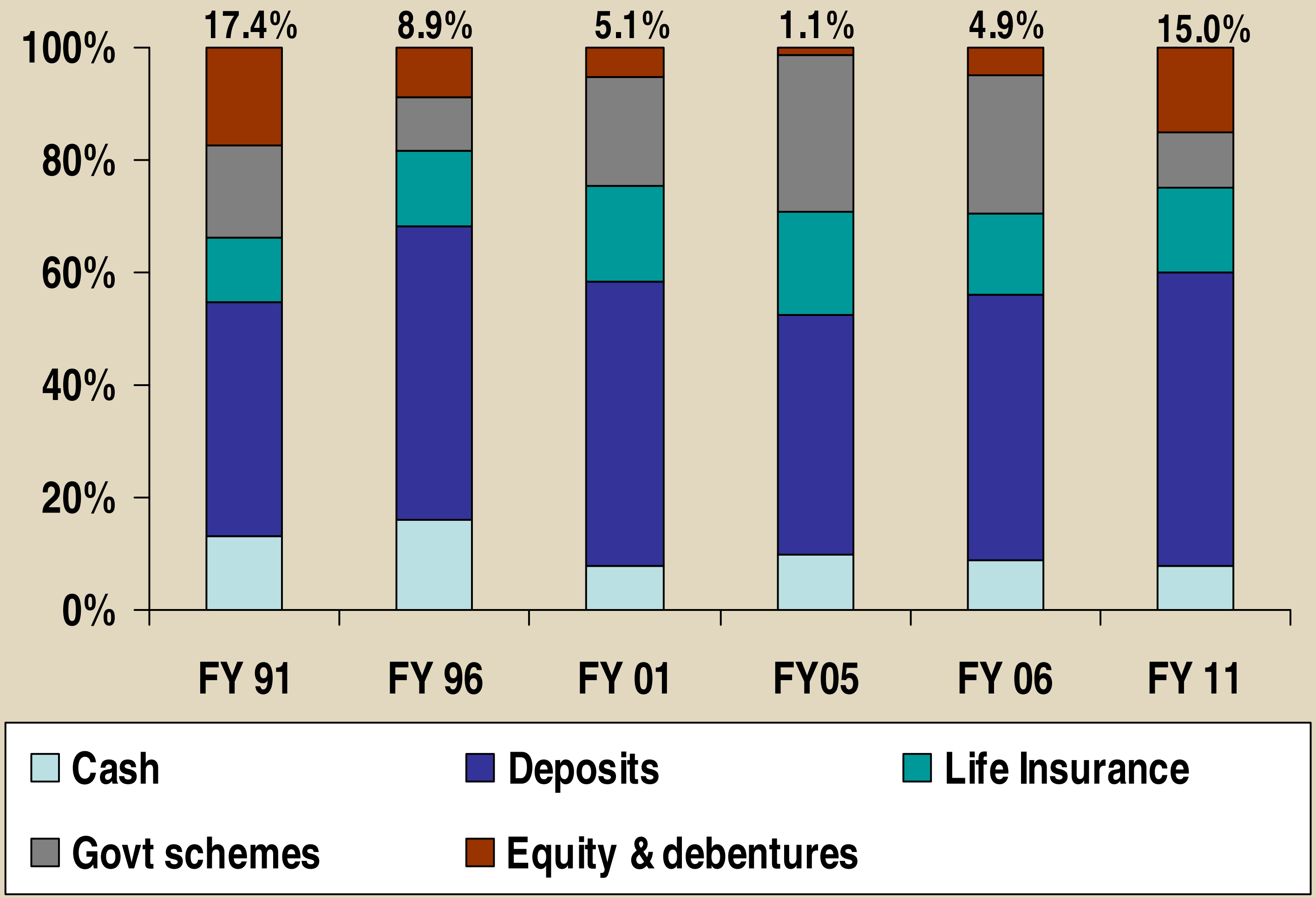
Distribution of Financial Savings



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FUND FLOW FOR EQUITY MARKETS

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Savings Composition

USD Bn	1994	1995	2004	2005	2006	2007	2008	2009	2010	2011
GDP	**274**	**323**	**601**	**694**	**798**	**904**	**1,026**	**1,163**	**1,319**	**1,496**
Gross domestic savings	62	80	174	202	235	271	315	365	425	494
Savings to GDP %	22.5%	24.8%	28.9%	29.1%	29.5%	30.0%	30.7%	31.4%	32.2%	33.0%
Financial savings	35	46	83	97	133	156	184	216	253	299
- % of GDP	12.8%	14.4%	13.8%	14.0%	16.7%	17.3%	17.9%	18.6%	19.2%	20.0%
Savings in Equity/Deb/MF	**4.7**	**5.5**	**0.1**	**1.1**	**6.5**	**5.9**	**11.8**	**21.2**	**34.0**	**44.9**
- % of Financial Savings	**13.5%**	**11.9%**	**0.1%**	**1.1%**	**4.9%**	**3.8%**	**6.4%**	**9.8%**	**13.4%**	**15.0%**

Fund flow for market

USD Bn	1994	1995	2004	2005	2006	2007	2008	2009	2010	2011
Sources of funds										
Domestic savings	4.7	5.5	0.1	1.1	6.6	5.9	11.8	21.2	34.0	44.9
FII investment	3.6	3.8	11.4	8.9	12.5	8.0	10.0	13.0	16.0	20.0
Total	**8.3**	**9.4**	**11.5**	**10.0**	**19.0**	**13.9**	**21.8**	**34.2**	**50.0**	**64.9**
Uses of funds										
Domestic equity issues	3.2	5.5	4.8	6.5	7.1	6.5	7.5	10.5	14.8	
Secondary market	5.1	3.8	6.7	3.5	11.9	7.4	14.3	23.7	35.2	
Total	**8.3**	**9.4**	**11.5**	**10.0**	**19.0**	**13.9**	**21.8**	**34.2**	**50.0**	

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ASSET ALLOCATION AND COMPOUNDING

BELIEF SYSTEMS

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1 Realism - a Conviction

2 Rigidity - a Taboo

3 Safety of Capital - a Religion

4 Absolute Returns - a Passion

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ASSET ALLOCATION

- 1971 – 80 Gold 30% p.a. compounded
- 1981 – 90 Nikkei 21% p.a. compounded
- 1991 – 2000 NASDAQ 26% p.a. compounded
- Stock, bonds and gold
- 1987 – 2006 Sensex 19% p.a. compounded
- Why Equities have / will deliver superior returns

IMPORTANCE OF CONSISTENCY

Future Value of Rs.1 lac per annum					
	Compound Annual Return				
Years	5%	10%	15%	20%	25%
5	127628	161051	201136	248832	305176
10	162889	259374	404556	619174	931323
15	207893	417725	813706	1540702	2842171
20	265330	672750	1636654	3833760	8673617
25	338635	1083471	3291895	9539622	26469780

CHOOSING AN INVESTMENT

WHAT TO LOOK FOR

- Attractive, addressable external opportunity
- Sustainable competitive advantage
- Scalability + operating leverage
- Management quality + integrity
- EVA positive over investment horizon
- Valuation: Price – Value divergence

TEN COMMANDMENTS FOR INVESTING

- Be an optimist! The necessary quality for investing success.
- Expect a realistic return. Balance fear and greed.
- Invest on broad parameters and the larger picture. Make it an act of wisdom, not intelligence.
- Caveat emptor. Never forget this four-letter word - R-I-S-K.
- Be disciplined. Have a game plan.
- Be flexible. For Investing is always in the realms of possibilities.
- Contrarian investing. Not a rule, not ruled out.
- Its important what you buy. It's more important at what price you buy.
- Have conviction. Be patient. Your patience may be tested, but your conviction will be rewarded.
- Make exit an independent decision, not driven by profit or loss.

EXITING AN INVESTMENT

EXITING AN INVESTMENT

- Asset Allocation
- Review of Critical Factors
- Relative Opportunity
- EPS or EPS Expectation Peaks
- PE Absurdity
- Not Driven by Profit/Loss - Independent

MY LIFE & CAREER

UTPAL ON RAKESH JHUNJHUNWALA

- Independent thinker
- Passion for equities. Measured risk taker
- A trader, an investor, a venture capitalist
- Not afraid to make mistakes, but affordable ones
- Made a mistake. Recognise it. Write-off. Move on. Never regrets, but always learns.
- No religion, no emotion, no ego, no rules. But, means remain more important than the ends
- Accept with an open heart and mind that the only constant is change. The urge to learn is a journey, not a destination
- Magic of emotion-less leverage, with discipline
- Patience born out of conviction. Be greedy, but be long-term greedy – understanding the role of time
- His word is his bond, highest integrity
- Loves his independence

MY ETHOS

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- Prayer
  - God's Grace, Elder's Blessings
- Aim
  - To win all wars despite losing many a battle
- Motto
  - Where the head is held high, and the mind is without fear . . .
- Logo - R^RE Enterprises
  - Rare, Enterprises, Green, Compounding
- Baseline
  - Insight, Intellect, Integrity

EVOLUTION

- Early days (1984-89)
- Learning curve (1990-1994)
- Defining time (2001- 2009)
- Aspiration (2009 - . . . .)

EARLY DAYS (1984-1989)

- Humble beginning – Rs 5000
- Initial hurdles
- Self-belief
- Inspiration – healthy influences
- No pain, no gain
- Initial trades
- Capital protection
- Tax compliance and efficiency

PARADIGM SHIFT (1990 -1994)

- **Inflexion point – Madhu Dandvate budget**
- **First market cycle experience – agony & ecstasy**
- **Shorting and pyramiding**
- **Prudent betting**
- **Ambitions cannot overshoot market opportunity**
- **Understanding the importance of liquidity**

LEARNING CURVE (1995 - 2000)

- **Rudder-less period**
- **Introspection**
- **Importance of reading, experiencing and learning**
- **Participation in tech boom**
- **Private equity learning – the value of scale**
- **Value picks – PSU jackpot**

DEFINING TIME (2001 – 2009)

- Once in a lifetime opportunity – India and its equity markets
- Growth stories
- Concentrated and diversified portfolio
- Maturity
- Buy right, hold tight – exit in frenzies
- Meaningful stakes
- Value adding investor
- Organization building
- Resisting temptations

ASPIRATION: 2009 AND BEYOND

- Institutionalization
- Perpetual view
- Other asset classes
- Other geographies
- Investor of choice
- Philanthropy
- De-leveraging
- Strategic thinker
- People, skill focused

ADVICE

AS YOU EMBARK ON PROMISING LIVES

- Whatever you can do or dream you can, begin it. Boldness has genius, power and magic in it.
- Do something you love
- The means are as important as the end
- Aspire, but never envy
- Be paranoid of success – never take it for granted
- Build a fighting spirit – take the bad with the good
- Though the horizon seems far and difficult, when you reach a horizon, you realise how many more horizons are beyond it . . .

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Thank you!

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