

# Presentation at Foundation for Liberal And Management Education (FLAME) Institute

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***R^RE Enterprises***

# Outline

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- 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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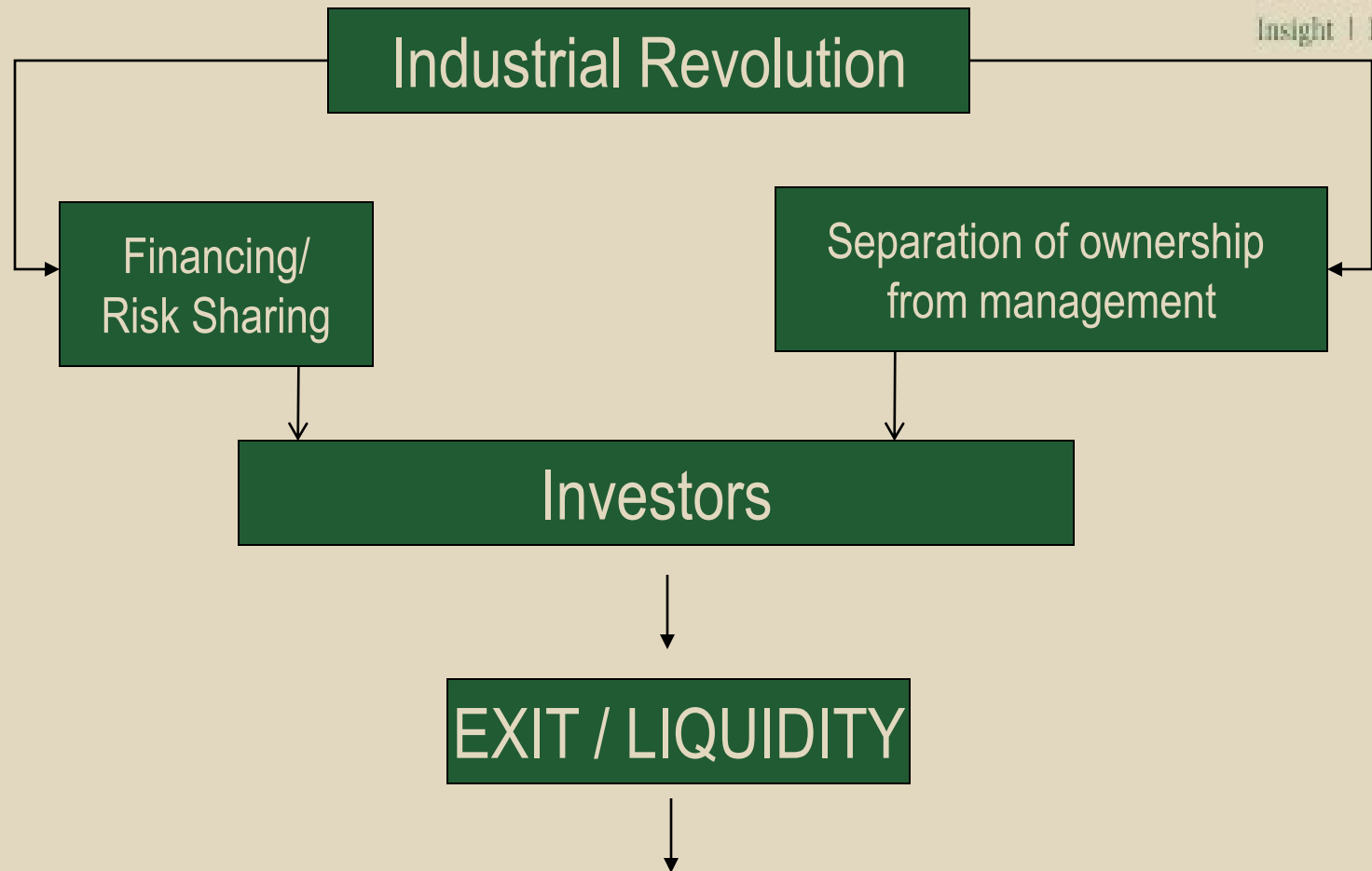
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# HISTORY OF MARKETS

# CAPITAL MARKETS | EVOLUTION

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RAISON D'ETRE OF CAPITAL MARKETS

# CAPITAL MARKETS | FUNCTION

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- 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

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- 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

# INGREDIENTS OF INEVITABLE GROWTH

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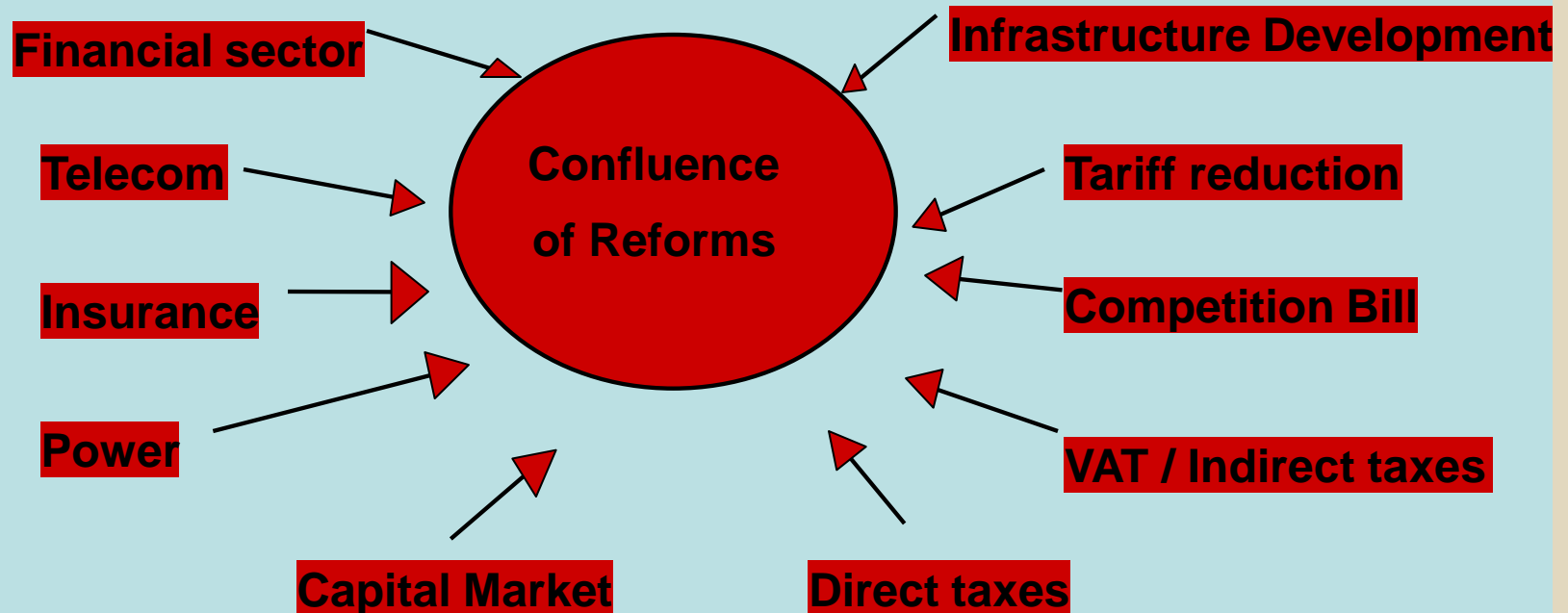
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- Culture of Tolerance
- Skill-sets
- Entrepreneurship
- Democracy
- Demographics
- Savings rate
- Orderly evolution
- Take-off

# CONFLENCE OF REFORMS → TAKE OFF

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# INDIAN EQUITY MARKETS IN THE LONG RUN

# MARKET INFRASTRUCTURE IN PLACE

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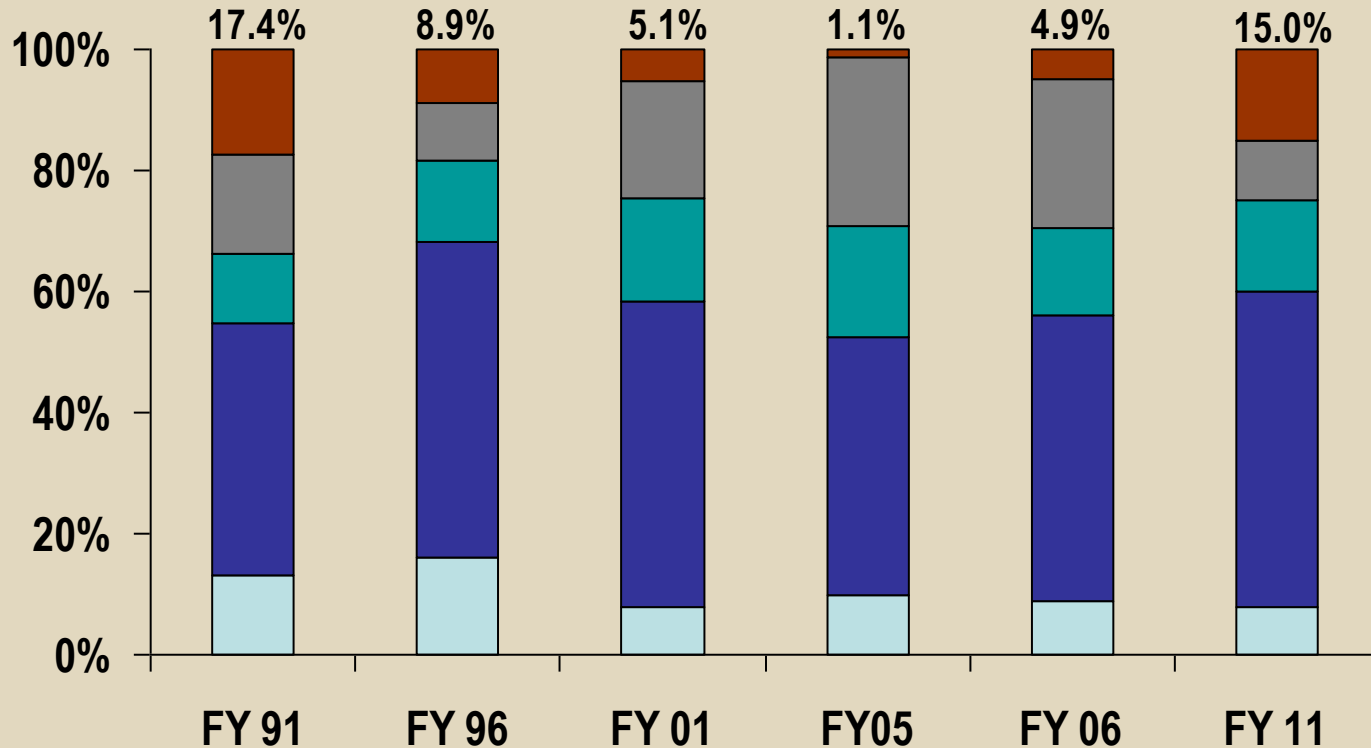
- **Infrastructure for equity flows in place**
  - Modernized trading system + Dematerialization
  - Corporate governance thru market's sword
  - Effective Regulatory environment
  - Competitive private sector Mutual Fund industry
  - Blossoming Insurance Sector
  - Inevitability of FII Investments
- **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



Cash

Deposits

Life Insurance

Govt schemes

Equity & debentures

# FUND FLOW FOR EQUITY MARKETS

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## Savings Composition

USD Bn	1994	1995	2004	2005	2006	2007	2008	2009	2010	2011
<b>GDP</b>	<b>274</b>	<b>323</b>	<b>601</b>	<b>694</b>	<b>798</b>	<b>904</b>	<b>1,026</b>	<b>1,163</b>	<b>1,319</b>	<b>1,496</b>
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%
<b>Savings in Equity/Deb/MF</b>	<b>4.7</b>	<b>5.5</b>	<b>0.1</b>	<b>1.1</b>	<b>6.5</b>	<b>5.9</b>	<b>11.8</b>	<b>21.2</b>	<b>34.0</b>	<b>44.9</b>
<b>- % of Financial Savings</b>	<b>13.5%</b>	<b>11.9%</b>	<b>0.1%</b>	<b>1.1%</b>	<b>4.9%</b>	<b>3.8%</b>	<b>6.4%</b>	<b>9.8%</b>	<b>13.4%</b>	<b>15.0%</b>

## Fund flow for market

USD Bn	1994	1995	2004	2005	2006	2007	2008	2009	2010	2011
<b>Sources of funds</b>										
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
<b>Total</b>	<b>8.3</b>	<b>9.4</b>	<b>11.5</b>	<b>10.0</b>	<b>19.0</b>	<b>13.9</b>	<b>21.8</b>	<b>34.2</b>	<b>50.0</b>	<b>64.9</b>
<b>Uses of funds</b>										
Domestic equity issues	3.2	5.5	4.8	6.5	7.1	6.5	7.5	10.5	14.8	20.7
Secondary market	5.1	3.8	6.7	3.5	11.9	7.4	14.3	23.7	35.2	44.2
<b>Total</b>	<b>8.3</b>	<b>9.4</b>	<b>11.5</b>	<b>10.0</b>	<b>19.0</b>	<b>13.9</b>	<b>21.8</b>	<b>34.2</b>	<b>50.0</b>	<b>64.9</b>

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# ASSET ALLOCATION AND COMPOUNDING

# BELIEF SYSTEMS

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*1* Realism -  
a Conviction

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*3* Safety of  
Capital - a  
Religion

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*2* Rigidity -  
a  
Taboo

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*4* Absolute  
Returns - a  
Passion

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# ASSET ALLOCATION

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- 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

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## 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

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# CHOOSING AN INVESTMENT

# WHAT TO LOOK FOR

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- 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

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- **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.**

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# EXITING AN INVESTMENT

# EXITING AN INVESTMENT

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

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# MY LIFE & CAREER

# UTPAL ON RAKESH JHUNJHUNWALA

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- **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

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

# EARLY DAYS (1984-1989)

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- **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)

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- **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)

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- **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)

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- **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

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

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**ADVICE**

# AS YOU EMBARK ON PROMISING LIVES

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- **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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