

26 May 2010

Dear Investors,

SENSEX has corrected to 16000, falling in line with global equity markets, which were distressed by the financial crisis in Europe. Most Indian investors and analysts are apprehensive of a bear market; I don't believe so. I cannot see a bear market at least for India for fundamental reasons. It is true that there is panic and anxiety in the market, which was fuelled by FII selling to the tune of Rs.10,000 Cr. in just three weeks. There was no rationale behind such a steep fall in Indian stocks, as European crisis and disturbances in other parts of the world should ideally make India a better investment destination. But you see...stock market is like that, which can be irrational in the short term!

India's macroeconomic fundamentals are looking really good, and I would call it 'exceptional' in the current global scenario. Couple of days ago, Prime Minister, Dr. Manmohan Singh indicated 8.5% growth for Indian economy and a double digit growth target. Many recent developments like a whopping Rs.80,000 Cr revenue from 3G and BWA Auction (against budgeted 35000 Cr), Lower Crude Oil Price and expected normal monsoon are very positive for Indian economy and for a comfortable fiscal management.

An accelerated shift in wealth creation has been happening from Developed Countries to Emerging Economies. The chaos in Europe and USA is part of this process, which could be painful for many - but not to affect India considerably. India's share of global market capitalization has gone up from .25% in 2003 to around 2% today. For the US, market cap has been declining significantly from around 50% in 2003 to 23% now. I expect India's share to double in the next 5 years. That's a huge wealth for India and amazing opportunity for smart investors! Don't forget that 18% of world population live in India.

SENSEX trading at 15 PE is safe for investors though not very cheap on a global perspective. Global fund managers have no better choice and I expect large sums of money chasing Indian stocks in the coming days and SENSEX could cross 18000 very soon!

As you are aware, we are fully invested at this point of time and I am comfortable that way. Going forward, we plan to hold on to most of our value stocks like Godrej Properties, ENIL, BILT, Tata Tea and Selan Exploration. We may attempt more dynamic churning of part of the Portfolio to improve the performance.

Warm regards,

Porinju Veliyath

Founder & CEO