



May 23, 2012

Time to apply 'Replacement Cost' theory!

Dear Investor:

Investor sentiment is at historic low due to the manifold economic and political challenges in India. Stock market has been depressed for quite some time. Does it mean 'sell and get out of the market'? I don't think so. It is an ideal time to buy selective Indian businesses and create superior wealth for the next many years! In the current inflationary economy, especially when Rupee has been falling, cost of setting up a new business / company is significantly higher. That means, price of an existing, viable and well-managed business should go up! Then, why stocks are going down? CNBC will give you many reasons; but for me, it is an opportunity!

Not all stocks are going down; core holdings in our PMS – Wockhardt (*at historic high*), Piramal Healthcare, Godrej, Tata Global, Munjal Showa and Selan Exploration are doing well. PMS has outperformed significantly in the recent past, though few investors could not benefit fully from the dramatic rise of Wockhardt, which closed at Rs.820 today, from Rs.150 couple of years ago

Let us stay invested and I feel equity investors are going to have a good time. In fact I am very excited about few stock ideas in pipeline - that could perform like Wockhardt.

Best regards,

Porinju Veliyath
Portfolio Manager