



February 16, 2012

Dear Investors,

Sense is coming back in equity markets after a period of irrational pricing. I am sorry for not communicating with you for a long period; I had nothing new to tell you!

I would like to share with you an observation: Market experienced unprecedented volatility during last 5 years, while mid-cap stocks in general declined more than the pivotal stocks. Large investors had been getting rid of smaller companies and took refuge in defensive stocks and tangible assets. In the process, hundreds of mid-cap companies are priced at a fraction of their intrinsic value, while pivotal stocks like HDFC, ITC, Hind Unilever, TCS etc. had been rising and supporting the SENSEX and NIFTY. I believe that these institutional favorites are well priced and Index performance could be modest in the coming years, where as selected quality mid-caps and large mid-caps operating in the growth segments of our vibrant economy could present annualised return of 30 to 40% for the next 2/3 years or more.

After a series of bad news domestically and Europe's financial crisis since 2011, mood is changing. Inflation and interest rates can not keep rising for long time and you can feel the cycle is turning. The worst is behind us in this regard. You are well aware of the debt crisis in some of the weak economies in Europe and political disturbances in Middle East and North African region (MENA), which are actively discussed today. Potential sovereign defaults could weaken European economy and many of the large global banks will be affected. This crisis is unlikely to end anytime soon and will remain a headache for the EU. How much should an Indian equity investor be concerned about this? Economic impact on Indian businesses will be limited though markets could be nervous for the short term when certain bad news breaks out.

Any major break out of unrest in MENA could result in higher crude oil price, which is bad for India – so let us add more Selan Exploration, one of our largest holding in Portfolio. Selan is priced at Rs.500 Cr today, against its estimated Oil reserves of over Rs.70,000 Cr in 5 proven oil fields spread across 200 Sq Kms in Gujarat! This debt-free, cash rich company has initiated an aggressive drilling program and is likely to grow at CAGR 50% for next many years. I find the management honest and very professional. Whatever happens in MENA or Europe, Selan should give us fabulous return in the future. Piramal Healthcare is another core holding in the Portfolio, which I believe is priced only at 50% of its real business value today! There are many such stories / stock ideas around us. I am not discussing more stocks now, especially the under-performers :) Let us look forward to an excellent performance for this year.

I will stay in touch with you more frequently.

Warm regards,

Porinju Veliyath
Portfolio Manager