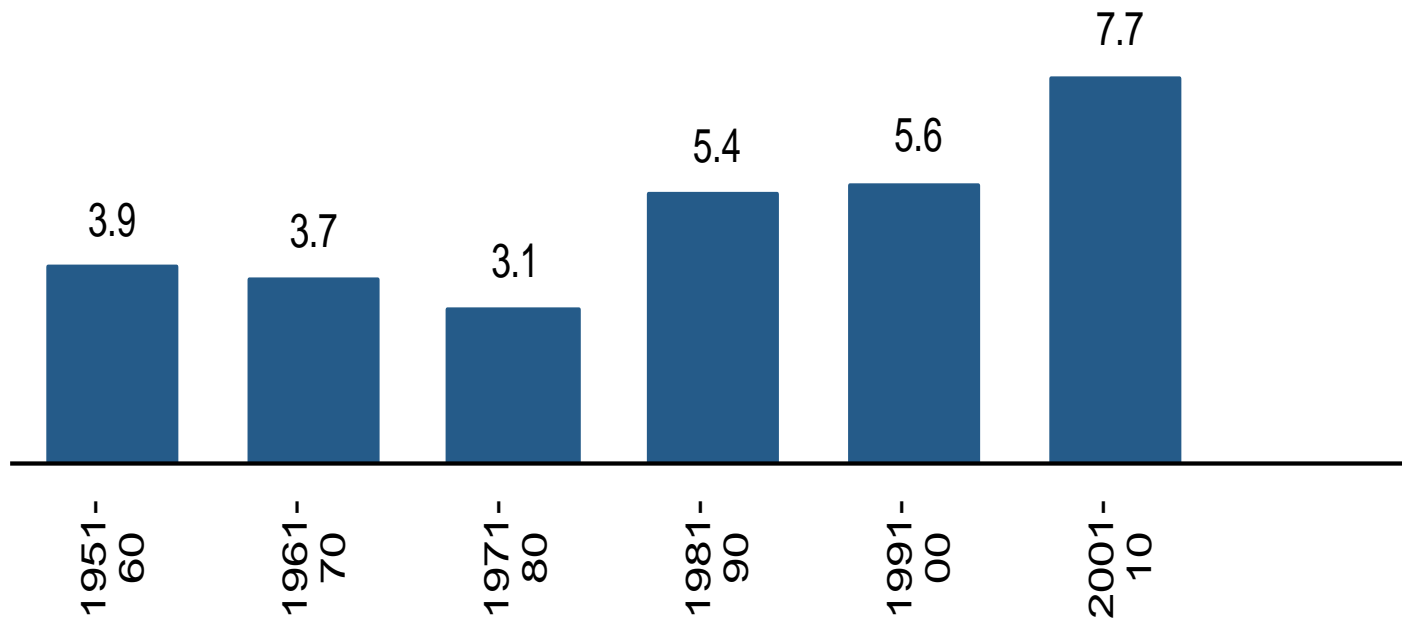


Some thoughts on Investing...

Prashant Jain
HDFC Mutual Fund

India - A Sustainable, High Growth Economy

GDP (average % change)



India's growth rates have continued to increase & there are reasons to believe that growth in current decade should be higher.

Source: India Ministry of Statistics and Programme Implementation Annual Report 2010-2011.

Indian Economy - The Big Picture

Key parameters	Past	Present	Future?
	FY 2001	FY 2011	FY 2020E
GDP (US\$ bn)	451	1727	6655
Global Ranking / (% of global GDP)	13 / (1.1)	9 / (2.9)	5 / (6.9)
Per capita GDP (PC GDP) in \$	445	1477	5017
Exports (US\$bn)	44.6	250	815
% of World Exports	0.70%	1.60%	3.40%
% of World Exports for China	4.2%	9.5%	14%
Mobile connections in Million	3.6	811	2031
Mobile Teledensity	0.40%	68%	135%
Price per minute of Airtime in Rs	5.18	0.43	0.37
2 Wheeler unit sales in Million	3.6	11.8	24.8
% Penetration per household	20%	35%	70%
Price per unit (Splendour) (\$)	800	1023	1500
2 Wheeler price to PC GDP	1.80	0.69	0.30
Car unit Sales in Million	0.6	2.5	7.2
% Penetration per household	3%	7%	20%
Price per unit (Alto) (\$)	7000	6250	8000
Car price to PC GDP	15.7	4.2	1.6

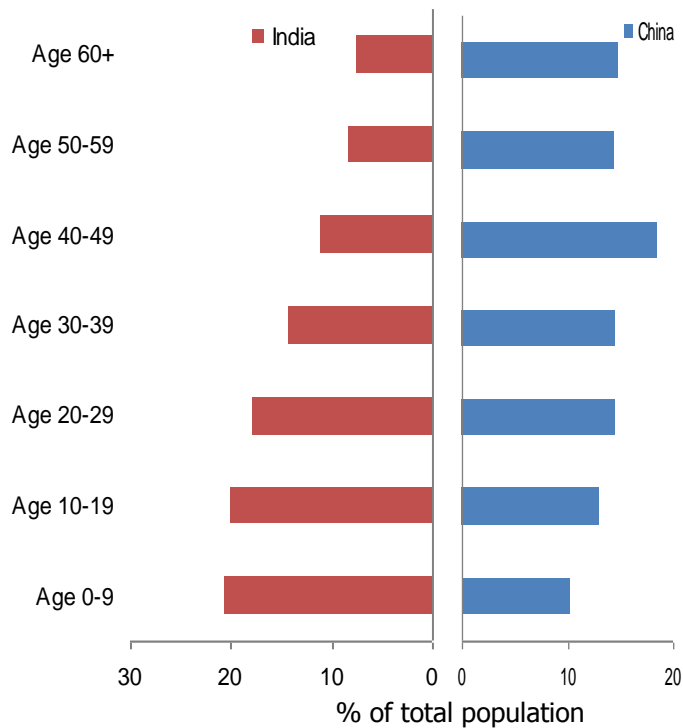
India should emerge as the 5th largest economy by 2020

Increasing affordability, low penetration of consumer goods, increasing credit, favourable demographics & increasing export competitiveness point to sustained economic growth ahead...

Source: BofA Merrill Lynch

India Economy – Attractive Demographics, turning better

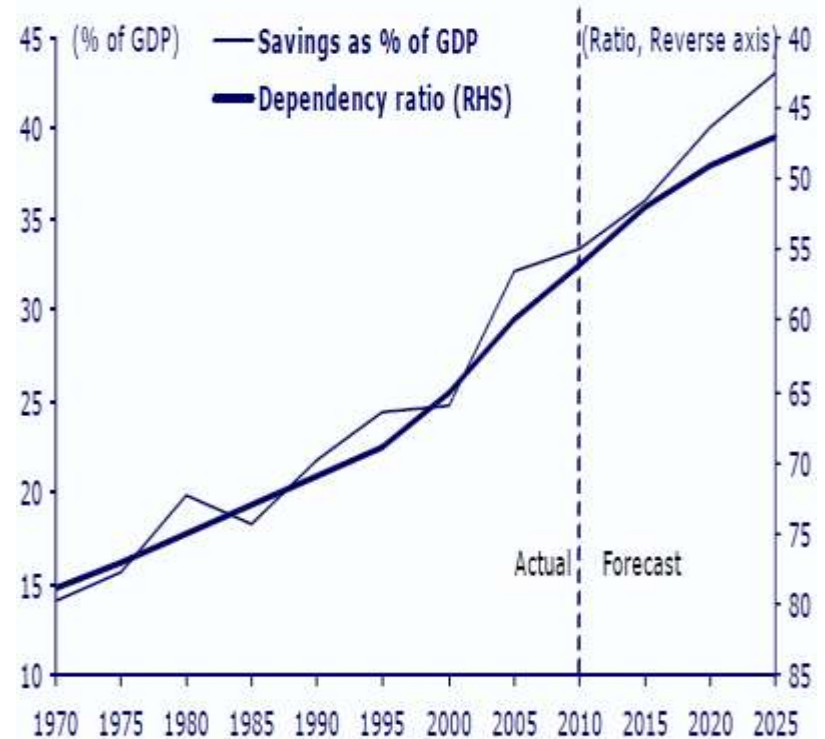
India and China – Population Structure 2010



India has a very young population; a large number should move into working age in next 10 years

Source: Euro monitor International from national statistics, UN / MOSL

India's dependency ratio should continue to fall and savings rate should continue to rise, facilitating higher investments



Source: CLSA research

Dependency ratio is defined as proportion of population above 60 years divided by working population (aged between 19-59 yrs)

Indian Equities- A Great Compounding machine

Short term returns in equities are volatile; hence equity investments should be made with a long term horizon

No.	Year ending March	BSE Sensex on 31/03/XX	Rolling 1 year returns	Rolling 5 year returns	Rolling 10 year returns	Rolling 15 year returns
0	Mar-79	100				
1	Mar-80	129	29%			
2	Mar-81	173	35%			
3	Mar-82	218	26%			
4	Mar-83	212	-3%			
5	Mar-84	245	16%	20%		
6	Mar-85	354	44%	22%		
7	Mar-86	574	62%	27%		
8	Mar-87	510	-11%	19%		
9	Mar-88	398	-22%	13%		
10	Mar-89	714	79%	24%	22%	
11	Mar-90	781	9%	17%	20%	
12	Mar-91	1168	50%	15%	21%	
13	Mar-92	4285	267%	53%	35%	
14	Mar-93	2281	-47%	42%	27%	
15	Mar-94	3779	66%	40%	31%	27%
16	Mar-95	3261	-14%	33%	25%	24%
17	Mar-96	3367	3%	24%	19%	22%
18	Mar-97	3361	0%	-5%	21%	20%
19	Mar-98	3893	16%	11%	26%	21%
20	Mar-99	3740	-4%	0%	18%	20%
21	Mar-00	5001	34%	9%	20%	19%
22	Mar-01	3604	-28%	1%	12%	13%
23	Mar-02	3469	-4%	1%	-2%	14%
24	Mar-03	3049	-12%	-5%	3%	15%
25	Mar-04	5591	83%	8%	4%	15%
26	Mar-05	6493	16%	5%	7%	15%
27	Mar-06	11280	74%	26%	13%	16%
28	Mar-07	13072	16%	30%	15%	8%
29	Mar-08	15644	20%	39%	15%	14%
30	Mar-09	9709	-38%	12%	10%	6%
31	Mar-10	17528	81%	22%	13%	12%
32	Mar-11	19445	11%	12%	18%	12%
33	Mar-12	17404	-10%	6%	18%	12%
Probability of loss			12/33	3/29	1/24	0/19

Sensex /Equities are a great compounding machine
Rs. 100 = Rs. 16,000 over 32 years

Long term returns are less volatile; risk in equities reduces as holding period increases

As holding period increases, chances of loss reduces

Past Performance of the SENSEX may or may not be sustained in the future. Returns for periods more than 1 year are shown on a compounded annualised basis. Note: The base year of SENSEX is 1978-79 and the base value is 100. Please visit www.bseindia.com for the SENSEX calculation methodology

An investment paradox : Mistiming by majority

Annual net sales of equity funds across different phases of the market

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Equity Net Sales (Rs crs)	118	7205	7398	36155	29916	52701	4084	1456	-11795	504
BSE Sensex (March end)	3049	5591	6493	11280	13072	15644	9709	17528	19445	17404
Average forward P/E	10.34	11.39	11.62	13.14	15.79	20.56	15.69	17.24	17.74	14.75

(Source: Equity net sales – AMFI ; Average forward P/E is the monthly average P/E for the year – Bloomberg)

Only Rs. 118 crs
invested at P/E's ~10

Over Rs. 50,000 crs
invested at P/E's > 20

Only Rs. 500 crs
invested
at P/E's < 15

**Doing the same thing over & over again and expecting
different result is defined as "INSANITY"**

Albert Einstein

For good results focus on P/E, ignore the news

Investments made in good times

- ❖ This table summarises the 3 and 5 year returns for the Sensex from times when the environment was good, market sentiment was positive and valuations were expensive, post year 2000

Time	Sensex Level	1 year forward P/E	Main news / reasons	Total Returns after 3 years#	Total Returns after 5 years#
Jan-00	5205	25	High optimism in technology stocks	-38%	26%
Dec-07	20287	26	Booming global economy, optimistic markets	1%	-15%*

Investments made in adverse times

- ❖ This table summarises the 3 and 5 year returns for the Sensex from times when the environment was challenging, market sentiment was negative and valuations were low, post year 2000

Time**	Sensex Level	1 yr forward P/E	Main news / reasons	Total Returns after 3 years#	Total Returns after 5 years#
Oct-01	2989	11	9/11 attack on WTC, global markets collapse	91%	334%
June-04	4795	10	Unexpected defeat of BJP in general elections	206%	202%
Nov-08	9093	11	Sub-prime crisis - Lehman collapse	77%	N.A.

Dividends not accounted for ; Past Performance of the Sensex may or may not be sustained in future.

Source: Bloomberg

** Index level is taken as on the next month end after the crisis; * This return is from Dec 2007 till April 2012

The above tables are for illustration purposes only and should not be construed as an investment advice. It does not in any manner imply or suggest current or future performance of any HDFC Mutual Fund Scheme(s). N.A. – Not available

Alternate Investments - Returns over long periods

	10 Year CAGR (%)	20 Year CAGR (%)	30 Year CAGR (%)
G-Sec *	9.15	12	10.4
Gold INR	19.6	11.8	11.2
Sensex	20.2	9.1	15.8
Dow Jones	5.9	7.3	9.4
S&P 500	5.9	6.4	8.6
FTSE 100	4.4	4.1	-
Germany	10.1	8.3	9.1
France	1.9	3.3	-
Canada	7.1	6.8	7.0
Nikkei 225	-0.6	-3.3	0.8
Hong Kong	8.7	6.9	-
China Se Shang	2.8	5.6	-
Indonesia	26.1	14.2	-

* Returns for 30 yr is calculated by considering 10 yr G-Sec in 1982 and re-investing the same in 20 yr G-Sec in 1992
Returns are calculated on respective local currencies

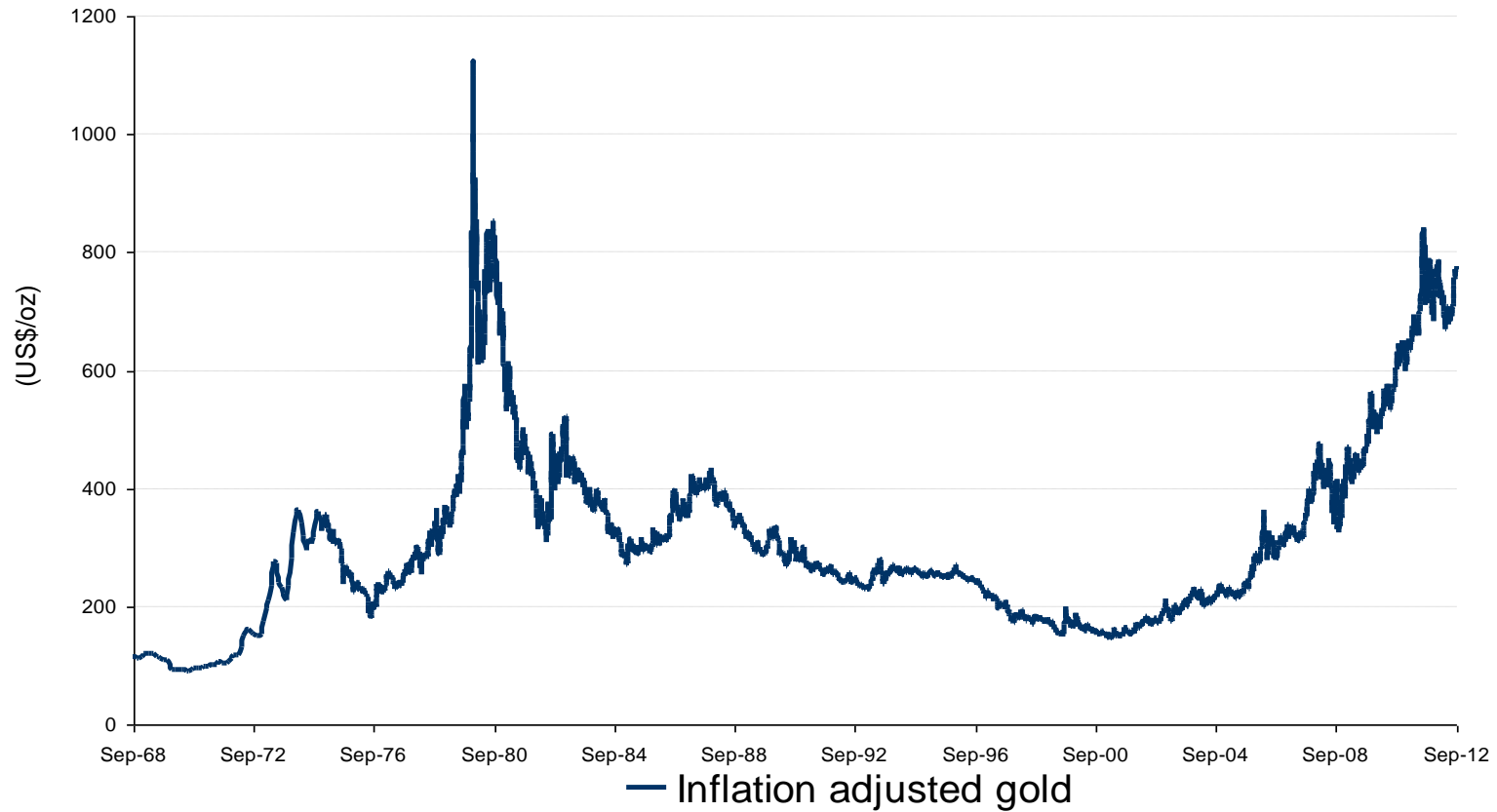
Source : Bloomberg

Alternative Investments

- Indian bonds make a compelling case vs foreign equities assuming stable currency
- INR value should depend on Oil prices to a large extent.

As % of GDP	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Net Gold imports	0.3	0.3	0.2	0.5	0.9	0.5	0.6	0.4	0.7	1.2	1.9	2.2
Net Oil imports	2.9	2.4	2.9	2.8	3.2	3.9	4.0	4.2	5.1	4.4	3.8	5.4
CAD	-0.6	0.7	1.2	2.3	-0.3	-1.2	-1.0	-1.3	-2.2	-2.9	-2.7	-4.3
INR / US \$-annual avg.	45.7	48.0	48.3	45.9	45.0	44.3	45.2	40.2	46.0	47.4	45.6	48.1
Avg. crude prices in \$	27.2	22.1	27.0	28.3	39.3	54.1	60.4	78.9	81.9	69.0	83.5	111.4

Peaking Gold Prices ?



Source: Bloomberg

Summary

- Indian economy is a long term growth economy and is likely to be the 5th largest in the world by 2020
- Indian equities are a good vehicle for compounding ; low P/E's make them more attractive
- Indian bonds have delivered returns comparable to foreign equities
- Oil prices will have meaningful impact on India / Indian assets / INR either way

Thank You

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Real GDP growth & MSCI Index returns

	10 year CAGR		
	Real GDP growth	MSCI Index return	MSCI EPS growth
India	7.74%	17.25%	15.6%
US	1.64%	5.35%	8.0%
China	9.71%	14.69%	16.2%
Japan	0.93%	-1.47%	#NUM!
Germany	1.14%	6.19%	13.0%
France	1.00%	1.63%	9.7%
UK	1.31%	3.90%	10.9%
Russia	4.65%	11.44%	14.5%

Data based on respective countries local currency

Source BofA Merrill Lynch