



Happy New Year

# Presenting Outlook 2012

*Mutual Fund Investments are subject to market risks. Please read Scheme Information Document and Statement of Additional Information carefully before investing. All data/information used in the preparation of this material and the outlook on Markets & Products (internal view) is dated and may or may not be relevant any time after the issuance of this material. The AMC takes no responsibility of updating any data/information in this material from time to time. The recipient of this material is solely responsible for any action taken based on this material. All data source: Bloomberg, except as mentioned specifically. The information contained herein is meant solely for the benefit of the addressee and shall not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Prudential Asset Management Company Limited. Further, the information contained herein should not be construed as forecast or promise. The recipient of this material is solely responsible for any action taken based on this material. Please refer slide no. 35 to 36 for risk factors.*

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*While 2011's uncertainties  
look to be rippling into 2012,  
2012 will not be like 2011.*



*Year 2011 - 'A tumultuous year'*

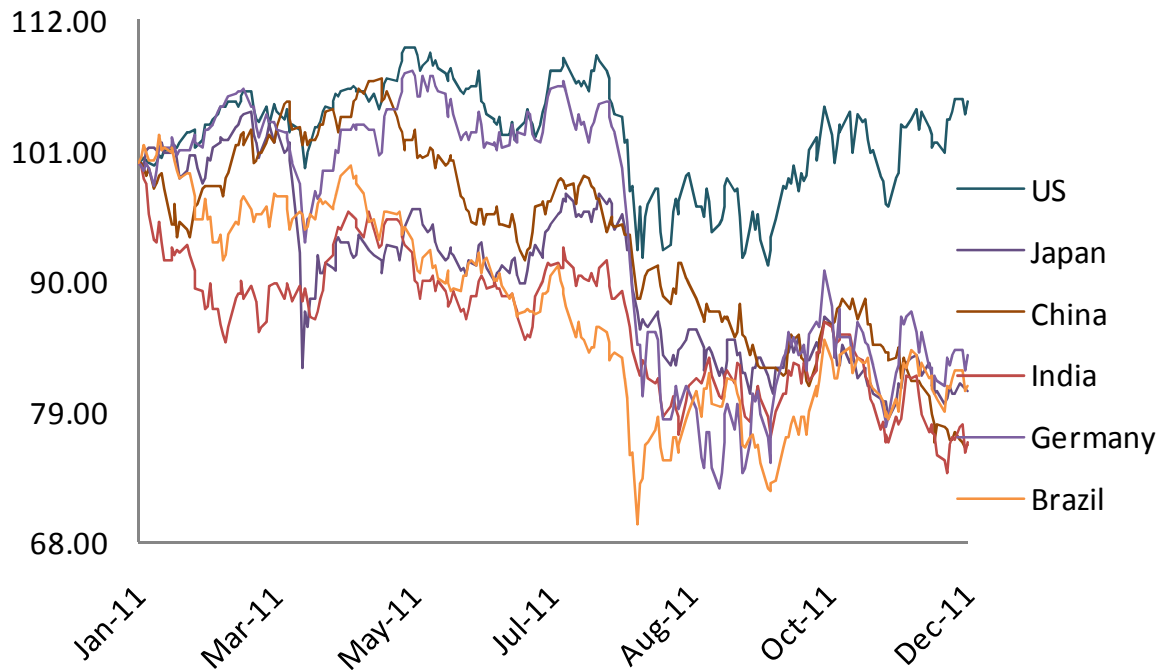
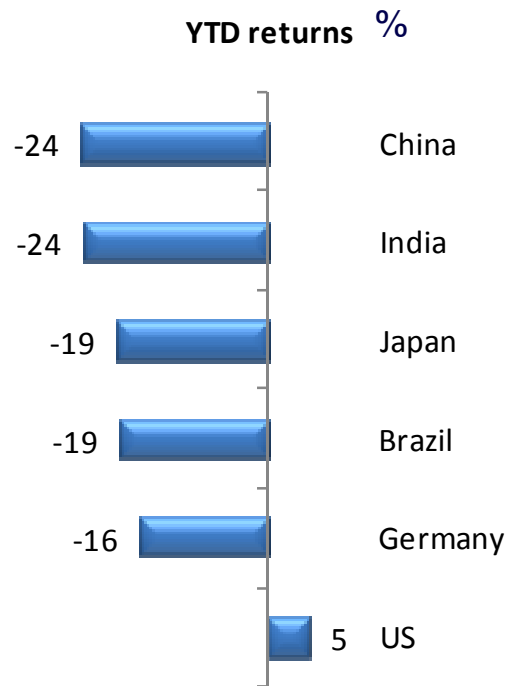
# A Revisit

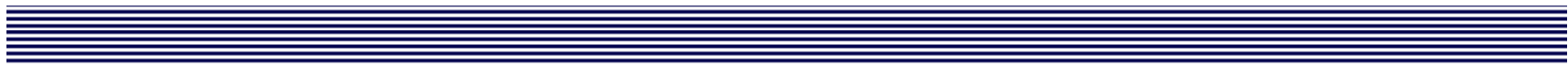
# A year of Major Sovereign Rating Downgrades

	Rating downgrades	Date	Watch	Watch eff. date
Greece	CC	27-Jul-2011	NEGATIVE	
	CCC	13-Jun-2011		
	B	09-May-2011		
	BB-	29-Mar-2011		
	BB+	27-Apr-2010		
Ireland	BBB+	01-Apr-2011	NEGATIVE	05-Dec-2011
	A-	02-Feb-2011		
	A	23-Nov-2010		
Portugal	BBB-	29-Mar-2011	NEGATIVE	05-Dec-2011
	BBB	24-Mar-2011		
	A-	27-Apr-2010		
Italy	A	19-Sep-2011	NEGATIVE	05-Dec-2011
	A+	19-Oct-2006		
Spain	AA-	13-Oct-2011	NEGATIVE	05-Dec-2011
	AA	28-Apr-2010		
Iceland	BBB-	17-May-2011		
	BBB	30-Mar-2010		
Turkey	BBB-	20-Sep-2011		
	BB+	19-Feb-2010		
US	AA+	05-Aug-2011		
	AAA	07-Dec-1992		

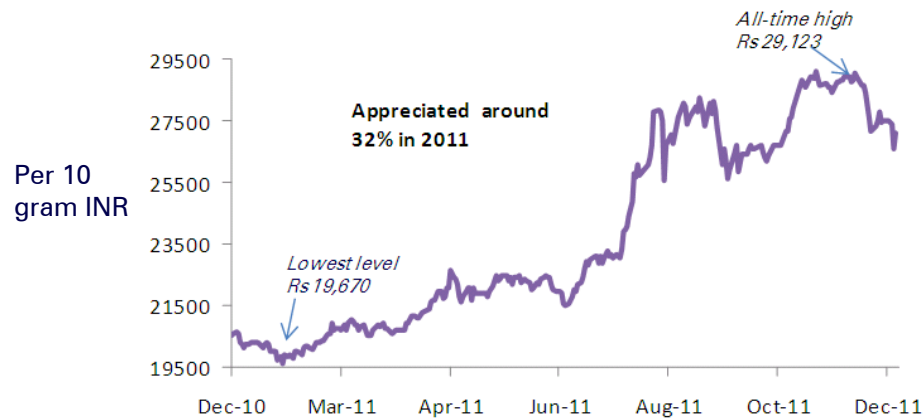
# US equities outperformed, India underperformed

Strong household consumption and relatively healthier US banks led to smart recovery in equities

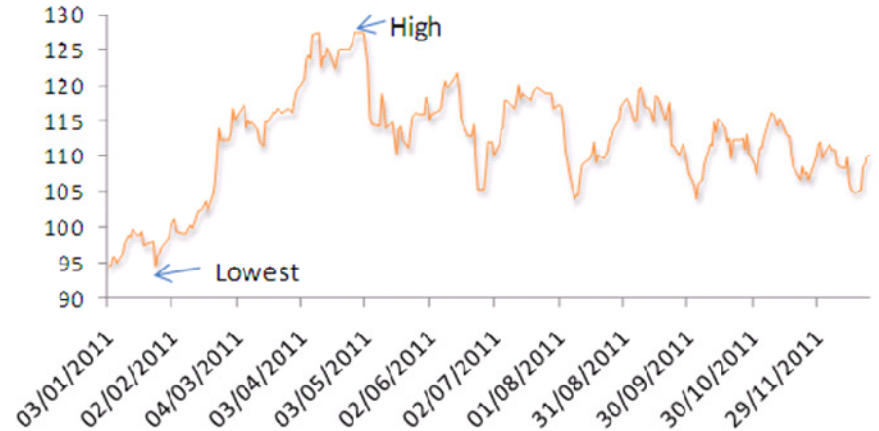




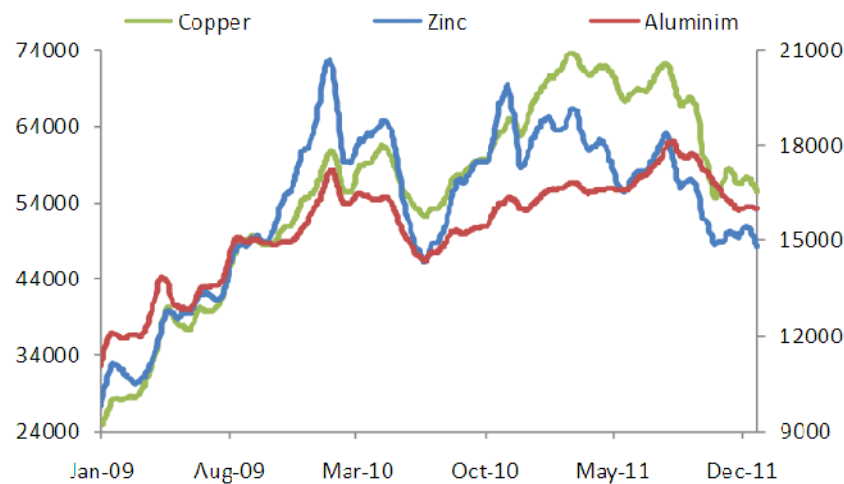
## Flight to Safety 'Gold'



## Brent Crude US\$/ barrel



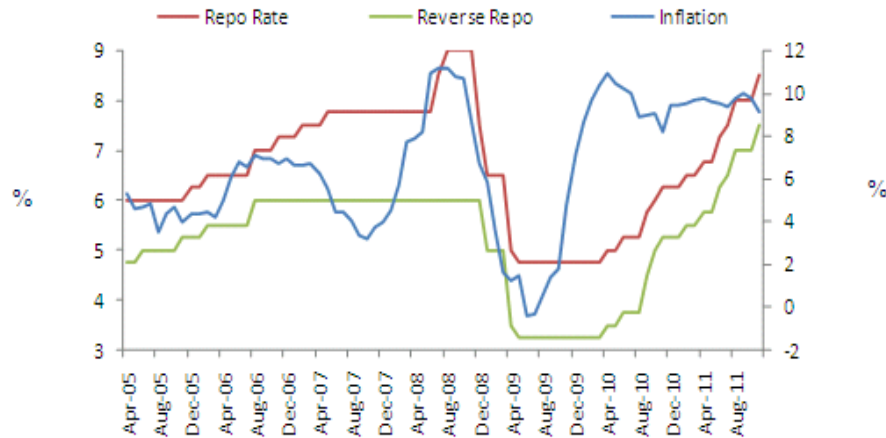
## Commodity prices: moving downwards finally\*



Source: Reuters & www.mcxindia.com. \*Near month future price (\$) are per 5 tonne traded on Shanghai commodity exchange



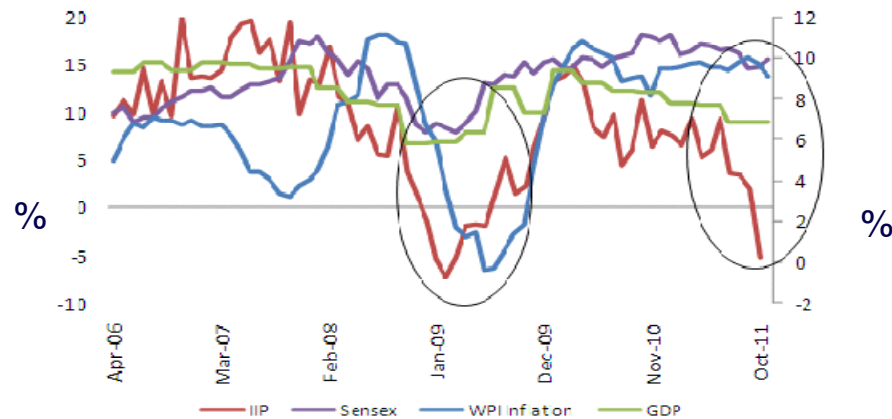
## A year of rate hikes



## RBI hiked rates 7 times in 2011

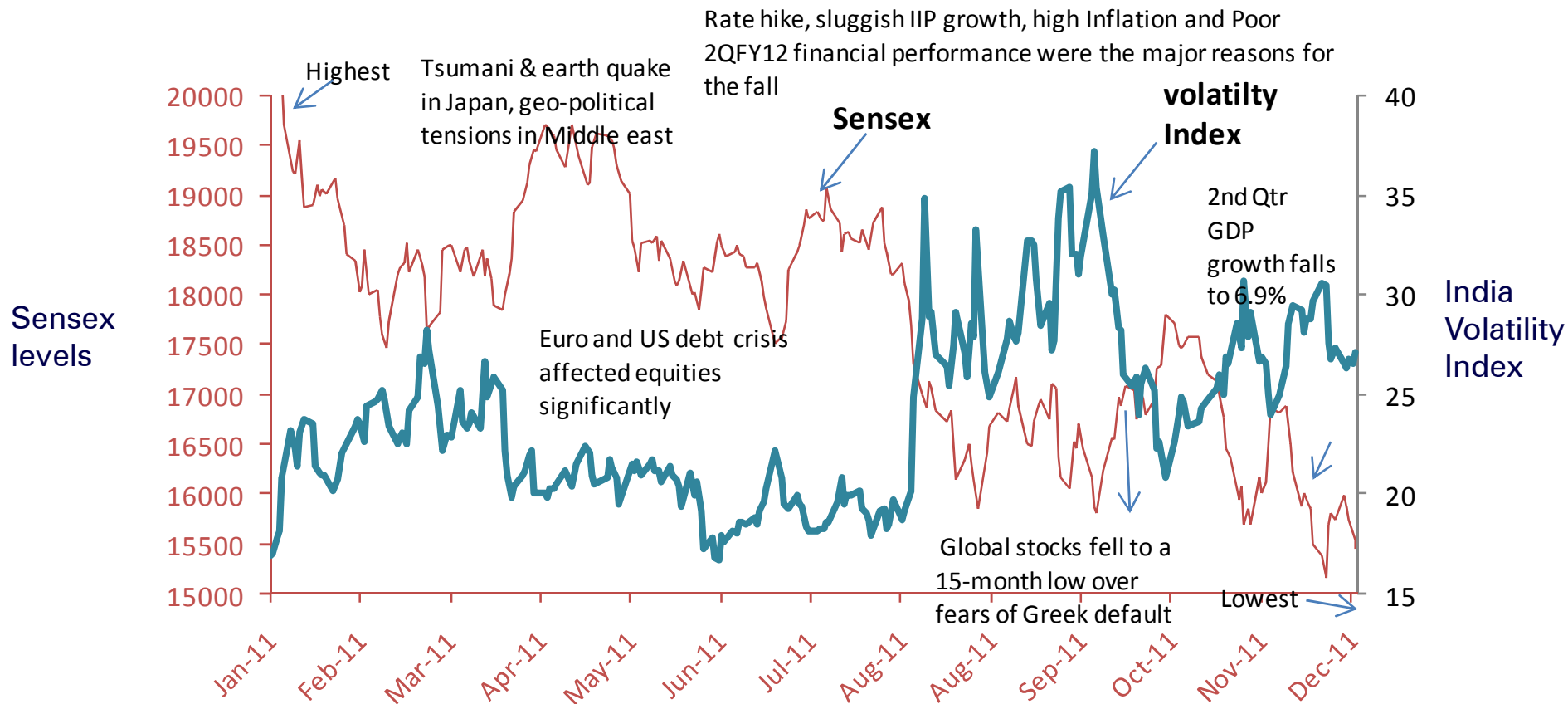
Recent hikes in Interest Rates		
Date	Repo	Reverse Repo
16-Sep-10	6.00%	5.00%
2-Nov-10	6.25%	5.25%
25-Jan-11	6.50%	5.50%
17-Mar-11	6.75%	5.75%
3-May-11	7.25%	6.25%
16-Jun-11	7.50%	6.50%
16-Sep-11	8.25%	7.25%
25-Oct-11	8.50%	7.50%

## India's leading indicators



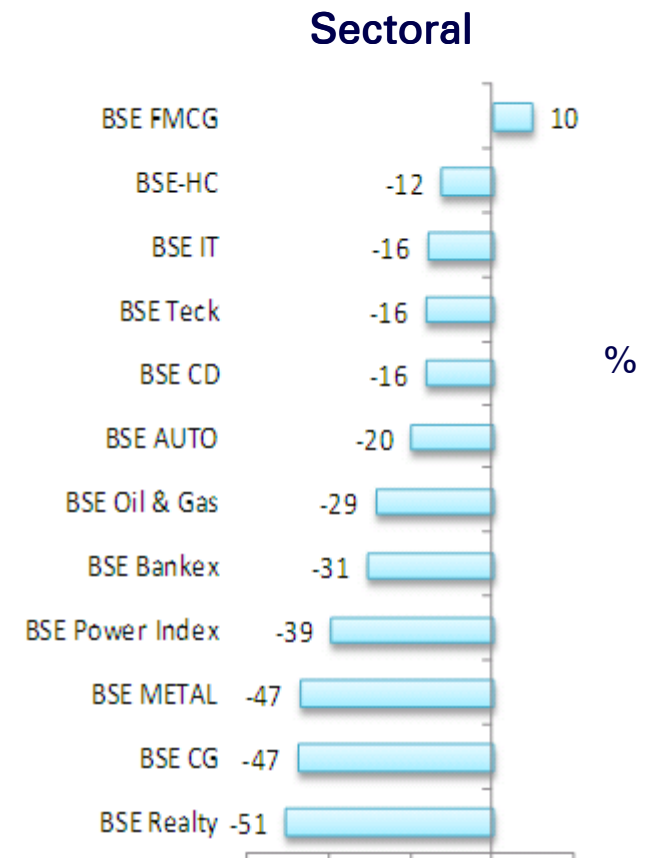
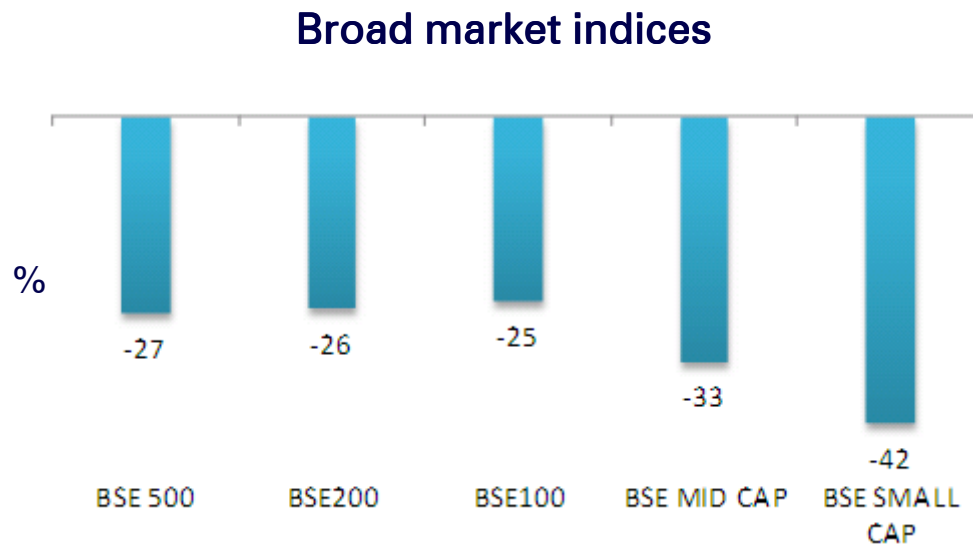
Source: [www.eaindustry.nic.in](http://www.eaindustry.nic.in), Reuters, Sensex is plotted on base index of 10. Except Sensex all indicators are in percentage

# Sensex remained volatile in line with our view



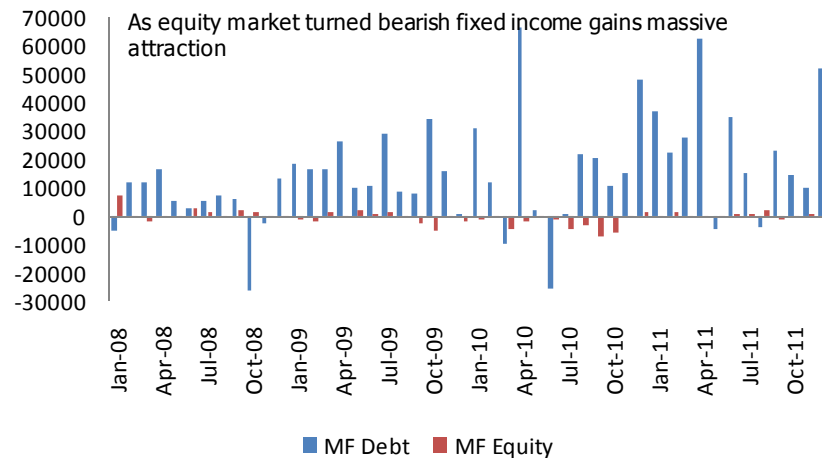
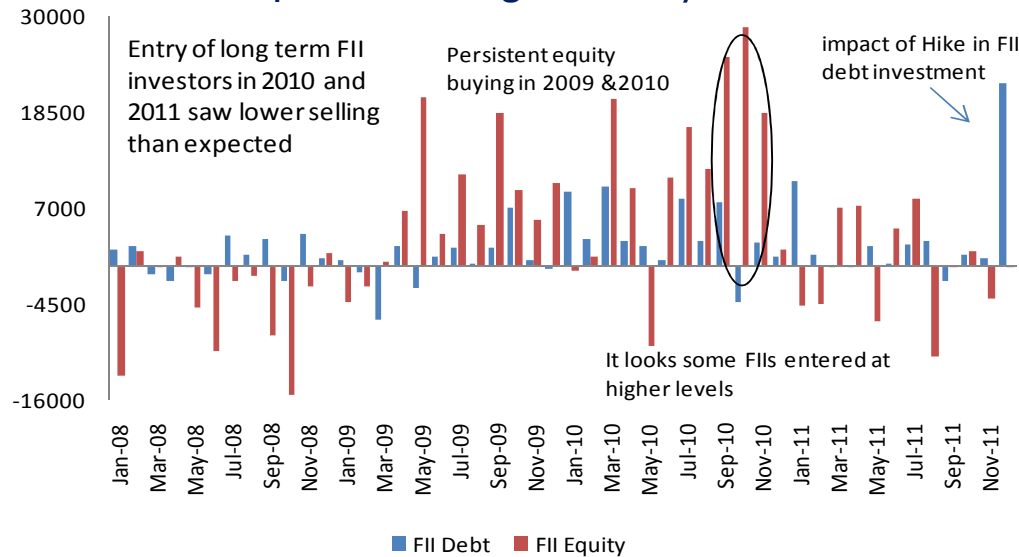
# Indices were ended in Red except for FMCG: YTD returns

Sectors impacted by interest rates, commodity prices, raw material supply concerns and high valuations



# It was just debt for FIIs

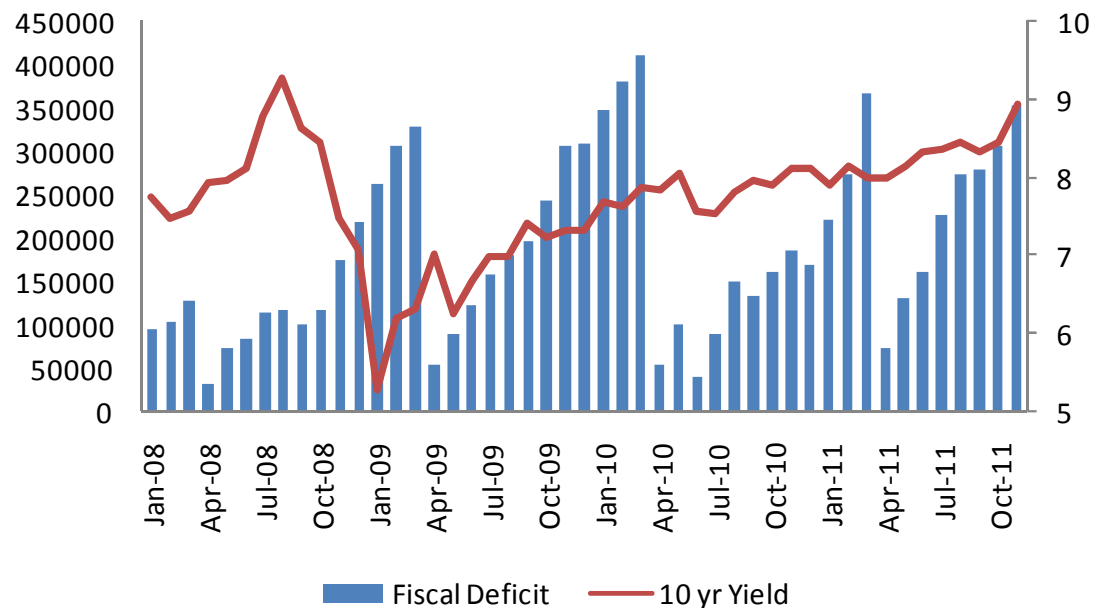
❖ FII have invested in debt unlike equities in earlier cases when INR depreciated significantly.



Source: [www.sebi.gov.in](http://www.sebi.gov.in), values are in INR Crs. The chart on inflow/outflow in Mutual Fund refer to inflow/outflow across all Mutual Fund schemes and does not in any manner indicate the inflow/outflow details in various schemes of ICICI Prudential Mutual Fund

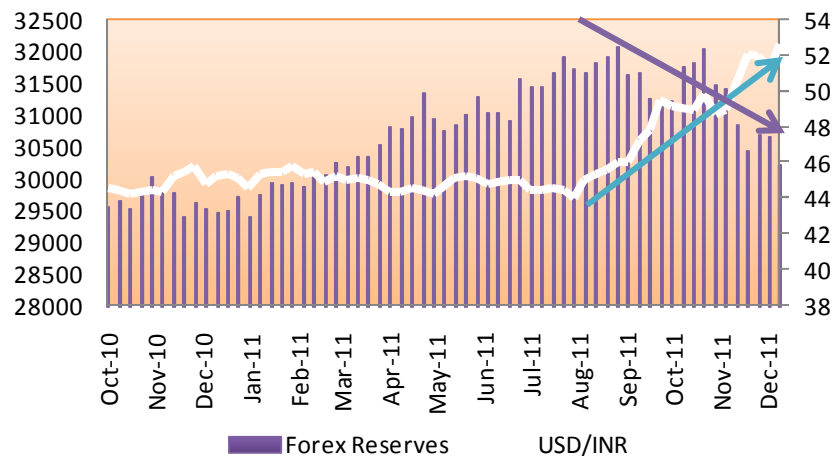
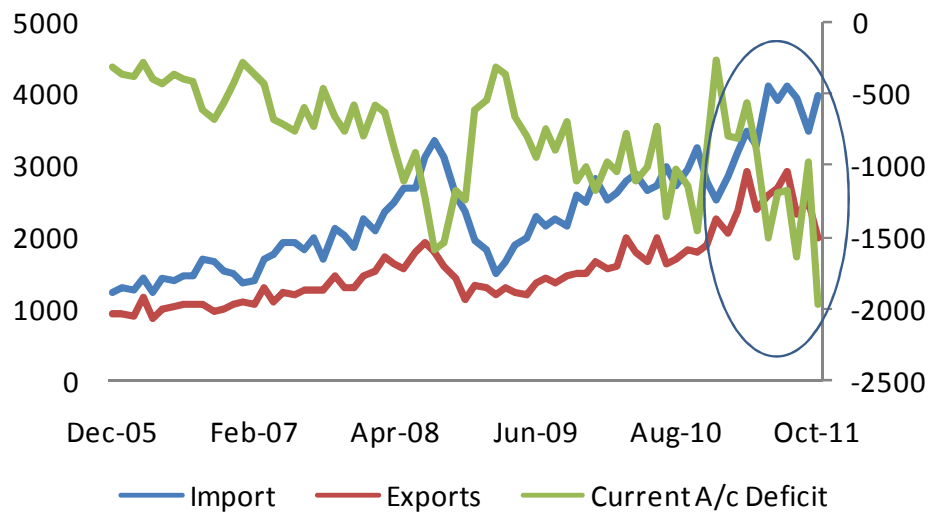


## A Fiscal deficit overshoot, on expected lines...



- ❖ India's Fiscal Deficit reached 86% of its full year target in 8 months.
- ❖ Over and above Government will borrow Rs 40,000 crore extra apart from earlier Rs 52,872 crore announced in September.
- ❖ Below expected tax collections and no major steps taken in divestment income has lowered revenue expectations.

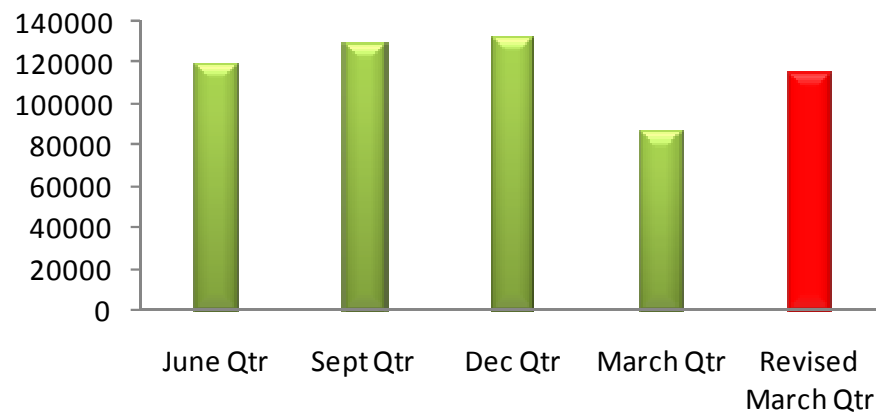
# Current account deficit remains a problem



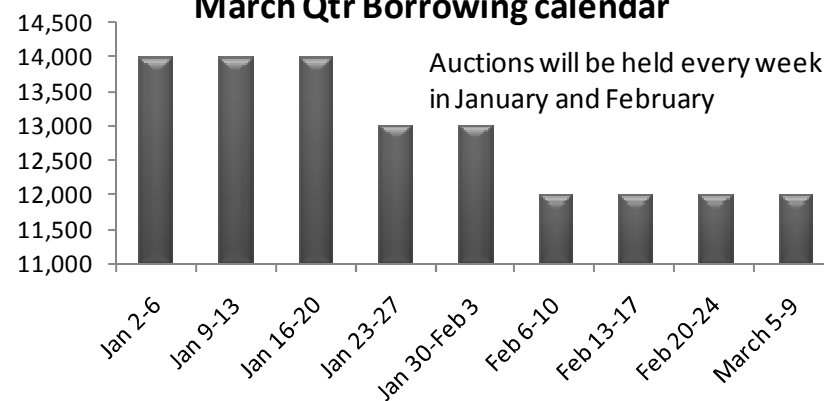
# Govt. Borrowing Calendar

Borrowings program	Till Date	For FY11-12
Government Gross Borrowings	394,000.00	509,928.00
Redemptions	73,581.00	74,128.00
Net borrowings	320,419.00	435,800.00
Gross Borrowings Completed	0.77	
364-day T-bill Gross borrowings	66,000.00	
CMB borrowings	93,000.00	
OMO Purchases	41,210.82	

## Govt. Borrowings for FY12

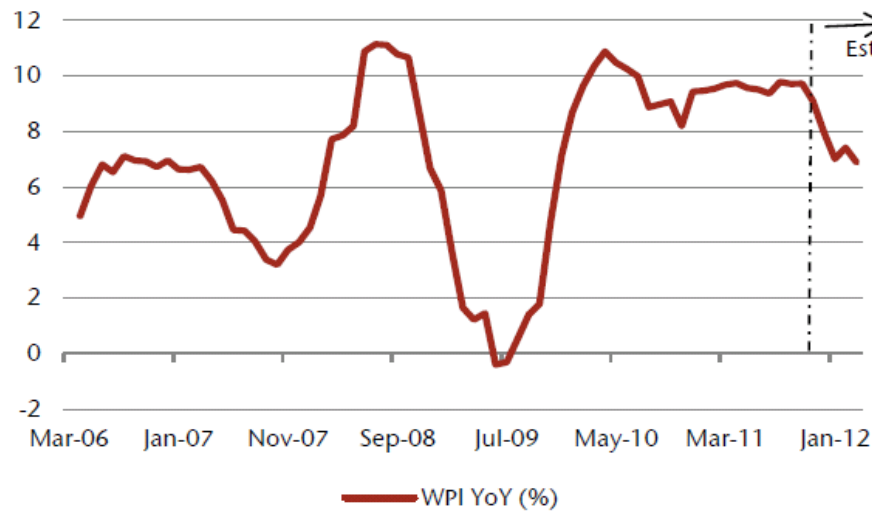
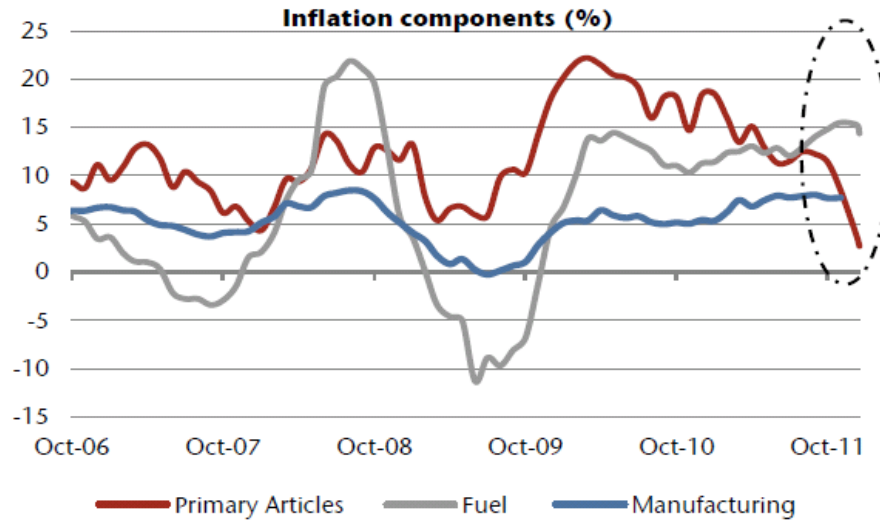


## March Qtr Borrowing calendar



# Inflation

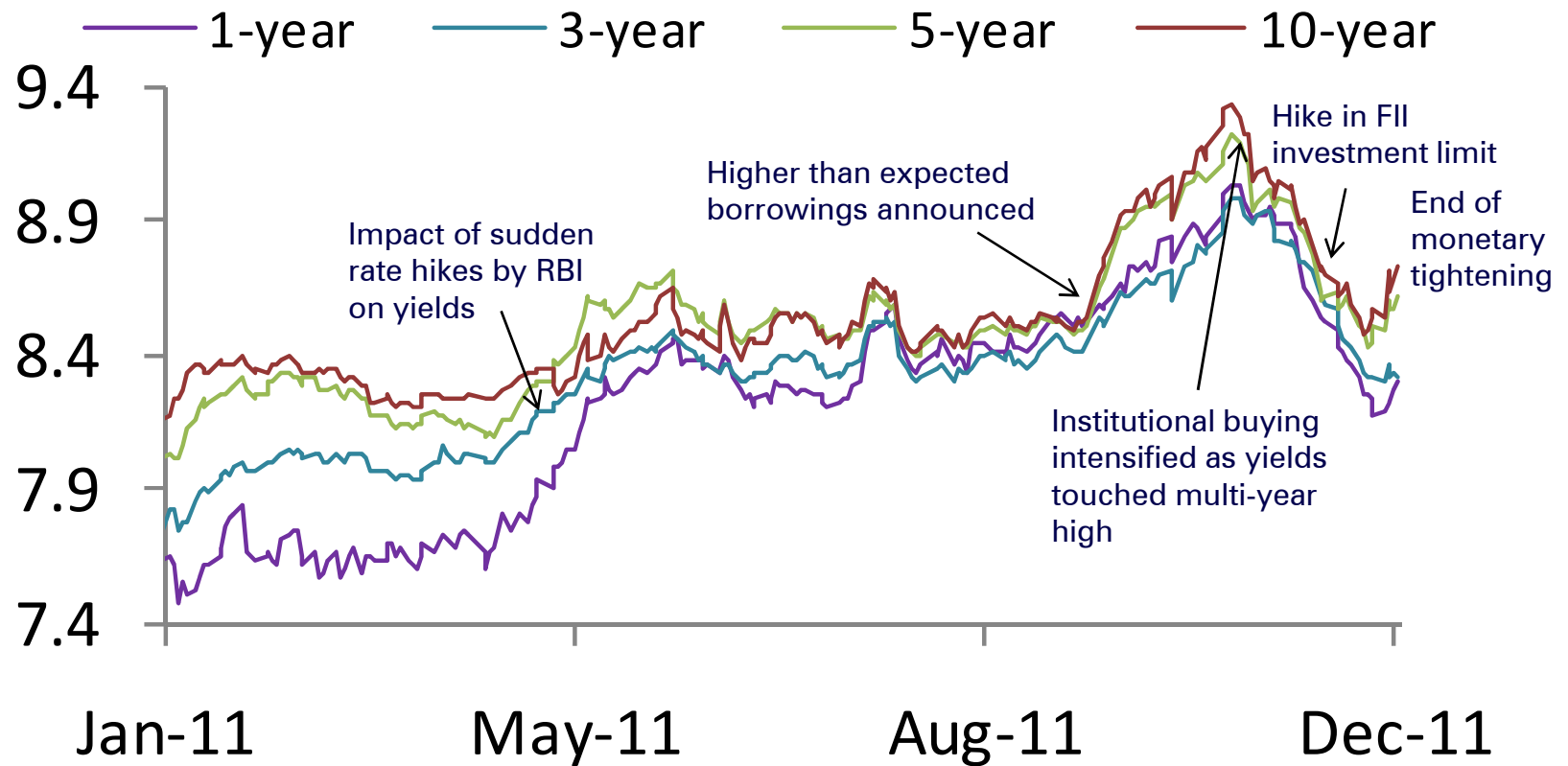
Food inflation has come off sharply



Headline inflation could also see a sharp drop in the coming months, due to a favorable base.



# Gilt Yield –Upward Interest Rate curve





# *Carry Forward from 2011 to 2012*

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# Negatives

- ❖ Global Uncertainty: Europe continues to grapple with its debt crisis.
- ❖ Slowing domestic economy.
- ❖ Indian government policy logjam.
- ❖ Rupee depreciation concerns mounting.
- ❖ High Fiscal & Current Account deficit.
- ❖ Volatility.
- ❖ Plunging investment cycle remains the biggest negative driver.

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# Positives

- ❖ Moderating Inflation.
- ❖ Attractive Valuations.
- ❖ Sentiments - High investor fear.
- ❖ China's economy facing a 'Hard' landing – positive for India but negative for global growth.
- ❖ An increasing chance of deep interest rate cuts in 2012..
- ❖ Highly favorable base effect.
- ❖ Eventual recovery in some areas of infrastructure construction – are turning favorable and may provide some tailwind to the economy and to the market in the second half.

# Positives building up

## Debt Markets

- Increased Limit for investment in Bond Market
- Possible early growth support from RBI
- Rapid and long Term easing of Monetary Cycle
- Liquidity measures like OMO and Borrowing against excess SLR
- Imposing fines on institutions aiding shorts on currency

## Equity Markets

- Permission for QFI's to invest directly in equity markets
- Downtrend in inflation
- Base effect in Inflation, IIP, order book earnings in 2H2012

## Policy

- Clear signals from FM on prioritizing of growth recovery
- Dissolution of SUUTI
- Second push to retail FDI, new bills in power and Pension funds etc
- Government's efforts for revival of reforms and remove policy paralysis

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## Why will 2012 be different from 2011?

- ❖ Investors were more optimistic at start of 2011. Today investor fear is extremely high.
- ❖ Valuations are cheap across sectors and stocks (especially mid-cap space).
- ❖ Inflation having peaked out and is indeed falling.
- ❖ In 2011, the monetary policy goal was containing inflation. In 2012, focus is on reviving economic growth.
- ❖ The government has recently done more than in 2 years.
- ❖ Businesses are 30-40% cheaper than a year ago and earnings growth has been cut almost as sharply as in 2008.
- ❖ General lack of recognition of slowing growth no longer exists.

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# Will India continue to underperform? Highly unlikely

- ❖ Unsupportive global conditions???
- ❖ Undoubtedly global uncertainties presents challenges for India as we go into 2012.
- ❖ But the current problem is more 'indigenous' (DESI) than global.
- ❖ The good news is that home grown problems are within India's control.
- ❖ No doubt, we face a domestic crisis.
- ❖ The good news is that historically India has tended to reform systematically in periods of crisis and there is some sense of urgency to resolve.

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## How 'Big' can be the Impact of Euro crisis on India?

- ❖ Exports: GIIPS account for 3.7% of India's exports and hence risk remains low.
- ❖ FDI: GIIPS account for less than 1% of FDI inflows and hence risk remains low.
- ❖ FII flows: FII flows to India are sensitive to global risk aversion and hence risk remains moderate on account of flight from risk.
- ❖ Business confidence: Is impacted by global business confidence and hence risk is moderate.
- ❖ Banking System: Indian banks' exposure to GIIPS amounts to ~\$1bn and hence risk is low.
- ❖ *Overall: Risk is low incase the crisis is prevented from becoming a full blown emergency. Otherwise moderate.*



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## Risks in 2012

- ❖ Election driven political risk exists.
- ❖ Consumption trends are weakening.
- ❖ Banks' asset quality continues to deteriorate.
- ❖ Global investor risk appetite remains low.
- ❖ The next quarter GDP growth could be a massive disappointment for all, but therein could lie many new positives.

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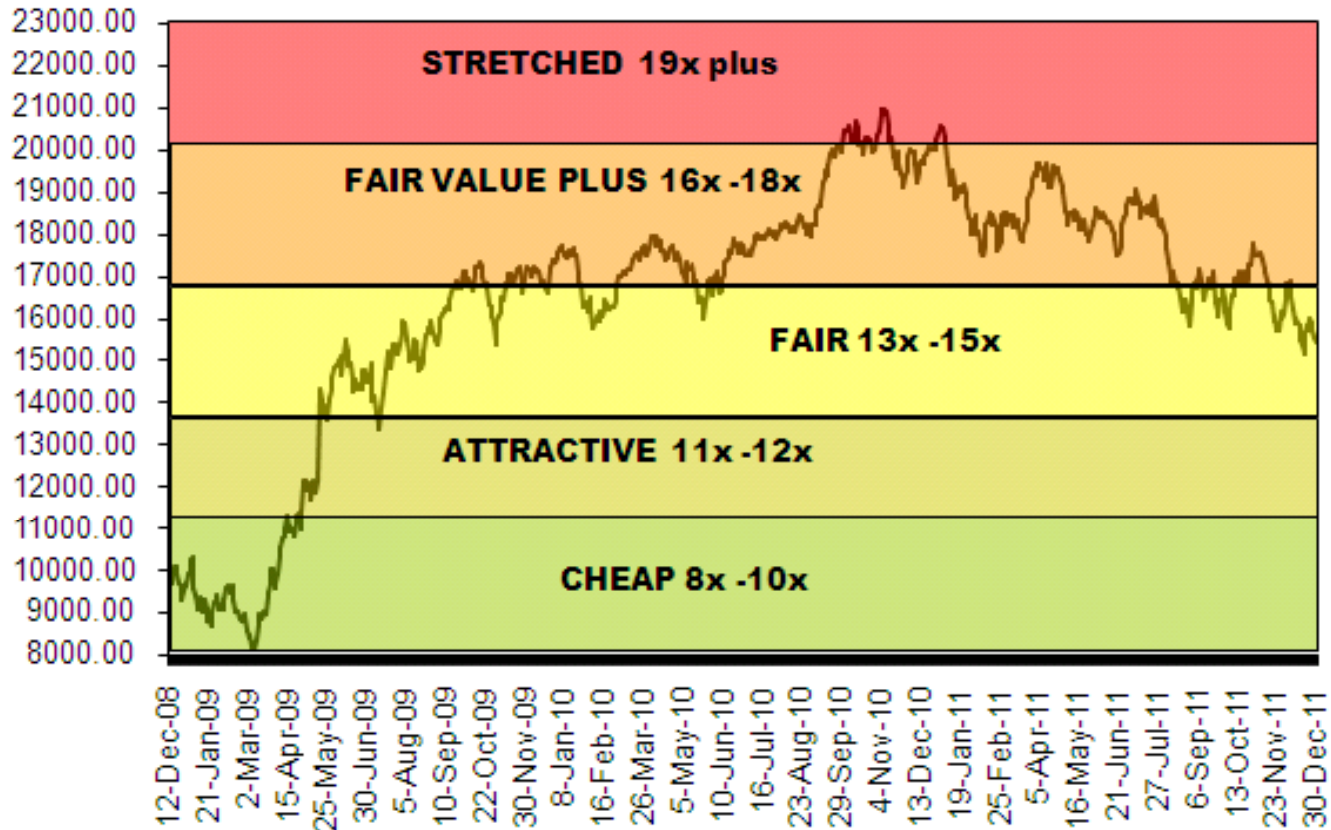
# Themes to play in the New Year

2012

❖ *Valuations (Mid-cap) & Investor fear (Volatility)*

❖ *Short & Medium Term debt*

# Valuation chart



Valuation levels of the Sensex based on earnings estimate of Rs. 1243 four quarter forward.

## Suggested Asset allocation

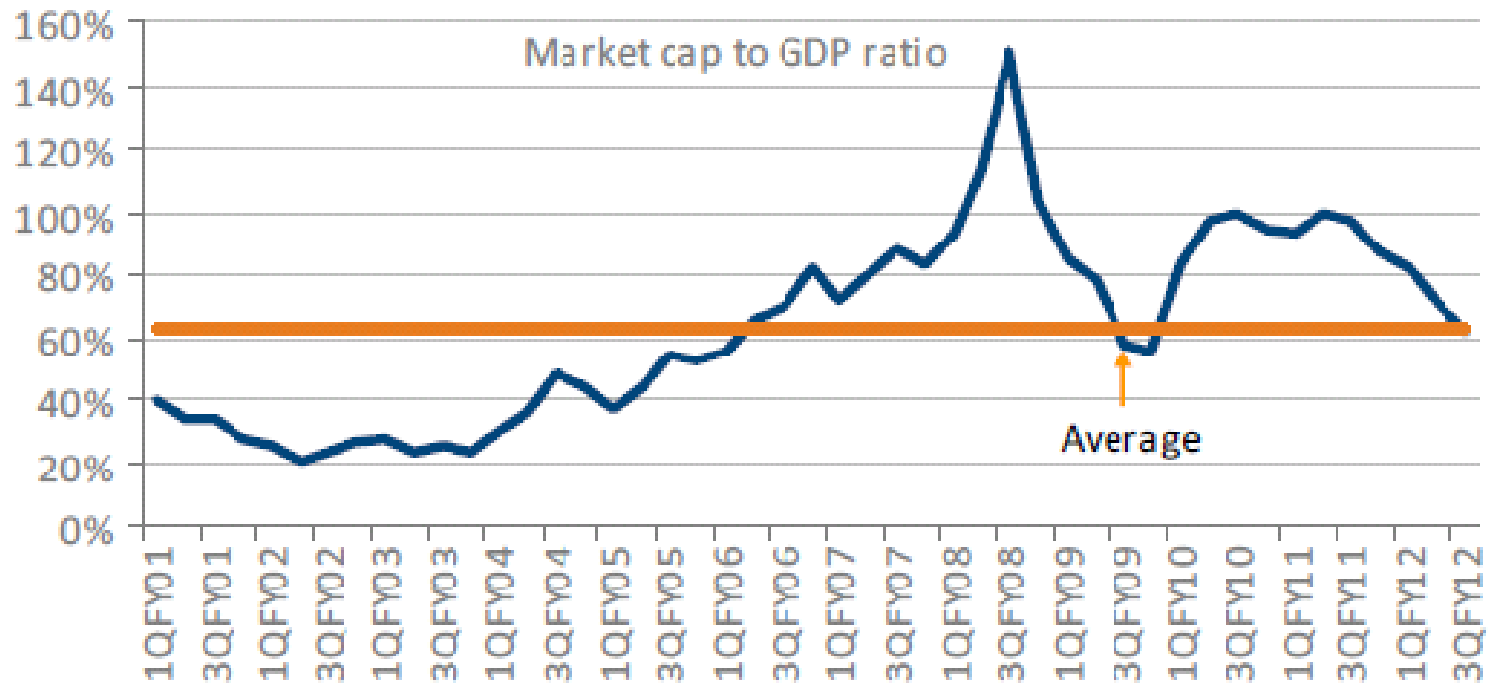
MARKET	CHEAP	ATTRACTIVE	FAIR	FAIR VALUE PLUS	STRETCHED	BUBBLE
EQUITY ALLOCATION	Over Invested 70%-80%	Neutral + 55%-65%	Neutral 50%	Neutral - 35%-45%	Under Invested 15%-25%	Exit 5%-10%

Suggested Equity Allocation (Assuming 50% equity allocation as neutral)

Mantra: Buy on every dip to maintain equity allocation.

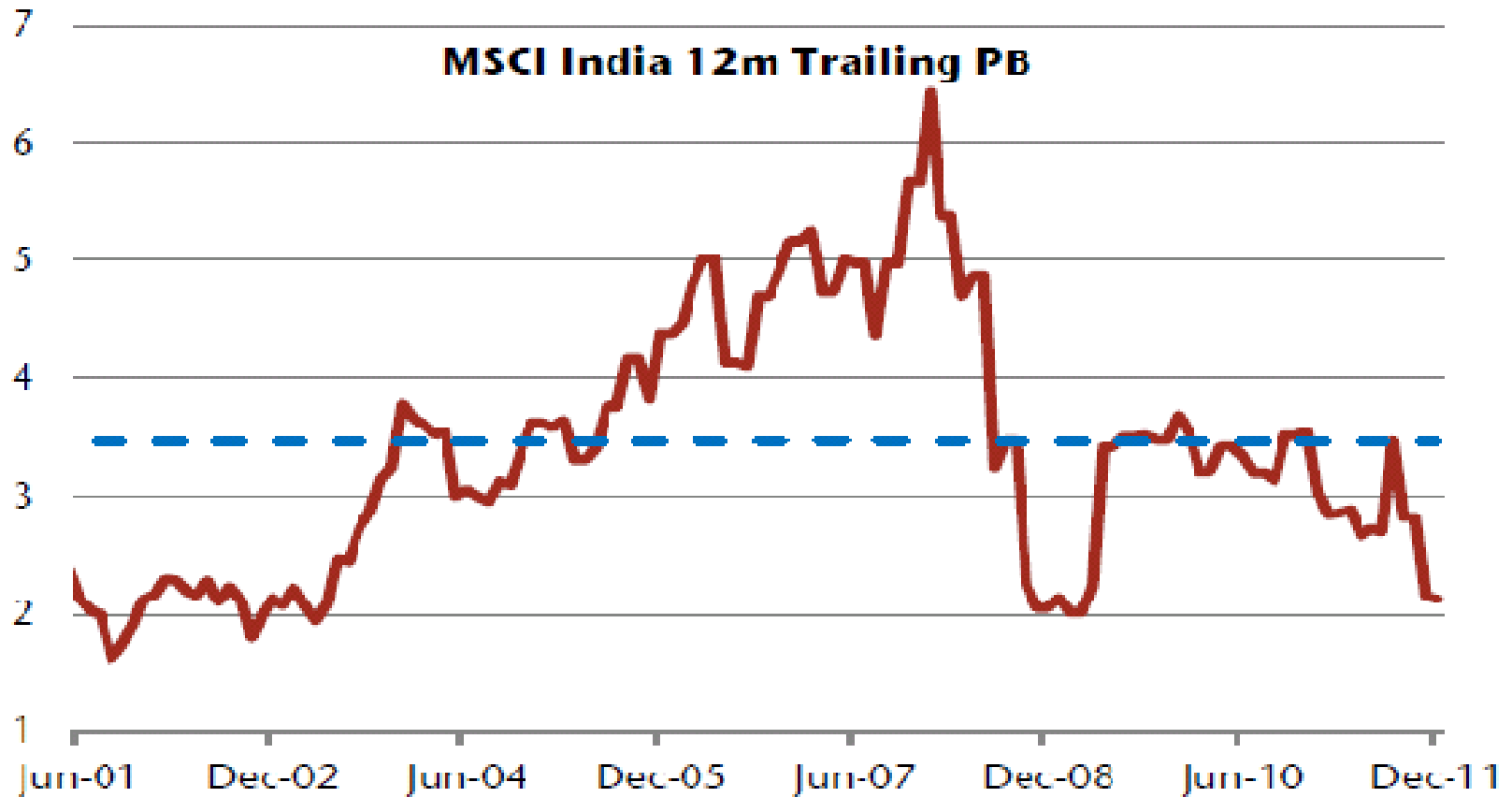
- ❖ Triggers to increase equity allocation:
  - ❖ Valuations correct further
  - ❖ Crude oil falls
  - ❖ Fiscal deficit improves

## Valuations below the historical median



Total Indian market cap to GDP is the broadest measure of value.

## PB are at 2008 lows too



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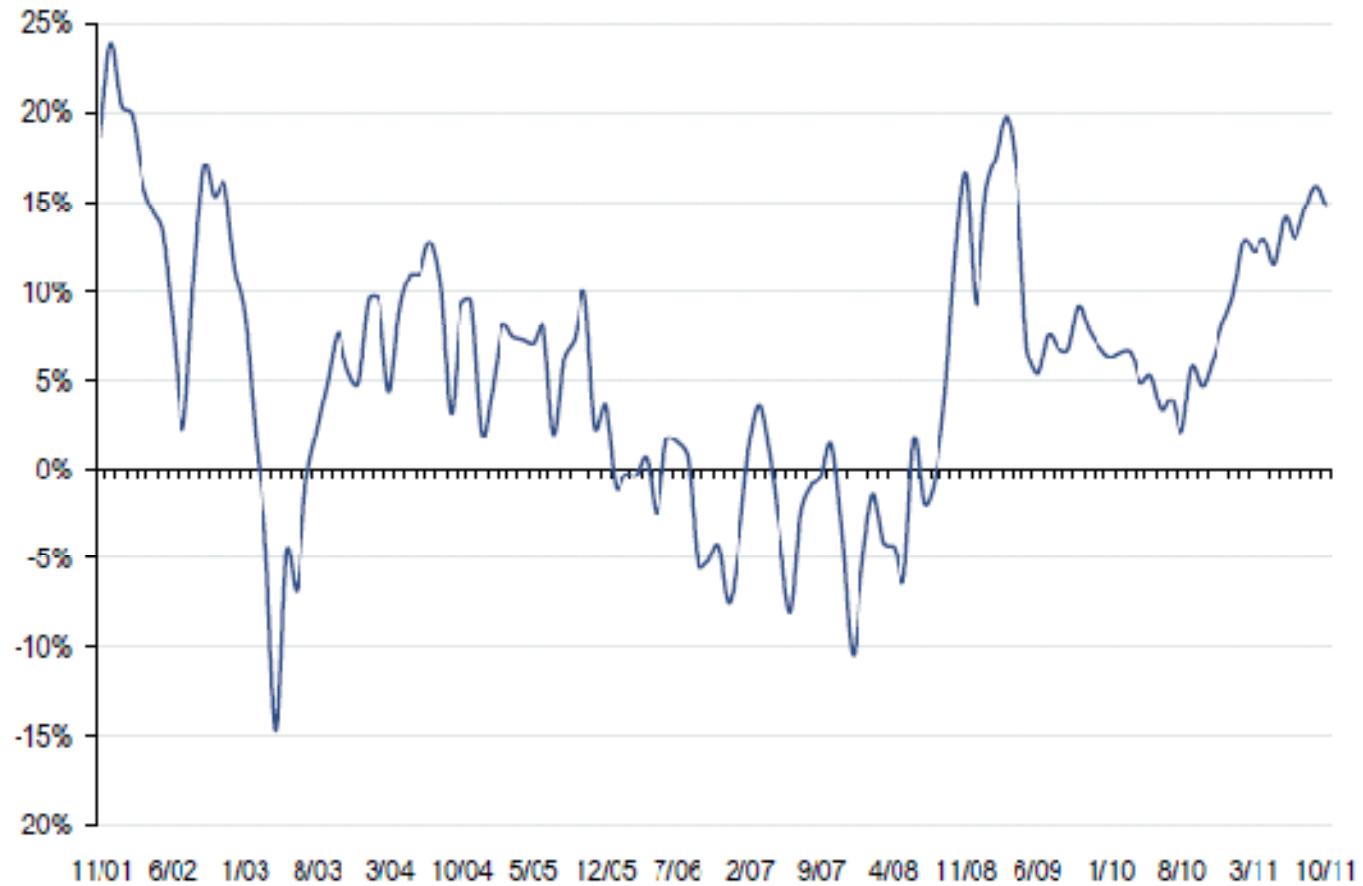
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## Small/mid cap discount (P/E) relative to large caps; Getting big



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## India is now amongst The Cheapest Four

	%
Mar-02	9.6
Jun-02	13.3
Sep-02	17.1
Dec-02	21.0
Mar-03	19.5
Jun-03	7.6
Sep-03	3.6
Dec-03	-2.1
Mar-04	2.4
Jun-04	22.1
Sep-04	20.6
Dec-08	19.1
Mar-09	24.0
<b>Average</b>	<b>13.7</b>



Historical price performance in 12 months following the cheapest valuations

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## Equity Market Outlook & Themes

- ❖ Whole set of positives and negatives exist.
- ❖ Equity markets will continue to remain volatile in the period upto the budget session when clarity will emerge on various fronts.
- ❖ Currently Small and mid caps are very cheap and too attractively valued. A market characterized by low valuations and high investor fear is normally a good condition for long term out-performance. We think that Investors are currently under-invested in this category and therefore, need to look at investing in this space.
- ❖ Continue with SIPs.

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## Fixed Income Outlook

- ❖ Possibilities that RBI will either announce special liquidity easing measures or do rate cut at the earliest (3 to 6 six months).
- ❖ Liquidity is expected to continue to remain in the negative 70-100,000 Crs. range till we go into March when it will be back again to negative 150-160,000 Crs. (same as December) on account of Advance Tax.
- ❖ We do not believe that RBI will do any CRR cuts since it is considering OMOs.
- ❖ We think that rates have peaked and we will see them lower over the course of the next 9-12 months .
- ❖ We would not be surprised if we do not see 150 basis points drop in yield in the course of next 9-12 months.

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## Themes to play in Fixed Income

- ❖ **2012 - largely a year of Short and Medium term Income funds.**
- ❖ Investors have so far been looking at locking in high yields in fixed maturity kind of products and have now reasonable exposure.
- ❖ It is time for them to now look at short and medium term open ended income funds because as rates come down, they will offer better risk adjusted returns.
- ❖ At the same time Income funds can probably be looked at by investors who have a two-year and plus horizon in which we expect the rates to come down as the government looks to balance out its fiscal deficit and RBI cuts rates on the back of slowing growth and falling inflation.
- ❖ In our view, the best space to be in mid maturity space.

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## Key Products recommended

### ❖ Theme: Mid-caps

- ❖ ICICI Prudential Discovery Fund.
- ❖ ICICI Prudential Mid-cap Fund.

### ❖ Theme: Volatility

- ❖ ICICI Prudential E&D Volatility Advantage Plan.
- ❖ Our range of Hybrid Funds.

### ❖ Theme: SIP

- ❖ ICICI Prudential Focused Bluechip Equity Fund, ICICI Prudential Dynamic Plan, ICICI Prudential Infrastructure Fund.

### ❖ Theme: Short term & Mid-market space

- ❖ ICICI Prudential Short Term Plan.
- ❖ ICICI Prudential Regular Savings Fund.
- ❖ ICICI Prudential Long Term Plan.
- ❖ Capital Protection Oriented Funds.
- ❖ Multiple Yield Funds.

### ❖ Theme: Income with volatility

- ❖ ICICI Prudential Income Plan.



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# Statutory details and Risk Factors

**Statutory Details: Settlor of ICICI Prudential Mutual Fund (IPMF):** ICICI Bank Ltd. and Prudential plc; IPMF was set up as a Trust sponsored by the settlor in accordance with the provisions of Indian Trust Act, 1882. **Trustee:** ICICI Prudential Trust Ltd. (IPTL); **Investment Manager:** ICICI Prudential Asset Management Co. Ltd. (IPAMCL/the AMC); IPTL & IPAMCL are incorporated under Companies Act, 1956. **Liability:** Liability of IPMF/Sponsors/IPTL/IPAMCL is limited to Rs. 22.2 lacs collectively. Past performance of the Sponsors, AMC, Fund, and Trustee has no bearing on the expected performance of the mutual fund or any of its schemes. **Risk Factors: All investments in Mutual Fund and securities are subject to market risks and the NAV of the Schemes may go up or down, depending upon the factors and forces affecting the securities markets and there can be no assurance that the fund's objectives will be achieved.**

**ICICI Prudential Discovery Fund@ (IPDP)** - (An open-ended Equity Fund). Objective is to generate returns through a combination of dividend income and capital appreciation by investing primarily in a well-diversified portfolio of value stocks). Entry Load: N.A. Exit ##

**ICICI Prudential MidCap Fund** - An open-ended Equity Fund. Primary objective is to generate capital appreciation by actively investing in diversified mid cap stocks. The Scheme will invest primarily in companies that have a market capitalisation between 100 crores and 2000 crores. Entry Load: N.A. Exit ##

**ICICI Prudential Dynamic Plan** - An open-ended Equity Fund. The objective is to seek to generate capital appreciation by actively investing in equity and equity related securities and for defensive consideration in debt / money market instruments. Entry Load: Nil Exit Load: ##.

**ICICI Prudential Equity & Derivatives Fund – Volatility Advantage Plan (IPE&DVAP)** (An open-ended equity fund. The investment objective of the Plan under the scheme is to seek to provide capital appreciation and income distribution to the investors by using equity derivatives strategies, arbitrage opportunities and pure equity investments. Entry Load: N.A., Exit Load: ##.

**ICICI Prudential Infrastructure Fund** - an Open-ended equity Scheme that seeks to generate capital appreciation and income distribution to unit holders by investing predominantly in equity/equity related securities of the companies belonging to the infrastructure industries and balance in debt securities and money market instruments. Entry Load: Nil Exit Load:##.

**ICICI Prudential Focused Bluechip Equity Fund** - An open-ended equity scheme that seeks to generate long-term capital appreciation and income distribution to unit holders from a portfolio that is invested in equity and equity related securities of about 20 companies belonging to the large cap domain and the balance in debt securities and money market instruments. The Fund Manager will always select stocks for investment from among Top 200 stocks in terms of market capitalization on the National Stock Exchange of India Ltd. If the total assets under management under this scheme goes above Rs. 1000 crores the Fund Manager reserves the right to increase the number of companies to more than 20. **Investment in the scheme may have concentration risk as the scheme invests in about 20 stocks.** Entry Load: N.A. Exit Load: ##.

## If the amount sought to be redeemed or switched out, is invested for a period of - (a) upto 1 year from the date of allotment- 1 % of applicable NAV; (b) more than 1 year from the date of allotment- Nil.

**ICICI Prudential Short Term Plan** (An open-ended Income Fund. is an additional Plan under the existing ICICI Prudential Income Plan with characteristics similar to ICICI Prudential Income Plan. The objective of the Plan is to generate income through investments in a range of debt and money market instruments of various maturities with a view to maximising income while maintaining the optimum balance of yield, safety and liquidity, Entry Load: N.A., Exit Load : (i) If the amount, sought to be redeemed or switched out is invested for a period of upto 6 months from the date of allotment – 0.75% of applicable Net Asset Value; (ii) If the amount, sought to be redeemed or switched out is invested for a period of more than 6 months from the date of allotment – Nil.

**ICICI Prudential Long Term Plan** (An open-ended Income Fund. Objective is to generate income through investments in a range of debt and money market instruments of various maturities with a view to maximising income while maintaining the optimum balance of yield, safety and liquidity. Entry Load: N.A., Exit Load: (i) If the amount, sought to be redeemed or switched out is invested for a period of upto 1 year from the date of allotment 0.75% of applicable Net Asset Value; (ii) If the amount, sought to be redeemed or switched out is invested for a period of more than 1 year from the date of allotment – Nil.



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## Statutory details and Risk Factors

**ICICI Prudential Regular Savings Fund @ (IPRSF)** is an open-ended income fund that intends to provide reasonable returns, by maintaining an optimum balance of safety, liquidity and yield, through investments in a basket of debt and money market instruments with a view to delivering consistent performance. However, there can be no assurance that the investment objective of the Scheme will be realized. Entry Load Not Applicable; Exit Load: (i) If the amount sought to be redeemed or switched out, is invested upto 15 months from the date of allotment - 2% of the applicable NAV; (ii) If the amount, sought to be redeemed or switched out, is invested for a period of more than 15 months from the date of allotment – Nil.

**ICICI Prudential Income Plan** (An open-ended Debt Fund. Objective is to generate income through investments in a range of debt and money market instruments of various maturities with a view to maximizing income while maintaining the optimum balance of yield, safety and liquidity. Entry Load: Nil, Exit Load: If the amount sought to be redeemed or switched out, is invested for a period of - (a) upto 1 year from the date of allotment- 1 % of applicable NAV; (b) more than 1 year from the date of allotment- Nil.

**Significant risk factors for equity oriented Schemes: Investments in the Scheme(s) may be affected by trading volumes, settlement periods, volatility, price fluctuations and risks such as liquidity, derivative, market, currency, lending & borrowing, credit & interest rate.**

**Significant risk factors for debt oriented Schemes: Investments in the Scheme(s) may be affected by risks relating to trading volumes, settlement periods, interest rate, liquidity or marketability, credit, reinvestment, regulatory, investment in unlisted securities, default risk including the possible loss of principal, derivatives, investment in securitised instruments and risk of Co-mingling etc.**

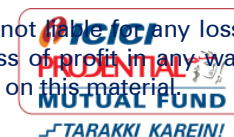
**Mutual Fund investments are subject to market risks. Please read the Scheme Information Document and Statement of Additional Information of the Schemes carefully before investing.**

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