RELIGARE Invesco
Mutual Fund

Equity Market Outlook

Vetri Subramaniam,
Chief Investment Officer

September 2014

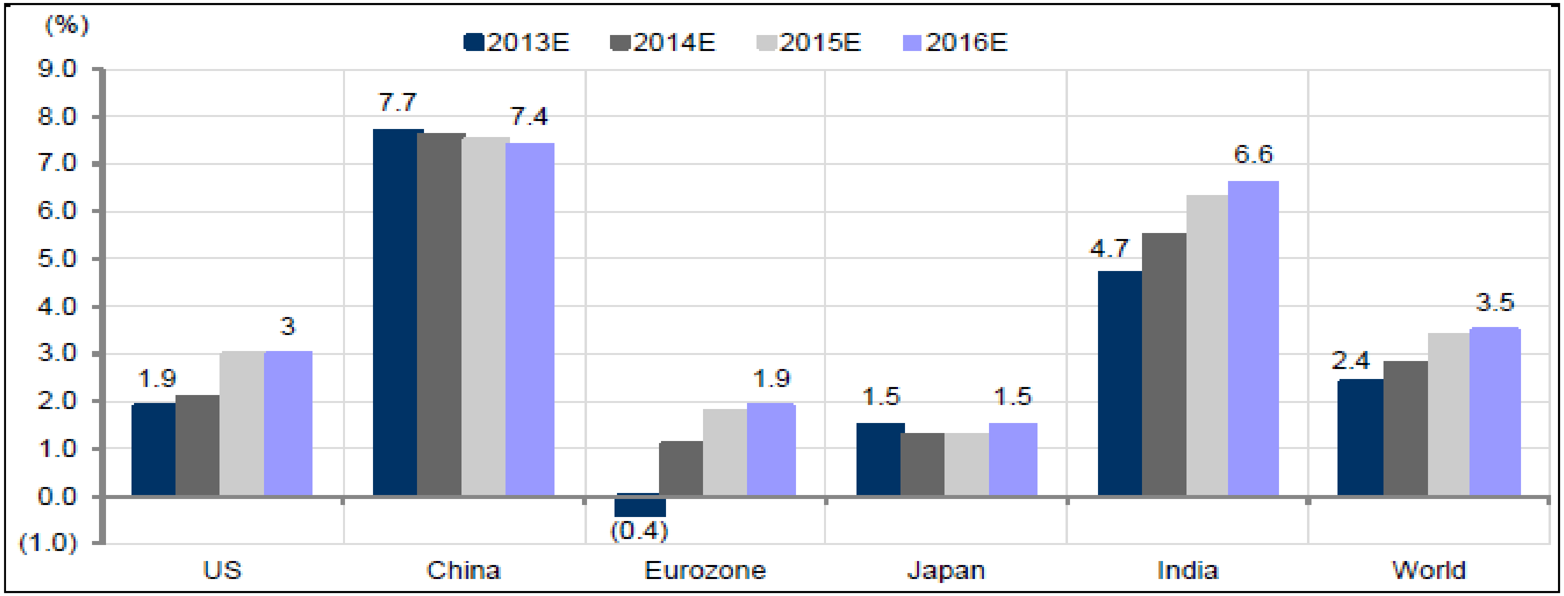
Equity Market Outlook

- Global growth has been revised downwards to 2.8% in 2014 and is expected to recover to 3.4% in 2015
- India's GDP growth appears to have stabilized, albeit at lower levels, led by a sharp deceleration in Industrial output. Q1FY15 GDP was higher than that in last 8 quarters
- The weakness in the investment is the key reason for slower growth - the new government is expected to revive the investment cycle through focus on faster clearances & reforms
- India's current account deficit (CAD) narrowed sharply to 1.7% of GDP in FY14 as compared to record high of 4.8% in FY13
- The fiscal deficit has also declined to 4.2% compared to the base period. However, it is marginally higher than Government target of 4.1% for FY15
- Inflation is moderating. The weak monsoon is a concern for food prices but the weakness in global commodity prices will dampen the numbers
- Sensex currently trades at 18.6x its trailing earnings – 14% premium to its historical 20-year average trailing PE of 16.2x

Global Macro - Global GDP

Still weak, but recovery ahead

World Bank's growth forecasts for key regions globally

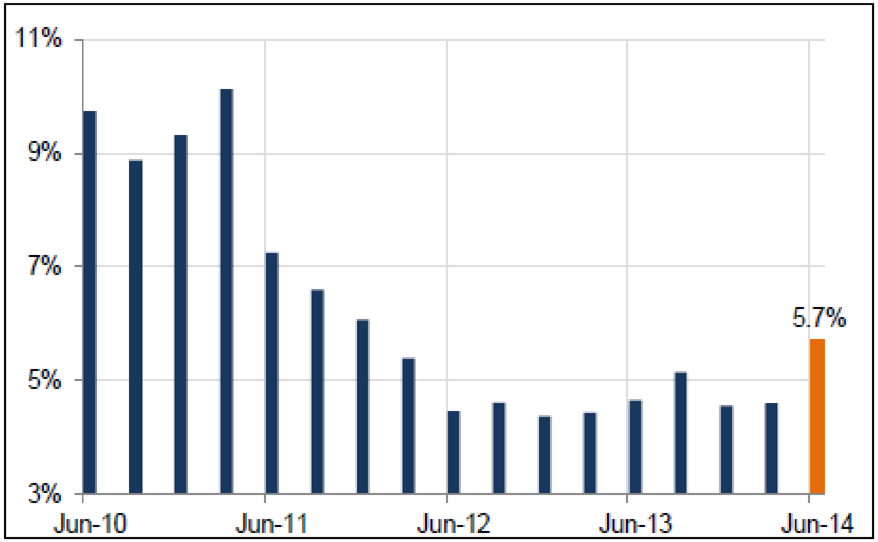


- World Bank has reduced its global growth forecasts for 2014 from 3.2% to 2.8% on account of poor US Weather at the start of the year, global financial disturbances and the Ukraine Crisis
- However, growth is expected to pick up to 3.4% in 2015 and 3.5% in 2016 largely led by growth acceleration in high income countries
- For India, growth is expected to improve from sub 5% to 5.5%, 6.3% and 6.6% in 2014/15/16 respectively

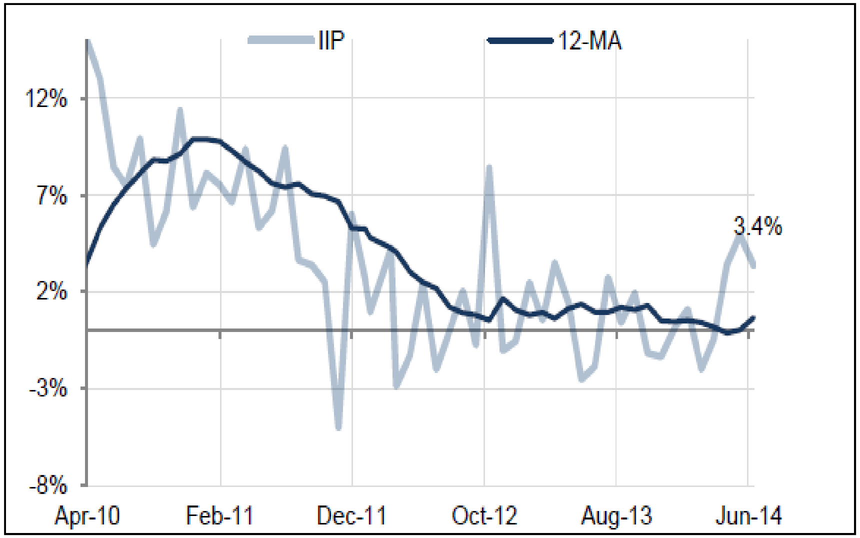
Source: World Bank

India – Growth: On a recovery path

Quarterly Real GDP Growth (%)



Index of Industrial Production growth trend

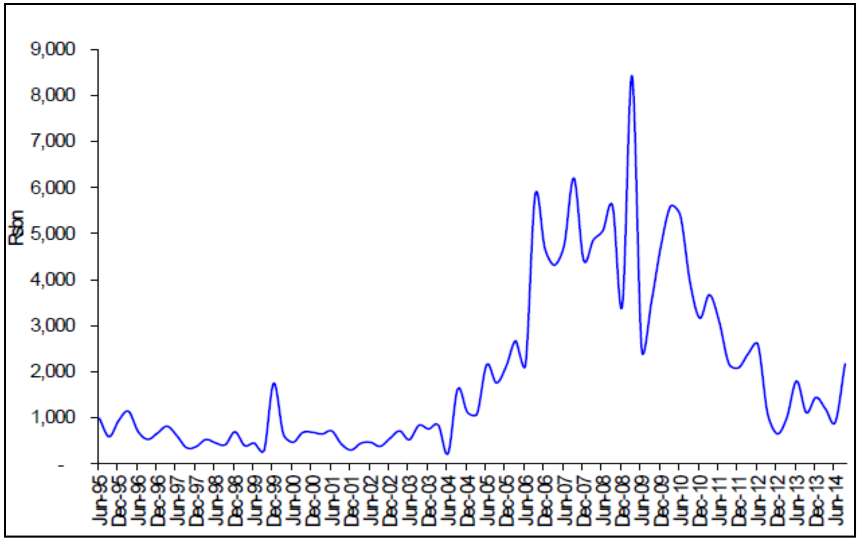


- Q1FY15 GDP grew at 5.7% much higher than the sub-5% growth experienced in the prior eight quarters
- Industrial production growth is displaying early signs of recovery

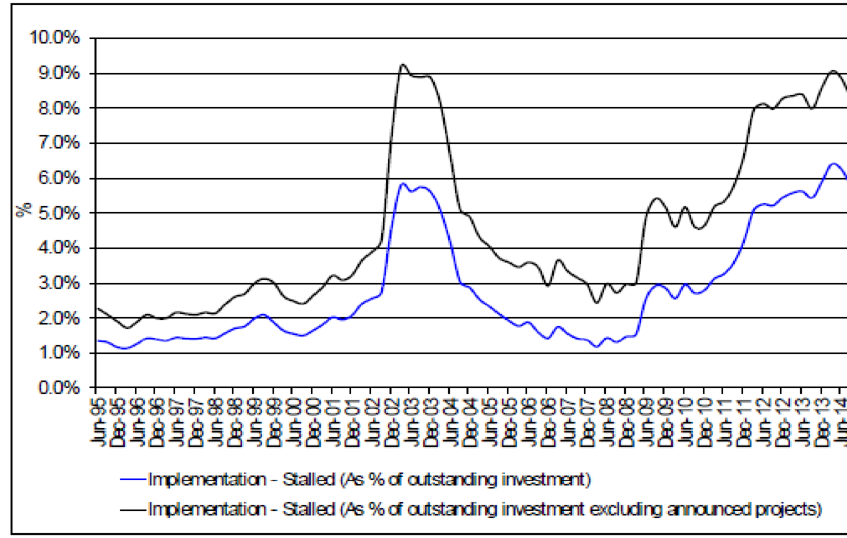
Source: CSO, RCML Research. 12-MA: 12 months moving average.

India - Investment Cycle Rebound -
still some time away

Quarterly New Project announcements (Rs bn) – back to 96-FY04 levels



Projects under implementation but stalled as % of total O/S Projects



- One of the biggest cause of economic slowdown has been slowdown in investment demand. New project announcements have collapsed over the last five year period
- The Project Monitoring Group formed in 2013 has provided clearances for several stalled projects. The impact of this is already started becoming visible in the form of a small downtick in stalled projects as a % of total (chart on the right side)
- An investment cycle revival will likely be initially driven by resumption of projects that are stalled

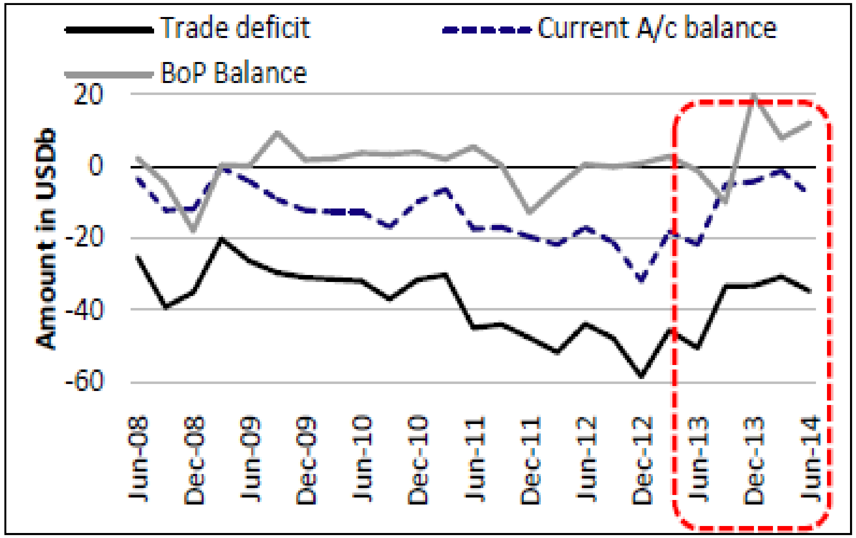
 Source: CMIE, Citi Research

India - Twin Deficit – Sharp improvement

RELIGARE Invesco Mutual Fund

Fiscal Deficit (12M Trailing Sum % of GDP)

Sharp improvement in external balance

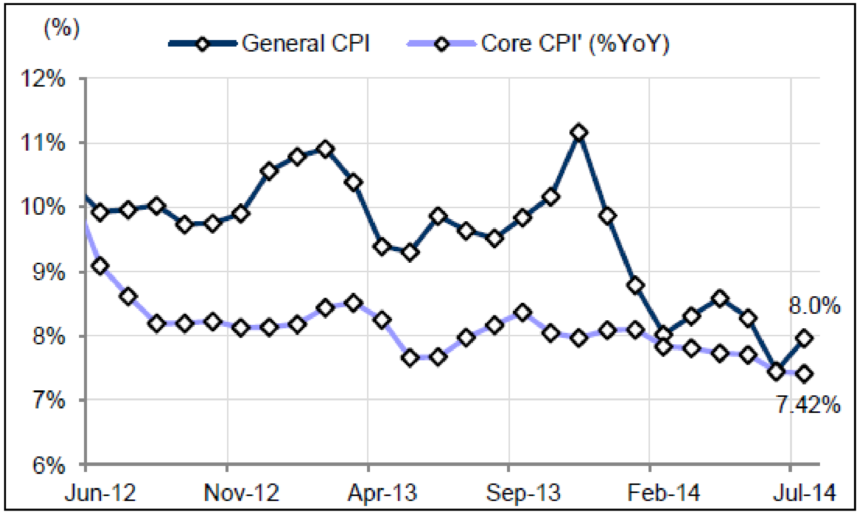


- Over the last one year, India has experienced significant improvements in its twin deficit problems of fiscal and external account balance
- On 12 month trailing basis, the Fiscal deficit has come down to 4.2% as compared to 4.6% in June 14, which is marginally higher than the government target of 4.1% for FY15
- Current Account Deficit at 1.7% of GDP is much more comfortable than 4.8% of GDP in June last year

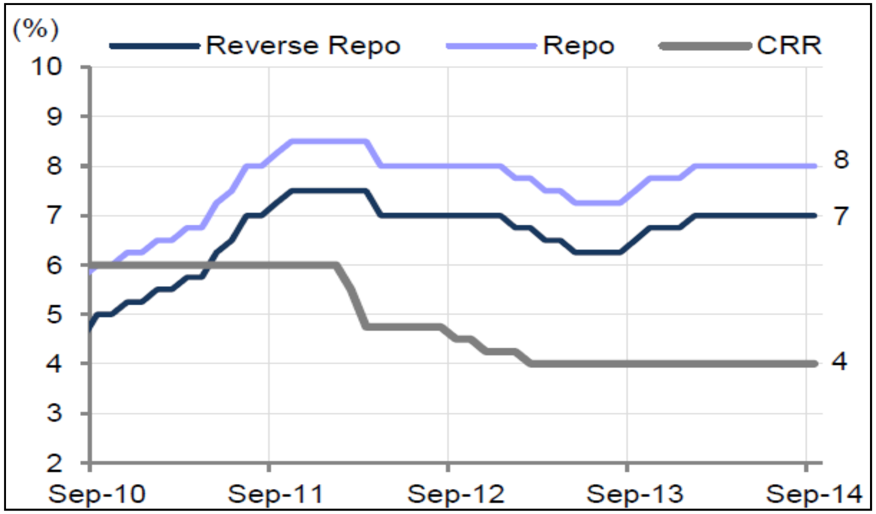
Source: RBI, Morgan Stanley, MOSL

Monetary Policy – Inflation Focused

CPI – General and Core Inflation



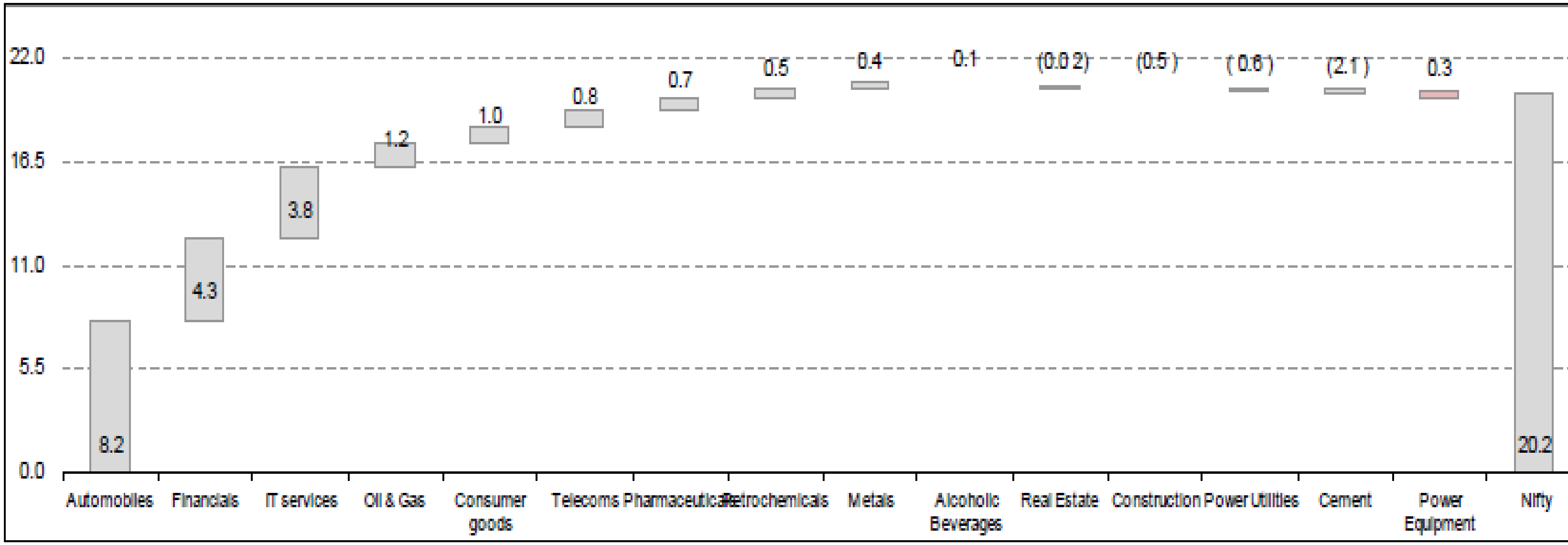
Key Policy Rates



- The RBI appears to be comfortable with its glide path for CPI-seen at 8% in Jan 2015 but it remains anxious about its 6% target in Jan 2016. Rates were unchanged in the latest Monetary Policy review
- The central bank also underlined the uncertainty over the next few quarters by pointing out that the future rate decision would be "data-dependent"
- In the words of Reserve Bank of India Governor Raghuram Rajan 'Let us fight this fight once, let's deal with it and then let's keep interest rates down in the longer term'

Source: RBI, RCML Research

India – 1Q15 Earnings performance – Export Driven



- Nearly 62% of earnings growth for Nifty contributed by export sectors and companies with global operations

Source: IDFC Securities Research

India – 1Q15 Earnings performance – Driven by Mega caps

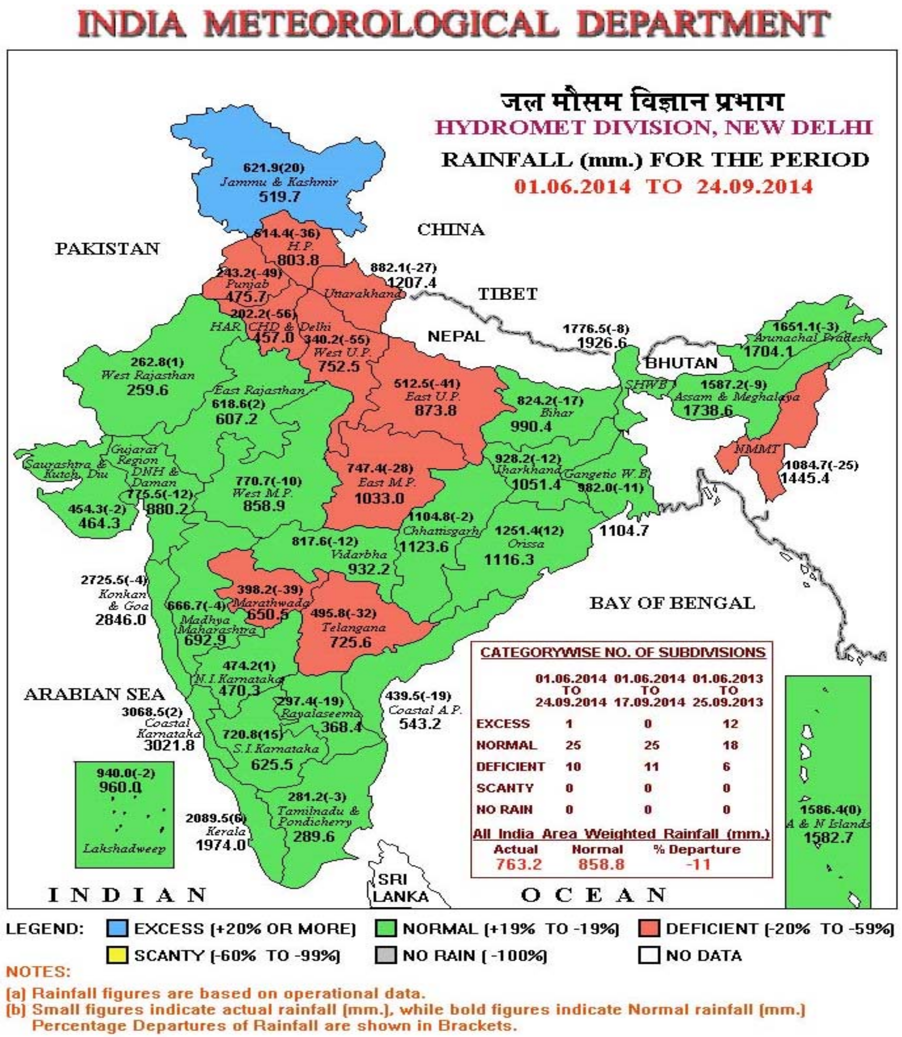
1Q15 (ex Oil PSU)	Broad Market	Mega Caps	Large Caps	Mid Caps	Small Caps
Market Cap		> 5 bn USD	2 bn - 5 bn USD	250 mn - 2 bn USD	50 mn - 250 mn USD
No. of Companies	3827	64	67	356	432
Revenue Growth	11%	18%	10%	9%	-1%
PAT Growth	16%	21%	9%	8%	-17%

- Q1FY15 earnings are largely driven by Mega cap companies, which experienced a 21% earnings growth, compared to midcaps, where earnings grew by just 8%

Source: Company data, Capitaline, Morgan Stanley Research. Please note Sesa Sterlite which is part of the BSE Sesnex has been excluded from our analysis due to lack of historic data

India – Monsoon Deficient

RELIGARE Invesco Mutual Fund



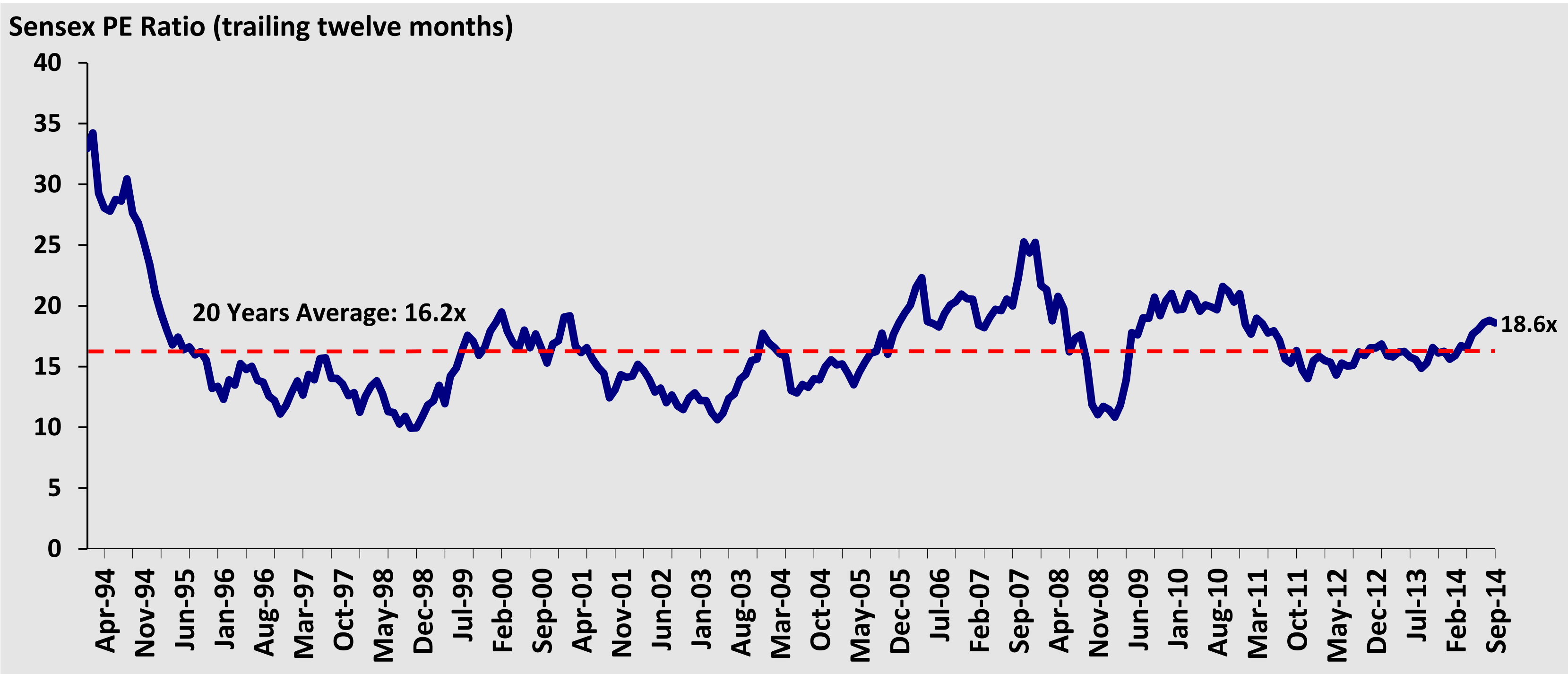
- On an all-India area-weighted basis, cumulative rainfall was 11% Below Normal up to 24th September 2014, which is significantly better than 43% below Normal as on 30th June 2014

- The deficiency in rainfall is likely to impact the purchasing power of rural populace and may also stoke inflation fears, albeit to a limited extent

Source: IMD

Valuations - Premium to Long term Average

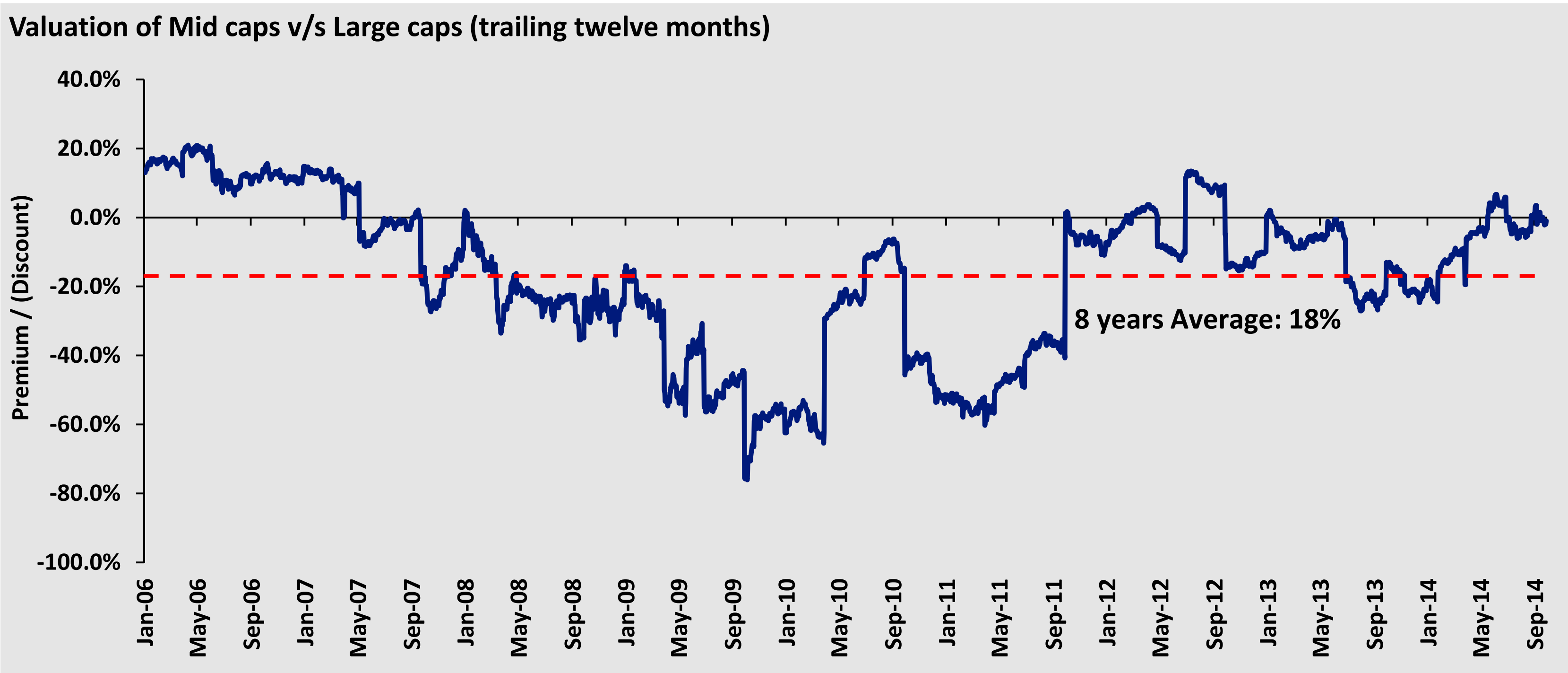
RELIGARE Invesco Mutual Fund



- Market currently trades at a premium valuation
- The largecap benchmark Sensex index trades at 14% premium to its long term trailing twelve months average PE multiple

 Source: MOSL, Religare Invesco AMC Research, Bloomberg

Valuations – Midcaps trading at a slight premium to Large Caps

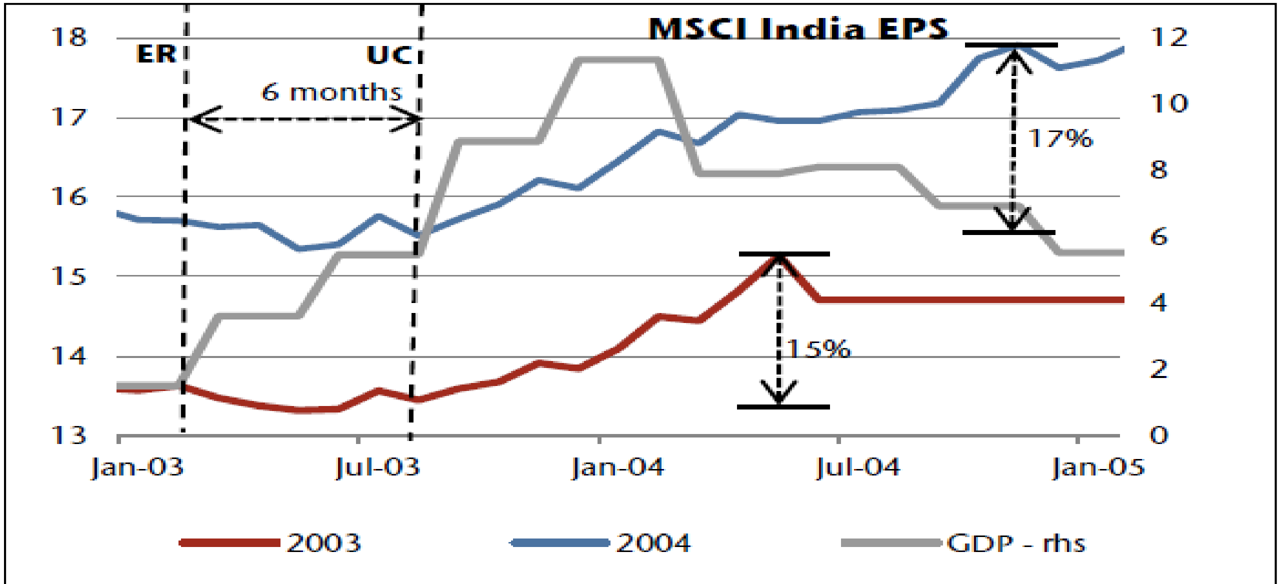


- Midcaps are trading at a premium to Large caps on a trailing twelve months P/E basis

Source: Religare Invesco AMC Research, Bloomberg

Valuations – The 2003 Earnings cycle experience

Earnings upgrade follows economic recovery with a lag of 4-6 months



Note: ER is the start of economic recovery; UC is the beginning of upgrade cycle; Source: Factset, Jefferies estimates

- The 2003 economic upturn suggests that the earnings upgrade cycle normally lags the economic recovery cycle by about 4-6 months
- We are still at a very early stage of mild recovery in growth

 Source: Factset, Jefferies Estimates

Market Outlook

- A mild recovery in economic growth is underway; Top down indicators showing signs of improvement
- New Government's path highlights continuity in areas of fiscal consolidation, fuel pricing, direct benefit transfer and financial inclusion
- Government focus is more on execution rather than Big Bang reforms
- The Central Bank, in its latest monetary policy, maintained its anti-inflationary stance and kept the key rates unchanged
- Valuations now at 14% premium to long term average. From here the baton passes to earnings growth rather than P/E expansion
- We are cautious about an earnings recovery in FY15 relative to consensus but in FY16 earnings could surprise the consensus positively
- Sectors such as industrials, consumer discretionary and financials will benefit from cyclical recovery in growth
- Earnings growth for Mid cap companies will likely improve with a recovery in domestic growth and a more benign monetary environment

Disclaimer

Disclaimer: This presentation is for information purposes only and is not an offer to sell or a solicitation to buy any mutual fund units/securities. The information alone is not sufficient and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party. All opinions, figures, charts/graphs and data included in this presentation are as on date and are subject to change without notice. The sectors referred in this presentation are for illustrative purposes only and should not be construed as recommendations from Religare Invesco Asset Management Company Private Limited (Religare Invesco AMC) and/or Religare Invesco Mutual Fund. Schemes of Religare Invesco Mutual Fund may or may not have any present or future positions in these sectors. The content of this document is intended solely for the use of the addressee. If you are not the addressee or the person responsible for delivering it to the addressee, any disclosure, copying, distribution or any action taken or omitted to be taken in reliance on it is prohibited and may be unlawful. The data used in this presentation is obtained by Religare Invesco AMC from the sources which it considers reliable. While utmost care has been exercised while preparing this document, Religare Invesco AMC does not warrant the completeness or accuracy of the information and disclaims all liabilities, losses and damages arising out of the use of this information. Neither Religare Invesco AMC nor any person connected with it accepts any liability arising from the use of this information. The recipient(s) before acting on any information herein should make his/their own investigation and seek appropriate professional advice.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

MKTG / RoundupEquity/ 0914/ C02074

Get in touch

Corporate Office:
Religare Invesco Asset Management Company Private Limited
3rd Floor, GYS Infinity, Paranjpe 'B' Scheme, Subhash Road,
Vile Parle (E), Mumbai – 400057
T +91 22 67310000 F +91 22 28371565

To invest:
Call 1800-209-0007 Δ sms 'Invest' to 56677
Invest Online www.religareinvesco.com

Follow us on