

# Insights

## Indian Equity Market

May 2015

The Indian equity markets have fallen by nearly 10% from its peak in terms of price. However, in terms of 12-month trailing Price to Earnings (P/E) multiple, the decline is much less given the fact that the 12-month trailing EPS itself has dropped about 6% since December '14 end. As of 12<sup>th</sup> May 2015, the market is trading at 16% premium to its long term average on a 12-month trailing P/E. This is certainly more attractive than in recent times, though still a bit away from the mean.

Nearly 50% of the Nifty companies (about 22 of 50) have reported the Q4 FY15 results thus far. While the results - hurt by weak global commodity prices such as metals and oil - have been weak so far with sales & PAT being down by 13% and 10% respectively year on year; but relative to the somber expectations, the results season has been on an even keel thus far.

The FY15 EPS growth estimates for S&P BSE 100 companies continues to stay put at around 8.5%. For FY16, the overall consensus currently forecasts FY16E EPS for S&P BSE 100 companies to grow at 18.4% (20.6% ex-energy) and sales to grow at 4.4% (12.8% ex-energy), which is marginally lower from the previous FY16E EPS growth estimate of 18.9%. These consensus forecasts seem to represent a relatively high bar of expectations in light of the present visible trends in the economy.

The recent market corrections, have in fact made it somewhat easier to find companies that are relatively fairly valued, though the absolute value is yet hard to find. But given the potential for a recovery in the economic growth over the next few years, we would prefer to maintain a pro-cyclical exposure in our portfolios. Presently, our sector preferences based on valuations and growth are financials and consumer discretionary. We do not find industrials very attractive presently given their elevated valuations and as recovery in the investment cycle is expected to be slow.

In fact, given the present valuations in the market and the challenges being posed by the present macro-environment, we think that the potential of generating alpha lies in the stock selection. Our stock picking continues to be guided primarily by the health of the corporate balance sheets and the assessment of company's ability to weather a challenging growth environment.

We have thus selectively increased exposure to companies where we perceive there are sincere attempts to address the balance sheet issues and where the companies are attempting to bring about changes in strategic direction. Our portfolios are more balanced today reflecting the bottom-up conviction on specific companies.

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