

Equity Markets : Current Environment and Outlook

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Current Environment

- A Global Equity markets remained almost unchanged January 2013, with the MSCI World Index falling by 0.02%
- Indian markets under performed the global market trend and fell by 5.19%.
- Commodity prices under performed the trend in equities, as benchmark CRB Reuters Jefferies total return index fell by 3.6% during the month
- IT and Teck were the best performing sectors while Metal and Capital Goods were worst performing sectors during the month*
- FII inflows during the month were at Rs.244 bn. MF's were net sellers at Rs.8bn, while DII's were net sellers of Rs.88bn during the month
- Trading Activity was subdued in February as cash market trading turnover fell by 23% MoM. Average open interest fell by 4% MoM

* Please refer slide 4 for sector performances



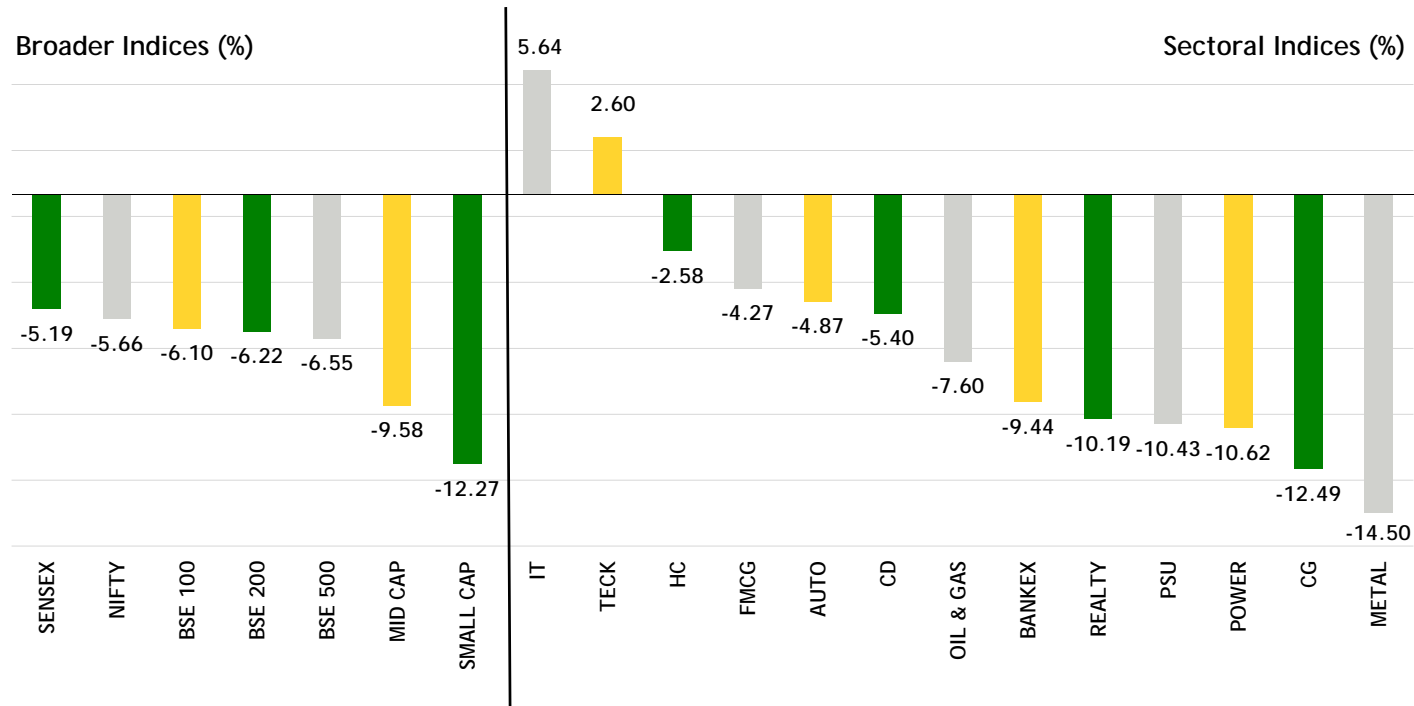
Global Equities

Index	Country	Closing Price*	1 Month Return (%)	YTD Return (%)	Category
SSE Composite Index	China	2365.59	-0.83%	4.25%	EM - Asia
BSE Sensex	India	18861.54	-5.19%	-2.91%	EM - Asia
Kospi	South Korea	2026.49	3.29%	1.47%	EM - Asia
Taiwan Weighted	Taiwan	7897.98	0.61%	2.58%	EM - Asia
Thailand SET 50 Index	Thailand	1014.03	2.61%	7.26%	EM - Asia
Jakarta Composite Index	Indonesia	4795.79	7.68%	11.10%	EM - Asia
KLSE	Malaysia	1637.63	0.62%	-3.04%	EM - Asia
Ibovespa Sao Paulo Index	Brazil	57424.29	-3.91%	-5.79%	EM
Mexico IPC	Mexico	44120.99	-2.56%	0.91%	EM
Russian RTS Index	Russia	1534.41	-5.41%	0.49%	EM
Philippine PSEi	Philippines	6721.45	7.67%	15.63%	EM
Merval Buenos Aires Index	Argentina	3048.55	-11.95%	6.81%	EM
HangSeng	Hong Kong	23020.27	-2.99%	1.60%	Developed - Asia
Nikkei	Japan	11559.36	3.78%	11.20%	Developed - Asia
Strait Times	Singapore	3269.95	-0.39%	3.25%	Developed - Asia
Dow Jones	USA	14054.49	1.40%	7.25%	Developed
CAC 40 Index	France	3723.00	-0.26%	2.84%	Developed
All Ordinaries Index	Australia	5120.38	4.48%	9.29%	Developed
DAX Index	Germany	7741.70	-0.44%	1.70%	Developed
Swiss Market Index	Switzerland	7593.67	2.74%	11.30%	Developed
FTSE 100	UK	6360.81	1.34%	7.85%	Developed
MSCI World Index	--	1405.18	-0.02%	5.90%	--

* as on 28th February, 2013. Source: Bloomberg
EM – emerging markets, Developed – developed markets



India : Sector performances



- Nifty fell by 5.66% over the previous month
- MidCaps and Small Caps underperformed LargeCaps with 9.58% fall and 12.27% fall respectively
- IT and Teck sectors delivered the best return for the month
- Metal and Capital Goods were the worst performing sectors

Source: BSE,NSE. one month performance as on 28th February, 2013. CD: Consumer Durables, CG: Capital Goods, HC: Health Care. FMCG: Fast Moving Consumer Goods



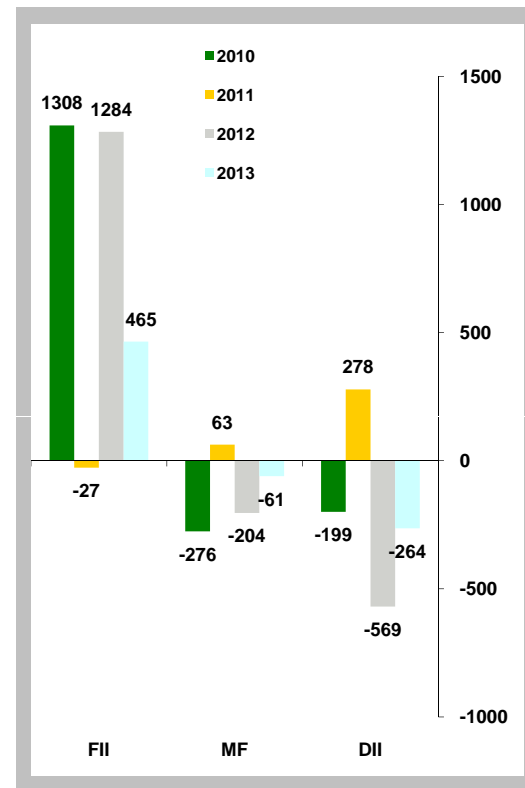
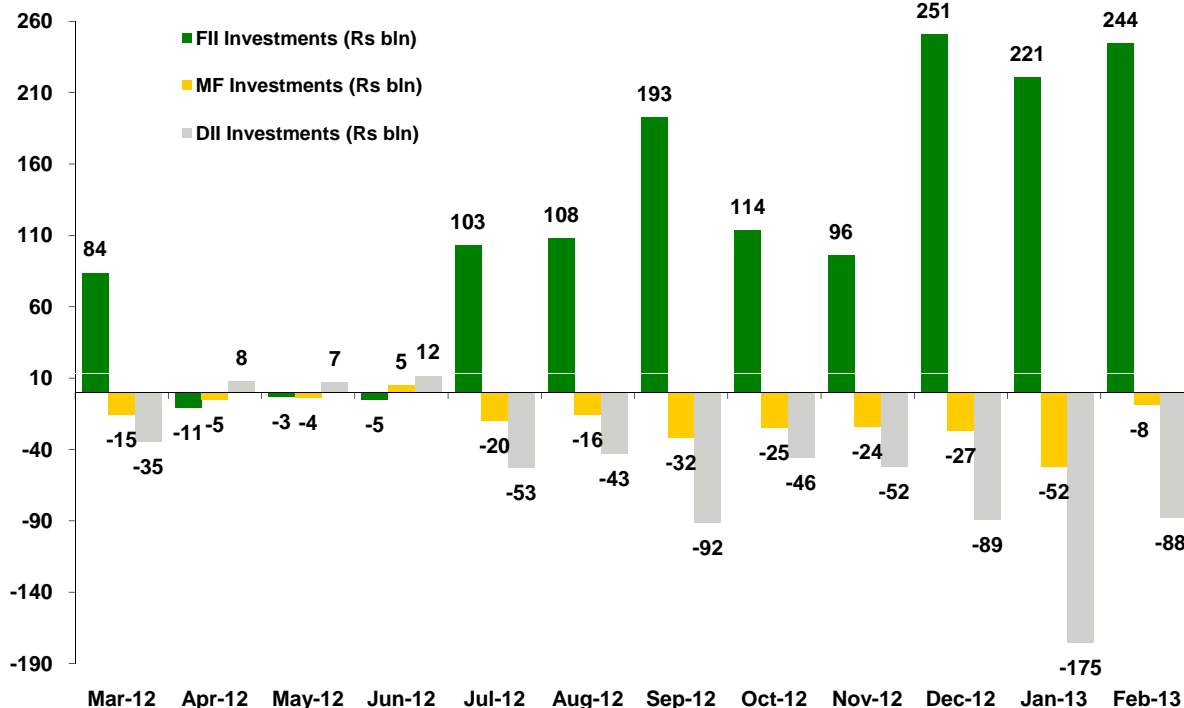
Top Gainers / Losers - Nifty

Top Gainers for the month			
Gainers	52 week H/L	Last Price#	% Gain*
Tata Consultancy Services Ltd	1525 / 1047.65	1517	12.86%
Sun Pharmaceutical Industries Ltd	826 / 535.9	802.15	11.72%
HCL Technologies Ltd	736.6 / 440.6	723.4	5.15%
Infosys Ltd	2969.4 / 2060.55	2907	4.21%
Wipro Ltd	451.7 / 295	416.4	1.18%
Top Losers for the month			
Losers	52 week H/L	Last Price#	% Loss*
Siemens Ltd	840 / 482.35	504.3	-23.18%
Jaiprakash Associates Ltd	106.7 / 58	69.55	-20.01%
Bank of Baroda	899 / 605.55	695.7	-19.83%
Reliance Infrastructure Ltd	679.75 / 415	419	-18.72%
Sesa Goa Ltd	215.1 / 145	154.9	-16.99%

closing price as on 28th February, 2013. * one month performance as on 28th February, 2013.
Source: Capitaline



FII & DII Inflows



- Institutional activity was very positive for the month
- FII inflows remained strong at Rs.244 bn during the month
- MF's and DII continued to be net sellers at Rs.8bn and Rs.88bn during the month

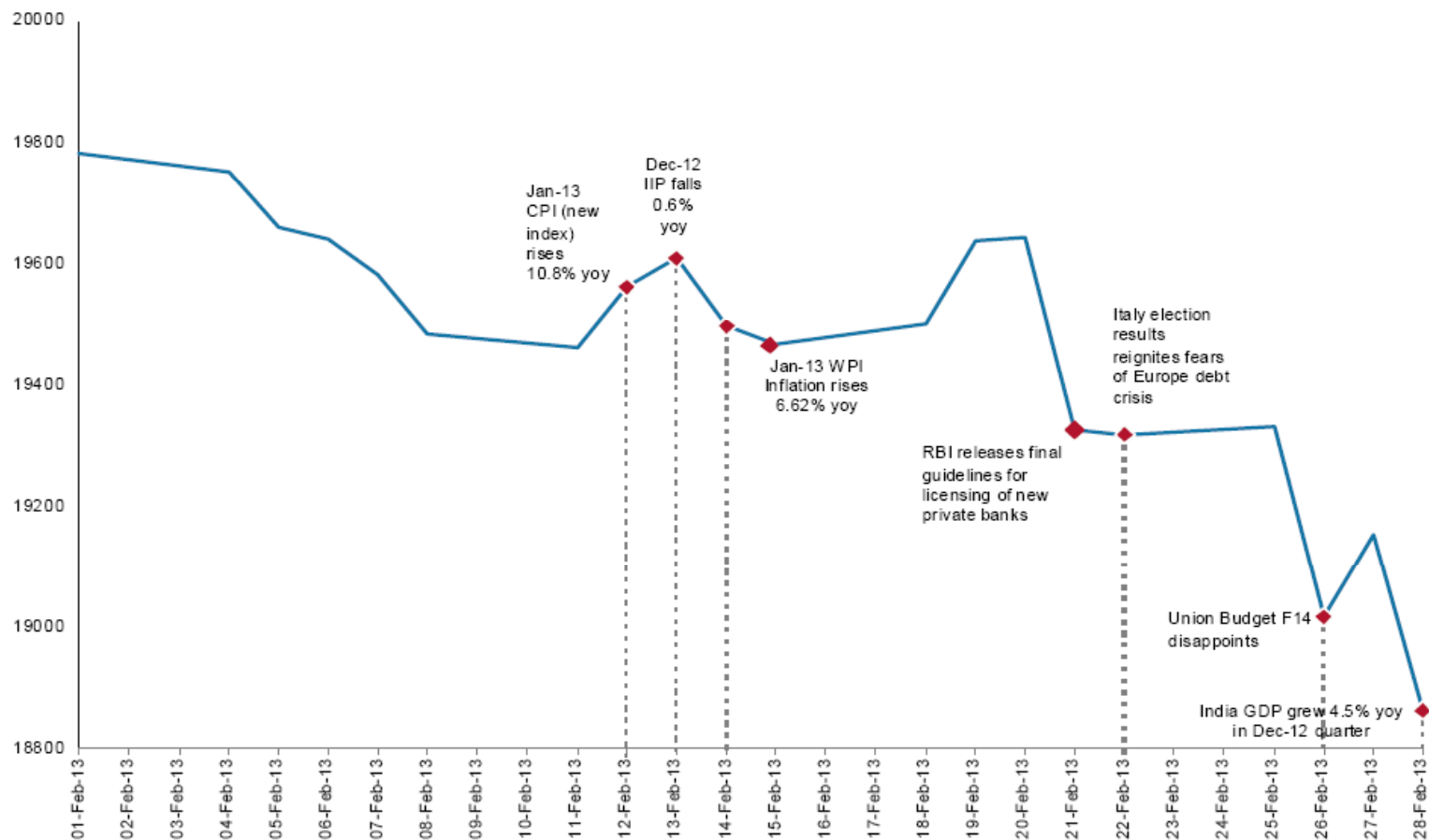


Market Activity



- In Feb 2013, cash market trading turnover fell by 23% MoM
- At the end of February 2013, average open interest fell by 4% on a MoM basis

February 2013 events timeline



Source: Bloomberg, Economic Times, Business Standard, Morgan Stanley Research.

Note: The above shown index is BSE Sensex .



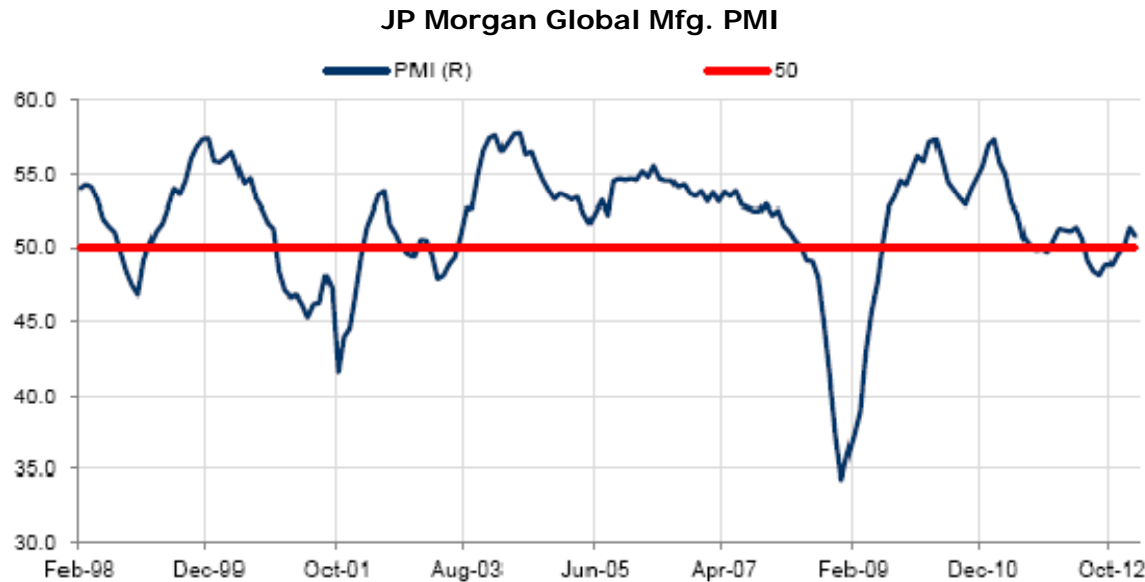
Religare MF: Equity Market Outlook and Opportunities

Equity Market Outlook

- The developed economies continue to remain busy with extreme steps taken to boost their respective economies. Latest to join the easing rhetoric has been Japan, which has publicly announced its intention to expand monetary stimulus to ignite economic growth
- India's quarterly GDP growth slowed to 4.5% in Q3FY13 after remaining stable at around 5.5% levels for 3 quarters. Also, the bigger worry for the country remains the high level of trade deficit, which continues to remain sticky despite a massive 10% depreciation in the currency in the last one year
- The near term outlook for investment demand appears challenging as corporate balance sheets are most leveraged in last ten years and the consumption demand outlook appears muted
- In the Union Budget FY14, the FM bettered market expectation on deficit targets, meeting FY13 targets and announcing FY14 deficit at 4.8%. The Govt. proposes to reduce the fiscal deficit progressively by ~60bps each year to 3% by FY17, with the revenue deficit at 1.5%
- However, while the headline trajectory looks comfortable, it is supported by optimistic revenue assumptions (+23.4% growth for FY14E vs. 15% in FY13)
- Quarterly earnings for December 2012 for Sensex companies have been below expectations. The reported PAT growth was at 5%, compared to expectations of 8% growth
- Consensus (Bloomberg) EPS estimates for FY13 have been cut by about 1.6% during the month of February and EPS forecasts for FY14 have been cut by 0.8%



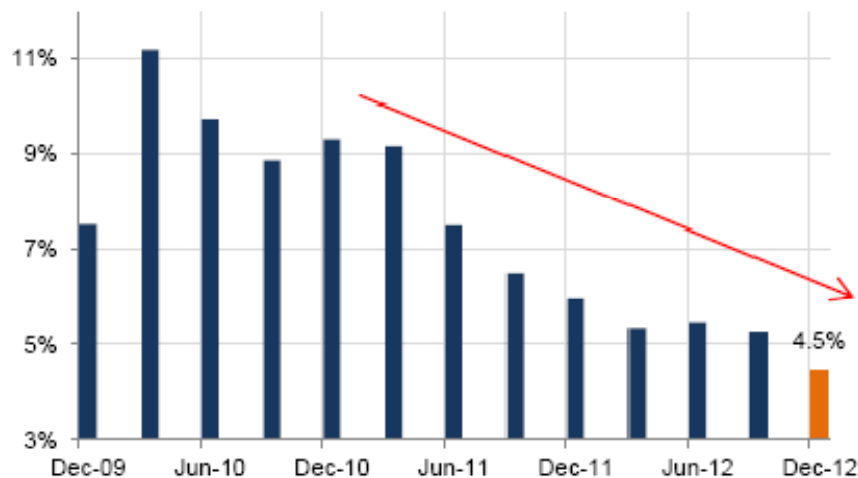
Global Macro – status quo



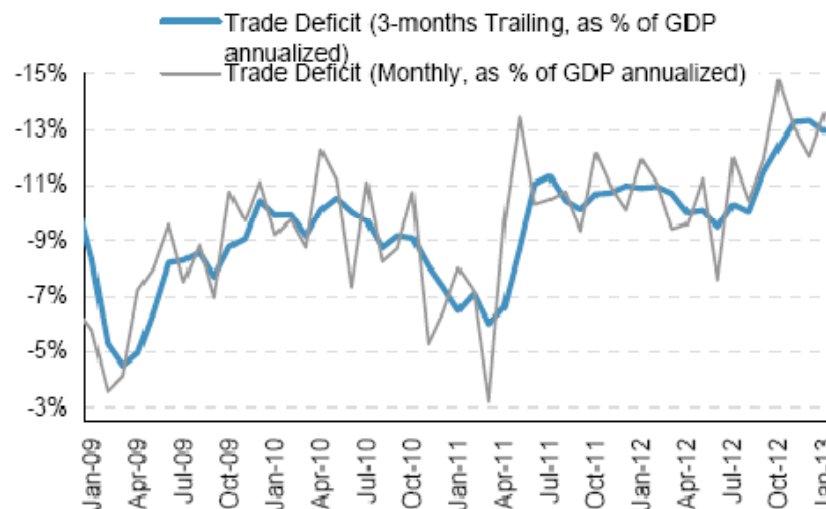
- Global economy seems to be just about managing to remain in growth mode, while Global manufacturing PMI remaining just about in GDP expansion territory
- Most of the developed world is busy continuing with extreme steps taken to boost their respective economies. Latest to join the easing rhetoric has been Japan, which has publicly announced its intention to expand monetary stimulus to ignite economic growth

India's GDP Growth – weakness continues

Quarterly GDP growth trend

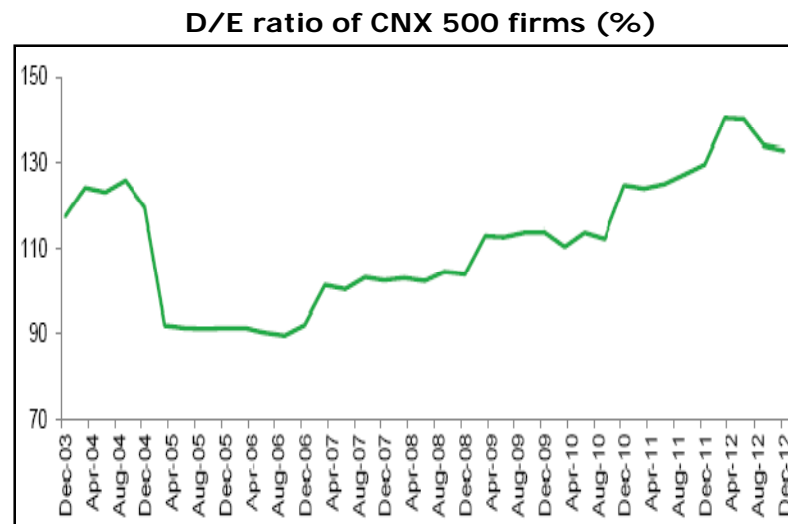
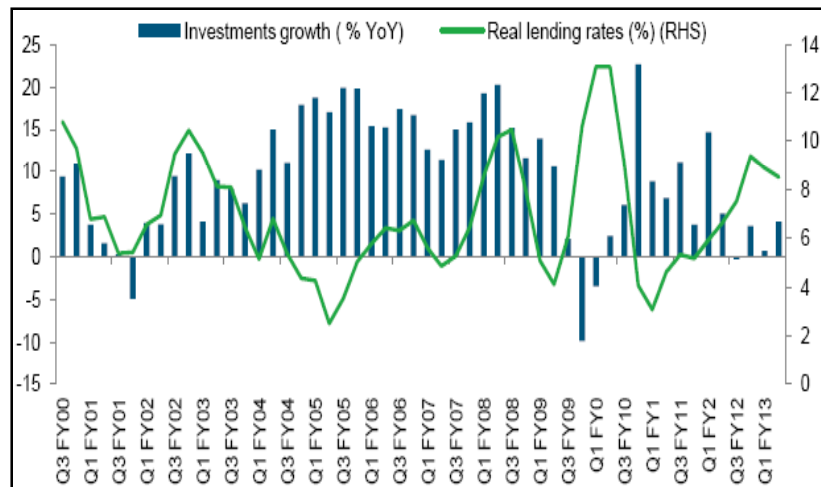


Trailing Trade Deficit (as % of GDP)



- India's quarterly GDP growth slowed to 4.5% in Q3FY13 after remaining stable at around 5.5% levels for 3 quarters. Decline was largely led by the slowdown in agriculture and government expenditure
- However, the bigger worry for the country remains the high level of trade deficit, which continues to remain sticky despite a massive 10% depreciation in the currency in the last one year

Low Investment Demand – time to pull the rate lever



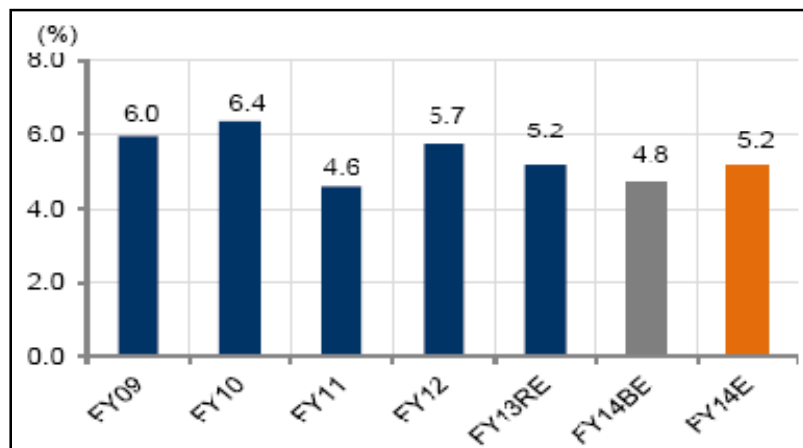
- Ceteris Paribus, Interest rates tend to have an inverse effect on the investment demand. Lower real rates lead to investment pick-up with a lag. Lower rates, however, are necessary but not sufficient for reversal
- Investment demand is also linked to the overall level of corporate profitability, balance sheet structure and demand outlook
- The recent corporate profitability in India has been protected, to some extent, by unsustainable cost cuts, while the demand outlook appears to be worsening
- Also, currently the corporate balance sheets are leveraged more than any other time in the past 10 years, which can impede companies ability to invest for future capital expenditures
- Hence, the near term outlook for investment demand appears challenging

Ceteris Paribus means “all other things being equal or held constant”

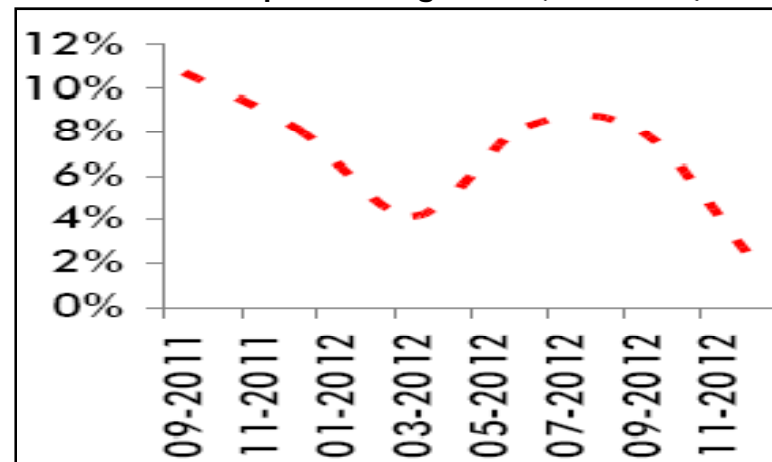


Union Budget FY14 – the deficit dilemma

Fiscal deficit trend



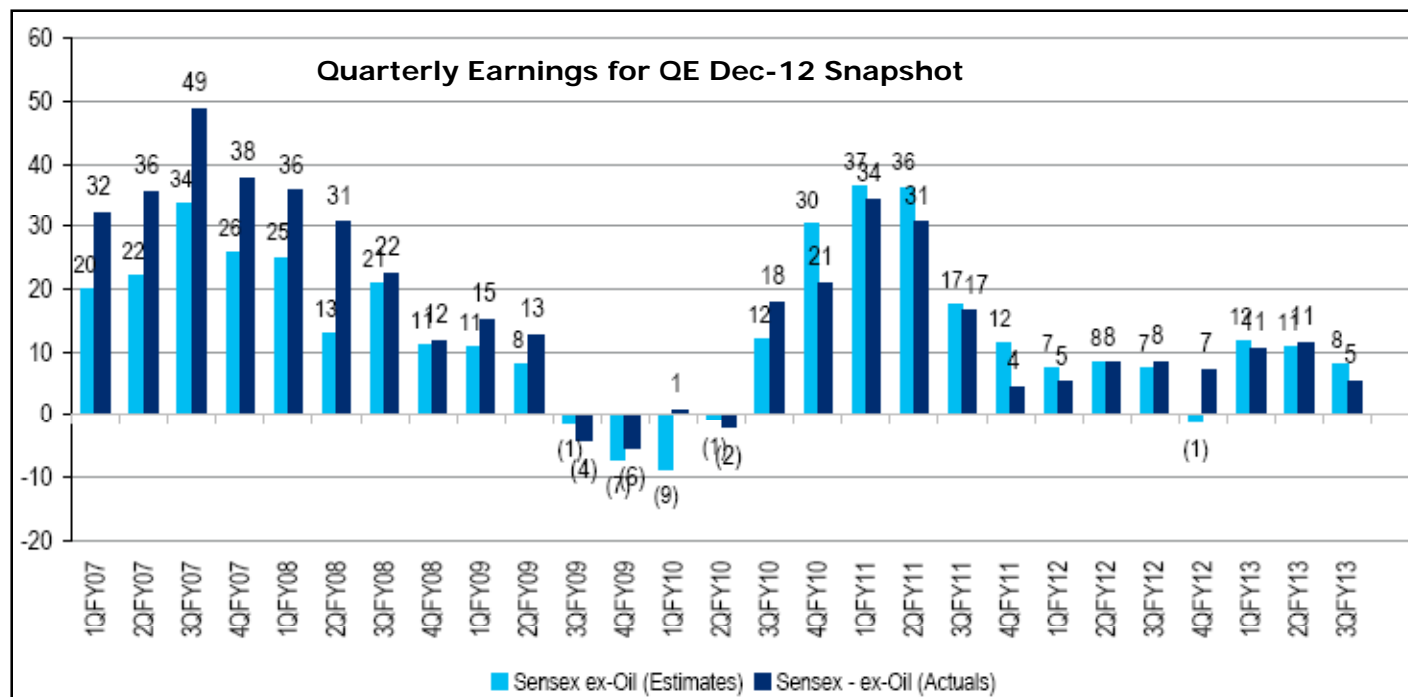
Govt. final consumption expenditure growth (YoY, in %)



- The FM bettered market expectation on deficit targets, meeting FY13 targets and announcing FY14 deficit at 4.8%. The Govt. proposes to reduce the fiscal deficit progressively by ~60bps each year to 3% by FY17, with the revenue deficit at 1.5%
- However, while the headline trajectory looks comfortable, it is supported by optimistic revenue assumptions (+23.4% growth for FY14E vs. 15% in FY13)
- However, in the near term, in a bid to contain the deficit, the government expenditure has been severely curtailed, which has resulted in a sharp slowdown in GDP growth in Q3FY13. In fact, we might not see the fourth quarter seasonal improvement in business, which India Inc is accustomed to



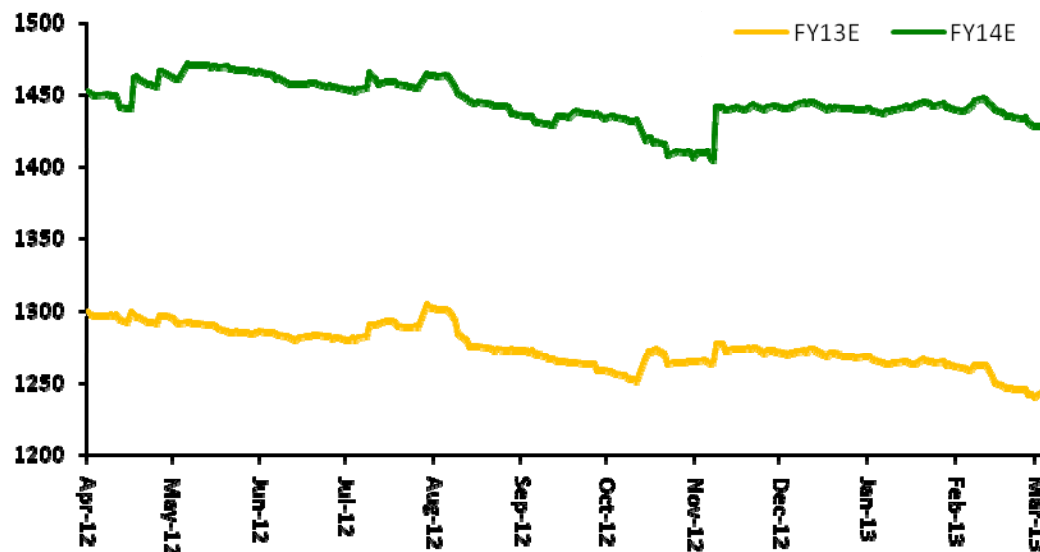
Dec 2012 Earnings so far – slightly better than beaten down estimates



- Quarterly earnings for December 2012, for Sensex companies have been below expectations. The reported PAT growth was at 5%, compared to expectations of 8% growth
- Earnings growth slowdown was driven by a sharp decline in sales growth, partially offset by margin improvements led by cost cutting initiatives
- We are more worried about weakening sales growth as it is reflective of a slowdown in aggregate demand in the economy



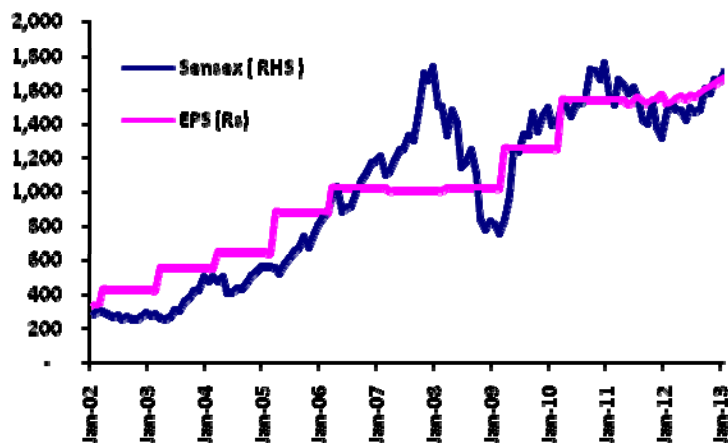
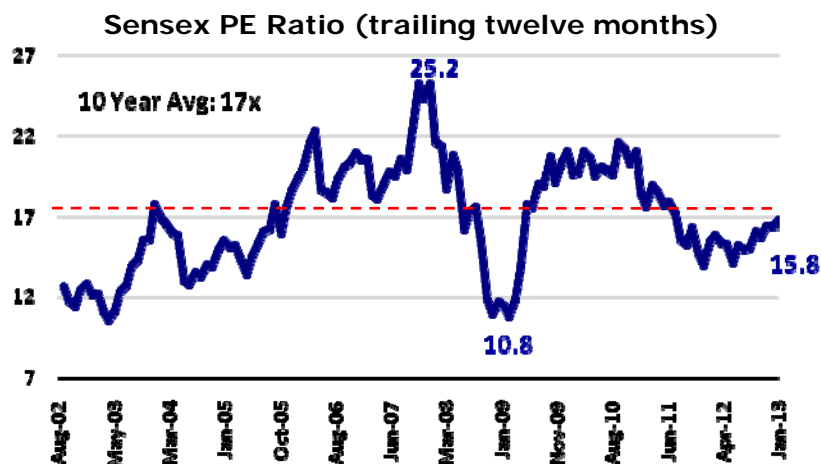
Earnings Forecasts – cuts reflecting weak macro



- Consensus (Bloomberg) EPS estimates for FY13 have been cut by about 1.6% during the month of February and EPS forecasts for FY14 have been cut by 0.8%
- Consensus now expects FY14 earnings to grow at 15%



Valuations – At Reasonable Levels



- Sensex is currently trading at 15.8x its trailing earnings. It is now 7% lower than its historical 10-year average trailing PE of 17x
- On a 1-yr forward basis, Sensex is trading at 13.8x which at 5% discount to its 10 year average PE
- The de-rating of market since 2007 is evident in the accompanying chart with earnings considerably above the 2007 levels whereas the markets have not progressed much over the past 5 years



Looking Ahead...

- Global growth – Expected to strengthen gradually through 2013 but lower than previous projections
- Japan's currency depreciation versus major currencies to have a significant negative impact on top global exporters – mainly Euro region and number of export oriented emerging market economies
- India's growth which had stabilized at 5%-5.5% range has dipped to 4.5% in the latest quarter led by a slowdown in agriculture and government expenditure
- Government's focus on fiscal deficit reduction will add pain in the short term, but will be a key catalyst in reviving the investment cycle in the long term
- However, there is a degree of uncertainty towards complete execution of announced measures and translation of intent into action given it's a pre election year
- Valuations are reasonable; are at a slight discount to long term averages
- Gap in terms of valuations between cyclicals and non cyclicals is fairly high with non cyclicals trading at very rich valuations
- Overall emphasis on bottom up stock selection continues
- Companies with businesses having reasonable growth prospects and in a healthy financial position, which can ride out the challenging environment and benefit from an improvement in the economic outlook would be preferred. We are also open to making selective investments in areas where valuations already reflect a high degree of stress



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