

# Equity Markets : Current Environment and Outlook

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# Current Environment

- Global Equity markets had a strong rally from Feb 2013, with the MSCI World Index rising by 2.09% for the month
- Indian markets underperformed the global market trend and fell by 0.14%
- Commodity prices continued to underperform equities, as benchmark CRB Reuters Jefferies total return index increased by 1.2% during the month
- FMCG and Healthcare were the best performing sectors while Realty and Power were worst performing sectors during the month\*
- FII inflows during the month were at Rs.91 bn. MF's were net sellers at Rs.16bn, while DII's were net sellers of Rs.79bn during the month
- Trading Activity was subdued in March as cash market trading turnover fell by 8% MoM. Average open interest was flat MoM

\* Please refer slide 4 for sector performances



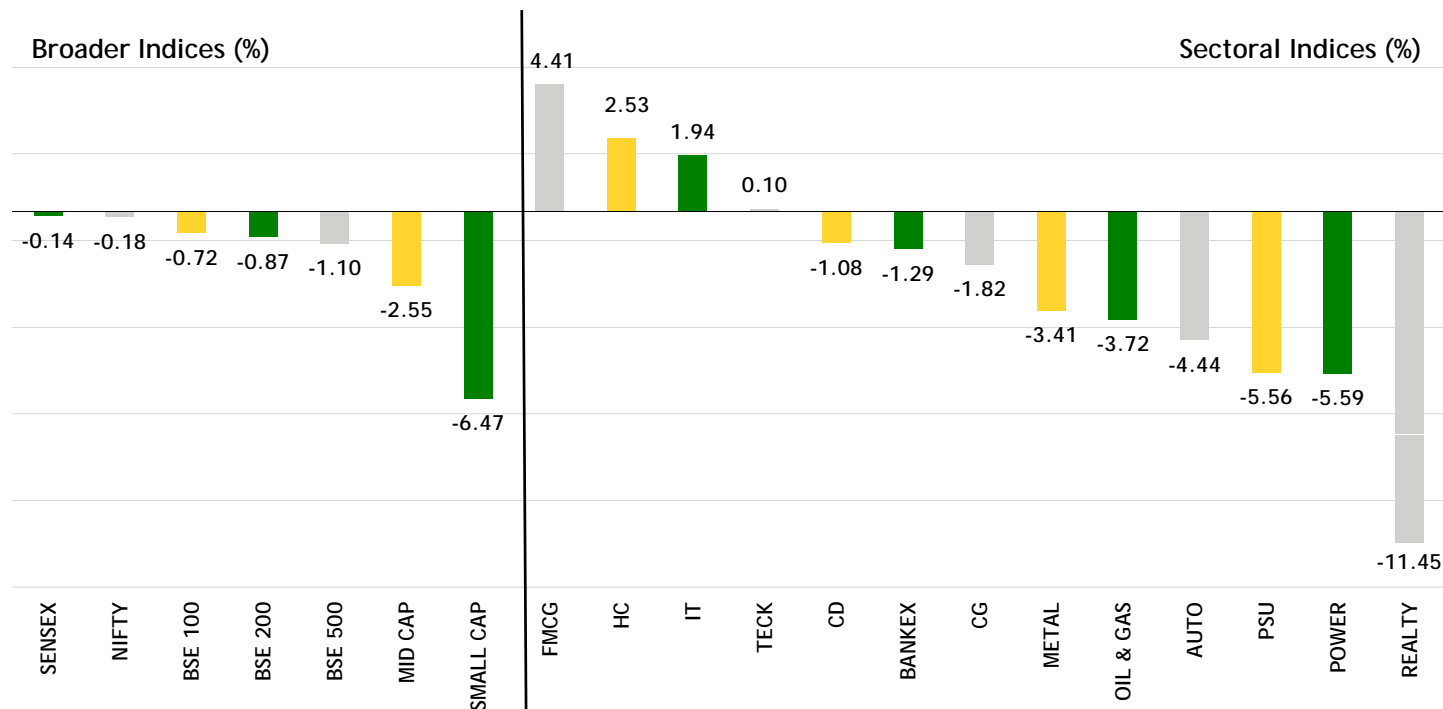
# Global Equities

Index	Country	Closing Price*	1 Month Return (%)	YTD Return (%)	Category
SSE Composite Index	China	2236.62	-5.45%	-1.43%	EM - Asia
S&P BSE Sensex	India	18835.77	-0.14%	-3.04%	EM - Asia
Kospi	South Korea	2004.89	-1.07%	0.39%	EM - Asia
Taiwan Weighted	Taiwan	7918.61	0.26%	2.85%	EM - Asia
Thailand SET 50 Index	Thailand	1024.92	1.07%	8.41%	EM - Asia
Jakarta Composite Index	Indonesia	4940.99	3.03%	14.46%	EM - Asia
KLSE	Malaysia	1671.63	2.08%	-1.03%	EM - Asia
Ibovespa Sao Paulo Index	Brazil	56352.09	-1.87%	-7.55%	EM
Mexico IPC	Mexico	44077.09	-0.10%	0.81%	EM
Russian RTS Index	Russia	1460.04	-4.85%	-4.38%	EM
Philippine PSEi	Philippines	6847.47	1.87%	17.80%	EM
Merval Buenos Aires Index	Argentina	3380.78	10.90%	18.45%	EM
HangSeng	Hong Kong	22299.63	-3.13%	-1.58%	Developed - Asia
Nikkei	Japan	12397.91	7.25%	19.27%	Developed - Asia
Strait Times	Singapore	3308.10	1.17%	4.45%	Developed - Asia
Dow Jones	USA	14578.54	3.73%	11.25%	Developed
CAC 40 Index	France	3731.42	0.23%	3.07%	Developed
All Ordinaries Index	Australia	4979.87	-2.74%	6.29%	Developed
DAX Index	Germany	7795.31	0.69%	2.40%	Developed
Swiss Market Index	Switzerland	7813.67	2.90%	14.53%	Developed
FTSE 100	UK	6411.74	0.80%	8.71%	Developed
MSCI World Index	--	1434.52	2.09%	8.12%	--

\* as on 28<sup>th</sup> March, 2013. Source: Bloomberg  
 EM – emerging markets, Developed – developed markets



# India : Sector performances



- Nifty fell by 0.18% over the previous month
- MidCaps and Small Caps underperformed Large Caps with 2.55% fall and 6.47% fall respectively
- FMCG and Healthcare sectors delivered the best return for the month
- Realty and Power were the worst performing sectors

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



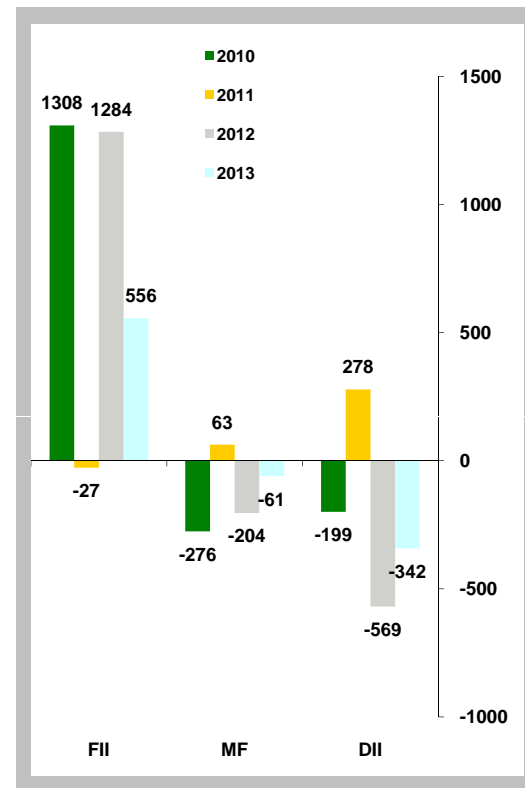
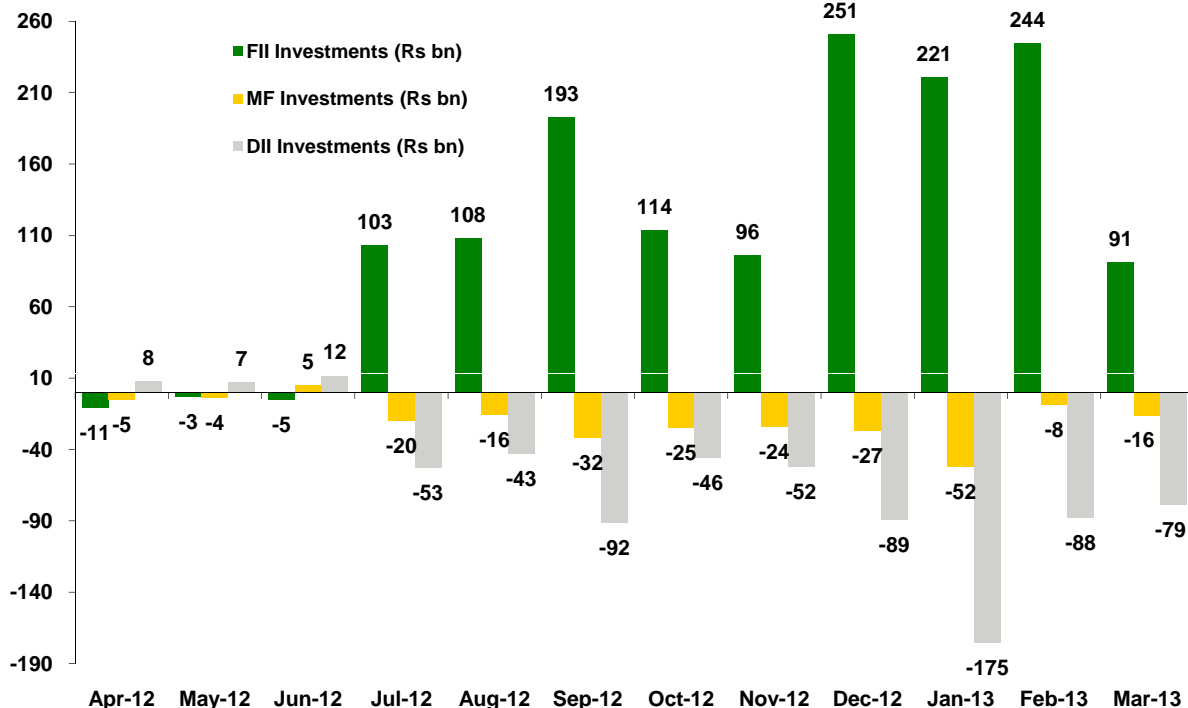
# Top Gainers / Losers - Nifty

Top Gainers for the month			
Gainers	52 week H/L	Last Price#	% Gain*
Reliance Infrastructure Ltd	621.7 / 315.05	419	29.14%
DLF Ltd	289.25 / 169.75	277.35	18.17%
Bharat Heavy Electrical Ltd	274.5 / 174.25	201.15	13.64%
Bharti Airtel Ltd	370.6 / 215.8	322.9	10.68%
Punjab National Bank	941.9 / 659.2	790.45	10.11%
Top Losers for the month			
Losers	52 week H/L	Last Price#	% Loss*
Ranbaxy Laboratories Ltd	578.4 / 370.8	378.25	-13.79%
Asian Paints India Ltd	5050 / 3204	4272.2	-13.12%
HCL Technologies Ltd	805.5 / 453.25	723.4	-9.01%
Housing Development Finance Corporation Ltd	882.3 / 610.5	757.65	-8.30%
Lupin Ltd	639.8 / 496.4	584.95	-6.94%

# closing price as on 28<sup>th</sup> March, 2013. \* one month performance as on 28<sup>th</sup> March, 2013.  
Source: Capitaline



# FII & DII Inflows



- Institutional activity was mixed for the month
- FII inflows came down as compared to previous months at Rs.91bn during the month
- MF's and DII continued to be net sellers at Rs.16bn and Rs.79bn during the month
- Calendar YTD, FII inflows have been around Rs. 556 bn whereas MF's and DII's have been net sellers to the extent of Rs. 61 bn and Rs. 342 bn respectively

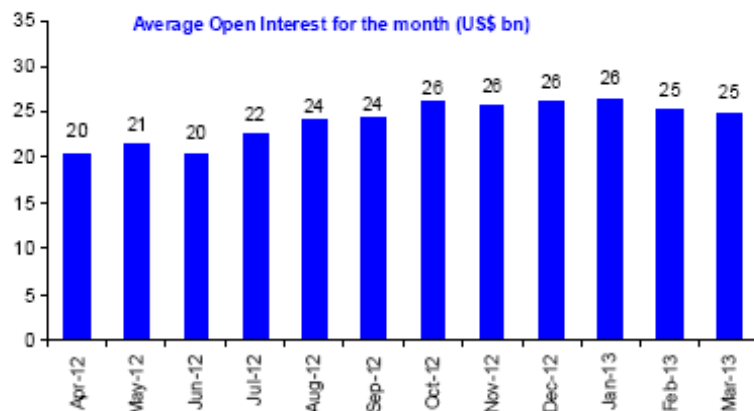


# Market Activity

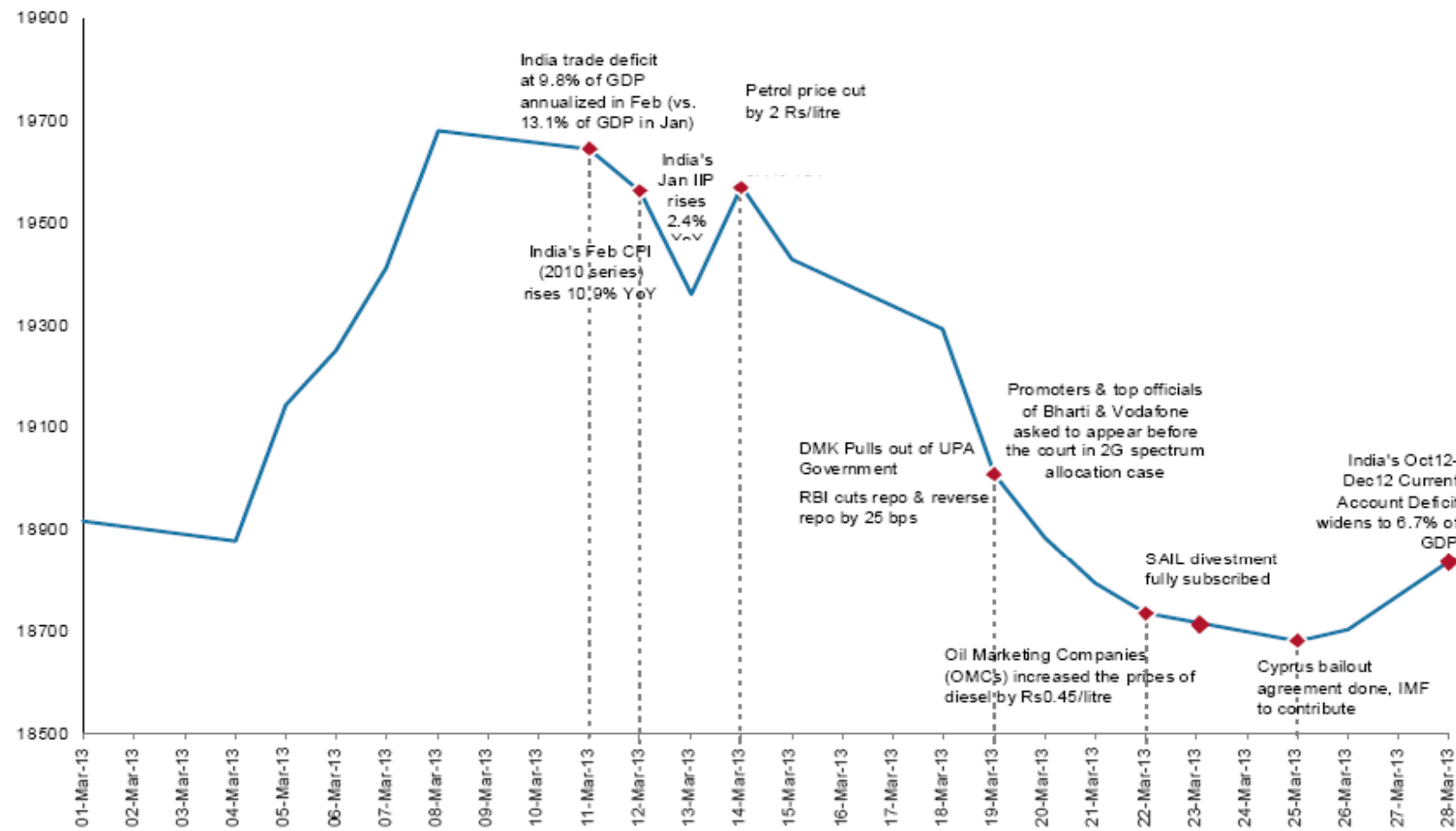
## Cash Turnover & Volumes: Seventh-month Low Turnover



- In March 2013, cash market trading turnover fell by 8% MoM – at 7 month low
- At the end of March 2013, average open interest was flat MoM



# March 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

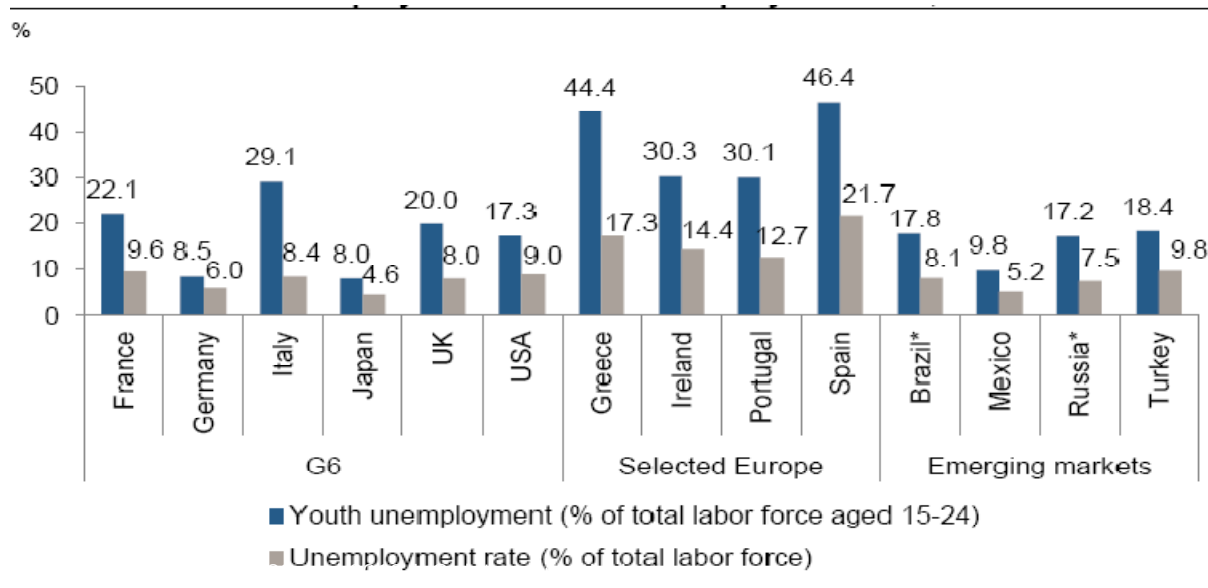
# Equity Market Outlook

- Even after 4 years of global financial crisis unemployment still continues to be a major concern globally
- Eurozone uncertainty also continues as Cyprus becomes the latest country to be bailed out
- While the size of the bail out at 10bn Euros is small, haircut for depositors has set a precedent that could have negative implications on weaker banks across Europe
- India's external situation remained weak in Q3, with trade deficit widening to US\$ 59.6 bn resulting into current account deficit of 6.7%
- India's PMI also fell sharply to 52 in March from 54.8 in February, signaling a deterioration in business conditions
- <sup>1</sup>Eight core sectors – which account for 37.9% of IIP, witness a 2.5% decline in Feb'13 – lowest since 2005 – led by a sharp decline in Coal, Crude and Electricity
- Reverse Repo rate was cut by RBI by 25bps during the month. However high Inflation(CPI), poor deposit growth and tight liquidity are making transmission a big challenge
- At current valuations of FY14E P/E of 13.5x, past return trends indicate that these are attractive entry multiples for investors with long term outlook

<sup>1</sup>Note: Eight core sectors are Coal, Crude Oil, Natural Gas, Refinery Products, Fertilizer, Steel, Cement and Electricity



# Global Macro – 4 years after the global financial crisis – Unemployment still a major concern

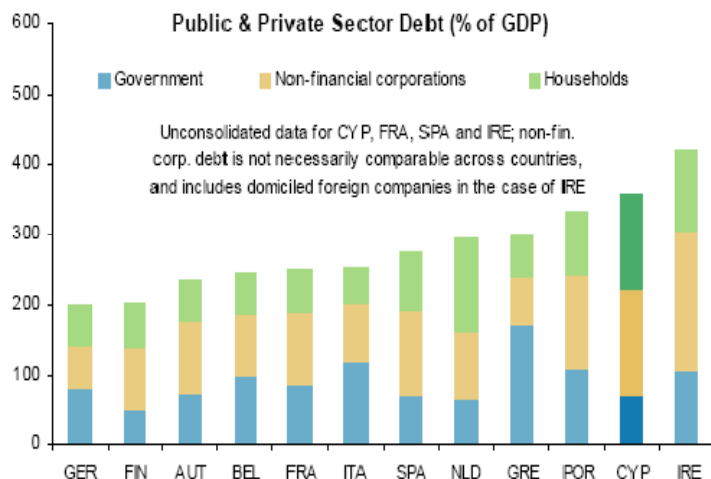


- Youth unemployment has become a worrying global phenomena with 74.6 million young people unemployed globally in 2012
- This is nearly 2.5 times size of French labor force and nearly 3 times the number of Italian workers in 2012
- Current youth unemployment rates in most of the countries are twice as high compared to economy wide average unemployment rates, which are anyways high
- Rising trend of youth unemployment around the world threatens not just current economic growth but also political stability and the potential demographic dividend

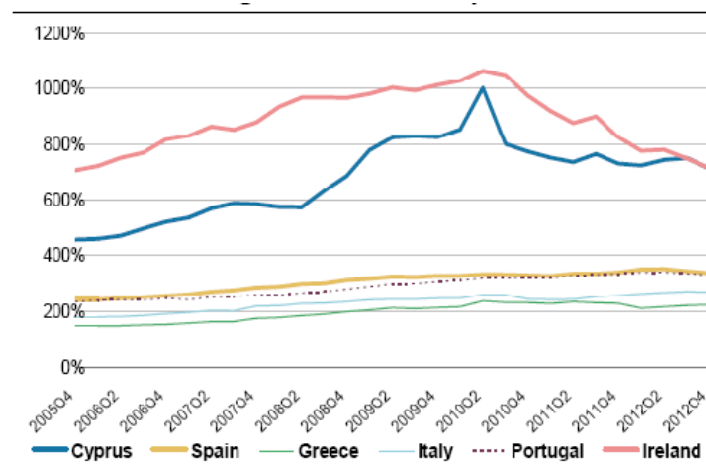


# Global Macro – Eurozone Crisis – Cyprus, latest one to be bailed out

## Cyprus – Highly Leveraged Economy



## Banking Assets as % of GDP



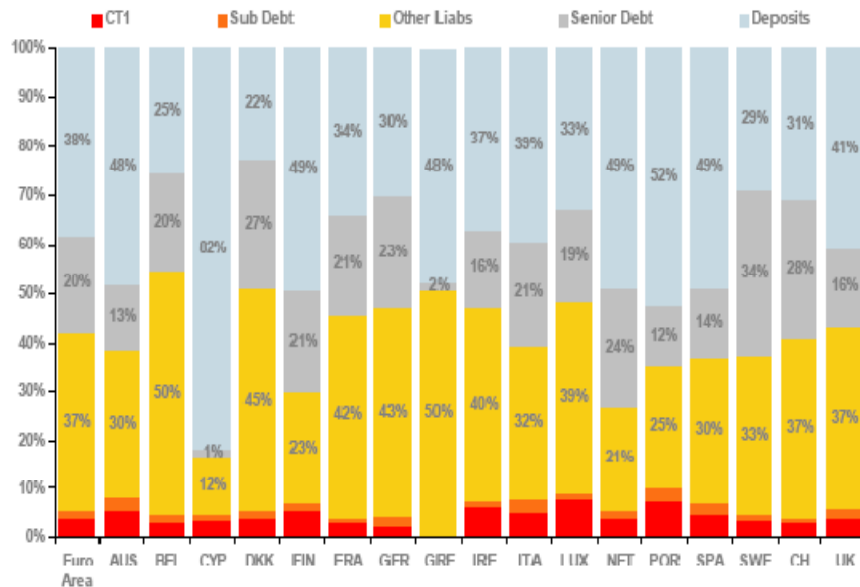
- Cyprus – a small Euro zone nation with GDP size of around 25 billion dollar has agreed with Eurozone group of finance ministers for a bailout package of 10 bn Euro
- While the country's size in terms of GDP is small, as the above charts indicate – the country has one of the highest leverage in terms of overall Debt/GDP and has one of the most outsized banking sectors in Europe with Banking Assets/GDP ratio of around 750%

**Note-** AUT: Austria, BEL: Belgium, CYP: Cyprus, FIN: Finland, FRA: France, GER: Germany, GRE: Greece, IRE: Ireland, ITA: Italy, POR: Portugal, SPA: Spain, NLD: Nederland

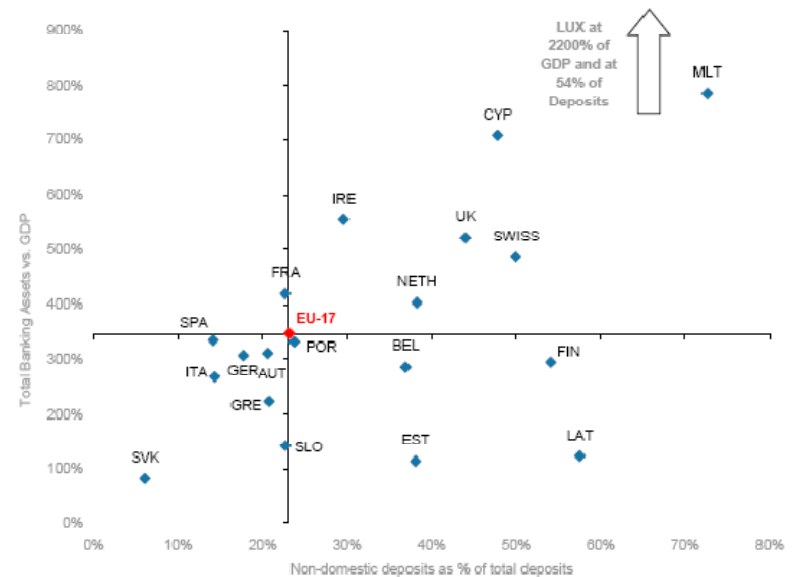


# Global Macro – Cyprus Bailout – Negative implications

Break up of Bank's liabilities across Europe



Share of Bank Assets and Foreign Deposits



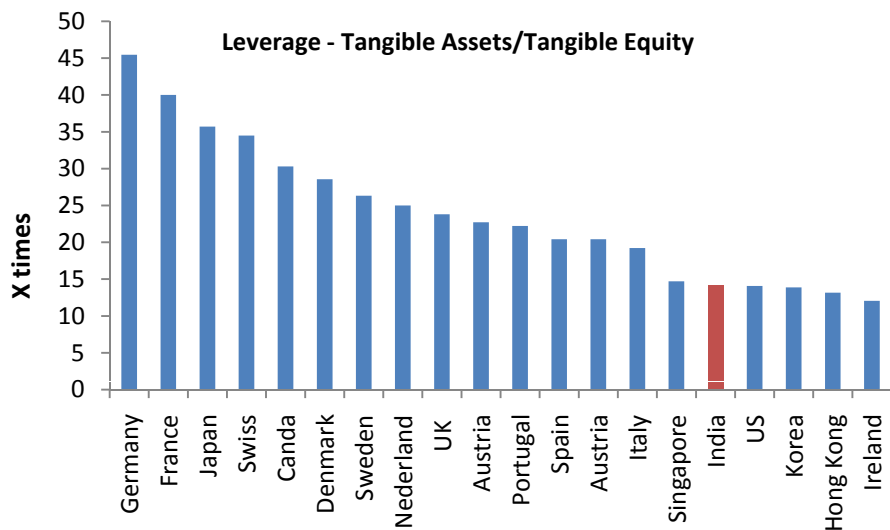
- The terms of Cyprus bail out involve haircut for Uninsured deposits (above 100K Euros) – first time ever – as deposit holders have always been protected in the past across US as well as Europe
- Most of the banks across Europe have a large dependence on wholesale funding as a source of liabilities
- Regions like UK, Netherlands, Swiss, France, Luxemburg not only have very high share of Bank Assets to GDP but also have a large share of non domestic deposits as % of total deposits
- With precedent now being set, depositors across banks in Europe might draw parallels to Cyprus situation and could potentially lead to flight of deposits from weaker banks

**Note-** AUS: Austria, BEL: Belgium, CYP: Cyprus, DNK: Denmark, FIN: Finland, FRA: France, GER: Germany, GRE: Greece, IRE: Ireland, ITA: Italy, LUX: Luxemburg, NET: Nederland, POR: Portugal, SPA: Spain, SWE: Sweden, CH: Czech Republic, UK: United Kingdom.  
Bank Assets: Total balance sheet size of all the banks of a particular region .

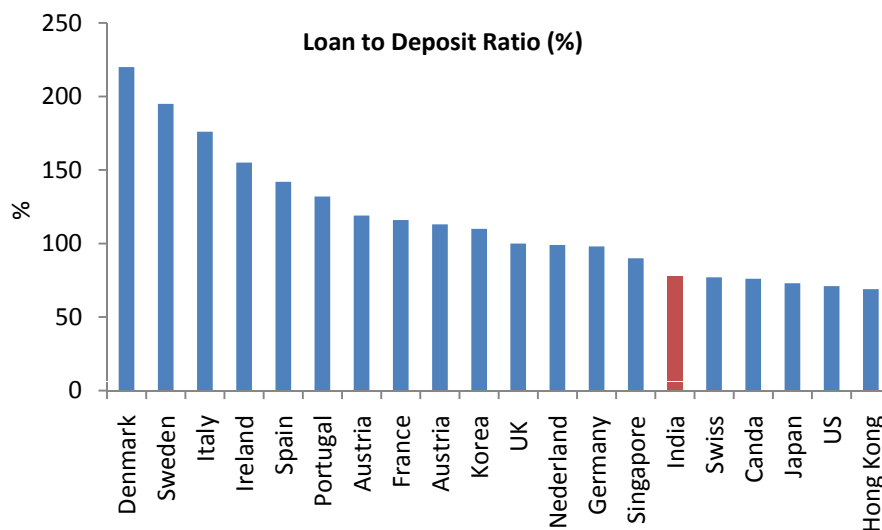


# India's banking system - relatively better placed

**Leverage of Banking System across regions**



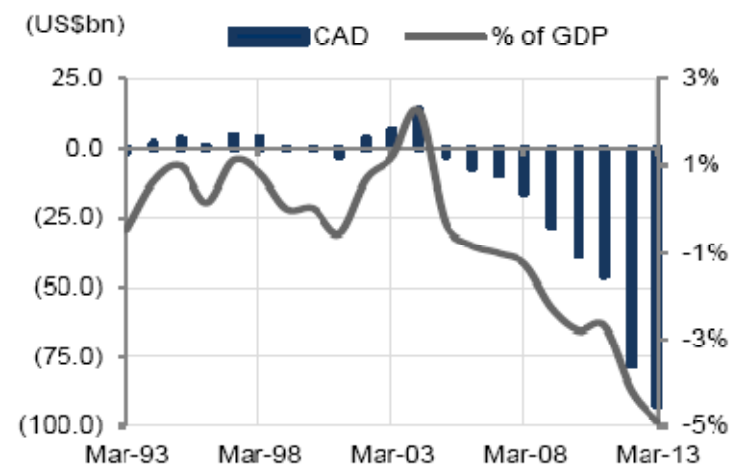
**Loan to Deposit Ratio across regions**



- Indian Bank's, although undergoing cyclical problems in terms of asset quality, have one of the lowest leverage levels in the world
- Indian banks also have one of the lowest Loan to Deposit ratio and have one of the least dependence on Wholesale funding
- Overall India is quite well placed as compared to most of the Eurozone countries to face any negative implications of Cyprus bailout

# India's Macro – weakness continues

Annual CAD trend for 20 years



India PMI vs. Eight-core growth

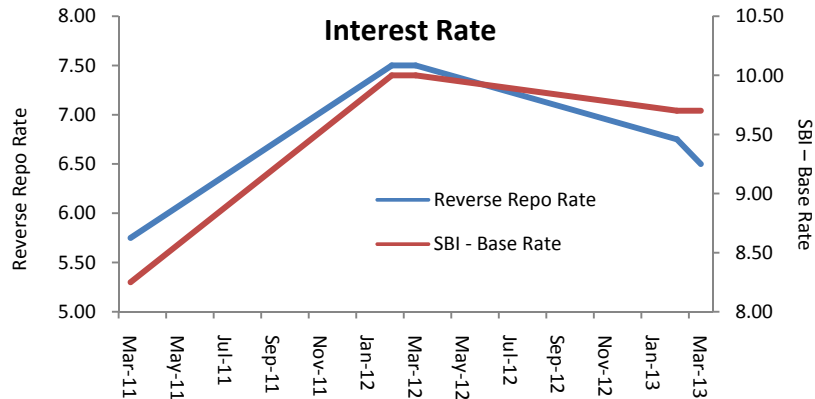


- India's external situation remained weak in Q3, with trade deficit widening to US\$ 59.6 bn resulting into current account deficit of 6.7%
- FY13 Current account deficit at 5% would be the highest ever in last 20 years
- India's PMI (Purchasing Manager Index) also fell sharply to 52 in March from 54.8 in February, signaling a deterioration in business conditions
- Eight core sectors – which account for 37.9% of IIP, witness a 2.5% decline in Feb'13 – lowest since 2005 – led by a sharp decline in Coal, Crude and Electricity

**Note:** Eight core sectors are Coal, Crude Oil, Natural Gas, Refinery Products, Fertilizer, Steel, Cement & Electricity.  
CAD: Current Account Deficit.



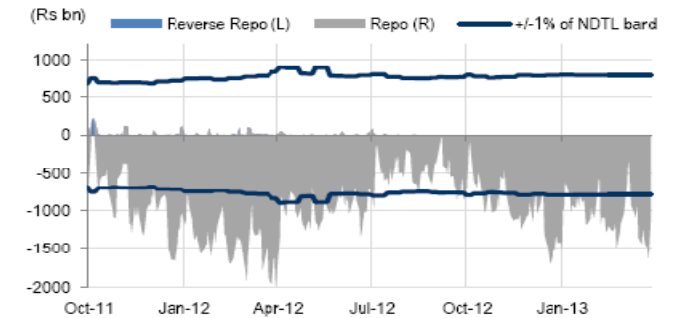
# Interest Rate cuts - Poor transmission



## WPI Inflation Moderates; CPI Remains Elevated



## LAF borrowing trend

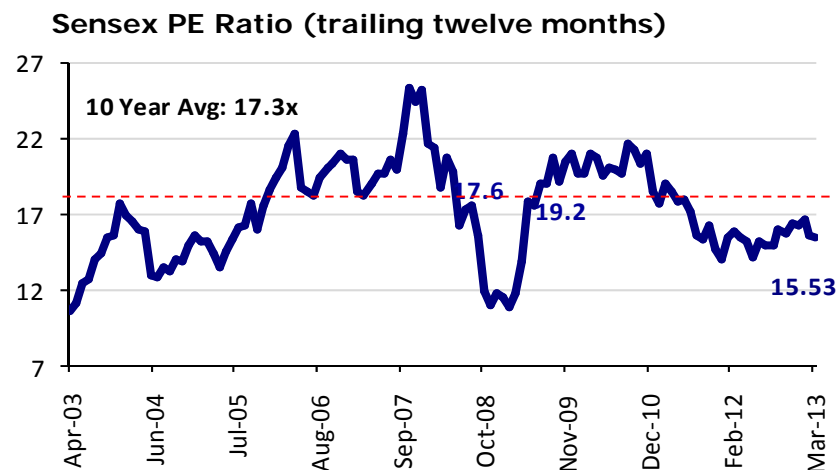


- Although interest rates have been cut by RBI, they are not getting transmitted to the economy as bank's base rate have not come down in a commensurate manner
- This is mainly due to persistently sticky and high inflation (specially CPI), poor deposit growth, high credit deposit ratios and tight liquidity conditions
- High Inflation and poor deposit growth are key concern areas and could make future rate cuts ineffective as well

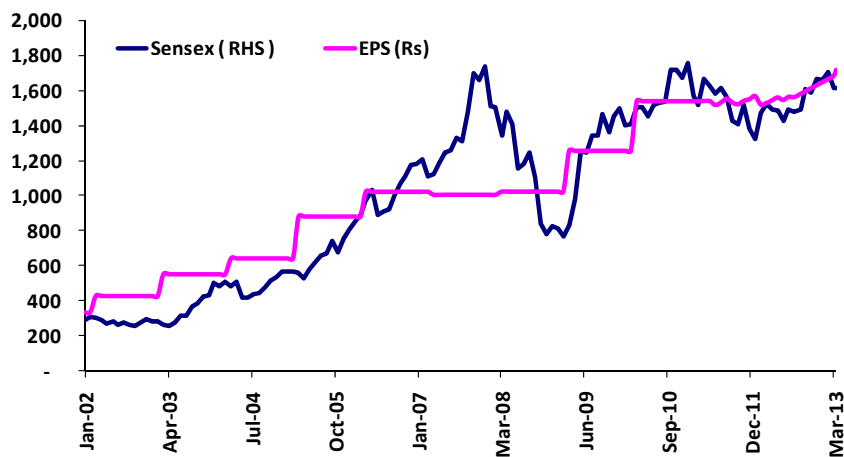




# Valuations – At Reasonable Levels



- Sensex is currently trading at 15.53x its trailing earnings. It is now 10% lower than its historical 10-year average trailing PE of 17.3x
- 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 past 5 years



# Looking Ahead...

- Global growth – Expected to strengthen gradually through 2013 but lower than previous projections
- US relatively better placed among the developed world. Euro still in contraction mode, Japan has re-entered recession and is the latest of the developed countries to have announced quantitative easing to boost economic growth
- The precedent set by haircut of depositors in Cyprus bail out is likely to have negative effects for the euro area economy as a whole
- India's macro data – Current Account deficit, PMI, Core sector growth continues to be weak
- High Inflation (CPI) and weakening demand conditions continue to be concern areas
- Transmission of interest rate cuts to be a challenge if high inflation persists
- Based on current trends, the FY14E consensus growth expectations of 15% looks challenging
- However, valuations are attractive; now at 10% discount to long term averages
- Gap in terms of valuations between cyclical and non cyclical is fairly high with non cyclical 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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