RELIGARE Invesco Mutual Fund

Equity Markets:
Current Environment and Outlook

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May 2013

Current Environment

- Global Equity markets were marginally negative in May 2013, with the MSCI World Index falling by 0.28% for the month
- In USD terms, Indian markets underperformed the global market and fell by 4%
- Commodity prices continued to underperform equities, as benchmark CRB Reuters Jefferies total return index declined by 2.2% during the month
- IT and Teck delivered the best return for the month, while Realty and Capital Goods were the worst performing sectors during the month*
- FII inflows during the month were at Rs.222 bn. MF's were net sellers at Rs.35bn, while DII's were net sellers of Rs.120 bn during the month
- Trading Activity was buoyant in May as cash market trading turnover rose by 15% MoM, while average open interest also rose by 22% MoM

* Please refer slide 4 for sector performances

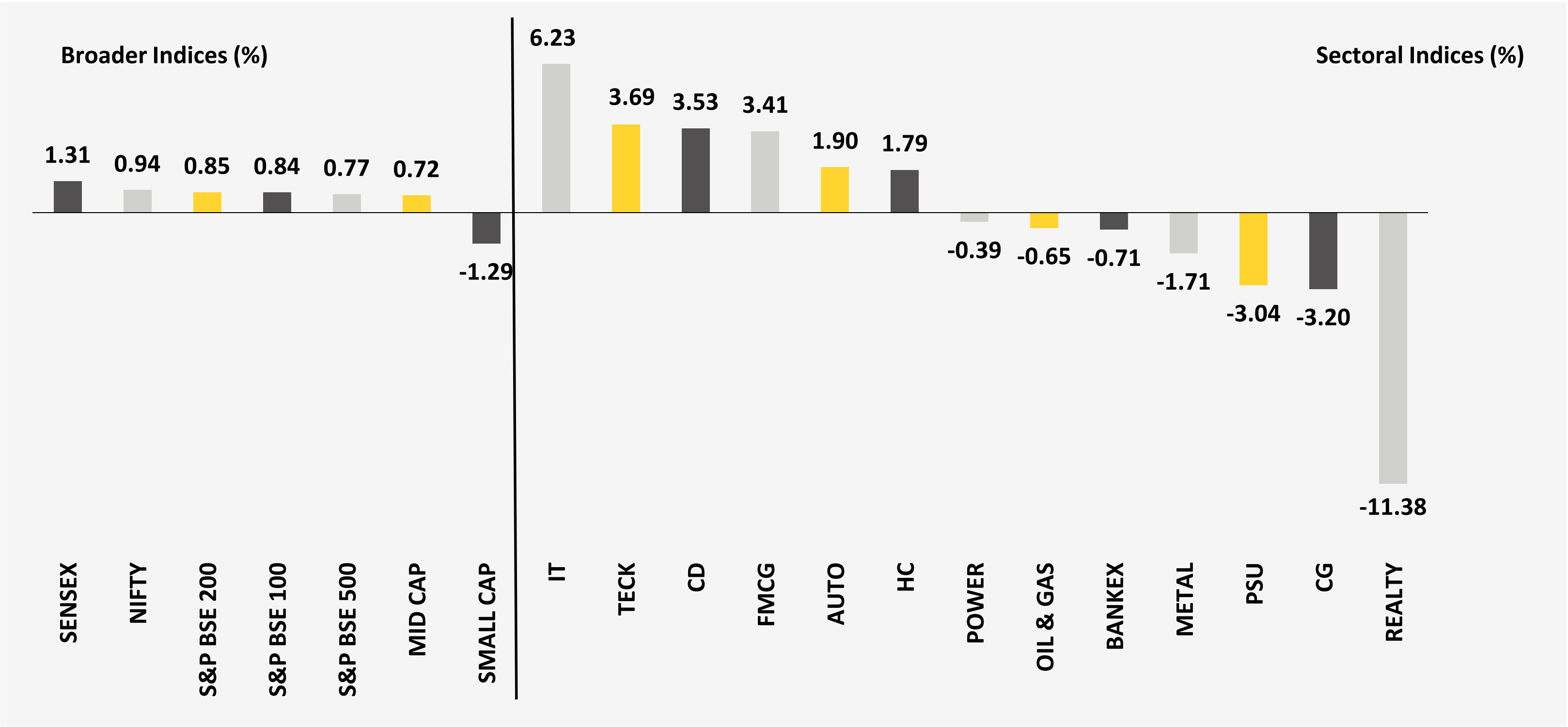
Source: RIMF, Bloomberg

Global Equities

Index	Country	Closing Price*	1 Month Return (%)	YTD Return (%)	Category
SSE Composite Index	China	2300.60	5.63%	1.39%	EM - Asia
BSE Sensex	India	19760.30	1.31%	1.72%	EM - Asia
Kospi	South Korea	2001.05	1.89%	0.20%	EM - Asia
Taiwan Weighted	Taiwan	8254.80	1.99%	7.21%	EM - Asia
Thailand SET 50 Index	Thailand	1029.01	-2.52%	8.85%	EM - Asia
Jakarta Composite Index	Indonesia	5068.63	0.69%	17.42%	EM - Asia
KLSE	Malaysia	1769.22	3.00%	4.75%	EM - Asia
Ibovespa Sao Paulo Index	Brazil	53506.08	-4.30%	-12.22%	EM
Mexico IPC	Mexico	41588.32	-1.60%	-4.88%	EM
Russian RTS Index	Russia	1331.43	-5.39%	-12.81%	EM
Philippine PSEi	Philippines	7021.95	-0.69%	20.80%	EM
Merval Buenos Aires Index	Argentina	3489.43	-9.27%	22.25%	EM
HangSeng	Hong Kong	22392.16	-1.52%	-1.17%	Developed - Asia
Nikkei	Japan	13774.54	-0.62%	32.51%	Developed - Asia
Strait Times	Singapore	3311.37	-1.69%	4.56%	Developed - Asia
Dow Jones	USA	15115.57	1.86%	15.35%	Developed
CAC 40 Index	France	3948.59	2.38%	9.07%	Developed
All Ordinaries Index	Australia	4914.03	-4.93%	4.88%	Developed
DAX Index	Germany	8348.84	5.50%	9.67%	Developed
Swiss Market Index	Switzerland	7947.01	0.52%	16.48%	Developed
FTSE 100	UK	6583.09	2.38%	11.62%	Developed
MSCI World Index	--	1471.93	-0.28%	10.94%	--

* as on 31st May, 2013. Source: Bloomberg. EM – emerging markets, Developed – developed markets

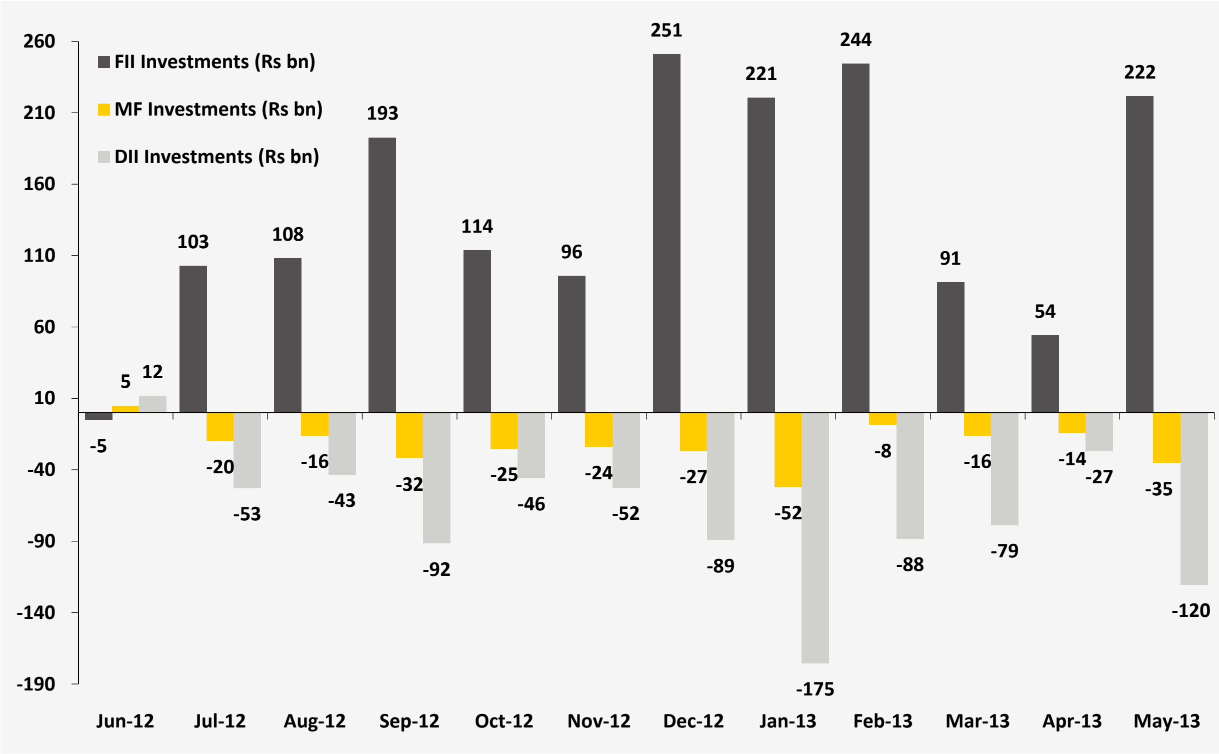
India : Sector Performance

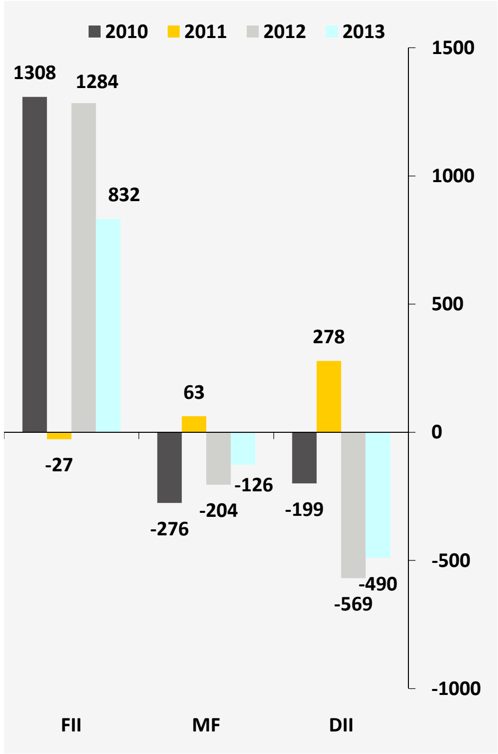


- Nifty rose by 0.94% over the previous month
- Mid caps and Small caps underperformed Large caps with 0.72% rise and -1.29% fall respectively
- IT and Teck sectors delivered the best return for the month
- Realty and Capital Goods were the worst performing sectors

Source: BSE,NSE. one month performance as on 31st May, 2013. CD: Consumer Durables, CG: Capital Goods, HC: Health Care. FMCG: Fast Moving Consumer Goods

FII & DII Inflows





- Institutional activity was mixed for the month
- FII inflows were up as compared to previous months at Rs. 222 bn during the month
- MF's and DII continued to be net sellers at Rs.35 bn and Rs.120bn during the month
- Calendar YTD, FII inflows have been around Rs. 832 bn whereas MF's and DII's have been net sellers to the extent of Rs.126bn and Rs.490 bn respectively

FII - Foreign Institutional Investors, DII - Domestic Institutional Investors (Includes Bank, DFIs, Insurance and MF). Source: SEBI, BSE

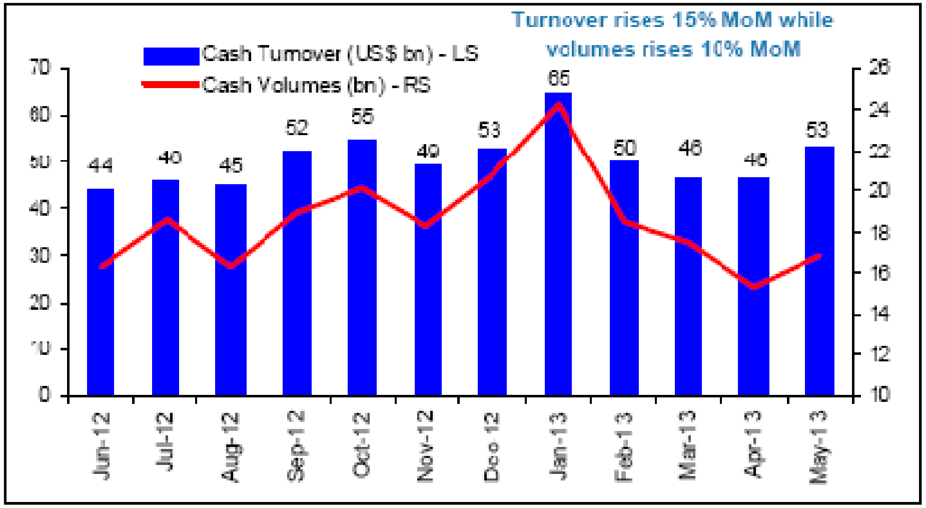
Top Gainers / Losers - Nifty

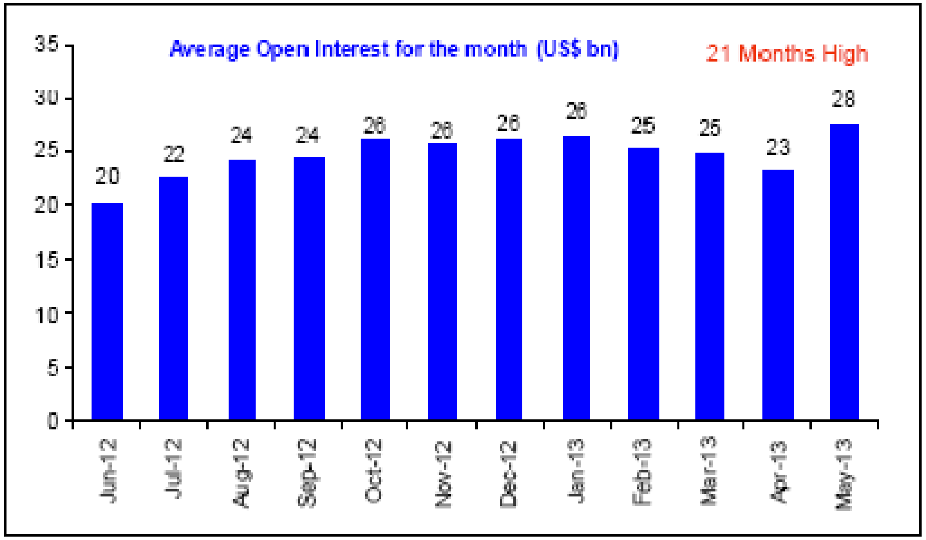
Top Gainers for the month			
Gainers	**52 week H/L**	**Last Price#**	**% Gain***
Kotak Mahindra Bank Ltd	807.35 / 524.1	782.95	10.73%
IndusInd Bank Ltd	531.9 / 279	517.3	10.59%
Sun Pharmaceutical Industries Ltd	1084.8 / 553	1044.1	9.78%
Tata Consultancy Services Ltd	1597.6 / 1055	1498.45	8.71%
Infosys Ltd	3009.8 / 2060.55	2411.7	7.88%

Top Losers for the month			
Losers	**52 week H/L**	**Last Price#**	**% Loss***
State Bank Of India	2551.7 / 1815.15	2046.75	-9.61%
Jaiprakash Associates Ltd	106.7 / 60.2	65.65	-12.76%
GAIL (India) Ltd	397.2 / 300.25	306.05	-12.84%
Ranbaxy Laboratories Ltd	578.4 / 359.6	375.35	-16.95%
DLF Ltd	289.25 / 169.75	194.7	-18.26%

closing price as on 31st May 2013 * one month performance as on 31st May ,2013 Source: Capitaline

Market Activity

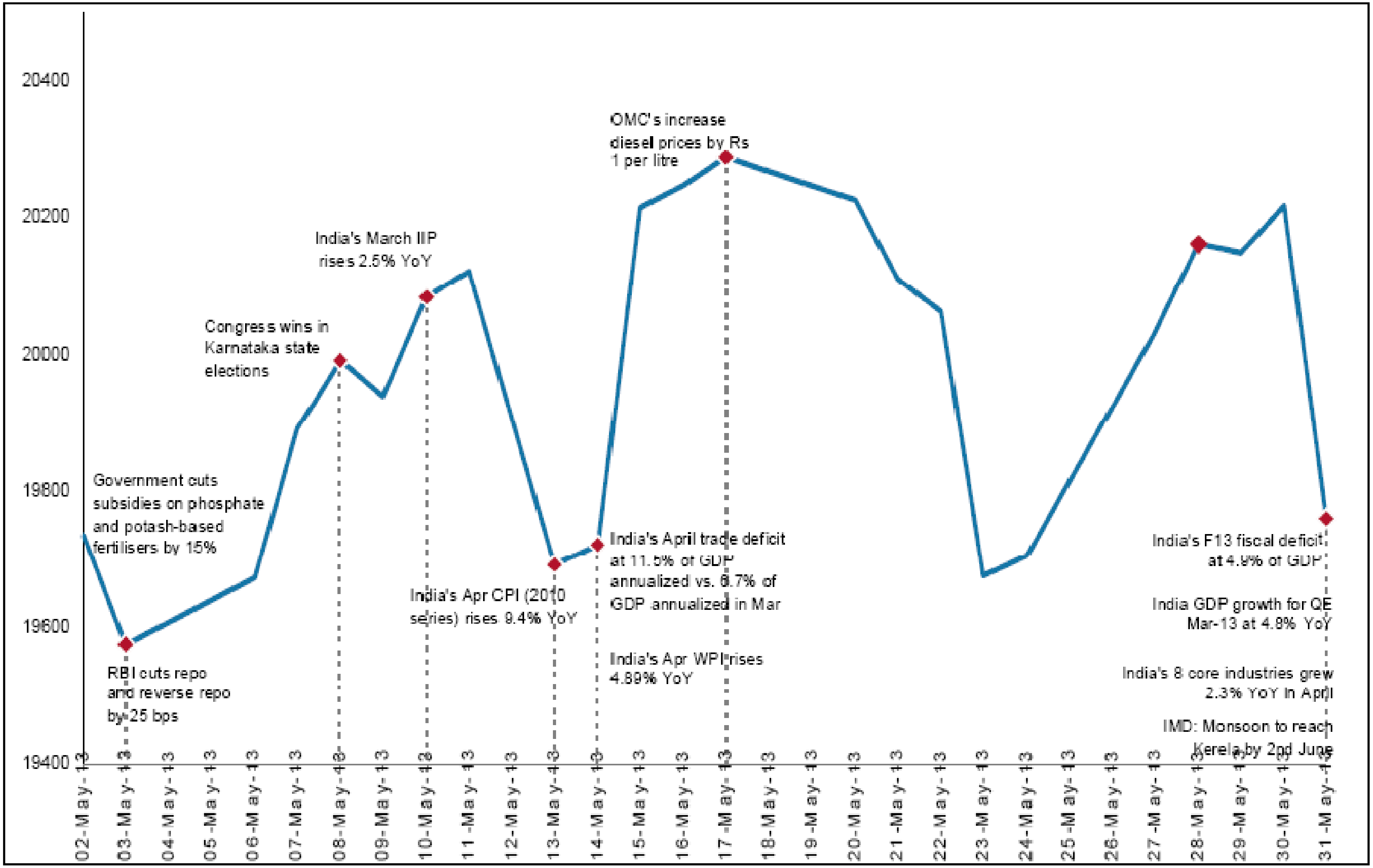




- In May 2013, cash market trading turnover rose by 15% MoM – at a 4 month high.
- At the end of May 2013, average open interest also rose by 22% MoM to USD 28 bn – 21 month high

Sources: Bloomberg, Morgan Stanley

May 2013 events timeline



Source: Bloomberg, Economic Times, Business Standard, Morgan Stanley Research. **Note:** The above shown index is S&P BSE Sensex .

Equity Market Outlook and Opportunities

Equity Market Outlook

- Global PMI (Purchasing Manager Index) – an important lead indicator is signaling mixed trends – improvement for Euro, UK and Japan and weaker trends for Emerging Markets and US
- India's macro data points are also a mixed bag – GDP growth continues to remain weak, Manufacturing PMI is at a 50 month low. The trade deficit has widened as compared to previous month and INR continues to weaken against USD
- However, easing inflation (both WPI and CPI) and containment of fiscal deficit for FY13 are key positives and provide a case for easing of monetary policy by the Reserve Bank of India
- However, scope of extent of interest rate cuts is limited by high current account deficit and pressure on local currency
- Corporate Earnings performance for 4QFY13 continues to remain weak for both large caps as well as broader market
- Consensus expects FY14 earnings to grow by around 12.9% over FY13

Source: Markit Economics, CSO, Morgan Stanley Research, MOSPI, CEIC, RCML, CGA, Capitaline, Quant Global Research, Factset, IBES

Global Macro – Global Manufacturing PMI for May 2013 – Mixed Trends

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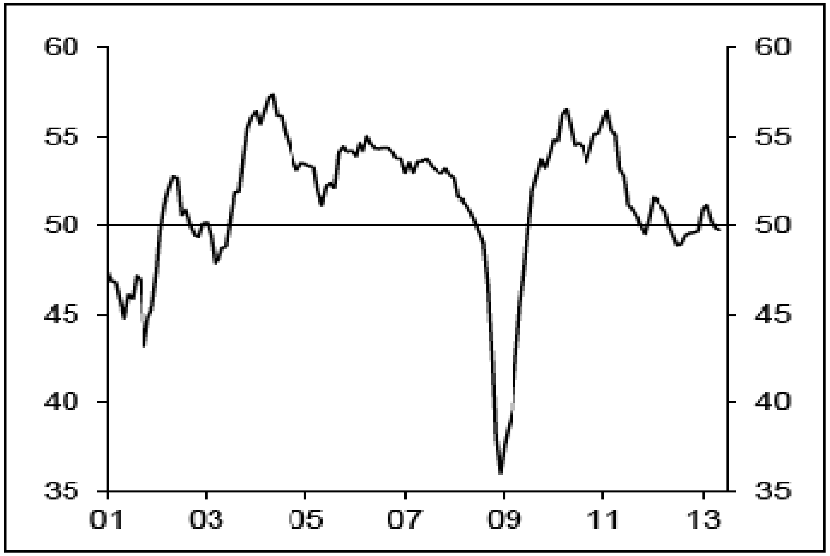
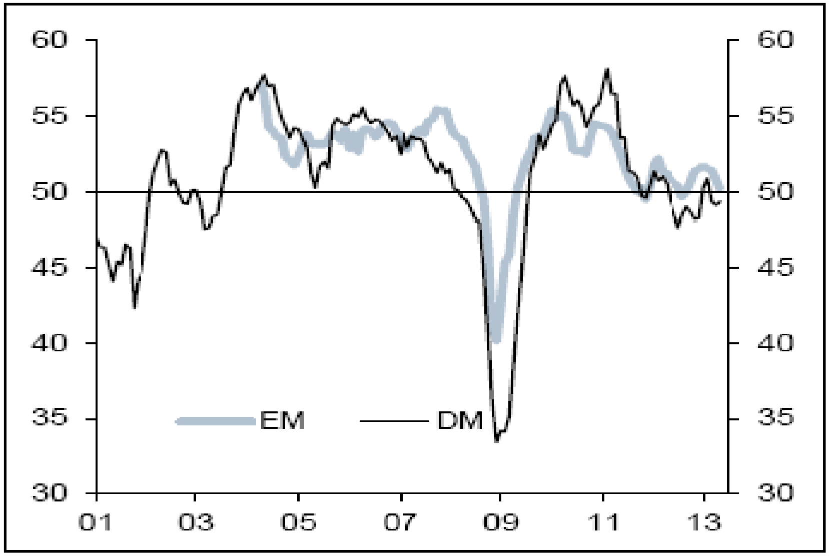
Global Manufacturing PMI



DM/EM Manufacturing PMI



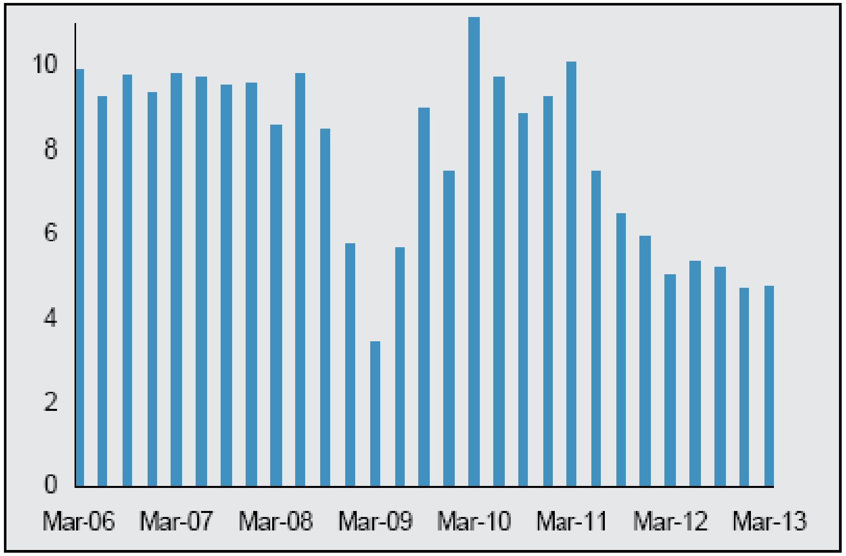
* Brazil & Russia are based on 2009 and 2010 ILO data respectively

- Aggregate global Manufacturing PMI index (Purchasing Manager Index) fell to a five month low of 49.7 in May 2013 from 49.9 in April 2013
- Decline in May survey, is a reflection of gains in Euro zone, UK and Japan offset by fall in US where ISM (Institute for Supply Management) manufacturing index fell to a lowest level since June 2009
- Emerging Market aggregate manufacturing PMI continued to decline for the fourth month to 50.2 in May 2013 from 50.8 in April 2013 driven by the slowdown in Non Japan Asia and Brazil

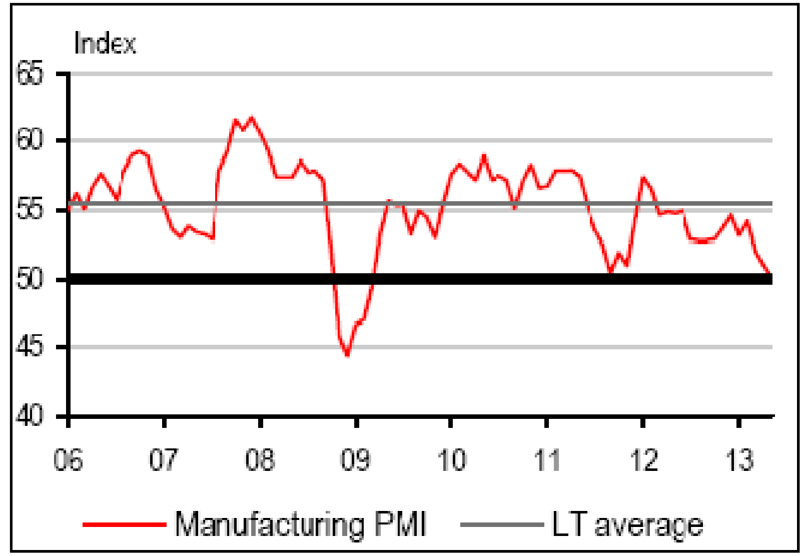
Source: Markit Economics, NBS, CLIC, Haver Analytics, INEGI, Credit Suisse. Developed Markets (DM) includes Australia, Canada, Denmark, Euro Area, Japan, New Zealand, Switzerland, the UK and the US. Emerging Markets (EM) includes China (CS SA PMI), India, Singapore, Korea, Taiwan, Czech Republic, Hungary, Poland, Russia, South Africa, Turkey, Mexico (INEGI PMI), and Brazil. IMF PPP weights are used to compute regional aggregate figures

India Macro - Growth remains weak

Quarterly Real GDP growth rates (%)



Manufacturing Purchasing Managers Index (PMI)



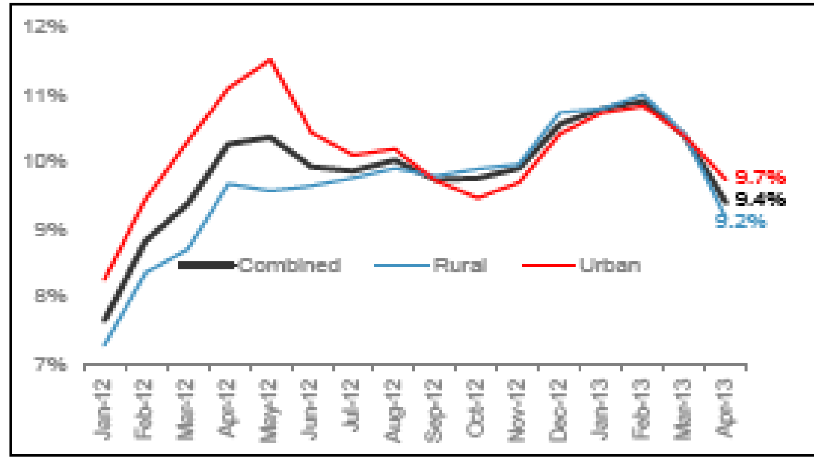
- India's GDP growth for quarter ended March 2013, slightly improved to 4.8% as compared to 4.7% registered in quarter ended December 2012
- Annual GDP growth for FY2013 was at a 10 – year low of 5% in FY13 vs 6.3% in FY12
- While growth in agriculture and allied activities decelerated, growth remained stable in the service segment and improved slightly in the industry segment
- India's manufacturing PMI for May '13 fell to 50.1 from 51.0 in April'13 – the lowest in 50 months – as production fell for the first time since March'09 and new order growth remained weak due to lower domestic orders and power outages

Source: CSO, Morgan Stanley Research, Markit

India Macro –Inflation easing , Fiscal Deficit contained

WPI Inflation – YoY(%)

CPI Inflation – YoY (%)



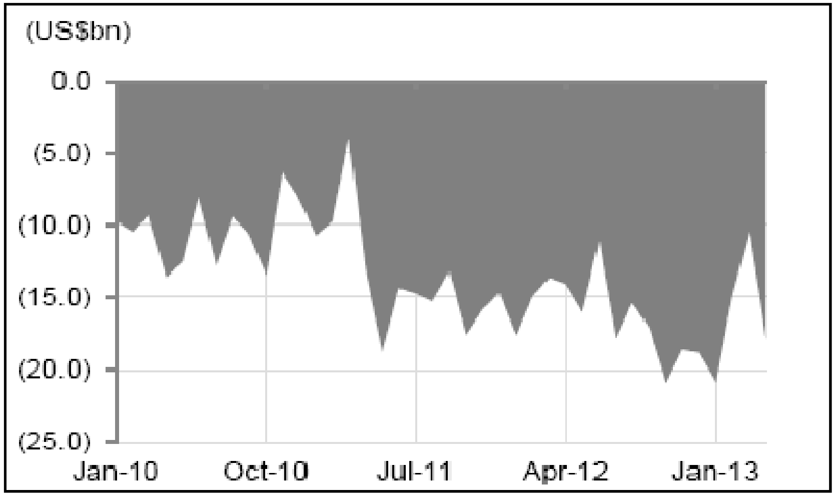
Fiscal Defecit as % of GDP

- Headline inflation (WPI) decelerated to 4.89% YoY in April 2013 vs 5.96% in March 2013 – first time below 5% since Nov 2009. CPI also declined to 9.4% in April 2013 – nine month low
- Government has also been able to contain FY13 Fiscal deficit at 4.9% of GDP better than revised budget estimates of 5.2% of GDP for FY13

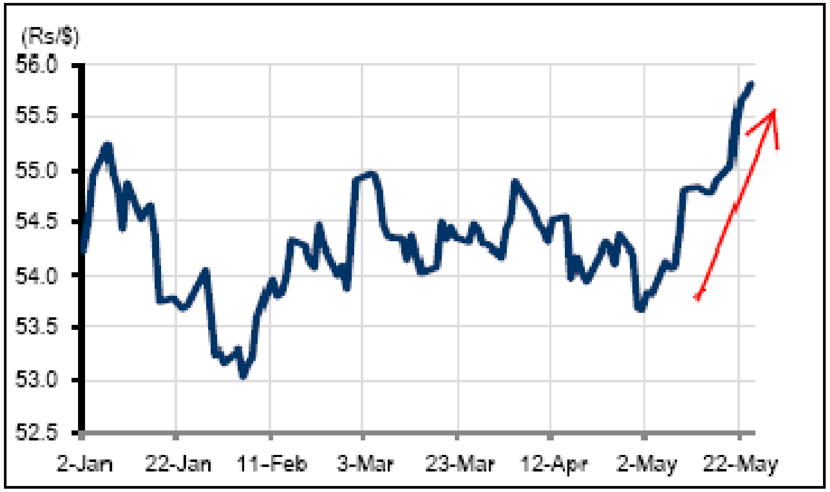
Source: MOSPI,CEIC, Morgan Stanley Research, RCML, CSO, CGA

India Macro –Trade Deficit High, Rupee weaking against USD

Trade defecit widened to $ 17.8 bn



Daily INR trend vs USD - YTD



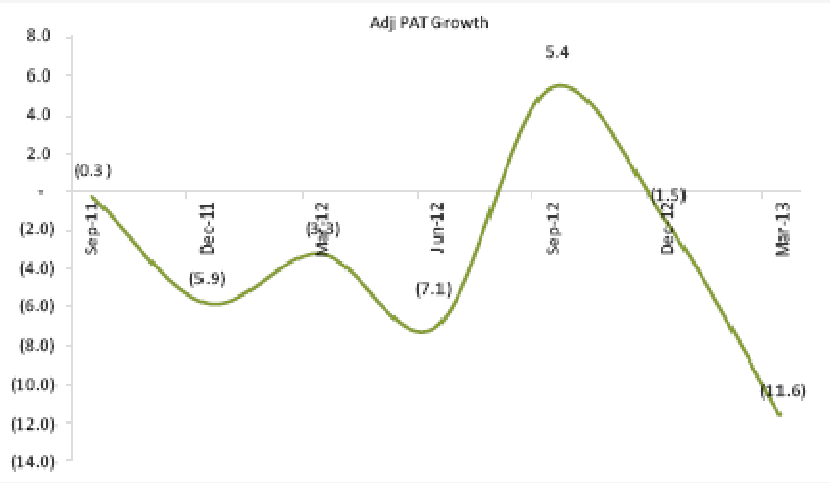
- Trade deficit for April'13 has widened to USD 17.8 bn as against USD 10.3 bn in March 2013. This was largely due to gold imports which more than doubled rising 138% YoY to USD 7 bn
- Despite strong FII inflows , INR has weakened against USD by 5% in May. While a large current account deficit makes India vulnerable, current rupee weakness is more a function of USD strength against global currencies rather than any India specific event / factor
- While falling inflation and fiscal deficits are key positives and create the case for monetary easing, the high current account deficit (led by high trade deficit) and pressure on local currency limits the scope of interest rate cuts

Source: Datastream, RCML Research

Earnings review – Weak performance

Sales Growth (%) – lowest in past few quarters

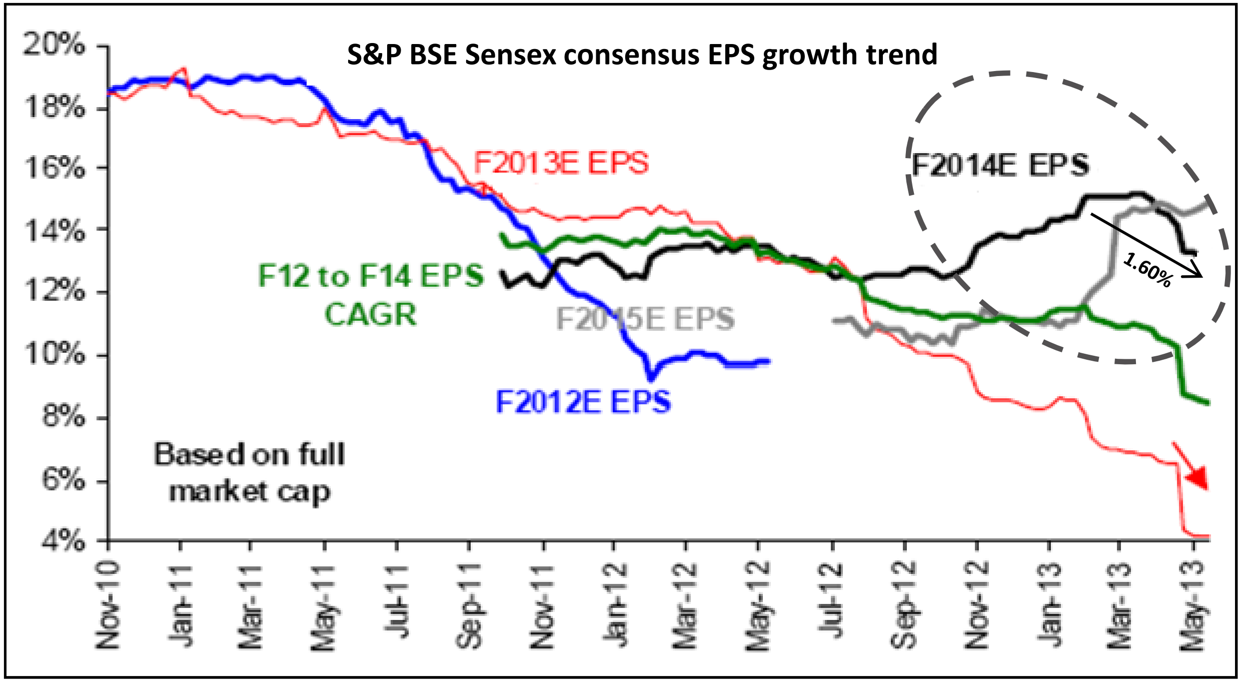
Adj PAT Growth (%)



- S&P BSE 500 companies (ex oil & gas and banking – 406 companies) reported a top line growth of 5.80% YoY – lowest in past few quarters
- EBITDA margins were down 110 bps YoY at 14.5%
- Adjusted PAT declined by 11.6% YoY
- Nifty Companies (proxy for large caps) also reported similar weak performance with top line, EBITDA and PAT growth of 6.3%, 5.2% and 1.3% for Q4, 13

Source: Capitalline, Quant Global Research, EBITDA: Earnings before interest, taxes, depreciation and amortization. PAT: Profit after tax

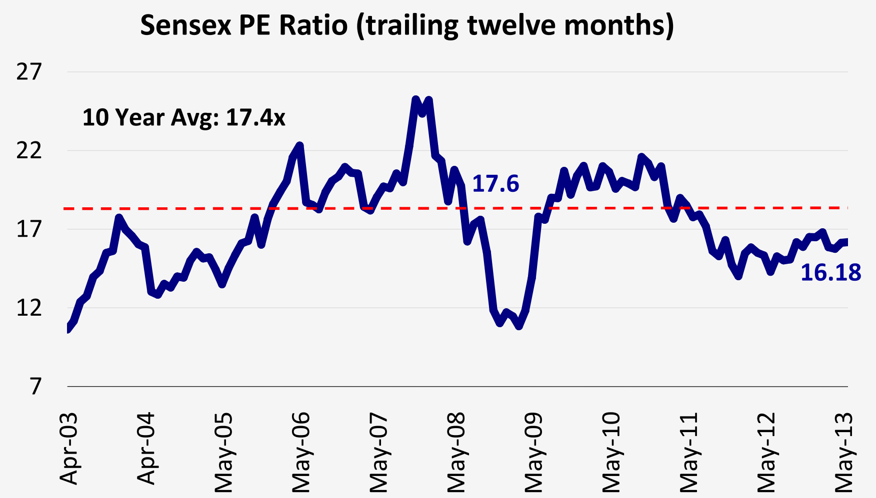
Earnings Expectations – Tough task

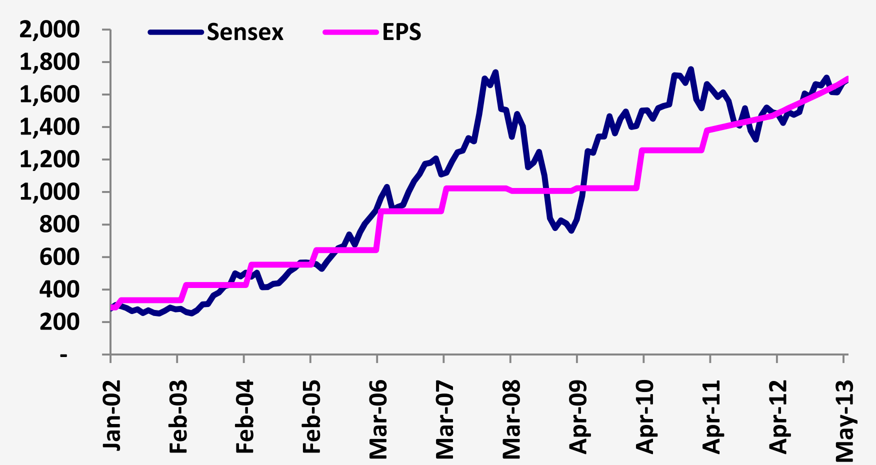


- Consensus EPS estimates for S&P BSE Sensex companies have been revised downwards by 1.6% and now stand at 12.9% for FY14E
- Despite the downward revision, 12.9% for FY14E seems a tough task, considering that earnings growth for FY13 was 6.5% and overall economic environment continues to remain weak

Source: Factset, IBES, Morgan Stanley Research

Valuations – At Reasonable Levels



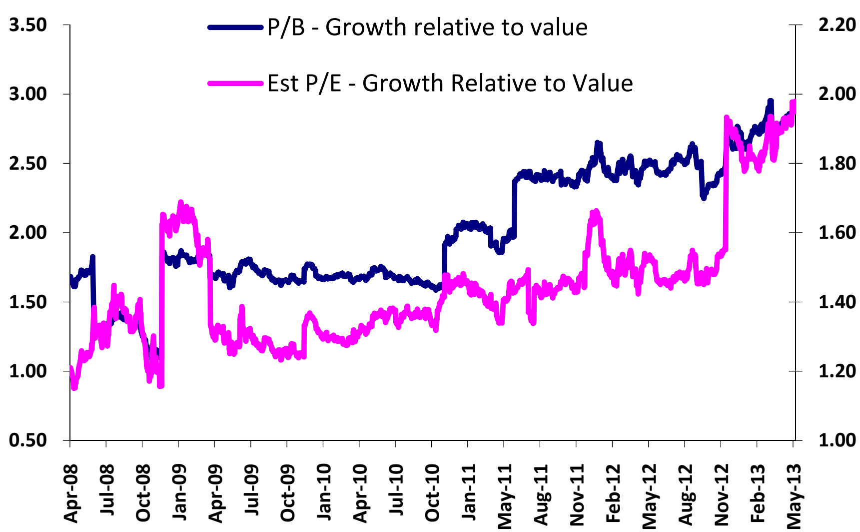


- Sensex is currently trading at 16.18x its trailing earnings. It is now 7% lower than its historical 10-year average trailing PE of 17.4x.

- 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

Source: Bloomberg, Religare Invesco AMC Research

Valuations – Huge Disparity between growth and value



- MSCI India growth Index has significantly outperformed Value index by a wide margin for more than a decade
- YTD outperformance has been 16.4%
- Value index continues to widely underperform even MSCI India standard Index
- Resultantly, the valuation gap between MSCI India growth Index and Value index is at a 5 year high
- As of May 2013, valuation premium of growth index over value index stands at 2.92x in terms of Price/Book (P/B) and 1.96x in terms of Est Price/Earnings (Estimated P/E)

Source: Bloomberg, Morgan Stanley Research, IBES Consensus Estimates, Religare Invesco Research

Looking Ahead…

- Global growth – Near term growth forecasts have been trimmed, but growth is expected to improve in 2014
- India’s macro data points are providing mixed signals – Growth continues to remain weak and inflation is easing
- While there is room for monetary easing , scope is limited due to high current account deficit and weakening currency
- Also FY14 being an election year, time window for further policy action by Government is quite limited
- Overall Investment cycle continues to remain weak and offers little sign of improvement
- Based on current trends, the FY14E consensus growth expectation of 12.9% looks challenging
- However Valuations are reasonable; now at 7% 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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