

Equity Markets : Current Environment and Outlook

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Current Environment

- Global Equity markets went up in November, with the MSCI World Index rising by 1.07%
- Indian markets strongly outperformed the global markets and rose by 4.51% (BSE Sensex)
- Commodity prices rose in line with world indices as benchmark CRB Reuters Jefferies total return index rose by 1%
- Consumer Durables and Real Estate were the best performing sectors, while PSU and Oil & Gas sectors delivered the worst return for the month*
- FII inflows during the month were at Rs.96 bn. MF's were net sellers at Rs.24 bn, while DII's were net sellers of Rs.52 bn during the month.
- Trading Activity decreased in November as cash market trading turnover fell by 11% MoM. Average open interest remained flat MOM at 13 month high

* Please refer slide 4 for sector performances



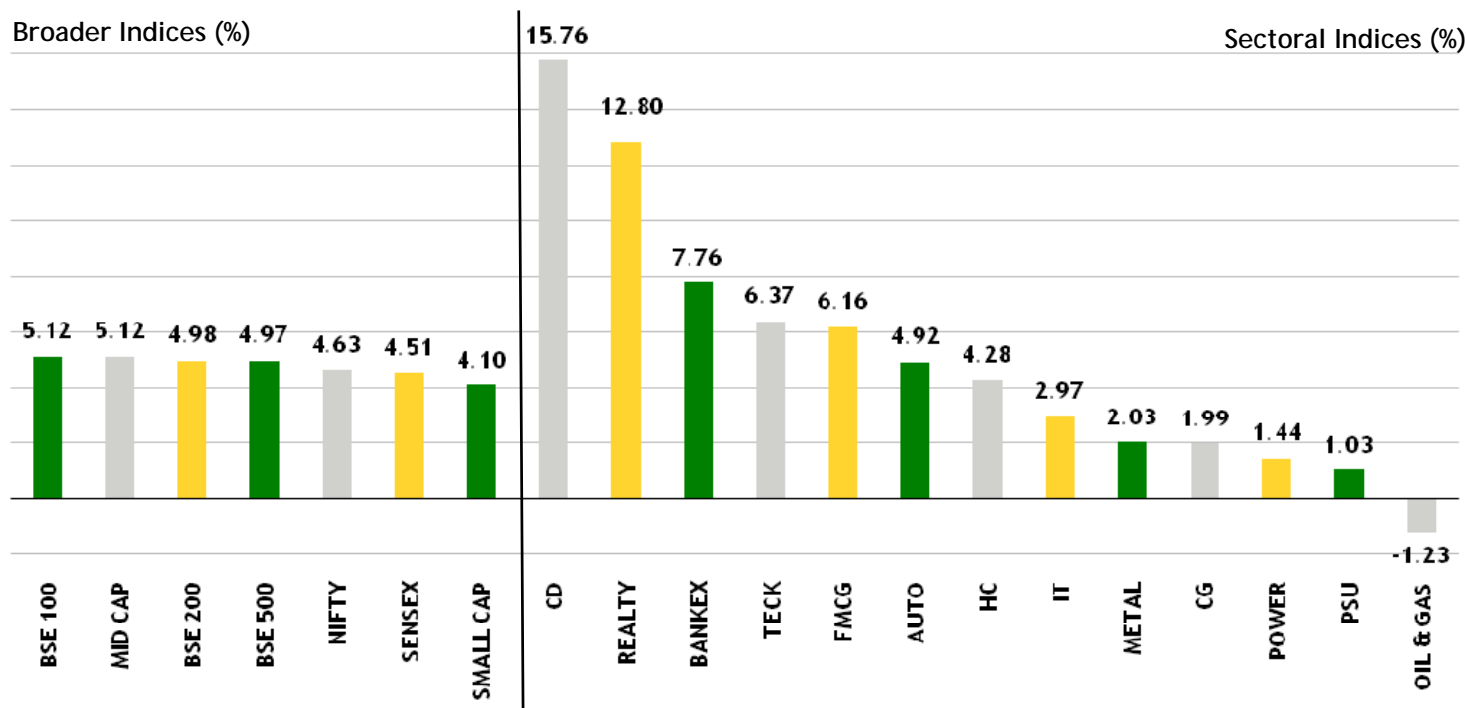
Global Equities

Index	Country	Closing Price*	1 Month Return (%)	YTD Return (%)	Category
SSE Composite Index	China	1980.12	-4.29%	-9.97%	EM - Asia
BSE Sensex	India	19339.90	4.51%	25.14%	EM - Asia
Kospi	South Korea	1932.90	1.09%	5.87%	EM - Asia
Taiwan Weighted	Taiwan	7580.17	5.78%	7.18%	EM - Asia
Thailand SET 50 Index	Thailand	898.81	2.25%	25.11%	EM - Asia
Jakarta Composite Index	Indonesia	4276.14	-1.70%	11.88%	EM - Asia
KLSE	Malaysia	1610.83	-3.72%	5.23%	EM - Asia
Ibovespa Sao Paulo Index	Brazil	57474.57	0.71%	1.27%	EM
Mexico IPC	Mexico	41833.52	0.51%	12.83%	EM
Russian RTS Index	Russia	1436.55	0.18%	3.96%	EM
Philippine PSEi	Philippines	5640.45	3.98%	29.01%	EM
Merval Buenos Aires Index	Argentina	2419.30	4.13%	-1.76%	EM
HangSeng	Hong Kong	22030.39	1.80%	19.51%	Developed - Asia
Nikkei	Japan	9446.01	5.80%	11.72%	Developed - Asia
Strait Times	Singapore	3069.95	1.04%	16.01%	Developed - Asia
Dow Jones	USA	13025.58	-0.54%	6.61%	Developed
CAC 40 Index	France	3557.28	3.73%	12.58%	Developed
All Ordinaries Index	Australia	4518.03	-0.38%	9.90%	Developed
DAX Index	Germany	7405.50	2.00%	25.55%	Developed
Swiss Market Index	Switzerland	6820.60	3.42%	14.90%	Developed
FTSE 100	UK	5866.82	1.45%	5.29%	Developed
MSCI World Index	--	1315.49	1.07%	11.24%	--

* as on 30th November, 2012. Source: Bloomberg
EM – emerging markets, Developed – developed markets



India : Sector performances



- Nifty rose by 4.63% over the previous month
- MidCaps out performed LargeCaps with 5.12% rise, while small cap underperformed the large caps rising around 4.1%
- Consumer Durables and Real Estate were the best performing sectors
- Oil & Gas and PSU sectors delivered the worst return for the month

Source: BSE,NSE. one month performance as on 30th November, 2012. CD: Consumer Durables, CG: Capital Goods, HC: Health Care. FMCG: Fast Moving Consumer Goods



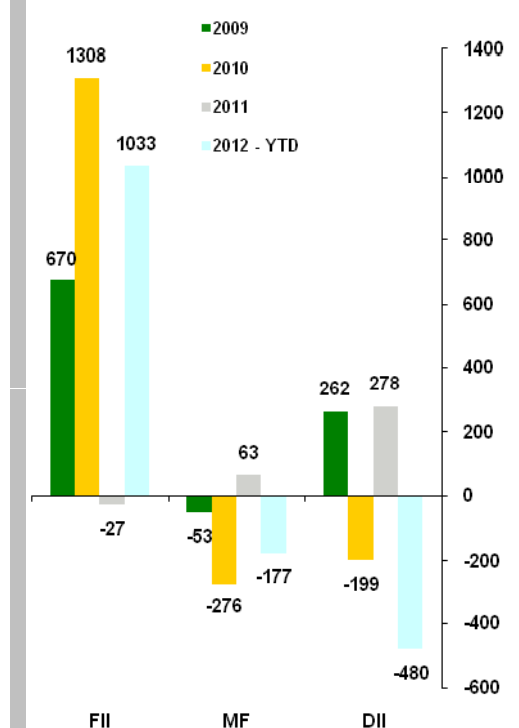
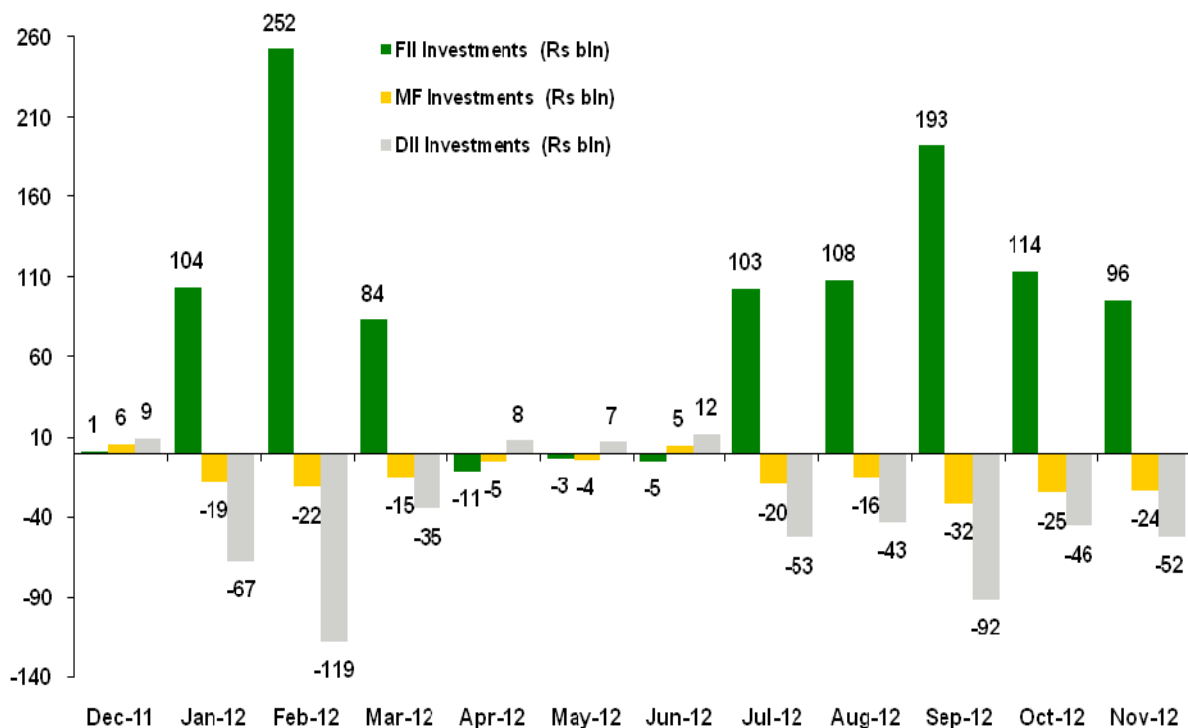
Top Gainers / Losers - Nifty

Top Gainers for the month			
Gainers	52 week H/L	Last Price#	% Gain*
Ranbaxy Labs.	578.4 / 365.5	504.15	4.35%
Hero Motocorp	2279 / 1662	1826.65	2.92%
UltraTech Cem.	2154.2 / 1109.95	1941.4	2.82%
Siemens	840 / 626.7	670.6	2.46%
Cairn India	401.1 / 291.25	330.05	1.95%
Top Losers for the month			
Losers	52 week H/L	Last Price#	% Loss*
Axis Bank	1324.6 / 784	1319.9	-10.40%
Asian Paints	4375.95 / 2550	4330.35	-10.60%
Wipro	453 / 295	393.25	-10.83%
Cipla	416.9 / 286.3	414.65	-12.38%
Bharti Airtel	400.95 / 215.8	337	-19.99%

closing price as on 30th November, 2012.* one month performance as on 30th November, 2012.
Source: Capitaline



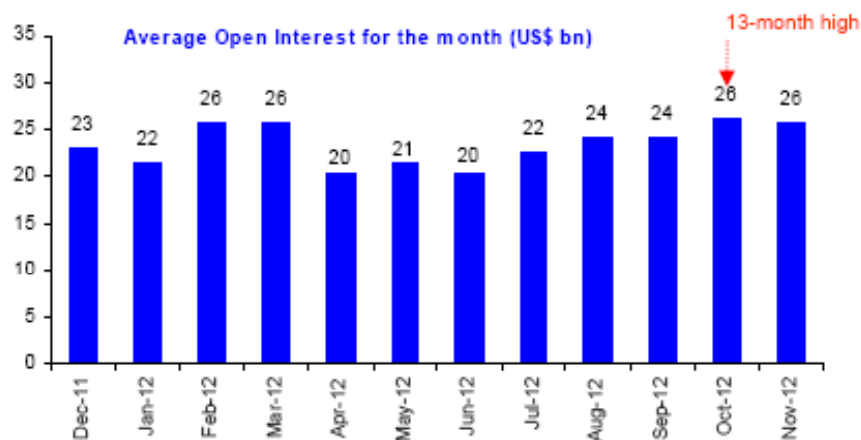
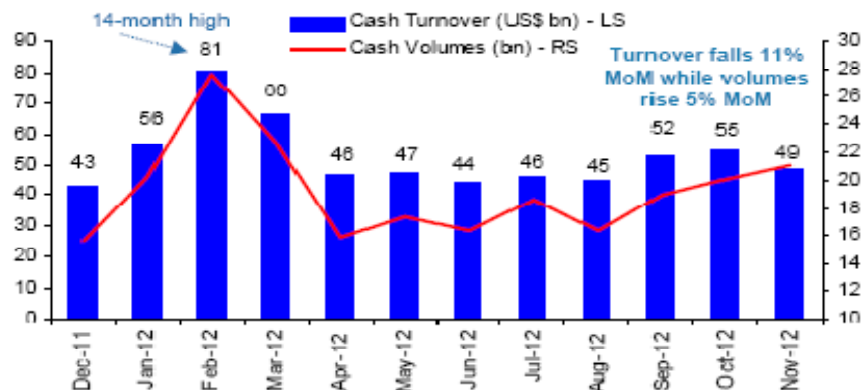
FII & DII Inflows



- Institutional activity continued to remain upbeat in November
- FII inflows during the month were at Rs.96bn. FII inflows were at Rs.1033bn for CY12 YTD after a Rs.27bn outflow in CY11 and Rs.1308bn inflow in CY10
- MF's were net sellers at Rs.24bn, while DII's were net sellers of Rs.52bn during the month

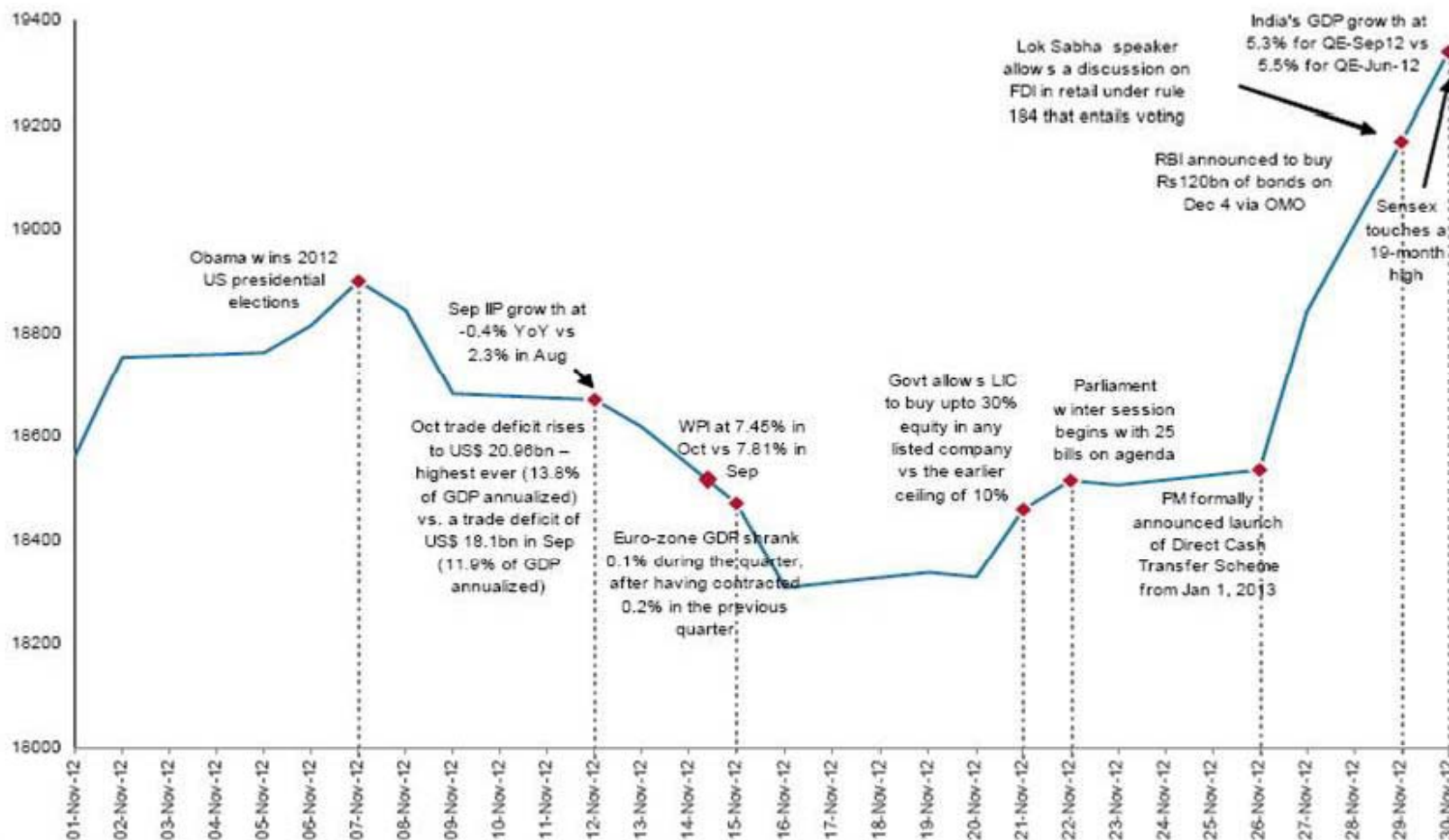


Market Activity



- In November 2012, cash market trading turnover fell by 11% MoM
- At the end of November 2012, average open interest increased remained flat on a MoM basis to 13 month high levels

November 2012 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

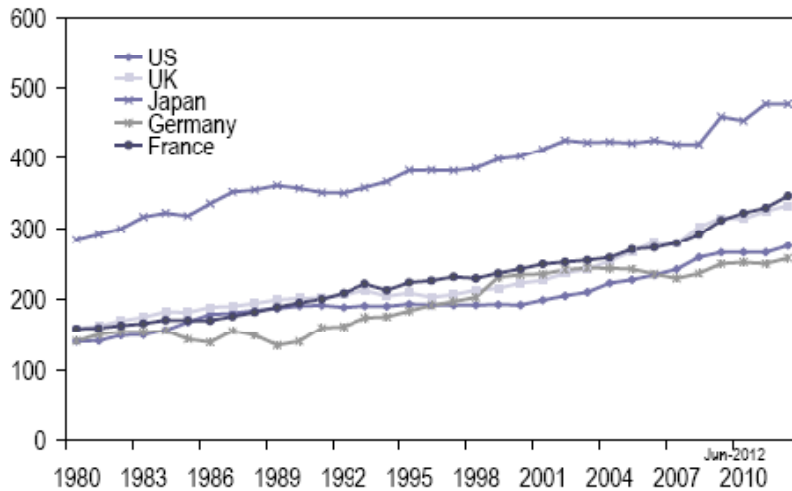
Equity Market Outlook

- Advanced economies have become heavily indebted over last 3 decades
- Consequential deleveraging is likely to continue to weigh heavily on growth in coming years
- Policy makers of advanced economies have responded aggressively by cutting interest rates
- However, even after four years of quantitative easing (QE) there has been no meaningful increase in New Capex implying its ineffectiveness
- India's headline 2QFY13 GDP growth came in line with consensus expectations at 5.3%
- While growth has stabilised, macro economic variables such as Inflation, Trade Deficit, Fiscal Deficit are still stretched
- For quarter ending September, the Sensex (ex-Oil Oil PSU) companies have slightly disappointed on the revenue growth and positively surprised on the earnings growth
- EBITDA Margins expanded for the first time in 6 quarters
- Consensus expectations for FY13E and FY14E earnings growth are at about 8.5% and 14.3% respectively, revised downwards by 2.4% and 1% respectively during the month

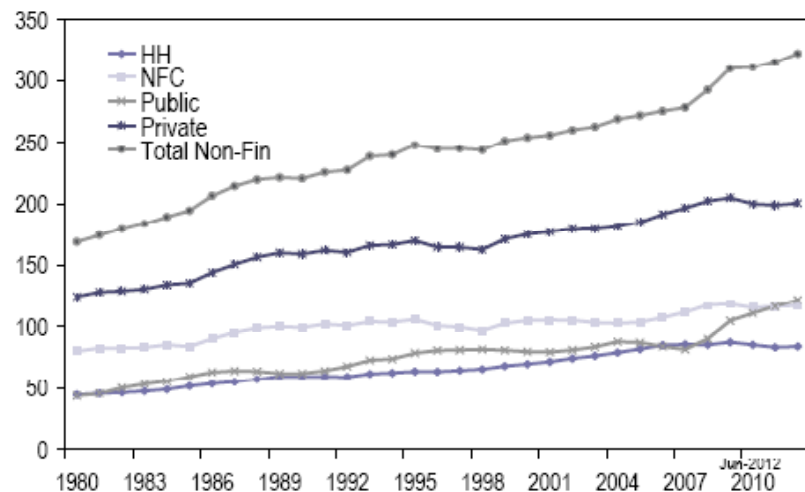


Global Macro – Debt stock fairly high, deleveraging ahead

Non Financial Sector Gross Debt as % of GDP (1980 – June 2012)



Advanced Economics – Gross Debt by Sector – (% of GDP) (1980 – June 2012)

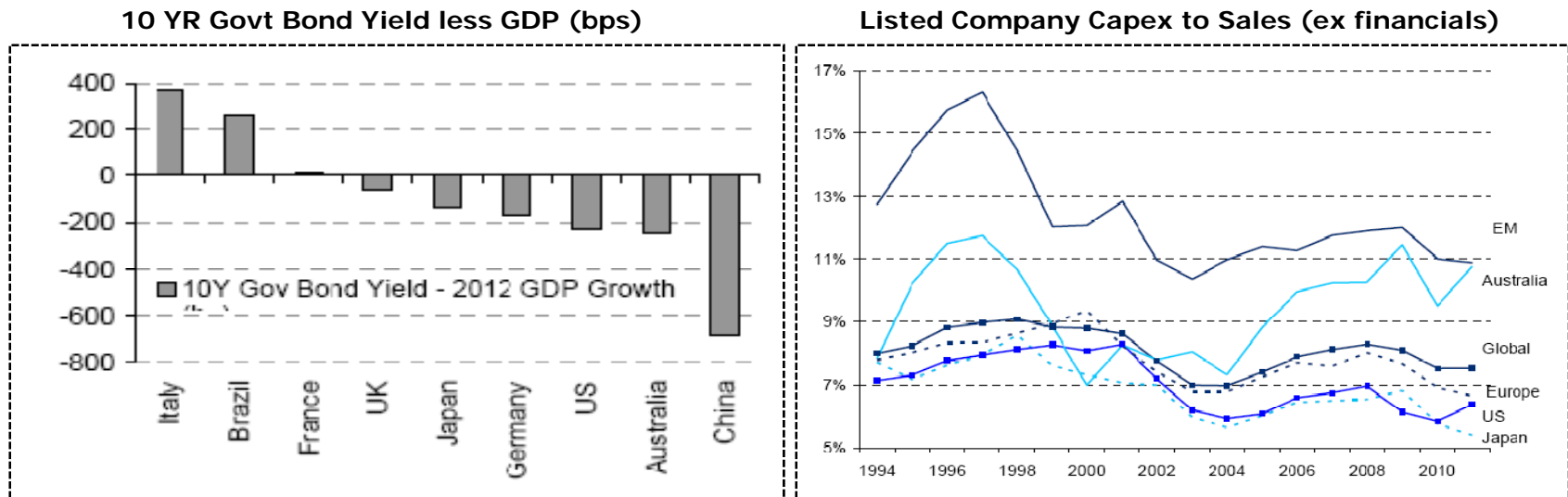


- Total non-financial sector (NFS) gross debt in 17 developed markets rose from \$12.3 trillion or 168% of the GDP in 1980 to \$128.5 trillion (over 10X) in 2011 amounting to 315% of GDP
- Deleveraging is likely to continue to weigh heavily on growth in highly indebted economies

Note: Advanced economy gross debt by sector is constructed as gross debt weighted by shares of nominal GDP in 17 countries (Australia, Austria, Belgium, Canada, Finland, France, Germany, Greece, Italy, Japan, Korea, the Netherlands, Portugal, Spain, Sweden, UK and US). HH: House Hold, NFC: Non Financial Companies



Global Macro – Ultra low interest rates, but capex still subdued



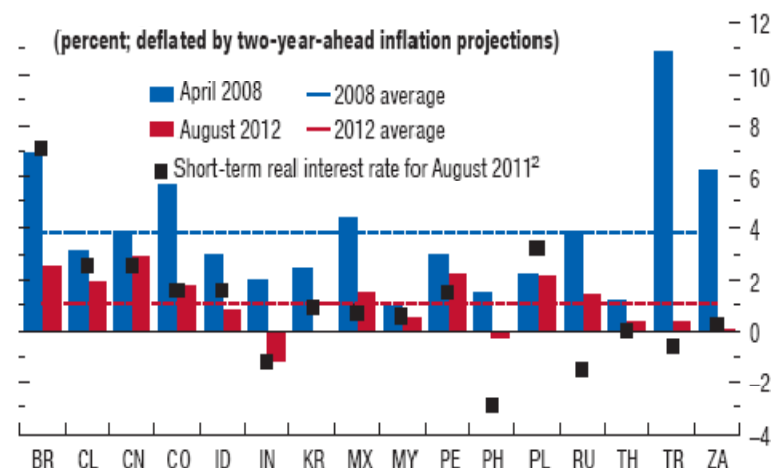
- Policy-makers have adopted aggressive methods to push interest rates and bond yields down to unprecedented levels
- Benchmark interest rates are way below nominal GDP growth for most advanced countries resulting in negative spread
- But both consumers as well as Governments being over leveraged are unable to respond to ultra low interest rates
- Even after four years of quantitative easing (QE) there has been no meaningful increase in New Capex implying its ineffectiveness



India – Relatively Better placed

% GDP	Total debt/GDP	Government debt	Household debt	Corporate debt
China	174	44	19	111
India	117	64	9	44
Indonesia	55	26	15	14
Korea	277	35	82	160
Malaysia	169	53	64	51
Philippines	93	65	5	24
Taiwan	289	46	87	156
Thailand	141	42	29	70
BIS Threshold	--	85	85	90

Real Policy Rates



Note: BR = Brazil; CL = Chile; CN = China; CO = Colombia; ID = Indonesia; IN = India; KR = Korea; MX = Mexico; MY = Malaysia; PE = Peru; PH = Philippines; PL = Poland; RU = Russia; TH = Thailand; TR = Turkey; ZA = South Africa. B0J = Bank of Japan; ECB = European Central Bank; Fed = Federal Reserve.

¹Expectations are based on the federal funds rate for the United States, the sterling overnight interbank average rate for the United Kingdom, and the euro interbank offered forward rates for Europe; updated September 13, 2012.

²Bank Indonesia rate for Indonesia; the Central Bank of the Republic of Turkey's effective marginal funding cost estimated by IMF staff for Turkey.

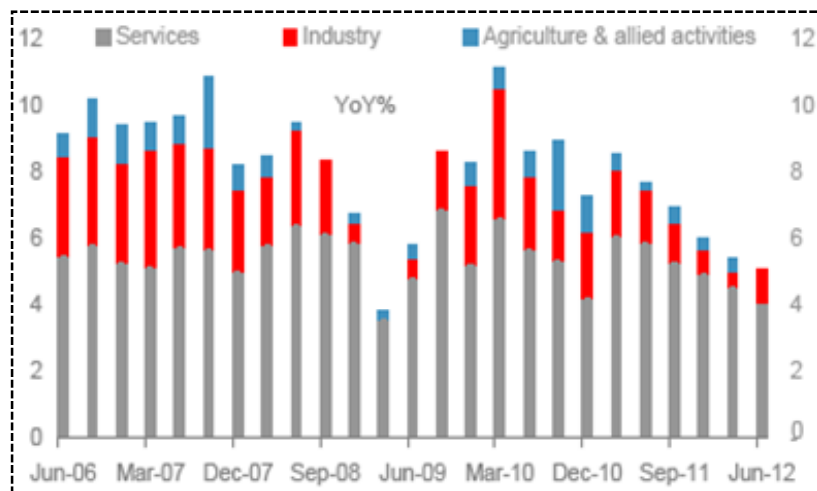
³ECB calculations based on the Eurosystem's weekly financial statement.

- India's debt stock as a % of GDP at 117% is way below advanced economies gross debt as % of GDP (which is 315%) and also below threshold levels suggested by BIS as one, which does not constrain growth
- Although interest rates in India are high as compared to developed countries, real interest rates are negative due to high inflation

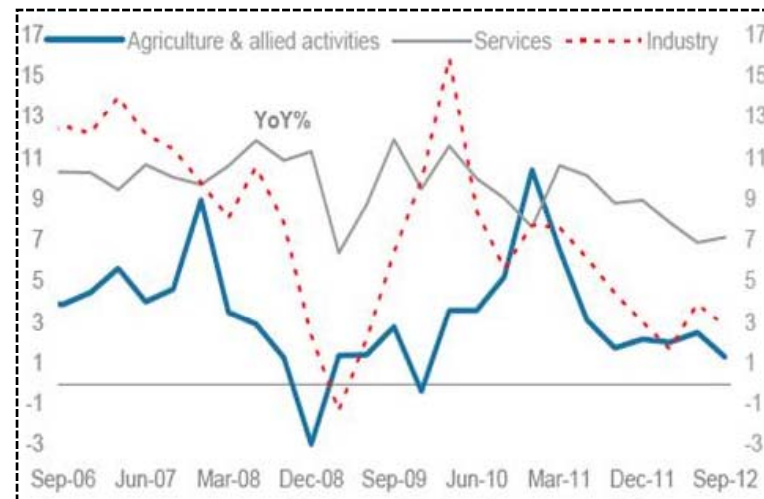


India's GDP Growth – stabilizing at lower levels

Quarterly GDP growth trend



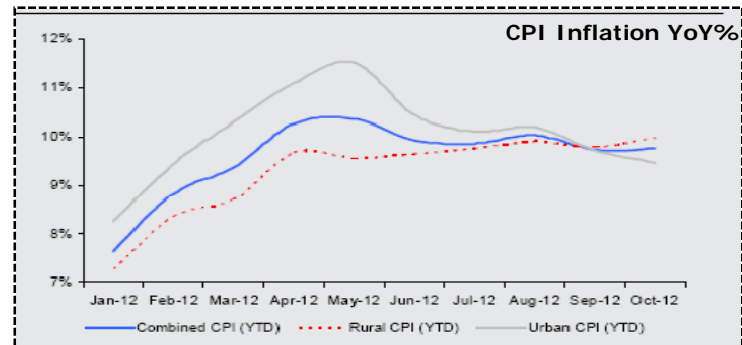
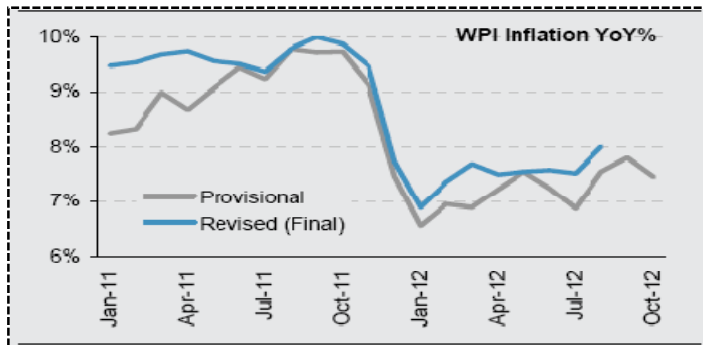
GDP Growth (by segments) (YoY%)



- India's headline 2QFY13 GDP growth came in line with consensus expectations at 5.3%
- Growth was primarily driven by Services as Industry and agriculture growth continued to remain weak



India's Macro Economic Indicators – still stretched



- While growth has stabilised, macro economic variables are still stretched
- Provisional WPI Inflation decelerated but final continues to be revised upwards. CPI inflation continues to remain at elevated levels of around 10%
- Trade Deficit reached at all time high of US\$ 20.9 bn in October led by weak exports and sticky imports
- Fiscal Deficit grew by 20% YoY in April – Sep'12 vs 0.8% Budget Estimate for FY13E



Sept 2012 Earnings – margin expansion offsetting weaker sales

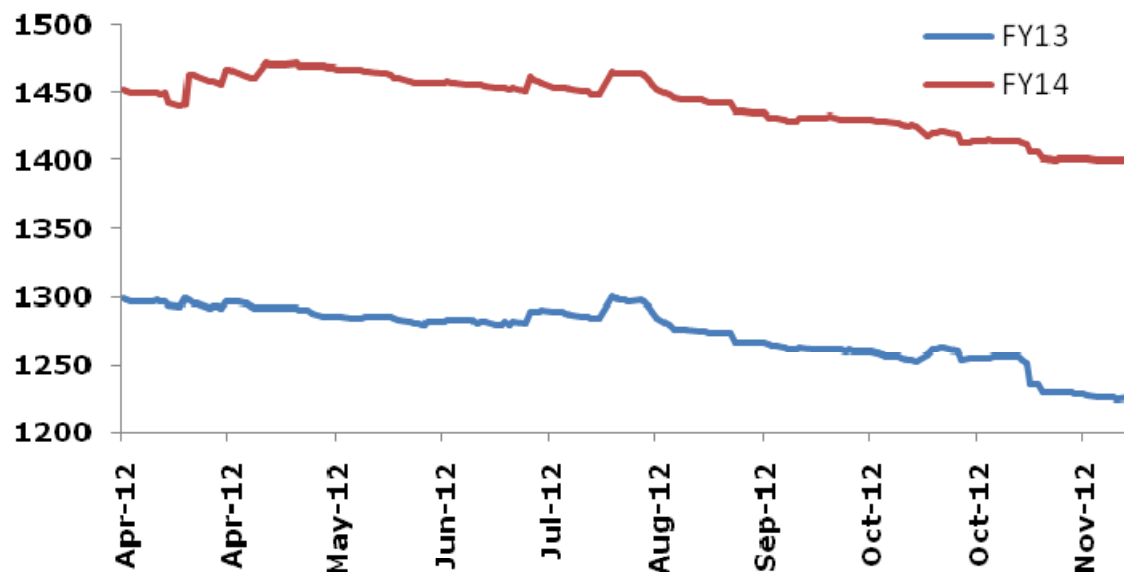
Quarterly Earnings for QE Sep-12 Snapshot

YoY Earnings growth	Q3F12	Q4F12	Q1F13	Q2F13
MS coverage	18%	33%	-43%	64%
MS coverage ex-oil psu	4%	10%	6%	11%
MS coverage ex-energy	19%	16%	13%	13%
Broad Market (1179)	3%	19%	-33%	61%
Broad Market ex-oil psu	-3%	4%	3%	20%
Broad Market ex-energy	-4%	6%	6%	20%
BSE Sensex	1%	19%	15%	4%

- On an aggregate, the Sensex (ex Oil PSU) companies have slightly disappointed on the revenue growth and positively surprised on the earnings growth
- While sensex companies (ex Oil PSU's) reported a top line growth of 13% and net profit growth of 12%, companies in the broader market reported a revenue growth of 11% and earnings growth of 16% YoY
- EBITDA Margins expanded for the first time in 6 quarters



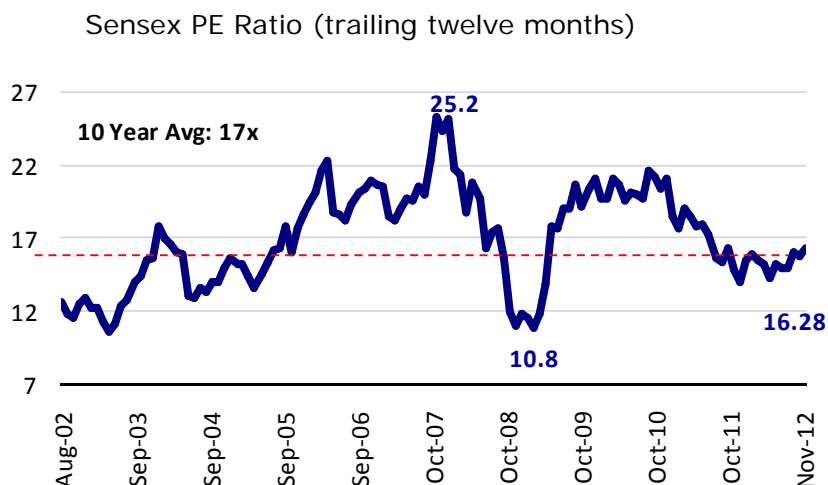
Earnings Forecasts – Revised downwards



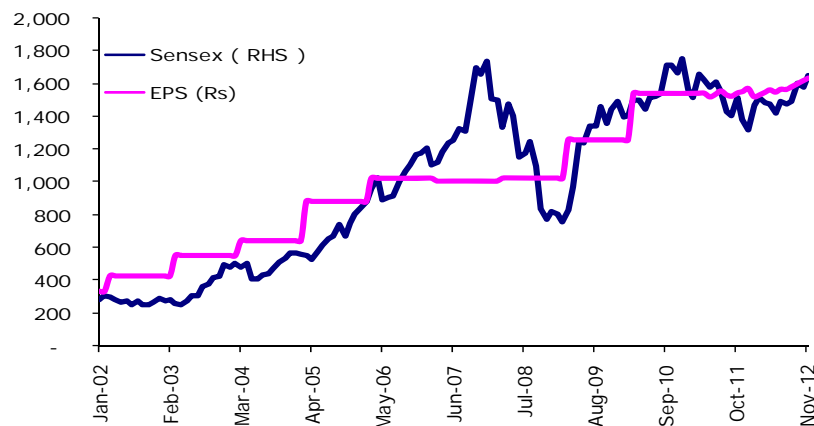
- Consensus expectations for FY13E earnings growth are at about 8.5% growth, revised downwards by 2.4% during the month
- Expectations for FY14E EPS have also been revised down by 1% implying a growth expectation of 14.3%



Valuations – At Reasonable Levels



- Sensex is currently trading at 16.28x its trailing earnings. It is now 4% lower than its historical 10-year average trailing PE of 17x
- On a 1-yr forward basis, Sensex is trading at 14.54x which is about 0.4% below 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...

- Advanced Economies are highly indebted and are likely to focus on deleveraging for years to come which itself is a long and a painful process
- Consequentially Global growth outlook continues to remain muted and uncertain
- Political actions by governments whether in US or Euro are gaining prominence over economic fundamentals
- India's growth outlook is stabilizing but at lower levels of 5 - 5.5% range
- High inflation, fiscal deficit and current account deficit continue to be a cause of concern
- While government seems keen to carry forward the reform agenda, we are yet to witness any meaningful execution
- Also measures undertaken till date do not address the key variable determining the future growth outlook – revival of investment demand
- Valuations are reasonable; at a marginal 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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