

Equity Markets : Current Environment and Outlook

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Current Environment

- Global Equity markets saw a reversal in October, with the MSCI World Index falling by 0.76%.
- Indian markets underperformed the global market trend as it fell by 1.37%.
- Commodity prices fell sharper than equity markets as benchmark CRB Reuters Jefferies total return index fell by 4.6%.
- FMCG and Healthcare were the best performing sectors, while Power and PSU sectors delivered the worst return for the month*.
- FII inflows during the month were at Rs.114bn. MF's were net sellers at Rs.25bn, while DII's were net sellers of Rs.46bn during the month.
- Trading Activity increased in October with cash market trading turnover increasing by 4% MoM. Average open interest also increased 8% on a MoM basis.

* Please refer slide 4 for sector performances



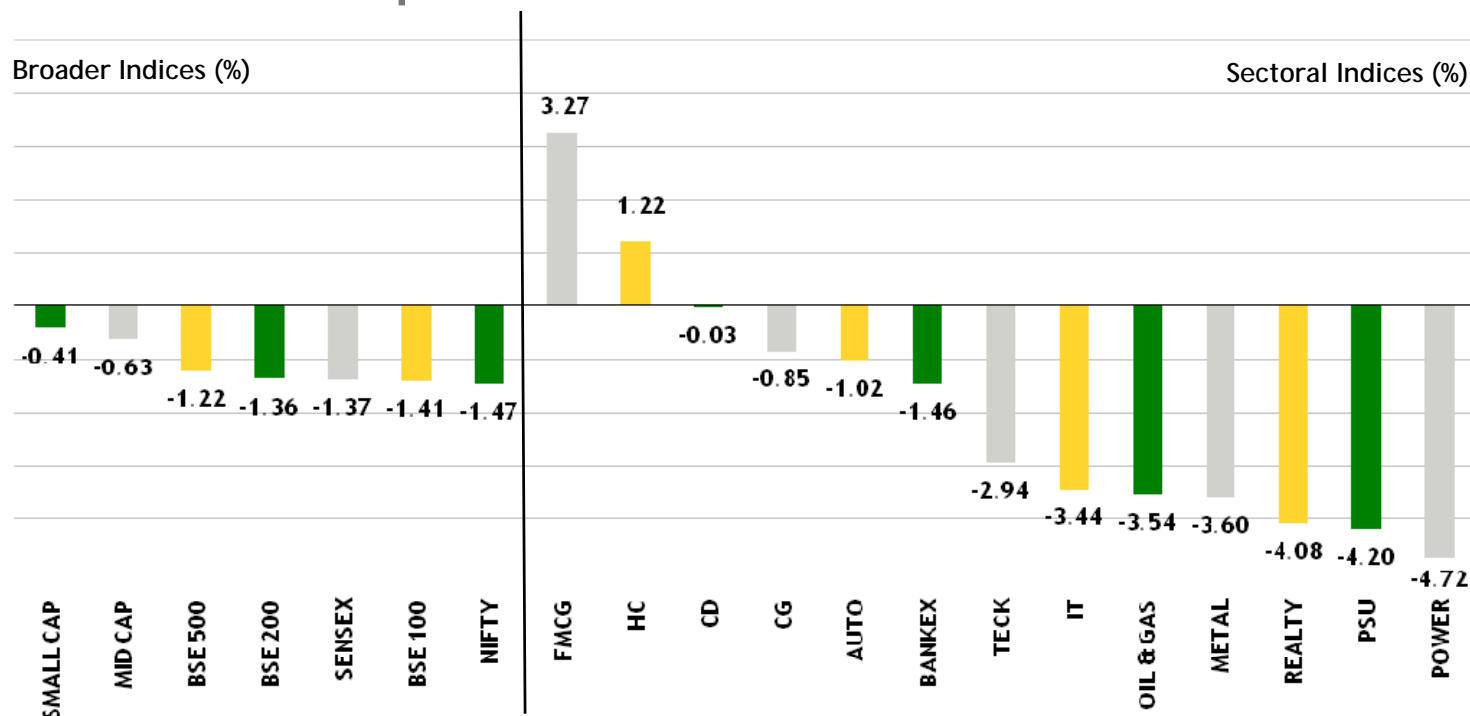
Global Equities

Index	Country	Closing Price*	1 Month Return (%)	YTD Return (%)	Category
SSE Composite Index	China	2068.88	-0.83%	-5.94%	EM - Asia
BSE Sensex	India	18505.38	-1.37%	19.74%	EM - Asia
Kospi	South Korea	1912.06	-4.22%	4.73%	EM - Asia
Taiwan Weighted	Taiwan	7166.05	-7.12%	1.33%	EM - Asia
Thailand SET 50 Index	Thailand	879.06	-0.85%	22.36%	EM - Asia
Jakarta Composite Index	Indonesia	4350.29	2.06%	13.82%	EM - Asia
KLSE	Malaysia	1673.07	2.22%	9.30%	EM - Asia
Ibovespa Sao Paulo Index	Brazil	57068.18	-3.56%	0.55%	EM
Mexico IPC	Mexico	41619.96	1.84%	12.25%	EM
Russian RTS Index	Russia	1433.96	-2.83%	3.77%	EM
Philippine PSEi	Philippines	5424.51	1.47%	24.08%	EM
Merval Buenos Aires Index	Argentina	2323.39	-5.23%	-5.65%	EM
HangSeng	Hong Kong	21641.82	3.85%	17.40%	Developed - Asia
Nikkei	Japan	8928.29	0.66%	5.59%	Developed - Asia
Strait Times	Singapore	3038.37	-0.72%	14.81%	Developed - Asia
Dow Jones	USA	13096.46	-2.54%	7.19%	Developed
CAC 40 Index	France	3429.27	2.22%	8.53%	Developed
All Ordinaries Index	Australia	4535.36	2.93%	10.32%	Developed
DAX Index	Germany	7260.63	0.62%	23.10%	Developed
Swiss Market Index	Switzerland	6595.13	1.53%	11.10%	Developed
FTSE 100	UK	5782.70	0.71%	3.78%	Developed
MSCI World Index	--	1301.52	-0.76%	10.06%	--

* as on 31st October, 2012. Source: Bloomberg
EM – emerging markets, Developed – developed markets



India : Sector performances



- Nifty fell by 1.47% over the previous month.
- MidCaps and SmallCaps out performed LargeCaps with 0.63% fall in the MidCap index and 0.41% fall in SmallCap index.
- FMCG and Healthcare were the best performing sectors.
- Power and PSU sectors delivered the worst return for the month.

Source: BSE,NSE. one month performance as on 31st October, 2012. CD: Consumer Durables, CG: Capital Goods, HC: Health Care. FMCG: Fast Moving Consumer Goods



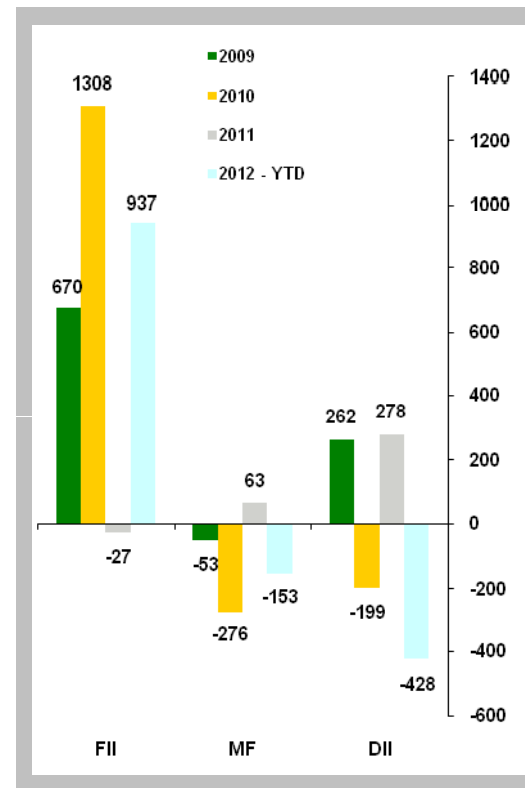
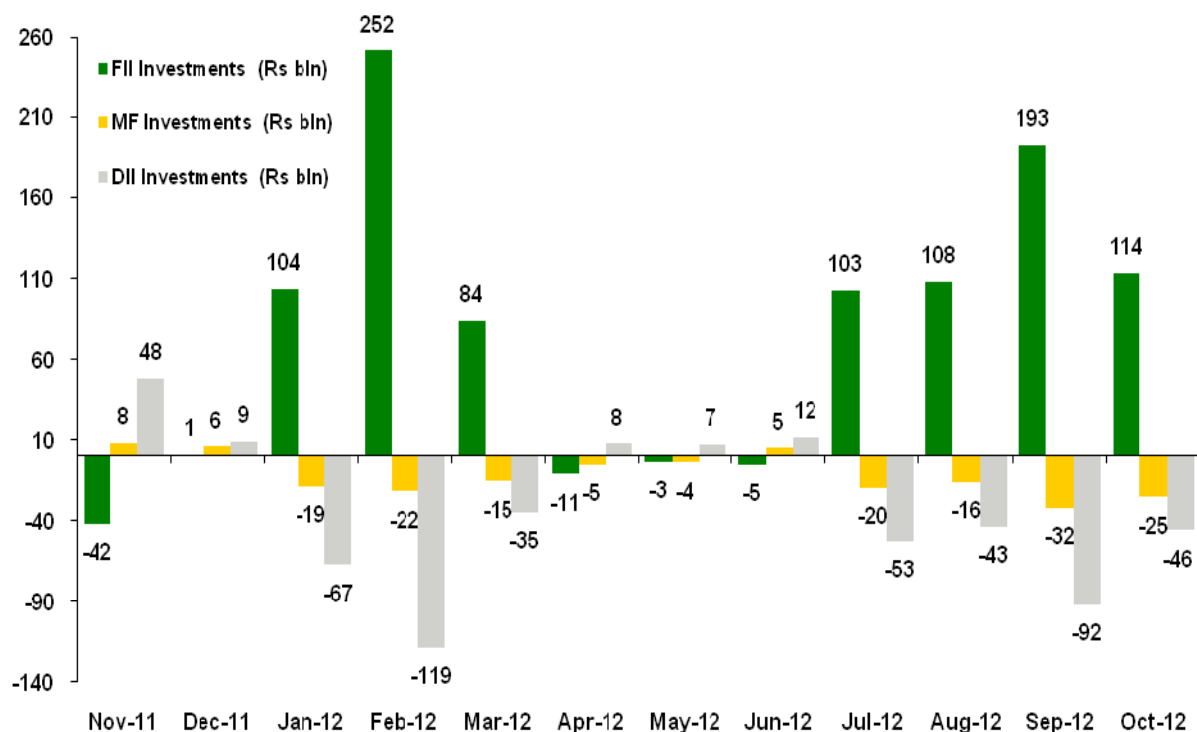
Top Gainers / Losers - Nifty

Top Gainers for the month			
Gainers	52 week H/L	Last Price#	% Gain*
Dr Reddy's Labs	1815.85 / 1500	1756.50	6.74%
Maruti Suzuki	1443.8 / 900	1437.90	6.46%
JP Associates	96.35 / 50.35	87.35	6.20%
HCL Technologies	619.55 / 372.65	608.00	5.29%
I D F C	164.8 / 90.4	162.25	5.05%
Top Losers for the month			
Losers	52 week H/L	Last Price#	% Loss*
Bank of Baroda	881 / 605.55	725.65	-9.04%
Jindal Steel	664 / 320.4	388.35	-9.08%
Punjab Natl.Bank	1091.05 / 659.2	738.40	-12.13%
Reliance Infra.	679.75 / 328.3	469.50	-12.67%
DLF	261.2 / 169.75	202.80	-13.05%

closing price as on 31st October, 2012. * one month performance as on 31st October, 2012.
Source: Capitaline



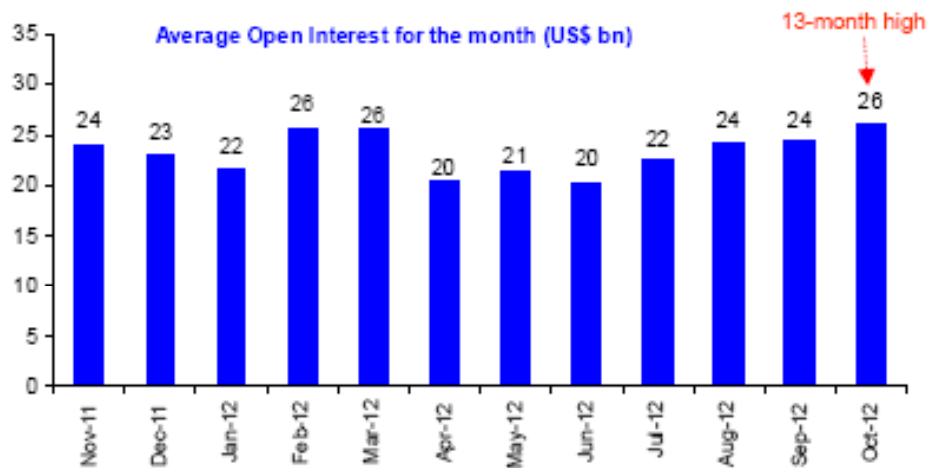
FII & DII Inflows



- Institutional activity remained upbeat in October.
- FII inflows during the month were at Rs.114bn. FII inflows were at Rs.937bn for CY12 YTD after a Rs.27bn outflow in CY11 and Rs.1308bn inflow in CY10.
- MF's were net sellers at Rs.25bn, while DII's were net sellers of Rs.46bn during the month.

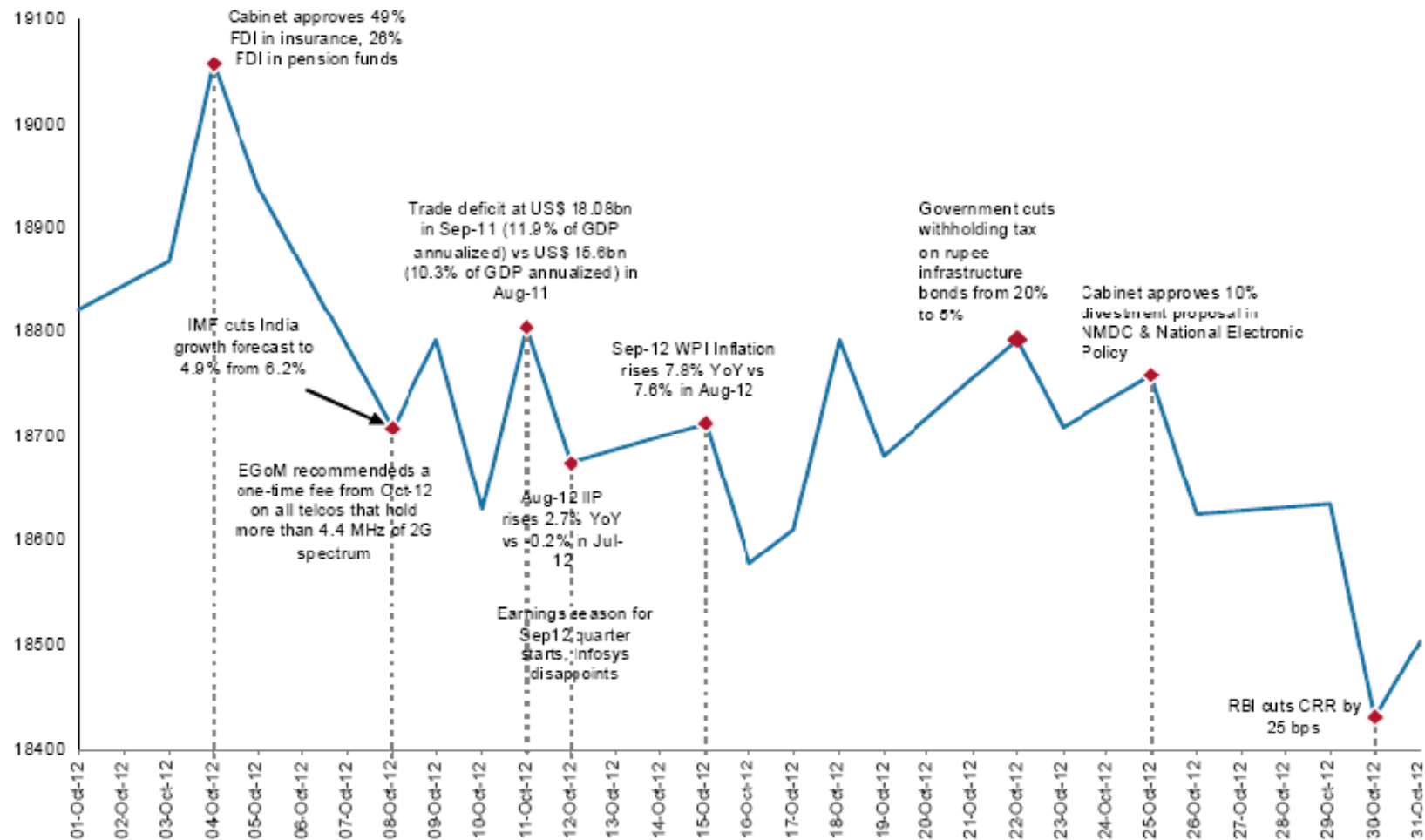


Market Activity



- In October 2012, cash market trading turnover increased by 4% MoM.
- At the end of October 2012, average open interest increased by 8% on a MoM basis to 13 month high levels.

October 2012 events timeline



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

Note: The above shown index is BSE Sensex .



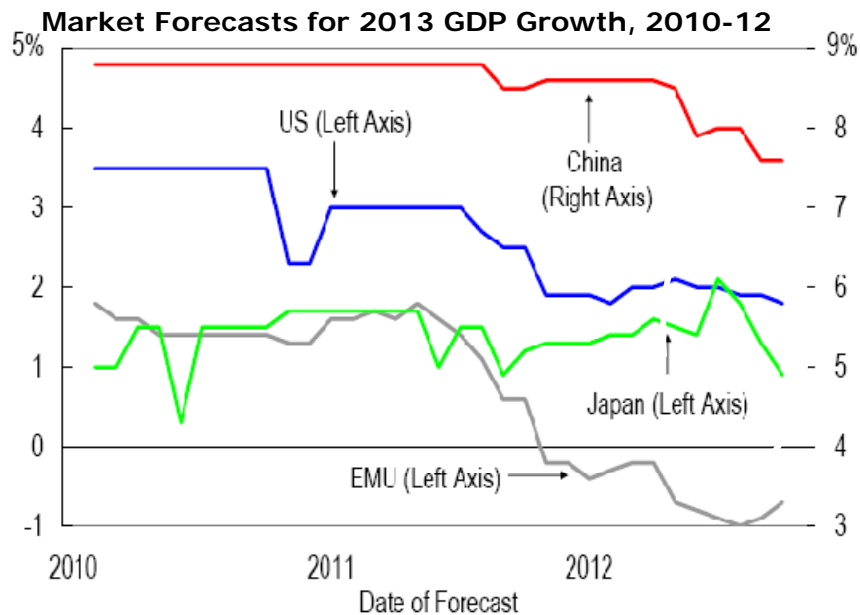
Religare MF: Equity Market Outlook and Opportunities

Equity Market Outlook

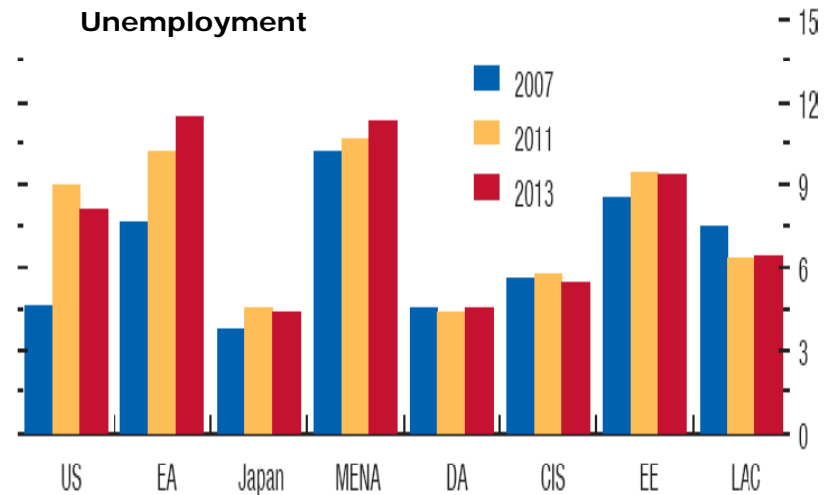
- Forecasts for 2013 GDP growth rates for most regions of the globe have been cut, with sharpest cuts being for Europe and US.
- Global economic growth is expected at about 3.3% in 2012, and 3.6% in 2013, according to IMF estimates.
- Also the global economic challenges in the form of unemployment have been rising with the highest rise over the last six years being in Euro Area.
- While India's GDP growth continues to remain soft, some of the recent data like IIP growth seems to have started to stabilize at lower levels.
- Overall macro environment remains challenging as reflected by persistently high inflation, and elevated twin deficits (trade and fiscal).
- Mid-way in the earnings season, Sensex companies have slightly disappointed on the revenue growth and positively surprised on the earnings growth.
- Consensus expectations for FY13 earnings growth are at about 10% growth, which appears reasonable. Forecasts for FY14E earnings growth are at 13%.



Global Macro – Growth weakens, challenges ahead



Note: Citi Research estimates used as proxy to market estimates

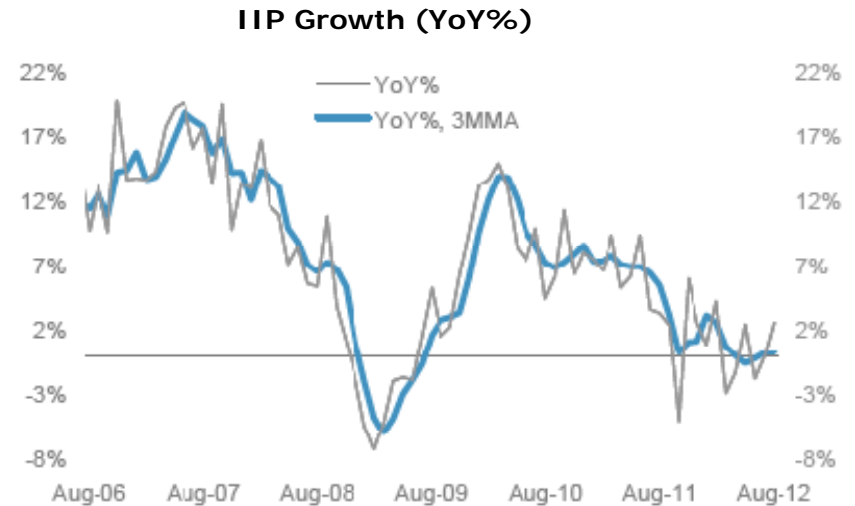
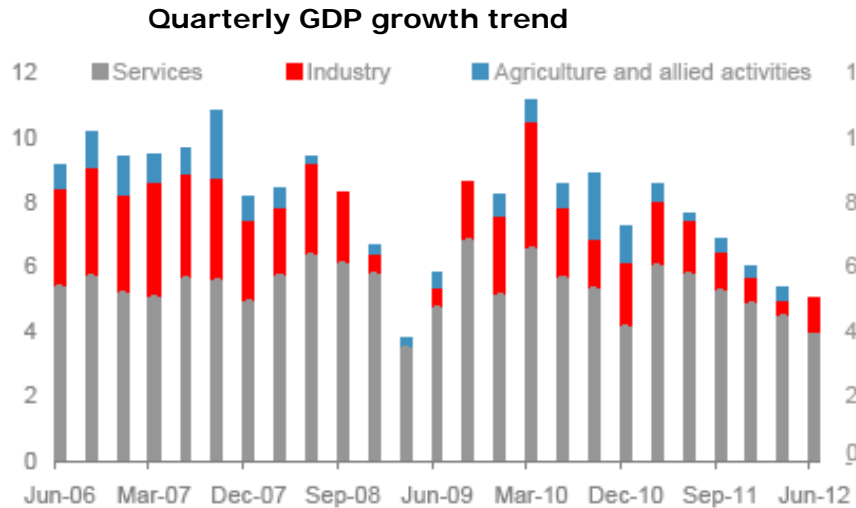


Note: US = United States; EA = euro area; CIS = Commonwealth of Independent States; DA =developing Asia; EE = emerging Europe; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa.

- Forecasts for 2013 GDP growth rates for most regions of the globe have been cut, with sharpest cuts being for Europe and US.
- Also the challenges in the form of unemployment has been rising with the highest rise over the last six years being in Euro Area.



India's GDP Growth – stabilizing at lower levels

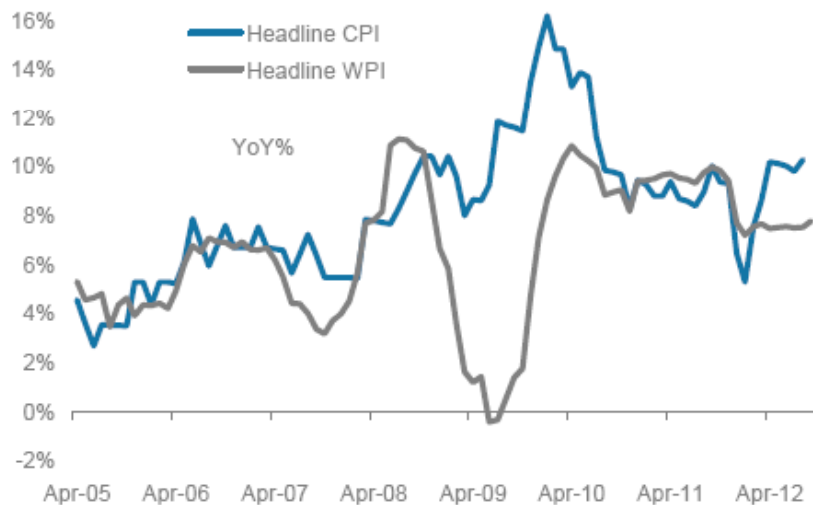


- India's GDP growth continues to remain soft at around 5.4% levels.
- However, some of the recent data like IIP growth seems to have started to stabilize at lower levels, indicating that the over all growth may stabilize in the near term.
- Overall macro environment remains challenging as reflected by persistently high inflation, and elevated twin deficits (trade and fiscal).

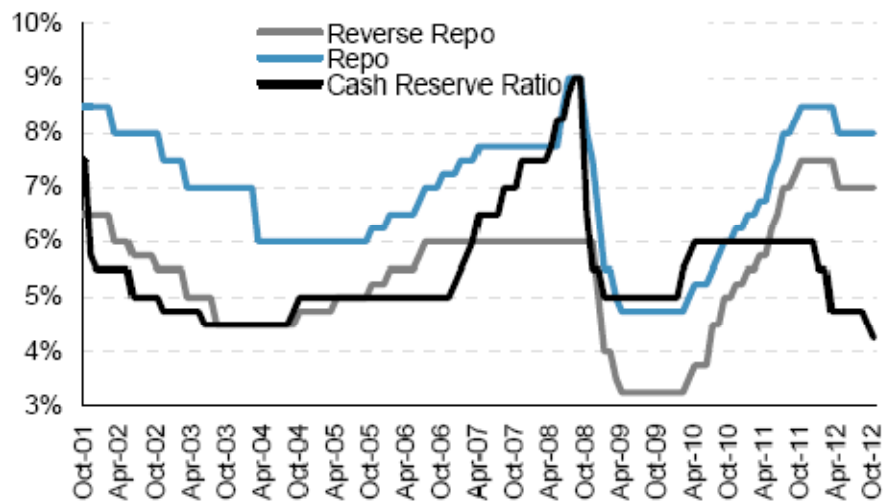


Monetary Policy - inflation the key obstacle

Inflation As Measured by CPI and WPI



Key Policy Rates



- Inflation continues to remain a key challenge, despite growth moderating.
- Highlighting the Governor's own comments with regard to inflation - "India is an exception to the global trend, which underscores the role of domestic structural factors. Of particular concern is the stickiness of core inflation, mainly on account of supply constraints and the cost-push of rupee depreciation".
- RBI in its quarterly review of monetary policy on October 30, kept the repo rate and reverse repo rate unchanged at 8% and 7%, respectively and reduced CRR by 25bps to 4.25%.
- However, the Governor, in his comments has hinted to some easing from Q1CY13.



Sept 2012 Earnings – mixed bag so far

Quarterly Earnings for QE Sep-12 Snapshot

YoY Earnings growth	Q3F12	Q4F12	Q1F13	Q2F13E	Q2F13E*	Q2F13A
MS coverage	18%	33%	-43%	42%	17%	16%
MS coverage ex-energy	19%	16%	13%	12%	21%	20%
Broad Market (1351 cos)	2%	19%	-36%		-	16%
Broad Market ex-energy	-6%	6%	3%		-	19%
BSE Sensex	1%	19%	15%	2%	10%	13%

E = MS Analyst Estimate for MS coverage universe

E* = MS Analyst estimate for 73 companies that have reported thus far

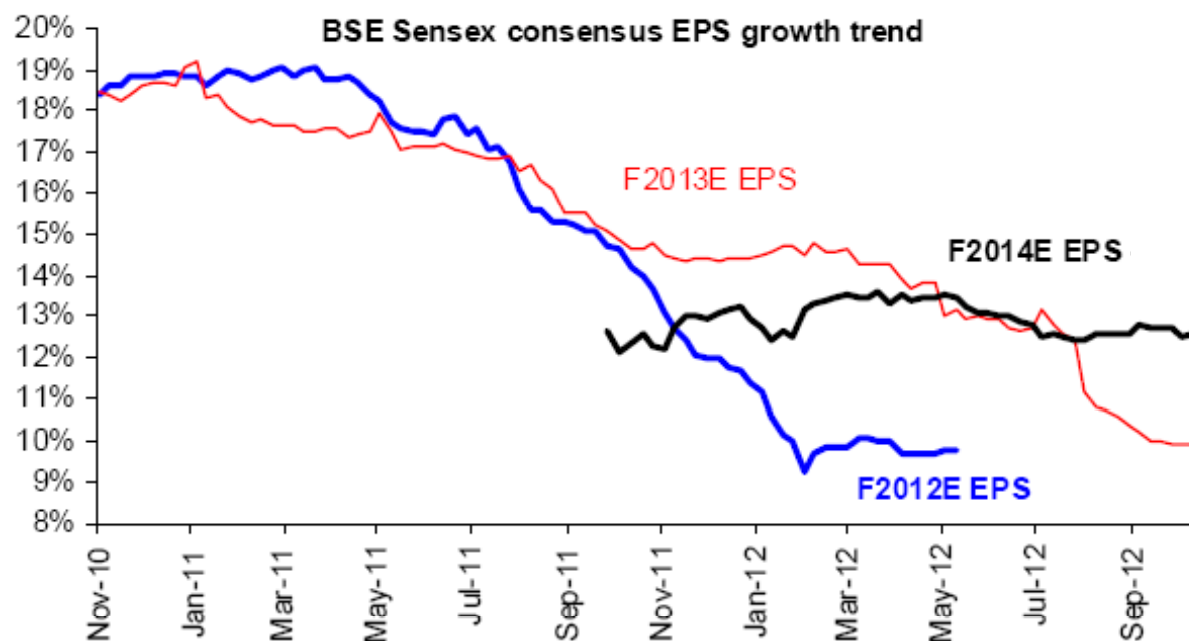
A = Actual earnings for the quarter for 73 companies that have reported thus far

Morgan Stanley estimates used as proxy for market estimates

- We are mid-way into the earnings season. On an aggregate, the Sensex companies have slightly disappointed on the revenue growth and positively surprised on the earnings growth.
- Within the Sensex, the 19 companies that have reported saw earnings growth of 13% YoY vs. expectations of 10% YoY. However, for the same set, the reported sales growth was at 14% YoY vs. expectations of 17% YoY.



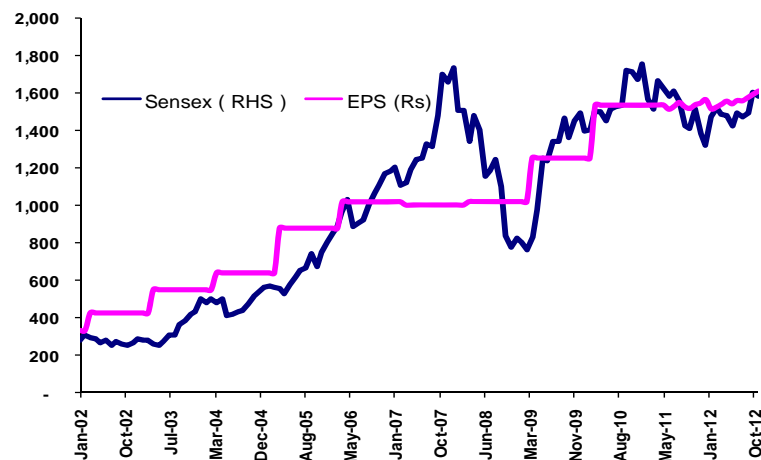
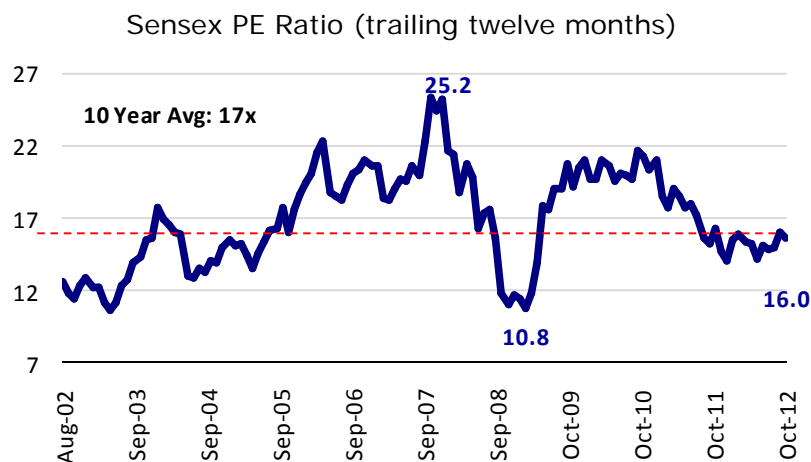
Earnings Forecasts – Earnings Expectations Remain Moderate



- Consensus expectations for FY13 earnings growth are at about 10% growth, which appears reasonable.
- Expectations for FY14E EPS growth continue to remain at 13%, highlighting muted expectations in terms of slow economic growth percolating into corporate earnings.



Valuations – At Reasonable Levels



- Sensex is currently trading at 15.7x its trailing earnings. It is now 8% lower than its historical 10-year average trailing PE of 17x.
- On a 1-yr forward basis, Sensex is trading at 14.1x which is about 2.8% 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...

- While markets are focused on quantitative easing by authorities across the developed world, however, the underlying economies have not yet responded meaningfully and continue to remain sluggish.
- Government has followed up on its drive for reforms by announcing another set of revised FRBM targets and announcements to contain the fiscal deficit. However, we are yet to witness any meaningful execution on the ground.
- The central bank remains concerned about inflation. Hence in the recently announced monetary policy, it has kept rates unchanged and highlighted the stickiness of core inflation.
- According to the RBI, as inflation eases further, there will be an opportunity for monetary policy to act in conjunction with fiscal and other measures to mitigate the growth risks and take the economy to a sustained higher growth trajectory.
- The macro situation remains challenging. However, less cyclical components of the market are trading at rich valuations and pockets of under valuation exist in the cyclical areas.
- Hence we are preferring to emphasize the bottom up stock selection over macro and sector views.
- Valuation discount to long term averages has compressed and is no longer as attractive as it was earlier this year. But valuations remain in the comfort zone.
- 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. However, in areas where valuations already reflect a high degree of stress, we have been open to making selective investments.



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