

# Equity Markets : Current Environment and Outlook

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March 2009

# Current Environment :

## Markets bounce back after being oversold

- From highly oversold territory, global equities and commodities have rallied smartly in March. Save coal, almost every other commodity has rallied, with crude oil, copper and lead rising by over 15%
- Equity markets across the globe staged a comeback rally with the MSCI World Index rising by 7.24% in the month of March
- Most Emerging markets (except Malaysia and Thailand) outperformed their global peers
- In India, Materials was the best performing sector in March while consumer staples was the worst performing sector for the month (first time in 12-months). Cyclical outperformed defensives
- The sharp rise in global inventories is emblematic of continued pressure on manufacturing growth, justifiably raising doubts on whether the commodity rally can be sustained. While global credit markets are thawing, EM bond spreads remain high as compared to recent historical averages

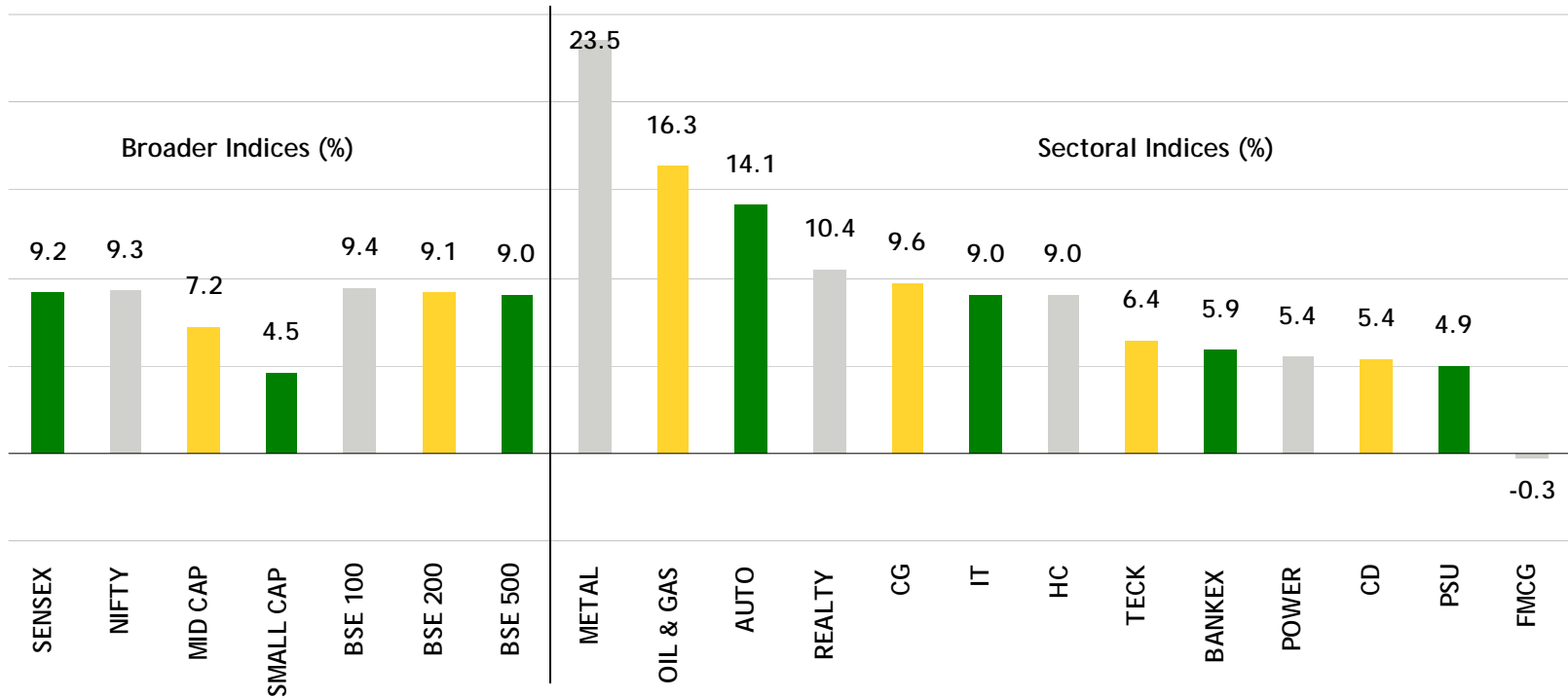
# Global Equities

Index	Country	Closing Price*	1 Month Return (%)	YTD Return (%)	Category
SSE Composite Index	China	2373.21	13.94%	30.34%	EM - Asia
BSE Sensex	India	9708.50	9.19%	0.63%	EM - Asia
Kospi	South Korea	1206.26	13.47%	7.27%	EM - Asia
Taiwan Weighted	Taiwan	5210.84	14.34%	13.50%	EM - Asia
Thailand SET 50 Index	Thailand	300.20	0.21%	-4.33%	EM - Asia
Jakarta Composite Index	Indonesia	1434.07	11.56%	5.80%	EM - Asia
KLSE	Malaysia	872.55	-2.03%	-0.48%	EM - Asia
Ibovespa Sao Paulo Index	Brazil	40925.87	7.18%	8.99%	EM
Mexico IPC	Mexico	19626.75	10.56%	-12.30%	EM
Russian RTS Index	Russia	689.63	26.64%	9.14%	EM
Philippine PSEi	Philippines	1986.22	6.09%	6.66%	EM
Merval Buenos Aires Index	Argentina	1125.95	10.46%	4.29%	EM
HangSeng	Hong Kong	13576.02	5.97%	-5.64%	Developed - Asia
Nikkei	Japan	8109.53	7.15%	-8.47%	Developed - Asia
Strait Times	Singapore	1699.99	6.59%	-3.50%	Developed - Asia
Dow Jones	USA	7608.92	7.73%	-13.30%	Developed
CAC 40 Index	France	2807.34	3.88%	-12.76%	Developed
All Ordinaries Index	Australia	3532.30	7.14%	-3.47%	Developed
DAX Index	Germany	4084.76	6.27%	-13.18%	Developed
Swiss Market Index	Switzerland	4927.43	5.05%	-10.97%	Developed
FTSE 100	UK	3926.14	2.51%	-11.46%	Developed
MSCI World Index	--	805.22	7.24%	-12.50%	--

\* as on 31<sup>st</sup> March 09. Source : Bloomberg  
EM – emerging markets, Developed – developed markets.



# India : Sector performances



- FMCG was the worst performing sector, suffering the brunt of outperformance in the earlier part of the year
- Metals was the star sector with commodities rallying across the globe in March
- Mid and small cap companies underperformed

\*Source: BSE,NSE. one month performance as on 31<sup>st</sup> March 09.

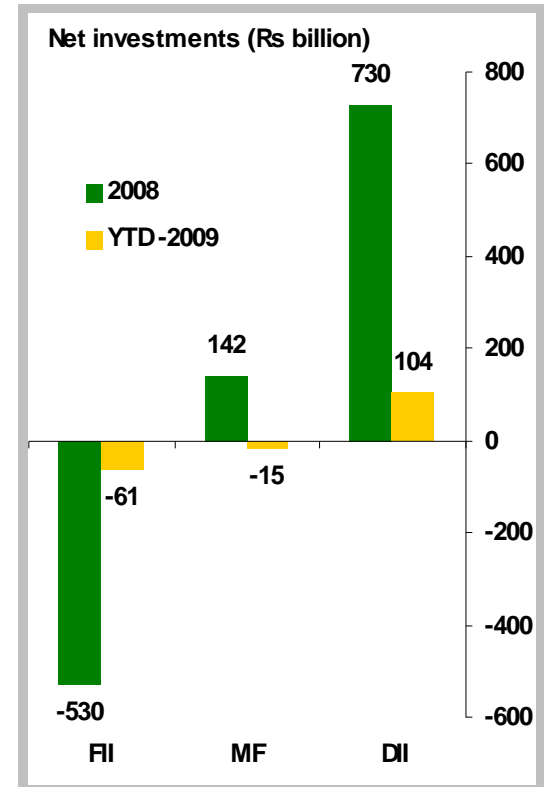
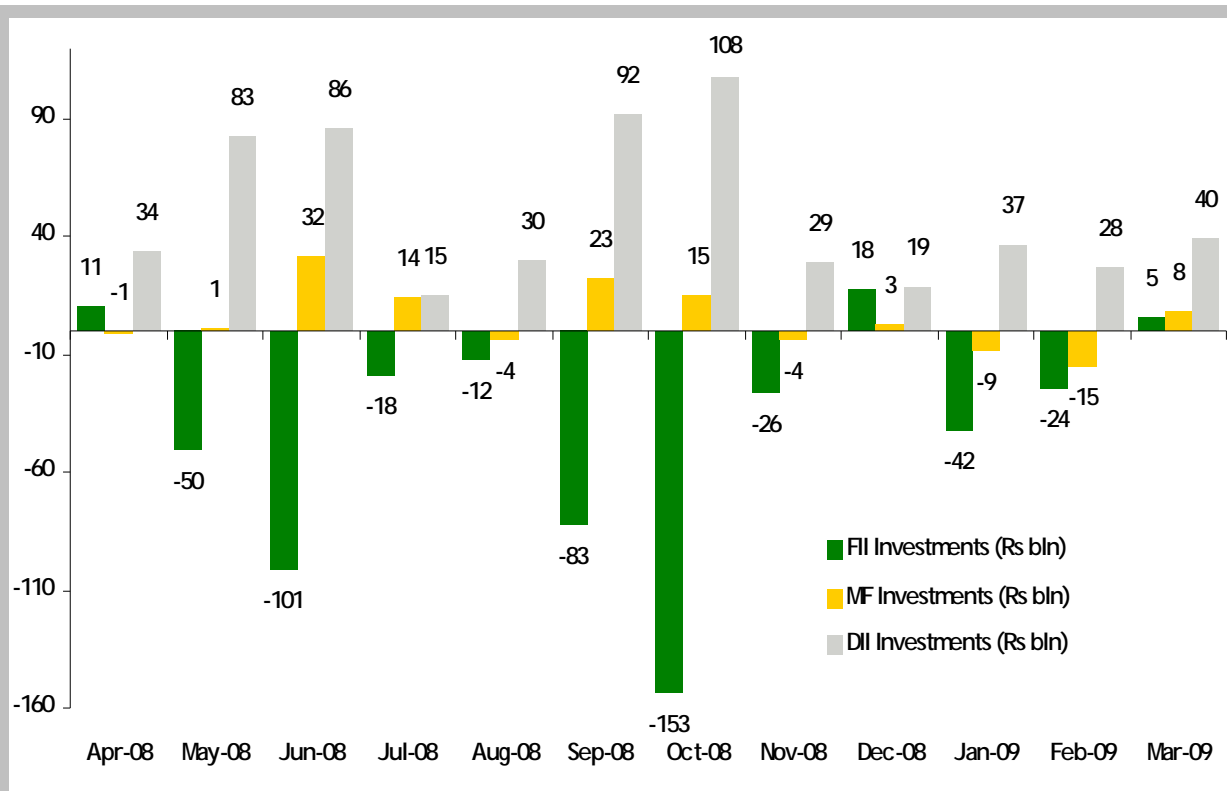
# Top Gainers / Losers - Nifty

Top Gainers for the month			
Gainers	52 week H/L	Last Price#	% Gain*
Sterlite Industries (India) Ltd.	990 / 165.1	357.60	46.05
Hindalco Industries Ltd.	187.4 / 36.75	52.05	34.84
Tata Communications Ltd.	560 / 323.05	518.35	28.19
Steel Authority Of India Ltd.	190.95 / 55.25	96.45	26.82
Reliance Petroleum Ltd.	206.4 / 68.2	95.10	24.56
Top Losers for the month			
Losers	52 week H/L	Last Price#	% Loss*
Hindustan Unilever Ltd.	271.9 / 185.1	237.50	-6.31
N T P C Ltd.	202.9 / 113	179.85	-2.78
Bharti Airtel Ltd.	979.8 / 483	625.75	-2.00
Bharat Petroleum Corpn. Ltd.	440 / 206	376.05	-1.79
Power Grid Corpn. Of India Ltd.	109.5 / 52	95.60	-1.34

# closing price as on 31<sup>st</sup> March 09. \* one month performance as on 31<sup>st</sup> March 09.  
Source: cmie prowess



# FII & DII Inflows



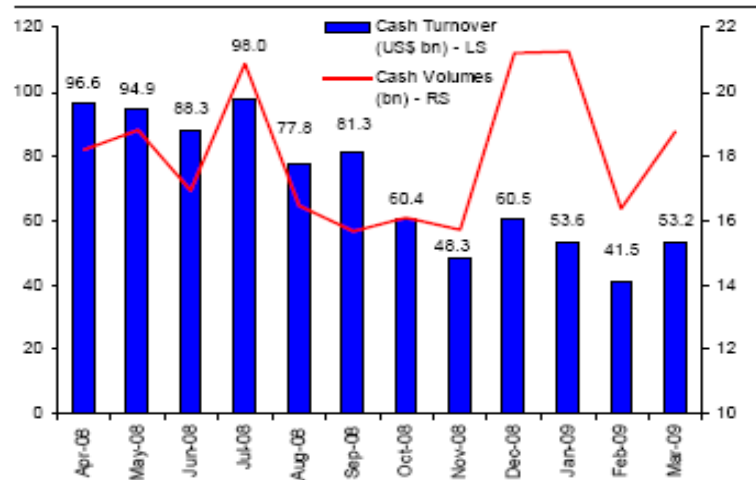
- FII & Domestic Mutual Fund inflows in the cash segment turned positive after two successive month of outflows

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



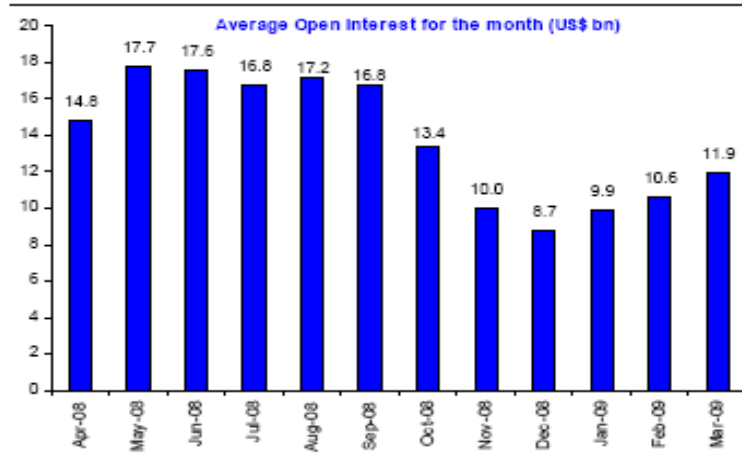
# Market Activity

Cash Trading: Turnover and Volumes



Source: BSE, NSE, Morgan Stanley Research

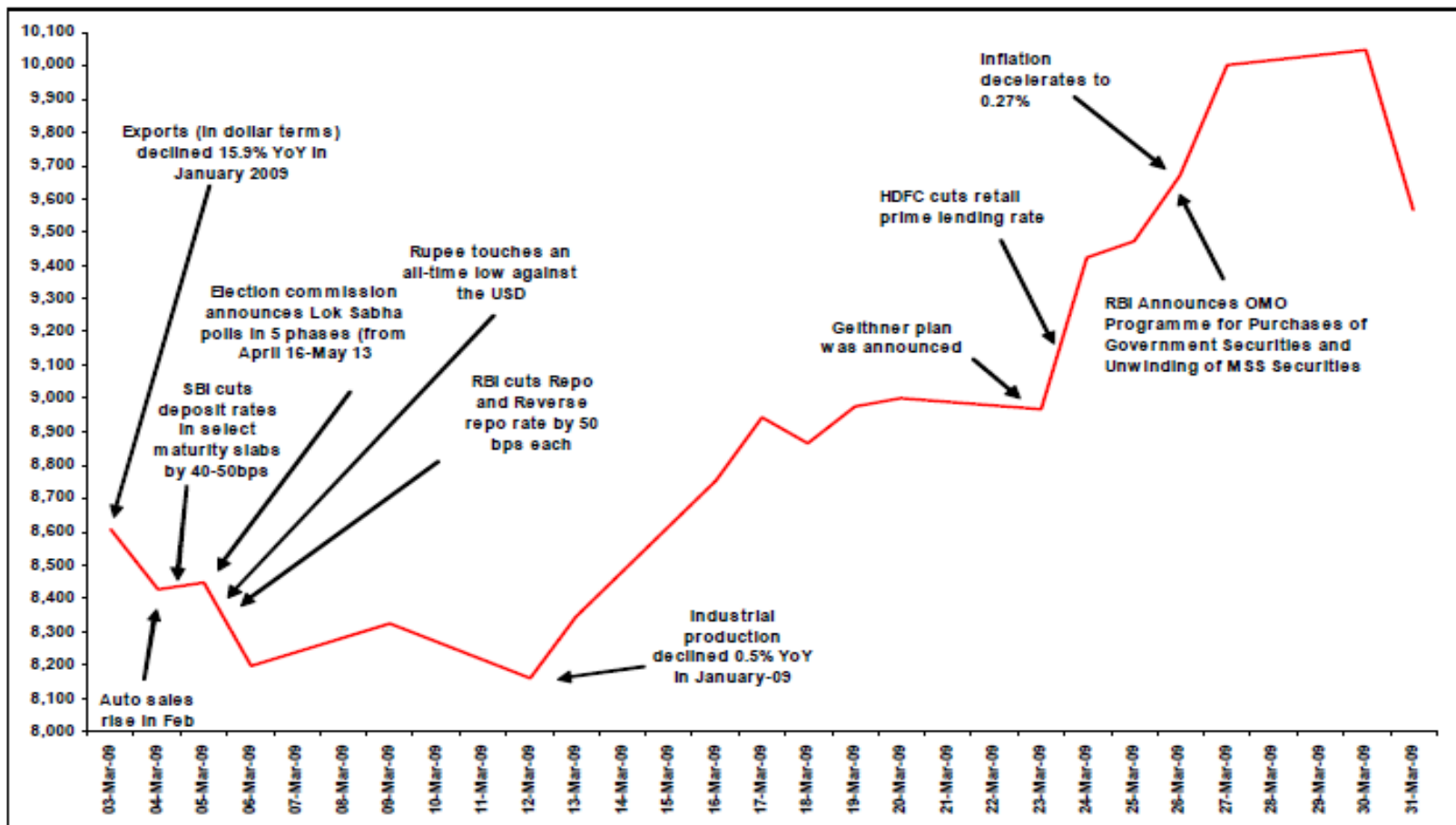
Average Open Interest for the Month



Source: Bloomberg, Morgan Stanley Research

- In March, cash trading volumes (number of shares) rose 15% MoM and are 36% below the December 2007 peak
- Trading volumes (value) rose 28% MoM and are now down 68% below the October 2007 peak
- At the end of March, average open interest rose for the third consecutive month - up 12% MoM and is 57% off the January 2008 peak

# March Events timeline



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

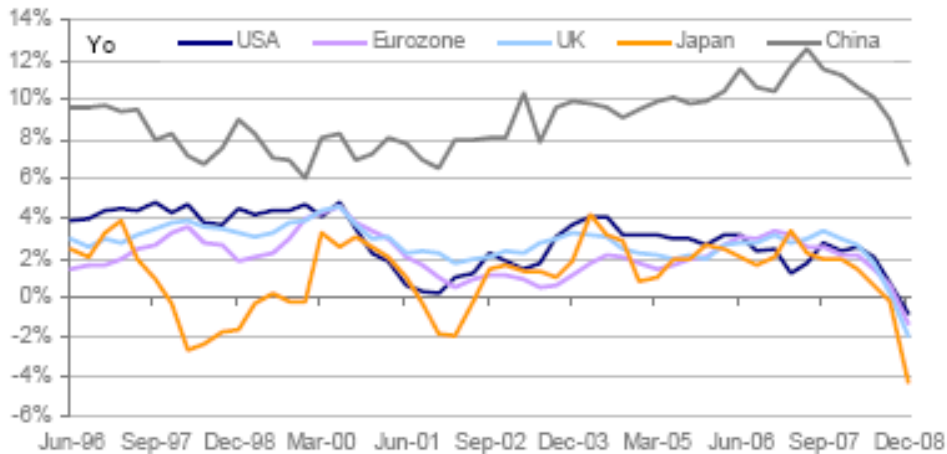
# Religare MF: Equity Market Outlook and Opportunities

# Equity Market Outlook

- The global economy continue to slide, led by the developed economies. China is also slowing, but it will still remain among the fastest growing economies. Central banks around the world trying hard to reverse the slowdown by pumping in liquidity
- Even India's Central Bank- RBI has taken drastic steps in the form of reducing statutory reserves and benchmark rates in an effort to reverse the slowdown. However, in spite of these steps, the credit growth has slowed down and the lending rates have also not fallen in line with the benchmark rates
- However, there is a silver lining amid the gloom in the form of sequential growth in Purchasing Manager's Index in India. Also the cement dispatches have remained stable indicating a year-on-year growth in construction activity
- On the valuation front, the Indian market is trading below historical averages. However, the earnings are expected to decline in Q4FY09 (Quarter ended March'09) and in the year ended March 2010

# Global economies continue to slide

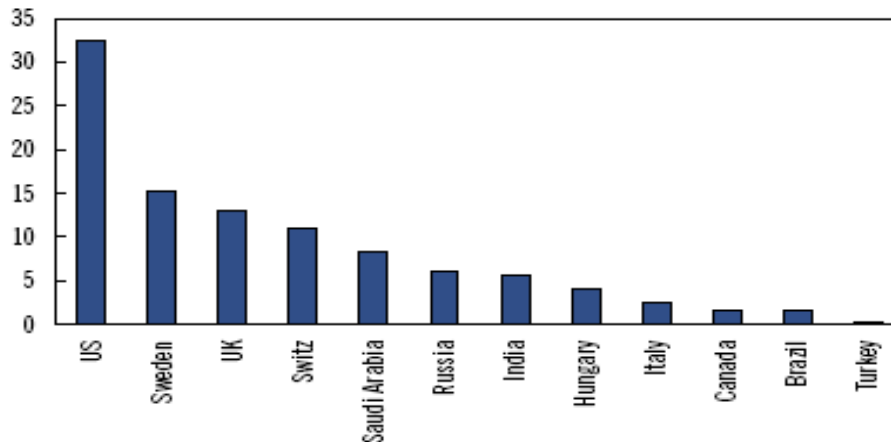
## GDP Growth rates



- Global economies are rapidly decelerating led by advanced economies...

Source: Bloomberg

## Central Bank Financial System Support (Percent of GDP) as of February 18, 2009

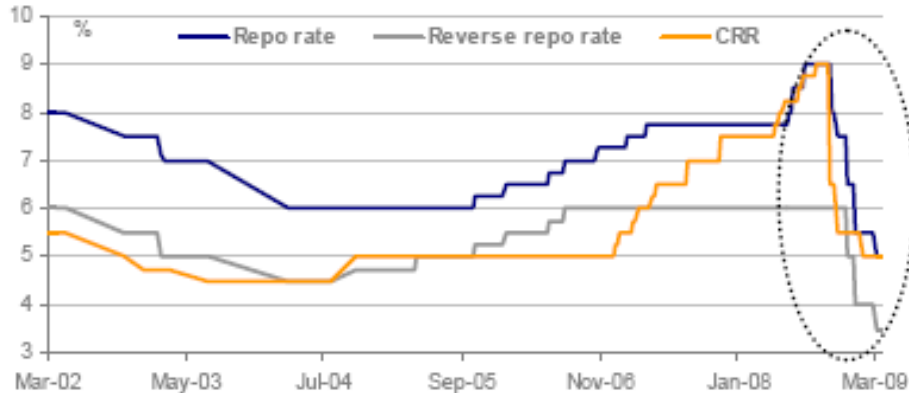


- ...however, the respective Central Banks are pumping in liquidity to drive rates down and turn the tide



# Domestic Monetary cues - Credit growth slowing

## Benchmark monetary rates



Source: Bloomberg

- RBI has taken drastic steps to ensure high liquidity in the system...

## Credit and Deposit growth



Source: RBI

- ... which has however not resulted in credit growth, which has been continuously falling since end October; Outstanding total bank loans are up just 1% since end October

# Domestic Monetary cues - Lending rates not budging

**Lending rates have lagged the decline  
in bond yields**



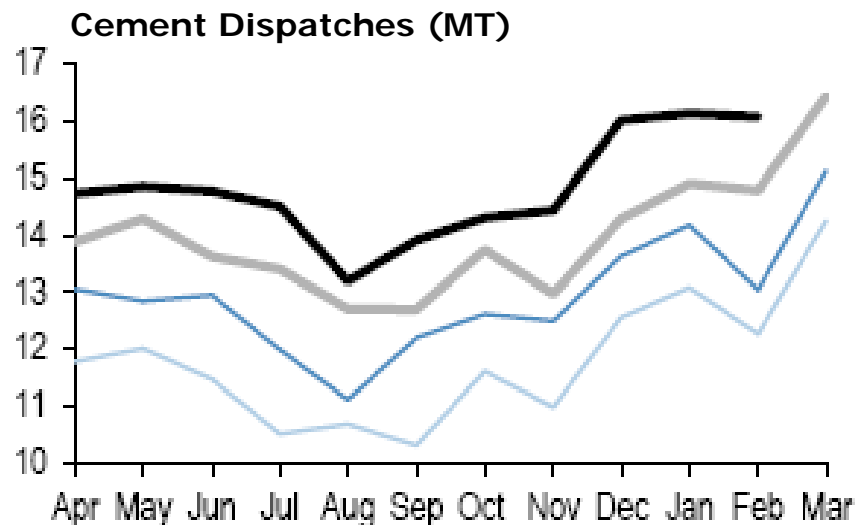
Source: Bloomberg

- While bond yields have come-off sharply since June 2008, the lending rates have yet to follow suit

## Silver lining amid gloom, India's Purchasing Manager's Index and Cement Dispatches have held up



India's Purchasing Managers Index has continued to sustain the recovery, which started since January 2009



Cement dispatches have also remained robust indicating strong construction activity

# Valuations - below historical averages

## Nifty trailing Price-Earning Ratio



Source: NSE, Bloomberg. Updated as of CoB 27<sup>th</sup> March, 2009

- Indian markets are below historical averages and near their trough valuations, based on trailing price-earnings ratio

## India Relative to Emerging Markets

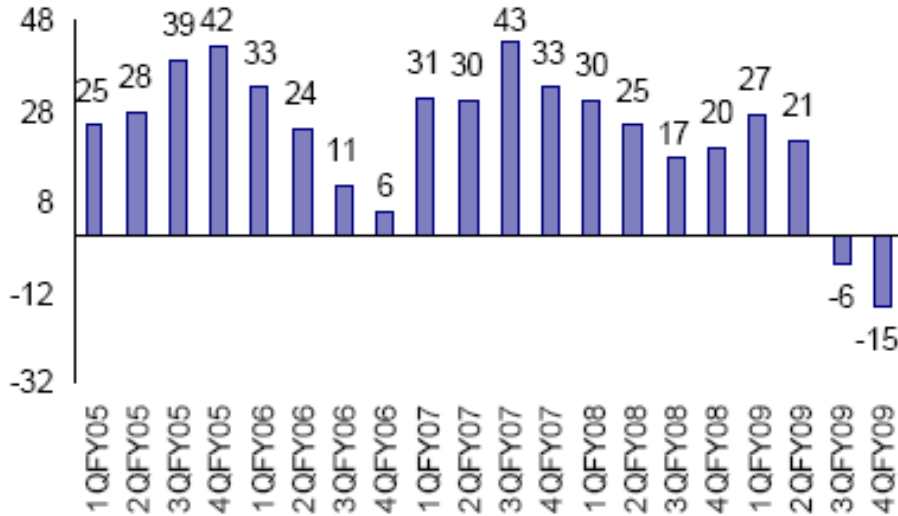


Source: Bloomberg, MSCI, IIFL Research

- Indian markets premium relative to emerging markets is also close to historical average

# Domestic earnings expected to decline

## TREND IN SENSEX PAT GROWTH (% YOY)



Source: Motilal Oswal Securities

- In the forthcoming result season, analysts expect a 15% decline in Sensex earnings, led by metals and real estate companies
- The sectors which are expected to report a profit growth are oil & gas and capital goods

## Consensus changes in EPS estimate for Sensex



Source: Bloomberg, IIFL Research. Updated as of 20 March 2009

- In just over 5 months, FY10 consensus EPS (source: Bloomberg consensus) for the Sensex has seen a downgrade of 25% from 1170 to 878
- In our view, there are more earning downgrades to come, but the pace of downgrades will decelerate, hereon



# Looking Ahead...

- The Macro environment has improved marginally over the previous month, as is indicated by improved same store sales of retailers and good growth seen in automobiles and commercial vehicles
- Borrowing rates are coming down gradually, but fears of non-performing loans are on the rise making banks more risk averse
- Elections will be held in April/May and a new government will be in place by June. Expect volatility related to the elections outcome in the days ahead
- In recent history governments have been proactive in the early part of their term and we can expect the economic issues to be the key focus of the incoming governments agenda

# Investment view

## Short term

- Challenging growth environment with GDP growth likely to decelerate next year to 6%
- We now estimate that earnings during FY08-10 are likely to drop by 5-10%
- Inter-sector and Intra-sector performance variations are likely to increase

## Long term

- India will double in size, adding \$1trillion to GDP over the next 5-7 years.
- Over the same period earnings should match nominal GDP growth @12-14% p.a. but will be back ended.
- If growth accelerates after 2010 then returns would be boosted by an improvement in valuations

# Events Calendar

Date	Economy	Data release / Event	Period	Prior
13-Apr	India	Industrial production (%,Y-o-Y)	February	-0.5
21-Apr	India	RBI Annual Policy Meeting	FY10	--

Date	Economy	Data release / Event	Period	Expectations	Prior
7-Apr	Eurozone	Real GDP (%, Y-o-Y)	Q4CY08	--	-1.3
9-Apr	UK	BoE interest rate announcement	Apr	0.50	0.50
2-Apr	Eurozone	ECB interest rate announcement	Apr	1.50	1.50
3-Apr	US	Unemployment Rate	Mar	8.5	8.1
7-Apr	Japan	BoJ interest rate announcement	Apr	--	0.10
29-Apr	US	GDP (Q-o-Q, annualised)	Q1CY09	--	-6.30
29-Apr	US	FOMC Rate Decision	Apr	0.13	0.25

Source: Bloomberg

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