

Equity Markets : Current Environment and Outlook

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Current Environment : Another strong month

- Indian markets continue to be one of the best performing markets in the emerging markets group with a 17.46% gain in the month of April
- Equity markets across the globe also continued to rally with the MSCI World Index rising by 10.91%
- Commodity prices were also buoyant with the benchmark industrial metal-copper rising over 10%
- In India, Realty was the best performing sector followed by the Banking sector. FMCG sector delivered the worst return for the second consecutive month
- FII inflows have turned positive on a YTD basis for CY09 after a strong Rs.65bn inflow in April, highlighting the return of risk appetite
- In April, cash trading volumes (number of shares) rose 43% MoM and are just 9% below the December 2007 peak, whereas, the open interest rose 32% MoM (fourth consecutive month of rise), indicating heightened trading activity

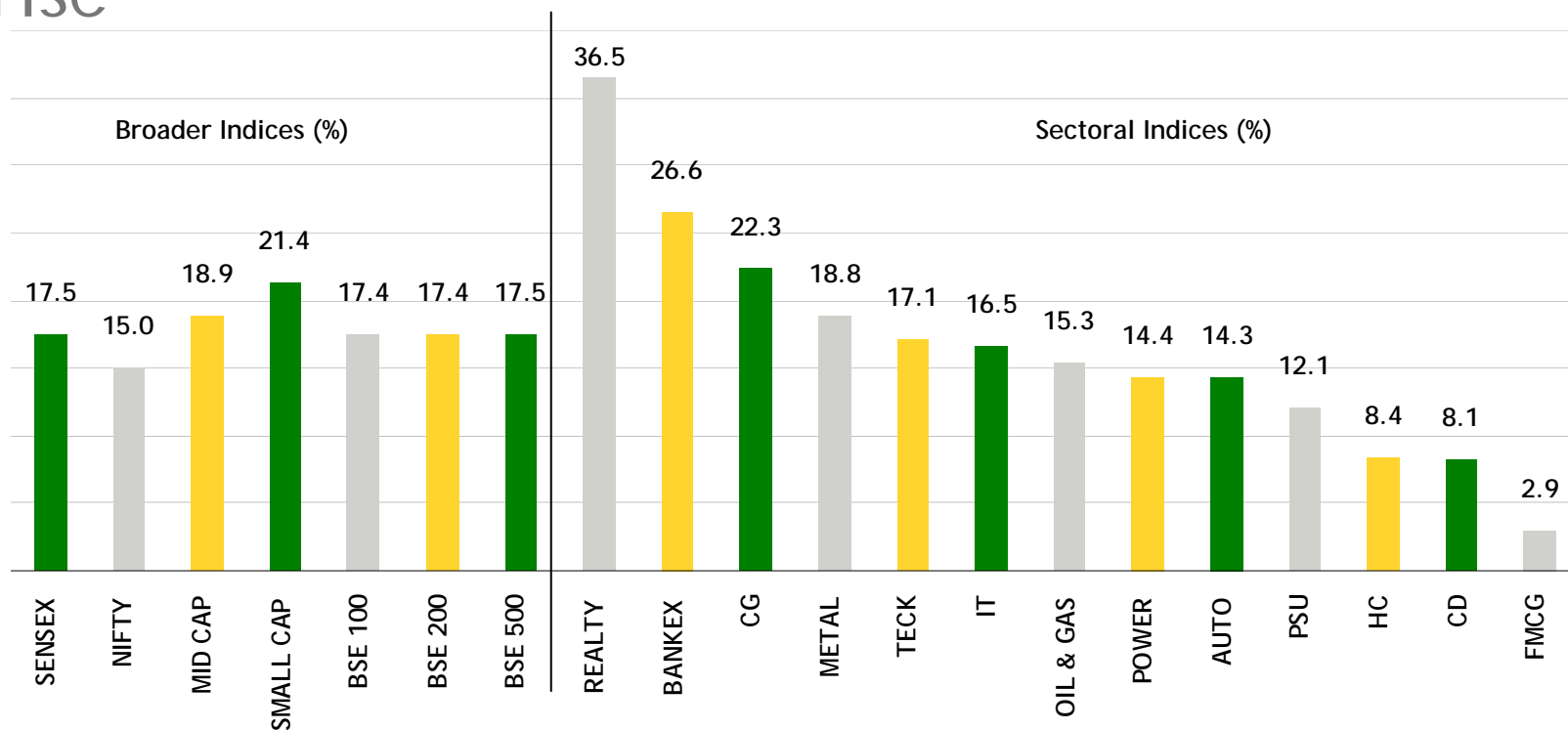
Global Equities : Emerging markets outperform

Index	Country	Closing Price*	1 Month Return (%)	YTD Return (%)	Category
SSE Composite Index	China	2477.57	4.40%	36.07%	EM - Asia
BSE Sensex	India	11403.25	17.46%	18.20%	EM - Asia
Kospi	South Korea	1369.36	13.52%	21.78%	EM - Asia
Taiwan Weighted	Taiwan	5992.57	15.00%	30.52%	EM - Asia
Thailand SET 50 Index	Thailand	346.81	15.53%	10.52%	EM - Asia
Jakarta Composite Index	Indonesia	1722.77	20.13%	27.10%	EM - Asia
KLSE	Malaysia	990.74	13.55%	13.00%	EM - Asia
Ibovespa Sao Paulo Index	Brazil	47289.53	15.55%	25.94%	EM
Mexico IPC	Mexico	21898.85	11.58%	-2.15%	EM
Russian RTS Index	Russia	832.87	20.77%	31.81%	EM
Philippine PSEi	Philippines	2103.50	5.90%	12.96%	EM
Merval Buenos Aires Index	Argentina	1275.25	13.26%	18.12%	EM
HangSeng	Hong Kong	15520.99	14.33%	7.88%	Developed - Asia
Nikkei	Japan	8828.26	8.86%	-0.35%	Developed - Asia
Strait Times	Singapore	1920.28	12.96%	9.01%	Developed - Asia
Dow Jones	USA	8168.12	7.35%	-6.93%	Developed
CAC 40 Index	France	3159.85	12.56%	-1.81%	Developed
All Ordinaries Index	Australia	3744.70	6.01%	2.33%	Developed
DAX Index	Germany	4769.45	16.76%	1.37%	Developed
Swiss Market Index	Switzerland	5225.92	6.06%	-5.58%	Developed
FTSE 100	UK	4243.71	8.09%	-4.30%	Developed
MSCI World Index	--	893.03	10.91%	-2.96%	--

* as on 30th April 09. Source : Bloomberg
EM – emerging markets, Developed – developed markets.



India : Sector performances - rate sensitive sector rise



- Realty was the best performing sector followed by the Banking sector
- FMCG sector, considered a defensive, delivered the worst return for the second consecutive month in a rising market

*Source: BSE,NSE. one month performance as on 29th April 09.

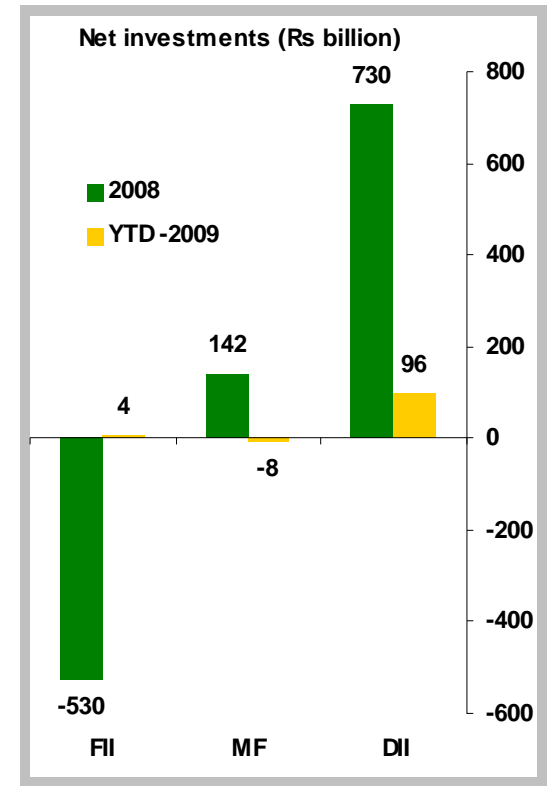
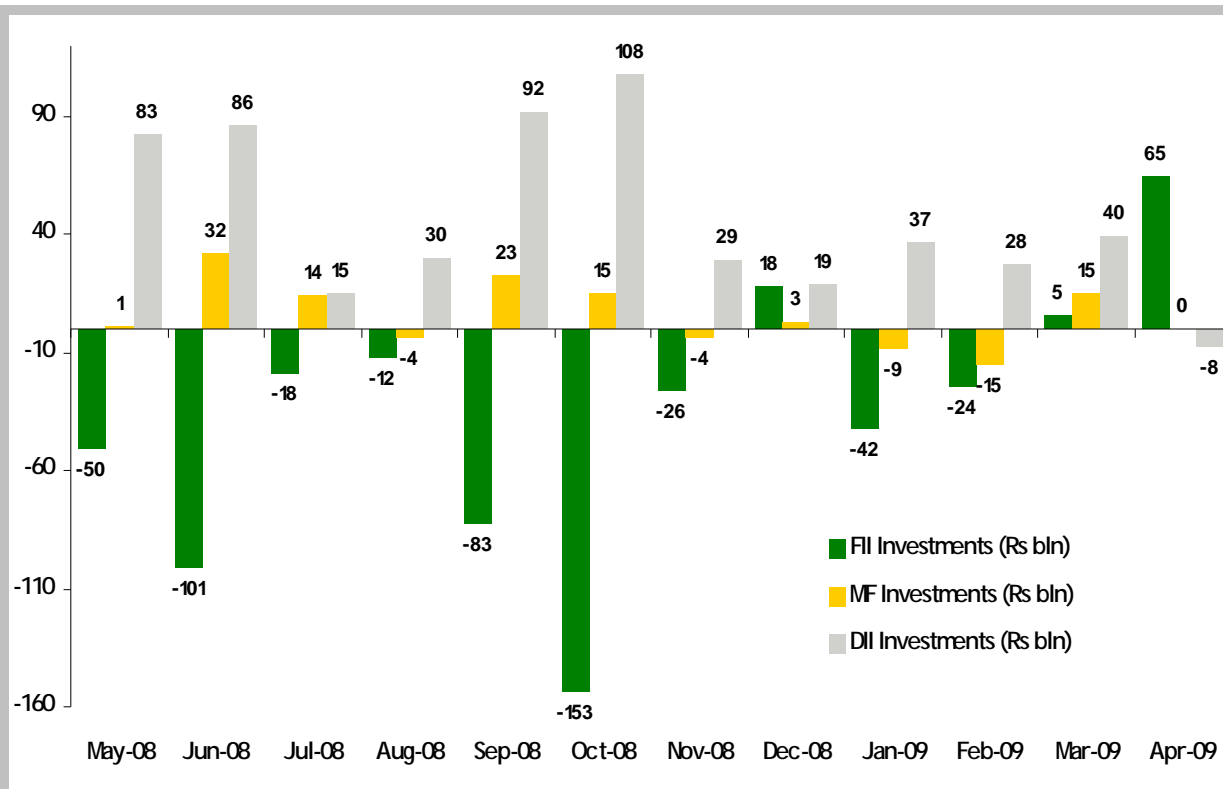
Top Gainers / Losers - Nifty

Top Gainers for the month			
Gainers	52 week H/L	Last Price#	% Gain*
Suzlon Energy Ltd.	320.85 / 33.05	63.6	50.18
Reliance Capital Ltd.	1569.5 / 274.1	524.5	48.39
I C I C I Bank Ltd.	971 / 252.3	479.2	43.99
D L F Ltd.	739 / 124.05	230.25	37.63
Tata Motors Ltd.	673.89 / 124.8	243.8	35.22
Top Losers for the month			
Losers	52 week H/L	Last Price#	% Loss*
Cairn India Ltd.	342.7 / 88.2	185.65	0.84
Hindustan Unilever Ltd.	271.9 / 185.1	234.75	-1.16
National Aluminium Co. Ltd.	566.45 / 105.25	210.8	-1.79
Power Grid Corpn. Of India Ltd.	109.5 / 52	92.6	-3.14
Ranbaxy Laboratories Ltd.	660 / 133.1	166	0.18

closing price as on 29th April 09.* one month performance as on 29th April 09.
Source: cmie prowess



FII & DII Inflows: risk appetite returns



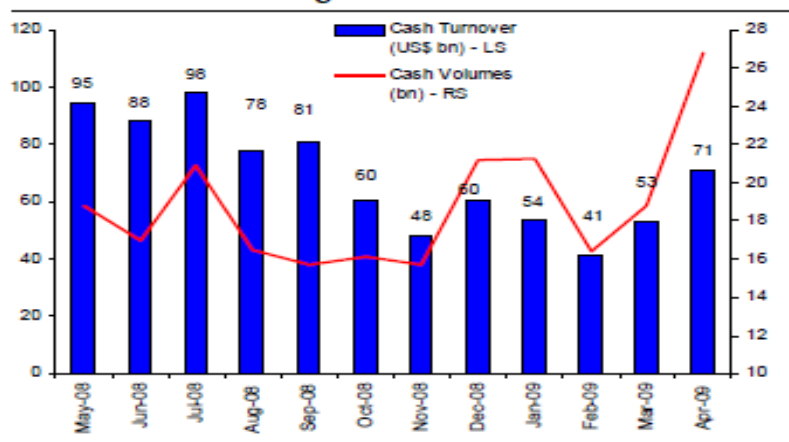
- FII inflows have turned positive on a YTD basis for CY09 after a strong Rs.65bn inflow in April, highlighting the return of risk appetite
- However, DII were marginal net sellers for the first time after remaining net buyers for 11 consecutive months

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



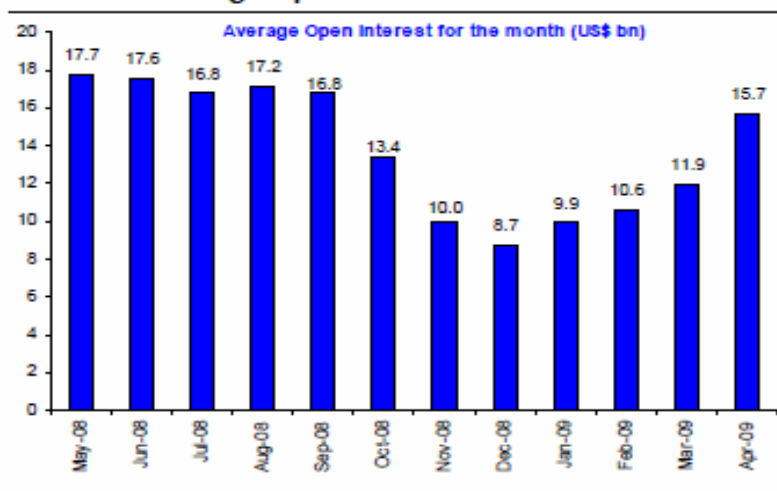
Market Activity: sharp recovery

Cash Trading: Turnover and Volumes



Source: BSE, NSE, Morgan Stanley Research

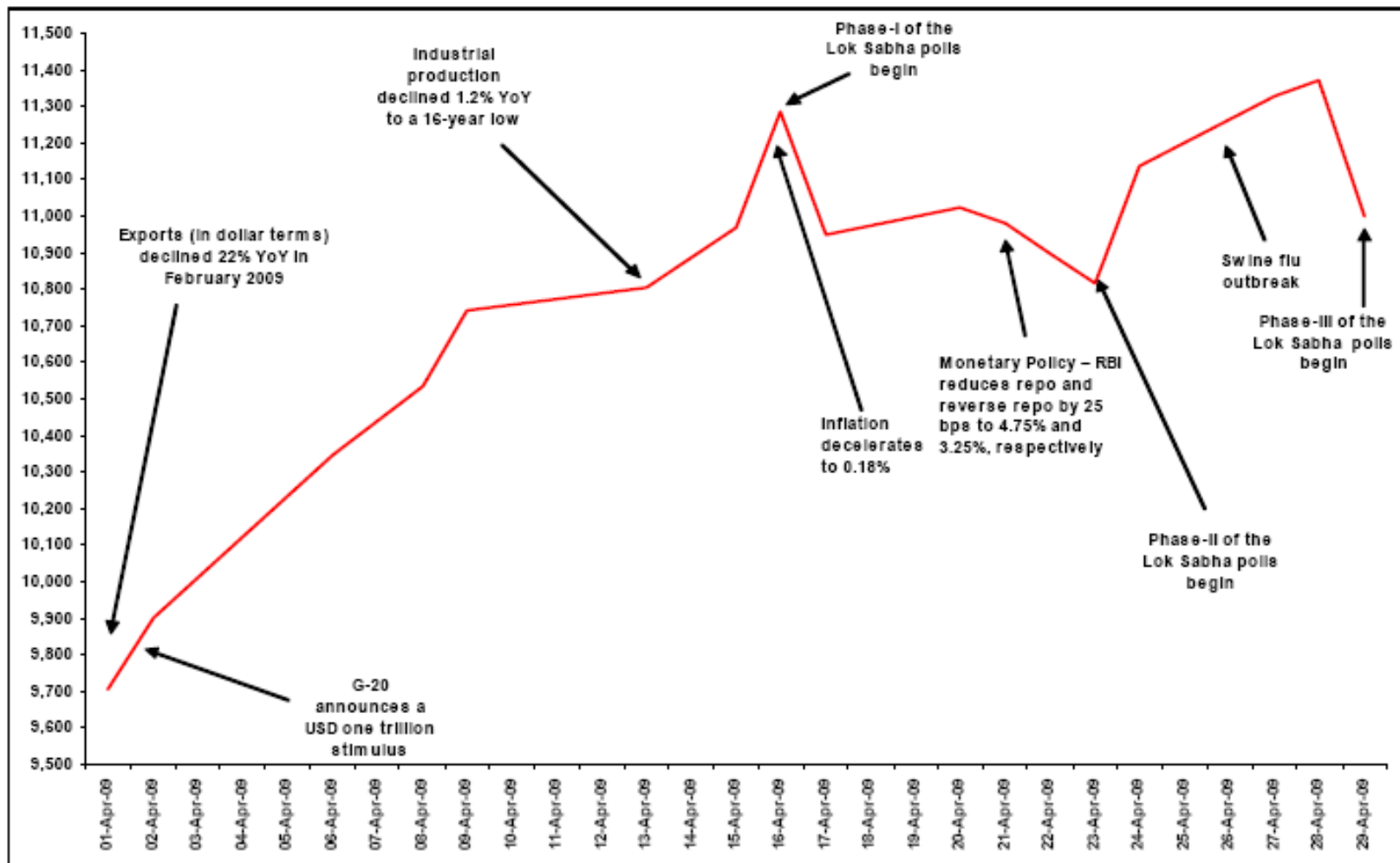
Average Open Interest for the Month



Source: Bloomberg, Morgan Stanley Research

- In April, cash trading volumes (number of shares) rose 43% MoM and are just 9% below the December 2007 peak
- Trading volumes (value) rose 33% MoM and are now down 57% below the October 2007 peak
- At the end of April, average open interest rose for the fourth consecutive month - up 32% MoM and is 43% off the January 2008 peak

April Events timeline



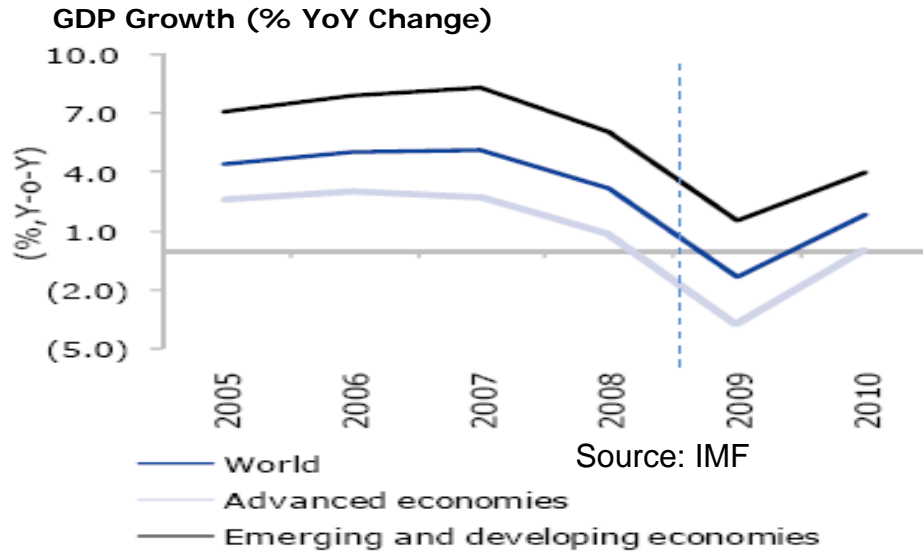
Source: Bloomberg, Economic Times, Business Standard, Morgan Stanley Research

Religare MF: Equity Market Outlook and Opportunities

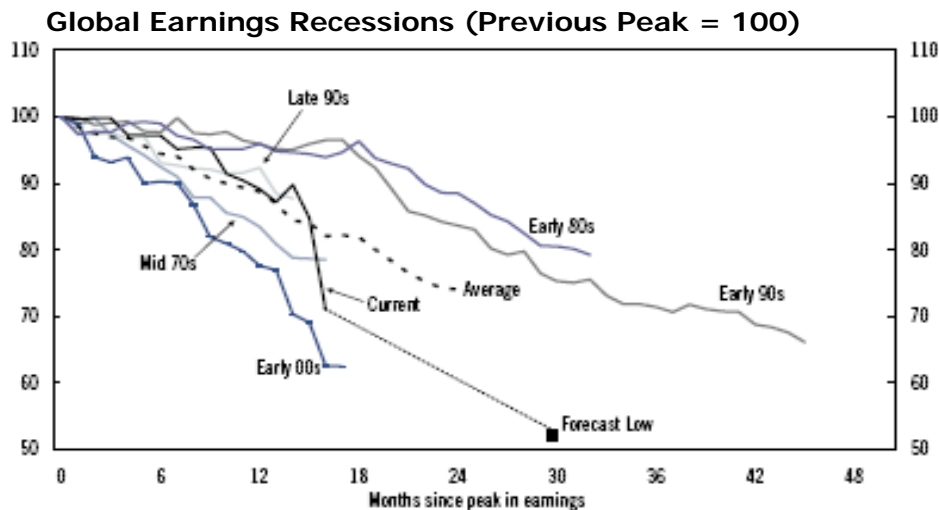
Equity Market Outlook

- Global economic forecasts continue to be downgraded, with IMF now expecting the world GDP to decline by 1.5% led by developed countries
- Key lead indicators in India are presenting a mixed picture, with commercial vehicle sales (preliminary data) declining 28% in April'09 and 2-wheeler volumes growing 5.6%
- We feel one of the key obstacles in India's strong and sustained economic recovery can be its high fiscal deficit. The fiscal deficit is expected to increase from less than 7% (centre and state combined) in FY08 to 12% forecast in Fy09E
- The non-food credit is not increasing in spite of repeated attempts by RBI to persuade banks to do so. Also, banks are not ready to lower their PLR, thereby making credit availability difficult and costly
- On the earnings front, the pace of downgrades to FY10 earnings seems to have eased, with the consensus now expecting the FY10 Sensex earnings at 847, which is a 0.6% growth over FY09 earnings
- The markets seem to have priced in an improvement in the earnings expected for FY10, which we believe is unrealistic
- Valuations on the basis of historical earnings are now closer to long term averages, up sharply from historical trough levels witnessed in October and March

Global Economy - Outlook remains bleak



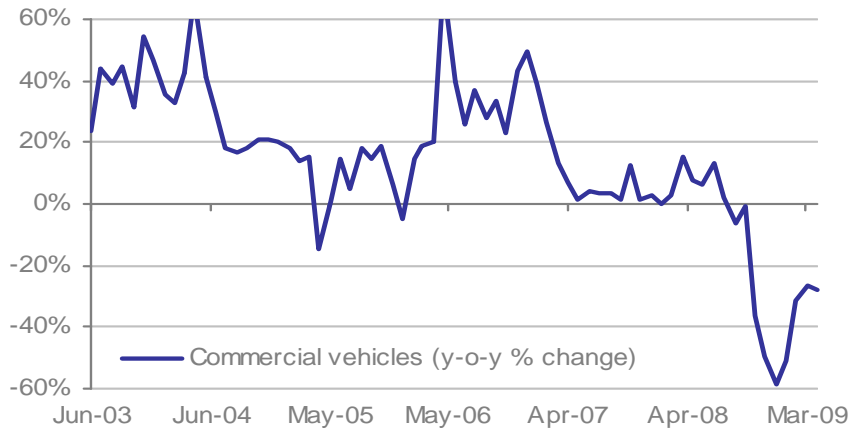
- IMF has slashed global growth forecasts to -1.3% for CY09 from 0.5% projected in January and 2.2% in last November
- The revision is based on an assessment that financial market stabilization will take longer than previously envisaged, even with strong efforts by policymakers
- While the global earnings have declined by about 30% from the peak, it has still not bottomed out. Earnings have declined as much as 40% in some of the previous recessions



Source: Citi Investment Research and Analysis

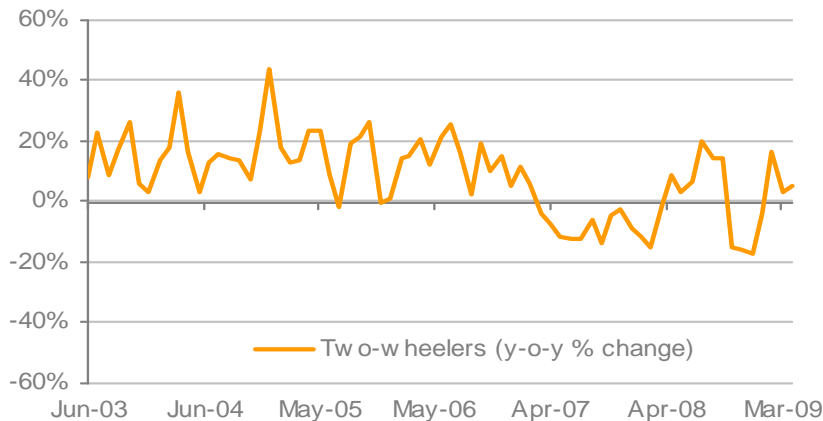
Domestic Economy - key indicators present mixed picture

Commercial Vehicles volume growth



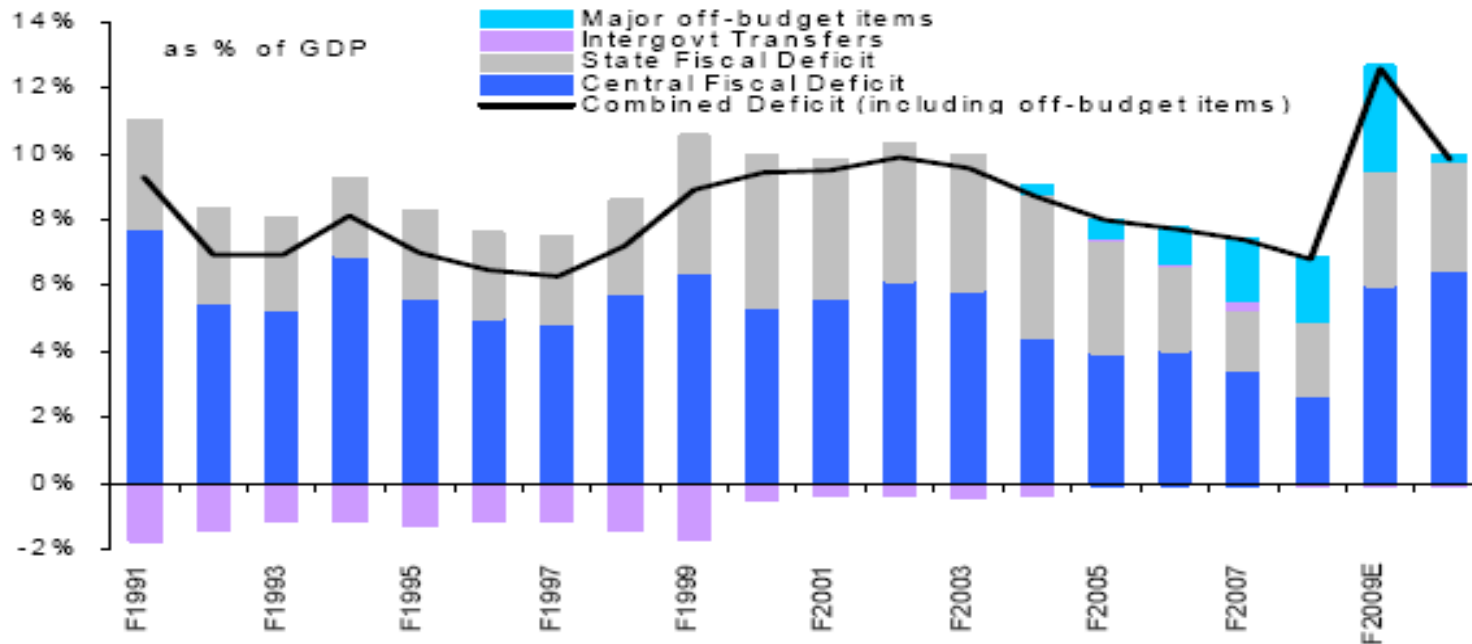
- Commercial Vehicle sales (preliminary data) have declined 28% in April, indicating economic revival may still be elusive

Two Wheeler Sales volume growth



- Two Wheeler sales have however increased 5.6% in April, indicating that consumption demand for discretionary spend is alive, and can ultimately lead to a bottoming out of economic growth

Domestic Economy - Fiscal deficit expected to worsen

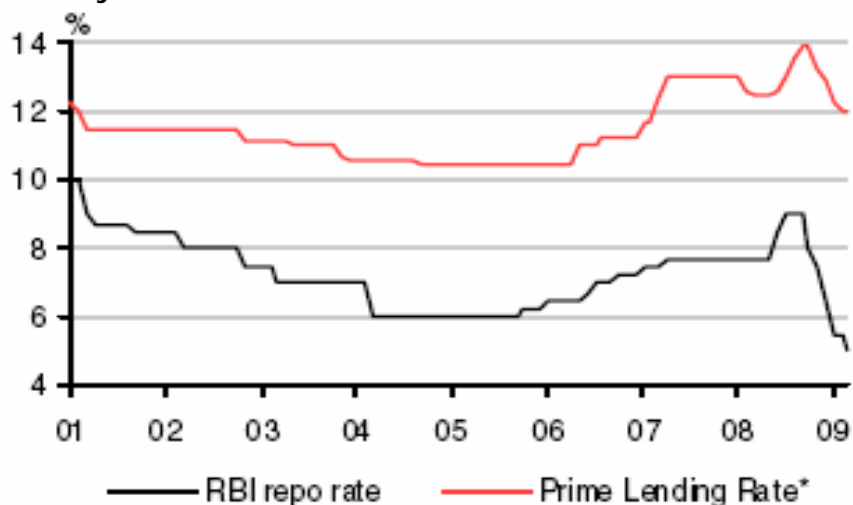


- India's combined fiscal deficit is expected to rise substantially from 7% levels in FY08 to as high as 12% in FY09
- This has negative implications for continued fiscal stimulus and can offset the impact of lower interest rates through monetary easing

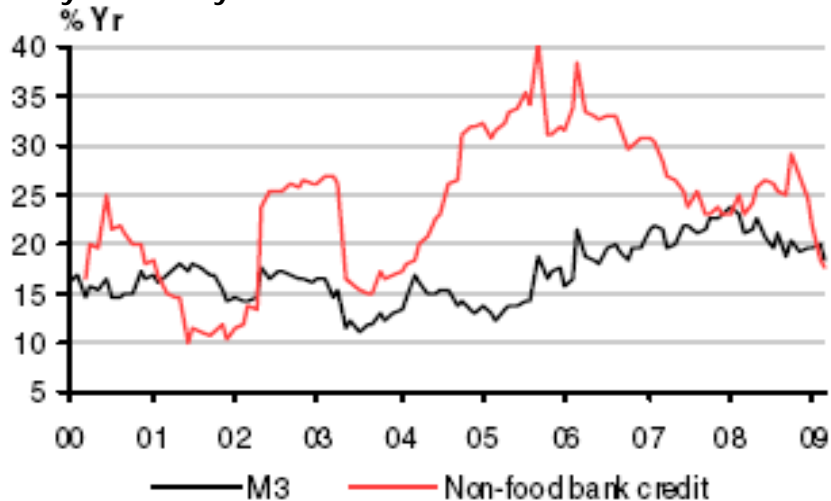


Monetary policy - Lost in translation

Key Interest rate indicators



Key monetary indicators

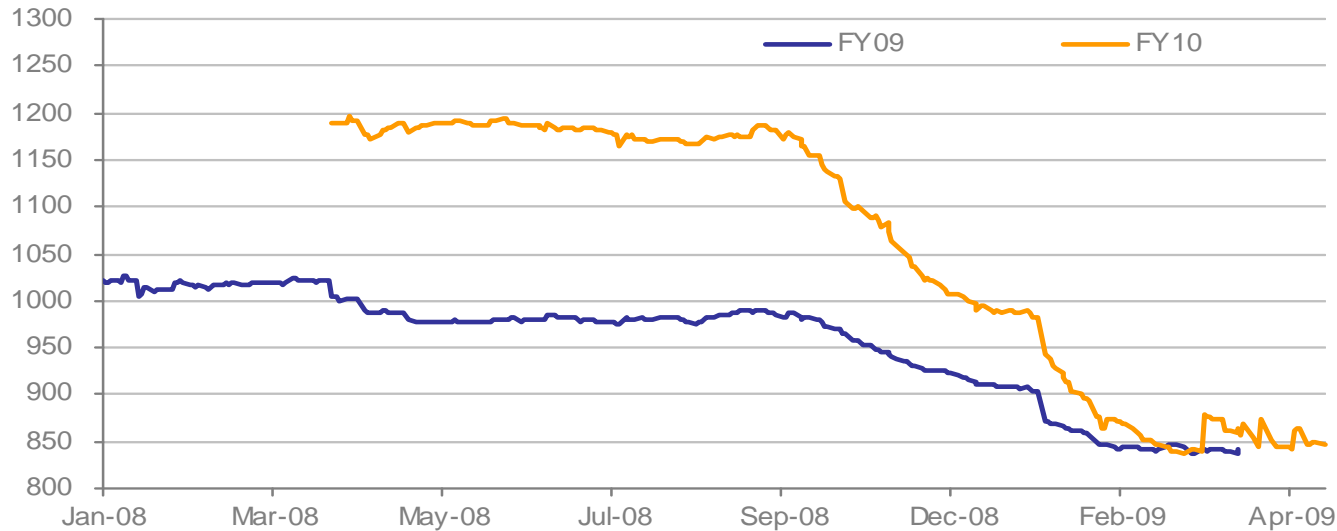


- While RBI continues to soften (Repo and Reverse Repo rates cut by 25 bps each in April 2009), banks have been reluctant to cut their prime lending rates
- Thus from the recent peak, RBI Repo rate has fallen twice as much as PLR
- Non Food credit from the banks, which is a leading indicator continues to display a weak picture



Domestic Earnings- Downgrades stabilizing

Sensex consensus earnings estimates



- In just 7 months, FY10 consensus Sensex EPS has been cut by 28% to 847, which is a 0.6% increase over FY09
- In our view, there are more earning downgrades to come, but the pace of downgrades will decelerate, hereon
- However, we feel the market has already discounted a stabilization in downgrade cycle, and we feel it is now pricing in some upgrades as well

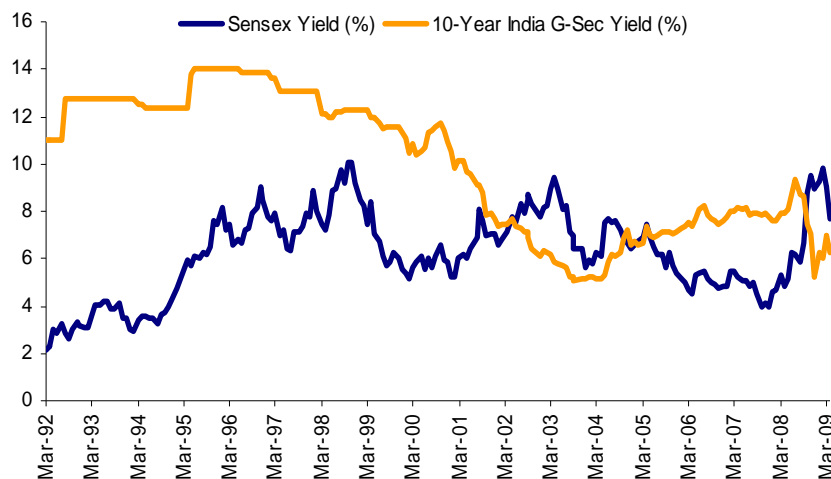


Domestic Markets - Valuations closer to historical averages

Market Valuation



Source: NSE, IIFL Research



Source: NSE, MOSL Research

- Indian markets are closer to historical averages based on trailing price-earnings ratio, in spite of expectations of flat earnings growth in FY10
- The market is also not cheap based on earnings yield. The Sensex earnings yield is converging with the benchmark 10-year bond yield, eroding the gap that existed earlier this year

Looking Ahead...

- The macro environment continues to improve, albeit marginally over the previous month, as is indicated by continued good growth seen in automobiles and cement volumes
- Borrowing rates are coming down gradually, but fears of non-performing loans (as seen in increased restructuring of 'potential' bad loans) are on the rise making banks more risk averse
- The election results will be out in the middle of May. With trends suggesting a hung parliament the uncertainty over government formation could heighten volatility
- 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 government's agenda
- Earnings growth and visibility for FY10 remains weak and valuations are no longer in attractive territory
- In the fourth quarter of CY 2008 we held the view that most macro risks were reasonably well discounted but with the recent run up in valuations that is no longer the case

Investment view

Short term

- Challenging growth environment with GDP growth likely to decelerate next year to 6%
- We continue to 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

Strategy for investors

- We continue to believe that the market is in a large trading zone
- Long term investors will do well to persist with SIP and gradual investments over time while the market stays in this range

Events Calendar

Date	Economy	Data release / Event	Period	Prior
12-May	India	Industrial production (%,Y-o-Y)	Mar	-1.2
29-May	India	GDP (%,YoY)	Q4FY09	5.3

Date	Economy	Data release / Event	Period	Expectations	Prior
8-May	US	Unemployment Rate	Apr	8.9	8.5
15-May	US	Industrial production (%,Y-o-Y)	Apr	-0.5	-1.5
20-May	US	US FOMC meeting minutes	20-May	--	--
7-May	Eurozone	ECB interest rate announcement	7-May	1.00	1.25
7-May	UK	BoE interest rate announcement	7-May	--	0.5
15-May	Eurozone	Euro-Zone GDP (%,Y-o-Y)	Q1CY09	--	-1.5
22-May	Japan	BoJ interest rate announcement	22-May	--	0.1

Source: Bloomberg



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