

Equity Markets : Current Environment and Outlook

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June 2009

Current Environment

- Equity markets across the globe remained almost flat, with the MSCI World Index falling by 0.61%
- Indian markets return of -0.90% in the month of June was in line with the global equity market returns
- Commodity prices also remained subdued with the benchmark CRB Reuters Jefferies total return index declining by 1.2%
- In India, IT was the best performing sector followed by the FMCG sector. Realty sector delivered the worst return for the month
- FII inflows have remained positive on a YTD basis at Rs.243bn for CY09 after a Rs.38bn inflow in June, highlighting continued deployment of portfolio cash
- Corporate India has used the market buoyancy to raise capital via various routes, preferred being QIP. Total capital raised by Indian companies since April 2009 is \$3.3bn, while total capital raising planned is about \$15bn
- In June, cash trading volumes (number of shares) rose 16% MoM and was at a new high, whereas the average open interest declined 1% MoM

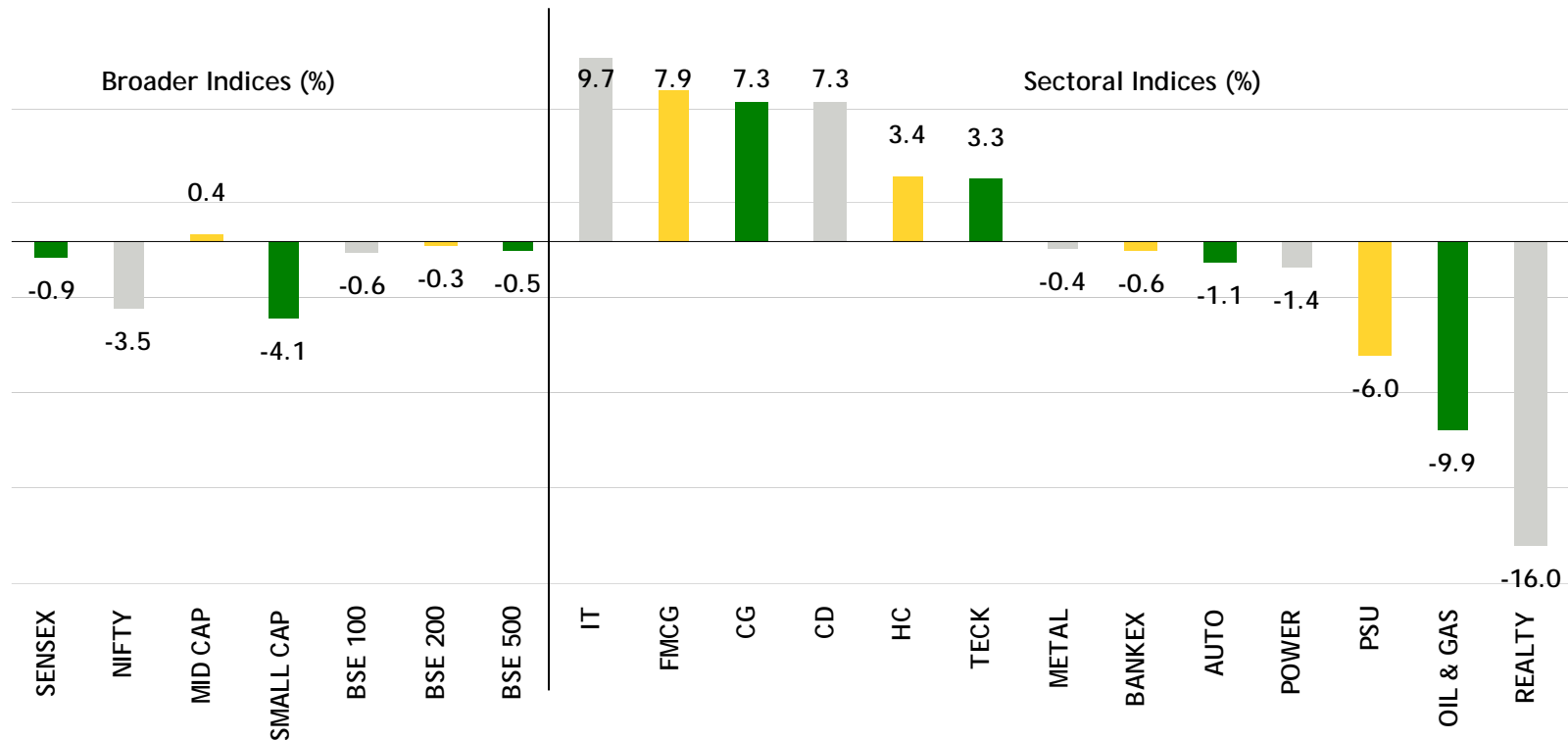
Global Equities

Index	Country	Closing Price*	1 Month Return (%)	YTD Return (%)	Category
SSE Composite Index	China	2959.36	12.40%	62.53%	EM - Asia
BSE Sensex	India	14493.84	-0.90%	50.24%	EM - Asia
Kospi	South Korea	1390.07	-0.42%	23.62%	EM - Asia
Taiwan Weighted	Taiwan	6432.16	-6.65%	40.10%	EM - Asia
Thailand SET 50 Index	Thailand	430.35	8.03%	37.15%	EM - Asia
Jakarta Composite Index	Indonesia	2026.78	5.74%	49.53%	EM - Asia
KLSE	Malaysia	1075.24	2.98%	22.64%	EM - Asia
Ibovespa Sao Paulo Index	Brazil	51465.46	-3.26%	37.06%	EM
Mexico IPC	Mexico	24368.38	0.15%	8.88%	EM
Russian RTS Index	Russia	987.02	-9.25%	56.20%	EM
Philippine PSEi	Philippines	2437.99	2.04%	30.92%	EM
Merval Buenos Aires Index	Argentina	1587.97	0.05%	47.08%	EM
HangSeng	Hong Kong	18378.73	1.14%	27.74%	Developed - Asia
Nikkei	Japan	9958.44	4.58%	12.40%	Developed - Asia
Strait Times	Singapore	2333.14	0.17%	32.45%	Developed - Asia
Dow Jones	USA	8447.00	-0.63%	-3.75%	Developed
CAC 40 Index	France	3140.44	-4.19%	-2.41%	Developed
All Ordinaries Index	Australia	3947.80	3.53%	7.88%	Developed
DAX Index	Germany	4808.64	-2.68%	2.21%	Developed
Swiss Market Index	Switzerland	5403.97	1.01%	-2.36%	Developed
FTSE 100	UK	4249.21	-3.82%	-4.17%	Developed
MSCI World Index	--	964.05	-0.61%	4.76%	--

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



India : Sector performances



- The markets remained almost unchanged over the previous month
- IT was the best performing sector followed by the FMCG sector
- Realty sector delivered the worst return for the month



*Source: BSE,NSE. one month performance as on 30th June 09.

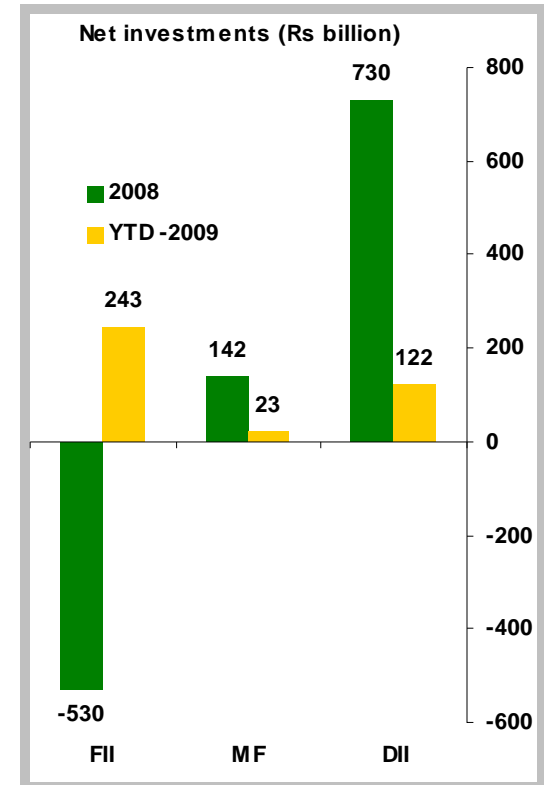
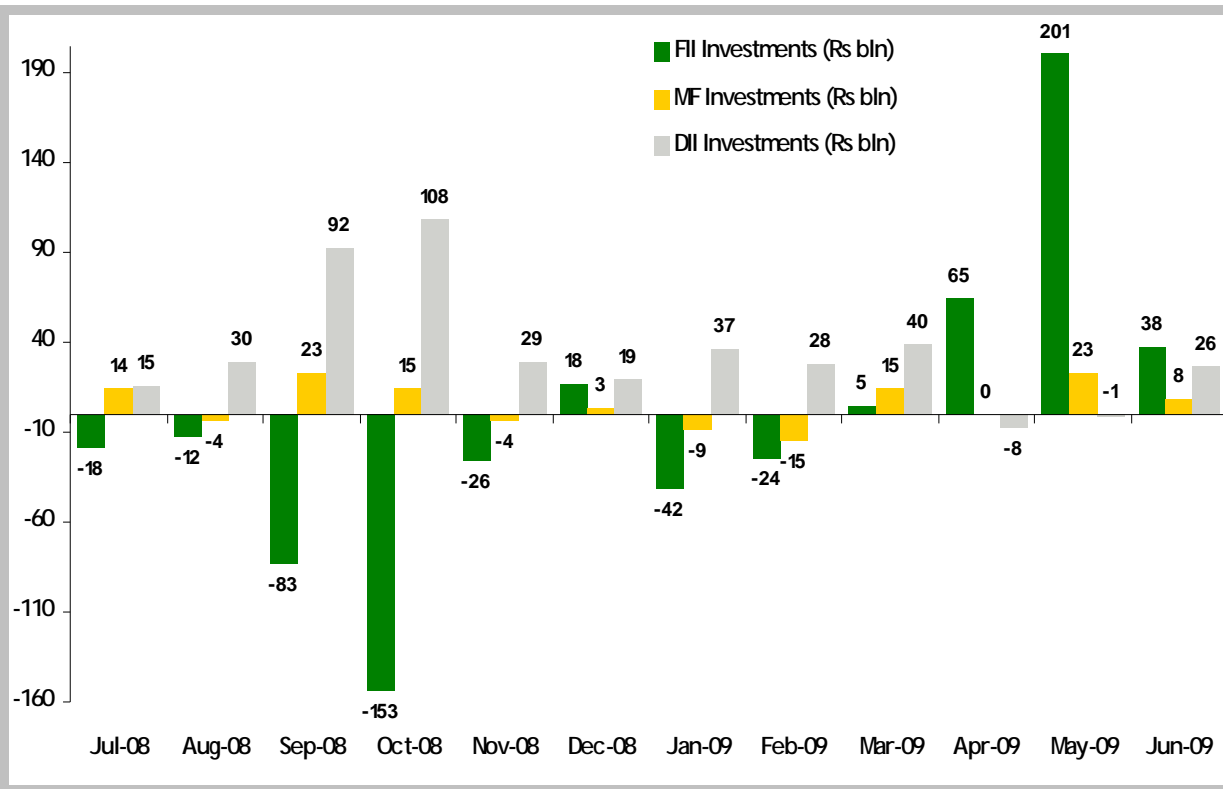
Top Gainers / Losers - Nifty

Top Gainers for the month			
Gainers	52 week H/L	Last Price#	% Gain*
A B B Ltd.	944.4 / 343.35	778.4	19.58
Jindal Steel & Power Ltd.	2709.9 / 518.1	2490.8	19.15
Hindustan Unilever Ltd.	271.9 / 185.1	267.5	15.90
Cipla Ltd.	269.5 / 145	253.35	13.71
Larsen & Toubro Ltd.	1698.7 / 556	1567.8	11.81
Top Losers for the month			
Losers	52 week H/L	Last Price#	% Loss*
D L F Ltd.	579.9 / 124.05	310.8	-23.54
Idea Cellular Ltd.	97.6 / 34	71.3	-15.27
Tata Motors Ltd.	439.95 / 124.8	290.75	-13.69
National Aluminium Co. Ltd.	450 / 105.25	306.05	-13.57
Steel Authority Of India Ltd.	188 / 55.25	151.15	-12.48

closing price as on 30th June 09.* one month performance as on 30th June 09.
Source: cmie prowess



FII & DII Inflows:



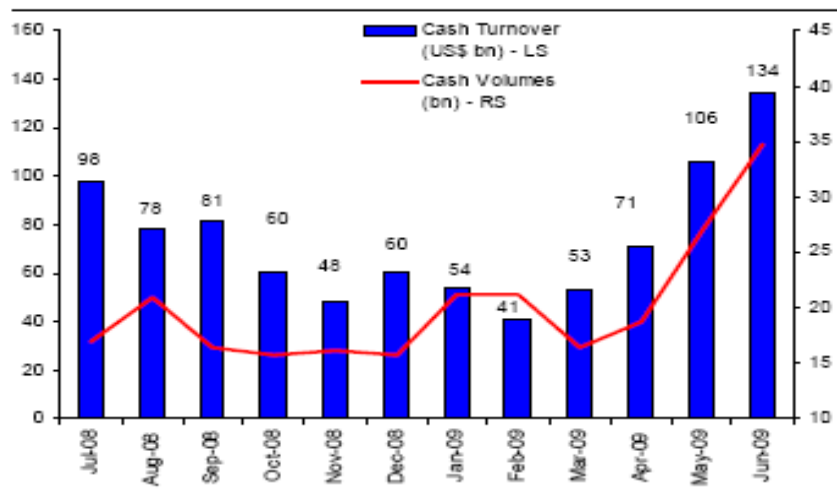
- FII inflows have remained positive on a YTD basis at Rs.243bn for CY09 after a Rs.38bn inflow in June, highlighting continued deployment of portfolio cash
- DIIs turned net buyers after remaining sellers for last two months with a Rs.26bn net buy
- Total capital raised by Indian companies since April 2009 is \$3.3bn, while total capital raising planned is about \$15bn

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



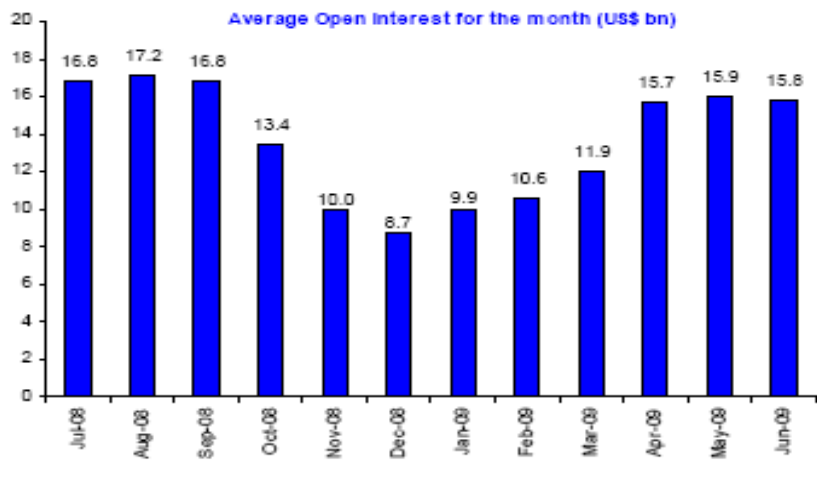
Market Activity

Cash Trading: Turnover and Volumes



Source: BSE, NSE, Morgan Stanley Research

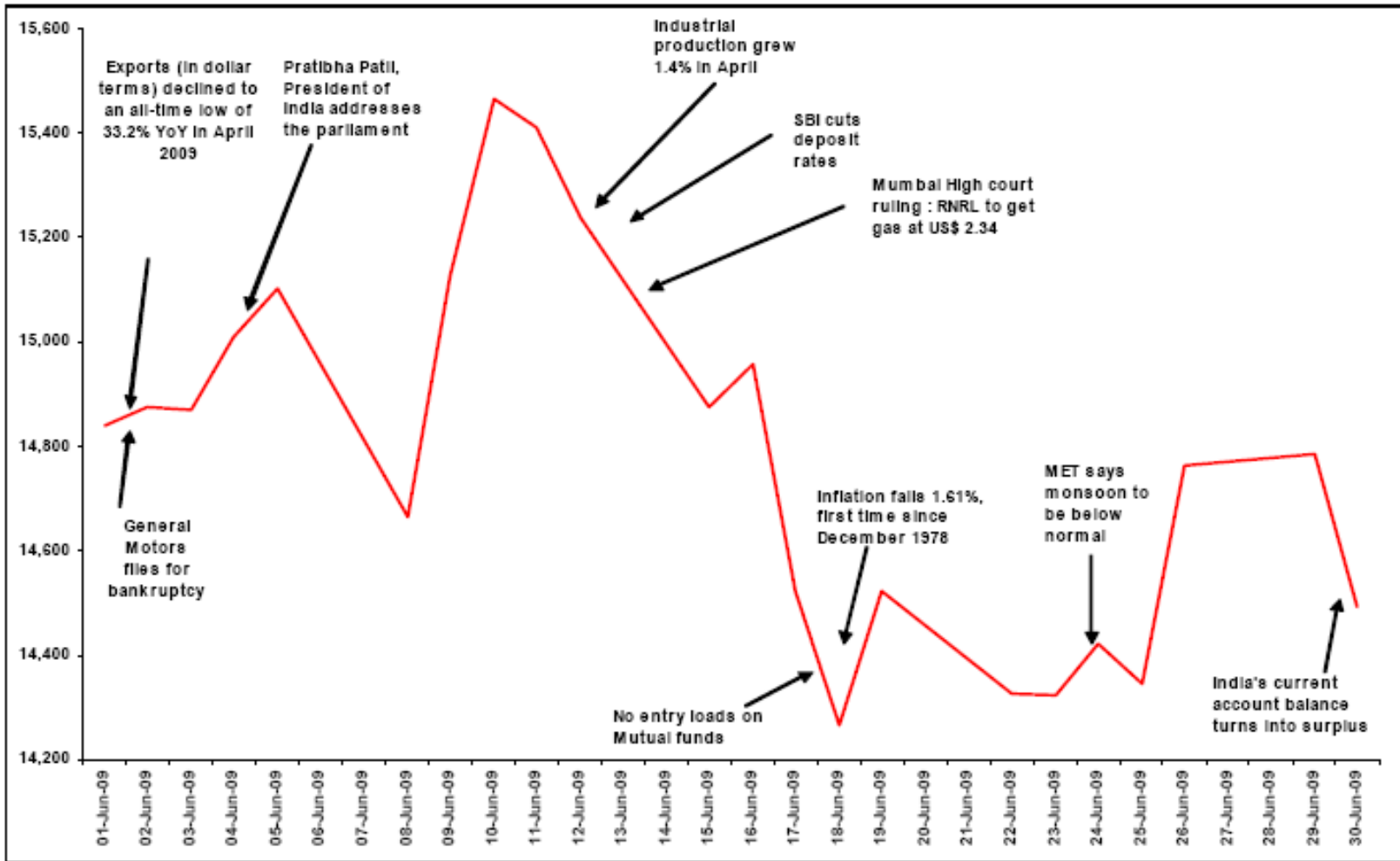
Average Open Interest for the Month



Source: Bloomberg, Morgan Stanley Research

- In June, cash trading volumes (number of shares) rose 16% MoM to a new high and was 38% above the December 2007 peak
- Trading volumes (value) rose 17% MoM and are now 25% below the October 2007 peak
- Surprisingly at the end of June, average open interest fell marginally- down 1% MoM indicating low speculative interest ahead of the budget

June09 Events timeline



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



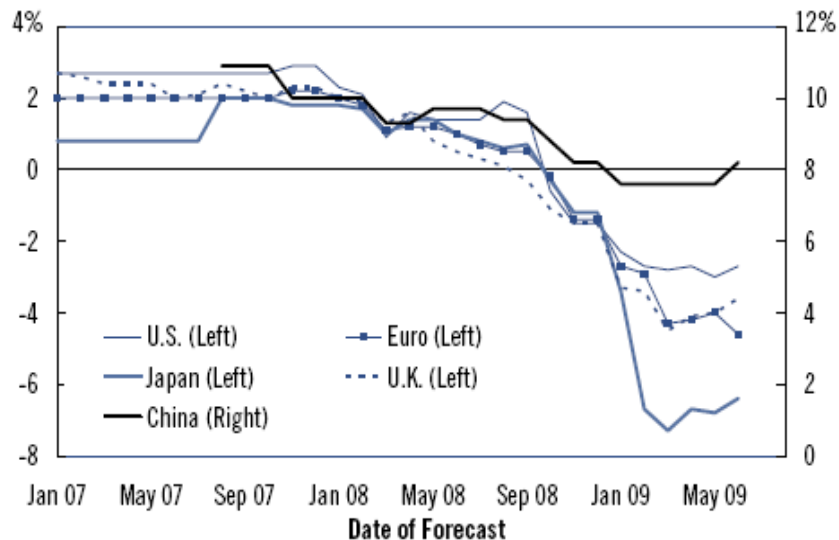
Religare MF: Equity Market Outlook and Opportunities

Equity Market Outlook

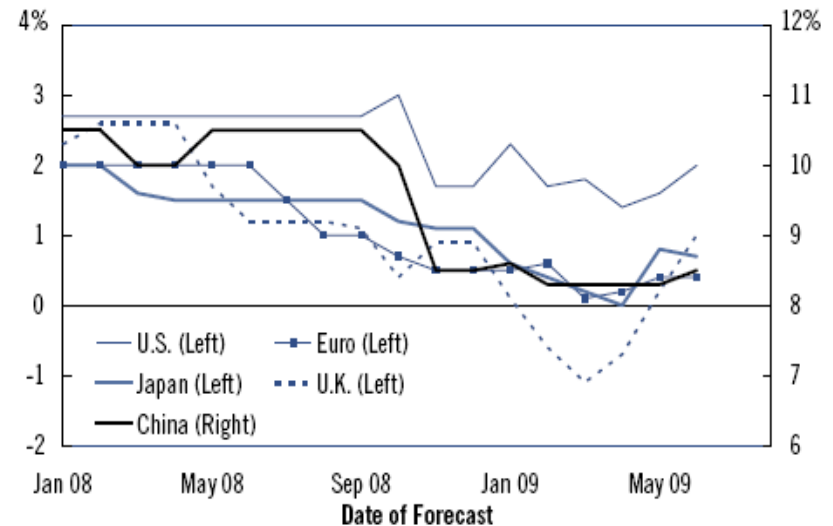
- The consensus expectations of GDP growth for FY10 have improved for US, UK and China, while remaining same for Europe over the last two months. These improvements suggest that a sustained downturn has been averted by significant fiscal and monetary stimulus worldwide
- India's PMI has declined marginally in June 2009 to 55.3 (but above 50 which indicates growth) signaling that the recent recovery in Industrial production (+1.4% in April) will continue
- However, India's trade, viz., exports and imports continue to decline sharply and have remained in the negative territory since last six months. Global slowdown has affected exports and non-oil imports have also been sluggish
- An emerging concern is the monsoons; the Indian Meteorological Department downgraded its forecast for the 2009 south-west monsoon. Rains are now expected to be 7% below normal (previous forecast: 4% below normal)
- Q1FY10E Sensex free float PAT expected to decline 10% on a YoY basis. The decline is steeper than the 8% decline experienced in March 2009 but better than the 14% decline in the December 2008 quarter
- Union Budget for FY10 projected a further increase in fiscal deficit to 6.8% (from 6.2% in FY09). The increased borrowing to fund the deficit can exert pressure on interest rates

GDP growth globally expected to stabilize in FY10

Euro Area, Japan, UK, US and China — Forecasts for 2009 GDP Growth, 2007-June 2009



Euro Area, Japan, UK, US and China — Forecasts for 2010 GDP Growth, 2008-June 2009

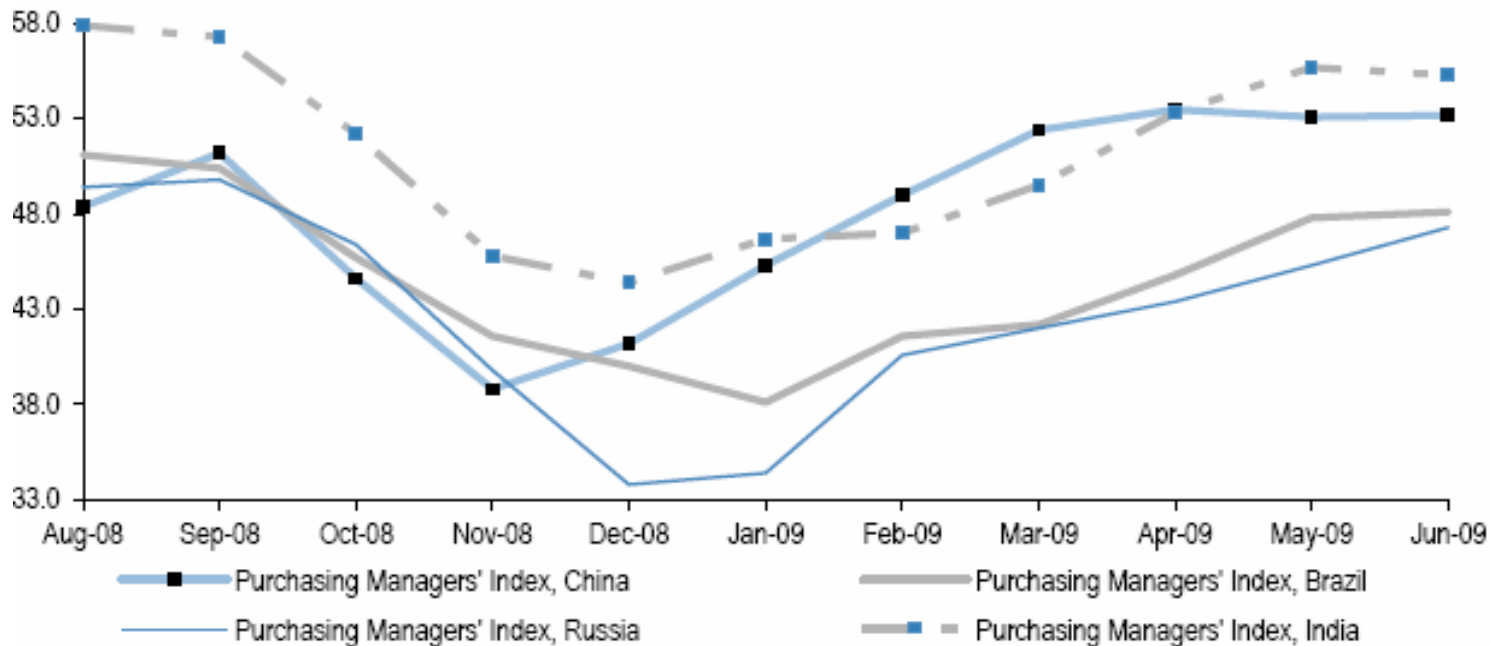


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- These improvements suggest that a sustained downturn has been averted by significant fiscal and monetary stimulus worldwide

Source: Citigroup Research

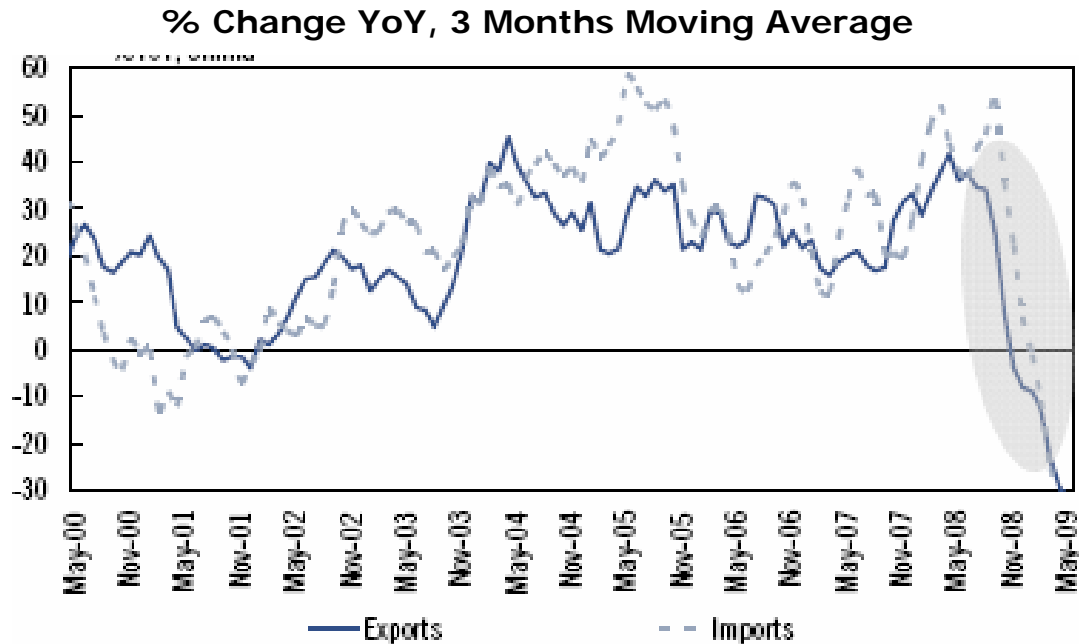


Purchasing Managers' Index signaling a recovery in India's IIP



- India's ABN Amro PMI has declined marginally by 0.7% on a m-o-m basis in June 2009 to 55.3
- PMI figure above 50 indicates an ongoing expansion in manufacturing sector. Thus the latest PMI data signals that the recent recovery in Industrial production (+1.4% in April) will continue

Domestic trade affected by global slowdown and decline in crude oil prices

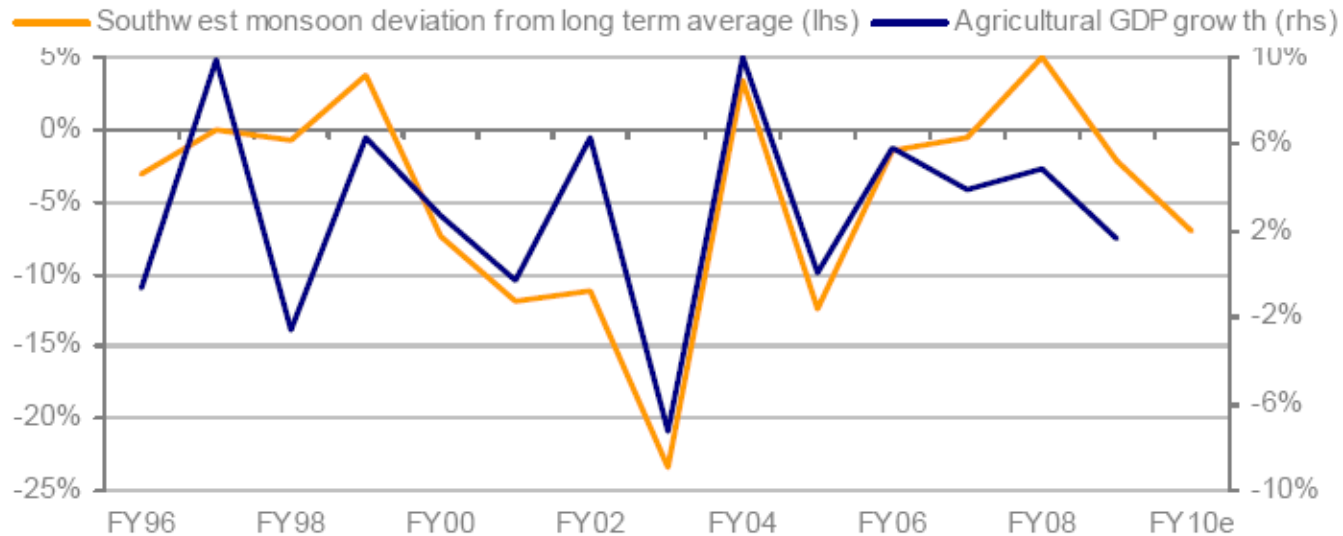


Source: Citigroup Research

- Both exports and imports have declined sharply and have slipped into the negative territory since last six months.
- Global slowdown has affected exports, while non-oil imports have also remained sluggish

An emerging concern - Poor monsoons

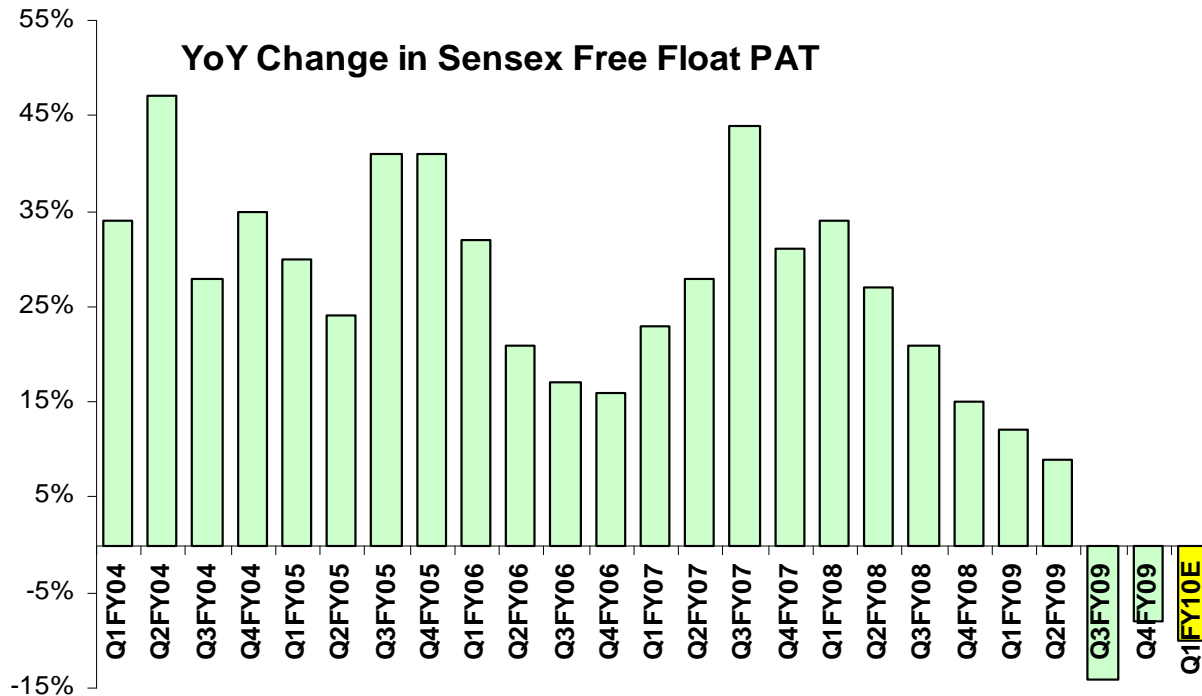
Agricultural output is highly correlated to South-west monsoon



- Indian Meteorological Department (IMD) recently downgraded its forecast for the 2009 south-west monsoon
- Rains are now expected to be 7% below normal (previous forecast: 4% below normal)
- A failure of the monsoon will affect GDP growth for the year and may create further fiscal stress due to government spending to buffer the agricultural sector from the fallout of a poor monsoon
- But it is still early days on this front and the situation requires further monitoring

Source: IIFL, IMD

Still not out of the woods - Q1FY10E Sensex earnings expected to decline by 10% on a YoY basis



- Q1FY10E Sensex free float PAT expected to decline 10% on a YoY basis. The decline is steeper than the 8% decline experienced in March 2009 but better than the 14% decline in the December 2008 quarter
- However, excluding energy, the Q1FY10E Sensex free float PAT is expected to decline just 3% on a YoY basis. This is lower than the 7% and 8% decline experienced in March 2009 and December 2008 quarter

Source: Morgan Stanley, CLSA



Union Budget July 2009 - Highlights & Impact

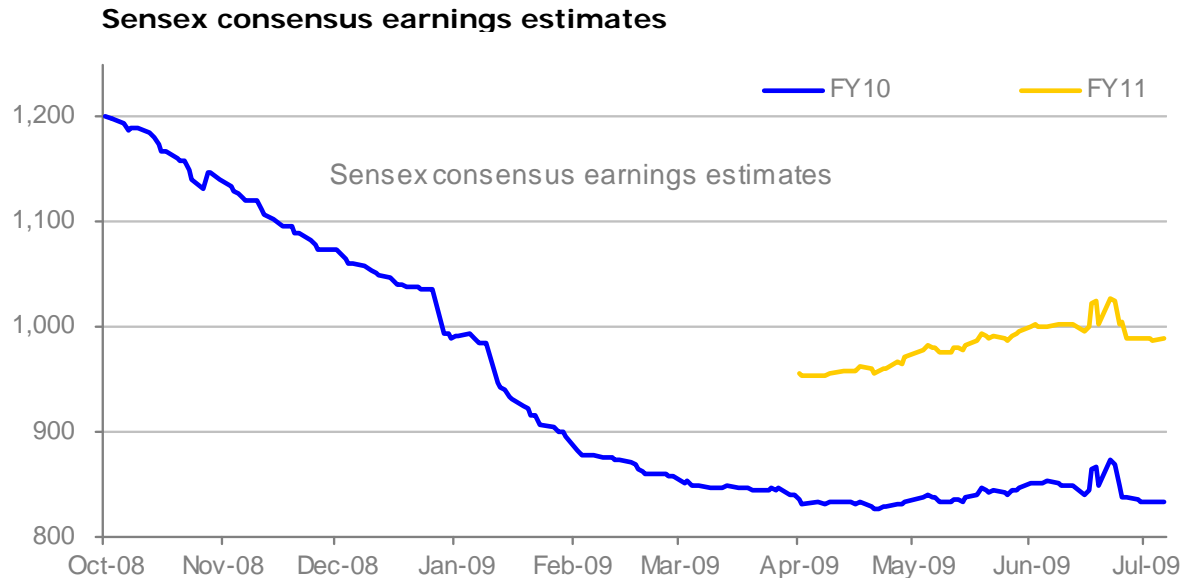
Highlights:

- Key tax proposals: No change in Corporate Tax, Fringe benefit tax to be abolished, Minimum Alternative Taxes (MAT) increased from 10% to 15% of book profit
- Total spending in FY10 to be INR10.2tn – up 34%
- Fiscal deficit proposed at 6.8% of GDP
- Allocation to infrastructure sectors increased by more than 30% to Rs.545bn
- To set up a panel to advise on fuel pricing

Impact:

- Emphasis of the budget seems to raise government spending to provide a stimulus to the economy
- Consumption is given a boost with abolition of surcharge and hike in the IT exemption limit and increased allocation to schemes such as employment guarantee scheme
- Increased borrowing of the government due to higher fiscal deficit may crowd out private investment and may exert an upward pressure on interest rates

Domestic Earnings - No major changes

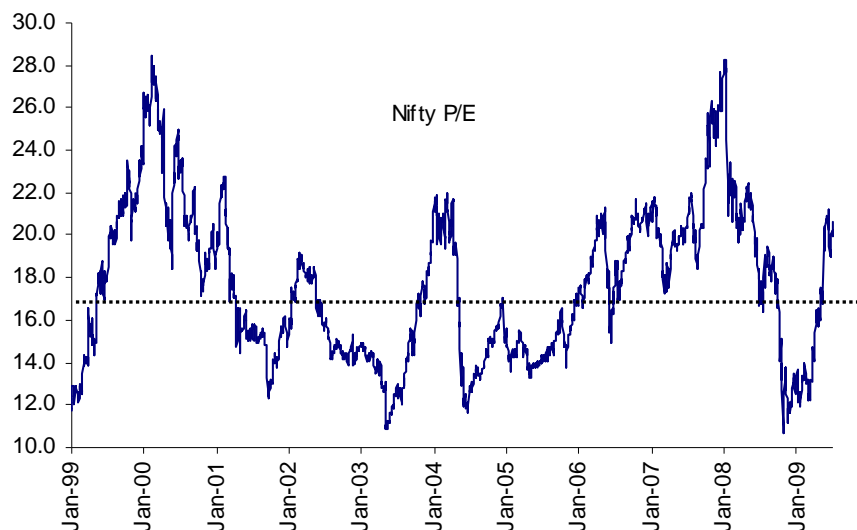


- FY10 consensus Sensex EPS estimate saw a downgrade of 2.1% this month
- A meaningful upgrade to FY10 Sensex EPS will require improved global conditions, given that 42% of FY10 Sensex earnings is attributable to constituents with high global linkages like oil & gas, metals and software services
- Consensus now expects a 4.1% decline in FY10 Sensex earnings over FY09 and a 18.7% growth in FY11 Sensex EPS over FY10

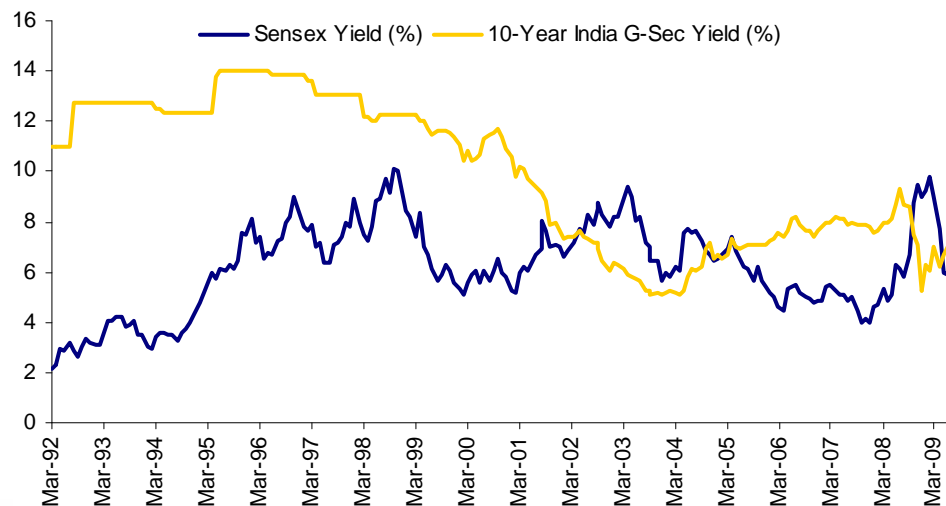
Sources: Bloomberg, IIFL Research



Valuation above long term averages



- Nifty is currently trading at 20.6x its trailing earnings, higher than the ten year average of 17.7x
- The Sensex earnings yield is now lower than the benchmark 10 year yield, unlike the attractive equation earlier this year. The gap between Sensex earnings yield and bond yield has widened by 38 basis points over the previous month
- The valuation surge is not unique to India. The MSCI Emerging Market Index is also trading at approximately 15.7x trailing earnings



Looking Ahead...

- The macro environment continues to improve as is indicated by the turnaround in IIP in April 2009 and the ABN Amro PMI reading which is a leading indicator of Industrial production.
- These improvements in indicators are consistent with our 6-6.5% growth expectation for GDP, but not much higher
- Borrowing rates are coming down gradually and credit growth is also stabilizing
- However, with an increase in fiscal deficit from 6.2% in FY09 to a projected deficit of 6.8% in FY10E, the increased borrowing can exert pressure on rates
- Emphasis of the Union Budget FY10 seems to raise government spending to continue stimulate economic growth. Consumption has been given a boost with abolition of surcharge, hike in income tax exemption limit and increased spending.
- Markets are now finely priced with most measures trading above long term averages
- As a result further upside to returns from here will have to be driven by bottom-up stock picking

Investment view

Short term

- Challenging growth environment with GDP growth likely to be 6-6.5%
- We now expect earnings to be flat in FY10 over FY09
- Bottom up stock picking to drive returns

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
- Valuations would be supported if growth accelerates after 2010

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
6-Jul	India	Union Budget	FY 10	--
10-Jul	India	Industrial production (%,Y-o-Y)	May	1.4
28-Jul	India	RBI Policy Meeting	28-Jul	--

Date	Economy	Data release / Event	Period	Expectations	Prior
2-Jul	US	Unemployment Rate (%)	June	9.6	9.4
15-Jul	US	Industrial production (%)	June	--	-1.1
2-Jul	Eurozone	ECB interest rate announcement	2-Jul	1.00	1.0
9-Jul	UK	BoE interest rate announcement	9-Jul	0.50	0.5
15-Jul	Japan	BoJ interest rate announcement	15-Jul	--	0.1
16-Jul	China	Real GDP (%, YoY)	Q2CY09	--	6.1
24-Jul	UK	GDP (%, YoY)	Q2CY09	--	-4.9

Source: Bloomberg



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