

Equity Markets : Current Environment and Outlook

Vetri Subramaniam, Head of Equity Funds
September 2009

Current Environment

- Equity markets across the globe remained bullish, with the MSCI World Index rising by 3.81%
- Indian markets outperformed the global trend, rising 9.32% in the month of September more than erasing previous months losses
- Commodity prices more than recouped the losses of the previous month with the benchmark CRB Reuters Jefferies total return index rising 2.3%
- In India, Banking was the best performing sector followed by the Metal Sector. FMCG sector delivered the worst return for the month
- FII inflows have remained positive on a YTD basis at Rs.422bn for CY09 after a Rs.18bn inflow in September
- In September, cash trading volumes (number of shares) rose 4% MoM, while the average open interest jumped by 22% MoM to a record high. Trading volumes (value) remained flat MoM and are 39% below the October 2007 peak

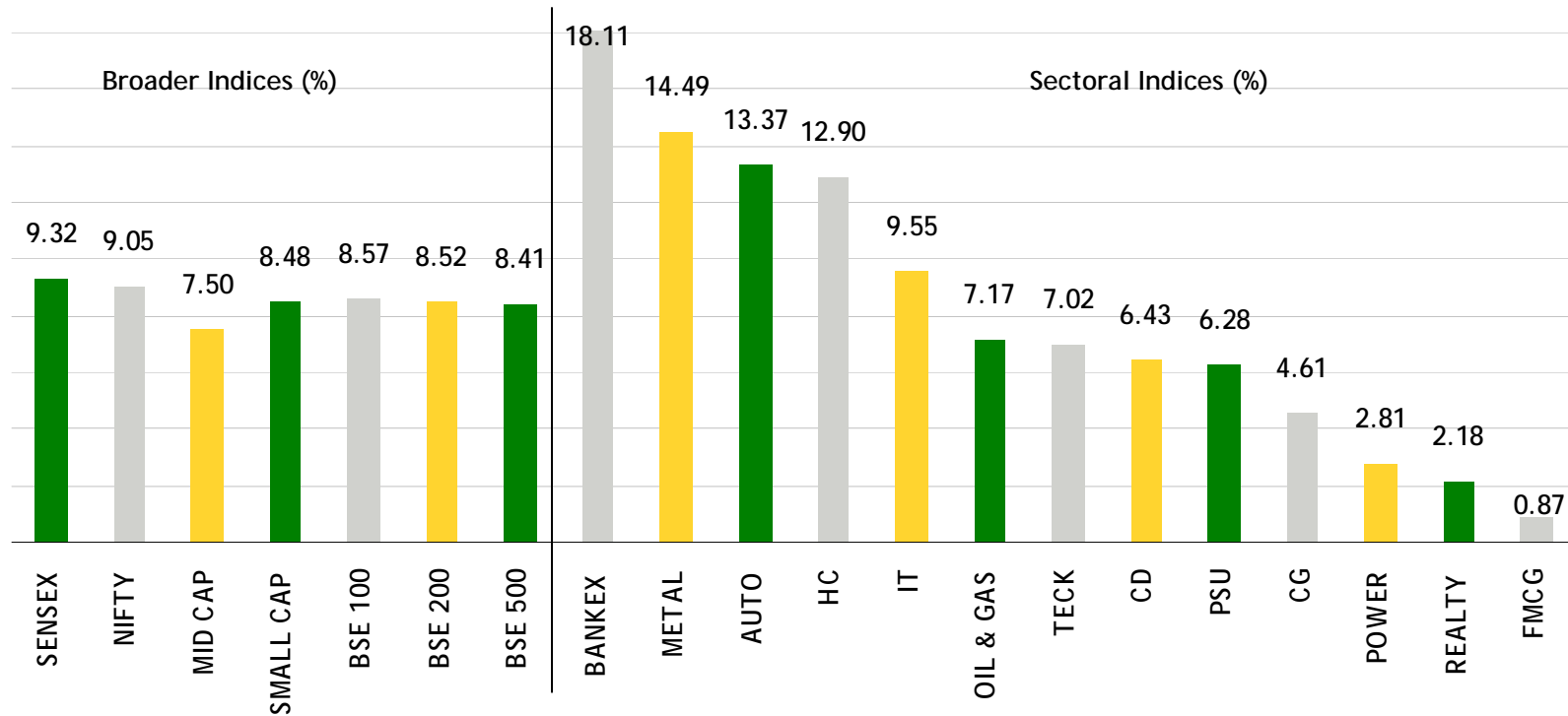
Global Equities

Index	Country	Closing Price*	1 Month Return (%)	YTD Return (%)	Category
SSE Composite Index	China	2779.43	4.19%	52.65%	EM - Asia
BSE Sensex	India	17126.84	9.32%	77.53%	EM - Asia
Kospi	South Korea	1673.14	5.11%	48.79%	EM - Asia
Taiwan Weighted	Taiwan	7509.17	10.01%	63.56%	EM - Asia
Thailand SET 50 Index	Thailand	511.82	9.53%	63.11%	EM - Asia
Jakarta Composite Index	Indonesia	2467.59	5.38%	82.06%	EM - Asia
KLSE	Malaysia	1202.08	2.37%	37.11%	EM - Asia
Ibovespa Sao Paulo Index	Brazil	61517.89	8.90%	63.83%	EM
Mexico IPC	Mexico	29232.24	3.92%	30.62%	EM
Russian RTS Index	Russia	1254.52	17.63%	98.53%	EM
Philippine PSEi	Philippines	2800.82	-2.89%	50.40%	EM
Merval Buenos Aires Index	Argentina	2075.14	16.46%	92.20%	EM
HangSeng	Hong Kong	20955.25	6.24%	45.65%	Developed - Asia
Nikkei	Japan	10133.23	-3.42%	14.38%	Developed - Asia
Strait Times	Singapore	2672.57	3.07%	51.72%	Developed - Asia
Dow Jones	USA	9712.28	2.27%	10.66%	Developed
CAC 40 Index	France	3795.41	3.88%	17.94%	Developed
All Ordinaries Index	Australia	4739.30	5.69%	29.51%	Developed
DAX Index	Germany	5675.16	3.85%	20.62%	Developed
Swiss Market Index	Switzerland	6323.18	1.71%	14.25%	Developed
FTSE 100	UK	5133.90	4.58%	15.78%	Developed
MSCI World Index	--	1126.99	3.81%	22.47%	--

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



India : Sector performances



- The markets rose by 9.32% over the previous month
- Banking was the best performing sector followed by the Metals sector
- FMCG sector delivered the worst return for second month in a row



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

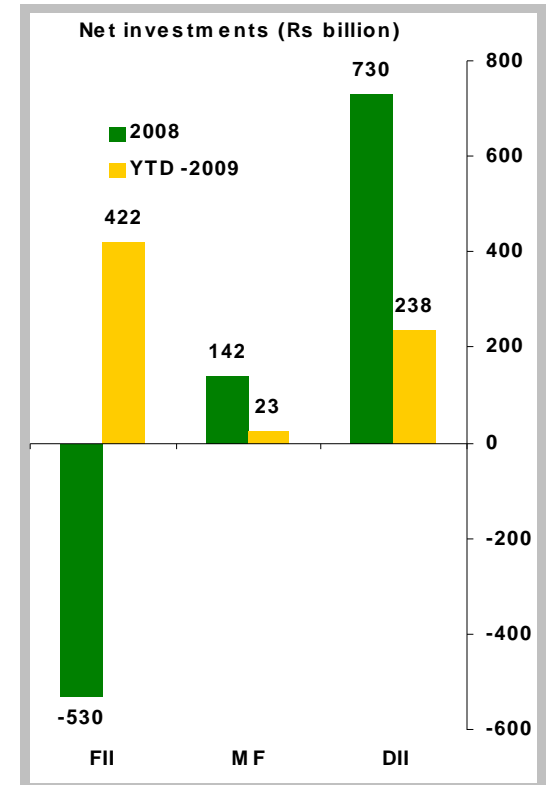
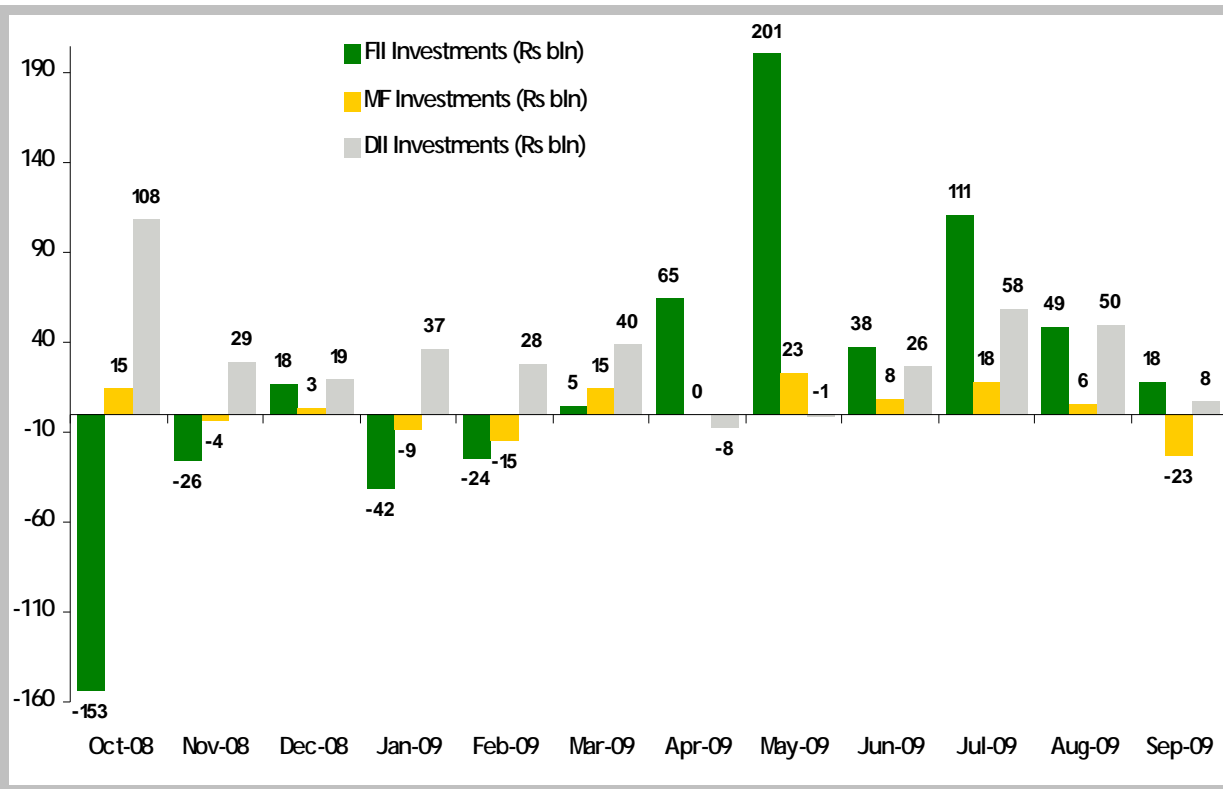
Top Gainers / Losers - Nifty

Top Gainers for the month			
Gainers	52 week H/L	Last Price#	% Gain*
State Bank Of India	2219 / 891.5	2194.95	25.94
Ranbaxy Laboratories Ltd.	418.6 / 133.1	403.5	23.07
Hindalco Industries Ltd.	139.9 / 36.75	129.05	21.75
I C I C I Bank Ltd.	927.6 / 252.3	907.6	20.83
Tata Motors Ltd.	620.9 / 124.8	591.15	20.72
Top Losers for the month			
Losers	52 week H/L	Last Price#	% Loss*
Idea Cellular Ltd.	91.8 / 34	75.25	-7.21
Tata Communications Ltd.	660 / 323.05	484.85	-3.52
Suzlon Energy Ltd.	160.6 / 33.05	91.6	-2.24
Bharti Airtel Ltd.	518 / 241.5	418.75	-1.38
Cairn India Ltd.	275.45 / 88.2	261.85	-1.15

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



FII & DII Inflows:

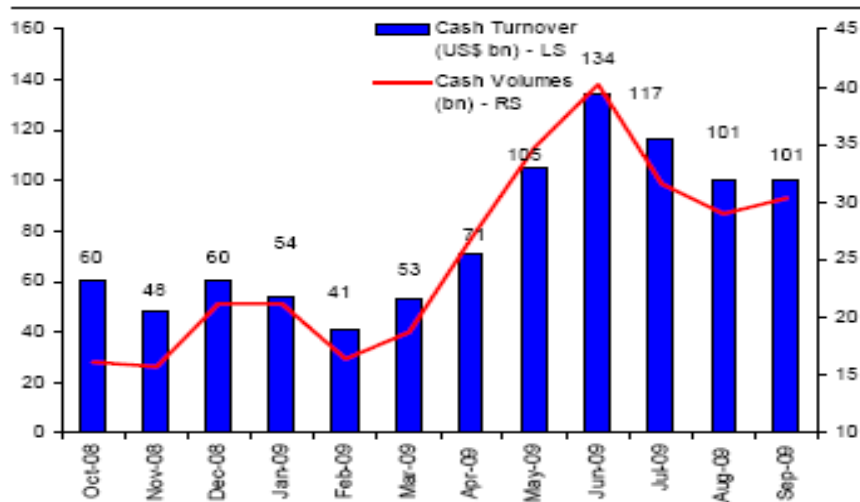


- FII inflows have remained positive on a YTD basis at Rs.422bn for CY09 after a Rs.18bn inflow in September.
- DIIs remained net buyers with a Rs.8bn net buy. MF however were net sellers to the tune of Rs.23bn



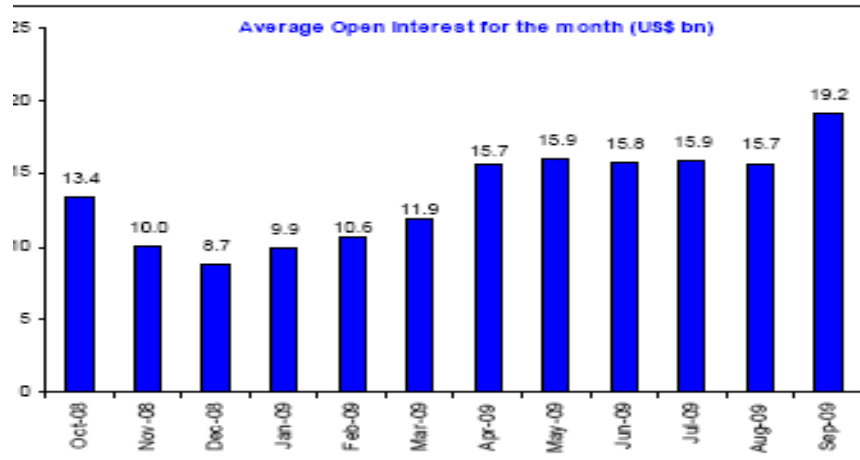
Market Activity

Cash Trading: Turnover and Volumes



Source: BSE, NSE, Morgan Stanley Research

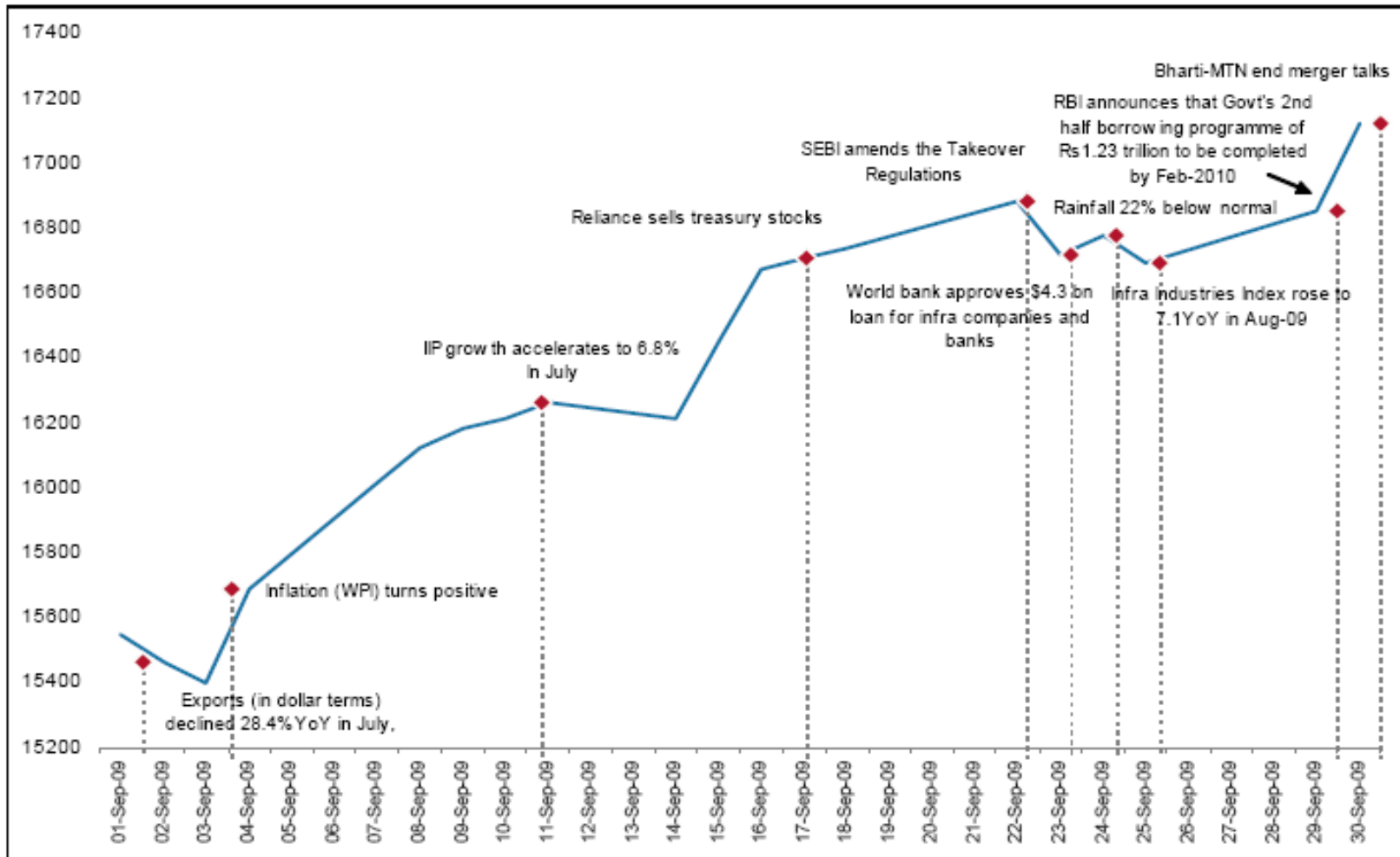
Average Open Interest for the Month



Source: Bloomberg, Morgan Stanley Research

- In September, cash trading volumes (number of shares) rose 4% MoM but remains 25% below its Jun-09 peak
- Trading volumes (value) remained flat MoM and are 39% below the October 2007 peak
- At the end of September, average open interest rose sharply, up 22%, to its highest level since Jan-08

September 09 events timeline



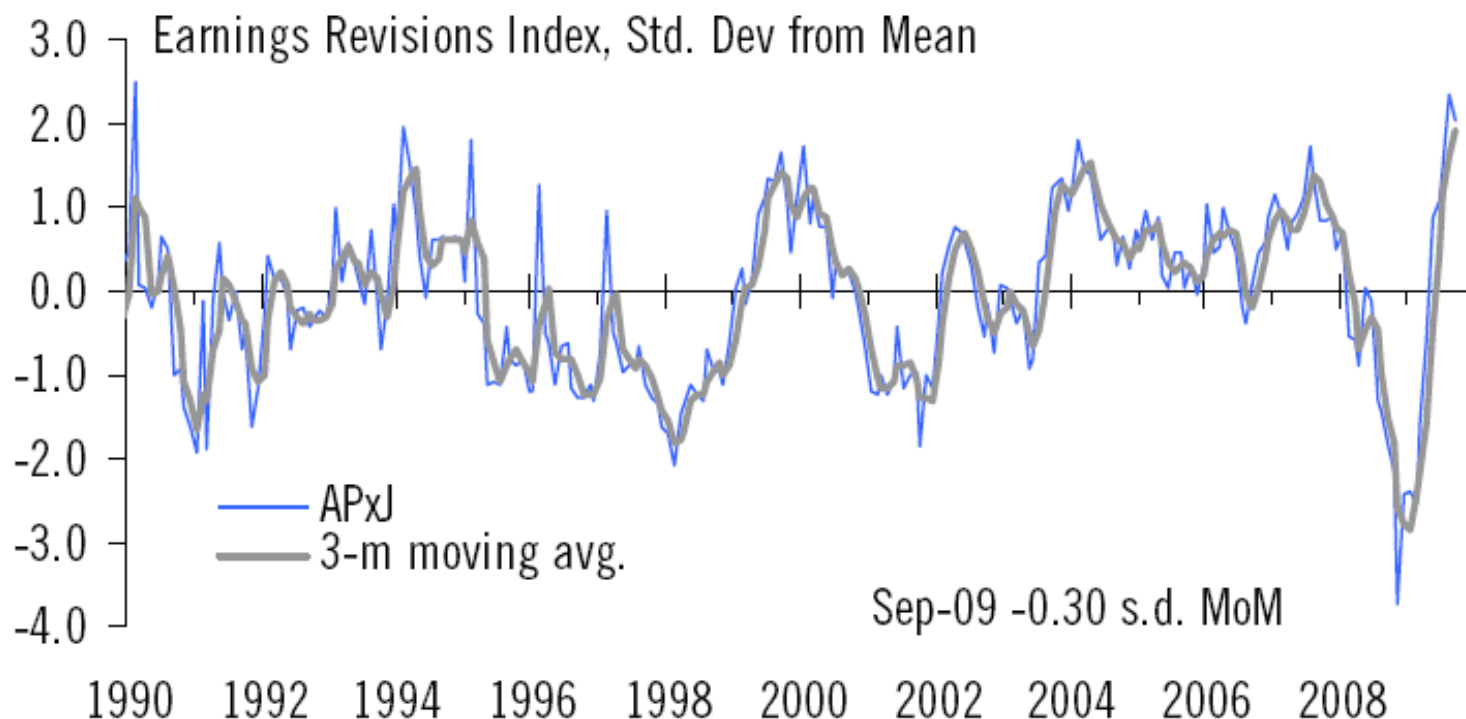
Source: Bloomberg, Economic Times, Business Standard, Morgan Stanley Research

Religare MF: Equity Market Outlook and Opportunities

Equity Market Outlook

- Currently, of all revisions made by Asia ex Japan analysts, 68% are to the upside, a higher percentage than ever before. This highlights little room for more upside revisions in earnings
- Among the key positives, July 2009 IIP growth at 6.8% confirms that industrial recovery in India is under way. Even the growth for June was revised upwards to 8.2% from 7.8% declared last month
- Consumer spending also continues to remain strong both on consumer discretionary products (like automobiles) as well as consumer staples (FMCG), highlighting consumer resilience
- However, on the negative side, credit growth continues to decelerate and was at 13.4% according to latest data, which is a 140 bps deceleration over that in the previous month
- Euphoria also seems to be building up among retail investors as is evident in turnover of mid-caps and small-caps near historic high as a proportion to total market volume at more than 70%
- The primary market is also on a boil. In 1HFY10 so far, total risk capital raised by Indian companies aggregated to US\$12bn, more than 3x of money raised in the whole of FY09
- 2QFY10E earnings for Sensex companies are expected to grow at 1% yoy compared to a flat yoy earnings growth in Q1FY10. The consensus Sensex EPS estimate for FY11 saw an upgrade 1.4% this month. The estimates for FY10 earnings remained unchanged
- Nifty is currently trading at 22.9x its trailing earnings, higher than the ten year average of 17.7x, mirroring a global surge in valuations with the MSCI Emerging Market Index also trading at approximately 20.2x trailing earnings

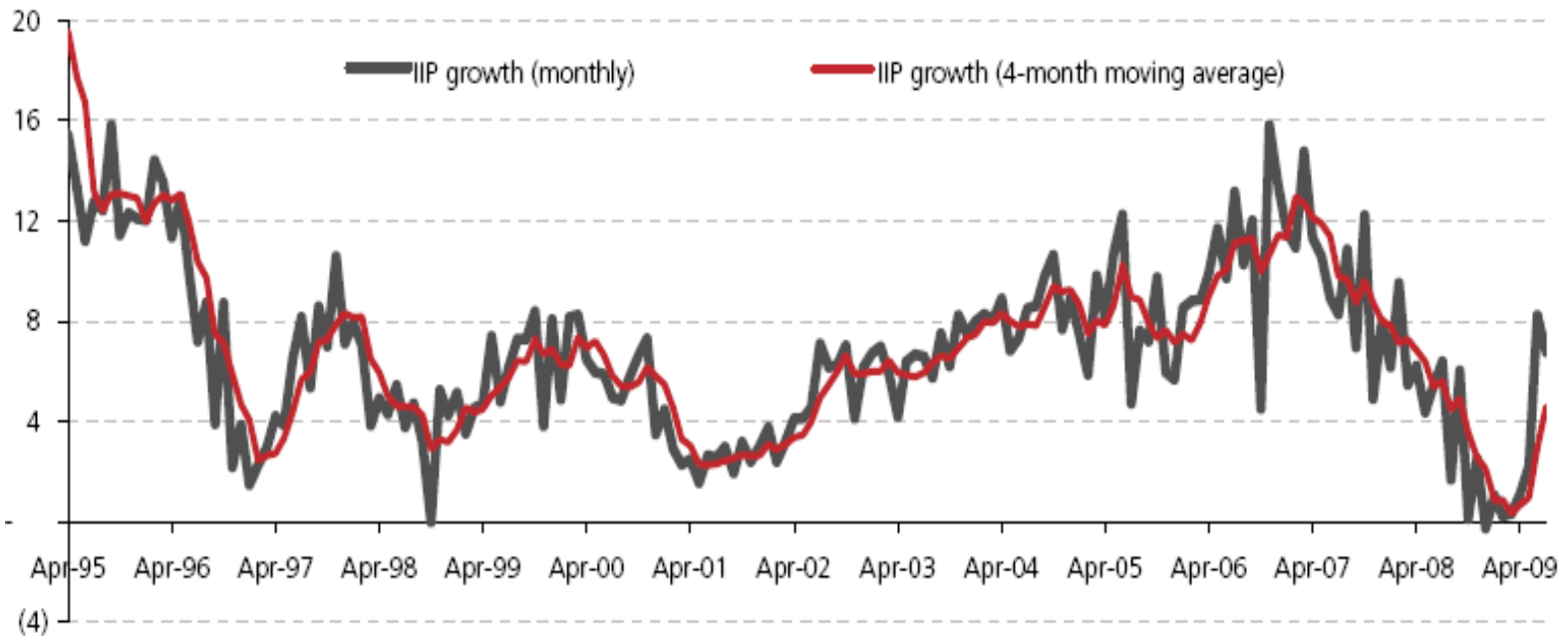
Global Earnings Revision - Little Upside Left



Source: IBES, Citi Investment Research and Analysis

- There are more upward revisions to earnings taking place today than post the Asian crisis when earnings fell by over 70%, not a "mere" 30% as seen during 2008
- Currently, 68% of all revisions made by Asia ex analysts are to the upside, a higher percentage than post the 1990's recession, the market peak in 1994, the 1998 crisis, the 2001 recovery, and the 2007 peak

Industrial Growth - Recovering Smartly

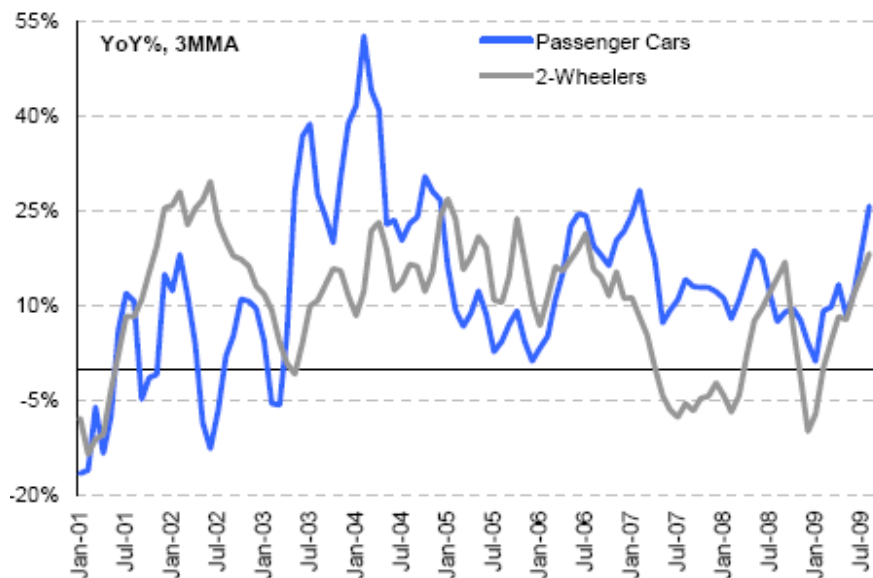


Source: CSO, Compiled by Kotak Institutional Equities

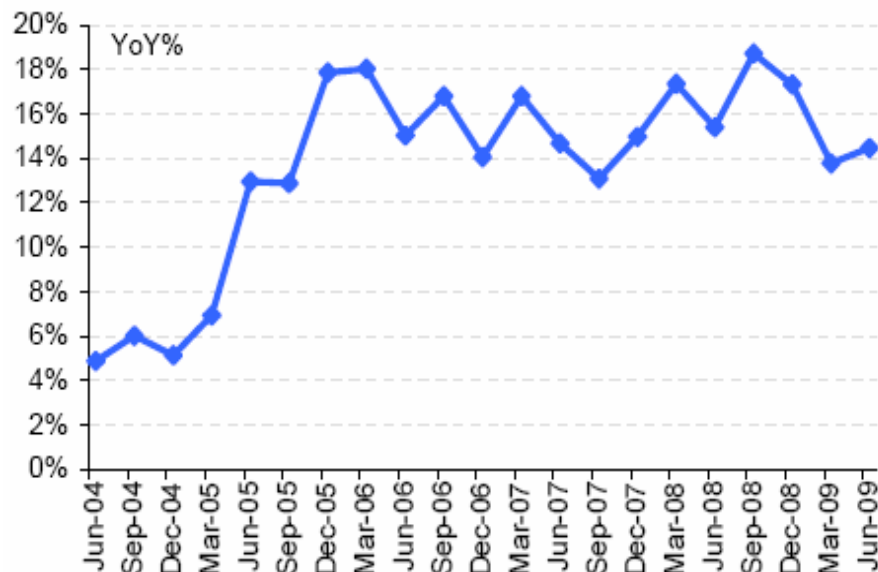
- July 2009 IIP growth at 6.8% confirms that industrial recovery is under way
- Growth for June was also revised upwards to 8.2% from 7.8% declared last month

Consumers - Spending Reflects Sentiment

Discretionary Consumption Spending (Auto Sales) (%YoY)



Domestic FMCG Sales Growth (%YoY)



Source: Bloomberg, Company data, Morgan Stanley Research

- Consumer spending continues to remain strong both on consumer discretionary products (like automobiles) as well as consumer staples (FMCG), highlighting consumer resilience

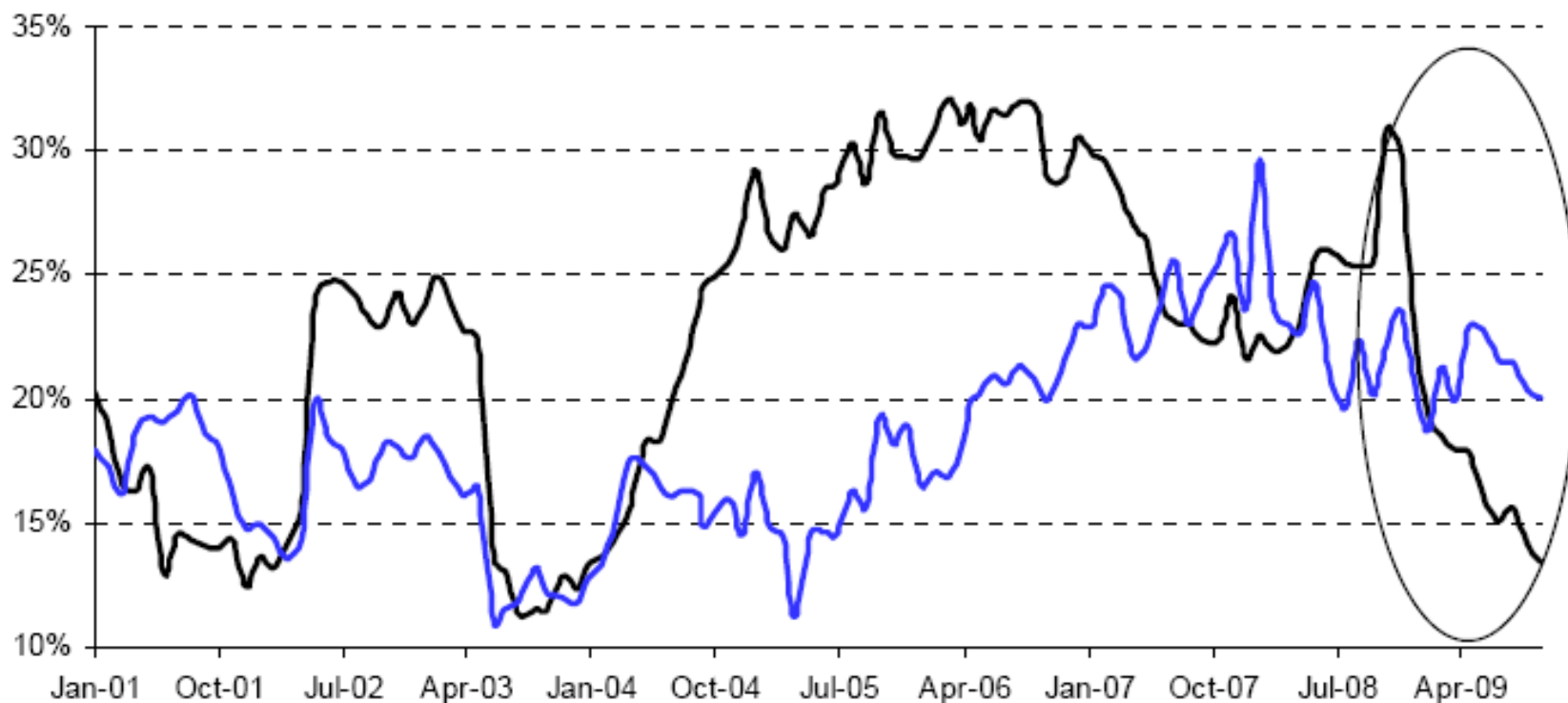
Inflation - Set To Rebound In Near Future



Source: Bloomberg Deutsche Bank

- Headline Inflation (WPI) is expected to shoot beyond 5% level by March 2010 on the back of both base-effect as well as significant increase in WPI index

Credit Growth - Not Picked Up Yet



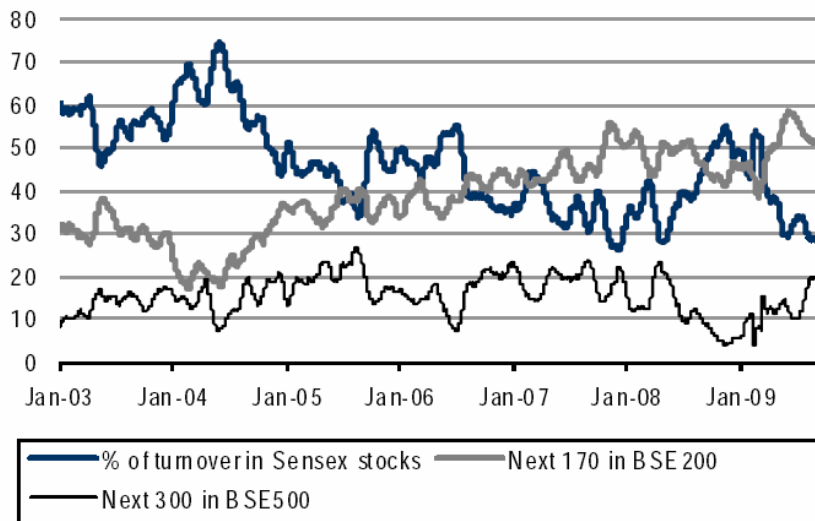
Source: RBI Deutsche Bank

— Loan growth rate — Deposit growth rate

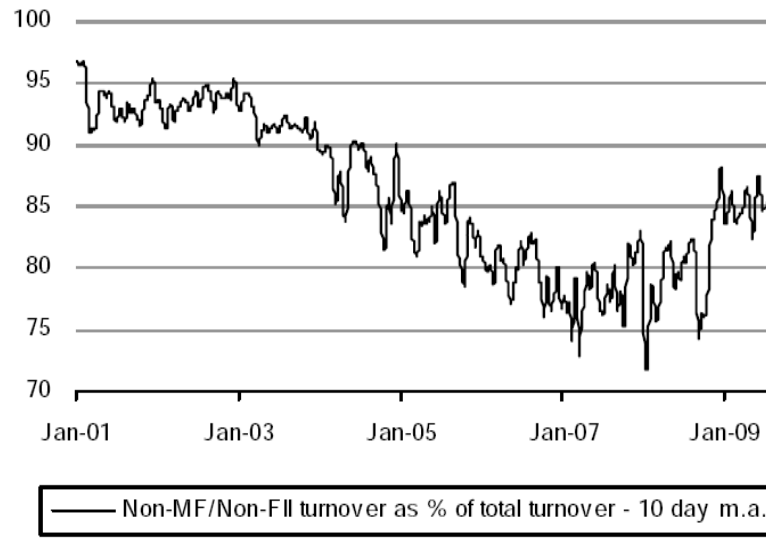
- Credit growth continues to decelerate and was at 13.4% according to latest data, which is a 140 bps deceleration over that in the previous month.
- The deposit growth rates, however continue to remain robust, highlighting ample liquidity in the system

Retail Investors - Euphoria Building Up

Percent category turnover as a ratio of total turnover (%)



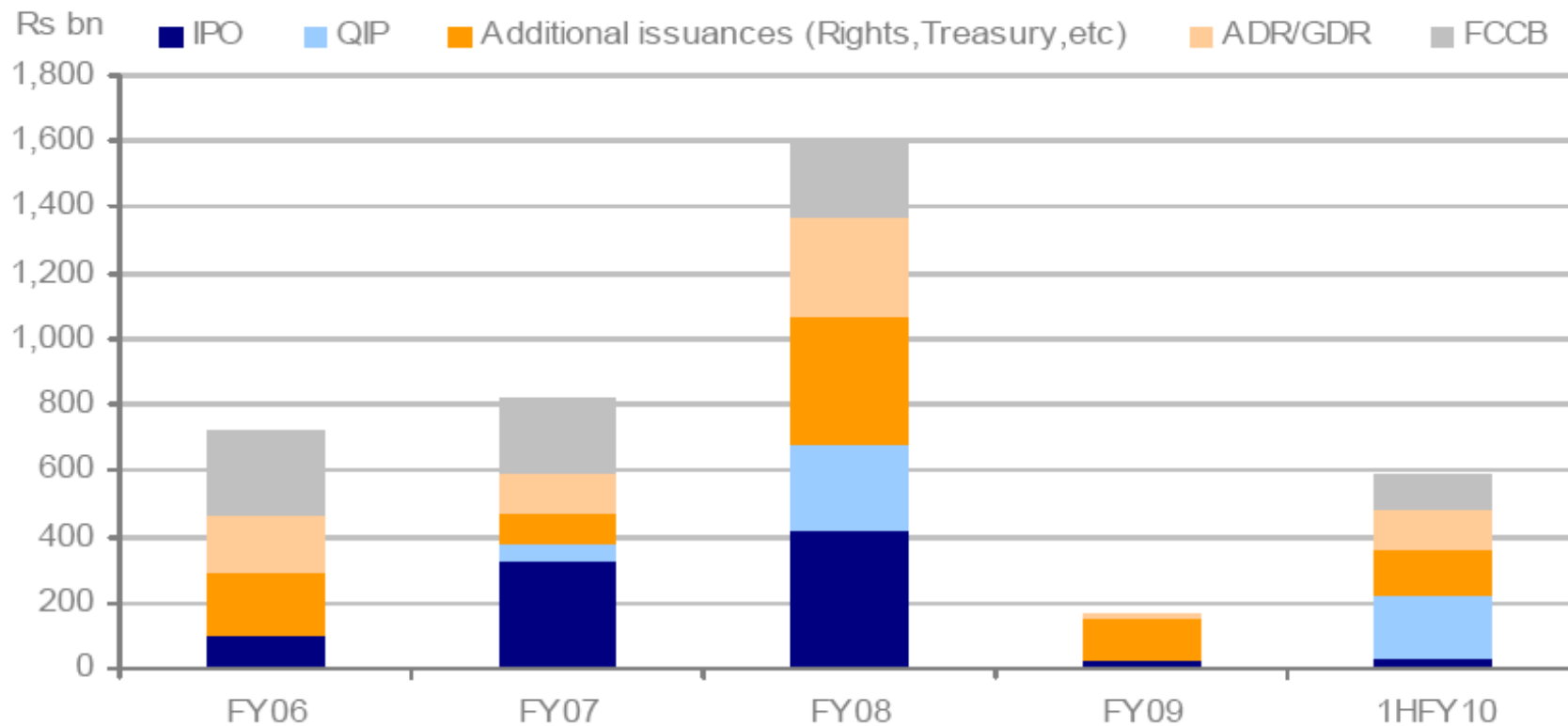
Percent of Non-institutional turnover in total (%)



Source: Bloomberg, Credit Suisse estimates

- Turnover in Sensex stocks is less than 30% of market volume while proportions of mid-caps and small-caps near historic high, indicating strong retail participation in the markets
- Non-institutional proportion is consistently the highest since 2005 – optimism not seen among institutional investors perhaps is there at retail level
- Outperformance of Mid-Caps and Small-Caps has accentuated retail participation due to positive feedback loop

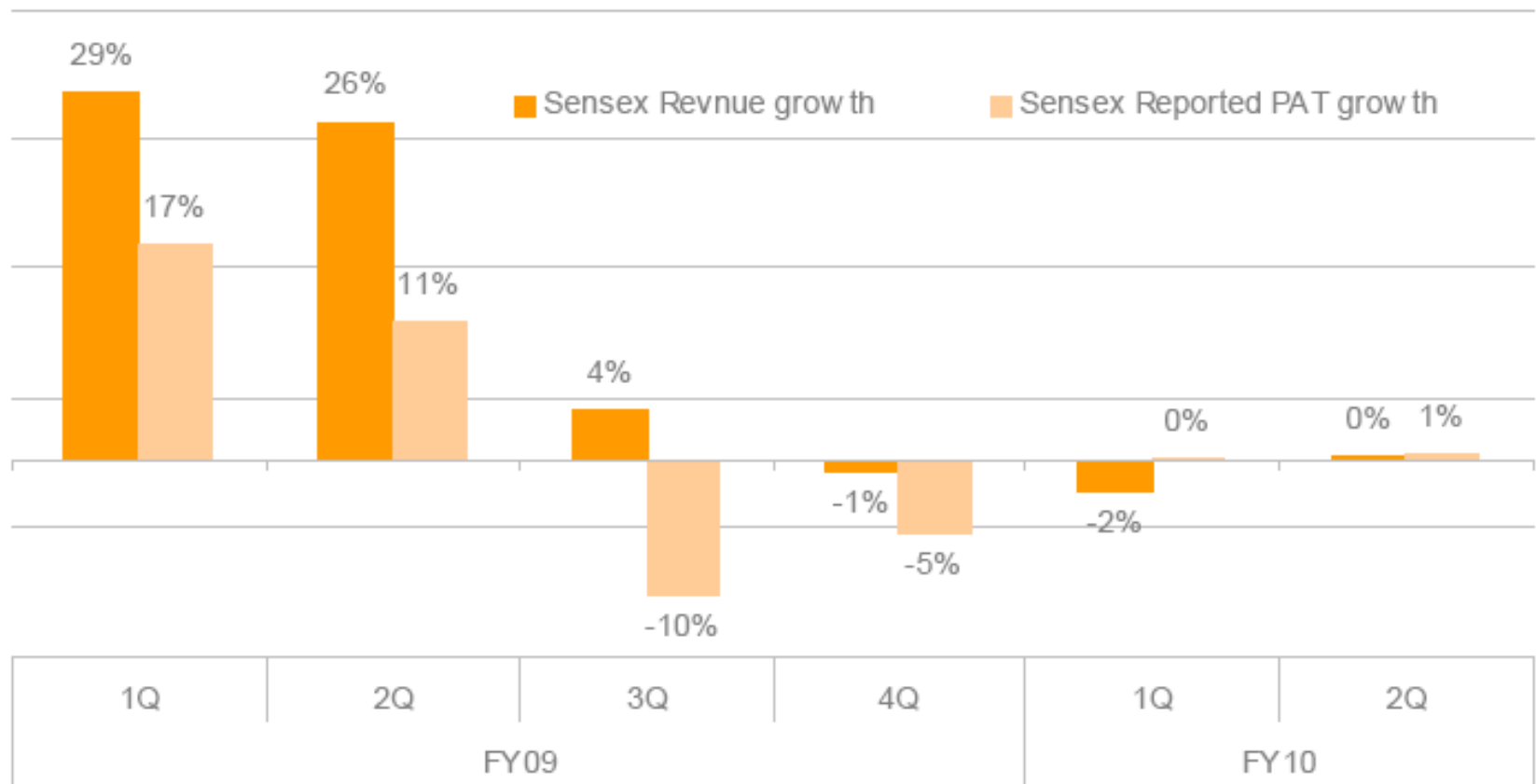
Primary Market - On A Boil



Source: Bloomberg, IIFL Research

- In 1HFY10 so far, total risk capital raised by Indian companies aggregated to US\$12bn, more than 3x of money raised in the whole of FY09
- As of date, capital raising plans already announced aggregate to US\$18bn. Assuming that only 50% of these successfully go through, the total likely capital that will be raised in FY10 is estimated at ~US\$21bn, exceeding the amount raised in FY06, FY07 and FY09

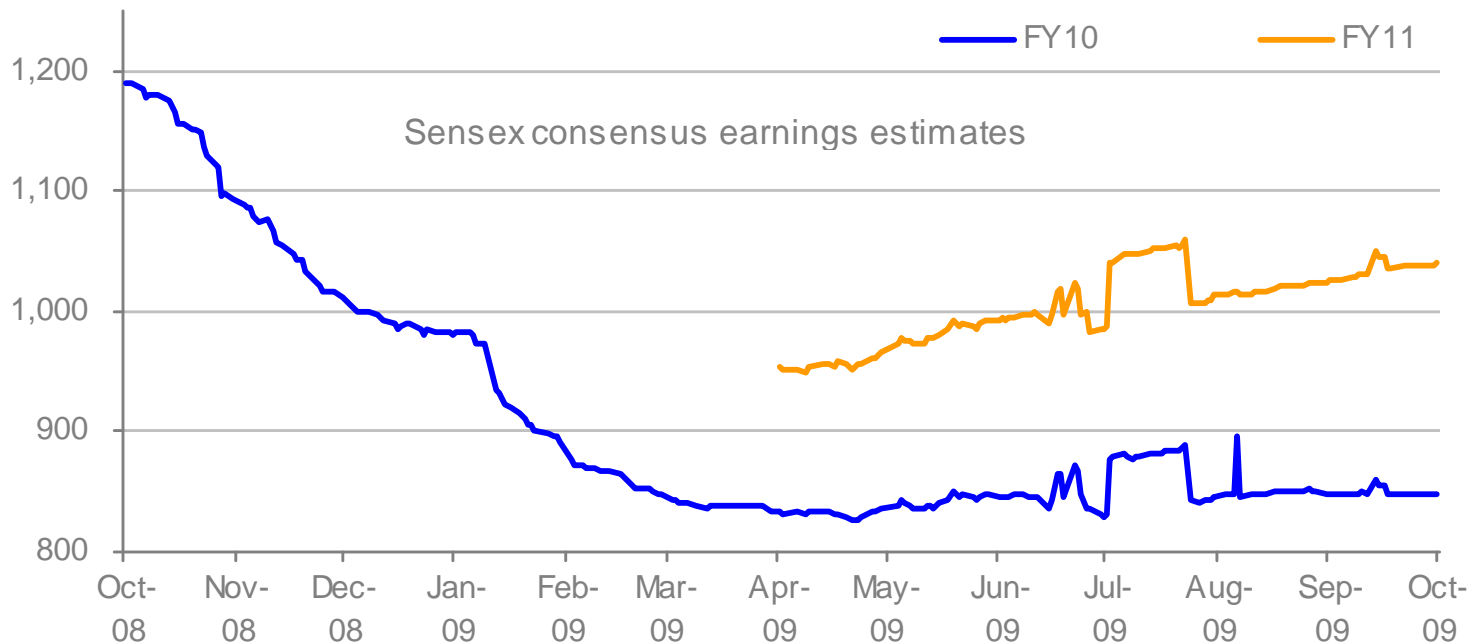
Domestic Earnings - Sept'09 Quarter Expectations



- 2QFY10E earnings for Sensex companies are expected to grow at 1% yoy compared to a flat yoy earnings growth in Q1FY10
- The growth is expected to be driven by earnings growth in Auto and Cement sectors, partially offset by decline in earnings of Real Estate sector



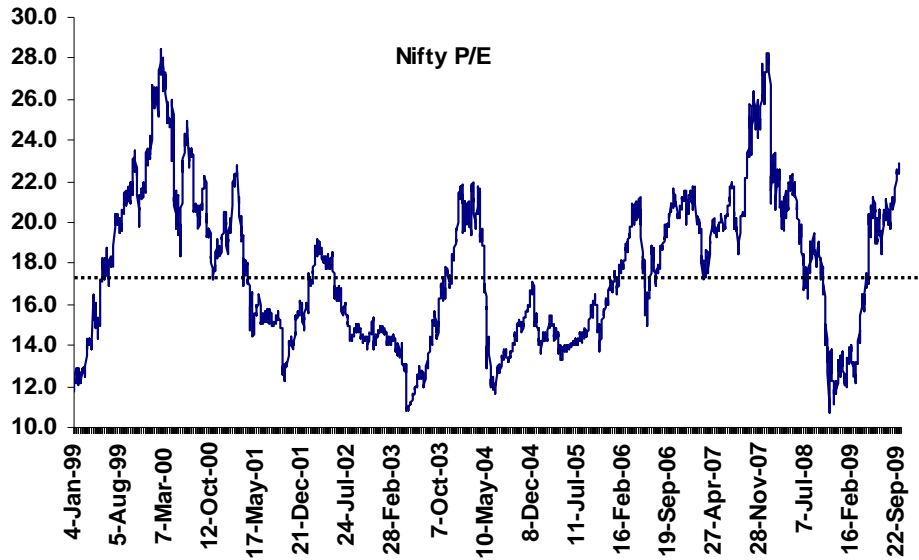
Domestic Earnings - Full Year Expectations



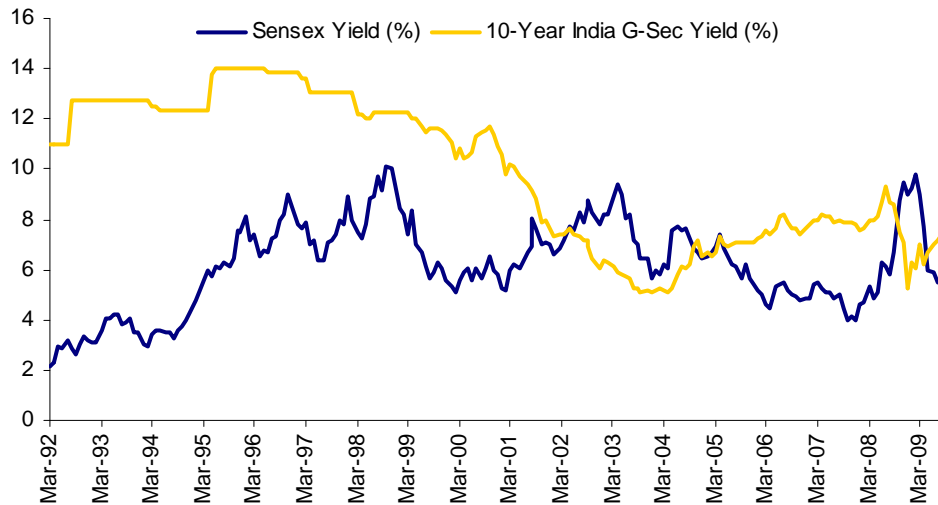
- FY11 consensus Sensex EPS estimate saw an upgrade 1.4% this month. The estimates for FY10 earnings remained unchanged
- Consensus now expects a 2.3% rise in FY10 Sensex earnings over FY09 and a 22.4% growth in FY11 Sensex EPS over FY10



Valuation above long term averages



- Nifty is currently trading at 22.9x its trailing earnings, higher than the ten year average of 17.7x
- The Sensex earnings yield continues to remain 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 21 basis points over the previous month
- The valuation surge is not unique to India. The MSCI Emerging Market Index is also trading at approximately 20.2x trailing earnings



Looking Ahead...

- The macro environment continues to improve as is indicated by an improvement in leading indicators like IIP, to which corporate revenue growth is highly correlated
- Current trends are consistent with a 6-6.5% GDP growth expectation, the upside surprise in industrial production is being offset by the likely weaker performance from the agriculture sector
- Credit growth, an important lead indicator, has not shown much growth so far possibly indicating a conservative approach by both lenders and borrowers
- The ten year bond yield eased in September by about 25bps as the government left the size of its borrowing program unchanged. The risk however remains to the upside unless credit growth fails to recover
- Israel, followed by Australia are among the first few economies to witness a rate hike this year and several other economies are expected to act by the end of this calendar year
- In India the RBI has spoken of the need to exit its easy monetary stance slightly ahead of the developed world and some form of tightening and/or a rate hike is very likely in the coming months
- Correlation between global markets remains very high and is a source of risk
- Markets are now slightly outside the comfort zone in terms of valuations. As a result further upside to returns from here will have to be driven by bottom-up stock picking

Investment view

Short term

- The improvement in industrial activity is being partially offset by the weak monsoon; GDP growth likely to be 6-6.5% in FY10
- We expect earnings to be up 5% in FY10 over FY09. The current consensus forecasts a healthy 22% in FY11 but we would be cautious about visibility of this estimate
- Markets are now finely priced with most measures trading above long term averages and a recovery is being priced in

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
- The elevated valuation measures might reduce the returns to below earnings growth.

Strategy for investors

- The valuations are a bit outside the comfort zone with a recovery being baked into the prices
- Long term investors can continue with SIP

Disclaimer

Disclaimer: This presentation is for information purposes only and is not an offer to sell or a solicitation to buy any mutual fund units/securities. These views alone are not sufficient and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party. All opinions, figures, charts/graphs and estimates included in this presentation are as of this date and are subject to change without notice. Neither Religare Asset Management Company Limited (Religare AMC), nor any person connected with it, accepts any liability arising from the use of this information. The data used in this material is obtained by Religare AMC from the sources which it considers reliable. While utmost care has been exercised while preparing the presentation, Religare AMC does not warrant the completeness or accuracy of the information and disclaims all liabilities, losses and damages arising out of the use of this information. The recipient of this material should rely on their investigations and take their own professional advice. Mutual Fund and Securities Investments are subject to Market Risk. Performance of the Sponsor(s) has no bearing on the expected performance of the Mutual Fund or any of its Scheme(s). **Statutory Details:** Religare Mutual Fund has been set up as a trust sponsored by Religare Securities Ltd. (liability restricted to Rs. 1,50,000/-) with Religare Trustee Company Pvt. Ltd. as the Trustee (Trustee under the Indian Trusts Act, 1882) and with Religare Asset Management Company Ltd. as the Investment Manager.

MKTG/RoundupEquity/0909/CO014

