MARKET OUTLOOK
CY 17 Outlook

4 Key themes – Global
- Return of Inflation
- Bottoming out of Interest Rates
- Direction of Dollar
- Increasing Global GDP Growth Rate

4 Key themes – Domestic
- Implementation of GST
- Earnings Growth – Glass Half-full / Glass Half-empty
- Impact of Nominal GDP on earnings Growth
- Valuation
Return of Inflation
Return on inflation (finally!) led by increasing commodity prices
Globally, Interest Rates are bottoming out.

Source: Bloomberg
Direction of Dollar influences global markets

Recent weakness in the dollar positive for Emerging Markets

Source: Bloomberg
Increasing Global GDP Growth Rate

Early signs of pickup in GDP growth visible across key developed markets

- It looks likely that this year, for the first time since 2010, rich-world and developing economies will put on synchronised growth spurts.

- Surveys of purchasing managers in America, the euro zone and Asia show factories getting a lot busier.
4 Key themes – Global
- Return of Inflation
- Bottoming out of Interest Rates
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Implementation of GST

GST expected to be implemented from 1\textsuperscript{st} July 2017

- A key structural reform that has a transformational potential

- Near term disruption possible as businesses grapple with implementation

- Expected to be positive over the medium term as business gets formalized

- Multiple levels of impact
  - Possible shift from unorganized to organized as price differential narrows
  - Higher Tax Compliance boosting tax collections
  - Higher potential of marketing spends from unbranded businesses trying to stay relevant
Domestic Nominal GDP Growth

2003-2008 saw increasing nominal GDP Growth resulting in Earnings growth consistently close to 20%

Source: Bloomberg
Earnings Growth – Glass Half Full / Glass Half Empty

Uptrend in Nominal GDP Growth will help boost Earnings Growth as Domestic sectors recover

- Period of strong economic growth resulting in very few loss making companies
- EPS drop in CY 08 was mainly due to losses of certain cos due to GFC
- Positive Earnings though was flat
- Large difference in overall EPS and Positive EPS especially due to losses posted by PSU banks and Metals
- Early signs of recovery visible in 2016
- Potential for strong earnings growth as losses reverse

• Similarly, Large difference in overall EPS and Positive EPS reversed in CY 2010
• Loss making cos recovered resulting in robust EPS growth of 35%

Source: Bloomberg
Early signs of Earnings Growth Visible

Last few quarters, Earnings growth dragged by 2-3 companies. Ex bottom 3 stocks, growth robust.
FY 18 and FY 19 Earnings Growth drivers

- NIFTY PAT Expected to grow 17.8% in FY 18 and 18% in FY 19.

- NIFTY Earnings growth primarily to be driven by PSU Banks, Metals and Auto

Source: Bloomberg, Estimates are basis Bloomberg consensus
# Market Segment Valuation Snapshot

*PE levels on the higher side especially in Mid & Small Cap Stocks*

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<table>
<thead>
<tr>
<th></th>
<th>Dec-07</th>
<th>Mar-13</th>
<th>Mar-14</th>
<th>Mar-15</th>
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<th>Jun-16</th>
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<td><strong>PE Ratio</strong></td>
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<tr>
<td>NIFTY INDEX</td>
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<td>16.4</td>
<td>22.0</td>
<td>20.1</td>
<td>20.4</td>
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<td><em>Difference with NIFTY</em></td>
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| **Positive PE Ratio** |        |        |        |        |        |        |        |        |        |
| NIFTY INDEX        | 22.9   | 15.1   | 15.8   | 20.3   | 18.4   | 19.9   | 20.5   | 19.4   | 21.4   |
| NSEMCAP INDEX      | 19.7   | 11.0   | 14.0   | 18.5   | 17.1   | 18.7   | 17.7   | 16.5   | 19.7   |
| *Difference with NIFTY* | -3.2   | -4.1   | -1.9   | -1.8   | -1.3   | -1.2   | -2.8   | -2.9   | -1.7   |
| NSESIMCP Index     | 7.8    | 7.0    | 15.3   | 13.2   |        | 15.4   | 15.7   | 15.3   | 19.2   |
| *Difference with NIFTY* | -7.3   | -8.9   | -5.1   | -5.2   |        | -4.5   | -4.8   | -4.1   | -2.2   |

| **1 Yr Fwd PE Ratio** |        |        |        |        |        |        |        |        |        |
| NIFTY INDEX        | 21.9   | 14.5   | 16.2   | 18.6   | 18.3   | 17.7   | 18.5   | 18.1   | 17.2   |
| NSEMCAP INDEX      | 19.6   | 15.6   | 14.8   | 20.7   | 20.3   | 19.0   | 18.9   | 17.0   | 18.2   |
| *Difference with NIFTY* | -2.3   | 1.1    | -1.4   | 2.1    | 1.9    | 1.4    | 0.3    | -1.1   | 1.0    |
| NSESIMCP Index     | 12.9   | 24.3   | 29.0   | 12.6   |        | 11.8   | 13.6   | 13.3   | 17.3   |
| *Difference with NIFTY* | -1.6   | 8.1    | 10.5   | -5.7   |        | -5.9   | -4.9   | -4.8   | 0.1    |

| **PB Ratio**       |        |        |        |        |        |        |        |        |        |
| NIFTY INDEX        | 6.0    | 2.6    | 2.5    | 3.0    | 2.5    | 2.7    | 2.8    | 2.6    | 3.0    |
| NSEMCAP INDEX      | 4.0    | 1.4    | 1.6    | 2.0    | 1.9    | 2.0    | 1.6    | 1.7    | 2.2    |
| *Difference with NIFTY* | -2.0   | -1.1   | -0.9   | -1.0   | -0.6   | -0.7   | -1.1   | -0.9   | -0.8   |
| NSESIMCP INDEX     | 1.0    | 0.9    | 1.2    | 0.9    |        | 0.9    | 1.1    | 1.0    | 1.3    |
| *Difference with NIFTY* | -1.6   | -1.7   | -1.8   | -1.7   |        | -1.7   | -1.7   | -1.6   | -1.7   |

*Source: Bloomberg*
Outlook: 5 Year Forecast

- Rising Global GSEC yields may push up cost of capital which could result in compression of PE Ratios

- Historically, the rolling 5 Year Earnings Growth for NIFTY averages between 12-14%

- Last 5 years earnings growth has been in low single digits similar to the level achieved for the 5 years ending 2002-03. As Nominal GDP rebounded, growth picked up for the 5 year period 2003-08.

With Nominal GDP picking up, is the stage set for an earnings rebound?

Source: Bloomberg
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