Macro & Markets Chart Book

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Edelweiss

Ideas create, values protect

Highlights

Macro Trends

- **Economic activity indicators remain mixed.** IIP is now improving on a trend basis. However, industry oriented indicators namely cement and steel production and consumption oriented such as auto sales, 2 wheeler sales are slowing down. Further some of the services indicators such as railway traffic, tourist arrivals which were growing at a good pace until recently, have also slowed.
- **February retail inflation came in 5.4% YoY, marginally higher than previous month.** However, core CPI continues to disinflate and is now below 4%. WPI continues to remain negative.
- **Trade deficit further narrowed to ~USD6.9bn.** The improvement was mainly on the imports front, with oil and non-oil and non-gold imports tapering off significantly. Non-oil exports also slowed.
- **RBI kept the repo rate unchanged**, despite cutting its March end CPI forecast by 20bps. It is worth noting that, monetary conditions for India INC. have actually tightened since the first rate cut owing to higher real rates and INR appreciation (REER basis)

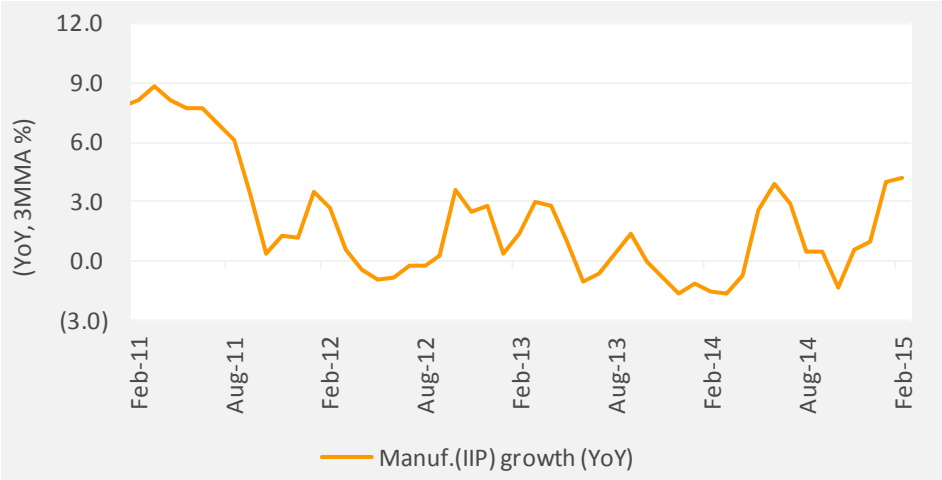
Market Trends

- **Performance:** Indian equities lost 1.9% (USD terms), underperforming MSCI EM over last one month. Within India, financials and IT underperformed while defensives outperformed.
- **Valuations:** MSCI India now trades at 16.6x forward earnings, 0.5 standard deviation above its 10Y avg.
- **Earnings downgrades:** Sensex earnings have been further downgraded by 2-3%. FY15E and FY16E consensus EPS are pegged at INR1,470 and INR1,730 - Edelweiss: INR1,400 and INR1,730 - respectively.
- **Flows:** There were net FII inflows of USD1.7bn in March, while the DIIs flows were marginally positive

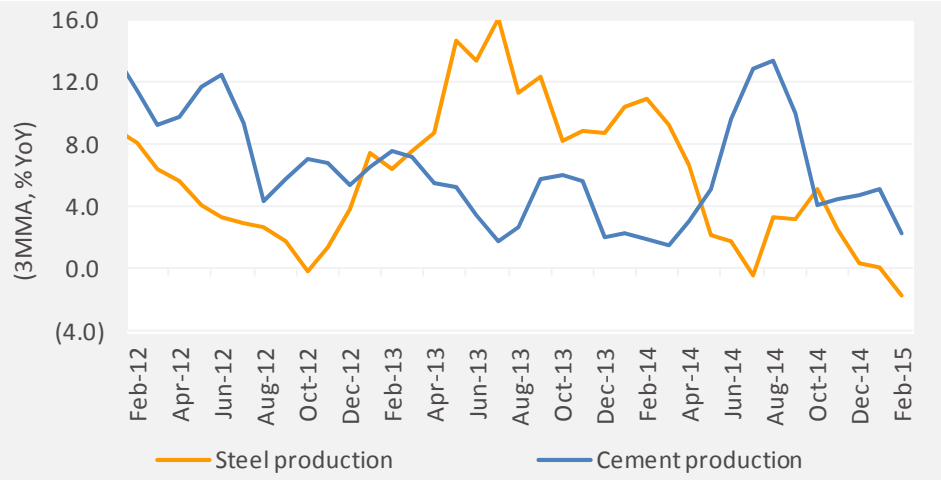
Industry Indicators

Industry: Mixed trend

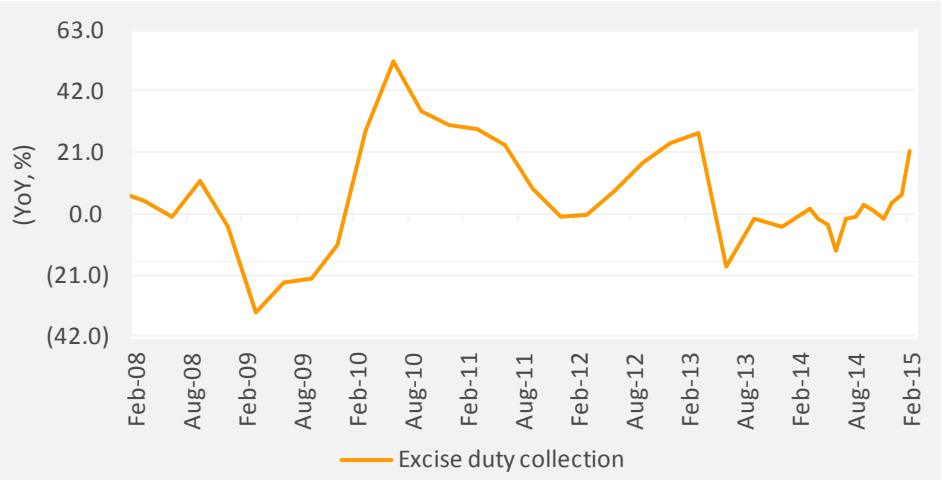
Manufacturing witnesses improvement…



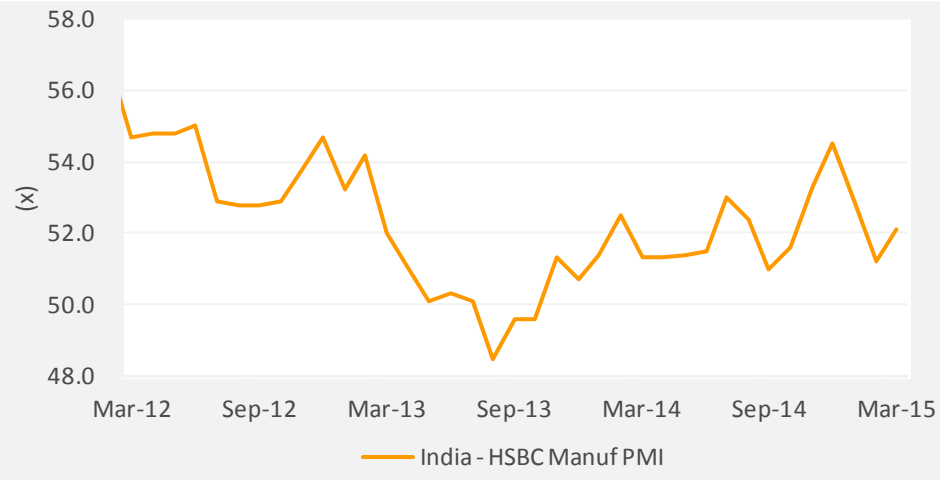
…but cement and steel growth moderate



Excise duty collections inch higher owing to higher taxes on oil



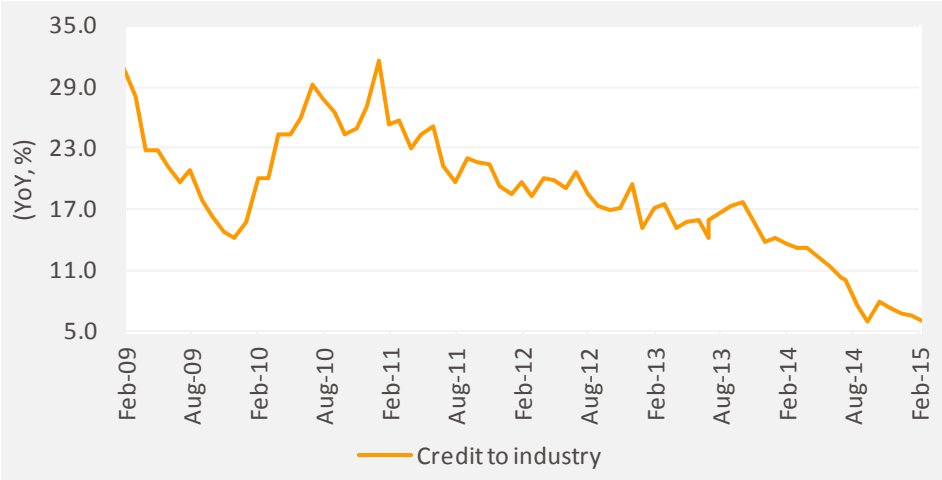
And PMI recovery fades



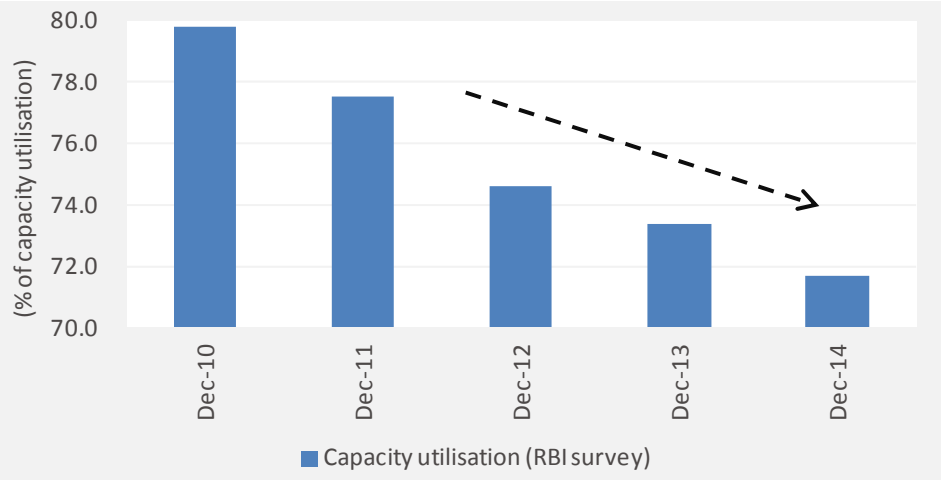
Source: CMIE, Edelweiss research

Industry: Capacity utilisation low; project implementation improves

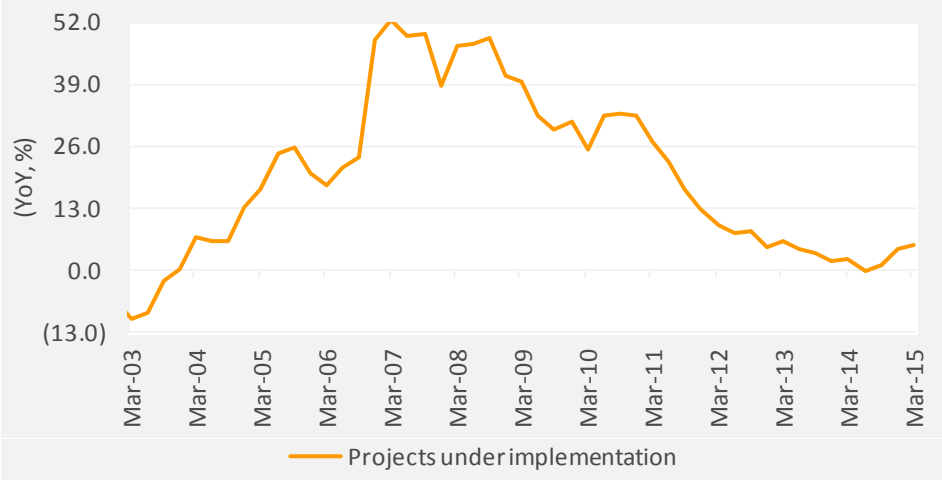
Industry credit growth deteriorates



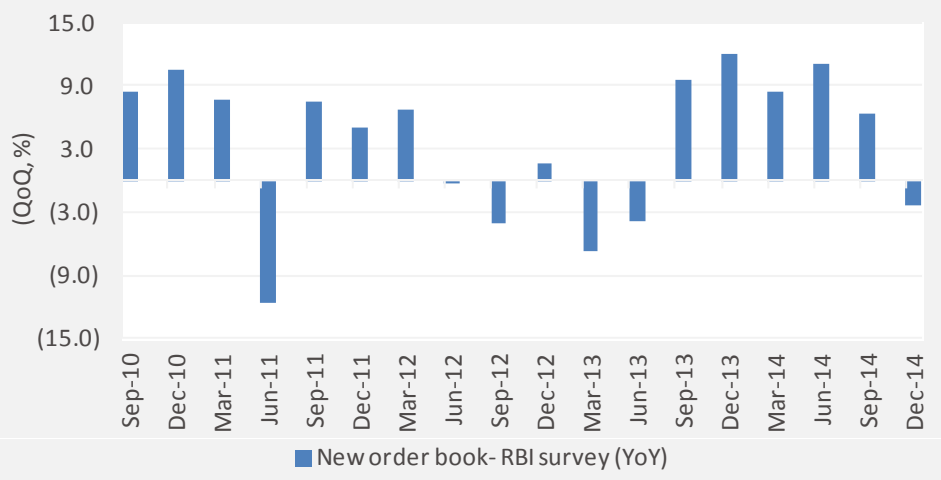
Capacity utilisation at four year low



Projects under implementation showing signs of improvement



New orders decline on a sequential basis

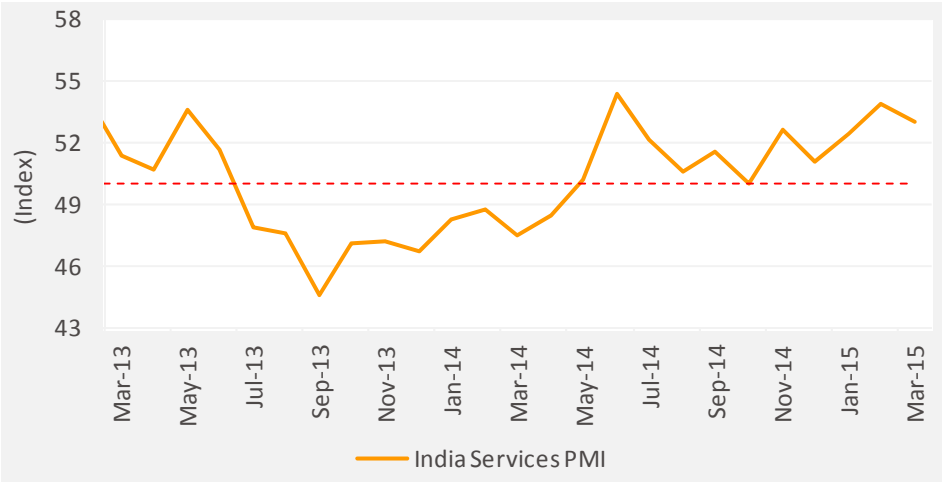


Source: RBI, CMIE, Edelweiss research

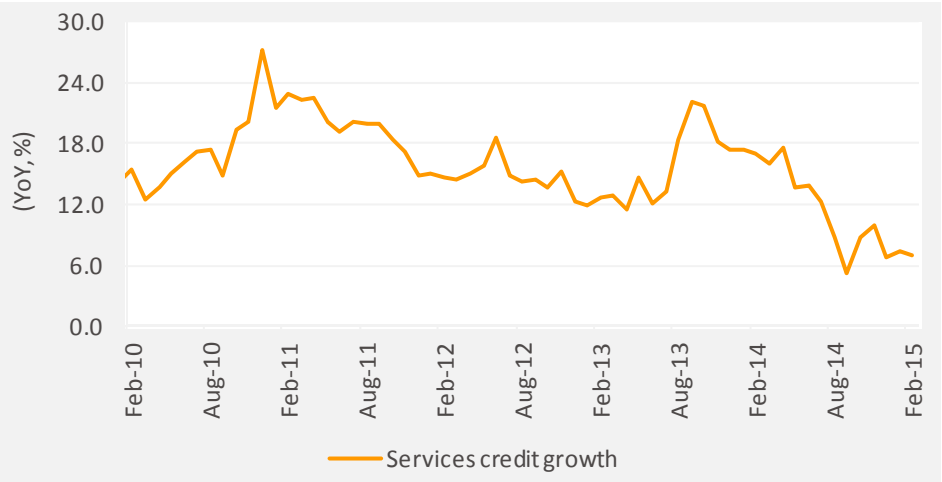
Services Indicators

Services: Subdued credit growth

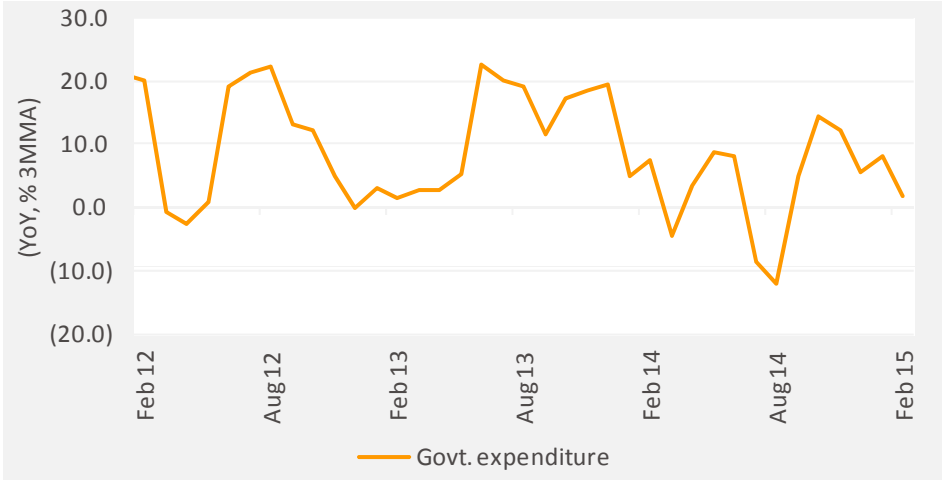
Services PMI more or less flat



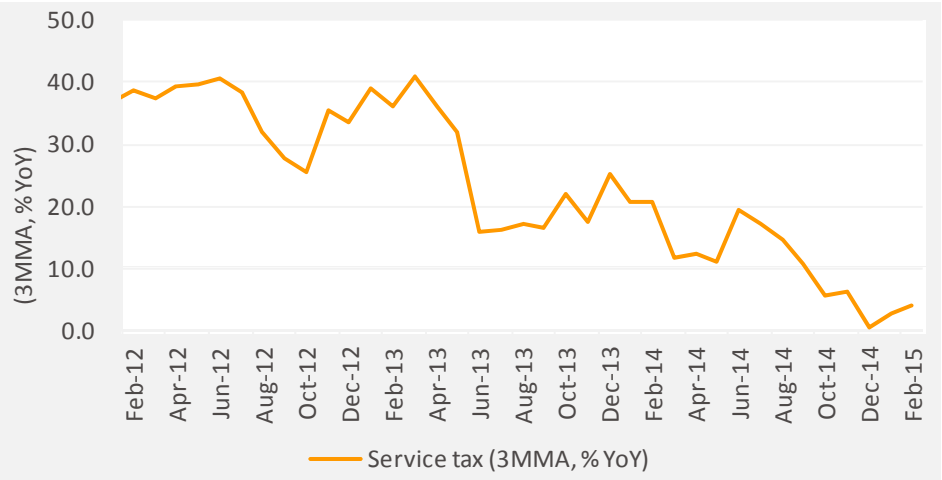
Credit to services continues to remain subdued



Sharp scale back in government expenditure



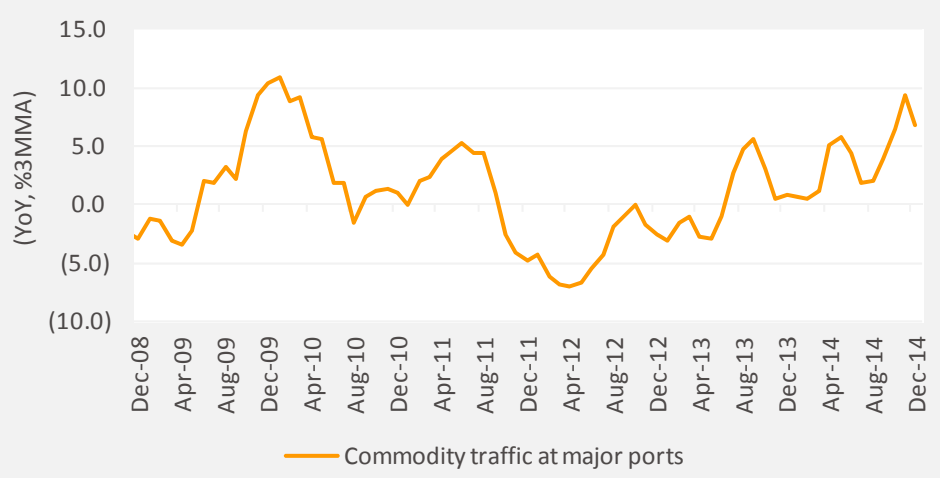
Service tax growth also points towards a significant slowdown



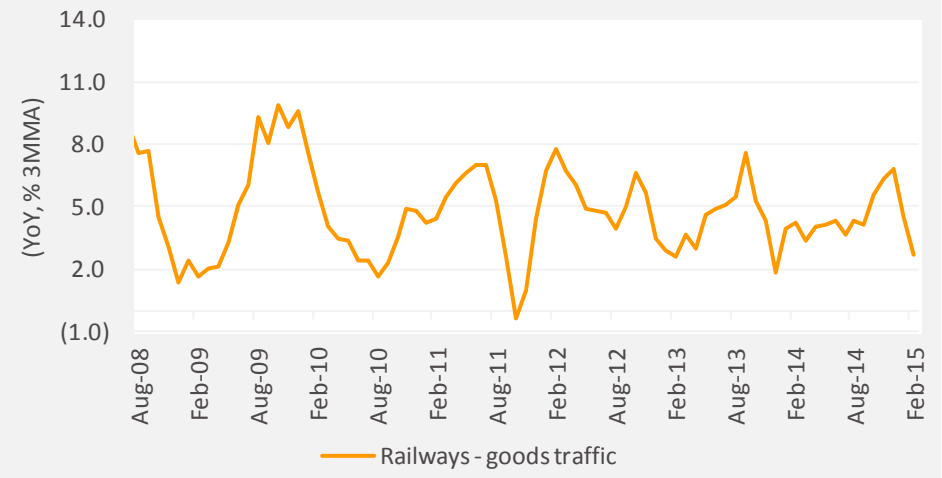
Source: CMIE, Edelweiss research

Services: Port traffic, railway traffic, tourism momentum slows

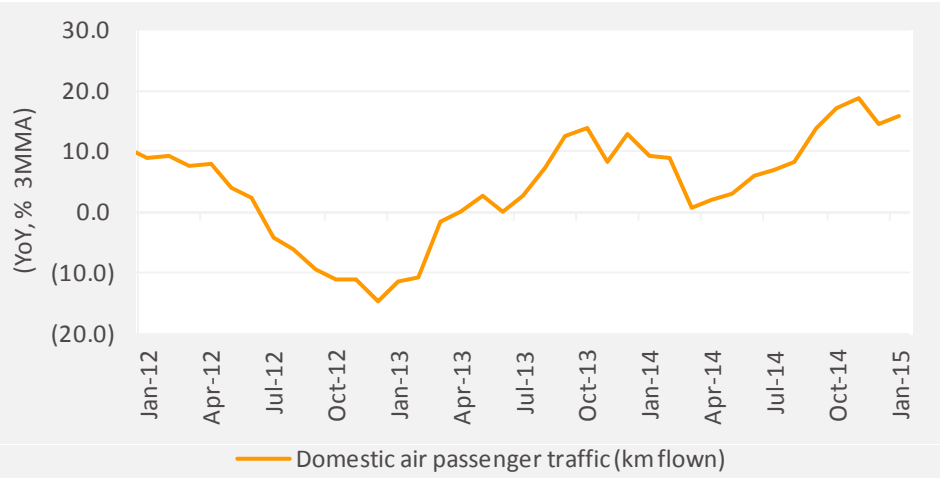
Commodity goods traffic growth slows…



…so does Railway goods traffic



Air traffic growth showing healthy trend



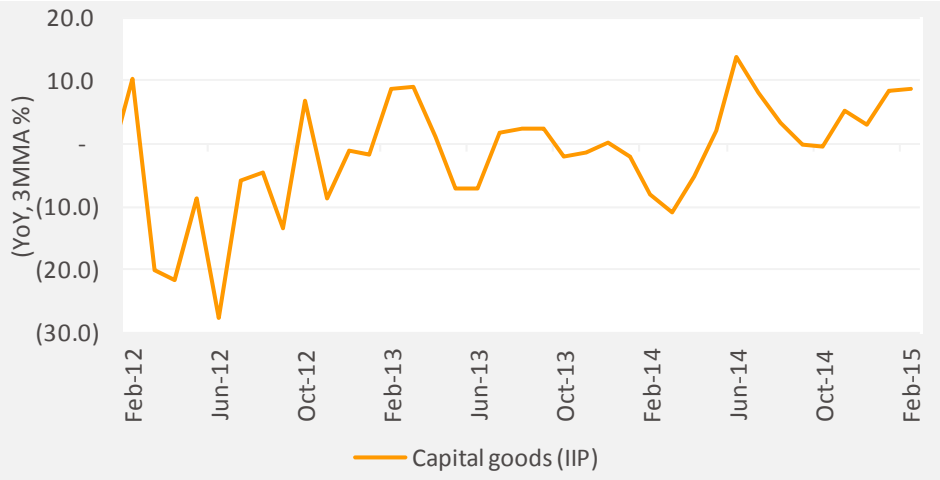
However, tourism growth decelerates

Source: CMIE, Edelweiss research

Investment & Consumption Indicators

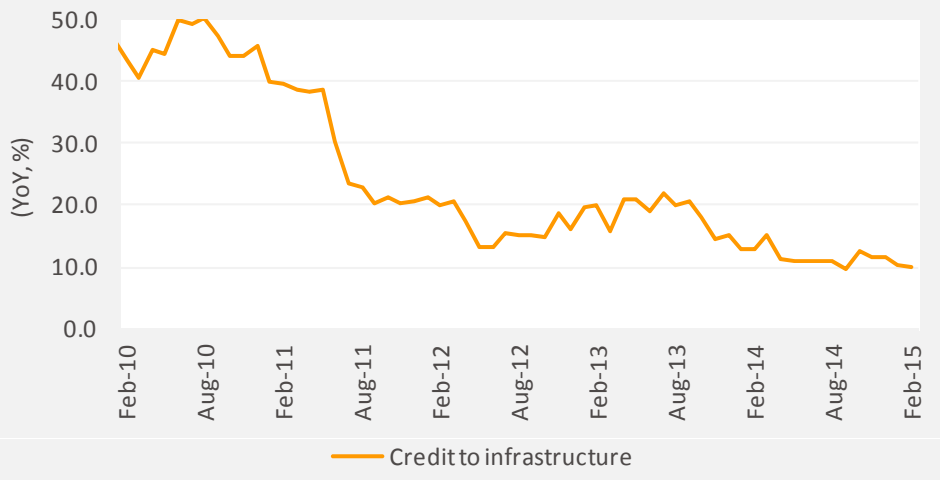
Investment: Some traction in new investments

Capital goods production showing traction

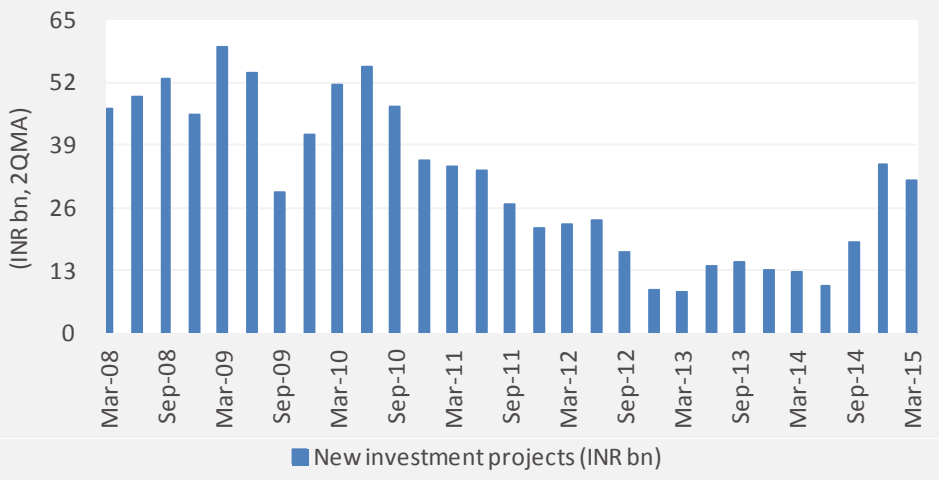


Order books of capital goods companies improve

Credit to infra space, stabilises at very low levels



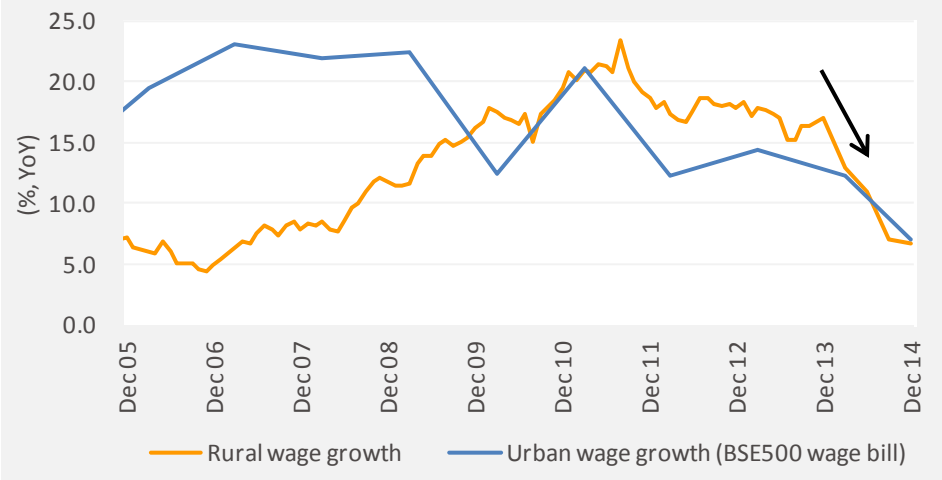
New investment projects gain traction



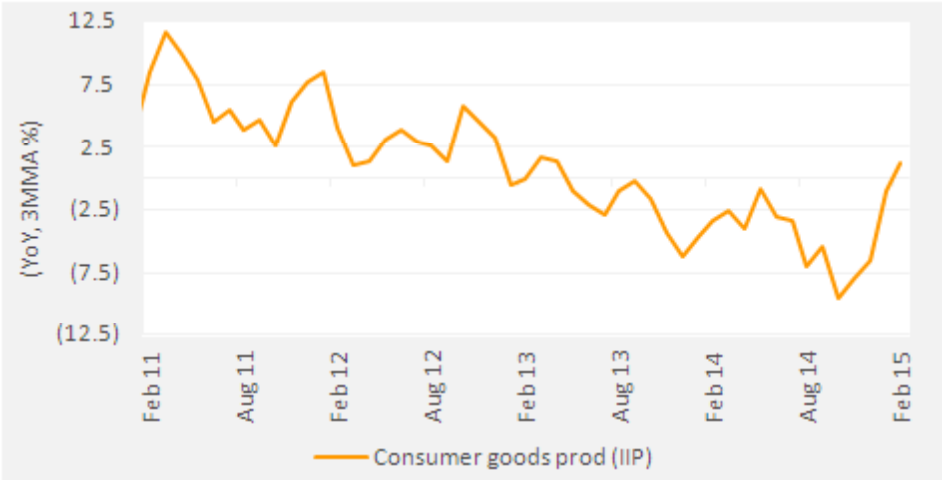
Source: CMIE, Edelweiss research

Consumption: Wage growth slows

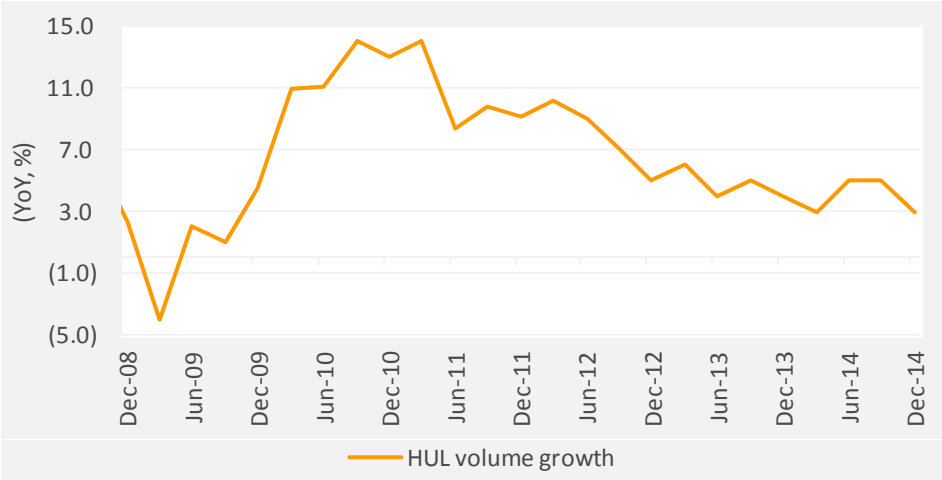
Wages witness a slowdown



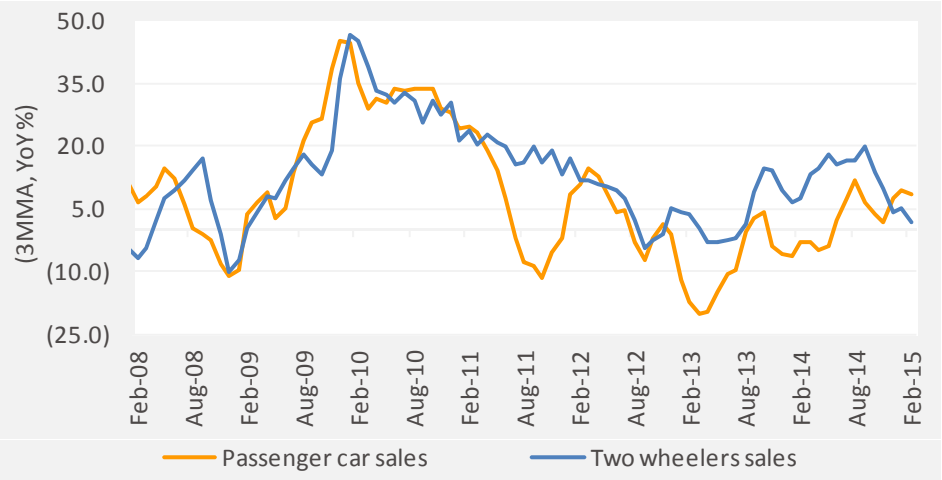
Production of consumer goods improve significantly



Non-durables demand slows



Auto sales – PVs doing good but two wheelers disappoint

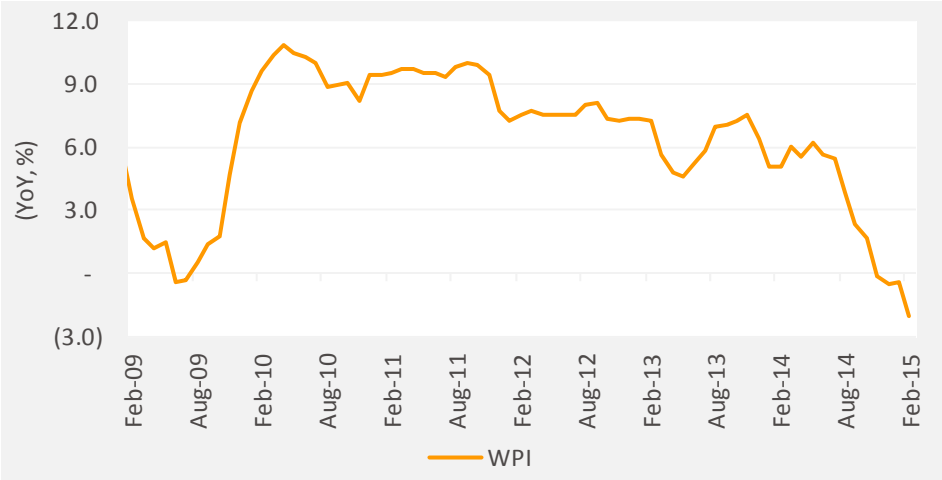


Source: CMIE, Edelweiss research

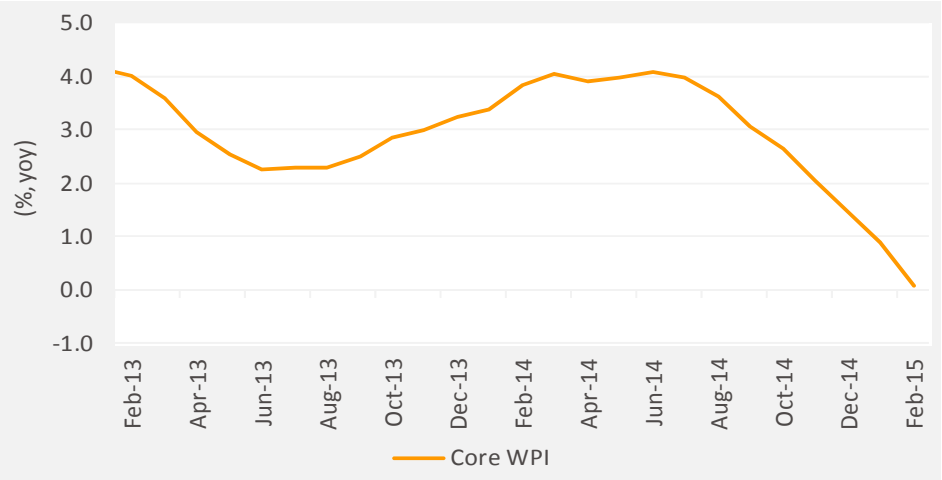
Inflation Indicators

WPI: In deflation zone

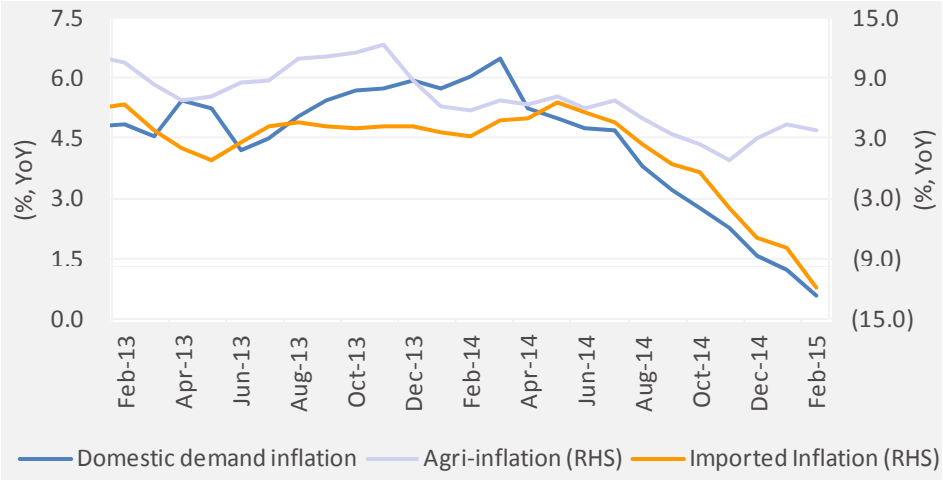
Inflation at all time low



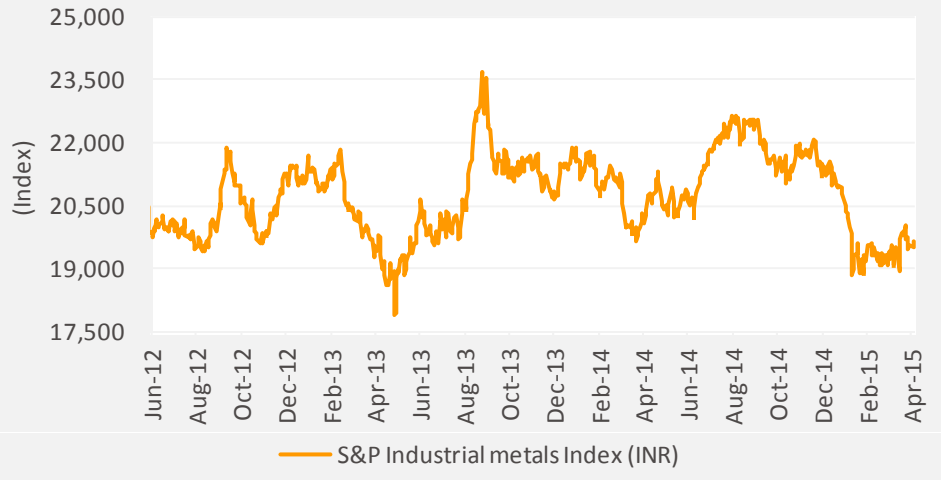
Core WPI continues downward spiral



Softening in inflation is mainly demand led



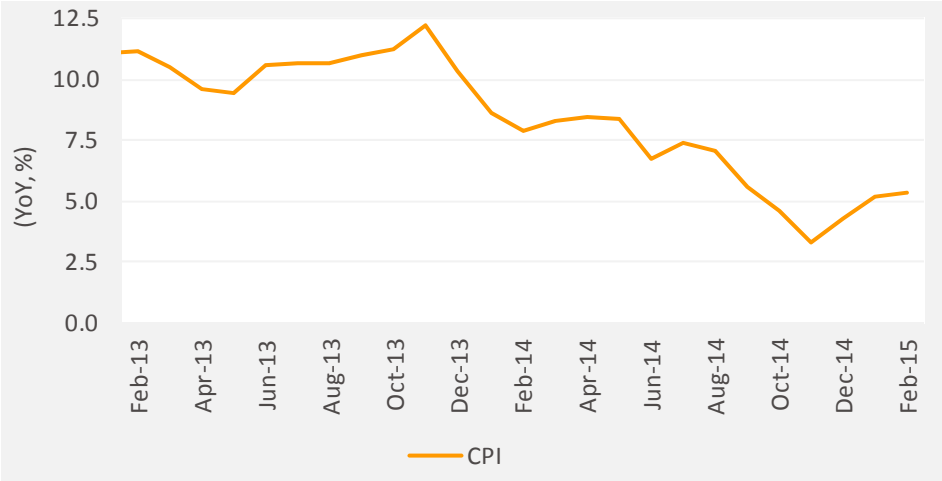
International commodity prices continue to remain subdued



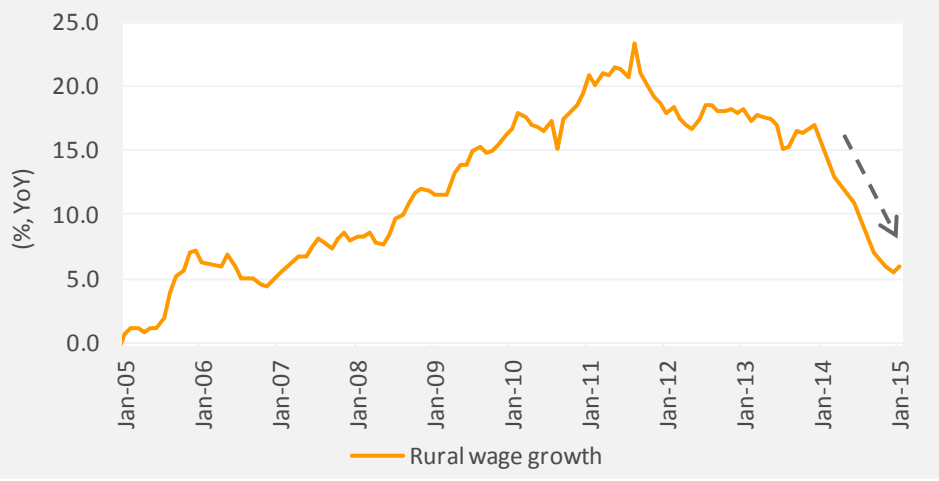
Source: CMIE, Edelweiss research

CPI: Increases marginally owing to base effect

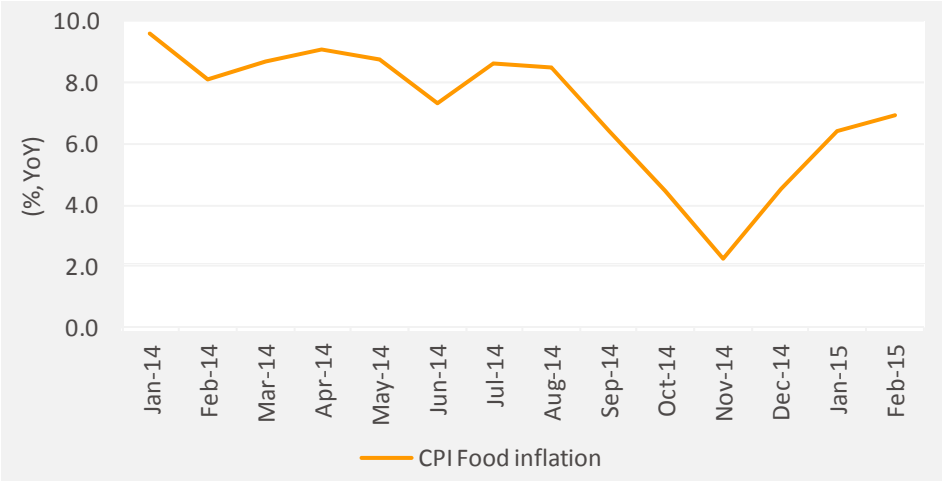
CPI rebounds marginally



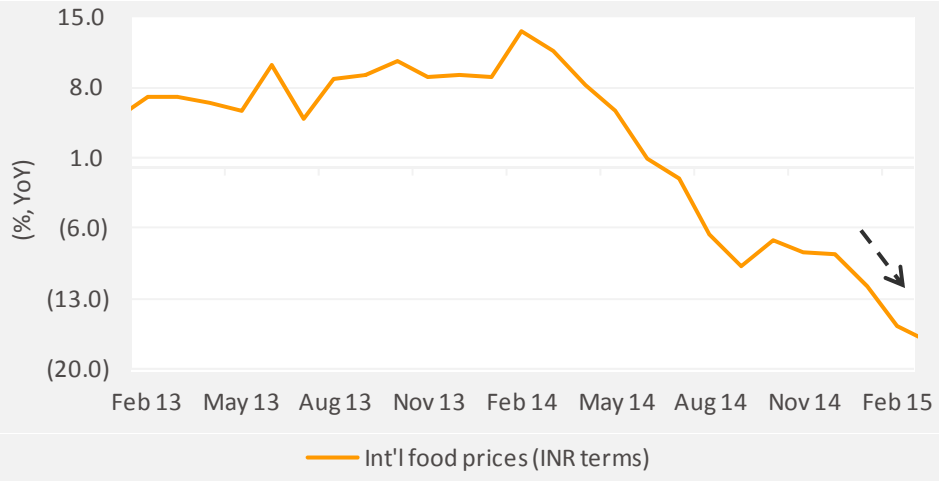
Rural wages witness sharp deceleration



CPI food increases sharply in new series



Lower int'l food prices should result in lower food inflation

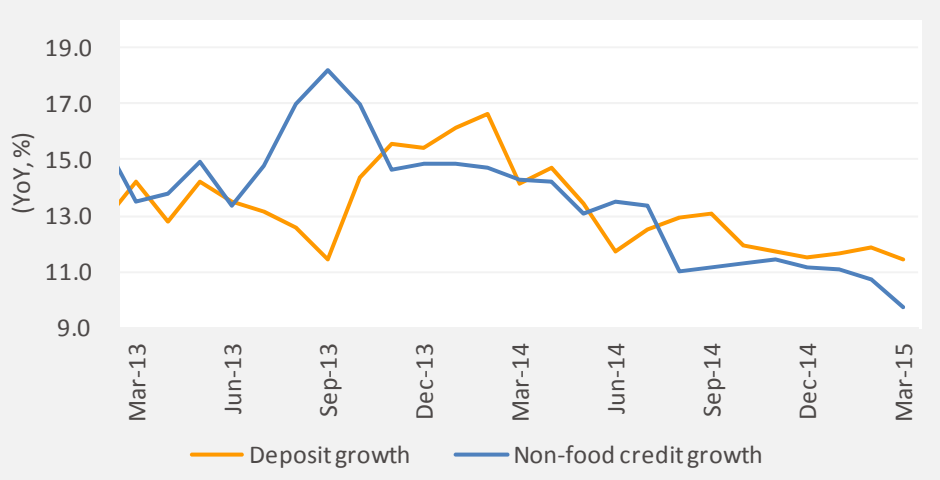


Source: CMIE, Edelweiss research

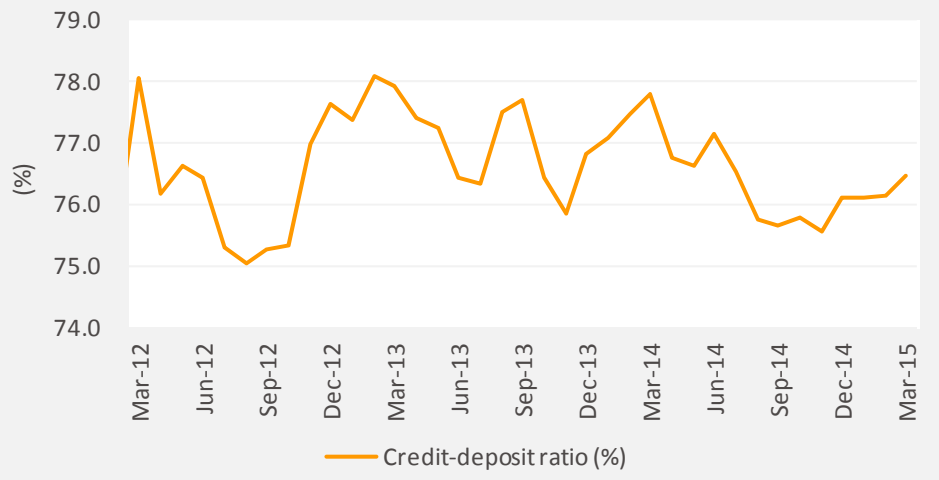
Monetary Indicators

Monetary aggregates: Reserve money growth increases

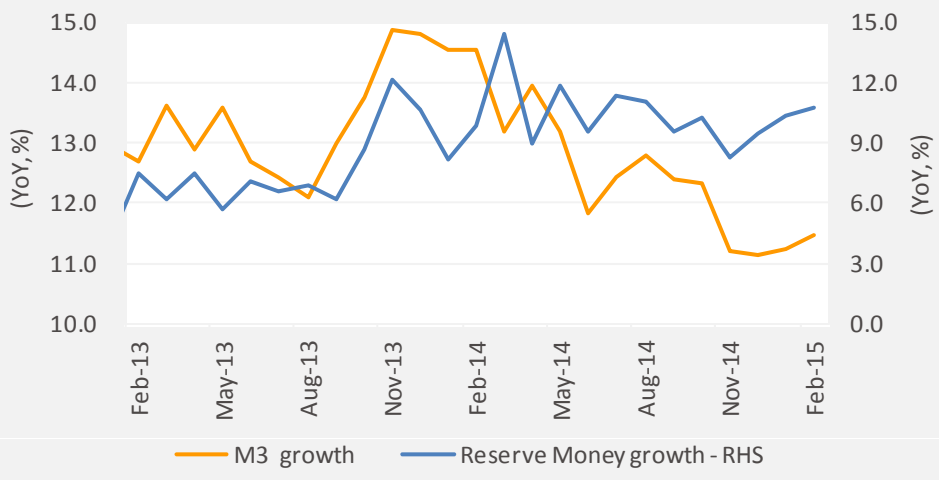
Deposit growth continues to outpace credit growth…



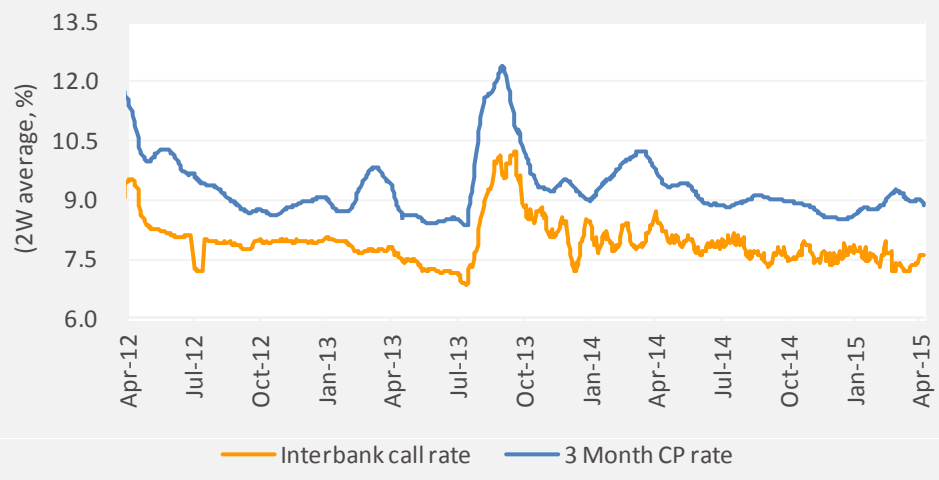
…resulting in benign CD ratio



Reserve money growth increases



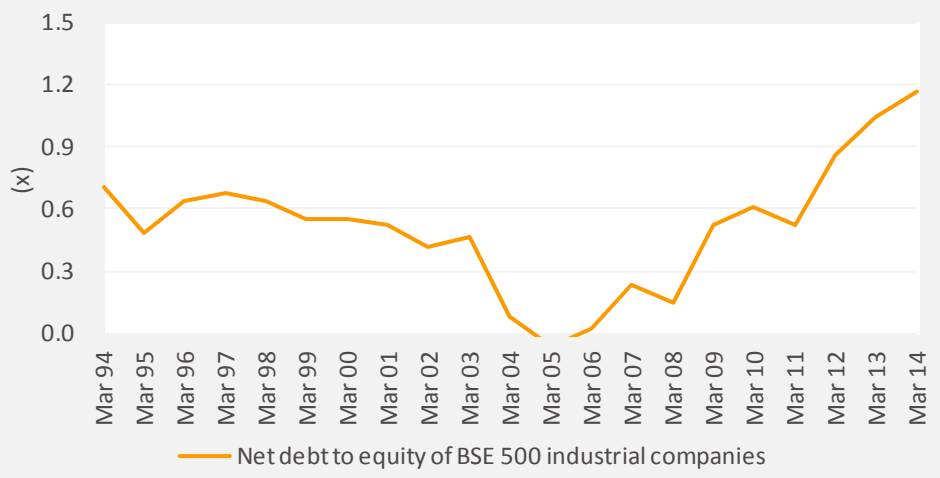
CP rates and interbank rates continue to ease



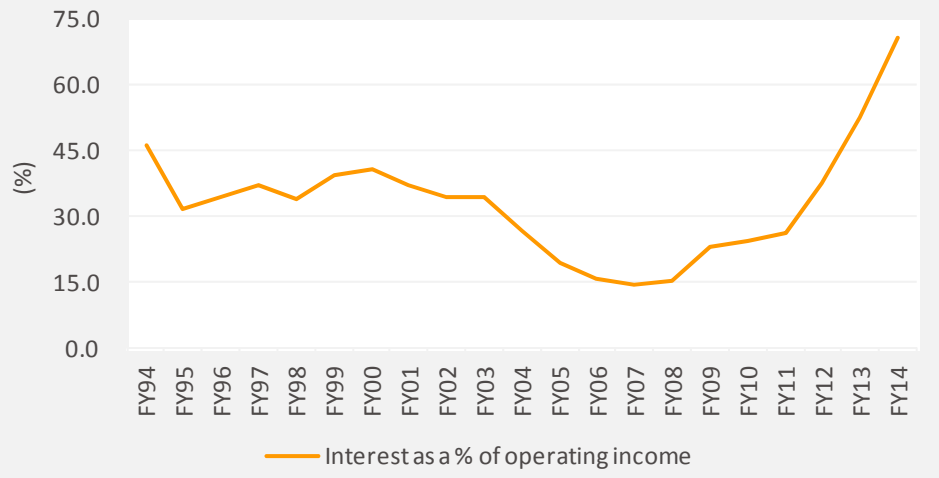
Source: CMIE, Edelweiss research

Leverage and cost of capital at high levels

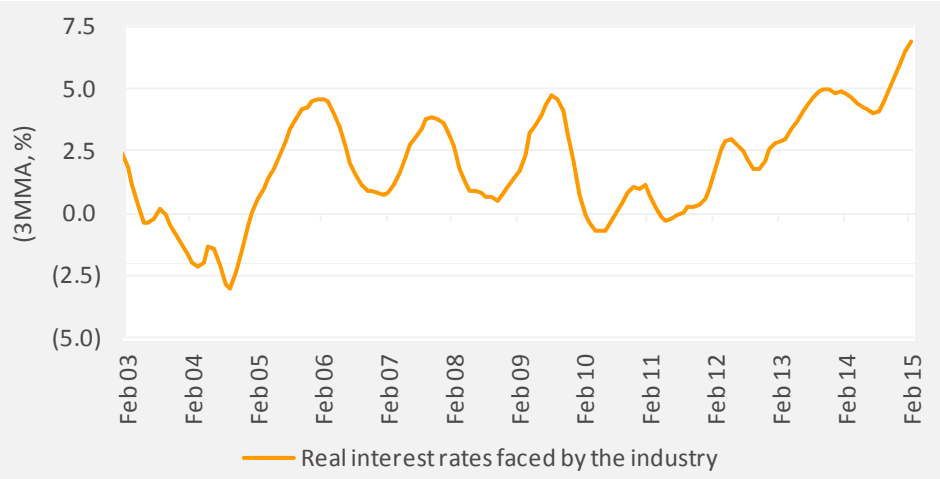
Leverage for industrial companies is at very high levels…



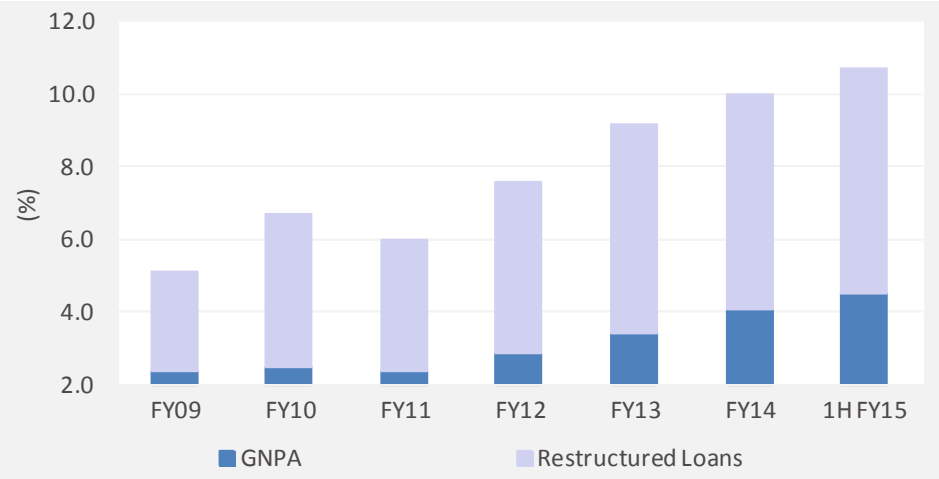
…resulting in high interest expense



Real interest rate for businesses is at FY07 boom period



High cost of capital and weak demand has resulted in soaring NPAs



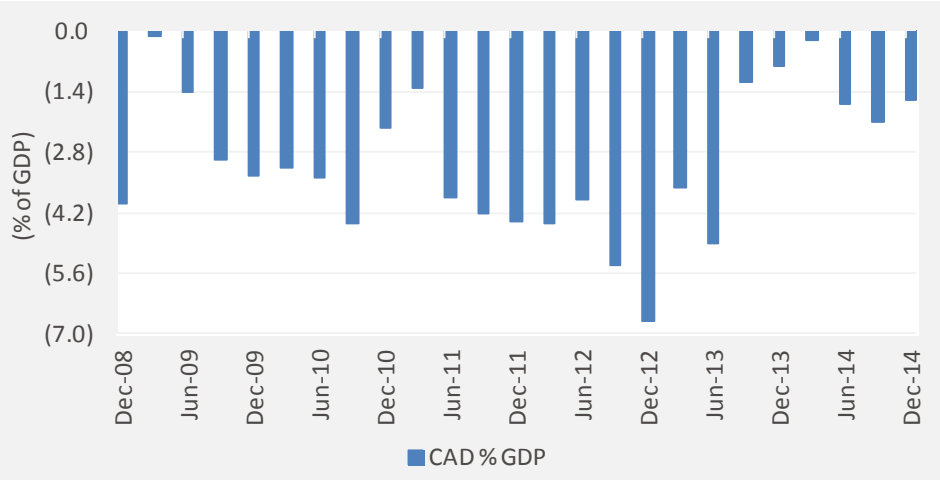
Source: CMIE, Edelweiss research

Note: Real interest rate for corporates is repo rate minus core WPI

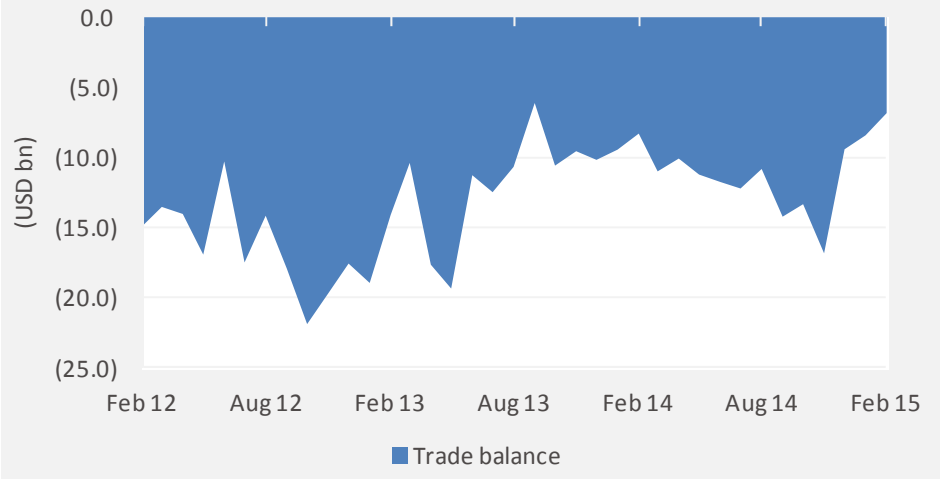
External Indicators

External sector: Trade deficit at comfortable levels

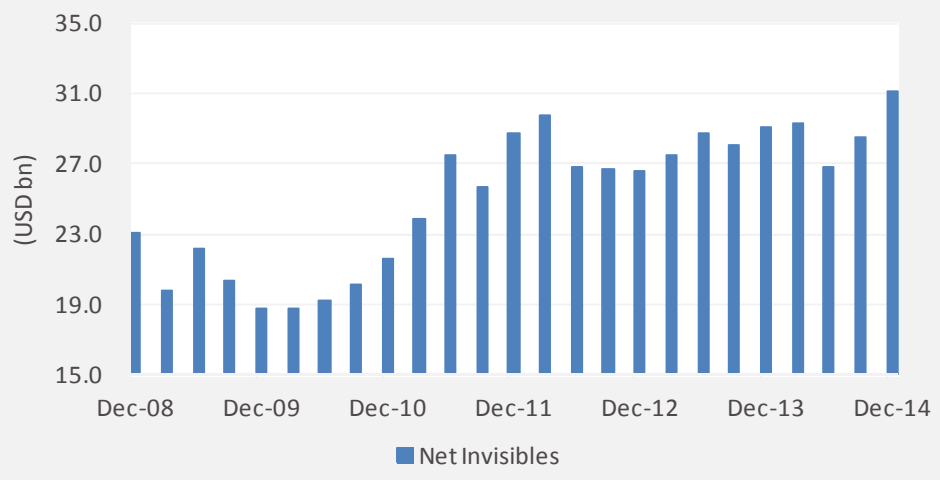
CAD at very comfortable levels



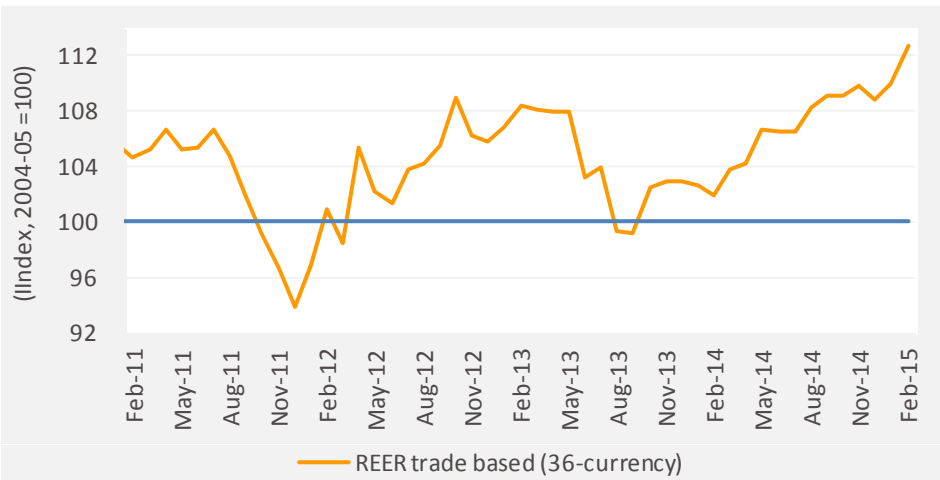
Trade deficit improves owing to lower oil imports



Invisibles increase



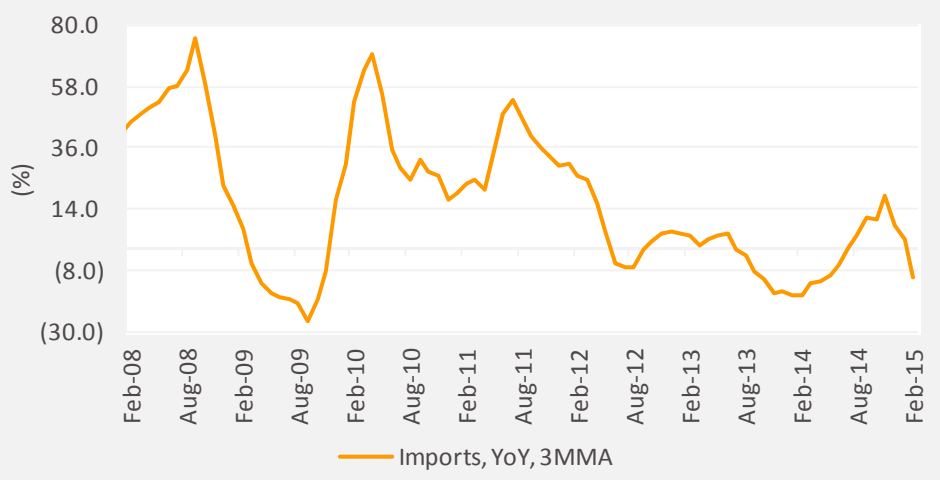
INR has appreciated significantly on REER basis



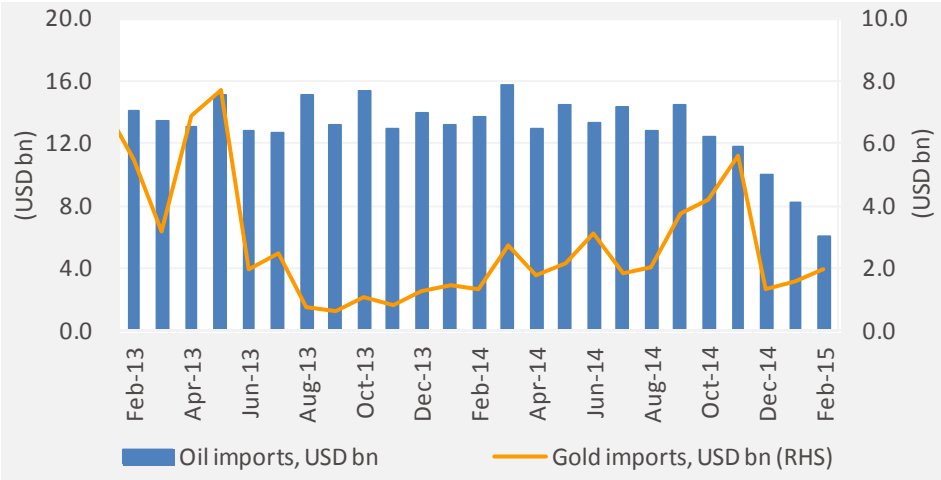
Source: CMIE, Edelweiss research

Non-oil and non0gold import deteriorate

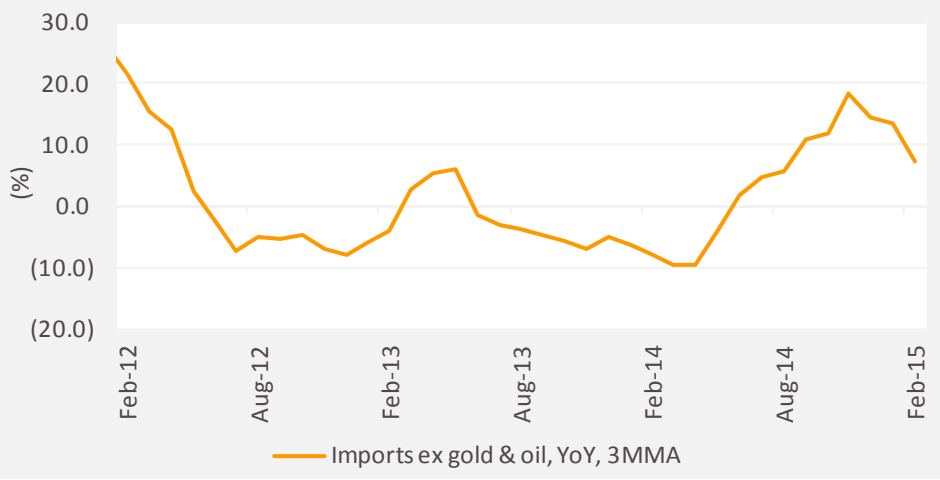
Imports have come off lately, reflecting lower oil bill



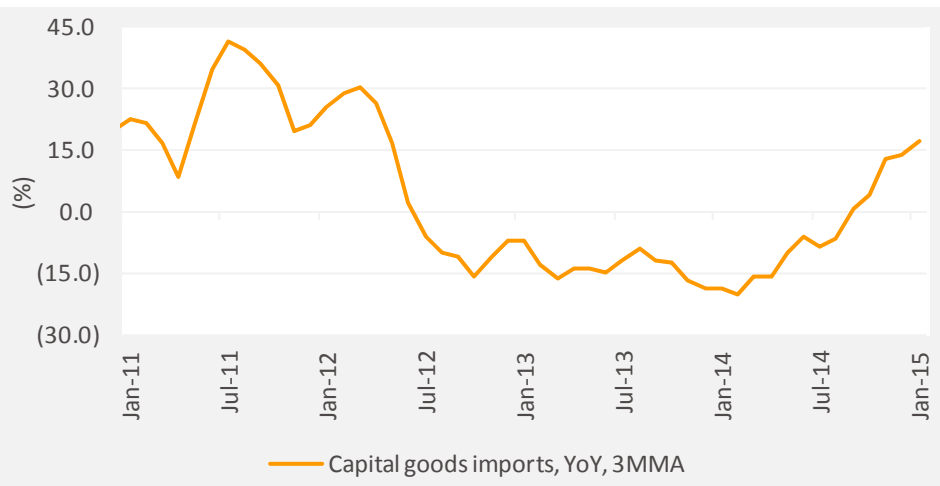
Gold imports also tapered off after spike late last year



Non-gold and non-oil imports momentum now slowing…



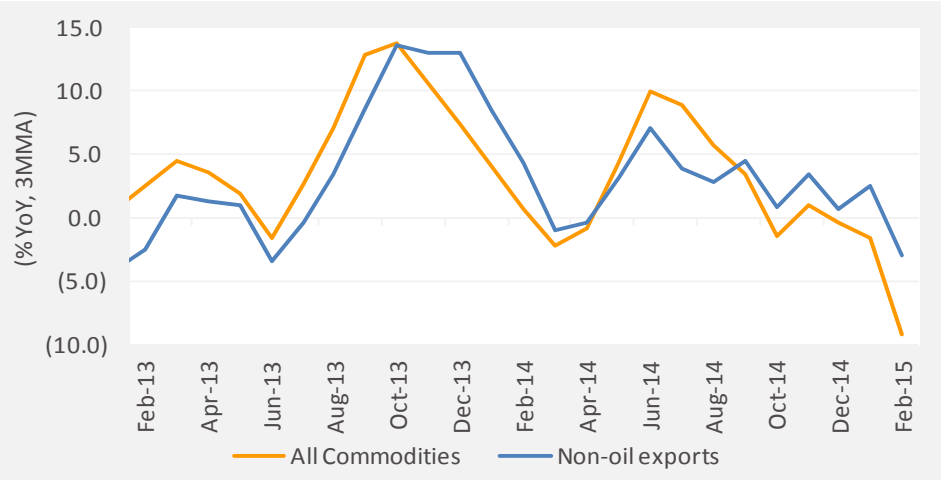
…however, capital goods imports show uptrend



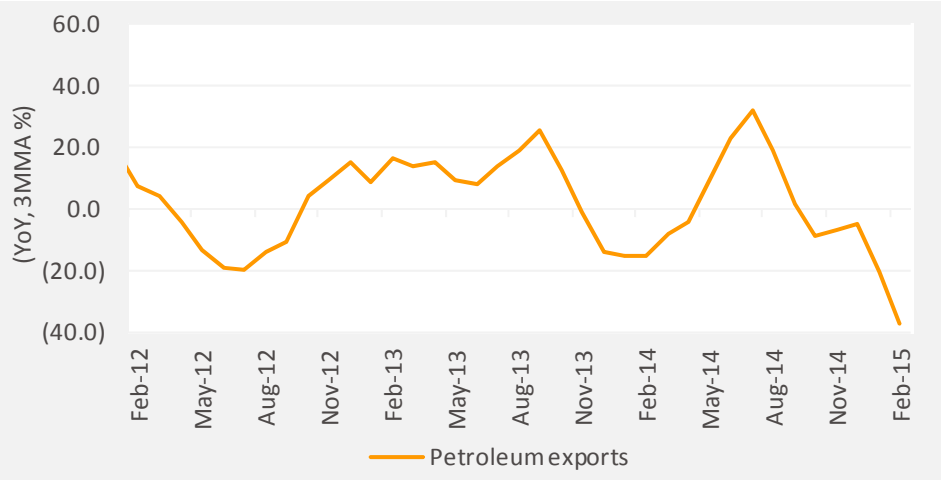
Source: CMIE, Edelweiss research

Export momentum weakens

Exports momentum weakening

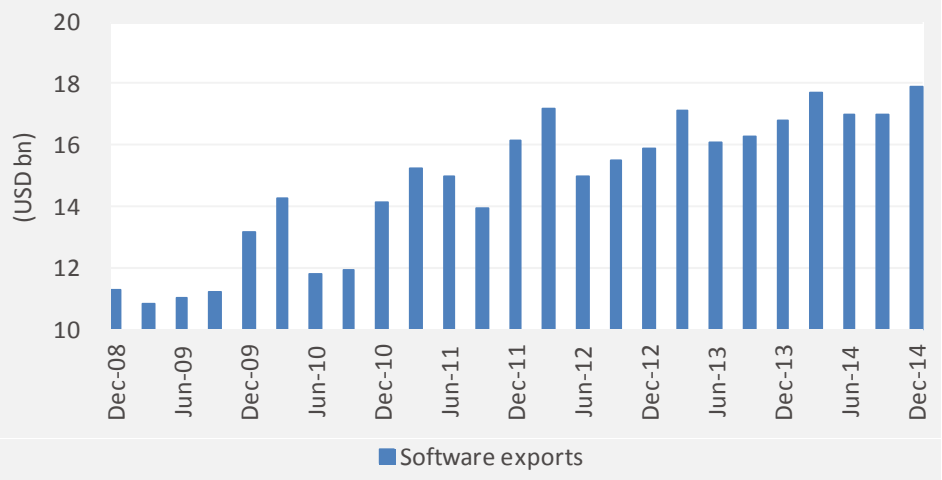


Petroleum exports decline



Textile and engineering goods exports momentum tapers off

Software exports stable



Source: CMIE, Edelweiss research

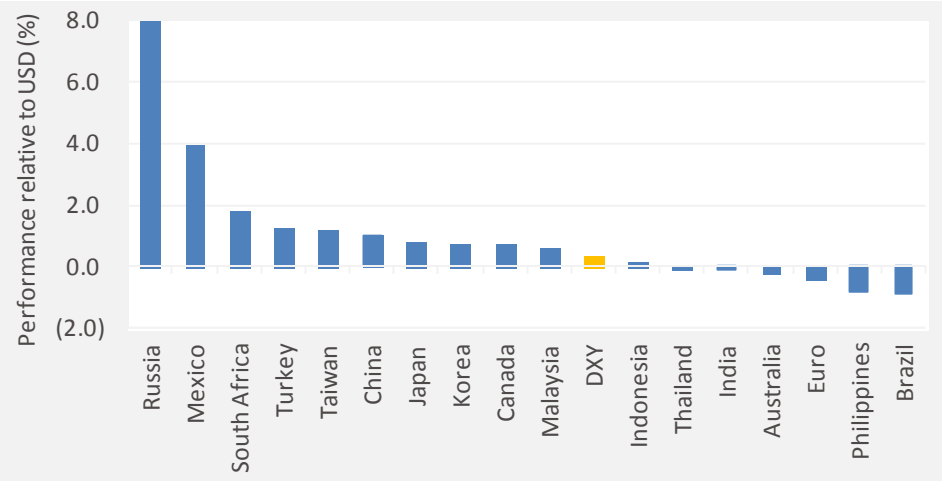
Markets: Performance

Indian equities underperform EM countries

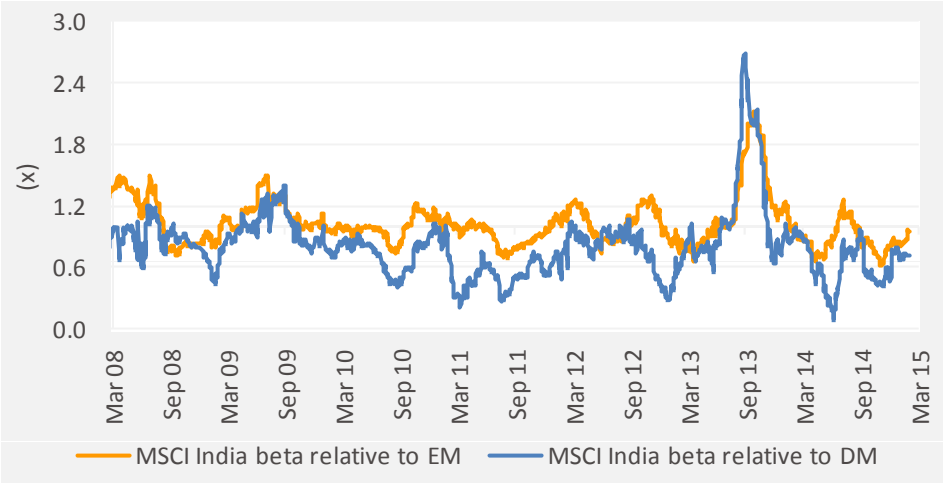
Performance (USD, %)

Country	1M	3M	6M	YTD	12M
China	8.1	9.1	18.1	11.1	23.1
Russia	8.0	30.0	(11.0)	31.3	(21.4)
Mexico	7.5	6.0	(9.0)	2.9	(3.3)
EM Latin America	5.7	(1.3)	(16.8)	(4.6)	(19.3)
Brazil	4.7	(5.3)	(22.3)	(9.3)	(27.4)
South Africa	4.5	8.2	9.8	6.3	5.5
Turkey	4.4	(14.0)	(3.1)	(14.6)	(9.5)
EM (Emerging Markets)	**3.6**	**5.5**	**0.9**	**5.2**	**0.4**
Singapore	3.6	(0.0)	(0.3)	(0.4)	(0.8)
Malaysia	3.6	1.9	(10.1)	0.9	(11.8)
EM Asia	2.9	6.7	7.2	7.4	9.9
Japan	2.9	11.2	12.7	11.2	11.5
Philippines	2.7	12.1	13.9	12.1	24.5
Europe	2.6	7.0	4.3	5.8	(5.6)
Hong Kong	1.8	5.9	8.3	6.3	8.2
Korea	1.6	5.5	(0.4)	5.0	(7.0)
Taiwan	1.1	5.4	5.3	5.4	10.4
Indonesia	0.9	3.1	7.6	2.5	1.8
Thailand	0.7	4.6	(0.4)	4.6	10.2
USA	0.4	1.3	5.9	1.3	11.6
United Kingdom	(0.7)	2.6	(1.2)	0.9	(7.1)
India	(1.9)	7.1	7.2	8.3	22.4

INR relatively stable (1M performance, %)



MSCI India beta relative to EM and DM less than 1



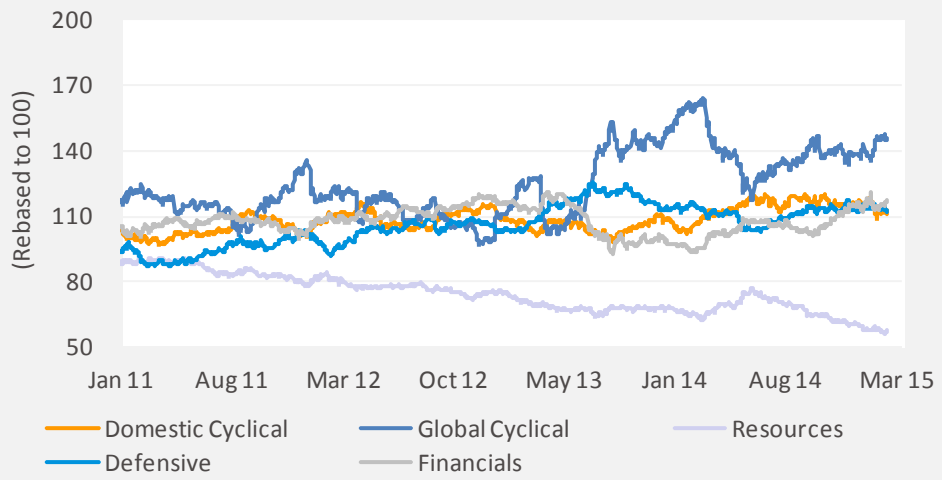
Source: Bloomberg, 08 April 2015. Note: The beta is calculates as slope of daily returns over three months on a rolling basis.

Financials and IT underperform

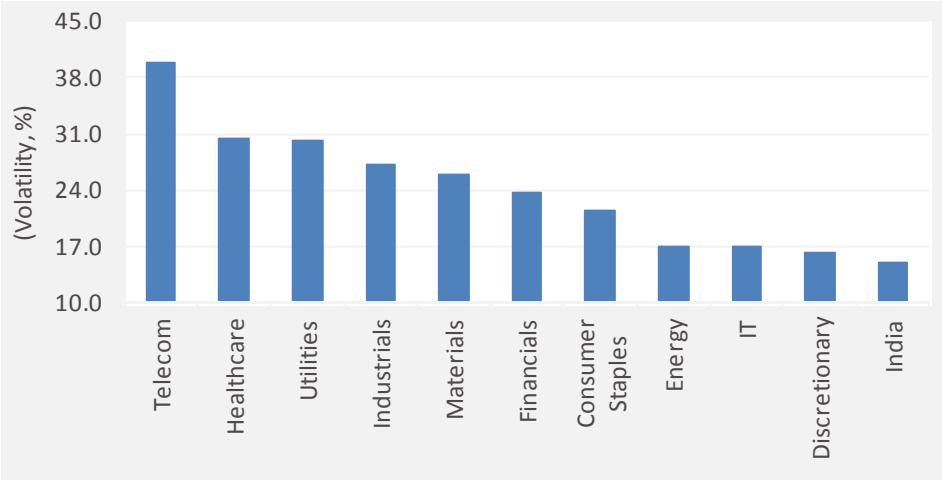
Financials and IT underperform (INR performance, %)

Sector	1M	3M	6M	YTD	12M
Telecom	18.8	9.9	0.7	14.0	12.9
Healthcare	8.5	25.9	26.3	25.8	76.0
Discretionary	0.1	(0.8)	(3.0)	(0.1)	22.9
Consumer Staples	(1.5)	9.0	12.8	8.8	24.8
India	**(2.2)**	**5.4**	**8.1**	**6.7**	**27.3**
Utilities	(3.1)	(1.5)	(1.2)	(1.0)	12.1
Industrials	(4.0)	10.9	24.1	13.3	42.9
Energy	(4.1)	(5.5)	(10.6)	(5.6)	(5.8)
Materials	(4.8)	(3.1)	(4.4)	(0.5)	7.4
Information technology	(5.2)	6.0	4.1	7.4	26.2
Financials	(5.3)	3.2	21.3	5.8	42.7

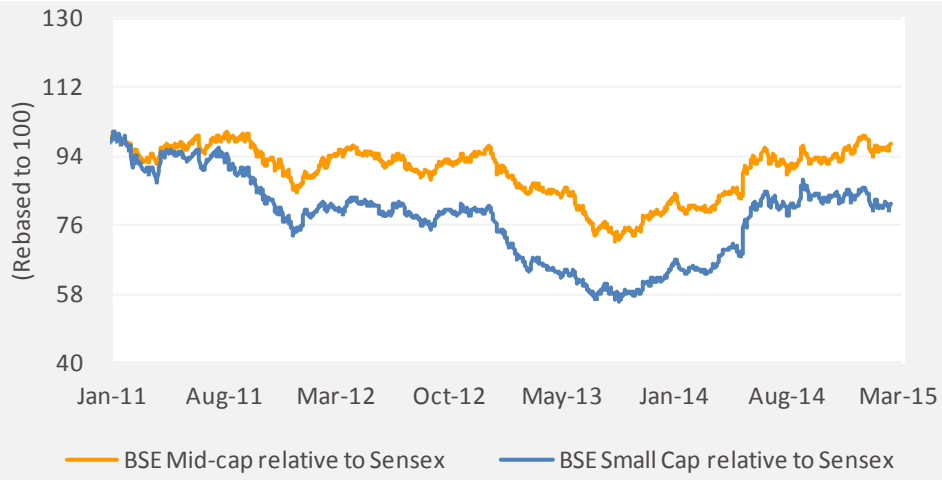
Defensives outperform



Volatility in telecom remains high



Mid caps and small caps marginally underperform large caps



Source: Bloomberg. *Note: Defensives are Healthcare, telecom, consumer staples and utilities. Domestic cyclicals include Industrials and consumer discretionary. Global cyclical is IT. Energy and materials are resources. The defensives, cyclical, etc. indices are calculated as an equal weight as of Jan 2010.

Valuations

MSCI India is now 0.5 SD expensive

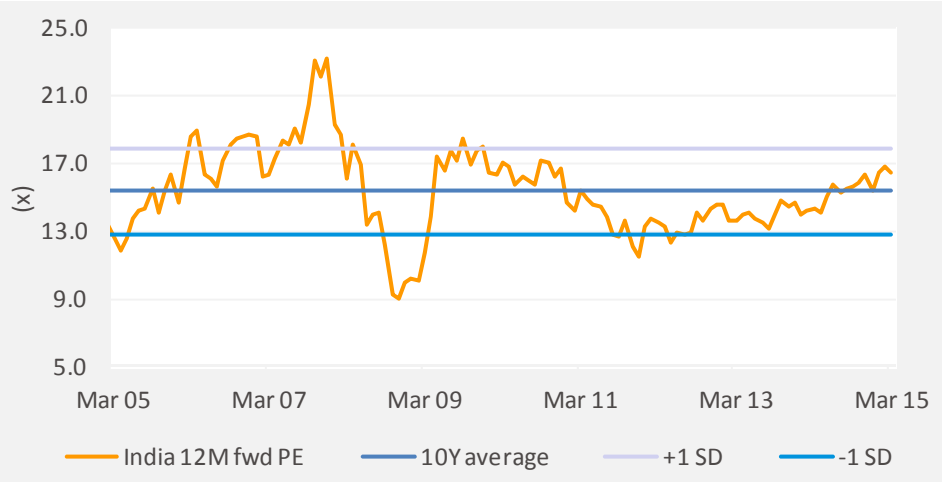
Global valuation snapshot

	12M forward PE		Trailing PB		ROE (%)		DY (%)	
	Current	# of stdev. From 10Y avg.	Current	# of stdev. From 10Y avg.	CY 2014/ FY 2015E	CY 2015/ FY 2016E	CY 2014/ FY 2015E	CY 2015/ FY 2016E
Brazil	12.2	1.3	1.2	(1.4)	9.5	12.3	3.9	4.2
China	10.7	(0.3)	1.6	(0.8)	13.6	13.9	2.8	3.1
EM (Emerging Markets)	**12.1**	**0.8**	**1.5**	**(0.9)**	**11.9**	**12.5**	**2.7**	**3.0**
EM Asia	12.0	0.2	1.6	(0.9)	12.6	13.0	2.5	2.7
EM Latin America	14.3	1.9	1.5	(1.3)	10.4	12.5	3.0	3.3
Europe	16.5	2.7	2.1	0.5	11.6	12.3	3.2	3.5
Hong Kong	15.7	0.1	1.3	(0.7)	8.0	8.3	2.9	3.1
India	**16.6**	**0.5**	**3.2**	**(0.3)**	**17.3**	**17.5**	**1.5**	**1.7**
Indonesia	15.6	1.4	3.5	(0.3)	20.5	20.5	2.4	2.7
Japan	15.0	(0.2)	1.4	0.1	9.3	9.6	1.9	2.0
Korea	10.1	0.3	1.0	(1.5)	9.6	10.0	1.5	1.7
Malaysia	16.0	1.3	2.0	(0.4)	11.8	12.1	3.0	3.2
Mexico	18.9	1.8	2.8	(0.3)	13.7	14.2	1.8	1.9
Philippines	20.5	2.1	3.4	1.7	15.2	15.5	1.9	2.0
Russia	6.2	(0.3)	0.8	(0.9)	9.3	8.9	4.2	5.1
Singapore	13.7	(0.1)	1.5	(0.8)	10.0	10.3	3.6	3.9
South Africa	16.9	3.0	2.9	0.4	15.5	16.4	2.9	3.3
Taiwan	12.6	(0.4)	1.8	(0.3)	13.9	14.0	3.4	3.8
Thailand	14.0	2.1	2.3	0.5	14.8	15.3	3.1	3.4
Turkey	9.7	0.1	1.5	(0.9)	14.0	14.4	3.2	3.4
United Kingdom	15.7	2.7	2.0	(0.1)	11.8	12.7	3.9	4.2
USA	17.3	2.1	2.9	1.1	15.4	16.2	2.0	2.1

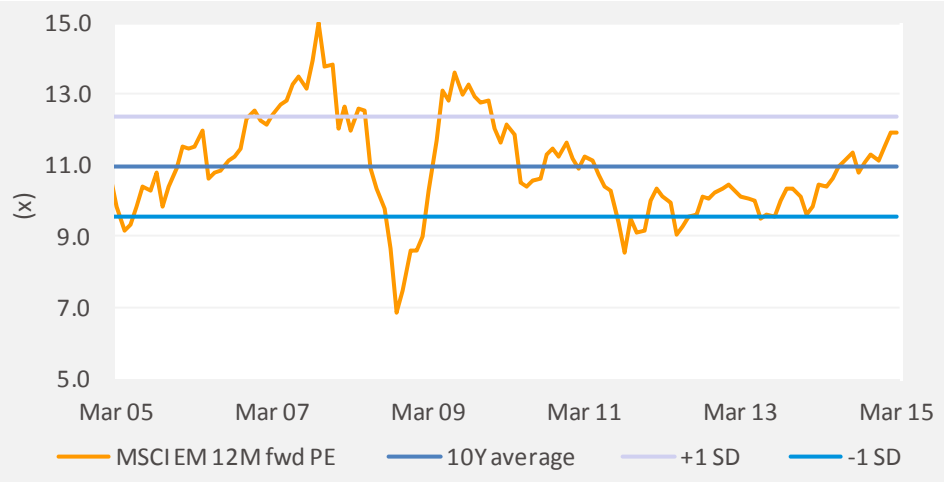
Source: Bloomberg, MSCI. The data is as reported by MSCI.

Forward PE: India trades 0.5SD above its 10Y average

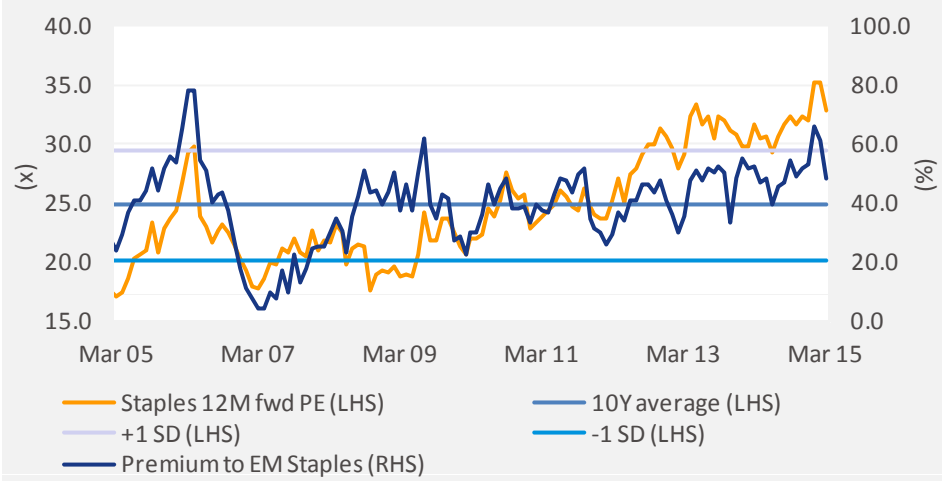
MSCI India trades above 10 year average



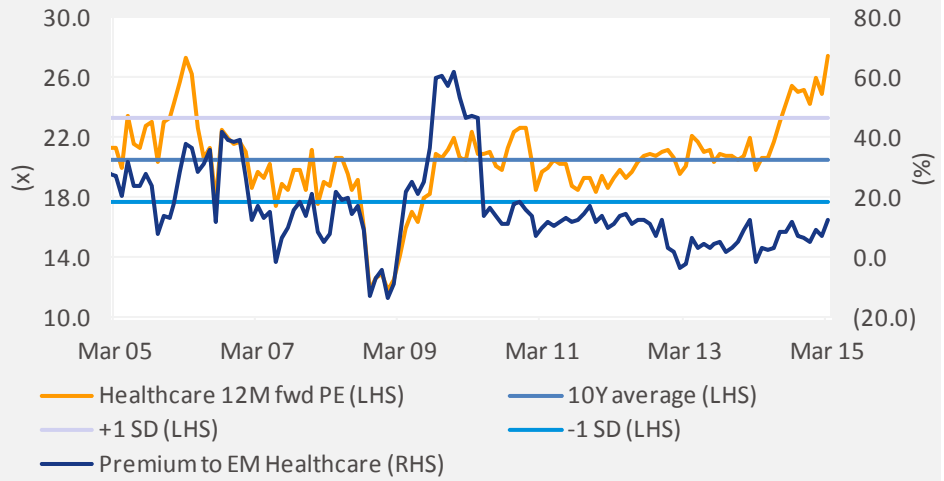
...so does MSCI EM



Consumer staples de-rate marginally...



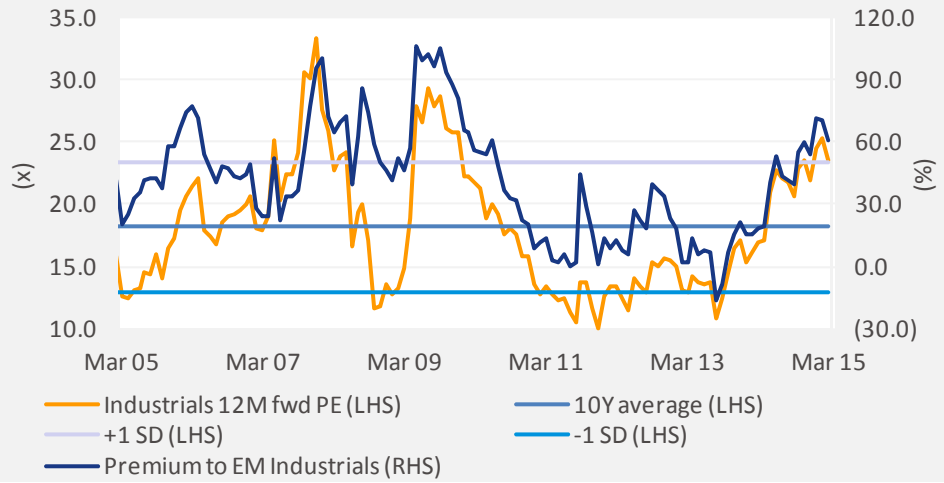
...however healthcare re-rates significantly



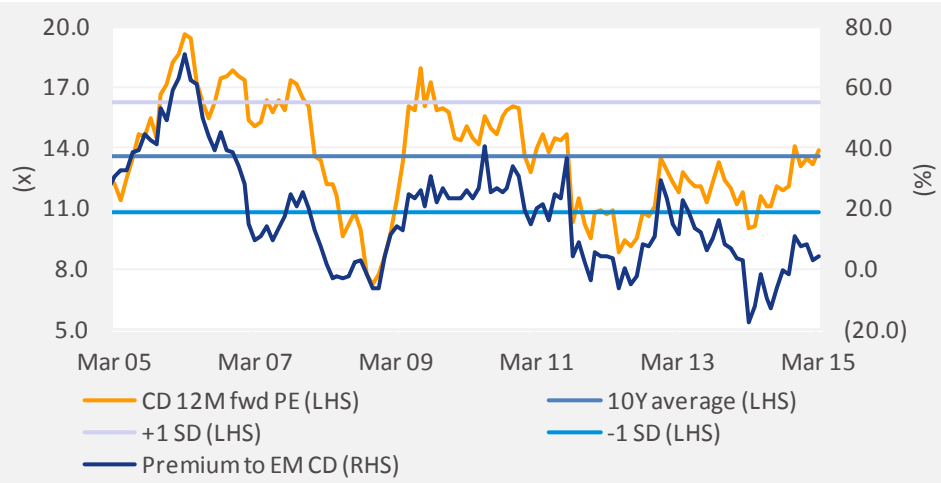
Source: Bloomberg, MSCI, Edelweiss research . Note: The forward PE numbers are as those calculated by MSCI

Forward PE…(Contd.)

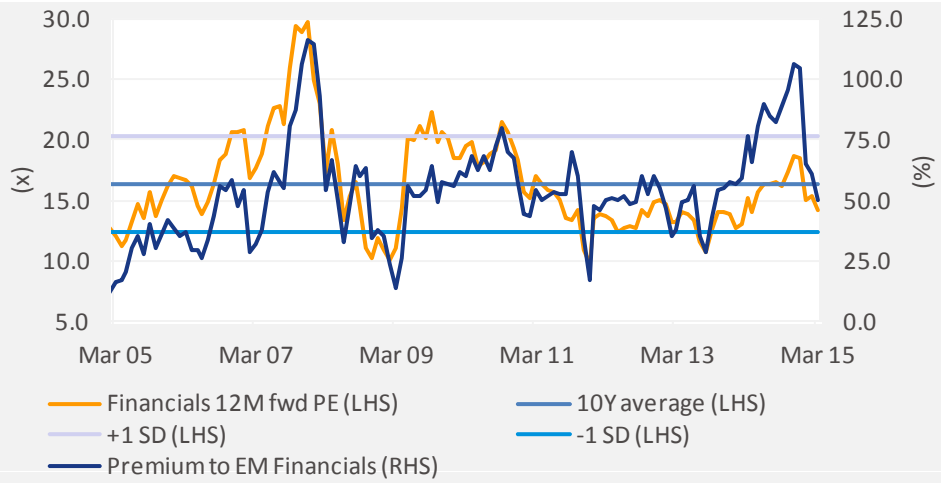
Industrials valuations expensive



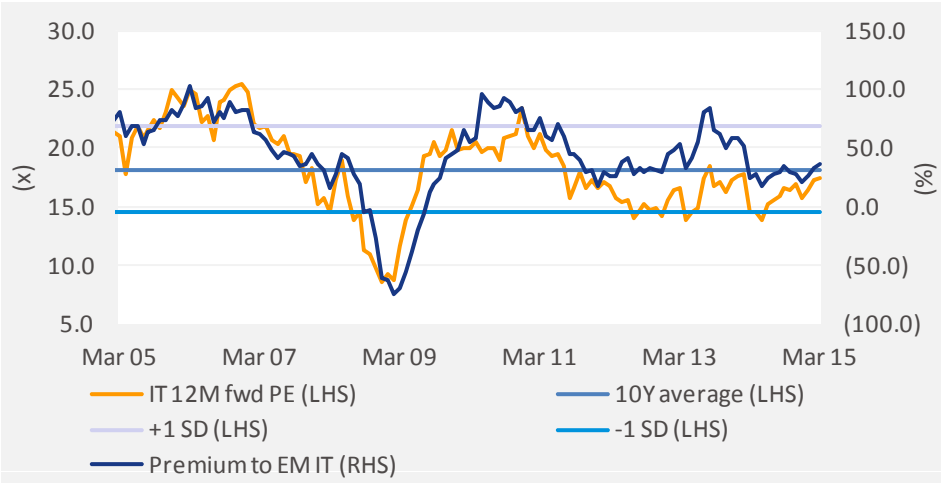
Consumer discretionary trades at its 10Y average



Financials slither back to its 10Y average



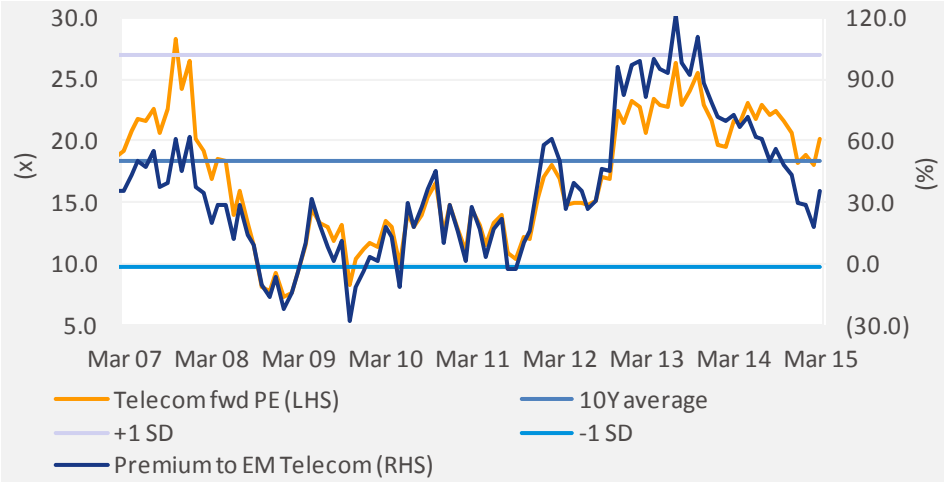
IT sector re-rates to its 10Y average



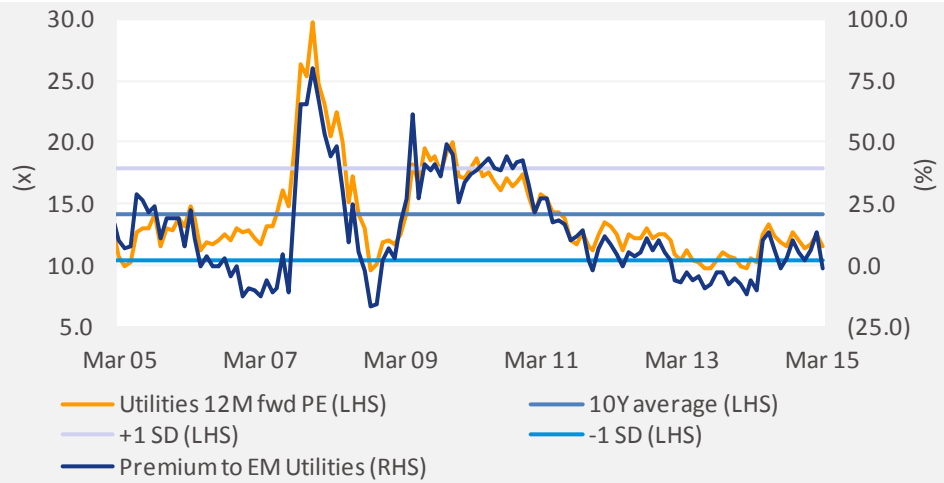
Source: Bloomberg, MSCI, Edelweiss research . Note: The forward PE numbers are as those calculated by MSCI

Forward PE….(Contd.)

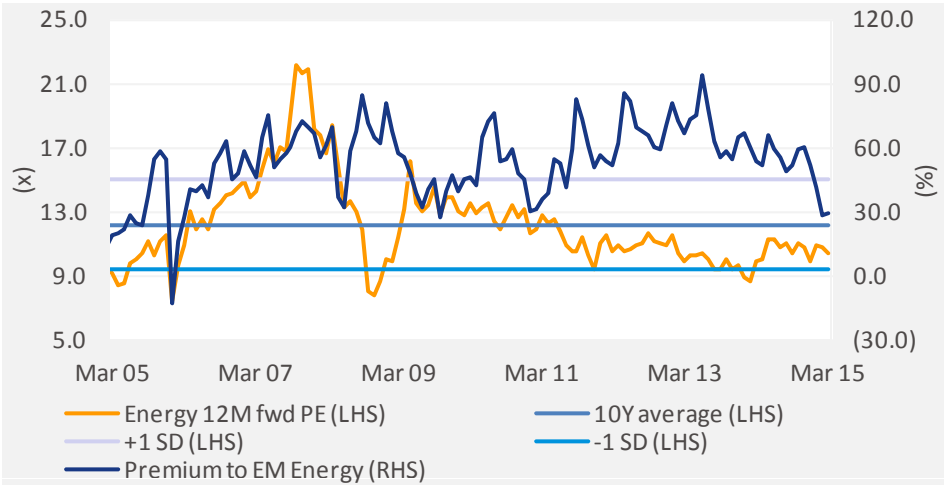
Telecom de-rates



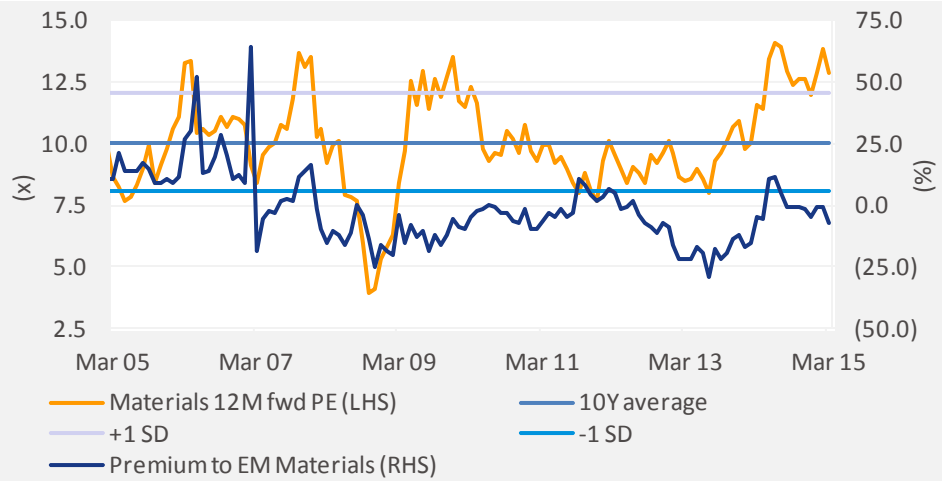
Utilities valuations are 1 SD cheap



Energy sector valuations cheap



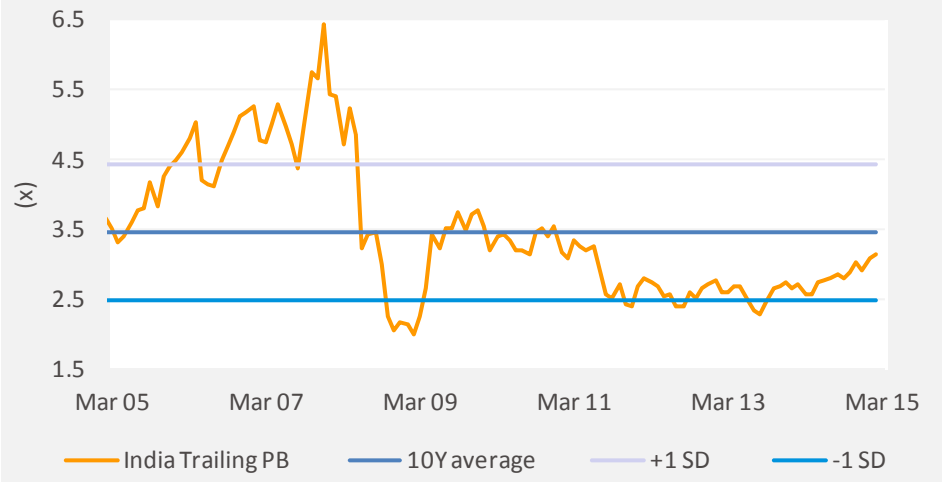
Materials valuations expensive



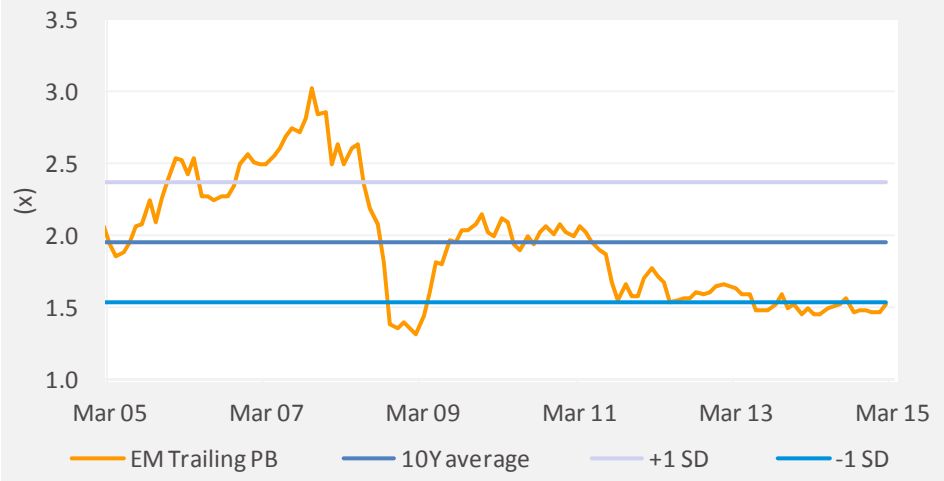
Source: Bloomberg, MSCI, Edelweiss research . Note: The forward PE numbers are as those calculated by MSCI

Trailing PB: India inching towards its long-term average

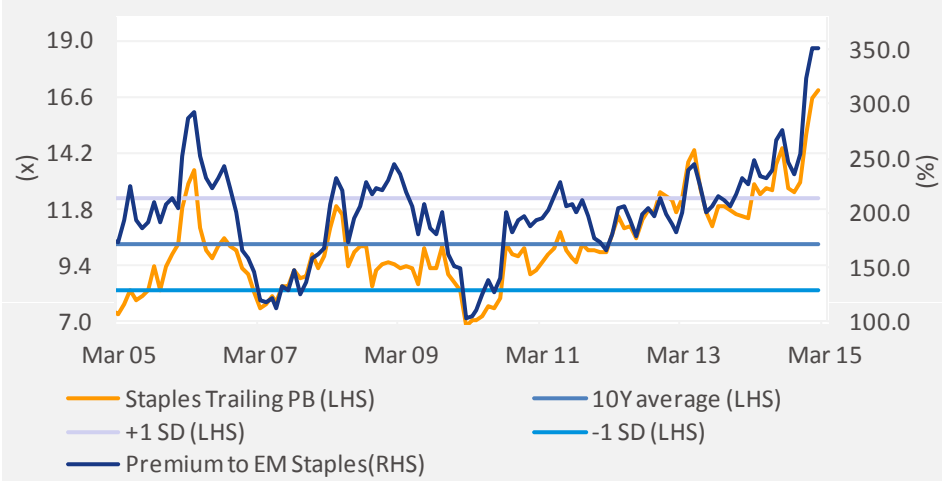
MSCI India still cheap on a price to book basis



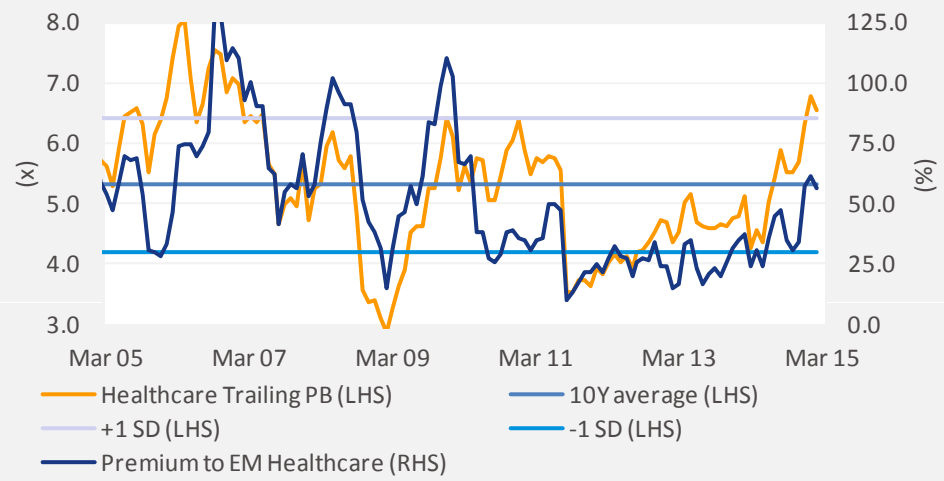
Emerging markets however are much cheaper



Consumer staples valuations are at highly expensive levels…



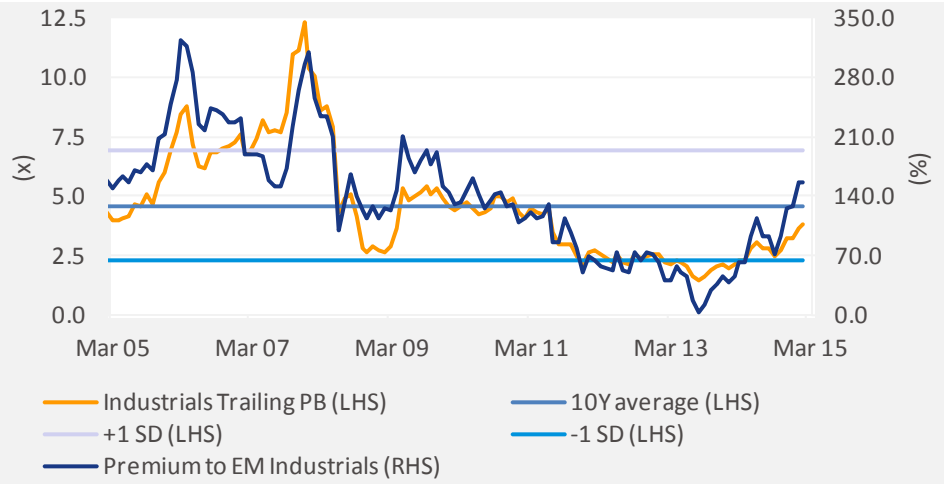
… so are Healthcare's



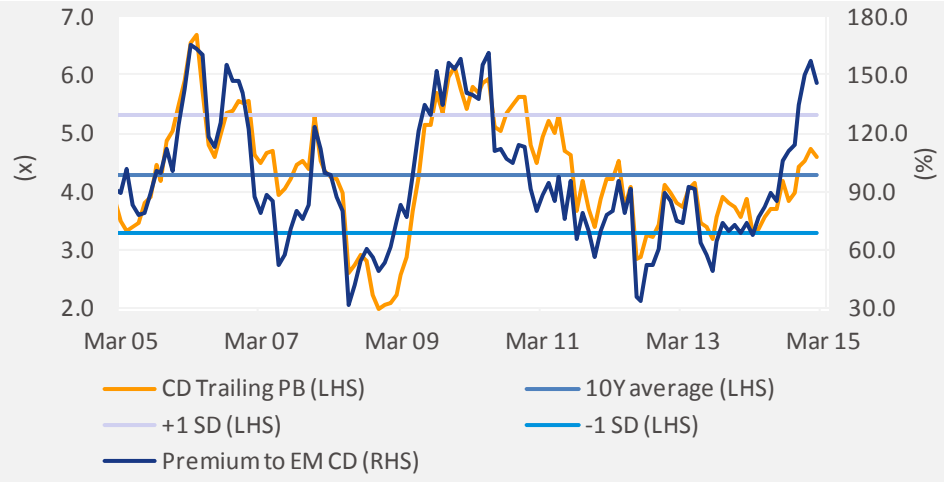
Source: Bloomberg, MSCI, Edelweiss research . Note: The trailing PB numbers are as those calculated by MSCI. The premium to MSCI EM are calculated with respect to the respective sectors in MSCI EM

Trailing PB…(Contd.)

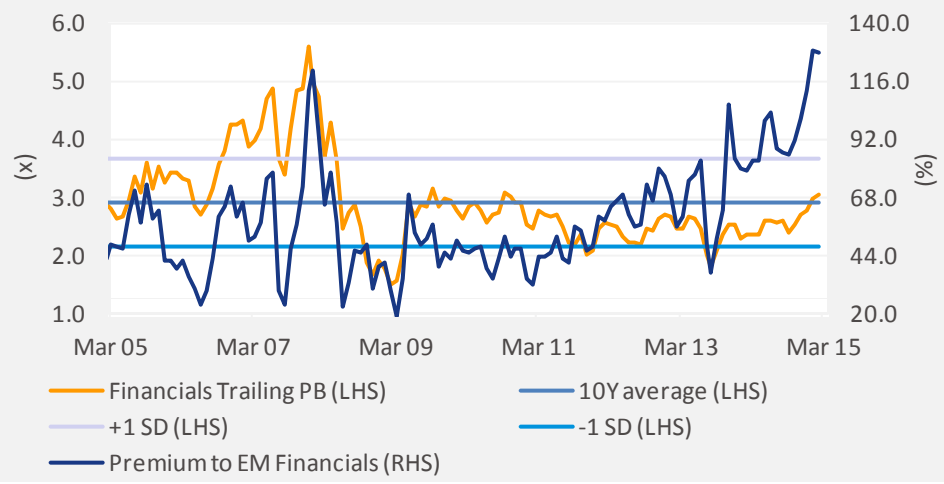
Industrials are still cheap on a P/B basis



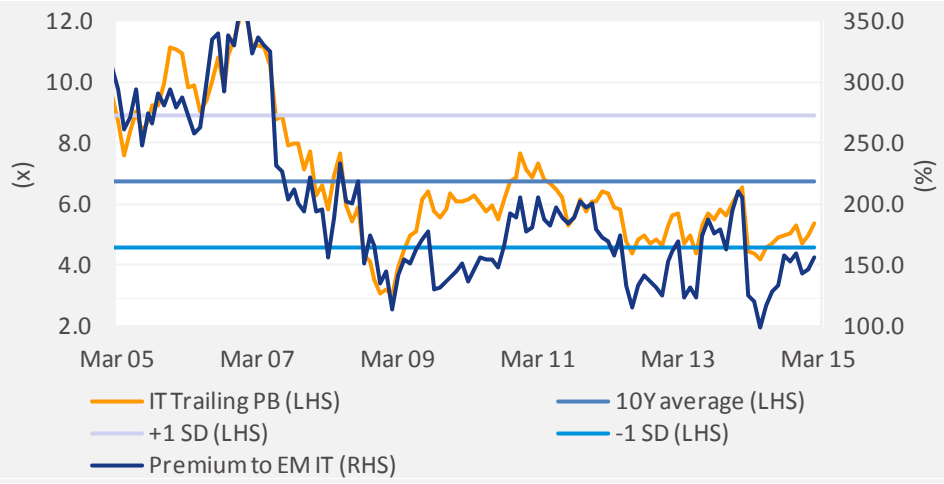
Consumer discretionary trades above 10Y average



Financials trade at their long term average



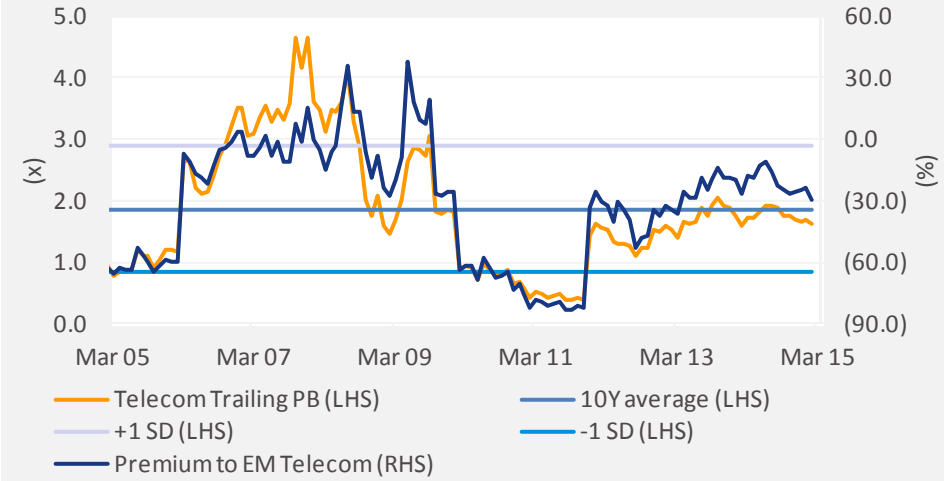
IT is relatively cheap



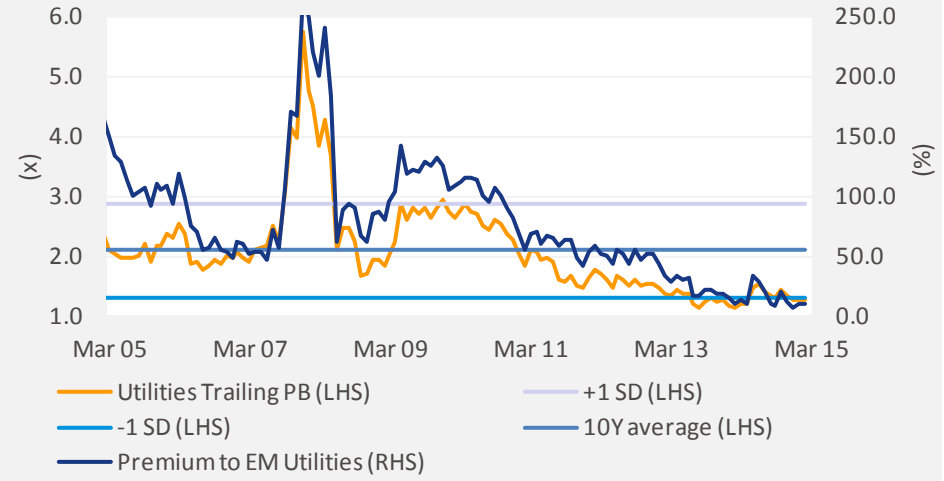
Source: Bloomberg, MSCI, Edelweiss research . Note: The trailing PB numbers are as those calculated by MSCI. The premium to MSCI EM are calculated with respect to the respective sectors in MSCI EM

Trailing PB ...(Contd.)

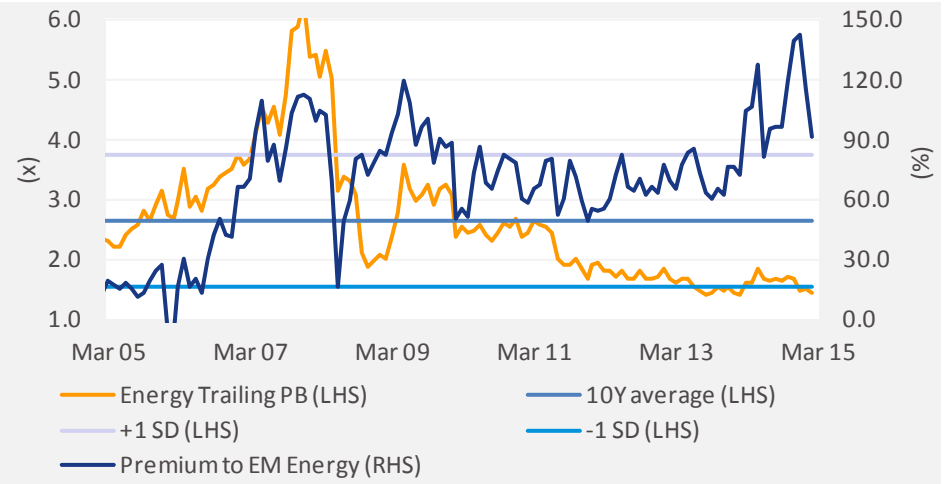
Telecom trades below its long term average on PB basis



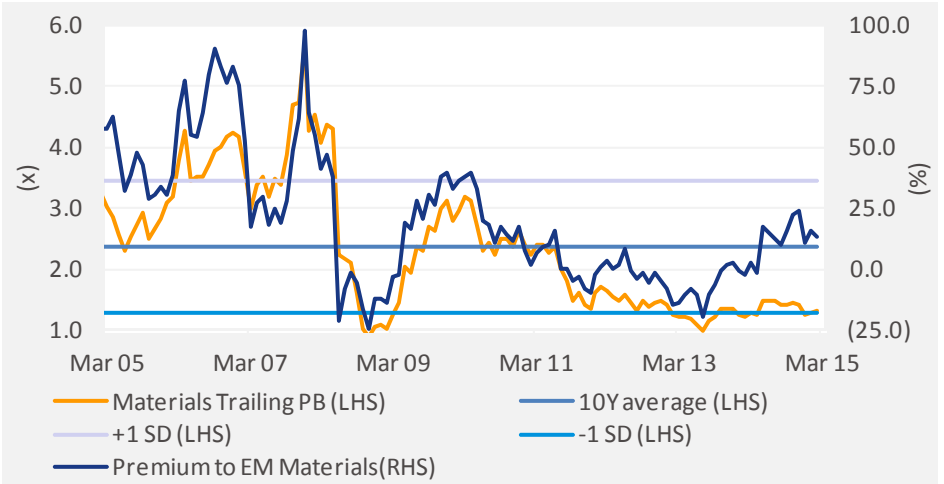
Utilities is one standard deviation below its 10Y average



...so is energy



...and materials

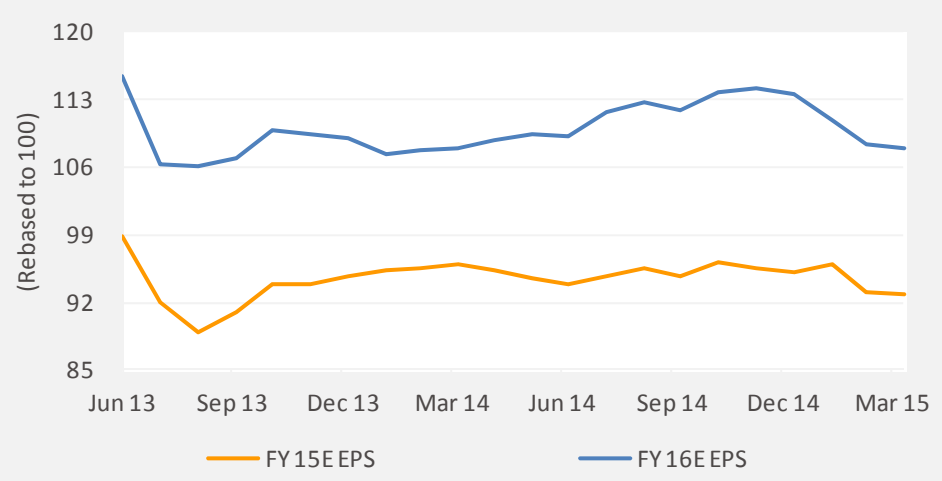


Source: Bloomberg, MSCI, Edelweiss research . Note: The trailing PB numbers are as those calculated by MSCI. The premium to MSCI EM are calculated with respect to the respective sectors in MSCI EM

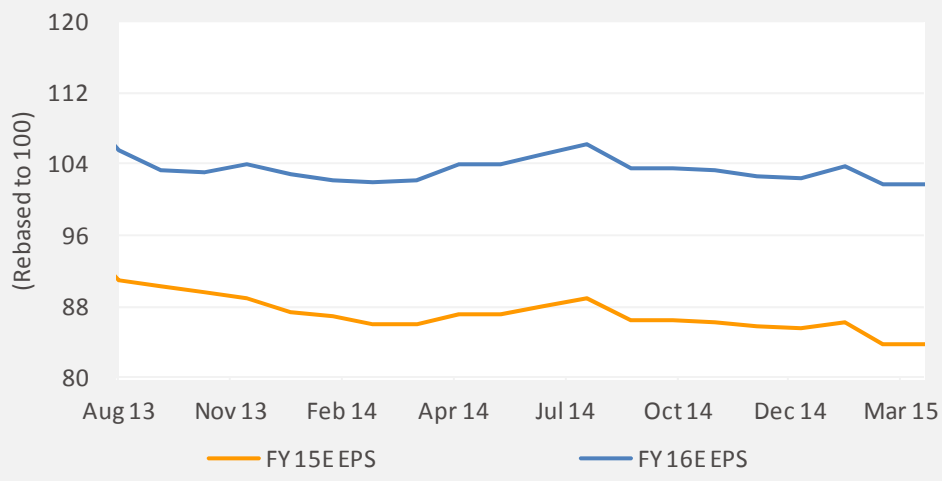
Earnings Downgrades

Sensex earnings witness downgrades

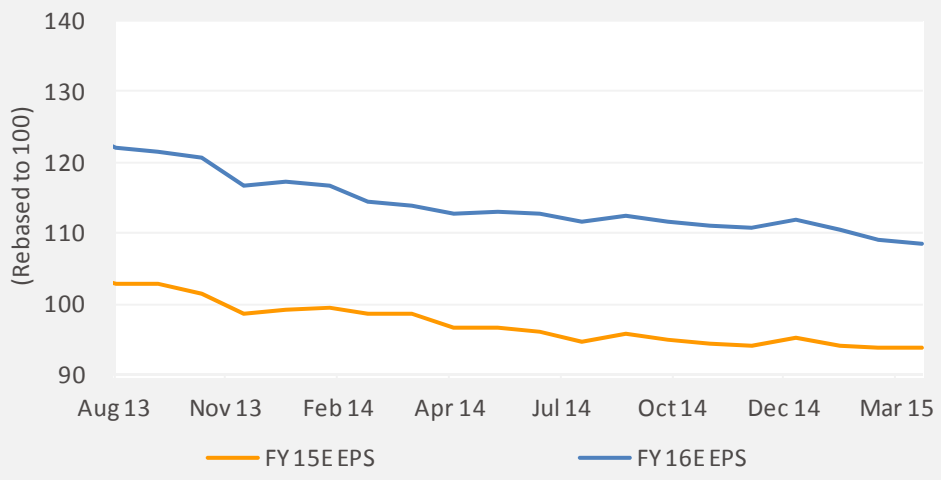
BSE Sensex FY15 and FY16 EPS witness marginal downgrades



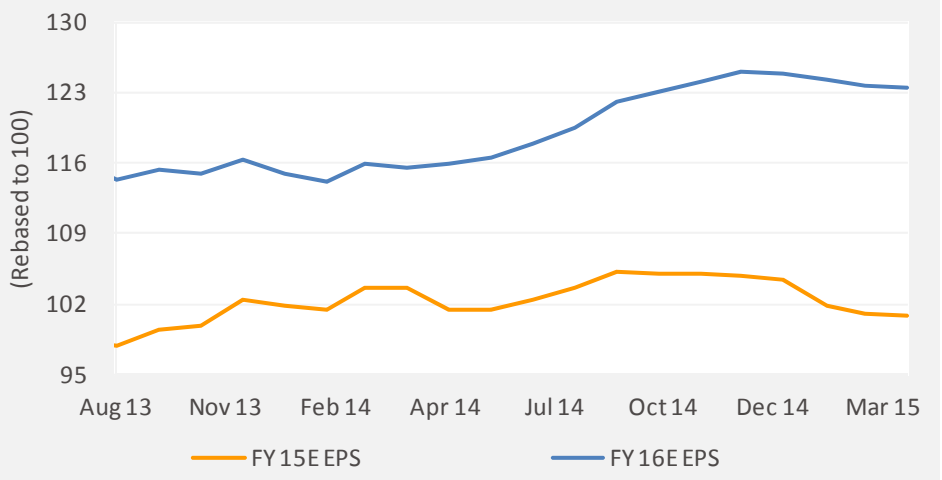
…so does bankex



FMCG earnings also taper marginally



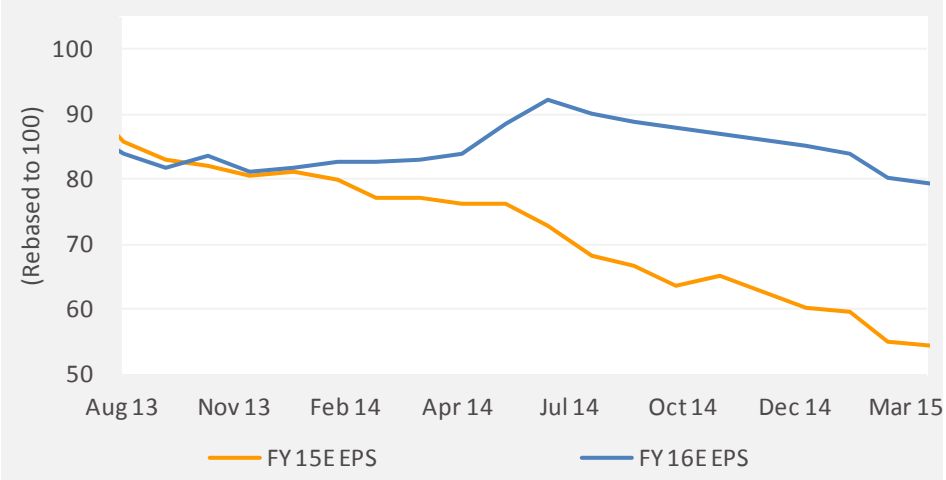
Healthcare earnings taper off..



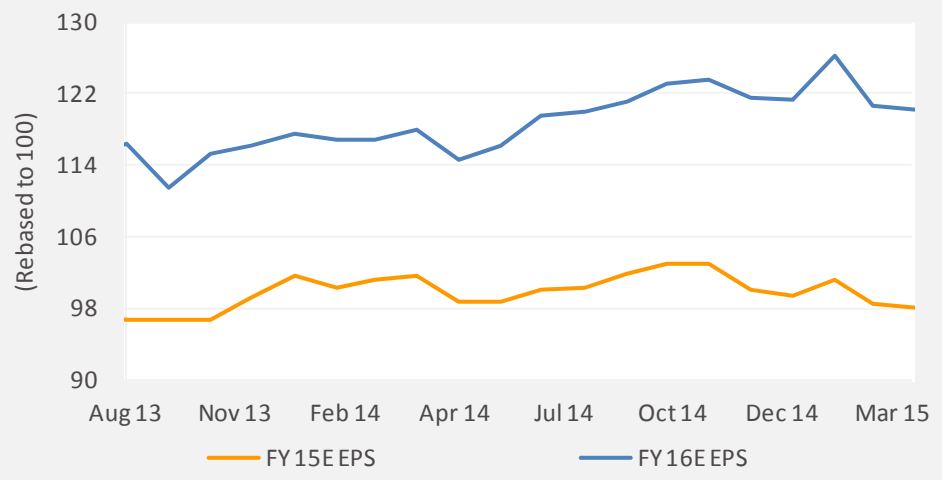
Source: Bloomberg. Note: for bankex, the EPS is calculated for parent. All numbers are rebased to 100 as of FY15 EPS estimates as on April 2013. The estimates are Bloomberg consensus estimates

Cyclicals and infra related sectors witness downgrades

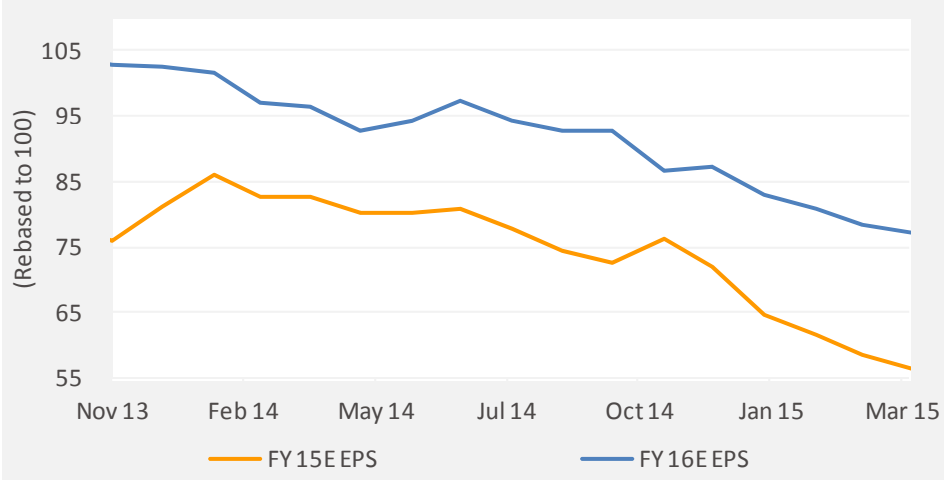
Cap goods earnings continue to witness downgrades



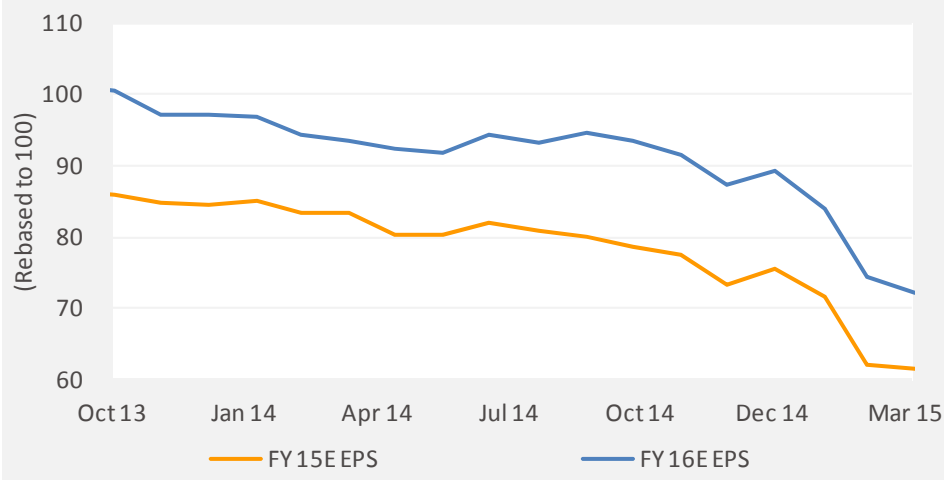
Autos earnings relatively stable



Downgrades continue for power sector…



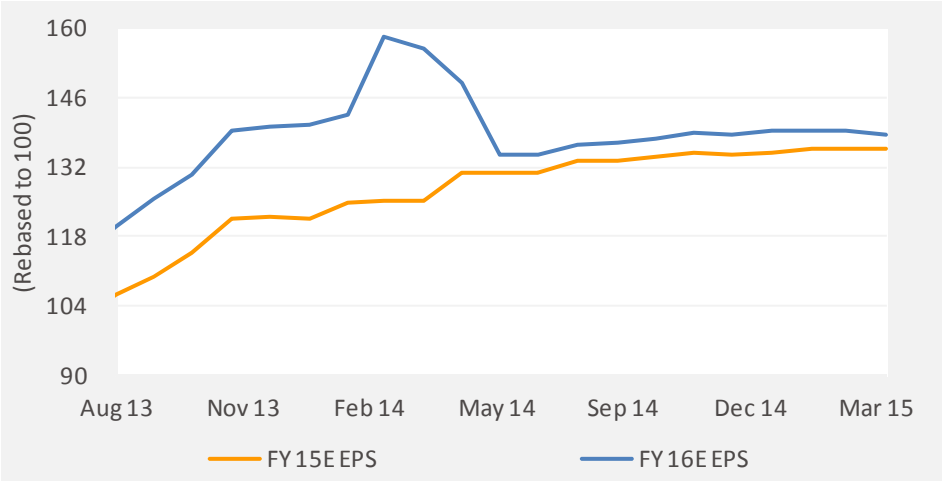
…and also for metals sector



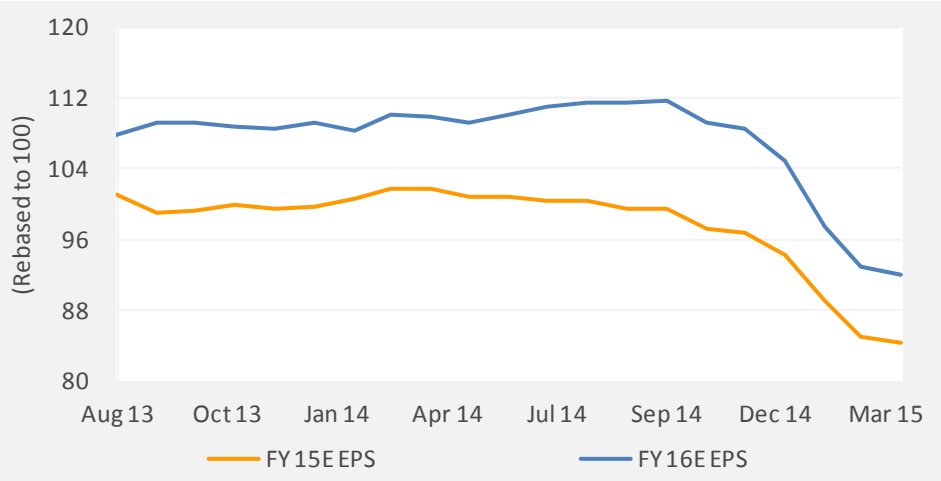
Source: Bloomberg. All numbers are rebased to 100 as of FY15 EPS estimates as on April 2013. The estimates are Bloomberg consensus estimates

IT earnings stable, while energy earnings get downgraded

IT earnings stable…



…however energy earnings continue downgrade



Source: Bloomberg, Note: All numbers are rebased to 100 as of FY15 EPS estimates as on April 2013. The estimates are Bloomberg consensus estimates

Sensex companies EPS downgrades (consensus)

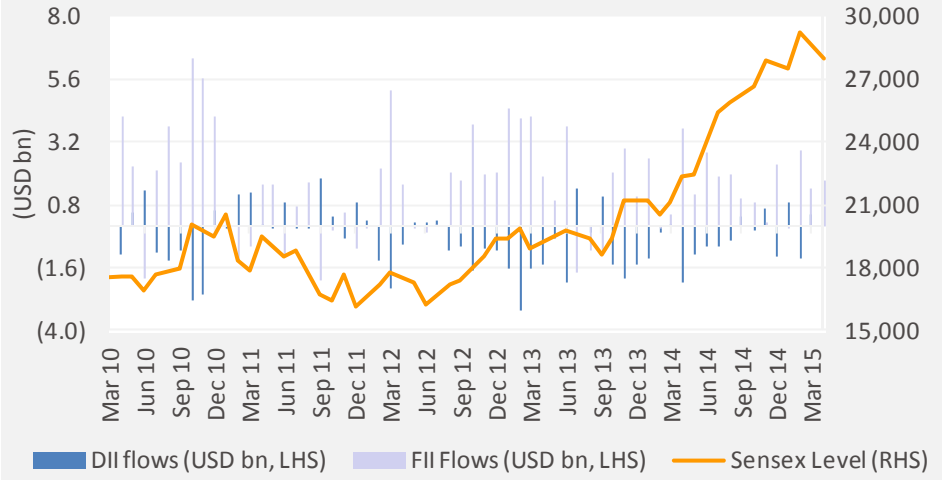
Company Name	FY 15 EPS Downgrade (%)			FY 16 EPS Downgrade (%)		
	1M	3M	6M	1M	3M	6M
Hindustan Unilever Ltd	0.3	(0.6)	(0.5)	0.3	1.8	3.4
State Bank of India	0.1	(4.7)	(5.2)	0.1	(3.3)	(4.6)
NTPC Ltd	0.0	3.8	0.2	(0.4)	0.6	(1.1)
Larsen & Toubro Ltd	0.0	(4.9)	(8.7)	0.2	(5.3)	(6.9)
Bharti Airtel Ltd	0.0	4.1	7.2	(1.9)	(6.4)	(1.7)
ITC Ltd	0.0	(3.2)	(4.0)	(0.2)	(7.2)	(8.2)
Reliance Industries Ltd	(0.0)	(5.7)	(7.9)	(0.7)	(7.5)	(11.3)
Cipla Ltd/India	(0.0)	(7.0)	(12.3)	0.1	(2.6)	(4.8)
Axis Bank	(0.0)	0.9	1.0	(0.2)	0.8	1.1
Dr Reddy's Laboratories Ltd	(0.1)	(0.4)	(1.1)	(0.5)	(3.4)	(2.7)
ICICI Bank Ltd	(0.1)	(0.9)	(0.6)	(0.3)	(1.4)	(1.0)
HDFC Bank Ltd	(0.1)	(1.7)	(2.8)	(0.1)	(1.4)	(3.3)
Infosys Ltd	(0.2)	1.6	3.6	(0.7)	0.5	3.1
Maruti Suzuki India Ltd	(0.3)	(0.2)	1.8	0.3	1.2	7.2
TCS	(0.3)	(1.0)	(2.6)	(0.9)	(2.8)	(3.9)
Wipro Ltd	(0.3)	0.1	(1.4)	(1.5)	(2.5)	(4.2)
HDFC ltd.	(0.4)	(1.7)	(2.7)	(0.4)	(1.8)	(2.7)
Sun Pharma	(0.4)	(1.7)	(0.6)	(0.5)	(0.7)	0.9
Tata Motors Ltd	(0.4)	(2.7)	(3.6)	(0.1)	(2.9)	(1.5)
Oil & Natural Gas Corp Ltd	(0.5)	(15.3)	(22.2)	(1.0)	(16.8)	(23.5)
Hindalco Industries Ltd	(0.7)	(3.4)	(1.4)	(1.7)	(1.5)	(0.9)
Coal India Ltd	(0.8)	(4.3)	(10.7)	(0.7)	(3.4)	(8.2)
Mahindra & Mahindra Ltd	(0.8)	(7.6)	(13.2)	(1.6)	(10.0)	(13.8)
Hero Motocorp Ltd	(1.2)	(6.3)	(4.6)	(1.6)	(6.1)	(3.2)
Bajaj Auto Ltd	(1.6)	(6.1)	(6.9)	(3.0)	(7.9)	(6.8)
GAIL India Ltd	(1.9)	(12.6)	(14.4)	(2.9)	(15.3)	(18.6)
Sesa Sterlite Ltd	(2.0)	(13.8)	(17.8)	(6.4)	(24.1)	(31.2)
Tata Steel Ltd	(2.2)	(40.7)	(46.4)	(1.8)	(26.2)	(31.9)
Tata Power Co Ltd	(3.4)	(32.8)	(53.3)	(3.0)	(18.2)	(27.1)
Bharat Heavy Electricals Ltd	(9.7)	(24.5)	(33.7)	(2.9)	(6.7)	(9.7)

Source: Bloomberg, arranged in decreasing order of FY15 1M EPS upgrades. Note: For banks, only the parent entity is used.

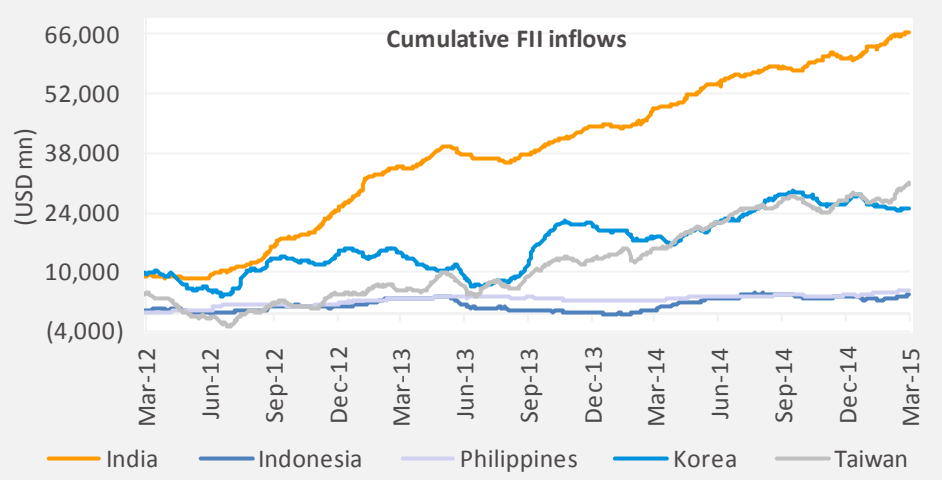
Flows

Net institutional flows increase

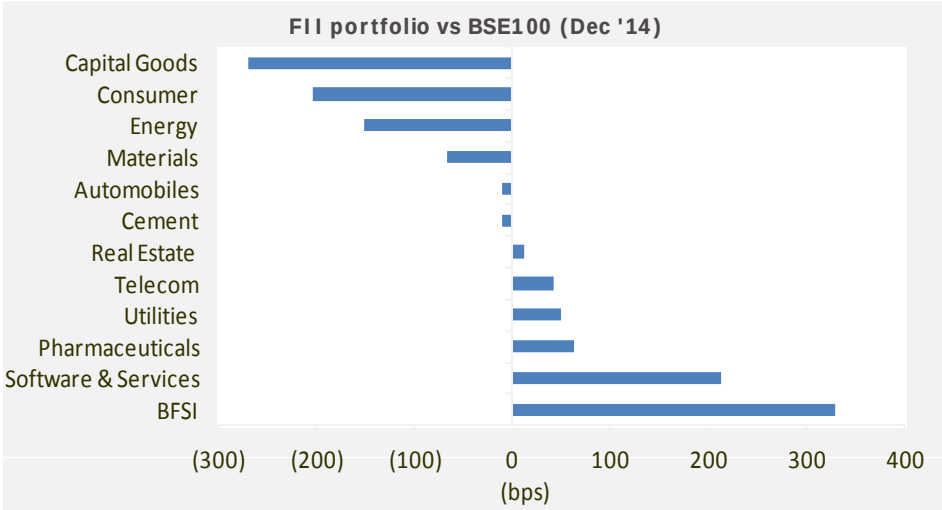
FII flows increased mildly in February



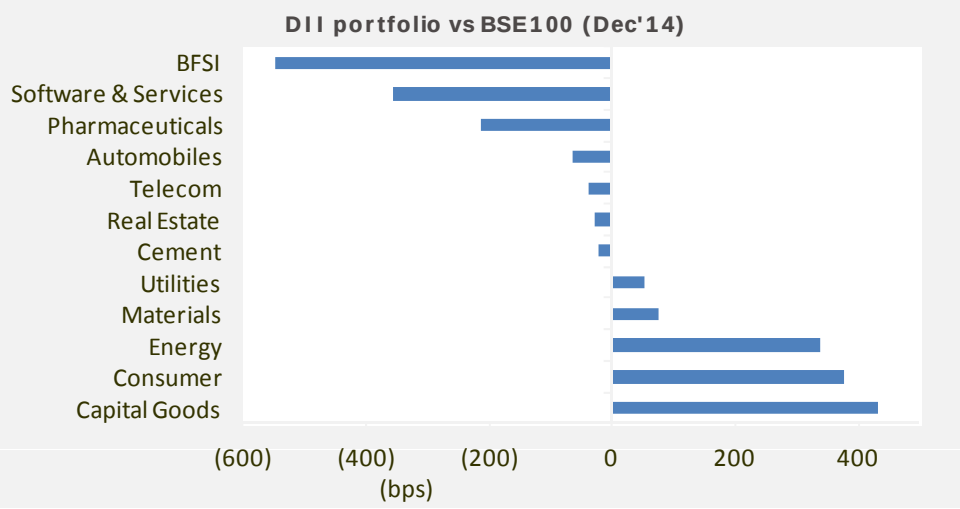
India remains the favorite amongst the EM's



FII overweight on BFSI and IT (portfolio as of Q3FY15)



DII overweight on Capital Goods (portfolio as of Q3FY15)



Source: Bloomberg, CMIE, Prowess

FII ownership of Indian equities increases further

Sector	Type of flows	% ownership held												
		Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15
BSE100	**FII**	**16.7**	**17.5**	**17.4**	**18.6**	**19.7**	**20.6**	**20.8**	**20.6**	**21.4**	**21.7**	**21.6**	**22.4**	**22.7**
	DII	**12.1**	**12.2**	**12.4**	**12.2**	**12.0**	**11.7**	**11.5**	**11.1**	**11.0**	**11.3**	**11.1**	**11.0**	**11.2**
BFSI	FII	28.8	29.7	28.9	31.1	32.6	34.7	35.6	35.2	35.3	35.8	35.0	36.6	36.2
	DII	15.0	15.2	15.6	15.0	14.5	13.7	12.9	13.1	13.3	13.7	13.8	13.4	13.3
Energy	FII	8.8	9.0	8.9	10.0	10.2	10.0	10.2	10.7	11.1	11.2	11.3	11.2	11.2
	DII	8.4	9.3	9.3	9.3	9.2	9.4	9.4	9.3	9.3	9.5	9.1	9.2	9.0
Software & Services	FII	19.7	20.6	19.8	20.5	20.8	21.9	21.3	22.0	23.1	23.3	23.0	23.5	23.3
	DII	10.0	9.4	9.4	9.4	9.1	8.3	9.0	8.2	7.4	6.9	6.8	6.9	7.3
Capital goods	FII	11.7	12.9	12.1	13.3	14.3	14.5	14.1	13.7	15.4	15.9	16.7	15.5	15.2
	DII	21.8	21.2	22.9	23.3	23.0	23.2	23.7	24.1	23.0	24.0	24.3	24.1	23.9
Materials	FII	12.1	11.6	10.9	11.0	12.5	12.0	12.6	12.2	13.6	14.0	14.8	14.8	13.9
	DII	11.6	10.5	10.6	9.9	10.7	10.8	10.7	9.7	10.0	9.8	9.4	9.2	9.9
Consumer	FII	17.5	18.3	19.1	20.2	21.0	21.7	21.5	20.6	20.9	20.5	19.4	20.1	20.0
	DII	20.5	19.7	19.1	18.1	17.6	17.4	17.0	16.2	15.9	16.6	15.7	15.7	15.3
Autos	FII	23.1	24.2	24.2	24.3	25.7	26.1	25.5	25.2	26.3	26.2	26.7	26.7	26.3
	DII	13.2	12.9	12.8	13.0	11.9	11.2	11.8	12.2	11.2	10.9	11.3	12.1	12.2
Utilities	FII	8.4	8.8	8.8	8.8	9.6	11.5	12.4	12.6	14.7	15.1	16.0	16.6	16.4
	DII	7.7	7.6	7.9	7.9	7.6	8.8	8.4	8.5	9.0	8.7	8.3	8.3	8.1
Pharmaceuticals	FII	19.2	20.4	20.6	21.0	22.2	23.6	25.0	25.1	25.0	25.5	25.6	25.9	25.5
	DII	11.2	11.6	11.0	10.5	9.7	8.3	7.4	7.1	8.0	7.8	7.4	6.9	7.0
Telecom.	FII	15.6	15.7	15.7	15.5	16.1	16.4	15.5	15.6	16.1	16.5	17.8	20.1	19.5
	DII	8.3	7.9	8.2	8.1	7.9	8.0	7.7	7.9	7.3	6.7	6.8	6.5	6.7
Cement	FII	20.2	20.8	21.5	22.4	22.7	23.1	22.8	23.3	23.4	23.2	22.9	22.2	21.8
	DII	12.2	10.8	10.5	9.4	9.0	8.7	9.2	9.3	9.4	9.4	9.3	10.0	10.2
Real Estate	FII	19.1	20.0	19.5	20.0	20.3	19.4	21.8	22.0	21.9	21.9	23.3	22.9	21.6
	DII	0.6	0.6	0.4	0.5	1.0	0.4	0.6	0.5	0.6	0.5	0.6	0.7	0.5

Source: Bloomberg, CMIE, prowess

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