



Equity Outlook

There is lot of inspection that needs to be done for CY 2015, then one can take a call on expectation for CY2016. The year 2015 was build on lot of hopes, hopes of govt being successful in moving ahead on the reforms path. Expectations were of revival in the earnings growth of the corporate community. Hopes were belied and that was getting reflected in the broader indices as well.

The efforts of the regulator to work towards protecting the small investor are going unnoticed. The increase in the lot size to Rs 5 lakh for F&O trade is slowly, steadily but gradually directing the novice investor to move towards mutual funds or qualified professionals for advice. The act will result in sticky flows to the equity markets and this is getting reflected in the over Rs 70000 crore invested by retail investors in the equity markets. FII flows are dependent on global events whether it was the Lehman Brothers debacle or the concern on Greece that resulted in FII moving out of India in the past. In the current context these FII flows get influenced by slowdown in China or rate hike in US, however the power of retail investor is acting as a shield for market correction. Going forward in CY 2016, we foresee increased participation from the retail investor through the more organized channel of Mutual Funds or qualified professional advice to gather steam.

Secondly earnings growth have been tepid, we believe this needs to be looked in context with valuation. In April 2008 – the Sensex was around 15,600 levels – the EPS at that time was at 691, however over the years, the earnings have gone up to 1664 – a growth of 2.4x, but the growth in Sensex has been a mere 1.6x to levels of 26000+, clearly this indicates that the pessimism is on the excess and upward movement is stock prices will be a natural fallout. Profits are up by 2.4x and prices are up by mere 1.6x

Lastly, at the time when NDA came to power 19 months ago, expectations were high on turnaround and reality was bleak, in current context expectations are low and reality is a better picture. All macro economic data numbers in terms of Fiscal Deficit, Current Account deficit, Inflation, GDP, interest rate cycle, crude price, IIP are much better than in the past. Given that expectations are low, opportunity is better – lets remember and implement to be greedy when others are fearful. Greed is a vice, however if implemented now, could be a virtue in future.

Happy Investing....

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