



## Equity Outlook

Ahoy10000!!!

This is a number on the Nifty that drew eyeballs and has been a talking point with all and sundry whether in the markets or outside. The logical question many ask is whether it is coming to an end or has the game just started? As usual let us look at history and learn from it and decipher the present, analyze and understand what it is trying to say.

Earlier in January 2008 when markets hit all time high and corrected from thereon – the Sensex then was 21000 odd – that era is reported to be the biggest bull-run in Indian equity markets. The earnings (EPS) of the Sensex in 2008 was approx Rs 800, the earning now i.e. FY18 is around Rs 1600. Logically and analytically – if EPS was **800** and markets peaked out at **21000** levels, the current EPS is **1600**, hence the markets should peak out at **42000**, however the current levels of the markets are at 32000. We aren't saying that the Sensex will reach 42000 but we are saying that a number of 42000 if hit in FY 18 calls for being underweight on equity. Taking the situation forward say for e.g. – we scale Sensex of 42000 in FY20, again it does not mean it is the end of the road, as in FY20 EPS might be Rs 2000 so the peak then would be 50000. Thus in simple terms peaks of markets are decided by the underlying profits reported by companies.

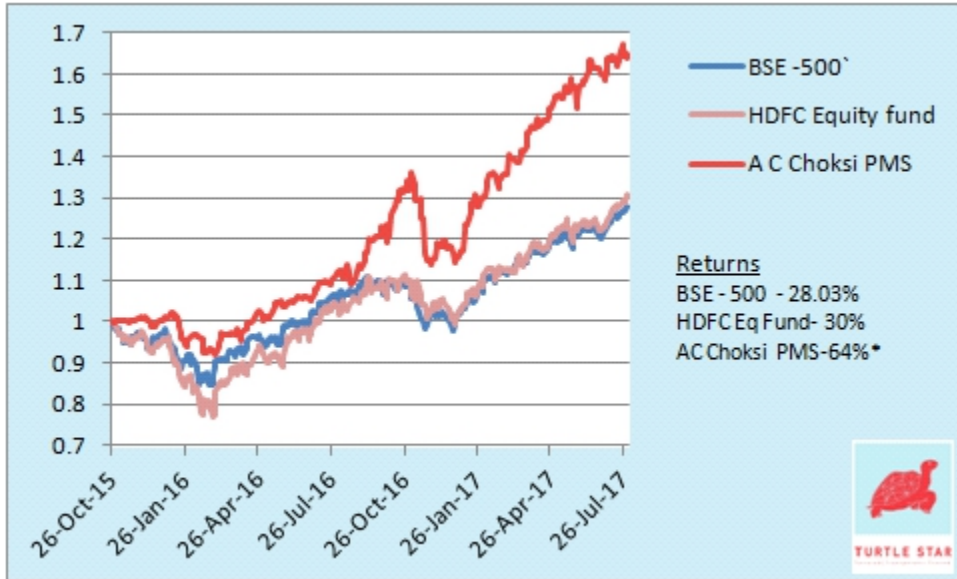
We have had a firm view for last many years that real estate sector will witness a bear phase. The same was on account of not only unsold inventory of developers but also on account of unsold inventory of Investors which was never getting recorded or registered. In the context of economy, despite continuous rate reduction by RBI and Banks, the credit off-take is poor. We believe that animal spirits amongst entrepreneurs in the period of 2003-2008, resulted in haphazard borrowing from Banks. The valuation reports for the asset mortgaged were bloated and economy is paying the price in terms of NPA today. Banks now have to clean their cupboard. The mortgaged assets will be auctioned and sold to recover the dues. Till the time such assets are not sold, there will be limited demand for new capital and business cycle will take prolonged time for recovery.

A SEED of BULL MARKET IS SOWN IN PESSIMISM(era of 2013).

BULL MARKETS GET FUEL FROM (current period) LIQUIDITY AND BULL MARKETS DIE ON IRRATIONAL EUPHORIA. The last phase is still some time away. In the last phase, business community borrow and get in the capex mode as if there is no tomorrow. The profits of corporate grow at twice the nominal GDP growth rate. New means of valuation techniques arise to justify the stock market. It is then the time to be worried when the party of Cinderella is on, no one knows when the gong will hit and the masks will be off from the face. We keep on reminding ourselves of history and have our feet and ears on the ground. We can visualize that the irrational euphoria is still away and so the going is safe, albeit in robust businesses. We will keep on finding such investment opportunities on your behalf.

Happy Investing!!!

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\*NAV as on 01.08.2017.

Money Multiplier Scheme - Rs 1 crore Invested in October 2015 has GROWN to Rs 1.71 Crores in June 2017.

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