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INDIA - GOOD ROAD AHEAD

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EQUITY MARKET TO SHINE

The Indian equity market is waiting for earnings to catch up with the prices to make the valuation look attractive.

Being Rock **Steady**

Not only has India managed to steer itself well through the choppy waters of global recession but has also stood its ground during the European crisis. Further, with most of the sector posting promising results, the future for equities looks bright enough

In the present global economic context, the European region seems to be in a deep economic crisis. The only bright spot for the Europeans seems to be the weak euro, increased German exports and higher GDP in the UK. Much is questionable about the recently completed EU banking stress tests, but it has helped to more to mitigate the risk aversion, thereby leading to a bounce-back in the euro-dollar rates and the equity markets. Elsewhere in the US, the economy is marred with high unemployment and a huge fiscal deficit but the Americans can sustain it and high money supply as the USD is still the powerful currency for all the global reserves and trade.

While the American economy continues to have a jobless recovery, there are fears for a double-dip recession. The US has experienced a double dip only once in the last 100 years and leads us to believe that the chances are rare. The imminent question to ask at this juncture is how India stacks up in this context, and the answer is “wonderfully well”. Some of the earlier fears of high fiscal deficit and higher inflation are quickly receding and the central bank has been prudent in identifying and addressing the issue of heightening inflation. The domestic economy is growing healthily, driven by domestic consumption and government spending. We are at a juncture where government spending has slowly started to increase the private sector spending in the economy - indeed a sign of good recuperation.

The current government's policies have been bold and unprecedented. Policy decisions in implementing part

of the Kirit Parekh Committee report, GST and the direct tax code have all been steps to improve the long-term productivity of the nation. The only bit of risk we perceive is the pace during which there will be a transmission from public sector spending to private sector spending. As also the slowly improving capex cycle will be an important indicator to watch out for. The highlight for the month is the UK PM asking Indian companies to create employment in his country – are the tables turning?

The Indian equity market is caught up between reasonably good earnings growth - from the domestic sectors and the global economic situation. The current quarter earnings, thus far, has shown surprises in volume growth in domestic consumption and IT sectors, whereas the margins have marginally contracted. The order book growth in the engineering sectors has slowed down though the margins in these sectors have expanded. The banking sector earnings have been pretty much in line with the estimates. Meanwhile, the market valuations seem to be fairly poised considering the current interest rates and inflation.

However, India seems to be one of the only few bright beacons in the dark and confused global economic scenario and hence has to demand a higher multiple. At every correction there will be significant support from investors for the Indian equities market. Further, the Indian equity market is waiting for earnings to catch up with the prices to make the valuation look attractive. This convergence might take a couple of more quarters.

(As told to Dalal Street Investment Journal. The magazine may or may not subscribe to the views expressed in the article. Wish to comment on this article? Send your feedback to comment@dsij.in)