

From Cautious to Bullish

Edel Invest Research

Since we wrote our first cautionary note on markets in the end of April, markets have been turbulent dominated largely by poor corporate earnings, expectations of a below normal monsoon and events unfolding in Europe.

Indian markets have returned a meager 2.5% in 2015 so far. We believe the consolidation phase is over and markets have factored in the worst. Although concerns remain in regards to a contagion from a Greece default, Indian markets appear to be well prepared for such a cataclysmic event. Our stable bond market, burgeoning forex reserves and resilient currency markets give Indian markets an edge over other emerging markets.

Hence, the confidence in Indian markets has returned. And we believe that the growth in the economy will start percolating into corporate results by 2H of FY16.

There are a lot of positives factors that the Indian economy has been experiencing and fundamentally India remains a good investment destination. In fact, Indian equity markets were riding the bull over the last one year and recorded 31% return in CY14. Several things have been working in favor of India are:

- Retail inflation came down to 5% levels from a very sticky 10% levels backed by benign global food and commodity prices.
- Lower inflation has led the Central bank to cut rate by 25 bps in the June policy meet. A total 75bp rate cuts since the start of this year is positive for the economy and sentiments. Banks have also started the transmission of these rate cuts.
- QE in major economies continue to provide global liquidity. The Euro zone has indicated that its bond buying program will be front loaded for the next few months, which will provide additional liquidity.
- Delayed US interest rate hike will continue to provide confidence to global markets and reduce chances of flight of capital from EMs
- With US dollar strengthening and crude prices falling, commodity importing markets like India are gaining strength again.

Confidence in Indian markets is more or less at an all time high; with global funds remaining overweight on Indian markets.

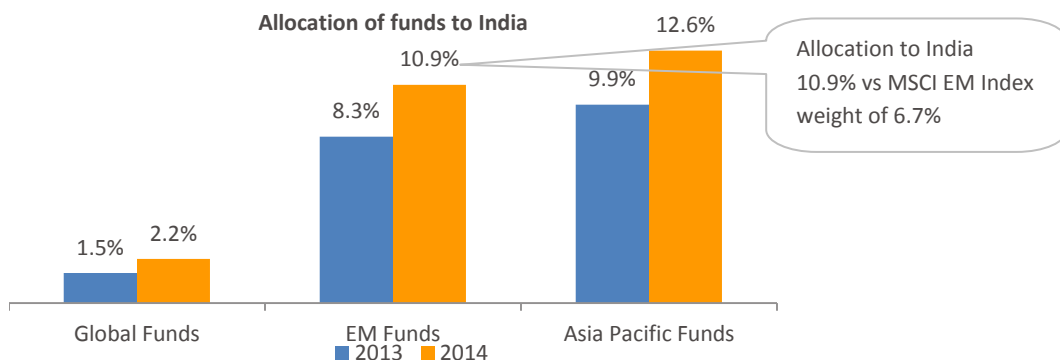
We believe that government measures and spending will start percolating into corporate results from the second half of this year. Progress of sowing is also better than last year and monsoon is currently normal, bringing comfort that it will provide some support to rural demand.

Hence, we believe that the current period are of good levels to build positions and markets should continue to see committed buying at and below the 8000 mark.

Our medium to long term view is bullish with our FY16 Nifty target of 9300-9500. This would indicate a 17x P/E at FY16 earnings estimate. Continue to invest in fundamentally strong stocks, with good corporate governance, large opportunity size and strong cash flows & return ratios. Top picks and Mid cap marvels indicate our most preferred stocks.

Date: 8th July, 2015

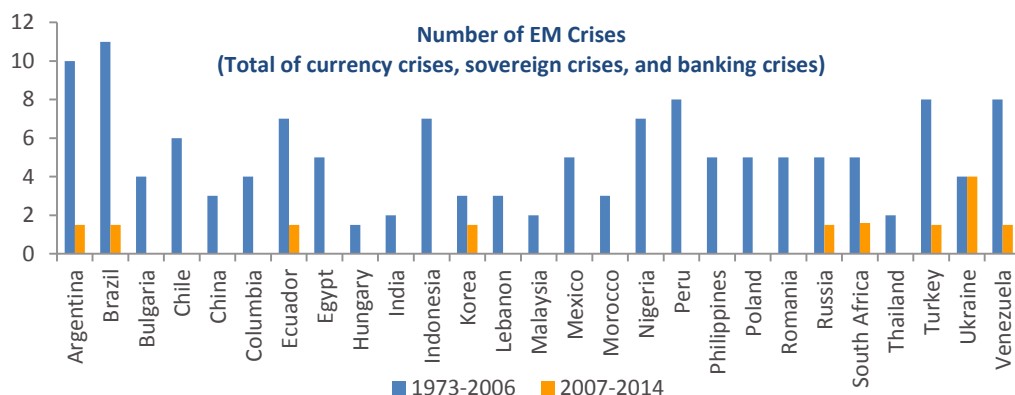
Allocations of Funds to India show continued confidence..



Source: Edel Invest Research

Global funds, EM Funds & Asia Pacific funds have increased their allocation to India in 2014. Asia Pacific funds have increased their allocation by 270 bps in 1 year.

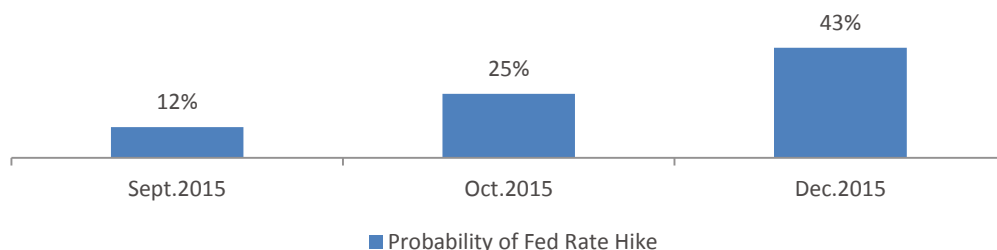
EM funds are also significantly overweight India vis-à-vis the MSCI Benchmark index. MSCI EM Index gives India a 6.7% weight, while EM funds are 420 bps overweight. EM funds allocate 10.9% to India.



Source: Institute of International Finance, Edel Invest Research

India has been one of the most stable Emerging markets. Total number of currency crises, sovereign defaults and banking crises has been negligible in the last 7 years. Even during the period 1973-2006, we have been one of the safest countries in terms of economic stability. India's stable track record, has added to the confidence that FIIs have been showing towards Indian markets.

Delayed US interest rate hikes



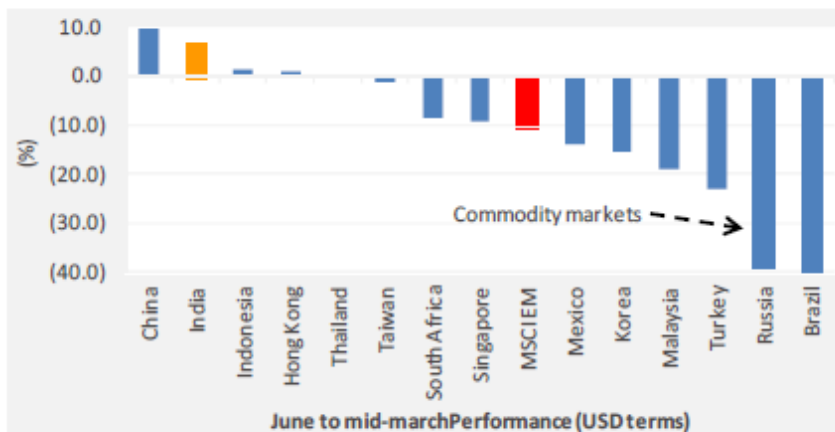
Source: Cmegroup, Edel Invest Research

Implied probability of fed rate hike from Sept- Dec is less than 45%. Hence it is unlikely that the fed will raise rates before Dec 2015.

Due to continued near zero rates in the US, there is less probability of flight of capital from Emerging markets like India.

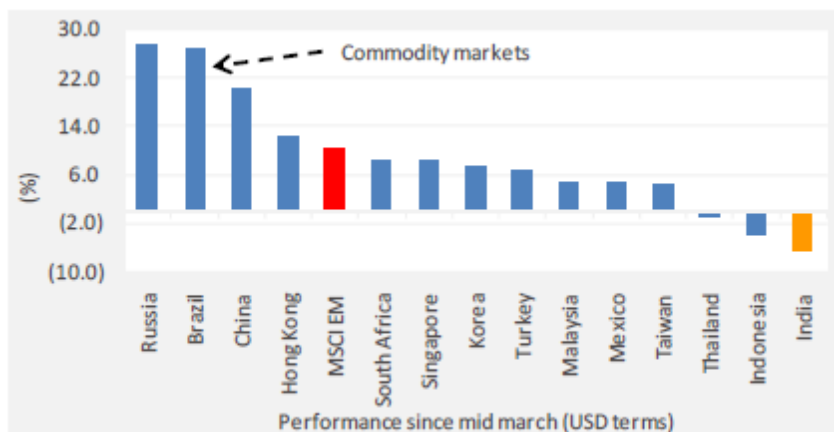
USD strengthening & crude weakening will fuel Indian Markets

India Outperformed during the phase of dollar strength



Source: Bloomberg, Edel Invest Research

However, there was some correction with dollar weakening



Source: Bloomberg, Edel Invest Research

With the Euro depreciating, Dollar index has been and will appreciate. This is reflected in immediate impact in Crude Oil as well. Crude oil has fallen ~12% in the last 2 months.

Consumer cyclical countries like India would benefit from a stronger US Dollar which coincides with a weaker commodity trend.

Monsoon & progress of sowing providing comfort**Seasonal Rainfall (in mm) from 1 June to 6 July 2015**

	Actual	Normal	% departure from LPA
All India	214.4	215.3	0%
East & Northeast India	422.8	439.2	-4%
Northwest India	111.1	99.6	12%
Central India	218.7	222.8	-2%
South Peninsula	199.6	201.5	-1%

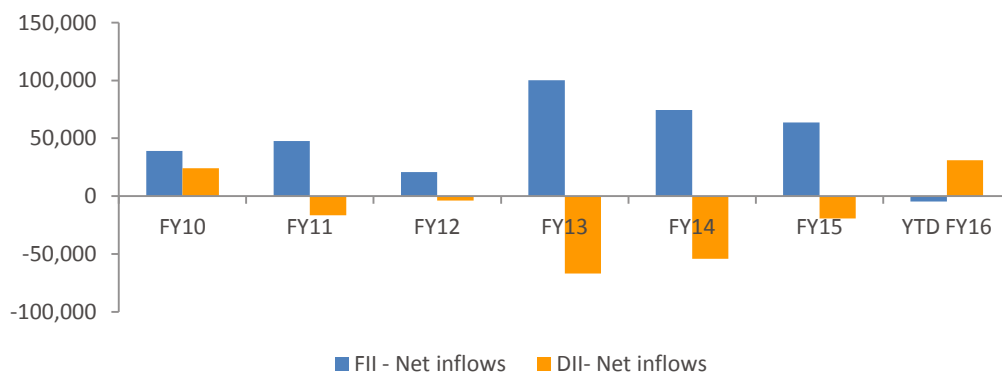
Source: IMD, Edel Invest Research

Progress of Sowing up to 26th June 2015

	2015		2014
	Sown ('000 hectare)	% of normal	% of Normal
Agricultural Products	10,925.30	10.87	8.58
Food grain	5,359.70	7.67	6.8
Non -Food crops	5,565.60	18.16	12.13

Source: CMIE, Edel Invest Research

Monsoon is currently normal, vs IMDs forecast of 12% below normal. Progress of sowing is also 10.9% of normal vs 8.6% in 2014. If monsoon continues to remain normal, it will reduce apprehensions around further slowing rural demand, and possibility of temporary spike in inflation.

DII's confidence more than compensating for recent FII outflows from Equity

Source: CMIE, Edel Invest Research

DII's have pumped in ~31000 cr in the last 3 months, much more than the Indian markets have experienced yearly in the last 6 years. Hence DII's confidence in Indian equity markets is more than compensating for recent FII outflows.

At an average, only 17% probability of a bull-run experiencing a negative return quarter.

Bull Run Periods	Positive return quarters	Negative return quarters	Average Return	% of quarters negative
Nov 98 - Feb 00	5	1	9%	17%
May 03-Jan08	14	5	11%	26%
Mar 09 - Nov10	8	0	10%	0%
Jan 12- current	11	2	5%	15%

Source: Bloomberg, Edel Invest Research

Most quarters during a bull run give positive returns. In fact there is only a 17% chance that a bull run will give negative returns during a quarter. And even during a negative quarter, the returns are only about ~-4% (average).

Hence there is less possibility that the market will turn negative and even if it does, it will not sustain for a long time.

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