

## Equities

24 June 2011 | 6 pages

# India Equity Strategy

## 2H11 Outlook: Buy India, Not the Mood

### Equities

- Sentiment is bad** — India has been low on sentiment before; this time it's a wide combination of inflation, interest rates, government policy and action inertia, a capex slump and downside risks to economic and earnings growth. Basically, it's not hard to see why India is one of the worst performing markets globally (-14.4% YTD).
- Corporates are reading the macro, but riding the micro** — Bottom up, the picture appears rather different. Most corporates suggest a certain caution over the next 1-2 quarters, but they continue to plan, invest and position for a more robust, longer-term outlook. Also, consumer demand remains relatively positive. Adjusting for the increase in interest rates, we see earnings growth remaining decent at 18-19%.
- Incremental macro pressures should ease** — The macro problems – inflation, rates and government inertia – are elevated and could have structural implications. Nor are there enough signs to suggest a near-term reversal. However, we do *not* believe that 'falling growth and higher rates' go together. With slower growth now baked in, we expect an easing in both demand-driven inflation and further rate pressures.
- Valuations more supportive** — While India is still not conspicuously cheap, we see the potential for strong returns in 2HY2011, given: 1) earnings multiples are at a 15% discount to long-term averages; 2) interest rates are already high; 3) commodity price/inflation pressures should ease; 4) India's growth differential vs. the developed world could rise; 5) history suggests a strong 2H performance; 6) sentiment could be boosted by macro/government action. We target a Sensex level of 21500 by Dec 2011.
- Model Portfolio** – Long Banks, Energy, Telecom, Pharma and Real Estate.

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### India: Top Buys and Top Sells

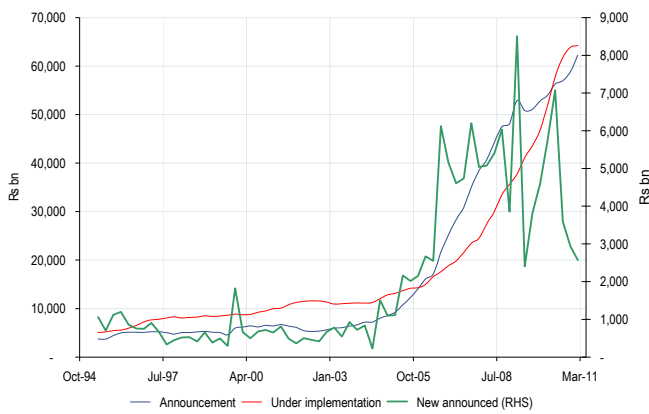
	Ticker	Rating	Price (June 17)	Target Price	Yield (%)	ETR (%)	2011E		
							P/E	P/BV	ROE
<b>Top Buys</b>									
Mundra Port SEZ	MPSE.BO	1L	148	185	0.9	25.9	21.58	5.59	28.8
Lupin	LUPN.BO	1L	443	500	0.9	13.9	18.06	4.74	29.4
SBI	SBI.BO	1L	2,211	2,650	1.4	21.2	10.55	1.85	18.9
DLF	DLF.BO	1L	224	295	0.9	32.4	19.00	1.37	7.4
Dr Reddy	REDY.BO	1L	1,548	1,835	0.7	19.3	24.30	5.70	24.2
<b>Top Sells</b>									
Ambuja Cement	ABUJ.BO	3L	128	108	1.6	-14.1	16.44	2.19	14.0
Hero Honda	HROH.BO	3L	1,730	1,501	3.2	-10.1	15.1	9.08	63.7

Source: Citi Investment Research and Analysis estimates

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

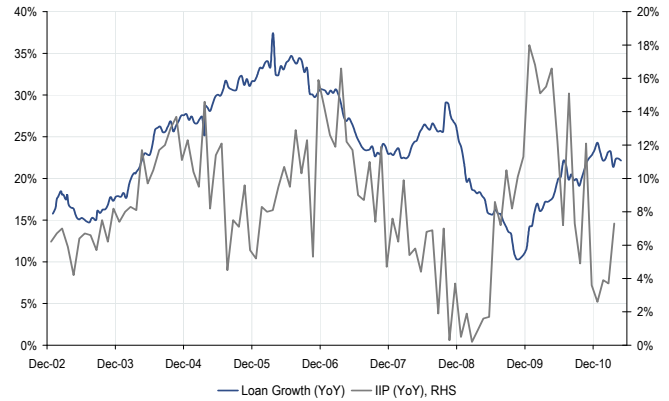
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Figure 1. Project Capex in the Pipeline



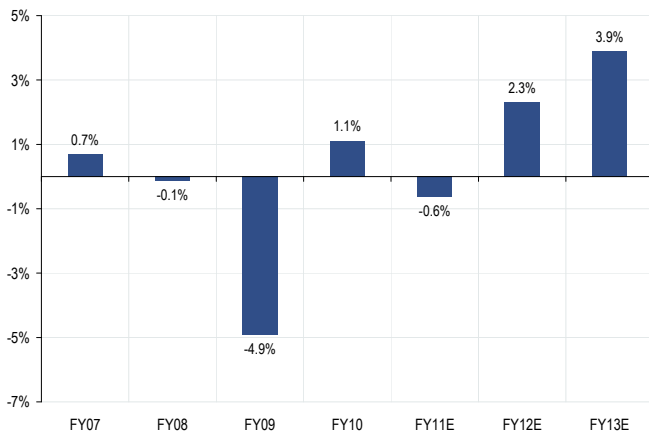
Source: CMIE

Figure 2. Trends in Loan Growth & Industrial Production



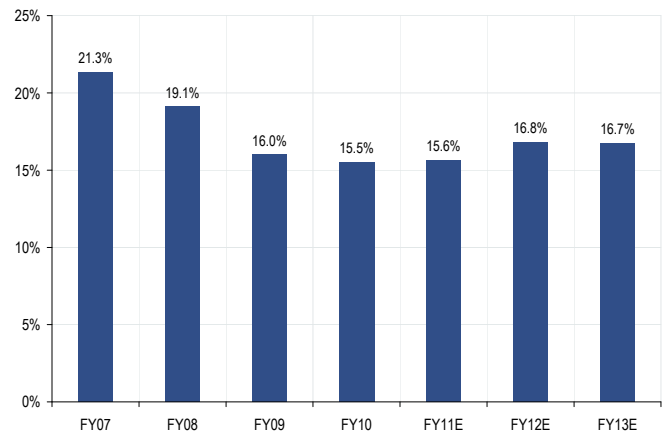
Source: RBI, Bloomberg

Figure 3. FCF Yield Trend for CIRA India Universe



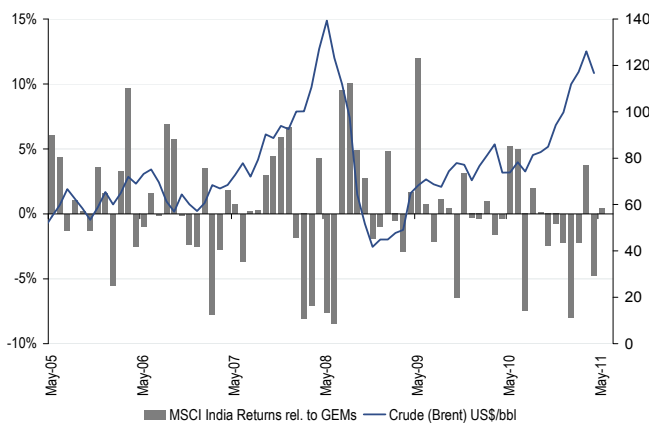
Source: Company data, CIRA estimates

Figure 4. ROE Trend for CIRA India Universe



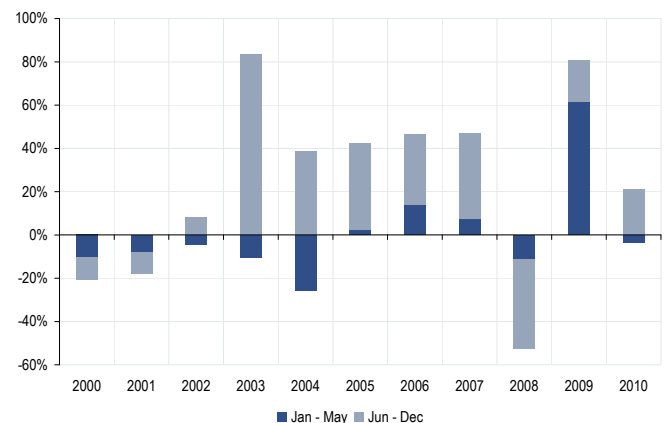
Source: Company data, CIRA estimates

Figure 5. India's Performance Rel. to MSCI GEMS & Oil



Source: Bloomberg

Figure 6. Seasonality in Sensex Returns : 1st half vs. 2nd half



Source: Bloomberg

## Appendix A-1

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