



# M3

## SECTOR REVIEW

### MONTHLY MORNING MEETING JANUARY 2012. PRESENTED BY iFAST CAPITAL SDN BHD ©

## SOUTH ASIA

### INDIA – 4.0 STARS (VERY ATTRACTIVE)

- India's Manufacturing Purchasing Managers' Index is at 51.0 in Nov 11 as compared to 52.0 in Oct 11
- India's Services Purchasing Managers' Index is at 53.2 in Nov 11 as compared to 49.1 in Oct 11
- Index of Industrial Production (IIP) fell by -5.1% in Oct 11 y-o-y, down from 1.9% (revised to 2.0%) in Sep 11
- WPI Inflation for the month of Nov 11 stands at 9.11% as against 9.73% in Oct 11
- Local car sales in India is up by 23.5% in Nov 11 m-o-m as compared to negative growth of -16.5% in Oct 11
- India's GDP growth rate for 2Q FY2011-12 came at 6.9% y-o-y, down from 7.7% in 1Q FY2011-12
- Our estimated earnings growth for FY2011-12 and FY2012-2013 are 9.5% and 16.0%, which translates to a forward PE of 13.5X and 11.7X respectively

## MARKET OUTLOOK

The Index of Industrial Production (IIP), which measures production at factories, utilities and mines, for Oct 2011 fell by -5.1% year-on-year as compared to consensus's expectations of -0.7%. This was the slowest growth witnessed by the Index of Industrial Production (IIP) in since Mar 2009. The growth in the mining, manufacturing and electricity sectors stood at -7.2%, -6.0% and 5.6% respectively. As per Use-based Classification, the Capital Goods Sector fell by -25.5%, Intermediate Goods by -4.7% and Basic Goods by -0.1%. Consumer Durables and Consumer non-durables fell by -0.3% and -1.3% respectively. The slower growth in manufacturing, mining and capital goods has resulted in sharp decline of IIP numbers and the high base effect of last year, a steep 11.3% growth registered in same month last year, has also supplemented the pressure on IIP number.

After witnessing a rebound in October from a continuous decline since May 2011, the manufacturing sector has again slowed in Nov 2011. India's Manufacturing PMI declined to 51.0 in November, down from 52.0 in October. Services PMI on the other hand bounced back strongly from below the 50.0 point mark in October to 53.4 points in November 2011.

WPI Inflation declined in November but remained above the estimates of 9.02%. Although inflation has eased slightly; it is still above the comfort level of India's central bank. The recent weekly inflation numbers for food and non food articles have shown sharp declines which will put downward pressure on headline inflation. The RBI's targeted level for inflation target of close to 7% till financial year end looks achievable now. We can expect the RBI to start easing the monetary policy probably from next financial year which has already given the sign of comfort by pause in ongoing interest rate hike in its mid quarter monetary policy review.

2Q FY 2011-12 GDP growth rate has slowed to 6.9%. The prevailing high interest rate environment and slowdown in global economy has slowed the Indian economy faster than the expected. The revised growth rate of 7.5% from 9.0% for FY 2012 by Indian Government appears difficult to achieve despite being reduced significantly.

According to our estimates, as of 28 December 2011, the estimated PE for India's stock market (Sensex) is 13.5X, 11.7X and 10.2X for FY2011-12, FY2012-13 and FY2013-14 respectively. Estimated earnings growth is 9.5%, 16.0% and 14.0% for FY2011-12, FY2012-13 and FY2013-14 respectively. Hence, we maintain a "Very Attractive" rating of 4.0 stars for the Indian market.