

Sell Everything and Buy Wisdom !!!!!

Basic Focus of this document is to perform a check on PE valuation of Indian Equity Market. We have analyzed 15 years PE data of Sensex, provided by BSE India.



- Currently, the ratio is at 24, against the Median of 17.
- This is 3rd time in the 15 years history that PE has crossed 24.
- On Previous 2 occasions, after PE breached 24 level, in few months, there was crash on account of global crisis.
- Is there any Global Crisis on its way ???

On a fall of 30%, Sensex would be at 14,000 with PE = Median PE (17). However, in previous two downfalls market fell below the Median PE.

On Sensex at 11,000, PE multiple would be 13.

When Sensex PE Touched 24 and What Happened thereafter

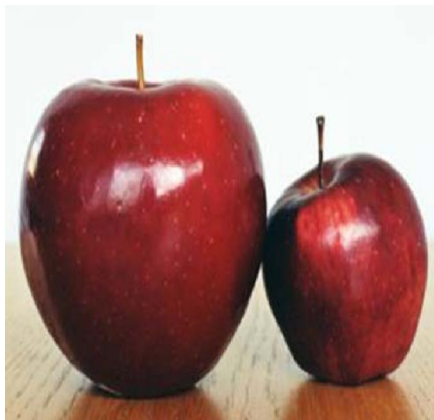
First Time it touched in Jan 2000, after which IT Bubble burst and index fell by 56 % from its peak over the period of 1 ½ year. (11th Feb 00 - 21st Sep 2001, from 5933 to 2600)

Second Time it touched in Sep- 07, after which Sub-prime crisis spread and index fell by 61% from its peak over the period of 1 ¼ year. (8th Jan 2008 - 9th Mar 2009, from 20873 to 8160)

This is the Third Time, after which ----- market will fall / gain ----- %.

But, BSE Report PE on the basis of Standalone numbers of Companies..... and the ratio is Trailing and not Forward.....

Apple to Apple comparison.



It's true that, PE on consolidated earnings and that too on 1 forward year earnings is better indicator.

But, for an index there are various limitations which makes BSE reported, standalone Trailing PE more reliable while making a historical comparison, with the underlying assumptions that:

1. Throughout the Period, and in the future period, Consolidated earnings are and would be higher by more or less similar % .
2. Forward growth prospects are of similar kind that was in last 15 years.



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Archives - Indices

Indices :SENSEX

Period : (25-Sep-2010 to 01-Oct-2010)

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Date	Open	High	Low	Close	Price/ Earnings	Price/ Bookvalue	Dividend Yield
27/09/10	20,082.26	20,267.98	20,082.26	20,117.38	23.92	3.81	1.04
28/09/10	20,114.37	20,157.51	19,981.96	20,104.86	23.93	3.81	1.04
29/09/10	20,086.89	20,234.05	19,923.11	19,956.34	23.72	3.77	1.05
30/09/10	19,931.49	20,114.73	19,864.46	20,069.12	23.80	3.79	1.05
1/10/10	20,094.10	20,475.47	20,094.10	20,445.04	24.24	3.86	1.03

Is there any Room Left for further upside in Sensex and its PE.

PE & Trading Days since Jan-1996

PE Class Interval	No of Days (Frequency)	Cumm Days (Cum Frequency)	Cum Days as % of Total Days
0 - 10	23	23	1%
10 - 11	66	89	2%
11 - 12	128	217	6%
12 - 13	297	514	14%
13 - 14	308	822	22%
14 - 15	361	1183	32%
15 - 16	411	1594	44%
16 - 17	303	1897	52%
17 - 18	234	2131	58%
18 - 19	311	2442	67%
19 - 20	319	2761	75%
20 - 21	343	3104	85%
21 - 22	242	3346	91%
22 - 23	99	3445	94%
23 - 24	27	3472	95%
24 - 25	44	3516	96%
25 - 26	42	3558	97%
26 - 27	27	3585	98%
27 - 28	24	3609	99%
28 - 29	20	3629	99%
29 - 30	26	3655	100%
30 - 31	1	3656	100%
31 - 32	1	3657	100%
32 - 33	0	3657	100%
33 - 34	3	3660	100%

Total Days 3660

As can be seen from the table that, for 94% of the days, Sensex's PE was less than 23.

So, the probability of Market rising further and

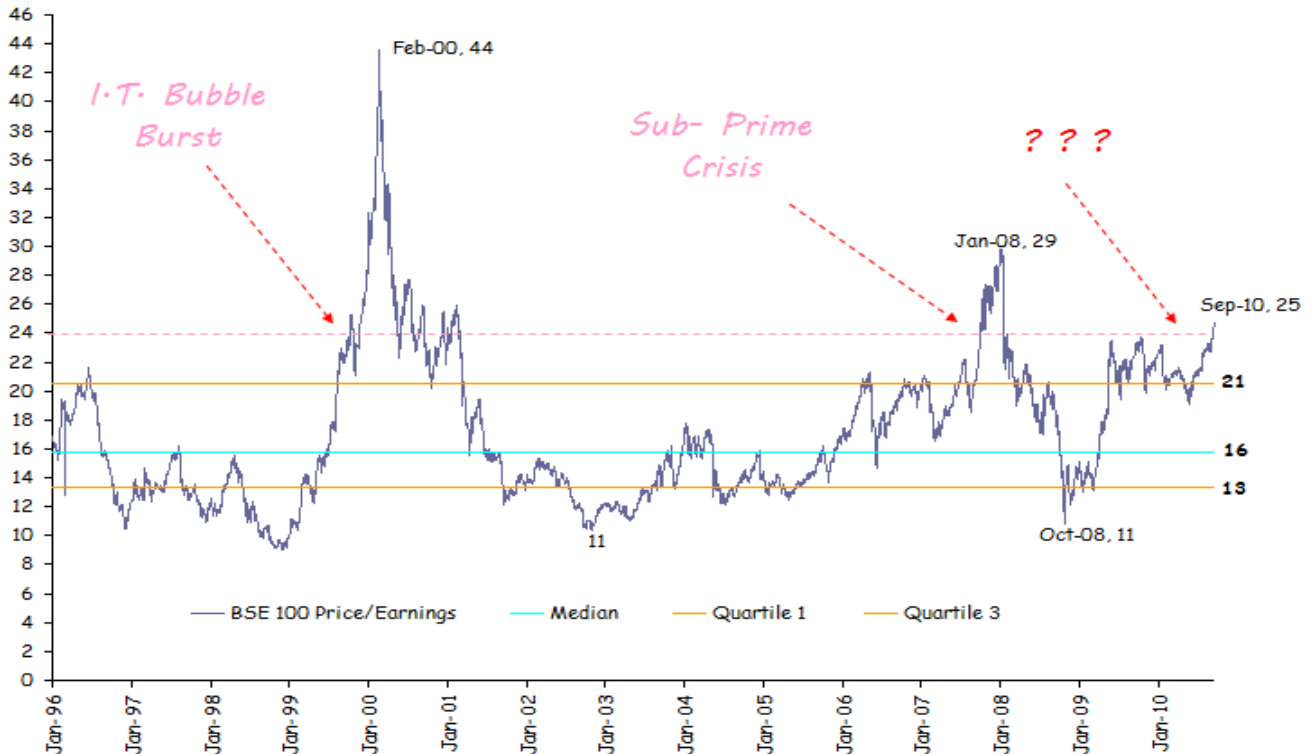
Median PE

PE expanding is low.

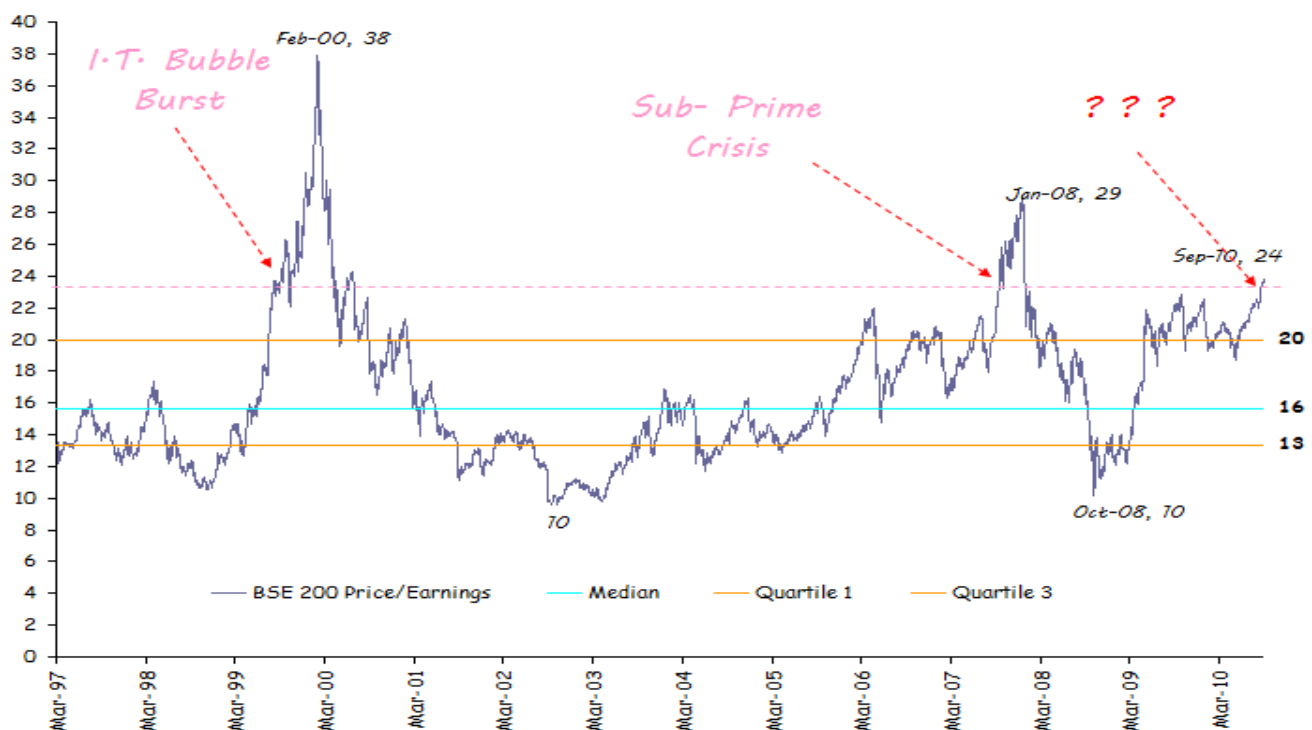
Current PE

Looking at the Other Indices

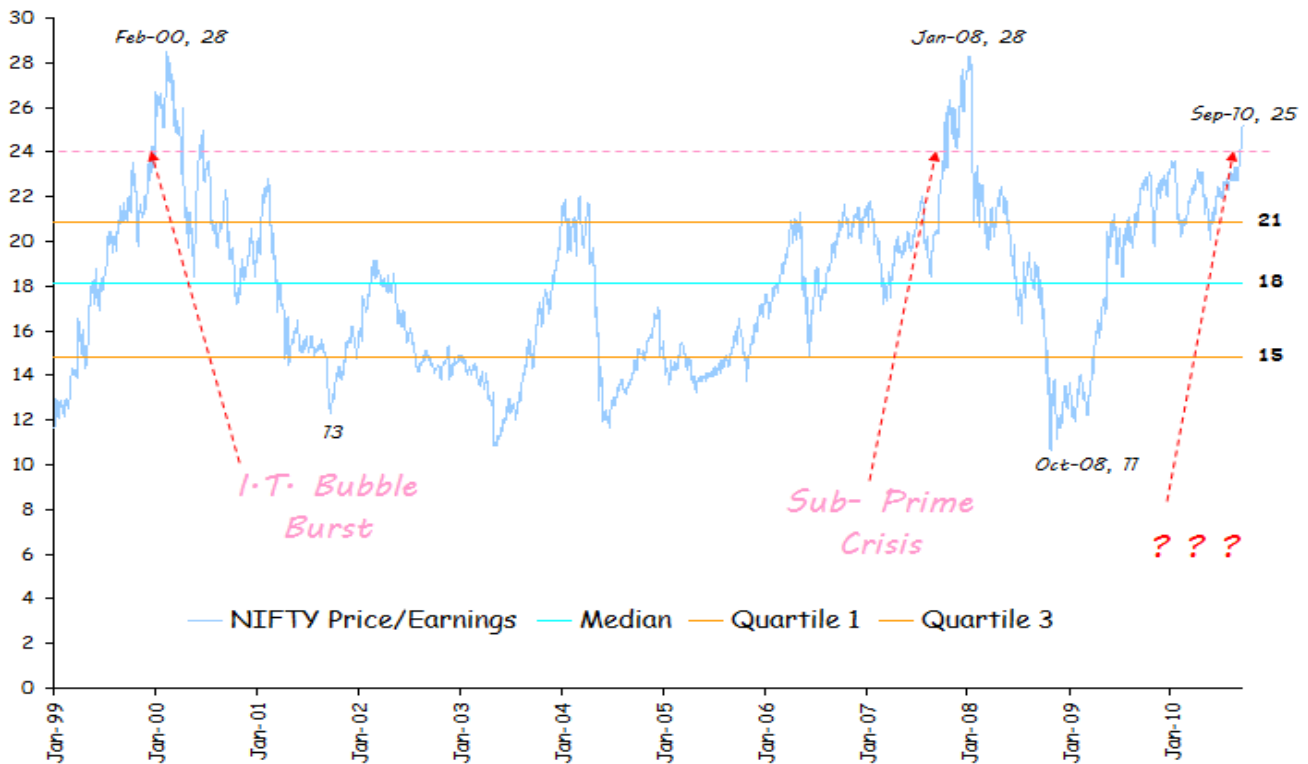
BSE 100 (Data Source BSE)



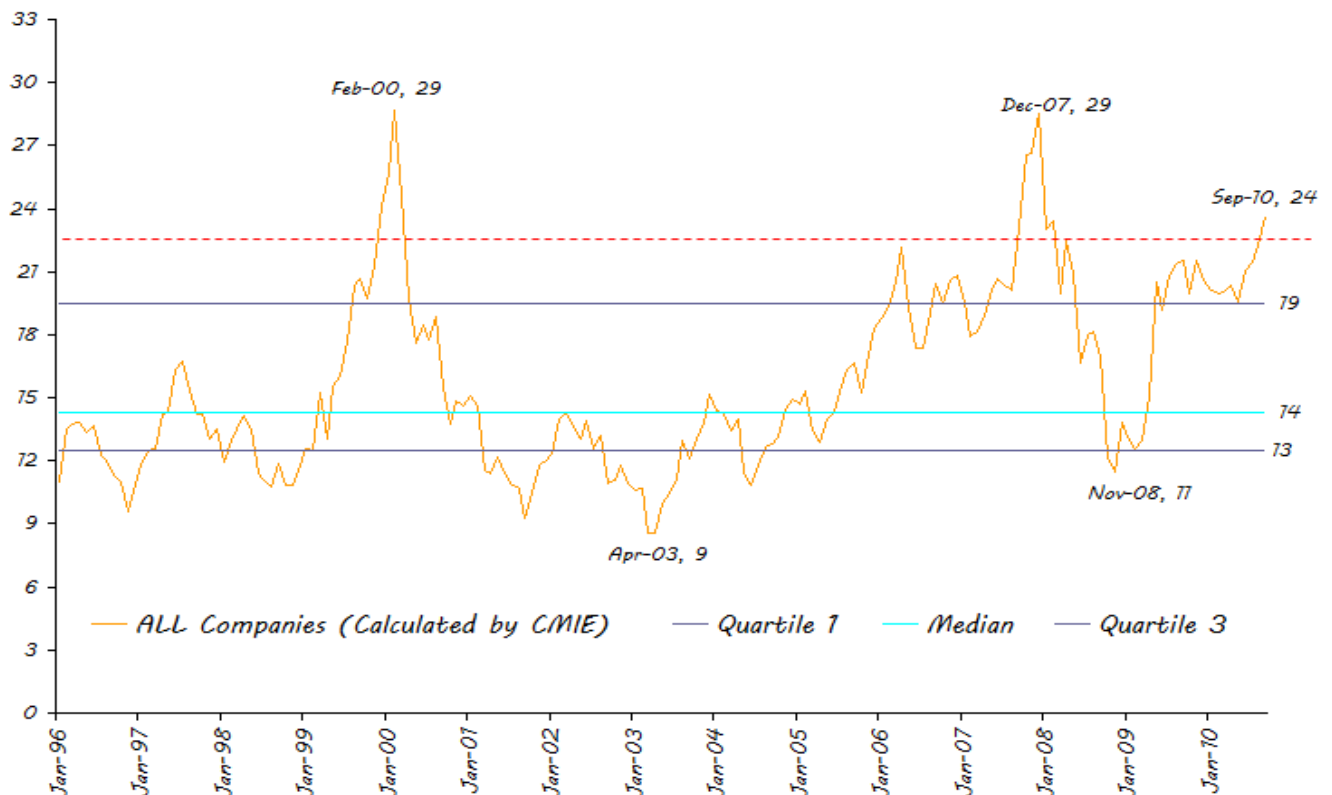
BSE 200 (Data Source BSE)



Nifty, (Data Source NSE)



"All Companies", (Data Source CMIE)



Future Growth Prospects for Earnings !!!!!!!!!!!

In 1QFY11, though there was ~25% YoY growth in revenue, PAT growth was almost negligible.
If we go by the consensus Earnings estimates available at Bloomberg, projected growth is

	PAT Growth (%)	
	FY11	FY12
Sensex	11.3	19.2
Nifty	14.7	20.7

In Jan-08, there was very high optimism about the future growth.....
and CURRENT VALUATIONS WERE IGNORED.

This Time,

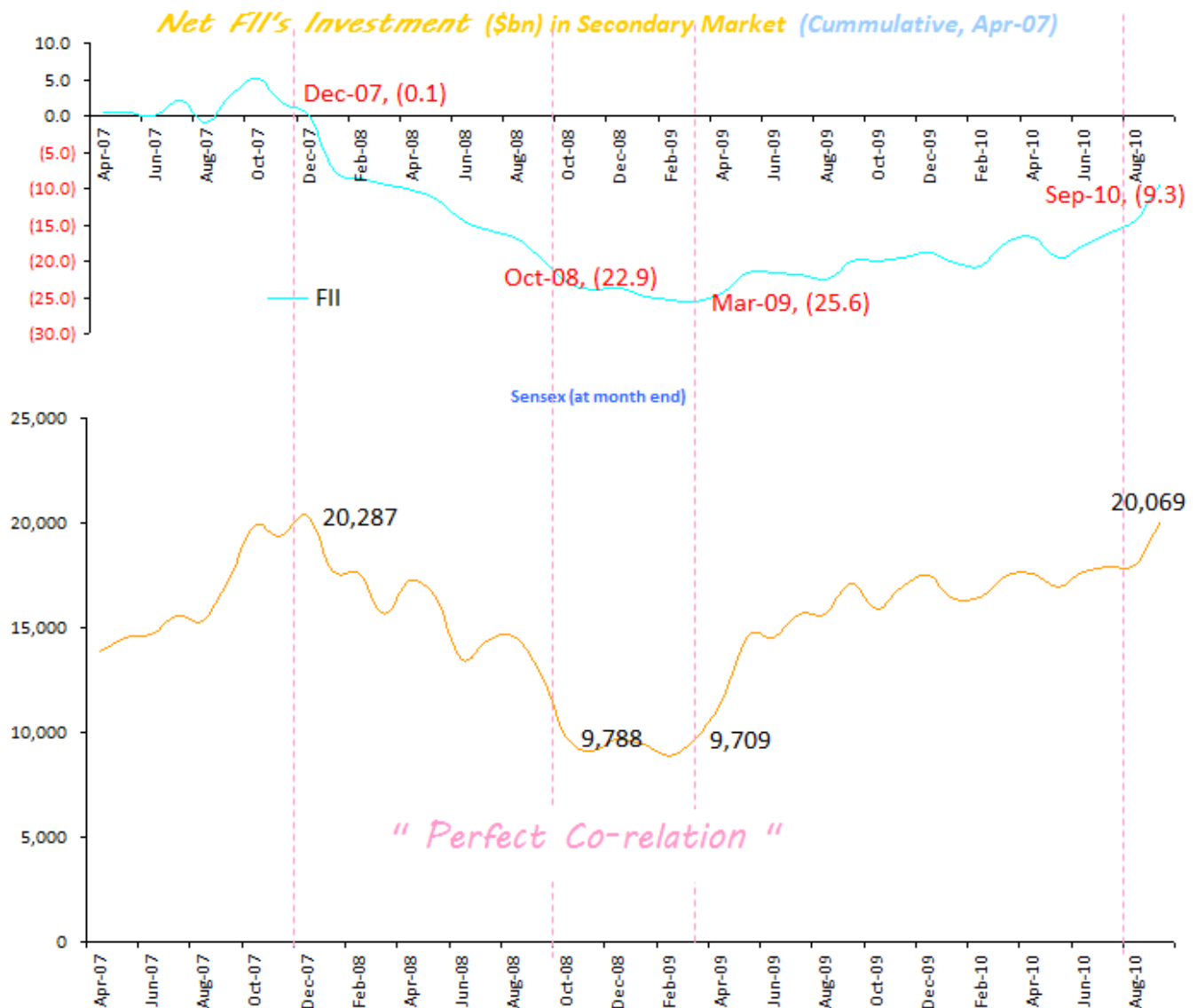
1. There is No such high growth Optimism.....
2. On the contrary..... as just 18 months has passed from the downfall....
so market participant must be fearful

Then, once again, why current valuation are getting ignored ??



Markets in " Perfect Co-relation " with FII's Investment Strategy:

Market has perfect co-relation with FII's Investment strategy.
If FII's continue to put in the money, whatever may be the valuation, market will keep on making the new highs.



FII: The God of Indian Stock Market !!!!

When they Infuse \$1 bn..... Market Zooms by 3.1%

When they withdraw \$1 bn..... Market falls by 1.7%.

Highest Monthly Investment by FIIs and Equity Market Return in those month

Month	Monthly		% Return per Bn Dollar of Investment
	FII Investment (\$ Mn)	Return (%)	
Sep-10	5,151	12	2.3
Sep-07	4,090	13	3.1
Mar-10	3,250	7	2.1
May-09	2,844	28	9.9
Sep-09	2,628	9	3.5
Oct-07	2,039	15	7.2
Jul-07	1,952	6	3.1
Jul-10	1,777	1	0.5
Jun-10	1,670	4	2.7
Aug-10	1,563	1	0.4
Apr-09	1,113	17	15.7
<i>Median</i>			<i>3.1</i>

Highest Monthly Withdrawl by FIIs and Equity Market Return in those month

Month	Monthly		% Return per Bn Dollar of
	FII Investment (\$ Mn)	Return (%)	
Jan-08	(7,470)	(13)	(1.7)
Nov-07	(3,469)	(2)	(0.7)
Oct-08	(3,203)	(24)	(7.5)
Aug-07	(3,012)	(1)	(0.5)
Jun-08	(2,952)	(18)	(6.1)
Sep-08	(2,723)	(12)	(4.3)
May-10	(2,616)	(3)	(1.3)
Dec-07	(1,725)	5	2.8
May-08	(1,577)	(5)	(3.2)
Jan-10	(1,567)	(6)	(4.0)
Aug-08	(1,257)	1	1.2
Nov-08	(1,102)	(7)	(6.4)
Jul-08	(1,066)	7	6.2
Jan-09	(1,056)	(2)	(2.2)
Feb-08	(1,020)	(0)	(0.4)
<i>Median</i>			<i>(1.7)</i>

Exception

Exception

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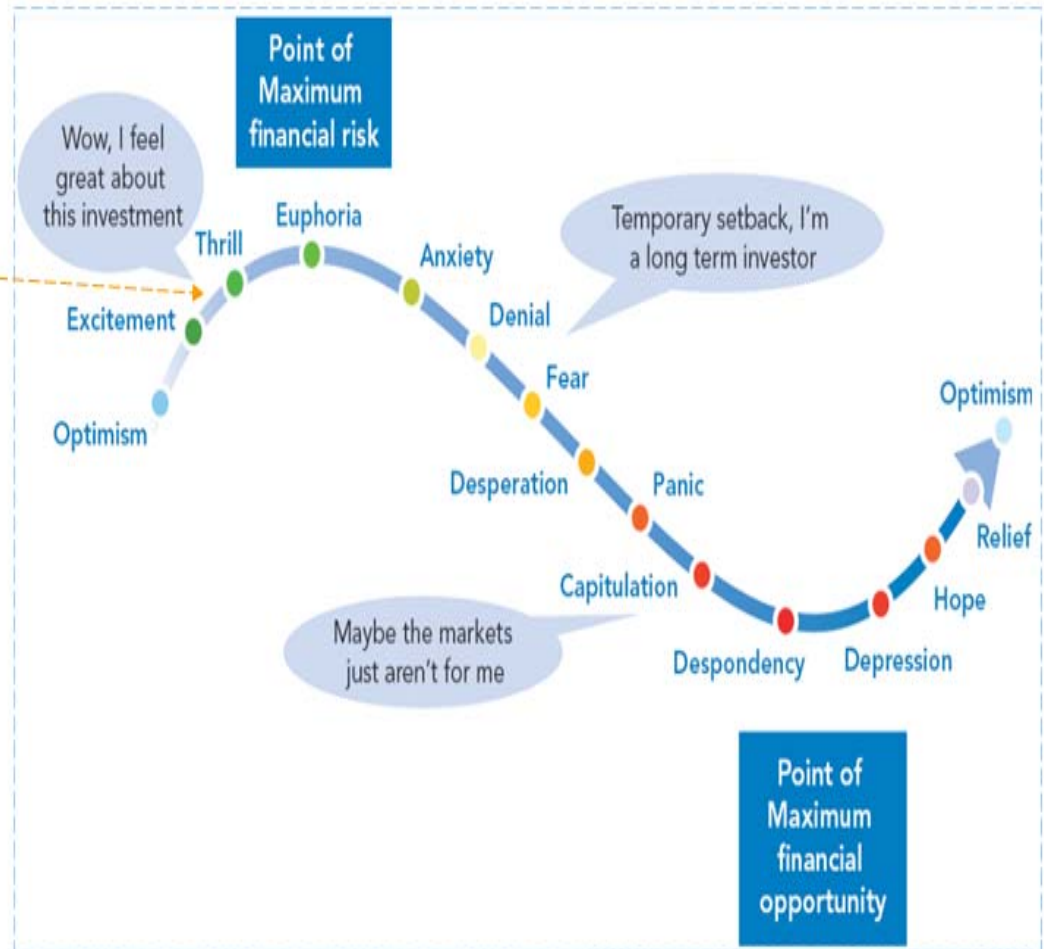
From Jun-10 to Sep-10, FIIs have pumped \$18 bn in Secondary Market

Will FII God keep on pouring 'Dollars' on India..... at these high valuation?



Market Emotion Cycle

I think, currently we are placed, at **EXCITEMENT**. Thrill and Euphoria yet to come.



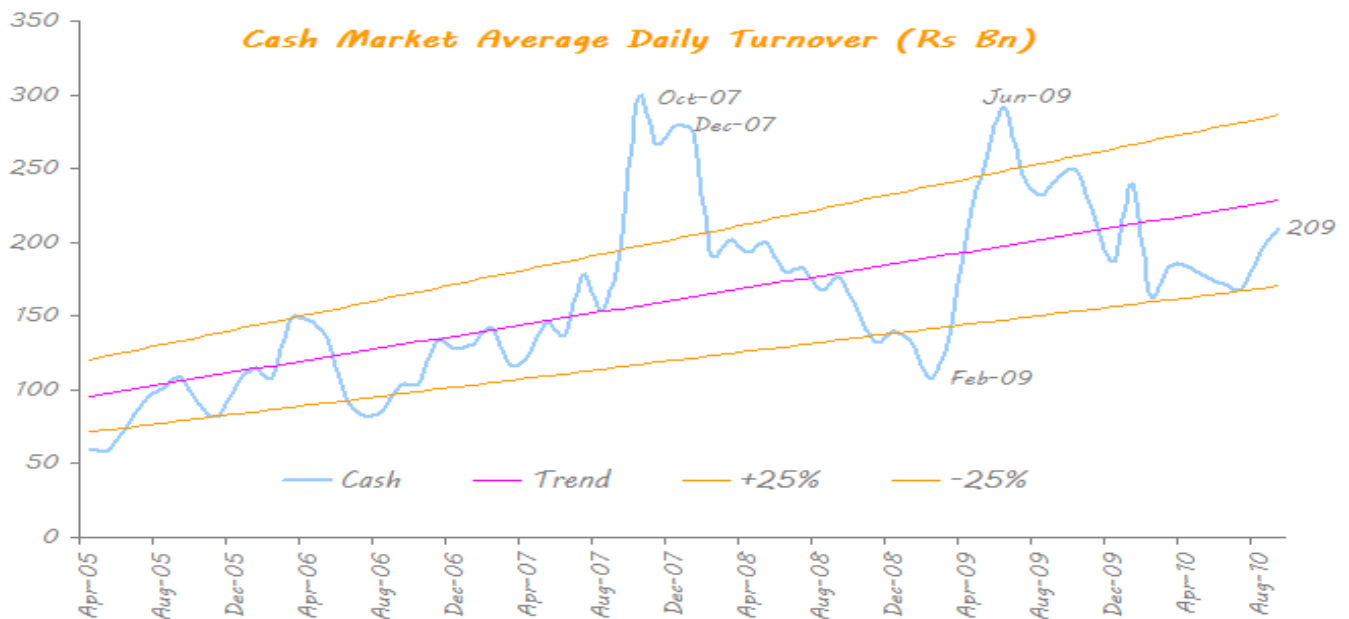
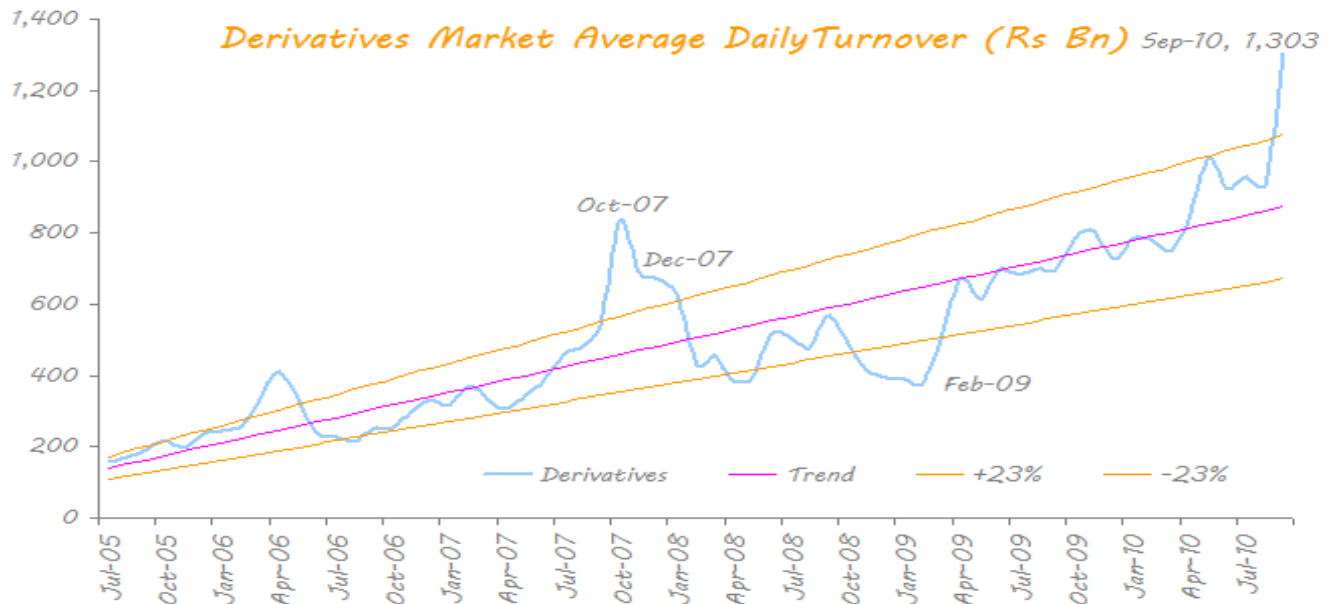


Derivatives Market:

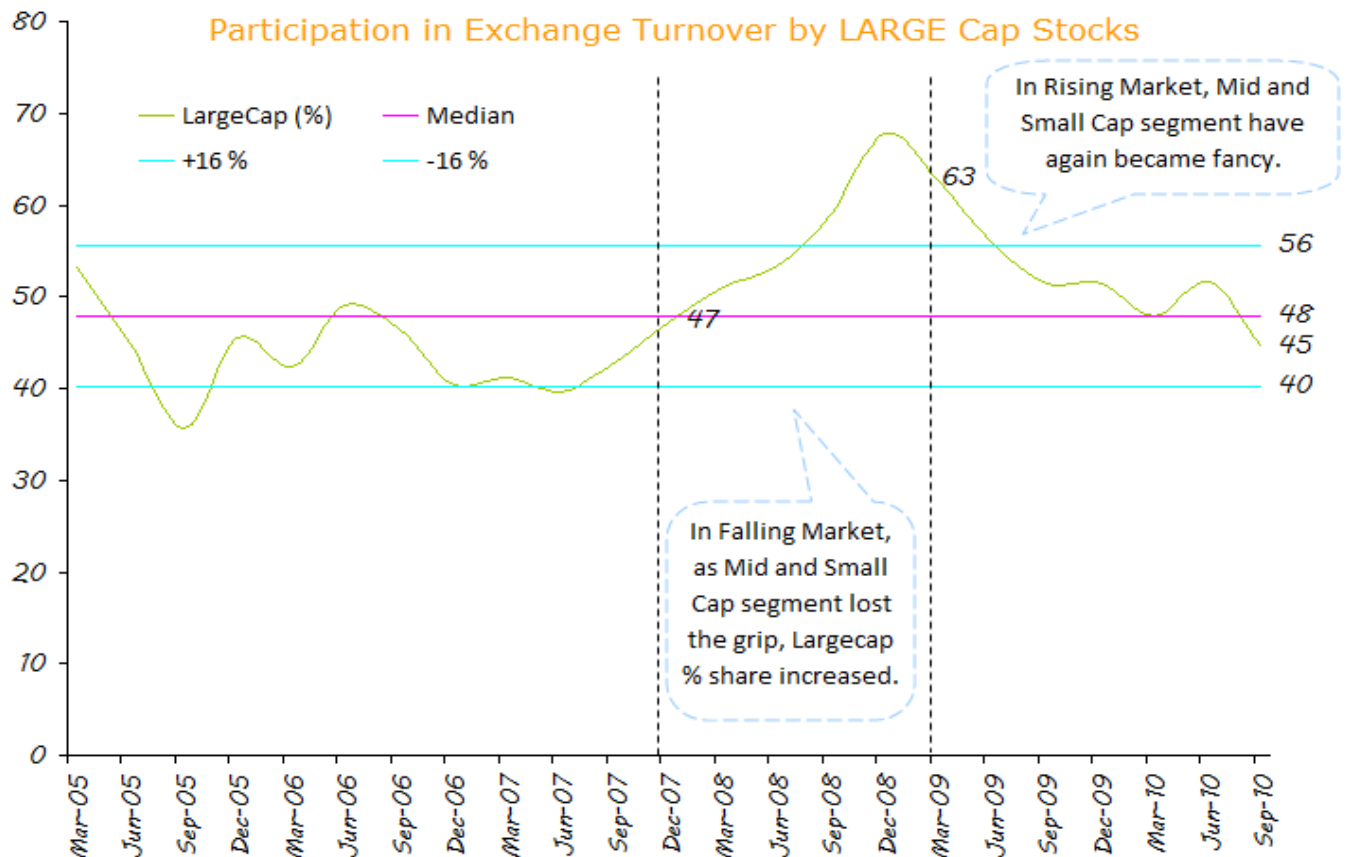
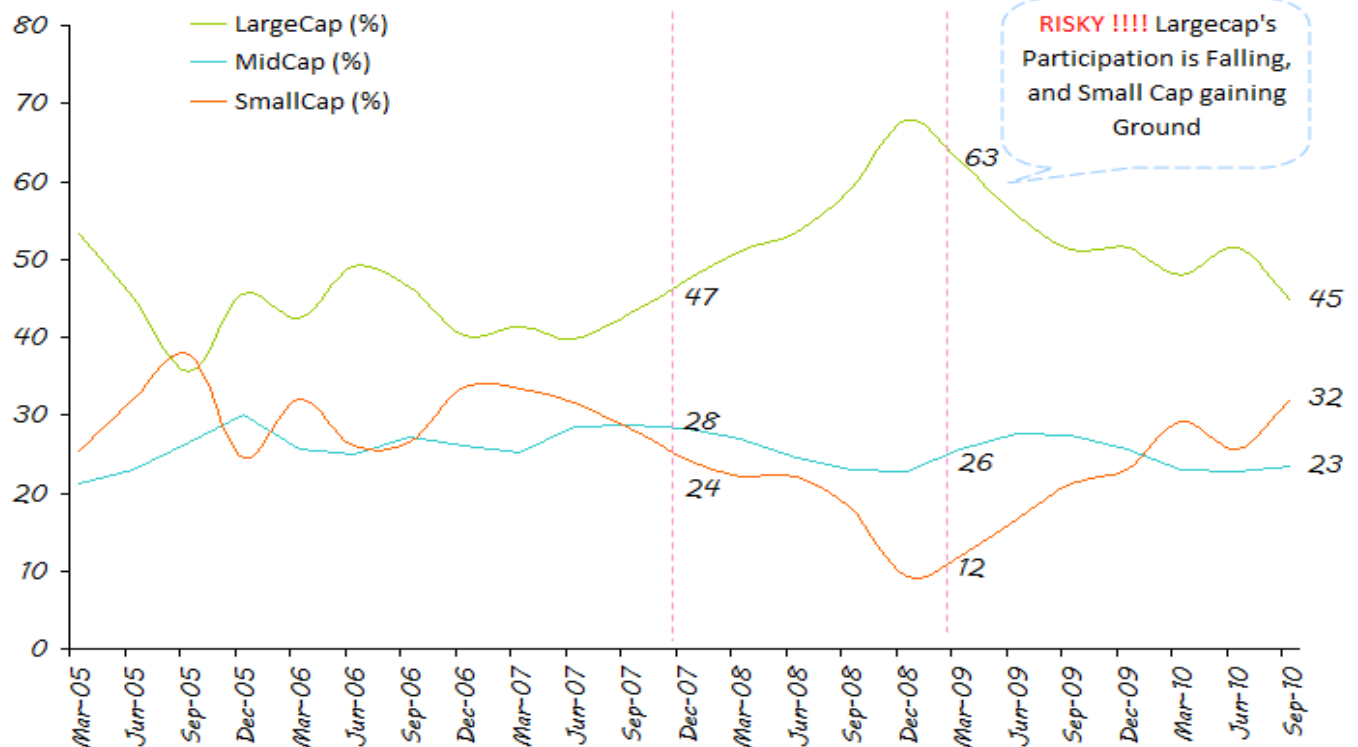
An Indicator of Gambling Activity

In Oct-07, there was unusually high activity in the derivatives market.

Similar, unusually high activity can be seen now as well !!!!!



Participation by Large-Mid-Small cap stocks in Total Cash Market Turnover



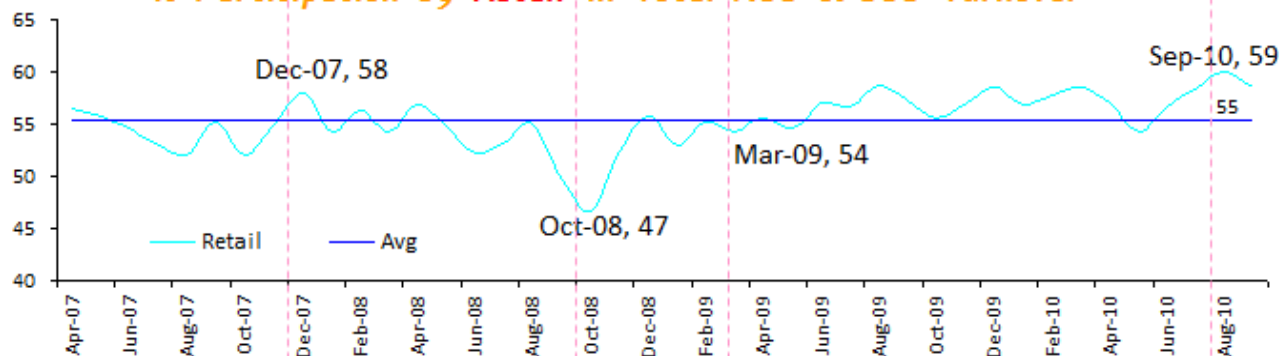
Participation by Category of Investor.....

In Indian Equity market, Retail Public Contributes to the ~55% of Total Exchange turnover.
~25% Contributed by Proprietary. ~14% by FII's and ~6% by DII's.

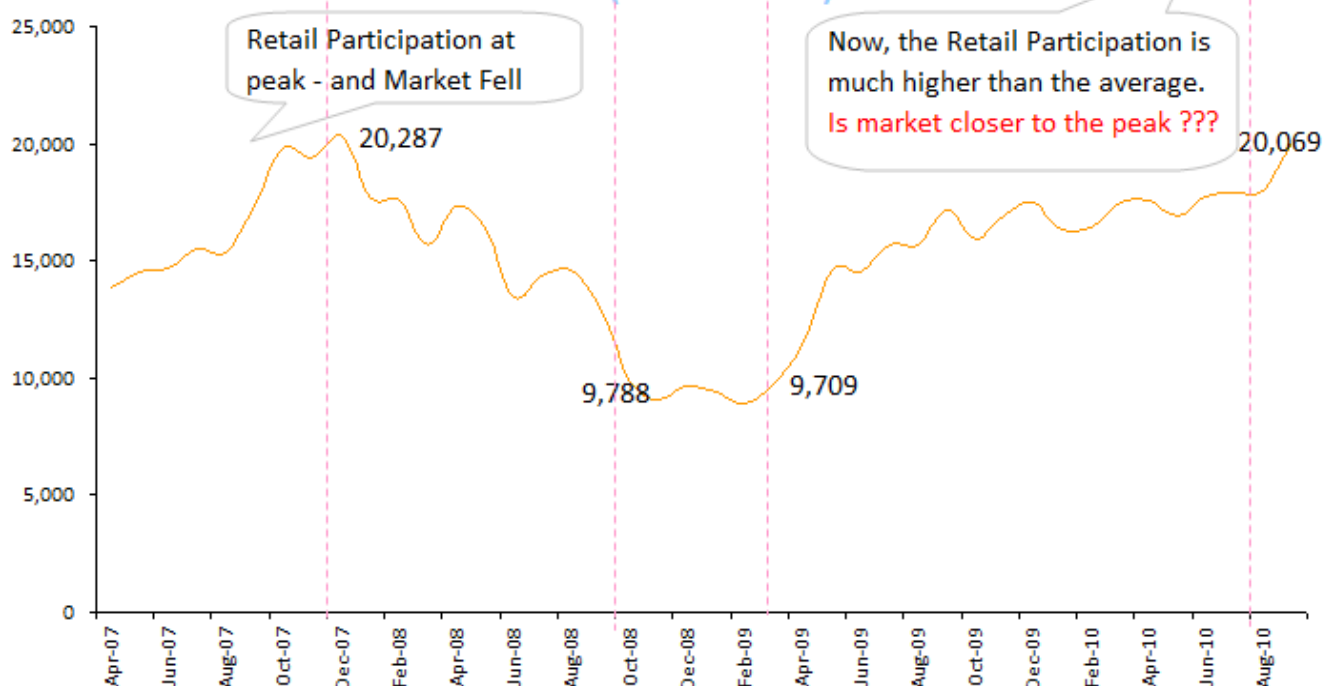


Retail Participation is at the alarming high level...

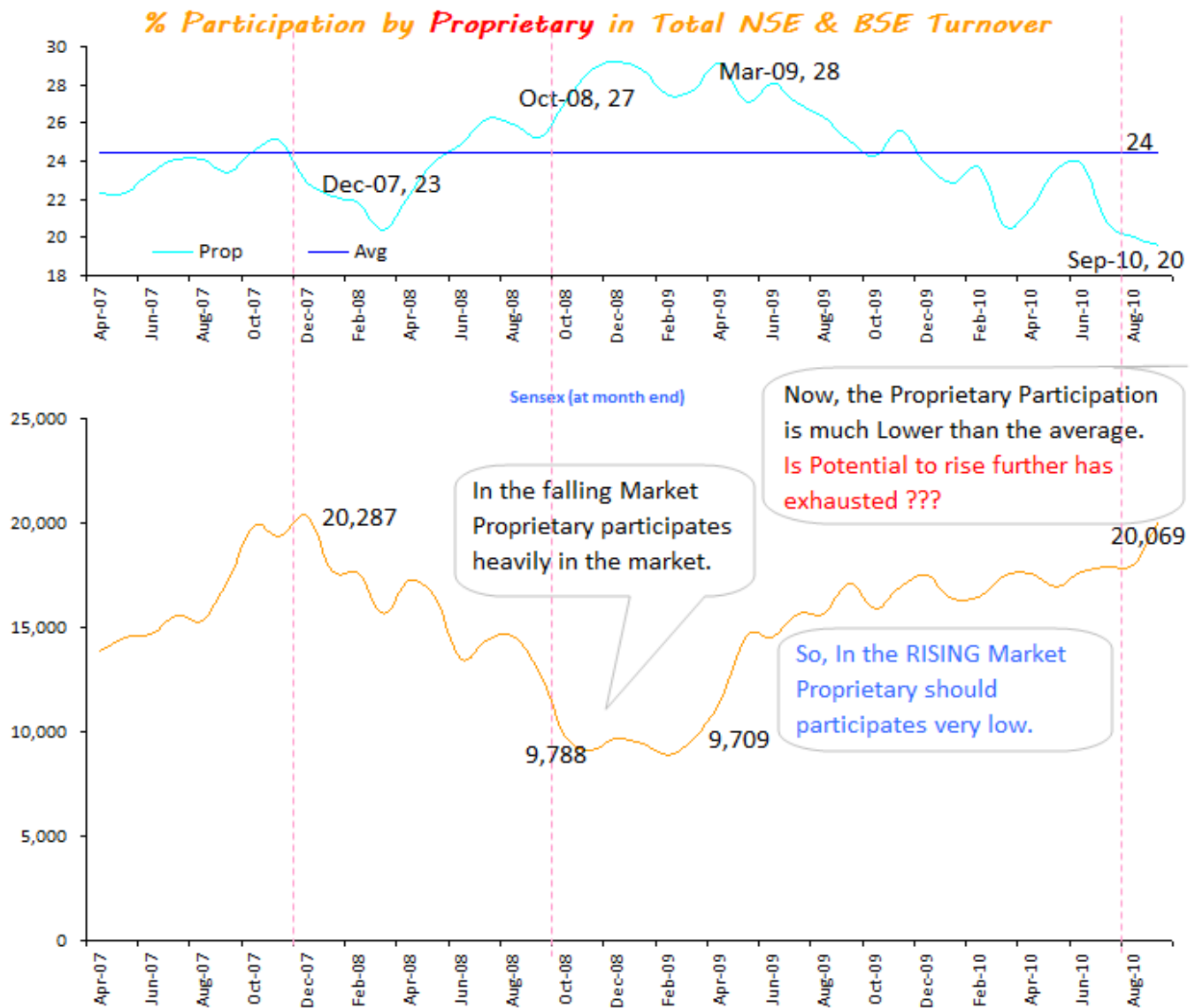
% Participation by Retail in Total NSE & BSE Turnover



Sensex (at month end)



Falling Participation by Proprietary is a cause of Concern.....



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