

## 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.

## Archives - Indices

Indices :SENSEX

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

[Click here to download.](#)

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.

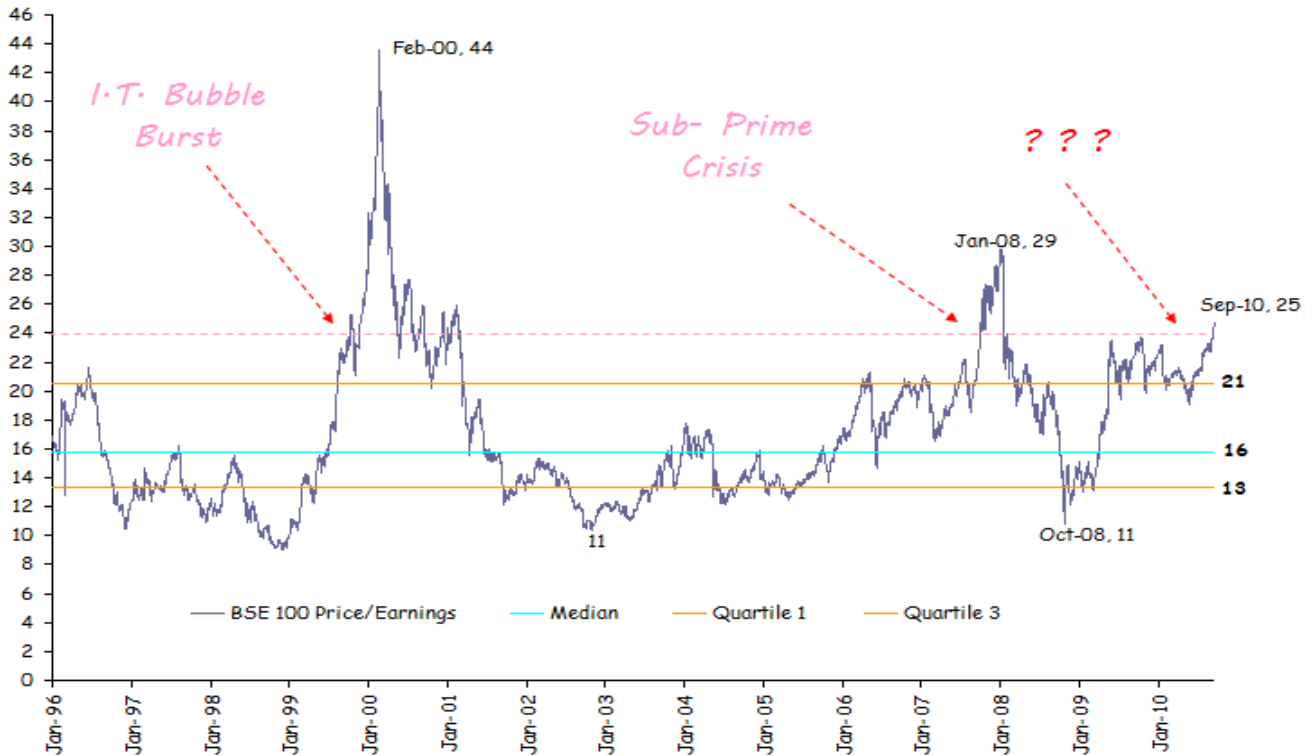
So, the probability of Market rising further and PE expanding is low.

*Median PE*

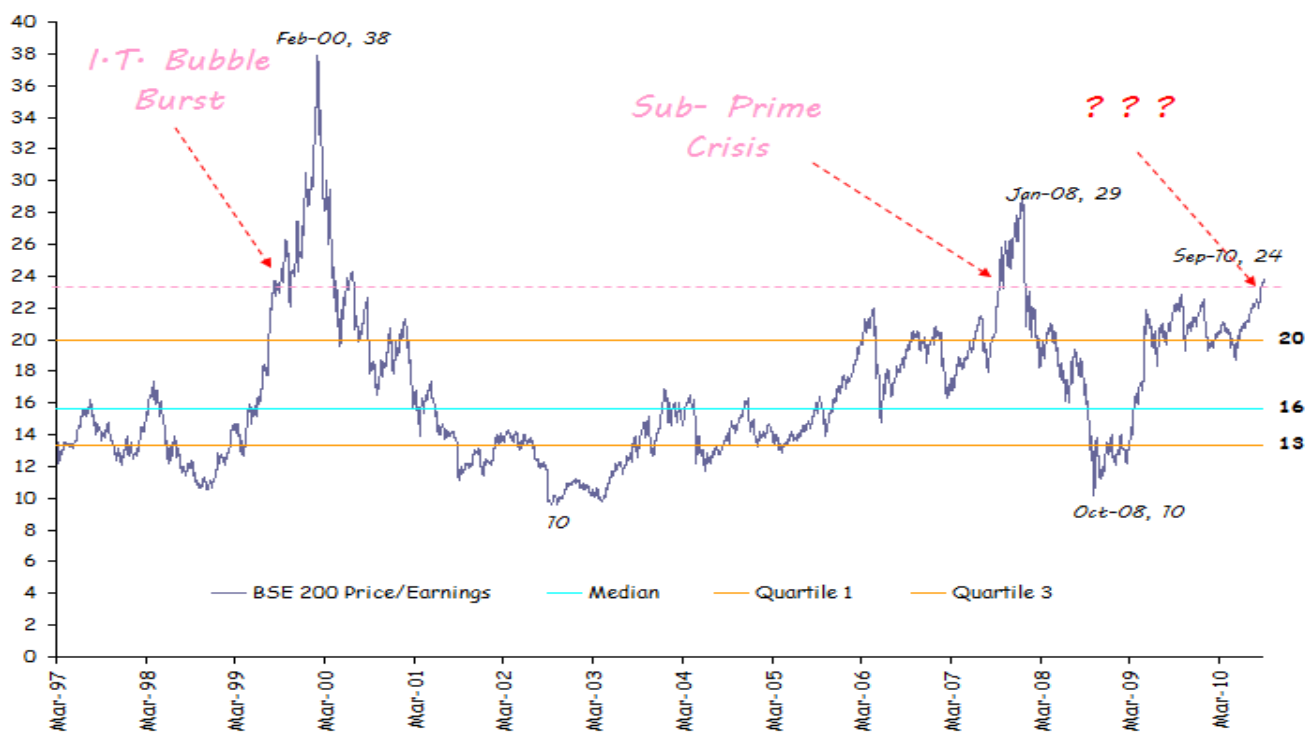
*Current PE*

## Looking at the Other Indices .....

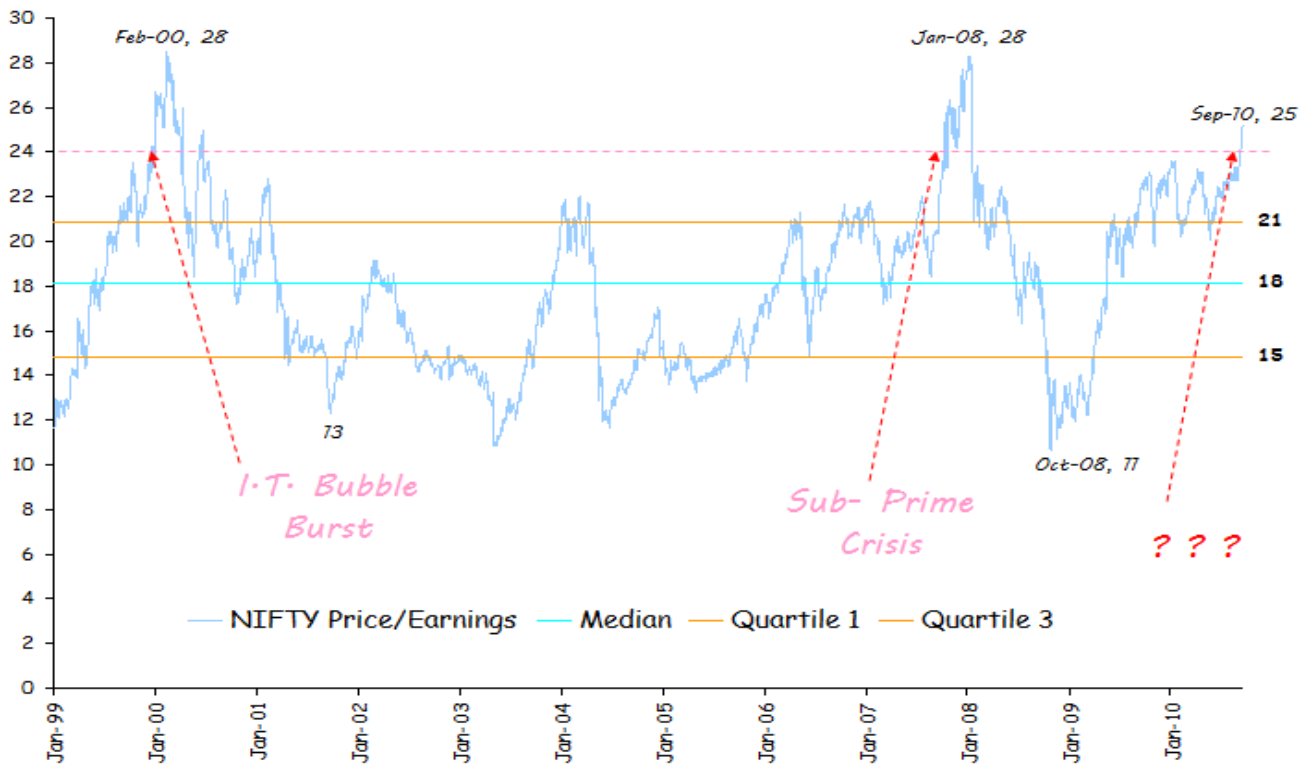
### BSE 100 (Data Source BSE)



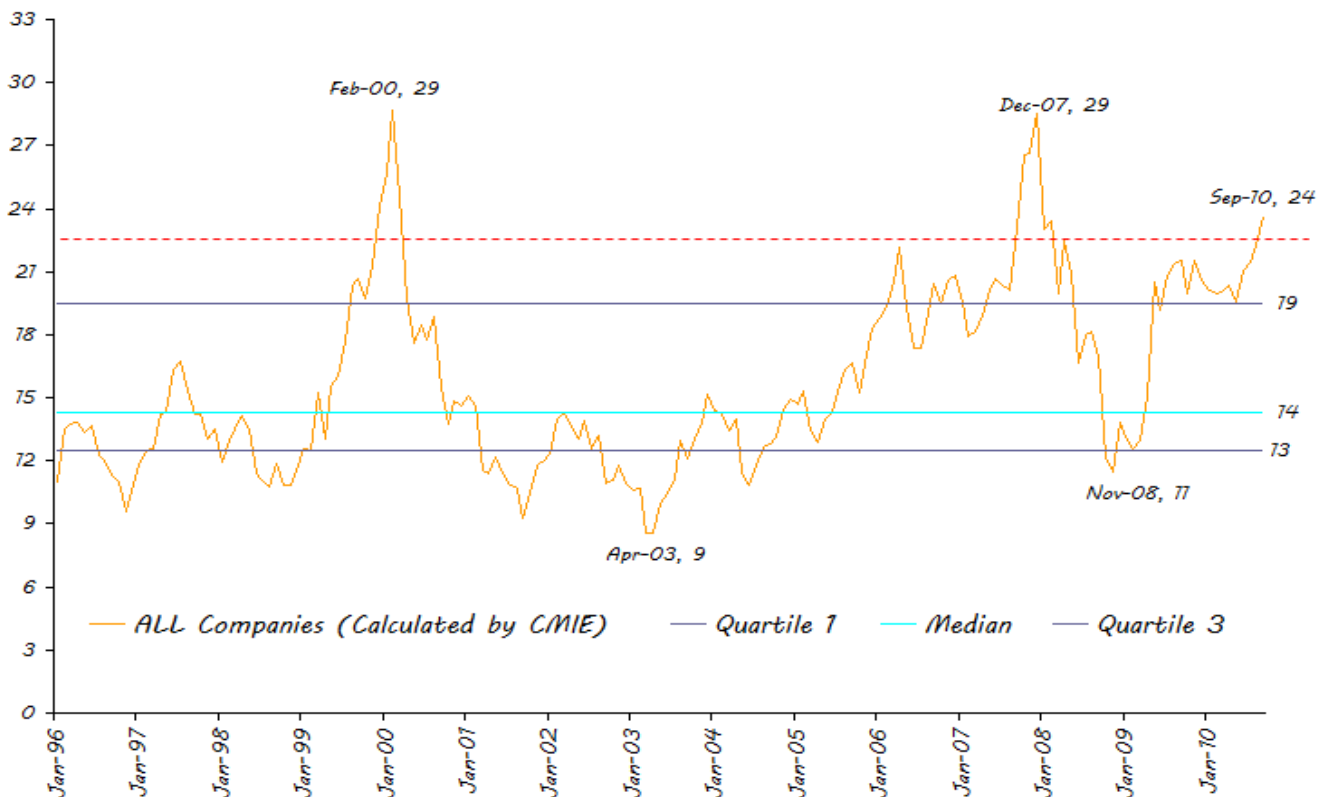
### BSE 200 (Data Source BSE)



## 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.

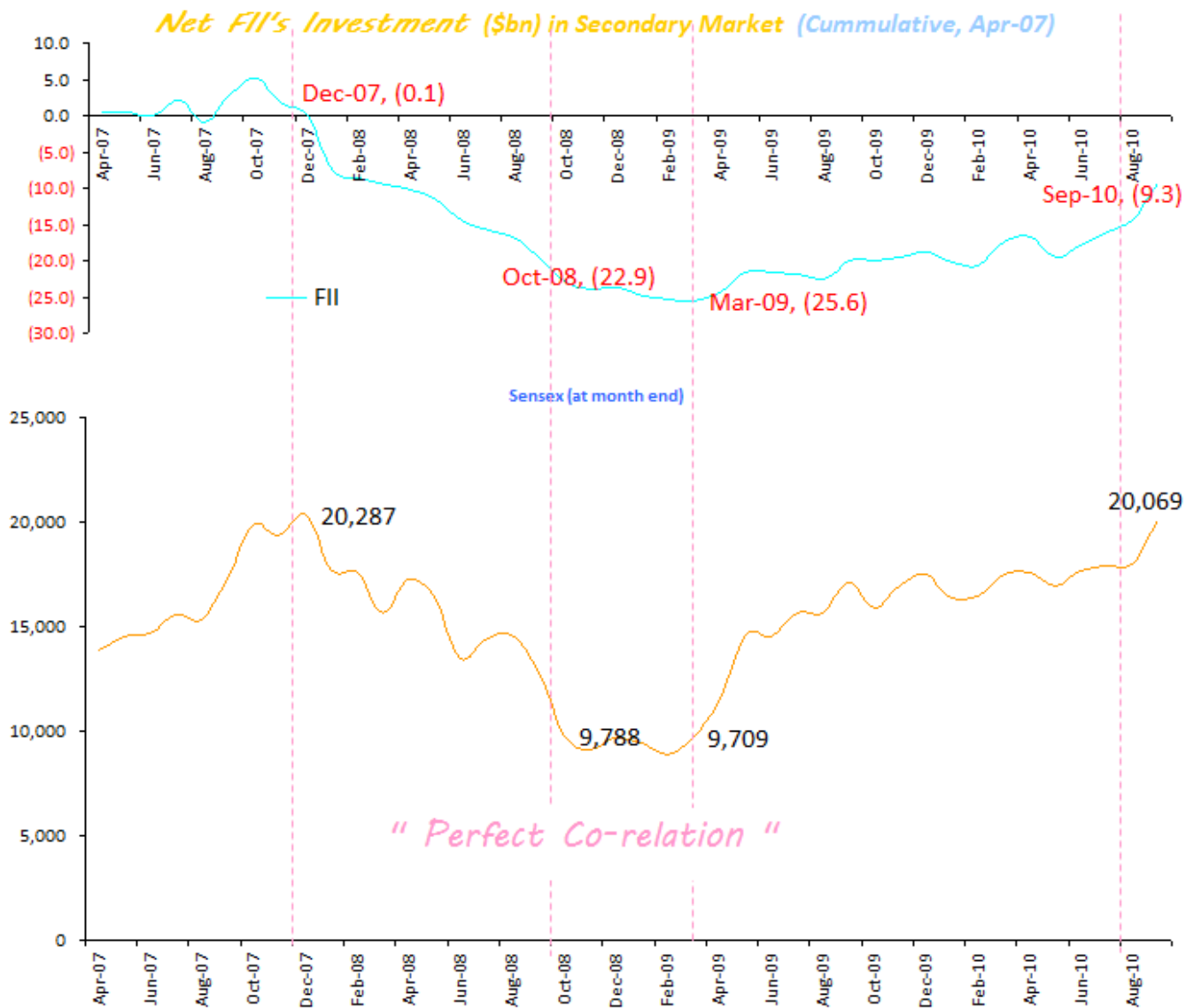
- This Time,
1. There is No such high growth Optimism.....
  2. On the contrary..... as just 18 months has passed from the downfall....  
so market participant must be fearful

*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

Highest Monthly Withdrawal 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
<b>Median 3.1</b>			

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)
<b>Median (1.7)</b>			

Exception  
Exception  
Exception

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

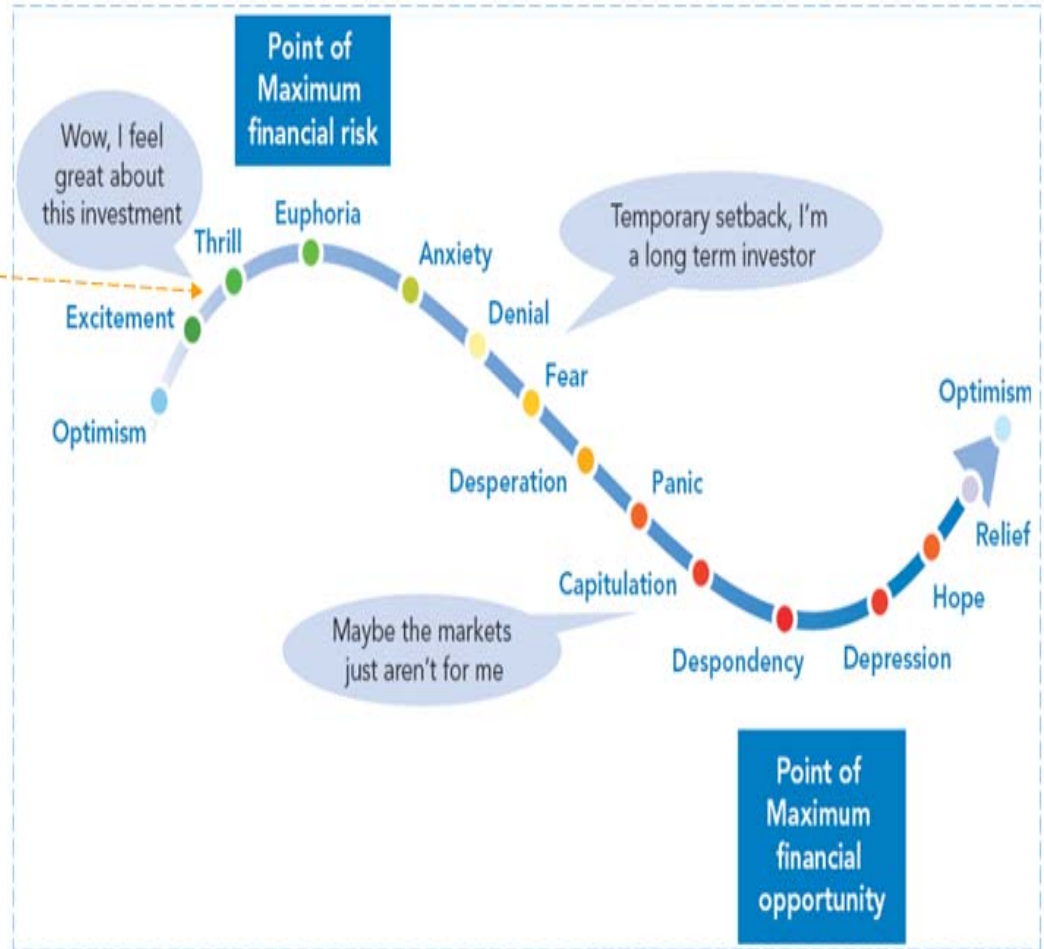
Will FII God keep on pouring 'Dollars' on India..... at these high valuation?





Market Emotion Cycle

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



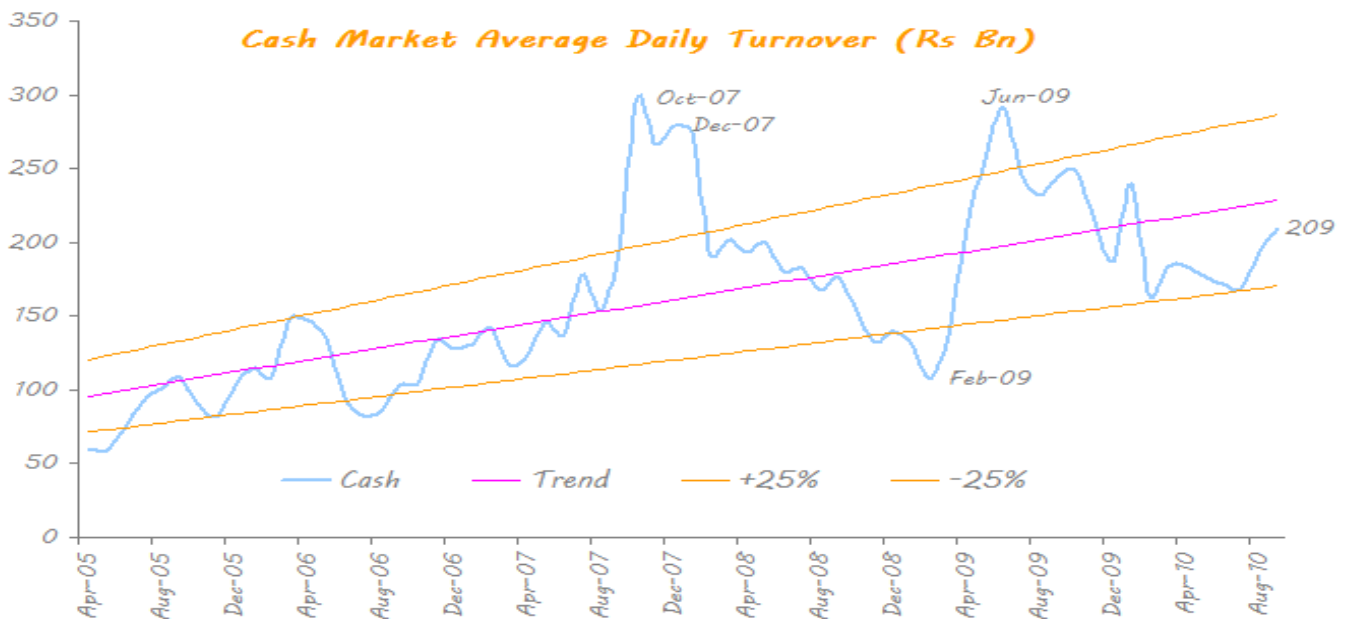
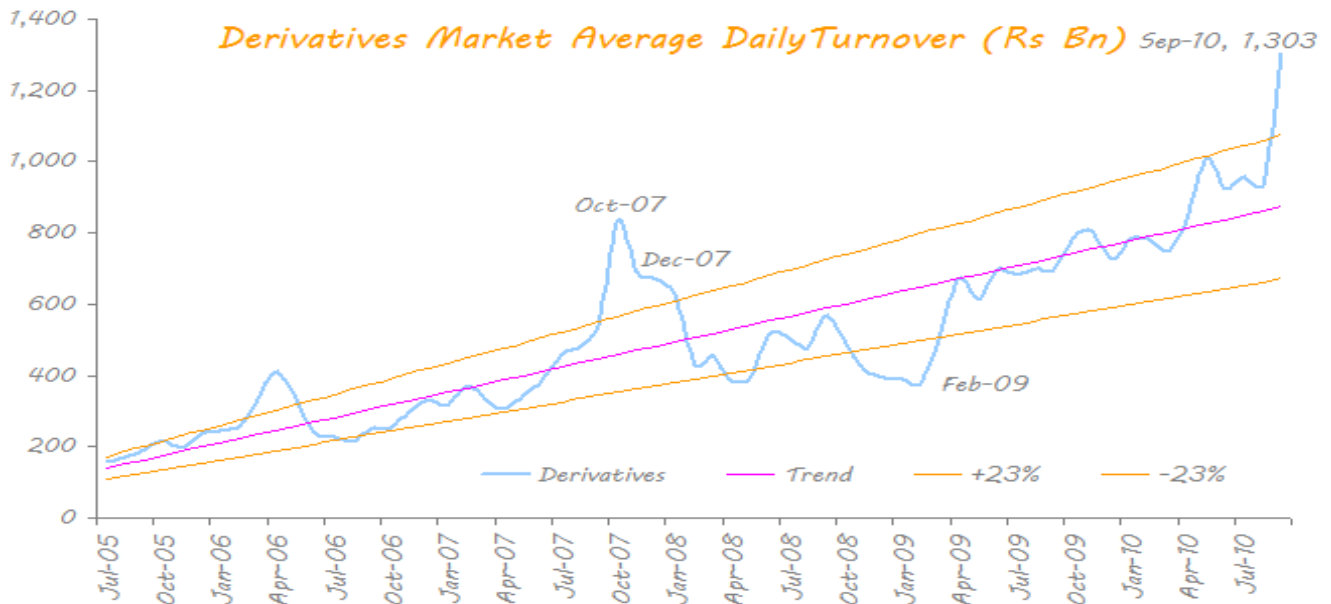


## Derivatives Market:

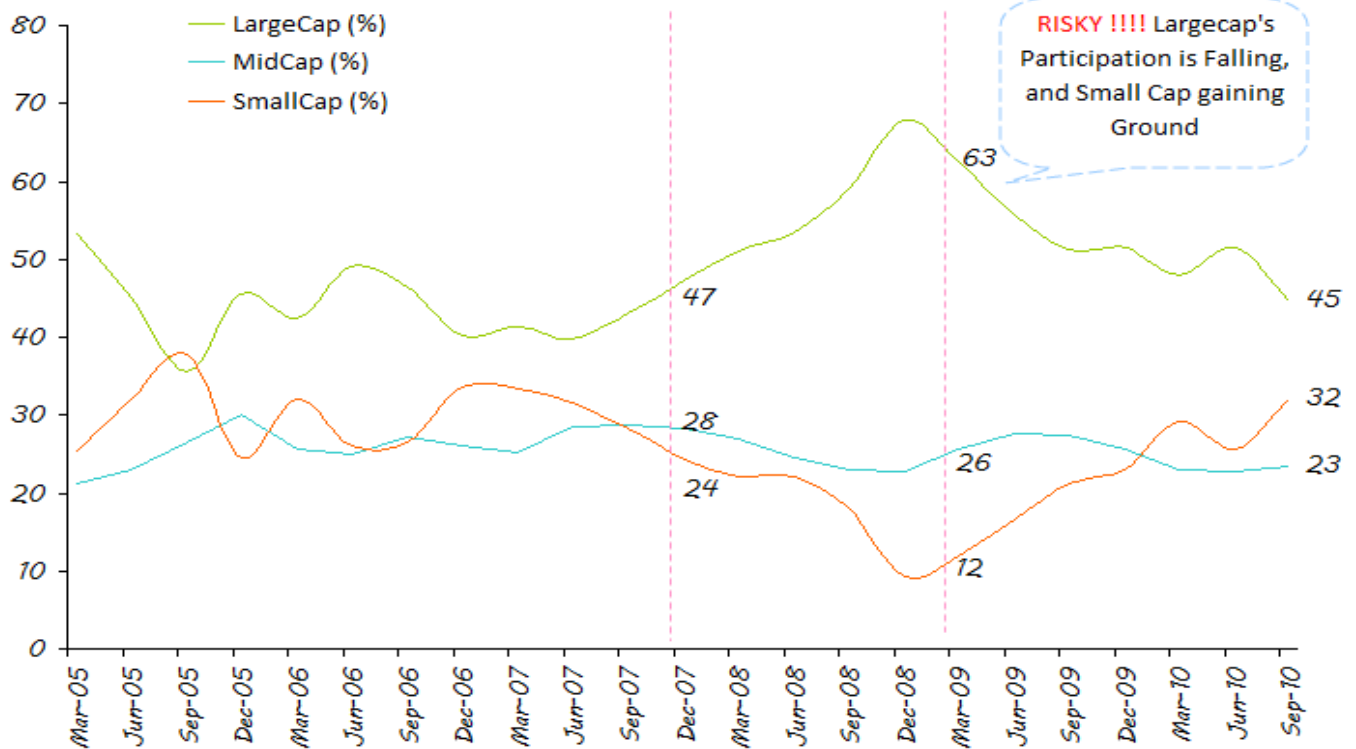
### An Indicator of Gambling Activity

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

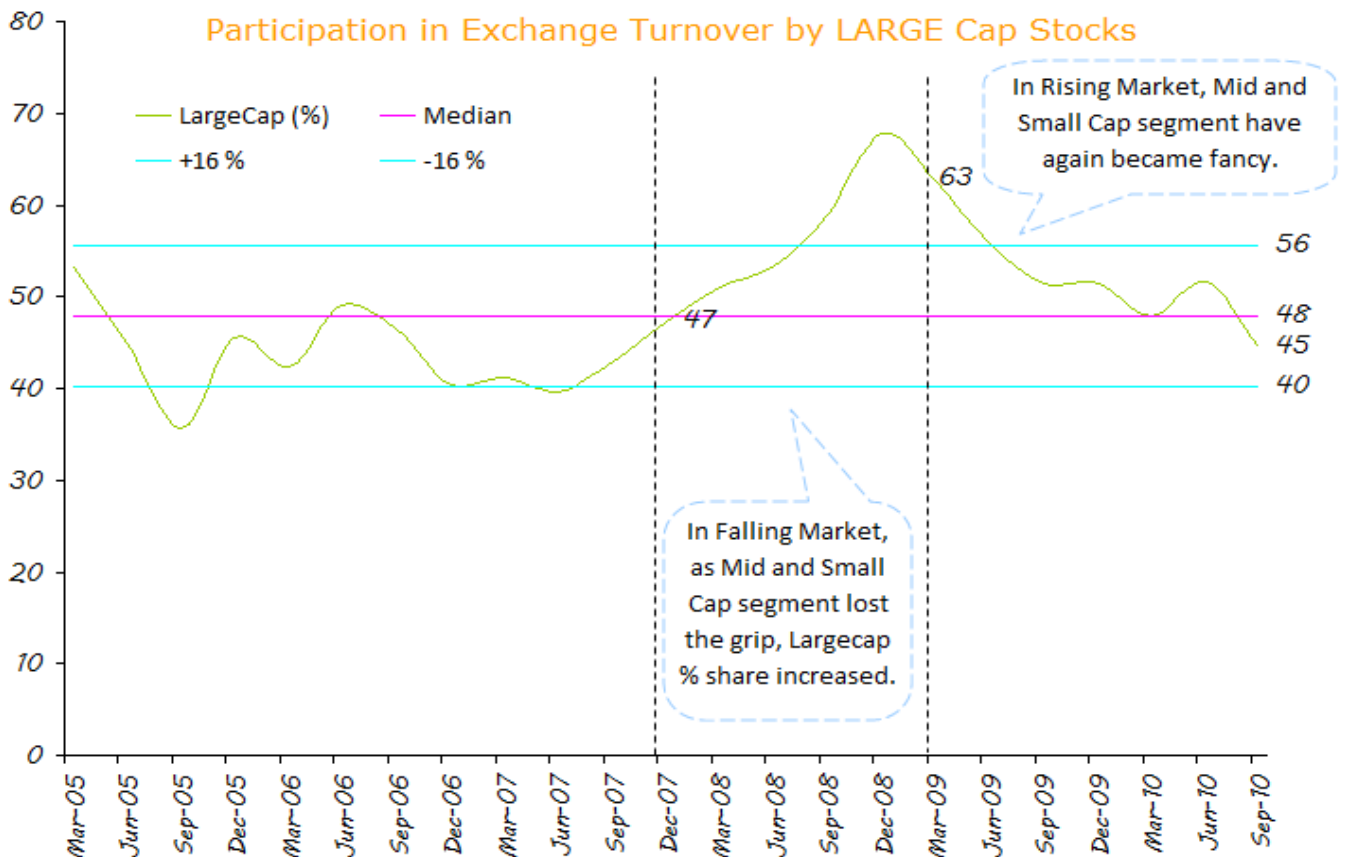
Similar, unusually high activity can be seen now as well !!!!!



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



## Participation in Exchange Turnover by LARGE Cap Stocks



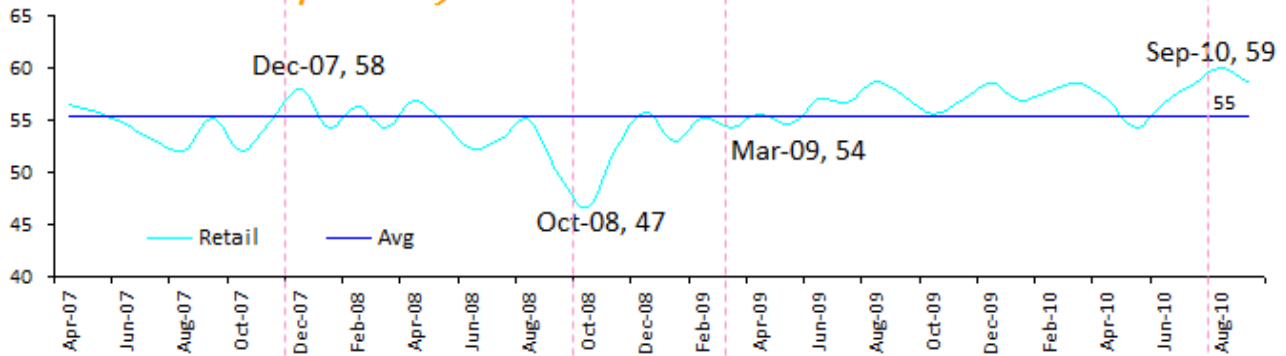
## Participation by Category of Investor.....

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.

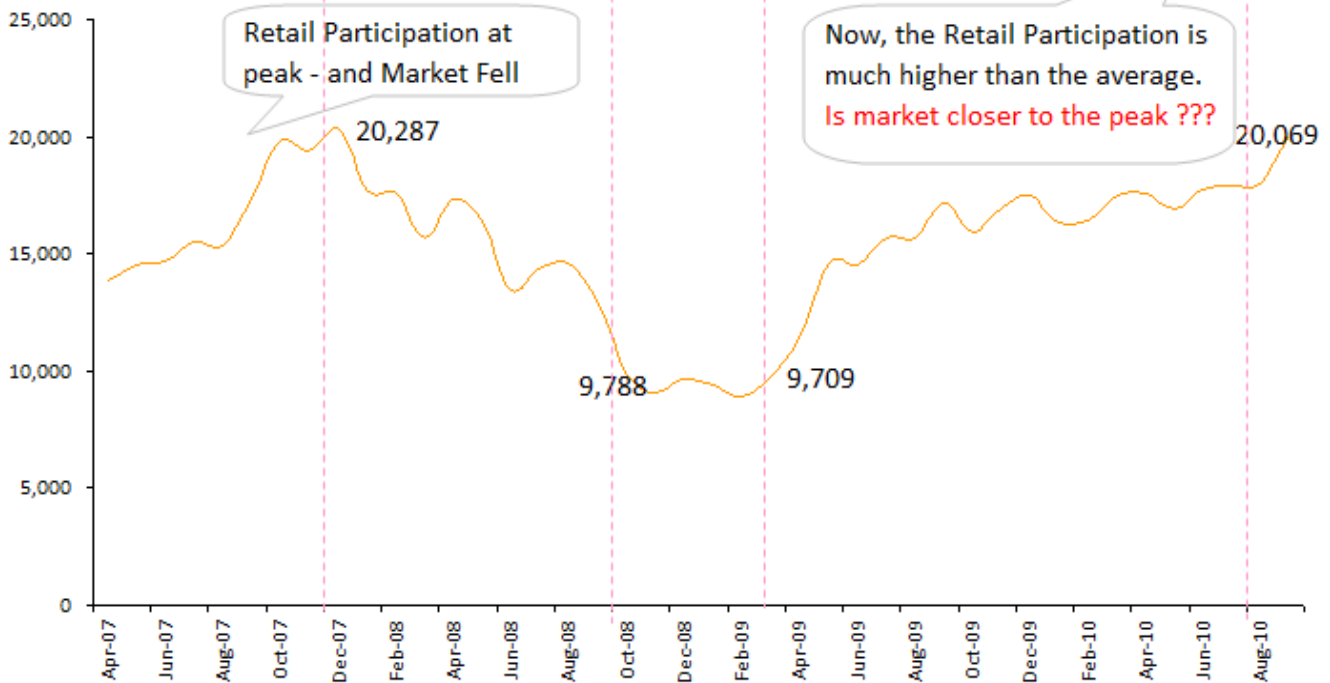


*Retail Participation is at the alarming high level..*

**% Participation by Retail in Total NSE & BSE Turnover**

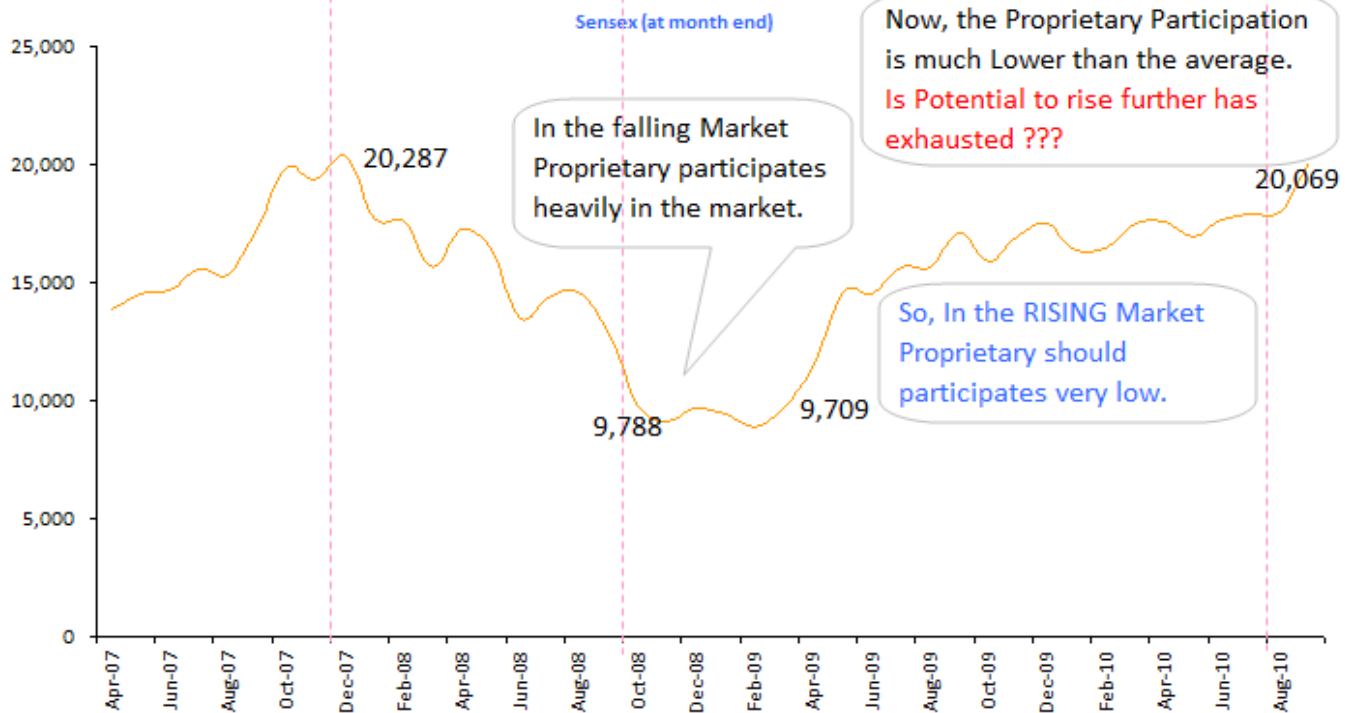
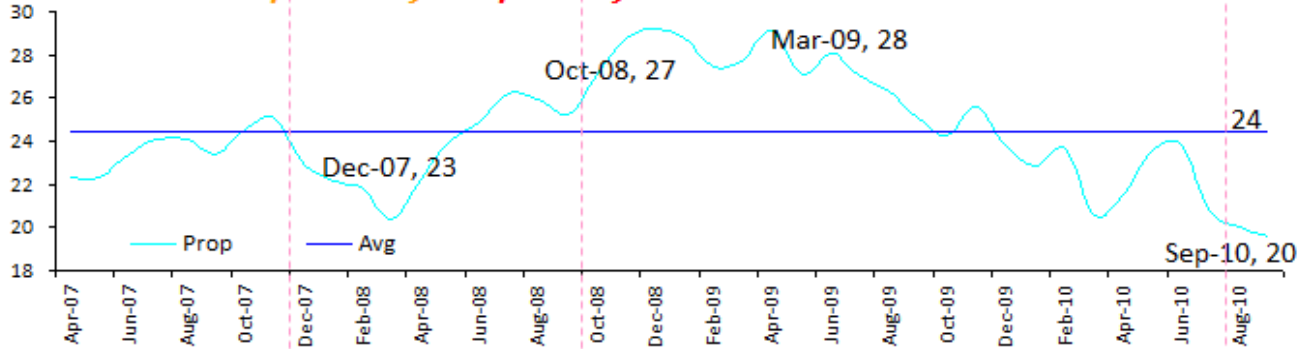


**Sensex (at month end)**



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

**% Participation by Proprietary in Total NSE & BSE Turnover**



**Disclaimer:**

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, print, publishing, photocopying, recording or otherwise without the permission of UR Quants Partner. Any unauthorized act in relation to all or any part of the material in this publication may call for appropriate statutory proceedings.

The information contained herein is confidential and is intended solely for the addressee(s). Any unauthorized access, use, reproduction, disclosure or dissemination is prohibited. This information does not constitute or form part of and should not be construed as, any offer for sale or subscription of or any invitation to offer to buy or subscribe for any securities. The information and opinions on which this communication is based have been compiled or arrived at from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to their accuracy, correctness and are subject to change without notice. UR Quants Partner and/ or its clients may have positions in or options on the securities mentioned in this report or any related investments, may effect transactions or may buy, sell or offer to buy or sell such securities or any related investments. Recipient/s should consider this report only for secondary market investments and as only a single factor in making their investment decision.

The information enclosed in the report has not been vetted by the compliance department due to the time sensitivity of the information/document. Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when the investment is realized. Those losses may equal your original investment. Some investments may not be readily realizable and it may be difficult to sell or realize those investments, similarly it may prove difficult for you to obtain reliable information about the value, risks to which such an investment is exposed. Neither UR Quants Partner nor any of its affiliates shall assume any legal liability or responsibility for any incorrect, misleading or altered information contained herein.