

Morgan Stanley sees Sensex rising to 34,000 by June 2018

Upbeat earnings outlook, strong economic growth cited as reasons for the prediction

BY AMI SHAH & NASRIN SULTANA

MUMBAI

Where do Indian markets go from here? Up another 9%, says Jonathan Garner, the chief Asia and emerging markets equity strategist at Morgan Stanley.

The investment bank has set a Sensex target of 34,000 for June 2018. Garner cited an upbeat corporate earnings outlook and strong economic growth as reasons for the prediction.

On Tuesday, the benchmark 30-stock Sensex closed at 31,190.6 points, 0.38% lower than the previous close. The gauge has climbed 17.14% since January, trailing only Hong Kong's Hang Seng index.

"We are bullish on the Indian market. In fact, we are overweight India relative to our coverage," Garner said in a phone interview with *Mint*. "If you look at the situation for equities globally, it is characterized by very strong earnings growth."

Garner said he expected the Sensex to deliver 18% earnings growth for fiscal year 2018 on the back of likely synchronized upswings in the infrastructure and consumption sector in India.

"(There is) increasing support from exports, while global trade growth is recovering. We also think corporate capex spending will be rising globally," he added.

On a roll

The Sensex has climbed 17.1% since January, trailing only the Hong Kong's Hang Seng index.

Country (index)	Year-to-date change (in %)	One-year forward PE*
Hong Kong (Hang Seng)	18.17	12.79
India (Sensex)	17.14	18.95
South Korea (Kospi)	16.88	10.32
Philippines (PSEi)	16.26	19.32
Singapore (FTSE Straits Times)	12.32	14.75
Indonesia (Jakarta Composite)	7.76	16.11
Brazil (Ibovespa**)	3.92	11.67
China (Shanghai Composite)	-0.05	13.69
Russia (RTSI\$**)	-9.74	6.08

*Price-to-earnings ratio; **updated till 7pm on Tuesday

Source: Bloomberg

PARAS JAIN/MINT

Morgan Stanley's forecast is easily the most optimistic, even though overall investment sentiment towards Indian stocks is positive. Citigroup Inc., for instance, predicted in a 31 May note that the Sensex would hit 32,200 by March, about 3.2% above current levels.

Foreign investors have bought \$7.81 billion in Indian stocks this year, betting on growth in Asia's third largest economy.

The optimism has continued despite data released last week that showed India's economic growth slowed for the fourth consecutive quarter in the three months ended March, mirroring the impact of demonetization on key sectors including construction and finan-

cial services.

Gross domestic product growth slowed to 6.1% in the fiscal fourth quarter from 7% in the third, according to government data released on 31 May.

Corporate earnings in the March quarter also reflected this.

A *Mint* analysis of the earnings of 2,348 firms, for which comparable data is available for 12 quarters, showed aggregate net sales rose 5.07% from a year ago and net profits after adjustment for one-offs fell 3.7%.

But Garner, like others such as rating agency Moody's Investor Services, believes the worst may be over.

"Now, actually, we are close to a

situation where the economy will be firing on all cylinders and strong earnings growth will come through," said Garner. "Inflation is well contained here, the current account is in balance, bond yields have been trending down. All these are quite constructive."

Moody's on 31 June projected India's growth to accelerate to 7.5% in 2017-18 and 7.7% in 2018-19.

Because of this expected strong earnings rebound, Garner is not concerned about valuations. "Valuations are reasonable. We are seeing 16.5 (times) forward P/E (price to earnings ratio) to June 2018 for India. It is at a premium valuation to EMs (emerging markets), but it is normal range around 25% overvaluation of the EMs," he said.

Others are not so sanguine. "Earnings revision momentum is still negative (more downgrades than upgrades) and Nifty (fiscal) 2018 earnings growth expectations stand at 15% vs. 18% at the start of the earnings season," said the Citigroup note cited earlier.

While sales volumes will inevitably grow, profits may not, say analysts.

"A lot is riding on a big turnaround in the fundamentals of the companies. We can only hope that the market is fated for better than Dorian Gray," said a 5 June note by Kotak Institutional Equities, referring to the eternally youthful hero of the Oscar Wilde book whose portrait showed his true, wretched state of being.

ami.s@livemint.com



In Donald Trump's White House, everything's coming in 'two weeks'
bit.ly/2szkK50