

Markets May Not Sustain As Valuation Looks Stretched, Says JM Financial's Suhas Harinarayanan

Source: Bloomberg Quint

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27 August 2018, 3:07 PM 27 August 2018, 3:07 PM

The Indian market has run ahead of fundamentals, according to JM Financial's Suhas Harinarayanan, who is more circumspect than he was three months ago.

Valuations are looking stretched and the market may not sustain at current levels, Harinarayanan, head of institutional equities at JM Financial, told BloombergQuint in an interaction. The premium at which MSCI India is trading to MSCI Emerging Markets or the difference between the government securities yield and the earnings yield is its highest since December 2007, he said.

The expansion in the absolute price-to-earnings multiple is the key reason for his discomfort. The NSE Nifty 50 Index's PE multiple is 1.9 times that of the MSCI Emerging Market Index, according to Bloomberg data.

Harinarayanan also said crude remains the biggest monitorable from an Indian context even though it has been "quiet off late". Higher crude prices pushed the nation's trade deficit to its highest in five years in July. That also put pressure on the rupee and threatens to stoke inflation.

Yet, Nifty 50 continues to trade close to its record high, aided by a rally in select stocks and earnings growth. As many as 38 out of the 50 constituents of the index [either beat or met earnings estimates](#) in the quarter ended June.

"We are bullish on stocks and sectors with higher earnings revisions coming through," Harinarayanan said, adding there were also "pockets" where earnings forecasts were lowered after the first-quarter numbers.

Here's what Harinarayanan expects from consumption-driven sectors:

Rural-Focused Stocks

Rural-focused stocks, earnings estimates for which were upgraded, will continue to trade at fair valuations, he said.

Fast-Moving Consumer Goods

Harinarayanan is bullish on FMCG companies and rural-focused financial service providers. “We expect double-digit growth in the FMCG sector.” The rural-focused financial companies, Harinarayanan said, should recover in the next six months.

Automobiles

Harinarayanan doesn't expect earnings forecast upgrade for automakers because of higher commodity prices.