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For some, India is still expensive

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THE possibility of a further de-rating for India is gaining ground, with market mandarins terming the country as "pricey" at over 17 times price-to-earnings.

Even after the 5-month-long bearish phase and a near-29% dip from the top, Indian shares are still considered expensive vis-à-vis emerging equity hubs. In end-May, it was trading at a 45% premium to the average for emerging markets, analysts maintain.

Although macro fundamentals have turned lacklustre and investor sentiment is at an all-time low, Indian stocks are still running ahead of weakened fundamentals. Analysts are quick to remind that the FY09 GDP growth has been steadily cut down from 9% to around 7.5%. A near double-digit inflation and an ever-widening credit deficit, thanks to surging oil prices, are in a way "de-valuing" Indian markets, they say. It should be remembered that a further de-rating may come at a time when the market has fallen nearly 29% from record levels. As per Bloomberg, one-year forward PE of the Sensex is pegged at 16.9 times.

"Valuations, for sure, are on the higher side when you compare India with emerging markets. At 17X, India is a good investment destination for a longer term. However, if you consider a shorter term — say one year or so — there are several limiting factors that does not support such valuations," said Kotak Securities' vice-president, research, Ketan Karani.

Inflation, impact of crude prices, growth slowdown, high interest rate regime, unstable rupee, political instabilities et al pose greater challenges for India vis-à-vis other emerging markets. India is among the countries that will be badly impacted by rising crude prices.

"Setting aside long-term strategies, foreign investors are now only looking for short-term opportunities. The risk appetite of these investors are also on the lower side. If the Indian market doesn't re-rate a bit more, they would sell-off and move on to favourable markets like Russia or Brazil," Mr Karani added. In a recent interview to **ET**, JP Morgan's Asian equity strategist Adrian Mowat had set a target of 9,900 for the Sensex. Mr Mowat is of the opinion that India is relatively expensive when compared with other emerging markets.