India Rewind

March 2025

DSP ASSET MANAGERS

India Rewind is a monthly update from DSP's Investment Desk.
It separates the alpha from the noise and aims to deliver key insights to readers, packed within a 2-minute reading time.

The Indian market has seen a healthy ~(22%) correction from its peak, bringing valuations back to long-term averages—offering comfort to investors wary of stretched valuations. This correction aligns with a slowdown in earnings growth, concerns about global economic conditions amid ongoing tariff wars, and persistent FII outflows.

Despite these headwinds, several high frequency data are showing encouraging signs of economic recovery. 1) Monthly GST collections (at ~$21Bn) were up 9% YoY, while the manufacturing PMI hit a six-month high of 57.7, signalling improved industrial activity. 2) Other industrial indicators, such as rail freight volume, and electricity production, showed improvement, although steel output declined sequentially in January. 3) Service sector performance was mixed—while the services PMI softened from recent highs, bank credit growth and air passenger traffic showed positive traction. 4) Rural recovery is also gaining momentum, supported by a favourable monsoon, robust kharif output, and healthy rabi sowing. Notably, rural FMCG volumes have grown faster than urban volumes for four consecutive quarters.

To further support growth and maintain economic momentum, the government and RBI have introduced targeted fiscal and monetary measures. These include (i) Income tax relief for middle-class households amounting to ~$12Bn, (ii) a 25bps rate cut by the RBI, (iii) a ~$10Bn buy/sell swap to ease liquidity conditions, and (iv) an estimated 10% YoY increase in central government capital expenditure by FY26BE.

In YTD 25, MSCI India Index US$ returned ~(11.4)% vs. MSCI EM ~2.0% and MSCI DM ~2.6%. MSCI India's forward PE is at ~20.1 NTM, with the 2FY now trading at ~1.8SD above its long-term averages. FIIs have sold ~$(13.7) Bn YTD (vs ~$(0.8) Bn in 2024). Monthly SIPs are at ~$3.0 Bn, suggesting the continued preferred form of investment for India's retail investors.

Sectoral insights following the latest earnings season:

- Health Care: The sector stood out once again with a solid earnings growth. Overall performance at the aggregate level was driven by: 1) a sustained contribution from niche products in the US generics segment, 2) a demand tailwind in chronic therapies, and 3) elevated inventory levels of raw materials, which helped keep their prices in check. The aggregate performance was partly hit by reduced support from the acute therapies.
- Information Technology: IT companies remain cautiously optimistic, as the demand from discretionary projects remains unchanged compared to the previous quarter. However, they note a gradual recovery in shorter-term engagements this quarter, with early signs of a revival in discretionary spending. Cost optimization continues to be a key focus area for clients, but the companies are experiencing robust momentum in BFSI, with Hi-Tech also exhibiting a positive outlook as semiconductor clients and hyperscalers plan to raise spending.
- Banks: The sector reported another soft quarter amid moderation in margins and sustained higher provisioning expenses, mainly for the private banks. NIM continued to dip amid cost pressure, while the competition for deposits continued to remain intensive for banks, and the CASA mix continued to deteriorate. Public sector banks too experienced some NIM compression, albeit very limited.
- Capital Goods: Order inflow growth was healthier than expected, particularly buoyed by the continued momentum in power T&D. The pipeline from cement, steel, and petrochemicals is yet to fructify into firm orders, while select sectors such as power T&D, renewable energy, data centres, real estate, and defence continued to witness healthy traction. Public capital expenditure is anticipated to rebound in the coming quarters, while private sector inquiries are expected to materialize from Q4FY25 onwards.
- Auto: The auto segment (excluding tractors) saw ~3% YoY growth in domestic volumes during the quarter, with rural demand outpacing urban. The growth in PVs was partly fuelled by festive season discounts and new launches. Most of the companies expect input costs to remain steady from quarter to quarter, with margin performance mostly determined by operating leverage advantages and discounting trends in Q4.
- Consumer Staples: Most of the companies witnessed limited volume growth, typically in the low to mid-single digits. While urban demand remained subdued, rural consumption displayed indications of a revival. Companies remain optimistic that price modifications, together with an expected increase in volume, will drive revenue growth in the coming quarters.
- Consumer Durables: Management teams in the Cables & Wires segment have indicated that demand would remain strong, led by infrastructure, industrial demand, and robust real estate growth. Further, early summer trends and expected increases in consumer spending will drive demand outlook for cooling products. EMS companies on the other hand have either raised or maintained revenue growth guidance, citing healthy demand across industries and a focus on expansion, operating leverage, and margin improvement.

Info Sources: Morgan Stanley Research, UBS, MOFSL. FY26BE – FY26 Government's budget estimate, MXASJ – MSCI Asia Ex-Japan, FII – Foreign Institutional Investor, DII – Domestic Institutional Investor, RBI – Reserve Bank of India, OMO – Open Market Operations, VRR - Voluntary Retention Route, FY – Financial Year, CY – Calendar Year; YoY is Year over Year, YTD – Year to date, EM – Emerging Markets, DM – Developed Markets.

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We hope you found this note interesting. We welcome your feedback on InvestmentStrategists@dspim.com

India at a Glance

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	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Economic Activity and Employment								
GDP, USD bn	2,701	2,871	2,668	3,176	3,390	3,568	3842	4062
GDP per capita, USD	2,036	2,141	1,969	2,321	2,451	2,554	2732	2890
Real GDP growth, %	6.5	4.0	-6.6	8.7	7.2	8.2	6.3	6.3
Prices, Interest Rates and Money								
CPI inflation, % y/y (average)	3.4	4.8	6.2	5.5	6.7	5.4	4.8	4.2
Repo rate, % (year-end)	6.25	4.4	4.0	4.0	6.50	6.50	6.25	5.75
10-year bond yield, % (year-end)	7.4	6.1	6.2	6.8	7.3	7.1	6.5	6.3
USDINR (year-end)	69.2	75.4	73.5	75.8	82.3	83.0	87.0	89.0
Fiscal Accounts								
General government budget balance, % GDP	-5.9	-7.8	-13.9	-9.5	-9.4	-8.5	-7.9	-7.4
Balance of Payments								
Trade balance, USD bn	-180	-158	-102	-189	-266	-243.2	-280.7	-308.2
Exports, USD bn	337	320	296	429	456	440.2	430.9	442.5
Imports, USD bn	518	478	398	619	720	683	712	751
Current account balance, USD bn	-57	-25	24	-39	-67	-25	-43	-55
Foreign direct investment (net), USD bn	30.7	43.0	44.0	38.6	35	18	16	22
Total FX reserves, USD bn	413	478	577	607	578	646	691	708
Total external debt, % GDP	20.1	19.5	21.4	19.1	18	18.1	17.8	17.1
Credit ratings								
Moody's	Baa2	Baa2	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3
S&P	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-
Fitch	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

Source: CEIC, Haver, UBS estimates; Note: Data is for FY ending March; E - Estimates