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INDIA REWIND

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.

Indian markets off late have remained in action and last month proved to be no different. The rising interest rate by Bank of Japan raised concern on global flows and India was no exception. ~$150m has been withdrawn from Indian midcap funds by Japanese investors, marking the largest redemption in several years. India's dedicated fund flows remain positive but have slowed recently. Weekly inflows have dropped to $215m over the past month, down from the $625m average for the YTD, largely due to outflows from Japan-based funds.

1QFY25/2QCY24 quarterly earnings reports, Indian companies frequently cited heatwaves and elections—mentioned over ~1,736 and ~103 times, respectively—as key factors contributing to the slowdown in consumption and construction activities. Notably, Rural FMCG growth surpassed Urban FMCG for the first time in over two years, reversing the trend of the past five quarters (*please refer chart 1 below*). Conversely, top-end consumption-driven businesses experienced a slowdown in like-for-like sales growth.

Key theme emerging from the management commentaries:

- **IT Demand**: IT customers remain cautious on discretionary tech spend, but managements of IT companies are turning incrementally optimistic amid improving sequential growth and continuing deal momentum.
- **Consumption**: Staples companies are seeing green shoots in rural recovery, with rural growth outpacing urban in recent months. Managements expect the improvement to continue, aided by stable inflation, healthy monsoon and the government's budgetary support.
- **Construction**: Cement demand was tepid during the quarter amid monsoon and elections, but managements expect momentum to pick up in 3QFY25 onwards as infra-related government orders come through.

To summarise, MSCI India Index profit moderated to~ 9% YoY, from ~16% YoY growth last quarter. There was a notable drag from Energy, while Banks contributed meaningfully to growth. On a full-year basis, MSCI India profits are tracking at ~49% of CY24 consensus estimates. Incorporating the trends from the recent quarter, earnings for the full year is expected to be at ~14% for CY24 and at ~15% for CY25.

Flows and Valuations: In the YTD24, the MSCI India Index has returned ~22%, compared to MSCI EM ~7.4% and MSCI DM ~ 15.5%. The MSCI India Index is currently trading at ~2 SD above its long-term average. Domestic institutions have been the main driver of inflows into Indian equities this year, contributing a record ~$37bn in YTD24 (*please refer chart 2 below*). They are also sitting on fair amount of cash ~ 4% of AUM which in % terms may not be big but in absolute terms is around ~ $12-15bn indicating their potential to support the markets in the near term. Meanwhile, foreign institutional investors have also made significant contributions, with $6.5 billion in inflows into the primary market this year, maintaining positive net inflows each month despite selling in the secondary.

Q1FY25 India's GDP growth stood at ~6.7%, with GVA slightly higher at ~6.8% due to increased subsidies. The GDP-GVA gap narrowed as expected, thanks to normalized net indirect tax growth. There are initial signs of improvement in private consumption, though more data is needed to confirm trends. Additionally, the gap between investment and consumption growth has lessened. While India's growth momentum is expected to stay steady, potential risks include fading terms-of-trade benefits from lower commodity prices, tighter lending standards, weaker global growth and exports, and mildly slower government spending growth despite rising populist measures. This month begins the festive season in India which runs through mid-November and all eyes will be glued to the discretionary spending numbers as these festive sales represents ~40-50% of overall sales.

Chart 1: FMCG Industry Volume Growth (%, YoY)

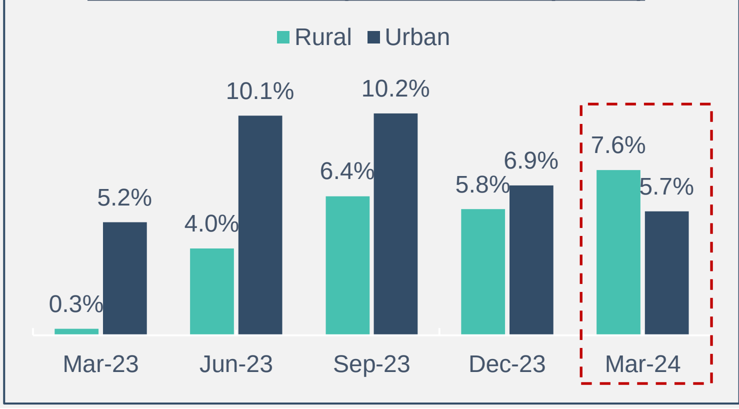

Chart 2: Discretionary inflows (monthly inflow ex-SIP) also remained strong at $1.6bn in July

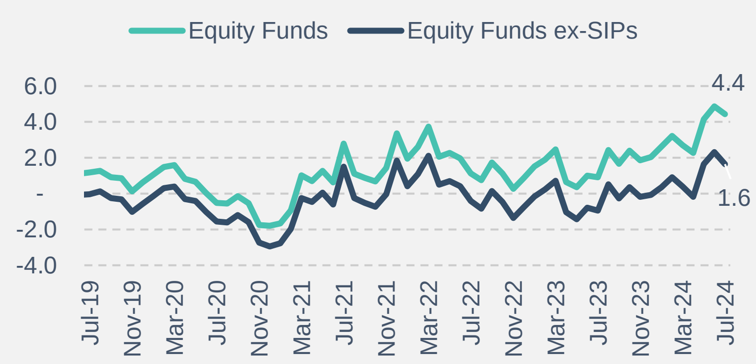

Chart Source: Goldman Sachs. Info Sources: Goldman Sachs Research, UBS, Morgan Stanley. FII - Foreign Institutional Investor, DII - Domestic Institutional Investor, FY - Financial Year, CY – Calendar Year; YoY is Year over Year, YTD- Year to date, EM- Emerging Markets, DM- Developed Markets.

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For past Issues, please see below:

India Rewind August 2024
India Rewind July 2024
India Rewind June 2024
Older Issues

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

DSP ASSET MANAGERS

India at a Glance

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E
Economic Activity and Employment								
GDP, USD bn	2651	2701	2871	2668	3176	3390	3568	3916
GDP per capita, USD	2018	2036	2141	1969	2321	2451	2554	2776
Real GDP growth, %	6.8	6.5	4.0	-6.6	8.7	7.2	8.2	7.0
Prices, interest rates and money								
CPI inflation, % y/y (average)	3.6	3.4	4.8	6.2	5.5	6.7	5.4	4.3
Repo rate, % (year-end)	6.0	6.25	4.4	4.0	4.0	6.50	6.50	6.25
10-year bond yield, % (year-end)	7.4	7.4	6.1	6.2	6.8	7.3	7.1	6.6
USDINR (year-end)	65.0	69.2	75.4	73.5	75.8	82.3	83.0	83.0
Fiscal accounts								
General government budget balance, % GDP	-5.9	-5.9	-7.8	-13.9	-9.5	-9.4	-8.5	-7.9
Balance of payments								
Trade balance, USD bn	-160	-180	-158	-102	-189	-266	-243.2	-280.3
Exports, USD bn	309	337	320	296	429	456	440.2	463.1
Imports, USD bn	469	518	478	398	619	720	683	743
Current account balance, USD bn	-49	-57	-25	24	-39	-67	-25	-50
Foreign direct investment (net), USD bn	30.3	30.7	43.0	44.0	38.6	35	18	25
Total FX reserves, USD bn	425	413	478	577	607	578	646	643
Total external debt, % GDP	20.0	20.1	19.5	21.4	19.1	18	18.1	17.8
Credit ratings								
Moody's	Baa2	Baa2	Baa2	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