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7 Insights Through A New Lens| Nov 2024

Why India Outperforms and The Key to Long Term Wealth Creation

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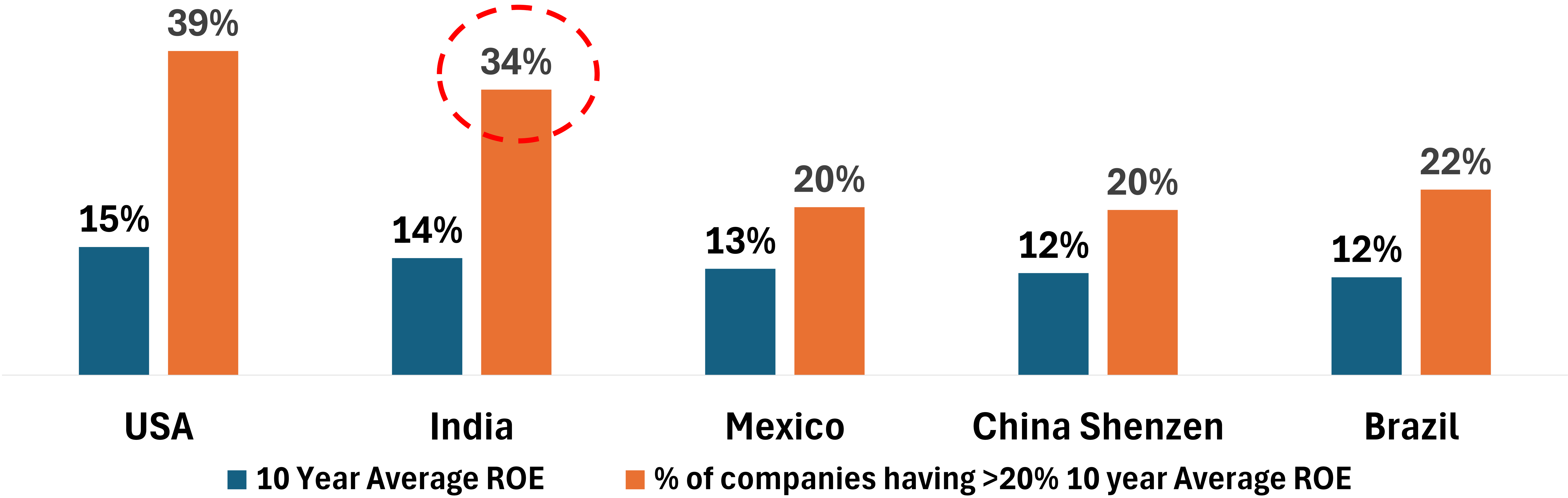
Why India Outperforms Over The Long Term? It's Not Flows, GDP Growth or The Story…

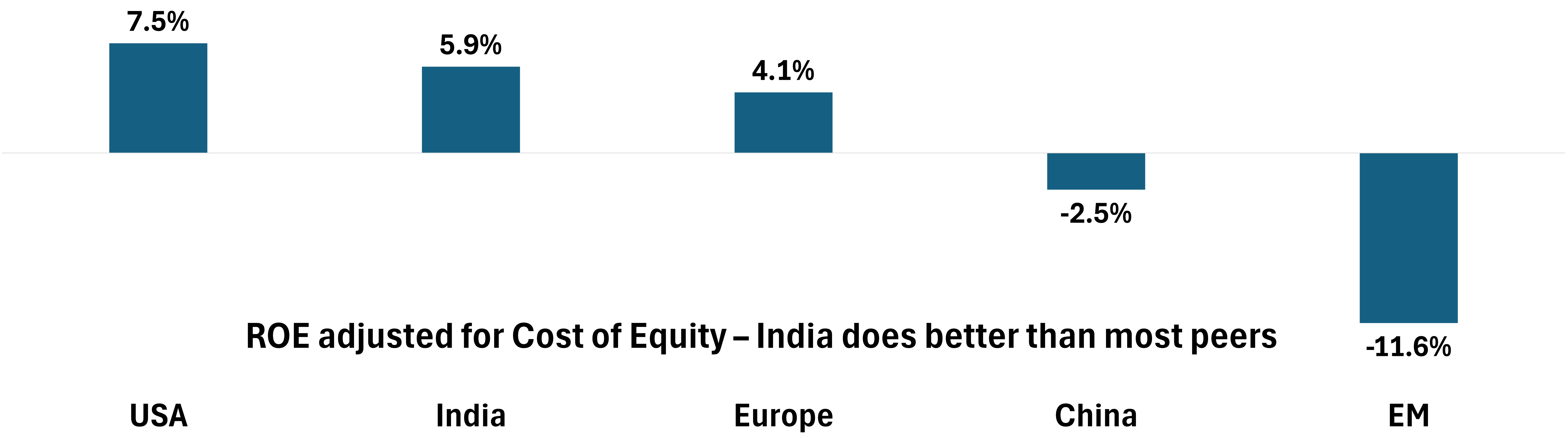
India's long-term outperformance is often attributed to narratives like domestic flows or high GDP growth, but these are merely surface-level explanations.

The fundamental question is why stock investors should expect higher returns than those offered by bonds. The extra return that stocks can provide stems from the ability of management to generate returns exceeding their cost of capital. Therefore, the primary driver of stock prices over the long term is the returns that shareholders earn on their capital. Companies with superior return on equity (ROE) are more likely to deliver higher returns compared to their peers. Adjusted for the difference in cost of capital, India does better than most peers.

India ranks second only to the U.S. in the number of firms consistently achieving an ROE of over 20% for more than a decade. This strong performance in ROE is the true engine behind India's superior stock market results, suggesting that the underlying fundamentals are what truly matter, rather than the popular narratives surrounding market performance.

Nearly one third of companies in India have recorded an ROE of more than 20% consistently





Source: Bloomberg, DSP. Data as of Oct 2024. Large cap indices are considered for all countries. USA – S&P 500, India – Nifty 50, Mexico - S&P/BMV IPC (MEXBOL) Index, China Shenzen – CSI300, Brazil – IBOV Index. For ROE adjusted for Cost of Equity; Source: Aswath Damodaran , DSP. For this chart, ROE is considered of full market.

Earnings Edge: India's Journey to the Top of Emerging Markets

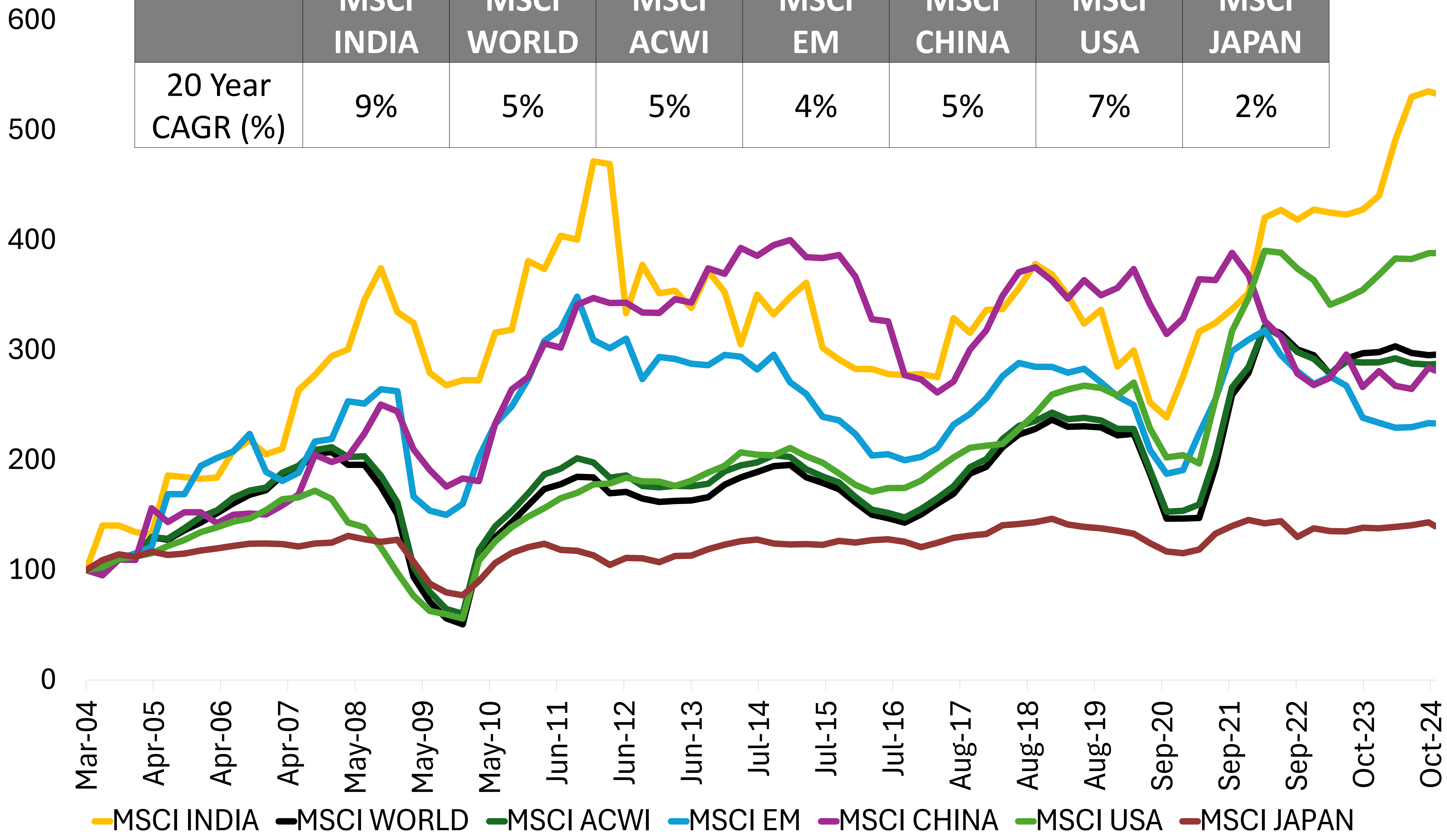
The Indian markets have demonstrated one of the strongest trajectories of long-term growth globally. However, this progress is not solely driven by trading activity and the increasing number of stock market participants. India stands out as one of the few markets where corporate earnings growth and the sustainability of companies' profit generation remain robust and stable.

Over the past 20 years, India's earnings growth has consistently outpaced that of nearly all major indices, surpassing the aggregate growth of emerging markets and global indices alike. Furthermore, India achieved this dominance in earnings with a comparatively smooth progression, exhibiting one of the lowest variabilities in earnings—a factor that reassures investors of the durability and consistency of these gains.

Supported by strong earnings growth and a growing base of domestic participation, India is poised to solidify its position as one of the world's leading emerging markets.

MSCI Indices EPS (USD)

	MSCI INDIA	MSCI WORLD	MSCI ACWI	MSCI EM	MSCI CHINA	MSCI USA	MSCI JAPAN
20 Year CAGR (%)	9%	5%	5%	4%	5%	7%	2%



Rebased to 100

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Source: Bloomberg, DSP. Data as of Oct 2024.

'Poor Managements Produce Poor Market Prices, Superior Managements Produce Superlative Market Prices'

One of the key factors contributing to the outperformance of Indian markets is the consistent growth in the book value of underlying companies. A steady increase in book value reflects a company's ability to create long-term shareholder value, as well as strong financial health and efficient management practices.

Indian companies have demonstrated remarkable stability and consistent growth over time. Over the long term, more than three-fourths of companies have shown positive growth in their book value. Notably, in the 20 years, 7 out of 39 companies which had positive growth in Book Value have shown growth in each of those 20 years even amidst global challenges such as GFC and COVID-19 pandemic, which shows how stable these businesses are.

Same is the case with the broader Indian market (Nifty 500) which shows their sustained performance and relevance in the Indian markets.

Nifty 50 Companies showing growth in Book Value per share over 20 years

Change in Book Value Over The Last 20 Years	No. of Companies	No. of Companies which had growth every year	% of Companies
Growth	39	7	78%
Contraction	7		14%
Merged/Delisted	4		8%

Nifty 500 Companies showing growth in Book Value per share over 20 years

Change in Book Value Over The Last 20 Years	No. of Companies	No. of Companies which had growth every year	% of Companies
Growth	309	49	62%
Contraction	64		13%
Merged/Delisted	123		25%

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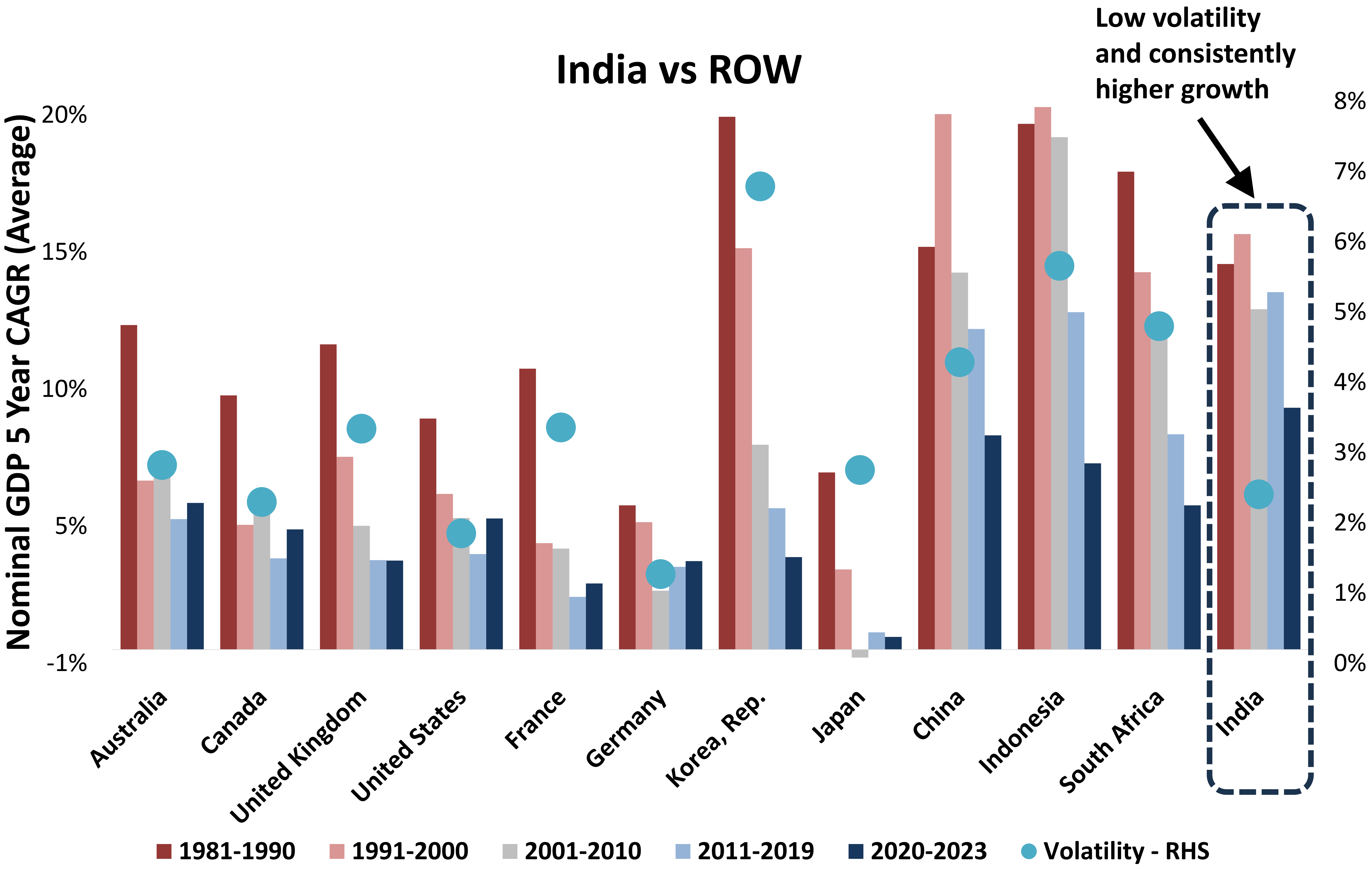
Source: Capitaline, DSP. Data as of Oct 2024.

India Growth Looks Chaotic But Is Steadier Than Most Peers

In their developing phase, nations often experience a broader scope for growth compared to their developed counterparts. This phase, while presenting opportunities, is also marked by inherent growth volatility, as emerging markets navigate structural transitions, infrastructure development, and policy overhauls. The relative instability in their growth trajectories stems precisely from this dynamic—there is greater room for expansion but also heightened vulnerability to external and internal shocks.

India's economic journey, however, has managed to defy certain norms of this developmental curve. Over the past four decades, the country has demonstrated a consistent growth trajectory, maintained high single-digit growth rates while it kept volatility in check—a characteristic more commonly associated with advanced economies.

This steady growth may appear chaotic but is consistent and highlights the compounding effect in force.



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Source: UN Data Portal, DSP. Data as of Nov 2024. (ROW: Rest of the World, selected countries)

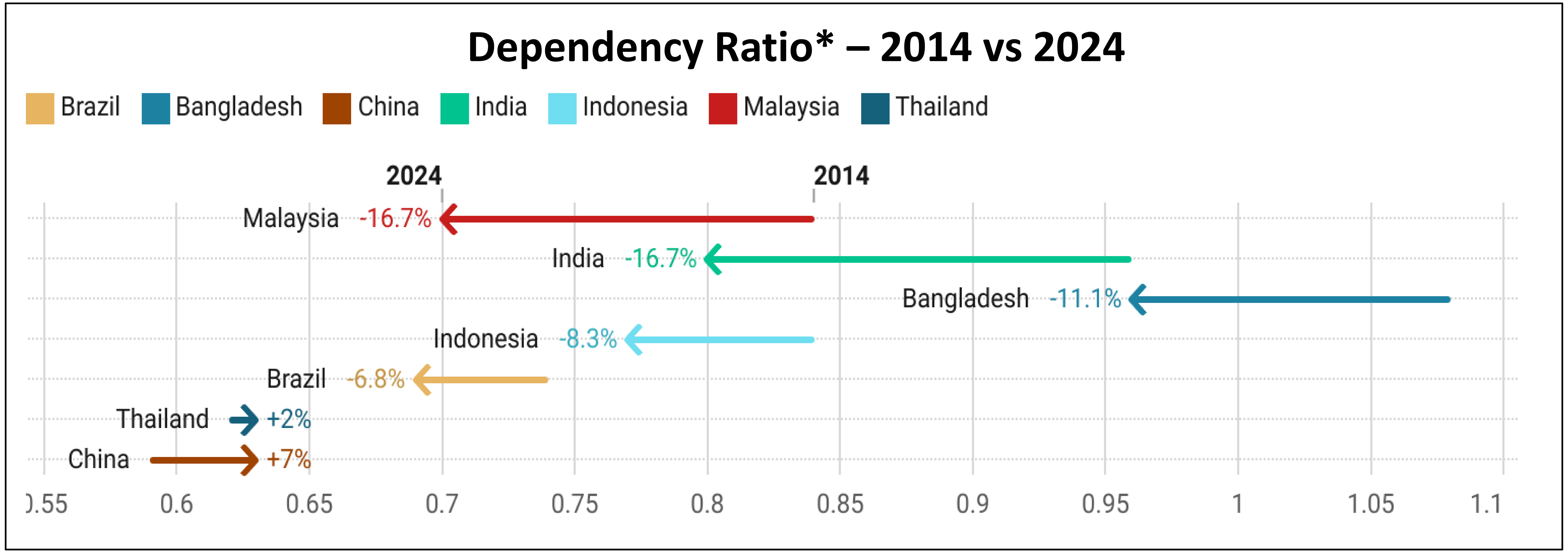
India is Younger Than You Think

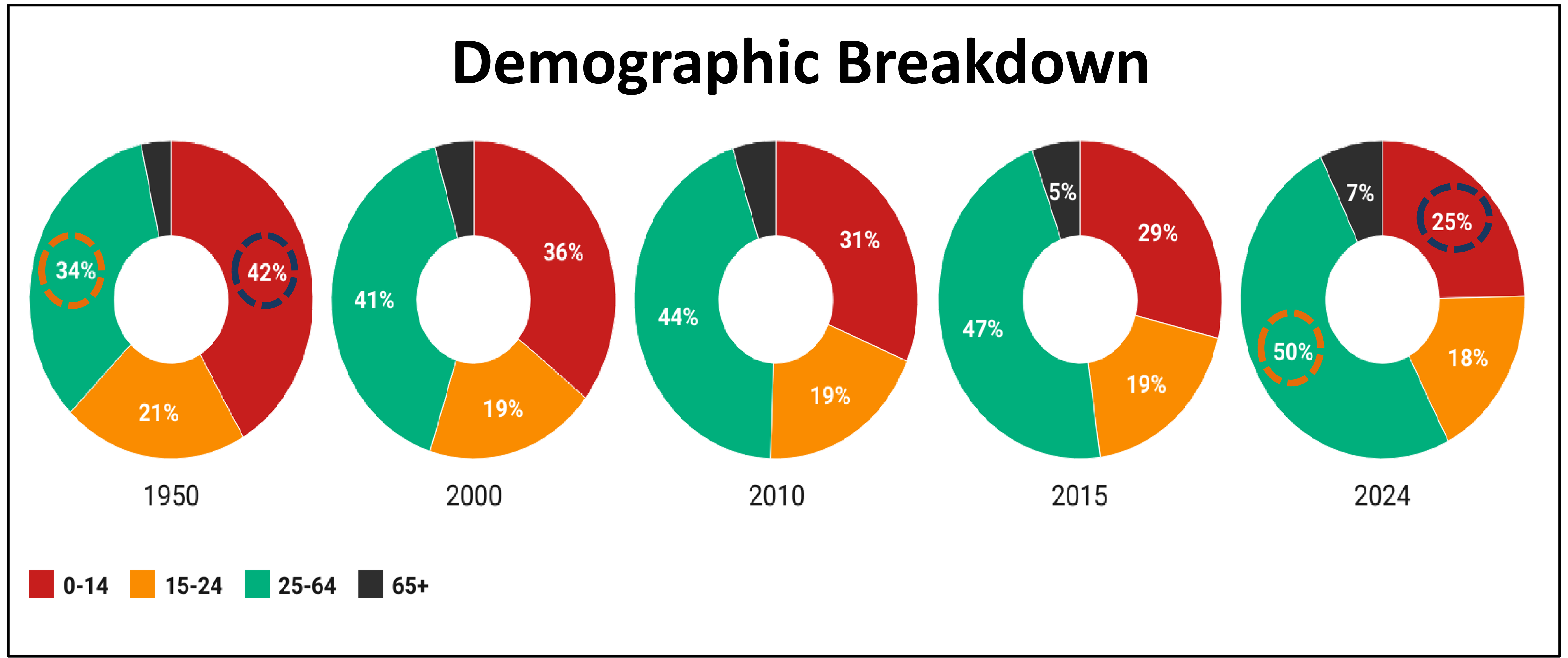
Why younger population is asset of an economy?

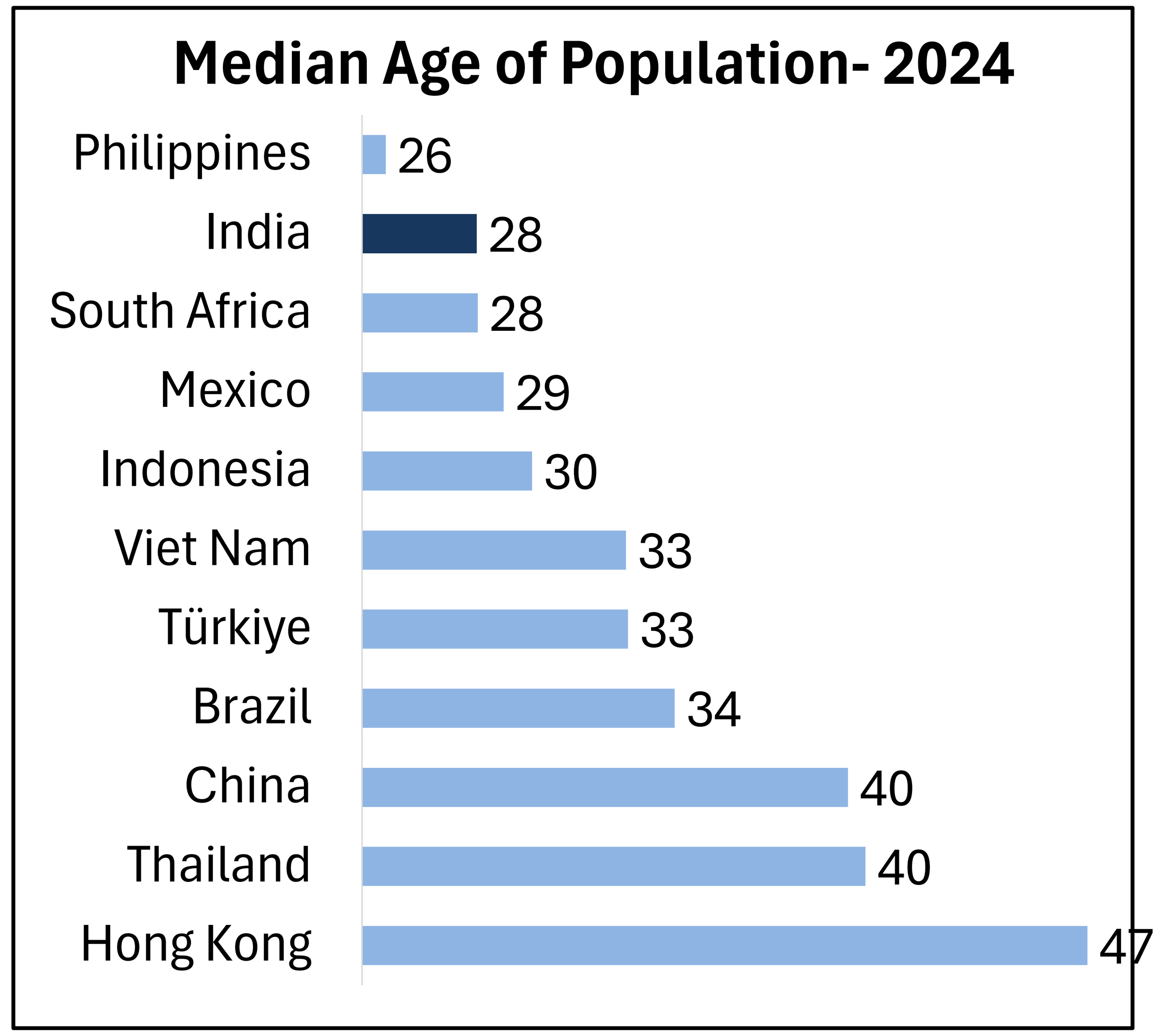
- A large population can be effectively leveraged when there is a reduced burden of social welfare measures, achievable through a relatively higher proportion.
- The aspirational, working-age population is central to driving economic growth and fostering innovation.
- While India has majorly based its growth on domestic consumption, this can only be sustained at the back of greater discretionary spending, which is underpinned by its ambitious youth.
- A greater reliance on domestic consumption helps shield the economy from severe external shocks, though not completely.

However, certain challenges persist-

- To fully capitalize on its demographic advantage, India must focus on grassroots job creation. This effort should extend beyond highly skilled sectors to include industries with significant reliance on labor-intensive and industrial-heavy segments.







Source: UN Data Portal, DSP. Data as of Nov 2024.

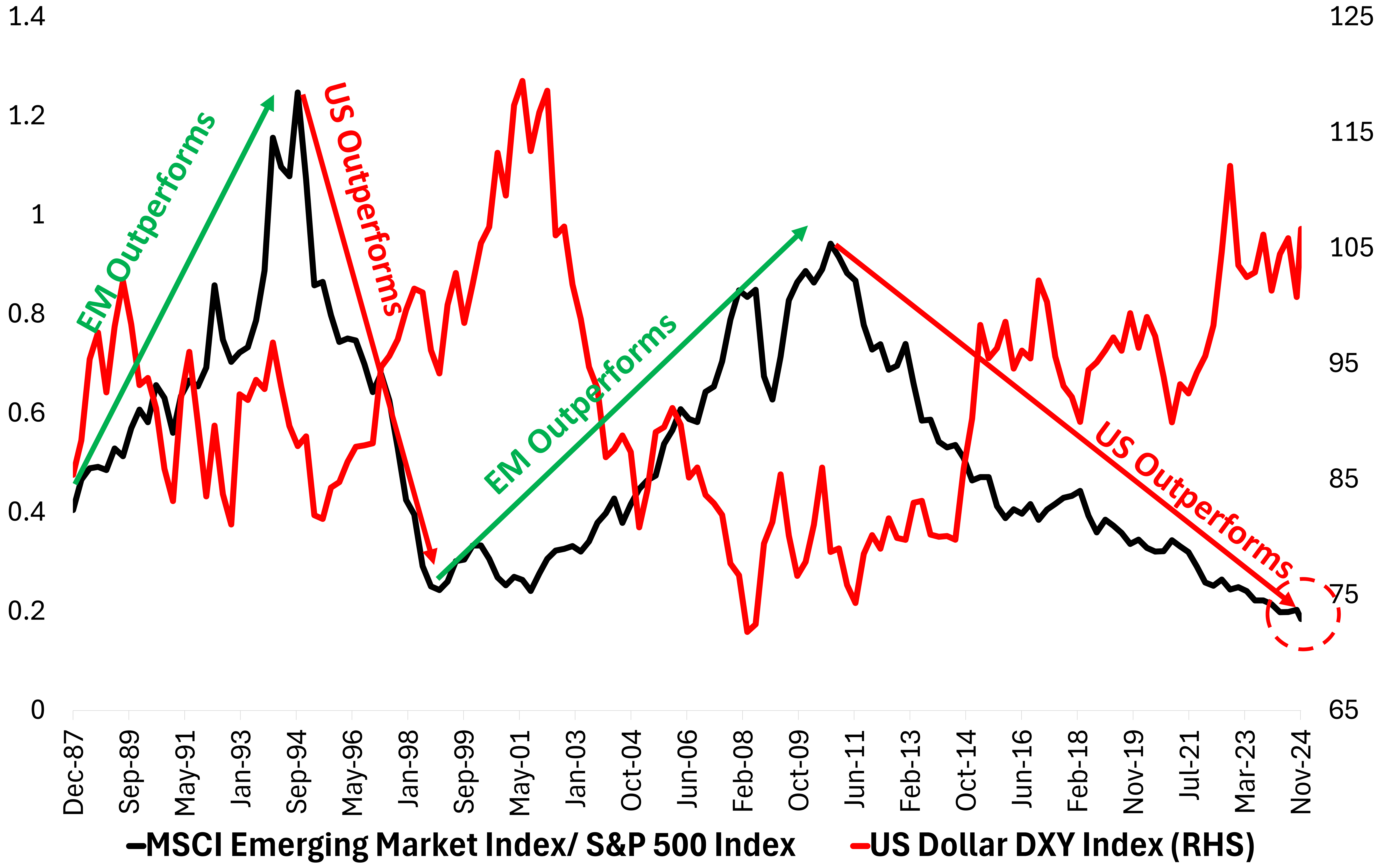
**Dependency Ratio- Ratio of dependent population (0-19 & 65+) to working population (25-64)*

Emerging Markets at a Crossroads: Is a Rebound on the Horizon?

Emerging markets have been underperforming U.S. markets for an extended period. In fact, the ratio of the MSCI Emerging Markets Index to the S&P 500 has reached its lowest level since the inception of the data in December 1987.

The fundamentals for emerging markets remain strong, with valuations currently below their 10 and 20-year averages. The price-to-earnings (P/E) ratio of emerging markets relative to the U.S. is also below long-term averages, suggesting potential opportunity.
A large part of underperformance of Emerging markets can be attributed to the underperformance of China. India, one of the largest constituents of the MSCI Emerging Markets Index, is particularly well-positioned. It boasts one of the highest return-on-equity (ROE) levels among both major developed and emerging markets.

Historically, the performance of EM and U.S. markets has moved in cycles, raising the question: **could this be an inflection point?**



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Source: Bloomberg, DSP. Data as of Oct 2024.

Multi-Asset Allocation Has Worked Across Countries, Over The Long Term

Multi-asset investing is more than just a strategy—it can be the go-to strategy for portfolio management. When approached conservatively and implemented over the long term, effective asset allocation can facilitate the creation of multi-generational wealth. This approach has consistently demonstrated success across various markets, delivering equity-like returns with significantly lower volatility.

We have outlined some of the major Developed and Emerging Markets, and across all markets, the Multi Asset strategy has achieved optimal outcome. Notably, India has outperformed U.S. markets, and a well-constructed asset allocation within India can deliver superior returns compared to U.S. markets, while exhibiting much lower variability. In certain scenarios, multi-asset strategies have even outperformed domestic equities. Another critical point to note is that over this 20-year period, Gold has outperformed equities across all markets, except for India.
The important point to highlight here is the difference in standard deviation, because most of the times a dismal period in one asset class will be offset by another asset class.

20-Year CAGR Returns In USD By Asset Class and For Multi Asset Allocation Strategy

Nominal USD 20-Yr CAGR	Inflation	Equity returns	Debt returns	International equities returns	Gold returns	Multi Asset returns	Standard Deviation (Domestic Equities)	Standard Deviation (Multi Asset)
Emerging Markets	6.0%	4.4%	5.6%	6.0%	9.7%	6.3%	19.7%	12.7%
India	**6.6%**	**10.5%**	**4.2%**	**6.0%**	**9.7%**	**9.5%**	**24.9%**	**14.8%**
China	2.2%	7.6%	4.3%	8.2%	9.7%	9.7%	26.2%	14.4%
Japan	0.6%	2.8%	-0.9%	6.0%	9.7%	4.2%	20.8%	12.3%
USA	**2.5%**	**8.4%**	**2.6%**	**3.0%**	**9.7%**	**7.3%**	**19.3%**	**11.1%**
UK	2.8%	1.0%	2.3%	6.0%	9.7%	4.0%	21.8%	12.8%

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Source: Bloomberg, DSP. Data as of Oct 2024. All returns are in USD. Multi Asset is based on Annual rebalancing and the weights are: Domestic Equity – 50%; Debt – 20%; International Equity – 15%, Gold – 15%. Indices used For Equity: Emerging Markets – MSCI EM Index, India – Nifty 50, China – CSI300, Japan – TOPIX, USA – S&P500, UK- FTSE 100 Index. For Debt, we have used: Emerging Markets – Bloomberg EM Sovereign Index, India – Crisil Short Term Bond, China - Bloomberg China Treasury, Japan - FTSE Japan Gov Bond, USA - Bloomberg US treasury bond index, UK - Bloomberg UK Gilt 1-5 year Index. International Equity for Emerging Markets, India, Japan, UK – MSCI ACWI, for China – MSCI ACWI ex China and for USA – MSCI ACWI ex US.

Did You Know?

- India has witnessed the highest number of Initial Public Offerings (IPOs) this year, representing 27% of global IPO activity.
- According to the International Monetary Fund (IMF), India is projected to achieve the highest GDP growth rate (6.5% FY25E) among all major economies.
- India's mutual fund industry has experienced a record-breaking 44 consecutive months of net inflows.

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Source: IMF, Bloomberg, DSP Data as of Oct 2024

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