India Rewind

December 2024

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.

India remains a focal point on the global stage, consistently attracting attention for its growth and stability. From leading the bull run as the top-performing market globally to experiencing a near-term dip in earnings growth, the country refuses to stay on the sidelines.

Markets have stabilized over the past two weeks, but MSCI India USD Index remains ~10% below its Sep 26 peak, with Autos, Energy, and Staples leading declines. Small and mid-caps outperformed, driven by strong domestic flows, while defensive styles focused on Balance Sheet and ROE expansion.

FII selling until mid-Nov was focused on Banks, Consumer Cyclicals, and Energy, while Pharma, Tech, and Real Estate remained resilient. Consumer Cyclicals saw a flow rotation, and Banks experienced ongoing FII selling throughout the year.

India's current account deficit remains manageable, supported by strong services exports, unlike the 4-5% GDP deficit during the "taper tantrum" a decade ago. Structural FDI from supply chain shifts further strengthen India's balance of payments. With foreign exchange reserves over ~$680bn, the RBI has maintained its focus on INR's stability. India's growth's lower sensitivity to global factors and reduced beta to the CNY make the INR the most insulated currency in the region from global shocks.

In YTD 2024, the MSCI India Index returned ~14.4%, outperforming MSCI EM (+5.4%) but underperforming MSCI DM (+20.2%). MSCI India's forward P/E rose to 23.2x NTM, 1.6 SD above the 10-year average. FIIs have been net sellers of ~US$2.1bn YTD, with US$2.7bn in November. EM/Asia overweight allocations remain low, and global funds are still underweight India, indicating a potential of flows in 2025. Despite market pullbacks, equity mutual fund inflows surged 20% MoM to a record US$5bn in October, marking the sixth consecutive month over US$4bn. SIP inflows hit new highs of US$3bn, bringing total DII flows to ~US$59bn for the year.

2QFY25 / 3QCY24 earnings wrap-up: MSCI India's 2QFY25 profit growth was soft at 10% YoY, below the 13% average, driven by slower revenue and weaker margins. Earnings misses (48% of companies) outpaced beats (36%), with a -4% EPS surprise, and sectors like energy, industrials, and metals saw more misses.

Sectoral insights following the latest earnings season:

Banks: Q2FY25 earnings were soft and mixed across lenders, with a slowdown in unsecured loans signalling better capital conservation and risk management. State banks outperformed private banks, while asset quality faced pressure from credit cards, MFIs, and personal loans. Key concerns ahead include potential margin compression and credit growth sustainability.

Consumer Durables: Robust performance was driven by healthy demand, though margins contracted due to competitive pressure and raw material price fluctuations. Capacity expansions are underway, with FMEG growth supported by channel expansion and product initiatives, particularly in fans, though other categories showed mixed results.

Information Technology: Growth momentum improved, especially in the BFSI sector, with revenue expected to strengthen due to better deal conversion and favourable macro dynamics. For the first time in seven quarters, IT companies saw a net headcount increase, though discretionary spending remains subdued, with currency fluctuations posing a key risk.

Cement: Softening fuel prices and cost-efficiency measures will help control costs, with H2FY25 demand expected to surpass H1FY25 due to construction activity and increased government spending. However, FY25 growth is projected at 4-5% due to earlier impacts from slower government capex and erratic monsoons, with a competitive pricing environment limiting profitability.

Consumer Staples: H2FY25 is expected to improve for consumer companies, driven by favourable monsoons, the festive season, and pricing recovery. Rural markets outperform urban areas for the third consecutive quarter, though muted demand and challenges from elevated food inflation persist.

Automobiles: YoY volume growth was seen in the 2W, 3W, and Tractor segments, driven by premiumization and better pricing. Management remains optimistic for FY25, citing lower input costs and signs of rural recovery as key growth drivers.

Info Sources: Goldman Sachs Research, UBS, Morgan Stanley. MXASJ – MSCI Asia Ex-Japan, 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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India at a Glance

DSP ASSET MANAGERS

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E
Economic Activity and Employment								
GDP, USD bn	2,651	2,701	2,871	2,668	3,176	3,390	3,568	3,889
GDP per capita, USD	2,018	2,036	2,141	1,969	2,321	2,451	2,554	2,757
Real GDP growth, %	6.8	6.5	4.0	-6.6	8.7	7.2	8.2	6.7
Prices, Interest Rates and Money								
CPI inflation, % y/y (average)	3.6	3.4	4.8	6.2	5.5	6.7	5.4	4.7
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	84.5
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	-280.7
Exports, USD bn	309	337	320	296	429	456	440.2	430.9
Imports, USD bn	469	518	478	398	619	720	683	712
Current account balance, USD bn	-49	-57	-25	24	-39	-67	-25	-43
Foreign direct investment (net), USD bn	30.3	30.7	43.0	44.0	38.6	35	18	16
Total FX reserves, USD bn	425	413	478	577	607	578	646	691
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