June 07, 2024

DSP ASSET MANAGERS

INDIA REWIND

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 election has garnered international attention, with recent market volatility drawing significant interest. According to the official vote count on June 4, the BJP-led NDA alliance secured a majority in the Lower House (Lok Sabha) elections, winning ~292 seats. This result is notably lower than the exit poll average of over ~360 seats but comfortably exceeds the majority threshold of 272. State-wise trends indicate that the NDA secured 18 out of 36 states and union territories.

For the first time in a decade, the BJP is expected to govern without a majority in the Lok Sabha. Their main challenge will be managing coalition partners, who are likely to demand key ministerial positions for their MPs. While strong govt. is certainly desirable, history suggests that India's GDP growth trajectory since 1980 has been less influenced by the ruling party/coalition or majority.

India has achieved significant macro-economic stability in recent years by reducing the current account deficit, keeping inflation within the RBI's target, and consolidating the fiscal deficit. Despite a reduced majority, we believe this stability will be maintained.

We expect the government to adhere to their fiscal consolidation target of ~5.1% of GDP this year. Higher-than-expected RBI dividends may prevent capex budget cuts. With strong services exports and adequate FX reserves, the INR remains a resilient carry currency among EMs.

India's current account deficit narrowed to ~0.9% of GDP in 2023 from a ~2.4% average in 2010-2019, with headline inflation within the RBI's target and core inflation below it. Despite a smaller majority, macro stability should persist, and with robust economic growth, we anticipate only a brief easing cycle from the RBI.

The central government reduced the FY24 fiscal deficit to ~5.6% of GDP, down from the revised ~5.8%, mainly via March expenditure cuts. We expect adherence to the FY25 target of ~5.1%, with some reallocation to welfare spending and higher subsidies.

Increased rural welfare spending could benefit staples. Following significant BJP seat losses in states with large rural populations like Uttar Pradesh, anticipates a push for more rural support (financial aid, crop price support, agri-infrastructure) in the new term. This could boost low-income consumption going forward.

It is crucial to remember that markets have weathered news before. Events often cause sharp corrections, but as things normalize, these moments can be great entry points for long-term investors. Rational investors should look past current turbulence to find opportunities in the chaos. The key is not just finding growth companies but waiting for the right price. Valuations matter, and it is all about finding the right price point. If a company becomes attractive due to a dip, reallocating makes sense. We are focusing on businesses unaffected by political events but impacted by poor sentiment.

Certain sectors like pharmaceuticals, autos, banking, and insurance remain promising regardless of the election outcome. Today's market correction is a reminder that equities can be volatile, but long-term investors see these moments as opportunities to increase allocations—a strategy that has consistently worked well.

In YTD 24, MSCI India Index US$ returned ~10.3% vs. MSCI EM ~4.7% and MSCI DM ~8.2%. MSCI India ~20.7, 2FY is now trading at ~1.6SD above its long-term averages.

Summary: Structural reforms likely to continue

Sector	Expected reforms
Rural Support	Higher allocation for rural employment program/ financial assistance for farmers, MSP for major crops, focus on agri-infra
Support for MSME	Expand credit to support entrepreneurs in start-ups. The micro loan (MUDRA) limit maybe doubled up to INR 2mn
Services exports	Focus on high value-add sectors for services exports - where India has already made progress - by establishing more Global Capability Centes

Sector	Expected reforms
Manufacturing	Focus on manufacturing to continue with emphasis on labor-intensive manutacturing through fiscal incentives
Infrastructure	Continued focus on infrastructure creation, more road-rail and water connectivity.
Land/Labour	Progress on structural reforms like land and labor market reforms to create an enabling regulatory environment for manufacturing growth

Info Sources: Goldman Sachs Research, 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, MSP - Minimum Support Price, MSME - Micro, Small & Medium Enterprises, NDA – National Democratic Alliance, MP – Member of Parliament

Souvik Saha
Senior Manager,
Investment Strategist

Jay Kothari
Senior Vice President,
Lead Investment Strategist

For past Issues, please see below:
India Rewind May 2024
India Rewind April 2024
India Rewind March 2024
Older Issues

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

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	4.5
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	-7.8
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