

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.

India's 2QCY23 earnings season concluded with MSCI India's profits growing by ~48% YoY, surpassing expectations by ~8pp led by energy, banks, and autos. Earnings are tracking ~52% of full-year CY23 estimates, ~4pp above average. Non-financial revenue growth moderated to ~4%, dragged down by commodities, in line with expectations. Net profit margin improved annually ~340bp YoY. The average EPS surprise was ~6%, driven by more companies beating on margins than on sales. Positive surprises were strongest in commodity cyclicals (metals and energy), while telecom and Infotech lagged. Earnings sentiment improved, with upgrades outnumbering downgrades. Aggregate CY23 earnings were upgraded by ~1% during the reporting season, EPS growth expected at ~18% for CY23 and ~16% for CY24.

In YTD23, MSCI India Index USD returned ~5.3% vs. MSCI EM ~2.5% and MSCI DM ~14.7%. FIIs have bought ~US\$17bn YTD alongside DIIs have bought ~US\$13bn YTD. FIIs have favoured domestically oriented sectors. After 5 years of decline, FII ownership in Midcaps has increased sharply this year (~+175bp) to ~16% but remains below prior highs. MSCI India (~19.4, 2YF) is now trading at ~1.2SD above MSCI EM and DM, slightly above its long-term averages.

Hot off the press: Our analyst team's meticulous sectoral analysis post the earnings season– enjoy the highlights:

- Banking and Financial Services:** Vigorous loan growth for mid-sized and some large banks, along with strong NBFC performance. Asset quality remains steady. Banks' trading gains offset lower recoveries. High opex for banks, while it declined on a high base for NBFCs. Keep an eye on margins weakening and credit growth sustainability.
- Automobile:** Promising YoY volume growth across segments, while concerns persist over tractor growth due to high base and weak monsoon. Managements are optimistic on demand and margins, the global HCV cycle is subdued by weak macros. Expected rise in crude derivative price might impact tire companies' costs.
- Consumer staples:** Companies witnessed improved gross margins YoY due to material cost corrections and previous price hikes. Rising advertisement spends are observed across the board. Urban areas continue to outpace rural regions, which are gradually improving with reduced inflation and a softer base.
- Information Technology:** 2Q showed weakness, but a better revenue trajectory is expected ahead. IT Services companies are securing strong deals, hinting at a recovery in HY2 and further pick up in CY24 onwards. The "compressed transformation" strategy is set to drive substantial growth over the next few years, irrespective of economic shocks. Attrition is down to pre-COVID levels, with a focus on optimizing employee utilization.
- Pharma and healthcare:** Strong US sales fuelled by Revlimid, launches, and supply-demand amid shortages. Stabilizing US price erosion benefits from high drug scarcity. India's volume growth are driven by field expansion, improved margins from reduced costs, and hospital expansion with sustained ROCEs.
- Engineering and capital goods:** Strong demand outlook in traditional and modern sectors like Power Generation, Electronics, and Railways. Margins expand through diversified products, exports, and optimal capacity utilization. Key reforms driving public capex up-cycle: Make in India, PLI scheme, green energy shift. Improved balance sheets, increased capital, and reduced receivables compared to past cycles.
- Chemicals:** Steady farmer demand in agrochemicals; specialities and patents unscathed. Domestic demand is resilient, but the sector is weakened by inventory cuts and price falls. China's aggressive price slashing hastens destocking, impacting companies through inventory write-downs.

Chart of the Month: MSCI India profits grew ~48% YoY but were flat QoQ, MSCI India ex-financials sales growth ~4% YoY.

MSCI India Index		Reported Cos.		Earnings growth		Sales growth	
2Q CY24 earnings		Sector weight (%)	# of Cos.	YoY (%)	QoQ (%)	YoY (%)	QoQ (%)
Exporters	InfoTech	13%	8	11%	(6%)	12%	(0.2%)
	Healthcare	5%	9	12%	33%	18%	7%
Consumer sensitives	Consumer Disc.	11%	19	681%	(14%)	29%	2%
	Staples	10%	12	16%	11%	7%	7%
Financials	Financials	26%	20	47%	2%	-	-
Investment cyclicals	Industrials	6%	12	116%	(16%)	17%	(17%)
	Cement/Other Mat.	6%	11	(12%)	(1%)	1%	(14%)
Commodity cyclicals	Energy	13%	7	207%	9%	(6%)	(1%)
	Metals & Mining	3%	5	(67%)	(18%)	(3%)	(6%)
Telcos	Telcos	3%	2	4%	(46%)	14%	4%
Utilities	Utilities	4%	7	8%	1%	(3%)	(1%)
MSCI India		100%	114	48%	(1%)	-	-
MSCI India (ex financial)		75%	94	49%	(2%)	4%	(2%)

Chart Source: Goldman Sachs Research, Info Sources: Internal, Bloomberg, UBS Research, Goldman Sachs, 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, 2YF- Two Year Forward.



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India at a Glance

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E
Economic Activity and Employment								
GDP, USD bn	2295	2651	2701	2871	2668	3176	3390	3713
GDP per capita, USD	1767	2018	2036	2141	1969	2321	2451	2658
Real GDP growth, %	8.3	6.8	6.5	4.0	-6.6	8.7	7.2	5.3
Prices, interest rates and money								
CPI inflation, % y/y (average)	4.5	3.6	3.4	4.8	6.2	5.5	6.7	5.4
Repo rate, % (year-end)	6.25	6.0	6.25	4.4	4.0	4.0	6.50	6.0
10 year bond yield, % (year-end)	6.7	7.4	7.4	6.1	6.2	6.8	7.3	7.0
USDINR (year-end)	64.8	65.0	69.2	75.4	73.5	75.8	82.3	79.0
Fiscal accounts								
General government budget balance, % GDP	-7.0	-5.9	-5.9	-7.8	-13.9	-9.5	-9.4	-9.0
Balance of payments								
Trade balance, USD bn	-112	-160	-180	-158	-102	-189	-266	-250
Exports, USD bn	280	309	337	320	296	429	454	420
Imports, USD bn	393	469	518	478	398	619	720	668
Current account balance, USD bn	-14	-49	-57	-25	24	-39	-69	-55
Foreign direct investment (net), USD bn	35.6	30.3	30.7	43.0	44.0	38.6	35	38
Total FX reserves, USD bn	370	425	413	478	577	607	578	608
Total external debt, % GDP	20.5	20.0	20.1	19.5	21.4	19.1	18	15
Credit ratings								
Moody's	Baa3	Baa2	Baa2	Baa2	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

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