

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.

MSCI India 3QCY23 profits grew ~38% YoY, ~2pp ahead of expectation at the start of season, led by above expected growth in Banks, Autos, and Industrials. CY23 9m EPS grew ~28% YoY, tracking 78% of full-year estimates. About ~44% of MSCI India Index cos. beat estimates, while ~35% cos. missed estimates and rest reported in line. Earnings sentiment improved, with upgrades outnumbering downgrades. Within the broader index, Staples, Industrials and Energy saw the most number of beats, whereas Telcos and Metals saw most misses. After a decade long earnings downcycle from 2011-2020, the earnings cycle has stabilized in India in recent years (please see *chart of the month*). Aggregate CY23 earnings were upgraded by ~1% during the reporting season, EPS growth expected at ~15% for CY23 and ~14% for CY24.

In YTD23, MSCI India Index US\$ returned ~10.6% vs. MSCI EM ~3.2% and MSCI DM ~16.2%. MSCI India ~20.1, 1YF is now trading at ~1SD above MSCI EM and DM, slightly above its long-term averages FIIs have bought ~US\$14bn YTD alongside DII's have bought ~US\$21bn YTD. Foreign flows reversed in Nov, with net inflows of US\$1.1bn. Monthly flows in domestic mutual funds via systematic monthly plans have risen constantly and have remained strong ~ 1.8bn per month on an average. Pharma saw the largest inflows while Consumer Discretionary and Financials saw the largest FII outflows. Outperformance of Small caps and Midcaps relative to large caps has continued well into 4Q, after strong performance since 3Q this year. Small and Midcaps have seen strong EPS growth in recent (post-Covid) years and are further expected to deliver stronger growth in CY23/24. FII ownership in Midcaps is up sharply this year (+220bp), after 5yrs of decline. Inflows into domestic mutual funds have been geared towards Small and Midcap mandates in recent months.

Freshly Minted Insights: Dive into the analyst team's sectoral analysis post earnings season – Explore the Highlights!

- Banking and Financial Services:** The financial landscape is thriving with strong loan growth evident in both banks and NBFCs. Banks are exceeding expectations with better-than-anticipated treasury income. There are notable risks in the financial landscape with the continuous rise in cost of Funds (CoF) which is exerting pressure on margins and the stabilization of current Account Savings Account (CASA) seems to be delayed.
- Automobile:** Positive volume growth is seen across segments, including 2-wheelers, 3-wheelers, and MHCVs, showing signs of recovery but below previous peaks. Realizations benefit from premiumization and improved net pricing, contributing to enhanced margin performance supported by favorable product mix and easing commodity costs.
- Consumer staples:** The Q3 impact from a festive season shift is anticipated to yield positive effects in Q4CY24 due to increased festival-related demand. Ongoing adjustments in raw material prices support significant gross margin expansion, facilitating a year-on-year rise in advertising expenditure. Despite challenges in rural demand, green shoots observed in Q1FY24 appear to have paused.
- Information Technology:** Q3 saw no major shifts, but there's a significant boost in IT companies' deal pipelines, leading to strong wins. Expectations of future revenue growth persist, supported by robust deals, despite geopolitical uncertainties affecting the demand outlook. IT companies experience improved utilization and stabilizing attrition, although client caution due to macro uncertainty is causing delays in deal execution.
- Pharma and healthcare:** U.S. price erosion stabilizes at mid-single digits, benefiting from all-time high drug shortages. In India, growth accelerates in October and November, propelled by field force expansion. Overall, the sector experiences improved margins due to softening input costs, and hospitals and diagnostics show promising performances with strong quarters and anticipated growth.
- Engineering and capital goods:** Public capex-driven sectors and emerging segments like energy-efficient systems show high growth, while short-cycle orders and export demand display signs of fatigue. Exceptions include O&G capex in the Middle East and rising power T&D momentum in Europe and North America. Despite challenges, sustained or increased operating profit margins are maintained due to factors like efficiency improvements, higher capacity utilization, and easing commodity prices. Overall, robust execution is observed across companies in various sectors.
- Chemicals:** Despite ongoing inventory destocking, the agrochemical industry's end-use demand remains unaffected. Solid domestic demand persists across various regions, and players serving industries such as FMCG and personal care, exemplified by brands like Galaxy, remain resilient and buoyant.

Chart of the Month: MSCI India EPS Integer (Right) , Excluding the "Roll Factor"

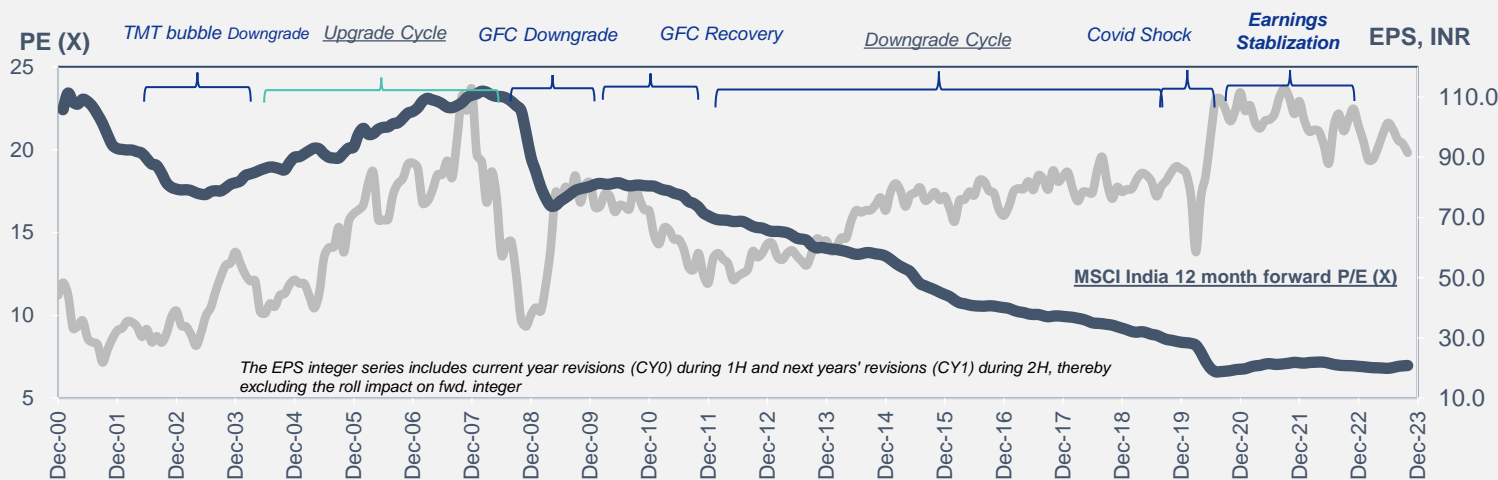


Chart Source: Goldman Sach Research, Info Sources: Internal, Bloomberg, UBS Research, Goldman Sachs, FII - Foreign Institutional Investor, DII- Domestic Institutional Investor, FY - Financial Year, CY – Calendar Year; YoY is Year over Year, YTD- Year to date, EM- Emerging Markets, DM- Developed Markets, 2YF- Two Year Forward. PP- Percentage point



Souvik Saha
Manager,
Investment Strategist



Jay Kothari
Senior Vice President,
Lead Investment Strategist

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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	6.2
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	83.0
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	456	403
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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