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INDIA REWIND

DSP INVESTMENT MANAGERS

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.

With half of 2022 already behind us (what speed!), markets have been weak given a slew of issues viz. geopolitics, inflation, interest rates and now signs of a global recession. India though has remained one of the better-performing markets with MSCI India USD down ~15% YTD compared to MSCI EM down ~18% and MSCI DM down ~22% during the same period. On valuations, Nifty 12M forward PE is now at ~17X which is ~25% off the peak of ~22.9X, and 1SD above the long-term average. What are the most common questions we are fielding from existing and prospective investors? i) oil and impact of inflation ii) crude at USD 100/bbl iii) FII outflows and INR stability. Perhaps you have these same questions on your mind as well, and we thought to address each one here below.

i) Oil and impact of inflation: In the last few months, as per media and govt. reports, India has imported Russian oil at a ~$10/bbl discount to market rates. Further, India's import of oil from Russia has increased from ~2% to ~10-15% which helps to reduce the total crude import bill for a net oil importer like India. Even at the higher end of ~15%, India's average crude import prices have reduced by just ~2%. Inflation in India remains elevated (CPI ~7.7%) mainly driven by rising crude, food and commodity prices. CPI inflation gets impacted by ~35 bps when crude prices increase from $90 to $100/bbl. Oil and fuel derivatives comprise ~9% of CPI. The Indian govt. has been proactive in attempting to control inflation, such as: i) Reduced excise duty by ~INR 8/liter on petrol prices, which is expected to reduce CPI by ~30bps (assuming oil prices stay ~USD 110/bbl), ii) Increased subsidy on cooking gas (~INR 200/cylinder) and iii) increased additional subsidy for fertilizers by ~USD 14bn. This does put some pressure on the fiscal, but the govt. has some buffer from robust tax collections given a strong economic reopening post covid leading to an all-time high GST collection of ~USD 195bn in FY22 (vs USD ~154bn FY19, pre-Covid). The fiscal deficit might slip from ~6.4% to ~6.7% without the govt. having to give up on its capex plans. Given the macro environment, we think this ~30bps slippage is manageable. Over the last couple of days, the govt. also imposed a windfall tax/cess on upstream companies and refiners, which should further bridge the fiscal gap.

ii) Investors concerns' and feedback at crude @$100/bbl: In our recent investor meetings across U.K, US and Canada, we took away that investors are positive on India because of the structural growth opportunity (please see Chart of the Month below). However, the recent macro headwinds coupled with Indian markets relative outperformance has led some investors to trim their India exposure at the margin. Our meetings often ended with them telling us that they would like to reallocate as soon as said macro worries fade. For India, every ~$10/bbl jump in oil prices widens the current account deficit by ~$12bn, which is 0.34% of GDP. Even with crude at ~$100/bbl average price for the year, CAD will touch ~2.5% (generally considered a manageable threshold for India by economists).

iii) FII flows and INR stability: The Indian rupee tends to have a negative correlation with commodity prices. Since the start of the Russia-Ukraine crisis till mid April, the Bloomberg Commodity Index gained ~16%, while INR was flat. The RBI has intervened in the forex market periodically to maintain the rupee's stability – reinforcing their previously stated intent of reducing FX volatility. INR has depreciated by ~5% YTD, which is not an outlier given other EM currencies have depreciated more (Korea ~-9%, Taiwan ~-7%, Malaysia ~-6%). The RBI is now sitting on forex reserves of ~USD600bn, the 4th largest in the world.

On the ground update: June-July brings monsoons to most parts of India, and rainfall this year has been normal so far, while water storage levels are adequate (50bn cubic meters). Hopefully, this leads to a healthy crop season this year leading to higher farm realizations (and better rural income). Overall bank credit growth for the last month was at ~8% (vs. long-term average at ~6%) led by ~50% YoY rise MSME loans and ~25% YoY rise in personal and credit cards, reflecting the growth of the economy. Higher economic activities resulted in the 4th straight monthly GST collection above ~USD 15bn.

Chart of the Month: How Indian Economy is shaping up ?

Indicators	2022	2014
Economy Size (GDP) Rank	6	10
Share in Global GDP	3.2%	2.6%
Share in FDI Flows	6.7%	2.1%
Auto Production Rank	4	7
Steel Production Rank	2	12
No. of Unicorns	100	4

Indicators	2022	2014
India's weight in BRIC	21.5%	13.5%
India's weight in EM	12.0%	6.6%
Climate change perf. Rank	10	31
Global Innovation Rank	46	83
WGI Governance Rank	49	103
Ease of doing business	63	142

Sources: Internal, Bloomberg, IMF, 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, GST- Goods and service tax, CPI- Consumer price index, GST- Goods and service tax, SD- Standard Deviation, CAD- Current account deficit


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For past Issues, please see below:
India Rewind June 2022
India Rewind May 2022
India Rewind Apr 2022
Older Issues

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

India at a Glance

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Economic Activity and Employment								
GDP, USD bn	2295	2651	2701	2871	2668	3174	3553	3903
GDP per capita, USD	1767	2018	2036	2141	1969	2318	2568	2792
Real GDP growth, %	8.3	6.8	6.5	4.0	-6.6	8.7	7.5	6.6
Prices, interest rates and money								
CPI inflation, % y/y (average)	4.5	3.6	3.4	4.8	6.2	5.5	7.0	5.0
Repo rate, % (year-end)	6.25	6.0	6.25	4.4	4.0	4.0	6.2	6.2
10 year bond yield, % (year-end)	6.7	7.4	7.4	6.1	6.2	6.8	8.0	7.5
USDINR (year-end)	64.8	65.0	69.2	75.4	73.5	75.8	78.0	78.0
Fiscal accounts								
General government budget balance, % GDP	-7.0	-5.9	-5.9	-7.8	-13.9	-10.7	-10.2	-9.5
Balance of payments								
Trade balance, USD bn	-112	-160	-180	-158	-102	-192	-247	-237
Exports, USD bn	280	309	337	320	296	422	458	467
Imports, USD bn	393	469	518	478	398	615	705	704
Current account balance, USD bn	-14	-49	-57	-25	24	-50	-95	-82
Foreign direct investment (net), USD bn	35.6	30.3	30.7	43.0	44.0	39.9	46.0	49.0
Total FX reserves, USD bn	370	425	413	478	577	607	579	582
Total external debt, % GDP	20.5	20.0	20.1	19.5	21.4	20.8	20.5	20.4
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