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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.

Indian markets (Nifty 50) hit an all-time high yet again. While emerging markets as well as global markets have remained choppy, the Indian economy has remained de-coupled. MSCI India USD has been the clear winner in 2022 so far outperforming MSCI EM by ~17% and MSCI DM by ~12%. With the MSC India USD near its highs, one question on investors' minds today remains on investment opportunities in India at this elevated level of valuation.

Looks can be deceptive: While the MSCI India index is ~70 bps away from all-time high, ~35% of stocks are down more than 20% and ~30% of the stocks are down more than 10% from their peak within the index, which clearly indicates polarization of returns. Out of 116 stock index (MSCI India), just 10 stocks have contributed to more than ~90% of the returns for the index, which clearly indicates that the lofty valuation of MSCI India is concentrated by a few stocks and not broad-based.

As we enter the last month of this eventful year, let us quickly refresh our memories on how Indian markets changed its course: 2021 was all about strong global recovery against COVID-stricken shrinking economies of CY20. A very strong growth momentum of CY21 was partly on account of the low base of CY20 and more importantly led by generous monetary stimulus and fiscal largesse of developed countries. This pushed global consumer demand and led to changes in consumer behaviour along with the expansion of profit pools of corporates. Consequently, we saw tech stocks see extraordinary returns, which reflected in India's IT sectors performance too, and the sector was amongst the best performers in CY21. Apart from that, Metals and Energy tend to be beneficiaries of global expansion, which was the case in CY21. Consequently, in CY21, the return contribution of externally oriented sectors outdid that of the domestic sector.

CY22, on the other hand, started on concerns of multi-decadal high developed economies inflation, with India also seeing CPI remains outside RBI's comfort zone of ~2-6%, for the most part. This further got accentuated by multiple supply shocks at start of year (Ukraine war, continuing zero COVID policy of China), resulting in aggressive rate hikes by most central banks, further amounting to the piling up of recession fears and demand slowdown. With slowing global growth, externally oriented sectors within India have seen a downward revision of earnings expectations and consequently underperformed while domestic recovery has continued to be strong especially led by financials and domestic consumption. Consequently, CY22 performance has been led by domestic sectors (Banks, Autos, Staples, Utilities) while externally oriented sectors have been largely negative contributors (IT and Pharma)

Within the Indian economy, Indian banks have been firing on all cylinders. The latest data release from the Indian central bank (RBI) report continue to point towards very encouraging trends in the overall banking sector be it on the growth or asset quality (*please see chart of the month*). Unlike in the past cycles, credit growth this time around is very broad-based. Retail loan growth has been driven by strong growth in both secured as well unsecured loans. Loans to the industry and services sector have been strong and sectors like cement and steel which were seeing deleveraging have now been consistently posting increasing credit growth. Going by the bounce rates data, the debit bounce rates are at the lowest level in the past ~4 years indicating very strong asset quality outcomes as reflected in the credit costs of banks reporting this quarter.

Valuation and Flows: MSCI India's 12-month forward PE is now at ~22 which is ~8% away from the peak of ~24X and hence warrants caution but we continue to see bottom-up opportunities. MSCI India is now trading at ~3SD above MSCI EM and World. In Nov 22, MSCI India USD Index was up ~5.1% and MSCI India Small cap Index was ~2.9%.FII outflows YTD is now ~USD 17bn while domestic inflows (mutual funds and insurance flows) have remained extremely strong at ~USD 33bn supporting India's relative valuation, a key variable to monitor. The monthly systematic flows into mutual funds have remained on an average of ~USD 1.5bn indicating positive investor sentiments and adequate household savings.

Chart of the Month: Indian Banks firing on all cylinders. Credit growth has been broad-based, unlike past cycles.

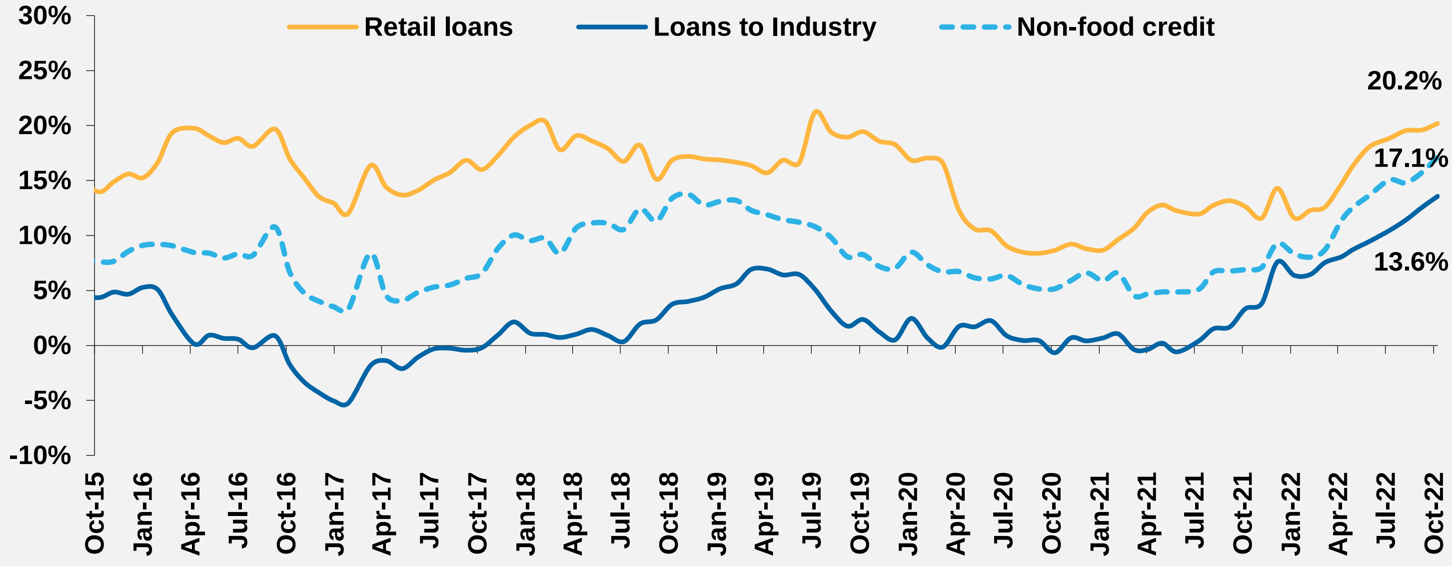

Chart Source: Macquarie Research, Sources: Internal, Bloomberg, UBS Research, Goldman Sachs, FII - Foreign Institutional Investor, DII- Domestic Institutional Investor, FY - Financial Year, CY – Calendar Year; YoY is Year over Year, YTD- Year to date, EM- Emerging Markets, DM- Developed Markets, EPS- Earnings per share, CPI- Consumer Price Index


Souvik Saha
Assistant Manager,
Investment Strategist


Jay Kothari
Senior Vice President,
Lead Investment Strategist

For past Issues, please see below:
India Rewind November 2022
India Rewind October 2022
India Rewind September 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	3374	3649
GDP per capita, USD	1767	2018	2036	2141	1969	2318	2441	2614
Real GDP growth, %	8.3	6.8	6.5	4.0	-6.6	8.7	6.9	5.5
Prices, interest rates and money								
CPI inflation, % y/y (average)	4.5	3.6	3.4	4.8	6.2	5.5	6.7	5.2
Repo rate, % (year-end)	6.25	6.0	6.25	4.4	4.0	4.0	6.50	6.50
10 year bond yield, % (year-end)	6.7	7.4	7.4	6.1	6.2	6.8	7.7	7.2
USDINR (year-end)	64.8	65.0	69.2	75.4	73.5	75.8	85.0	82.0
Fiscal accounts								
General government budget balance, % GDP	-7.0	-5.9	-5.9	-7.8	-13.9	-10.7	-9.4	-8.9
Balance of payments								
Trade balance, USD bn	-112	-160	-180	-158	-102	-192	-298	-268
Exports, USD bn	280	309	337	320	296	422	438	430
Imports, USD bn	393	469	518	478	398	615	736	698
Current account balance, USD bn	-14	-49	-57	-25	24	-39	-122	-91
Foreign direct investment (net), USD bn	35.6	30.3	30.7	43.0	44.0	39.9	36.0	38.6
Total FX reserves, USD bn	370	425	413	478	577	607	487	485
Total external debt, % GDP	20.5	20.0	20.1	19.5	21.4	20.8	18.8	19.1
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