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INDIA REWIND

DSP ASSET 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.

India's market capitalization surpassed US$5 trillion in June, achieving the fastest trillion-dollar growth in its history, just within half a year. During the first half of the year, India emerged as one of the top-performing markets in its region, with MSCI India (USD) rising ~16% vs. (MXAPJ: up ~7%). Post-election results (June 4th), FIIs have made a strong comeback into the Indian markets, net buyers for the last 14 consecutive trading sessions, with US$4bn inflows in the last 3 weeks but remain net sellers in YTD-24 ($0.8bn outflows). DII inflows have been robust this year at US$28bn and have already surpassed the full-year inflows of last year (US$22bn inflows in 2023).

Interest in Indian equities among global investors has surged, bringing Indian stocks into the spotlight within emerging markets. In our discussions with investors from the Middle East, Asia, UK, and US this year, we observed a few common observations across investors which we aim to address.

- **Earnings delivery driving returns, but discussion around sustainability.** Recent market performance hinges on earnings sustainability, particularly in India where GDP growth robustly translates into corporate profits compared to peers. As an example, the 40% rise in MSCI India reflects a 33% profit growth over 18 months. Investors debate future prospects: optimism on resilient growth and stable margins contrasts with concerns over modest revenue expansion and global economic slowdown. Earnings have driven Indian equities' 40% surge, supported by healthy profit growth and improving revenues; expectations are for 15% earnings growth this year and next, shaping index returns positively.
- **Investors are anxious over high valuations**, with MSCI India nearing peaks seen in 2007 and 2021 at about 24 times forward P/E, a 75% premium to MXAPJ. This concern spans both domestic and international investors. Despite this, optimism persists due to strong domestic and retail investments, renewed foreign interest, and potential Federal Reserve easing. For CY-24, expectation of ~15% profit growth and a slight decrease in current valuations.
- **Investors are currently wary of global economic slowdown risks and heightened market volatility ahead of the US elections**. Domestically, concerns mount over the surge in equity supply from block deals and secondary issuances in India. An impending wave of IPOs adds to unease. Additional risks include potential farm loan waivers, changes in capital gains tax, infrastructure execution challenges, and job displacement due to AI adoption in India.
- **India's macro-economic stability and policy continuity are clear, with investors focused on potential risks**: Despite challenges, the case for Indian equities remains strong, supported by stable growth, low inflation, and ample reserves. The upcoming budget announcement is pivotal, with expectations for fiscal discipline. While optimistic about near-term prospects, investors are wary of risks that could unsettle the Indian equity market.
- **Retail and domestic institutional investors are driving market momentum, with renewed foreign interest sparking discussions on market dynamics**. High net-worth individuals, retail investors and domestic institutions have higher contribution, overshadowing foreign institutional investors. This trend was evident during the election week, marked by record trading activity. While FIIs sold $1.5 billion on election results day (June 4), DIIs and retail investors bought $2.5 billion, lifting the market by 3% for the week. Clients anticipate sustained retail participation, fuelled by the financialization of savings, and foresee a rebound in foreign investments post-elections. With foreign ownership of Indian equities at an 11-year low (~17.9%) and conservative mutual fund positioning historically, there's potential for increased foreign flows, likely favouring larger and quality mid-caps in market leadership ahead.

Info Sources: Goldman Sachs Research, UBS, Morgan Stanley. 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.

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For past Issues, please see below:
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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