

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.

We were in Singapore last week (not for the Singapore Grand Prix 2022) for client meetings. While the broad investor mood continues to remain sombre owing to the global uncertainties (and rightly so), we continued to see growing interest in India (while being mindful of the relative valuations) given the growth opportunities, stable macro-outlook and demand trends which remain strong. Investors acknowledged India's sharp outperformance compared to DM and EM not just on a calendar YTD or three-year basis but which is now reflected even in 30-year numbers. Discussions revolved around inflation, elevated oil prices and whether India can remain decoupled from a global slowdown. While we think that there are no major India-specific reasons of concern, we reckon India's valuations are expensive (more on a relative basis than absolute) and could see contraction on the back of emerging global risks. MSCI India USD has outperformed MSCI EM by ~18% and DM by ~16% in YTD22. For the month of Sep 22/YTD, MSCI India USD Index was ~-6.3%/-10.3% and MSCI India Small cap Index was ~-2.8%/-12.3%, while MSCI EM's performance was ~-11.9%/-28.9% and MSCI DM ~-9.5%/-26.4%.

Valuations and Flows: With the recent correction, MSCI India's 12-month forward PE is now at ~20.9 which is ~9% off the peak of ~22.9X. MSCI India now trades at 1SD above the long-term average and with a premium of ~3 SD above World and EM. India continues to look relatively dear when compared with its emerging peers and similar richness in valuations compared to its own long-term history as well (*please see chart of the month*). FII outflows YTD is now ~USD 23bn while domestic inflows (mutual funds and insurance flows) have remained extremely strong at ~USD 33bn. The monthly systematic flows into mutual funds have remained on an average ~USD 1.5bn which depicts a change in behavior of retailer investors of investing despite the market volatility and led by higher household savings.

Aggressive Fed ties RBI's hands: Compelled by the global monetary tightening cycle and in a bid to rein inflationary pressure, the Reserve Bank of India (RBI) announced another round of rate hike by 50 bps. This now takes the repo rate higher this year by 190bps to 5.9%. We believe the RBI MPC's rate decisions will now be driven by Fed hikes, to protect the INR and defuse 'imported' inflation risks. The Monetary Policy Committee (MPC) kept its stance unchanged and mentioned "to remain focused on the withdrawal of accommodation to ensure that inflation remains within the target going forward while supporting the growth". The real GDP growth expectation now stands at 7% FY23 (from 7.2% earlier) compared to World GDP at ~2.5% and average EM peers at ~3.5%.

On-the-ground update: i) September- October are months of festivities including the celebration of *Navratri* and *Diwali* across India. This also boosts consumer spending across 2W/4W purchases and consumer durables, including computers/laptops, refrigerators, ACs. ii) Banking sector loan growth is trending at ~16%YoY, which is highest in the last 10 years (10 avg growth ~10%), iii) Public sector spending has seen a strong start to the year led by central government capex (ex-loan) spend, which is up 48% YTD, driven by three key ministries (Railways, Roadways, and Defence account for 86% of total spend), iv) the goods and service tax (GST) collection for Sep 22 stood at ~USD 18bn, up 28% YoY, higher economic activities resulted in the 7th straight monthly GST collection above ~USD 15bn which depicts a resilient domestic economy and positive momentum irrespective of a global slowdown.

Chart of the Month: India's premium ~45-90% versus World-EM, based on 2Y forward P/E

Market	EPS Growth			ROE		P/E			P/B	P/CF	Performance (\$)	
	NTMA	STMA	2Y Fwd CAGR*	LTMA	NTMA	LTMA	NTMA	STMA	NTMA	NTMA	YTD	3Y
India	17%	17%	17%	14.2%	14.9%	25.0x	21.5x	18.3x	3.2x	13.5x	-9%	40%
Emerging Markets	0%	10%	5%	13.7%	13.1%	11.2x	10.4x	9.5x	1.4x	7.2x	-27%	-5%
<i>India premium vs EM</i>						123%	107%	94%	132%	88%		
World	5%	7%	6%	16.3%	16.2%	14.8x	13.3x	12.4x	2.1x	9.7x	-25%	13%
<i>India premium vs World</i>						69%	62%	48%	48%	39%		
MSCI China	12%	14%	13%	11.2%	11.6%	11.4x	9.6x	8.4x	1.1x	8.6x	-31%	-20%
MSCI Korea	-6%	13%	3%	10.6%	9.2%	8.6x	8.5x	7.5x	0.8x	4.6x	-40%	-9%
MSCI Taiwan	-2%	6%	2%	18.8%	17.1%	11.0x	10.2x	9.7x	1.7x	6.9x	-35%	37%
MSCI Brazil	-10%	-4%	-7%	27.0%	22.1%	6.0x	6.5x	6.8x	1.4x	4.0x	12%	-14%
MSCI South Africa	14%	7%	10%	16.7%	16.9%	9.4x	7.8x	7.3x	1.3x	6.0x	-18%	-7%
MSCI Thailand	10%	13%	12%	10.5%	10.9%	18.7x	16.8x	14.9x	1.8x	8.9x	-9%	-21%
MSCI Malaysia	9%	7%	8%	9.7%	10.2%	14.4x	12.8x	11.9x	1.3x	6.6x	-17%	-17%
MSCI Indonesia	10%	6%	8%	16.4%	16.6%	15.6x	14.2x	13.4x	2.4x	na	8%	10%
MSCI USA	8%	8%	8%	21.0%	20.8%	17.6x	15.4x	14.2x	3.2x	11.7x	-25%	26%

Chart Source: Macquarie Research, Sources: Internal, Bloomberg, UBS Research 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, 2W/4W- Two/Four wheelers, NTMA; Net 12M moving average, STMA; Second 12M moving average, LTMA; Last 12M moving average.



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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	3405	3679
GDP per capita, USD	1767	2018	2036	2141	1969	2318	2463	2635
Real GDP growth, %	8.3	6.8	6.5	4.0	-6.6	8.7	7.0	5.7
Prices, interest rates and money								
CPI inflation, % y/y (average)	4.5	3.6	3.4	4.8	6.2	5.5	6.7	5.0
Repo rate, % (year-end)	6.25	6.0	6.25	4.4	4.0	4.0	6.25	6.25
10 year bond yield, % (year-end)	6.7	7.4	7.4	6.1	6.2	6.8	7.7	7.5
USDINR (year-end)	64.8	65.0	69.2	75.4	73.5	75.8	84.0	84.0
Fiscal accounts								
General government budget balance, % GDP	-7.0	-5.9	-5.9	-7.8	-13.9	-10.7	-9.4	-9.0
Balance of payments								
Trade balance, USD bn	-112	-160	-180	-158	-102	-192	-280	-232
Exports, USD bn	280	309	337	320	296	422	450	438
Imports, USD bn	393	469	518	478	398	615	731	670
Current account balance, USD bn	-14	-49	-57	-25	24	-39	-111	-67
Foreign direct investment (net), USD bn	35.6	30.3	30.7	43.0	44.0	39.9	35.6	38.1
Total FX reserves, USD bn	370	425	413	478	577	607	510	515
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

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