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7 Insights Through A New Lens| May 2024

India In Numbers: Why It Delivers?

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Did Investors Bet On The Wrong Horse?

In 2007, China had a nominal GDP of about USD 3.5 trillion. The Chinese promise was economic growth of the scale and size that has never been seen before. And what did China do? It delivered the fastest pace of GDP and per capita income growth that the world has ever seen. This is where India is today.

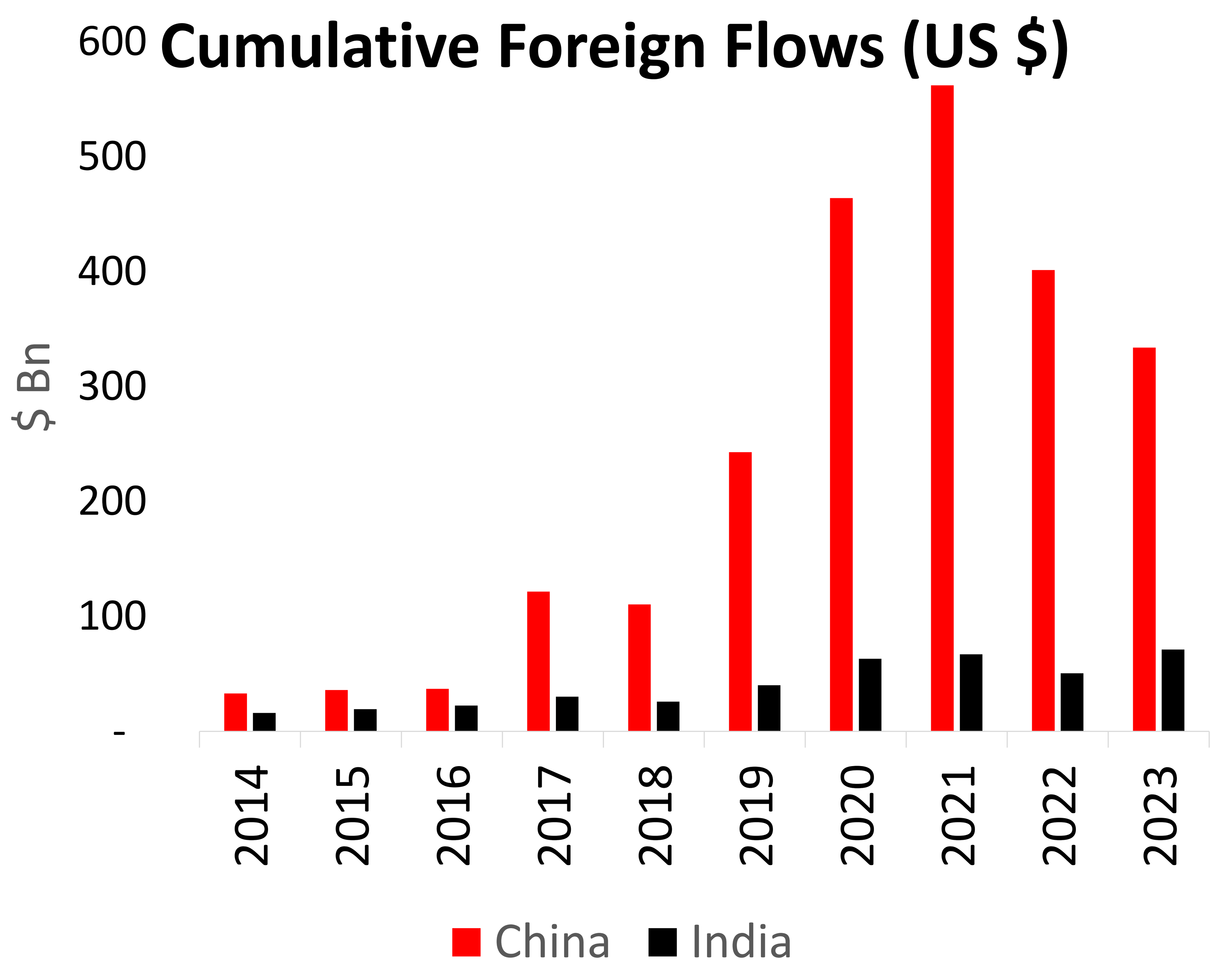
There is, however, a sharp contrast between how these two Asian giants have performed for the investors. China with the miraculous growth delivered little for investors. On the other hand, India has been one of the best performing markets globally, overtime, across periods.

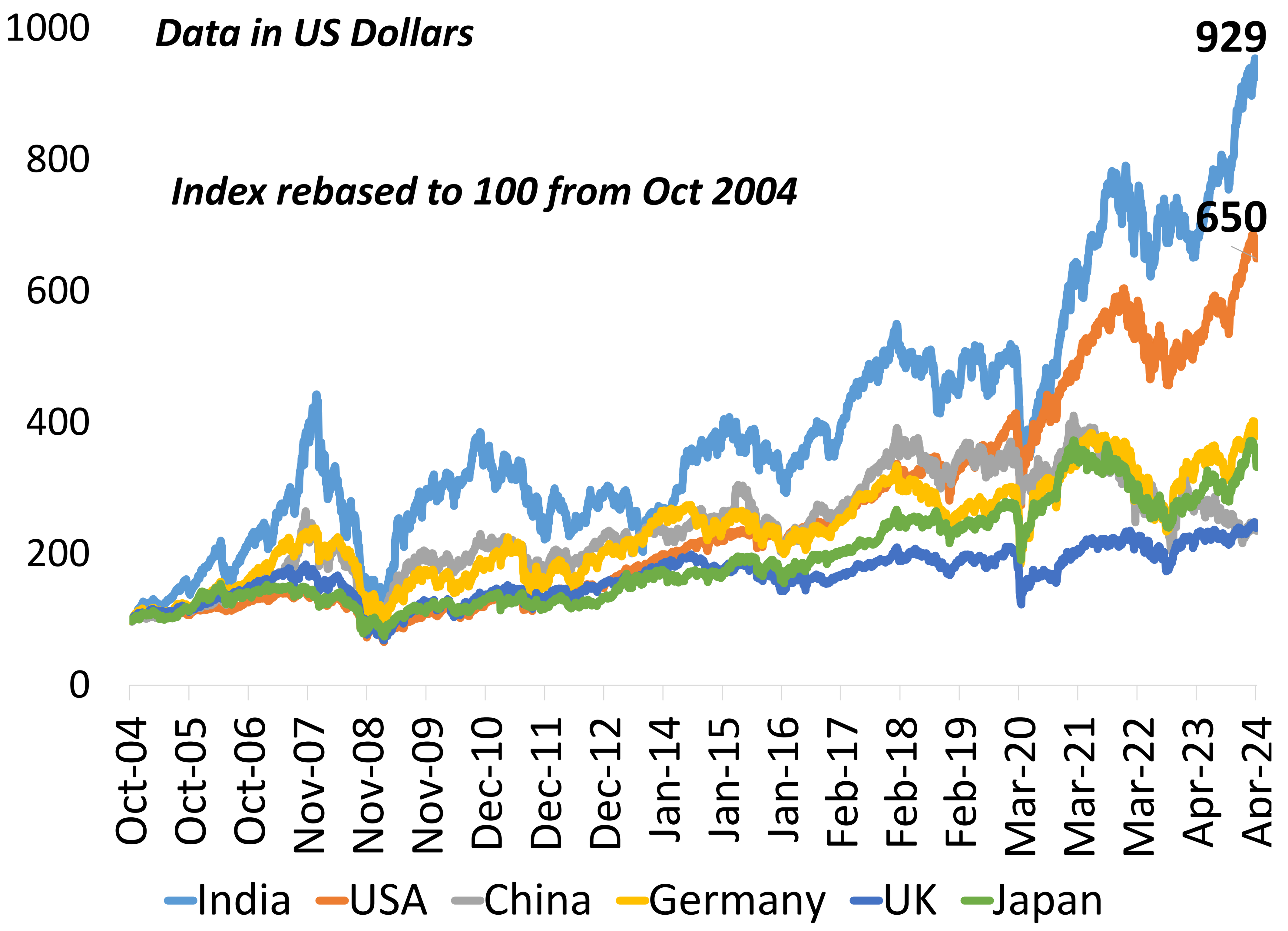
Why?
India corporations have been able to deliver the most important ingredient for equity returns, 'earnings growth'.

Investors have been wrong footed in putting copious amount of funds in other countries while largely ignoring India's profitable corporate dynamics. But for how long?

EPS Growth (CAGR)	MSCI India	MSCI China
3 Year	19%	-9%
5 Year	10%	-5%
10 Year	8%	-4%
15 Year	7%	2%
20 Year	11%	5%

Price growth (CAGR)	MSCI India	MSCI China
3 Year	18%	-19%
5 Year	16%	-7%
10 Year	14%	2%
15 Year	15%	4%
20 Year	15%	7%





Source: DSP, Bloomberg, Data as of Apr 2024. Indices taken for countries are Nifty 500, S&P 500, Hang Seng Index, DAX Index, FTSE 100, Nikkei Index. All indices are total return Indices

What Has Contributed To Corporate Profit Growth In India?

India has now become the second biggest equity market in Emerging Markets. India's share in emerging markets has increased from 7.8% in 2020 to 17.7% at present. This substantial growth is primarily attributed to the increased profitability of companies, surpassing their pre-COVID growth rates, and to consistent performance of equity indices.

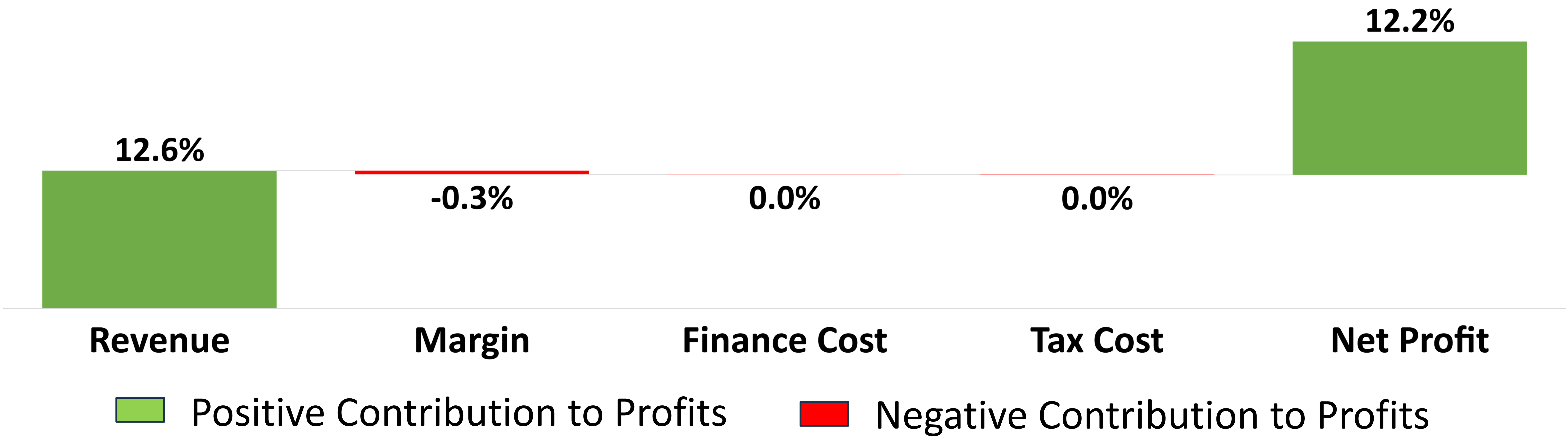
What contributed to healthy levels of profit for corporate India?
A growing topline and stable profit margins for Indian companies and a relatively stable financial and tax regimen. The effect is a double-digit Net Income/Profit Growth at a broad level over the last 20 years.

A deeper analysis reveals that this feat was achieved through enhanced capacity utilization and increased capital expenditure, which propelled revenue growth and consequently, profit growth.

Profit contribution in last 10 years

Data for NSE 500 Index companies in local currency

Profit contribution in last 20 years



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Source: Bloomberg. Data as of Apr 2024. The data is of Nifty 500 companies.

India: A Trillion Dollar of Annual Investments

Over the past 30 years, China, with a CAGR of 14%, stands as the sole nation to have surpassed India's 8% GFCF growth. Fueled by cheap domestic credit, Chinese growth contrasts with India in one aspect: Indian growth has come with higher return on equity.

India has come out of an investment winter. The investment to GDP ratio (measured as gross fixed capital formation to GDP) peaked in 2011 and remained low until the COVID-led disruption upended the supply chains. Post COVID recovery and a large push through government expenditure, the investments are making a come back.

Over the last seven and a half decades, $14trn has been spent on investments since independence. India has spent $8trn on new investments over the last 10 years.

What does this mean?
The size of India's annual investments is becoming large enough for it to get your immediate attention.

Gross Fixed Capital Formation in current US Dollars by country

1990	1995	2000	2005	2010	2015	2020	2023	CAGR
1269	1697	2373	2990	2756	4656	6240	8006	14.4%
1114	1594	1415	1251	2674	3778	4602	5774	4.7%
433	609	450	901	1303	1110	1289	**1109**	**8.1%**
297	321	395	543	664	672	837	1087	-0.1%
258	243	297	479	585	**604**	**728**	979	6.3%
148	238	294	447	**557**	524	616	620	2.3%
129	111	146	**269**	399	509	471	531	2.2%
95	92	**122**	256	379	371	384	490	4.1%
86	**91**	108	188	330	354	322	434	3.3%
84	83	44	136	311	281	301	416	4.9%

India, China, Russia, France, United Kingdom
Australia, Canada, Japan, Germany, United States

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Source: World Development Indicators, Bloomberg, DSP; Data as of Apr 2024

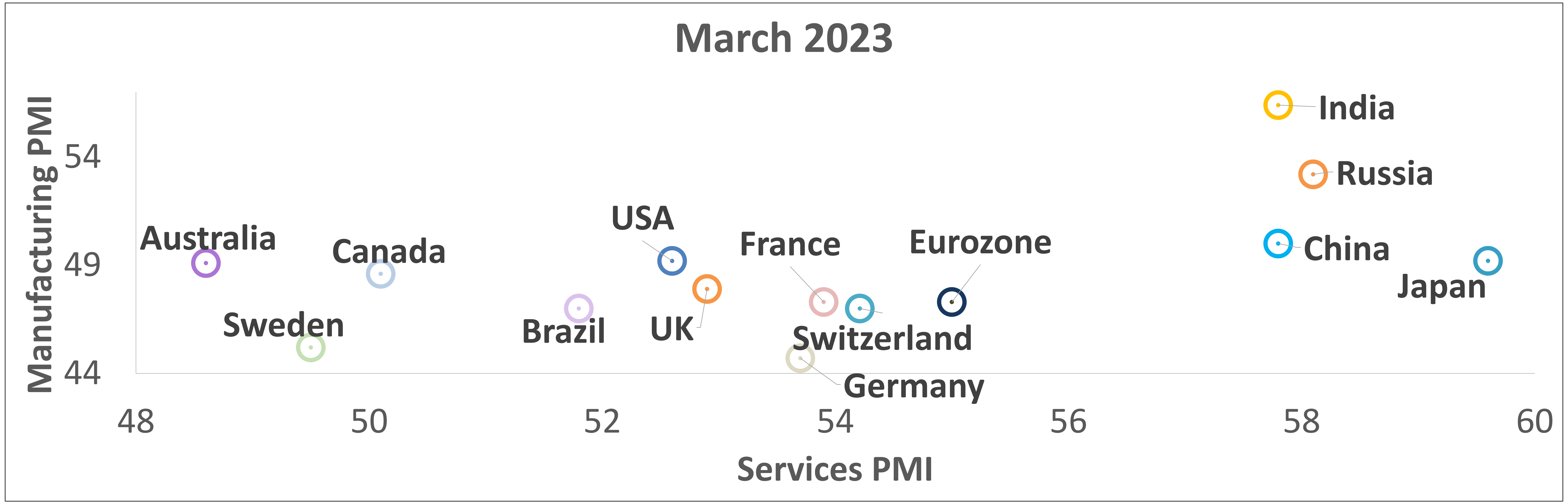
Indian Economy Dancing On Its Own Tune

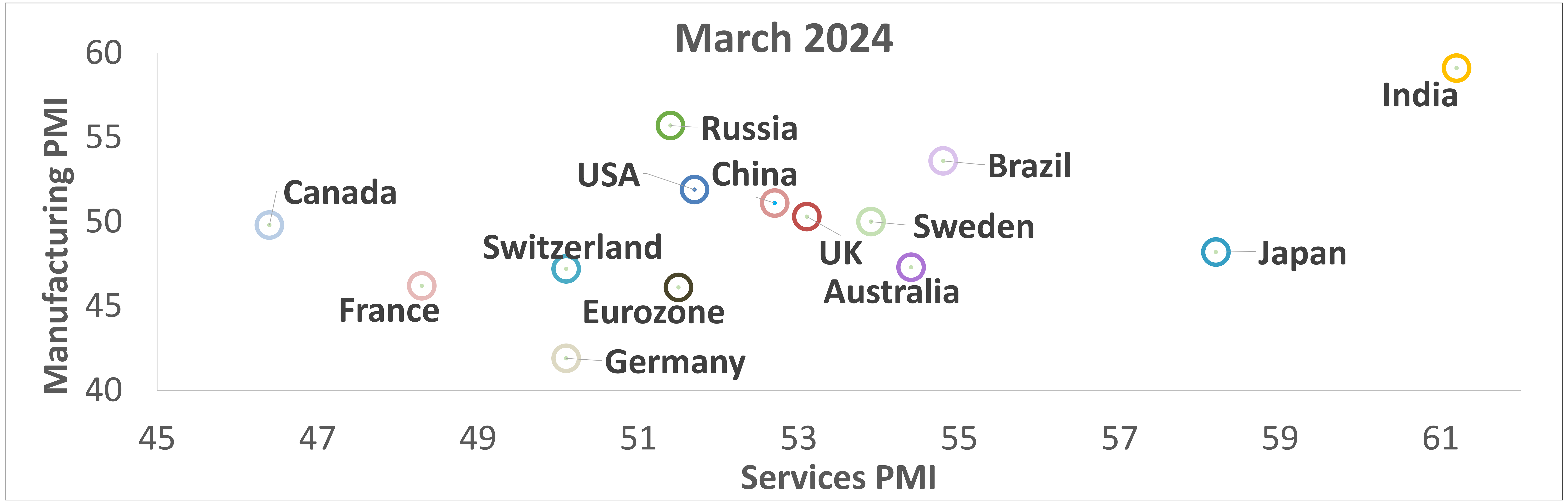
While the global economic landscape has been a bit wobbly, India has remained a steady ship in choppy waters. The economic growth has been consistently strong with corporate top line and profit growing steadily.

As is visible from the graph on the right, over the past 12 months, most economies have seen a slowdown in their manufacturing sector or services, or both. India, over the past year, has seen a consistent growth in economic output and business sentiment.

Its divergent economic trends has long been an outcome ‘in-waiting’, though never realized. But over the last one year, India has shown a consistency which is probably the first evidence suggesting that India’s economic and businesses cycle can withstand global turbulence of manageable magnitude.

The reason?
A stable external situation. Read ahead.





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Source: Bloomberg, DSP; Data as of Apr 2024

India’s Oil Troubles Are Becoming Smaller, Manageable

As the size of India's economy, the GDP, rises, the magnitude of India's oil problem (chronic oil trade deficit) is becoming smaller.

Whenever Oil has hit $100, India’s Oil trade deficit has risen to 50% share of India’s Merchandise trade deficit and consumed nearly all of Services surplus and remittances. Now, even at $100 Oil, Remittances alone can balance Oil deficit.

In fact, Services + Remittance can balance India’s merchandise trade deficit nearly fully if Crude is at $80 and Indian electronic exports keep pace with the recent upsurge. Services net exports and remittances are growing at 6% CAGR in US Dollar terms. This is one of the best USD growth rates for any country in the world.

The big question: What could be the **impact on the Indian Rupee? Is there a possibility of the Indian Rupee depreciation slowing?**

At $140 or higher Oil, Indian economy will slip back into trouble.

Balance of Payment Components (USD, Billions)	FY24	FY23	FY15 to FY12 (avg)	FY15	FY14	FY13	FY12
Current Account	-78	-67	-56	-27	-32	-88	-78
Merchandise	**-240**	**-265**	**-170**	**-145**	**-148**	**-196**	**-190**
Oil Trade Deficit	**-96**	**-112**	**-96**	**-81**	**-102**	**-103**	**-99**
Oil Trade Deficit (as a % of GDP)	-2.7%	-3.3%	-5.1%	-4.0%	-5.5%	-5.6%	-5.4%
Services	**162**	**143**	70	77	73	65	64
Remittance	**103**	**101**	65	66	65	64	63
Services + Remittance	**265**	**244**	**134**	**142**	**138**	**129**	**128**
Services + Remittance as a % of GDP	7.5%	7.2%	7.1%	7.0%	7.4%	7.0%	7.0%
Current Account Balance as a % of GDP	-2.2%	-2.0%	-3.7%	-1.4%	-1.8%	-5.7%	-5.7%

What could cause India's current account to turn into a surplus is $60 crude or lower, a steady pace of growth in India's services exports (5% CAGR), along with a rise in India's electronic goods exports to $40 billion, from FY23 total of $24Bn, over the next 5 years. For now, we are far from this goldilocks scenario.

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Source: CMIE, Bloomberg, DSP; Data as of Apr 2024

Indian Equities Have Discounted ‘The Best Case’?

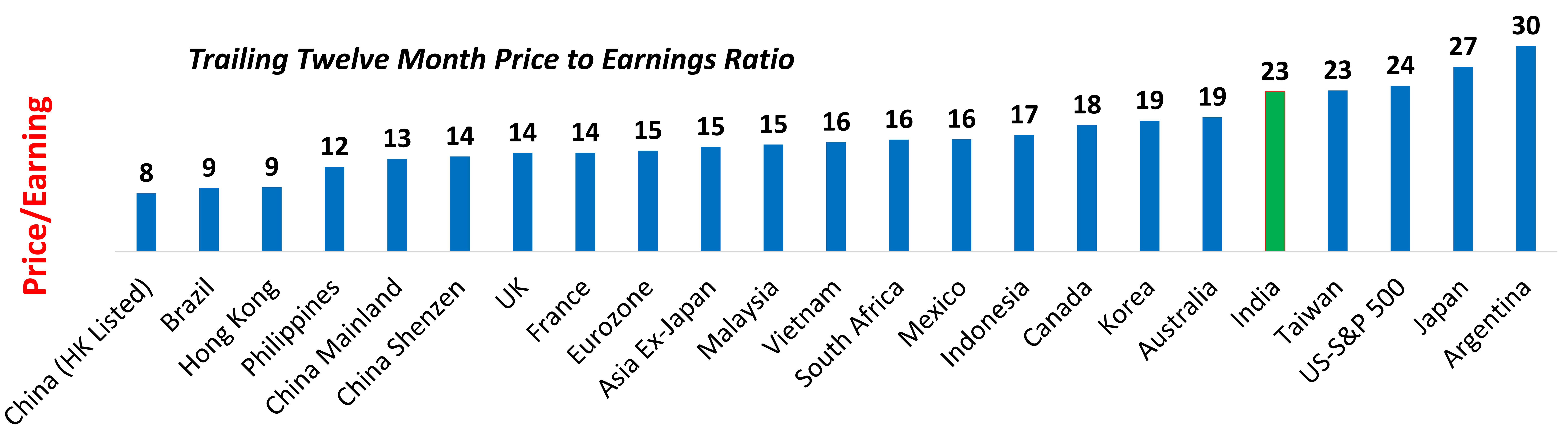
The steady pace of earnings growth and a favorable businesses cycle has ensured that the Indian stocks are well bid and are relative outperformers. This also means that Indian stocks aren’t the cheapest.

In fact, among the large emerging and frontier markets, Indian equites are among the pricier regions.

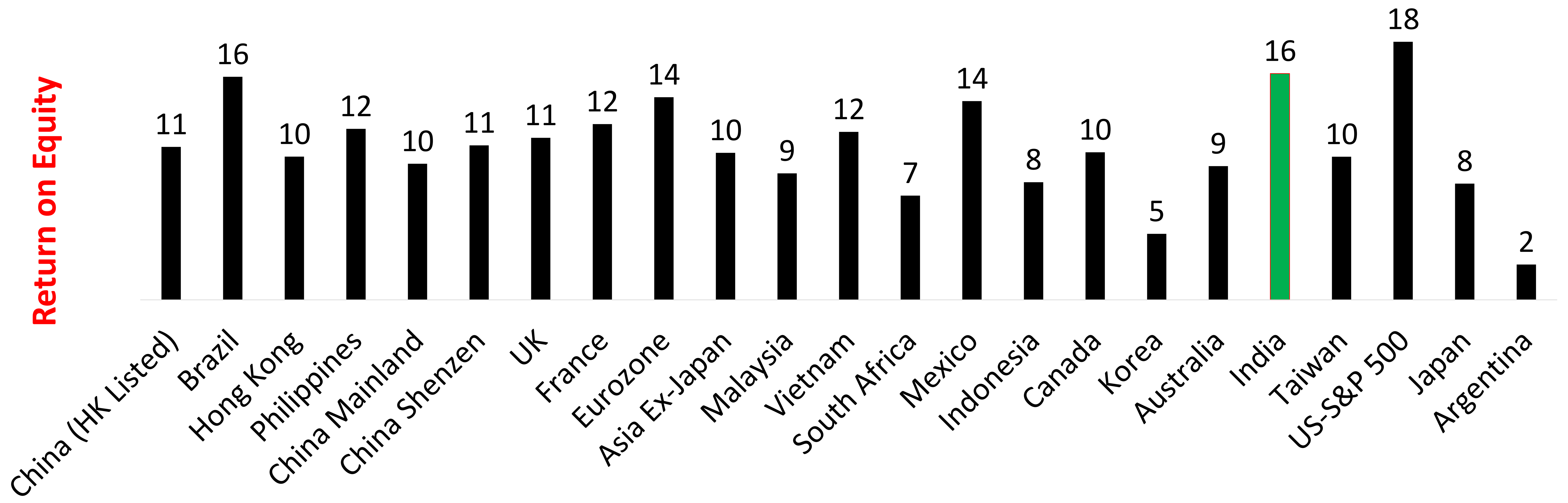
Can this continue?
It’s hard to say whether India will continue its performance, thus commanding such high multiples. A better way to approach this is to look at sectors and segments which can deliver a better investment experience.

Lenders, both banking and non-banking financial companies, are one such space. To know more, read ahead.

India Among The Most Expensive Markets Globally



The Most Expensive Markets Which Aren’t The Most Profitable Are Vulnerable To A Wobbly Global Growth



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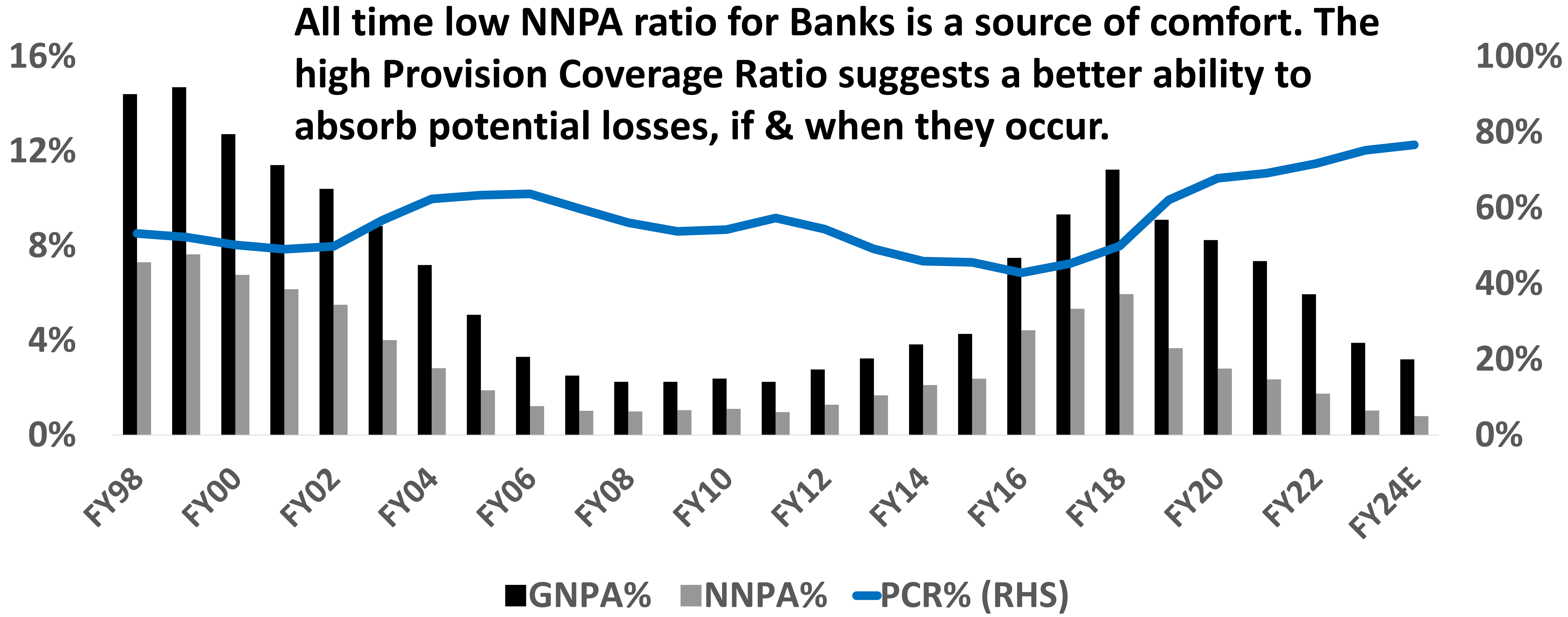
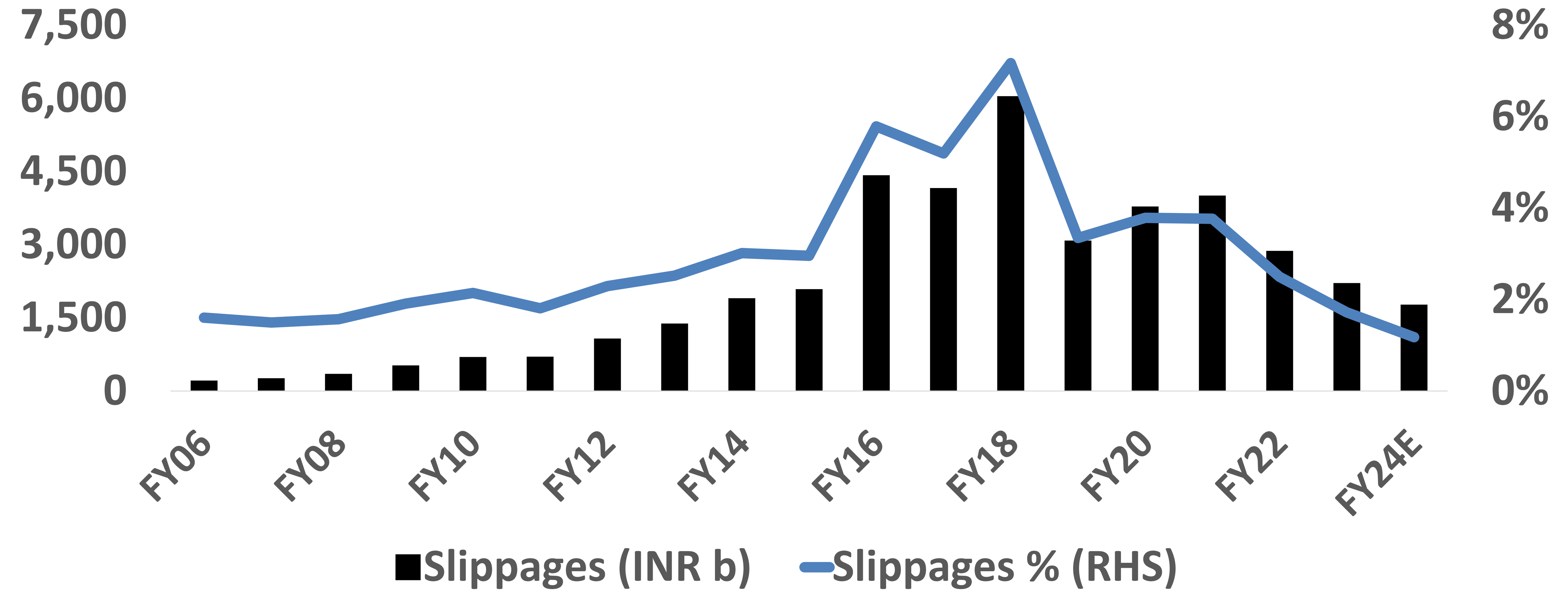
Source: Bloomberg. Data as on Apr 2024

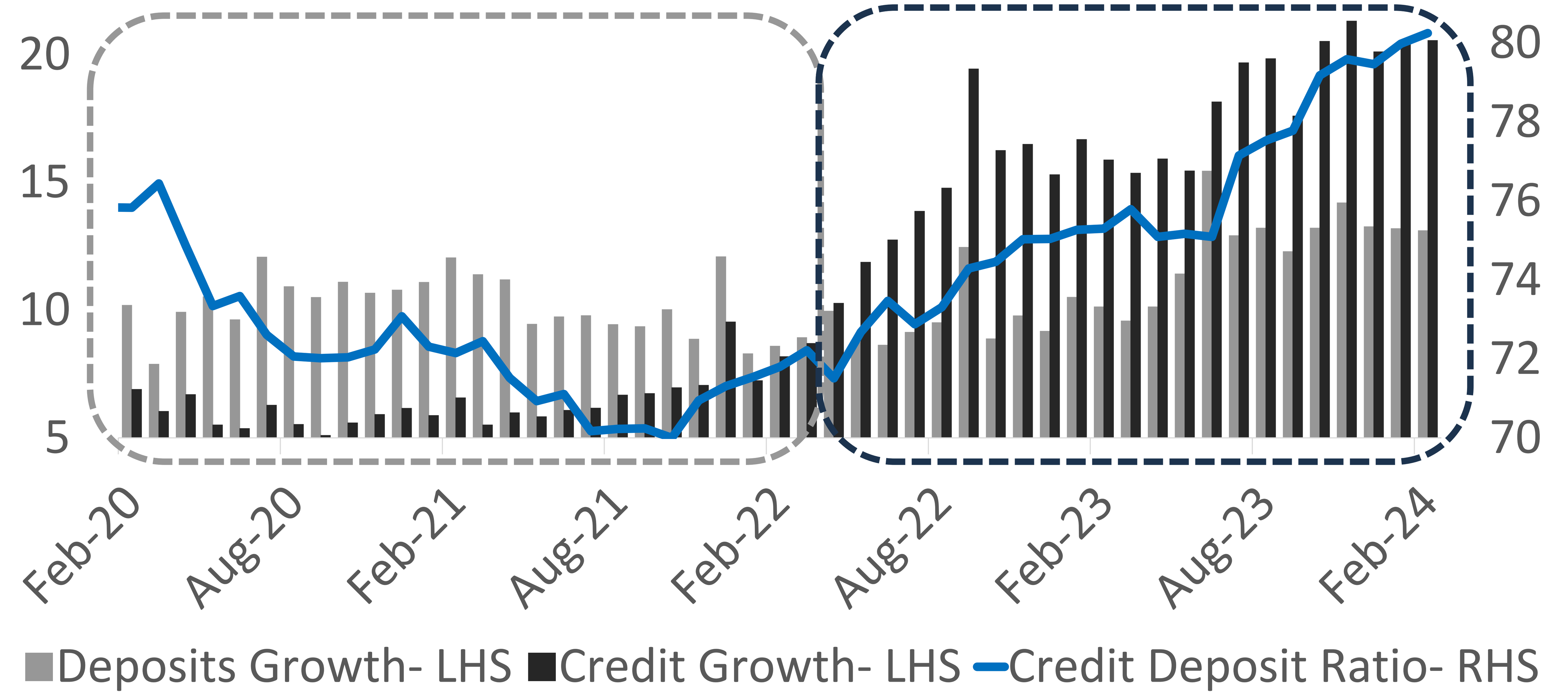
Indian Banking Sector: In Good Financial Health & At Attractive Valuations



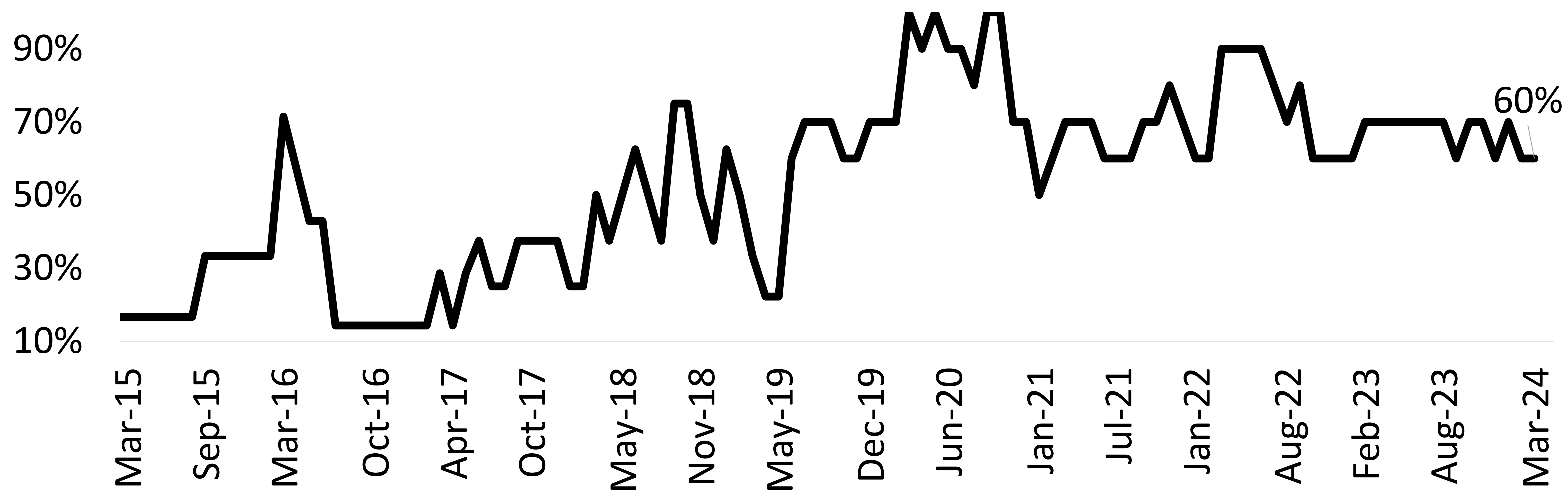
Slippages are declining indicating continuation of asset quality



A relatively higher increase in credit as compared to deposit, is translating into a higher Credit-Deposit Ratio



Nifty Private Bank (% stocks below its 10 year PB ratio)



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Source: DSP, CMIE, Investec. Data as of Apr 2024

Did You Know?

- India's services exports have more than doubled in the past 18 years, with a Compound Annual Growth Rate (CAGR) of ~11% since 2005. This growth rate is nearly double the global average.

- India's share in global services exports has more than doubled, going from under 2% in 2005 to 4.6% in 2023.

- Indian Software exports-oriented IT&ES sector firms are one of the most profitable in the world and have outperformed the Nasdaq-100 in the 21st century.

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Source: UNCTAD, Bloomberg, DSP Data as on end 2023

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