

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.

"The Theory of Indian Consumption: A Tale of Extremes "

The aftermath of the pandemic has cast a shadow over the rural economy in India, struggling to ascend from its pandemic-induced lows. On the flip side, the urban economy has displayed a notable recovery, with India's COVID-19 trade reopening being heralded as one of the world's most successful. Despite nearly two years have elapsed since the pandemic's onset, the demand landscape in rural regions continues to lag behind the norm.

Remarkably, the rural sector, encompassing ~70% of the nation's population, contributes roughly ~50% to the GDP. While reasons for sluggish demand have shifted from one quarter to the next, the central discussion in India's business circles now revolves around the key choice facing the rural economy: Should it prioritize the consumption of essential Staples or indulgent Discretionary products? With a normal monsoon projected this year and a favourable harvest season anticipated, hopes are high that the income levels of the rural economy will regain stability.

India is not an outlier in the trend of heightened consumer demand for premium and luxury categories. Recent survey reports indicate that the Indian luxury market is on track to expand approximately 3.5 times, reaching a staggering ~ USD 200Bn by ~2030. This growth is propelled by the burgeoning entrepreneurship landscape and the ascent of millionaires within the nation. Data underscores the extraordinary growth of the ultra-rich community, which has multiplied by a factor of 11 over the past decade, positioning India as the third-largest nation in terms of billionaire population, trailing only the US and China. In the post-pandemic era, consumption patterns among elite consumers remain robust, particularly in domains like luxury real estate, automobiles, vacations, gourmet dining, and premium food experiences.

Earnings Flow and Valuations: In 1QFY24, ~77 out of the total MSCI India companies, accounting for ~78% of the index's market capitalization, have disclosed their financial results. During the period profits have surged by ~56% compared to the same period last year. Among these companies, 44% have outperformed consensus estimates, 19% have reported results in line with expectations, and 37% have fallen short. On average, there have been positive earnings per share (EPS) surprise of ~ 6%. Within this landscape, the sectors that have experienced the highest number of earnings surpassing expectations are Energy and Healthcare. Conversely, the Real Estate and Information Technology (Infotech) sectors have encountered the highest proportion of earnings falling below expectations.

Focusing on the theme of Margin and Cost, it's noteworthy that corporate sentiment is currently at its highest point in the last two years. This assessment is based on the language used in corporate guidance concerning keywords like 'margin,' 'costs,' 'inflation,' and 'commodities.' This positive shift in sentiment is not limited to a specific sector; rather, it's evident across a wide range of sectors. Among these, the Consumer Discretionary sector has exhibited the most substantial improvement in sentiment on a quarter-over-quarter (QoQ) basis.

In YTD23, MSCI India Index returned ~7.5% vs MSCI EM ~9.5% and MSCI DM ~17.7%. FIIs have bought \$19.6bn since March and US\$15bn YTD. DIIs have net bought US\$10bn YTD. Consumer Disc, Financials & Staples have seen the most inflow from Foreigners and conversely, the biggest outflow has been in Energy and Infotech. MSCI India (~19.2x, 2YF) is now trading at ~1SD above MSCI EM and DM while in line with its long-term average.

Chart of the Month: MSCI India has seen an overall ~1% upgrade so far in Q1FY24. Signs of rural recovery across range of indicators, rural exposed companies expected to perform well in 2H.

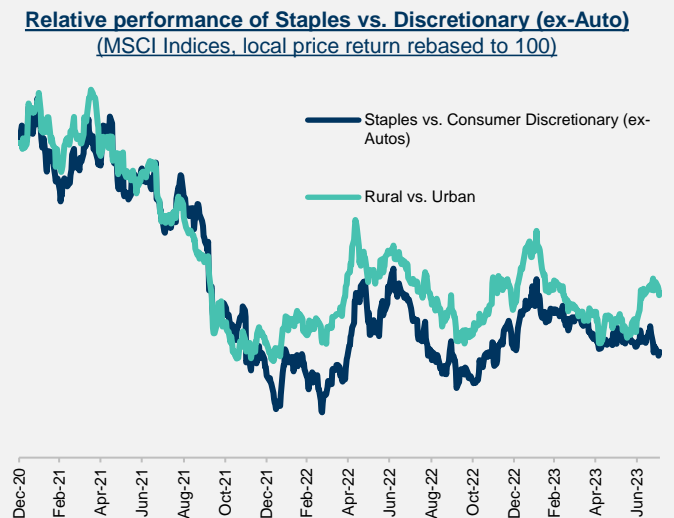
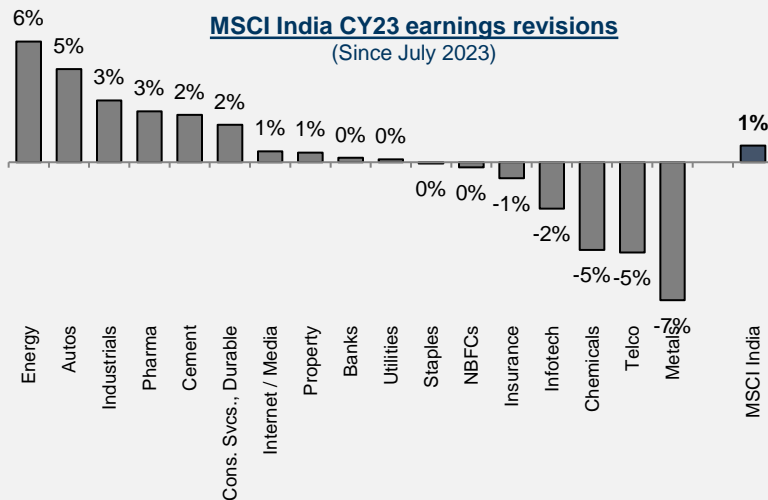


Chart Source: Goldman Sachs Research, Info Sources: Internal, Bloomberg, UBS Research, Goldman Sachs, FII - Foreign Institutional Investor, DII- Domestic Institutional Investor, FY - Financial Year, CY - Calendar Year; YoY is Year over Year, YTD- Year to date, EM- Emerging Markets, DM- Developed Markets, 2YF- Two Year Forward.



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India at a Glance

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E
Economic Activity and Employment								
GDP, USD bn	2295	2651	2701	2871	2668	3176	3390	3713
GDP per capita, USD	1767	2018	2036	2141	1969	2321	2451	2658
Real GDP growth, %	8.3	6.8	6.5	4.0	-6.6	8.7	7.2	5.3
Prices, interest rates and money								
CPI inflation, % y/y (average)	4.5	3.6	3.4	4.8	6.2	5.5	6.7	5.4
Repo rate, % (year-end)	6.25	6.0	6.25	4.4	4.0	4.0	6.50	6.0
10 year bond yield, % (year-end)	6.7	7.4	7.4	6.1	6.2	6.8	7.3	7.0
USDINR (year-end)	64.8	65.0	69.2	75.4	73.5	75.8	82.3	79.0
Fiscal accounts								
General government budget balance, % GDP	-7.0	-5.9	-5.9	-7.8	-13.9	-9.5	-9.4	-9.0
Balance of payments								
Trade balance, USD bn	-112	-160	-180	-158	-102	-189	-266	-250
Exports, USD bn	280	309	337	320	296	429	454	420
Imports, USD bn	393	469	518	478	398	619	720	668
Current account balance, USD bn	-14	-49	-57	-25	24	-39	-69	-55
Foreign direct investment (net), USD bn	35.6	30.3	30.7	43.0	44.0	38.6	35	38
Total FX reserves, USD bn	370	425	413	478	577	607	578	608
Total external debt, % GDP	20.5	20.0	20.1	19.5	21.4	19.1	18	15
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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