India Rewind

April 2025

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.

The Indian markets have seen the return of FPIs after months of selling. FPIs turned net buyers in March with ~$1 Bn inflows, marking the first positive month since Dec'24 signalling a potential shift in sentiment. Meanwhile, the Indian Rupee posted its strongest monthly gain in over six years, appreciating ~2.4%, aided by proactive RBI interventions in the form of liquidity operations and FX management. The RBI announced ~$9.3 billion in OMO purchases for April, bringing total OMOs in 2025 to ~$38.1 billion. Other liquidity measures include a ~$25 billion USD/INR swap and ~$14.5 billion in VRR auctions.

In YTD25, MSCI India Index US$ returned ~(3.1)% vs. MSCI EM ~2.4% and MSCI DM ~(2.1)%. MSCI India's forward PE is at ~18.5, with the 2FY now trading at ~0.95SD above its long-term averages. FPIs have sold ~US$ (13.5)bn YTD'25 (vs ~$(0.8) Bn in 2024) while DIIs continue to buy at ~US$ 21.8bn in YTD'25. Monthly SIPs are at ~$3.0 Bn, suggesting the continued preferred form of investment for India's retail investors.

The US imposed a broad country-level tariff of 26% on exports from India effective midnight on April 5. Notably, tariff announced on other key competitor countries is higher than India, which is a silver lining for Indian manufacturers. Import tariffs on other countries like China (34%), Vietnam (46%), Taiwan (32%), Thailand (36%), Indonesia (32%), and Bangladesh (37%) are much higher than India's (26%) (please refer chart 1 below).

Although the US is India's largest export market accounting for ~20% of total exports and contributing 2.3% to GDP, India accounts for only 4.1% of total US trade deficit. China, Mexico, Vietnam, Germany, Ireland, Taiwan and Japan have a higher trade surplus with the US. The sectors most vulnerable to US tariffs include electronics, gems & jewellery, textiles, and pharmaceuticals, as they make up a ~50% of India's exports to the US (please refer chart 2 below). While tariffs pose a headwind for Indian manufacturers, local US players will face significant challenges in developing cost-efficient alternatives. The covid-19 shock is testament to the fact that supply chains do not reorient quickly even when there is a relative comparative cost advantage. Indian firms, flush with cash, are in a good position to capture the supply chain reorientation.

Moreover, India has already cut duties on American goods (e.g., on motorcycles from 100% to 30%, on bourbon from 150% to 100%) and may broaden this to autos, chemicals, and agriculture to negotiate relief. Trade diversification via free trade agreements with the EU, the UK, and Australia alongside BRICS and ASEAN ties aim to offset the reliance on the US. Although India is not decoupled from global growth cycles, it may remain less impacted than others.

Two factors contribute to this relative insulation: First, India's economy is largely domestic-driven, with merchandise exports accounting for just ~11% of GDP—among the lowest in emerging markets—while private consumption contributes around 60% of GDP. This limits the direct impact of global trade disruptions. Second, leverage across households, corporates, and the government remains contained, and bank balance sheets are in a stable position, with non-performing assets at a multi-year low of ~2.6%. While household debt saw some increase post-Covid, regulatory measures by the RBI in late 2023 helped ease pressures. These factors provide some comfort, though India, like others, remains indirectly exposed to prolonged global uncertainty.

Chart 1: US Import tariffs - India less impacted than other major EMs

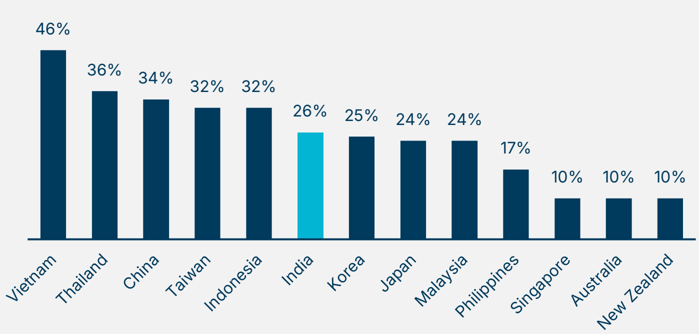
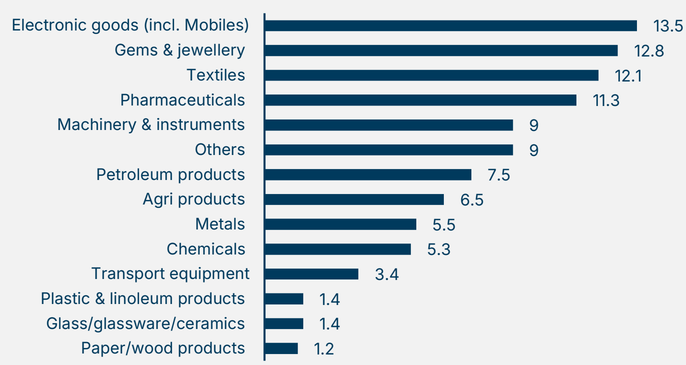


Chart 2: Sector wise share in India's total exports to the US (%)



Info Sources: Morgan Stanley Research, BofA Global Research, Avendus Spark Research, Elara Securities., MXASJ – MSCI Asia Ex-Japan, FPI – Foreign Portfolio Investor, DII – Domestic Institutional Investor, RBI – Reserve Bank of India, OMO – Open Market Operations, VRR - Voluntary Retention Route, 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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- India Rewind March 2025
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India at a Glance

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	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Economic Activity and Employment								
GDP, USD bn	2,701	2,871	2,668	3,176	3,390	3,568	3928	4149
GDP per capita, USD	2,036	2,141	1,969	2,321	2,451	2,554	2784	2916
Real GDP growth, %	6.5	4.0	-6.6	8.7	7.2	8.2	6.5	6.3
Prices, Interest Rates and Money								
CPI inflation, % y/y (average)	3.4	4.8	6.2	5.5	6.7	5.4	4.7	4.2
Repo rate, % (year-end)	6.25	4.4	4.0	4.0	6.50	6.50	6.25	5.75
10-year bond yield, % (year-end)	7.4	6.1	6.2	6.8	7.3	7.1	6.5	6.3
USDINR (year-end)	69.2	75.4	73.5	75.8	82.3	83.0	87.0	89.0
Fiscal Accounts								
General government budget balance, % GDP	-5.9	-7.8	-13.9	-9.5	-9.4	-8.5	-7.9	-7.4
Balance of Payments								
Trade balance, USD bn	-180	-158	-102	-189	-266	-243.2	-284.9	-310.5
Exports, USD bn	337	320	296	429	456	440.2	438.6	425.9
Imports, USD bn	518	478	398	619	720	683	723	736
Current account balance, USD bn	-57	-25	24	-39	-67	-25	-32	-40
Foreign direct investment (net), USD bn	30.7	43.0	44.0	38.6	35	18	5	15
Total FX reserves, USD bn	413	478	577	607	578	646	654	643
Total external debt, % GDP	20.1	19.5	21.4	19.1	18	18.1	18.3	18.3
Credit ratings								
Moody's	Baa2	Baa2	Baa3	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

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