India Rewind

February 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 rupee has been quite volatile in the first two weeks of January with this trend becoming more noticeable since the US Elections. India's foreign exchange reserves declined to ~$624bn, down $81bn from their all-time high in Sep'24. There has been significant pressure on all major currencies since the US elections result (please see chart of the month), which depreciated anywhere between 7.6% (South Africa Rand) to 2% (Thailand Bhat). In the same period, the dollar, as measured by the DXY rose by 5.1%.

With the aim to combat this, the RBI has taken decisive measures to address the depreciating rupee and acute liquidity deficit. To inject liquidity into the banking system, it has announced three key steps: (i) OMO purchases worth ~$7 Bn, (ii) a $5bn dollar swap (liquidity injection), and (iii) a ~$5.8 Bn VRR auction. These steps, totalling ~$17.8 Bn, aim to ease liquidity pressures, support credit growth, and stabilize financial markets. While risks remain, such as continued capital outflows necessitating further action, the RBI has reaffirmed its commitment to monitoring and addressing liquidity challenges. The RBI's proactive stance should help navigate the current tightness and maintain macroeconomic stability.

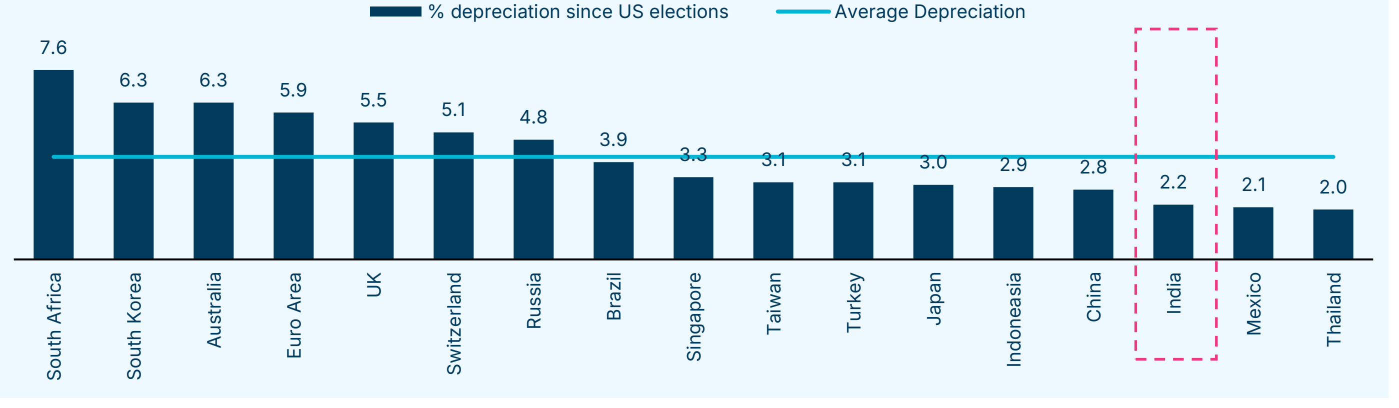
The Indian government unveiled its budget, marking the first full budget under PM Modi's coalition government. The FY26 Union Budget was crafted amid the challenge of adhering to the fiscal glide path while addressing concerns over slowing economic growth. The government has walked a tightrope—continuing fiscal consolidation while delivering a surprise tax exemption to stimulate consumption. This marks a shift from an investment-driven model to a more consumption-led growth strategy, aiming to boost domestic demand without compromising fiscal discipline.

Key Takeaways:

- Pivot From Capex to Consumption – The budget provides a $50B push toward domestic demand through revised tax slabs, increased rural spending, and enhanced credit access for farmers. These measures, amounting to 2.6% of total household consumption, are expected to drive growth in discretionary sectors like two-wheelers, consumer durables, and NBFCs.
- Fiscal Discipline Intact – The fiscal deficit is projected to decline to 4.4% of GDP in FY26 (from 4.8% in FY25), aligning with the government's consolidation roadmap. The debt-to-GDP ratio is expected to gradually decline to 50% by 2031 (from a high of 60.8% in FY21), improving India's prospects for a credit rating upgrade.
- Capex Moderation, But Selective Focus – While spending on key infrastructure projects (roads, railways) remains largely unchanged, defence capex has received a notable boost. The Production-Linked Incentive (PLI) scheme allocation has budgeted to increase ~83% YoY, signalling continued strong support for domestic manufacturing and exports.
- Rural revival - Govt. spend on Rural & Agri is up ~24.8% YoY to ~$45 Bn in FY26BE with a focus on Rural Housing, Drinking Water and Rural Roads, the highest jump in the last four years. Several other announcements included boosting agricultural productivity, storage and farmer profitability through higher credit limits and support for high-value crops. This bodes well for the much-needed revival in rural consumption & Agri-input companies over the medium to long term.
- Revised tax slabs will benefit 56M taxpayers, boosting disposable income and fuelling consumption growth (maximum benefit of ~$1298 per person).
- Budget has created a new ~$11.6 Bn fund called Urban challenge fund (UCF) to encourage states towards urbanization and redevelopment in the existing cities. This fund would infuse 25% of the project cost and thus can boost infra development of ~$46.5 Bn.

In YTD 25, MSCI India Index US$ returned ~(3.6)% vs. MSCI EM ~1.7% and MSCI DM ~3.5%. MSCI India's forward PE is at ~21.7 NTM, with the 2FY now trading at ~1.8SD above its long-term averages. FIIs have sold ~US$(8.5) Bn last month. Monthly SIPs hit fresh highs ~USD 3.0bn in India, suggesting the continued preferred form of investment for India's retail investors.

Chart of the Month: Indian rupee depreciation has been *relatively* resilient



Info Sources: BOB Capital Markets, Avendus Spark, Elara Capital Research. FII – Foreign Institutional 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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Past Issues:
- India Rewind January 2025
- Older issues

We hope you found this note interesting. We welcome your feedback on InvestmentStrategists@dspim.com

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	3842	4062
GDP per capita, USD	2,036	2,141	1,969	2,321	2,451	2,554	2732	2890
Real GDP growth, %	6.5	4.0	-6.6	8.7	7.2	8.2	6.3	6.3
Prices, Interest Rates and Money								
CPI inflation, % y/y (average)	3.4	4.8	6.2	5.5	6.7	5.4	4.8	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	-280.7	-308.2
Exports, USD bn	337	320	296	429	456	440.2	430.9	442.5
Imports, USD bn	518	478	398	619	720	683	712	751
Current account balance, USD bn	-57	-25	24	-39	-67	-25	-43	-55
Foreign direct investment (net), USD bn	30.7	43.0	44.0	38.6	35	18	16	22
Total FX reserves, USD bn	413	478	577	607	578	646	691	708
Total external debt, % GDP	20.1	19.5	21.4	19.1	18	18.1	17.8	17.1
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