India Rewind

January 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 year 2024 unfolded as a story of two halves for Indian markets. The first half of the year witnessed steady economic activity and robust markets with every dip having been met with additional buying, led by domestic and retail investors, fuelling a continuation of the three-year bull run that outperformed global peers.

A trio of challenges emerged towards the 2nd half of the year with China's stimulus-driven fund redirection, disappointing Q2FY25 earnings, and Trump's return to the U.S. presidency indicating a stronger US market performance. Foreign portfolio investors (FPI) saw a marginal inflow (USD 0.7bn) in 2024. Meanwhile, the strong trend continued in India's domestic flows which saw USD 62bn lending critical support.

Despite an event-heavy year across the world, including those within the country, Indian equities upheld its performance, driven by robust fundamentals and resilience in emerging sectors. As GDP growth slowed in Q2FY25 and earnings tapered off, questions around valuations naturally emerged. In recent months, investor sentiment toward India's economy has shifted from optimism to concern, driven by high inflation, rising prices, weak consumption, and sluggish investment. The negative catalyst was a sharp slowdown in corporate earnings, with real GDP growth dropping to around 5% and nominal growth at 8%, below expectations. The slowdown was mainly due to weaker manufacturing and consumption, and the government falling short of investment targets, though agriculture and services showed strong performance. However, with the right policy adjustments and a focus on stimulating investment and consumption, India's long-term growth potential remains strong, and it can still work toward a sustainable 7%-8% real GDP growth trajectory.

Small and mid-cap (SMID) stocks emerged as stars amid the shift, drawing institutional and retail interest due to their exposure to burgeoning sectors like electronics manufacturing, renewable energy, and AI services. Domestic demand, coupled with opportunities like the China+1 strategy, positioned SMIDs for sustained momentum. Mutual fund inflows into SMIDs rose to $1.08 billion in November, with sectoral and thematic funds further bolstering the segment.

The capex theme continues to be a key pillar of India's growth story, with Production Linked Incentive (PLI) schemes playing a crucial role. These initiatives are not only driving capital expenditure but also propelling India's transformation into a global manufacturing hub within the supply chain.

The PLI (Production Linked Incentive) scheme has strengthened multiple sectors, fuelling manufacturing growth, export substitution, and attracting investments. Here's a quick snapshot:

1. Electronics: Transformed from net importer to net exporter of mobile phones.
2. Pharma: Strengthened global standing with reduced reliance on imports of key raw materials (API etc.).
3. Auto: Attracted $8 billion in investments, far exceeding targets.
4. Renewable Energy: Enhanced solar PV capacity with job creation and innovation.
5. Telecom: Achieved 60% import substitution with strong export momentum.
6. Drones: Rapid growth driven by MSMEs and start-ups.

The debate over India's growth this year and its outperformance compared to the EM and DM markets continues. The key catalysts for India's growth story are the revival of government capex, a rebound in consumption, rural recovery driven by stable monsoons, easing inflationary pressures, and potential rate cuts starting in February 2025. With these pillars in place, India's growth outlook remains strong and on track for continued momentum.

Info Sources: Goldman Sachs Research, UBS, Morgan Stanley. MXASJ – MSCI Asia Ex-Japan, 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.

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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	3855	4113
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	4.3
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	6.6	6.3
USDINR (year-end)	69.2	75.4	73.5	75.8	82.3	83.0	84.5	87.0
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