

# 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.

It has been a busy start to 2023 both globally and in India. A sharp uptick in US markets, strong re-opening in China gaining steam and Emerging markets back in focus after a huge underperformance in 2022. The recent news flows have also resulted in increased volatility for Indian markets.

**India's relative valuation in a correction phase:** MSCI India is now trading at ~18x 2Y forward PE versus EM at ~11x and World at ~14x. MSCI India's premium to World and EM which was trading at 3SD, has now corrected to ~1SD level. This comes on the back of India's relative underperformance to EM and China in the last one month. In Jan 2023, MSCI India was down -3.1% while MSCI EM was up ~7.9% and MSCI DM at 7%. The major contributor to MSCI EM has been MSCI China (~+11.7%). India which outperformed MSCI EM and DM in 2022 by an average of ~12.5% is now under pressure on the rotation of flows from India to other Emerging markets.

The central government presented the Union Budget for the Fiscal Year 2023-24 earlier this month which ticks all the essential macro-prudential boxes in our view. This was a balanced (and realistic) budget with a clear focus on fiscal consolidation, capital expenditure for infrastructure development and growth in general.

With India running one of the highest public debt-to-GDP ratios among emerging markets globally, it was expected that there will be firm adherence to the fiscal consolidation path. The fiscal deficit is budgeted for 5.9% of GDP in FY24 down from 6.4% of GDP in FY23, in line with expectations. The long-term target is to bring the fiscal deficit down to 4.5% of GDP by FY26. There was a decadal high allocation of 29% to capital expenditure. Incremental capex growth was driven by Roads (~25% YoY), Railways (+15% YoY) and Water (+28% YoY). The budget further allocated a ~30% higher allocation to state govt capex as well.

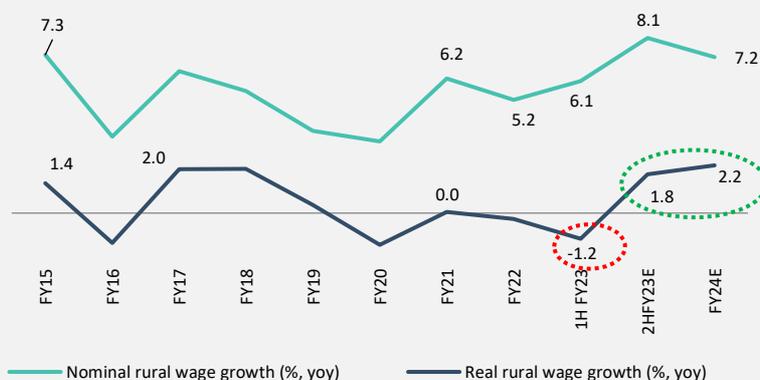
## Here are a few highlights from the budget:

- Energy transmission:** The budget provided ~USD 5bn for priority capital investments toward energy transition, net zero objectives and energy security by the Ministry of Petroleum & Natural Gas.
- Make AI in India and Make AI work for India:** Three centers of excellence for artificial intelligence will be set up in top educational institutions. Leading industry firms will partner in conducting interdisciplinary research and develop cutting-edge applications and scalable problem solutions in agriculture, health, and sustainable cities.
- GOBARDHAN Scheme:** The scheme is established with the objective to promote a circular economy from energy aspects wherein the amount invested is ~USD 1.5bn. Meanwhile, a 5% compressed biogas mandate will be introduced for marketing natural and biogas (*clean and green energy initiative*)
- Indigenization of goods:** Custom duty has been raised on electronic goods by (~10%) to promote domestic manufacturing.
- Outlay of ~USD 2.5bn under green hydrogen mission to help energy transition and production of 5MMT by 2030.

**4QCY22 Earnings season underway:** Halfway into the earnings season, 52% of MSCI India Index (40 out of 113 stocks) have reported so far. Out of the 40 stocks that have reported, 31% beat while 51% missed street estimates. Profits grew 15% YoY so far, led by financials. The key monitorable for Indian companies will be sales volume growth from here on. Any contraction in volume growth expectation will lead to earnings downgrades as the growth shock factor is now on the cards.

**Rural economy in focus:** The rural market has faced difficulties in demand over the past year. Despite this, management remains optimistic about a rebound in the near future, given a normal monsoon season, favourable harvest, rising real wages in rural areas, and increased minimum support prices (*please see chart of the month*). Currently, the rural economy is struggling with the decision between buying staples and discretionary. However, an improvement in cash flow from the sale of Kharif crops suggests a slow but steady improvement in the rural economy.

## Chart of the Month: Rural economy showing early signs of recovery



Real Rural wages to turn positive on higher nominal rural wage and falling inflation.

This may further boost consumption across the rural segment. Rural economy consisting of ~70% of the country's population contributes ~30% to the GDP.

Chart Source: Spark Research, 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, EPS- Earnings per share, MMT- Million metric tonnes



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[India Rewind January 2023](#)

[India Rewind December 2022](#)

[India Rewind November 2022](#)

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## India at a Glance

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Economic Activity and Employment</b>								
GDP, USD bn	2295	2651	2701	2871	2668	3176	3391	3659
GDP per capita, USD	1767	2018	2036	2141	1969	2321	2453	2621
Real GDP growth, %	8.3	6.8	6.5	4.0	-6.6	8.7	6.9	5.5
<b>Prices, interest rates and money</b>								
CPI inflation, % y/y (average)	4.5	3.6	3.4	4.8	6.2	5.5	6.5	5.2
Repo rate, % (year-end)	6.25	6.0	6.25	4.4	4.0	4.0	6.50	6.00
10 year bond yield, % (year-end)	6.7	7.4	7.4	6.1	6.2	6.8	7.5	7.0
USDINR (year-end)	64.8	65.0	69.2	75.4	73.5	75.8	83.0	82.0
<b>Fiscal accounts</b>								
General government budget balance, % GDP	-7.0	-5.9	-5.9	-7.8	-13.9	-9.5	-9.4	-9.4
<b>Balance of payments</b>								
Trade balance, USD bn	-112	-160	-180	-158	-102	-189	-290	-278
Exports, USD bn	280	309	337	320	296	429	417	345
Imports, USD bn	393	469	518	478	398	619	707	623
Current account balance, USD bn	-14	-49	-57	-25	24	-39	-104	-83
Foreign direct investment (net), USD bn	35.6	30.3	30.7	43.0	44.0	38.6	39	42
Total FX reserves, USD bn	370	425	413	478	577	607	573	589
Total external debt, % GDP	20.5	20.0	20.1	19.5	21.4	19.1	16.9	16.1
<b>Credit ratings</b>								
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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