

# 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.

India's equity market has seen a much-needed correction after a long period of upward momentum. The MSCI India Index has pulled back by ~10% from its peak, while Mid and Small-cap indices have corrected by around ~8.5% and ~6%, respectively. This market dip has opened stock-specific opportunities, as about ~40% of the top 200 stocks are down over ~20%. In YTD24, MSCI India Index US\$ returned ~15.0% vs. MSCI EM ~9.4% and MSCI DM ~15.1%.

## The recent correction is driven by two main factors:

- 1. Foreign Institutional Investor (FII) Outflows:** India has experienced a significant outflow of ~\$11 billion from foreign investors over the past month (+\$0.6bn YTD). This marks the fastest pace of FII selling in India's history and ranks as the third-largest episode of FII selling in terms of absolute flow.
- 2. Weaker-than-Expected Earnings:** Earnings growth last quarter came in below expectations, with an average earnings surprise of ~-5%. Misses (~46% of companies) have outpaced beats (~35%), with notable disappointments across most domestic cyclical sectors. Companies with earnings misses have faced heavier penalties, with an average 1-day price correction of ~4%, compared to a ~3% price increase for companies that beat estimates. This is the largest correction for earnings misses in the last 7 quarters.

Among the 94 MSCI India companies that have reported so far (covering 73% of the MSCI index by market cap), earnings for Q2 FY25/3Q CY24 are tracking flat YoY, primarily due to weakness in the commodities sector. Excluding commodities, earnings are up by ~12% YoY. Overall, MSCI India earnings are expected to grow by about ~14% in FY24 and ~12% in FY25, after adjusting a ~3% earnings downgrade in FY25.

It is estimated that the top 200 domestic equity funds, with a combined AUM of ~\$244 billion, held around ~\$11 billion in cash. Domestic equity funds purchased approximately ~\$10 billion in equities during October, suggesting a reduction in cash levels and potentially less capacity to support a sell-off by foreign institutional investors (FIIs) in the near term.

Domestic inflows have remained resilient, with ~\$4 billion flowing into equity funds in September (~USD 53bn YTD), marking the fifth consecutive month of inflows exceeding ~\$4 billion. However, we believe the market has not yet fully priced in the potential extent of the slowdown, both from a macroeconomic and market perspective. While factors such as the extended monsoon season and slowdown of activities during elections may have contributed to the earnings misses, more fundamental issues are at play. Key drivers like topline growth are lacking, and margin expansion from last year remains elusive, a theme that emerged during earnings calls.

In this environment, high-quality companies with strong earnings visibility are likely to outperform those driven by narrative-based rallies. This could be a period of market consolidation, presenting an opportunity for selective allocation to Indian equities, especially since global allocations to India remain relatively low.

Insights from DSP's Annual Report analysis, [Nectar](#)- How Indian companies are expanding their business avenues and boosting revenue streams:

- A **leading vehicle financier** (NBFC) is diversifying beyond vehicle finance as its non-vehicle business outpaces growth. Vehicle finance's share of AUM has decreased from ~75% to ~58%, and disbursements have fallen from ~82% to ~55%. In contrast, the new business segment has surged from zero to around ~12% of AUM and from ~2% to ~23% of disbursements in just five years.
- A **leading fertilizer company** is harnessing its expertise in complex chemistries to produce novel molecules and launching a new Specialty Chemicals unit that transforms fertilizer by-products into innovative products. The company is also diving into agricultural and defense drones while investing in Agtech startups to develop autonomous robots for farming tasks. These initiatives are set to boost sustainability and efficiency in agriculture.
- One of the **leading cable and wires manufacturer** is strategically investing in long-term growth drivers to enhance sustainable operating leverage. Transitioning to a 'house of brands' allows the company to cater to diverse consumers and utilize premium advertising. Its omnichannel strategy expands modern retail and e-commerce, while the Rural Vistaar program boosts retail presence in smaller towns. The company focuses on nurturing talent and has formed a joint venture in the U.S. for air conditioners, exploring further international partnerships.
- One of the **cement manufacturers** plans to double its capacity over the next 5 to 7 years, targeting a market share increase from ~3% to ~10% by 2030. The company already boasts a strong presence in East, West, and South India and is strategically preparing to enter the North and Central Indian markets. To facilitate this expansion, it has acquired a limestone mine in Central India.

Please find the link for the full report: [Annual Report Nectar 2024](#)

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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## India at a Glance

|                                          | FY18 | FY19 | FY20 | FY21  | FY22 | FY23 | FY24   | FY25E  |
|------------------------------------------|------|------|------|-------|------|------|--------|--------|
| <b>Economic Activity and Employment</b>  |      |      |      |       |      |      |        |        |
| GDP, USD bn                              | 2651 | 2701 | 2871 | 2668  | 3176 | 3390 | 3568   | 3906   |
| GDP per capita, USD                      | 2018 | 2036 | 2141 | 1969  | 2321 | 2451 | 2554   | 2769   |
| Real GDP growth, %                       | 6.8  | 6.5  | 4.0  | -6.6  | 8.7  | 7.2  | 8.2    | 6.8    |
| <b>Prices, interest rates and money</b>  |      |      |      |       |      |      |        |        |
| CPI inflation, % y/y (average)           | 3.6  | 3.4  | 4.8  | 6.2   | 5.5  | 6.7  | 5.4    | 4.3    |
| Repo rate, % (year-end)                  | 6.0  | 6.25 | 4.4  | 4.0   | 4.0  | 6.50 | 6.50   | 6.25   |
| 10-year bond yield, % (year-end)         | 7.4  | 7.4  | 6.1  | 6.2   | 6.8  | 7.3  | 7.1    | 6.6    |
| USDINR (year-end)                        | 65.0 | 69.2 | 75.4 | 73.5  | 75.8 | 82.3 | 83.0   | 84.0   |
| <b>Fiscal accounts</b>                   |      |      |      |       |      |      |        |        |
| General government budget balance, % GDP | -5.9 | -5.9 | -7.8 | -13.9 | -9.5 | -9.4 | -8.5   | -7.9   |
| <b>Balance of payments</b>               |      |      |      |       |      |      |        |        |
| Trade balance, USD bn                    | -160 | -180 | -158 | -102  | -189 | -266 | -243.2 | -272.5 |
| Exports, USD bn                          | 309  | 337  | 320  | 296   | 429  | 456  | 440.2  | 449.7  |
| Imports, USD bn                          | 469  | 518  | 478  | 398   | 619  | 720  | 683    | 722    |
| Current account balance, USD bn          | -49  | -57  | -25  | 24    | -39  | -67  | -25    | -46    |
| Foreign direct investment (net), USD bn  | 30.3 | 30.7 | 43.0 | 44.0  | 38.6 | 35   | 18     | 15     |
| Total FX reserves, USD bn                | 425  | 413  | 478  | 577   | 607  | 578  | 646    | 674    |
| Total external debt, % GDP               | 20.0 | 20.1 | 19.5 | 21.4  | 19.1 | 18   | 18.1   | 18.2   |
| <b>Credit ratings</b>                    |      |      |      |       |      |      |        |        |
| Moody's                                  | Baa2 | Baa2 | Baa2 | 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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