

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 strides forward towards growth and development, sustainability takes the lead, shaping a greener tomorrow where progress and planet thrive hand in hand. Standing as the world's 3rd largest energy consumer, India holds the 4th position globally in Renewable Energy Installed capacity. At COP26, the country announced an ambitious target of achieving 500 GW of non-fossil fuel-based energy by 2030, marking a significant commitment under the "Panchamrit" initiative. This monumental undertaking represents the world's largest expansion plan in renewable energy.

The govt. is intensifying its sustainability efforts with the Panchamrit initiative, aiming for net-zero emissions by 2070. Strategies include boosting renewable energy use, transitioning to sustainable energy sources faster, expanding nuclear energy, improving fuel efficiency through ethanol blending and EV promotion, and investing in green hydrogen production.

India is harnessing its grid to encourage energy transition by offering it free for renewables, resulting in a financial gain of USD 270 bn. This approach is aiding India in cutting the costs of Round-the-Clock Renewables and Green Hydrogen by ~22% and ~30% respectively. The country's energy transition is expected to create a transmission capex opportunity exceeding ~USD 524 bn, which accounts for nearly one-third of the total transition capex. The projected total capital expenditure across utility-scale, corporate decarbonization, and green hydrogen segments is estimated to reach ~USD1.7tn from FY24 to 2050E.

Here are the key initiatives the government plans to implement towards sustainability:

- **Increasing non-fossil fuel capacity:** Currently ~44% of electricity generation is from non-fossil fuel sources, focus to increase the non-fossil fuel sources to achieve net zero emissions by 2070.
- **Increasing ethanol mix for dual benefits:** Further increase ethanol blending in petrol from ~12%FY23 to ~20%FY26E to mitigate environmental degradation while providing additional income to farmers.
- **Developing Battery Energy Storage Systems (BESS) infrastructure:** The govt. plans to boost private investment in large-scale BESS infrastructure for renewable energy integration, grid stability, and a sustainable energy future.
- **Increasing Green Hydrogen production capacity:** With a strong emphasis on green hydrogen, the government intends to invest in expanding production, advancing technologies, and positioning itself as a leading green hydrogen production hub.
- **Global manufacturing hub in Renewable Energy:** The govt. plans to establish a Center of Excellence for clean energy tech and position the country as a global hub for manufacturing green energy, alongside scaling up bio-energy facilities from diverse waste sources.
- **Improving air quality:** The govt. launched the National Clean Air Program to curb air pollution in 131 cities and is committed towards maintaining annual air quality standards nationwide, particularly targeting 60 cities to achieve national air quality.

Valuation and Earnings: India's market capitalization has surged to ~USD 4.6tn, marking a remarkable increase of ~USD 3tn since the lows of the COVID-19 pandemic. Over 20 years, India's market cap compounds at ~15% versus the global average of ~6.5% in USD, a remarkable feat considering the US consistently dominates with over ~40% of the world market cap.

In YTD 24, MSCI India Index US\$ returned ~8.4% vs. MSCI EM ~2.2% and MSCI DM ~4.3%. MSCI India ~22.6, 2YF is now trading at ~1.8SD above its long-term averages. FIIs has been net buyers of ~US\$0.04bn YTD 24, have sold the most in financials (\$4bn YTD), while they have net bought domestic cyclical sectors like discretionary, industrials and properties. Most of the EM funds EM/Asia overweight allocations are low vs. history and global funds are still underweight on India. In YTD24, Asian markets have seen ~US\$10bn retail outflows while Indian markets have seen inflow of ~USD18bn. Monthly SIPs hit fresh highs ~USD 2.3bn in India, suggesting the preferred form of investment for India's retail.

As earnings season begin, ~27 MSCI India companies have reported results, with 9 beating expectations, 12 missing, and 6 meeting forecasts. Expectations for 4QFY24 / 1QCY24 MSCI India earnings growth hover around 11% YoY, while full-year CY24 growth by ~15-16%. Meanwhile, India's parliamentary elections for 2024 commenced two weeks ago, spanning 7 phases over 6 weeks until June 1st, with results to be announced on June 4th. Stay tuned as we provide you with the latest updates from the ground.

Chart of the Month: Transmission capex and Ethanol Blending a big opportunity in the medium term

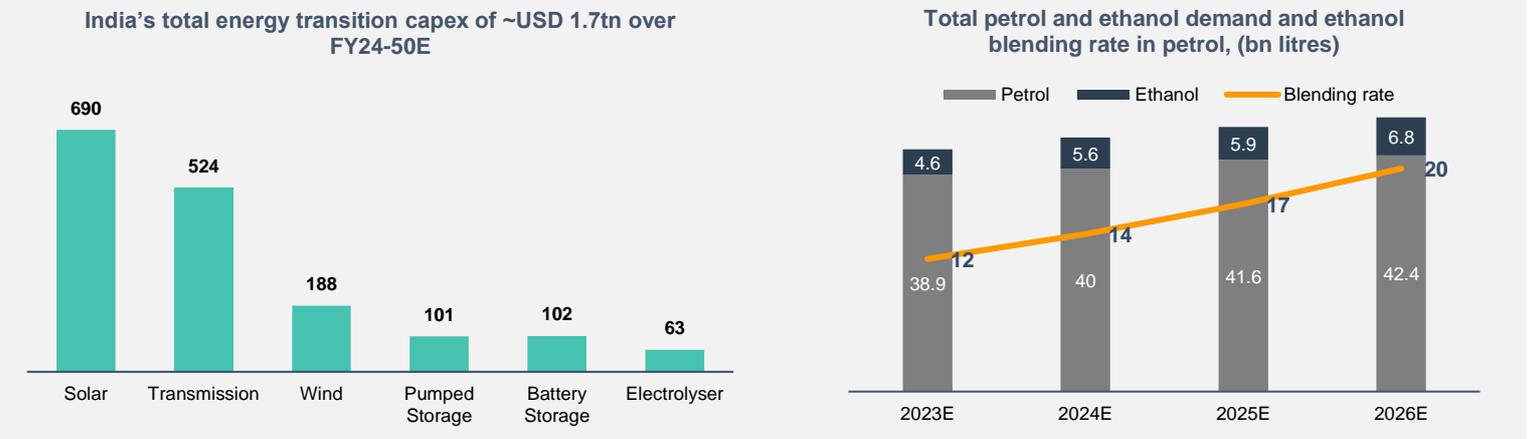


Chart Source: Goldman, Kotak Research. Info Sources: Internal, Bloomberg, UBS Research, Goldman Sachs, FII - Foreign Institutional Investor, DII- Domestic Institutional Investor, FY - Financial Year, CY – Calendar Year; YoY is Year over Year, YTD- Year to date, EM- Emerging Markets, DM- Developed Markets



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India at a Glance

	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Economic Activity and Employment								
GDP, USD bn	2651	2701	2871	2668	3176	3390	3550	3950
GDP per capita, USD	2018	2036	2141	1969	2321	2451	2542	2800
Real GDP growth, %	6.8	6.5	4.0	-6.6	8.7	7.2	7.6	7.0
Prices, interest rates and money								
CPI inflation, % y/y (average)	3.6	3.4	4.8	6.2	5.5	6.7	5.4	4.5
Repo rate, % (year-end)	6.0	6.25	4.4	4.0	4.0	6.50	6.50	6.00
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	82.0
Fiscal accounts								
General government budget balance, % GDP	-5.9	-5.9	-7.8	-13.9	-9.5	-9.4	-8.9	-8.1
Balance of payments								
Trade balance, USD bn	-160	-180	-158	-102	-189	-266	-249.9	-287.6
Exports, USD bn	309	337	320	296	429	456	428.5	432.1
Imports, USD bn	469	518	478	398	619	720	678	720
Current account balance, USD bn	-49	-57	-25	24	-39	-67	-25	-50
Foreign direct investment (net), USD bn	30.3	30.7	43.0	44.0	38.6	35	18	25
Total FX reserves, USD bn	425	413	478	577	607	578	646	643
Total external debt, % GDP	20.0	20.1	19.5	21.4	19.1	18	18.1	17.8
Credit ratings								
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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