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INDIA REWIND

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 Indian markets have remained busy with now the average equity market turnover at~15bn now, which was ~8-9bn a couple of months back. **India market turnover is now more than Hong Kong (Hang Sang Index) which has been in the range of $11.5bn**. FIIs have sold ~US3.1bn while DIIs have bought ~US$6.2 bn in YTD23. Inflows into domestic equity mutual funds touched US$2bn (new highs) in Feb. The sticky bids from the retail flows have helped to offset the risk off moves during bout of foreign selling. This has resulted in **annual realized volatility of NIFTY being just ~10% in CY23**, which is the **second lowest annual volatility in the past 3 decades**. NIFTY has also posted fewer >1% down days than most other markets in the region over past 1 and 3 years. In YTD24, MSCI India Index US$ returned ~5.1% vs. MSCI EM ~(0.3%) and MSCI DM ~5.3%. MSCI India ~19x, 2YF is now trading at ~1.2SD above MSCI EM and DM, slightly above its long-term averages. **In Q3 FY24, India's real GDP growth surpassed expectations at 8.4% YoY.** This growth was led mainly by a sharp ~32% YoY rise in net tax growth. There has been a decline in the agricultural activity and moderation in the payment of existing subsidies in the last quarter while service growth has been steady. Overall, the trend is positive for the economy maintaining a positive momentum in business activities across the country.

Fresh off the press, sector update from our analyst team following the recent earnings season:

- **Banks:** Loan growth has remained steady, margin decline is less than expected, and asset quality is improving, especially among public sector banks. Private banks may need to adjust loan growth based on deposit growth, and CASA deposits may face continued pressure in the near term.
- **Auto:** Positive YoY volume growth observed across 2W, 3W, PV, and CV segments, supported by increased realizations through premiumization and improved net pricing. Margin performance bolstered by enhanced realizations/mix and commodity price easing. However, a key risk is the subdued outlook for the Domestic CV and Global HCV cycles for FY25.
- **Consumer Durables:** Despite Q3 being an off-season period, AC sales showed resilience driven by high temperatures and festivals, amid competition. Margins improved from lower commodity costs and premium product sales, but EBITDA margins faced pressure due to scale limitations. Overall, consumer durables demand stayed moderately weak due to low consumer spending, with some positive indicators emerging.
- **Consumer Staples:** Most consumer companies experienced margin expansion because of the cooling off key raw material prices. Distribution expansion has led to increased market penetration. However, rural areas continue to lag behind urban areas due to local competition in specific mass categories. Overall sector volume growth remained in the low to mid-single digits.
- **Information Technology:** Q3 was seasonally weak quarter due to furloughs. Deal wins remains decent for most the companies with improving commentary. Utilization has improved for the IT companies. Attrition continues to moderate. Clients remain cautious due to macro uncertainty causing delay in execution of deals. Sharp INR appreciation against USD and other currencies poses a significant risk to financials.
- **Pharma and Healthcare:** India's growth surpasses expectations, driven by field force expansion. Improved margins stem from softer input costs and reduced freight expenses. US price erosion remains low to mid-single digit, benefiting from drug shortages. Indian firms focus on complex molecules but face logistical disruptions risking higher costs and delayed shipments.
- **Engineering and capital goods:** Public capital expenditure-driven sectors like power generation, transmission, railways, and defence continue to show strong growth. Factors such as efficiency improvements, higher capacity utilization, better product mix, and easing commodity prices have sustained operating profit margins.
- **Specialty Chemicals:** Chemical players are expected to see a marginal recovery in earnings from Q4FY24 onwards as inventory destocking nears completion. The aggressive dumping of key raw materials by China seems to be tapering off, stabilizing intermediate prices. However, risks remain from higher capacity and weak demand in China, potentially impacting margins through aggressive pricing and dumping.

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, 2YF- Two Year Forward. PP- Percentage point, GVA; Gross value added, GDP; Gross domestic product

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For past Issues, please see below:
India Rewind February 2024
India Rewind January 2024
India Rewind December 2023
Older Issues

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

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India at a Glance

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E
Economic Activity and Employment								
GDP, USD bn	2295	2651	2701	2871	2668	3176	3390	3572
GDP per capita, USD	1767	2018	2036	2141	1969	2321	2451	2557
Real GDP growth, %	8.3	6.8	6.5	4.0	-6.6	8.7	7.2	6.7
Prices, interest rates and money								
CPI inflation, % y/y (average)	4.5	3.6	3.4	4.8	6.2	5.5	6.7	5.5
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	7.3	7.2
USDINR (year-end)	64.8	65.0	69.2	75.4	73.5	75.8	82.3	84.0
Fiscal accounts								
General government budget balance, % GDP	-7.0	-5.9	-5.9	-7.8	-13.9	-9.5	-9.4	-9.0
Balance of payments								
Trade balance, USD bn	-112	-160	-180	-158	-102	-189	-266	-274
Exports, USD bn	280	309	337	320	296	429	456	422
Imports, USD bn	393	469	518	478	398	619	720	695
Current account balance, USD bn	-14	-49	-57	-25	24	-39	-67	-53
Foreign direct investment (net), USD bn	35.6	30.3	30.7	43.0	44.0	38.6	35	15
Total FX reserves, USD bn	370	425	413	478	577	607	578	630
Total external debt, % GDP	20.5	20.0	20.1	19.5	21.4	19.1	18	17.9
Credit ratings								
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