

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.

Just when we thought Covid might be taking a backseat, a new variant is on the loose. Many investors have asked us about the impact of Omicron on India, so we thought to address it upfront. The govt. has reinforced the need to vaccinate the whole population and announced revised travel guidelines for international passengers (72 hour negative RTPCR test + 7 day home quarantine etc.). However, there are no cases of Omicron in India yet. Nearly 1.24bn vaccine doses have been administered, split as ~790m first dose and ~450m second dose. At the current pace of ~7m jabs a day, all adults (~940m) should be covered in ~3 months. It's not clear yet if the current vaccines will suffice for Omicron, and this data will probably emerge in the coming weeks. No booster shots have been given in India, but there is expectation of a policy around this to be announced shortly, starting with immuno-compromised patients. As such, the number of Covid cases in India remains controlled at ~8k a day, compared to the peak of ~440k. Mobility is almost back to pre-pandemic levels, and this is boosting the services economy, which in turn is reflected in the Sep'21-quarter GDP growth of 8.4% YoY (mainly driven by private consumption). Would international travel curbs impact tourism? Perhaps, but tourism is a small share of the economy (~1.1% of GDP in 2019).

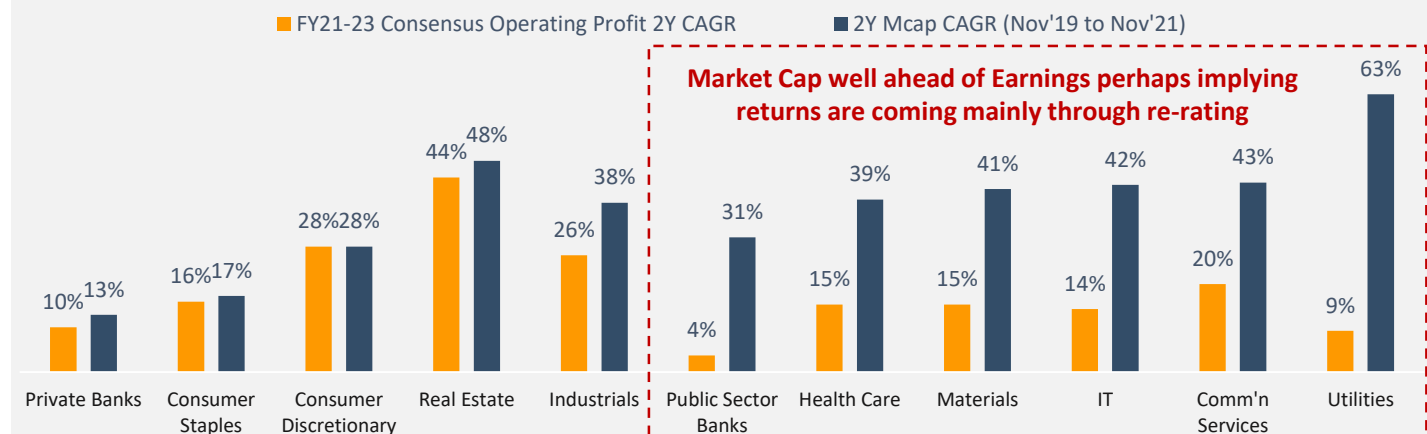
A correction, finally: Investors have been looking to add to India on a dip, but there just hasn't been one, until now. The MSCI India index is down ~6.8% (USD terms) from its recent peak, while the MSCI India Small Cap index is down ~9.3%. Last Friday's Omicron related (global) market correction led to a single day decline of ~3.5% and ~3.4% for these two indices respectively. Both indices have still performed very well CYTD21 though, up 20.7% and 43.5%. The recent correction in the Nifty 50 index, coupled with marginal earnings upgrades, means the 12-month forward PE has come off to 20.4x from the recent peak of 22.9x. Consensus estimates imply an EPS growth of ~37% and ~18% in FY22E and FY23E respectively. We undertook a sector-wise analysis of the top 200 companies, comparing their profit estimates to their price moves in order to identify pockets of excess valuations (please see *Chart of the Month* below). On flows, FPIs this year have preferred primary issuances (IPOs/QIPs). In Nov21/CYTD21, FPIs bought ~USD 3.7bn / 9.0bn in primaries but sold USD 4.0bn / 2.2bn in the secondary market. Domestic funds have held up well, with monthly systematic flows into MFs the strongest ever at USD 1.4bn.

Interesting result trends: Continuing from our earnings season write up last month, now that the results period is over:

- Metals:** We know commodities globally have done well. The largest Indian steel producer's stock price has rallied ~80% in the last year, driven by steel prices (+50%) in the same period. However, increased RM costs (coking coal, iron ore) impacted margins this quarter. Strong cash generation in the year has seen deleveraging: from 5.5x NetDebt/EBITDA to 2.2x now. The largest aluminium producer posted a 2Y EBITDA CAGR of 45% driven by realizations and cost control.
- Pharma:** Indian companies broadly cater to a) the domestic market and b) US (generics). The largest India formulations player reported a healthy 2Y CAGR of 13%. On the other hand, most companies selling US generics faced price erosion.
- Construction:** Improving road connectivity remains a key infra development priority for the govt., having allocated USD 24bn to this sector in the annual budget. A financially robust mid-cap player we track reported a 36% YoY rise in its order book, and its highest ever EBITDA margin of 22%.
- New age companies:** Many tech 'unicorns' saw bumper IPOs in the recent months. This quarter was their first post-listing reporting season. As is the case globally as well, valuations for such assets tend to be predicated on growth rather than profitability. A restaurant aggregator, an online beauty retailer and a fintech player saw top-line YoY growth of ~140%, ~47% and ~64% respectively. High marketing costs (*aka* cash burn) led to a fall in profits, or a swelling in losses.

India Rewind will be back with you next in the new year. Thank you for journeying with us in 2021, and we hope you found these quick reads useful. We wish you and your loved ones a wonderful festive season ahead and a very happy new year!

Chart of the Month: A comparison of 2Y Market Cap CAGR vs Forward Operating Profit CAGR for the BSE 200 companies. Gives us a sense of which sectors might be seeing valuation excesses.



Sources: Internal, Bloomberg, Elara, GS, Nomura; FPI is Foreign Portfolio Investor. FY is Financial Year, CYTD21 – Calendar Year to Date; FY21 is 12 months to 31st March 2021, YoY is Year over Year; 2Y - 2 Year; CAGR Compounded Annual Growth Rate; RM is Raw Materials; PE is Price to Earnings ratio; MF is Mutual Fund; IPO – Initial Public Offering; QIP – Qualified Institutional Placements



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India at a Glance

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Economic Activity and Employment								
GDP, USD bn	2104	2295	2651	2701	2871	2660	3068	3401
GDP per capita, USD	1640	1767	2018	2036	2141	1963	2240	2458
Real GDP growth, %	8.0	8.3	6.8	6.5	4.0	-7.3	9.5	7.7
Prices, interest rates and money								
CPI inflation, % y/y (average)	4.9	4.5	3.6	3.4	4.8	6.2	5.4	5.0
Repo rate, % (year-end)	6.75	6.25	6.00	6.25	4.40	4.00	4.00	4.50
10 year bond yield, % (year-end)	7.5	6.7	7.4	7.4	6.1	6.2	6.5	6.8
USDINR (year-end)	66.3	64.8	65.0	69.2	75.4	73.5	74.0	76.0
Fiscal accounts								
General government budget balance, % GDP	-6.9	-7.0	-5.9	-5.9	-7.8	-13.4	-10.1	-8.8
Balance of payments								
Trade balance, USD bn	-130	-112	-160	-180	-158	-102	-181	-204
Exports, USD bn	266	280	309	337	320	296	397	406
Imports, USD bn	396	393	469	518	478	398	578	610
Current account balance, USD bn	-22	-14	-49	-57	-25	24	-38	-63
Foreign direct investment (net), USD bn	36.0	35.6	30.3	30.7	43.0	44.0	38.4	44.8
Total FX reserves, USD bn	360	370	425	413	478	577	651	671
Total external debt, % GDP	23.1	20.5	20.0	20.1	19.5	21.4	20.8	20.5
Credit ratings								
Moody's	Baa3	Baa3	Baa2	Baa2	Baa2	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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