

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.

The Indian government unveiled its budget last month, marking the first under NDA 1.0/PM Modi 3.0. Expectations centered on sustaining focus on infrastructure, stimulating consumption, and achieving fiscal consolidation. The budget largely meets these expectations, albeit with slight disappointment regarding the increase in capital gains taxation.

- **Fiscal consolidation:** In its first budget of the new term, the government set key macro-prudential goals: a) reducing the fiscal deficit to 4.9% of GDP in FY25 from 5.6% in FY24, and b) aiming for a deficit below 4.5% of GDP by FY26, with targets to lower public debt relative to GDP.
- **Retaining capex targets:** Despite fiscal consolidation, the government kept the capex target at 3.4% of GDP (+17% YoY) and plans further fiscal consolidation using additional RBI dividends. The remainder and extra tax revenue will increase current spending (excluding interest and subsidies) by 0.2% of GDP.
- **Focusing on Jobs:** The budget offered fiscal incentives to boost job creation in manufacturing and provided credit support for MSMEs, though their impact on private sector hiring is yet to be seen.
- **Commitment to Reforms:** The budget pledged to create a policy framework for long-term economic development and factor market reforms in collaboration with state governments. It also proposed reducing the corporate tax rate for foreign investors from 40% to 35% to attract production facilities to India.
- **Abolition of Angel Tax** (any amount received by a privately held company against sale of its shares at a price higher than its fair market value).
- **The govt raised capital gains tax rates**, increasing long-term gains from 10% to 12.5% and short-term gains from 15% to 20%. Although this move has not been welcomed by investors, its long-term impact is expected to be limited.
- The govt. also aims to create an "**Economic Policy Framework**" for next-generation reforms, focusing on enhancing productivity (land, labour, capital, and entrepreneurship) and market efficiency in collaboration with state governments.

Earnings and Valuation: ~75% of the MSCI India index companies have reported earnings for 1QFY25 / 2QCY24, showing a ~6% YoY growth, surpassing the ~3% street expectation. Earnings results are largely in line, with ~43% of companies beating expectations, ~35% missing, and ~22% in line. The average EPS surprise is +3%, with strong positive surprises in utilities, energy, financials, and select domestic cyclicals. Revenue and margin beats are outpacing misses. MSCI India index earnings are expected to grow by ~14-16% for CY24.

In the YTD24, the MSCI India Index has returned ~20.9%, compared to MSCI EM ~6.0% and MSCI DM ~ 12.7%. The MSCI India Index is currently trading at ~2SD above its long-term average. While this suggests that the Indian market is relatively expensive compared to its historical averages, it is worth examining sector-specific valuations and the overall sectoral landscape (*please see chart of the month*). Importantly, underlying earnings remain the primary driver of equity performance over the long term. The 20% gain in Indian markets in 2023 was driven entirely by earnings growth, with no contribution from multiple expansions.

Chart of the Month: Nifty 50's 5-Year Earnings Growth Aligned with Market Performance

Sector	PAT CAGR(%)	Market Cap CAGR(%)	Valuation
	FY19-24	FY19-24	
Telecom	-	40	High
Logistics	15	30	High
Capital Goods	9	22	High
Metals	8	20	High
Utilities	9	20	High
Technology	7	15	High
BFSI	36	15	Low

Sector	PAT CAGR(%)	Market Cap CAGR(%)	Valuation
	FY19-24	FY19-24	
Retail	20	27	Moderate
Healthcare	21	24	Moderate
Automobiles	24	22	Moderate
Cement	14	21	Moderate
Oil & Gas	13	17	Moderate
Consumer	13	11	Moderate
Nifty 50	18	17	Moderate

Chart Source: Motilal Oswal. Info Sources: Goldman Sachs Research, UBS, Morgan Stanley. 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.



Souvik Saha
Senior Manager,
Investment Strategist



Jay Kothari
Senior Vice President,
Lead Investment Strategist

For past Issues, please see below:
[India Rewind July 2024](#)
[India Rewind June 2024](#)
[India Rewind May 2024](#)
[Older Issues](#)

India at a Glance

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E
Economic Activity and Employment								
GDP, USD bn	2651	2701	2871	2668	3176	3390	3568	3916
GDP per capita, USD	2018	2036	2141	1969	2321	2451	2554	2776
Real GDP growth, %	6.8	6.5	4.0	-6.6	8.7	7.2	8.2	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	4.3
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	83.0
Fiscal accounts								
General government budget balance, % GDP	-5.9	-5.9	-7.8	-13.9	-9.5	-9.4	-8.5	-7.9
Balance of payments								
Trade balance, USD bn	-160	-180	-158	-102	-189	-266	-243.2	-280.3
Exports, USD bn	309	337	320	296	429	456	440.2	463.1
Imports, USD bn	469	518	478	398	619	720	683	743
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

DISCLAIMER: This communication is issued by DSP Asset Managers Private Limited. In this material DSP Asset Managers Private Limited. (the AMC) has used information that is publicly available, including information developed in-house. Information gathered and used in this material is believed to be from reliable sources. The AMC however does not warrant the accuracy, reasonableness and / or completeness of any information. We have included statements / opinions / recommendations in this document, which contain words, or phrases such as "will", "expect", "should", "believe" and similar expressions or variations of such expressions that are "forward looking statements".

RISKS - Actual results may differ materially from those suggested by the forward looking statements due to risk or uncertainties associated with our expectations respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and / or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices etc. All figures and other data given in this document are dated and the same may or may not be relevant in future and the same should not be considered as solicitation/ recommendation/guarantee of future investments by the AMC or its affiliates.

All figures and other data given in this document are dated and the same may or may not be relevant in future and the same should not be considered as solicitation/ recommendation/guarantee of future investments by the AMC or its affiliates.

This communication contains information which refers to the past as well as information on future performance. **Neither past performance nor forecasts are a reliable indicator of future performance.**

This information and associated materials have been provided to you at your express request, and for your exclusive use. This information is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution would be unlawful under the securities laws of such jurisdiction or country. Any distribution, by whatever means, of this information and related material to persons other than those referred to above is strictly prohibited.

Distribution of this communication may be restricted in certain jurisdictions. Any product(s) mentioned within this communication (i) may not be registered for distribution in your jurisdiction, and (ii) may only be available to professional or otherwise qualified investors or entities. The information is for general guidance only, and it is the responsibility of any person or persons in possession of this material to inform themselves of, and to observe any such restrictions, all applicable laws and regulations of any relevant jurisdiction, including of any applicable legal requirements, exchange control regulations and taxes in the countries of their respective citizenship, residence or domicile.

Past performance may or may not be sustained in the future. There is no assurance of any capital protection/capital guarantee to the investors. The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any recommendation of the same. Investors are advised to consult their own legal, tax and financial advisors to determine possible tax, legal and other financial implication or consequence of investing into the investment strategies.