

# Early Warning & Signals Through Charts

September 2022



**The Boring Long Term Is Exciting!**

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# India Story – Slow, ‘In The Background’ Change. More Affluent Households

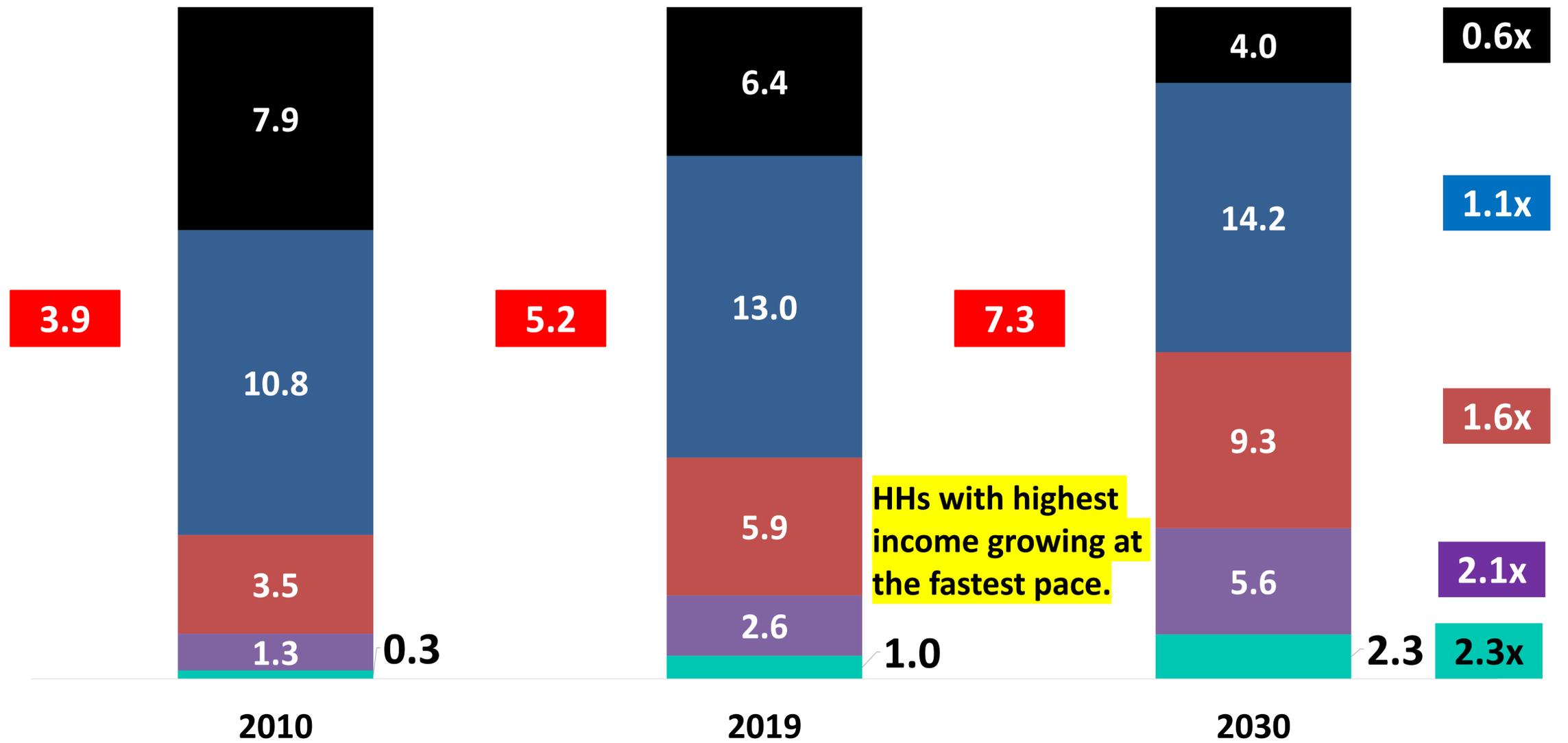
The number of Elite (household with annual income of more than 20 Lakh per annum) and Affluent (household income of between 10 to 20 Lakh per annum) are going to more than double between 2019 and 2030. They will number about 8 Cr by 2030. This will create a consumer market with more consumer than all of European Nations combined today.

These households along with a part of Aspirers need more cars, washing machines, ACs, Televisions, fast fashion and mobile phones.

This trend provides a steady backdrop to the India consumption story which will be supported by themes like PLI, growing Indian manufacturing prowess & entrepreneurship focused starts up. An offshoot opportunity is to manufacture what we consumer aka make in India, for India.

Numbers In Bars Represent The Number of Households (in Crores) By Category of Income (Lakh p.a.)

Growth Rates 2019 to 2030



■ Average Household Income (INR Lakh per annum)

- Elite (>20 Lakh p.a.)
- Affluent (10 to 20 p.a.)
- Aspirers (5 to 10 p.a.)
- Next Billion (1.5 to 5 p.a.)
- Strugglers (<1.5 Lakh / p.a.)

# The Surge In Discretion Spend Is A Consumption Driver

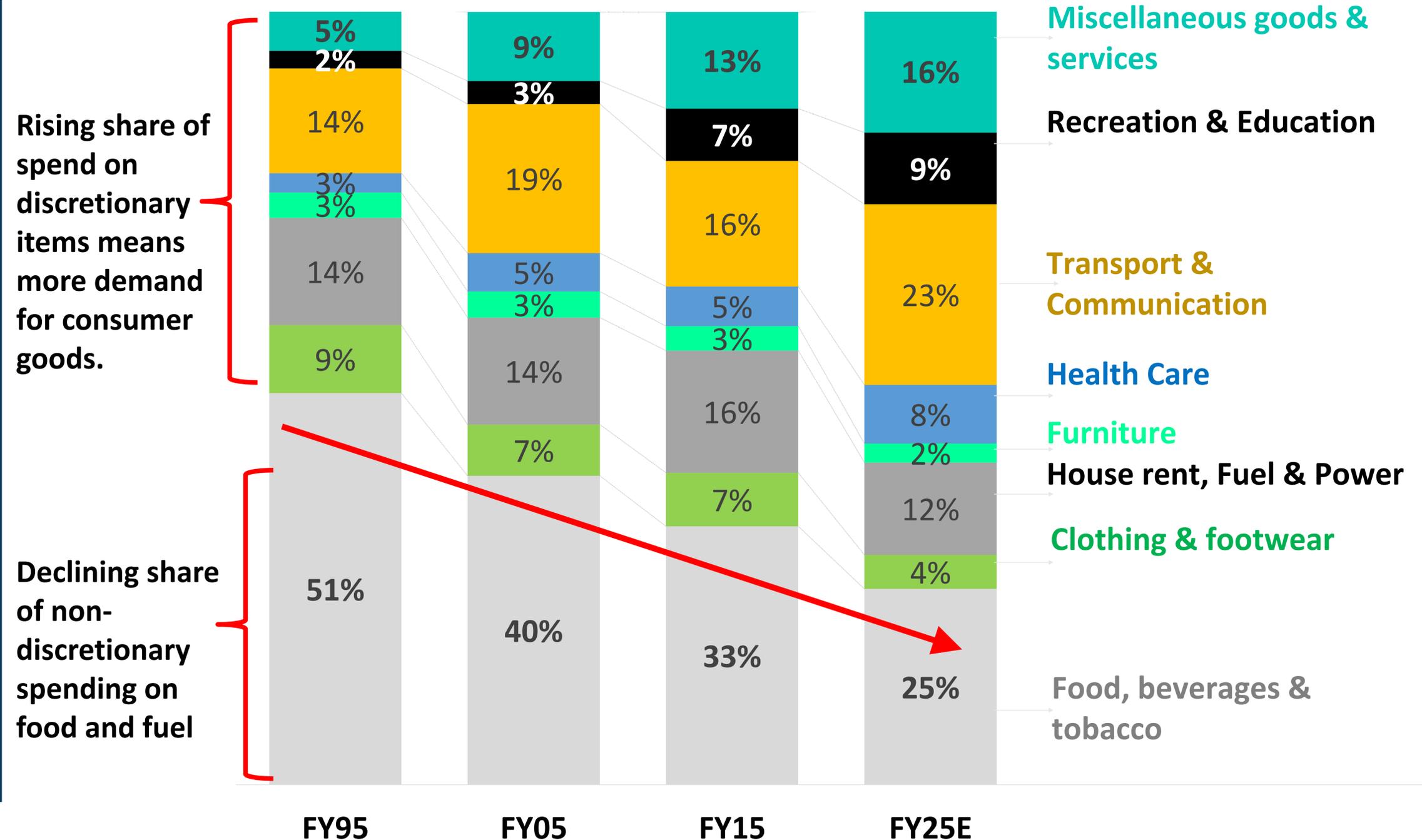
Not only the number of affluent and elite households are rising, the pattern of consumer spending is also changing.

When income levels are low and the populace focusses more on survival and the 'bare minimums', most of the income is spent on food and fuel. But as incomes rise the spend on discretionary items increases.

This increase in expenditure of more well-off households also goes towards premium products and services.

The long-term India consumption story is running on these twin engines. Rising share of households who can afford more ACs, Fridge, washing machines, television and other goods and the income breakup which can fulfill these aspirations.

Does your portfolio reflect these long-term trends?



# The Hardest Hit 'Travel' Sector Is Making A Comeback

Travel services has been an aspirational sector for India. With a vast geographical spread and with a variety of flora & fauna, India has long been seen as a tourism powerhouse in the making.

Over the last few years, the focus on cleanliness and urban infrastructure, India saw an increase in foreign tourist arrivals. However, COVID led disruptions crushed this trend. It has been more than two years and it is only recently that foreign tourist arrivals have begun to pick up in India.

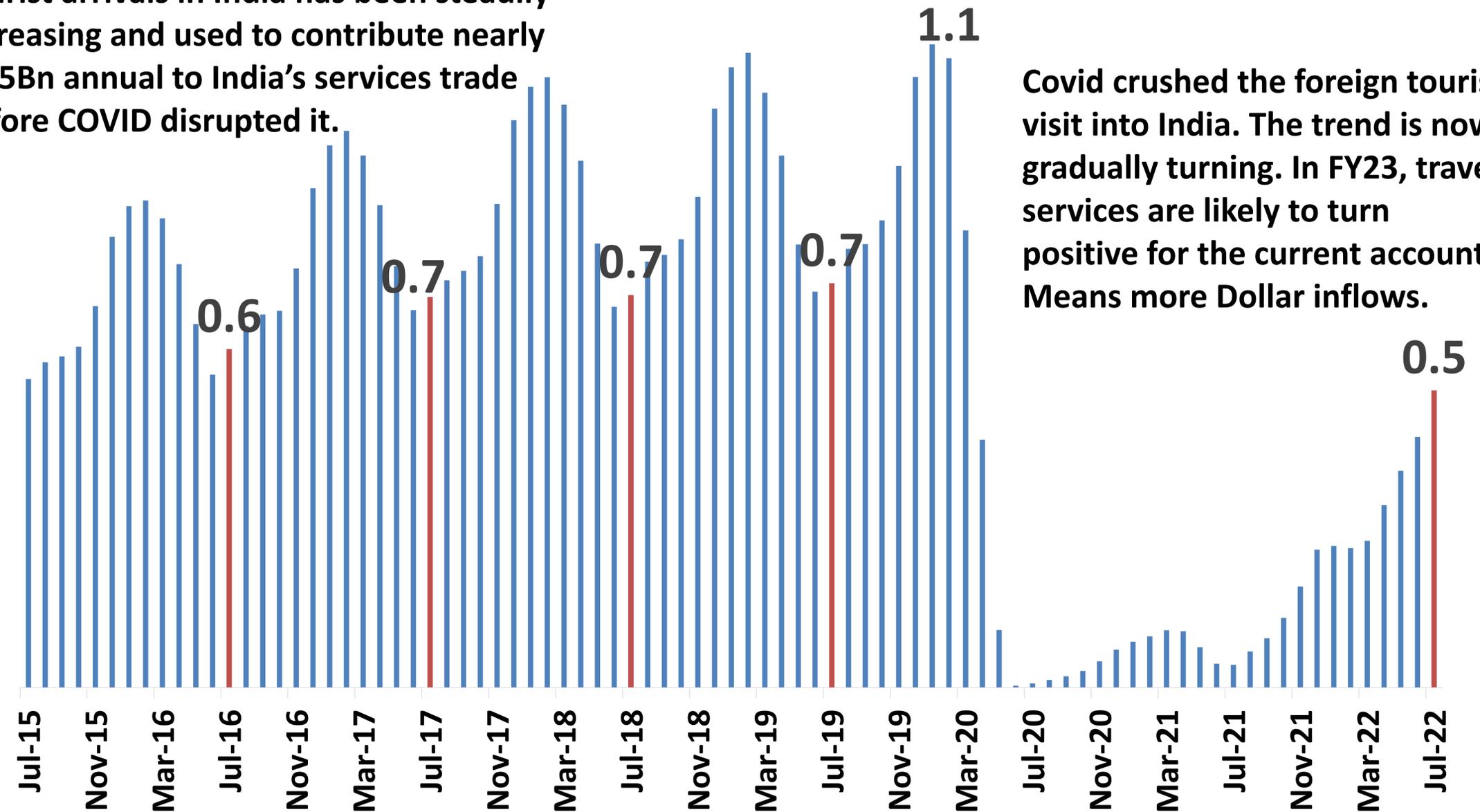
India domestic travel industry has seen a steady recovery. The foreign tourist arrivals will only strengthen this trend.

This will open further investment opportunities in hospitality, travel and food & beverage industry.

## India Monthly Foreign Tourist Arrivals (3 Month Avg in Million Persons)

**Tourist arrivals in India has been steadily increasing and used to contribute nearly \$6.5Bn annual to India's services trade before COVID disrupted it.**

**Covid crushed the foreign tourist visit into India. The trend is now gradually turning. In FY23, travel services are likely to turn positive for the current account. Means more Dollar inflows.**

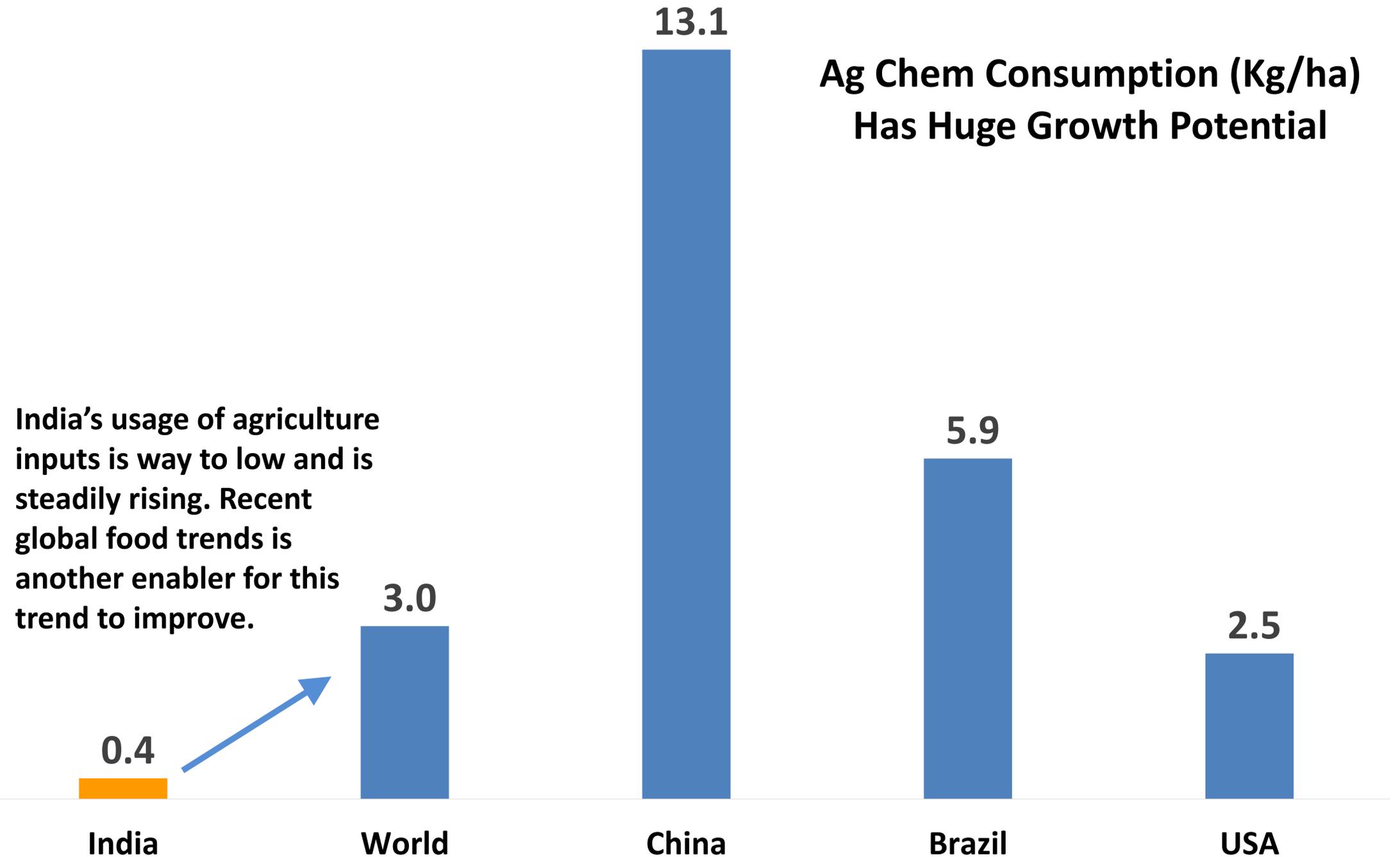


# Agri Inputs – A Sector With Huge Opportunity

India is the world's largest producer of milk, pulses and jute, and ranks as the second largest producer of rice, wheat, sugarcane, groundnut, vegetables, fruit and cotton. It is also one of the leading producers of spices, fish, poultry, livestock and plantation crops. But even after being the largest or the second largest producer it has very little to show in terms of usage of Agricultural inputs.

At a usage of less than 0.4Kg per Hectare India is less than 20% of the world average. This trend is steadily improving and presents steady long-term investment opportunities in industries like fertilizers, chemicals, agri infrastructure, farm equipment and logistics.

Most companies operating in these segments are mid to small companies and therefore require deep understanding of businesses and the sector itself. Is this part of your portfolio?

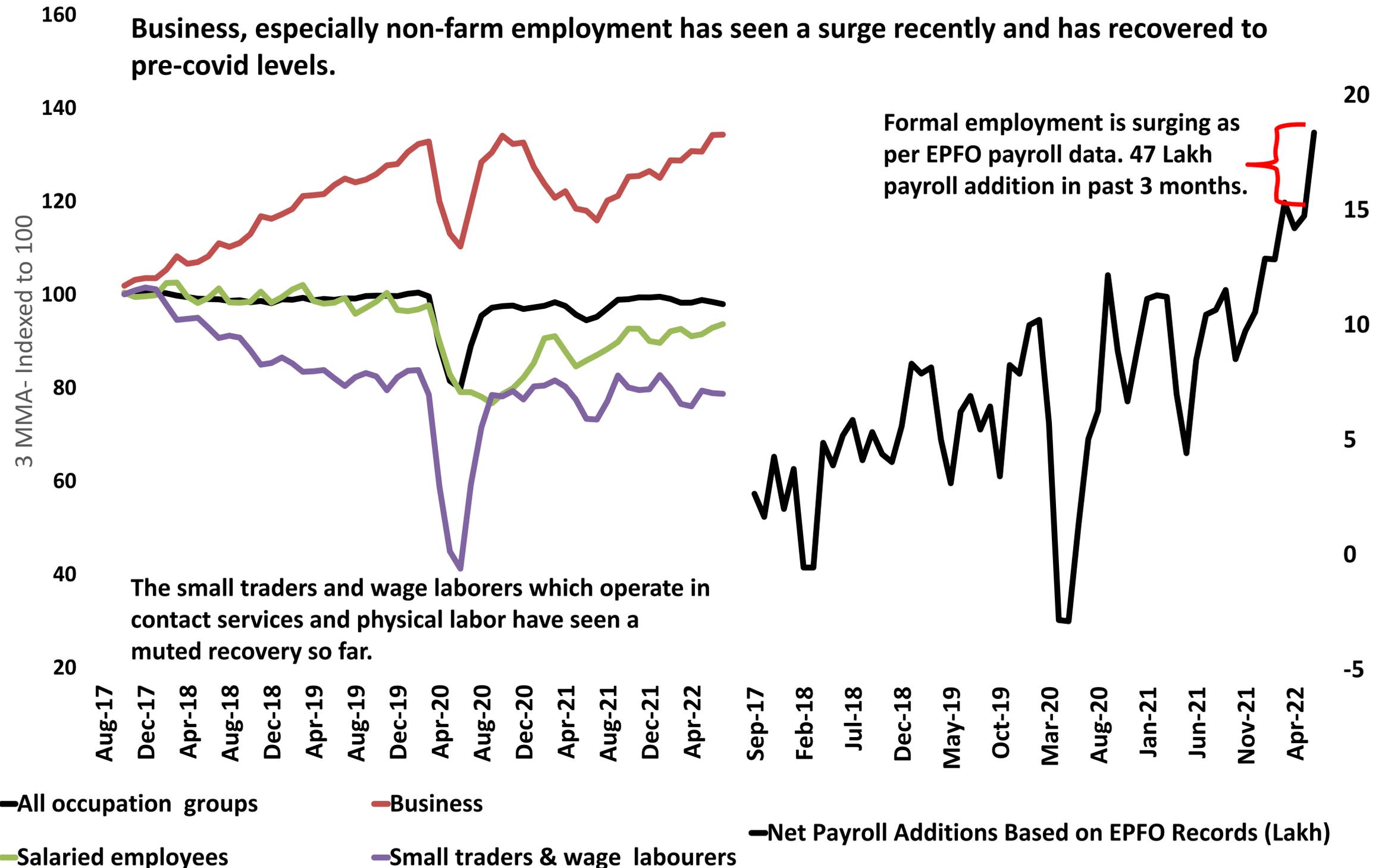


# An Uneven Employment Recovery So Far

While the unemployment levels have receded, the recovery is uneven-by age, by occupation and by regions. The underlying theme of covid era- making the strong going stronger is clearly visible in post-pandemic recovery. The employment of small traders and wage labourers, the true representative of the unorganised sector and bottom of the pyramid has been weak.

Salaried employment is below pre-pandemic levels, hinting that the vacant positions have not been filled, probably as the demand was expected to be weak. This is now making a comeback as witnessed in the strong recovery in EPFO data in last few months.

However, business employment has seen a surge and is back to pre-pandemic levels. An even recovery in employment is important for India's sustainable growth. A recovery here will strength India's consumption story.



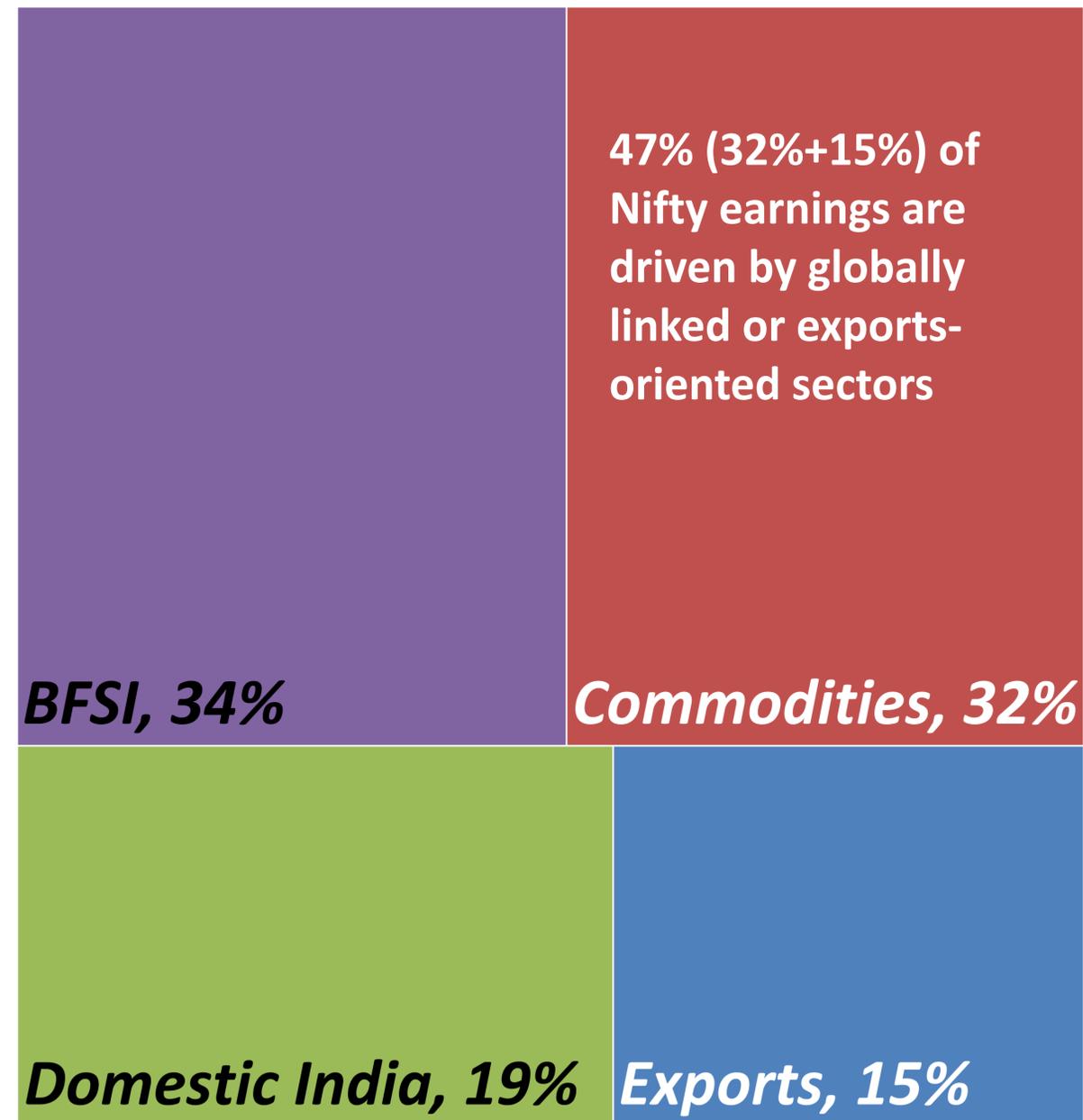
# An Earnings Churn: From Global Linked to Local Driven?

Nearly half, 47% to be precise, of Nifty profits come from sectors which are either exports oriented like IT, Pharma generics, auto exports or from those which are directly impact by global commodity prices like metals & Oil & Gas. Over the last two years due to a global stimulus and strong commodity prices, these sectors enjoyed huge profitability boost and a re-rating of their valuation multiples.

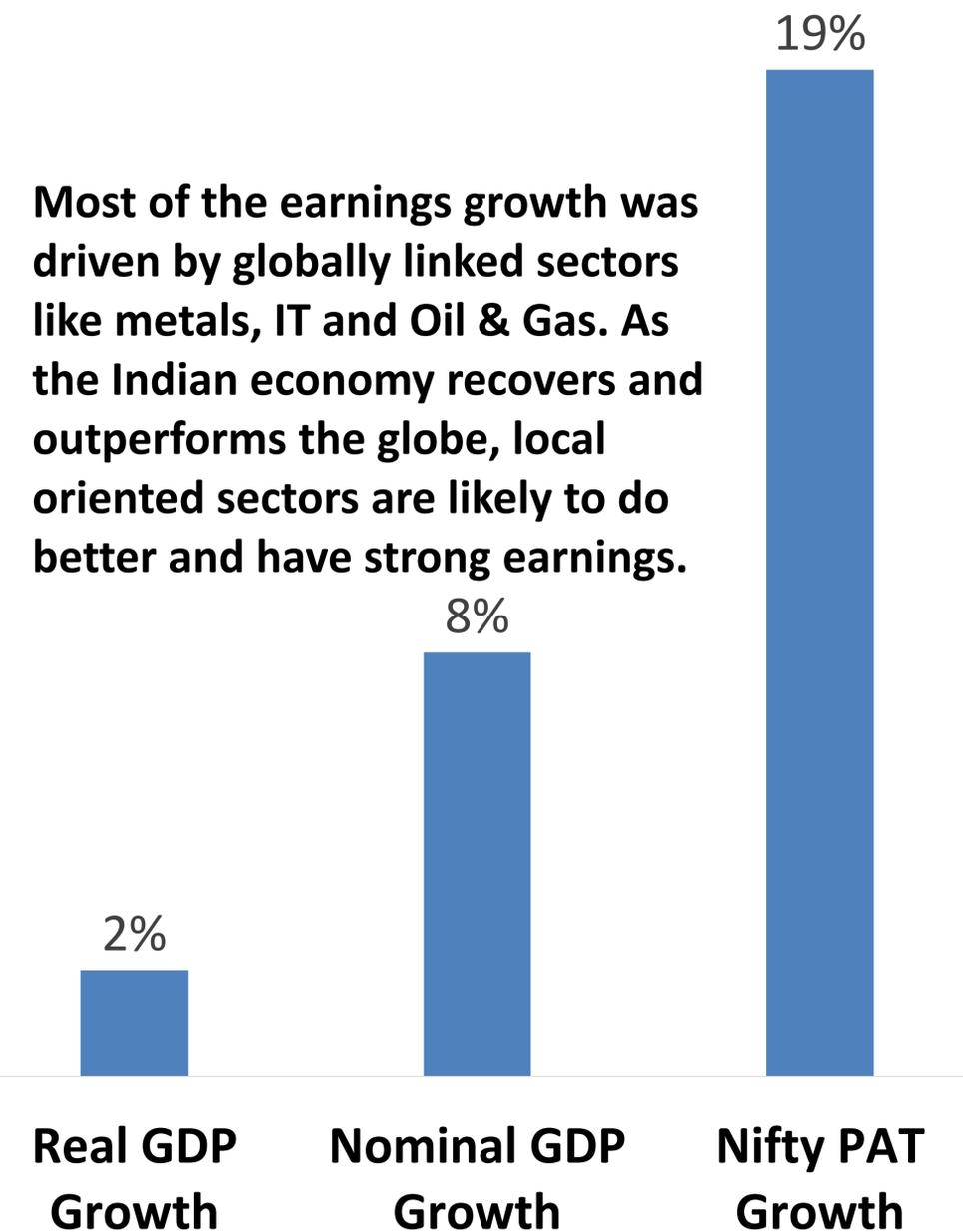
But as the Indian economy recovers and outperforms the globe, locally oriented sectors are likely to do better and have strong earnings.

With a focus on valuations it could be profitable to look at sectors which are witnessing a revival due to local economic recovery.

## Share In Nifty EPS for FY22



## FY19 to FY22 CAGR



# Lending Is Steady: Bucking The Past Trend

The Indian Banking Sector has been under stress for years. NPA recognition, post IL&FS risk aversion and economic slowdown has led to years to slow growth for lenders in India.

For the last few quarters banks have been enjoying healthy credit growth, strong balance sheets and improving asset quality.

But global issues have resurfaced, and a global economic slowdown looks imminent. In all past instances we have seen Indian banks credit growth slipping as global and Indian economy slows. In this cycle, however, we are yet to see banking credit growth slow. In fact this is for the first time that credit growth is improving even when global growth falters. We believe that credit growth in India may not slowdown significantly and lending may remain a strong investment case.

Do you own lenders?



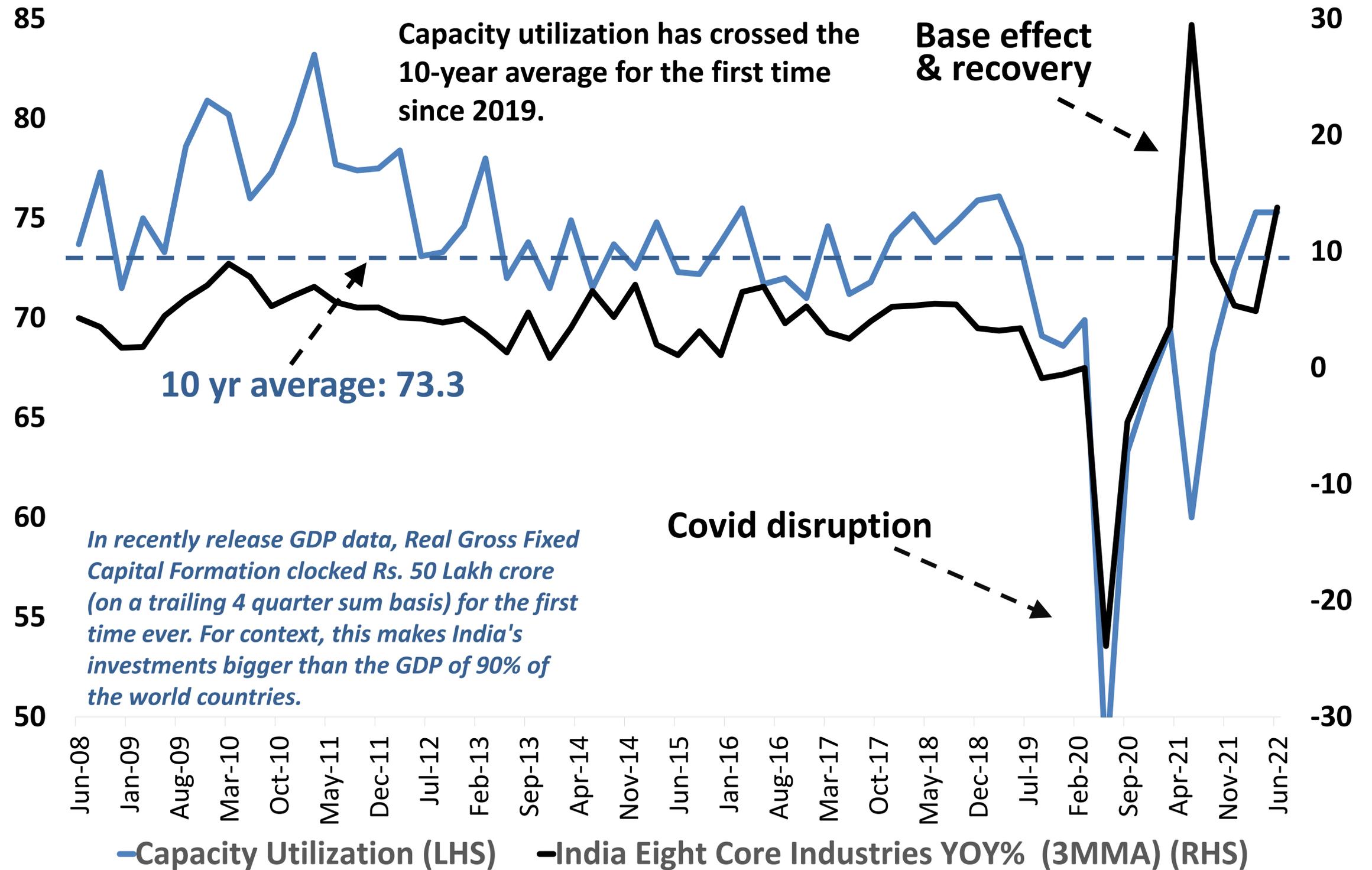
India's economy has never bucked the global trend. In most instances when the world slows, the Indian economy slows. But the data shows a divergent and resilient India growth trend, at least for banking credit.

# After Repeated False Alarms of Capex Revival, Utilization Levels Say Game On

“Capacity utilisation in the manufacturing sector is now above its long-run average, signalling the need for fresh investment activity in additional capacity creation”  
 -RBI Governor Shaktikanta Das in the last monetary policy statement

There has been an investment winter in India. In the last ten years India’s investments to GDP ratio has fallen from 36% to under 26% during the COVID crash. It is now witnessing a steady revival. Based on our reading of the high frequency data and evolving consumption trends, it is quite possible that capital expenditure recovery may very well be underway now. Over the next few years, the core sectors of the economy like infrastructure, industrial goods, gas distribution and construction may see a sound revival.

Do you own the Indian infra growth story?

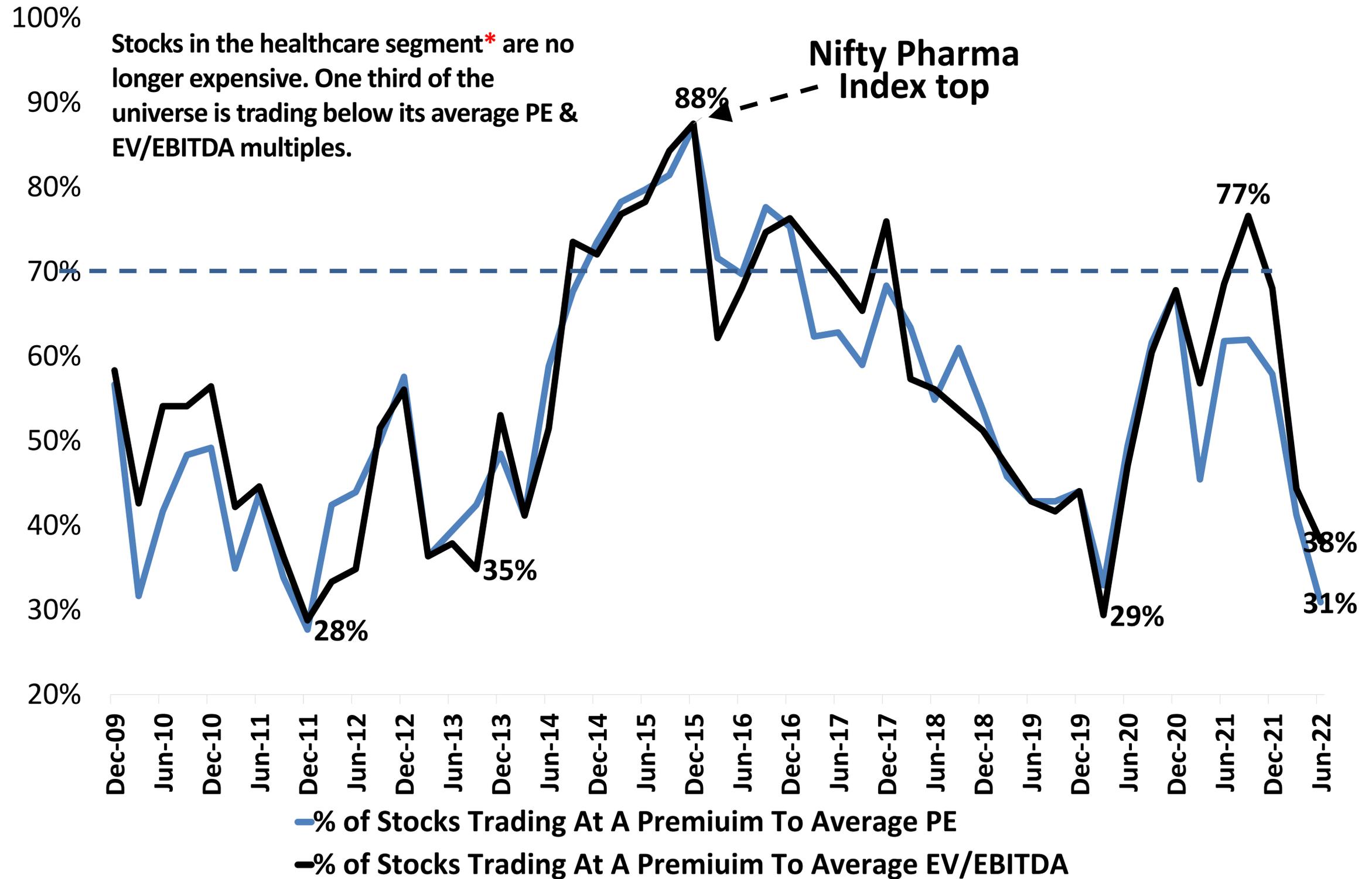


# Healthcare: From Pharma, Hospitals To Pathlabs, Stocks Are Not Expensive

A study of nearly 100 pharma, hospital, API & CDMO players and path labs indicate that stocks in the healthcare segment are no longer expensive. One third of the universe is trading below their past 13-year average Price to earnings and nearly similar number of companies are trading below their historical EV/EBITDA multiples.

Valuations are attractive and it is quite possible that this is an opportune time to scout for bottoms up opportunities in healthcare space with a time horizon of more than 3 years. Margin of safety is back.

What do you own in healthcare?

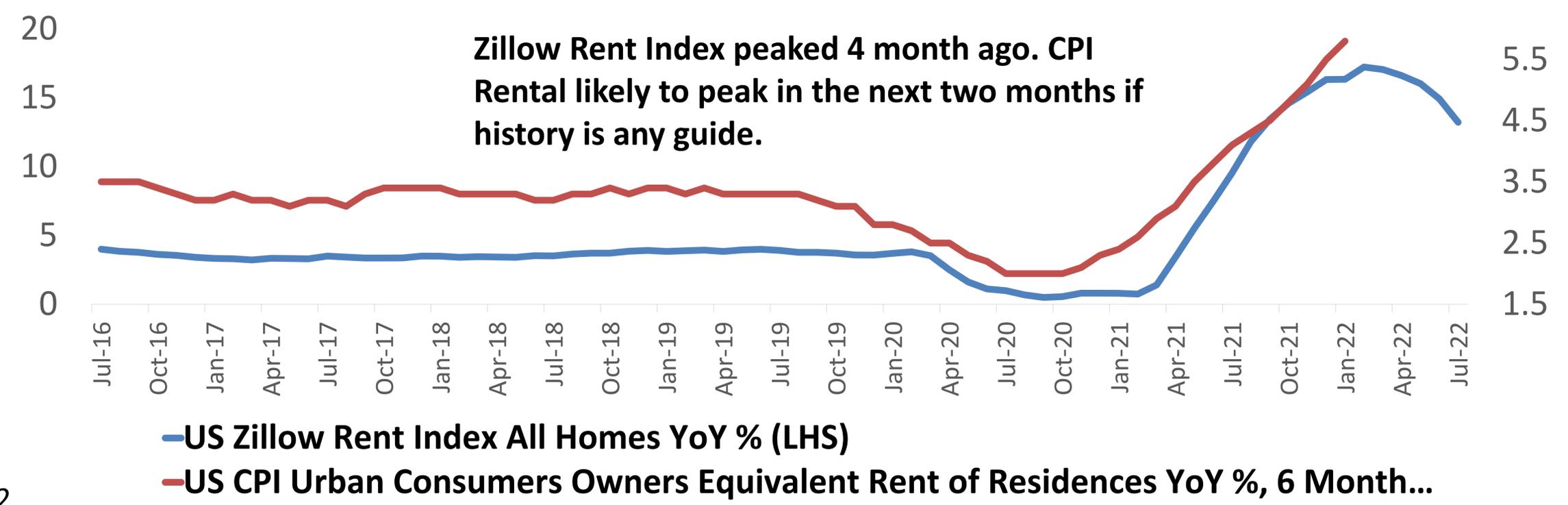
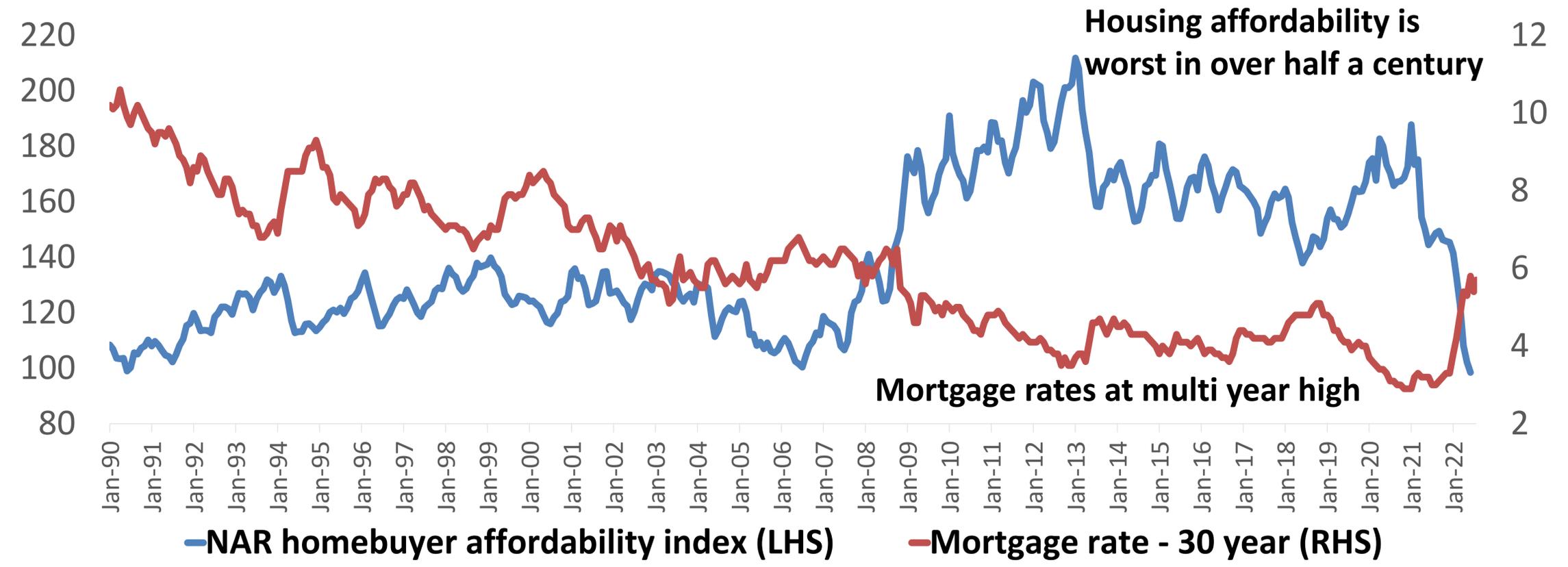


# US Inflation: More Evidence That Housing May Lead Inflation Lower

On 13<sup>th</sup> July 2022, US CPI data release showed inflation in US at 9.1% yoy. That has been the peak reading so far. Looking at various drivers of inflation, we wrote a report: [The Coming Collapse Of Inflation And How To Benefit From It](#)

The report argued that one of the drivers of inflation in US is the housing sector which contributes 42% to US CPI. In fact rentals market in US contributes as high as 32% of overall CPI.

Now, more evidence has emerged that US housing is likely to slow going ahead and rentals are already close to a peak. This makes it more and more likely that inflation in US is likely to ease in the next 6 months.

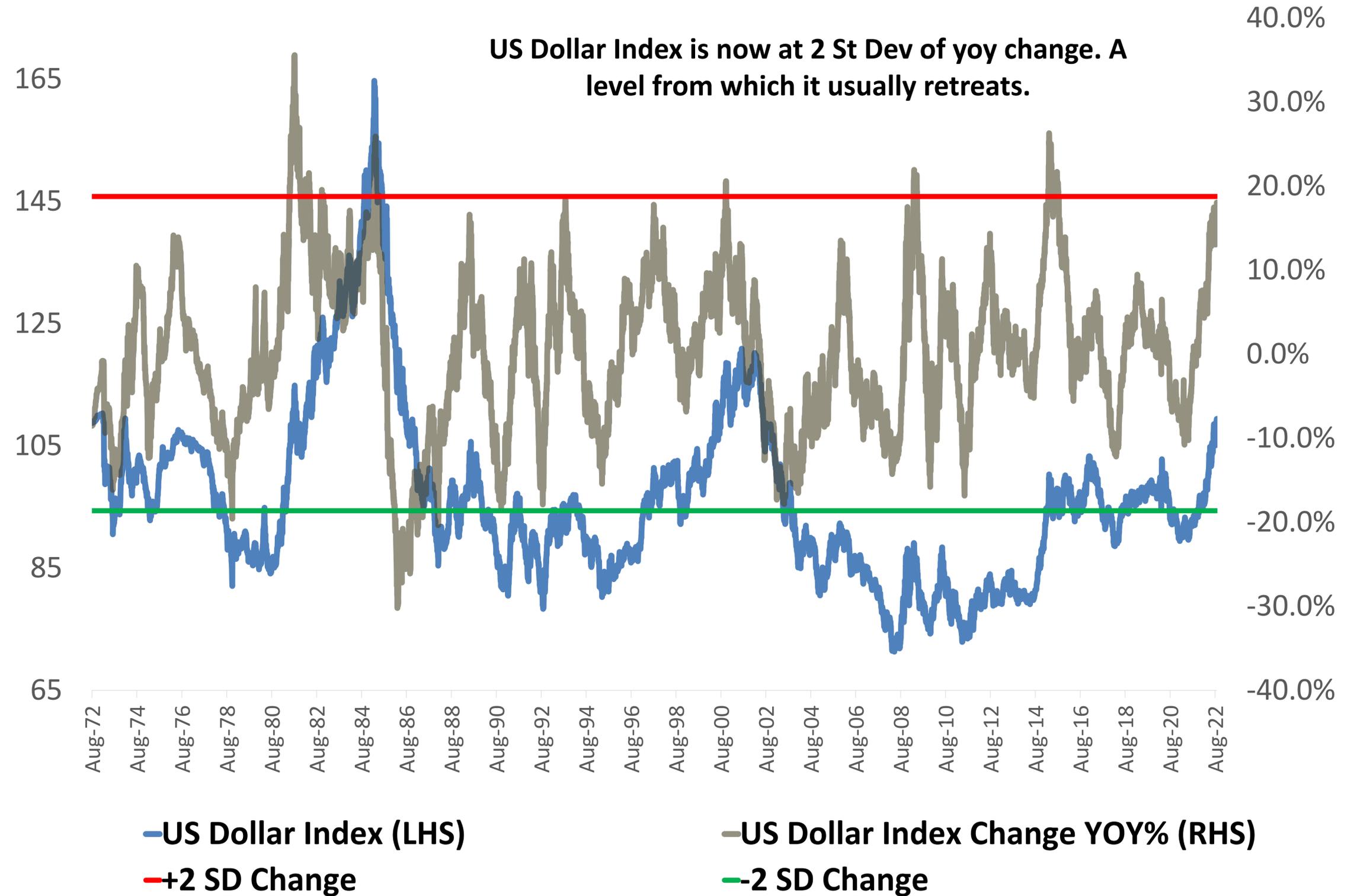


# US Dollar Index Above 109, But Is It Too Strong To Continue Its Uptrend?

US Dollar index has gained significantly as Euro, Japanese Yen and British Pound suffer policy mistake and economic mismanagement. This has rendered US Dollar an uncanny strength versus most currencies. We showed some data points in the last issue of NETRA which depicted that US Dollar rally lacks sound fundamental drivers.

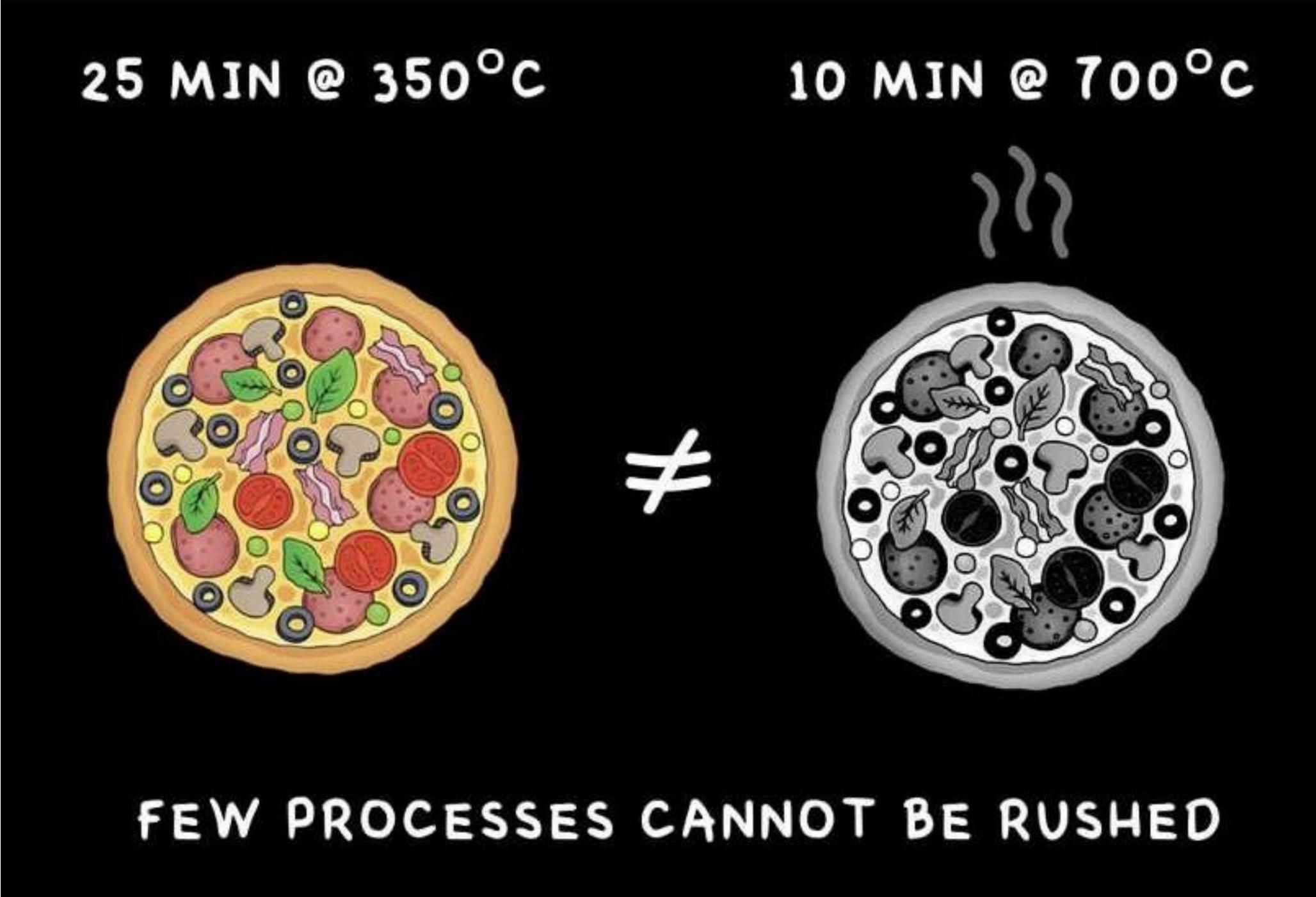
With the recent round of strength, the price range has also now approached levels at which US Dollar finds its tough to continue its ascent.

A Dollar top could be a significant event for emerging markets which have been grappling with FX outflows. It is quite possible that US Dollar weakness would be reflected in better flows into EMs. Keep track.



# Rivers Know This: There Is No Hurry.

**Think.  
Act.  
Wait.**



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