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.

In January 24, MSCI India Index US$ returned ~2.4% vs. MSCI EM ~ (4.7) % and MSCI DM ~1.1%. MSCI India ~20.0, 2YF is now trading at ~1.2SD above MSCI EM and DM, slightly above its long-term averages. FIIs have sold ~US$3.1bn last month while DIIs have bought ~US$3.3bn. Inflows into domestic equity mutual funds grew 28% in Jan to US$2.6bn. Inflows via Systematic Investment Plans (SIPs) rose to fresh highs at USD 2.3bn (+7% m/m), buoyed by strong growth in SIP accounts (+4% m/m), to 79mn. Most mandates received net inflows led by Mid and small-cap funds. Based on the recent ownership data, foreign ownership in Indian equities remains at historical lows at 18% while domestic mutual funds' share in Indian equities rose to fresh highs in December (<u>please see chart of the month</u>).

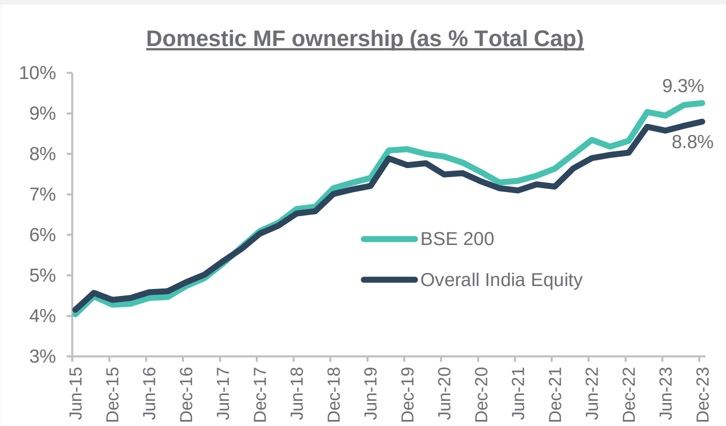
About 109 MSCI India cos. (90% of index cap) have reported their earnings so far. MSCI India's 3QFY24 earnings growth is healthy at 20% yoy, led by autos. Excluding Autos, profits are up 14% yoy. Average earnings are largely in line, but with sector divergence: Energy beat estimates but select domestic cyclicals (telcos, consumer retail/services, cement/chemicals) missed. Margin surprises continue to drive earnings, while very few (17%) companies surprised positively on the top line. Earning revisions for MSCI India has remained stable this season, with CY23 EPS growth tracking at 20% YoY.

The Indian government unveiled the interim budget last week, marking the onset of an election year. The full budget is scheduled for release in July after the elections. The government's persistent focus on growth remains a pivotal indicator for both present and forthcoming developments in India.

<u>Here are the key highlights from the Union Budget 2024:</u>

1. The budget is crafted with consideration for potential decreases in global fiscal expenditure this year and the expected tightening of global monetary policy. <u>The government anticipates a modest year-on-year increase of approximately 6.1% in total expenditure for FY25.</u>
2. **The year-on-year capex growth of ~17% appears robust**, especially considering the compound annual growth rate (CAGR) of 30.6% observed over the past three years. This surpasses our expectations and is a positive development.
3. The growth in non-capex expenditure was limited to ~3.2% year-on-year, driven by a ~4.7% compound annual growth rate (CAGR) over the last three years. This serves as a crucial source for fiscal consolidation.
4. **Based on the announced intent, anticipate sectors such as Power, including New Energy, Housing, Tourism, Healthcare, and Railways to maintain their favourability**. While allocations may shift in the full budget to be revealed in July 2024, fiscal consolidation mandates may restrict significant increases in spending from today's announcements. Leading up to the elections, the market will adjust to the new reality of reduced growth in government capital expenditure, as achieving a fiscal deficit target of below 4.5% for FY26 remains a priority for the government.
5. The government's revenue assumptions for FY24 and FY25 appear reasonable, projecting tax revenue growth of 12.5% and 11.5%, respectively. There exists a possibility of a slight positive surprise. The nominal GDP growth assumed at 10.5% for FY25 is considered somewhat conservative from our perspective.
6. Achieving the disinvestment target of US$6 billion for FY25 will necessitate substantial divestments.
7. No revisions have been made to direct taxes, likely due to the interim nature of the budget. The final budget is scheduled to be presented by the new government in July 2024.
8. Although minor adjustments may occur in July 2024, the overall macroeconomic figures are expected to remain largely stable until then.
9. The govt has done well to resist the temptation to be populist in a pre-election budget. This also reflects the govt's confidence in potential re-election.
10. The most pleasing words from the budget, "No changes in taxation". <u>It's a budget that focuses on the continuation of policy and doesn't introduce any surprises.</u>

<u>Chart of the Month: Dichotomy between Domestic and Foreign holdings on Indian Equity</u>



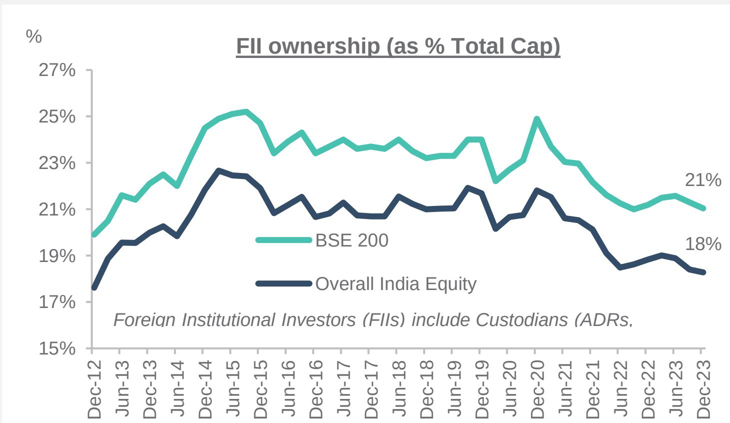


Chart Source: Goldman Sach Research, Info Sources: Internal, Bloomberg, UBS Research, Goldman Sachs, FII - Foreign Institutional Investor, DII- Domestic Institutional Investor, FY - Financial Year, CY – Calendar Year; YoY is Year over Year, YTD- Year to date, EM- Emerging Markets, DM- Developed Markets, 2YF- Two Year Forward. PP- Percentage point

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For past Issues, please see below:
India Rewind January 2024
India Rewind December 2023
India Rewind November 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	7.0
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