INDIA REWIND

DSP INVESTMENT 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.

Welcome 2023! The start of a new year is always a time to reflect on the past and set new objectives for the future. In a world where new catalysts are driving markets each day, the important factor to be considered for an investor is remaining true to label and stick with one's core principles and investment philosophy with the ability to view long-term trends. We believe investors should look for structural growth opportunities for long-term wealth creation and should absorb the short-term volatility.

India's relative valuation is certainly one of the concerns for global investors today. MSCI India's 12-month forward PE is now at ~21x, in line with the 5-year rolling average (*please see chart of the month*). On a relative basis, MSCI India is now trading at ~3SD above MSCI EM and World which is more driven by the underperformance of other markets. While valuations are extremely important in investing, looking for structural growth opportunities is another important aspect. That being said, we firmly believe that the India Story is only gaining momentum. India's structural turnaround journey further gets accelerated as i) manufacturing companies have de-leveraged, ii) increasing capacity utilization across manufacturing companies, iii) govt. focus on capital expenditure towards infrastructure and iv) a well-capitalized banking system.

Indian markets proved to be a clear winner in CY22 (MSCI India USD down ~8.7%). It was one of the best-performing markets relative to EMs and DMs (MSCI EM ~-22.4%, MSCI DM ~-19.5%). India also became the 5th largest market in the world by market cap. Within MSCI India, Utilities (~+22%) and Industrials (~+11%) were the best-performing sectors, while Real Estate (~-20%) and Information Technology (~-31%) were laggards. FII outflows in CY22 stood at ~USD 17bn while domestic inflows (mutual funds and insurance flows) have remained extremely strong at ~USD 36bn supporting India's relative valuation, a key variable to monitor.

Rollercoaster 2022: The year proved to be a very busy year in terms of newsflow, i) the Russia-Ukraine war dominated the news for most of the year and resulted in a sharp surge in commodity prices, which added to inflationary pressures ii) 'reopening' across countries post decline in Covid-19 cases saw a sharp rebound in activity in services and perhaps contributed to elevated core inflation iii) central banks raised rates sharply to control inflation and iv) extreme weather across continents highlighted climate-change challenges. Given the developments during the year, we believe 2022 will be used as a template for the next few years.

Boosting domestic demand is the key to sustainable growth: The domestic demand strength is expected to be the key driver of India's growth trajectory amid global headwinds. Indeed, domestic demand indicators continue to exhibit broad-based recovery as the economy benefits from the full impact of the reopening vibrancy, the government's supply-side focused policy measures filter through to reinvigorate capex, and fundamentally stronger balance sheet positions of the private sector help to improve risk appetite. Within the domestic market, the rural segment which has remained weak so far has now started showing early signs of a comeback. As the rural segment of the domestic market recovers, India's domestic economy will only become stronger going forward.

Confronting risks head-on for a thriving future: We see downside risks stemming from a prolonged weaker-than-expected global growth trend, supply-side-driven shocks to global commodity prices and domestic food prices, and faster-than-warranted tightening of financial conditions.

Adjust your sails, steer your course: We believe an allocation to i) structural market leaders, ii) consistent cash flow generators and iii) companies with management pedigree will be the best course of action as we enter 2023. Across market and industry cycles that is the one differentiator that holds one in good stead. Sure, macroeconomic factors can be unpredictable and beyond our control, but that doesn't mean we can't take action to navigate them. In fact, being able to adapt and adjust is crucial for success in any environment, and that's what 2023 will be all about - finding ways to adjust and optimize our strategies in the face of changing circumstances. It's like the old saying goes, "*you can't control the wind, but you can adjust the sails".*

Chart of the Month: **MSCI India 1 year forward PE is ~3SD above MSCI EM and MSCI DM but around its 5-year rolling average**

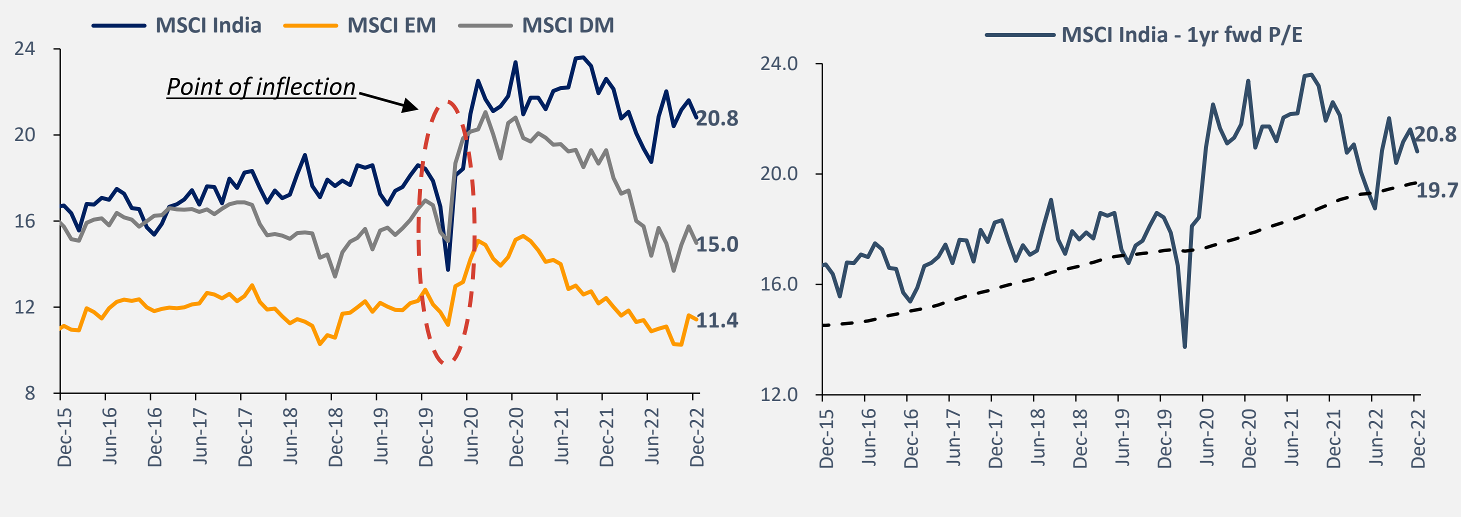

Chart Source: Ambit Research, Sources: Internal, Bloomberg, UBS Research, Goldman Sachs, FII - Foreign Institutional Investor, DII- Domestic Institutional Investor, FY - Financial Year, CY – Calendar Year; YoY is Year over Year, YTD- Year to date, EM- Emerging Markets, DM- Developed Markets, EPS- Earnings per share,

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For past Issues, please see below:
India Rewind December 2022
India Rewind November 2022
India Rewind October 2022
Older Issues

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

India at a Glance

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Economic Activity and Employment								
GDP, USD bn	2295	2651	2701	2871	2668	3174	3446	3770
GDP per capita, USD	1767	2018	2036	2141	1969	2318	2493	2701
Real GDP growth, %	8.3	6.8	6.5	4.0	-6.6	8.7	7.0	6.0
Prices, interest rates and money								
CPI inflation, % y/y (average)	4.5	3.6	3.4	4.8	6.2	5.5	6.7	5.2
Repo rate, % (year-end)	6.25	6.0	6.25	4.4	4.0	4.0	6.00	6.00
10 year bond yield, % (year-end)	6.7	7.4	7.4	6.1	6.2	6.8	7.7	7.5
USDINR (year-end)	64.8	65.0	69.2	75.4	73.5	75.8	80.0	82.0
Fiscal accounts								
General government budget balance, % GDP	-7.0	-5.9	-5.9	-7.8	-13.9	-10.7	-10.2	-9.5
Balance of payments								
Trade balance, USD bn	-112	-160	-180	-158	-102	-192	-254	-247
Exports, USD bn	280	309	337	320	296	422	453	430
Imports, USD bn	393	469	518	478	398	615	707	677
Current account balance, USD bn	-14	-49	-57	-25	24	-39	-102	-96
Foreign direct investment (net), USD bn	35.6	30.3	30.7	43.0	44.0	39.9	35.6	38.1
Total FX reserves, USD bn	370	425	413	478	577	607	540	520
Total external debt, % GDP	20.5	20.0	20.1	19.5	21.4	20.8	20.5	20.4
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