

# Equity Market Outlook

October 2024





**India on a  
strong footing**

# Robust macro backdrop

India is witnessing an extended Goldilocks scenario with resilient growth, stable currency, lower twin deficits, inflation under control and robust corporate earnings



Stability – the ruling party led alliance for the third term spells continuity of reforms and the budget alluded to policies for the youth

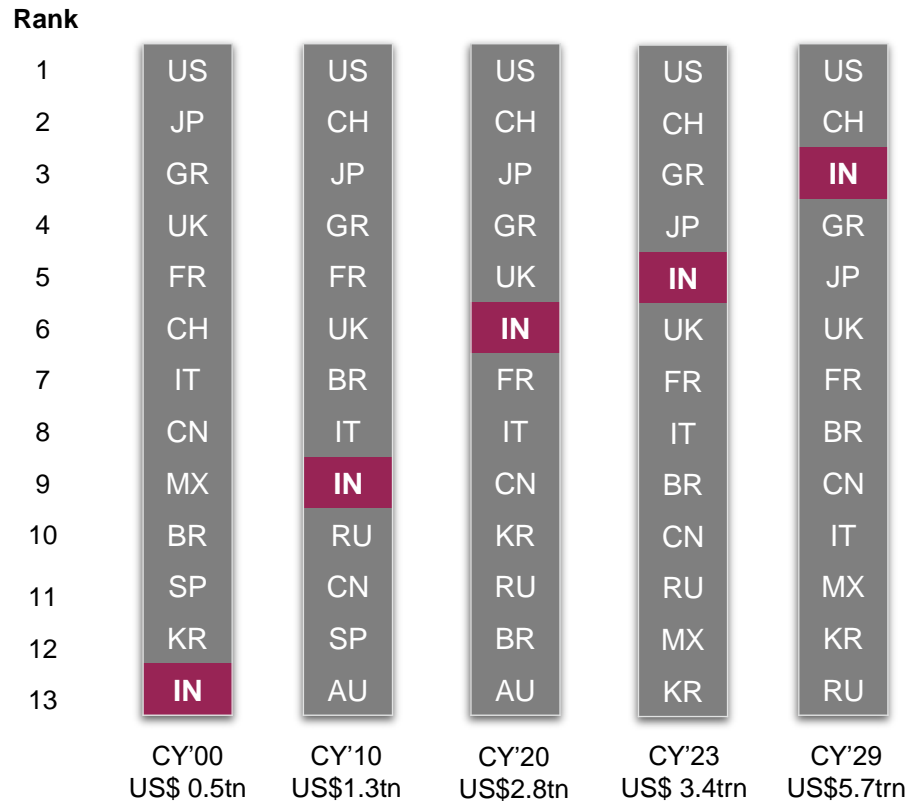
Capex picking up in a sustained manner driven by -  
Strength in private sector balance sheets, improving end demand, reflected in rising capacity utilization; and structural policy reforms



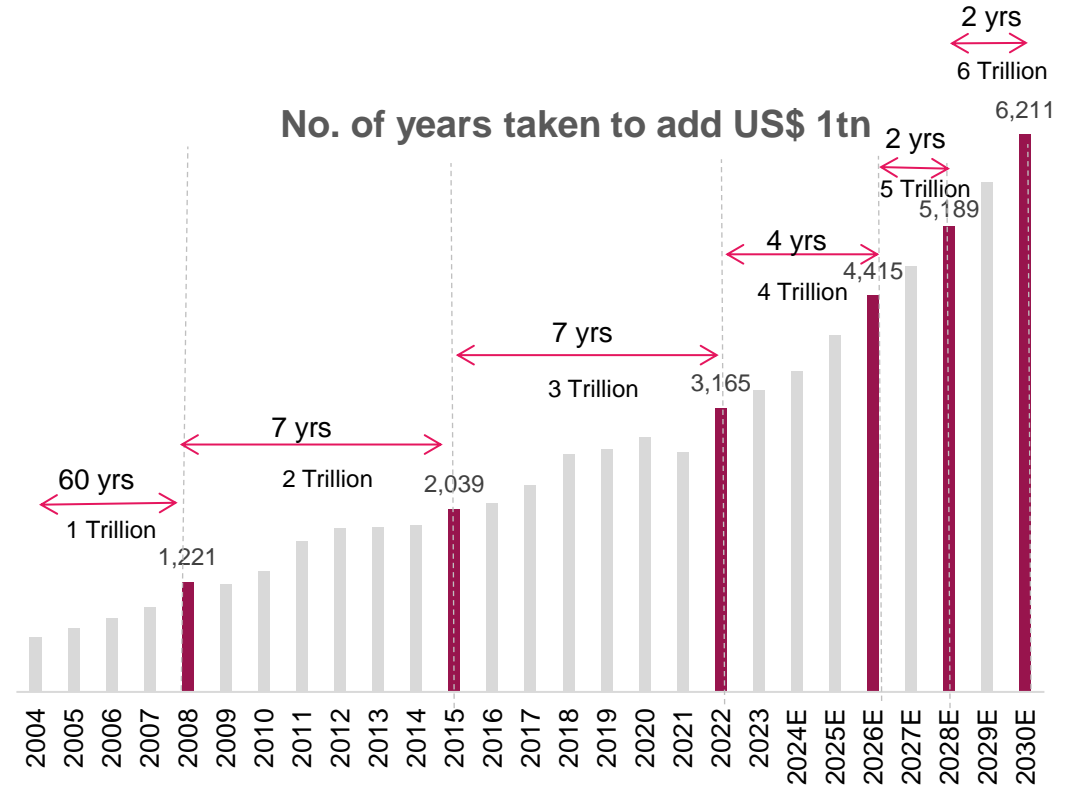
High frequency indicators are suggestive of the premiumization theme across the consumption segment of the economy

# Among the fastest growing economy

Nominal GDP ranking



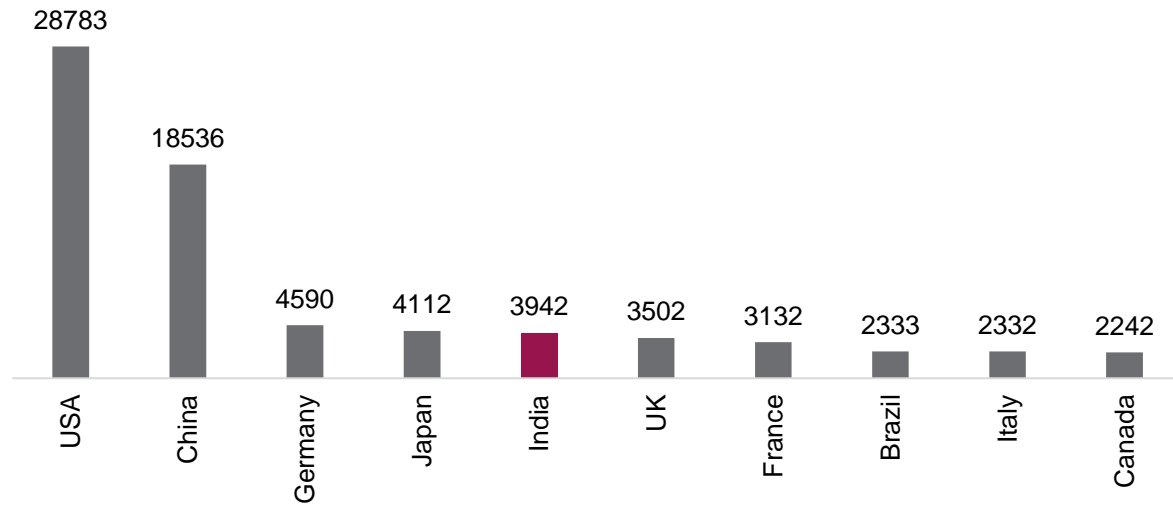
India's nominal GDP (US\$ bn)



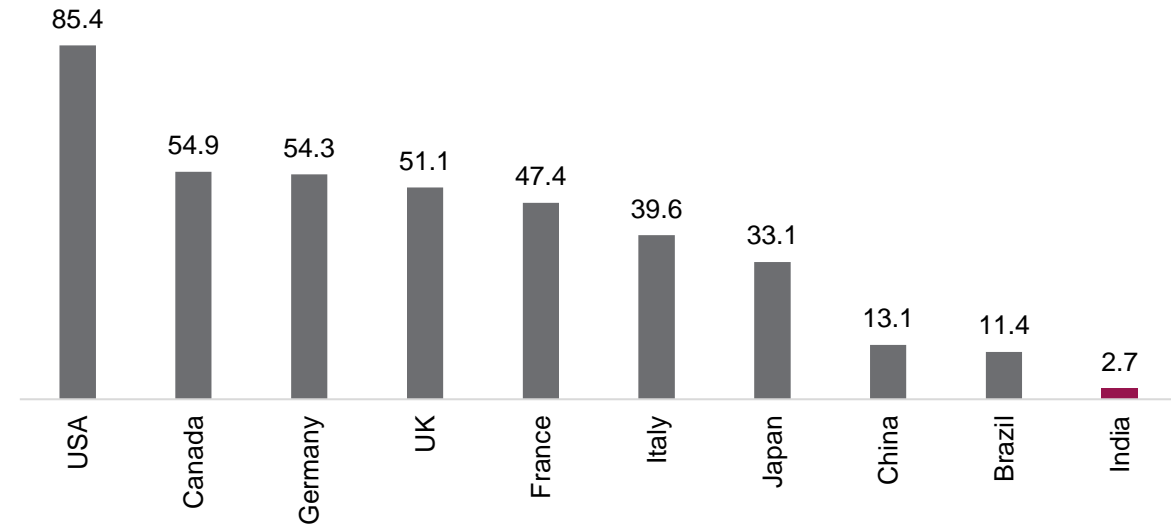
# India has huge scope for growth

India has lowest per capita GDP among top 10 largest economies

GDP (US\$ bn)



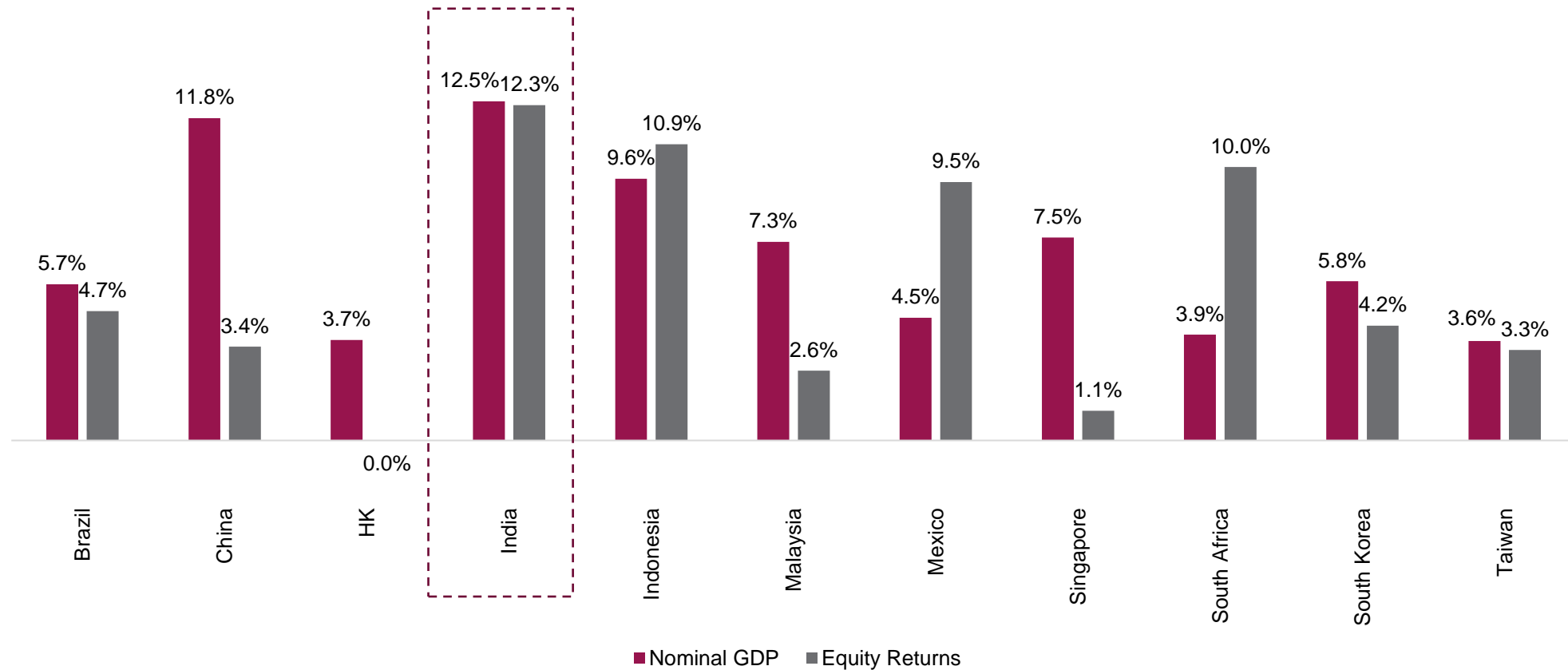
GDP per capita (US\$ thousand)



# Relationship between GDP and equity returns

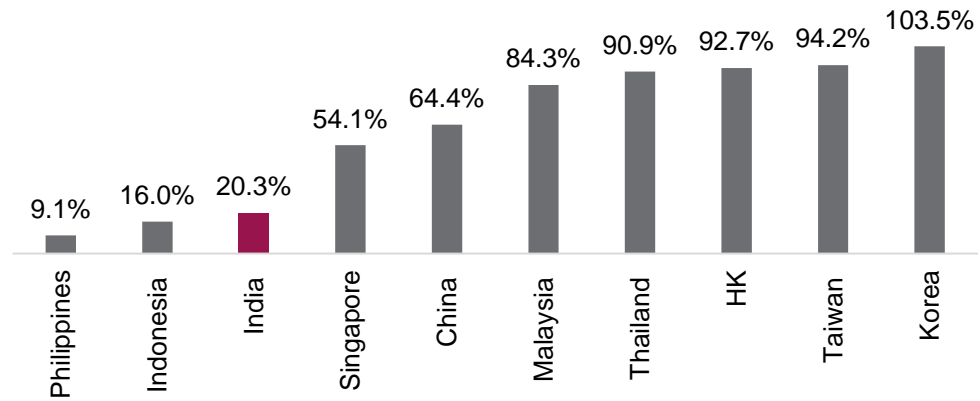
India is one of the few countries where GDP growth translates to Equity returns

Annualized nominal GDP growth vs equity returns since 2000

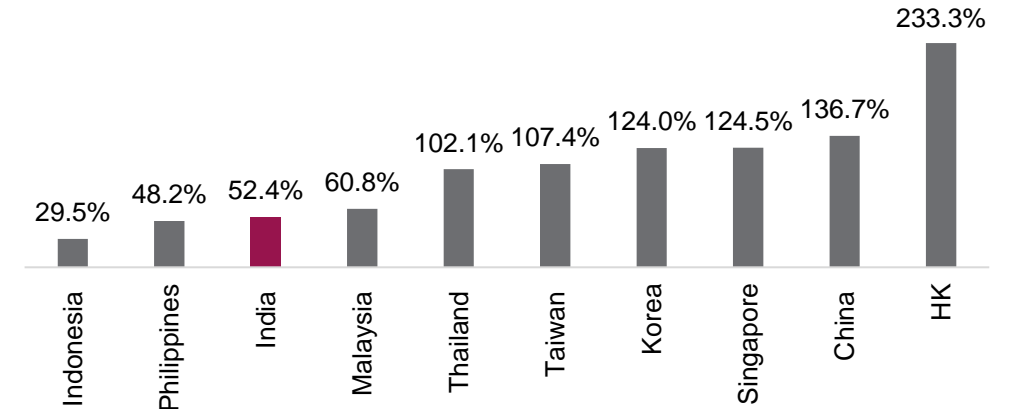


# Domestic Positioning

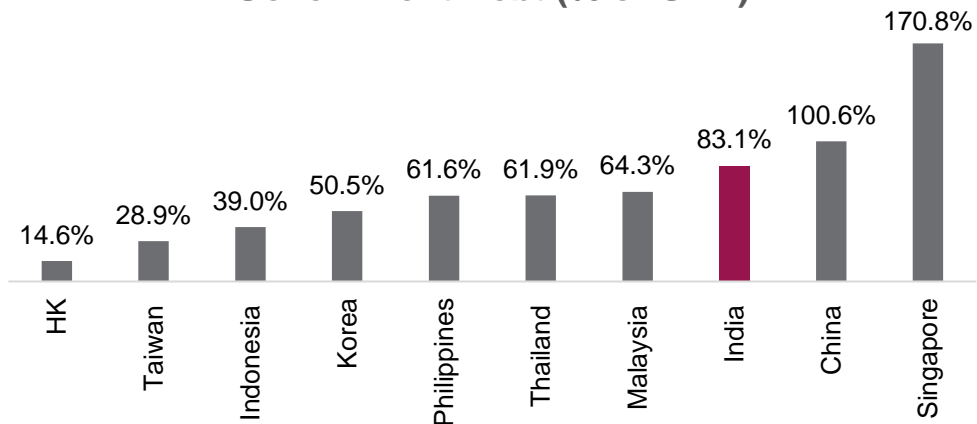
### Household Debt (% of GDP)



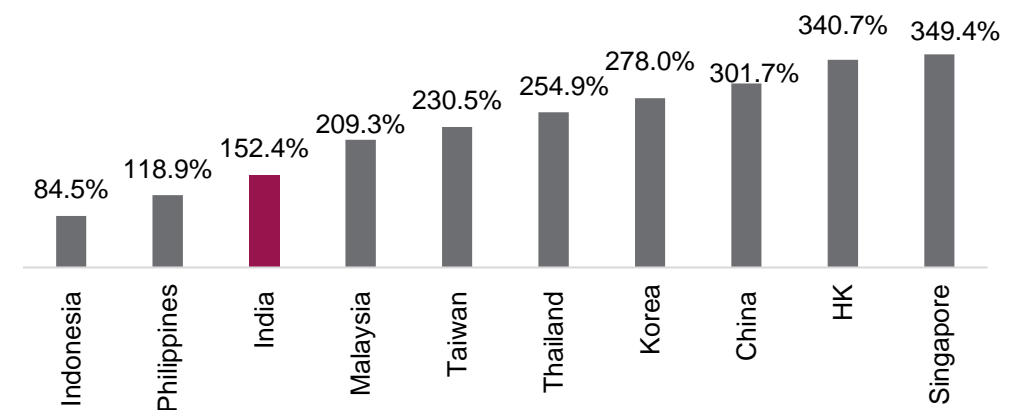
### Corporate Debt (% of GDP)



### Government Debt (% of GDP)

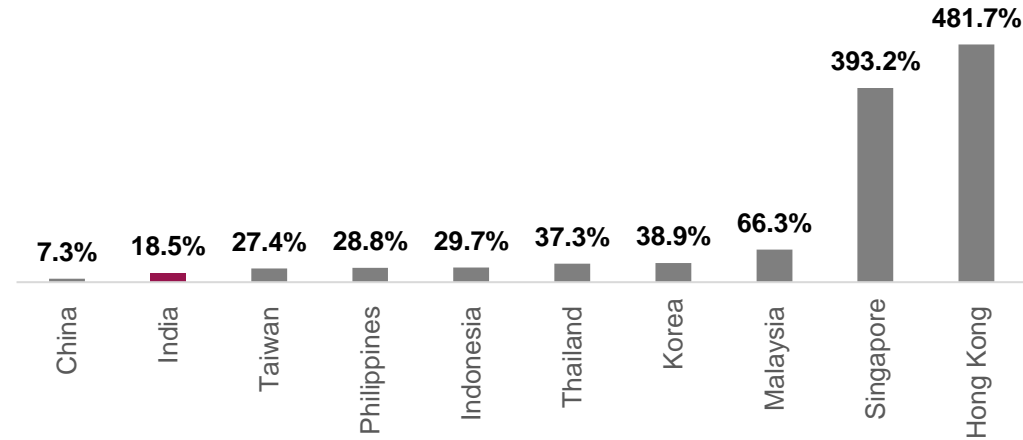


### Overall Debt (% of GDP)

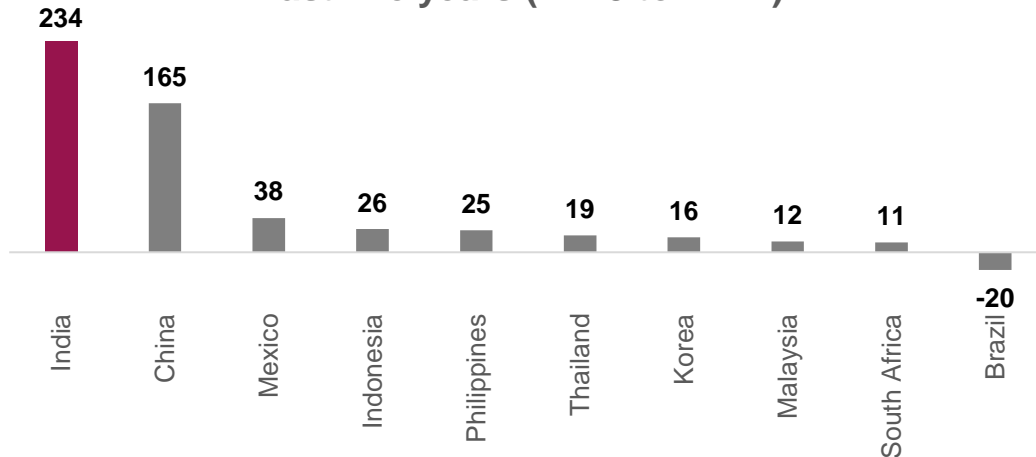


# Strong external positioning

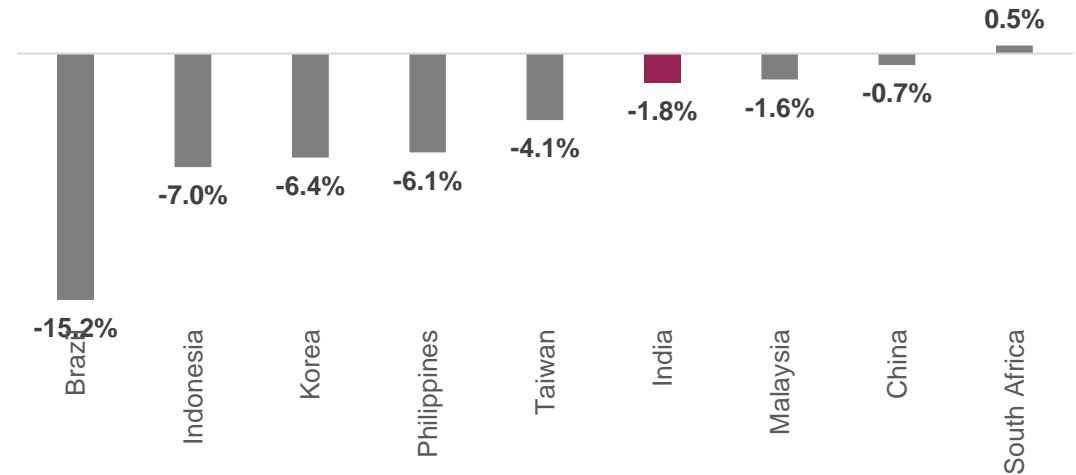
External Debt % of GDP



Fx reserves accretion (USD bn) over last five years (FY19 to FY24)



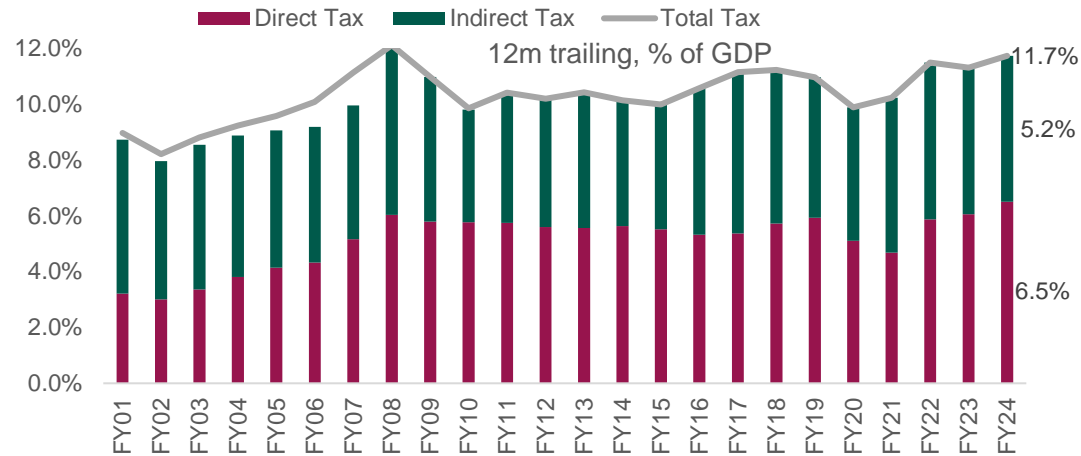
Currency Depreciation vs USD over past one yr



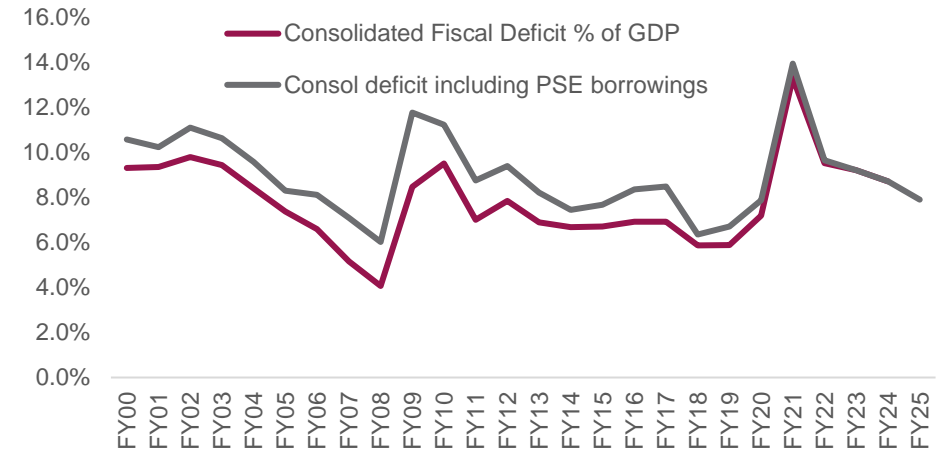


# Domestic factors sound

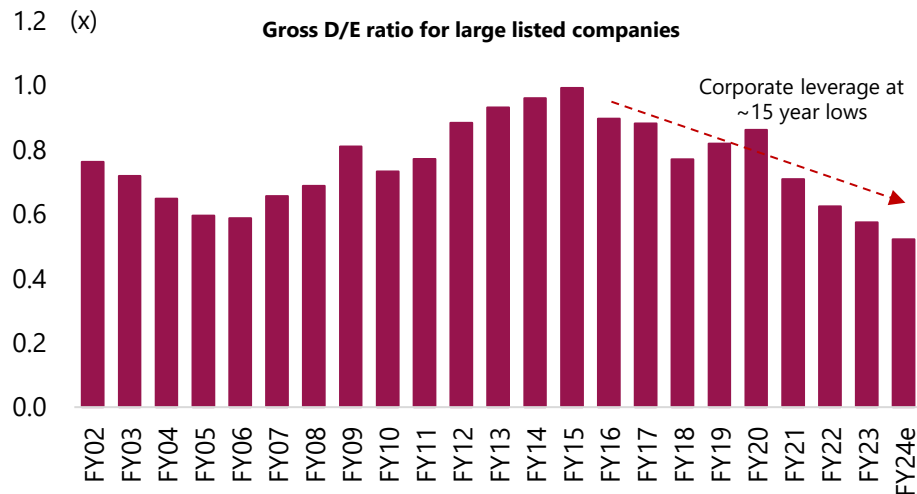
## Tax to GDP has been rising



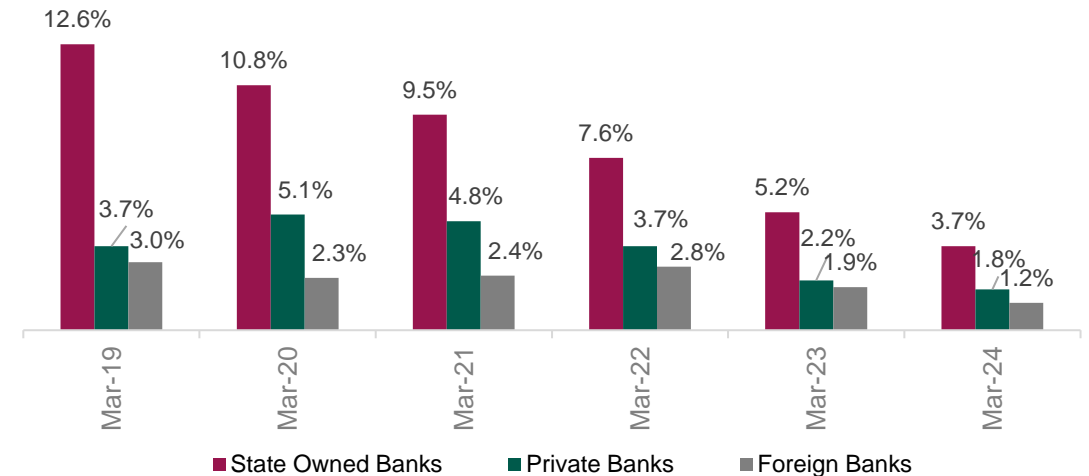
## Lower fiscal deficit



## Corporate leverage at lows



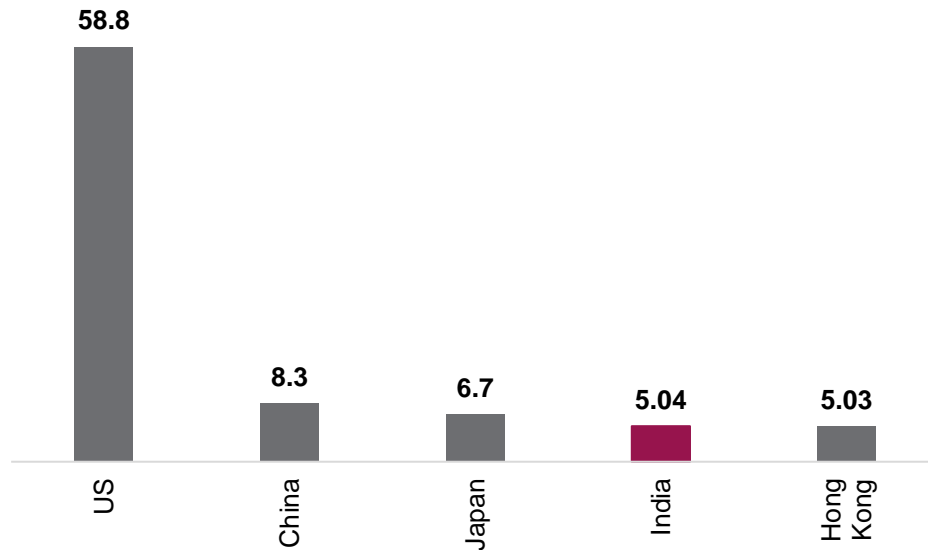
## Banking NPA's have been trending down



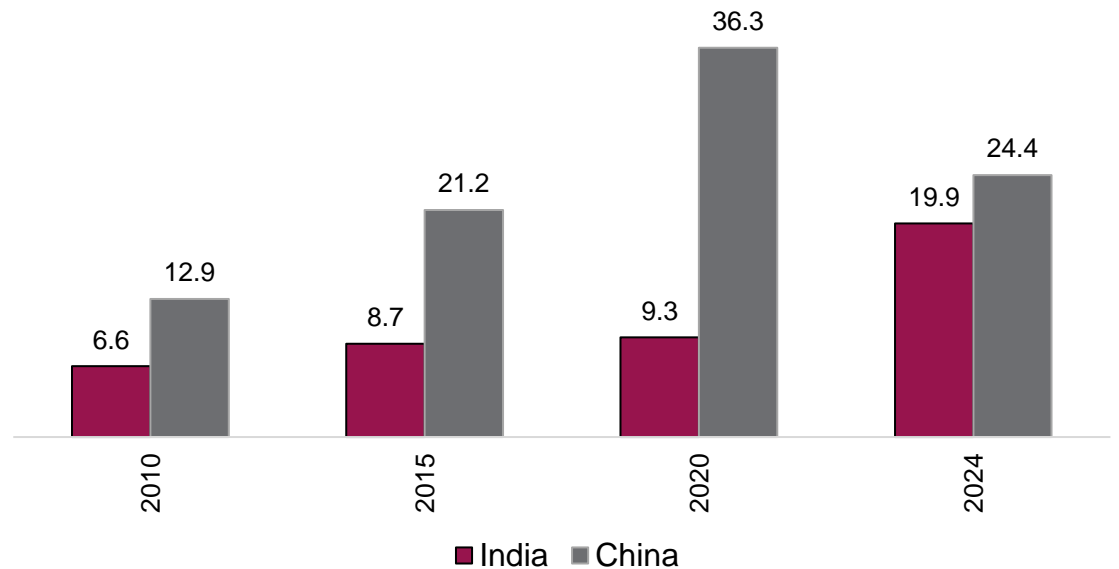
# India's market cap crosses \$5 trillion

Fourth largest by market cap, EM weights increase further

Market Cap (US\$ tn)



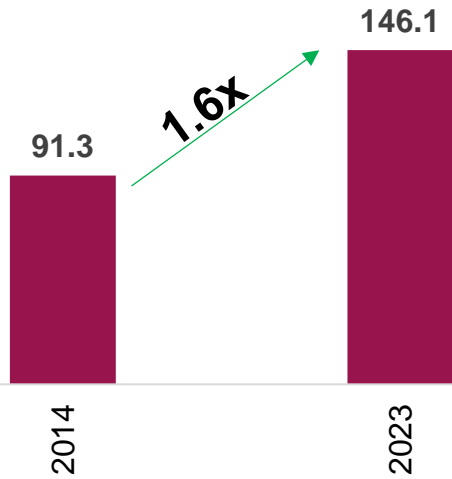
% weight in MSCI EM index



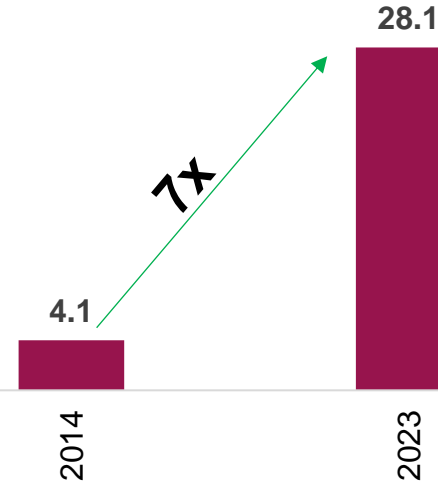
Experts believe India's market cap will be US\$10trn by 2030 driven by strong domestic flows and potential listing of large unicorns

# Improving physical infrastructure

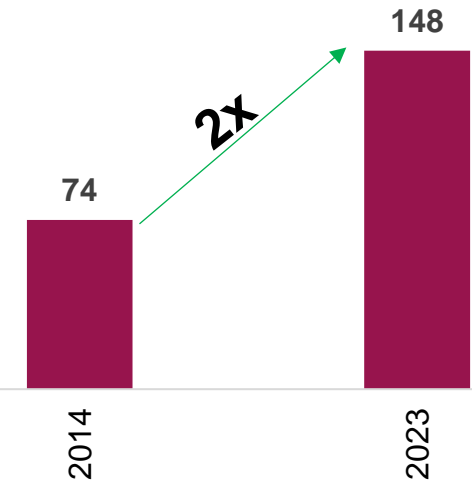
National Highways (Km in '000)



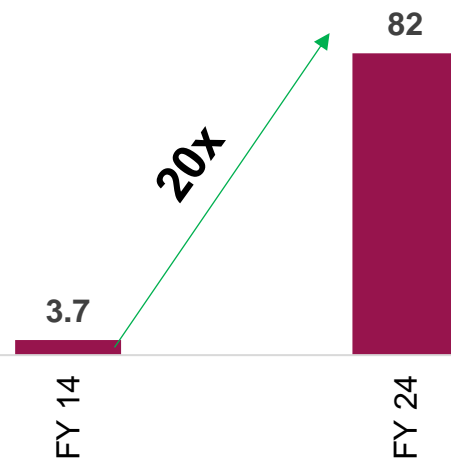
Electrified Railways (Km in '000)



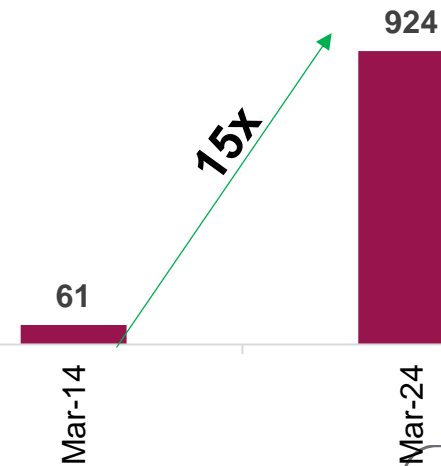
No. of Airports



Solar power capacity (GW)\*

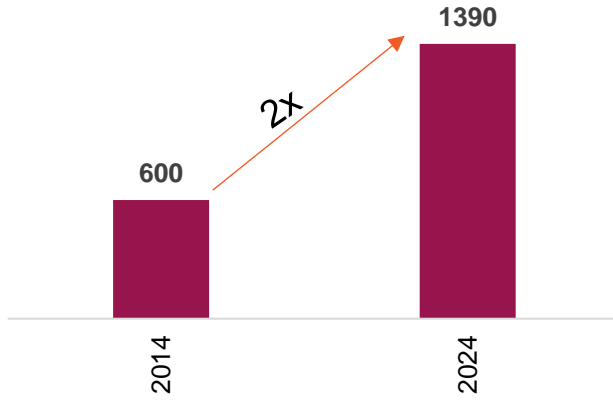


Broadband subscribers (Mn)

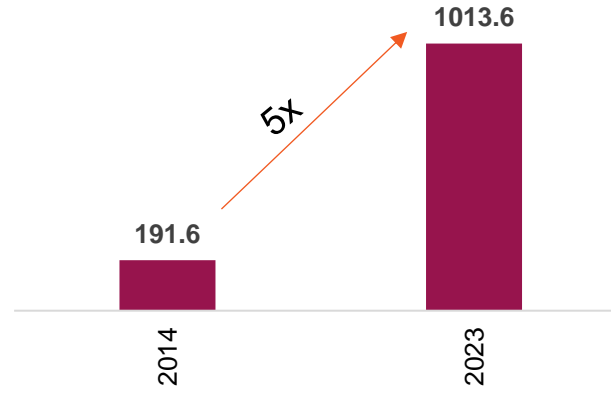


# Digital infrastructure driving productivity

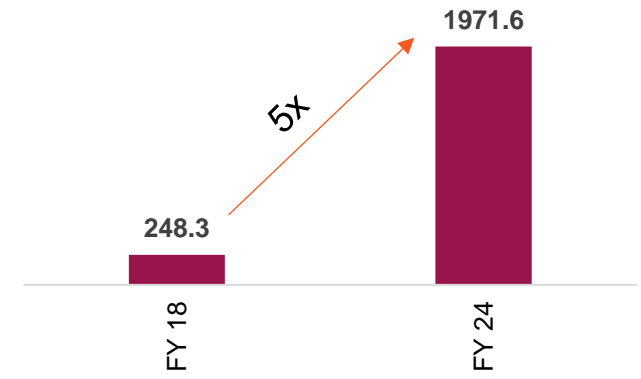
No. of Aadhars issued(mn)



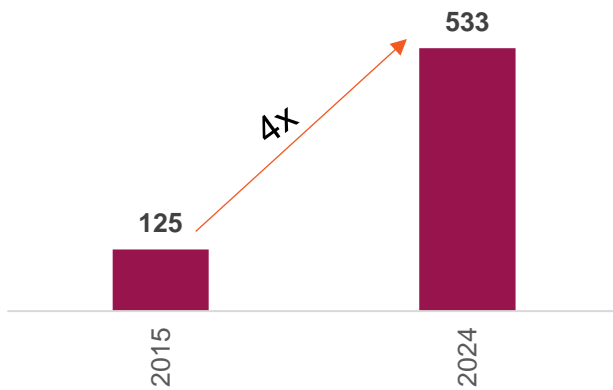
No. of Smartphone users (mn)



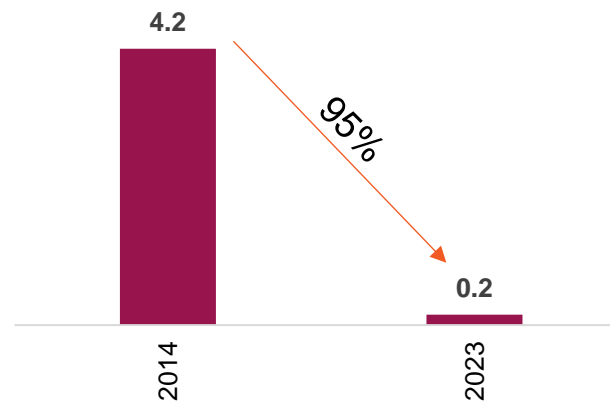
Rise in digital payments (mn)



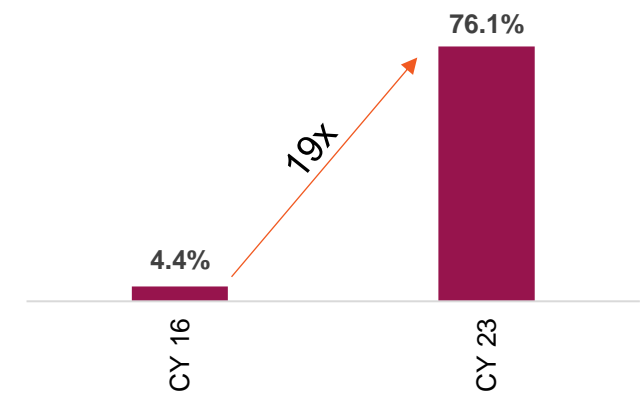
No. of basic bank a/c (mn)



Cost of 1 GB data (US\$)



Digital Transaction as % of GDP





# What is driving India



**Capex cycle**



**Manufacturing**

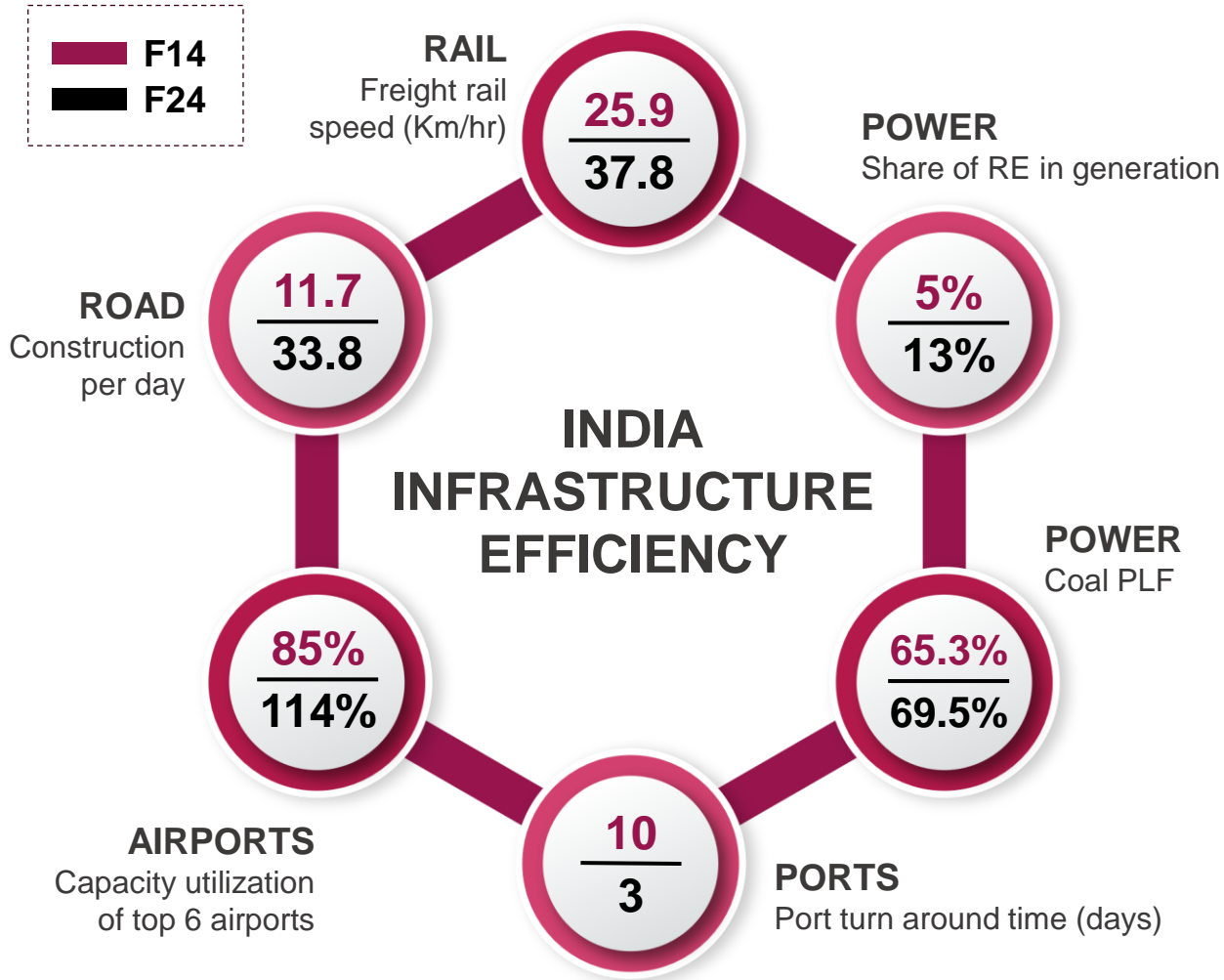


**Consumption**



**Digitalisation**

# Growth drivers: Capex cycle



Major rise in corporate capex can lead to strong order books for industrial companies.

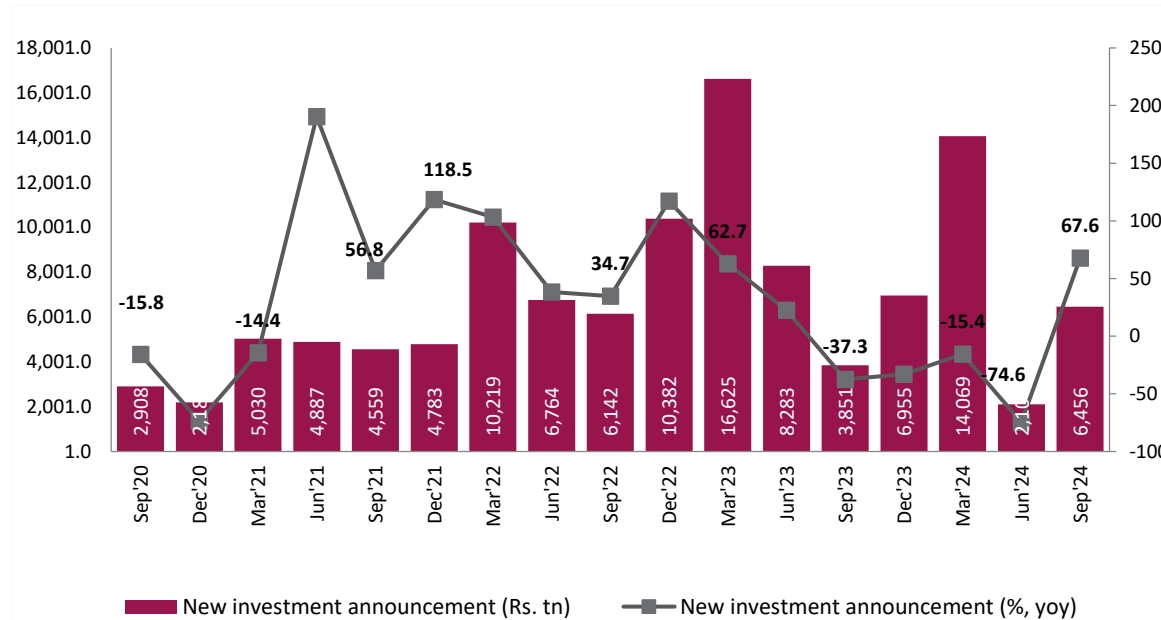
New investment areas such as energy, mobility, defense, railways, electronics, and semiconductors are attractive.

Investments in conventional sectors such as coal-fired power plants, steel, and cement

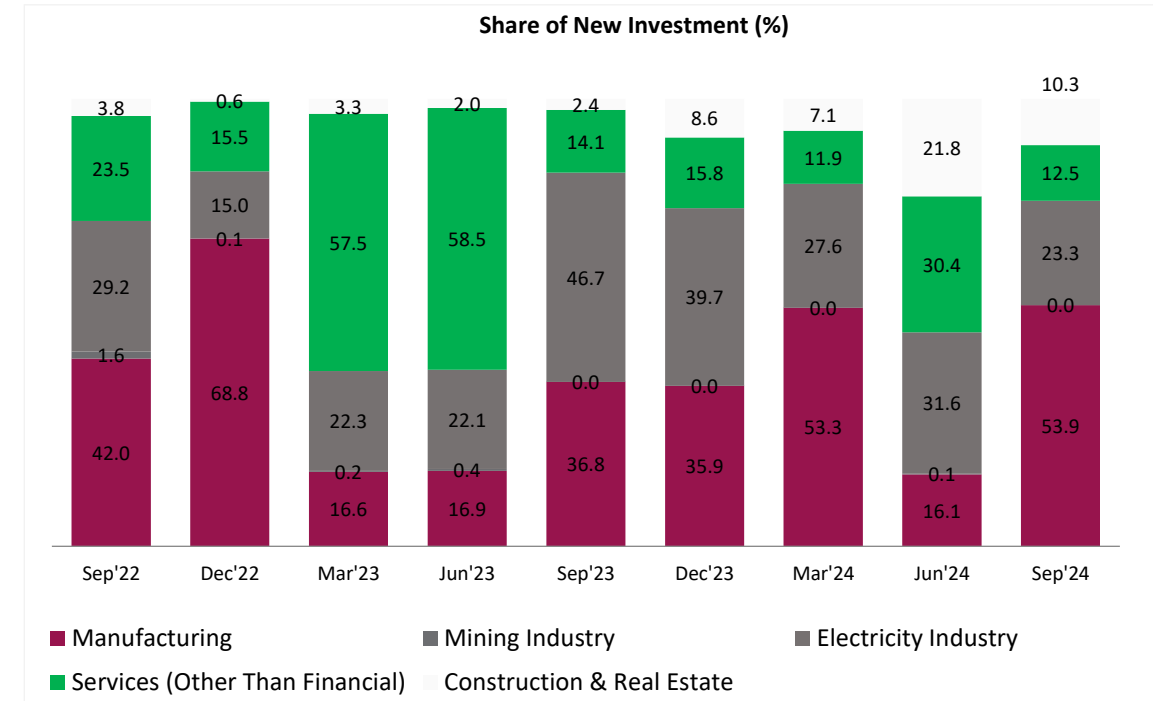
As an example, total addressable market for EPC players stands at US\$838bn; ~73% projects are under development and 27% are under conceptualization stage. This offers significant opportunities for EPC companies across key segments of transport (33%), energy (32%), water (12%) etc.

# New investments surge

## New investment announcement surged by 67.6% y-o-y



## Share of new investment by sectors

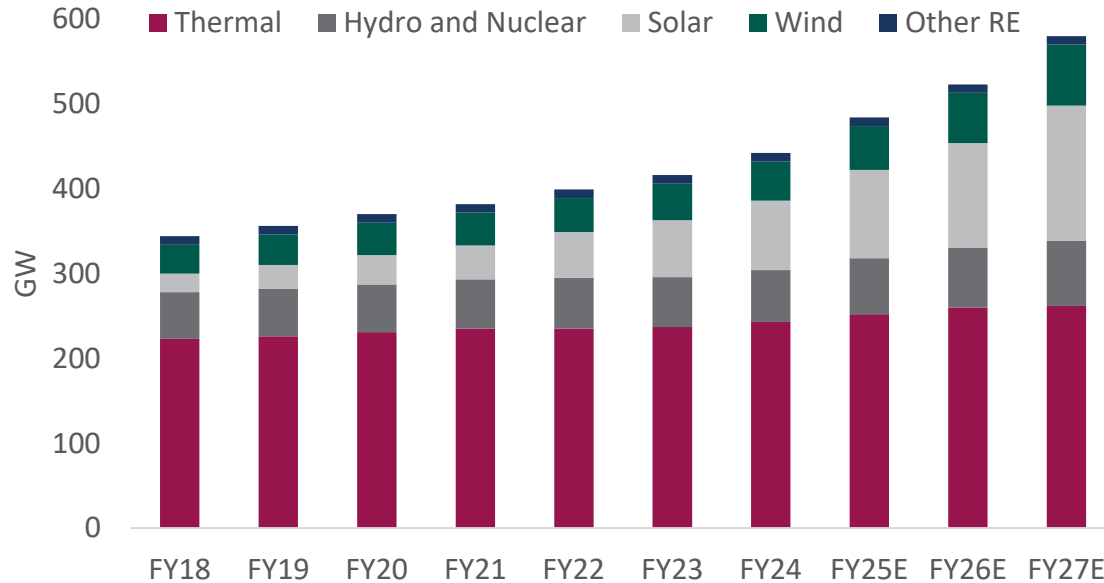


- In Q2FY25, new projects announced by public & pvt sectors stood at Rs. 6.5tn, led by manufacturing and electricity sectors
- Manufacturing, services, and construction & real estate led to a jump in private announcement
- Renewable and conventional power, Inorganic chemicals, Passenger vehicles, Electronics/Semiconductor form ~71% of new private capex announcements

# Growth drivers: Energy transition

## Multi year capex driven by Energy transition ambition

Capacity expected to be added till FY30 is over 3x the capacity added in the last 6 years

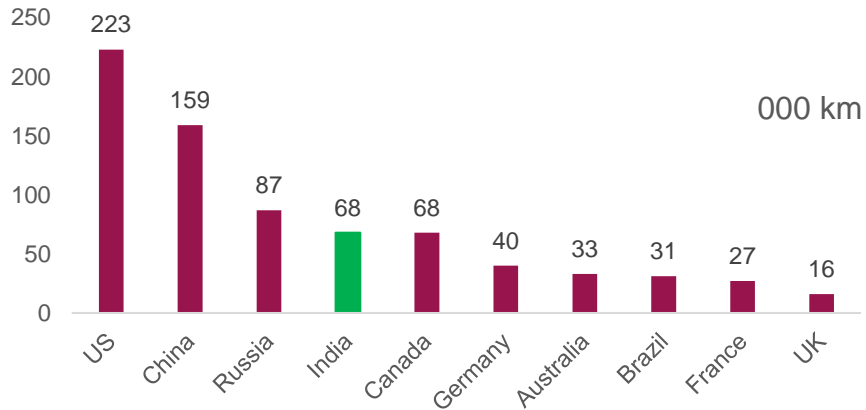


- We expect a strong capex cycle in the power sector largely driven by the combination of energy transition and need to support energy transition with thermal plants/ battery/ pumped storage
- Power demand is expected to grow on account of new use cases (Data-centers, EVs etc.) and warmer weather.
- With India announcing a National Hydrogen Mission and working on PLI schemes to provide incentives to local manufacturers of solar modules, batteries, and electrolyzers – all necessary ingredients of the energy transition.
- We believe the energy transition is a significant theme for the coming decade, with multiple opportunities emerging across the value chain for investors

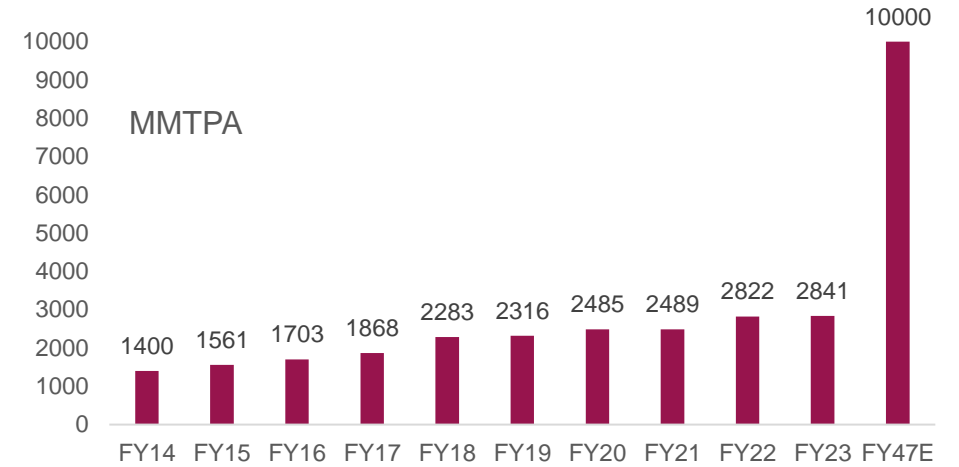


# Thrust on Infrastructure spending to continue

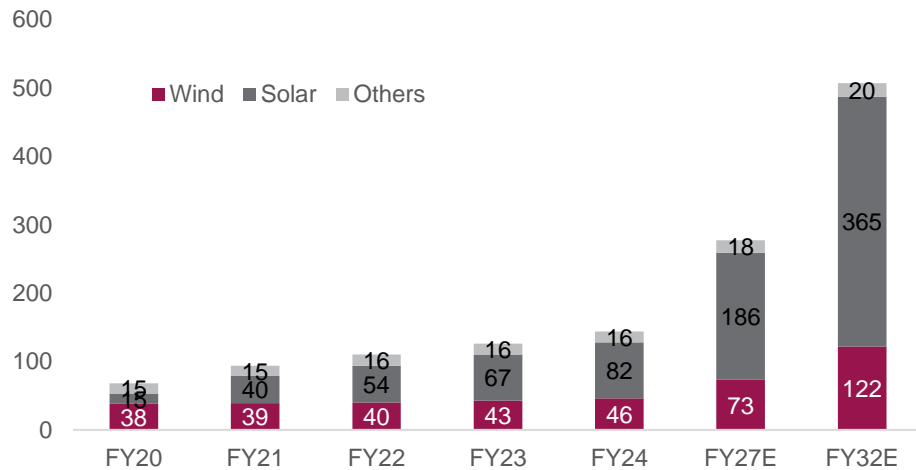
**Railways: India has the fourth largest network**



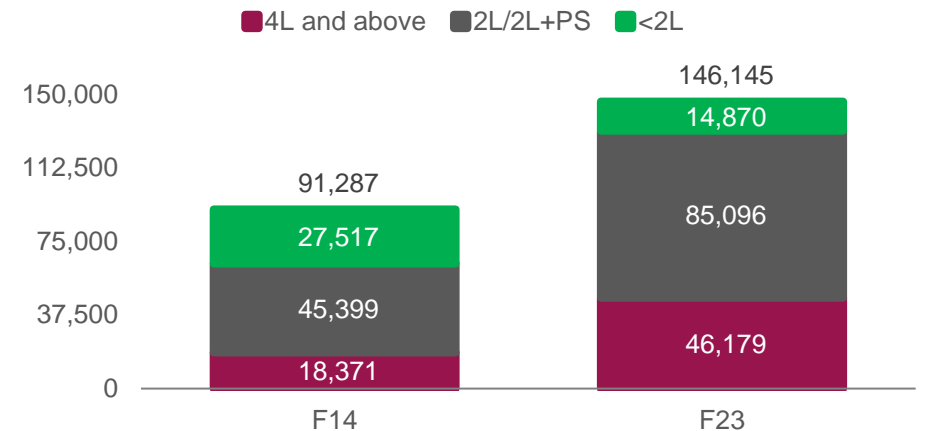
**Ports: capacity targeted to increase 3.5x over next two decades**



**Renewable: Steep growth targeted by govt over 9 years**

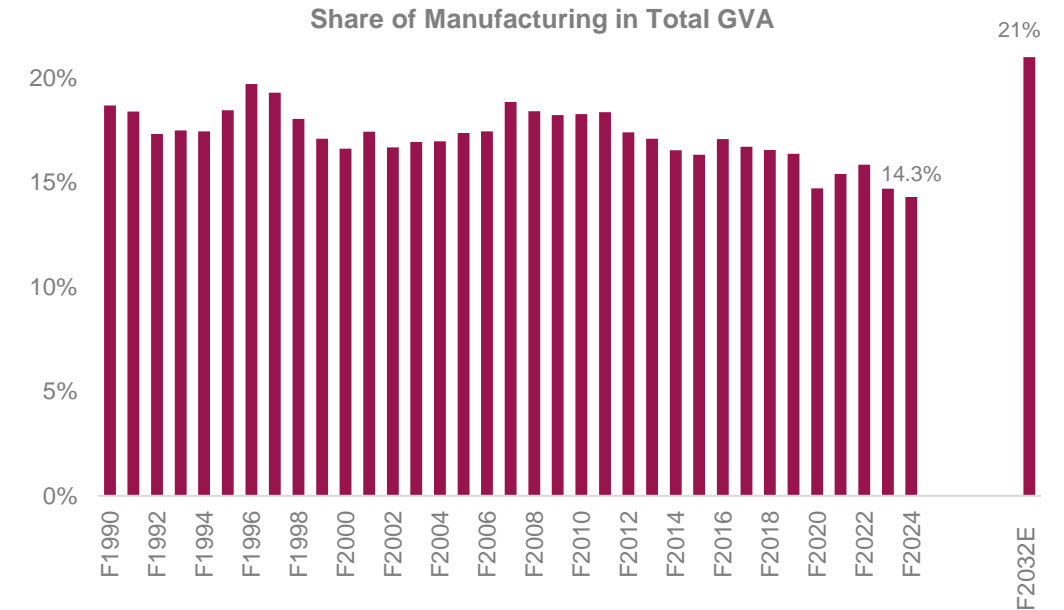
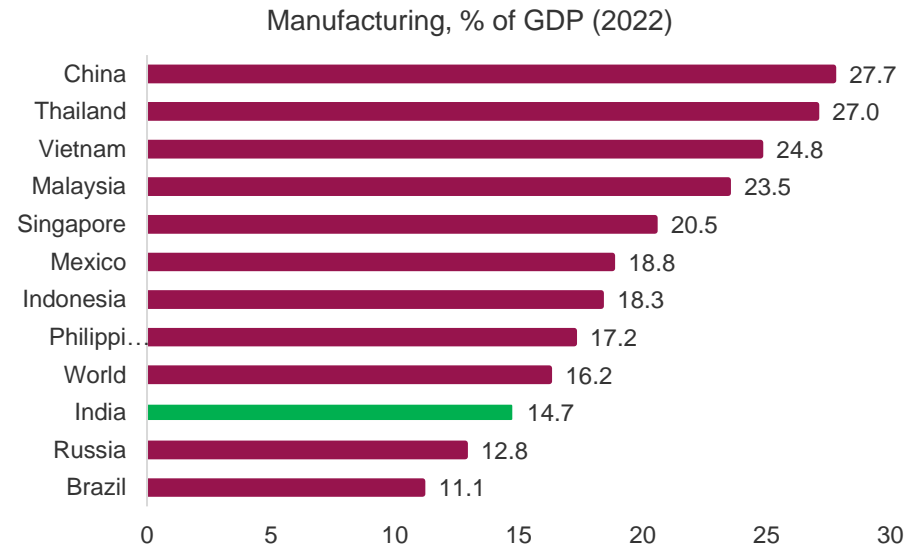


**Roads: High density network**



# Growth drivers: Manufacturing

## Share of manufacturing in GDP across EMs

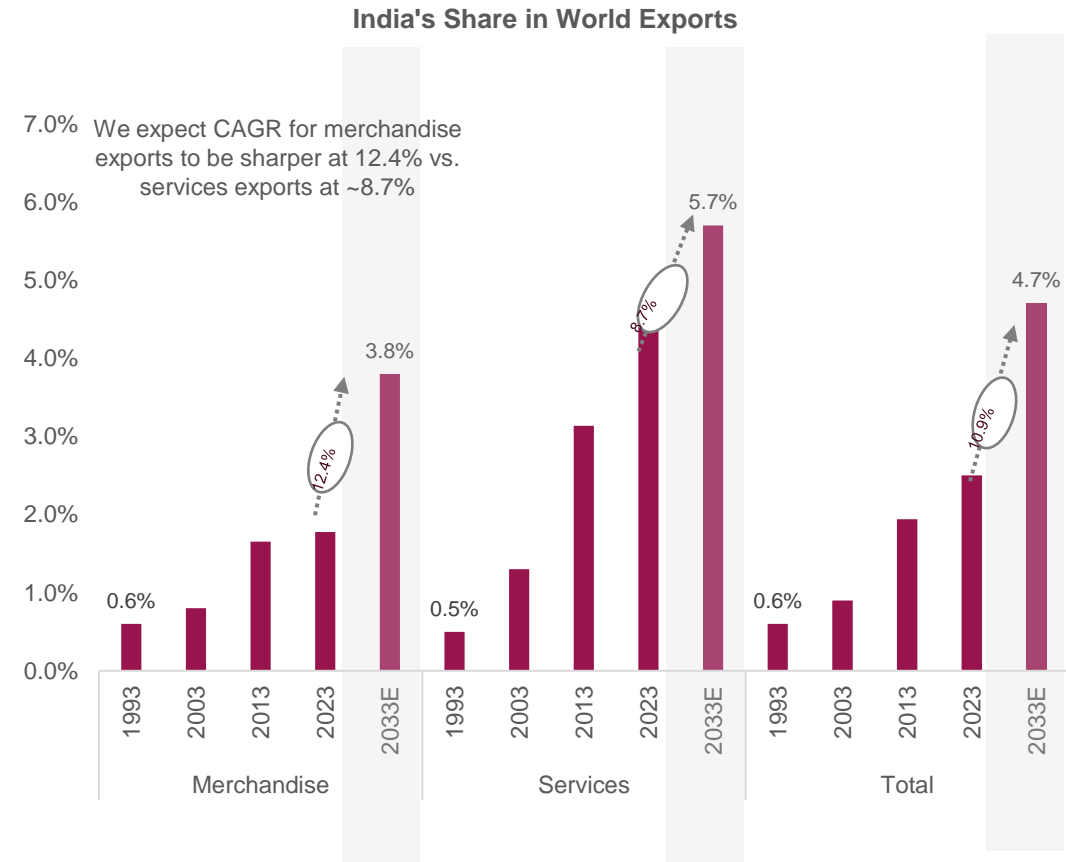
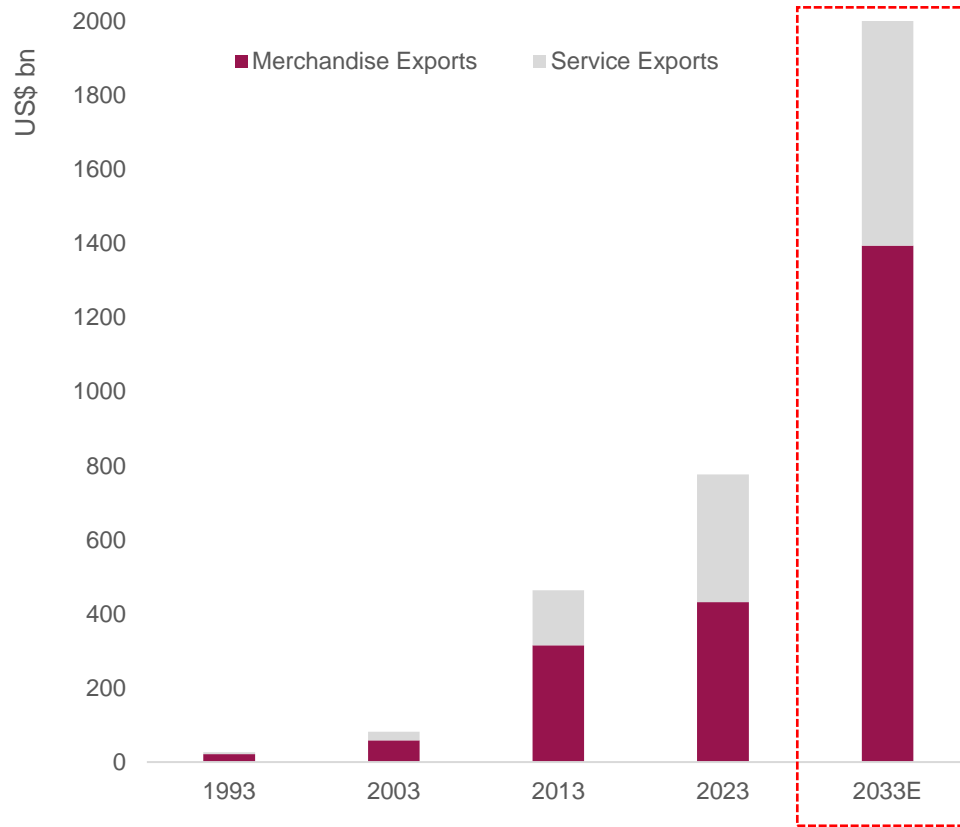


An efficient infrastructure potentially drives logistics costs lower, thus improving competitiveness and boosting exports

Government incentivizing domestic manufacturing in defense, electronics, semiconductors, aerospace, lab-grown diamonds, electric vehicles, textiles, food processing, renewables, and railways

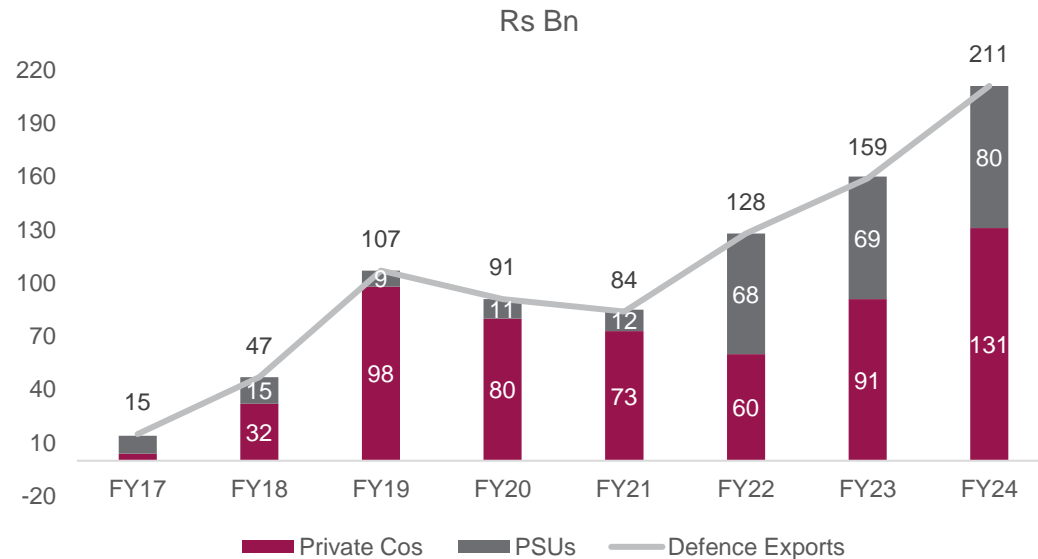
# Growth drivers: Manufacturing

## India's share in world exports



# Growth drivers: Manufacturing

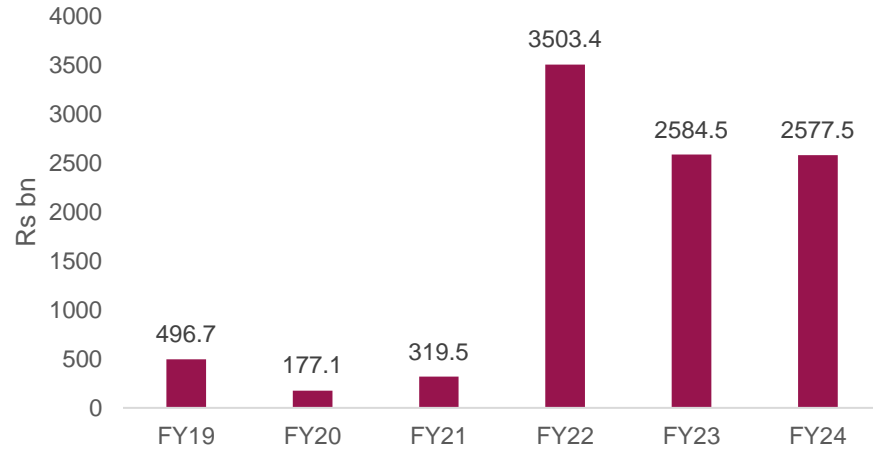
## Defence exports surged 32.4% to an all time high in FY24



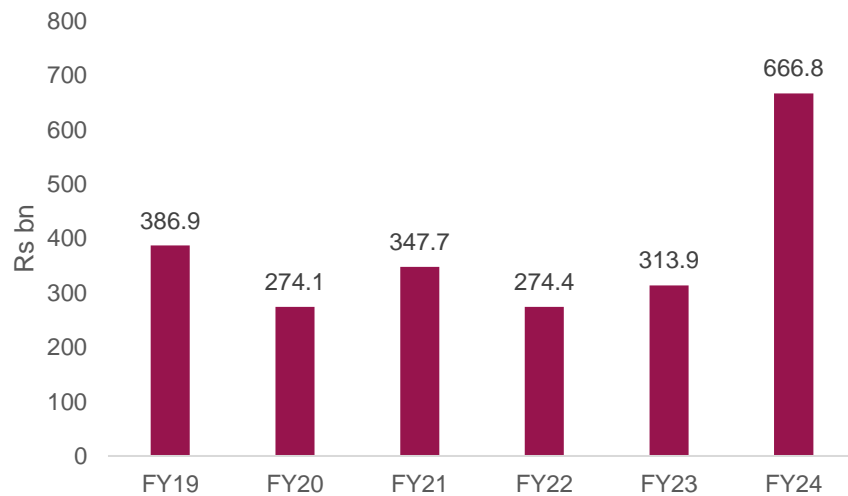
- India's Defense ministry expects domestic production & exports of Rs3trn & Rs500bn by F29, implying respective 18% & 21% CAGRs over F23-29e.
- Valuations across both PSUs and private defense equities are trading above +2 SD on 1Y forward PE (base is last 2–3Y median) due to re-rating; however, we believe execution, WC management are key catalysts as order books are at all-time high.
- We stay optimistic on India's transformational phase in the defense sector

# Growth drivers: Manufacturing

## Electronics pipeline steady with Semiconductors joining the fray



## Auto & Auto components capex supported by PLI



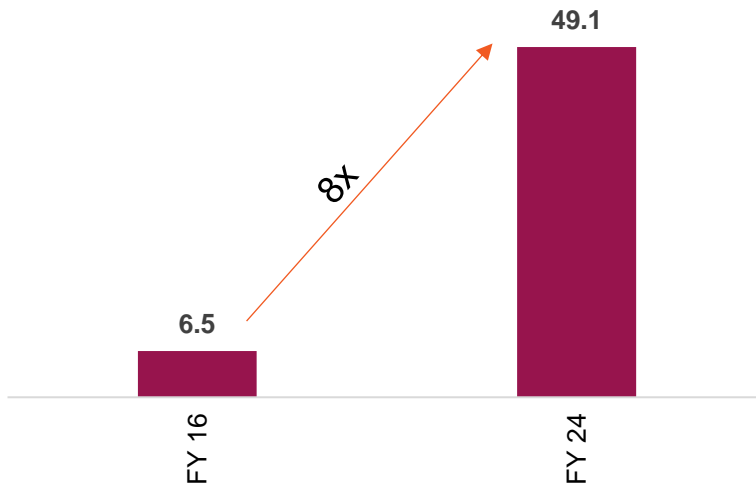
## Production in India up from <1% in 2017 to 10% in 2023

Year	Models	Global shipment share (%)
2017	iPhone SE (1 <sup>st</sup> Gen)	<1%
2018	iPhone 6S	<1%
2019	iPhone 7 & XR	~1%
2020	iPhone 11, SE (2 <sup>nd</sup> Gen)	<2%
2021	iPhone 12	3%
2022	iPhone 13, 14	7%
2023	iPhone 15	10%
2025 E	Latest	25%

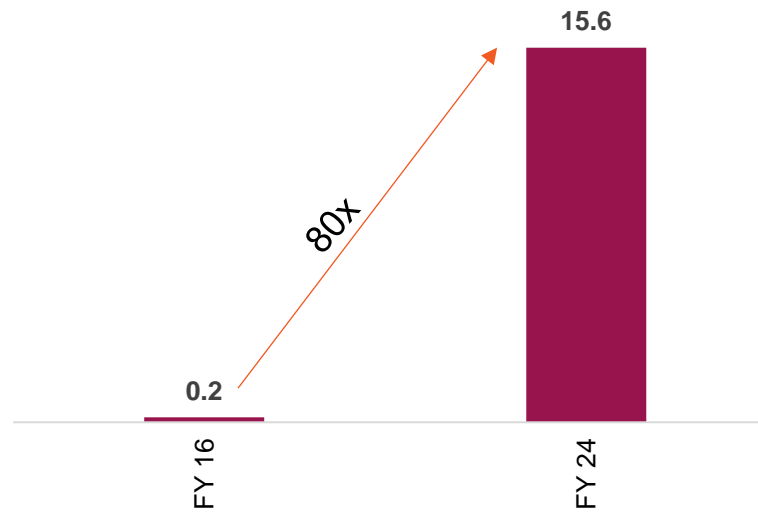
# Success story: Mobile phones

Mobile phone production in India has seen a CAGR of 37% over FY16 to FY23

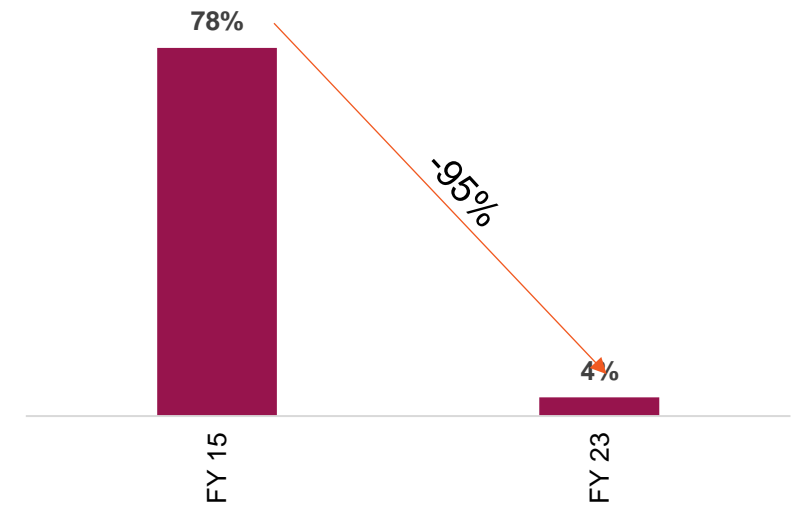
Production in India( US\$ bn)



Exports from India (US\$ bn)



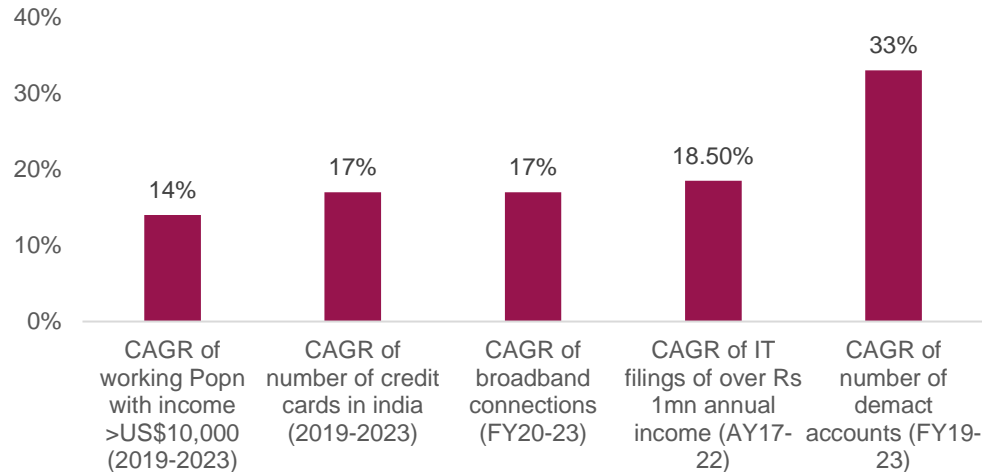
Imports as % of Total market value



# Growth drivers: Consumption













## Rise of Affluent India

### Improving high end consumption



Increasing disposable incomes, wealth effect from financial assets has led to premiumisation. This is beneficial for the consumer discretionary sector related to travel, high end retail, internet companies, automobiles particularly SUVs and real estate companies

Headroom vs top 10% of urban India

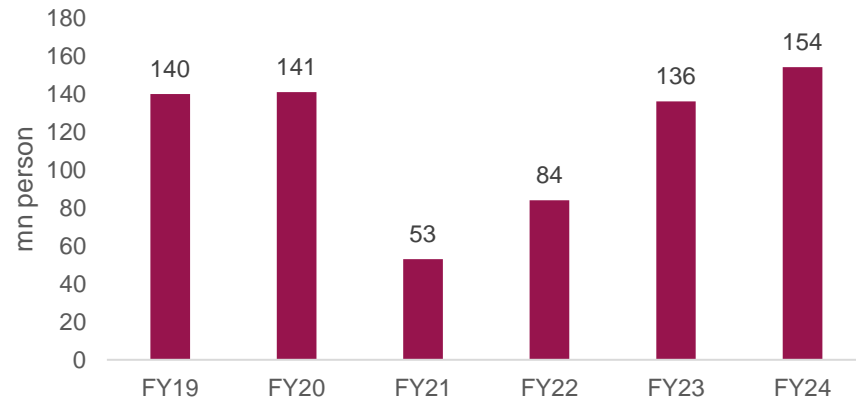
	Travel	High	↑
	Leisure	High	↑
	Healthcare	High	↑
	Jewellery	High	↑
	Out of home food	High	↑
	Packaged foods	High	↑
	Premium Retail	High	↑
	Premium 2W	High	↑
	Premium cars/SUVs	High	↑
	Premium Beauty	High	↑
	Premium Fashion	High	↑
	Premium Real Estate	High	↑

Source: Nuwama Data as at 30 June 2024

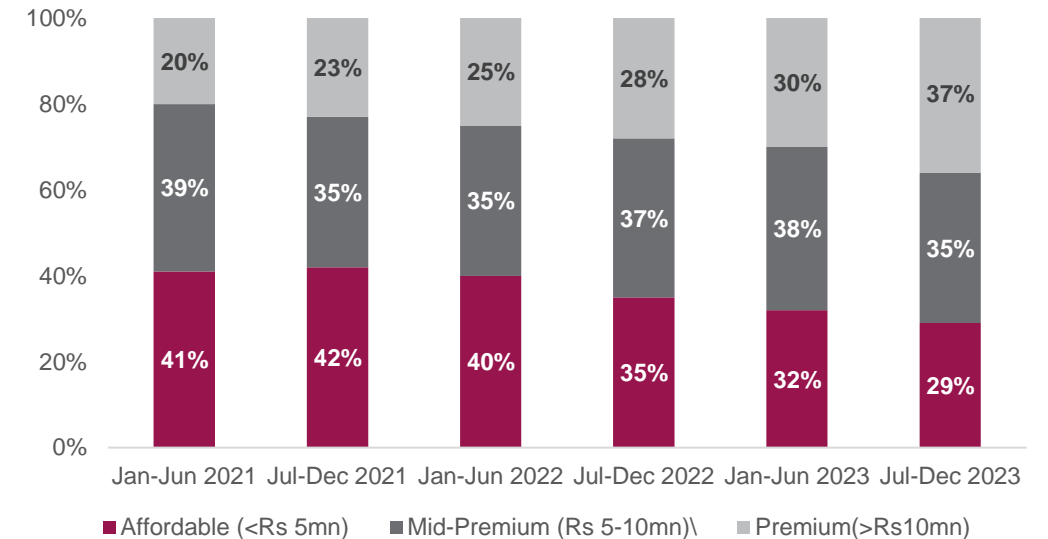
Sector(s) mentioned above are for the purpose of illustration of theme and should not be construed as a recommendation.

# Growth drivers: Consumption

Domestic air passenger traffic touched an all time high



Residential housing sales: premium segment share picked up



## Increasing Premiumisation -

India bought a record-breaking 10 million iPhones in 2023

65-inch+ television sales accounted for 12% of all TV units sold in 2023, up from 5% in 2020

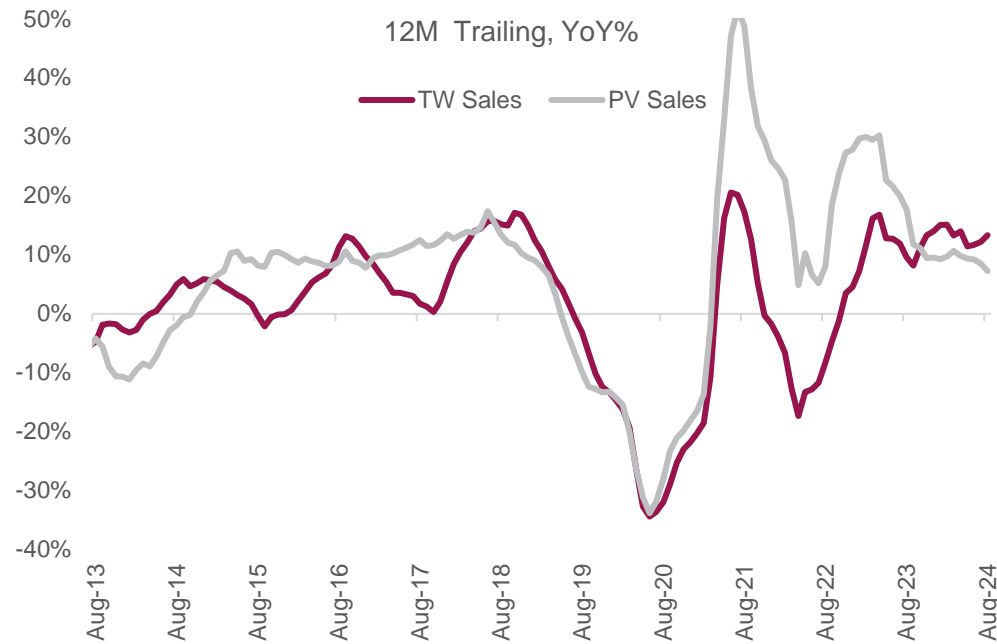
Smart inverter AC sales increased to 77% in 2023 from 27% in 2017

SUV sales in India accounted for 48% of the overall passenger vehicle sales in 2023, with over 20 lakh units sold

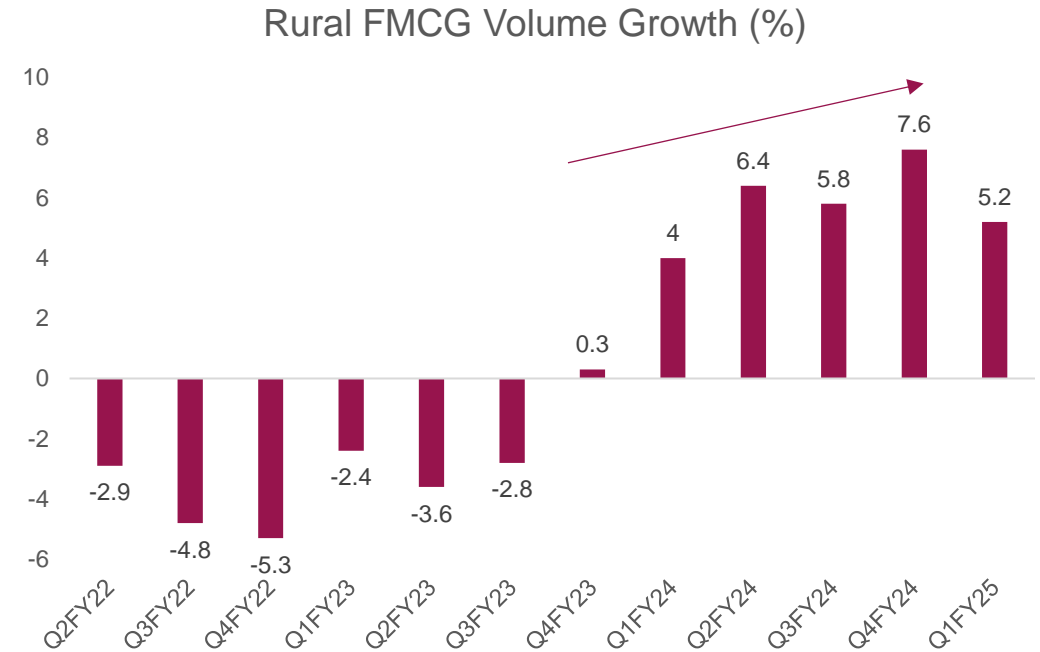


# Growth drivers: Consumption

## Two wheeler sales indicate improvement



## FMCG sales suggest uptick in rural volumes



## Improving Rural indicators

Kharif sowing levels better than last year; Cumulative rainfall 2% above long period average

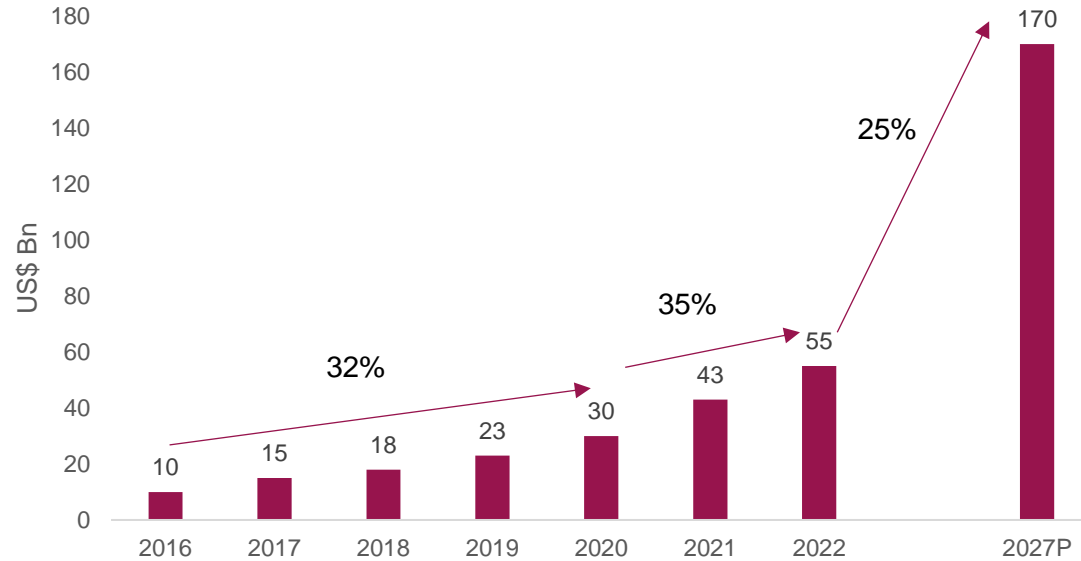
NREGA employment demanded is lower than last year

FMCG Volume growth has picked up over a weak base and should rise further reflecting improved rural economy trends

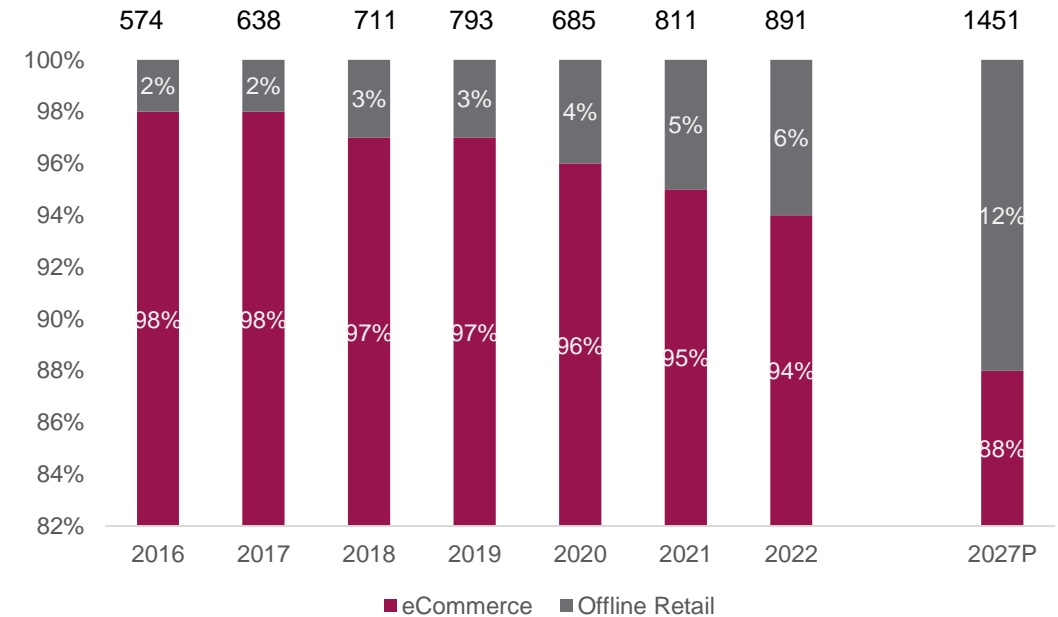
# Growth drivers: Consumption

## Ecommerce on a rapid growth path

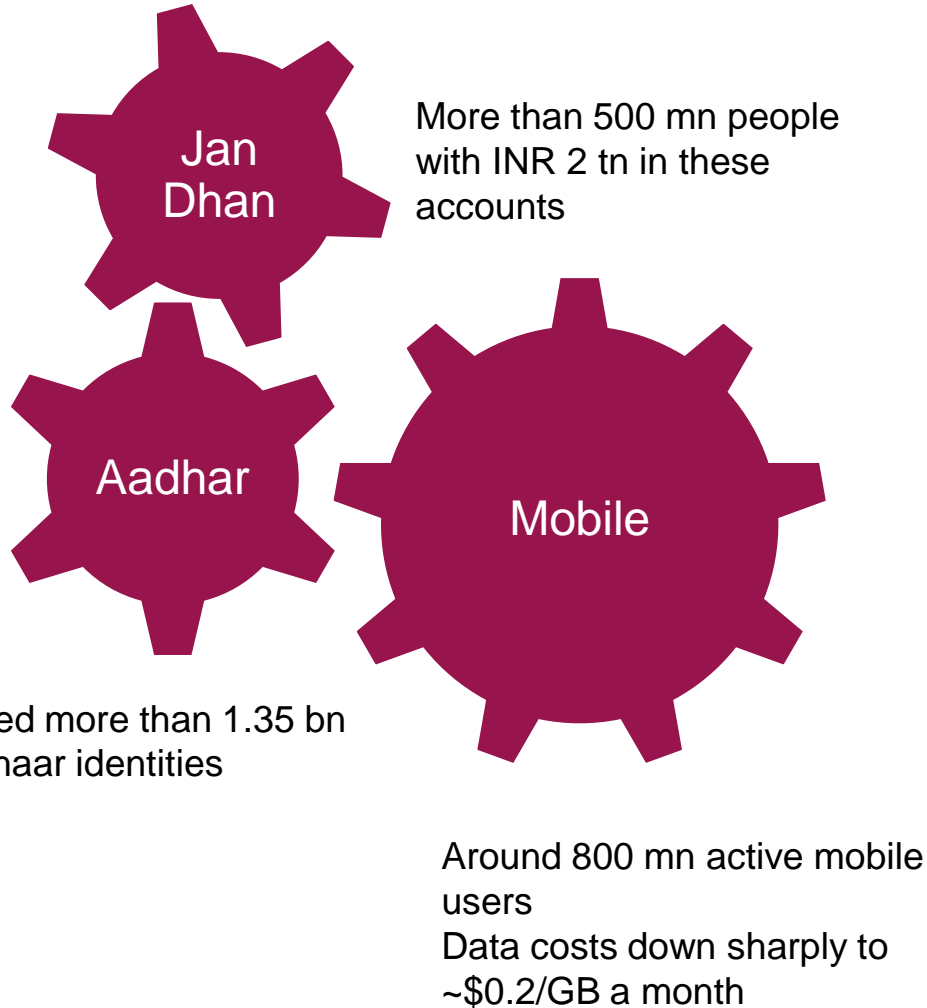
Total eCommerce Market in India



Penetration of eCommerce in India

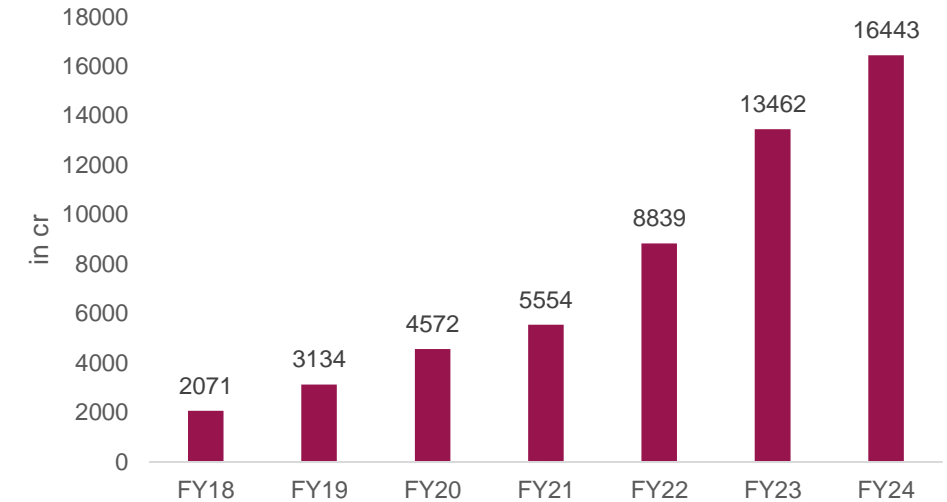


# Growth drivers: Digitalisation



## Trend in retail digital payments in India

Volume of retail payments through UPI



The growth of digital ecosystem in India has been driven by a number of factors, including the government's push towards digitalization, increase in internet and smartphone penetration, and the rise of e-commerce.



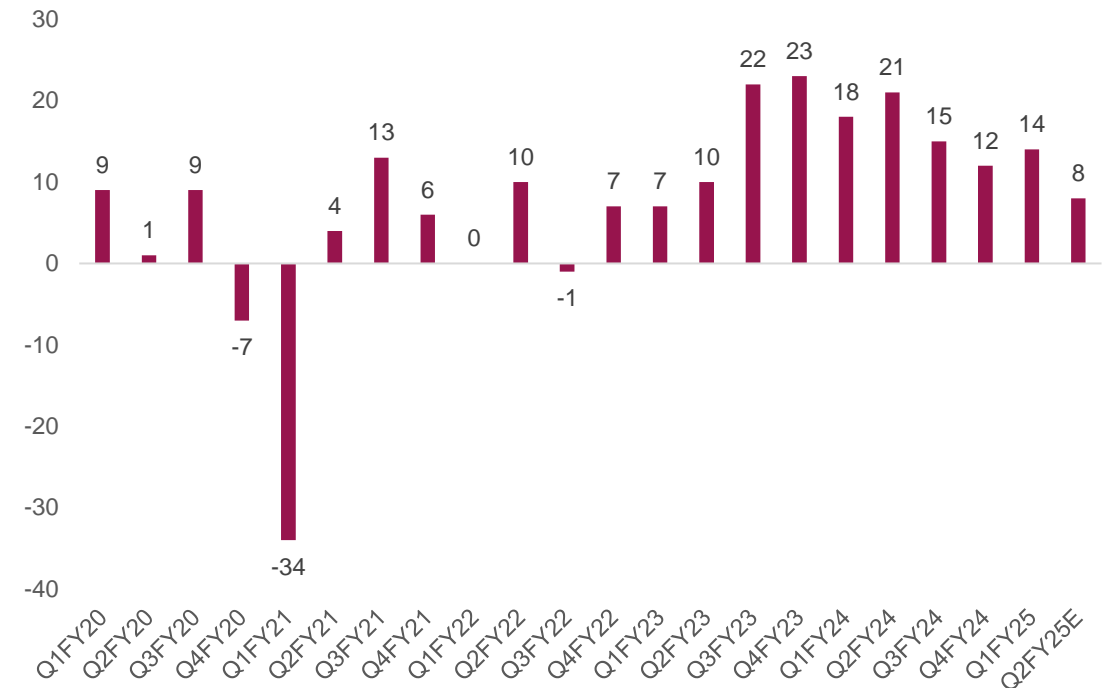
# Equity Markets & Valuations



# Q2FY25 earnings – a weak quarter

- 2QFY25 earnings season witnessed fairly muted underlying trends across sectors
- Broad-based slowdown seen in the Indian economy. Companies have broadly disappointed versus modest expectations on net sales, EBITDA and net profits
- Consumer companies reported weak prints so far, with suggestive of a challenging demand environment. Auto and consumer companies are reporting margin compression
- IT companies commentary suggests a gradual recovery ahead.
- Banks have done reasonably well, with moderate credit growth (yoy) and stable NIMs and asset quality (qoq)

EBITDA growth trend for domestic companies



# Market is expensive across themes

On an absolute basis, market remains expensive across themes and sectors

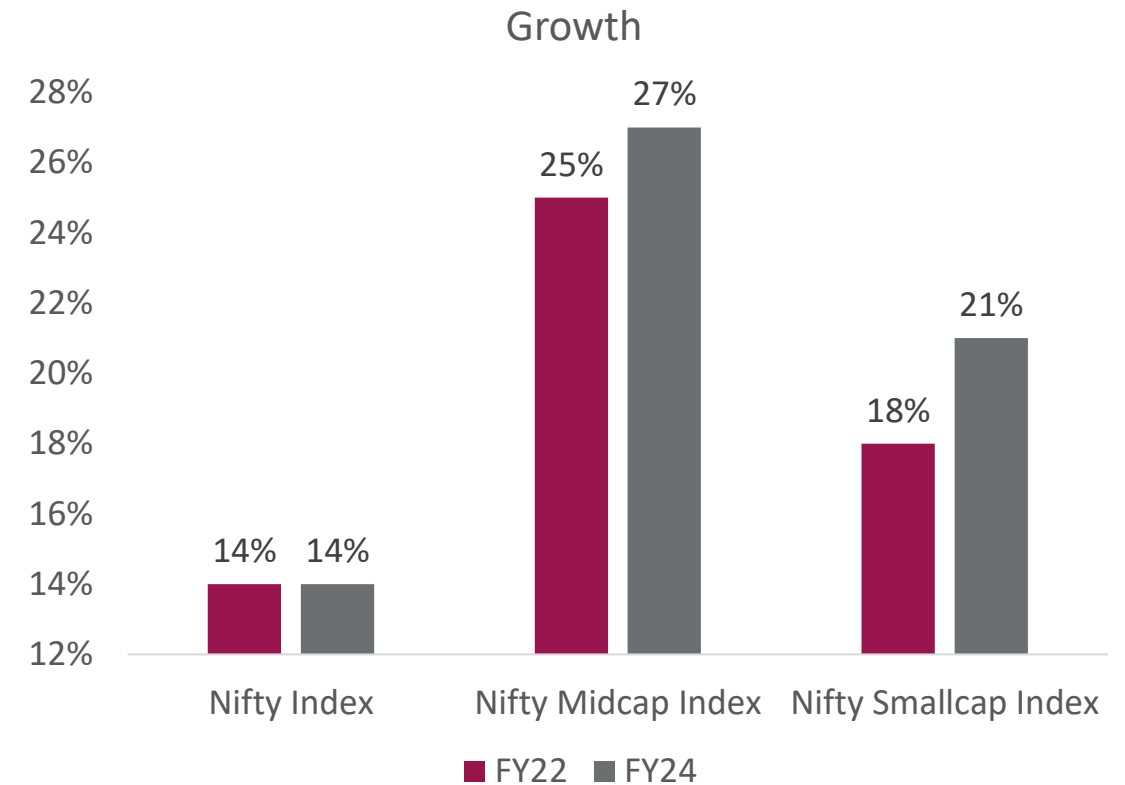
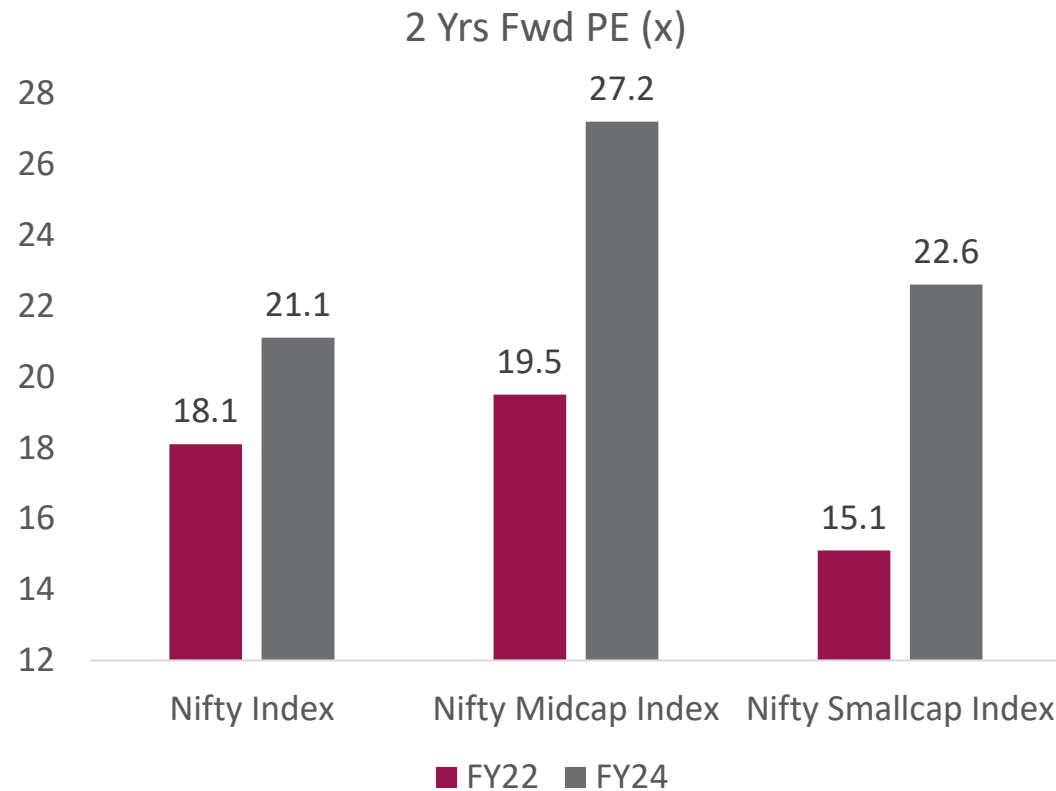
Relative outperformance in this expensive market is based on long term growth potential and the quality of companies

Sector 1 yr fwd P/E	Oct-14	Oct-19	Sep-24
Automobiles	14.5	20.8	23.3
Construction material	21.6	24.8	42.6
Consumer staples	30.3	36.3	44.7
Oil, gas and consumables	11.3	11.6	15.3
Capital goods	26.7	19.4	41.9
Metals & mining	11.0	8.3	12.8
Pharmaceuticals	24.5	19.6	31.7
IT services	19.6	19.5	27.4
Consumer Discretionary	41.4	52.3	69.6
Electric utilities	13.0	9.2	20.7
Private Banks	2.7	2.8	2.5

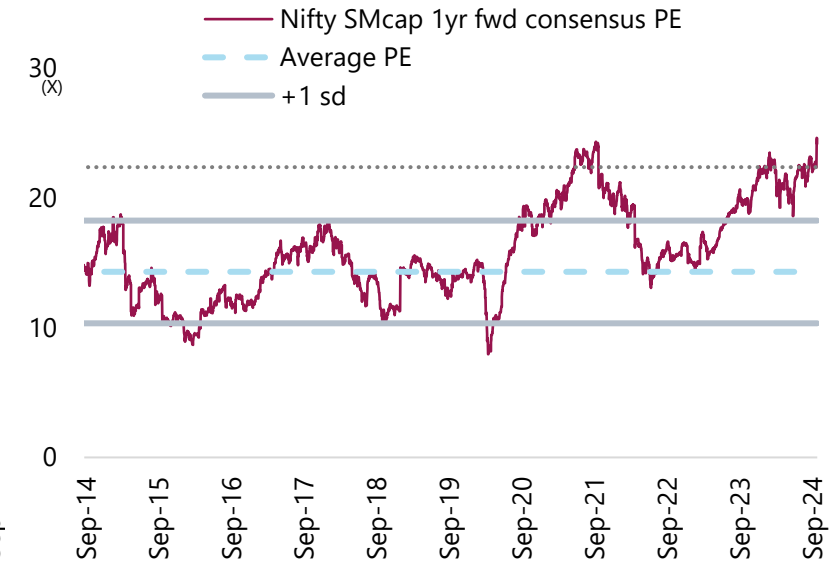
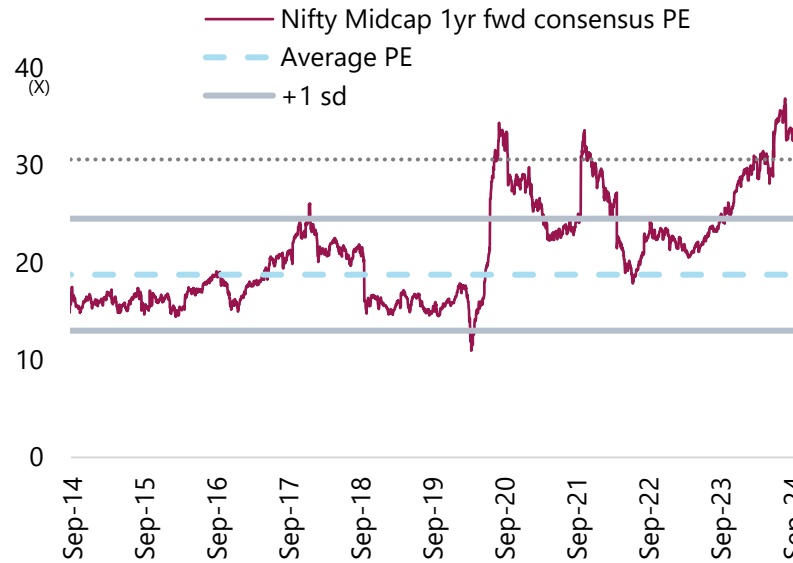
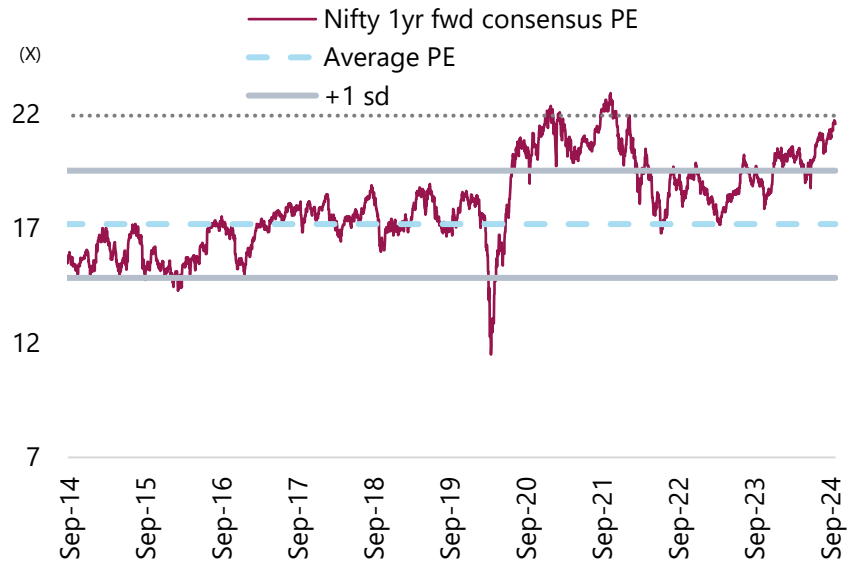
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# Current SMID premium at higher end

Large companies in India are relatively better but disappointing on growth front  
Mid and Small companies have delivered on growth but are expensive.



# Current SMID premium at higher end of historic ranges

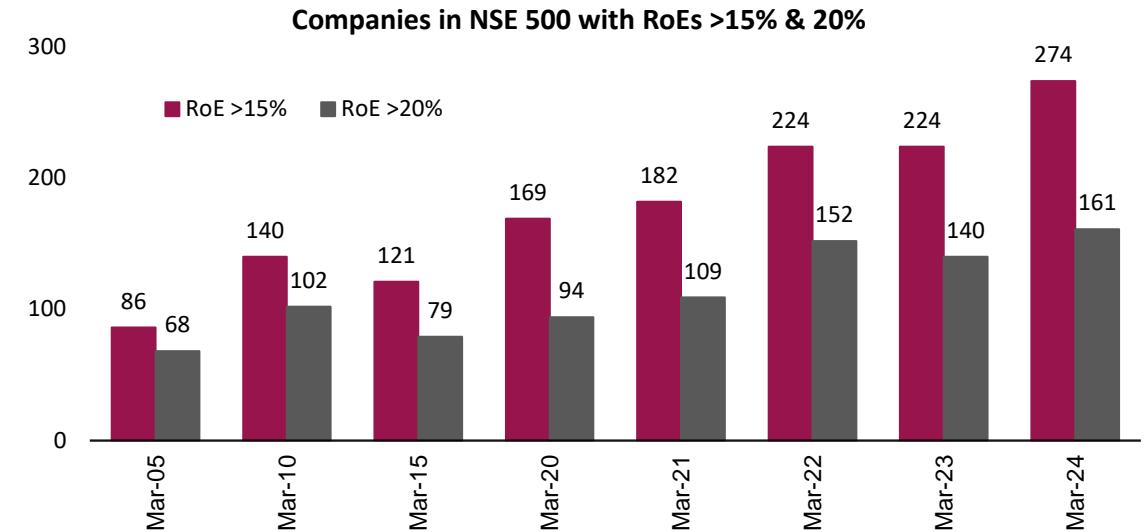
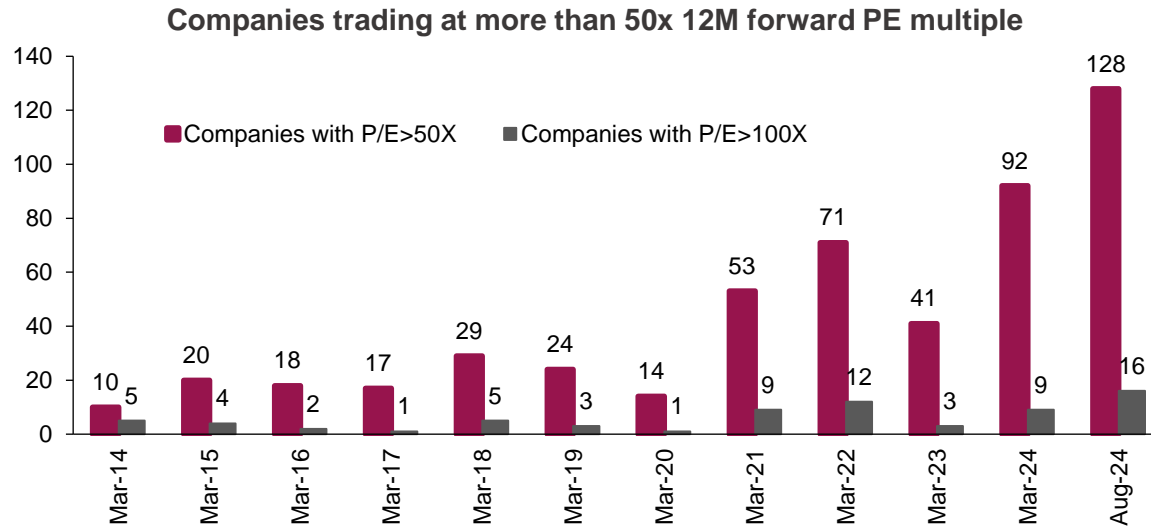


Nifty Midcap 100 Index 1yr fwd PE is much above its own average and also as compared to Nifty 50, partly as the domestic flows have disproportionately invested into the SMID names

Nifty Smallcap index is also trading at multiples similar to large caps and above the premium levels that Nifty 50 is trading to vs. its averages



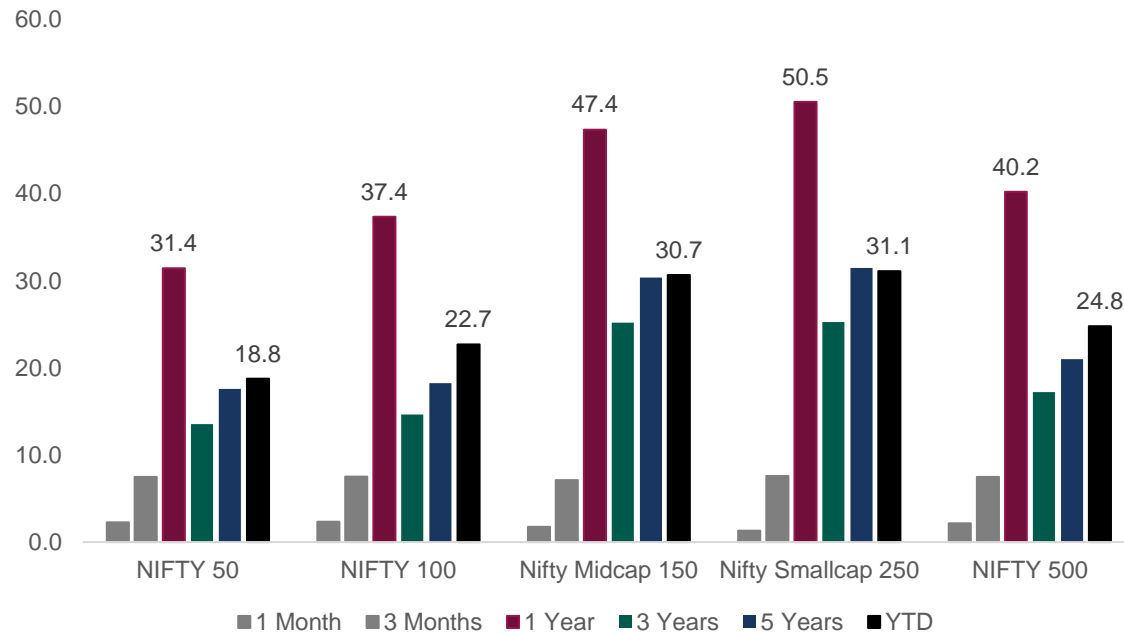
# Number of high P/E stocks are up



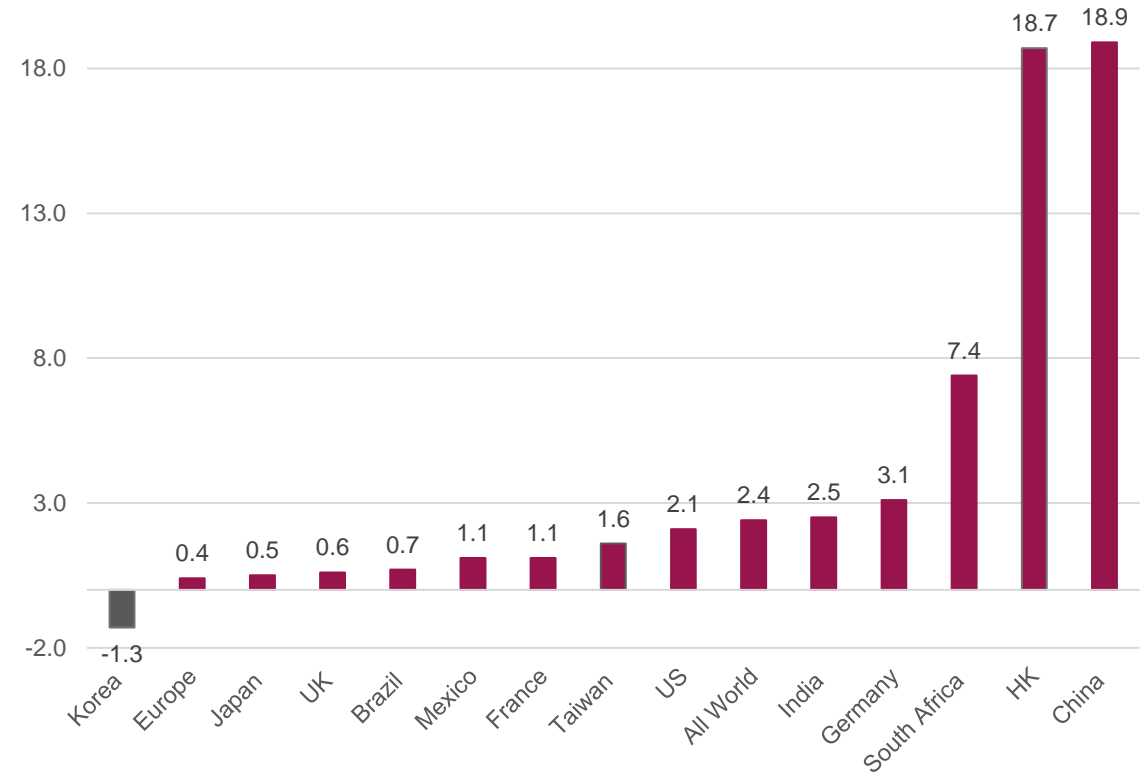
- Number of companies trading at more than 50X multiple has increased 10x over past 10 years
- Megacaps – Top 10 companies with more than \$50 bn market cap - have underperformed the aggregate Large, Mid and Small cap indices and have de-rated as well over the last year.

# Equities consolidate after all-time highs

Market performance in %



Global Markets, 1 Mth Returns in USD (%)



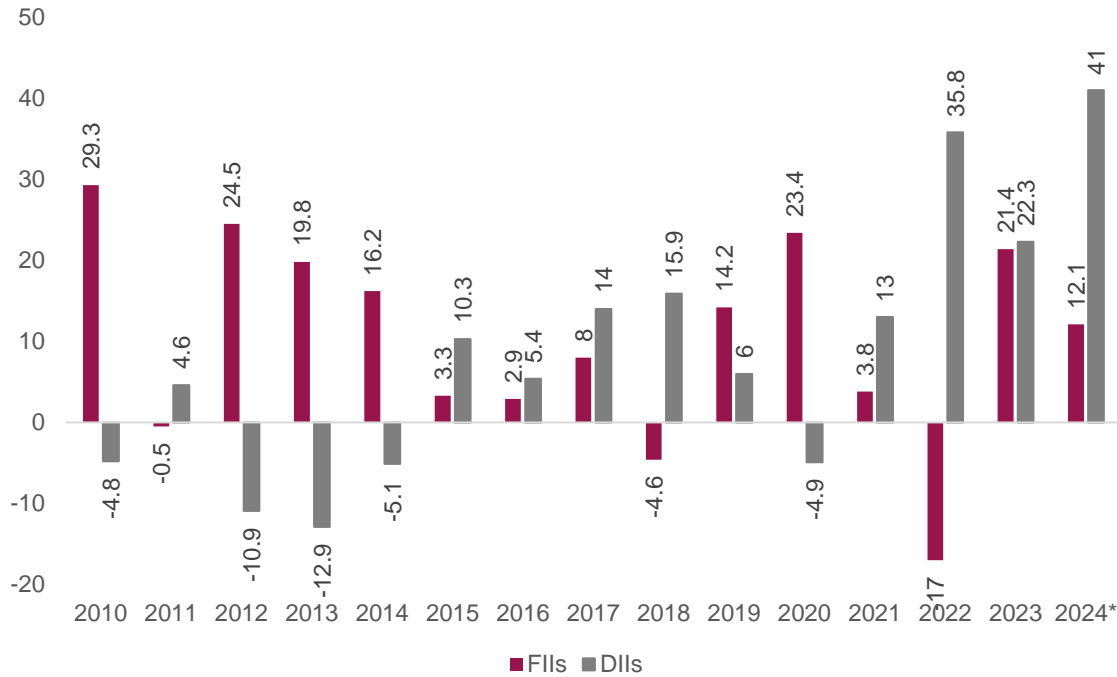
**After touching all time highs, frontline indices fell in early October amidst increasing geopolitical conflicts. China and Hong Kong were outliers due to stimulus measures unveiled in China**

Source: Bloomberg. Data as on 30 September 2024

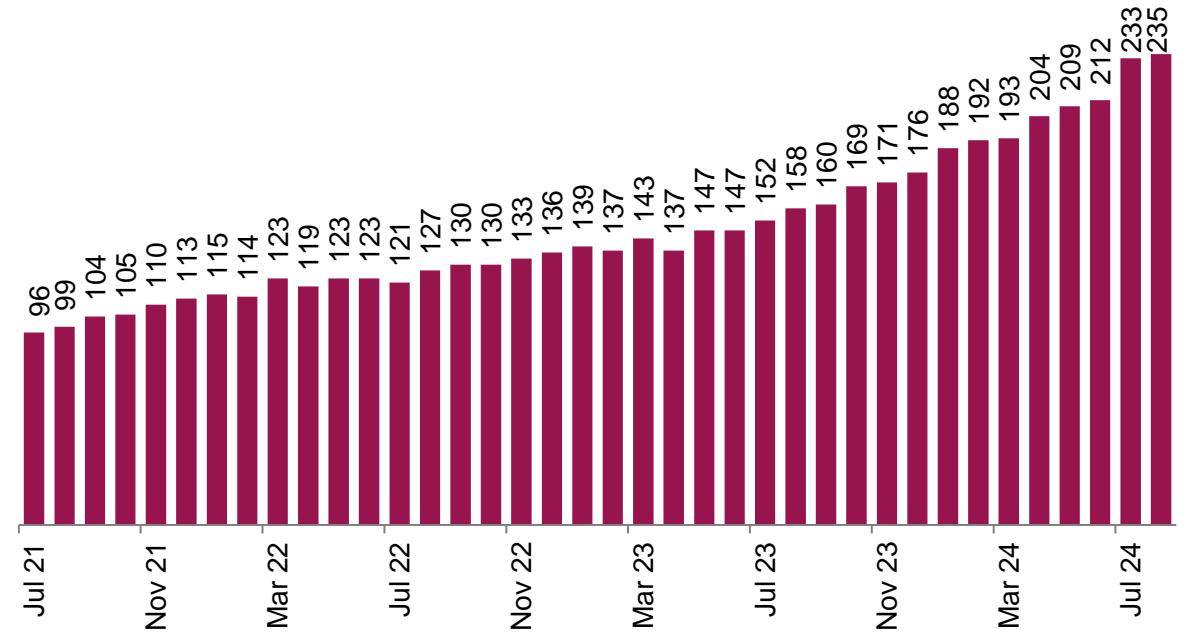
The above graph is used to explain the concept and is for illustration purpose only and should not be used for development or implementation of an investment strategy. Past performance may or may not be sustained in future.

# Demand side – Domestic investors drive flows

### Flows in Indian Equities – USD bn



### Systematic Investment Flows are consistent – Rs Mn



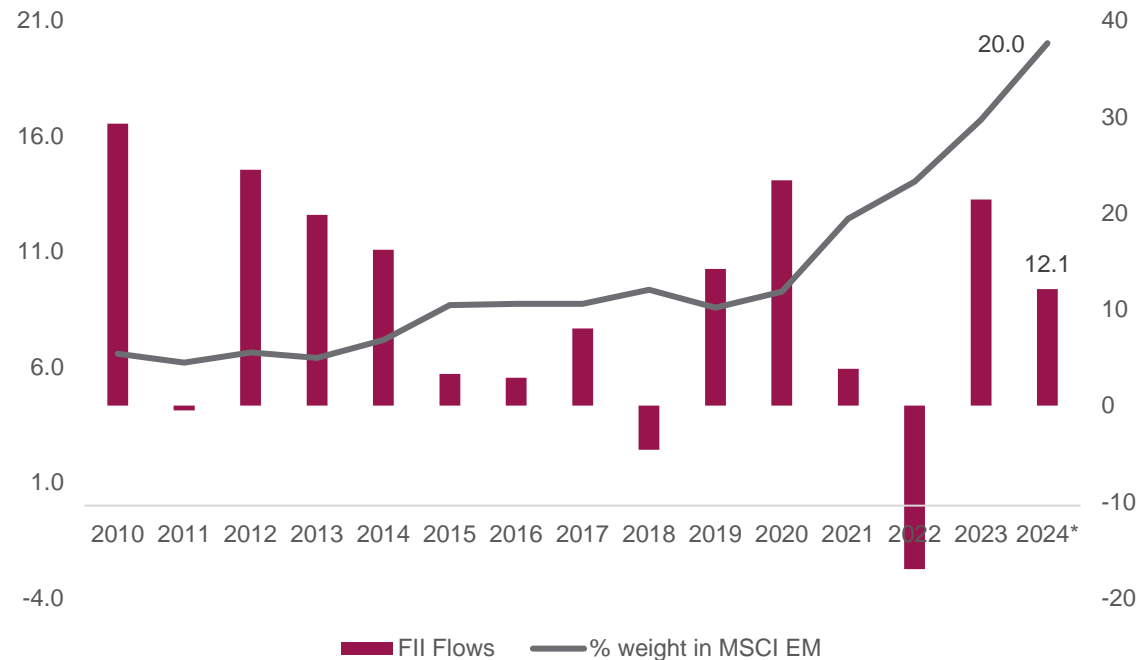
Consistent pool of domestic equity demand, an aggregate of mutual fund SIPs, equity contributions from pension schemes like EPFO/NPS, and insurance, is estimated to grow to ~Rs 3,30,000cr (US\$40 billion) annually.

**This is also the primary justification for the valuation premiums in the market.**

# FII flows are underweight India

## India outperforms peers across many years

FII flows have not kept pace with increase in India's weight



India outperformed broad indices significantly across many calendar years

	MSCI India	MSCI China	MSCI EM	MSCI APxJ	MSCI ACWI	MSCI World
2012	26.0%	11.4%	18.6%	22.7%	17.0%	16.5%
2013	-3.8%	-3.6%	-2.3%	3.3%	24.2%	27.4%
2014	23.9%	48.4%	-1.8%	5.1%	4.4%	5.5%
2015	-6.1%	3.3%	-14.6%	-8.9%	-1.7%	-0.3%
2016	-1.4%	-15.5%	11.6%	5.8%	9.0%	8.2%
2017	38.8%	29.8%	37.8%	42.1%	24.6%	23.0%
2018	-7.3%	-30.3%	-14.2%	-14.1%	-9.6%	-8.2%
2019	7.6%	36.1%	18.9%	18.5%	27.0%	28.4%
2020	15.9%	43.2%	18.7%	25.4%	16.8%	16.5%
2021	26.7%	3.2%	-2.2%	-4.5%	18.7%	22.4%
2022	-7.5%	-26.0%	-19.7%	-19.4%	-18.0%	-17.7%
2023	21.3%	-13.3%	9.8%	4.6%	22.2%	23.8%
2024*	25.8%	29.3%	16.9%	19.9%	18.7%	18.9%

Source: MSCI, NSDL. Date: 30 September 2024. The above graph is used to explain the concept and is for illustration purpose only and should not be used for development or implementation of an investment strategy. Past performance may or may not be sustained in future.



# Portfolio Positioning

Where do we go from here?

# Our portfolio companies

## Identifying relative winners

### Business strategy and prospects

1

- Durable business mode
- Competitive strengths
- Long term track record

### Industry traits

2

- Growth potential
- Level of competition
- Entry barriers

### Management team

3

- Experience & track record
- Width of talent
- Governance standards

### Balance sheet

4

- Efficiency in managing capital
- Leverage
- Profit margins
- Cash flows

Our portfolios comprise of companies which exhibit

### Qualitative Factors

1. Strong management pedigree
2. Transparency of operations for investors and key stakeholders
3. Credible oversight committees and strong internal controls
4. Sustainable long-term business model

### Quantitative Factors

1. Strong Return Metrics (E.g., Return on Equity (ROE), Return on Capital Employed (ROCE))
2. Stable Cash Flow – A company should be able to fund its organic growth from internal accruals and use long-term capital and working capital efficiently.
3. High profitability, low debt-to-equity, and earnings consistency

# Themes at Play

## Key focus areas across portfolios



### O/W Domestic Manufacturing:

- India's capex cycle particularly in the private sector
- Improved balance sheet, capacity utilisation, pricing power
- Production linked incentive schemes that boost domestic manufacturing
- Focus on construction, transport and ancillary sectors



### O/W Consumption:

- Affluent India driving growth - Upgradation and premiumisation driving urban demand
- High end goods (SUVs, real estate, jewelry, luxury goods)
- Focus on Autos, Real Estate, Consumer Discretionary



### O/W Policy driven:

- Policy driven government initiatives
- Focus on improving profitability in the PSUs
- Focus on core sectors such as power, infra, and defence



### U/W Exports:

- Slowdown in global market
- Underweight on sectors that can be impacted by the slowdown
- Underweight in exports oriented sectors – IT, capital goods, auto ancillaries

# In Summary

## Why should you stay invested?

- India is currently witnessing the confluence of the best macro and micro tailwinds with ~8% GDP growth, moderating inflation, easing 10-year G-sec yield, stable currency, and resilient corporate earnings so far.
- Nifty is trading at a 12-month forward P/E ratio of 20.7x, which is in-line with its long-period average even as broader markets trade at expensive valuations.
- The capex cycle is already turning around, and government related infrastructure spending should get a boost. Private sector is leading the revival of capex spends.
- Consumption has seen a turn around in the rural segment. A good monsoon, better kharif sowing and the festive season is indicative of further boost in consumption.
- Investment-driven growth will be pivotal, with the government's emphasis on infrastructure, housing, energy transition, and manufacturing playing a crucial role.
- In current phase of consolidation and higher valuations, it is important to be spread across market caps.



### Key risks:

- Slower global growth and developments – US slowdown, Israel-Iran tensions, sharp appreciation in yen, China stimulus measures
- Any rise in crude oil prices
- Geopolitical risks
- Relatively higher valuations



### What We Like

Cyclicals and Defensives at current juncture  
Multicaps - exposure across market caps based on valuations  
OW Financials, Consumer Discretionary and Industrials, pharmaceuticals  
UW exports



# Performance Disclaimer and Risk factors

## **Past performance may or may not be sustained in the future.**

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**Thank  
You!**