



Service



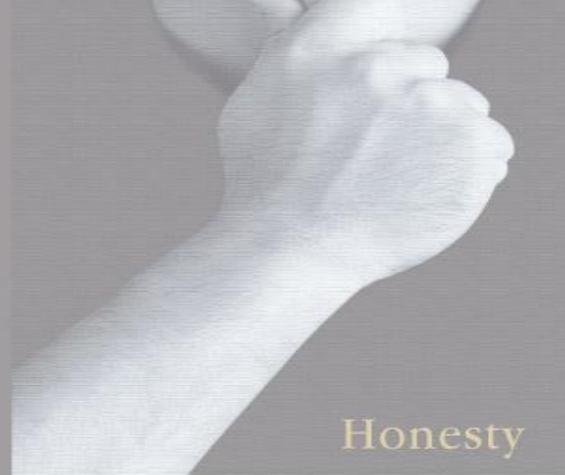
Discipline



Prudence



Fair play



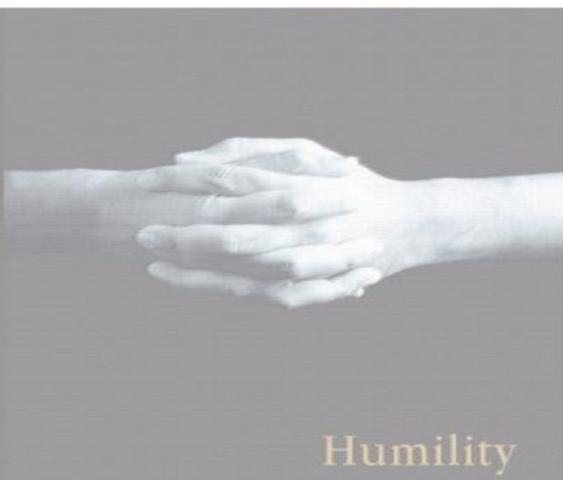
Honesty

Sundaram Asset Management

December 2022



Integrity



Humility



Openness



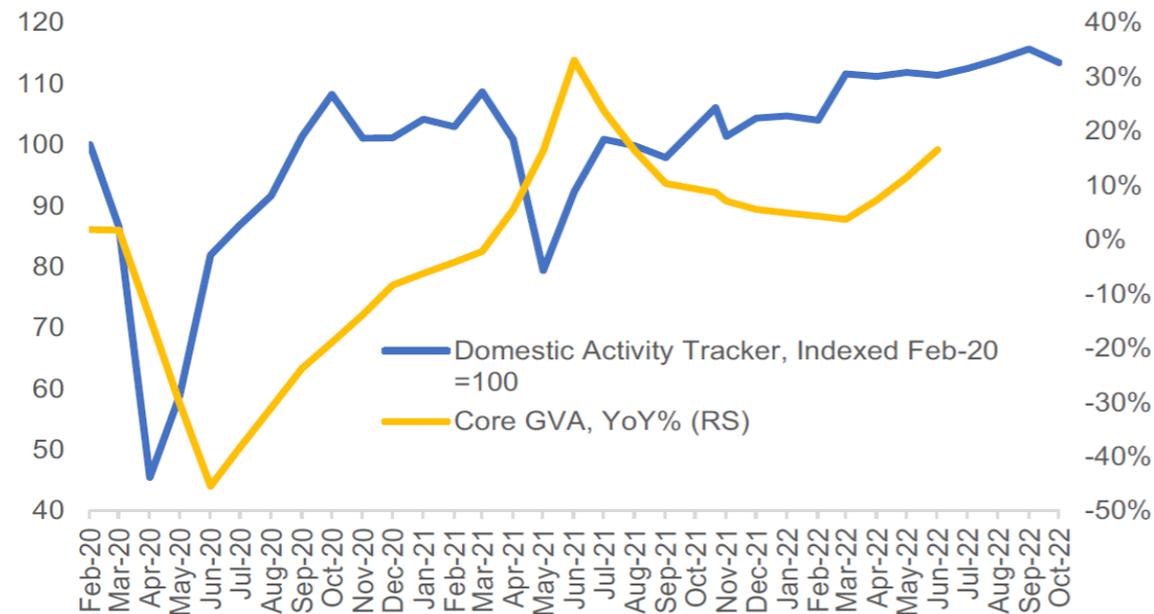
Relationships

India Economy Outlook

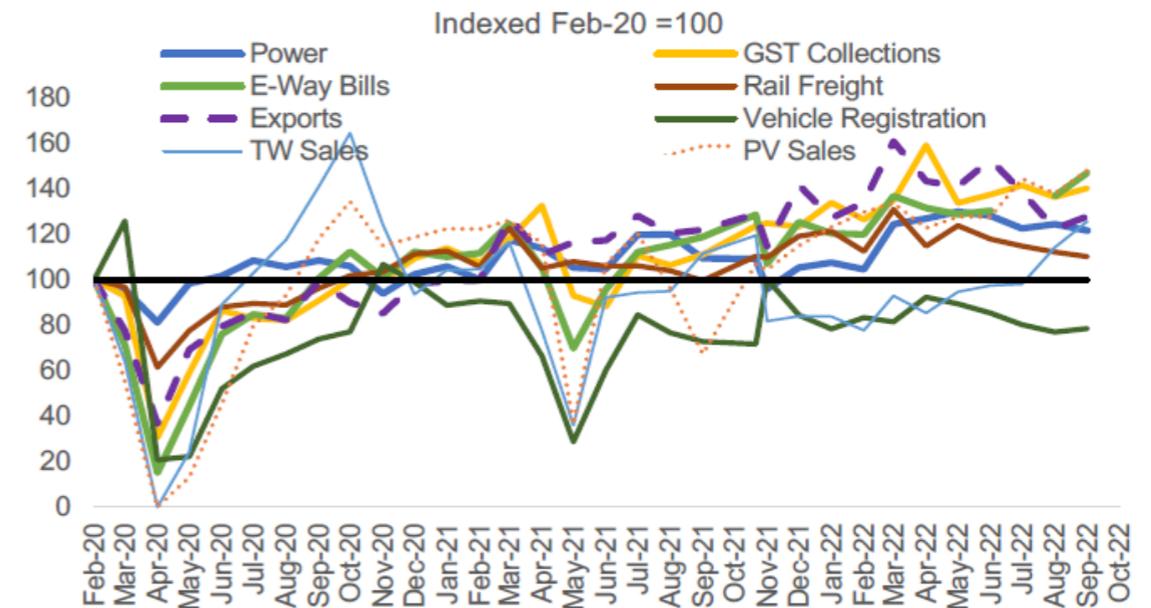


Economic activity remains well above pre-pandemic levels

Morgan Stanley activity tracker



Select high frequency indicators from their pre-COVID levels

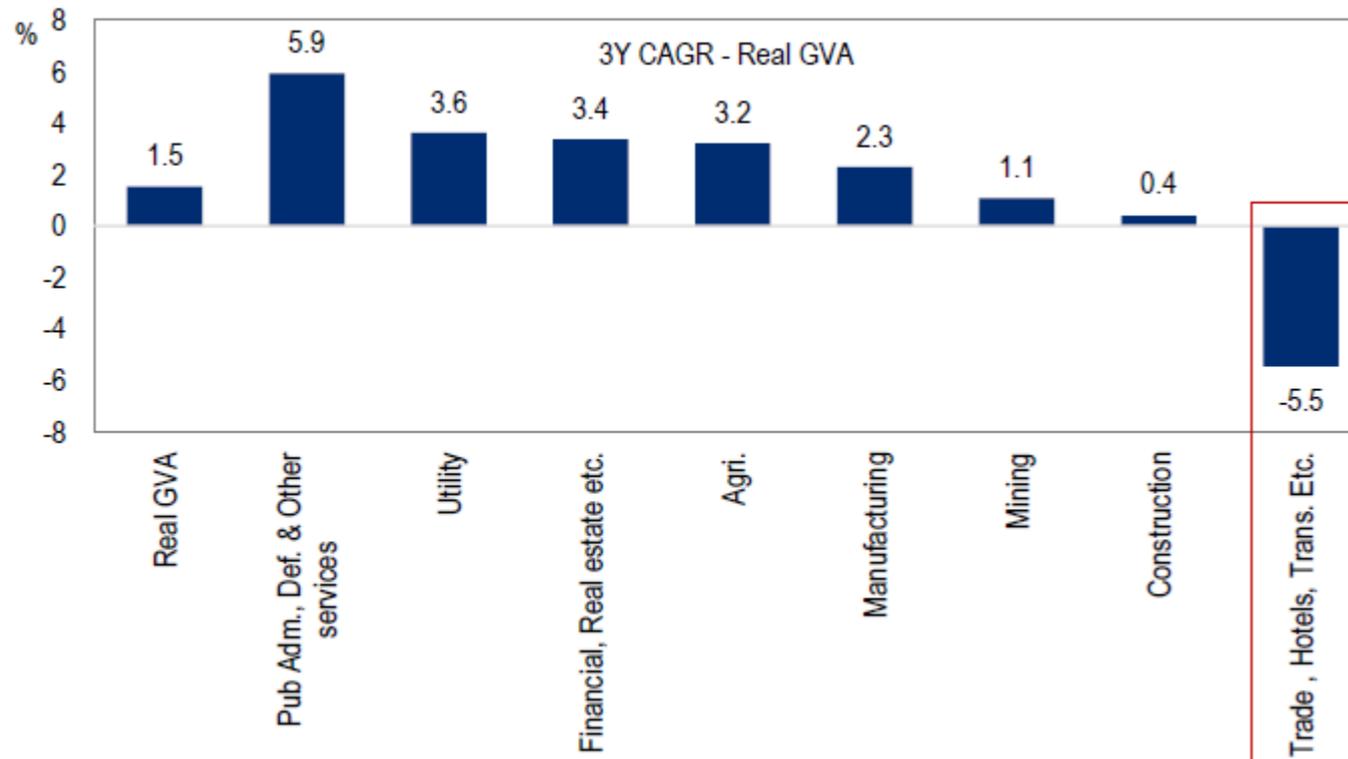


- With the pandemic well behind us, the quarters ahead would see a targeted focus on growth
- Unemployment has stabilized, with a bias towards a pickup in urban employment (read: remigration and contact-sensitive focus)
- After two pandemic years, India's festive season has witnessed an appreciable pickup, reflecting in the high frequency indicators

Source : Morgan Stanley, Sundaram Asset Management

Most sectors are well above pre-COVID levels in real terms

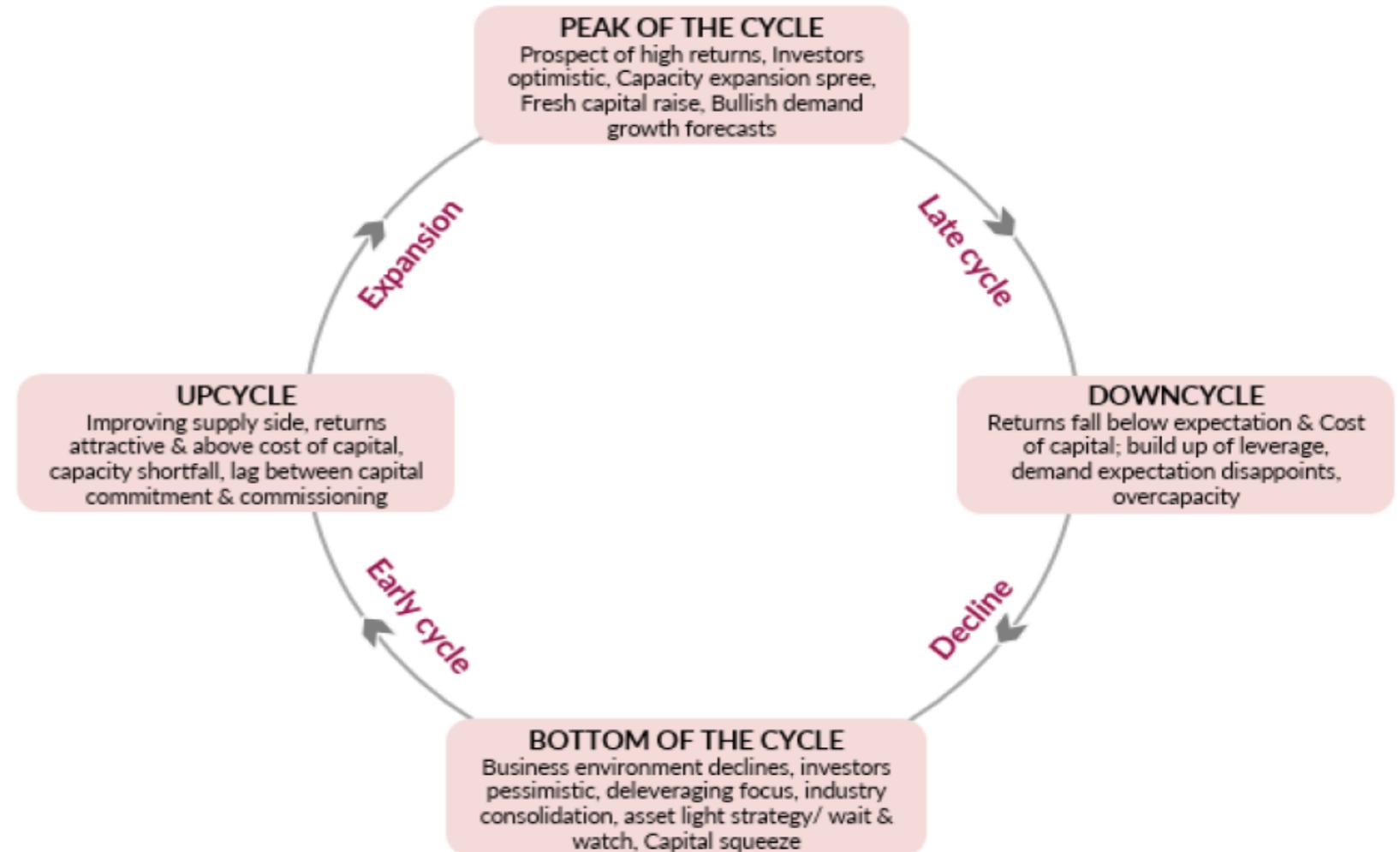
GVA sector levels, 3Yr %CAGR



- All sectors except the trade/hotels/transportation segment are well above pre-COVID levels
- Urban remigration into contact-sensitives is witnessing a gradual normalization in trade segment growth
- FY23 GDP growth is expected around 6.8% and FY24 growth is set to hover around the same
- Risks to the forecast are: **1)** stubborn US inflation, **2)** higher/sticky agri prices, **3)** a sudden China growth spurt and **4)** crude price increases

India at the start of the early cycle

- India is just past the bottom and in the early stage of the business cycle
- India industrials have four key drivers:
 - Focus on energy efficiency / sustainability
 - Automation / digitization
 - Import substitution / export competitiveness (PLI could add 0.3-0.5% to annual GDP growth between 2023-27)
 - Secular growth in PSU capex and govt. infra



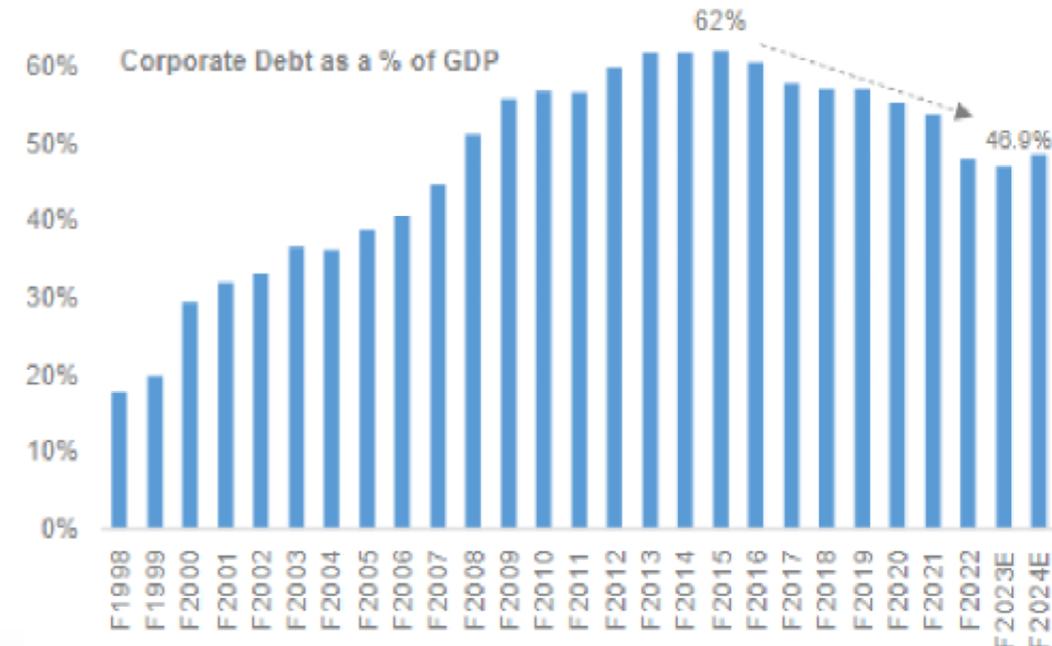
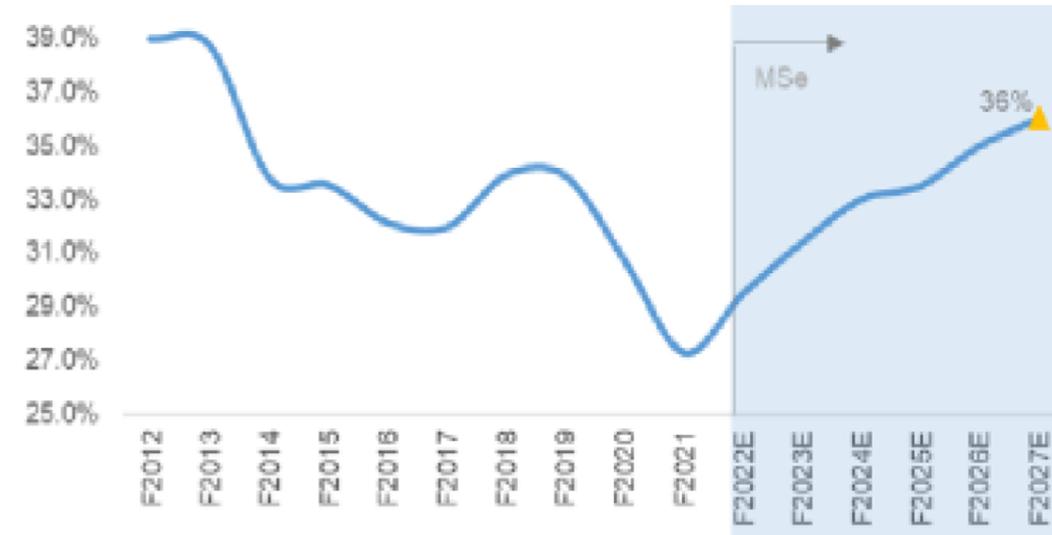
India at the start of the early cycle

- India's Capex as a % of GDP is expected to jump to 36% by FY27, from 30% in FY22.

- Eight key enablers for this:

- Deleveraged corporate B/S
- Healthy financial sector B/S
- Low household debt
- Improved real estate performance
- Improved supply-side govt reforms
- Supply chain diversification
- Improved domestic demand and consumer confidence
- Increase in capacity utilisation

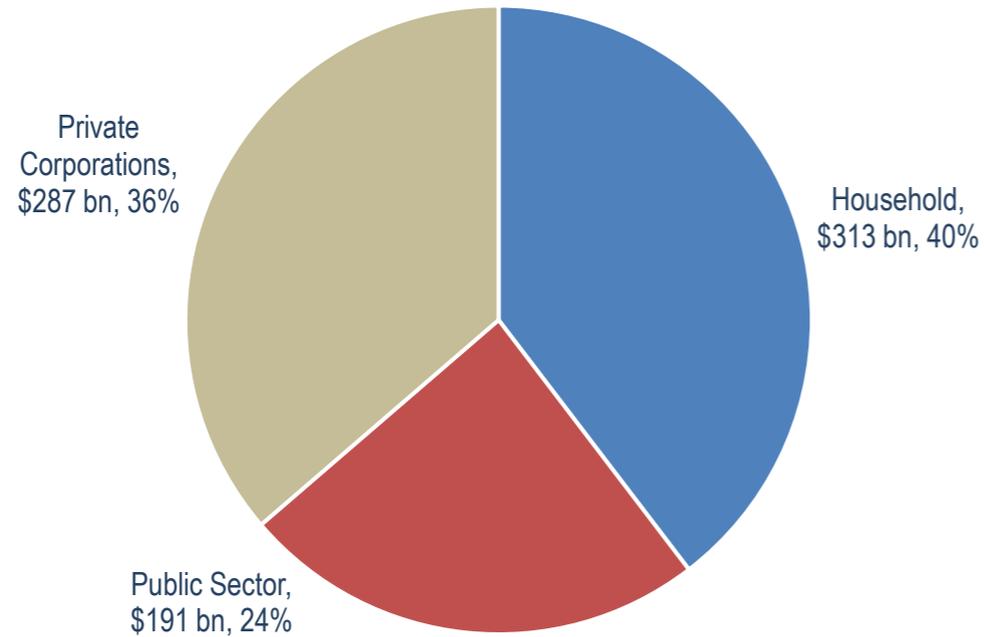
Capex % of GDP



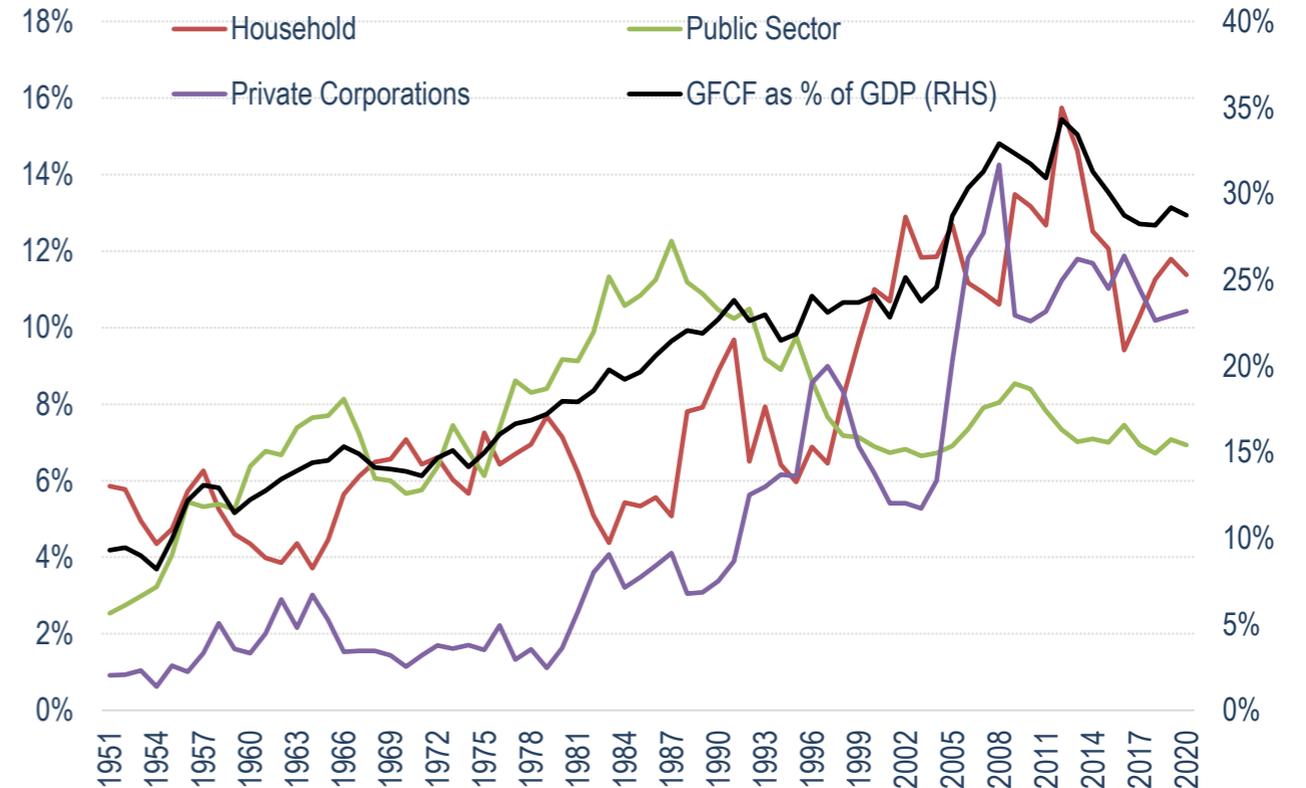
Source: Axis Capital, Sundaram Asset Management

Gross Fixed Capital Formation (GFCF) poised to pick up after years of decline

India Gross Fixed Capital components for CY 2020

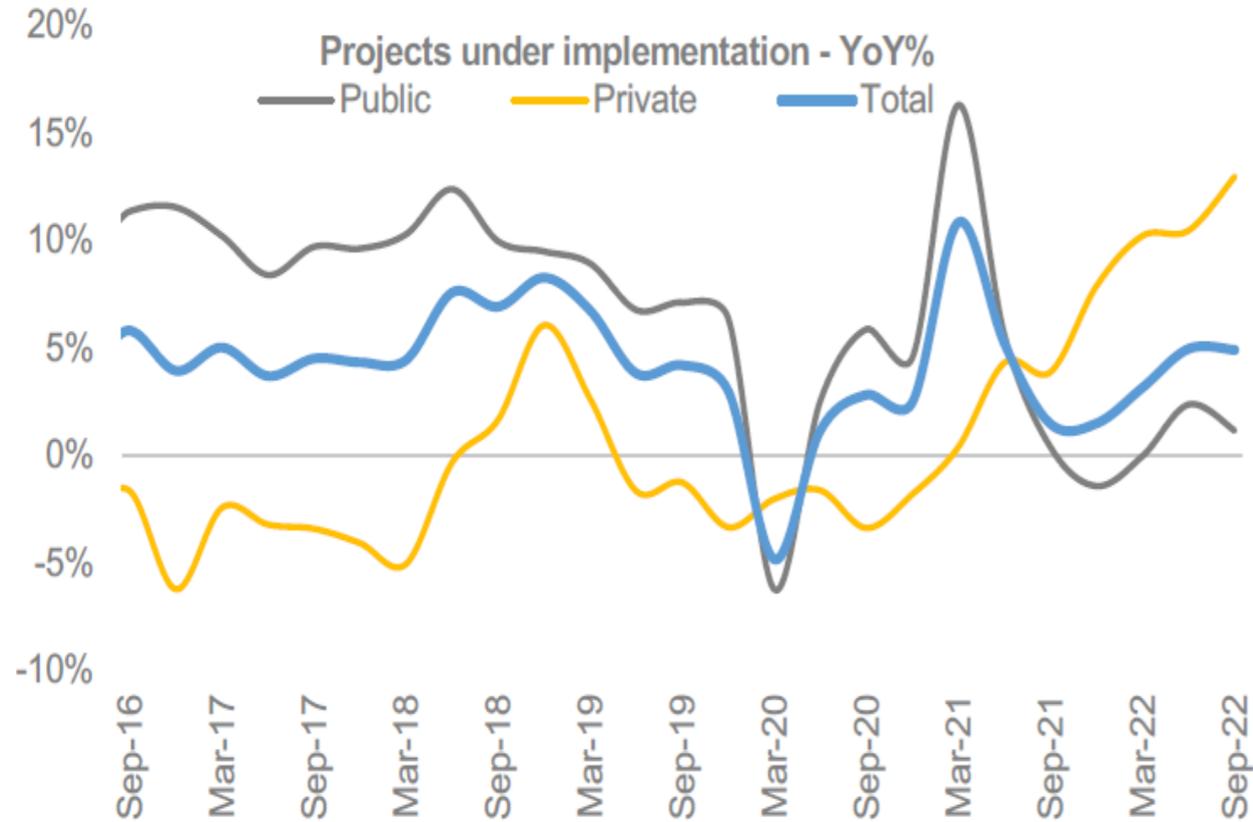


GFCF over the years

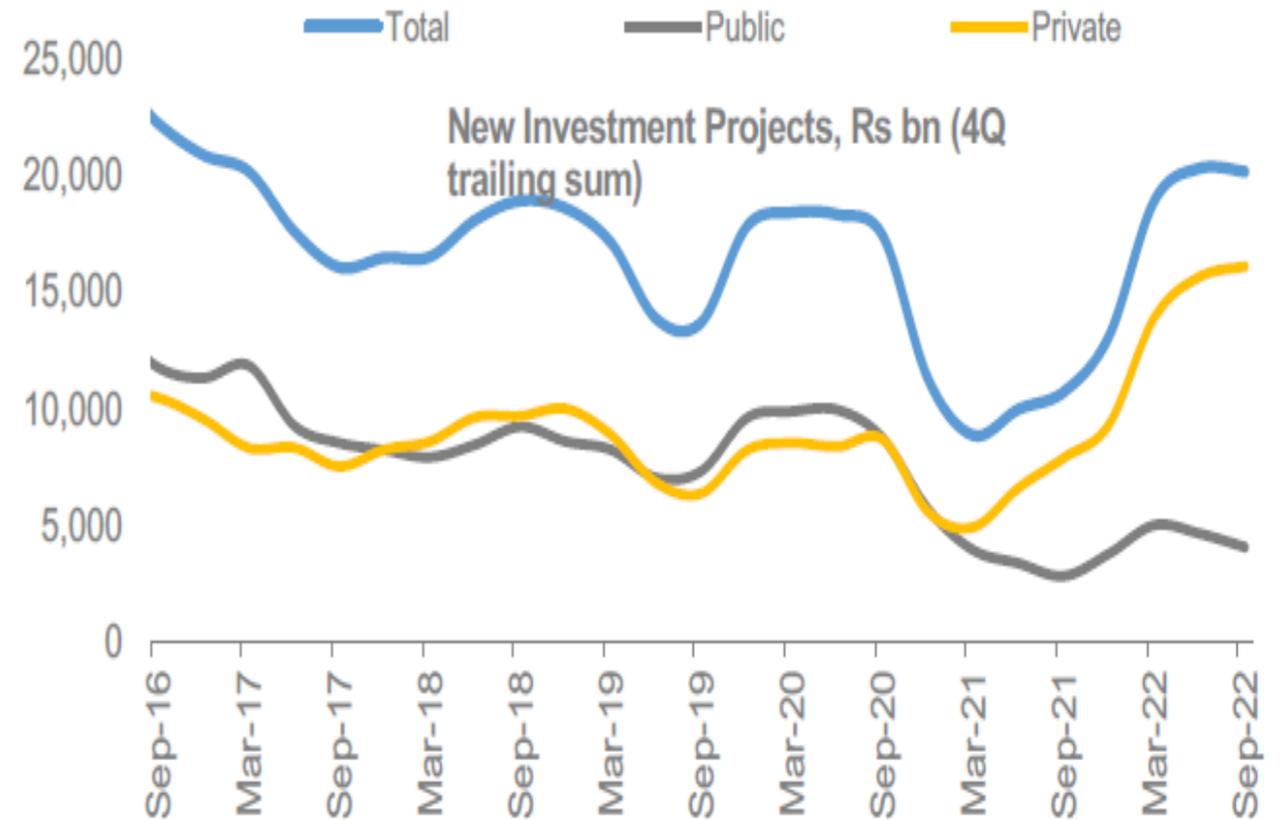


Source : Credit Suisse

Projects under implementation see a continued push from Private sector



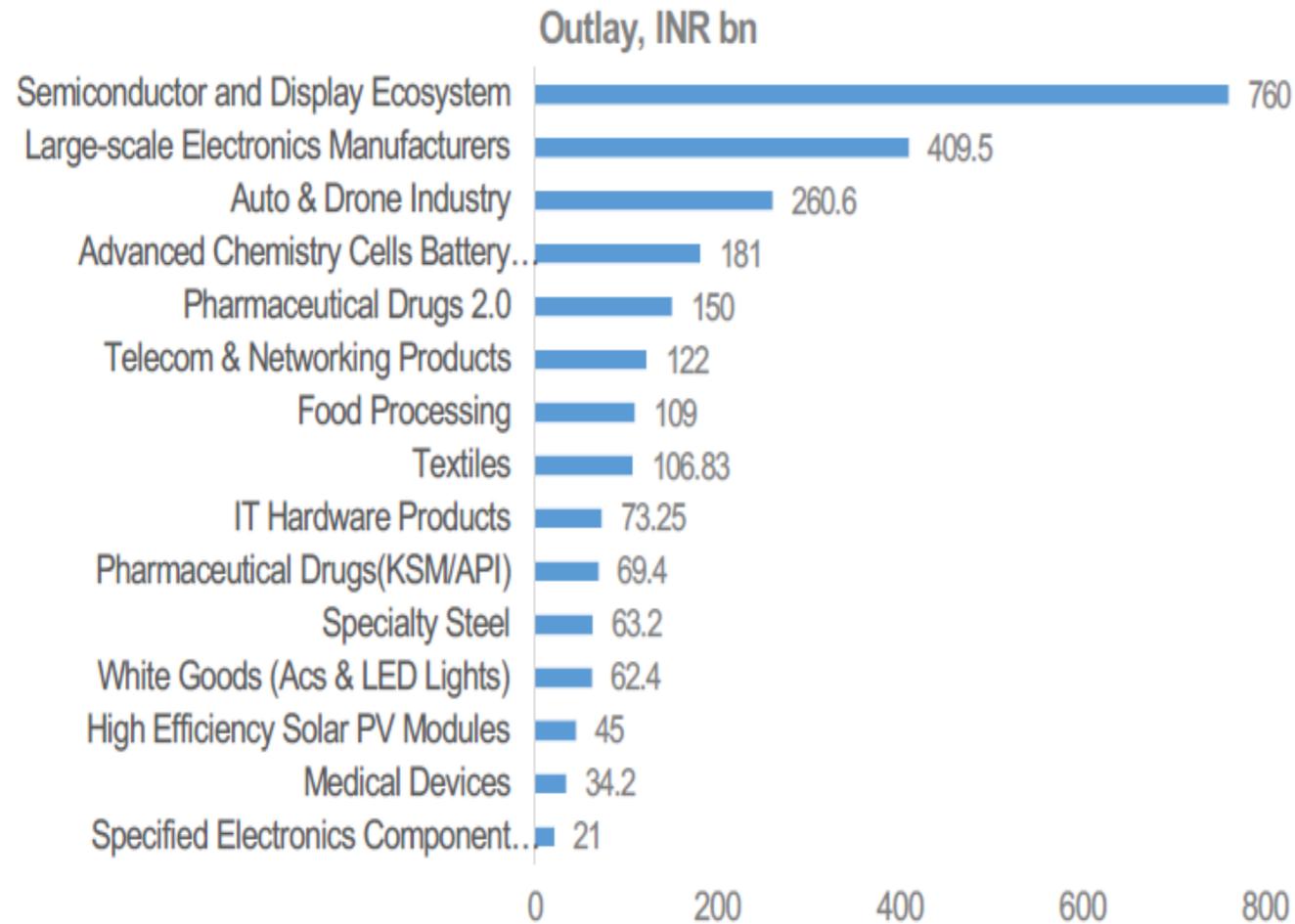
Trend in new projects continues to hold up with Private Sector Momentum continuing



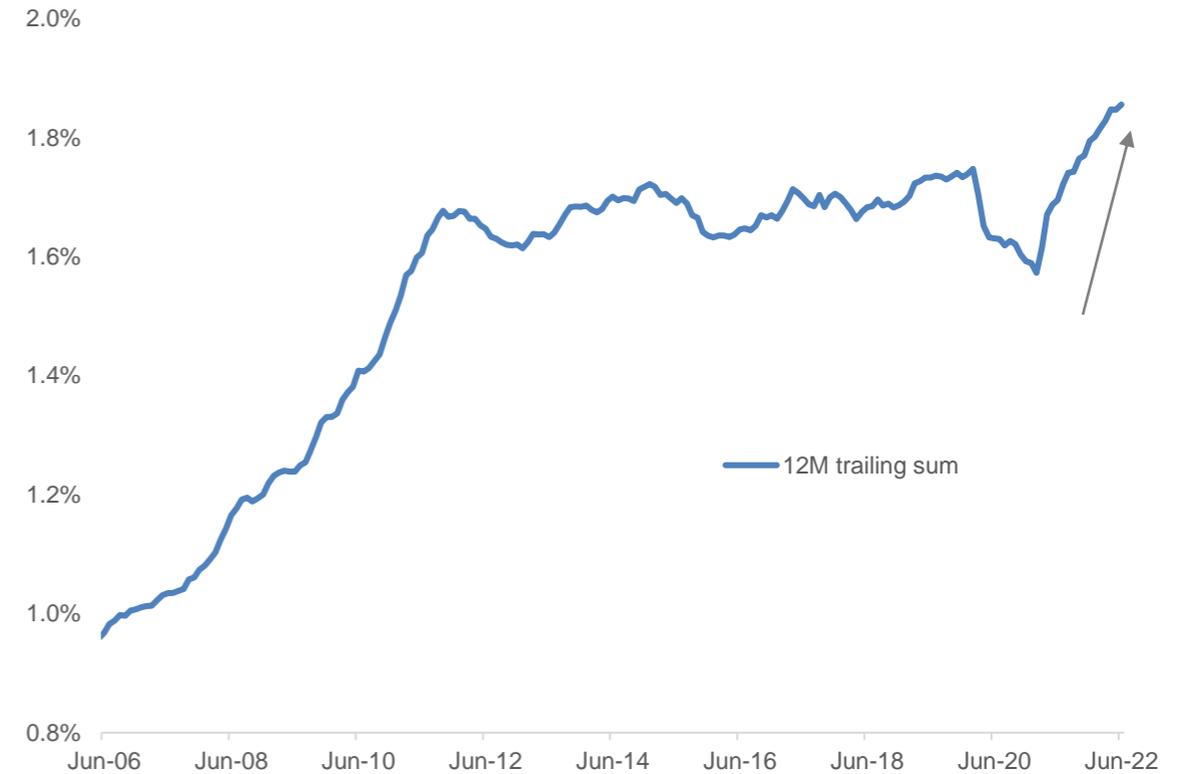
Source : Credit Suisse

PLI – a game changer, driving exports

PLI outlays approved by Sector



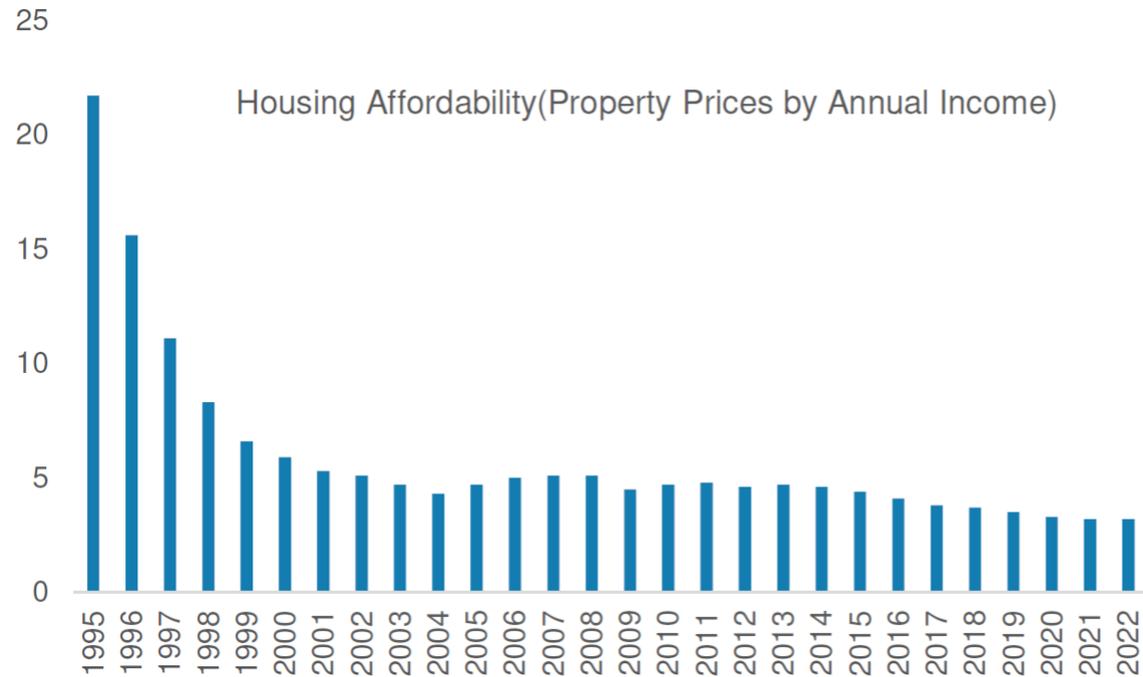
India World Goods Exports Share (%)



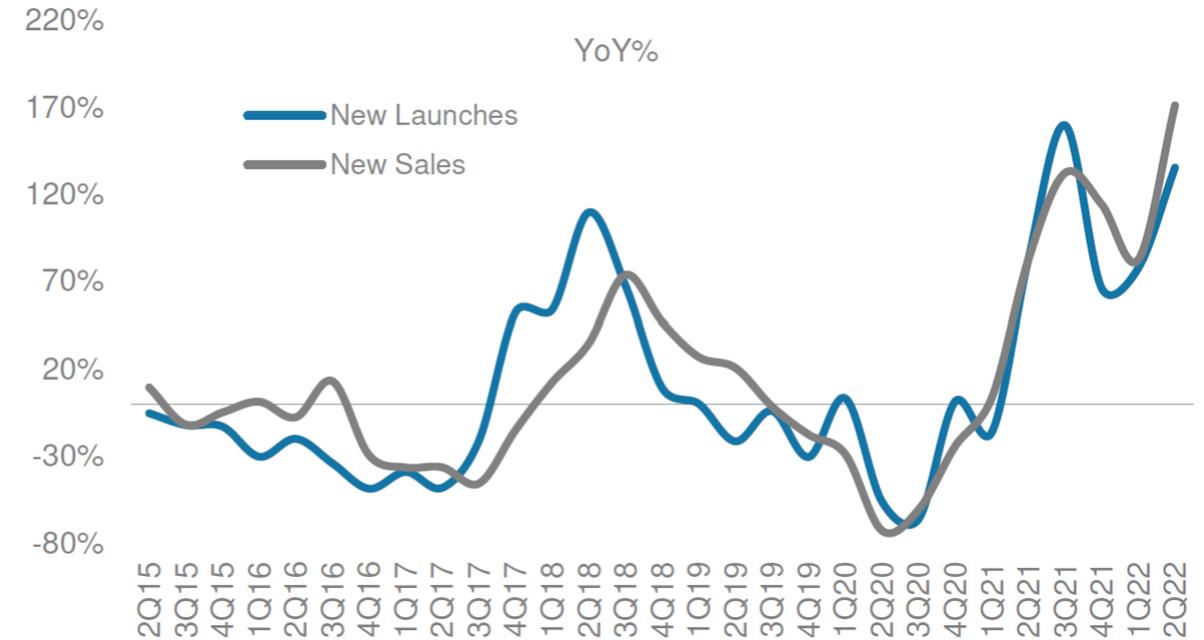
Source : Morgan Stanley , Sundaram Asset Management

Residential Housing Sector

Housing Affordability highest in 2.5 decades



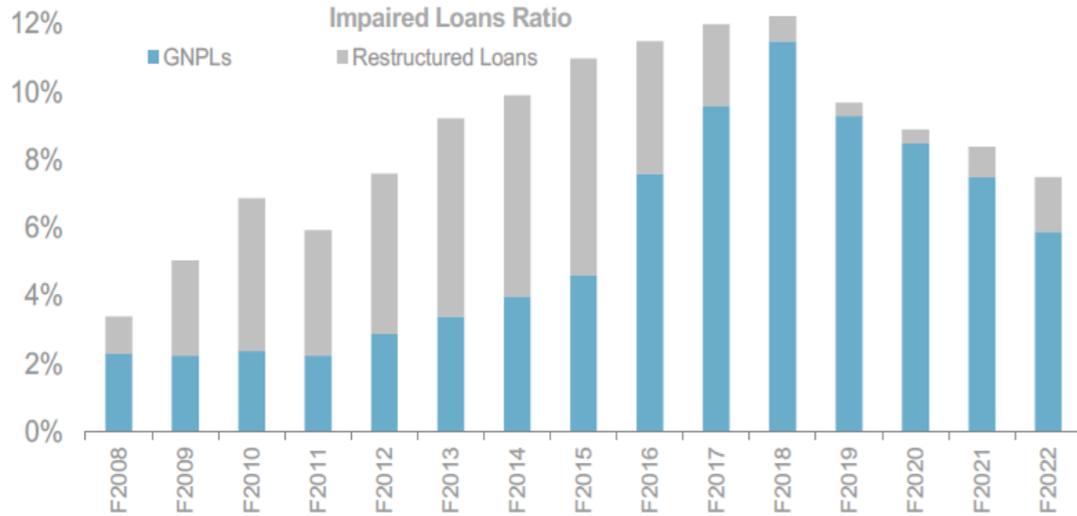
New Property Sales accelerate to highest in 8 years



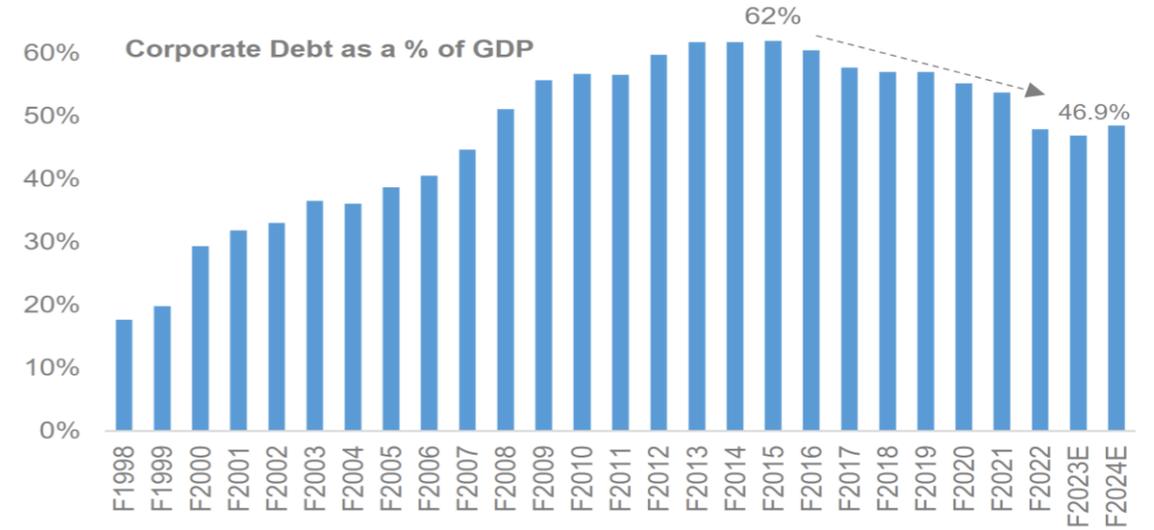
Source : JLL, Morgan Stanley, HDFC Report

Healthy Banking and Corporate Sectors will support the Capex growth

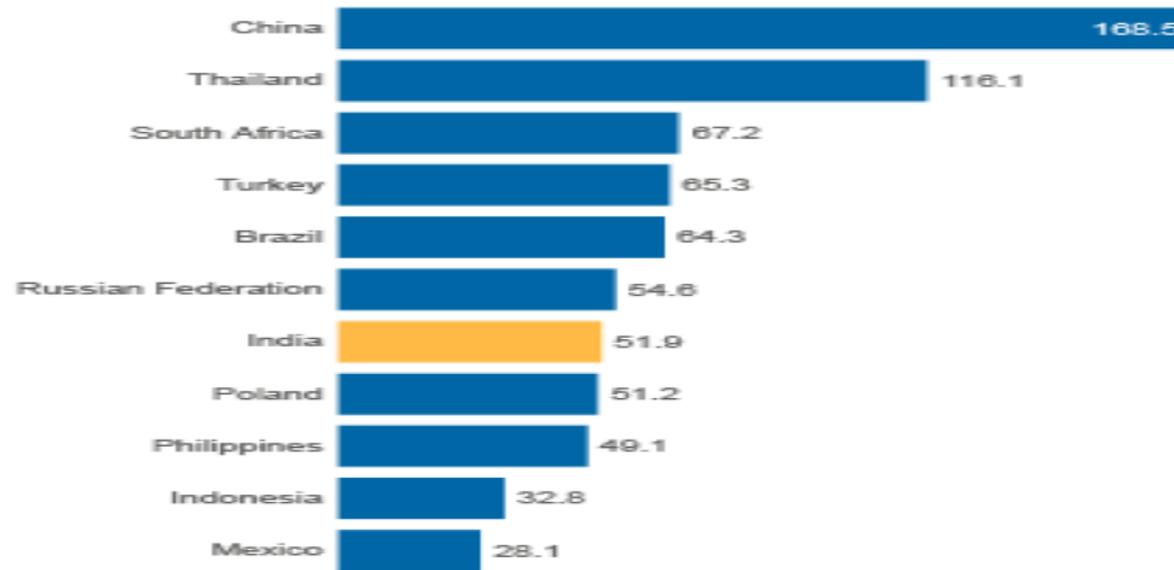
GNPL Ratio - Impaired Loans are at a 11 Year Low



Corporate Debt as a % of GDP trending lower



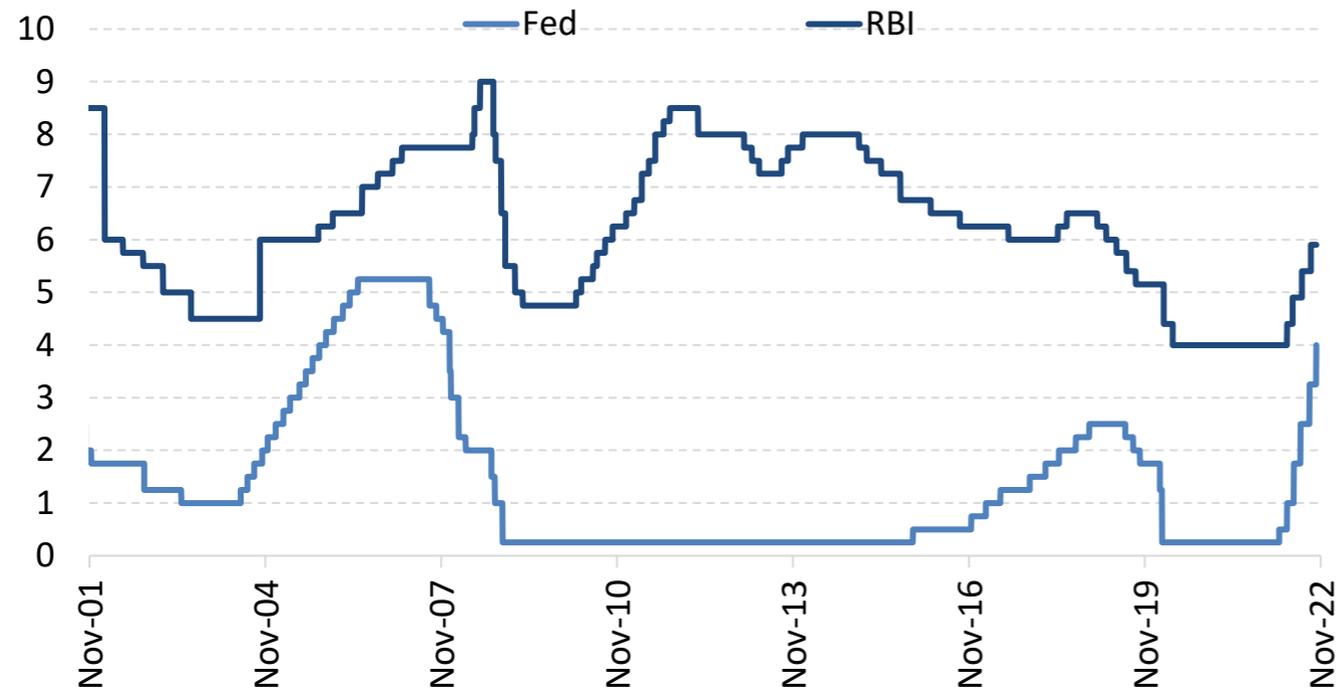
Bank credit to private sector (%GDP, 2018 – 2020 average)



Source : Morgan Stanley

RBI frontloading hikes not to be as aggressive as the Fed

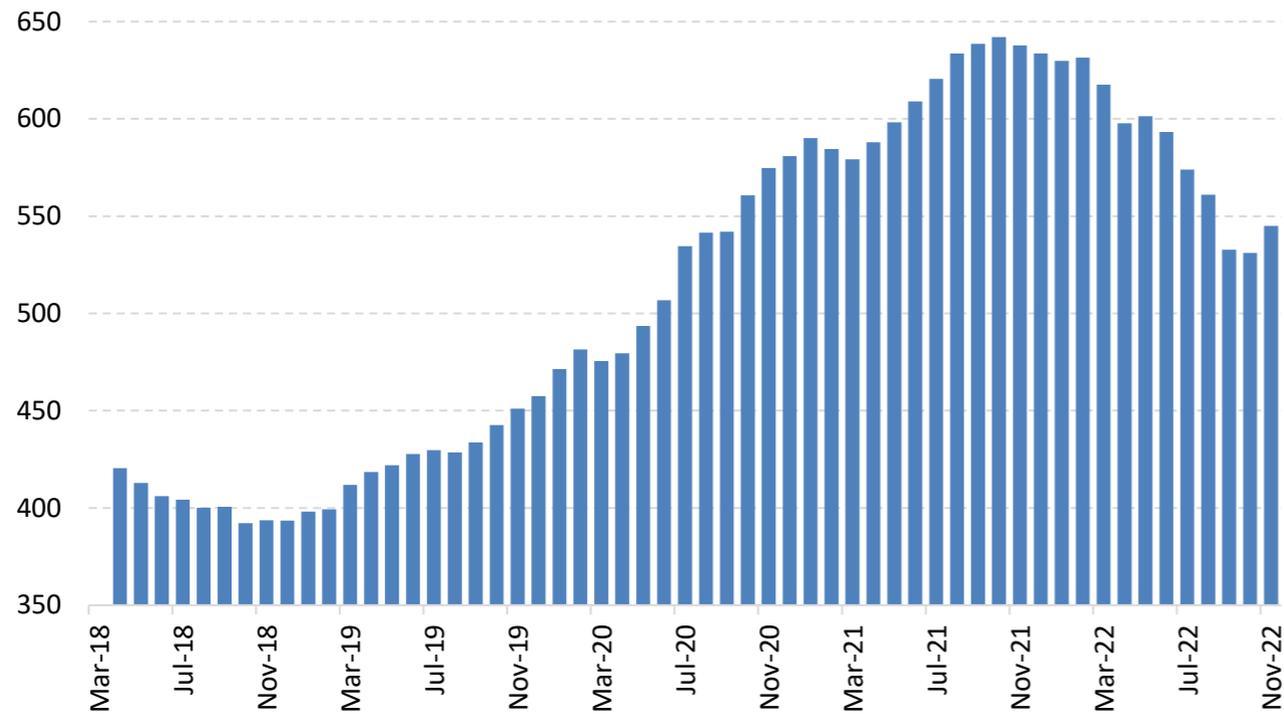
RBI and Fed policy rates over the years (%)



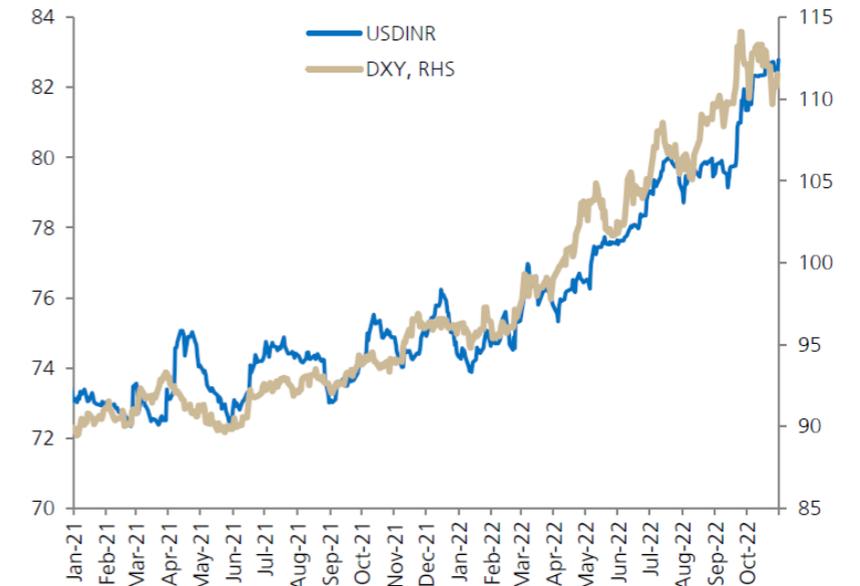
- The RBI's rate hike pace has been ~50% of the Fed's
- Markets expect 60bps of additional rate hikes from the RBI in FY23

India's forex reserves are adequate and well above 2019 levels

India Forex reserves (USD Bn)



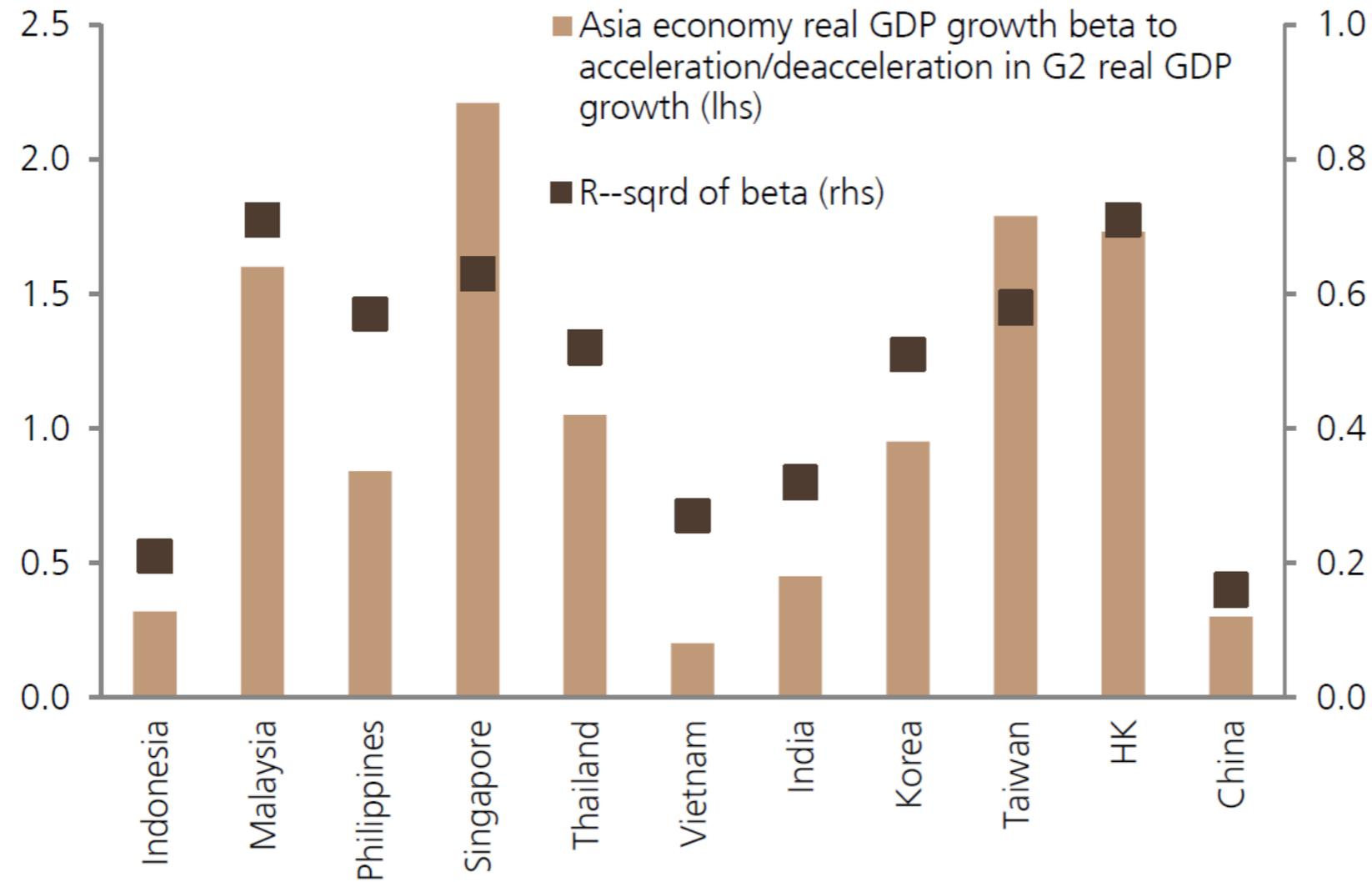
Rupee depreciation and DXY strength



- More than 60% of the drop in the forex reserves are related to the sharp rise in US yields
- India's forex reserves are higher than 2019 levels and cover around 9M of imports

India is less affected by the spillover effects of a global slowdown

GDP growth beta to a 1% change in US/EU GDP growth



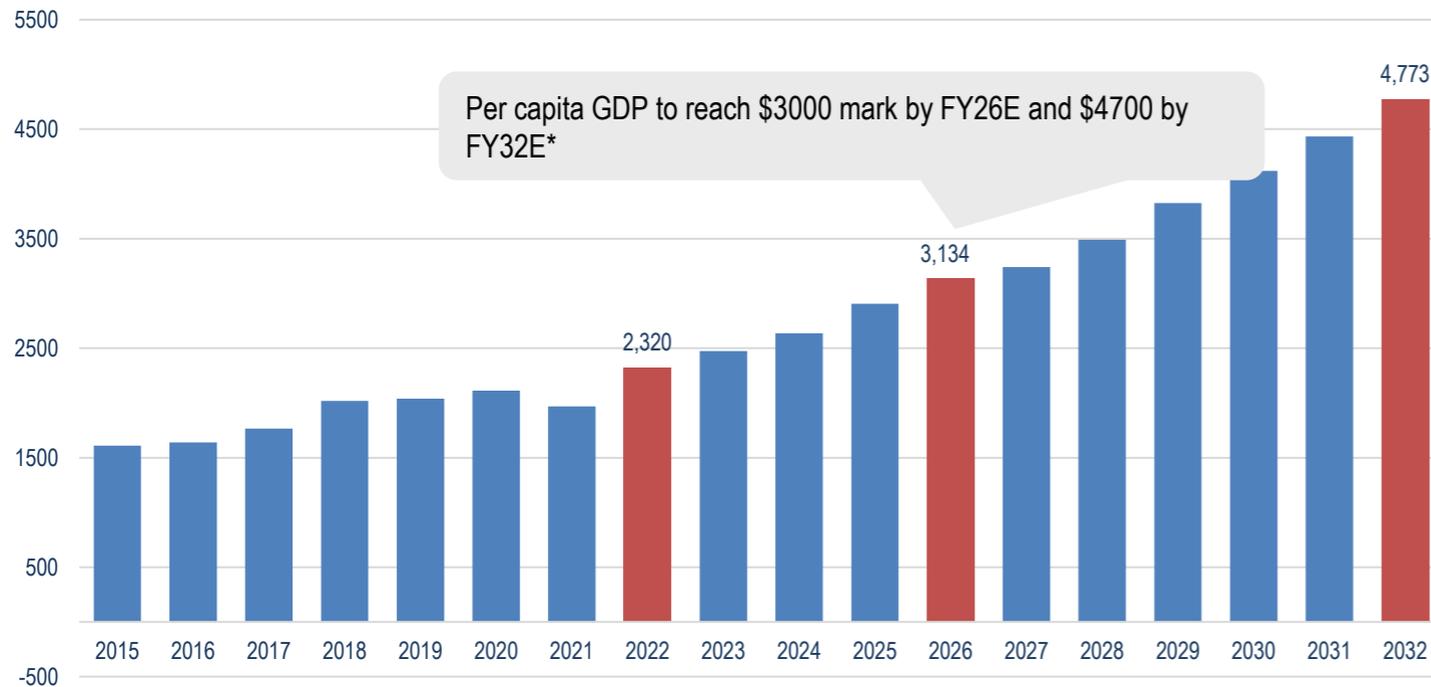
Source : UBS, Sundaram Asset Management



Long-term economic growth drivers – Demographics and Rising Disposable Income

India has crossed the \$2k per capita income mark, seen as an inflection for a jump in discretionary spending

Per capita GDP US\$



* Assumptions: 12 to 12.2% nominal GDP growth, 3% Rupee depreciation and 1% population growth

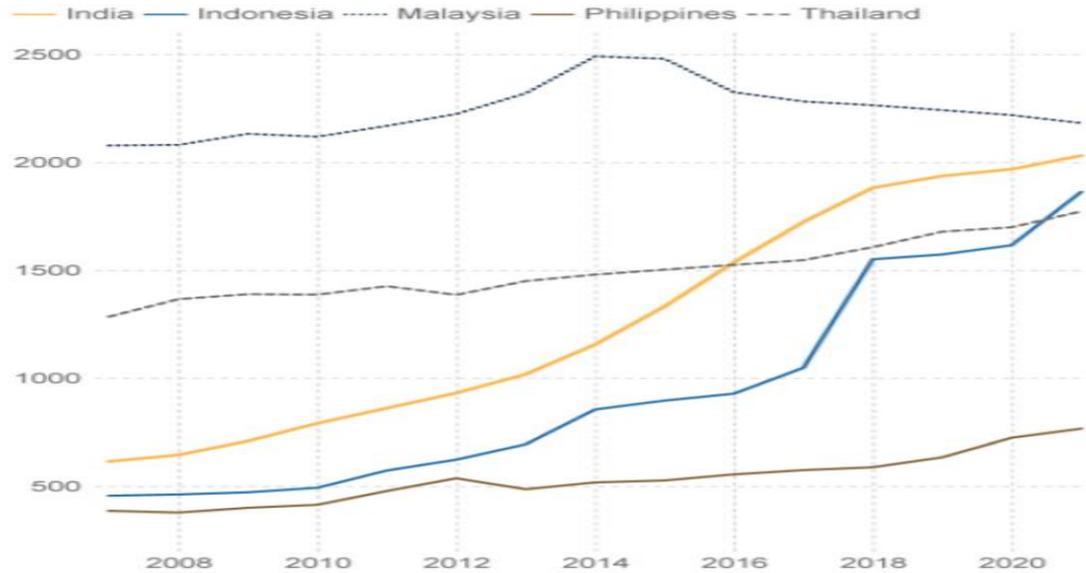
China car penetrations rose after crossing the \$2,000 GDP per capital level



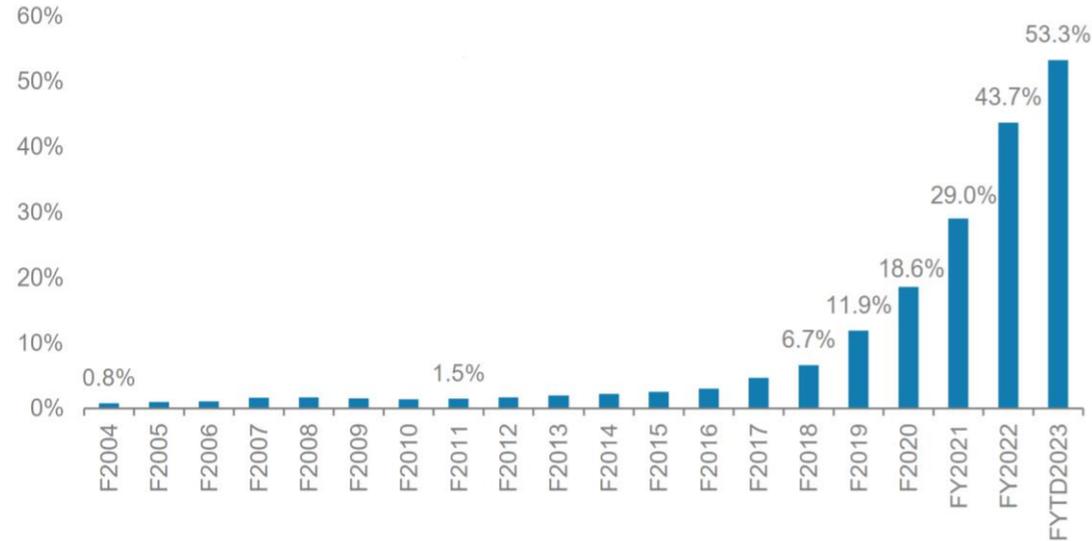
Source : Spark Capital, CMIE, Sundaram Asset Management

Digitization increasing by leaps and bounds in India

Deposit accounts per 1000 adults

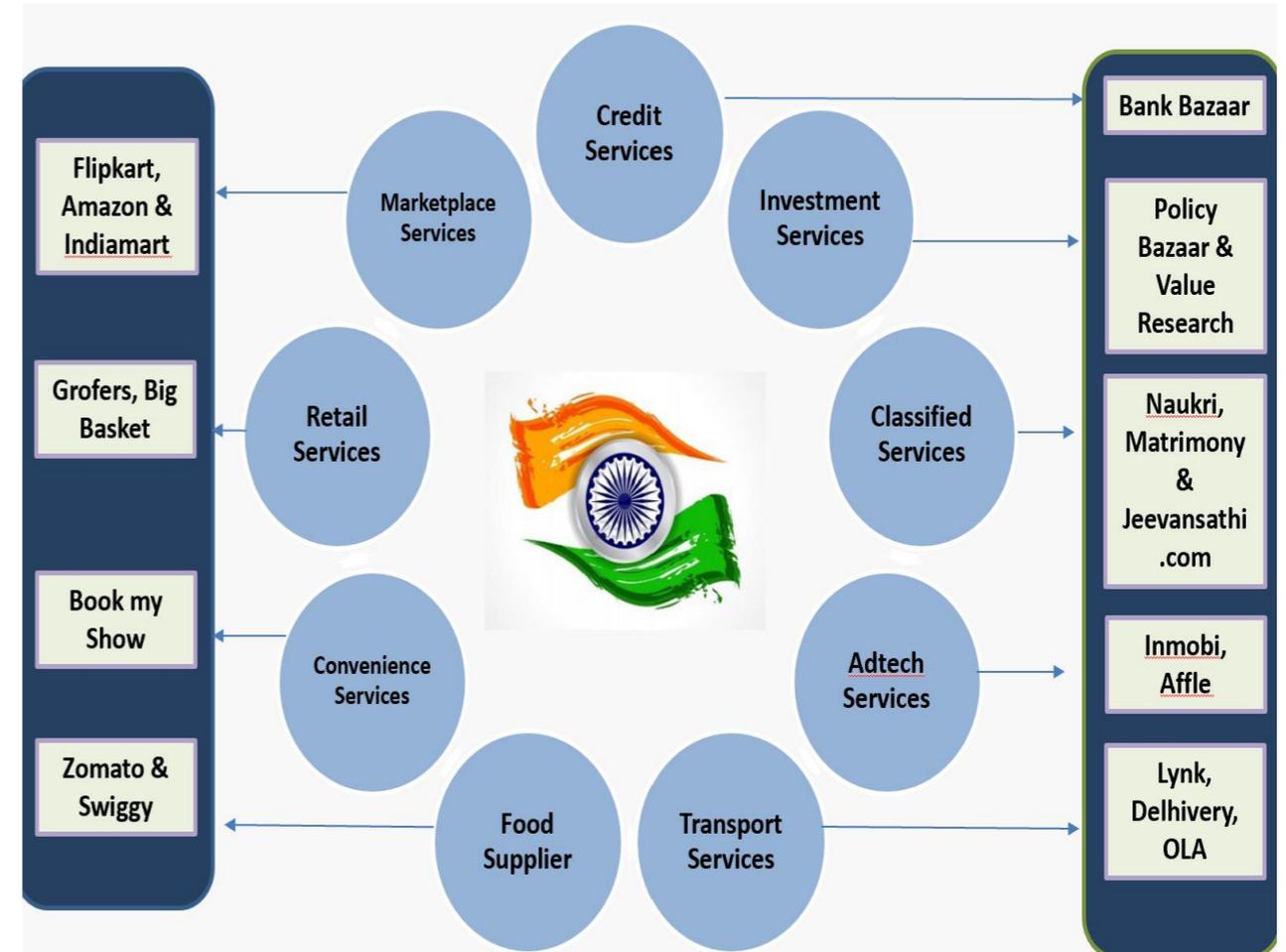


Digital Retail transactions (as a % of GDP)



Source : Macquarie

Digitization leading to new business opportunities

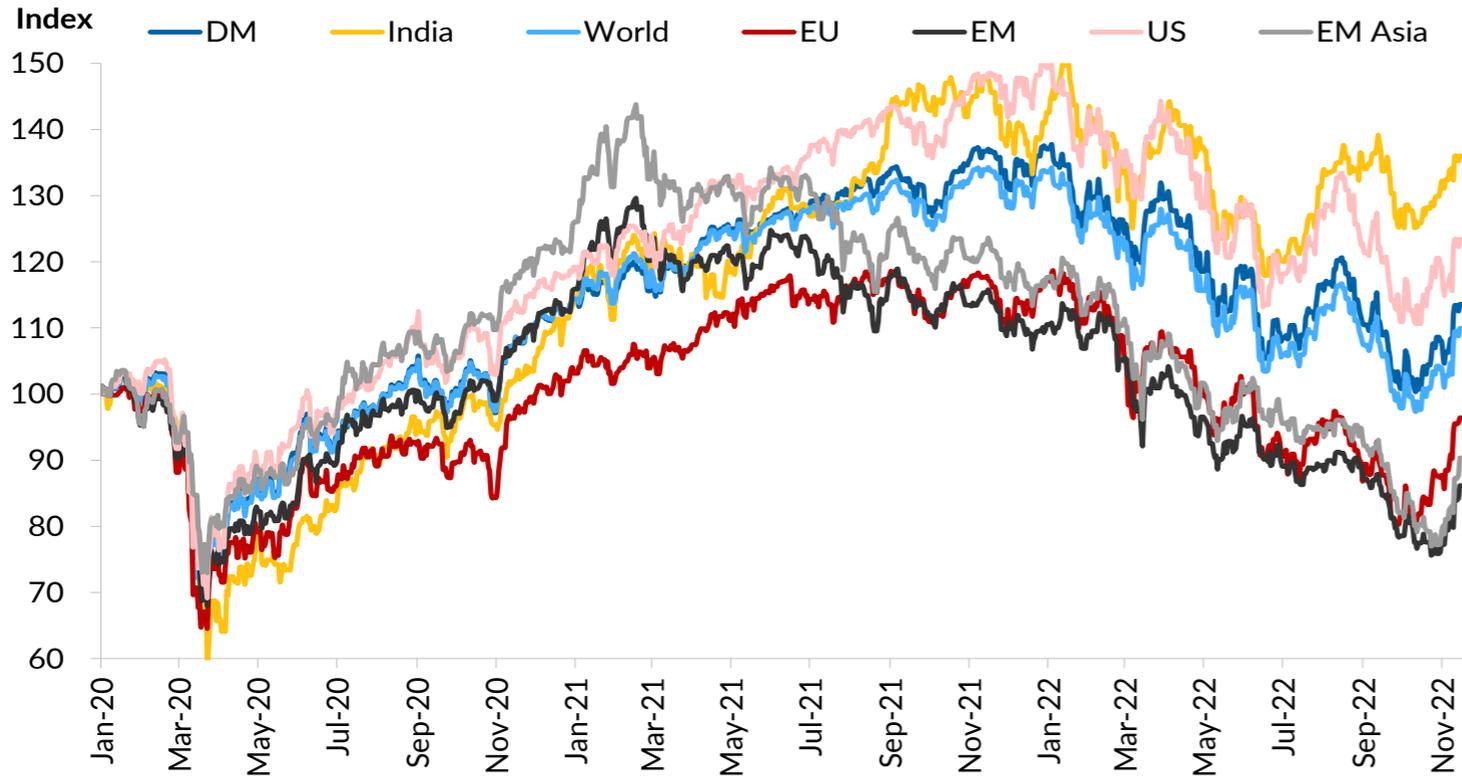


Equity Market

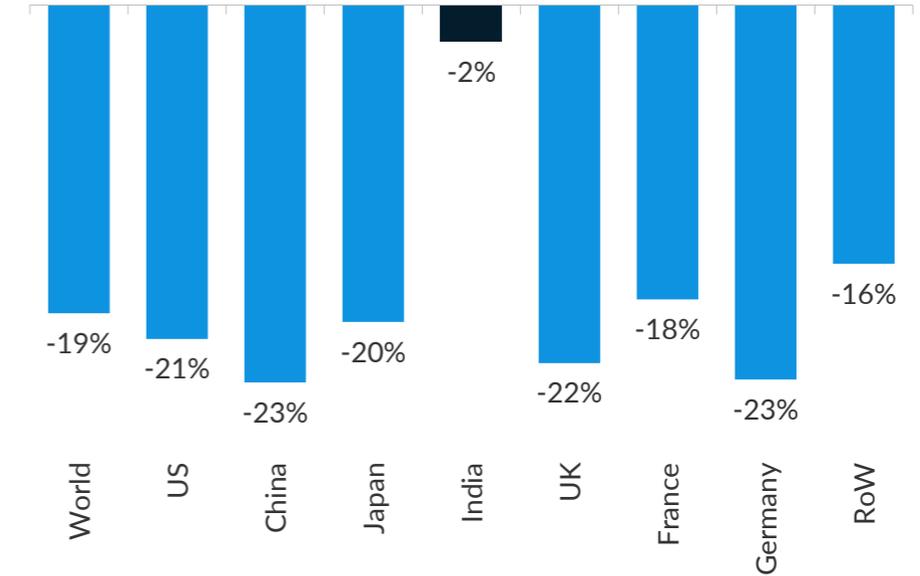


India holds up well against key indices and the EM average

MSCI Indices rebased to 100



Least market cap erosion among major markets (YTD)



- MSCI India outperforms MSCI EM and DM

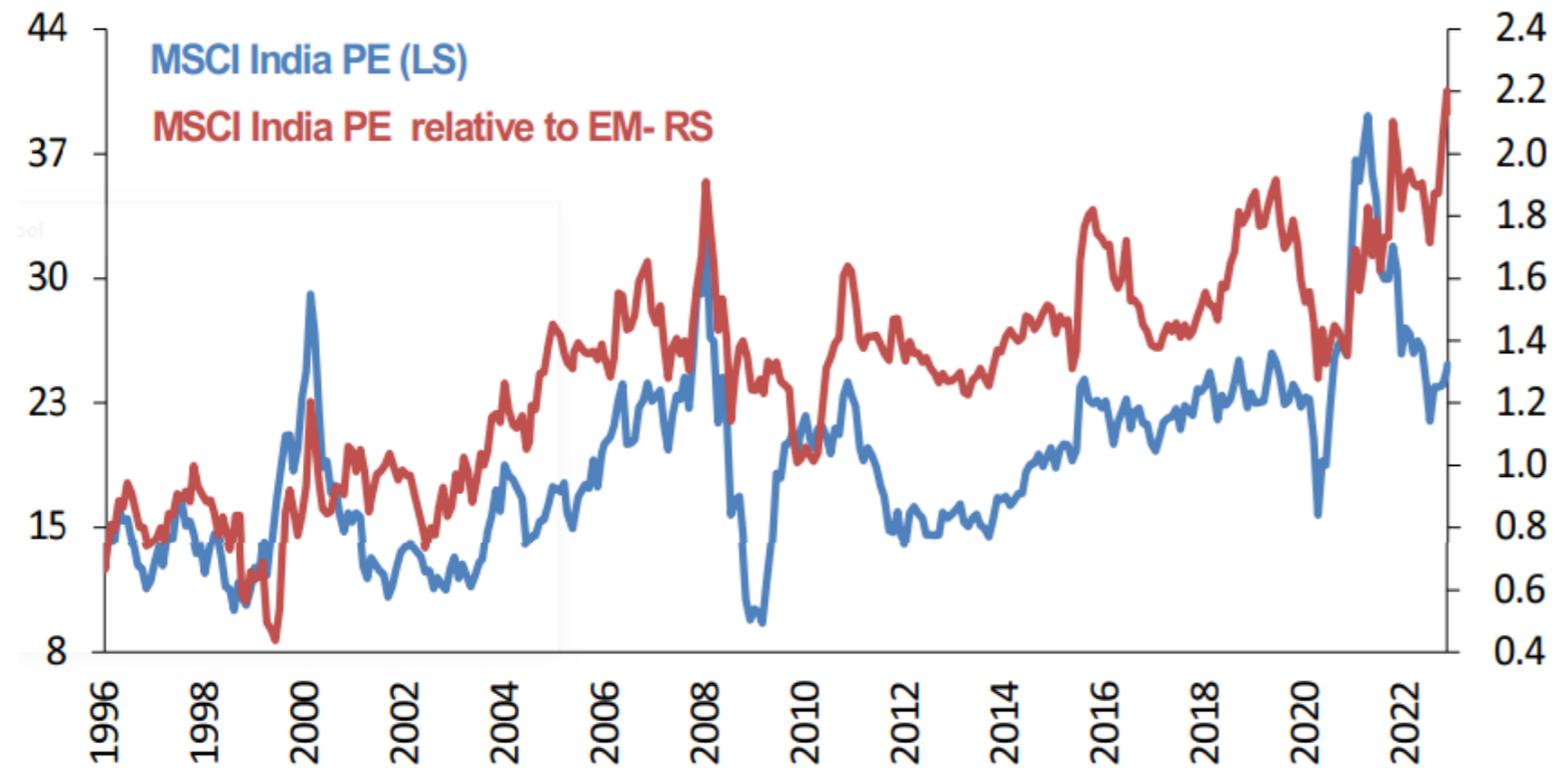
NOTE: Data as of mid-Nov'22

Source : Bloomberg, Sundaram Asset Management



India trading at an expanded premium over EMs

MSCI India P/E absolute and relative to EM

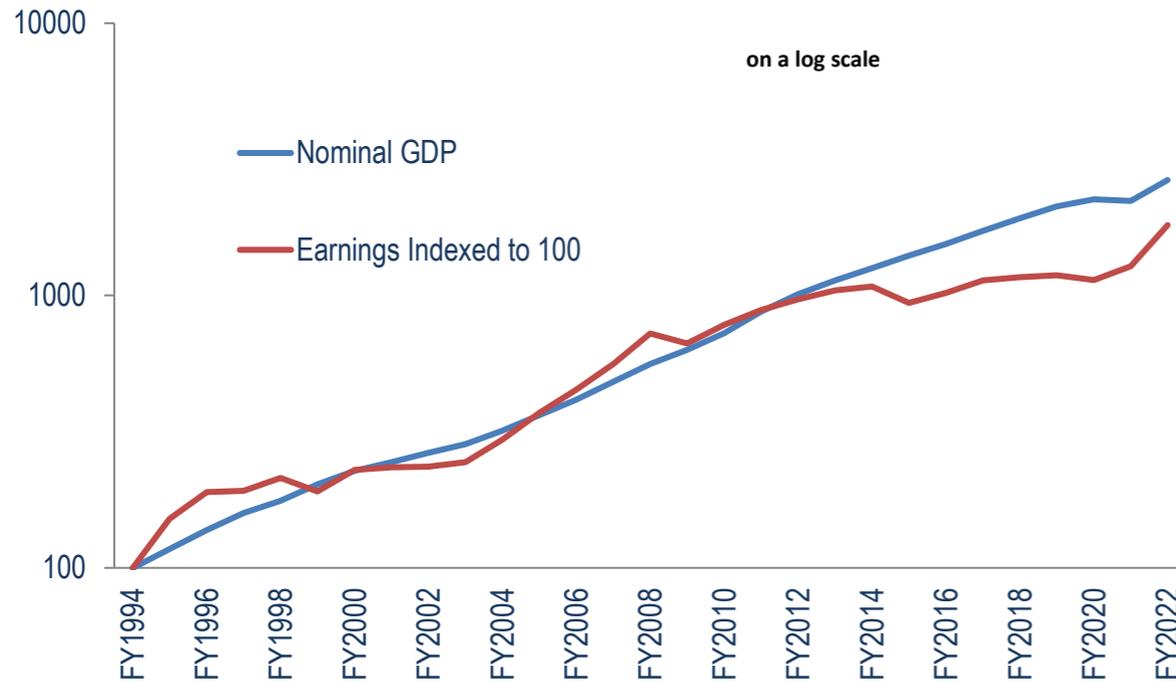


- MSCI India has always maintained a premium against EM on PE metrics
- With peers underperforming significantly this year, India's premium has expanded

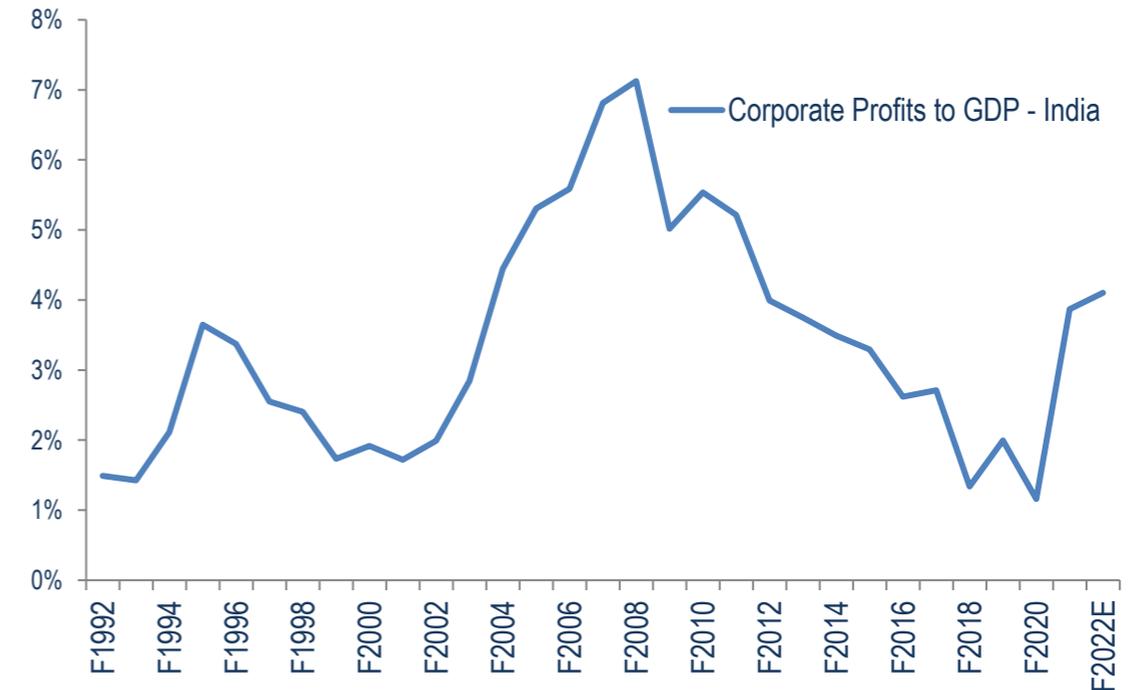
Source : Morgan Stanley, Kotak, Sundaram Asset Management

...Earnings growth should however return to trend, justifying the valuations

Profits now catching up with GDP and likely to cross GDP Trend



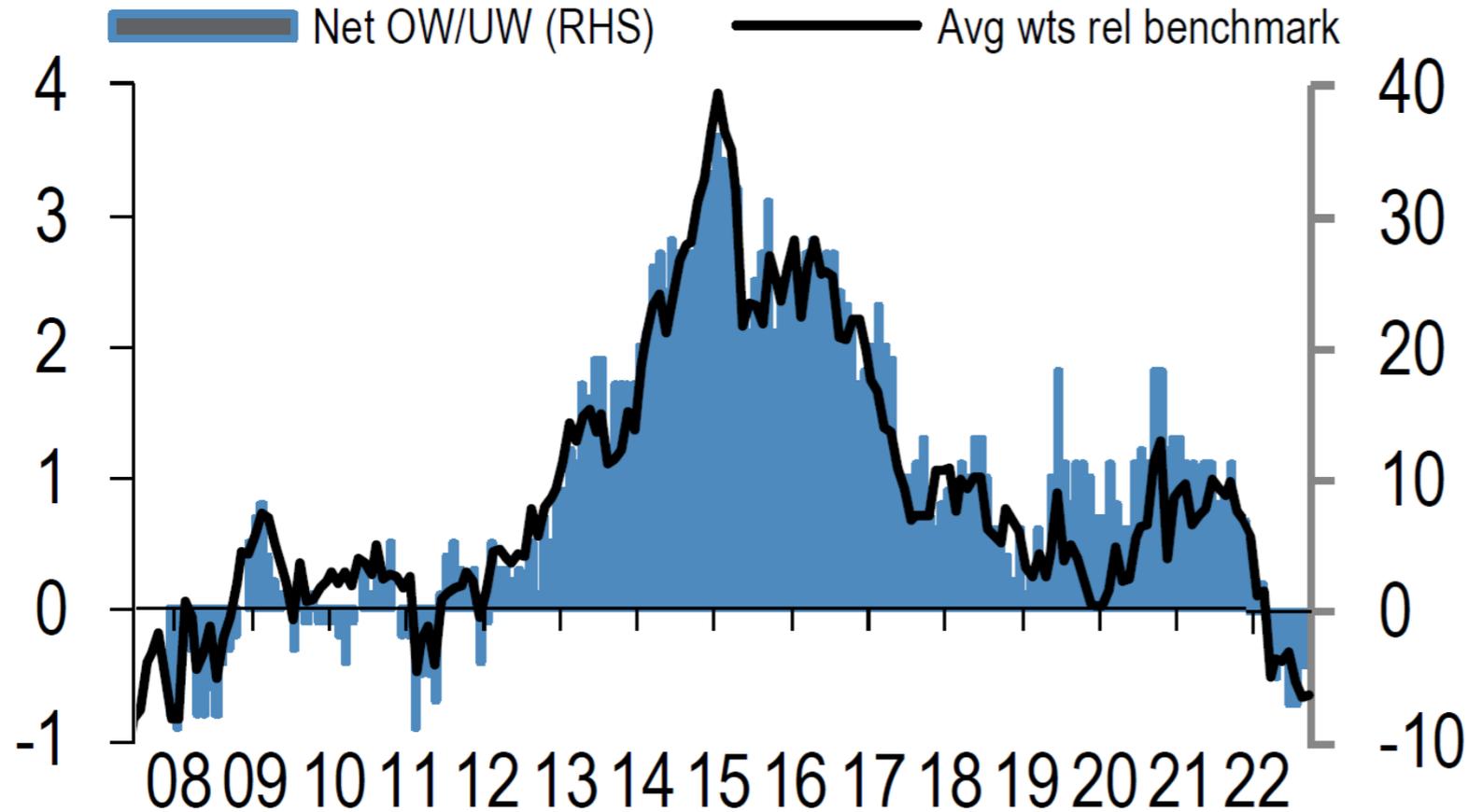
Share of profits in GDP likely to make new high in the coming years



Source : Morgan Stanley

India's average weight turned net UW, after nearly a decade

India avg weight relative to MSCI benchmark and net OW/UW

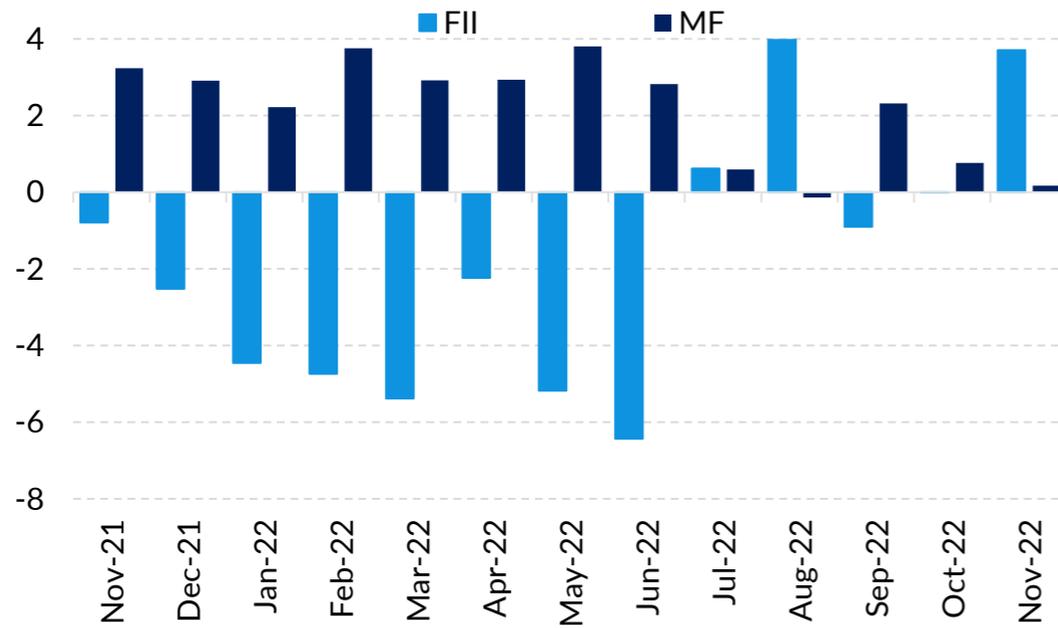


- India's average weight turned net UW, after nearly a decade in 2022
- Unlike 2012, India macros are much stronger

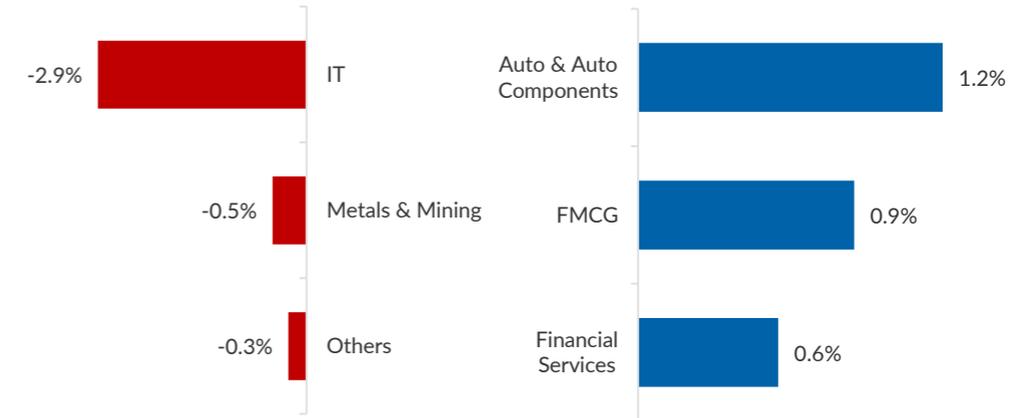
Source : JPMorgan, Sundaram Asset Management

Domestic flows have seen a gradual pickup

Domestic and FII flows (USD Bn)



Top sectors with a decrease / increase in sectoral weight (Apr to Oct'22)



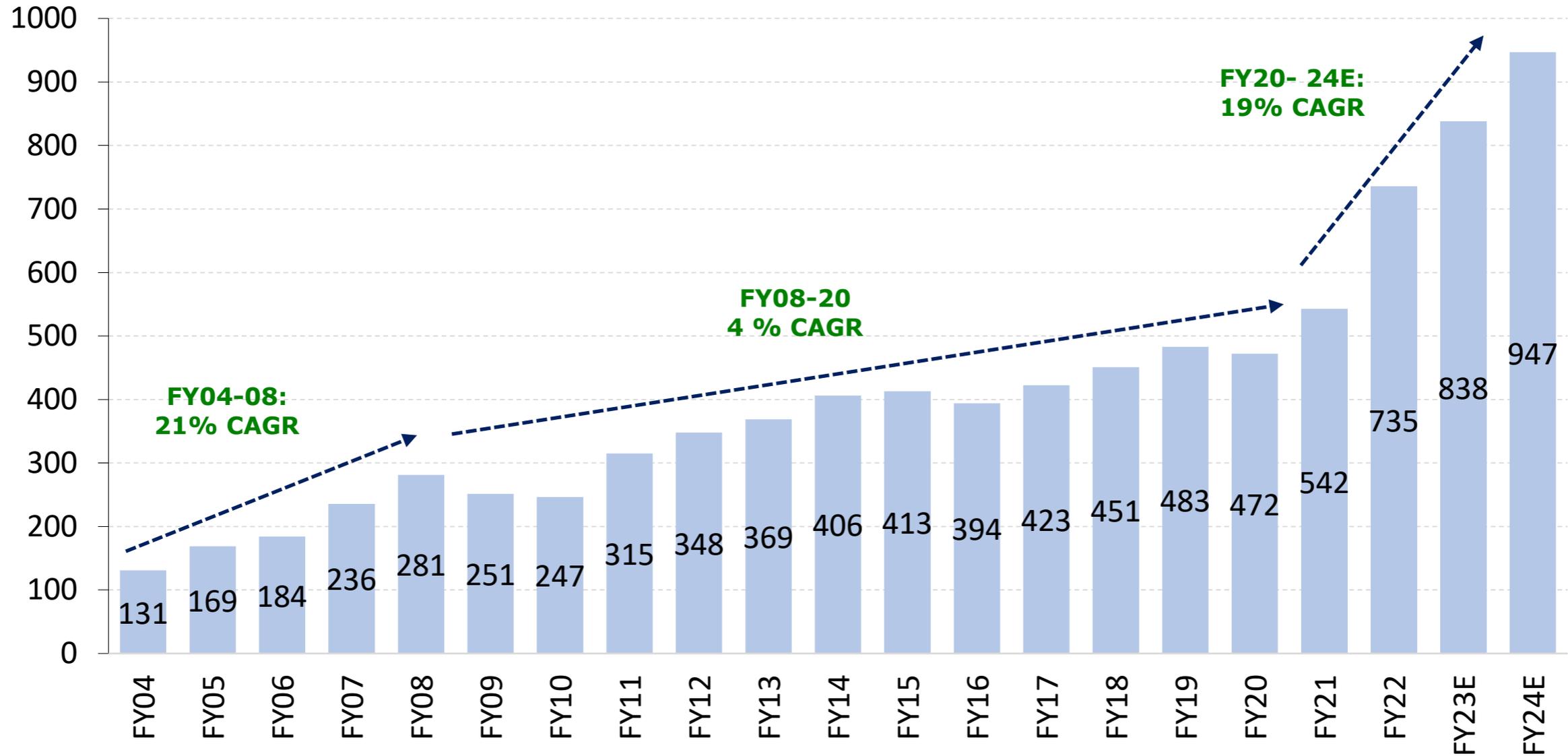
- FII selling has seen a moderate reversal in the last few months
- Recent FII sectoral additions have been in domestic oriented sectors
- With continued differentiation in returns, FII's UW on India appears to be bottoming out
- With most uncertainties easing, India seems most likely to witness a substantial re-investment of the outflows seen over the last 12M

Source : Yes Securities, Sundaram Asset Management

Corporate review and outlook

- **NIFTY profits during H1FY23 rose by 17%y/y**
 - Growth was driven by an appreciable pickup seen in banks, financial services, retailing, discretionary, and industrials
 - Banks saw strong numbers on loan growth
 - Autos, PVs and CVs saw strong demand
 - FMCG and food-related companies witnessed margin pressure
 - IT saw near-term demand holding up
- **EBITDA margins are at a clear inflection**
 - EBITDA margins for H1 have seen a sharp drop to 18% from 21% seen for H1 last fiscal
 - Soft global growth and China-specific factors have led to a sharp drop in commodity prices
 - The lag impact of this is likely to reflect in rising gross margins of companies in the quarters ahead
- **Markets to remain volatile**
 - Uncertainties around geopolitics, global recession and commodities linger
- **Dollar weakness to provide further tailwind to emerging markets**
- **More earnings-recovery certainty and pickup in H2FY23 for the markets**
 - A continued recovery / easing commodity momentum
 - No disruptive Fed hikes / moderate softening in geopolitics
- **Nifty50 is expected to grow at 14% in FY23 and 13% in FY24**

NIFTY EPS Growth Trend



Source : Motilal Oswal, Sundaram Asset Management



Thank You



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