



Market Perspective-Mar 2023

India Equity Outlook

India Equities Performance Vs Global Equities

India has underperformed Global Indices currently in short term 31st Dec 2022 to 15th Feb 2023

Top Gaining Sectors	Average Price Return%
FRANCE	12.8%
GERMANY	11.4%
KOREA	8.6%
US	8.0%
UK	7.3%
JAPAN	5.4%
CHINA	4.7%
INDONESIA	0.9%
BRAZIL	-0.1%
INDIA	-0.5%
RUSSIA	-5.7%

India had outperformed Global Indices in the last one year 31st Dec 21 to 31st Dec 2022

Top Gaining Sectors	Average Price Return%
BRAZIL	4.7%
INDIA	4.3%
INDONESIA	4.1%
UK	0.9%
JAPAN	-9.4%
FRANCE	-9.5%
GERMANY	-12.3%
CHINA	-17.2%
US	-19.4%
KOREA	-24.9%
RUSSIA	-39.2%

In the last one half month, India is one of the worst performing market. However, In the last year, India was the best performing market. This current period is showing the mean reversion from last year performance.

Narratives for India's recent underperformance

CHINA – RELATIVELY CHEAPER
ON VALUATIONS,
SO WILL ATTRACT FII BUYING

	Growth (2023)	Real Rates	Yield Spread with US-Current	Current PE ratio	Forward PE
India	6	0.95	3.65	21.1	17.84
US	0.3	0.7	-	16.82	15.35
Japan	1.2	-1.8	-3.15	14.01	14.2
Euro area	-0.1	3.1	-1.44	11.87	11.13
China	4.8	2	-0.9	10.23	9.03
Indonesia	4.9	1.65	3.22	13.7	12.5
South Korea	1.7	0.05	-0.18	11.4	8.89
Malaysia	5.5	-0.9	0.29	12.95	12.41
Phillipines	6.6	1.05	0.79	13.41	11.99
Thailand	3.7	-0.8	-1.21	15.72	14.39
Maxico	1.1	4.65	5.04	12.17	10.61
Brazil	0.8	6.6	9.35	6.71	6.72

CHINA'S RE-EMERGENCE
TO RESULT IN
SURGE IN COMMODITY PRICES

Goldman nominated oil as the best reopening play, forecasting that Brent prices could reach \$US110 a barrel by the third quarter if China, and other Asian economies, fully reopen from COVID-19 restrictions.

Morgan Stanley believes iron ore will be the bigger beneficiary, tipping prices to average \$US140 a tonne in the second quarter of this year.

<https://www.afr.com/markets/commodities/china-s-reopening-a-game-changer-for-commodity-markets-20230112-p5cc13>

Lately, there have been talks around high valuations of India as against China and hence an understanding that fund flow are attracted towards China instead of India. Also, there were talks were that China re-opening will result in rise in Commodity prices which will be bad for Indian stock markets.

Reality Check

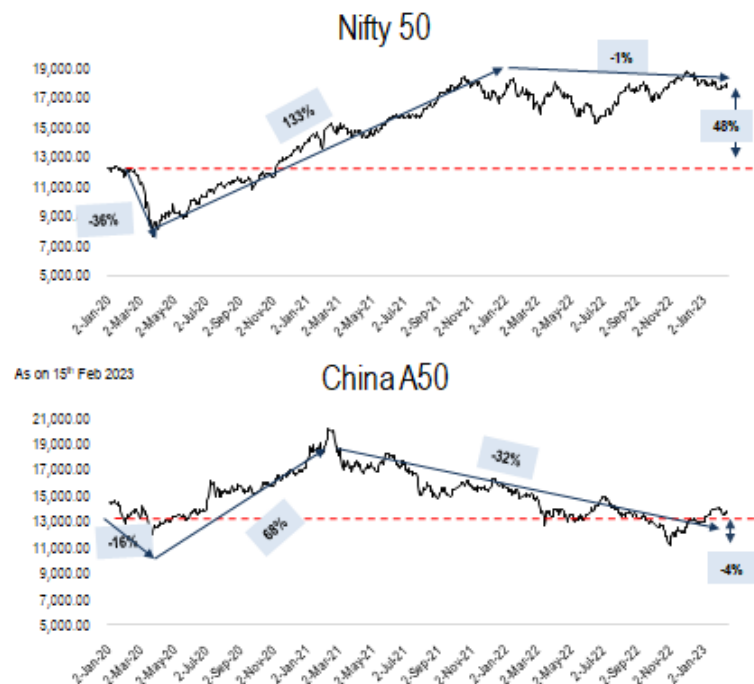


Source : investing.com, tradingview.com

COMMODITY PRICES ROSE
TEMPORARILY
AFTER CHINA REOPENING NEWS BUT
HAVE EVENTUALLY FALLEN BACK

When we see the reality post reopening of China, contrary to what the sentiments and talks were, commodity prices have fallen. For eg: Aluminum is down by 10% after making high in January 23, Brent Crude is hovering around \$80 and so on

Structural Trend Vs Tipping Off

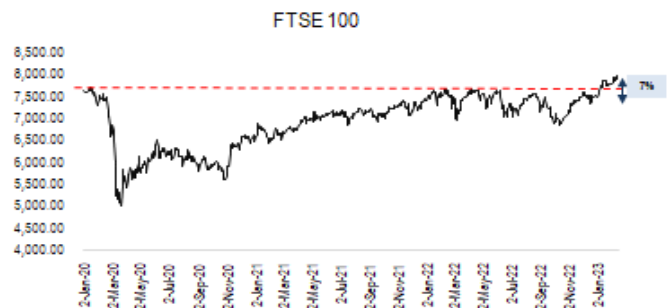
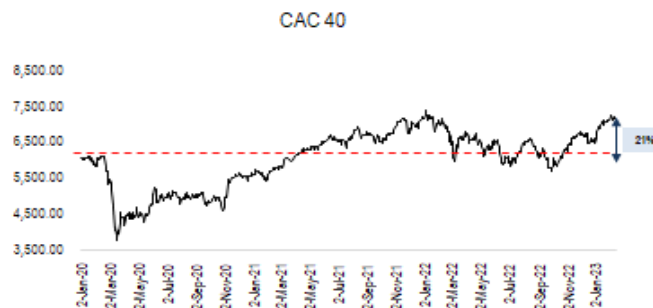
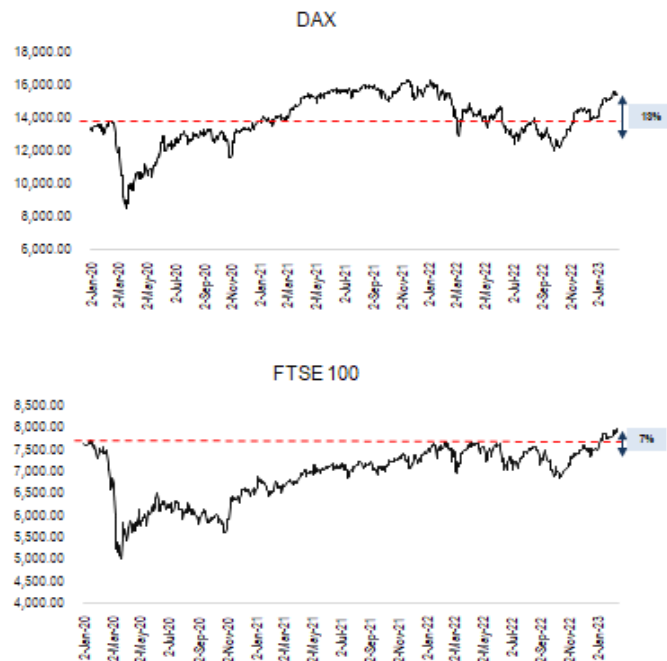
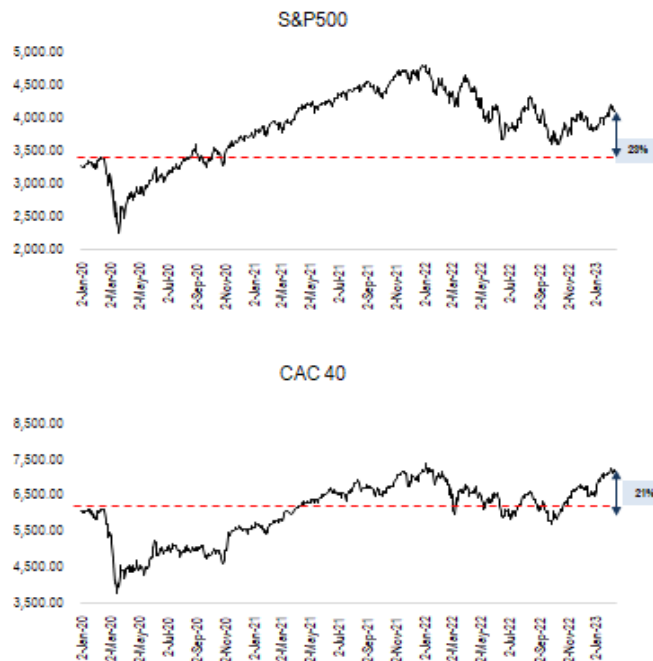


Source : investing.com, tradingview.com

When we take a bird's eye view. Nifty pre-covid was at 12000 levels and are now at 17500, up by 48%. Instead, China broader index is down by 4%. Assuming a market which is above Pre Covid Levels as a strong market, India is amongst countries which are above the pre-covid levels.

Country	During Covid Fall	Post Covid Rally	Fall Post Rally	Current Price
India	-36%	133%	-1%	48%
China	-16%	68%	-32%	-4%
US	-32%	108%	-14%	23%
France	-33%	82%	-1%	21%
Japan	-29%	83%	-9%	19%
Germany	-35%	70%	2%	13%
Indonesia	-36%	79%	-3%	11%
Korea	-34%	116%	-23%	10%
UK	-28%	21%	23%	7%
Brazil	-42%	95%	-16%	-5%
Belgium	-33%	40%	0%	-6%
Spain	-35%	57%	-9%	-6%
HongKong	-22%	43%	-33%	-25%
Russia	-45%	107%	-51%	-44%

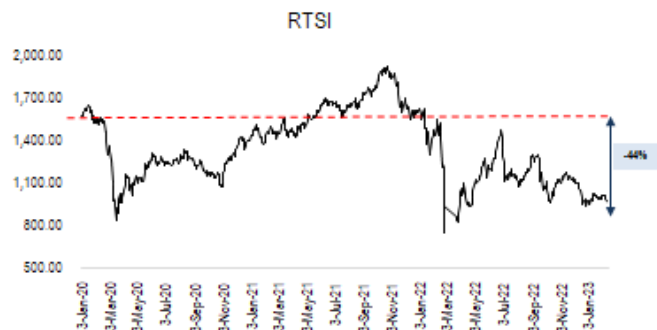
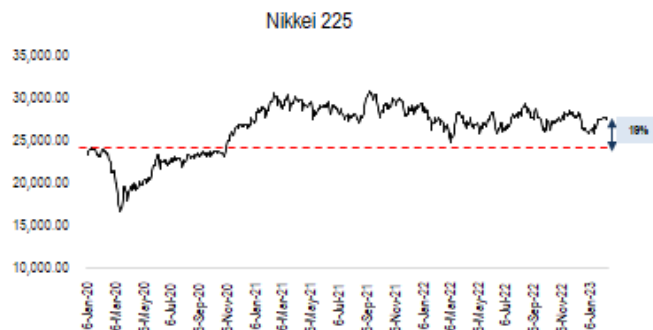
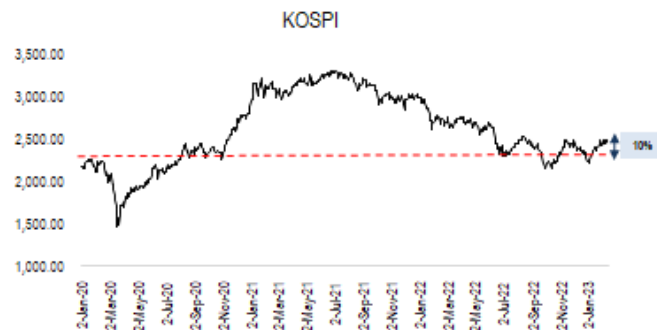
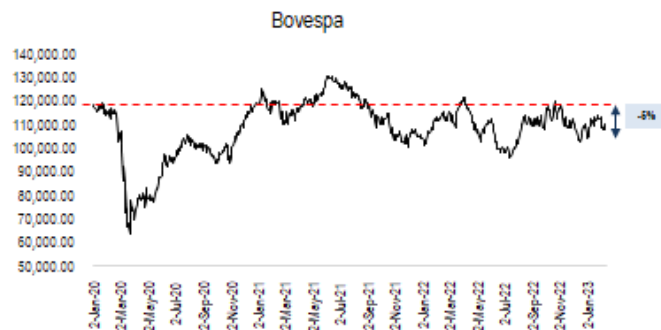
Global Markets



Source : investing.com, tradingview.com

As on 15th Feb 2023

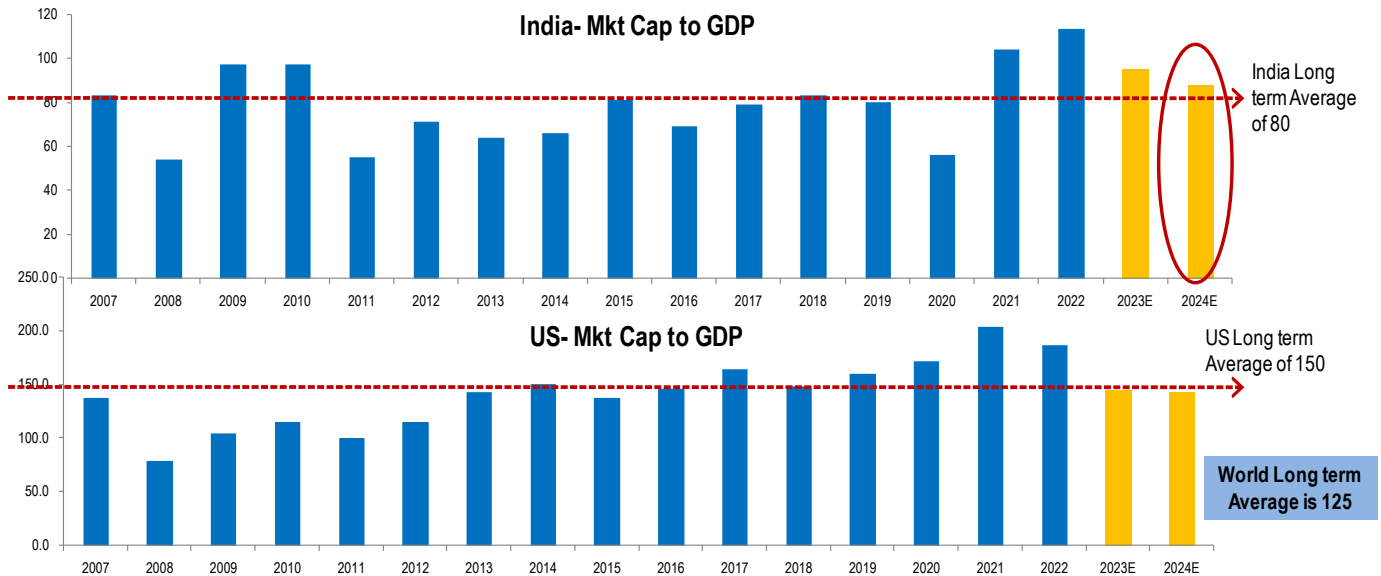
Global Markets



Source : investing.com, tradingview.com

As on 15th Feb 2023

Valuation as f{ Size }



If size is a basis, we are the 5th largest market in terms of economy, our market cap is also ~5th largest in the world. This certainly means that we are not overvalued. Also, considering the Buffet indicator, our market cap to GDP is over than its own average and also, much lower than US.

The Context - “Corporate Profits to GDP”

Every Valuation ratio has a certain context in which it can be best interpreted. Corporate profits to GDP share is the context in which we read the popular ratio-Market cap to GDP

Corporate
Profit to GDP

=

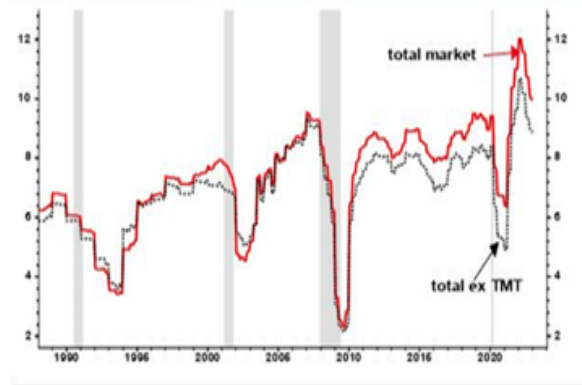
Corporate
Sales to GDP

X

Profit
Margins %

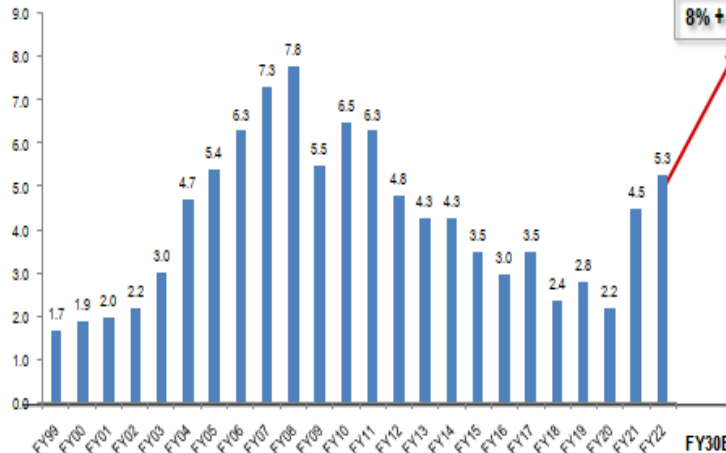
US Corporate Profit to GDP

US net profit margins are collapsing, albeit from a record high - I/B/E/S analyst estimates



Source: Datastream

India Corporate profit to GDP



Note: Market Cap to GDP is governed by an important indicator- Corporate Profit to GDP. Our Corporate profit to GDP is continuously rising meaning thereby that our valuations should also increase, whereas in US , the corporate profit to GDP is falling indicating a de-rating of valuation multiples

Short term Vs Long term Movement

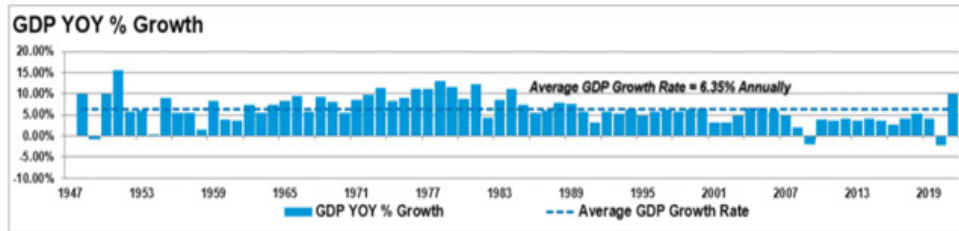
“In the short run, the market is a voting machine, but in the long run it is a weighing machine.”

- Benjamin Graham

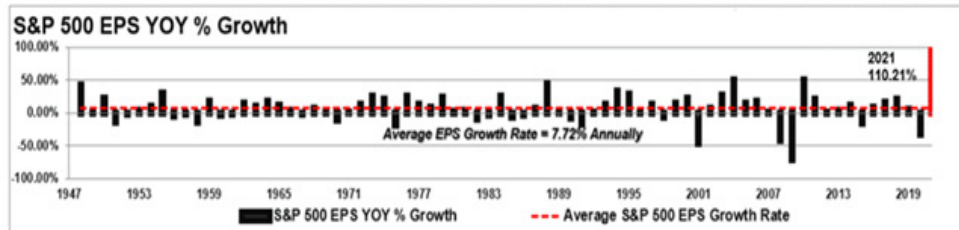


Meaning thereby, that price will follow the crowd in the short term , but crowd will follow the fundamentals in the long term

The Truth-Relation of SPX 500 with EPS growth & US GDP growth



Nominal GDP Growth: 6.35%
Real GDP Growth: 3.3%
Inflation: 3%

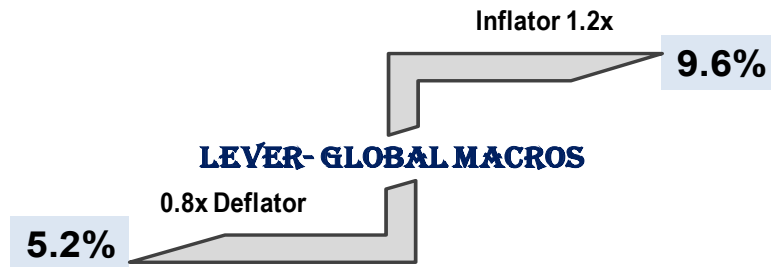
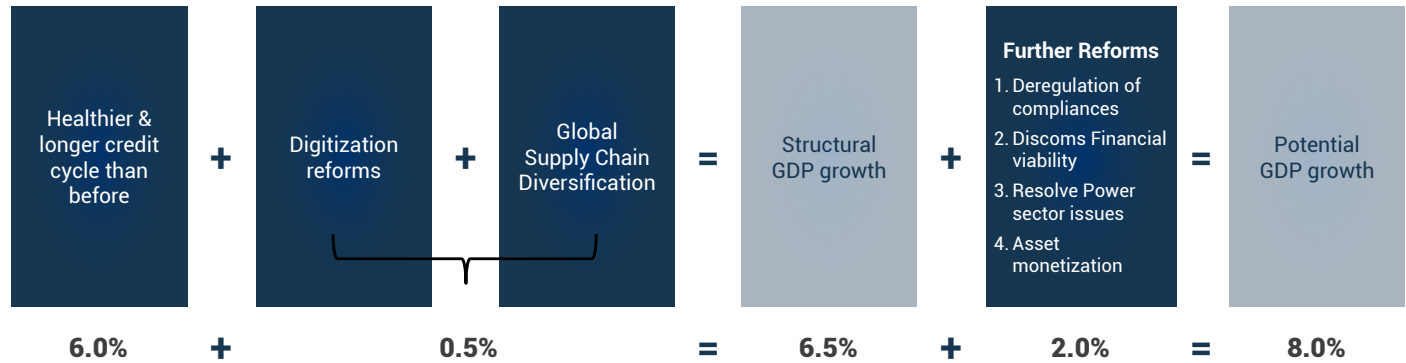


EPS growth 7.72% > GDP growth
as Margins expands due to
operating leverage



S&P price growth 9.35% > EPS
growth due to multiple re-rating

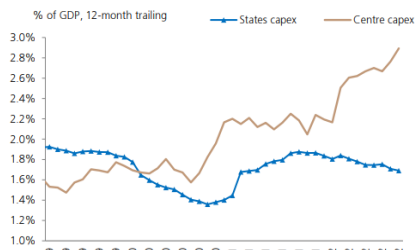
Math of Structural Growth-India to achieve~6.5% Real GDP growth



As per recent Economic Survey report, it is expected that structural Real GDP growth should be around 6.5% and alongwith reforms like deregulations of compliance , asset monetization etc, the real GDP growth may be enhanced to 8%. We believe that Global macros will play an important role in defining India's growth going forward. A positive global macro environment will help inflate our growth by 1.2x to 9.6% while a negative global macro environment may deflate our growth by 0.8x to 5.2%.

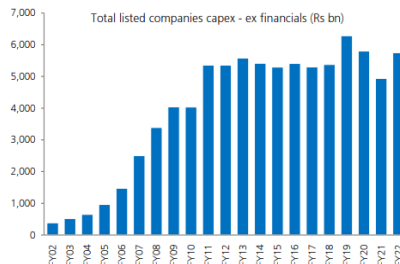
Healthier and Longer Credit Cycle

Central and state government capex growth



Source: CEIC, UBS

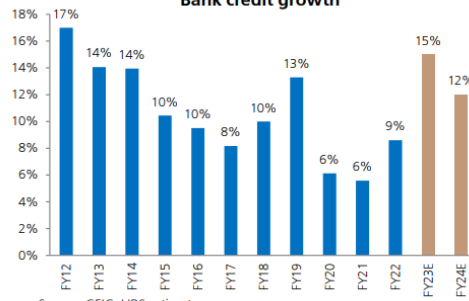
Post the dip in FY21, private corporate capex has recovered to FY20 levels



Source: Capitaline, UBS.

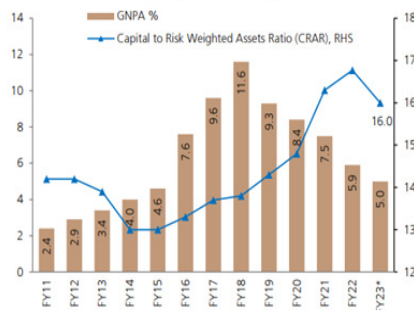
YoY%

Bank credit growth

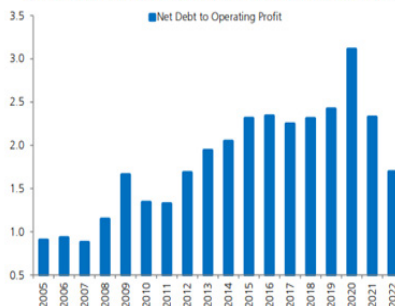


Source: CEIC, UBS estimates

Banks' asset quality has improved...



corporates have deleveraged despite the pandemic



Bank credit growth has been well into double digits for quite some time now. A recent IMF Working paper analyses the trends in the Credit to-GDP ratio gap, bank balance sheets and the GDP growth in India since 2012; and shows that better-capitalized banks result in higher credit growth, which further translates into higher GDP growth.

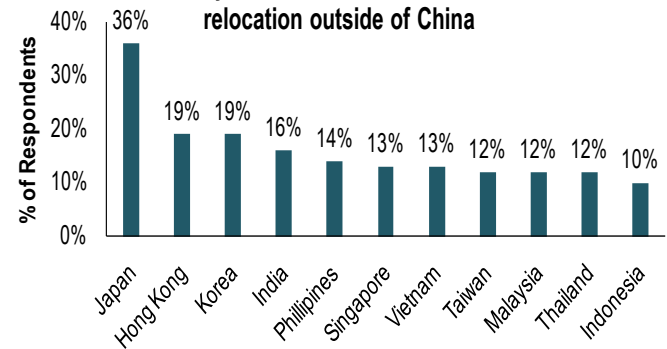
Global Chain Diversification

Share of India's manufactured exports has gone up



Source: WTO, UBS

US CFO Survey- Preferred destination within Asia for relocation outside of China



India- 2nd largest mobile phone producer globally

FY15	FY22
6 Cr units	31 Cr units

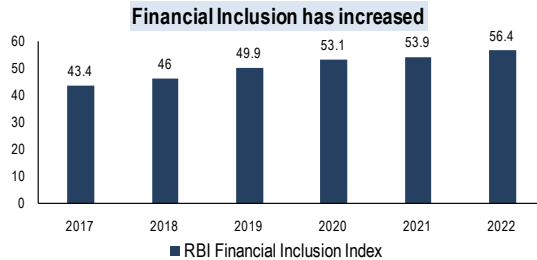
Apple's suppliers list with significant India capacity

FY18	FY21
4	11

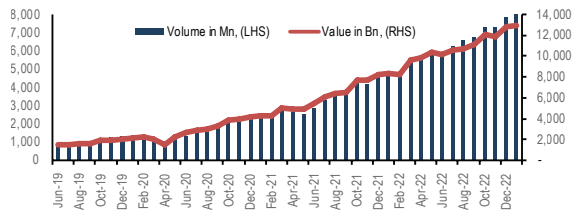
- » The PLI scheme for large-scale electronics manufacturing contributed to a total production of 2.04 lakh crore, including exports of 80,769 crore as of September 2022.
- » E recent example of Govt infra & logistics push- The \$900M container port in Kerala, which is expected to meet its deadline of September 2023, is helping India get products to market faster and make it more competitive in world markets
- » The country is also entering into FTAs and signing bilateral trade pacts with several countries. India has already signed trade agreements with UAE and Australia, while FTAs with the UK and Canada are in the pipeline

Digitization

India's Digital Economy will grow to \$ 800bn (18% of GDP) by FY25



UPI: No of transactions: 74bn
CY22 Value of transactions: Rs125.94 lac Cr



Interestingly, Total UPI transaction value accounted for nearly 86% of India's GDP in FY22



Data Consumption Rank
Improved from 122 in 2015 to
No 1 in 2022

41% of World's Real time
transactions in India



World No 3 in Unicorns,
No 2 in Start Up & No1 in
new Start Ups

Digital Economy \$225bn in
FY19 i.e 8% share to rise to
18% by FY25



Indian economy – Direction for Reforms

Good Governance is the key to a nation's progress

To simplify, ease and reduce cost of compliance, financial sector regulators will be requested to carry out a comprehensive review of existing regulations..

As on 23rd feb 2023

Acts, Compliances & Filings

All	Labour	Finance & Taxation	EHS	Secretarial	Commercial	Industry Specific
ACTS	COMPLIANCES				FILINGS	
	1,536	19,966	28,101	21,166		
		Actionable	Checklisted	Informational	6,618	

Source : teamleaseregtech.com

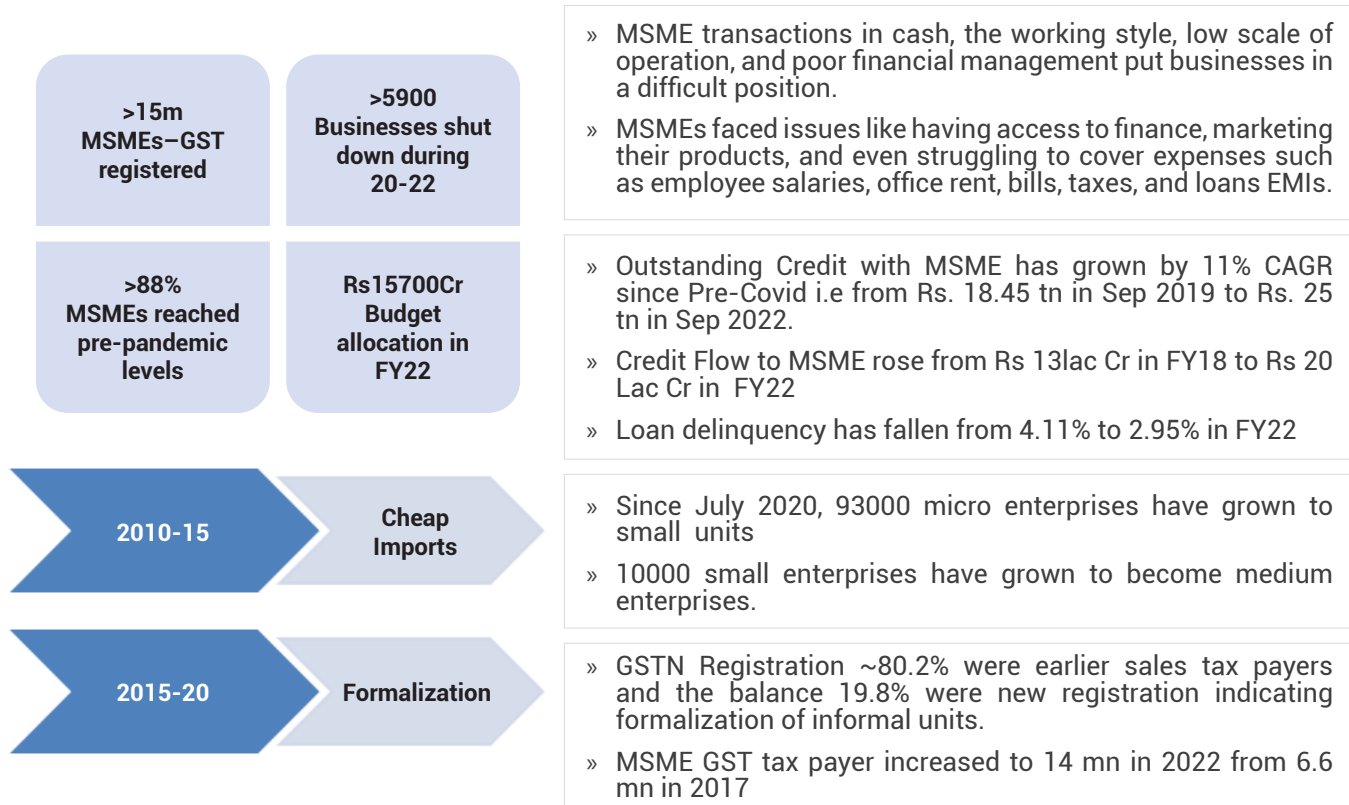
Number of Updates

2 TODAY	25 YESTERDAY	118 THIS WEEK
652 THIS MONTH	1719 THIS QUARTER	5542 THIS YEAR

1	39000 compliances have been reduced
2	3400 legal provisions decriminalized
3	Jan Vishwas Bill to amend 42 Central Acts
4	Vivad se Vishwas I Relief for MSME- 95% of contract amt to be returned if failure to execute during covid

5	Rs 9000cr more funds from 1st Apr to result in 2.0 lakh Cr loans at 1 % further lower rate
6	Dekho Apna Dosh- boost to local tourism- beneficial for Indian MSMEs
7	Formal vs Informal-better to ask large vs smaller companies
8	Regulator asked to take public input

Economic Resilience- Resurgence of MSMEs in India- Informal to Formal

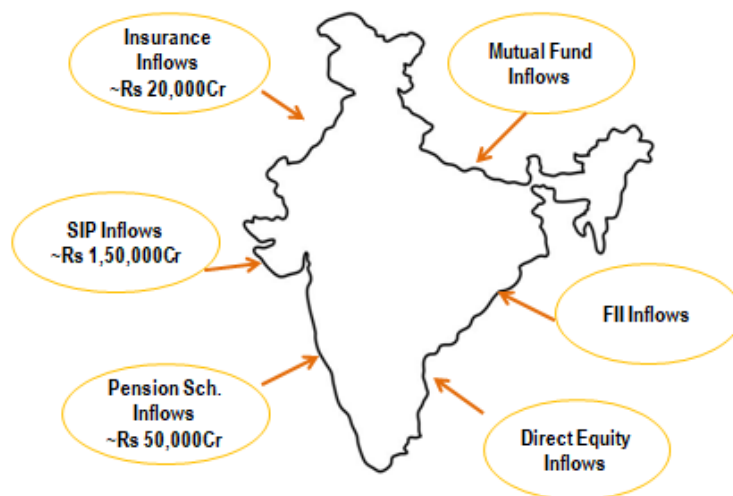


Resilience of Flows FIIs Flows

FII Flows

Month	FII Equity Flow Rs Cr
Dec-21	-19,026
Jan-22	-33,303
Feb-22	-35,592
Mar-22	-41,123
Apr-22	-17,144
May-22	-39,993
Jun-22	-50,203
Jul-22	4,989
Aug-22	51,204
Sep-22	-7,624
Oct-22	-8
Nov-22	36,239
Dec-22	11,119
Jan-23	-28,852
Feb-23	-1,252

Sources of flows



- » Though FIIs have been sellers since Dec 21, our domestic flows have been supportive of inflows based on Monthly SIP in Mutual funds, Insurance or flows in Pension schemes etc.
- » Total FDI received from 1947 roughly around \$950 bn out of which \$532 have come in the past 90 months from 162 countries. FDI has come across 61 sector & 31 states in India.

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