Amundi Investment Solutions

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SBI FUNDS MANAGEMENT LIMITED

India Newsletter

March 2025

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- **Did you know:** Learnings from earnings
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MARKET OVERVIEW: Indian market update

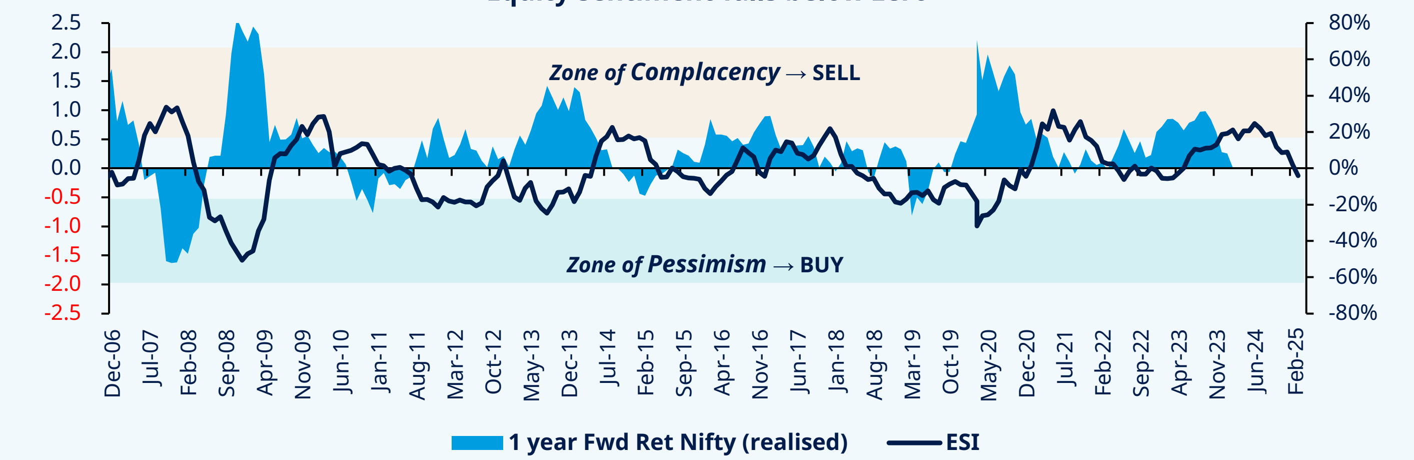
Valuations imply saner entry levels

In February, the MSCI India Index experienced a decline of 8.1%, trailing behind the MSCI Emerging Markets Index, which saw a modest increase of 0.4%. Looking at the different sectors, the financial sector was the least impacted, while materials and communication services faced challenges. Conversely, real estate, information technology, and industrials experienced more significant declines. In terms of market capitalization, large caps performed relatively better, with the MSCI India Large Cap Index decreasing by 7.5%, compared to declines of 11.1% and 13.2% in the MSCI India Mid Cap and Small Cap indices, respectively.

India's retail inflation outlook remains supportive of growth-focused policies. Food inflation concerns have eased slightly due to declining vegetable prices; however, rising imported energy costs pose a new risk. Inflation continues to be a key factor influencing the RBI's policy stance. The Consumer Price Index (CPI) for January registered at 4.3% year-on-year, coming in below market expectations. CPI for Q4 FY25 is projected at 4%, below the RBI's estimate of 4.4%, while full-year FY25 CPI is expected to be 4.7%, slightly under the RBI's forecast of 4.8%.

Our SBI FM proprietary Equity Sentiment Index consolidates over a dozen factors — including market internals, fund flows, primary market activity, and internet sentiment — into a single measure of market sentiment. This indicator functions as a contrarian signal at extreme levels: elevated greed often precedes weaker forward returns, while extreme pessimism tends to be followed by strong rebounds. Following the recent market decline, our sentiment measure has dipped below zero for the first time in nearly two years, signalling a shift towards fear over greed in Indian markets. While sentiment has not yet reached deeply pessimistic levels, the current readings suggest more attractive entry points for long-term investors.

Equity sentiment falls below zero



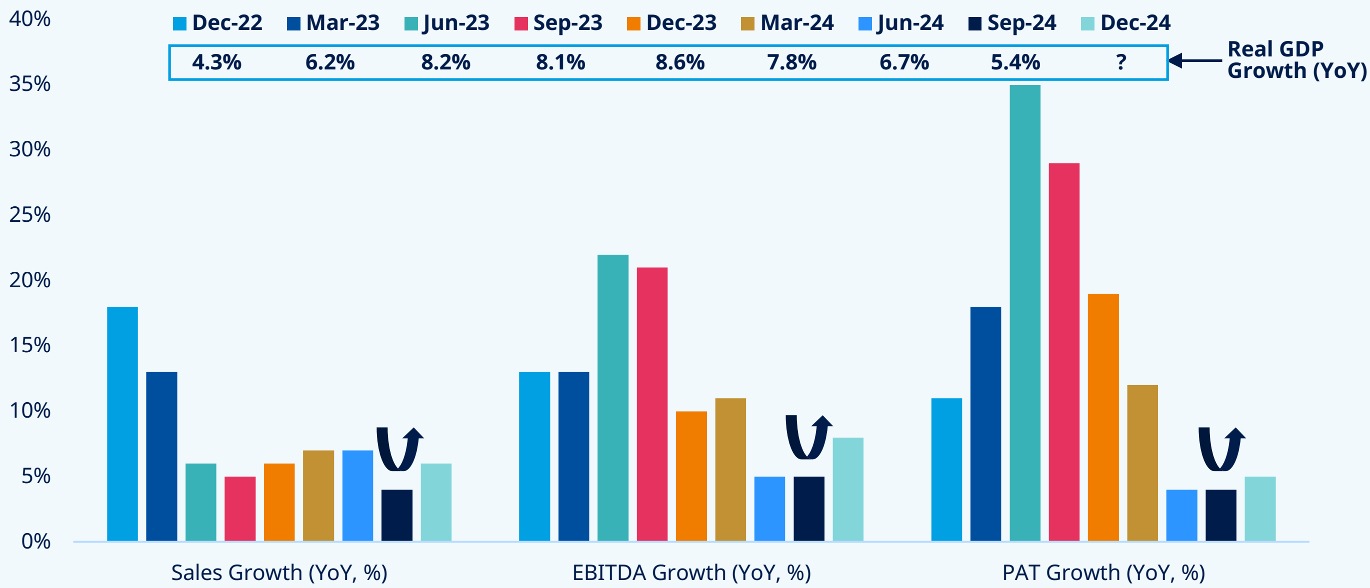
Source: Bloomberg, FactSet, SBI FM Research; ESI = Equity sentiment Index, as of 28 February 2025.

DID YOU KNOW?
Learnings from earnings

Despite economic softness, corporate earnings in India have performed better than expected, with many companies exceeding estimates. Sectoral divergence was evident, with Banking, Financial Services, and Insurance outperforming, while commodity-linked sectors underperformed, underscoring the importance of bottom-up research.

NIFTY – Quarterly earnings scorecard (Q-end Dec 2024)

Sales/EBITDA/PAT YoY for Nifty constituents grew in 3QFY25. Excluding Metals and Oil & Gas, profits for Nifty constituents were up 7% YoY.

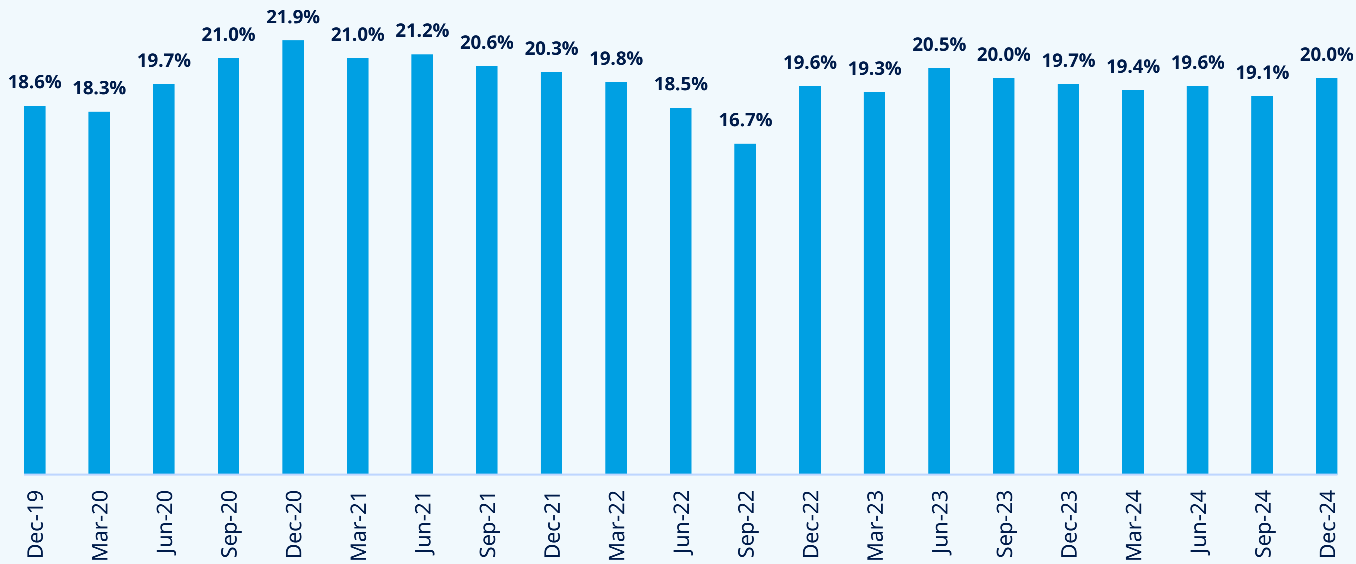


Note: EBITDA= Earnings before interest, taxes, depreciation, and amortisation; PAT= Profit After Tax.

Source: Bloomberg. SBI Funds Management Limited, February 2025. For illustrative purposes only. We are not soliciting or recommending any action based on this material

EBITDA margins expanded by 30 basis points (YoY) to 20%.

NIFTY EBITDA margin (ex-financials)

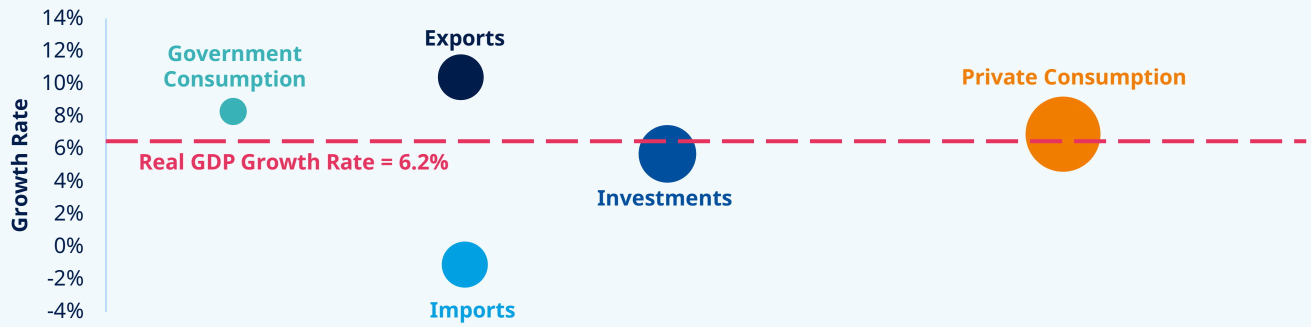


Source: SBI Funds Management Limited, February 2025. For illustrative purposes only. We are not soliciting or recommending any action based on this material.

Indian economic growth appears to have bottomed out in September 2024 and has since gained momentum. Most domestic cyclical headwinds have subsided, aided by favourable policy measures, which bodes well for corporate earnings.

India's economic growth rate

On a higher base, the Dec'24 quarter-end GDP grew 6.2% (y-o-y), confirming that the implied growth was higher than forecasted, and the Sept'24 sub-6% print was a one-off.



Note: The size of the bubble denotes the size of each component of the GDP. The above chart follows the expenditure approach to GPD Calculation: GDP = PFCE + GFCE + GFCF + CIS + Valuable + Export – Import[1]. The data is for the financial year that starts on 1st April and ends on 31st March
Source: Ministry of Statistics and Programme Implementation (MOSPI); SBI Funds Management Limited, February 2025. For illustrative purposes only. We are not soliciting or recommending any action based on this material. .

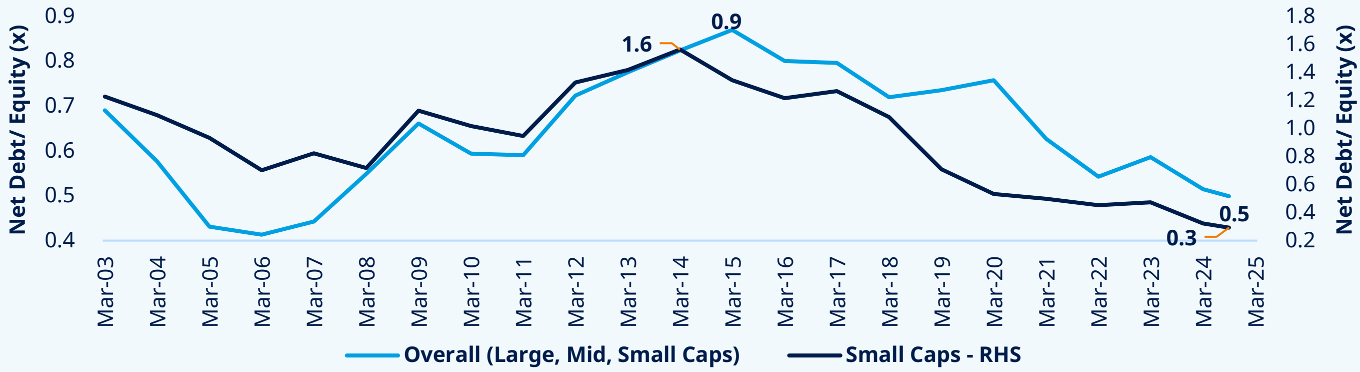
DID YOU KNOW?
Macro and markets – reasons for positive outlook

Indian markets have been in a corrective phase over the past few months. In the last edition of the India Newsletter, we outlined the factors driving this correction, while also highlighting reasons for optimism. Looking ahead, we see several compelling reasons to maintain a positive outlook on Indian equities.

1. India Inc.[2]'s Fort Knox balance sheet

At SBI FM, we recognize that India Inc.'s financial strength provides a robust safeguard against systemic risks. Over the past few years, corporate India has significantly strengthened its balance sheets, characterized by reduced leverage, healthy cash reserves, and improved profitability. This resilience enables companies to withstand macroeconomic uncertainties, and sustain long-term growth.

India Inc.'s Fort Knox balance sheet (Net Debt/Equity (x))



Source: Capitaline; Bloomberg; I-sec; SBI Funds Management Limited, March 2025. For illustrative purposes only. We are not soliciting or recommending any action based on this material.

[1]Private Final Consumption Expenditure (PFCE) // Government Final Consumption Expenditure (GFCE) // Gross Fixed Capital Formation (GFCF) // Change in Inventories (CIS).
[2]India Inc. is a term commonly used to refer to the formal sector of India's economy, encompassing the country's large corporations, businesses, and industries.

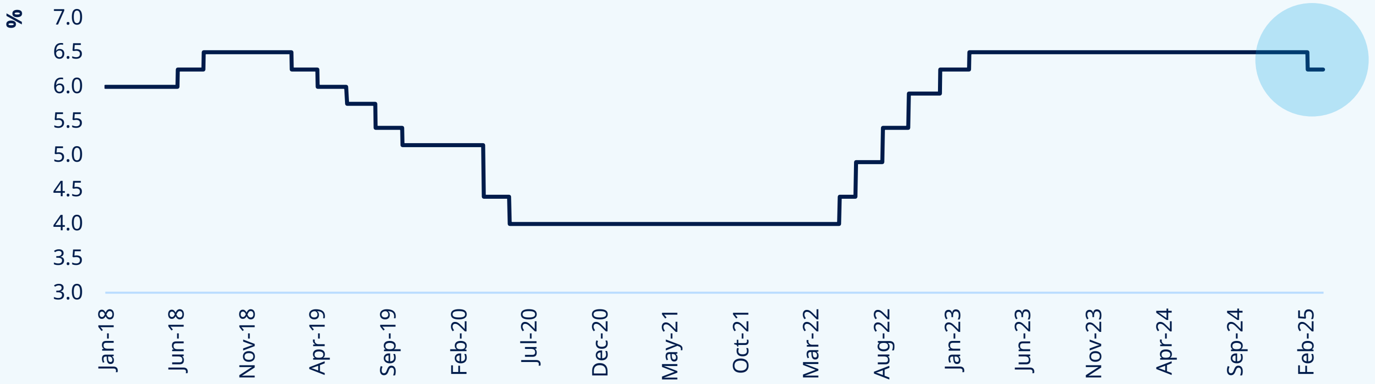
2. Relative stability in energy and commodity prices favours India

The relative stability in energy and commodity prices is a key advantage for India, given its heavy reliance on imports. Stable input costs benefit businesses, particularly in energy-intensive sectors, by preserving margins, reducing financial uncertainty, and enhancing pricing predictability. This, in turn, helps mitigate trade deficit risks, supports the Indian Rupee, and curbs inflationary pressures. As a result, companies can focus on long-term growth strategies rather than managing price volatility, thereby improving financial resilience and global competitiveness.

3. RBI's rate cuts: A year of easing to bolster growth?

The RBI has initiated a rate-cutting cycle, complemented by eased regulatory restrictions on credit and liquidity-supportive measures. In a unanimous decision, the central bank reduced policy rates by 25 basis points, signalling a shift in focus toward growth as inflation is expected to gradually align with the RBI's comfort zone. This easing cycle is expected to support economic expansion and improve credit conditions, further strengthening the investment climate.

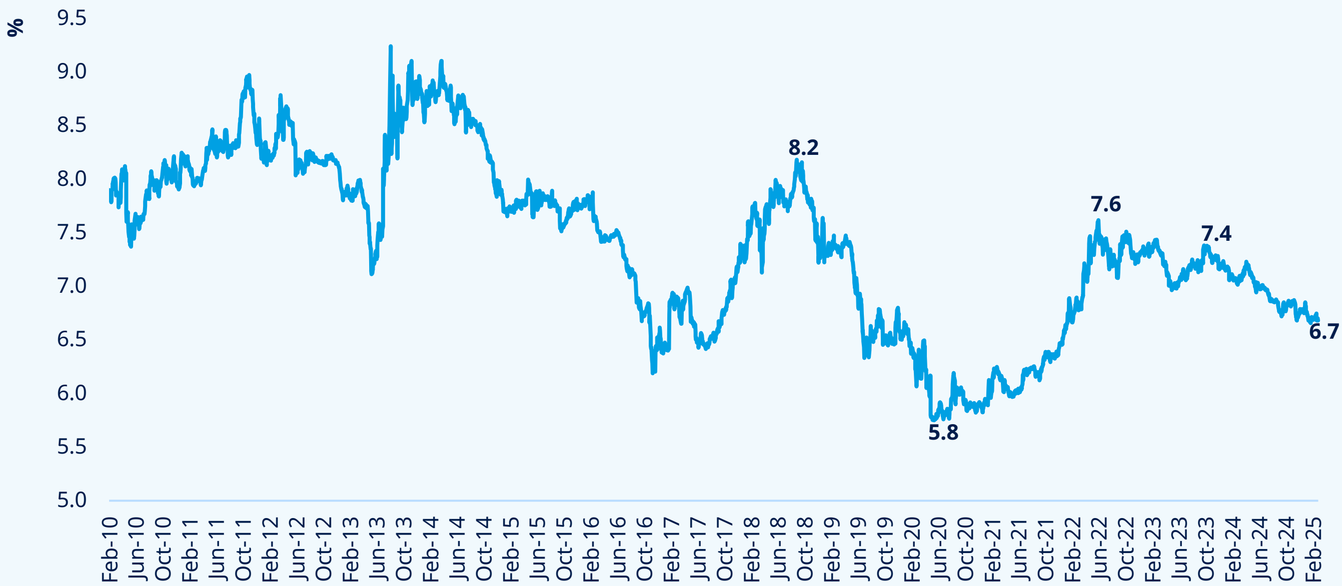
RBI has initiated rate cuts: A year of easing to bolster growth?



Note: The rate refers to the Repo Rate.

Source: Reserve Bank of India; Bloomberg; SBI Funds Management Limited, March 2025. For illustrative purposes only. We are not soliciting or recommending any action based on this material.

India 10-year government bond yields (%)

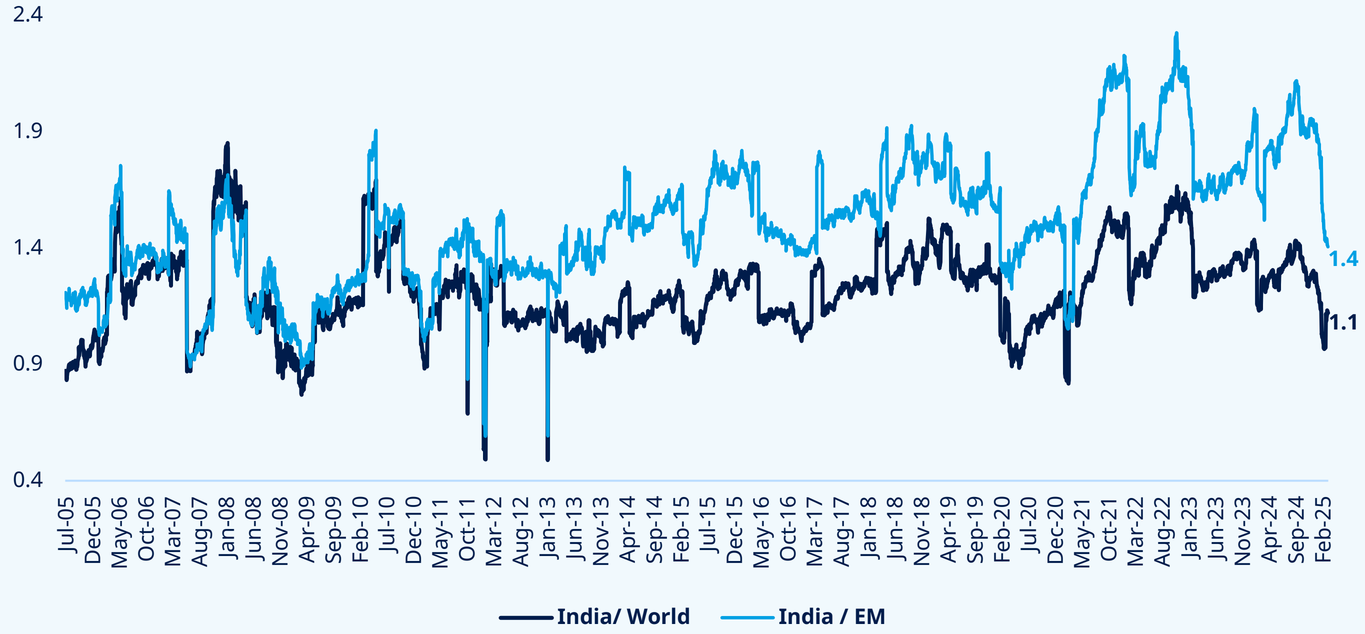


Source: Bloomberg; SBI Funds Management Limited, March 2025. For illustrative purposes only. We are not soliciting or recommending any action based on this material.

4. The current correction is driven by idiosyncratic factors

The recent market correction appears to be primarily driven by global and a few localized idiosyncratic factors. However, with key structural fundamentals falling into place and earnings downgrades tapering off, a prolonged underperformance of Indian equities seems unlikely, in our view.

India's PE premium to world & EM at 10-year low



Ratio	5 Year Average	10 Year Average
India / World	1.3	1.3
India / EM	1.8	1.7

Note: The above chart shows the ratio of PE of MSCI India (NDEUSIA) with MSCI World (MXWO Index) and MSCI Emerging Market (MXEF Index).

Source: Bloomberg; SBI Funds Management Limited, March 2025. For illustrative purposes only. We are not soliciting or recommending any action based on this material.

In the near term, macroeconomic challenges — including pressures on domestic growth and earnings, as well as escalating global tariff tensions — may contribute to market volatility. Despite short-term headwinds, India's market outlook remains constructive, supported by several key factors mentioned above. In a growing market like India, rigorous on the ground research and bottom-up stock selection are key to generating differentiated alpha.

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