

Trust must be earned

India Newsletter

October 2024

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MARKET OVERVIEW: Indian market update

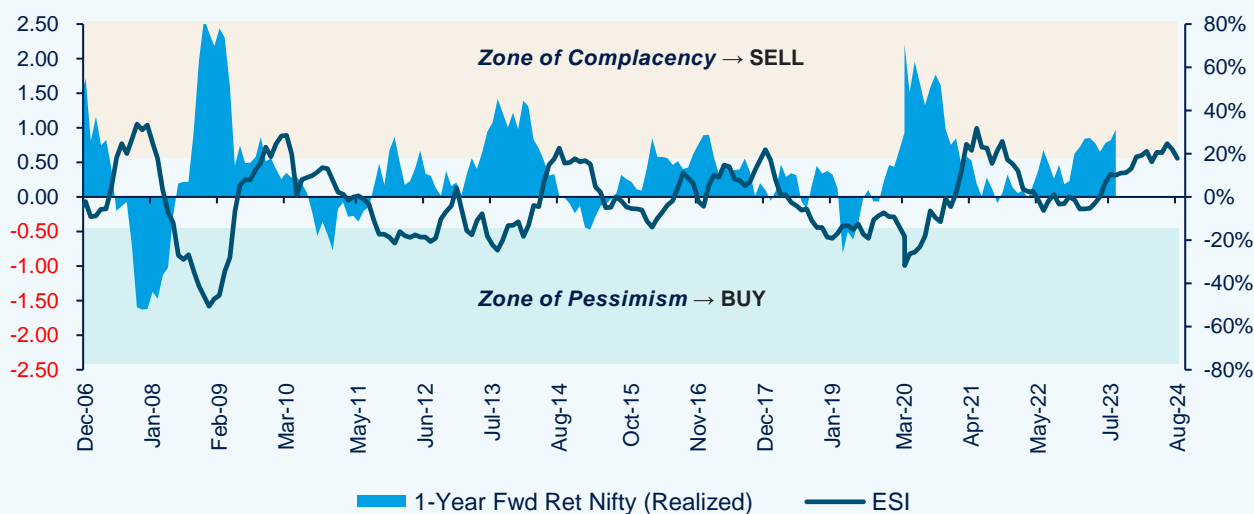
India market views

In September, MSCI India was up 2.1% (in USD terms), underperforming the MSCI EM (+6.4%). The global sell-off in technology stocks and the rising tensions in the Middle East dragged the markets while domestic economic resilience (headline CPI inflation at 3.4% for August falling below RBI's target) and the U.S. Federal Reserve initiation of its long-awaited rate-cutting cycle, reducing the Fed Funds rate by 50 basis points. Materials and Utilities were the best-performing sectors, while Energy and Information Technology were the worst performers. The broader market saw positive returns, with the MSCI India Large Cap index up 2.1%, the MSCI India Mid Cap up 2.3%, and the MSCI India Small Cap up 2.4%.

The earnings upgrade-to-downgrade ratio declined in September, however so far in FY25 (April 2024 to March 2025), there has been a marginal upgrade in earnings per share (EPS) projections. Consensus estimates suggest a 12.3% compound annual growth rate (CAGR) for Nifty EPS over FY24 to FY26.

As of the end of September 2024, our proprietary Equity Sentiment Index remains in the Zone of Complacency. The sentiment measure works as a contrarian indicator. The Sensex¹ was trading at a 25.6x price-to-earnings (P/E) multiple, compared to a historical average of 20.4x, placing it in the 91st percentile since 2001.

Equity Sentiment Index falls but is still in the Zone of Complacency



Source: Bloomberg, FactSet, SBIFM Research; ESI = Equity Sentiment Index

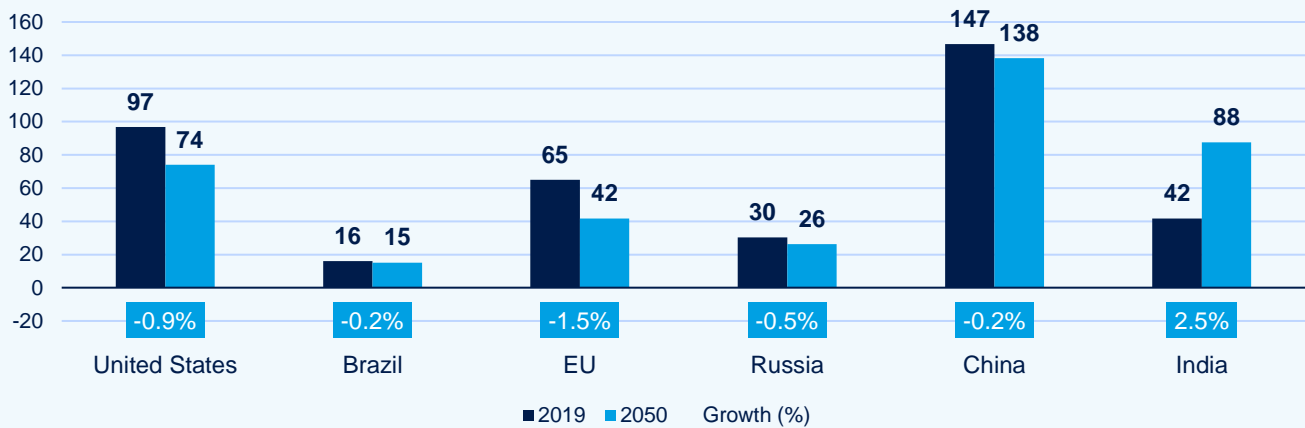
¹ Stock market index representing 30 of the largest and most actively traded companies on the Bombay Stock Exchange.

In the last 12 months, total institutional flows amounted to USD 72.8bn² in addition to the retail flows, which contributed to the expensive valuations. However, Indian markets have also been deepening with primary equity issuance both in the mainboard and small and medium enterprises (SMEs). Globally, India has dominated IPOs, with 220 issuances in the first eight months of CY 2024, followed by the US with 133 issuances. In the near-term, markets may remain volatile especially due to rising tensions in the Middle East. Beyond short-term excesses, the long-term earnings trajectory remains encouraging. Corporate profits as a proportion of GDP in India have reversed the downtrend of the past decade and have been increasing over the past three years, suggesting we are in the early stages of an earnings expansion cycle, which bodes well for long-term investors.

DID YOU KNOW? India’s green energy initiatives and powering growth

India is the world’s third largest energy market and is expected to be the fastest-growing globally through 2050. India’s primary energy consumption is predicted to grow at 2.5% CAGR through the next three decades.

Primary Energy Consumption (in Exajoules)

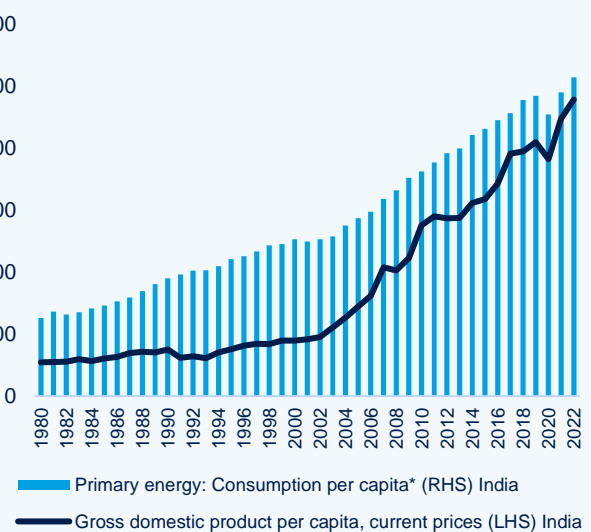
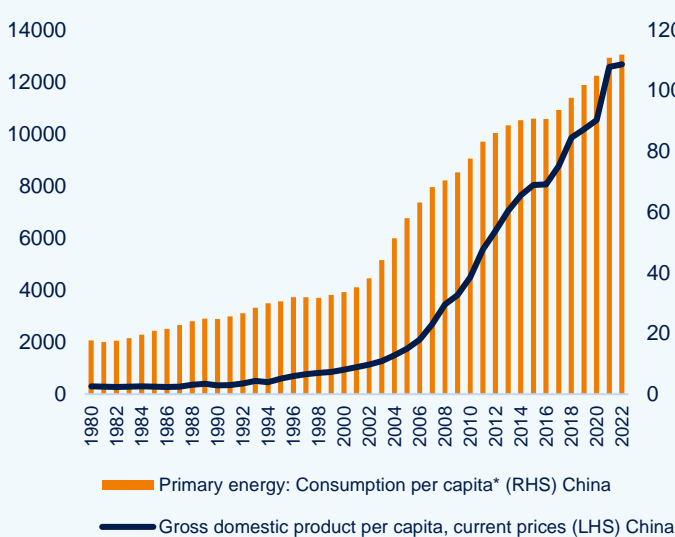


Source: BP Energy Outlook 2023.

However, India’s per capita energy consumption is 1/3rd of the global average. As an illustration, China’s consumption is 4.4x that of India.

Per capita Income (USD) & Energy consumption in China (Gigajoule)

Per capita Income (USD) & Energy consumption in India (Gigajoule)








Source: KPMG 2023 Global Energy Outlook; IMF World Economic Outlook, SBIFM Research

* In this review, primary energy comprises commercially-traded fuels, including modern renewables used to generate electricity.






² Source: Fortune India, “India dominates IPO race globally with 220 issues in 2024 so far”

Energy consumption in an economy is directly linked to economic growth. With India expected to be the third largest economy in the world, its per capita energy consumption could also witness a significant rise. It is here that the Indian government is actively pursuing the green transition agenda. India has made the “Panchamrit³” or five key climate commitments to achieve the green transition and has developed key initiatives to execute it, as illustrated below.

India’s Commitment in COP 26 – ‘Panchamrit’ Strategy

				
By 2070, India wants to achieve the target of Net Zero	Carbon intensity of the economy would be reduced to less than 45% by 2030	By 2030, India aims to meet 50% of energy requirement from renewable energy	Non-fossil energy capacity will reach 500 GW by 2030	Reduce total projected carbon emissions by one billion tonnes from now onwards until 2030

Subsequent Government Initiatives

				
Green Hydrogen Mission – Make India the global Hub for production and export of Green Hydrogen	PLI to develop solar and hydrogen value chain locally	Ethanol Blending program – Targets 20% blending in petrol by FY26 and 5% blending in diesel by CY30	Biogas blending obligation will be voluntary until FY25. Subsequently, mandatory blending obligation would start from FY26	Launch of National Clean Air Mission and Jal Shakti to clean rivers

Source: The green shift – The low carbon transition of India’s Oil & Gas sector report by Ministry of Petroleum and Natural Gas, SBIFM Research.

India’s commitment and actions have been yielding results. Climate Change Performance Index⁴ (CCPI 2024), which monitors climate protection performance of 63 countries, puts India among the top in the G-20 countries and 7th across 63 countries. The Climate Change Performance Index notes:

With India (7th), Germany (14th), and the EU (16th), only three G20 countries/regions are among the high performers in 2024 CCPI. Fifteen G20 countries receive an overall low or very low score. The G20 is particularly responsible for climate mitigation, as its members account for more than 75% of the world’s greenhouse gas emissions⁵.

India’s leadership in the green energy space is not only benefitting the Indian economy but also helping the world achieve its net-zero goals.

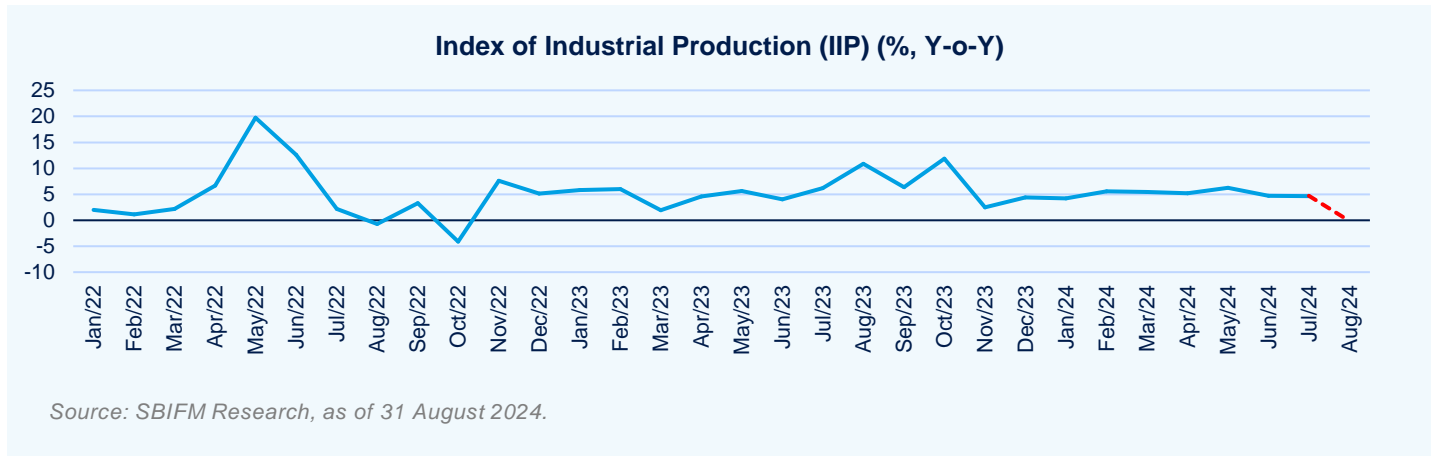
³ Source: Ministry of Science & Technology Press Release, <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1961797>

⁴ <https://ccpi.org/>

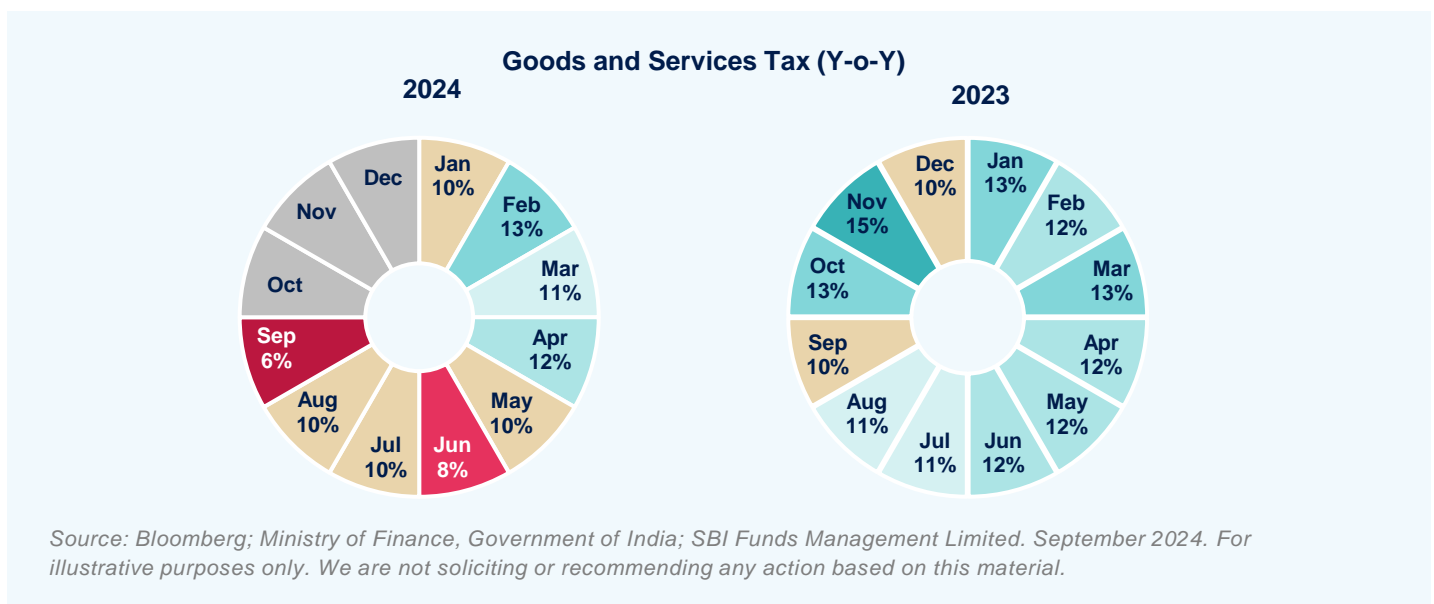
⁵ Source: <https://ccpi.org/wp-content/uploads/CCPI-2024-Results.pdf>

HOT TOPIC: Softness in momentum – seasonal or sensational?

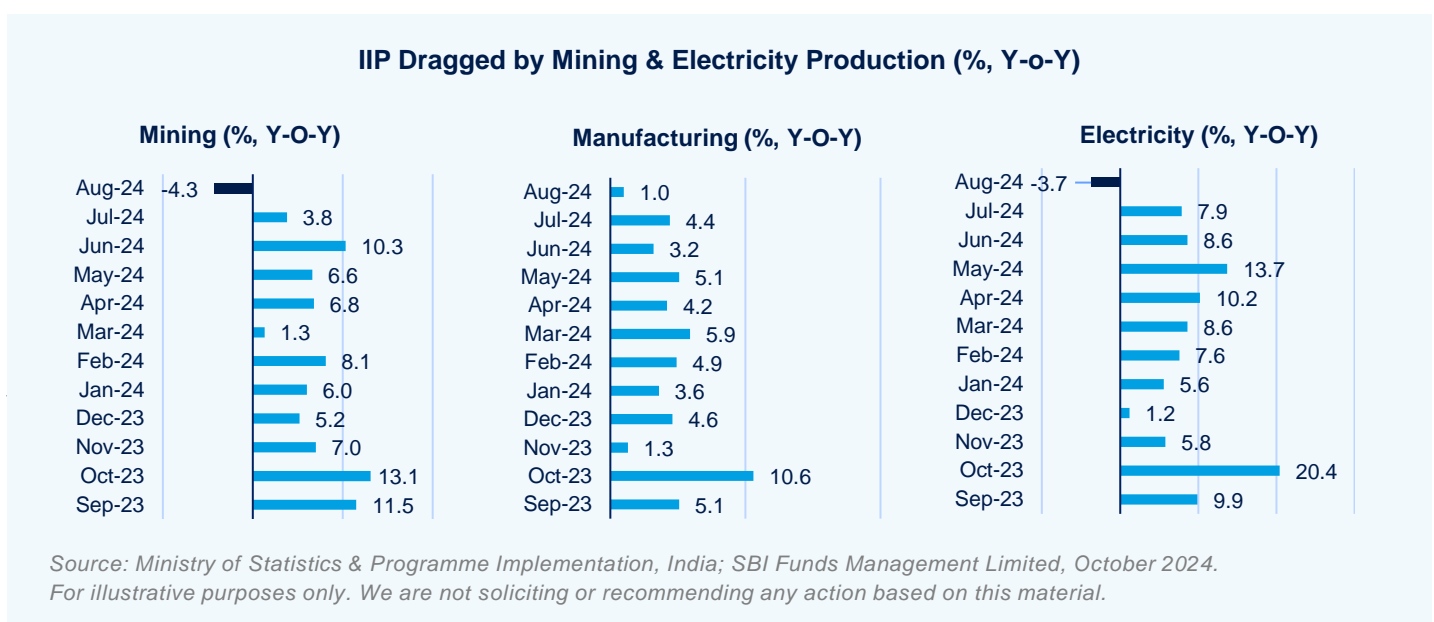
Macroeconomic indicators have softened. Industrial production entered contractionary territory after 21 months of growth.



Goods & Services Tax (GST), a comprehensive indicator of economic activity, slowed to ~6% in September, a 3-year low.



However, we believe this decline is more of a seasonal decline. For example, the slowdown in Independent Power Producers (IPP) is partially due to the unfavourable base and partially due to higher rainfall, which has negatively impacted energy demand, construction-related indicators, and freight movement.



In our opinion, the current investment-driven cycle is still intact and, if needed, can be supported by fiscal and monetary measures, while the Indian growth story continues to unfold.

India has been steadily climbing in the Regional Power Rankings. India surpassed Japan to become the third-largest power in the Asia Power Index⁶, reflecting its increasing geopolitical stature. This achievement is driven by India's dynamic growth, youthful population, and expanding economy, solidifying its position as a leading force in the region.

Comprehensive power 2024 Rankings

Grouping	Rank	Country/Territory	Score	Trend
Superpowers ≥ 70 points	1	United States	81.7	↗
	2	China	72.7	↗
Middle powers ≥ 10 points	+1 3	India	39.1	↗
	-1 4	Japan	38.9	↗
	+1 5	Australia	31.9	↗
	-1 6	Russia	31.1	↘
	7	South Korea	31	↗
	8	Singapore	26.4	↗
	9	Indonesia	22.3	↗
	10	Thailand	19.8	↗
	11	Malaysia	19.6	↗
	12	Vietnam	18.7	↗
	13	New Zealand	16.3	↘
	14	Taiwan	16	↗
	+1 15	Philippines	14.7	↗
	-1 16	Pakistan	14.6	↗
	17	North Korea	11.3	↗
	18	Brunei	10.2	↗
Minor powers < 10 points	+1 19	Cambodia	9.5	↗
	-1 20	Bangladesh	9.4	↗
	21	Sri Lanka	7.7	↗
	+1 22	Laos	7	↗
	-1 23	Myanmar	6.7	↘
	24	Mongolia	5.2	↗
	25	Nepal	4.8	↗
	26	Timor-Leste	4.3	New
	-1 27	Papua New Guinea	4.2	↗

Upward ▬

Downward ▬

No change ▬

Annual change in ranking ▬

Trends track annual changes in scores above a minimum threshold (≥ 0.15)

Greatest gains

Indonesia +2.9

India +2.8

Philippines +2.0

Greatest losses

Myanmar -0.8

New Zealand -0.6

Russia -0.4

Source: PIB (<https://pib.gov.in/PressNoteDetails.aspx?NoteId=153194&ModuleId=3®=3&lang=1>); <https://power.lowyinstitute.org/downloads/lowy-institute-2024-asia-power-index-key-findings-report.pdf>; SBI Funds Management Limited. September 2024.

Important information – Marketing Communication

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⁶ Source: <https://static.pib.gov.in/WriteReadData/specificdocs/documents/2024/sep/doc2024925401301.pdf>