

India playbook 2024: Will India's stupendous performance of FY24 repeat in FY25?

By Vinay Jaising, ETMarkets.com • Last Updated: Apr 21, 2024, 09:42:00 AM IST

FOLLOW US SHARE FONT SIZE

Synopsis

India's FY25 potential performance relies on FII ownership and Domestic market strength. Inclusion in Bloomberg, Reuters' emerging market debt index enhances appeal. Growth expected in the capital goods sector.



Representative image

India playbook 2024: Will India's stupendous performance of FY24 repeat in FY25?

FII ownership is at a decade low of 16.5%, Domestic India has started fueling the market with over \$2 Bn of SIP inflow and another \$1 Bn of pension funds monthly. Reuters and Bloomberg have included India in their emerging market debt index. This coupled with the fact that India is the fastest growing economy in the world, makes India a key favorite investment destination. The current **BJP manifesto** of Investments in manufacturing, Energy, Defense & Railways and other make in India industries seem to suggest continuity in their thought process in case they come to power. Though India is not as cheap as it was last year India Inc.'s robust earnings growth of 15% will make it an absolute return relatively safe market to invest in. Key risks include – geopolitics, crude oil prices and **elections**.

Abundant liquidity in the pipeline

We expect post-election assuming a stable government FII could go back to their overall peak ownership in India of 20%, which implies we could see \$ 150 Bn of inflows over a period of time. Assuming the domestic inflows cumulating to \$30 Bn annually and FII doubling their inflows to \$50 Bn a year, India could see as much as \$80 Bn of flows into the market as against over \$50 Bn in FY24, which was a peak in flow year equally divided between DII and FIIs. This could propel the Indian equity markets.

The BJP manifesto

The BJP government increased its proposed CAPEX spend in F25 by INR 1.6 Tn, which was equal to the CAPEX it invested in FY14. The 7-fold increase in CAPEX has led to revival of India's CAPEX story. The current BJP manifesto among other things suggests creating high value jobs for the highest incremental workforce in the world by improving the infrastructure of the country, developing sustainable cities, by focusing on Make in India (Aatmanirbhar) and PLI in industries linked to Railway, Green Hydrogen, Solar, Nuclear, wind energy, aviation including airports defense and Semiconductors (EMS). This should bolster India's CAPEX growth if the current government comes into power.

Where is the growth in India Inc. coming from?

Going ahead India Inc. is expected to grow by 15% during FY24-26E, the growth is expected to be broad-based with capital goods, Telecom, pharmaceuticals sector growing over ~20% as compared to previous year where growth was largely driven by financials. Interestingly, even FIIs seem to have caught this trend rightly as capital goods and industrial sector, which has an overall weightage of 9%, received 23% of \$25 billion inflows of FII in FY24.

Small cap and Midcap indices seem to have larger biases towards Capitals Goods, Pharmaceuticals and Telecom as against Large cap indices.

Themes	Sectors	Incremental profits contribution		PAT CAGR	
		Index weight (%)	(Rs bn)	(%)	(%)
Make in India	Automobiles & Components	7.8	62	3	8
Finsumption	Banks	28.4	468	26	14
Capex	Capital Goods	7.5	133	7	21
Make in India	Pharma & Specialty Chemicals	5.7	85	5	17
Make in India	IT Services	12.9	294	16	12
Others	Energy	15.7	139	8	6
Make in India	Telecommunication Services	3.4	130	7	39
	Nifty-50 Index		1,828	100	15

Source: Kotak Securities

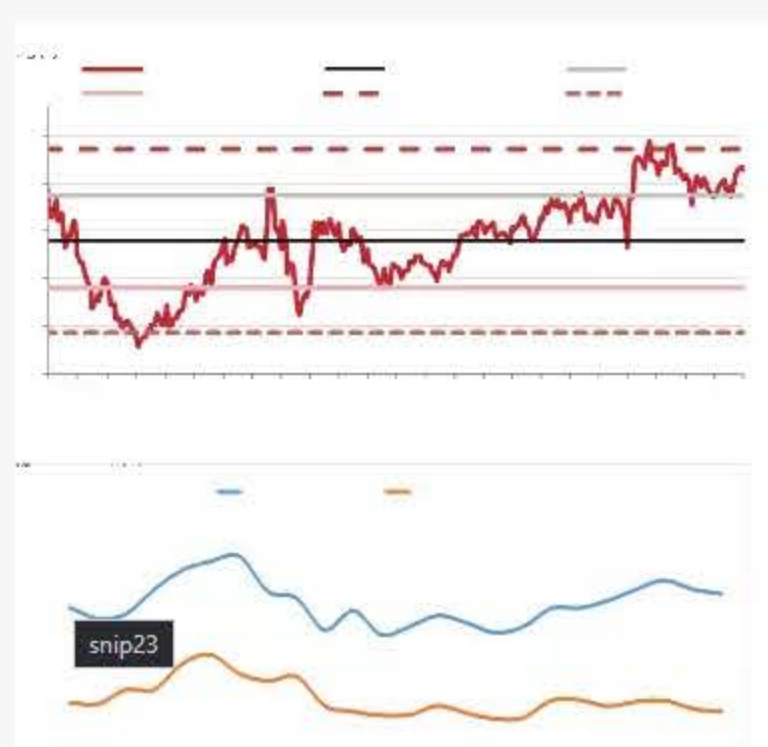
Industry Sector	Nifty 50 (FY23)	Nifty Growth 100 (FY23)	Nifty Midcap 100 (FY23)	Nifty 50 (FY24)
Automobiles	18.2	22.8	10.3	11.1
Metals	11.0	7.3	4.3	10.4
Bank	8.2	4.2	3.7	14.4
Utilities	4.2	1.2	3.5	10.0
Consumer	2.5	2.1	1.8	11.1
Real Estate	2.1	8.5	2.3	-
Energy	1.6	1.5	4.3	11.1
Telecom	0.8	2.1	2.5	28.0
IT Services	1.5	9.9	7.4	10.7
Sub-Total (A)	68.5	42.2	36.8	28.4
Chemical	0.1	10.3	10.4	17.7
Auto	7.2	2.8	8.1	5.8
Healthcare	1.4	-	-	-
Media	1.2	0.3	1.4	-
Sub-Total (B)	17.8	13.7	20.9	30.8
IT Services	7.9	10.9	10.4	30.0
Pharmaceuticals	4.4	0.4	0.4	21.8
IT	-	3.3	-	-
IT Services	0.8	1.8	2.3	2.7
Healthcare	0.8	0.8	11.1	2.7
IT	0.8	11.5	7.9	10.0
Consumer	2.7	0.8	0.5	10.0
Trading	1.9	1.3	-	-
Sub-Total (C)	31.7	44.1	40.8	64.8

NSDL Sector Classification (In \$ Mn)	FY24	FY24 %
Capital Goods	5710	23%
Financial Services	3922	16%
Consumer Services	3882	15%
Automobile and Auto Components	3620	14%
Others	2824	11%
Healthcare	2015	8%
Telecommunication	1844	7%
Realty	1148	5%
Construction Materials	944	4%
Consumer Durables	773	3%
Information Technology	704	3%
Power	451	2%
Services	239	1%
Fast Moving Consumer Goods	178	1%
Textiles	39	0%
Forest Materials	6	0%
Utilities	-23	0%
Diversified	-40	0%
Chemicals	-261	-1%
Construction	-275	-1%
Oil, Gas & Consumable Fuels	-688	-3%
Media, Entertainment & Publication	-736	-3%
Metals & Mining	-1027	-4%
Total	25249	100%

Source: JM Financial, NSDL

Valuations

After India's stupendous performance of 60% in Small and 63% in midcap during FY24, on a relative basis India is trading at over 85% premium to emerging markets and 21% premium to the World. The magnificent 7 stocks of the US have taught us that valuation and stock market trajectory are a function of earning growth momentum and more importantly its earnings growth visibility. Though on an absolute basis India is trading in line with its 5-year average multiple for large cap, one cannot undermine an increase in higher earnings propelled by stable economic policies could lead to further rerating for the country as a whole. The last 10 years India has moved from a Fragile 10 economy to top 5 and in next 5 years should see India moving to top 3 economy. Though we do not believe FY24's stupendous performance could be repeated in FY25, a return of 15% in line with India Inc.'s earning cannot be ruled out.



(Disclaimer: Recommendations, suggestions, views and opinions given by the experts are their own. These do not represent the views of Economic Times)