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India Equity Playbook 2024: Will the Santa Claus effect work for Indian markets?

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Synopsis
India's stock market has faced a 10% correction due to economic slowdown, credit growth reduction, and inflation concerns. However, domestic capex growth and a recovering global outlook may boost markets.

The Indian indices have fallen 8-9% from the peak, wherein US indices are at their peak. This could be due to two reasons: a) Trump coming into power making US equities more attractive due to expected increase in net fiscal stimulus b) The China stimulus impact - which is now waning c) India centric slowdown in retail credit growth, overall economy and corporate earnings.

All these concerns seem to be largely behind us and we are seeing a silver streak in emerging economic data. With most state elections behind us the Capex growth story should unfold in the coming months. The govt. has to spend ~Rs. 7 Trillion in the remaining 5 months to achieve its target of Rs 11.2 trillion in capex for FY2025, which would be a growth of over 52% YoY.

The themes we would like to be invested in the current environment are largely domestic facing sectors like the capex related power sector, due to robust domestic tailwinds. In the global facing sector, we would like to be invested in India's outsourcing stories like pharmaceuticals.

(Source: Controller General of Accounts, Bloomberg)

Post Trump election – US may become the most favourite Equity destination

With the US elections behind us and a clean mandate given to Donald Trump, the US equity markets have given a "thumbs up". Three expected policies leading to this euphoria are a) Tax cuts b) Increase in global tariffs to enable US increase their manufacturing set up; c) More jobs for US citizens.

This would lead to an increasing fiscal deficit. However, disinflation trends and in turn interest rate cuts expected earlier would be mellowed down.

Stimulus of China has made investors reassess and invest in China

The Chinese government. provided a slew of measures for the bourses as well as the real estate industry.

India witnessed outflows of US$ 10.4 billion dollar in October ~US$ 3 bn in November so far.

From a peak of ~160% Market Cap. (MC) to GDP the Chinese indices now stand at ~60% MC to GDP, a staggering 60% discount to its peak, in line with its average. Investors who were very underweight tried to balance their position. In USD terms, the Chinese MSCI Index now stands at over 15% YTD, outperforming India after the recent fall which stands at 13%.

(Source: JM Research, Bloomberg)

2 H for India has been rough

The Indian economy which was going from strength to strength witnessed three negative events all in 2H2024 which has led to over 10% correction in the bourses.

Credit growth slowdown from 15-16% levels overall to 12-13% percent led by reduction in retail consumption. RBI too is taking a streak of measures to arrest any gross Non Performing Asset (NPA) formation. NBFCs are slowing down their retail growth and working on increasing their liquidity, tapering down their lending yields specially the Micro Finance Institutions so that the low ticket retail consumer gets the benefit passed on the economy front RBI after increasing GDP forecast in the last 4 years have reduced the current quarters forecast to 6.7% (down from 7%). A stronger monsoon limited consumption growth and industrial activities in certain regions.

October Inflation is at 6.2%, due to food inflation, breaching the RBI 4-6% band. The Current account deficit has inched up to 3% due to higher crude prices and lower exports due to global slowdown in consumption. In addition, lower govt. spending has weighed on growth. Forex reserves also have plummeted from a peak of Rs. 705 Bn(Sep.) to Rs. 655 Bn. (Nov)

Corporate F2Q24 results were a dampener, with overall revenue growth slowing down to 8%, profits actually declining by 2% as against an expected double digit growth. Excluding the energy sector which witnessed a 41% decline in profits, Corporate India growth was 11.6%, 4-5% lower than expectations. Overall 1HF2024 profits grew 3% which implies even if 2HF25were to grow at 15%, overall growth would be 9% as against our expectation of 15% for F2025 earlier. This has led to a 7-8% cut in overall earnings for India inc. and in line corrections in markets.

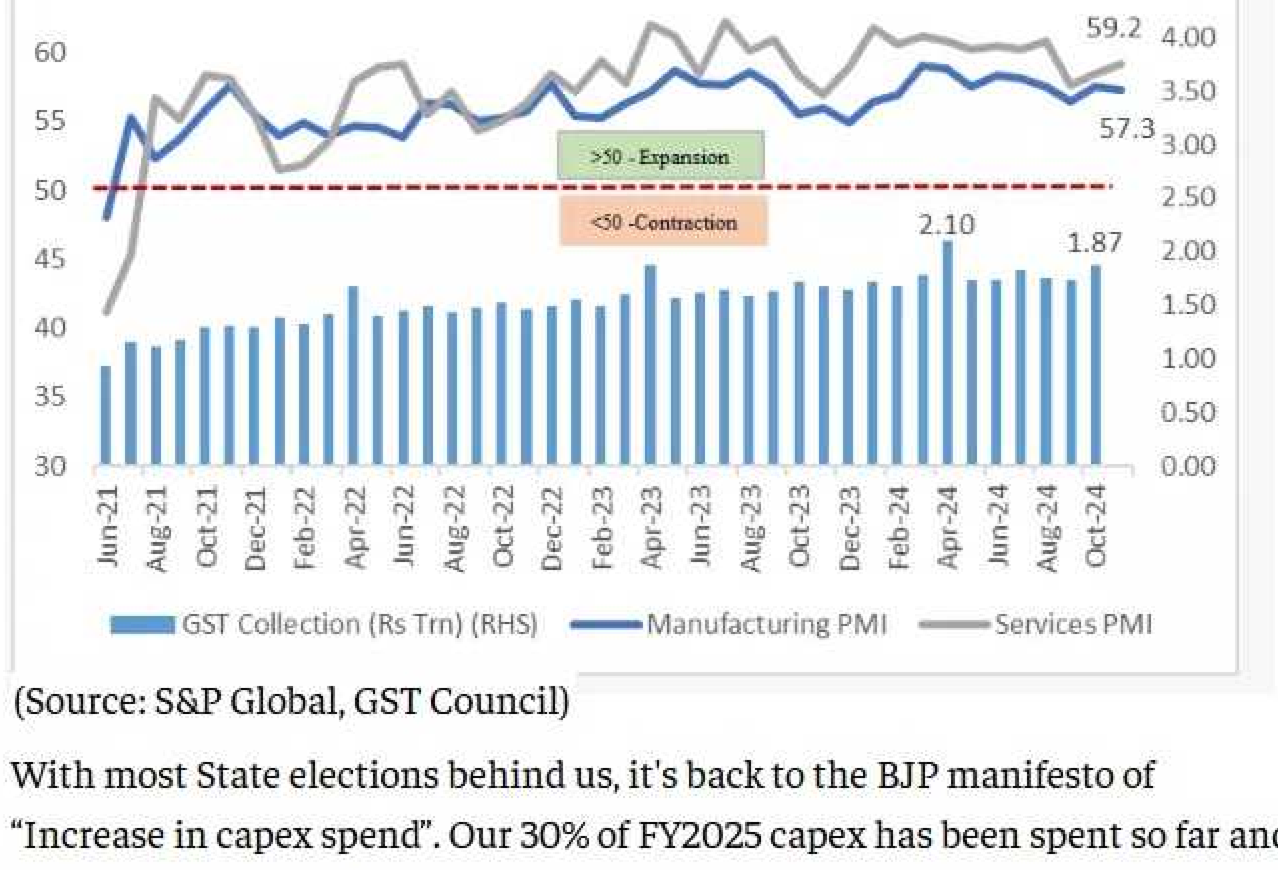
ETMarkets.com

Nifty 50 Index Weights	Sector	Incremental PAT Contribution: FY2024 - FY2026E (Rs in Bn)	Incremental PAT Contribution: Contri (%)	PAT CAGR: FY2024 - FY2026E	PAT Growth (%): FY24 - FY25E	PAT Growth (%): Actual 1HFY24 - 1HFY25	PAT (Rs in Bn): 1HFY25 (Reported Companies)	PAT (Rs in Bn): 2HFY25E (Reported Companies)
8%	Automobile	133	8%	11%	7%	10%	298	376
33%	Financial Services	566	32%	11%	5%	13%	1,432	1,429
2%	Industrials	61	3%	36%	65%	41%	113	169
5%	Capital Goods	119	7%	24%	24%	48%	57	49
13%	Consumption	76	4%	8%	2%	7%	227	266
2%	Cement	30	2%	11%	-3%	-28%	41	101
13%	Energy	129	7%	3%	-8%	-23%	755	963
4%	Healthcare	66	4%	15%	16%	16%	117	119
4%	Metals	157	9%	12%	1%	4%	282	354
12%	Technology	225	13%	11%	9%	10%	536	566
4%	Telecom	209	12%	69%	105%	39%	78	98
	Nifty 50 Total	1,770	100%	11%	5%			

(Source: JM Research, Bloomberg)

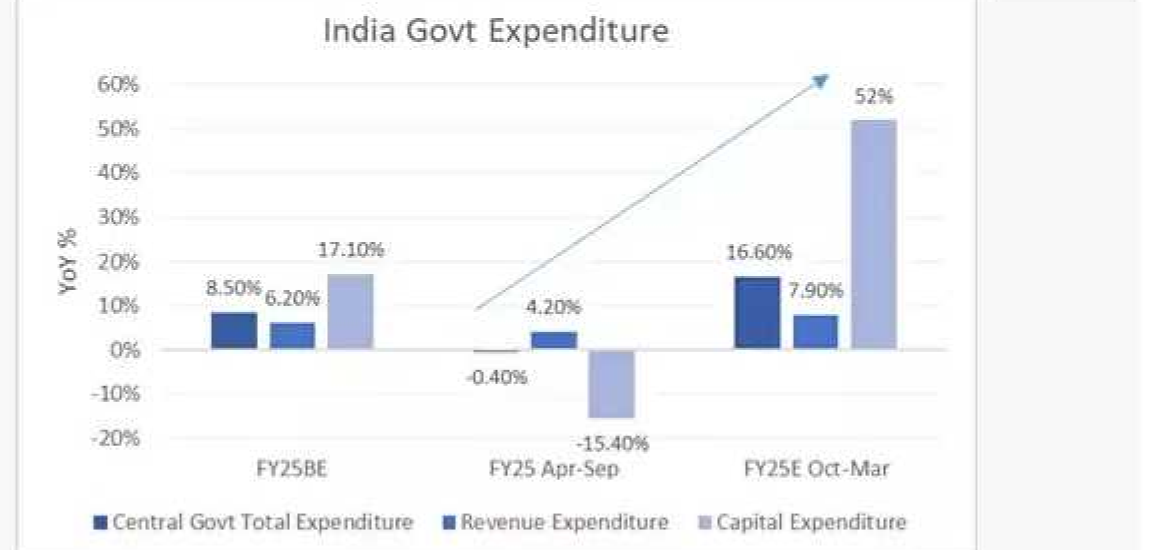
Time for the Santa Claus Effect to work?

We think India has gone through its trough of a relative economy slowdown in F2Q24; PMI nos. have already inched up in Oct to 57.3, GST nos. too inched up to Rs 1.87 trillion the second highest ever, festive season has led to auto sales increasing 12.2%.



(Source: S&P Global, GST Council)

With most State elections behind us, it's back to the BJP manifesto of "Increase in capex spend". Our 30% of FY2025 capex has been spent so far and the government cash balance has lowered by Rs 3 trillion during Sept to Nov. implying a capex boom in 2HF2025.



Typically, FIIs are muted in December, and if we see DIIs maintain their flows of US$ 45 bn which already is the highest ever in any fiscal year as a whole, markets could see a good Christmas.

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