Market Perspective - Feb 2023

India Equity Outlook

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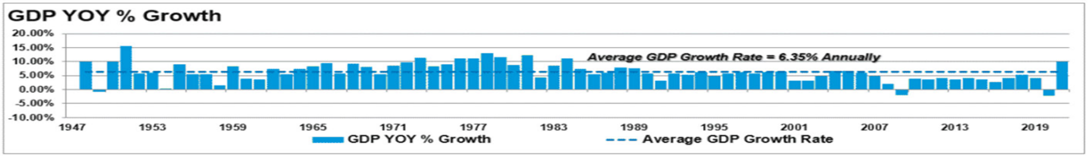
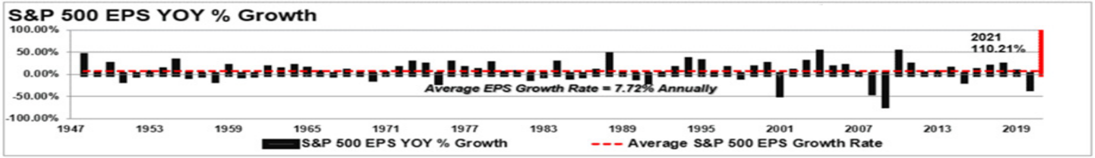
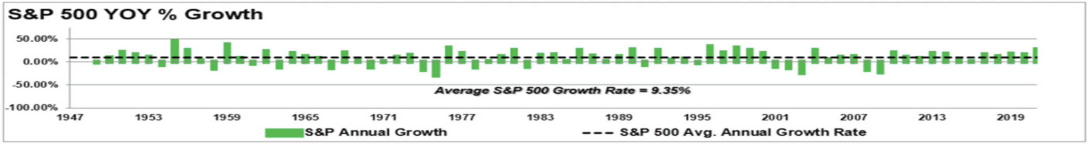
The Truth-Relation of SPX 500 with EPS growth & US GDP growth



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



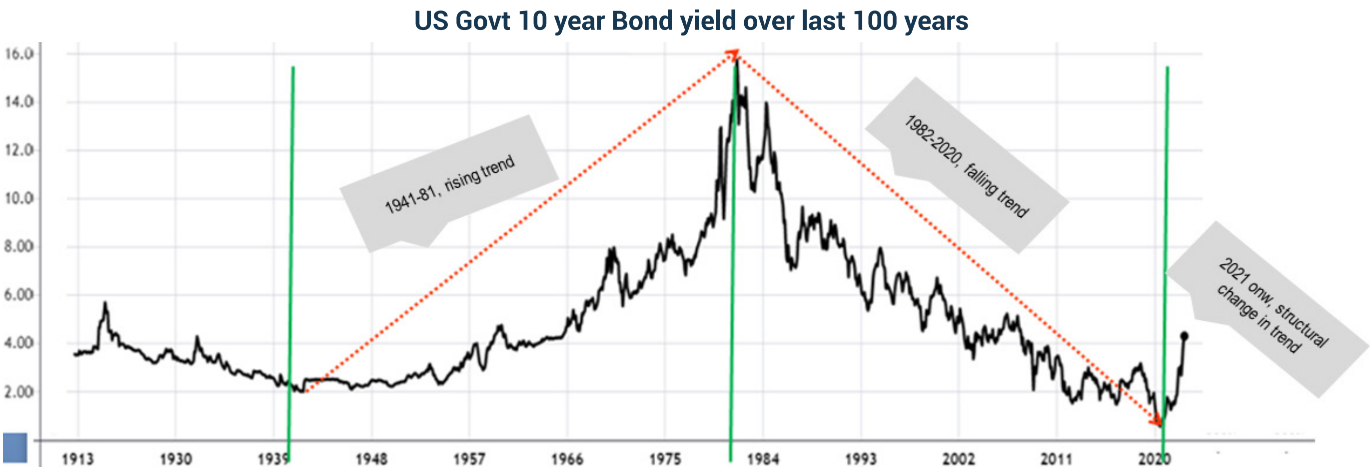
S&P price growth 9.35%
> EPS growth due to multiple re-rating

The truth of returns in Makets whether India or US can be validated with 2 important levers- GDP growth and Index EPS growth

» In US, Since 1947, the real GDP growth in GDP was 3.3%, inflation being 3% average, the nominal GDP growth average has been 5.35%. When the economy grows at a certain GDP growth say 6.35%, in a simple sense, company's average sales will also be around 6.35%. The earnings went up a little more at 7.7% as margins expand due to operating leverage. When earnings grew at 7.7%, S&P 500 Index price returns have been at 9.35%, a little more than earnings growth due to multiple re-rating.

» Taking guidance from above equation, In India, real GDP growth is 6%, with Inflation of 4%, our nominal GDP growth is at around 10%. Hence, the topline growth of companies will be around 10%. The profits will grow at 12-13% due to operating leverage . The prices in India for Indian listed corporate should grow at an average of 14% (a little higher than EPS growth)

Risk-Rising Rates? US Govt 10 Year Bond Yield



Above is 10 year bond Yield Chart for US since 1913. We can divide the chart in broad 2 periods:

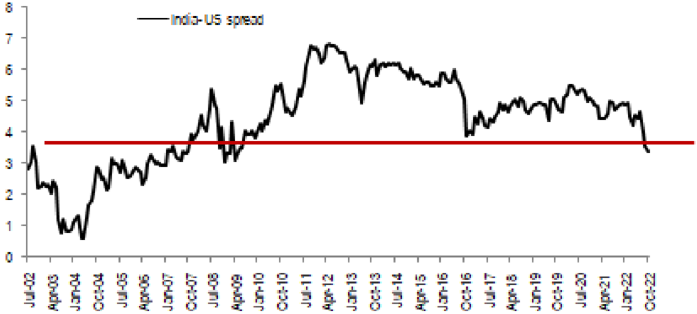
1941-1980- where US government Bond Yield went up from sub 2% to higher than 15%

1981-2020- where the yields fell all the way to 0.5%.

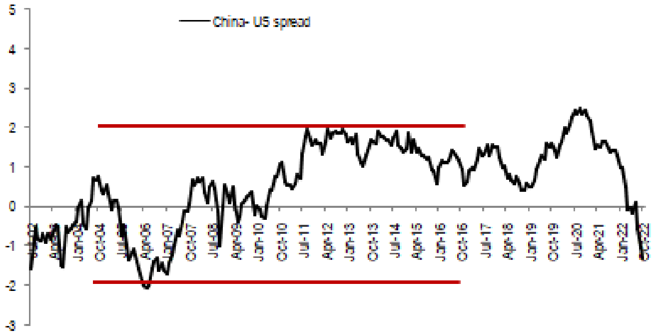
The fall can again be seen in two parts- first where the interest rates were falling in 2008 which can be attributed to lower inflation due to globalization where manufacturing was getting shifted to lower cost geographies; and second, a more severe fall from 3% to close to 0% on the basis of huge liquidity infusion by central bankers.

2021 onward-**Not necessarily a sharp rising trend but more like an elevation and then long period of sideways movement**

Worry-Interest Rate | India- US I0 year Bond Yield Spread



Source: investing.com



Source: investing.com

In terms of Interest rate spreads with US , what India will do in next 20 years will be similar to what China did in last 20 years

Rising Fed rate or say rising US 10 year Government bond yield will impact India bond yield movement as well. The India – US spread in 10 year Govt bond yield has been in the range of 3-6%, which means the current Bond yield In India may range from 6-9%. Bond Yield rally from current 7.6% to 9% will mean damage to Indian macros and hence stock markets.

We assume India will take guidance from China – US spread going further as the macro construct at this point of time is similar to what China had some 20 years ago. This implies bond yield spread to range in -2% to 2% implying Indian average peak Bond Yield to remain around 8%.

Worry-US Recession Risk. Is It?

For 'Corporate Revenue' or 'Trade' Nominal GDP growth is the key and not the ('Real') GDP growth

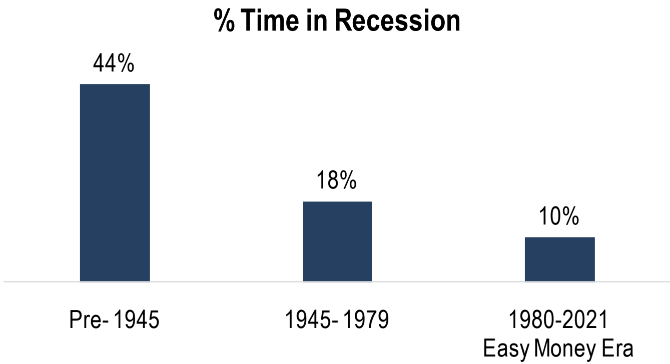
If current recession means a -1% real GDP growth, and inflation is 5%, the nominal GDP growth will still be 4%. The economy in dollar sense, the real recession will not impact.

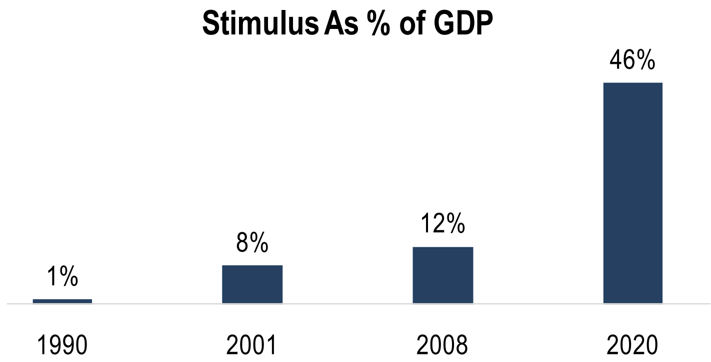
Year	Inflation%	Real GDP Growth%	Nominal GDP Growth
2001	2.80%	1.00%	3.80%
2002	1.60%	1.70%	3.30%
2003	2.30%	2.80%	5.10%
2004	2.70%	3.90%	6.50%
2005	3.40%	3.50%	6.90%
2006	3.20%	2.80%	6.00%
2007	2.90%	2.00%	4.90%
2008	3.80%	0.10%	4.00%
2009	-0.40%	-2.60%	-3.00%
2010	1.60%	2.70%	4.40%
2011	3.20%	1.60%	4.70%
2012	2.10%	2.30%	4.40%
2013	1.50%	1.80%	3.30%
2014	1.60%	2.30%	3.90%
2015	0.10%	2.70%	2.80%
2016	1.30%	1.70%	2.90%
2017	2.10%	2.30%	4.40%
2018	2.40%	2.90%	5.40%
2019	1.80%	2.30%	4.10%
2023	5%	-1%	4.0%

Last 20 years Average Nominal GDP Growth rate is 4.1%

In 2023, even when Growth is -ve , Nominal GDP Growth rate will be at ~ 4%

The Long Grind



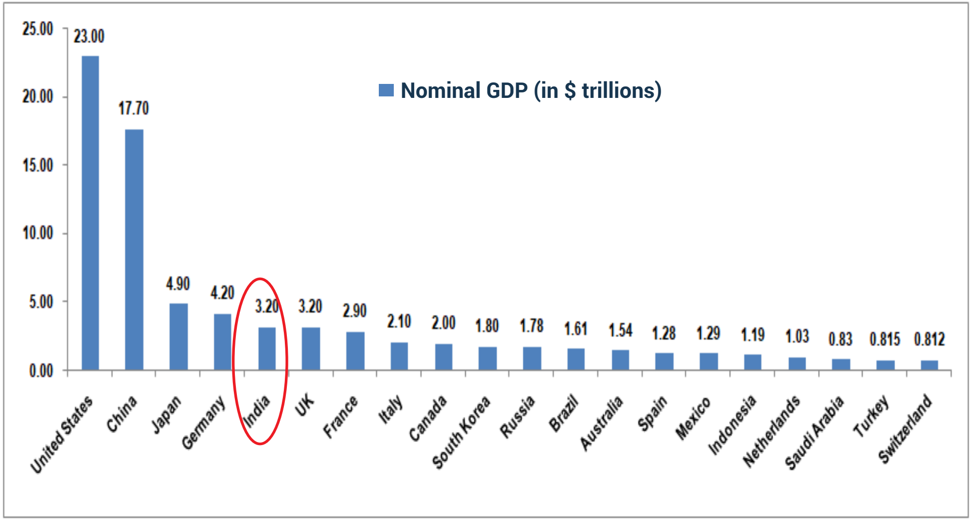


Pre 1945, ~44% was recession, that means out of 10 years, 4-5 years used to be recession. Recent recessions have been very small and not a very dramatic recession because of Easy money, higher Government spending and low interest rates. Recently, the role of Government interventions and government spending has increased. Government stimulus rescues have increased sharply leading to fewer and shorter recessions

The Long Grind-Developed World will Enter into

Since 1989, for almost 3 decades, Nikkei-225 Japan had not made a new high. US or the developed markets will go the similar way – a so called “Long Grind”.

Investment Implication post $3 trillion Economy



India-5th largest in Nominal GDP

India-3rd largest in PPP Adj. GDP

India is rich but Indians are poor. The crisis is : According to the IMF World Economic Outlook (April - 2021), GDP (nominal) per capita of India in 2021 is projected at $2,191 at current prices. India is at **144th position** out of 194 economies in terms of GDP (nominal) per capita

India-144th in per capita GDP

Crisis will lay the foundation for the opportunity - India is a rich country but Indians are poor.

The Per Capita Race-Top 6 Economies

India	China	Japan	UK	Germany	USA	Per Capita $2000 to $10000
2019 to ???? ?? Yrs	2006 To 2019 14 Yrs	1970 To 1981 11 Yrs	1967 To 1980 13 Yrs	1965 to 1978 13 Yrs	1951 to 1978 27 Yrs	
$2831.5b	**$2752.1b**	**$212.6b**	**$113.1b**	**$168.1b**	**$346.9b**	**GDP**

Barring US, the other top countries have taken 10-13 years to go to $10000 per capita GDP from current $2000. China crossed $10000 in 2019, say where China was in 2006 India is currently.

* Germany data before 1970 has been assumed

Other Resemblances

2022	**India**	**resembles**	**2007**	**China**
2031	**India**	**to resembles**	**2011**	**China**

India's next decade will bear some resembalance to China's 2007-11 transition				
	2007	2022	2011	2031E
US$ bn	China	India	China	India
Nominal GDP	3551	3358	7549	77711
GDP Per Capita (US$)	2688	2393	5596	5140
Private Consumption	1292	1987	2636	4468
Investment (GCF)	1438	1026	3523	2681
Exports	1353	674	2100	1880

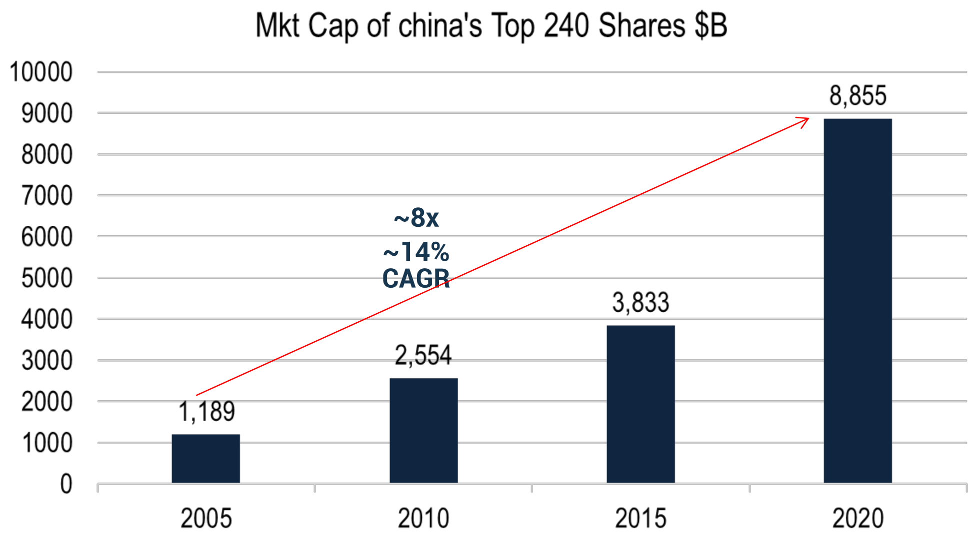
Morgan Stanley Report

When we compare China's GDP, GDP per capita , Private consumption and other macros in 2007 to India's in 2022 we find a great similarity. Also, Our 2031E of GDP, Investments etc is comparable to 2011 figures in China.

China grew very rapidly from 2007 to 2011, i.e in 4 years where the GDP grew from $3551bn to $7549bn. We expect India will achieve that in 9 years what China achieved in 4 years.

Hence, as India's macros over 2022 to 2031 will resemble China's macros from 2007 to 2011, we expect India- US Bond Yield spread going forward will take guidance from China –US Bond Yield spread in the period 2007-11

So the outcome



When China was in journey of $10000 per capita GDP, stock market went up by ~8 times i.e @ 14% CAGR.
India is currently in the same bracket of 14% stock market growth opportunity.

Winning and Losing Industries-Top 50 Comparison

CHINA POST GDP SURGE			
China-Industries	**No of Co.**	**Wt%**	
IT	4	12.81	
Internet- Consumers	4	11.21	↑
Banks	9	12.97	
Finance- Insurance	2	3.24	↑
Finance- Capital Mkt	1	0.6	↑
Consumer Staples	6	9.95	
Consumer Disc	3	3.19	
Auto & Manufacturing	4	2.77	
Automotive Suppliers	1	1.42	
Real Estate	2	1.38	↑
Retail	1	0.95	↑
Logistics	1	0.7	↑
Healthcare	5	3.63	↑
Energy	3	2.59	
Materials	1	0.59	
Elec Equip & Parts	2	1.33	
Telecom Serv & Equip	1	1.32	

INDIA CURRENTLY			
Nifty 50-Industries	**No of Co.**	**Wt%**	
Banks	6	27.13	↓
Finance- Insurance	2	1.4	
Financials	3	9.17	↓
IT	5	13.96	↔
Consumer Staples	5	8.59	↔
Consumer Disc.	3	3.9	↔
Automobiles	6	5.28	↔
Health Care	5	3.84	↔
Energy	3	12.1	↓
Materials	6	4.97	↓
Industrials	3	5.24	↓
Telecom	1	2.52	↔
Utilities	2	1.9	↓

If we follow the China Market Cap composition post $10000 per capita GDP, there will be opportunity in Internet Consumers, Insurance, Capital Market, Real estate, Retail and Logistics.

Winning and Losing Industries-Top 100 Comparison

CHINA POST GDP SURGE			
China-Industries	**No of Co.**	**Wt%**	
IT	8	23.74	↑
Internet- Consumers	5	5.16	↑
Banks	14	16.79	
Finance- Insurance	5	4.92	↑
Finance- Capital Market	7	3.11	↑
Auto & Manufacturing	8	4.82	
Automotive Suppliers	1	1.59	
Consumer Disc	9	7.66	↑
Hotels & restaurant	3	1.19	↑
Real Estate	5	2.7	↑
Retail	1	1.08	↑
Education	2	0.97	↑
Consumer Staples	8	12.03	↑
Energy	4	3.45	
Materials	4	2.16	
Healthcare	6	3.75	
Airport	1	0.28	
Electronic Components	3	0.99	↑
Automated Machinery	1	0.31	
Construction & Engineering	1	0.41	
Telecom-Serv & Equip	3	2.11	

INDIA CURRENTLY			
Nifty 1000-Industries	**No of Co.**	**Wt%**	
IT	7	12.49	
Banks	8	23.67	↓
Finance- Capital Market	1	0.18	
Finance- Insurance	5	1.89	
Financials	8	8.81	
Automobiles	6	4.49	↔
Consumer Disc.	11	5.76	
Auto Components	2	0.31	
Real Estate	1	0.25	
Consumer Staples	10	8.66	
Energy	6	11.98	↓
Materials	12	6.2	↓
Health Care	8	3.65	↓
Industrials	7	3.18	↓
Const. & Engg.	1	2.68	↔
Telecom	2	2.32	↔
Utilities	5	3.48	↓

Do not read into 2022- Year of Counter Trend

Top Gaining Sectors	Average Price Return%
Energy	16.4
Materials	10.3
Industrials	15.9
Utilities	11.1

Cyclical low valuation stock saw massive domestic participation

Top Losing Sectors	Average Price Return%
Internet Consumer	-48.2
IT	-27.5
Retail	-18.4
Finance- Insurance	-8.3
Real Estate	-7.9
Finance- Capital Market	-7.5

High Quality-High growth Companies saw valuation de-rating

In the short term say 1 year, market has not favoured the structural trend and the year was a counter trend year. Hence we should not read too much into last one year sectoral performers.

Top Companies Composition

CHINA		
Top 10 Cos in China	**Industry**	**2020 Mkt Cap US $B**
Tencent	IT	699.78
Alibaba	IT	648.31
Kweichow Moutai	Consumer Staples	384.82
ICBC	Banks	262.02
Ping An Insurance	Finance- Insurance	235.98
Meituan	IT	223.14
Pinduoduo	Internet- Consumers	217.88
China Construction Bank	Banks	192.21
Wuliangye Yibin	Consumer Staples	173.69
CM Bank	Banks	167.79

INDIA		
Top 10 Cos in India	**Industry**	**Current Mkt Cap US $B**
Reliance	Energy	212.53
TCS	IT	147.66
Hdfcbank	Banks	107.39
Infosys	IT	75.55
Icicibank	Banks	73.8
Hdfc	Financials	57.77
ITC	Consumer Staples	50.81
Kotakbank	Banks	43.79
Larsen & Toubro	Industrials	36.35
Axisbank	Banks	35.95

Our top companies market cap is 1/4th of top companies market cap in China. Large Companies in India will also throw opportunity for market cap appreciation.

Opportunity in Capital Markets

USA			China			India		
Co.	**Industry**	**Mkt Cap US $B**	**Co.**	**Industry**	**Mkt Cap US $B**	**Co.**	**Industry**	**Mkt Cap US $B**
Visa	Financials	464.73	ICBC	Banks	215.9	HDFC Bank	Banks	127.61
UnitedHealth	Insurance	444.97	China Construction Bank	Banks	164.36	ICICI Bank	Banks	74.06
JPMorgan Chase	Banks	400.73	CM Bank	Banks	154.52	State Bank of India	Banks	64.67
Mastercard	Financials	354.7	Agricultural Bank of China	Banks	150.38	HDFC Limited	Financials	60.49
Bank of America	Banks	269.65	Ping An Insurance	Insurance	142.11	LIC of India	Insurance	54.64
Wells Fargo	Financials	166.31	Bank of China	Banks	133.43	Bajaj Finance	Financials	44.78
S&P Global	Capital Market	119.07	China Life Insurance	Insurance	125.91	Kotak Mahindra Bank	Banks	43.21
Goldman Sachs	Capital Market	118.21	Postal Savings Bank of China	Banks	66.02	Axis Bank	Banks	34.88
Elevance Health	Insurance	112.65	East Money	Financials	46.02	SBI Life Insurance	Insurance	16.32
American Express	Financials	112.39	CITIC	Capital Market	45.44	HDFC Life	Insurance	16.02

** Market Cap in billion Dollars

Top 10 distribution	USA	China	India
Banks	2	6	5
Financials	4	1	2
Insurance	2	2	3
Capital Market	2	1	None

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