

India Newsletter

November 2024

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MARKET OVERVIEW: Indian equity market insights from SBI FM's CIO team

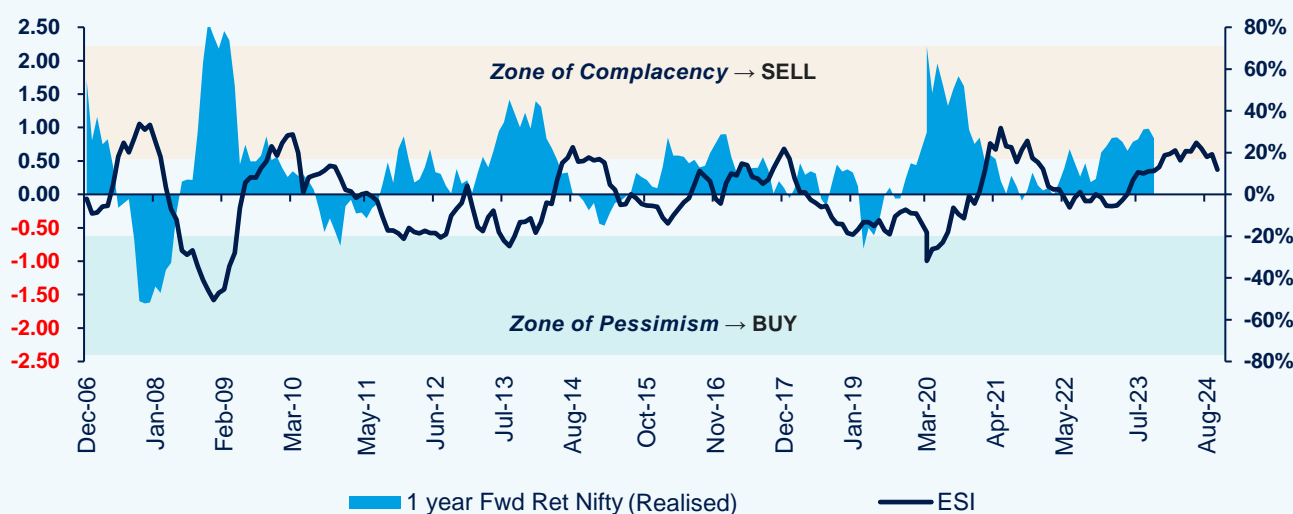
India market views

In October, MSCI India was down 7.7% (in USD terms), underperforming the MSCI EM (-4.4%). Healthcare and Financials were relatively the best-performing sectors, while Energy and Consumer Staples suffered the most. The broader market saw negative returns, with the MSCI India Large Cap index down 7.7%, the MSCI India Mid Cap down 8.4%, and the MSCI India Small Cap down 4.1%.

FY25 earnings estimates have also seen deeper cuts in recent months, as commodity price tailwinds abate and revenue growth remains lacklustre. Earnings revisions for FY25 have fallen with Materials, Industrials, Consumer Discretionary & Energy seeing downward revisions. Healthcare continues to get upward revisions. Consensus expects 12.0% EPS growth CAGR for the Nifty over FY24-FY27.

As of the end of October 2024, our proprietary Equity Sentiment index has fallen out of the Zone of Complacency. The sentiment measure works as a contrarian indicator. The Sensex¹ was trading at a 24.1x price-to-earnings (P/E) multiple, compared to a historical average of 20.4x, placing it in the 83rd percentile since 2001.

Equity sentiment index fall out of the Zone of Complacency



Source: Bloomberg, FactSet, SBI FM Research, as of end October 2024. ESI = Equity sentiment Index

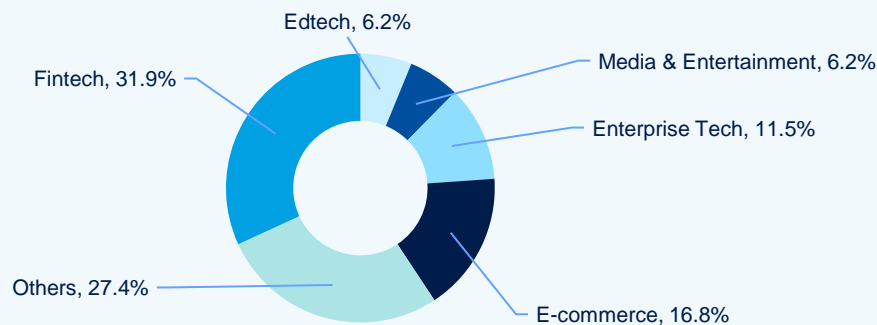
¹ The Sensex index is based on companies listed on the Bombay Stock Exchange (BSE) of India. The Nifty is the index for the National Stock Exchange (NSE).

Foreign Portfolio Investors (FPIs) turned net sellers in Indian equities, recording outflows of USD 10.4 billion in October, compared to inflows of USD 5.9 billion in September. **Domestic institutions (DIs), on the other hand, were net buyers**, with inflows of USD 12.8 billion compared to USD 3.8 billion in the previous month². The Indian equity market capitalization currently stands at USD 5.4 trillion, with FPIs holding approximately 17% of the market³. **We believe that FPI outflows, amounting to less than 1% of total FPI investments, are part of the routine reallocation of investments across countries and are partially driven by profit booking in the context of high valuations.** Hence, in our view, this is a temporary phenomenon.

DID YOU KNOW? India – the third largest startup ecosystem in the world

India, the world's most populous country, faces challenges tied to its population growth. However, **innovations from Indian startups are paving the way for solutions**. According to the World Intellectual Property Organization, India's rank in the Global Innovation Index improved to 40th in 2023 from 81st in 2015, driven by its **vibrant startup ecosystem—the third largest globally** and with 115 Unicorn startups for CY 2023⁴. This number is projected to double by 2030. These startups span diverse sectors.

Soonicorn mix across key segments

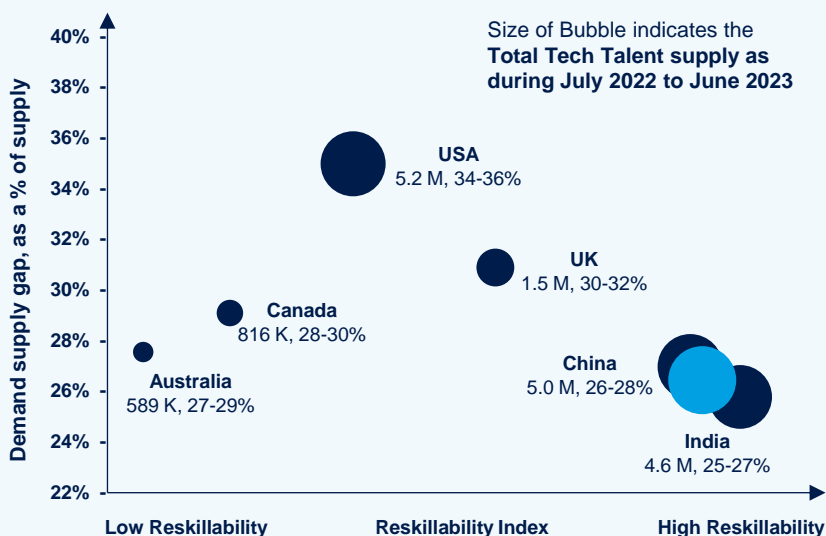


Source: Inc42. Data as of April 2024. A soonicorn refers to a startup that is rapidly growing and has the potential to reach a valuation of \$1 Bn in the near future.

We believe that this trend is to going to accelerate supported by key drivers, including: (a) a robust talent pool; (b) advanced digital infrastructure; (c) a strong funding ecosystem; and (d) a growing middle class boosting consumption.

Among nations with sizable tech talent pools, India and China have the smallest demand-supply gap, thanks to proactive government initiatives and a strong upskilling ecosystem.

Global tech talent in the tech industry



Source: Draup Talent Database, Nasscom Report November 2023. Reskillability Index - Defined by estimated growth in Digital Tech Talent pool that can be gained by reskilling the workforce. Tech talent in tech Industry includes Core tech talent in tech industry and digital tech talent in tech industry (Core + Digital tech talent).

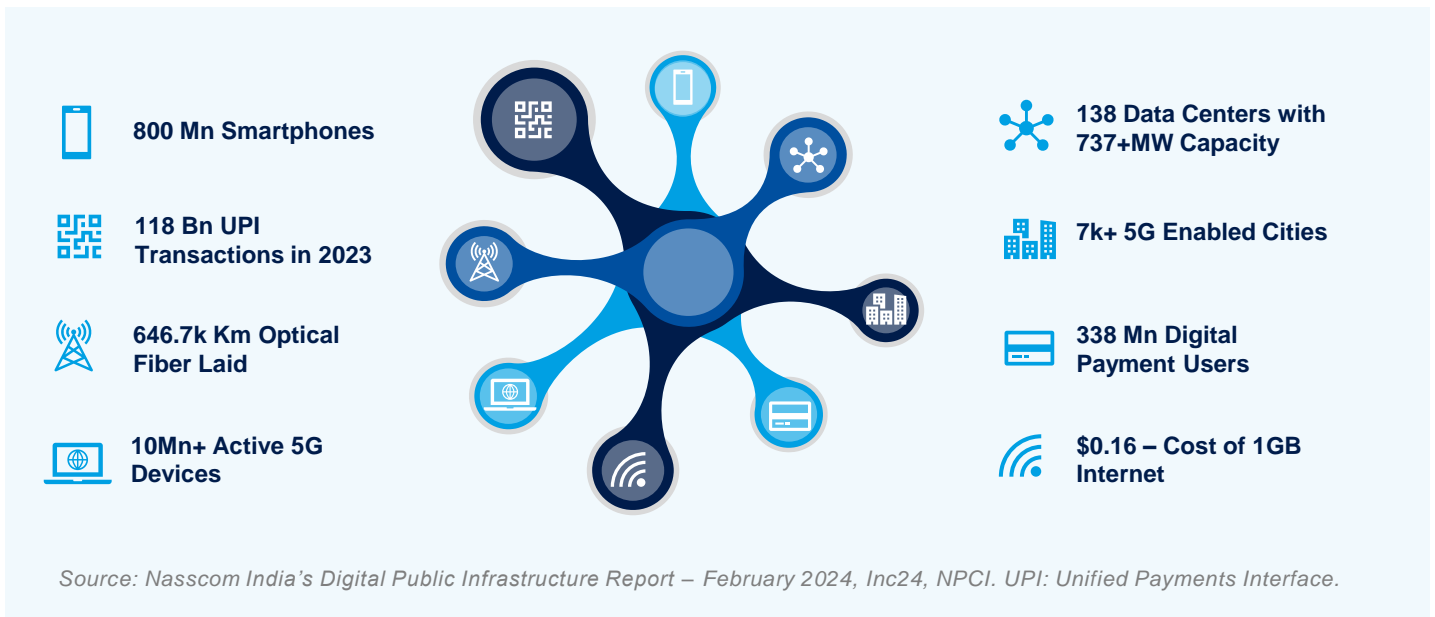
- **2.5 million** STEM graduates every year - one of the largest sources of STEM talent in the world.
- India boasts a significantly higher relative AI skill penetration rate, surpassing the G20 average by **more than 3x**.
- Tier 2 and Tier 3 cities in India collectively contribute to **60%** of fresh graduates in engineering, arts, and science colleges.
- Based on the past trends the fresh talent which can transition in digital roles is expected to grow **2x by 2028** compared to 2020.

² Source: Bloomberg.

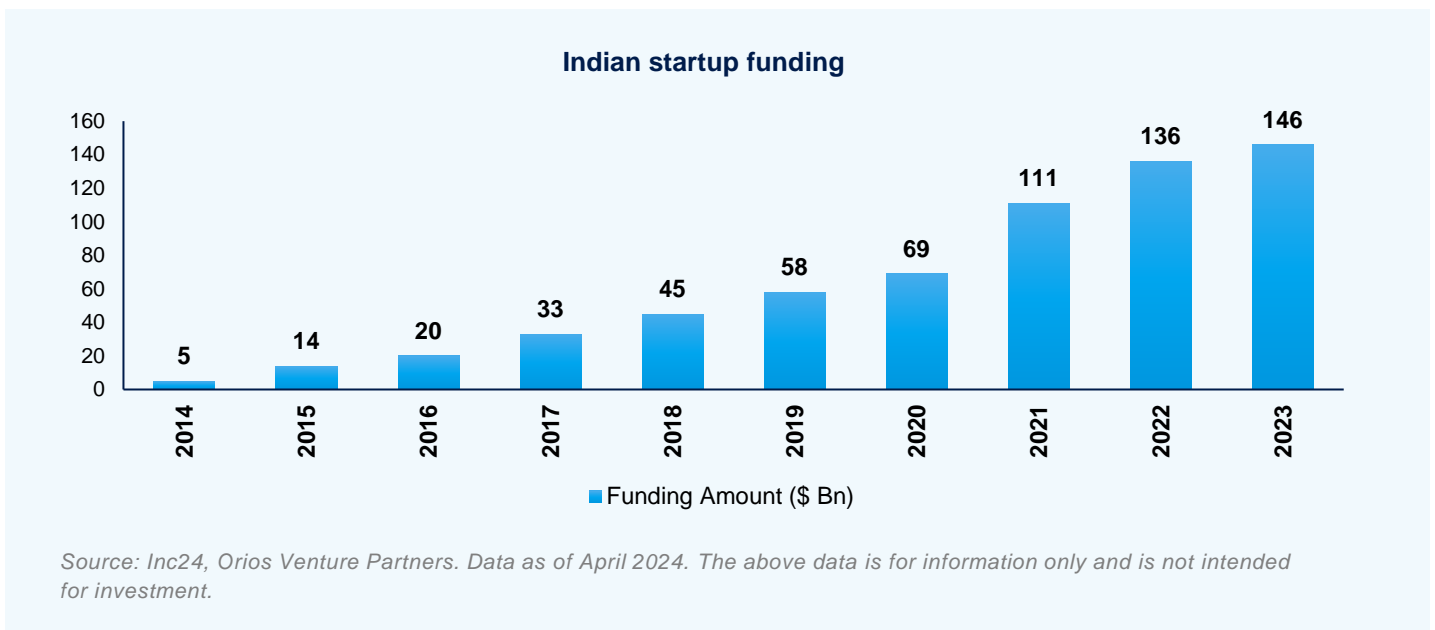
³ Source: NSDL, <https://www.fpi.nsdl.co.in/web/Reports/ReportDetail.aspx?RepID=14>

⁴ Source: IFSC Authority, <https://pib.gov.in/PressReleasePage.aspx?PRID=1909188>

India's digital ecosystem has seen rapid expansion in recent times, positioning the nation on the global stage in terms of harnessing the power of technology.



All these elements are supported by strong funding. Indian startups have raised a total funding of around \$146 Bn in 2023⁵. These startups can potentially look to raise further funds from public listing.



In addition, India has a large and growing consumer market, with more than 1.4 billion people. As the country continues to develop and the middle class grows, the consumer market will only continue to expand.

All these factors, in our opinion, will accelerate startups and innovation in India.

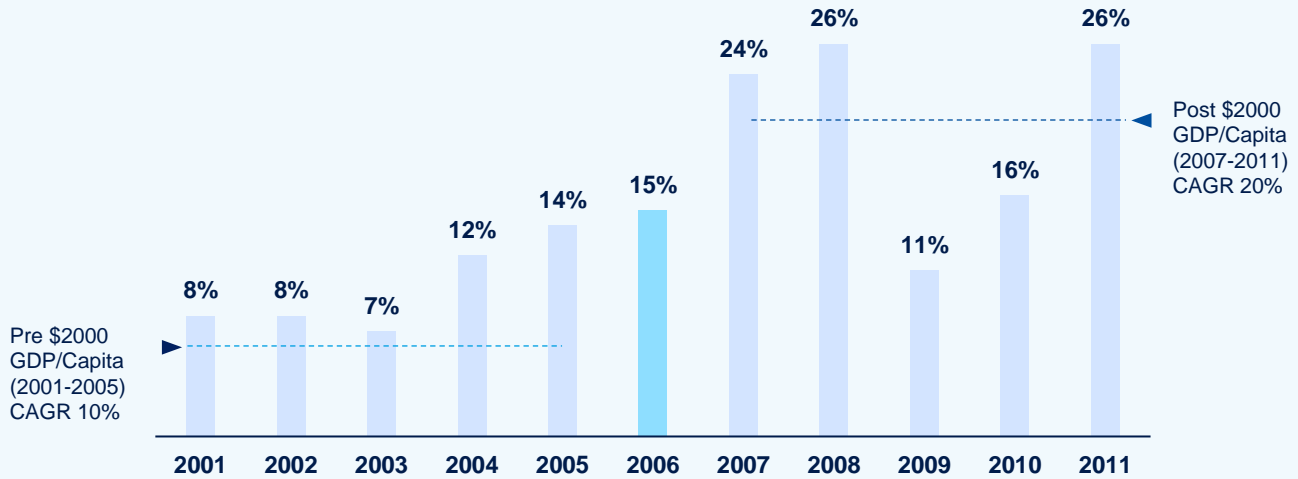
Indian per capita GDP at inflection point – the booming middle class

India's per capita GDP, which surpassed \$2,000 in 2019 and again in 2021 after a temporary dip in 2020, is at an inflection point⁶. For instance, when China crossed the \$2,000 per capita threshold in 2006, it experienced ~20% CAGR growth in discretionary spending over the next five years.

⁵ Source : Inc42.com. <https://inc42.com/features/146-bn-raised-in-10-years-the-outlook-for-funding-winter-hit-indian-startups-isnt-that-grim-after-all/>

⁶ Source : Business Standard. https://www.business-standard.com/economy/news/india-s-per-capita-to-income-to-increase-by-2-000-over-5-years-sitharaman-124100400311_1.html

China's PFCE zoomed after crossing \$2000/capita in 2006

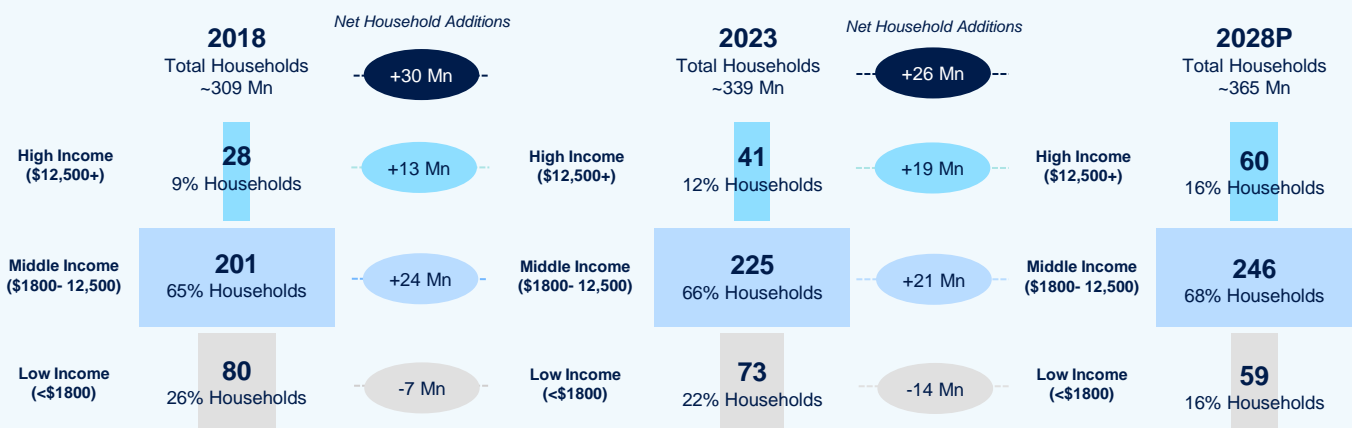


Note: PFCE is a private final consumption expenditure. Following China touching the US\$ 2000 GDP per capita milestone in 2006, PFCE (at current prices) YoY growth has been captured for the previous 5 years leading up to this benchmark and the subsequent 5 years.

Source: World Bank, International Monetary Fund (IMF), United Nations, Redseer Research and Analysis; SBI FM, October 2024. For illustrative purposes only. We are not soliciting or recommending any action based on this material.

India is expected to follow a similar trajectory, with companies that tailor their offerings likely to thrive. **The middle-income segment, representing 66% of Indian households as of 2023, is expected to spearhead this growth.**

The rising Indian middle class



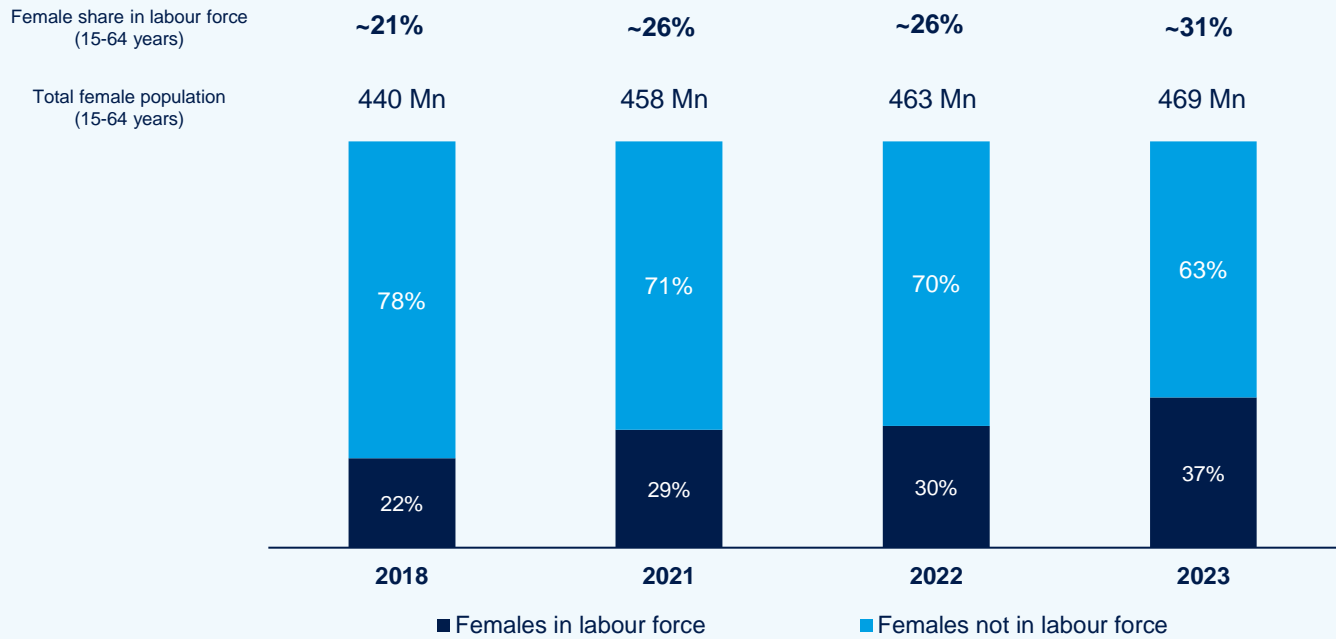
Note: Income is calculated based on real wage growth and account for wage inflation. Conversion rate: 1 US\$ = ₹83

Source: Redseer Research and Analysis; SBI FM, October 2024

Several factors are driving rising purchasing power and anticipated consumption growth, which includes increasing women in active employment and declining household size.

The number of women in active employment increased from ~97 million in CY2018 to ~176 million in CY2023, growing at a CAGR of ~13%.

Rising female workforce is boosting household income and aspirations

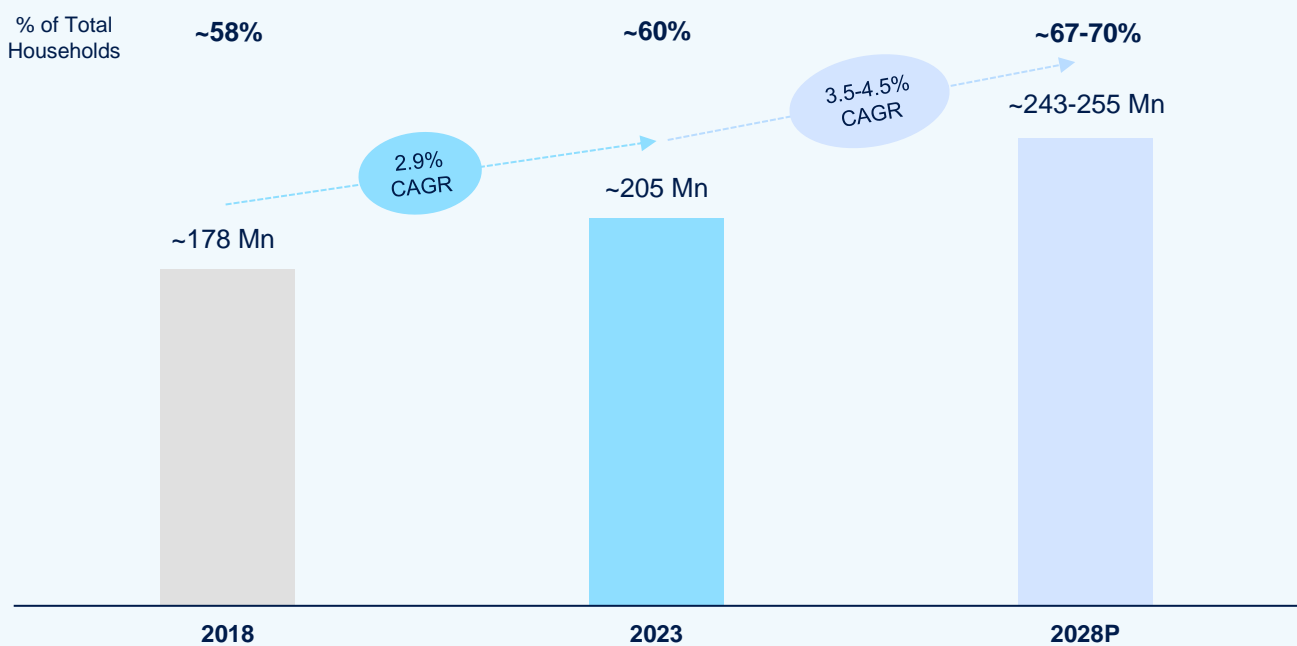


Note: Total female population (15-64 years) CY2018, CY2021-2023, Million

Source: International Labour Organisation (ILO); Redseer Research and Analysis; SBI FM. October 2024.

Further, the average household size has reduced from 4.4 in 2018 to 4.2 in 2023, leading to a rise in nuclear households, which is expected to drive higher retail consumption.

Increasing Nuclearization



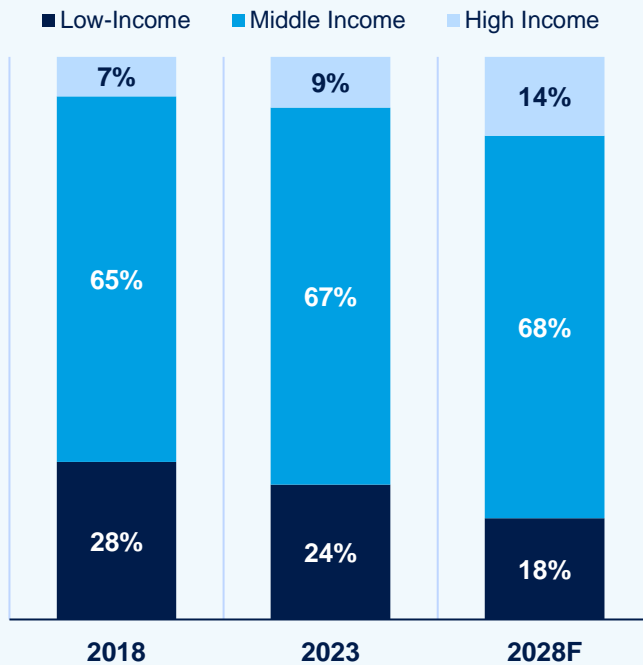
Note: Number of Nuclear Households – India (CY2018, CY 2023, CY 2028P, in Million)

Source: Redseer Research and Analysis; SBI Funds Management Limited, October 2024.

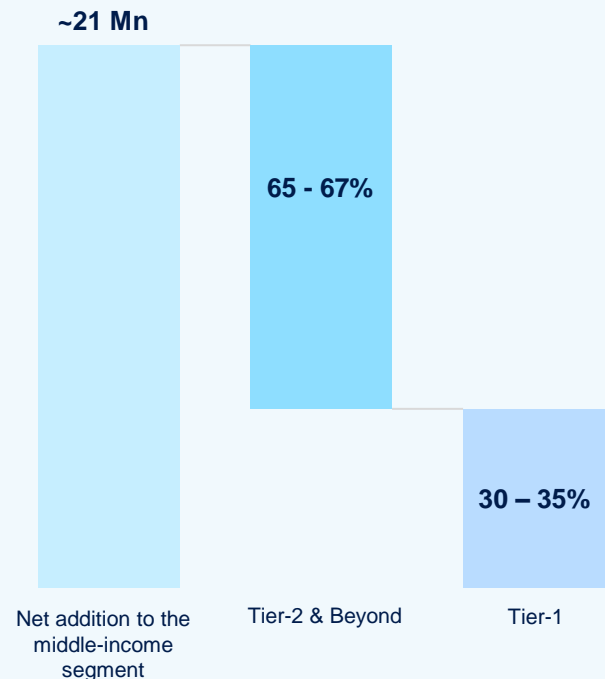
Additionally, India's economic momentum increasingly stems from Tier-2 cities and beyond, supported by industrial decentralization, technological advancements, untapped market opportunities, and an increasingly distributed workforce.

Democratizing retail demand

Households split by Income in tier-2 cities and beyond (CY 2018, CY2023, CY2028F, %)



City tier split of incremental growth in middle - income segment (CY2023-2028, %)



Note: Incomes are calculated based on real wage growth and account for wage inflation. F: forecast.

Source: Redseer Research and Analysis; SBI FM, October 2024.

Together, these trends position the Indian economy and market for sustained growth.

Important information – Marketing Communication

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