

India Newsletter

May 2025

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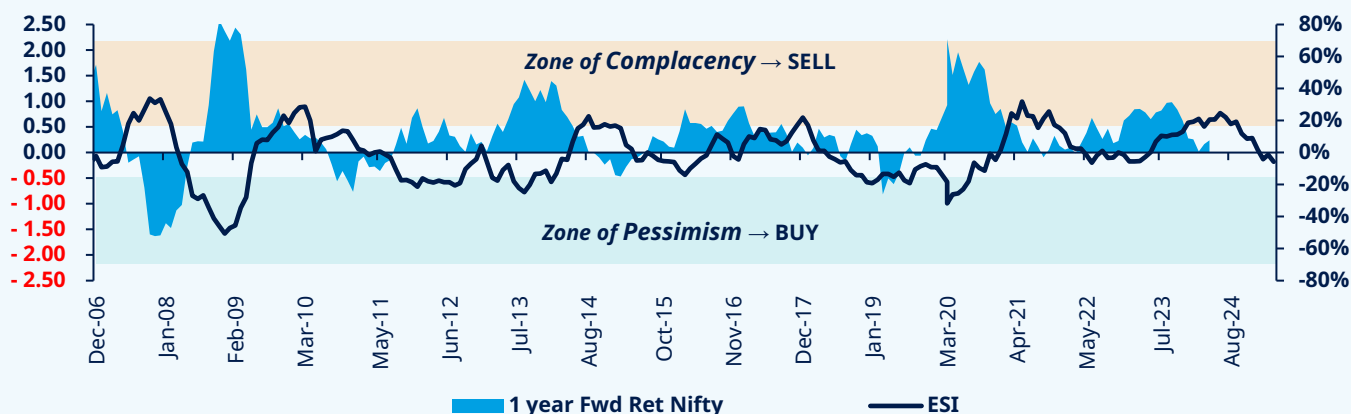
MARKET OVERVIEW:

India market update

In April, the MSCI India Index grew by 4.8%, outperforming the MSCI Emerging Markets Index, which rose by just 1.0%. Sector performance were led by energy, communication services, and consumer discretionary, while information technology, materials, and industrials showed comparatively weaker performance. In terms of market capitalization, mid-cap stocks led the market, with the MSCI India Mid Cap Index gaining 5.6%, followed by the MSCI India Large Cap Index (+4.6%) and the MSCI India Small Cap Index (+2.3%).

India's GDP growth for Q3 FY25 (September–December 2024) was reported at 6.2%, an improvement from 5.6% in Q2. Looking ahead, based on our SBIFM estimates, we anticipate GDP growth to be in the range of 6.0%–6.5% for FY26, slightly below the estimated 6.5% in FY25 and lower than the 8–9% growth rates observed during FY22–FY24. Nonetheless, this indicates a resilient and healthy economic momentum. The relatively softer growth in FY25 can be attributed to several transitory factors, including election-related uncertainties in both India and the U.S., excessive rainfall through Q3, and ongoing disruptions in global trade networks. In the upcoming quarters, we expect rural consumption and government spending to provide a modest boost to GDP data.

Equity sentiment remains below zero



Source: Bloomberg, FactSet, SBIFM Research; ESI = Equity sentiment Index, as of 30th of April 2025

Inflation trends have also shown improvement. Headline CPI inflation decreased to a 67-month low of 3.3% in March 2025, primarily due to easing food prices. Core inflation remained stable at 4.1%. The moderation of global commodity prices, driven by expectations of slower global growth, has contributed to a reduction in imported inflation risks. Furthermore, the forecast for an above-normal southwest monsoon in 2025 is likely to support rural incomes and help

Footnotes are available on page 4.

maintain food inflation at manageable levels. In response to these developments, the Reserve Bank of India's Monetary Policy Committee reduced the repo rate by 25 basis points to 6.00% and adopted an accommodative policy stance, signalling its commitment to supporting growth. With real interest rates still above 1.5%, we believe there is potential for an additional 50 basis points of rate cuts by the end of the calendar year.

Our proprietary equity market sentiment indicator remains below zero, continuing to function as a contrarian signal. The current readings suggest increasingly attractive entry opportunities for long-term investors.

DID YOU KNOW?

Information technology sector – A Pillar of Growth

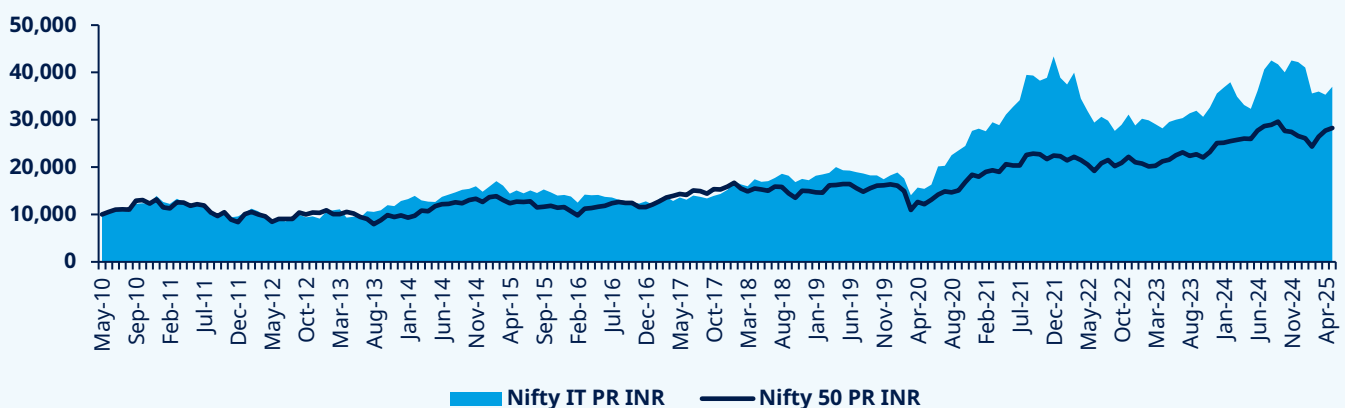
India's Information Technology (IT) sector has undergone a significant transformation over the past three decades, increasing from a mere 0.4% contribution to GDP in FY1991–92 to a substantial 7.3% in FY2023–24. This evolution has established the sector as a major economic pillar.

Initially driven by a cost-effective outsourcing model during the 1990s, the sector has progressively evolved into a hub of high-value innovation. From the Y2K services boom to current leadership in cloud computing, artificial intelligence, blockchain, and automation, Indian IT firms have consistently advanced along the global value chain. The COVID-19 pandemic acted as a further catalyst for digital transformation worldwide, positioning Indian firms as essential enablers of this shift.

According to the Indian Union Budget FY2023–24, the IT industry reported revenues of USD 254 billion, with exports approaching USD 200 billion. The domestic tech market reached USD 54 billion, growing at a year-on-year rate of 5.9%. The sector employs 5.43 million individuals, including 2 million professionals with digital skillsets. Recent policy reforms—such as the removal of the angel tax,¹ relaxed transfer pricing regulations, and reduced levies on digital services—have significantly improved the investment climate. India's Global Capability Centres² (GCCs), now numbering over 1,700 and employing 1.9 million people, are rapidly expanding in areas such as advanced R&D and engineering. With 28% of global STEM talent and 23% of the world's software engineers, India is increasingly becoming the preferred base for multinational innovation hubs.

Given the rise in digital demand, supportive policy frameworks, and deep talent pool, India's IT sector is projected to reach USD 300 billion in revenues. The sector's strong performance relative to broader market indices highlights its growing influence not only within the domestic economy but also across capital markets.

IT Outperforms the Broader Market



Source: Morningstar, as of 26th of May 2025

HOT TOPICS:

Earnings seasons so far: Largely Positive

The Q4 FY25 earnings season (quarter ending March 2025) is underway, with early results indicating a largely positive outlook. At SBIFM, we have analysed the financial results of approximately 307 companies within the NSE-500 Index, comparing them against consensus expectations.

Footnotes are available on page 4.

Key Observations:

- **Revenue Growth:** Aggregate sales rose 6% year-on-year (YoY), in line with expectations.
- **EBITDA and PAT:** Earnings before interest, taxes, depreciation, and amortization (EBITDA) surprised on the upside (or exceeded expectations), growing ~300 basis points to 11% YoY. Profit after tax (PAT) also outperformed, rising 9% YoY versus the expected 1%. Q4 FY25 recorded the highest sales growth in the past three quarters, while the 12% EBITDA growth marked the strongest in five quarters. Margins expanded by ~50 bps YoY to reach 16.4%.
- **Sector Performance:** Most sectors surpassed earnings expectations. Telecom, BFSI (particularly public sector banks), Oil & Gas, and Metals led in YoY earnings growth. While Consumer Durables and Consumer Services underperformed.
- **Forward Estimates:** For FY26 (April 2025 to March 2026), analysts project earnings per share (EPS) growth of 8% for the Nifty-50, 21% for the NSE Midcap-150, and 4% for the NSE Smallcap-250. Expectations for FY27 are even more optimistic, with forecasted EPS growth of 24% for the Smallcap-250, 25% for the Midcap-150, and 12% for the Nifty-50.
- **Banking Sector:** Banks reported robust results, supported by high return on assets (ROA) and return on equity (ROE). Their balance sheets remain healthy and relatively underleveraged. As the investment cycle strengthens, rising credit demand is expected to further enhance banking sector profitability.

Quarterly Results Thus Far

Quarter	Growth YoY (%)			Growth QoQ			EBITDA Margin	Margin Change (bps)	
	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT		YoY	QoQ
Jun-19	7	0	12	-4	-5	0	14.40	-103	-19
Sep-19	-3	-24	27	-5	-25	13	11.30	-304	-313
Dec-19	-3	25	-12	6	34	-27	14.20	309	294
Mar-20	-7	-50	-24	-4	-47	-8	7.80	-681	-643
Jun-20	-35	-34	-36	-33	25	-16	14.50	6	667
Sep-20	-9	46	27	33	66	124	18.10	682	364
Dec-20	-1	26	93	15	15	11	18.00	383	-5,00
Mar-21	17	152	128	13	6	8	16.80	905	-121
Jun-21	58	89	123	-9	-6	-17	17.30	287	49
Sep-21	34	22	24	12	7	24	16.50	-162	-84
Dec-21	31	16	21	12	9	9	16.00	-204	-48
Mar-22	16	19	27	10	9	12	15.80	-100	-17
Jun-22	49	10	19	8	-13	-22	12.80	-457	-308
Sep-22	33	-4	1	0	-6	5	11.90	-454	-81
Dec-22	19	-1	7	0	12	15	13.30	271	136
Mar-23	12	8	19	3	19	26	15.30	-54	200
Jun-23	1	31	58	-3	5	3	16.60	381	127
Sep-23	1	42	50	0	2	0	16.80	490	28
Dec-23	4	24	28	4	-2	-2	15.90	258	-97
Mar-24	6	7	15	5	2	14	15.50	20	-37
Jun-24	6	0	2	-3	-1	-8	15.30	84	22
Sep-24	4	-6	0	-2	-5	-2	15.70	-158	-46
Dec-24	5	6	11	6	11	8	16.00	83	29
Mar-25	6	11	9	5	7	12	16.40	49	110

Note: The table is an aggregate of 288 companies for which data is available since 2019. Revenue and EBITDA figures pertain to non-financial companies (excludes Financials). Results are for the NSE500 companies for 4QFY25.

Source: Bloomberg, Capitaline, DAM Capital Research; SBI Funds Management Limited, May 2025. For illustrative purposes only. This material is not intended as a solicitation or recommendation for any action.

¹Tax on investments by angel investors in start-ups, applied to amounts exceeding the fair market value of shares. Its removal encourages investment and supports the start-up ecosystem.

²Facilities established by multinational companies in India to leverage local talent for advanced services such as R&D, engineering, and IT support, enhancing operational efficiency and innovation

Important information – Marketing Communication

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