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MANAGEMENT LIMITED

India Newsletter

April 2025

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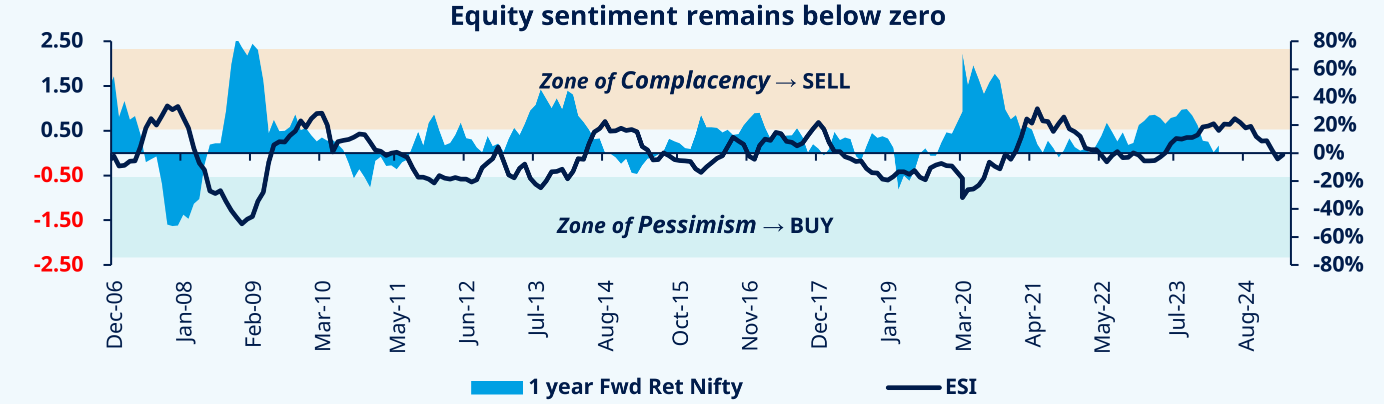
MARKET OVERVIEW:
Indian market update

In March, MSCI India Index increased by 9.4% outperforming the MSCI Emerging Markets Index which rose by 0.4%. Among sectors, utilities, industrials and materials performed the best, while information technology, consumer discretionary, and health care lagged. In terms of market capitalization, small caps outperformed, with the MSCI India Small Cap rising by 11.4% compared to the MSCI India Large Cap (+9.3%) and MSCI India Mid Cap (+9.6%).

Indian economic activity remained moderate in January-February 2025; however, it continued to demonstrate resilience amid a turbulent global environment. Government spending has increased in recent months, providing support to growth. Key economic indicators such as bank credit growth, GST[1] collections, energy demand, and freight activity showed moderate expansion. Sector-specific positives emerged, including strong services sector exports and resilient performance in the steel industry. Full-year GDP growth for FY25[2] is projected at 6.5%, down from 9.2% in FY24, with Q4 growth tracking at 6-6.5%, below the expected 7%. Headline CPI inflation moderated to a seven-month low of 3.6% in February 2025, driven by a sharp decline in food prices, particularly vegetables, due to the arrival of winter crops. However, core inflation (excluding food and fuel) edged up to 4.1%. In this context, RBI[3]'s Monetary Policy Committee (MPC) in April cut the repo rate by 25 bps to 6.00% and adopted an accommodative stance. This reflects the MPC's dovish pivot, supported by lower inflation expectations (revised to 4.0%) and global deflationary pressures. Policy easing is considered timely, with room for another 50 bps of cuts through CY2025, especially with real rates still above 1.5%

Our proprietary equity market sentiment indicator remains below zero. The sentiment measure functions as a contrarian indicator. While not yet at pessimistic extremes, current readings suggest more attractive entry levels for long-term investor.

Equity sentiment remains below zero



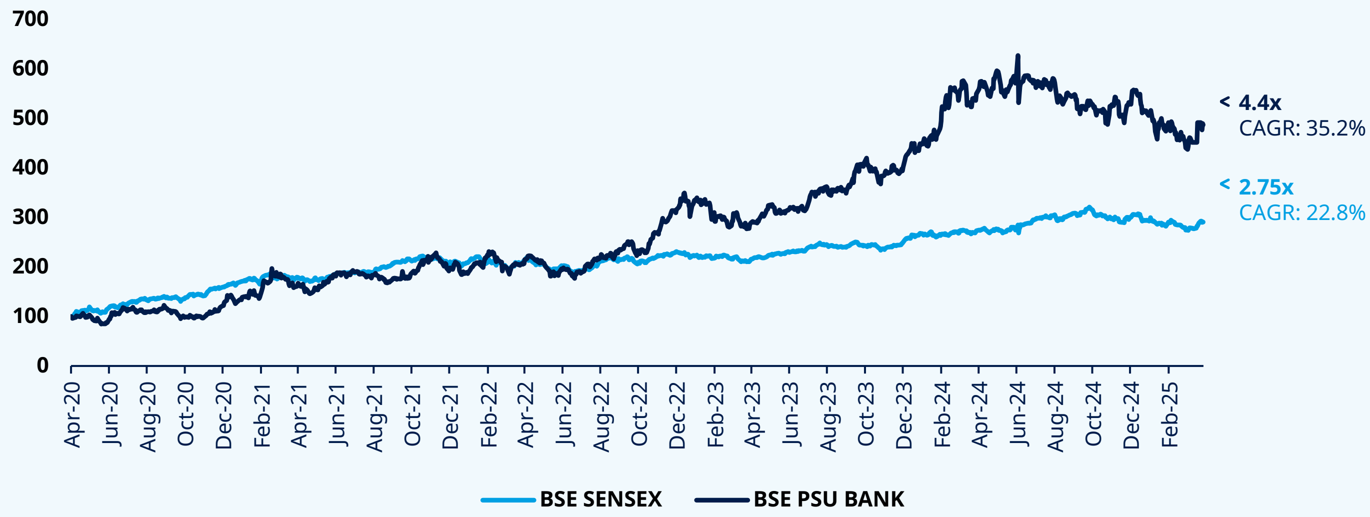
Source: as of 31st March 2025, Bloomberg, FactSet, SBIFM Research; ESI = Equity sentiment Index

Footnotes are available on page 5.

DID YOU KNOW?
India's public sector banks: A story of transformation

Since the market lows following the COVID-19 outbreak, India's public sector banks (PSBs) have shown remarkable revival and recovery. While the broader market—represented by the Sensex—has delivered strong gains, public sector banks have quietly but significantly outpaced the index.

BSE PSU Bank Index Outperforms Sensex since COVID lows



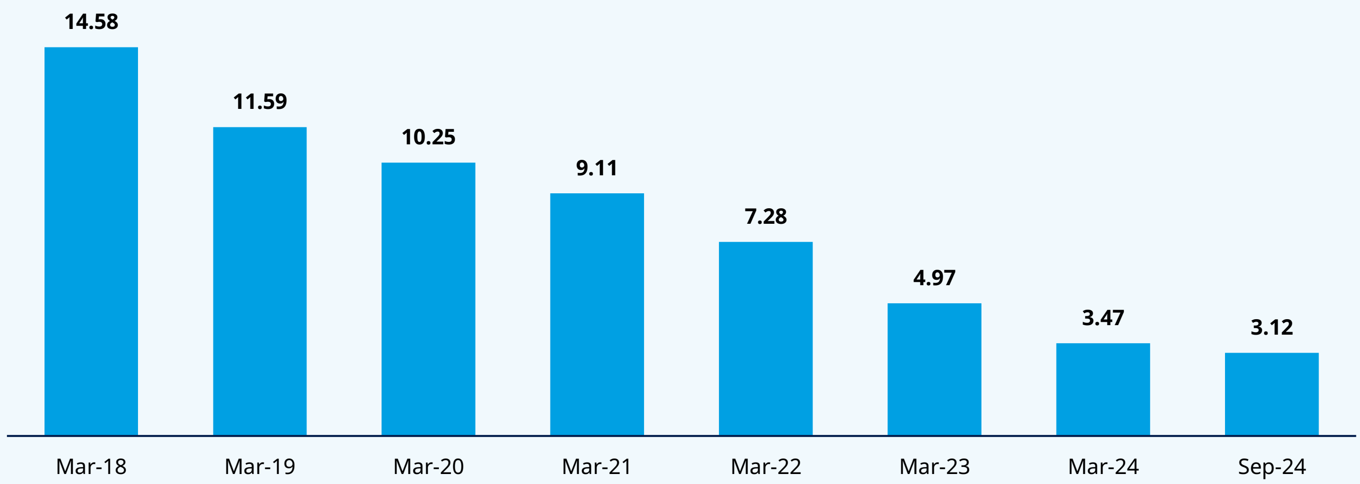
Source: BSE and SBIFM as of 31st March 2025

This outperformance is the result of a meaningful transformation of PSBs in recent years.

From Stress to Stability - Improved Asset Quality:

Slippages, particularly from corporate loans, have declined sharply. The post-COVID recovery has been more favorable for public sector banks compared to earlier crises. The sector has moved beyond its FY18 stress trough, aided by the resolution of legacy corporate stress. This has laid a solid foundation for sustainable recovery.

Gross Non-Performing Assets Ratio

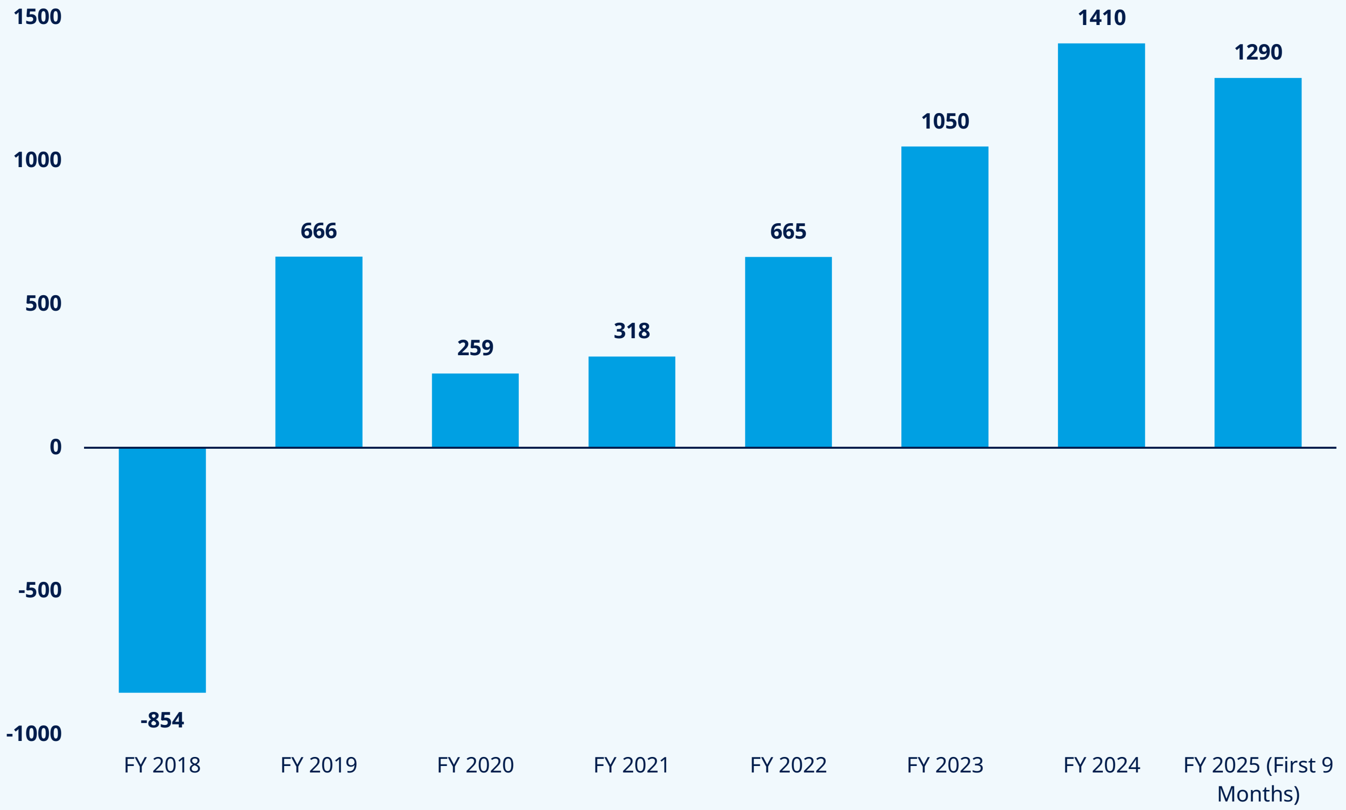


Source: RBI, Ministry of Finance, Government of India, SBIFM Research Team. Data as of September 2024

Footnotes are available on page 5.

Stronger Balance Sheets: Provision Coverage Ratios[4] (PCR) have improved significantly, climbing from ~50% in FY18 to ~76% in FY24. Many banks have also built up excess provisions as a buffer against future uncertainties. After a challenging FY18–FY20 period, profitability metrics have seen a robust turnaround, supported by better asset quality management and operational efficiencies.

Return to Profitability (Profit in INR bln)



Source: RBI, Ministry of Finance, Government of India, SBIFM Research Team. Data as of 31st March 2025

Signs of Corporate Credit Revival: Early signs of a capex cycle revival are evident. Credit sanctions to industries have picked up momentum in FY23 and FY24, with FY24 sanctions nearly 2.7 times the decadal average.

The outlook for the banking sector, particularly public sector banks, remains constructive within the broader context of India’s growth trajectory:

- Supportive Macroeconomic Trends: A growing economy, expanding middle class, and rising demand for credit—especially among MSMEs[5]—continue to support banking sector growth.
- Digital & Structural Innovation: Rapid adoption of mobile banking, fintech innovations, and AI-driven solutions are enhancing operational efficiencies and expanding financial access.
- Public Policy Support: Government initiatives such as Jan Dhan Yojana[6] and ongoing recapitalization efforts are reinforcing the health and reach of public sector institutions.
- Rising Profitability Indicators: Improvements in Net Interest Margins, fee-based revenues, and a decline in non-performing assets are contributing to better returns across the sector.

As the country continues its development journey, public sector banks are emerging as a stable growth partner.

Footnotes are available on page 5.

HOT TOPICS:
Macro and markets: Rain, rain come again!

The agriculture sector remains a key factor of the Indian economy, with agriculture and allied activities accounting for approximately 17.7% of GDP. Furthermore, food items carry a substantial weight of 45.86% in the headline Consumer Price Index (CPI), underscoring the sector's influence on inflation dynamics. Given that around 51% of the country's net sown area and nearly 40% of total food production are dependent on monsoon rainfall, monitoring the progress and distribution of the monsoon is critical for assessing both agricultural output and its broader macroeconomic implications.

According to the preliminary forecast for the 2025 monsoon season (June–September), the India Meteorological Department (IMD) projects southwest monsoon rainfall at 105% of the Long Period Average (LPA), with a model error margin of ±5 percentage points. This forecast is slightly more optimistic than that of Skymet, a private weather agency, which anticipates a normal monsoon with rainfall at 103% of the LPA, also within an error margin of ±5 percentage points.

A good monsoon season can have several positive effects on the Indian economy, including increased agricultural productivity, higher rural incomes, and improved food security. It can also help moderate inflation by ensuring adequate supply of food items, thereby stabilizing prices.

Breakup of India's imports from the US

Financial Year (April to March)	Rainfall in % Departure	Summer Crop (%, YoY)	Agriculture Growth (%, YoY)	CPI Food Inflation (%)	Monsoons
2010	-22.5	-12.0	-0.9	15.1	Drought
2011	2.6	16.3	8.8	10.0	Normal
2012	1.0	8.6	6.4	6.4	Normal
2013	-7.9	-2.4	1.5		Normal
2014	5.3	0.5	5.6	9.4	Above Normal
2015	-12.6	-0.5	-0.2	6.0	Below Normal
2016	-14.5	-2.3	0.6	4.9	Below Normal
2017	-3.2	10.6	6.8	4.3	Normal
2018	-5.5	1.5	6.6	1.8	Below Normal
2019	-9.7	0.7	2.1	0.2	Below Normal
2020	10.0	1.6	6.2	6.7	Above Normal
2021	9.0	4.7	4.0	7.8	Above Normal
2022	-1.0	3.2	4.6	3.8	Normal
2023	6.0	0.2	6.3	6.6	Above Normal
2024	-6.0	0.0	2.7	7.5	Below Normal
2025	6.0	5.7	4.6	7.4	Above Normal
2026 (E)	5.0				Above Normal

Note: Monsoons are one of the factors that can impact agricultural growth and inflation. The data is for the financial year.
Source: IMD, Bloomberg.

Footnotes are available on page 5.

[1] GST collections refer to the total revenue collected by the government from the Goods and Services Tax (GST), which is a comprehensive, multi-stage, destination-based tax levied on every value addition in India. It serves as an important indicator of economic activity and government revenue.

[2] In India, the fiscal year (FY) runs from April 1st to March 31st of the following year. Therefore, FY25 would cover the period from April 1st, 2024, to March 31st, 2025.

[3] Reserve Bank of India.

[4] Provision Coverage Ratio (PCR) is a financial metric used by banks to measure the proportion of funds set aside to cover potential losses from non-performing assets (NPAs). A higher PCR indicates a greater buffer against bad loans, reflecting the bank's ability to absorb losses.

[5] MSMEs refer to Micro, Small, and Medium Enterprises.

[6] Pradhan Mantri Jan Dhan Yojana (PMJDY) is a financial inclusion initiative launched by the Government of India aimed at ensuring access to financial services, such as banking, savings and deposit accounts, remittance, credit, insurance, and pensions, at an affordable cost. It primarily targets the unbanked population to promote financial literacy and inclusion.

Important information – Marketing Communication

Date of first use: 30 April 2025

Doc ID: 4439812