Client Associates
Private Wealth Management

CA Annual Equity Assessment 2024

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Client Associates (CA) is India's first and largest "Multi Family Office Firm" founded in 2002 by Senior Private Bankers to provide a professional platform of Private Wealth Management services in India.

CA operates out of eight offices at Gurgaon, Mumbai, Bengaluru, Kolkata, Chennai and Hyderabad. Over 22 years of its journey CA has grown organically to advice more than 5.3 billion USD of assets owned by more than 1000+ wealthy families of India. Its team of 225+ people spread across India works closely with some of India's most respected CXOs, Entrepreneurs, Family Business Owners and Celebrities. Its high touch model enabled by a unique ratio of less than 20 clients per advisor ensures that each client gets the much required hand holding and attention.

The foundation of Client Associates was guided by a single minded client centric approach. It was enshrined in the name itself. Its practice model was built around the very needs of a client. CA's unique differentiator is that it manages the total financial affairs of its clients working as their "Family CFO". It delivers independent advice based on non-conflicted open architecture model with no in-house or private label products. It is driven by the vision of providing access to global best practices with Indian values to its discerning clients.

Over the years, excellence of our advice, integrity in our relationships, humility in our action and commitment towards client-centric advisory continues to be the drivers of our growth. Client Associates has earned the goodwill in the industry at large as not only the Pioneers of Family Office in India but also as one of the "Best Teams of Private Bankers" in India. Its founding team has been recognised as the thought leaders of the industry.

Foreword

The CA Equity Assessment 2024 has been an outcome of a comprehensive assessment of both domestic and global economic factors and is based on our proprietary multi-factor grid incorporating quantitative and qualitative aspects. It is the hallmark production of Client Associates Investment Research, demonstrating our commitment to excellence —— one of our foundational company values.

It is my pleasure to present to you the freshly minted edition of the CA Annual Equity Assessment 2024. This is our 9th edition. Since its launch in January 2016, it has served as our navigator in a world that is increasingly becoming more unpredictable. In the dynamic times we live in, forward-looking insights derived from relevant and rich data have become a must-have resource for leaders and business owners.

In my note from 2023, I had made the observation that "with the Indian Government demonstrating continuity of growth-oriented stance, it should be another year of good growth for the Indian economy". It has played out well through 2023 as the Indian economy is expected to close the FY24 with a growth of 7.2%. Like the last couple of years, 2024 too is expected to be an eventful one. While the Indian economy is expected to benefit from the tailwinds of moderate inflation, buoyant domestic demand, favorable policies, and strong earnings growth, we are beginning the year with frothy valuations of small and micro-cap stocks and reasonably high valuations for mid-cap stocks. Any fresh geopolitical event could be the trigger for volatility and correction of valuations throughout the year.

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To keep pace with the highly volatile world we live in, this assessment is designed to be dynamic and will be updated throughout the year, based on the latest data.

I wish to draw your attention to page 38 towards the end of the report on our 8-year track record which tells us that we are trending at an accuracy level of 95% in terms of our forecasted annual stance.

The report is enriched with rich data and meaningful analysis which shall provide you insights to shape your perspective on the asset allocation of your family wealth for 2024. It will also prove to be a useful resource for business intelligence, complementing your vision as the decision-maker of your business. I keenly look forward to receiving your feedback and opinions directly at rohitsarin@clientassociates.com
Thank you for trusting us as your long-term partner in safeguarding your hard-earned wealth. We remain forever grateful and committed to our promise of leaving the world richer than we inherited.

Kind regards,

Rohit Sarin
Co-Founder

CAE 3*

CAE 1	Overweight (11 - 20%)
CAE 2	Overweight (1 - 10%)
CAE 3	Neutral (0%)
CAE 4	Underweight (1-10%)
CAE 5	Underweight (11-20%)

Table of Contents

1. Assessment Highlight 05
2. Year that was: 2023 06 - 09
3. CA Opinion: 2024 11
4. Domestic Economic Cycle 12 - 19
5. Global Economic Cycle 22 - 27
6. Valuations 29 - 32
7. Earnings Growth 34 - 37
8. CA Equity Assessment 2024 38
9. References 39
10. Disclaimer 40

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*Client Associates Equity Assessment Score

01.

CA Annual Equity Assessment 2024

ASSESSMENT HIGHLIGHTS

The Indian Equity market is in a goldilocks situation with steady GDP growth, moderate inflation, favourable policies, and strong earnings growth. However, investors should moderate their return expectations due to moderately expensive valuations. It is likely to be a volatile year mainly on account of an expected slowdown in global activities and frothy valuations of small & micro-cap stocks.

Client Associates Equity Assessment Grid (CAE3) reflects India's strong economic activities, relatively stable macro profile, and favorable policies. India is projected to grow at about 6.5% in FY25 mainly on account of strong domestic demand, calibrated policies, and the Govt.'s continued focus on capital expenditure. More importantly, Indian Economy has been able to decouple itself from the US and most developed markets on both the Growth and Inflation fronts. It remains the only large economy that will witness a GDP growth higher than its long-term averages, and an inflation rate lower than its long-term averages in CY2024 and FY2025. We believe that inflation and interest rates have peaked out in India. In line with the expected moderation in the inflation rate, RBI is expected to cut rates in the second half of CY2024.

India's macro stability is mainly the outcome of effective monetary and fiscal policy management. In CY2024, expected inflation below 5%, current account deficit (CAD) below 1.5%, strong forex reserve, relatively stable local currency, and India's inclusion in GBI-EM index bode well for a stable domestic Marco-profile. High-frequency indicators such as credit growth, GST collections, services and manufacturing PMIs, capacity utilization, and electricity production indicate sustained recovery in domestic economic activities. Indian corporates are expected to report strong earnings growth of 15% in CY2024 and FY2025. While strongly capitalized banks, low NPAs, and robust credit demand bode well for large private banks, favorable base remains one of the reasons for the double-digit PAT growth expected from IT majors. Strong private consumption and a decline in interest rates will support sectors such as consumer discretionary and staples.

However, the score is negatively impacted due to expected decline in global activities, moderately expensive large-cap stocks, reasonably expensive mid & small-cap stocks, geopolitical risk, expected weakness in total exports, and weak Rabi sowing due to below normal rainfall recorded in the post-Monsoon so far.

Considering all the aforementioned factors, we maintain a **Neutral** stance on Indian Equity Market. At the category level, we are **Underweight** on Mid-Small Cap stocks, and at the investment style level, we are **Overweight** on growth and GARP portfolios.

What could change the CAE3 Score? Our Grid assigns a CAE3 score to Indian equity markets which maps to a **Neutral** Stance as of date. CAE3 score may improve over the short term if earnings are upgraded more than market expectations, and/or if the market consolidates or declines from the current level despite strong fundamentals.
The score may deteriorate if earning consensus is downgraded and/or there is a rise in the market without any improvement in earnings or fundamentals.

02.

Year That Was: 2023

CY 2023 will be remembered as a year of economic resilience in the aftermath of rising interest rates and restrictive monetary policy. Almost all economists at the beginning of 2023 predicted a mild or severe recession in US. However, strong private consumption due to accumulated covid savings and expansionary fiscal policy enabled the US to deliver better-than-expected GDP growth during the year. Nonetheless, Global economic recovery remained highly unsynchronized with the US economy faring far better as compared to Eurozone within the broader set of the developed nations. Both US Federal Reserve and European Central bank raised interest rates to a 22-year high in order to tame inflation while contracting their respective balance sheets at a pace which was not envisaged even two years ago.

Activities in Emerging Economies also improved on expected lines due to a fall in prices of industrial commodities and crude oil. However, within the broader set of emerging nations, China fared below expectations as a result of an imploding real-estate sector. Also, unexpected unfolding of geo-political events also hampered recovery in the Chinese economic activities.

India, which is the second largest economy in the Emerging Market bucket, defied expectations by outperforming large economies among both the advanced and emerging world as a result of strong domestic consumption and GOI's focus on capital expenditure. More importantly, interest rates and inflation remained within RBI's exceptions. In line with relatively tolerable inflation in India, RBI's monetary policy was not as restrictive as the US, which helped banks to maintain strong credit growth.

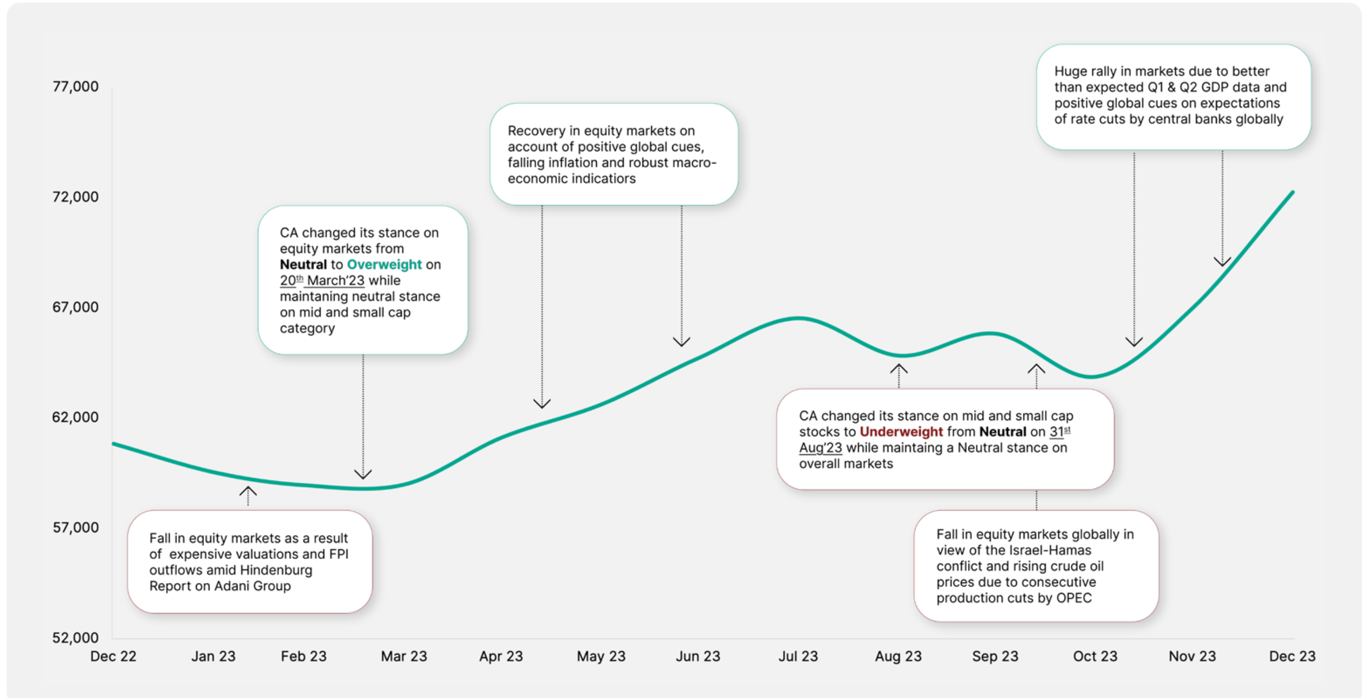
A steep decline in inflation rate across the globe was the result of restrictive monetary policies followed by most central banks. Additionally, normalization of global trade routes and decline in commodity prices helped central banks tame supply side inflation. As far as performance of global equity indices is concerned, US equity markets reported robust performance in CY2023 post their negative performance in the previous year; S&P 500 and Nasdaq rallied by 53.8% & 24.2%, respectively. European indices like DAX (Germany) and CAC 40 (France) rallied by 20.3% & 16.5%, respectively. While Sensex went up by 18.7%, S&P BSE 500 rose by 24.8% in CY2023. MSCI Emerging index has underperformed for the three years in a row, underpinned by relative underperformance of the Chinese economy.

Date	31 Jan 23	28 Feb 23	20 Mar 23	30 Apr 23	31 May 23	30 Jun 23
Sensex	59,550	58,962	57,629	61,112	62,622	64,719
Stance	Neutral	Neutral	Overweight	Overweight	Neutral	Neutral

Date	31 July 23	31 Aug 23	30 Sep 23	30 Oct 23	30 Nov 23	31 Dec 23
Sensex	66,528	64,831	65,828	63,875	66,988	72,240
Stance	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral

SENSEX Movement & CA Equity Stance 2023

BSE Sensex: CY'23

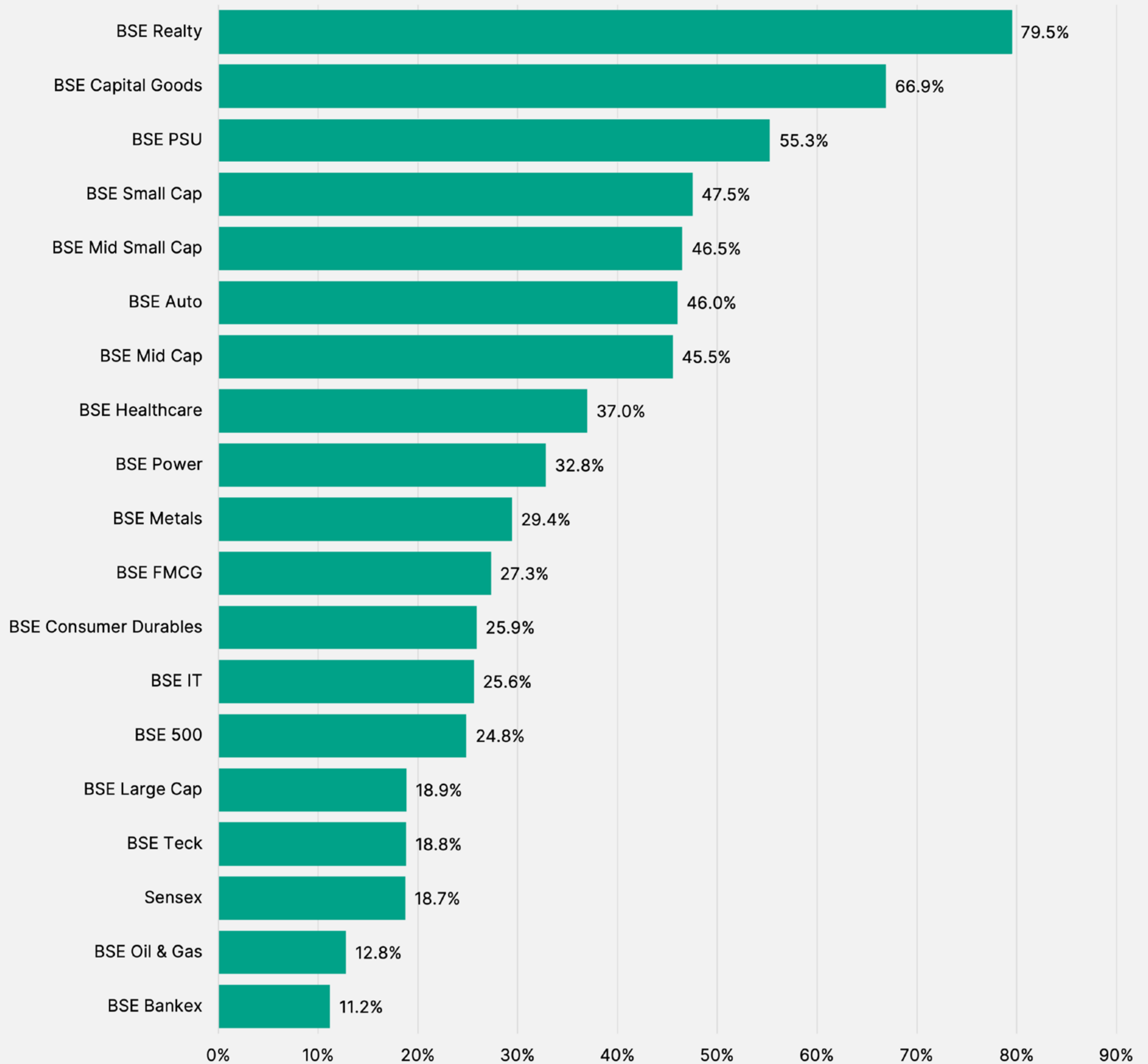


CA changed its stance on domestic Equity markets from **Neutral** to **Overweight** on March 20th, 2023. Nevertheless, we maintained a **Neutral** stance on the Mid and Small-cap category at that time. BSE Sensex, after reporting subdued returns in CY2022, had fallen by 5% in the first 3 months of CY2023 mainly due to weak global cues including default by a few US banks and an adverse report by Hindenburg on Adani group. In line with our **Overweight** stance, we advise investors to increase their equity allocation more than policy allocations.

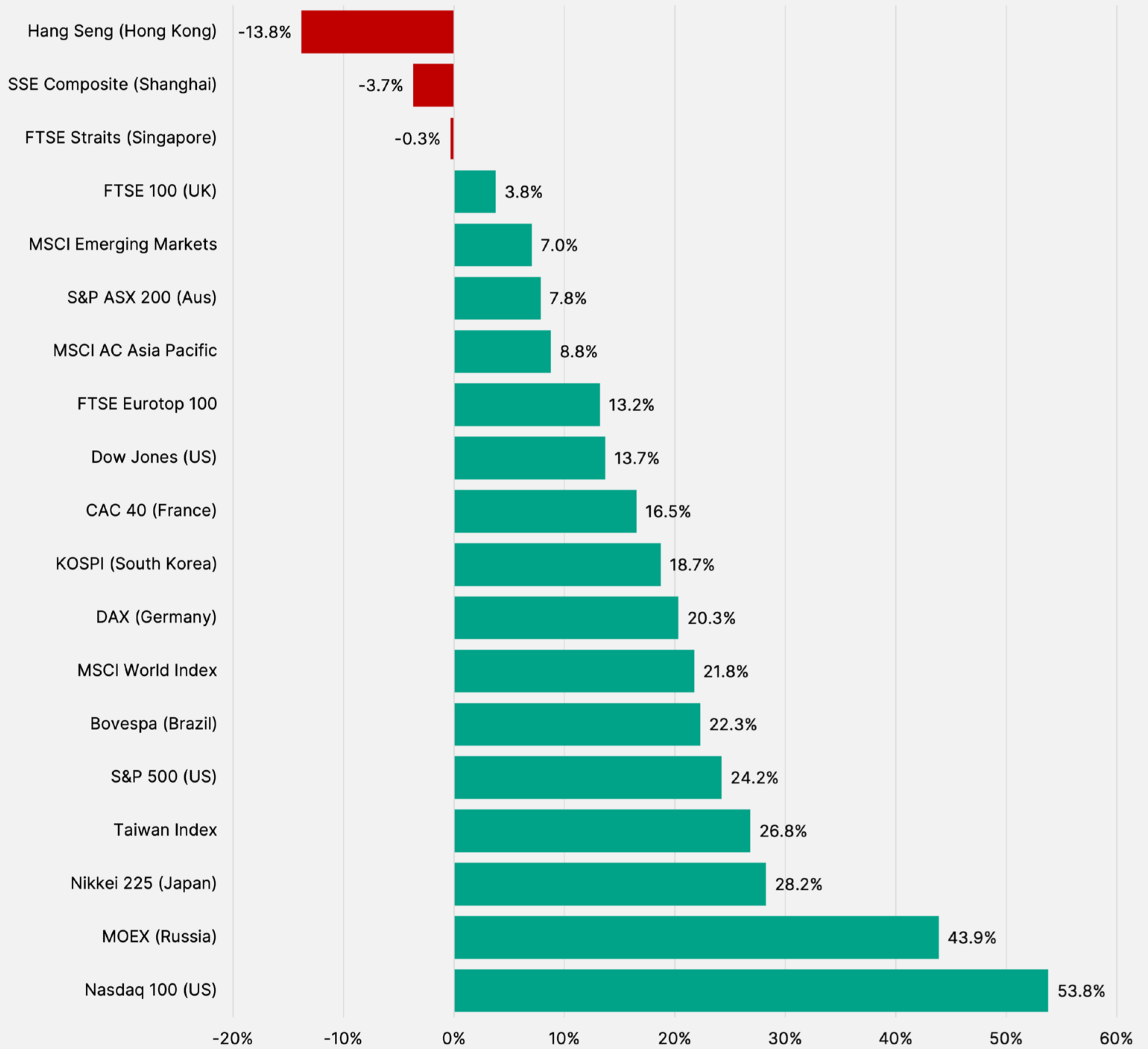
In line with a strong recovery in domestic equity markets from Mar'23 to May'23 on account of robust inflows from FPIs and DIIs, and strong economic activities, we changed our stance on Indian Equity market from **Overweight** to **Neutral** on 31st May'23. After participating in a strong rally in Mid & small-cap stocks till 31st Aug'2023, CA changed its stance on Mid and Small cap stocks to **Underweight** from **Neutral** while maintaining a **Neutral** stance on overall markets. Mid & Small-cap stocks are trading at a reasonably high valuations as of now due to monumental inflows in Mid & Small-cap mutual funds.

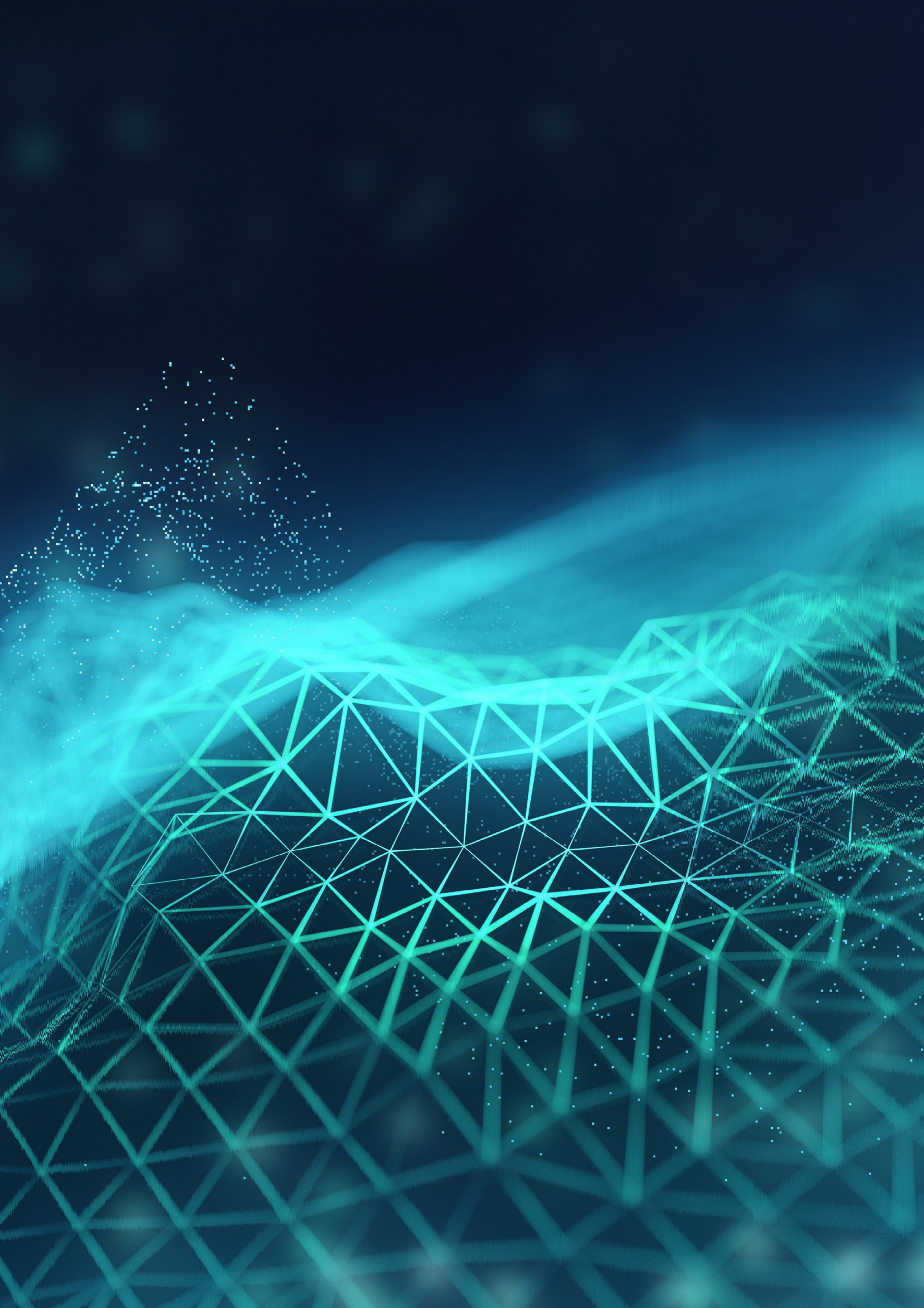
All sectoral indices closed in a positive territory in CY2023. Cyclical businesses witnessed a sharp rise in prices for the second year in a row. Indices such as Realty, Utilities, Capital Goods, PSUs and Auto led the rally during the year. Businesses driven by global demand such as IT and Pharma also recovered post negative performance in CY2022. The consumer durable sector, which was negatively impacted in CY2022 due to higher input costs, recovered handsomely driven by a higher than anticipated consumer discretionary spend. Banks, which had done very well in CY2022, underperformed markets and most sectors during the year. Overall, value and cyclical stocks at the style level and Mid & small-cap stocks at the category level driven by liquidity sustained their outperformance. Most growth and GARP managers underperformed the benchmark in CY2023 due to their underweight stance on PSUs, Utilities, Realty and other cyclical sectors.

Domestic Indices (CY'23)



Global Indices (CY'23)





03.

CA Opinion 2024

CAE Drivers and Factors

- **India's economy is in a goldilocks situation with steady GDP growth, moderate inflation, favorable policies, and a stable macro profile.** High-frequency indicators such as GST collections, credit growth, services and manufacturing PMIs, and air traffic volume indicate sustained economic recovery. However, expected decline in global activities and weak rabi sowing are likely to negatively impact India's economic activities in FY2025.

- **Global economic activities in 2024 are expected to remain** well below the long-term averages due to the lag effect of high interest rates and tight credit market conditions. Global central banks are expected to turn dovish during the year as the inflationary pressure has been witnessing a sustained moderation. Divergent economic growth will persist in 2024 as well with emerging economies expected to perform better than advanced economies.

- **Sensex is trading at about 5 percent valuation premium** based on CA's intrinsic value of the Index. Nonetheless, Mid-cap stocks are commanding a reasonable valuation premium over their historical averages. There is a froth in the small & micro-cap segment. While large-cap Private Banks, NBFCs, and IT are looking relatively attractive in terms of valuations, Industrial, PSUs, Consumer, and Capital goods are expensive as compared to their medium-term averages.

- **Indian corporates are expected to report a 15% EPS growth in FY2025** on account of strong domestic consumption amid sustained recovery in domestic economic activities, expected decline in interest rates, Government of India's thrust on the road, railway, defense and local manufacturing, structural reforms such as PLI & tax cuts, healthier corporate balance sheet, well-capitalized banks with low NPAs, and policy stability.

CA-Equity Assessment Grid 2024

CAE Factors	Sub-factors	CAE1	CAE2	CAE3	CAE4	CAE5
Domestic Economic Activity	Economic Indicators		x			
	Monetary & Fiscal Policy			x		
	Others		x			
Global Market Activity	EM Relative Assessment		x			
	Global Economic Cycle				x	
	Other Factors			x		
Index Valuation	Trailing Multiples			x		
	Forward Multiples			x		
	Econometric Model				x	
	Yield Spread Model & Others				x	
Other Qualitative Assessment	Earning Cycle		x			
	Liquidity		x			
	Others			x		
Grid-indicated CAE				x		
Final CAE				x		

04.

Detailed Considerations

> Domestic Economic Cycle: Indian economy is in a goldilocks situation with a steady GDP growth, moderate inflation, favorable policies, and a stable macro profile. High-frequency indicators such as GST collections, credit growth, services and manufacturing PMIs, and air traffic volume indicate sustained economic recovery. However, expected decline in global activities and weak rabi sowing are likely to negatively impact India's economic activities in FY2025.

India's economic activities from FY19 to FY23: The rising trade protectionism, hiccups associated with the rollout of Goods and Services Tax and the lingering impact of liquidity crisis in India's shadow banking sector resulted in a sharp decline in GDP growth during the FY19-20 period. The economic activity registered its first contraction in four decades during FY21 as the pandemic disrupted lives and businesses across the world. Notwithstanding the impact from the war in Europe, rising inflationary pressure and policy tightening by central banks, India's GDP growth rebounded sharply during FY22 & FY23 supported by a favourable base effect, revival in private consumption, strong investment activity and prudent monetary policy management. The inflation-adjusted value of goods & services produced in the Indian economy grew at a CAGR of 3.42% to Rs. 160 trillion during the same period

Annual GDP Growth Rate (GVA at basic prices)[1]	FY19 Final	FY20 3rd RE	FY21 2nd RE	FY22 1st RE	FY23 PE	FY24 1st Est.
Agriculture, forestry & fishing	2.1	6.2	4.1	3.5	4.0	1.8
Mining & quarrying	-0.8	-3.0	-8.6	7.1	4.6	8.1
Manufacturing	5.4	-3.0	2.9	11.1	1.3	6.5
Electricity, gas, water supply & other utility services	7.9	2.3	-4.3	9.9	9.0	8.3
Construction	6.5	1.6	-5.7	14.8	10.0	10.7
Trade, hotels, transport, communication, and services	7.2	6.0	-19.7	13.8	14.0	6.3
Financial, real estate & professional services	7.0	6.8	2.1	4.7	7.1	8.9
Public Administration, defence and other services	7.5	6.6	-7.6	9.7	7.2	7.7
GVA at basic prices	**5.8**	**3.9**	**-4.2**	**8.8**	**7.0**	**6.9**
Net taxes on Products	13.4	3.1	-22.6	12.1	10.1	12.5
GDP (growth rate %)	**6.5**	**3.9**	**-5.8**	**9.1**	**7.2**	**7.3**

[1] GoI
[2] GoI

Annual GDP Composition[2]	FY19 Final	FY20 3rd RE	FY21 2nd RE	FY22 1st RE	FY23 PE	FY24 1st Est.
Government final consumption expenditure	10.3	10.3	10.8	10.6	9.9	9.6
Private final consumption expenditure	56.1	56.8	57.2	58.3	58.5	56.9
Gross Fixed Capital Formation	32.4	31.6	31.1	32.7	34.0	34.9
CIS	1.9	0.7	0.1	0.8	0.8	0.8
Valuables	1.4	1.1	1.5	1.9	1.4	1.2
Exports	20.8	19.4	18.7	22.1	23.5	22.2
Imports	23.9	22.9	21.0	23.4	25.6	26.9
Discrepancies	1.1	3.0	1.6	-3.0	-2.4	1.5
GDP	**100**	**100**	**100**	**100**	**100**	**100**

Domestic Economic Activities in H1 FY24: In a period of heightened global uncertainty marked by the collapse of multiple institutions in the US banking system, higher for longer interest rate policy crippling the pace of economic growth and an ongoing war in Europe and Western Asia, India's economic activity sustained its growth trajectory. After registering a stellar growth of 7.2% during the previous financial year, the economic growth momentum remained unabated during the first half of the fiscal. Real GDP growth during the April- September period stood at 7.73% with Q1 & Q2 growth at 7.8% & 7.6%, respectively.

Gross value addition during the first quarter of the fiscal stood at 7.8% compared to 11.9% during the previous year and 6.5% in Q4FY23. A pickup in Agri-output supported by a strong rabi season harvest, a rise in manufacturing output aiding the industrial sector growth and broad-based growth across all sub-categories of the services sector supported the growth during the quarter. On the expenditure side, the improvement in aggregate demand conditions led by a 6% growth in private consumption and an 8% rise in investment activity absorbed the impact of higher net imports and a mild contraction in government consumption during Q1FY24.

Quarterly GVA growth at basic prices	Q1 FY24	Q2 FY24	Q1 FY24 (%)	Q2 FY24 (%)
Agriculture, forestry & fishing	5,13,946	4,35,371	3.5	1.2
Mining & quarrying	87,587	71,229	5.8	10.0
Manufacturing	6,67,770	7,15,465	4.7	13.9
Electricity, gas, water supply& other utility services	92,704	96,249	2.9	10.1
Construction	2,98,393	3,04,938	7.9	13.3
Trade, hotels, transport, communication & others	6,49,560	7,07,881	9.2	4.3
Financial, real estate & professional services	9,89,293	9,88,993	12.2	6.0
Public administration, defence and Other Services	4,74,678	5,08,574	7.9	7.6
GVA	**37,73,932**	**38,28,698**	**7.8**	**7.4**

[2] GoI

In Q2FY24, India's real GDP registered a 7.6% expansion, trouncing the market expectations of a sub-7% growth. Despite the moderation in the pace of growth in agriculture, forestry & fishing to an 18-quarter low of 1.2%, robust industrial and services sector performance propelled the economic activity during the quarter. A decline in input cost pressure and subsequent rise in profits boosted the manufacturing output growth to a 9-quarter high of 13.9%. Looking at the demand conditions, double-digit growth in government consumption and investment activity made up for the dip in private consumption driven by weakness in rural demand. The tepid global growth scenario continued to exert a drag on GDP growth with net imports widening to 6.9% of the GDP during the quarter.

Quarterly GDP Composition at basic prices	Q1 FY24	Q2 FY24	Q1 FY24 (%)	Q2 FY24 (%)
Government final consumption expenditure	4,08,300	3,73,513	10.1	8.9
Private final consumption expenditure	23,12,601	23,70,094	57.3	56.8
Gross Fixed Capital Formation	14,00,832	14,71,938	34.7	35.3
CIS	32,256	34,154	0.8	0.8
Valuables	27,633	1,03,901	0.7	2.5
Exports	8,44,252	9,68,011	20.9	23.2
Imports	11,02,748	12,53,860	27.3	30.0
Discrepancies	1,14,019	1,06,561	2.8	2.6
GDP	**40,37,144**	**41,74,312**	**100**	**100**

RBI Monetary Policy

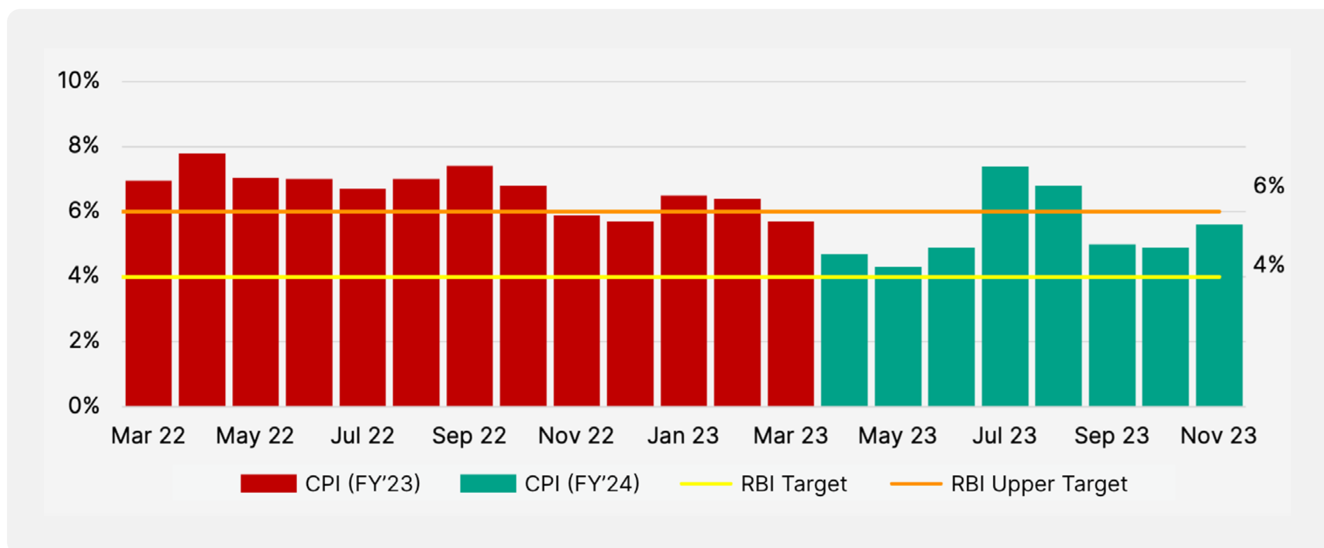
The monetary policy management by RBI inched closer to completing a full cycle during the first half of FY24. The pandemic period witnessed the first leg of the cycle with a shift towards an accommodative policy stance, strong injection of liquidity and rapid rate cuts to minimize the economic dislocation. During FY22, the MPC kick-started the second leg by bringing in the liquidity normalization measures to reign in the excess liquidity in the system without disturbing the growth. A shift towards the next phase happened in FY23 with the onset of the rate hike cycle and a change in monetary policy focus towards the withdrawal of accommodation to ensure price stability in the economy.

FY24 witnessed the implementation of the last leg of the cycle with MPC reversing the liquidity conditions to the deficit and ensuring the complete transmission of the 250-bps rate hike impact. The monetary policy committee left the policy stance and rate unchanged during all its review meetings in FY24, despite facing multiple challenges during the banking sector turmoil in the US, rise in banking system liquidity owing to the withdrawal of Rs. 2000 notes from circulation and irregular episodes of transient spike in CPI inflation. The prime focus of the RBI during this period was to ensure that inflation progressively aligned with the target while supporting growth. Given the strong economic activity during H1FY24 with Q1 & Q2 real GDP growth at 7.8% & 7.6% and steady disinflation core CPI during the period, it would be fair to assess that the MPC was able to achieve its dual objective of price stability and growth during the first half of the fiscal.

	December 23	October 23	August 23	June 23	April 23
Repo	6.50%	6.50%	6.50%	6.50%	6.50%
Reverse Repo	3.35%	3.35%	3.35%	3.35%	3.35%
MSF	6.75%	6.75%	6.75%	6.75%	6.75%
SDF	6.25%	6.25%	6.25%	6.25%	6.25%
FY 24 GDP Projection	7.0%	6.50%	6.50%	6.50%	6.50%
FY 24 Inflation Projection	5.40%	5.40%	5.40%	5.10%	5.20%
Stance	Withdrawal of Accommodation	Withdrawal of Accommodation	Withdrawal of Accommodation	Withdrawal of Accommodation	Withdrawal of Accommodation

Inflation: In a global backdrop with inflation ruling far above the target rate and policy interest rates swiftly approaching record levels to ensure the restoration of price stability, India's headline CPI inflation remained largely in line with the RBI policy band during the first 8 months of FY24. CPI inflation averaged 5.5% during the April – November period despite an intermittent spike in vegetable prices that resulted in higher inflation print during July-August period. Core-Inflation dipped below the RBI upper-tolerance band in April and has since registered 8 months of consecutive moderation to record a 44-month low of 4.1% in November.

India CPI inflation



Several measures taken by the Government of India to ensure the availability of food items played a critical role in controlling food inflation during the period. Export restrictions and imposition of duties on onion, broken rice, parboiled rice, non-basmati white rice and sugar ensured that the domestic supply was met. The food corporation of India is carrying out weekly e-auctions for wheat and rice amounting to 5 million tons and 2.5 million tons under the open market sales program. Subsidized sales of tomatoes and pulses were also carried out during the period. The extension of the free food grain program and higher subsidies on LPG under Pradhan Mantri Ujjwala Yojana also helped control the inflationary pressure during the period. The actions of the Government of India were equally complemented by the monetary policy operation of the RBI. The central banker maintained its policy stance at withdrawal of accommodation and kept the interest rates at higher levels dissuading and disincentivizing the development of any erratic price behavior in the economy. The committee also implemented a temporary incremental CRR requirement and announced OMO operations to prevent the build-up of excess liquidity and limit any second-order effects on ebbing inflation trajectory.

	Weight	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23
Food & Beverages	45.86	4.2	3.3	4.7	10.6	9.2	6.3	6.3	8.00
Pan, Tobacco & Intoxicants	2.38	3.5	3.6	3.7	3.9	4.1	3.9	3.9	3.8
Clothing & Footwear	6.53	7.5	6.6	6.1	5.6	5.2	4.6	4.3	3.9
Housing	10.07	4.9	4.8	4.6	4.5	4.4	4	3.8	3.6
Fuel & Light	6.84	5.5	4.7	3.9	3.7	4.3	-0.1	-0.4	-0.8
Miscellaneous	28.32	4.9	4.9	5.2	5	4.9	4.8	4.5	4.4
CPI Inflation	**100**	**4.7**	**4.3**	**4.9**	**7.4**	**6.8**	**5**	**4.9**	**5.6**

Fiscal Deficit: The Centre's budget deficit during the April-November period stood at Rs. 9.06 trillion or 50.73% of the budgeted estimates. Gross tax collection registered a 14.7% growth during the period to Rs. 20.42 trillion supported by buoyant direct tax collection. Corporate and income tax collection recorded 20.12% & 24.79% growth on a yearly basis during the first 8 months of the fiscal year. Despite the strong momentum in GST collection averaging Rs 1.66 trillion per month (11.9% higher than FY23), indirect tax collection growth stood at 5.08% reflecting a contraction in customs & excise revenue during the period. Net tax revenue for the period stood at Rs. 14.35 trillion registering a growth of 17.22% over the same period last year. Non–tax revenue collection surged 43.4% during the period owing to higher than budgeted surplus transfer by the Reserve Bank of India. Delays in stake sales for the identified entities like IDBI bank, CONCOR and the shipping corporation of India have resulted in a massive shortfall under the disinvestment proceeds during the year.

(In Rupee Trillion)	Budgeted Estimates	Actuals during Apr - Nov	% Budgeted Estimates	Growth over same period in FY23
Tax Revenue	23.31	14.36	61.60%	17.22%
Non-Tax Revenue	3.02	2.84	94.04%	43.43%
Revenue Receipts	26.32	17.2	65.35%	20.87%
Non- Debt Capital Receipts	0.84	0.25	29.76%	-39.02%
Total Receipts	27.16	17.46	64.29%	19.18%
Revenue Expenditure	35.03	20.67	59.01%	3.56%
Capital Expenditure	10.00	5.86	58.60%	31.10%
Total Expenditure	45.03	26.52	58.89%	8.56%
Fiscal deficit	**17.86**	**9.06**	**50.73%**	**-7.36%**

The total outgo recorded a rise of 8.56% driven by the strategic push to ensure productive capital spending. The expenditure profile has witnessed a massive upgrade during the year with a sharp 31.10% surge in capital expenditure compared to a 3.56% rise in revenue expenditure. Tax devolution to states registered a 9.2% growth to Rs. 6.01 trillion resulting in lower market borrowing and efficient management of state resources. Recently the first batch of supplementary demands amounting to Gross Additional Expenditure of Rs.1.29 lakh was presented to parliament. The amount will be used to meet the additional expenses towards food, fertilizer, petroleum products subsidy and various central government schemes. Once approved, this may result in an additional cash outgo of Rs. 58378 Cr during the remainder of the year. However, given the strong growth in direct tax revenue and GST collection, we do not expect a meaningful breach of the 5.9% deficit target despite the shortfall in customs, excise, disinvestment proceeds, and additional cash outflow under supplementary grants.

Balance of Payment & Current Account Deficit: India's external balance position improved during the first six months of the fiscal (on a Y-o-Y basis) supported by a contraction in the merchandize trade deficit, steady growth in services surplus and higher inflows under capital account. The balance of payment position recorded a surplus of $26.95 billion during H1FY24 vs. a deficit of $ 25.8 billion during the same period last year.

The current account deficit narrowed 9.60% during Q2FY24 to $8.32 billion from $9.20 billion during the first quarter. On a cumulative basis, the current account deficit narrowed 64.13% during H1FY24 to $17.52 billion from $48.8 billion during H1FY23. The merchandise trade deficit contracted 16.83% during the first six months of the fiscal, with total imports registering a steeper correction of 11.96% vs. a 9.03% drop in exports. The deficit in petroleum products trade witnessed a larger correction of 27.06% during the same period supported by the correction in crude oil prices.

On a year-on-year basis, the service surplus registered a growth of 14.65% during H1FY24, while recording its highest-ever quarterly accretion of $40 billion in Q2FY24. Net outflow under primary income witnessed a rise of 10.68% while inflows under secondary income registered a marginal 0.63% rise during the April – September period. Despite the sharp drop in foreign direct investments, capital account inflows rose to $44.2 billion (87.29% Y-o-Y growth) supported by a revival in the portfolio investments category. Net inflows under portfolio investment during the six-month period stood at $20.6 billion vs an outflow of $8.1 billion during the same period last year.

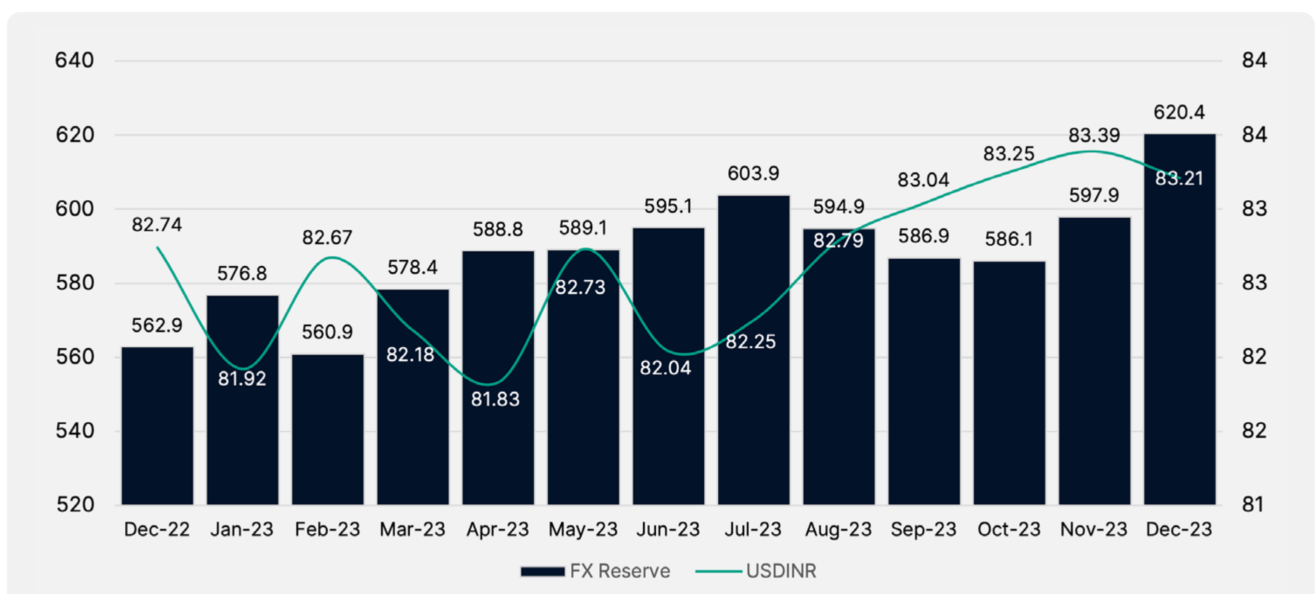
US $ Billions	Apr-Jun 2023			Jul-Sep 2023		
	Credit	Debit	Net	Credit	Debit	Net
Merchandize	105.00	161.63	-56.62	108.47	169.50	-61.03
Invisibles	116.41	68.99	47.42	123.13	70.42	52.72
a) Services	80.57	45.45	35.12	83.36	43.41	39.95
b) Transfers	27.12	4.25	22.87	28.15	3.19	24.95
c) Income	8.72	19.29	-10.57	11.62	23.81	-12.19
Total Current Account	**221.41**	**230.61**	**-9.20**	**231.60**	**239.92**	**-8.32**
Foreign Investment	109.04	88.25	20.79	128.61	123.95	4.66
a) Foreign Direct Investment	19.27	14.21	5.06	16.63	16.91	-0.29
b) Portfolio Investment	89.78	74.04	15.73	111.99	107.04	4.95
Loans	30.29	28.14	2.15	27.81	26.36	1.45
Banking Capital	33.28	20.34	12.94	34.02	29.69	4.33
Rupee Debt Service	0.00	0.06	-0.06	0.00	0.00	0.00
Other Capital	9.14	10.68	-1.54	12.07	12.52	-0.45
Total Capital Account	**181.75**	**147.48**	**34.27**	**202.51**	**192.52**	**9.99**
Overall Balance	**403.16**	**378.73**	**24.43**	**434.95**	**432.44**	**2.52**

External Debt: India's external debt stood at $635.5 billion as of the end of September 2023, registering a 4.90% growth during the last 12 months. The external debt to GDP ratio improved to 18.6% during the period from 19.1% on September 22. The share of long-term debt (debt with original maturity > 1 year) increased to 79.9% from 79% during the last 12-month period. Dollar-denominated debt remains the largest component of external debt accounting for 54.7%, followed by Rupee denominated debt at 30.5%, SDR at 5.7%, Japanese Yen at 5.6% and Euro at 2.9%.

End-March	External Debt (US$ billion)	External Debt to GDP (%)	FX Reserves to Total Debt (%)	Short- Term Debt to FX Reserve (%)
2015	474.7	23.8	72.0	18.0
2016	484.8	23.4	74.3	17.2
2017	471.0	19.8	78.5	18.7
2018	529.3	20.1	80.2	19.3
2019	543.1	19.9	76.0	20.0
2020	558.3	20.9	85.6	19.1
2021	573.4	21.1	100.6	17.6
2022	619.0	20.0	98.1	19.7
2023 PR	624.2	18.8	92.7	20.6
End-June 2023 PR	628.9	18.6	94.6	19.6
End-Sept 2023 P	**635.3**	**18.6**	**92.5**	**20.1**

Indian Rupee: After registering a sharp depreciation against US Dollar during FY23 led by the rapid rise in interest rates in the US, the Indian Rupee (INR) displayed resilience during the first 9 months of the fiscal. The Indian Rupee depreciated 1.25% against the greenback to record 83.21 levels as of the end of 2023. The hawkish US Fed policy guidance, narrowing yield differentials and an uptick in crude oil prices negatively impacted the INR during the first half of the year. Episodes of Dollar appreciation stemming from the collapse of US financial institutions, sporadic escalations in the Ukraine – Russia war and rising tension in Middle East & West Asia also added pressure on the currency. However, a reversal in portfolio flows, FX sales by RBI, strong domestic economic activity and an improvement in the external balance profile prevented further depreciation of the currency during the year.

USD INR & FX Reserve



Macro profile outlook for H2FY24

The Reserve Bank of India updated its Real GDP growth forecast for FY24 by 50 basis points to 7.0% during its latest policy review meeting. As per the latest data, the central banker expects the pace of GDP growth to moderate to 6.34% during the second half of the year compared to 7.73% during H1FY24. The committee observed that the fundamentals of the Indian economy remain robust with healthy twin balance sheets, strong domestic demand environment, progress in fiscal consolidation, pickup in quality of expenditure and improvement in external balance, which will help continue the growth momentum. The First advance estimates of GDP by the National Statistics Office project a 7.3% growth during the fiscal, higher than the RBI estimates.

Evaluation of the key sectoral output trends that constitute the gross value addition indicates a continuation of the strong industrial and services sector momentum into the second half of the fiscal. Moderation in input price pressure, PMI in the expansionary zone, healthy trend in IIP & core-sector growth, capacity utilization above the long-term average and availability of credit are expected to boost the manufacturing activity in the near term. Double-digit growth in cement and steel production supported by robust infrastructure capex bode well for the construction sector outlook.

The services sector which accounts for more than 50% of India's GDP is also on strong footing going into the second half of the year. Services PMI remained expansionary for the 28th month in a row. E-way bills witnessed high volume during Q3FY24 boosted by festive season demand and year-end sales, healthy GST bill collection, uptick in air passenger & freight traffic and strong services export are also offering a positive outlook. However, challenges due to uneven distribution of rainfall, deficient north-east monsoon, delayed rabi sowing, low reservoir levels and adverse weather conditions pose significant downside risks to agricultural output growth during the second half of the fiscal year. Recently published First Advance Estimate of GDP by the National Statistics Office peg agriculture output growth to record its slowest pace of growth in 8 years at 1.8%. The report also expects a moderation in growth in the trade, hotel & transport category to 6.3% from 14%, led by the normalization of pent-up demand surge and an unfavorable base from the previous two years.

Turning to inflation expectations, the MPC forecasts CPI to average 5.6% & 5.2% during Q3 & Q4. Despite the sustained moderation in core inflation, the CPI inflation trajectory is witnessing episodes of random spikes led by higher food inflation prices. A hardening bias in vegetable prices, sustained higher inflation in select food groups like spices, pulses and cereals due to lower Kharif output and challenges in Rabi sowing may continue to pose risk to the inflation trajectory in the near term. Meanwhile, the latest annual crude oil projections from the US Energy Information Administration portray a balanced supply-demand scenario over the next two years. Average prices are expected to hit $82 per barrel in 2024 and $79 per barrel during 2025 compared to the 2023 average of $82 per barrel. Commodity prices have cooled off following the spike in 2022 and are showing signs of stabilization. However, any further escalation in ongoing geopolitical tensions across the Middle East, West Asia & Europe lower crude and commodity prices can trigger a second round of rally in prices.

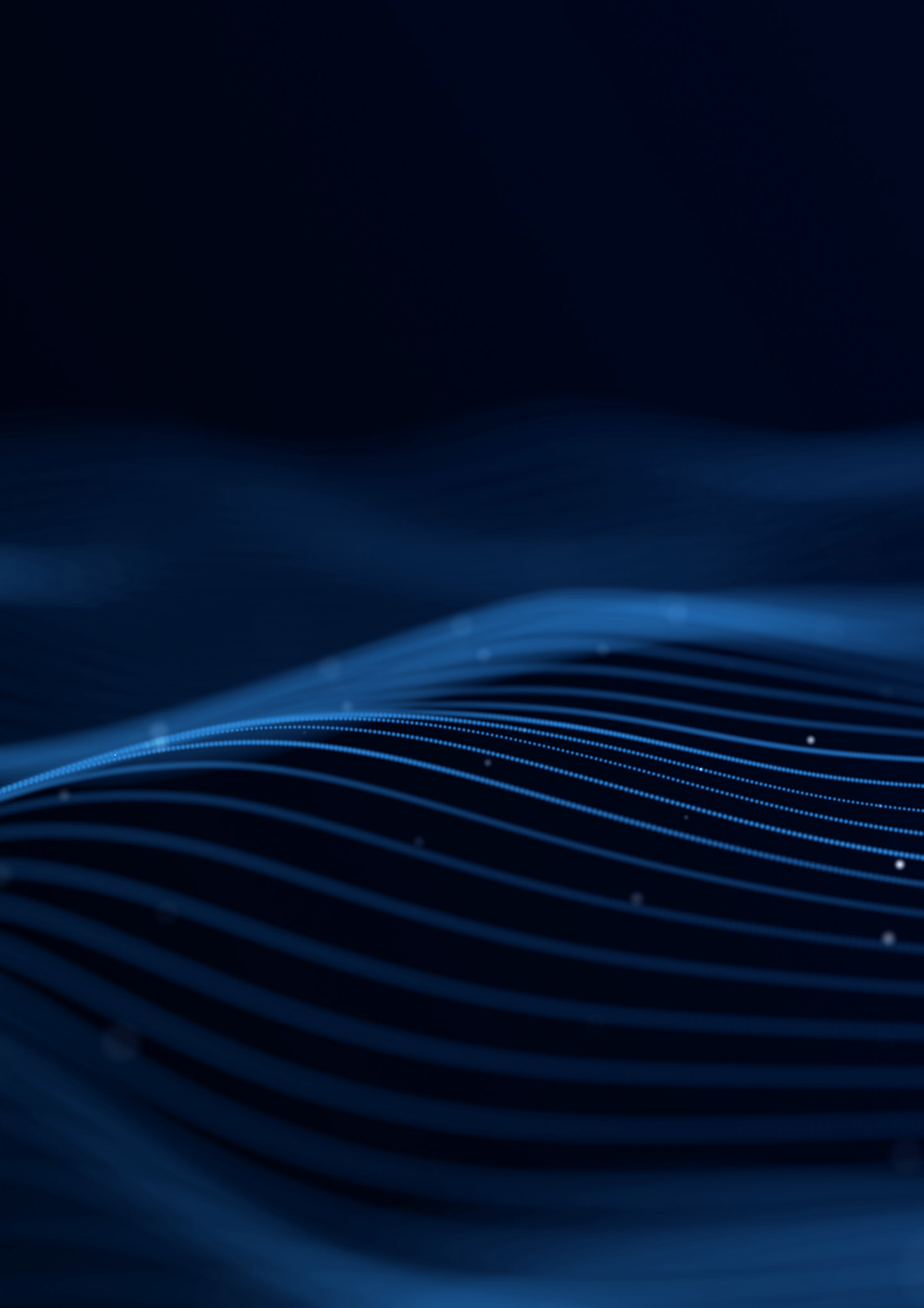
Monetary policy guidance indicates a cautious approach going forward. Though the MPC acknowledged the progress made in the fight against inflation, it remains focused on achieving the 4% target on a sustainable basis without bringing in any negative effects of overtightening. The committee also reiterated its willingness to look through transient spikes in inflation. In the absence of any global shock spillover, we expect the committee to maintain the status quo in the near term. Despite the run-up to the election year, we are witnessing disciplined expenditure management by the Government of India. The total fiscal deficit during the 8-months period stood at 50% of the budgeted estimates. Given the strong growth in direct tax revenue and GST collection, we do not expect a meaningful breach of the Rs. 17.86 trillion deficit target, despite the shortfall in customs, excise, disinvestment proceeds, and additional cash outflow under supplementary grants. However, the fiscal deficit number in terms of GDP may marginally rise above 5.9%, due to the recent downward revision in Nominal GDP growth to 8.9% as per the first advanced estimates.

The October – November period started on a weaker note with the trade deficit widening at a higher pace compared to Q1 & Q2. The combined trade deficit during the first two months of Q3FY24 stood at $52.04 billion. Though we expect the merchandize export growth to remain subdued in the near term under the influence of weak global demand and domestic export restrictions, the steady growth in service surplus and favourable commodity price cycle may limit the widening of the overall current account deficit. Strong capital account inflows under portfolio investment on account of the recent US Fed signaling of rate cuts in 2024 are expected to support the balance of payment position during the second half of the year. The improvement in the external balance profile, increase in import cover, favourable commodity prices, reversal of narrowing yield differential and higher inflows led by dovish US Fed signaling will also support the INR during H2FY24.

Indicator (%y-o-y, unless otherwise indicated) *	FY21/22	FY22/23	FY23/24	FY24/25
Real GDP Growth, at constant market prices	9.1	7.2	6.3	6.4
Private Consumption	11.2	7.5	5.9	6.0
Government Consumption	6.6	0.1	4.1	5.1
Gross Fixed Capital Formation	14.6	11.4	8.9	7.8
Exports, Goods and Services	29.3	13.6	0.9	6.7
Imports, Goods and Services	21.8	17.1	3.0	7.2
Real GDP Growth, at constant factor prices	8.8	7.0	6.3	6.4
Agriculture	3.5	4.0	3.5	3.6
Industry	11.6	4.4	5.7	6.4
Services	8.8	9.5	7.4	7.2
Inflation	5.5	6.7	5.9	4.7
Current Account Balance (percent of GDP)	-1.2	-2.0	-1.4	-1.2
Net Foreign Direct Investment (percent of GDP)	1.2	0.8	1.1	1.4

* Source: World Bank Report – India Update (October 23)

Agency	Macro Factor	FY24	FY25
RBI	Real GDP Growth	7.00%	NA
NSO	Real GDP Growth	7.30%	NA
Bloomberg	Real GDP Growth	6.80%	6.60%



05.

Global Economic Cycle

Global economic activities in 2024 are expected to remain well below the long-term averages due to the lag effect of high interest rates and tight credit market conditions. Global central banks are expected to turn dovish during the year as inflationary pressure is witnessing a sustained moderation. Divergent economic growth will persist in 2024 as well with emerging economies expected to perform better than advanced economies.

“The years 2020 to 2023 will perhaps go down in history as the period of ‘Great Volatility’, comprising a host of black swan events in quick succession.” – Mr. Shaktikanta Das, RBI governor (Governor’s Statement: 8 December 2023)

The world output crippled during the onset of pandemic and witnessed its first contraction since the Global Financial Crisis of 2008-09 period. Though the GDP growth rebounded in 2021, supported by a favourable base and an ultra-loose monetary policy, the recovery was short-lived and incomplete. The inflationary pressures, which were already entrenched in the global economy driven by supply side bottlenecks and excess liquidity chasing fewer goods, further aggravated due to Russia-Ukraine war in CY2022. The commodity cycle turned unfavorable with an increase in aggregate demand from re-opening theme, steep rise in logistic costs, supply- side restrictions on account of the war in Europe and adverse weather conditions. Global central banks reacted on the expected lines by increasing interest rates to reign in the uncontrolled spiral in inflationary pressure.

Global economic activities in CY 2023 were better than market expectations. A strong labour market activity, low levels of unemployment, strong private consumption in US due to accumulated excess savings, release of pent-up demand and the pickup in services demand kept the economy strong and running. However, this better-than-expected economic growth was highly unsynchronized in nature with the US performing better than the Eurozone in advance economies group, whereas, growth in the Emerging economies group was supported by India. China, which had been the growth engine of the world for the last two decades, has been facing an economic slow-down for the past two consecutive years led by the virtual collapse of its real-estate market and excess controls placed on its financial system by the Chinese state.

As per broader estimates, Global growth is expected to slow down to 2.60% in 2024 as compared to a long-term average of 3.0%. While US is expected to grow at 1.30% in 2024, growth in the Euro Area will increase by 0.50%. Emerging economies backed by improving macro profile due to the fall in prices of commodities are expected to grow at 4.0%, a tad below the long-term average growth rate of 4.30%. Overall, growth in Emerging economies is being pulled down by China as mentioned above and will be spearheaded by countries like India and Indonesia.

Risks emanating from geo-political issues remain the biggest hurdle to global economic recovery going forward. The war in Europe, brewing tensions in the Middle East, following an on-going Israel-Hamas war and disturbances in the Red Sea pose fresh challenges to growth in 2024. Moreover, consecutive crude oil production cuts from OPEC and Russia remain a potent threat to possible upside in crude oil prices once economic activities are back to the normalized levels. Lastly, Equity markets globally have discounted 3-4 interest rate cuts in 2024, however, the expected decline in interest rates will not have an immediate positive effect on the economy due to lag-effect of elevated interest rates over the last few quarters of 2023.

Global inflation has been trending downwards for the last few months as prices of key commodities like crude oil and industrial metals have fallen from peak amid moderation in global demand and normalization of supply routes. However, prices of all key commodities continue to remain well above the pre-pandemic era, thus reiterating the new normal economic reality of persisting inflationary pressures. Era of near-zero interest rates has abated for now, and we believe that interest rates will remain slightly elevated owing to supply-side pressures amid geo-political tensions. To conclude, global economic recovery in 2024 is being driven downwards by Advanced economies whereas relatively stable growth across Emerging economies bodes well for the global economic outlook. Push to global growth will depend on the quantum of rate cuts along with the normalization of geo-political tensions.

Real GDP Growth	2017	2018	2019	2020	2021	2022	2023 (F)	2024 (F)	10 Yr Avg
World Output	3.80%	3.60%	2.80%	-2.80%	6.30%	3.50%	3.00%	**2.60%**	**3.05%**
Advanced Economies	2.60%	2.40%	1.80%	-3.90%	5.80%	2.70%	1.70%	**1.20%**	**1.92%**
United States	2.50%	3.00%	2.50%	-2.20%	5.80%	1.90%	2.40%	**1.30%**	**2.21%**
Japan	1.70%	0.70%	-0.40%	-4.20%	2.70%	1.00%	2.00%	**0.80%**	**0.60%**
Euro Area	2.60%	1.80%	1.60%	-6.10%	5.90%	3.40%	0.50%	**0.50%**	**1.43%**
EMDE	5.10%	5.20%	4.40%	-0.10%	6.00%	3.80%	3.90%	**4.00%**	**4.30%**
China	6.90%	6.70%	6.00%	2.20%	8.40%	3.00%	5.20%	**4.50%**	**6.20%**
India	6.80%	6.50%	3.90%	-5.80%	9.10%	7.20%	7.00%	**6.60%**	**5.80%**
Brazil	1.30%	1.80%	1.20%	-3.30%	5.00%	3.00%	3.00%	**1.60%**	**1.00%**
Russia	1.80%	2.80%	2.20%	-2.70%	5.60%	-2.10%	2.60%	**1.40%**	**0.60%**

	US FED	ECB	BOE
Latest policy action	• Policy Rates left unchanged during the latest meet at 5.25% - 5.50%	• Policy Rates left unchanged during the latest meet at 4%	• Policy Rates left unchanged during the latest meet at 5.25%
Key takeaway from latest policy review	• The pace of economic activity moderated compared to Q3. • Job gains have moderated since early 2023 but remain strong. • Unemployment levels remain low. • Inflation has eased over the past year but remains elevated	• Expect economic growth to remain subdued in the near term. • Tighter financing conditions dampen demand and help reduce inflation. The pace of decline in inflation to be slower in 2024. • The current policy rates restrictive enough to achieve the long-term inflation target if held for sufficiently long duration.	• Economic activity remains weak. • Monetary policy to remain sufficiently restrictive for a sufficiently long period to bring inflation down to the 2% target. • Further tightening may be required in case of persistent inflationary pressures. • Rate cuts are not in discussion now.
GDP Growth	• GDP growth estimates revised higher. • Latest growth estimates for 2023, 2024, 2025 & 2026 at 2.6%,1.4%,1.8% & 1.9%	• GDP growth estimates revised lower. • Latest growth estimates for 2023, 2024, 2025 & 2026 at 0.6%, 0.8%, 1.5% & 1.5%	• Latest growth estimates for 2023, 2024, 2025 & 2026 at 0.5%, 0%, 0.25% & 0.75%
Inflation	• PCE inflation estimates revised downwards. • Latest inflation estimates for 2023, 2024, 2025 & 2026 at 2.8%,2.4%,2.1% & 2.0%	• Inflation estimates revised downwards. • Latest inflation estimates for 2023, 2024, 2025 & 2026 at 5.4%, 2.7%, 2.1% & 1.9%	• November projection for Q4 23, Q4 24, Q4 25 & Q4 26 at 4.6%, 3.1%, 1.9% & 1.5%
Balance Sheet Reduction	• Balance sheet run off at $95 billion per month to continue as of now. • US Fed chair hinted at a possible halt or slowdown in run-off at adequate level.	• To increase the pace of balance sheet reduction. • To reduce PEPP holdings at €7.5 billion per month during second half of 2024. To discontinue reinvestment from end 2024.	• To reduce the stock of UK government bonds, by £100 billion during October to September 2024, to a total of £658 billion.
Policy guidance	• Dovish • Latest projections indicate 75bps rate cut in 2024, followed by 100bps cut in 2025 and 75 bps in 2026. • US Fed Fund rate projected at 4.6%, 3.6% & 2.9% in 2024, 2025 & 2026.	• Hawkish • Higher for longer policy guidance and step up in balances sheet rundown. • No rate cut signals. To follow a data-dependent approach to determining the appropriate level & duration of restriction.	• Hawkish • Higher for longer policy guidance • November monetary policy projections indicate Bank Rate at 5.3%, 5.1%, 4.5%, 4.2% during Q4 23, Q4 24, Q4 25 & Q4 26

Monetary & Fiscal Activities		2008	2010	2019	2020	2021	2022	2023	2024 E	5 Yr Avg	10 Yr Avg
US	Policy rate	0.25%	0.25%	1.75%	0.25%	0.25%	4.50%	5.50%	**4.30%**	2.45%	1.78%
	Balance-sheet (USD Tn)	2.24	2.42	4.17	7.36	8.75	8.55	7.71	NA	7.31	5.85
	Fiscal Deficit	-4.70%	-8.40%	-4.70%	-15.20%	-10.50%	-5.40%	-6.20%	-6.00%	-8.40%	-5.50%
Euro-Zone	Policy rate	2.50%	1.00%	0.00%	0.00%	0.00%	2.50%	4.50%	**3.75%**	1.40%	0.70%
	Balance-sheet (USD Tn)	2.87	2.68	5.25	8.55	9.75	8.52	7.67	NA	7.95	5.99
	Fiscal Deficit	-2.20%	-6.30%	-0.60%	-7.10%	-5.20%	-3.60%	-3.30%	-3.00%	-3.96%	-2.78%
China	Policy rate	2.75%	4.00%	4.15%	4.25%	3.85%	3.65%	3.45%	**NA**	3.87%	4.00%
	Balance-sheet (USD Tn)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
	Fiscal Deficit	-0.40%	-1.64%	-4.91%	-6.20%	-3.80%	-4.70%	-4.90%	-4.90%	-4.90%	-4.10%
Japan	Policy rate	0.10%	0.10%	-0.10%	0.00%	0.00%	0.00%	0.00%	**0.10%**	-0.02%	-0.01%
	Balance-sheet (USD Tn)	1.35	1.59	5.28	6.80	6.29	5.37	5.32	NA	5.81	4.85
	Fiscal Deficit	-4.12%	-9.15%	-3.00%	-9.00%	-5.50%	-6.70%	-5.90%	-4.00%	-6.02%	-4.85%
India	Policy rate	6.50%	6.25%	5.15%	4.00%	4.00%	6.25%	6.50%	**6.00%**	5.18%	5.95%
	Balance-sheet (USD Tn)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
	Fiscal Deficit	-5.99%	-4.80%	-4.40%	-6.00%	-6.30%	-6.80%	-5.90%	-5.40%	-5.85%	-4.83%

Relative outperformance of India Vs the Rest of the World: The resilience of the Indian economy among a broader set of both Developed and Emerging economies has surprised markets for the second year in a row. India is the only large economy that is likely to experience real GDP growth and earnings growth higher than its 10-year average in both FY24 and FY25. Pause in the domestic interest rate cycle at an earlier stage unlike advanced economies amid fall in prices of crude oil & industrial commodities has ensured the decoupling of Indian economy from subdued global activities. All leading economic indicators such as PMI indicators, GST collections and Core-sector growth continue to trend upwards and above broader expectations on account of robust domestic consumption fueled by monumental government capex. Lastly, the expected decline in both inflation and 10-year bond yield in CY24 below their long-term averages will support the stable macro profile of India.

India	10 Yr Avg	5 Yr Avg	3 Yr Avg	FY22	FY23	FY24E	FY25E	FY25E /10 Yr Avg (%)
Real GDP	5.8%	4.2%	3.5%	9.1%	7.2%	7.0%	6.6%	**13.8%**
10 Yr G-Sec	7.0%	6.8%	6.9%	7.3%	7.2%	6.9%	6.8%	**-2.9%**
CPI	5.3%	5.8%	5.6%	5.7%	6.7%	5.4%	4.7%	**-11.3%**
Earnings Growth	9.3%	11.8%	19.0%	46.6%	11.2%	20.3%	12.0%	**29.0%**

Relative Assessment of Emerging Markets: The relative assessment of Emerging market peers places India in a comfortable position as mentioned above. However, there are significant downside risks to India's relative financial & business risk assessment pertaining to a possible potential rally in prices of crude oil and other industrial commodities in the next few quarters owing to worsening geo-political issues. Benign external debt and moderate inflationary pressure, however work in favor of the country.

The Chinese economy is expected to grow by 4.50% in 2024, below its long-term average of nearly 6.20%. China has been grappling with multiple issues for the last 3 years following the erratic opening up of its economy in the beginning of 2023 and the collapse of its real estate market among others. Near zero inflation rate in China suggests weak domestic demand and reduced purchasing power amid property market slowdown.

Russia economy contracted in 2022 on expected lines due to the imposition of sanctions by the West post its invasion of Ukraine. However, the Russian economy is expected to expand by ~2.60%. It has been bolstered by effective government spending on both infrastructure and war resources. Russian crude has also been able to find its way to countries like India and China thus further strengthening its economy.

Brazil's economy has been surprisingly resilient this year. Better than expected wage growth and strong private consumption supported the economic activities which were further strengthened by a decline in inflation rate and strong exports due to robust agriculture produce in 2023. Brazil is expected to grow at 3.0% in CY 2023 and CY 2024, considerably higher than its long-term average growth rate.

Indonesia, being a major exporter of coal, rubber, nickel, petroleum gas, timber & palm oil, is expected to grow by 5.0% in 2024 as it continues to benefit from a stable demand of commodities. Expected fall in interest rates will further support economic activities.

South African economy, however, has been in the doldrums for the last few years due to prolonged political uncertainty and high youth unemployment. The inability of ruling political establishment to implement long-awaited structural reforms and tackle rising crime has plagued the country. South Africa is expected to grow at 0.70% in CY2023 and 1.30% in CY2024.

Factors/ Peers	Brazil	Russia	India	China	South Africa	Indonesia
FINANCIAL RISK ASSESSMENT						
GDP Growth 2023	3.00%	3.00%	7.20%	5.20%	0.70%	5.00%
GDP Growth Forecast 2024	1.60%	1.40%	7.00%	4.50%	1.30%	5.00%
Inflation 2023	4.60%	6.00%	5.40%	0.40%	5.90%	3.70%
Inflation Forecast 2024	3.90%	6.50%	5.40%	1.40%	5.00%	3.00%
Forex Reserves (USD Bn - Dec 23)	348.4	592.4	620.4	3,171.8	60.9	138.1
External Debt (USD Bn - Dec 23)	716.0	322.3	635.3	2,433.8	156.0	393.7
Nominal GDP 2023 (USD Bn - Sep 23)	2,107.0	2,114.9	3,446.9	17,752.9	379.2	1,361.2
BUSINESS RISK ASSESSMENT						
Key economic drivers	Commodities exporter including Agro-products and hydrocarbon	Heavy reliance on Oil & Gas	Large and diversified economy mainly driven by domestic consumption	Exports and manufacturing	Rich natural resources base	Coal, Palm Oil, Rubber and plantation, manufacturing
Economic Diversity	Diversified	Concentrated	Highly Diversified	Moderate	Concentrated	Moderately Diversified
Exposure to commodity Prices	High	High	Moderate	Moderate	High	High
Exposure to Fed Hike	High	Low	Low	Moderate	High	Moderate
Exposure to US economy	Moderate	Low	Moderate	High	Moderate	Moderate
Credit Rating	Ba2, Stable	Ca	Baa3, Stable	A1, Negative	Ba2, Stable	Baa2 Stable
Last rating review (Moody's)	April 2018	March	5 Oct 21	29 Aug 22	1 April 22	27 Apr 22

06.

Domestic Valuation Cycle

Sensex is trading at about 5 percent valuation premium based on CA's intrinsic value of the Index. Nonetheless, Mid-cap stocks are commanding a reasonable valuation premium over their historical averages. There is a froth in the small & micro-cap segment. While large-cap private banks, NBFCs, and IT are looking relatively attractive in terms of valuations, Industrial, PSUs, consumer, and capital goods are expensive as compared to their medium-term averages.

Sensex (Adjusted Price to Earnings Ratio)

Nifty 50 (Adjusted Positive Price to Earnings Ratio)

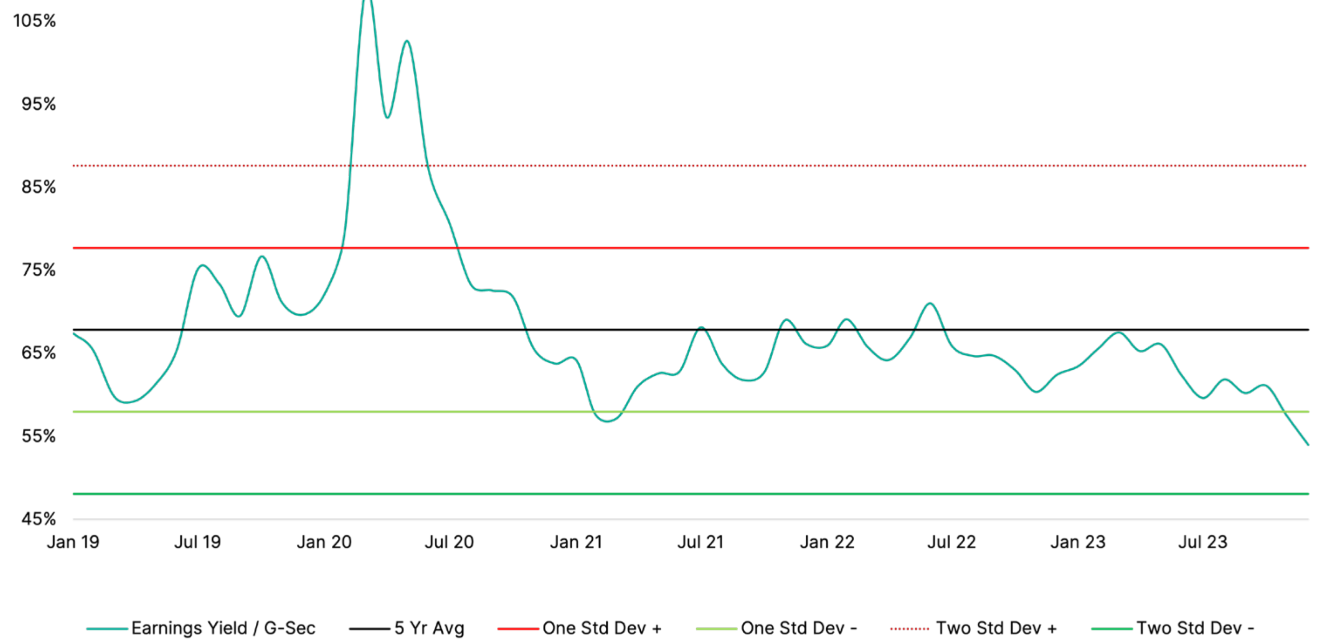
BSE 500 (Adjusted Positive Price to Earnings Ratio)

BSE Mid Cap 150 (Adjusted Positive Price to Earnings Ratio)

BSE Small Cap 250 (Adjusted Positive Price to Earnings ratio)

Market Cap by GDP

Yield Gap Ratio



07.

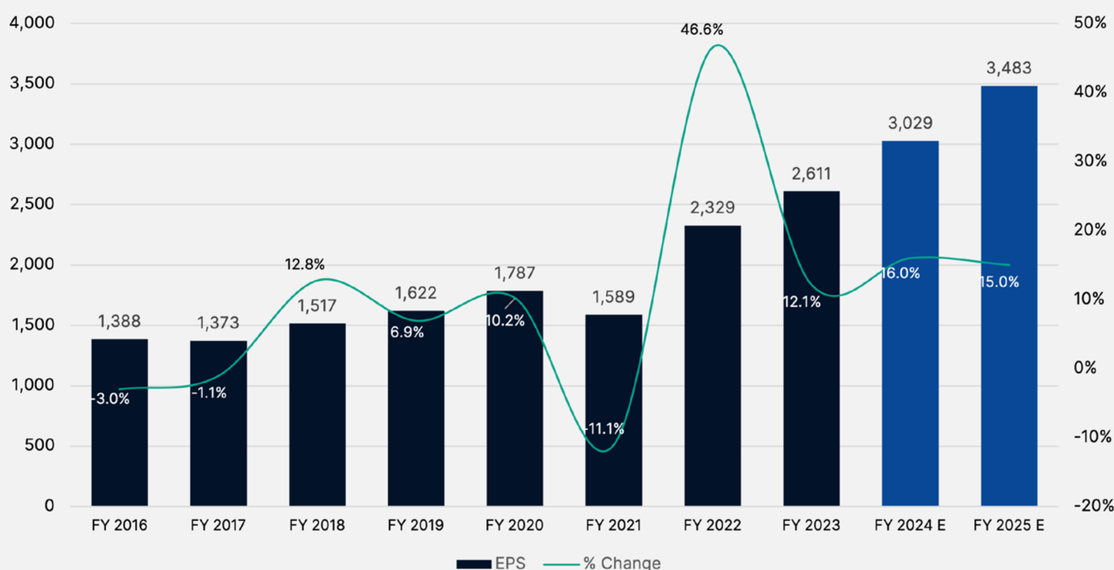
Earnings Growth

EARNINGS GROWTH

Indian corporates are expected to report a 15% EPS growth in FY2025 on account of strong domestic consumption amid sustained recovery in domestic economic activities, expected decline in interest rates, Indian Govt's thrust on the road, railway, defense and local manufacturing, structural reforms such as PLI & tax cuts, healthier corporate balance sheet, well-capitalized banks with low NPAs, and policy stability.

Indian corporates continue to maintain strong momentum of delivering a double-digit EPS growth in FY2024. Sensex companies are in the midst of witnessing a moderate earnings upgrade due to a fall in commodity prices, better than expected domestic economic activities, GOI's focus on capex expenditure, and steady credit growth.
As far as sectoral earnings are concerned, Corporate and Private banks are poised to report a heathy earnings growth on the backdrop of better-than-expected credit growth and declining NPAs. Earnings for Information Technology witnessed consecutive downgrades due to high base from previous year, elevated manpower costs and decline in global IT spend. FMCG sector reported a mild earnings upgrade as the decline in key raw material prices aided margins. Auto sector is set to report an upbeat earnings growth in the current fiscal backed by strong auto sales amid higher discretionary spend. Infrastructure companies due to all-time high order book and stable volumes are set to deliver a better-than-average earnings growth during the year.

Sensex EPS Growth



Sector	Company	FY2022	FY2023	FY2024 E	FY2025 E	FY'25 E Growth (%)
Banks	HDFC Bank Ltd	38,052.8	45,997.1	63,393.0	73,969.9	16.68%
	ICICI Bank Ltd	25,110.1	34,036.6	39,177.3	42,425.0	8.29%
	Axis Bank Ltd	14,119.3	10,818.5	24,053.8	27,409.8	13.95%
	Kotak Mahindra Bank Ltd	12,089.4	14,925.0	17,634.6	19,825.9	12.43%
	State Bank of India	35,373.9	55,648.2	58,889.4	57,223.8	-2.83%
	IndusInd Bank Ltd	4,804.6	7,443.1	9,105.0	10,880.6	19.50%
	Total	**129,550.0**	**168,868.5**	**212,253.0**	**231,735.0**	**9.18%**

- Banks are expected to report a 25% EPS growth in FY2024 on account of strong credit growth due to robust domestic consumption and monumental government spending, lower slippages, and roll back of provisions. While capitalization and provision coverage ratios of large banks are at a 5-year high, Gross and Net NPAs are at a decade low as on 31st Dec'23.
- Banks are likely to report a lower-than-average earnings growth of 9.18% in FY2025. However, large private banks excluding SBI are expected to deliver a PAT growth of ~14.0%. Unfavorable base of FY2024 is negatively impacting the expected aggregate EPS growth in banks in FY2025.
- Increasing advances to deposits ratio and revised risk weights of consumer credit exposure by RBI will put some pressure on margins. However, expected decline in interest rates in CY2024 and FY2025, and sustained momentum in growth in advances in line with strong economic activities will enable most banks to maintain their double-digit PAT growth in times to come.

Sector	Company	FY2022	FY2023	FY2024 E	FY2025 E	FY'25 E Growth (%)
IT Services	Infosys Ltd	22,110.0	24,095.0	24,666.6	27,780.4	12.62%
	TCS	38,327.0	42,147.0	46,115.1	51,221.8	11.07%
	HCL Technologies Ltd	13,464.5	14,851.0	15,875.4	17,903.2	12.77%
	Tech Mahindra Ltd	5,566.1	4,831.3	3,010.0	5,197.5	72.67%
	Wipro Ltd	12,219.1	11,350.0	11,043.4	12,375.5	12.06%
	Total	**91,686.7**	**97,274.3**	**100,710.5**	**114,478.4**	**13.67%**

- IT services companies are expected to report a meager EPS growth of 3.53% in FY2024 due to moderation in global growth, and elevated manpower and travel cost. Tighter credit conditions, high interest rate and uncertain economic scenario forced global IT majors to cut down their discretionary IT spend. In terms of segments, Banking & Financial Services (BFSI) and Telecom witnessed highest moderation in growth partly because of banking crisis in the developed world and lower than anticipated spend by telecom companies globally.
- Elevated employee cost and probability of renegotiation of deal wins at lower cost continue to remain big threats for IT companies. Additionally, unsynchronized recovery in global economy might impact IT companies individually. For instance, US focused IT majors are likely to do better than companies which drive most of their revenues from Eurozone.
- Nonetheless, IT sector is expected to report a double-digit earnings growth of (~14 %) in FY25 on account of a favorable base, expected decline in interest rates, cost optimization measures adopted by IT companies, and a renewed focus on new business segments such as artificial intelligence.

Sector	Company	FY2022	FY2023	FY2024 E	FY2025 E	FY'25 E Growth (%)
Auto	Mahindra & Mahindra Ltd	6,577.3	10,281.5	10,972.1	11,996.1	9.33%
	Maruti Suzuki India Ltd	3,879.5	8,211.0	12,476.8	13,944.7	11.77%
	Tata Motors Ltd	-11,441.5	2,414.3	17,881.5	21,147.6	18.27%
	Total	**-984.7**	**20,906.8**	**41,330.4**	**47,088.4**	**13.93%**

- Auto companies are expected to deliver a strong EPS growth of 13.93% in FY2025 due to sustained recovery in economic activities, strong private consumptions and expected decline in interest rates.
- Auto companies were expected to witnesses a margin pressure due to higher costs amid a rise in raw material prices and shortage of semi-conductors. However, they have been able to successfully pass on price hikes to consumers, thus maintaining profitability and margins. Focus on new models across categories to improve the product mix also bodes well for OEMs.

Sector	Company	FY2022	FY2023	FY2024 E	FY2025 E	FY'25 E Growth (%)
Consumer Staples	ITC Ltd	15,242.70	19,191.70	20,925.80	23,393.20	11.79%
	Hindustan Unilever Ltd	8,879.00	10,120.00	10,827.00	12,109.90	11.85%
	Nestle India Ltd	2,390.50	2,971.20	3,503.00	3,940.88	12.50%
	Total PAT (INR Cr)	**26,512.20**	**32,282.90**	**35,255.80**	**39,443.98**	**11.88%**

- FMCG sector is expected to report a steady net profit growth in FY25 amid expectations of robust demand from both rural and urban markets. Volume growth has been slightly better than market expectations. Fall in prices of essential raw materials like palm oil and wheat over last few quarters are helping FMCG companies expand their margins and profitability. More importantly, they have been able to pass on price hikes to consumers in a staggered manner.
- Nevertheless, competition from unorganized and unlisted players can negatively impact volume expansion and profitability of the listed players.

Sector	Company	FY2022	FY2023	FY2024 E	FY2025 E	FY'25 E Growth (%)
Utilities	Ntpc Ltd	16,675.9	16,912.6	19,378.79	22,155.92	13.38%
	Power Grid Corp Of India Ltd	16,824.1	15,417.1	15,776.89	16,525.32	4.85%
	Total	**33,500.0**	**32,329.7**	**35,262.60**	**38,638.50**	**9.57%**

- NTPC's plan of adding 11.2 GW of thermal power capacity in the next two years amid rising peak power deficit has acted as a key re-rating catalyst over the last few quarters. Focus on renewable energy will enable the company to diversify its earnings. However, slower than expected ramp-up of renewable energy projects and issues with availability of coal can impact profitability.
- Power Grid is expected to report muted earnings growth in FY'25 due to higher costs related to rising capex commitments. However, efficient execution of transmission projects and cashflow management can improve profitability and margins.

Sector	Company	FY2022	FY2023	FY2024 E	FY2025 E	FY'25 E Growth (%)
Energy, Telecom and others	Reliance Industries	60,705.0	66,702.0	73,559.1	84,955.7	15.49%
	Bharti Airtel	4,254.9	8,345.9	12,015.1	20,979.4	74.61%
	L&T	8,669.3	10,470.7	13,409.5	16,673.7	24.34%
	Total	**73,629.2**	**85,518.6**	**98,983.7**	**122,608.8**	**23.87%**

- Reliance Industries' earnings growth in FY2024 has been downgraded due to a subdued performance reported by retail business on account of elevated costs and Jio business segment due to higher interest payments. Oil and Chemical business is also negatively impacted due to imposition of windfall taxes by GOI. Low base in the current fiscal is expected to translate into a double-digit PAT growth of ~15.49% for Reliance Industries in FY25. While O2C segment is expected to report stable profits, Jio and Retail business segments are poised to report a strong PAT growth on account of a rise in tariffs along with rollout of 5G, and effective cost cutting measures.

- Bharti Airtel has reported a turnaround in its business over last 2-3 years, and is expected to sustain the momentum in years to come. It is expected to report a PAT growth of 74.61% in FY25 due to tariffs hike across segments and increased focus on 2G to 4G conversions. Management's focus on rural areas after cementing business in urban pockets is expected to increase its market share going forward. However, Africa business is likely to be negatively impacted due to rising costs.

- Larsen & Toubro is expected to report a higher-than-average PAT growth of 24.34% in FY25 due to an all-time high order book in hydrocarbon segment from Gulf region. Domestically, expectations of new orders from both private and government entities in railways & transportation and construction business segments supported by higher public and private spend is a big positive in quarters to come.

Sector	Company	FY2022	FY2023	FY2024 E	FY2025 E	FY'25 E Growth (%)
Materials	Asian Paints Ltd	3,030.6	4,106.5	5,534.5	5,730.3	3.54%
	Ultratech Cement Ltd	7,344.3	5,064.0	7,673.4	9,424.5	22.82%
	Tata Steel Ltd	40,153.9	8,760.4	6,145.8	14,441.0	134.97%
	Jsw Steel Ltd	20,665.0	4,144.0	11,374.1	15,760.9	38.57%
	Total	**71,193.8**	**22,074.8**	**30,727.9**	**45,356.8**	**47.61%**

- Steel companies are expected to report an abnormally high growth in FY2025 due to a low base in the previous two years. A decline in global steel demand and fall in steel prices impacted profitability of steel companies in FY2023 and FY2024. However, better than expected growth of domestic economy buoyed by huge government capex bodes well for steel companies in times to come.

- Cement companies suffered setbacks in last few quarters due to rise in raw material prices on account of supply side issues as a result of Russia – Ukraine war. However, stable volumes growth due to strong domestic demand will support the cement sector in times to come.

- Asian paints Ltd. is likely to deliver a below-average PAT growth in FY2025 due to an unfavorable base and weak volume growth amid intensifying competition. Consecutive price hikes by paint companies due to elevated crude oil prices have also negatively impacted margins and profitability.

CA Equity Assessment 2024

Asset Allocation: Based on CA Grid Assessment 2024, we maintain a Neutral stance on Indian Equity Markets. A sharp rise in Indian equity indices in the last one year has resulted in equity allocation higher than policy allocation for most investors. We advise investors to realign their current equity allocation to policy allocation by trimming equity exposure. Our projected intrinsic value of Sensex for December 2024 is 77,400.

Category Allocation: We are Underweight on Mid & Small cap stocks.

Manager Selection: We are Overweight on Growth and GARP managers. Do not advise allocation to Value funds.

CA Annual Equity Assessment Track Record

Date	CA Annual Equity Assessment Report	CA Stance on Equity	Stance on Mid & Small Cap stocks
Jan-16	The India story is intact	Overweight	Overweight
Jan-17	SENSEX should hit a fresh lifetime high in 2017	Neutral	Neutral
Jan-18	The market is expensive. Investors should moderate their return expectations	Underweight	Underweight
Jan-19	Moderate valuation and favorable economic & earnings cycle should help Indian Markets deliver strong returns in CY19	Neutral	Overweight
Jan-20	Maintain Overweight Stance on Indian Markets on account of moderate valuation, accommodative policies and favourable earnings cycle	Overweight	Overweight
Jan-21	Changing CA Stance on Indian Equity Markets to Underweight on account of expensive valuations that are supported by low-interest rates, robust earnings growth expected in FY22 and rebound in economic activities	Underweight	Neutral
Jan-22	Changing CA Stance on Indian Equity Markets to Neutral on account of strong earnings growth that will support moderately expensive valuations	Neutral	Underweight
Jan-23	Sensex is likely to hit and sustain life time high in 2023 on account of a relatively stable domestic macro profile and strong earnings growth	Neutral	Neutral
Jan-24	The Indian Equity market is in a goldilocks situation with steady GDP growth, moderate inflation, favourable policies, and strong earnings growth. However, investors should moderate their return expectations due to moderately expensive valuations. It is likely to be a volatile year mainly on account of an expected slowdown in global activities and frothy valuations of small & micro-cap stocks	Neutral	Underweight

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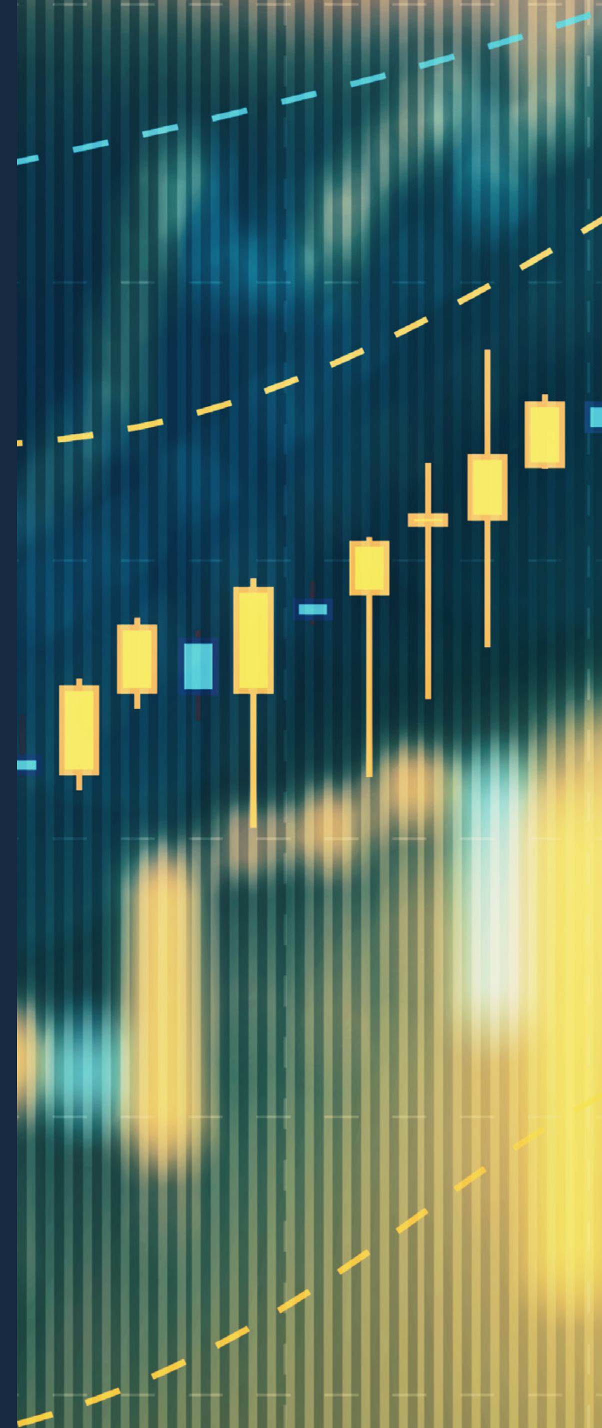

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