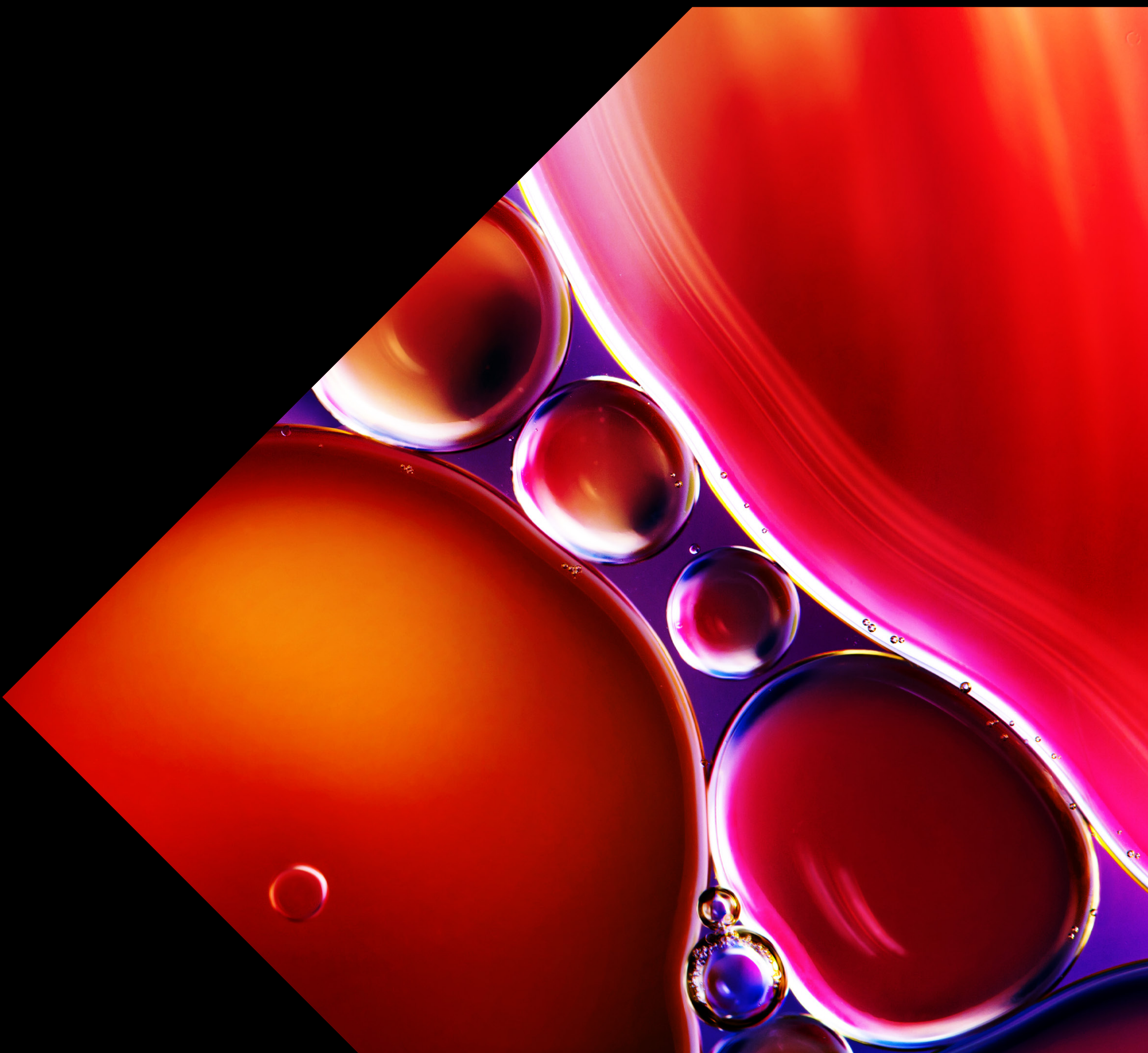
HSBC Mutual Fund

India Outlook 2024 - Equity



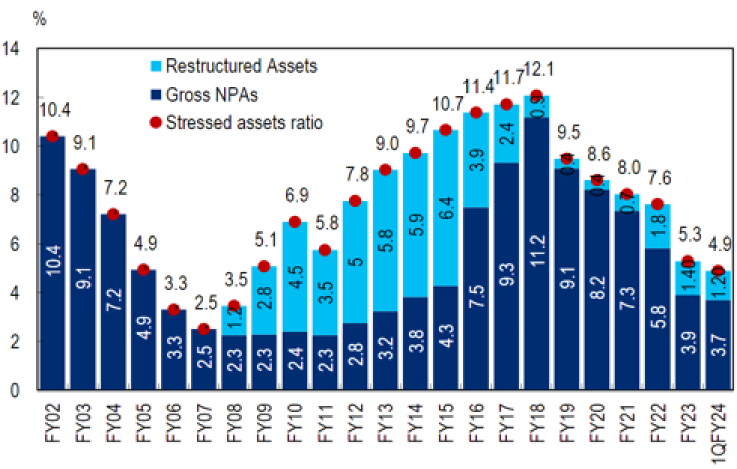
2023 – A tumultuous year

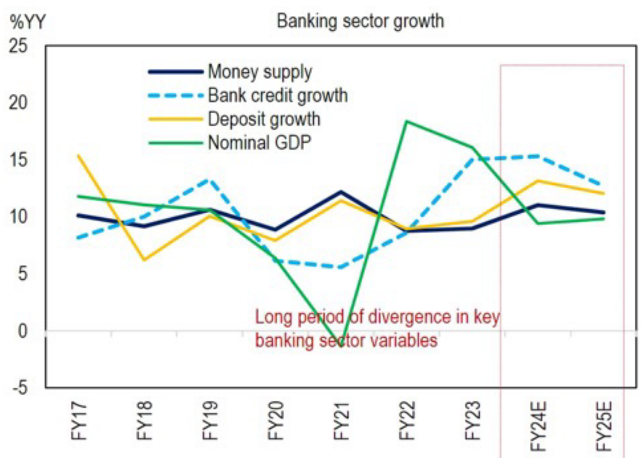
Much of the global headlines during the year was dominated by geo-political conflicts, high inflation and rising interest rate concerns. However, India's growth has positively surprised in this environment led by strong government impetus to infrastructure as outlined in the Union budget. This translated into strong growth for several core sector industries including steel and cement. Despite the increase in interest rates, growth in the real estate sector has been strong with inventory continuing to decline in metro markets. Revenues for capital goods companies have continued to grow at a robust pace indicating that investment cycle for India is picking up. Supported by range bound crude, declining international coal / gas and other commodity prices, cost pressures and inflation concerns have now abated with core inflation now below 5%. However, lagged impact of price increases continued to impinge on consumer demand growth which remained subdued for most mass market categories. Indian equity markets remained buoyant supported by strong inflows from both domestic and foreign institutional investors during the year as earnings expectations at an index level were largely met.

2024 - Starting on a strong footing

India starts 2024 on a strong footing with positive growth momentum. As we have been highlighting during the year, we see India's manufacturing sector on a strong medium term growth trajectory as the underlying drivers continue to strengthen. We expect government infra thrust to continue. Rising power demand, buoyant capital markets and need to reduce carbon footprint is likely to drive growth in private investments into renewable energy. Government's Production Linked Incentive (PLI) scheme is helping manufacturing capacity in areas like renewable energy, electronics and other new technology areas. Localization thrust and global supply chain re-adjustments are driving capacity addition in manufacturing across verticals. In our view, Real Estate remains another strong medium term growth driver having weathered the impact of higher interest rates. We expect pickup in investment cycle to help support credit growth in 2024. We believe banking system is now well prepared to support this as Asset quality is now strong and has continued to improve. Finally, we also expect improvement in consumption as the impact of high inflation fades and real incomes start to grow again.

Source: MoF, RBI, CIEC, Citi Research





Valuations – how much is factored?

All this makes us more optimistic on the domestic growth despite high likelihood of weaker global demand. However, in our view several of these positives are getting discounted by the high valuations currently prevailing in the equity market. Nifty continues to trade on 19.8x 1 year forward PE based on consensus earnings. On a 10-year basis, Nifty is still trading ~10% above its 10 year mean valuation. Valuations in midcap and small cap space are much more elevated which are trading 33% above their 10 year mean valuation. We would therefore caution against high return expectations. However, we remain constructive on Indian equities supported by the more robust medium term growth outlook.

Source: Bloomberg, MoF, RBI, CIEC, Citi Research, Data as on 30 Nov 2023 unless otherwise mentioned.

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