HSBC Mutual Fund

India Insights

Growth and (Un)certainty.

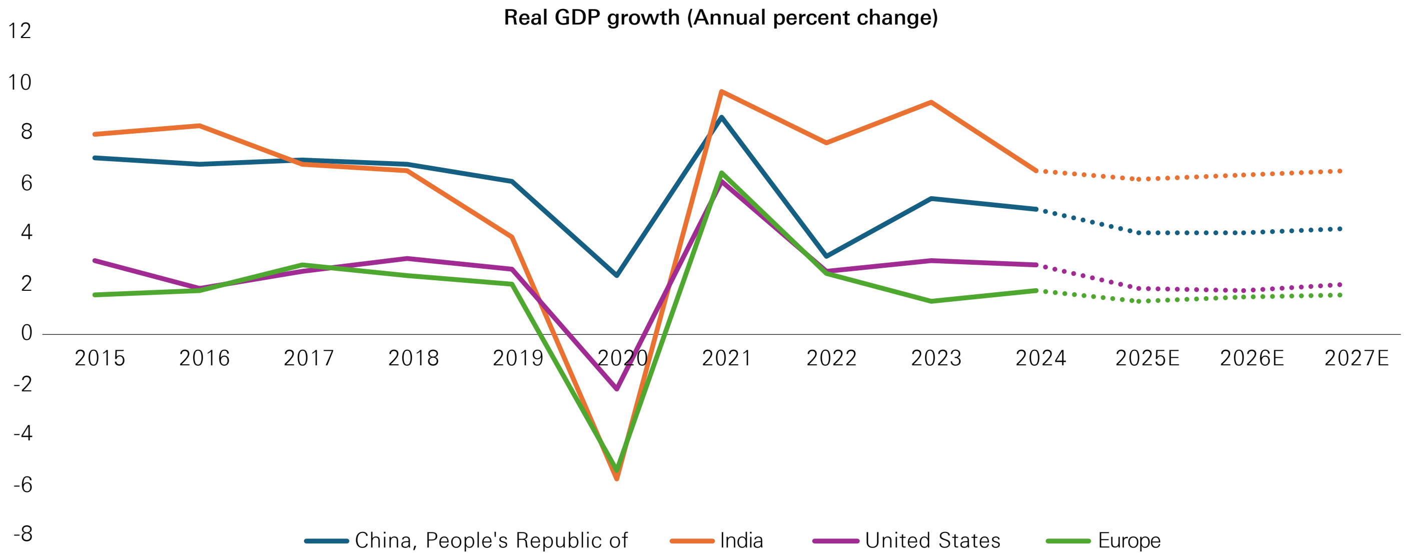
Glass half empty or glass half full?

You must have seen numerous reports on how uncertainty can affect growth across the World, and this is applicable to everything and not only to economic or financial markets. This uncertainty in economic growth is being created by geopolitical disruptions, exceptionalism, protectionism, trade tensions, conflicts, etc. which may result in market wide stress and impacts one and all. However, this also gives an opportunity which can result in higher growth, and this makes the case for half glass full.

During recent times, this uncertainty has taken the shape of trade tensions and tariff wars which is redefining manufacturing and supply chains across the World. International Monetary Fund (IMF) also echoed this sentiment in its World Economic Outlook report in January 2025 where it highlighted that growth outlook is characterized by divergent paths and uncertain environment. It carried forward the same thought in its latest report released in April 2025 where it emphasized that there will be a slowdown in the global growth which is projected to decline after a period of steady but underwhelming performance, amid policy shifts and new uncertainties. Accordingly, IMF adjusted its growth forecast downwards across the World including for the emerging economies such as India and China (refer chart below).

However, it did mention that India's growth outlook is relatively more stable, and it expects steady expansion for the Indian economy, supported by firm private consumption, particularly in rural areas. India is poised to lead the global economy once again, with the IMF projecting it to remain the fastest growing major economy over the next two years. As per IMF, India's economy is expected to grow by 6.2% in 2025 and 6.3% in 2026, maintaining a solid lead over global and regional peers.

In a global environment marked by uncertainty and subdued growth, India's resilience stands out, reinforcing its role as a key driver of global economic activity.



Source: IMF Database, April 2025

Opportunity for India – Manufacturing

For India, it appears that the glass is half full as this uncertainty has given a chance, an opportunity which we believe it is already capitalizing. The escalation of the US-China trade tensions prompted many companies to adopt the ‘China+1’ strategy to mitigate risks associated with over-reliance on manufacturing in the country. India’s “Make in India” initiative along with the vision of Atmanirbhar Bharat (self-reliant India) were launched by the Indian government to attract companies to establish their manufacturing facilities in India. Production Linked Incentive (PLI) Scheme was launched under these programmes to position the country as a global manufacturing hub while fostering innovation, efficiency, and competitiveness across key industries. The actual investment under PLI scheme was around US$ 18.72 billion reported till November 2024 which generated Production/ Sales of around US$ 162.84 billion against a target of US$180.52 billion up to FY 2024-25 and employment of over 11.5 lakh (Direct & Indirect).

PLI Schemes have transformed India’s exports basket from traditional commodities to high value-added products such as electronics & telecommunication goods, processed food products with exports surpassing around US$ 61.76 billion, with significant contributions from sectors such as Large-Scale Electronics Manufacturing, Pharmaceuticals, Food Processing, and Telecom & Networking products. The PLI scheme has created immense impact across sectors specially electronics manufacturing sector which has flourished under the PLI scheme, transforming India from a net importer to a net exporter of mobile phones and pharmaceuticals sector wherein India’s position in the global pharmaceuticals market has expanded and it is the third-largest player by volume.

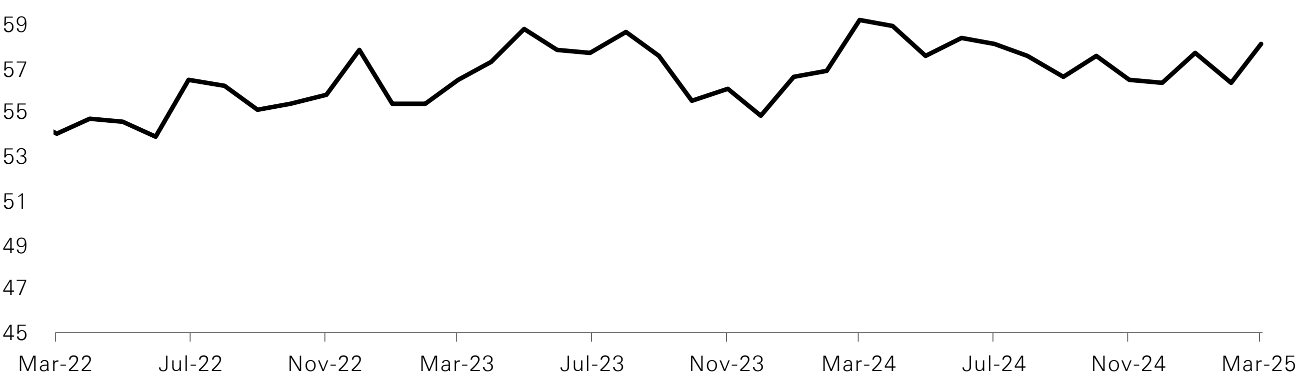
Banking on the PLI scheme, the Indian government has set up interministerial committee to outline the framework for the National Manufacturing Mission, aimed at boosting domestic manufacturing. Announced in this year’s Union Budget, the mission aims to support the Make in India initiative and will focus on small, medium, and large industries.

Proactive government policies have encouraged investment in sectors such as space, semiconductors, renewable energy and electric vehicles (EVs). The government has recently approved a US$ 2.68 billion PLI scheme to strengthen electronic component manufacturing in India. The scheme focuses on key components such as batteries, displays, camera modules, and printed circuit boards (PCBs) to enhance India’s electronics supply chain and reduce import dependence.

India is positioning itself as a critical link in global supply chains, encouraging local sourcing and manufacturing. It is also becoming a global SaaS innovation hub, especially in generative AI.

All the above activities are reflected in the recent numbers of Manufacturing Purchase Managers Index (PMI). Showcasing a rebound from tepid manufacturing activity in last few months, India registered a 58.1 manufacturing PMI in March 2025, up substantially from 56.3 during the previous month despite a mild slowdown in international order growth.

Manufacturing PMI



Source: Haver, Morgan Stanley Research, April 2025

Consumer confidence upbeat

India is a consumption-driven economy, as reflected by the nearly 60% of GDP being contributed by private consumption and remains the fourth-largest consumer market. The world's most populous nation with around 1.5 billion people enjoys a demographic advantage with proportion of working age population over 50%, making consumption a structural story for a long period.

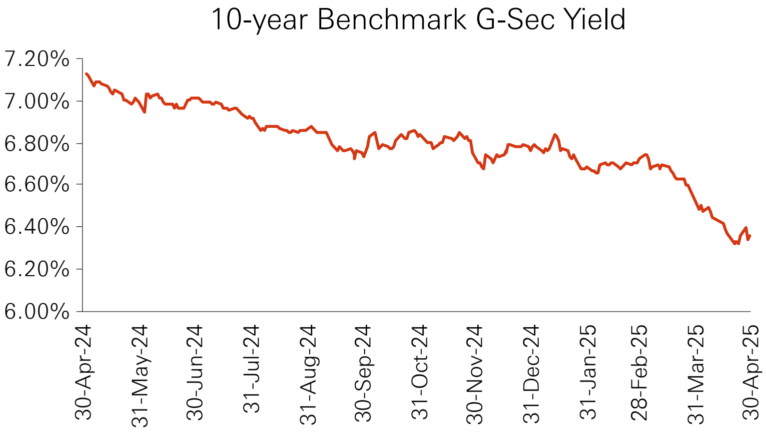
We note that with one of the youngest populations having a median age of 28 years, India is poised to harness the demographic dividend and to fully exploit the potential, Government has launched a number of programmes for skilling, entrepreneurship and apprenticeship. This will enhance productivity and growth. Labour market conditions in India are showing positive trends, particularly with the increasing participation of women in the workforce. The Labour Force Participation Rate (LFPR) has increased to 60.1% in 2023-24 from 57.9% in the previous year and 49.8 in 2017-18.

Although the dampening global economic outlook could impact India’s economic growth through weaker external demand, the domestic growth engines, viz., consumption and investment, are relatively less susceptible to external headwinds. The growth numbers are expected to get a boost by the forecast of an above normal monsoon for 2025 which could keep food inflation under check and augment incomes, especially, rural.

The consumer confidence also remains upbeat which is reflected in India’s central bank, Reserve Bank of India (RBI)’s recently released consumer confidence survey. Consumer confidence is on an upward trajectory, reflecting renewed optimism about the country’s economic outlook indicating broad-based improvement across key parameters like employment, income and spending. Households remain firmly optimistic about the year ahead. This growing confidence is underpinned by improving perceptions of job prospects, income recovery, and a reduction in pessimism about inflation. Overall, consumers are upbeat, signaling a positive sentiment wave that bodes well for domestic demand and economic momentum.

We see that the World is undergoing the situation “no one knows what’s going to happen next” especially on the tariffs. However, we see the glass half full and are sanguine of India’s continuous growth supported by the four pillars i.e. manufacturing, consumption, financialization and digitalization. More on the last 2 pillars in our next note.

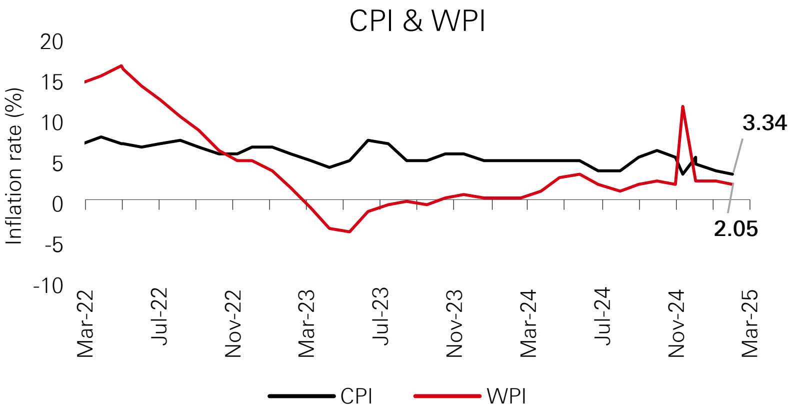
Fixed Income



- RBI's policy rate cuts, coupled with positive foreign portfolio investments into the Indian debt market, pushed yields on 10-year benchmark government bonds to their lowest levels in over three years. Accordingly, the yields eased from 6.58% in March-end to 6.36% on April 30, 2025.
- RBI's announcement of a rate cut at its monetary policy meeting and the change in its stance from 'neutral' to 'accommodative' raised hopes for further rate cuts, thereby leading to a fall in the yields.
- As the month progressed, the central bank's infusion of liquidity into the system, softer-than-expected domestic inflation and strong demand for bonds ahead of the RBI's debt purchase kept yields on lower side.

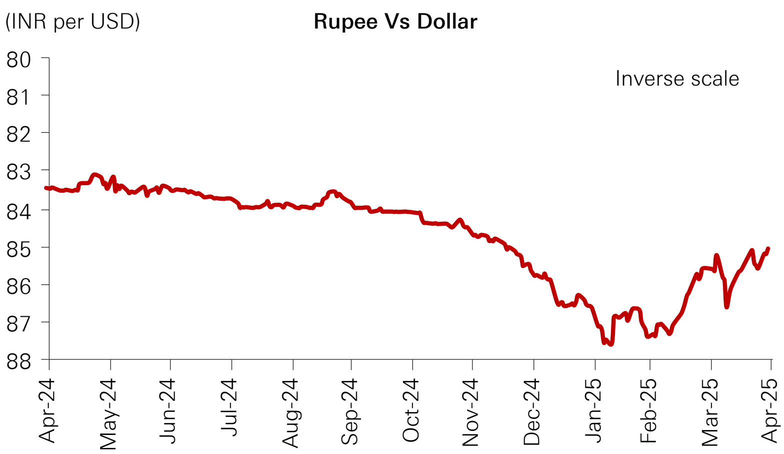
Source: NSE, CRISIL, as of end-April 2025. For illustrative purpose only.

Macro metrics



Retail inflation and wholesale inflation eased in March with the retail inflation easing to 3.34%, the slowest pace in over five years, as food prices continued to soften. This milestone highlights the effectiveness of the Reserve Bank of India’s pro-growth monetary policy, which has successfully balanced economic expansion with price stability.

Source: RBI, CRISIL, as of end-April 2025. For illustrative purpose only.



INR ended April at 85.05 against the US dollar, appreciating by over half a percent from 85.58 on March 28.

The Indian currency rose through the month owing to persistent foreign portfolio inflows, a weaker dollar index and softening global crude oil prices. Positive domestic cues, including upbeat inflation data and resilient equity markets, also boosted the sentiment.

However, the rupee’s trajectory was not without volatility. Geopolitical tensions between India and Pakistan, intermittent strength in the dollar index and prevailing global trade uncertainties occasionally weighed on the currency. Despite these headwinds, strong macro fundamentals and optimism over progress in US-India trade relations helped the rupee gain.

Source: RBI, CRISIL, as of end-April 2025. For illustrative purpose only.

Equity

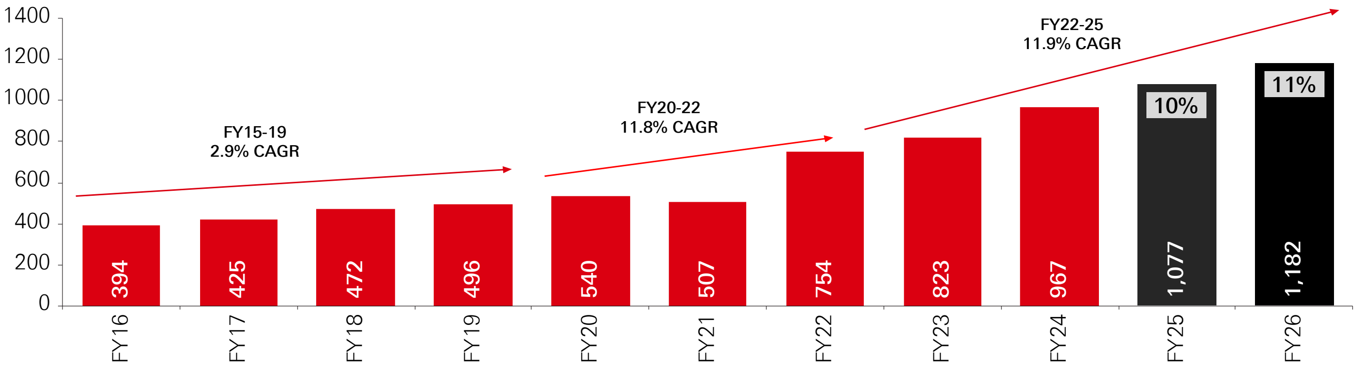
Performances of Indian indices vs emerging markets

Index	Ccy.	April 2025 return (%)	March 2025 return (%)
Nifty 50 Index	INR	3.48%	6.31%
S&P BSE Sensex Index	INR	3.67%	5.76%
MSCI India Index	USD	4.74%	9.22%
MSCI Emerging Markets Index	USD	1.34%	0.66%

Source: Bloomberg, Total Returns for respective indices. For illustrative purpose only.

- After having snapped a three-month losing streak to make a strong recovery in March, the Indian equity markets registered another month-on-month gain in April.
- The market saw some losses at the beginning of the month because of fears of a looming global trade war and recession caused by reciprocal tariffs imposed by the US on most countries (26% on India), fueling fears of a global trade war and recession.
- However, as the month progressed, these were gradually neutralised by growing hopes of a minimal impact of the tariffs on India, given the progress in India-US trade talks. Positive manufacturing data also led to some gains.
- The market was further boosted by a slowdown in foreign fund outflows supported by easing global tariff concerns and a weak dollar index.

Earnings trend – NIFTY 50 EPS



Note: Trailing 12M EPS (Earnings Per Share). Black shaded columns are estimates of FY25 and FY26. Data for FY 26 is for only three quarters

Source: Crisil, Bloomberg, Data as on 30 April 2025, Past performance may or may not be sustained in future and is not a guarantee of any future returns. Note-The details provided above is as per the information available in public domain at this moment and subject to change. Please consult your financial advisor for any investment decisions.

- Nifty consensus EPS estimate for CY25/26 got revised down by 2% / 3%, respectively during April.
- Along with the market recovery, Nifty now trades on 20.1x 1-year forward PE. This is now in-line with its 5-year average and a 10% premium to its 10-year average.
- Although, global trade related uncertainty remains a headwind to private capex in the near term, India's investment cycle is on a medium-term uptrend supported by government investment in infrastructure and manufacturing, pickup in private investments and a recovery in real estate cycle. Higher private investments in renewable energy and related supply chain, localization of higher-end technology components, are expected with India becoming a more meaningful part of global supply chains to support faster growth.
- We remain constructive on Indian equities supported by the more robust medium term growth outlook.

MSCI India Sectoral Indices returns

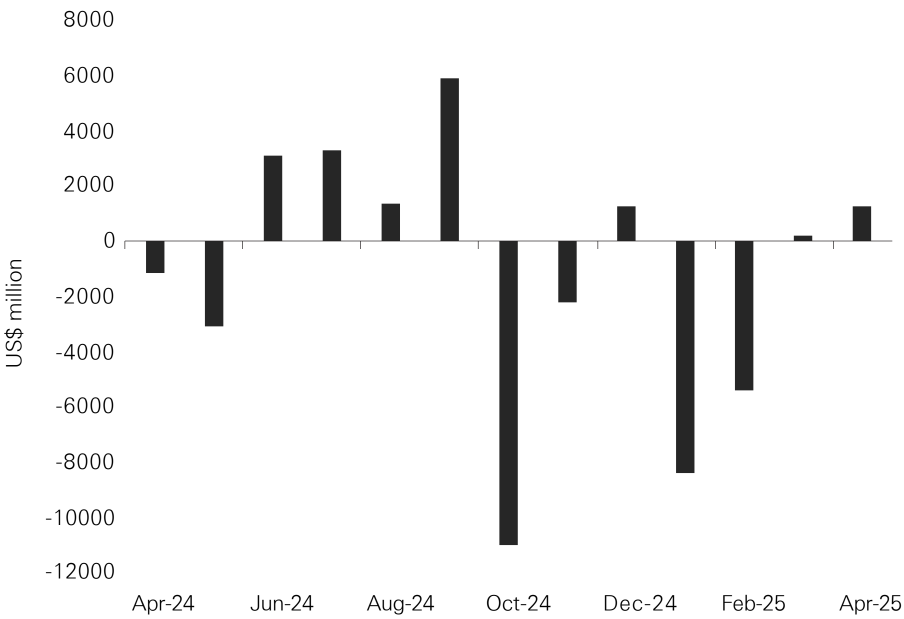
Sector	April 2025 return (%)	YTD return (%)
MSCI India Utilities Index	3.78%	2.07%
MSCI India Communication Services Index	8.58%	12.97%
MSCI India Financials Index	7.92%	10.51%
MSCI India Energy Index	10.47%	12.47%
MSCI India Consumer Staples Index	7.64%	4.35%
MSCI India Information Technology Index	0.73%	-16.59%
MSCI India Industrials Index	2.90%	-4.64%
MSCI India Consumer Discretionary Index	7.65%	-5.87%
MSCI India Healthcare Index	6.82%	-3.79%
MSCI India Materials Index	1.45%	6.15%

Source: Bloomberg, as of end-April 2025. For illustrative purpose only.

In terms of sectoral performances, communication services and energy index were the best performers in both April and YTD returns. Information Technology has been a laggard and sits at the bottom of the tally on the back of uncertainties on account of tariffs.

Financials, especially non lending stocks and staples saw strong buying interest as investors turned to these for better upside potential.

Foreign investor inflows into Indian equities



Source: MOSL, HSBC Asset Management, as of end-April 2025.

March and April saw a modest $1.5 billion of foreign investor inflows into Indian equities. FIIs optimism resurged in the Indian equity markets, especially large caps, amid global uncertainties. This was on account of weakening US dollar and stable domestic macros. The net inflows since April total to around $1.3 billion.

Sector overview

<table>
<tr><th>Themes</th><th>Sectors</th><th>Investment thesis</th></tr>
<tr><td rowspan="3">1. Rate Sensitives</td><td>Financials</td><td>Lending:
• Regulatory environment has turned favorable for lenders in the last few months.
• However, the turn of the rate cycle is expected to be deeper than earlier anticipated.
• Given this scenario, Return on Assets (RoA) will come off the peaks that banks have seen in the last 2 years.
Non-lending:
• Asset Management Companies (AMC) and its ecosystem (Distributors, Registrar, etc.) are witnessing robust AUM growth backed by high incremental lumpsum and stable systematic monthly flows.
• Capital Market companies continue to report robust volumes growth due to buoyancy in equity market.</td></tr>
<tr><td>Real Estate</td><td>• Expect demand to remain steady, anticipate developers would continue to scale up supply, resulting in launches exceeding demand in FY26E.
• Cash flow trajectory is likely to see continuous increase and balance sheet may remain healthy considering fund raise in FY25 leading to reduced debt by most of developers.</td></tr>
<tr><td>Auto</td><td>• Neutral on the auto space as volume growth is likely to remain in low single digit across segments.
• Selective stock picking on the cards. Valuations for OEMs attractive.</td></tr>
<tr><td>2. Domestic Cyclicals</td><td>Industrials</td><td>• Leading indicators in terms of investment announcements is encouraging.
• Global macro uncertainties could delay investment decision leading to softer order inflows for FY26.
• Government capex could pick up meaningfully in FY26 vs FY25, early signs of private capex pick up are still sometime away.</td></tr>
<tr><td rowspan="3">3. Exporters</td><td>Chemicals</td><td>• Positive stance on domestic cyclicals and Neutral on global cyclicals i.e. Metals and Chemicals.</td></tr>
<tr><td>Healthcare</td><td>• Remain constructive on the Healthcare space with a structural overweight stance on domestic (branded) pharma, health care services & CDMO space.</td></tr>
<tr><td>Technology</td><td>• Stance on IT is positive on the back of improved visibility of interest rate cuts in developed economies. Commodity prices have softened globally, and inflation is largely under control.
• GenAI projects have started to gain momentum and worries around significant spend reduction have started to subside. GCCs and ER&D spends continue to be strong for the sector.</td></tr>
<tr><td>4. Domestic Consumption</td><td>Discretionary</td><td>• Discretionary trends have seen some signs of improvement.
• Inflation under control and government schemes such as income tax cuts, state welfare schemes and policy rate cuts should help in improving consumer sentiments and reviving growth for the discretionary sector.
• Valuations on the lower end of the range and we might see some re-rating.</td></tr>
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Themes	Sectors	Investment thesis
	Staples	• While overall growth has been poor, there is some improvement sequentially in Volume growth in the overall FMCG market. • Valuations are reasonable now and some companies may see a re-rating in the medium term.
5. Pre-dominantly Regulated	Utilities	• Positive on the entire capex cycle in the sector viz. generation, transmission and distribution. • Renewables should see healthy growth given the move globally to achieve the Net zero targets.
	Energy	• Sharp decline in crude prices due to ongoing trade war along with higher production from OPEC is likely to impact upstream players and benefit downstream players. • Higher valuations. We remain neutral.
	Communication Services	• Tariff hikes have improved the profitability of the top service providers in FY25. • Tower companies might benefit due to ongoing capex in FY26.

Source: HSBC Asset Management, as of end-April 2025.

Past performance may or may not be sustained in the future and is not indicative of future results.

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