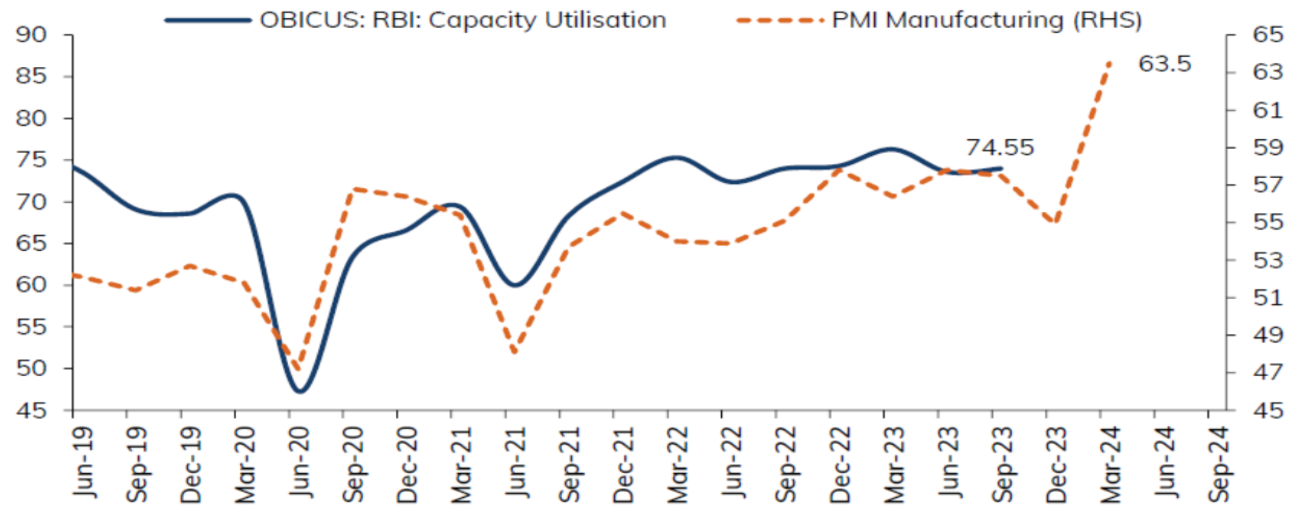
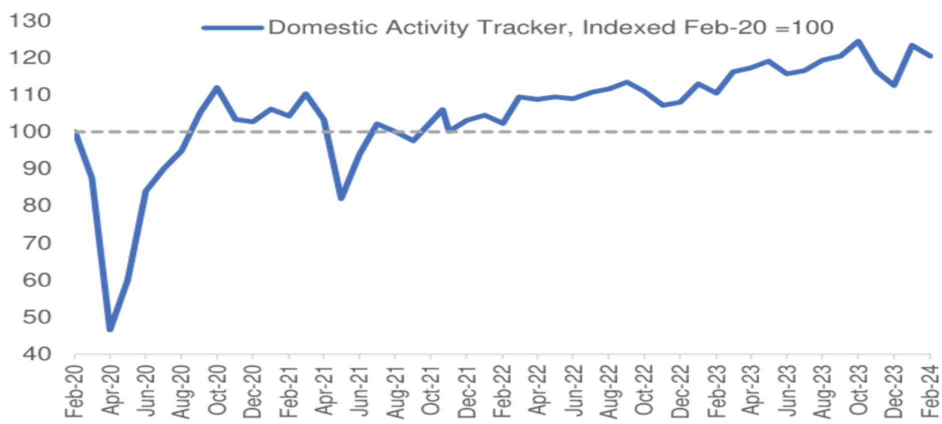
INDIAN ECONOMY

- Indian economy is expected to grow by 6.8-7% in FY25 as per Global Ratings and Fitch.
- India's Manufacturing PMI at 59.1 continues to indicate expansionary phase. This Manufacturing PMI is one of the highest globally.
- Capacity utilisation has reached 74%. Recent data indicates that capacity utilisation has risen sharply in Q4 FY'24. High capacity utilisation is likely to give momentum to Private Capex. The demand and supply demand gap for cement, steel and power has narrowed. It means corporates would need to do Capex to add capacity.



- Domestic economic activity continues to maintain momentum. This will translate to higher revenue and earnings for corporate India.



- GST collection in Mar'24 crossed INR 1.78 lac crore. A historic high. Income tax compliance is increasing and this is reflected in direct tax collections also.
- Overall FPI Flows into India hit a record INR 3.3 Lac Crore in FY'24.
- Forex Reserves at USD 634 Bn, are at historic highs.

GLOBAL ECONOMY

- Globally, inflation is coming down and several central bankers are expected to start easing interest rates.
- Based on PMI data, the US and Europe appear to be recovering.
- US Q4 GDP growth has been ahead of expectation.
- UD debt has reached USD 35 Tn (GDP USD 28 Tn approx.).

OUTLOOK

- There has been a significant run-up in equity markets in the last few months. The price rise has been driven primarily by P/E expansion. This indicates that the market expects high earnings growth.
- Data shows that ROEs (Return on Equity) for corporate India have started to improve significantly since Mar'20 and now top the charts globally. Earnings growth is broad-based and is expected to remain robust. Based on earnings estimates for FY25, Nifty 50 earnings are expected to compound at 19% and NSE 500 at 27% for the period FY20 to FY25.

	FY20-23 CAGR (%)	EPS FY'24E (INR)	EPS FY'25E. (INR)	FY20 - 25E
EPS-Nifty50	31%	982	1148	19%
EPS-NSE500	31%	900	1029	27%

- Earnings growth is being driven by domestic-focused companies.
- The medium to long-term outlook for the Indian economy remains strong with multiple structural reforms, a growing middle/mass affluent class, and strong macro fundamentals.

- With Sensex touching a new high of 75,000, valuations are quoting at a 10-20% premium to long-term averages. With front loading of returns mean reversion may lead to low returns in the current year. On the other hand, FPI participation can lead to markets remaining in an overvalued zone.
- We recommend investing in diversified equity schemes with the flexibility to move across market caps/sectors/themes through the systematic investment route with top-ups during corrections. Lump sum investments can be made in large-cap funds (better risk-return profile compared to mid and small-caps) and hybrid schemes that allocate in a combination of asset classes to navigate volatility and benefit from tax efficiency.

Debt

- Domestic yields for 10-year G-secs have hardened by about 15 bps after moving in a narrow range. On the back of higher-than-expected GDP growth, RBI is not expected to cut rates in a hurry.
- Rise in US yields to 4.50 levels on the back of strong US GDP growth and inflation has deferred the expectation of rate cuts.
- Surpluses for 3-12 months can be parked in arbitrage funds which continue to healthy, tax-efficient returns. Longer-term debt exposure can be taken through hybrid offerings for tax efficiency.
- Tactical allocation with 18-24 months' view to long duration and dynamic debt funds can be taken for attractive returns arising from capital gains on any yield correction during this time frame.