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Global Markets Division

Capitalizing on India's economic potential

Recommendation: BUY

Investment Horizon: 1 Year

Vienna, February 2nd 2024

Team Overview

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- Peer comparison
- Trade structure



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- Trade structure



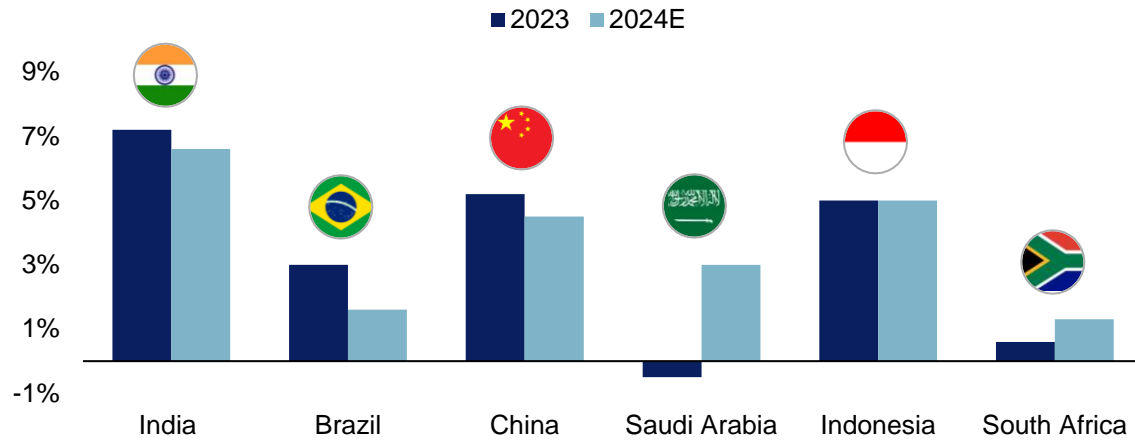
B. Sc. Business, Economics & Social Sciences (WU)

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Why Invest in India?

Unravelling India's special place among other emerging markets

Comparative GDP growth

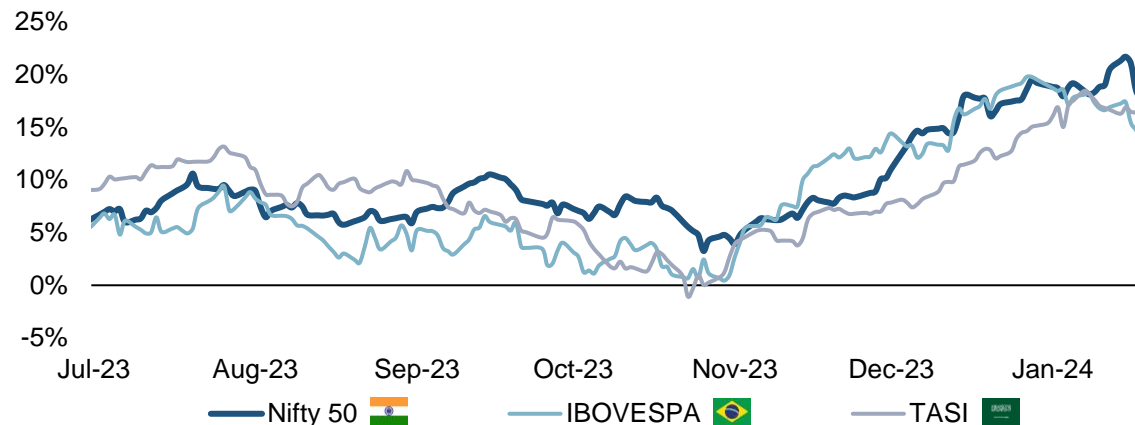


An edge over peers

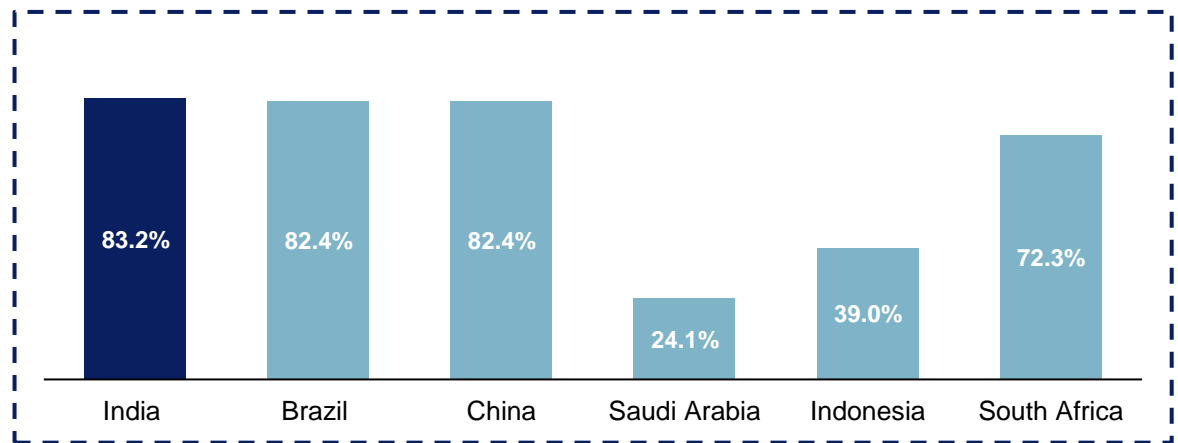
- 4th largest holdings of **international reserves**
- Robust **domestic demand**
- Favourable **regulatory framework**
- More **resilient** in US downturns than other EMs

In position to navigate global headwinds

Best performing emerging market equity index among peers



Debt to GDP, 2023



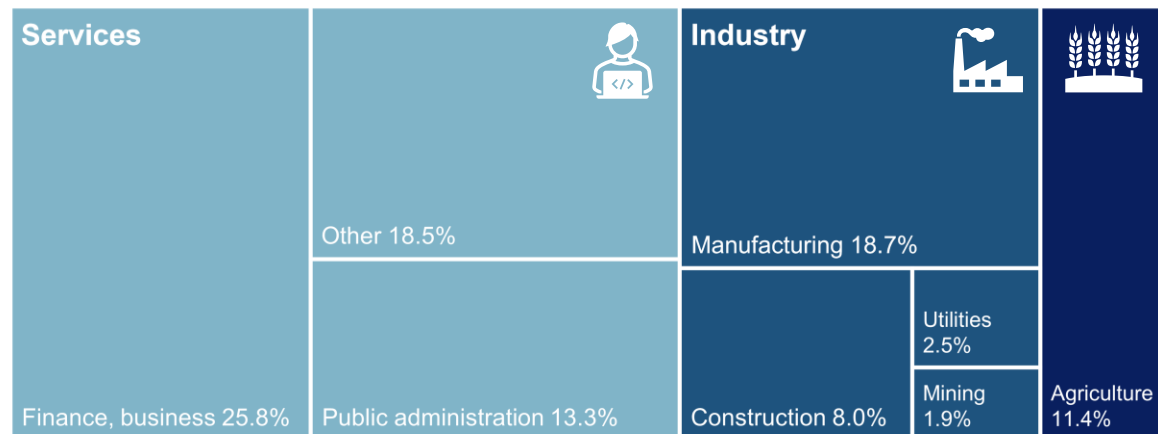
Setting the scene

Driving forces behind the economic growth

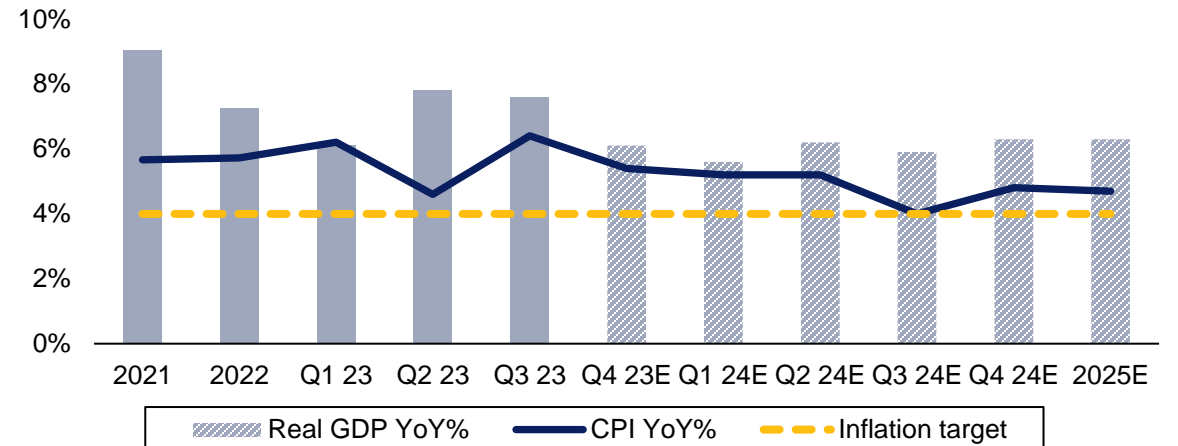


Potential for fast-paced and sustainable long-term growth

GDP composition






Key economic indicators




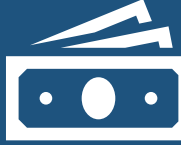

Monetary and Fiscal Policy

Rate cuts and inflationary challenges

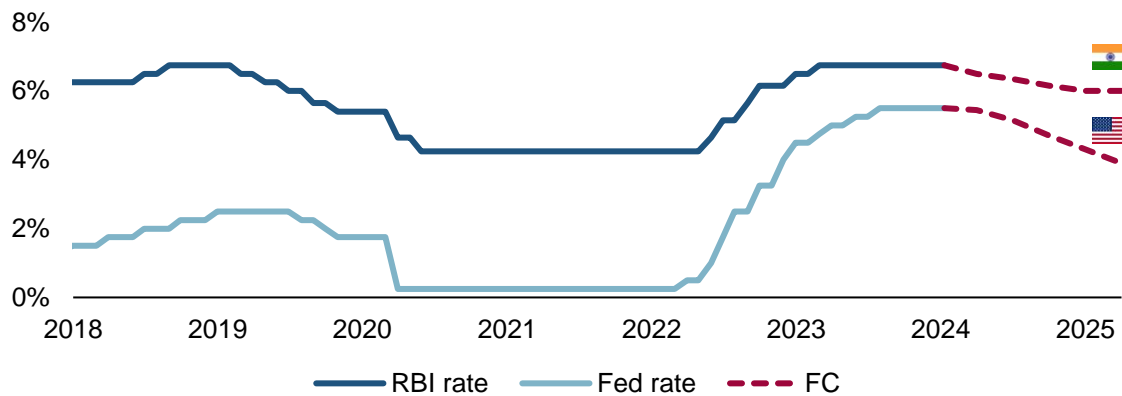
Monetary policy

-  **Disinflationary monetary policy** having impact
 -  Reserve Bank of India (RBI) **rate cuts** expected with delay
 -  Resilient food and energy price increases as **key risks**
- Recent fall in **core inflation** may not be enough of a ground for an early **pivot**

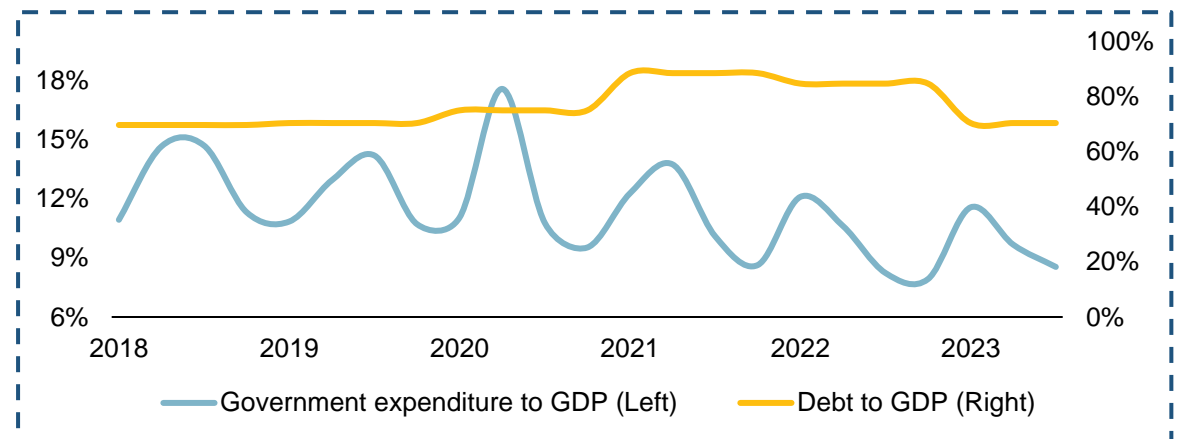
Fiscal policy

-  Elections in Q2 2024
-  Expected to meet fiscal deficit
-  Strong growth in tax collections

Fed and RBI rates



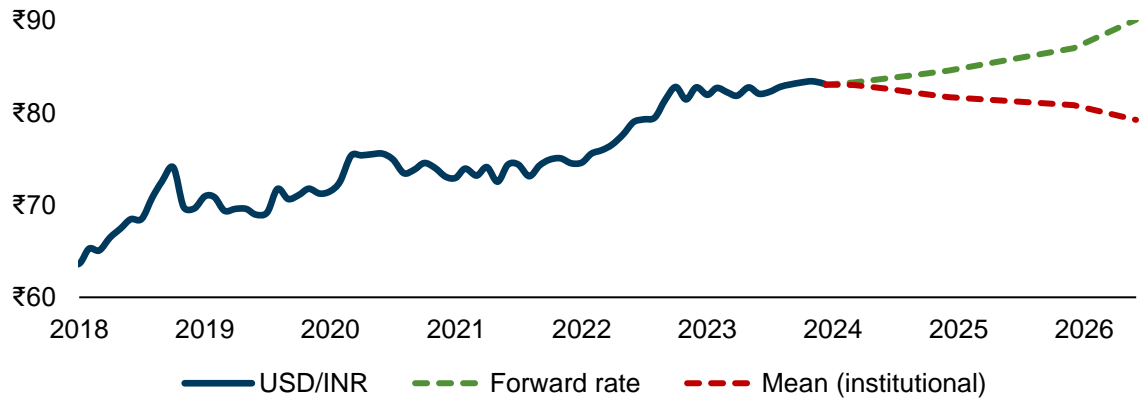
Government expenditure and debt to GDP



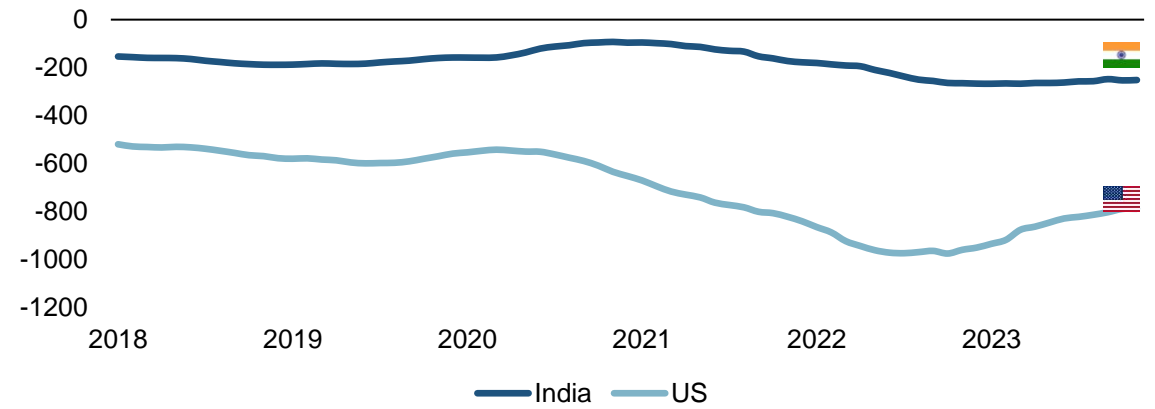
Currency Pair Dynamics

Let's meet in the middle




Currency pair and forecasts



Trade balance (bn USD) TTM



Expectations

-  Mean of Institutional Survey Data foreseeing mild rupee **appreciation**
-  **Forward puzzle** reinforcing the expectations
- 

“Unless we see clear evidence that inflation is going to sustain at that level (4%), it will be premature to talk about rate cuts”
– Shaktikanta Das (RBI governor), Davos 2024

Bullish and bearish factors



Fixed Income Market Environment

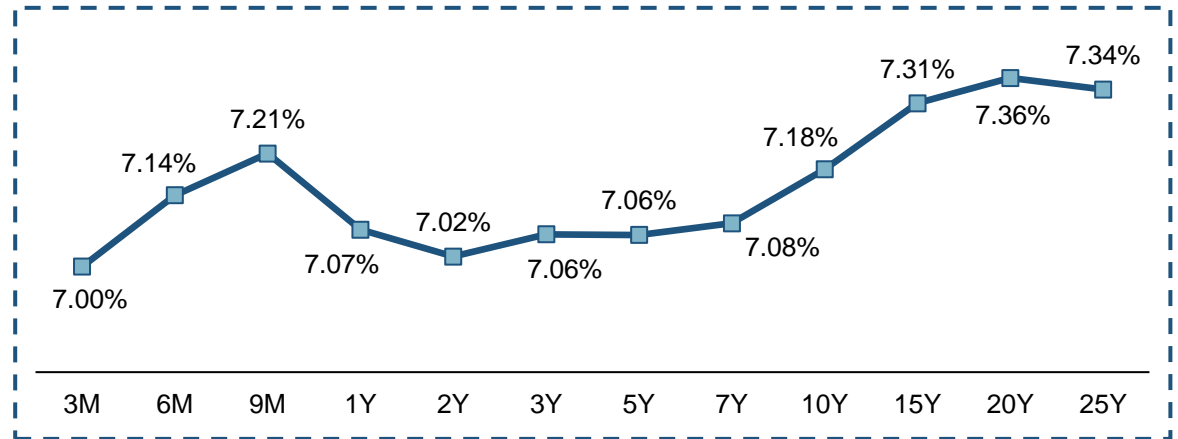
Advantages of debt instruments

Overview

- 1 Government debt **market size of \$1.3 tn** (1% of worldwide market)
- 2 Addition to **JPM GBI-EM index** with highest weighting from June 2024
- 3 Expected \$700 bn **growth of foreign direct investments** by 2030
- 4 **Credit spread** on average 100-150 basis points




Yield curve




Indian VIX




To sum up



High P/E ratios of equities suggest overvaluation risk

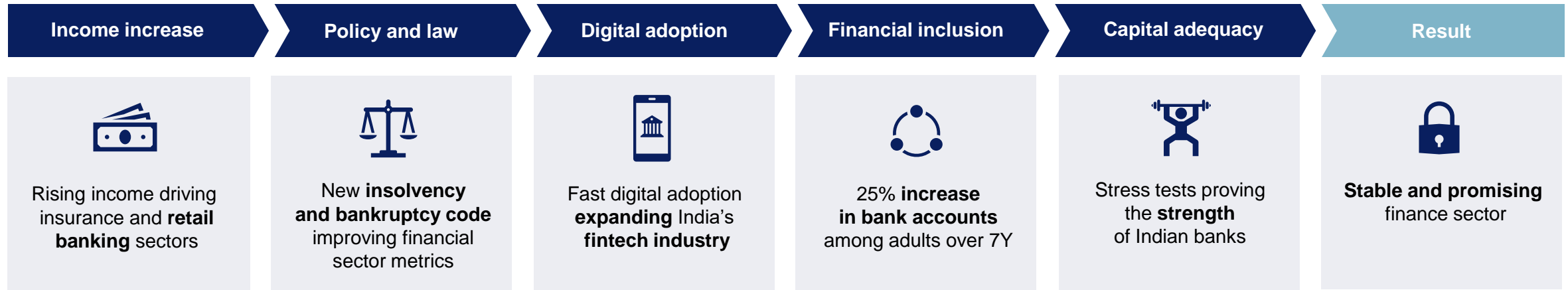


High volatility levels emphasize equity risk

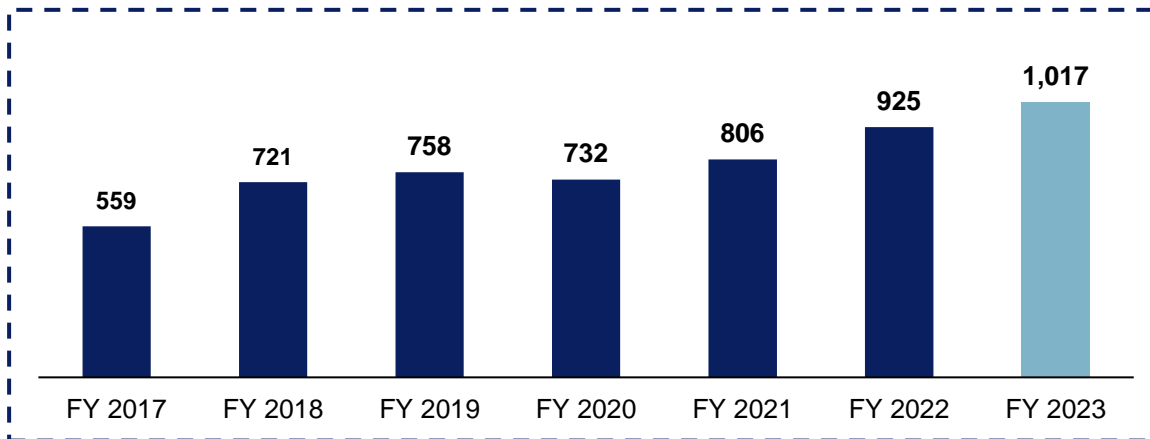


Safe upside from price dynamics and interest on bonds

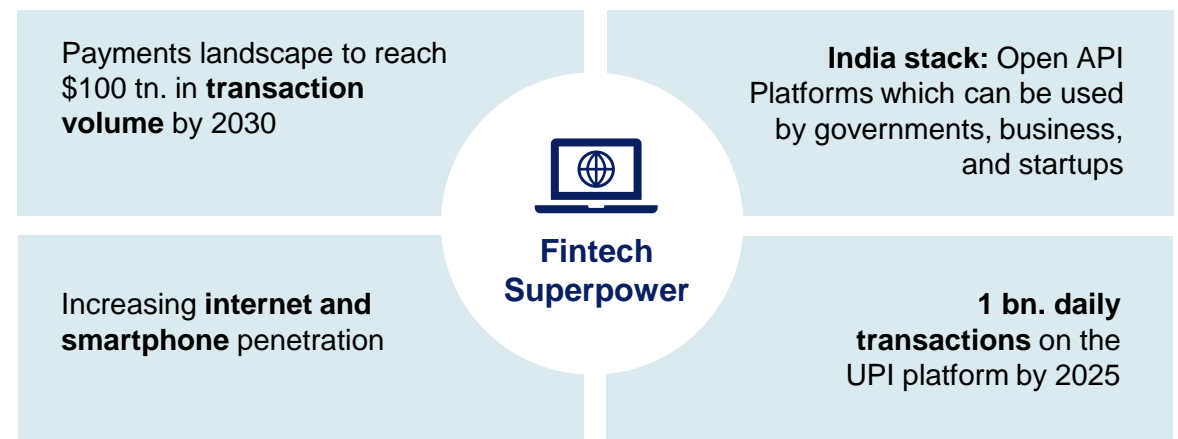
The foundations of the growing industry



Value of private sector bank assets (bn USD)








Outlook



Fixed Income Portfolio

Exploring companies for a reliable investment

	 ICICI Bank	 AXIS BANK	 BAJAJ FINSERV	 kotak	
	HQ: Mumbai Year founded: 1994	HQ: Mumbai Year founded: 1993	HQ: Mumbai Year founded: 1987	HQ: Mumbai Year founded: 1985	HQ: New Delhi Year founded: 1947
ESG	MSCI: A	MSCI: A	MSCI: A	MSCI: AA	MSCI: BBB
	Sustainalytics: 23.3 (Medium)	Sustainalytics: 23.5 (Medium)	Sustainalytics: 18.5 (Medium)	Sustainalytics: 18.8 (Medium)	Sustainalytics: 26.8 (Medium)
	S&P: 39	S&P: 47	S&P: 33	S&P: 48	
	Market Cap (mn INR): 7,086,681	Market Cap (mn INR): 3,217,384	Market Cap (mn INR): 4,371,857	Market Cap (mn INR): 3,512,791	GDP (mn INR): 309,756,482
	Credit Rating: BBB-	Credit Rating: BBB-	Credit Rating: BBB-	Credit Rating: BBB-	Credit Rating: BBB-
	ISIN: INE090A08UK5	ISIN: INE891K07903	ISIN: INE296A07SQ1	ISIN: INE237A08957	ISINs: IN0020230044 IN0020230051 US30216KAG76

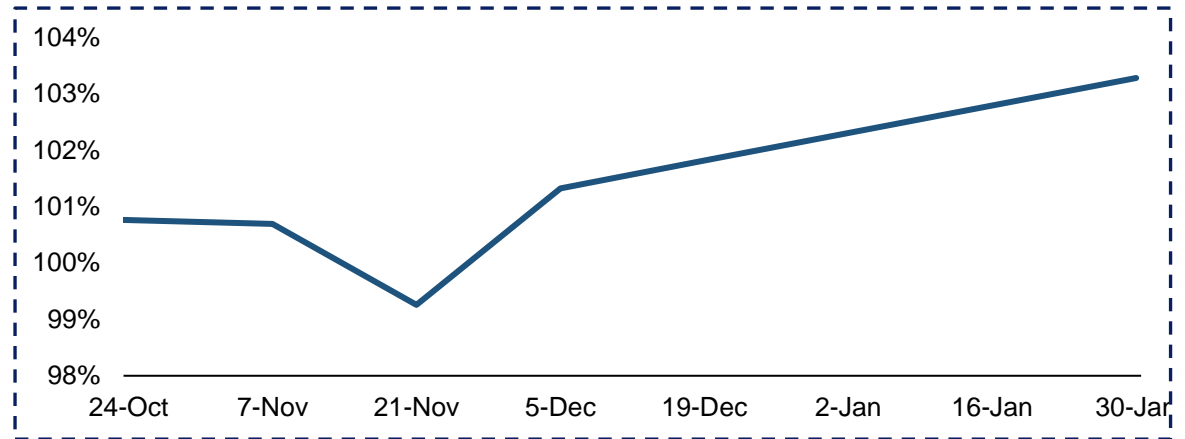
Fixed Income Portfolio

Profiting off fixed-coupon medium duration bonds

Sharpe-optimized portfolio weights



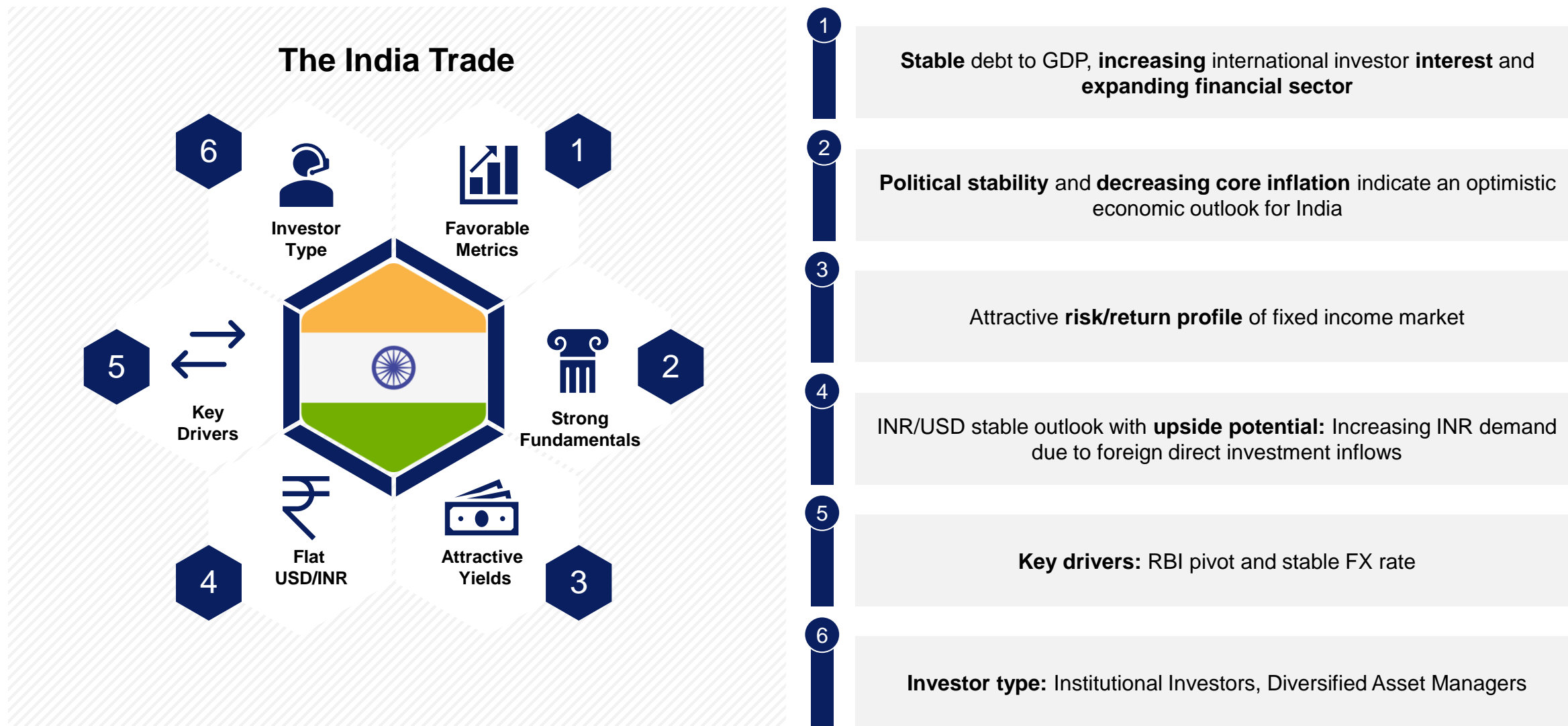
4-month portfolio value backtesting



Portfolio composition

ICICI Bank INE090A08UK5	Kotak Mahindra INE237A08957	Axis Bank INE891K07903	Bajaj Fin Ltd. INE296A07SQ1	IN Gov Bond IN0020230044	IN Gov Bond IN0020230051	EX-IM Bank US30216KAG76
Maturity: 2033 YTM: 7.73% Coupon: 7.57% Spread: 55.91 Price: 97.84	Maturity: 2029 YTM: 7.99% Coupon: 7.63% Spread: 83.97 Price: 97.99	Maturity: 2027 YTM: 8.01% Coupon: 8.29% Spread: 93.38 Price: 100.42	Maturity: 2028 YTM: 7.8% Coupon: 8% Spread: 68.98 Price: 100.32	Maturity: 2063 YTM: 7.33% Coupon: 7.25% Price: 99.01	Maturity: 2055 YTM: 7.33% Coupon: 7.3% Price: 99.66	Maturity: 2033 YTM: 5.42% Coupon: 5.5% Price: 100.80
MD: 6.75 Convexity: 0.59	MD: 4.68 Convexity: 0.27	MD: 2.71 Convexity: 0.09	MD: 3.88 Convexity: 0.19	MD: 12.74 Convexity: 2.88	MD: 11.91 Convexity: 2.33	MD: 7.01 Convexity: 0.60

Key takeaways





Appendix

Sources

Source Name	Link	Date of Retrieval	Used for
CNBC TV18	https://www.cnbctv18.com/economy/india-economic-outlook-2024-experts-weigh-in-on-growth-interest-rates-and-rupee-18705801.html	17.01.24	FX
Bloomberg Finance L.P.	-	12/23 – 01/24	Macroeconomic Environment, Monetary and Fiscal Policy, Currency Pair Dynamics, Fixed Income Market Environment, Fixed Income Portfolio
The World Bank	https://www.worldbank.org/en/news/press-release/2022/12/05/india-better-positioned-to-navigate-global-headwinds-than-other-major-emerging-economies-new-world-bank-report	21.01.24	Why Invest in India?
Invest India	https://www.investindia.gov.in/sector/bfsi-FinTech-financial-services	26.01.24	Financial Sector
S&P Global	https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/indian-banks-well-capitalized-to-face-possible-stress-bad-loans-at-10-year-low-76348957	26.01.24	Financial Sector
Statista	https://www.statista.com/statistics/1006409/private-sector-bank-assets-value-in-india/#:~:text=In%20financial%20year%202023%2C%20private,dollars%20n%20the%20previous%20year.		Financial Sector
Department of Foreign Affairs and Trade	https://www.dfat.gov.au/publications/trade-and-investment/india-economic-strategy/ies/chapter-10.html	27.01.24	Financial Sector
Pensionscraft	https://pensioncraft.com	28.01.24	Fixed Income Market Environment

Sources

Source Name	Link	Date of Retrieval	Used for
Deloitte	https://www2.deloitte.com/us/en/insights/economy/asia-pacific/india-economic-outlook.html	17.01.2024	Macroeconomic Overview
EY	https://www.ey.com/en_in/tax/india-economic-pulse	13.01.2024	Monetary and Fiscal Policy
S&P Capital IQ	capitaliq.com/	31.01.2024	Fixed Income Portfolio

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