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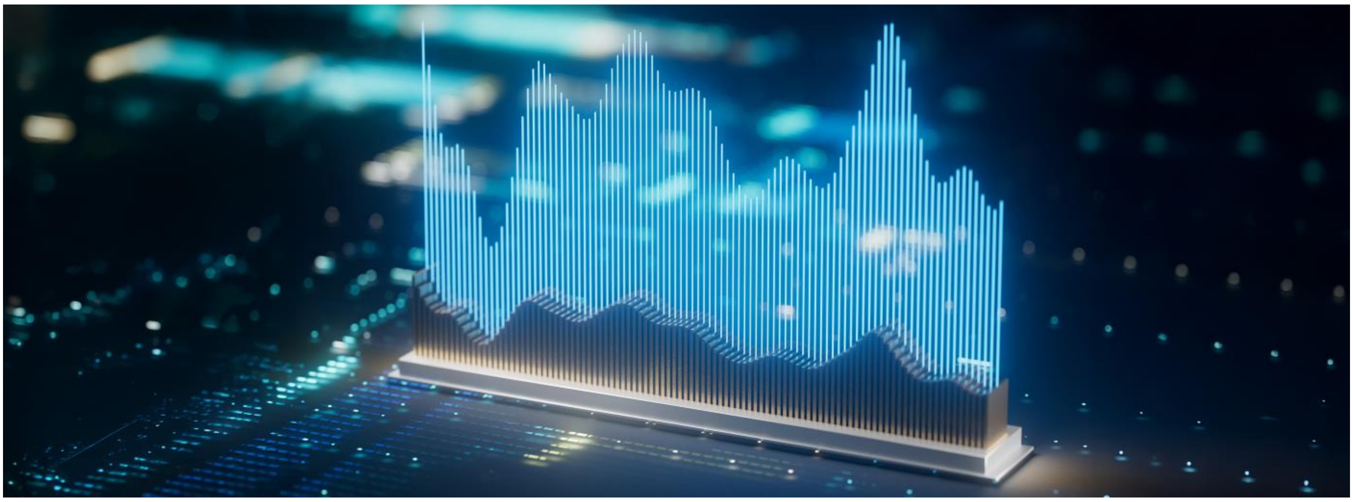
India Investment Strategy
12 March 2025

India Market Outlook

Looking to buy the dips

Important disclosures can be found in the Disclosures Append

Investment strategy and key themes



12m Foundation Overweights:

- Equities
- In equities: Large-cap equities
- In bonds: Medium- and Long-Maturity bonds

Opportunistic ideas - Equities

- Small-cap equites
- Sectors: Financials, Consumer Discretionary (new) and Information Technology

Opportunistic ideas – Bonds

- Long-maturity bonds
- High-quality corporate (AAA) bonds

USD/INR

- Bearish bias
- 12-month range of 86.5-88

Looking to buy the dips

- Indian equities remained under pressure on sustained foreign investors outflows on concerns of weakening domestic economic growth and corporate earnings, depreciating INR, and increased uncertainty over global trade policies. Over the past month, the Nifty index fell 2.5%, outperforming MSCI World (-6%) but underperforming MSCI Asia-ex-Japan (+2%). Broader markets underperformed large-cap equities, with the Nifty Midcap and Nifty Smallcap index down 5% and 7%, respectively. The 10-year IGB yield fell 1bps, while the INR fell 0.6%.
- We expect market volatility to remain elevated in the near-term, as markets adjust to an uncertain environment. Nevertheless, we see an improved risk-reward for domestic equities over a 12-month horizon, supported by reasonable valuations, the likelihood of growth and earnings cycle improving and easing financial conditions. We are Overweight equities and would use the volatility to buy on dips.
- Within equities, we are overweight large-cap equities given a greater margin of safety in terms of earnings and valuations along with stronger balance sheets to cushion the impact of market volatility. We see opportunities in small-cap equities.
- We expect Bonds to outperform cash. Softening inflation, monetary policy rate cuts and active liquidity management is supportive of bonds. Further, positive supply-demand balance and robust foreign investors inflows from index-tracking funds are tailwinds for bonds. We are overweight medium and long-maturity bonds and high-quality corporate bonds given attractive absolute yields. Gold remains a diversifier and key portfolio hedge.

Key Asset Class Views

Equities	▲	Bonds	◆	Gold	◆	Cash	▼
Developed Markets	▲	Short Maturity	◆				
Emerging Markets	◆	Medium/Long Maturity	▲				
Indian Equities	▲						
Large Cap	▲						
Mid/Small Cap	◆						

Legend: ▲ Overweight ◆ Neutral ▼ Underweight

Perspectives on key client questions

Is it the time to add to Indian equities?

Indian equities have been under pressure since Sep’24, falling into correction zone (>10% fall from the peak) on sustained foreign investor outflows given a cyclical slowdown in economic growth and corporate earnings, stretched valuation premiums and an uncertain global environment. While investor risk sentiment is low, we believe the time is right to buy the dip as:

Growth and corporate earnings cycle is likely to improve: India’s GDP grew 6.2% y/y in Q3 FY 2025, higher than the cyclical low of 5.6% recorded in Q2 FY2025. Earnings for the Nifty index grew ~7% y/y in Q3 FY 2025, improving from the ~4% growth registered in H1 FY2025. Consensus estimates for FY2025-27 India’s GDP growth and corporate earnings growth remains robust at 6.5% and 13% respectively.

Valuations have turned reasonable: The Nifty index 12-month forward P/E has eased to ~18.3x, close to its 10-year average of 18.2x and below peak valuation of 23x. Further, MSCI India PE premium over MSCI Asia-ex-Japan has eased to 54% from the Sep’24 peak of 96%, closer to its 10-year average premium of 52%.

Easing financial conditions: The RBI lowered policy repo rates after five years, on easing inflationary pressures, slowing economic growth and government sticking to the path of fiscal consolidation in the latest budget. The RBI has also announced a slew of liquidity measures like FX buy-sell swaps, OMOs and Variable Rate Repos, to add system liquidity in a seasonally tight quarter. We see scope for bond yields to decline further and expect the RBI to cut repo rates by 25-50 bps in FY 2026.

Bulk of the selling is likely priced in: The Nifty index is trading below the key support levels (50,100,200 DMAs), with over 80% of the constituents trading below 200 DMA. Historically, markets sell-offs bottomed out when ~84% of constituents fall below their 200 DMA.

In our view, the risk-reward has improved for domestic equities over a 12-month horizon, and we would use the drawdown to buy on dip. **We are OW large-cap equities** given better margin of safety in terms of earnings and valuations. **We see a tactical opportunity in Small-cap equities**, given 1) lower risk of earnings downgrades, 2) access to a broader set of industries and sub-sectors to play India’s structural story and 3) historically, a period of easing liquidity and improving economic growth, has been positive for small cap equities outperformance.

Fig. 1 **80% of Nifty index constituents are trading below 200 DMA, historically sell-offs reverse around 84%**

Nifty index, % of index members trading below 200 DMA

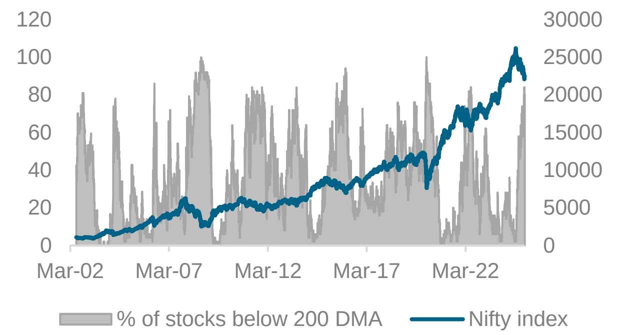
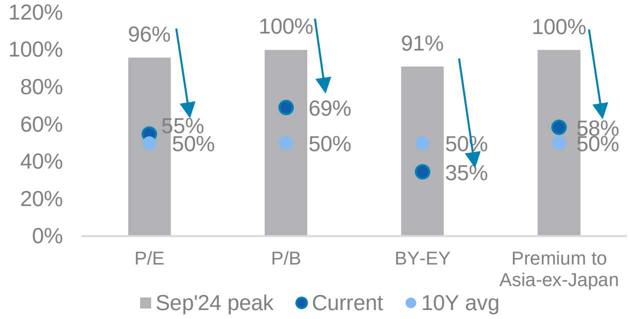


Fig. 2 **Post the sell-off, valuations appear to be more reasonable across valuation metrics**

Percentile ranking of Nifty index valuation metrics (past 10 year); premium (MSCI India PE over MSCI Asia-ex-Japan)



Source: Bloomberg, Standard Chartered. P/E= 12-month forward Price to Earnings, P/B=Price to Book ratio, BY-EY= 10Y IGB yield-(1/P/E)

Macro overview – at a glance

Key themes

We expect India's economic growth to recover from a cyclical slowdown and stay ahead of its major peers in 2025. A recovery in rural demand and urban consumption driven by sizeable income tax-cut (~0.3% of GDP) in the Union Budget FY2025 is likely to support a revival in GDP growth. Continuity of past policy measures undertaken by the government that include (i) greater public capex spend, (ii) structural reforms and (iii) incentives to boost manufacturing and infrastructure, supports India's medium-term growth outlook. In our view, CPI inflation could trend lower from current levels, driven by a decline in volatile food article prices on an improved outlook on summer and winter crops amid better sowing and likely government policy interventions to manage supply side concerns.

In our assessment, easing liquidity conditions including monetary policy support would be a key driver of growth in H1 2025. In our view, the RBI has room to cut rates further and will need to deliver additional liquidity boosting measures to ensure orderly transmission of policy rate cuts. However, given still elevated inflation, challenging global environment and a uptick in growth policy easing by the RBI would be limited in the current cycle, with a possibility of an additional 25-50bps rate cuts.

Key risks to our macro-outlook are: 1) Persistent high inflation, 2) Trump's policies and global trade disruption, 3) Escalating geo-political tensions and higher commodity prices.

Key chart

For FY2026, India's GDP is expected to grow at 6.5% and CPI is expected to average 4.4%.

Fig. 3 **India's growth-inflation dynamics stronger than peers**

GDP Growth (Y/Y) and CPI Inflation (Year average) – Bloomberg consensus estimate*

Source: Bloomberg, Standard Chartered

Macro views at a glance

Factors	View	Comments
Economic growth	◓	**Economic activity moderated in February 2025.** Manufacturing PMI eased to 56.3 from 57.1 last month, while Services PMI eased to 59.1 from 61.1 last month. Industrial production fell 3.2% in December 2024 from 5.0% last in November 2024.
Inflation	◓	**India's consumer price inflation eased to 4.3% y/y in January 2025 from 5.2% in the previous month**. The moderation was driven by easing food article prices, housing and fuel & light.
Fiscal deficit	◓	**The government continued on its path of fiscal consolidation while supporting growth.** FY 2026 fiscal deficit is estimated at 4.4% of GDP, while deficit for FY2025 was revised lower to 4.8% of GDP. GST collections for February 2025 stood at INR 1.84trn compared to 1.96trn in the previous month.
External	◓	**India's trade deficit widened to USD 23bn compared to USD 21.9bn in January 2025.** India's current account recorded a deficit of USD 11.2bn or 1.2% of GDP in Q2 FY2025, driven primarily by a widening of merchandize trade deficit and net foreign direct investment outflow of USD 2.2 bn recorded in the financial account.
Monetary Policy	◑	**The RBI cut policy repo rate for the first time in 5 years by 25bps to 6.25% in its February 2025 policy meeting.** The RBI retained its monetary policy stance to neutral, reiterating its commitment to provide need-based liquidity support. Further, the RBI lowered its GDP growth forecast for FY 2025 by 20bps to 6.4% y/y and FY2026 GDP growth projected at 6.7% y/y. Average Inflation for FY2026 was projected at 4.2% y/y.

Source: Bloomberg, Standard Chartered India Investment Committee

Legend: ○ Not supportive ◐ Somewhat supportive ◓ Balanced ◑ Supportive ● Very supportive

Bonds – at a glance

Key themes

We are neutral on bonds as attractive absolute yields are counterbalanced by below-average yield premiums. Improving bond demand-supply balance given lower government net-borrowing, robust tax collections and India bonds' inclusion in the global bond indices are tailwinds for bonds. We stay overweight medium and long-maturity bonds given still attractive carry yield on offer and potential for higher price gains as bond yields fall. We prefer corporate bonds (i.e., bonds that offer a yield premium over government bonds), especially high-quality (AAA) corporates, given cyclically high credit spreads.

In our view, the recent liquidity easing measures and the commencement of RBI's policy easing cycle is likely to drive bond yields lower. We expect the 10-year IGB yield to trade in the range of 6.25%-6.50% over the next 6-12 months. In our assessment, high quality (AAA) corporate bonds offer a better risk-reward given attractive spreads and improving corporate fundamentals. In addition, India's nominal bond yields is among the highest in Emerging Markets.

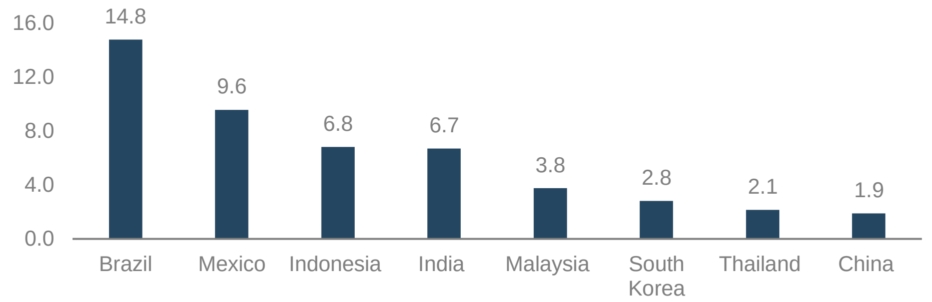
However, three factors for bonds remain unfavorable: 1) High fiscal deficit over the medium-term, 2) Tight banking system liquidity and lack of outright support from the RBI, and 3) A populist tilt in government policy focus could drive inflation higher.

Key chart

India's nominal bond yield higher than most Emerging Market peers.

Fig. 4 **India's nominal bond yield the higher than most Emerging Market peers**

10-year government bond yields (%)



Source: Bloomberg, Standard Chartered.

Bond views at a glance

Factors	Views	Comments
Real Yields	◓	**India's inflation-adjusted yield is lower than most Emerging Market peers**. The 10-year IGB real yield at 2.3% is lower than the average real yield of 4% for other major EMs.
Supply dynamics	◑	**Government bond supply is lower**. The government pegged its gross borrowing for FY 2026 at ~INR 14.8trn compared to INR 14.1trn in FY 2024, however net-borrowing was lower at 11.1trn
Monetary policy	◑	**Market expects no rate cuts by the RBI in the near-term**. 1-year Overnight Indexed Swap (OIS) spread suggests market participants expects the RBI to stay on hold over the next 12 months.
Liquidity	◓	**The RBI's focus remains on providing need-based liquidity support.** The RBI announced liquidity enhancing measures through FX buy-sell swap, OMOs and Variable Rate Repo. The banking system liquidity has improved currently at INR 0.4trn after hitting a surplus of INR 3trn in January. Additional liquidity measures will be key for bond yields given a seasonally tight fiscal quarter.
Demand dynamics	◑	**Foreign investors remain buyers in 2025**. YTD 2025 foreign investors inflows remain positive and is likely to stay robust given India's bond inclusion in global indices. RBI OMOs and demand from domestic institutional investors (banks, insurers, and mutual funds) will be a key determinant of bond yields in 2025.
Yield premiums	◓	**Yield premiums trade below-average**. The spread between 10-year IGB yield and repo rate is at 45bps vs. 5yr avg. of 144bps. High-quality (AAA) are attractive, with the yield spread between 3Y AAA rated bond and 3Y G-sec at 98bps, higher than the 10yr avg. of 70bps.

Source: Bloomberg, Standard Chartered India Investment Committee

Legend: ○ Not supportive ◐ Somewhat supportive ◓ Balanced ◑ Supportive ● Very supportive

Equity - at a glance

Key themes

We are Overweight equities and expect it to outperform other traditional assets. A recovery in growth and earnings along with easing financial conditions amid better valuations are key drivers supporting are positive view. India's superior macro fundamentals relative to peers and strong domestic investor inflows are other tailwinds. We expect volatility to stay elevated in the near term given uncertainty regarding Trump's policy priorities and its impact on financial markets. Within equities, we are overweight large-cap equities given higher margin of safety in terms of earnings and valuations.

In our view, Indian equities is likely to be supported by the below positive drivers: 1) GDP growth and earnings outlook remains robust and is likely to outpace its major peers. 2) Stable inflows from domestic investors driven by inflows into systematic investment plans and 3) The likely resumption of foreign investor inflows amid superior macro fundamentals and low foreign investor positioning towards Indian equities.

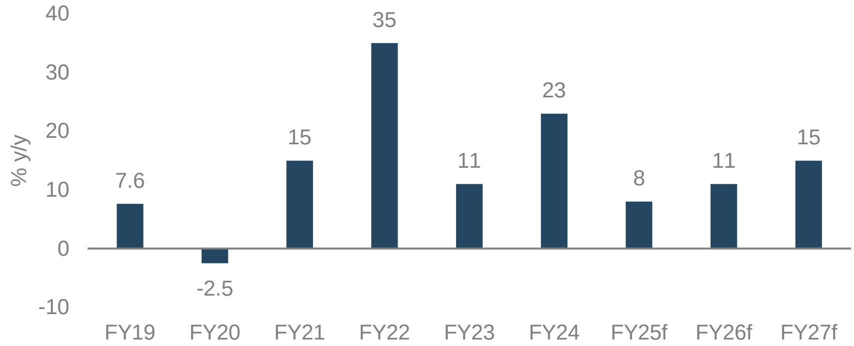
Risks to our positive equity view are: 1) Growth slowdown and probable downgrades of earnings expectations, 2) Elevated equity valuations, both absolute and relative to peers, 3) Foreign investor selling amid slowing domestic investor flows

Key chart

Bloomberg Consensus expectation is for Nifty earnings to rise by 13% over FY2025-2027.

Fig. 5 **Earnings expectations robust for Indian equites**

EPS growth estimates for Nifty 50 Index



Source: Bloomberg, Standard Chartered

Equity views at a glance

Factors	Views	Comments
Economic environment	◑	**Growth-inflation dynamics remain supportive of equities.** Consumption boosting fiscal policy, improving real income levels, and broadening growth momentum is likely to support corporate profitability. RBI policy easing is likely to be a tailwind for equities. Volatile food article prices, remains a key risk.
Earnings growth	◑	**Earnings growth expectations are robust.** Nifty index earnings for Q3 FY2025 improved to 7% from a 4% growth in H1 FY2025. Bloomberg consensus earnings growth expectations for the Nifty Index for FY 2026 and FY2027 stands at 11% and 15% respectively. EPS estimates for large-cap equities (Nifty index) has seen modest downward revision compared to broader markets.
Valuations	◑	**Valuations are reasonable**. Nifty 12-month forward P/E at 18.3x, is below its recent peak of 22x, and closer its long-term average of 18.2x. Price-to-book value ratio (P/B) at 3.3x and Market cap to GDP ratio at ~119%, are above long-term averages. Mid-cap equities 12-month forward P/E trades at 47% premium to large-cap equities, significantly higher than its 10-year average premium of 22%.
Flows	◓	**Foreign investors remain net sellers in 2025.** YTD 2025, foreign investors have sold about USD 15.6bn worth of equities compared to USD 0.8bn outflows in CY 2024. **Domestic institutional investors remain strong buyers in 2025**. YTD 2025, domestic institutional investor have bought USD 19.9bn worth of equities compared to USD 62.9bn inflows in CY 2024.

Source: Bloomberg, Standard Chartered India Investment Committee

Legend: ○ Not supportive ◐ Somewhat supportive ◓ Balanced ◑ Supportive ● Very supportive

Equity sector views

Prefer a barbell-sector strategy

We retain our preference for domestic cyclicals given our view cyclical growth recovery and favourable earnings growth outlook. We are Overweight Financials and upgrade Consumer Discretionary to Overweight. We balance this with a defensive overlay through an Overweight on Information Technology. We downgrade Industrials to Neutral.

Consumer Discretionary – Overweight

We upgrade Consumer Discretionary to overweight. The sector has seen consolidation over the last few quarters driven by slowing growth, stretched valuation and earnings misses. We expect the sector to benefit from an improvement in aggregate demand given the 0.3% of GDP tax cuts in the Union Budget FY2025 and easing financial conditions. Valuations for the sector has come off from peak levels, with the 12-month forward PE at 28x compared to 35x in Sep'24. Earnings outlook for the sector remains among the strongest with FY26 & FY27 EPS growth forecasted at 14%/19% y/y respectively.

Information Technology – Overweight

We are overweight Information Technology. We like the sector for its defensive nature. The sector has undergone a period of consolidation post-pandemic on weak earnings, lower new-deal wins, stretched valuations and high attrition amid excess capacity added in 2021-2022. We expect the sector to benefit from an improving US growth and financial sector outlook, helping drive improvement in revenue and profitability. Additionally, a depreciating INR is a tailwind for the sector. Though, the sector trades at a premium to its long-term average, this is partly justified by stable earnings growth outlook for FY2026/27: 15%/13% y/y.

Financials – Overweight

Financials remains an overweight. The sectors strong linkage to domestic growth makes it attractive in a period of recovering growth and declining interest rates. Steady disbursal momentum is likely to off-set interest margin compressions. Further, healthy asset class position given improved contingent buffers and increased regulatory supervision, is likely to contain slippages and provisioning requirements. Earnings expectations remain robust, with ahead of market EPS growth of 20% and 14% for FY26 and FY27. The sector is trading at a 12-month forward P/E of 14x, at a significant discount to broad market valuation of 20x for MSCI India.

Fig. 6 **Our sector views**

India
Information Technology
Consumer Discretionary ▲
Financials
Industrials ▼
Healthcare
Consumer Staples
Utilities
Energy
Materials

Source: Standard Chartered

Legends: Overweight | Neutral | Underweight

▲ Upgrade from last quarter | ▼ Downgrade from last quarter

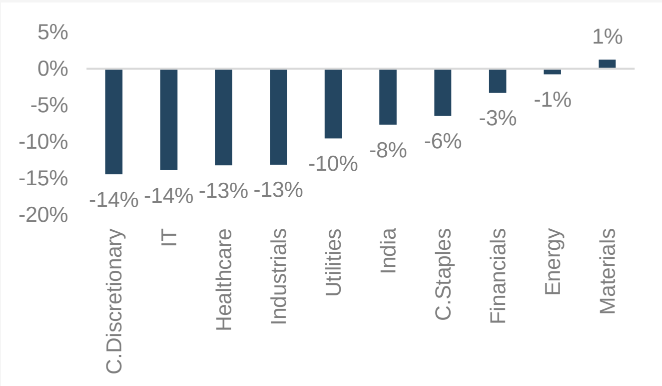
Fig. 7 **Sector valuations and earnings growth**

	12-mth Fwd P/E (x)		EPS Growth (Y/Y)	
MSCI Sector	Current	15yr avg.	FY25f	FY26f
India	20.0	17.7	12%	15%
Cons. Discretionary	27.5	18.6	14%	19%
Cons. Staples	47.5	35.8	-4%	32%
Energy	13.5	12.9	3%	8%
Financials	14.2	16.0	20%	14%
Healthcare	25.6	23.0	35%	-3%
Industrials	29.9	22.8	19%	19%
IT	24.1	19.9	15%	13%
Materials	19.7	14.4	12%	23%
Utilities	15.2	12.5	8%	10%

Source: Bloomberg, Standard Chartered

Fig. 8 **Domestic sectors underperform in 2025**

YTD 2025 sectoral performance (%)



Source: MSCI, Bloomberg, Standard Chartered. 2025 YTD period from 31 December 2024 to 11 March 2024

Foundation: Asset allocation summary

Summary			View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Cash			▼	15.2	1.9	1.9	1.9	0.0
Fixed Income			◆	55.9	47.0	34.1	21.3	12.5
Equity			▲	23.8	46.8	59.7	72.5	83.3
Commodities			◆	5.1	4.3	4.3	4.3	4.2
Level 1	**Level 2**	**Level 3**						
Cash & Cash Equivalents			▼	15.2	1.9	1.9	1.9	0.0
Fixed Income	Short-term Bonds		◆	37.7	27.1	22.0	13.3	7.6
	Mid/Long-term Bonds		▲	18.2	20.0	12.1	8.1	4.9
Equity	DM Equity		▲	3.9	6.5	8.8	11.0	12.8
	Asia Ex-Japan / Other EM Equity		◆	2.3	3.7	5.0	6.3	7.3
	Indian Equities ▲	Large-cap equities	▲	14.3	29.6	37.2	44.8	51.2
		Mid/small-cap equities	◆	3.3	6.9	8.7	10.5	12.0
Commodities (INR Gold)			◆	5.1	4.3	4.3	4.3	4.2
				100	**100**	**100**	**100**	**100**

▼ Underweight ◆ Neutral ▲ Overweight

Source: Bloomberg, Standard Chartered

All INR converted exposure. For illustrative purposes only. Please refer to the disclosure appendix at the end of the document

Performance of our calls

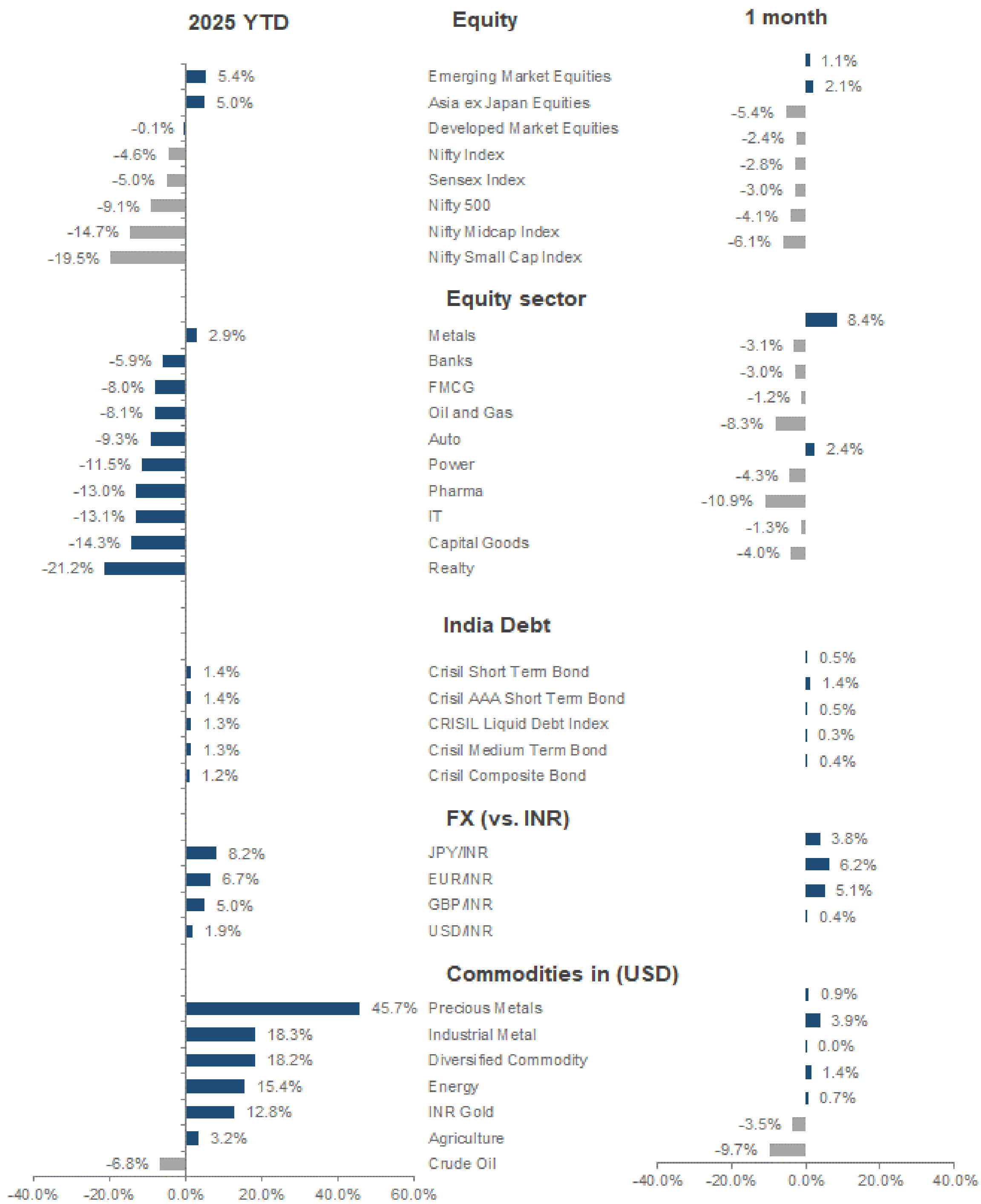
	Closed calls	Open date	Close date	Absolute	Relative
Equities	Indian equities to outperform all other asset classes	18-Dec-24			✗
Equities	Indian large-cap equities to outperform mid-cap and small-cap equities	18-Dec-24			✓
Bonds	Indian mid-and long- maturity bonds to outperform short-maturity bonds	18-Dec-24			✓
Equity Sectors	India Industrials Sector to outperform Indian Equities	18-Dec-24	12-Mar-25		✗
Equity Sectors	India Financials Sector to outperform Indian Equities	18-Dec-24			✓
Equity Sectors	India Technology Sector to outperform Indian Equities	18-Dec-24			✗
Opportunistic	India Small cap equities	18-Dec-24		✗	
Opportunistic	Indian Long-Term Bonds	18-Dec-24		✓	
Opportunistic	Indian High-quality (AAA) corporate bonds	18-Dec-24		✓	

Source: Bloomberg, Standard Chartered. Performance measured from 18 December 2024 (release date of our 2025 Outlook) to 11 March 2025 or when the view was closed.

Legend: ✓– Correct call; ✗ – Missed call; n/a – Not Applicable.

Past performance is not an indication of future performance. There is no assurance, representation or prediction given as to any results or returns that would actually be achieved in a transaction based on any historical data.

Market performance summary*



Source: MSCI, NSE, S&P BSE, Crisil, Bloomberg, Standard Chartered
*2025 YTD period from 31 December 2024 to 11 March 2025. 1-month period from 11 February 2025 to 11 March 2025.

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