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ASSET MANAGEMENT

# Annual Outlook CY2025


The world map is not accurate and is used for illustration purposes only. The map of India is used for illustrative purposes only and is not a political map of India.

# 2024 YEAR GONE BY

# What we said in CY24 & Actuals

| Particulars | Prediction for CY24 | What happened in CY24 |
|---|---|---|
| Global Macros | Global GDP Growth: Mild Slowdown To 2.60% From 3%<br>Inflation: Mean Reversion: Slowing Demand & Impact Of Policy Lags To Drive Inflation Closer To Target | GDP: 3.2%<br>Inflation of advanced economies:2.6% |
| India Macros | GDP Growth: 6.5% in 2024<br>Inflation: 4.75%<br>RBI Policy response to ease. Stance changed to Neutral. Rates On Hold But Shallow Rate Cut Cycle Begins In End 2024 | GDP: 6.6%<br>Inflation: 4.8% |
| Fixed Income | Returns expectation : 8-9% | Credit: 9%<br>Duration: 8%<br>MTP: 10% |
| Equity Markets | Returns expectation : 10-15% | **NIFTY 50:** 10%; **BSE 500:** 16% |
| Gold | Returns expectation : 5-10% | 26% |

 Source: IMF World Economic Outlook Oct'24, RBI MPC Statement Dec'24, ABSLAMC

# Performance across Asset Classes in CY24

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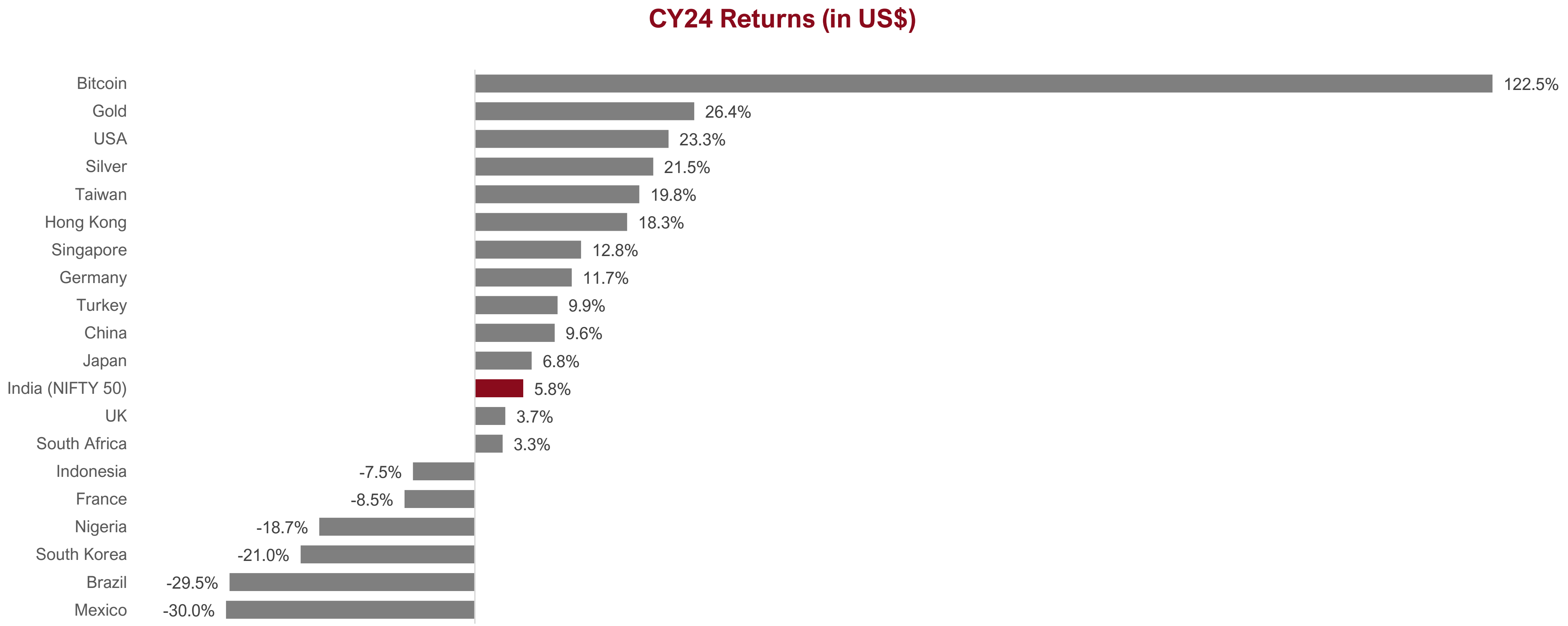
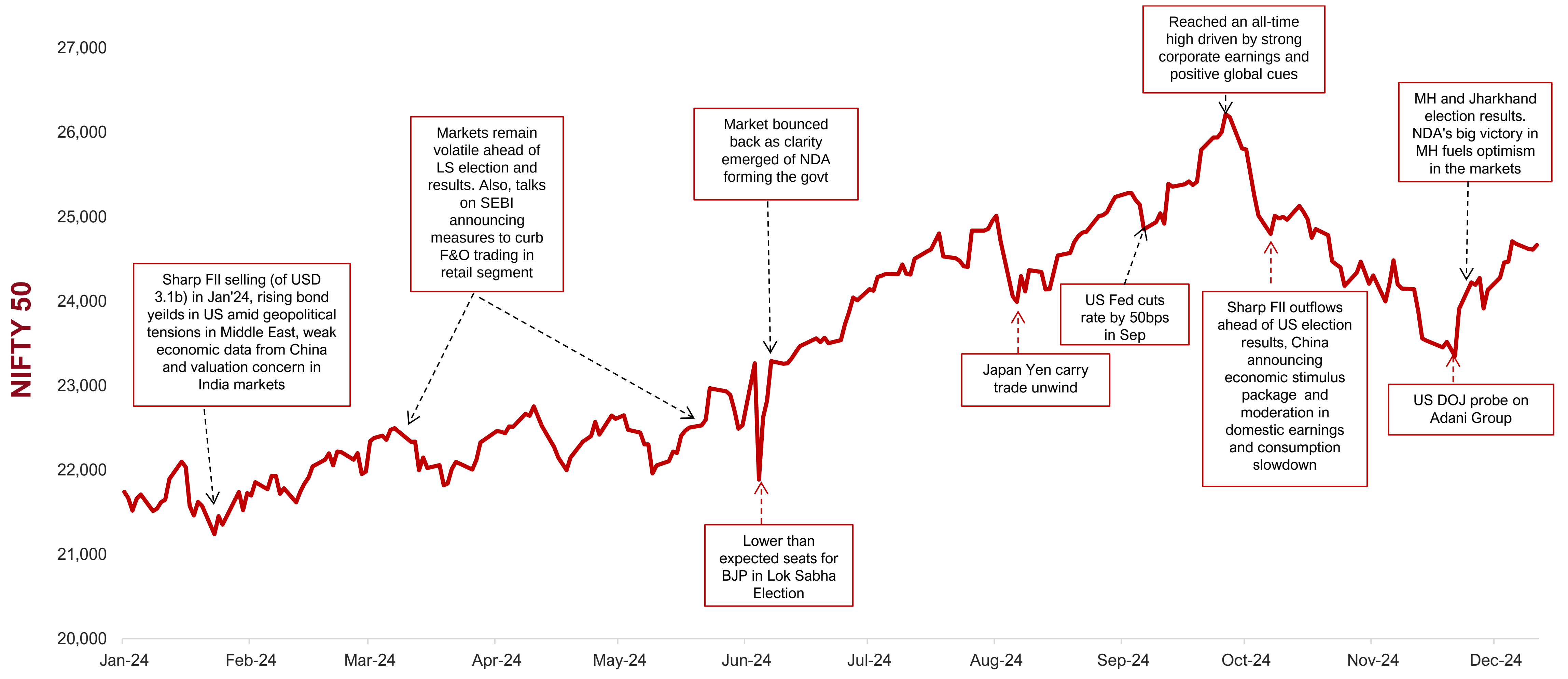



**Most asset classes and global markets did better than India in dollar terms.** Amidst strong growth in USA; Bitcoin rally post Trump re-election and Gold/Silver momentum in geopolitical uncertainty, $ returns for India seemed moderate.

 Source: ABSLAMC Research

# Indian Equities - Market rising across key events




Source: ABSLAMC Research

# Equity Markets – Distribution of Returns in the Long Term

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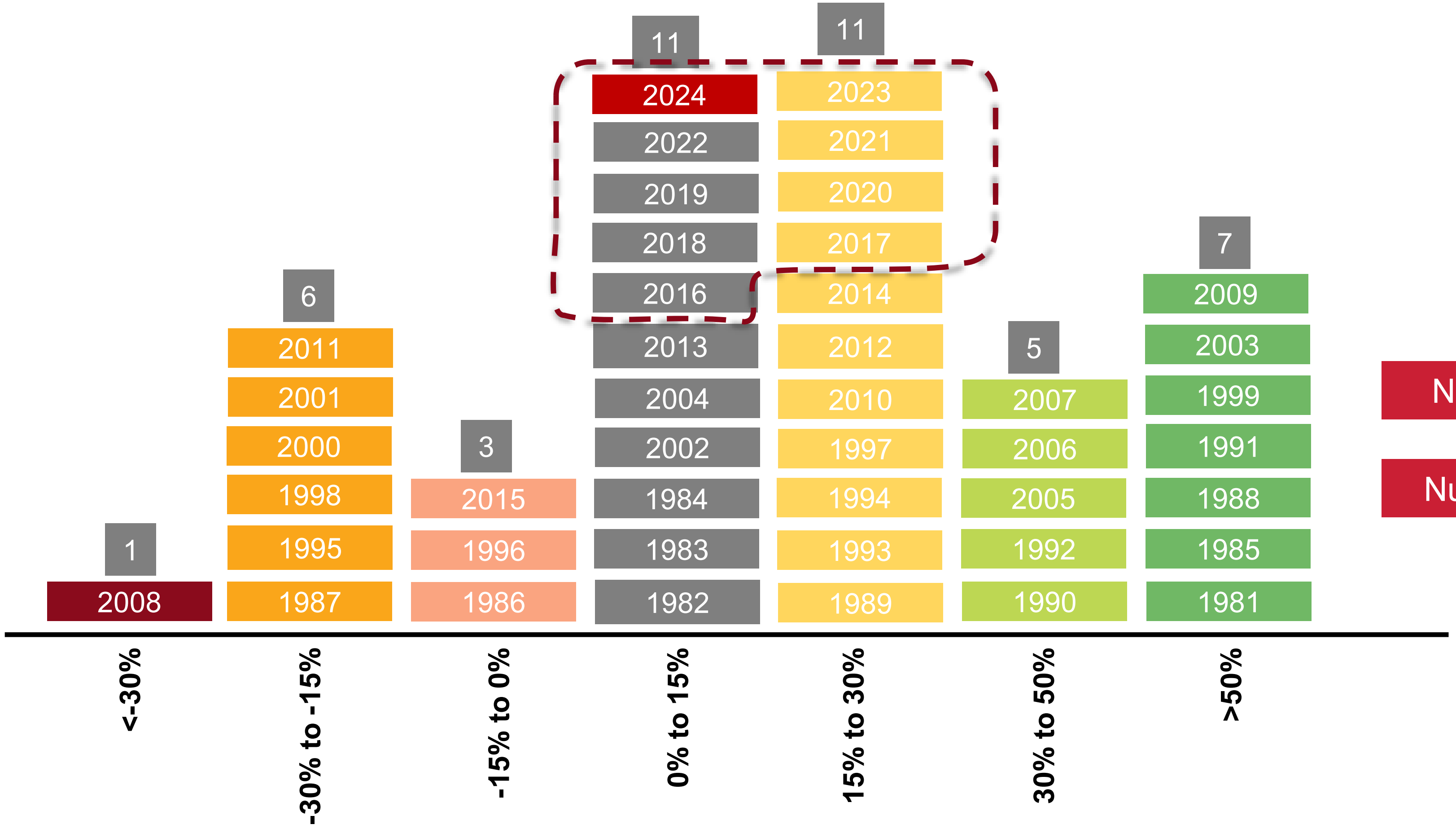
**BSE SENSEX: Distribution of BSE SENSEX (1981-2024)**
**9 Consecutive years of positive returns for BSE Sensex**




Number of Positive Years: 34 **(77%)**

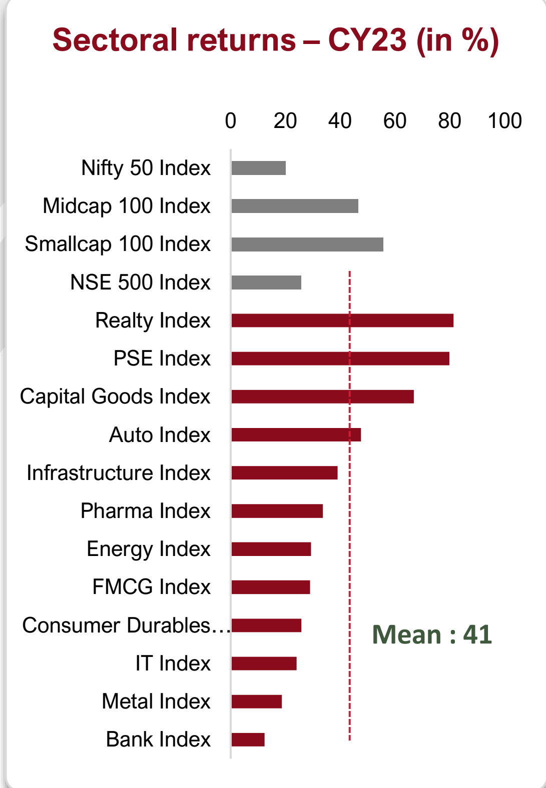
Number of Negative Years: 10 **(23%)**

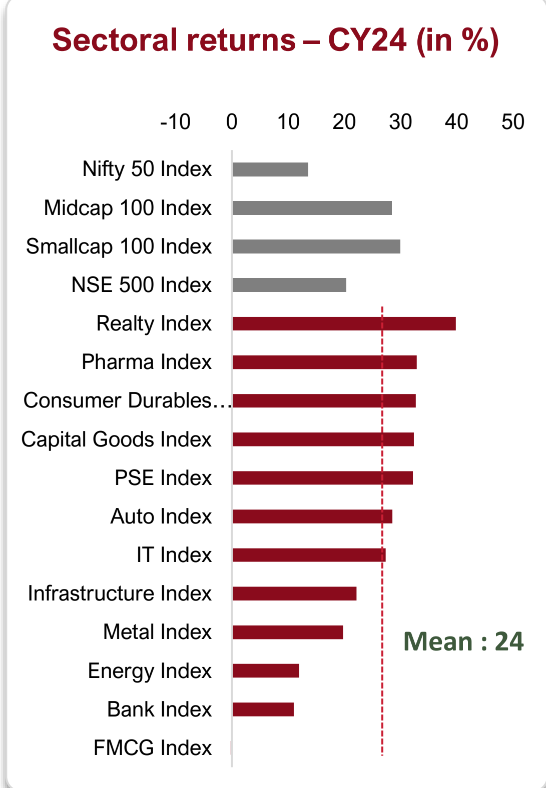
Source: ABSLAMC Research

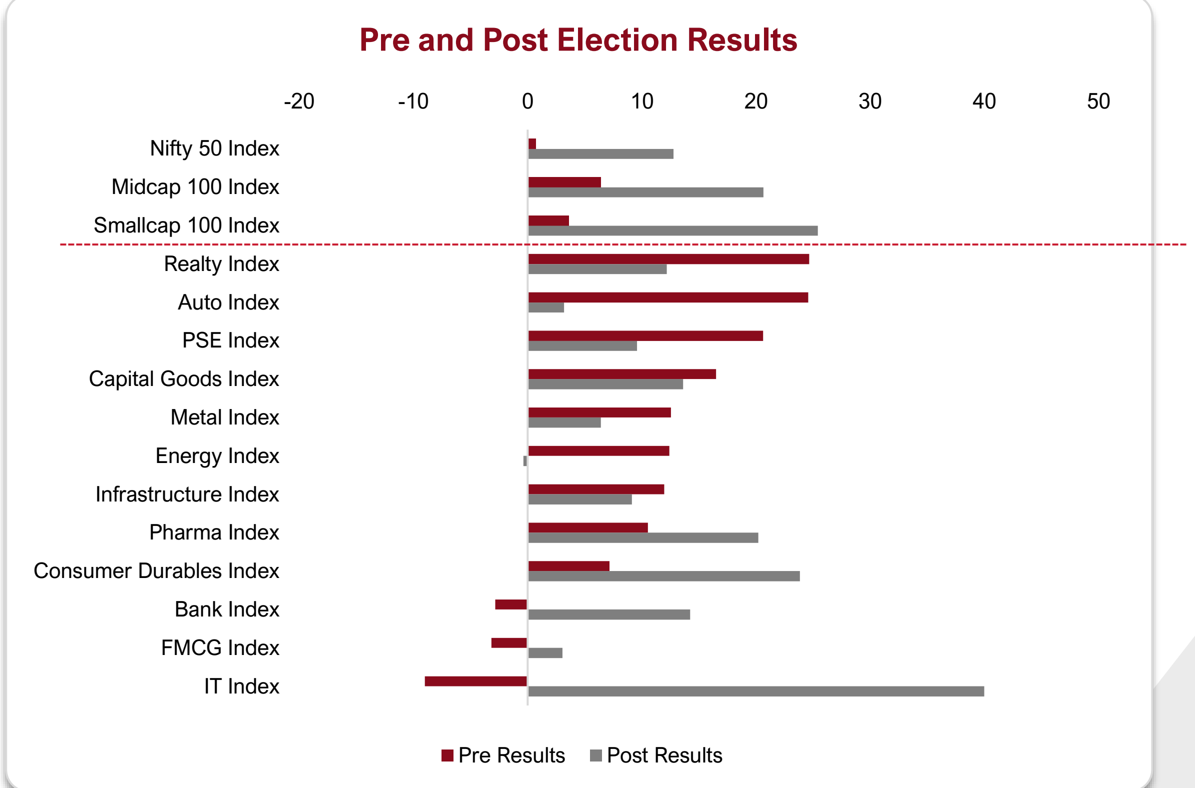
# LOOK BENEATH THE HEADLINES

# Unlike CY23, all sectors clustered around 20% gains

## Sectoral returns CY 24 – Pre-Election vs Post Election Results



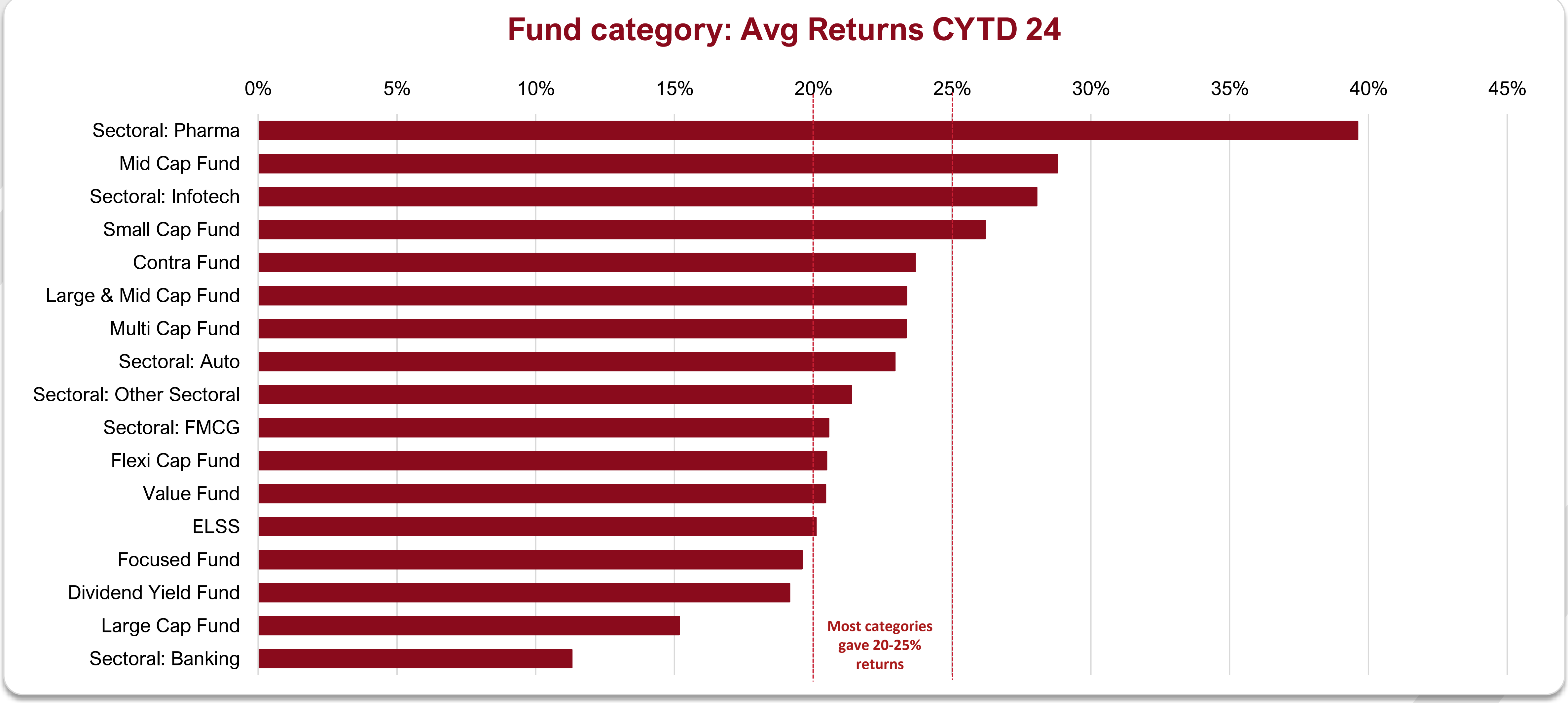




- Returns in CY 24 were consistent across sectors unlike CY 23 except Realty and FMCG.
- There was a stark difference in sector outperformers pre and post election result. Post elections, IT, consumer durables and banks which were laggards pre election, witnessed a turnaround

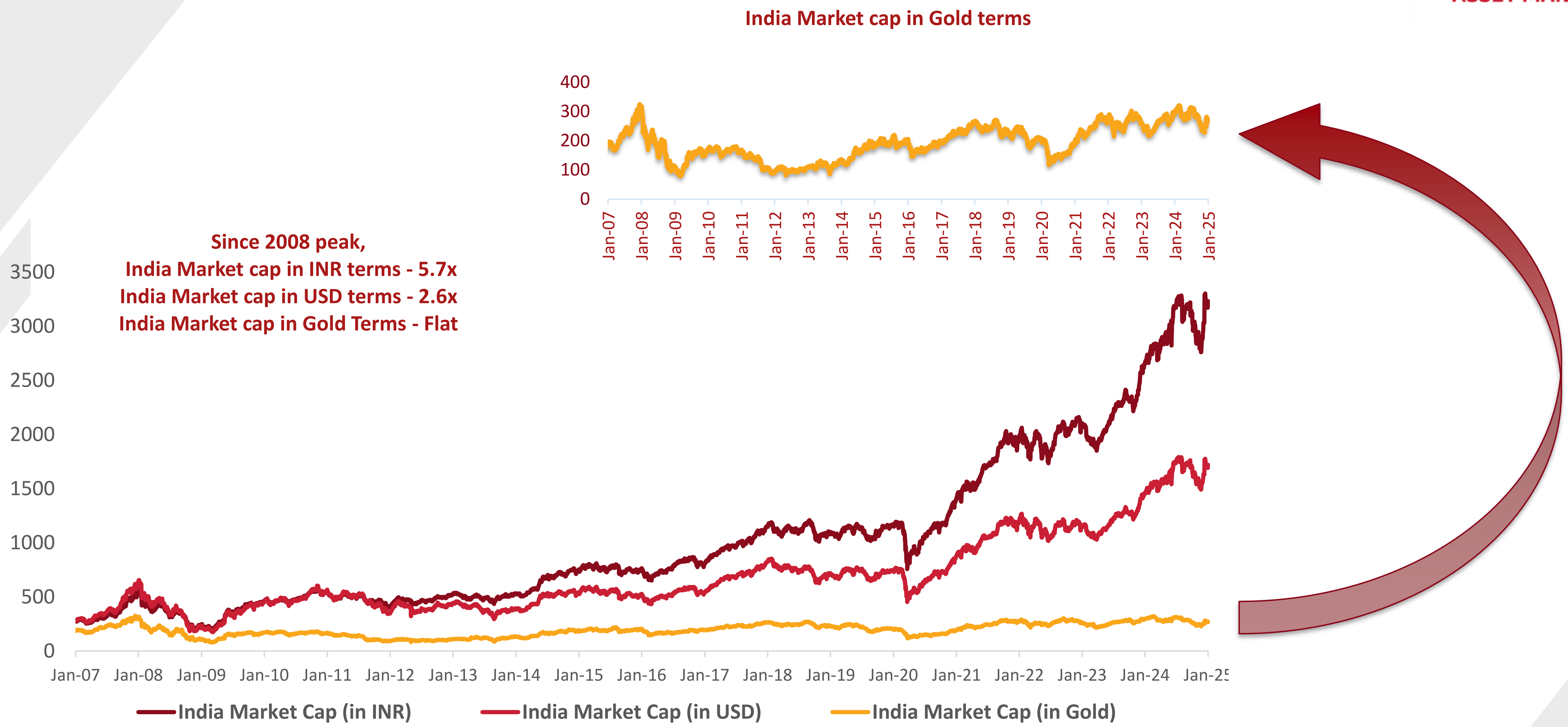
Source: ABSLAMC Research

# Homogeneous performance across fund categories




Source: ABSLAMC Research

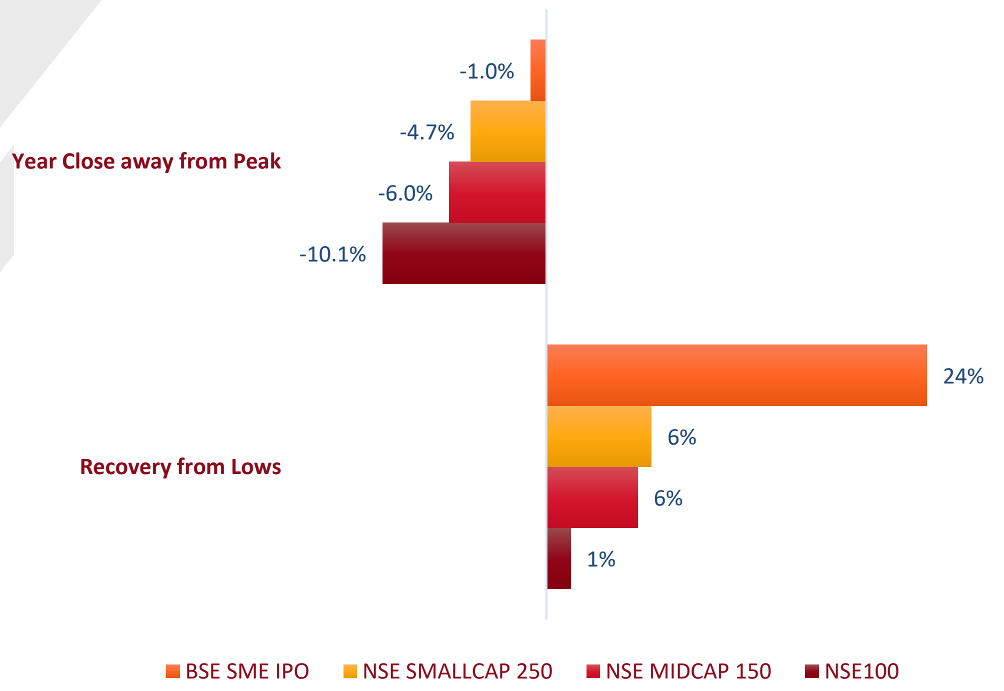
# Gold has been a terrific asset for Indian Household



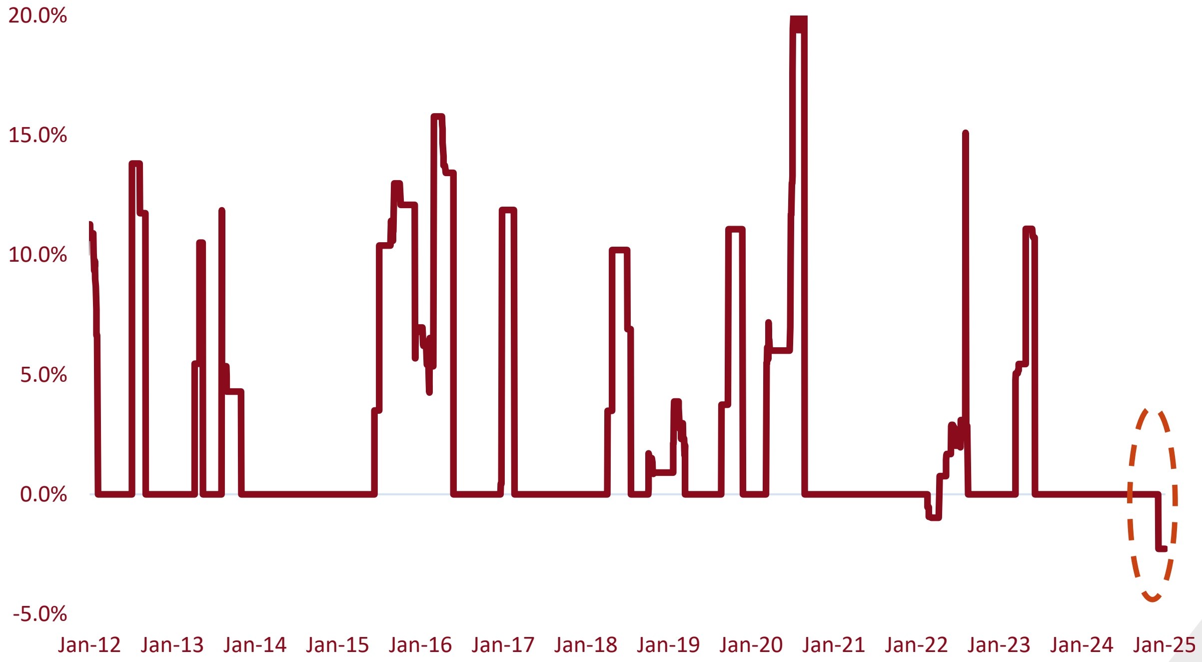

Source: ABSLAMC Research

# Correction in Q4CY2024 – unusual in 2 key respects

**Q4CY24 Wobbles - Despite Nifty down 10% from peak, illiquid asset classes rose to close near highs. Riskier Assets did better.**




**Alpha of Nifty Low Vol Index Over NSE200TR During Episodes of 10%+ Correction - Rare instance where Low Volatility Fell More than Market in 2024**




- Unlike earlier, defensive and staples bets failed to support themselves during the corrections, the flavor of the season was smaller, volatile securities.
- Retail behavior coupled with large FII flows out of large caps likely the driver of such activity.

Source: ABSLAMC Research

# Big shift in Individual Investors direct equity seen a significant shift down the curve

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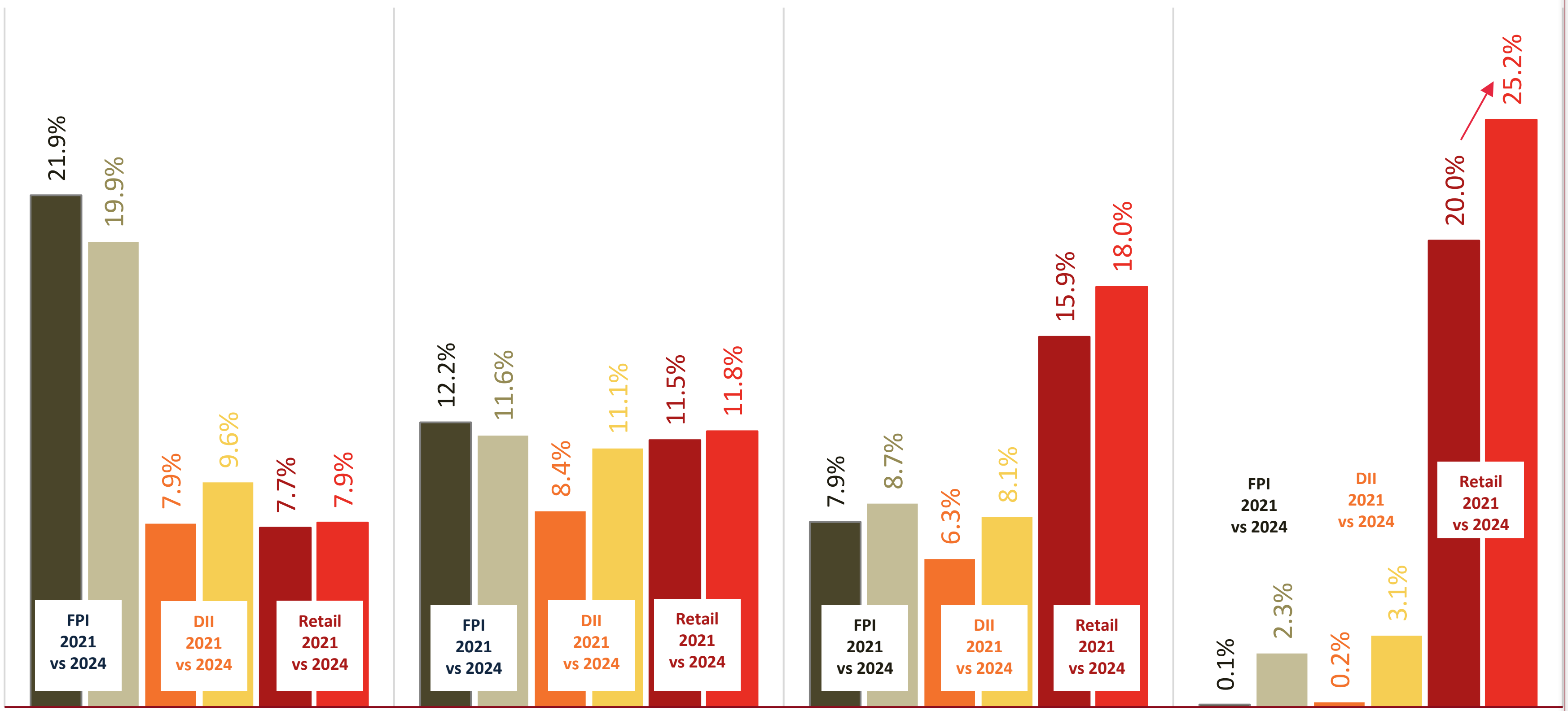
## OWNERSHIP OF LISTED INDIA

LARGE & MIDCAP | SMALLCAP | MICROCAP | NANOCAP



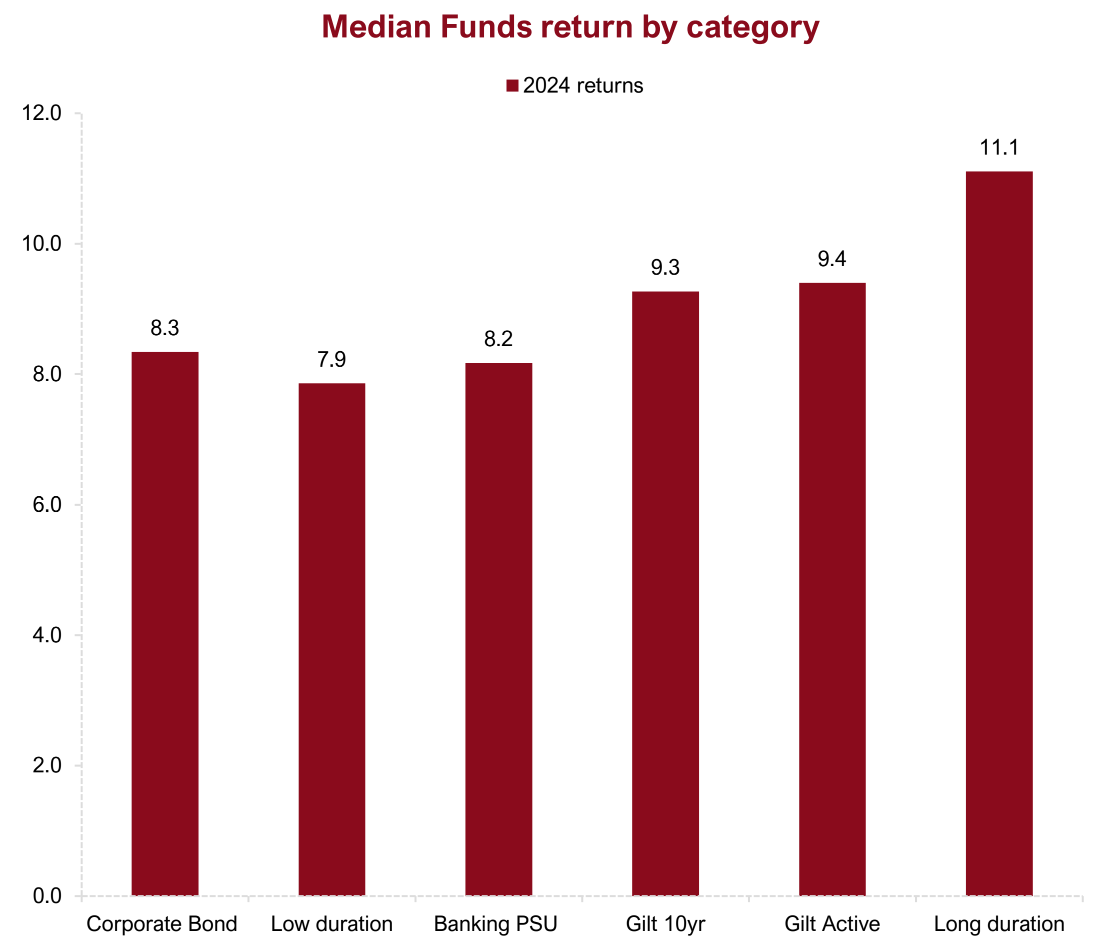

## FLOWS INTO INDIAN EQUITIES

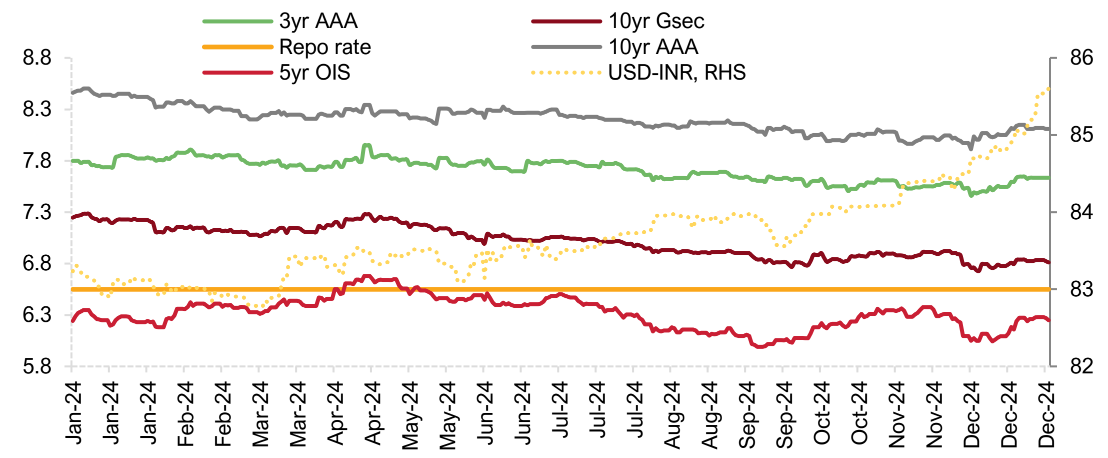
| Year | FIIs (US$ bn) | DIIs (US$ bn) | Individuals (US$ bn) |
|---|---|---|---|
| 2012 | 24.4 | -10.6 | -4.7 |
| 2013 | 20.1 | -12.8 | -3.8 |
| 2014 | 16.1 | -4.8 | -4.9 |
| 2015 | 3.2 | 10.4 | -1.3 |
| 2016 | 3.2 | 5.2 | -3.9 |
| 2017 | 7.5 | 14 | -5.8 |
| 2018 | -4.6 | 16 | -1.4 |
| 2019 | 14.4 | 6 | -3.6 |
| 2020 | 23 | -4.8 | 7.1 |
| 2021 | 3.8 | 12.6 | 19.3 |
| 2022 | -16.5 | 35.7 | 11.7 |
| 2023 | 20.7 | 22 | 0.6 |
| 2024 | -1.7 | 59 | 18.5 |
| 2012-16 | 67 | -12.6 | -18.6 |
| 2017-20 | 40.3 | 31.2 | -3.7 |
| 2020-24 | 6.3 | 129.3 | 50.1 |

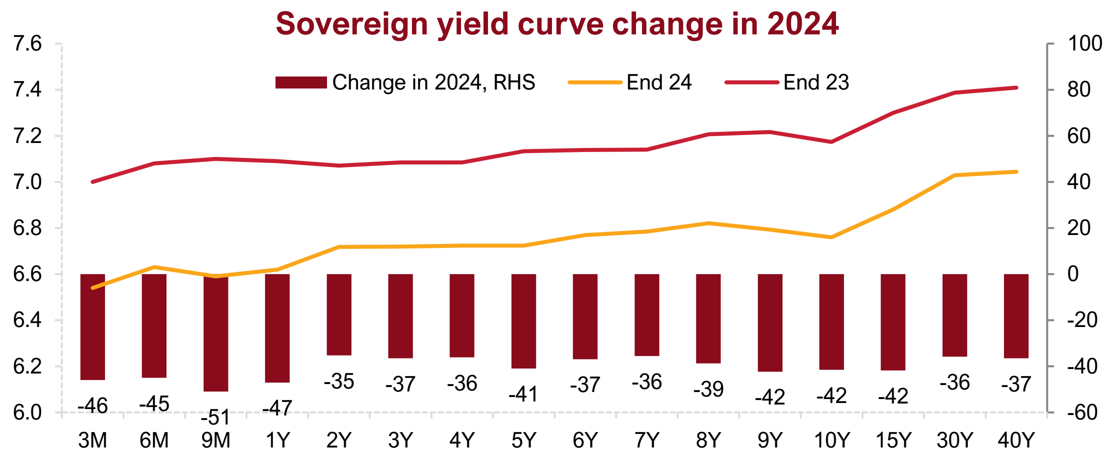
**Individual investors holdings in nano-caps has moved from approx INR 40000 cr in June 2021 to INR 3.3 lakh crores in Sep 2024 - increasing their share in these companies by 5.2%.**
**Micro-caps has seen renewed vigor across the table as growth boosts from favorable conditions intensified. Retail contribution up 13% from FY21.**
**Unlike the previous 10Y period, DIIs and Individual investors have directed the market directions with FIIs having net negative flow in FY21-FY24 period**

*Source: ABSLAMC Research; June 2021 vs Sep 2024, using data from NSE Pulse – Nov; Top decile is shown as equivalent to Large & Midcap, 2nd Decile is Smallcap, 3rd & 4th decile is Microcap and all other deciles Nanocap*

# Reaping benefits of Macro stability



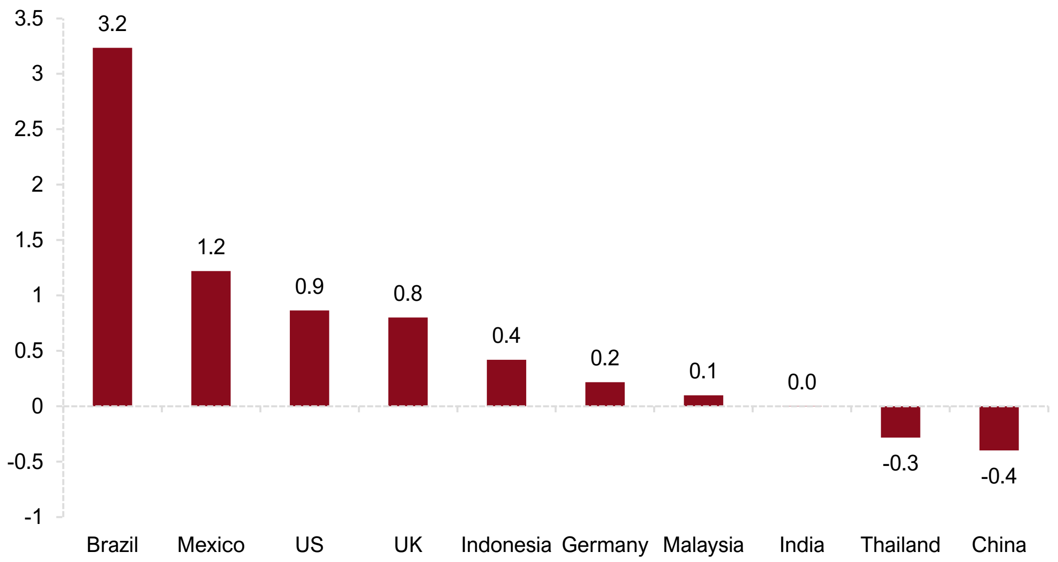



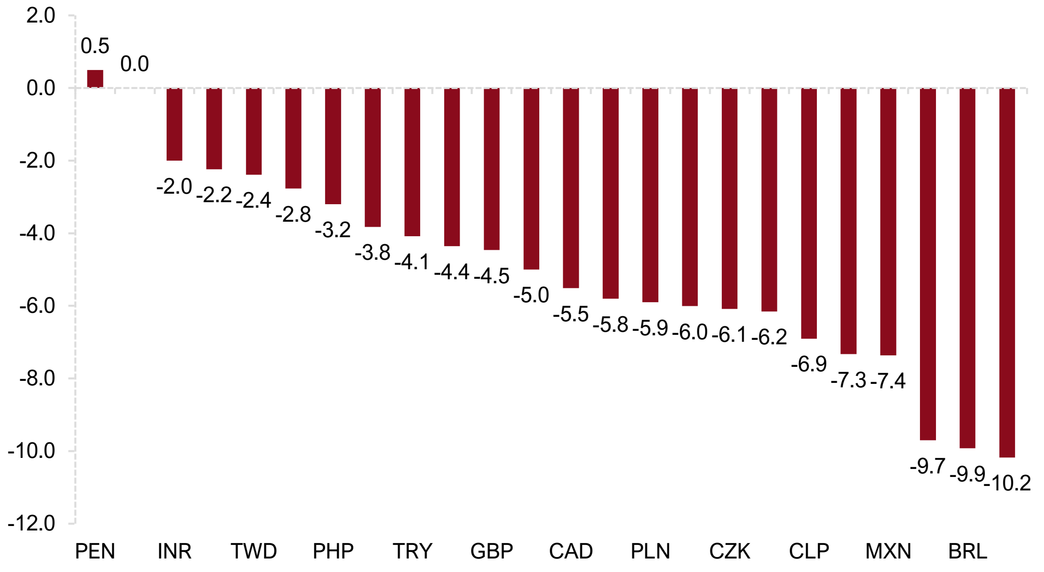

Source: CEIC, ABSLAMC Research

# INR shows resilience to increasing global uncertainties

**Change in 10 year Gsec yield (bps) since start of "Trump trade" in mid-Sep**




**Currency performance against USD since start of Trump trade (mid-Sep)**




Macroeconomic impact of Trump on India is expected to be “low beta”. Indian bonds and currency have outperformed peers since beginning of Trump Trade but have not been immune to it. We expect this trend to continue.

Source: ABSLAMC Research

# Summary

- **Indian Capital Markets have had a stellar year on the back of sustained growth sentiments amidst rising global and geopolitical uncertainty.**
  - Global markets especially USA saw revived momentum. Gold has continued to outperform amidst rising global uncertainties. INR has outperformed peer currencies, showing strong macro- stability.
  - CY24 marked India's record 9 year streak of positive returns.
  - Unlike CY23, CY24 saw strong performance across all sectors. Majority of sectors gave above mean returns.
  - Elections acted as turnaround points for laggards. Underperforming sectors such as IT and Banks were propelled forward.
  - Equally distributed returns across fund categories was the flavour of the season with most clocking in 15-25% returns.
  - Unlike earlier, betting against low vol index became defining feature of Q4CY25 market correction. NSE100 closed the year 10% below the peak, while NSE250 Smallcap closed 4.7% below peak.
  - DIIs and Retail investors remain drivers of the market with flows of $179bn from FY20-24, compared to $6.3bn for FIIs. Activity in micro and nano-caps shot up owing to increased retail activity.
- **With a strong year behind us, we are left with questions and uncertainties, answers to which, will define CY25.**
  - With geopolitical stress, Trump's stance on tariffs and inflation, and China's push for CNY stability, what do India's growth prospects look like? What happens to the booming INR moving forward?
  - With growth from majority low hanging fruits like formalisation and economies of scale, what do tempered growth expectations for Indian Corporates mean for equity markets.
  - Having seen outflows, overvaluations and corrections in mid-cap and small-cap space, are large caps back in the vogue?
  - Where does the Indian capex cycle stand? Who will define the capex aspirations of the booming Indian economy?

# GLOBAL MACROS:

## Uncertain times, Brace for volatility

The world map is not accurate and is used for illustration purposes only.

# 2024: A retrospective

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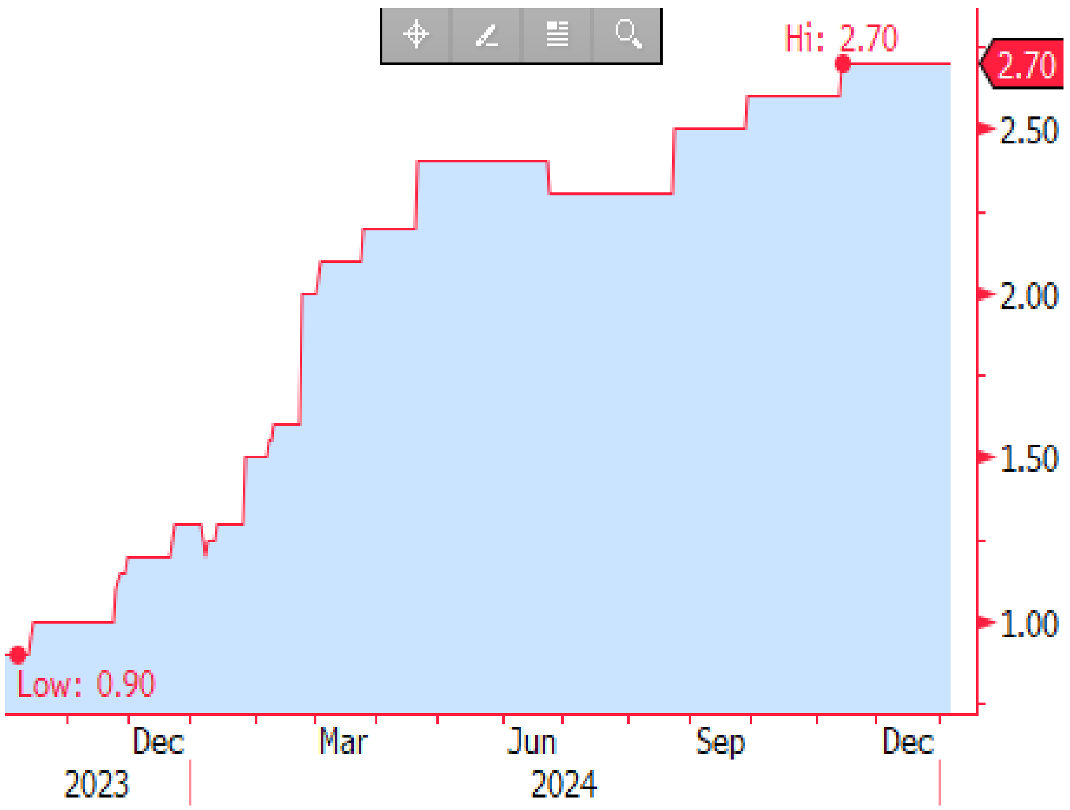
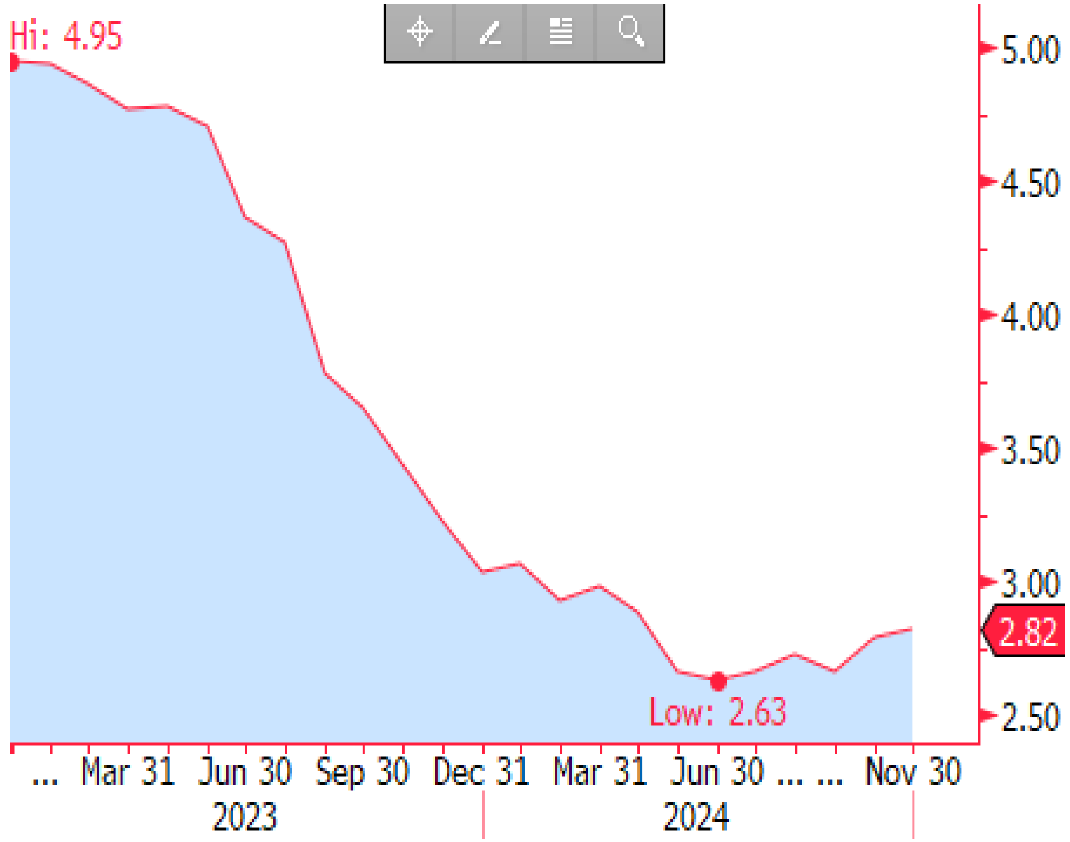
## 2024 consensus US GDP growth forecast (%)




## Core PCE YoY (%)



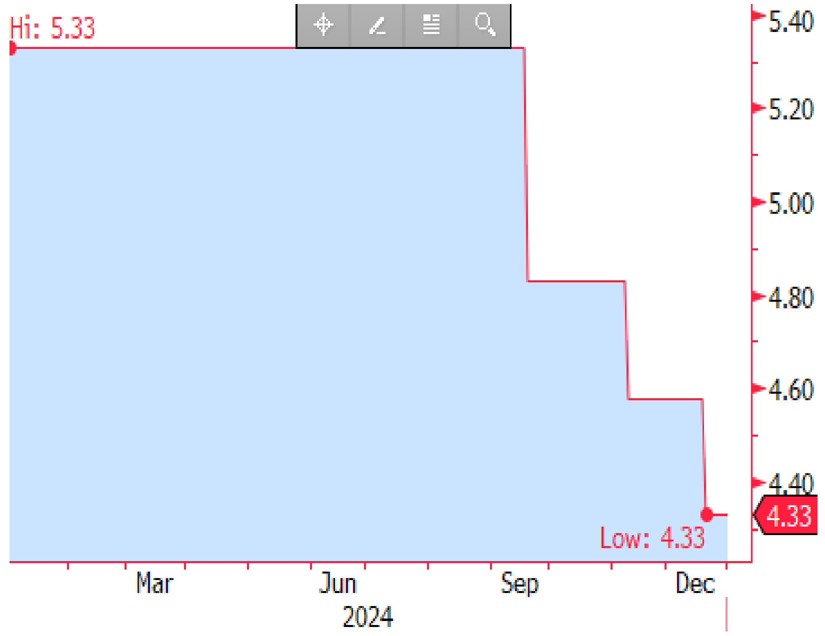

**GOLDILOCKS CONDITIONS**



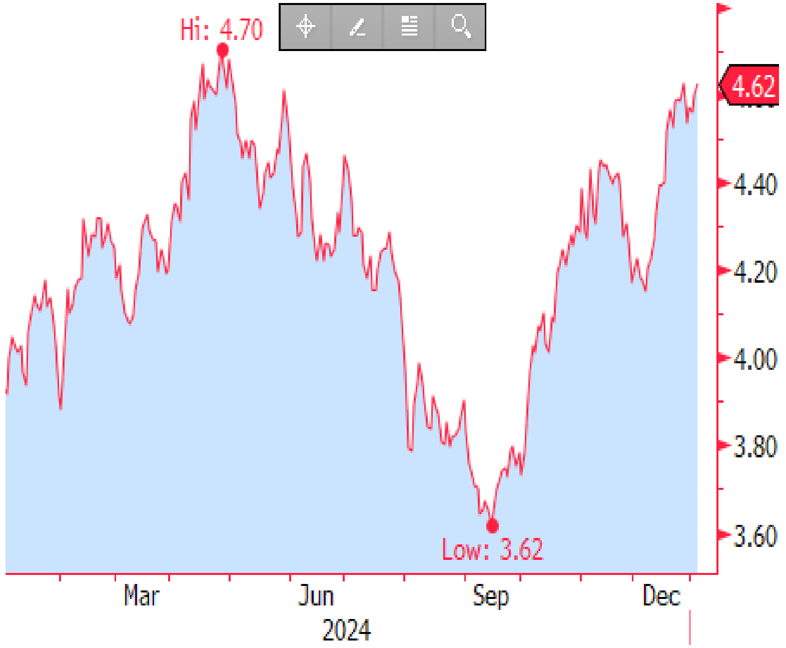
Source: Bloomberg

# 2024: Normalization until Mr. Trump enters equation

### Fed funds rate (%)




### US 10Y (%)

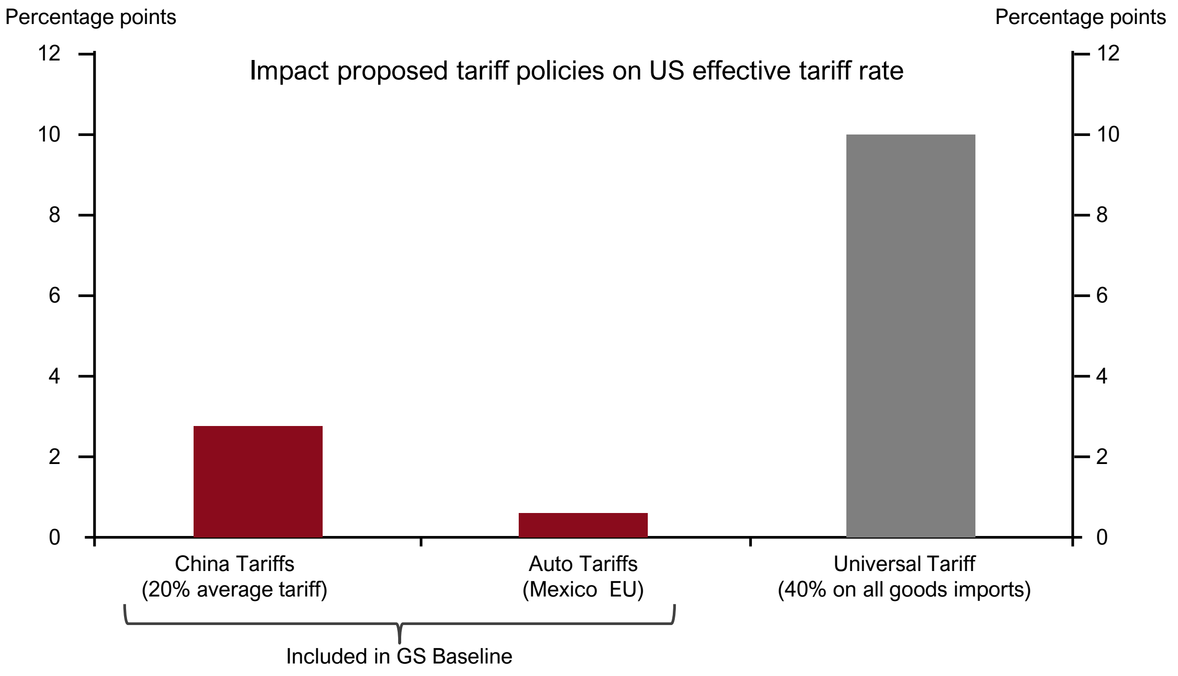


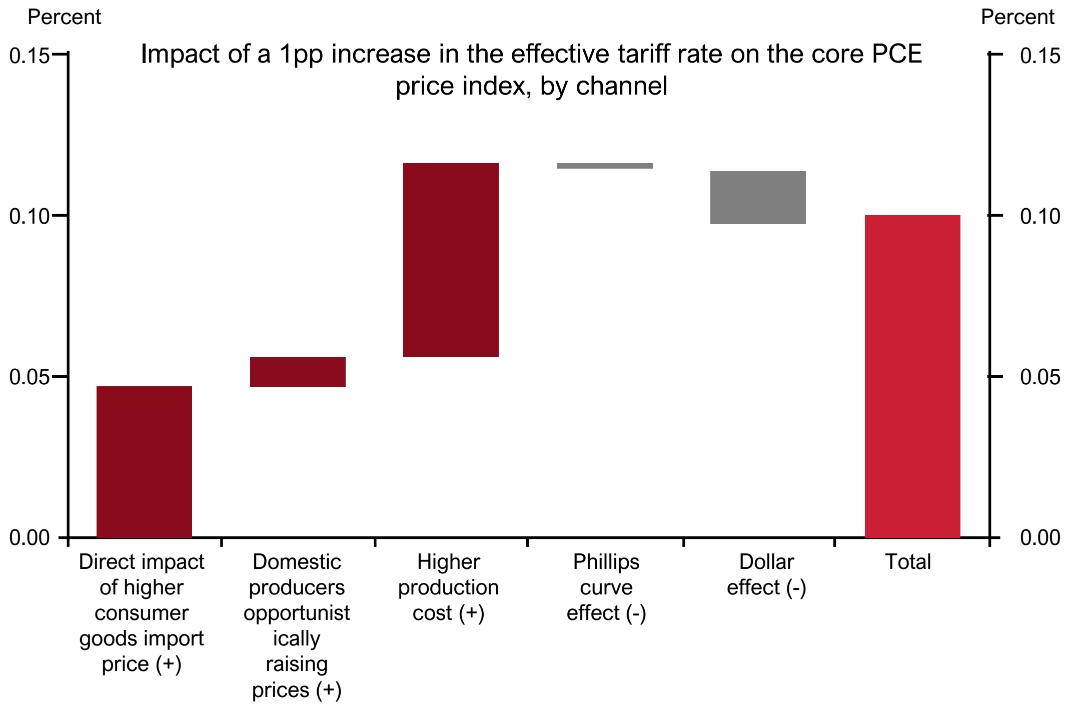

In our 2024 Annual Outlook we had expected that "slower growth and sub-3% inflation will give space to the Fed to cut rates by 100 bps in 2024. Our base case is for the 10- year Treasury yield bottoming at around 3.50% in 2024"

Source: ABSLAMC Research

# The impact of the tariff policy under Trump is the biggest variable this year

**The tariffs on imports from China and Autos in our baseline would rise the effective tariff rate by 3-4pp, and lessons from 2019 suggest that every 1pp increase raises core PCE prices by 0.1pp**

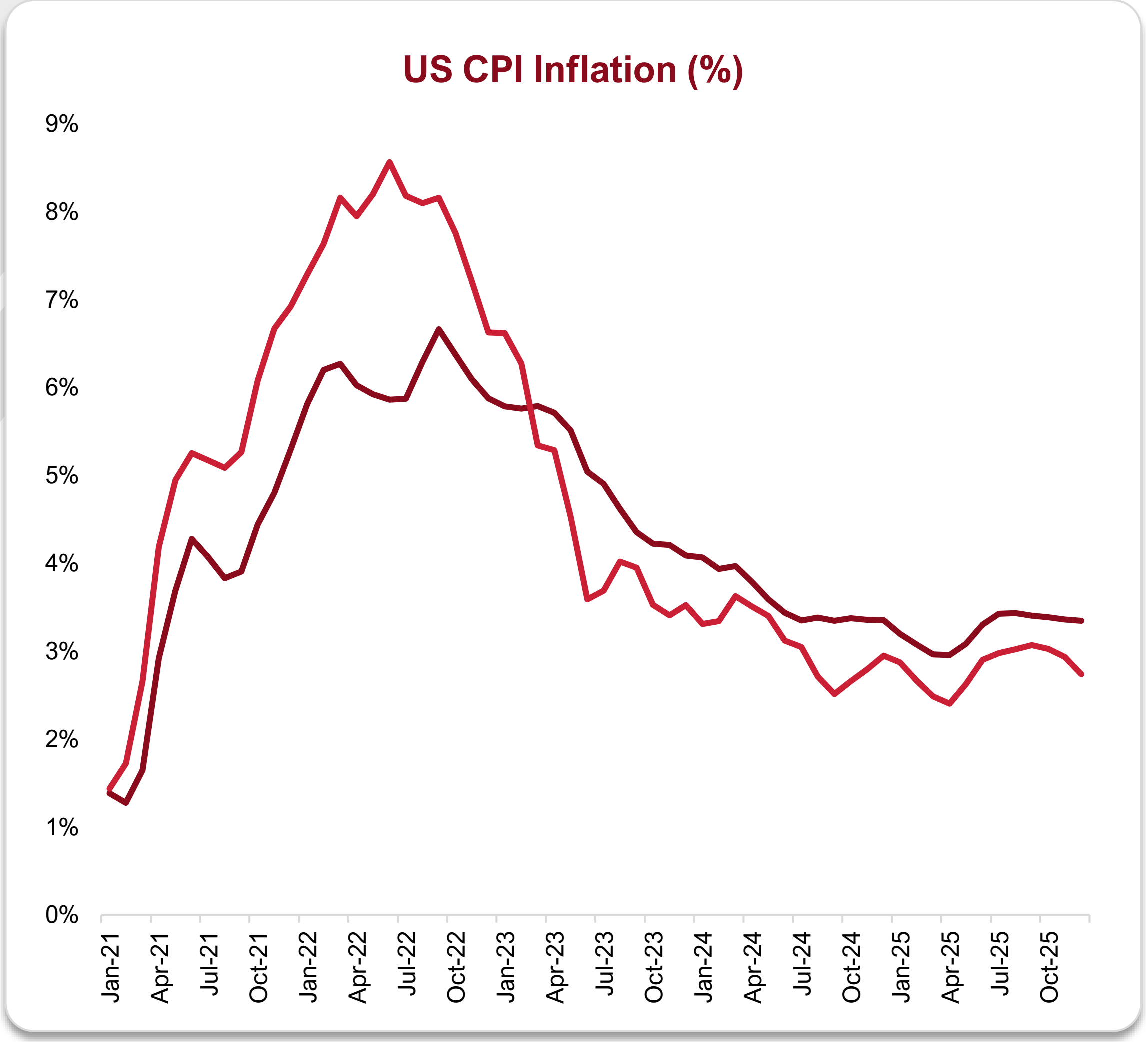


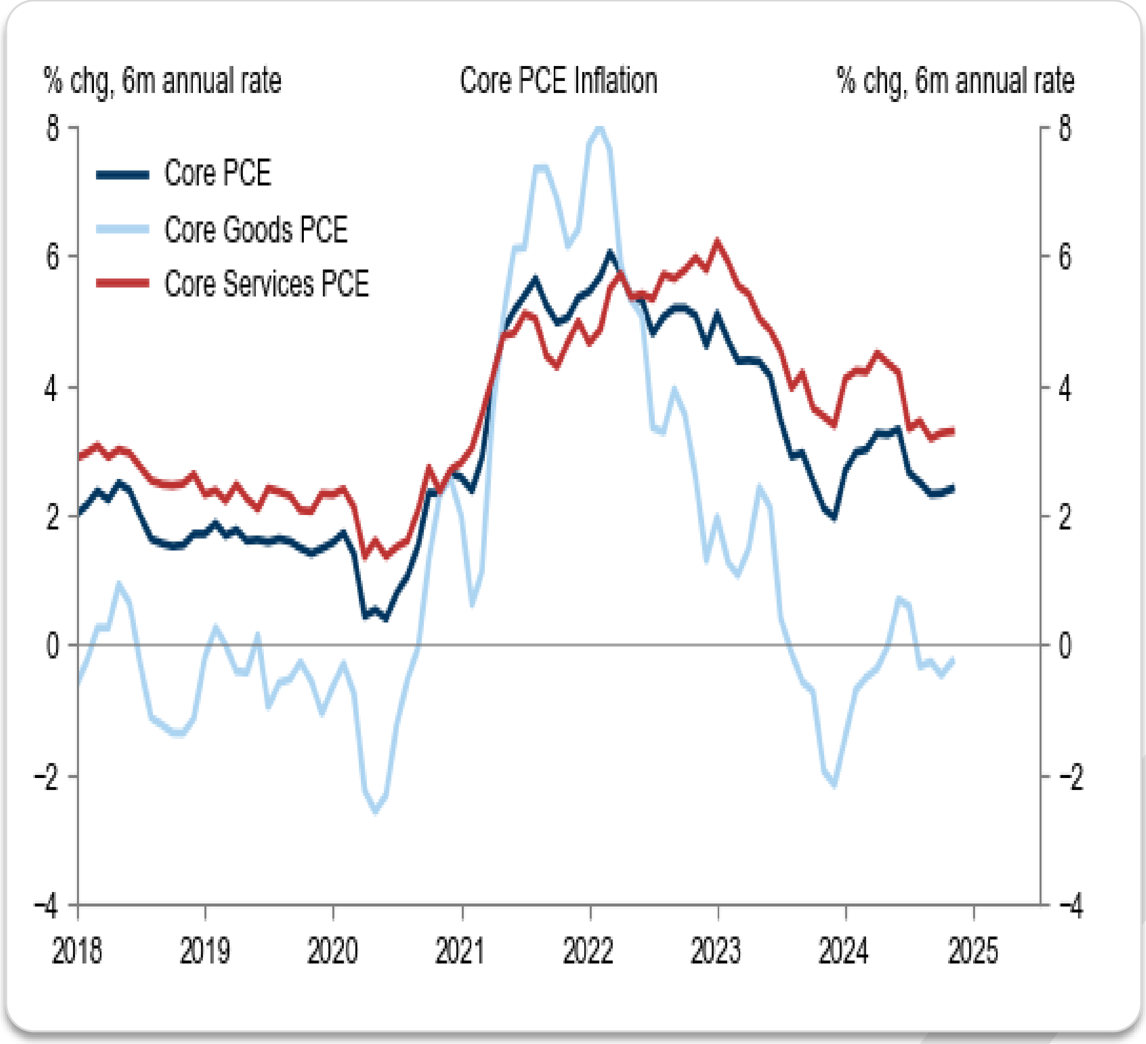




## TRUMP TRADE : TARIFF STANCE IS KEY TO WATCH OUT FOR

Source: Goldman Sachs

# Inflation has cooled off significantly but remains above the Fed's 2% target




**TRUMP POLICY ADDS UNCERTAINTY TO INFLATION PATH**

Source: ABSLAMC Research, BLS

# 2025 vs 2016: Economic realty vs Election rhetoric

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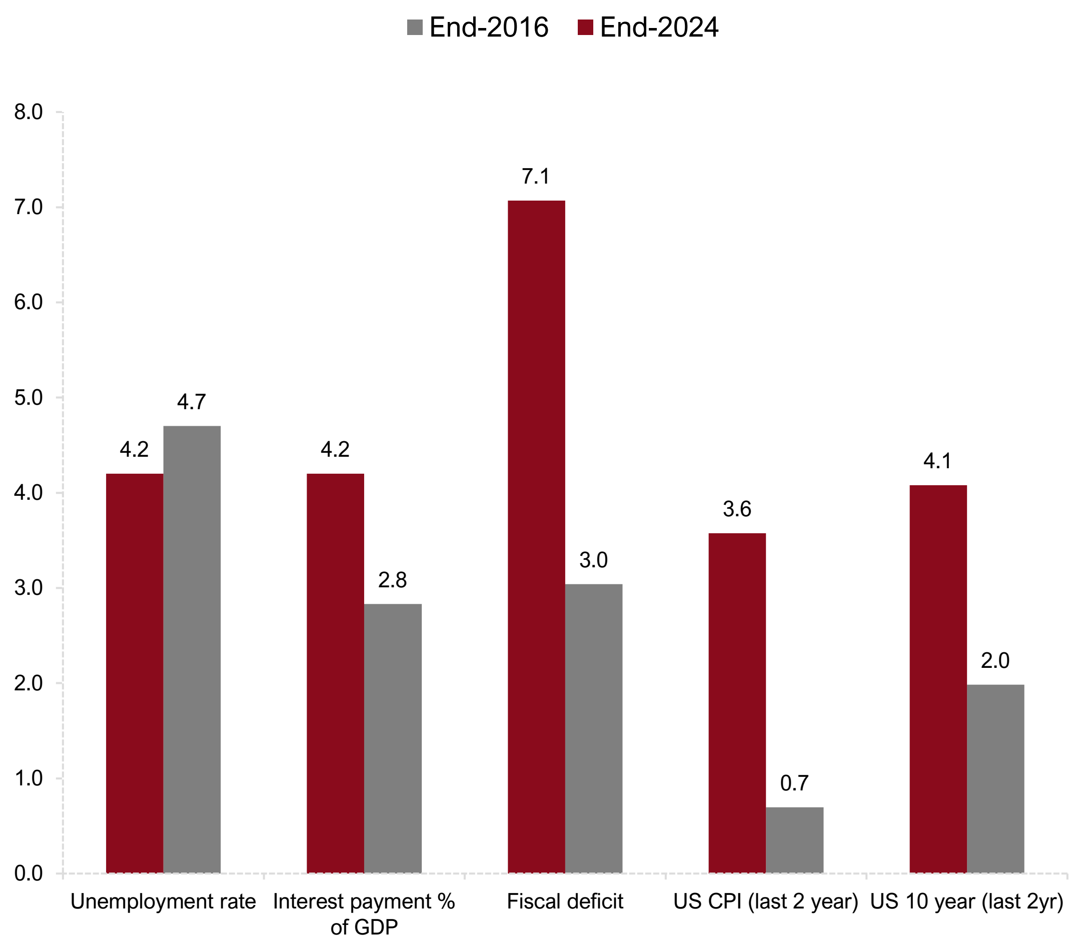
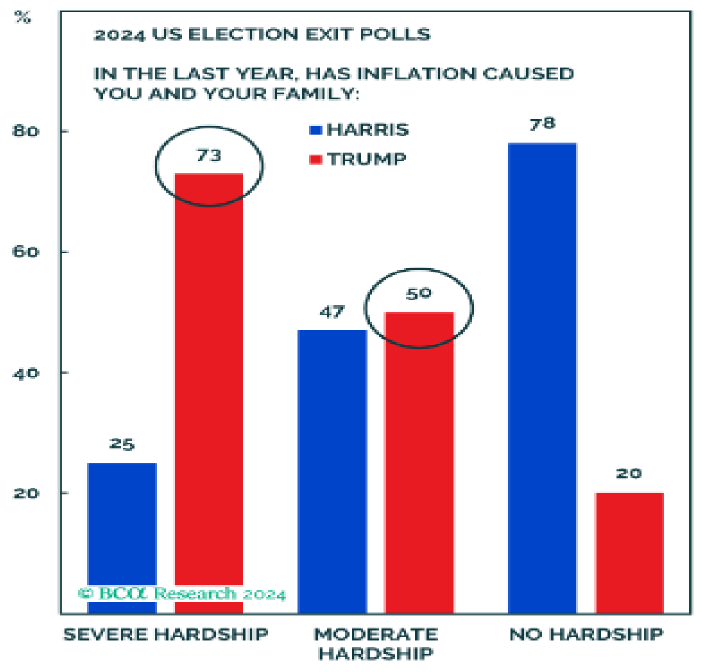



## Inflation a Hardship for Voters




**PROMISE OF TARIFFS, LOWER IMMIGRATION AND TAX CUTS = FISCALLY STIMULATIVE AND INFLATIONARY**

Source: BCA Research, ABSLAMC Research

# Growth in China has been led by exports

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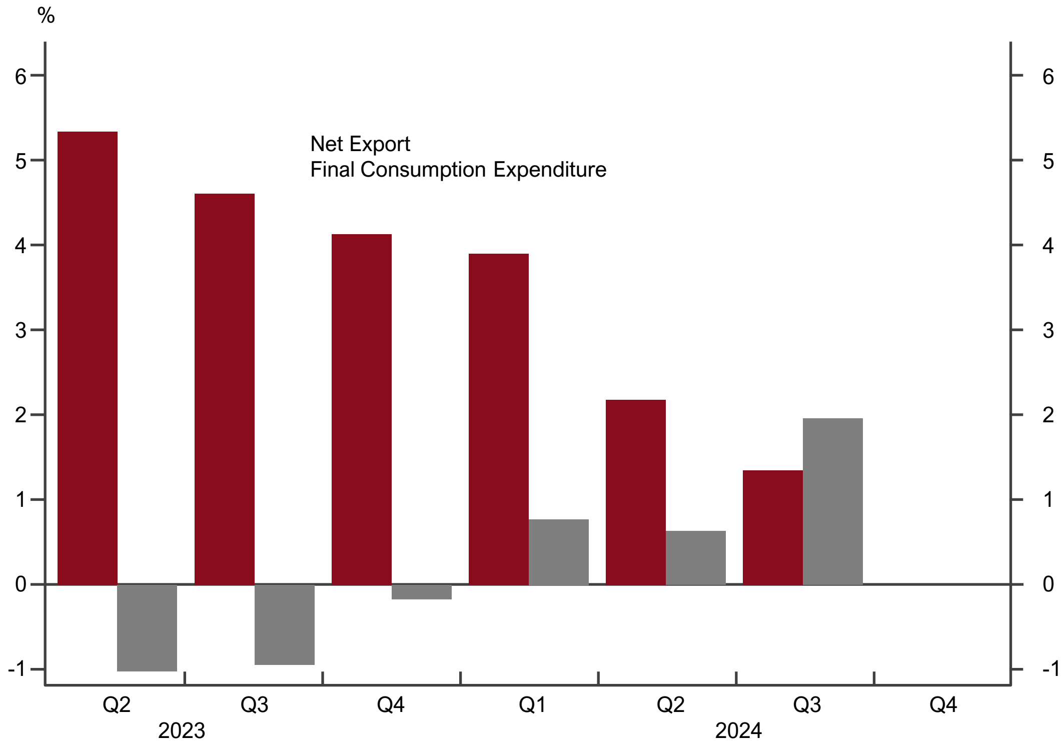
## China: Contribution to Annual Real GDP Growth



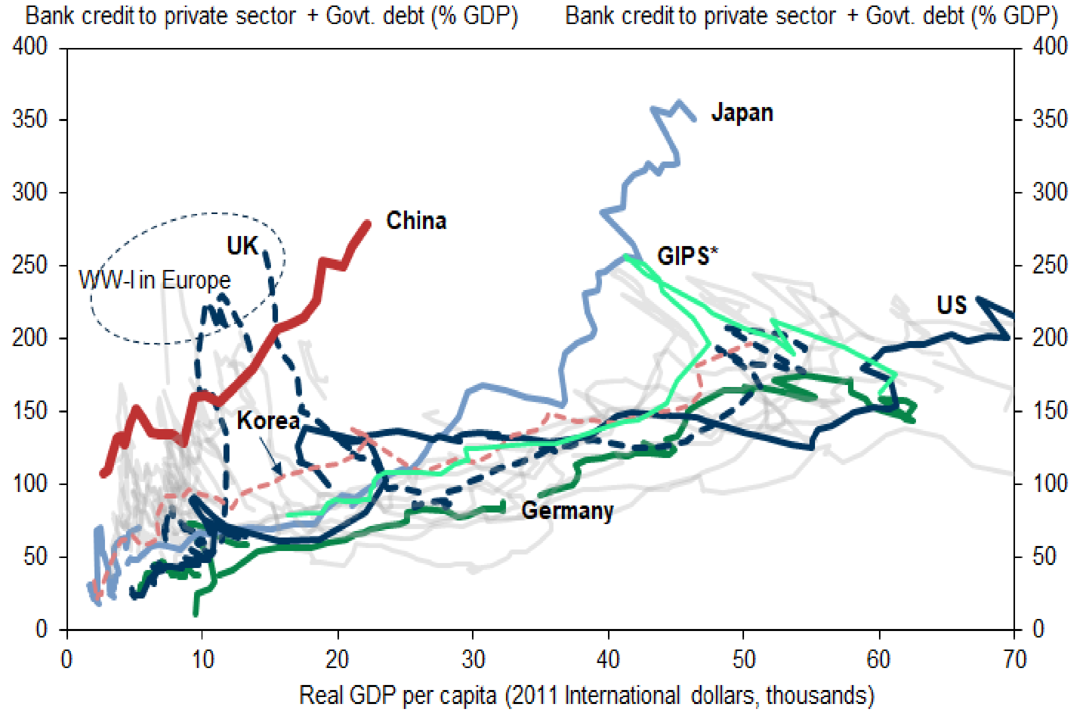

## US Share(%) of Imports from China


**THE THREAT OF TARIFFS WILL ADD UNCERTAINTY TO CHINA'S GROWTH ENGINE**

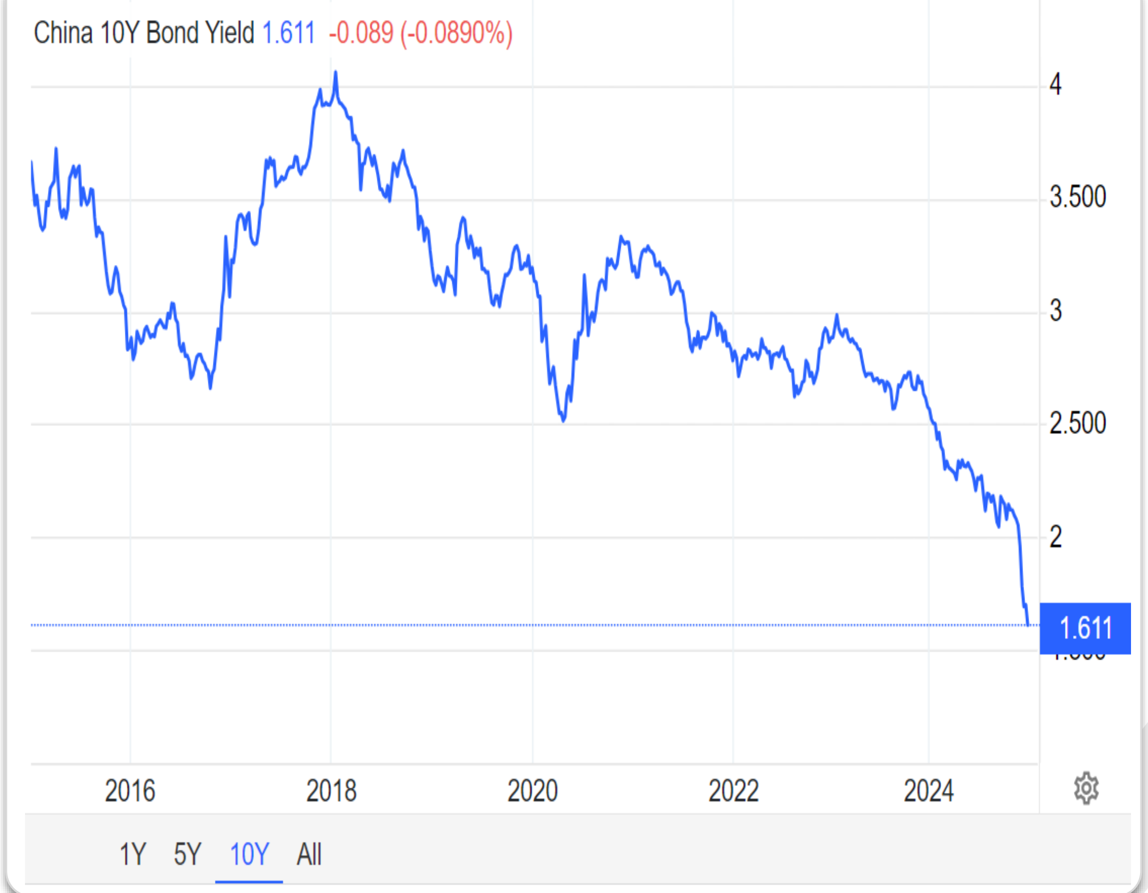
Source: BCA Research, JP Morgan

# Leverage has risen unprecedently

**Exhibit 3: China's debt buildup is unusual for a lower/middle-income country in peacetime**




GIPS stand for Greece, Ireland, Portugal and Spain. The light grey lines are other developed economies including Australia, Canada, Denmark, France, Italy, Netherlands, Norway, Sweden & Switzerland. Gaps reflect lack of data particularly around the two world wars.




**PRICING IN SHARP SLOWDOWN AHEAD – CHINA'S POLICY RESPONSE IS KEY TO GLOBAL GROWTH**

Source: Goldman Sachs research

# The IMF expects world output growth to remain stable at 3.2% next year

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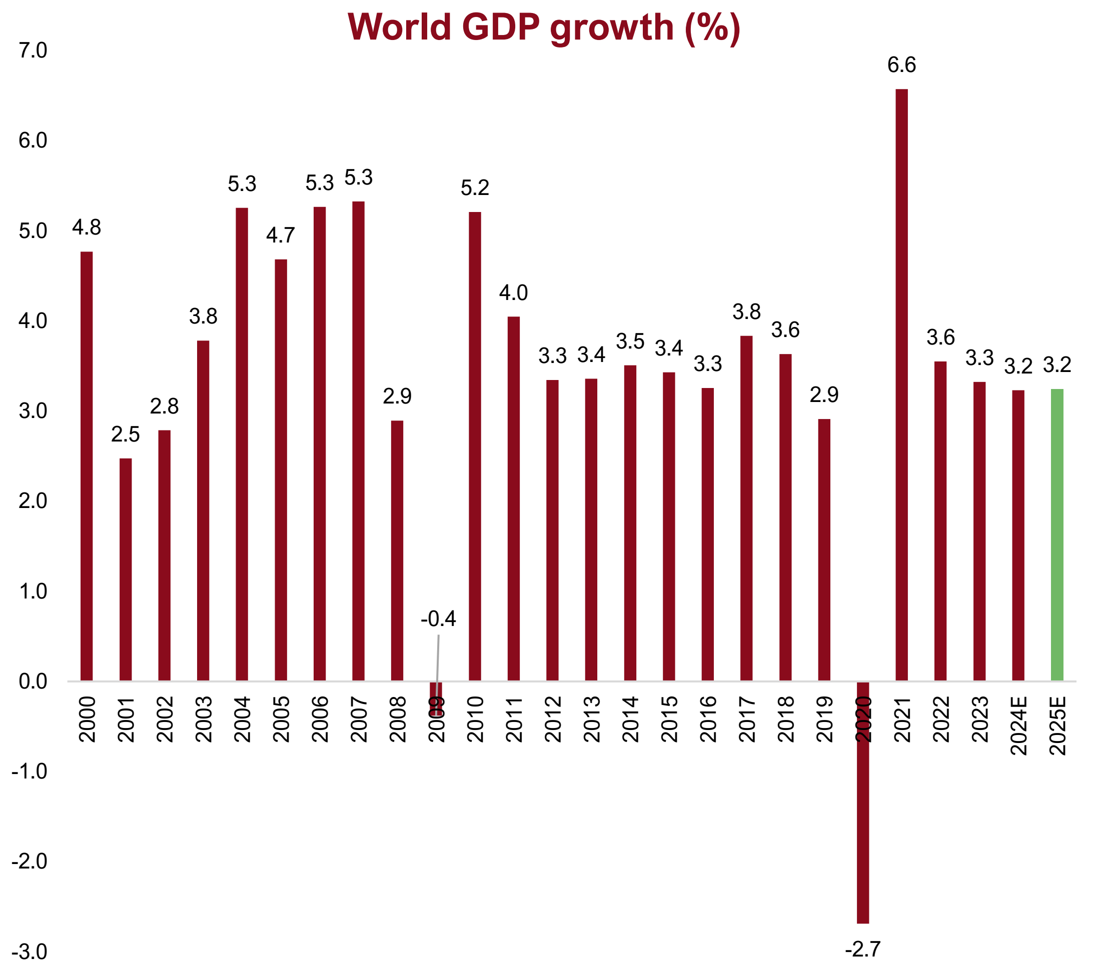
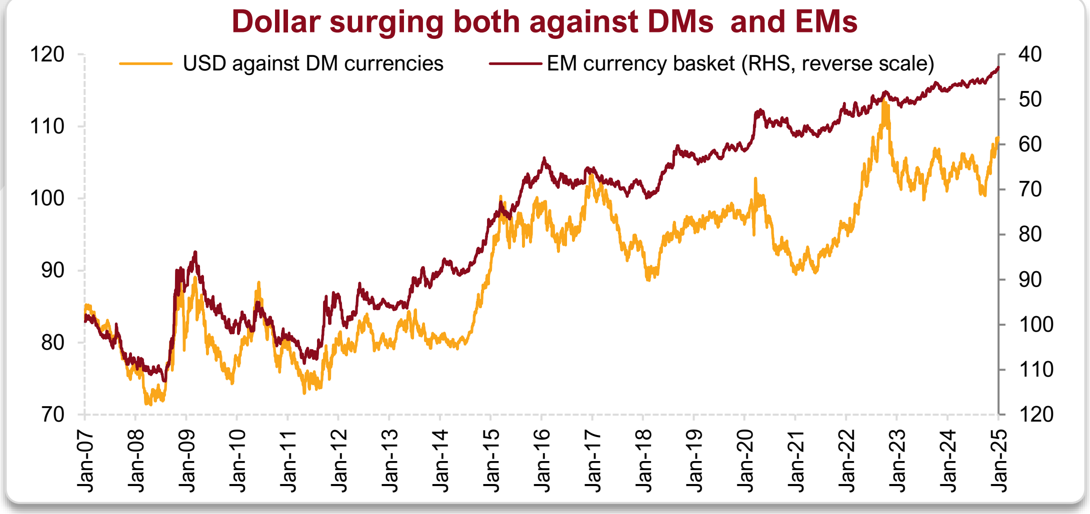
| | | Projections | |
|---|---|---|---|
| | **2023** | **2024** | **2025** |
| **World Output** | **3.3** | **3.2** | **3.2** |
| **Advance Economies** | **1.7** | **1.8** | **1.8** |
| United States | 2.9 | 2.8 | 2.2 |
| Euro Area | 0.4 | 0.8 | 1.2 |
| Germany | -0.3 | 0.0 | 0.8 |
| France | 1.1 | 1.1 | 1.1 |
| Italy | 0.7 | 0.7 | 0.8 |
| Spain | 2.7 | 2.9 | 2.1 |
| Japan | 1.7 | 0.3 | 1.1 |
| United Kingdom | 0.3 | 1.1 | 1.5 |
| Canada | 1.2 | 1.3 | 2.4 |
| Other Advanced Economies[2] | 1.8 | 2.1 | 2.2 |
| **Emerging Market and Developing Economies** | **4.4** | **4.2** | **4.2** |
| Emerging and Development Asta | 5.7 | 5.3 | 2.0 |
| China | 5.2 | 4.8 | 4.5 |
| India[3] | 8.2 | 7.0 | 6.5 |

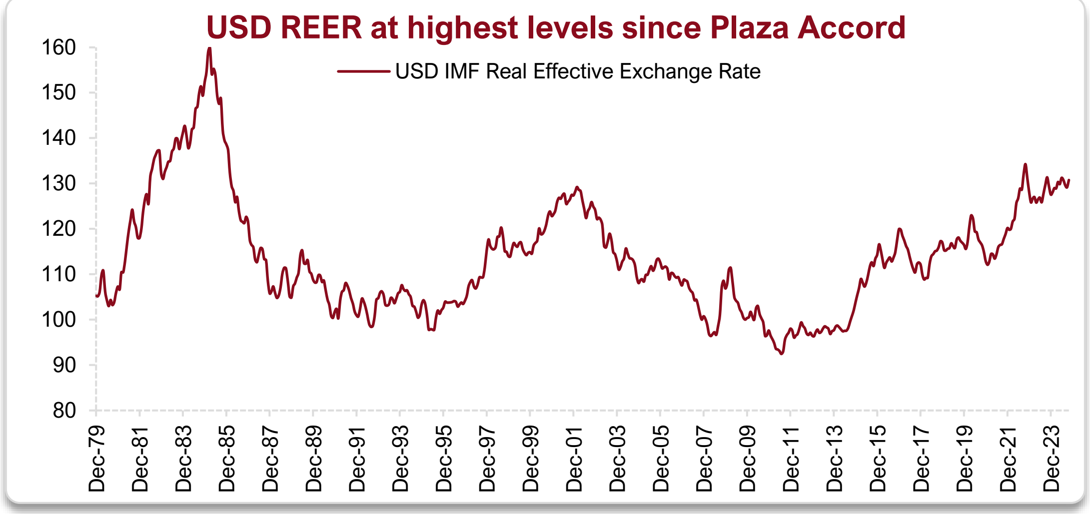


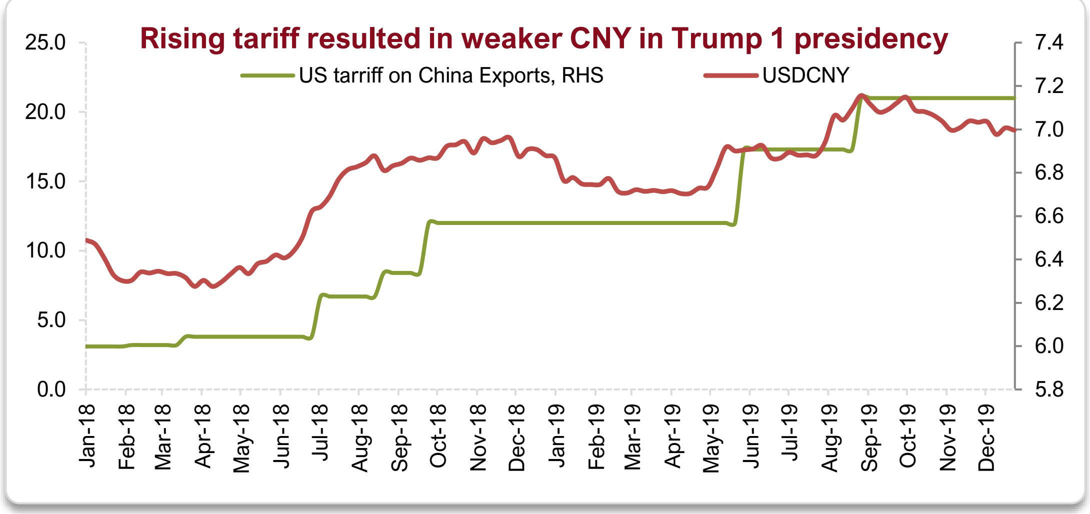

**POLICY PULLS AND PUSH: 2025 SIMILAR TO 2024 AND PRE-COVID GROWTH RATES**

Source: IMF October World Economic Outlook

# Stage set for global fx tensions




USD is at the strongest level in Real Effective Rate terms since the Plaza accord of 1985. Moreover, rising US yields are putting further upside pressure on USD. In Trump 1 term rising tarrif on China resulted in weaker CNY. A stronger dollar would hurt US competitiveness and President Trump is unlikely to take it lightly. Stage is set for fx related tensions in 2025

Source: CEIC, Bloomberg, ABSLAMC Research

# Global Macro Summary

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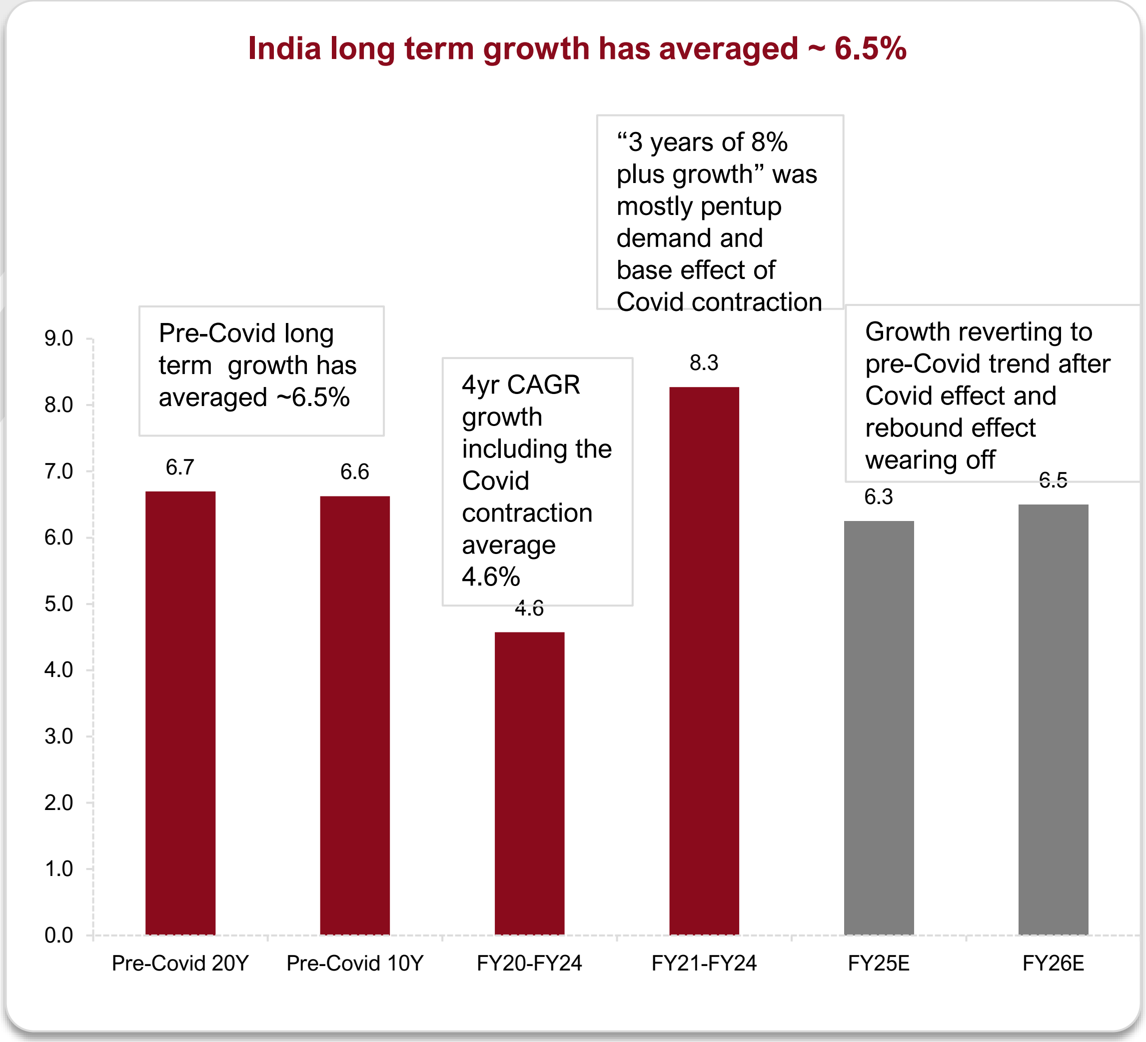
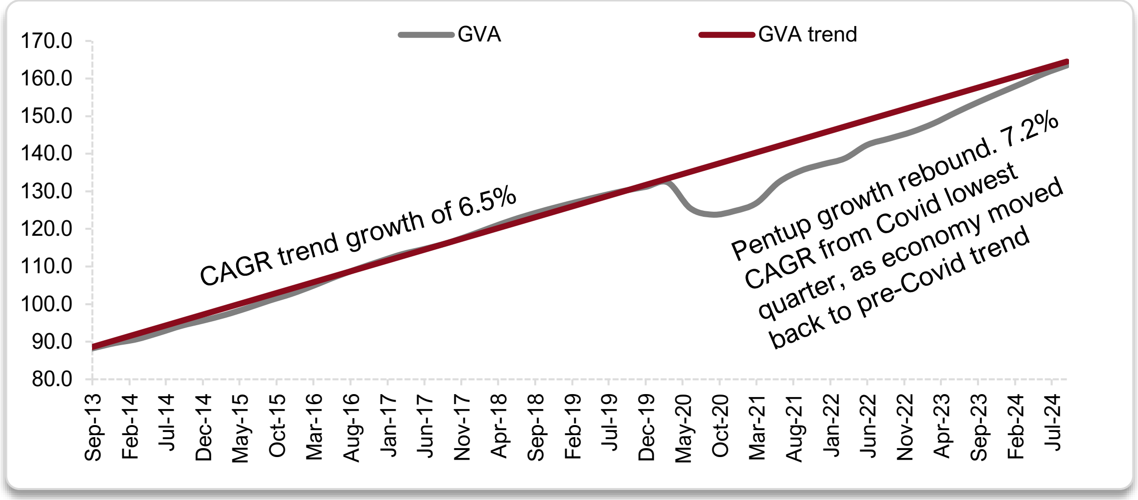
- **US growth**
  - Policy shifts around trade is the key risk
  - Trump has promised a variety of measures including more tax cuts, stricter immigration policy as well as tariffs on imports. All of them are fiscal expansionary and inflationary in nature with macro backdrop in opposite direction
  - Bonds yields and the dollar have risen expecting stronger growth, higher inflation, fiscal deficit and higher for longer policy.
  - Growth & Inflation at 2.5% assuming moderate tariff hikes.
  - We expect the Fed to cut rates by a further 100 bps in this cycle for a terminal rate of around 3.5%.
  - Bond yields and the dollar should peak out in Q1 2025 as the tail outcomes are priced out and there is better visibility on Trump's policies.
  - 10Y should head towards 4% in the second half of the year in our baseline scenario with large vols on both sides over the course of the year.
- **China**
  - Better prepared to negotiate with US compared to 2016
  - Reliance on exports for growth is the key risk
  - Huge capacity overhang with higher leverage creates problems for nominal growth
  - Policy shift to stimulate local economy on the cards
- Global growth stable with risks to the downside as two large economies are staring at Policy shifts & Trade wars
- **2025: Year of vols induced by policy uncertainty - Negative for growth & inflation or OPPORTUNITY as bad news is in the price**
- **Currency markets will give better insights on the evolving outlook**

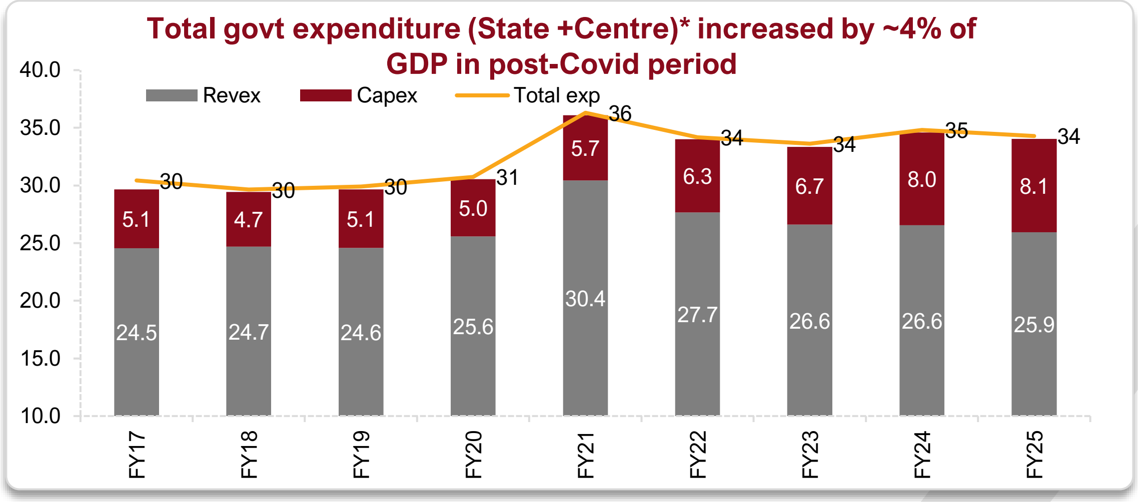
# INDIA MACRO:
## Witnessing short term slowdown

The map of India is used for illustrative purposes only and is not a political map of India.

# 2024-26: Growth expected to revert to pre-Covid trend

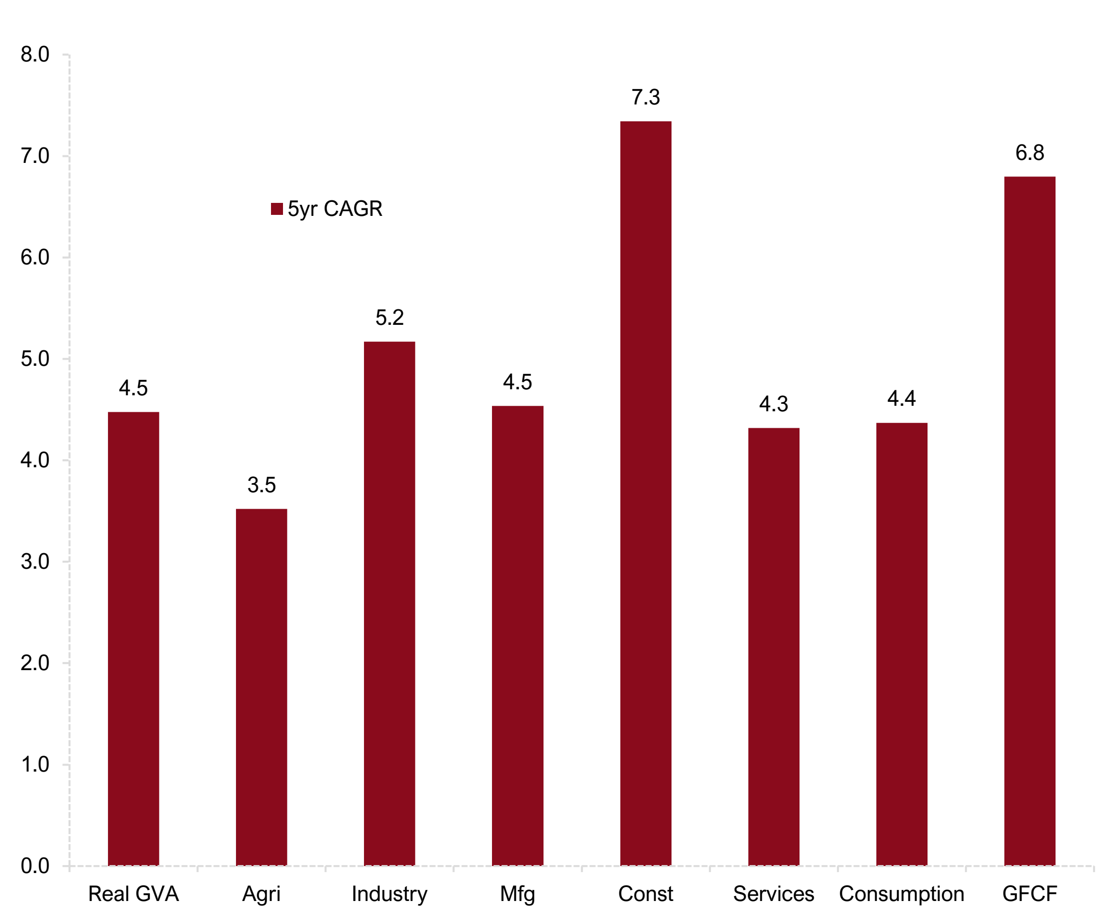


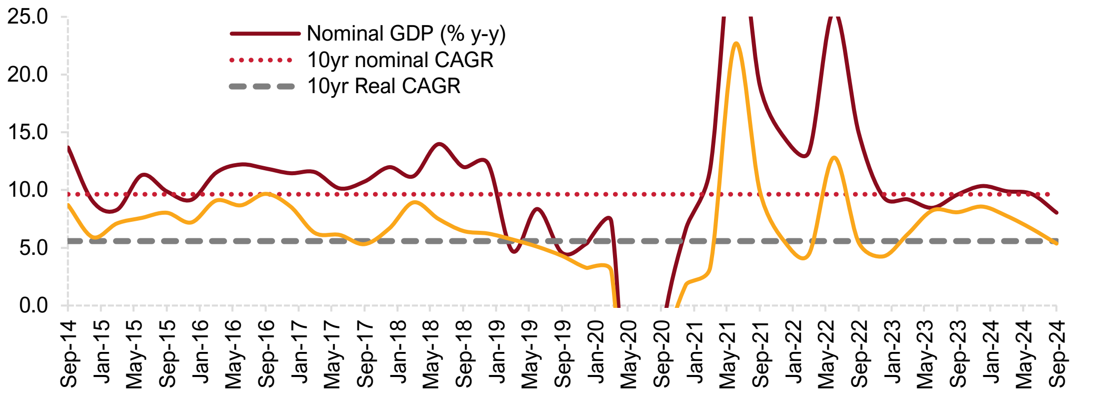



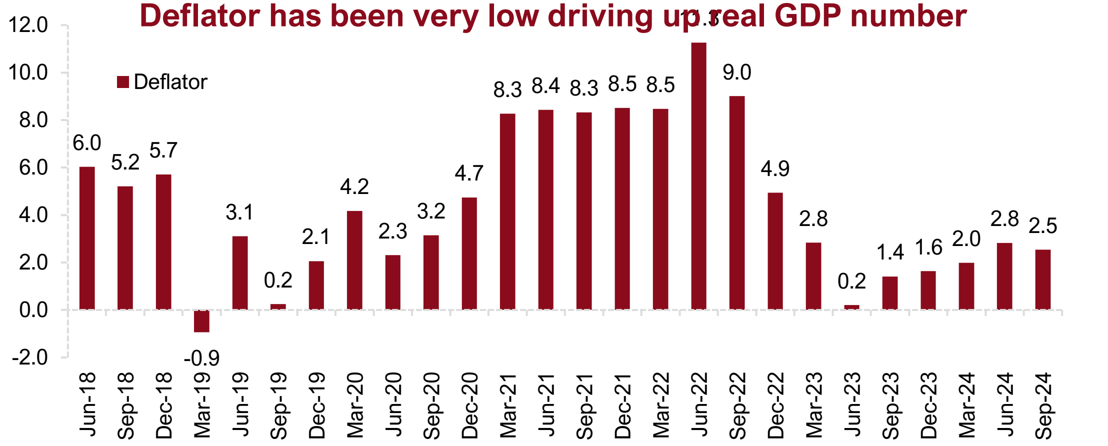




Source: CEIC, ABSLAMC Research

# Post Covid divergence among sectors; deflator boost to real GDP




Source: CEIC, ABSLAMC Research

# Fiscal-monetary policy contraction dragged down growth

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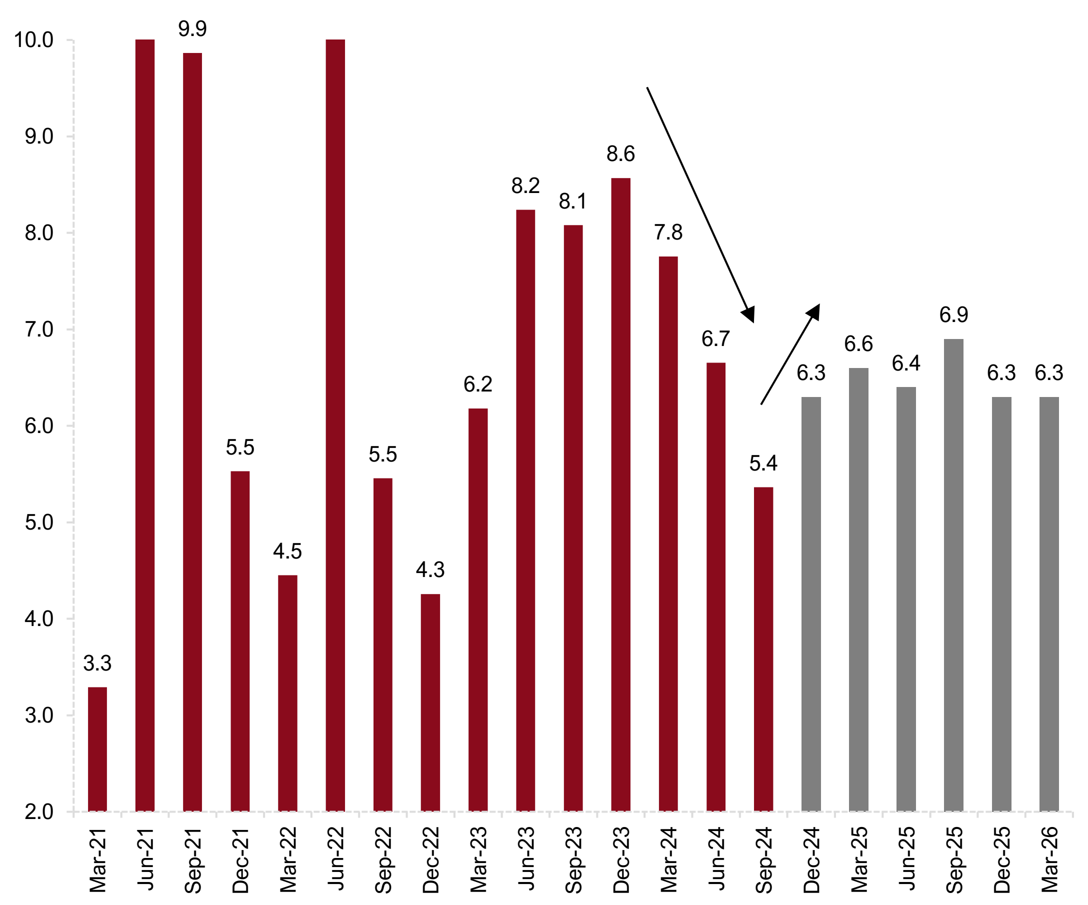
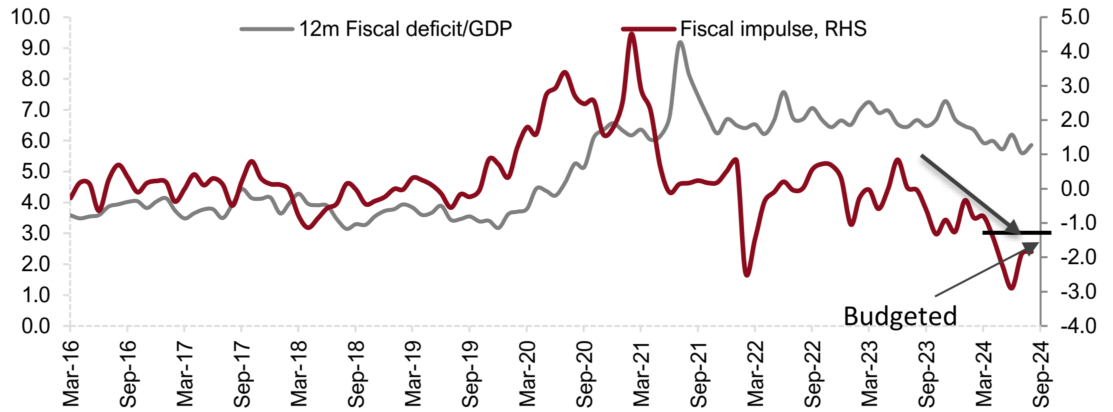
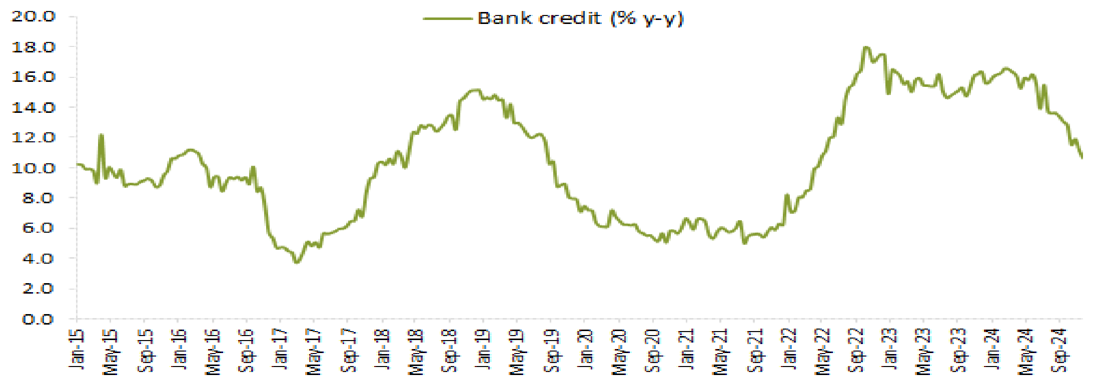
GDP (% y-y)




Fiscal contraction in the year has been sharper than budgeted




Credit growth falls sharply on tight monetary policy




Source: CEIC, ABSLAMC Research

# Post covid: Consumption struggling & Investment surged

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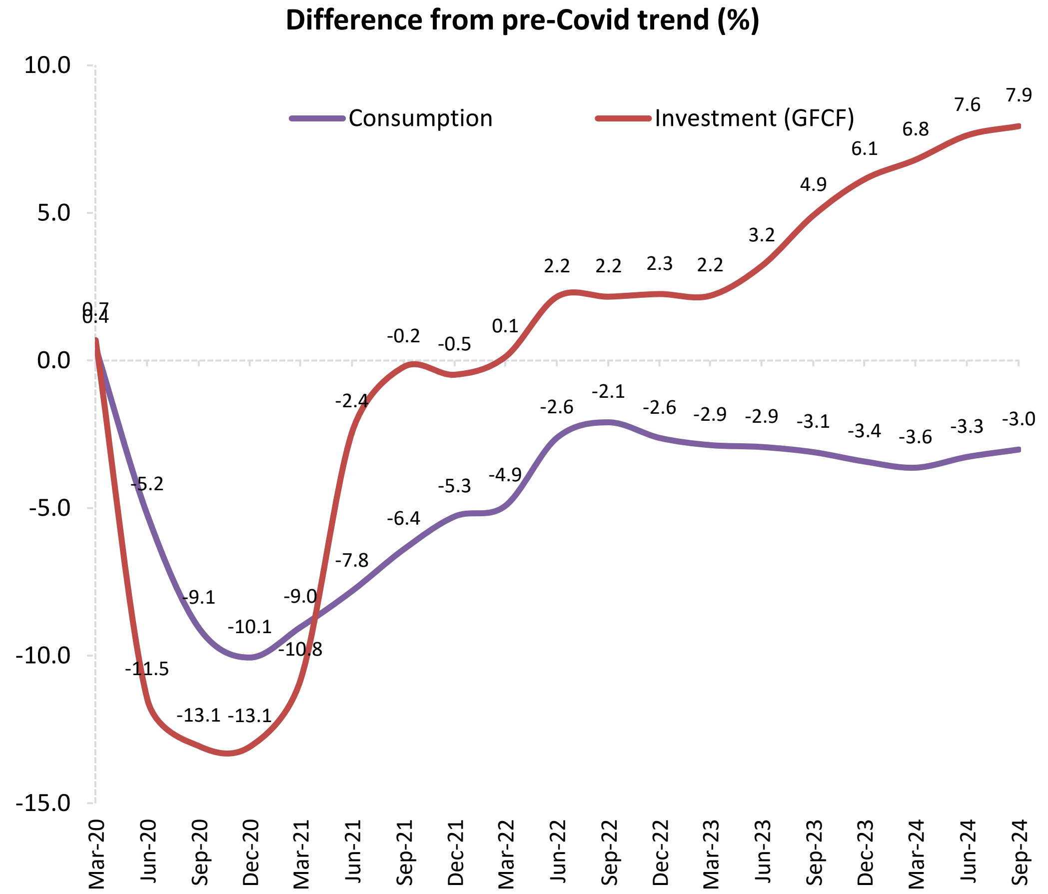
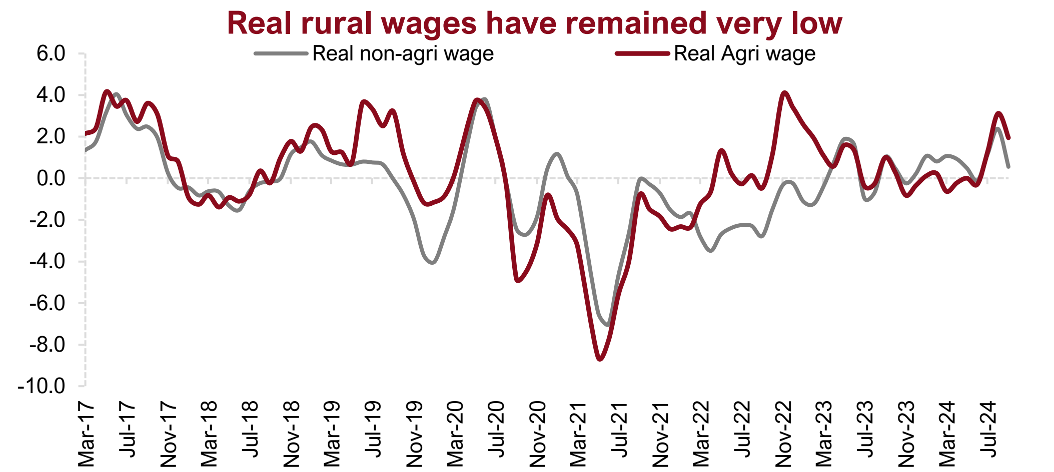
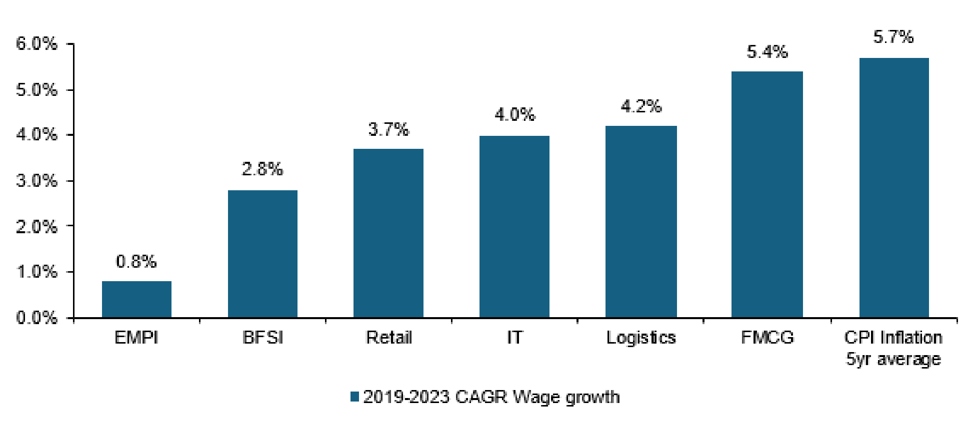
## Consumption still below pre-Covid trend levels




## CONSUMPTION: Driver 1: INCOME GROWTH HAS BEEN WEAK


Source: CEIC, Avendus Spark, Morgan Stanley, ABSLAMC Research

# Driver 2. Fiscal: Weak central transfer negative for consumption

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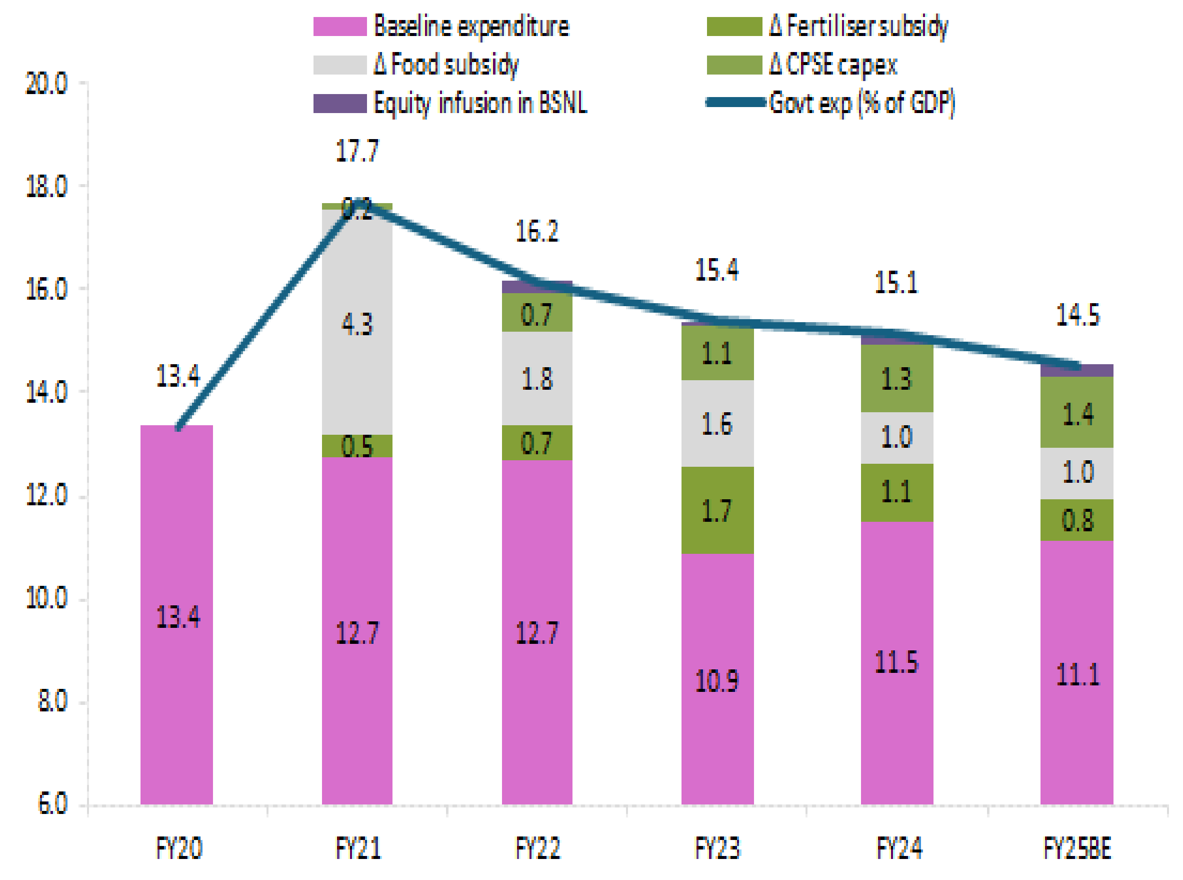
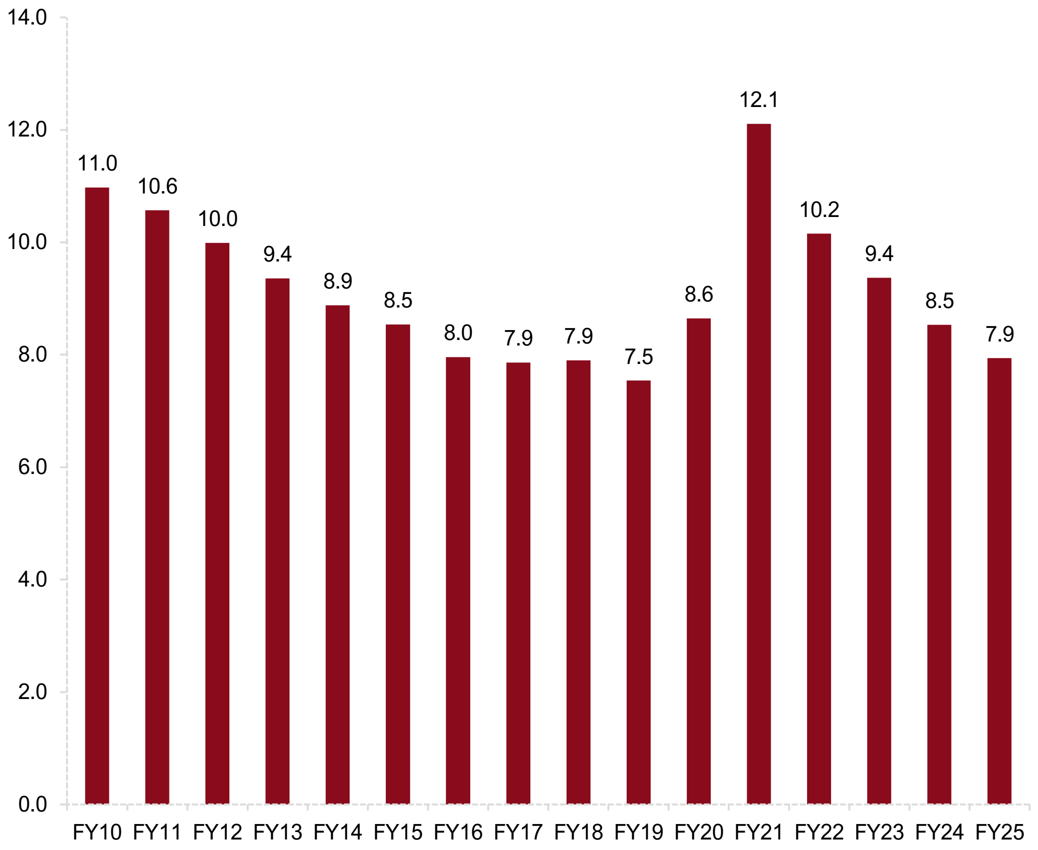
## Govt exp (% of GDP)




## Central govt revenue exp -interest payments




**FISCAL SUPPORT TO CONSUMPTION HAS REDUCED**

Source: CEIC, Morgan Stanley, ABSLAMC Research

# Driver 3. Leverage: Declining on regulatory tightening

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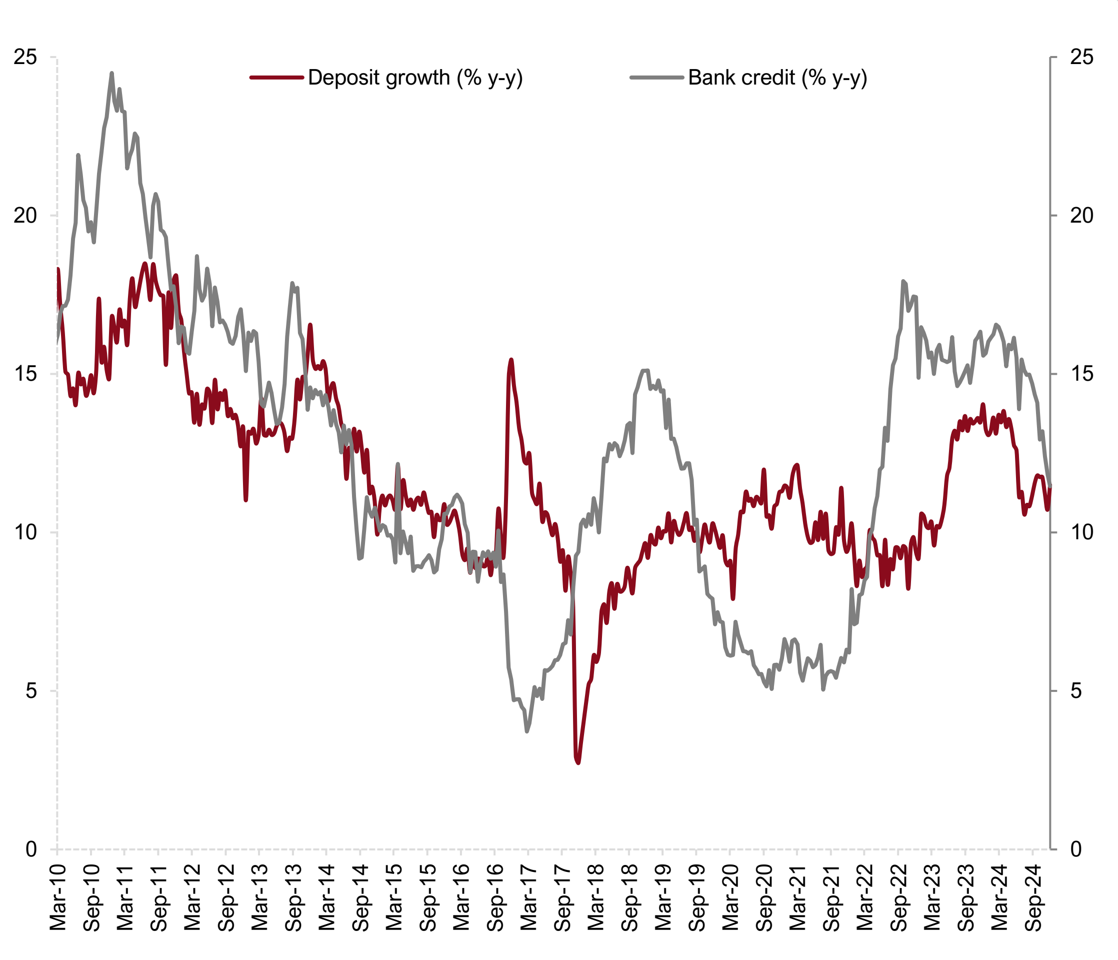
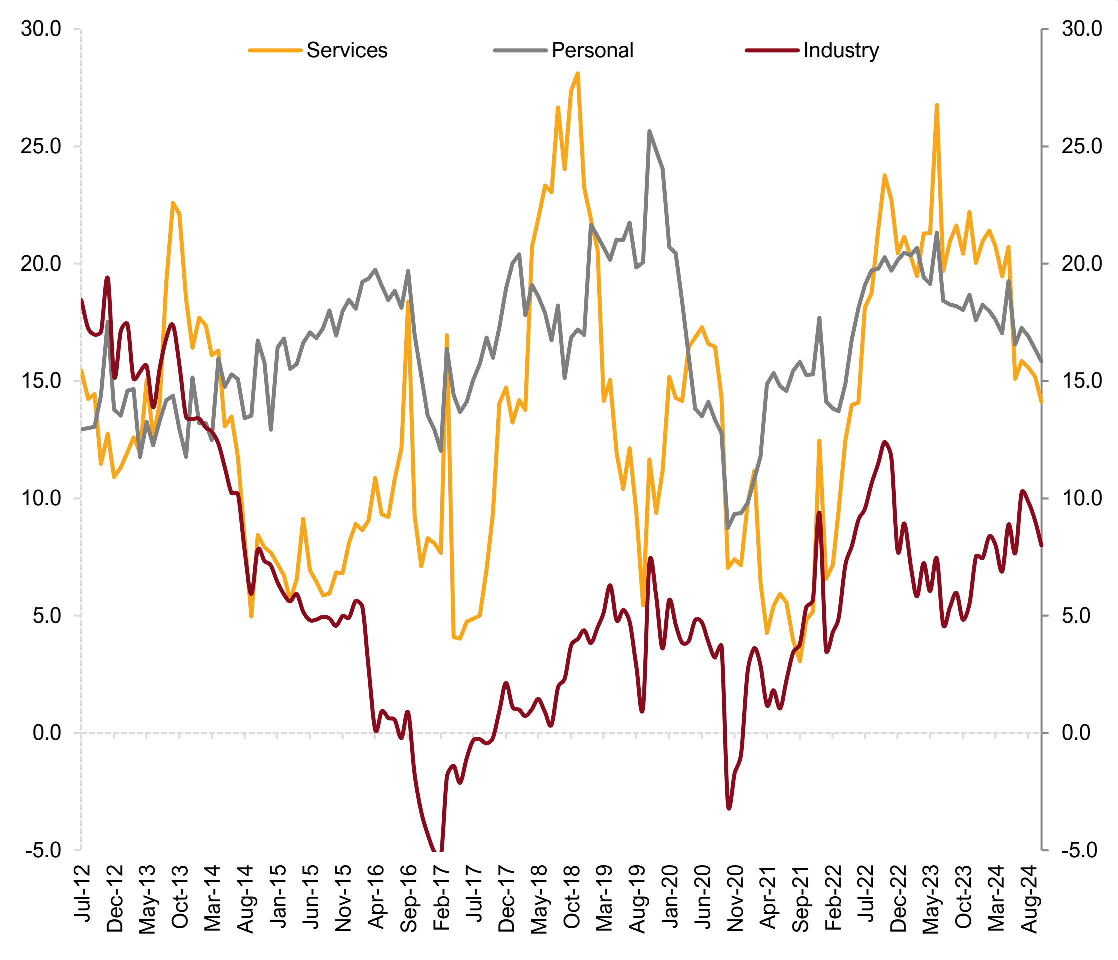
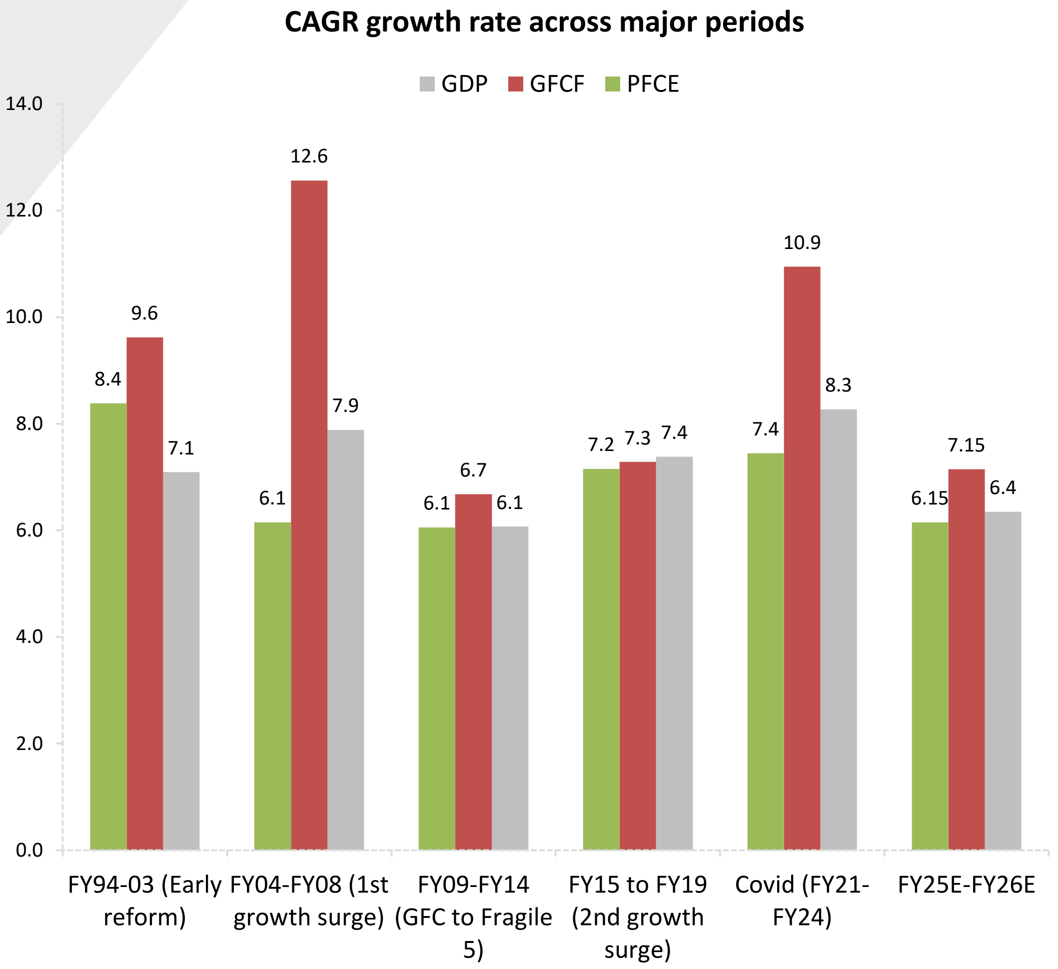


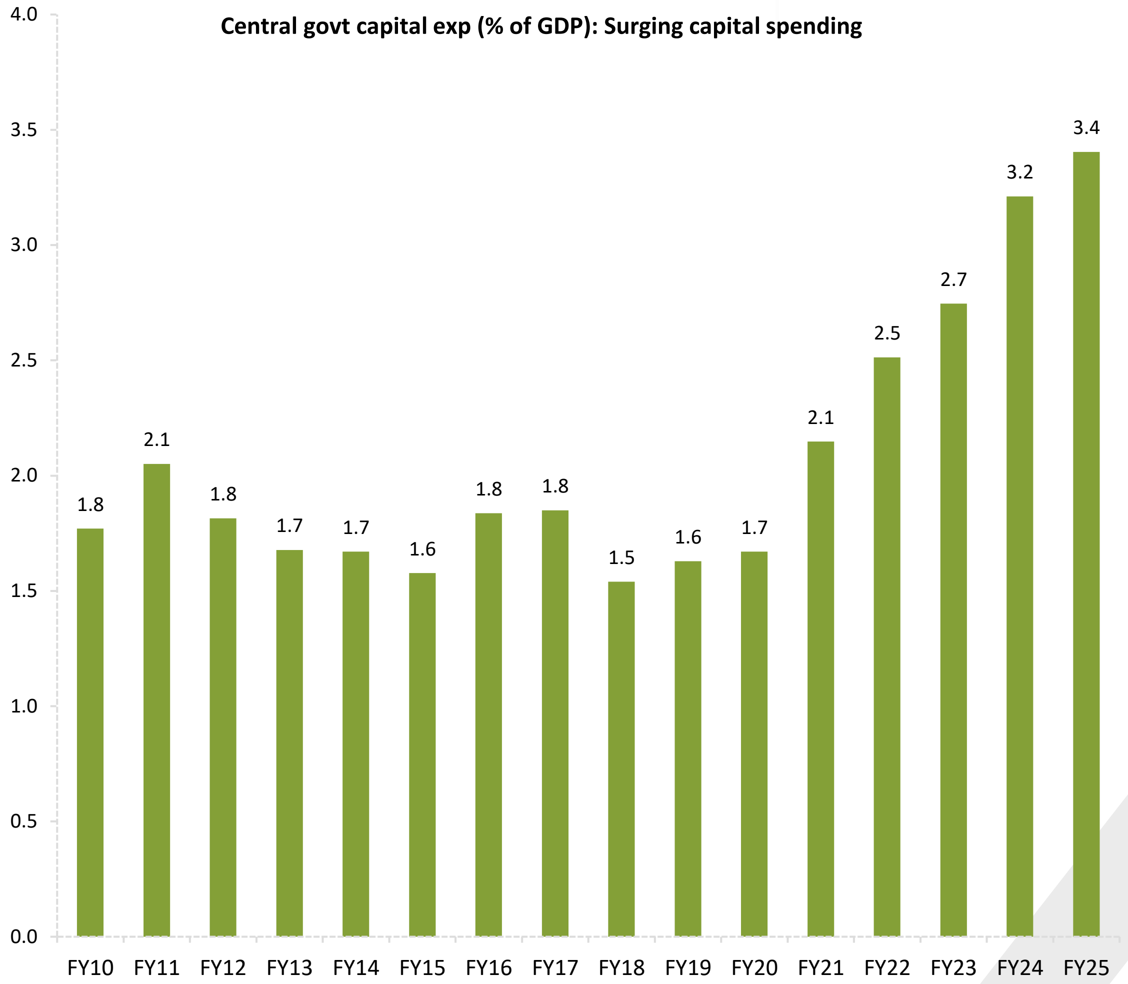




**INFLATION TARGETING HAS SIDE EFFECTS IN SHORT TERM**

Source: CEIC, ABSLAMC Research

# Growth drivers across major periods



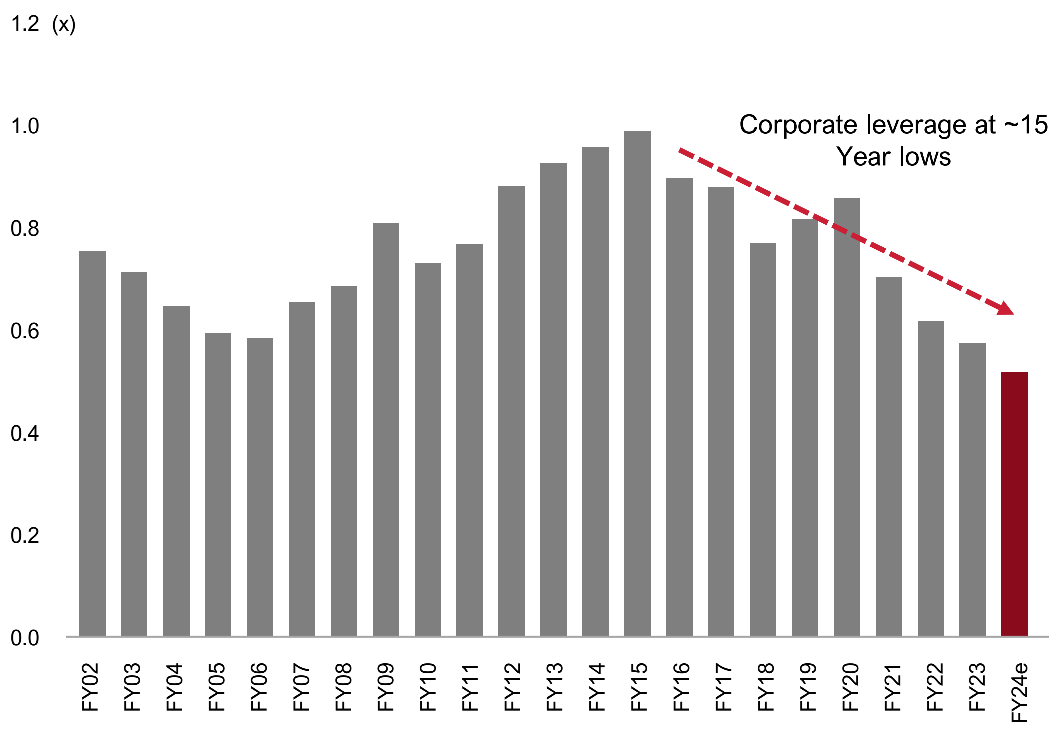




## CAPEX IS KEY TO STRONG AND SECULAR GROWTH

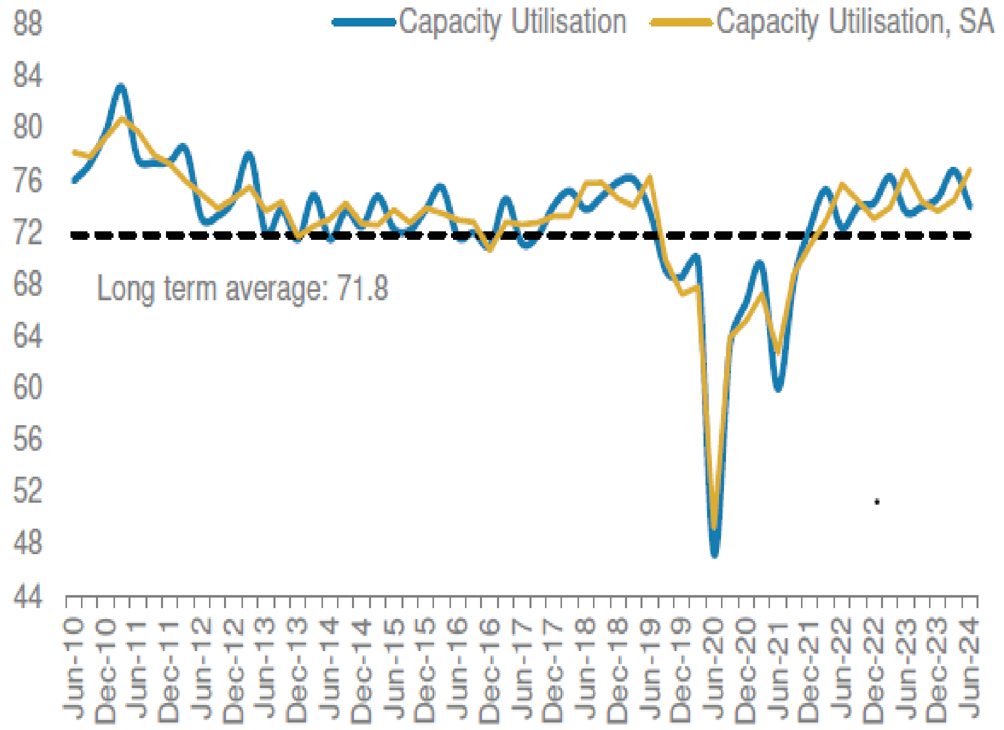
Source: ABSLAMC Research

# Private & HH capex: Indicators are looking better

### Gross D/E ratio for large listed companies




### Capacity Utilisation Tracking Above Long-Term Average Levels




Source: CEIC, Morgan Stanley, ABSLAMC Research

# Growth expected at 6.5% in FY26 with policy support

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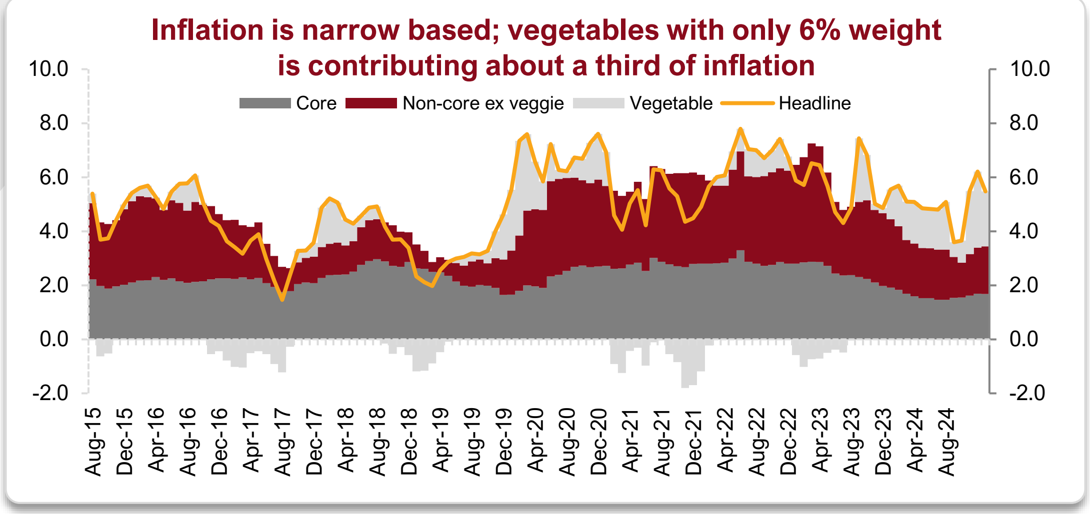
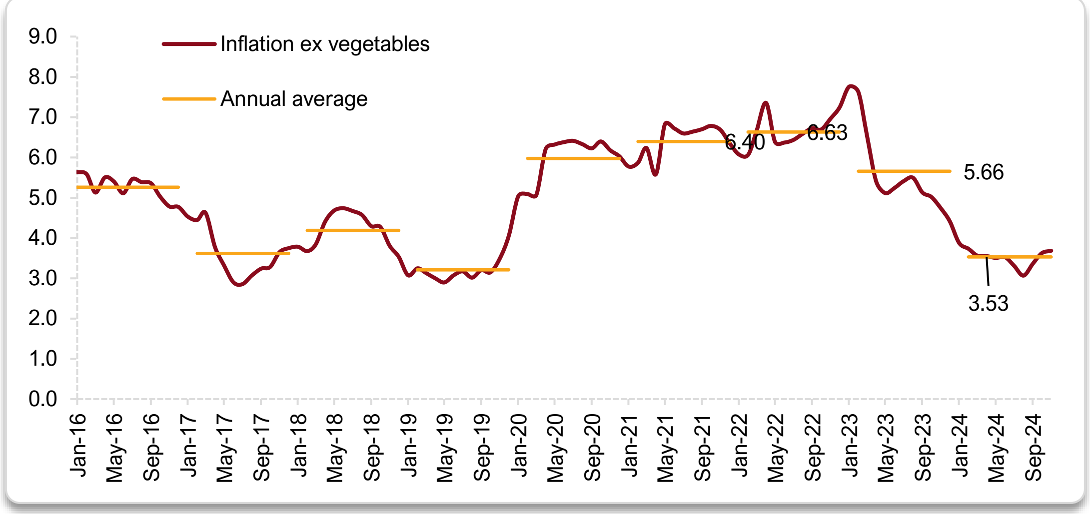
**After sharp decline in growth in 2Q FY25, we expect growth to move towards 6.5% in FY26**

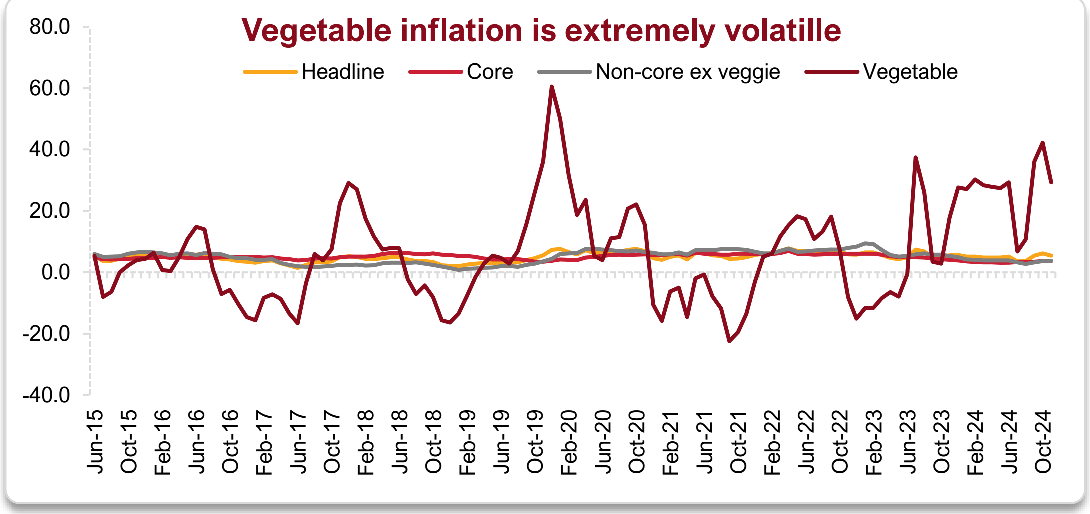
| | GDP | PFCE | GFCE | GFCF | Agri | Industry | Services |
|---|---|---|---|---|---|---|---|
| FY26E | 6.5 | 6.4 | 5.2 | 7.0 | 4.0 | 7.1 | 6.7 |
| FY25E | 6.2 | 6.2 | 5.1 | 7.3 | 4.5 | 6.5 | 6.7 |
| FY24 | 8.2 | 4.0 | 2.5 | 9.0 | 1.4 | 9.5 | 7.6 |
| FY23 | 7.0 | 6.8 | 9.0 | 6.6 | 4.7 | 2.1 | 10.0 |
| FY22 | 9.7 | 11.7 | 0.0 | 17.5 | 4.6 | 12.2 | 9.2 |
| FY21 | 5.8 | 5.3 | -0.8 | -7.1 | 4.0 | -0.4 | -8.4 |
| FY20 | 3.9 | 5.2 | 3.9 | 1.1 | 6.2 | -1.4 | 6.4 |
| FY19 | 6.5 | 7.1 | 6.7 | 11.2 | 2.1 | 5.3 | 7.2 |
| FY18 | 6.8 | 6.2 | 11.9 | 7.8 | 6.6 | 5.9 | 6.3 |
| FY17 | 8.3 | 7.1 | 6.1 | 8.5 | 6.8 | 7.7 | 8.5 |
| FY16 | 8.0 | 7.9 | 7.5 | 6.5 | 0.6 | 9.6 | 9.4 |
| FY15 | 7.4 | 6.4 | 7.6 | 2.6 | -0.2 | 7.0 | 9.8 |
| FY14 | 6.4 | 7.3 | 0.6 | 1.6 | 5.6 | 3.8 | 7.7 |
| FY13 | 5.5 | 6.5 | 0.6 | 4.9 | 1.5 | 3.3 | 9.3 |
| FY12 | 5.2 | 7.4 | 6.5 | 12.1 | 6.4 | 3.6 | 5.9 |
| FY11 | 8.5 | 6.7 | 5.2 | 11.0 | 8.8 | 7.9 | 7.8 |
| FY10 | 7.9 | 5.0 | 14.2 | 7.7 | -0.9 | 8.8 | 8.7 |

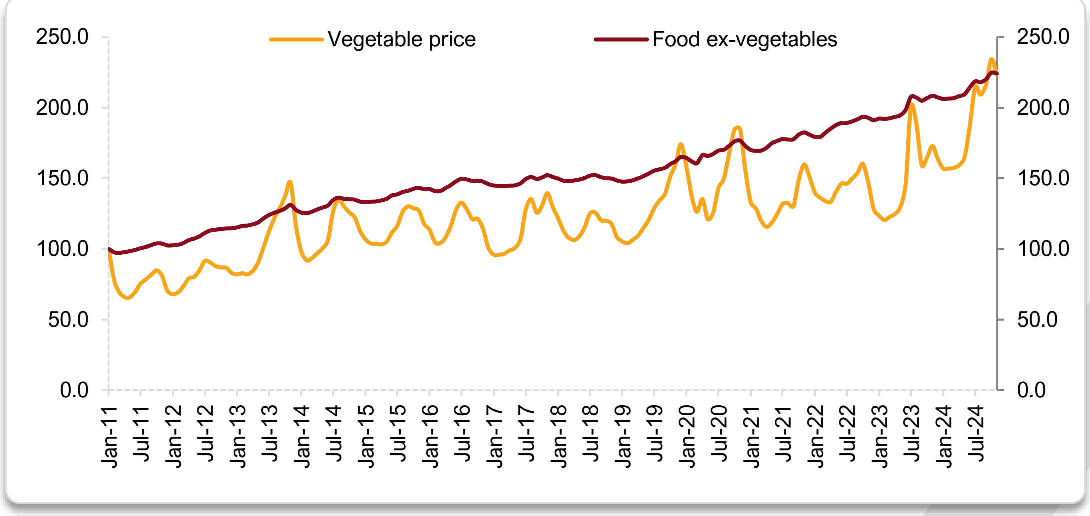
Source: CEIC, ABSLAMC Research

# Spikes in vegetable prices pushed up headline inflation



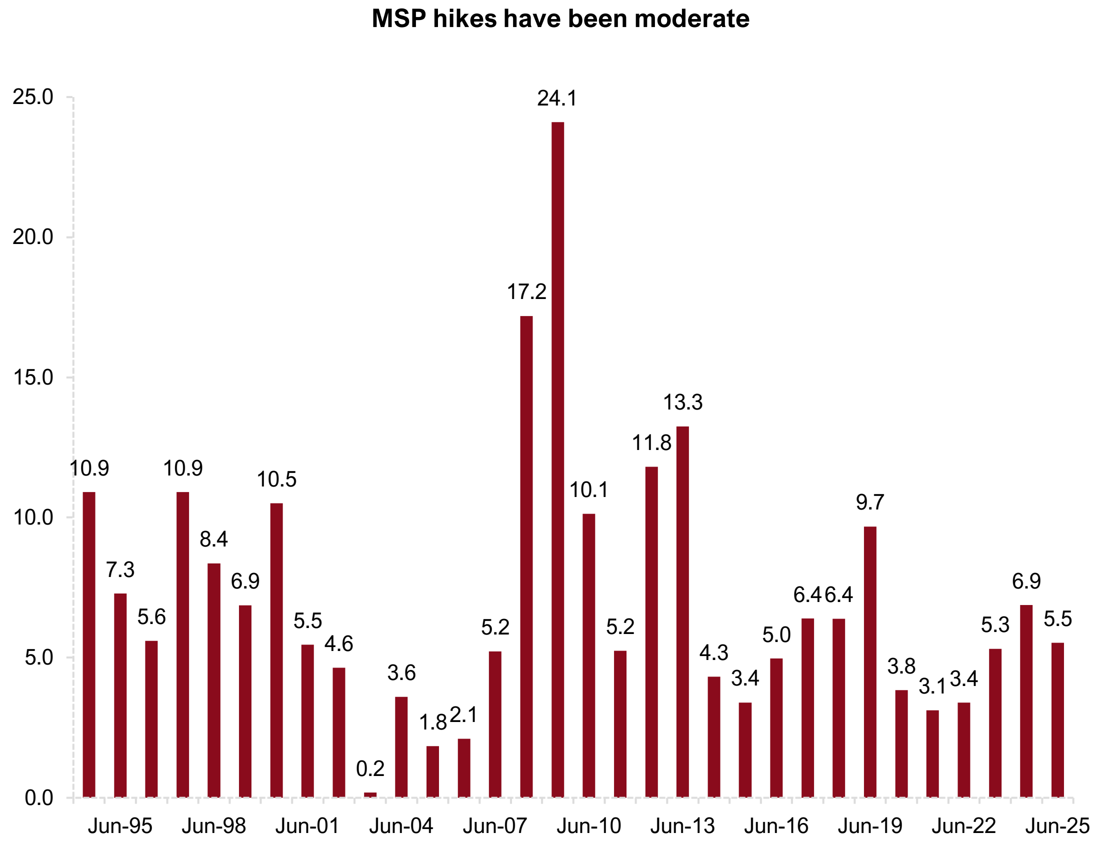




Source: CEIC, ABSLAMC Research

# Spikes in vegetable prices pushed up headline inflation

## Moderate MSP rise and…



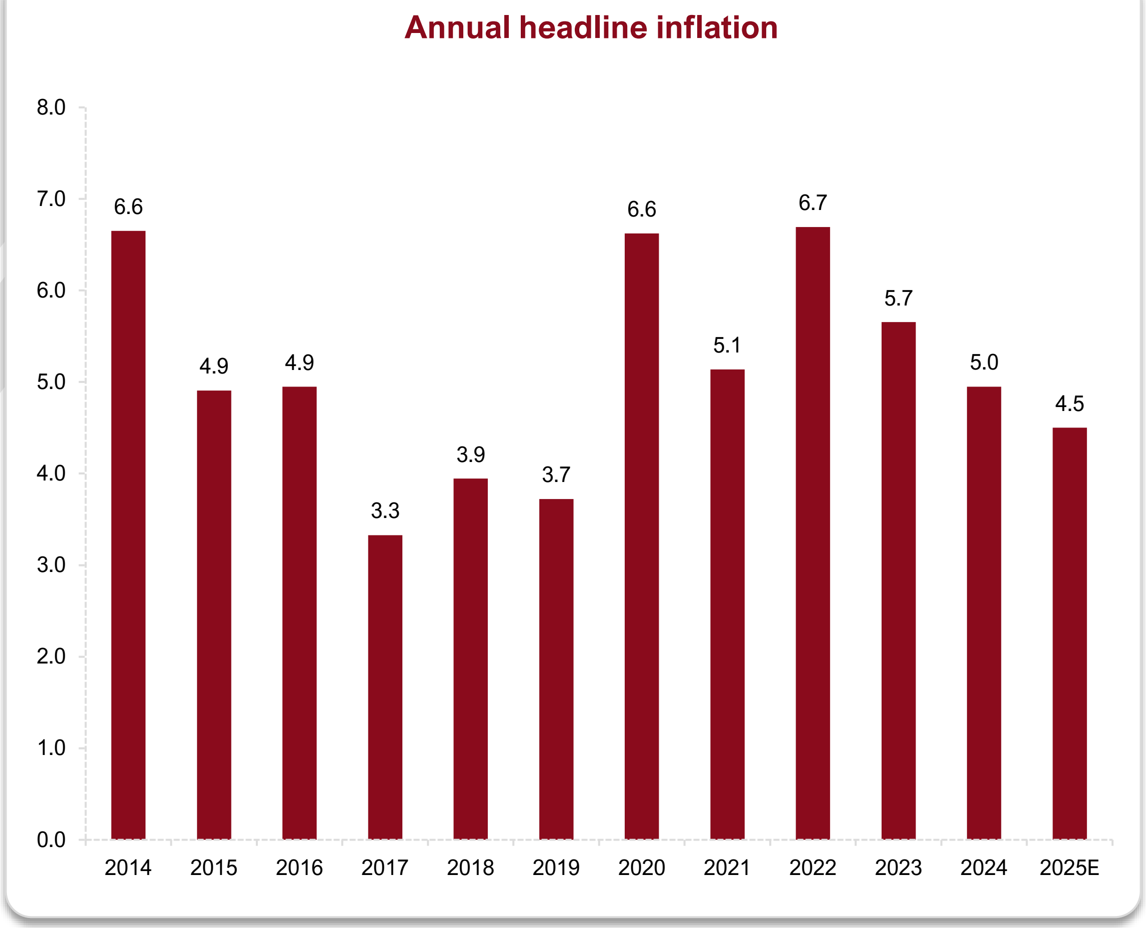

## …healthy output growth should help cool prices

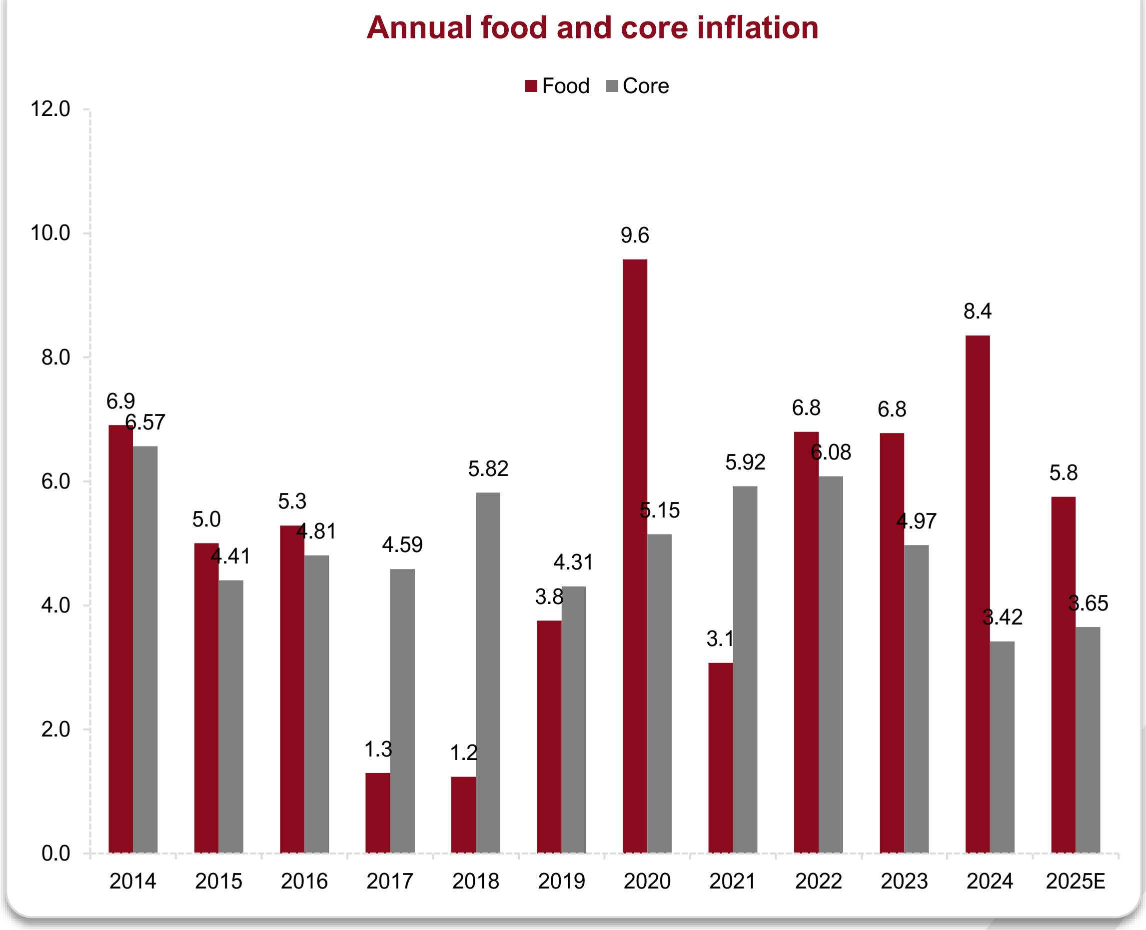
| | Kharif | Cereals | Pulses | Oilseeds | Groundnut |
|---|---|---|---|---|---|
| 2016 | -2.3 | -2.3 | -3.5 | -13.1 | -9.5 |
| 2017 | 10.6 | 7.7 | 73.3 | 29.0 | 12.7 |
| 2018 | 1.5 | 1.9 | -2.9 | -2.4 | 25.6 |
| 2019 | 0.7 | 1.7 | -13.1 | -1.6 | -29.1 |
| 2020 | 1.6 | 1.8 | -2.1 | 7.6 | 55.7 |
| 2021 | 4.7 | 4.5 | 8.8 | 6.6 | 1.7 |
| 2022 | 3.2 | 3.6 | -4.4 | 1.0 | -1.1 |
| 2023 | 0.2 | 0.7 | -7.5 | 9.1 | 1.5 |
| 2024 | 0.0 | 0.5 | -8.5 | -7.6 | 1.1 |
| 2025 | 5.7 | 6.0 | -0.3 | 6.6 | 19.6 |

## FOOD INFLATION KEY DRIVER: MSP, PRODUCTION, SUPPLY MANAGEMENT

Source: CEIC, ABSLAMC Research

# Lower food inflation expected to bring down headline inflation

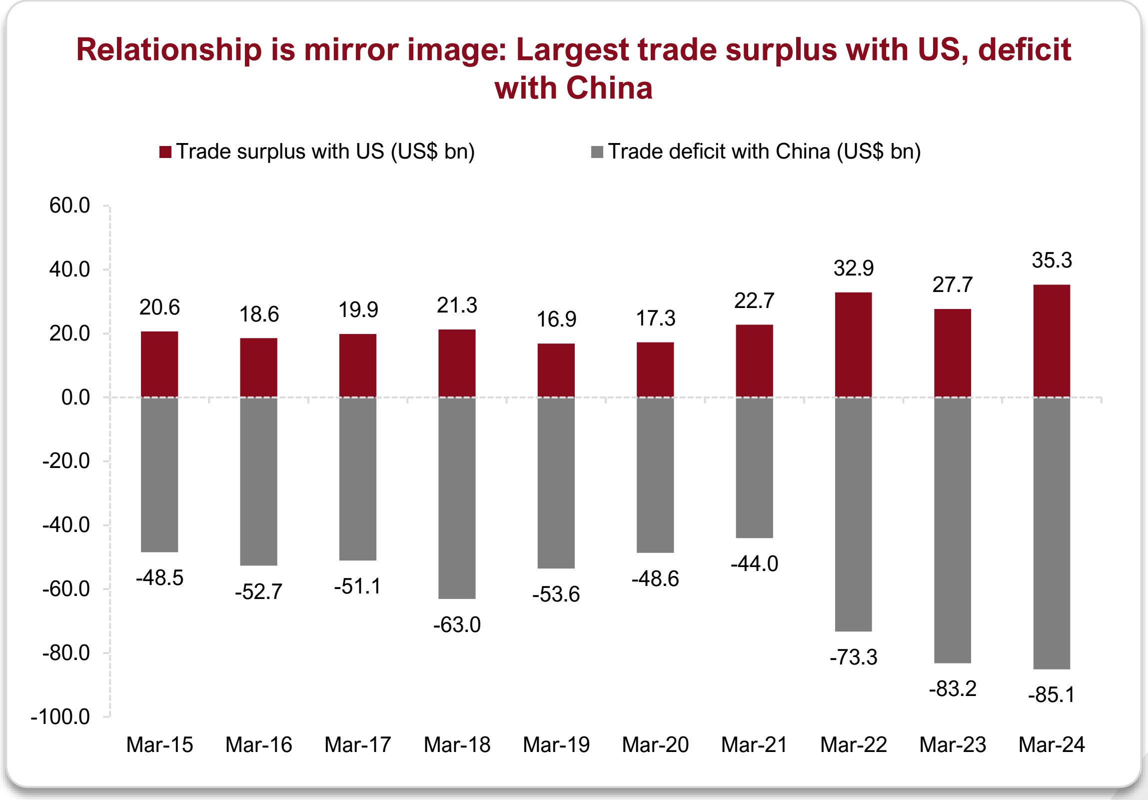



**We expect headline inflation to move towards 4.5% in CY25.**

Source: CEIC, ABSLAMC Research

# US and China are India's top trading partners: Trump tariff policy are potential risk on both account


US and China are India's largest trading partner. Although the relationship is quite the mirror image. India runs largest trade surplus with US and largest trade deficit with China. With China being the largest source of India's imports and trade deficit both Indian policymaker and maybe even markets have forced INR to not appreciate against CNY in the past. Hence if CNY depreciates again in 2025, we believe that INR will follow. Moreover, US being the biggest trade surplus country comes with its own risks, should US policy actions restrain imports. Moreover, there is also the concern that with access to West restrained, China may try to flood other markets with its exports.

Source: Bloomberg, ABSLAMC Research

# Especially if there is escalation of US-China trade tensions

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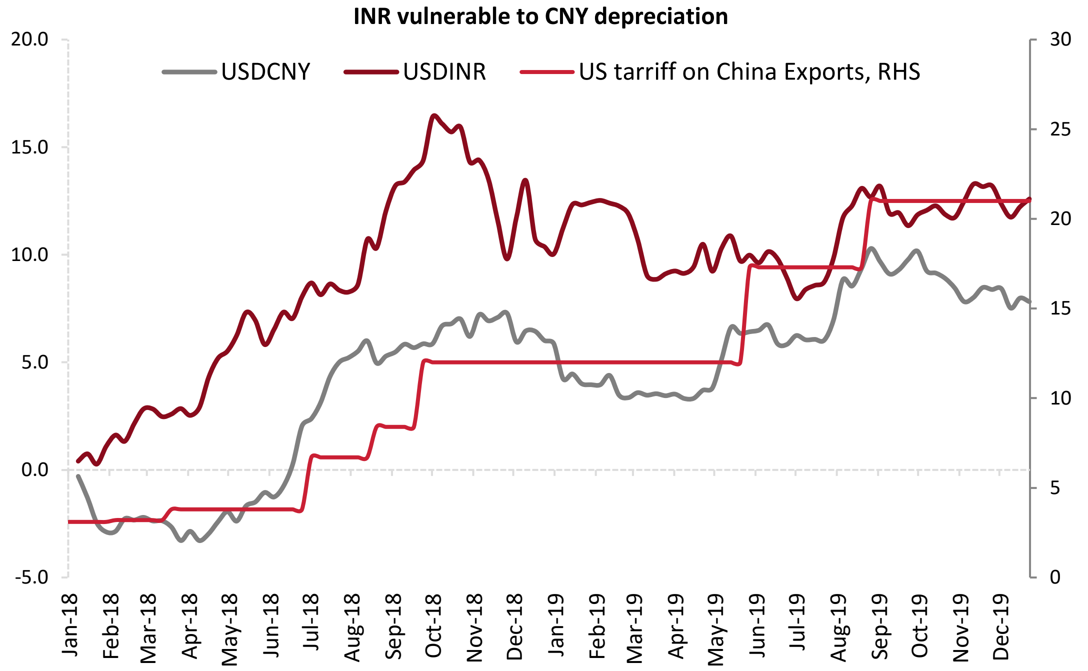
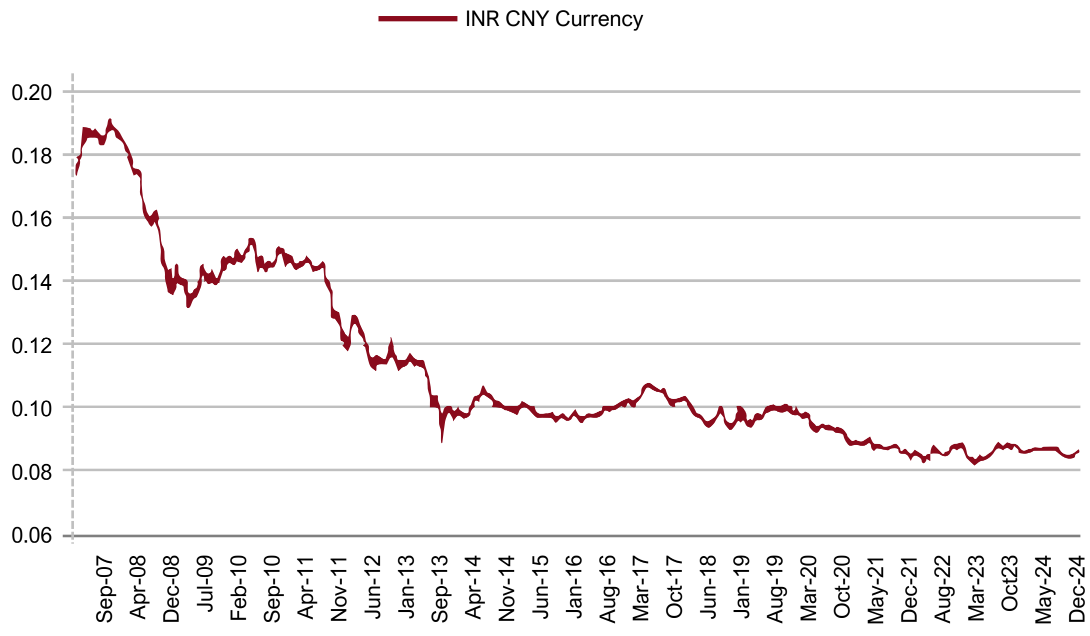
## In 2018-19 US-China tariff tensions, INR depreciated along with CNY




## INR has steadily weakened against CNY since the last 15 years. If CNY weakens, INR will be vulnerable

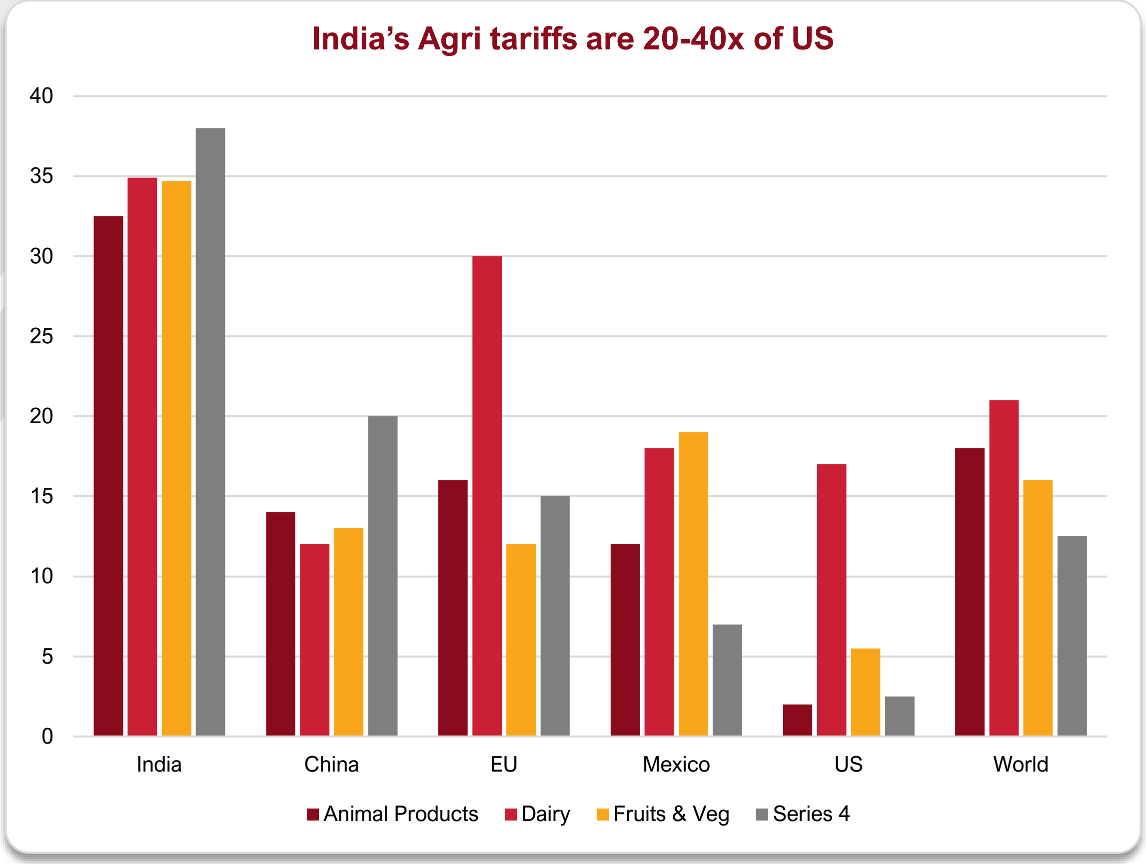


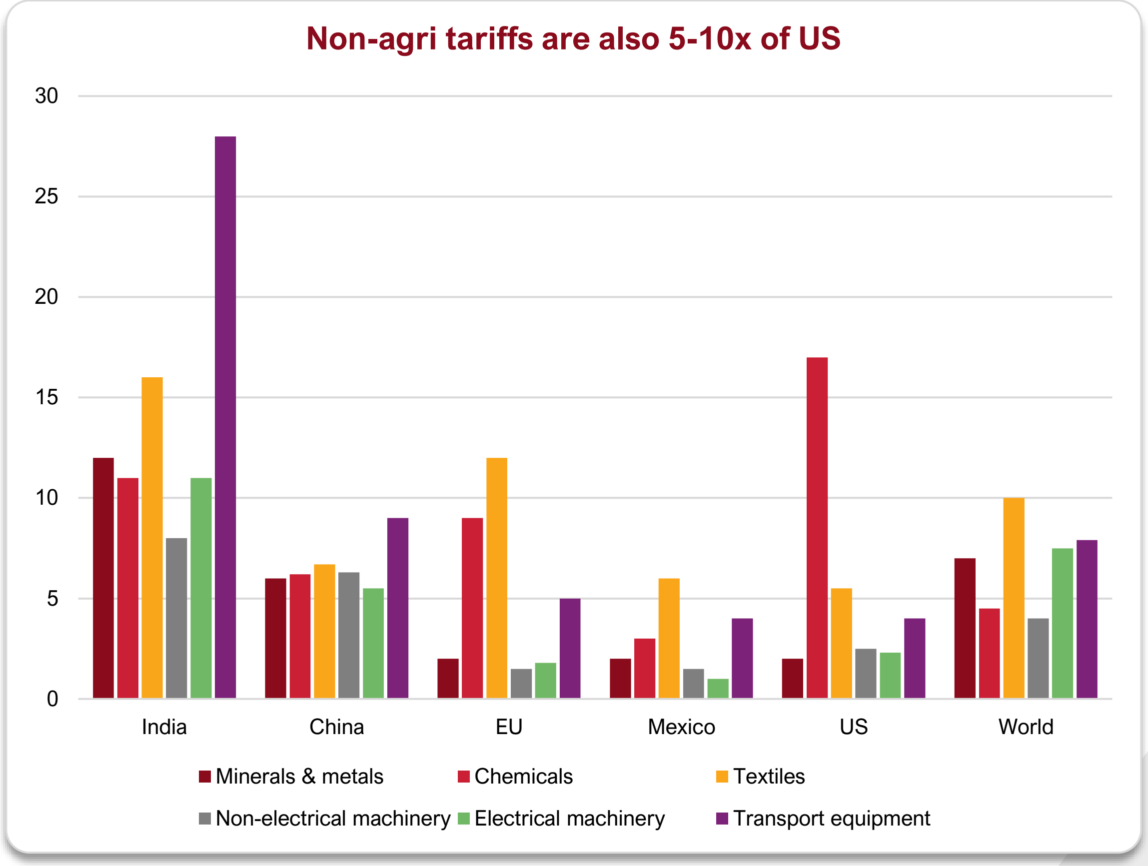

In 2018-19, CNY weakened against USD almost in lock-step with rising tariffs as China tried to offset the impact of tariff on Chinese exports. Even though India was not directly impacted with US tariffs then, INR also followed CNY in depreciating against USD.

We note that in the last 15 years, INR has either been stable or weakened against CNY. This is probably because China is India's largest trading partner against which India runs large deficit and policymakers and markets try to keep it competitive against CNY

Source: Bloomberg, ABSLAMC Research

# India also exposed to reciprocal tariff from US




India's agriculture and non-agriculture tariffs are significantly above US levels. If President Elect Trump follows up on his threat of reciprocal tariff then it will be negative for India's exports or India will have to significantly reduce its import tariffs, including possibly in politically sensitive segment like agriculture.

Source: AXIS Capital

# INR outperformance is vulnerable to correction

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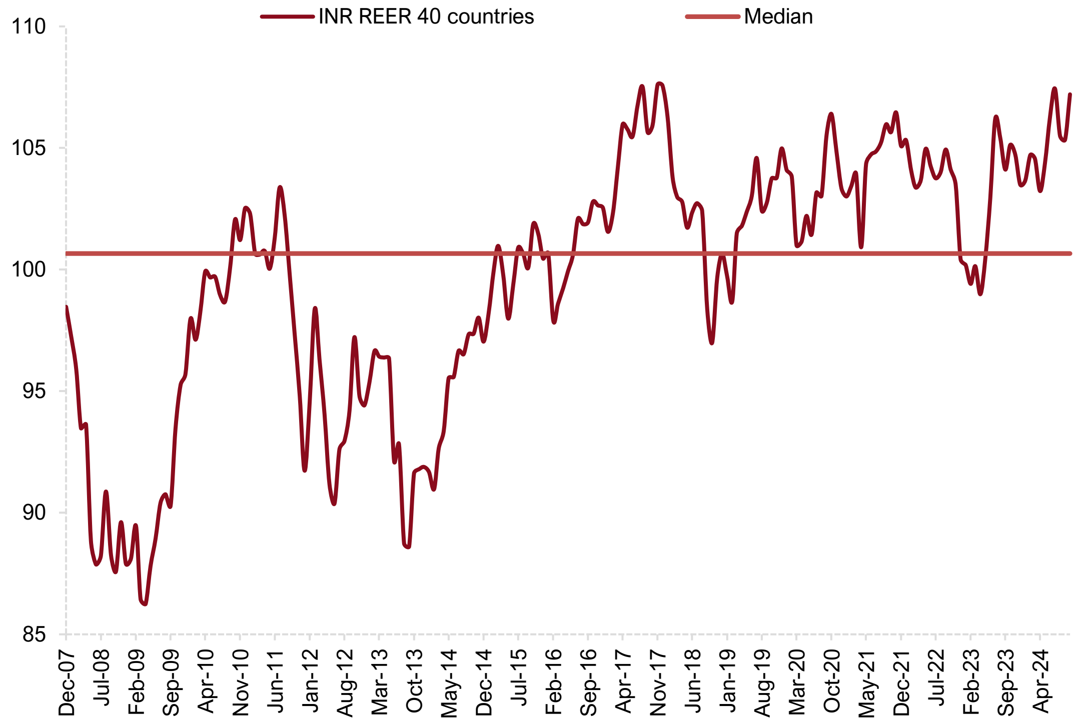
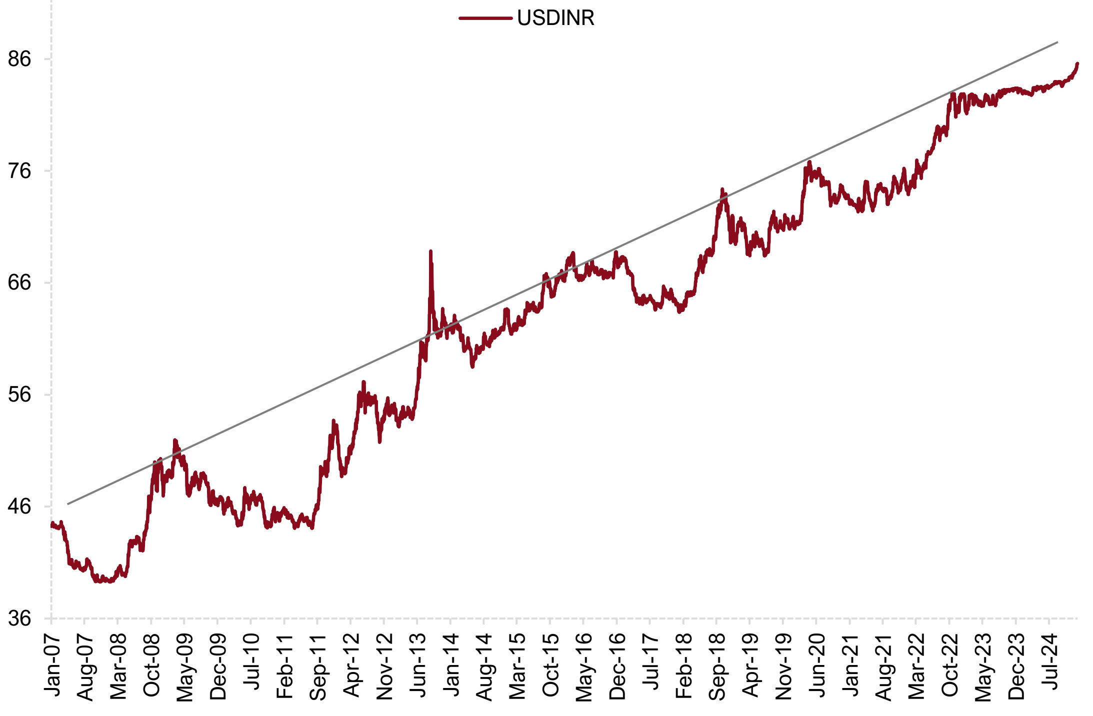
## INR is significantly overvalued in REER terms




## INR has historically depreciated by 3.5% annually against USD




We expect INR to depreciate towards 88 in 2025, (3% Depreciation) unless we see major reversal in dollar strength on the back of some broad global agreement like Plaza accord.

Source: Bloomberg, ABSLAMC Research

# India Balance of Payment account should remain comfortable

| | FY13 | FY14 | FY15 | FY16 | FY217 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Goods | -196 | -148 | -145 | -130 | -112 | -160 | -180 | -258 | -102 | -189 | -265 | -245 | -275 | -276 |
| Non-oil Exports | 307 | 251 | 254 | 232 | 244 | 266 | 284 | 272 | 266 | 355 | 354 | 353 | 375 | 394 |
| Non-oil Imports | 502 | 285 | 310 | 298 | 297 | 357 | 373 | 344 | 312 | 451 | 507 | 499 | 530 | 562 |
| Deficit | -196 | -34 | -56 | -66 | -53 | -91 | -90 | -72 | -46 | -97 | -153 | -147 | -155 | -168 |
| Oil Deficit | -103 | -102 | -82 | -52 | -55 | -71 | -94 | -89 | -57 | -94 | -112 | -95 | -120 | -108 |
| Services Account | 65 | 73 | 77 | 70 | 68 | 78 | 82 | 85 | 89 | 108 | 143 | 163 | 180 | 158 |
| Transfers | 64 | 65 | 66 | 63 | 56 | 62 | 70 | 75 | 73 | 80 | 101 | 106 | 105 | 105 |
| Income | -21 | -23 | -24 | -24 | -26 | -29 | -29 | -27 | -36 | -37 | -46 | -50 | -51 | -55 |
| Current Account | -88 | -32 | -27 | -22 | -14 | -49 | -57 | -25 | 24 | -39 | -67 | -26 | -41 | -41 |
| Cad, % of GDP | -4.8 | -1.7 | -1.3 | -1.1 | -0.6 | -1.8 | -2.1 | -0.9 | 0.9 | -1.2 | -2.0 | -0.7 | -1.1 | -1.0 |
| FDI | 20 | 22 | 31 | 36 | 36 | 30 | 31 | 43 | 44 | 39 | 28 | 10 | 10 | 15 |
| FII | 27 | 5 | 42 | -4 | 8 | 22 | -1 | 1 | 36 | -17 | -5 | 44 | 12 | 15 |
| Loans | 31 | 8 | 3 | -5 | 2 | 17 | 16 | 26 | 7 | 34 | 8 | 7 | 10 | 10 |
| Banking Capital | 17 | 25 | 12 | 11 | -17 | 16 | 7 | -5 | -21 | 7 | 21 | 41 | 10 | 10 |
| Others | -5 | -11 | 1 | 3 | 8 | 6 | 1 | 18 | -2 | 24 | 7 | -12 | 10 | 10 |
| Capital Account | 89 | 49 | 89 | 41 | 36 | 91 | 54 | 83 | 64 | 86 | 59 | 90 | 52 | 60 |
| Overall BoP | 1 | 16 | 62 | 19 | 22 | 43 | -3 | 59 | 88 | 47 | -8 | 63 | 11 | 19 |
| Basic Balance | -68 | -11 | 4 | 14 | 21 | -18 | -27 | 18 | 68 | 0 | -39 | -16 | -31 | -26 |
| Nominal GDP | 4.8 | 2.4 | 2.0 | 2.1 | 2.3 | 2.7 | 2.7 | 2.8 | 2.7 | 3.2 | 3.4 | 3.6 | 3.9 | 4.15 |

Source: CEIC, ABSLAMC Research

# Booming IPO markets/high equity valuations becoming a drag on BoP?

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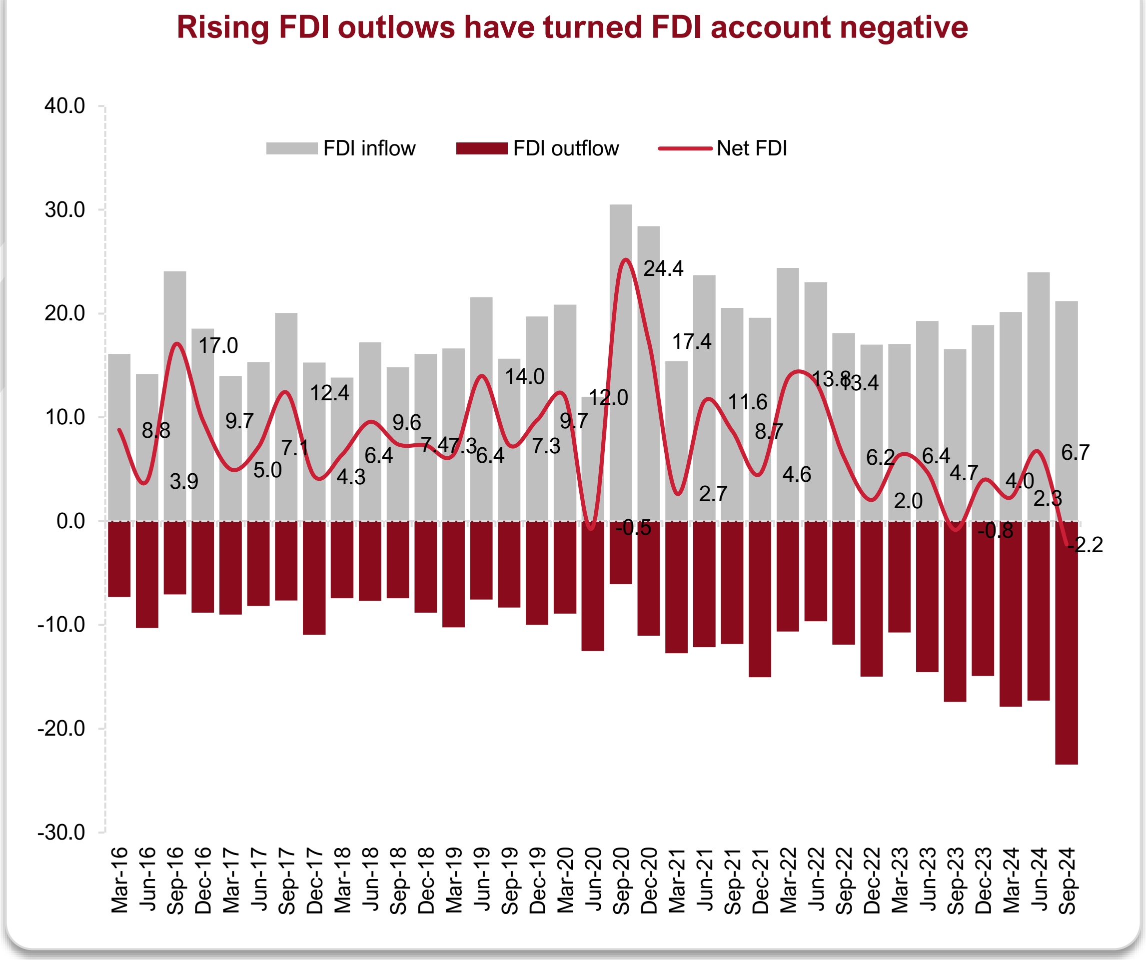
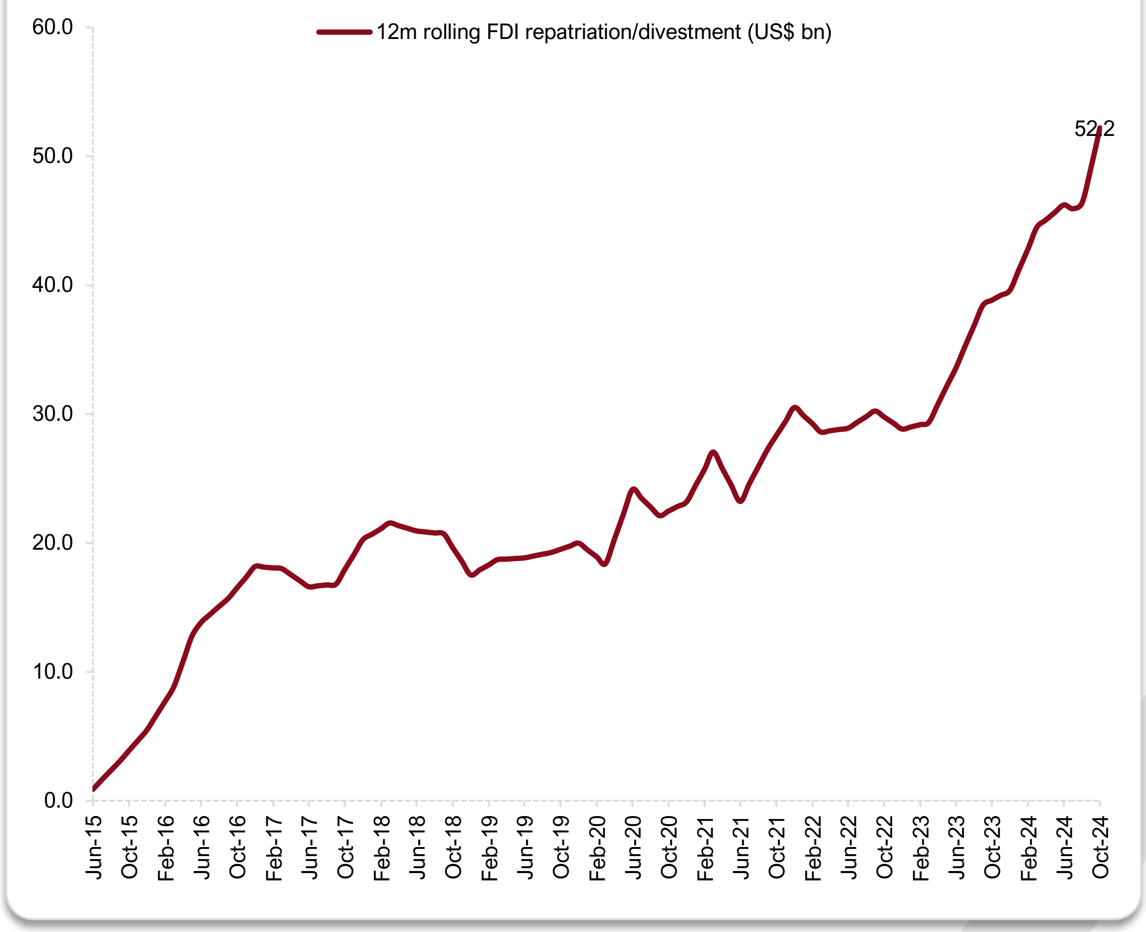
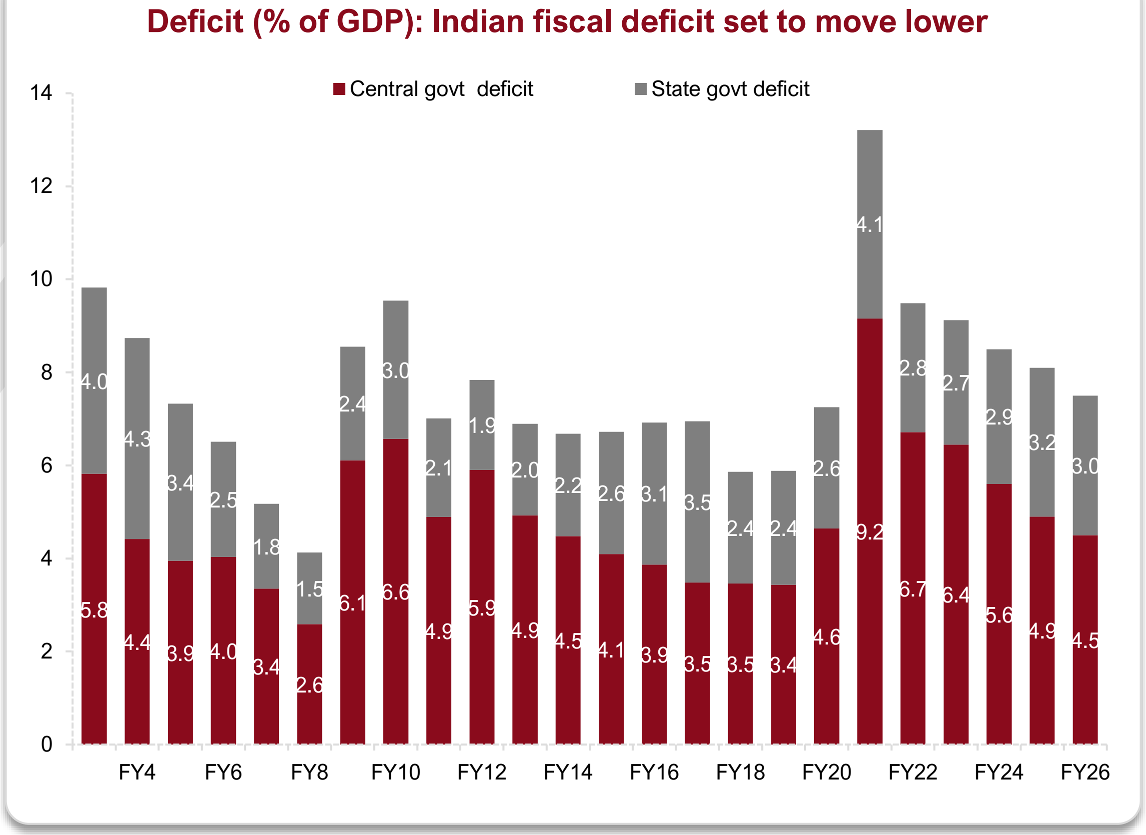
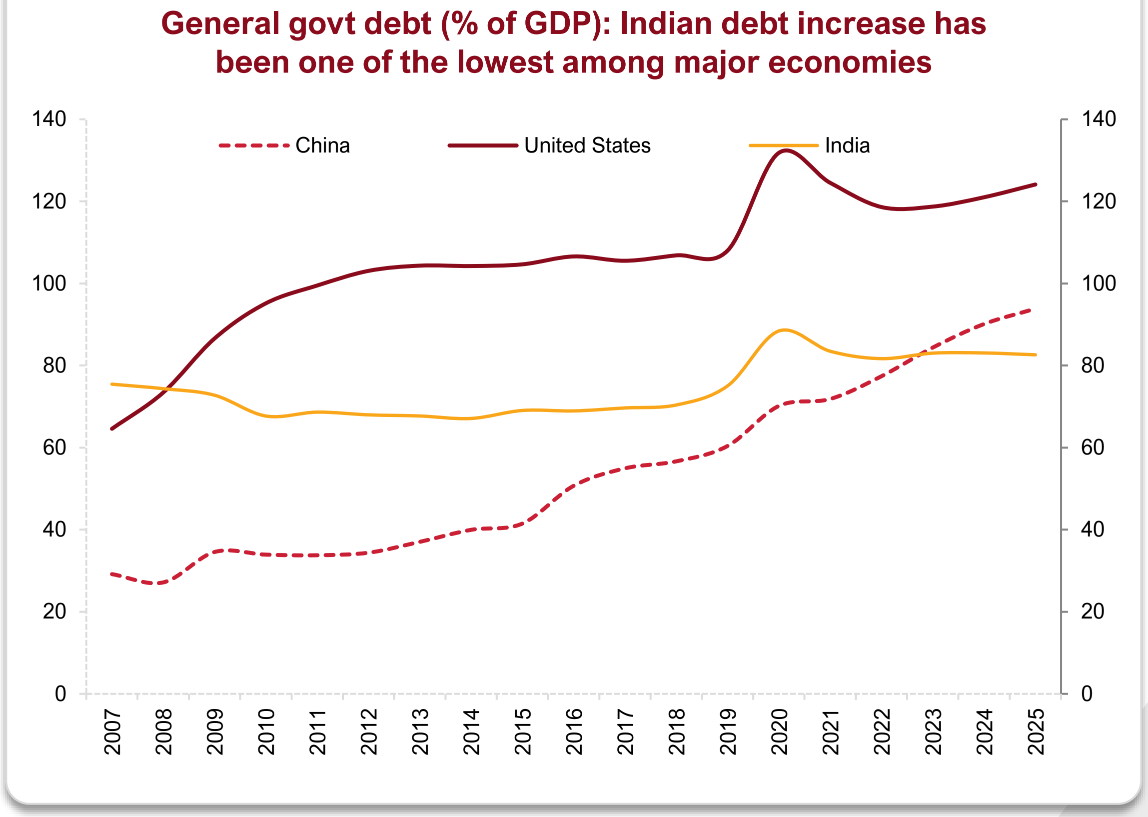



Source: CEIC, ABSLAMC Research

# Fiscal consolidation set to continue

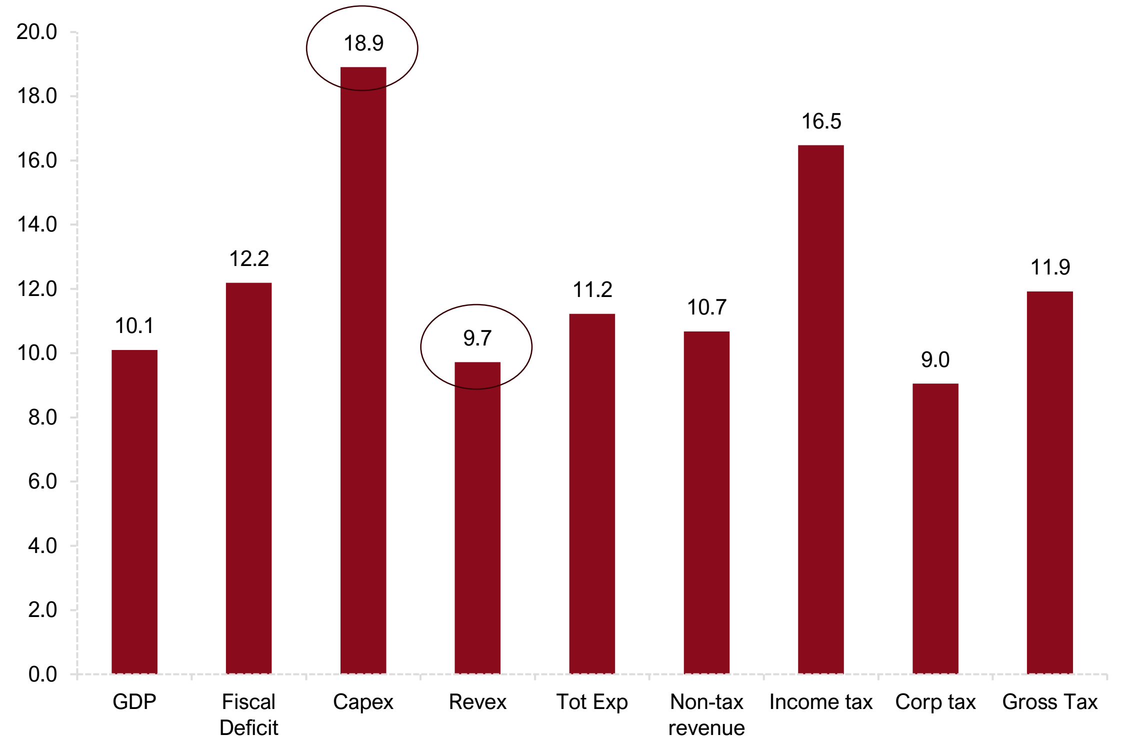


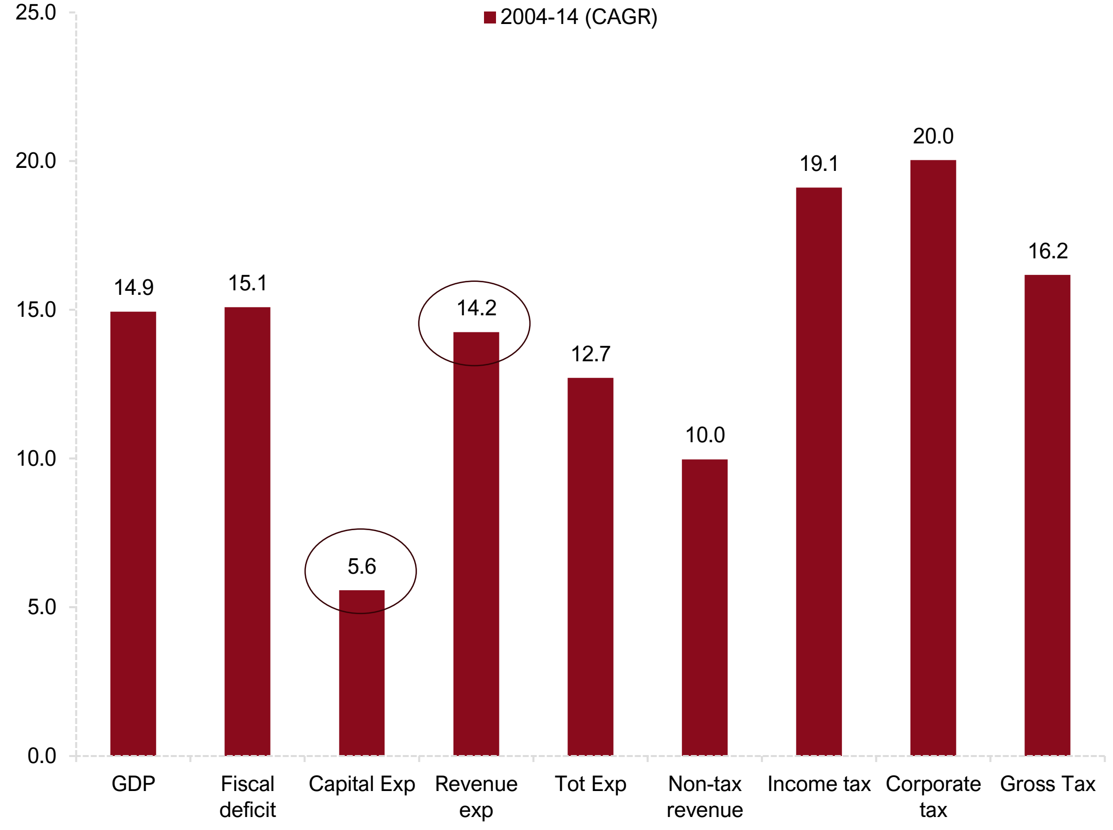




India has followed a very conservative fiscal policy in the wake of Covid pandemic. The trend has continued last year wherein government consolidated deficit by 0.9ppp from FY23 budget estimates (0.7% from FY23 actuals).

Source: CEIC, ABSLAMC Research

# Central government fiscal account has improved

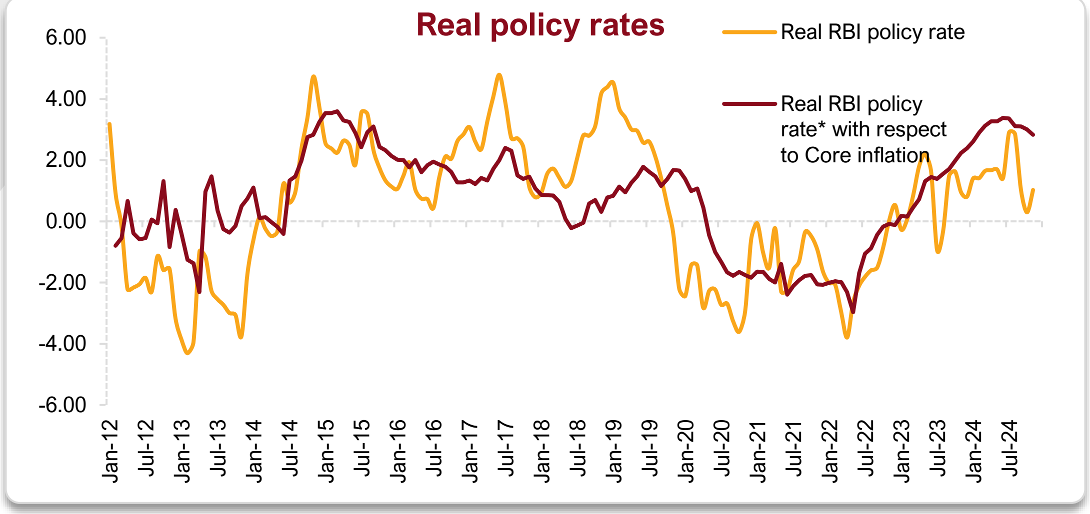


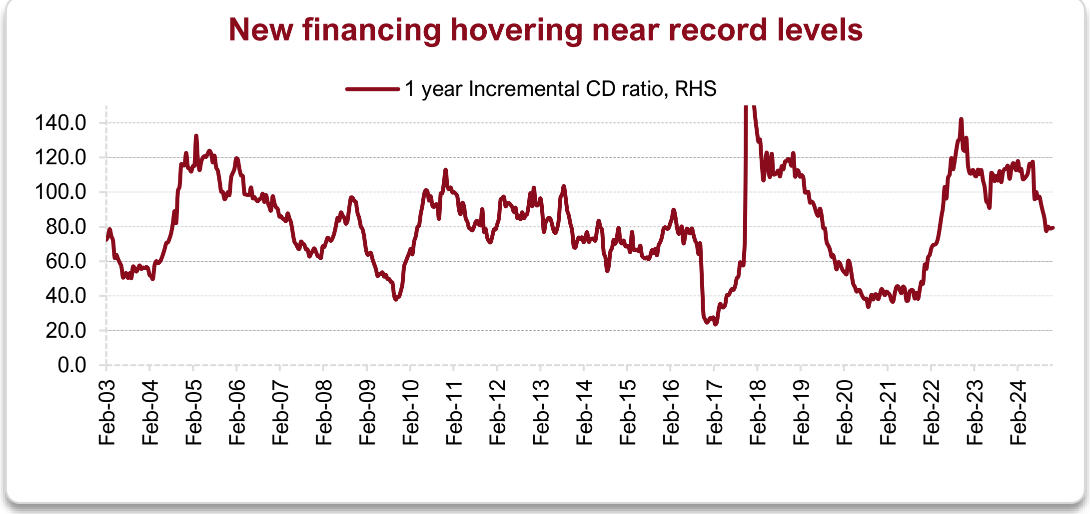



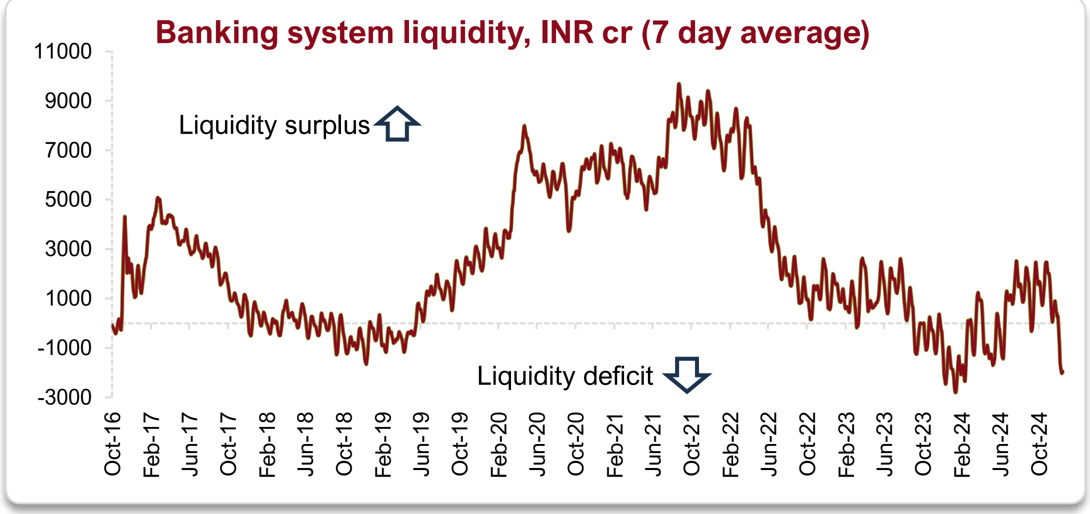

**RISK to government revenue emerging from lower nominal GDP growth**

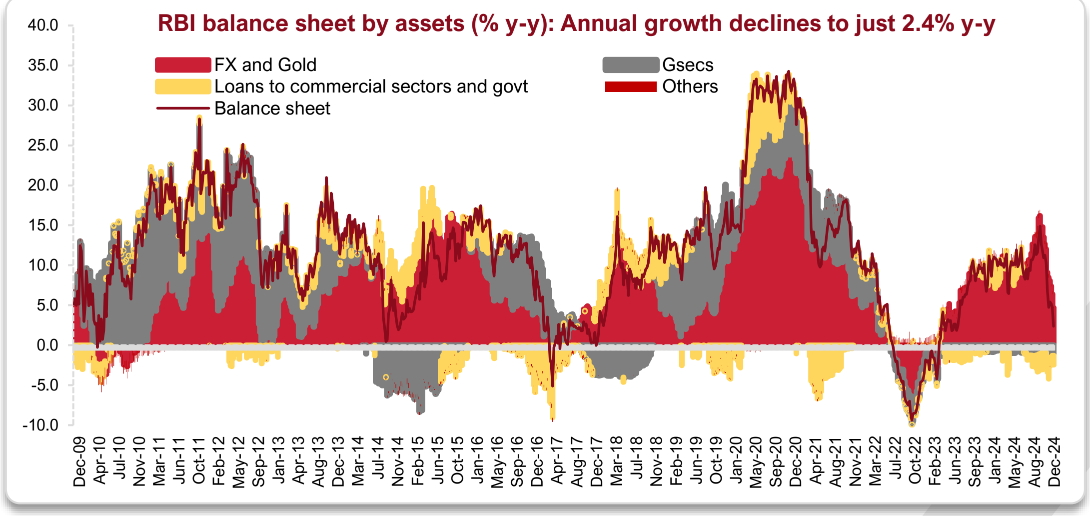
Source: CEIC, ABSLAMC Research

# RBI policy: Tight on all counts




Source: CEIC, ABSLAMC Research

# 2025: India Macro Summary

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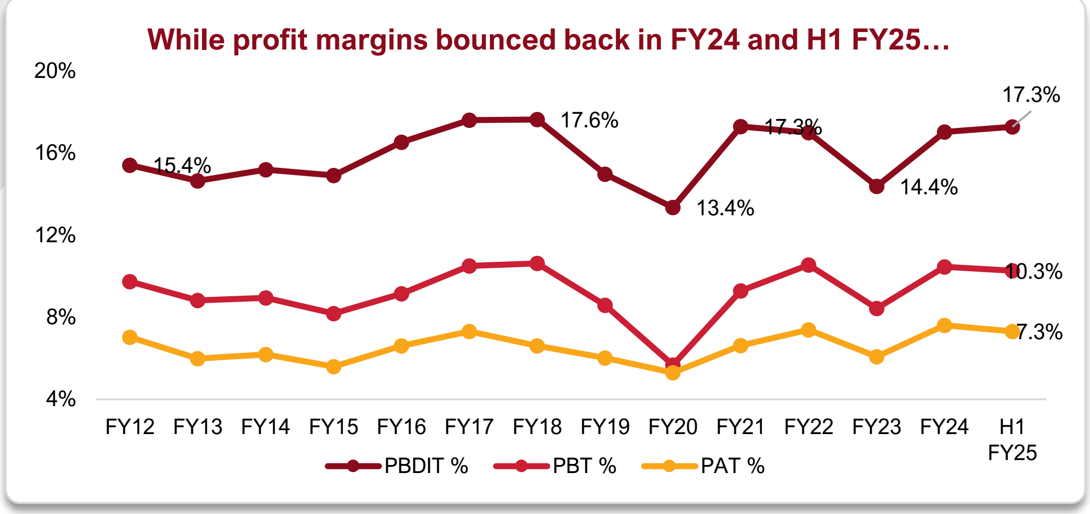
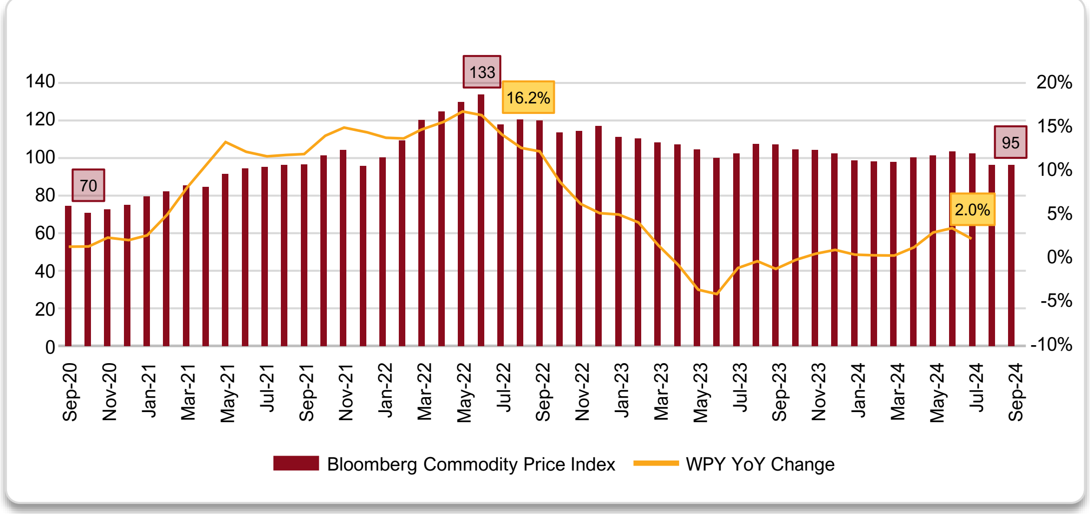
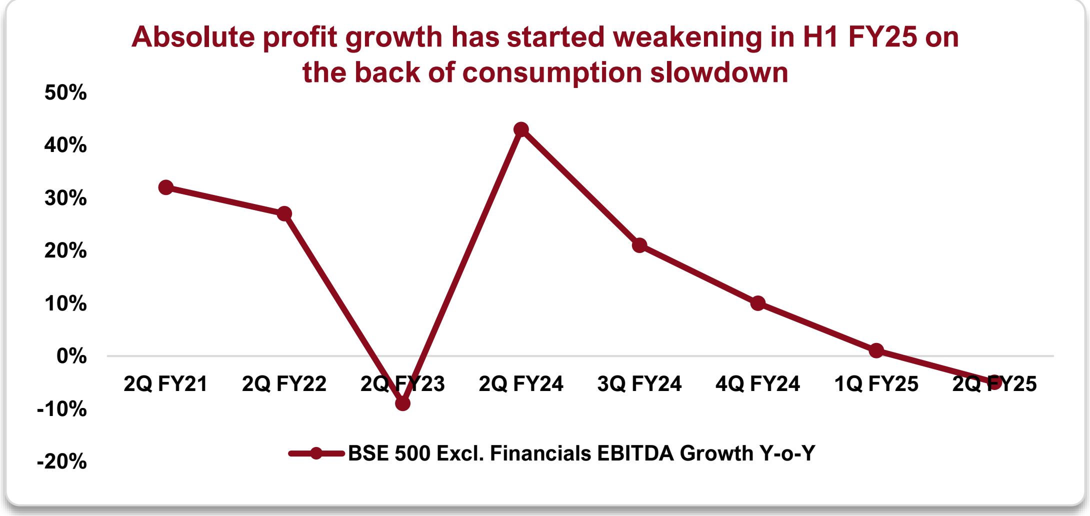
- **Growth:** FY 2026 ~ 6.50% risks to downside amid global uncertainty
- **Inflation:** 4.25-4.5%- Food inflation moderates to 4.50% led by vegetables ; Core inflation to inch higher towards 4%
- Consumption and private capex is key for higher growth trajectory
- We are in cyclical down period - Need policy support to reverse down trend
- **Fiscal has limited space:** Monetary policy needs to be heavy lifting
- Need to ensure external stability amid rising uncertainty; Change in FX policy on the cards
- **Monetary policy:** Works with lag
  - **Regulatory clampdown:** Peak behind us
  - **Liquidity - Add liquidity aggressively:** Long term VRR, CRR, OMO
  - **Rates:** 75bps in this cycle
- Decline in Indian 10-year sovereign yield towards 6.25-6.50 range - lower fiscal, higher real yields, stable inflation, Bloomberg index inclusion
- Another good year for Fixed income - 8%-9% with duration doing well: Short term funds are best place (Accrual+Duration)
- **Risk:** Trade wars

# INDIA MACRO CREDIT

# Corporate India profit growth slowing; margins likely to remain range bound




- **Signs of slowdown in profitability growth visible in H1 FY25**
- Pickup in consumption in H2 FY25 along with controlled input costs (aided by good monsoon and strong agri output) should keep **margins range bound in CY26**
- **Impact of ongoing geopolitical tensions on supply chains and commodity prices a key monitorable** (H1 FY25 saw slight dip due to crude price surge between Dec 23 and Apr 24)

Source: Capitaline (BSE 500 excluding financials), Bloomberg, ICRA Research, Kotak Securities, ABSLAMC Research; MCLR: Marginal Cost of the fund-based Lending Rate, WPI: Wholesale Price Index

# Drivers for private capex in place; de-levered balance sheets offer significant headroom

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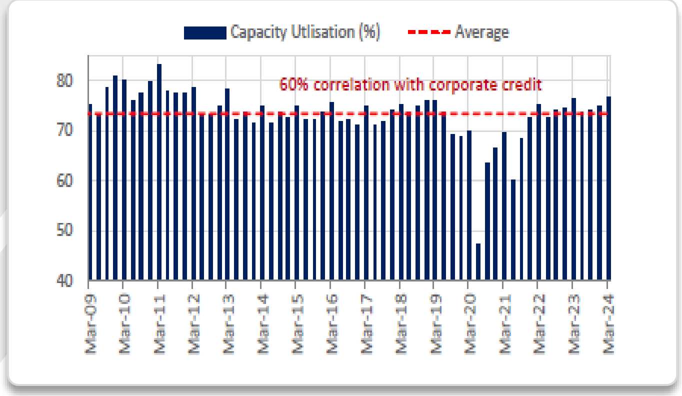
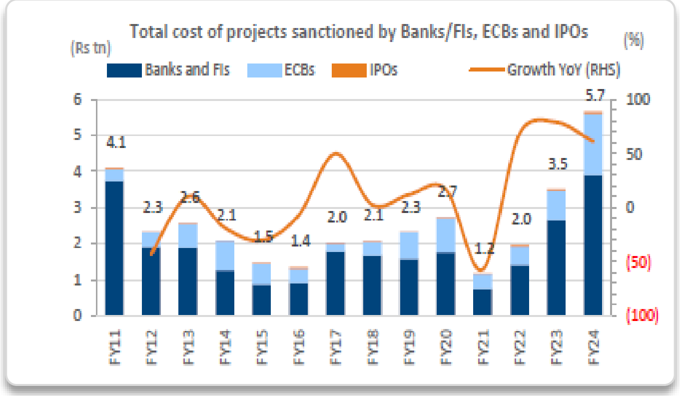
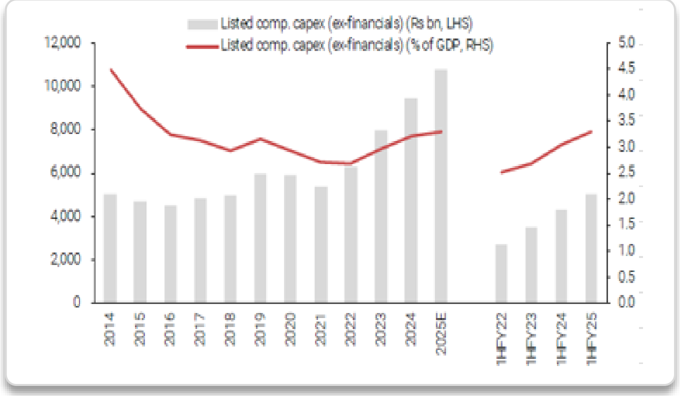
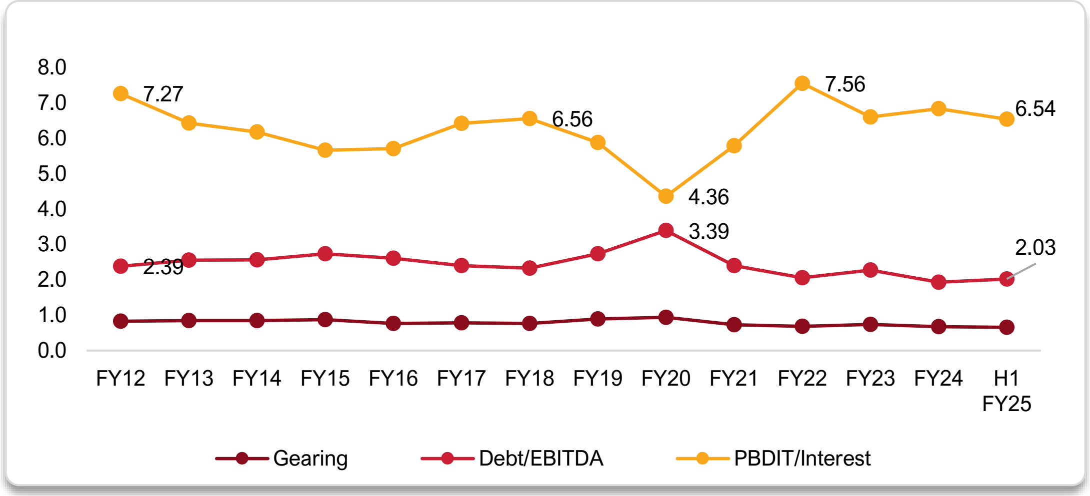
## Capacity utilization inching up above 15-year avg. and meaningful rise in project sanctions in last two fiscals resulting in steady capex increase

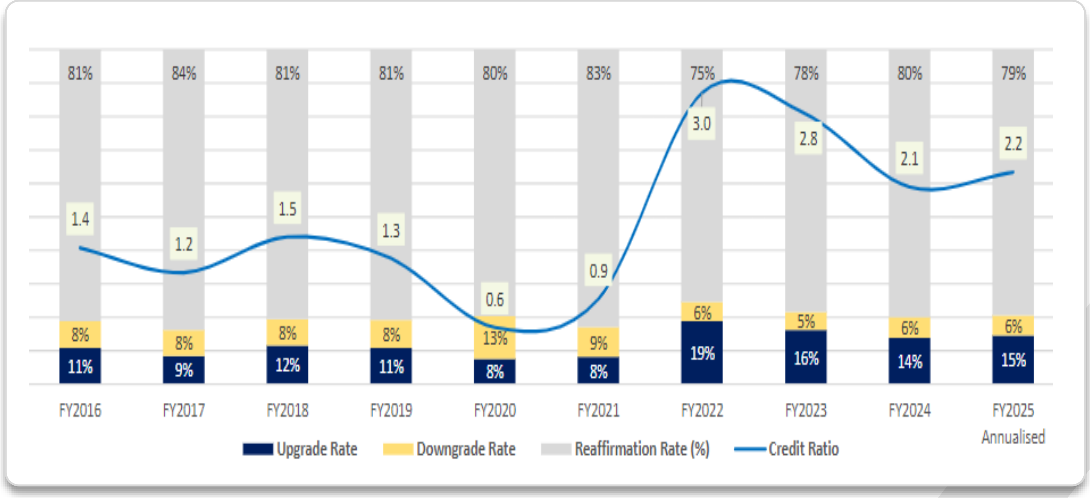


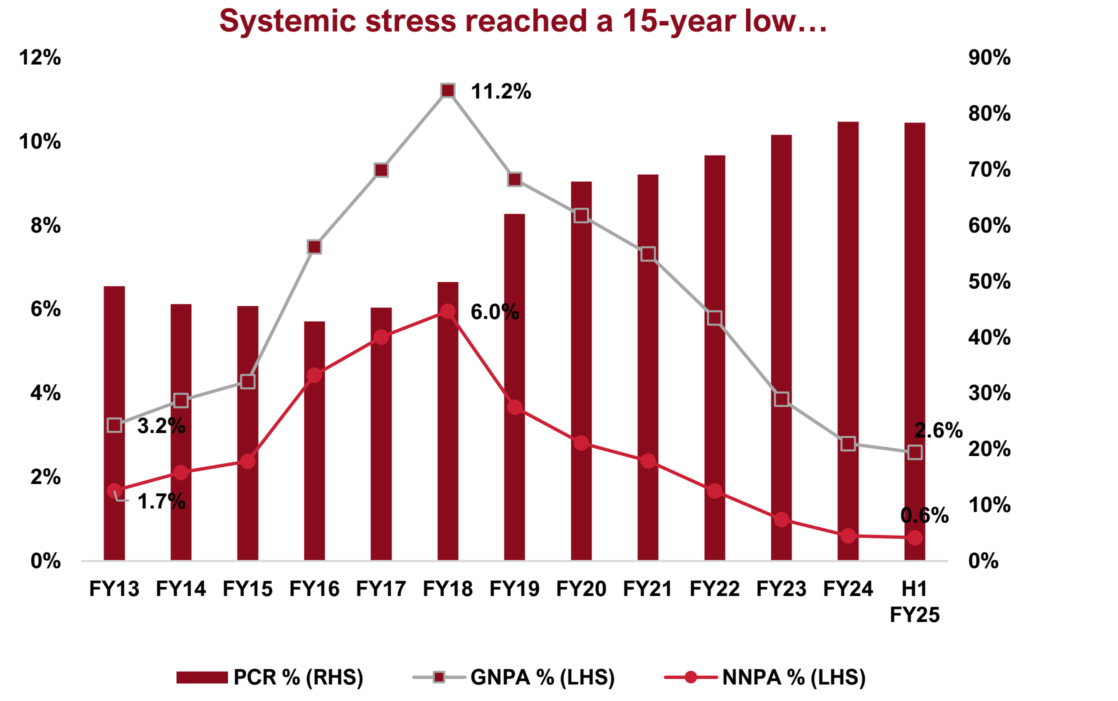

## Strong corporate credit health (healthy leverage and debt protection metrics, upgrades continuing to outpace downgrades) to support capex revival

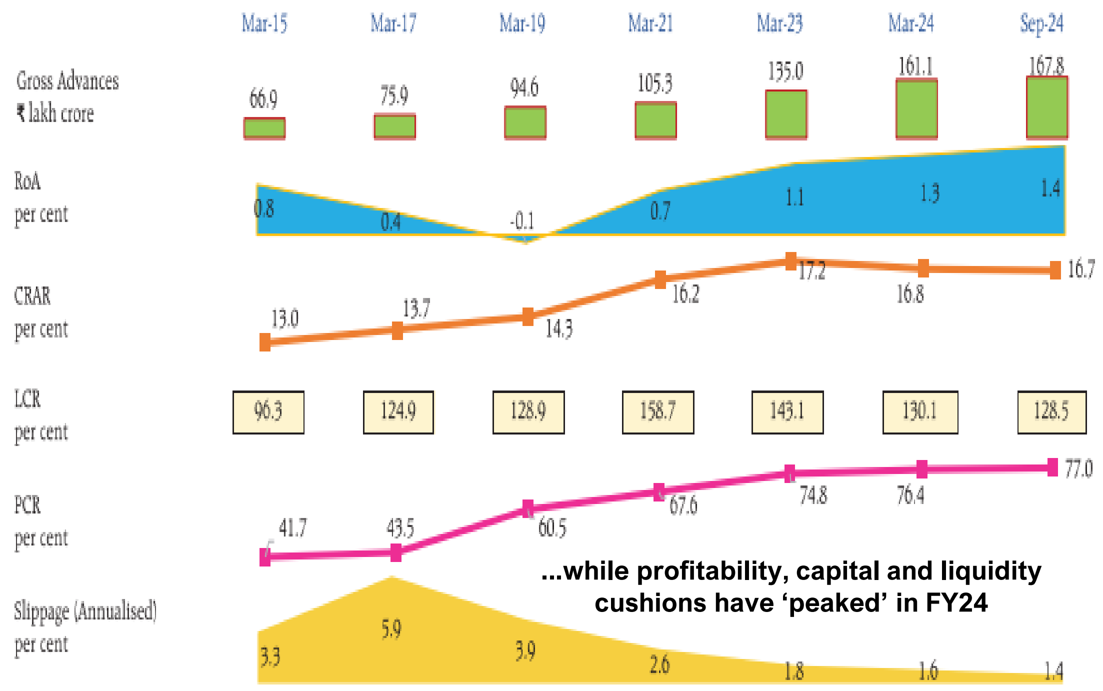



Source: Capitaline (BSE 500 excl. financials), ICRA (Rated portfolio), IIFL Securities, Kotak Securities, ABSLAMC Research; Credit ratio= (No. of rating upgrades/ No. of rating downgrades),
ROE: Return on Equity, FI: Financial Institution, ECB: External Commercial Borrowing, IPO: Initial Public Offering, GDP: Gross Domestic Produc

# Banks: FY24 was the best year in over a decade

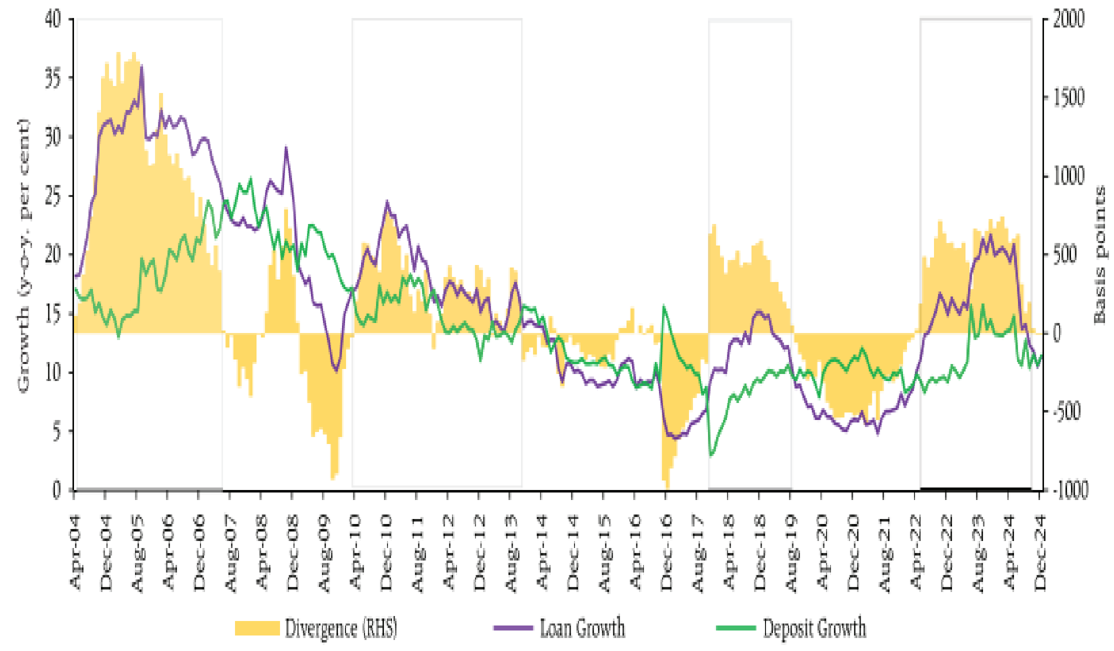


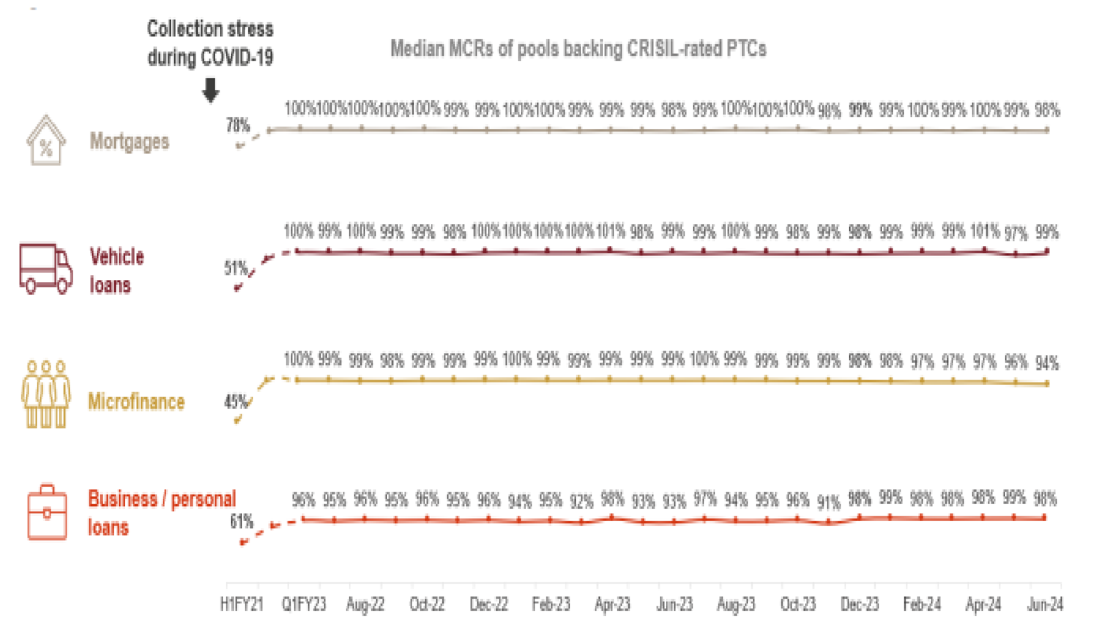




- Residual stress lowest ever marked by high provision coverage in the last few years; **expect stressed loans to continue to inch up in CY25 driven by increase in unsecured retail loan delinquencies**
- **Capital buffers remain high (despite some moderation due to RBI's risk weights increase)** aided by capital raises during COVID & continued strong profits. However, will be impacted by upcoming ECL guidelines (up to 170 bps impact on CRAR) and tighter project financing norms (additional provisioning requirement of 0.5-3.0% of net worth)
- Liquidity cushions to get impacted by **proposed LCR guidelines (10-15% decline estimated); will also curb loan growth**

Source: RBI Financial Stability Report (FSR), Axis Capital, ABSLAMC Research; PCR: Provision Coverage Ratio, LCR: Liquidity Coverage Ratio, ROA: Return on Assets, CRAR: Capital to Risk weighted Assets Ratio, ECL: Expected Credit Loss, GNPA/ NNPA: Gross/ Net Non-Performing Assets, bps: basis points

## Pockets of stress seen & upcoming regulations to moderate loan growth, profitability and asset quality




- **Loan growth to moderate from the high pace of last 2-3 years and broadly match deposit growth at 10-12% in CY25** driven by regulatory caution around high credit-deposit (CD) ratios, push to NBFCs to diversify away from bank lending, rising stress in unsecured lending and tighter upcoming guidelines around liquidity and provisioning
- **NIMs have hit a peak in FY24 and should continue to come down in the upcoming 2-3 quarters** due to potential rate cuts (with lagged deposit repricing), RBI's warnings around usurious pricing and lower growth in high-yielding unsecured loans
- **Credit costs have started inching up over the last 2 quarters and should continue in CY25** as unsecured delinquencies pickup
- **The best days are behind us in terms of profitability!** ROAs/ROEs to moderate from FY24 highs

Source: RBI FSR, CRISIL Ratings, ABSLAMC Research; MCR: Monthly Collection Ratio, PTC: Pass Through Certificate, NIM: Net interest margin

# ST spreads rising due to high credit growth; Regulatory push to diversify borrowings supporting LT spreads

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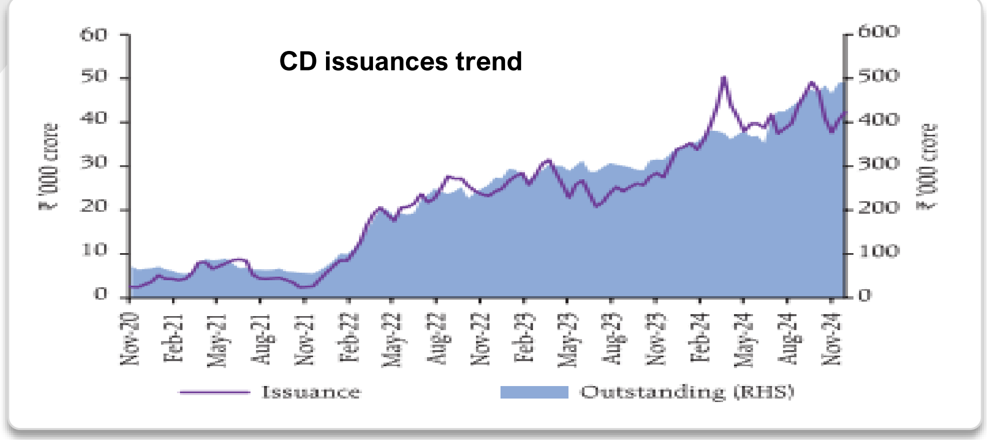
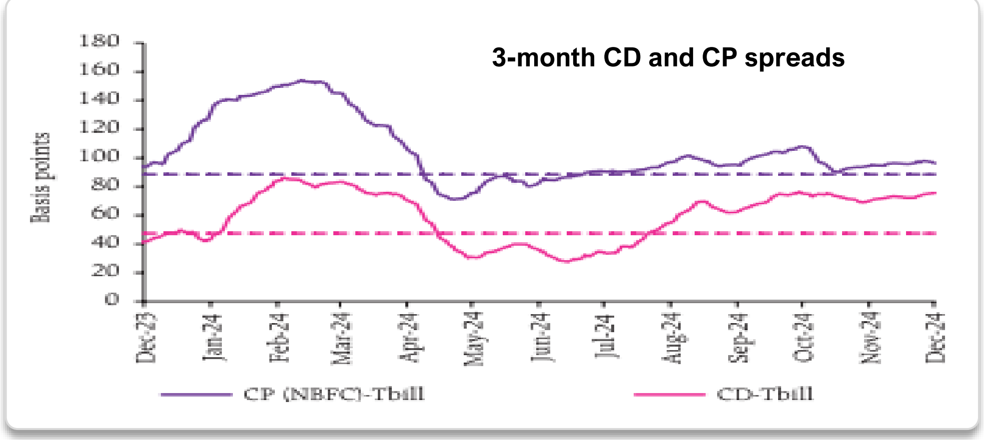
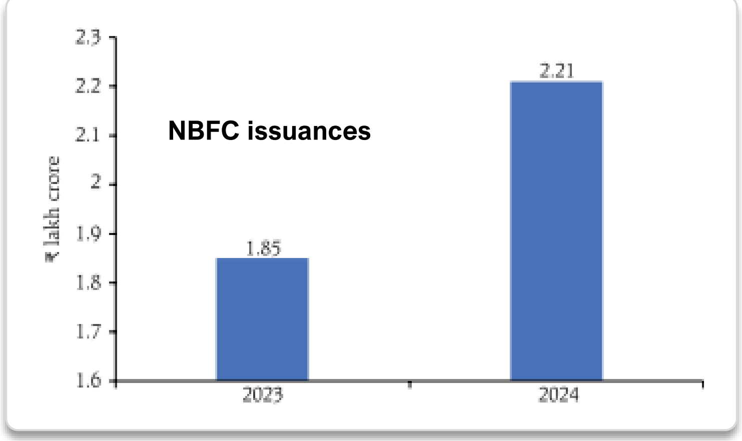
**Increasing reliance on CDs by Banks and CPs by NBFCs to fund shortfall….**

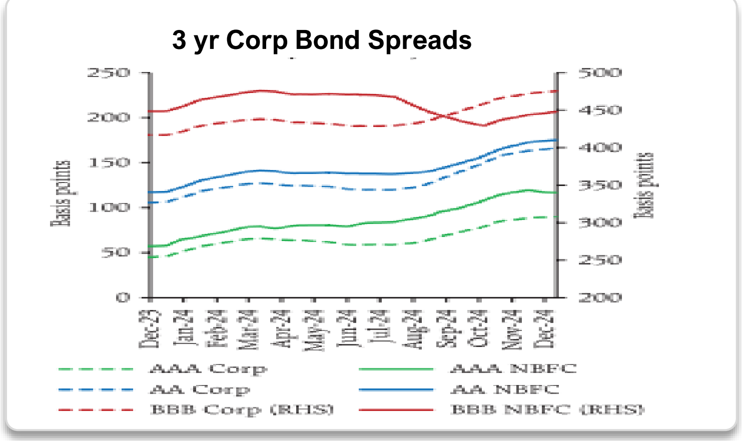


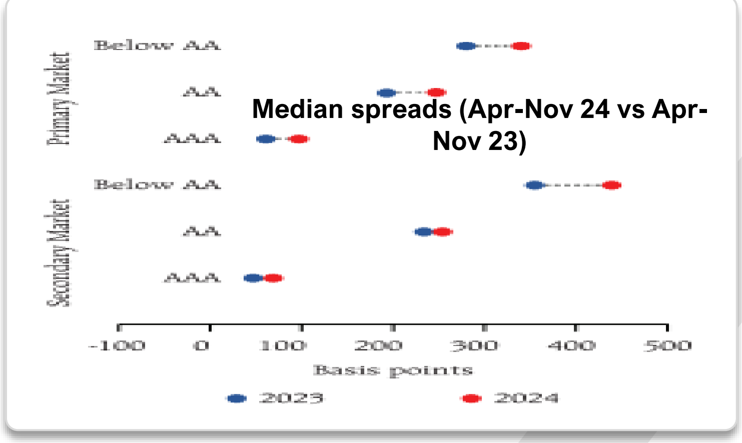

**…resulted in increase in ST spreads from mid-2024**




**RBI's on-going push to NBFCs to diversify away from bank borrowings to result in sustained rise in corporate bond issuances and spreads (particularly in secondary market)**




Source: RBI FSR, ABSLAMC Research; ST: Short Term, LT: Long Term, NBFC: Non-Banking Financial Company, CD: Certificate of Deposit, CP: Commercial Paper

# Summary of Sectoral Outlooks (1/2)

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**Non-banks [NBFCs: Stable for secured lending, Negative for unsecured lending; HFCs: Stable]**

- Expect growth to fall to 15-20% for NBFCs in H2 FY25 and FY26 due to slowdown in unsecured lending; HFC growth to sustain at 10-12%
- Asset quality and profitability to weaken due to customer overleveraging led rise in delinquencies
- Unsecured PLs (mainly lower ticket) and MFI borrowers showing signs of stress due to slow income growth; Unsecured BLs may also see NPA surge
- Borrowing costs inched up; with operating costs also increasing due to higher compliance investments, ROAs/ROEs should further moderate
- Leverage/ capital cushions expected to remain comfortable at an industry level

**Metals [Ferrous: Stable; Non-Ferrous: Positive]**

- Domestic steel demand to be resilient, exceed supply, and grow at ~8-9% in FY25 and 6-8% over the medium term driven by government infra capex
- China slowdown weighing down on global steel prices and spreads; materialization of Chinese stimulus a key monitorable
- Steel players' profitability as well as leverage to moderate; strong balance sheets to support credit profiles despite capex
- Supply disruptions in Alumina to moderate Non-ferrous margins in the near term; however, new capacity ramp-up and China demand slowdown to help improve margins in FY26 and beyond; high committed capex to increase leverage- however, debt metrics to remain comfortable
- Global Zinc market to remain in surplus keeping prices under pressure; specific infrastructure requirements to drive demand in India

**Power [Thermal: Positive; Renewable: Stable; State Distribution: Negative; Pvt. Distribution: Stable; Transmission: Positive]**

- We expect power demand to grow at 7% in FY 25 and 6-7% over the medium term with demand from industrial/infrastructure capex, data center, electric vehicles etc.; Thermal PLFs to structurally improve to 68-70% in FY25 and beyond to address this
- Capacity addition to pickup in Thermal and continue in Renewable given steep GOI targets; Solar to remain preferred asset class while round-the-clock renewable energy (mix of wind, solar, hydro, battery storage and pumped storage hydropower) should see good additions given improving cost economics
- Improvement in thermal profits to sustain at similar levels driven by reduction in WC debt post LPS scheme implementation; Competitive tariffs, low construction period and downtrend in solar module prices positive for profitability of solar developers
- Payment reforms improve discom liquidity; however, structural reforms such as privatisation, delicensing, and smart metering which are needed for better discom health are progressing slowly; see good business opportunity for smart meter developers given superior and annuity-like return profile
- Large proposed capex of ~Rs. 9 lakh crore by FY32 for integration of renewable capacities to benefit transmission and engineering companies.

# Summary of Sectoral Outlooks (2/2)

### Roads and Infrastructure [Roads: Stable; Airports: Positive]

- Road project awarding and construction progress both lagged in YTD CY25 mainly due to election related restrictions and prolonged monsoon
- Monetization of assets through INVIT and TOT routes gathering steam- NHAI has plans to raise ~ Rs. 50-60,000 Cr. worth of projects in FY25 from the sale of 33 identified projects through these routes. This can provide ~ Rs. 40,000 Cr. of lending opportunity to institutions.
- Air traffic set to clock double-digit growth in FY25 and ~8% over the medium term backed by strong uptick in domestic leisure, business trips and international travel along with low air travel penetration
- Elevated Airport capex (mainly in private sector) to keep leverage high- however, strong profitability to drive credit profile improvements

### Real Estate [Residential: Stable Commercial: Positive]

- Residential developers seeing strong launch momentum and price rises; focusing on large ticket/premium launches basis market dynamics; Healthy sales resulting in falling inventories from pre-covid level of ~30 months to 10-12 months currently
- Gross absorption expected to reach record highs in CY24 (previous high in CY19) and expected to remain strong going forward driven by large demand from GCCs given the affordable lease rentals in India

### Automobiles [PV: Stable; 2W: Positive; Tractors: Stable; CV: Stable]

- Current PV slowdown due to weaker retail sentiments and high inventory (>75 days); margins to remain flattish as better product mix (higher share of UV) will likely be offset by higher inventory-led discounts; Growth, better capacity utilization, margin expansion expected in 2W driven by premiumization & positive demand sentiments
- Replacement demand + good rainfall will aid domestic Tractor sales growth in FY25; MHCV and LCV sales to likely remain flattish due to some economic slowdown

**Summary: We continue to prefer cash flow generating companies and sectors with good promoters, performance track record, and a conservative capital structure and accordingly, will selectively invest in those sectors and companies as and when the spreads inch up and we sight a superior risk adjusted return.**

YTD: Year to Date, INVIT: Infrastructure Investment Trust, TOT: Toll-Operate-Transfer, ARPU: Avg. Revenue Per User, GCC: Global Capability Centres, UV: Utility Vehicles, PV: Passenger Vehicles, 2W: 2 Wheelers, MHCV: Medium and Heavy Commercial Vehicles, LCV: Light Commercial Vehicles

# EQUITY MARKET OUTLOOK:
## Time for consolidation

# Normalisation of Corporate Profit to GDP

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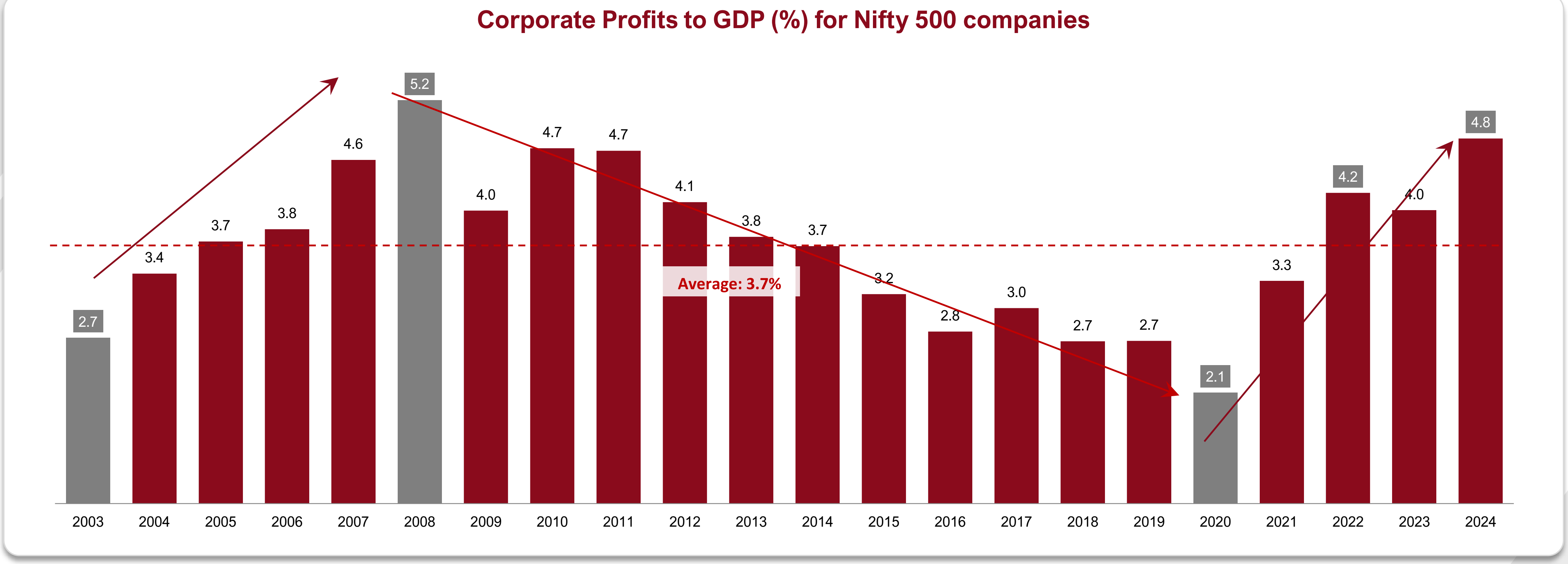


Last 4 years we have seen profit growing faster than top line due to unorganized to organized, deleveraged balance sheet, loss making cos turning profitable. Going forward profit growth to converge with topline growth.

Source: MOFSL, ABSLAMC Research

# Expect corporate earnings to grow in the low-to-mid teens over next three years

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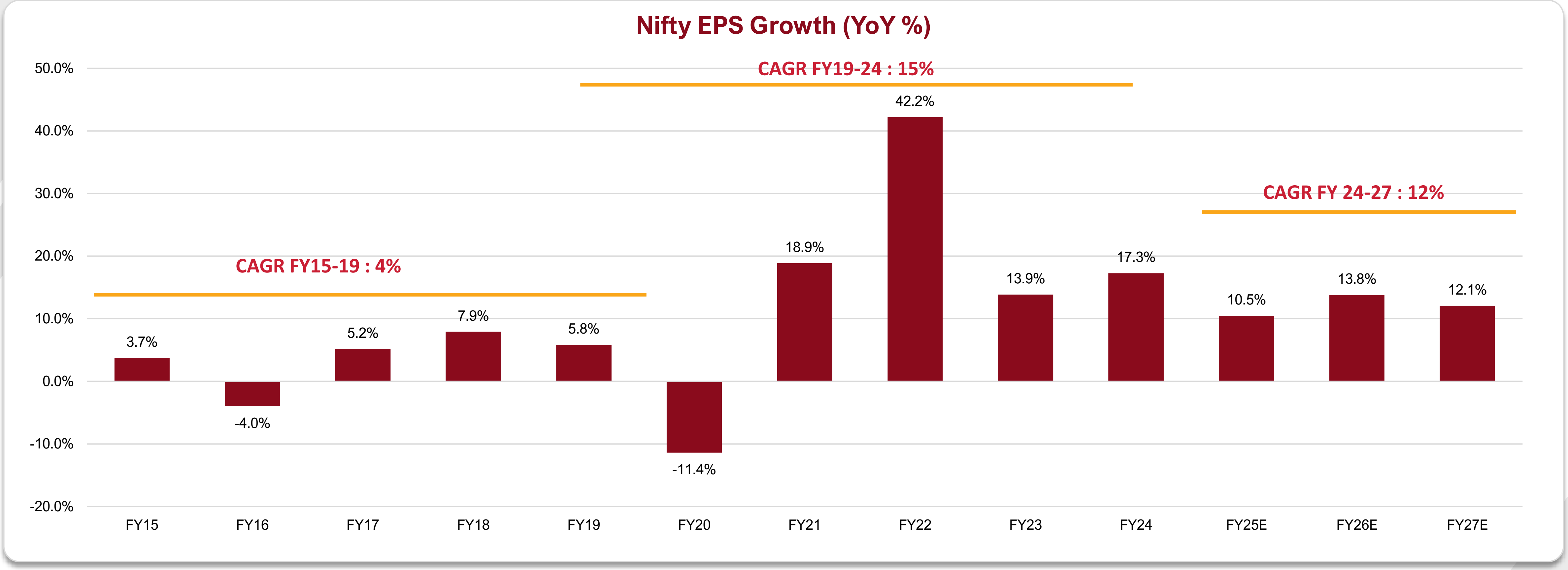
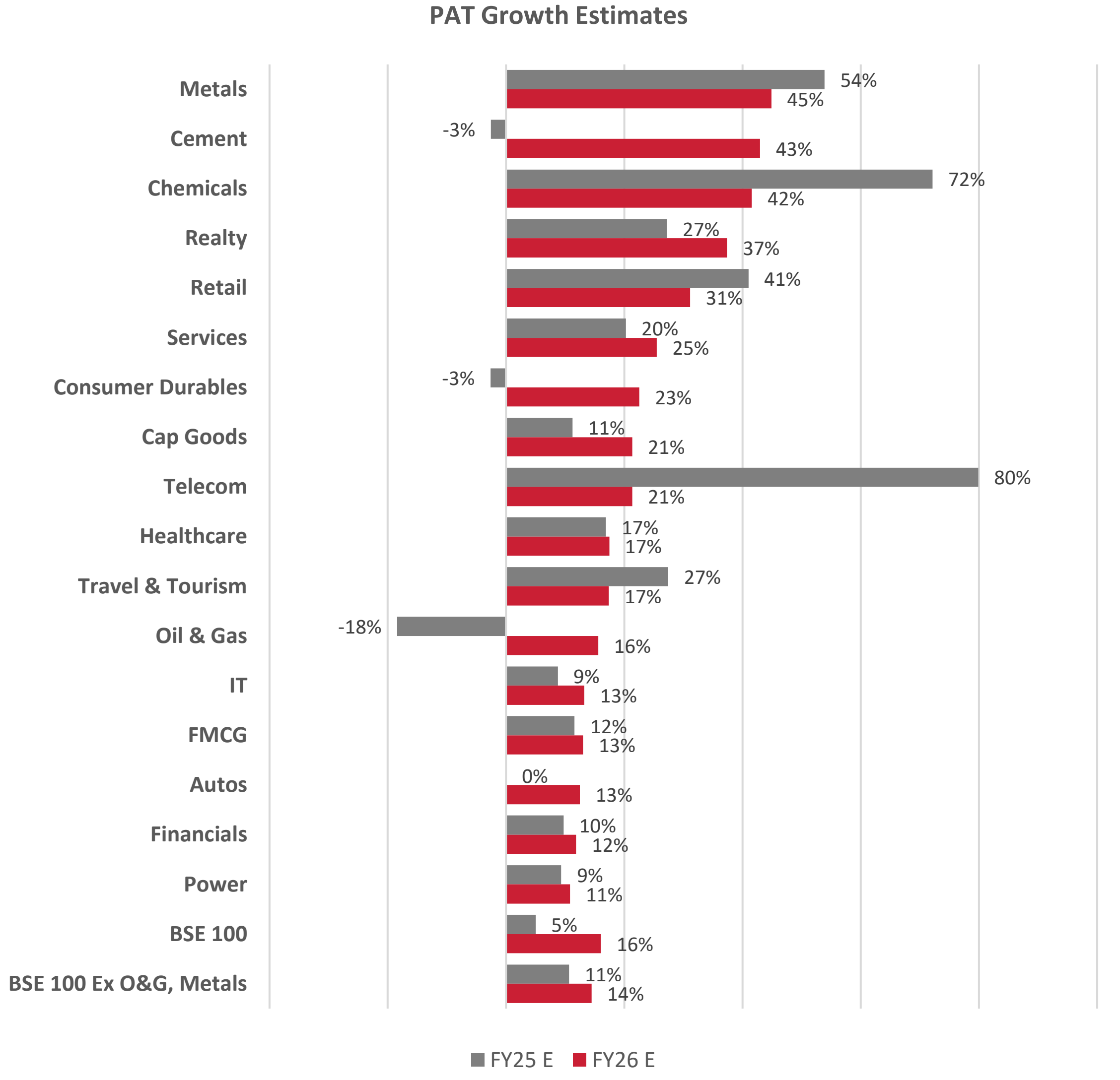
ASSET MANAGEMENT




- Nifty earnings CAGR is expected to be low-to-mid teens over FY25-27E period and revert back close to the historical average of ~11-12%

Source: MOSL, ABSLAMC Research

# Sector-wise expectation of earnings growth




- Expect mid to low teen earnings growth for BSE100 companies
- For FY26, above average growth seen in the following sector – Metals, Cement, Realty, Retail
- Below average growth in – FMCG, Autos, Financials, Power



Avg growth estimates for FY25E and FY26E for BSE100 companies. Based on estimates of top 15 brokers

# FPI positioning the lowest for India among EMs

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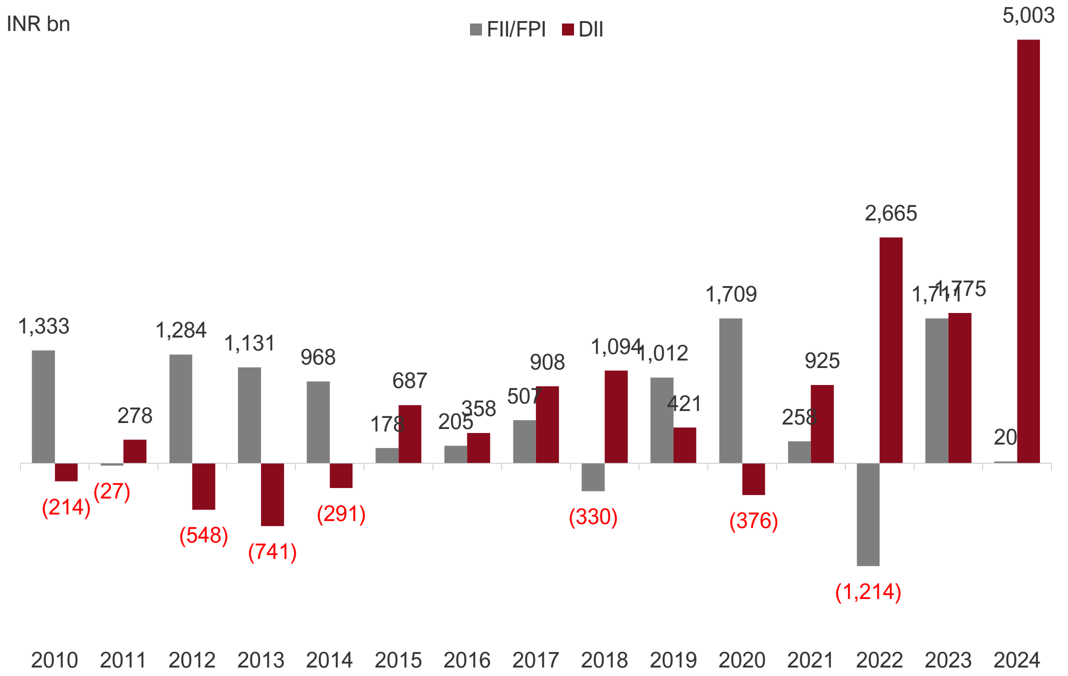
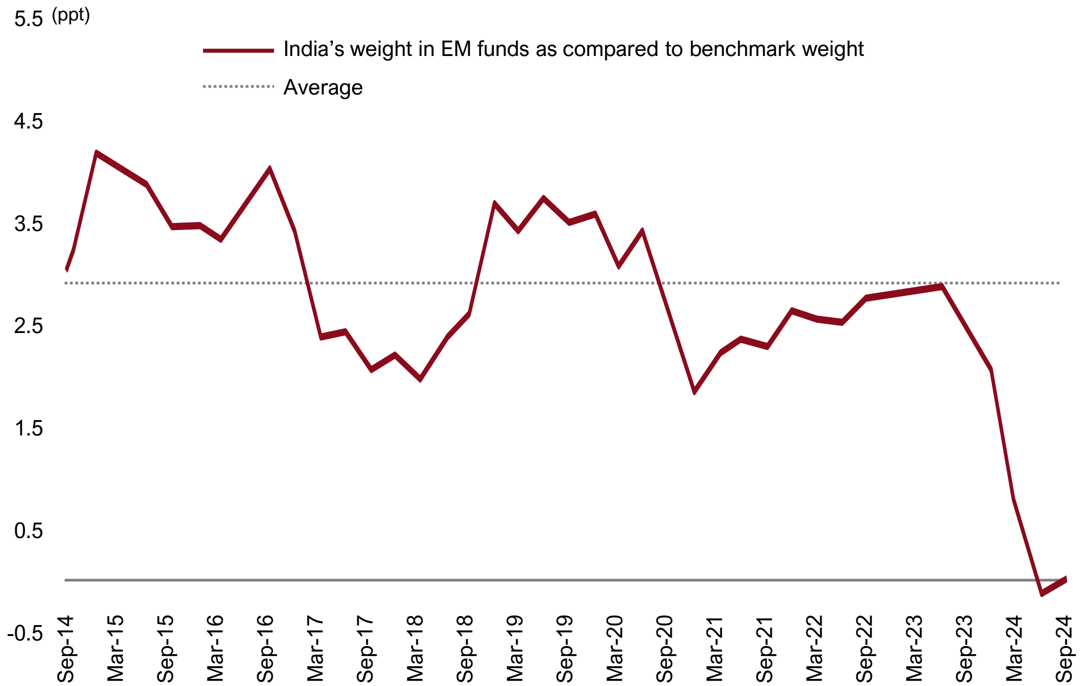
### Marginally net positive flows for FII in CY24




### Low FPI positioning in India to cushion potential EM outflows



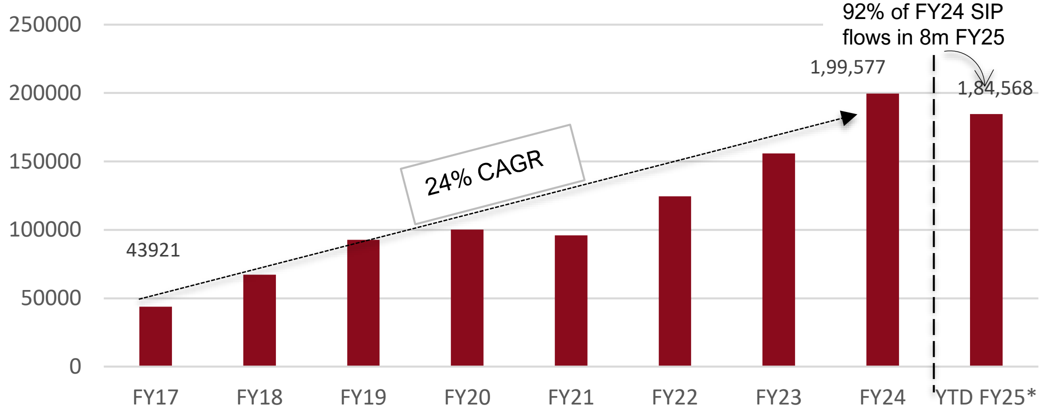

- Oct-2024 MTD FII selling of USD8bn of outflows shows the worst pace since Covid, outpacing domestic inflows. But Dec saw recovery and FIIs are net positive for the year
- We note that for India, the risk could be lower on account of a) India's relative positioning in FPI portfolios is down to the lowest in more than a decade; Notwithstanding EPS cuts, a market rebound is likely when FII selling abates.

Source: Axis Capital, Jefferies, ABSLAMC Research

# 'Buy The Dip' reinforced by Indian households

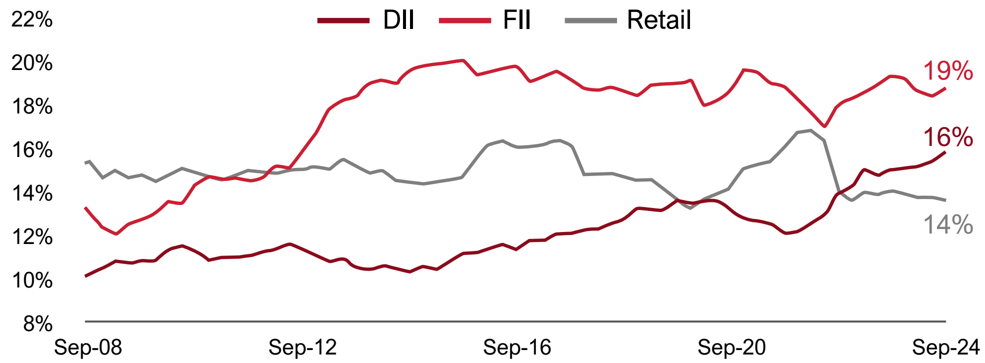
## Annual SIP flows in Rs cr

3-Yr SIP Avg returns for flexi cap category was 24%

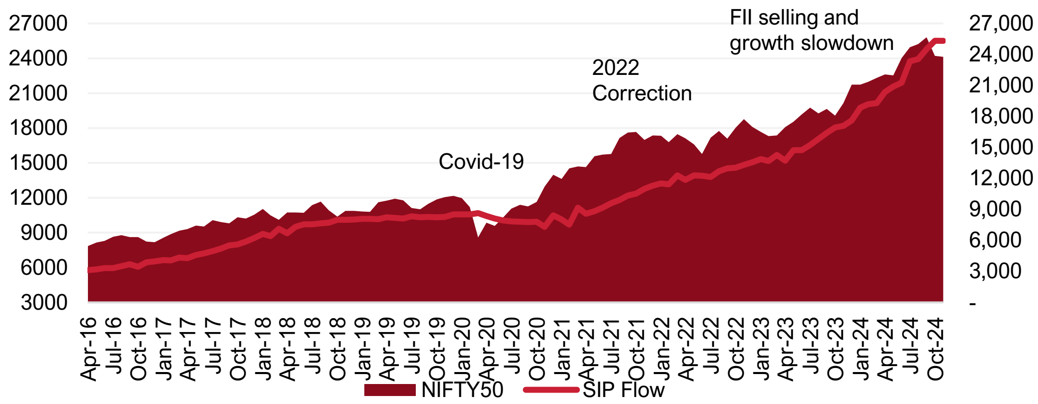



* YTD FY25 is upto November 2024

## DII share - showing institutionalization of savings




## SIPs have been immune to numerous 10% market corrections




Out if 20 episodes of market corrections, 17 of them have seen SIP flows higher than previous 12 month average - only amidst Covid - SIP flows fell. Household equity ownership continues to get institutionalized: direct retail share of BSE500 fell to near-record lows due to net selling, but MF inflows are up (SIPs annualizing: USD35bn; 12M non-SIP flows: USD17bn), with their share at a record 10.1%; DII share is 15.8%.

Source: ABSLAMC Research

# Demand > Supply = Opportunistic selling by Promoters/PE

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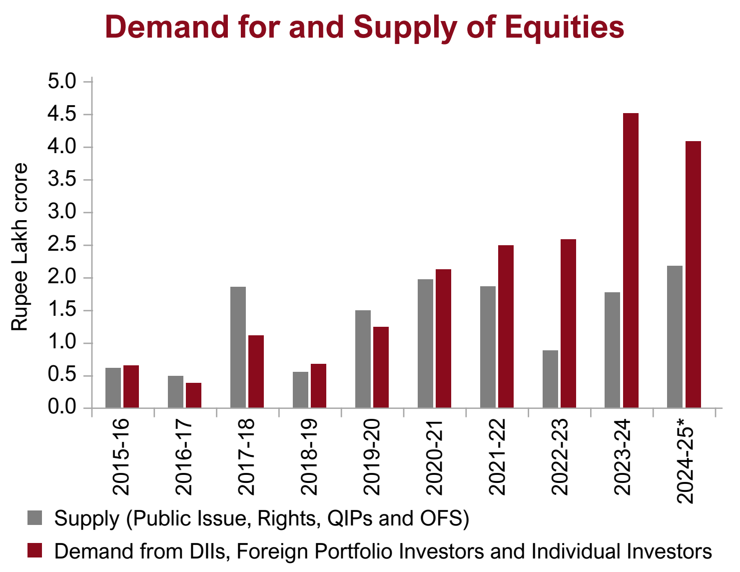
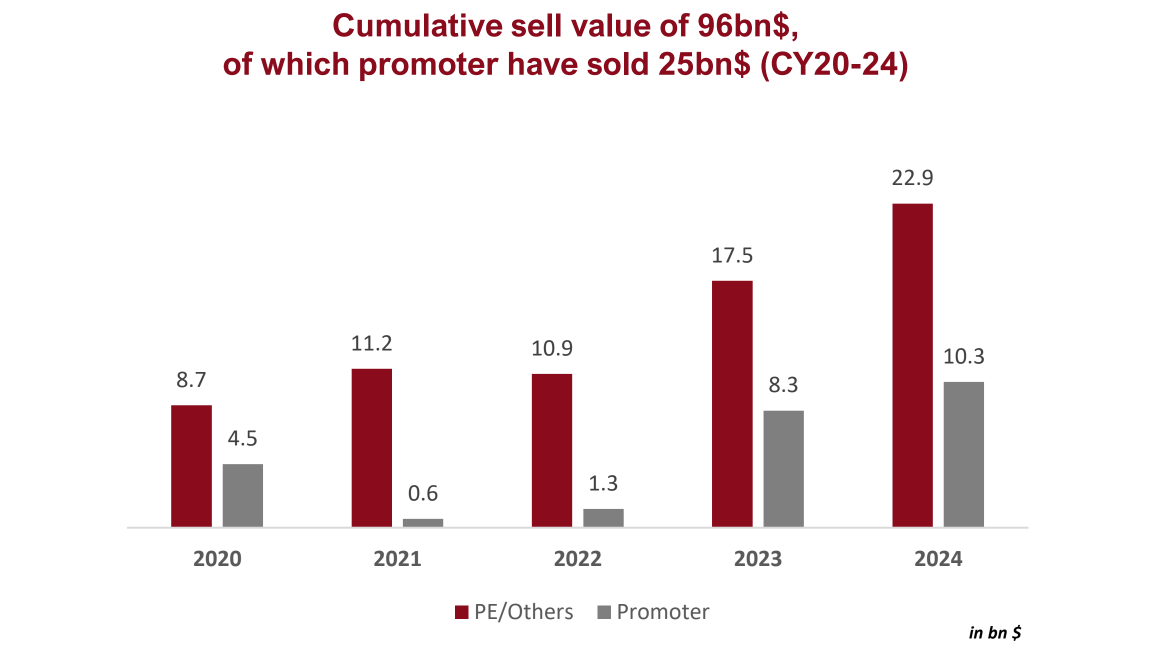


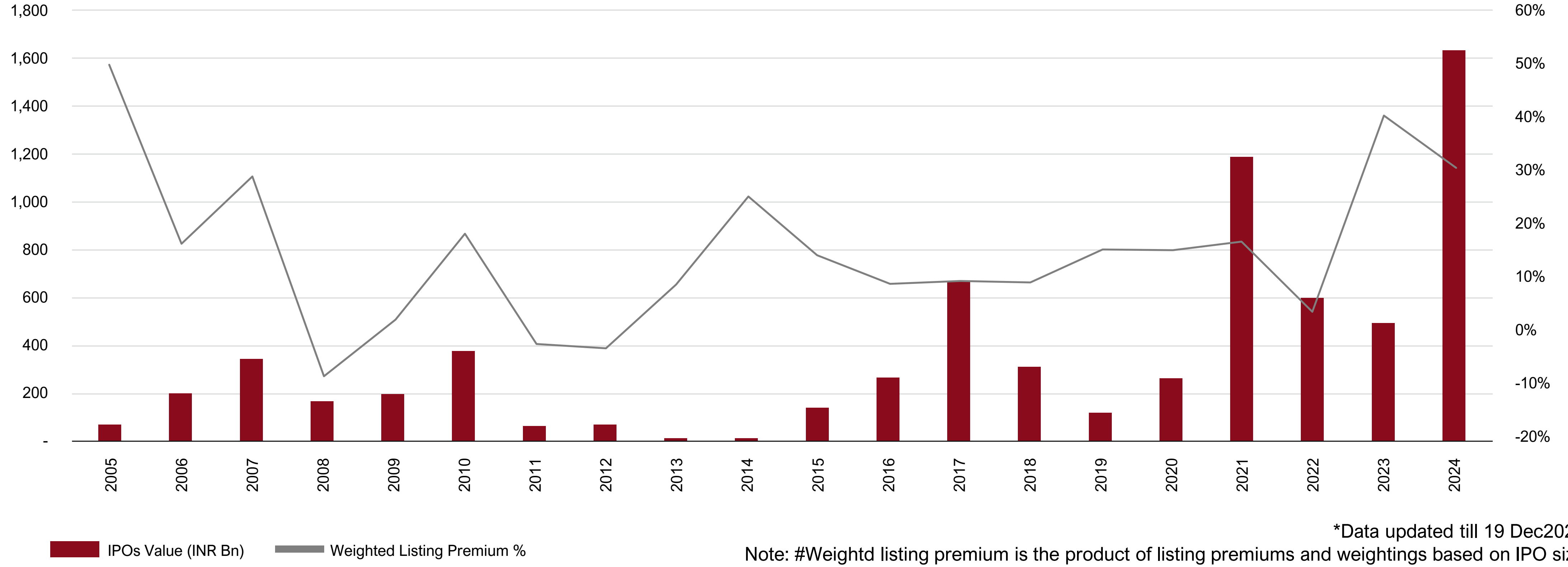


Source: SEBI, NSE, BSE, Capitaline, Bloomberg and RBI staff calculations, Morgan Stanley

# Issue size-weighted listing premium trend

**CY24 witnessed mainboard IPOs raise INR 1,628bn (USD 19.5bn), with an impressive 31% weighted average listing premium.**

Issue size-weighted listing premium trend

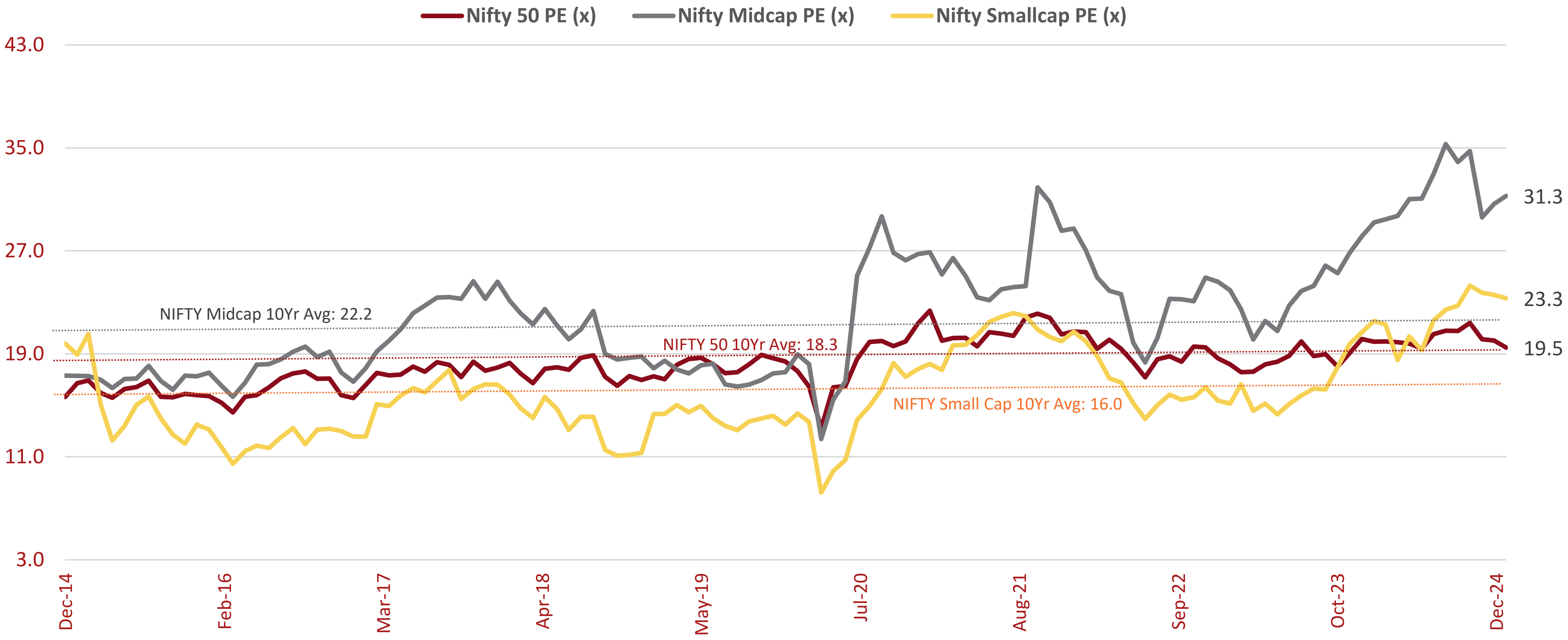



*Data updated till 19 Dec2024
Note: #Weightd listing premium is the product of listing premiums and weightings based on IPO size
Source: Nuvama Alternative  Quantitative Research; Prime Database; Bloomberg

Source: ABSLAMC Research

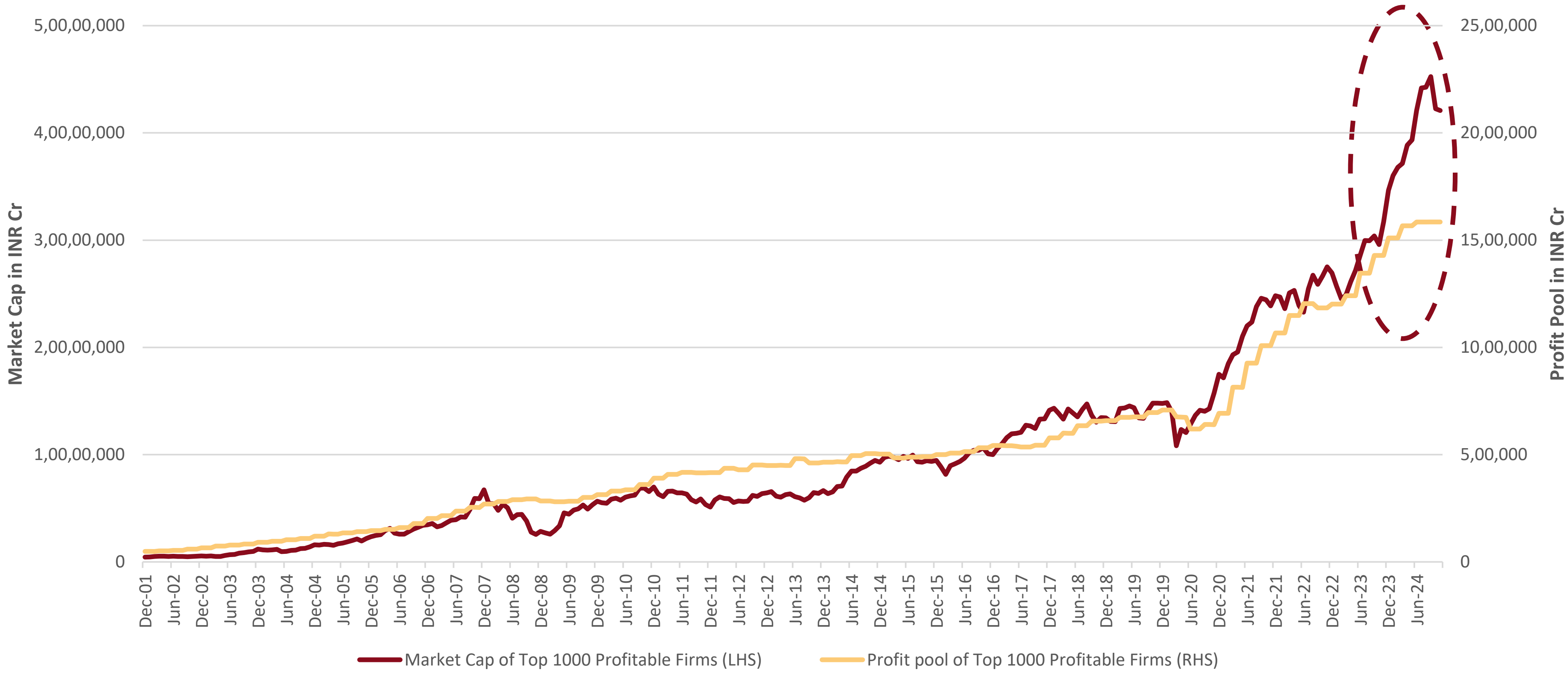
# Large cap Valuations Reasonable Amidst Market Consolidation

**Nifty-50 valuations are only at around 7% premium to long-term historical levels on 1-year fwd PE basis whereas Midcap & Small cap trades at 41% and 45% premium respectively**



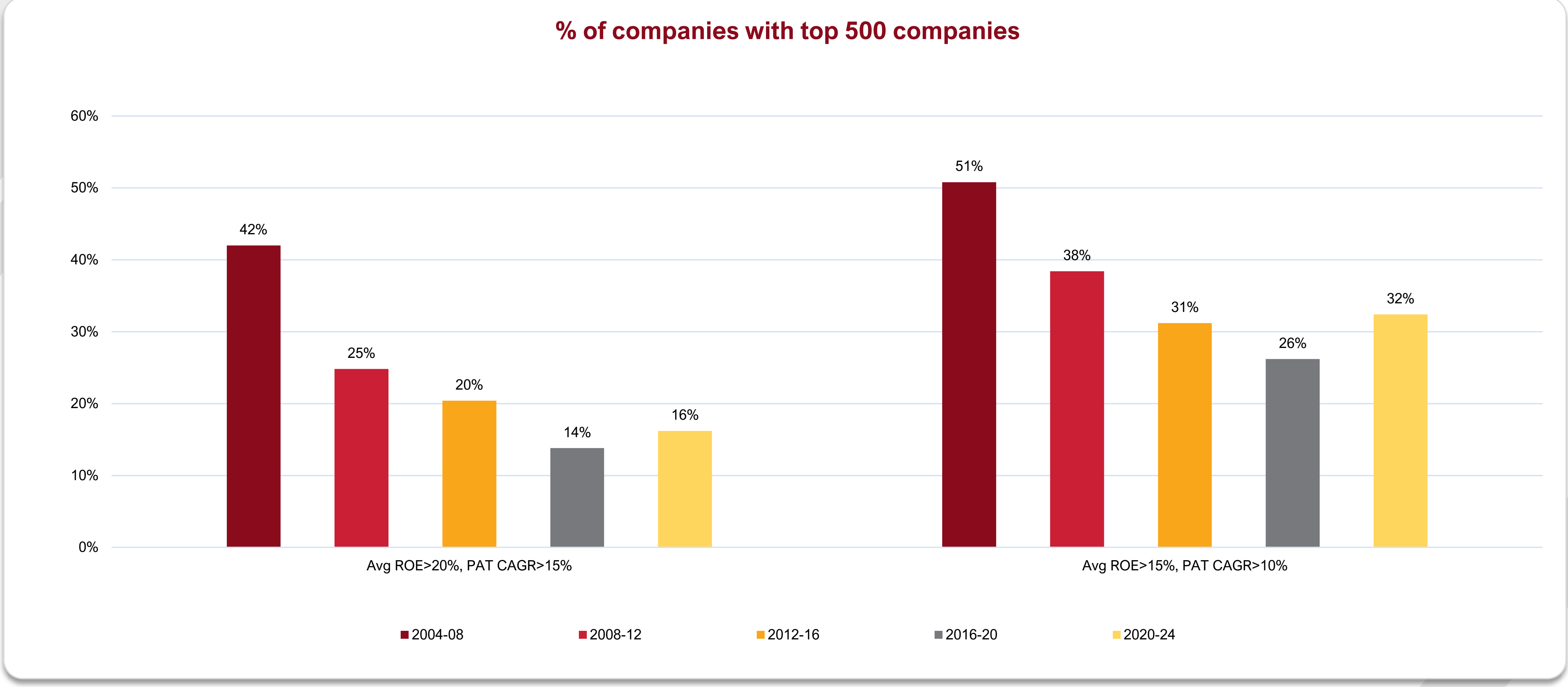

Source: MOSL, ABSLAMC Research; 1 Year forward PE. Note: Data as of 31st Dec 2024

# Mind the Gap - Market Cap seen rising faster than Profit pool



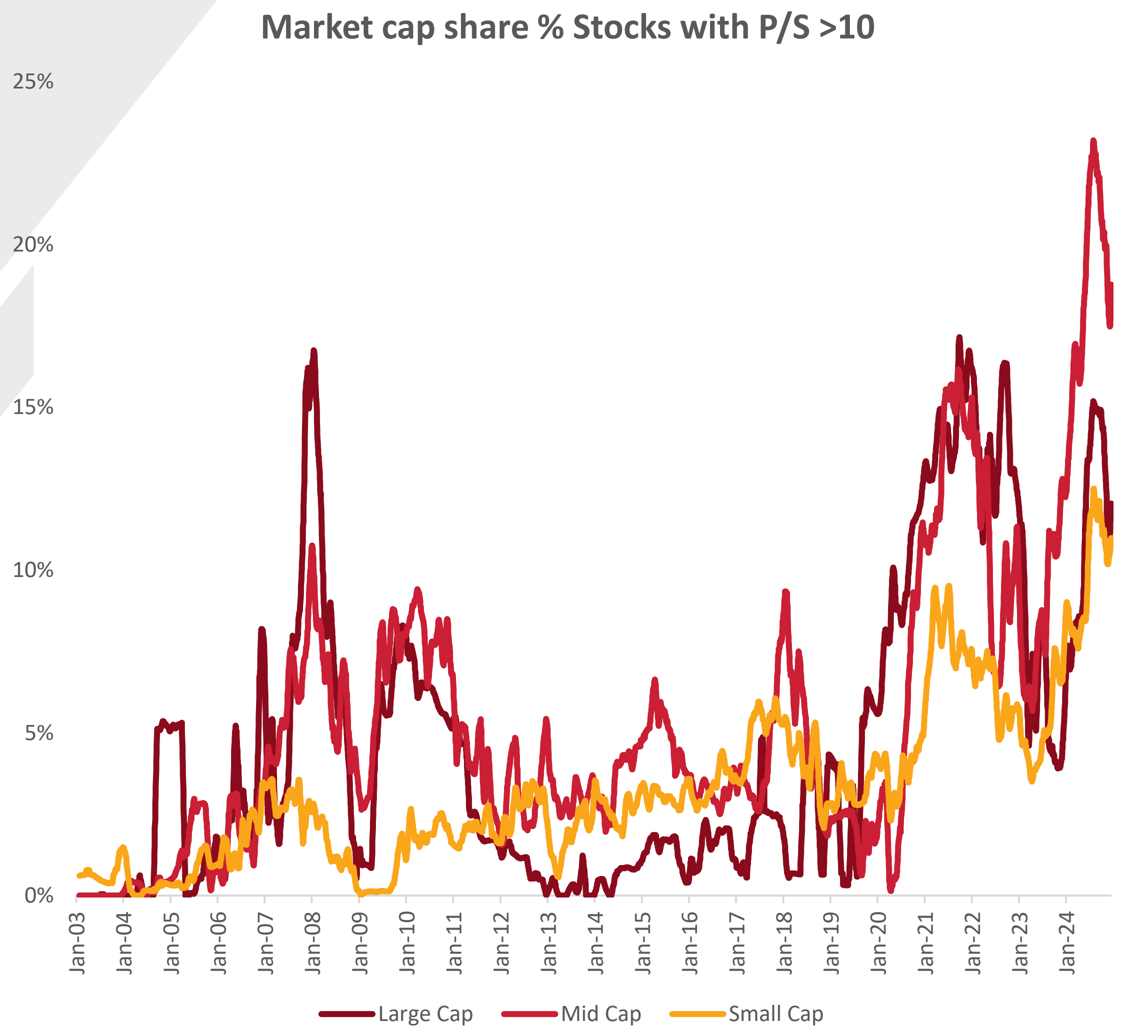

Source: ABSLAMC Research

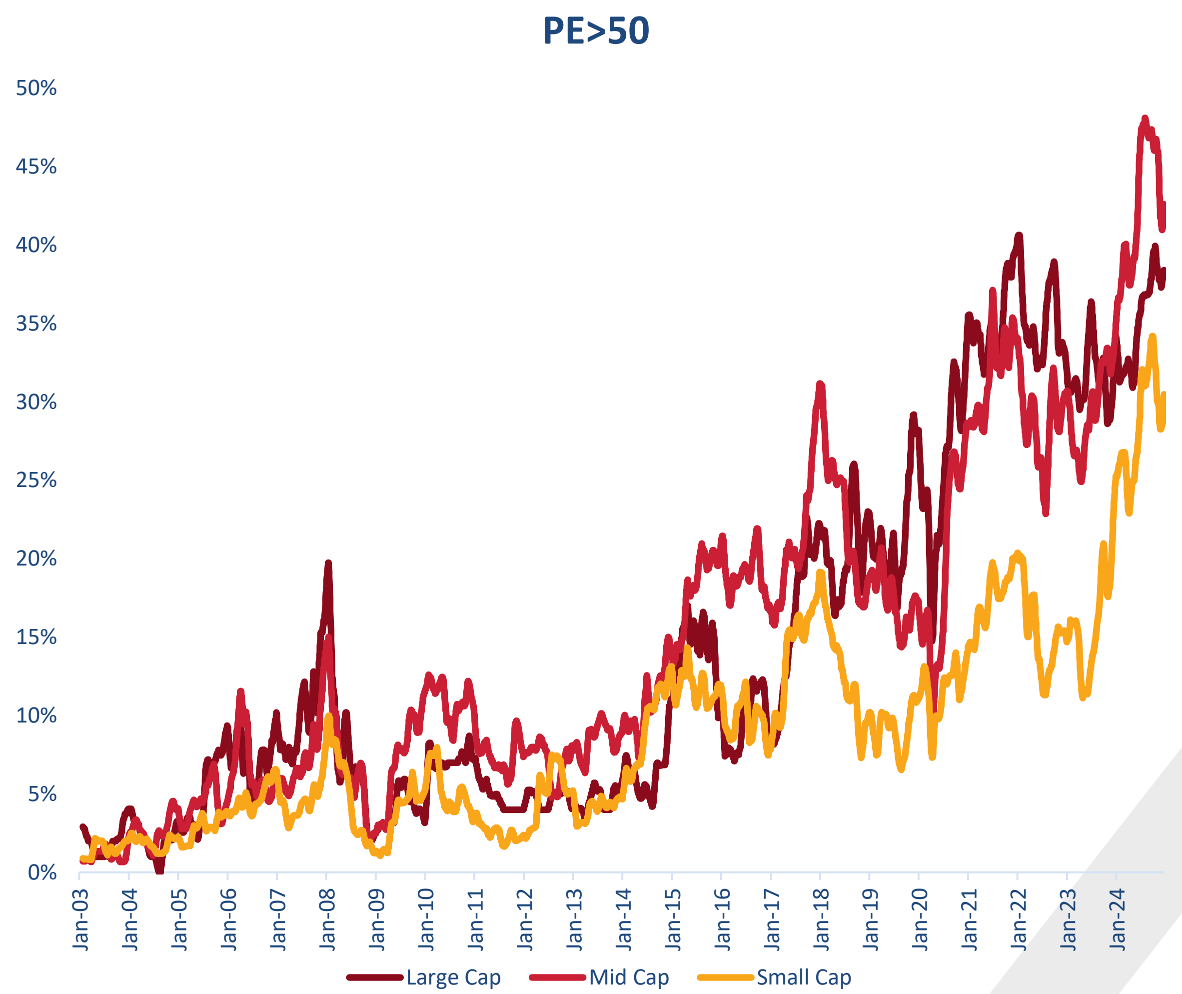
# Good companies are getting scarce leading to valuation creep




Source: ABSLAMC Research, ICICI Securities

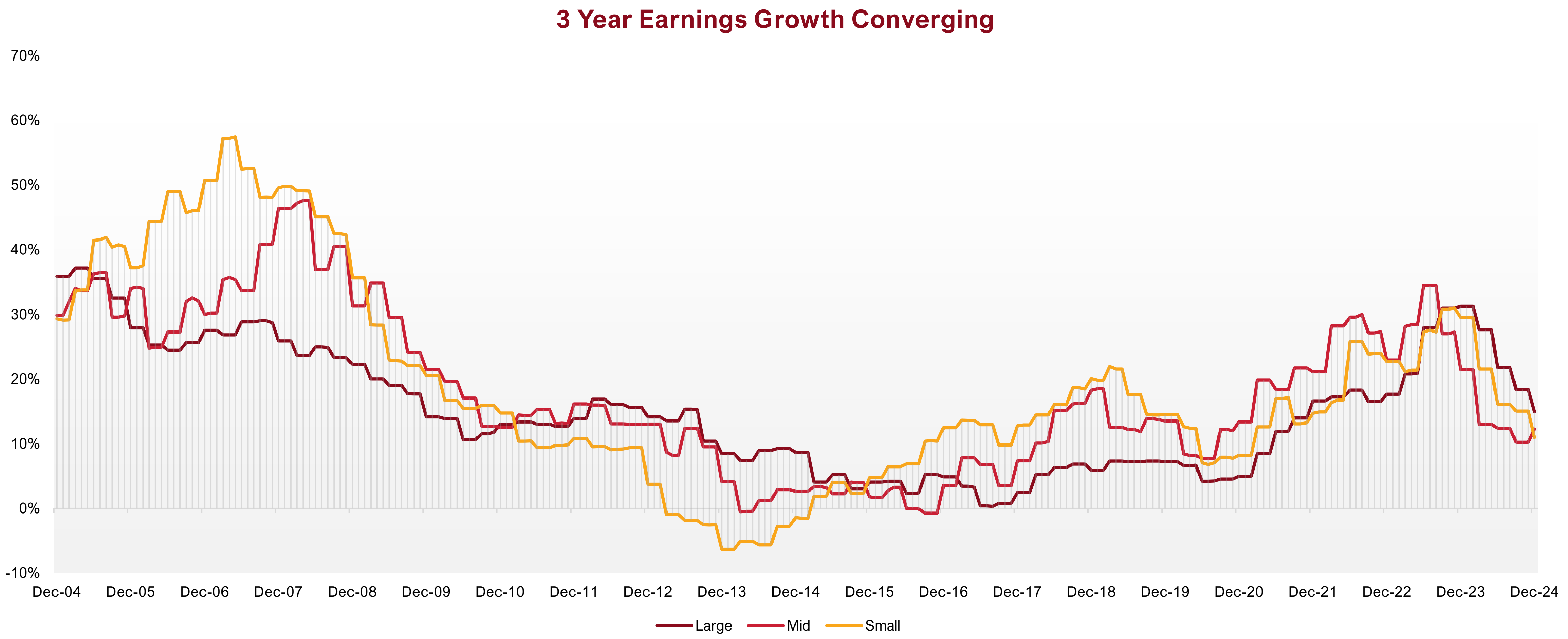
# Valuation creep getting mainstreamed




Source: ABSLAMC Research

# ..Even as earnings growth profile is converging




Source: ABSLAMC Research

# Leading to Market Breadth normalizing

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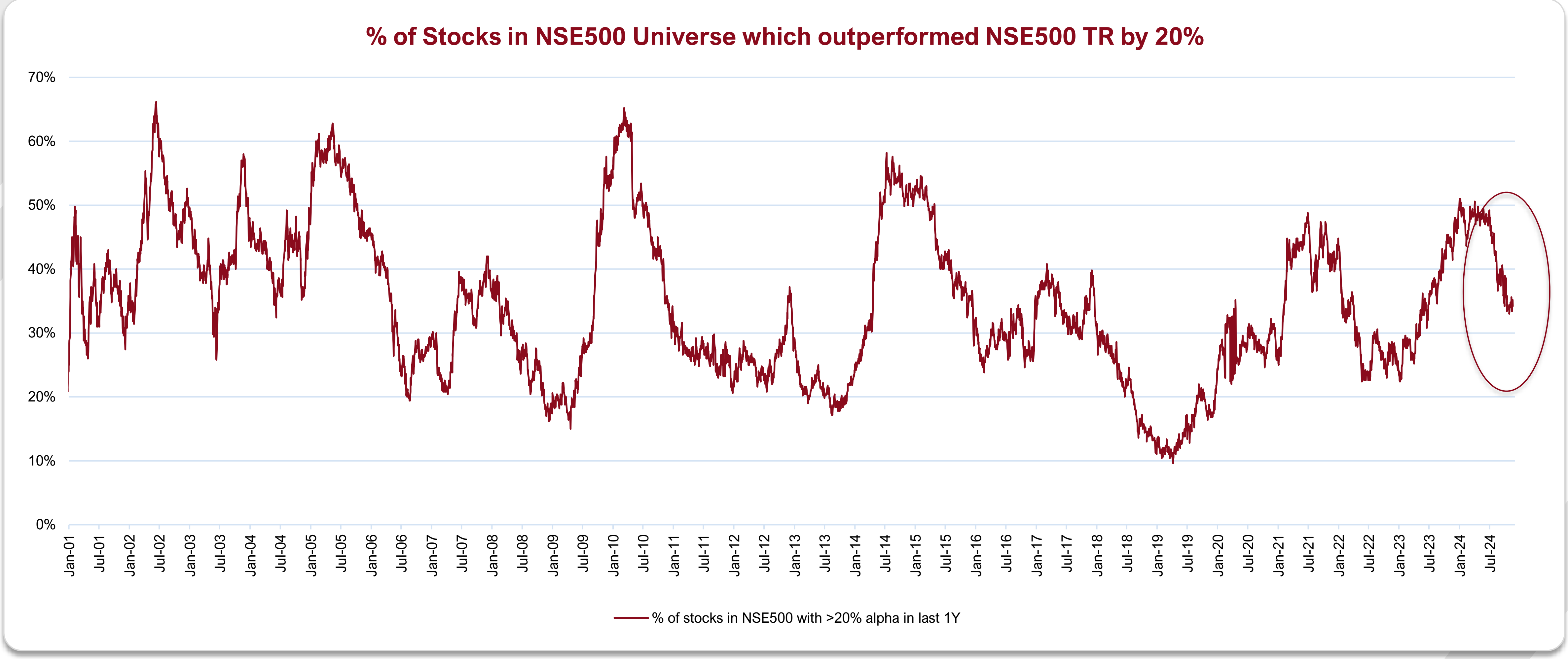
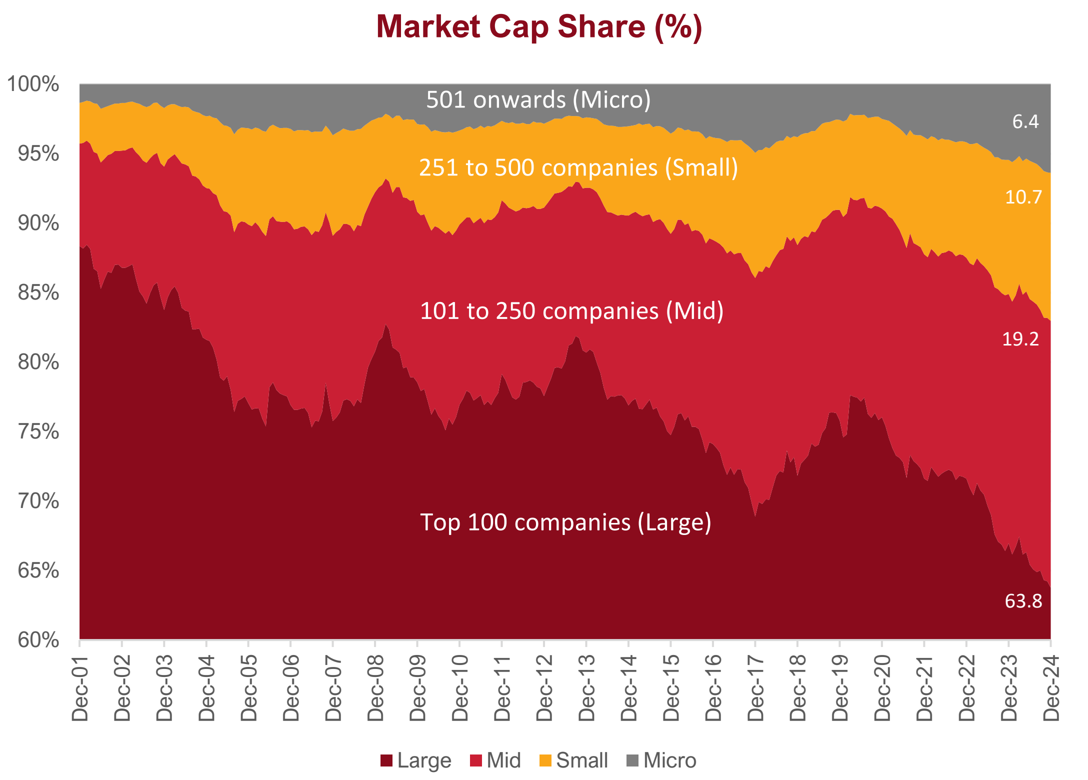
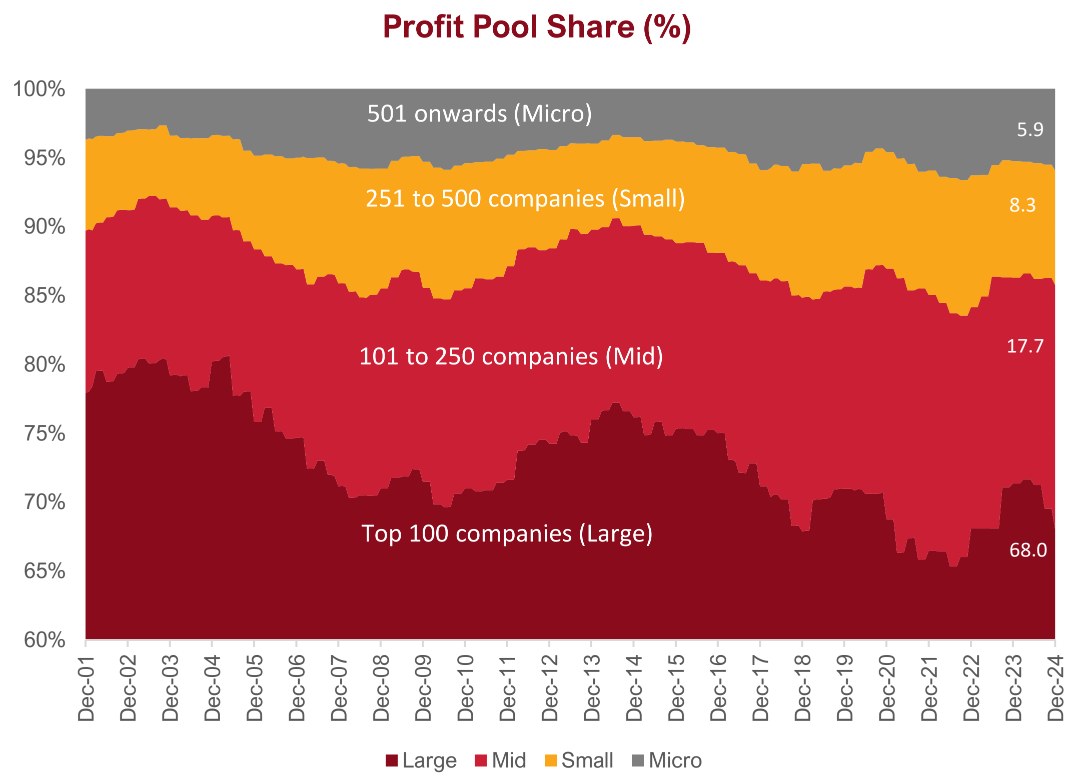



Source: ABSLAMC Research

# Large caps offer better risk reward




In Top 1,000 companies by market cap (Profitable companies only):

- Market cap share of Large-caps is at a 2-decade low. Profit Pool share of Large-caps has increased from Jun’22 low.
- Conversely, market cap share of Mid, Small, and Micro caps has crossed the Dec-17 highs and is at a 2-decade high. Profit Pool share of Mid, Small, and Micro caps has fallen from Jun’22 highs.

Source: ICICI Sec, ABSLAMC Research

# Using Reversion to help in sector allocation

### Profit Pool Share

Focusing on Top 1000 profitable companies

### Market Cap Share

Marketcap Share of these sectors - focus on delta of marketcap share less earnings share

### Ownership share & Past Returns

Have market participants have had a great experience or terrible experience?

### "Size factor" within sector

Micro returns over Large returns

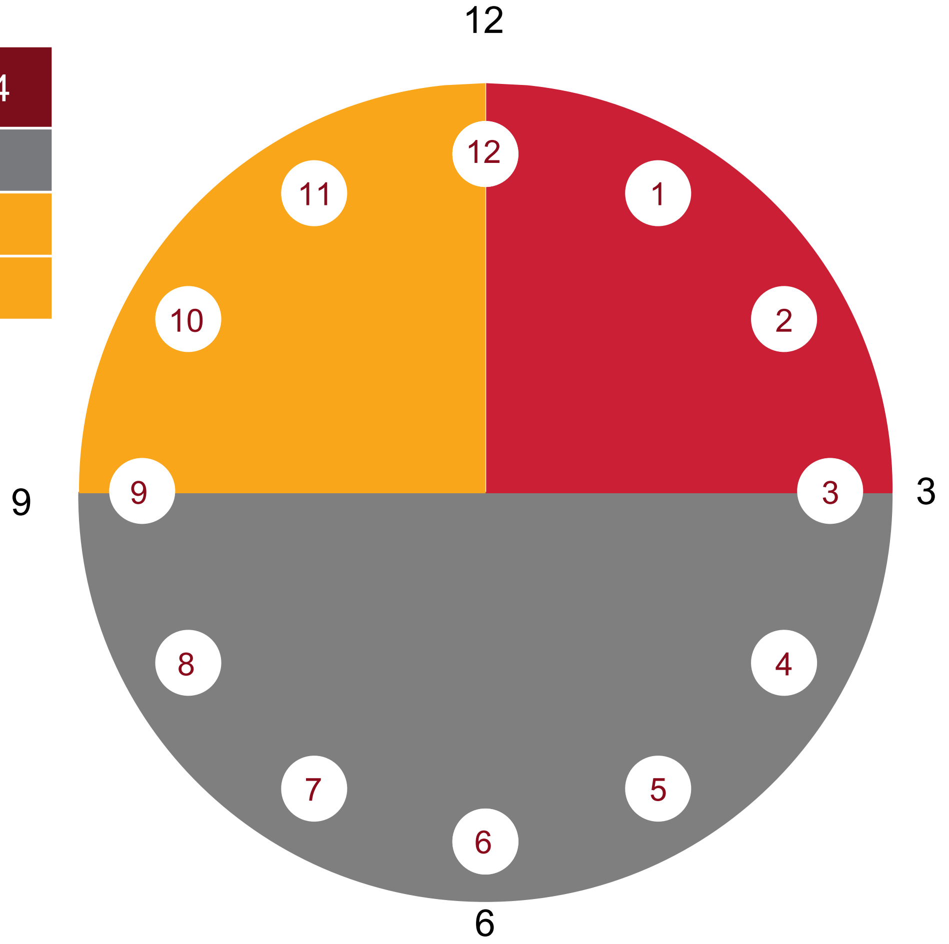
When to go for Best of Breed and going down the curve?

While many of these "quant frameworks" can bring in objectivity, one still needs Human assessment of the cycles; all these frameworks help in is in reducing many human biases and to help in repeatability

# Mein Samay Hoon - Sectoral Outlook

### Sell on Rise

| Sector | CY 25 | CY24 |
|---|---|---|
| Real Estate | 9 | 8 |
| Defence/PSU | 10 | 9 |
| FMCG | 11 | 10 |




### Dark Horse - Darkest before dawn

| Sector | CY 25 | CY24 |
|---|---|---|
| Private Banks | 1 | 11 |
| Energy Proxy/Cement | 2 | 1 |
| Metals | 3 | 2 |

### In Momentum

| Sector | CY 25 | CY24 |
|---|---|---|
| Consumer Durables | 4 | 3 |
| IT | 5 | 4 |
| Pharma | 6 | 5 |
| Auto Ancillaries | 7 | 6 |
| Capital Goods | 8 | 7 |

Source: ABSLAMC Research

# Reversing the bearish stance on Private Banks: an Anti Consensus call

Turning constructive on private banks after being negative on them for last 18 months, as an anti-consensus call

**Background: The De-rating Saga**

- Super Normal Profits driven by high credit growth and expanding NIM
- Expanding Profit Pools (1% of GDP); at 25Y high
- De Rating Concerns: Sustainability issues coupled wth regulatory uncertainty.

**Factors behind de-rating**

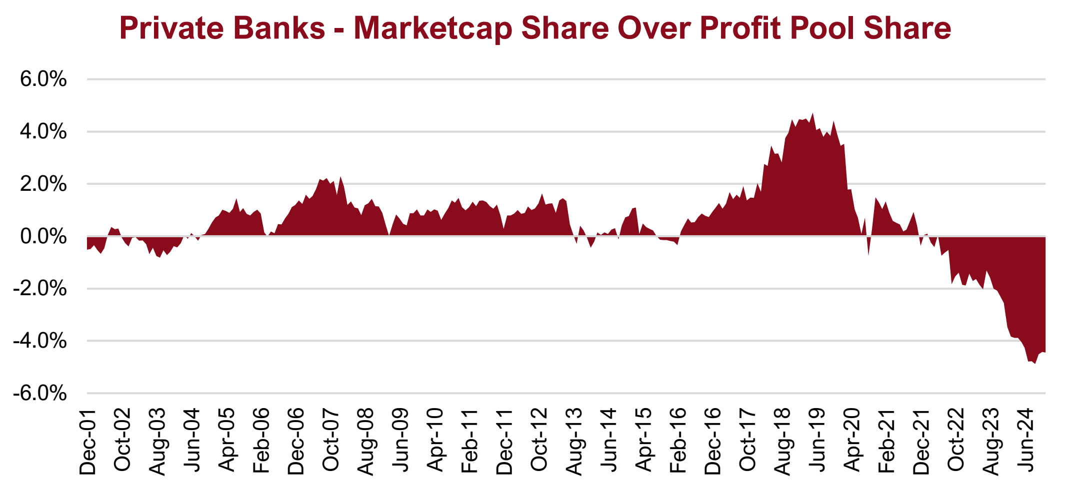
- RBIs tightened regulatory stance resulting in increased operating costs.
- Tri-legged stress in credit growth, NIM and increased credit costs.

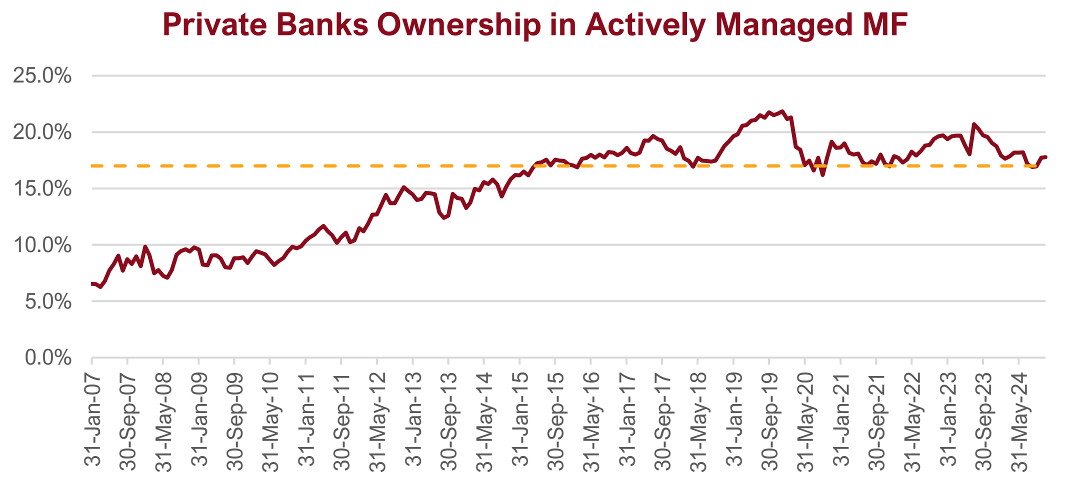
**The case for Re-rating**

- Bottom out: Private bank Mcap at lowest level relative to profit pool share.
- Ownership in active MF at Decade lows
- Strong Structural levers in place.

**Risks**

- Stress proliferation from MFI asset quality to other pockets coupled with prevalent earnings slowdown.




Source: ABSLAMC Research

# Global macros and Indian conditions favorable for metals

**Global Economic Landscape:** Loose policies in both the US and China, with further stimulus likely.

Risk of currency wars and significant CNY depreciation, impacting INR.

**Metals Market Dynamics:** Metals benefit from USD-denominated pricing for global cyclicals.

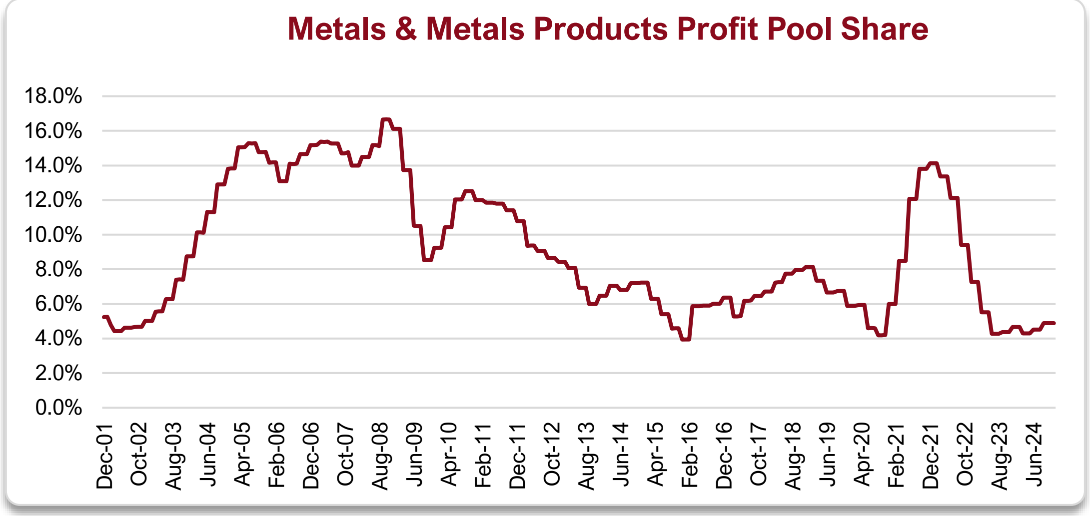
**Profit Pool Share:** Back to levels seen in 2001, near the 2016/2020 bottom.

MF ownership in metals near historic lows, slightly above 2016/2020 levels.

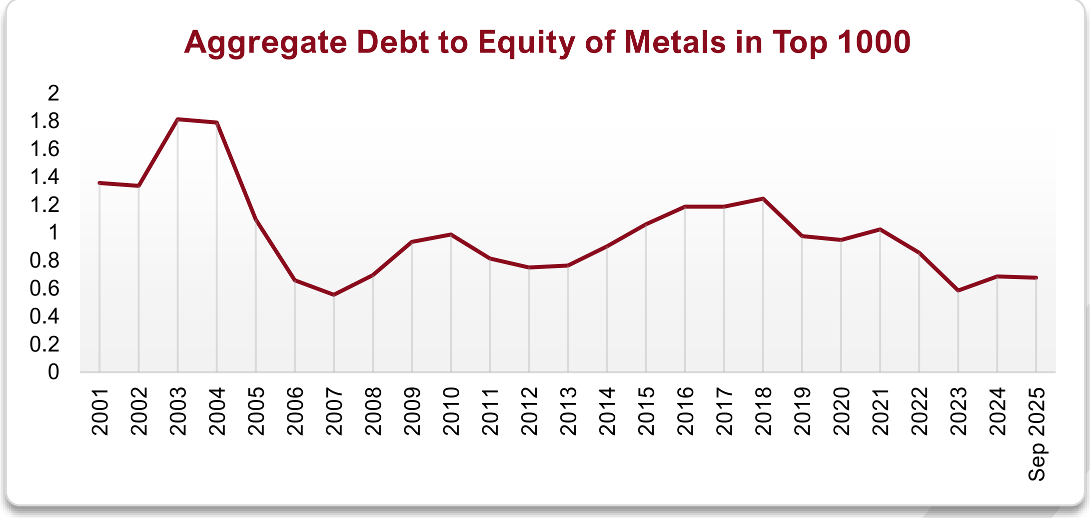
Indian metal companies' debt-to-equity ratios at multi-decadal lows, reflecting improved balance sheets.

**Risk to the Call:** Weak Chinese demand, especially in real estate.

Rising exports from China could export deflation, raising doubts about global metal price sustainability.








Source: ABSLAMC Research

# Expanded pool share and capex to boost cement

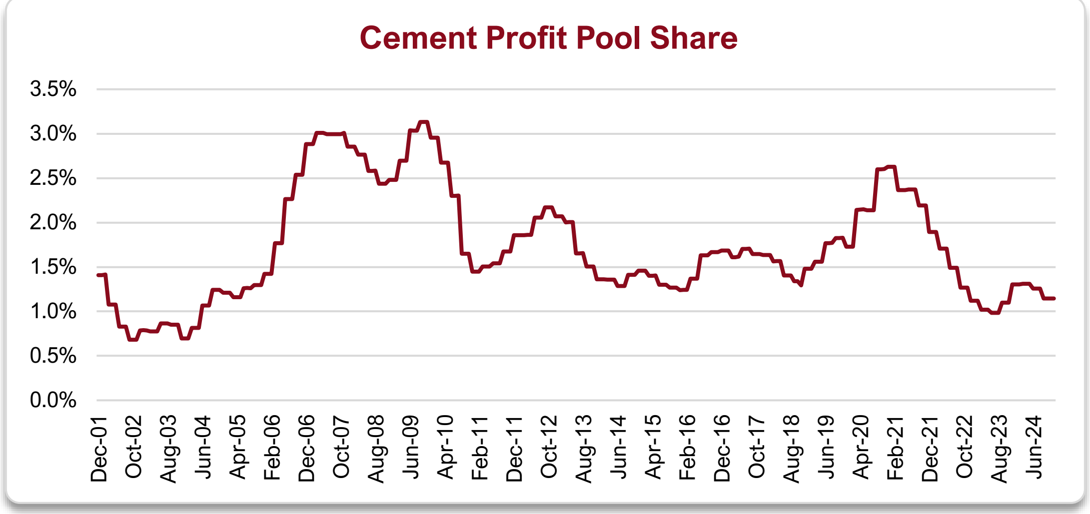
**Energy Price Outlook:** Base case: Energy prices range-bound with potential downward drift. If Trump's deregulation and 3mn barrels/day shale output increase materialize, further downward reset is possible.

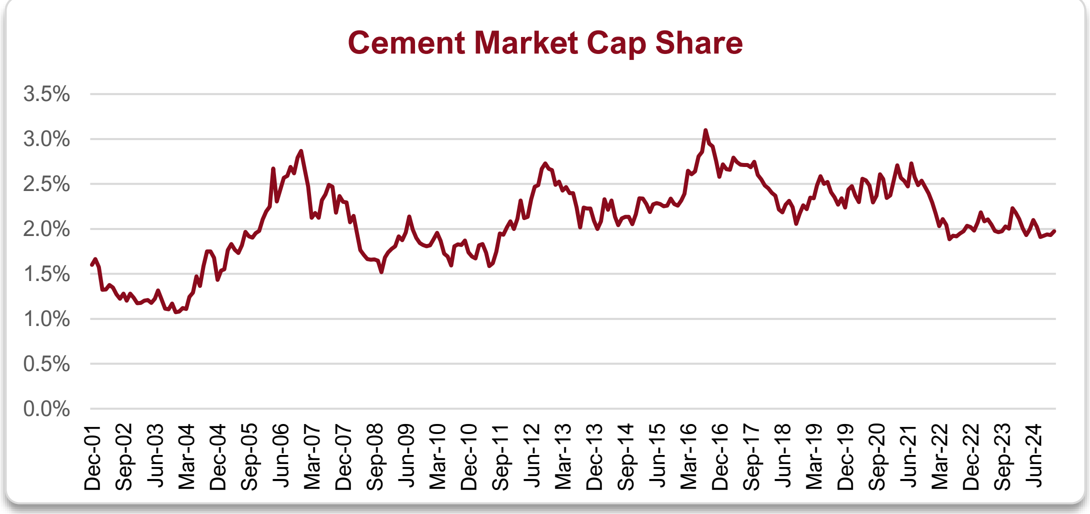
**Cement Market Dynamics:** Despite consolidation, cement price increases over the last decade have been weak. Cement companies are massively expanding capacities, pushing **profit pool share** to levels last seen in 2004.

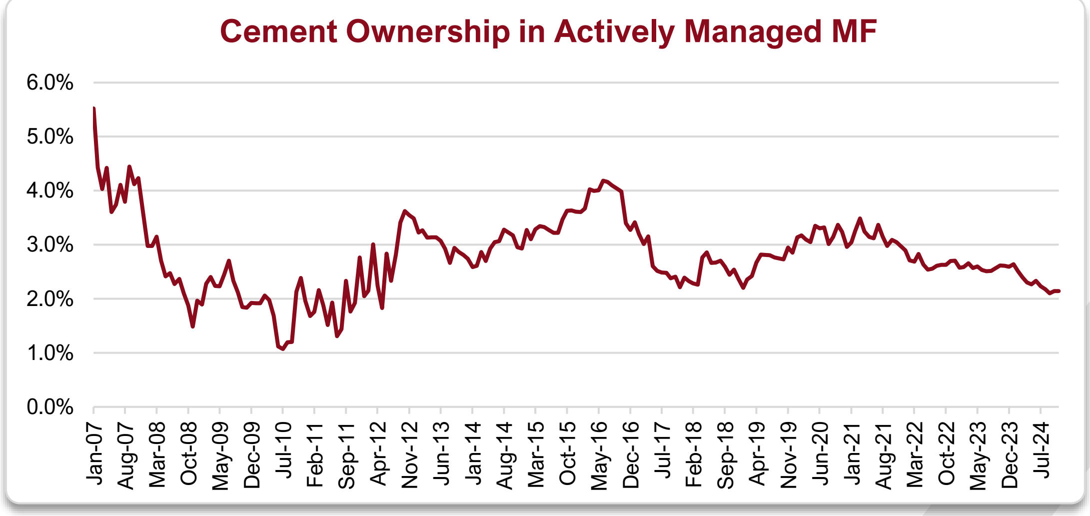
**Active MF ownership** in cement sector is at a 10-year low; **market cap share** at a 15-year low.

**Sector Performance:** Cement lags behind real estate and infrastructure sectors despite similar demand drivers.

**Risk to the Call:** Continued consolidation may further depress prices, requiring significant patience for returns.




Source: ABSLAMC Research

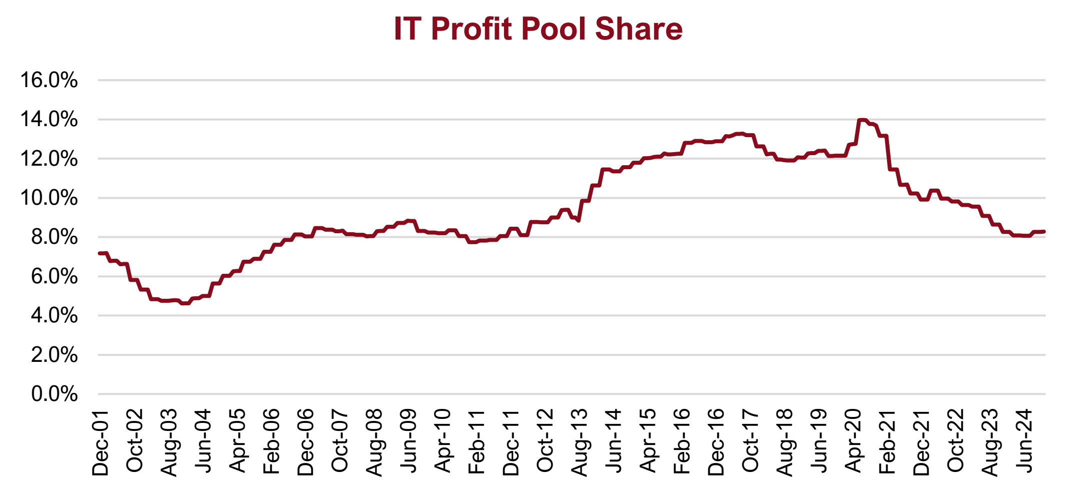
# IT set up for a gritty revival

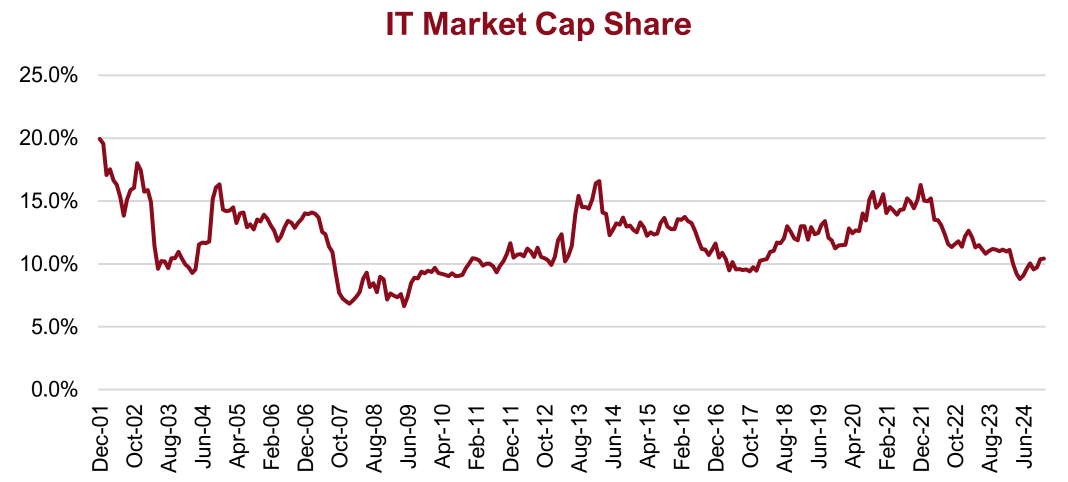
## Historic Trends

- Profit pool share of IT sector has come down from 14% seen during Covid times to about 8% - back to levels seen in 2011-12
- Compared to Pre-covid, level of offshoring has gone up, which is typically margin accretive
- However, margins of most Indian IT companies are below pre-covid levels, due to aggressive hiring evidenced during Covid, and subsequent slowdown in growth.
- IT sector market cap share has also come down – to 2009-10 levels

## Growth Expectations

- With Trump policies likely to improve investment and profitability of corporates in US, we expect growth momentum to slowly revive.
- Over time, we expect margin also to improve – leading to improving profit pool share
- While H2CY2023 has seen a big move, expect some consolidation – but use volatility to further bolster exposure



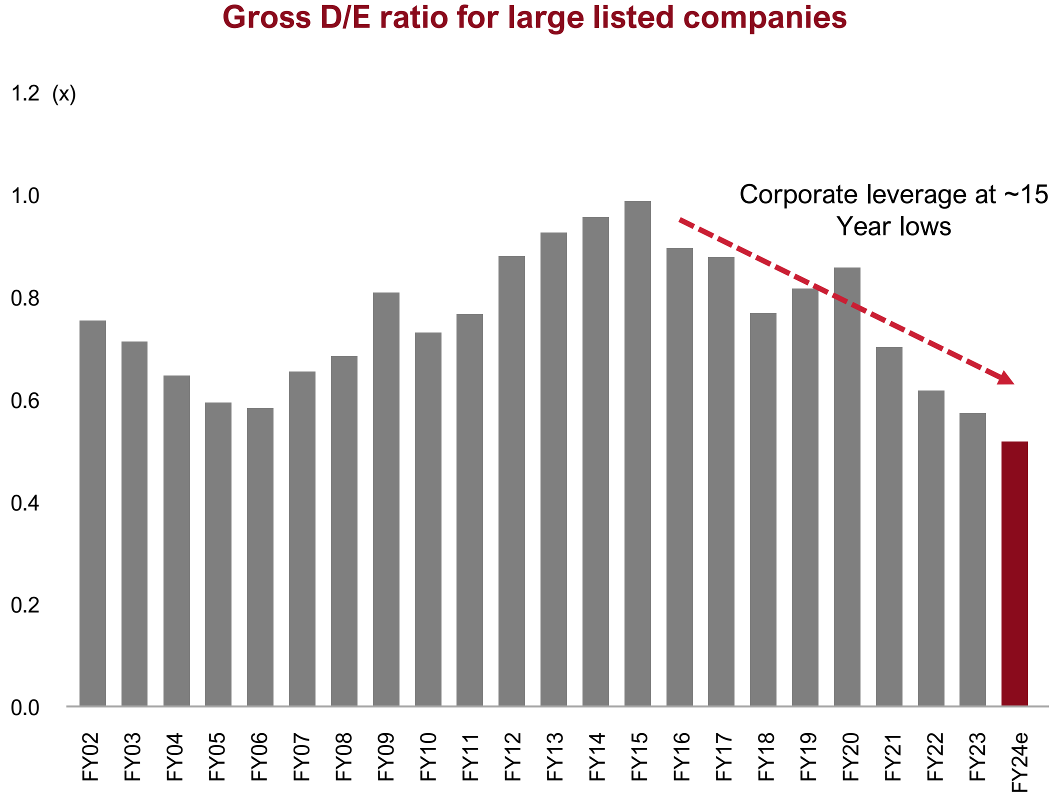




Source: ABSLAMC Research

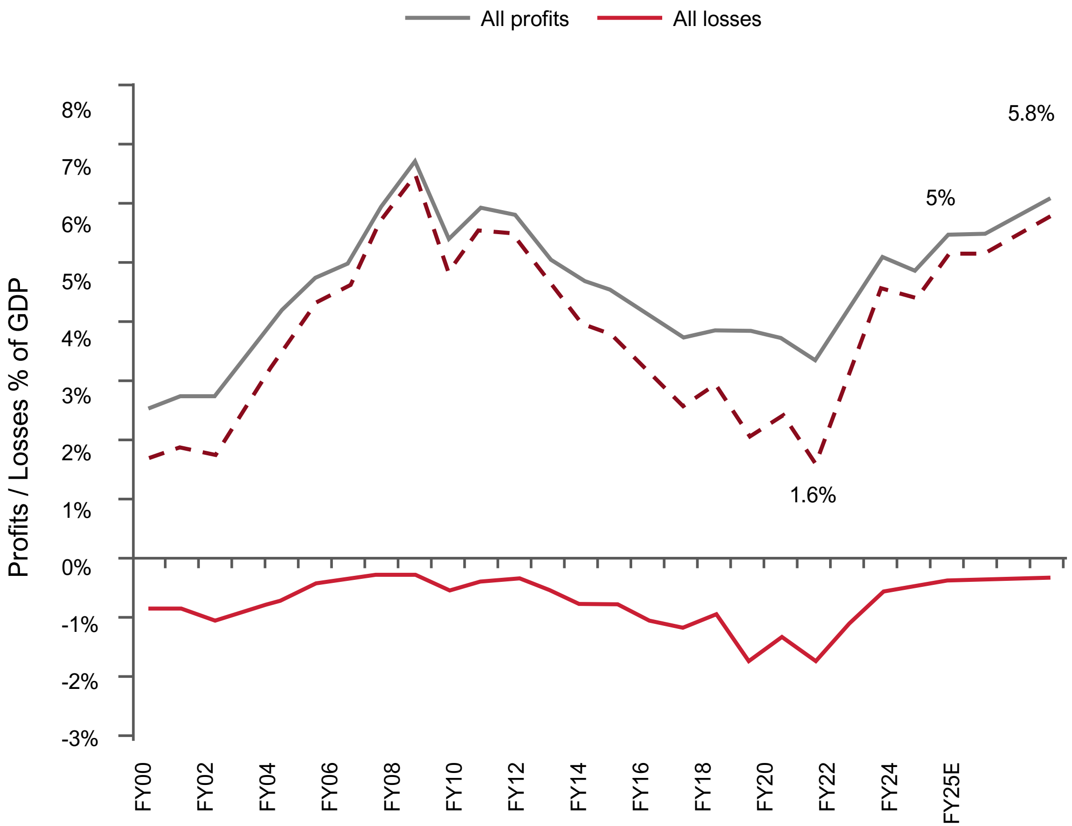
# Capex cycles appear to be favourable

ADITYA BIRLA CAPITAL
ASSET MANAGEMENT

## The corporate balance sheets are deleveraged to cyclical lows and can take on large capex programs ahead



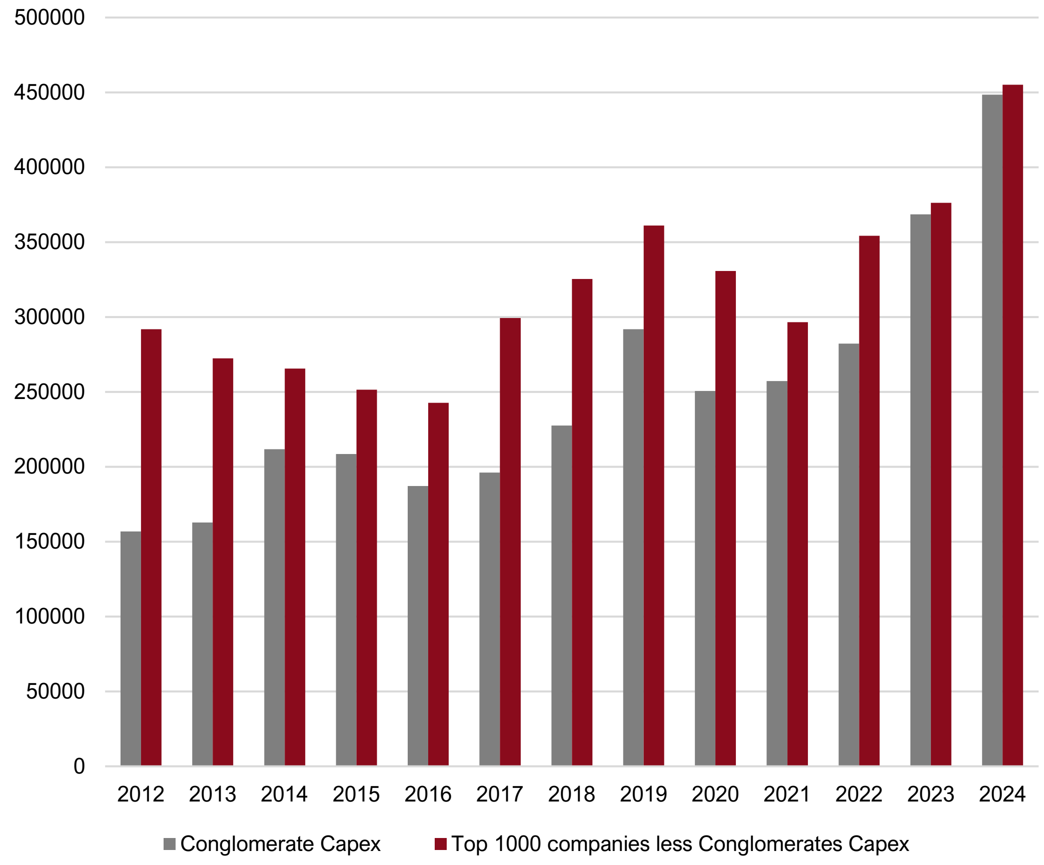

## Profit cycle likely to approach ~6% of GDP by FY26E



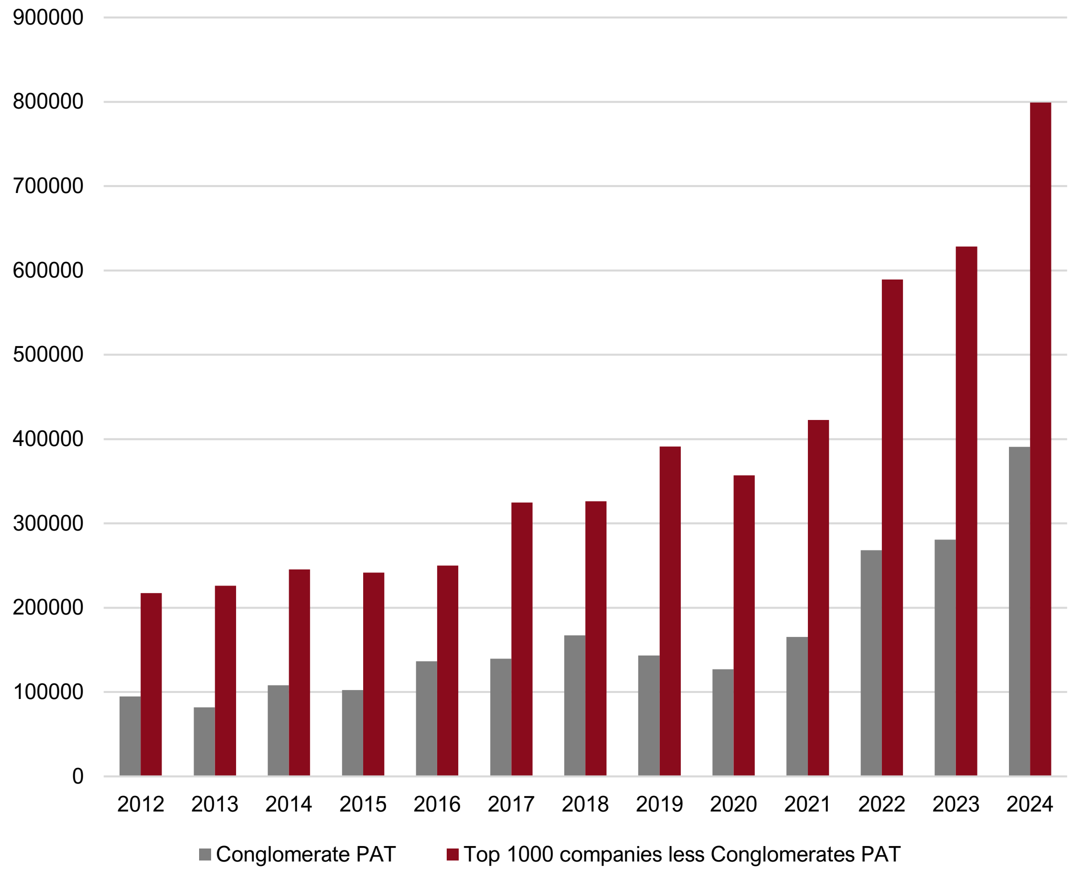

Source: ABSLAMC Research

# Conglomerates revved up to invest

## Two Track Capex Story
## Conglomerates revved up, investing more than profit pools



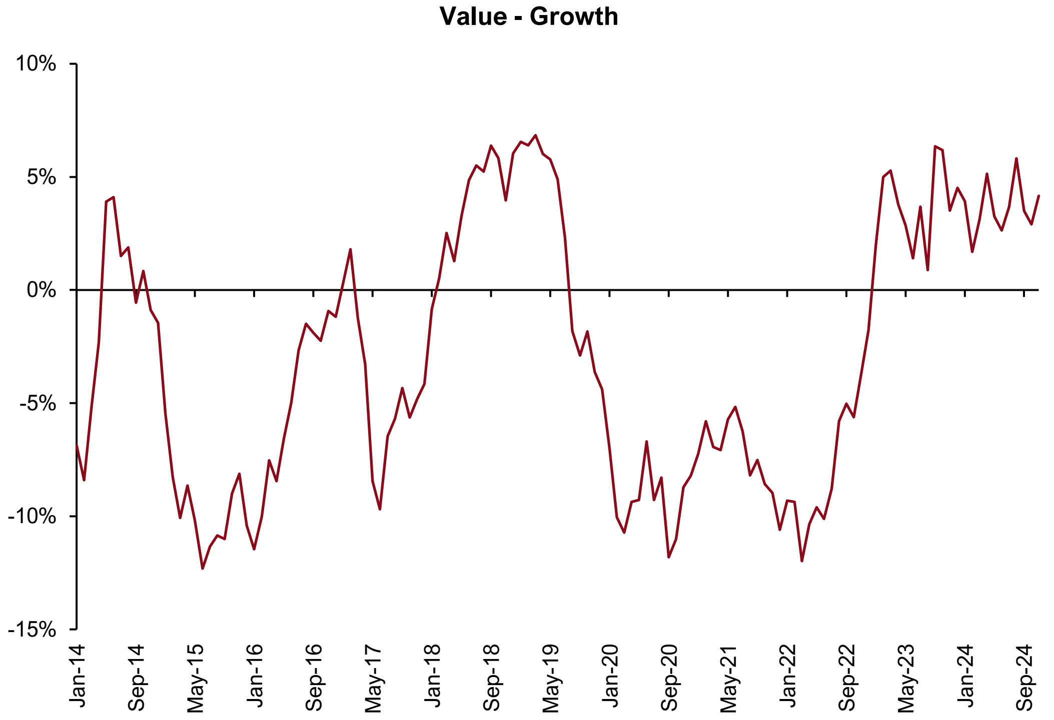

## Even as most other companies are in wait & watch mode, investing half of their profit pools



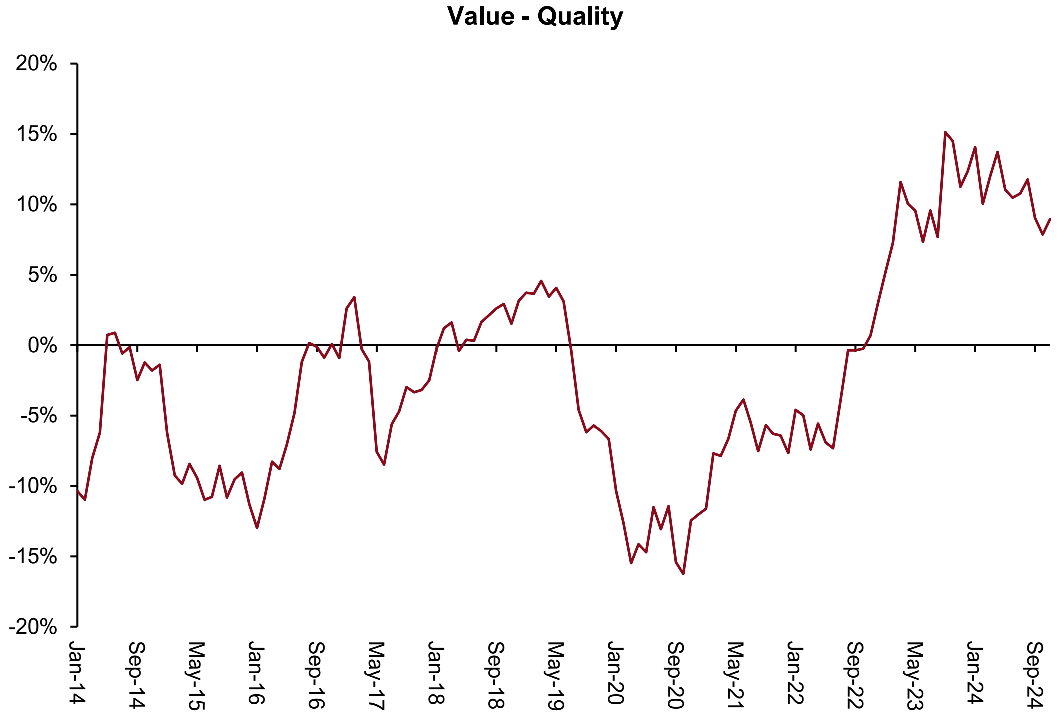

Source : Jefferies , ABSL AMC Research

# With interest rates expected to decline, growth could outperform value. We could also see a rotation from value to quality

**Value vs Growth - Top 250 universe (Rolling 3 year Alpha)**




**Value vs Quality - Top 250 universe (Rolling 3 year Alpha)**




- On rolling 3-year basis, Value over Growth was its highest readings. Value has cooled out a bit and we can see Growth catching up to Value.
- On rolling 3-year basis, Value over Quality is also relatively high. This could also reverse as investor sentiment improves and they rotate out of Value stocks.

Source: Kotak Insti., ABSLAMC Research

# Seeing resurgence of "Growth" Factor performance


Source: Bloomberg, ABSLAMC Research

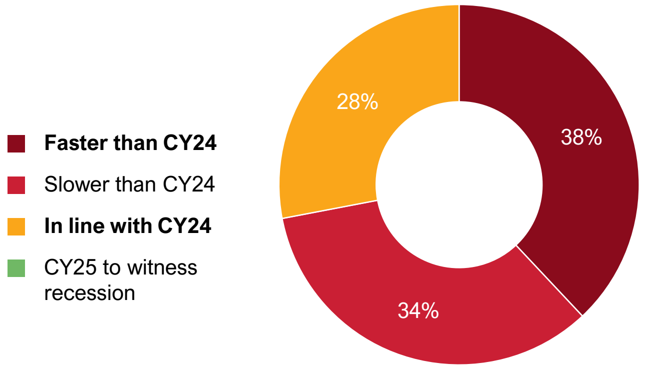
# INVESTMENT MANAGER’S POLL

# Global currency wars leave uncertainty on the table. Growth levers look stable

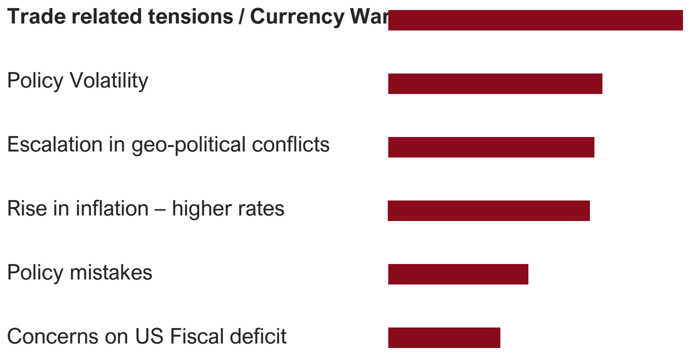
ADITYA BIRLA CAPITAL
ASSET MANAGEMENT

## GLOBAL ECONOMIC OUTLOOK

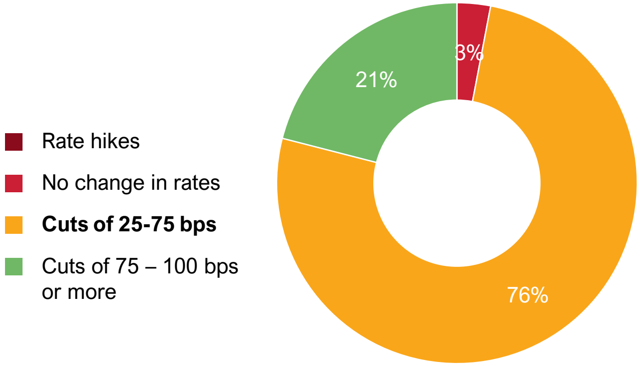
### Expect Global growth in line or faster than CY 24



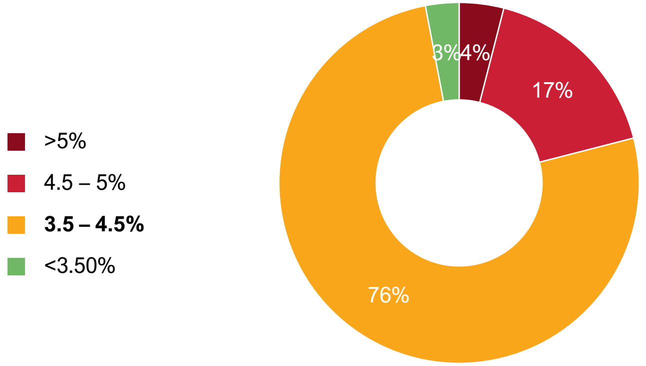

### Highest risks to global growth



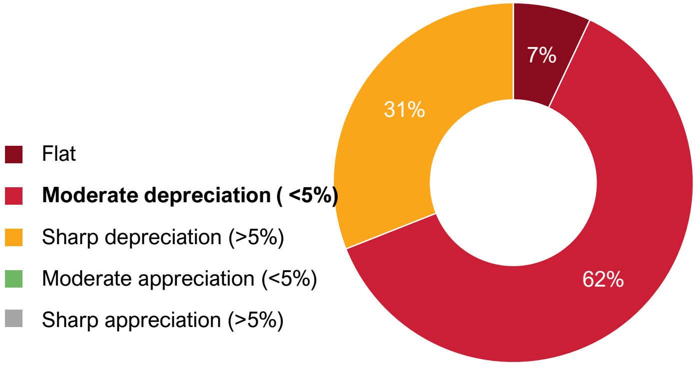

### US Fed rate expectations in CY25



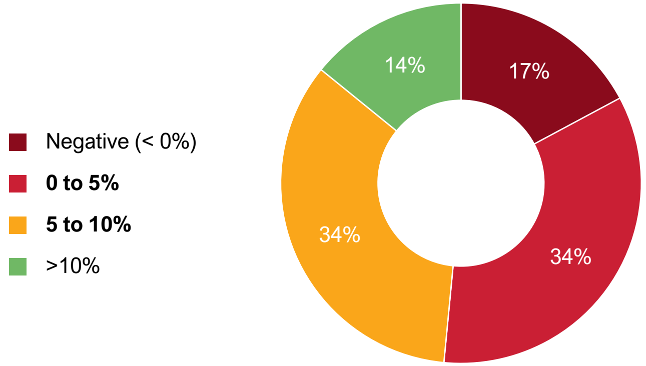

### Expected Level of 10-yr US treasury yield by end CY25




### Expected Level of Chinese Yuan vs US$



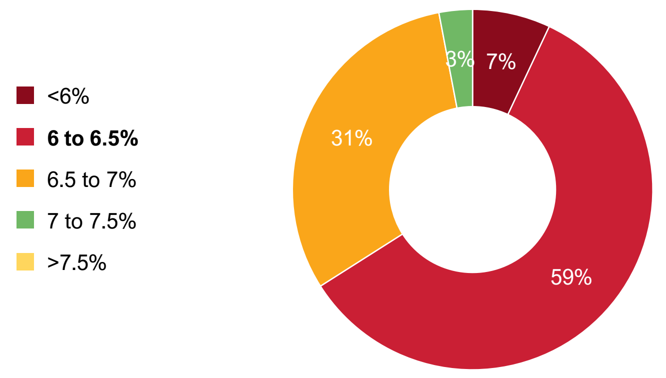

### Expected change in Gold prices



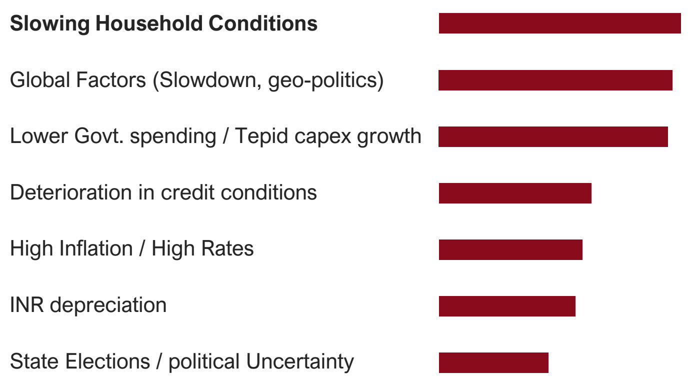
# Booming GDP growth to be impacted by slowing consumption. FII flows to return

## INDIA OUTLOOK

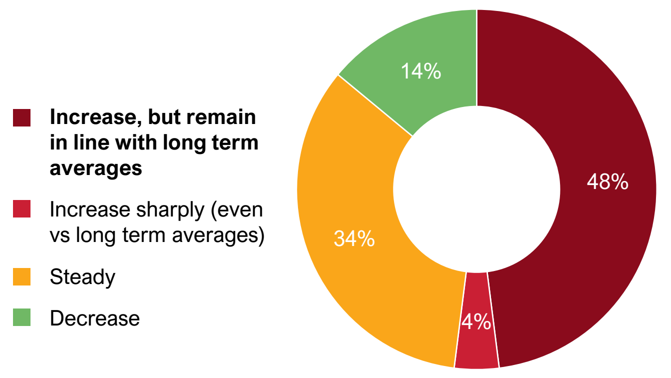
### Outlook on India's GDP growth



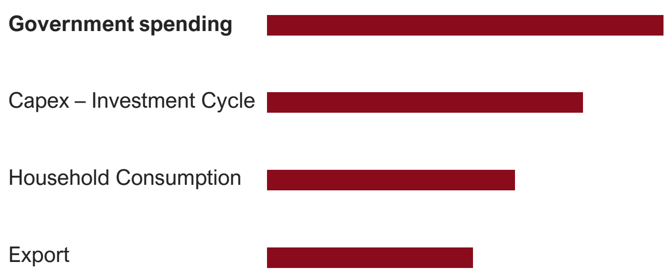

### Key risks to India's growth outlook




### FII Flows into Domestic Equities



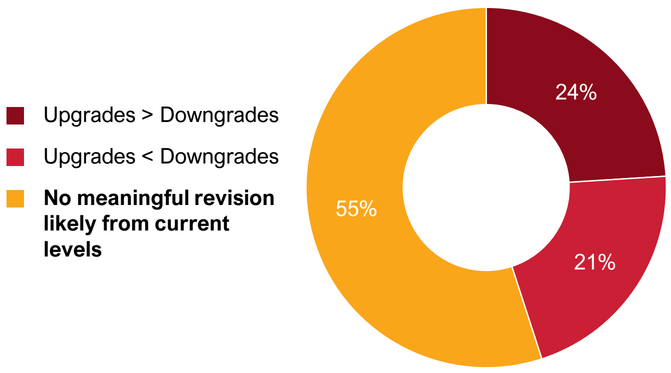

### Ranked on contribution to GDP growth



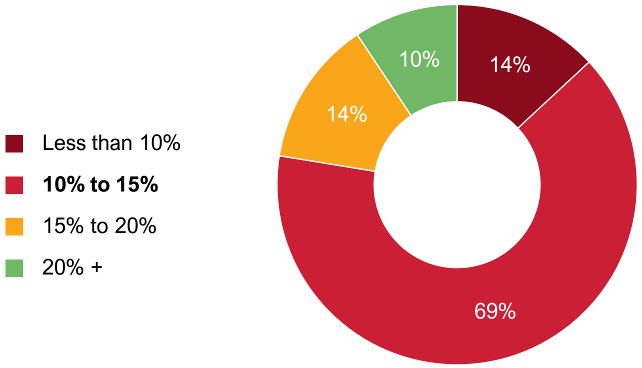
# A Strategic moderation in the ECM, look for investment cycle themes

## INDIA EARNINGS OUTLOOK

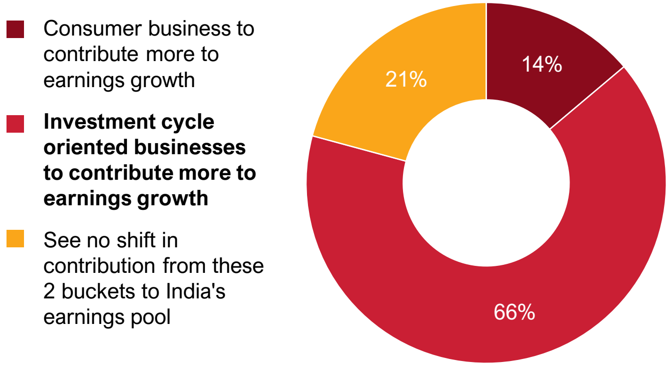
### Market earnings outlook into FY26



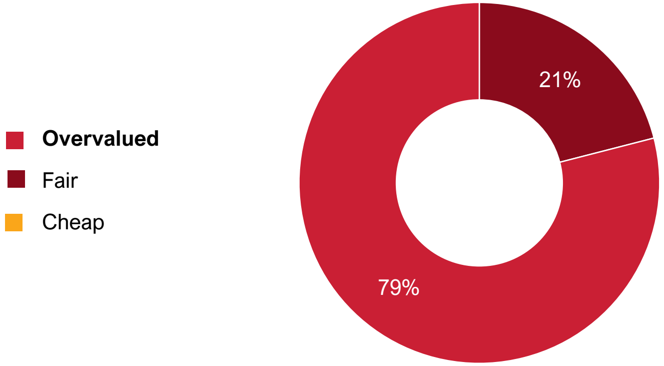

### Earnings growth estimate for your portfolio cos




### Shift in the Corporate India's earnings pool




### Valuations of majority of portfolio companies

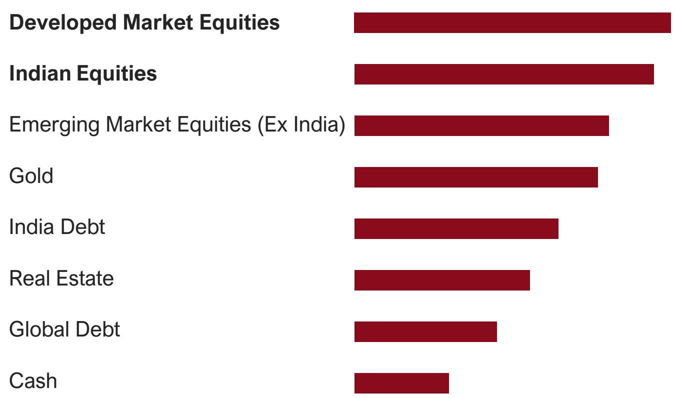


# Bet on reliability over volatility for this CY

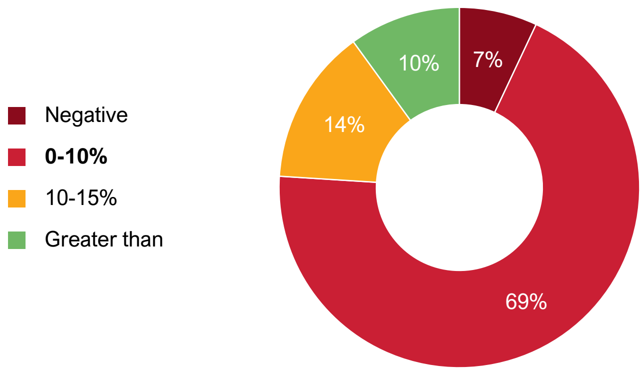
ADITYA BIRLA CAPITAL
ASSET MANAGEMENT

## INDIA INVESTMENT OUTLOOK

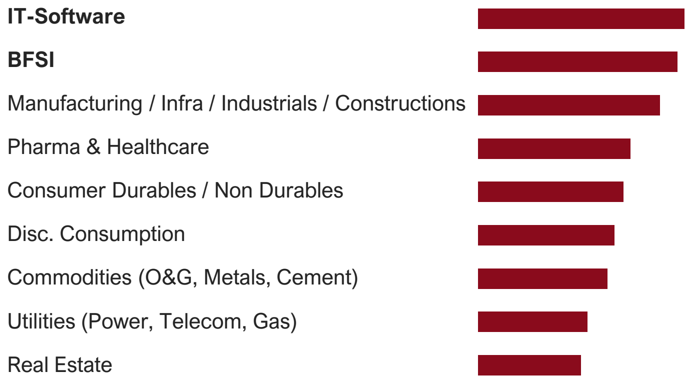
### Assets in terms of expected returns in CY25



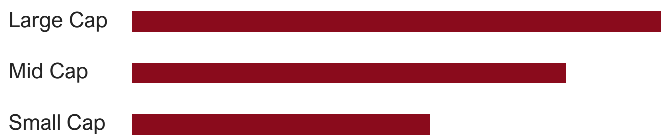

### Returns from domestic equities in CY25 (Nifty)



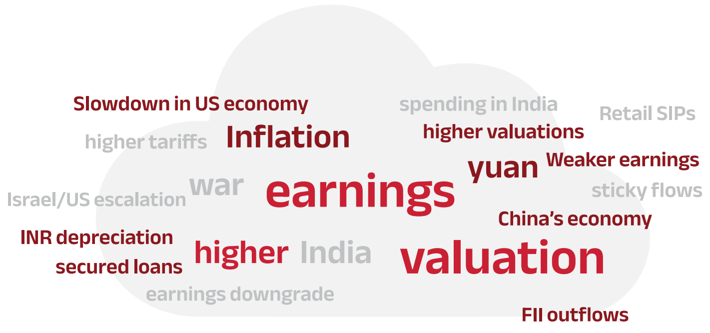

### Sectoral Preferences




### Market Cap preferences



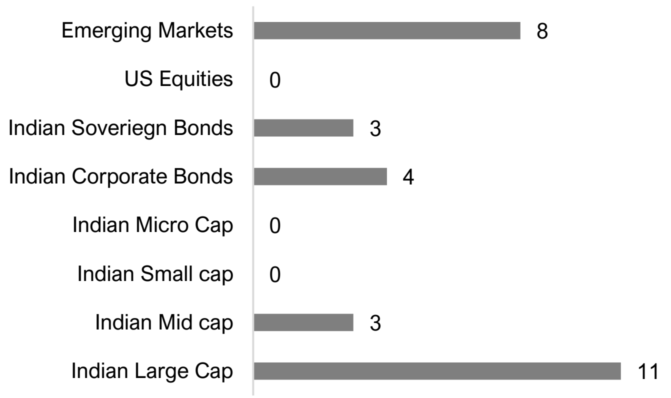

### Highest risks to India growth



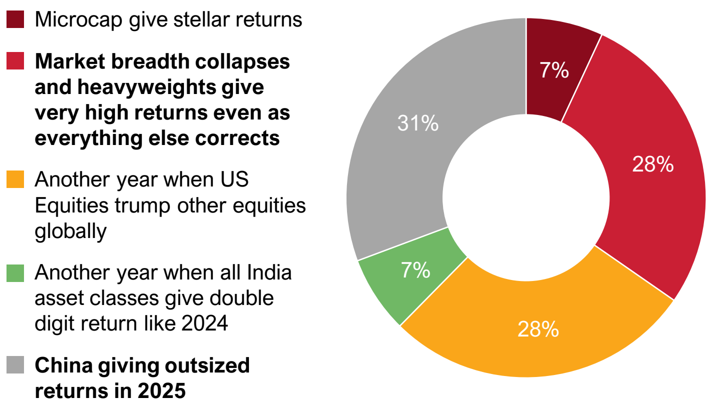
# CY2025 to be a year of 'going back to basics'. Expect surprises from global markets

## INVESTMENT APPROACH

### Most underpriced Asset




### Most anti-consensus trade that will play out




### Range of 10 Year India Bond

**Median**

6.5 - **7.0**

### Range of INR/USD

**Median**

84 - **89**

# ASSET ALLOCATION

# Asset Allocation

| Asset Class | Expected Return For CY25 | Comments |
|---|---|---|
| Equity | 8-12% | • Equity markets delivered strong returns, with homogeneity in returns across sectors. However, as we move forward, markets may consolidate in the near term and returns in CY25 are likely to moderate.<br>• While large-cap valuations remain reasonable, mid- and small-cap valuations appear stretched.<br>• Key short-term risks include growth falling below expectations—especially as markets have priced in a soft landing—and fewer or slower-than-expected rate cuts, which could trigger a deflationary impact on asset prices.<br>• Despite these risks, the medium-to-long-term outlook remains positive. Nifty earnings are expected to grow at a compounded annual growth rate (CAGR) in the low-to-mid teens over the next three years, providing a strong foundation for equity returns.<br>• Given the current landscape, investors should adopt a measured approach to equity allocation, favoring large caps over mid- and small caps. Equity exposure in portfolios should be aligned with median levels, ensuring a balanced risk-reward profile while capitalizing on long-term growth opportunities. |

Source: ABSLAMC Research

# Asset Allocation

| Asset Class | Expected Return For CY25 | Comments |
|---|---|---|
| Fixed Income | 8 – 9% | • US policies under Trump (tax cuts, stricter immigration, tariffs) are expected to drive stronger growth and higher inflation, with bond yields and the dollar rising. The Fed is anticipated to cut rates by 100 bps, with bond yields peaking in Q1 2025.<br>• China is better prepared for US negotiations but faces risks due to its reliance on exports. A policy shift towards stimulating the local economy is expected, with global growth remaining stable but at risk due to potential trade wars.<br>• India's growth is projected at 6.5% for FY 2026, with inflation at 4.5%. Policy support is needed to reverse the cyclical downturn, with monetary policy playing a crucial role.<br>• Another good year for Fixed income - 8%-9% with duration doing well: Short term funds are best place (Accrual+Duration) |
| Gold / Silver | 8-12% | • Gold prices rose 26%  supported by strong demand from China, India, and central banks, alongside stable but costly mine production. Silver also saw rising demand across industrial and investment sectors, with returns outpacing copper.<br>• Inflation risks and the Fed's rate cuts may influence gold prices. Silver's high correlation with industrial demand and copper prices highlights its sensitivity to global economic health.<br>• The gold outlook is stable to positive, with sustained central bank demand supporting prices. Silver's industrial and investment demand, combined with tight supply, points to continued price strength. |

Source: ABSLAMC Research

# Summary

ADITYA BIRLA CAPITAL
ASSET MANAGEMENT

India has a lot going for it – its competitiveness is on the rise

While other regions have used steroids (debt/handouts) we have focused on productivity

India likely to witness 2 half – first focused on trade policies and related volatility – esp on currency. First half, India unlikely to stimulate the economy, even as US & China continue

Potential for ratings upgrade by FY27 post which India may change its policy stance to focus on growth than macro stability

Listed India Inc earnings more than doubled in last 3+ years due to confluence of many one time factors, next wave of doubling to normalise.

India Private capex cycle likely to turn up as cash flows move to animal spirits – Companies that are aggressive here to reap benefits higher in next 3-4 years

Sentiment – Structural story intact – cyclical sentiment on backfoot, cyclical tide can reverse providing buying opportunities.

Near-term there is sluggishness in earnings, even as markets continue to climb multiple walls of worries

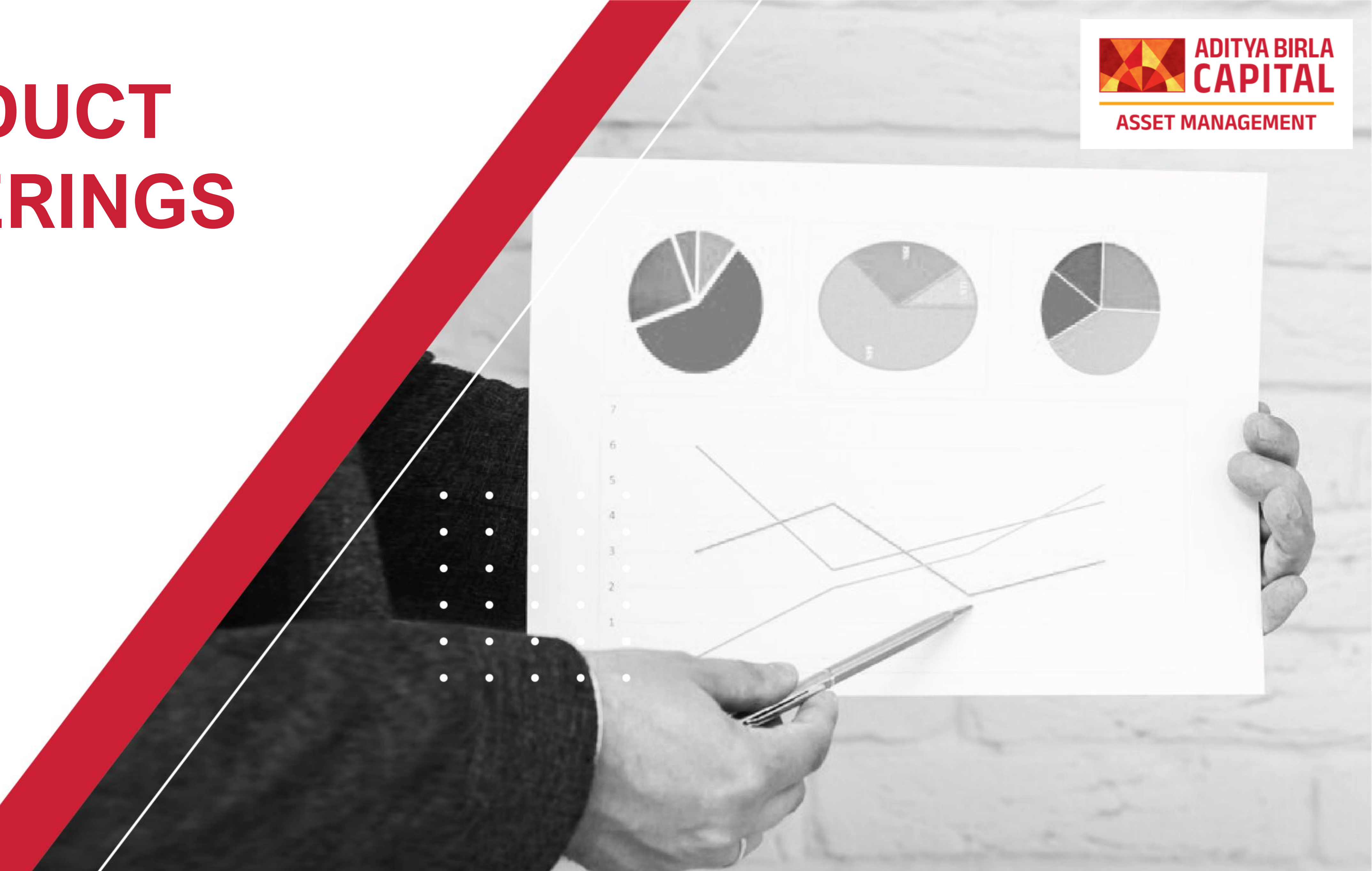
Corporates that allocate capital well to be rewarded disproportionately!

Growth and quality investing to make a comeback after their disappointing run in last 3-4 years

Good quality stocks are rarer than what last few years wealth creation journey across all segments of market make it out to be; being selective and disciplined will matter

**Keep faith in Indian Economy, picture abhi baaki hain mere dost!**

# PRODUCT OFFERINGS



# Product Offering - Equity

| Investor type | Fund | Suggested Mode |
|---|---|---|
| Conservative Investors | Aditya Birla Sun Life Balanced Advantage Fund | Lumpsum |
| | Aditya Birla Sun Life Frontline Equity Fund | SIP |
| Moderate investors | Aditya Birla Sun Life Flexi Cap Fund | SIP |
| | Aditya Birla Sun Life Quant Fund | SIP |
| | Aditya Birla Sun Life GenNext Fund | SIP |
| Aggressive investors | Aditya Birla Sun Life Business Cycle Fund | SIP |
| | Aditya Birla Sun Life Banking & Financial Services Fund | Opportunistic |
| | Aditya Birla Sun Life Digital India Fund | Opportunistic |
| | | |
| All-rounder | Aditya Birla Sun Life Multi Asset Allocation Fund | Lumpsum |
| | Aditya Birla Sun Life Asset Allocation FoF | Lumpsum |

# Product Offering - Debt

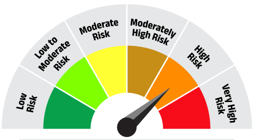
| Investment Horizon | Fund Proposition |
|---|---|
| 1 - 3 Months | Aditya Birla Sun Life Savings Fund and Aditya Birla Sun Life Money Manager Fund |
| 3 Months + | Aditya Birla Sun Life CRISIL IBX Financial Services 3 – 6 Debt Index Fund, Aditya Birla Sun Life Low Duration Fund and Aditya Birla Sun Life Floating Rate Fund |
| 6 Months+ | Aditya Birla Sun Life Banking & PSU Debt Fund, Aditya Birla Sun Life Corporate Bond Fund or Aditya Birla Sun Life Short Term Fund |
| Tactical Allocation (1 Yr+) Open Ended Fund | Aditya Birla Sun Life Income Fund or Aditya Birla Sun Life Long Duration Fund |

# Product Labeling Disclosures

## Aditya Birla Sun Life Balanced Advantage Fund
(An open ended Dynamic Asset Allocation fund)

This product is suitable for investors who are seeking*:

- Capital appreciation and regular income in the long term
- Investment in equity & equity related securities as well as fixed income securities (Debt & Money Market securities)

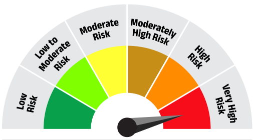
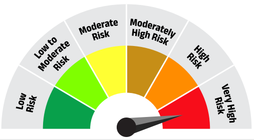
| Risk-o-meter | Benchmark Risk-o-meter |
| --- | --- |
|  The risk of the scheme is **High** | CRISIL Hybrid 50+50 - Moderate Index  The risk of the benchmark is **High** |

*Investors should consult their financial advisors if in doubt whether the product is suitable for them.

## Aditya Birla Sun Life Frontline Equity Fund
(An Open ended equity scheme predominantly investing in large cap stocks)

This product is suitable for investors who are seeking*:

- Long term capital growth
- Investments in equity and equity related securities, diversified across various industries in line with the benchmark index, Nifty 100 TRI

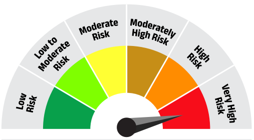
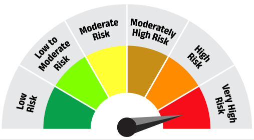
| Risk-o-meter | Benchmark Risk-o-meter |
| --- | --- |
|  The risk of the scheme is **Very High** | Nifty 100 TRI  The risk of the benchmark is **Very High** |

*Investors should consult their financial advisors if in doubt whether the product is suitable for them.

## Aditya Birla Sun Life Flexi Cap Fund
(An open ended dynamic equity scheme investing across large cap, mid cap, small cap stocks)

This product is suitable for investors who are seeking*:

- Long term capital growth
- Investments in equity and equity related securities

| Risk-o-meter | Benchmark Risk-o-meter |
| --- | --- |
|  The risk of the scheme is **Very High** | Nifty 500 TRI  The risk of the benchmark is **Very High** |

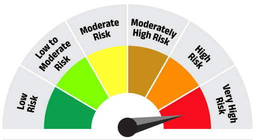
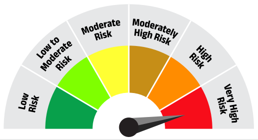
*Investors should consult their financial advisors if in doubt whether the product is suitable for them.

# Product Labeling Disclosures

ADITYA BIRLA CAPITAL
ASSET MANAGEMENT

## Aditya Birla Sun Life Quant Fund

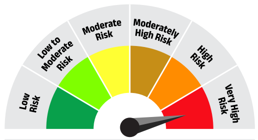
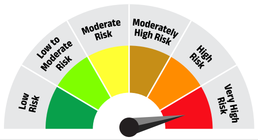
(An open ended equity scheme following Quant based investment theme)

| This product is suitable for investors who are seeking*: | |
|---|---|
| • Long term Capital Appreciation<br>• Investment in equity and equity related instruments selected based on quant model. | |
| Risk-o-meter | Benchmark Risk-o-meter |
| <br>The risk of the scheme is **Very High** | Nifty 200 TRI<br><br>The risk of the benchmark is **Very High** |

*Investors should consult their financial advisors if in doubt whether the product is suitable for them.

## Aditya Birla Sun Life GenNext Fund

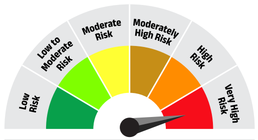
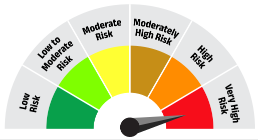
(An open ended equity scheme following Consumption theme)

| This product is suitable for investors who are seeking*: | |
|---|---|
| • Long term capital growth<br>• Investments in equity and equity related securities of companies that are expected to benefit from the rising consumption patterns in India fuelled by high disposable incomes | |
| Risk-o-meter | Benchmark Risk-o-meter |
| <br>The risk of the scheme is **Very High** | NIFTY India Consumption TRI<br><br>The risk of the benchmark is **Very High** |

*Investors should consult their financial advisors if in doubt whether the product is suitable for them.

## Aditya Birla Sun Life Business Cycle Fund

(An open ended equity scheme following business cycles based investing theme)

| This product is suitable for investors who are seeking*: | |
|---|---|
| • Long term capital appreciation<br>• •An equity scheme investing in Indian equity & equity related securities with focus on riding business cycles through dynamic allocation between various sectors and stocks at different stages of business cycles in the economy | |
| Risk-o-meter | Benchmark Risk-o-meter |
| <br>The risk of the scheme is **Very High** | BSE 500 TRI<br><br>The risk of the benchmark is **Very High** |

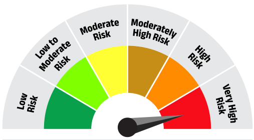
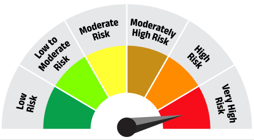
*Investors should consult their financial advisors if in doubt whether the product is suitable for them.

# Product Labeling Disclosures

### Aditya Birla Sun Life Banking and Financial Services Fund
(An open ended equity scheme investing in the Banking & Financial Services sectors)

This product is suitable for investors who are seeking*:

- Long term capital growth
- Investments in equity and equity related securities of companies engaged in banking and financial services

| Risk-o-meter | Benchmark Risk-o-meter |
|---|---|
| | Nifty Financial Services TRI |
|  The risk of the scheme is **Very High** |  The risk of the benchmark is **Very High** |

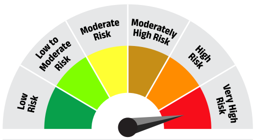
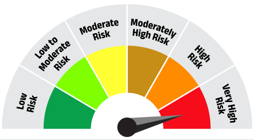


*Investors should consult their financial advisors if in doubt whether the product is suitable for them.

### Aditya Birla Sun Life Digital India Fund
(An open ended equity scheme investing in the Technology, Telecom, Media, Entertainment and other related ancillary sectors)

This product is suitable for investors who are seeking*:

- Long term capital growth
- Investments in equity and equity related securities with a focus on investing in IT, Media, Telecom related and other technology enabled companies

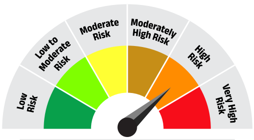
| Risk-o-meter | Benchmark Risk-o-meter |
|---|---|
| | BSE Teck TRI |
|  The risk of the scheme is **Very High** |  The risk of the benchmark is **Very High** |

*Investors should consult their financial advisors if in doubt whether the product is suitable for them.

### Aditya Birla Sun Life Multi Asset Allocation Fund
(An open ended scheme investing in Equity, Debt and Commodities)

This product is suitable for investors who are seeking*:

- Long term capital appreciation
- Investment in equity and equity related securities, debt & money market instruments and Commodities.

| Risk-o-meter | Benchmark Risk-o-meter |
|---|---|
| | 65% BSE 200 TRI + 25% CRISIL Short Term Bond Index + 5% of Domestic prices of Gold + 5% of Domestic prices of Silver |
|  The risk of the scheme is **High** |  The risk of the benchmark is **High** |

*Investors should consult their financial advisors if in doubt whether the product is suitable for them.

# Product Labeling Disclosures

## Aditya Birla Sun Life Asset Allocator FoF

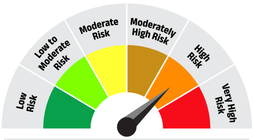
(An open ended fund of fund scheme investing predominantly in equity schemes, Exchange Traded Funds (ETFs) & debt schemes)

This product is suitable for investors who are seeking*:

- Capital appreciation in the long term
- Investment in portfolio of equity schemes, Exchange Traded Funds & debt schemes

| Risk-o-meter | Benchmark Risk-o-meter |
|---|---|
| | CRISIL Hybrid 50+50 - Moderate Index |

The risk of the scheme is **High**



The risk of the benchmark is **High**

*Investors should consult their financial advisors if in doubt whether the product is suitable for them.

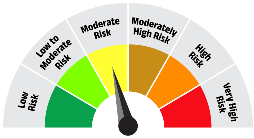
## Aditya Birla Sun Life Savings Fund

(An open ended hybrid scheme investing predominantly in debt instruments.)

This product is suitable for investors who are seeking*:

- Regular income with capital growth over medium to long term
- Investments in debt and money market instruments as well as equity and equity related securities [10-15%]

| Risk-o-meter | Benchmark Risk-o-meter |
|---|---|
| | NIFTY Ultra Short Duration Debt Index A-I |



The risk of the scheme is **Moderate**

The risk of the sbenchmark is **Low to Moderate**

*Investors should consult their financial advisors if in doubt whether the product is suitable for them.

**Potential Risk Class**

| Credit Risk of Scheme → | Relatively Low (Class A) | Moderate (Class B) | Relatively High (Class C) |
|---|---|---|---|
| Interest Rate Risk of Scheme ↓ | | | |
| Relatively Low (Class I) | | | |
| Moderate (Class II) | | B-II | |
| Relatively High (Class III) | | | |

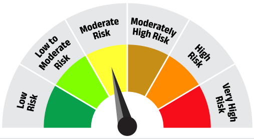
## Aditya Birla Sun Life Money Manager Fund

(An open-ended debt scheme investing in money market instruments. A relatively low interest rate risk and moderate credit risk.)

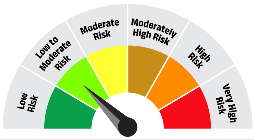
This product is suitable for investors who are seeking*:

- Reasonable returns with convenience of liquidity over short term
- Investments in debt and money market instruments with maturity of upto 1 year

| Risk-o-meter | Benchmark Risk-o-meter |
|---|---|
| | CRISIL Money Market A-I Index |



The risk of the scheme is **Moderate**



The risk of the sbenchmark is **Low to Moderate**

*Investors should consult their financial advisors if in doubt whether the product is suitable for them.

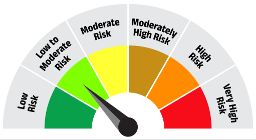
**Potential Risk Class**

| Credit Risk of Scheme → | Relatively Low (Class A) | Moderate (Class B) | Relatively High (Class C) |
|---|---|---|---|
| Interest Rate Risk of Scheme ↓ | | | |
| Relatively Low (Class I) | | B-I | |
| Moderate (Class II) | | | |
| Relatively High (Class III) | | | |

# Product Labeling Disclosures

## Aditya Birla Sun Life CRISIL-IBX Financial Services 3 to 6 months Debt Index Fund

(An open ended Constant Maturity Index Fund tracking the CRISIL-IBX Financial Services 3 to 6 Months Debt Index. A relatively low interest rate risk and relatively low credit risk.)

| This product is suitable for investors who are seeking*: | |
|---|---|
| • Income through exposure over the shorter term maturity on the yield curve<br>• Investment in an open ended Constant Maturity Index Fund that seeks to track CRISIL-IBX Financial Services 3 to 6 Months Debt Index | |
| Risk-o-meter | Benchmark Risk-o-meter |
| <br>The risk of the scheme is **Low to Moderate** | CRISIL-IBX Financial Services 3 to 6 Months Debt Index)<br><br>The risk of the benchmark is **Low to Moderate** |
| *Investors should consult their financial advisors if in doubt whether the product is suitable for them. | |

| Potential Risk Class | | | |
|---|---|---|---|
| Credit Risk of Scheme | Relatively Low (Class A) | Moderate (Class B) | Relatively High (Class C) |
| Interest Rate Risk of Scheme | | | |
| Relatively Low (Class I) | A-I | | |
| Moderate (Class II) | | | |
| Relatively High (Class III) | | | |

## Aditya Birla Sun Life Low Duration Fund

(An open ended low duration debt scheme investing in instruments such that Macaulay duration of the portfolio is between 6 months and 12 months. A relatively high interest rate risk and moderate credit risk.)

| This product is suitable for investors who are seeking*: | |
|---|---|
| • Reasonable returns with convenience of liquidity over short term<br>• Investments in a basket of debt and money market instruments of short maturities | |
| Risk-o-meter | Benchmark Risk-o-meter |
| <br>The risk of the scheme is **Moderate** | NIFTY Low Duration Debt Index A-I<br><br>The risk of the benchmark is **Low to Moderate** |
| *Investors should consult their financial advisors if in doubt whether the product is suitable for them. | |

| Potential Risk Class | | | |
|---|---|---|---|
| Credit Risk of Scheme | Relatively Low (Class A) | Moderate (Class B) | Relatively High (Class C) |
| Interest Rate Risk of Scheme | | | |
| Relatively Low (Class I) | | | |
| Moderate (Class II) | | | |
| Relatively High (Class III) | | B-III | |

## Aditya Birla Sun Life Floating Rate Fund

(An open ended debt scheme predominantly investing in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps /derivatives. A relatively high interest rate risk and moderate credit risk.)

| This product is suitable for investors who are seeking*: | |
|---|---|
| • Income with capital growth over short term<br>• Investments in a mix of fixed and floating rate debt and money market instruments | |
| Risk-o-meter | Benchmark Risk-o-meter |
| <br>The risk of the scheme is **Low to Moderate** | NIFTY Low Duration Debt Index A-I<br><br>The risk of the benchmark is **Low to Moderate** |
| *Investors should consult their financial advisors if in doubt whether the product is suitable for them. | |

| Potential Risk Class | | | |
|---|---|---|---|
| Credit Risk of Scheme | Relatively Low (Class A) | Moderate (Class B) | Relatively High (Class C) |
| Interest Rate Risk of Scheme | | | |
| Relatively Low (Class I) | | | |
| Moderate (Class II) | | | |
| Relatively High (Class III) | | B-III | |

# Product Labeling Disclosures

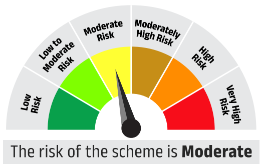
## Aditya Birla Sun Life Banking & PSU Debt Fund

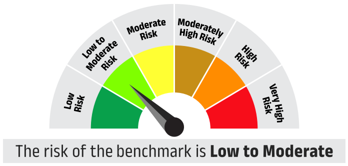
(An open ended debt scheme predominantly investing in debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds. A relatively high interest rate risk and moderate credit risk.)

This product is suitable for investors who are seeking*:

- Generation of reasonable returns and liquidity over short term
- Investment primarily in securities issued by Banks, Public Sector Undertakings and Public Financial Institutions in India

| Risk-o-meter | Benchmark Risk-o-meter |
|---|---|
| | Nifty Banking & PSU Debt Index A-II |




*Investors should consult their financial advisors if in doubt whether the product is suitable for them.

| Potential Risk Class | | | |
|---|---|---|---|
| Credit Risk of Scheme | Relatively Low (Class A) | Moderate (Class B) | Relatively High (Class C) |
| Interest Rate Risk of Scheme | | | |
| Relatively Low (Class I) | | | |
| Moderate (Class II) | | | |
| Relatively High (Class III) | | B-III | |

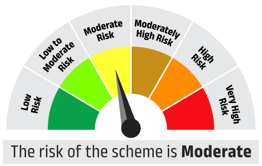
## Aditya Birla Sun Life Corporate Bond Fund

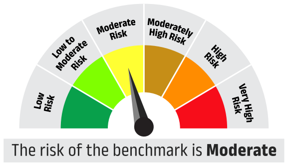
(An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. A relatively high interest rate risk and moderate credit risk.)

This product is suitable for investors who are seeking*:

- Income with capital growth over short term
- Investments in debt and money market instruments

| Risk-o-meter | Benchmark Risk-o-meter |
|---|---|
| | NIFTY Corporate Bond Index A-II |




*Investors should consult their financial advisors if in doubt whether the product is suitable for them.

| Potential Risk Class | | | |
|---|---|---|---|
| Credit Risk of Scheme | Relatively Low (Class A) | Moderate (Class B) | Relatively High (Class C) |
| Interest Rate Risk of Scheme | | | |
| Relatively Low (Class I) | | | |
| Moderate (Class II) | | | |
| Relatively High (Class III) | | B-III | |

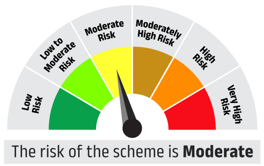
## Aditya Birla Sun Life Short Term Fund

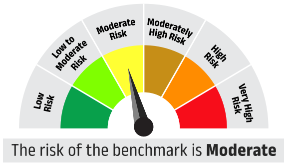
(An open ended short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 1-3 years. A relatively high interest rate risk and moderate credit risk.)

This product is suitable for investors who are seeking*:

- Income with capital growth over short term
- Investments in debt and money market instruments

| Risk-o-meter | Benchmark Risk-o-meter |
|---|---|
| | NIFTY Short Duration Debt Index A-II |



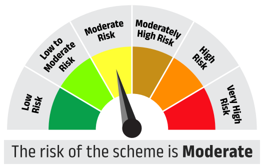
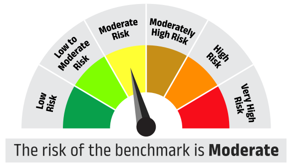




*Investors should consult their financial advisors if in doubt whether the product is suitable for them.

| Potential Risk Class | | | |
|---|---|---|---|
| Credit Risk of Scheme | Relatively Low (Class A) | Moderate (Class B) | Relatively High (Class C) |
| Interest Rate Risk of Scheme | | | |
| Relatively Low (Class I) | | | |
| Moderate (Class II) | | | |
| Relatively High (Class III) | | B-III | |

## Aditya Birla Sun Life Income Fund

(An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 4-7 years. A relatively high interest rate risk and moderate credit risk.)

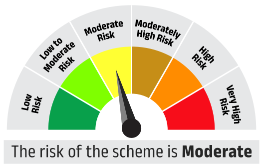
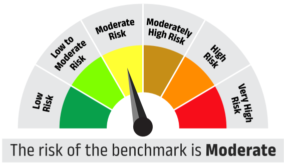
| This product is suitable for investors who are seeking*: | |
|---|---|
| • Income with capital growth over medium to long term<br>• Investments in a combination of debt and money market instruments | |
| Risk-o-meter | Benchmark Risk-o-meter |
|  | CRISIL Medium to Long Duration Debt A-III Index<br> |
| *Investors should consult their financial advisors if in doubt whether the product is suitable for them. | |



| Potential Risk Class | | | |
|---|---|---|---|
| Credit Risk of Scheme | Relatively Low (Class A) | Moderate (Class B) | Relatively High (Class C) |
| Interest Rate Risk of Scheme | | | |
| Relatively Low (Class I) | | | |
| Moderate (Class II) | | | |
| Relatively High (Class III) | | B-III | |

## Aditya Birla Sun Life Long Duration Fund

(An open ended debt scheme investing in instruments with Macaulay duration greater than 7 years. A relatively high interest rate risk and relatively low credit risk.)

| This product is suitable for investors who are seeking*: | |
|---|---|
| • Income over long term<br>• Investment in Debt & Money Market Instruments with portfolio Macaulay duration of greater than 7 years. | |
| Risk-o-meter | Benchmark Risk-o-meter |
|  | NIFTY Long Duration Debt Index A-III<br> |
| *Investors should consult their financial advisors if in doubt whether the product is suitable for them. | |



| Potential Risk Class | | | |
|---|---|---|---|
| Credit Risk of Scheme | Relatively Low (Class A) | Moderate (Class B) | Relatively High (Class C) |
| Interest Rate Risk of Scheme | | | |
| Relatively Low (Class I) | | | |
| Moderate (Class II) | | | |
| Relatively High (Class III) | A-III | | |

# THANK YOU

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