

# Nepean Capital

## 2Q CY24/1Q FY25 Quarterly Newsletter

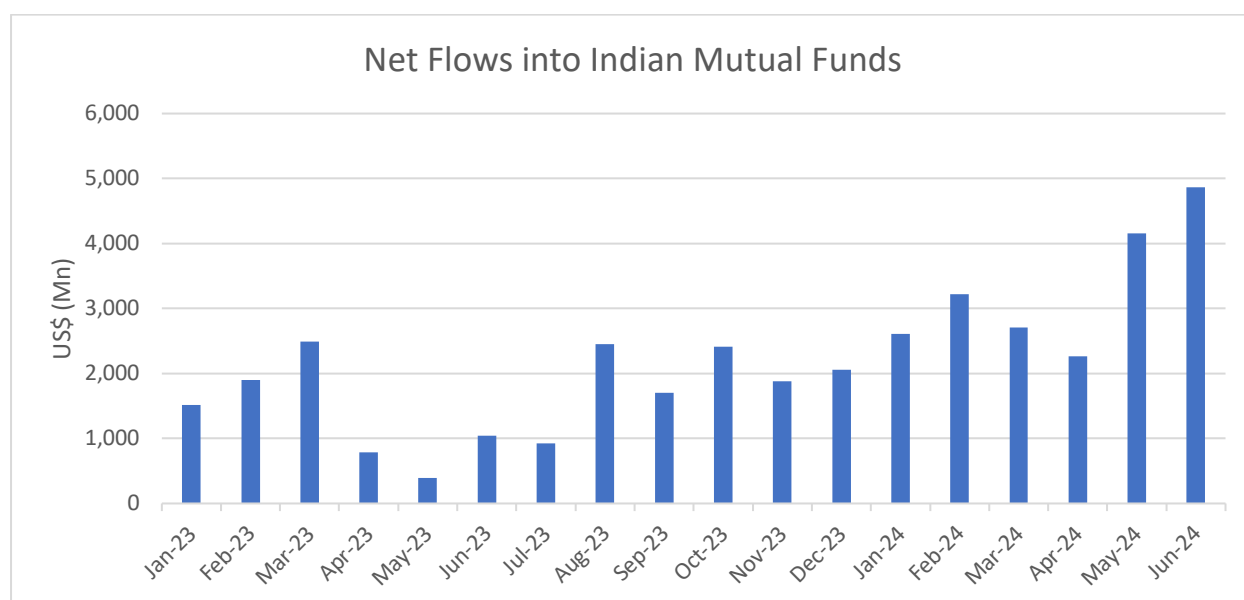
### The Rise and Rise of the Indian Retail Investor

*"How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case."* — Robert G. Allen

That clearly seems to be the mantra in India right now. Gross inflows into domestic mutual funds for the month of June hit a record Rs.40,608 Crores/US\$4.9 Bn, +370% YoY ! Of that, flows into SIPs (systematic investment plans\*) reached a new high of Rs.21,262 Cr/\$2.6 Bn. That takes the YTD net flows to \$31 Bn and the benchmark NIFTY50 index past 24,000, a new record high, +12% YTD (in INR). Equity AUMs of domestic mutual funds have now crossed \$300 Bn, a CAGR of 24% over the past five years.

As a result, the LDR (loan to deposit) ratio for the banking system has surged to 80%, the highest level since 2015; LDRs for private sector banks are even higher. RBI's annual report states that credit growth stood at 16.9% but deposit growth was 12.6%, a gap of as much as 430 bps. This has led to a fight for deposits among banks, increasing their cost of funds and impacting their ability to cater to strong credit demand.

SIPs have become so popular that they have grown at a CAGR of 20% over the past eight years. 4.3 Mn new demat accounts were added in June, the highest single month on record, taking the nationwide total to 160 Mn. Individual investors have invested Rs.3.5 lakh crores/\$46 Bn directly into the equity markets (ex-mutual funds) between 2020 and 2024. Hence, retail investors now own 9.7% of India's market cap vs. 7.9% ten years ago and more than domestic mutual funds (8.9%). Meanwhile this year, FPIs (foreign portfolio investors) invested net \$4 Bn in June to swing from -\$2.2 Bn in May to +\$1.8 Bn YTD.



Source: AMFI

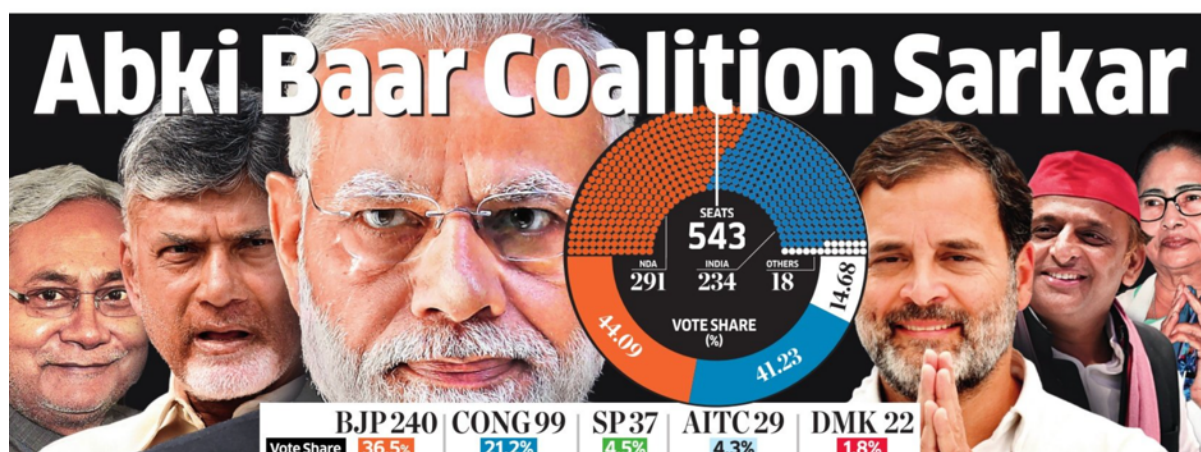
\* An SIP is a facility offered by mutual funds to investors that enables them to invest a fixed amount of money at pre-defined intervals, usually monthly.

All of this has helped India's market cap cross US\$5 Tn in June, now the 4<sup>th</sup> highest in the world; the last trillion was added in just six months. As a result, valuations (NIFTY50) remain elevated at 20x CY2025 P/E, a 166% premium to China (HSCEI) and a 70% premium to Asia (ex-Japan). The market cap to GDP is at 140%, near its previous peak in 2007.

Given the high valuations, several foreign companies are planning to list their Indian arms on the local stock exchanges. For example, Hyundai, India's second largest car company, filed its draft red herring prospectus with the SEBI. It will be an all-secondary sale by Hyundai Motors (Korea), which will sell 17.5% of the company to raise upto \$3 Bn, making it India's largest IPO. It's probably inspired by peer Maruti Suzuki, which is trading at 25x FY26 P/E or 2.5x the valuation of its parent Suzuki Motor (Japan). Local media has also reported news of potential IPOs by LG Electronics India and Hindustan Coca-Cola, the bottling company owned by Coca-Cola.

Moreover, within the first six months of this year Indian companies have raised \$30 Bn in IPOs and follow-on equity offerings, more than double YoY. Indian founders (aka promoters) have also seized the moment and sold \$10.7 Bn worth of their own equity, on track to beat all of last year's \$12.4 Bn.

### Impact of the Election Results



On June 5<sup>th</sup>, India delivered a rare third mandate to the BJP led NDA government in the largest democratic election in the world. Though historic in its win, the BJP fell short of a majority and its own expectations. It was guiding for 400 seats (out of 543) but won 240, 32 short of an absolute majority and much lower than the 303 seats they got in the previous general election in 2019. Although the NDA coalition has a comfortable majority of 293 seats, it is not a clear mandate for the BJP and thus coalition partners will influence policy making. Fortunately, its main partners such as the TDP share the same economic ideology and so the core tenants of its economic agenda should not be impacted. The NIFTY50, after an initial decline of 8% (intraday) on June 5<sup>th</sup>, has bounced back 11.5% to a new high of 24,421, reaffirming the markets' belief in this thesis.

However, there is concern that in the short term the new government may be more populist in its economic approach given that there are three state elections later this year (Maharashtra, Jharkhand and Haryana). The government's focus may partially shift from capital expenditure to putting more money in the hands of citizens with measures such as tax cuts and additional subsidies. The budget on the 23<sup>rd</sup> of this month will reveal the government's direction.

## Key Emerging Themes

- Tax compliance continues to improve with GST collections in June at Rs.1.74 Lakh Cr/\$21 Bn, +8% YoY. This is the seventh year of the implementation of GST that subsumed 17 taxes and 13 cesses of the Central and State Governments.
- India's Real Estate sector is buoyant. Mumbai city recorded 11,443 property registrations in June 2024, the highest in the last 12 years. In fact, YTD home sales in the Top 8 cities hit 173,241, an 11 year high. Sales of homes priced at Rs.1 Cr/ \$120,000 surged 51% YoY and accounted for 41% of all sales. Bangalore saw the highest jump in home prices (+19% YoY) to Rs.10,377/\$125 per square foot, followed by Delhi NCR (+16%) & Ahmedabad (+13%). Mumbai remains the most expensive residential market in the country with the average price of Rs.20,361/\$245; luxury apartments recently have sold for Rs.1.5 lakhs/\$1,800 per square foot.
- *Made in India* smartphones saw a 40% jump in exports to \$15.6 Bn in the fiscal year ended March 31, 2024. The government of India's PLI (production linked incentive) scheme for mobile phones, aimed at making India a China + 1 destination, seems to be paying off.
- Domestic air passenger traffic remains robust with the month of June seeing 13.28 Mn people taking to the skies, +10.4% over pre-COVID levels.
- A new emerging sector in India is Data Centers (DC). At the end of 2023, India had an operational capacity of 1,074 MW distributed across 152 DCs and an additional 1,000 MW capacity in the pipeline. The rapid increase in data consumption is led by the expanding internet user base, government initiatives like Digital India and data localization.
- With the growth in DC comes the need for investments in more power generation, transmission and distribution. Power demand growth has remained healthy with peak growth of 10% YoY in June to 247 GW and +13% YoY to 250GW in 1QFY25. The Ministry of Power expects India's peak power demand to exceed 400 GW by 2031-32.
- GCCs (Global Capability Centers) have thrived and grown over the past 10 years to 1,700 employing over 1.66 Mn people. These are captive offshore units of multinational corporations providing various support services, such as IT, finance, human resources, and analytics to their parent organizations. These companies include Rakuten, Swiss Re, Goldman Sachs, Walmart, Lowe's, JP Morgan, All State, HSBC, among others. In FY24, the GCCs net hired 60,000 people, 10,000 more than the IT services companies. Bengaluru houses 42% of the GCCs, followed by Hyderabad (16%), Delhi NCR (13%) and Mumbai (10%). India offers abundant English-speaking skilled workforce (1.5 Mn engineers graduate each year) at very affordable packages and at the lowest cost broadband in the world. In a recent report, JLL ranks Mumbai office rentals at a quarter of the cost of Singapore and at a third of Beijing.
- However, there are certain pockets of the economy that are lagging. While B2G businesses (such as Infrastructure, Defence and Railways) are doing well, fast moving consumer goods companies and retail are seeing tepid demand. For example, Hindustan Unilever reported volume growth of a mere 2% and sales growth of 3% for the 4Q FY24/1Q CY25. End of season sales of fashion retailers have started 2-3 weeks earlier than the usual end of July. Tata Motors and Mahindra & Mahindra have cut prices of certain cars & SUVs by 5-10% blaming it on weak demand. A strong monsoon should lead to a revival of rural consumption.
- The opening of Mumbai's Coastal Road is a shining example of India's infrastructure build out led by the Modi government. The road runs around 12 kilometres along the western seaboard of Mumbai from Marine Drive (downtown) to Worli (midtown) cutting travel time from 45 minutes to a mere 8. Later this year, the road will connect to the existing Bandra-Worli sea link, enabling people to get from Mumbai's international airport to downtown in just 25 minutes vs. over an hour today.



*Yes, that's Mumbai, not Shanghai*

### **Conclusion**

The financialization of savings is growing at a pace that hasn't been seen in the country's 150-year capital markets history\*. As a result, the tide of money from domestic investors just doesn't seem to ebb. They seem oblivious to geo-political tensions, expensive valuations or higher returns from fixed income products (the 10-year bond is yielding 7%, AAA corporate bonds 7.5-8.25%). Equity ownership as a percentage of household savings has risen from 4% in 2021 to 7.3% in March 2024 (vs. 38% in the U.S.). The concern is that the rising equity markets have brought in first time and younger investors from smaller towns who have never experienced a correction. They are powered by 900 Mn smartphones riding on 4G broadband speeds giving them access to numerous discount brokers and influencers. Today, the equity market is in the palm of their hand.

The consensus view on the ground among experienced market participants is that the India is expensive and needs a reason to correct. What could slow down the flows is any sort of directed government action, such as raising margins, increase in capital gains tax or bigger lot sizes for futures & options contracts.

*\*The Bombay Stock Exchange was founded on July 9, 1875.*

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