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# INDIA'S MARKET FALL, DRAWDOWN AND RECOVERY

Indian markets are down 14.0% from their peak in late September 2024, as measured by the MSCI India Price Index in Rupee terms. In Australian Dollar Terms, the fall is less punchy 8.1% due to the weakness of the AUD over the period.

Whilst 14% is quite a significant cut, it comes on the back of an all-mighty rally post COVID-19. Australian investors investing in the India story made 24% per annum or 2.6x their investment from 31 March 2020 to 30 September 2024. That's simply investing in an Index of approximately 150 stocks. Actively managed investments like the India Avenue Equity Fund investors made 2.8x over the same period after all fees.

So why have Indian markets pulled back 14% over the last 4 months. We associate it to some of the following reasons:

- Introduction of China stimulus which led to foreign investors withdrawing some allocation from India in favour of regions like China. Additionally, the US Presidential election also led to a greater focus on the US market and what seems to be a 'home bias' in repatriation of capital.
- Weaker earnings in 2QFY25 in India (September Quarter) from a pace of 20.6% annualised from FY20 to FY24. We anticipate normalisation of earnings post pandemic has occurred, and growth rates will revert to the long-term run rate of 10-12% - aligning to nominal GDP growth.
- Lower spend on Infrastructure and Capex by the Government, with diversion towards subsidies and handouts post-election in June 2024. In an environment where private capex remains elusive, the market is concerned by lack of government spending and a focus on fiscal restraint in managing the fiscal deficit towards 4.5% of GDP.
- Weak consumption demand and cyclically high food inflation, keeping the RBI from easing monetary policy in a more significant manner. CPI rose from 3.65% in August to 6.21% in October, driven largely by rising food prices.
- A weaker INR relative to the USD has meant some of Forex Reserves accumulated from India's successful services and manufacturing stories have been culled. Forex Reserves have fallen from US\$705billion to US\$623bn over the last few months as the central bank focused on "defending the currency".

The questions being asked are whether this is a show of cyclical weakness or a more structural slow down of India's growth. It is our view that it is less likely to be a structural slowdown of India's long-term growth potential and more likely to be a recalibration of the appropriate valuation for normalising earnings growth.

According to Bloomberg consensus forecasts, the expectations are for a run rate of 12% from FY24-27. Valuations therefore are approximately 19x on a one-year forward basis, which appear reasonable, without being exciting.

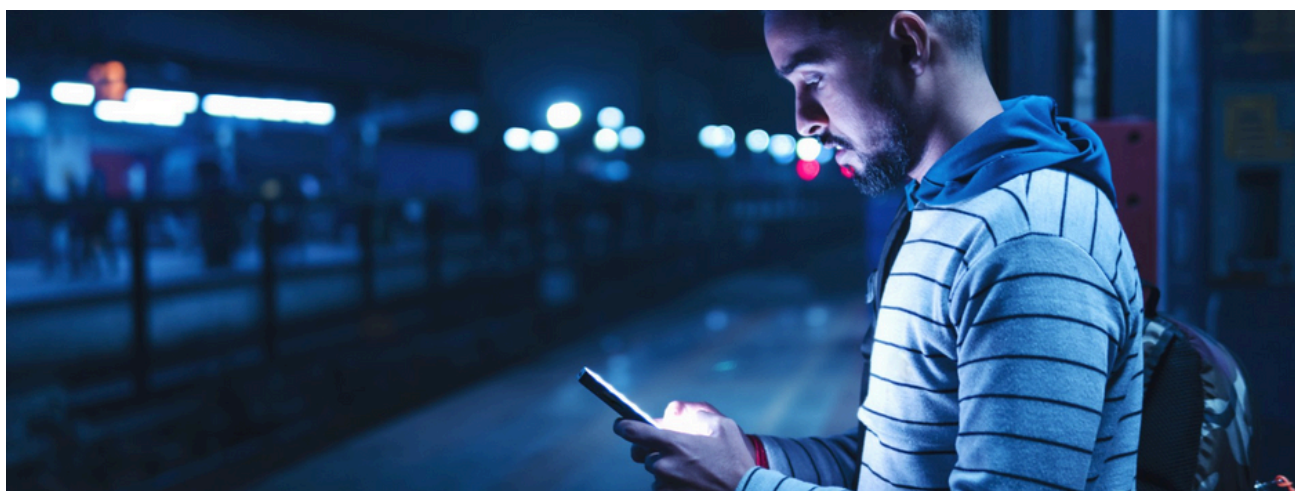
An analysis of previous market falls (last 10 years) – measured by MSCI India (Net) in AUD (our product benchmark).

Period	Duration (Months)	Drawdown	Subsequent 12 months
<b>February – April 2015</b>	2	12.5%	-3.5%
<b>December – February 2016</b>	2	16.0%	17.4%
<b>August – October 2018</b>	2	13.7%	20.8%
<b>January – May 2020</b>	4	20.9%	44.2%
<b>January – June 2022</b>	5	13.1%	17.9%
<b>November – February 2023</b>	3	12.0%	42.2%
<b>September – January 2025</b>	4	8.1%	?

*Source: MSCI*

In India’s previous drawdowns (from 2000-2015, in AUD terms), the average was higher at 16% (excluding the GFC drawdown of 57%). The quantum of drawdowns in Indian equity markets appear to have receded as local investors have become a larger component of market cap. Whilst this may reverse at some point, the natural assumption would be that a broader base of investor types should reduce volatility in an equity market.

Whilst the current drawdown may extend if 3QFY25 earnings are weaker than expected or the upcoming Union Budget is unsatisfactory relative to expectations, the potential of upside also increases, depending on how deep the cut is.



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