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7 Insights Through A New Lens| May 2025

Where are we in this cycle?

From Stress to Strength: The Corporate Profit Revival

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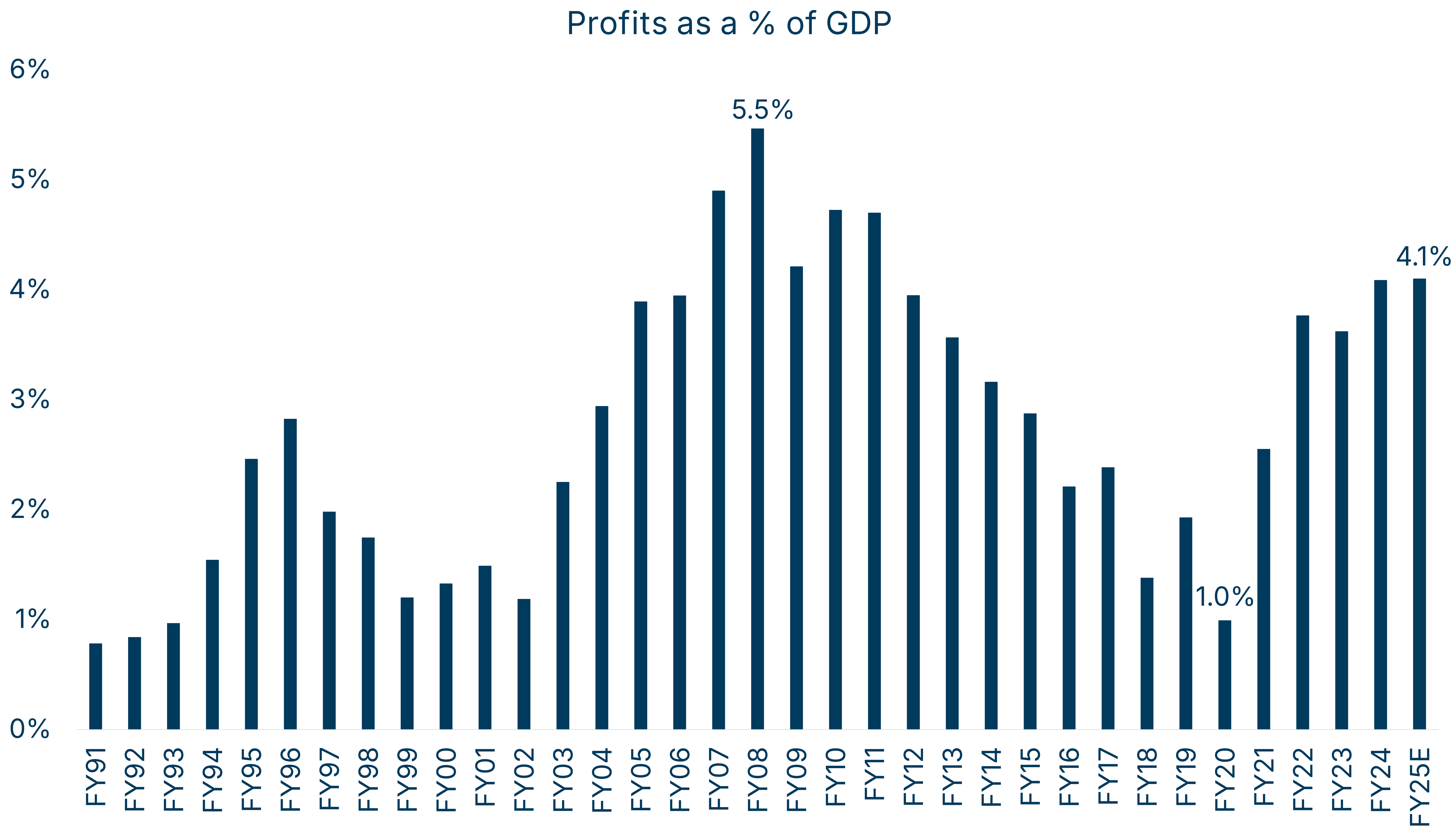
Post-pandemic, corporate profits as a percentage of GDP in India have entered a clear uptrend, following more than a decade of steady decline. This recovery in corporate profitability has been driven by strong topline growth and stable margins across key sectors.

A significant contributor to this rebound has been the financial sector. Financials, which carry the highest weight in the Nifty Index, faced considerable stress in 2018 due to rising non-performing assets, resulting in substantial losses. However, in the post-pandemic period, the sector has emerged as a key driver of corporate profitability. Over the last five years, profits in the financial sector have grown at an impressive CAGR of ~51%.

This resurgence in profitability is also fueling business expansion. However, it is essential to differentiate between accounting profits and actual cash generation. The next slide will focus on this critical aspect of evaluating financial health.



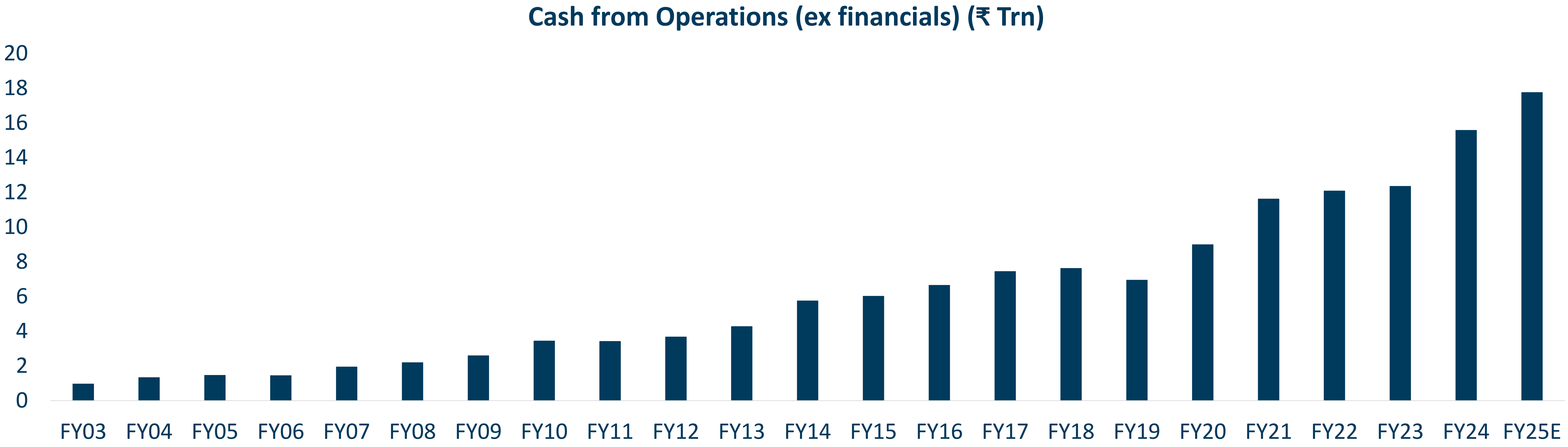
Source: CMIE, DSP. Data as of May 2025. For FY25E the Profit growth is of listed companies which have reported results till 19th May 2025. Past performance should not be taken as an indication or guarantee of future performance.

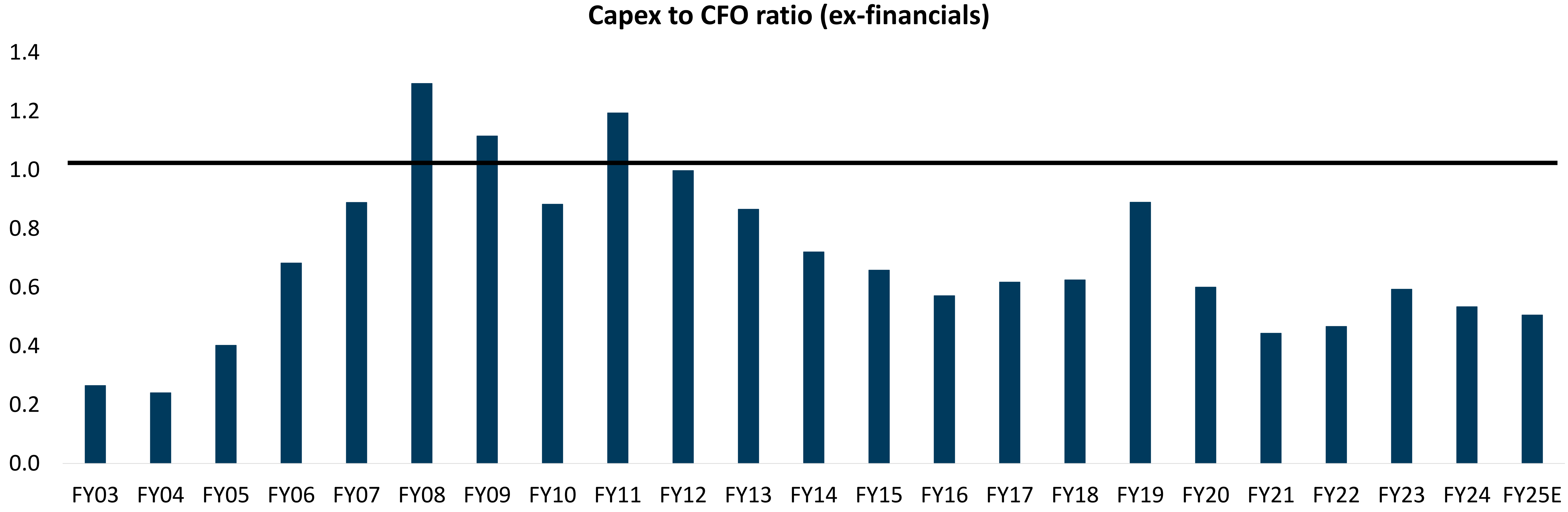
Profits to Purpose: Funding Growth the Right Way

While profitability is crucial, the ability to convert profits into actual cash generation is even more important. As illustrated in the upper panel chart, Indian companies have consistently generated strong cash flows from operations. In our previous edition, we also highlighted the sustained trend of free cash flow generation across corporate India.

Equally important is how these funds are being deployed. In earlier editions, we presented evidence of a steady rise in corporate capital expenditure. The lower panel chart now introduces the Capex-to-CFO (Cash Flow from Operations) ratio*, which indicates whether capital expenditure is being funded through internal accruals or external borrowing.

Notably, in the current cycle, India's corporate capex is being largely funded through internally generated cash flows, a stark contrast to the previous cycle around the Global Financial Crisis (GFC), when capex was significantly debt-driven.





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Source: Capitaline, DSP. Data as of May 2025. Data is of BSE Allcap Index, excluding Financials. FY25E numbers are calculated taking 15 year average. *A ratio below 1 suggests capex is being funded by internal cash flows, while a ratio above 1 implies reliance on debt. Past performance should not be taken as an indication or guarantee of future performance.

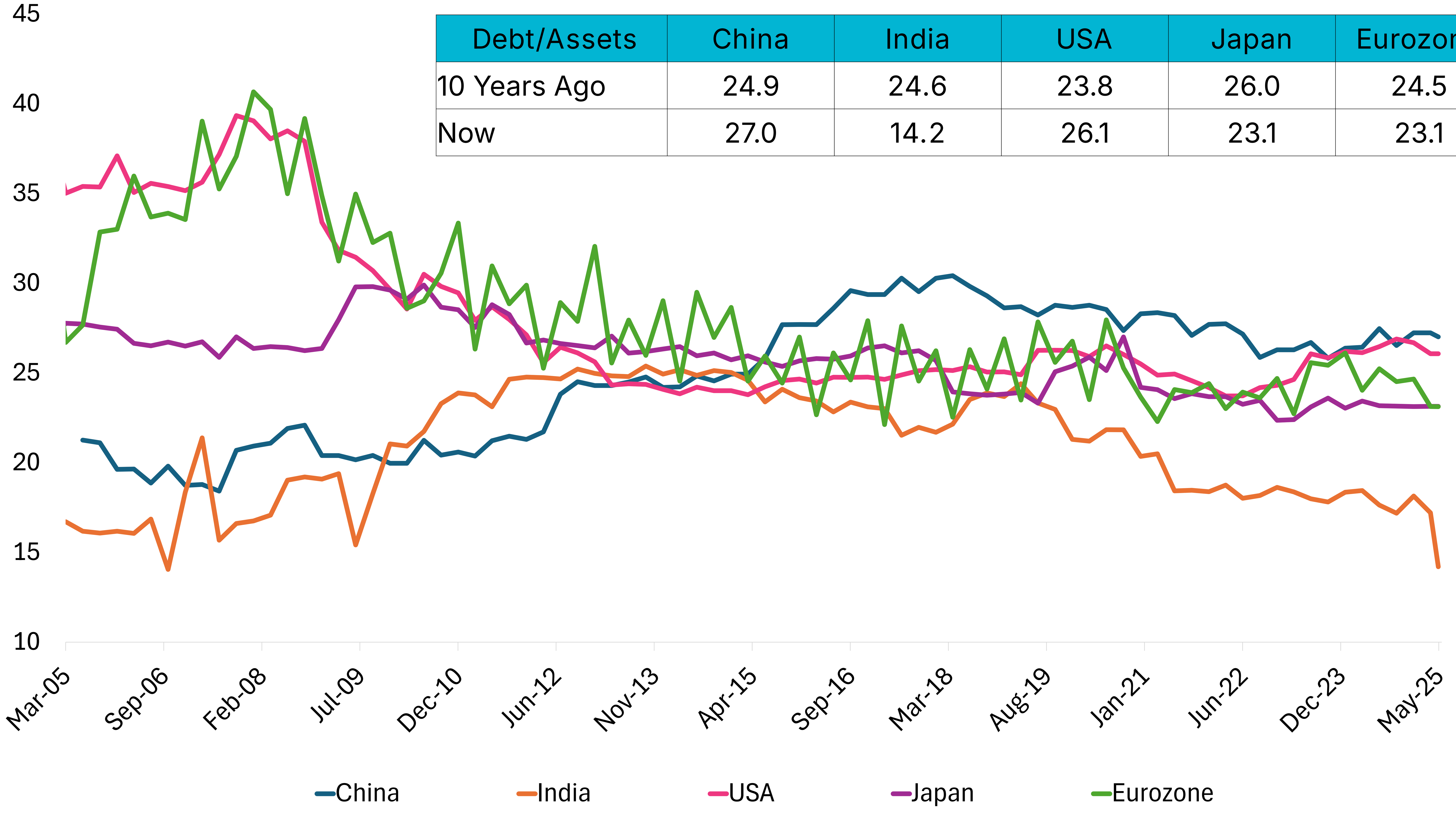
Leverage to Liquidity: India's Balance Sheet Transformation

As highlighted in the previous slide, during the post-Global Financial Crisis (GFC) period, corporate cash flows remained subdued. As a result, many Indian companies were compelled to rely more heavily on debt to fund their operations and expansion plans. The Debt-to-Asset (%) ratio rose significantly during this time. From ~17%, the ratio increased to ~25%, indicating that one-fourth of corporate assets were funded by borrowings.

However, since 2013, as corporate profitability and cash generation have improved, companies have strategically utilized these internal funds to both reinvest in capex and reduce leverage. This disciplined approach has led to a steady decline in the Debt-to-Asset ratio, which has now reached an all-time low of close to 14%.

Among major global markets, Indian corporates currently boast one of the lowest levels of balance sheet leverage. With healthier financials and minimal reliance on debt, these companies are now well-positioned to accelerate their growth in a more sustainable and resilient manner.

Total Debt to Total Assets (%)



Debt/Assets	China	India	USA	Japan	Eurozone
10 Years Ago	24.9	24.6	23.8	26.0	24.5
Now	27.0	14.2	26.1	23.1	23.1

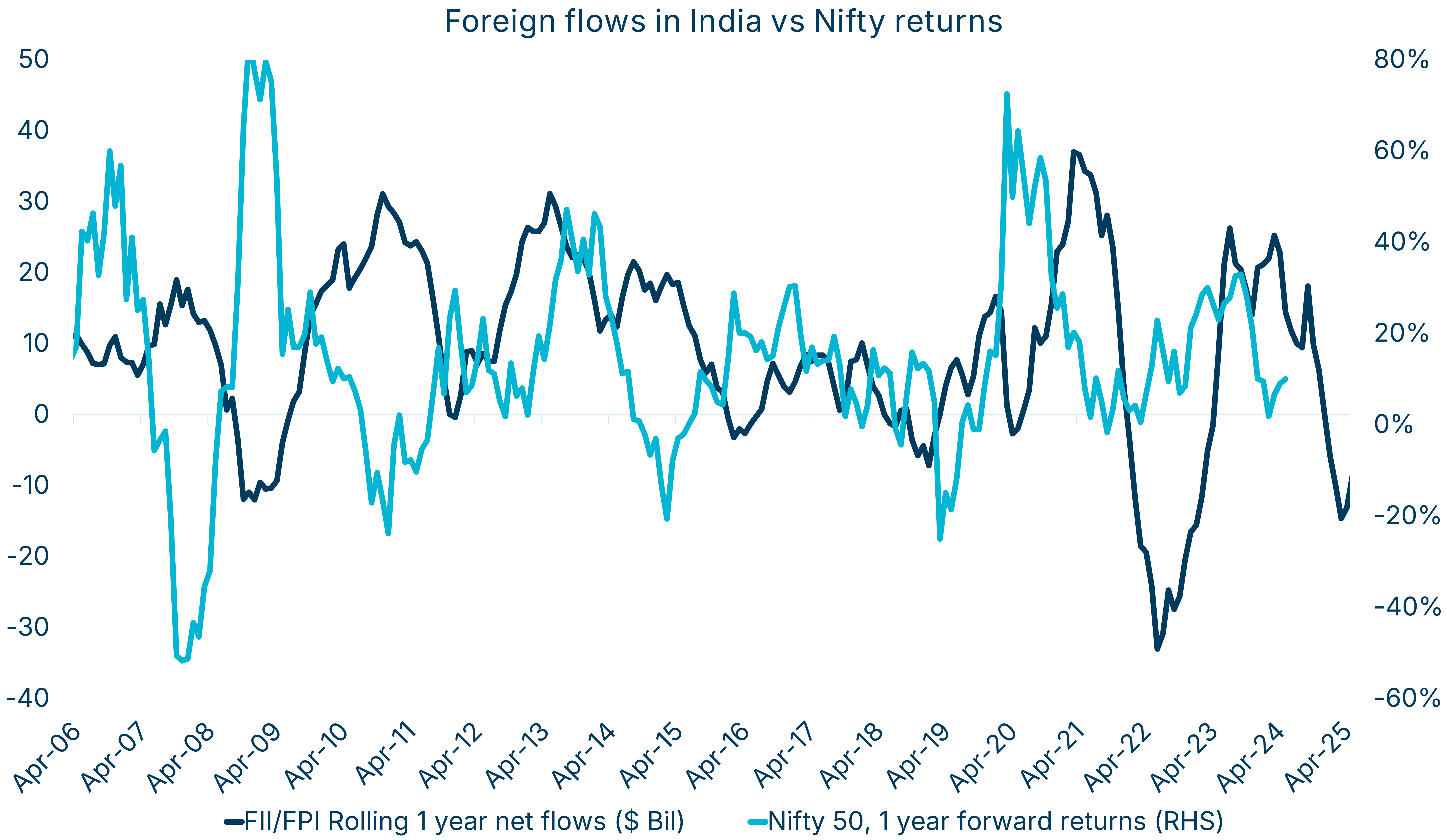
Source: Bloomberg, DSP. Data as of May 2025. Indices used are China – CSI300, India – Nifty 50, USA – S&P500, Japan – Nikkei 225, Eurozone – Euro STOXX 50. Past performance should not be taken as an indication or guarantee of future performance.

Outflows ≠ Outlook

Foreign Institutional Investor (FII) flows are closely monitored by market participants and are often seen as a barometer of market sentiment. The common belief is that if foreign investors (often perceived as "smart money") are exiting, it signals impending weakness in the markets.

However, when this narrative is tested against historical data, the evidence tells a different story. Historically, periods of declining FII flows into India have often been followed by strong one-year forward returns in the Nifty 50. This suggests that investor sentiment and market narratives may not always align with actual outcomes.

Outperformance typically comes not from following the crowd, but by taking a contrarian stance when justified by data and fundamentals. This principle holds true across markets and across time periods. With current foreign outflows from India nearing highs, history would suggest this may, in fact, present an opportune time to invest in Indian equities.



Source: CMIE,NSDL, NSE, DSP. Data as of May 2025. Nifty 50 TRI returns considered. Past performance should not be taken as an indication or guarantee of future performance.

Early Signals

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Downshift In Valuations

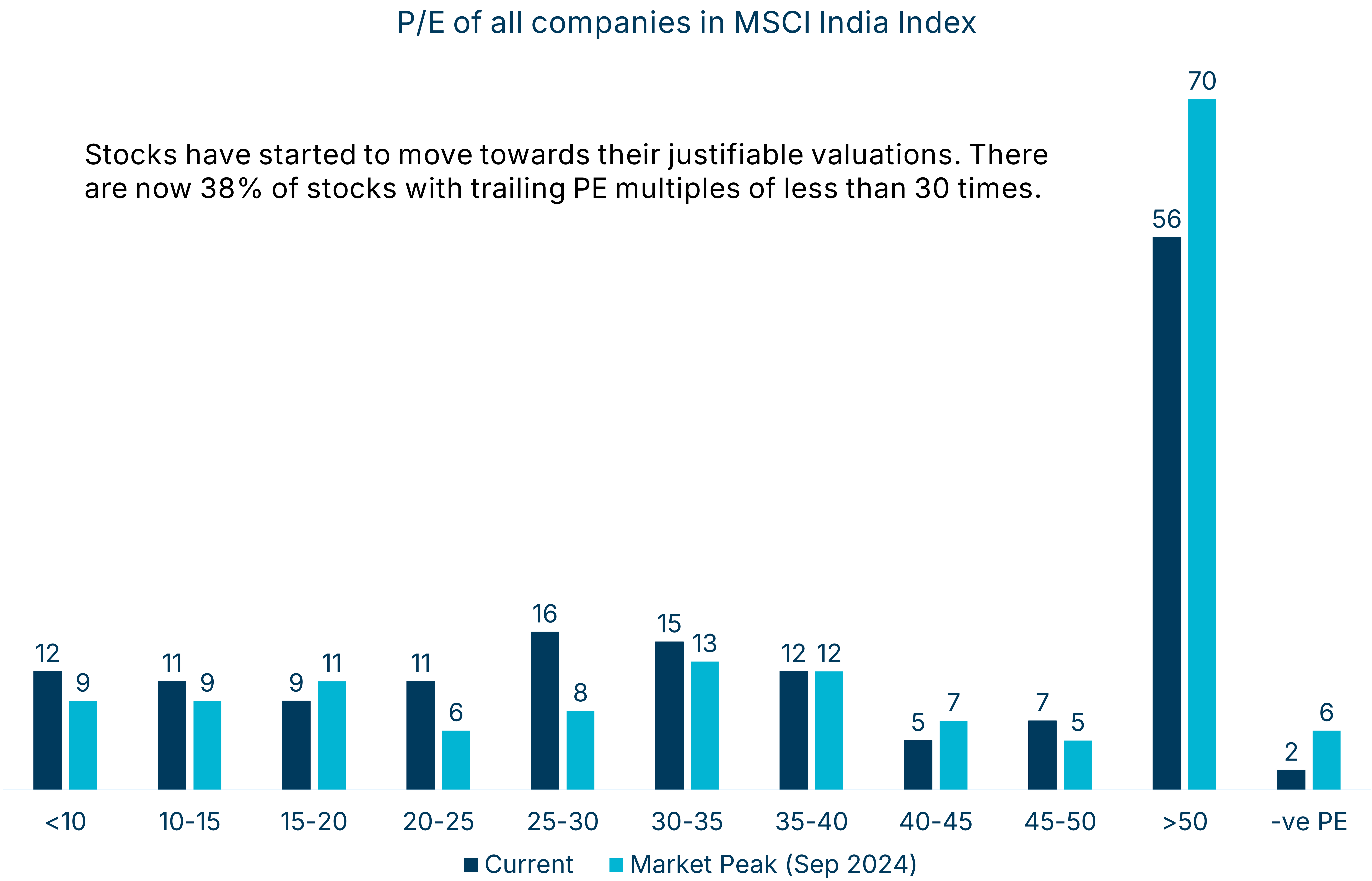
Across market capitalizations, price-to-earnings multiples are trending lower. This shift is driven by a combination of slowing earnings growth and the everchanging temperament of Mr. Market.

Ben Graham's timeless allegory remains relevant:

"Mr. Market has another endearing characteristic: He doesn't mind being ignored. If his quotation is uninteresting to you today, he will be back with a new one tomorrow. Transactions are strictly at your option. Under these conditions, the more manic-depressive his behavior, the better for you."

As the market swings into a manic-depressive phase, we believe opportunities will emerge. Those with both capital and conviction will be best positioned to seize them.

While valuations have moderated to some extent, they remain elevated and do not yet reflect a broad margin of safety. A more selective, bottom-up approach focused on company-specific opportunities may be warranted.



Source: Bloomberg, DSP. Data as of May 2025. Past performance should not be taken as an indication or guarantee of future performance.

Banking on the Private Banks

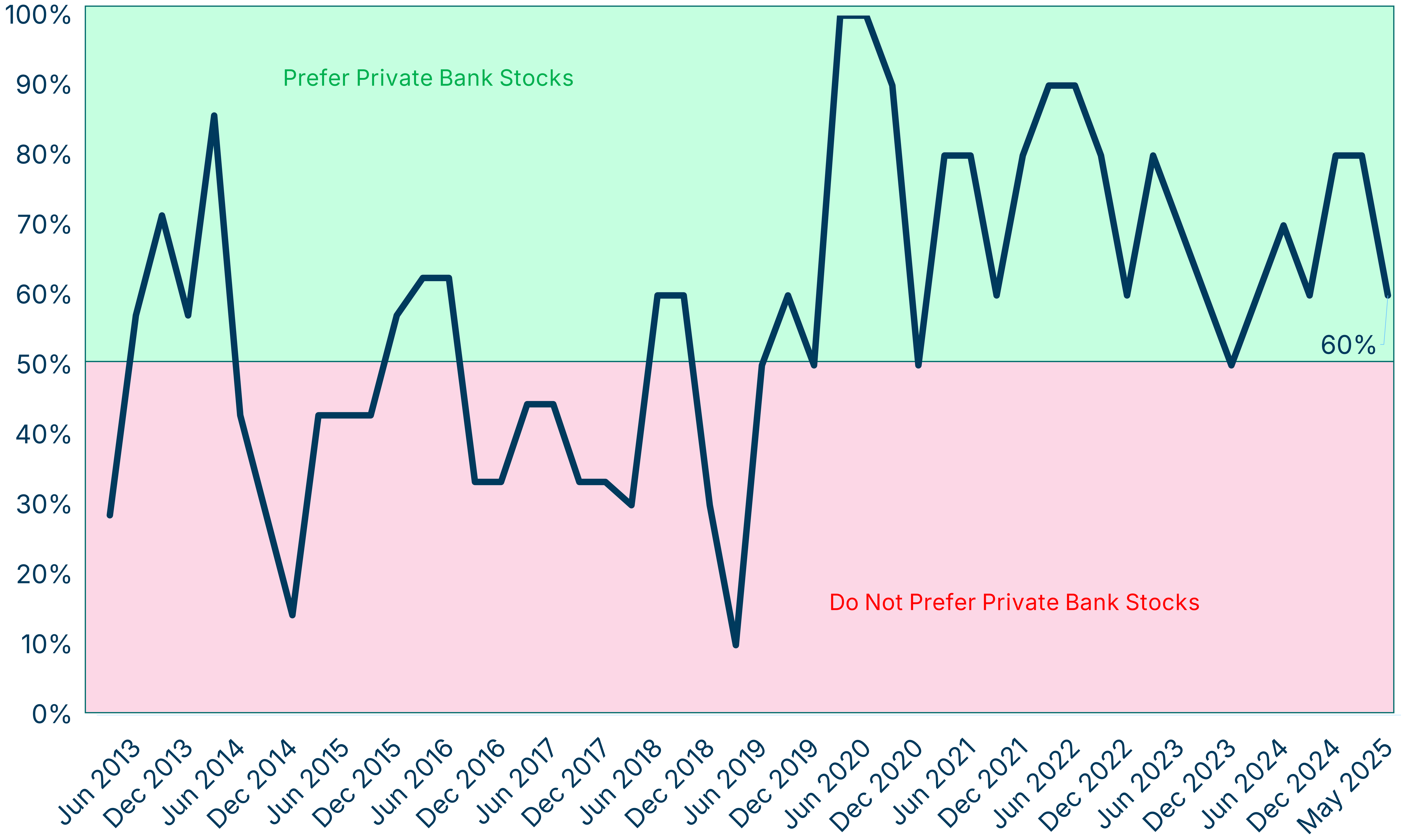
Private Banks have underperformed Nifty 50 during the post covid bull run. However, the fundamentals of these banks have not deteriorated, rather, they have improved.

Private banks current positioning:

- NPAs are at multi-year lows
- ROAs are at their highest levels
- Current Valuations are below long-term averages
- Share of profits > Share in market cap (in Top 500 companies)

Currently, 60% stocks are trading below their 10-year average valuations. And 50% stocks are trading below its 30th percentile of their valuations. Historically whenever such events have occurred Private Banks have performed better relative to broader markets. This suggests a favorable entry point, offering both valuation comfort and robust fundamentals for long-term investors.

Private Banks stocks (%) trading below 10 year average



Source: Capitaline, DSP. Data as of May 2025. Nifty Private Bank constituents are considered. For valuations Price to Book is considered. Past performance should not be taken as an indication or guarantee of future performance.

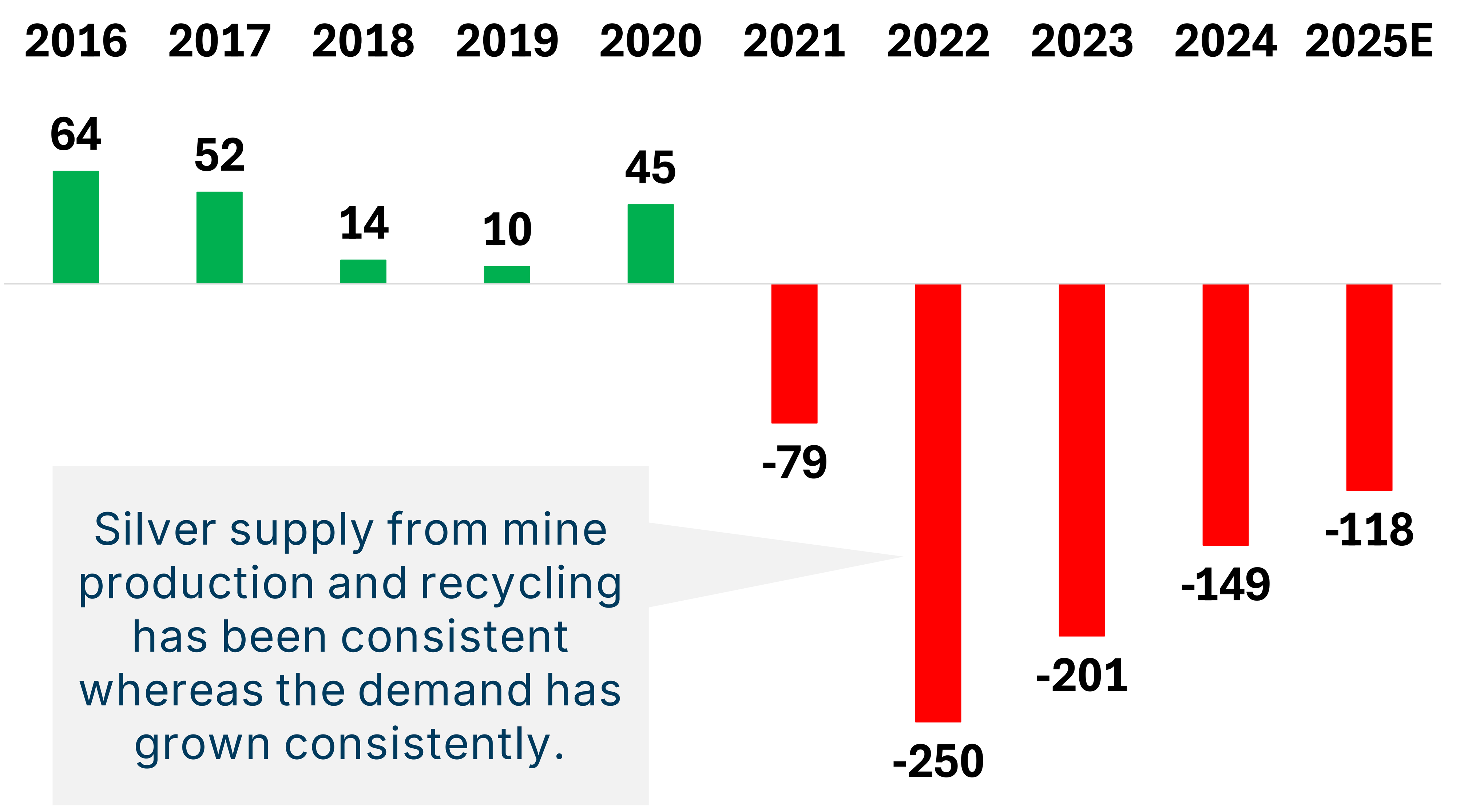
Can Silver Get Some Gold Dust?

Silver prices have rallied, but not as much as gold. In fact, in August 2011, gold prices were close to $1,900, while silver was at $45 per troy ounce.

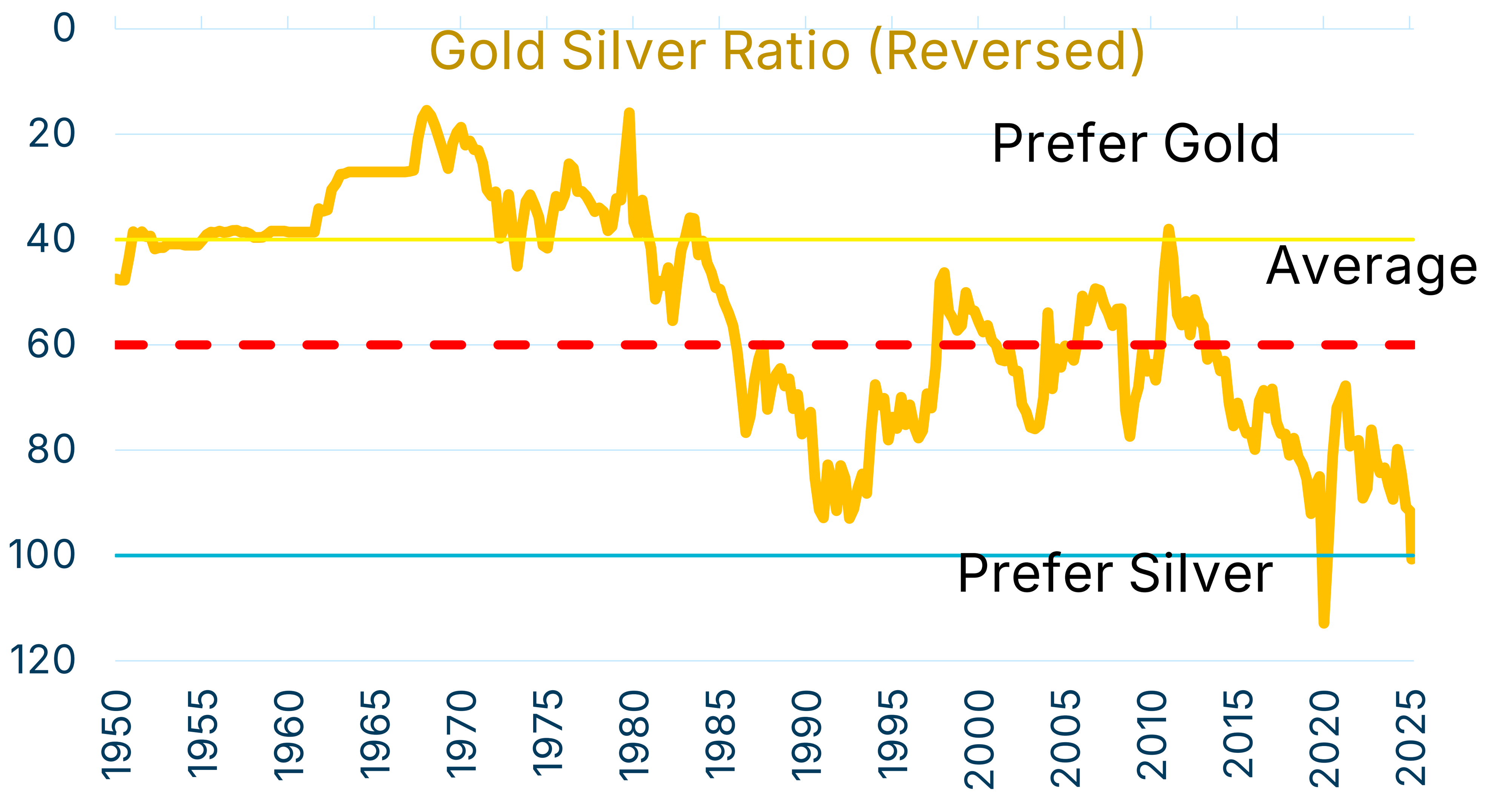
Since then, gold has surged, reaching a recent high of $3,500 in April 2025, while silver has lagged and failed to even breach the $35 mark. This divergence has pushed the gold-to-silver ratio significantly in favour of silver, nearing an all-time high of 100. 2025 could mark the fifth consecutive year in which silver demand outstrips supply. It's a very tight market. Our theoretical framework suggests that silver prices are far below their 'implied value' and have room to rise.

Historically, silver has outperformed during precious metals bull markets. All these data points indicate that silver may have further upside from current levels. You can also read our latest blog here: Silver: A Shortage Then. A Shot Now?

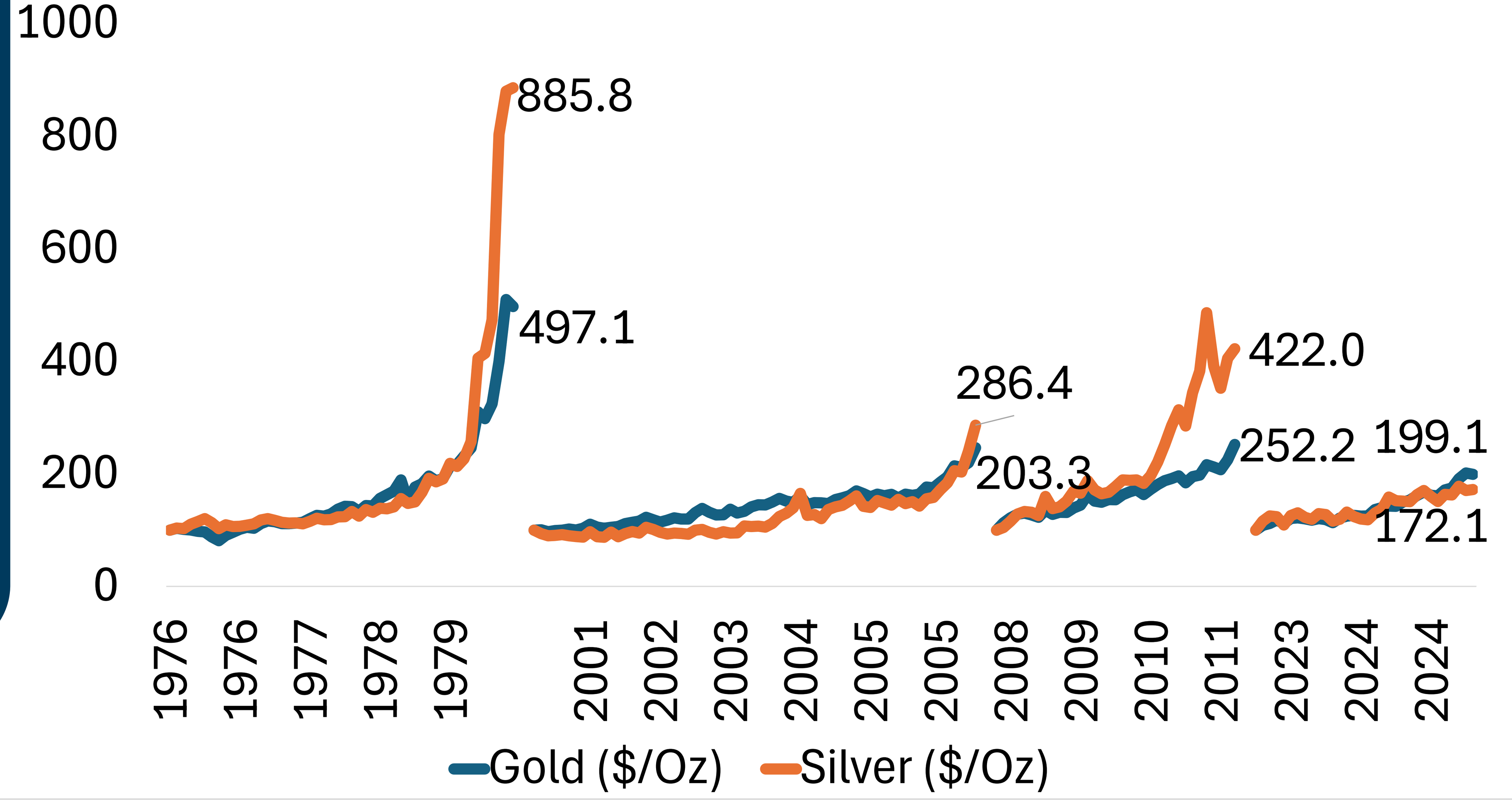
2025 Could Be The 5th Running Year of Silver Supply Deficit



Gold: Silver Ratio: Relative 'Margin of Safety' For Silver



Silver Has Outperformed Gold In Previous precious metal bull run (rebased to 100)



How To Value Silver		
Current Gold Silver Price Ratio	1	100:1
Historical Gold to Silver Ratio	2	
The Roman Empire		12:1
Medival Europe		9.4:1
US Coinage Act of 1792		15:1
US Decision To Raise Gold price to $35 in 1939		98:1
Abandonment of Gold standard & aftermath		97.5:1
Average Gold to Silver Ratio in 21st Century	3	69:1
Assuming a Gold to Silver Ratio of 60:1		
Derived price range for silver	4	**$53 to $75**
Midpoint		**$64**

Source: DSPNetra, Metals Focus, Refinitiv GFMS, US Geological Survey, World Gold Council

Source: Silver Institute, Bloomberg, DSP. Data as of May 2025. Past performance should not be taken as an indication or guarantee of future performance.

Did You Know?

- Public market fund-raising in India hit an all-time high of ~$23.7 billion, the highest ever through public issues.
- India's CPI inflation fell to 3.16% in April 2025, the lowest level since July 2019.
- India's mutual fund industry has experienced a record-breaking 50 consecutive months of net inflows.

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Source: Prime Database, Bloomberg, DSP. Data as of May 2025

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