

INDIA REWIND

India Rewind is a monthly update from DSP's Investment desk. It separates the alpha from the noise and aims to deliver key insights to readers, packed within a 2 minute reading time.

Eureka moments have often been associated with apples throughout history, such as when physicist Isaac Newton formulated his laws of gravity after seeing a falling apple. These moments are often seen as iconic "light bulb" moments. Similarly, when Apple Inc. announced that they would be manufacturing iPhones in India, it marked a significant Eureka moment for the country.

The production of iPhones in India is expected to reach a daily run rate of around ~32,000 pieces per day, resulting in a total of approximately ~12 million iPhones being produced in India in 2023. Additionally, it is expected that Apple Inc. will produce around ~25% of its iPhones in India by 2025, with this number potentially increasing to ~50% by 2027. This represents a significant investment in India's electronics manufacturing capacity, with companies seeking to diversify their production and move away from China, which is commonly referred to as "China+1" and more importantly pivoting more towards manufacturing from currently a "consumption" led economy which will address the potential issue of gainful employment.

Although India currently imports most of the components required for iPhone production, the govt. is taking steps to address this issue. With iPhone manufacturing gaining momentum, the government is launching an additional Production Linked Incentive (PLI) scheme focused on component manufacturing which will bring the entire manufacturing ecosystem to India and capture as much value locally as possible. This marks a significant step forward for India's electronics manufacturing sector and highlights the country's potential to become a global manufacturing hub. (please see chart of the month).

Geopolitics and supply-chain disruptions have brought two critical issues to the fore for India's policymakers: (1) Energy Security and (2) Over-reliance on imports. The government's US\$33bn Production-Linked-Incentive (PLI) schemes aim to boost India's Energy Transition, reduce imports, and eventually help India become a global manufacturing hub. Furthermore, this initiative creates the potential for approximately ~USD 60bn in investment and the generation of ~3.7mm jobs within the country over the next ~5-7 years.

The COVID-19 pandemic has prompted numerous companies to reassess their supply chains. A study of 135 companies revealed that they have made over 200 decisions with an estimated ~US\$300bn of capital expenditure committed. The consumer electronics industry is leading the shift, but plans are being made across multiple sectors. The trend of "China plus one" is expected to continue as companies aim to mitigate risks associated with their existing bases, as per surveys conducted by various industry bodies.

India is making visible progress, with decisions spread across ~14 sectors, led by the Production Linked Incentive (PLI) scheme. However, India may not be the sole beneficiary of these shifts, as the market perceives it to be. Other countries are also experiencing similar changes, with a primary focus on less capital-intensive areas.

In YTD 2023, FIIs have continued to sell off their investments, with net outflows totalling ~USD 2.7bn. This can be attributed to global market volatility and the influence of Fed policy actions. However, in March, FIIs inflows turned positive, reaching ~USD 1.6bn after a four-month dry spell. It remains to be seen whether this trend will be sustained. On the other hand, DIIs have been a reliable source of support, with inflows of ~USD 10bn in YTD23. This year, systematic flows have amounted to ~USD 5bn, up~17% YoY, indicating the growing momentum of domestic retail investors who prefer equities as a long-term wealth creation option. One of the short-term concerns for global investors is India's relative valuation to MSCI EM and DM, which has cooled to ~1SD now India's long-term growth prospects remain strong, as the government focuses on developing infrastructure and manufacturing activities and the domestic economy shows resilience amidst global turbulence.

Chart of the Month: Electronic goods exports (3MMA) grew ~40% YoY to an all-time high of ~\$2.1bn in Feb'23

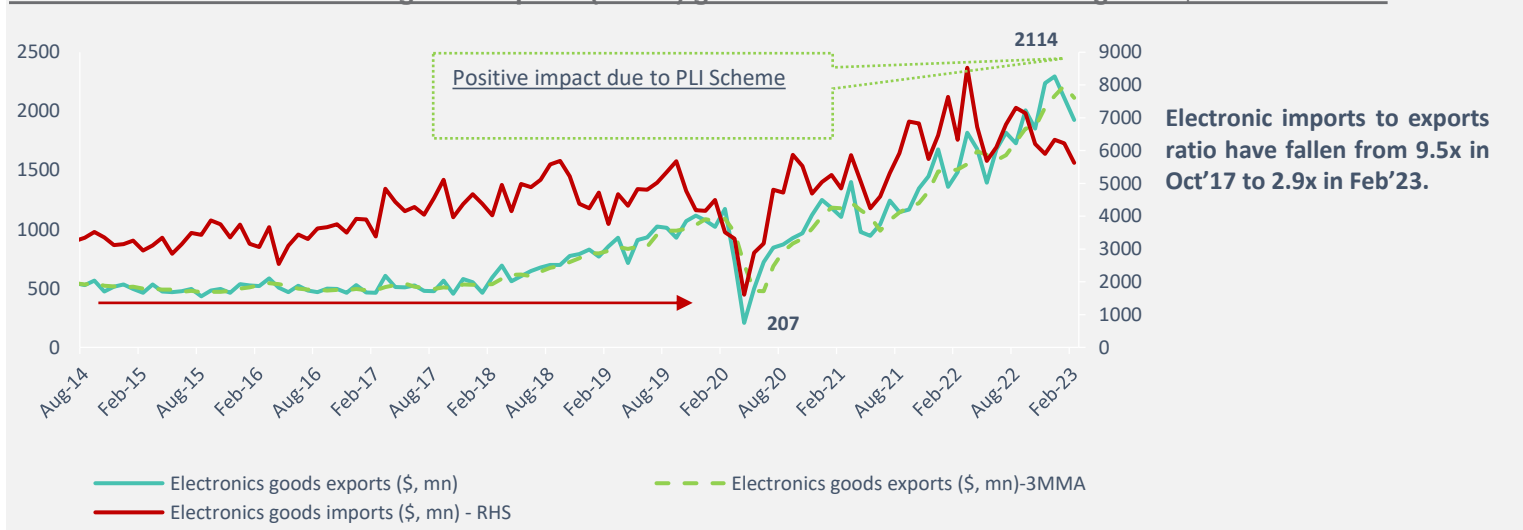


Chart Source: Aventus Spark Research, Info Sources: Internal, Bloomberg, UBS Research, Goldman Sachs, FII - Foreign Institutional Investor, DII - Domestic Institutional Investor, FY - Financial Year, CY - Calendar Year; YoY is Year over Year, YTD- Year to date, EM- Emerging Markets, DM- Developed Markets, EPS- Earnings per share, 3MMA- Three months monthly moving average.



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[India Rewind February 2023](#)
[India Rewind January 2023](#)
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India at a Glance

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Economic Activity and Employment								
GDP, USD bn	2295	2651	2701	2871	2668	3176	3385	3713
GDP per capita, USD	1767	2018	2036	2141	1969	2321	2448	2658
Real GDP growth, %	8.3	6.8	6.5	4.0	-6.6	8.7	7.0	5.5
Prices, interest rates and money								
CPI inflation, % y/y (average)	4.5	3.6	3.4	4.8	6.2	5.5	6.7	5.4
Repo rate, % (year-end)	6.25	6.0	6.25	4.4	4.0	4.0	6.50	6.25
10 year bond yield, % (year-end)	6.7	7.4	7.4	6.1	6.2	6.8	7.3	7.0
USDINR (year-end)	64.8	65.0	69.2	75.4	73.5	75.8	83.0	82.0
Fiscal accounts								
General government budget balance, % GDP	-7.0	-5.9	-5.9	-7.8	-13.9	-9.5	-8.9	-8.9
Balance of payments								
Trade balance, USD bn	-112	-160	-180	-158	-102	-189	-266	-250
Exports, USD bn	280	309	337	320	296	429	440	378
Imports, USD bn	393	469	518	478	398	619	707	623
Current account balance, USD bn	-14	-49	-57	-25	24	-39	-69	-55
Foreign direct investment (net), USD bn	35.6	30.3	30.7	43.0	44.0	38.6	35	38
Total FX reserves, USD bn	370	425	413	478	577	607	579	590
Total external debt, % GDP	20.5	20.0	20.1	19.5	21.4	19.1	18	18
Credit ratings								
Moody's	Baa3	Baa2	Baa2	Baa2	Baa3	Baa3	Baa3	Baa3
S&P	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-
Fitch	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

Source: CEIC, Haver, UBS estimates; Note: Data is for FY ending March, E - Estimates

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