asset 360 ONE

Spotlight

January 2025

on things that matter

The Indian Advantage

asset 360 ONE

"India will have the biggest and fastest growth rate. This country will see the biggest transformation among the rest of the countries of the world."
-Ray Dalio *(February 2023)*

"To me, India is the real future."
-Mark Mobius *(June 2023)*

"India is in a sweet spot at the moment, and it has the potential to be even better in the future if the government can keep delivering on its promises."
-Jim Rogers *(March 2024)*

"India is the best long-term equity market globally."
—Chris Wood *(July 2024)*

asset 360ONE

Chapter 1

India and the World:
A Comparative Analysis ____________________ 01

Indian Markets:
Deep Dive ________________________________ 15

India Valuations:
Final Thoughts ___________________________ 23

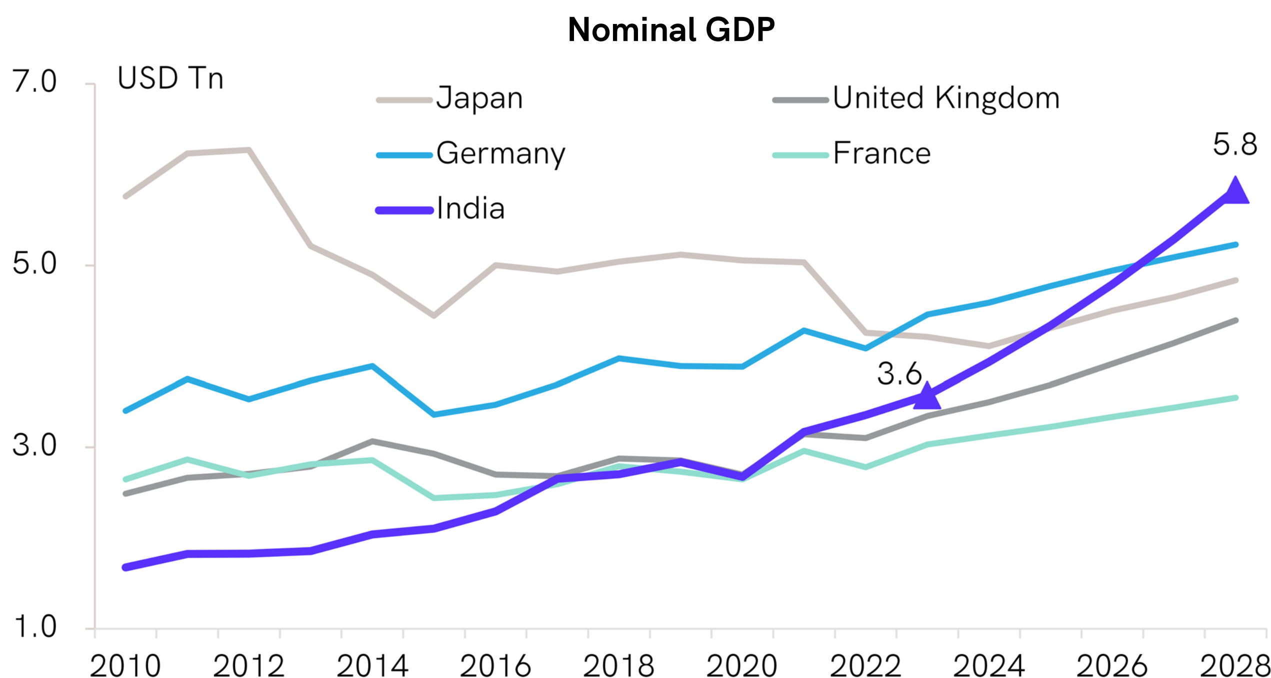
asset 360 ONE

Chapter 1:

India and the World: A Comparative Analysis

asset 360 ONE

What does India's growth trajectory look like?



Note: Data from 2024 onwards are IMF projections
Source: IMF, 360 ONE Asset Research

India is the fifth-largest economy, with a nominal GDP of approximately US$3.6 trillion.

Over the past five years, India has made significant strides in its economic development, successfully surpassing the nominal GDP of both France and the United Kingdom.

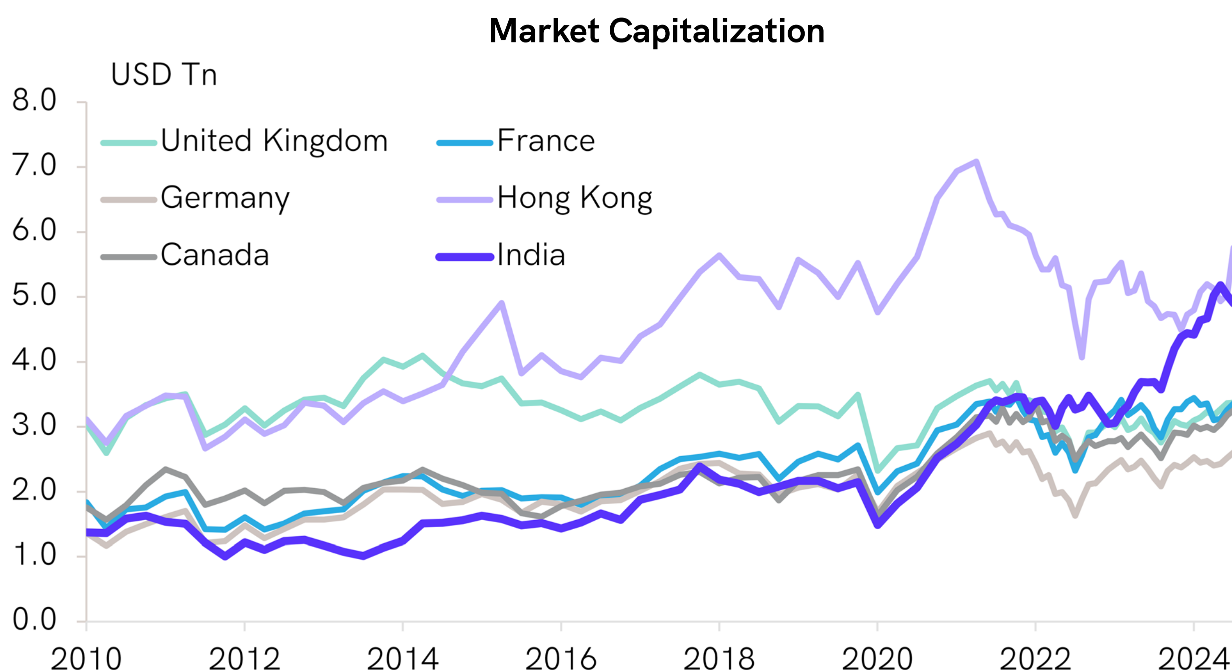
Looking ahead, India remains on track to become the third-largest economy in the world within the next five years.

India is expected to remain the fastest-growing major economy in the world in the foreseeable future.

This projected growth will see India surpass Japan and Germany, positioning itself behind only the United States and China.

Several factors contribute to this optimistic outlook, including a young & educated workforce, healthy corporate and bank balance sheets, infrastructure expansion, revival in manufacturing activity, and ongoing reform process.

How has India's equity capitalisation evolved over the years?



Note: Data as of September 2024
Source: Bloomberg, Avendus Spark, 360 ONE Asset Research

As of September 2024, India stands as the fifth-largest economy in the world by market capitalization at approximately US$5 trillion. India is currently engaged in a close contest with Hong Kong for the fourth-largest position.

India's market capitalization trajectory can be broadly divided into two distinct phases: pre-COVID and post-COVID.

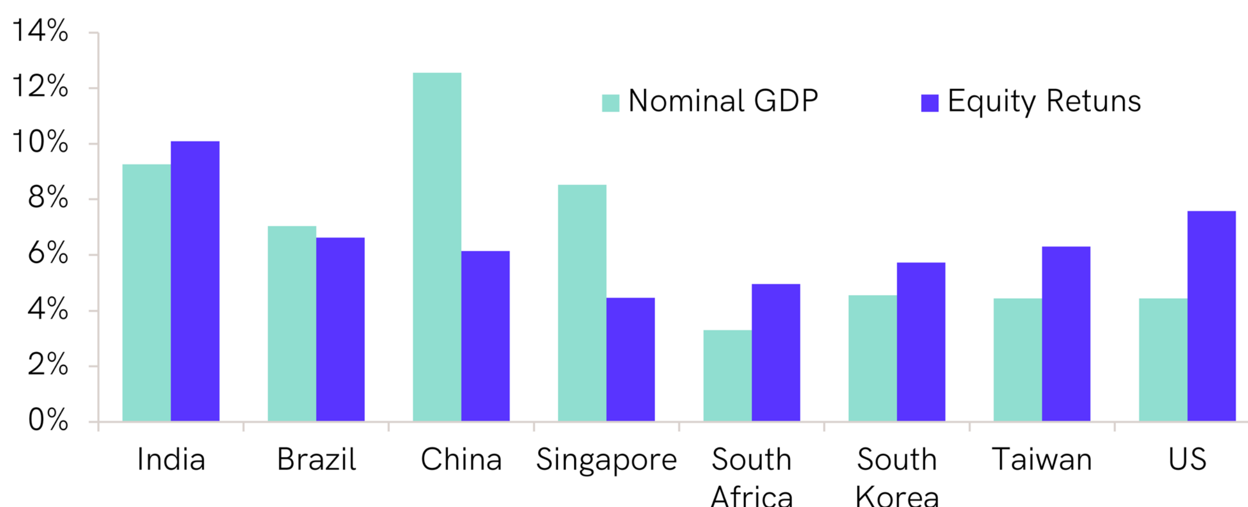
Before the pandemic, up until 2020, India's market capitalization growth was relatively steady, with the country ranked eighth largest globally.

Following the pandemic, the pace of market capitalization growth accelerated significantly. As a result, India surpassed several economies, including Canada, Germany, France, and the United Kingdom, securing its position as the fifth-largest economy by market capitalization.

Notably, in July 2024, India briefly exceeded Hong Kong's market capitalization, temporarily claiming the fourth-largest position.

asset 360 ONE

Does economic growth translate to equity market returns?



Note: India – SENSEX, Brazil – IBOV, China – SHSZ300, Singapore – STI, South Africa – Top40, South Korea – KOSPI, Taiwan – TWSE, US – SPX
Source: Bloomberg, 360 ONE Asset Research

When examining cross-country experiences, it becomes evident that economic growth and equity market returns can diverge significantly.

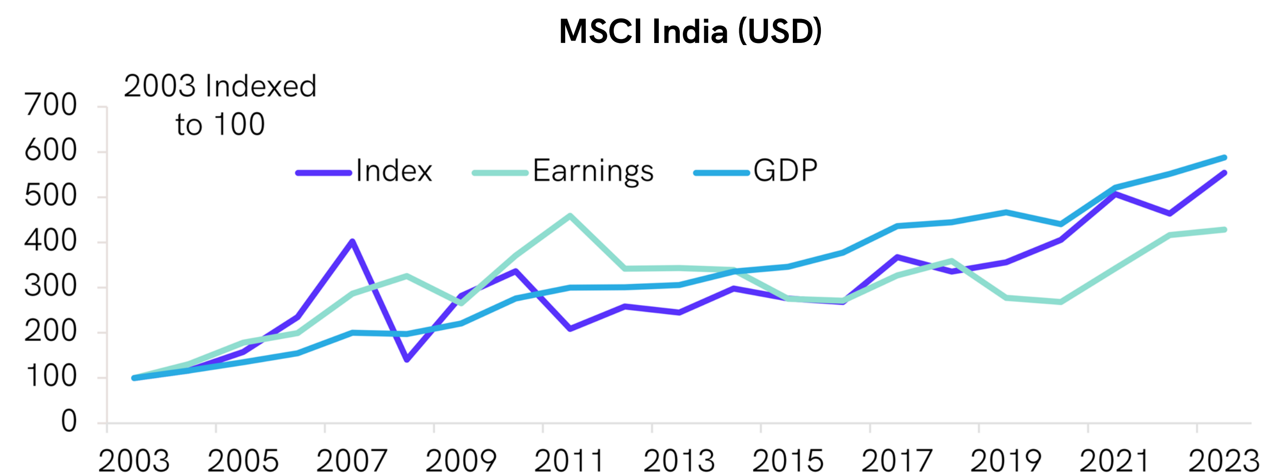
In some cases, countries like China and Singapore, despite achieving robust economic growth, have struggled to translate this into comparable equity market returns. Conversely, market returns of economies such as the United States, Taiwan, and South Africa have exceeded their nominal GDP growth.

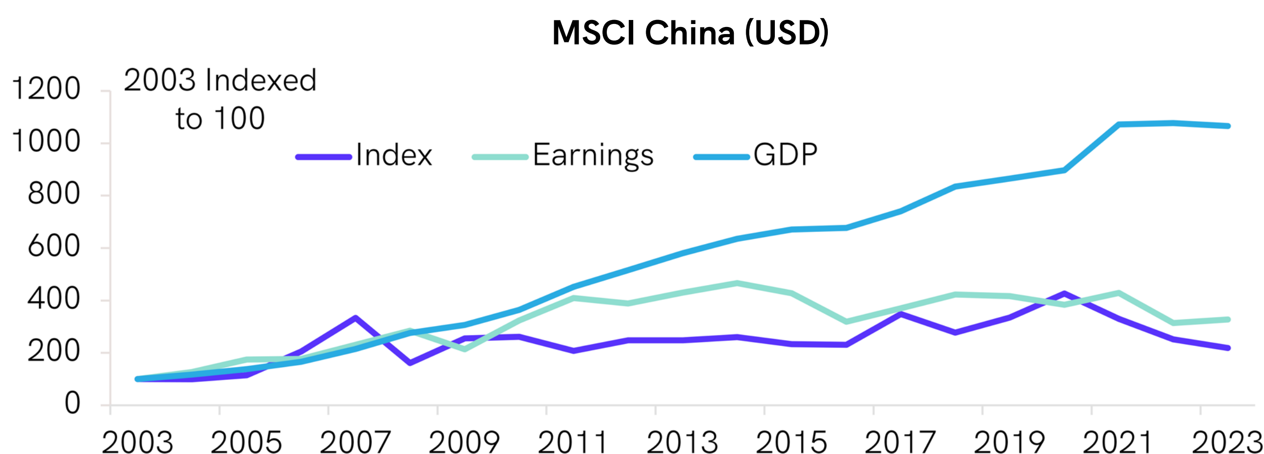
Meanwhile, countries like South Korea, Brazil, and India have shown returns that are more closely aligned with their GDP growth rates.

Whether or not economic growth translates into equity market returns depends on several factors. These include the composition of the benchmark indices, the sectoral distribution of both the economy and the index, valuations, and broader macroeconomic policies.

During the period of 2003-2023, India has successfully translated strong economic growth into equity market returns. Therefore, we believe that the expected growth trajectory, as discussed earlier, will similarly translate into strong returns in the future.

How does India compare to China?





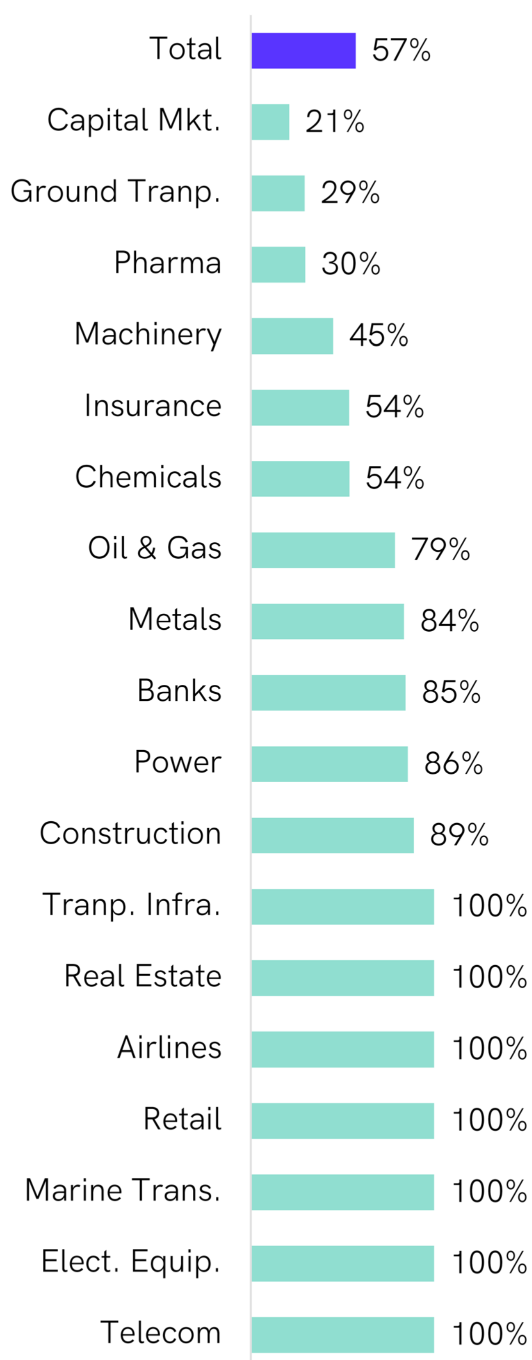
Source: Bloomberg, 360 ONE Asset Research

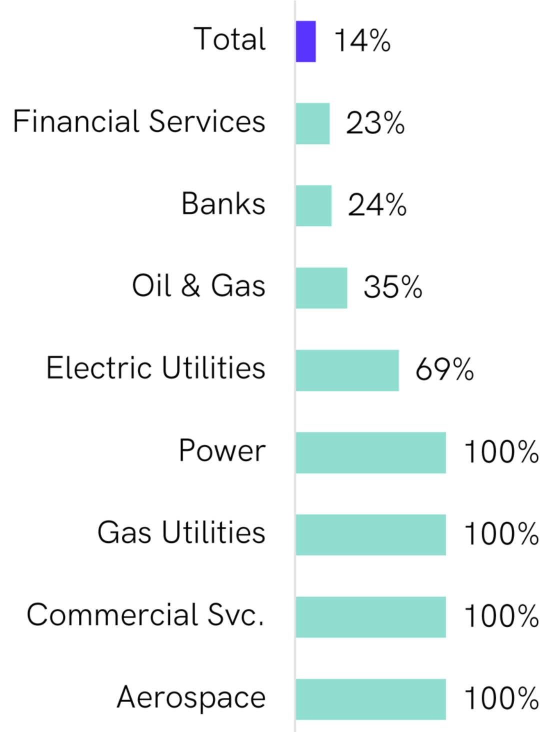
India and China present two contrasting perspectives regarding whether economic growth has led to increased earnings and, consequently, better returns.

As illustrated in the two charts above, in the case of India, earnings have largely increased in line with economic growth (nominal GDP), and the markets have rewarded this performance.

In contrast, China's rapid economic expansion has not translated into comparable earnings growth. As a result, market returns have significantly lagged nominal GDP growth, highlighting a disconnect between China's broader economy and corporate profitability.

What key attribute accounts for the difference?



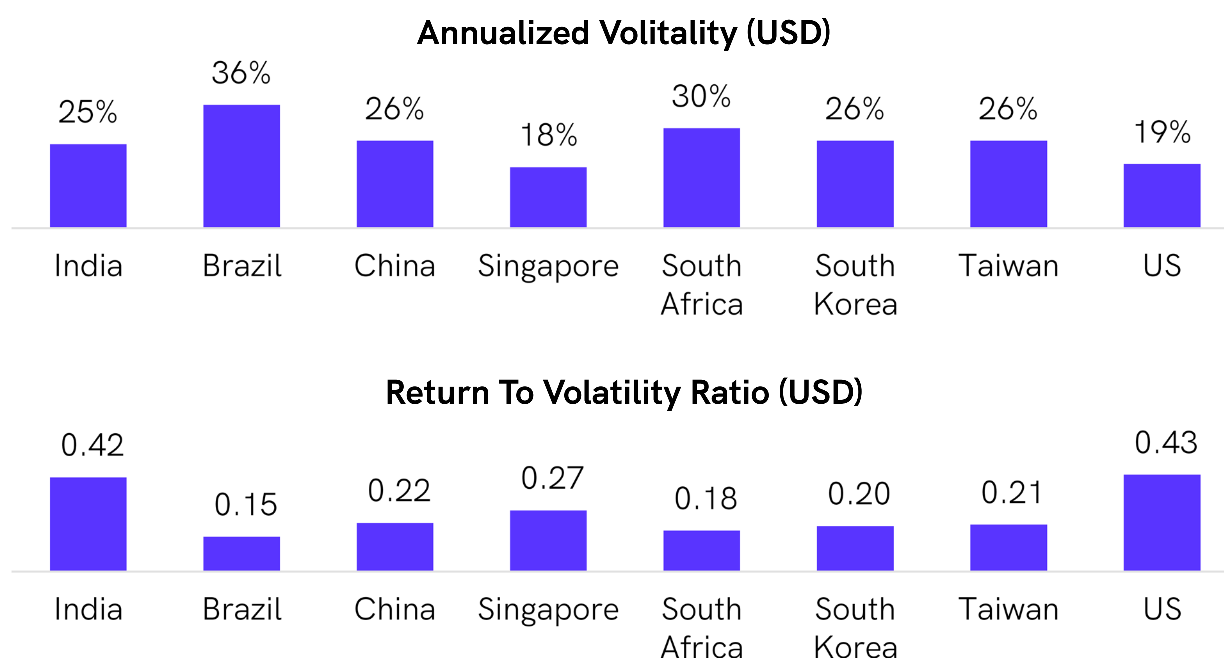


Note: SOE – State Owned Enterprises, Analysis as of September 2024
Source: Nirmal Bang, Bloomberg, 360 ONE Asset Research

In China, State-Owned Enterprises (SOEs) make up 57% of the market capitalisation of the top 100 companies. SOEs limit competition and efficiency by prioritising government objectives over profitability.

In contrast, only 14% of India's top 100 companies' market capitalisation comes from SOEs, fostering a more competitive environment driven by private enterprises.

How has India performed on a risk-adjusted basis?



Note: Analysis conducted for the period January 2003 to September 2024. India – SENSEX, Brazil – IBOV, China – SHSZ300, Singapore – STI, South Africa – Top40, South Korea – KOSPI, Taiwan – TWSE, US – SPX
Source: Bloomberg, 360 ONE Asset Research

Assessing an investment's return relative to risk is crucial for informed decision-making. This enables investors to identify opportunities that align with their risk tolerance.

The Indian market's volatility is moderate compared to the other mentioned countries. Brazil has the highest volatility, while Singapore has the least.

Notably, Indian market volatility is higher than that of the US, but it also offers higher returns, leading to a comparable return-to-volatility ratio.

India and the US have the highest return-to-volatility ratio among the mentioned countries, followed by a distant Singapore.

Other markets, such as Brazil and South Africa, have performed significantly worse than India and the US in terms of return relative to risk.

This analysis highlights India's strong performance, along with that of the US, on a risk-adjusted basis.

asset 360 ONE

What does the correlation matrix of different markets look like?

	India	Brazil	China	Singapore	South Africa	South Korea	Taiwan	US
India	1.0	0.5	0.2	0.6	0.6	0.6	0.5	0.6
Brazil	0.5	1.0	0.2	0.6	0.6	0.5	0.4	0.5
China	0.2	0.2	1.0	0.5	0.4	0.5	0.5	0.4
Singapore	0.6	0.6	0.5	1.0	0.8	0.7	0.6	0.7
South Africa	0.6	0.6	0.4	0.8	1.0	0.7	0.7	0.7
South Korea	0.6	0.5	0.5	0.7	0.7	1.0	0.8	0.7
Taiwan	0.5	0.4	0.5	0.6	0.7	0.8	1.0	0.7
US	0.6	0.5	0.4	0.7	0.7	0.7	0.7	1.0

Note: Correlation calculated on monthly returns over a 10-year period (August 2014-August 2024). India – SENSEX, Brazil – IBOV, China – SHSZ300, Singapore – STI, South Africa – Top40, South Korea – KOSPI, Taiwan – TWSE, US – SPX
Source: Bloomberg, 360 ONE Asset Research

Correlation plays a vital role in investment decision-making by enabling investors to grasp the relationships among various assets. Recognizing these correlations is essential for portfolio diversification, as combining assets with low or negative correlations can help reduce overall risk.

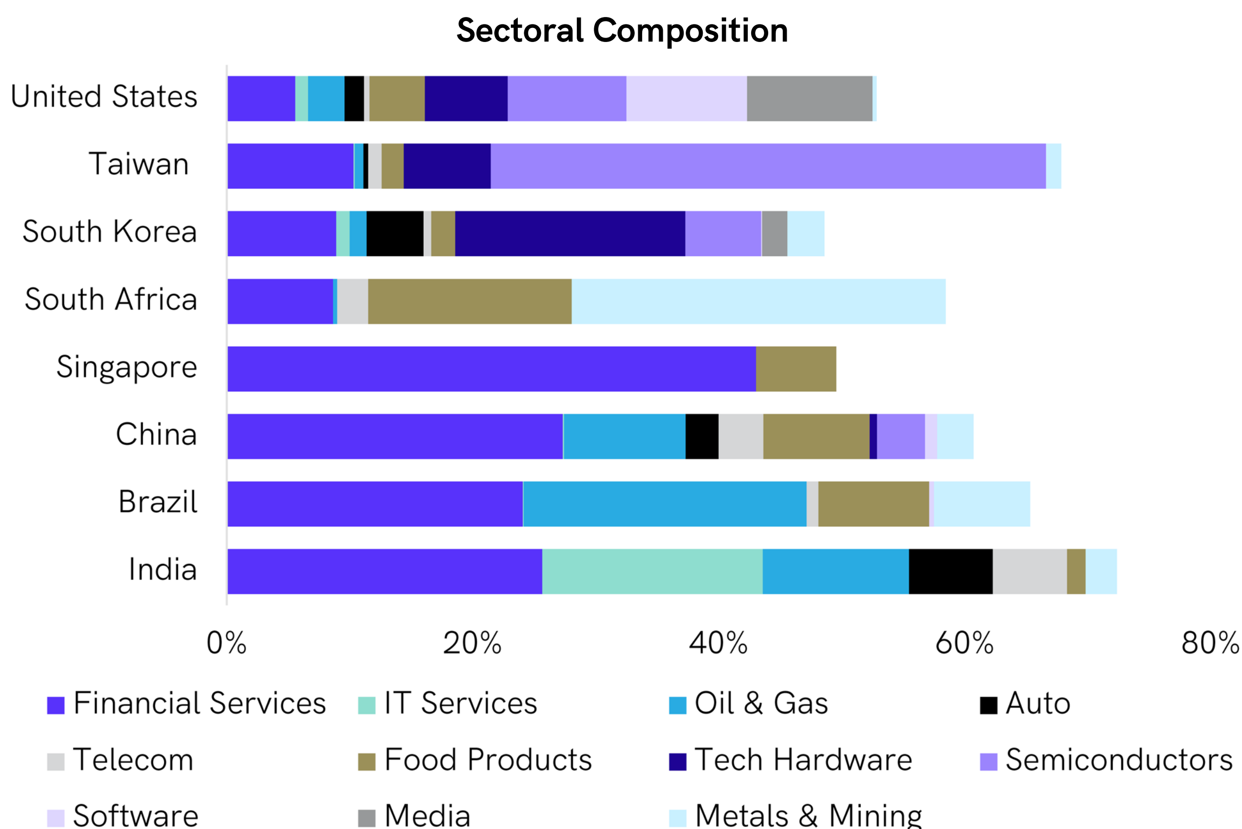
The matrix above shows the correlations between different markets.

China stands out with the lowest correlation to nearly all markets. However, this low correlation should be considered alongside China's relatively poor performance compared to other markets.

In addition to China, Brazil and India exhibit comparatively lower correlations with other markets, providing attractive opportunities for diversification.

asset 360 ONE

What is the sectoral composition of markets?



Note: India – SENSEX, Brazil – IBOV, China – SHSZ300, Singapore – STI, South Africa – Top40, South Korea – KOSPI, Taiwan – TWSE, US – SPX
Source: Nirmal Bang, Bloomberg, 360 ONE Asset Research

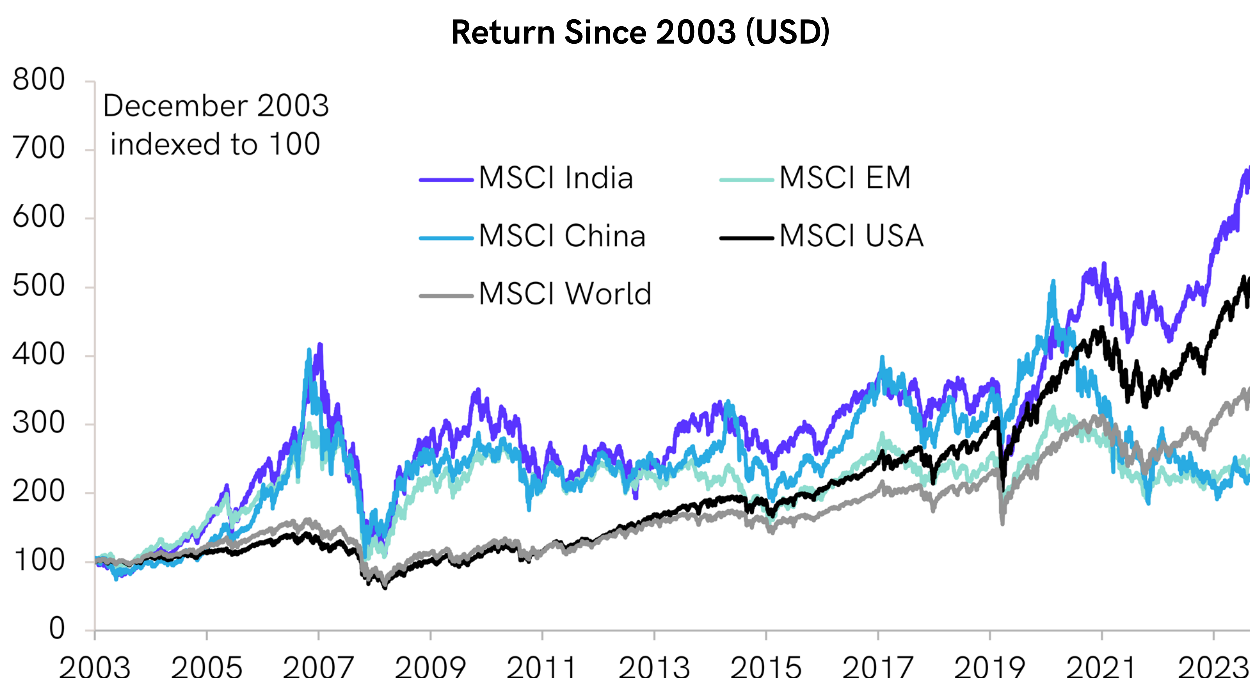
The Indian equity market offers the opportunity to invest across various sectors, such as financial services, IT services, oil and gas, automotive, and telecom. However, key sectors like semiconductors and tech hardware are noticeably missing from the benchmark indices.

In comparison:

- Brazil's market focuses on financial services, food products and oil & gas
- Taiwan is strong in semiconductors
- Singapore leans towards financial services
- South Africa is tilted towards food products and metals & mining
- South Korea focuses on tech hardware
- The Chinese market is sectorally diverse
- The US market is one of the most diverse, with the presence of the software sector that is mostly missing in other markets

asset 360 ONE

How has the MSCI India performed compared to other markets?



Source: Bloomberg, 360 ONE Asset Research

MSCI India has shown remarkable performance, significantly surpassing the MSCI Emerging Markets (EM) and the MSCI China indices. In addition, India has outperformed the MSCI USA and MSCI World indices.

Broadly, India has returned seven times since December 2003 (up to September 2024), compared to just three times for MSCI EM and China, four times for MSCI World, and five times for MSCI USA.

A considerable portion of this outperformance has occurred since 2020, mainly due to India's swift recovery from the pandemic shock.

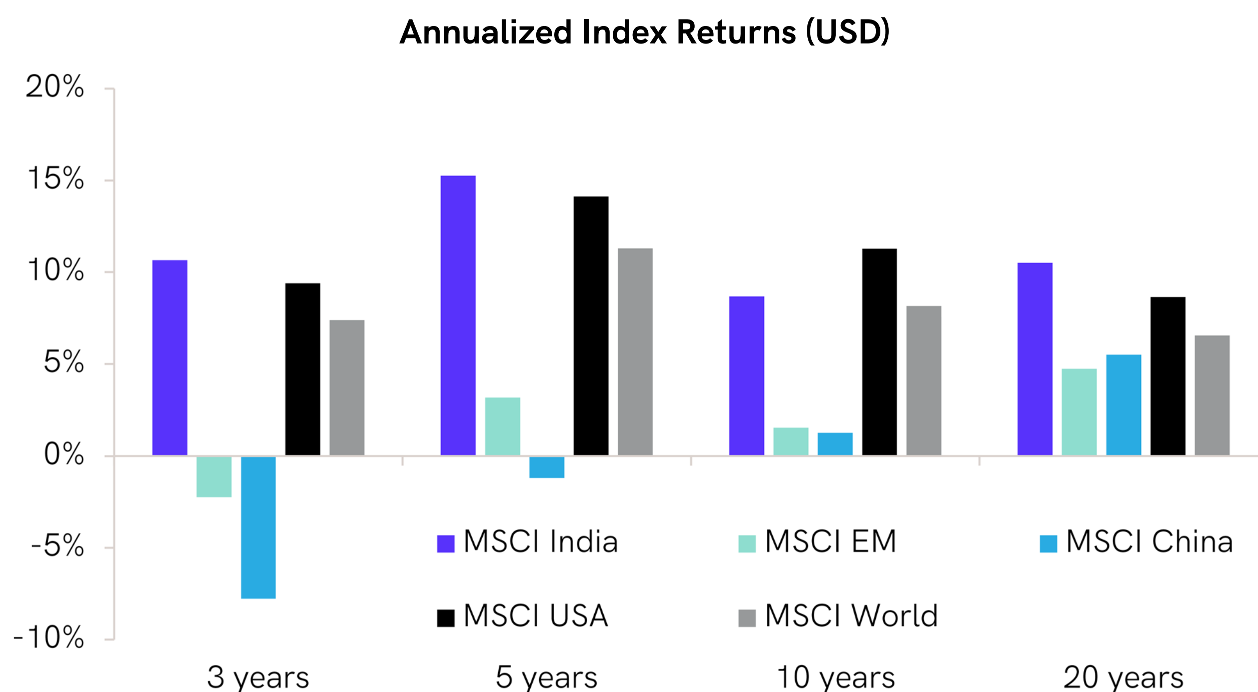
Before the pandemic, India and China exhibited comparable performance, often aligning closely with one another while consistently outperforming the MSCI World, EM, and USA indices.

However, the landscape shifted dramatically after 2020, with India navigating the economic challenges more effectively than China, which suffered from a real estate downturn.

India is expected to remain the fastest-growing major economy in the world, which should also be reflected in strong equity performance.

asset 360 ONE

How has the MSCI India performed across periods?



Note: Analysis as of September 2024
Source: Bloomberg, 360 ONE Asset Research

An effective way to compare the performance of these indices is by analyzing their returns over different periods.

Over the past three years, MSCI India has been the best performer, with an annualized return of 11%. MSCI USA followed with a return of 9%, while MSCI World posted 7%.

In contrast, MSCI China and MSCI Emerging Markets (EM) have experienced negative returns, with China down by 8% and EM by 2%.

Over a five-year period, India continues to lead with a 15% return, followed closely by the US at 14%. EM has returned 3%, while China has remained negative at -1%.

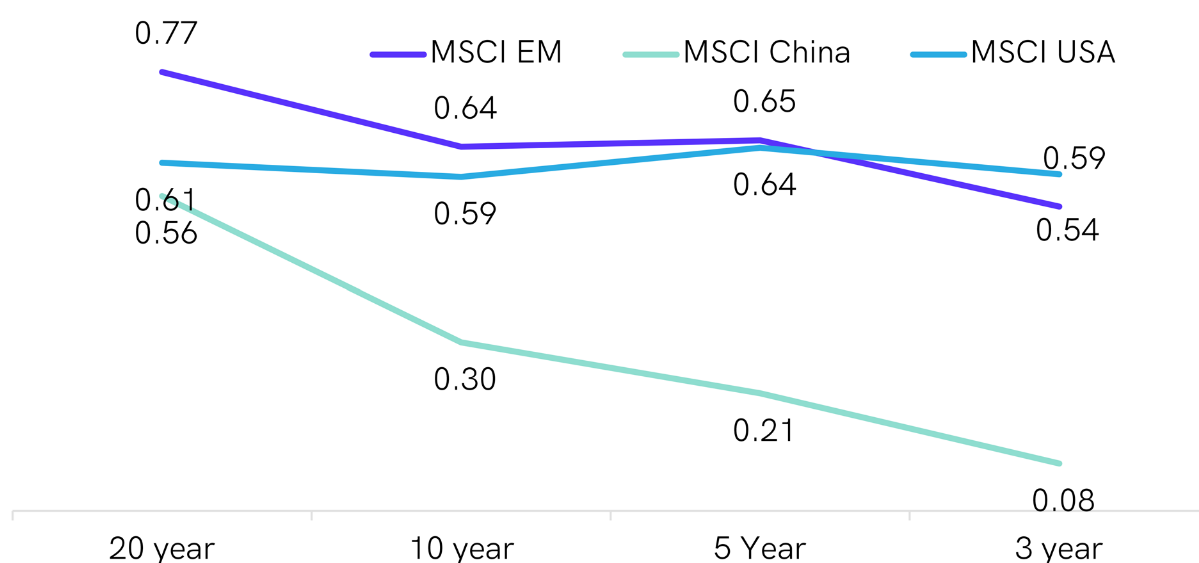
Over a ten-year period, the US has outperformed India, delivering an 11% return compared to India's 9%. Both EM and China have continued to underperform.

However, over a 20-year period, India once again surpasses the US with a higher return.

In summary, India has performed better than the US across most time frames and consistently performed better than other mentioned indices.

asset 360 ONE

How has MSCI India correlated with other markets over the years?



Source: Bloomberg, 360 ONE Asset Research

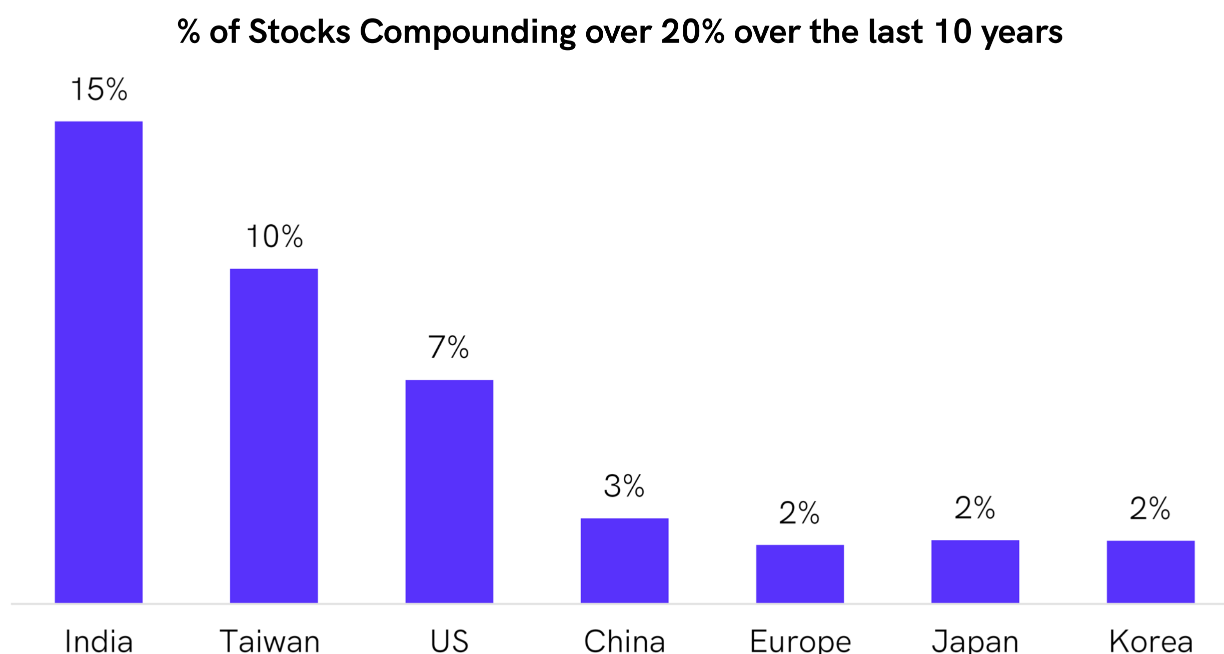
As previously discussed in this report, Indian markets have shown a relatively low correlation with other major global markets, presenting an attractive opportunity for diversification.

Moreover, the correlation between MSCI India and the broader MSCI Emerging Markets (EM) index has declined noticeably over the years.

MSCI India and MSCI China have shown minimal correlation over the past decade, as Indian equities have scaled new highs, whereas Chinese markets have experienced downturns.

This analysis underscores the importance of having a dedicated allocation to India to enhance portfolio diversification, rather than simply grouping it within the broader EM basket.

What fraction of stocks have compounded at over 20%?



Note: Analysis as of November 2024. Returns are calculated in USD. India – NIFTY 500, Taiwan – TWSE (816 stocks), US –S&P 500, China – SHSZ 300, Europe – STOXX Europe 600, Japan – TOPIX 500, Korea – KOSPI (763 stocks)
Source: Bloomberg, 360 ONE Asset Research

India has demonstrated an impressive compounding hit rate compared to other major markets.

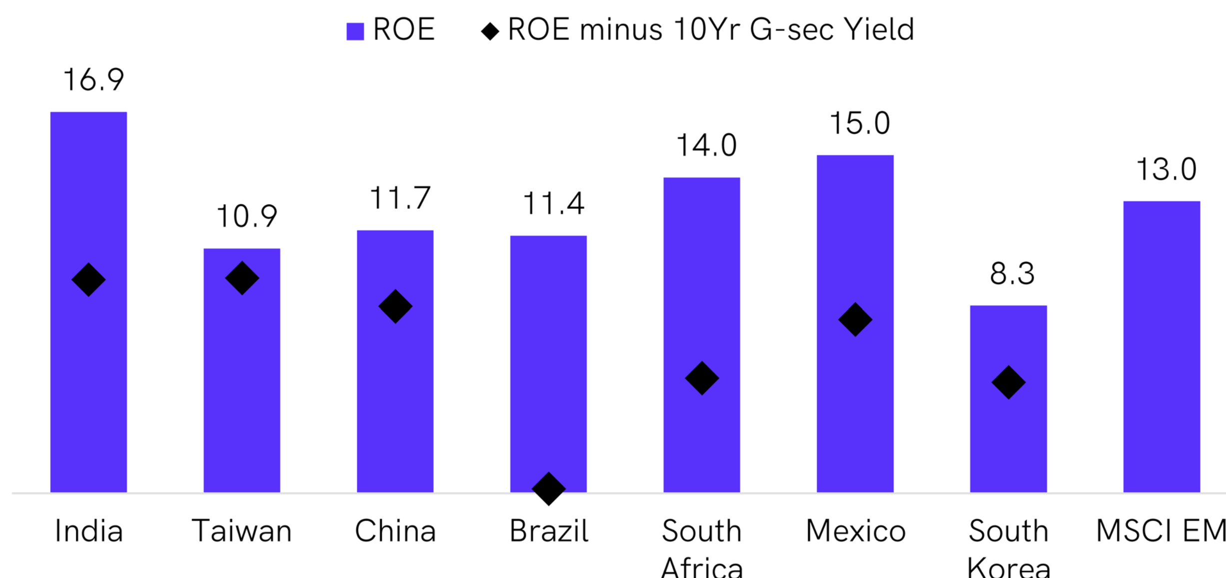
Over the past decade, 15% of Indian stocks have delivered an annualised return of greater than 20%.

This performance surpasses that of Taiwan, where 10% of stocks achieved the same milestone, and the United States, with just 7% of stocks achieving such returns.

In China, Europe, Japan, and Korea, only 2-3% of stocks have delivered annualised returns of 20% or higher.

This analysis highlights the robust and broad-based performance of the Indian market and its potential for capital appreciation.

How does India compare with other EMs in ROE?



Note: Long-term average calculated from January 2006 to September 2024. India – NIFTY50, Taiwan – TWSE, China – SHASHR, Brazil – IBOV, South Africa – JALSH, Mexico – MEXBOL, South Korea – KOSPI
Source: Bloomberg, 360 ONE Asset Research

Return on Equity (ROE) is a critical metric for analyzing a market index's ability to generate returns from shareholders' equity, reflecting the overall profitability of the companies included in that index.

India stands out with the highest average ROE at 16.9%, indicating strong corporate profitability.

Mexico and South Africa follow India with ROEs of 15.0% and 14.0%, respectively, indicating strong capital efficiency in both regions.

On the lower end, South Korea posts the weakest performance, with an ROE of 8.3%, indicating lower profitability than its peers.

Taiwan, China, and Brazil display moderate ROEs ranging from 10.9% to 11.7%.

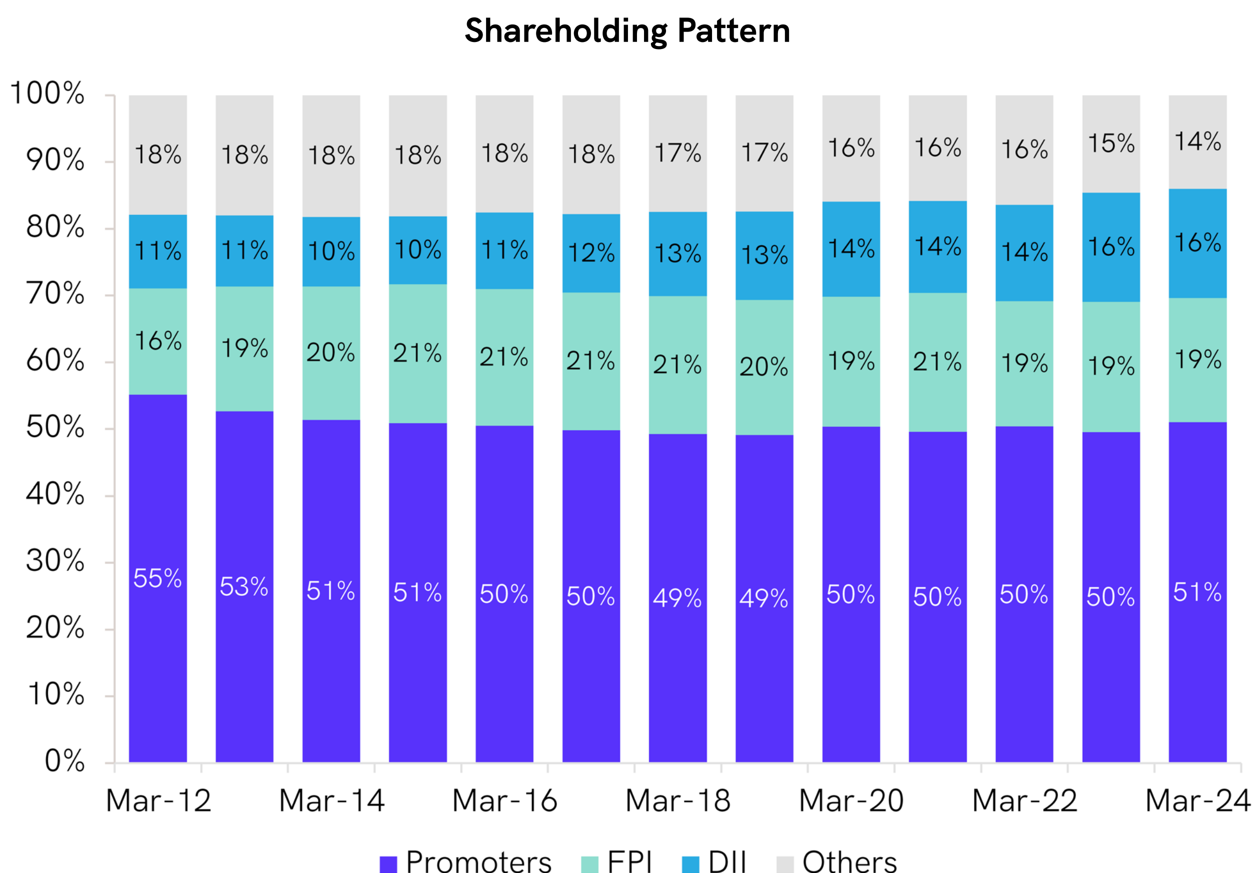
In addition, India and Taiwan outperform in terms of ROE generated relative to 10-year government bond yields.

asset 360 ONE

Chapter 2:

Indian Markets: Deep Dive

How has the shareholding pattern in the Indian markets evolved?



Note: The shareholding pattern is for BSE500 companies
Source: Yes Securities, 360 ONE Asset Research

As of March 2024, promoters held 51% of the total market capitalization, making them the dominant group in the shareholding of Indian companies.

They are followed by a 19% share of Foreign Portfolio Investors (FPI) and a 16% share of Domestic Institutional Investors (DII).

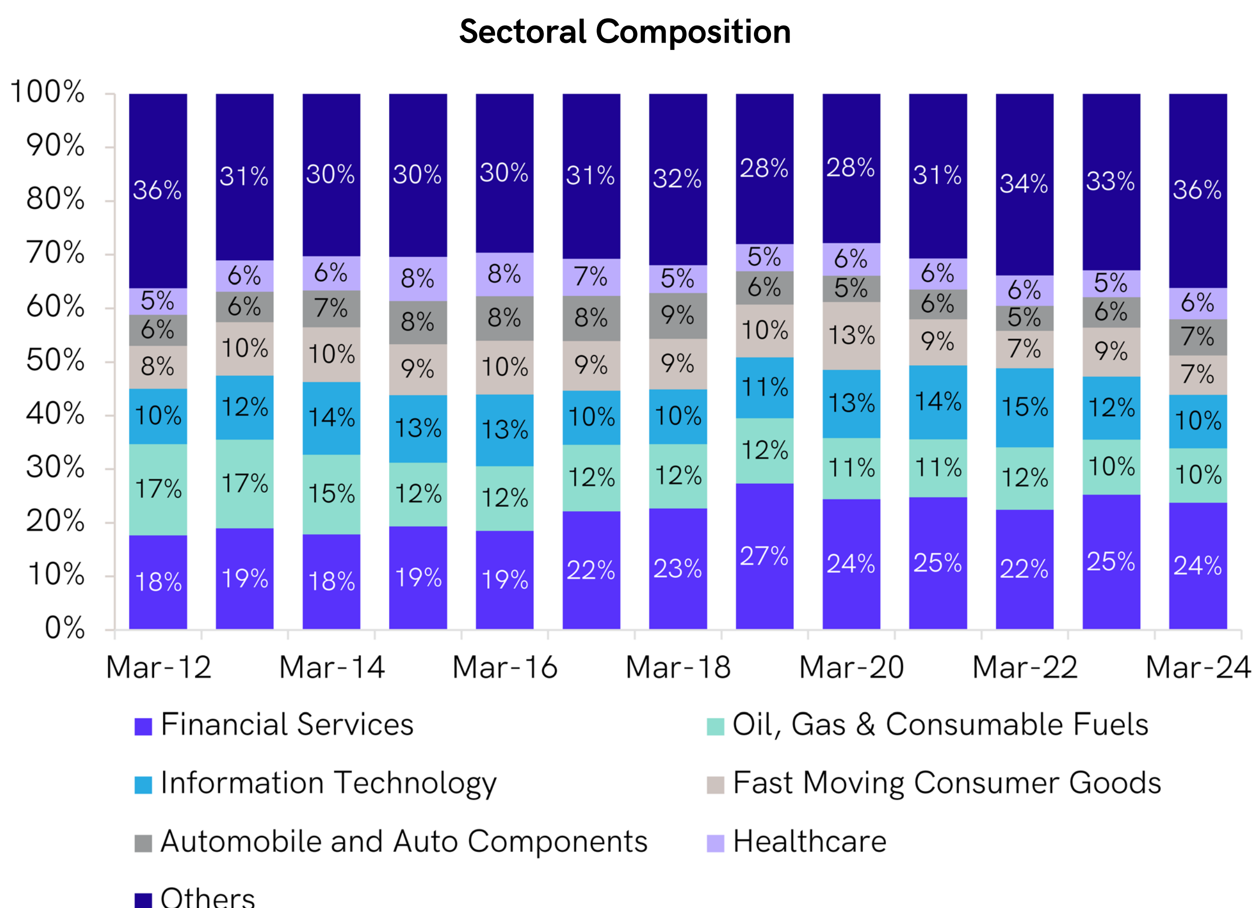
The share of promoter entities declined from 55% in March 2012 to 50% in March 2016 and has remained largely flat since then.

Meanwhile, the FPI share has stayed within a narrow range of 19-21% since March 2013.

The DII share has steadily increased from 11% in March 2012 to 16% in March 2024, reflecting the rising participation of Indian households in equity markets through mutual funds.

asset 360 ONE

How has the sector composition changed over the years?



Note: The sectoral composition is for BSE500 companies
Source: Yes Securities, 360 ONE Asset Research

The sectoral composition of the Indian market has experienced a notable transformation over the past decade, reflecting shifts in the broader economy.

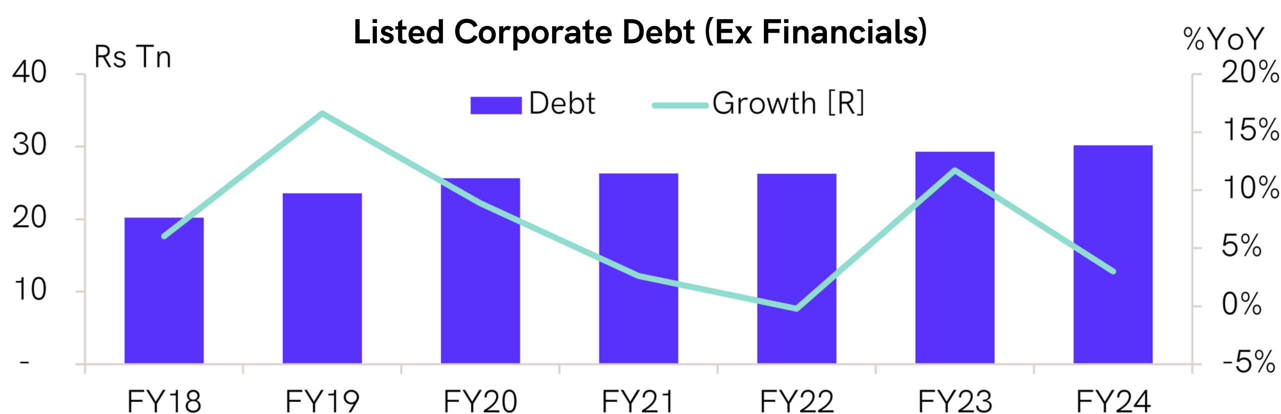
The financial services sector, in particular, has experienced significant growth, with its share rising from 18% in March 2012 to 24% in March 2024.

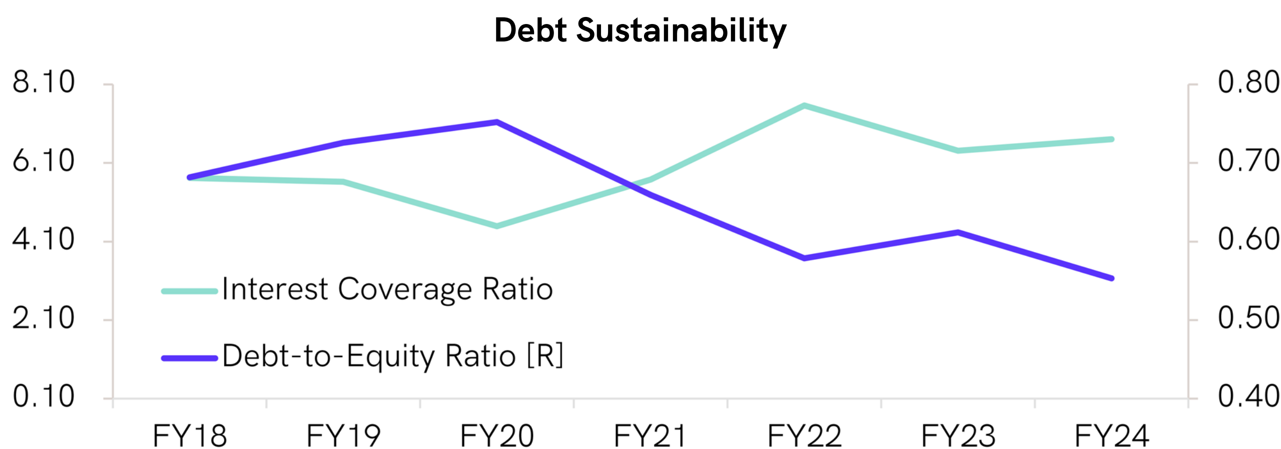
In contrast, the oil and gas sector's share has declined from 17% in March 2012 to 10% in March 2024.

As of March 2024, other key sectors with significant weight include information technology, which holds a 10% share; FMCG, which has a 7% share; the automotive sector, which accounts for 7%; and healthcare, which accounts for 6%.

asset 360 ONE

How sustainable is listed corporate debt? - I





Note: Analysis based on BSE500 companies
Source: Ace Equity, 360 ONE Asset Research

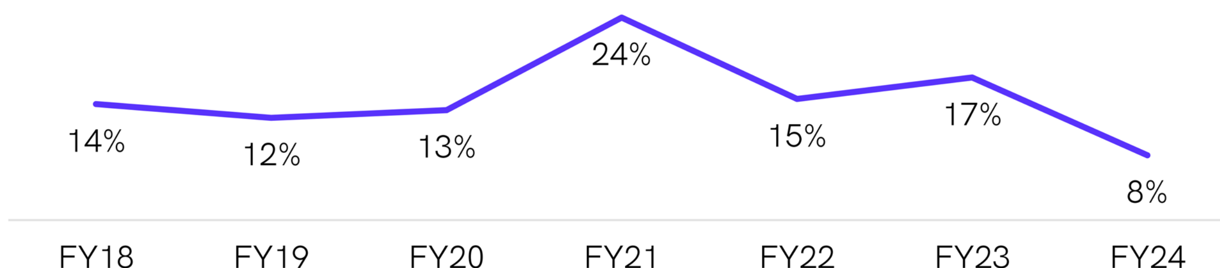
Listed corporations have experienced muted growth in debt over the past few years as they have focused on strengthening their balance sheets through deleveraging. This strategic shift has led to a significant improvement in their financial health.

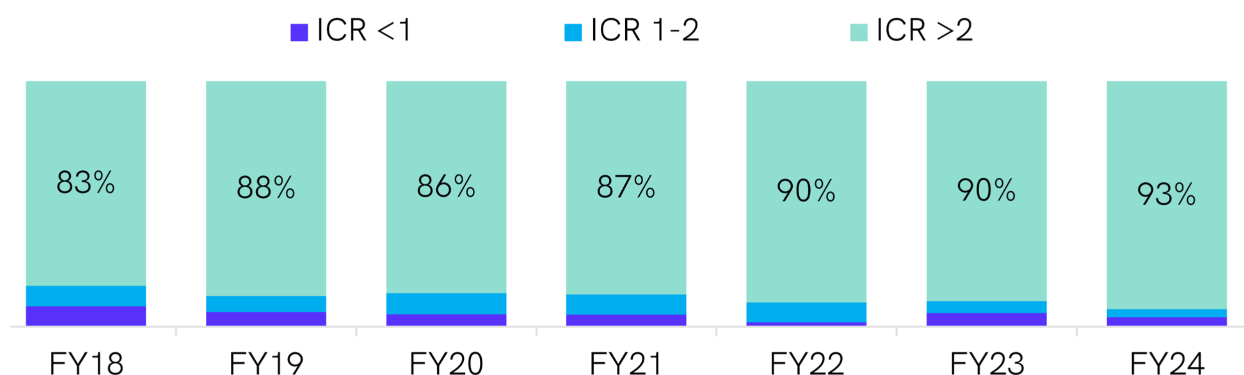
One key indicator of this trend is the decline in the debt-to-equity ratio, which dropped from 0.75 in FY20 to 0.55 in FY24.

Additionally, the interest coverage ratio, which measures a company's ability to meet its interest obligations, has improved markedly during the same period, rising from 4.5 to 6.7.

These indicators indicate a steady improvement in listed corporations' debt management and overall financial resilience.

How sustainable is listed corporate debt? - II





Source: Ace Equity, 360 ONE Asset Research

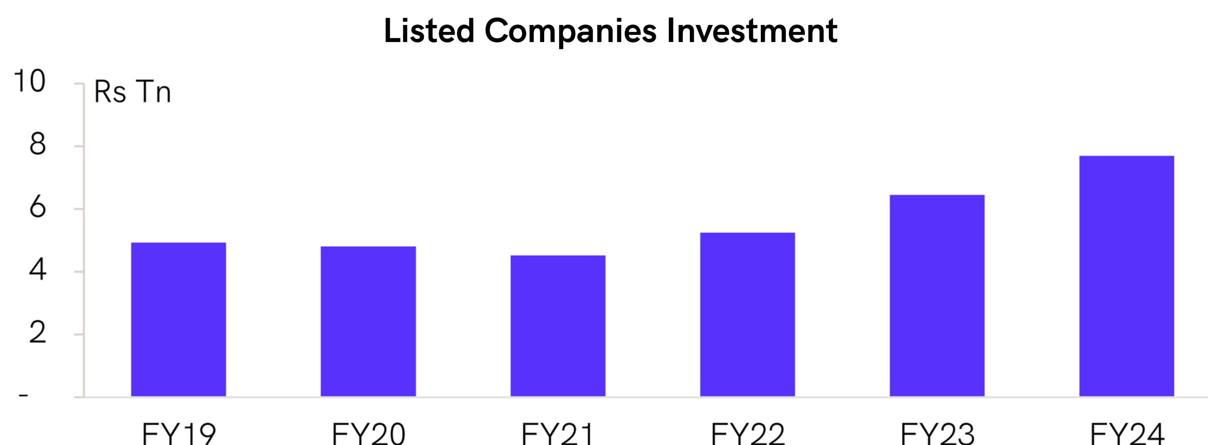
A closer analysis of the debt metrics further reveals a significant improvement in the debt position of listed corporations.

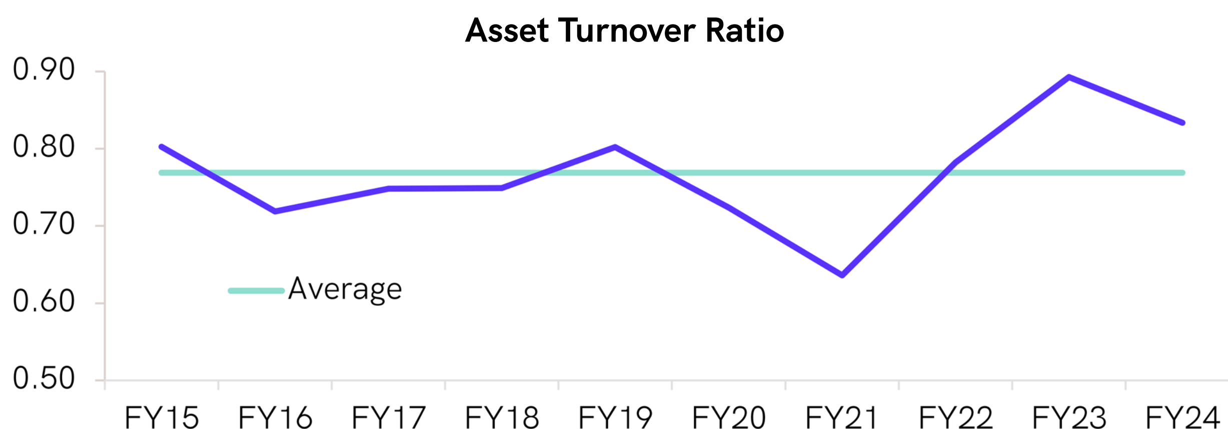
One notable trend is the sharp decline in the proportion of debt held by highly leveraged companies — those with a debt-to-equity ratio exceeding 2. This proportion fell from 24% in FY21 to 8% in FY24, indicating a significant reduction in risky debt.

At the same time, there has been a marked increase in the proportion of debt held by companies with a healthy interest coverage ratio (greater than 2). This proportion has risen from 83% in FY18 to 93% in FY24, suggesting a decline in the overall riskiness of corporate debt.

asset 360 ONE

What is the pace of listed corporate investment spending?





Note: Analysis based on BSE500 companies
Source: Ace Equity, 360 ONE Asset Research

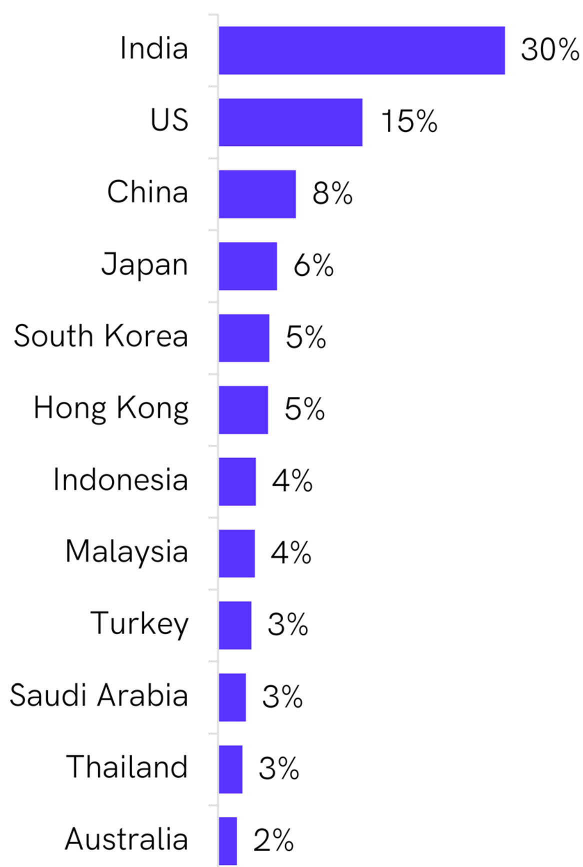
Listed corporate investment has rebounded following years of subdued activity.

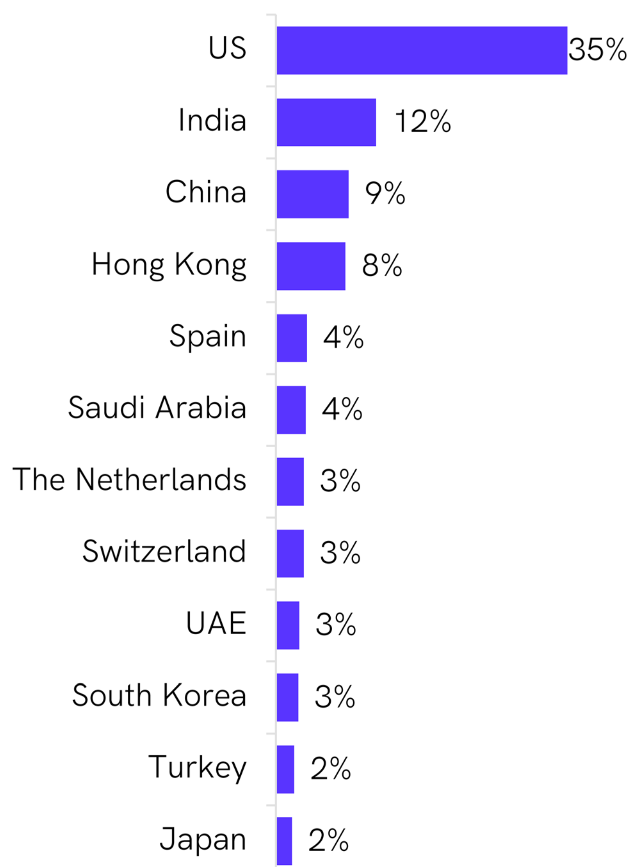
Since FY21, corporate investment has grown at a healthy compound annual growth rate (CAGR) of 19%.

This upward trend is expected to persist, as companies have reported high asset turnover ratios, indicating that further investment will be necessary to sustain growth.

Additionally, robust balance sheets-marked by lower leverage and improved debt sustainability-will act as a catalyst for increased investment activity.

How vibrant is the primary market in India?





Note: Data for the period January 2024 – September 2024
Source: EY Global IPO Trends Q3 2024, 360 ONE Asset Research

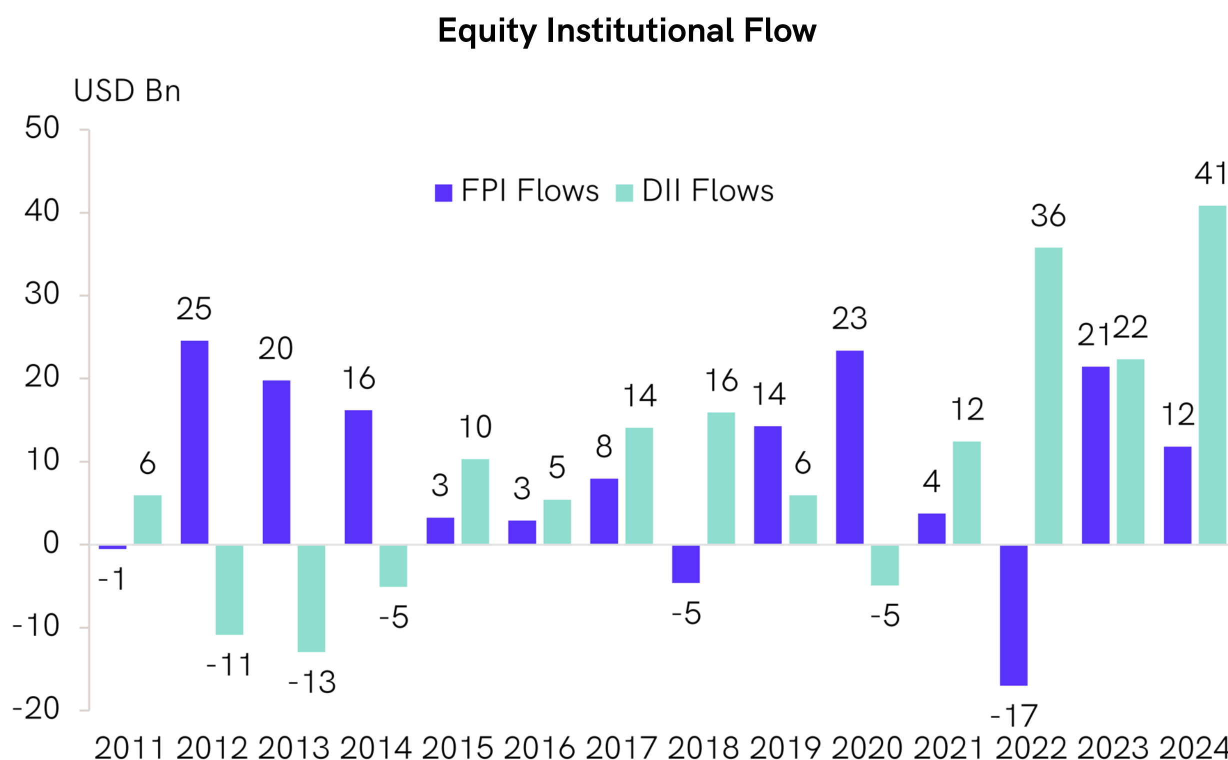
India's primary market is highly active and offers multiple avenues for raising capital, including initial public offerings (IPOs), follow-on public offers, and qualified institutional placements.

Interestingly, between January 2024 and September 2024, India accounted for the highest number of IPOs globally, representing 30% of all global IPOs.

In terms of capital raised, India ranked second after the United States, contributing 12% of the total capital raised worldwide.

asset 360 ONE

What has been the trend of institutional flows?



Note: 2024 data up to September 2024
Source: Kotak Institutional Equities, 360 ONE Asset Research

As mentioned earlier in this report, India has experienced a significant increase in Domestic Institutional Investors' (DIIs) participation in equity markets.

The surge in DII inflows is driven by greater household participation in equity markets through Systematic Investment Plans (SIPs) in mutual funds.

SIPs allow retail investors to invest small amounts regularly, creating a consistent capital source for the markets.

In contrast, Foreign Portfolio Investor (FPI) flows have remained volatile, often reacting to global factors, such as monetary policy changes in developed markets, geopolitical tensions, or changes in risk sentiment.

On several occasions, substantial DII buying has been observed to offset market corrections triggered by FPI selling. This shift highlights the increasing resilience of India's equity market.

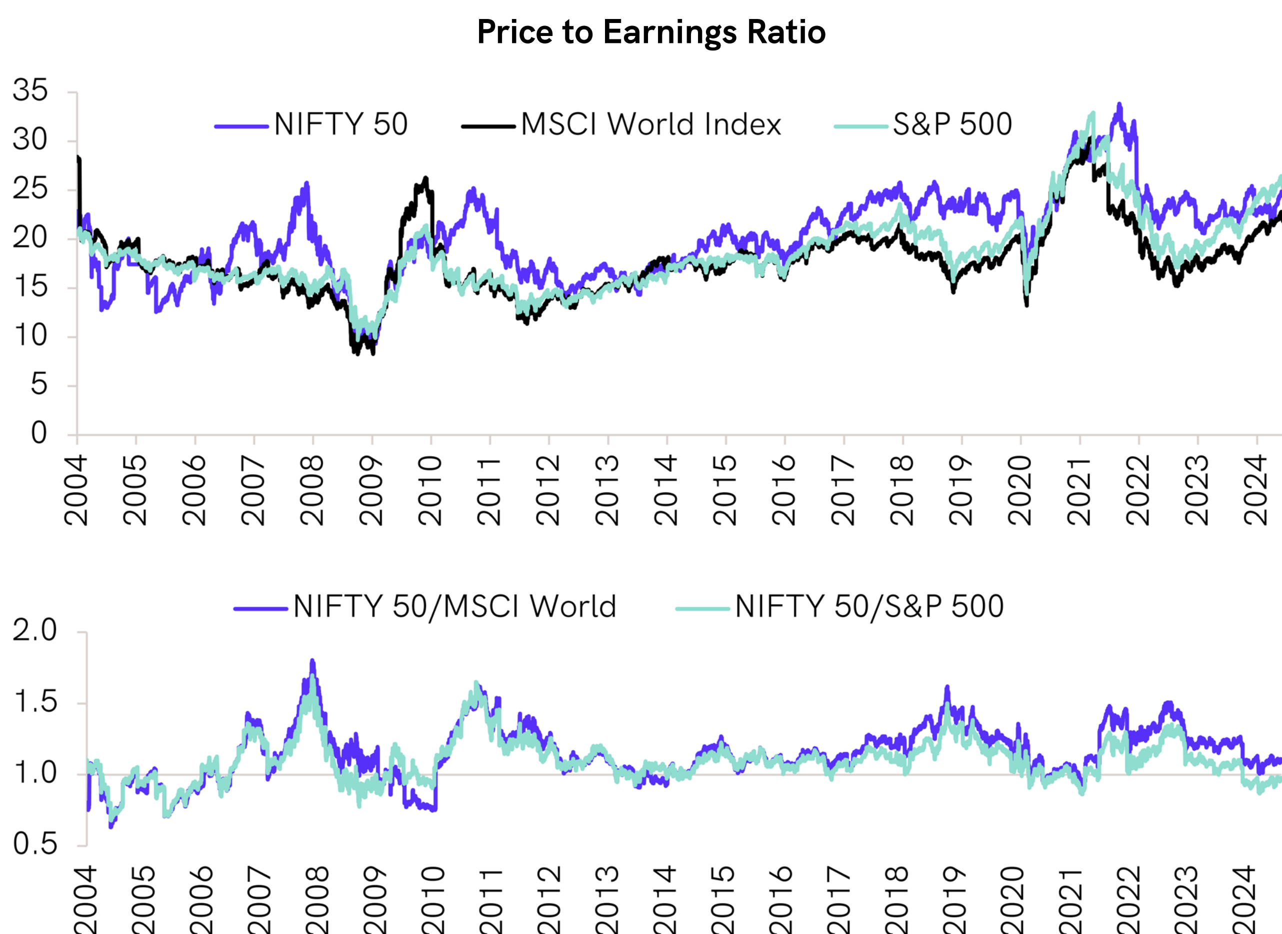
asset 360 ONE

Chapter 3:

India Valuations: Final Thoughts

asset 360 ONE

How have Indian valuations trended relative to the world?



Source: Bloomberg, 360 ONE Asset Research

At times, premium valuations compared to other markets have concerned foreign investors considering investments in India.

However, historically, Indian equities have consistently traded at a premium to global markets.

For example, the NIFTY 50 index has, on average, traded at 1.15 times the MSCI World Price-to-Earnings (P/E) ratio.

Similarly, compared to the S&P 500, India has historically traded at an average of 1.10 times the S&P 500 P/E ratio.

This suggests that while Indian equities may seem expensive, their premium valuations have been a long-standing trend, reflecting the country's growth potential and strong fundamentals.

asset 360 ONE

How do India's long-term average valuations compare to other emerging markets?

Note: Analysis for the period January 2006 to September 2024. India – NIFTY50, Taiwan – TWSE, China – SHASHR, Brazil – IBOV, South Africa – JALSH, Mexico – MEXBOL, South Korea – KOSPI
Source: Bloomberg, 360 ONE Asset Research

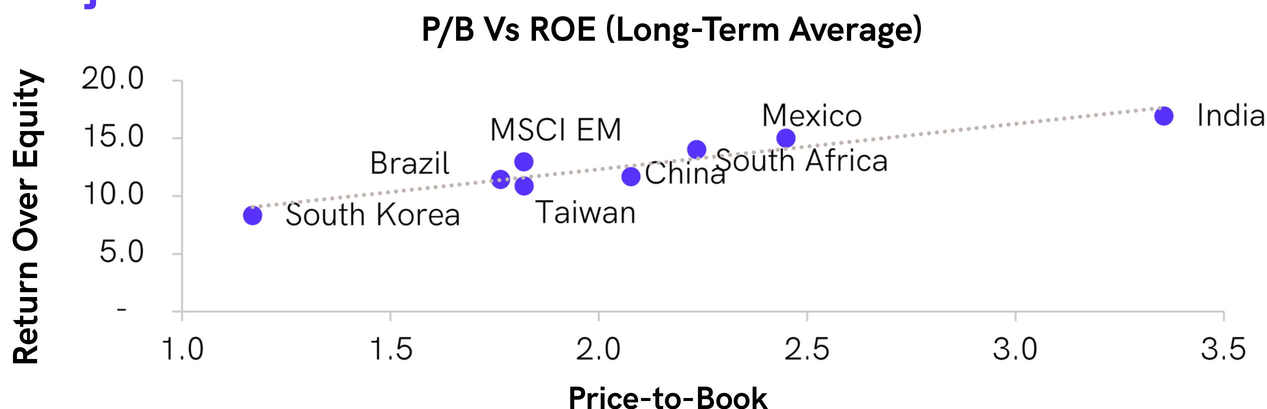
India has commanded higher valuations over the years, compared to other emerging markets (EMs).

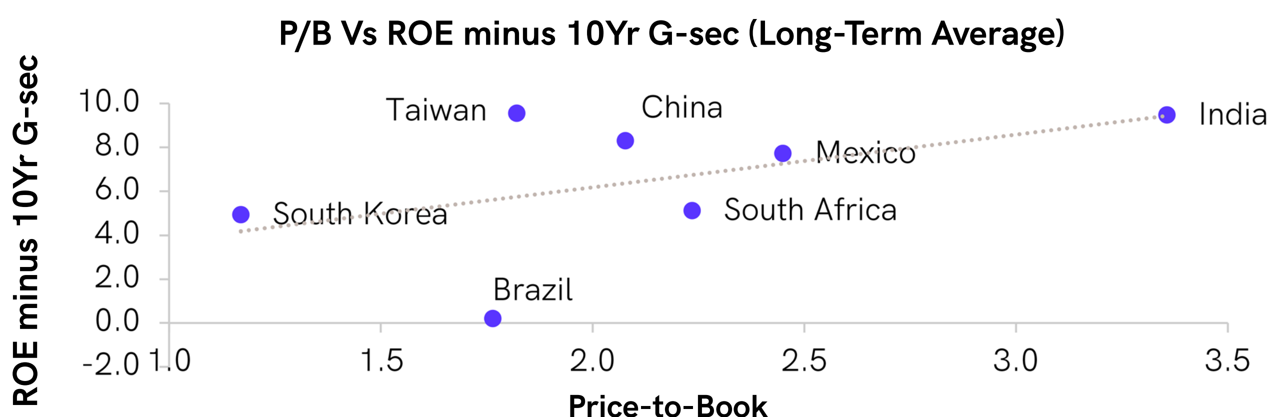
On average, Indian equities have traded at a Price-to-Book (P/B) of 3.4 times.

In contrast, several other emerging markets, including Taiwan, China, Brazil, and South Africa, exhibit lower P/B ratios, typically ranging from 1.8 to 2.2. South Korea stands out with the lowest P/B ratio at 1.2.

Furthermore, the MSCI Emerging Markets Index, which aggregates the performance of various emerging market equities, has an average P/B ratio of 1.8.

Are India's premium valuations relative to other EMs justified?





Note: Analysis for the period January 2006 to September 2024. India – NIFTY50, Taiwan – TWSE, China – SHASHR, Brazil – IBOV, South Africa – JALSH, Mexico – MEXBOL, South Korea – KOSPI
Source: Bloomberg, 360 ONE Asset Research

As previously noted, Indian markets have consistently delivered strong returns on equity (ROE), thereby justifying the premium valuations that Indian equities often command relative to other emerging markets (EMs).

The accompanying chart shows that a long-term average Price-to-Book (P/B) ratio of 3.4 is reasonable when paired with an ROE of 16.9%. This relationship remains valid even when comparing P/B with the ROE spread over 10-year government bond yields.

Consequently, India's long-term premium valuations reflect strong economic growth and the potential for generating superior returns.

It is crucial to clarify that the discussion pertains to long-term valuations, rather than current ones. As of December 2024, India's P/B ratio of ~ 4 is above the historical average, suggesting short-term downside risk, but the long-term outlook for Indian equities remains positive.

asset 360 ONE

Conclusion

- India is currently the 5th largest economy globally with a nominal GDP of US$3.6tn and is on track to become the third-largest economy within the next five years
- As of September 2024, India was the 5th largest economy in the world by market capitalization, at approximately US$5 trillion
- India has effectively converted robust economic growth into equity market returns and is anticipated to maintain this trend in the foreseeable future
- In India, State-Owned Enterprises (SOEs) account for 14% of the market capitalization of the top 100 companies, compared to 57% in China
- India and the US have the highest return-to-volatility ratio among the key markets; hence, they have delivered healthy returns on a risk-adjusted basis
- India, China, and Brazil exhibit comparatively low correlations with other markets, providing attractive opportunities for diversification
- MSCI India has delivered a strong performance, outperforming the MSCI Emerging Markets (EM), MSCI China, MSCI USA, and MSCI World indices
- The correlation between MSCI India and the broader MSCI Emerging Markets (EM) index has significantly declined over the years, making India an attractive standalone diversification opportunity
- Over the past decade, 15% of Indian stocks have achieved a remarkable annualised return of 20% or more, highlighting the potential for capital appreciation in the Indian market
- India stands out with the highest long-term average ROE of 16.9% among the key emerging markets
- The share of Domestic Institutional Investors (DII) in Indian market capitalization has steadily increased from 11% in March 2012 to 16% in March 2024, reflecting the growing participation of Indian households in equity markets through mutual funds

asset 360 ONE

Conclusion

- Since FY20, Indian corporations have seen a decline in the debt-to-equity ratio and an increase in the interest coverage ratio, indicating a significant improvement in corporate financial health

- India's listed corporate investments have rebounded since FY21, and this upward trend is expected to persist as companies report high asset turnover ratios, indicating that further investment will be necessary to sustain growth

- India has a vibrant primary market, and it accounted for the highest number of IPOs globally during January - September 2024

- Indian equities have typically traded at a premium to global markets, with an average Price-to-Book (P/B) ratio of 3.4 times, while several other emerging markets exhibit lower P/B ratios, typically ranging from 1.8 to 2.2

- India's premium valuations, on a long-term basis, are justified by the higher ROE offered by the Indian market

- The valuation premium reflects the country's robust economic growth prospects and potential for generating superior returns

asset 360 ONE

Disclaimer

This document constitutes confidential and proprietary material and may not be reproduced or further distributed in part or full to any other person without the written permission of 360 ONE Asset Management Limited. This document is the property of 360 ONE Asset Management Limited and must be returned to 360 ONE Asset Management Limited or its affiliates upon request. This document is provided for assistance only and is not intended to be used for taking investment decisions or otherwise. This document is not investment, legal, tax, or accounting advice. The recipients should also inform themselves, and should take appropriate advice, on the legal requirements and shall not rely on this document for any subscription, purchase, holding, exchange, redemption or disposal of any investments. The opinions expressed herein are the personal opinions of the author. Past Performance is not an indicator/guarantee of future returns. Investment in securities are subject to market risk. Whilst every care has been taken in preparing this document, 360 ONE Asset Management Limited and its affiliates and agents to the fullest extent permitted by applicable law disclaim any liability or responsibility for any error or omission or inaccuracy or mistake of any nature or any consequences of the use of the material/ information displayed on this document. Notwithstanding the aforesaid, nothing set out above shall exclude liability for any undertaking, representation, warranty or other assurance made fraudulently. The information given in this document is not exhaustive and is subject to change without notice.