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panorama

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## US-China decoupling presents an opportunity to boost India's manufacturing

- China's share of US imports declined by 8 percentage points between 2016 and 2024
- India's share of US imports has increased by just 1 percentage point since 2016
- China still accounts for a very high market share of US imports for various products
- India has a negligible market share in these products and presents potential for growth
- China is also diversifying its export markets to offset the decline in US demand
- China's weak domestic demand and overcapacity across multiple industries raise the risk of dumping
- India risks being stuck in low-value mfg., reliant on Chinese inputs, with only the final assembly done locally
- China holds a monopoly on rare earth elements, producing 70% of the minerals and processing nearly 92%



## Large caps offer a better risk-reward ratio than small- and mid-caps

- India's Mcap/GDP has expanded faster than the recovery in the PAT/GDP
- Mid- and small-caps have seen faster Mcap/GDP expansion than large caps
- Relative P/B to large cap also suggests stretched small- & mid-cap valuations
- Earnings yield spread also suggests a negative risk premium for small and mid-caps over large caps
- Small and mid-caps could lose much of their earlier gains during a market downturn

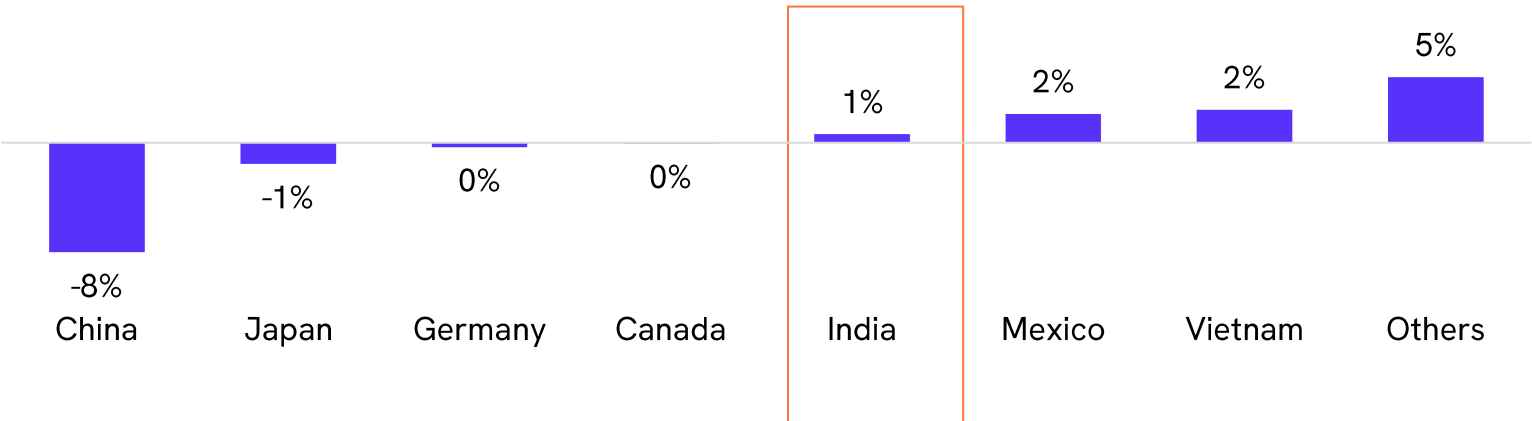
# US-China Decoupling



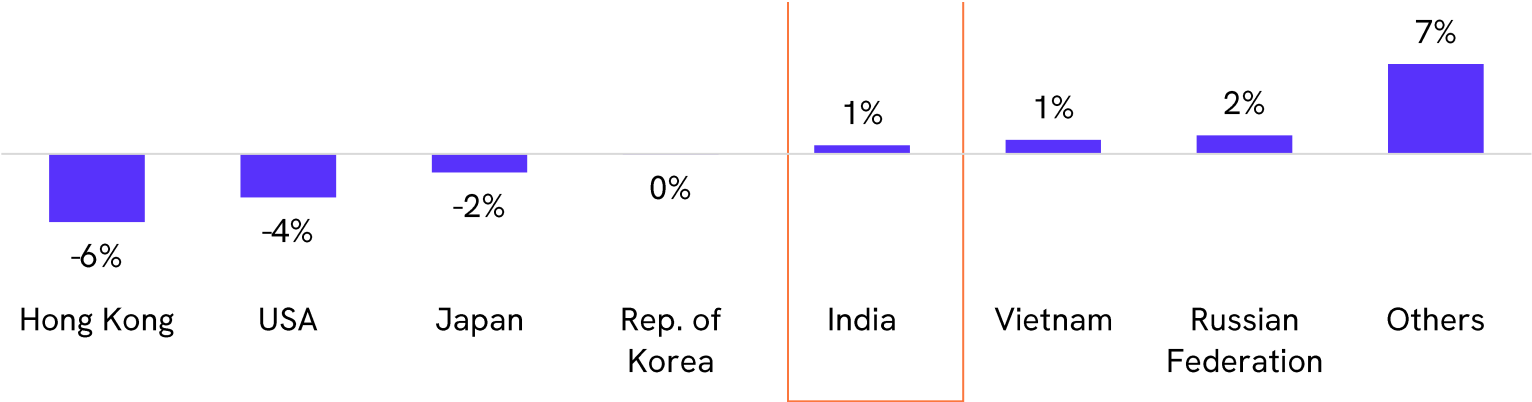
# US-China decoupling is an opportunity to boost India's manufacturing

However, China's exports will also seek other markets beyond the US, presenting potential risks of dumping

Change in US Import Share from 2016 to 2024



Change in China Export Share from 2016 to 2023



The US and China are undergoing economic decoupling, with China's share in US imports declining by 8 percentage points since 2016

Irrespective of the trade deal, US-China decoupling will gather pace as the two economies clash over economic, technological, and geopolitical dominance

Consequently, this presents an opportunity for India to boost manufacturing by increasing its exports to the US

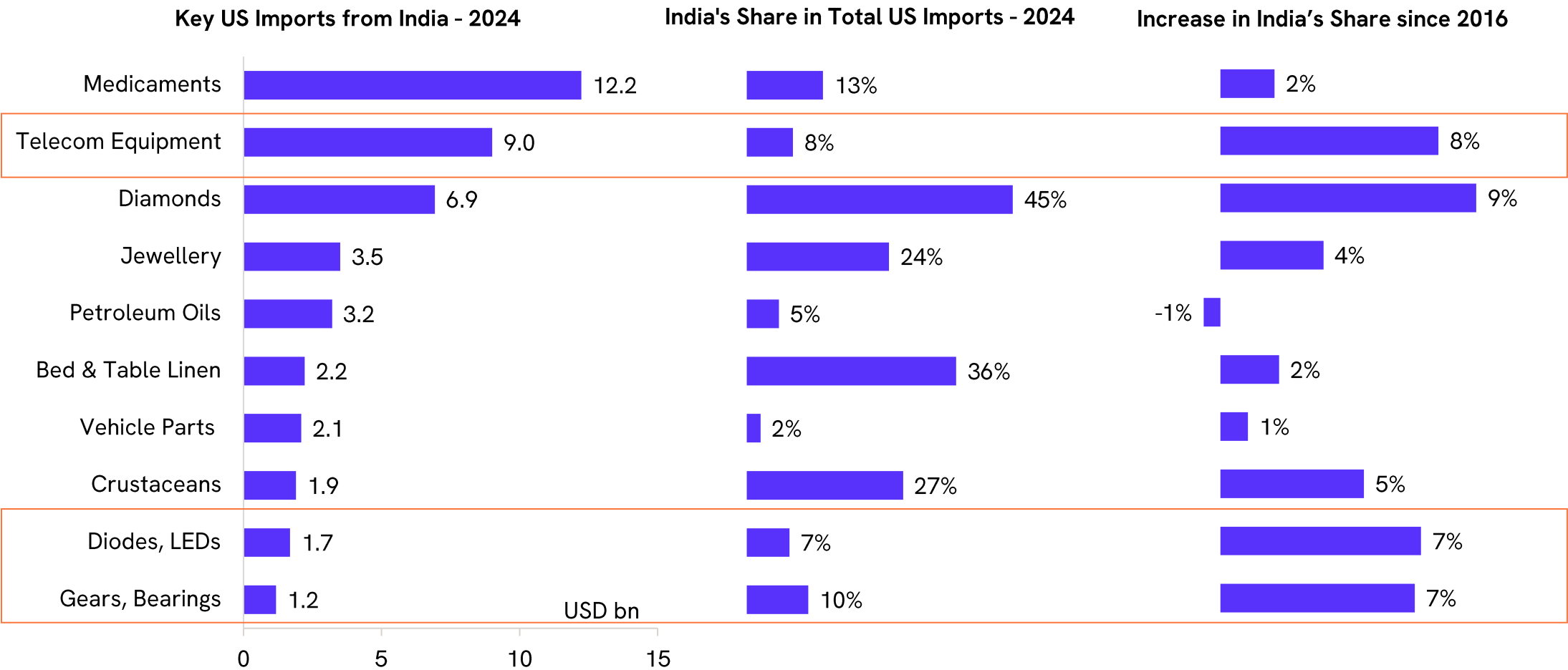
At the same time, China is likely to diversify its export markets to offset the decline in US demand

However, the surplus capacity in several Chinese industries raises the risk of dumping in other countries at artificially low prices

Source: UNCTAD, 360 ONE Asset Research

# India has achieved limited success in penetrating the US market so far

Telecom equipment, specific electronic components, and mechanical parts have seen a notable market share increase



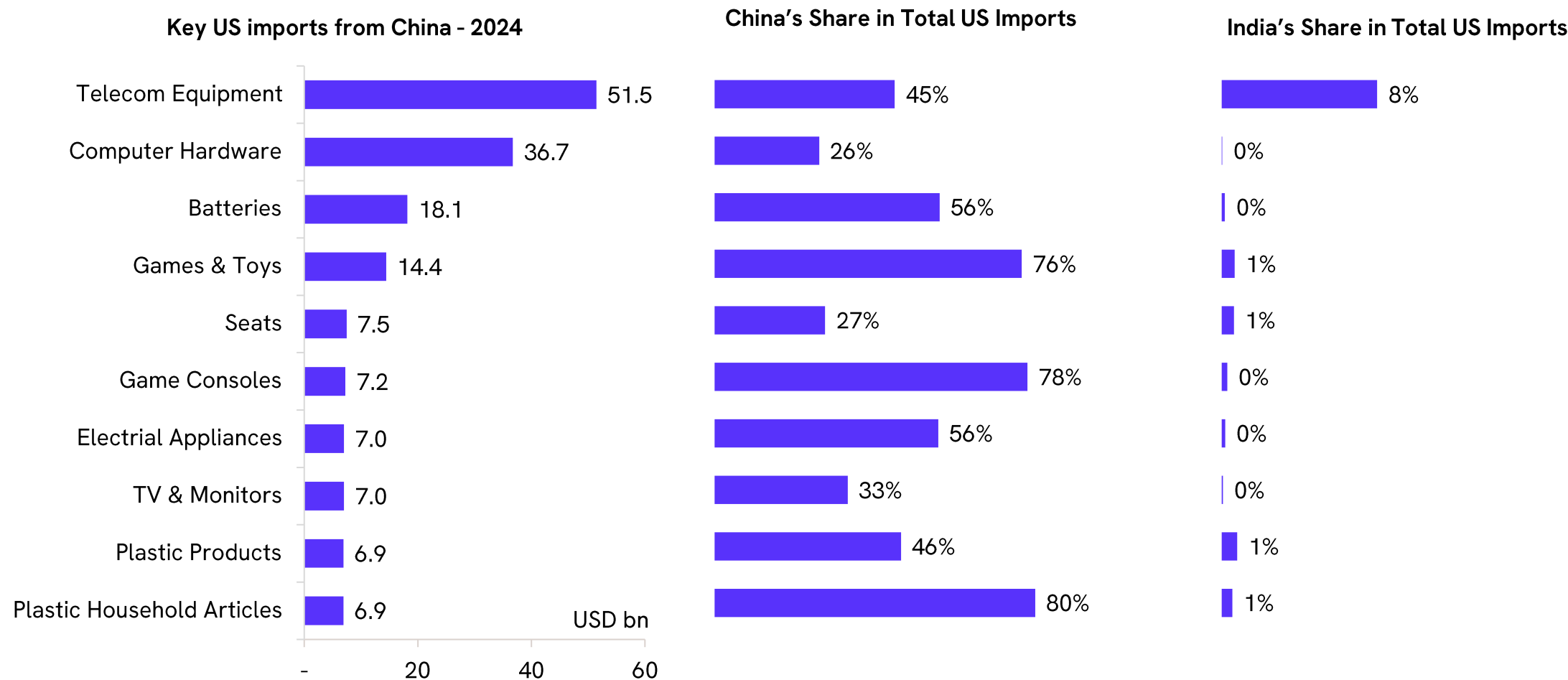
Note: Total US imports from India in 2024 amount to US\$91 billion, with the above key imports accounting for 48% of the total

Source: UNCTAD, 360 ONE Asset Research



# The US has a very high dependence on China for various products

Apart from telecom equipment, India has a negligible market share in these products and presents potential for growth



Note: Total US imports from China in 2024 amount to US\$463 billion, with the above key imports accounting for 35% of the total

Source: UNCTAD, 360 ONE Asset Research

# Chinese has overcapacity across multiple industries

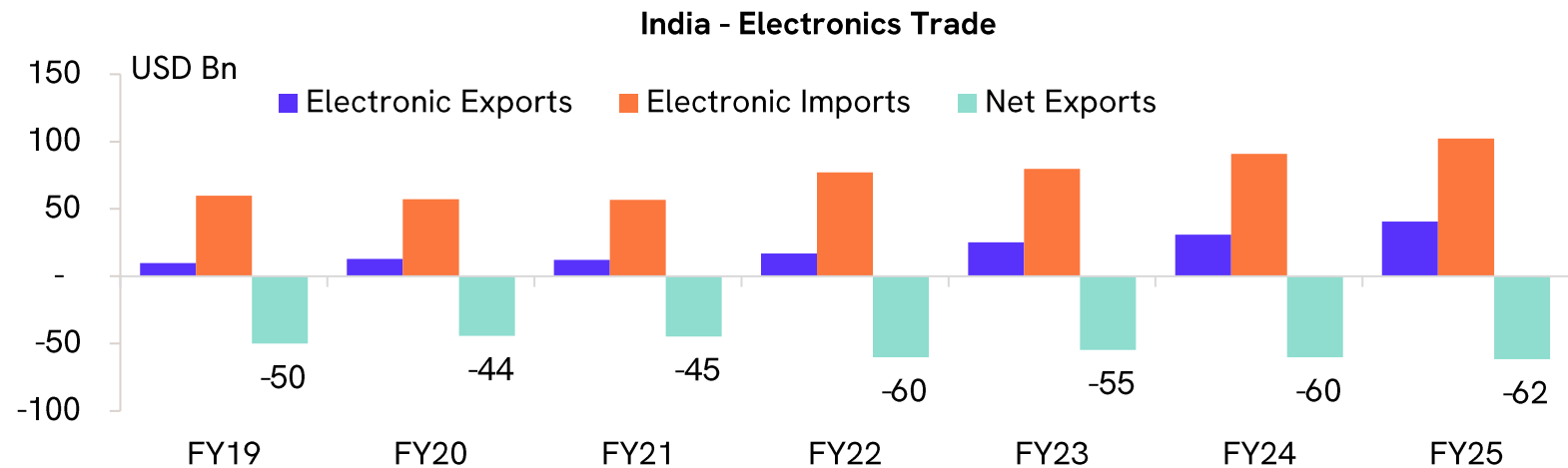
China’s weak domestic demand environment further increases the risk of Chinese dumping into other markets

Sector	China Overcapacity
Steel and Ferrous Metals	China's steel sector is currently grappling with an overcapacity of more than 50 million tonnes (Mt), a figure projected to rise to 250 Mt over the next decade, according to a report by Wood Mackenzie.
Solar PV Panels	According to the IEA, China accounts for over 80% of all solar panel manufacturing stages. By end-2023, its annual solar module capacity reached 861 GW, over double the global installations of 390 GW, per the China Photovoltaic Industry Association.
Electric Vehicles	China has an annual vehicle manufacturing capacity of 40 million units but sells only around 22 million, according to Automobility. This oversupply has led manufacturers to cut prices and seek overseas markets.
Lithion Ion battery	According to Rhodium Group, China produced 1.9 times more lithium-ion batteries than it installed domestically in 2022. Benchmark Source reports China holds the largest 2030 pipeline, nearing 6,300 GWh—67% of global capacity.
Legacy Semiconductors	According to Merics, China is rapidly building capacity in legacy semiconductors. TrendForce projects it will hold 39% of global mature node capacity by 2027, with further growth expected beyond that.
Electrolyzers	According to the International Energy Agency (IEA), in 2023, production capacity in China reached 13 Gigawatts (GW), or about 60 percent of global capacity, compared to 1.8 GW in electrolyzer output in China - a utilization rate of around 14 percent.
Other Sectors	China also has overcapacity in chemicals, pharmaceuticals, industrial machinery, glass, and several other sectors.

Source: 360 ONE Asset Research

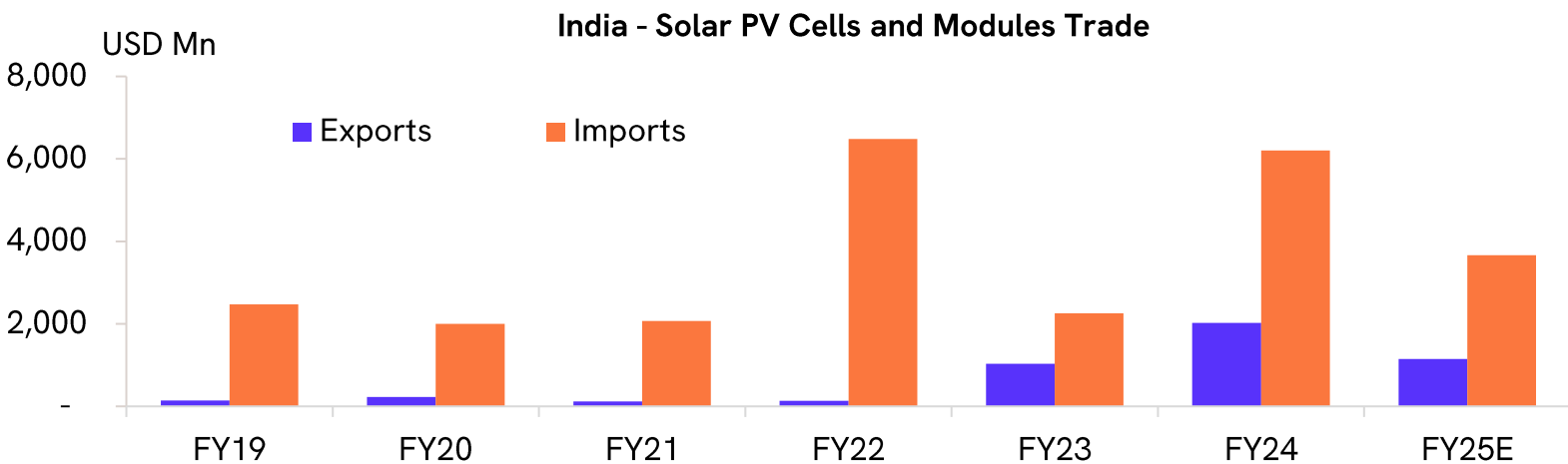
# India risks remaining trapped in low-value manufacturing

Cases in point are electronics and solar panels, which depend on Chinese inputs, with only final assembly done in India



Despite a pickup in India's electronics manufacturing and exports, the net electronics trade deficit has remained flat, as imports have also risen significantly

This is likely due to heavy reliance on imported inputs, which limits domestic value addition



Similarly, for solar panels, India imports PV cells from China and assembles them into modules domestically

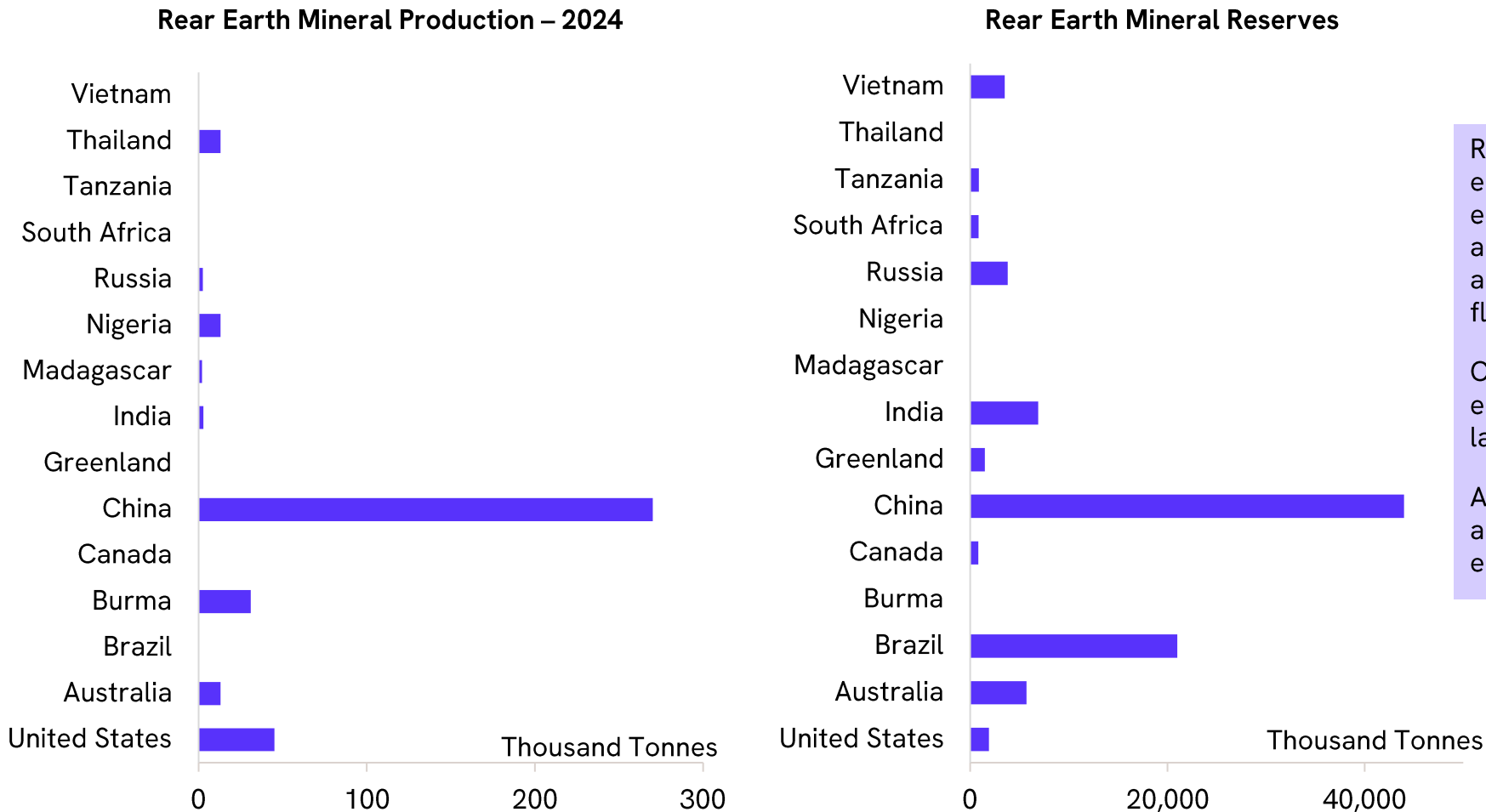
This assembly is supported by the Approved List of Models and Manufacturers (ALMM), which restricts eligible suppliers

India's exports are primarily directed to the US market, which has imposed anti-dumping duties on solar cells and modules from China



# China has a monopoly on rare earth elements

China produces about 70% of rare earth minerals and processes nearly 92% of the world's rare earth elements



Rare earth elements, derived from rare earth minerals, are a group of 17 metallic elements that are vital in various applications, including electronics, energy, and defence, due to their unique magnetic, fluorescent, and conductive properties

China accounts for roughly 70% of rare earth mineral production and holds the largest reserves

According to the IEA, China processes around 92% of the world's rare earth elements

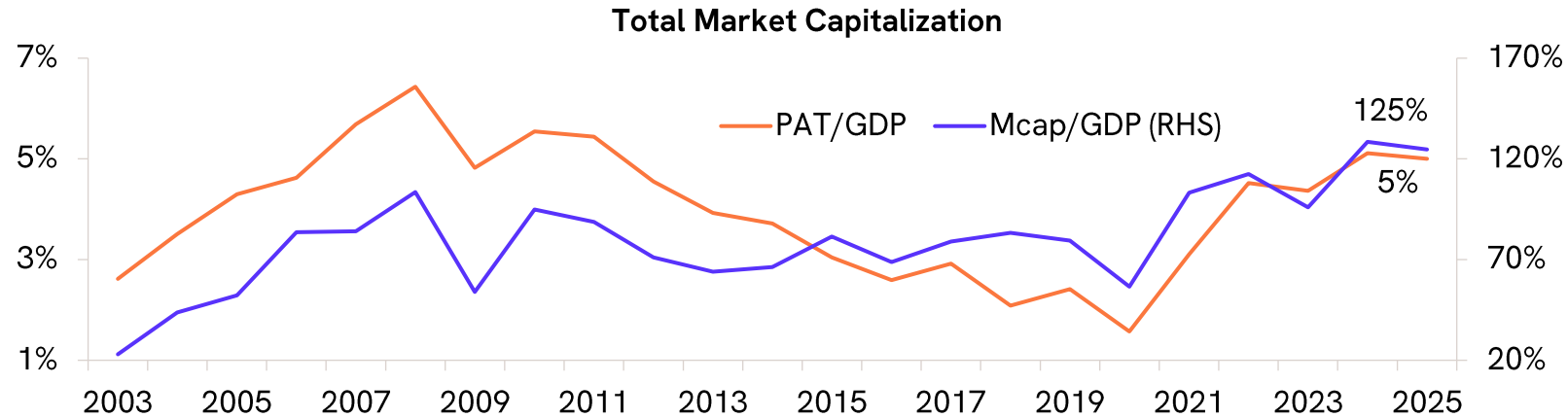
Source: United States Geological Survey, 360 ONE Asset Research

# Small and Mid Cap Valuations



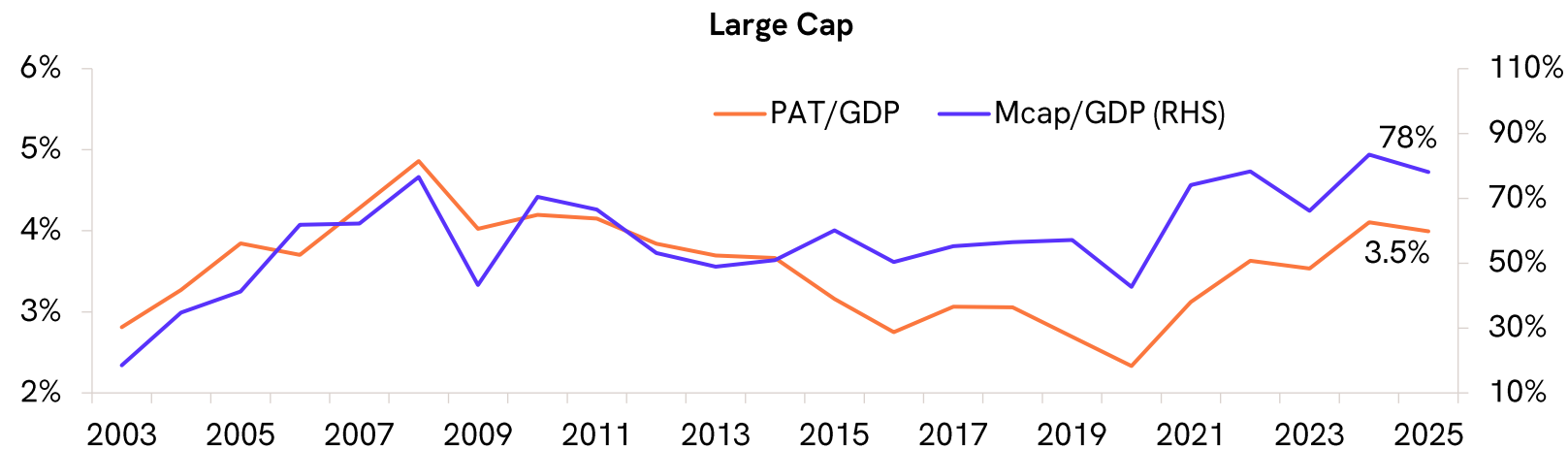
# India's Mcap/GDP has expanded faster than the recovery in the PAT/GDP

Mcap/GDP is above the 2008 peak, while PAT/GDP is still below 2008 levels



The market capitalization to GDP ratio (Mcap/GDP) remains close to its all-time high (as of May 2025)

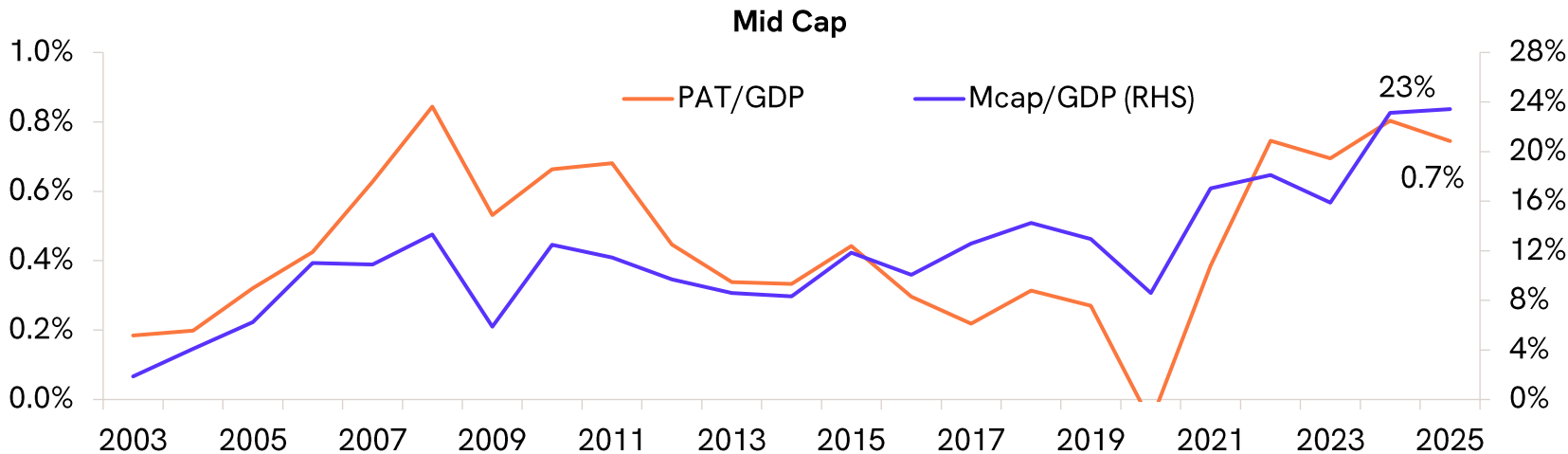
However, the profit after tax to GDP ratio (PAT/GDP) is still below the levels recorded in 2008, suggesting that market valuations have outpaced underlying earnings growth



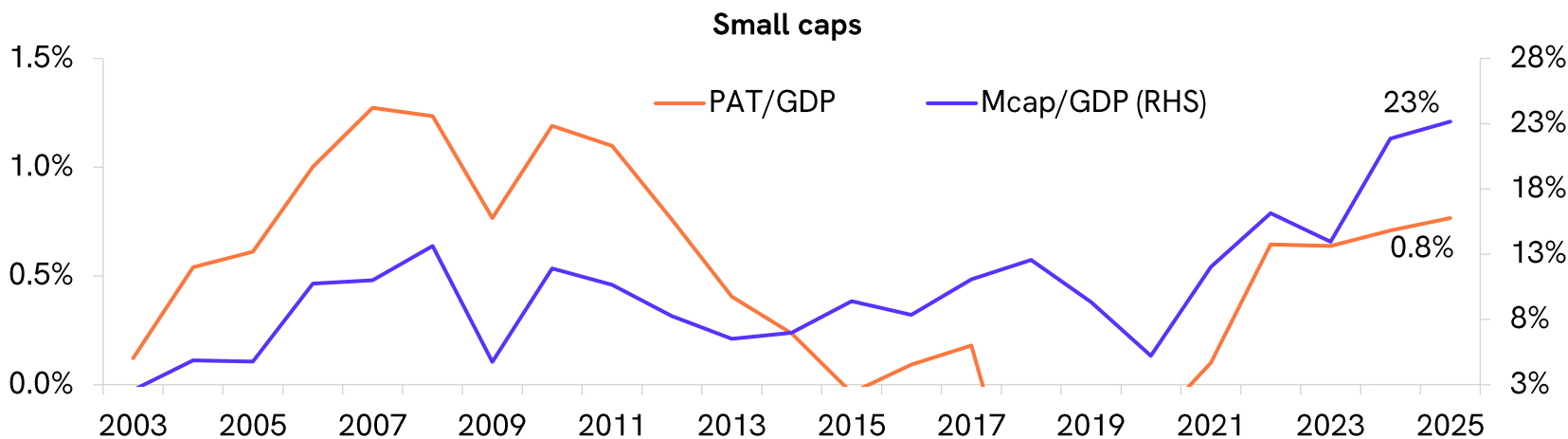
For large caps, the Mcap/GDP ratio is close to the high witnessed in 2008, even though the PAT/GDP ratio remains below the 2008 level

# Mcicap/GDP expansion has been swifter for mid- and small-caps

Signaling that valuations in the mid and small-cap segments are significantly stretched



Mid-cap Mcicap/GDP is significantly higher than the 2008 level, even though PAT/GDP remains broadly in line with the 2008 level

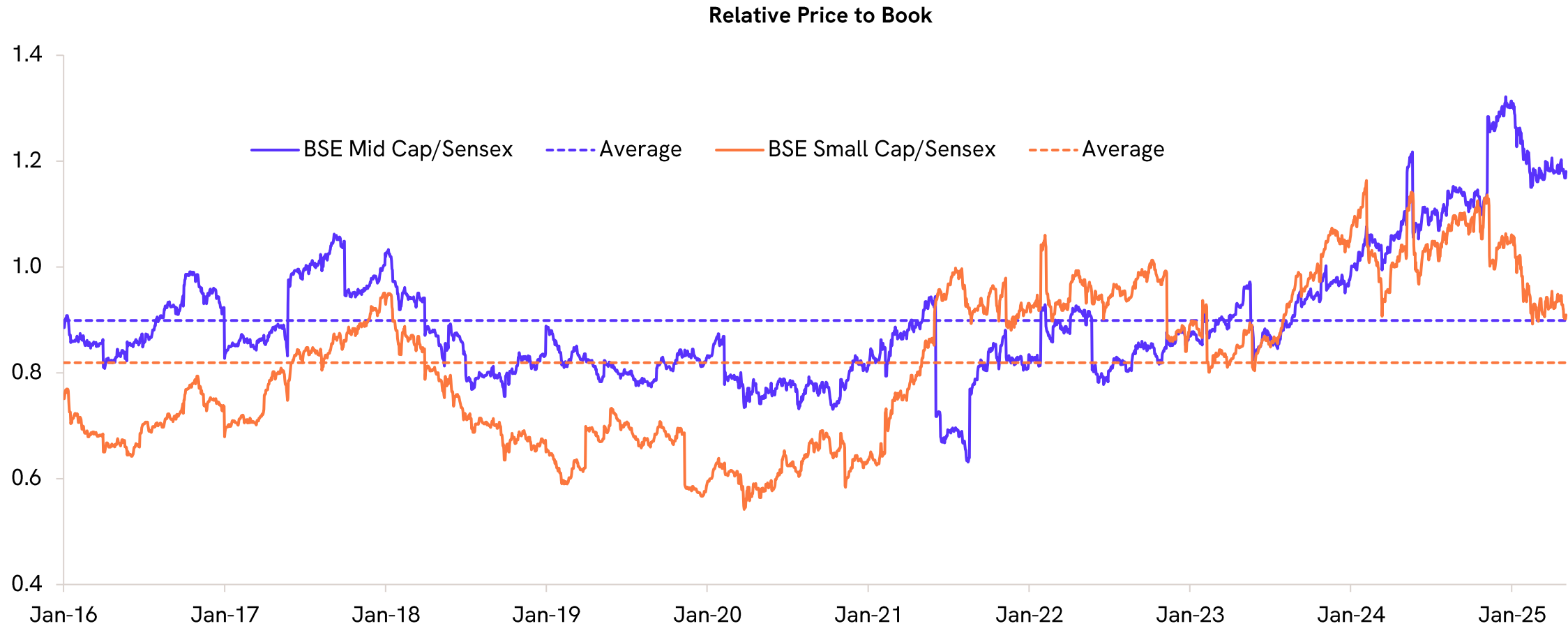


For small caps, PAT/GDP remains below the previous peak, while Mcicap/GDP is significantly higher

Hence, valuations for both mid- and small-caps appear far more stretched than those for large caps

# Relative P/B to large cap also suggests stretched small & mid-cap valuations

Mid-cap valuations appear significantly more elevated than small-cap valuations

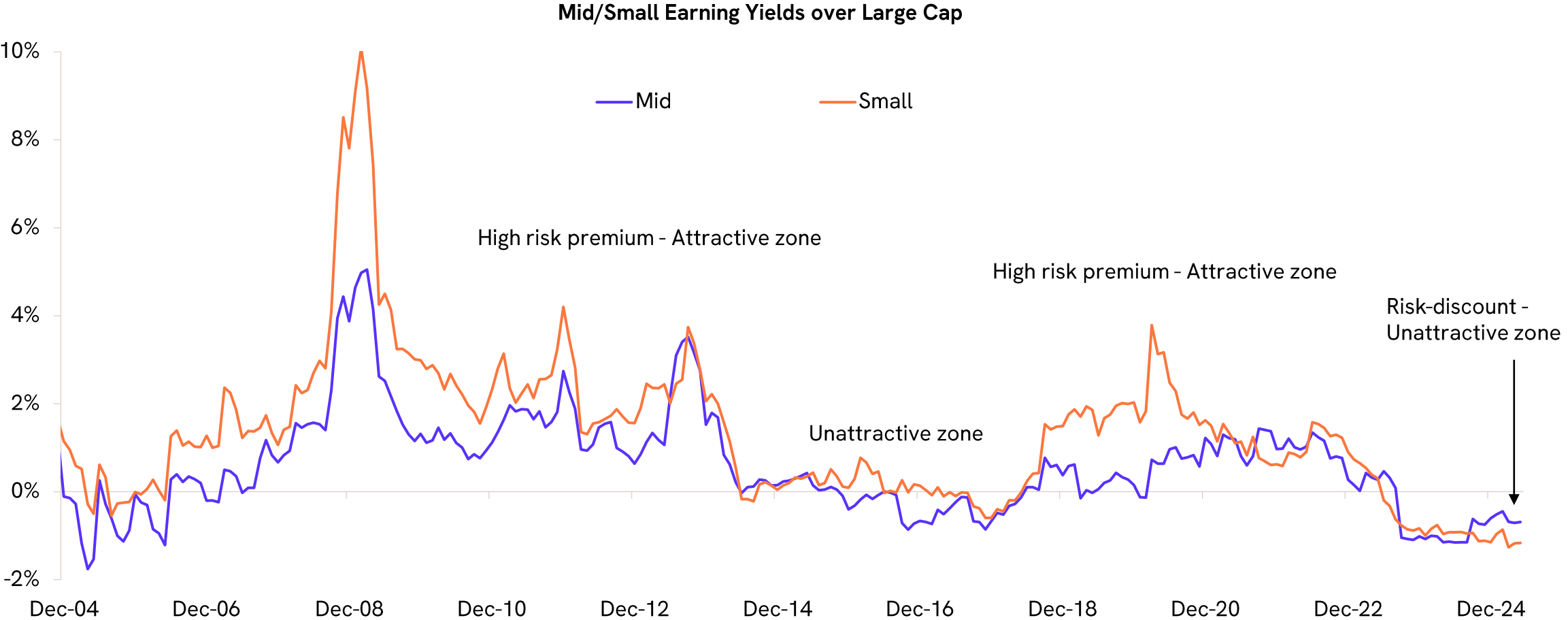


Source: Bloomberg, 360 ONE Asset Research

Earning yield spread suggests negative risk premium for small & mid-caps

Earnings yields spread also suggests stretched small & mid-cap valuations relative to large caps

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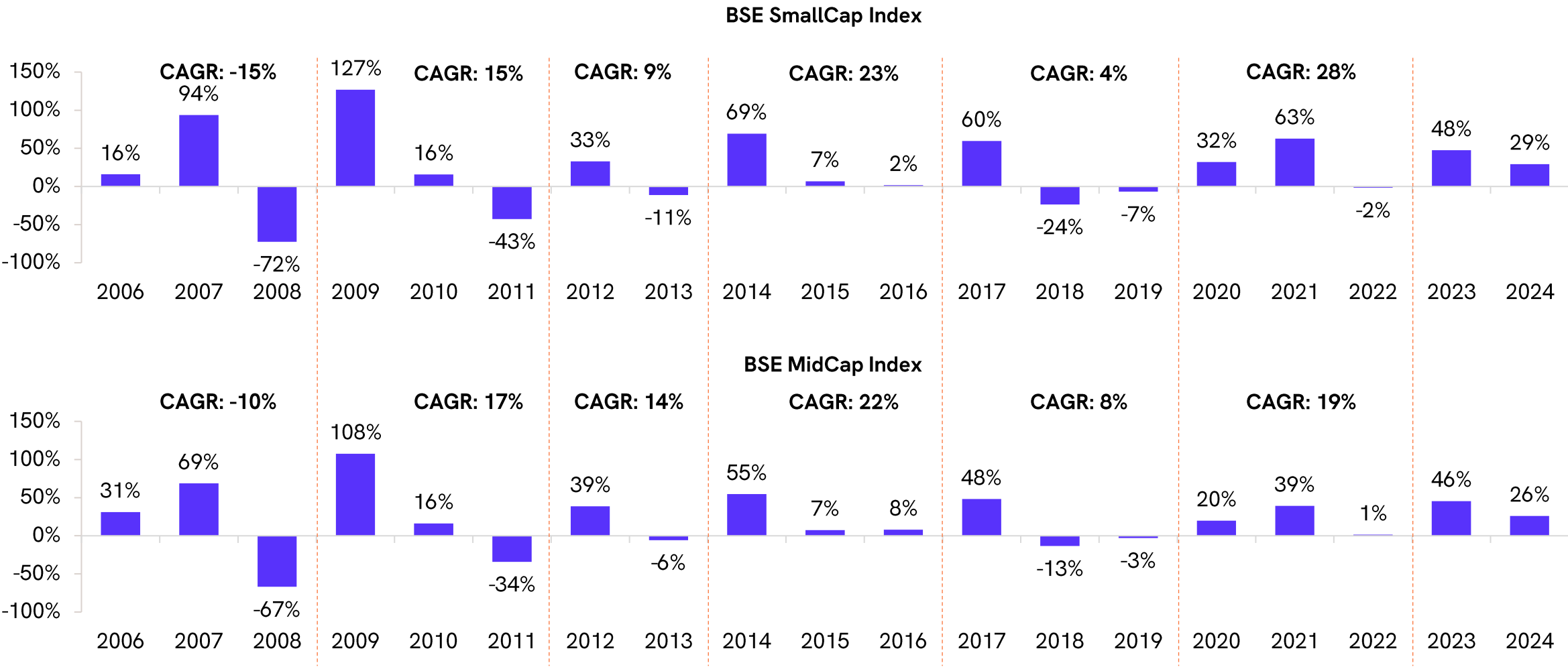


Source: I-sec Research



# A market downturn could trim earlier strong gains in small- and mid-caps

Large caps offer a better risk-reward ratio, as small and mid-cap valuations have surged significantly compared to large caps



Source: Bloomberg, 360 ONE Asset Research

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