FINGINE Report

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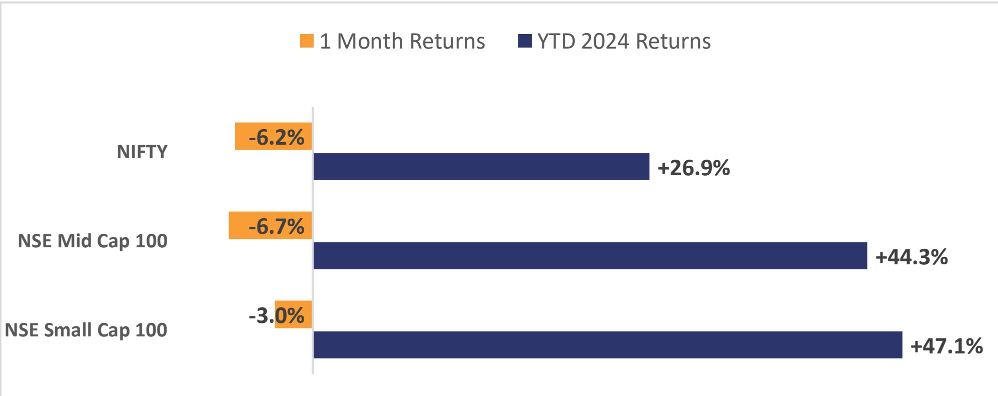
Last month turned out to be a period of widespread weakness for the Indian capital markets. Several factors contributed to this, starting with investors' increasing nervousness around valuation multiples. This was further intensified by disappointing second quarter financial performance that resulted in the consensus FY25 EPS estimate for Nifty 50 companies reducing to 1,000 from close to 1,100 previously. This translates into just 2.5% earnings growth in the current financial year.

A key reason for earnings weakness is the sharp rise in defaults by over-leveraged small borrowers that is hitting India's top lenders, and it is expected that the levels of stress in personal loans and micro-credit will persist over the next year. This marks a turn in the credit cycle for Indian lenders, whose bad loans had reduced to multi-year low levels by the end of FY24.



In addition to the above, higher yields attracted global investors to markets such as US and Japan. As a result, there was record sell-off by FPIs in the month of October. Further, escalation in the ongoing geo-political situation and stimulus measures undertaken by China led to portfolio flows moving out of India. Global equity markets also faced a new headwind after Israel hit major oil exporter Iran, resulted in a sharp jump in crude oil prices, which is normally a cue for pressure on equity markets.

Month	FII (Rs. Crore)	DII (Rs. Crore)	Retail (Rs. Crore)
April	(9,175)	40,721	12,345
May	(25,260)	55,739	7,815
June	25,940	28,633	11,856
July	27,958	23,486	773
August	11,678	48,279	9,418
September	49,793	30,954	(8,942)
October	(93,403)	1,07,255	25,502
Total (Rs. Crore)	**(12,470)**	**3,35,066**	**58,767**

Source: *SEBI*

Also, the long line up of companies launching IPOs has increased the supply of paper available to investors, naturally putting some further pressure on valuations.

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From a longer-term standpoint, valuations in the India remain underpinned by an outlook of rising earnings, notwithstanding the current short-term slowdown. India's corporate profits as a proportion of GDP had previously trended higher over the last four years till FY24 after declining for 12 years till FY20. Going forward, it is believed that a revival in manufacturing, rising per capita GDP and an overall recovery in emerging market economies globally should provide support to the earnings growth outlook over the mid- to long term. At the current stage, investors are increasingly more discerning and turn their focus back to basic corporate fundamentals, robust business models, earnings growth visibility and sustainable cash flows.

In addition, India's macro risk monitorable factors such as fiscal deficit, current account deficit, inflation and foreign exchange reserves are all in good shape. The aggregate balance sheet of Indian companies has continued to improve and outstanding debt has been paid down. Even more encouraging is the improvement seen across small cap companies that have used cash flows and equity raise to reduce borrowings while building fixed assets and working capital.

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