AXIS CAPITAL

India Strategy

2025 Outlook: Global turbulence, but drivers remain local

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The cyclical economic slowdown in H1FY25 pushed P/E down and accelerated EPS cuts. We expect above-consensus 7% GDP growth in FY26E, helped by tailwinds from back-ended fiscal spending in FY25, and a revival in credit growth after CRR cuts and some further expected macro-prudential easing. The resultant stability in EPS should drive a resumption in roll-forward gains. We expect P/E multiples to remain under pressure, as equity supply is likely to stay ahead of demand, US bond yields could rise further, and global uncertainty may keep risk appetite in check. We stay Overweight on beneficiaries of a cyclical recovery (industrials, financials), and cut Underweight on IT.

Exhibit 1: FY26E forecasts: growth accelerates to 7%; inflation moderates to 4.5%

Key macro indicators	FY22	FY23	FY24	FY25E	FY26E
GDP growth (%)	9.7	7.0	8.2	6.6	7.0
Average CPI inflation (%)	5.5	6.7	5.4	4.8	4.5
Current account deficit % of GDP	1.2	2.0	0.7	0.8	1.1
Fiscal deficit (Gen. Govt.) % of GDP	8.7	8.8	8.0	7.3	7.0
Repo rate year-end	4.0	6.5	6.5	6.5	6.5
USD/INR year-end	75.81	82.22	83.37	85.5	86.5
10Y G-sec yield year-end	6.9	7.3	7.1	6.6	6.5

Source: Bloomberg, Axis Capital

Cyclical rebound to push growth back to trend

The H1FY24 loss in momentum for the Indian economy, in our view, is cyclical and due to unintended fiscal and credit tightening. Fiscal spending is already rising and the CRR cut should ease growth headwinds due to a shortage of money. We maintain that potential growth is 7%, with capital formation boosted by the restart of the capex cycle. We forecast an above-consensus 7% growth in FY26E, with the tailwinds from back-ended fiscal spending in FY25, and some further macro-prudential easing to help re-accelerate credit growth. Headline inflation may remain high in FY26 (average 4.5%), driven primarily by higher vegetable prices which are affected by higher demand and inflexibility in supply.

Roll-forward gains to resume as economy recovers

Nifty 12MF earnings growth is estimated at 14% for CY25E, implying a 3% roll-forward gains every quarter. The EPS growth forecasts for FY26/27E are driven by industrials (higher capex) and metals (capacity expansion). We expect recent EPS cuts (after Q2 results) to continue after Q3 results as well, as the commentary suggests a weaker-than-expected festive demand. But as economic momentum recovers in Q4, we could see fewer cuts. CY25 market performance will be driven by the direction of the FY27E EPS growth. Current growth projections appear reasonable to us, and a growth pickup reduces risk of cuts. In the note, we look at each sector separately and identify specific triggers for 2025.

Markets P/E can remain under pressure with higher supply

The total equity supply (promoter/PE block sales and ECM transactions) has risen sharply and at an estimated Rs 7.5 tn for FY25E, exceeds demand, which is estimated at Rs 6 tn in FY25E, as FII flows remain tepid. We expect the supply-demand mismatch to persist in CY25; this can be another factor pressuring market P/E, after the risk of higher bond yields in the US. Despite the recent correction, Nifty P/E remains significantly above the 10Y mean. Premium to world has corrected, though as global P/E has risen (primarily the US). We expect CY25 market performance to be driven by earnings, and like sectors which have lower risk of EPS cuts: industrials and financials. We are UW on metals and energy.

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