2025 Investment Outlook-India Equities

February 2025

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Introduction
India's economy remained resilient in 2024 with a GDP growth rate of 6.6% driven by strong domestic demand, robust exports, and significant foreign direct investment.[1] However, challenges such as the uncertainty of external events and a volatile global market economy tempered overall optimism.[2] Looking ahead to 2025, we expect the economy to continue to grow at a strong pace, bolstered by government reforms, domestic consumption, an ongoing manufacturing renaissance and the financialization of savings. We expect the equity market to continue its upward trajectory, and we believe a stable government will provide a strong platform for ongoing growth. We are however monitoring various potential risks to our base case, namely the strong US dollar and fluctuating energy prices. Overall, we believe the earlier aforementioned factors are likely to sustain investor confidence in Indian equities and attract further investments into the market.

Reforms to continue in the right direction
Key business-friendly reforms enacted by the Indian government over the past decade, including the creation of digital public infrastructure, changes to goods services tax (GST) infrastructure, and financial inclusion programs have supported India's economic growth. In 2025, we expect reforms to continue in the right direction as the government aims to further simplify regulations and promote digitization to enhance the ease of doing business.[3] Additionally, the Union Budget announced on 1 February 2025 has introduced direct tax reforms, offering tax relief to the middle class by removing income tax liability for individuals earning up to INR 1.2 million annually in order to boost consumption.[4] We believe more reforms and supportive policies for startups and micro, small and medium enterprises (MSMEs) can be expected as well as support to the manufacturing sector through targeted incentives.

Domestic consumption
In 2024, India's consumption continued to grow but moderately, the slowdown mainly being led by a hot summer and heavier-than-usual rainfall, which reduced activities and select consumption. However, consumption is expected to pick up strongly in 2025, driven by several factors. The government's income tax relaxations and increased infrastructure investments are likely to boost disposable incomes and consumer confidence.[5] Additionally, the continued growth of the middle class and rising rural demand will support higher consumption levels.[6] The World Bank projects India's economy to grow at 6.7% in 2025, further fueling consumer spending.[7] These elements combined suggest a positive outlook for India's consumption in the coming year.

1. India's Economic Report Card for 2024: FDI, Trade, and Infrastructure Growth, December 2024, India Briefing, https://www.india-briefing.com/news/india-economy-2024-gdp-growth-rate-fdi-trade-performance-35614.html/
2. How 2024 proved to be both good and bad for the Indian economy, December 2024, The Economic Times, https://economictimes.indiatimes.com/news/economy/indicators/how-2024-proved-to-be-both-good-and-bad-for-the-indian-economy/articleshow/116593474.cms
3. Business Friendly Reforms: India's Path to Prosperity, March 2024, https://www.investindia.gov.in/blogs/business-friendly-reforms-indias-path-prosperity
4. India's Union Budget 2025-26 Highlights: Reforms to Drive Economic Growth, Manufacturing, Consumption, February 2025, https://www.india-briefing.com/news/indias-union-budget-2025-26-highlights-reforms-to-drive-economic-growth-manufacturing-consumption-36011.html/
5. Consumption Boost Remains Key Expectation From Budget 2025; Know Why And Likely Steps To Push Demand, January 2025, https://www.news18.com/business/economy/budget-2025-consumption-boost-remains-key-expectation-for-the-economy-know-why-9201554.html
6. How India bought, craved, and consumed in 2024, December 2024, The Economic Times, https://economictimes.indiatimes.com/news/economy/indicators/how-india-bought-craved-and-consumed-in-2024/articleshow/116618812.cms
7. India: World's Fastest-Growing Major Economy, January 2025, Research Unit, Press Information Bureau, Government of India, https://static.pib.gov.in/WriteReadData/specificdocs/documents/2025/jan/doc2025118487001.pdf

Manufacturing renaissance
India's economy continues to benefit significantly from the relocation of supply chains, driven by gains in global trade and strategic reforms. The country has increased its market share in both goods and services exports, with high-tech exports like IT services, mobile handsets, and pharmaceuticals playing a crucial role in its post-pandemic recovery. The evolution of services exports, from software solutions to a wide range of professional services, has been bolstered by the establishment of around 1,600 multinational companies' global capability centers, generating roughly 1% of GDP a year. [8] Additionally, the Production Linked Incentive (PLI) scheme has attracted significant investments and boosted exports, particularly in sectors like mobile manufacturing and high-tech semiconductor assembly.

Financialization of savings
Indian households are increasingly allocating their savings to capital markets and financial assets, a trend fuelled by digitization. In the first half of FY25, mutual fund inflows reached US$ 64 billion, surpassing the total for FY24. [9] Retail participation in equity-linked insurance plans, stock trading, and IPOs remains robust. If this trend continues into the second half of FY25, we believe equity allocation as a proportion of household savings will hit new highs. Additionally, domestic mutual fund inflows were strong in 2024, increasing from US$21 billion in 2023 to US$52 billion in 2024. [10] This reflects the trend of domestic investors shifting their investments away from savings and towards mutual funds and the equity market.

Risks to India's equity markets in 2025
A strong USD: A strong USD has led to the depreciation of currencies and outflows from emerging markets (EM) this year. The issuance of US executive orders and tariff-related issues have impacted and increased the volatility of emerging markets, including India. In the near term, we anticipate continued pressure on currencies and capital flows from emerging markets. However, the situation may bottom out once stability returns.

India's neutral role: At the same time, India's economy is relatively less vulnerable to geopolitical risks. Unlike many other countries, India is not heavily reliant on exports, with a more inward-looking economic structure focused on domestic consumption. Thus, India is less likely to be impacted by changes in US foreign policy than other markets, allowing it to maintain stability and potentially capitalize on the challenges faced by more export-dependent economies.

Energy prices: Fluctuating energy prices are another critical factor to monitor. India, being a major importer of crude oil, is highly sensitive to changes in global energy prices. [11] Rising energy costs could increase inflationary pressures and impact corporate profit margins, thereby affecting market performance.

8. India's big leap in services: Will it cross over into manufacturing? HSBC Global Research, September 2023
9. India Asset Management: Can the incredibly strong household flows to equity markets continue?, Bernstein Research, November 2024
10. Bloomberg, Goldman Sachs, data as of 31 Jan 2025
11. The Impact of Crude Oil Price Fluctuations on Indian Economy, April 2023, https://www.ijraset.com/research-paper/impact-of-crude-oil-price-fluctuations-on-indian-economy

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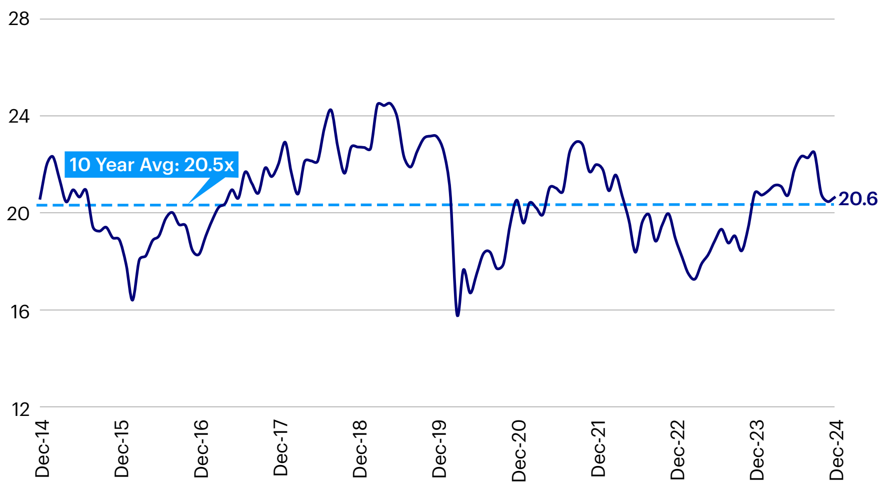
Investment implications

In 2025, India's equity markets are expected to perform positively, supported by several key factors. Earnings are projected to remain robust, and domestic liquidity continues to be a strong pillar for market stability. Valuations have become more attractive following earlier corrections, aligning closer to the 10-year average P/E multiple of 20.5 (Figure 1). This correction has made Indian equities more appealing to investors, especially given the solid underlying fundamentals. The market consensus for Nifty is around early double-digit earnings growth by FY25, with earnings growth in FY26 and FY27 projected at 16% and 13%, respectively. [12] Additionally, domestic institutional flows have shown remarkable strength, increasing from US$ 22.3 billion in 2023 to US$ 62.3 billion in 2024. [13] This surge in domestic investment supports the India equity market and underscores the confidence of local investors. These factors, combined with favorable monetary policies and ongoing reforms, are likely to sustain investor confidence and drive market performance in 2025.

Figure 1: NIFTY P/E (x) - 10 Year



Source: Motilal Oswal, data as of December 2024.

12. Refinitiv, Axis Capital, data as of December 2024India Asset Management: Can the incredibly strong household flows to equity markets continue?, Bernstein Research, November 2024
13. Goldman Sachs Global Investment Research, data as of December 2024

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Investment risks
The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

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