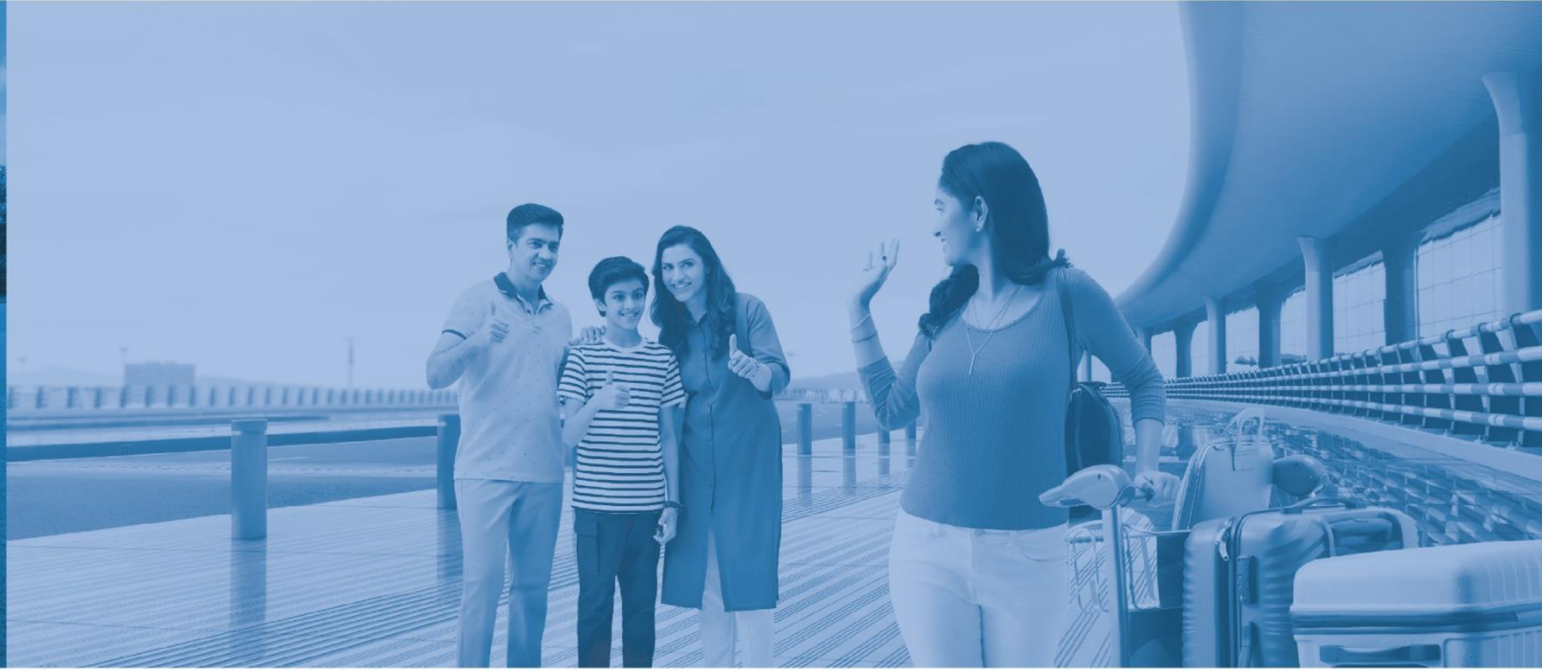



CIO Connect – Interest Rate Scenario, Corporate Earnings & Market Update

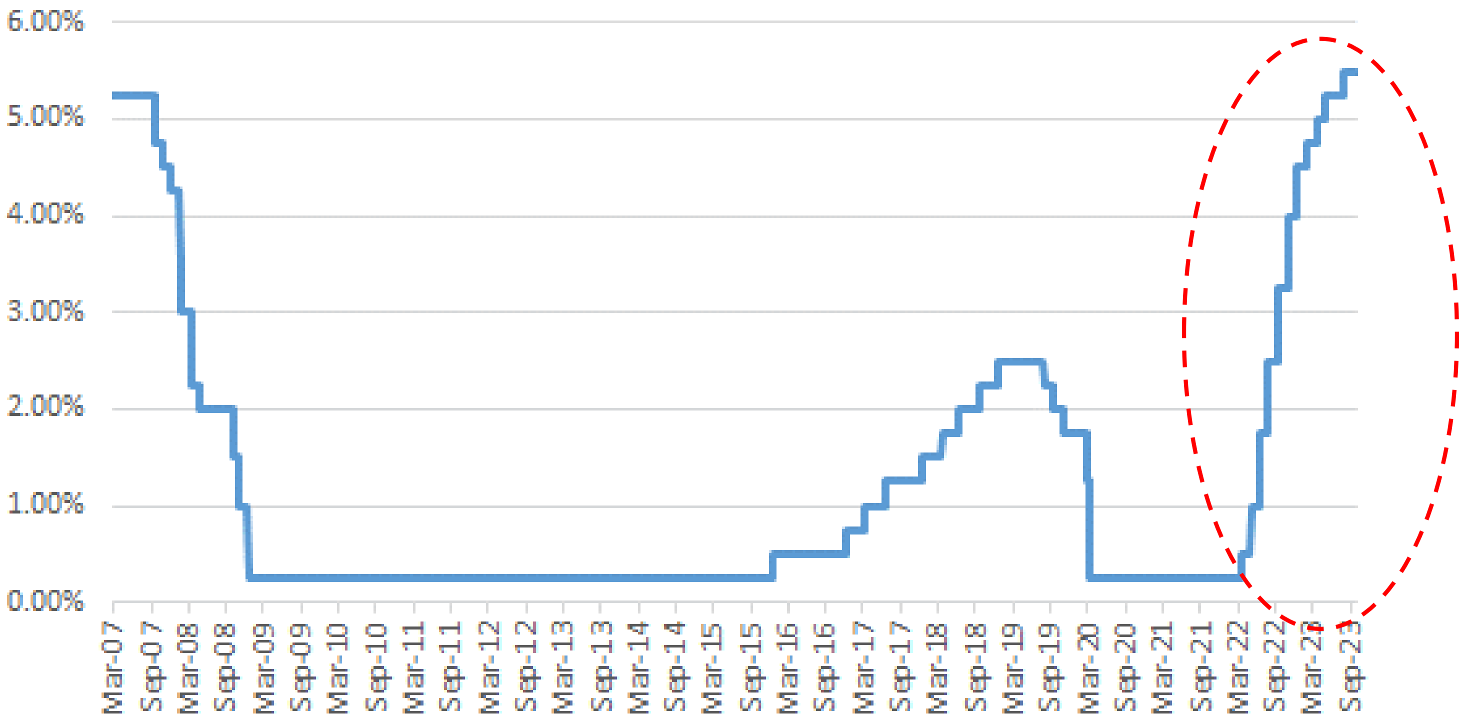
12 March 2024

LIFE GOALS. DONE.


Interest Rate Scenario

US Fed on pause, rate cuts expected in H2 CY24

The US Federal Funds rate trend



Source: Bloomberg, US Federal Reserve

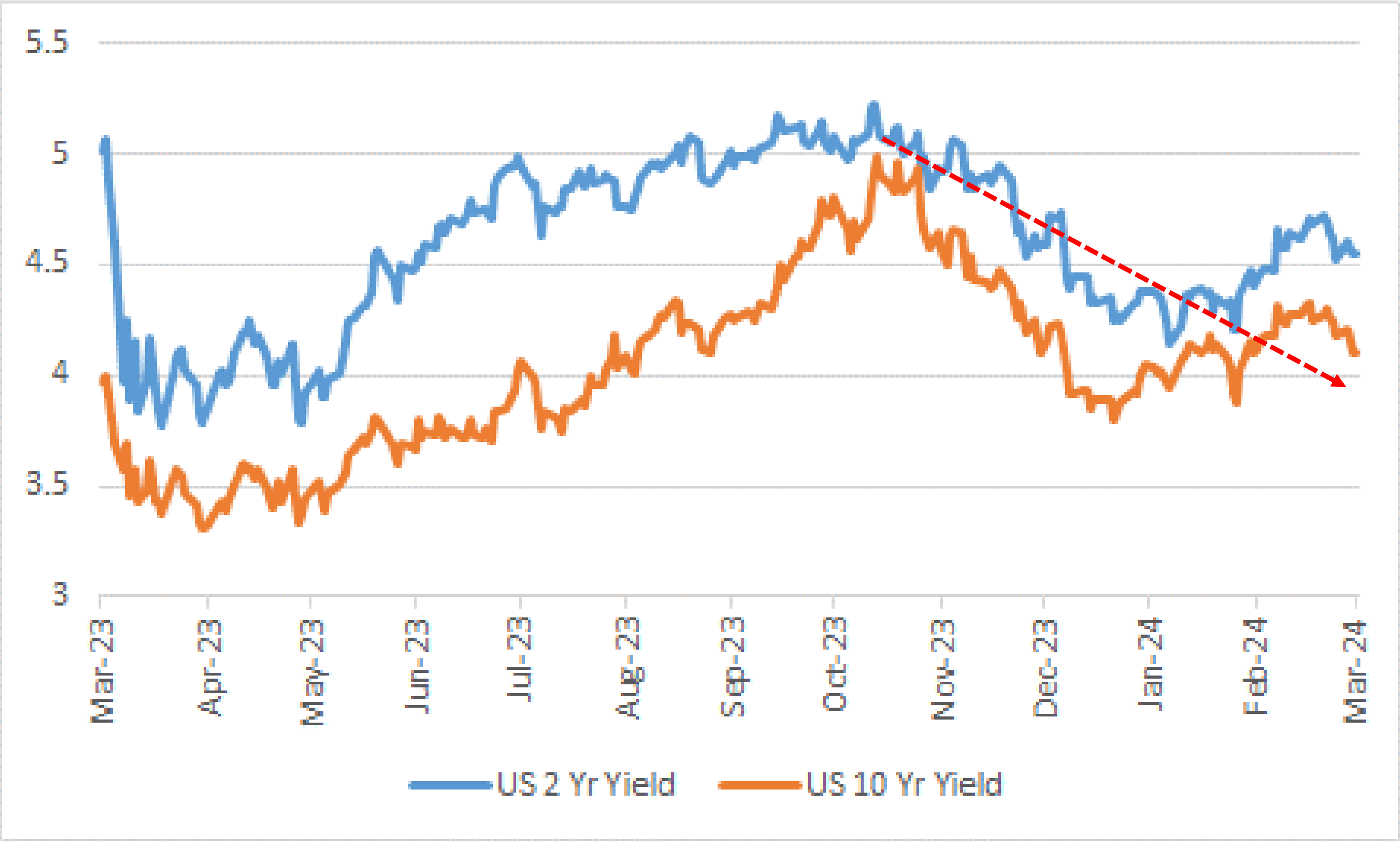
The US Fed meeting Projections – Dec 2023

Percent

Variable	Median[1]				
	2023	2024	2025	2026	Longer run
Change in real GDP	2.6	1.4	1.8	1.9	1.8
September projection	2.1	1.5	1.8	1.8	1.8
Unemployment rate	3.8	4.1	4.1	4.1	4.1
September projection	3.8	4.1	4.1	4.0	4.0
PCE inflation	2.8	2.4	2.1	2.0	2.0
September projection	3.3	2.5	2.2	2.0	2.0
Core PCE inflation[4]	3.2	2.4	2.2	2.0	
September projection	3.7	2.6	2.3	2.0	
Memo: Projected appropriate policy path					
Federal funds rate	5.4	4.6	3.6	2.9	2.5
September projection	5.6	5.1	3.9	2.9	2.5

- The US Fed has maintained a pause since the Sep 2023 Fed meeting. This makes the Jan 20234 meeting the 4th consecutive meeting where a pause in policy rates has been maintained.
- Fed dot plot indicates the increased possibility of three rate cuts in 2024. Policy Rate cuts are expected in H2 CY24
- US GDP growth for CY23 surprised positively at 2.5% (Fed projection was only 1% in June 2023). CY24 GDP forecast is estimated at 1.4%.

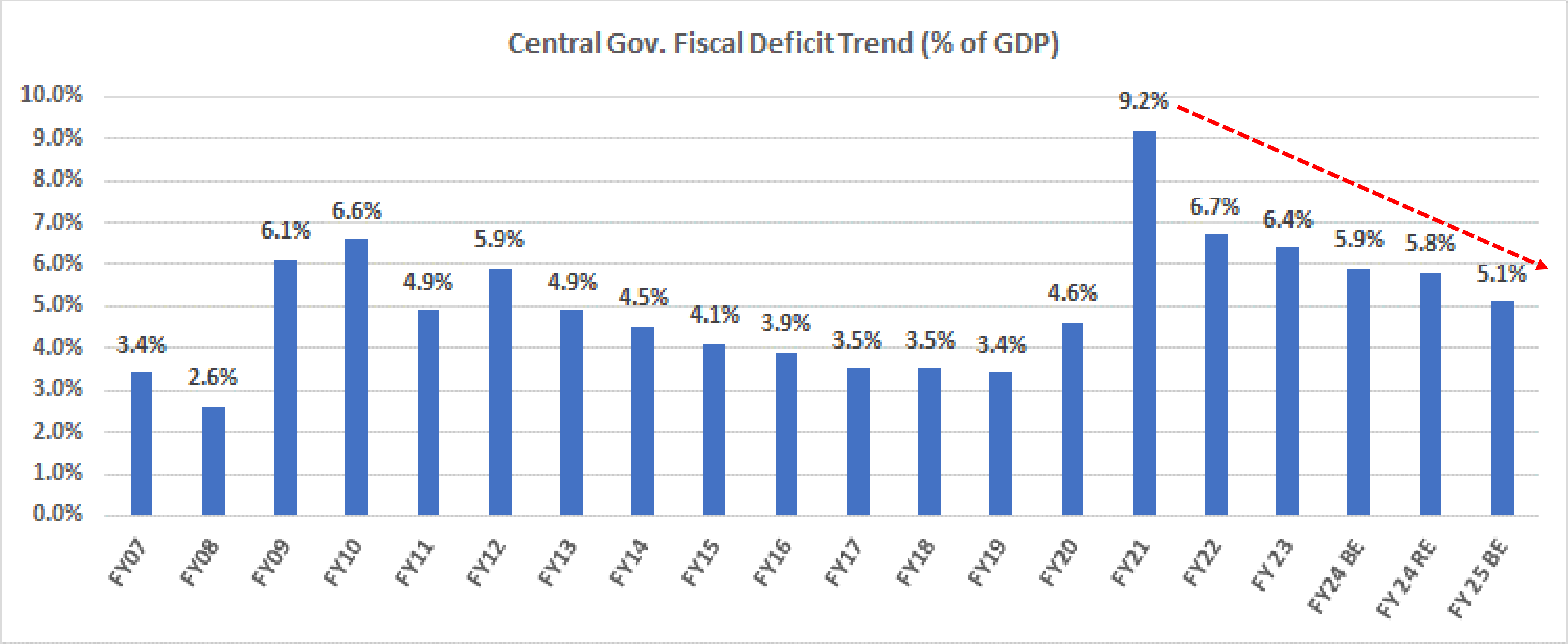
US treasury yields have eased



Source: Bloomberg

- US bond yields have eased on the back of the Fed pause in rate hike cycle and the expectation of rate cuts in 2024.
- Lower US yields have contributed to a risk-on rally in global markets.

Govt guides towards fiscal prudence: Estimated Fiscal deficit at 5.1% in FY25

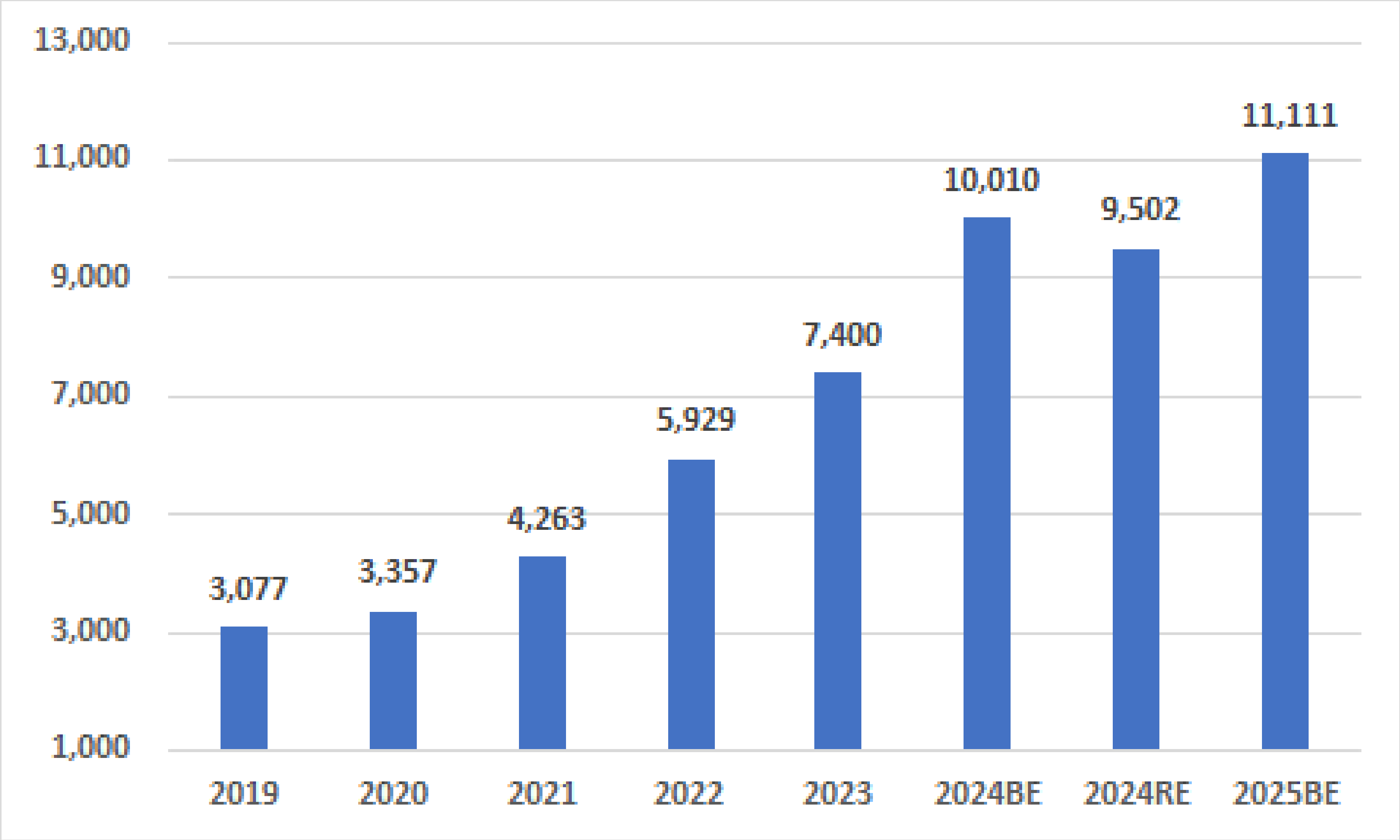


Source: Budget Document, MOSPI

- In the interim budget the fiscal deficit was revised down marginally to 5.8% for FY24
- Government is committed towards fiscal discipline, maintaining a steady fall in the fiscal deficit.
- Positive for fixed income markets.

Despite high base, Capex in FY25 is estimated to grow by 17% YoY

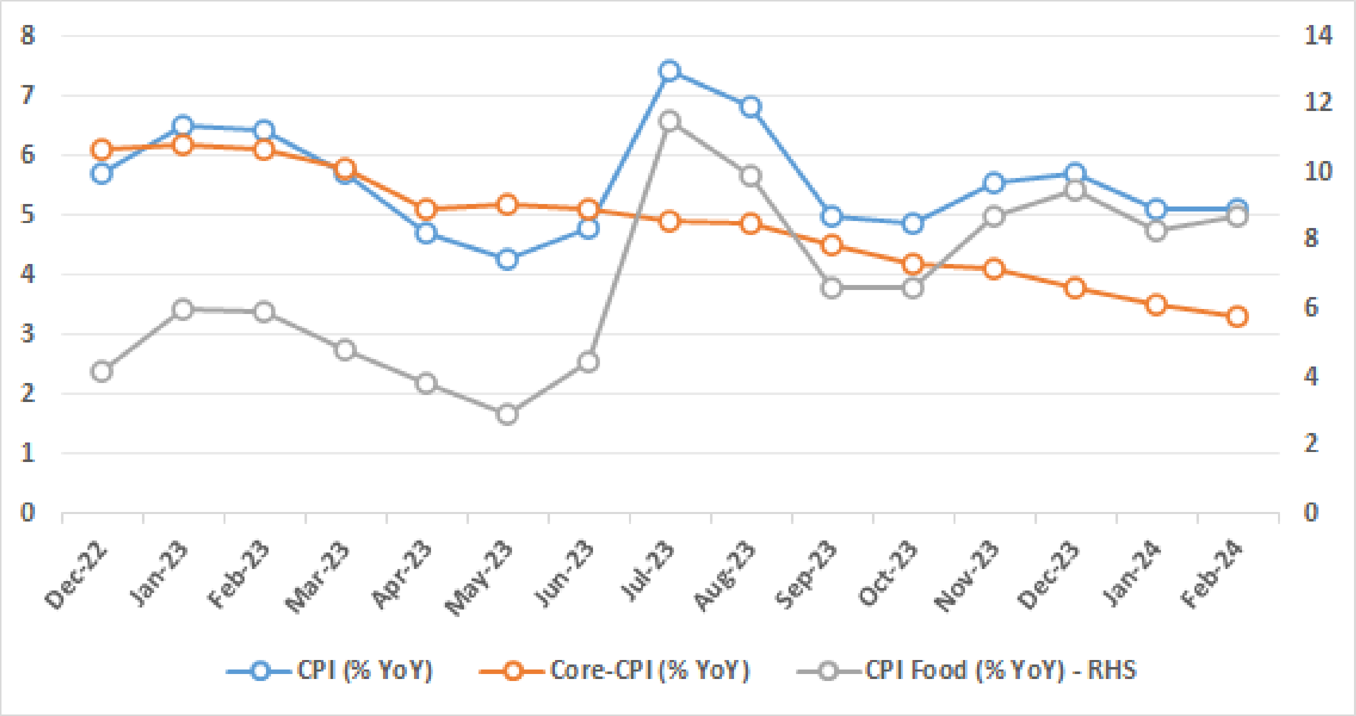
Fiscal Year-Wise Capital Expenditure (Capex) Trend (Rs in Billion)



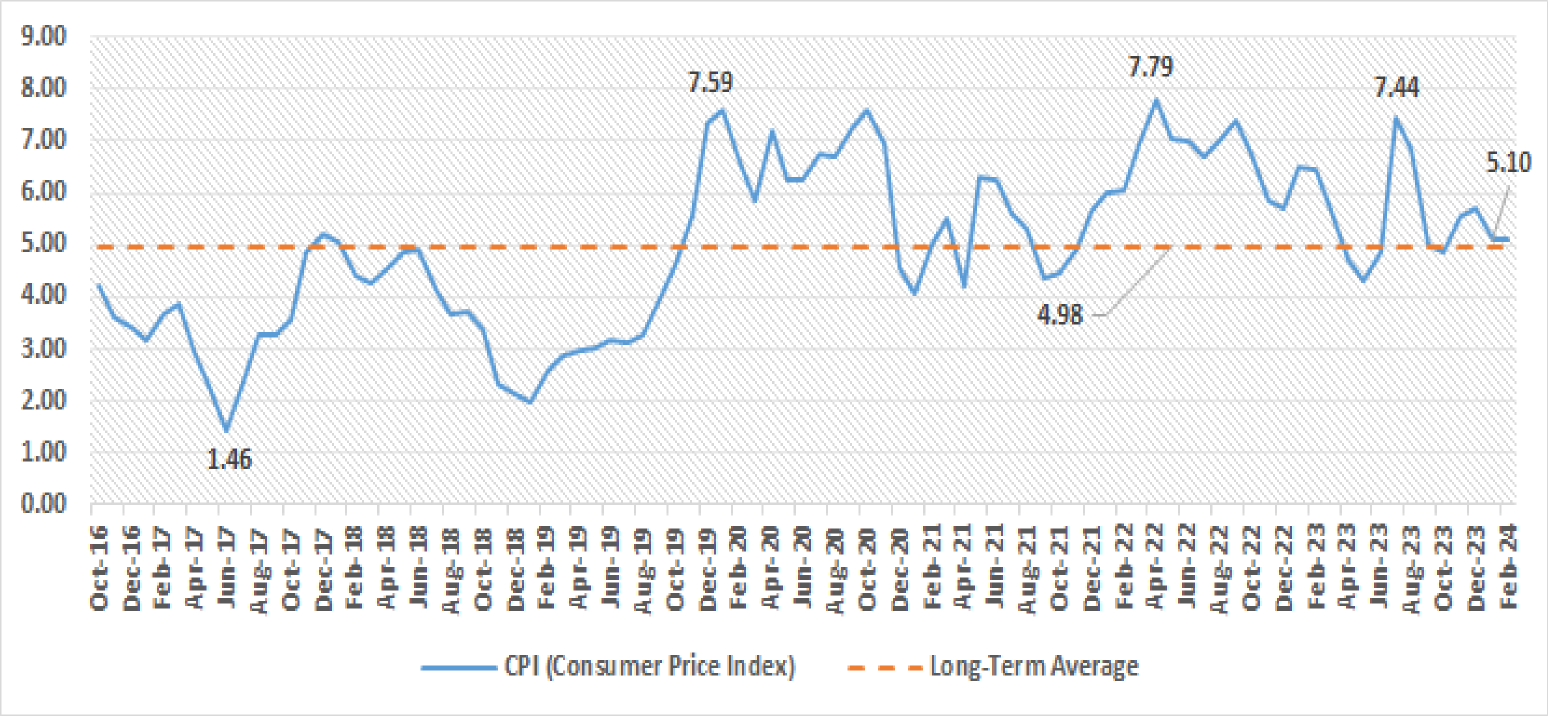
Source: Interim Budget Document FY25, MOSPI, Kotak Institutional Equities

India inflation in control after the surprise spike in in mid 2023

India CPI, Core-CPI & CFPI Trend (% YoY)



India Consumer Inflation Long-Term Trend (% YoY)



Source: Bloomberg

- In July 2023, CPI inflation spiked to 7.4% on the back of sharp rise in food prices. However, it has moderated to 5.1% in Feb 2024, which is below RBI's upper limit of 6%.
- RBI's MPC has been targeting to keep the inflation at 4% on a sustainable basis, resulting in average inflation to be at 5% (Sep'16 to Jan'24)
- Core inflation (ex food & fuel) fell further to 3.3% in Feb 2024, which is a positive.
- In its Feb 2023 monetary policy meeting, RBI projected inflation target at 5.4% for FY24 and at 4.5% for FY25.

RBI on a pause
Expected to start cutting rates in the latter half of 2024

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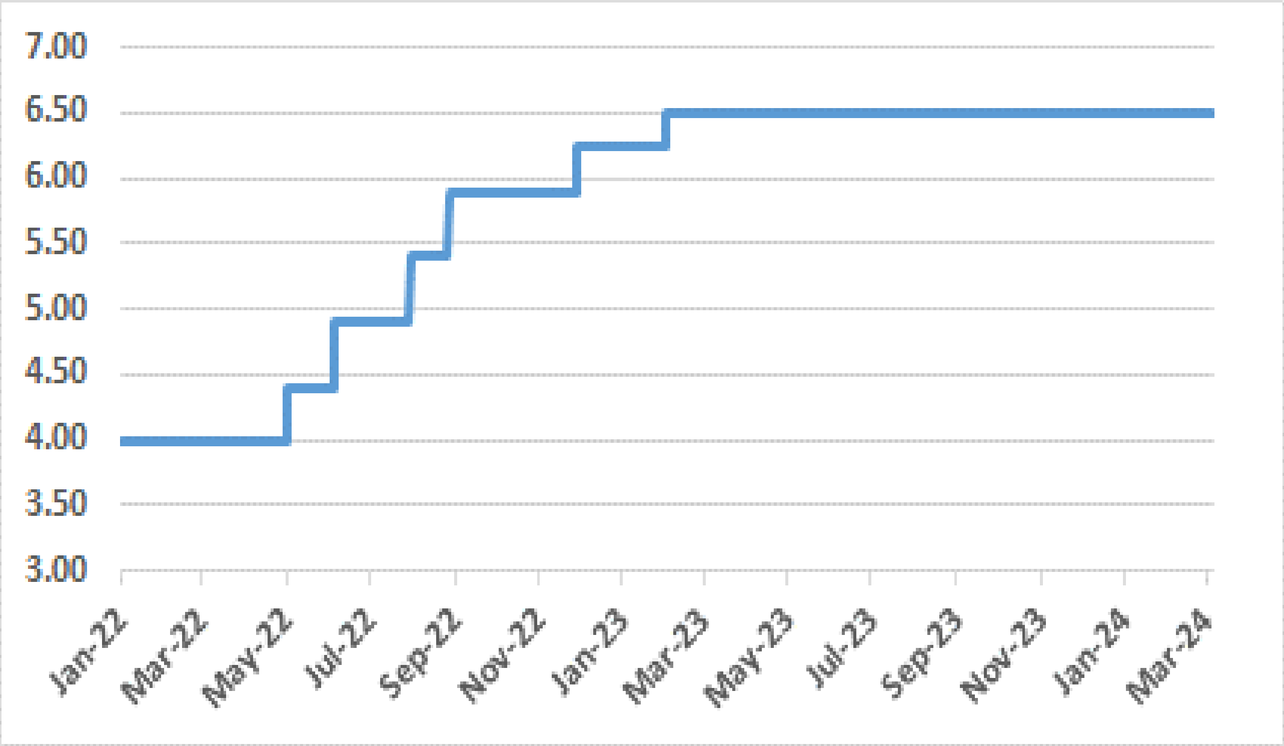
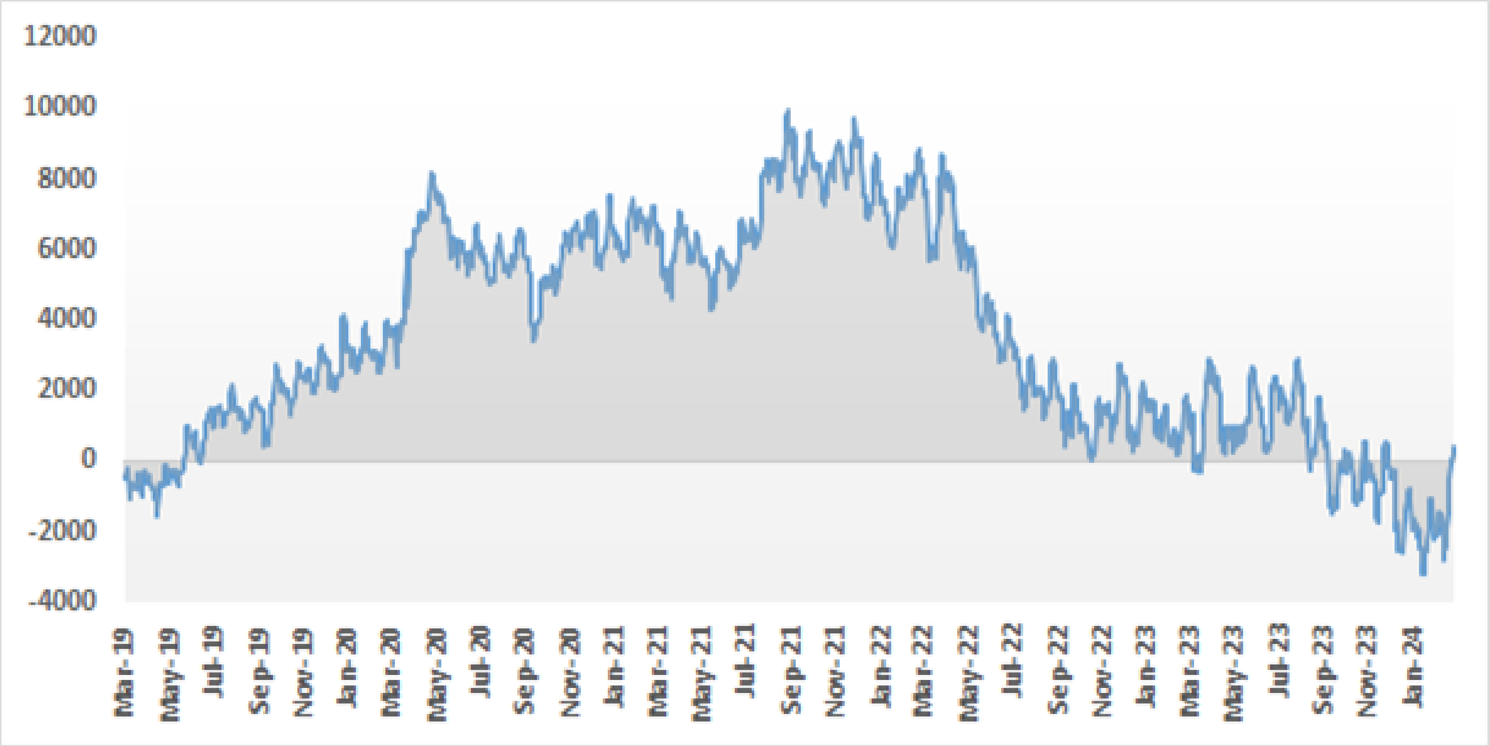
India Repo Rate Trend (in %)



India Banking System Liquidity (Rs in billion)



Source: Bloomberg

- The RBI has been on pause since the April 2023 policy meeting. Rate cuts are expected later in 2024 by at least 50 bps, guided by US Fed policy action & domestic macroeconomic environment
- Inflation remains within the acceptable range with the RBI projecting it at 4.5% for FY25. GDP growth projected at 7% in FY25 by the RBI.
- Banking system liquidity has improved lately after being in the negative since Sep 2023.
- We presently prefer the medium-term part of yield curve after the recent rally in yields.

Investment in Non-Participating Traditional Plans

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- Returns of Non-Par Plans are guaranteed to the policyholders. Hence, the risk lies with the Shareholder (BALIC) and not the policyholder.
  - ✓ BALIC has one of the highest solvency ratios in the Life Insurance industry which provides adequate cushion. BALIC Solvency ratio of 516%* against IRDAI norm of 150%.
- In this product we are able to lock-In future yields for renewal premiums via instruments like FRA (Forward Rate Agreement), PPB (Partly Paid Bond).
  - ✓ This helps us to hedge reinvestment risk (Risk of interest rates coming down over the Long-Term).

*** Solvency ratio as on 31st March 2023**

Non-Par Product Investment Risk Mitigation Strategy

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- BALIC is able to lock in an IRR for the customer by means of using varied instruments like forward rate agreements (FRA), partly paid bonds etc. which would mitigate the **future risk in a scenario of a decline in interest rates.**

- In the forward rate agreements, BALIC enters into an agreement with a scheduled commercial bank, and is able to lock in the forward yields for the future renewal premium which the customer would be paying over the premium paying term.

  - ✓ In short, It helps mitigate the risk of interest rate changes by agreeing on a fixed rate today for an investment that will happen in the future.

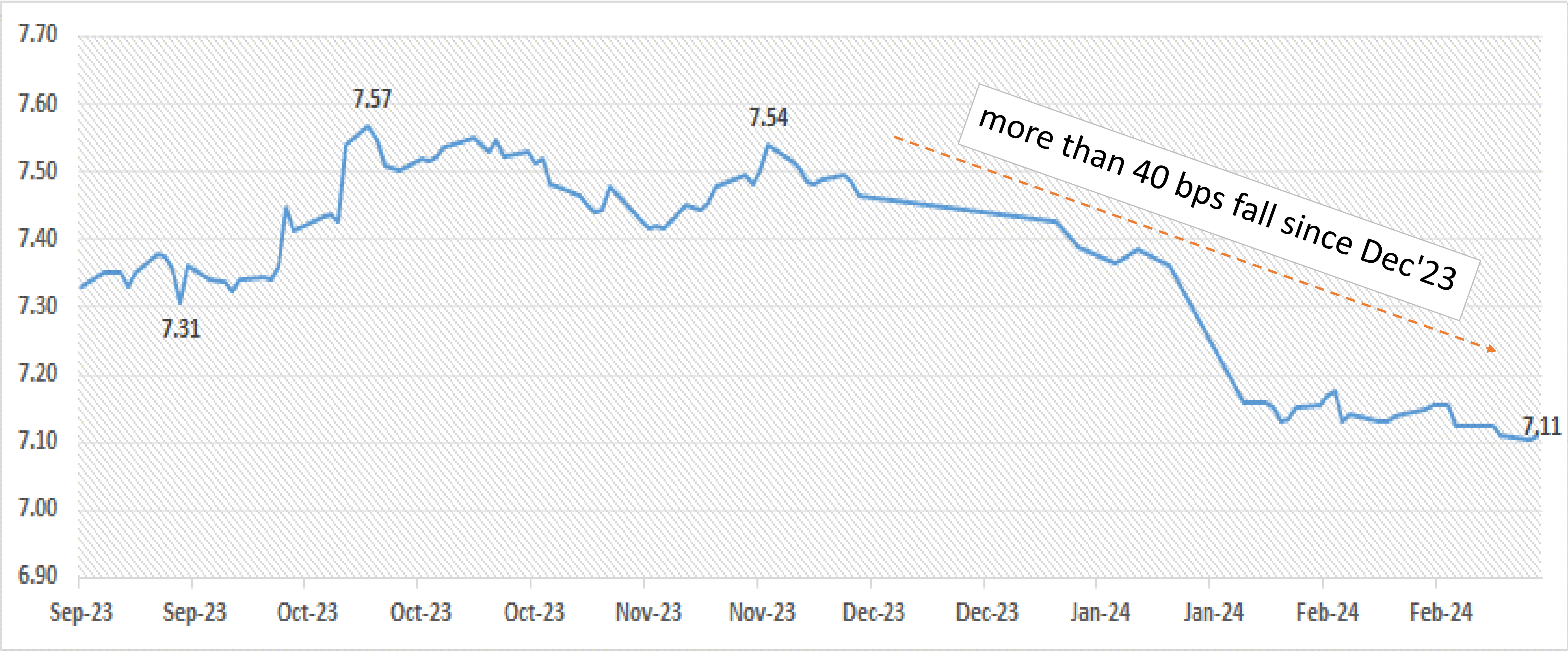
- As the company has followed the strategy of hedging its exposure on future interest payments to policyholders, the risk for BALIC has come down significantly and it would be well placed to meet the policyholder guarantee obligations in the future years.

- BALIC uses Government Securities as underlying security in FRA which are Sovereign i.e. risk free.

- The yields have been softening due to favorable macroeconomic indicators in India.

- **The long-term yields have softened by more than 40bps which has an adverse impact on the Forward Rates .**

30 Years G-Sec Yield significantly softened



Source: Bloomberg

India 10 year benchmark yield has fallen by ~40 bps from the recent top

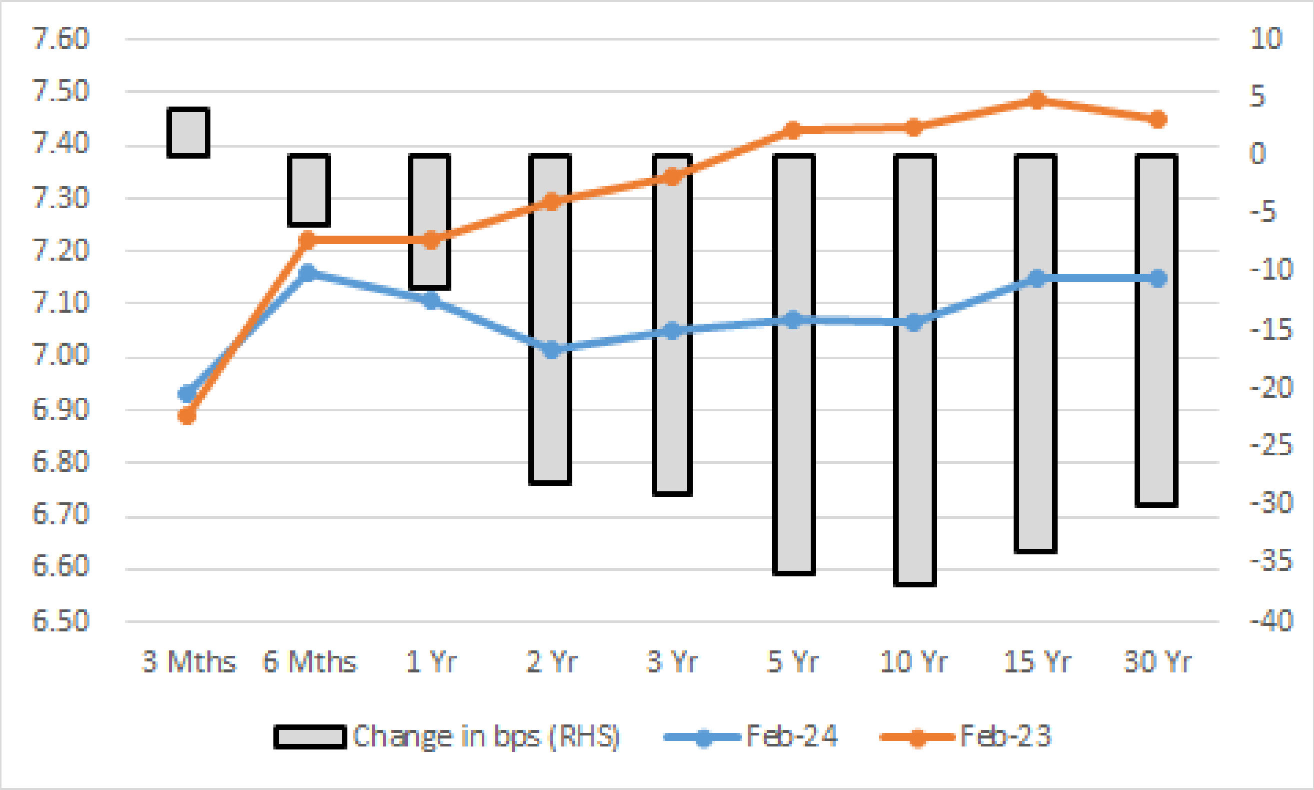
India 10 year yield (%)

Source: Bloomberg

- India bond yields have fallen on the back of inflation coming under control, US Fed pausing rates and indicating rates cuts in H2 CY24, stable crude oil prices, and expectations of rate cut by RBI later in 2024.

Medium to longer end of the yield curve has fallen more than the shorter end

India Yield Curve Shift over 1 year (in bps)

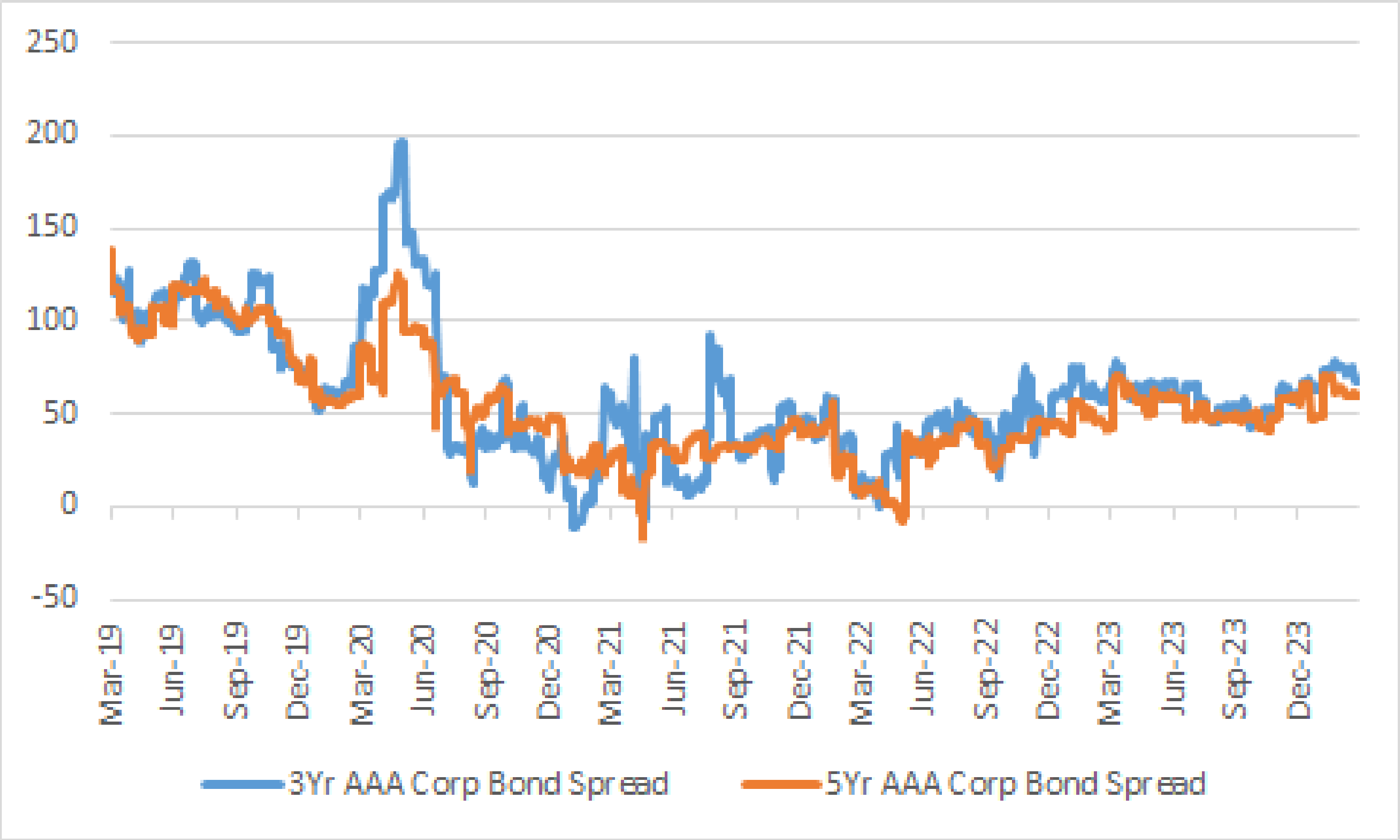


Source: Bloomberg

- Shorter end of the yield curve has fallen less, as rates cuts by the RBI are still some time away, and expected later in 2024.
- Medium to longer end of the yield curve registered a larger fall in yields.

Corporate bond spreads are still not that attractive

AAA Corporate Bond Spread Vs G-Sec (in bps)



Source: Bloomberg

- Corporate bond spreads are still not that attractive. We prefer G-Secs and SDLs presently.

Liquidity – Indian Equity Markets

Indian equity market tops the global charts over the medium to long term

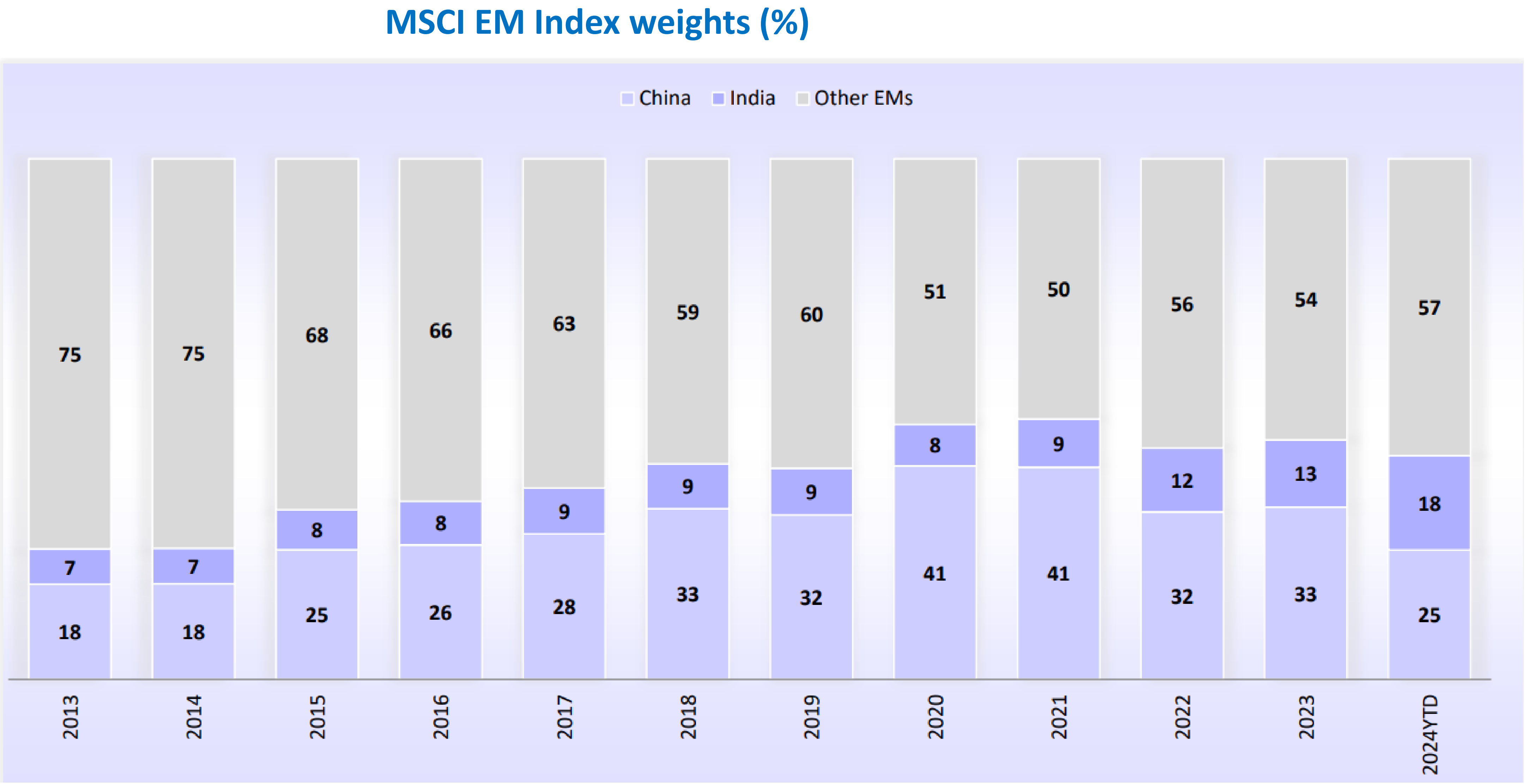
BAJAJ Allianz
LIFE GOALS. DONE.

Performance of International Indices (ended Feb 2024, in %)										
Index Name	Country / Region	1M	3M	6M	FYTD (11 M)	1 Yr.	3 Yrs.	5 Yrs.	7 Yrs.	10 Yrs.
IISL Nifty 50	**India**	**1.2%**	**9.2%**	**14.2%**	**26.6%**	**26.4%**	**14.8%**	**15.3%**	**13.8%**	**13.4%**
Nikkei 225 Average	Japan	7.9%	17.0%	20.1%	39.7%	42.8%	10.6%	12.9%	10.8%	10.2%
S&P 500	United States	5.2%	11.6%	13.1%	24.0%	28.0%	10.2%	12.8%	11.6%	10.6%
TSEC TAIEX	Taiwan	6.0%	8.8%	14.0%	19.5%	22.3%	5.9%	12.8%	10.0%	8.2%
MSCI World	World	4.1%	10.4%	11.8%	19.6%	22.6%	7.0%	9.9%	8.9%	7.1%
FSE DAX TR	Germany	4.6%	9.0%	10.9%	13.1%	14.9%	8.6%	9.0%	5.9%	6.2%
CAC 40	France	3.5%	8.4%	8.3%	8.3%	8.7%	11.6%	8.6%	7.2%	6.0%
BOVESPA TR	Brazil	1.0%	1.3%	11.5%	26.6%	22.0%	5.4%	6.2%	9.9%	10.6%
S&P/ASX 200	Australia	0.2%	8.6%	5.4%	7.3%	6.6%	4.9%	4.5%	4.4%	3.6%
KOSPI	South Korea	5.8%	4.2%	3.4%	6.7%	10.0%	-4.3%	3.8%	3.4%	2.9%
JSX Composite	Indonesia	1.5%	3.3%	5.2%	7.5%	6.7%	5.4%	2.6%	4.5%	4.7%
FTSE 100	United Kingdom	0.0%	2.4%	2.6%	0.0%	-3.8%	5.6%	1.5%	0.7%	1.1%
FTSE SET All Share	Thailand	-0.2%	2.7%	2.6%	0.1%	-3.9%	4.0%	1.4%	0.7%	1.3%
Shanghai Composite	China	8.1%	-0.5%	-3.4%	-7.9%	-7.5%	-4.9%	0.5%	-1.0%	3.9%
MSCI AC Asia Ex Japan	Asia Ex Japan	5.5%	3.1%	2.8%	-0.7%	2.1%	-10.3%	-0.4%	1.8%	1.7%
FTSE/SGX STI	Singapore	-0.4%	2.2%	-2.8%	-3.6%	-3.7%	2.1%	-0.4%	0.2%	0.1%
MSCI EM	Emerging Markets	4.6%	3.4%	4.1%	3.1%	5.6%	-8.6%	-0.6%	1.2%	0.6%
FTSE Bursa Malaysia KLCI	Malaysia	2.5%	6.8%	6.9%	9.1%	6.6%	-0.6%	-1.9%	-1.2%	-1.7%
Hang Seng	Hong Kong	6.6%	-3.1%	-10.2%	-19.1%	-17.2%	-17.1%	-10.4%	-5.1%	-3.2%

Source : Bloomberg. Returns are in local currency of index, and returns greater than 1 year are CAGR Date Sorted on the basis of 5 Yr. return in descending order

- **Over the medium - long term (3, 5, 7 & 10 years) Indian equity market has been among the top performing major markets, globally.**

India has seen highest weight gain in MSCI Emerging market index due to its outperformance



Source: Bloomberg, Motilal Oswal, Data as of Feb'24

- India's weight in the MSCI EM index weight increased significantly over the past three years, while China's weight continued to drop.
- India gained 10pp weight during the last three years to reach ~18%, while China lost 16pp and stood at ~25%.

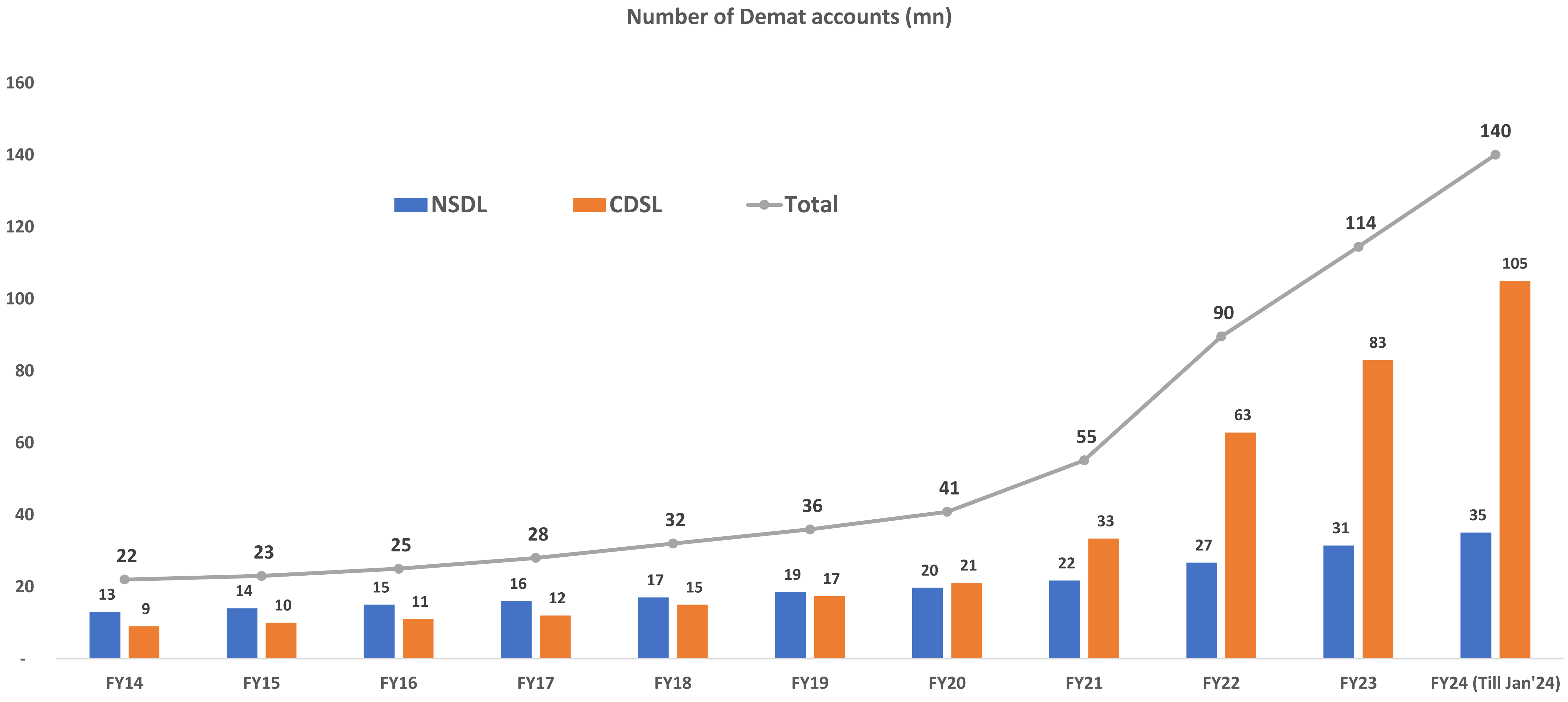
FPI equity flows have picked up in FYTD 24, while DII flows have slowed down

Source: NSDL, Axis Capital	Rs in Crore	
Year	**FPIs**	**DIIs**
FY08	52,572	47,794
FY09	-48,250	60,040
FY10	1,10,752	24,211
FY11	1,10,121	-18,709
FY12	43,738	-5,347
FY13	1,40,032	-69,069
FY14	79,709	-54,161
FY15	1,11,445	-21,446
FY16	-14,171	80,416
FY17	60,196	30,787
FY18	21,074	1,13,258
FY19	-90	72,115
FY20	6,151	1,29,301
FY21	2,74,897	-1,34,056
FY22	-1,39,434	2,21,389
FY23	-35,268	2,56,128
FY24 (As on Feb 2024)	1,74,948	1,74,870

Source: NSDL, Axis Capital	Rs in Crore	
Month-end	**FPIs**	**DIIs**
31 December 2022	-1,356	24,159
31 January 2023	-29,950	33,412
28 February 2023	-5,279	19,239
31 March 2023	14,944	30,549
30 April 2023	15,733	2,217
31 May 2023	41,207	-3,306
30 June 2023	55,161	4,458
31 July 2023	33,994	-2,698
31 Aug 2023	14,295	25,017
30 Sep 2023	-18,894	20,313
31 October 2023	-22,113	28,254
30 November 2023	19,178	35,550
31 December 2023	58,498	12,942
31 January 2024	-26,111	26,744
29 February 2024	4,000	25,379

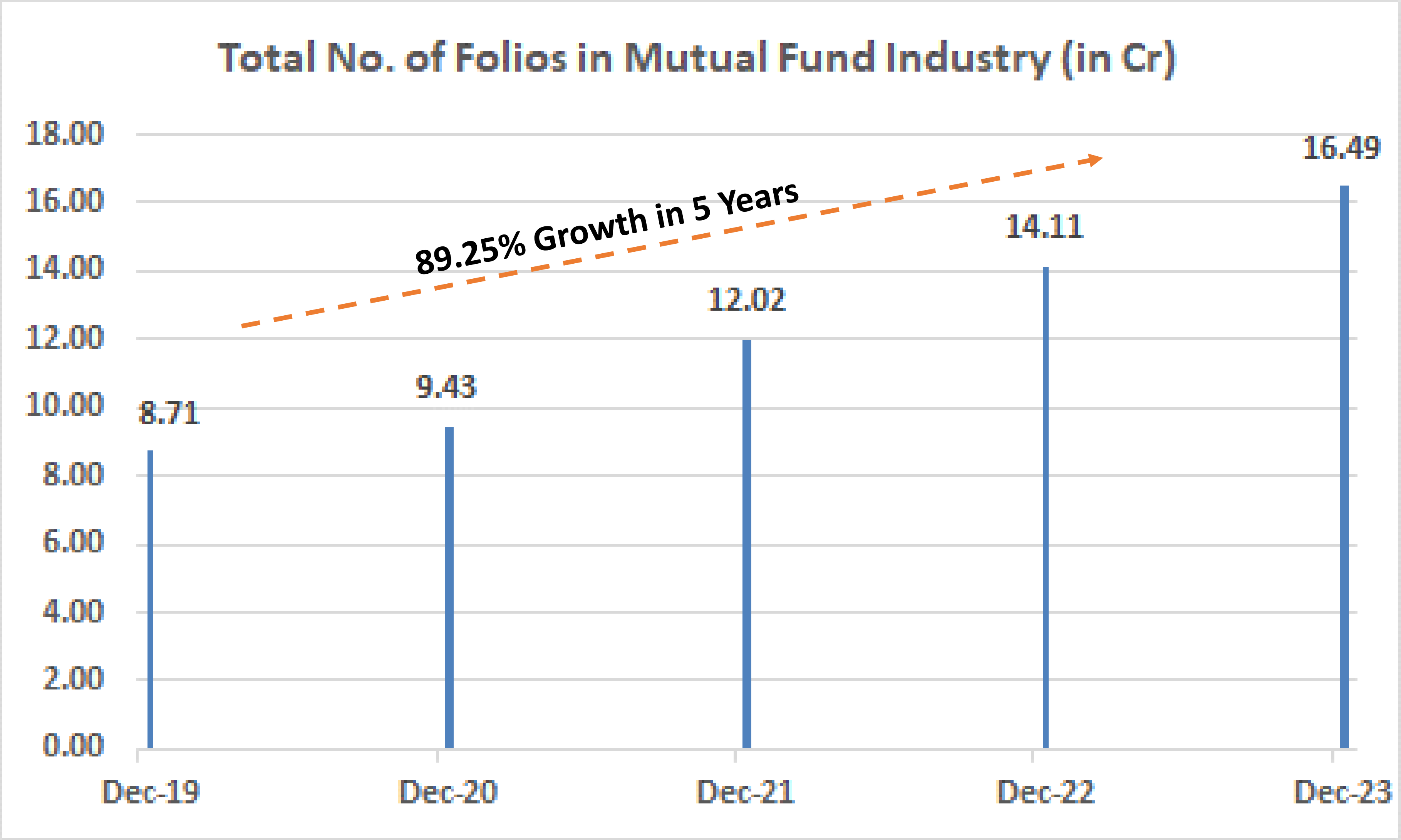
- After registering continued outflows in FY22 & FY23, FPI equity flows have picked up significantly in FYTD 24 (up to Feb 2024),.
- Meanwhile, DII equity flows slowed down in FYTD 24 (esp. April – July) after registering a record high inflow in FY23. DII flows picked up after Aug 2023, on the back strong inflows into domestic mutual funds.

India has witnessed record demat accounts; crossing 14 crore mark



Source: NSDL, CDSL

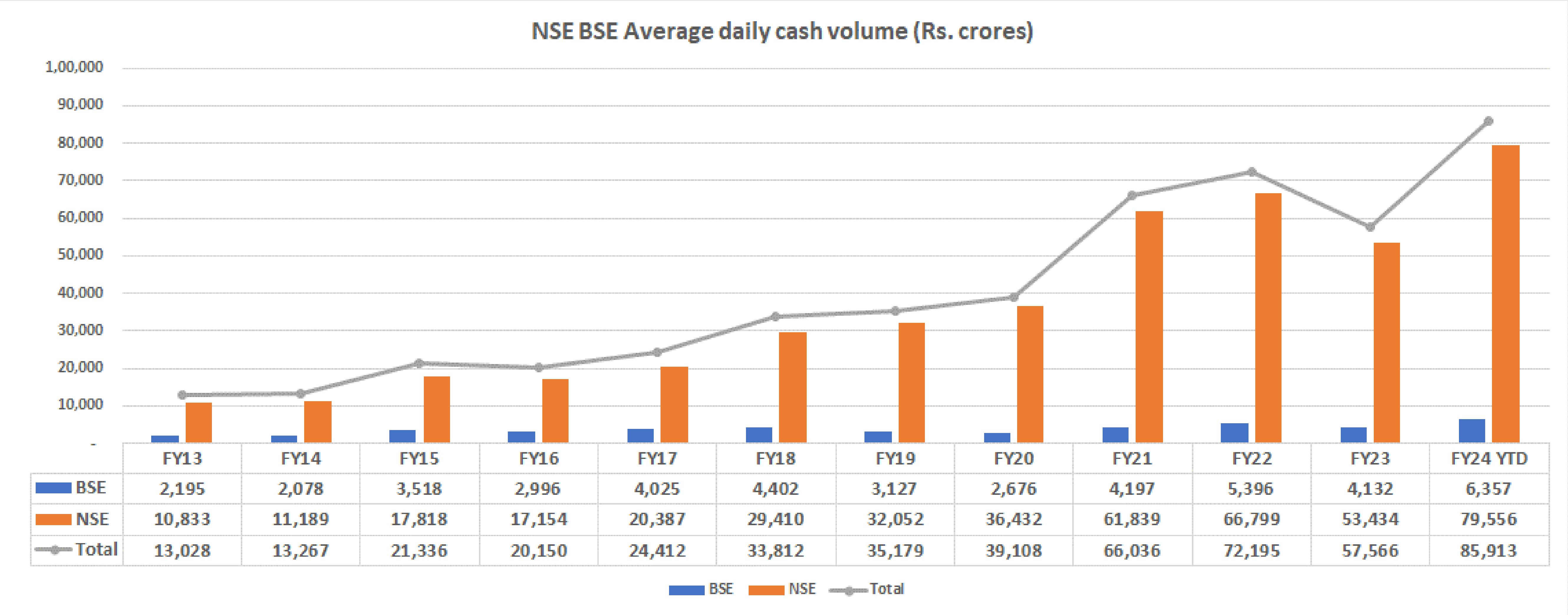
MFs have seen robust growth in number of folios



Source: AMFI

- The no. of folios in MF industry has seen much stronger growth.

Average Daily Cash Volume significantly increased in FYTD 24

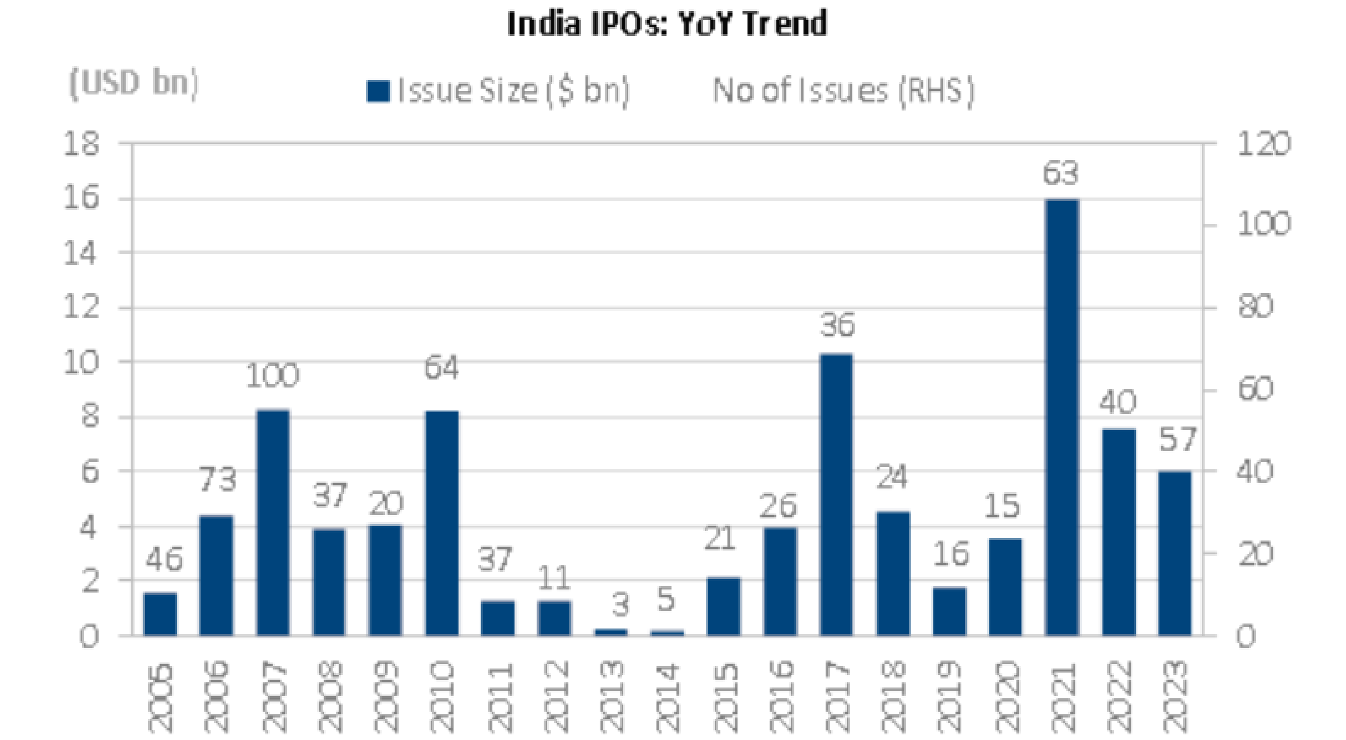


	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24 YTD
BSE	2,195	2,078	3,518	2,996	4,025	4,402	3,127	2,676	4,197	5,396	4,132	6,357
NSE	10,833	11,189	17,818	17,154	20,387	29,410	32,052	36,432	61,839	66,799	53,434	79,556
Total	13,028	13,267	21,336	20,150	24,412	33,812	35,179	39,108	66,036	72,195	57,566	85,913

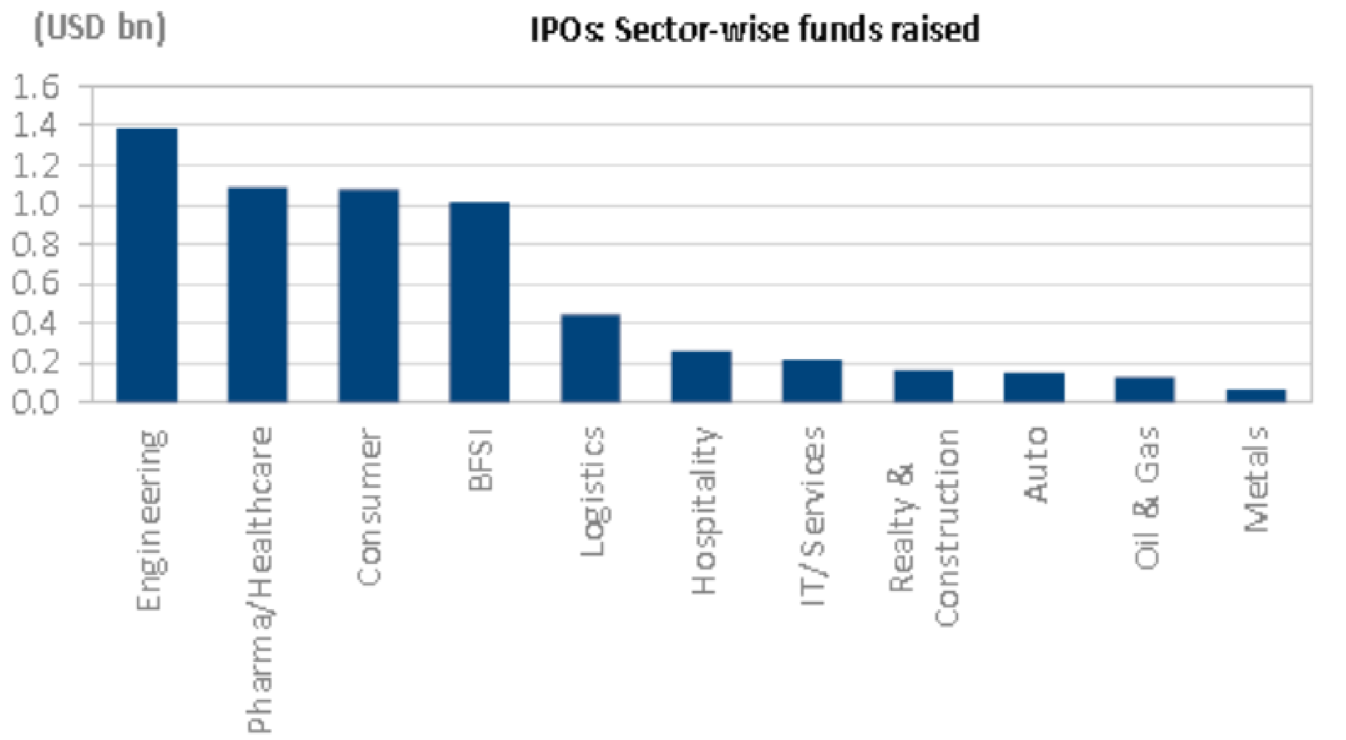
Source: Bloomberg

- The average daily cash volume in NSE & BSE has seen substantial surge, due to positive sentiments, strong continued flows & increased retail participation

IPO markets have been buoyant



Source: IIFL Alternative Research, Prime database

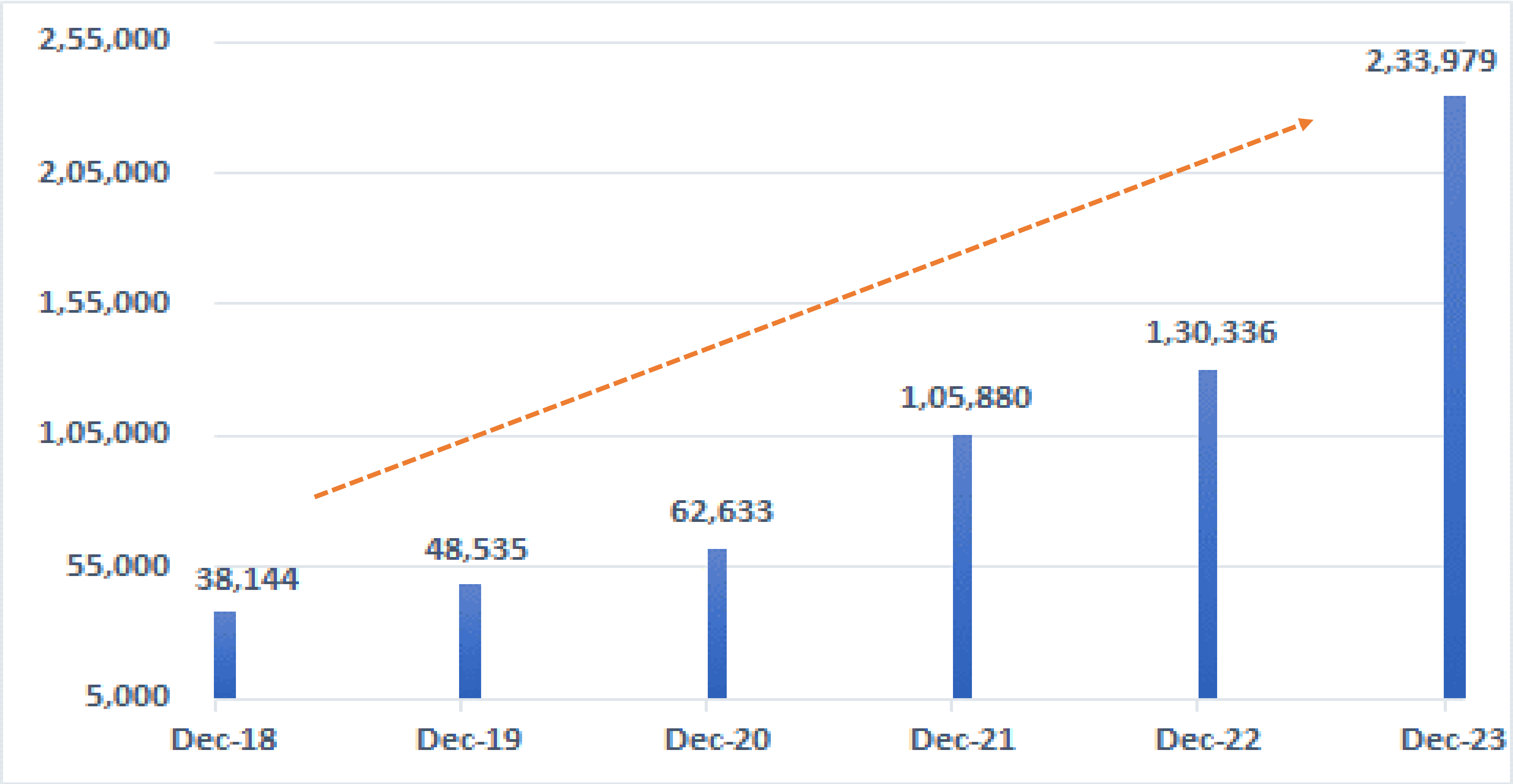


Source: IIFL Alternative Research, Prime database

- IPO markets have been buoyant since 2021.
- 160 companies launched their IPOs during 2021-23. This is similar to the number of IPOs during the 9-year period of 2012-2020.
- Most of these have become part of the relevant universe as their market capitalization is greater than 3,000cr.
- Engineering and Pharma/Healthcare were the sectoral leaders in terms of fund raise in CY23

Assets of Small-Cap Mutual Funds have grown multi-fold over the past few years

Assets Under Management (AUM) Trend of Small-Cap Mutual Funds – INR in Crore

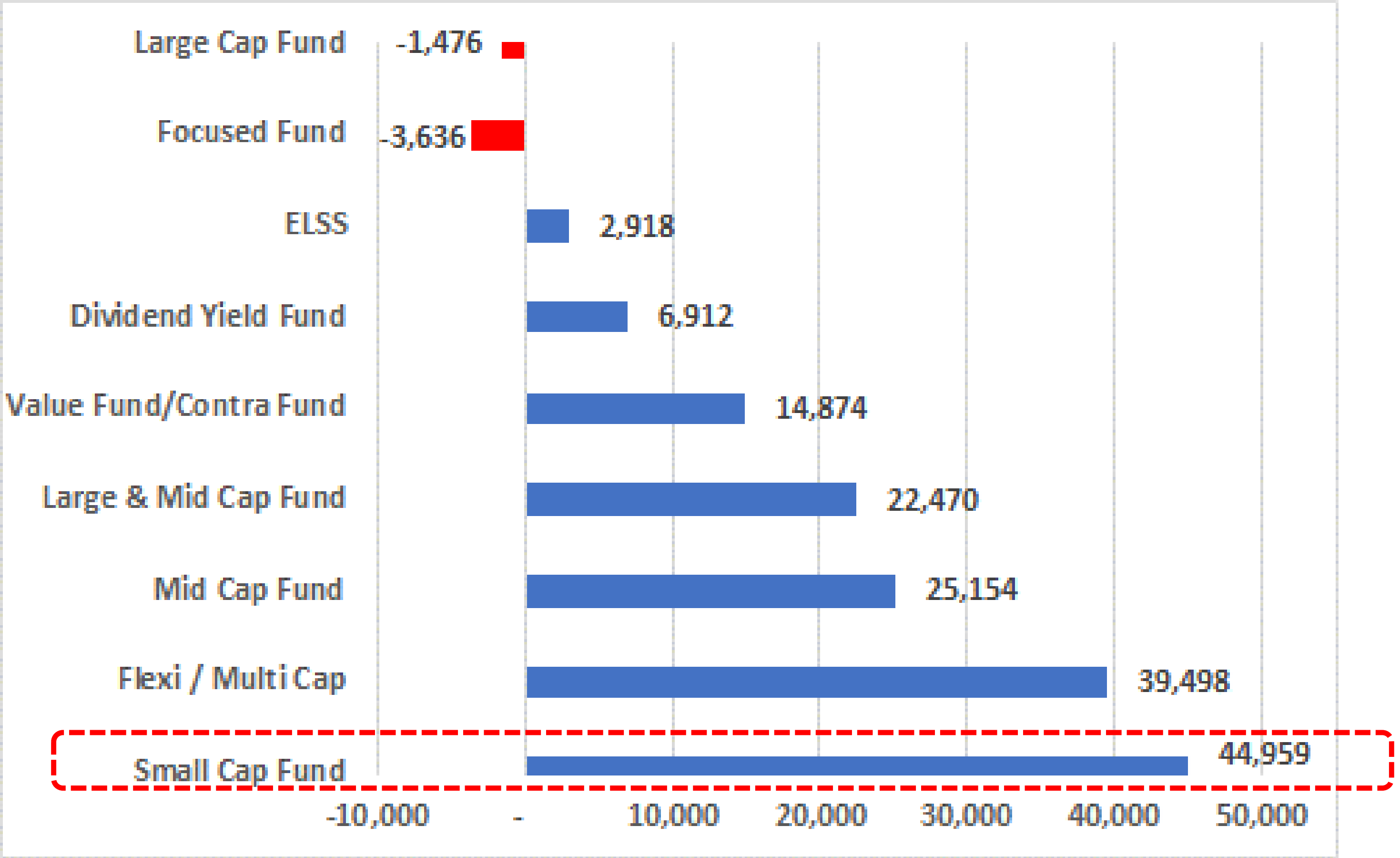


Source: Morningstar Direct, AMFI

- Assets of Small-Cap Mutual Funds have grown by 6X since end of 2018 to ~Rs. 2.35 lakh crore, indicating investor traction towards this small cap category.

Small-Cap MF category has registered the highest inflows over the past year, among various equity MF categories

Net Flows into Various MF Equity Categories over 1 Year (ended Feb 2024) – Rs in Crore



Source: AMFI

- Within various equity mutual fund categories, small-cap equity fund category has registered the highest inflow of almost Rs 45,000 crore over past year. However, Large-cap & Focused funds as a category have seen outflows

- This indicates investor traction towards the small-cap fund category, which is the fifth largest equity MF category in terms of AUM.

India Corporate Earnings

Nifty quarterly earnings absolute number for sectors

SECTOR	ACTUALS (Q3FY24)				YoY growth		
	REVENUE	EBITDA	PAT		REVENUE	EBITDA	PAT
Auto & Ancillaries	19,52,304	3,01,402	1,66,753		22%	40%	60%
Banks & Financial	18,56,299	8,86,629	5,36,715		16%	5%	6%
Others	2,83,363	31,263	18,885		6%	107%	130%
Cement	2,31,403	37,771	20,089		7%	34%	53%
Electric	5,17,106	2,09,204	85,421		2%	-1%	4%
Engg, Industrial & Cap Goods	5,51,278	57,590	29,474		19%	14%	22%
FMCG	6,64,861	1,55,988	1,20,866		6%	4%	5%
Metals & Mining	18,62,139	3,08,648	1,46,627		1%	37%	71%
Oil&Gas	37,53,683	6,17,173	3,01,979		0%	6%	5%
Pharmaceuticals	3,26,811	79,967	58,009		10%	10%	24%
Technology	17,21,730	3,92,062	2,68,455		2%	-1%	0%
Telecommunications	3,83,393	2,02,546	25,724		6%	8%	14%
Logistic	69,201	42,932	22,084		45%	59%	68%
Chemicals	98,870	930	(12,170)		-28%	-97%	NA
Nifty aggregate							
Total	**1,42,72,441**	**33,24,103**	**17,88,910**		6%	10%	12%
Total - ex financials	1,24,16,142	24,37,474	12,52,195		5%	11%	16%
Total - ex financials - ex comm	68,00,320	15,11,654	8,03,589		9%	10%	13%

Source: BALIC Research

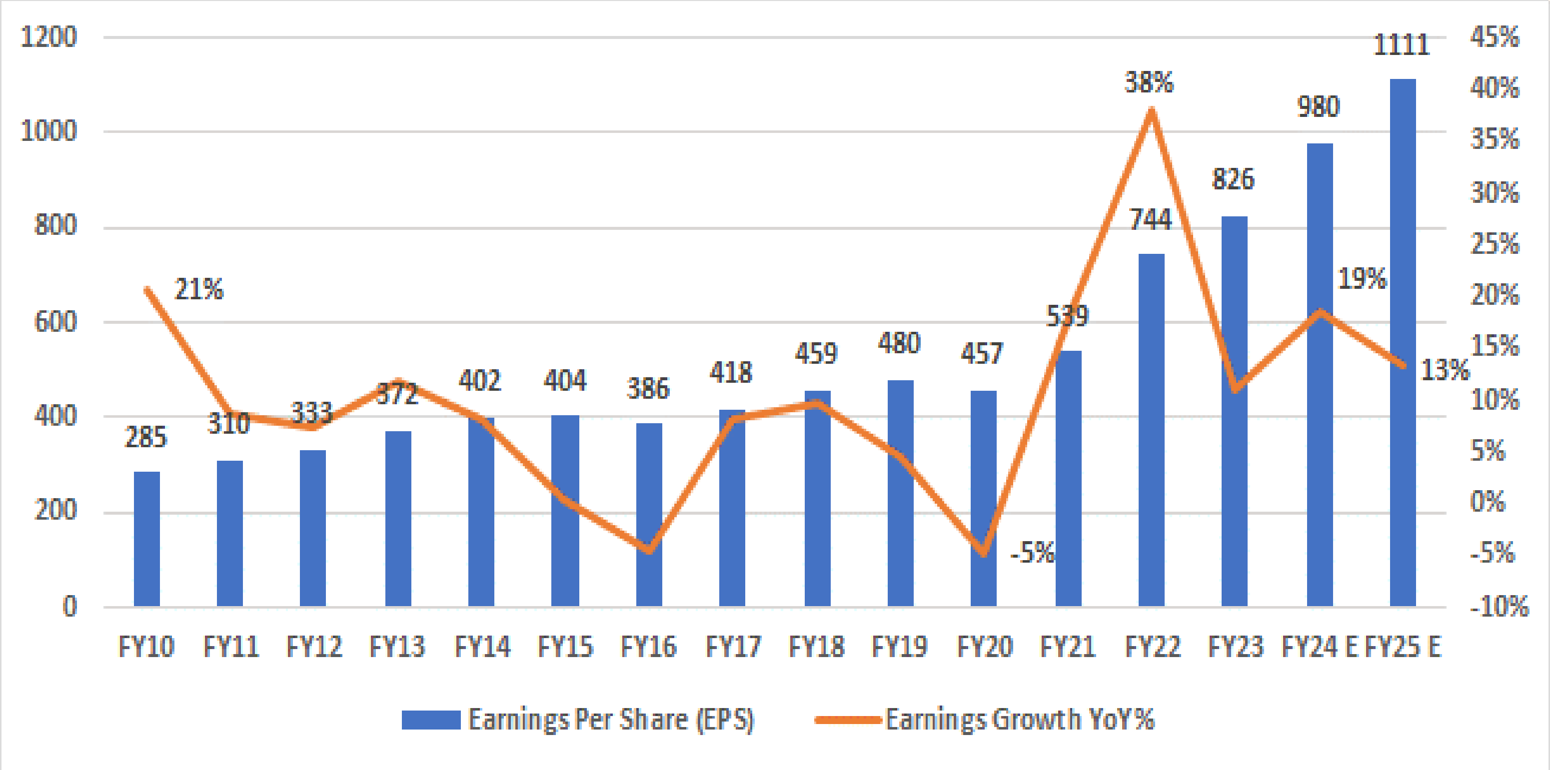
Nifty FY earnings absolute number for sectors

SECTOR	PAT						Growth %	
	FY20	FY21	FY22	FY23	FY24	FY25	FY24	FY25
Auto & Ancillaries	64,059	46,349	81,214	2,96,744	5,42,164	6,44,116	**83%**	**19%**
Banks & Financial	7,20,679	9,59,099	13,27,400	17,45,694	23,01,900	26,37,755	**32%**	**15%**
Others	10,801	9,194	7,744	23,734	63,000	92,200	**165%**	**46%**
Cement	51,091	65,449	79,164	72,759	83,991	88,152	**15%**	**5%**
Electric	2,16,397	2,49,177	2,97,241	3,24,891	3,36,685	3,55,344	**4%**	**6%**
Engg, Industrial & Cap Goods	95,490	1,04,456	84,755	1,01,987	1,29,921	1,58,023	**27%**	**22%**
FMCG	2,98,181	2,97,042	3,37,799	4,21,855	4,78,434	5,48,242	**13%**	**15%**
Metals & Mining	2,58,502	3,43,928	9,09,330	5,74,858	5,13,247	6,26,093	**-11%**	**22%**
Oil&Gas	5,60,077	7,94,311	10,97,995	10,73,732	11,99,729	12,49,458	**12%**	**4%**
Pharmaceuticals	96,652	1,29,655	1,72,404	1,71,938	2,14,648	2,45,613	**25%**	**14%**
Technology	7,57,688	8,45,900	9,55,679	10,20,366	10,48,116	11,80,848	**3%**	**13%**
Telecommunications	-32,430	-5,247	30,104	90,157	1,40,602	1,43,295	**56%**	**2%**
Logistic	37,788	49,948	45,709	50,872	79,687	95,858	**57%**	**20%**
Chemicals	17,760	28,710	36,260	35,700	27,971	31,606	**-22%**	**13%**
Nifty aggregate								
Total	**31,52,735**	**39,17,972**	**54,62,799**	**60,05,287**	**71,60,094**	**80,96,603**	**19%**	**13%**
Total - ex financials	**24,32,056**	**29,58,872**	**41,35,398**	**42,59,593**	**48,58,194**	**54,58,848**	**14%**	**12%**
Total - ex financials - ex comm	**16,13,477**	**18,20,633**	**21,28,073**	**26,11,003**	**31,45,218**	**35,83,296**	**20%**	**14%**
YoY growth								
Total		*24%*	*39%*	*10%*	*19%*	*13%*		
Total - ex financials		*22%*	*40%*	*3%*	*14%*	*12%*		
Total - ex financials - ex comm		*13%*	*17%*	*23%*	*20%*	*14%*		

Source: BALIC Research

We expect Nifty earnings growth of ~19% in FY24 & ~13% in the subsequent year

Nifty EPS Trend



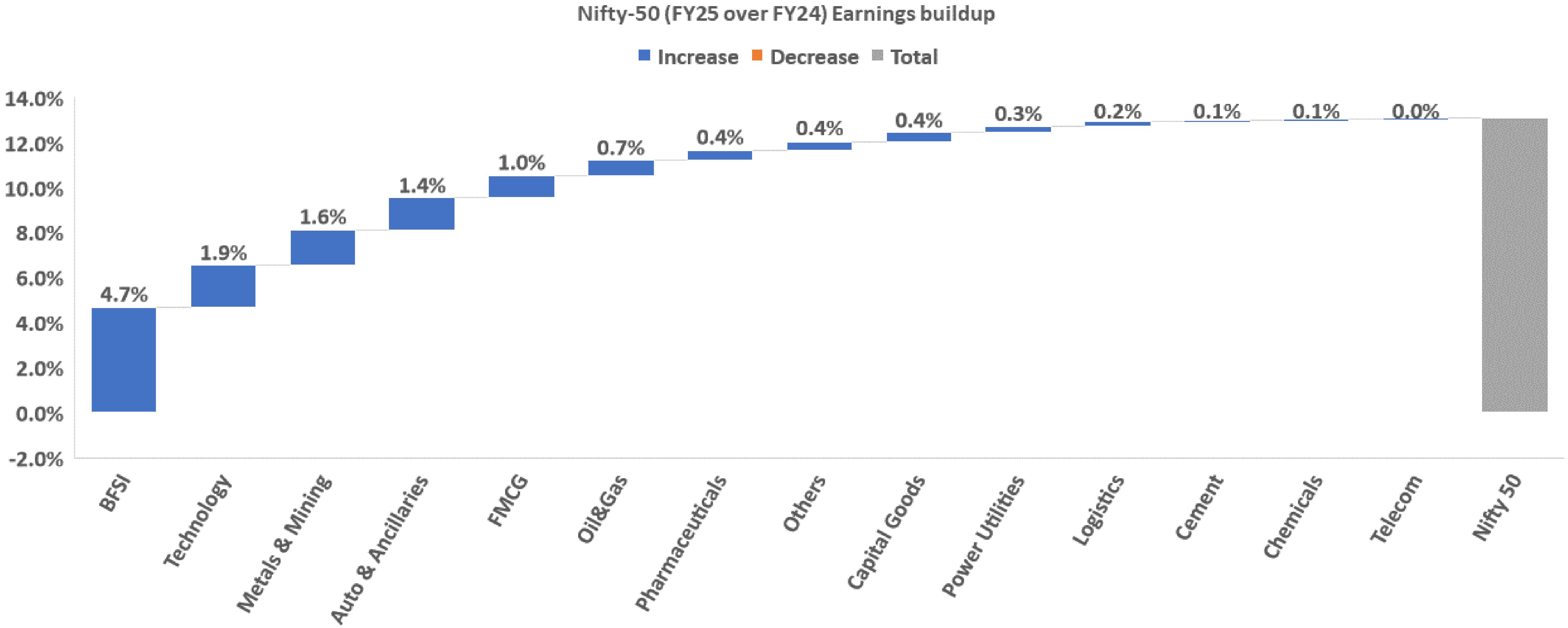
Nifty Earnings have kept pace

	Nifty 50 EPS	EPS growth	Nifty 50 returns
FY20	457		
FY21	539	18%	71%
FY22	744	38%	19%
FY23	826	11%	-1%
FY24E	980	19%	28%
FY25E	1,111	13%	
Cumulative		143%	155%

Source: Bajaj Allianz Life Research Estimates

- H1 FY24 corporate earnings have been quite healthy and above expectations.
- We anticipate some moderation in earnings growth in H2 of FY24.
- We expect Nifty earnings growth of ~19% in FY24 & ~13% in FY25, which is quite healthy, amidst the global growth slowdown.

FY25 Nifty earnings growth buildup, expect to remain resilient



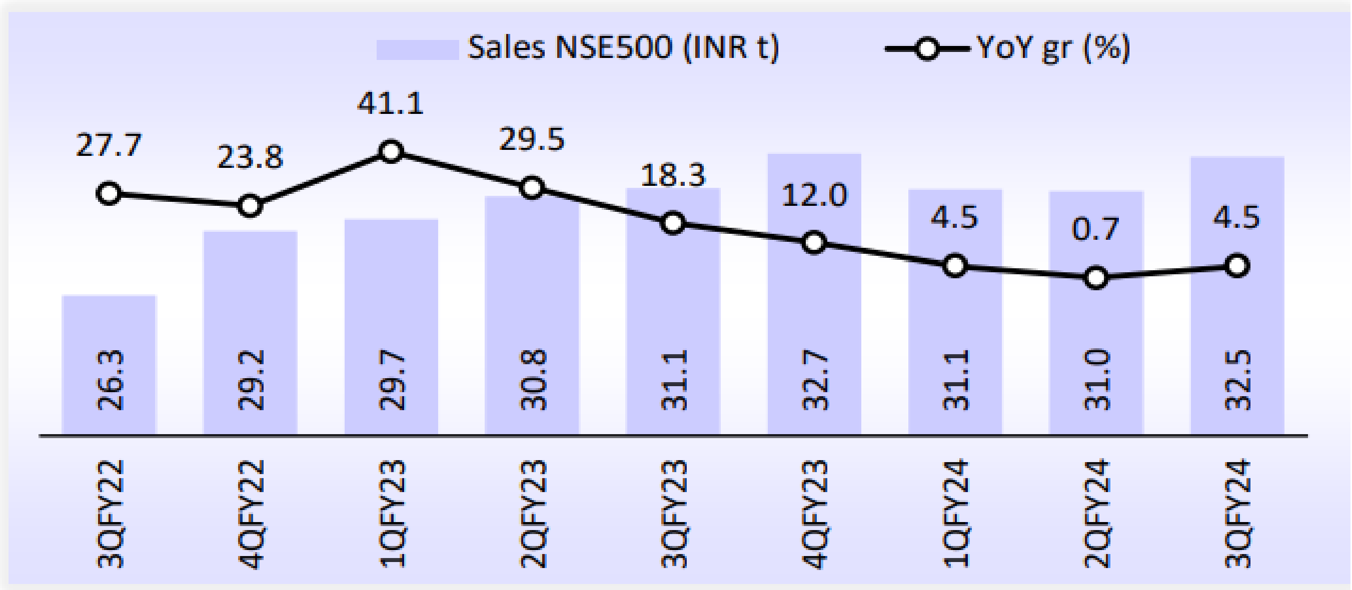
Source: BALIC Research

- Expect Nifty 50 earnings to grow by 13% in FY25 (vs 19% in FY24E).
- Growth to be broad based in FY25 with all sectors contributing positively.
- Key sectors driving earnings would be – BFSI, IT, Metals & Mining, Autos & FMCG.

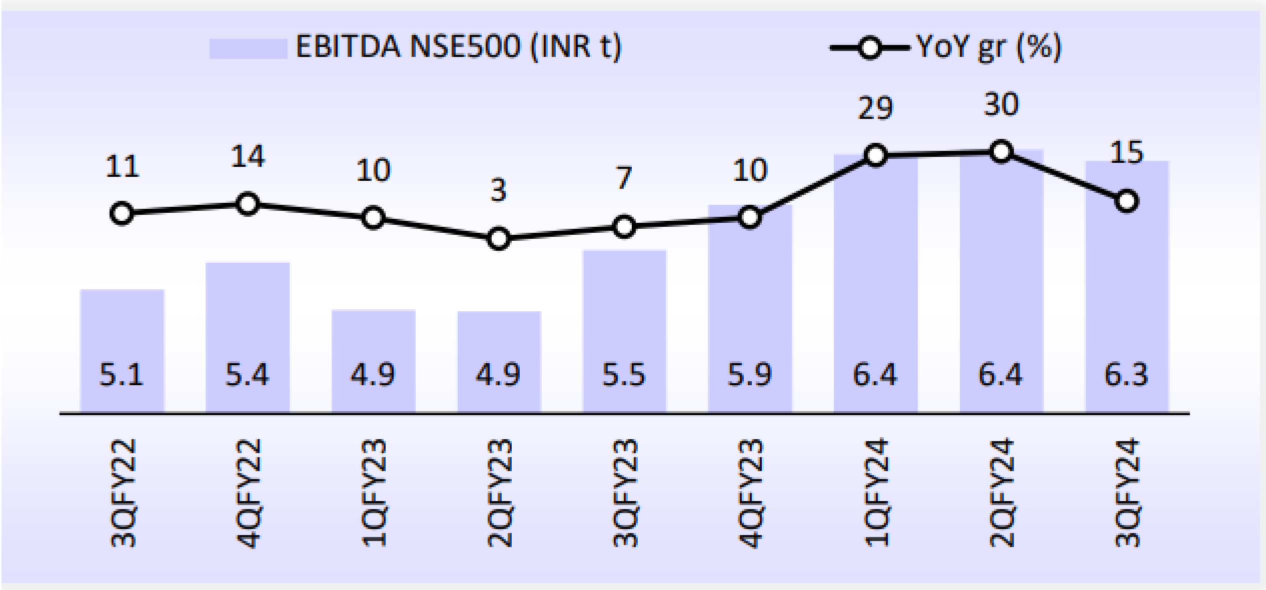
Earnings Review of NSE 500 companies -Margins drive profits

BAJAJ Allianz
LIFE GOALS. DONE.

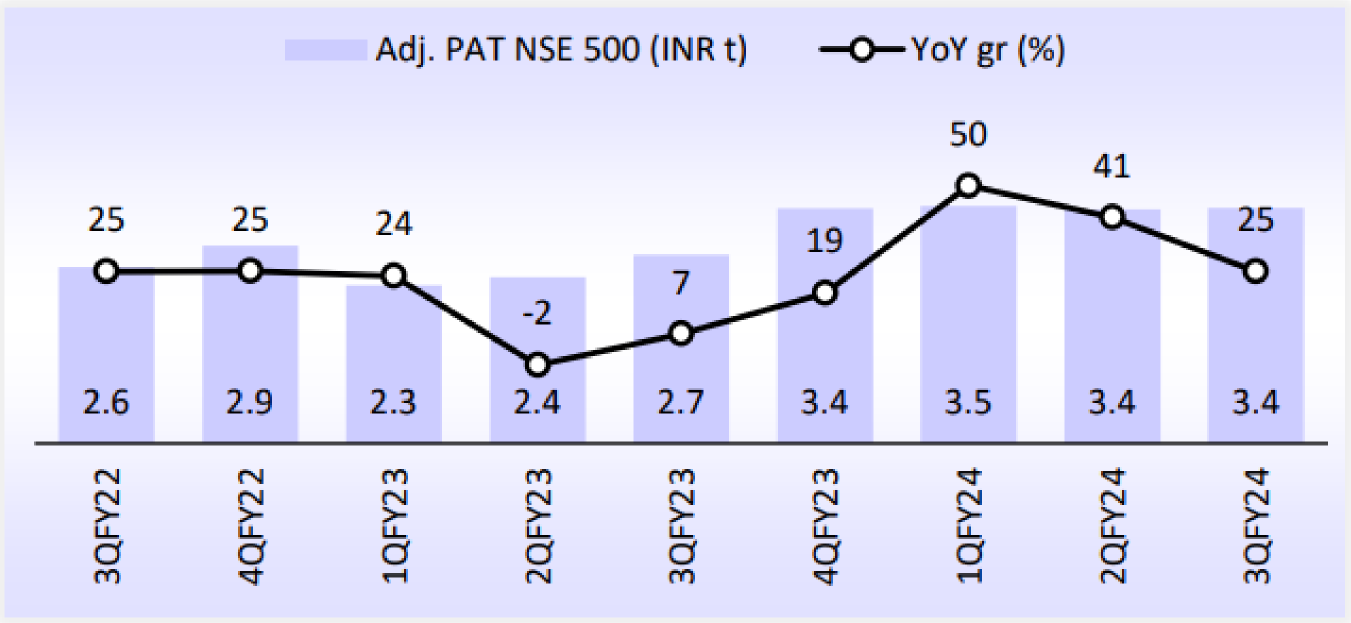
Sales rose 5% YoY to INR32.5t



EBITDA rose 15% YoY to INR6.3t



PAT was up 25% YoY to INR3.4t



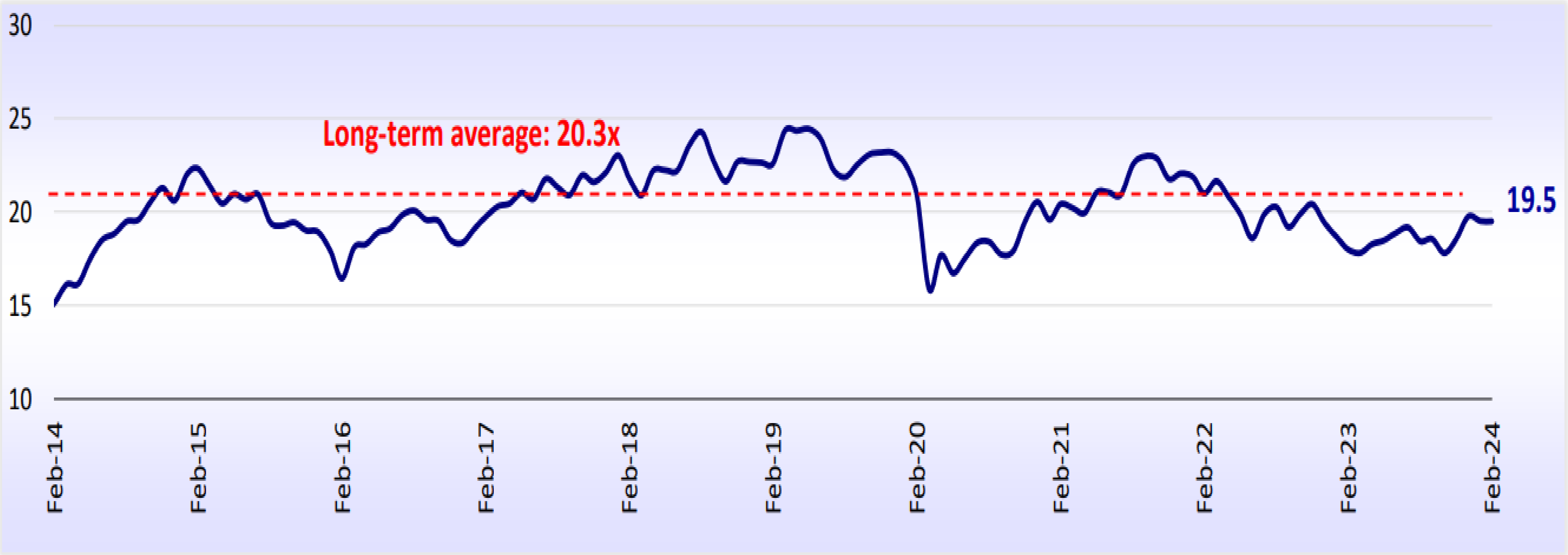
- PAT growth is driven by margin expansion
- Nifty 500 earnings growth of 25% YoY in 3QFY24.
- BFSI and Auto sectors, which reported 22% and 59% YoY earnings growth, respectively.
- The Nifty 500 aggregate sales/EBITDA/adj. PAT grew 5%/15%/25% YoY to ~INR32.5t/INR6.3t/INR3.4t in 3QFY24.

Source: Bloomberg, Motilal Oswal

India Equity Market Valuation

Valuations: Nifty's 12-month forward P/E near its LPA

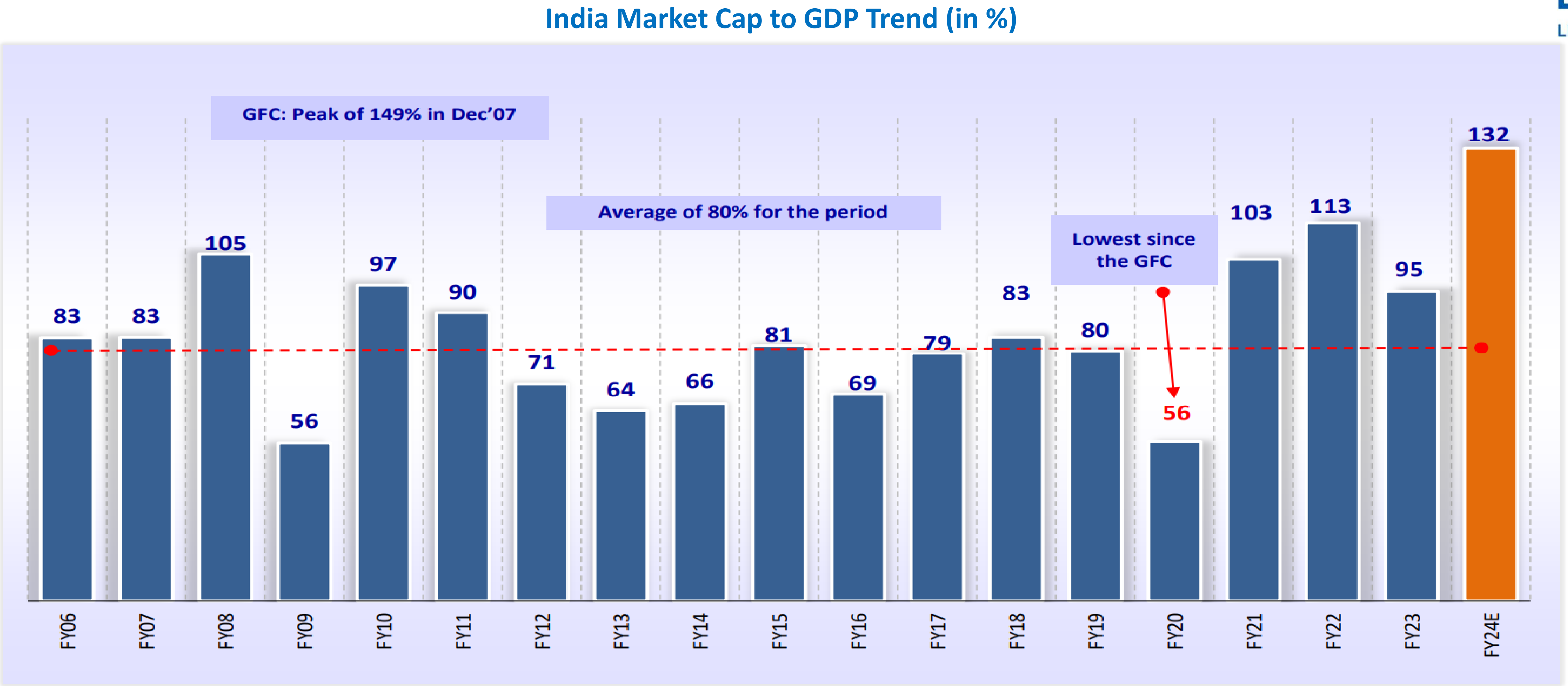
Nifty 1 Year Fwd Consensus P/E Ratio



Source: Bloomberg, Motilal Oswal

- The Nifty is trading at a 12-month forward P/E ratio of 19.5x, near its LPA of 20.3x (4% discount). Conversely, the P/B ratio of 3.2x represents a 15% premium to its historical average of 2.8x.

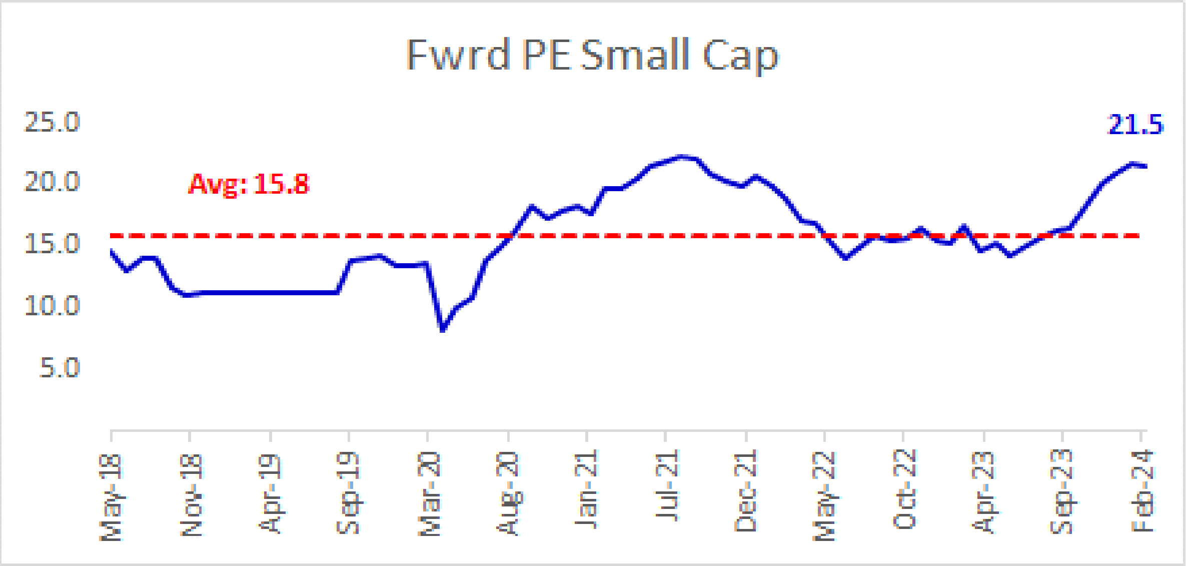
India’s market capitalization-to-GDP ratio at an all-time high

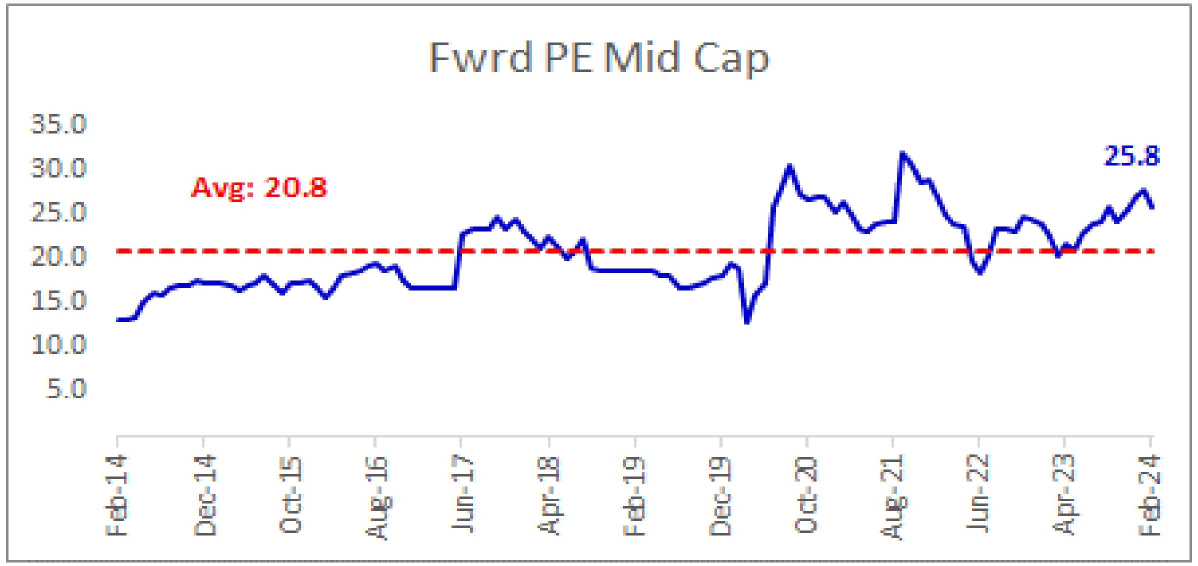


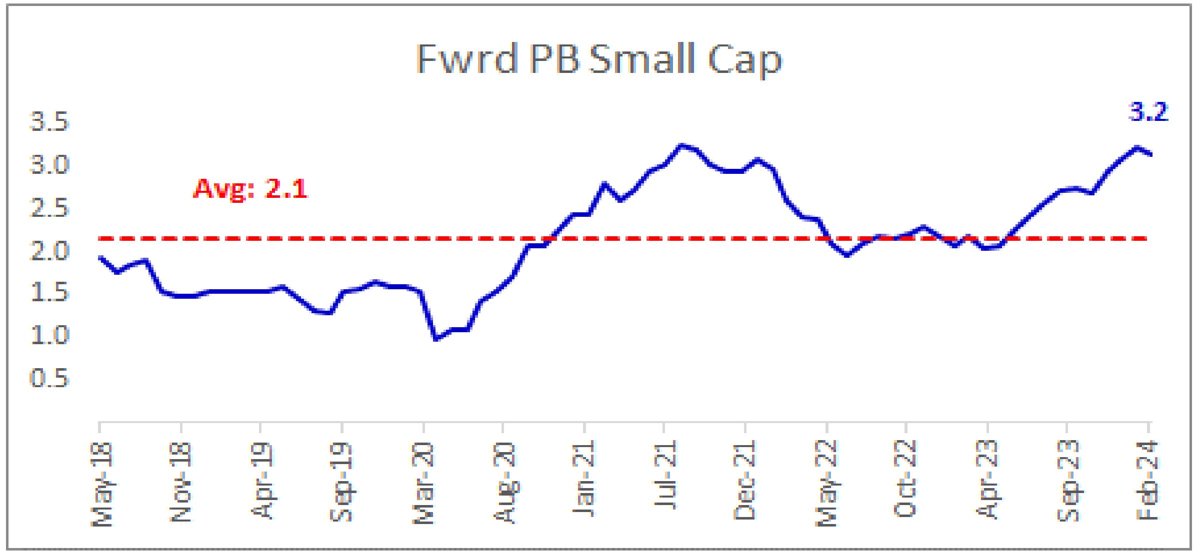
Source: Bloomberg, Motilal Oswal, Data as of Feb’24

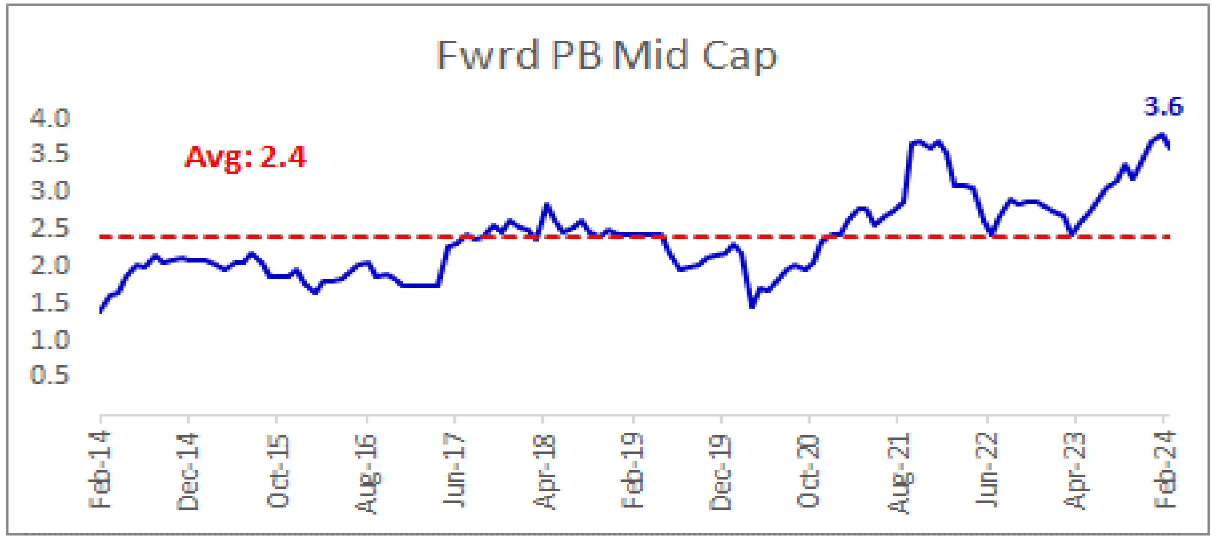
- India’s market capitalization-to-GDP ratio continues to remain strong. The ratio stands at 132% as of FY24YTD, much above its long-term average of ~80%.

Valuations: Mid & Small Cap Indices trading at premium









Source: Bloomberg, Motilal Oswal

Market Outlook - 2024

LIFE GOALS. DONE.

- Equity market delivered solid returns in CY23. While the Nifty 50 index was up ~20%, mid and small cap indices delivered around 50% gains.
- Global monetary policy tightening in response to an inflation scare--which acted as the biggest headwind for equities in 2022 appeared near its end, as most major central banks paused during the second half of 2023.
- Fears of a **global recession in 2023 also didn't materialize** with the global GDP growing at ~2.6% in CY23.
- In **India, the macros appear robust with a recovery in GDP growth in FY24,** combined with deficits closer to the budgeted levels.
- **Equity earnings in India have been solid** with Nifty 50 companies delivering a 20%+ growth in H1FY24 and are on track to deliver healthy growth in full year FY24 and FY25 as well.
- **Flows –**
  - **FII flows have turned positive in FYTD 24,** given India's relative standing are expected to be positive in 2024.
  - Domestic flows continue to be very strong with a significant portion coming via MF SIP (Systematic Investment Plan) flows.
- Post the 2023 rally, **valuations are now elevated thereby limiting substantial upside from current levels** despite the strong fundamentals and macros.
- Overall, **we expect modest returns from equities** over the next one year. From a market cap perspective, we **prefer large-caps to mid/small-caps presently**.
- From **fixed income perspective** we prefer **medium term part of yield curve**, after the recent rally. **Good time to lock in into present yields for traditional products**, as they are expected to head lower.

Thank You

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