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India - Price momentum is negative, but the Indian market is far from out

Indian Market Correction: GDP and ADANI Allegations

The Indian equity market has dropped 10% since late September, influenced partly by external pressures, including fears of a new global tariff regime following Trump's victory (emerging markets, especially in Latin America, have felt the brunt of this). However, India's decline also stems from domestic factors: a disappointing GDP growth figure of 5.4% YoY for November, falling short of the 6.5% expected, and legal proceedings against Adani Ports president, head of India's largest industrial conglomerate. This last unfavourable factor seems to be going away, as the short selling firm Hindenburg, specialized in short reports and which acted against Adani, has just announced the cessation of activities and closure of the company, and we believe that this is related to the evidence of collusion between Hindenburg and a Anson hedge fund, according to the documentation provided in the investigation carried out by a court in Canada. A collusion that according to sources would constitute a securities fraud. The fact that Hindenburg is closing the company probably means that it has also closed the short positions in Adani. If this is the case, it is positive for the industrial group and for the market

The market's negative tone will be temporary, and we will see a recovery in flows once again.

- 1) GDP Base Effects: The 5.4% growth reflects a high base effect, given the 8.1% growth in the same period of 2023.
- 2) Corporate Capex Recovery: Private Capex (which accounts for 66% of national Capex), has been absent over the past two years due to a significant corporate deleveraging process, closely tied to reforms and clean-up efforts in the financial sector. In our view, once the main corporate sectors are stabilized, private Capex is expected to return with greater strength and resilience. Private demand at sufficient levels (with a floor of 6% YoY), combined with any interest rate cuts by the RBI, could act as triggers for a renewed surge in national Capex.
- 3) The public Capex cycle has been somewhat subdued recently in India because the government put spending on hold during the first half of the fiscal year ending in March 2025 due to the electoral cycle. With the elections now behind, public Capex is expected to regain momentum in the coming months.
- 4) A strong harvest allows us to anticipate robust consumption levels in the agricultural sector and among rural communities.
- 5) Consumption Resilience: Private consumption at 6% YoY remains robust compared to the 5-year average of 4.5%, sufficient to support a Capex cycle.
- 6) Domestic flows regain importance. In Q3, domestic capital inflows through domestic mutual funds started strong, reaching a record \$6 billion in October. Although insufficient to offset the \$11 billion in foreign capital outflows, the record inflows by domestic institutional investors—who largely dominate the Indian stock market—allow us to differentiate

between systemic risk and idiosyncratic risk stemming from, for example, news like the Adani one. It seems, then, that this case has not generated any significant fear among domestic investors.

- 7) While manufacturing is at its lowest point in the last six months, seasonality is expected to ensure a rebound in the data.

We acknowledge that certain bearish pressure factors remain in place.

- 1) Despite the correction since September, **valuations remain demanding**, with a P/BV of 3.9x and a risk premium higher than other emerging markets and its historical average. However, today's India is fundamentally different from a decade ago, making such comparisons less relevant.
- 2) The challenge lies in the **RBI's focus on inflation, which remains slightly above the upper target range at 6%**. An abrupt shift in its stance could harm its credibility. Therefore, we expect the **RBI's support to come very gradually**. The repo rate remains at 6.5%. Fortunately, core CPI is quite low (at 3.75%), so a commitment from the RBI to reduce rates as soon as food inflation shows signs of stabilizing could be sufficient to reignite investor appetite.
- 3) To be honest, **the legal case against the Adani Group could have market-wide repercussions** if the port-energy conglomerate faces refinancing challenges—half of its debt is financed with foreign capital. Beyond the legal proceedings against Adani, other companies in the country have seen their valuations rise since the allegations, suggesting limited contagion risk. Trump himself has criticized the regulations under which Adani was indicted, although the Trump administration could use this case as leverage to pressure India into reducing tariffs on U.S. products.

Market outlook – Recommendations & Targets from fundamental analysis

- **Equities – SENSEX: OVERWEIGHT** (Target price 90,000)
- **Bonds – Govies: OVERWEIGHT** (New target yield 6.00%)
- **Bonds – Corporates: OVERWEIGHT**
- **Forex – INR/USD: NEUTRAL** (Target 86)