Research Institute

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Marketing material

India: Bright spot in uncertain times

India's economic outlook remains attractive, and the recent market pullback creates an entry opportunity for investors

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– Despite a challenging global environment, India is expected to be among the fastest-growing nations of the next decade, potentially overtaking Germany and Japan in 2027.[1]

– In addition to India's well-known demographic advantage, the government's capex offensive, expanding exports, growth of technology sector (so called 'New India') and potential benefits from 'China plus 1' strategies have generated momentum for the India's stock market.

– However, in the last two quarters, the Indian equity market has undergone a correction, driven by domestic factors such as slowing economic indicators, falling earnings growth in conjunction with high valuations, as well as due to global factors resulting in foreign portfolio investor outflows.

– We believe the structural growth outlook for India's economy remains intact, with various signs suggesting that the slowdown in 2024 can be considered transitory.

– Equity valuations have corrected to near or below historical averages, providing a good entry opportunity for medium and long-term investors seeking to capture India's opportunity story.

The macroeconomic investment case for India has become increasingly compelling. India's economic ascent is driven by strong domestic consumption, digital transformation, and government-led reforms. A decade ago, India was part of the 'fragile five',[2] mainly because of its former relatively high current account deficit, but it has since transformed into a favoured destination for Emerging Market investors. India's demographic advantage is well recognized, stemming from a combination of the world's second-largest labour force, with approximately 694 million people (second only to China), and a relatively young population with a median age below 30. Now India needs to capitalize on its window of favourable demographics and increase per-capita income levels. This article explores why investors should consider a standalone India equities allocation in a global portfolio. First, we assess the macroeconomic landscape and the growth outlook, including the potential impact of the recent U.S. tariffs, and second, we evaluate the fundamentals of India's equity market and whether the recent pullback presents a buying opportunity.

[1] Economy size as measured in $USD, current prices based on IMF's World Economic Outlook Database, October 2024. There is no assurance that any projection, estimate or forecast will be realized.
[2] In 2013, Morgan Stanley coined the term 'Fragile Five' to represent emerging market economies that have become too dependent on unreliable foreign investment to finance their growth ambitions. The five members of the Fragile Five include Turkey, Brazil, India, South Africa and Indonesia.

1 / India's economic outlook

1.1 Macro growth story, tempered by some headwinds

As our last year CIO special report[3] points out, India has always combined great potential with big challenges. We believe the challenges are being tackled more actively, making the country attractive from a strategic point of view. In Figure 1, we summarize our India's economic outlook, highlighting the opportunities and challenges for the country's macro growth story. In the following few sections, we provide more detail on some of these considerations.

Figure 1: India: Strong growth story with some structural headwinds

Strengths and opportunities

- **High growth potential**: India's **growth potential of 6.5%** is high in global comparison. India is expected to contribute **1/5 of global growth by 2028.** India can overtake Japan and Germany as **3rd largest** economy in nominal GDP (USD bn) **by 2028**.
- **'China plus 1':** India is expected to benefit from investment strategies aiming to diversify from high China exposure. However, the country's attractiveness for Foreign Direct Investment (FDI) flows still needs to be improved.
- **Digitalization:** India's **productivity** has improved, along with higher **competitiveness**, driven by a sharp increase in digitalization, accelerated during the pandemic. New growth sectors have arisen, including **high-skill exports** (**'New India'** such as IT services and mobile handsets, as well as drugs and pharmaceuticals) and the rise in **digital start-ups**.
- **Green transition:** India's ambition for energy independence is spurring investment in emerging sectors, such as green hydrogen, EVs and solar panels.

Challenges and risks

- **Vulnerability of capital flows:** Indian rupee has experienced some weakness in recent months, despite lower Current Account Deficit (CAD) due to structurally rising services exports/surplus. Capital inflows to India's financial markets have been strong until 3Q 2024 but reversed in recent month. Boosting long-term FDI flows could reduce vulnerability to volatile Foreign Portfolio Investment (FPI) flows.
- **Inflation volatility**: Food prices constitute the highest share in the Consumer Price Index (CPI) basket. A structural rise in the agricultural sector productivity and rising income of low-wage earners would reduce the volatility.
- **Labor market:** Job creation does not keep up with rising working force. More jobs in manufacturing sector and improved skills of the labor force are essential.
- **Exposure to climate change** (droughts, extreme heat waves).
- **Trade war:** While the external trade is not a major driver for India's economy, potential global demand fallout could impact growth.

Source: DWS view, as of April 2025. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

1.2 India's economy is likely to remain on track towards 6.5% GDP growth

Our medium-term outlook for India's real GDP growth is set at 6.5%. The growth slowdown seen in 2024 was from unsustainably high levels previously, Figure 2. While there are short-term challenges stemming from geopolitics, FX pressure, FX reserves fall, and elevated inflation, in the medium-term, we expect public sector investment to normalize, private investment to step in, consumption demand to remain robust, and other growth drivers such as ongoing advances in productivity and competitiveness to be preserved.

We consider the growth in 2021-2023 which came in at roughly 9% yoy (after revisions) to be rather an outlier than a norm, aided by the strong rise (15% yoy) in a few sectors, including so called 'New India' (15% of GDP, including mobile handsets, digital startups and other). The related jump in incomes and demand for luxury goods and real estate is also levelling around more sustainable levels. Growth in service exports has normalized from 27% yoy in 2022 and 2023 to a still high 14% in 2024.

The Indian economy will be likely less impacted by the global tariff challenges over the coming years than its emerging market peers in Asia because India is a large country with a steadily increasing consumer base, while the external trade (net

[3] DWS (February 2024). "India – a poorly kept secret"

exports) is not a main economic growth driver. Yet it is currently difficult to forecast how the U.S. tariff policy will further develop. The reciprocal tariff shocks and the potential global demand fallout could impact our outlook of 6.5% for the GDP growth.

President Trump proposed a 26% tariff on India due to take effect from April 9, 2025. This is much higher than market expectations but lower than tariffs on Asian peers. However, as a bilateral trade agreement between the U.S. and India is under negotiation, the net impact could be reduced. We think the prolonged global uncertainty could have greater implications for financial markets than macro economy. Still, the risk for a 25bp lower GDP growth rate this year is rising. The Indian central bank is expected to counter the growth risks and high uncertainty with various key rate cuts in 2025 along with potential liquidity measures. Besides monetary easing, prudential fiscal easing could be pursued to boost private consumption, which is responsible for nearly 60% of India's GDP.

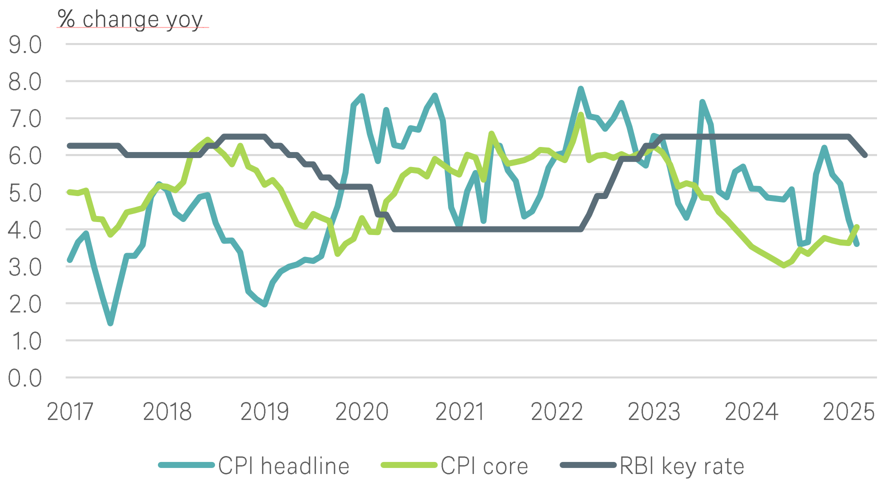
Headline inflation in India is expected to average 4.0% yoy in the 2025 calendar year, with food inflation normalizing below 5% from 7%+ in 2024, thanks to adequate weather conditions, Figure 3. Following two rate cuts by 25 bps each at the start of 2025 (lowering the rate to 6%), the Reserve Bank of India (RBI) signalled more easing to come by shifting its policy stance to accommodative. A structural reason for India's high and volatile inflation is the extraordinarily high weight of food prices in inflation. This can only be improved by agricultural reforms reducing exposure to weather effects and by raising income in the rural regions (as the higher the income, the lower is the weight of food prices in the inflation indicator).

Figure 2: Economic indicators and forecasts for India

	2020	2021	2022	2023	2024	2025e	2026e
Real GDP (% yoy)	-5.8	9.7	7.6	9.2	6.5	6.5	6.5
Private Consumption (% yoy)	-5.3	11.7	6.8	4.0	6.5	6.2	6.2
Fixed Investments (% yoy)	-7.1	17.5	6.6	9.0	6.3	5.5	6.8
Consumer prices (%yoy, avg.)	6.2	5.5	6.7	5.4	4.7	4.0	4.3
Current account (% of GDP)	0.9	-1.2	-2	-0.7	-0.9	-1.1	-1
Total public sector fiscal deficit* (% GDP)	-12.9	-9.3	-9.2	-8.3	-7.8	-7.6	-7.4
General government debt* (% GDP)	88.4	83.5	81.7	83.0	83.1	82.6	81.7

Source: Haver Analytics Inc., IMF, UBS Research, DWS Investment GmbH of April 2025. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Fiscal year ends March 31. For example, in the table, 2023 would be April 2023 to March 2024. *Fiscal balance and government debt refers to IMF definition.

Figure 3: India: Inflation and key interest rate



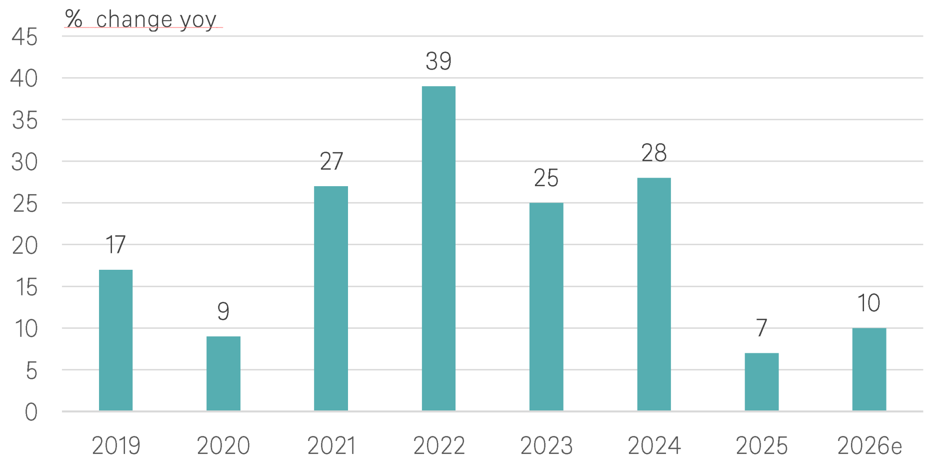
Source: LSEG Datastream, DWS Investment GmbH. As of April 2025.

1.3 Normalization of public capex and private consumption

The turnaround from strong public sector capital expenditure (capex) growth to an abrupt fall, has been weighing on growth in calendar year Q2 and Q3 2024, Figure 4. We expect fiscal policy impact on GDP growth to be less negative in 2025 than in 2024. The public sector investment has slowed down for several reasons, including: 1/ extraordinary high investment spending ahead of last year's elections, 2/ climate effects with above normal rainfalls, and 3/ implementation problems such as a delay in disbursement guidelines states capex loans. We expect improvement in the current year; however, fiscal scope is limited by the need for fiscal consolidation.

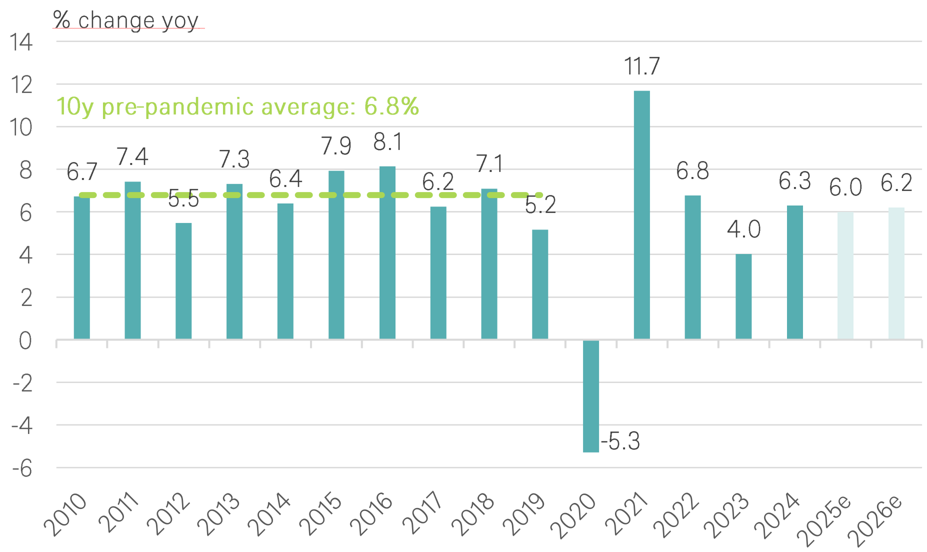
Private consumption growth is recovering but we do not expect the return to pre-covid levels soon, Figure 5.

Figure 4: Central government capex spending is expected to normalize



Source: Haver Analytics Inc., UBS research, DWS Investment GmbH, as of April 2025. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

Figure 5: Private consumption expenditure remains below pre-covid levels



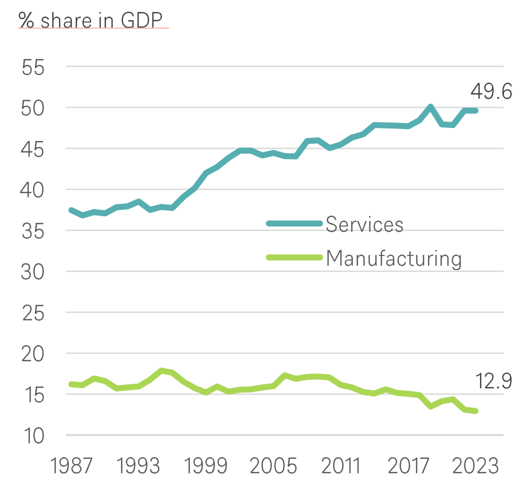
Source: Haver Analytics Inc., UBS research, DWS Investment GmbH, as of April 2025. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

1.4 India's service sector is a success story, but manufacturing sector needs a boost

India's service sector has seen major advances as % of GDP and sizable services surplus in the current account, Figure 6 and Figure 8. The rapid increase of India's services global market shares since 1997 can be considered exceptional, Figure 7. At the same time, the weight of the manufacturing sector in the economy is relatively low (around 13% in 2023). A sizable manufacturing sector, however, is needed to be able to create enough jobs to match quickly rising labour force with job creation. Currently, job creation in manufacturing is much lower than the combined service sectors jobs creation, Figure 9.

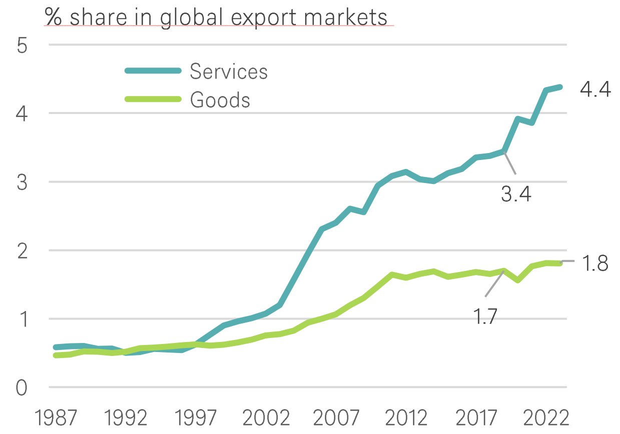
In 2020, the Indian government launched a production-linked incentive (PLI) scheme to stimulate local and foreign businesses to establish and grow operations in the country. With an outlay of more than USD $23 bn, the PLI scheme focused on 14 sectors. While the incentives to companies across sectors from semiconductors to mobile handsets helped the likes of Foxconn–which makes iPhones for Apple–to move their supply chains to India as part of the global 'China plus 1' diversification strategy, the numbers are not significant yet. Manufacturing's share as a percentage of GDP has remained stagnant in the last decade despite these efforts. In light of disappointing results, it is unclear if the scheme is to be extended beyond 2025.

Figure 6: India's service sector rapid increase



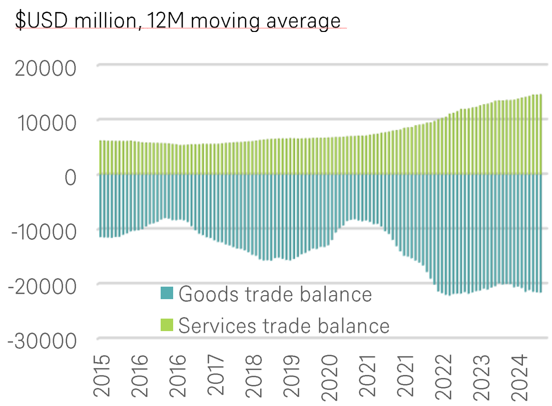
Source: Haver Analytics Inc., Nomura research, IMF, Goldman Sachs research, DWS Investment GmbH as of February 2025.

Figure 7: India's share in global export markets has risen strongly



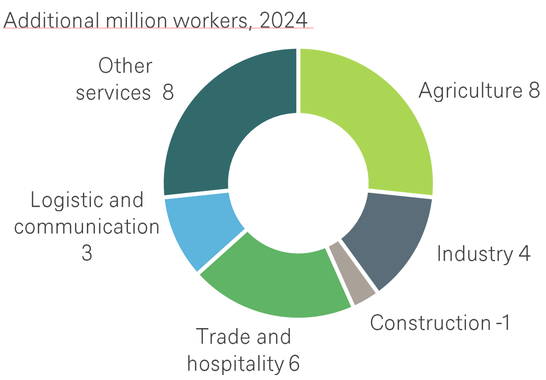
Source: Haver Analytics Inc., LSEG Datastream, DWS Investment GmbH as of February 2025.

Figure 8: India's service supply/trade deficit



Source: Haver Analytics Inc., Nomura research, IMF, Goldman Sachs research, DWS Investment GmbH as of February 2025.

Figure 9: Where does India create jobs?



Source: Source: Haver Analytics Inc., Nomura research, DWS Investment GmbH as of February 2025.

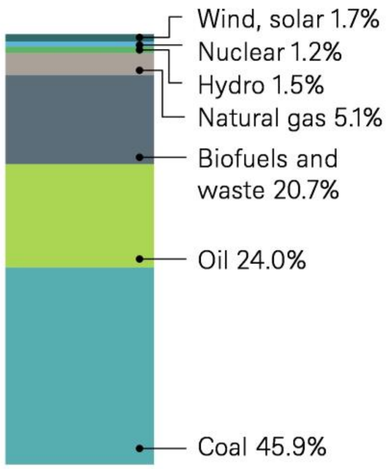
1.5 India's high growth scenario can test India's ambition for energy independence by 2047

Energy demand in India is growing rapidly, as the country continues to urbanize and the manufacturing sector develops. This growing demand is met through various energy sources, with coal set to remain the largest source of energy supply, Figure 10. The government of India has made remarkable progress in providing access to electricity and clean cooking while implementing a range of energy market reforms and integrating a high share of renewable energy sources into the grid.

India has set itself the goal of achieving energy independence by 2047 to achieve energy security, overcome its chronic trade and current account deficits, and realize decarbonization. The high growth scenario for India sets a high bar for expanding domestic energy production and infrastructure and would test the goal for energy independence. But even in the scenario with higher energy imports, their scale and their impact on prices come nowhere close to matching those of China in the 2000s, Figure 11. While India's energy demand today is broadly comparable to that of China in the early 2000s, its economy is far less energy intensive. India can also capitalize on gains in energy efficiency, the rollout of low-carbon technologies and a greater focus on higher value-added manufacturing unavailable to China in its boom years.

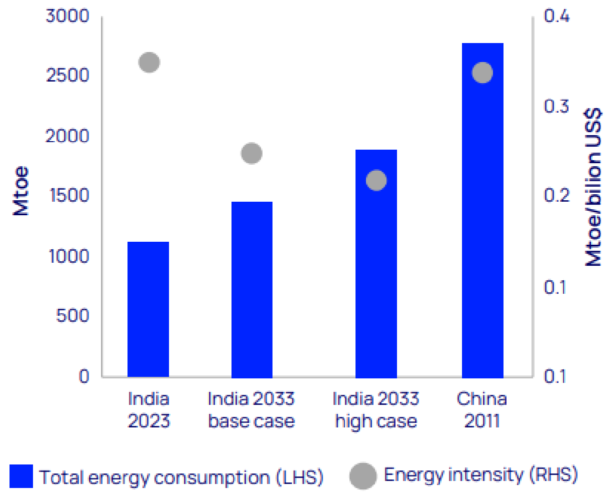
Wood Mackenzie estimates that Indian power-sector requires investment at US$600 billion over the next decade.[4] This presents a massive test for the country's ability to secure capital for generation capacity, grids and supply chains. In addition to expanding solar and wind manufacturing and installations, India needs to grow domestic oil and gas production, as well as to expand domestic refinery capacity.

Figure 10: Total energy supply in India in 2022



Source: International Energy Agency (IEA). India. Data as of 2022

Figure 11: India vs China energy demand comparison



Source: Wood Mackenzie (March 2025). "Eye on the tiger: How higher Indian economy growth could impact global energy markets".

1.6 How to raise India's growth potential even further?

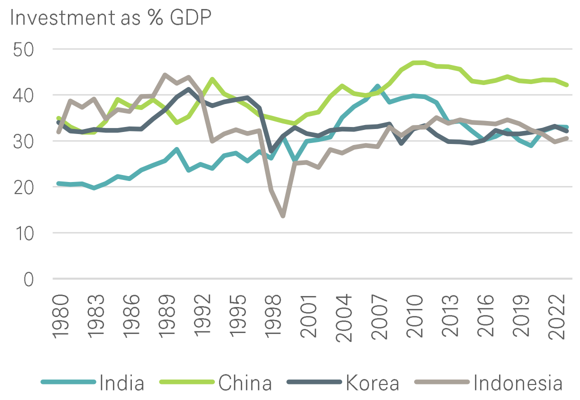
While our current medium-term outlook for India's real GDP growth is set at 6.5%, we believe India has higher growth potential (7-8%), although it is unlikely to match the 8-10% economic growth that China pulled off in the past. Comprehensive reforms are needed to increase the importance of the manufacturing sector and raise potential GDP growth overall. Other priorities include raising agricultural efficiency, improving climate resilience and increasing female labour force participation. Although India's overall debt level is moderate by global standards, in particular private households and corporate debt, the high level of public sector debt calls for prudent fiscal policies to reduce the fiscal deficit and debt-to-GDP ratio. While the services sector is driving India's global export competitiveness, a balanced approach that includes both manufacturing and

[4] Wood Mackenzie (March 2025). "Eye on the tiger: How higher Indian economy growth could impact global energy markets"

services would consolidate India's economic recovery. The investment ratio as percentage of GDP requires an improvement, Figure 12.

A next productivity boost could stem from higher private sector investment (local as well as foreign direct investment, FDI), which has lagged public investment since the pandemic. Figure 13 shows calculation by the Institute of International Finance (IIF) how much the growth potential could be raised in particular in terms of the capital input (that is investment adding up to capital stock) and via higher total factor productivity.

Figure 12: Investment ratio as % of GDP needs a boost



Source: International Monetary Fund (IMF), DWS Investment GmbH as of February 2025.

Figure 13: India's potential growth can be accelerated by reforms

IIF: Contributions to potential GDP growth (% points)		
%	Base case	Upside reform case
Labor	0.6	1.0
Capital	3.9	4.3
Total Factor Productivity	2.1	2.5
Potential GDP growth rate	6.6	7.8

Source: Haver Analytics Inc., Institute of International Finance (IIF), DWS Investment GmbH as of February 2025.

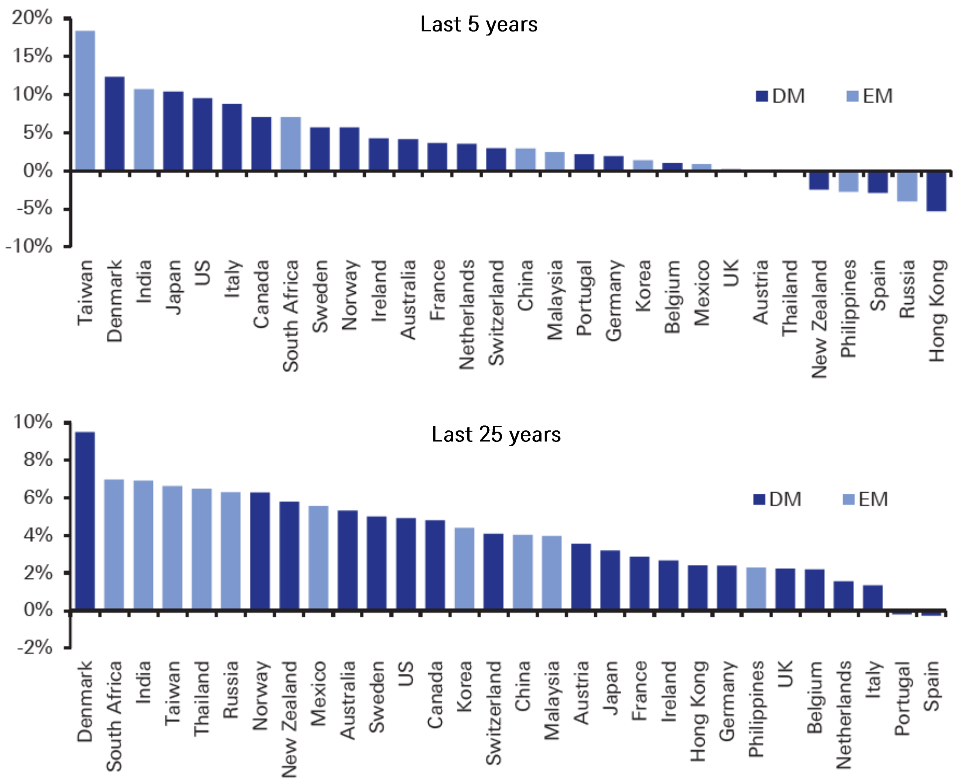
To sum up this section, next decade is crucial for India to capitalize on its "demographic dividend", or as some economists say, "to become rich before becoming old". Financial formalization, digitalization and electrification are setting the basis towards improving productivity. Focusing on more investment, infusing new technologies from around the world and growing innovation are critical for generating good employment for all the youth. This will allow India to accelerate growth and give it a shot to become a developed economy.

2 / The India equity market opportunity

2.1 Long track of outperformance

In the last quarter century, India has one of the highest real equities returns (+6.9% per annum) of the main Emerging Markets (EM) and Developed Markets (DM) countries, reflecting the country's economic expansion and corporate earnings growth, Figure 14.[5] It may come as a surprise to some investors that India outperformed the U.S, Japan, China and many European economies over the last 25 years.

Figure 14: Last 5 years and 25 years annualized real equity returns for Developed Markets (DM) and Emerging Markets (EM).



Source: Deutsche Bank (November 2024). "Lessons from the 1st Quarter Century of the Millennium". The data as of 10/31/2024.

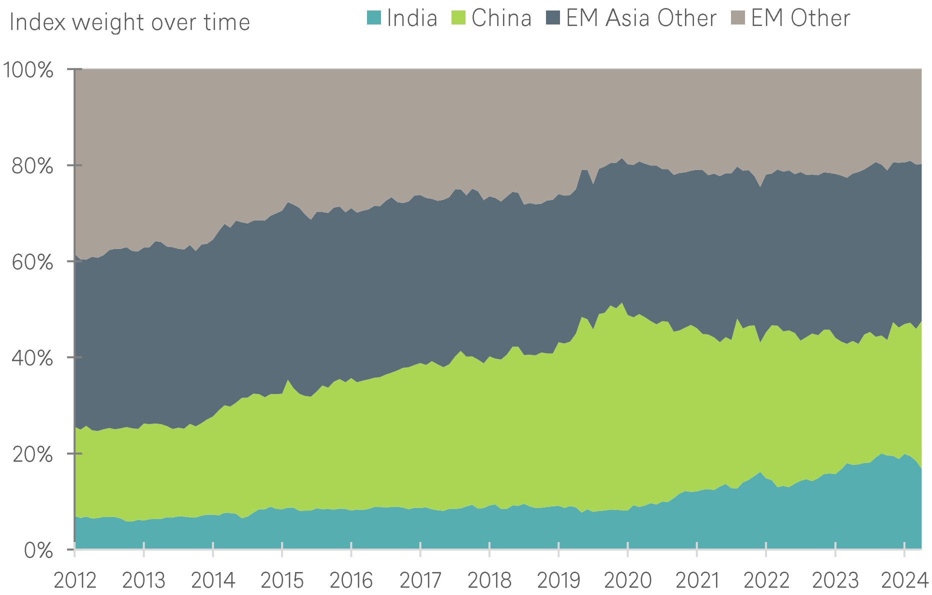
2.2 A growing role in Emerging Markets investing

India's representation in the MSCI Emerging Markets (EM) Index has risen from less than 10% in 2010 to 18% as of end of January 2025, Figure 15. This has happened at the expense of China, with its share decreasing to 27.5% at the beginning of 2025, declining from its maximum (above 40%) in 2020.[6] While investors could get a meaningful exposure to India through the EM equity basket, standalone allocation could give an opportunity to participate in a potential continuation of India gaining relevance in the index. It is of interest to note that in the MSCI Emerging Market Index, China A shares have a 20% inclusion factor, which means that their weight in the index is lower than it would be if based solely on market capitalization.

[5] Deutsche Bank (November 2024). "Lessons from the 1st Quarter Century of the Millennium"

[6] MSCI (February 2024). "India: An emerging world market story". MSCI EM Index Fact sheet as of January 31, 2025

Figure 15: MSCI Emerging Markets: Country breakdown over time

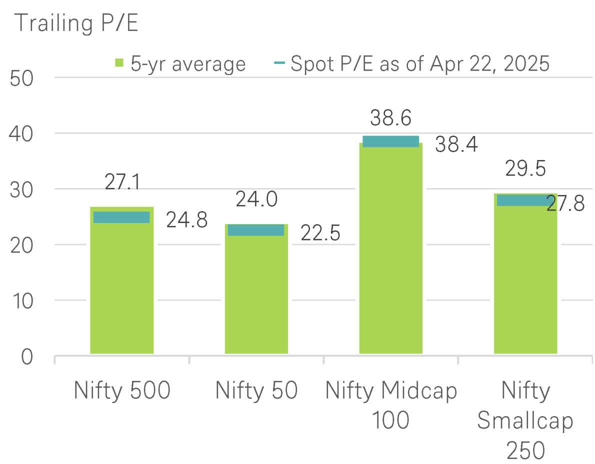


Source: DWS International GmbH, Bloomberg, JP Morgan. The data as of February 2025.

2.3 Stock Multiples Have Seen Correction from the Historic Highs in 2024

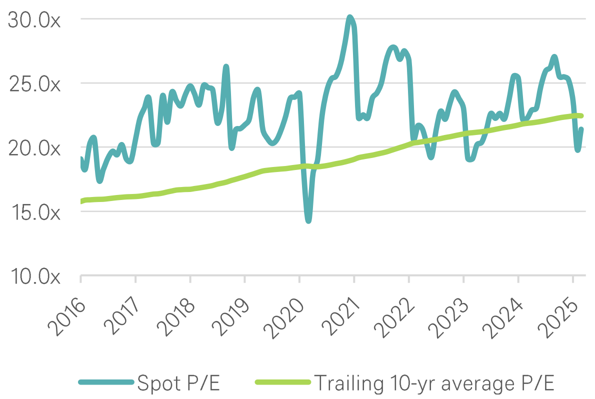
Indian equities have undergone significant valuation expansion since the COVID-19 pandemic, aided by the strong domestic liquidity. However, the valuations have seen a noticeable correction starting in October 2024. As of April 22, 2025, the trailing 12-month price-to-earnings (P/E) multiple for the Nifty 500 has lowered to 24.8 from the past 5 years' average of 27.1, Figure 16 and 17. Similar trends have been seen independently of the companies' market cap, although small and mid caps are still more expensive than large cap stocks, Figure 16. This establishes more attractive entry point for investors.

Figure 16: Trailing price-to-earnings ratio (P/E)



Source: Bloomberg, DWS International GmbH. The data as of April 2025.

Figure 17: Spot vs 10-year average trailing P/E ratio for NSE 500

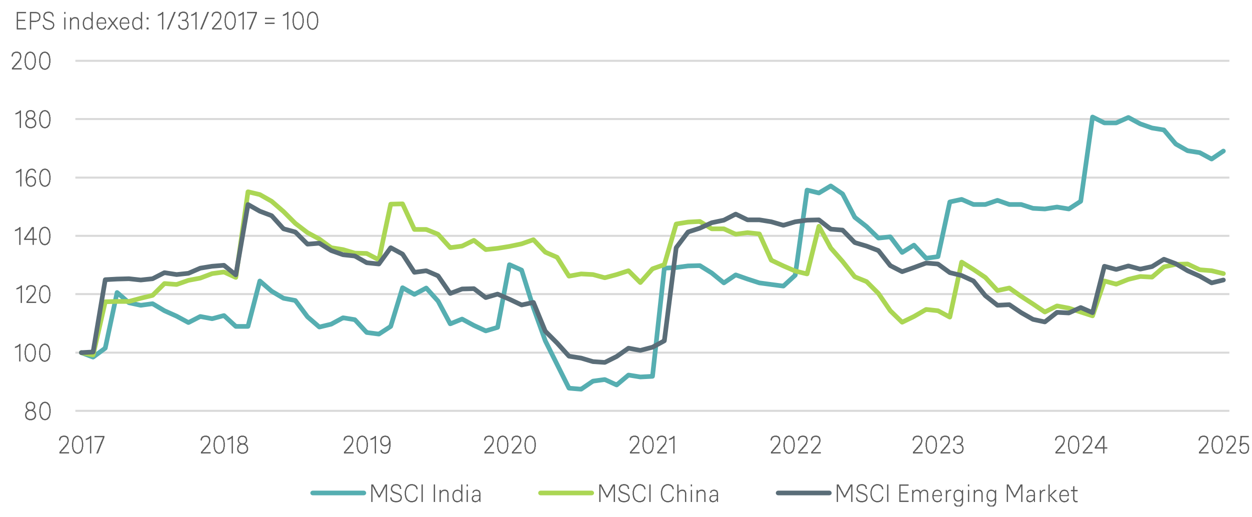


Source: Bloomberg, DWS International GmbH. The data as of March 2025.

2.4 Valuation premium has been supported by the earnings growth, at least so far

Despite the relatively high valuations, Indian companies have shown ability to drive higher return on capital and higher earnings growth. Emerging markets earnings (earnings per share (EPS) calculated at the index level for the past 12 months) have barely budged over the past ten years, Figure 18.[7] They actually declined for China (despite a doubling in GDP over the same period). India's profits have not only outperformed its peers but have delivered significant growth in the past three years. Starting the calendar 3Q24 earnings season, analysts' headline earnings-per-share estimates started to experience downgrades, leading to the recent market pullback. A pivot on the monetary front with the first rate cuts in February and March 2025 could revive domestic demand and support earnings in the coming fiscal year.

Figure 18: 12-month trailing Earnings per share (EPS) for MSCI India in comparison with MSCI China and MSCI Emerging Market



Source: Bloomberg, DWS International GmbH, as of April 22, 2024. *12-month trailing Earnings per share (EPS)

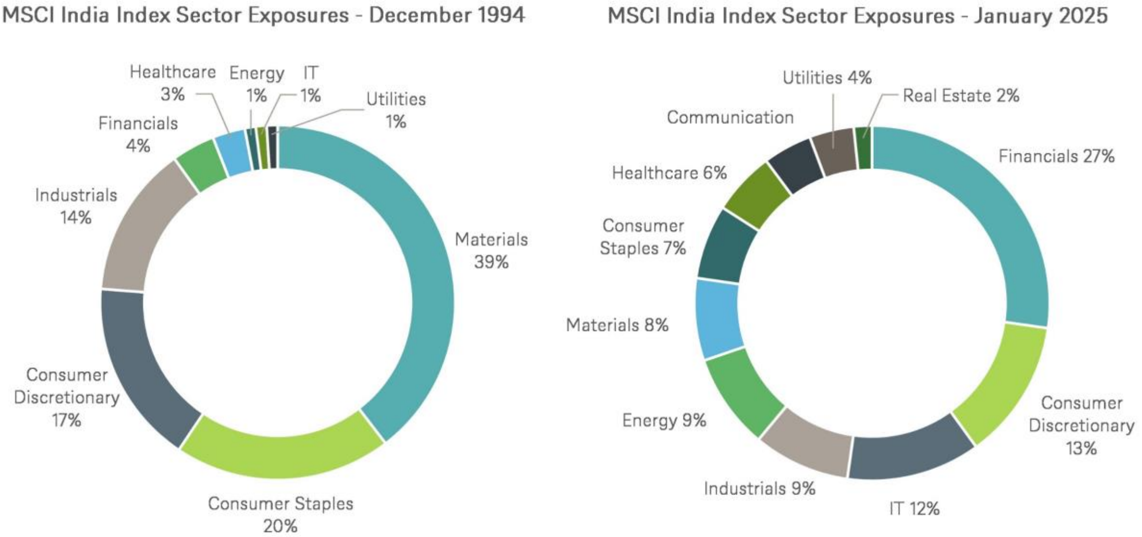
2.5 India's equity provide higher diversification among EM markets

India's stock market is much more diversified than that of most of other emerging markets. The sector composition has significantly changed since 1990s, reflecting the changes in underlying economy. While in the 1994, it was heavily tilted towards manufacturing and industrial activity, we have seen an increase in the relative importance of services linked sectors, Figure 19. As of January 2025, the top three weighted industries in MSCI India are Financials, IT and Consumer Discretionary. The India equity market has less concentration risks than markets such as Taiwan and Korea, which have higher weights in Technology.[8]

Many India sectors underwent sharp post-pandemic valuation shifts, led by several mega themes. 'Premiumization' of consumption has lifted real estate and consumer discretionary stocks. A significant ramp-up in government investment, aligned with the 'Make in India' theme, has propelled the industrials, materials and utilities sectors. Digitization and software exports have given tech added lift. Valuation expansion has eluded financials because top privately owned banks have run into margin compression caused by slow deposit growth.[9]

[7] DWS (February 2024). "Lessons from the 1st Quarter Century of the Millennium"
[8] FTSE Russell (January 2025). "India: A structural growth story. But have valuations run ahead?"
[9] Bloomberg Intelligence (December 2024). "Indian Equities 2025 Outlook"

Figure 19: MSCI India sector weights in 1994 and 2025.



Source: Bloomberg, MSCI, DWS International GmbH, as of January 31, 2025.

2.6 India leads global IPO and equity derivatives trade; both have been accelerated by the retail market participation

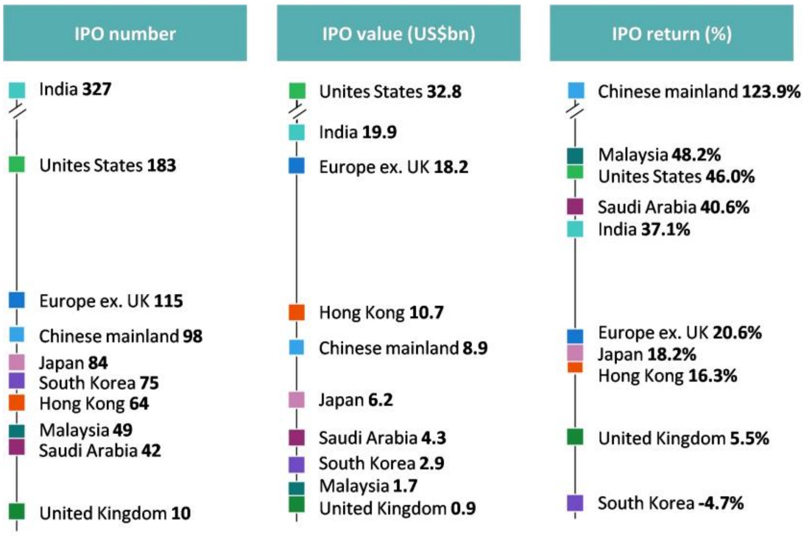
In 2024, for the first time, India has risen to the number one position globally in IPO volume, listing almost twice as many IPOs as the US and more than two-and-a-half times as many as Europe, Figure 20. The US reclaimed the top spot globally by IPO proceeds at $32.8bn followed by India at $19.9bn.[10]

Indian IPOs have benefited from the rapid expansion of the domestic retail investor base, as household investment into local equity markets surged. However, significant proportion of stocks listed in the past few years are now trading below their issue prices. This signals more challenging phase for new IPOs as well as for investors.

In the past years, significant retail participation in the India's markets has not only accelerated the IPO market but it also has been responsible for the equity derivatives volume. Trading volumes of options on Indian equities have eclipsed those on the U.S. stocks. However, retail options trading activity fell recently to a three-year low, after the Securities and Exchange Board of India imposed strict measures late last year. The 30-day rolling average of options contracts traded by individual investors on the National Stock Exchange has declined 77% since the first set of curbs by the Securities and Exchange Board of India took effect in November.[11] The regulator stepped in to shield retail investors following its study that showed they lost billions on derivatives.[12] We do not see this impacting medium- and long-term prospects of India's equities, rather it can be considered as a step towards more mature capital markets with stricter regulations and investor's protection.

[10] EY (December 2024). "EY Global IPO Trends 2024"
[11] Bloomberg (March 2025). "India's Options Trading Curbs Drive Speculators Out of Market"
[12] Securities and Exchange Board of India, SEBI (September 2024). "Updated SEBI Study Reveals 93% of Individual Traders Incurred Losses in Equity F&O between FY22 and FY24; Aggregate Losses Exceed ₹ 1.8 Lakh Crores Over Three Years"

Figure 20: 2024 IPO activity and YTD IPO return by major IPO market



Source: EY (December 2024). "EY Global IPO Trends 2024"

2.7 India's equity have relatively low correlation to other stock markets

India's stock markets have traditionally exhibited a relatively low correlation to other major stock markets, Figure 21. Not only is India moderately correlated with developed markets (0.57 with Europe, 0.54 with USA, 0.48 with Japan), its stock markets are even less correlated with many constituents of the MSCI Emerging Markets (0.40 with China, 0.56 with Korea).

Figure 21: MSCI India return correlation with selected MSCI markets in the last 10 years (weekly USD price returns)

	India	AC World	Europe	USA	China	Japan	Korea
India	1.00	0.61	0.57	0.54	0.40	0.48	0.56
AC World	0.61	1.00	0.83	0.96	0.56	0.68	0.74
Europe	0.57	0.83	1.00	0.74	0.47	0.68	0.65
USA	0.54	0.96	0.74	1.00	0.44	0.59	0.64
China	0.40	0.56	0.47	0.44	1.00	0.45	0.51
Japan	0.48	0.68	0.68	0.59	0.45	1.00	0.62
Korea	0.56	0.74	0.65	0.64	0.51	0.62	1.00

Source: Bloomberg, DWS International GmbH, as of February 20, 2025. Correlation data is calculated based on historical return of respective MSCI indices for the past 10 years, using weekly USD returns.

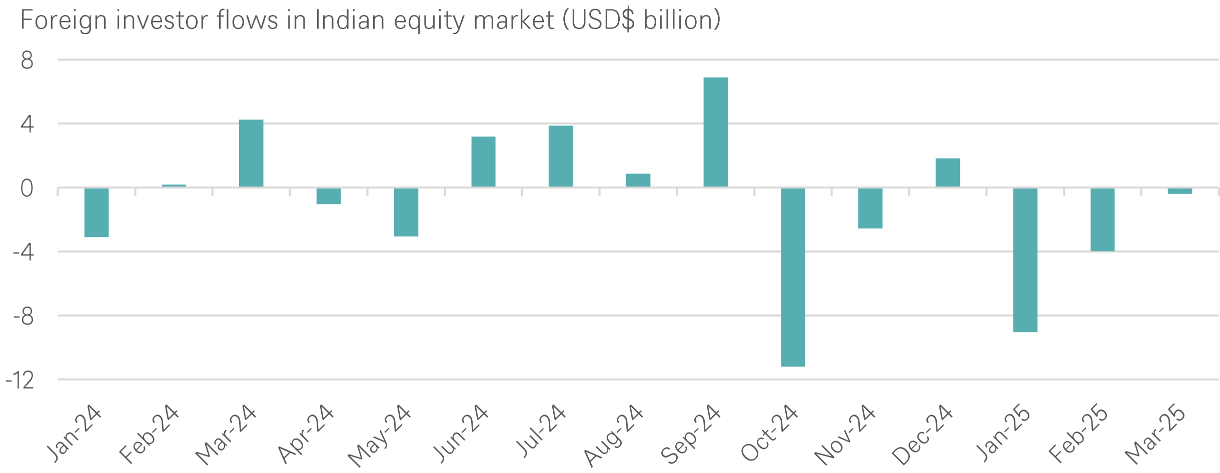
2.8 Domestic investors continue to offset recent foreign investors outflows

There have been significant recent foreign investors outflows from India's equities. Some of it is driven by a general risk-off trade from emerging markets due to higher U.S. treasury yields and stronger U.S. dollar.[13] This resulted in the increasing reliance of the Indian equity market on domestic investors. Global investors have pulled out around USD$ 9 bn from Indian

[13] Deutsche Bank, Chief Investment Office (November 2024). "India: Foreign investor selling provides buying opportunity"

stocks in January 2025, while domestic institutions and retail investors remained buyers, Figure 22. Inflows into recurring plans (Systematic Investment Plans, or SIPs) offered by mutual funds emerged as key support for the market. Systematic domestic inflows are scaling new record highs each month. In the month of January, SIP inflows rose to over USD$ 3 bn, which represents around 40% increase year-over-year.[14] However, recent stock market correction and improved deposit rate may slow down the growth of domestic investors inflows into the equity market.

Figure 22: Foreign portfolio investment (FPI) in India equity markets in the last year



Source: Bloomberg, DWS International GmbH, as of January 31, 2025.

2.9 A few practical considerations for investing in India equities

Here we highlight a few practical considerations that could be useful for investors without significant experience of investing in the India's equities market (or at least we found this worth of noting).

Market access: Direct vs. indirect routes

Foreign investors generally have two primary routes: investing via Indian ETFs or mutual funds listed abroad or opening an account directly in India as a Registered Foreign Portfolio Investor (FPI). The indirect route–through global or regional funds–is simpler, often more tax-efficient and avoids regulatory complexities. For those seeking direct exposure, registering as an FPI involves significant compliance requirements, including custodian arrangements and ongoing reporting obligations.

Taxation and withholding rules

Tax treatment varies based on how an investor accesses the market. For direct investments, India imposes capital gain taxes: short-term gains (less than 12 months) are taxed at 15%, and long-term gains (above 12 months) at 10% beyond a threshold. Dividend income is also taxed in the hands of investors. Double taxation treaties may reduce the effective rate but filing and documentation can be cumbersome. For fund-based exposure, taxation often depends on the fund's domicile–U.S.-listed ETFs, for instance, have different rules than those based in Luxembourg or Singapore.

Free float and ownership concentration

A unique feature of Indian markets is the high level of promotor ownerships in many companies, sometimes over 50%. This reduces free float and can increase stock volatility, especially for mid- and smallcap names. It also limits influence of institutional investors on governance. Passive funds tracking free-float adjusted indices, like the Nifty or Senex indices

[14] Association of Mutual Funds in India. Systematic Investment Plan (SIP) inflows.

partially mitigate this, but investors should still be aware of liquidity risks, particularly when entering or exiting less-traded names.

Corporate governance and disclosure

India has made strides in corporate governance, such as mandatory board independence, improved audit standards, and whistle-blower protections, but concerns persist. Related-party transactions, promoter influence on management, and occasional opacity in financial reporting remain watchpoints.

Currency and macro volatility

The Indian rupee can be volatile, particularly during global risk-off periods. Currency depreciation may erode USD returns even when the local market performs well. Investors should evaluate whether they want to hedge currency risk and how macro factors—like oil process or fiscal balances—could impact the rupee overtime.

3 / Summary: Growth story intact, valuations are more attractive

India's demographic advantage is well known. But to take advantage of it, many other supportive developments need to be in place. The foundation has been laid by important reforms by the current government, as well as significant investments in both physical and digital infrastructure. Furthermore, strong growth in services exports, growth of the technology sector and growing skepticism in the West about relying solely on China for some products should offer further tailwinds for the structural growth story. We believe the recent economic slowdown is a rather cyclical phenomenon and our medium-term GDP growth outlook remains at 6.5%, with the upside potential to reach 7-8%.

The temporary economic slowdown in 2024, coupled with falling earnings growth amidst high valuations and noticeable foreign portfolio investor outflows, has led to the Indian equity market to undergo a correction that concluded a long streak of continuous returns. However, the longer-term India growth story remains intact, and the current valuations at or below the historical averages provide a good entry opportunity for medium and long-term investors.

Below we summarize the key drivers for India's equity market, as well as the potential risks that investors should pay attention to, when considering adding India's stocks to their portfolios, Figure 23.

Figure 23: Main market drivers and key risks for Indian equities.

Market Drivers

Top-down macro drivers

Above-average growth: Robust GDP growth (our mid-/long-term forecast - 6.5% per annum), stable inflation rates and prudent fiscal policies.

Demographics: Rising working age population and growing consuming class.

Government initiatives: Increased government expenditure on physical infrastructure. Programs like 'Make-in-India' and 'Digital India'.

Geopolitics: Potential to capture shifts in global supply chains ('China plus 1' strategy).

Ecosystem components

Financial infrastructure: The expansion of digital payment systems and online trading platforms. The Securities and Exchange Board of India's (SEBI) push for small-ticket investments to deepen equity market participation.

Start-up ecosystem and IPO pipeline: Thriving start-up culture, supported by government initiatives like 'Startup India'. India is one of the leading regions for IPOs (#1 - number of IPOs and #2 – IPO value in 2024).

Bottom-up micro drivers

Corporate performance: Strong earnings growth and improved return on capital in sectors like technology, consumer goods, and financial services.

Retail Investor participation: Significant increase in investments from Indian retail investors and domestic institutions through Systematic Investment Plans (SIPs).

Key risks

Tailwinds

Geopolitics: U.S. tariffs and uncertainties and potential rise in protectionism globally. Potential tariffs on services exports.

Currency risk: Weakening of Indian rupee currency with respect to USD.

Inflation: Inflation volatility is driven by the high share of food prices in the CPI (46%). While the central bank has high credibility to manage pass-through risks, scope for rate cuts can be temporarily limited.

Uncertainty in policy making: Risk of change in priorities with change in political environment.

Source: DWS International GmbH view, as of March 2025.

Glossary

Capital expenditure (Capex) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

China A-shares are equity shares of Chinese companies traded on the mainland China stock exchanges, specifically the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

Correlation is a measure of how closely two variables move together over time.

The Consumer Price Index (CPI) is a measure of how prices of a basket of goods and services change over time for urban consumers. It is a key indicator of inflation.

The current account includes trade in goods and services, a net-factor-income balance (e.g. earnings on foreign investments and cash transfers from individuals working abroad) and transfers (e.g. foreign aid). It is a part of the balance of payments.

Earnings per share (EPS) is calculated as a company's net income minus dividends of preferred stock, all divided by the total number of shares outstanding.

Emerging markets (EM) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

Foreign direct investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country.

Foreign portfolio investment (FPI) is an investment made in securities and other financial assets issued in another country.

Foreign exchange (FX) reserves are assets held by a country's central bank in foreign currencies or gold, primarily used to stabilize the value of their currency and meet balance of payments needs.

The gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

The Indian rupee is the official currency of the Republic of India.

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

Monetary policy focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

The MSCI China Index captures large- and mid-cap representation across China H shares, B shares, Red chips, P chips and foreign listings.

The MSCI Emerging Market (EM) Index captures large and midcap companies across 24 Emerging Market countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI India Index is designed to measure the performance of the large-and mid-cap segments of the Indian market. The index covers approximately 85% of the Indian equity universe.

In economics, a nominal value is not adjusted for inflation; a real value is.

The price-to-earnings (P/E) ratio compares a company's current share price to its earnings per share.

In economics, a real value is adjusted for inflation.

The Reserve Bank of India (RBI) is the central bank of India.

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

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