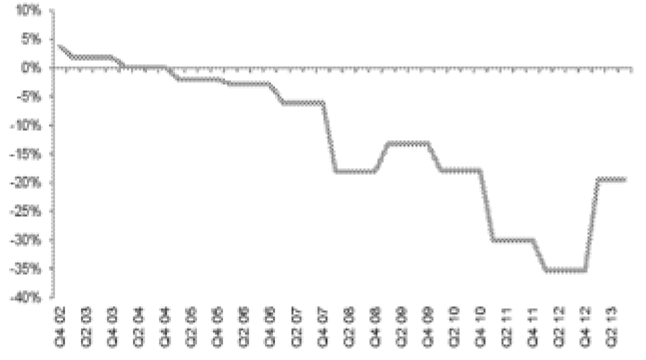
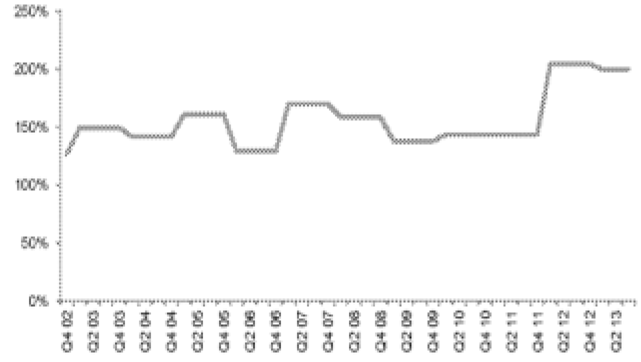
Figure 47: Indian industrials – FCF/Sales, 12m rolling average (%)



Source: Deutsche Bank, Bloomberg Finance LP

Figure 48: Indian industrials – Debt/Equity, 12m rolling average (%)



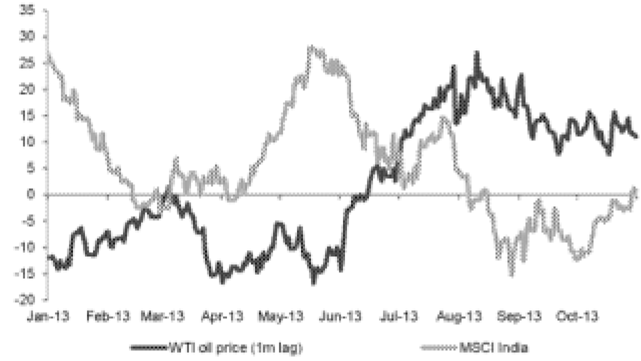
Source: Deutsche Bank, Bloomberg Finance LP

For the time being, investors seem happy to focus on two positives. First is the extent to which the fall in the value of the Rupee has stimulated exports (Figure 49), thereby taking some of the pressure off the current account. Second is the increasingly widespread perception that the BJP will emerge from the election in May as the biggest party and with a clear mandate to undertake reforms with the backing of their regional allies. We do not really have a strong view on the Indian election at this point given that roughly 70% of the electorate is rurally-based and that opinion polls tend not to be so reliable, while the so-called third front also appears to rapidly gaining popularity. We suspect however, that even in the event of the BJP managing to assemble a credible coalition, that the passage and implementation of reform will not be so straightforward, as has been demonstrated with the mixed reception given the new land acquisition law. Meanwhile, some of the structural financial issues will continue to have a negative effect on the economy for some time. The biggest potential for a positive surprise in 2014 in our view would be a fall in the oil price which is a key variable for both the Indian economy and equity markets, via the twin fiscal and current account deficits and as a literal and metaphorical lubricant for economic reform (Figure 50).

Figure 49: YoY Indian exports growth (%) – Double digit growth for last four consecutive quarters

Source: Deutsche Bank (Abhay Laijawala and Abhishek Saraf)

Figure 50: Total returns of Indian equities versus oil price – YoY growth, both USD (%)



Source: Deutsche Bank, Bloomberg Finance LP