All the Right Turns: India's Defining Moment

Prepared by LC Capital India

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Executive Summary: All the Right Turns - India's Defining Moment

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Historical analysis, current state of India's Macros & future outlook

- **Historically, the Dollar has done well in US based deflationary regimes**. Getting the Dollar right for investors is important while investing in Emerging Markets.
- On most occasions when the **US has moved into reflationary regimes, Emerging Markets have performed well** and generated positive returns.
- **Most of the high frequency indicators currently point towards a recovery** after a brief slowdown due to second wave of the pandemic.
- **India is expected to move to goldilocks regimes in 2021-2022**. It is also expected to be the **fastest growing emerging market** based on the IMF's forecasts of GDP for next 3 years.

Focus on various components of GDP

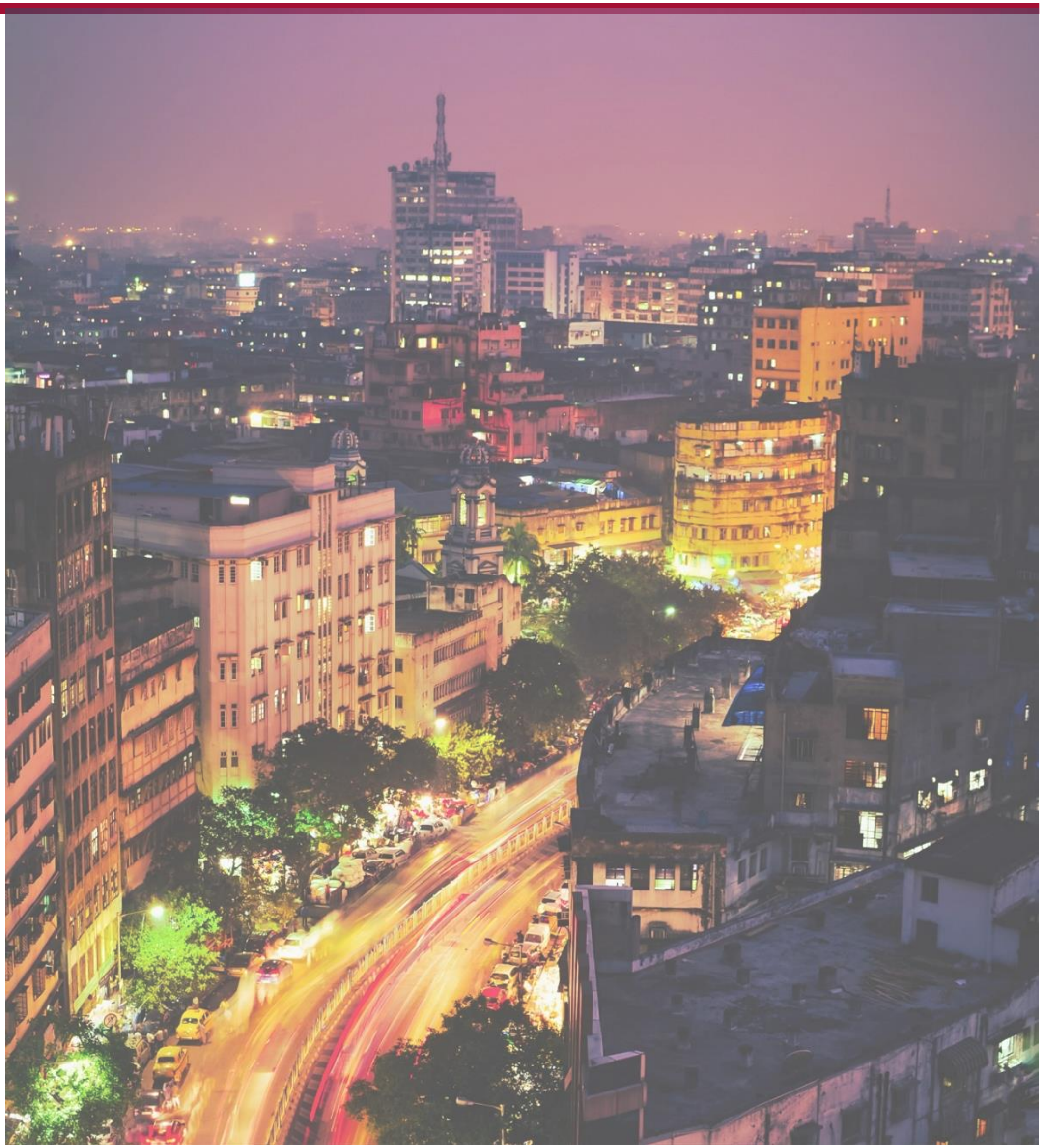
- **Revival in government and state spending** would help to **kick start demand**. **Government reforms and recent PLI announcements** would help to improve India's ranking in *Ease of Doing Business*, kick start the capex cycle, drive growth on a sustainable basis and fulfil the objectives of Make in India.
- **Growth in consumption** would depend upon **employment and spending**. The current **outlook on employment has improved** although the **outlook on non-essential spending has not revived**.
- **Lower private capex is attributed to lower capacity utilization.** However, factors such as an increase in demand, **improvements in Corporate India's balance sheet** and a **revival in bank lending** could lead to a **transition towards higher capex.**
- India's **exports would benefit from revival in global growth.** As more economies have recently opened up, India has seen a jump in exports.

Markets, valuations, and expectations

- Valuations may not look supportive, however from a **historical relative price basis, mid and small cap still looks attractive**. The **current volatility index (VIX)** falls in the **low-risk bucket which may support prices**.
- As per the research published by Motilal Oswal (MOSL), **Q2FY22 earnings for Nifty 50 companies** have been strong (Sales and PAT on YoY have grown by 31% and 36% respectively).
- Expectations of a **revival in government spending and private capex** would help to **incentivize economic growth, drive sales and profitability of companies** which may support higher valuations.
- We expect **cyclical sectors** like Real estate, Capital goods, Financials, Metals, Materials, Autos and export sectors like Pharma, IT, Textiles to be the biggest beneficiaries of sustained recovery in India's economy. **Increase in cyclical sectors exposure by Foreign Institutional Investors (FIIs) and Domestic Institutional Investors (DIIs)** also provides us assurance.

Contents

- India's Challenging Decade
- Emerging Markets vs India?
- Big Picture – What are the high frequency indicators stating about the health of the economy?
- Focus on various components of GDP – consumption, private capex, government spending and net exports
- Focus on earnings, valuation, volatility and positioning in equity markets and factors which could impact interest rates
- Key Risk – Pace of vaccines administered



India Challenging Decade!!

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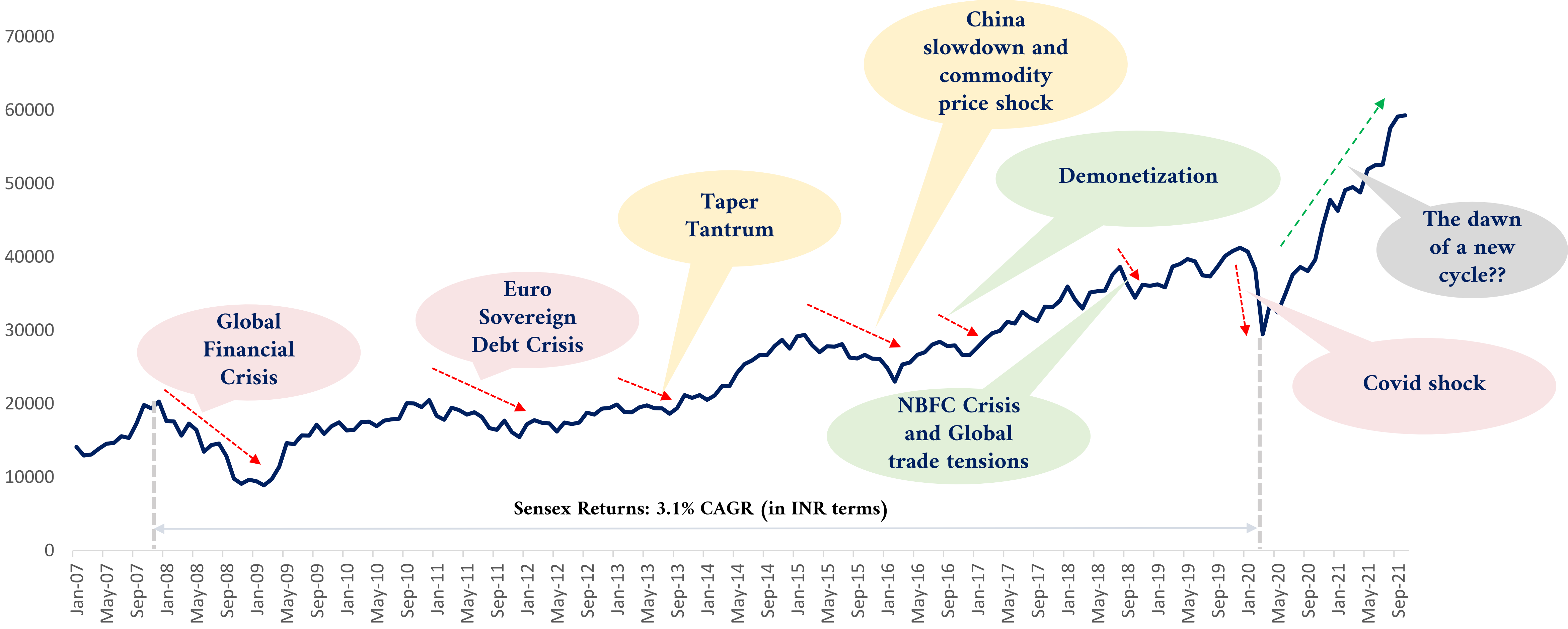
India's equity market has disappointed investors over the past decade.



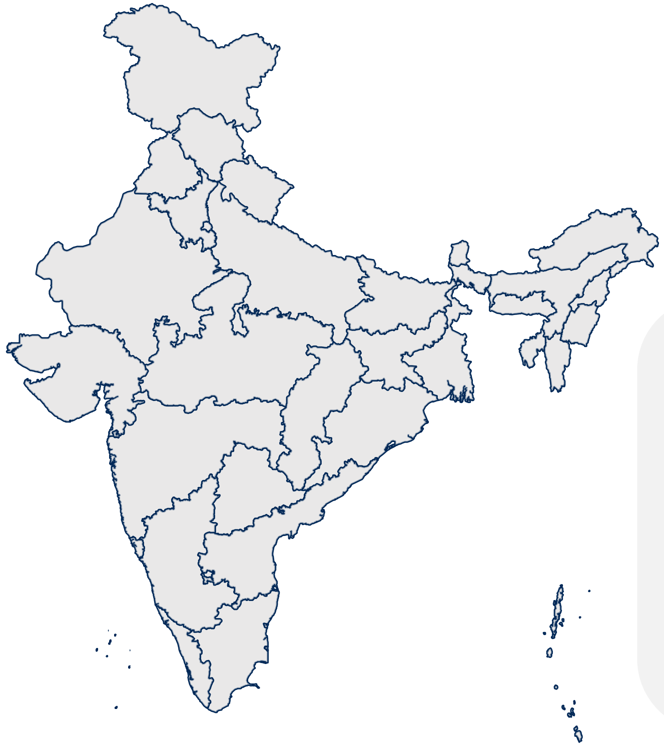
Source –BSE, LC Capital India

Advantage India: Unparalleled Opportunities

8.0%-8.5%

Average GDP growth rate projections from 2021-2023

India is expected to be the 3rd largest economy in the world by 2031: BofA Securities



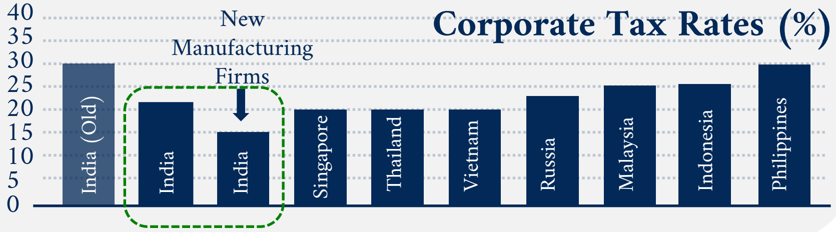
By 2030, India would also have the **largest working age population** estimated to cross 1bn. This would also lead India to having close to 800Mn digital content users by 2025.

PE-VC funding figures for 2021 have outpaced the last few years. Demand for Indian firms by global institutional investors has seen companies raise more than US$ 9.7Bn via IPOs in the first 9 months in 2021.

PE-VC funding figures **(Ex. PE Investment in Real Estate)** **(USD)**

2020	Oct 2021
$39.5Bn	**$49Bn**

India has **increased its global competitiveness** by offering a 15% corporate tax rate to new manufacturing companies, which is among the lowest in the world. It has also reduced the tax rate for existing companies from 30% to 22%.



Government initiatives & GST

US$ 357Bn

In Foreign Direct Investment between Apr 2014 to Mar 2020.

Focus on making India a global manufacturing hub by implementing the **Production Linked Incentives (PLI) scheme** up to US$26.5Bn in key sectors until Oct 2021

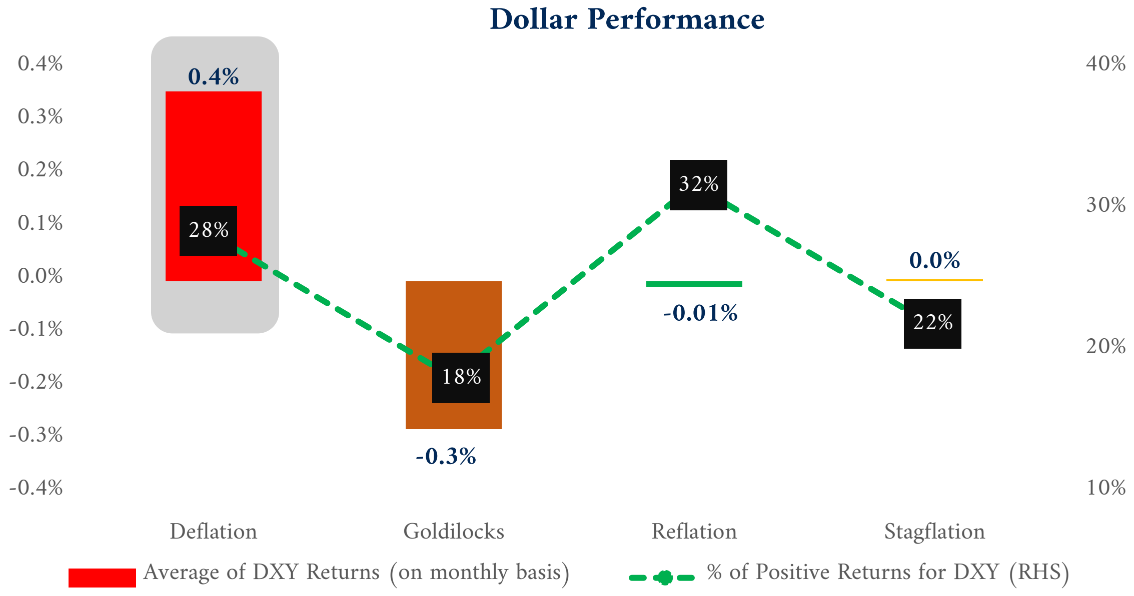
Implementation of Goods and Services Tax in 2017 has subsumed various Indian indirect taxes and created a common market. Despite the two waves of the pandemic, **GST collections have been consistently above US$13Bn (per month) indicating economic recovery**.

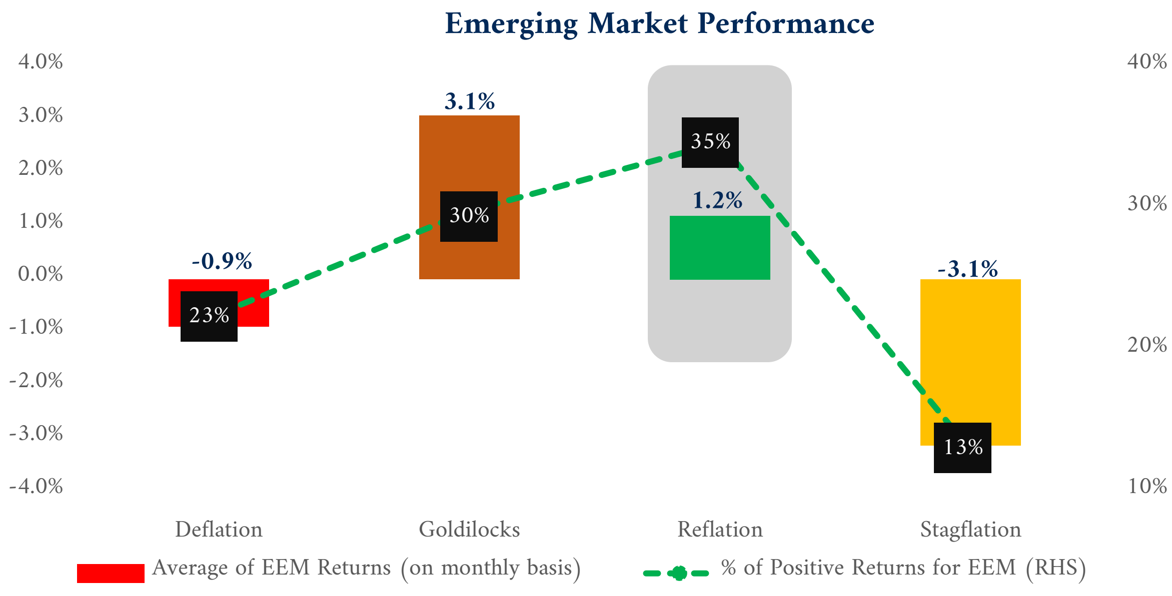
Sources: McKinsey Global Institute, India's Turning Point, Aug 2020; PwC, Advantage India: Your next manufacturing destination, June 2020; Make In India; IMF; livemint.com; UBS Securities; Business Standard; The Hindu Business Line; Venture Intelligence and Times of India; All figures in USD have been converted from INR using exchange rate @ 74.

Emerging Markets vs India

Performance of DXY and EMs Equities across US economic regimes

The Dollar index (DXY) performed the best in deflationary regimes whereas Emerging Markets (EMs) Equities did well in reflationary regimes.



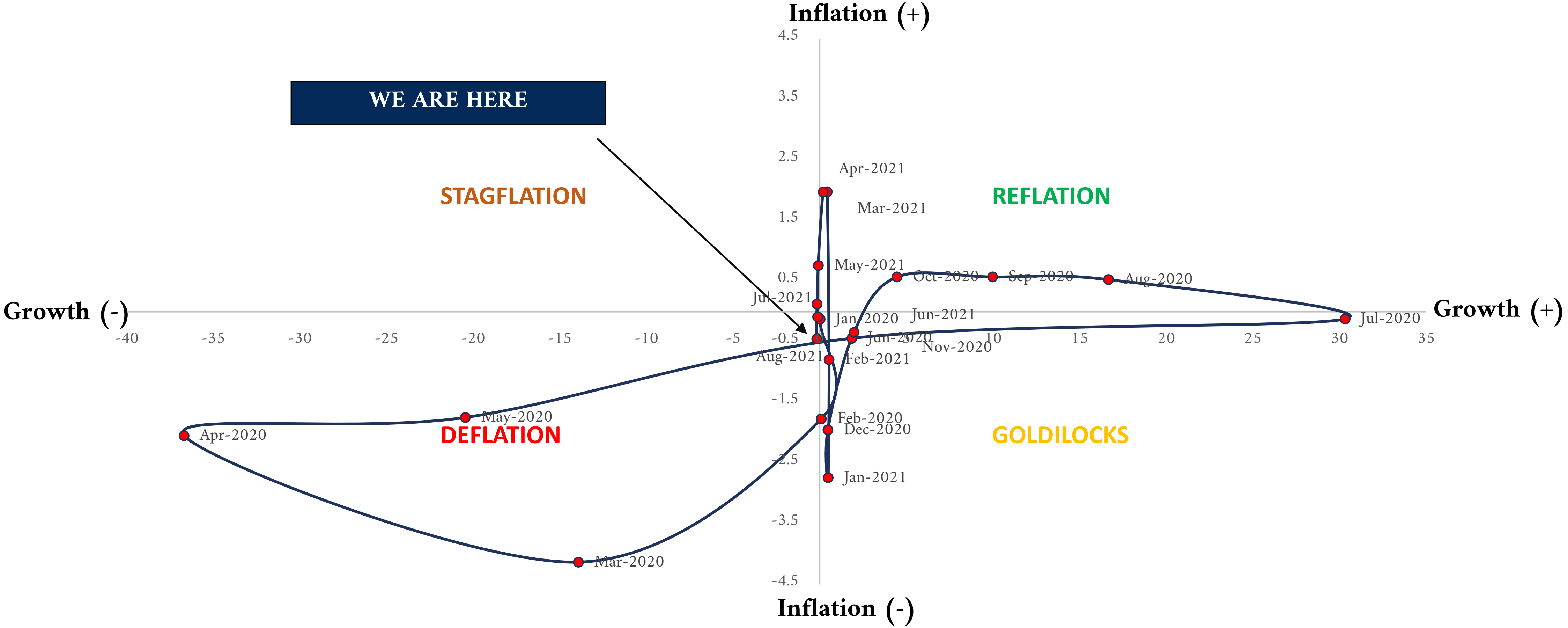


Deflation	Low Growth	Low Inflation
Reflation	High Growth	High Inflation
Goldilocks	High Growth	Low Inflation
Stagflation	Low Growth	High Inflation

Source – OECD, LC Capital India | For growth – 3 month US OECD CLI and for Inflation – 3 month change in US CPI | Data from June 2003 till August 2021| EEM ETF taken as a proxy to Emerging Market

India: Economic Regime, Whither?

After spending most time in a goldilocks and reflationary regime, India's economy has now moved to a deflationary regime as the rate of change in growth and inflation have declined because of pandemic factors (i.e., second wave).



x axis: 3 month change in OECD CLI (indicator used for Growth) and
y axis: 3 month change in CPI

Source –OECD, LC Capital India | Data as on Aug 2021

India vs EMs: Economic Regime, Whither?

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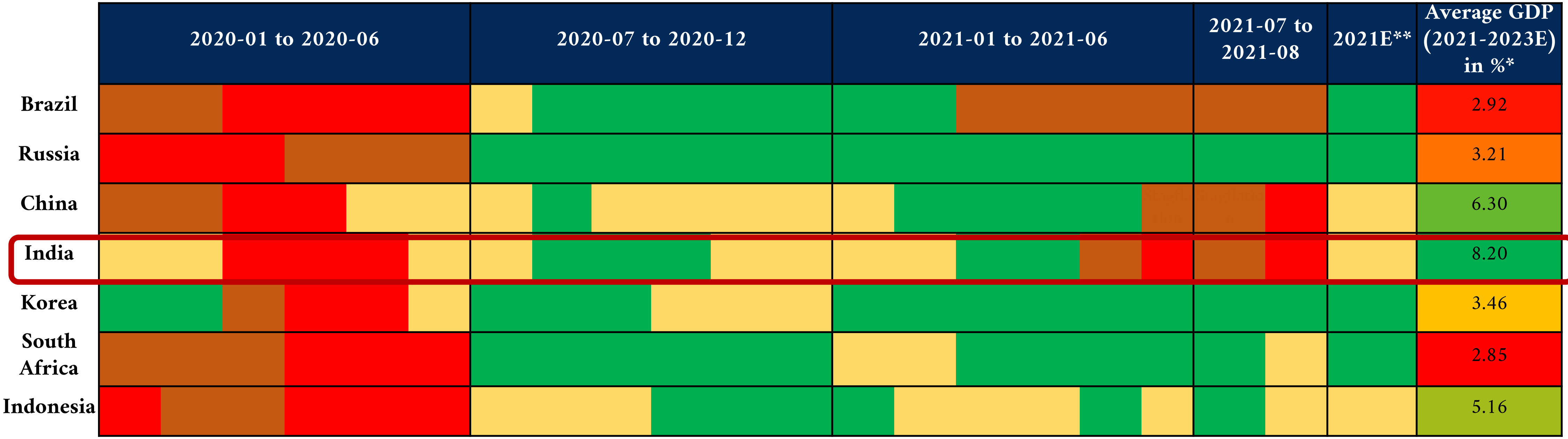
Despite the aftermath of the second wave, India's growth is expected to be strong in 2021.

We believe India may end 2021 in goldilocks regime. Moreover, India would be the fastest growing emerging market on the basis average GDP growth rates from 2021-2023



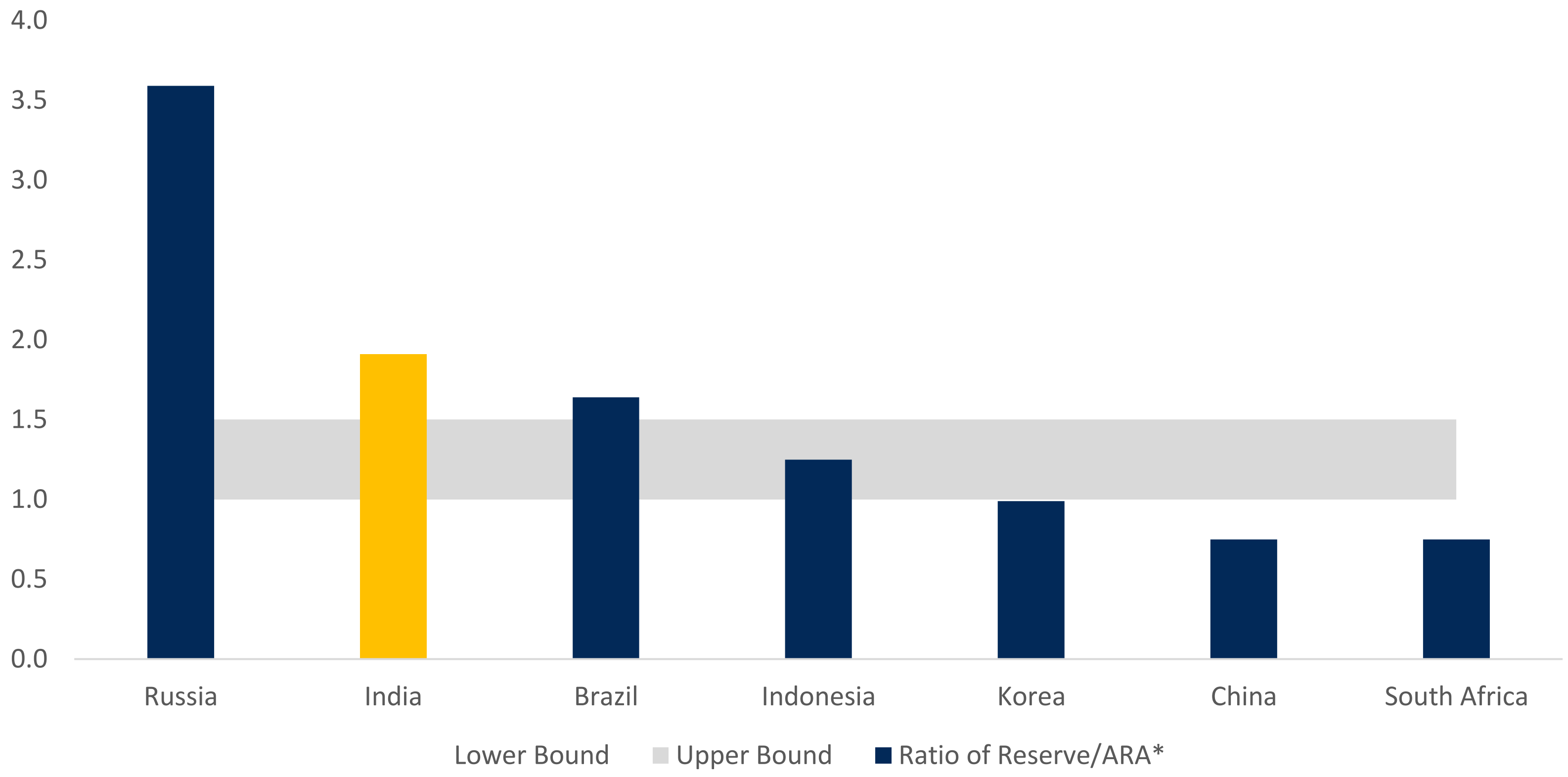
On 3-year average growth projection of IMF, India would be the fastest growing emerging economy

Deflation
Stagflation
Reflation
Goldilocks

Source – IMF, OECD, LC Capital India | Data as on August 2021 | For Growth – 3 month OECD CLI and for CPI – 3 month CPI | * Tab has been color coded with Green reflecting the highest growth and red reflecting the lowest growth | ** Estimates based on IMF projections

India vs EMs: Reserves to Assessing Reserve Adequacy (ARA)

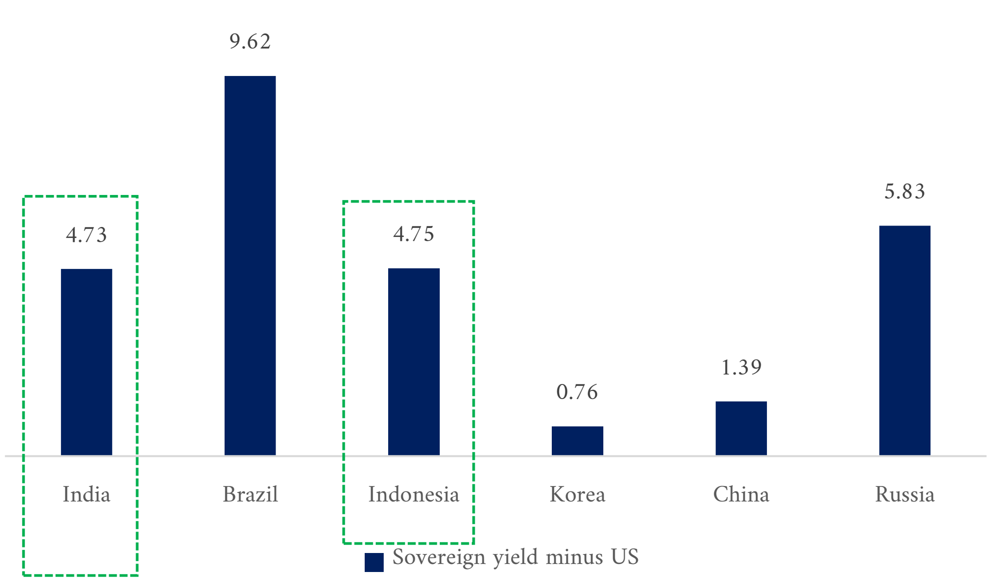
As per IMF's framework of ARA, India's index is at above comfortable range suggesting lower vulnerability to external shocks

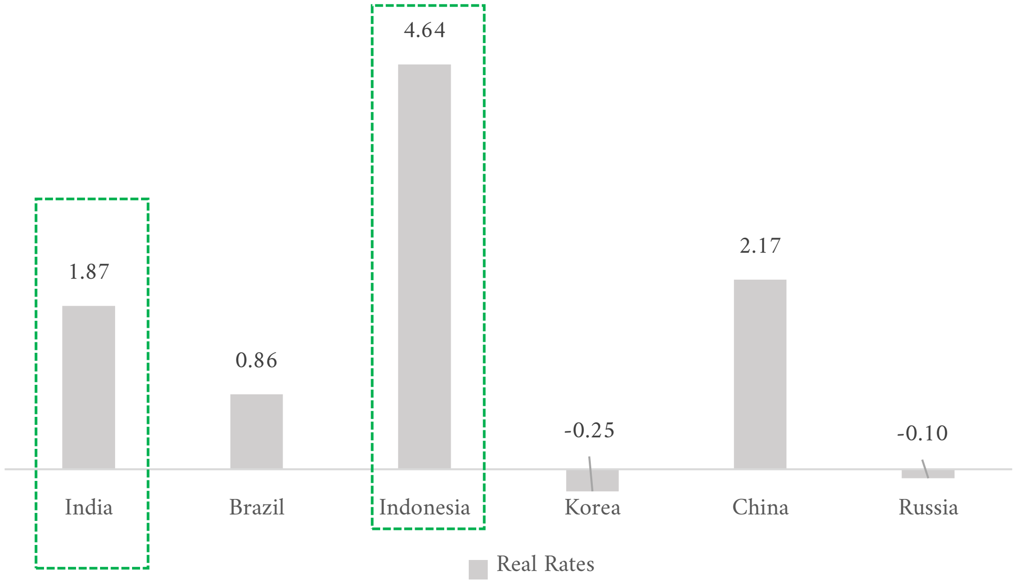


Source – IMF | Data as on 2020 print | Shaded area in grey indicates lower and upper bound by IMF (100% to 150%) which is considered as "broadly adequate"

India vs EMs: Attractiveness based on yields?

Among the EMs, India and Indonesia offer a greater value to both foreign and domestic investors.





Source – Bloomberg | Data as on Sept 2021

Big Picture View on India's Macros

Charts on High Frequency Indicators: Are green shoots visible?

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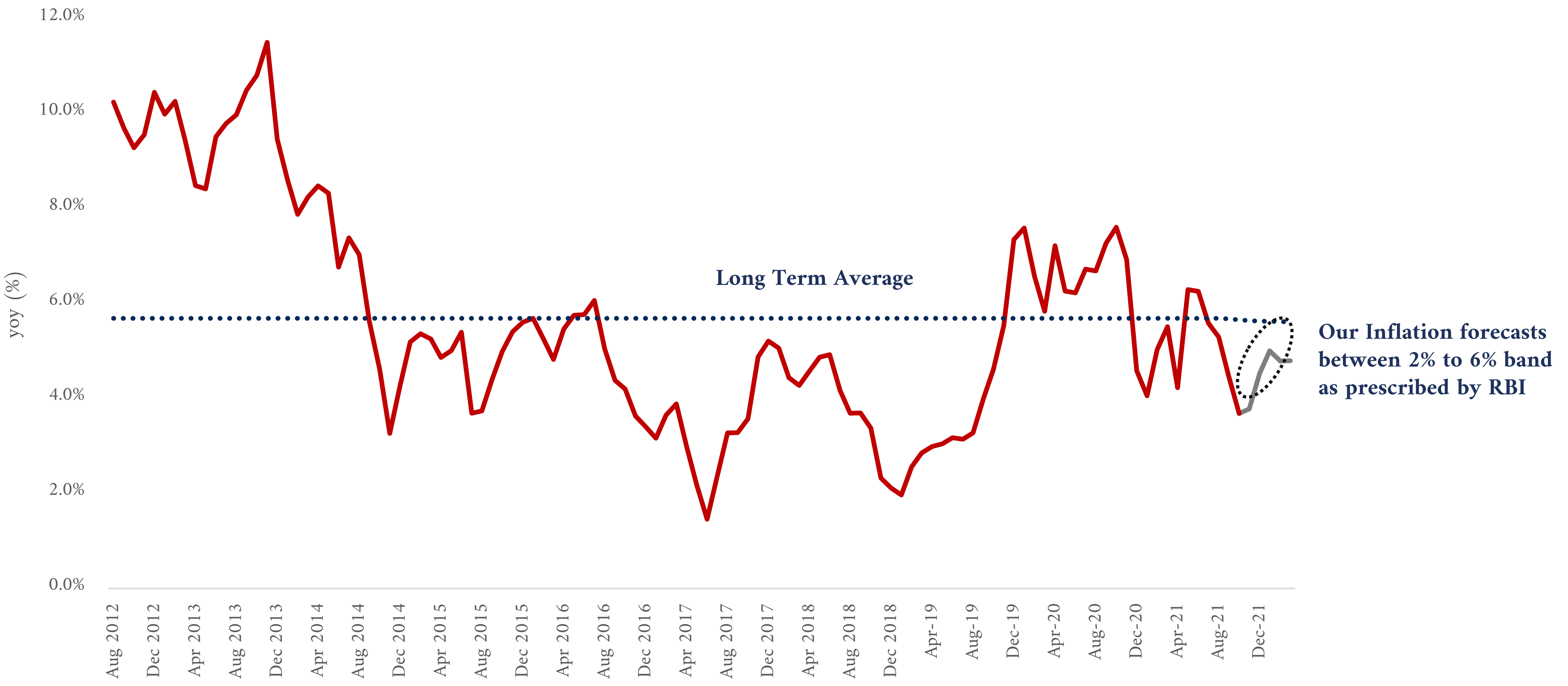
India's economy has recovered post the slowdown due to the first and second waves of the pandemic.

2yr CAGR except PMI	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
PMI:Mfg	27.4	30.8	47.2	46	52	56.8	58.9	56.3	56.4	57.7	57.5	55.4	55.5	50.8	48.1	55.3	52.3	53.7
PMI:Serv	5.4	12.6	33.7	34.2	41.8	49.8	54.1	53.7	52.3	52.8	55.3	54.6	54	46.4	41.2	45.4	56.7	55.2
PMI:Comp	7.2	14.8	37.8	37.2	46	54.6	58	56.3	54.9	55.8	57.3	56	55.4	48.1	43.1	49.2	55.4	55.3
Auto Sales	-85.6	-59.3	-28.2	-19.5	-12.8	-7.7	-0.5	-2	-3.3	-3.6	-4.9	-0.7	-13.7	-40.4	-14.4	-5	-4.3	-5.2
Motor Vehicles Registration	-55.6	-69.2	-27	-21.7	-16.6	-10.9	-9.7	-7.1	-2.2	-7.5	-4.8	-4.9	-17.3	-45.8	-15.3	-6.8	-7.6	-6.9
Passenger Vehicle Sales	-89.2	-63.3	-37.2	-21.8	-14.6	-5.8	2.2	-1.8	1.9	-2	-1	-4.1	-0.1	-35.3	3.4	12.3	4.7	-12
IIP	-33.6	-16.6	-8.1	-3.2	-4.3	-1.8	-1.2	0.2	1.3	0.8	0.9	0.5	-0.2	-7.4	-2.6	-0.2		
Electricity generation	-11.7	-6.8	-1.9	2.7	-1.3	0.9	-2.6	-2.3	1.4	3.7	5.3	5.3	2.8	-5.8	-2.9	3.4	6.7	1.5
Diesel Cons	-32.7	-14.8	-7.4	-8.7	-11.5	-4.5	0.2	0.8	-1.4	-1.9	-1.3	-1.6	-4.5	-15.7	-8.8	-5.2	-4.3	-2.8
Petrol Cons	-34.7	-15.1	-2.1	-1.2	0.4	4.8	6.7	7.2	6.3	4.9	4.5	3.1	-1.5	-14.7	-4.4	2.1	2.3	4.6
GST Eway Bill	-44.5	-17.3	-3.6	4.6	0.5	9.3	9.5	13.2	13.3	11	13	13.9	5.8	-14.2	4.9	10.9	13.4	13.9
Digital Payment	13.2	26.2	30.3	33.3	36	36.8	35.4	39.1	34.1	34.1	34.4	39.9	38.9	34	41.8	47.6		
Tractor Sales	-58.8	-8.7	1.1	9.4	16.8	12.6	1.5	13.8	21.2	23.4	24.9	16.1	7.6	-0.9	21.1	21.2	22	7.1
Passenger Traffic : Airport	-95.3	-84.8	-60.7	-59.7	-53.1	-44.8	-37.7	-31.1	-28.9	-26.5	-21.7	-22.5	-31.7	-60.7	-52.6	-39.7	-29.6	-25.4
Cargo Traffic : Airport	-58.8	-44.3	-25.9	-20.4	-18.1	-11	-10.2	-8.4	-6.6	-6.3	-4.9	-4.4	-2.3	-9.9	-7	-6	-4.4	-1.9
Freight Originating	-18.3	-10	-3	-1.5	-1.2	3.9	3	4.8	6.5	5.6	6	4.4	5.1	4.6	5.5	6.3	10.2	9.4
CPI	5.1	4.6	4.7	4.9	5	5.6	6.1	6.2	6	5.8	5.8	5.7	5.7	6.3	6.2	6.2	6	5.8
Core CPI	4.7	4.6	4.7	5	5	4.8	4.6	4.7	4.7	4.9	5	5	5.1	5.7	5.7	5.8	5.8	5.7
WPI	0.8	-0.3	0.1	0.5	0.8	0.8	0.7	1.4	2.4	3	3.5	4.1	4.4	4.5	4.9	5.3	5.8	5.9
Exports	-37.4	-18.6	-10.1	-4.2	-9.4	-0.5	-3.3	-4.9	-1.3	2.1	1.4	3	8.6	4	14	16.2	13.2	14
Imports	-34.6	-27.9	-31	-19.9	-17.6	-15.9	-12.7	-12	0.7	0.6	5.3	5.3	3.9	-9.1	1	7.1	8.7	22.3

Source –Birla AMC, LC Capital India

Inflation: Is the trajectory expected to come down?

Based on our inflation forecasts, we expect inflation to cool down in the coming months.



Source – LC Capital India

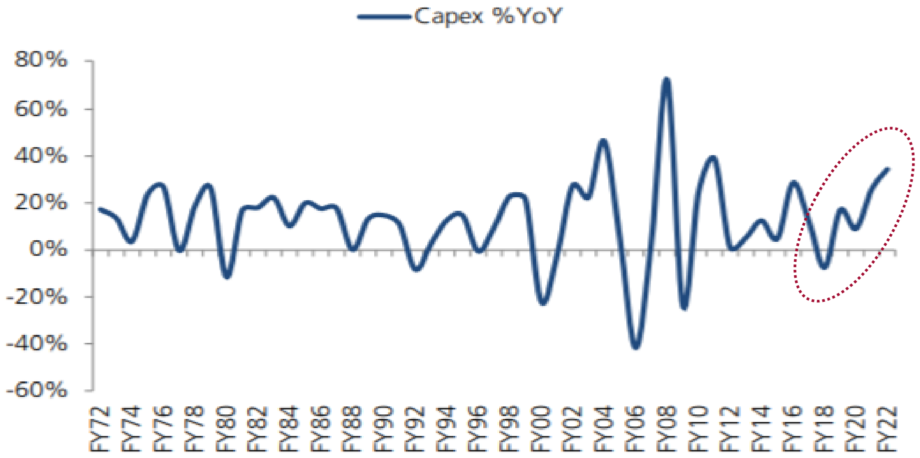
Focus on various components of GDP

Consumption, Private Capex, Government Spending and Net exports

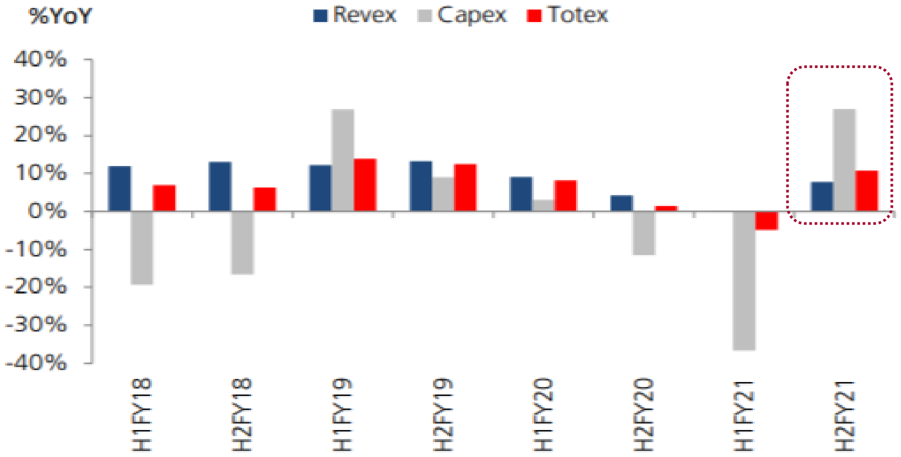
Government Spending: Revival in Government and States Spending?

Strong revival in Government and State expenditures would help to drive overall demand.

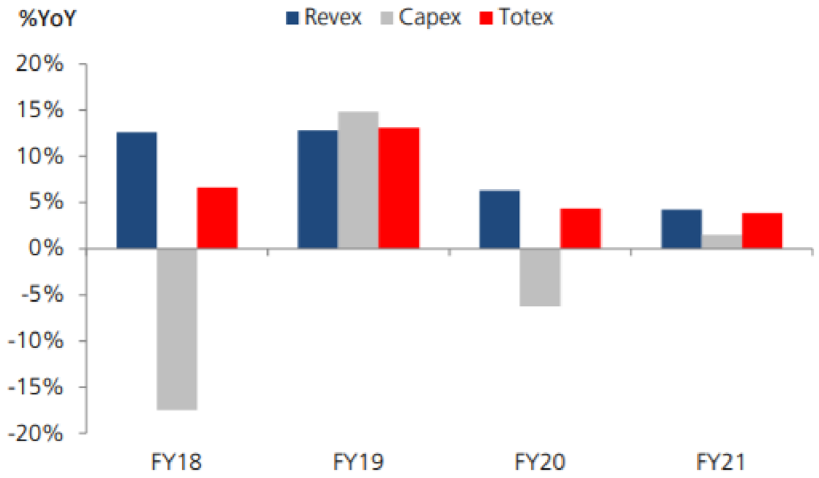
Strong trend for Government Capital Expenditure*



.....although picking up in 2nd half of FY21**



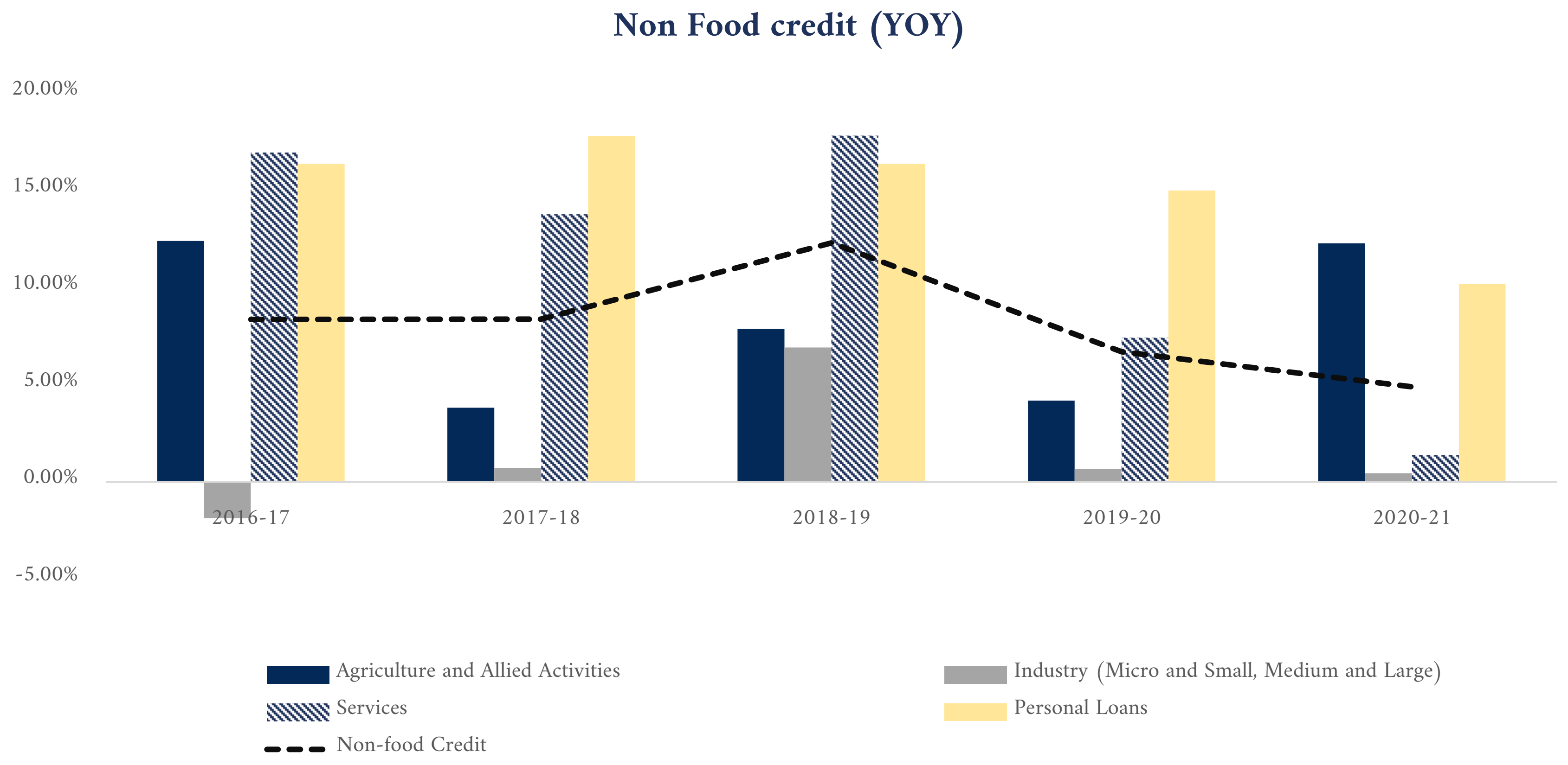
State Capex has been slow in FY20 and FY21.....**



Source – JM Financial, * FY21 are realized estimates and FY22 are budgeted estimates, **14 states ex – BH,JH,WB

Overall Credit Environment: Largely driven by Agriculture?

Credit pickup has been led by agriculture and allied activity but has been weak for industry and services – Heavy lifting by governments would hold the key to kick starting the credit cycle.

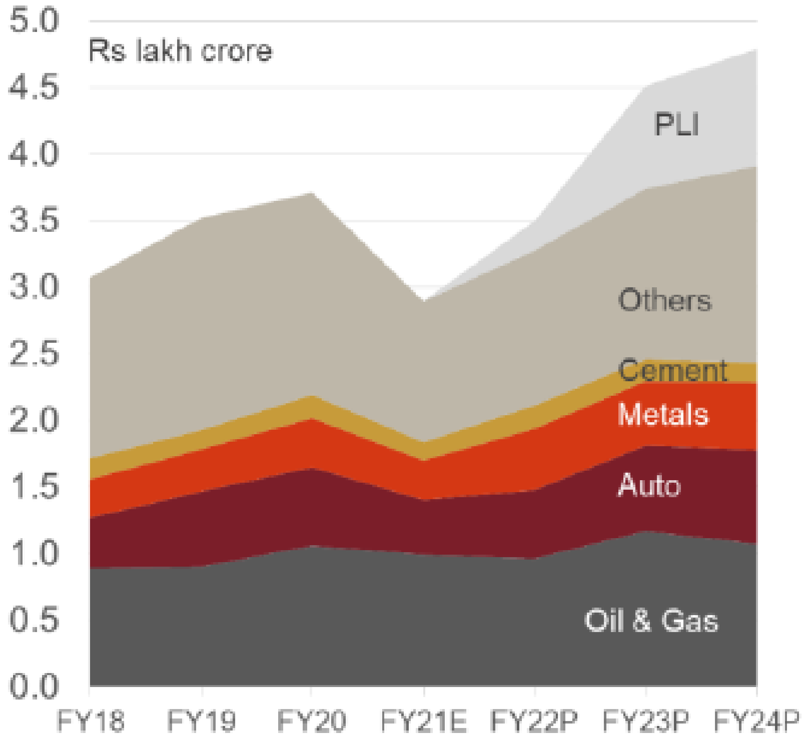


Source –RBI, LC Capital India

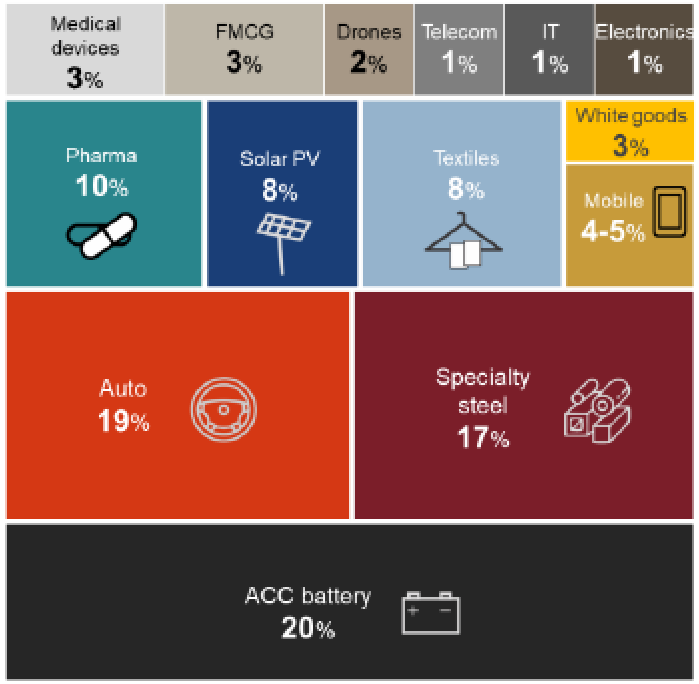
Production Linked Incentive (PLI): A booster shot!!

One of the major announcements by the Government on PLI schemes would help to set the stage for private capex cycle.

Actualization of PLI scheme will result in aggregated industrial capex rising 1.3 times through FY2022-2024 vs FY2018-2020*



PLI scheme holds the potential to generate capex of 2.2 lac crs



Source – CRISIL Research, * Others include FMCG, Pharma, Chemicals, Paper, Textiles, etc

Insolvency and Bankruptcy code (IBC): Boon for bad loan resolution

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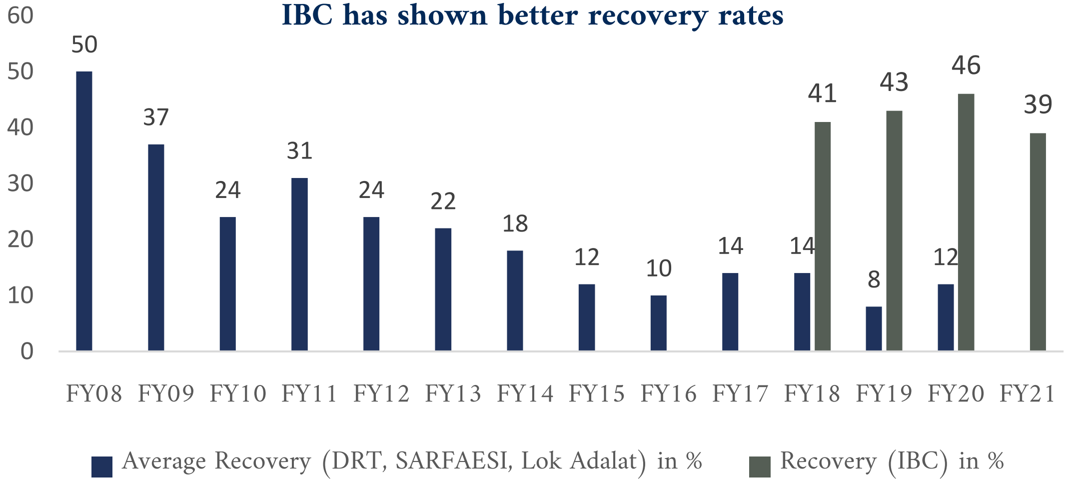
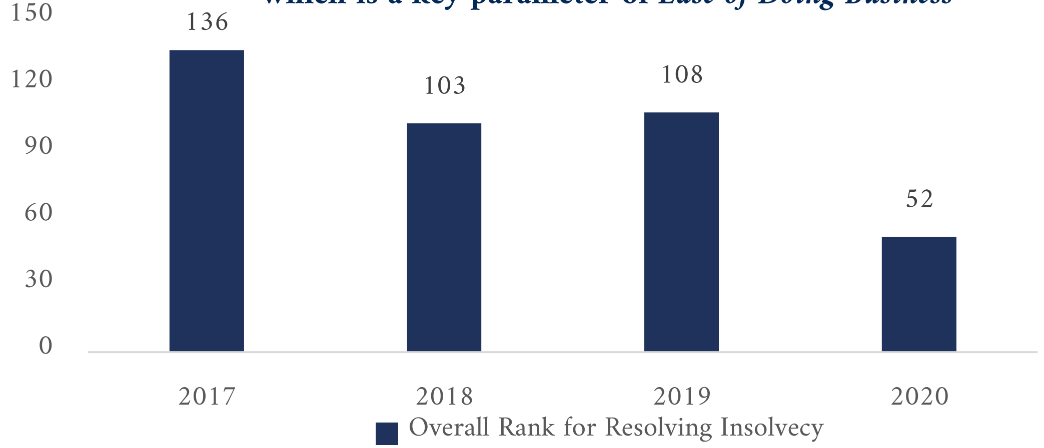
Government measures to improve legal frameworks for bad asset resolution bodes well in terms of improving India’s rank among other economies in terms of *Ease of Doing Business* and reduction in NPA levels.

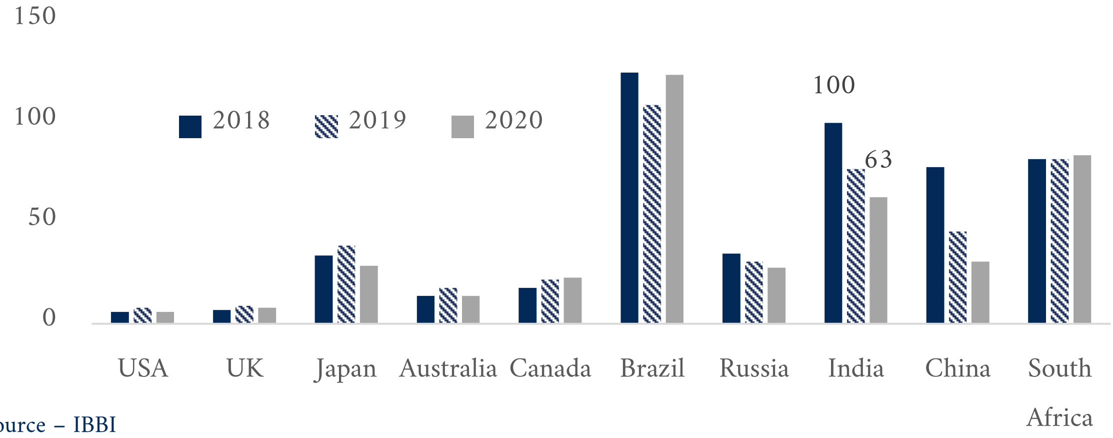
IBC has shown better recovery rates



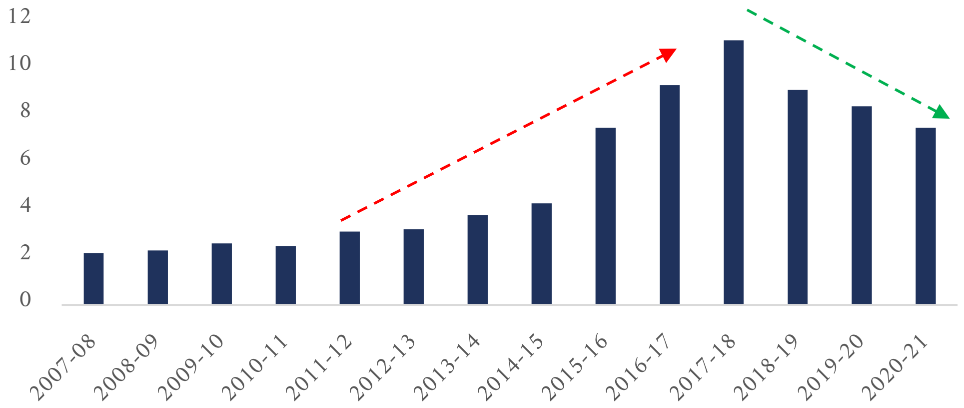
....leading to improvement in rank for Resolving Insolvency which is a key parameter of *Ease of Doing Business*



India’s Ranking has improved in *Ease of Doing Business*



Gross NPA as a % of Gross Advances have also come down



Source – IBBI

Infrastructure Vision 2025

Meeting aspiration, propelling economic growth and improving ease of living.

Affordable and clean energy with 24*7 power supply

Enhanced road connectivity, world class stations, integrated rail network, reduce logistics time, etc

Housing for all and piped water supply

100% population covered with broadband services and facilitate digital payments

Increased irrigation, Integrated agri-logistics systems from farm gate to end consumer

Superior accessibility to primary, secondary and tertiary healthcare

World class educational institutions and technology driven learning

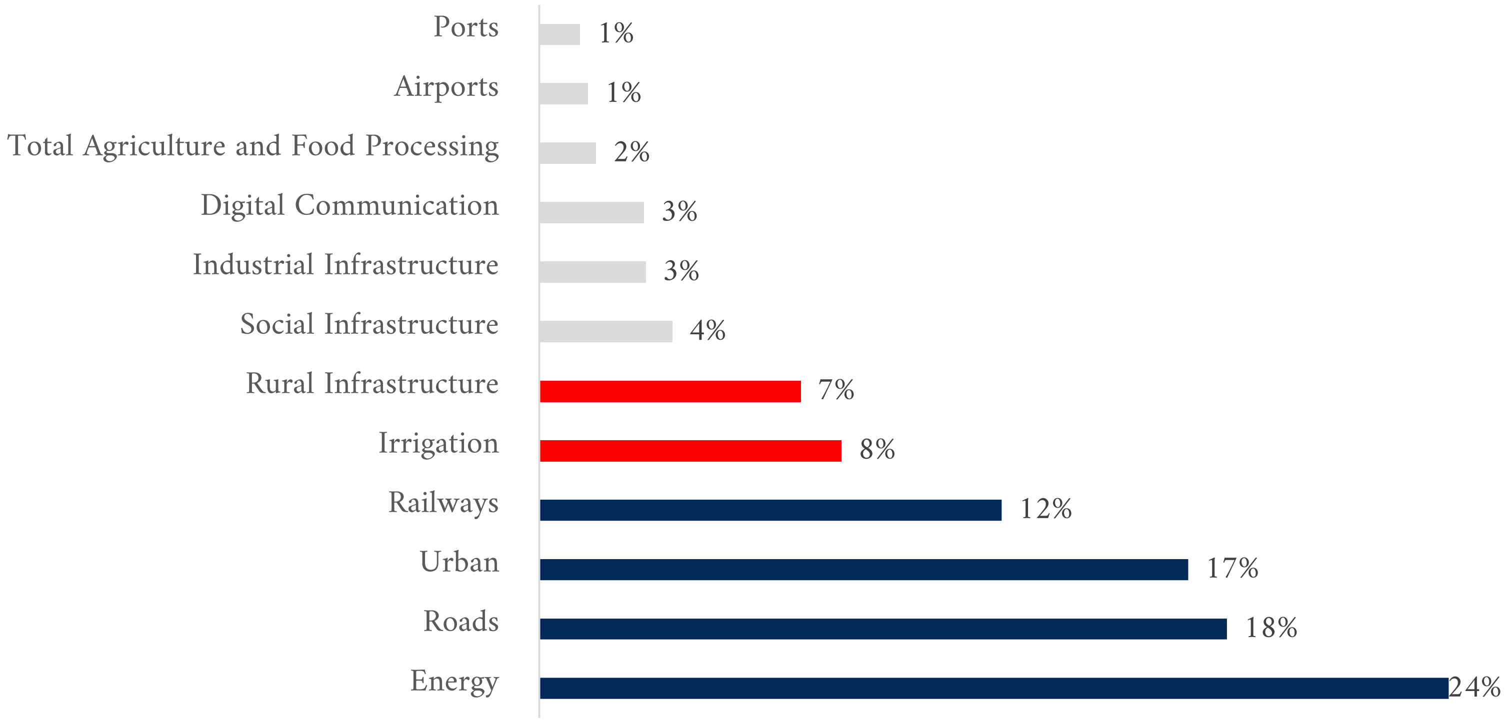
Smart city infrastructure for mobility, entertainment, business, recycling, etc

Source –DEA

National Infrastructure Pipeline: Projected at 111 lakh crs in next 5 years

During Fiscal year 2020 to 2025, Energy, Road, Railways and Urban Infra together will contribute to more than 71% of the projected infrastructure investments in India.

Sector wise break up (in %)

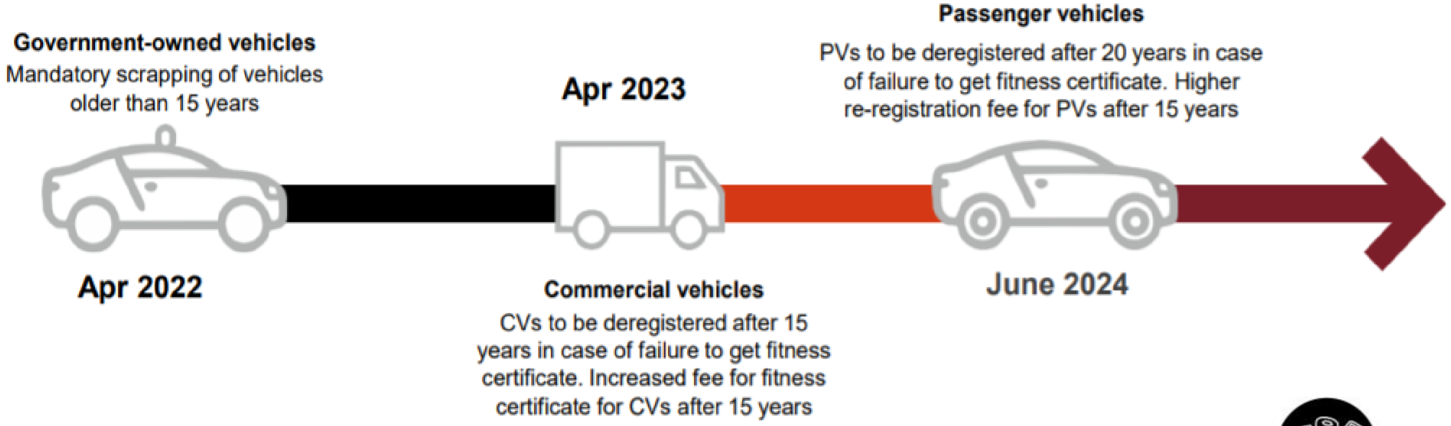


Source –DEA | Urban Infrastructure includes Smart Cities, Affordable Housing, Urban Transportation, Jal Jeevan Mission, etc.

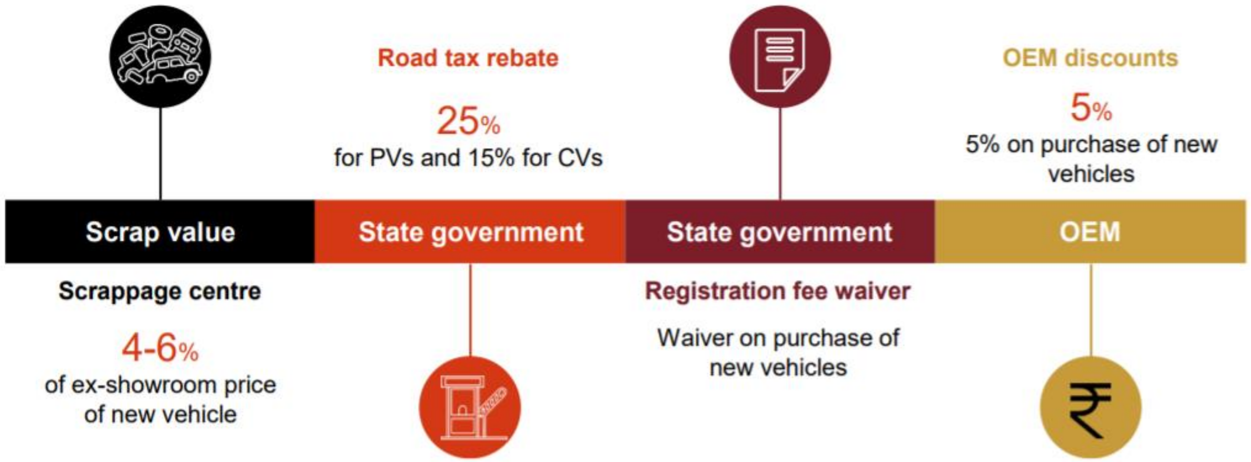
Scrappage Policy: To drive "E" part of ESG

The offtake of the scrappage policy would help to drive the "E" part of Environment (E), Social(S) and Governance(G) theme and help to boost auto sales.

Scrappage Policy Guidelines



Scrappage Matrix

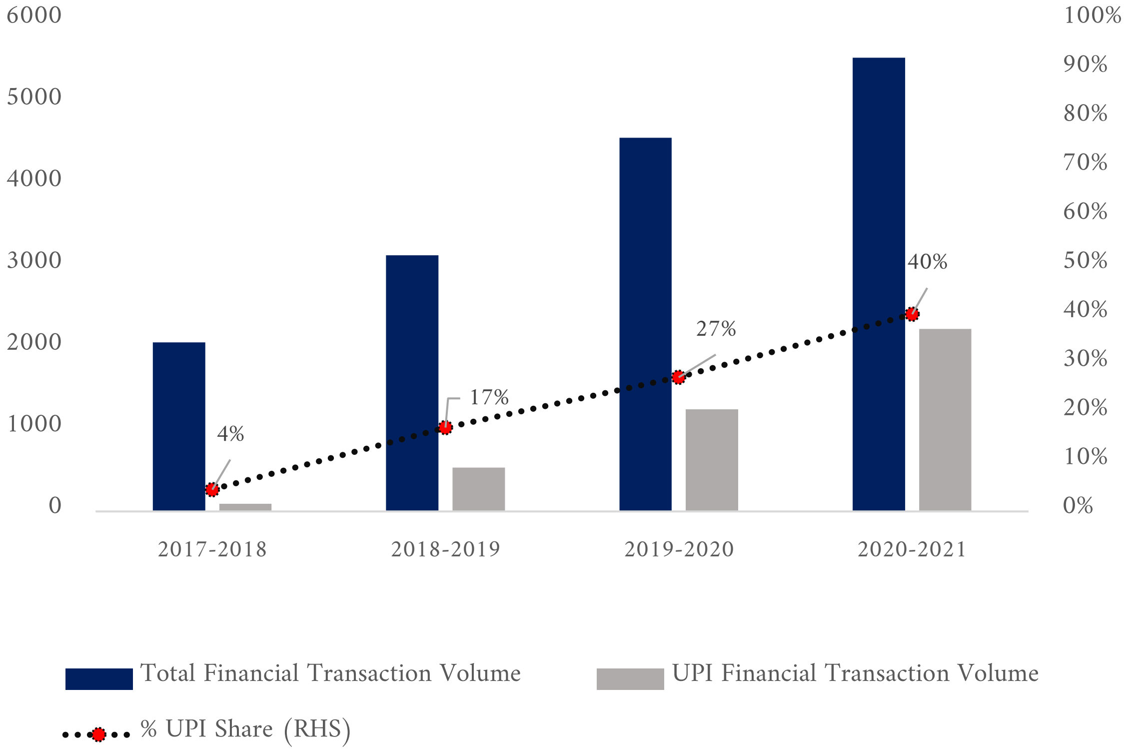


Source –Crisil Research

Unified Payments Interface (UPI): Ushering in Digital India

The key to driving organized activity in India – UPI transactions are expected to grow 10x over the next 3 years.

Contribution of UPI Transaction in Total Digital Transactions (in crs)



Benefits of UPI across the ecosystem

Banks
- Low cost alternative to cash transaction
- Data on transactions enabling targeting customers for other financial services

Payment Service Provider and Fin techs
- Open architecture fosters innovation and development of unique products
- Promotes partnership with banks for development of customer centric solutions

Customers
- Round the clock availability
- Financial inclusion due to low cost and ease of operation
- Creates digital financial footprint for users which enables access to credit and other financial services

Source –Transforming India

Consumption: Outlook on Employment

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A continued favorable outlook would hold the key for revival in consumption.

Annual Income	Outlook	Jun-15	Jun-16	Jun-17	Sep-17	Jun-18	Sep-18	Jul-19	Sep-19	Jul-20	Sep-20	Jan-21	Mar-21	May-21	Jul-21	Change Mar 21 vs May 21	Change May 21 vs Jul 21
Rs. 1 lakh or less	Remain the same	29%	30%	33%	22%	26%	17%	18%	15%	13%	13%	15%	18%	16%	15%	↓	↓
	Will improve	49%	50%	44%	50%	49%	52%	55%	51%	47%	52%	54%	43%	36%	41%	↓	↑
	Will worsen	22%	20%	24%	28%	25%	31%	28%	35%	40%	35%	31%	39%	48%	44%	↑	↓
Rs. 1 to less than 3 lakh	Remain the same	25%	30%	27%	24%	26%	17%	17%	16%	13%	14%	16%	17%	16%	17%	↓	↑
	Will improve	59%	50%	54%	54%	54%	55%	58%	52%	49%	55%	55%	48%	34%	42%	↓	↑
	Will worsen	16%	20%	20%	22%	21%	27%	25%	32%	38%	31%	29%	35%	50%	41%	↑	↓
Rs. 3 lakh to 5 lakh	Remain the same	24%	27%	26%	21%	25%	17%	19%	14%	14%	18%	19%	18%	16%	22%	↓	↑
	Will improve	57%	59%	60%	54%	52%	56%	57%	52%	50%	57%	61%	51%	37%	46%	↓	↑
	Will worsen	19%	14%	14%	25%	23%	26%	25%	34%	36%	25%	20%	31%	46%	31%	↑	↓
Rs. 5 lakh or more	Remain the same	24%	26%	21%	17%	27%	17%	21%	18%	12%	18%	18%	15%	19%	18%	↑	↓
	Will improve	56%	54%	60%	55%	41%	52%	58%	46%	56%	53%	62%	58%	42%	50%	↓	↑
	Will worsen	20%	20%	19%	28%	32%	31%	21%	36%	32%	28%	20%	27%	40%	33%	↑	↓

KEY HIGHLIGHTS

Though we have seen steady improvement in employment levels from Sept 2020 to Jan 2021 (in some cases the improvement in employment numbers were much better than pre-Covid levels), but the employment outlook has declined in Mar 2021 and May 2021. The outlook has again improved in Jul 2021 across income levels.

Improved outlook on employment may be favorable for services sector, thereby having a positive impact on overall economic growth.

Source –RBI Consumer Confidence Survey, LC Capital India | As data for Sept survey was not uploaded on RBI site at the time of analysis, hence we have not included the same.

Consumption: Outlook on Spending (Essential/Non-essential)

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Positiveness for Essentials and Gloom and Doom for Non Essentials.

ESSENTIAL SPENDING

Annual Income	Outlook	Jun-15	Jun-16	Jun-17	Sep-17	Jun-18	Sep-18	Jul-19	Sep-19	Jul-20	Sep-20	Jan-21	Mar-21	May-21	Jul-21	Change Mar 21 vs May 21	Change May 21 vs Jul 21
Rs. 1 lakh or less	Remain the same	9%	7%	14%	11%	9%	14%	15%	14%	25%	21%	20%	19%	24%	21%	↑	↓
	Will decrease	5%	10%	5%	3%	2%	3%	3%	5%	9%	6%	6%	6%	9%	8%	↑	↓
	Will increase	86%	82%	81%	86%	88%	83%	82%	81%	66%	73%	74%	74%	67%	70%	↓	↑
Rs. 1 to less than 3 lakh	Remain the same	8%	13%	13%	10%	10%	13%	14%	13%	21%	24%	23%	21%	24%	23%	↑	↓
	Will decrease	4%	8%	4%	3%	3%	2%	3%	3%	7%	5%	5%	5%	6%	6%	↑	↓
	Will increase	88%	79%	83%	86%	87%	85%	84%	84%	71%	71%	73%	75%	69%	71%	↓	↑
Rs. 3 lakh to 5 lakh	Remain the same	8%	6%	11%	12%	10%	9%	15%	15%	24%	22%	22%	20%	26%	25%	↑	↓
	Will decrease	2%	5%	4%	3%	3%	3%	2%	1%	7%	4%	3%	3%	6%	6%	↑	↓
	Will increase	89%	89%	86%	85%	87%	88%	82%	84%	69%	74%	75%	77%	68%	69%	↓	↑
Rs. 5 lakh or more	Remain the same	6%	8%	13%	18%	17%	15%	18%	16%	21%	24%	24%	18%	25%	19%	↑	↓
	Will decrease	6%	4%	7%	5%	3%	3%	3%	1%	7%	4%	1%	5%	7%	5%	↑	↓
	Will increase	88%	88%	80%	77%	80%	82%	79%	84%	72%	72%	75%	77%	68%	76%	↓	↑

NON-ESSENTIAL SPENDING

Annual Income	Outlook	Jun-15	Jun-16	Jun-17	Sep-17	Jun-18	Sep-18	Jul-19	Sep-19	Jul-20	Sep-20	Jan-21	Mar-21	May-21	Jul-21	Change Mar 21 vs May 21	Change May 21 vs Jul 21
Rs. 1 lakh or less	Remain the same	22%	34%	33%	28%	24%	29%	39%	31%	38%	35%	34%	37%	41%	33%	↑	↓
	Will decrease	27%	19%	12%	9%	11%	23%	26%	28%	41%	35%	39%	42%	40%	45%	↓	↑
	Will increase	51%	47%	55%	63%	65%	48%	36%	41%	21%	30%	27%	21%	19%	22%	↓	↑
Rs. 1 to less than 3 lakh	Remain the same	28%	29%	33%	31%	32%	37%	45%	44%	39%	38%	37%	38%	41%	41%	↑	↑
	Will decrease	20%	20%	10%	9%	8%	13%	19%	25%	39%	31%	36%	35%	36%	39%	↑	↑
	Will increase	52%	51%	57%	60%	61%	49%	36%	31%	22%	31%	27%	27%	23%	20%	↓	↓
Rs. 3 lakh to 5 lakh	Remain the same	21%	25%	32%	30%	30%	33%	41%	44%	37%	38%	44%	44%	37%	41%	↓	↑
	Will decrease	15%	14%	10%	7%	9%	14%	19%	27%	38%	25%	27%	30%	37%	34%	↑	↓
	Will increase	64%	61%	58%	63%	61%	53%	41%	29%	25%	37%	29%	26%	26%	24%	↓	↓
Rs. 5 lakh or more	Remain the same	24%	28%	24%	36%	36%	28%	47%	49%	30%	43%	40%	40%	44%	41%	↑	↓
	Will decrease	15%	12%	15%	8%	15%	19%	14%	18%	40%	19%	21%	22%	25%	28%	↑	↑
	Will increase	61%	60%	61%	56%	49%	53%	38%	33%	30%	38%	38%	38%	31%	30%	↓	↓

Source –RBI Consumer Confidence Survey, LC Capital India | As data for Sep survey was not uploaded on RBI site at the time of analysis, hence we have not included the same.

KEY HIGHLIGHTS

Across income groups, the outlook has shown a decline towards essential spending in May 2021 vs Mar 2021. The sentiment has reversed towards the positive side in Jul 2021 with respondents in highest income bracket showing the highest increase since the onset of the pandemic.

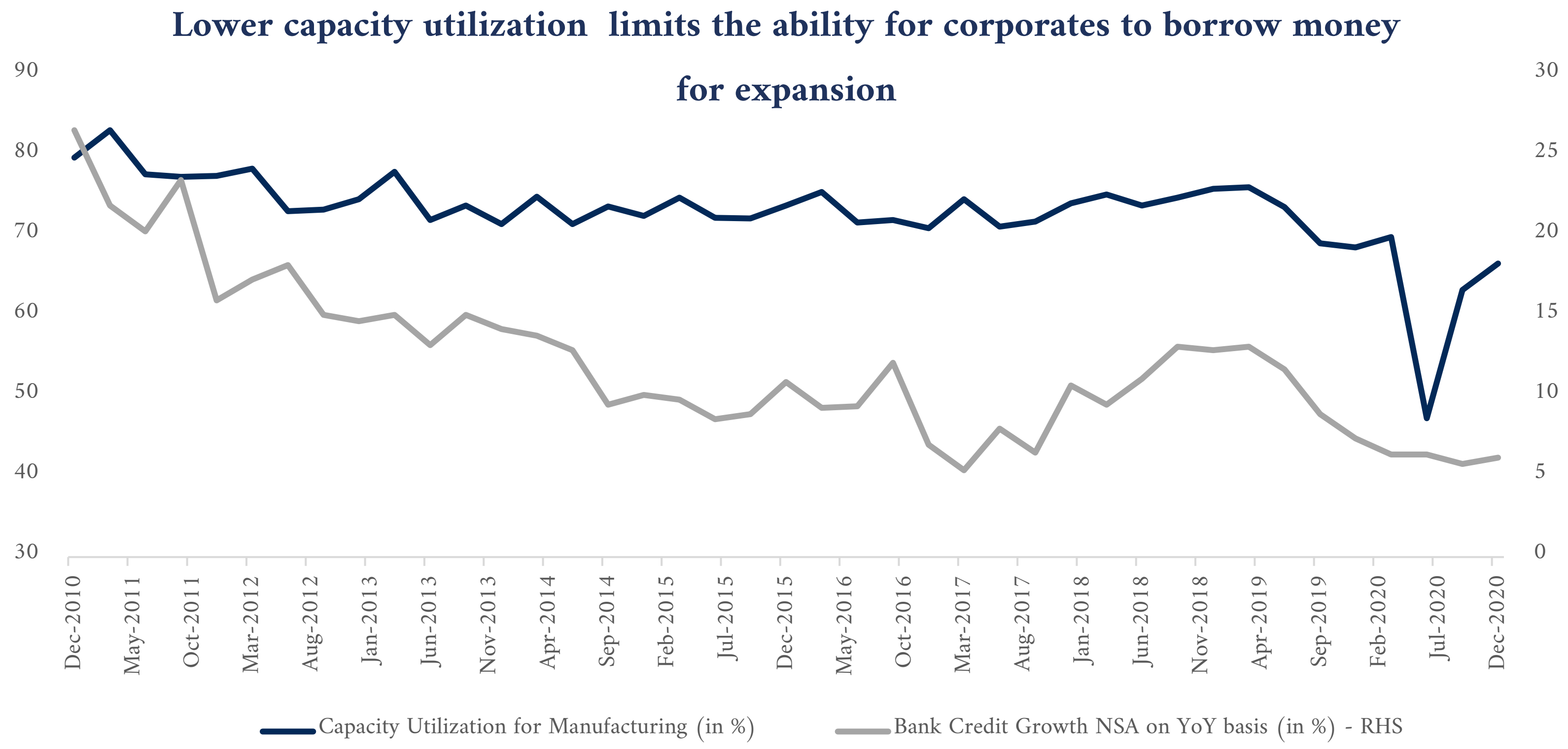
KEY HIGHLIGHTS

After reaching the lows in July 2020, the outlook for non-essential spending had improved in Sept 2020 across income groups. But the trend has not been sustained after Sept 2020. This is in line with the employment outlook which has also declined in subsequent months.

Decline in non-essential spending does not bode well for consumption (e.g., consumer durables, flights, travel, hotel, E-Retail, etc) or overall services sector of the economy.

Private Capex: Capacity Utilization vs Bank Credit Growth

Higher Demand -> Higher utilization -> Increase in borrowing (plans for capex)

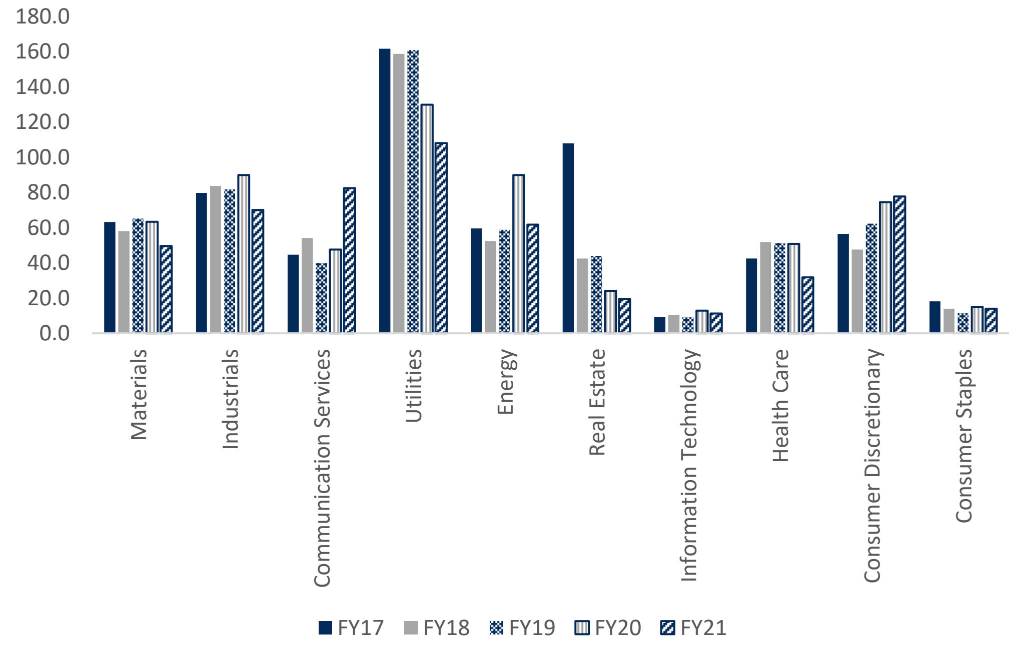


Source –Bloomberg, LC Capital India

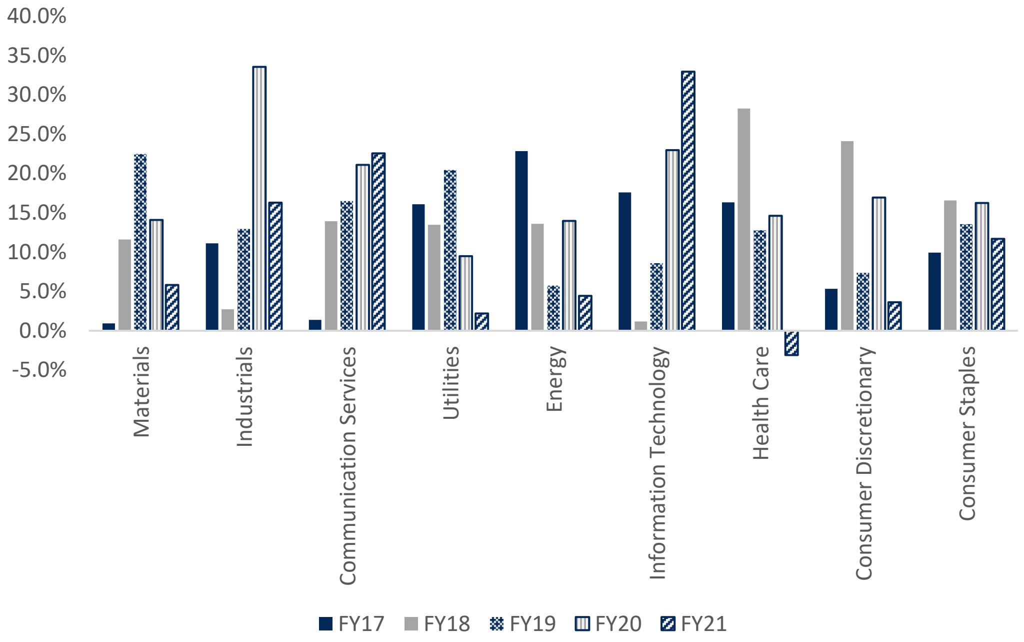
Private Capex: Corporate India (BSE 100 companies) has deleveraged their B/S??

The improved quality of its balance sheet would help Corporate India to take advantage of next phase of growth

In last 5 years most sectors have reduced the debt to equity* (in %)



....this is evident from reduction in gross block (yoy basis)**

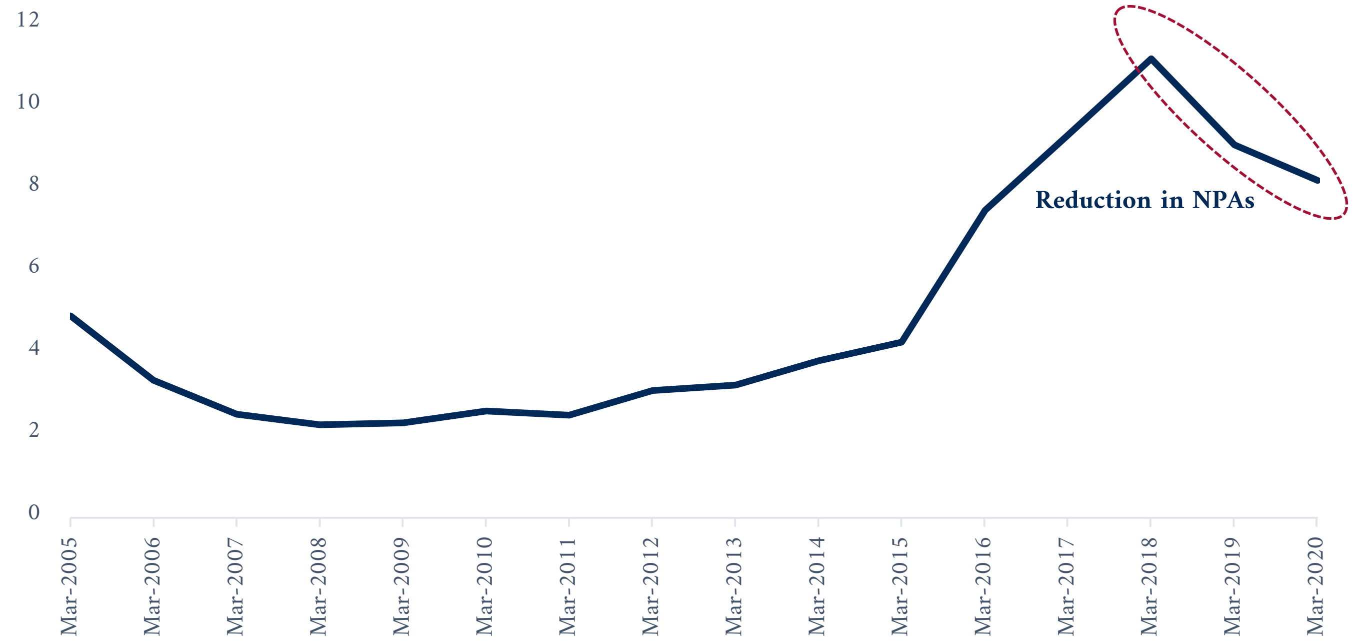


Source –Bloomberg, LC Capital India. Sector classification is GICS Sectors. The analysis does not include Financials | * Data is ex Adani Green and Indigo | ** Data does not include Real estate because of negative outliers

Private Capex: Can banks fuel growth??

Significant improvements in Bank NPAs would help to kick start the credit cycle.

India All Banks Gross NPA to Gross Advances (in %)

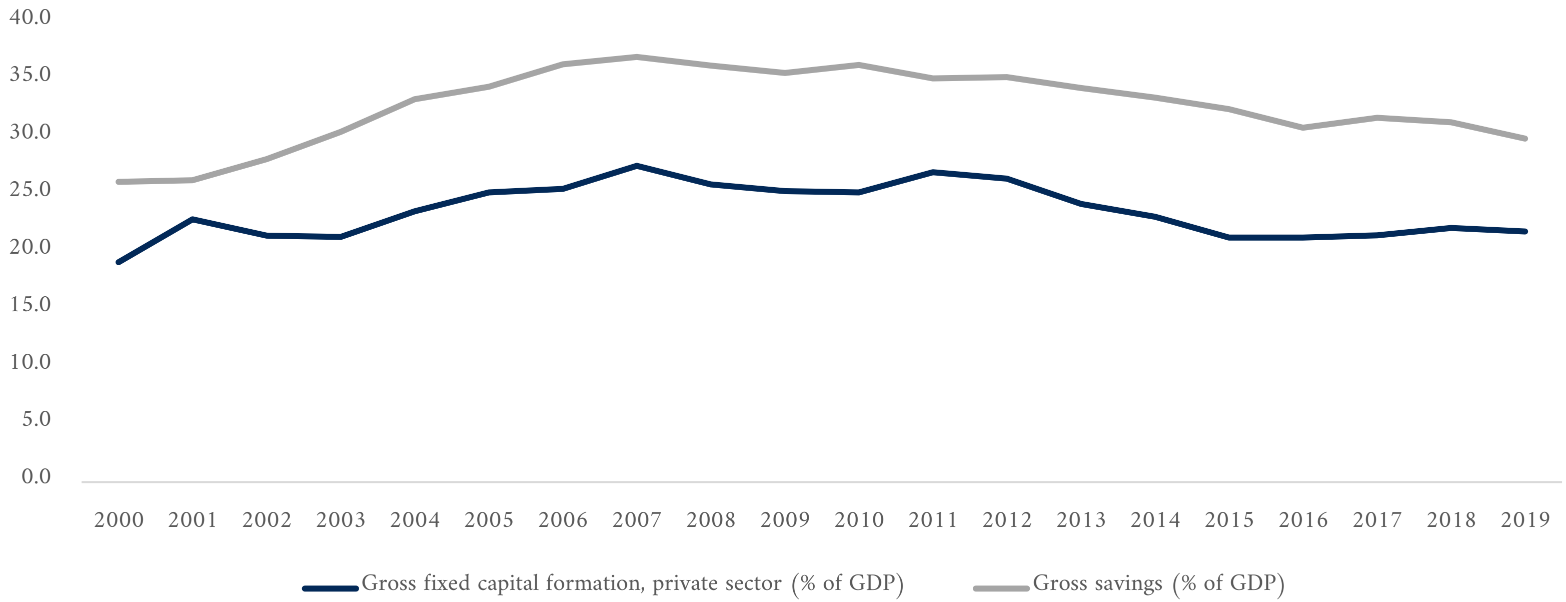


Source –Bloomberg, LC Capital India

Private Capex: Historical linkage between savings and investment

Higher gross savings -> Increase in spending -> Drive capacity utilization -> Increase in capex

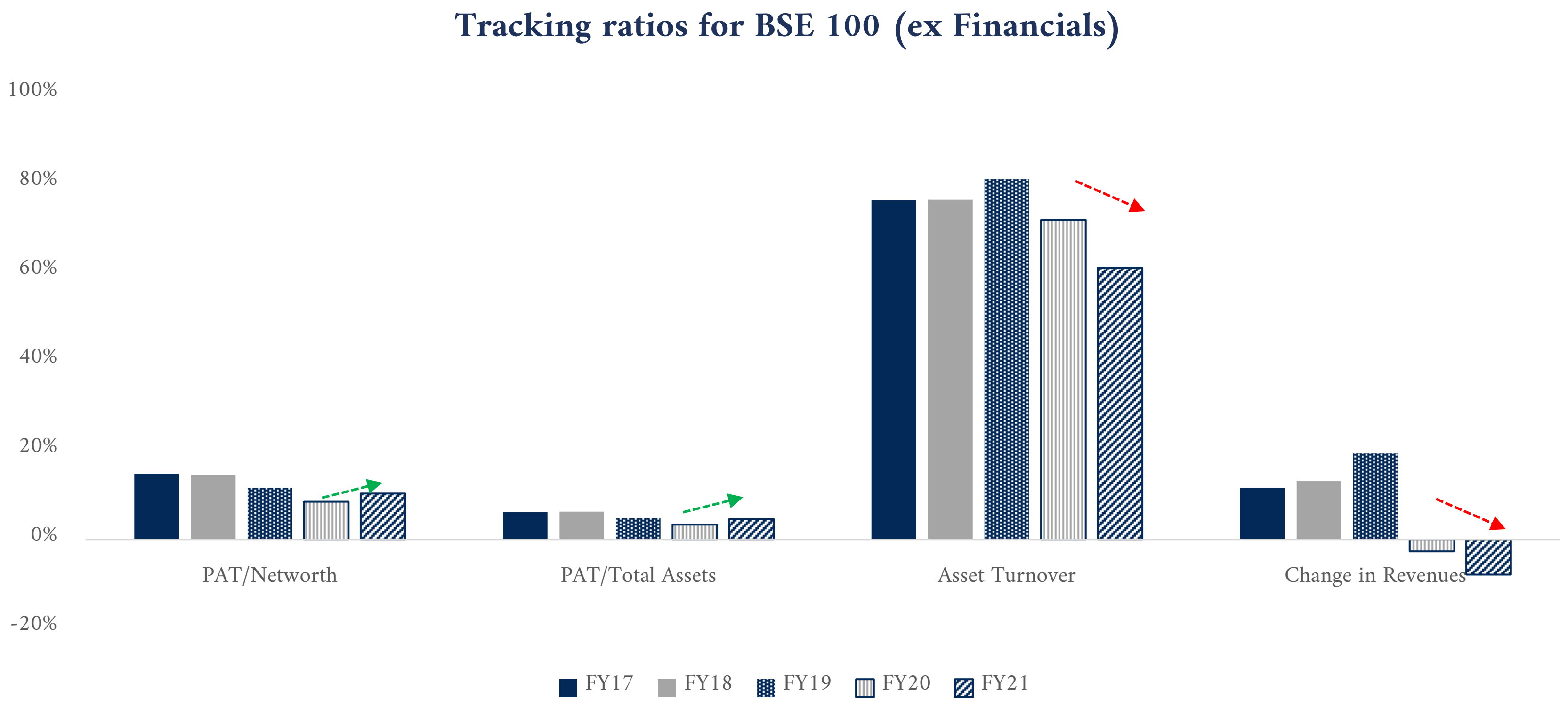
Gross Fixed capital from private sector is highly correlated with Gross Savings: – 0.84



Source –World Bank, LC Capital India

Private Capex: Next inflection point??

Sustainable improvement in key ratios would indicate the start of the new capex cycle

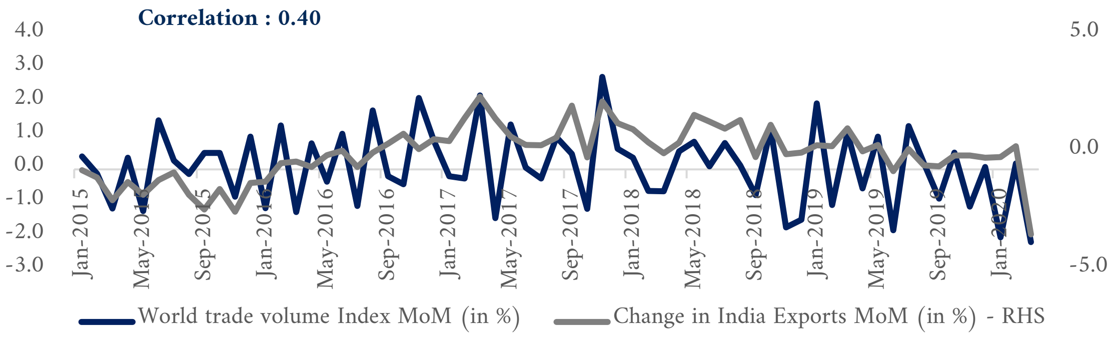


Source –Bloomberg, LC Capital India

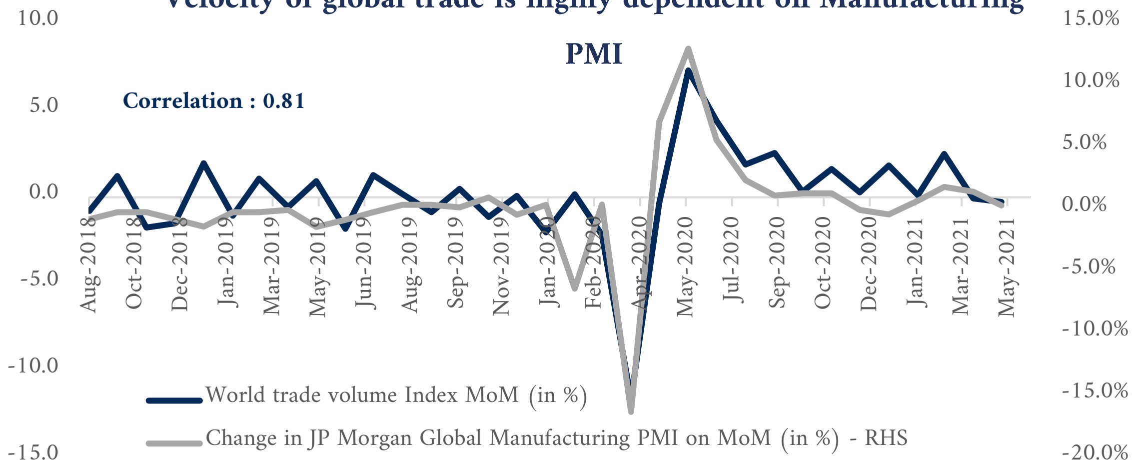
Net Exports: Can India benefit from rise in global trade?

Higher Money Supply -> Drive Manufacturing PMI -> Higher Velocity of global Trade = Good for exports in India

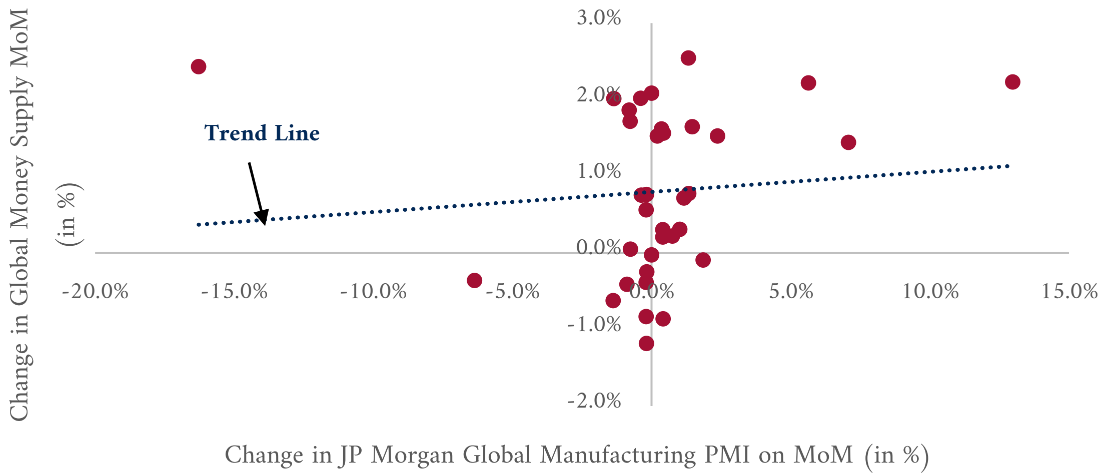
Increase in velocity of global trades helps India's export growth*



Velocity of global trade is highly dependent on Manufacturing PMI



Money supply helps to drive manufacturing PMI**



Source –Bloomberg, LC Capital India | * Data until 31st March 2020 | ** Data from Sept 2018 to July 2021

Increase in Net Exports: China + 1 Strategy

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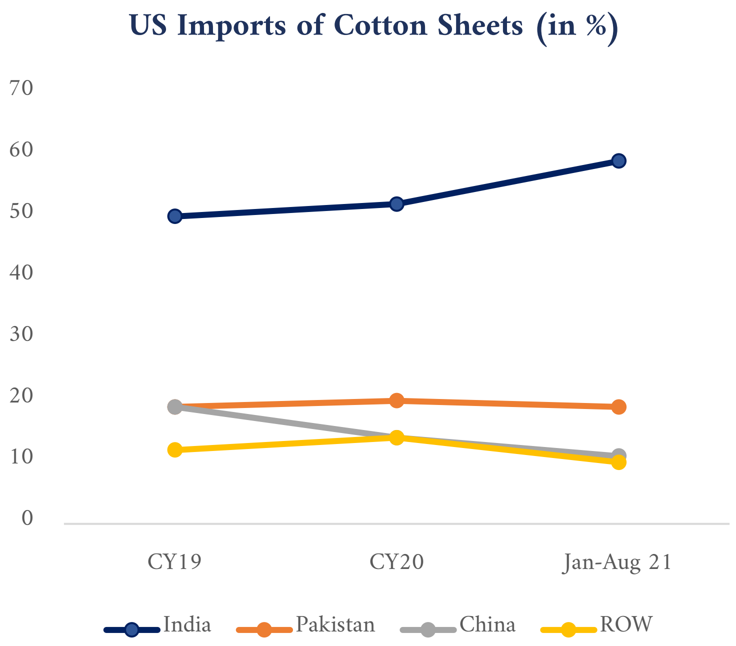
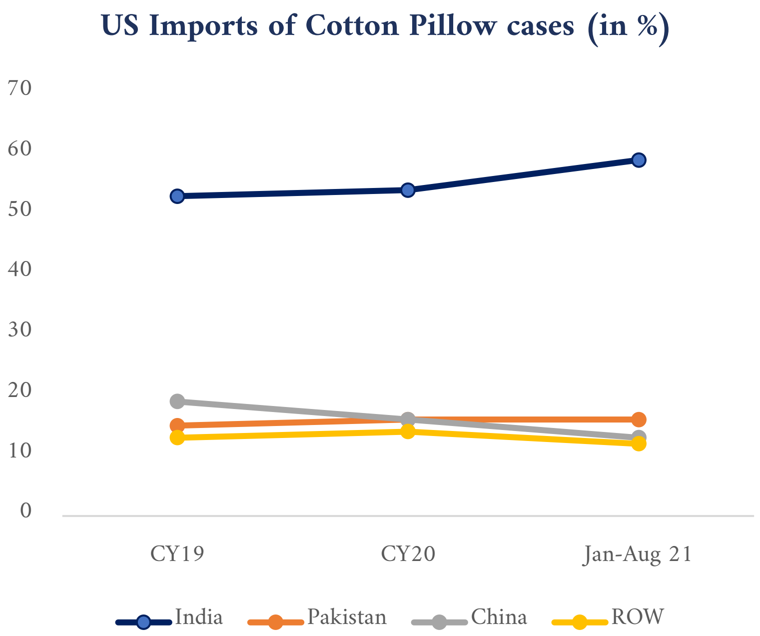
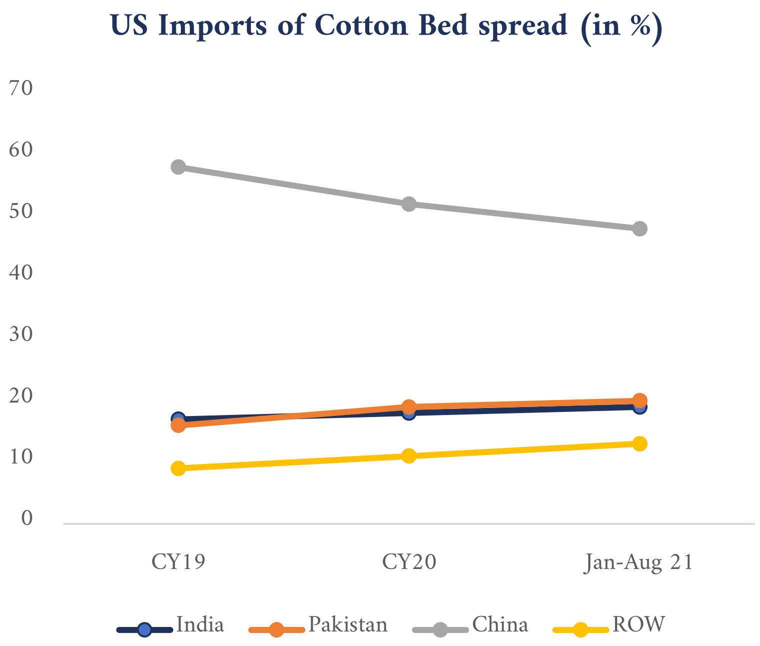
China + 1 strategy has led to an increase in India's market share in textiles. The same is evident in other sectors like chemicals, pharma, etc.







Source –Company website (ICIL)

Markets

Focus on valuations, positioning and earnings

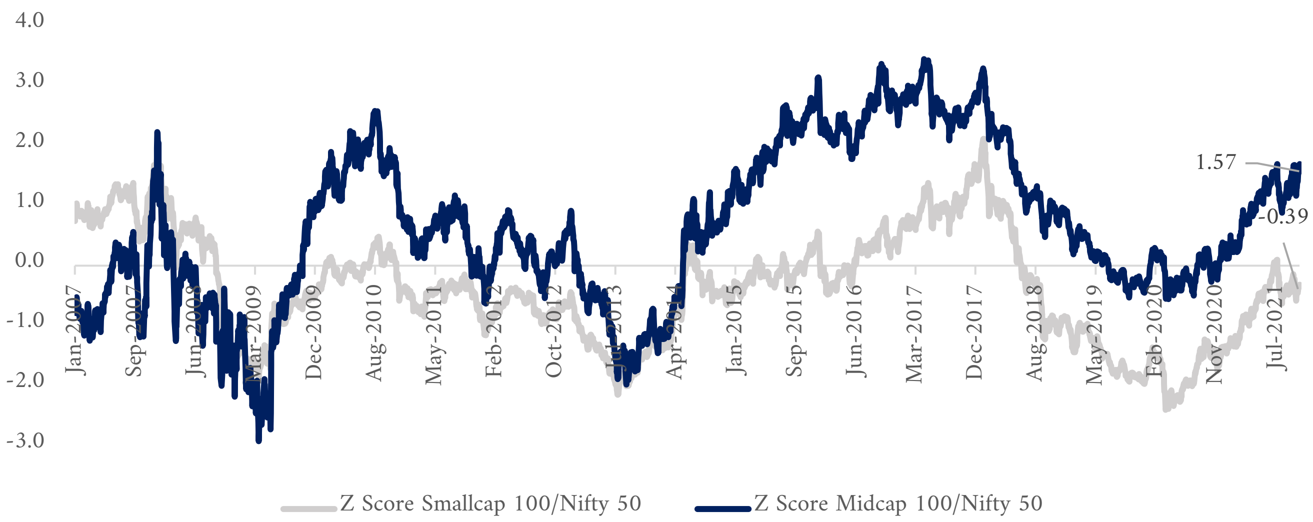
Valuations: Are small and mid cap stocks looking expensive vs large cap??

Although valuations (in terms of trailing 12m P/B) may not be supportive, but from a historical relative price basis, mid and small cap stocks still look attractive.

Percentile scores for Valuations (Nov 2011 – Oct 2021) -

Price to Book** – Smallcap 100 (99%), Midcap 100 (99%), Nifty 50 (98%)

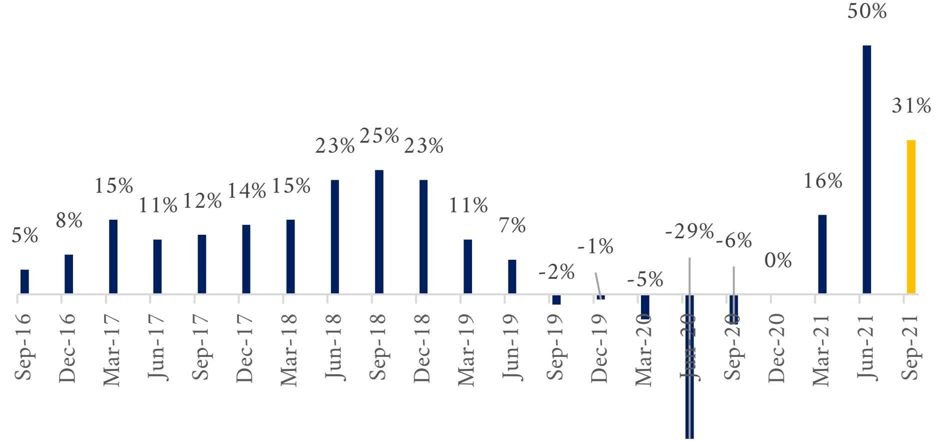
Normalized score – Price comparison*



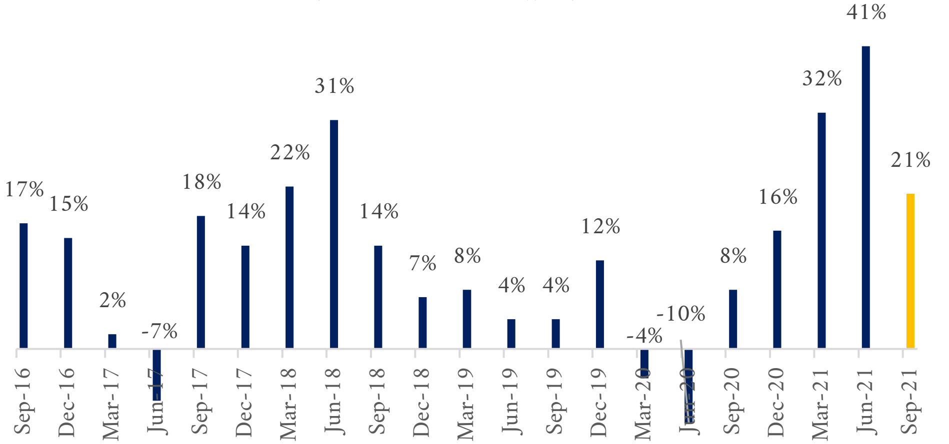
Source – Bloomberg, LC Capital India | * Data from Jan 2004 to 9th Nov 2021

Earnings: Track Q2FY22 earnings for Nifty 50 - Strong top-line and bottom-line growth although weaker EBITDA margins

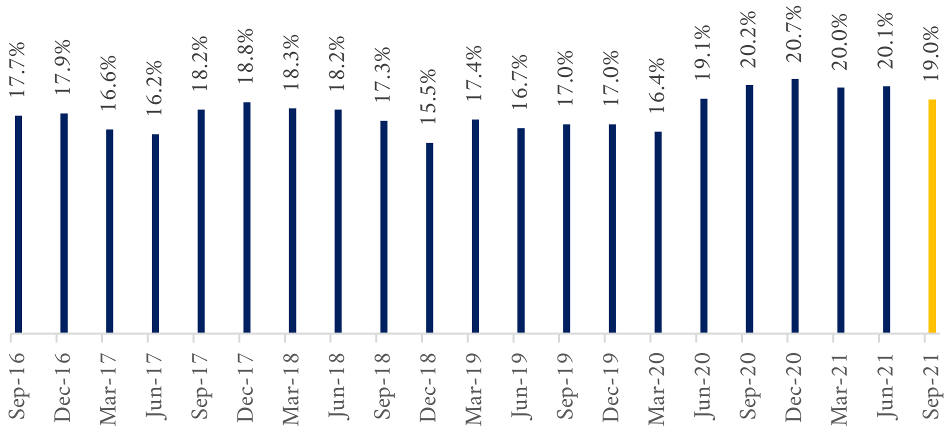
Nifty 50 Sales up by 31% YoY



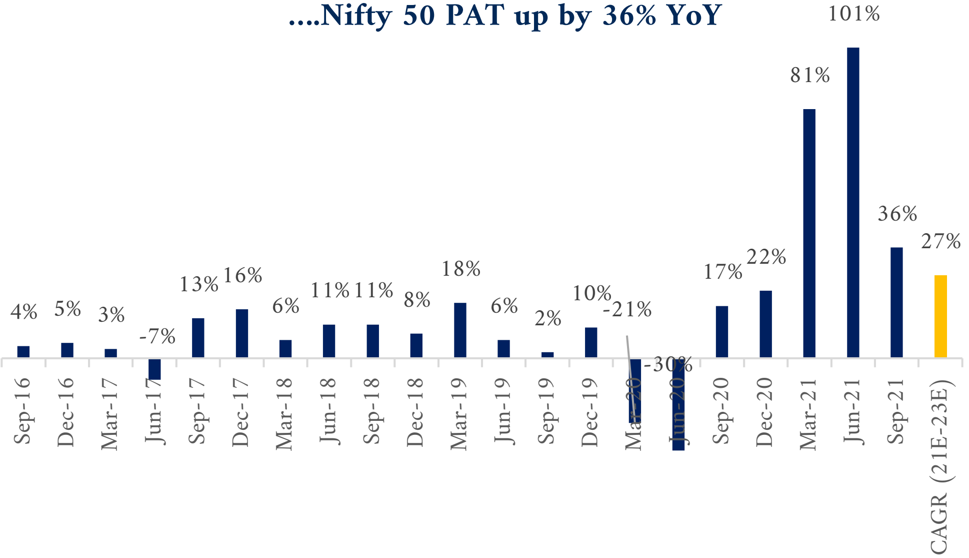
....Nifty 50 EBITDA up by 21% YoY



....Nifty 50 EBITDA margins (ex-financials) down 120bps YoY to 19.0%



....Nifty 50 PAT up by 36% YoY



Source –MOSL Research India Strategy Report

Flows: Where is the money coming from??

Involvement of Retail Money ensured market remained buoyant.

Date	FII Net	DII Net	Proxy Retail	FII Gross	DII Gross
Oct-21	-25,572	4,471	21,101	3,96,706	2,98,744
Sep-21	914	5,949	-6,863	4,34,359	2,82,346
Aug-21	-2,569	6,895	-4,326	3,52,905	2,55,476
Jul-21	-23,193	18,394	4,799	2,74,987	2,17,426
Jun-21	-26	7,044	-7,018	3,40,404	2,21,536
May-21	-6,015	2,067	3,948	3,39,969	2,09,021
Apr-21	-12,039	11,360	680	2,79,631	1,84,409
Mar-21	1,245	5,204	-6,450	3,80,274	2,22,287
Feb-21	42,044	-16,358	-25,686	4,04,017	2,24,708
Jan-21	8,981	-11,971	2,990	3,27,502	2,23,466
Dec-20	48,224	-37,294	-10,930	3,16,833	2,06,773
Nov-20	65,317	-48,319	-16,998	4,54,242	1,91,875

- There was sizeable outflow of FII money during the March 2020 crash which made its way back to India in a big way from November 2020 onwards
- Once that tap closed, retail investors have supported the market and not allowed a drawdown of more than 5% in Nifty in the last six months
- It is more evident in Mid caps where the index has not seen a negative return in the last 16 months

Source – SEBI | All figures in INR Crore

Ownership: For Foreign and Domestic Institutional Investors…

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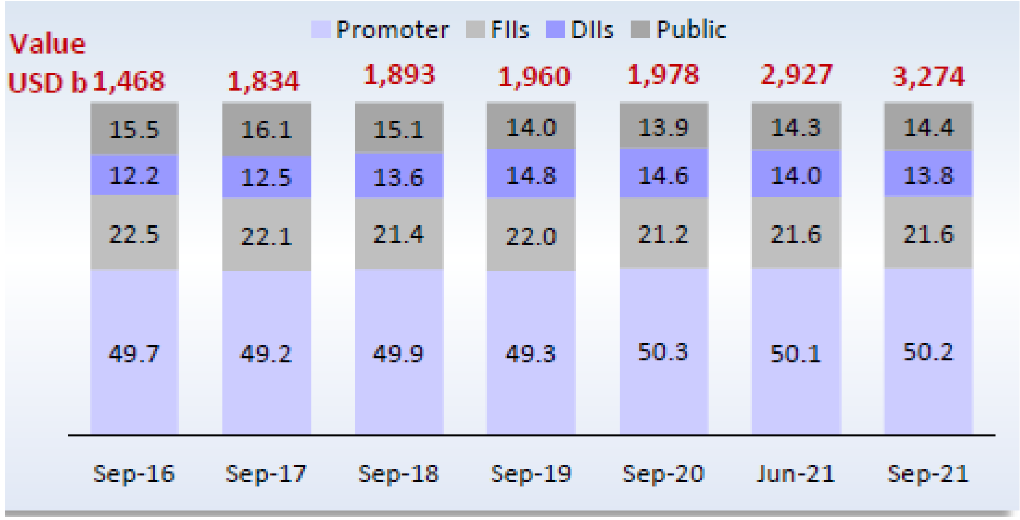
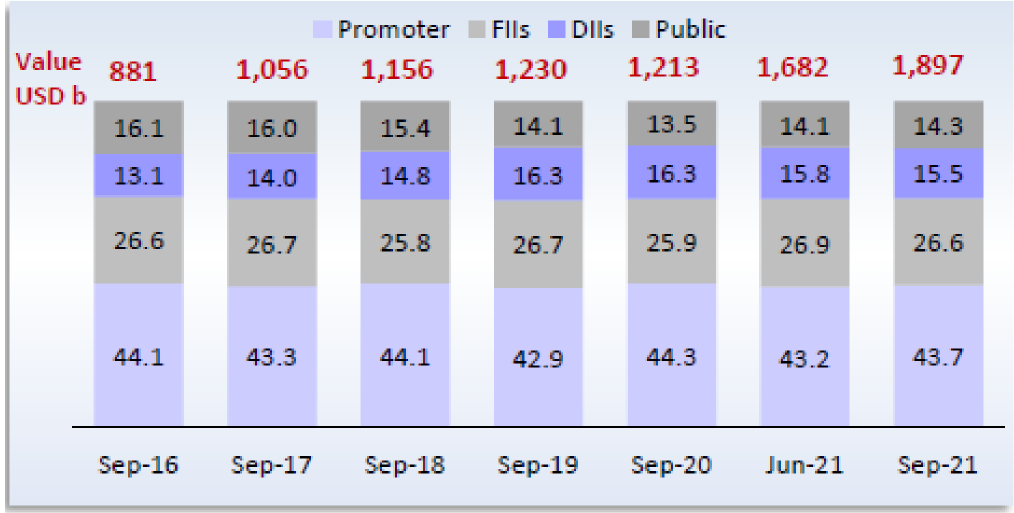
DIIs have seen a decline in stake both on QoQ and YoY in Nifty 50 and Nifty 500.

In Nifty 500 on QoQ basis (Sep 2021 vs June 2021) and YoY basis (Sep 2021 vs Sep 2020), FII's stake has remained unchanged and increased by 40 bps respectively whereas DII's stake has reduced by 20 bps and 80 bps respectively.



….In Nifty 50 on QoQ (Sep 2021 vs June 2021) and YoY basis (Sep 2021 vs Sep 2020), DII's stake has reduced by 30 bps and 80 bps respectively whereas FII's stake has reduced by 30 bps and increased by 70 bps respectively.

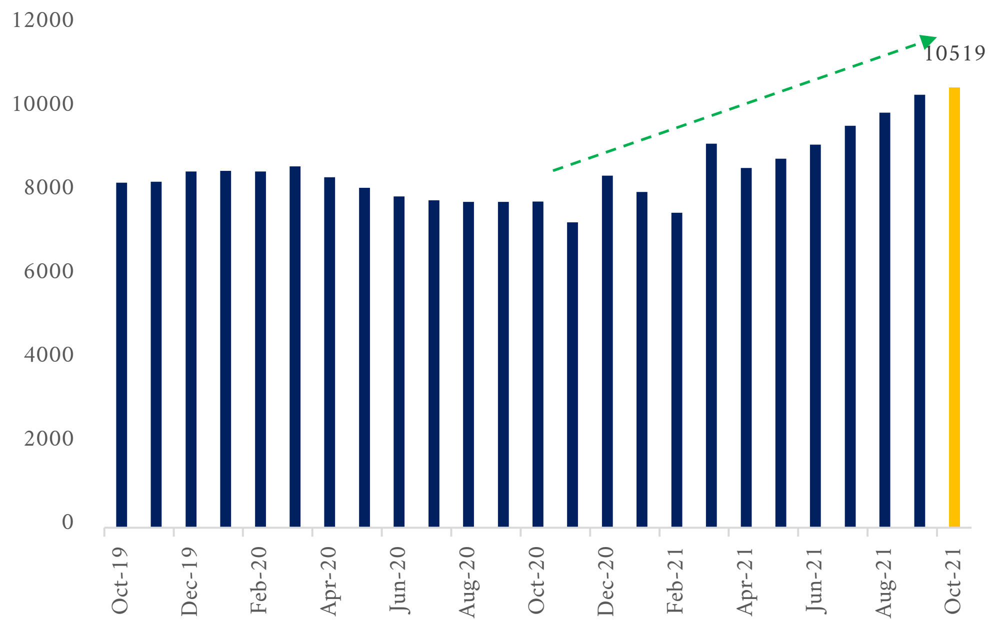


Source –MOSL Research India Strategy Report

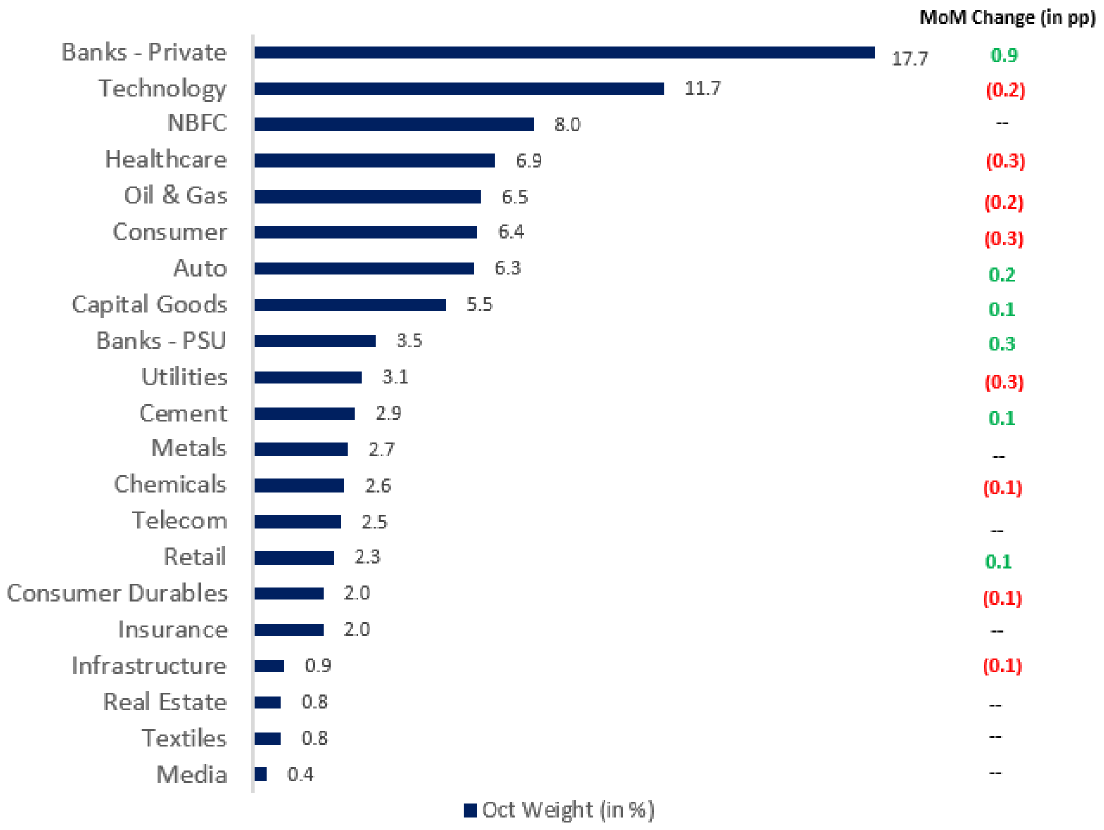
SIP Flows: In Flows scale new highs

A shift towards cyclical sectors is witnessed while tracking the flows for Oct 2021

SIP contribution for Oct 2021 around 10519 crs



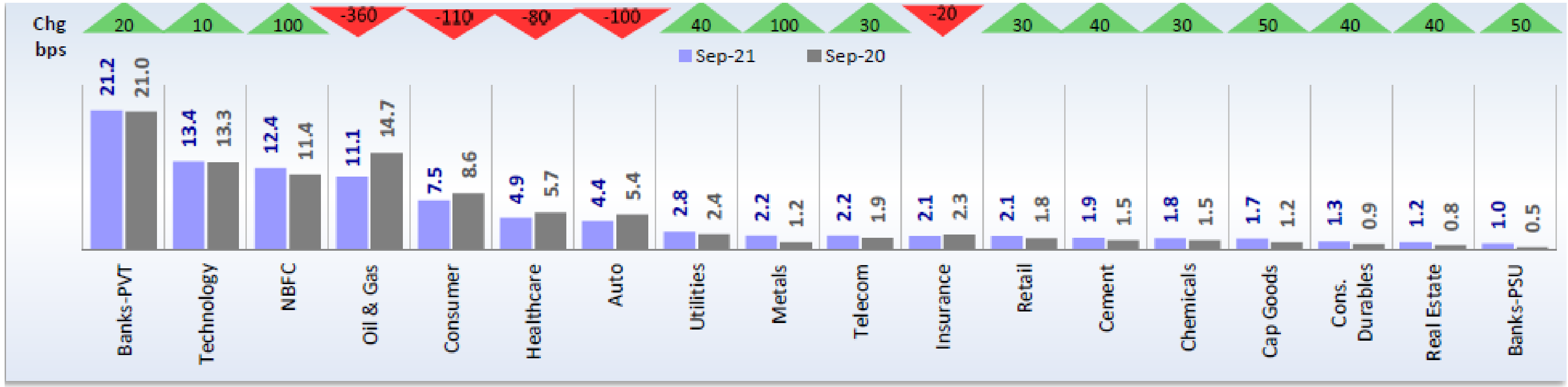
Banks, Auto, Capital Goods hog the limelight in terms of increase in weightage in Oct 2021



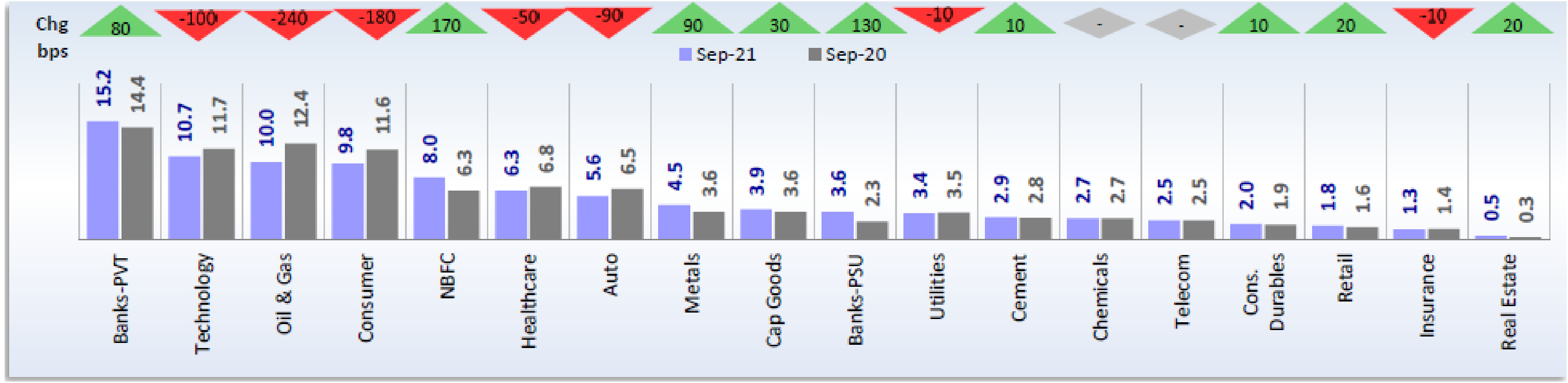
Source – AMFI, MOSL Research India Strategy Report

Ownership: Sectoral Holdings - Top bets are in cyclical sectors

Institutions have increased their exposure in cyclical sectors which should benefit from economic recovery.



FIIs have increased allocation in Metals, Banks, Capital Goods, Real Estate, Cement on YoY basis

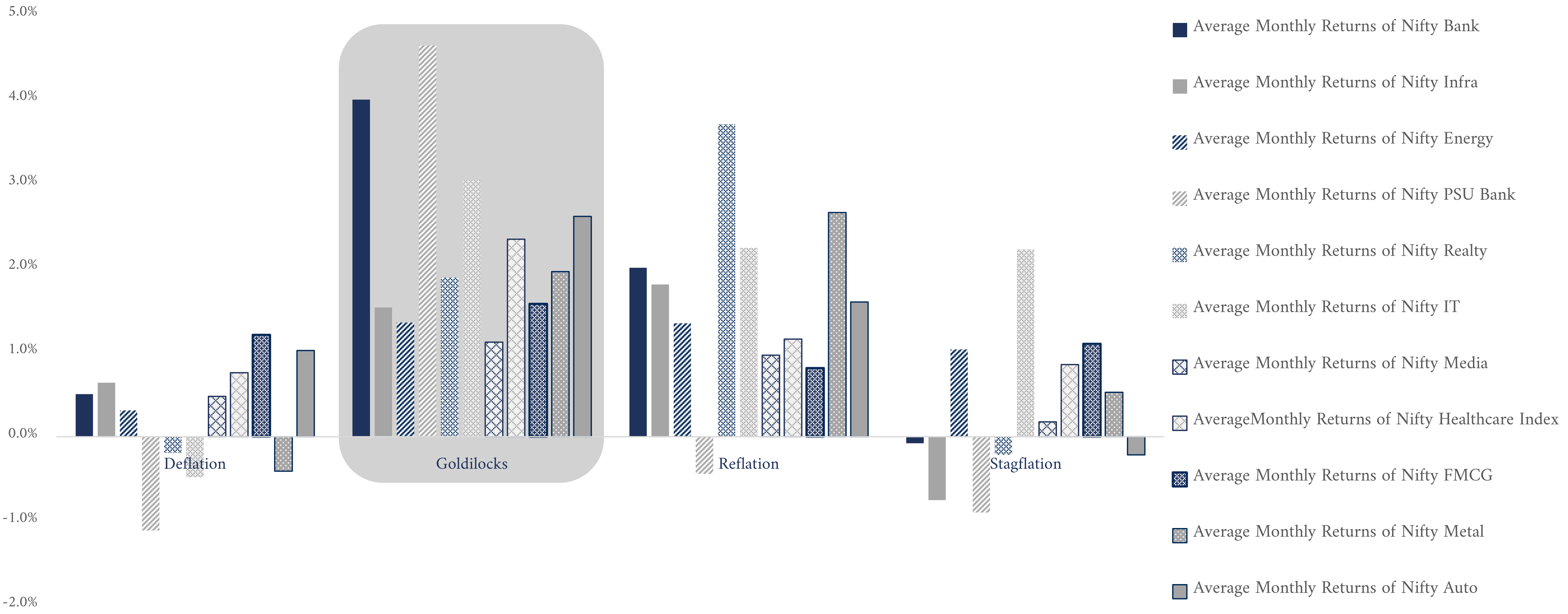


DIIs have increased allocation in Banks, Metals, Capital Goods on YoY basis

Source –MOSL Research India Strategy Report

Sector Performance across India's Economic Regime

Based on historical evidence, all the equity sectors in India perform well based on average monthly returns being positive in goldilocks regime.

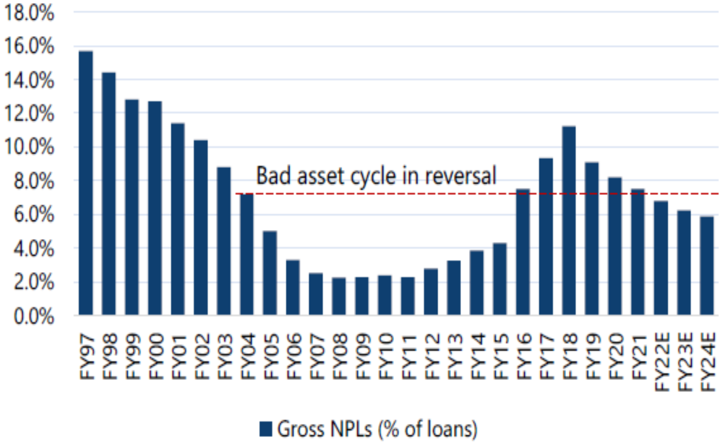


Source – OECD, LC Capital India | Data from July 2011 till July 2021 | For growth – 3 month OECD India CLI and for Inflation – 3 month change in India CPI

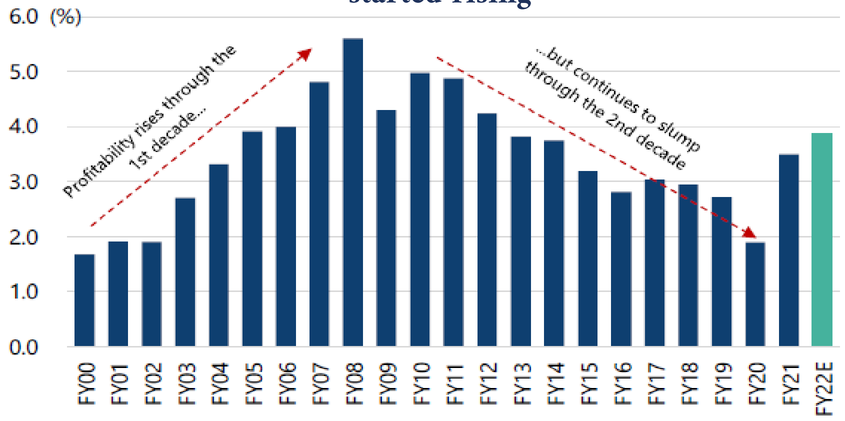
Question: Are we seeing a repeat of 2003-2010?

Analyzing through the lens of Corporate India's balance sheet, profitability, bank NPAs, suggests to us that stage is set for repeat of 2003-2010 economic cycle.

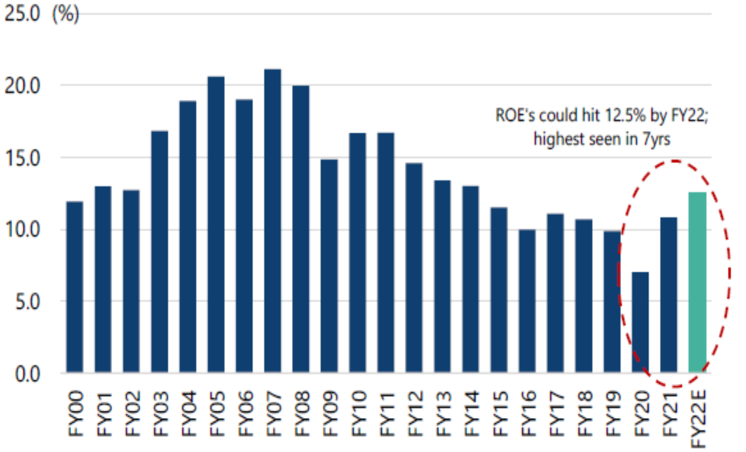
Similar trend in bad asset cycle seen in FY18-FY21 vs FY00-FY03



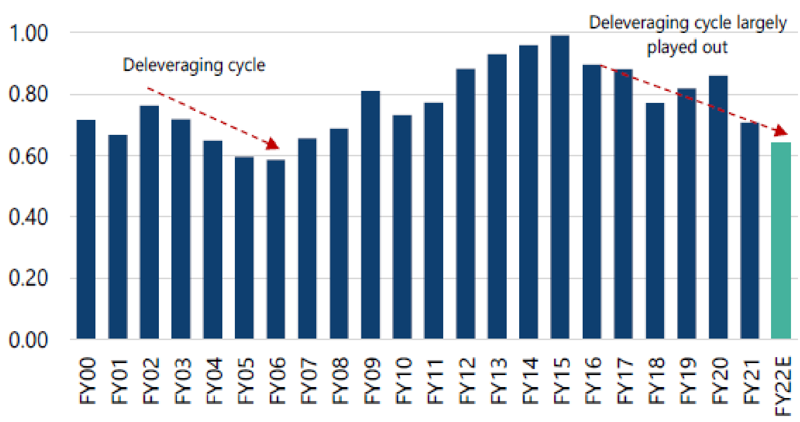
Corporate Profitability as a % of GDP has started rising



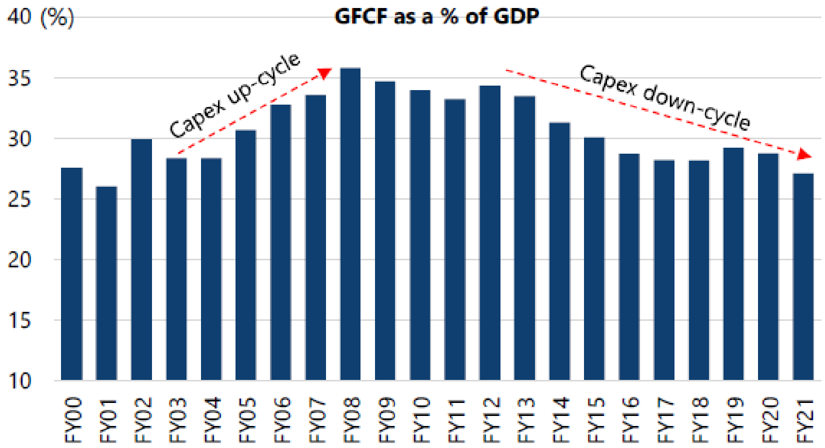
Higher ROEs would lead to incremental capex



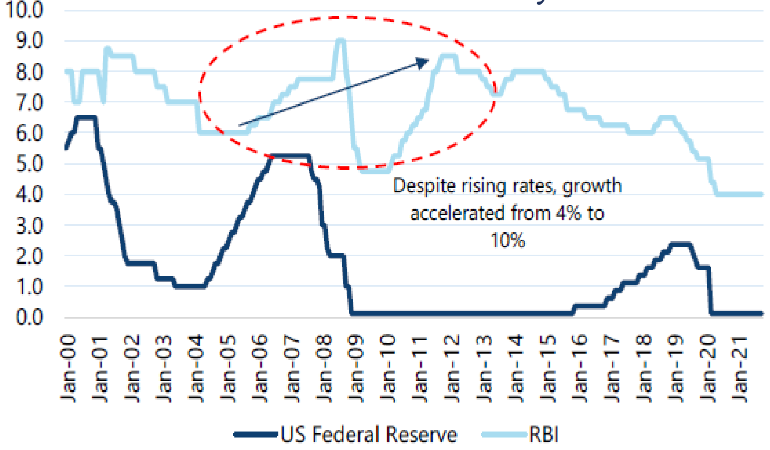
Deleveraging of balance sheet would create room for further capex



Corporate capex not visible yet



In the past, higher rates corresponds to economic recovery

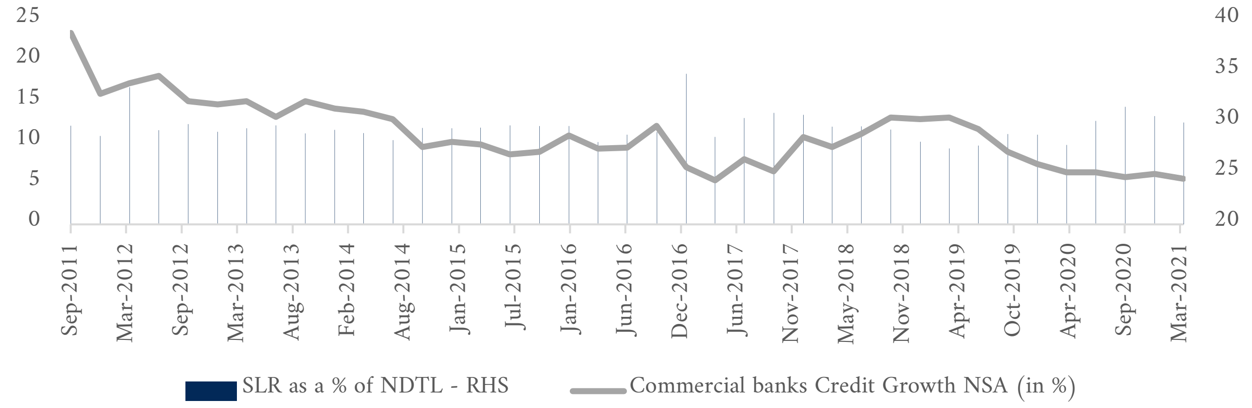


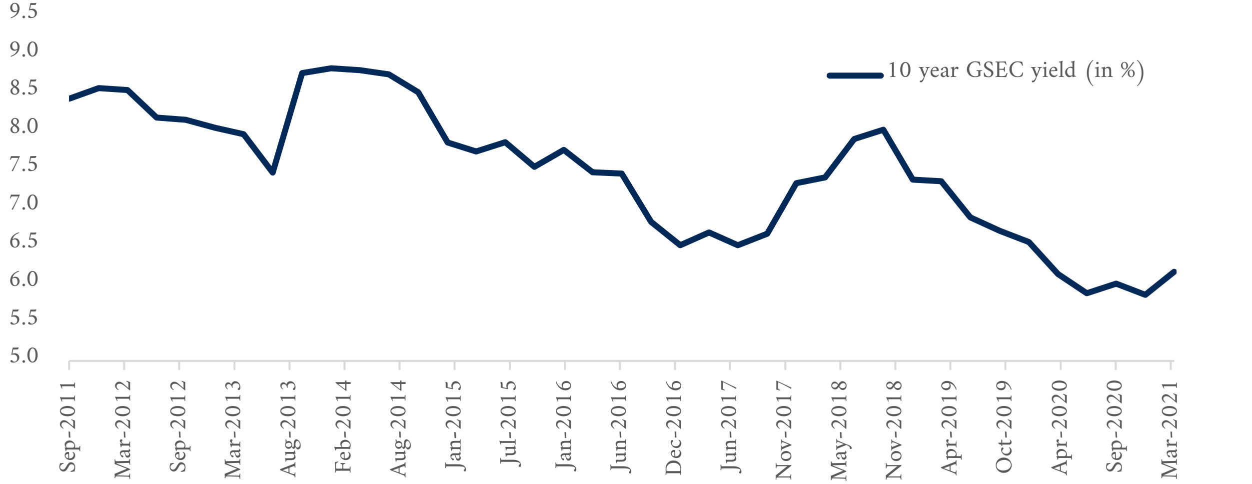
Source –Jefferies

Fixed Income: Can yields rise?

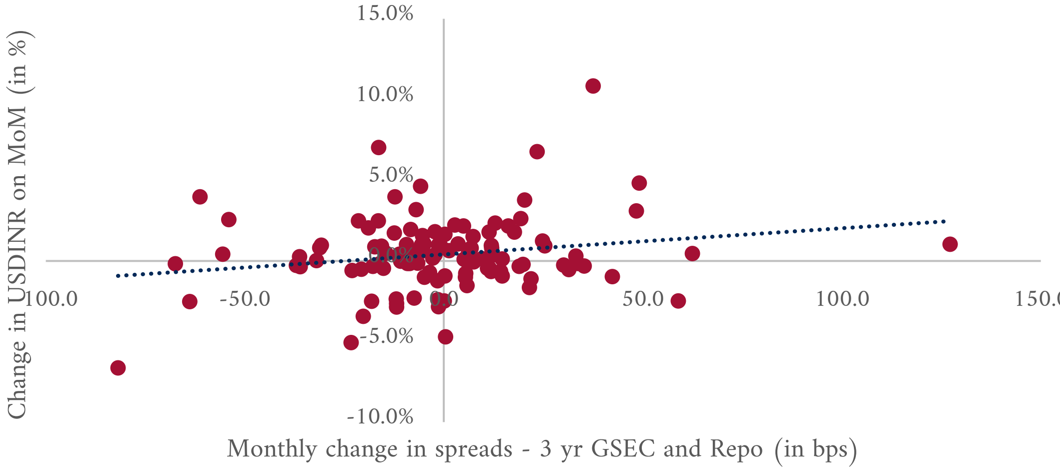
Higher credit growth or high USD appreciation may affect rates in India.

Low Credit Growth has led to further investments in Gov sec by banks - > key driver for 10 year yield





Positive correlation between spreads and currency*



Source –Bloomberg, Investing.com, Yahoo Finance, LC Capital India | *Data from Feb 2012 to June 2021

Vaccination rates

Determining the pace of recovery

Key risk: Important to track the Covid cases

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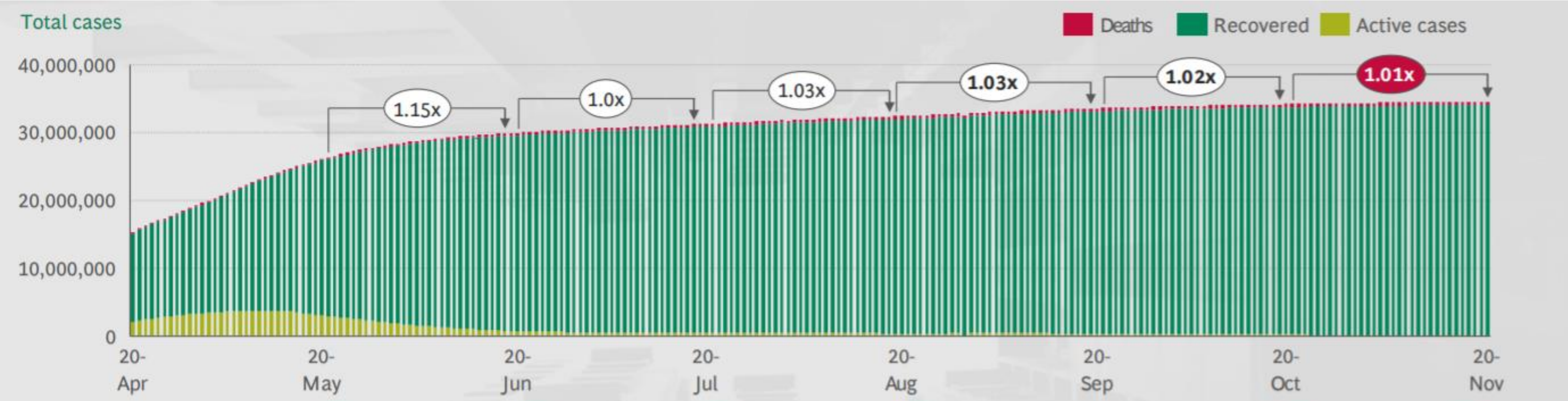
Active Covid cases have seen a massive decline, recovery rate has continued to improve in Nov 2021 – *Lower case count -> Opening of economy -> Positive for supply chain and Consumption -> Growth revival*

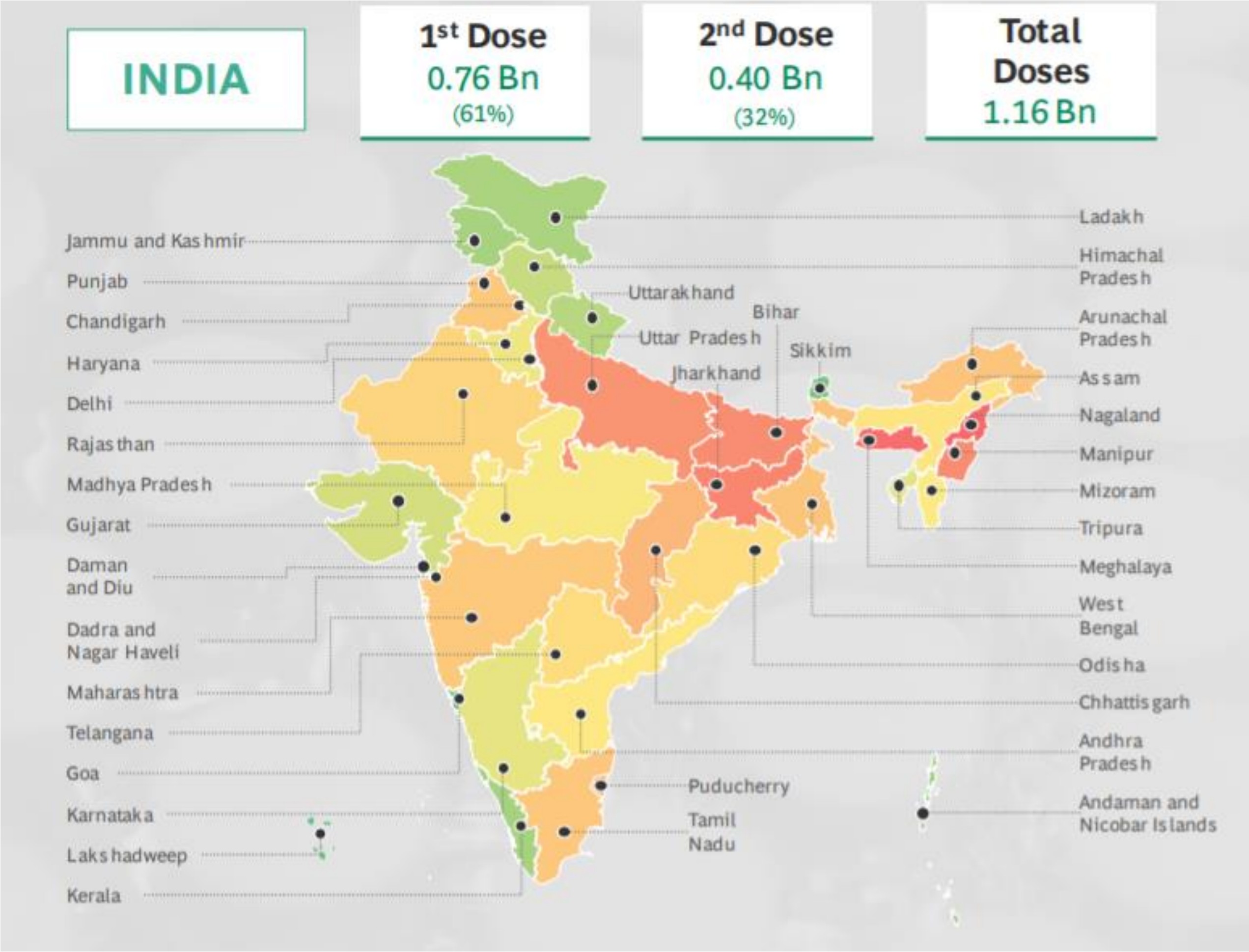


Total cases	26M	29.8M	31.1M	32.4M	33.5M	34.1M	34.5M
Active cases	3.02M	727k	399k	358k	302k	172k	118k
Days Doubling Rate	61	383	661	773	755	1545	2330
Recovery Rate	87.2%	96.2%	97.3%	97.5%	97.7%	98.1%	98.3%
Fatality Rate	1.1%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%

Source – BCG | Data as on 21st Nov 2021

Cont'd: Important to track the vaccines administered

India has reached the 1Bn mark in administering Covid vaccines, with 61% and 32% of the population partially and fully vaccinated



Source – BCG | Data as on 21st Nov 2021

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