

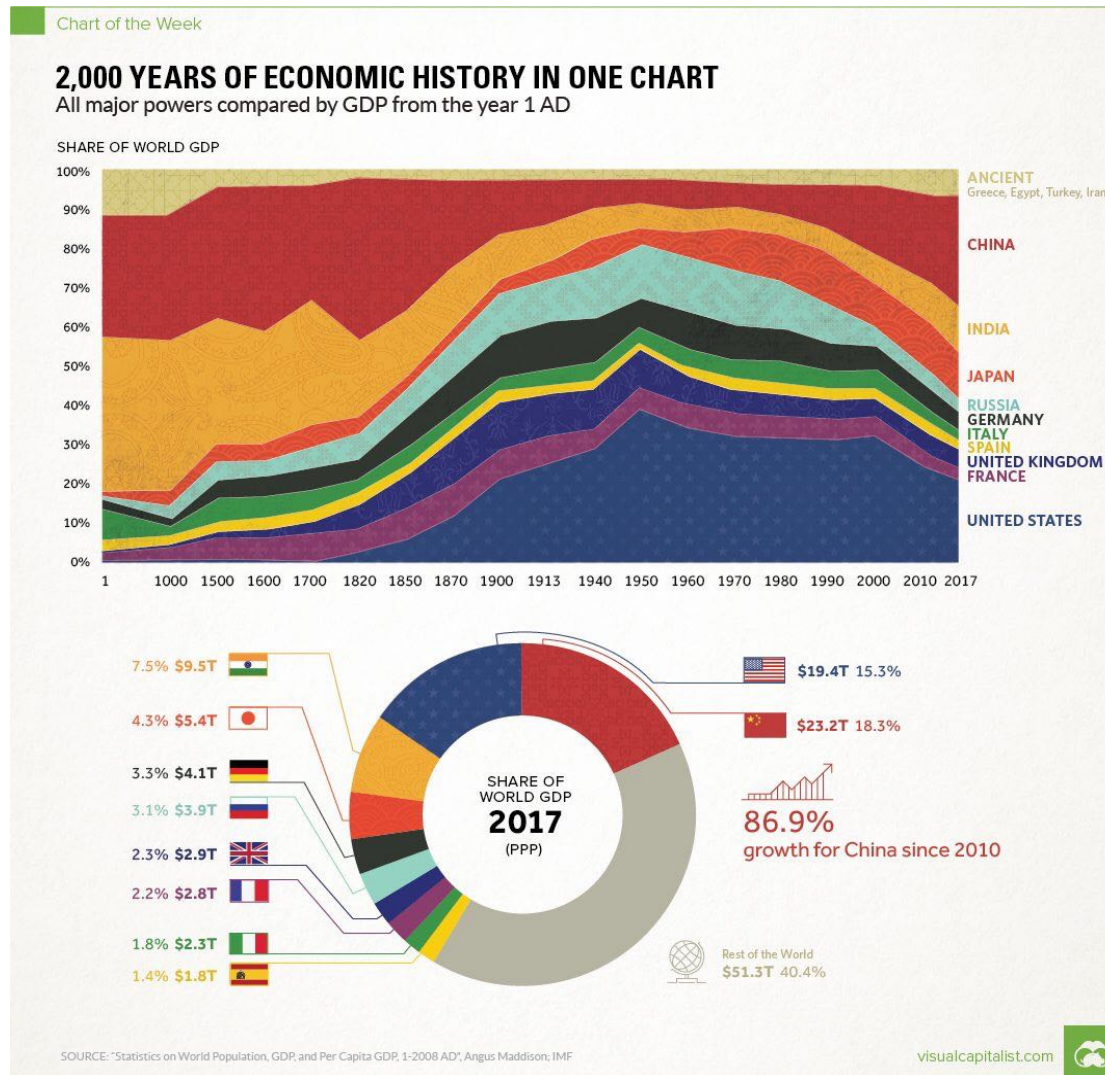


INDIA: HALF GLASS EMPTY OR HALF GLASS FULL?

August 2020

MANISH CHOKHANI

India went from >30% to <3% of Global GDP



Source: IMF estimates, Visual Capitalist

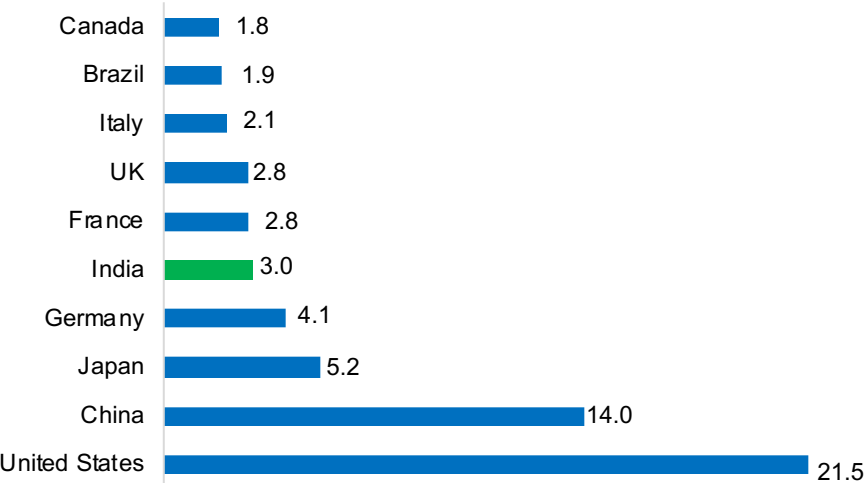
Strong Growth since Liberalization in 1991

Indicators	1991	2019
GDP (\$ billion)	275	2,970
Country rank by GDP	16	7
GDP per capita, \$	320	2,200
Exports (\$ billion)	18	330
Imports (\$ billion)	24	514
Market cap of BSE 100 (\$ billion)	45	1,500
Foreign exchange reserves (\$ billion)	1	425
FX reserves in weeks of imports	2	43
Gross national savings (previous year)	23%	29%
Total investment (previous year)	26%	32%
Population below poverty line	45%	22%

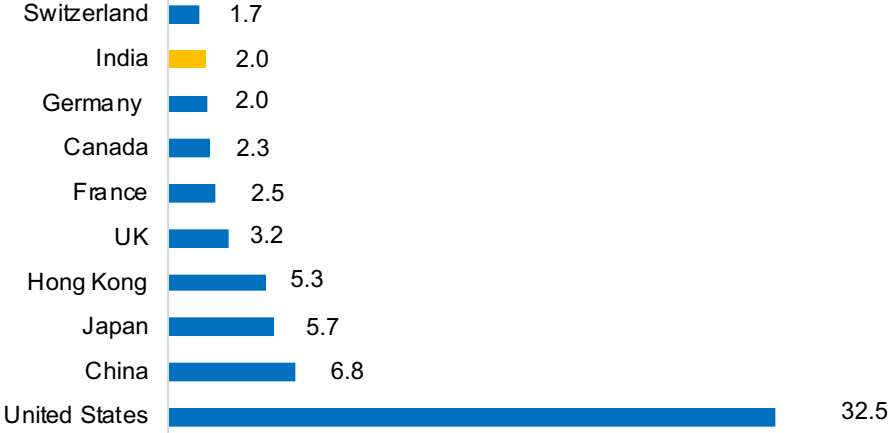
Source: Enam Holdings, Bloomberg, Axis Capital, CapitalLine

India is now seen as a growing, top 5 economy

Ranked 5th by Nominal GDP (US\$ tn), 2019










Ranked 9th by Market Cap (US\$ tn), 2019



On course to become the 3rd largest economy by 2030... and hopefully by Mkt Cap.

Source: Bloomberg 2019

Strong Agriculture Base: 1st or 2nd Globally

							
	Food Grains	Milk	Cotton	Horticulture	Sugar	Spices	Cropland
	Production (Mn tonnes)	Production (Mn tonnes)	Production (Mn bales)	Production (Mn tonnes)	Production (Mn tonnes)	Exports (in USD Bn)	Production (Mn hectares)
India (#Global Rank)	281 (#2)	176 (#1)	33 (#1)	315 (#2)	36 (#2)	3 (#1)	180 (#1)

- Major producer of agrochemicals, tea, cashew, jute, oilseeds
- Largest exporters of cereal products, cotton, bovine meat, sugar, etc.
- All 15 major climates in the world; 46 of the 60 soil types in the world
- Largest manufacturers of farm equipment

Large Infrastructure Base: Top 5 Globally



Coal	Iron Ore	Aviation	Railway	Roadway	Electricity
Production (Mn MT)	Production (Mn tonnes)	Passenger Traffic (Mn)	Network ('000 Kms)	Network (Mn Kms)	Production (Bn Units)
740 (#2)	220 (#4)	345 (#7)	115 (#4)	6 (#3)	1260 (#3)

India
(#Global Rank)

- Ranked 35th in Logistics Performance Index (LPI) 2016 (up 19 ranks)
- Air passenger traffic is growing at 16.5%, to become 3rd largest by 2024
- Produces 95 minerals – 4 fuel-related, 10 metallic, 23 non-metallic, 3 atomic, and 55 others

Strong Industrial Base: Top 5 Globally



	Steel Production in Mn tonnes	Cement Capacity in Mn tonnes	Two Wheeler Production in Mn Units	Four Wheeler Production in Mn Units	Construction Bn Sq. ft.	ITes Revenue in USD Bn	Electricity Production TWh	Wireless Phone Subscribers in Mn
India (#Global Rank)	107 (#2)	502 (#2)	25 (#1)	4 (#5)	1 (#6)	181 (#4)	1260 (#3)	1162 (#2)
Japan	104	55	-	9.7	-	-	1,020	173
USA	87	120	-	11.3	-	1,600	4,280	392

Source: Mohandas Pai, Bloomberg, CapitaLine

Young Educated Workforce

903

Number of Universities

49,061

Number of Colleges

General Courses (Mn)		Specialised Courses (Mn)	
Arts	10.04	Engineering	4.25
Commerce	4.47	IT / CS	0.94
Science	5.50	Management	1.23
Education	2.00	Medical	1.24
Social Science	1.55	Law	0.37
		Others	1.07
Total	23.60		9.10

Total: 32.66 MN

Gross Enrolment Ratio in Higher Education in India is 26%

500 Mn population in 5-24 age bracket

Enrolment in professional courses grew at 20% CAGR

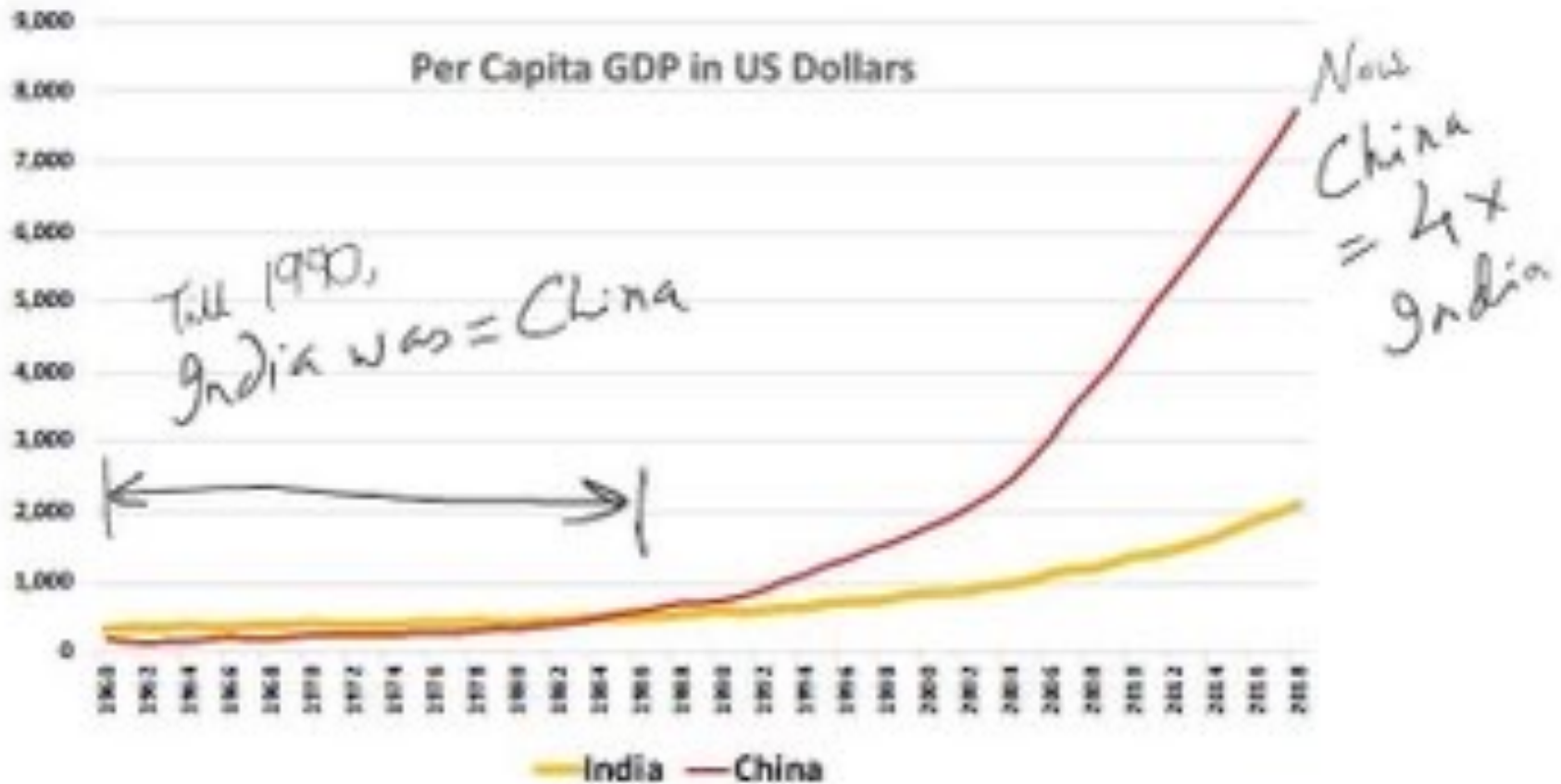
Pvt Institutions account for 78% institutions & 67% of enrolment

Lots of institutions and graduates, but lack of quality... and opportunities.

WHAT WE ARE YET TO DELIVER ON

July 2020

Lost opportunity & falling further behind



Praying for Weak Oil and Strong Foreign Inflows

Current Account (% of GDP)	FY19	FY20
Exports	11	12
Imports	17	18
Oil Imports	5	5
Non-oil Imports	13	13
Total Trade Balance	-6	-6
Invisibles		
Software	3	3
Remittances	2	2
Invisible Outflows	-1	-1
Total Invisibles	4	4
Current Account Balance	-2.2	-2.3

Capital Account (% of GDP)	FY19	FY20
FDI	1	1
Portfolio Investors	0	0
Capital Inflows	1	2
Loans	0	0
Banking Capital	1	1
Other Capital	1	0
Capital Account Balance	2.2	2.7

Current Account Deficit Funded by Capital Inflows

Assuming oil is \$70/bbl in FY20

Trade Deficit of 6% is manageable only if energy prices are contained and remains offset by steady Invisibles.

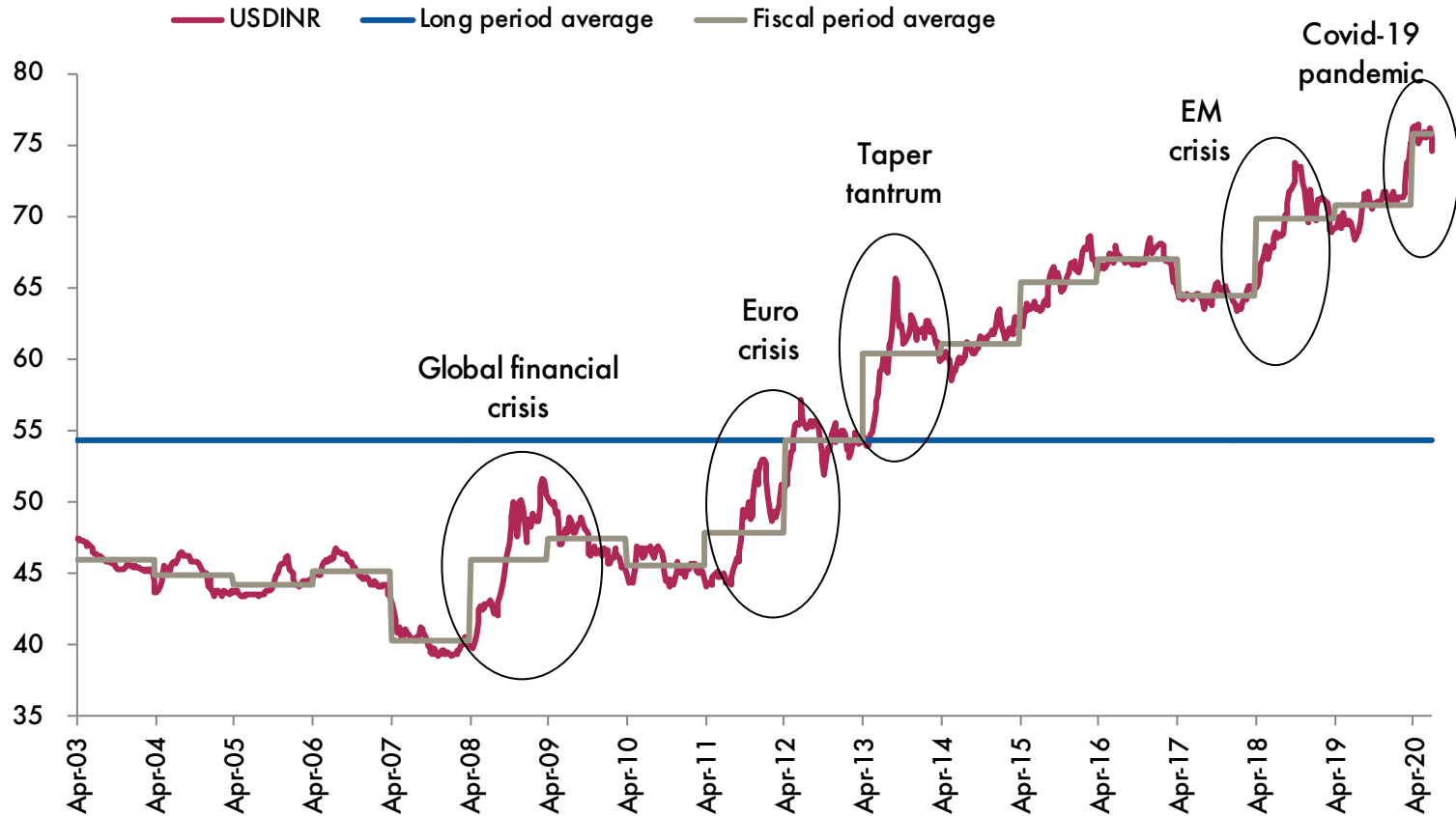
Crying need for encouraging sectors such as Tourism, creating SEZs, port infrastructure, labour reforms etc.

Capital flows have been weak and need to recover to 2%+ to be able to offset the Current Account Deficit.

FDI + FPI has remained at levels of 1-1.5% since a decade.

India needs to find structural answers on exports, tourism and FDI inflows in order to weather global liquidity shocks and cope with rapidly rising energy prices

INR policy reflects weakness

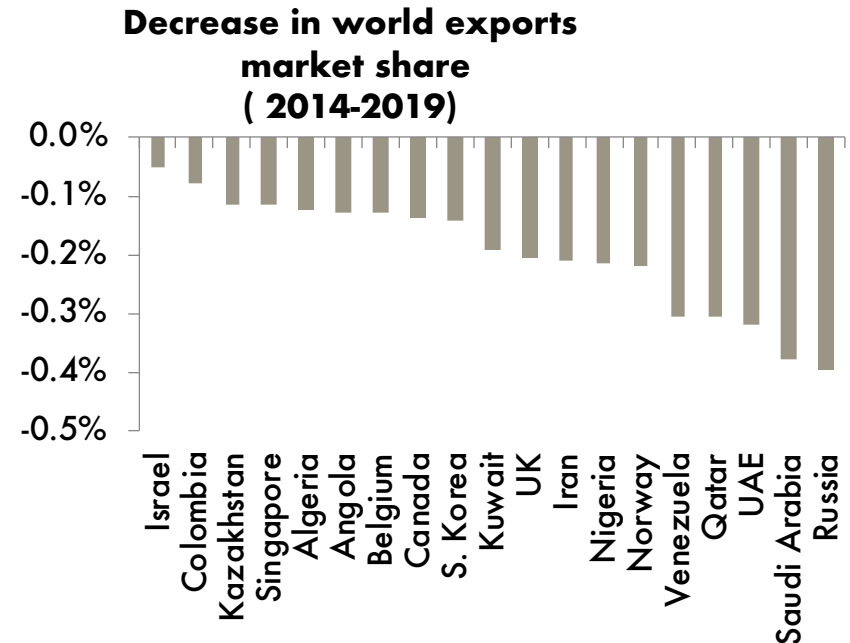
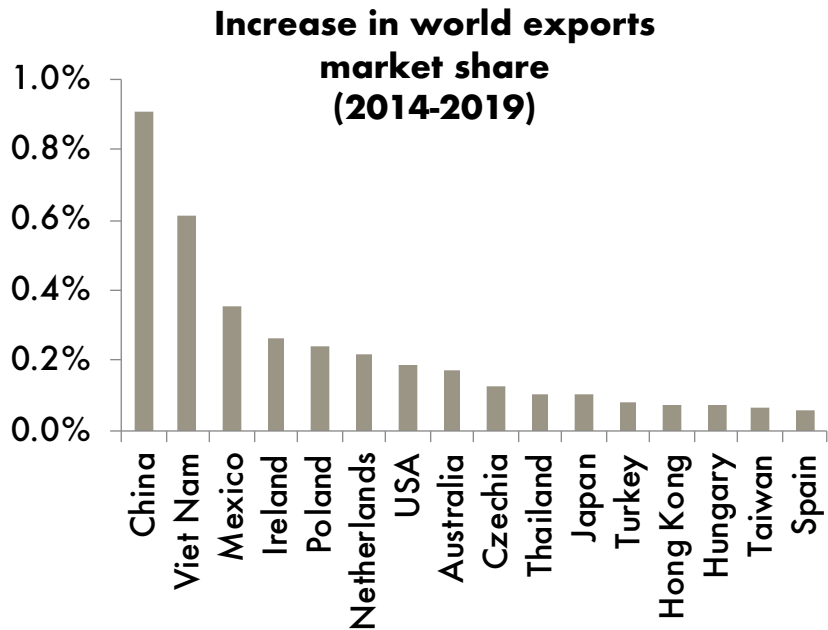


India Rupee has depreciated at 5% CAGR for the past 10 years.

Performance has been worst during times of Global Crises.

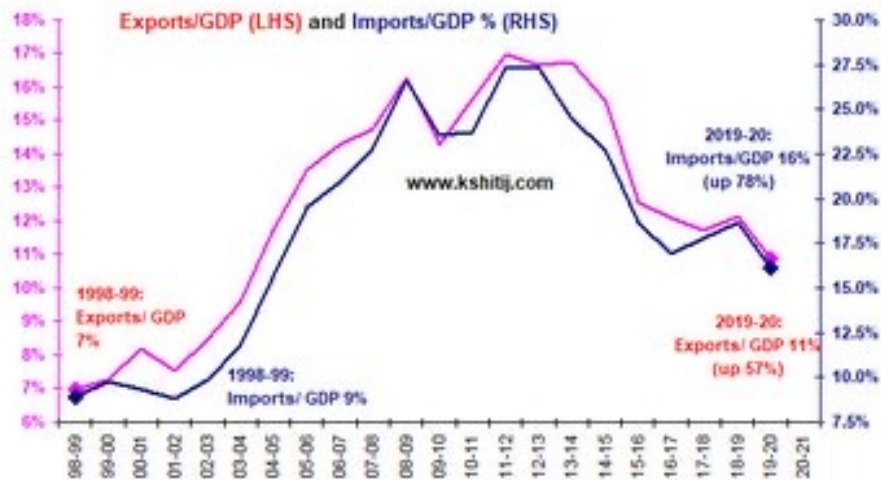
Source: Bloomberg, Axis Capital

Indian exports did not benefit from weak INR



Global exports have stagnated at \$19 trillion since 2014
There was 4.5% (USD 850 bn) shift in market share from oil exports to manufacturing exports which India could not grab

Exports correlate to imports & investments



**A depreciating Rupee has not helped exports...
it has only transferred purchasing power overseas leaving us poorer**

INR depreciation has left us poor

How much is ₹100 today worth in terms of 1958 money?



An item costing ₹100 today would be costing ₹1.2 in 1958.

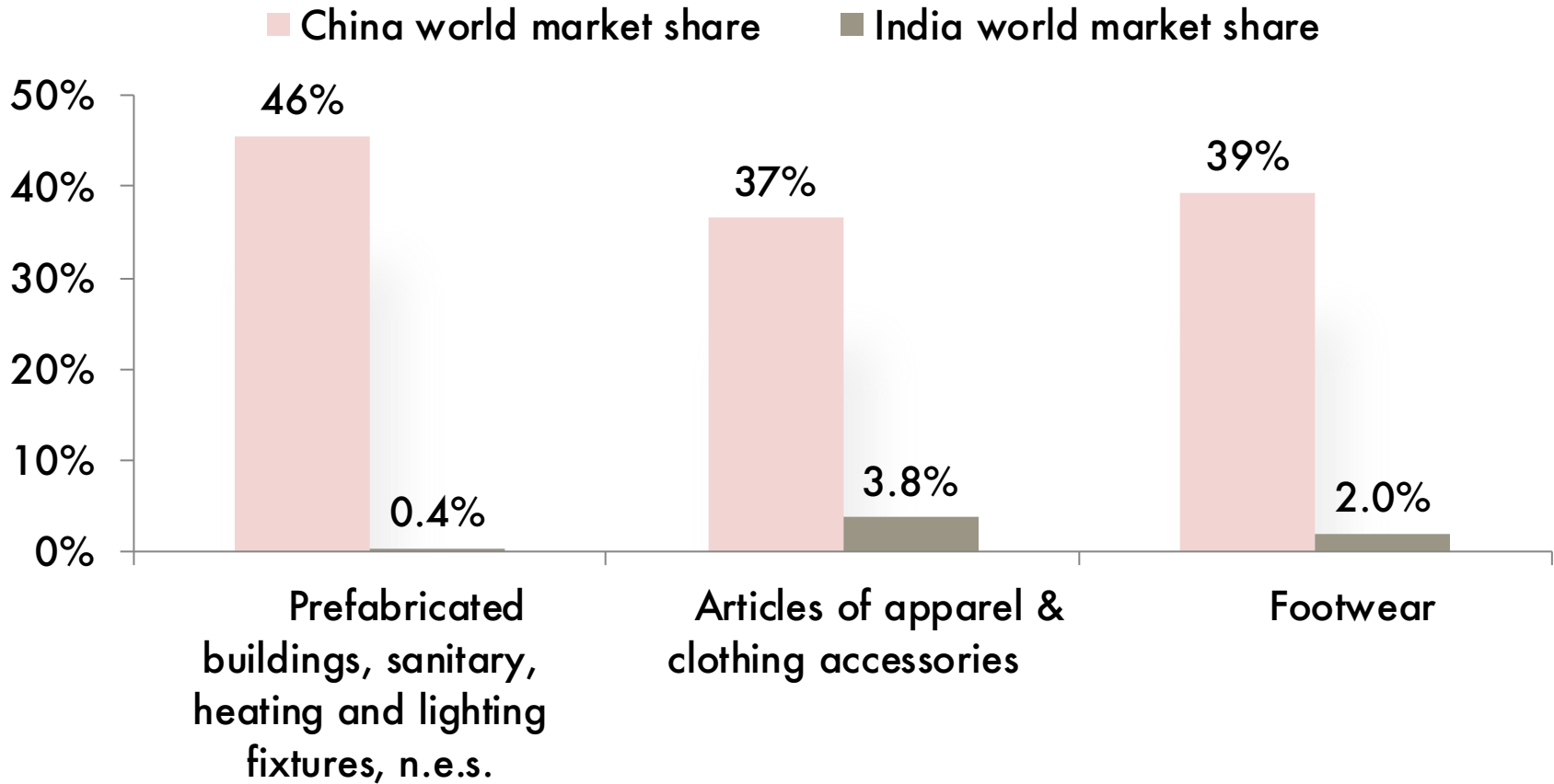
In other words, had you saved ₹100 in 1958, it would have lost 98.8% of its purchasing power in 62 years.

Outdated “Forex Reserves” policy



**Trillions of USD, Euro, Yen are printed every few months in USA, Europe, Japan...
...and we hold it as Reserves allowing them to get away with this Ponzi scheme!!!**

Indians producers lack **scale** and **branding**



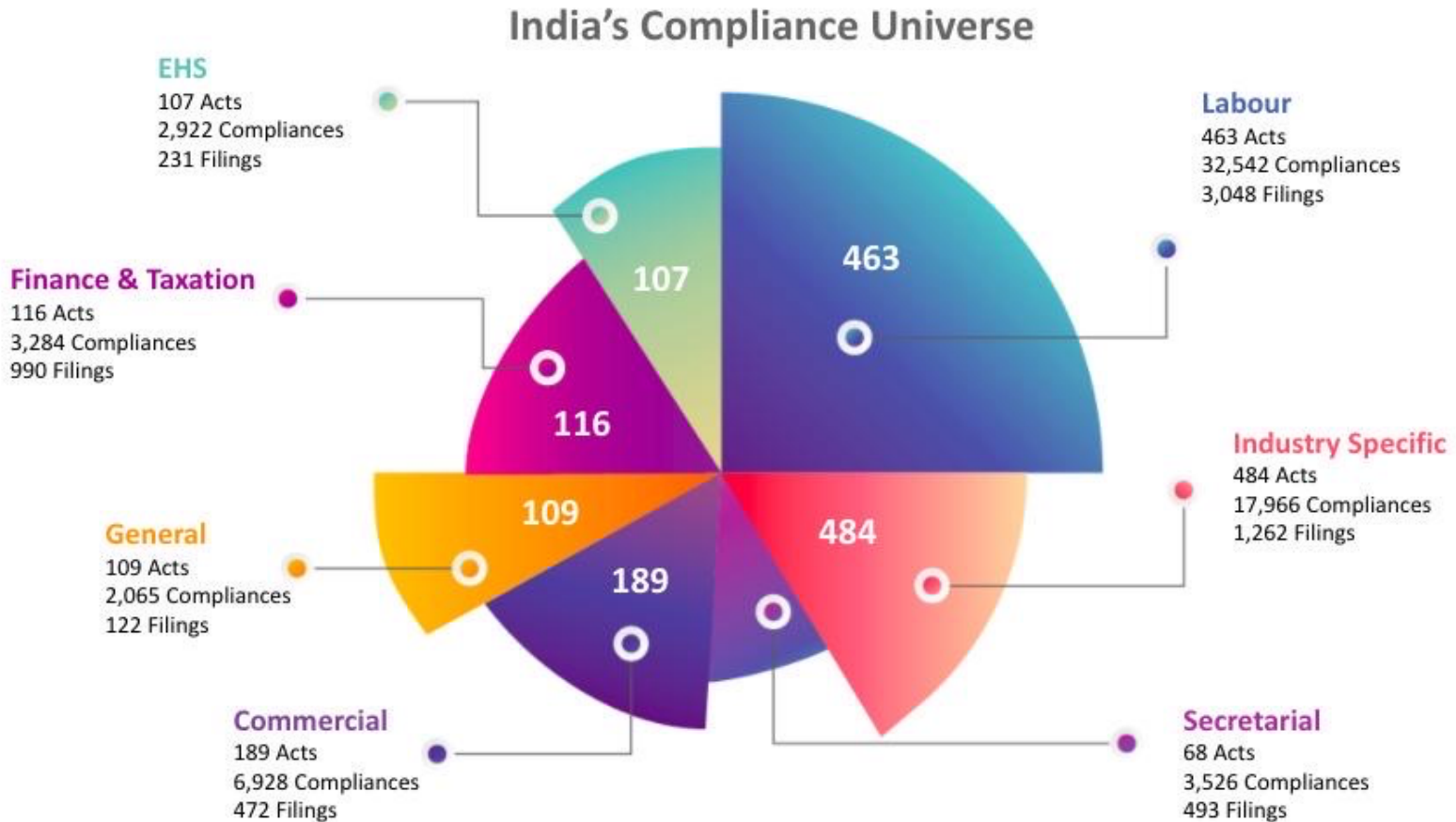
Need strong balance sheets and a supportive business environment

India vs China requires deep structural reform

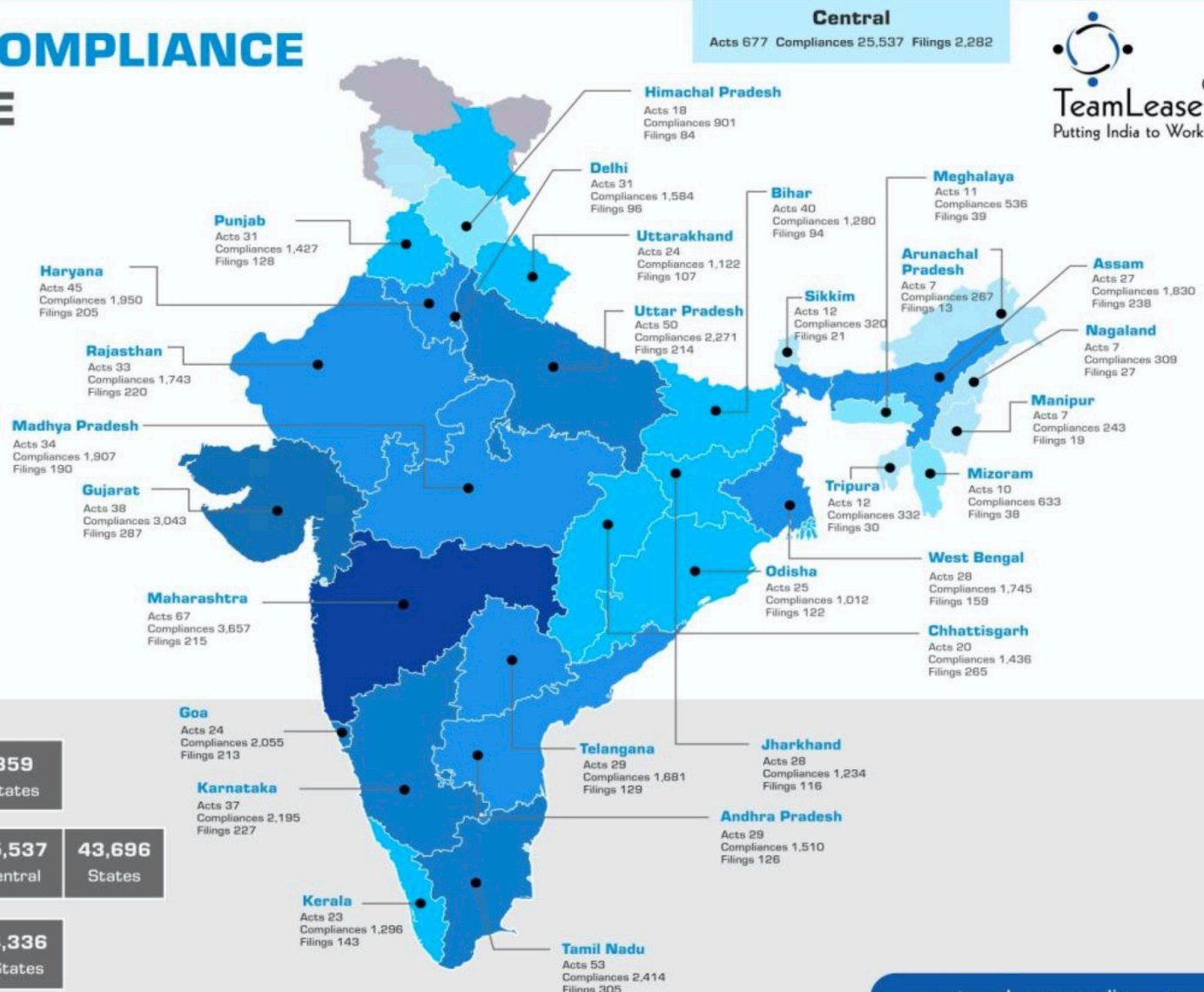
Map of the World's Manufacturing Output



Too many laws, officers & jammed courts.



INDIA'S COMPLIANCE UNIVERSE



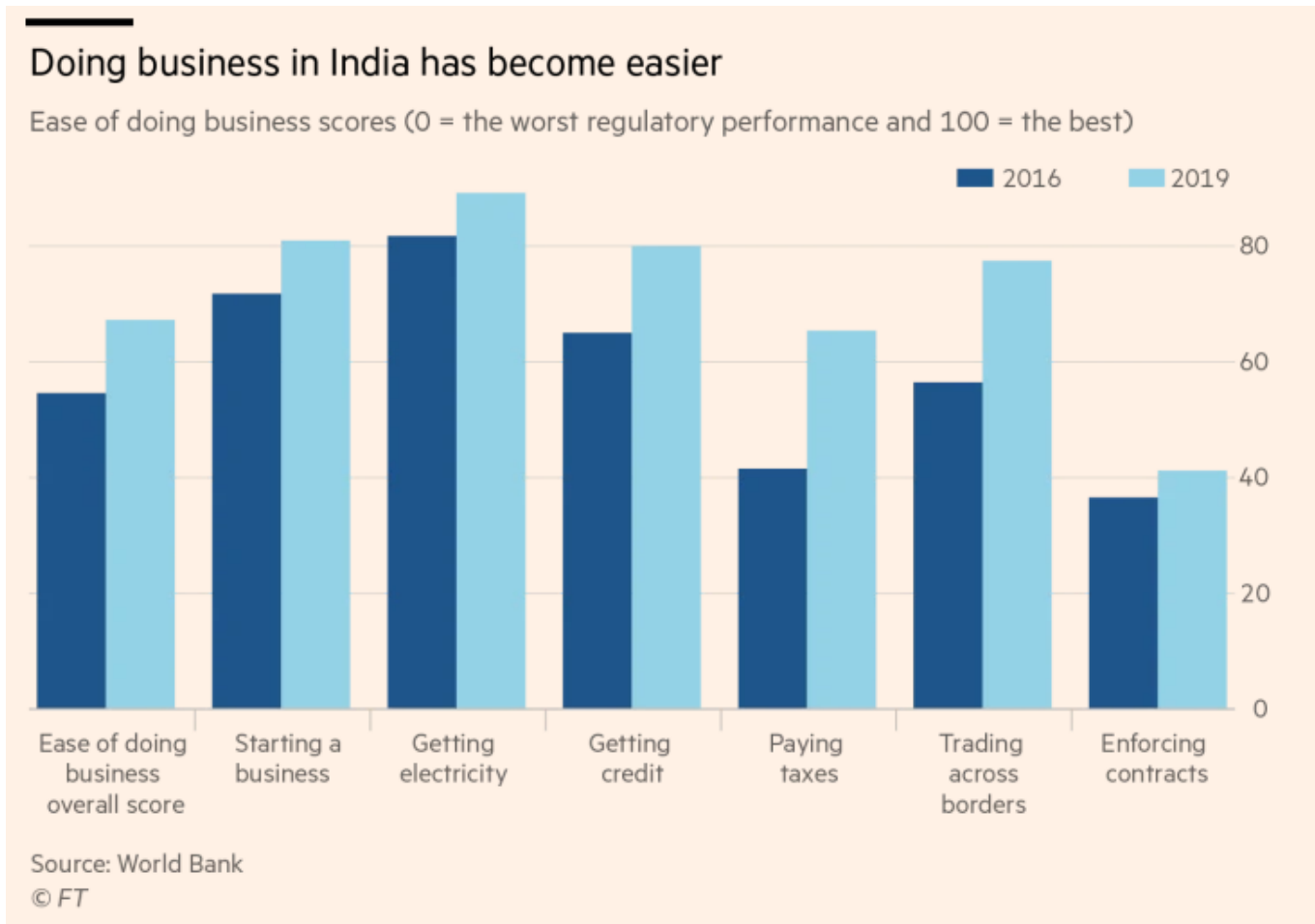
1,536 ACTS	677 Central	859 States
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69,233 COMPLIANCES	25,537 Central	43,696 States
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6,618 FILINGS	2,282 Central	4,336 States
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Improvement in EoDB not deep enough

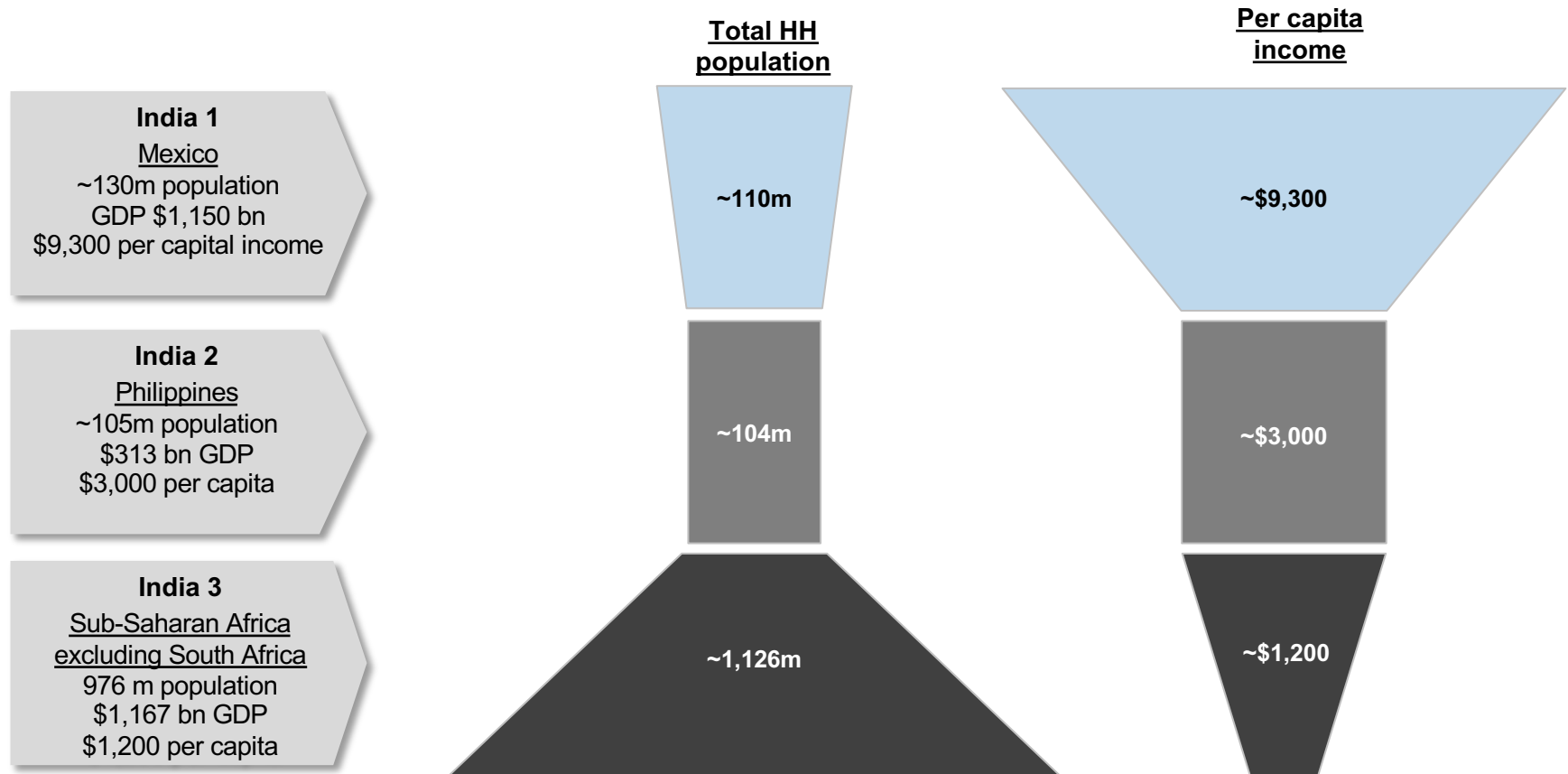


India has risen to 63rd rank in Ease of Doing Business from below 150 when PM Modi took over... Aiming for under 50 next year

Source: World Bank, Financial Times

The Three India's

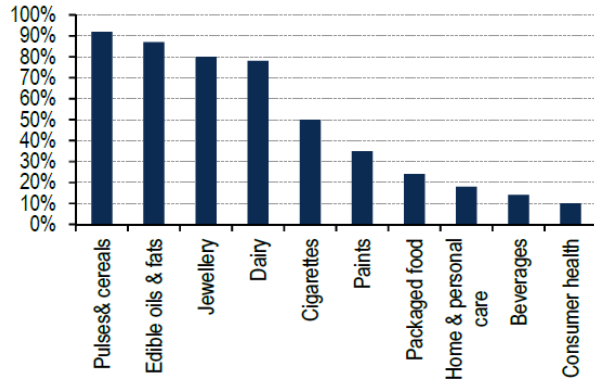
- India comprises a few middle income “Mexicans”, a few in-service “Filipinos”, and almost entirely of “Africans”



Source: Kuntal Shah – “India: Wealth Creation Story”, 2019

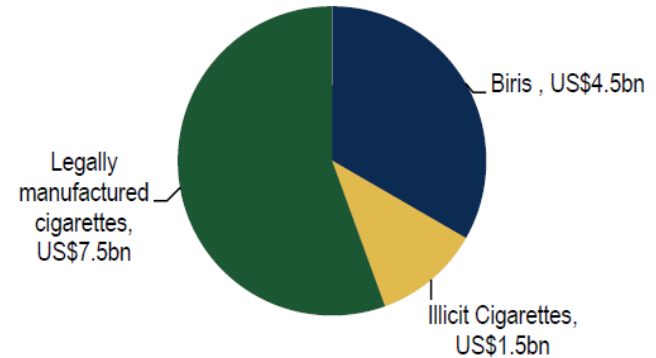
India enterprises prefer being “unorganised”

- 10-80% of Products are Unbranded – depending on the product category

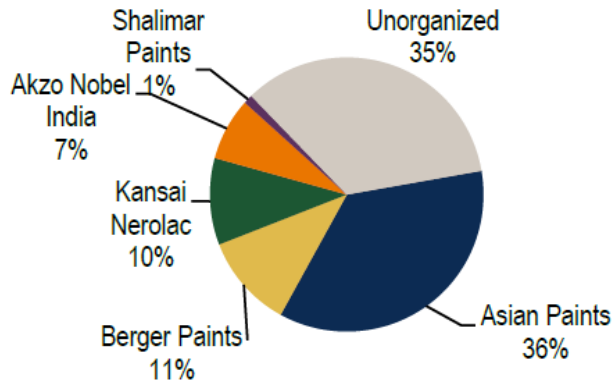


Source: BofA Merrill Lynch Global Research

- Market size of taxed and untaxed smoking goods almost similar at ~\$7 billion

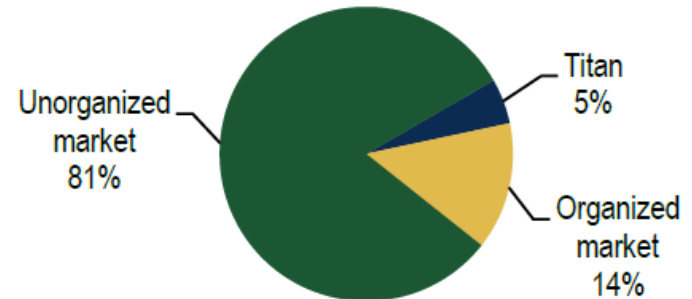


- ~35% of Paints market remains Unorganized



Source: BofA Merrill Lynch Global Research Estimates

- Jewellery similarly has a large Unorganized segment



Gov Budget: + 10 – 13 is not sustainable

- Revenues

<i>Government Revenue (% of GDP)</i>	FY19	FY20
Taxes	12	12
Direct Taxes	6	7
Indirect Taxes	6	6
(Less) State Allocation	-4	-4
Net Tax Revenue	8	8
Non-Tax Revenue	1	1
Disinvestment	1	1
Total Revenue	9.8	9.9

- Expenditures

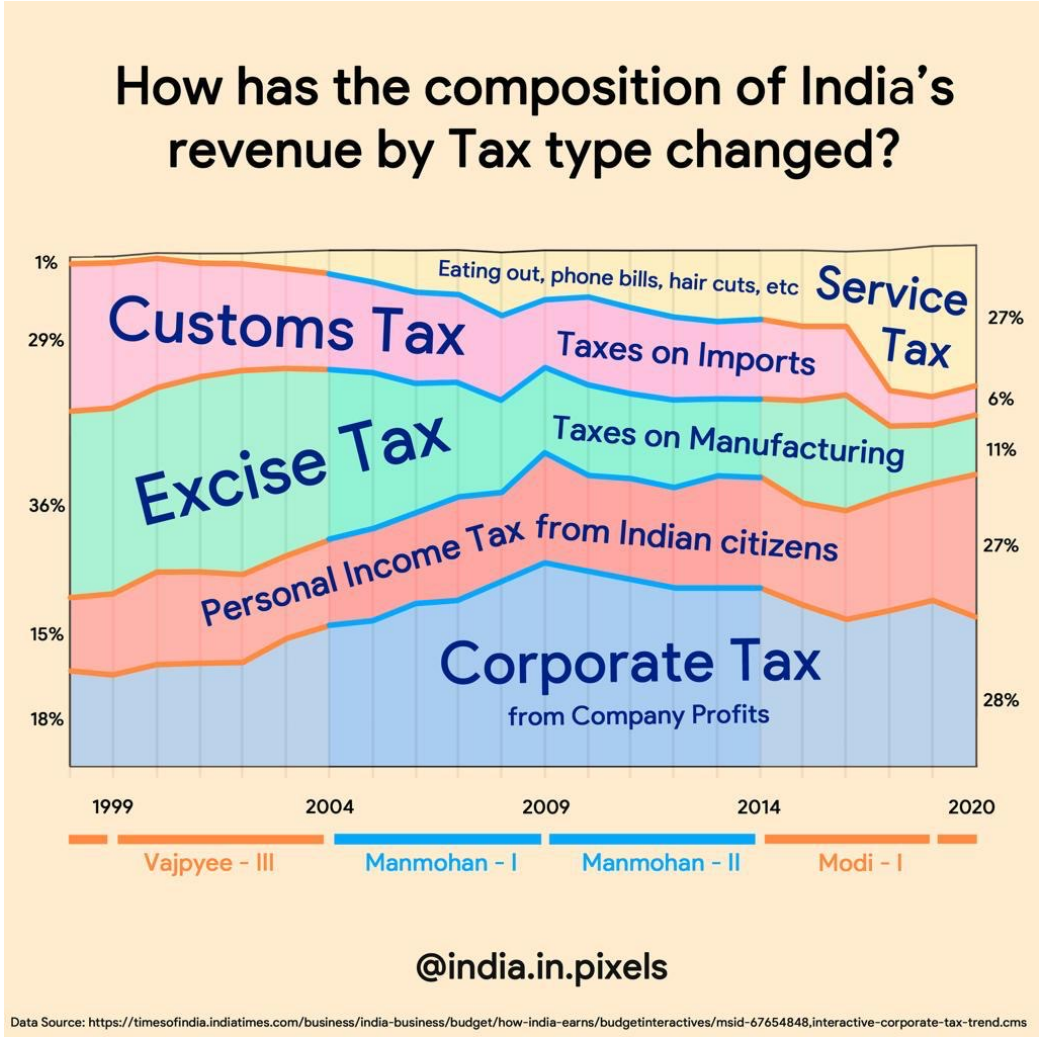
<i>Government Expenditure (% of GDP)</i>	FY19	FY20
Interest	3	3
Subsidies	2	2
Defence	1	1
Grants to States	2	2
Pensions	1	1
Other	3	3
Capital Expenditure	2	2
Total Expenditure	13.2	13.3

<i>(% of GDP)</i>	FY19	FY20
Gross Fiscal Deficit	3.4	3.4

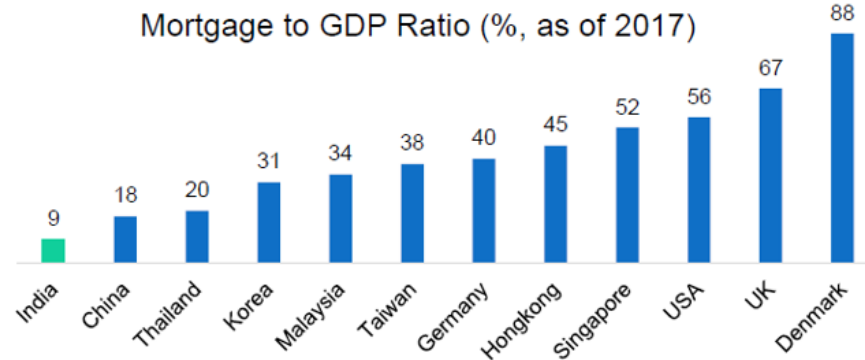
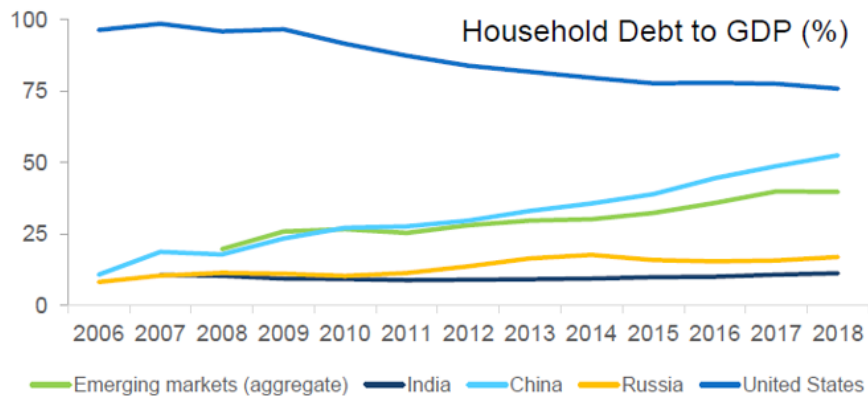
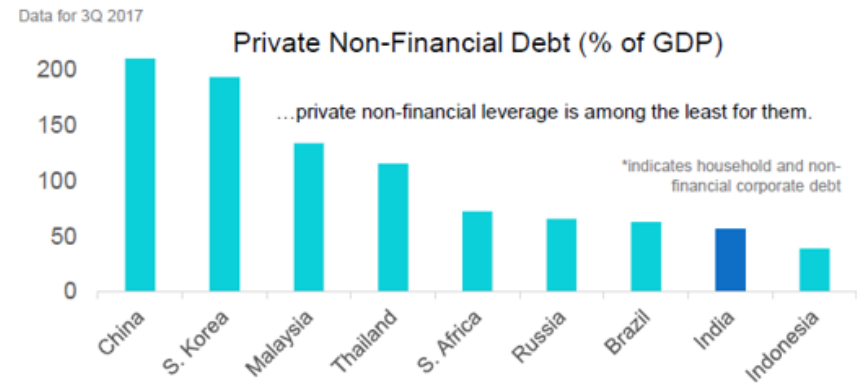
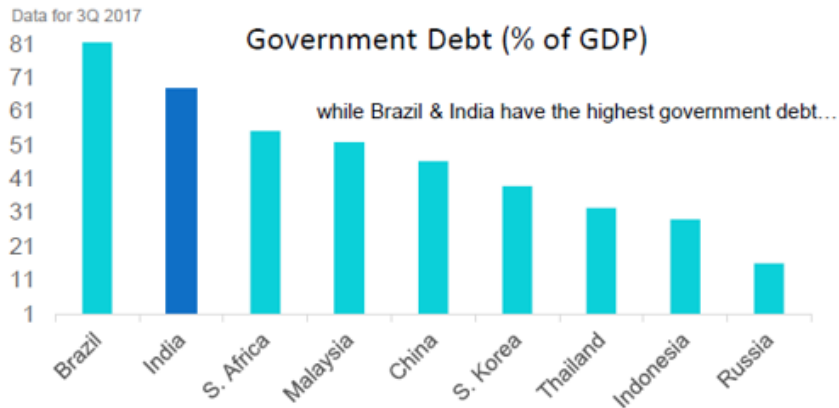
India's inability to widen the tax base and productively utilize/ monetize assets leaves little room for much required infrastructure & defence capex and any fiscal stimulus.

Need of the hour – Monetization of Government Assets, Curbing Expenditure and encouraging a Pro-Growth Investment Climate to encourage **VELOCITY**. Lower taxes, better infra and an easier compliance regime required.

Taxes have gotten lopsided



Debt ratios for India are spoilt by Government



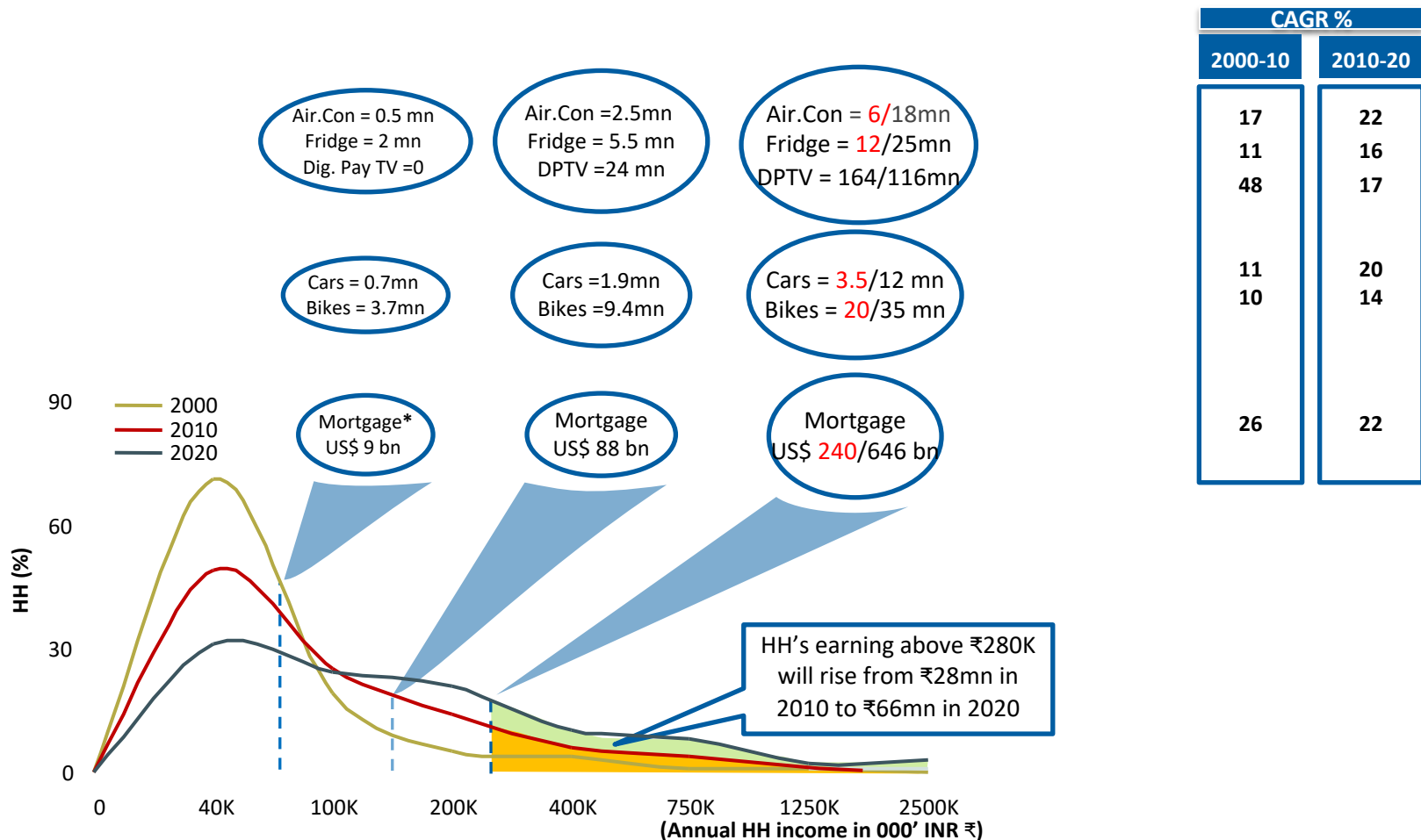
India Households are Unleveraged

Source: Bloomberg, Bank of International Settlement (BIS), MOSL

Reality of life is not understood



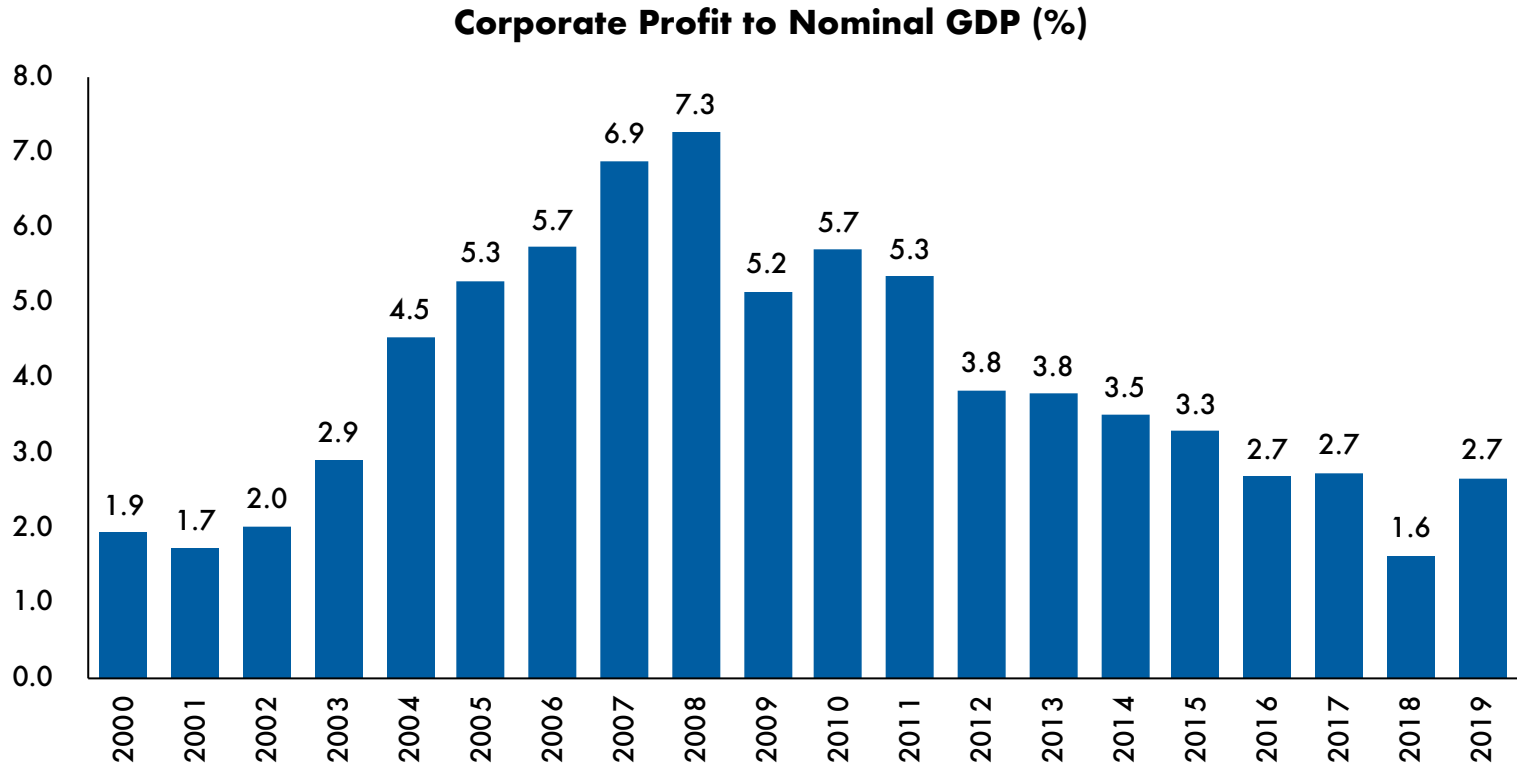
High taxes, weak INR, weak employment & profit growth = disappointing consumer markets



Most segments should have grown 3-7x, but due to inadequacy of key enablers, income levels have remained depressed and narrow.

Source: Enam Research

Corporate Profits have collapsed



Source: CMIE PROWESS

Oppressive tax rates and stagnant purchasing power lead to a profit drought

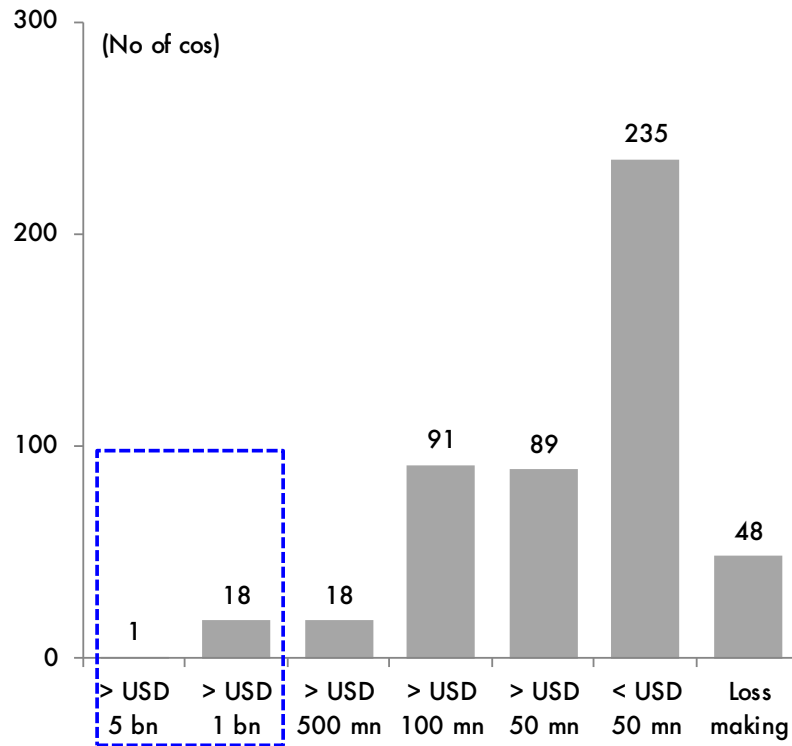
Reflected in Narrow Markets: ~30 Cos = 51% of Market Cap

Company name	Mcap (USD bn)	Price (Rs)	Performance (%)		PE (x)		PB (x)		ROE (%)	
		CMP	52w H	52w L	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Sensex Index		36,021	(15)	40						
Reliance Industries Ltd	157	1,788	(1)	106	18	15	2.0	1.8	11	11
Tata Consultancy Services Ltd	111	2,199	(4)	46	23	22	7.9	7.6	36	37
HDFC Bank Ltd	79	1,074	(18)	45	17	14	2.7	2.3	16	18
Hindustan Unilever Ltd	68	2,172	(17)	31	51	43	17.9	18.5	57	72
Housing Development Finance Corp	44	1,886	(25)	28	27	24	3.4	2.9	13	13
Infosys Ltd	44	763	(10)	49	18	16	4.3	4.0	25	25
Bharti Airtel Ltd	42	581	(5)	81	39	25	3.5	3.1	10	14
Kotak Mahindra Bank Ltd	36	1,354	(22)	35	27	24	3.1	2.9	12	13
ITC Ltd	34	207	(27)	54	16	14	3.7	3.4	24	25
ICICI Bank Ltd	31	361	(35)	34	14	10	1.7	1.5	13	15
Maruti Suzuki India Ltd	24	5,933	(23)	48	26	-	3.2	-	13	-
Bajaj Finance Ltd	24	2,932	(40)	64	22	18	4.0	3.4	20	20
State Bank of India	22	185	(51)	24	6	5	0.6	0.6	8	12
Asian Paints Ltd	22	1,696	(11)	31	48	42	12.3	10.9	27	29
Nestle India Ltd	22	16,690	(9)	50	62	54	54.4	44.0	98	96
HCL Technologies Ltd	21	579	(7)	54	13	12	2.4	2.1	19	19
Avenue Supermarts Ltd	20	2,289	(11)	77	70	50	10.7	8.4	17	18
Larsen & Toubro Ltd	18	945	(41)	43	11	-	1.5	-	14	-
Wipro Ltd	17	225	(21)	41	13	12	2.0	1.9	15	16
Axis Bank Ltd	16	429	(47)	50	10	7	1.2	1.0	13	15
HDFC Life Insurance Co Ltd	15	572	(11)	69	70	61	12.6	10.9	18	20
Sun Pharmaceutical Industries Ltd	15	477	(7)	51	20	18	2.1	1.9	11	12
UltraTech Cement Ltd	15	3,886	(18)	33	26	21	2.5	2.3	10	13
Oil & Natural Gas Corp Ltd	14	82	(51)	59	6	4	0.4	0.4	8	9
Bajaj Finserv Ltd	13	6,150	(40)	54	18	15	2.5	2.2	16	17
NTPC Ltd	13	94	(35)	28	6	6	0.7	0.7	12	13
Power Grid Corp of India Ltd	12	178	(18)	37	7	7	1.2	1.2	17	18
Titan Co Ltd	12	1,003	(28)	39	47	38	10.8	8.6	23	25

Source: Axis Capital, Bloomberg, CapitaLine

Big getting bigger, most getting squeezed out

India Inc. profit distribution. Only 19 > \$ 1 billion



Source: Capitaline; Axis Capital

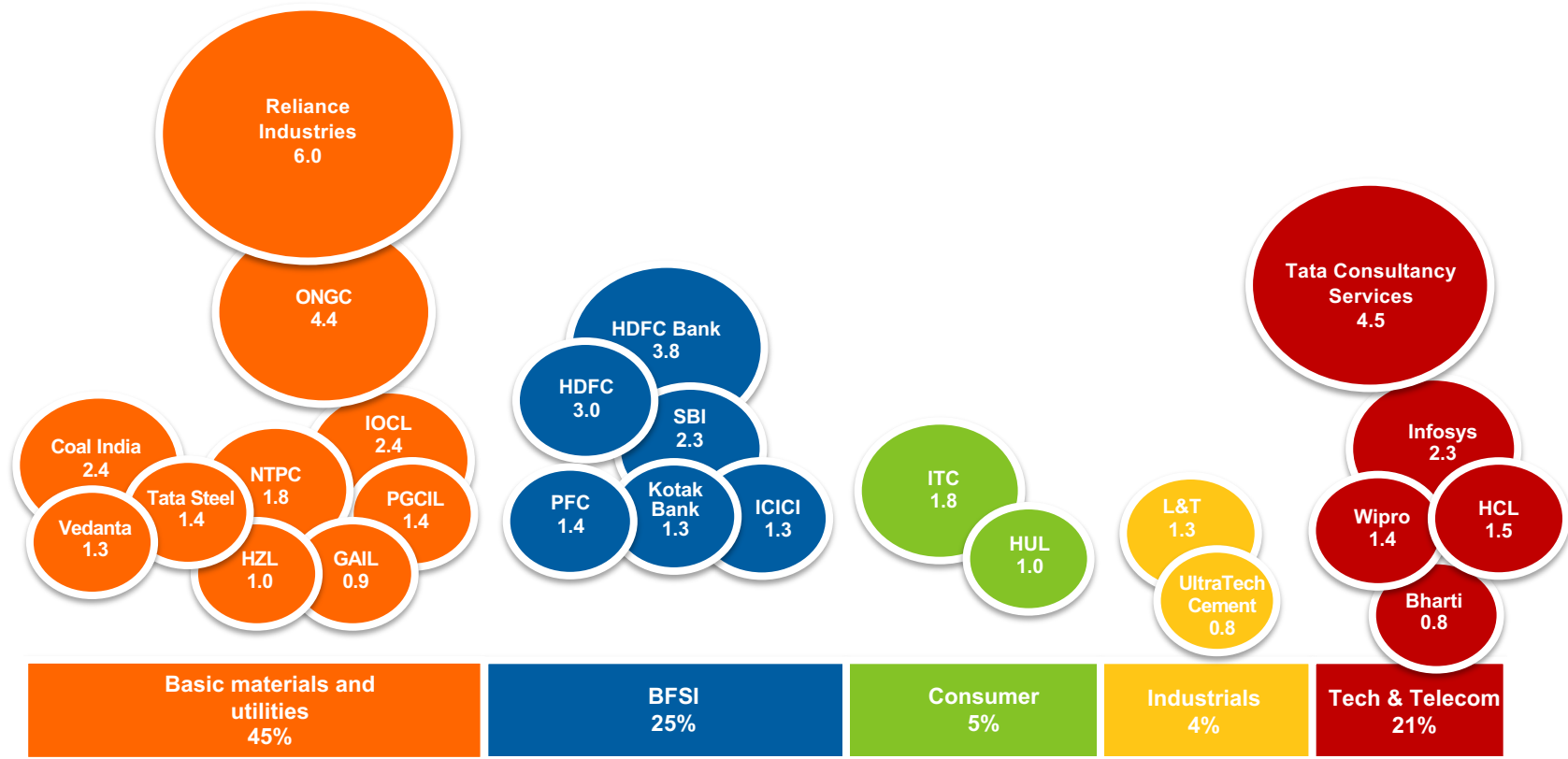
Top-5 companies have 80% of profit share

Sectors	Mcap (USD bn)	FY20 - EBITDA (USD bn)	FY20 - PAT (USD bn)	PAT pool of top-5 cos (%)
Oil & Gas	227	21.8	12.5	81
IT - Services	232	15.2	11.1	88
NBFC	204	NM	10.1	56
Metals / Mining	58	13.6	7.2	66
Banks	245	NM	5.9	150
FMCG	236	7.6	5.5	70
Power Utilities	49	13.7	4.5	85
Pharmaceuticals	115	6.5	3.2	49
Cement	48	6.0	2.5	85
Auto	105	9.8	2.3	98
Engineering	55	5.8	2.3	91
Chem & Fert	38	3.7	2.0	43
Miscellaneous	36	3.6	1.7	33
Telecom	50	0.6	1.2	100
Infrastructure	16	2.0	0.9	94
Retail	49	1.6	0.6	93
Media	8	1.2	0.6	85
Cons Durables	21	0.7	0.5	67
Real Estate	15	1.2	0.4	70
Textiles	4	0.7	0.3	80
Logistics	12	1.2	0.3	99
Diversified	3	0.4	0.2	69
Total	1,824	117	76	80

5 sectors = 70% of profits, and top 5 players account for 80% of sector profits!



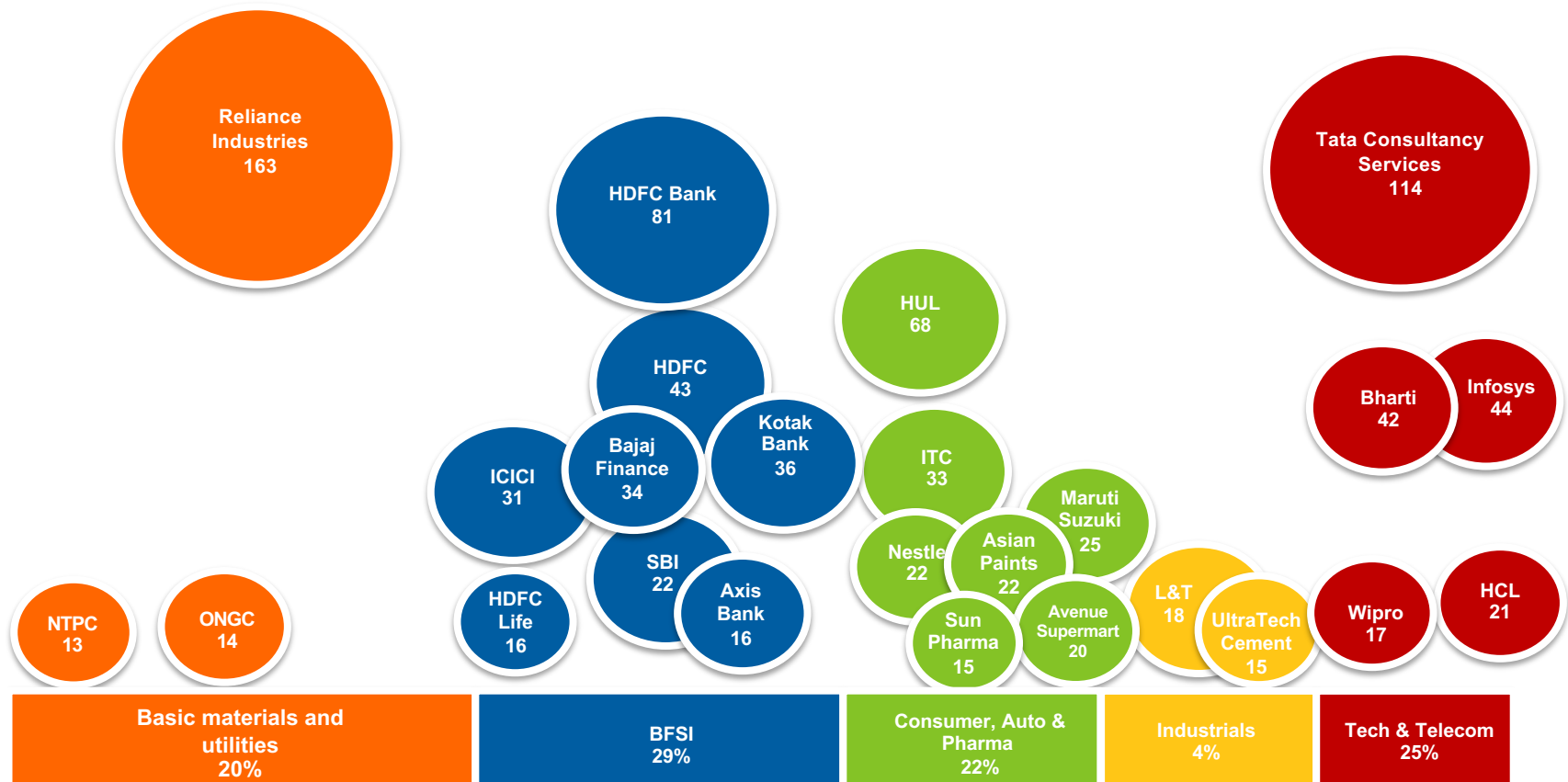
Top 25 Companies by PAT (US\$bn)



Materials, BFSI and IT still dominant in cash flows and profits

Source: Axis Capital, Bloomberg, CapitalLine

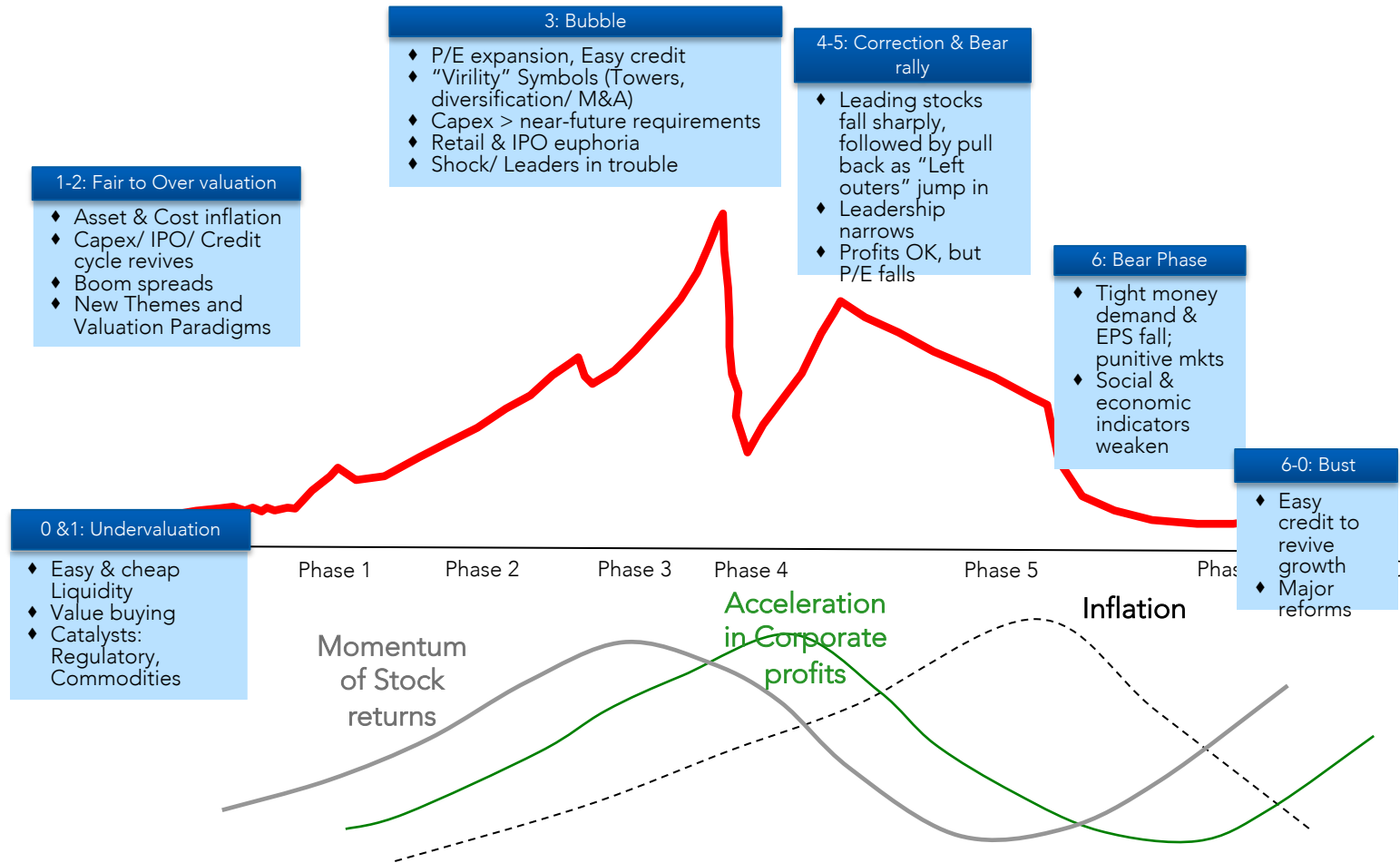
Top 25 Companies by Market Cap (US\$bn)



Consumer stocks have mktcap, low profits... Materials/Energy the opposite!

Source: Axis Capital, Bloomberg, CapitalLine

Market & Economic Cycles suspended by QE



Source: Market Cycle Phases: Marc Faber – "Tomorrow's Gold"

“Nobody knows anything anymore”

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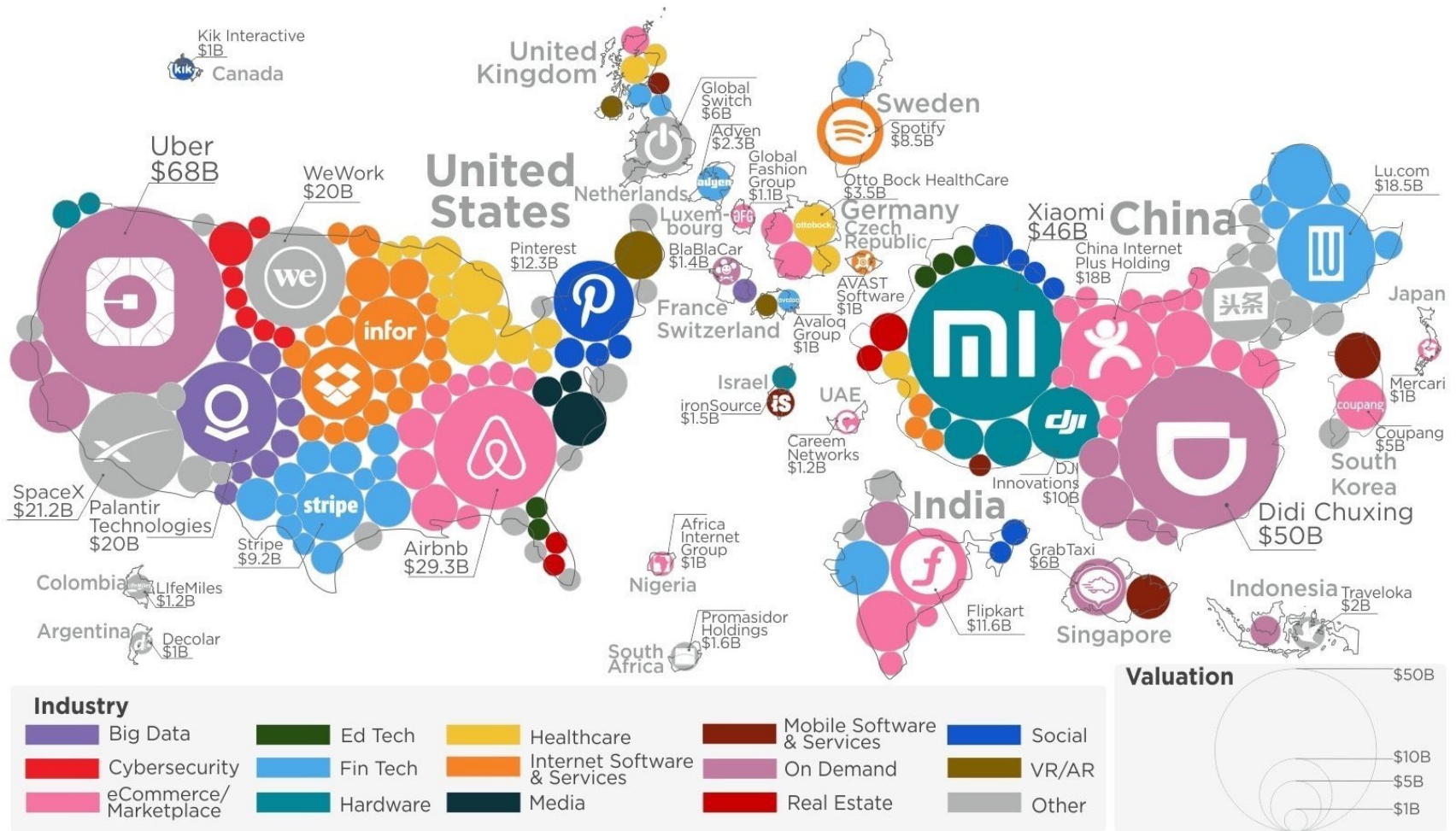


“Stocks rose slightly in early trading, then plummeted on news that stocks rose slightly in early trading.”

LOOKING AHEAD

July 2020

Looking ahead: India rising in the Tech World



Article & Sources:
<https://howmuch.net/articles/the-worlds-unicorn-companies-2017>
<https://www.cbinsights.com/research-unicorn-companies>

Source: CB Insights

India is producing Unicorns rapidly

- India is #4 on the list of global private companies with valuations of over USD 1bn, or “unicorns”
 - 9 out of top 10 unicorns in India are in the online-consumer space
- India has 4 out of 18 global private companies with valuation of over USD 10bn, or “decacorns”
 - Current: Flipkart, PayTM, Oyo, Ola
 - Potential to produce 5 more in the next 2-3 years



India's 30+ unicorns have created \$80bn in value, and expected to grow to 100+ by 2025

Source: CB Insights, HSBC, Inc42, Live Mint, Yourstory 2019

Do CEOs shine in 40s-50s as Wealth Creators?

Decade 1991 - 2001

Company Name	Promoter Name	Age in 1991	Curr Mcap (USD bn)	Price - CAGR (%)		
				FY90-00	FY00-10	FY10-19
H D F C Bank	Aditya Puri	41	95,656	68	22	20
Infosys	Narayan Murthy	45	41,775	146	9	9
Wipro	Azim Premji	46	19,086	109	(3)	5
Zee Entertainment	Subhash Chandra	41	3,760	85	(13)	13

Decade 2001 - 2011

Company Name	Promoter Name	Age in 2001	Curr Mcap (USD bn)	Price - CAGR (%)		
				FY90-00	FY00-10	FY10-19
Reliance Industries	Mukesh Ambani	44	138,210	25	24	10
Kotak Mahindra Bank	Uday Kotak	42	43,781		42	22
Bharti Airtel	Sunil Mittal	44	32,916		42	1
Sun Pharmaceutical	Dilip Shanghvi	45	14,578	52	27	10
Titan Industries	Bhaskar Bhat	46	14,399	0	36	29
Mahindra & Mahindra	Anand Mahindra	46	9,117	21	21	9
J S W Steel	Sajjan Jindal	42	8,544	(14)	75	9
Motherson Sumi	Vivek Chand Saigal	45	5,693	10	43	25

Decade 2011 - 2019

Company Name	Promoter Name	Age in 2011	Curr Mcap (USD bn)	Price - CAGR (%)		
				FY90-00	FY00-10	FY10-19
TCS	N. Chandrasekaran	49	107,935	-	17	18
Bajaj Finance	Sanjiv Bajaj	42	33,314	(25)	26	58
Avenue Supermarts Ltd	RK Damani	52	15,976	-	-	52
Eicher Motors Ltd	Siddhartha Lal	45	8,233	-	32	41
Excel Shroff Group	Jai Shroff	49	6,282	27	42	22
Havells India	Anil Gupta	44	5,820	24	45	29
Page Industries Ltd	Sunder Genomal	56	3,425	-	39	41

Source: Axis Capital, Bloomberg, CapitalLine

Some themes for 2020s

- **Financialisation of Savings:**

- Continued beneficiaries are private sector banks, insurance companies, mutual funds, mortgage and consumer finance companies

- **Privatisation Beneficiaries:**

- As the government withdraws from “monopolistic” sectors, natural oligopolies could emerge in sectors ranging from telecom to energy/mining to ports/airports to government services

- **Platform Plays**

- As the population urbanizes, key beneficiaries will be platform plays in healthcare, education, e-commerce, etc.

- **Discretionary Consumption**

- As incomes and per capital GDP rises, discretionary spends on durables, travel, media and experiences (eg big fat Indian weddings) will burgeon

Summary

- India- the “Sone ki Chidiya” missed the industrial revolution and its share of global GDP went from >30% to <3%, accompanied with loss of its sovereignty.
- Since the economic reforms of 1991, GDP has expanded >10x and Market Cap >30x
- India is now among the world’s top 5 economies. Its agricultural and industrial base makes it a leading producer of most commodities.
- It is recognized as the last major emerging market that, within the coming decade, has the opportunity to catapult to the 3rd ranked economy in the world.
- The Indian government has implemented a number of major reforms that include GST, RERA, IBC, as well as major social inclusion measures and EoDB indicators. However, the need for even deeper rooted reforms in a slowing global economy awash with liquidity is an unprecedented opportunity.
- A number of reform measures to optimise land, labour, capital, enterprise, governance and technology have been articulated by numerous experts. Awaited eagerly.
- Global and Indian investors continue to value entrepreneurs and businesses that can demonstrate large potential for growth in earnings, with governance