

India Inc. : Consolidation in the Era of Covid19

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2021

“Covid has magnified every existing inequality” – Melinda Gates

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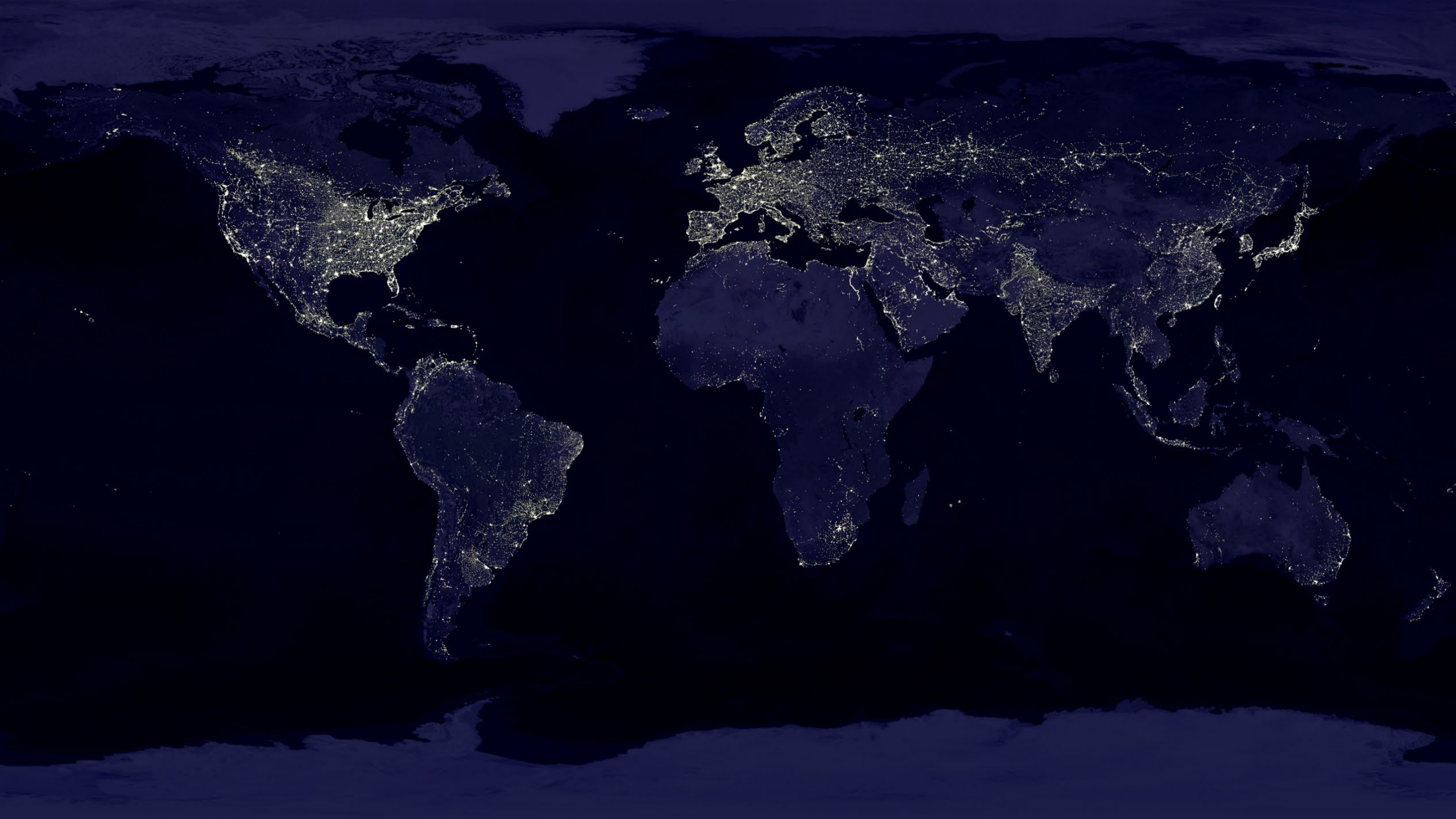
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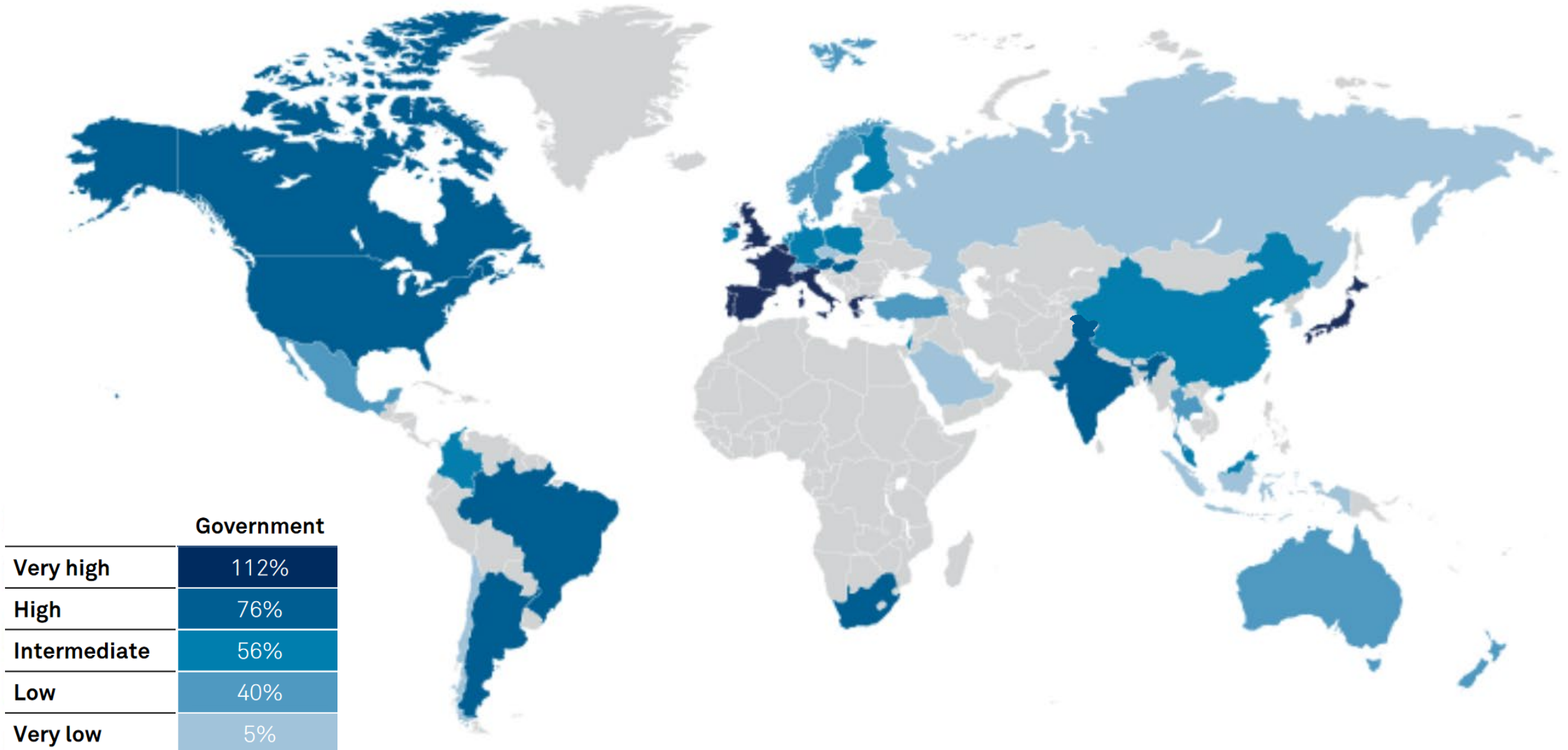
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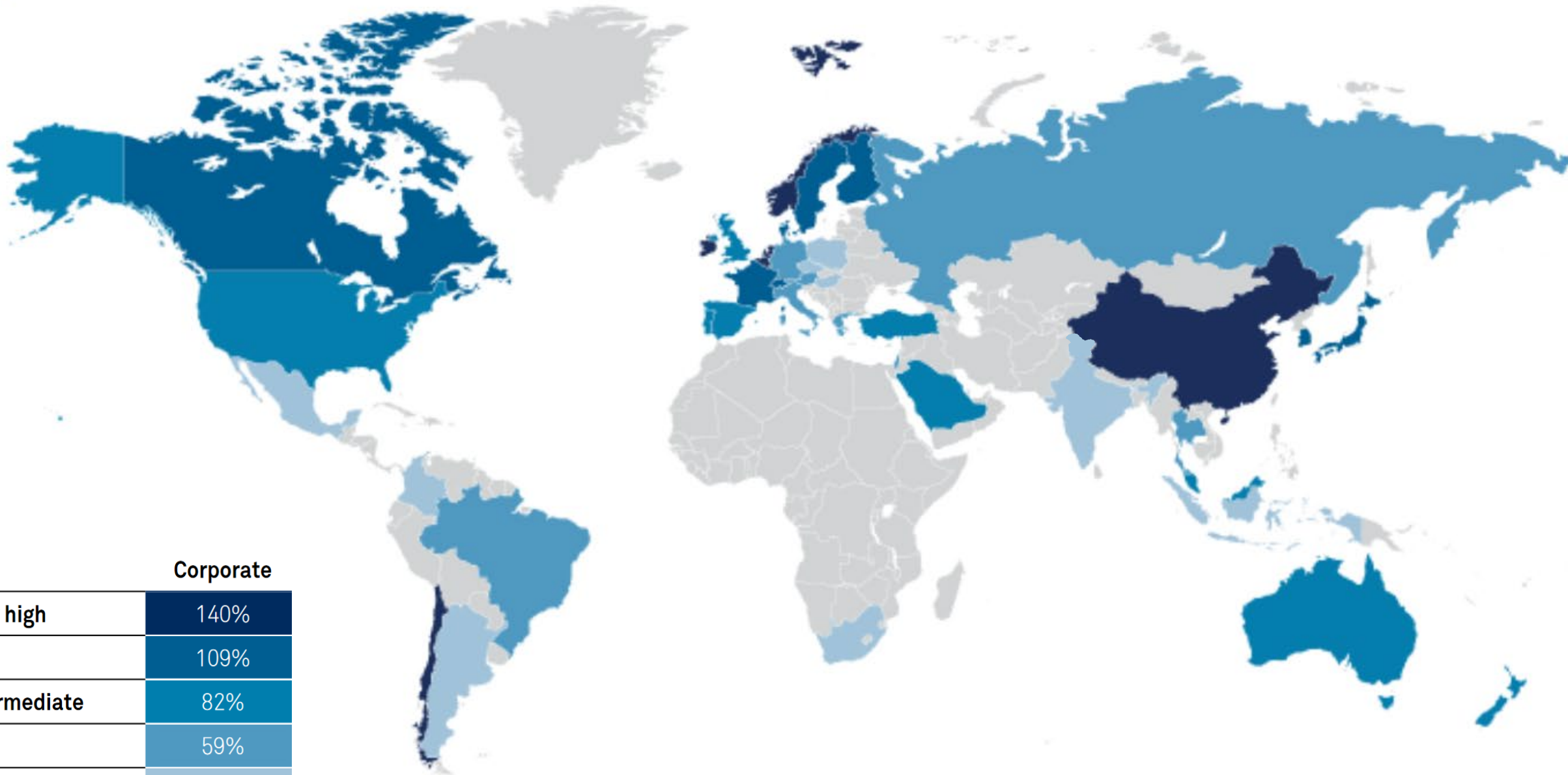
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Government Debt to GDP (%), 2020p

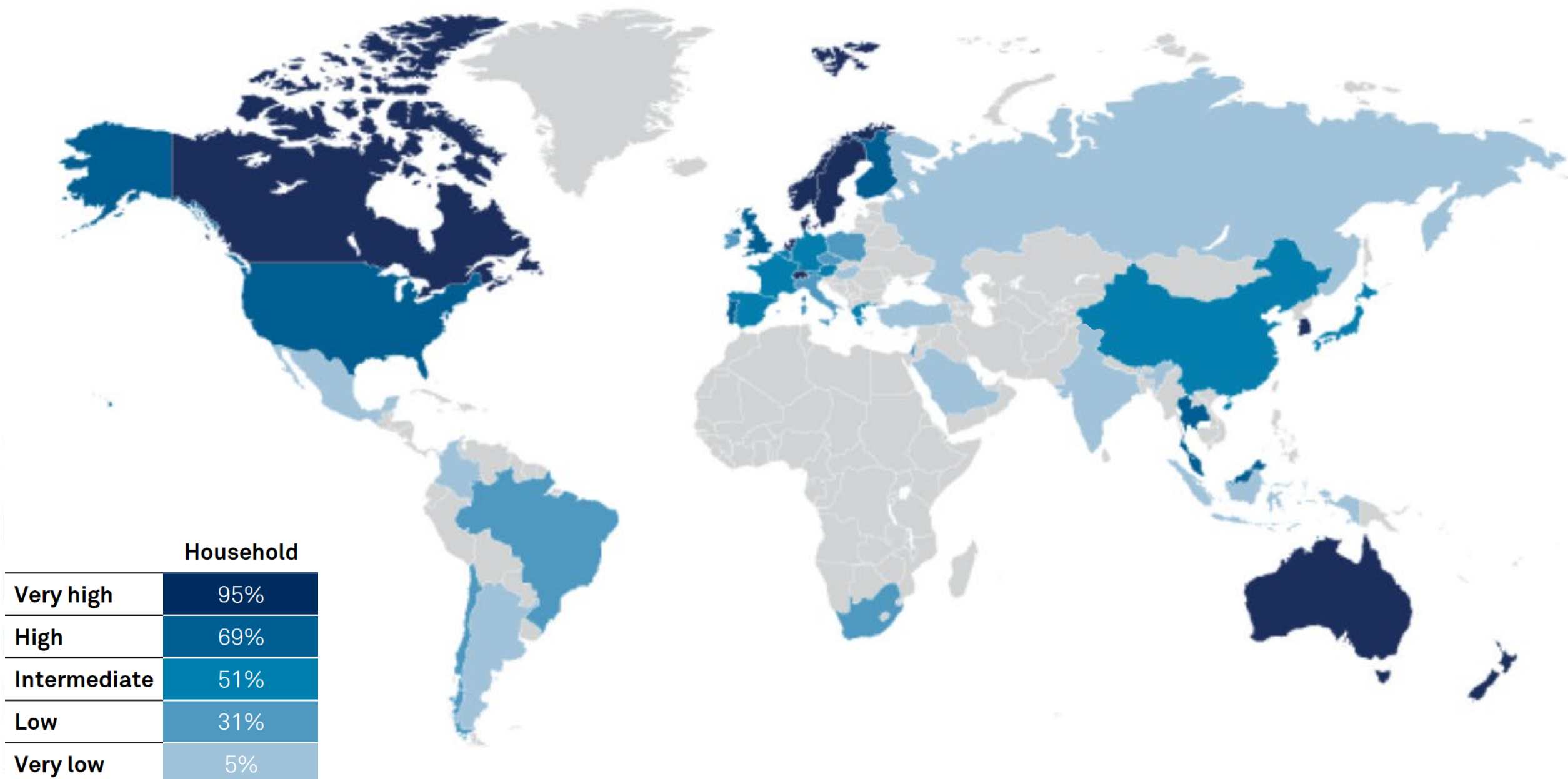


Corporate Debt to GDP (%), 2020p



	Corporate
Very high	140%
High	109%
Intermediate	82%
Low	59%
Very low	17%

Household Debt to GDP (%), 2020p

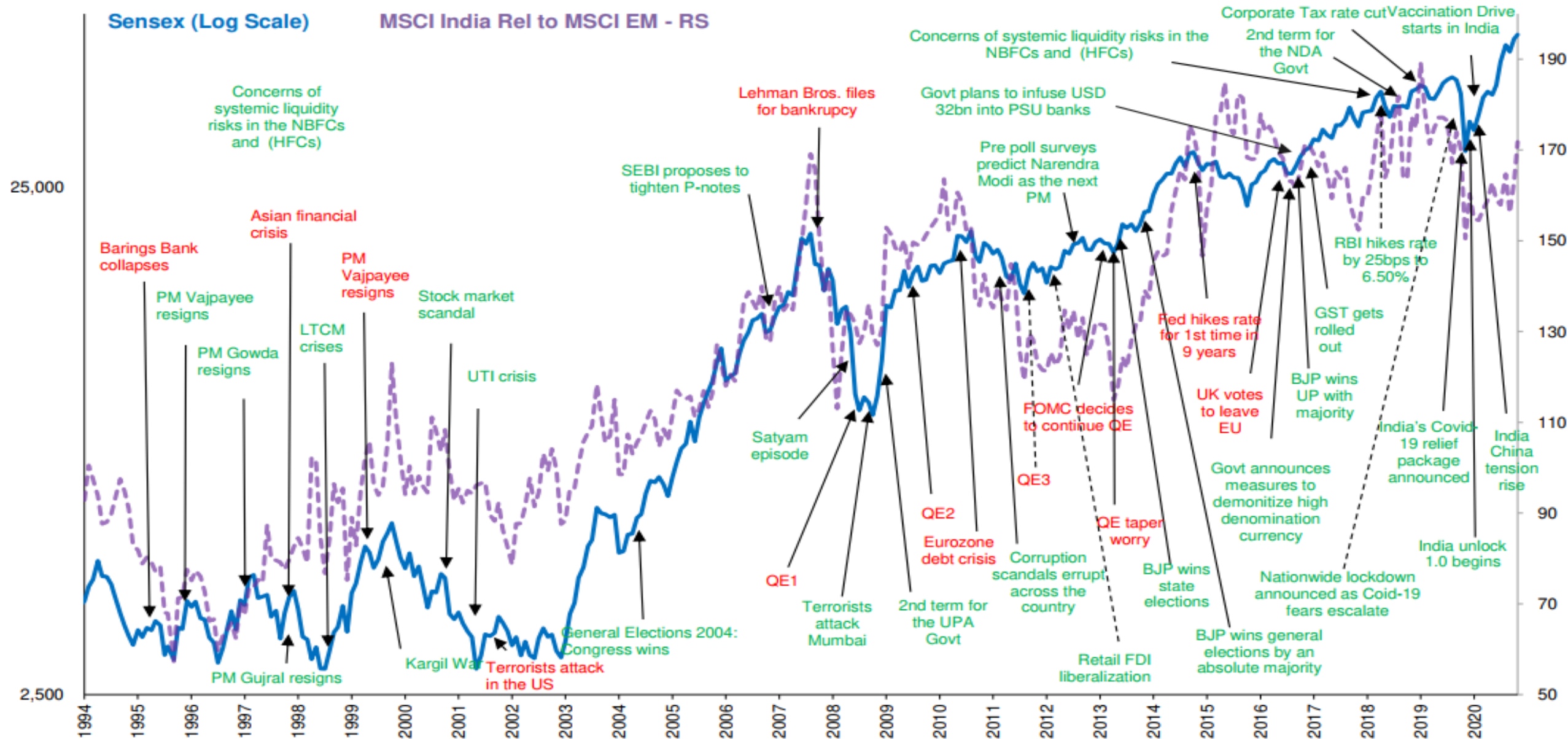


Source :S&P Global

Ongoing Health Pandemic + Abrupt Start-Stop Economic Conditions



Booming Financial Markets : Up ~27% from Feb 2020 (Onset of Pandemic)



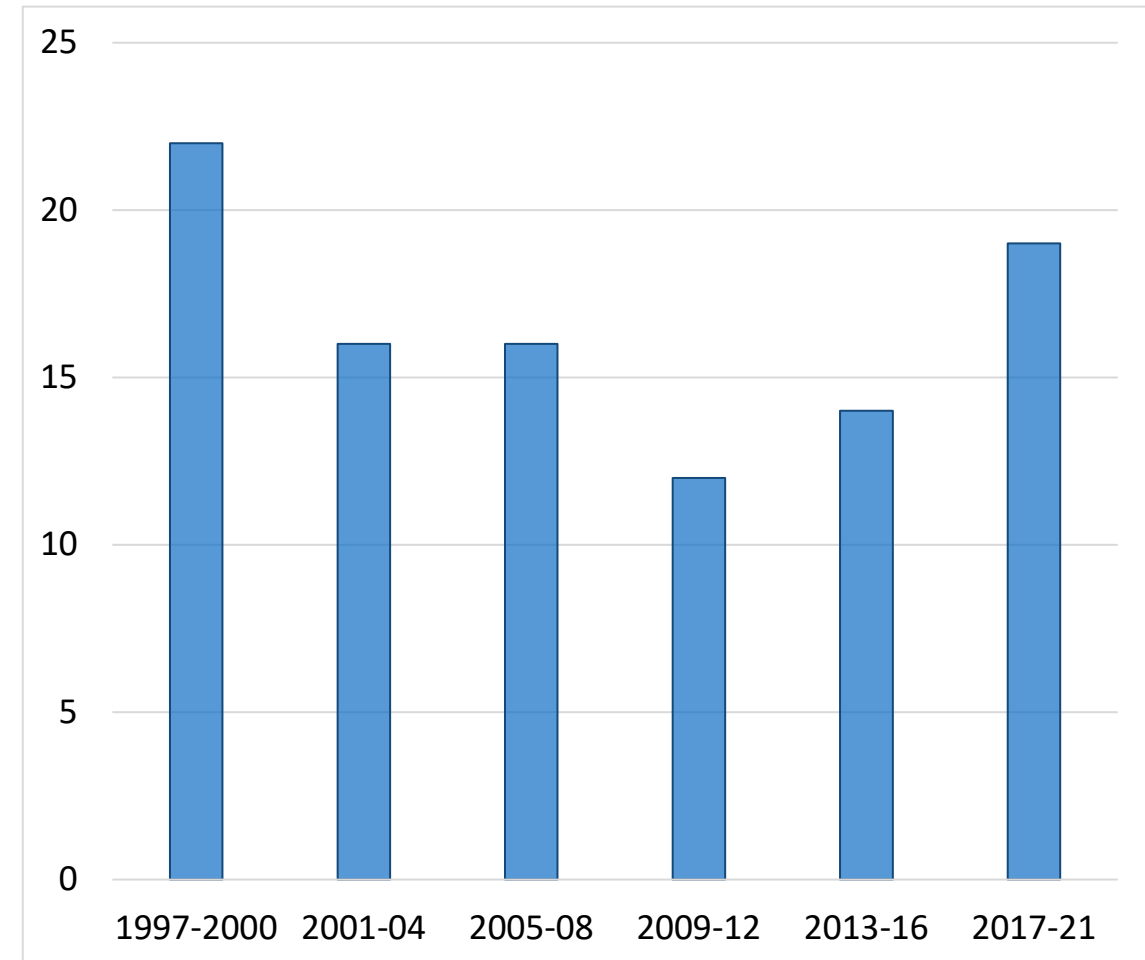
Is Nifty 50 Representing the Indian Economy : Between 2019-2022E, GDP Up by 21%, but Profit of Nifty 50 Up by 70%

Nifty 50 Sector Weights over the Years

Sector	2000	2004	2008	2012	2016	2020	Apr-21
Automobiles	4%	9%	3%	9%	10%	5%	5%
BFSI	10%	14%	19%	26%	29%	38%	37%
Cement	2%	3%	3%	2%	3%	2%	3%
Construction	2%	0%	6%	5%	4%	3%	3%
Consumer Goods	22%	11%	6%	10%	10%	12%	11%
Engineering	1%	3%	5%	2%	0%	0%	0%
IT Services	25%	13%	10%	14%	18%	16%	17%
Media		1%	1%		1%		0%
Metals	3%	8%	7%	7%	3%	3%	4%
Oil & Gas	19%	21%	19%	13%	9%	12%	12%
Others	0%	1%				1%	1%
Pharmaceuticals	8%	7%	3%	4%	7%	4%	4%
Real Estate			4%	0%		0%	0%
Telecoms	4%	7%	8%	3%	2%	2%	2%
Utilities	1%	3%	6%	4%	3%	2%	2%

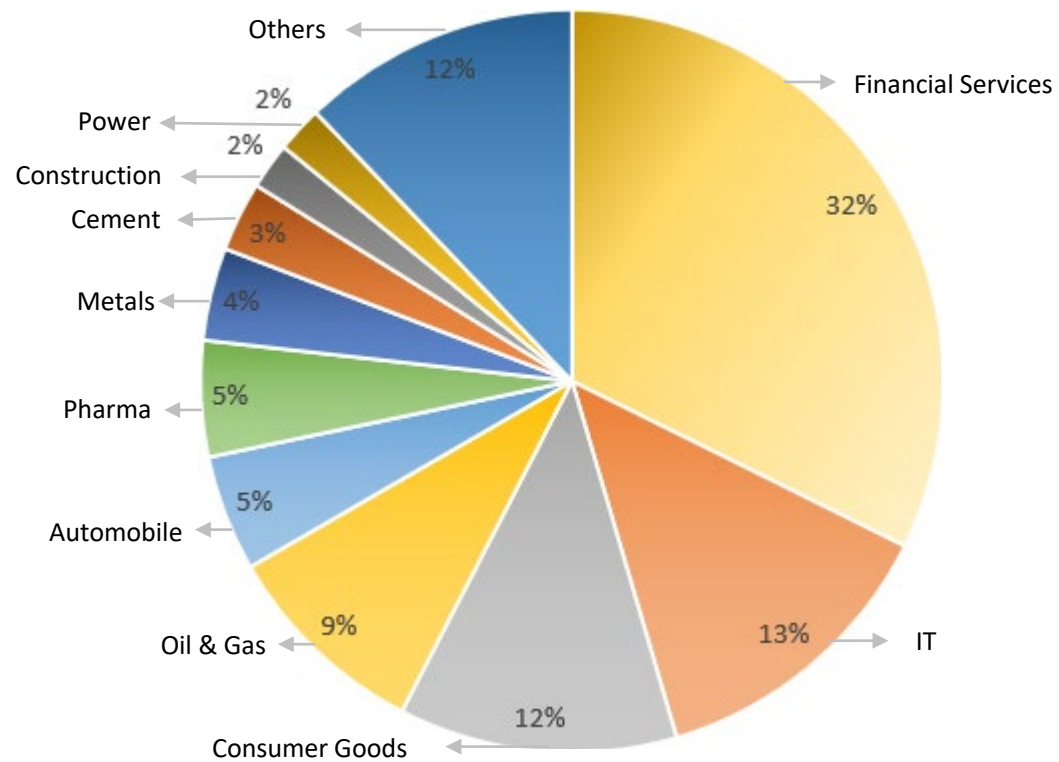
Values may not add to 100% due to rounding off

No of Companies Included/Excluded in Nifty 50

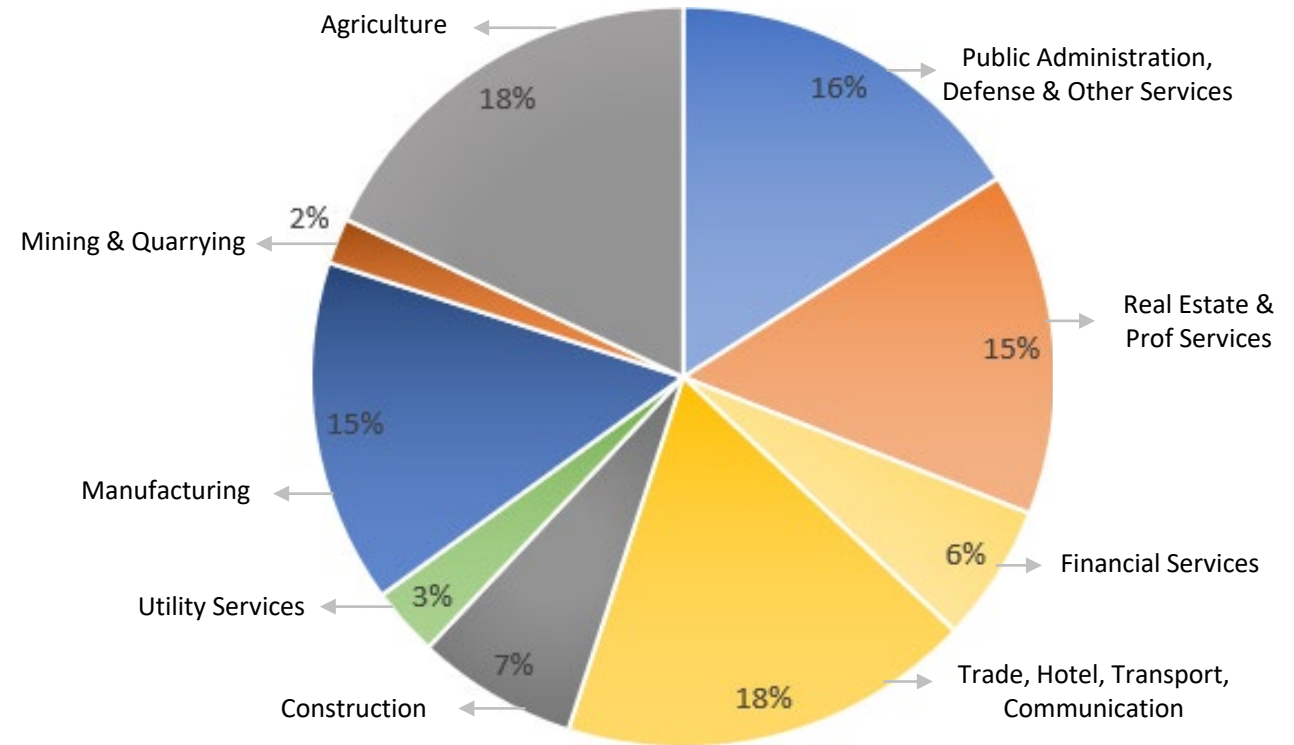


Nifty & GDP are like Chalk & Cheese

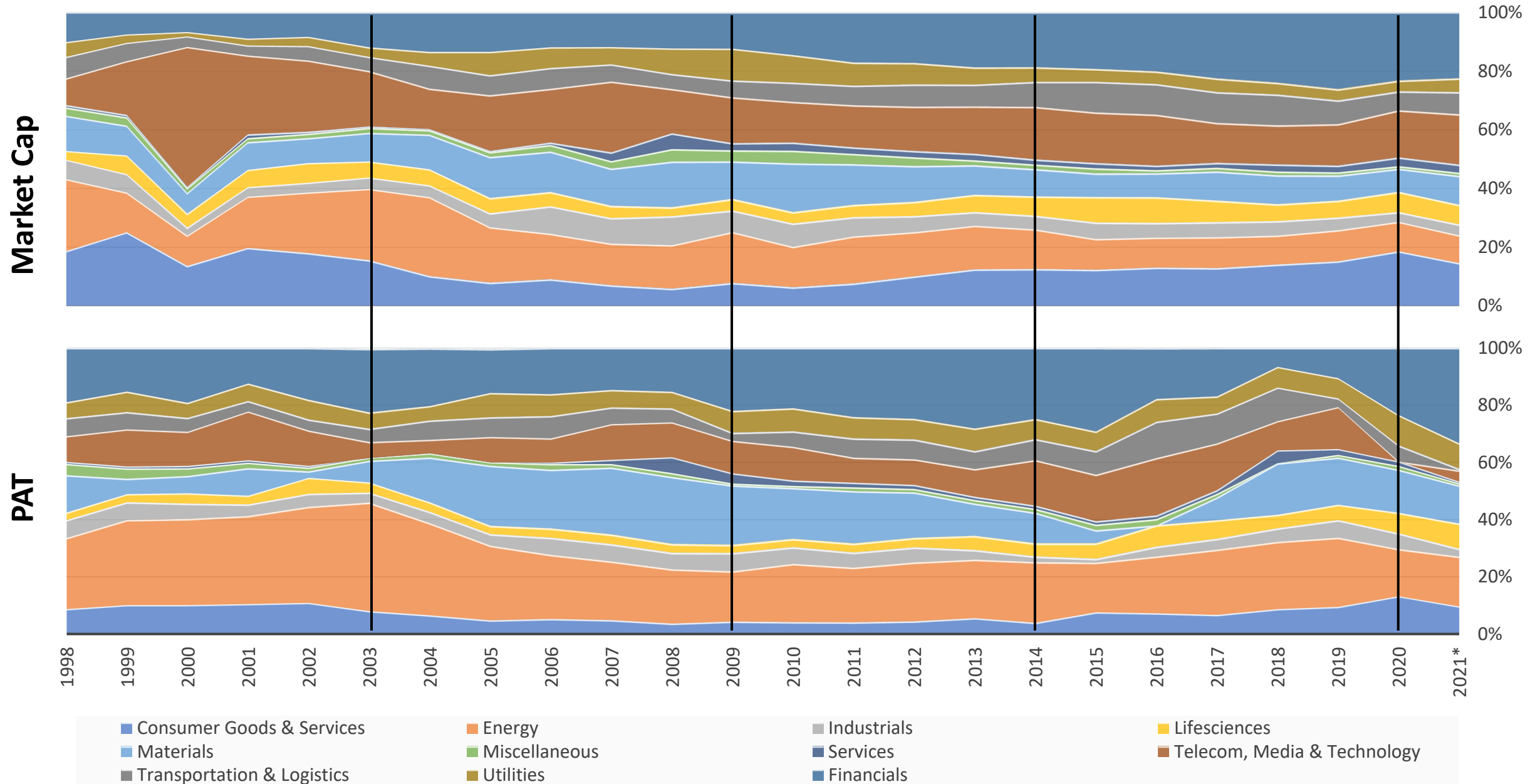
Nifty 500 Sector Composition



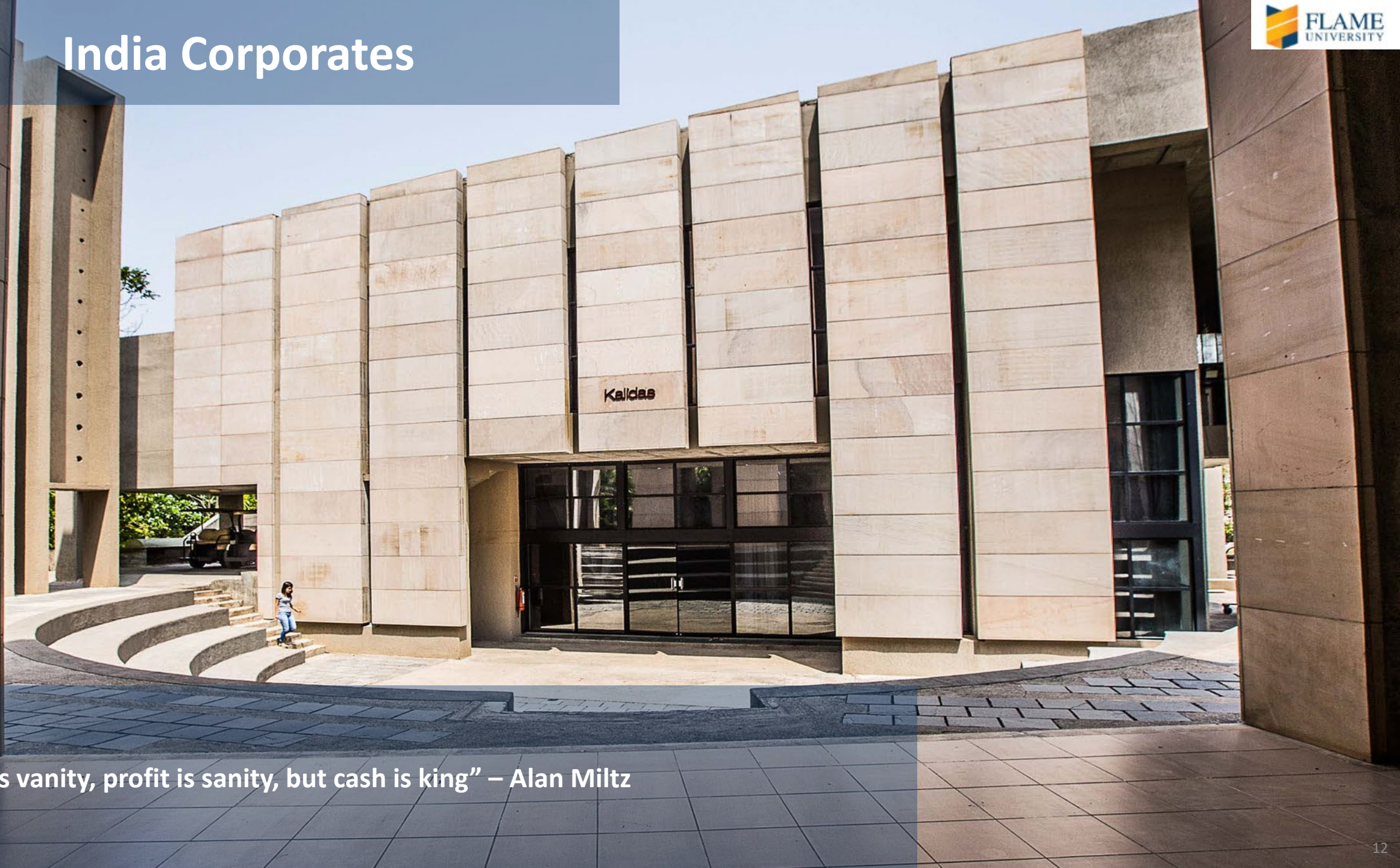
GDP Sector Composition



India Inc. : Market Cap & Profit Pool Trends



India Corporates



“Revenue is vanity, profit is sanity, but cash is king” – Alan Miltz

Financials & Commodities/Energy Complex Seen Driving Profit Growth in Nifty 50

PAT (INR Bn)	FY20	FY21E	FY22E	FY23E	YoY Growth			CAGR FY 20-23
					FY21E %	FY22E %	FY23E %	
Financials	898	1,078	1,495	1,816	20%	39%	21%	26%
Information Technology	737	781	931	1,036	6%	19%	11%	12%
Oil & Gas	524	929	1,043	1,240	77%	12%	19%	33%
Consumer Products	303	322	385	439	6%	20%	14%	13%
Metals & Mining	261	309	677	589	19%	119%	-13%	31%
Power Utilities	209	251	285	309	20%	13%	9%	14%
Industrials / Engineering	95	116	99	122	21%	-15%	23%	8%
Building Material	87	86	108	133	-1%	26%	23%	15%
Healthcare	86	120	145	171	39%	21%	18%	26%
Automobiles	55	39	305	414	-29%	683%	35%	96%
Infra. & Construction	38	50	63	77	33%	26%	22%	27%
Consumer Services	-307	-141	72	138	-54%	L to P	93%	L to P
Total	2,986	3,941	5,609	6,483	32%	42%	16%	29%

Strong Improvement Expected in Profit Margins in Nifty 50 Ex BFSI

P&L Ex BFSI (INR Bn)	FY20	FY21E	FY22E	FY23E	FY21E %	FY22E %	FY23E %	CAGR
Sales	37,678	34,541	43,058	47,330	-8%	25%	10%	8%
EBITDA	5,854	6,854	8,132	9,049	17%	19%	11%	16%
EBITDA Margin	16%	20%	19%	19%				
PAT	2,088	2,862	4,114	4,668	37%	44%	13%	31%
PAT Margin	6%	8%	10%	10%				
PE*	23	29	20	18				
EV/EBITDA*	10	13	11	10				

Tata Motors and Bharti Airtel are expected to become profitable in FY 22, hence those sectors are showing high growth on a lower base

Nifty 50 PAT Estimates

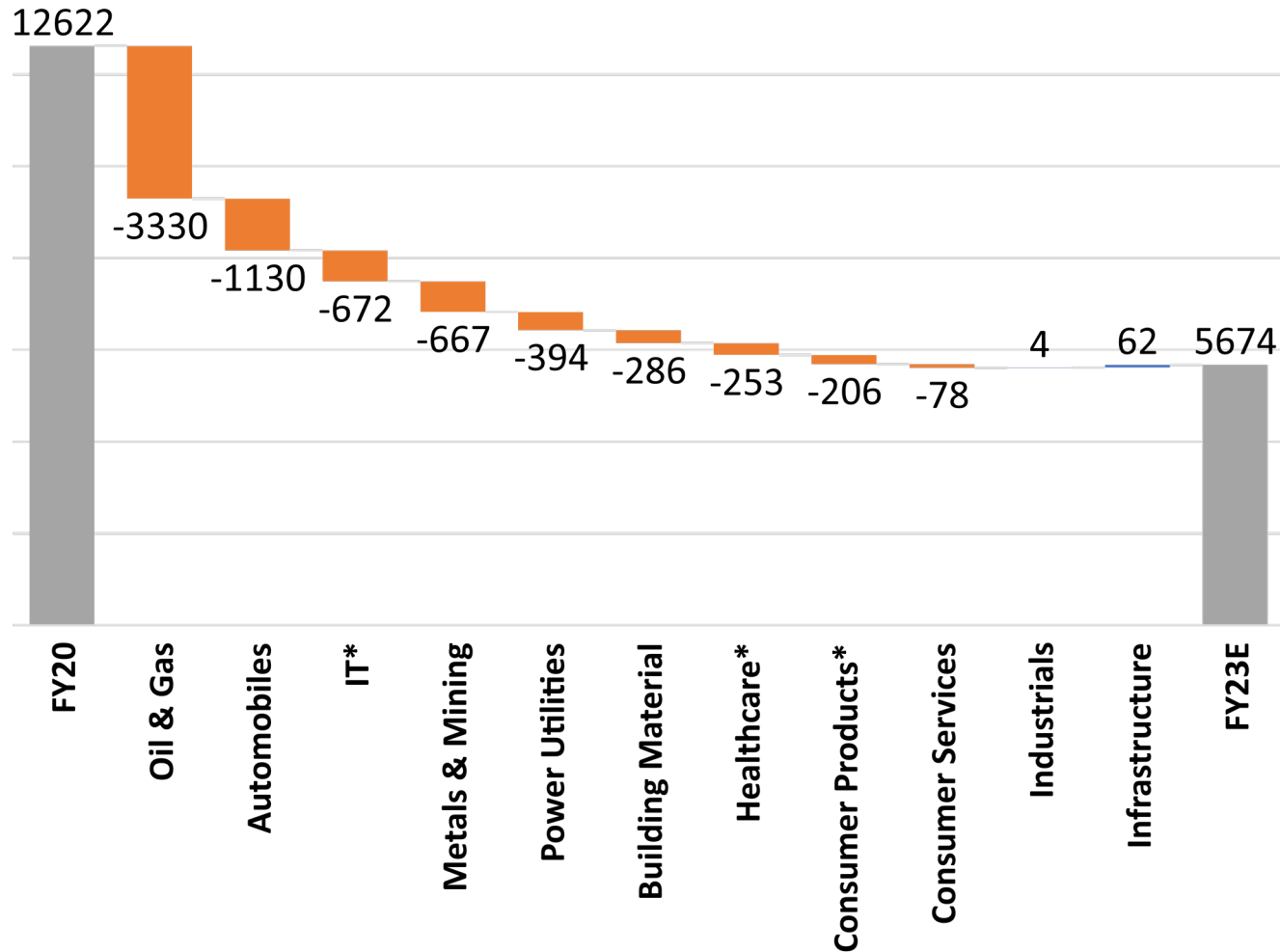
PAT (INR bn)	2022E	2023E
Reliance Industries	577	712
TCS	398	443
HDFC Bank	367	441
State Bank of India	324	387
Tata Steel	265	178
Infosys	224	251
Oil & Natural Gas Corp	222	246
ICICI Bank	211	256
JSW Steel	179	167
ITC	159	174
Indian Oil Corp	158	182
NTPC	152	168
HCL Technologies	141	156
Axis Bank	140	177
Coal India	139	150
Power Grid	133	141
HDFC	132	154
Wipro	116	127
Larsen & Toubro	99	122
Hindustan Unilever	95	111
Hindalco Industries	94	94
Bharat Petroleum	87	100
Kotak Mahindra Bank	85	98
Bajaj Finance	82	106
Tata Motors	74	133

PAT (INR bn)	2022E	2023E
Maruti Suzuki India	66	88
UltraTech Cement	63	76
Adani Ports & Special Economic Zone	63	77
Bajaj Finserv	63	82
Sun Pharmaceutical	61	70
IndusInd Bank	56	73
Bajaj Auto	56	64
Tech Mahindra	53	59
Bharti Airtel	52	113
Mahindra & Mahindra	50	57
UPL	40	47
Asian Paints	37	45
Hero MotoCorp	35	41
Dr Reddy's Laboratories	33	39
Cipla	28	33
Shree Cement	26	33
Nestle India	24	28
Eicher Motors	24	30
Divi's Laboratories	24	29
SBI Life Insurance	20	23
Titan Co	19	25
Britannia Industries	18	21
Grasim Industries	18	24
HDFC Life Insurance	17	19
Tata Consumer Products	11	13

Deleveraging Led by Cyclical & Commodities in Nifty 50

Nifty 50 FY20 to FY23E Net Debt (INR Bn)

■ Increase ■ Decrease ■ Total

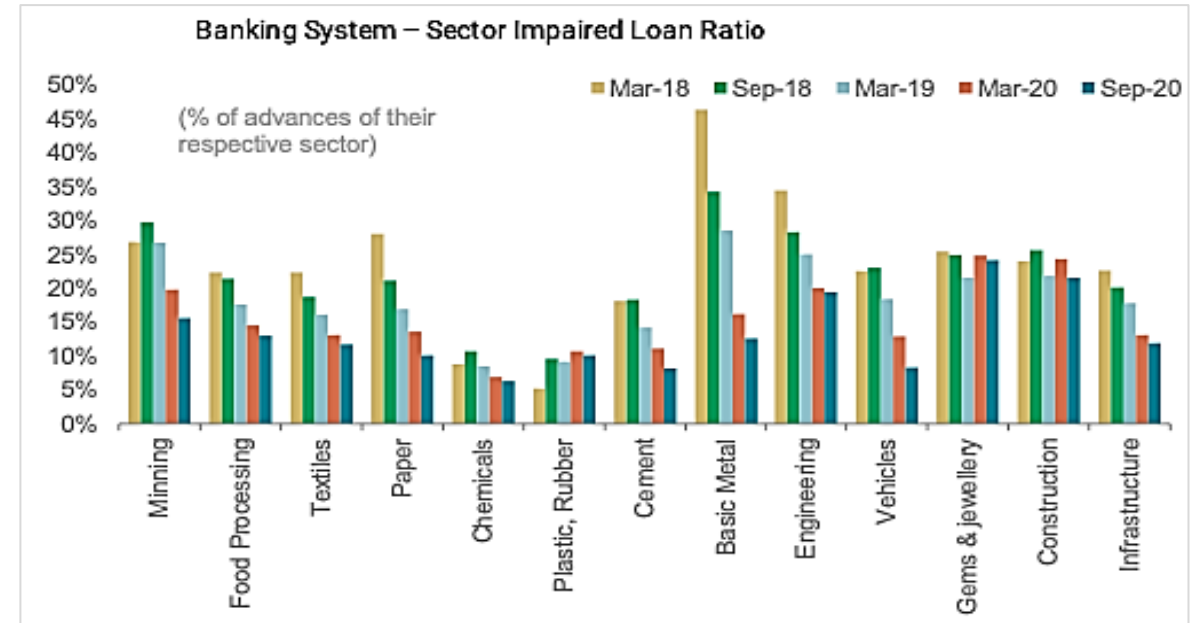
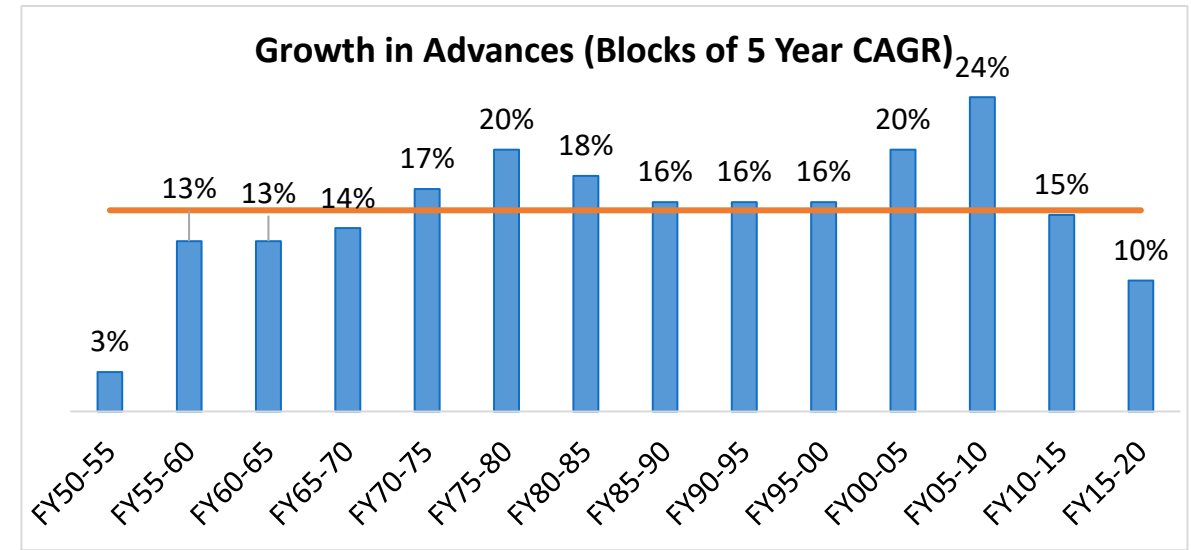
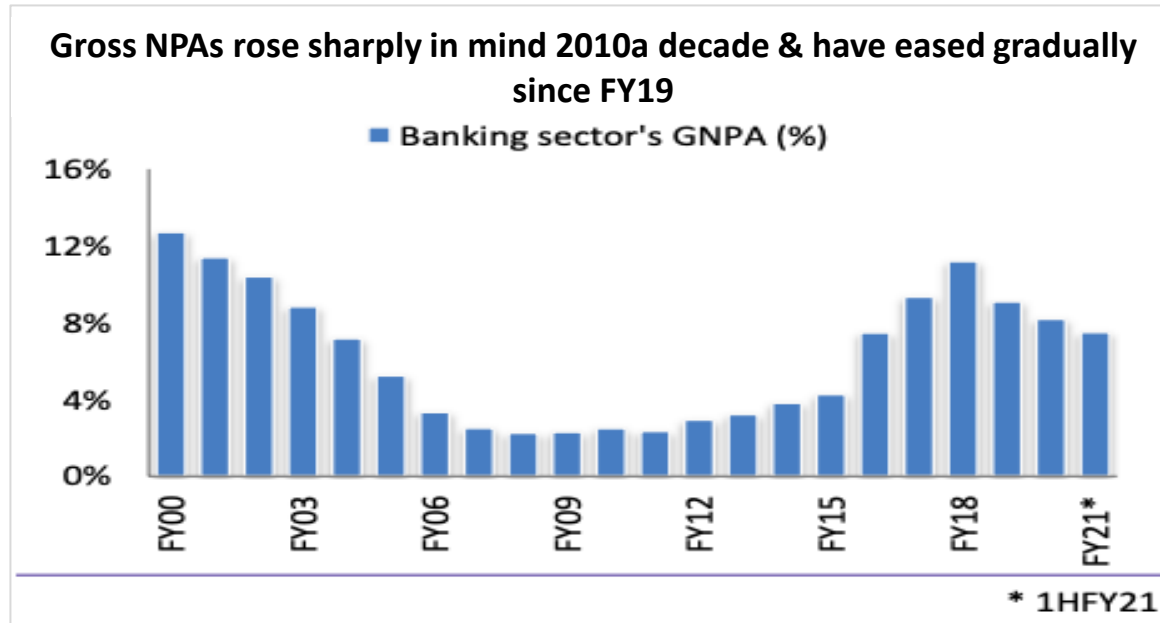


Sector Wise Net Debt (INR Bn)	FY20	FY23E	Delta
Oil & Gas #	5255	1926	-3330
Automobiles	683	-447	-1130
IT*	-826	-1497	-672
Metals & Mining	1726	1059	-667
Power Utilities	3100	2706	-394
Building Material	218	-68	-286
Healthcare*	-29	-282	-253
Consumer Products*	-102	-308	-206
Consumer Services	1239	1161	-78
Industrials	1155	1159	4
Infrastructure	204	266	62

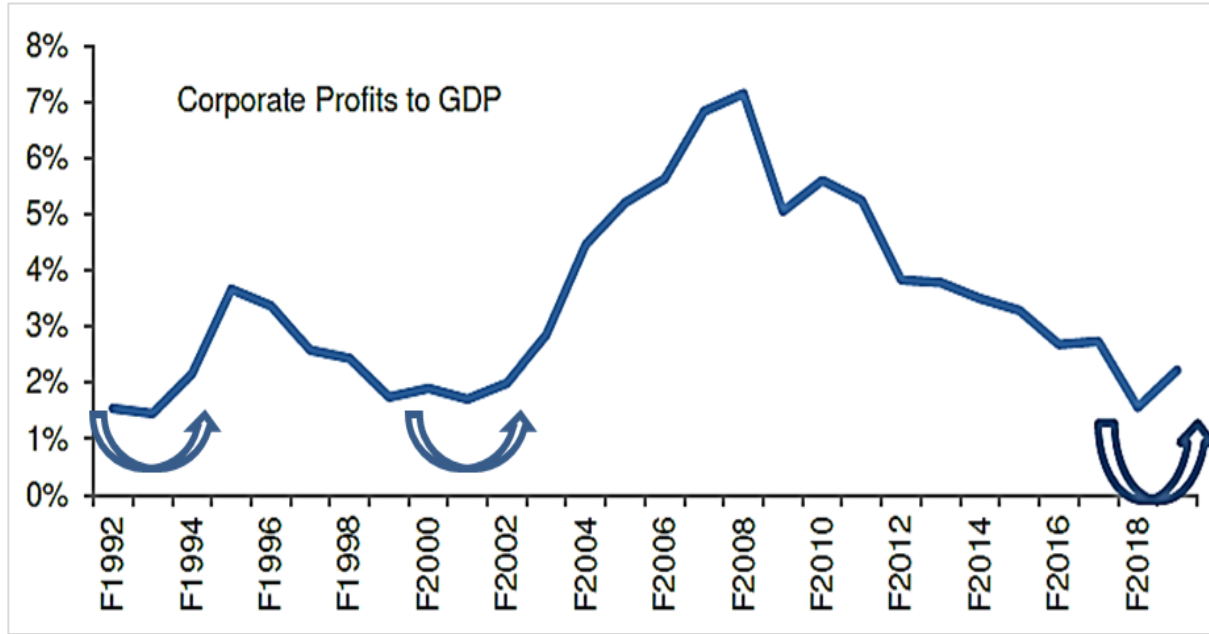
Top 10 Cos by Net Debt (INR Bn)	FY20	FY23E	Delta
Reliance Industries Ltd	2412	-555	-2966
NTPC Ltd	1673	1545	-128
Power Grid Corp of India Ltd	1426	1161	-265
Bharti Airtel Ltd	1209	1191	-18
Indian Oil Corp Ltd	1193	1065	-128
Oil & Natural Gas Corp Ltd	1060	839	-221
Tata Steel Ltd	1048	461	-588
Tata Motors Ltd	830	463	-367
Bharat Petroleum Corp Ltd	591	577	-15
JSW Steel Ltd	495	462	-33

Short-term Covid Stress Coinciding with the End of Corporate NPA Cycle

Nifty50 Banks PAT (INR Bn)	FY20	FY23E	CAGR
HDFC Bank	263	441	19%
State Bank of India	145	387	39%
ICICI Bank	79	256	48%
Kotak Mahindra Bank	59	98	18%
IndusInd Bank	44	73	18%
Axis Bank	16	177	121%
Total	607	1431	33%



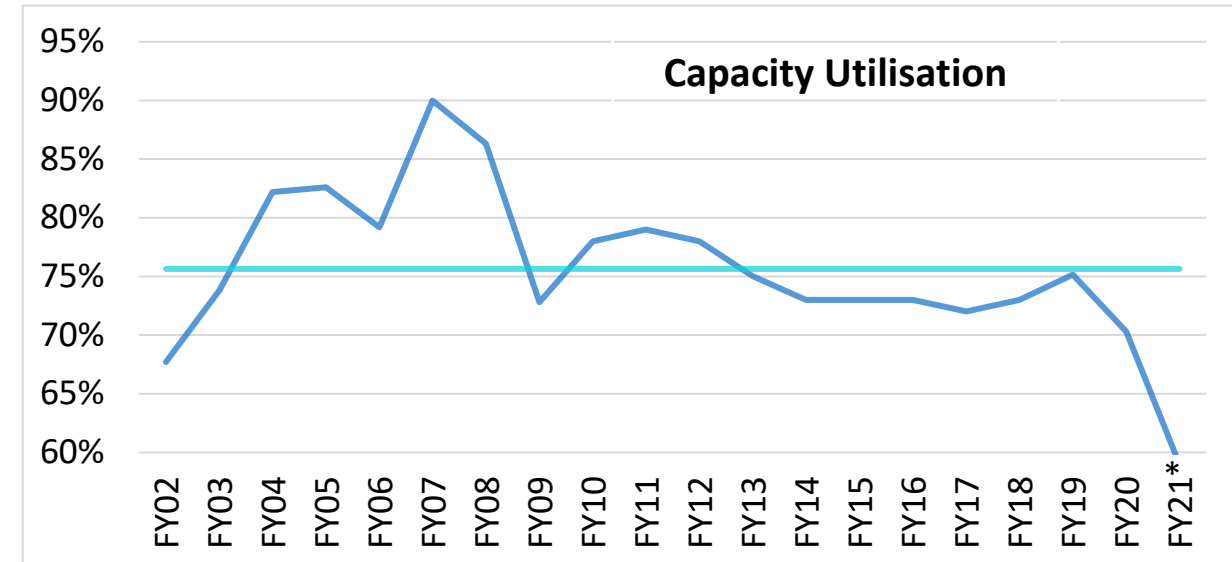
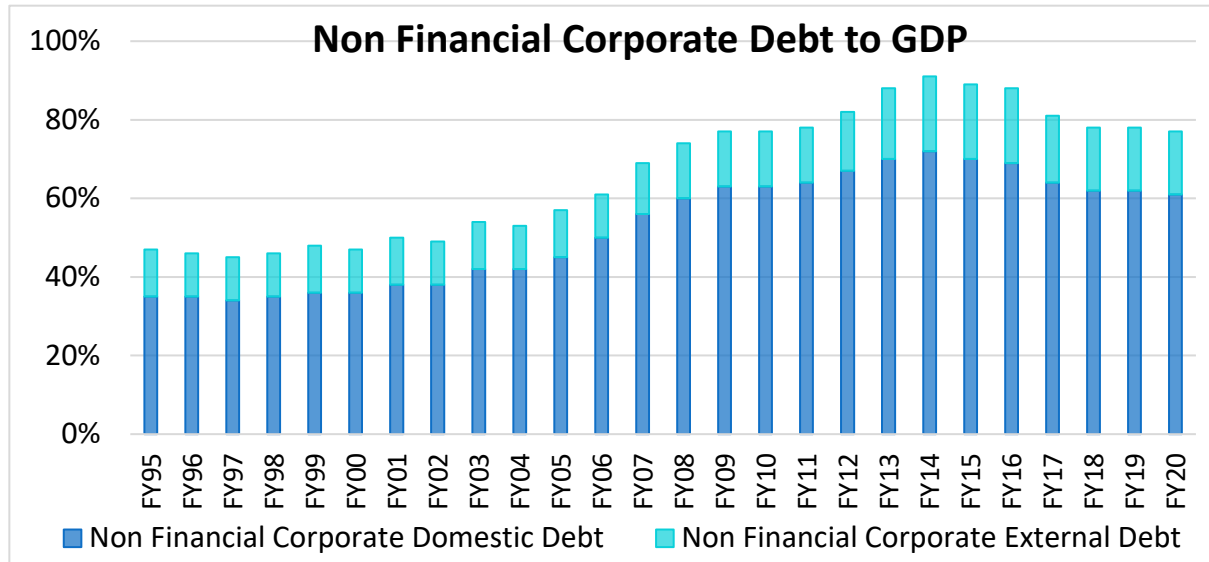
Improved Balance Sheet, Margins & Capacity Utilisation Levers in Place



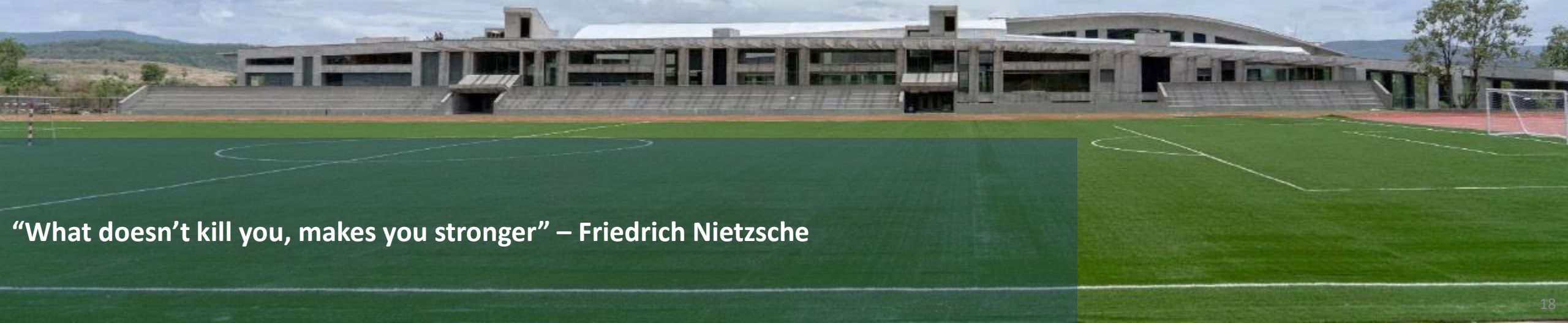
High CFO, Lower Capex & Equity Raise

Median	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21 (A/E)
Interest Coverage	7.2	5.9	6.0	6.6	7.6	8.0	9.7	10.7	10.8	7.9	9.8
Net D/E	0.45	0.48	0.42	0.32	0.30	0.27	0.24	0.20	0.14	0.14	0.11
Net Debt/EBITDA	1.32	1.47	1.61	1.28	1.17	0.94	1.08	0.81	0.78	0.73	0.65
Interest/Sales	1.9%	2.2%	2.0%	1.9%	1.6%	1.7%	1.4%	1.4%	1.3%	1.6%	1.3%
CFO/PAT	0.9	1.2	1.1	1.3	1.2	1.3	1.3	1.2	1.0	1.4	1.5

Note: Data for 250 companies beyond first 50, excluding financials & banks

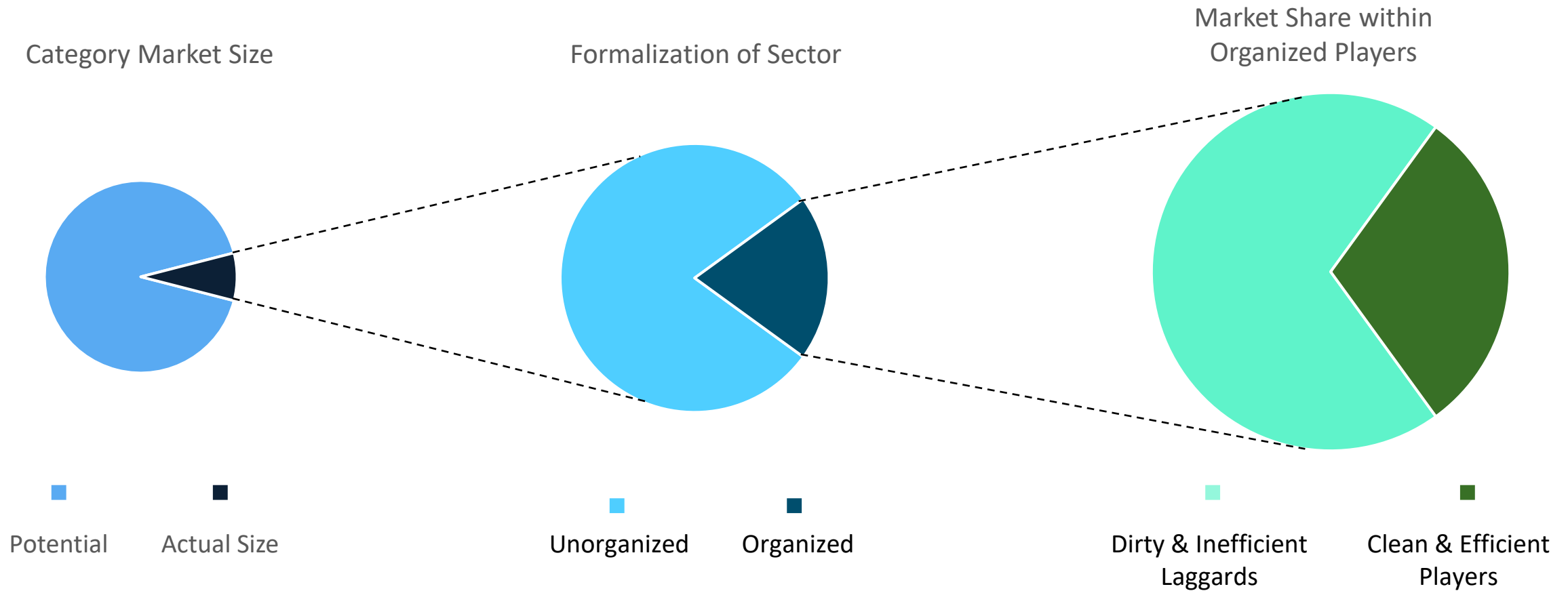


Market Share Shifting



“What doesn’t kill you, makes you stronger” – Friedrich Nietzsche

Trifecta of Growth Opportunity : Clean & Efficient Getting Bigger

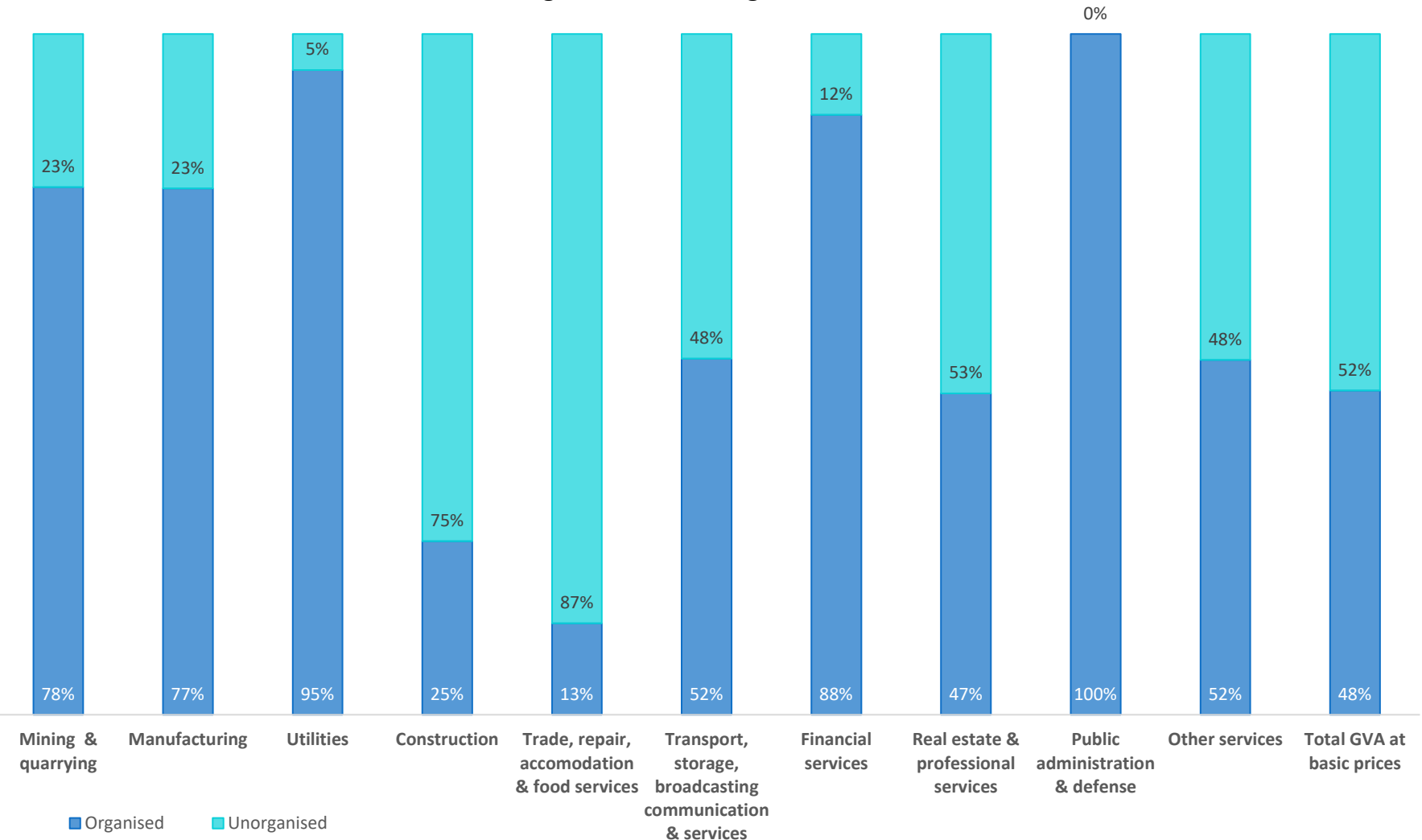


The Best Time for Organized Corporate India : Strong Resilience

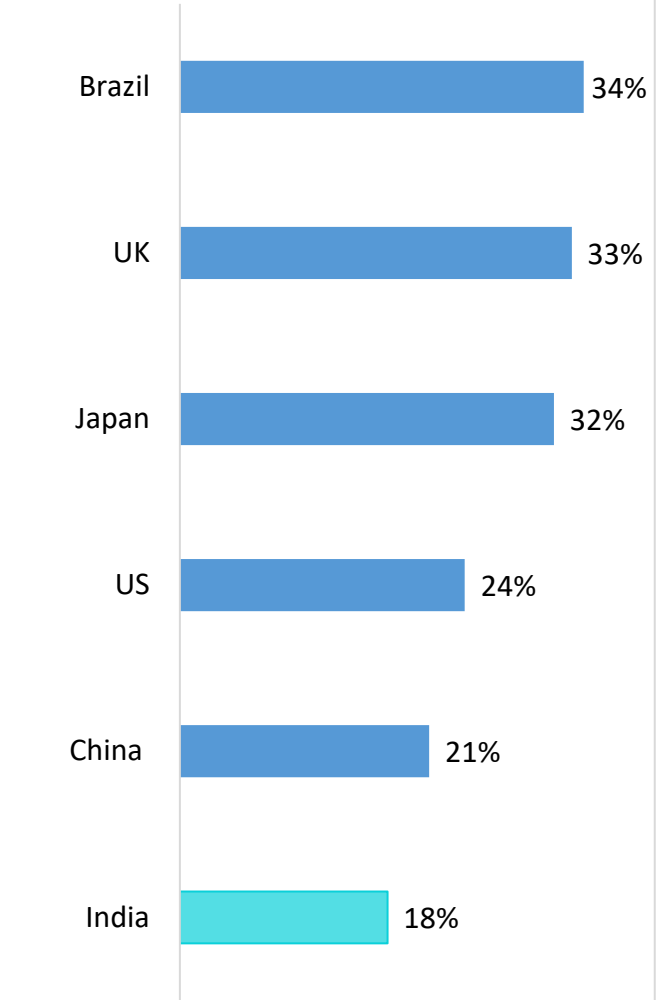
India : Market with a Dominant Unorganized Sector

Sector leaders can grow faster than underlying GDP, by gaining market share

Organised v/s Unorganised Sector



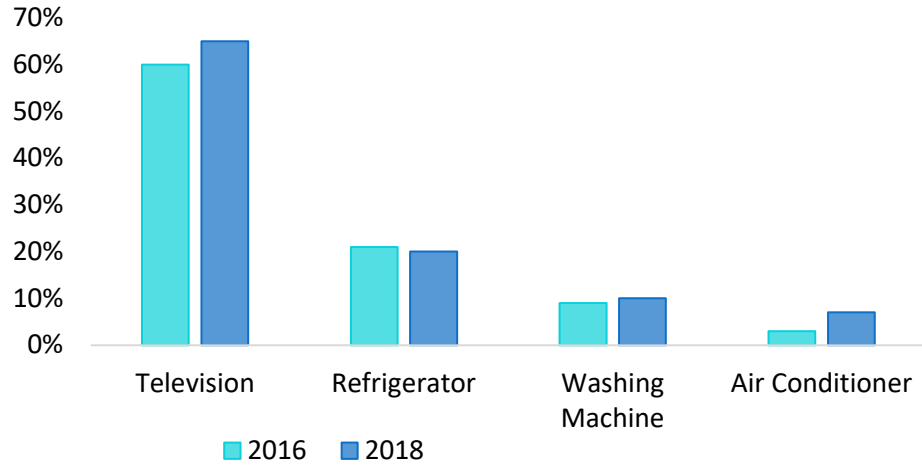
Total Tax-GDP Ratio



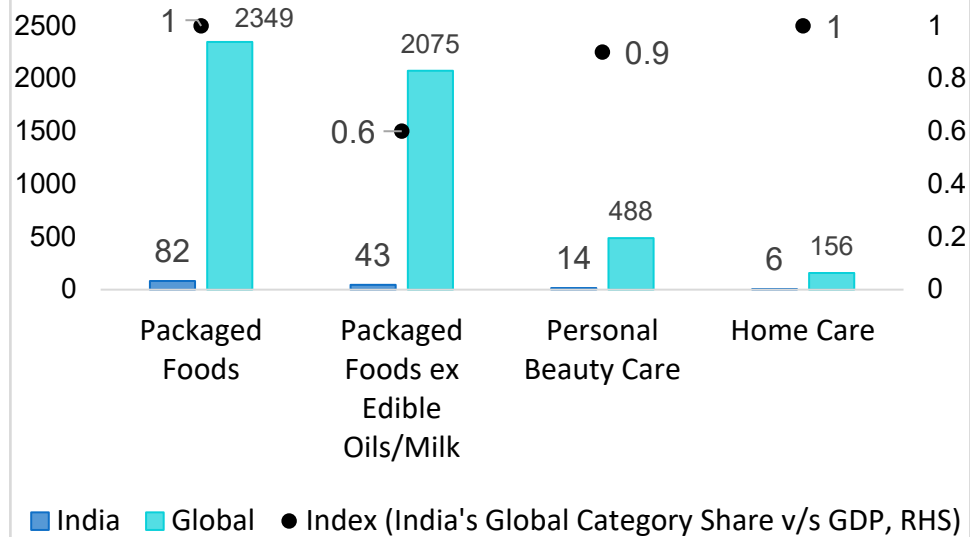
Total tax for India includes Centre & State taxes

India : Under-penetrated Market

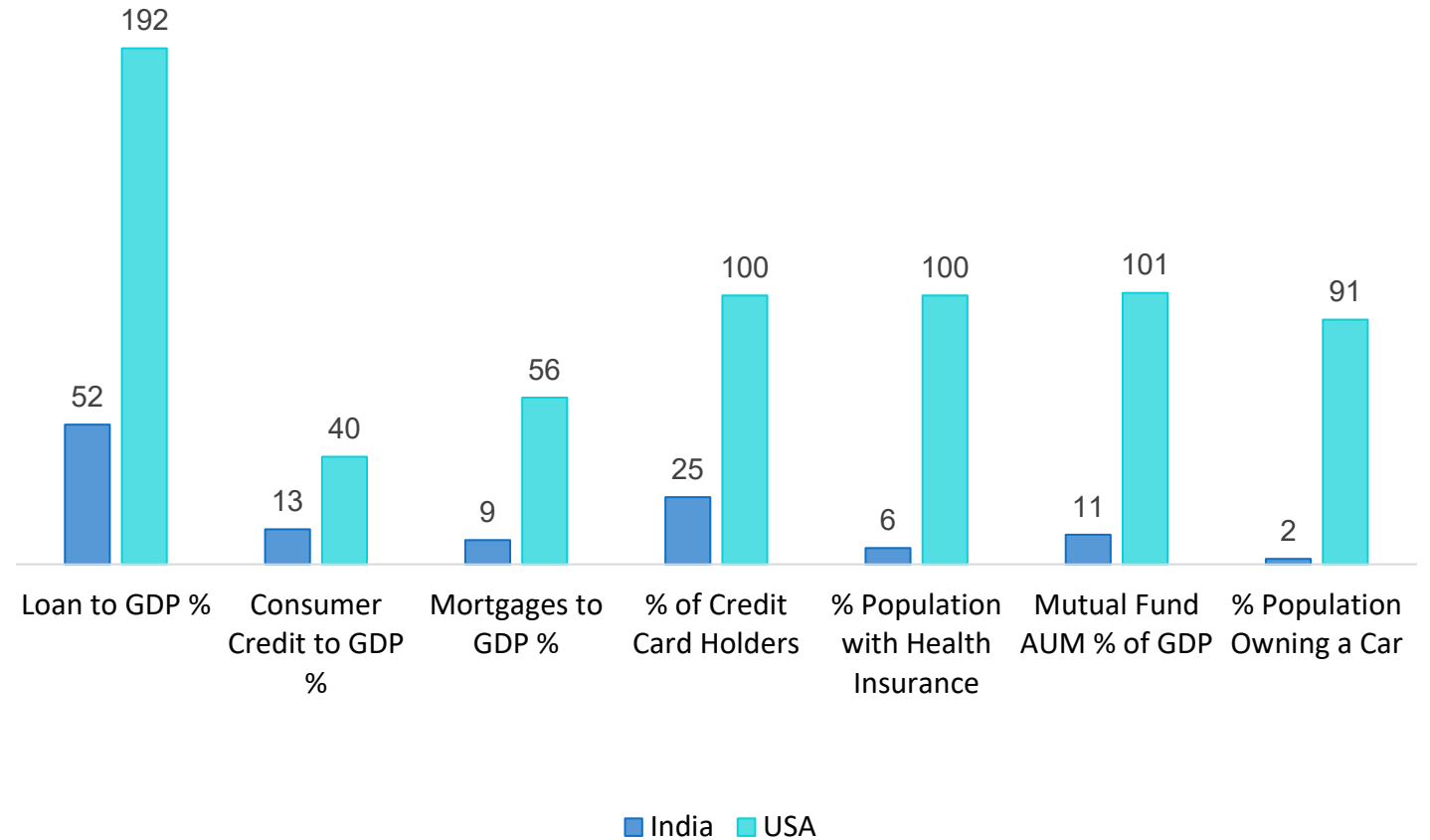
India White Goods Penetration



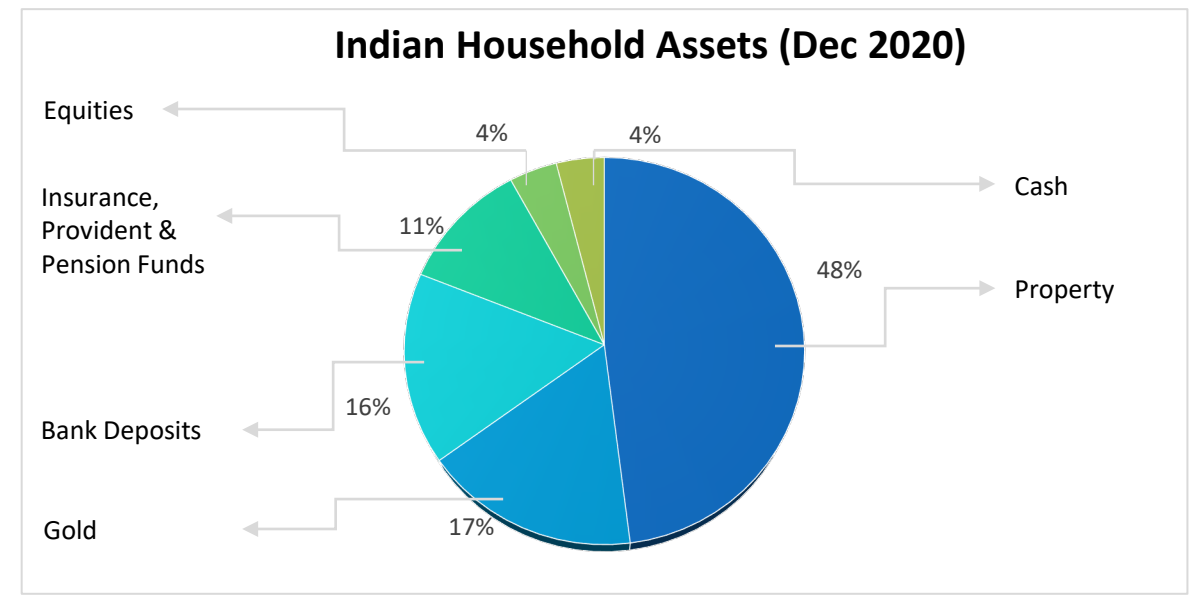
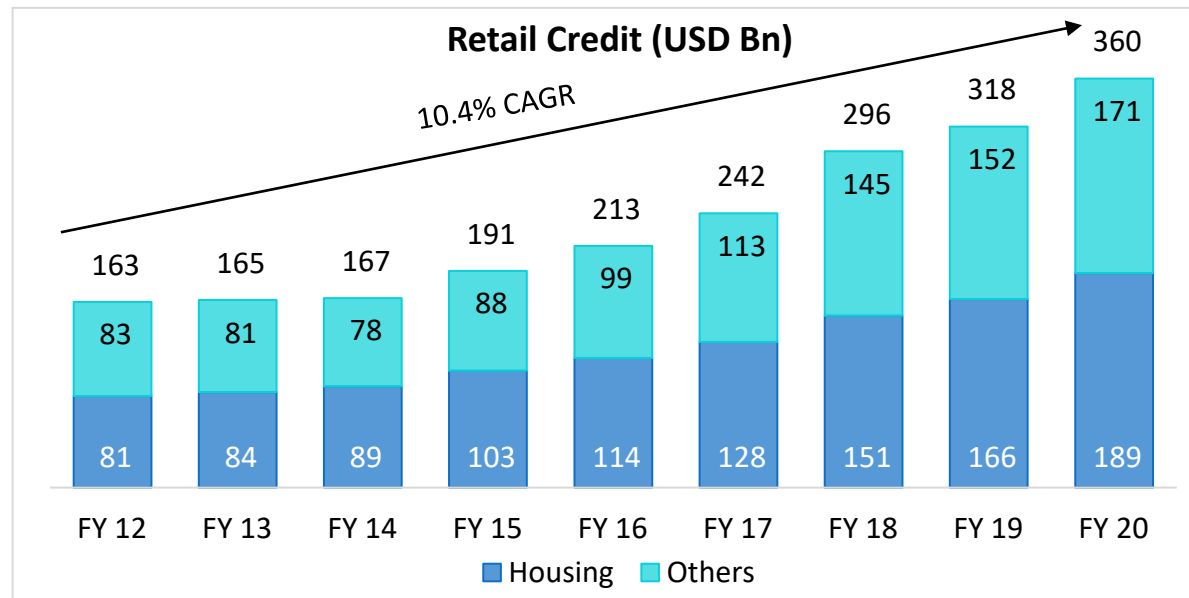
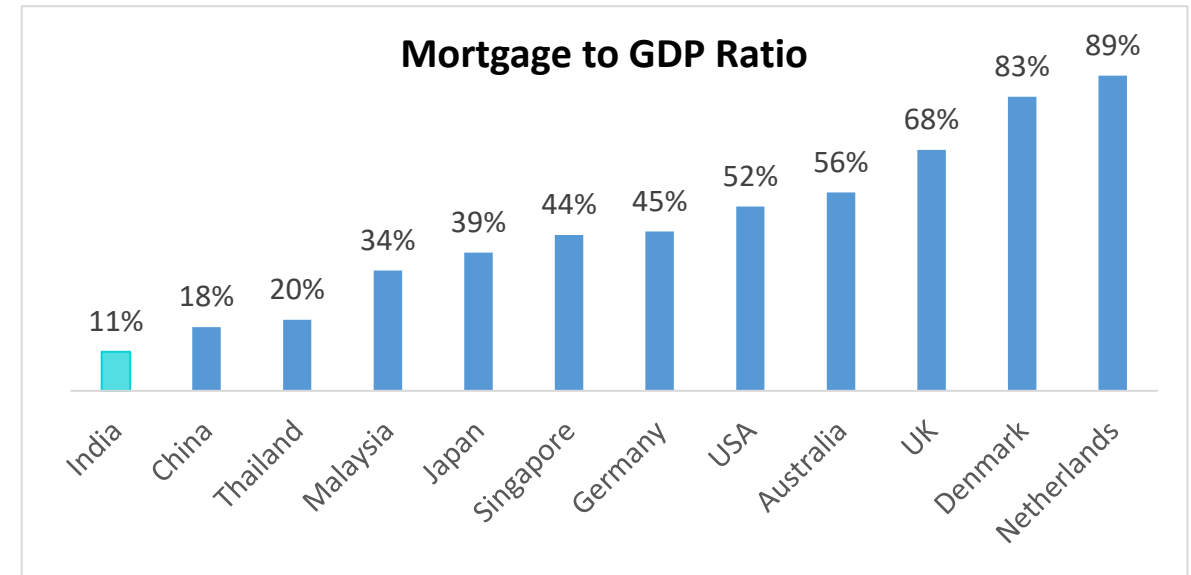
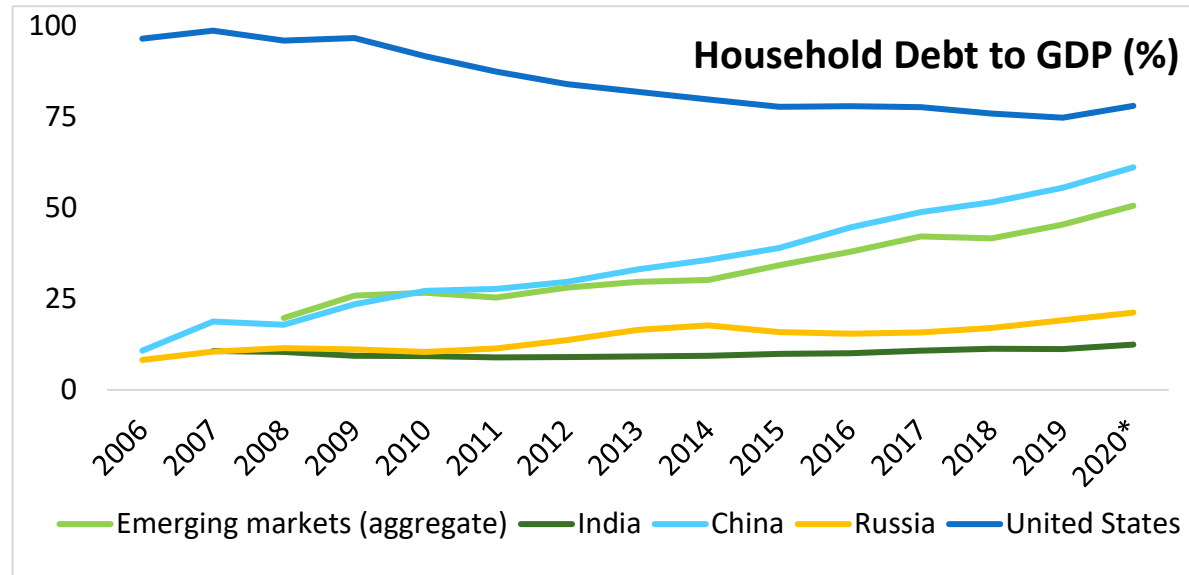
Food & Care Products (\$ Bn, 2019)



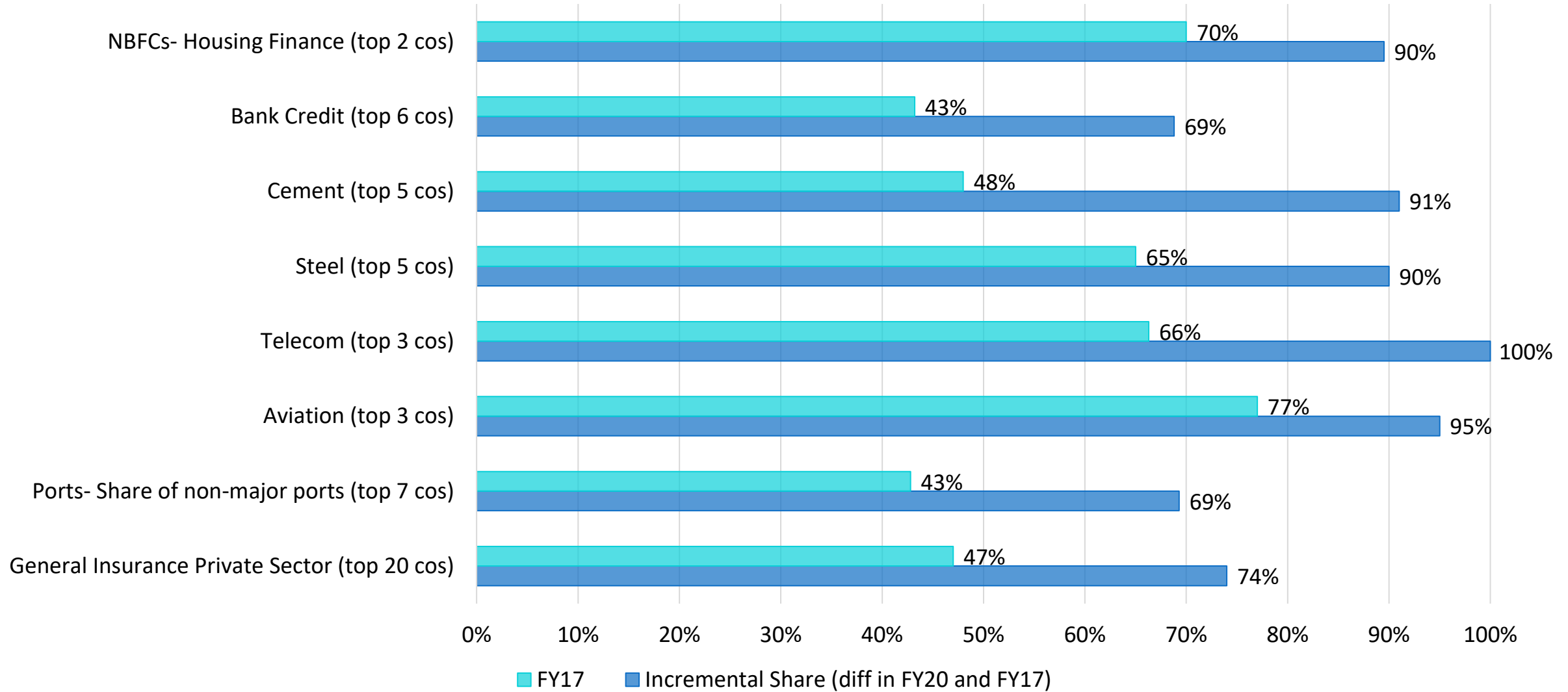
Credit, Insurance, Mutual Fund & Car Penetration (2019)



Strong, Unlevered & Under-penetrated Indian Households

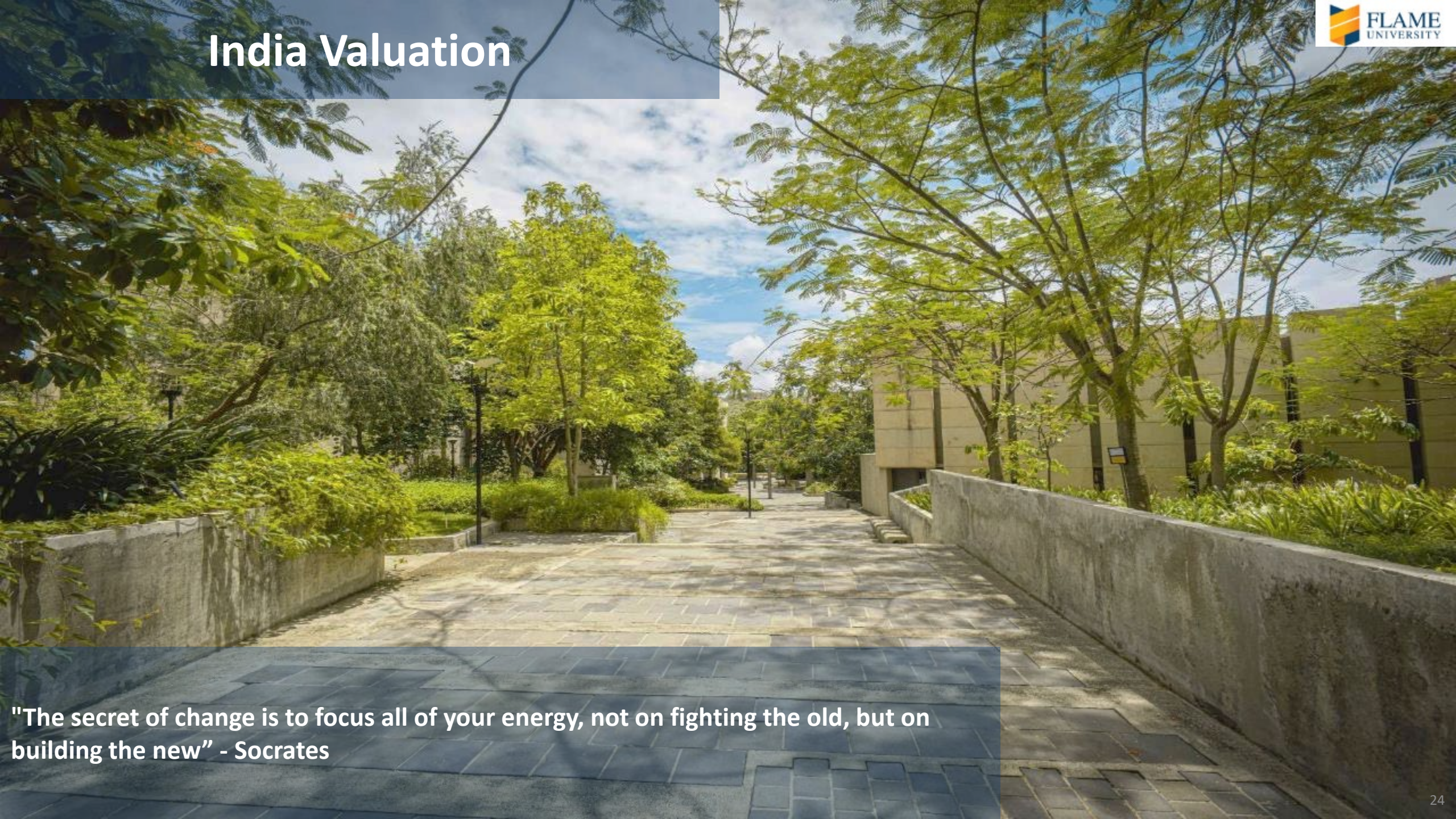


Top Companies Gaining Disproportionate Market Share



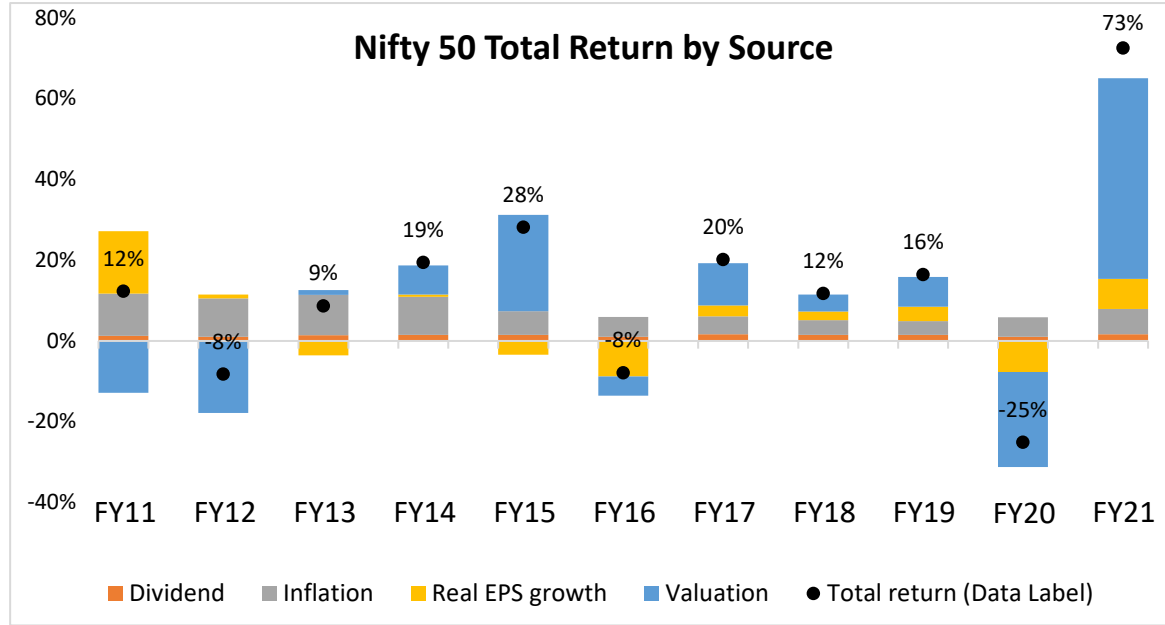
Note: Based on volumes for aviation, cement, steel & ports; credit for banks, AUM for NBFC, revenue for telecom & gross premium for insurance

India Valuation

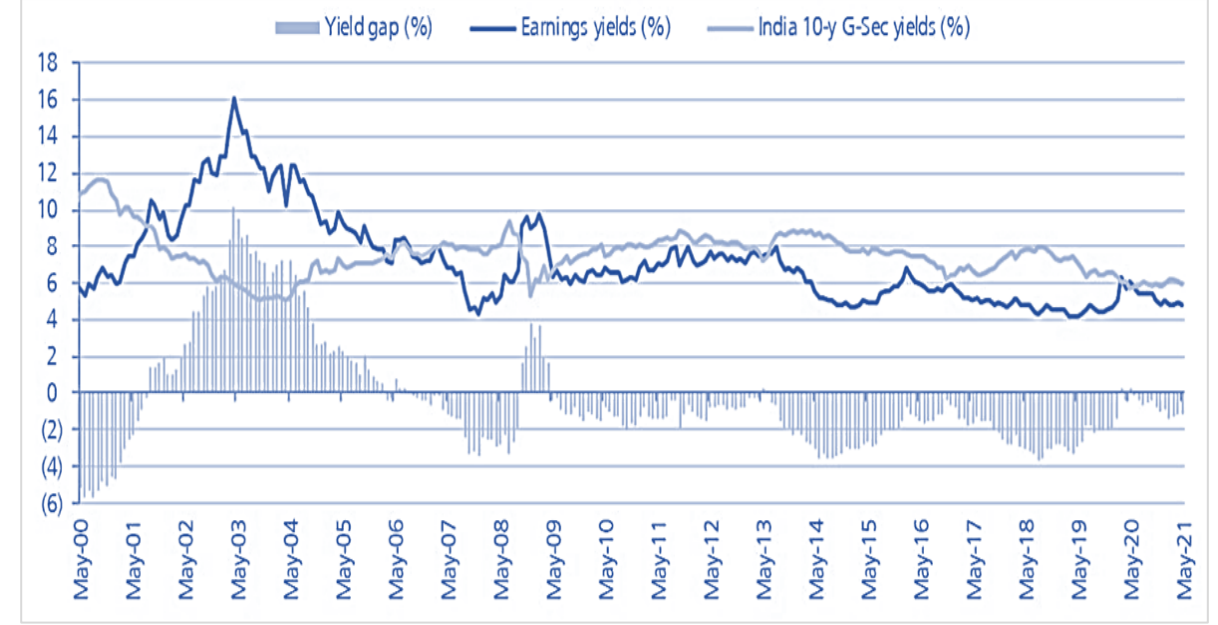
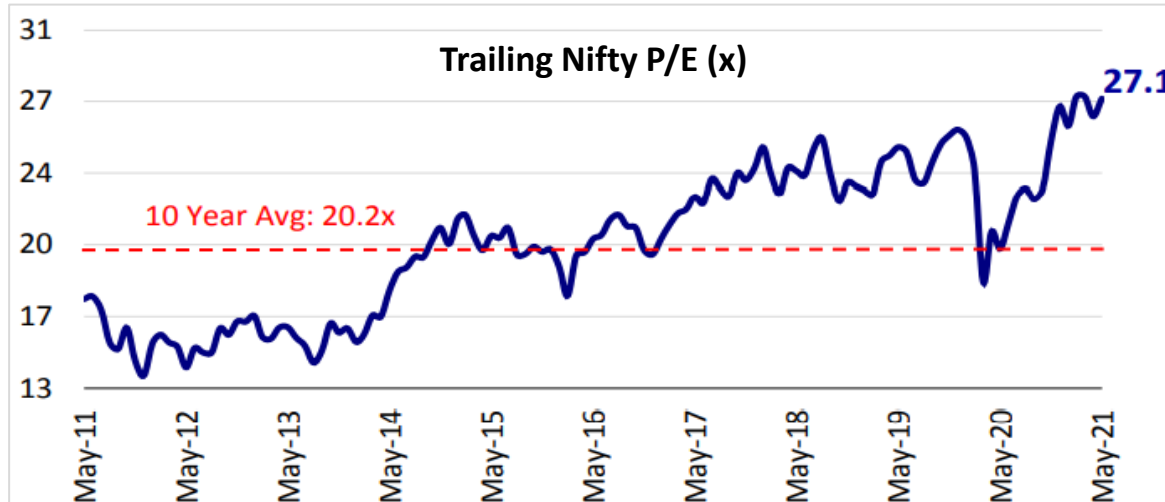
A wide, paved walkway made of light-colored rectangular stones leads into the distance. The path is flanked by low concrete walls and lush green trees and bushes. The sky is blue with scattered white clouds. The overall scene is bright and sunny, suggesting a pleasant campus environment.

"The secret of change is to focus all of your energy, not on fighting the old, but on building the new" - Socrates

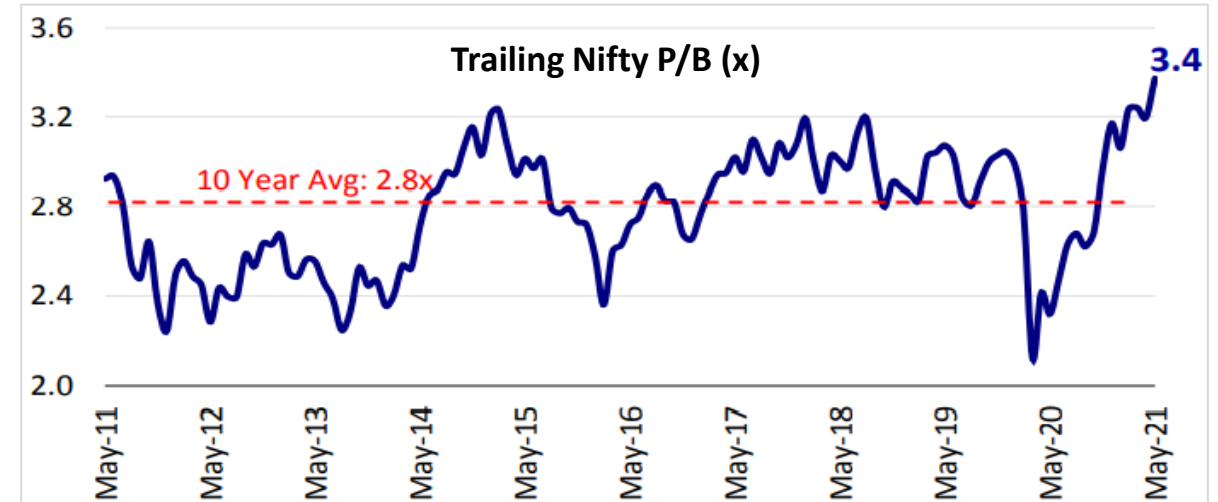
Future Returns are a Function of Current Elevated Prices & Liquidity Conditions



Dividend Return=Nifty 50 Total Return Index –Nifty 50 Price Return Index, Price Return=((1+ Real Nifty 50 EPS growth) * (1+CPI Inflation) * (1+ Change in PE))-1

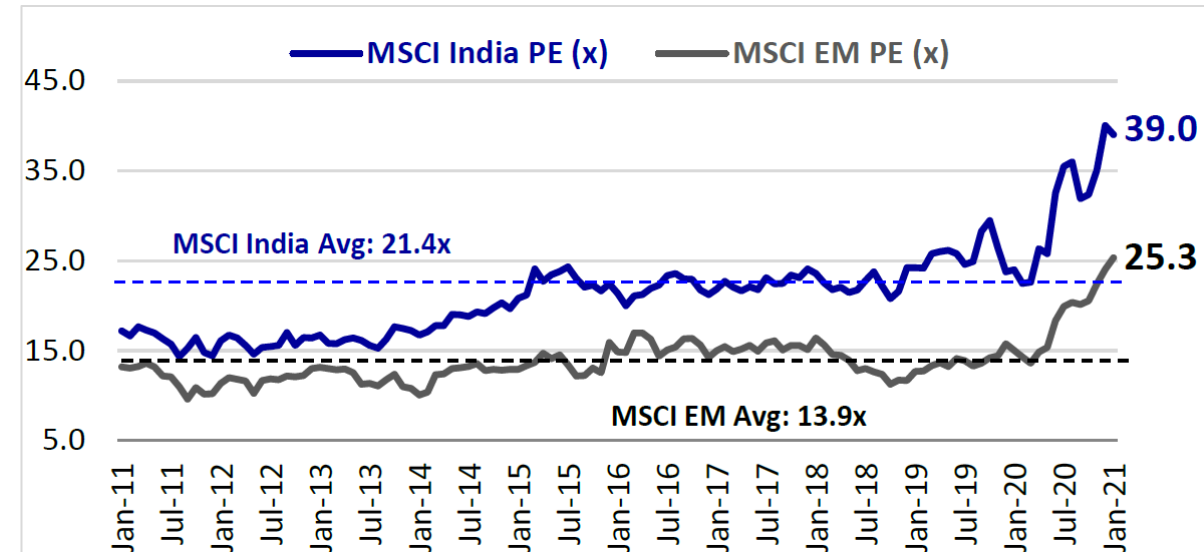
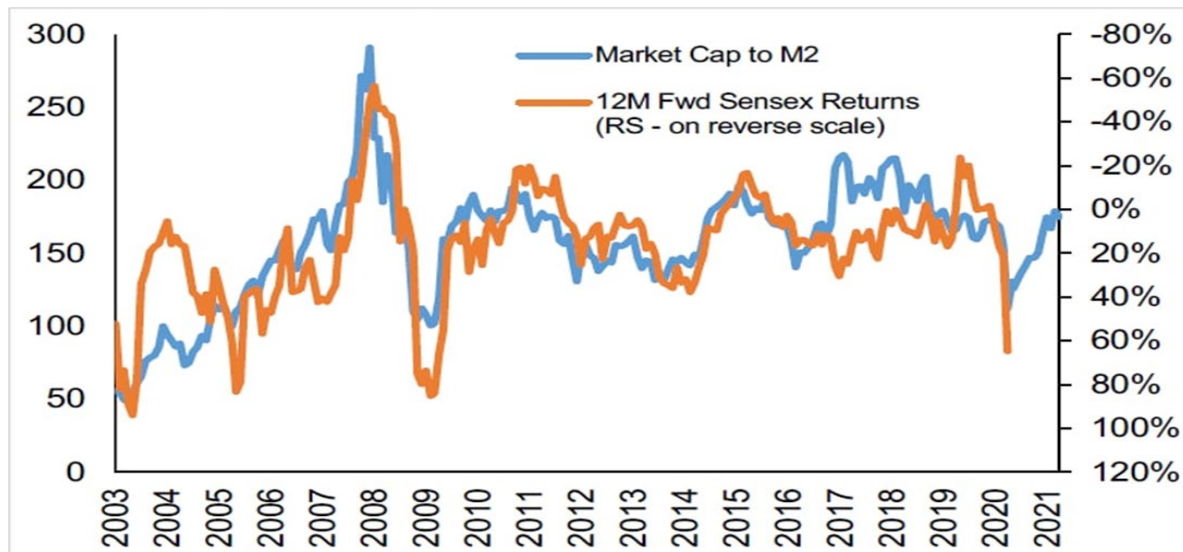
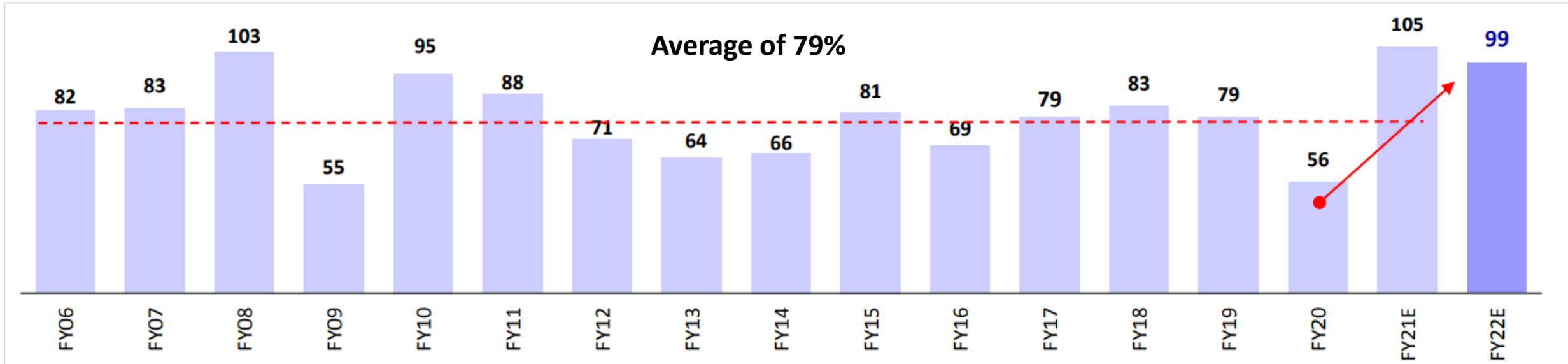


Nifty Earnings Yield

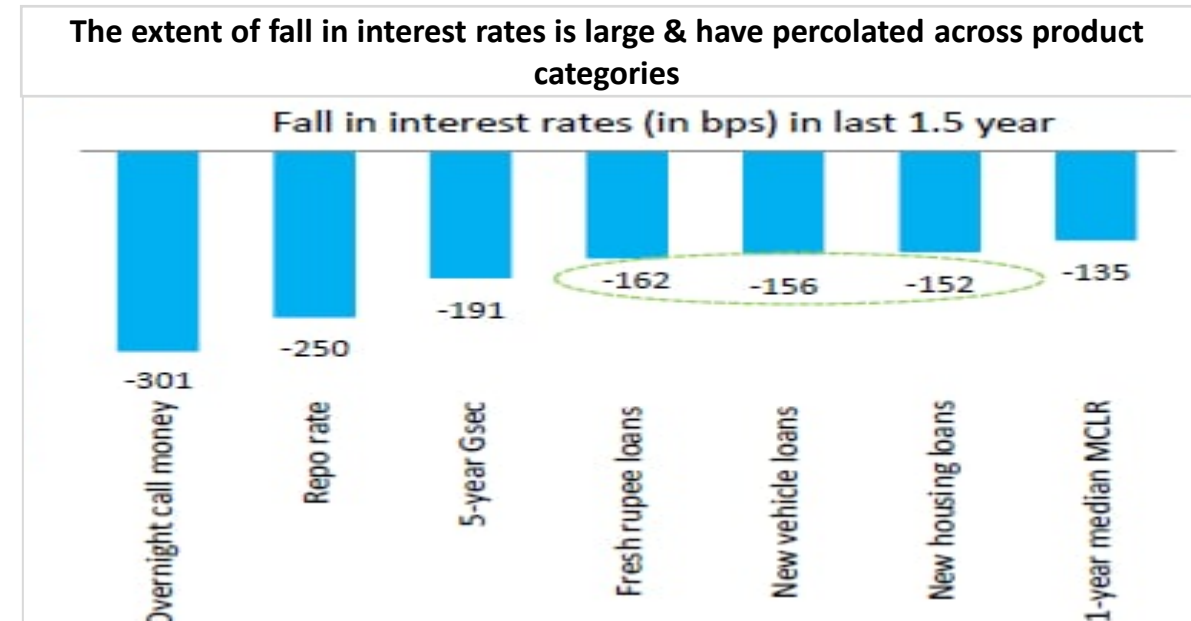
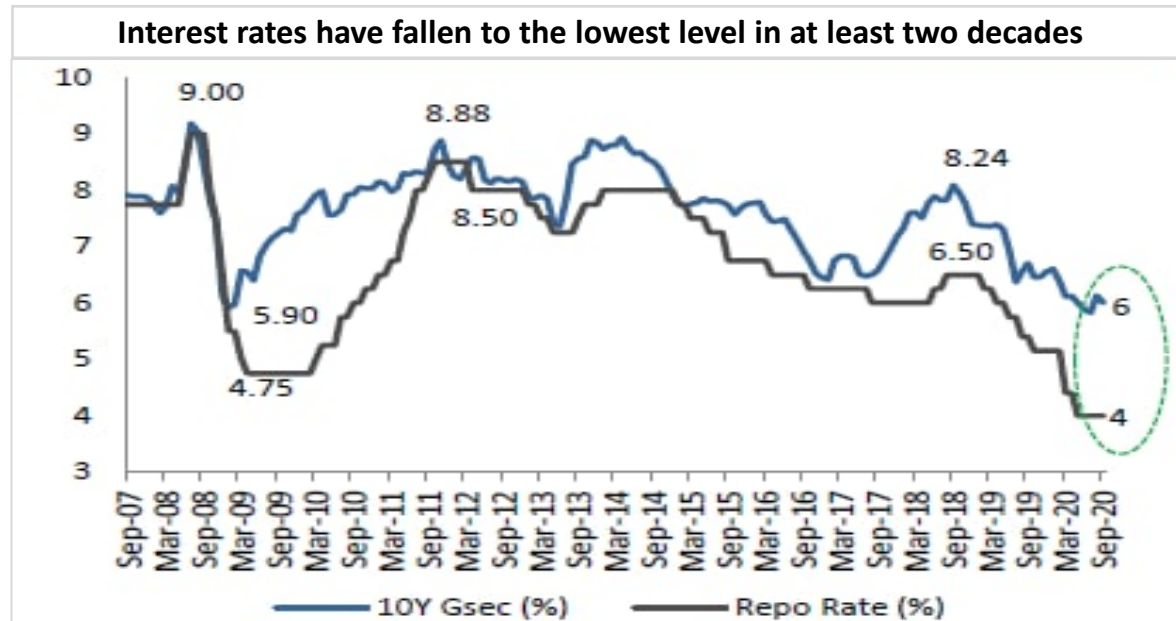
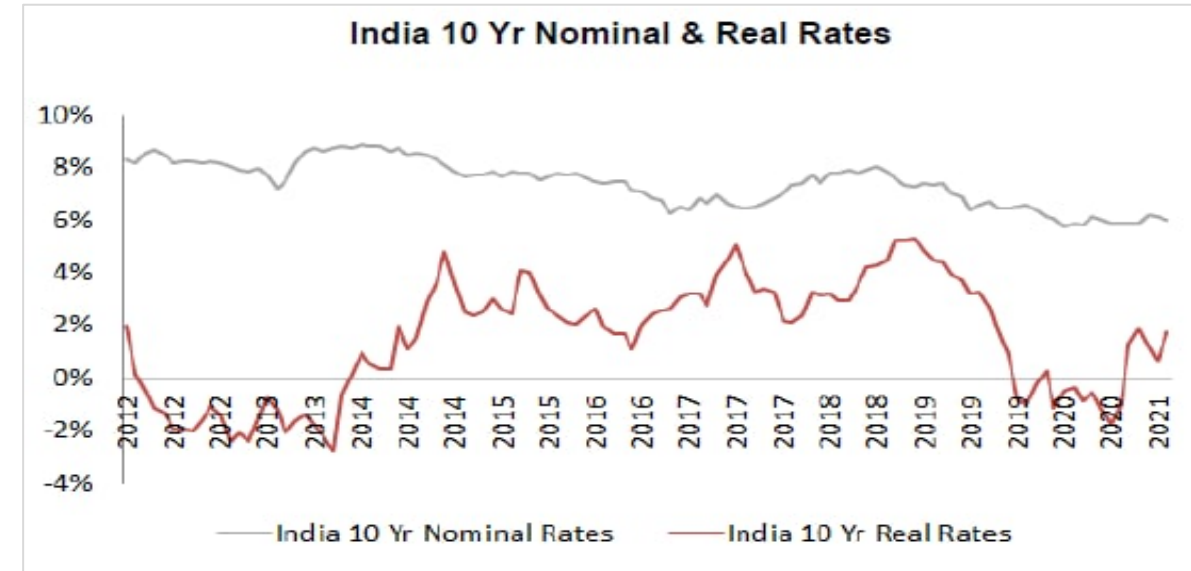
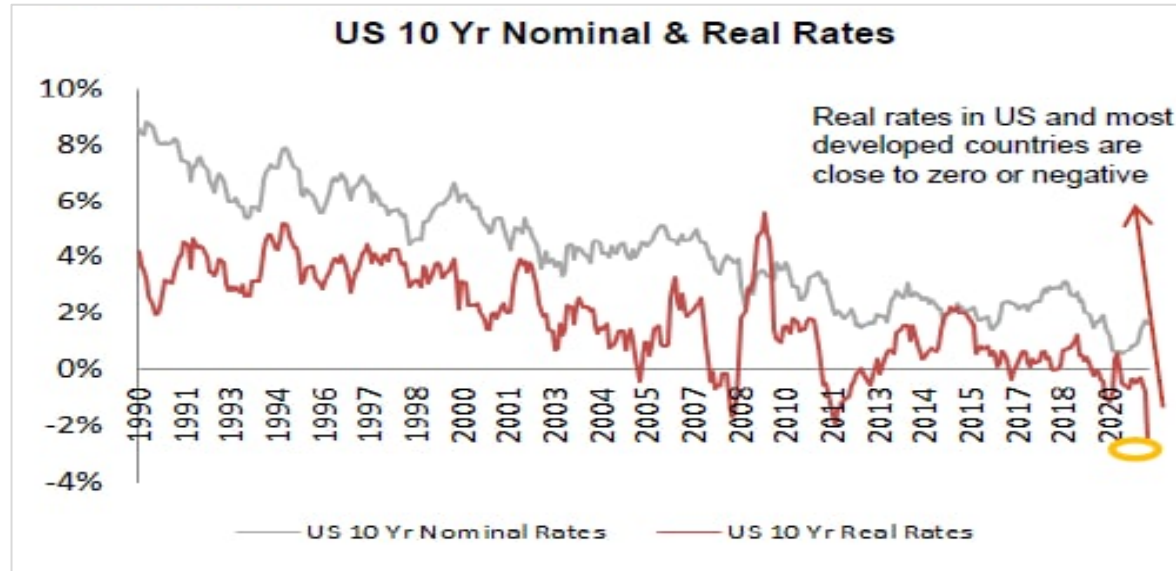


Valuations need to Factor in the Current Weak Business Cycle

India's Market Cap to GDP ratio (%)



Central Banks are Paying Negligible Real Interest Rates : For How Long ?

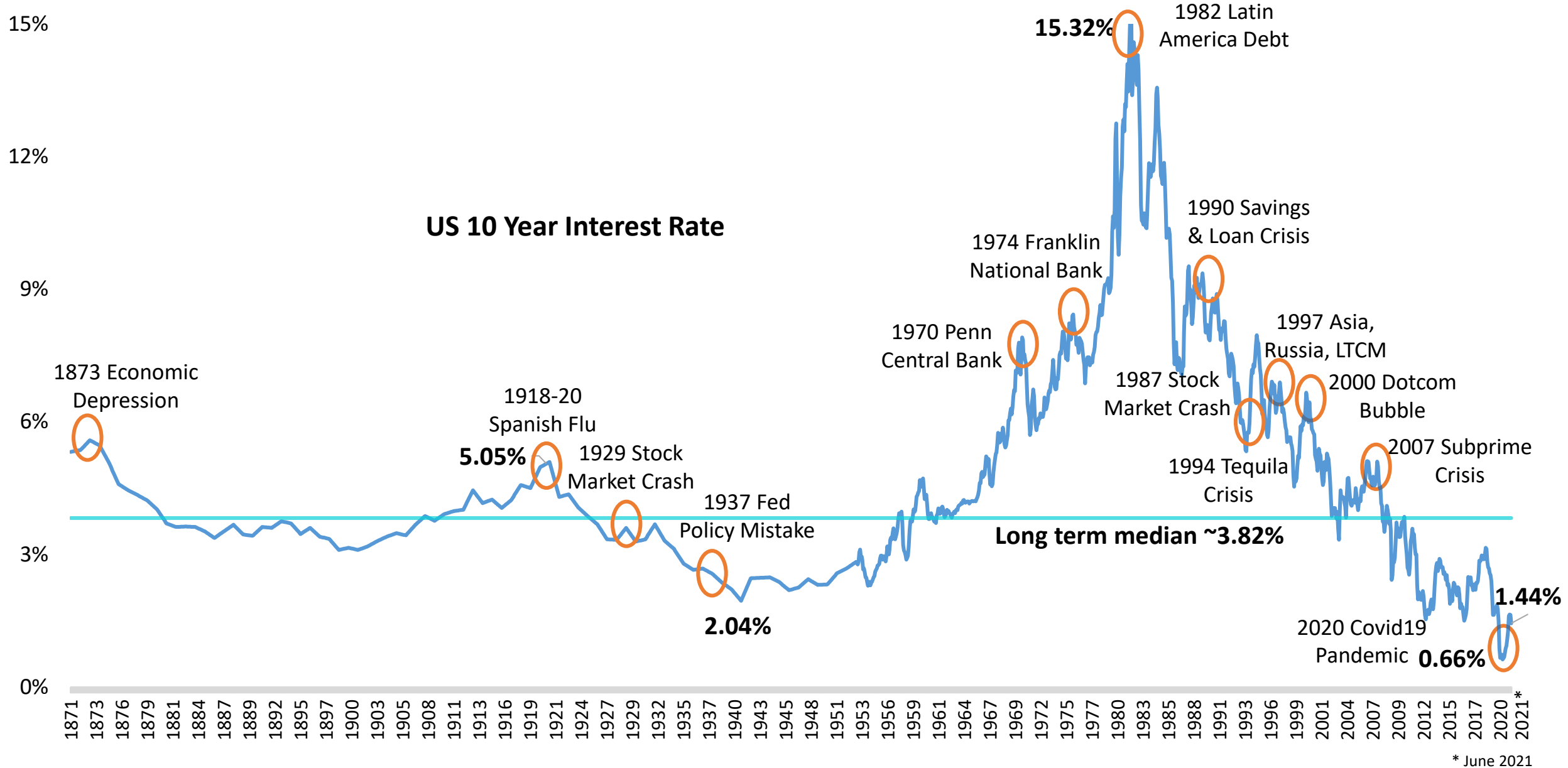


Global Macros

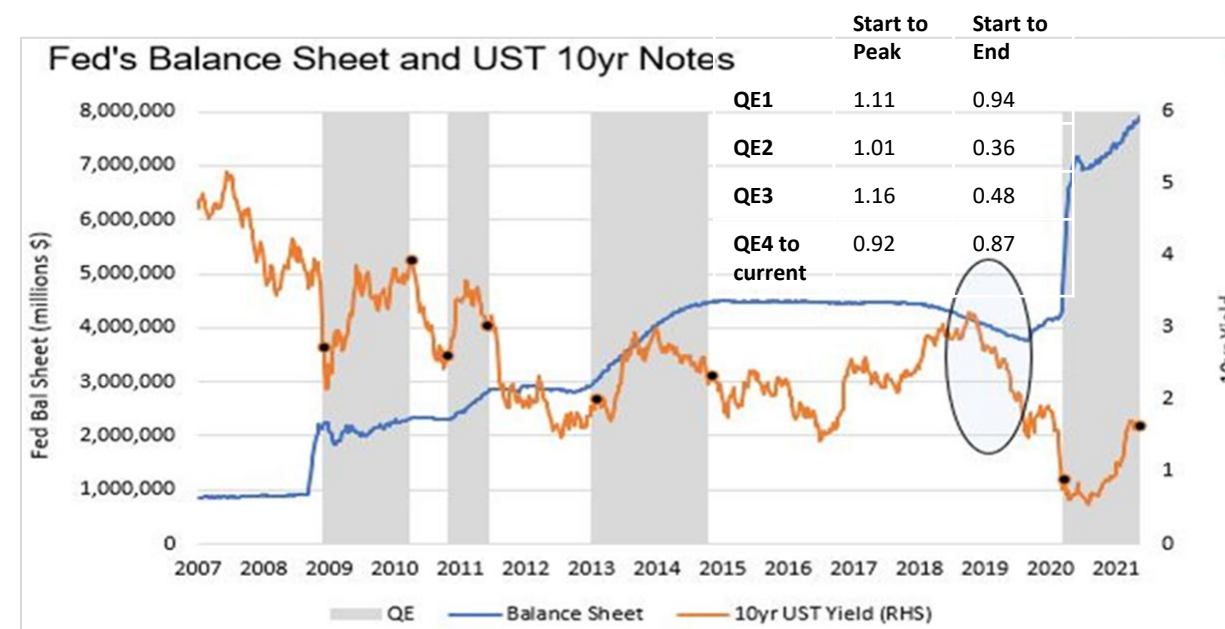
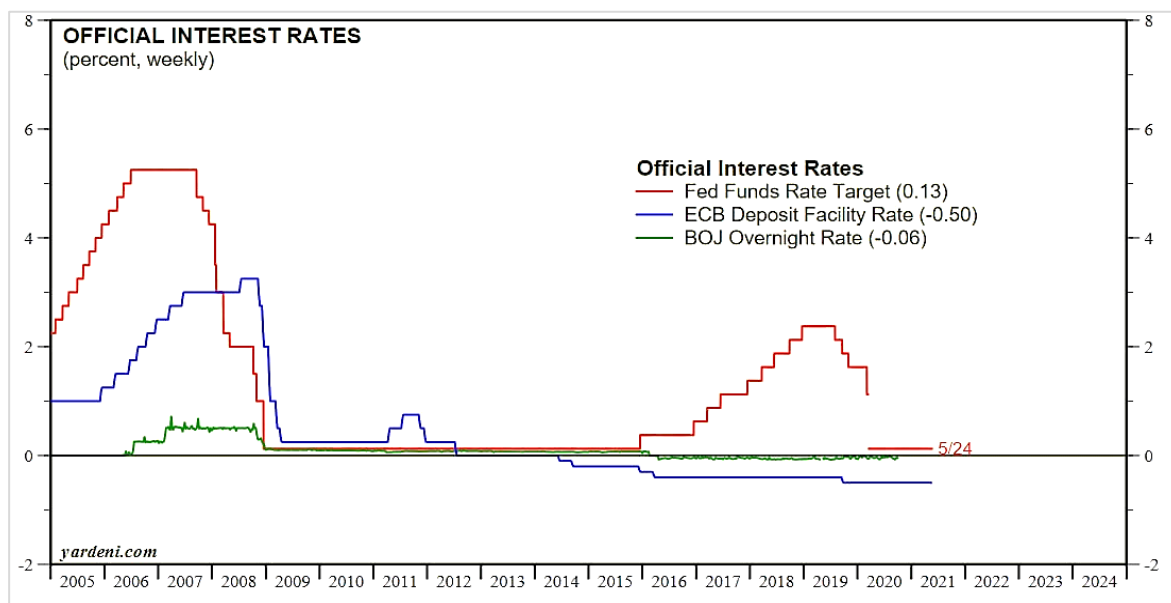
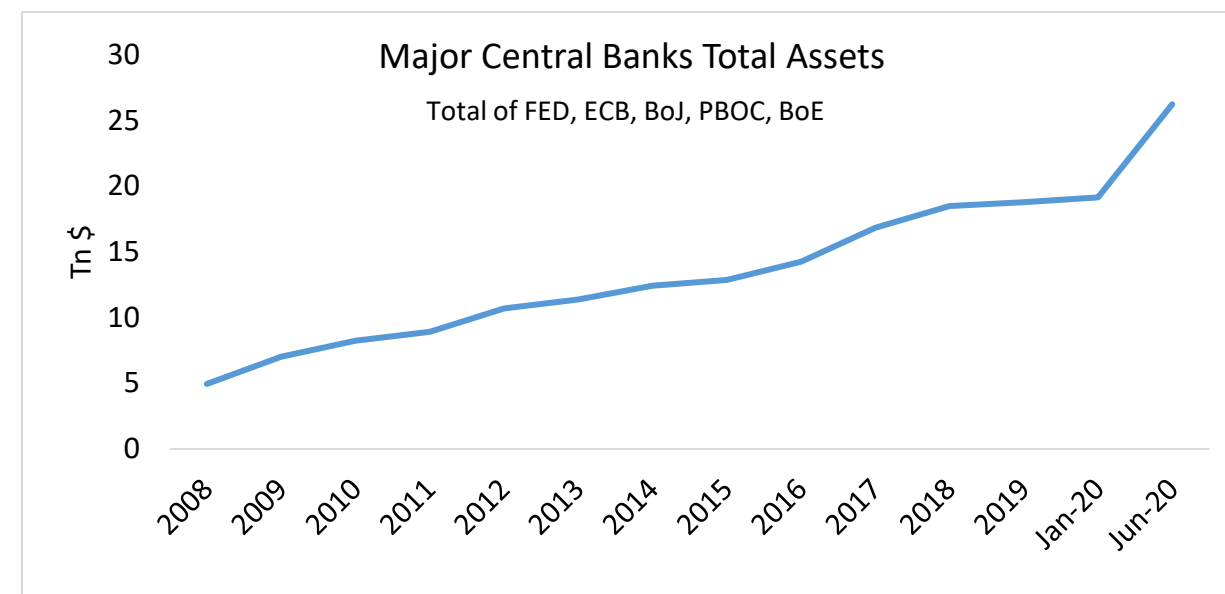
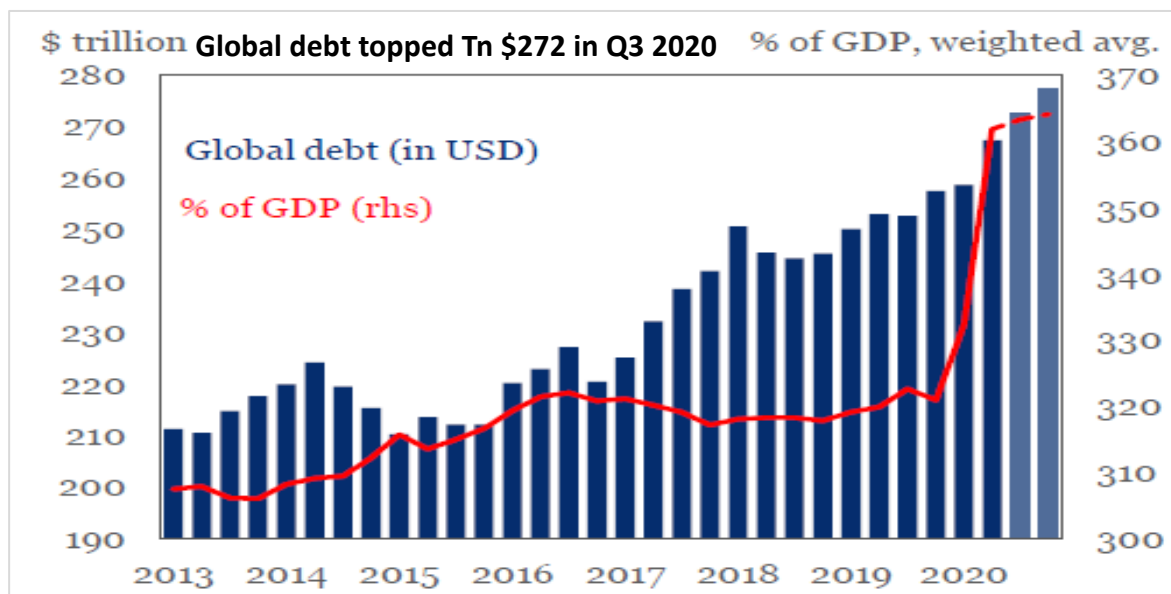


"I've got some bad news & I've got some good news. Nothing lasts forever"
– Kate McGahan

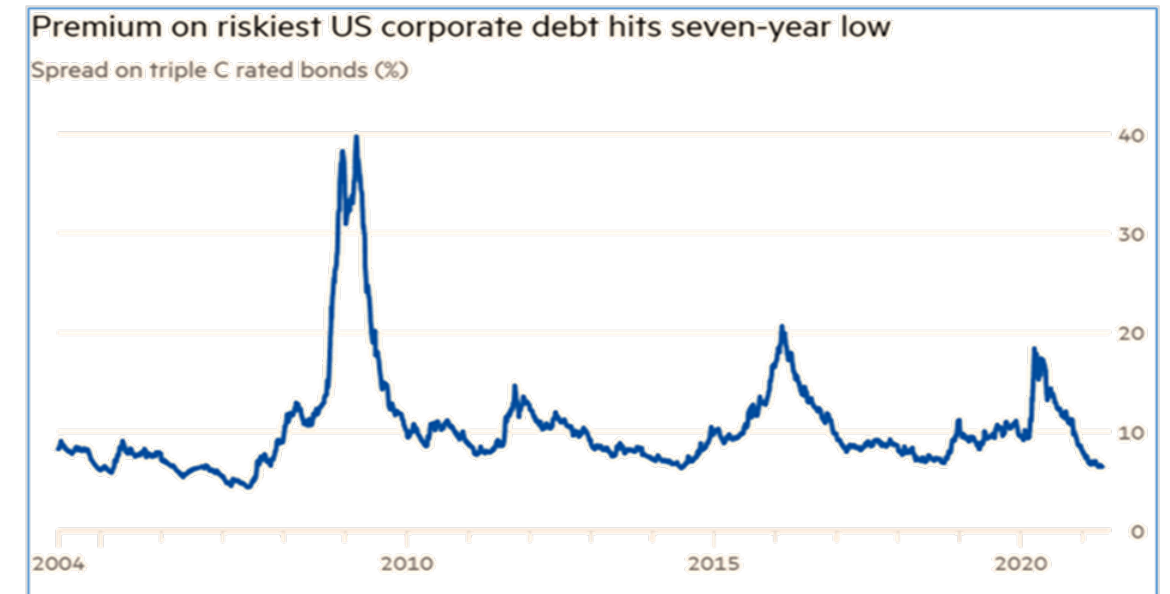
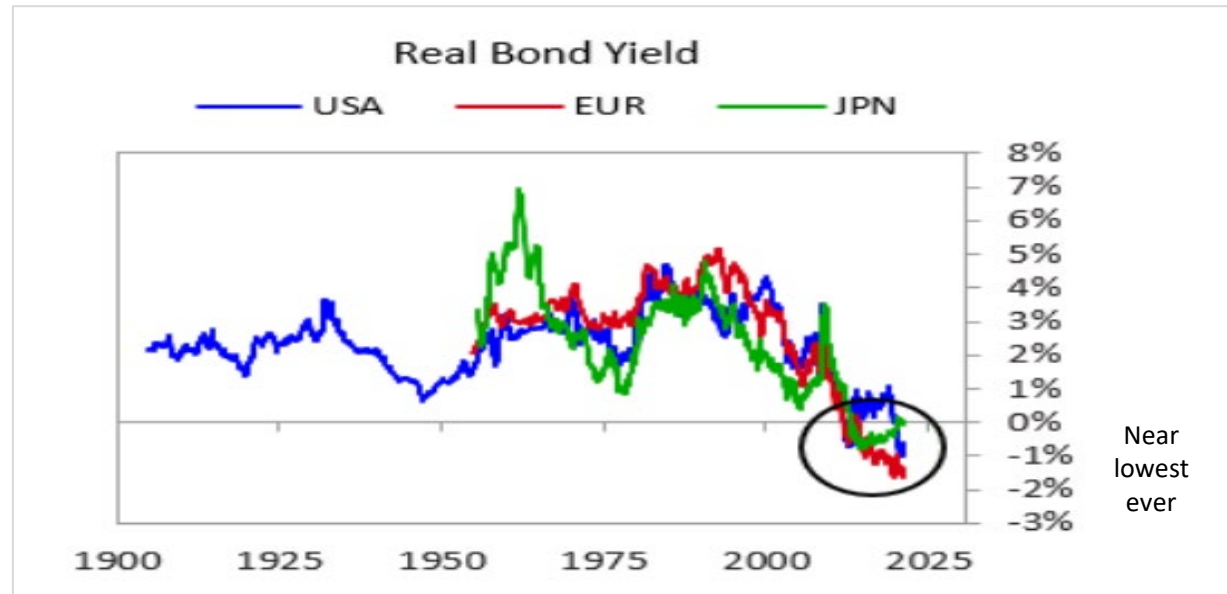
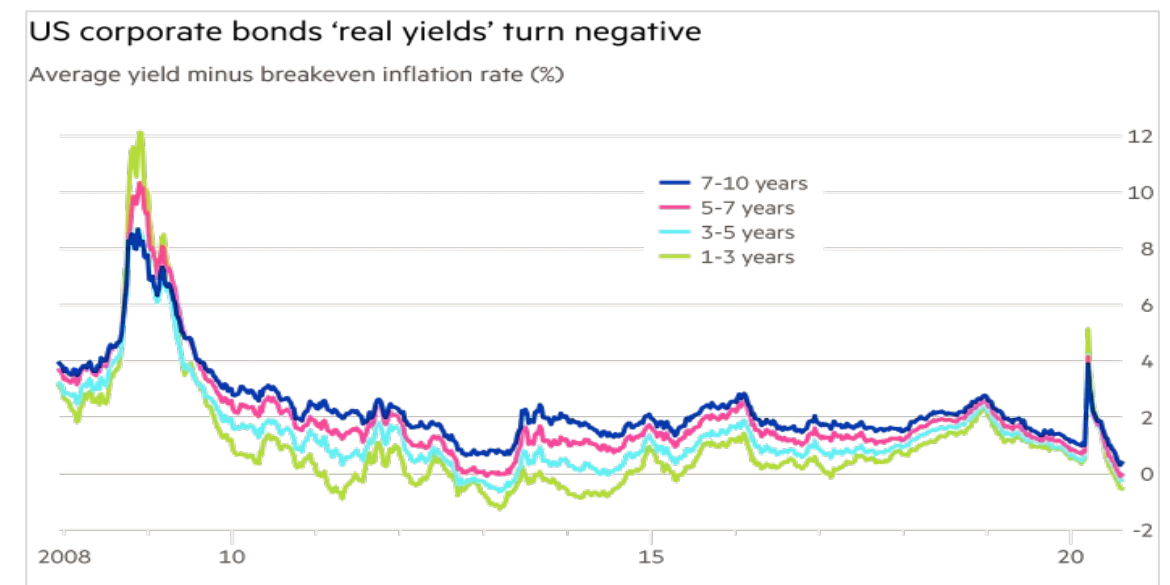
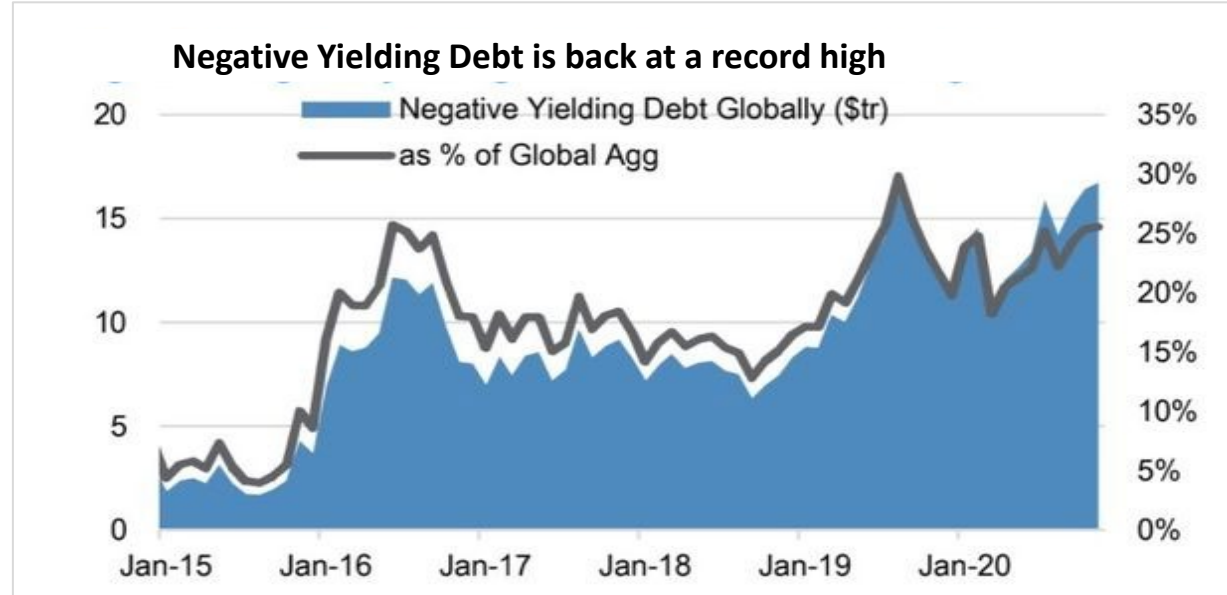
Fed Tightening Usually Ends with a Financial “Event”



Elevated Debt Levels & Rock Bottom Interest Rates



Negative Bond Yields & Currency Interplays : Supply or Price, but not Both?

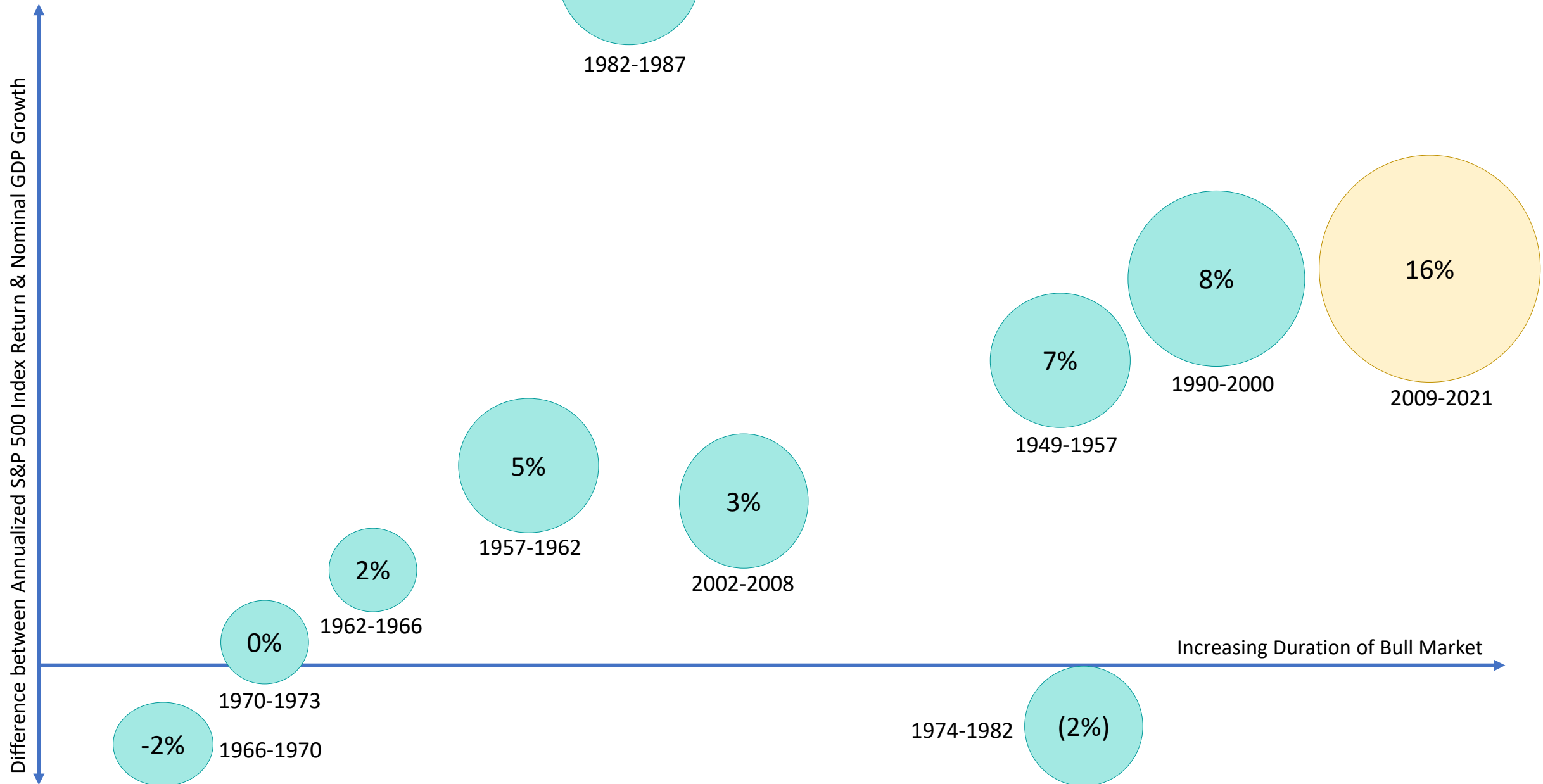


Global Valuations

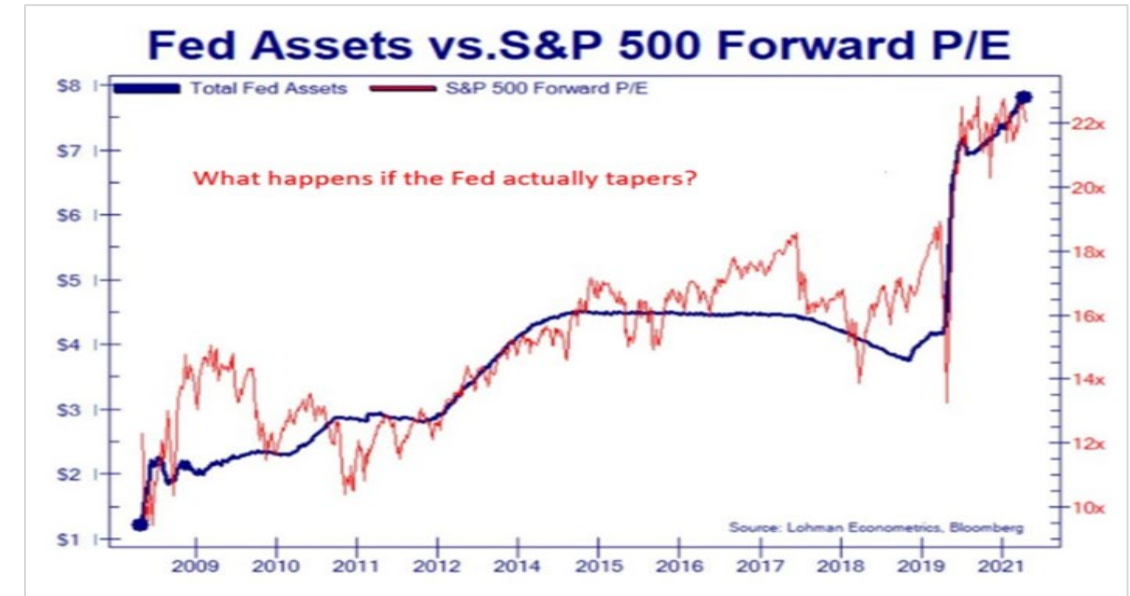
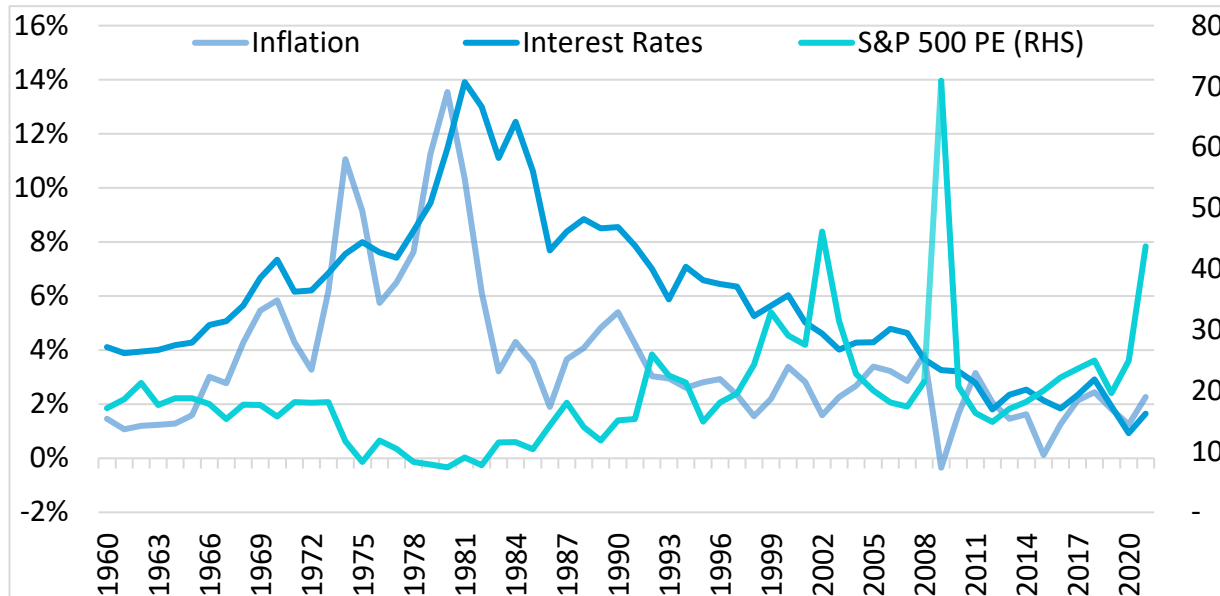
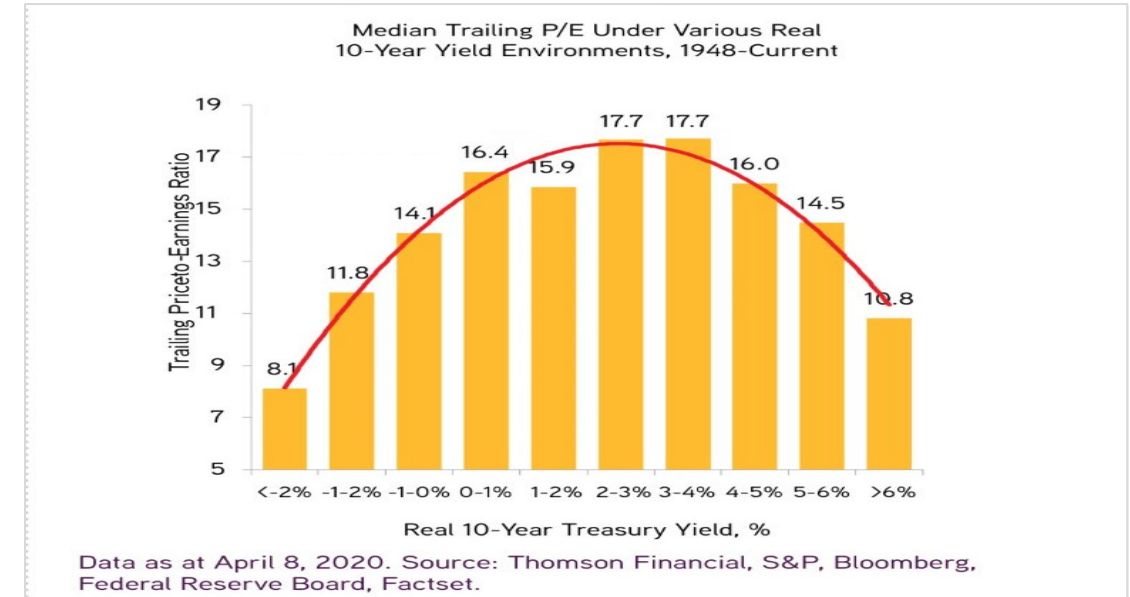
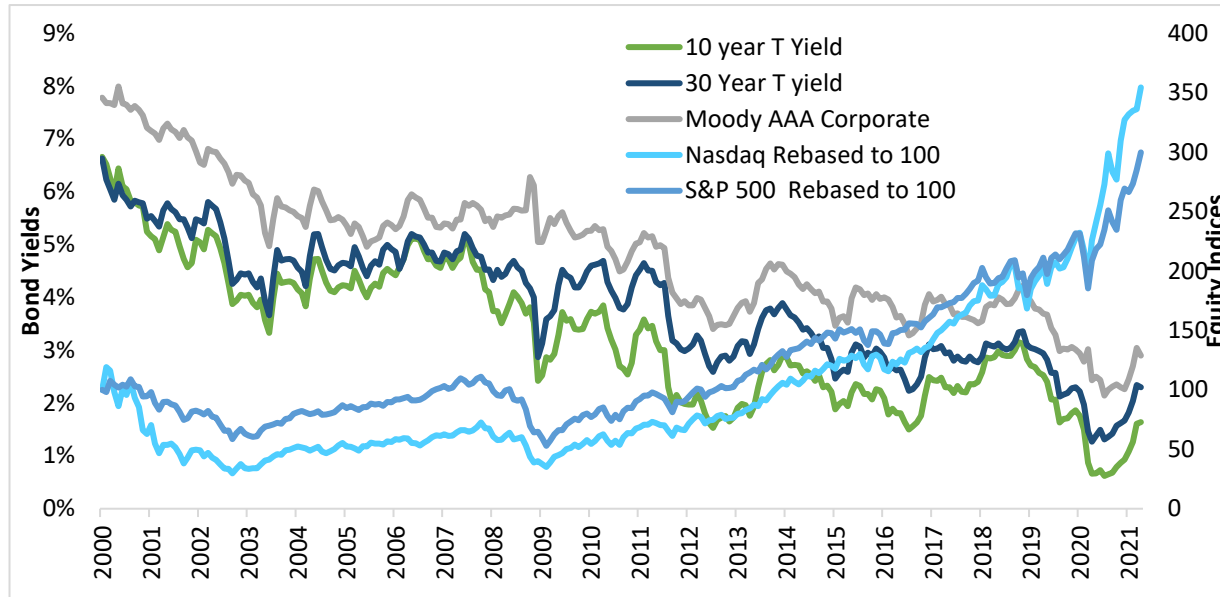


"Losing your head in a crisis is a good way to become a crisis" - C.J. Redwine

Scale of Historic Bull Runs



Significant Role of Interest Rates in Current Valuations

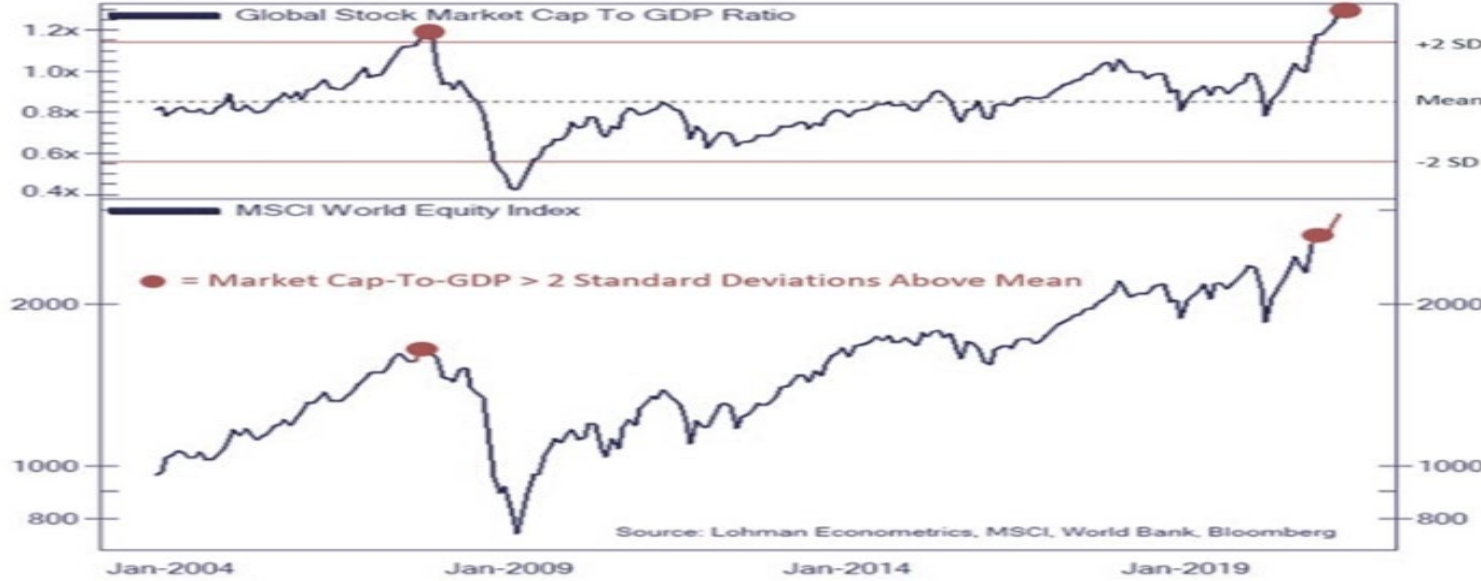


Note : 2021- inflation as projected by FRED, Interest Rates & S&P 500 PE as of April 2021

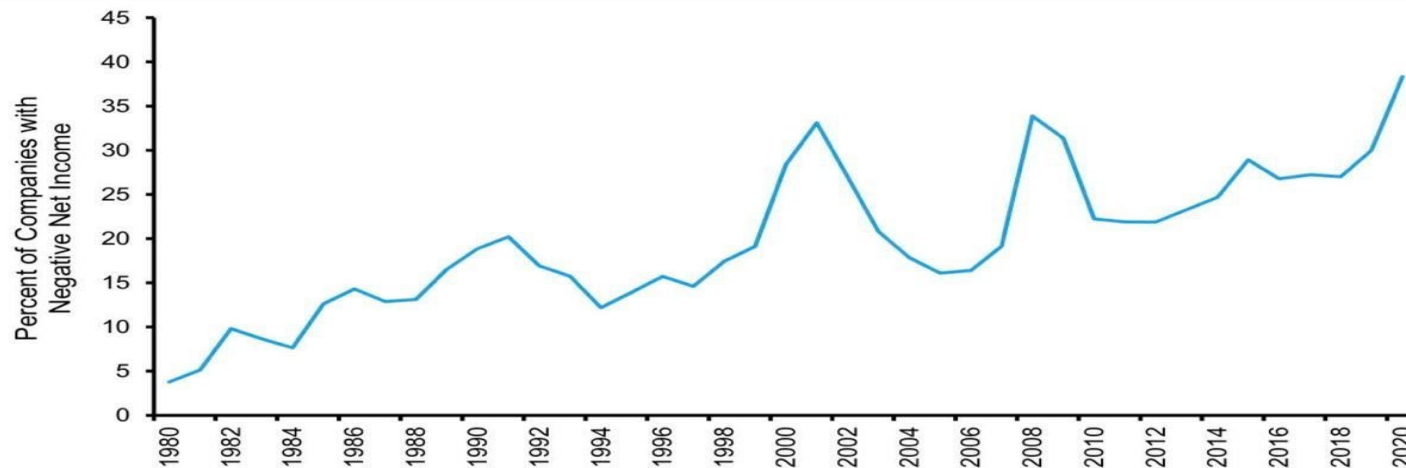
Source : FRED, Thomson Financial, S&P, FactSet, Bloomberg, Lohman Econometrics

Low Future Rates Embedded in High Current Valuations

Global Stock Market Value Relative to GDP

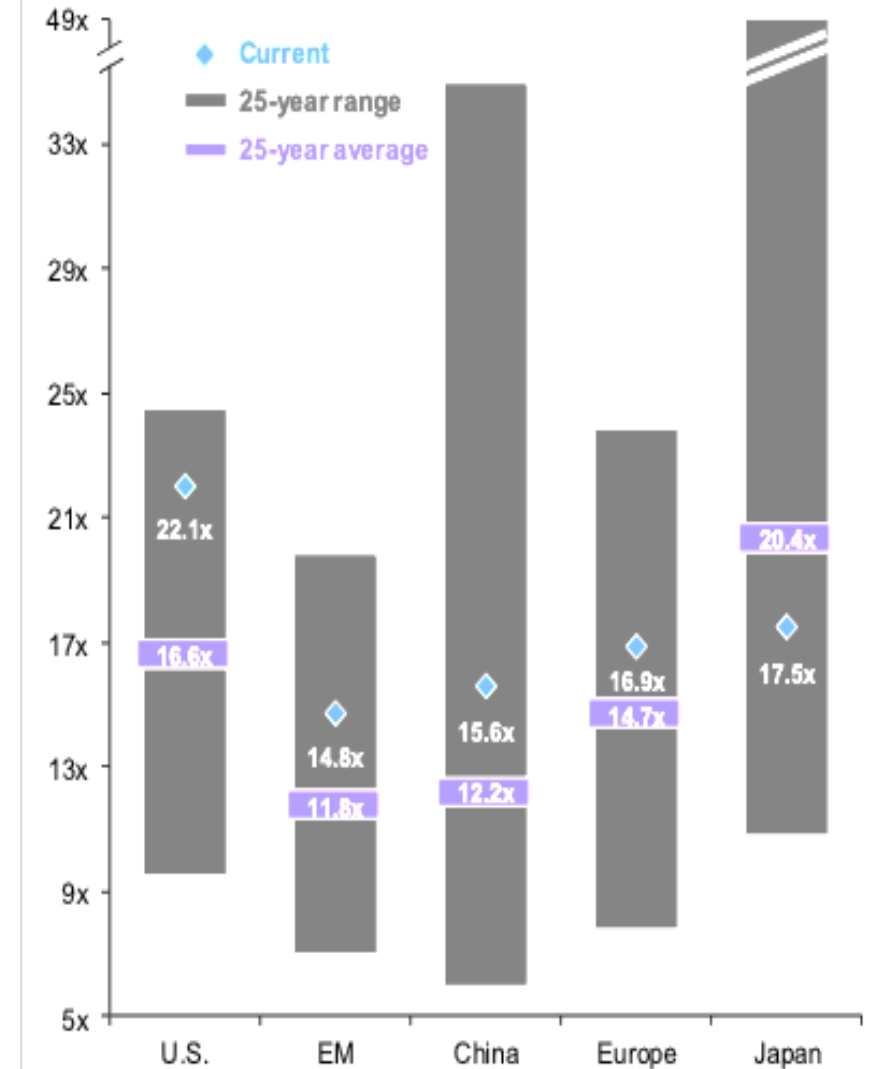


Percentage of Companies in the Russell 3000 with Negative Net Income, 1980-2020



Global valuations

Current and 25-year next twelve months price-to-earnings ratio



How to Spot Bubbles & Busts

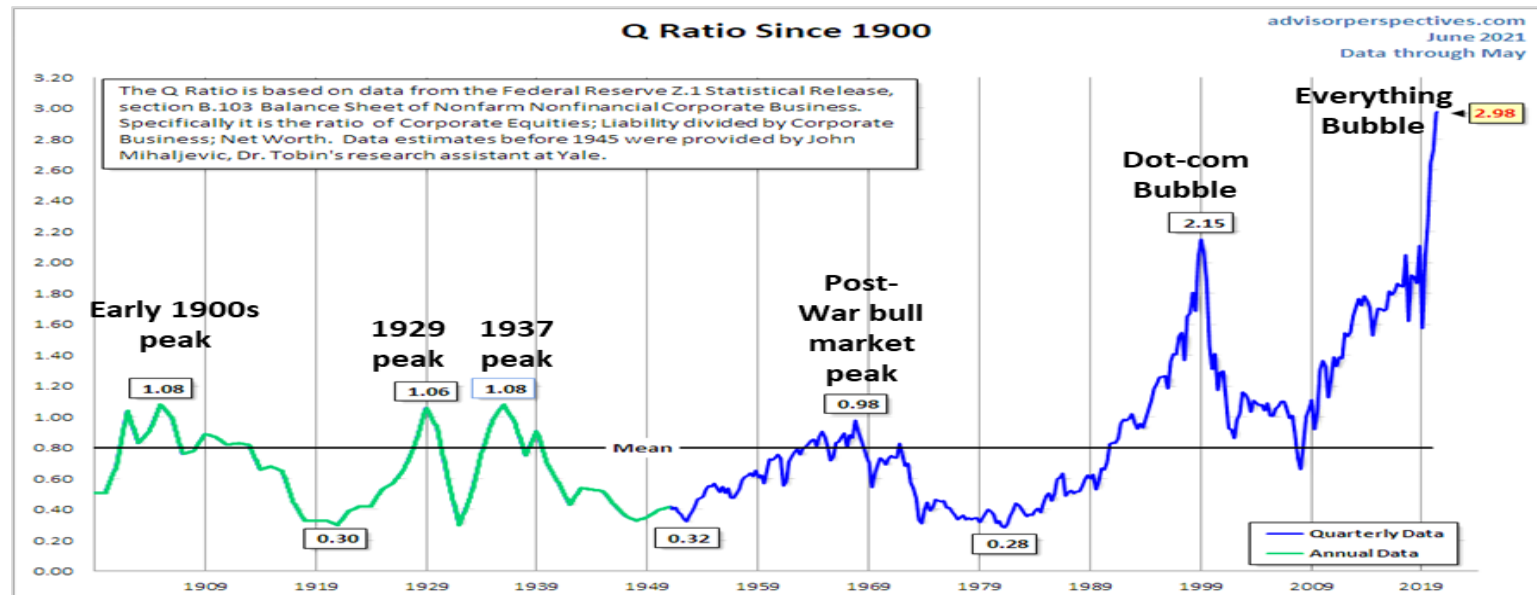
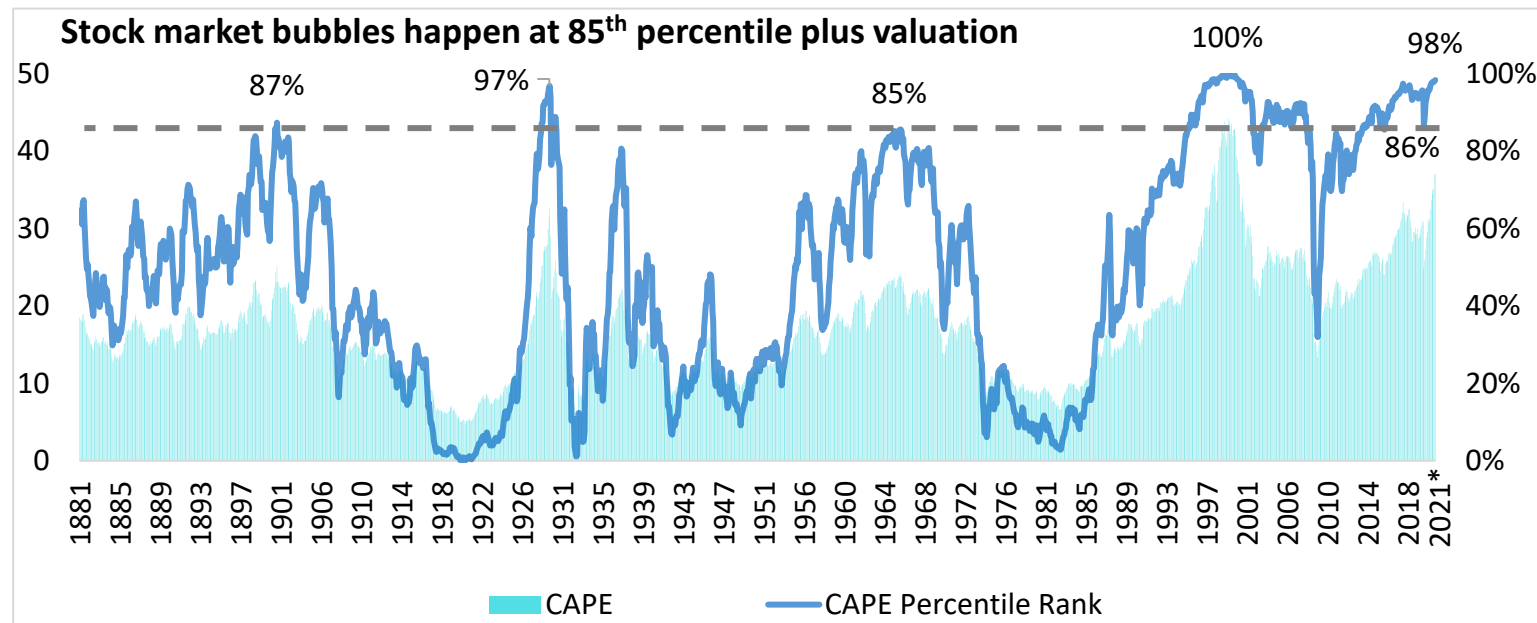


Source : WSJ

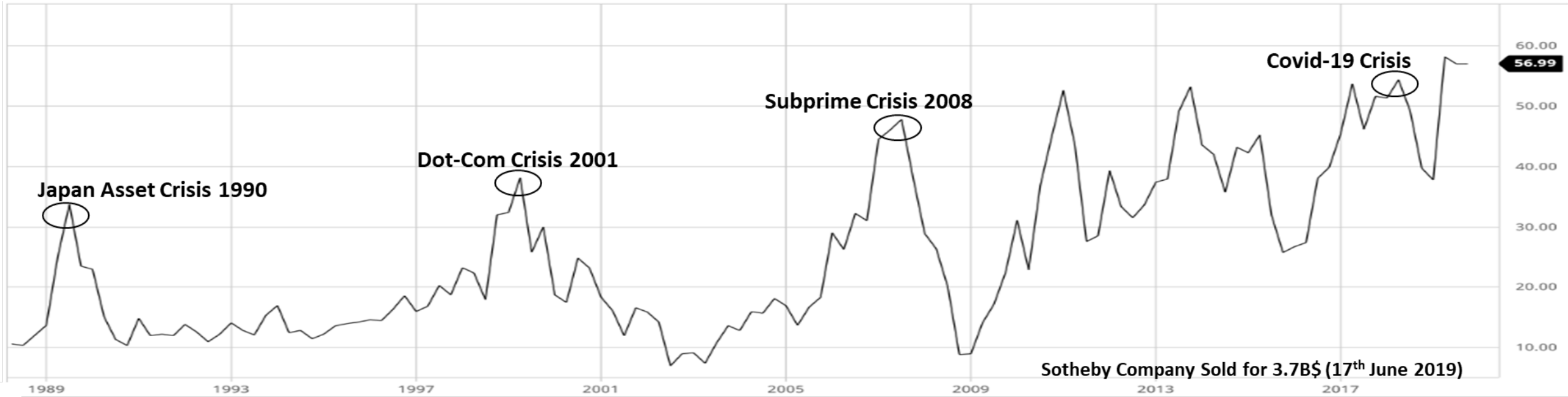
The Hardest Bubble to Spot is the One You are in..



Easy Money & Congenial Interest Rates are Necessary Conditions for Bubbles



Signs of Excesses



Time taken to reach \$1tn Mcap

Microsoft – 44 yrs.
Apple – 42 yrs.
Amazon – 24 yrs.
Google – 22 yrs.

Time taken to lose \$1tn Value

Cryptocurrencies – 1 day (May 12th 2021)

Magnitude of the move in AMC Entertainment

Berkshire Hathaway is up 61x over last 30 yrs.

Amazon is up 60x over the last 14 yrs.

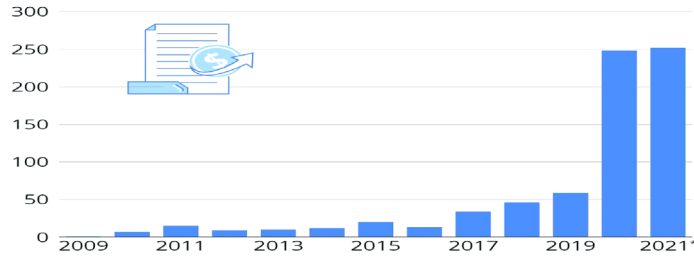
AMC Entertainment is up 63x YTD



An Excess of Excesses ! Low Interest Regime Leading to Asset Reflation

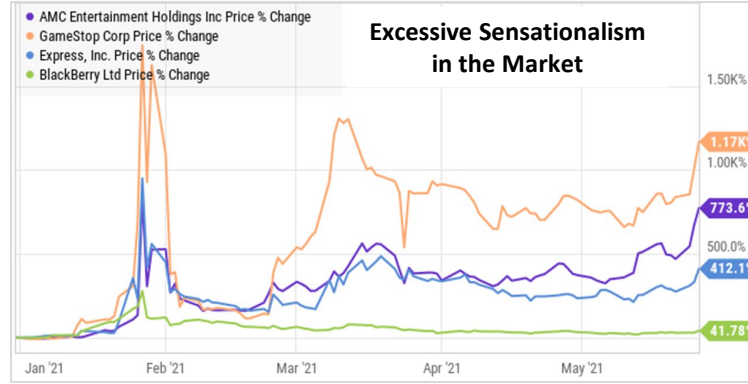
SPAC Boom in the US

Number of SPAC IPOs in the US (2009-March 2021)

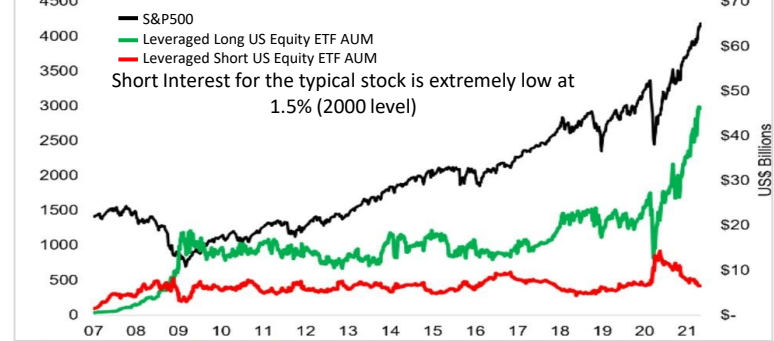


* as of March 11, 2021

Excessive Sensationalism in the Market

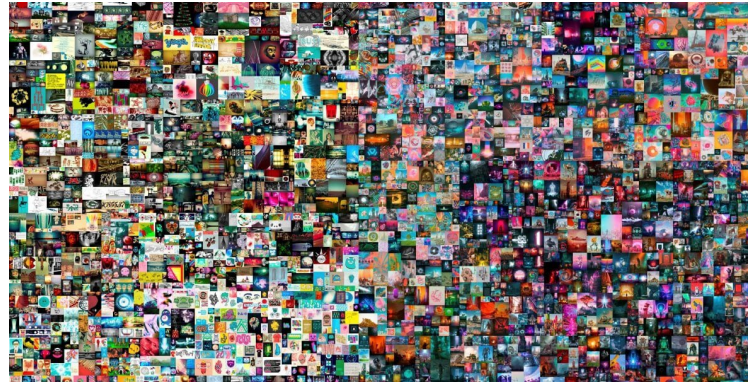
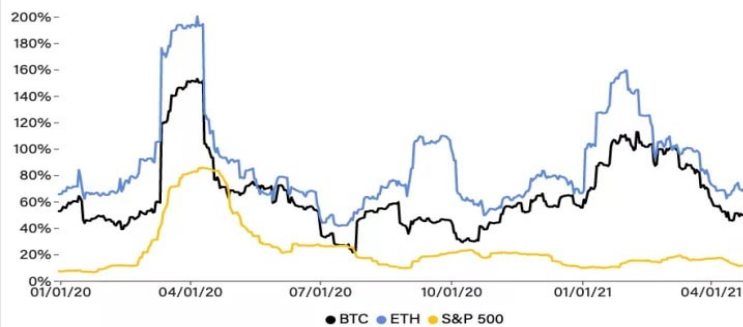


US Equity ETF AUM: Leveraged Long vs Short

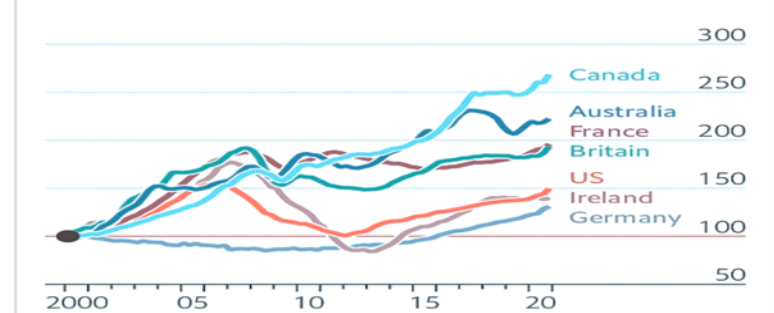


Short Interest for the typical stock is extremely low at 1.5% (2000 level)

Bitcoin, ETH, SPX 30d Volatility of Daily Log Returns

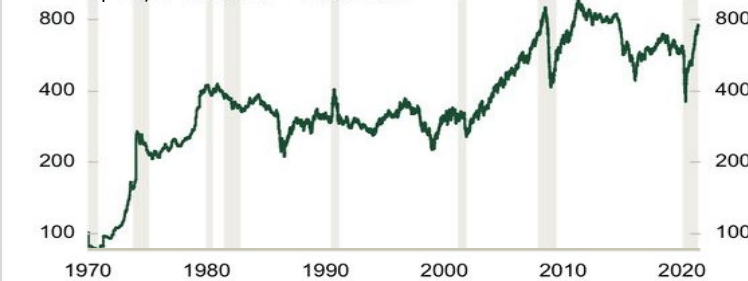


Through the Roof: Real House Prices, base Q1 2000=100

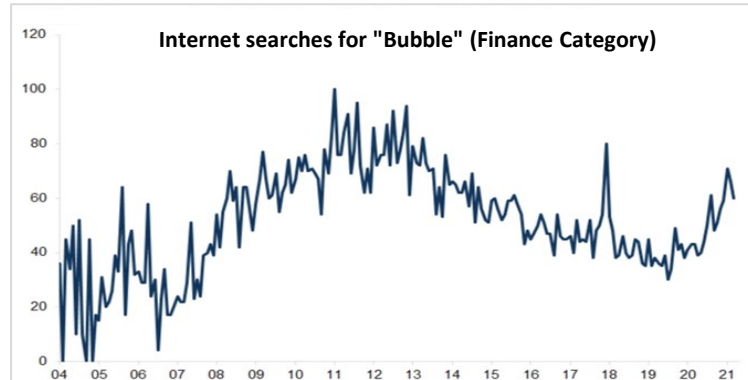


Commodity Prices

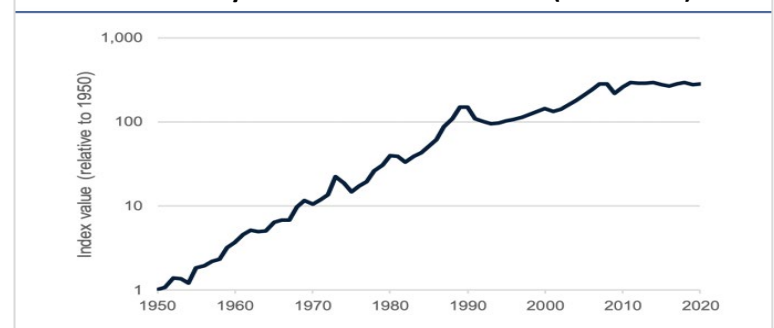
MRB Commodity Price Index (MRB Weighted Average of CRB Spot price index and Brent Oil price)



Internet searches for "Bubble" (Finance Category)

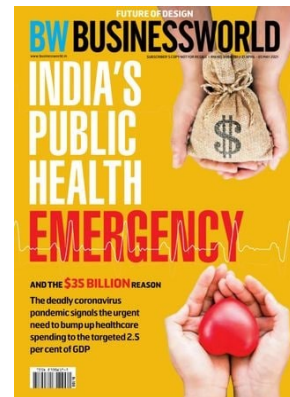
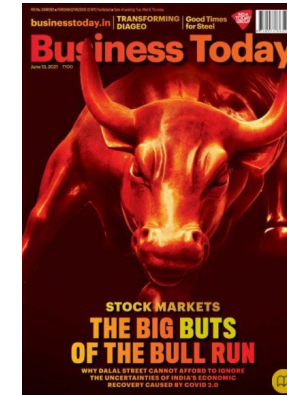


The Sotheby's MEI Moses All Art index (1950-2020)



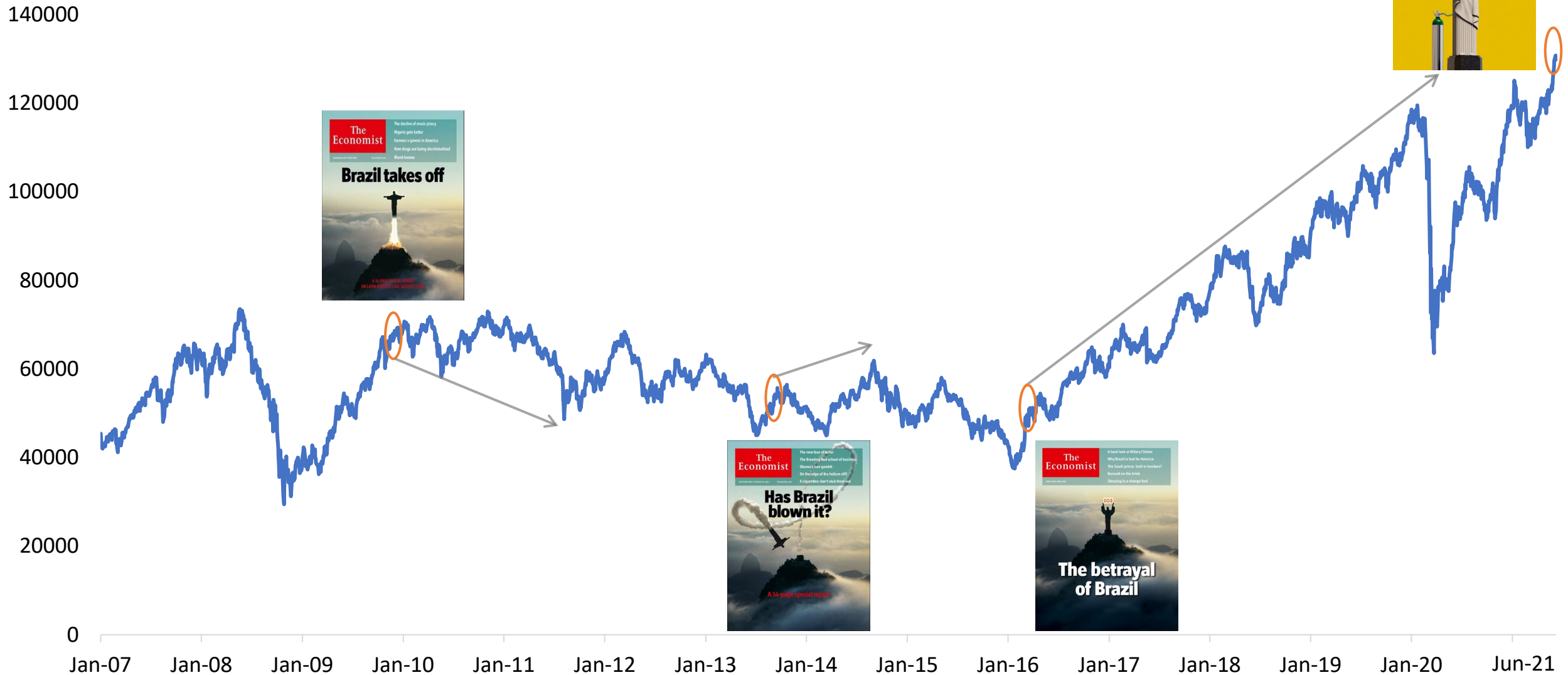
Vantage Points : Liquidity Dependent, Inherently Interconnected and a Complex Adaptive System

Microeconomics	
Credit Criteria	Hunt for yield, Lower spreads on historically low rates
Collateral / Credit	Inflated asset prices, High LTV
Hot Money	Indexing, Leverage implied by derivatives
Macroeconomics	
Financial Innovation	SPACs, Exotic ETFs & derivatives,
Cheap / Excessive Money	High volume, low cost debt
Moral Hazard	Loose monetary policy, Taper tantrum
Psychology	
Conspicuous Consumption	High real estate price, NFT
New-Era Thinking	Cryptocurrency, Digital Art & Space, Work From Home
Politics	
Supply / Demand Manipulation	Tariffs, Shipping bottlenecks, Semiconductor shortage, Commodity boom
Regulatory Shift	Global minimum tax, Tech regulation
Biology	
Amateur Investors	Gamification of stock market, lockdown pass time, Stimulus cheques
Leadership View	Transient inflation, Low interest rates, Debt monetization
Popular Media	Social Media, Reddit, Twitter




Market Discounts Future, not Past!

BOVESPA Index, Brazil (Brazilian Real)



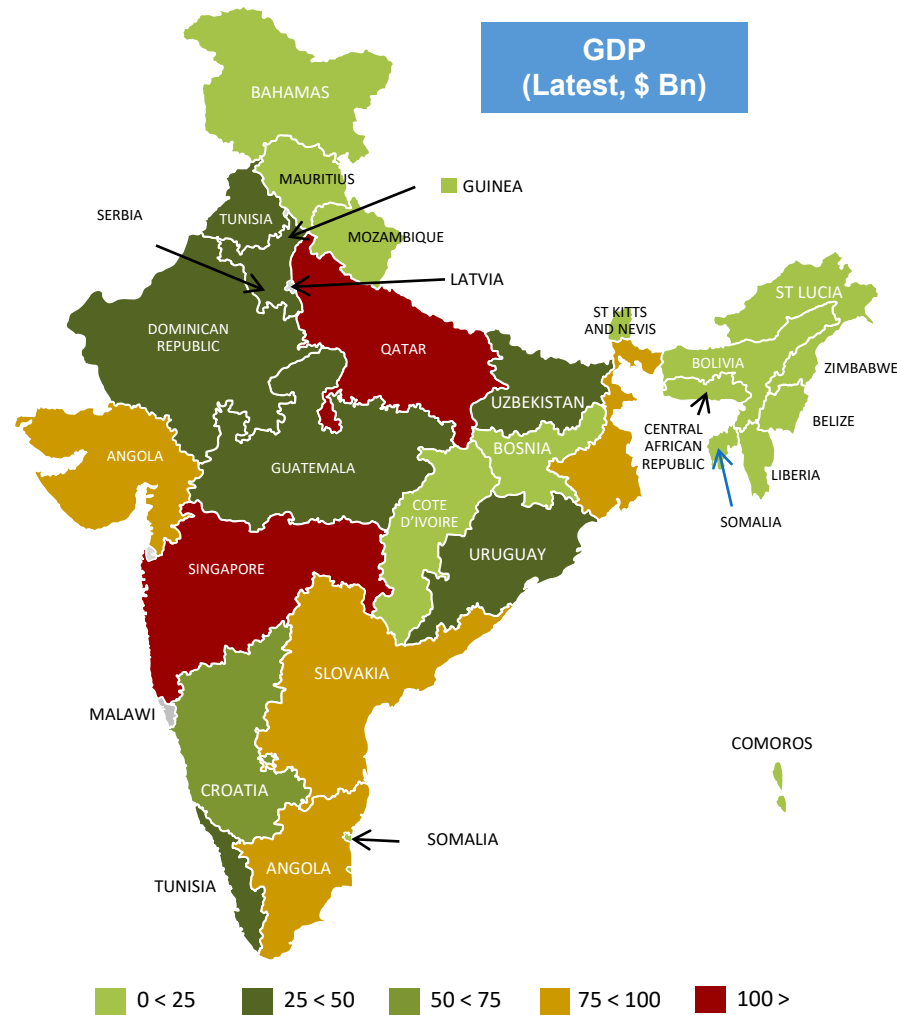
Long term Drivers in Place for India

A photograph of the Vivekananda Library building at FLAME University. The building is a modern structure with a light-colored, textured facade and large glass windows. The name "Vivekananda" is visible on the upper part of the building. In front of the building is a courtyard with a green lawn and a red, geometric sculpture. The sky is clear and blue.

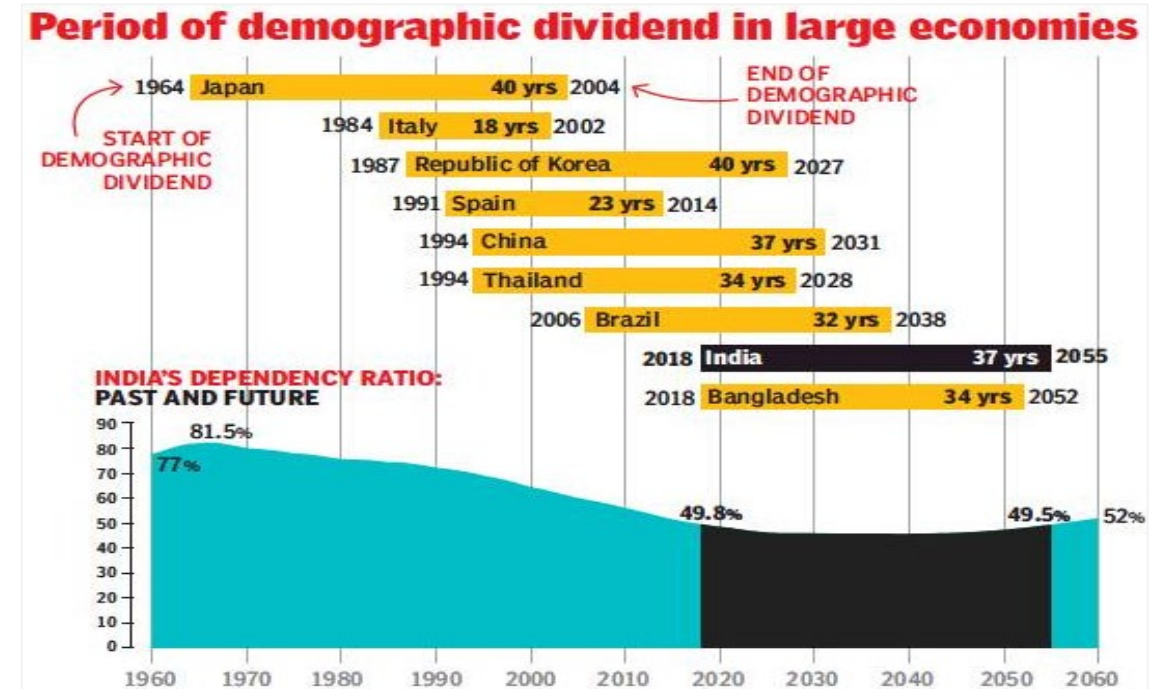
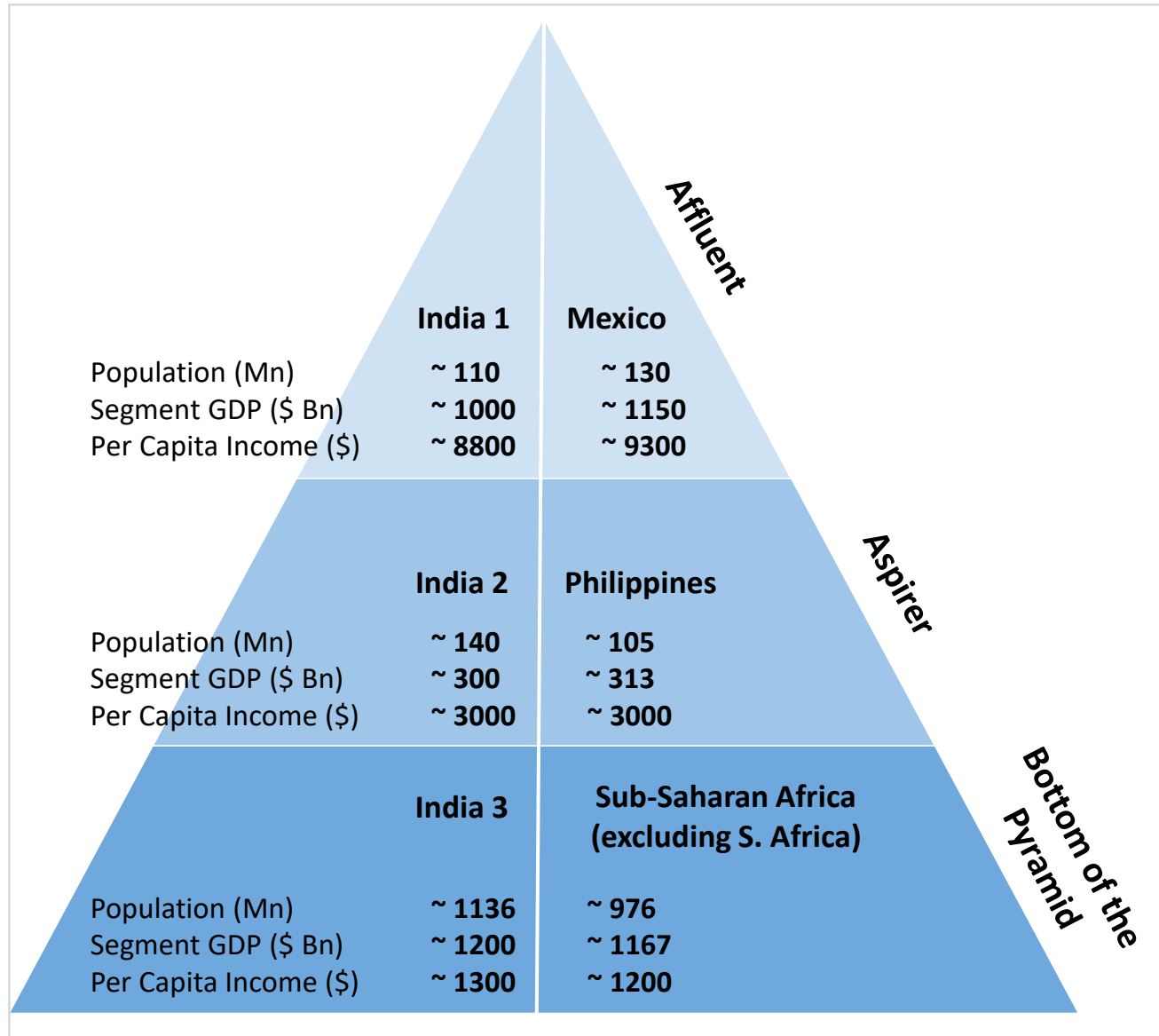
"We are proud of 3 Ds : Democracy, Demographic Dividend and Demand"

- Narendra Modi

India : Country of Countries, Large Population, Large Domestic Market, Poor GDP per Capita, but on the Path of Progress & Growth

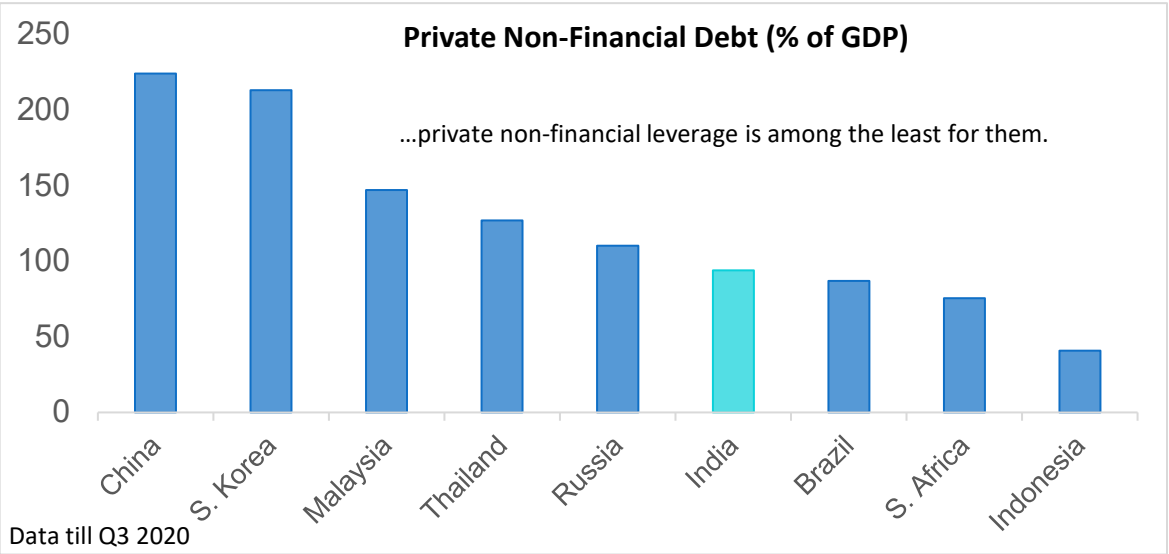
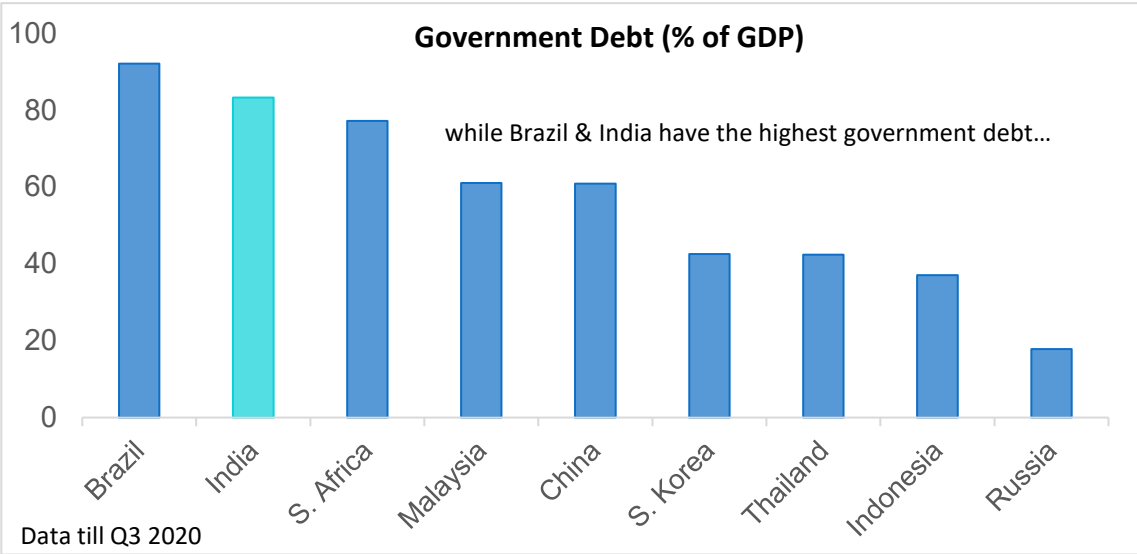
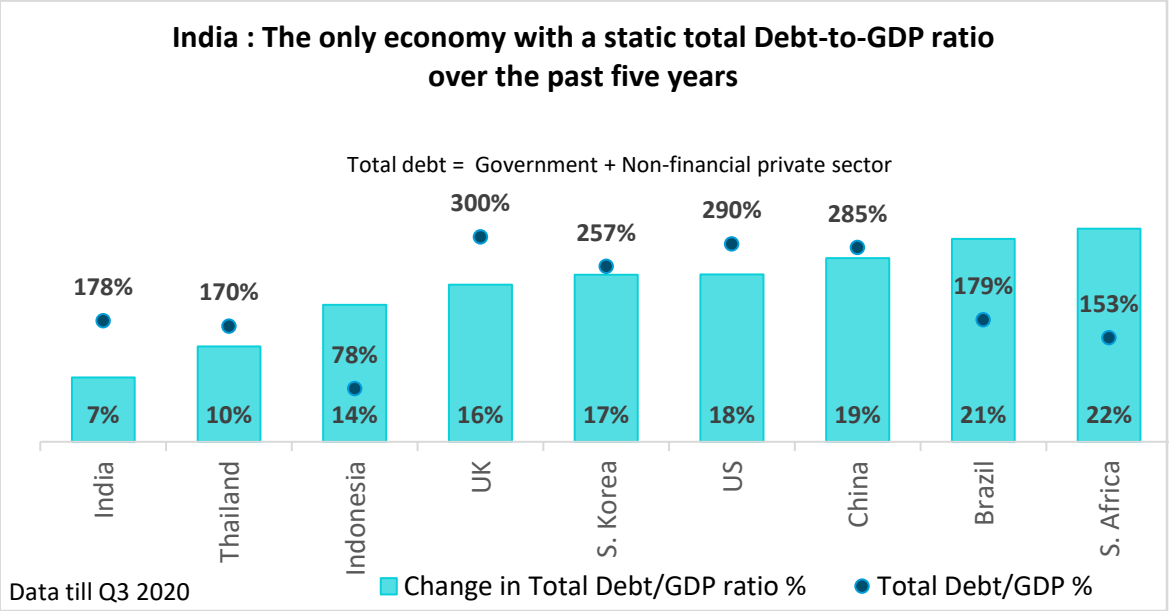
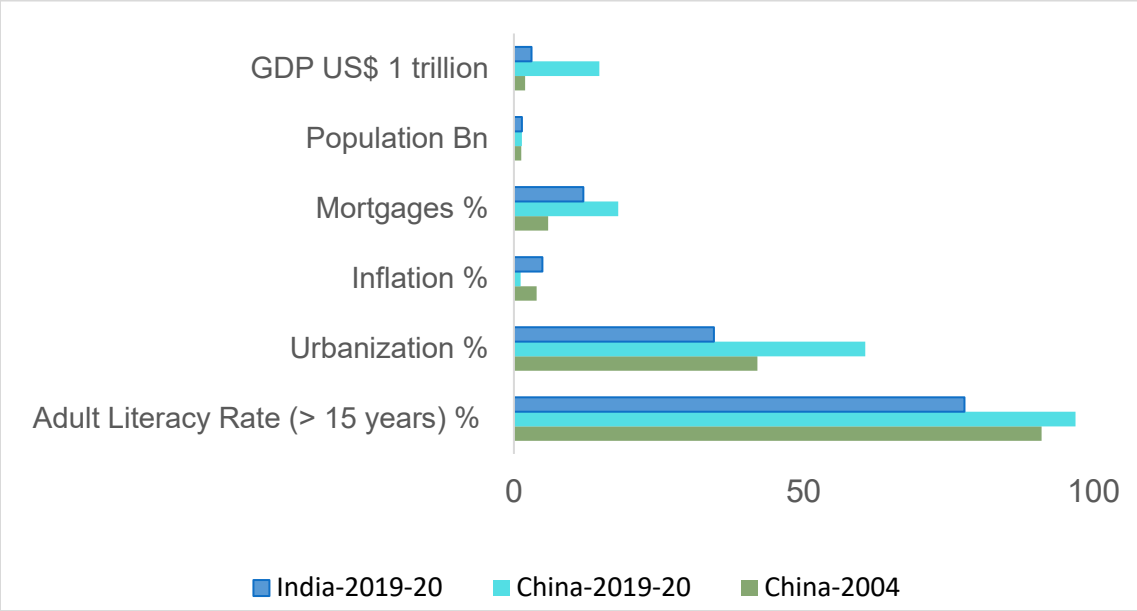


Decoding India's Consumption Story

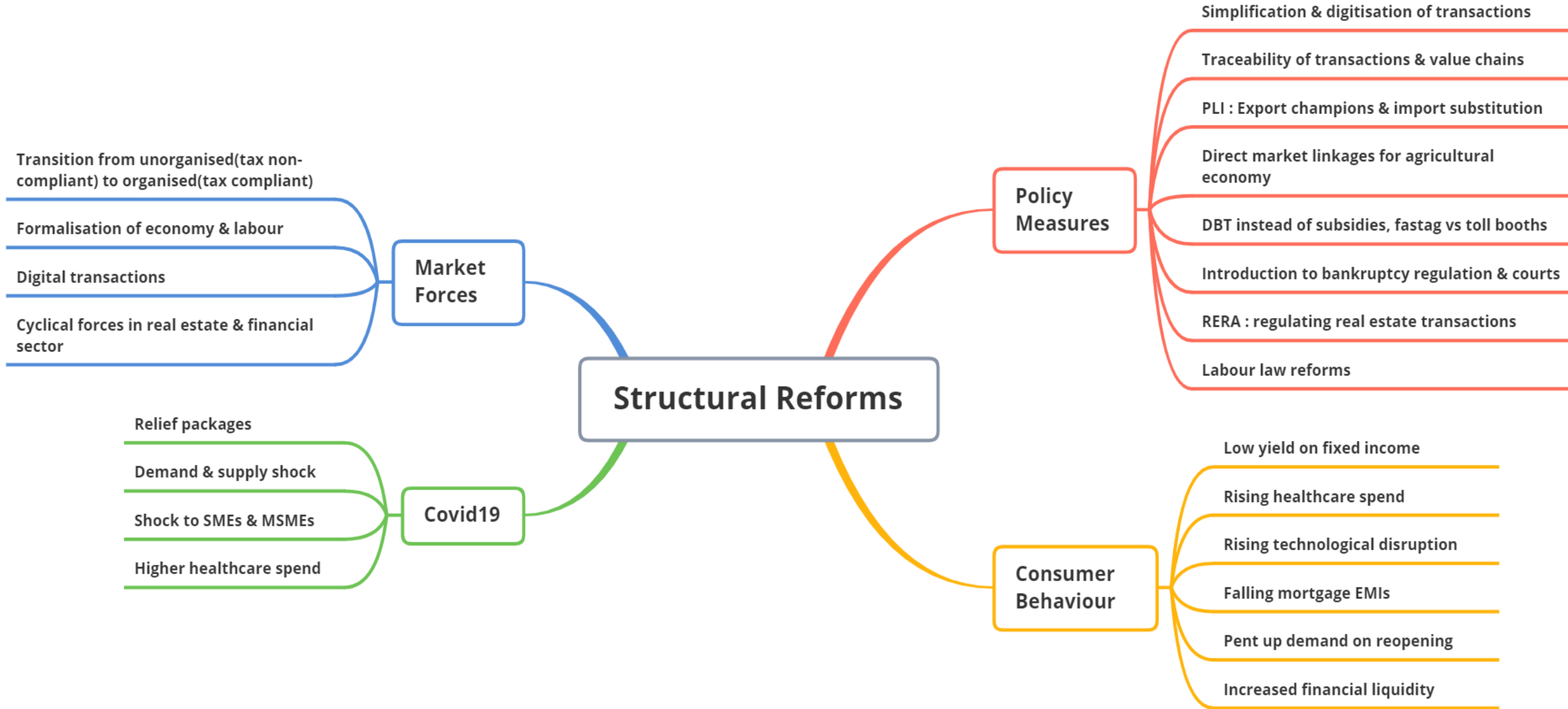


	China	India	Indonesia	US
Population (Mn)	1,440	1,366	272	330
Population mix				
- Boomers	23%	13%	14%	28%
- Gen X	25%	18%	21%	20%
- Millennials	23%	24%	23%	21%
- Gen Z	24%	36%	34%	26%
- Gen Alpha	6%	8%	9%	6%

Debt/GDP Declined in India, Risen in China

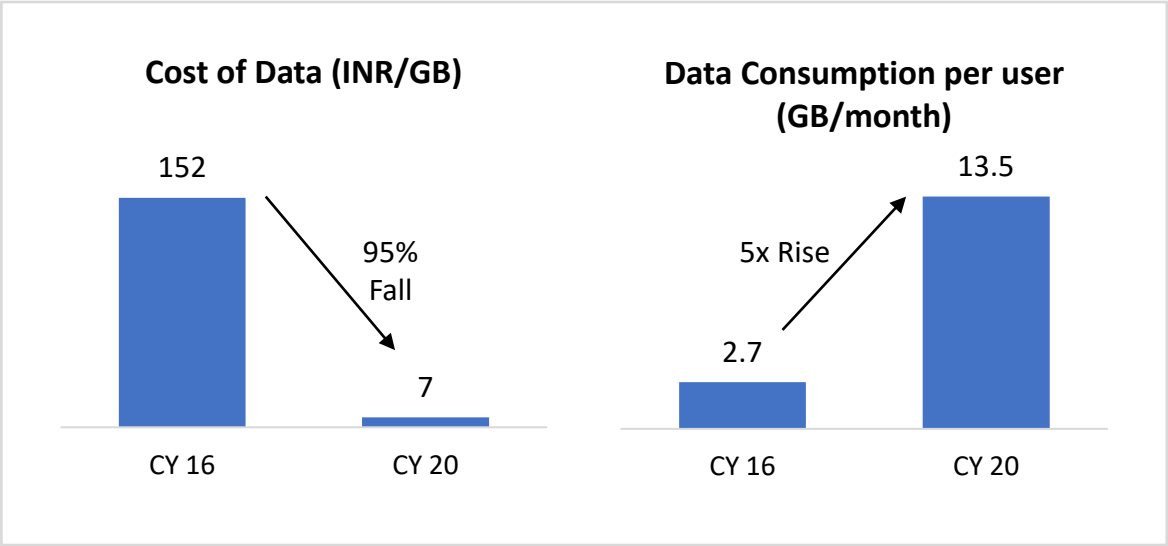
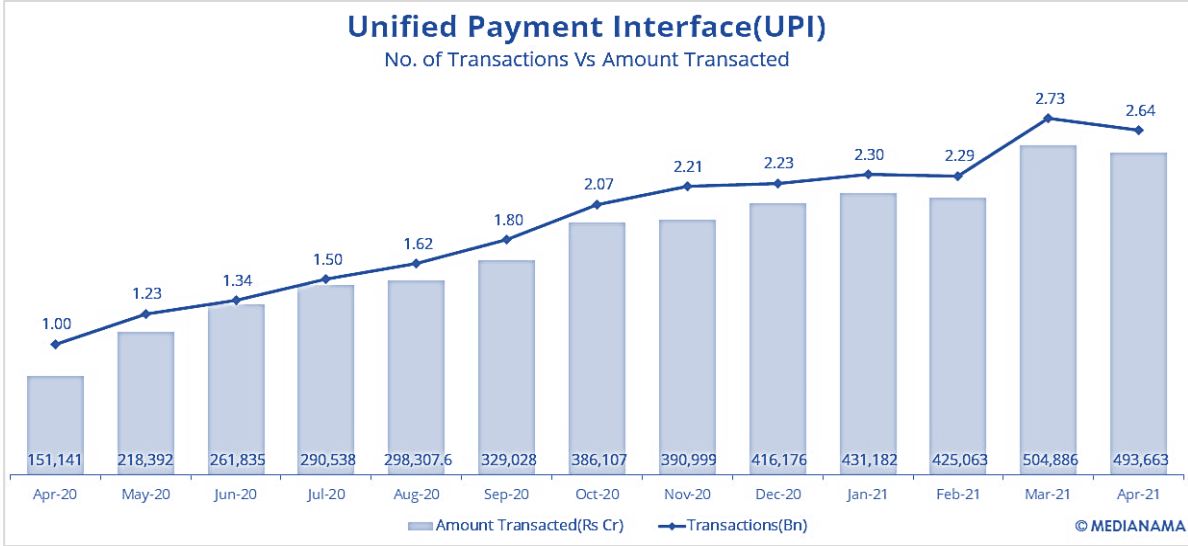
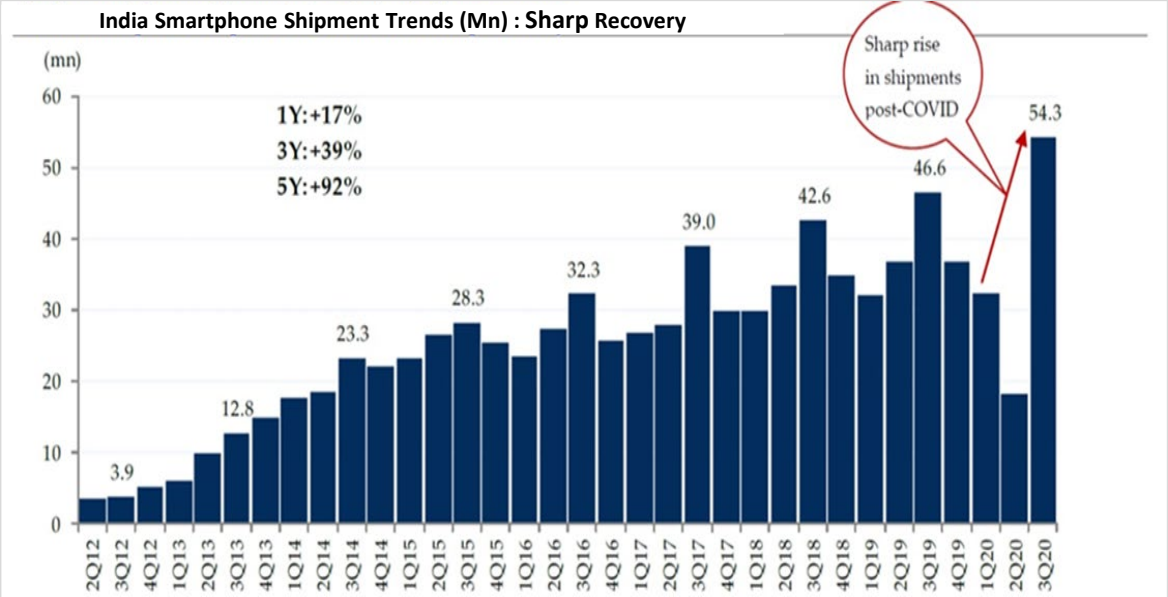


Long-term Drivers in Place



India Stack : Evolving Public Infrastructure & Highways

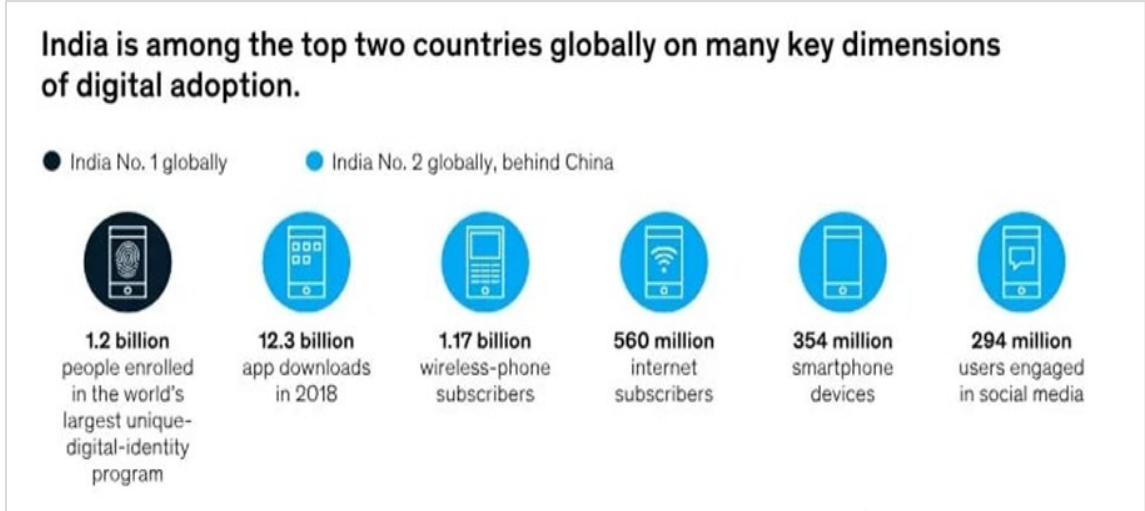
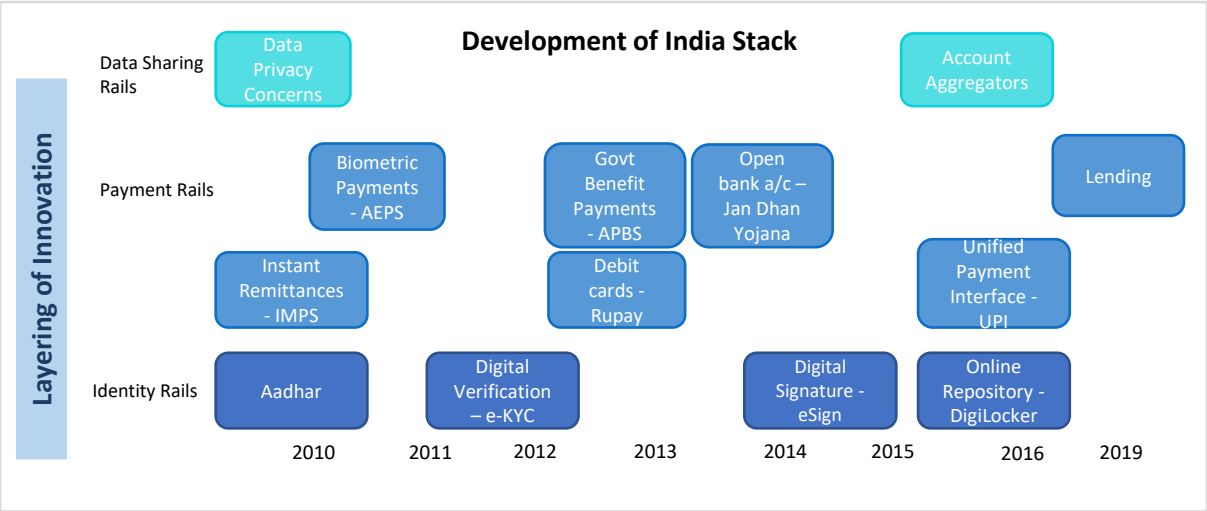
USA vs India Vaccine Certificate



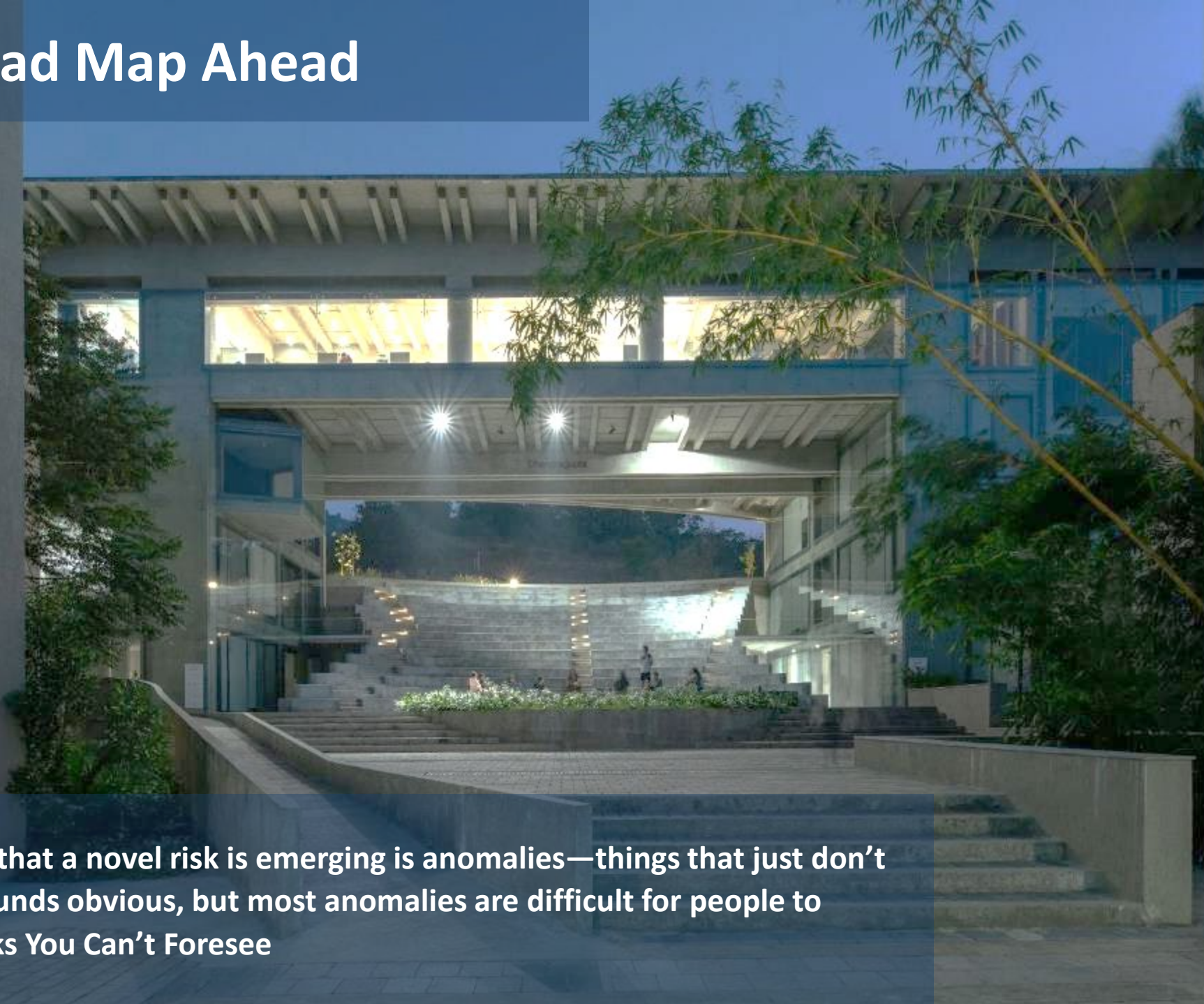
Digitization & Productivity Gains to Drive GDP Growth



INDIA STACK	CONSENT LAYER	Provides a modern privacy data sharing framework	Based on MIT Open Personal Data Store concept
	CASHLESS LAYER	Game changing electronic payment systems & transition to cashless economy	IMPS, AEPS, APB & UPI
	PAPERLESS LAYER	Rapidly growing base of paperless systems with billions of artifacts	Aadhar e-KYC, E-sign, Digital Locker
	PRESENCE-LESS LAYER	Unique digital biometric identity with open access of nearly a billion users	Aadhar Authentication



Road Map Ahead

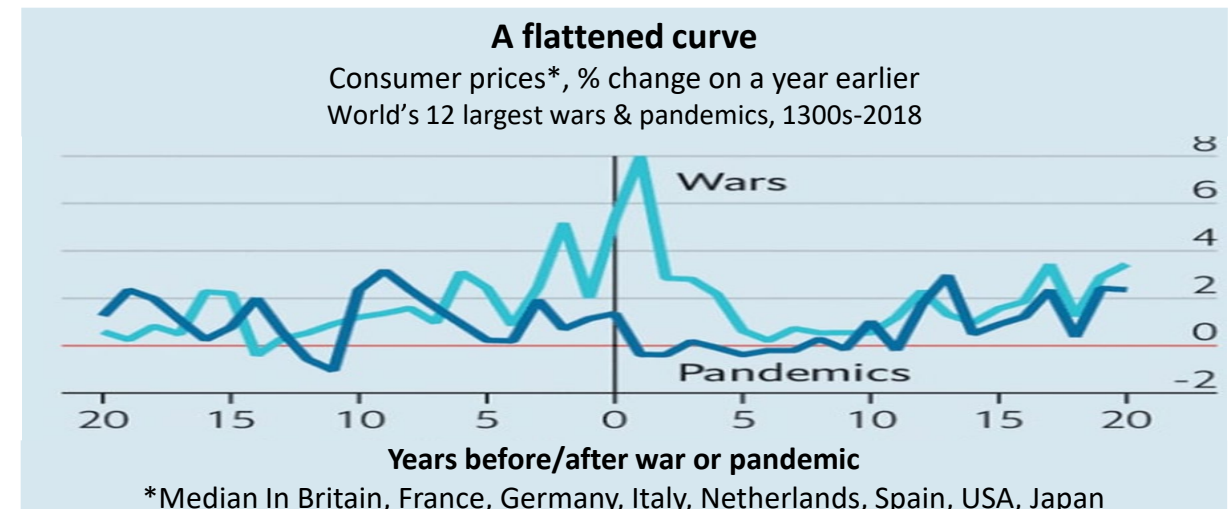
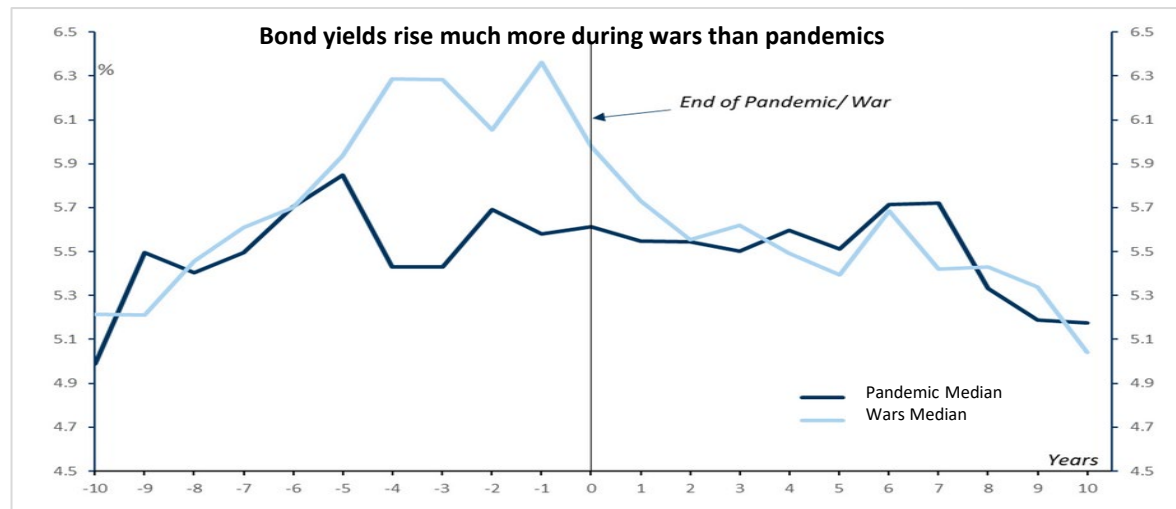


"The clearest signal that a novel risk is emerging is anomalies—things that just don't make sense. This sounds obvious, but most anomalies are difficult for people to recognize."- The Risks You Can't Foresee

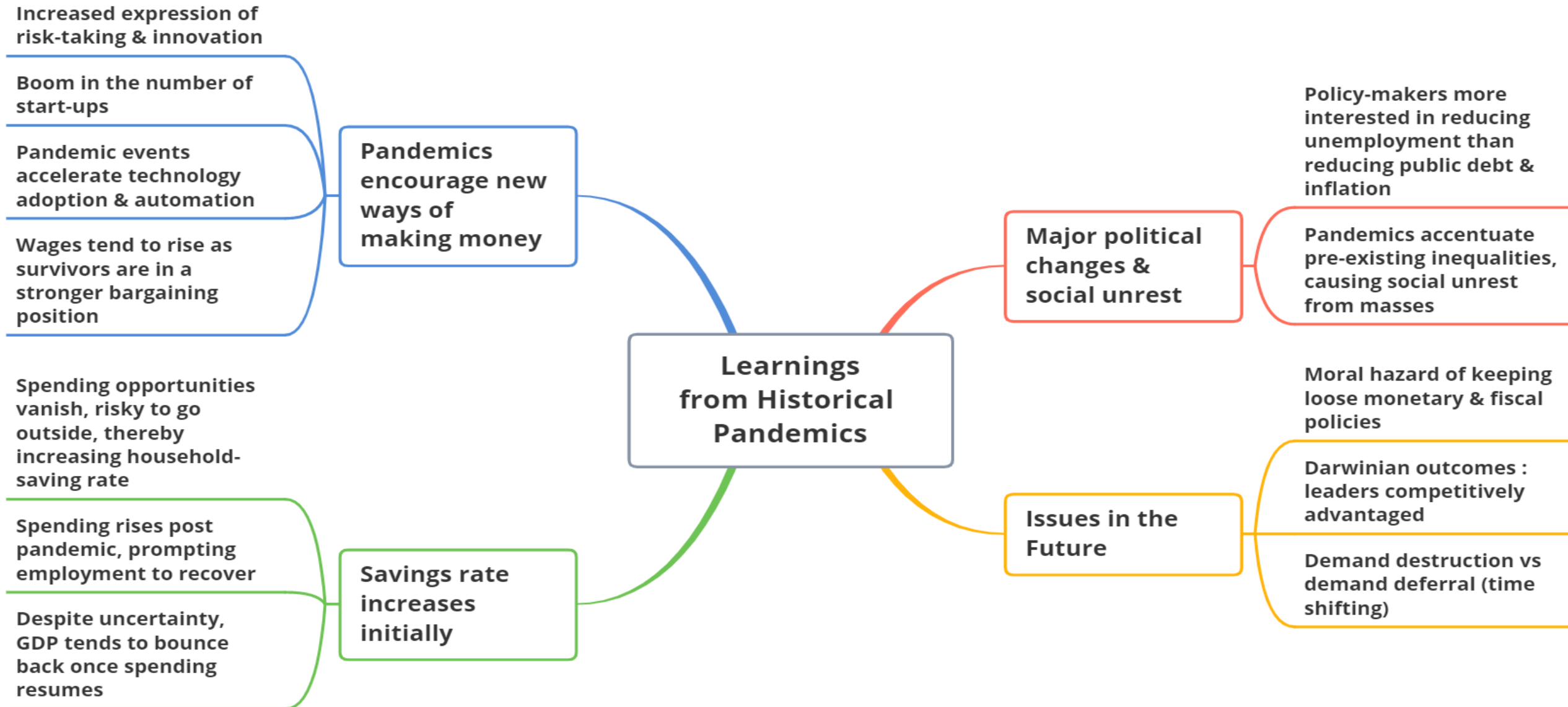
War Destroys Capital Assets, Pandemic makes them Idle (in the Short-Term)

Wars						Pandemics				
No.	Event	Years	Duration	Global	Fatalities*	Event	Years	Duration	Global	Fatalities*
1	World War 2	1939-1945	6	Y	150-250m	Black Death	1331-1353	22	Y	2-3bn
2	World War 1	1914-1918	4	Y	80-120m	Spanish Flu	1918-1920	2	Y	150-200m
3	Thirty Years War	1618-1647	29	Y	70-130m	Plague in Kingdom of Naples	1656-1658	2		15-16m
4	Napoleonic Wars	1803-1814	11	Y	35-45m	Encephalitis Lethargica Pandemic	1915-1926	11	Y	6-7m
5	Seven Years War	1755-1762	7	Y	10-12m	Third cholera pandemic	1848-1854	6	Y	6-7m
6	First English Civil War	1642-1646	4		6-8m	Plague in Spain	1596-1602	6		8-9m
7	Vietnam War	1963-1973	10		5-8m	Asian Flu	1957-1958	1	Y	4.5-5.5m
8	Korean War	1950-1953	3		4-8m	Russian Flu	1889-1890	1	Y	4-5m
9	American Civil War	1861-1864	3		4-6m	Italian plague	1629-1631	2		3-4m
10	Spanish Civil War	1936-1938	2		2-3m	Hong Kong Flu	1968-1969	1	Y	2m
11	Franco-Spanish War	1648-1658	10		2-3m	Great Plague of Seville	1647-1652	5		2m
12	Franco-Dutch War	1672-1677	5		2-3m	Great Plague of London	1665-1666	1		1-1.5m
Avg. Duration			7.8			Avg. Duration			5.0	
Med. Duration			5.5			Med. Duration			2.0	

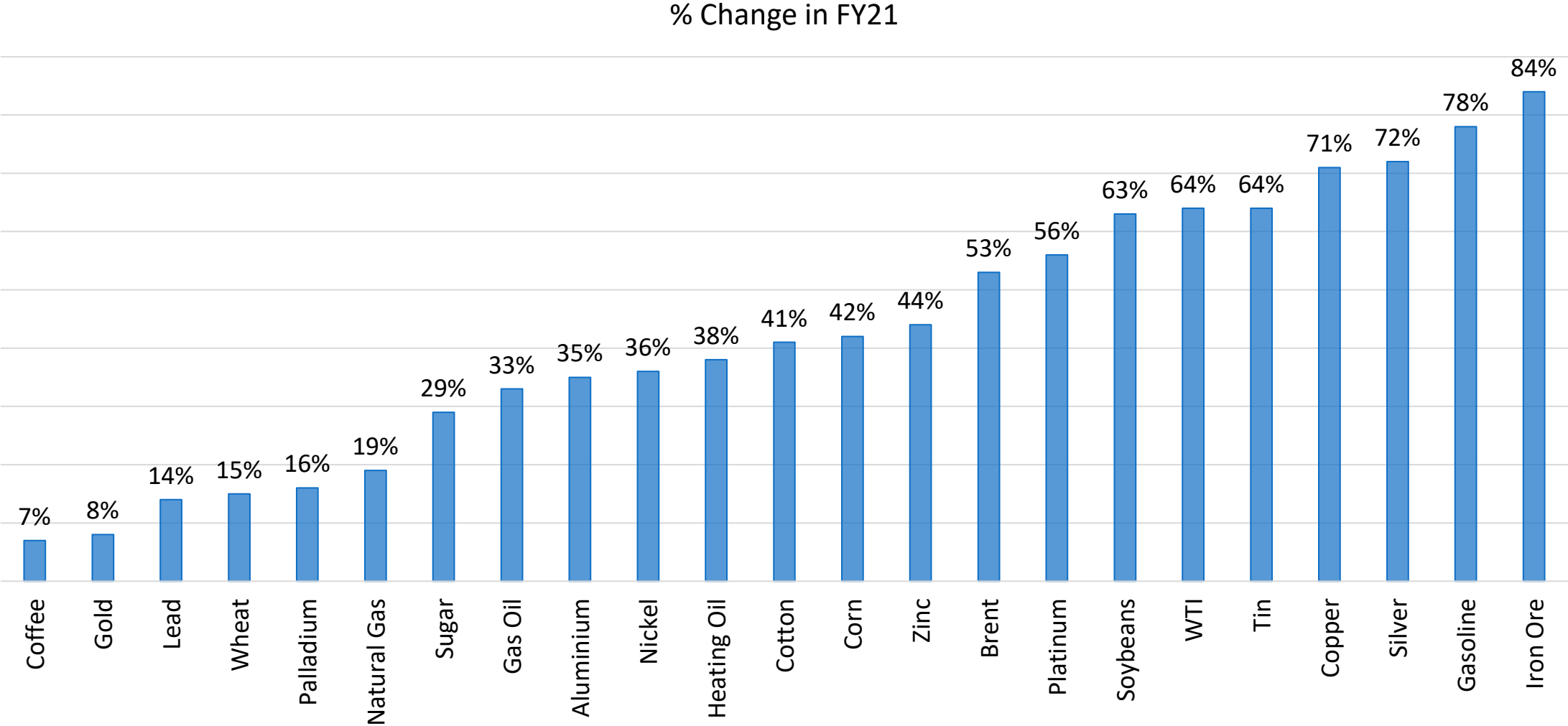
Notes: The 12 largest wars and pandemics measured by deaths, excluding regional wars and pandemics without economic data. *The fatalities data for wars and pandemics have both been re-scaled to today's global population.



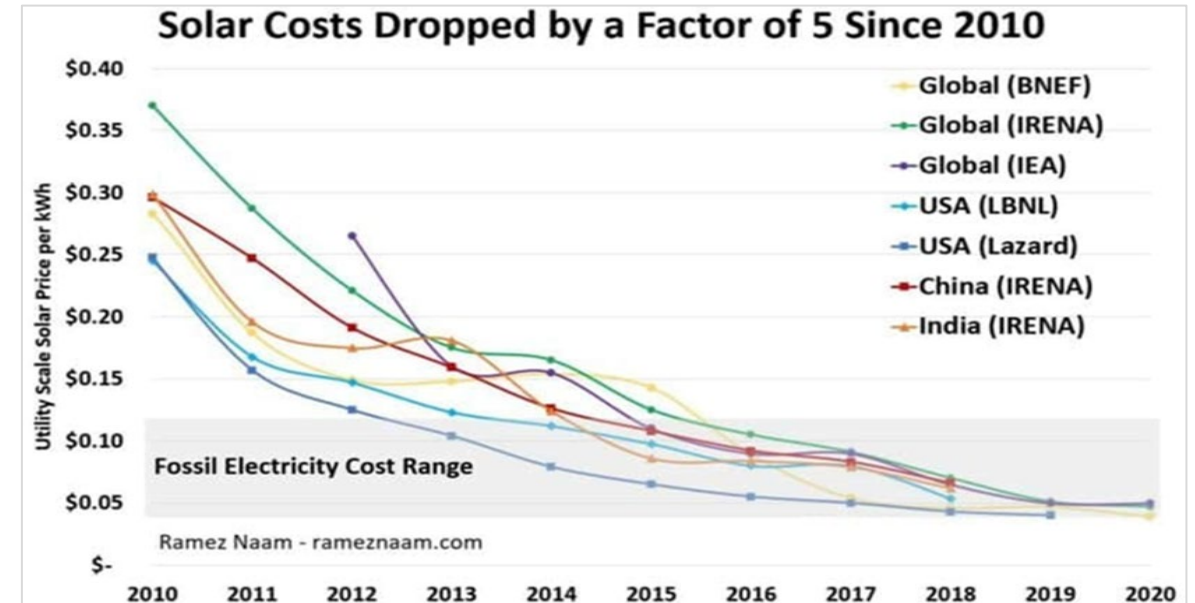
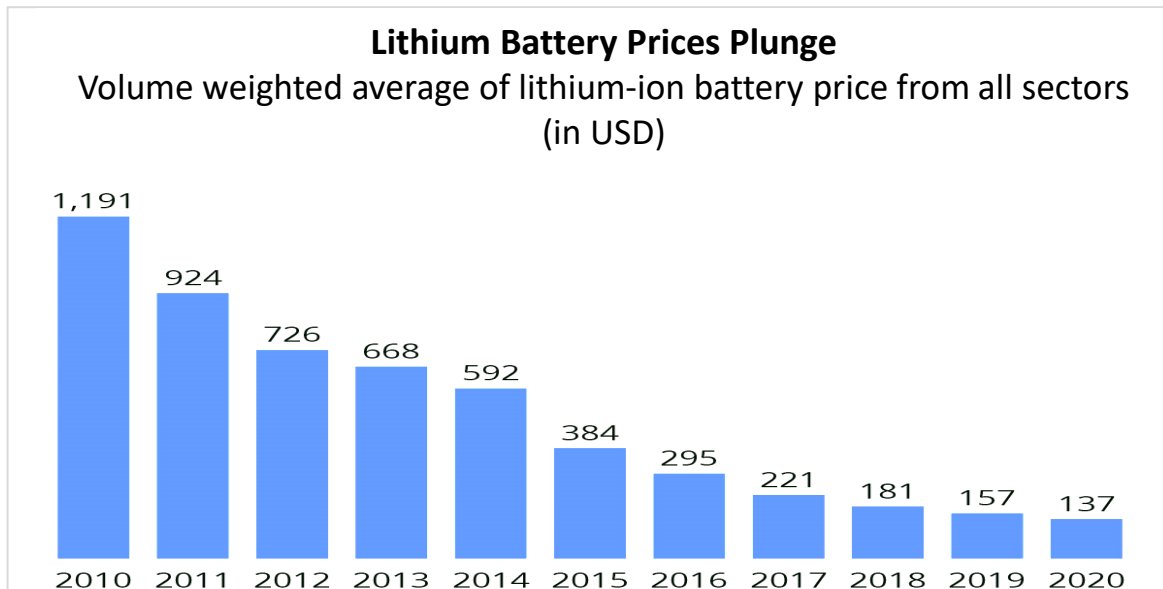
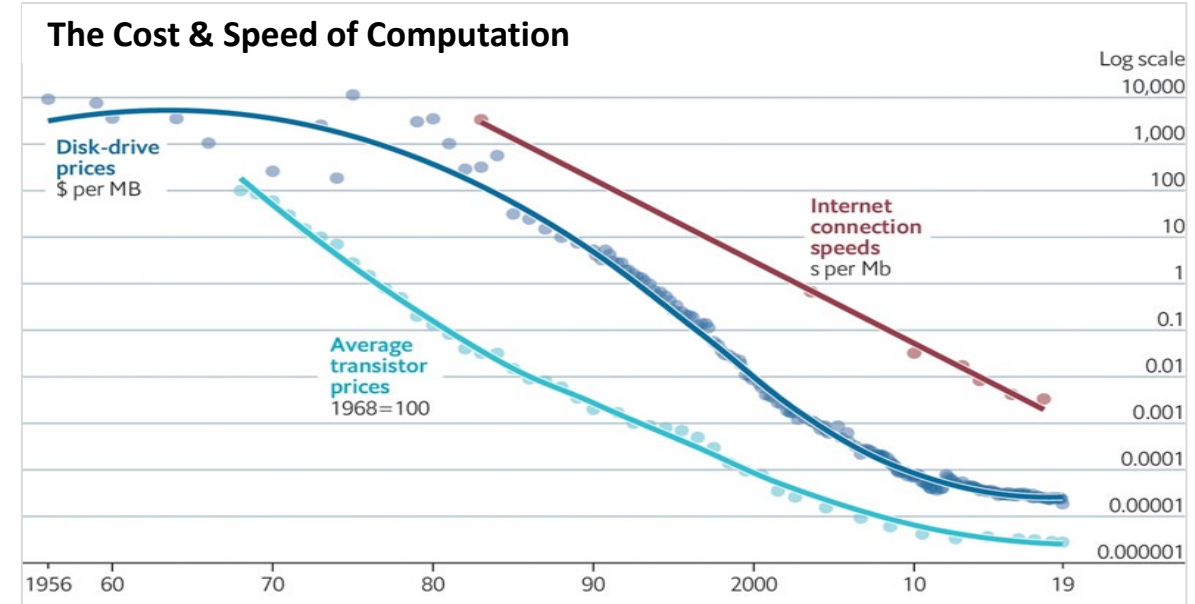
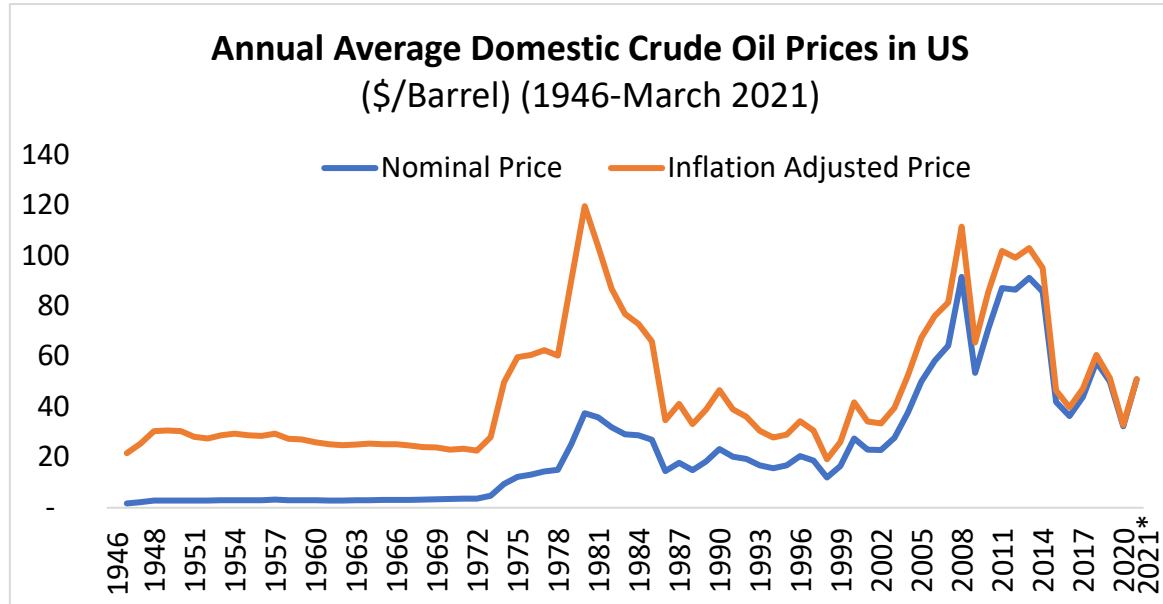
Transient Demand Shock in 2020 Leading to Transient Inflation in 2021 ?



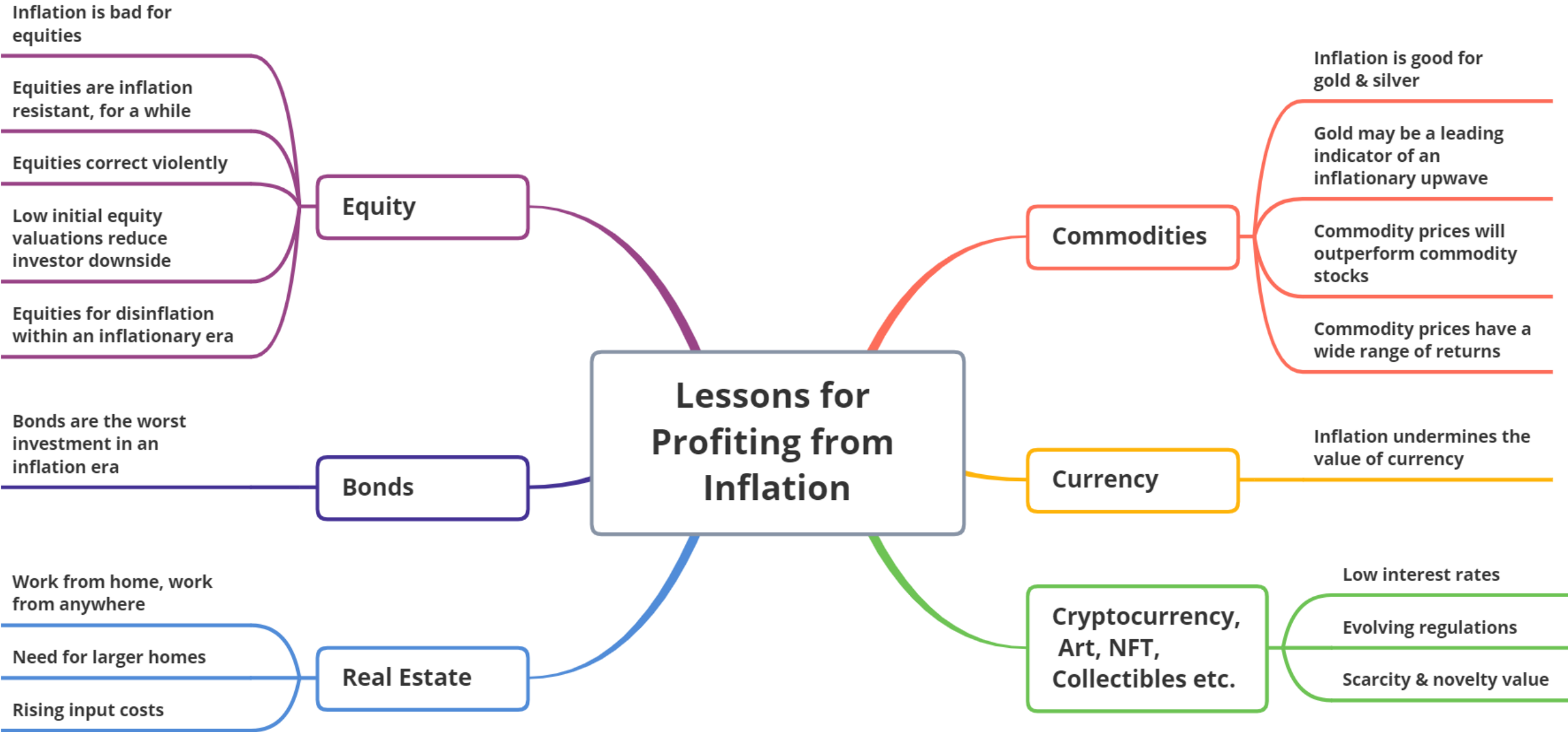
Commodity Prices Saw Upward Pressure in FY 21



Long Term Declining Cost Curves Aiding Consumers



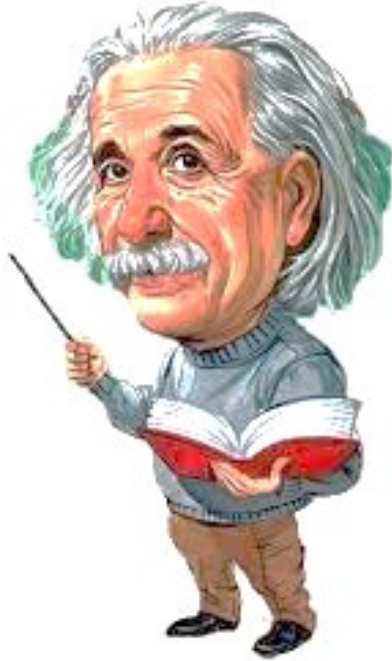
Inflation : It's a Matter of Degree & Persistency



Inflation Risks, Real & Expected, Remain a Key Monitorable



Questions... Ask Me Anything Except Stock Ideas!



“Not everything that can be counted counts, and not everything that counts can be counted.”



“If you’re not a little confused by what’s going on, you don’t understand it. We’re in uncharted territory... With everything boomed up so high and interest rates so low, what’s going to happen is the millennial generation is going to have a hell of a time getting rich compared to our generation.”

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