

July 2020

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# Investment Perspective

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## Economy & Nifty -Challenges & Opportunities

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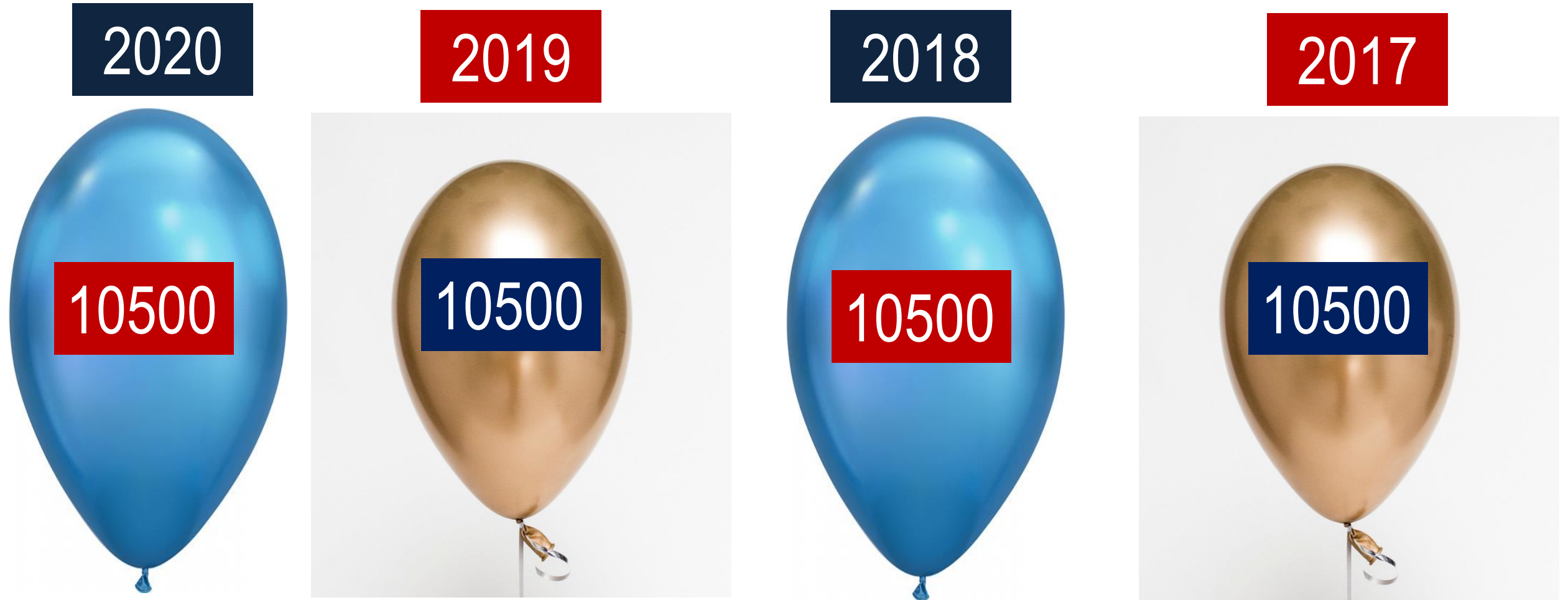
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# Content

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# For the last three years equity market has not produced any returns



Nifty has traded to similar levels during the last few years implying no upward shift in the base

# Indian Stock Market current bear phase is more than 2 yrs old

- NSE Small Cap 100 Index is down by 66% from it's peak of January 2018



- Stock market had remained very narrow. Small 10-15 stocks were driving the market returns

Companies Return	1 Jan 18 to 31 Jan 20	1 Jan 18 to 31 Mar 20	1 Jan 18 to 31 Jan 20	1 Jan 18 to 31 Mar 20
	Pre Covid	Post Covid	Pre Covid	Post Covid
less than 0%	959	1074	83%	93%
more than 0%	191	76	17%	7%
<-50%	503	831	44%	72%
-50% to -20%	340	179	30%	16%
-20% to 0%	116	64	10%	6%
0%-20%	65	22	6%	2%
20% to 50%	61	30	5%	3%
>50%	65	24	6%	2%
Total No of shares	1150	1150	100%	100%

- Indices are trading at those levels from where out-performance once starts, it would be similar to 2009 and 2013. Once the operative economic environment improves, the out-performance will significant.

# Nifty 2009-2020: Market is non linear



Alteration  
of  
Expansion  
and  
Consolidation  
is usual

	Apr 2009 To Mar 2011	Mar 2011 To Jul 2013	Aug 2013 To Feb 2018	Mar 2018 To Jul 2020
<b>Nifty 50</b>	93%	-2%	83%	5.9%
<b>Nifty 100</b>	99%	-2%	93%	4%
<b>Nifty 500</b>	103%	-6%	112%	-2%
<b>Nifty Mid Small Cap 400</b>	124%	-19%	227%	-22%

## Economy of India



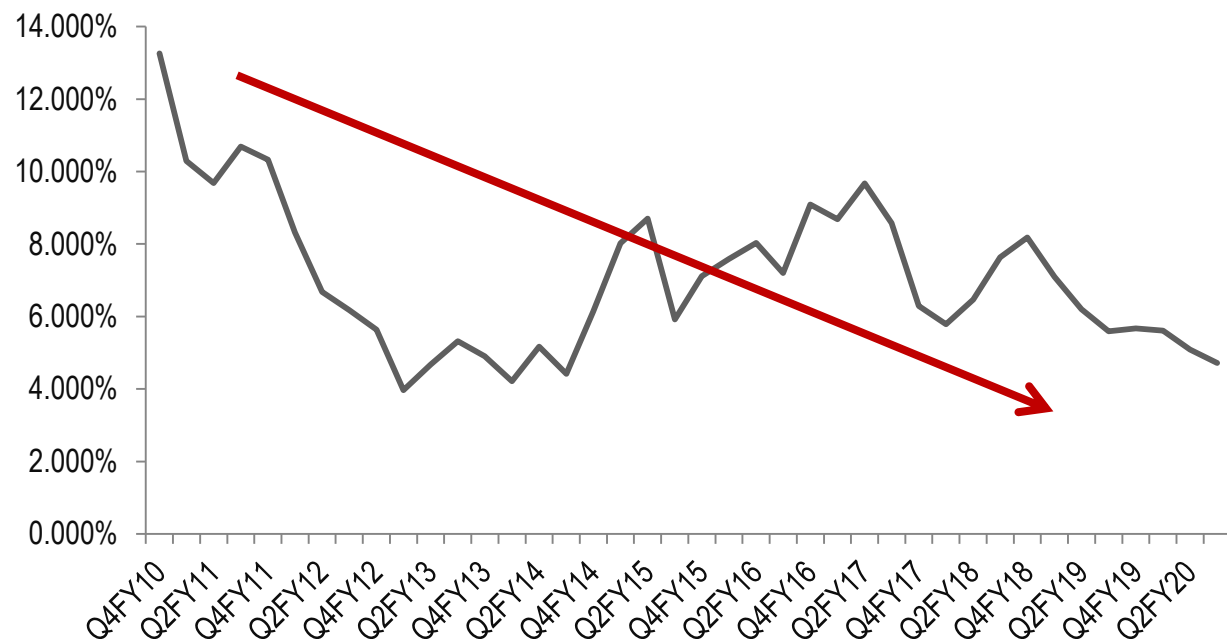
### Statistics

<b>GDP</b>	▲ \$3.202 trillion (nominal; 2020 est.)
<b>GDP by sector</b>	Agriculture: 15.4% Industry: 23% Services: 61.5%
<b>GDP by component</b>	Household consumption: 59.1% Government consumption: 11.5% Investment in fixed capital: 28.5% Investment in inventories: 3.9%
<b>Consumption</b>	Exports of goods and services: 19.1%
<b>Investment</b>	Imports of goods and services: -22%
<b>Trades</b>	

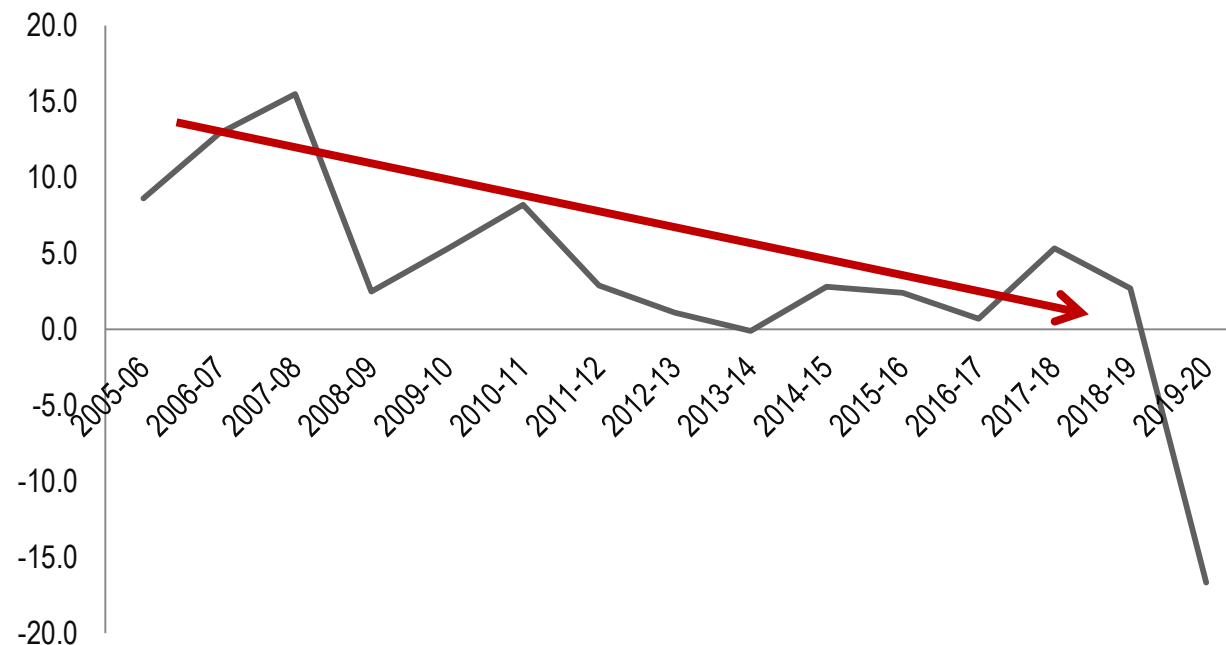
Source: Wikipedia

# India Economic pain over last 10 years

- Last 10 years GDP growth in India



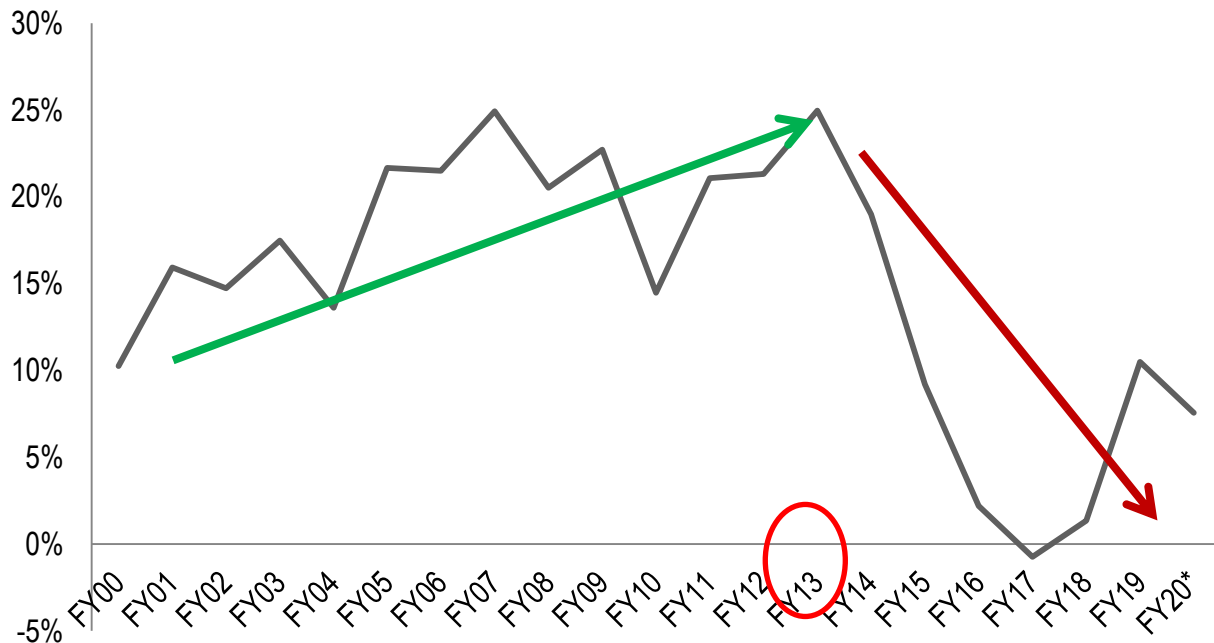
- Yearly IIP growth in India since FY06



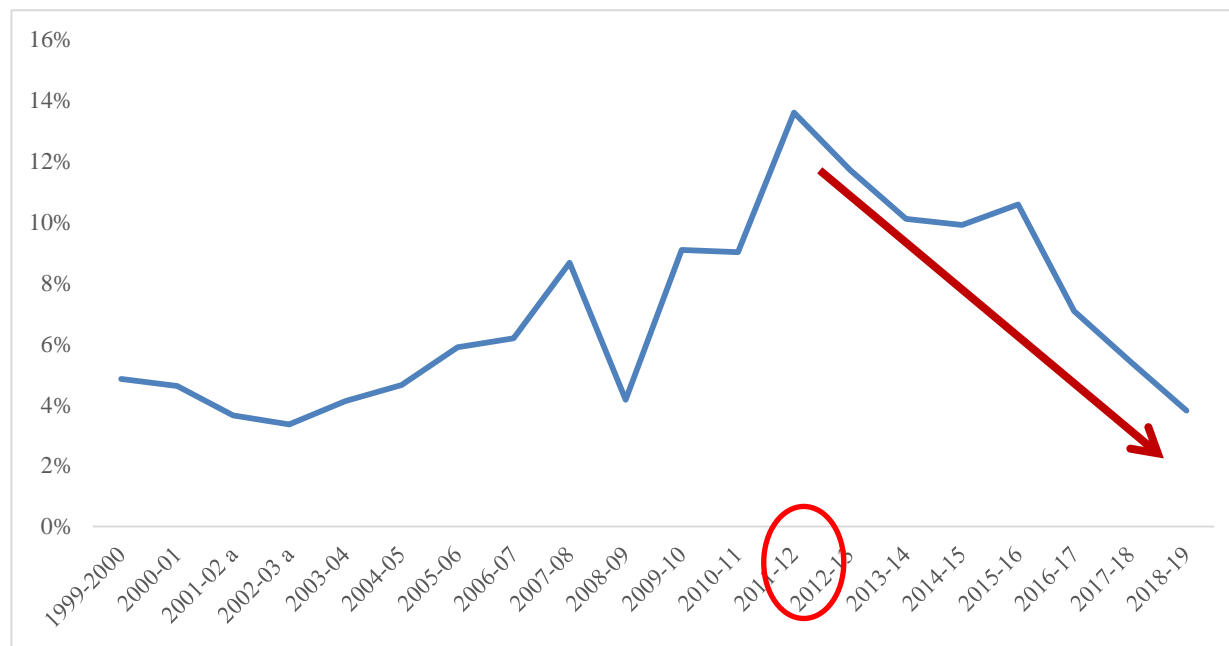
- India's GDP growth peaked in Q4FY10 at 13.262%. The 3 year GDP growth peaked in Q3FY08 at 9.452%.
- Since then, GDP growth for India has been declining with some growth in FY17. In QFY17, the 3 years average GDP growth was 7.907% still lower than that in FY08.
- Since Fy17, the growth has been declining. In Q3FY20, the GDP growth has been reported at 4.713% and the 3 years average GDP stands at 6.193%

# India Economic pain over last 10 years

- 3 years average Export growth in India since FY2000



- Electric Generation Growth Y-o-Y %

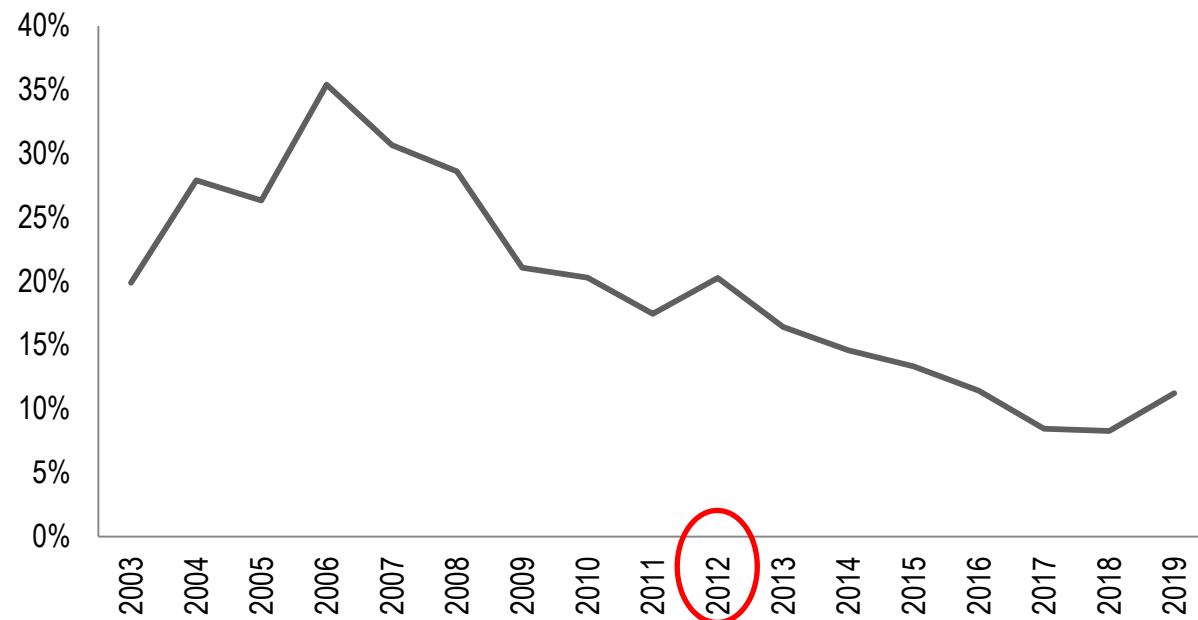


- IIP growth in India has been declining since FY08 where it made its peak at 15.5%. For FY05 and FY06, the IIP growth reported was at 8.6% and 12.9% resp.
- Post FY08, IIP revived mildly in FY11 at 8.2%.
- The 6 months average IIP growth in Feb20 ( Pre Covid ) was at -ve 0.33% and in Mar 20, the IIP growth YoY has fallen to -ve 16.66%

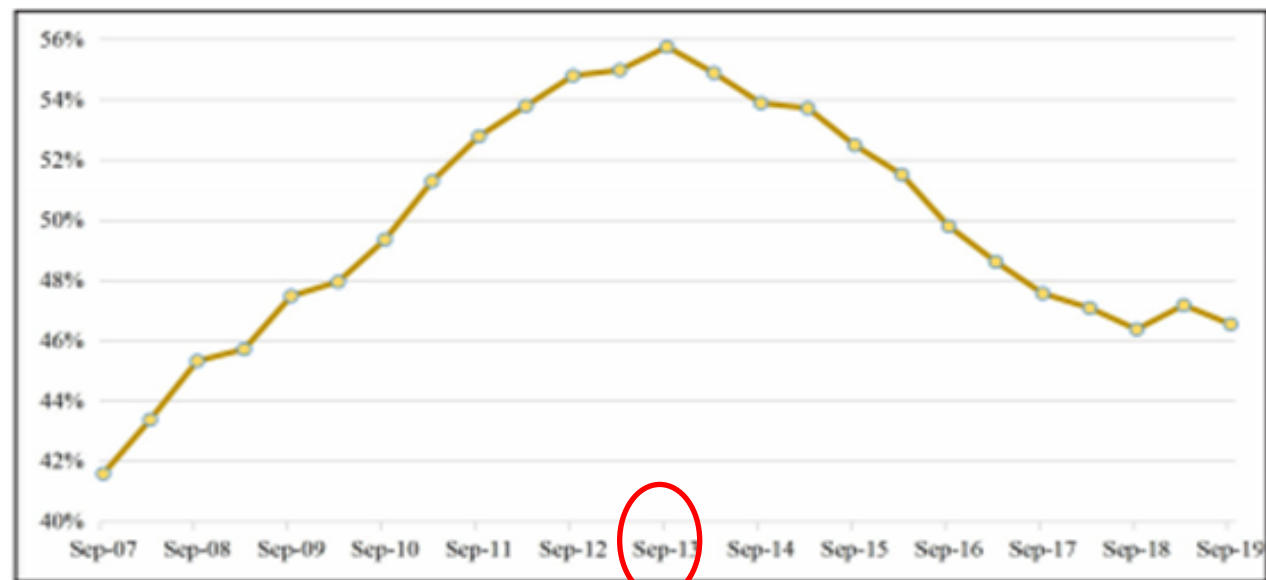


# India Economic pain over last 10 years

- **Bank Credit Growth Y-o-Y%**



- **Proportion of Corporate Loans in Non-Food Credit**



Source: RBI.

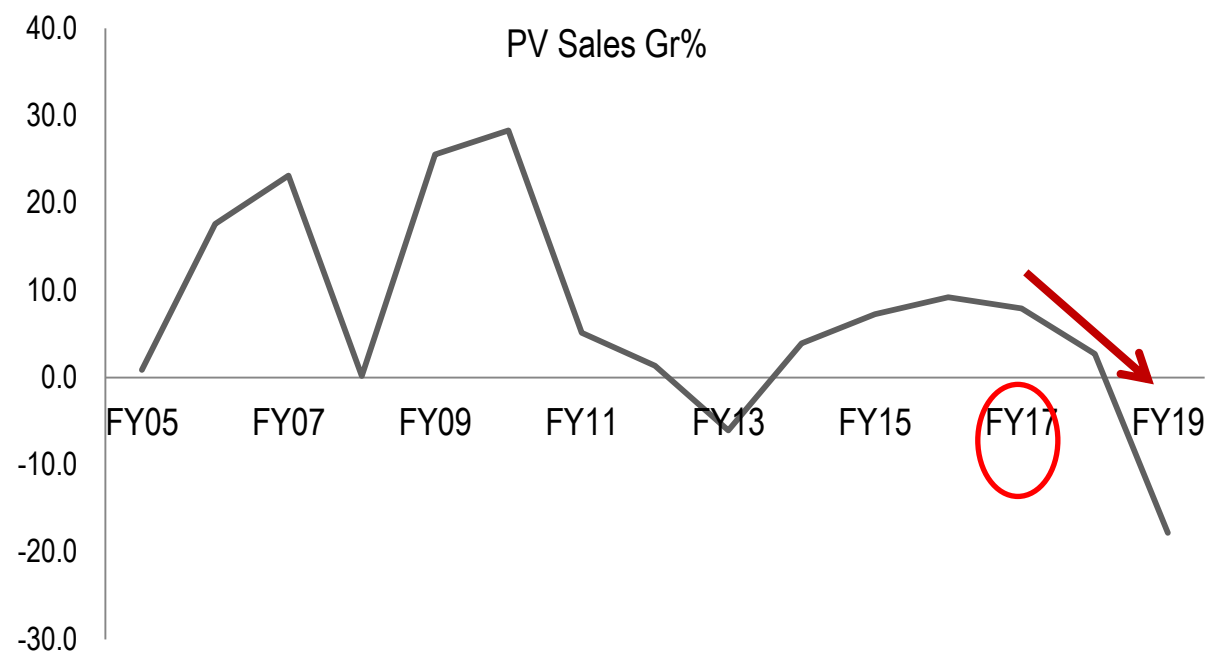
- The 3 years average bank credit growth as fallen to 11% in 2019 in comparison to 26% in 2005 and 20% in 2010.
- The fall in Bank credit growth is representative of low public and private capex in the country which is the primary source of future growth in a country

# Consumption the Savior till FY17 turned weak

- Industry Sales for 2- Wheelers



- Industry Sales for Passenger car vehicles



- Per Capita Income rising above 1500\$ during 2013 triggered a mini consumption boom in India making things appear buoyant in spite of structural issues.
- Low household savings accompanied with Rising retail credit created a feel good atmosphere. But not having tailwind of structural factors, it has started waning.

# Indian Economy Paradox- Rich India- Poor Indian

## Economy of India



### Statistics

**GDP rank** 5th (nominal; 2019)  
3rd (PPP; 2020)

### Nominal GDP in USD Trillion

1	USA	21.51
2	China	14.24
3	Japan	5.23
4	Germany	4.21
5	India	3.02
6	UK	2.96
7	France	2.93

**GDP per capita rank** 139th (nominal; 2019)  
118th (PPP; 2019)

# Indian Economy Paradox- Rich India- Poor Indian

## Economy of India



### Statistics

No. of Enterprise in India :	63 mn
Enterprises that do not have a office:	12 mn
WFH Office:	12 mn
GST Registration:	12 mn
In Social Security Net:	01 mn

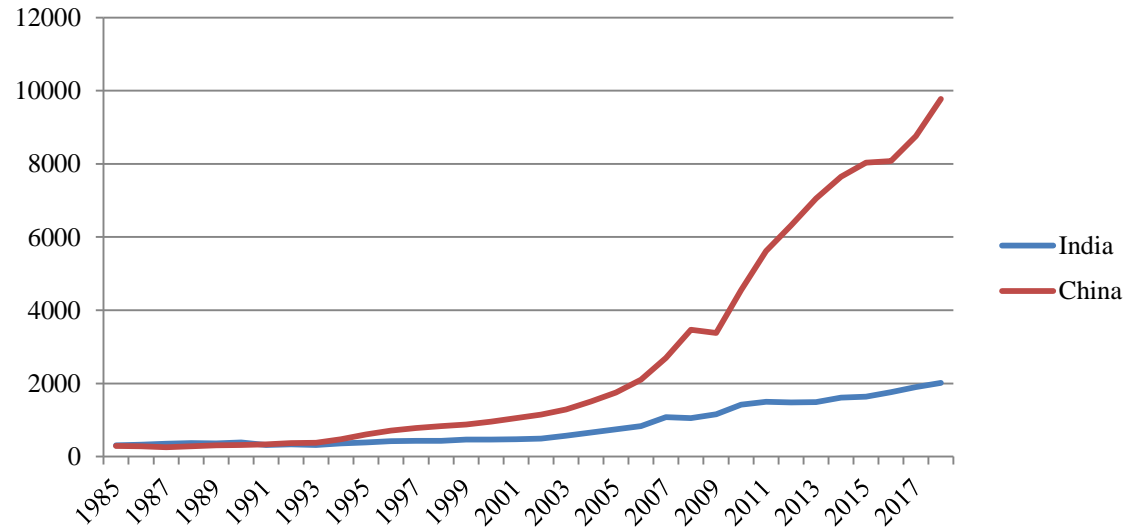
Enterprise with paid up Capital > Rs 10.0 Cr	19,500
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**US (8 times bigger economy)  
has only 22 mn enterprises**

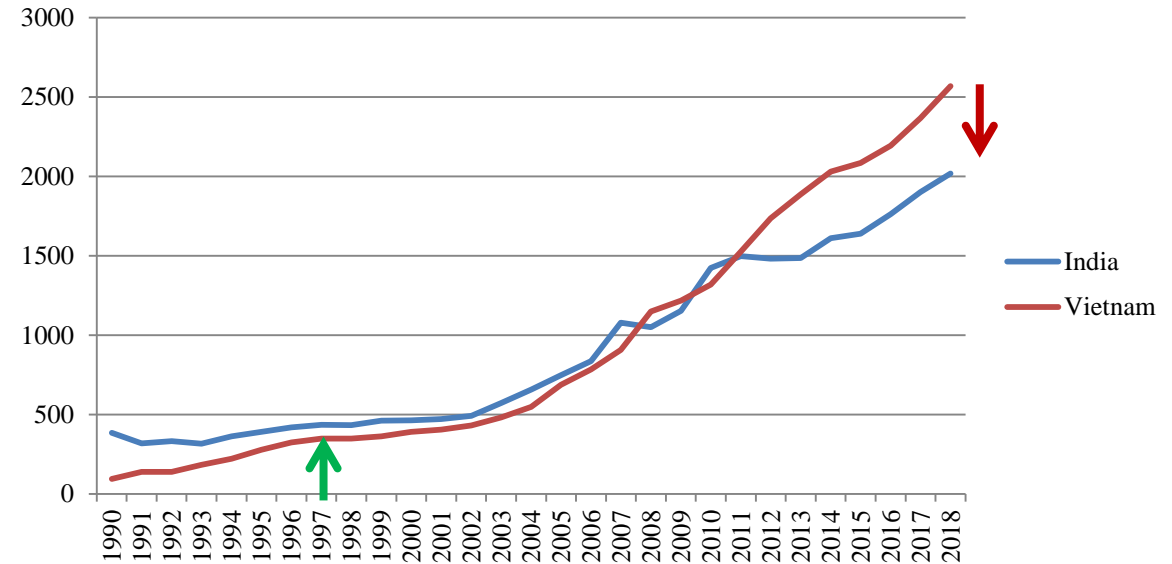
# CHALLENGES

# Structural- We missed the growth of 60's and now post 2000

- Per Capita Income in India & China (US \$)



- Per Capita Income in India & Vietnam (US \$)



- Between 1970-90, Asian Tigers- S Korea, Taiwan, Malaysia pulled millions of their citizen out of poverty using massive industrialization. Now, per capita Income of S Korea is 31,380\$(300\$ in 1970) and in Taiwan it is 25,525\$ (India per capita income is just at \$2,338\$)
- Till 1990, India's per capita income was higher than that of China, but then it did rapid industrialization making itself the factory of the world. Now the Chinese per capita income is 5X of Indians.
- Even Vietnam where the per capita income was less than India till 2010 has better prosperity levels for its citizen than that of India riding on industrialization and global supply chain linkage.

# Structural- So What Stops us from Industrializing Fast

- **Factors of Production**

- Land Price & Availability
- Labor Availability, wage & regulations
- Infrastructural Support
- Tax
- Capital Availability & Cost
- Ease of Doing Business

- **Labor cost In India is competitive compared to China and Vietnam and even Bangladesh**

Country	Minimum wage	in dollars per month
India	178 inr/day	57
Bangladesh	8000 bdt / month	94
Vietnam	4420 vnd thousand/month	190
China	2480 cny/ month	350
SouthKorea	8590 krw/hour	1379

- In China the wage has grown by 10 times in last 20 years. It had 42 wage increments in last 17 years. Vietnam has seen average monthly wages going up by 3 times in last 10 years. These leaves enough room for cost competitiveness in India. Demography too favors India here.
- Regulations apart, Indian labor relationship has remained quite peaceful in the last 10 years.

# Structural- So What Stops us from Industrializing Fast

- **Dedicated Industrial Area & Region**



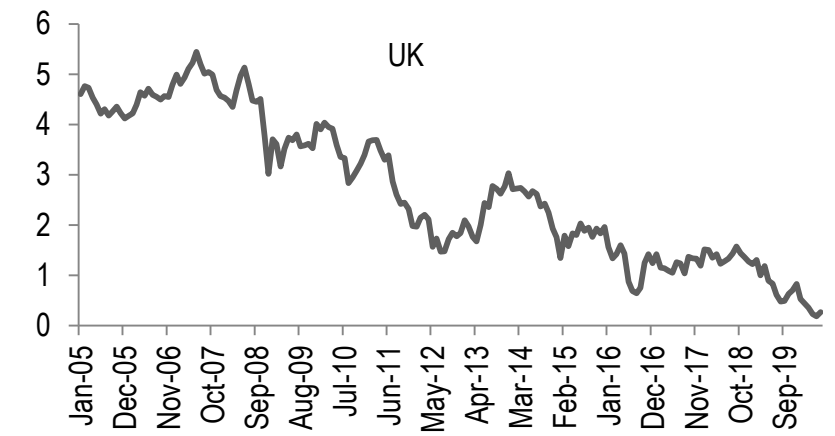
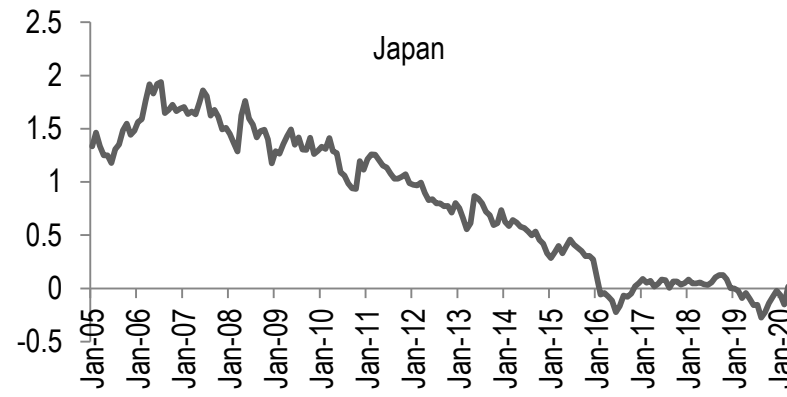
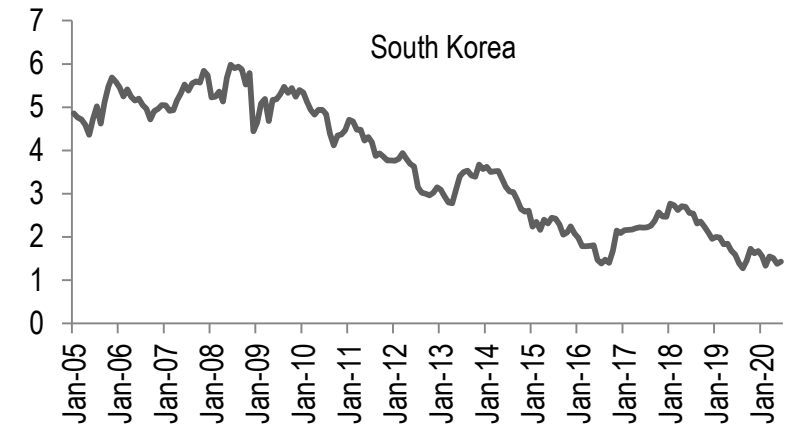
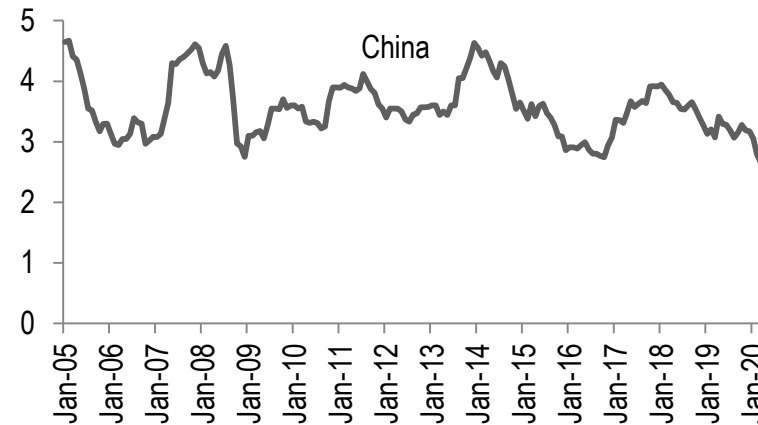
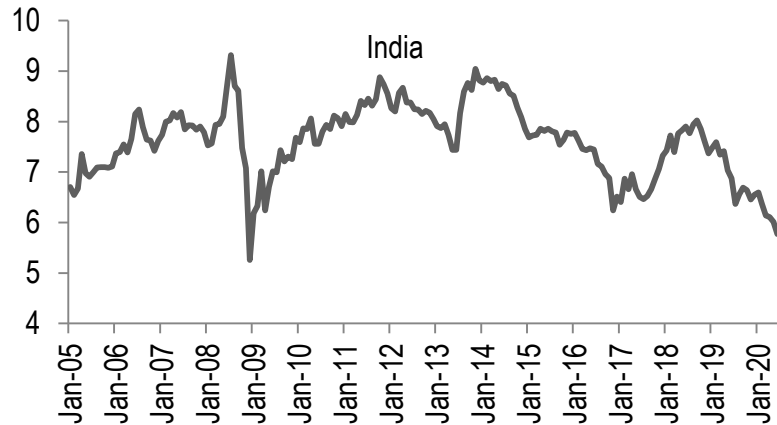
- **Industrial City development along Delhi Mumbai Freight corridor encouraging**



- Dholera Special Investment Region (DSIR) spanning approximately 920 sq km - encompasses 22 villages of Dholera Taluka. Initial area of 22.54 Sq Km has already come up.
- Out of the total planned area of Shendra Bidkin admeasuring 84.17 sq kms, an area of 8.39 sqkm located north of Jalna Road adjoining existing MIDC Shendra Industrial Park and area of 32.03 sqkm located near Bidkin has almost functional. South Korean fiber giant Creora, owned by Hyosung group has already started taken 0.4 sq km area for spandex fiber plant with investment of 100mn\$



# Structural- So what stops us from industrializing fast



- While world over interest rate has kept falling for the last 15 years. It has remained sideways in India and China
- Also, for India the average of the range is 7-8% while that for China is 3-4%

# Structural- So what stops us from industrializing fast

- Corporate Tax has become attractive after recent tax rate cut

Countries	2017	2018	2019	2020
USA	35	21	21	21
UK	19	19	19	19
Japan	31	31	31	31
Singapore	17	17	17	17
China	25	25	25	25
Malaysia	24	24	24	24
Bangladesh	25	25	25	25
Taiwan	17	20	20	20
Thailand	20	20	20	20
South Korea	22	25	25	25
Vietnam	20	20	20	20
Indonesia	25	25	25	22
India	35	35	25	25

- Indirect Tax remains an issue

Ease of doing business	Country	Indirect taxes	Slabs
63	India	28%	0%/5%/12%/18%/28%
168	Bangladesh	15%	0%/2%/2.5%/4.5%/5/7.5/10/15%
31	China	13%	0%/3%/5%/6%/9%/15%
12	Malaysia	10%	10%/5%
73	Indonesia	10%	10%/0%

- So not post corporate tax cut announced last year, we compete well in terms of direct tax.
- Indirect tax is an area to be improved upon. It's clumsy- there are too many slabs. It's high with highest slab at 28%. And it's unpredictable. What we need is clearer path to lower and fewer slabs.

# Structural- So what stops us from industrializing fast

- Compliances & Filings are highly unwelcoming



A large pharma firm operating in six states has 140+ applicable Acts, 6000+ compliances.



An engineering firm with two dozen factories across five states has more than 8000 compliances, averaging 2 filings per day.



A food-processing firm with 5 plants deals with 73 applicable Acts, close to 2000 compliances, averaging 15 filings monthly.

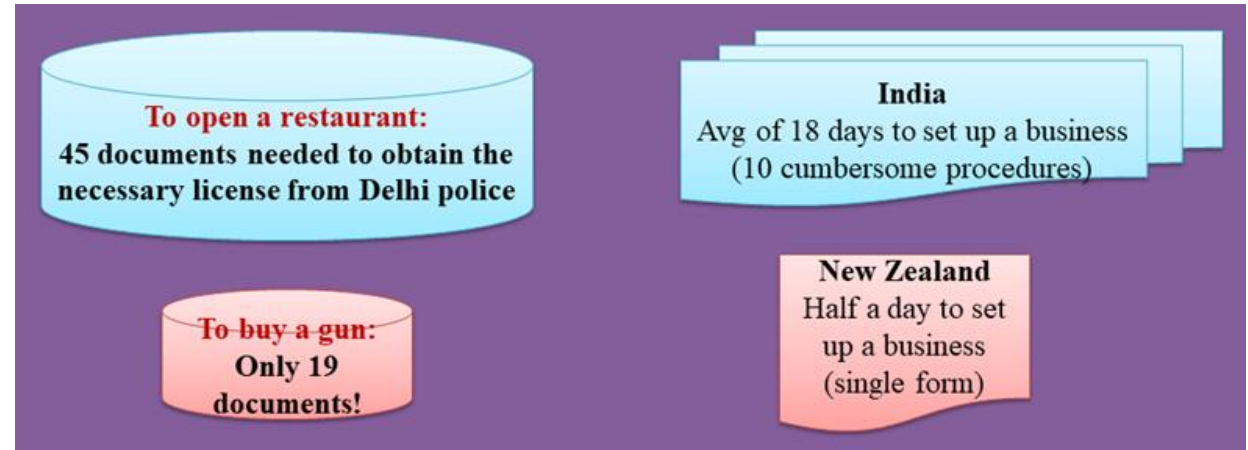


A chemical firm with just 1 factory has 72 applicable Acts, more than 1000 compliances, averaging 10 filings monthly.



A plastics manufacturing company with 3 factories deals with 53 applicable Acts and close to 2000 compliances.

- Economic Survey 2019-20



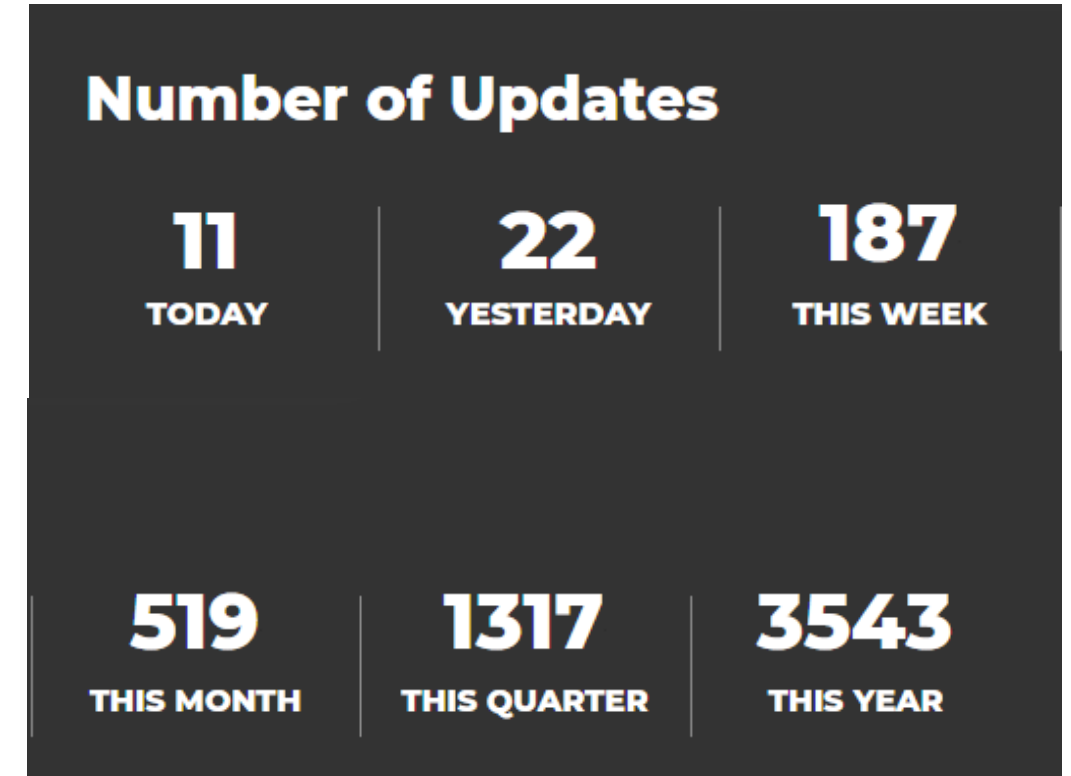
A draft Cabinet note was circulated in 2019, National Ease of Doing Business Policy making the bureaucrats accountable for the compliance- **Nothing Yet**

# Structural- So what stops us from industrializing fast

- India's Regulatory Universe For Firms

	ACTS		COMPLIANCES		FILINGS	
	1,074		58,726		3,069	
	CENTRAL	STATE / UT	CENTRAL	STATE / UT	CENTRAL	STATE / UT
Labour	44	387	674	26,484	67	1,333
Finance & Taxation	43	60	899	8,362	104	588
EHS	41	20	1,907	212	87	11
Secretarial	54	-	2,112	-	86	-
Commercial	27	75	989	3,369	54	247
Industry Specific	239	35	10,179	1,916	357	28
General (Including Local Laws)	9	40	107	1,516	19	88
<b>TOTAL</b>	<b>457</b>	<b>617</b>	<b>16,867</b>	<b>41,859</b>	<b>774</b>	<b>2,295</b>

- While regulations are no less worrisome, number of changes results into errors of omission & commission



<https://avantis.co.in/> as on 10<sup>th</sup> July 2020

- Easy of doing Business is what is hurting us badly. We need way to less regulations/ compliances and Filings. And more importantly we require stability in terms of policies landscape when it comes to governing businesses.
- Ad hoc, paper based, people dependent compliances need to be changed to Predictable, Digital and Process based.

# Summing Up the Economic Context

## Maximum Governance

- ✓ Consumers
- ✓ Businesses
- ✓ Investors/Financiers

## Minimum Government

X Administrators

The way business/ financial transaction used to happen before has got rightly completely altered

But the 'chaos economic theory' still needs sporadic guiding hands e.g. electronics manufacturing

- Maximum Governance framework of changing 'Jugadu Indian' to 'Rule Based Indian' has raised the structural capability of sustainable long term growth once that gets triggered.
- Structural handling of inflation has permanently de-risked the capital cost cycle

# Rural Reform

- **3 Big Structural Reforms**

- Dismantling of APMC- Farmers can sell directly to anyone
- Dismantling Stock Limits
- Allowing Contract farming – with aggregators, processors etc.

- 2<sup>nd</sup> biggest producer but highly inefficient. 51% people contributing 15% to GDP

Rank	Country	Agriculture Produce (mn\$)	As % of GDP
1	China	9,91,020	8.3
2	India	3,75,606	15.4
3	United States	1,74,240	0.9
4	Brazil	1,29,022	6.2
5	Indonesia	1,28,339	13.9
6	Nigeria	85,277	21.6
7	Russia	69,043	4.7
8	Pakistan	68,888	24.7
9	Argentina	67,569	10.9
10	Turkey	56,360	6.7

Country	USA	Europe	Russia	China	India	Brazil
Total Population (bn)	0.32	0.39	0.14	1.37	1.32	0.20
(Popl. Engaged in Agri)	2.4%	3.9%	14.4%	65.0%	52.0%	14.8%
Total arable land (mn ha)	174	179	121	103	159	80
Agri-contribution to GDP	1%	5%	4%	10%	14%	5%
% of farm mechanized	95%	95%	80%	48%	40%	75%
Tractors sold per annum (mn)	0.20	0.35	0.04	0.45	0.70	0.05

# Rural Opportunity

- **2005-08 Corporate involvement-  
yield-productivity-distribution**

- Bharti- FieldFresh
- ITC e- Choupal, Choupal Sagar
- DCM Shriram
- Relaince- Fresh
- Pepsico

- **Excerpts from Mukesh Ambani's interview of 2007**

'It may take Rs 25,000 crore Cr of investment at the farm level or at the intermediary's level. The food market is much bigger than the software services market'

'we will reduce the cost to consumers by 20% and increase the efficiency of farmers thrice over. Farm incomes can go up 600% to 900% over the next few years from the current base'

<https://www.rediff.com/money/2007/jan/19inter.htm>

## Mukesh Ambani on retail and SEZ plans

Last updated on: January 19, 2007 11:04 IST

### Home is where the farm is : Mukesh Ambani

*I would like to compliment the finance minister for putting the spotlight on agriculture and the rural economy.*

TNN | Last Updated: Mar 01, 2008, 01:47 AM IST



Mukesh Ambani,  
chairman, Reliance

*By Invitation: Mukesh Ambani, Chairman, Reliance  
Industries*

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By Sangeeta Singh

October 24, 2005 09:27 IST

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# Fundamental Blue Sky Scenario- India De Couple 2.0

•Increasing Manufacturing cost in China makes India Cost Competitive

India v/s China Mfg cost Comparison	FY14		FY21E	
	India	China	India	China
<b>FPD TV</b>				
Raw Material	65.0%	60.0%	50.0%	50.0%
Utilities	13.0%	13.0%	12.0%	14.5%
Labour and Overhead	12.0%	13.0%	13.0%	20.0%
<b>Total</b>	<b>90.0%</b>	<b>86.0%</b>	<b>75.0%</b>	<b>84.5%</b>
<b>Mobile Phones</b>				
Raw Material	70.0%	60.0%	55.0%	53.0%
Utilities	12.0%	13.0%	13.0%	14.5%
Labour and Overhead	12.0%	13.0%	13.0%	20.0%
<b>Total</b>	<b>94.0%</b>	<b>86.0%</b>	<b>81.0%</b>	<b>87.5%</b>
<b>Washing Machine</b>				
Raw Material	58.0%	54.0%	45.0%	50.0%
Utilities	13.0%	12.0%	12.0%	14.0%
Labour and Overhead	12.0%	13.0%	13.0%	18.0%
<b>Total</b>	<b>83.0%</b>	<b>79.0%</b>	<b>70.0%</b>	<b>82.0%</b>
<b>LED Lamps</b>				
Raw Material	70.0%	65.0%	50.0%	48.0%
Utilities	12.0%	13.0%	13.0%	15.0%
Labour and Overhead	12.0%	13.0%	13.0%	18.0%
<b>Total</b>	<b>94.0%</b>	<b>91.0%</b>	<b>76.0%</b>	<b>81.0%</b>
<b>Overall Average</b>	<b>90.3%</b>	<b>85.5%</b>	<b>75.5%</b>	<b>83.8%</b>

## Govt. to offer production linked incentives in more sectors

4 Months window starting 1<sup>st</sup> August:

- Further in Electronic
- Chemical and Medical Device
- Auto & Auto Components
- Food Processing
- Textile

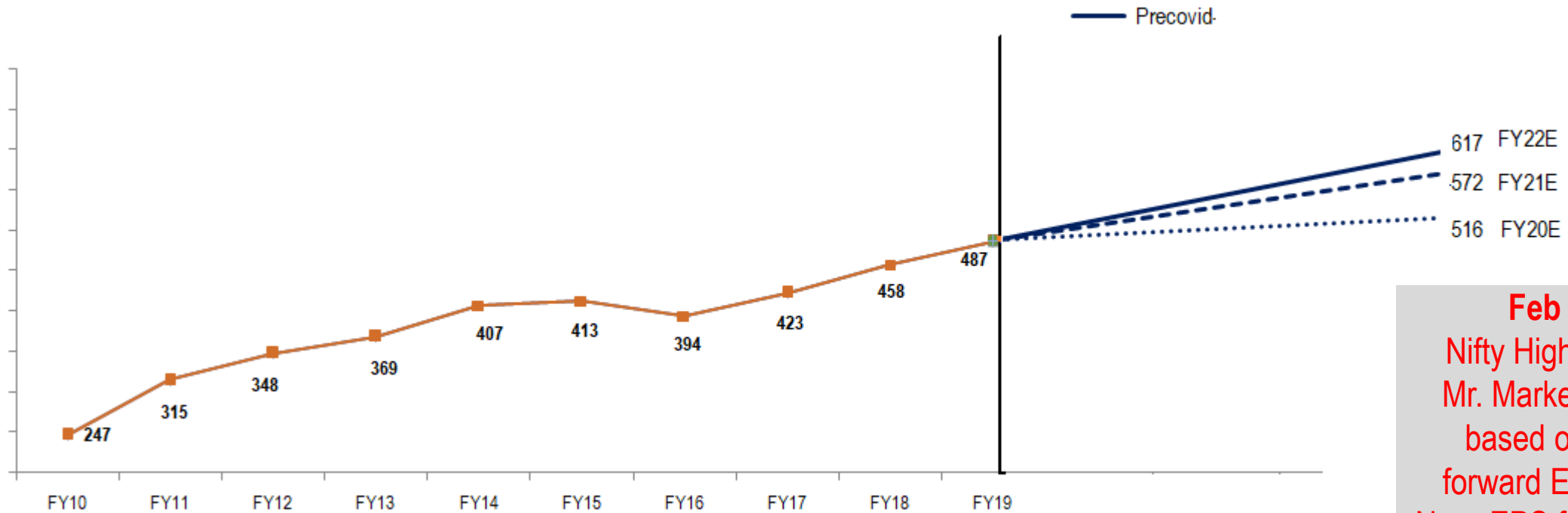
incentive of 6% for the first two years followed by 5% for the next two and 4% in the fifth year

- Electronics hardware production in India has increased from Rs 1.90 lakh Cr in 2014-15 to Rs 3.87 lakh Cr in 2017-18, 3% of global hardware production which was 1.6% in FY13. 27% CAGR. Mobile Phone from 18,500 Cr to 1.7 lakh Cr.
- 'Supply Chain Diversification' by west, Japan, Taiwan and South Korea may reverse Indian Investment Cycle, Trade and Credit Cycle that has peaked in 2007 (above 15%) and has since fallen to current ~ 5% **|India De Couple 2.0|**
- India's vast under penetrated consumers market along with educated, aspiring, entrepreneurial demography remains a mid to long term value driver



# MARKET PERSPECTIVE

# Nifty fall in the month of March was in line with Earnings downgrade



**Feb 2020**  
 Nifty High of 12400  
 Mr. Market assigned based on 1 year forward EPS of 572  
 Now, EPS for FY21 has fallen by 30%

Year	Nifty - Total Net Profit of 50 companies	
	Pre Covid Estimates	Post Covid Estimates
FY18	328,352	328,352
FY19	370,861	370,861
FY20	414,407	370,665
FY21E	523,072	372,435
FY22E	612,312	491,422

← ~30%

# PE range of Nifty- will require adjustment with base shift in interest rate

Nifty makes a Cyclical high at **24 times** trailing 12 quarter earnings and Cyclical bottom around **18 times** one year forward earning

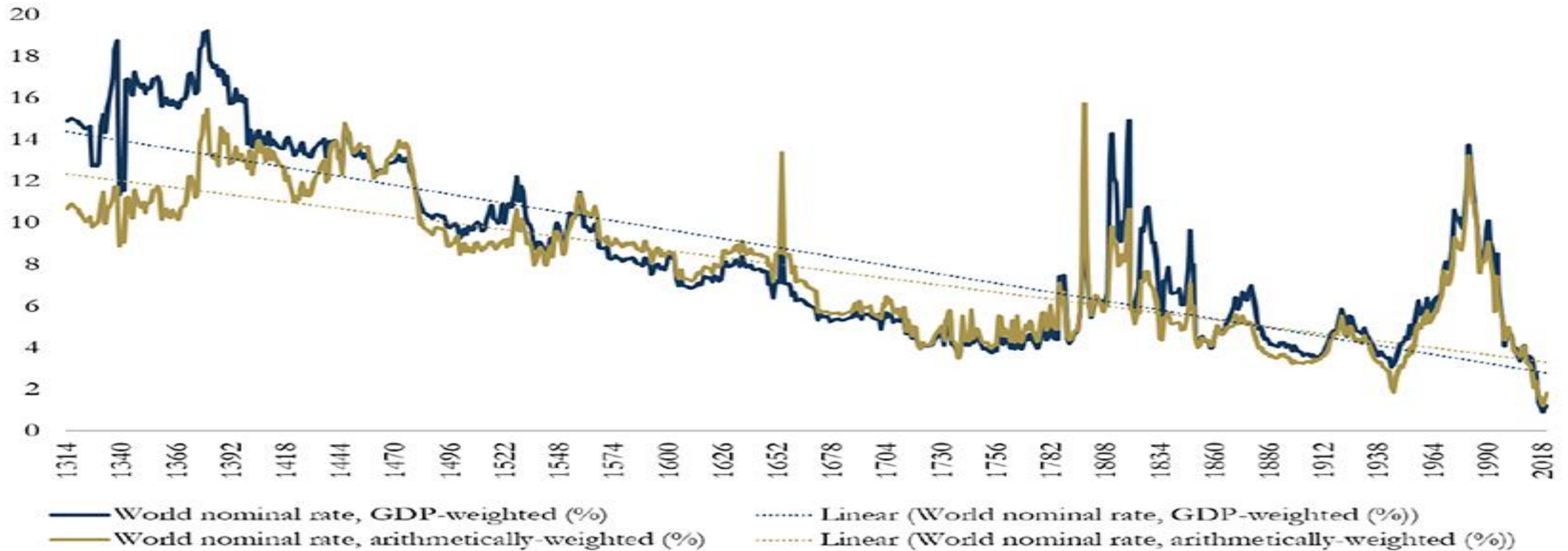
Year	2016	2017	2018	2019	2020
EPS of FY	426	458	490	470	487
Nifty High	8819	10552	11760	12293	12430
Nifty Low	6825	8133.8	10004	10583	7511
<b>PE at High</b>	<b>22</b>	<b>23</b>	<b>24</b>	<b>24</b>	<b>24</b>
<b>PE at Low</b>	<b>17</b>	<b>18</b>	<b>19</b>	<b>18</b>	<b>17</b>



- Japan – low Interest rate scenario has led to average PE of Nikkei around 22

# Structurally the long term trend of Interest Rate is declining for long

- Since 1300s , Global Nominal Bond Yields have dropped from over 14% to 2%



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