



Service



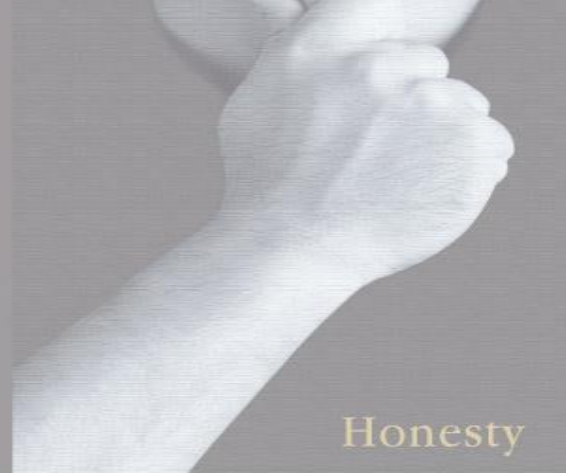
Discipline



Prudence



Fair play



Honesty

# Sundaram Asset Management

February 2022



Integrity



Humility



Openness



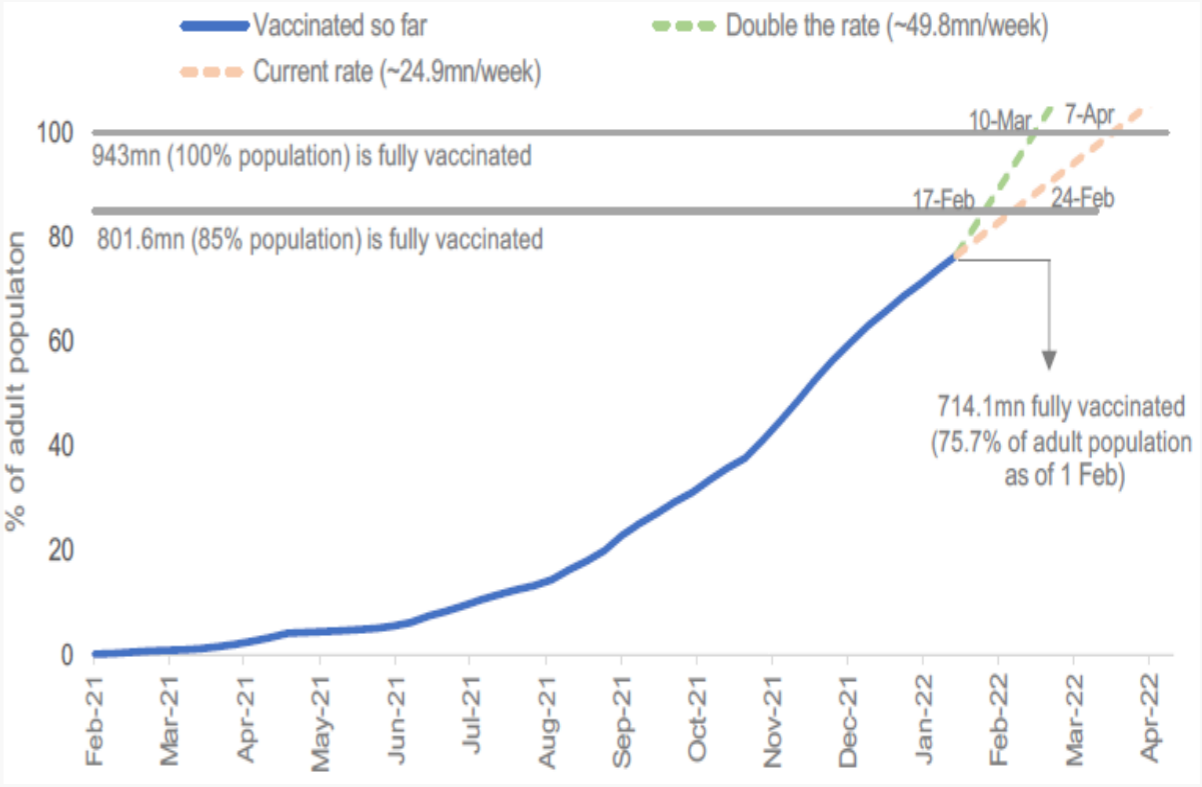
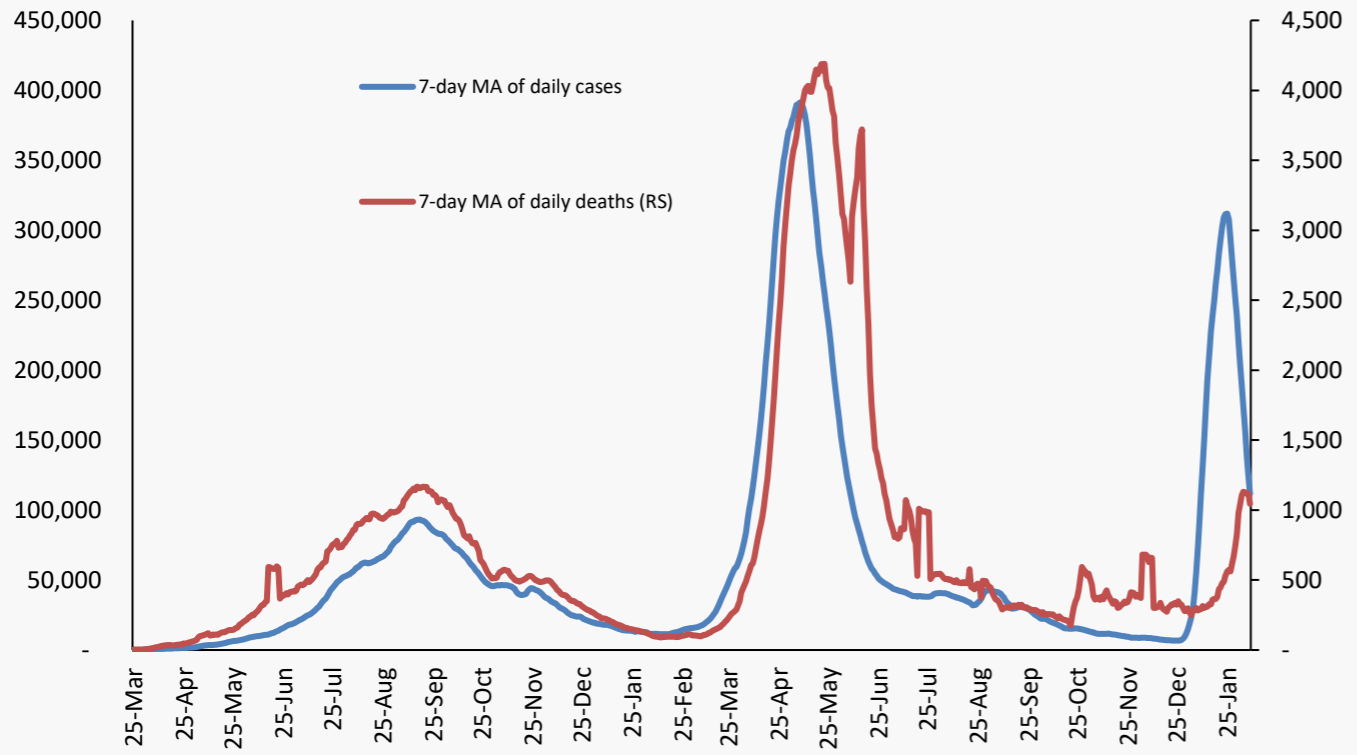
Relationships

# India Economy & Market



# Covid-19 situation under control

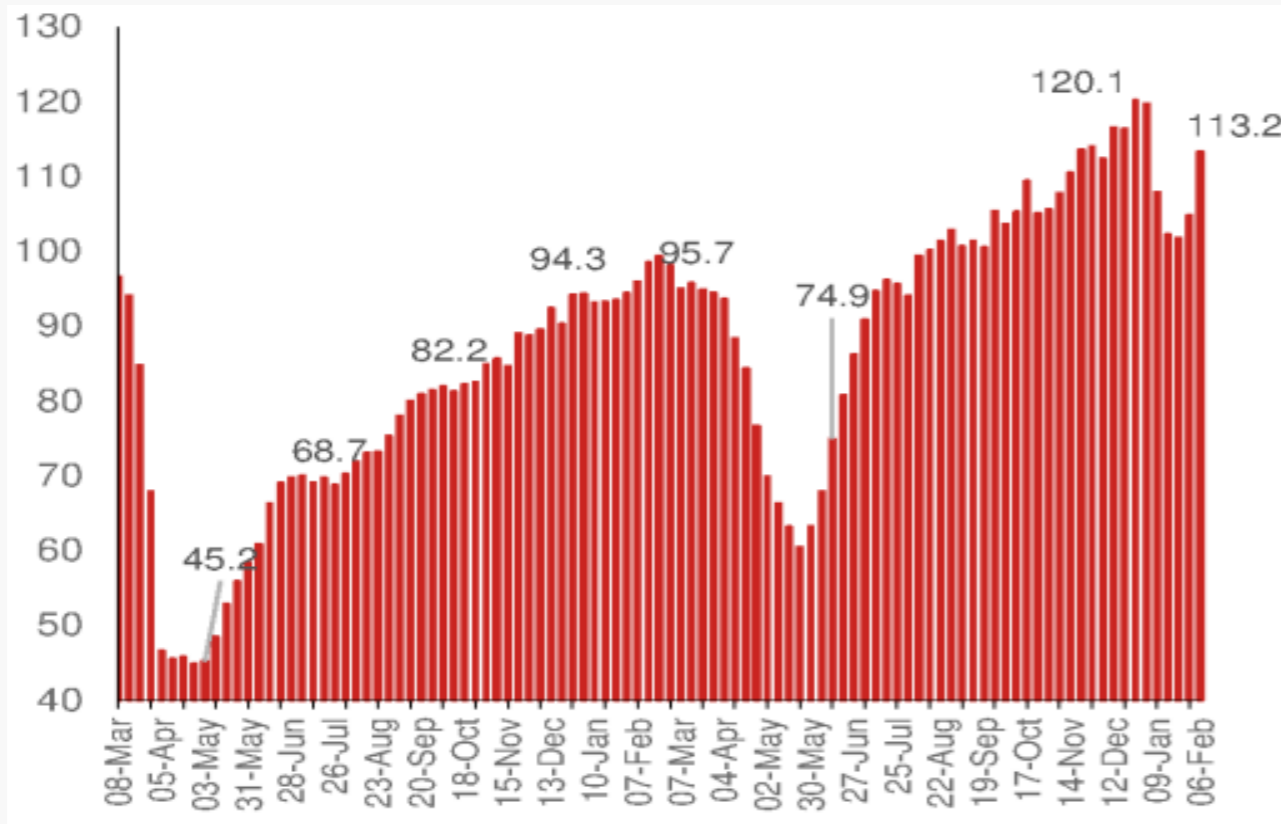
Daily infections and deaths (7-day moving average)



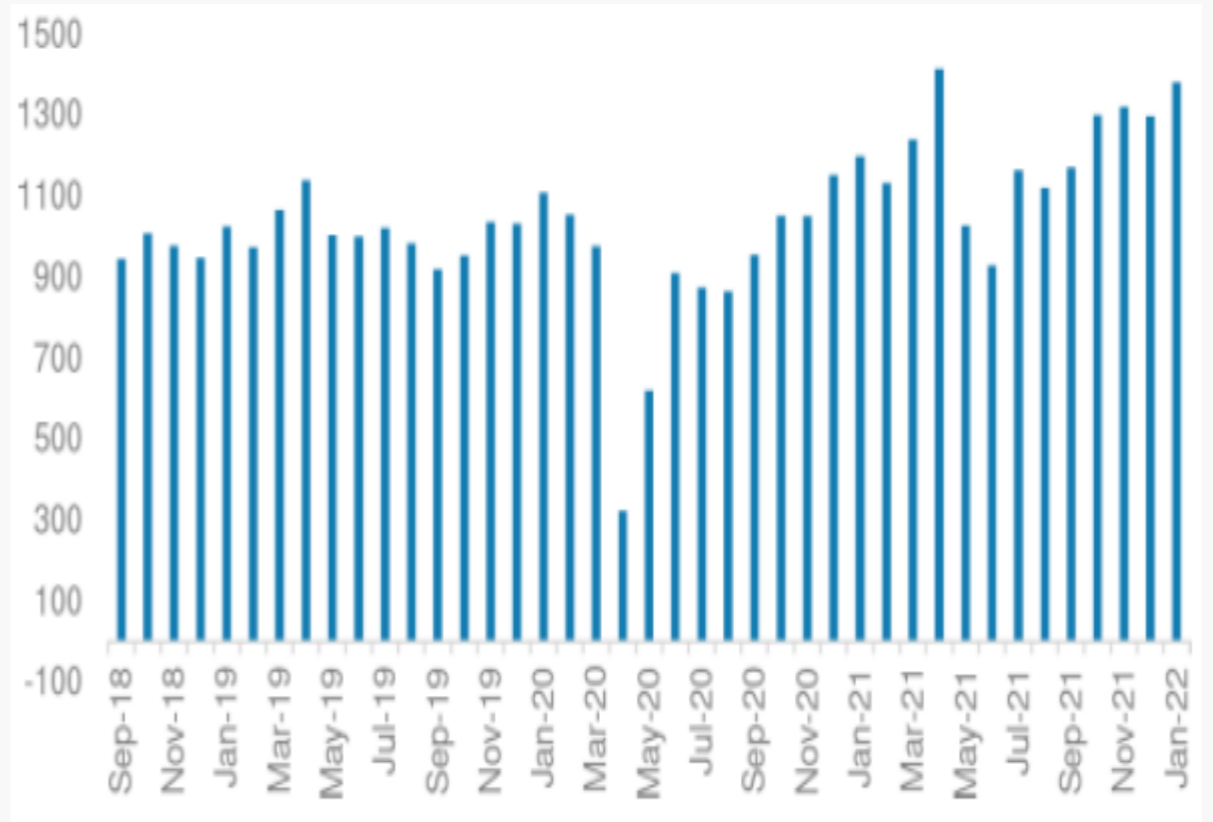
Source : Morgan Stanley

# Business has resumed post a short 3<sup>rd</sup> wave disruption

Nomura index of business resumption



GST Collections at near record levels (Rs. Bn)

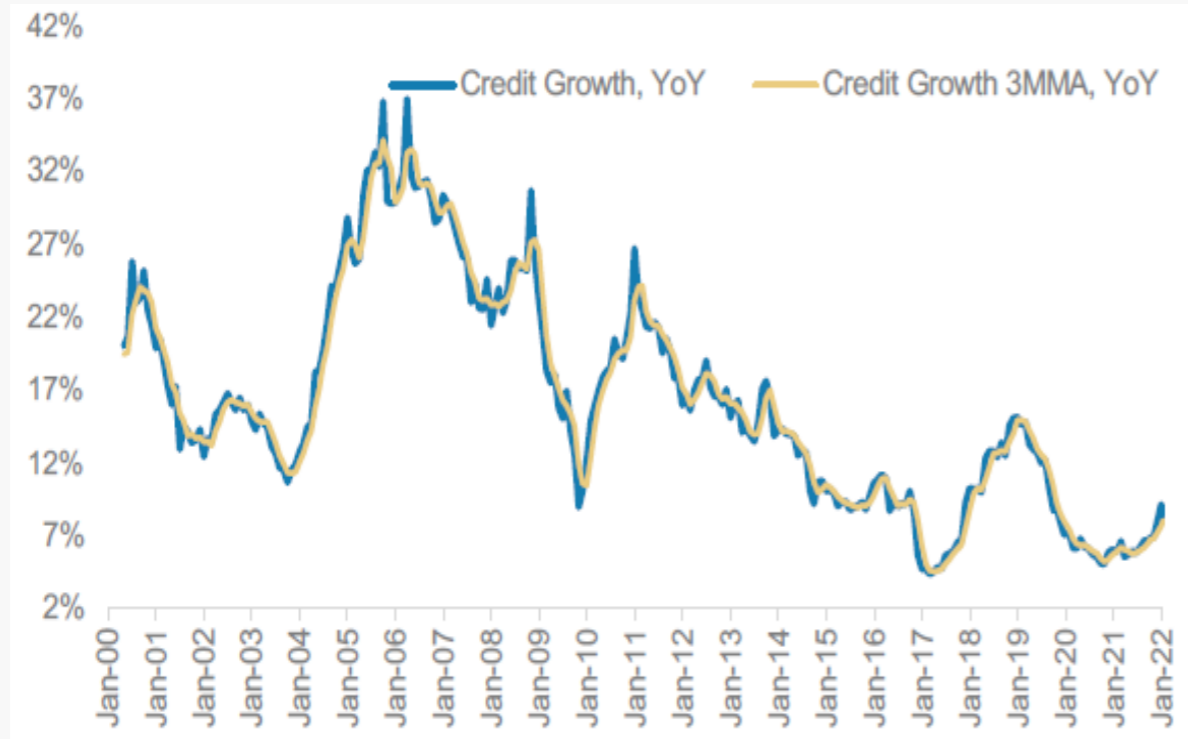


- February sees a clear and a sharp pickup in business resumption, from January which was impacted by the 3rd wave.

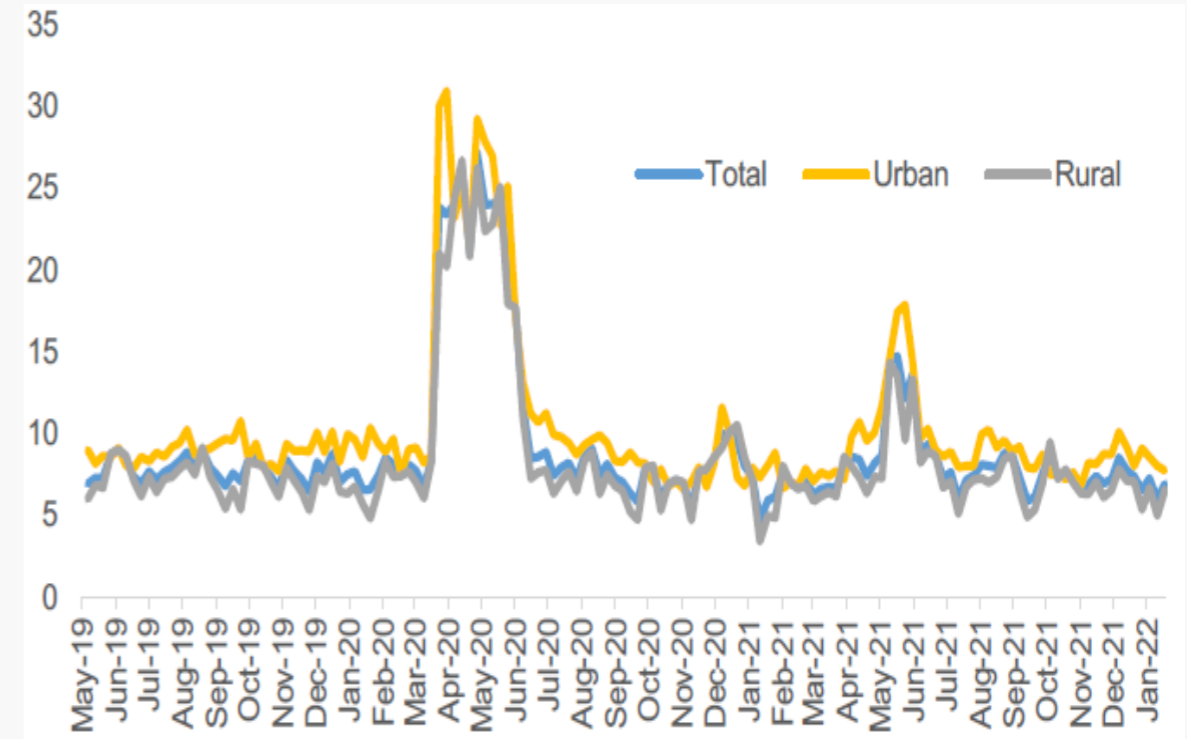
Source : Morgan Stanley , Nomura

# Macro indicators pointing towards growth

Credit growth pickup has touched February 2020 levels



Unemployment is back to pre-COVID levels



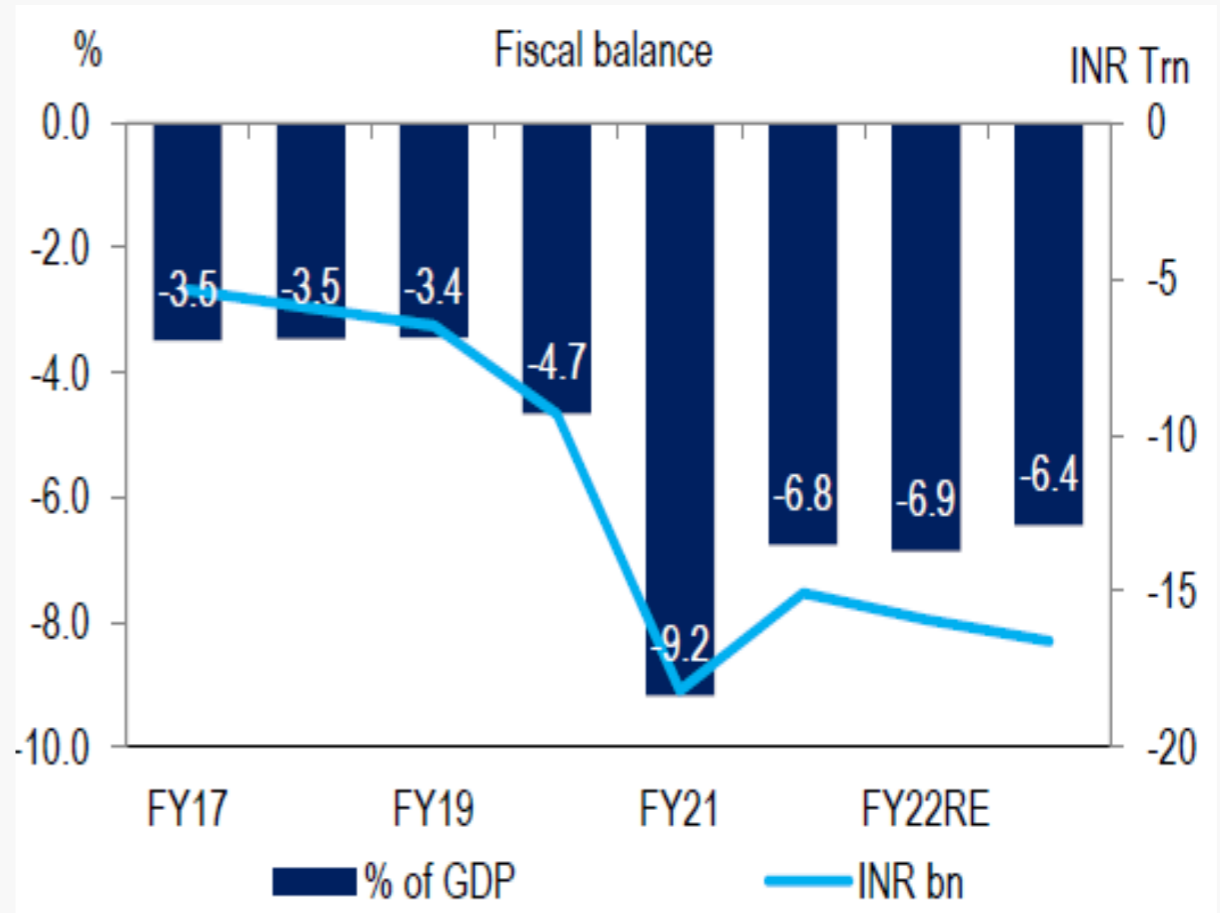
Source : Morgan Stanley

# Union Budget – conservative and moving towards increased transparency

## Budget assumptions on the conservative side

	YoY Growth (%)	
	FY 22 (Revised Estimate)	FY 23 (Budgeted Estimate)
<b>Revenue receipts</b>	<b>27</b>	<b>6</b>
Tax (net)	24	10
Non tax	51	-14
<b>Capital Receipts</b>	<b>73</b>	<b>-21</b>
<b>Total Receipts</b>	<b>29</b>	<b>5</b>
<b>Revenue expenditure</b>	<b>3</b>	<b>1</b>
<b>Capital expenditure</b>	<b>41</b>	<b>24</b>
<b>Total expenditure</b>	<b>7</b>	<b>5</b>

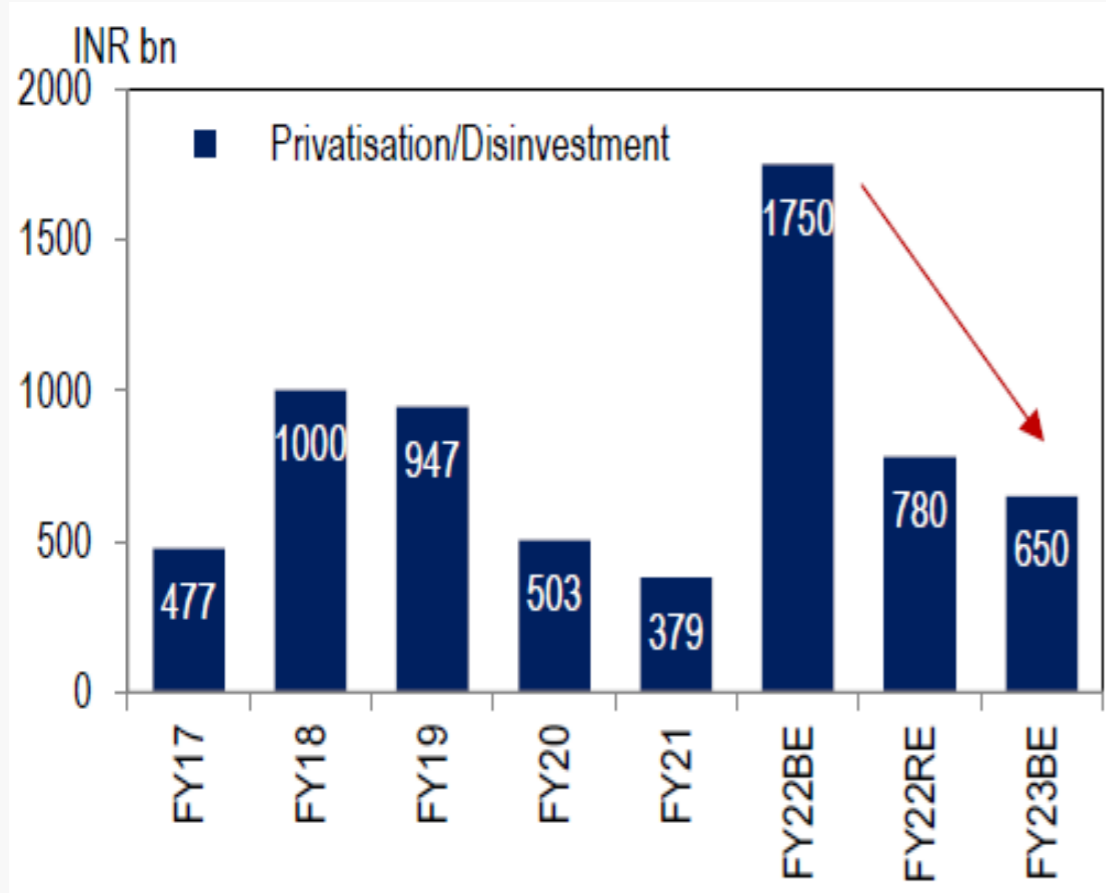
## Fiscal deficit continues to see consolidation



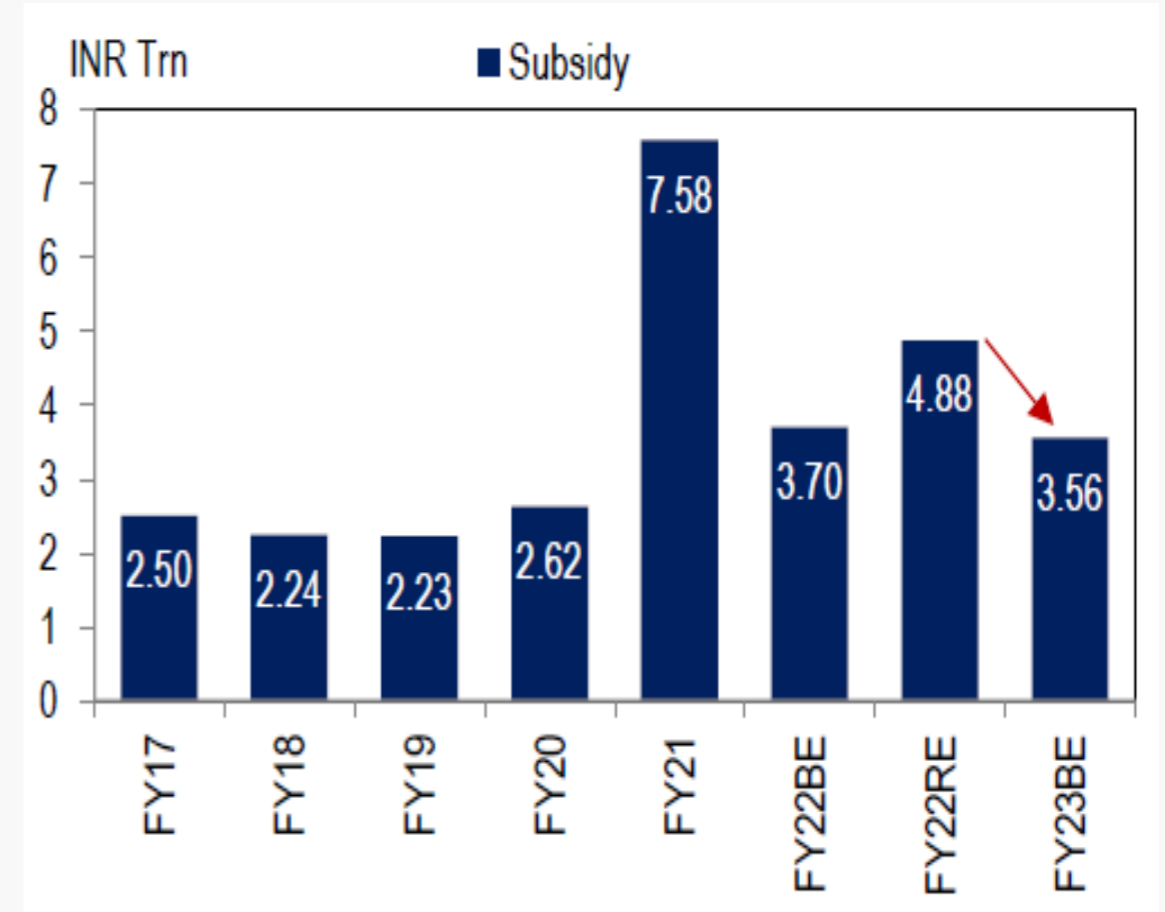
Source : Citi

# Union Budget – conservative and moving towards increased transparency

Disinvestment targets toned down significantly



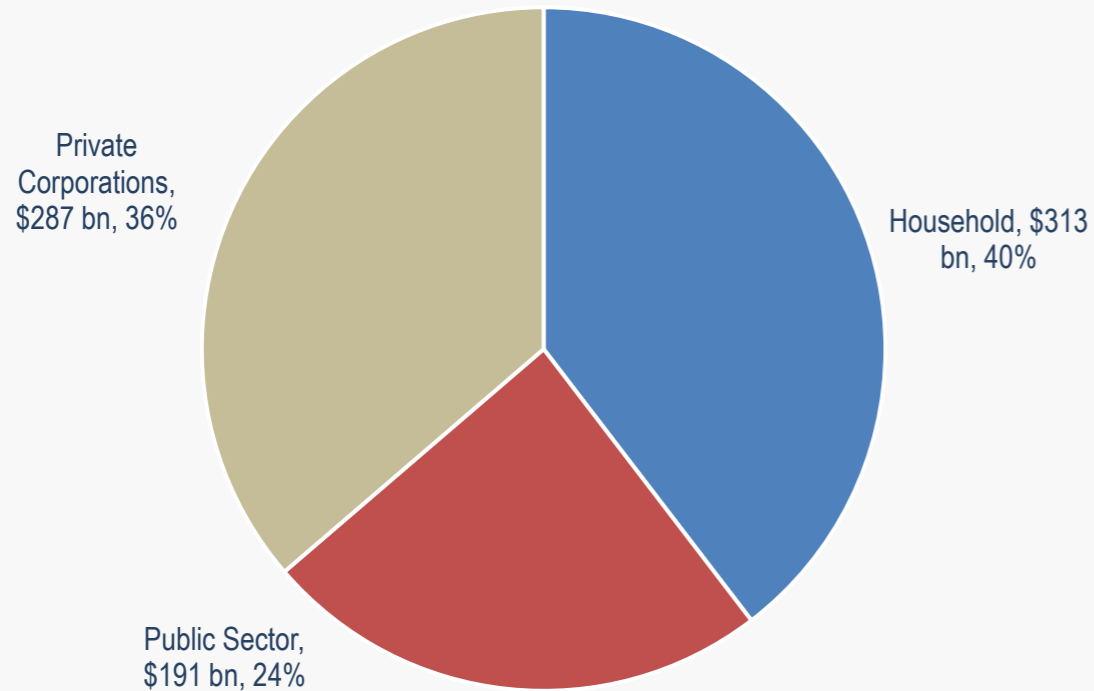
Subsidy spending normalizing as Covid becomes less of a threat



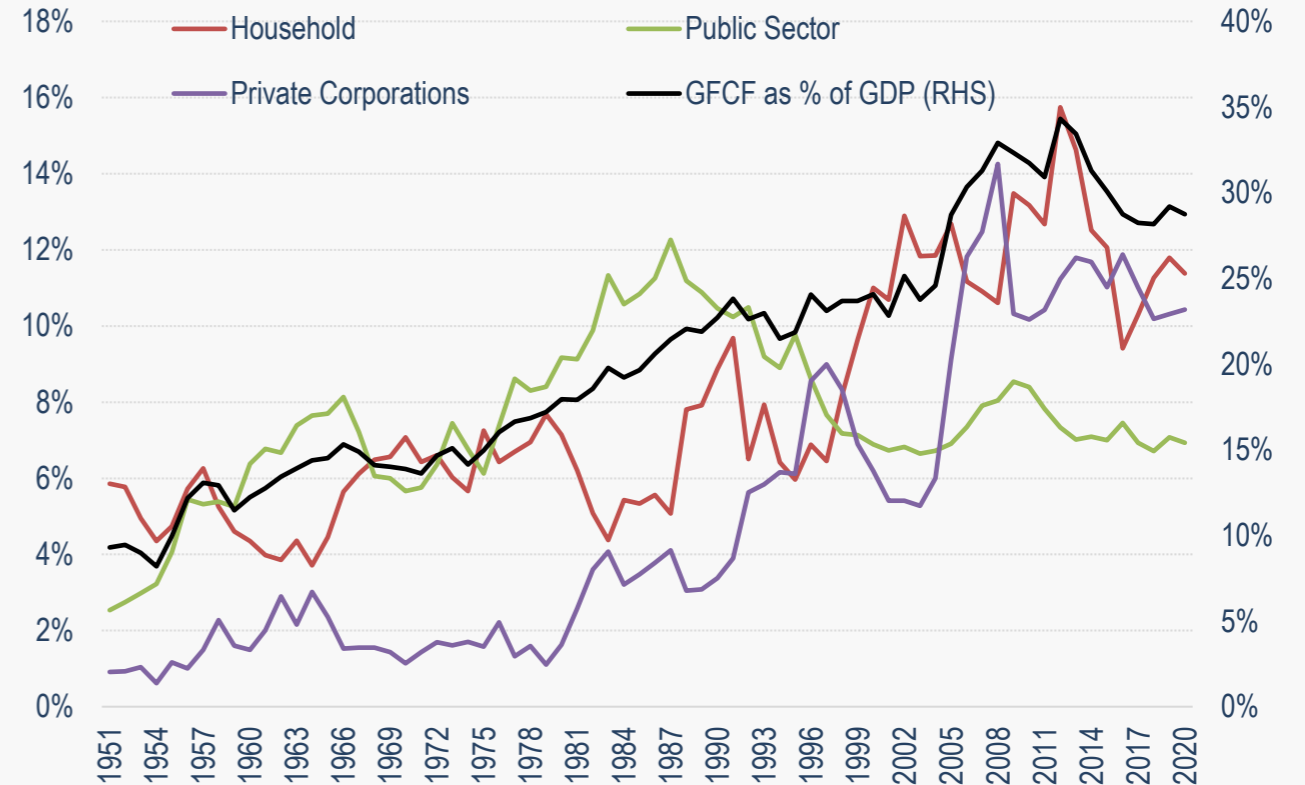
Source : Citi

# Gross Fixed Capital Formation (GFCF) poised to pick up after years of decline

## India Gross Fixed Capital components for CY 2020



## GFCF over the years

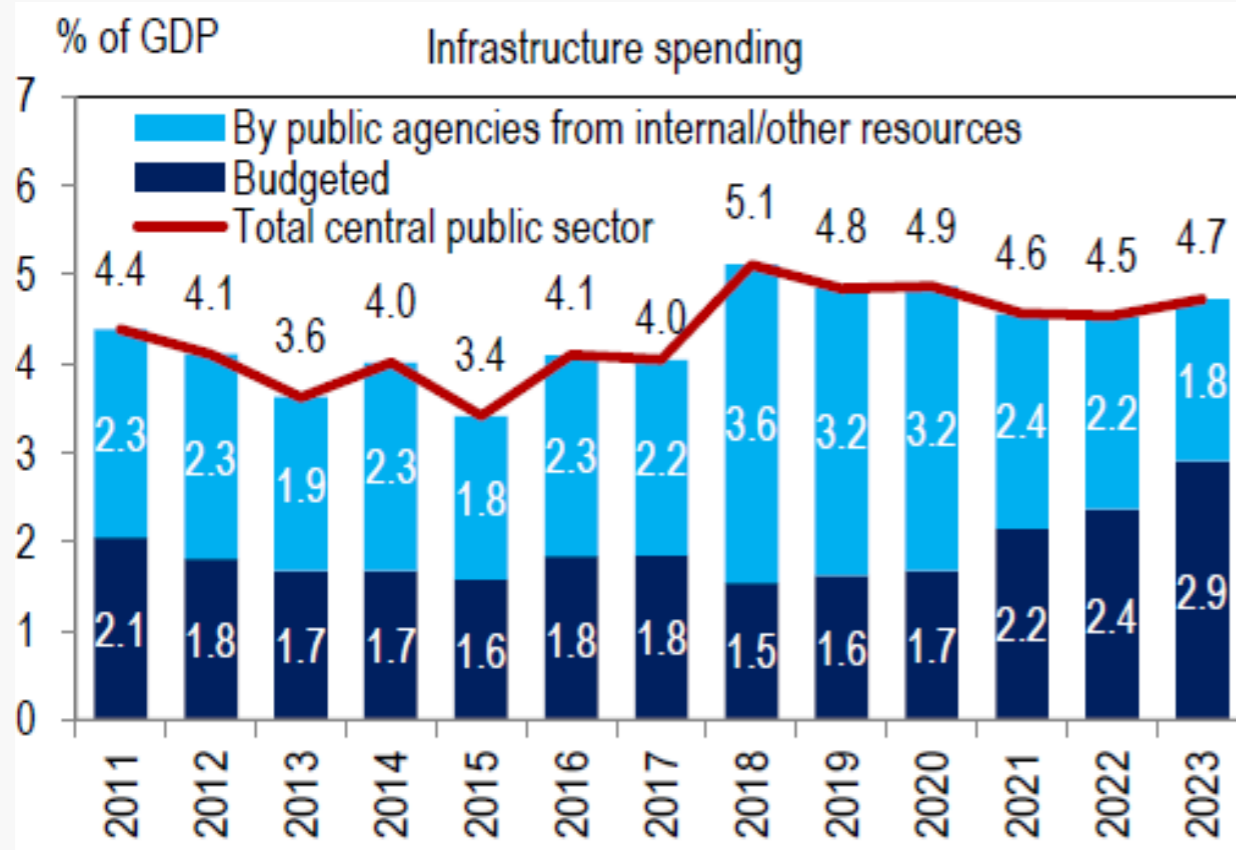


Source : Credit Suisse, Sundaram Asset Management



# Public capex emphasis evident in the Budget

Budgeted capex sees a sharp increase as off balance sheet spends are brought in

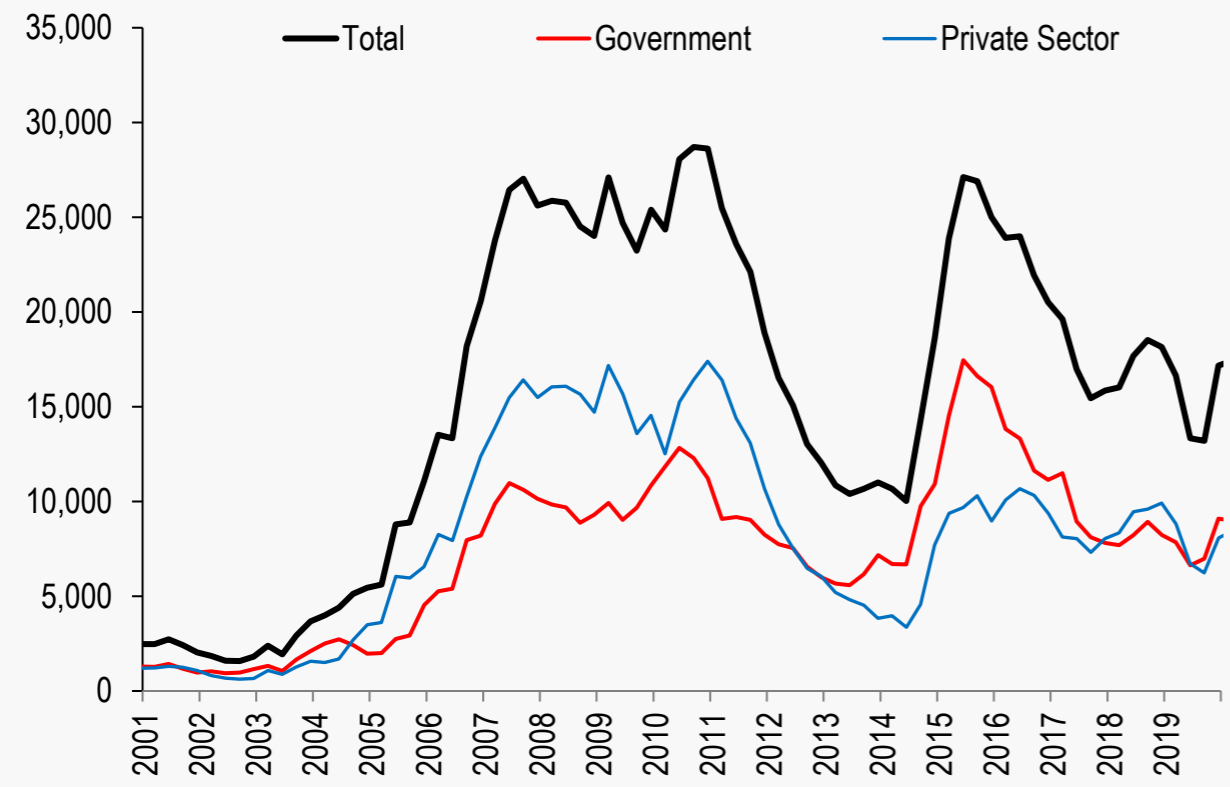


Rural development, water, roads, defense and railways are the top five focus areas

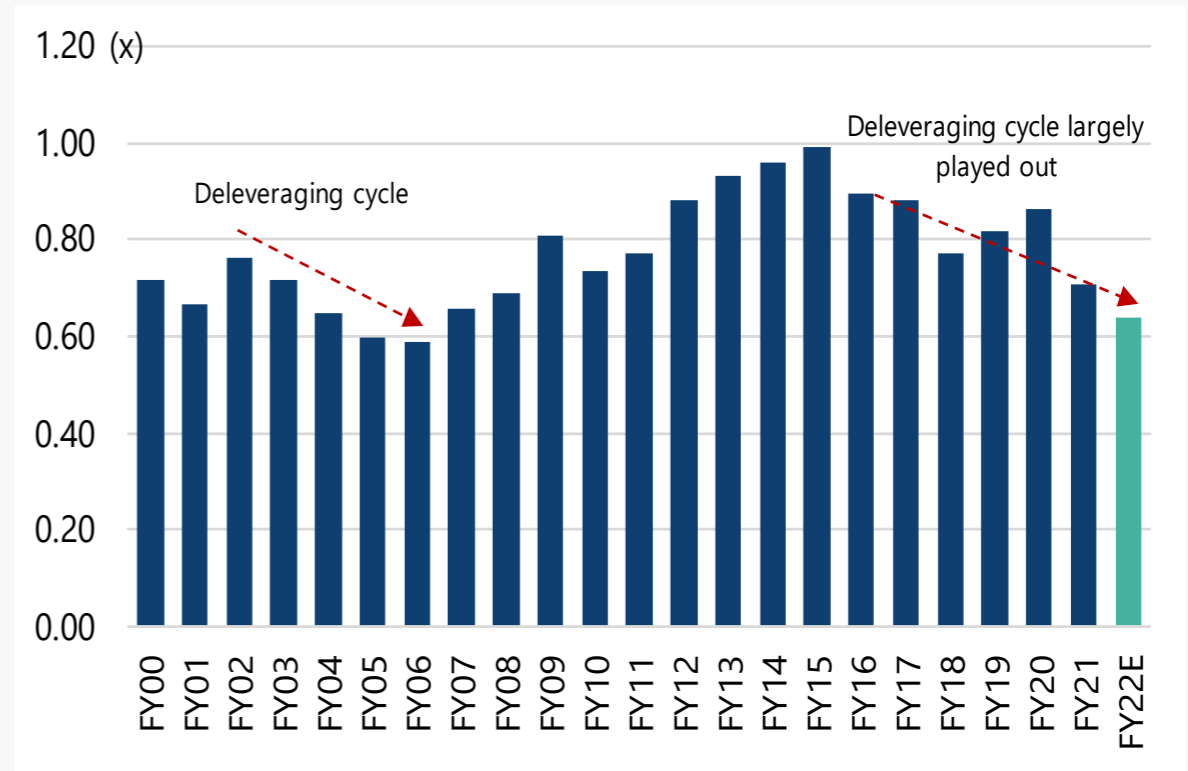
	INR bn	% of total
<b>Total Capex</b>	<b>7502</b>	
Roads	1877	25.0
Defence	1604	21.4
Railways	1371	18.3
Transfer to states	1119	14.9
Communications	550	7.3
Housing & urban affairs	273	3.6
Home affairs	168	2.2
Others	539	7.2
<b>Grants for capital assets creation</b>	<b>3176</b>	
Rural development	1070	33.7
Water - Jal Shakti	662	20.8
Housing & urban affairs	374	11.8
Transfers to states	177	5.6
Health & family welfare	171	5.4
Education	144	4.5
Power	110	3.5
Renewable energy	55	1.7

Source : Citi , Nomura

New investment projects, Rs. Bn (4Q trailing sum)



Corporate balance sheets have improved



Source : Morgan Stanley

# PLI induced Capex- game changer for Manufacturing industry

Sector	Initially Announced Outlay (Rs. bn)	Revised Outlay (Rs.bn)
Advance Chemistry cell battery	181	181
Auto and Auto components	570	259
Specialty steel	63	63
Pharma	254	254
PLI-1 (KSMs and Drug Intermediaries)	69	69
PLI-2	150	150
PLI -3 - Manufacturing of Medical Devices	34	34
Textiles	107	107
High efficiency solar PV Modules*	45	45
Mobile	410	386
White goods	62	62
Food Processing	109	109
Telecom	122	122
IT Hardware	50	73
<b>Subtotal</b>	<b>2,227</b>	<b>1,915</b>
Others		
Semiconductors	760	760
<b>Total</b>	<b>2,987</b>	<b>2,675</b>

Sector	Minimum investment expected based on requirement (Rs. bn)	Expected Investment by Government (Rs. bn)
Advance Chemistry cell battery*	225	450
Auto and Auto components*	213	425
Specialty steel	396	400
Pharma	216	280
PLI-1 (KSMs and Drug Intermediaries)	29	54
PLI-2	150	150
PLI -3 - Manufacturing of Medical Devices	38	76
Textiles*	95	190
High efficiency solar PV Modules*	86	172
Mobile	66	110
White goods*	79	79
Food Processing	38	61
Telecom	17	30
IT Hardware	22	25
<b>Subtotal</b>	<b>1,669</b>	<b>2,502</b>
Others		
Semiconductors	850	1,700
<b>Total</b>	<b>2,519</b>	<b>4,202</b>

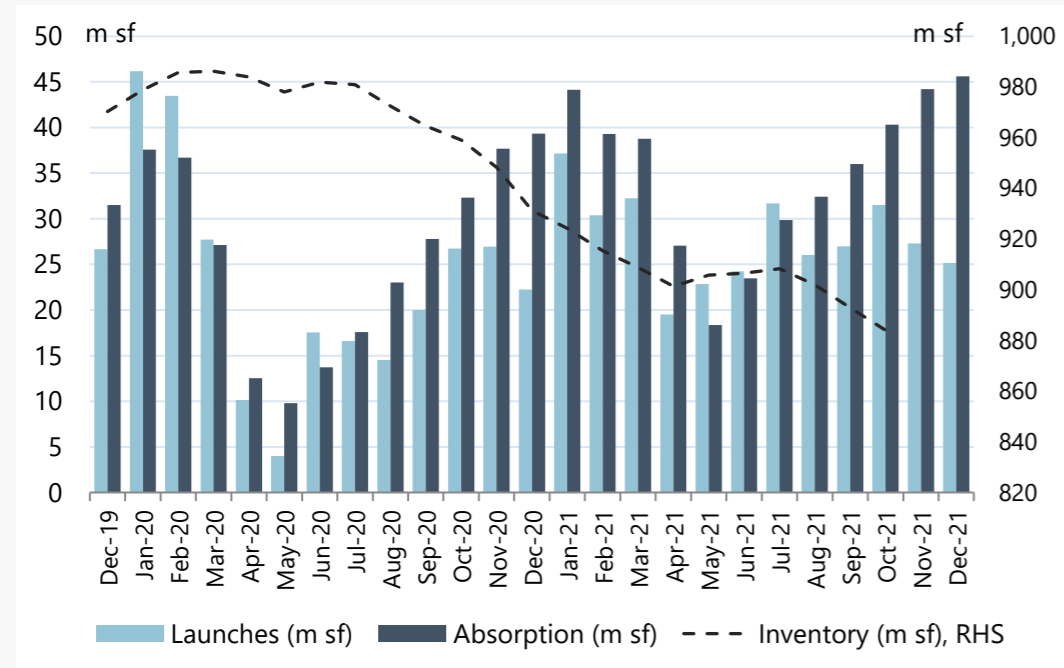
\* Minimum investment is estimated to be half of expected investment or is internally estimated since breakdown is not available

- PLI is set to trigger private sector capex in the range of INR 2-4 trn across Pharma, Auto Components, Advance Chemistry, Textiles, Solar, Mobile among others
- Government commits INR 2.6tn outlay to PLI and semiconductors scheme

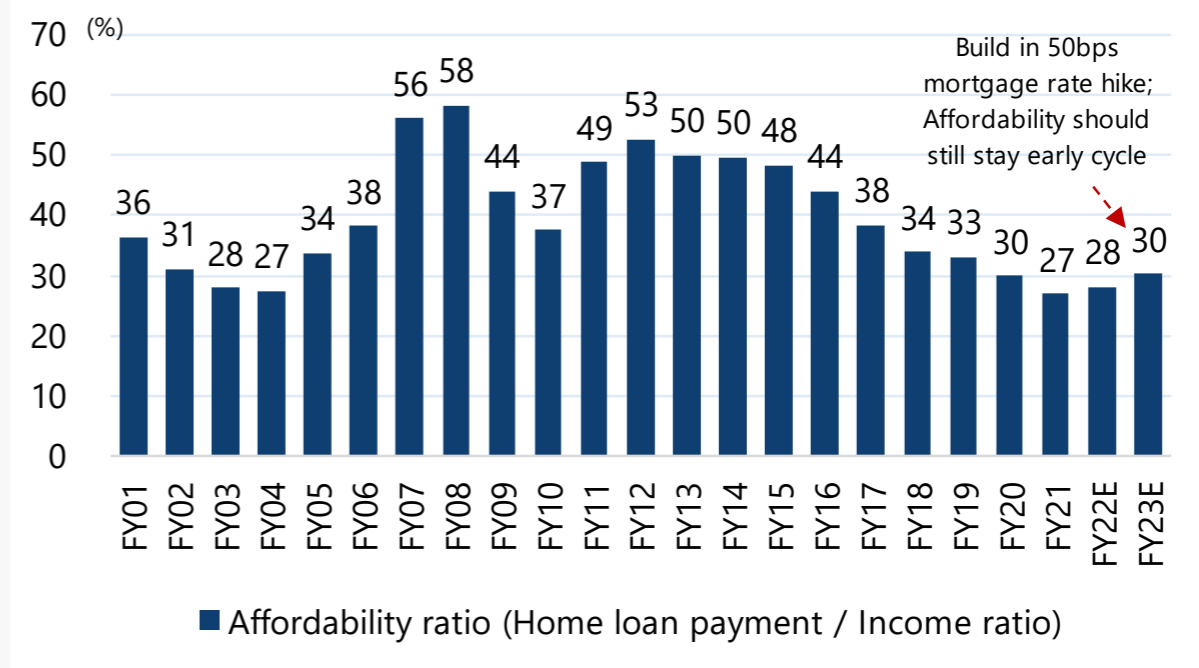
Source : Press Information Bureau (PIB), Elara Securities Research

# Household Sector - Real estate cycle has turned

Absorption, new launches and inventory in Top 7 cities

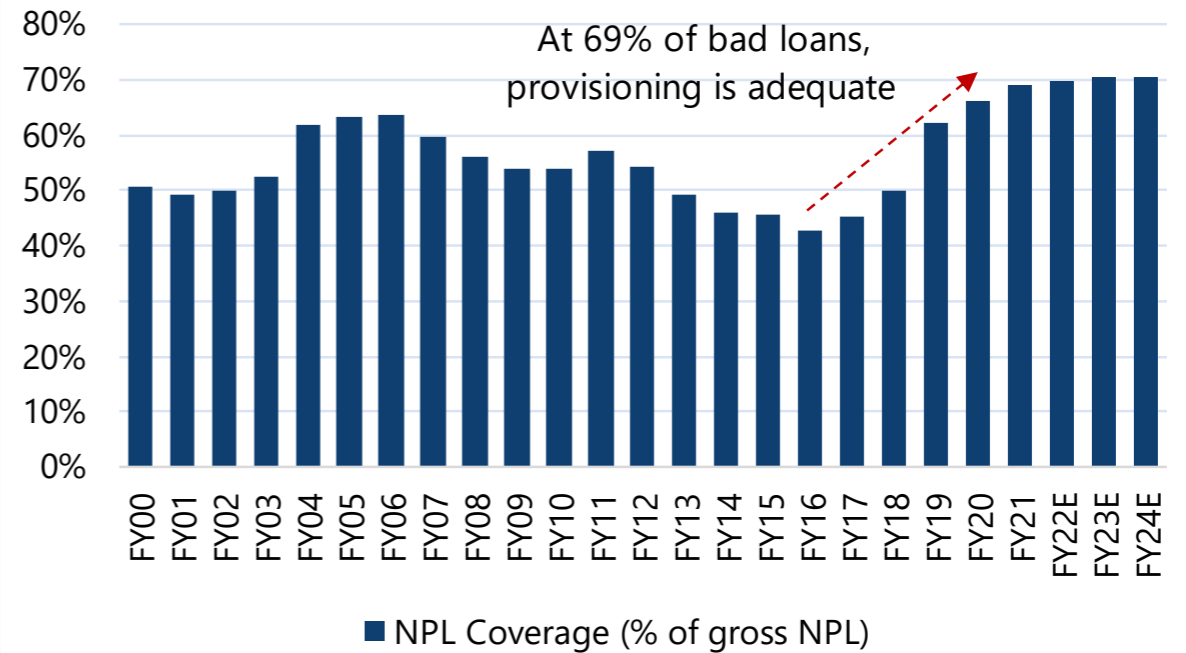
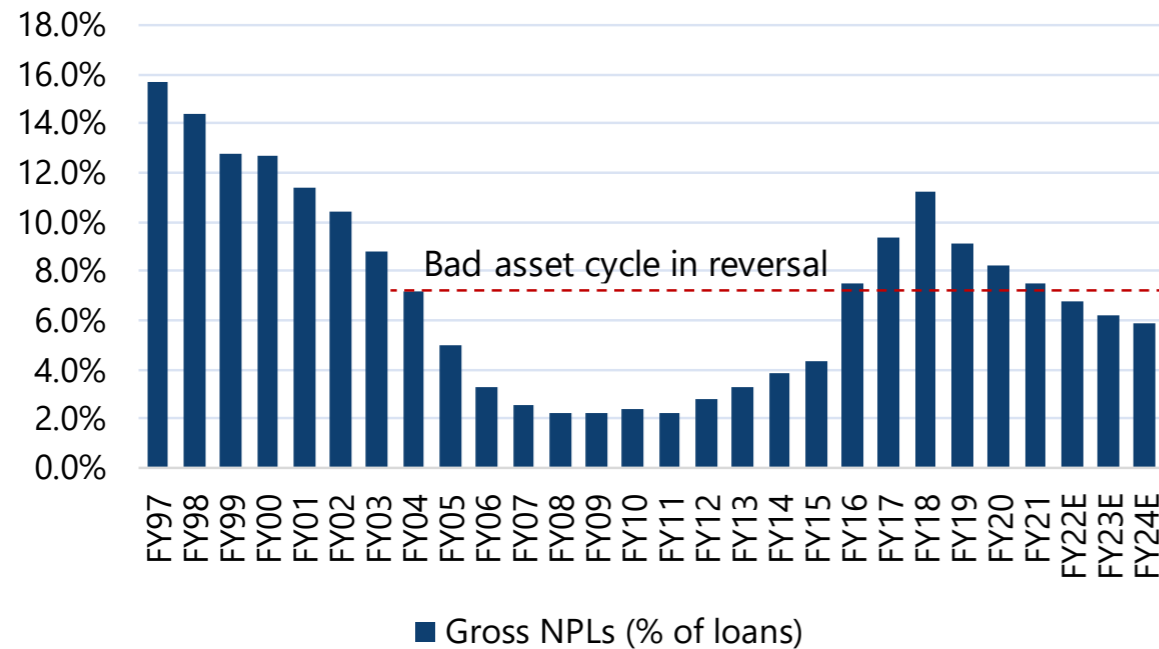


Affordability ratio favourable



Source : HDFC, Anarock, Jefferies

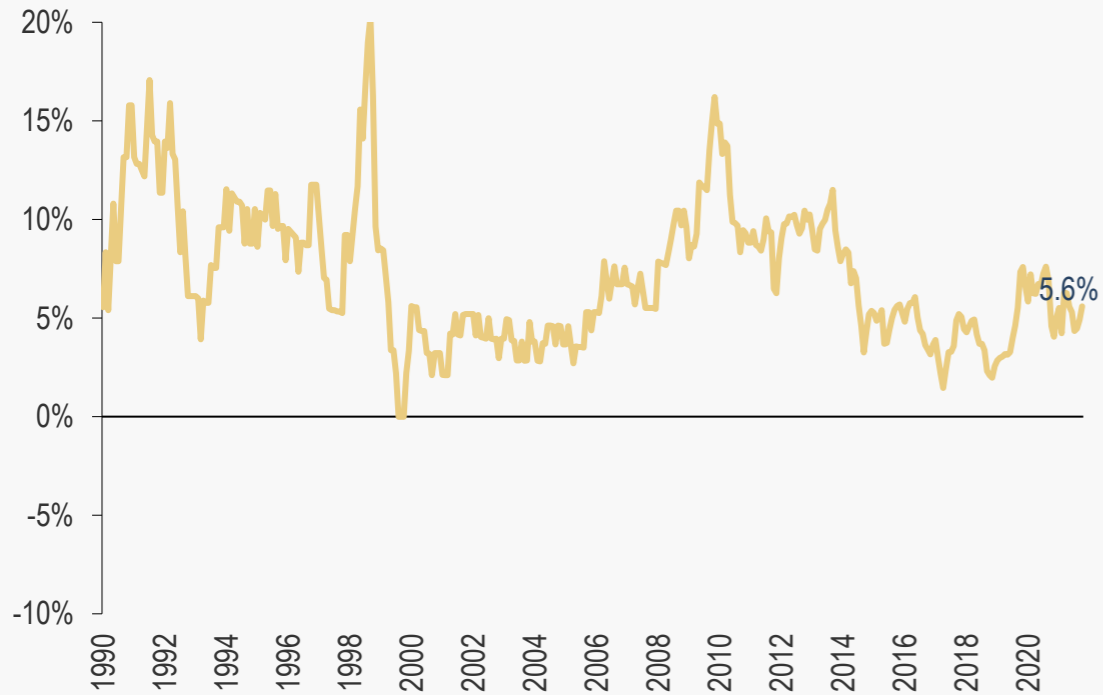
# Banking Sector in good shape and poised to fund the growth



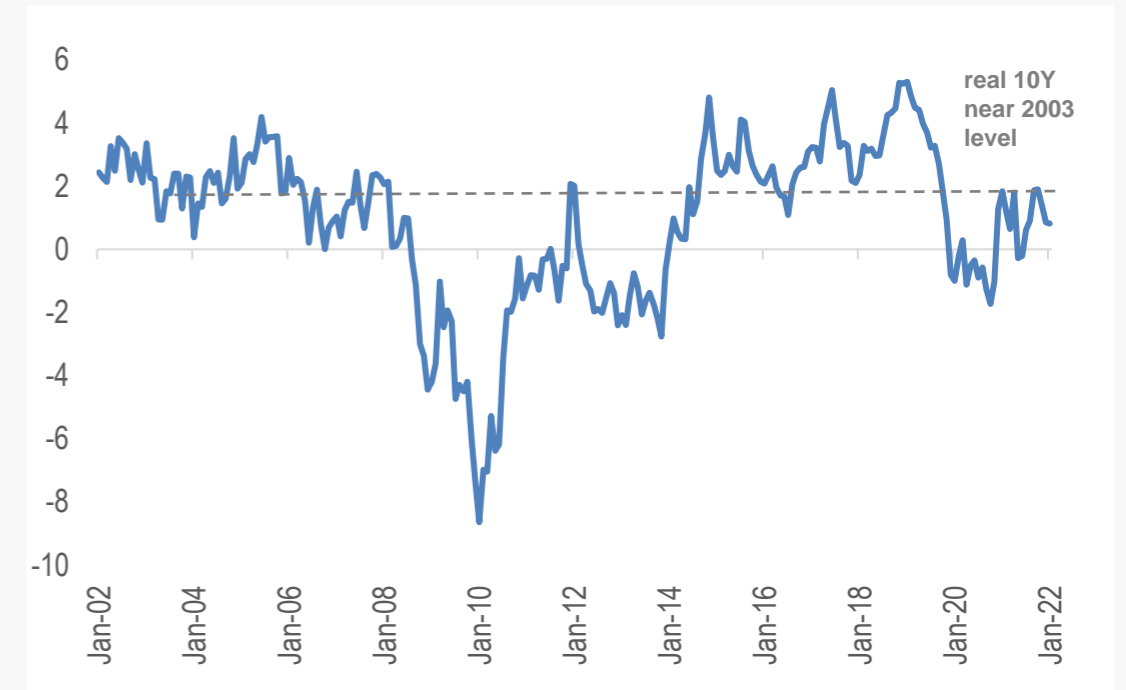
Source : Jefferies, Sundaram Asset Management

# Inflation under control, RBI unlikely to rock the boat

Headline Inflation - CPI



India 10 Year Real Yield

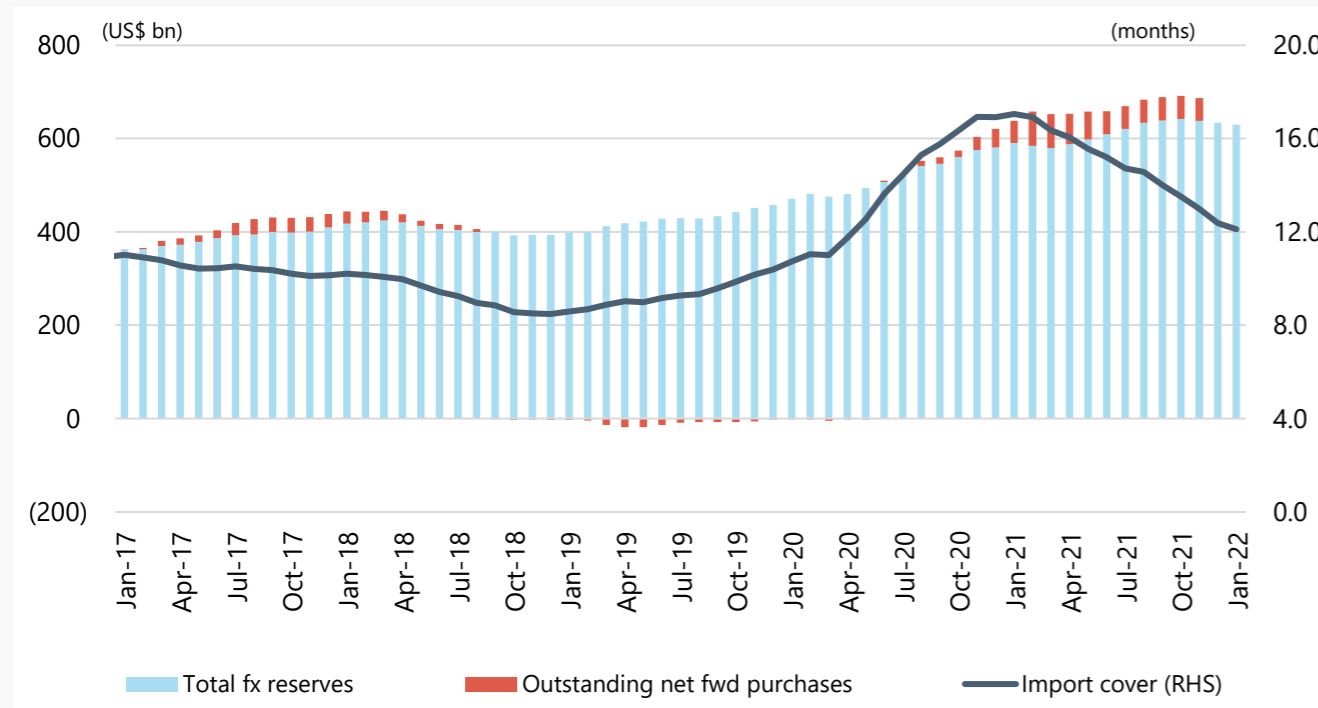


- In its recent Monetary Policy in February 2022, RBI left all rates on hold and continued with its accommodative stance
- RBI's policy was much more dovish than expected on account of pandemic-related uncertainty and the ongoing domestic economy revival

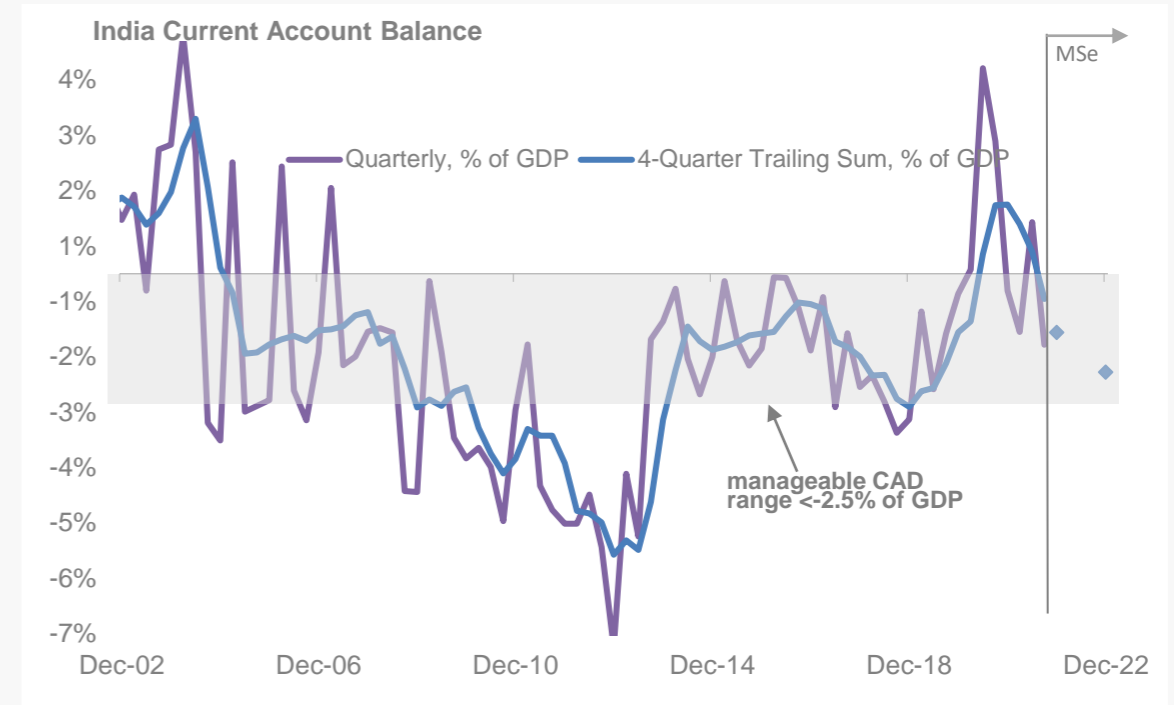
Source : MOSPI, JP Morgan, Morgan Stanley, Sundaram Asset Management

# Adequate Forex Reserves - first line of defence against any taper tantrum

India Forex reserves and import cover



India Current Account Balance



- All through the pandemic, the RBI has been accumulating forex reserves and keeping the rupee weaker than it should have been.
- Forex reserves came off its September 2021 peak of \$645.4 bn and is currently at \$631.9 bn, a comfortable 12 months of import cover.
- The government has been extra-careful and has stayed away from spending pushes. This has kept the fiscal deficit under check.
- A contained fiscal deficit and a comfortable BOP position have kept any taper fears well at bay.

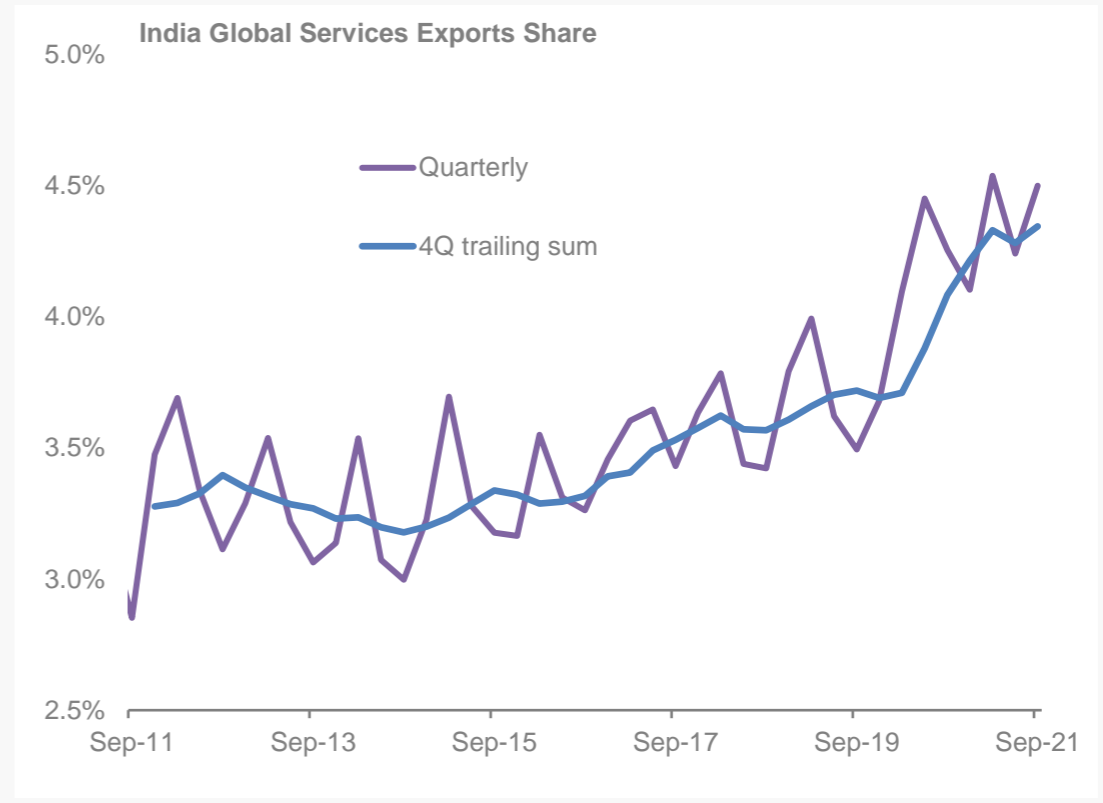
Source : Jefferies, Morgan Stanley

# India's exports looking up

India World Goods Exports Share (%)



India Global Services Exports Share (%)

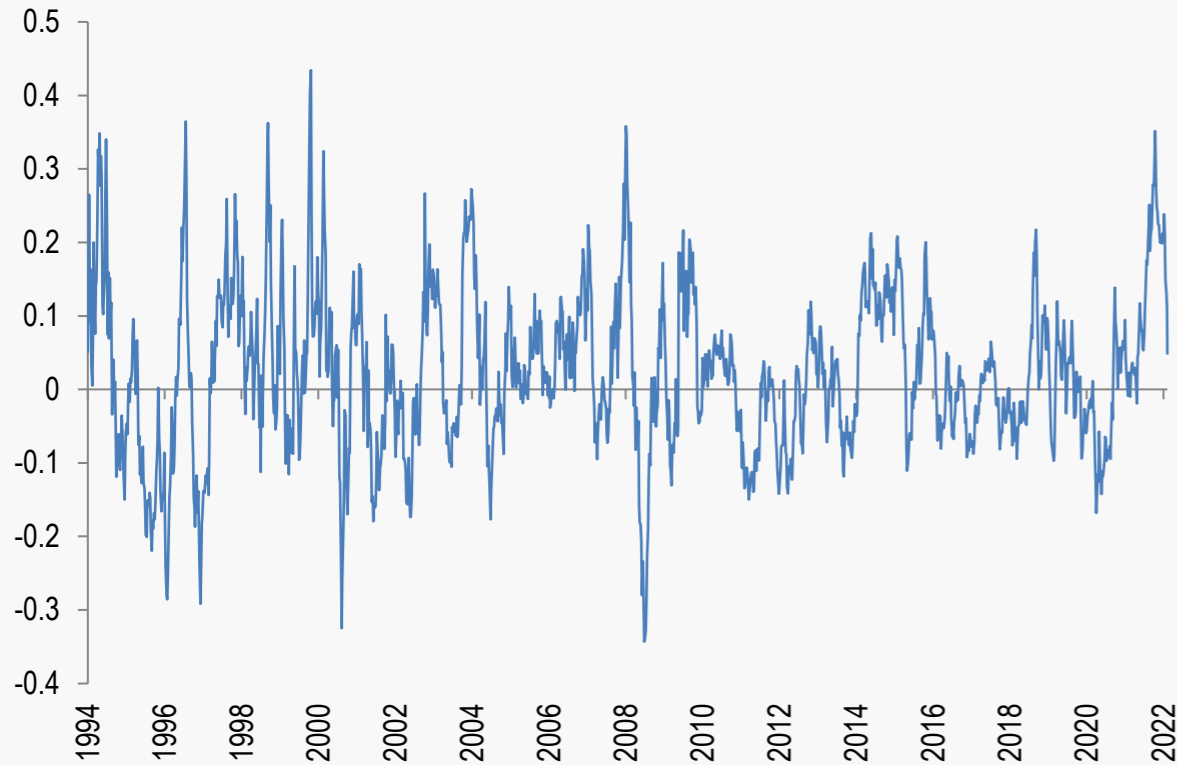


Source : Morgan Stanley



# Indian Market – Foreign investors more neutral now

MSCI India 6M performance relative to MSCI EM (USD)



Survey of key EM managers positioning relative to MSCI EM – by JP Morgan

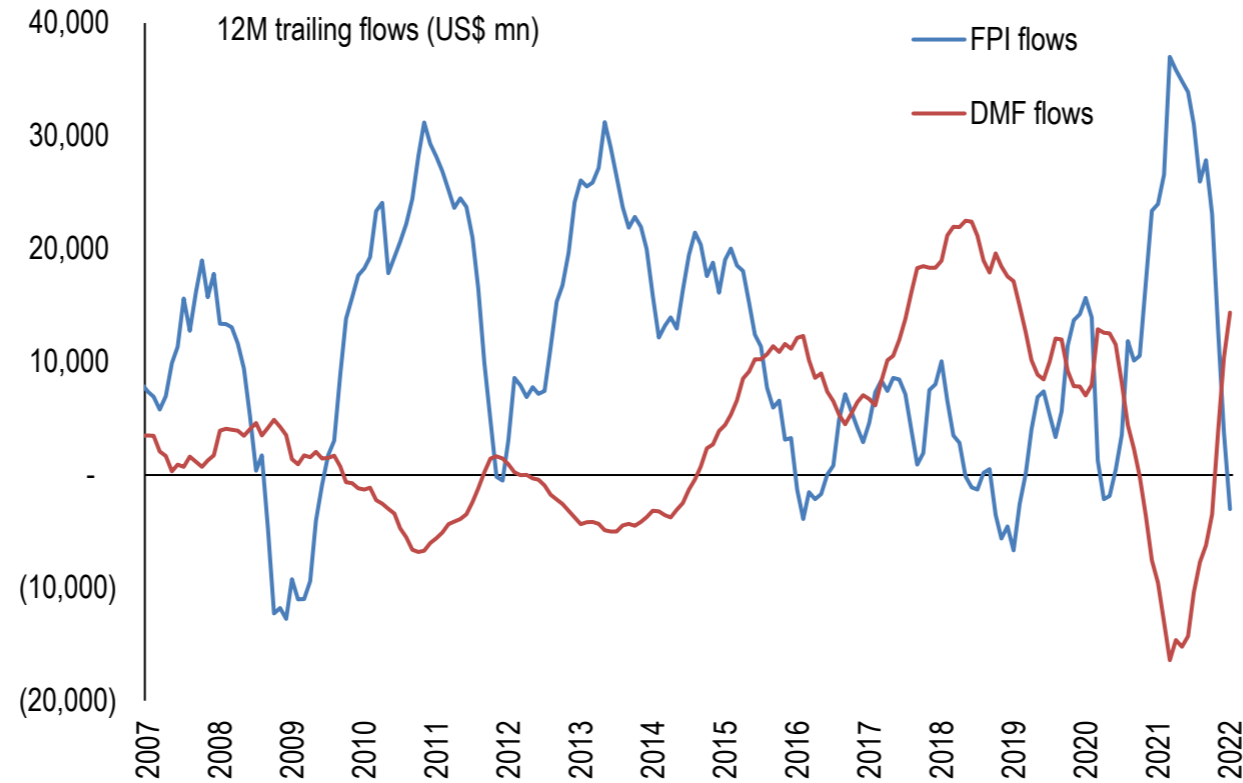
Markets	>2% OW	<2% UW	OW-UW	<0.1%	EM	Funds asset allocation relative to MSCI EM Benchmark					JPM
						Wts (%)	Minimum	Bottom quartile	Median	Top quartile	
India	18 (20)	16 (13)	2 (7)	1 (0)	12.5	(12.5)	(2.1)	(0.1)	2.7	18.8	N

- The broad FPI stance on India now has come down to neutral from a heavy overweight for most part of last year
- That however has not stopped Indian equities from outperforming. On a 1-month basis as of end January 2022, MSCI India had outperformed MSCI EM by 0.5% and MSCI ACWI by 3.6%. On a 3-month basis, the outperformance was by 3.6% and 2.8% respectively and on a 6-month basis by 14.9% and 10.4%.

Source : Morgan Stanley, JP Morgan

# ....Domestic investors have been lending support

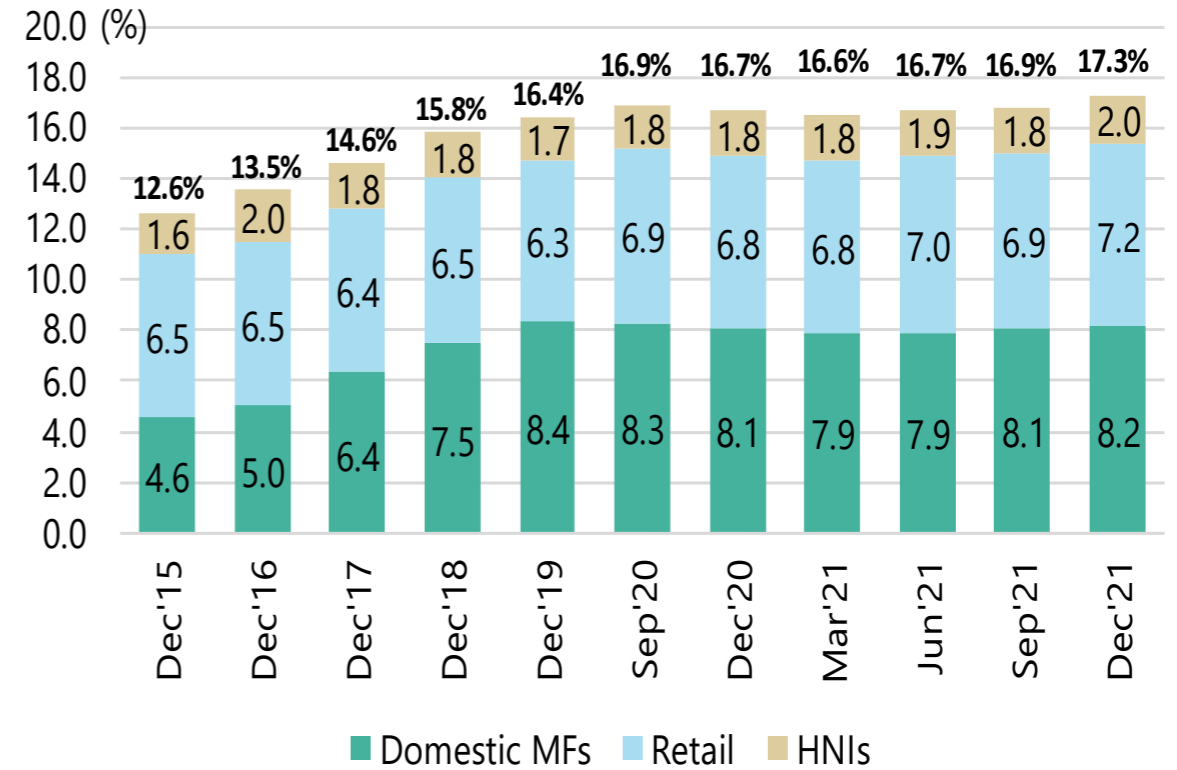
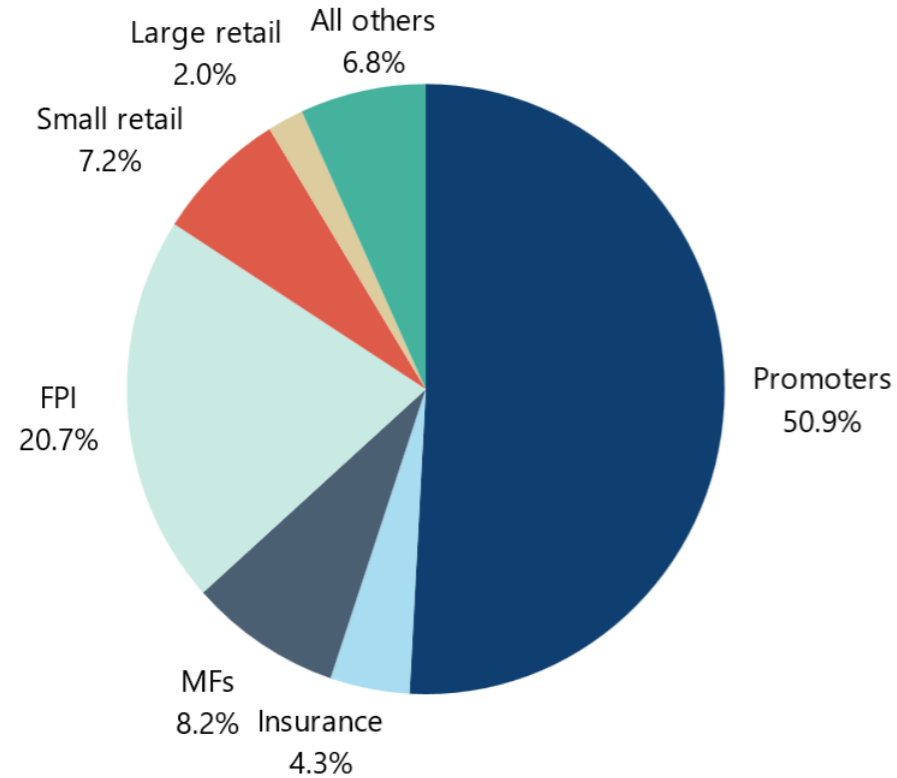
FPI vs DMF Flows



Source : Morgan Stanley

# Domestic investor ownership rising

As of December 2021



Source : Jefferies

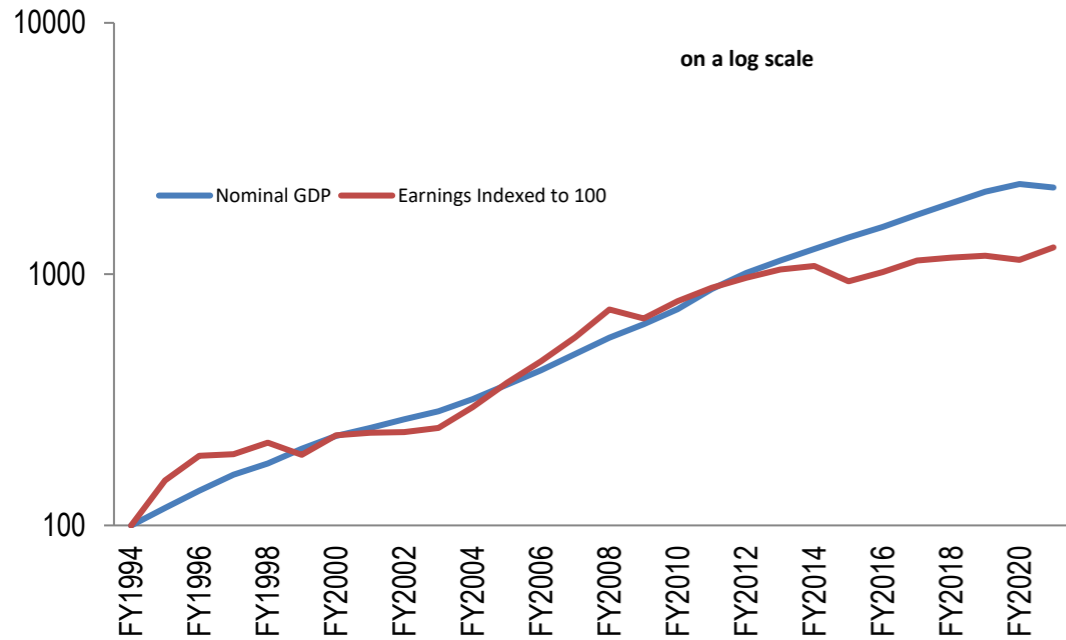
# Indian Market is not cheap

Valuations	Current	Average
<b>MSCI India</b>		
Trailing PE	26.6	19.1
12M Fwd PE	22.7	15.2
Trailing PB	3.8	3.0
Dividend Yield	1.0%	1.4%
VAFG	33%	55%
Modified EY Gap	0.0%	-1.4%
EY Gap	0.0%	-1.9%
<b>MSCI India Relative to EM</b>		
Trailing PE	1.9	1.3
12M Fwd PE	1.9	1.3

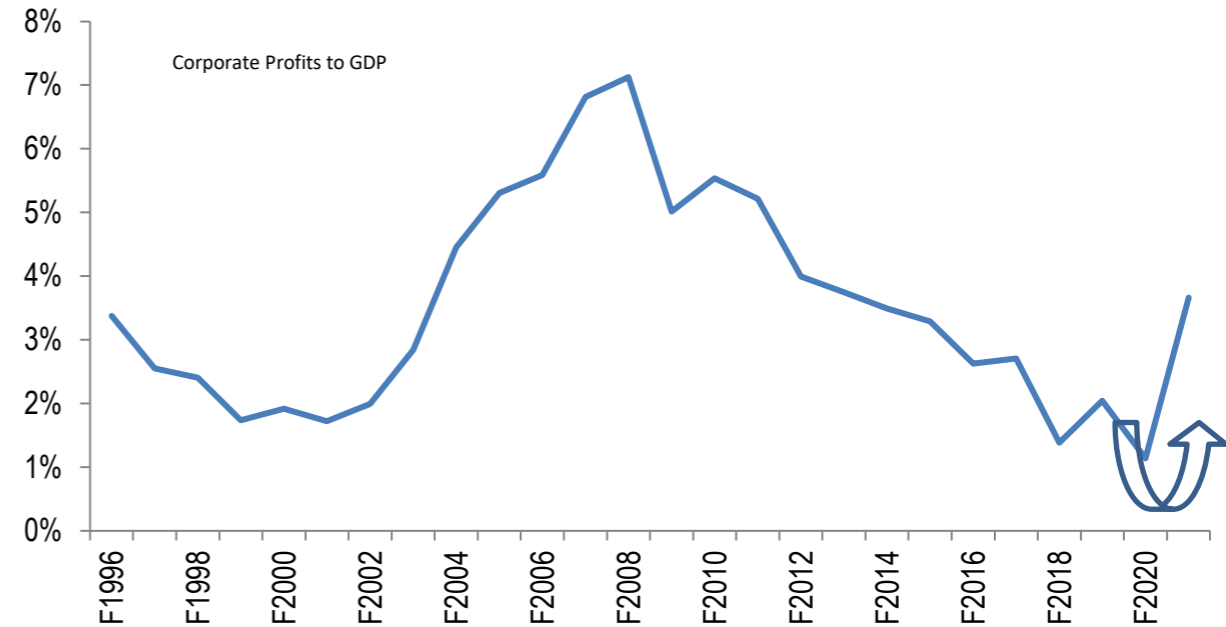
Source : Morgan Stanley

# Earnings growth should return to trend justifying the valuations

GDP vs Earnings Growth (on a log scale)



Corporate Profits to GDP Ratio



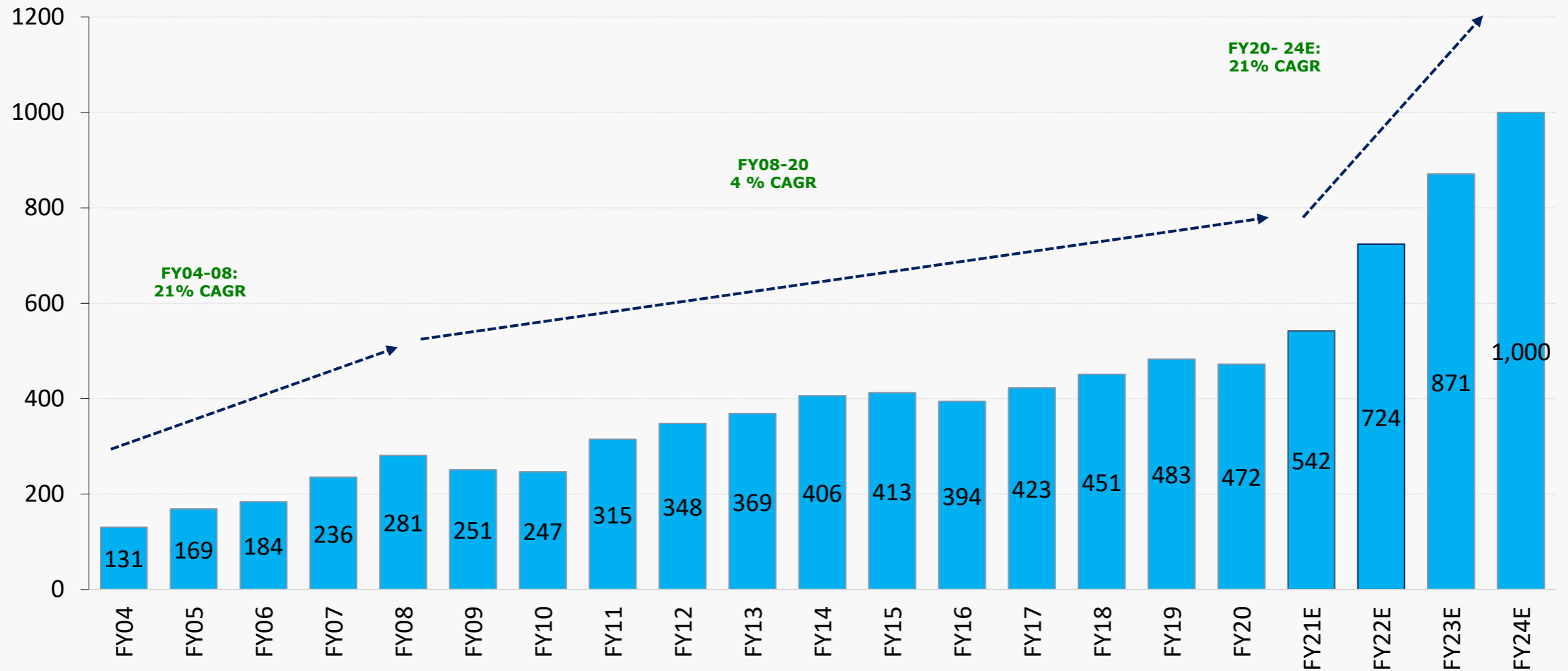
Source : Morgan Stanley

# Resilient profit growth in the December 2021 quarter

	Profit after Tax	
	YoY	QoQ
Nifty	23%	-2%
Next50	14%	1%
Midcap100	20%	11%
Midcap100 (Ex-Vodafone)	32%	7%

Source : Capitaline , ICICI Securities

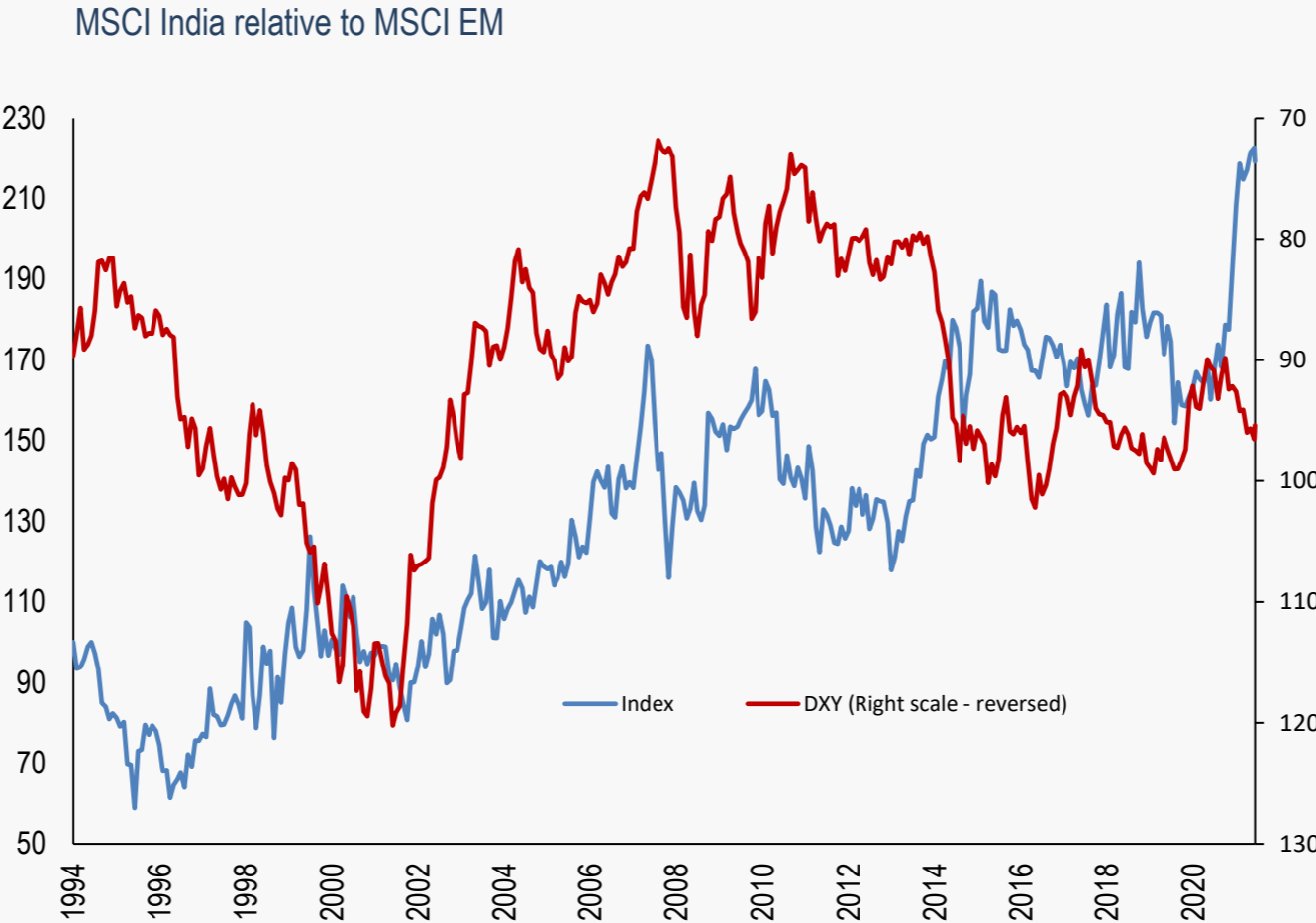
# Nifty EPS Growth Trend



Source : Sundaram Asset Management, Bloomberg



# India tends to do well when USD weakens



Source : Morgan Stanley



**Thank You**



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