India Avenue's

Grassroots India Tour

(Feb 19 – 25th, 2023)

Mugunthan Siva
INDIA AVENUE INVESTMENT MANAGEMENT

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An Introduction to India Avenue

India Avenue is a boutique investment firm focused on India as an investment destination, given the country's strong underlying fundamentals, which are likely to be in place for at least the next two decades. The firm is domiciled in Sydney, Australia and has clients across HNW, Family Offices, Advised Clients and Direct Investors. The firm has approximately A$70m in assets under management, spread across two investment products.

India Avenue, as a firm, is focused on "upskilling" both existing and potential investors/enablers to investors (our client network), to allow for more informed decision making on allocating to Indian equities as part of an investment portfolio. Our annual ***Grassroots India Tour***, which takes our client network to India to witness the growth story firsthand, plays a significant role. We feel this is where several of the network have their first light bulb moment on why they should invest in India. On our Tour we seek to meet central bankers, government advisers, founders/promoters, corporate management, fund managers, investment strategists and broking analysts. Aside from the more formal meetings, we also mix in experiences where we witness the thematics of '*formalisation*', '*financialisation*' and '*digitisation*' at play in India!

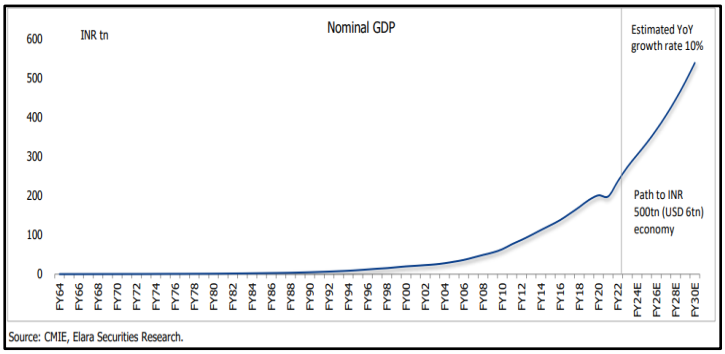
Key Themes of Grassroots India Tour III

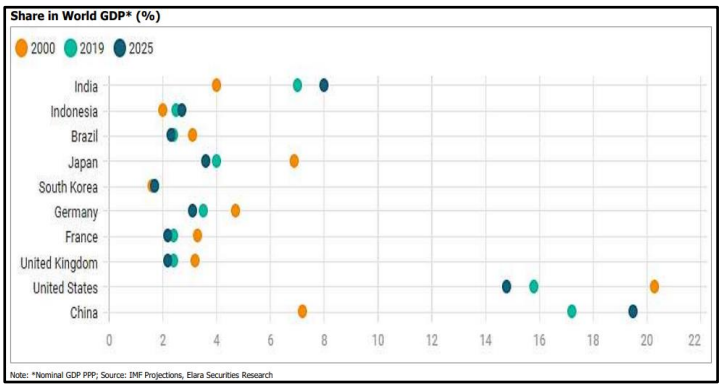
This year GIT3 was conducted from February 19th to 24th, across three cities of Mumbai, Pune and Delhi. We also added an optional tour to Agra on the 25th for those who wanted to visit the Taj Mahal. Our Tour included meetings with the Reserve Bank of India, Economic Think Tank of the Government (Niti Aayog), corporate management and business owners across an array of successful businesses as well as some of India's leading fund managers who are advisors to the India Avenue Equity Fund and the India 2030 Fund. This report seeks to summarise the Tour and provide some key takeaways. However, before we get to the Tour, we thought we would discuss India's macro and microeconomics and cover some key thematics upfront.

Some of the key themes we uncovered throughout the Tour are summarised here and provide context to some of our meetings and discussions. Additionally we elaborate on these themes later in this document:

Thematic	
China + 1	India is benefitting from supply chain diversity due to the need for governments and corporates globally to diversify their reliance on China. Compounded with India's large employable population, this will lead to an increase in manufacturing, exports and consumption.
Infrastructure and Capex	Government capex was significant in India's Union Budget. Additionally, an improved state of India's banking system, a strong corporate balance sheet and improved infrastructure is likely to lead to stimulating private capex.
Capacity	Capacity utilisation is currently at 74% on the RBI Index. Several companies highlighted the potential to increase capacity as the demand environment improves.
Digitisation	India's internet and mobile phone penetration is rising fast, allowing the digitisation of India and much cheaper last mile connectivity as well as greater inclusiveness.
Corporate Balance Sheets	Debt-to-equity levels are as low as they have been due to a prior decade of deleveraging. This comes at an ideal time given the rising cost of debt. Corporate India will be able to add capacity when demand is evident and rates normalise, whilst other country peers are dealing are having to deal with deleveraging.
Economic Policy	Policy has been stable given nine years of BJP leadership. It is likely the BJP will remain in power till 2029, proving a 15-year policy follow through.
Compounding Growth	The benefits of the compounding growth story were evident at all meetings. Given the underpinning of positive demographics, a more stable political front and macroeconomics, companies have been providing investors with significant compounding earnings and high RoE's due to India's scale and operating leverage.

India's Macroeconomics





According to the Investment Strategist at Elara Capital (one of India's leading local brokers), India will be a US$5trillion economy by FY27, given a conservative nominal growth rate of above 10% per annum (historical average is over 12%). By the end of the decade India's GDP is likely to be between US$6-7tn, which is likely to mean it will be the third largest economy in the world, behind the US and China.

Supply-side reforms, a focus on infrastructure and capital expenditure, energy transition, leadership in technology services/products and demographic advantages are the key levers to India's growth story.

Over the course of this century, China's weight in the MSCI Emerging Markets has risen from 3.3% to 28.5%, driven by strong growth in nominal GDP from 2000-2014. However a lot of China's increase in market cap was achieved by inclusion of A-shares to more accurately represent its economic size. India today has achieved a level of GDP output (in USD) which China achieved 15 years ago.

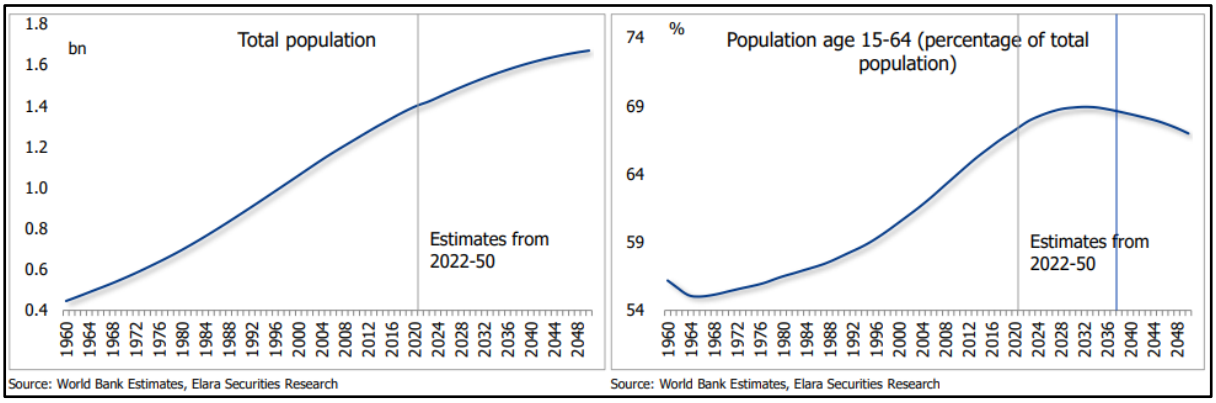
Country	Indicator	2000	2004	2009	2014	2019	2022	2027
China	**Nominal GDP (USD bn)**	**1206**	**1949**	**5089**	**10524**	**14341**	**18321**	**26438**
	% 5y CAGR	*7.0*	*10.1*	*21.2*	*15.6*	*6.4*	*5.0*	*7.6*
	MSCI Weight*	**3.3**	**4.9**	**15.3**	**18.8**	**31.4**	**28.5**	**-**
	bps change	*210*	*160*	*1040*	*350*	*1260*	*-290*	*-*
India	**Nominal GDP (USD bn)**	**477**	**722**	**1365**	**2039**	**2832**	**3469**	**5366**
	% 5y CAGR	*3.6*	*8.6*	*13.6*	*8.4*	*6.8*	*4.1*	*9.1*
	MSCI Weight*	**7.8**	**7.5**	**8.2**	**11.7**	**9.3**	**15.6***	**?**
	bps change	*-30*	*-30*	*70*	*350*	*-240*	*630*	*-*

Note: *As of December each year; 2022 is as of November. Nominal GDP post 2019 are projections; Source: IMF, MSCI, Elara Securities Research

In India's case the increase in nominal GDP compounded at a lower rate, but is now set to overtake China. This should lead to a significant increase in its weight in the MSCI EM over the next decade and beyond. Despite India's free-float market cap being lower due to significant founder ownership (close to 50%), its growth potential, entrepreneurial nature and increasing privatisation is set to lead it to a significant increase in weight and therefore consideration as a stand-alone allocation in the "growth bucket" of investment portfolios.

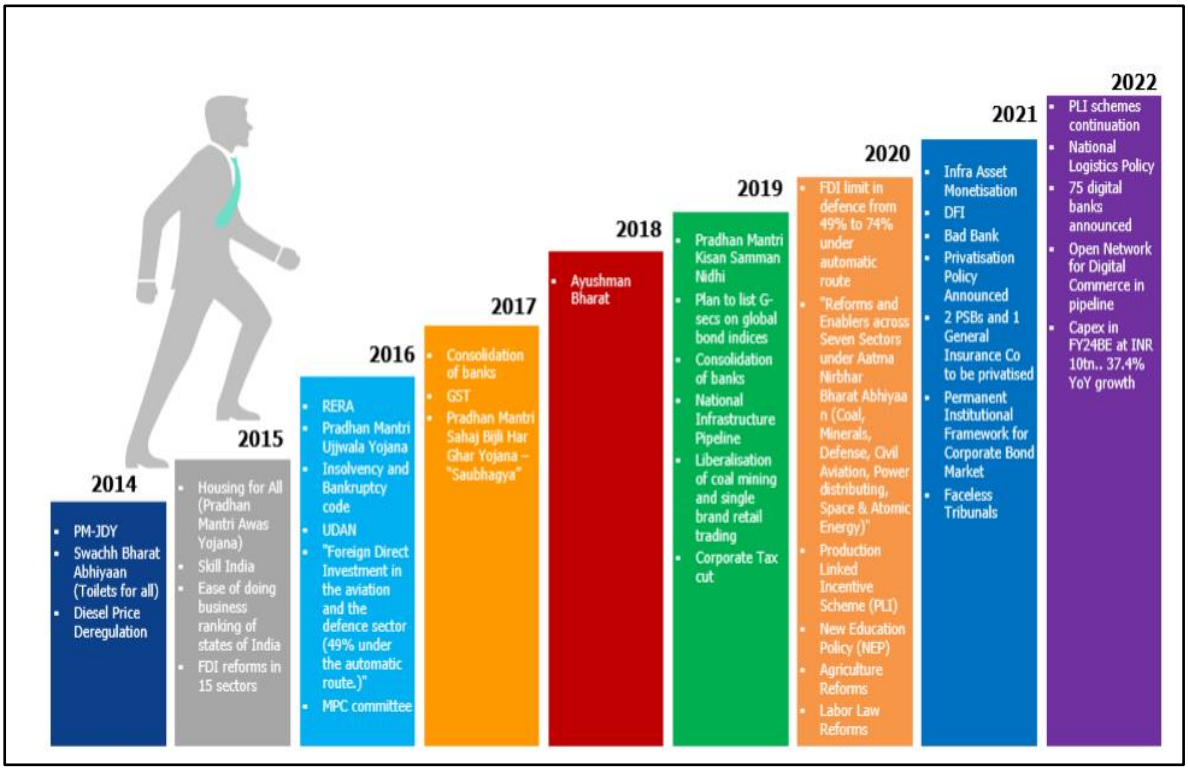
As an economy India is transitioning from agrarian to secondary and tertiary industries. There has been a rise in the service economy, particularly in areas like financial services, real estate and professional services, which coincide with increasing white collar jobs and the trend towards '*urbanisation*'.

The focus on capex has also increased substantially over the last 10 years. Real gross capital formation as a % of real GDP has currently risen to 34%, above the average of the last 20 years (31%) and compared to an average of 20% in the last 35 years of the 20th century.



The demographics of India has set it up for an increase in productive capacity, given the sheer size of its working age population. This should lead to a significant benefit for producers operating in India and therefore rising wages and a boon for consumption. There have been significant reforms and initiatives post COVID-19 which pivoted India towards focusing on its comparative advantages. This includes a '*Production Linked Incentive*' (PLI Scheme) which favours manufacturing joint ventures by affording concessional taxation and access to land. Several foreign companies have sought to reconsider their India strategy or commence manufacturing locally i.e. Apple, Samsung etc.

Key Reforms Undertaken over the Last Decade



[1]

Demonetisation is the process of stripping a currency unit as legal tender. On November 8th, 2016, the Modi Government rendered existing Rs.500 and 1,000 notes of no value. This meant this tender had to be deposited

[1] Elara Capital Research

into banks, with new Rs.500 notes issued and the Rs.2,000 note introduced. The aim of this was to reduce the "cash economy" in India from above 20% and bring more of it into organised formats and the taxed economy. The reform was effectively rendered a failure at the time due to significant hardship suffered by citizens and as most currency continued to remain in the banking system post the reform.

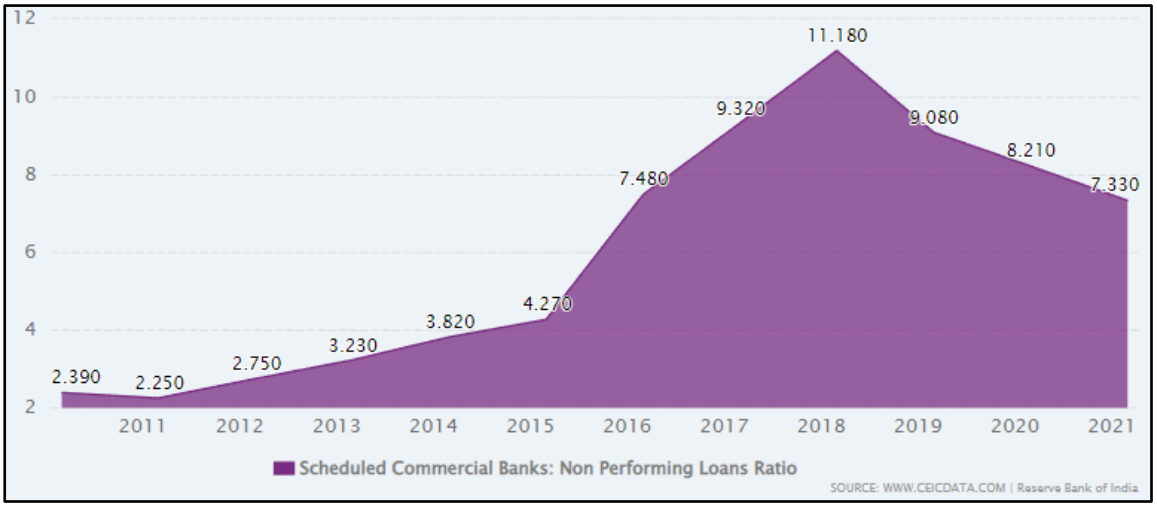
However, the impact of this over time has been to drive the economy towards a cashless society. The move has promoted the use of financial services and UPI transactions which has led to a greater audit trail of transactions and a profound effect on the level of national savings and efficiency within the payments system.

GST was introduced in June 2017, again without warning and led to significant hardship for MSME's in India, who were not prepared for the transition, additional compliance costs and having to pay tax. Subsequently the transition to GST has broadened the tax base significantly and made the economics for organised business far more favourable relative to unorganised formats and smaller players. This should lead to more efficient allocation of resources and a trend towards urbanisation.

Pradhan Mantri Jan Dhan Yojana scheme was introduced in 2015 to provide banking services to a broader community. As of June 2022, the number of accounts opened reached 456 million, with deposits of US$21.6 billion[2]. This has led to a significant increase in "inclusiveness" and "financialised" national saving. More broadly between FY16-22 deposits grew at a CAGR of 11%, reaching US$2.1 trillion by November 2022. Bank account penetration was above 75% by FY2020[3] and continues to rise from a level closer to 50% in 2014.

Online banking penetration is also rising rapidly and should reach 50% or above by the end of this decade (currently closer to 25-30% adoption). This is being enabled by rising internet penetration being close to 50% (700 million).

Insolvency & Bankruptcy Act was introduced in 2016 to deal with India's banking problem (rising non-performing loans) which occurred due to bad lending practices and extension of credit late in the last cycle (2008-2012). This led to significant NPL's in the system of 11.2% of assets by FY2018.



This amount has now fallen to a 7-year low of 5% as of September 2022 according to Reserve Bank's financial stability report. This has been achieved through consolidation of loans towards stronger hands, write-offs, an improving risk assessment framework and a corporate focus on deleveraging. The dramatic drop in NPL's places the Indian banking system in a far better position to fund growth over the next decade.

RERA is an act passed by the Indian parliament in 2016 and aims to protect the interests of home buyers and boost investments in the real estate sector by restoring confidence and sentiment through transparency,

[2] IBEF.org – Banking Sector in India 2022
[3] Statista.com- Banking Industry in India

accountability and financial discipline. This is critical in an industry which is likely to see far more investment in the future and be a key beneficiary in the growth story.

MNREGA refers to the Mahatma Gandhi National Rural Employment Guarantee Scheme and was launched in 2005. It is an Indian labour law and social security measure that aims to guarantee the *'right to work'*. It acts as a safety net for the rural poor and increased significantly in importance during COVID-19 lockdown being critical to the barbell strategy employed during COVID i.e. protecting the needy during the pandemic and conserving spending/liquidity and directing this towards growth segments once there were signs of recovery. Whilst criticised at the time, this turned out to be the right strategy, keeping debt levels and fiscal discipline in a manageable form.

Atmanirbhar Bharat translates to 'self-reliant India' which was a phrase coined by the Prime Minister of India, Narendra Modi relating to the country's economic development plans. The phrase captured the intent by the Government of India for the country to play a larger role in the global economy, as well as becoming more efficient, competitive and resilient.

PLI Scheme

The '*Production Linked Incentive*' Scheme is an initiative started by the Government of India (March 2020) that aims to give companies incentives on incremental sales from products manufactured in domestic units. The scheme not only invites foreign companies to set up units in India but also to encourage local companies to set up or expand existing manufacturing units, generating more employment and cutting down the country's reliance on imports.

Currently nearly 60% of employers are expecting hiring to increase due to the PLI scheme over the next two years. The boost is expected to impact the MSME segment and bring many more women to the workforce. The industries which had the most positive expectations were pharmaceutical, white goods and textile products. As of December 2022, 650 applications have been approved under 13 Schemes and more than 100 MSMEs are among the PLI beneficiaries in sectors such as bulk drugs, medical devices, telecom, white goods and food processing.

A Stronger Corporate India

Figures in INR bn.

	FY	Sales	PAT	Total Assets	Total Debt	Total Debt / Equity (3)	EBITDA Margin	Asset Turnover (2)	ROE (1)	10 yr G-Sec Yield	Spread
	FY99	3,095	160	4,593	1,778	1.0	13.8%	0.7		12.0%	
	FY00	3,844	192	4,957	1,803	0.9	12.8%	0.8	9.9%	10.8%	-0.8%
	FY01	4,672	266	5,434	1,868	0.8	12.6%	0.9	12.1%	10.3%	1.8%
	FY02	4,876	230	5,899	1,936	0.8	12.9%	0.8	9.7%	7.4%	2.3%
	FY03	7,095	482	7,859	2,237	0.7	14.3%	0.9	17.5%	6.1%	11.4%
	FY04	8,316	672	8,808	2,392	0.7	14.7%	0.9	20.0%	5.1%	14.9%
1)	FY05	10,741	1,029	11,164	2,759	0.6	15.9%	1.0	24.4%	6.7%	17.7%
2)	FY06	12,893	1,149	13,539	3,492	0.6	14.1%	1.0	21.4%	7.6%	13.9%
3)	FY07	16,862	1,708	18,475	5,171	0.6	16.0%	0.9	25.0%	8.0%	17.0%
	FY08	21,700	2,248	26,055	7,845	0.7	15.7%	0.8	24.5%	7.9%	16.5%
	FY09	26,719	1,879	33,404	10,979	0.8	12.8%	0.8	15.9%	7.0%	8.9%
	FY10	27,591	2,401	38,220	11,803	0.7	14.7%	0.7	16.7%	7.9%	8.9%
	FY11	33,986	2,942	47,570	15,198	0.8	15.2%	0.7	17.0%	8.0%	9.0%
	FY12	42,803	2,855	57,075	19,439	0.9	14.0%	0.7	14.2%	8.6%	5.7%
	FY13	47,117	2,694	61,848	21,941	1.0	13.1%	0.8	12.4%	8.0%	4.4%
	FY14	51,252	3,141	70,520	25,171	0.9	14.0%	0.7	13.1%	8.8%	4.3%
	FY15	52,021	2,768	75,053	26,658	1.0	14.1%	0.7	10.6%	7.7%	2.9%
	FY16	48,592	2,754	76,969	26,168	0.9	14.9%	0.6	10.0%	7.5%	2.6%
	FY17	54,480	3,650	81,392	26,604	0.9	15.0%	0.7	12.6%	6.7%	5.9%
	FY18	58,812	3,902	86,042	26,978	0.8	14.6%	0.7	12.6%	7.4%	5.3%
	FY19	69,706	4,300	96,213	29,979	0.8	14.7%	0.7	12.7%	7.3%	5.3%
	FY20	69,124	2,758	1,01,858	31,809	0.8	14.3%	0.7	7.6%	6.1%	1.4%
	FY21	66,067	4,464	1,06,091	29,444	0.7	17.3%	0.6	11.3%	6.2%	5.1%
	FY22	84,072	7,267	1,16,645	29,624	0.6	16.7%	0.7	16.2%	6.8%	9.4%

(1), (2), (3) all values at their extreme gave corporate India space to expand Balance Sheet

Source: ACE Equity

Private & Confidential (only for private circulation)

India’s corporate balance sheet looks well positioned given low corporate debt and rising asset turnover. Return on equity is increasing from a low point during the last decade. Ideally, we will witness a similar period to 2003-2008 where debt was low, asset turnover is high, and high ROE’s are achieved in vicinity 21-25%, through operating leverage.

This has occurred due to the difficult period between 2010-2020, where earnings growth and ROE slowed, and corporate India was in a phase of deleveraging. Equity returns in the last decade were largely driven by PE premium’s inflating around the world due to low rates. However, Indian corporates can now benefit from strong cash flows, debt repayment has been significant and there is potential to add capacity and win market share.

Grassroots Meetings





Organisation	Reserve Bank of India (www.rbi.org.in) India's Central Bank and regulatory body which is responsible for regulating the financial system of India.
Who we met	Rajiv Ranjan, Executive Director, Member of Monetary Policy Committee
Key discussion points	Mr Ranjan highlighted the volatility of India's macro environment, particularly given the high linkage of inflation to food and energy prices. Food, which is 46% of CPI inflation, is driven by monsoons and three vegetables being onions, potatoes and tomatoes. This creates significant variability in outcomes. Core inflation continues to remain sticky at around 6% driven by global commodity prices, services inflation and supply side issues. This is beyond the RBI's comfort band and hence interest rates have risen from 4% to 6.5% over the last 12 months. In India the focus is predominantly on supply side inflation. Currently the demand side remains limited with wages relatively under control across the economy (perhaps heightened in a few industries, like technology). Balance sheets of corporates are in good shape, the current account deficit should fall to manageable levels (currently 4.4% of GDP) and forex reserves have started rising again. The domestic economy is doing well, but the slowdown in the global economy is the risk (given its impact on the balance of payments). Another risk and uncontrollable is rising oil prices. There is some evidence in the last 6 months that the private sector has been joining capex spending alongside the Government. Typically, this has been driven by the Government over the last decade. Steel consumption and capacity utilisation, which are leading indicators, are both trending upwards. The Insolvency and Bankruptcy Act, passed in 2016 has had the effect of improving the banking system alongside tightening of regulation and supervision by the RBI. Previously the capital markets were too dependent on the Government, but now of late some Government owned assets have been sold (i.e. Air India) and the overall financial system is healthy. Huge treasury profits were also made by banks during the pandemic because of falling yields. When it comes to digital currencies, the RBI is going slow. Initially focusing on wholesale potential adoption and experimenting in retail. With rates rising (lending rates are up 170bp) and deposit rates more than 200bp, it is expected that demand will slow and GDP growth has been revised back to 6.4% for FY24. The RBI is not targeting a currency level, but rather working to keep volatility at bay. At times the Bank has been active in the market to support the currency where needed, given the significant pool of forex reserves. However, this must be watched as further global weakness can create instability for India. The property and real estate sector have no issues in India and inventory levels fell due to rising demand in 2021-22 and are now starting to rise again to accommodate. The sector was crippled by demonetisation and has now been cleansed and is recovering on improved demand cleaning out stale inventory build-up. The rural sector (which employs 70% of people in India and is a significant contributor to GDP) has started to improve. MNREGA schemes has helped to

	lower rural stress in the past and currently demand is low – indicating there is less stress in the system on rural employment. Rising food prices are also good for farmer wealth and the impact is being seen in two-wheeler and tractor sales. Government spending on capex will have a multiplier effect of close to 3x in terms of a boost to growth. Typically, in a pre-election budget, spending tends to be directed towards winning votes by handing out subsidies. However, this budget is very focused on infrastructure and capex to drive the economy. Financial inclusion has been rising significantly driven by the Aadhaar Card, bank account openings, internet and mobile phone penetration. India now has one of the best digital payments systems in the world. The RBI and the Government of India have often been partners in the mission of focusing on growth with price stability. The work done on financial inclusion and support of the rural sector will provide a positive kick going forward as India's GDP per capita needs to rise to make it a fully-fledged consumer economy.
Our view	The RBI has faced numerous challenges over the past 10 years. This included the non-performing loans in the banking system, leading to lack of credit availability. Additionally, rising oil prices, COVID-19's significant impact on India and NBFC crisis in 2018, have kept the Bank on its toes. We sensed confidence that India was a in a good macroeconomic place at present due to the level of forex reserves, rising potential for exports (China +1/PLI scheme) and improved balance of payments, which should augur well for price stability – a key mantra of the RBI.



Organisation	DSP Investment Managers (www.dspim.com) One of India's successful asset managers, with a rich history (over 160 years) and a focus on active management. The firm is one of India Avenue's investment advisers to the India Avenue Equity Fund
Who we met	DSP Investment Managers – Investment Team + Hemendra Kothari (Chairman). Kalpen Parekh (CEO), Jay Kothari (Investment Strategist), Vinit Sambre (Head of Equities), Bhavin Gandhi (Portfolio Manager), Souvik Saha (investment Strategist), Nilesh Aiya (sceptical analyst), Chaitra Nayak (ESG analyst)
Key discussion points	DSP Investment Managers have been in the asset management marketplace for 26 years. The firm has US$16.2bn under management of which US$11.4bn is in equities (US$9.3bn domestic clients, US$2.1bn offshore assets – 5 SWF's, Investment Mandates and 1 UCITS fund). The firm is now family owned (recent management buyout) after a joint venture with Merrill Lynch and then Blackrock. The investment team focused on equities has 26 members. DSP highlighted its key alpha sources being fundamental research, non-consensus views and turnarounds and well as benefitting from understanding inherent human biases. The firm focuses on buying businesses with ROE (over 20%) and earnings growth (over 15% CAGR). They highlighted the focus on identifying companies considers management quality, earnings upcycles and valuations. From a macro/market perspective they pointed out that India was one of only a few countries where the working age population was growing. Corporate leverage is at a low point (below 50%) and ROE's have risen to 14%, with the potential to rise above 20% (as witnessed in the past when operating leverage kicks in). Indian companies are also large users of commodities and hence any fall has witnessed an improvement of earnings of late. DSP also highlighted that capacity is not an issue for them. Analysis of this is done through 20% of ADV, using free float market cap – an important consideration given average promoter ownership of companies is significant at close to 50%. The Portfolio Manager walked through the investment process by providing examples of what they look for when they invest in businesses. An example was given in Eicher Motors – the seller of the Royal Enfield brand in India. This company was a play on aspiration as their motor bikes were in the 750cc category, whilst the initial consumer purchase is usually at the 125cc category. New products have also been a key driver of keeping the brand alive, especially post COVID-19. We saw an ad on the "Hunter" Brand of Eicher Motors (500cc). DSP highlighted their focus on capital allocation and distribution as an indicator of management quality. From a valuation standpoint they prefer companies with a margin of safety rather than that buying stocks with a significant PE premium built in. However, the manager has a definite bias towards earnings growth over valuation. Ideally a 10-year track record allows assessment of returns across periods for a company. DSP has developed innovative tools to further its investment capability. This includes internally built software on scenario analysis and sensitivity testing. Additionally, they have introduced a sceptical analyst who challenges the investment team on their thesis on stocks. Finally, they are one of the first investment managers to take a more active approach on ESG, being a signatory to the UNPRI and hiring an ESG analyst who is an ex-lawyer rather than a financial analyst. This provides a better health check on company progress on ESG factors. The firm is seeking to be more activist in the space.

	DSP was of the view that governance standards have improved dramatically over the last 9 years due to regulatory changes and improvements as well as greater reporting transparency and consistency.
Our view	It is our view that DSP as a large to mid-sized asset manager in India has its finger on the pulse by being in business over 160 years and understanding corporate culture. Additionally, their focus on active management has led to a buy-out of Blackrock's stake. The investment team is focused and has identified a process which generally tends to deliver alpha in India – a focus on growth stories and high ROE's as a key differentiator to the broader market. DSP is unlikely to buy Government owned businesses which are inefficient allocators of resources or has significant exposure to cyclical industries – which we like. We have already had several discussions on ESG investing and the progress the firm is making on avoiding "greenwashing" and seeking to build a process which is cognisant of companies which are doing positive things for the environment and have a strong moral compass and good governance. These companies are over time generating a P/E premium in the marketplace.



Organisation	Mahindra & Mahindra (www.mahindra.com) An Indian multinational automotive manufacturing business, headquartered in Mumbai, India. One of the largest vehicle manufacturers in India and is the largest manufacturer of tractors in the world
Who we met	Sriram Ramachandran – Investor Relations, Brian D'Penha - Manager Corporate Finance, Sandesh Naik – General Manager Corporate Finance & IR
Key discussion points	Mahindra & Mahindra generates revenue of over US$20bn, with 260,000 employees globally, spread across 100 plus countries. The company is focused on automobiles, farming, finance and has significant ownership in an IT outsourcing firm called Tech Mahindra. These are its core businesses. The business also has many subsidiaries which is considers "Growth GEMS". These include Logistics, Holidays, Lifespaces, Rural Housing Finance amongst others. M&M is largely a local demand driven business (exports less than 10%). The focus on the firm is on achieving 18% ROE, with 15-20% EPS growth. ROE dipped previously and has now started turning around due to better performance from rural linked subsidiaries, capital allocation discipline and cost controls. Now this is complete, the business is seeking to accelerate core growth businesses, while maintaining cost control and enhancing customer experience. M&M believes the customer proposition is changing and therefore they are re-training, re-invigorating touch points and revisiting customer buying habits. Currently there is a supply chain issues (semiconductor) which means the order book is running way ahead, with cars taking up to 10 months to delivery. The company currently has 35-39K of its monthly capacity which it is increasing by 10k. Currently 266K cars are on order. A 3% price was passed on with ease recently as demand remains significant. The company overall is experiencing an increase in demand. M&M now has 46% market share (rising 9% over the last 12 months) in the LCV segment. In the e-3W space the company has 64% market share – this is likely to be a segment which moves much quicker than cars due to the ability to battery swap. The company is not investing in ICE platform anymore. M&M is the market leader in SUV's (cost approximately A$55,000). A visit to the M&M showroom illustrated the newer models, which were rapidly sold 10 months in advance as well as an EV version (around $55,000 also). By F27, M&M expects its Electric SUV penetration to be 20-30% of its overall SUV portfolio, i.e. Volumes of ~200k p.a. on the upper end.
Our view	Mahindra & Mahindra is a large conglomerate founded by the Mahindra family with significant history and experience of the Indian economy. Their multiple business divisions provide a litmus test of how both the urban and rural economy are faring. Urban consumptions appear to have been strong during the corporate recovery and is only showing some signs of slowing due to interest rate rises. The rural economy looks set to recover after being a laggard post COVID.





Mahindra
Rise.

Bloomberg	MM IN
Equity Shares (m)	1197
M.Cap.(INRb)/(USDb)	1604.4 / 19.6
52-Week Range (INR)	1396 / 671
1, 6, 12 Rel. Per (%)	-5/-2/73
12M Avg Val (INR M)	3830
Free float (%)	81.1

Financials & Valuations (INR b)

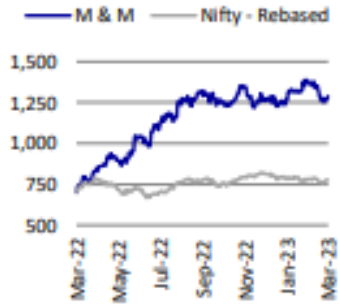
Y/E MARCH	2023E	2024E	2025E
Sales	844	1,008	1,109
EBITDA	104.3	132.4	150.4
Adj. PAT	73.9	93.6	106.7
Adj. EPS (INR)	61.8	78.2	89.2
EPS Gr. (%)	43.7	26.6	14.0
BV/Sh. (INR)	368	431	503
Ratios			
RoE (%)	17.8	19.6	19.1
RoCE (%)	16.2	18.4	18.2
Payout (%)	23	19	20
Valuations			
P/E (x)	20.9	16.5	14.5
P/BV (x)	3.5	3.0	2.6
Div. Yield (%)	1.0	1.2	1.4
FCF Yield (%)	3.7	5.3	6.3

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	18.9	18.9	18.9
DII	27.1	27.8	27.0
FII	44.5	43.7	44.4
Others	9.5	9.6	9.7

FII Includes depository receipts

Stock Performance (1-year)



Demand sustains amid macro uncertainties

FY24 tractor outlook hazy | Inadequate chip supply curbing production ramp-up

We met with the management of Mahindra & Mahindra (MM) to gauge the overall environment – both at macro and company levels. Management indicated that demand environment for the auto business has been stable in general but it expects slower growth for tractors in FY24 (even under normal monsoons) due to high base and three Navratras in FY23. While chip supply is improving, it is still not adequate enough to ramp-up production meaningfully. Chip supply is the only restricting factor to reach full capacity for production of SUVs. Profitability of both businesses should improve though ramp-up of new businesses (EVs and farm equipment) would dilute expansion. However, commodity cost inflation visible from the lows of 3QFY23 is the primary risk of MM's business. We cut our FY24E EPS by 8% to factor in: a) lower tractor/SUV volumes, and b) the adverse impact of losses from new businesses. We reiterate our BUY rating as we still expect 20% EPS CAGR and 2pp RoCE improvement over FY23-25, along with attractive valuations.

- **SUV demand holding up well amid macro challenges:** MM is not witnessing any signs of demand moderation for its SUVs. Its orderbook is steady amid uncertain macro environment. There are signs of sustained stress at the lower segment in rural markets.
- **Chip supply improving but still restricting full capacity ramp-up:** Waiting period for MM's SUVs has come down by 1.0-1.5 months, largely benefitting from supply chain recovery. While supply chain issues are improving gradually, the situation is still volatile – for example, the last month's production was hit by lower availability of crash sensor chips. The sole issue at this point remains the shortage of semiconductors, while the other supply chain issues have been substantially resolved since China is opening-up. Hence, MM is not able to ramp-up its SUV production to full capacity of ~39k units per month (v/s average wholesales of 30-33k units).
- **FY24E tractor growth to be low on high base, even if monsoons are normal:** FY23 tractor demand benefitted largely from higher mandi prices of crops than MSPs and as FY23 had three Navratras, apart from other favorable agro-economic indicators. MM is currently focusing on building inventory before the festive season (Navratra) in Mar'23. However, FY24 tractor volume growth would be lower on high base, even if monsoons are normal, as there would be only one Navratra in FY24. Monsoons do play a major part sentimentally, though demand correlation is the highest with farmers' profitability (terms of trade).
- **Nascent farm equipment business to grow exponentially:** MM has ambitious plans to grow its nascent farm equipment business by 10x in FY27. It will invest INR10-15b over the next few years for: a) acquisitions and, ii) expanding capacities. However, ramp-up in the segment would adversely impact the company's overall margins.

Source: Motilal Oswal Research 8/3/2023

Visit to Phoenix Palladium

Our tour group visited Phoenix Palladium to witness the Indian consumption story via a mall. The Palladium, Mumbai's largest mall is owned by Phoenix Mills, one of our portfolio companies which has been a significant beneficiary of the recovery in urban consumption during the post pandemic recovery. Phoenix Mills is India's leading retail mall developer and operator with approximately 0.64 million sq m of retail space spread across 9 malls in 6 urban centres of India. The company has developed over 2.11 million sq m across retail, hospitality, commercial and residential assets.

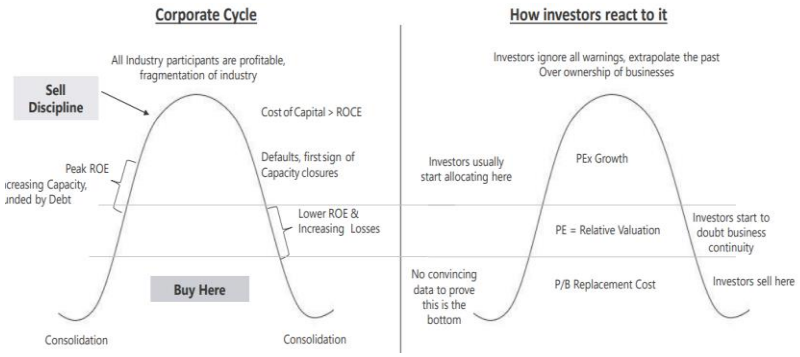
The company owns and operates malls, commercial property and some residential in Indore, Ahmedabad, Pune, Bareilly, Kolkata, Lucknow, Bengaluru and Chennai. In the last quarter Phoenix Palladium achieved 121% of its quarterly consumption levels pre COVID-19, which was a similar trend across Bengaluru, Pune and Chennai. Retail EBITDA was also 129% of pre COVID levels.

The mall is India's first premium luxury retail and entertainment location (established in 2007). It houses over 250 premium brands and its gross floor area is 310,000 m2. The area also hosts a five-star hotel, a multiplex, commercial space and residential tower.

Price points in the mall were not dissimilar to those in Australia or New Zealand. Branded shoes and coffees were approximately the same price. This highlights that some of the urban centres like Mumbai are in fact not GDP per capita of US$2,000 (national level). There is still a significant number of wealthy consumers in India who have significant demand for luxury retailing precincts.



Organisation	Elara Capital (www.elaracapital.com) One of India's leading investment banks, which provides broking and research services.
Who we met	Garima Kapoor – Economist and Investment Strategist Jay Kale – Analyst Auto Sector Prakhar Agarwal – Analyst Financial Sector
Key discussion points	Elara Capital's view was that the Indian economy would reach US$5trillion at some point over the next 3-4 years, which would make it the 4th largest economy just behind Japan. With nominal growth above 10% to be driven by demographics, supply-side reforms, infrastructure and capex, energy transition and leadership in tech services and products. India's GDP will continue to rise and be close to 8% of global GDP by 2026, which will also see a rise in its stock market weighting to closer to 20% of the MSCI EM and 3% of MSCI ACWI. The economy is changing shape over the last two decades, shifting from agrarian to services (financial services, hospitality, administration). Overtime an increasing component will come from manufacturing activity (16% currently), given India's population demographics, supply chain diversity and lower cost of labour, making it an ideal candidate to benefit from a shift of the global manufacturing base. The following positives were also highlighted: - Policy certainty in India has never been better – BJP regime for 9 years, with likely to be another 6. - Inflationary shocks have been managed better than peers. Easing supply side and a focused Central Bank helping to alleviate pressures. - The twin deficits are manageable given fiscal discipline and improving current account over the next 12 months - Import and Debt cover are currently strong - Significant capex – of close to US$1.2tn in plans. Infrastructure will contribute significantly to growth – roads, railways, airports, power. The risks highlighted were – policy continuity (next election 2024), global policy tightening, labour force participation (40%, below pre-covid levels of 43%), crude oil prices. However India looks far better placed than most of its EM and DM peers for that matter. Increasing global trade, a resilient local economy, increased formalisation and digitisation will create significant productivity gains and consumption boost. We also had presentations from the financials and auto analysts at Elara Capital, which we have not covered here, but are happy to share if requested.
Our view	If ever India was to have its "China" moment then it will be in the next 5-10 years where embedded reforms, demographics, capex and infrastructure alongside now embedded change in formalisation, digitisation and financialisation will create a significant multiplier effect. The positioning of corporate India and improved positioning of bank balance sheets means the economy will be able to add capacity and grow its share in the global economic pie, particularly whilst other economies are weaker (US/Europe/China).

Organisation	**Old Bridge Capital Management (www.oldbridgecapital.com)** **A boutique asset manager based in Mumbai India with approximately US$1bn in equity assets. The firm was set up by Kenneth Andrade after a successful period of 25 years in the industry.**
Who we met	Kenneth Andrade – Founder and CIO Ruchi Pandey – CEO, Head of Sales
Key discussion points	Kenneth Andrade had a very successful stock picking career at Kotak, Standard Chartered and IDFC, where portfolios he managed compounded over his career at over 20% p.a. Based on his success, he set up his own boutique in 2016. The firms philosophy and process when it comes to investing is focused on the capital cycle, ideally buying the largest participants in consolidating industries. Kenneth highlighted that this was how you can mitigate India's perceived valuation problem – being counter cyclical and focusing on the potential of improving ROE, rather than simply buying high ROE businesses which are valued at a premium. The businesses they seek to buy are profit making, but perhaps at the time of purchase their industry is not in favour or is cyclically weak. Typically when you look at Indian markets, there is cyclicality within sectors and industries, despite an overall secular positive trend. This provides opportunities for patient investors.  The focus is to buy companies which are monopolistic (winners in consolidation via market share), capital efficient, low debt, low valuations. Currently the themes which are being pursued are manufacturing/external facing business, energy transition related, urban consumption, agri/agri products. For example, Old Bridge is building a position in pharmaceutical companies given valuations are favourable and it's an industry which may benefit from scale and fading/weak competition globally, especially in the generic space.
Our view	Kenneth managed portfolios successfully when the India Avenue team was at ING, in a similar fashion. Old Bridge's process is very much counter cyclical to find good valuations for well managed businesses with low debt and strong cash flow. In 2005 when consumption stocks were not the market darling and trading closer to 15x (than today's 50x), Kenneth had a strong overweight to consumption. Today he has limited exposure to consumption or financials. It is this forward thinking and uniqueness which we like as part of our portfolios, and believe will provide the superior compounding experience over time. In 2021 our portfolio benefitted greatly as several stocks in the portfolio re-rated as the market discovered their potential. Old Bridge was well ahead of the street.

Organisation	Antony Waste Handling Cell (www.antony-waste.com) One of the top five players in the Indian Municipal Solid Waste management industry with a track record of providing full spectrum of solid waste collection, transportation, processing and disposal services across the country.
Who we met	Jose Jacob – Chairman and Managing Director Subramanian NG – CFO
Key discussion points	Antony Waste is one of our portfolio companies and is primarily working with municipalities to provide waste management services across India. The company is a major participant in landfill construction and management, with established in-house expertise. They also have a significant presence in the waste-to-energy market. India produces around 150,000 tonnes per day of waste. Antony Waste enjoys significant market of 11,000 tonnes per day. 5,300 tonnes (7,500 tpd can be handled) are managed at the Mumbai site where the business has 60% market share. However, there is significant opportunity pan India. Over the last year the company has picked up contracts in Varanasi, New Delhi and Jhansi. (28 plus projects across over 9 states). The company has been operating for over 20 years and has 8,800 employees and over 1,750 service fleet. The company is also significant in evolving industries which also include recyclables and inert, apart from waste. The advanced processing technologies as well as what is perceived an unattractive business provides the MOAT for the company. Technologies involve composting, bio-methanation, gasification, pyrolysis, bio-mining and landfill. Of the total waste generated in India only 35% gets scientifically processed. Given India's population, consumption and urbanisation, municipal waste management is going to grow. The Swachh Bharat initiative by the Government put a huge emphasis on cleaning up India, and is expected to be a Rs.100 bn industry by 2025. Antony Waste has processed 11m metric tonnes over the last 20 years, working with 25 municipal corporations/conglomerates across India.
Our view	The company is operating in a niche industry as a significant player with end-to-end waste management capabilities. The contracts are long-term and have pre-approved pricing escalation built in. We expect the company has significant opportunity as the addressable market increases.

Financial Information

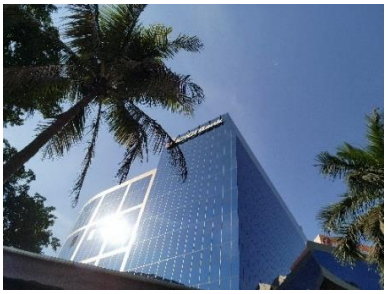
Factor	FY18	FY19	FY20	FY21	FY22
Total Revenue (Rs. Crores)*	288	298	465	481	667
EBITDA (Rs. Crores)*	82	89	140	130	166
Debt to Equity %	0.6	0.6	0.6	0.3	0.3
PAT (Rs. Crores)*	38.7	31.1	47.1	64.1	90.4
ROE %	20.8	13.2	15.7	14.5	17.0
ROCE %	21.7	17.6	22.6	16.7	18.9

*Crores = 10,000,000 and Lakhs = 100,000. 1 Crore is approximately A$185,000

*Source: Antony Waste Annual Report FY22

Organisation	ICICI Bank (www.icicibank.com) One of India's largest private banks offering a range of financial products to retail, rural, SME and corporate customers. These products are delivered through various channels including branches, ATMs, mobile phones and internet, providing a seamless omni channel experience to clients.
Who we met	Abhinek Bhargava – Head of Investor Relations, ICICI Bank
Key discussion points	The Bank has 5,700 branches and 8.6m customers which leads to around 7% market share. The focus has been on entering new markets and cross selling. It is also present across 14 countries via India linked business / corporate relationships to capture a greater share of flows for their clients business. India's private sector banks continue to gain market share through digitisation. The Bank is pursuing a customer-centric approach, underlined by the principles of '*Fair to Customer, Fair to Bank' and 'One Bank, One ROE'*. These value drivers lend to the Bank's focus on 'customer-360' and becoming a trusted financial partner for its clients. Each customers have a dashboard which allows a focus on delivery and experience. This one assessment allows the Bank to align with the customer. A core enabler to meet the Bank's strategic objectives is technology. The initiatives in developing a strong technology architecture, the focus on platforms and digitisation, and continuous investments in innovations and security features. Greater use of analytics and data are helping in better knowledge of customers. The Bank has had a significant shift in loan quality over the last 5 years. The lending was focused on corporate but over the last few years has also increased share in the retail lending area. Current net interest margins are 4.2-4.5% in FY23, which is not sustainable in the current environment, but much higher than peers across most developed regions.
Our view	The Bank has made significant headway over the last 4-5 years with the appointment of a strong CEO, a more risk-controlled approach to lending, the use of digital modes, customer analytics and an environment which saw significant debt consolidation and balance sheet repair. With digitisation now enabling broader financialisation and cross-selling opportunities, the Bank is well positioned to benefit from India's next corporate capex boom. No doubt some caution is required given the rising rate environment of the last year and some fall out is expected. However, mortgage rates remain like levels 2-3 years ago.

*Source ICICI Bank Annual Report	FY18	FY19	FY20	FY21	FY22
Total Advances Rs. Billion	5124	5866	6453	7337	8590
Net Worth	1052	1064	1165	1475	1705
Capital Adequacy	18.42%	16.89%	16.11%	19.12%	19.16%
Net Interest Margin	3.23%	3.42%	3.73%	3.69%	3.96%
Non-Performing Asset Ratio	4.8%	2.1%	1.4%	1.1%	0.8%
Operating Profit	189	221	268	314	383



Trip to Pune

Our next destination was the city of Pune, also in the same state of Maharashtra as Mumbai. The city of Pune is home to over 10 million people and is recognised as a city which has a university, technology and manufacturing culture. Several IT firms has significant campuses and operations based in Pune. The city is also a manufacturing hub, with several corporates having established factories in the location due to its lower cost than Mumbai despite reasonable promixity.

The distance travelled was 160km, which would typically take close to 3 hours. However, despite travelling on a highway most of the way, the trip took 4 hours in the 24-seater bus we were on. Whilst there was some singing, dancing and beer along the way, it was a long trip which was somewhat inevitable given the sheer numbers of vehicles along the way.

Dinner at Barbeque Nation

Around 9.30pm we stopped in at BBQ Nation's outlet in Pune (one of our portfolio companies), for a quick dinner. However, it's not possible to have quick dinner in India, given the hospitality of the locals and significance of an Indian meal. Our crew soon learned not to use up their appetite on "starters". In translation this refers to entrees, which were often filling enough for an entire meal even before we got to the main meal or desserts.



The QSR chain is a similar format to an all you can eat fusion Indian meal, which includes a BBQ on your table where skewers allowed for customisation. There are 212 stores pan India (growing at 22% per annum), 156 being in major metropolitan areas and Tier I cities. The company is aligned to our themes of recovering urban consumption, post-pandemic recovery.

In fact, in the 9 months ending December 2023, the company's revenue has grown by 56% y-o-y (highlighting the significance of the recovery in urban areas). Of this delivery sales are now 13% of revenues. EBITDA grew by 79% over the same period, with EBITDA margins rising to 20.6%.

Organisation	Persistent Systems (www.persistent.com) The firm describes itself as a Digital Engineering and Enterprise Modernisation partner, combining technical expertise and industry experience to answer and provide solutions for business issues faced by their clients.
Who we met	Harit Shah – Senior Manager of Investment Relations
Key discussion points	Persistent is focused on software engineering and digital transformation for its client's needs. The firm was listed in 2010 and is expecting to achieve annualised growth in the range of 18-20% over the next few years. The company is focused on its people as its core asset and the delivery of its services. Its key client industries are Banking and Financial Services and Healthcare. The firm employs 22,600 people. Digital engineering capabilities revolve around product engineering, sales engine and a focus on digital enablement. However, another area of growth is also the increasing cloud transition. Currently Persistent Systems is ramping up its sales team to increase client recognition of the capabilities they can infuse. The market cap of the firm is US$3.6bn. 80% of revenue comes from North America (hence a hard landing may impact the business short-term). Revenue growth since listing has grown 16% per annum. However, this has taken a step-up post COVID, growing at 24% from FY20-22. The focus has been on profitable growth, via maintaining and increasing EBIT margins. Persistent Systems has a 28-year relationship with Microsoft (working on AI/Chat GPT) and over 25 years with IBM. Some M&A may take place to complement organic growth. The growth is largely to come in the gap between how enterprises accept changes. The companies view was that automation is more likely to create jobs rather than replace them. It is likely to free up existing employees to grow the business. The challenge will be to re-skill people who can adapt to this. Lack of adoption may lead to losses. Given it's a people business, the focus is on recruitment from universities. Graduates generally receive a salary of 4-8 lakhs (A$10-15k pa). Over the last two years access to a talent pool and attrition rates have been a headwind. Attrition rates have climbed over 20% (whereas 15% is acceptable). The sales cycle is typically 5-6 weeks and is network based (60% plus) rather than via tender. Recent wins include a US retailer concerned about achieving sustainable growth (US$70m deal) and an Indian bank for which the company is running digital sales. From an Australian perspective, Telstra is a small client for the firm (with a lot of work being related to Sales Force engagement).
Our view	The company is a mid-cap technology focused firm which is helping its clients make digital transformation and cloud migration journeys. Its growth has been significant since appointment of the new CEO, which drove significant wins from a networking perspective. This alongside its technological competence has led to an uplift in the company's growth profile. The lower cost of labour and the heritage of the past 30 years in India continues to allow for outsourcing and technology services to grow as an industry and win market share globally. Despite trading at 26x one year forward, the ROCE and EPS growth of the business is more than the industry growth and return. The business is on a strong growth trajectory.

FINANCIALS				(INR mn)
Year to March	**FY22A**	**FY23E**	**FY24E**	**FY25E**
Revenue	57,107	83,466	1,00,800	1,11,998
EBITDA	9,582	15,136	18,145	20,087
Adjusted profit	6,904	9,699	12,493	14,095
Diluted EPS (INR)	90.3	126.9	163.5	184.4
EPS growth (%)	53.2	40.5	28.8	12.8
RoAE (%)	22.4	25.5	28.1	26.0
P/E (x)	47.1	33.6	26.0	23.1
EV/EBITDA (x)	33.0	20.9	17.1	15.0
Dividend yield (%)	0.7	1.0	1.1	0

***Nuvama Research – Persistent Systems Q3FY23 Report**

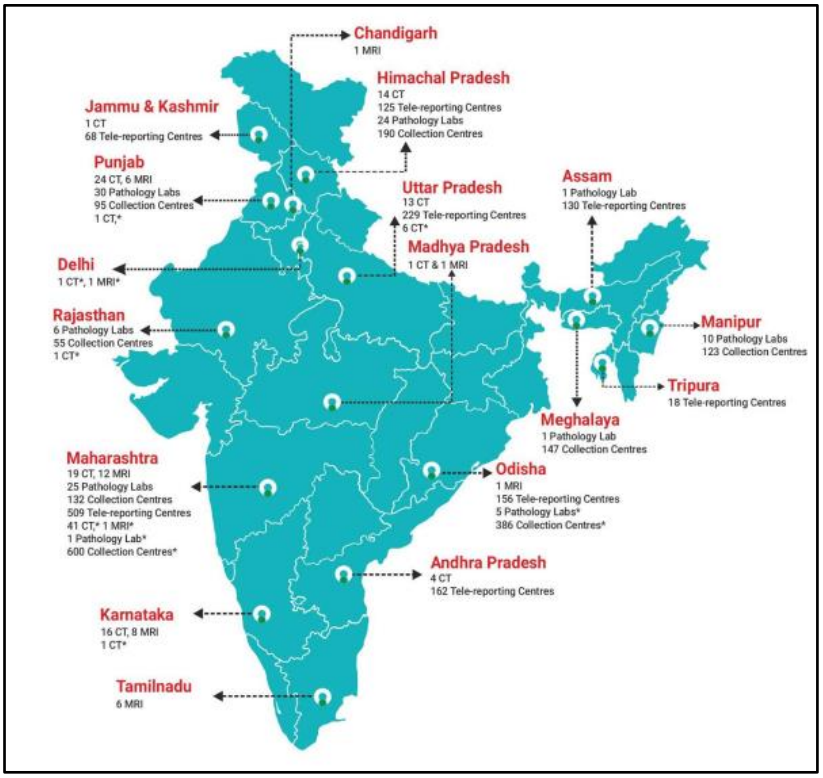




Krsnaa Diagnostics (www.krsnaadiagnostics.com**)** is India's largest diagnostics services provider, both in Radiology and Pathology. The firm's mission is to be easily accessible and affordable to anyone who seeks diagnosis to the last-mile patient, even in the most remote areas. Whilst the stock is not part of the India Avenue Equity Fund, we found the business highlighting some of the cost and scale advantages of the ecosystem.

The firm commenced operations in 2011 and by 2020 was the leading diagnostics company with the largest Private-Public partnerships and presence across 14 states (with 2,000 plus locations across the country). The firm IPO'd in August 2021 and has established a significant pan-India presence.

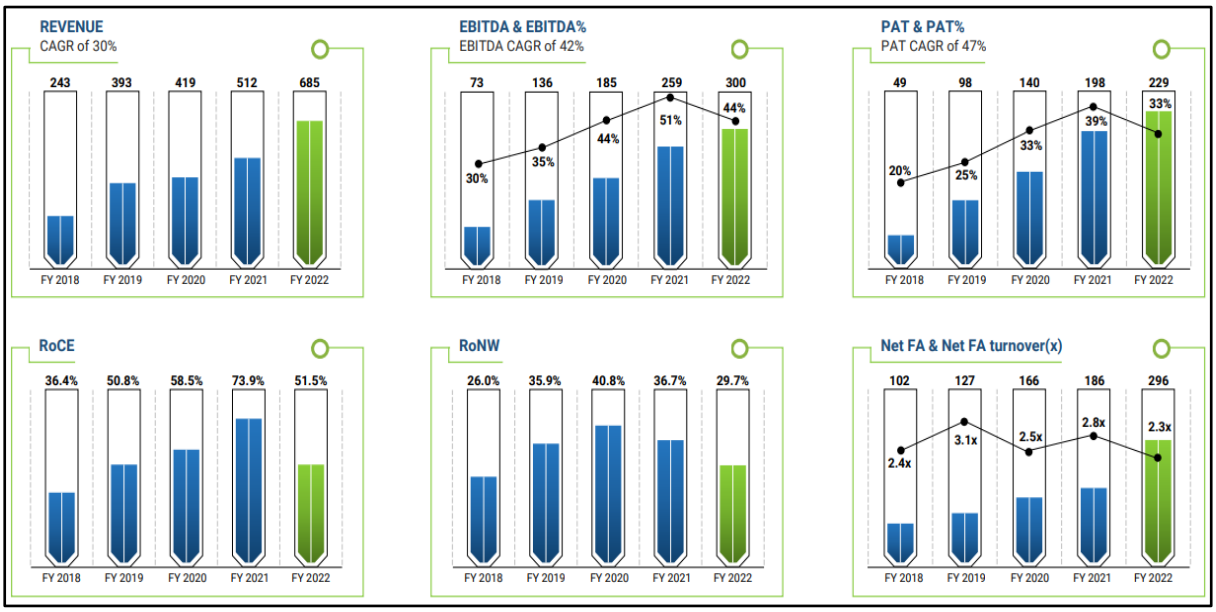
The company is an example of last-mile connectivity which is being achieved at much lower cost due to the digitisation of India. The company seeks to achieve 2x growth in revenues and 3x growth in profits by the end of FY24 as Centre's become more mature



(Rs. Million)	Q3FY23	Q3FY22	Y-o-Y Growth	Q2FY23	Q-o-Q Growth	9MFY23	9MFY22	Y-o-Y Growth
Core Business	1,180	1,052	*12.2%*	1,226	*(3.8)%*	3,532	3,104	*13.8%*
Covid-19 Business[1]	1	13	*(92.3)%*	3	*(62.1)%*	7	368	*(98.2)%*
Revenue from Operations	**1,181**	**1,065**	***10.9%***	**1,229**	***(3.9)%***	**3,539**	**3,472**	***1.9%***
Other Income	45	43	*(4.7)%*	43	*6.4%*	135	108	*24.5%*
Total Income	**1,226**	**1,108**	***10.7%***	**1,272**	***(3.6)%***	**3,674**	**3,580**	***2.6%***
EBITDA[2]	**298**	**304**	***(1.9)%***	**310**	***(3.6)%***	**891**	**1,049**	***(15.0)%***
Margin %	***25.3%***	***28.6%***		***25.2%***		***25.2%***	***30.2%***	
EBIT[3]	**200**	**237**	***(15.5)%***	**220**	***(8.8)%***	**621**	**833**	***(25.5)%***
Margin %	***16.3%***	***21.4%***		***17.3%***		***16.9%***	***23.3%***	
Profit After Tax	**136**	**163**	***(16.5)%***	**153**	***(11.0)%***	**432**	**505**	***(14.4)%***
Margin %	***11.6%***	***15.3%***		***12.5%***		***12.2%***	***14.5%***	
Reported Diluted EPS	**4.24**	**5.64**		**5.57**		**13.42**	**17.43**	

*Krsnaa Diagnostics – Company Presentation Q3FY23

Organisation	Clean Science & Technology (www.cleanscience.co.in) A fine and specialty chemical manufacturing company incorporated in 2003. The company is driven by technocrat founder family who are committed to longevity through R&D, facilities, technology and ESG.
Who we met	Siddarth Sikchi – Founder, Executive Director
Key discussion points	CSTL is a company focused on technology to drive its competitive advantage in a highly competitive industry of specialty chemicals, which has long been dominated by China. CSTL has developed indigenous technologies which are unique, sustainable and cost effective. The company lists innovation, in-house R&D and a focus on value engineering as its DNA. The firm has over 500 plus clients across 30 different countries. Over 70% of its revenues come from exports. There are 7 PhD's, 70 plus scientists and 4 R&D lab facilities. Given the strong cash flows, the company has zero debt. Over the 9 months FY23 so far revenues have grown 50% to A$133m over previous corresponding period. This has led to EBITDA growth of 37% to A$55m (given strong growth of raw material expenses) for 9 months FY23. Revenues are largely derived by performance chemicals (68%), pharma and agro intermediates (19%) and FMCG chemicals (11%). Across all its revenue generating business lines, CSTL is either No.1 or No.2 in the world in terms of capacity. The company lists its focus on ESG and sustainability through its clean and green chemistry. Additionally, increasing import substitution and new export customers has allowed the company to strengthen in India and expand globally. Finally investment in R&D, technology and capacity has provided the MOAT for the business.
Our view	The company has established a clean and green way to do businesses while innovating in a highly competitive space of Speciality Chemicals. In fact one of its significant clients is based in China as a testament to its value / technology. The margins achieved by the business relate to capability and despite FY22/23 seeing an escalation in raw materials costs, the business is likely to remain highly profitable whilst it maintains its MOAT. Valuations were excessive, yet the company remains best in class.



Trip to Delhi

The Grassroots India Tour then travelled from Pune to Delhi, via a Vistara flight. In Delhi we stayed at the magnificent ITC Maruya hotel.

The National Capital Territory (NCT) of Delhi includes New Delhi, the capital of India. The NCT area has a population of 17 million. However, when you include Delhi's satellite cities of Ghaziabad, Faridabad, Gurgaon and Noida, known as the National Capital Region (NCR) has a population closer to 28 million, making in the largest metropolitan area in India and second largest in the world after Japan.

In Delhi we visited Niti Aayog – the Government Think Tank, corporates as well as toured factories and took in some of India's nightlife.







Organisation	Economic Advisory Council to Prime Minister
Who we met	Sanjeev Sanyal – Member of EAC to PM
Key discussion points	The Niti Aayog is a public policy making Government Department which is responsible for India's 5-year plans. Sanjeev believed the Indian economy, whilst having challenges, looks far better placed than most of its peers. He stated that India had the capacity for GDP growth of 8-9% at present, but the focus was on sustainable growth, rather than pursuit of growth at all costs. GDP growth of 6.5% should be attainable, with the only discomfort coming from inflation. Increasing macro stability is likely to occur if oil prices recede or stay stable. India's economic recovery was propelled by a successful barbell strategy during the pandemic, which was to provide for the needy and keep some reserves to fuel growth in specific areas as pandemic receded. The Government guaranteed payments rather than provide helicopter liquidity. They focused on the supply side (as something they could control), rather than on forecasting demand. It was also the belief that the post COVID world would look very different and there would be significant creative disruption, which India could participate in. Areas like space, drones, defence are becoming increasingly an area where India will have significant ongoing involvement. COVID-19 was helpful to the outsourcing story of India also. The Government's view is that India has the right demographics and is well placed geopolitically to benefit from China's current weakness. The Government has focused on lowering corporate taxes, while introducing GST, which has broadened the tax base and therefore revenues. Additionally, they sought to encourage risk taking (to promote growth, rather than hoarding). To promote growth, infrastructure spending was increased by 33% at the recent budget which is atypical for a pre-election year. This infrastructure construct can be witnessed in Mumbai. Digitisation has increased significantly, with India now one of the world leaders in digital payments. The PLI scheme to promote local manufacturing will allow businesses to build greater scale and benefit from operating leverage. Ease of Doing Business has also improved significantly. Some states are far more progressed than others. However, some are increasing in alignment with the centre. Case in point being Uttar Pradesh (UP) which is increasingly aligned. UP has over 270 million people. From an infrastructure perspective, a significant amount of inter-city allocation has been done, with the next area of focus being intra-city allocation i.e. Mumbai Metro. Highways and freight corridors have improved out of sight. Tier 3 and 4 cities are benefitting from more airports, roads and highways. What also needs to happen next is investment in agriculture-based industries. This is needed to create a more even uplift in incomes on a pan India basis. An example of the PLI scheme is Solar Panels being made in India. Typically they were made in China, however, tariff increases (which whilst inflationary) have provided impetus to the local industry. In terms of corruption, Sanjeev's view was that the GST had cleaned up the system in terms of tax slippages. Tax payment systems are also anonymised, which then tends to reduce corruption whilst at the same time provide more transparency. The problem is now more "bottom of the pyramid" corruption.

	India's focus going forward is to have stable Government policy, a stable macro environment and increased transparency (GST, Digitisation). This will place it well above China and Russia. This can generate generous growth of 8-9%. Hiking rates at present is acting to slow the economy and curtail the level of imports and hence the balance of payments. Russia and India are both seeking to diversify dependence through their relationship. Also Sanjeev felt that the design capability of semi-conductor chips was greater in India than Taiwan. Increasingly India is in the centre of decision making which is giving it a greater say at the table. This creates greater connectivity, free-trade agreements and potential for greater exports. Global supply chains which previously benefitted China due to US/Russia tensions are now benefitting India as countries pivot from China. Sanjeev saw China heading a large block of countries seeking to be independent by 2033. Russia will be important for its provision of energy.
Our view	Sanjeev is an excellent thinker, great speaker and highlights the more youthful exuberance within India's political regime presently. As India becomes more connected economically and politically, the level of confidence within the Government units is rising. His background as a strategist at Deutsche Bank ensures there is a greater understanding of global macro conditions, capital markets and economic policy. The realisation that the post COVID world would look totally different at an early stage also set India up for a more successful strategic pivot.



Our Retailing Experience

D-Mart (www.dmartindia.com**)** is a supermarket/hypermarket retailer which is India's version of Walmart (market cap A$40bn). In fact the business philosophy of D-Mart(owned and operated by listed company Avenue Supermarts) is very similar to that operated so successfully in the US by Walmart – building neighbourhoods of excellence in understanding your consumer and mastering saturation levels before seeking another neighbourhood. It is a one-stop chain that aims to offer customers a wide range of basic home and personal products including food, toiletries, beauty products, garments, kitchenware, bed and bath linen, home appliances.

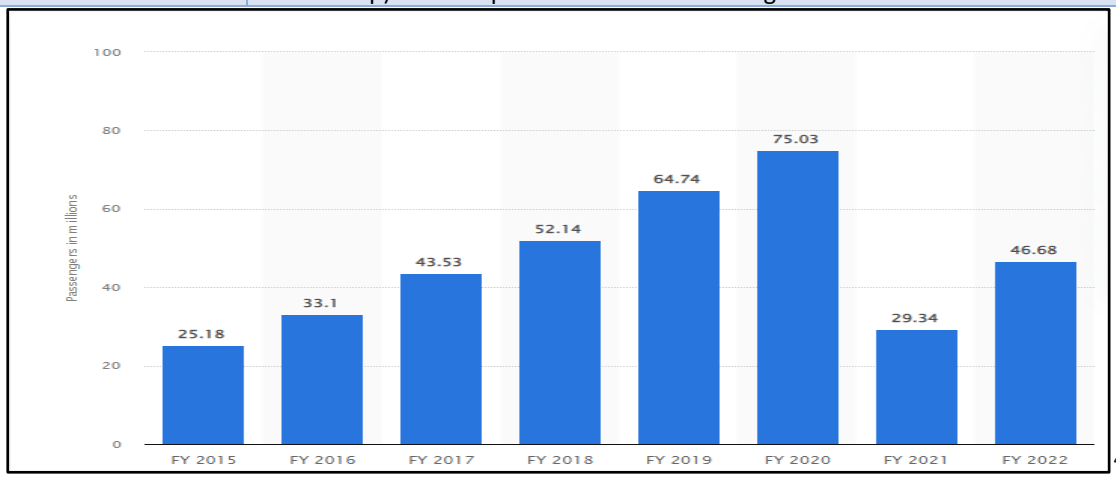
DMart was started by Radhakishan Damani and his family to address the growing needs of the Indian family. From the launch of its first store in Powai, Mumbai in 2002, DMart today has a well-established presence in 306 locations across Maharashtra, Gujarat, Andhra Pradesh, Madhya Pradesh, Karnataka, Telangana, Chhattisgarh, NCR, Tamil Nadu, Punjab and Rajasthan.

Our tour group had a shopping expedition at a D-Mart store in Delhi. Here we found goods were priced significantly lower than supermarket counterparts in Australia and New Zealand, being more commensurate to local incomes and lifestyles.

V-Mart Retail (www.vmartretail.com) is a business which is focused mostly on apparel (90%) retailing for lower to middle class of India. The business was founded in 2002 by Lalit Aggarwal and he remains at the helm. It has grown to 414 stores across India, with the greatest numbers being in the "poorer" states of India i.e. Uttar Pradesh (130 stores), Bihar (57 stores), Jharkand (24 stores).

Same store sales growth is currently running at 30% (9 months FY23 over pcp), with the average transaction size being A$20 and average selling price being A$8. The footfall over 9 months has been 32m. The company epitomises aspirational apparel retailing for the lower/middle class.

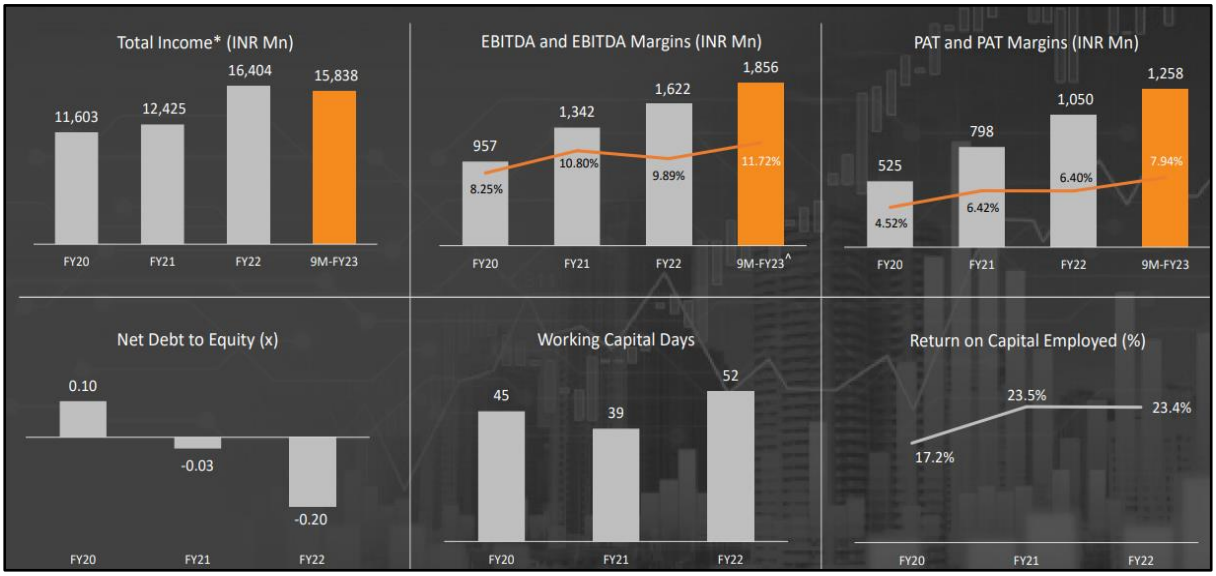
Organisation	Interglobe Aviation (www.interglobe.com) India's leading aviation company with over 50% market share and a work force of over 30,000, spread across 28 countries.
Who we met	Richa Chhabra – Investor Relations
Key discussion points	Interglobe Aviation is a listed company whose main brand is Indigo, which holds the largest market share by a significant margin of air passenger traffic (approximately 55% market share, nearest rival around 15%!). The company also has other businesses such as a hotel chain (local and global), aircraft engineering, airline management, pilot training, logistics. The industry has gone through a tough period for most players with significant consolidation through the disappearance of Jet Airways and Kingfisher Airlines as well as tepid growth of Spicejet and GoAir. Meanwhile Indigo continued to add capacity as demand was linked to economic growth and a growing middle class. Large orders by the carriers are amounting to significant scale benefits. Indigo operates 1,800 flights per day, which is the 7th largest in the world. The market in India is only of 700 aircraft (302 Indigo). The Indigo Fleet has the youngest age of 3.5 years. Over the next few years the number of airports will increase to 115 and the company will operate at between 55-59% market share. Currently the split is 75% local and 25% global flights. The company has a 15% advantage when it comes to using more efficient fuel sources. Indigo is the 4th lowest cost service provider in this category in the world. The company transports between 400,000-425,000 per day. Thus far penetration is low with only 7% having experienced airlines travel. This can easily double, given the significance of a newer fleet and airport openings. The key motto for the Group is on-time performance and budget prices. However, currently the main risks are on the supply side and OEM issues, with some aircrafts not being able to operate
Our view	The company is poised for additional demand to come through given increasing wealth of lower and middle class, additional airport infrastructure, inter state business increasing and the general level of growth. For example a return ticket from Mumbai to Delhi (aka Sydney to Melbourne) is around A$160, which is not dissimilar to prices in Australia and NZ. Yet demand is very high due to rising wealth and the growth story. As oil prices recede, given significant gains in market share, this company is poised for abnormal profits in this cycle. However, competition will intensify as Air India gets its game together (now owned by the Tata Group) and competitors like Vistara emerge.



[4]

[4] Statista.com – Indigo passengers by financial year

Organisation	Action Construction Equipment (www.ace-cranes.com) India's leading material handling and construction equipment manufacturing company
Who we met	Vyom Agarwal – Supply Chain Management, Head of Investor Relations Rajan Luthra - CFO
Key discussion points	The company has been established for 27 years and listed in 2005 and has held 50% market share in its industry since 2002. In its most prominent segment (Industrial Cranes), it holds 63% share. Given cranes usage in infrastructure, construction, logistics and agri industries, this is likely to witness strong growth. The company has significant capacity to grow, given land acquisition, clean balance sheet and participation in growth industries. There are differing levels of competition in each of its revenue segments, but no other players covering the span of businesses of ACE (which exists in 25 countries). All products are developed internally by ACE's internal R&D team. The facility that we visited is now 105 acres (the company has been adding land through purchases to add to capacity). Capacity to manufacture Cranes has been increased by 80% and it expected that market growth will be 3x in this segment over the decade. The R&D and training facilities helps the business develop low-cost solutions. In fact the company has trained the local community to allow them to hire lower cost labour and maintain a lower attrition rate. This also creates a significant number of advocates for the business within the local community. Additionally, the business has built a sustainability framework by rainwater harvesting, solar power plant (1.8 MW), upgrade to BS-VI engines, 40 acres of green area inside the site and their own waste disposal and recycling unit. There is also a significant focus on technology, with the company building the first electric crane as well as aerial platforms.
Our view	The company has significant market share in a segment which is going to benefit from a focus on infrastructure, construction and logistics. Having invested in capacity and a background in R&D and technology will create a significant moat for the business going forward. We also noted significant staff loyalty (almost everyone wearing the company uniform proudly) and the innovative actions being adopted by the business. The company is experiencing strong growth, has zero debt, stable and rising margins as well as an ROCE over 20%.



India Avenue's Factory Visit – Action Construction Equipment





Organisation	Motherson Sumi Wiring (www.mswil.motherson.com) A leading and fast-growing full-system solutions provider to OEMs, in the wiring harness segment in India
Who we met	GN Gauba – CFO
Key discussion points	Motherson Sumi has its origins 26 years ago and is one of India's most successful auto ancillary groups. The company and subsidiaries are now truly global with 170,000 people of which 95,000 are based overseas. The core business involves automobile cockpits and wiring for several OEM's globally. Over the next 5 years the company seeks to achieve an ROCE of 40% and grow its revenues substantially. The Motherson Sumi Wiring business is a 25% subsidiary of Samvardhana Motherson the parent (demerger occurred in March 2022), established in 1986 in JV with Sumitomo Group in Japan. During FY 22-23, MSWIL expanded capacity (capex for Q3FY23 is Rs 61 crores; 9M FY23 is Rs 147 crores) in line with customers forecasted requirements as well as orders for new models/ programs awarded to the company. The company developed products for 11 new /full model change and 04 facelift model in the passenger vehicle segment during first nine months and is currently working on 06 new / full model changes which will be launched in the next 3-6 months. These will contribute nearly 40% of the total business of the company. Revenues are split by 15% mirrors, 50% dashboard and bumpers and 30% wiring harness (passenger cars as well as other transport forms). Other areas of focus for the business include aerospace, health and logistics. Revenue targets are for US$36bn by 2025 (compared to the current US$11bn), which indicates the focus is both organic and inorganic in growth trajectory. The Group has not shied away from making acquisitions and is representative of businesses in India which could seek to make acquisitions globally, especially given the strength of corporate balance sheets.
Our view	Motherson Sumi is another example of a business which has benefitted from local scale and growth to build a strong global footprint from which it can gain operating leverage from global markets. Also of significance is the aggressive revenue expansion plans of the business. This is likely to be supplemented by acquisitions which are bolt on to help the business scale up. We toured the Noida-based facility of Motherson Sumi, looking through their existing products as well as futuristic products. Traditional products included dashboards, mirrors and bumpers. Interestingly we weren't able to take photos in the futuristics product division.

(INR mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Q3FY23E	Variance (%)
Revenue	16,868	14,596	15.6	18,352	(8.1)	17,592	(4.1)
EBITDA	1,790	2,086	(14.2)	1,808	(1.0)	1,935	(7.5)
EBITDA margin (%)	*10.6*	*14.3*	*(369)*	*9.9*	*76*	*11.0*	*(39)*
Depreciation & amortization	317	123	157.8	295	7.3	300	5.6
EBIT	1,473	1,964	(25.0)	1,513	(2.7)	1,635	(9.9)
Interest expense	66	40	64.6	59	12.0	60	9.2
Other Income	7	79	(90.9)	107	(93.3)	80	(91.0)
Pretax profit	1,414	2,003	(29.4)	1,562	(9.4)	1,655	(14.5)
Tax	353	484	(27.0)	397	(11.1)	414	(14.6)
Tax rate (%)	25.0	24.1		25.4	(45.7)	25.0	(0.1)
Adjusted Net profit	1,061	1,519	(30.1)	1,165	(8.9)	1,241	(14.5)
Reported Net Profit	1,061	1,519	(30.1)	1,165	(8.9)	1,241	(14.5)
EPS (INR)	0.34	0.48	(30.1)	0.37	(8.9)	0.39	(14.5)

Key Financials

YE March	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY22	56,350	36.2	7,303	13.0	4,761	61.6	1.5	36.8	55.1	34.5	22.1
FY23E	70,334	6.9	7,807	11.1	4,874	18.7	1.1	31.8	42.3	47.2	29.2
FY24E	80,262	30.6	10,193	12.7	6,627	36.0	1.5	34.3	45.2	34.7	22.2
FY25E	88,673	20.0	12,237	13.8	8,032	21.2	1.8	37.0	48.7	28.6	18.3

Note: Pricing as on 7 February 2023; Source: Company, Elara Securities Estimate




motherson



Organisation	Info Edge (India) (www.infoedge.in) The company has an in-depth understanding of the Indian consumer internet domain. Their experience, strong cash flow generation and a diversified business portfolio, make it a profitable pure play internet companies in India.
Who we met	Chintan Thakkar – CFO and Executive Director
Key discussion points	We visited Info Edge's corporate headquarters in Noida, Delhi. The business is India's only listed internet company. Its business activities include the Naukri.com (India's No.1 jobs portal), 99 Acres (online real estate portal) Jeevansathi.com (matrimony portal) and Shiksha (education portal). The company also has set up a fund for investments into internet related businesses. It has investments in businesses like Zomato and Policy Bazaar, which came to market in 2021-2022. The promoter of the business, Sanjeev Bikchandani has a significant number of years of experience in identifying businesses which could succeed in the internet space in India (despite a hyper competitive environment). As the economic recovery has taken place post pandemic, the company has seen activity levels resume and therefore profitability also. During the recovery (20-21), IT hiring was a significant contributor to profitability. However, with supply chain pressure easing and moderation in attrition, IT hiring is now easing. Overall, non-IT hiring is now picking up the pace and over FY23-25, revenue growth of 16% p.a. is expected.
Our view	With margins improving, it is expected that scale benefits will occur over the next few years. Whilst valuations of this business remain high, the margins and growth achievable are high and the quality of the investment book in start-ups is good. This should underpin the value inherent in the business.

Key Financials- Annual

All numbers in Rs MN except %

Description	FY 22	FY21	FY 20	Growth FY22 Vs 21	Growth FY21 Vs 20
Billing					
Info Edge *	18,660	11,758	12,687	58.7%	(7.3%)
- Recruitment	14,364	8,320	9,156	72.6%	(9.1%)
- 99Acres	2,312	1,848	2,139	25.1%	(13.6%)
Revenue					
Info Edge *	15,625	11,280	12,727	39%	(11.4%)
- Recruitment	11,542	8,004	9,068	44%	(11.7%)
- 99Acres	2,173	1,738	2,280	25%	(23.7%)
Operating EBITDA					
Info Edge *	4,637	2,881	4,027	61%	(28.5%)
- Recruitment	6,798	4,375	5,041	55%	(13.2%)
- 99Acres	(782)	(222)	84		
Operating EBITDA %					
Info Edge *	29.7%	25.5%	31.6%	4.1%	(6.1%)
- Recruitment	59%	55%	56%	4%	(1%)

Info Edge standalone financials . Segmental data for Naukri and 99acres

Taj Mahal Trip

We added a trip to the Taj Mahal on Saturday the 25th of February for those who wanted to join us in witnessing one of the man-made wonders of the world. Whilst the road trip from Delhi to Agra on a bus was lengthy (4 hours there and 4 hours back), it was indeed a sight to behold.





Thematics

China + 1

refers to the diversification of supply chains around the world. During a period of globalisation, China was the manufacturing engine of the world, with significant supply chain participation. During and post COVID-19 there has been a significant need to diversify supply chains so global businesses are never caught short handed again. However, China's role is significant, and it is hard to see one economy stepping in. Vietnam, Philippines and Indonesia certainly have been active in increasing their role as low-cost labour resource providers. During 2010-2020, China's cost of labour in manufacturing rose 169%. This alongside the political stance adopted by China and the pandemic induced supply chain blockages, accelerated this thematic.

India has the world's second-largest workforce in the world at 500 million, (China 780 million). The rise in China's labour costs has made it more attractive for investors to consider other regions for the manufacture of low-cost, labour-intensive goods. China's lowest minimum wage of US$182 per month in some provinces is nearly triple India's national minimum wage of US$62 per month. That gap is smaller, but still significant between Beijing (US$383) and Delhi (US$235).

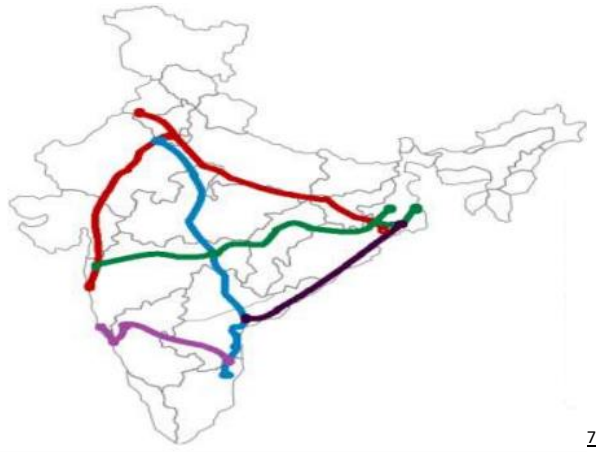
India's manufacturing sector possesses strong technical and engineering capabilities and a high level of expertise. However, there is a significant step down to the average skill level of the labour force, which is lower than many of its competitor nations in the region. The Indian government has taken many steps to incentivize the upskilling of workers (Skill India[5]) and increase the labour participation rate (particularly for women). It is also estimated that over two-thirds of India's population is under the age of 35, with an average age of 29. And with China's aging population (average age over 40), India is likely to have the largest labour force in the world by sometime this decade[6].

Jessica Sier from the Australian Financial Review who travelled with us on the Grassroots India Tour, wrote an excellent article on India's potential in this regard. bit.ly/MadeinIndia-AFR.

Infrastructure

Roads

India is now taking the quantum leap on infrastructure by building freight corridors. These dedicated routes which are currently in red below are from Mumbai to Delhi (WDFC, 1504 kms) and Delhi to Kolkata (EDFC, 1861 kms). The other routes which will cover the rest of the country will provide the infrastructure support for India's urbanisation and the growth story to unfold at a more rapid pace.



[7]

Delhi to Chennai is the next corridor in light blue which will be a total length of 6,127 kms, which will provide greater connectivity.

Road construction averaged 6km a day from 2013-2017, before rising to over 10km per day from 2018-2022, hitting a peak of 13km per day in 2021.

[5] www.skillindia.gov.in
[6] insight-quality.com/manufacturing-in-india-vs-china/
[7] Elara Capital Research

Railways

India's Metro system is picking up pace to improve logistics in cities. This will spur on additional urbanisation. From 2014, when the Metro system was only present in 5 cities, this is likely to expand to 26 by 2025, with operational kilometres rising from approximately 250 to 1,600 over the same period. For example Mumbai's Metro system should be completed by 2026. When completed the core system with comprise 14 high-capacity metro railway lines, spanning 357 km. Today the metro services 550,000 riders per day and 126 million per annum with only 1 line fully operational and 2 more lines partially operational.

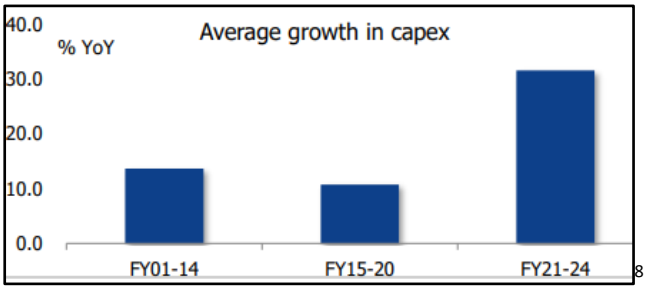
Airports

Additionally, the number of airports is likely to increase from 2014-2027 from just over 60 to over 200. This will provide last mile connectivity. Passenger levels are above pre-Covid levels presently. Airline companies are extending their fleet significantly, with record purchases of planes and ancillaries from global manufacturing businesses.

Power

Significant amount of power capacity is also being added yearly, with 90% being renewable capacity. There has been a significant shift from fossil fuels in new capacity since 2015.

Capex



[8]

Capex is seeing a significant increase post Covid-19 (2020-2024E). In FY21 we saw the first time in 15 years that Capex-to-GDP has risen from 2% to over 3% (planned 2024).

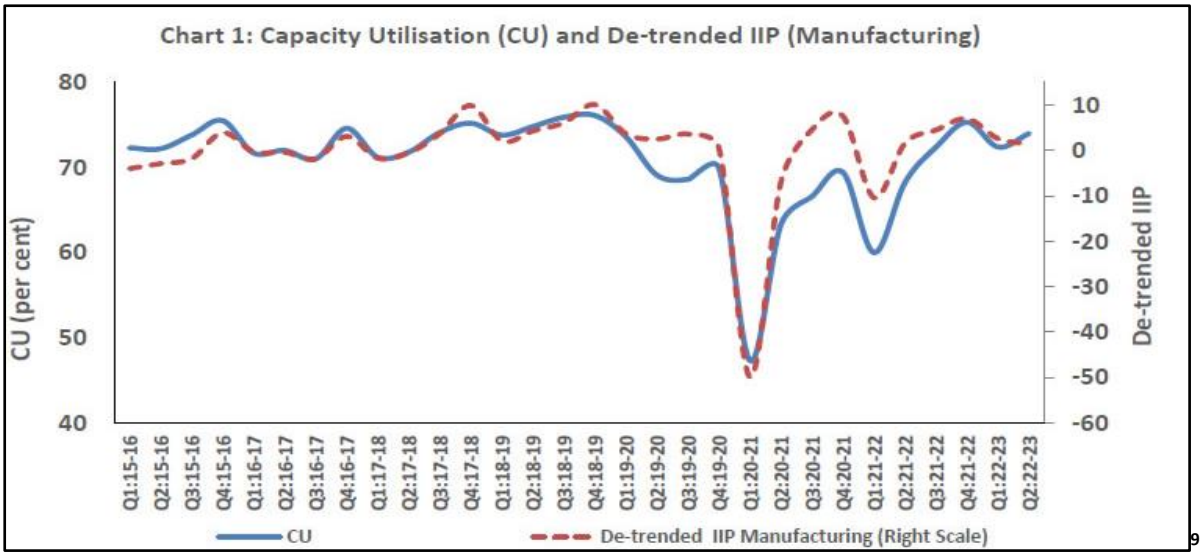
Over the next 15 years there is the potential for US$1.2 trillion of capex with the focus on the following areas according Elara Capital Research's estimates:

Sector	Potential Spend
Power	28.1%
China + 1	24.5%
Railways	13.4%
Automobiles	11.0%
Oil & Gas	10.7%
Defence	8.7%

Other smaller sectors from a capex allocation point of view include Steel, Cement, Chemicals and Data Centres. The Government Capex is running at over 8% of GDP, whilst the long-term median is closer to 6%. Additionally, bank balance sheets are in a way better shape than previously with non-performing loans at around 0.6% compared to the median level of 1.2%. ROE's have picked up pace and debt-to-equity at the corporate level is as low as its been (given deleveraging over the past decade and strong cash flows generated since COVID-19). Everything appears aligned for an upcoming increase in private capex to increase capacity and absorb demand.

[8] CMIE, Elara Capital Research

Capacity Utilisation

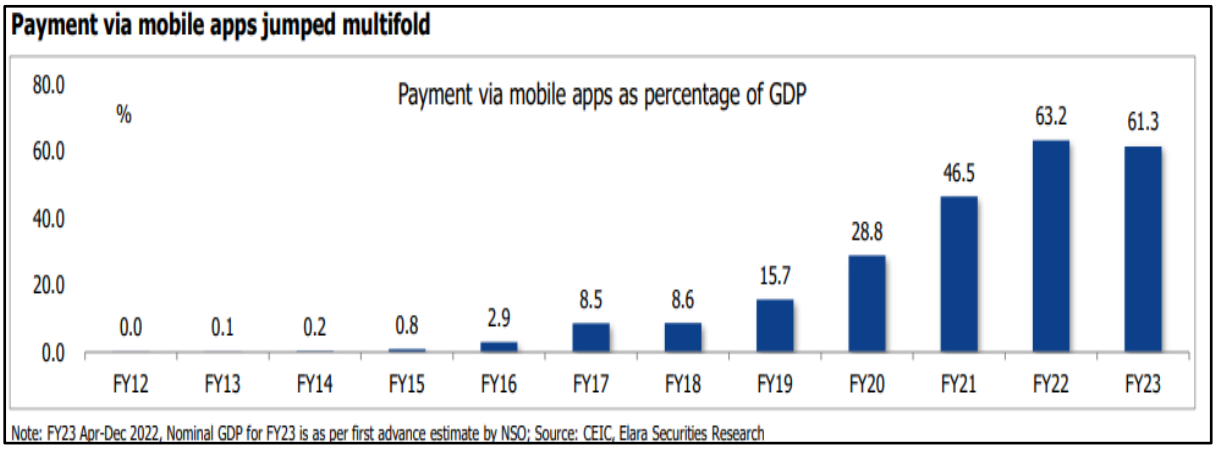


[9]

Capacity utilisation has been rising since a COVID-19 induced low around 45%. In the September 2022 quarter, capacity utilisation reached 74% which is close to the peak achieved between 2016-2019 (pre-COVID period), but not close to the 83% achieved in 2011. However as mentioned above, all the ingredients are now in place for rising private capex – strong Government capex, a clean banking system, rising ROE's and low corporate debt levels. We expect as utilisation levels continue to rise that India will undergo a capex boom to build capacity and service both local and global demand or increase its share of global GDP.

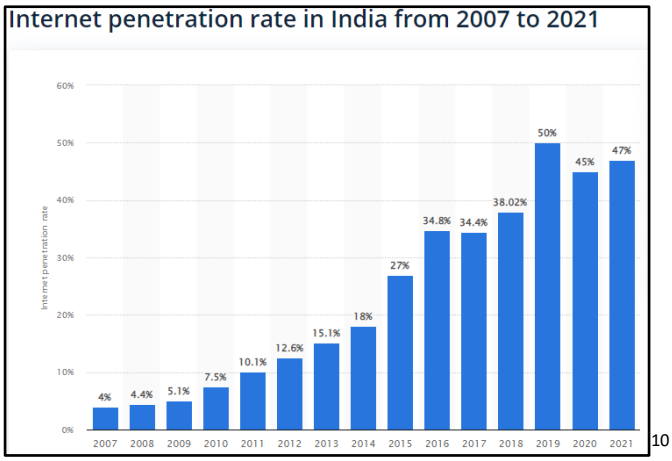
Digitisation

India's linkage of the National ID card (Aadhaar Card) – a biometric identification system, to bank accounts, mobile phones and the internet has led to a significant rise in the level of digitisation. As can be seen below payments via digital mobile apps have risen sharply since 2015. This is creating far greater transparency, efficiency and authenticity in transactions, with the removal of the "middleman" – which has traditionally been the source of "graft", misappropriation of funds, inefficient allocation.

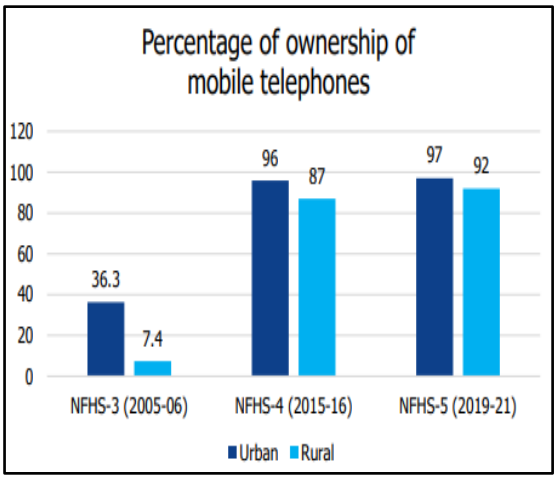


Driving this is the higher penetration of the internet and mobile phones in the Indian household.

[9] Reserve Bank of India - Order Books, Inventories and Capacity Utilisation Survey on the Manufacturing sector for Q2:2022-23



[10]



Summary and Conclusions

Capacity constraints in the system

Businesses regularly told us that they were ready to add capacity when required. With all the ingredients for corporate capex to rise are in place, except for a global slowdown, it appears that capacity can be increased to remove some of the constraints in the system. We saw for examples that there was 10 months of backlog at Mahindra and significant number of new jets being ordered by Indigo. Action Construction Equipment, Motherson Sumi Wiring discussed the potential of capacity additions to support their strategy and the market environment.

Strong balance sheets and cash flows leading to rising ROE's after a cyclical downturn (2011-2019)

Corporate India has a strong balance sheet after a decade of deleveraging. This was highlighted several times, allowing for capacity additions to take place. It is the right time in the cycle for low leverage given higher interest rates and the potential for business opportunities to emerge (either organic or inorganic).

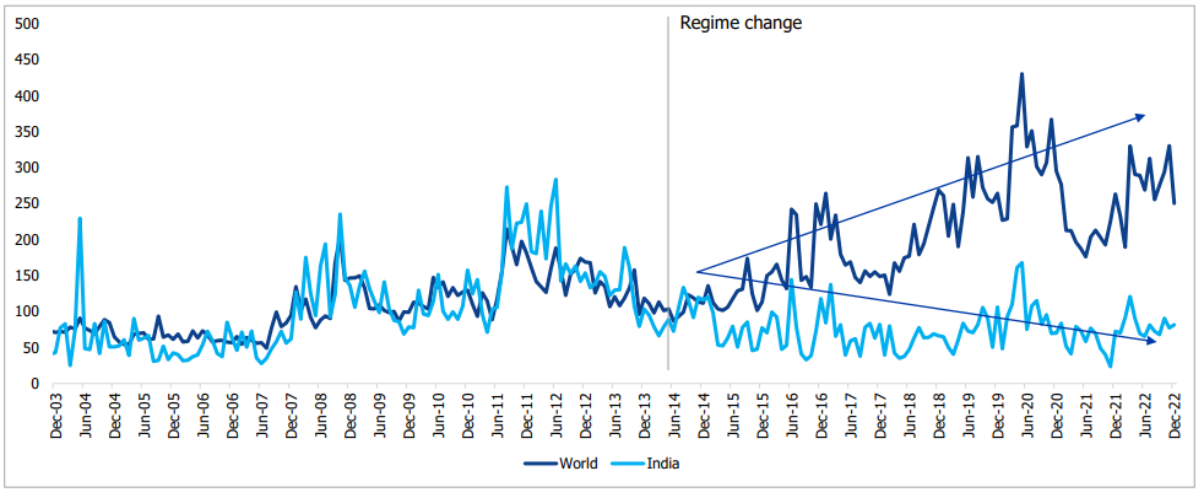
Policy discipline

The Government of India has exercised policy discipline when it comes to subsidies and handouts during COVID. Fiscal and monetary policy have been supportive of maintaining reasonable price stability given the shocks in the external environment. Typically, in an environment like the current one, India's currency, capital markets and macro finances would have been problematic (as we experienced in its fragile five days of 2010-

[10] Statista – Internet Penetration in India

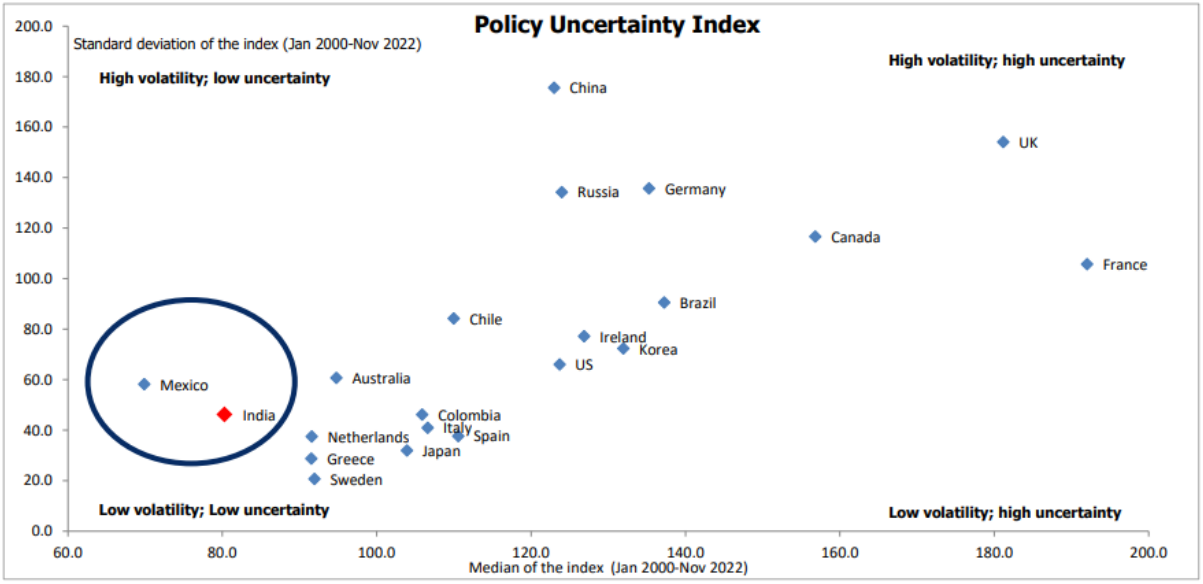
2012). However, several reforms including the GST have sought to broaden revenue sources and fiscal discipline has been applied to keep debt levels at bay.

Policy Certainty in India– never been better



Source: Caldara, Dario, and Matteo Lacoviello (2021), "Measuring Geopolitical Risk," working paper, Board of Governors of the Federal Reserve Board, November 2021"., Elara Securities Research

India best placed across host of countries



Note: Volatility implies volatility of the index as on the specified period. Least volatile, least index average is most preferred; Source: Caldara, Dario, and Matteo Lacoviello (2021), "Measuring Geopolitical Risk," working paper, Board of Governors of the Federal Reserve Board, November 2021"., Elara Securities Research

Risks to the growth story

Global Policy Tightening – will create headwinds for India in keeping global economic activity contained / weak and this will lead to imbalances in the balance of payments.

Crude Oil – India imports over 80% of its oil requirements. So a rise in the oil price will create weakness in the balance of payments and a depletion in forex reserves to maintain stability in the Rupee.

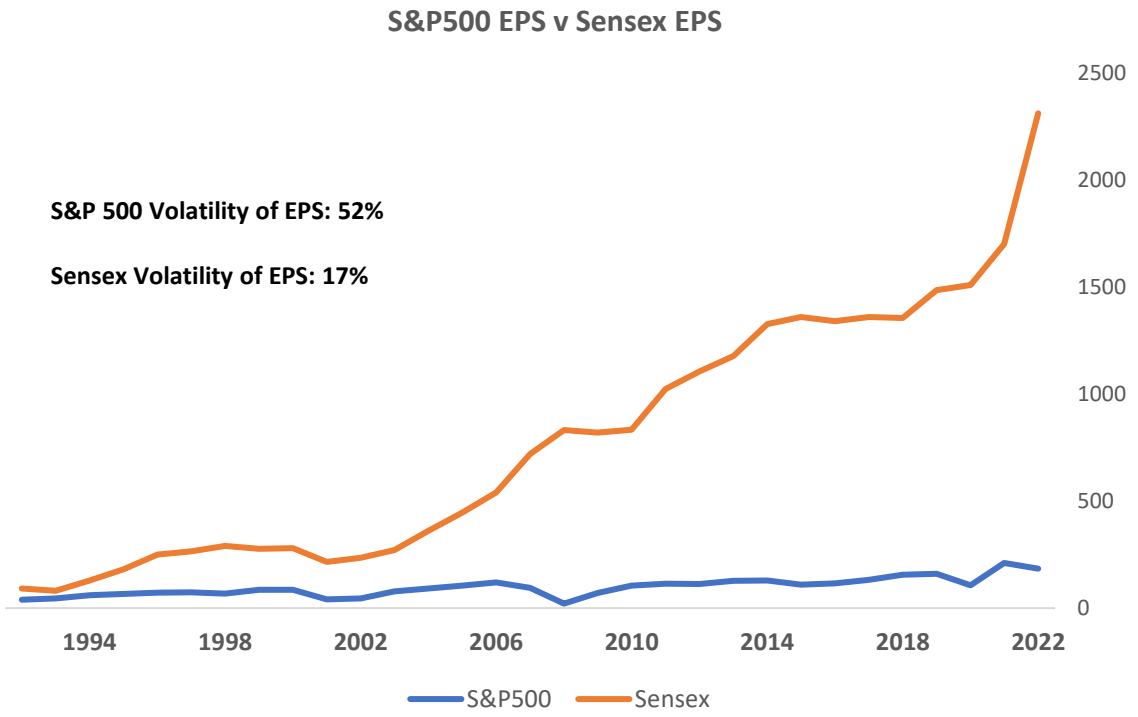
Labour Participation – Lower participation rate can lead to a supply constraint as planned capacity expansion is constrained.

Policy Continuity - Given the aggressive supply side reforms and policies of the current government, any possibility of regime change can lead to “Keyman Risk” thereby impacting pro-reform path to growth.

Compounding Growth and High ROE

Throughout the tour the key learning at the corporate level and a reflection of the demographics and growth story was the potential to generate compounding returns in a business (profitability, cash flows) or for an investor (share price reflecting earnings over time).

India's companies have compounded EPS over 30 years of 11% plus, where as the S&P500 is closer to 5%. Over 30 years that is significant as illustrated in the chart as provides a hint as to why India trades at a premium multiple. Higher ROE's are also generated from strong scalability and good capital management – this is also evidenced in the strong earnings generation. Most of all the underlying fundamentals underpin earnings over time.



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