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INDIA AVENUE

GRASS ROOTS TOUR IV

SUMMARY

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INTRODUCTION

PURPOSE OF THE TOUR AND HOW ITS RUN

India Avenue hosts a week-long immersion tour of India once a year in February. This Tour is intended to give participants, who are typically potential or existing investors, consultants, and researchers, the opportunity to observe the growth story with their own eyes. It is our view that this increases conviction levels and helps to build knowledge and insight into why India should be a part of every investor's portfolio over the next decade. It is ideally suited for high net worth, family offices, small institutions (foundations/charities), and financial planning clients. The Tour also leverages India Avenue's extensive network on the ground, including our three investment advisers who provide advice under a mandated structure, capitalising on their locally developed skill sets. This "IP" into the ecosystem is far superior to investing based on broker coverage, liquidity, and fundamentals from an overseas location.

MUMBAI, THE FINANCIAL HUB OF INDIA

On Grassroots India Tour IV we visited our three advisers at their premises, one of India's largest private banks (Axis Bank), the Reserve Bank of India and heard from corporate management of Marksans Pharma and Polycab Industries (two of our portfolio companies) on drivers of their growth story. We also sat with the Head of Research at Motilal Oswal, one of India's leading local broking companies. Finally, we also heard from an Infrastructure industry expert at PwC. Infrastructure will be the driver of India's growth and productivity story in the next decade, creating a multiplier effect on GDP growth. It also explains India's pollution problem in its major cities at present. The improvement in Mumbai's metro network will be significant over the next 2 years.

CHENNAI, INDIA'S MANUFACTURING CENTRE

So far, that's only Mumbai and 2 days' worth! We then moved on to Chennai, renowned for its manufacturing. We visited companies excelling in manufacturing and innovation as well as improving India. We met with VA Tech Wabag, Syrma and Avalon at their premises, factories and observed innovation, scale economics and the potential for India to build its reputation as one of the factories of the world. This will be essential to create employment opportunities as India is entering a phase where it will supply over 20% of the global employable population, due largely to its favourable demographics.

BENGALURU, SILICON VALLEY OF INDIA

The last two days were spent in Bengaluru (previously Bangalore). This city is known as the IT hub for India and has a younger population with a tech/start-up sub-culture. In these two days we visited the factory of Stovekraft (one of India's leading cooking appliance manufacturers), had lunch at Barbeque Nation (a leading QSR chain across India), heard from Swiggy (a pre-IPO food delivery business), visited the offices of Brigade Enterprises (one of South India's leading property developers). On the second day, we visited the campus of Infosys, one of India's dominant IT outsourcing firms as well as a Logistics Park, where the client was Amazon. Amazon has been making significant investments and inroads into India as a key e-commerce market for them in the future.

INDIA'S STATE OF PLAY

MACRO

India's macroeconomic positioning remains attractive relative to other regions.

With real rates of 1.5%, strong GDP growth of 8.4%, robust PMI's, stable trade deficit and close to all time high in Forex Reserves, India continues to attract global investors.

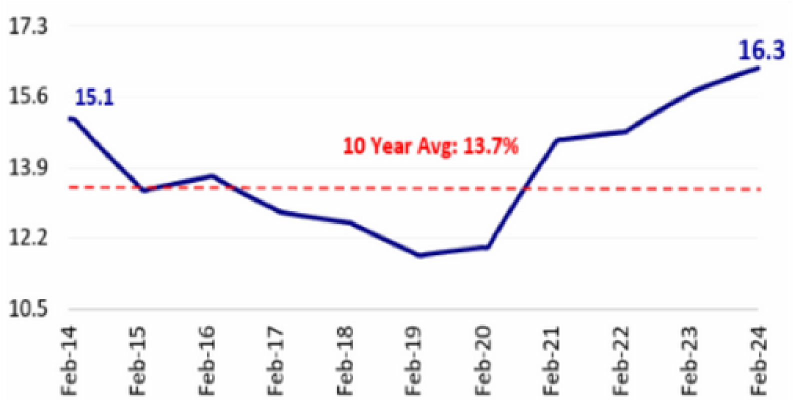
A stable 10-year government yield of 7% and the potential for significant inflow from bond index inclusions will also keep the cost of capital down.

Macro Factors	Latest	Period
GDP Growth	8.4%	Dec 2023
CPI	5.1%	Feb 2024
Unemployment	8.0%	Feb 2024
Cash Rate	6.5%	Feb 2024
CA-to-GDP	-1.0%	Dec 2023
PMI (Manufacturing)	59.2	Mar 2024
PMI (Services)	60.3	Mar 2024
Industrial Production	3.8%	Jan 2024
Forex Reserves	US$642bn	Mar 2024
Consumer Confidence	95.1	Jan 2024

Source: tradingeconomics.com

MICRO

The 3QFY24 (Dec-23) corporate earnings ended on a strong note, with widespread outperformance across aggregates driven by continued margin tailwinds. Earnings for the Nifty-50 jumped 17% YoY, whereas the aggregate earnings of the Motilal Oswal universe of companies exceeded their expectations and rose 29% YoY (vs. est. of +19%).



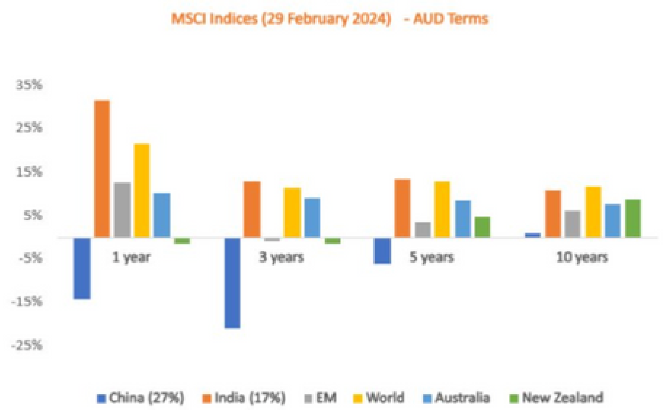
Source: Motilal Oswal: Bulls & Bears Report Feb 2024

Corporate earnings remain robust with profitability on the rise

12-month forward ROE has been rising since COVID-19 after a period of weakening profitability. Earnings growth during the last decade was concentrated in Consumption and Financials. Additionally, formalisation was taking hold in most sectors, with profit concentration towards larger more organised players. However, since COVID-19 there has been a greater spread of companies making profits due to factors like digitisation, financialisation, government capex and broader participation in the upcycle.

EQUITY MARKETS

Returns from Indian markets have been very robust compared to their regional peers / asset classes of choice for investors in Australia/New Zealand. India has outperformed over all periods, except against the US market over 10 years. It has been far superior to China, Australia, and New Zealand. Receding equity market volatility and a less volatile currency are also helping to build a case for portfolio inclusion of India Equities.

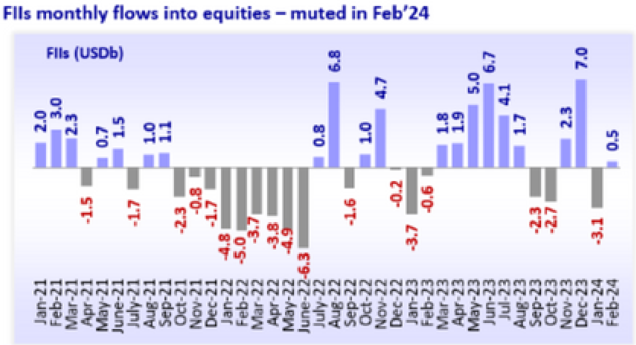


Source: MSCI

Indian equity market as a star outperformer relative to other regions

INVESTOR SENTIMENT

FIIs monthly flows into equities – muted in Feb'24



DIIs monthly flows into equities – continue to remain healthy

Source: Motilal Oswal: Bulls & Bears Report Feb 2024

Flows into Indian Equities have become far less volatile as local HNW, Retail, Pension Funds, Insurance and Mutual Funds have become a structural buyer over the last 3 years. Monthly investment plans have become commonplace amongst investors seeking to build wealth through equities. Interestingly only some 7% of Indians own equities when compared to developed markets like the US and Australia where ownership is closer to 40%. This structural buying is likely to continue, whilst foreign investors will seek to time their entry into India and must consider external implications e.g. China's slowdown and property issues, geopolitical risks, election outcomes and relative valuation. However, given the fragmentation of views on Emerging Markets, it is more likely single country investing will be considered.

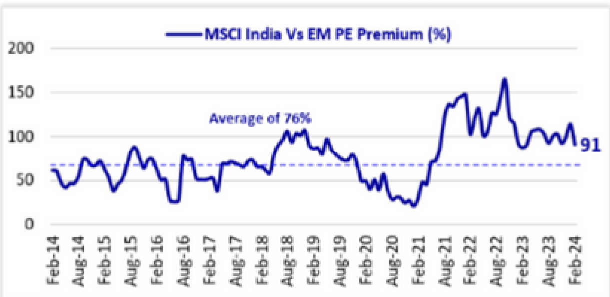
VALUATION

12-month forward Nifty P/E ratio (x)

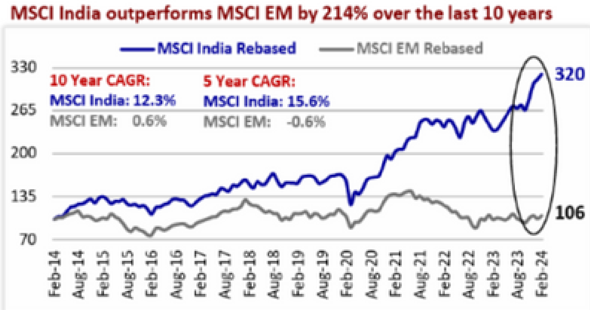
12-month forward Nifty P/B ratio (x)

India's valuations are always a topic of discussion. Consensus amongst global investors is that Indian equities are expensive despite the attractive fundamentals and the robust and sustainable earnings growth. We would argue that India's strong fundamentals, low volatility compounding earnings growth and the diversity of its equity market should afford it a significant premium to other emerging markets. In fact, over the last 10 years its P/E premium to Emerging Markets has averaged 76% (and has been increasing).

In P/E terms, MSCI India trades at a premium (%) to MSCI EM



MSCI India outperforms MSCI EM by 214% over the last 10 years



Source: Motilal Oswal: Bulls & Bears Report Feb 2024

However, this premium has built due to India's astounding outperformance relative to Emerging Markets over 214% over the last 10 years in local currency terms. India's more resilient earnings growth (relative to the EM pack) keeps its premium in check. However, the performance of its equity markets keeps racing ahead. It is our view that this is best played through a strategic allocation to India rather than a tactical one through an Emerging Market Fund. This also provides the investor with greater exposure to thematics likely to play out over the next decade, rather than being biased to existing large and liquid success stories.

ACTIVE MANAGEMENT

FUND MANAGER SENTIMENT

As part of the Grassroots India Tour IV and several other meetings held by the India Avenue Investment Team with investment managers, brokers and regulators, the general sentiment towards equity markets can be summarised below:

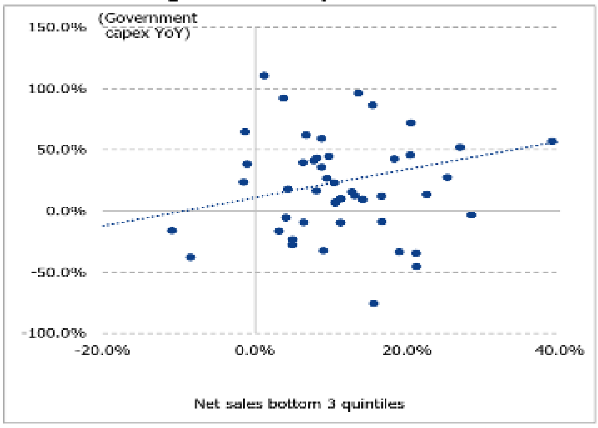
- Markets have received significant investments from local and foreign investors and now appear to be expensive in the short-term, particularly in the mid and small cap category. Cash levels are around 10%, indicating some concerns about current market valuations.
- Macro-wise India appears to be in fantastic shape relative to other geographies. Forex Reserves are abundant, bond yields are no higher than they have been in the last 20 years and inflation is structurally lower. GDP growth is likely to be 6.5-7.5% going forward and there is scope to cut rates significantly.
- Corporate India is also in great health given low debt / equity (0.5-0.6), leading to significant cash generation for capacity addition. ROE is likely to be higher than other emerging markets and earnings are likely to compound at 10-15% per annum over the next cycle.
- Election risk is largely non-existent due to the strength of the BJP and the weakness of the opposition. The Union Budget post-election will provide a litmus test for where the Government wants to head in its third term.
- Rural India has struggled post demonetisation and then COVID-19. No economic recovery is complete without rural participation in India, given that 2/3 of the populations lives in this region and is tied to agriculture / farming.

INVESTMENT THEMES

Drivers of economic growth will be different compared to the last decade where Consumption contributed the most to GDP growth. Household leverage increased from very low levels (2010-2020) and high savings rates. This created a great environment for Financials and Consumer Staples. The current decade will be driven by Investment. Government capex has led the way over the last few years and all the ingredients for rising private capex are now in place. This will lead to capacity additions (current capacity utilisation is 74%) which will serve to increase India's economic share of global GDP = C+I+G+(X-M). Watch for I and X to take some leadership over the decade and position portfolios accordingly.

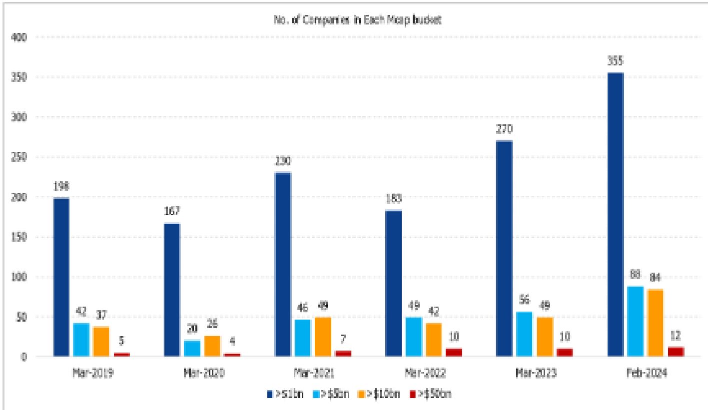
Mid/Small Cap flows have been significant over the last 2-3 years as local investors have started a strategic path towards wealth from investing in equities. Whilst there are constant fears that investors may redeem from their investments, the investment pattern so far seems to be strategic additions rather than opportunistic. What may change is the proportion of allocation towards higher returning mid and small cap funds. The regulator (SEBI) has recently come out warning investors about liquidity and frothy valuations in this segment. Nevertheless, the profitability of mid and small companies has been rising and government capex, digitisation and financialisation are expanding their opportunity set.

Net sales of small and mid-sized companies positively correlated with government capex



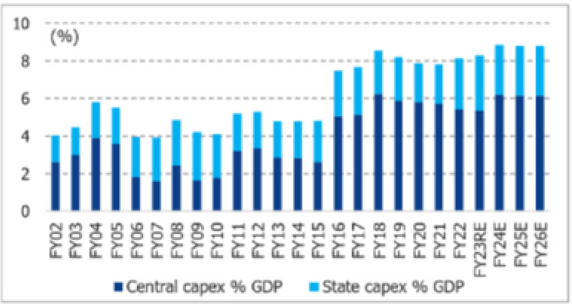
Note: BSE 500 ex financials data; Source: CMIE, CEIC, Elara Securities Research

Leading to 80% growth in companies with market cap of less than USD 1 bn



Government Capex has risen significantly over the last 5-10 years and is setting the precedent for an increase in private capex. Signs have been evident in Automobiles, Metals, Cement and Materials. Gross capital formation of 30% of GDP through the next decade will see 12% nominal GDP growth being achieved. This will improve employment elasticity and total factor productivity.

Government capex has risen meaningfully lately



Source: CEIC, Elara Securities Estimate

G in GDP growth (Government Spending) has been increasing significantly over the last 10 years, lining up with terms of BJP Government. This sets up the potential for the I in GDP to kick in!

Government owned (PSU firms) which typically operate at a discount P/E to privately owned companies are going through a resurgence in profitability and productivity. Typically, these stocks are avoided by active managers seeking to invest in high RoE, compounding growth companies. However, we have noticed increasing exposure over the last year due to improving metrics of these companies as part of upcycle. However, apart from being a tactical trade, these companies are best avoided when the tide goes out!

Moving from Staples to Discretionary as India's GDP per capita rises. Typically, this takes place once GDP-per-capita reaches US$4,000-$5,000. However, India is a very diverse country, and various regions/states may have a GDP-per-capita in excess of US$20,000. We estimate 20% of India is growing incomes today and incrementally consuming more discretionary purchases rather than component allocated to staples. Strategy for businesses focusing on premiumisation and operating on a pan-India level is dependent on understanding the market and building analytics and distribution that cater to a diverse population.

EARNINGS GROWTH

One of the reasons we argue that India's equity markets should have a premium P/E rating is the low volatility of its earnings. When we compare the volatility of EPS (fiscal years) for both the US and Australia, we note volatility above 50% p.a. This is driven by cyclicality of profits i.e. Tech Wreck, GFC, Covid-19 etc. India's volatility is closer to 15% p.a. due to its demographics and diversity at the sector level. This leads to better compounding for investors when it comes to fundamentals. Given a more diverse shareholder base (more local investment), the falling volatility of Indian equities is more reflective of its earnings and goes towards justifying its premium rating – especially when compared to other Emerging Markets.

CORPORATE ECOSYSTEM

India's equity market is owned significantly by local promoters / founders (around 50%). These shareholders are largely family businesses / conglomerates, which are reluctant sellers given the growth opportunity they are sitting on. Foreign Investors (FII's) are around 20% of market cap and in the past have typically been the largest incremental investor driving market direction. However, the new entrant over the last decade particularly has been local HNW, Retail, Pension, Insurance and Mutual Funds. These are now at similar levels of market cap as FII's.

Knowledge of the local business ecosystem, treatment of minority shareholders and capital allocation are critical aspects of investing successfully in India's equity markets. Our proposition is focused on advice partnerships with locally based, highly skilled stock pickers, who can navigate this landscape through decades of experience.

SUMMARY OF TOUR MEETINGS

Day 1 – Monday 19th of February - Mumbai

Motilal Oswal (a prominent local stockbroking firm, Gautam Duggad, Head of Research)

- India is currently well poised to grow at 7% this year (FY25) without the expense of fiscal health, whilst inflation is currently under control and within the RBI target range (2-6%).
- India's economy is much less sensitive to crude oil price movements compared to the prior decades due to scale attained as well as the changes in export compositions.
- The incumbent party, Bharatiya Janata Party (BJP) has been able to show discipline in following its fiscal consolidation plans, due to the confidence of the in maintaining power in the upcoming national election (May 2024).
- On the back of robust currency reserves, the Indian Rupee (INR) has been increasingly stable despite global macroeconomic instability and is expected to continue to remain stable against the USD.
- Since 2020, India has been in an earnings upcycle, growing at 20-40% p.a. in the past 3 years and still anticipated to increase by roughly 15% p.a. for the next few years. If this trajectory holds, the stock market is likely to continue its stellar performance.
- Demat accounts (broking accounts) have surged from 35 million to 144 million in the last 4 years, highlighting a substantial rise in retail investor participation. This factor along with a scale-up in systematic investment plans of mutual funds translates to higher domestic inflows to the equity market. This has led to mid and small-cap companies having a significant premium (40%) to large-cap companies.
- Despite a sizable rise in retail participation in the domestic stock market, there is still a long way to go for equity market penetration as a large pool of the Indian population does not earn enough for the threshold to participate in the equity market. This suggests that equity market inflows from domestic players have a strong runway as the income per capita in India steadily rises in the next decade.
- GDP per capita in India is currently around $2,600, given a high denominator. Once this figure crosses the $3,000 mark, which typically is the beginning of an inflection point for increasing discretionary spend, we will see further legs to the consumption story.
- Risk exists in the leveraged side of the market, as well as the small-cap segment as retail investors have been optimistic for a prolonged period.

PWC (Manish Sharma, Partner, Infrastucture and Logicstics expert)

- In terms of infrastructure, 90% of what India needs is still yet to be built. Key infrastructure sectors to grow in the next decade include roads, railways, sea and airports.
- With India's robust economic growth and the explosive consumption story on the horizon, the country will need to rely on adequate planned infrastructure growth through public and private sector investments.
- The transport sector accounts for the majority of projects under India's National Infrastructure Pipeline (NIP), with 96% currently not completed.
- Roads have been a focus area for the government, with plans to quadruple the network by 2047. Railway contractors will witness an increased orderbook as a result of the largest-ever capital spending of USD$32bn for railways in FY24 from the government.
- The private sector investment in infrastructure is not yet mature, and we have only seen the early stages of private sector funding for infrastructure projects in India.
- In recent years, we have seen a rush of foreign investors from East Asia participating in India's infrastructure market. This is due to more favourable and convenient Public Private Partnership (PPP) models, namely non-recourse models, BOT-Toll contracts, and Infrastructure Investment Trusts (InvITs).
- Capacity for engineering, procurement, and construction (EPC) and developers in the private sector is improving, with supply remaining untapped in terms of capacity constraints.

Motilal Oswal (Nitin Agarwal, Analyst, Banking, and Insurance)

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Motilal Oswal (Amber Shukla, Analyst, Auto and Auto Components)

- Electric vehicle (EV) adoption has been on the rise in India, with 2-wheeler and 3-wheeler EVs seeing significant growth in the market. However, the penetration of 2-wheeler EVs is only at 5%, suggesting substantial room for market expansion.
- 2-wheeler EVs are expected to be 40% of the market by 2030, whilst passenger vehicles EV is anticipated to be 15-20% of the total market by 2030.
- On top of national subsidies for EVs, individual states are also providing their own subsidies to assist in supporting the EV adoption process.
- Several government policies are in place to also drive the EV transition, such as Faster Adoption and Manufacturing of Electric Vehicles (FAME), Production Linked Incentive Scheme (PLI) for the automobile and components sector, PLI for Advanced Chemistry Cell (ACC) Battery and India Semiconductor Mission (ISM) 2021.
- The government has also recently included alternate fuels such as hybrids for transmission targets, rather than focusing solely on EVs.

Polycab (Gandharv Tongia – Executive Director and CEO)

- Polycab has 25% of the market share domestically and is the largest cable and wire manufacturer in India. They are the price, cost and quality leader compared to its peers.
- The company supplies to 77 countries across the globe and has certification and approval for supplies from each of these countries. Presently 9% of its turnover comes from exports, and 95% of revenue is generated through distributors.
- India's export of cable and wire has grown substantially due to foreign players moving away from China as the sole provider of low-cost cables. Despite so, India is only 1% of global cable exports, highlighting the runway for growth. The growth in wires is derived from the real estate boom recently, with 70% of wires used for the property sector and are required in the 2 nd year of construction in real estate projects.
- Strong demand from the infrastructure industry is expected, with government Capex plans driving railway, roads, as well as sunrise sectors such as data centres and renewable energy infrastructure.
- India also has substantial advantages in the global competitive landscape, with more favourable lead time and cheaper prices that come with UN approval compared to developed countries with the same certification.

- Polycab has also launched a challenger brand in the Fast-Moving Consumer Goods (FMCG) market focusing on consumer electrical appliances. This segment is predicted to grow above the industry trend as an early-stage entrant.

InCred Asset Management (India Avenue Adviser, Mrinal Singh, CEO and CIO)

- India's GDP per capita is expected to increase from US$2,600 to US$3,000 p.a. by FY25 and to US$4,400 p.a. by 2030. The rise in wealth is anticipated to drive discretionary spending and reduce the proportion of low-income groups.
- Urbanisation is a key meta-trend underway in the country.
- India's consumption story in this decade is about increasing penetration rather than product
- upgrades. Penetration levels are still low and demand growth potential remains untapped.
- India's growth story also differs from China's as the main engine for economic growth in India currently is about goods and services being produced domestically for domestic consumers with low penetration levels, rather than being exported to the rest of the world which comes at a later stage.

Old Bridge Capital Management (India Avenue Adviser, Kenneth Andrade, Founder and CIO)

- The corporate landscape in India looks strong, with debt at healthy levels and capacity utilisation below maximum. Although markets have been running hot recently, it is not at the expense of leverage or saturation of capacity and margins.
- In FY14, corporate credit was the majority of banking exposure, today it is only less than 25% of banking exposure. We are also seeing decadal low non-performing assets for Indian banks, underscoring an improving credit dynamics for lenders.
- While India's market cap to GDP is on a structural uptrend, the sectors that drive growth for each period differ, with the most current recent upward movement deriving from Real Estate, Power, Agriculture and Auto industries. This highlights that the winners of today are likely not going to be the winners of tomorrow.
- The hydro chemicals industry is a segment on the watch due to substantial potential in the coming years.

Marksans Pharma (An India Avenue portfolio company, Jitendra Sharma, CFO)

- Marksans Pharma provides specific OTC drugs for a range of needs as one of their differentiating points compared to peers.
- Marksans Pharma's products are manufactured in India for markets in the US, Canada and Australia. In Australia, Marksans Pharma provides OTC drugs through its subsidiary Nova Pharmaceuticals via Coles, Woolworths, IGA, Priceline and other retailers and pharmacies.
- In the OTC drug market, pricing is a significant factor of competitive advantage, with Marksans Pharma able to manufacture OTC drugs 60% cheaper than the US counterparts.
- Marksans Pharma also provides full service, from manufacturing to licensing, FDA/TGA approved facilities and finally end-products to customers.
- Marksans Pharma is not involved in the RX pharma industry. The RX industry is significantly larger but is purely based on demand and supply and distributors select purely from a pricing perspective. The OTC market is stickier in terms of customer demand as customers prefer to stick to a single distributor and label due to logistical difficulties in replacing a distributor.
- The OTC market in the UK, US and Australia is currently growing at about 2-3% p.a., but the explosive opportunity comes from private-label generic OTC products, which are replacing branded OTC products at a double-digit growth rate p.a.

Day 2 - Tuesday 20th of February - Mumbai/Chennai

Reserve Bank of India (Dr Rajiv Ranjan, Executive Director, Monetary Policy Committee Member)

- The Grassroots Tour team had an exclusive visit to the Reserve Bank of India (RBI) site in Mumbai, with an informal and intimate discussion with RBI's Executive Director, Dr Rajiv Ranjan.
- The RBI is extremely confident of India's economic growth as the consumption and investment cycle is currently on a robust uptrend.
- Rural conditions are improving as monsoon projections for this year are favourable, and crops are yielding well due to conducive weather.
- Both the demand and supply side of the equation domestically are healthy and in full swing, with capex showing signs of picking up.
- There is cautiousness around inflation maintaining within the RBI's comfort region of 4%, hence a neutral policy position is sustained.
- Food prices are a large driver behind inflation in India, with prices for agricultural products such as tomatoes, onions and potatoes being the main contributors. The government has been active in managing food inflation from the supply side, taking steps such as increasing the shelf life of onions and cold storage for vegetables, as well as increasing food imports. Wage growth is close to the historical average and service inflation has been low due to stagnant rent prices.
- Foreseeable risks for the domestic economy primarily come from global macroeconomic issues and commodity prices.
- Banks are in a favourable position as corporates are reinvesting excess cash flow for Capex. Unsecured lending is not a systematic risk, but rather bank specific.
- The investment cycle usually lasts around 5-7 years, and the RBI believes that we are in the middle of this cycle.
- The RBI expects the US to cut rates 2-3 times in the second half of CY24, with India's view remaining independent of US actions.
- Besides the traditional agricultural industry, other key drivers for rural growth are horticulture and fishery.

DSP Mutual Fund (India Avenue Adviser, Vinit Sambre, Head of Equities)

- Strong profit growth and high ROE are the key drivers of wealth creation in India.
- Small-cap companies with robust profit growth and solid margins have the potential to become large-cap companies, and this segment provides a compelling opportunity.
- The opportunity size in India is growing, although there has been a deceleration in the past few quarters. The cool-off for commodity prices is aiding domestic firm margins, driving earnings growth despite top-line sales slowing down. This might be a risk as commodities bottom out and follow the global cyclical uptrend.
- The global macroeconomic environment and external flows are also a potential risk to India's
- market performance if current conditions reverse.
- DSP focuses on capitalising on where we are in the current cycles, including investment, business, and valuation cycles. The key thing to avoid is the combination of late-business cycle and excessive valuation which has historically resulted in poor market performance.
- DSP also uses a reverse Discounted Cash Flow (DCF) method to determine the behaviour of stocks and implied expectations for growth.
- ESG is an important criterion for selection, and DSP is one of the few fund houses that has an in-house ESG specialist and Forensic Accounting Analyst.

Axis Bank (An India Avenue portfolio company, Rajiv Anand, Deputy Managing Director)

- Axis Bank is on a robust trajectory of expansion, rolling out 500 new branches every year. It also handles 10% of GST transactions in India and has a market share of 5-6%.
- The bank is focusing on sharpening its digital capabilities, with its bank app rated 4.8 stars and currently used by 60 million customers.
- Like other banks, Axis Bank's growth area has been focused on the retail segment over the past few years, with the bank's retail book constituting 58% of the total book.
- Axis Bank is well poised to capitalise on India's growth story with its dominant presence and higher-than-industry growth rate.
- It's One Axis ecosystem initiative is exposed to the country's megatrends, including the rising affluent population, financialisation of savings, digital platforms, rising financial inclusion, consumption boom, revival in capex and manufacturing surge.

Day 3 - Wednesday 21st of February - Chennai/Bengaluru

VA Tech Wabag (An ex-India Avenue portfolio company, Amir Basha, CTO)

- The Grassroots Tour team had the opportunity to tour the VA Tech Chennai water plant, revealing the mechanisms and machinery involved in the desalination process.
- Chennai has a deficit of 594 million litres of water per day, of which the VA Tech Chennai plant supplies 110 million litres per day. Chennai has frequent droughts, with the main source of water from surface water sources spanning across 4 reservoirs.
- The water plant at Chennai converts 46% of water intake into drinking water, with the entire cycle taking only a few hours from the water source to clean water supply output.
- The technology for desalination plants is mature across the globe, with the RO system being standardised and the main point of differentiation between each water plant being the pretreatment system due to various water source conditions and purity levels. The majority of research done for improvements centres around energy efficiency and membrane technology.
- Variable costs of the water plant include electricity, chemicals, and maintenance, with electricity being the major expense, taking up 70% of total ongoing costs.
- Water plants in India are largely funded by the federal government or private sector, with a tendency to avoid state government funding.
- The cost dynamics for the use of desalinated water is not the most favourable with it costing US$0.60 per cubic meter. In comparison, tertiary treatment reverse osmosis (TTRO) water costs about US$0.12 -0.15 per cubic meter and that for river water is US$0.06 to 0.07 per cubic meter. Chennai is one of the few cities in India that uses seawater desalination and has two operational and two under-construction plants due to the severe deficit of water. The requirement for the usage of super duplex stainless steel is due to the high salinity of seawater, which increases the project cost of desalination plants.
- Globally, the industry is growing at 17-18% due to the increasing shortage of potable drinking water.
- VA Tech Wabag is positioned well to capture global opportunities as it constructs and maintains desalination plants across the world.

Syrma SGS (A listed company, Nikhil Gupta, Investor Relations)

- The Grassroots Tour team was given a tour of Syrma's manufacturing and assembly lines, providing insight into the production scale involved.
- Syrma started as an IBM supplier in 1977 and now is a global electronics manufacturing services (EMS) player supplying products to Auto, Industrials, Consumer, Railways and Telecom businesses with a large customer base in Europe, the US, Japan and China.
- The global EMS market is substantially in demand, and India doesn't have a large portion of market share across the world yet highlighting a significant runway for growth in terms of EMS exports.
- Syrma has the competitive edge of providing flexible volume manufacturing services, which enables it to also target mid to small-scale customers.
- Syrma's main product is a vanilla plain circuit, with the flexibility of also providing design services if needed by customers.
- The business is non-capital intensive except for the land and structure which is required for operating the assembly plant.
- India's domestic demand is also on a surge, surpassing the growth rate of global demand due to the consumption story in the country.
- Syrma is also capitalising on structural trends by having exposure to the medical devices industry, industrial cleaning segment, 5G-related products, the auto industry (EVs) and domestic railways.
- The main operational challenge is that customers are sensitive to the delivery cycle due to geopolitical issues over the past few years, and such macroeconomic factors are difficult to predict in nature. Aside from that, demand fluctuations and forecast errors are also risk factors as the demand trend has deviated from pre-COVID levels due to the explosive rise in electronic goods needed globally.

Avalon Technologies (A listed company, Suresh V R, Head of Corporate Planning, M&A and Business Finance)

- The Grassroots Tour team had the chance to visit Avalon's manufacturing facilities and was introduced to the entire production line for Avalon's circuit boards.
- The domestic EMS market in India is emerging, with the consumption story driving the early innings of a megatrend. Penetration levels are still low across the country, suggesting a long runway of growth in the domestic EMS market.
- Avalon is positioned well to tap into the growing domestic EMS market.
- Avalon has the competitive edge of quicker turnaround due to having a smaller scale.
- Despite having a higher cost, Avalon has US and other overseas manufacturing plants due to superior delivery speed, tailored customer requests and overseas industry requirements.
- The existing customer base in the US is seeing substantial growth, with new customers acquired at a rapid pace.

Day 4 - Thursday 22nd of February - Bengaluru

Stove Kraft (An India Avenue portfolio company, Rajendra Gandhi, Managing Director/Promoter)

- The Grassroots Tour team toured Stove Kraft's small appliances, moulding, roller coating and bottle manufacturing plants in Bengaluru.
- The company started in 1999, and in 2010 was initially funded by Sequoia with a 37% equity stake, which was exited by Sequoia once it was listed in 2021.
- Kitchen appliances are a large segment of the company, and it plans to establish leadership in the channel.
- 12% of the company's turnover comes from exports to Walmart and other retailers globally. Stove Kraft was supplying 1.9 million total stock to Walmart in 2017 and has grown to 30 million pieces of kitchen appliances currently.
- The product presence in the US provides useful insights into what is trending in the market. The company uses the information to adapt to Indian consumers to test the products, and subsequently manufacture and market these products domestically.
- In India, Stove Kraft caters to price-conscious consumers and targets large volumes through competitive value from a pricing perspective. As India's consumption story continues, this segment is expected to have substantial growth.
- The 7-piece cookware set that StoveKraft sells is now the largest-selling cookware set in the world, demonstrating the company's capability in terms of product development and marketing.
- Stove Kraft has maintained its low debt balance sheet since its inception and is currently working towards becoming a working capital-neutral company. The company also doesn't plan to raise any capital due to the strong balance sheet it has.
- Stove Kraft manufactures most of its underlying product components internally as it has its own distribution network supported by a growing brand. This makes the company cost-competitive and avoids any supply chain issues disrupting the production lines.

Swiggy (A pre-IPO food delivery business, Abishek Agarwal, Investor Relations)

- Swiggy is one of the largest food aggregators in India and, together with Zomato represents a majority of the industry.
- Swiggy currently sits comfortably in this duopoly framework given the structuring of commissions and fees, which provides a balance between profitability and obtaining market share.
- A few key factors are adding target market size domestically, including rising household income and discretionary spending, urbanisation, the nuclearisation of families, and continued convenience-seeking behavioural trends.
- The restaurant industry in India is emerging and at the early stages of growth as most Indians still prefer home-cooked food. A large portion of restaurants in India are now built with delivery systems in mind, allowing Swiggy to capitalise on this trend.

- Swiggy operates on a 3-way marketplace model which includes restaurants, consumers and deliverers that usually utilise 2-wheelers.
- The industry size is currently US$7 billion p.a. based on Zomato and Swiggy's order books and is growing at a rate of 20% p.a.
- Large fleets of deliverers and a robust incentive structure which is both effort-based and availability-based lead to a faster delivery system despite heavy traffic congestions in India's main cities.
- In the hay days of the gig economy, demand was stimulated to get new users on the platform, but it has now transformed into a more disciplined approach with more incentive structure for gig workers.
- The largest cost is consumer acquisition, with outreach and marketing strategies in place to gain new customers.
- The food and hospitality segment in India has a long runway of growth, however, other segments such as grocery delivery systems are not as mature and present a risk of a low adoption rate domestically.

Brigade Enterprises (An India Avenue portfolio company, Amar Mysore, Executive Director)

- The Grassroots Tour team had the opportunity to tour the Brigade Gateway campus, including Bengaluru's World Trade Centre, residential and commercial spaces, as well as the Orion Mall.
- Brigade Enterprises was founded in 1986, with 70% of revenue currently derived from the residential property segment and its presence across Bengaluru, Chennai, and Hyderabad.
- The focus on the 3 cities (Bengaluru, Chennai, and Hyderabad) is due to the similar cultures shared among them and strategic starting points for expansion into other cities. Land purchase in India requires political ties, hence locality is a major factor in expansion plans and gaining market share.
- The company also focuses on upper-mid market and premium signature collections.
- A majority of Brigade's construction work is outsourced but is currently in the process of developing in-house capabilities.
- The residential property construction cycle in India lasts around 4-5 years, from land acquisition to project completion.
- Property price increase has been marginal in the past decade, with the majority of the rise coming from the last 2 years. This along with overall absorption levels not yet back to pre-COVID levels presents a significant runway for growth in the real estate sector.
- After REITs were introduced to India in 2019, commercial property has gained traction since.
- There also exist significant opportunities for consolidation as the overall property market is still fragmented due to regulations in the past decade. The residential property market is only getting back to the market size back in 2015 and is expected to continue its growth in terms of pricing and consumption.
- Interest rates, despite the recent rise, are still historically low compared to the past 20 years, hence there is minimal impact on real estate developments and projects in India.
- A challenge to the industry comes from a lack of supply of high-quality construction builders domestically.

Day 5 – Friday 23 rd of February - Bengaluru

Infosys (An India Avenue portfolio company, Sweta Shah, Investor Relations)

- Infosys is a 40-year-old company that identifies technologies and transforms itself to build practices around them and serves as a system integrator for implementation at scale. The company has the largest training infrastructure in the world, which can train 15,000 people at a time. This allows Infosys to expand the talent pool within the workforce at a substantial scale.
- Growth in the industry depends on the ability to make inroads into other internal IT spend and hence large projects provide the opportunity for companies to do so.
- Infosys provides a comprehensive AI offering with 12,000 used cases and presently has over 100 projects building proof of concept with clients. The company is also currently training 50,000 employees on Nvidia technologies.
- The company's Capex is mainly on facilities and technology-related spending, with a substantial reduction in physical asset requirements post-COVID.
- Infosys' current strategy involves acquiring niche smaller companies with specific capabilities and looking to expand the opportunities.
- Besides that, Infosys is also focusing on a retention strategy of providing better visibility on new skills, clearer career pathways for employees, higher quality projects, employee stock ownership plans (ESOP) and performance incentives aligned with shareholder returns.

Logos India (Logistics Warehouse, Mehul Shah, CEO, Amazon anchor client)

- The Grassroots Tour team had a private tour inside the LOGOS (Australian company) Logistic Park in Bengaluru, providing a visionary spectacle of the 30-acre Amazon facility.
- The site is fully leased to Amazon, with a long-term agreement that commenced in 2021.
- The Amazon facility comprises a Receiving Centre, Sorting Centre, Fulfillment Centre and Amazon Retail in a single location.
- The extremely scarce availability of land in the Bengaluru region makes the LOGOS industrial facilities high in demand.
- The Amazon warehouse serves to cater to the high-volume consumption markets of the region, with the rest of India following a similar trend. LOGOS is positioned well for this as it has a development pipeline comprising 12 million square feet across NCR, Bengaluru, Chennai, Pune, Kolkata, and Mumbai.

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