Jefferies

India | Equity Strategy

Equity Research
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STRATEGY NOTE

India's March onto the Global Stage

With a consistent history of 10-12% USD cagr over the last 10 & 20 years, India is now the 5th largest equity market & mkt cap will likely touch US$10trn by 2030. Continued reforms should maintain India's 'Fastest growing large economy' status. Strong trend in domestic flows have reduced market volatility and decadal low foreign ownership offers valuation cushion. RoE-focused corporate sector with 167 companies >US $5bn mkt cap leave ample choices to investors.

India will be 3rd largest economy in by 2027. Over the last 10 years, India's GDP has grown by 7% cagr in USD terms to US$3.6trn - jumping from the 8th largest to the 5th largest economy. Over the next 4 years, India's GDP will likely touch US$5trn making it the 3rd largest economy by 2027, overtaking Japan and Germany, being the fastest growing large economy with the tailwinds of demographics (consistent labour supply), improving institutional strength and improvement in Governance.

Continued reforms lay the foundation of c.7% long-term GDP growth. GST implementation in 2017 simplified taxation and improved trade efficiencies, akin to the formation of Euro. Bankruptcy reforms drove a massive cleaning up of corporate and banking sector balance sheets and improved governance. RERA (Real Estate Regulation Act) cleaned-up housing sector laying the foundation for a multi-year housing upcycle. Govt's focus on physical (Roads, airports, railways etc) & digital infra (UID, UPI, DBT) has helped the start-up eco-system.

Nearly US$10trn mkt cap by 2030. India's market cap is currently the 5th largest globally (US $4.5trn) but India's weight in global indices is still low at 1.6% (10th rank). This should change as market free float rises and some weight anomalies get sorted out. Assuming market returns in line with the last 15-20 year history and new listings, India will become nearly a U$10trn market by 2030 - impossible for large global investors to ignore.

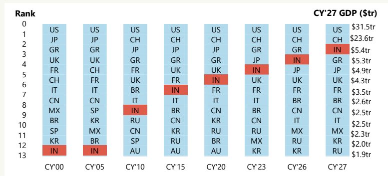
Supportive global geopolitics. India has a vibrant democracy with 57 national/regional parties. The upcoming national elections in Apr/May'24 will have 1bn eligible voters. Successive governments have adopted consistent growth & external relations policies. India has excellent relations with the western world, Japan, Australia and the Middle-East making it a key beneficiary of China+1.

Rising entrepreneurship / vibrant start-up ecosystem driving innovation. ~10 years of investment downcycle & risk aversion trend has now inverted with housing upcycle & corporate D/E ratio at an all-time low. India is home to 111 unicorns (mkt value c.US$350bn) making it the 3rd largest unicorn hub globally after US and China. Govt's focus on developing digital infrastructure, globally the cheapest data rates and the abundant homegrown talent pool have been the key drivers.

India now becoming a services exports hub. Services export (incl remittances) now accounts for nearly US$450bn/year. Several large global organizations have 10-20% of their employees based in India including cos like JP Morgan, Intel, NTT etc. Superior digital infra, young & well-educated human resources should drive this segment to keep growing.

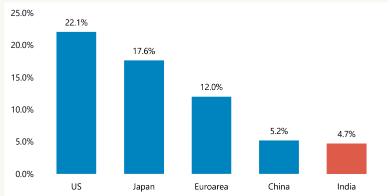
Strong corporate culture & a history of strong market returns. RoE-focused corporate sector is a key positive for minority investors. Listed equity market is among the most diversified emerging markets. Strong institutional framework of regulators (SEBI, RBI), intermediaries (responsible asset managers) has helped develop a large domestic investor base. Sustainable investment habits give visibility of US$50bn/year flow into equities from domestic investors which will likely keep the valuations on the expensive side but also reduce market volatility.

GDP ranking based on Nominal GDP ($ terms)



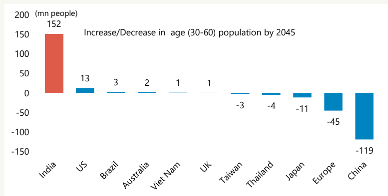
Source: IMF, Jefferies

Equities as a % of Household Assets



Source: RBI, Flow of Funds, Jefferies

Addition in 30-60 age cohorts by 2045



Source: UN, Jefferies

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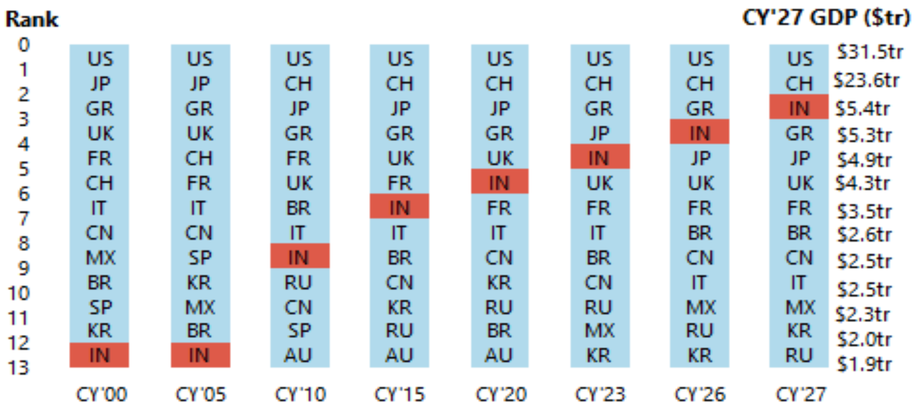
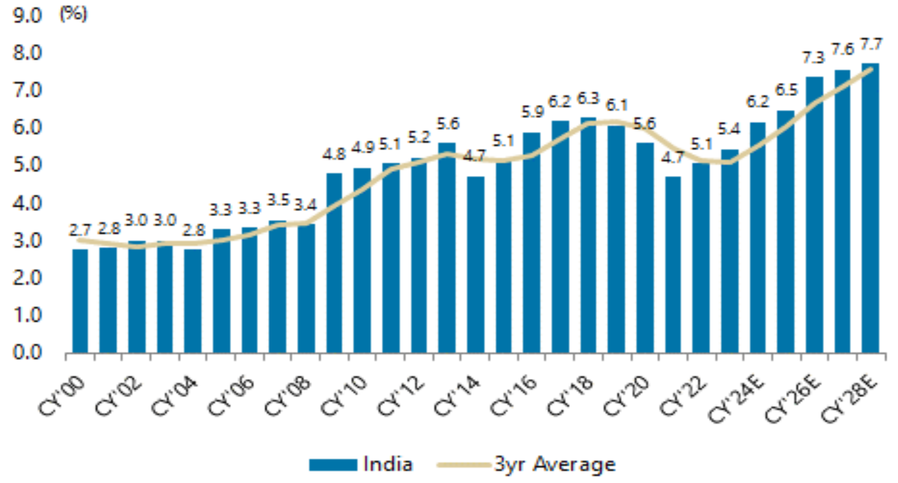


India steadily inching up in world GDP ranking

Source: IMF, Jefferies

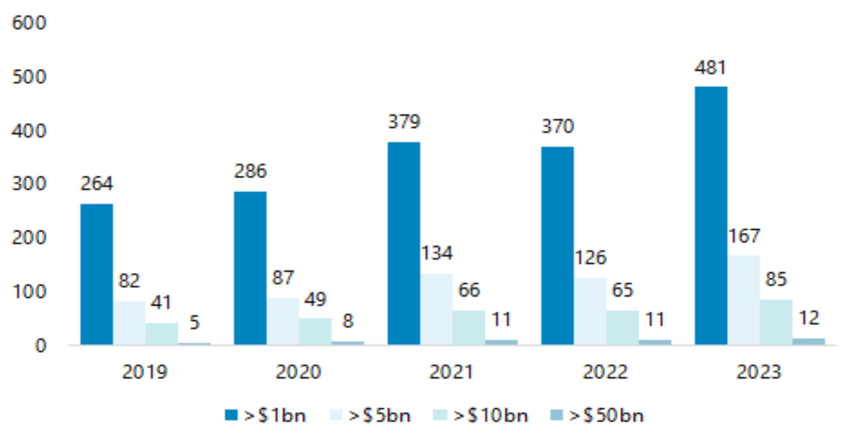
Exhibit 2: India's contribution to World's GDP growth (Real)



India's contribution to world GDP expected to reach 7.7% by 2028

Source: IMF, Jefferies

Exhibit 3: Number of companies in each market cap bucket



No.of companies in each market cap bucket almost doubled in last 4 years

Source: Bloomberg, Jefferies

Exhibit 4: iPhone production in India

Year	Models	Global shipment share (%)
2017	iPhone SE (1st Gen)	<1%
2018	iPhone 6S	<1%
2019	iPhone 7 & XR	~1%
2020	iPhone 11, SE (2nd Gen)	<2%
2021	iPhone 12	3%
2022	iPhone 13, 14	7%
2023	iPhone 15	10%

Source: Apple, Ministry of Commerce, Jefferies

iPhone production in India has gone up from <1% in 2017 to 10% in 2023

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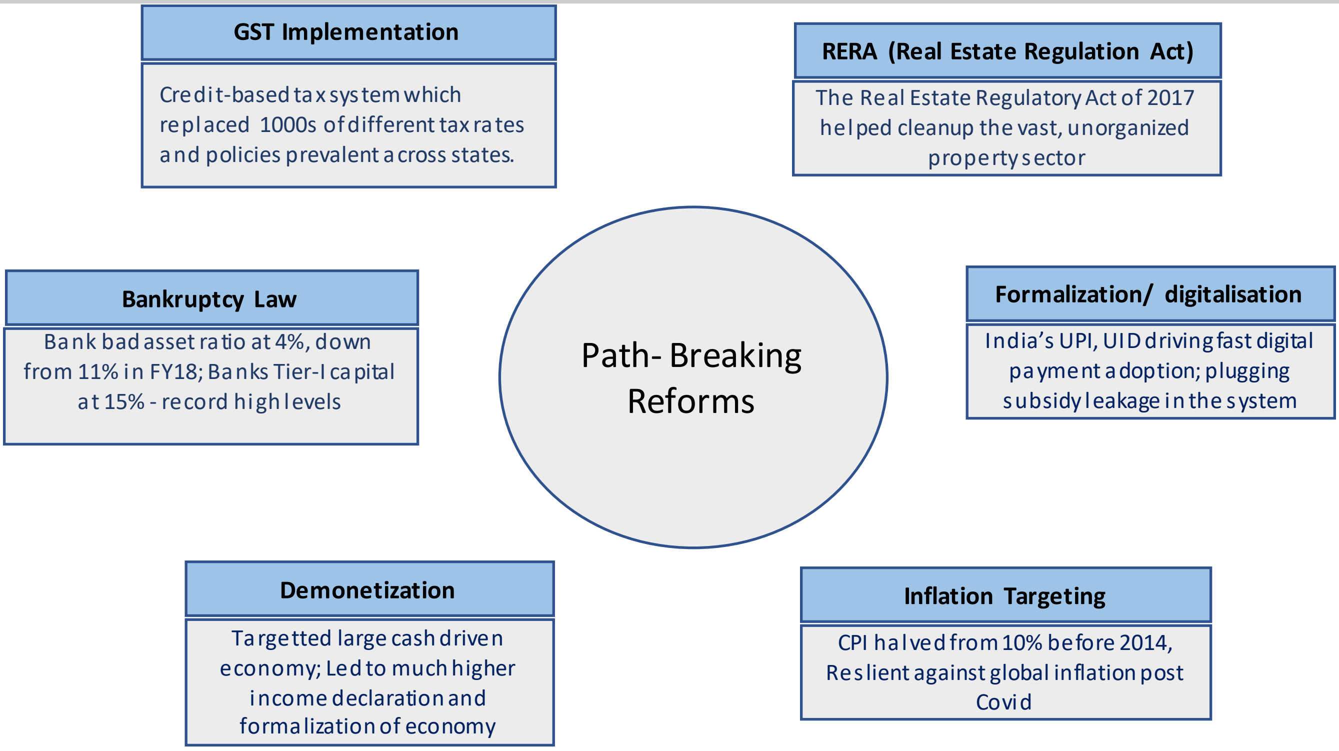
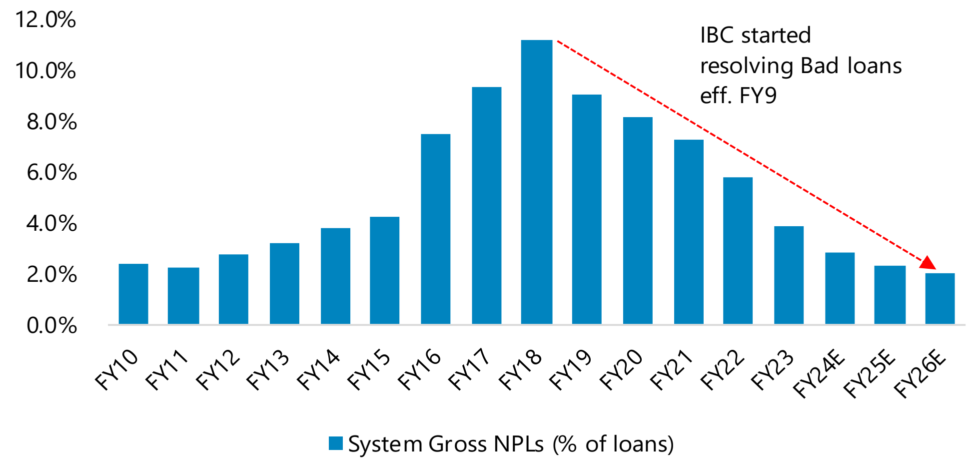
Exhibit 5: Path breaking reforms in India over the last decade



Source: Jefferies

Exhibit 6: Bad loan ratio as % total for banks

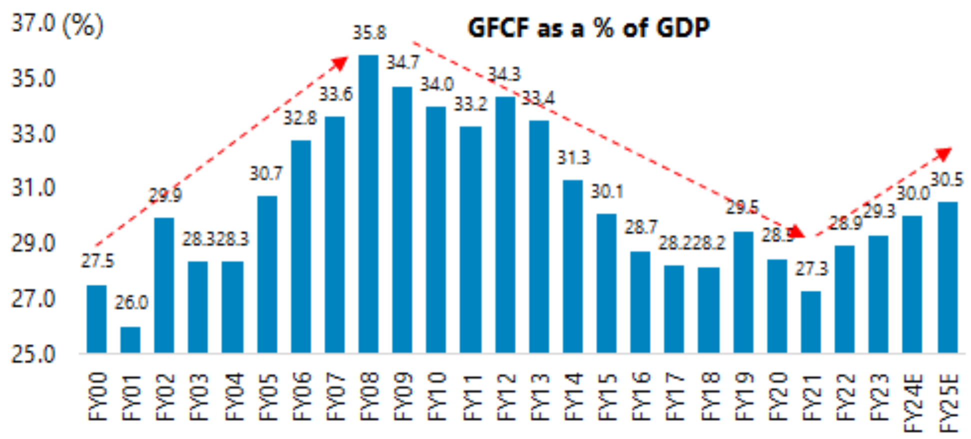
Implementation of bankruptcy code led to stronger balance sheet of Indian banks



Source: RBI, Jefferies

Exhibit 7: Gross Fixed Capital Formation (GFCF - Nominal) as a % of GDP

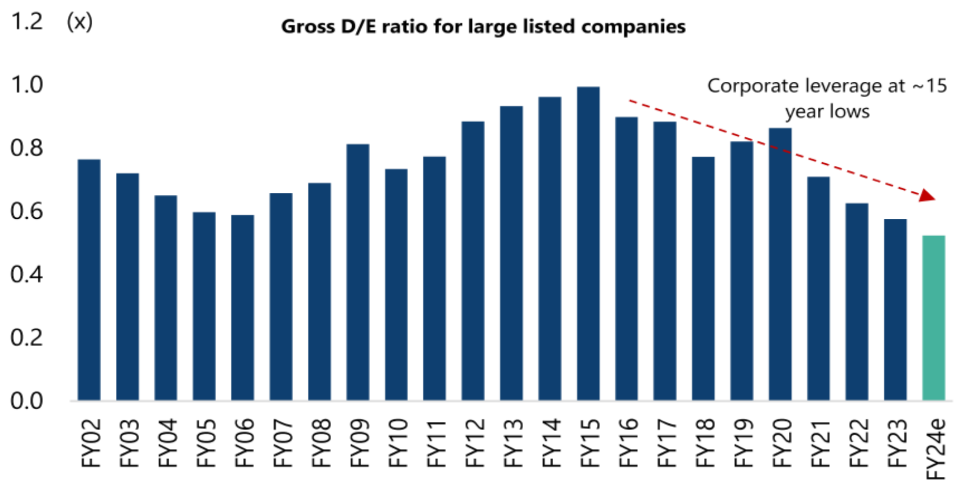
India's GFCF as a % of GDP has started to trend up, but still a long way from previous peak



Source: CMIE, Jefferies

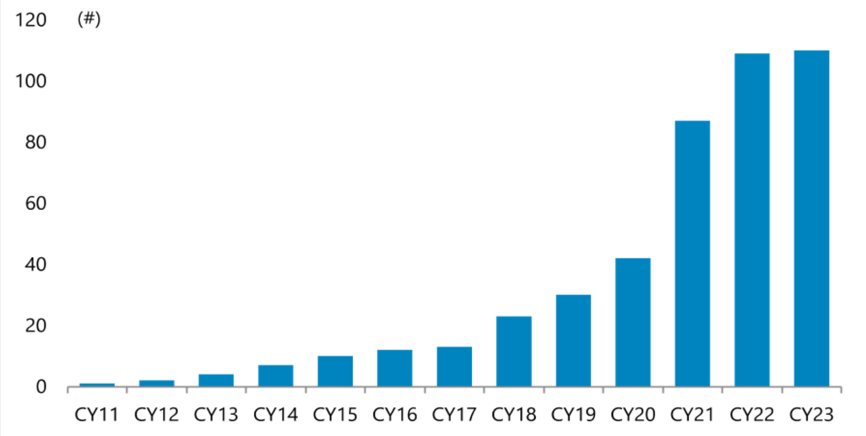
Exhibit 8: Gross D/E ratio of large listed companies

Corporate leverage at 15 year low, should bottom out as capex cycle revives



Source: Ace Equity, Jefferies, * Sample of ~600 listed companies

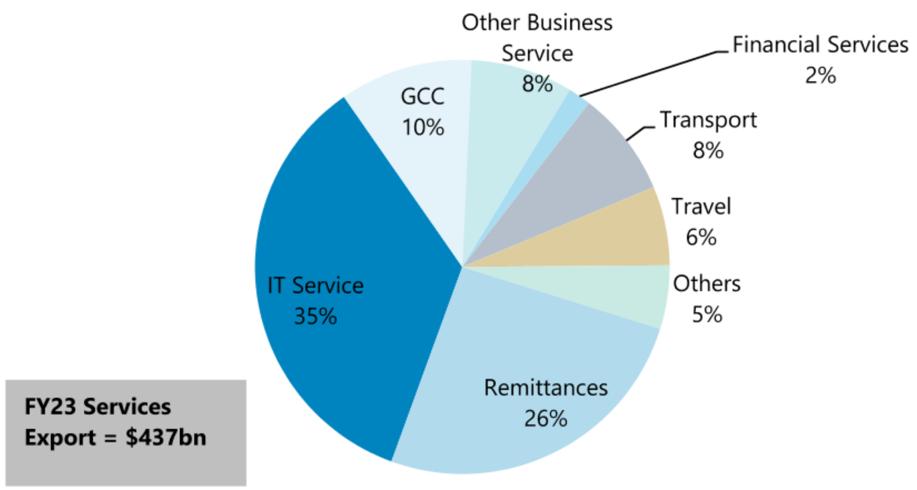
Exhibit 9: Trend in Indian unicorn count (cumulative)



Source: Venture Intelligence, Jefferies

India has over 100 unicorns which together command a valuation of >US$350bn

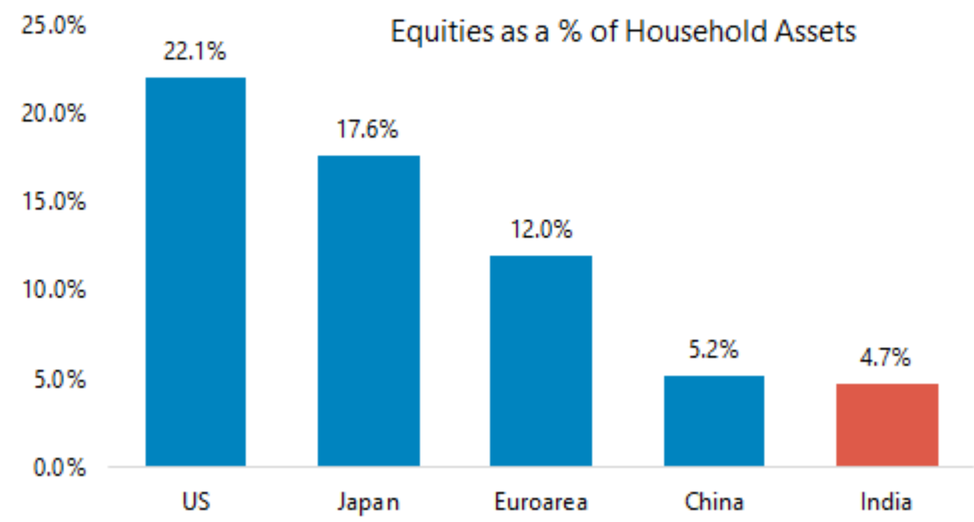
Exhibit 10: India's services Export breakup



Source: MOSPI, Jefferies

IT Services and GCC contributes 45% to India's service export pie including remittances

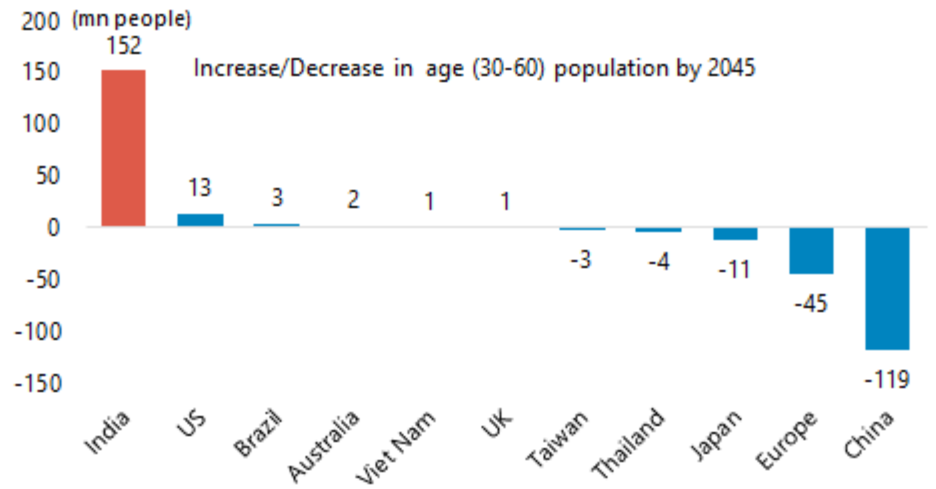
Exhibit 11: Equities as a % of household Assets



Source: RBI, Flow of Funds, Jefferies

India's saving share into equities is the lowest among major economies

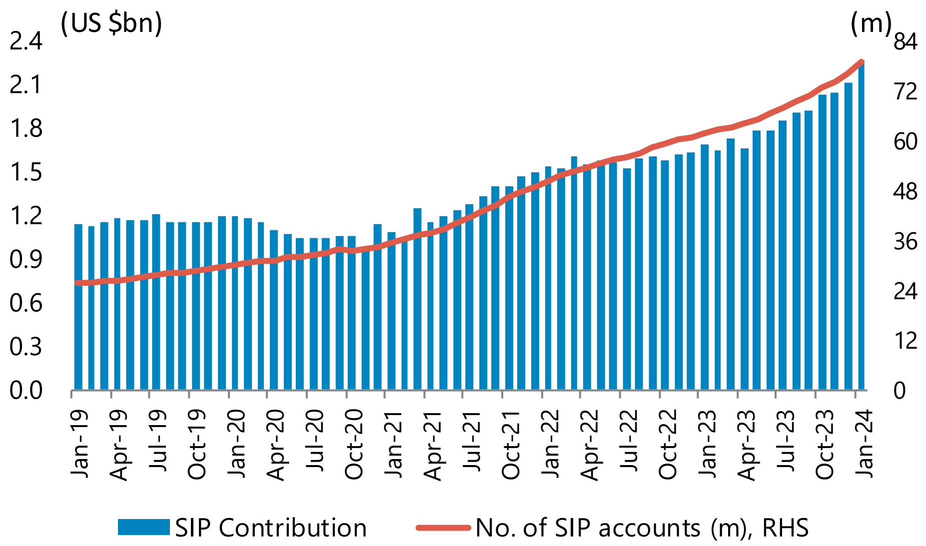
Exhibit 12: Addition in 30-60 age cohorts by 2045



Source: UN, Jefferies

India will add 152mn to its middle age population which can drive savings and investment meaningfully

Exhibit 13: SIP flows into Indian MFs



Source: AMFI, Jefferies

Indian household's contribution to mutual funds through SIP has doubled every 3 years thanks to responsible marketing by the asset management industry.

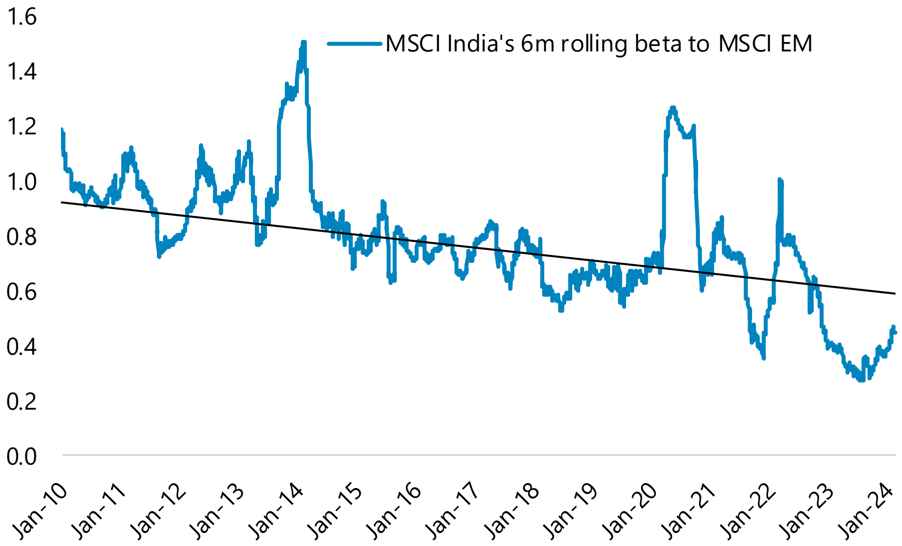
Exhibit 14: Annualized returns of MSCI indices across EM economies

CAGR in USD terms (%)	5yr	10yr	15yr	20yr
India (BSE 500)	**13.4%**	**12.1%**	**11.9%**	**10.7%**
Taiwan	12.4%	7.8%	10.1%	5.4%
Indonesia	-0.7%	1.3%	8.4%	8.7%
Korea	1.5%	0.6%	7.5%	5.6%
Mexico	8.6%	-0.7%	4.8%	6.5%
China	-5.4%	-1.4%	2.9%	4.9%
Thailand	-6.2%	-1.5%	7.1%	4.5%
Philippines	-3.7%	-2.0%	6.0%	7.2%
South Africa	-2.6%	-2.9%	2.5%	3.1%
Brazil	-3.2%	-3.2%	0.3%	4.6%
Malaysia	-6.6%	-6.9%	0.8%	1.2%

Source: Bloomberg, Jefferies

India has proven records of giving consistent returns over a longer period of time

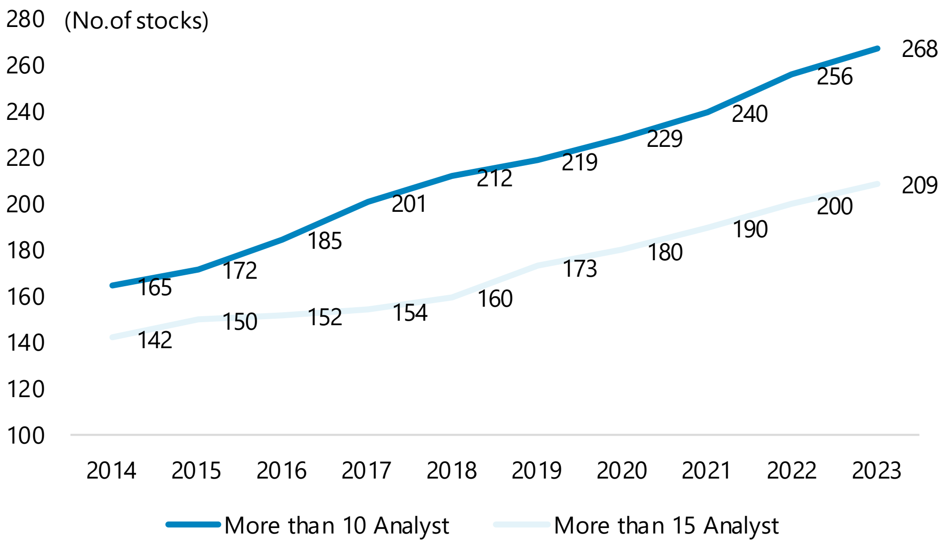
Exhibit 15: MSCI India's 6m daily return beta to MSCI EM



Source: Bloomberg, Jefferies

India's Beta to MSCI EM trending down implying lower volatility justifying higher premium to EMs.

Exhibit 16: Indian Stocks under coverage by various brokerage houses



Source: Bloomberg, Jefferies

Indian stocks under coverage by more than 10 analysts is up 67% in 10 years

Exhibit 17: Structural Reforms by Government

Reform	Description
Governance	
JAM Trinity	Empowered more than 1bn people with Bank Account, Adhaar and Mobile phone
Demonetization	Aim to curb "Black Money" and formalize the cash driven economy
Corporate tax rate cut	Lowered coporate tax to 15% to boost private investment
PLI Scheme	Incentive based scheme to promote manfacturing in India in focussed sectors
New Energy push	Launch of International Solar Alliance; National Green Hydrogen mission etc
Ministerial coordination	Creation of inter-ministerial platforms such as 'Gatishakti' to resolve stuck projects
Infrastructure boost	Govt capex in Infra as % GDP more than doubled to boost Road, Rail, Air infra
Deepening connectivity	New Mumabi-Delhi Highway, second airports in cities, major push for border area infrastructure
FDI Relaxation	Relaxation under automatic route relaxed in sevaeral sectors such as Defence, Aviation, Pharma, Broadcasting, Insurace, Ecommerce, Retail, Coal Mining
Reduced more than 39,000 compliances to foster ease of doing business	Reduced more than 39000 compliances to make it easy for shops to setup in India
PSU value maximization	Focus on Maximising the Value of PSU companies
Asset Monetization	Road projects and Power transmission to be build and trasfered to private company for operating and collecting revenue
Air India Privatization	Breakthrough privatization of Air India to more porfessional company
Adding professonal in Ministries	Professional such as Chandrashekaran, hardeep Puri & Hardeep Puri are heading Ministries bringing professional culture in Government
Not for Profit Private companies driving Innovation/Investment	Companies like NPCI, ONDC, NIIF & Invest India which are non-PSU companies (Govt stake 49%) are driving Innovation & Investment on behalf of the Government
Invest India	Driving Investment into India by helping with end-to end needs for Corporate set-up shops in India
NPCI	Consortium of Banks bringing path breaking UPI payment system in India
ONDC	Plans to revolutinalize the e-commerce business in India by decoupling each node of service
NIIF	A Sovereign-linked Alternative Asset Manager which provides multiplier effect to government funds for infrastructure development
Empowering Different States Equally with boost to Federalism	The government has provided more power to states to drive Investment
Healthy competition between states	Benchmarking on different parameters part of Ease of Doing Business
Raising global presence	Multiple states and ministries pushing independently for investments at places such as Davos
Boosting defence innovation	25% of defence R&D budget devoted to private sector and startups
Joint command of forces	A chief of defense staff appointed for the first time
Defense indigenisation	75% of defence procurement and majority of items earmarked for domestic industry
PM Mudra Yojana	MUDRA is a financial institution for funding small businesses; New entrepreneurs consist 22% of the beneficiaries
Smart Cities Mission	Redevelopment, retrofitting, greenfield development of 100 cities; Large diversity in success of implementation
Housing for All	Financial Assistance to buy/build houses in Urban/Rural poor
Skill Development programme	Seeks to provide the institutional capacity to train people in hirable skills. It had a 20% placement rate in 2021
National Action Plan for Climate Change	Improving science and technology capabilities with regard to climate change
Gold Monetization scheme	Encouraged individuals to Deposit gold in authorized gold bring in Liquidity in the system
Old pension scheme to NPS	Moving from Deined benfit plan to Defined contribution plan for government employees reducing future liability provision of the government on Social Security
Startup India Seed Fund Scheme (SISFS)	Financial assistance to startups for proof of concept, prototype development, product trials, market entry, and commercialization

Source: Bloomberg, Jefferies

A Perspective on India – Chris Wood

"A visit to India this week has done nothing to dissuade GREED & fear of the long held view here that this is the most attractive of Asia's stock markets (GREED & fear - The tortoise and the hare, 7 March 2003).

The above sentence was written by this writer in a report published almost 21 years ago when the Nifty Index was 1,031, or 95% below its current level. India was viewed as the tortoise and then booming China as the hare borrowing the analogy of the famous children's story. The Indian economy back in 2003 was then at the beginning of a private sector-led capex cycle with the net debt to equity of Sensex-listed companies at only 17%, down from the previous peak of 37% reached in 1997. That cycle would run for 11 years and lead to MSCI India outperforming the MSCI AC World by 460% in US dollar terms during that period.

More than two decades on and India is now in the early stages of another private sector capex cycle, as discussed in this report, with the gross debt-to-equity ratio of the corporate sector having declined from close to 1.0x in FY15 to an estimated 0.5x in FY24 ending 31 March. But there is another aspect of the India story which now makes the country the best equity story in the world. In that same report 21 years ago this writer wrote that, "The bottom-up appeal of India has always been severely diluted by the lack of a compelling top-down story. In a sense the country has been the inverse of China, the ultimate macro story but without the compelling micro options".

This is what has now changed. For India now has a macro story as good as any. During the two five-year terms of Prime Minister Narendra Modi's NDA government, India has seen fundamental structural reform which has created the framework for the country to realise its full potential in terms of taking advantage of its intellectual and physical capital as well as its positive demographics. Just three out of many achievements will be cited here. First, massive government funded investment in infrastructure which has been game changing in terms of improving the overall logistical efficiencies of the economy. Second, the passage of the Insolvency and Bankruptcy Act of 2016 which means that Indian "promoters" now know they risk losing their assets if they default on loans. Third, long overdue reform of the residential property market as a result of the Real Estate (Regulation and Development) Act of 2016 which means the property market, three years into an upturn after a seven-year downturn, is now delivering its full potential in terms of the resulting multiplier effects for the economy at large.

The above backdrop is why it is quite realistic to project 7% real GDP growth and 12-15% earnings growth going forward, as argued in this report. Meanwhile, the bottom-up story remains as dynamic as ever with a flourishing start up scene and a booming local asset management industry which has meant the stock market is now primarily driven by domestic flows not, as was the case 21 years ago, by foreign flows.

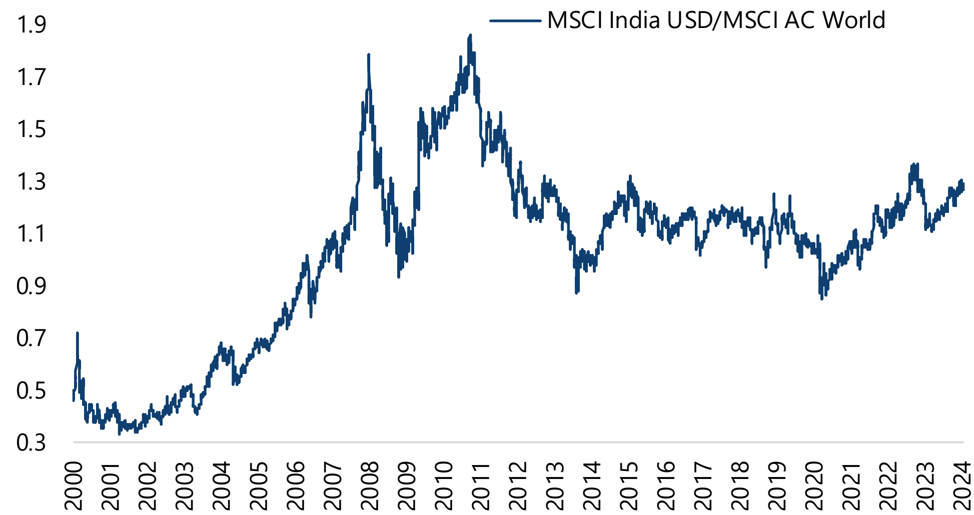
Indeed the remarkable point now is how little foreign investors are invested in Indian equities. This report details how dedicated global emerging market investors are only moderately overweight India despite all the current issues affecting China. While global equity funds are barely invested in India at all despite the fact that it is now consensus, as highlighted by headlines coming out of the Davos gathering this year, that India is the world's next big growth story. This lack of exposure to India by global investors is, frankly, absurd.

Meanwhile, the increased profile of India on the global stage also reflects the marketing skills of Prime Minister Narendra Modi, as reflected in the widely acknowledged success of the

G20 Summit held in Delhi last September. In a world of rising geo-political tensions, India has deftly managed to maintain a foot in both camps, remaining on good terms with the Washington-dominated G7 while also being a fully signed up member of BRICS. Meanwhile with a general election pending in April-May this year, Modi's goal will be to win a record number of seats for his BJP party. In the last general election in 2019 the BJP won 303 seats in the *Lok Sabha*, up from 282 in 2014. Modi has set a target of 370 seats for the BJP and 400+ for the BJP-led alliance (NDA) in the upcoming national elections.

Such an electoral outcome is no longer far-fetched. As for the Congress Party, the dominant political party in India since independence in 1947, it faces an existential crisis.

Exhibit 18: MSCI India relative to MSCI AC World Index (US$ terms)



Source: Bloomberg, Jefferies

India massively outperformed MSCI AC World in the previous capex cycle between 2003-'07.

India will be 3rd largest economy by 2027

From 9th largest economy a decade back, India has now become the 5th largest economy with a nominal GDP of US$3.4trn. On a PPP basis, the GDP is already much higher at US$13.2trn, making it the 3rd largest economy in the world. The same has been achieved by a strong 7.2% growth seen over the last decade in nominal USD terms. The GDP grew even as there was an impact of several major reforms (bankruptcy law, GST implementation, real estate regulation act or RERA, demonetization which gave an impetus to the digital economy driving formalization); which were good for the long-term but adversely impacted near-term growth.

Exhibit 19: GDP Ranking in Nominal US$ terms

India steadily inching up in world GDP ranking

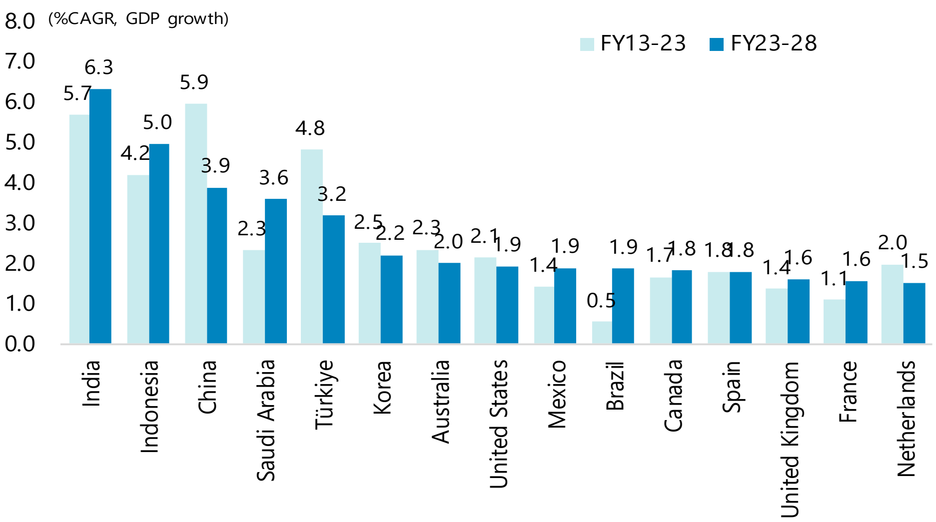
CY'00	CY'05	CY'10	CY'15	CY'20	CY'23	CY'26	CY'27	CY'27 GDP ($tr)
US	US	US	US	US	US	US	US	$31.5tr
JP	JP	CH	CH	CH	CH	CH	CH	$23.6tr
GR	GR	JP	JP	JP	GR	GR	IN	$5.4tr
UK	UK	GR	GR	GR	JP	IN	GR	$5.3tr
FR	CH	FR	UK	UK	IN	JP	JP	$4.9tr
CH	FR	UK	FR	IN	UK	UK	UK	$4.3tr
IT	IT	BR	IN	FR	FR	FR	FR	$3.5tr
CN	CN	IT	IT	IT	IT	BR	BR	$2.6tr
MX	SP	IN	BR	CN	BR	CN	CN	$2.5tr
BR	KR	RU	CN	KR	CN	IT	IT	$2.5tr
SP	MX	CN	KR	RU	RU	MX	MX	$2.3tr
KR	BR	SP	RU	BR	MX	RU	KR	$2.0tr
IN	IN	AU	AU	AU	KR	KR	RU	$1.9tr

Source: IMF, Jefferies

India is not only projected to grow at 6% over the next 5-years, the country will also be a standout in a world where most large economies are expected to see their growth rates decline. We believe that rising growth outperformance, particularly against the developed world, should help India climb up the world's GDP ranks quickly to the third spot, before this decade ends.

Exhibit 20: Real GDP growth (% CAGR)

India to be fastest growing large economy in the next 5 years

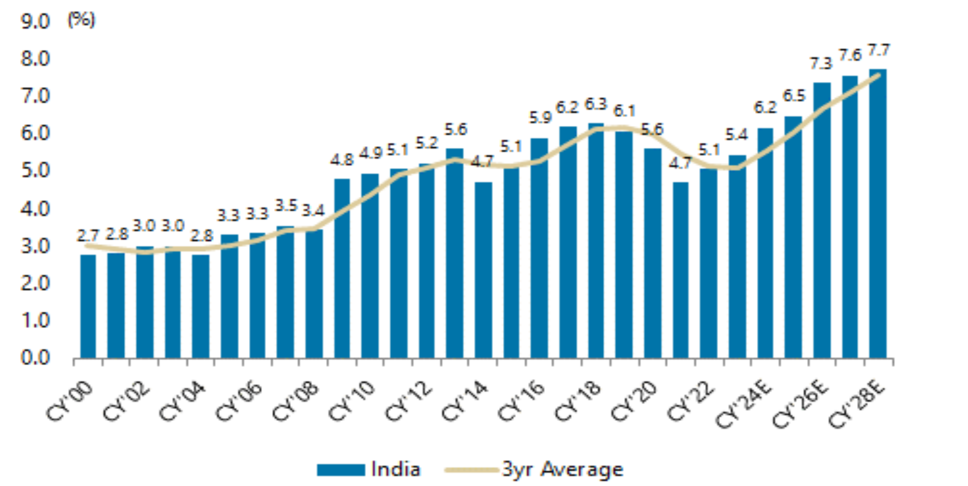


Source: IMF, Jefferies

Faster growth for India, on a large GDP base, will raise the country's salience in the global economy to the highest ever at ~8% in a few years. Rising salience of India is already a focal point for several countries and companies as the country becomes the key growth market.

Exhibit 21: India's contribution to World's GDP growth (Real)

India's Contribution to world GDP to reach 7.7% by 2028



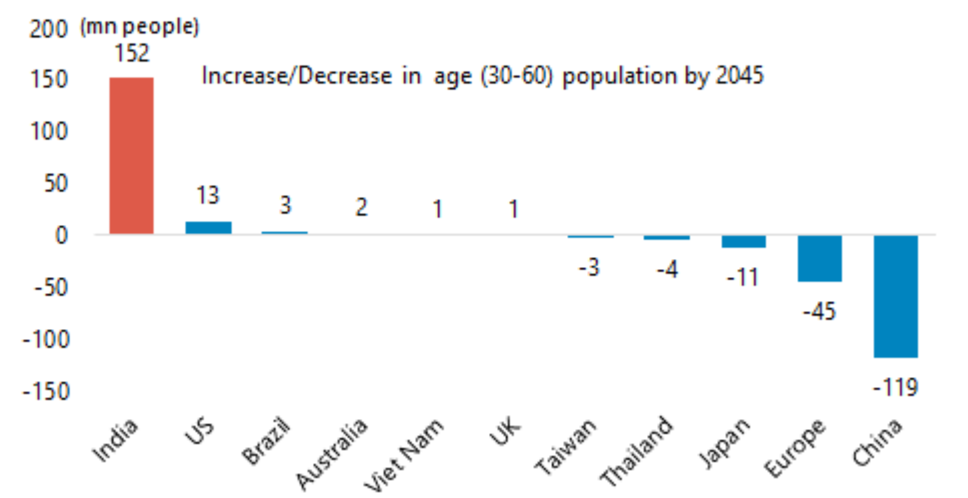
Source: IMF, Jefferies

India's demographics and productivity to drive GDP growth

India, with the highest population in the world, also features favorable demographics with a vibrant and young population, whose average age is just a tad below 30 years. The young demographics imply that the ratio of working age population is yet to peak, unlike several large economies and other comparable emerging market economies. Our analysis of the demographics suggest that while the incremental addition to the labor force has peaked, it is still large at ~7-8m/annum.

Exhibit 22: Addition in 30-60 age cohorts by 2045

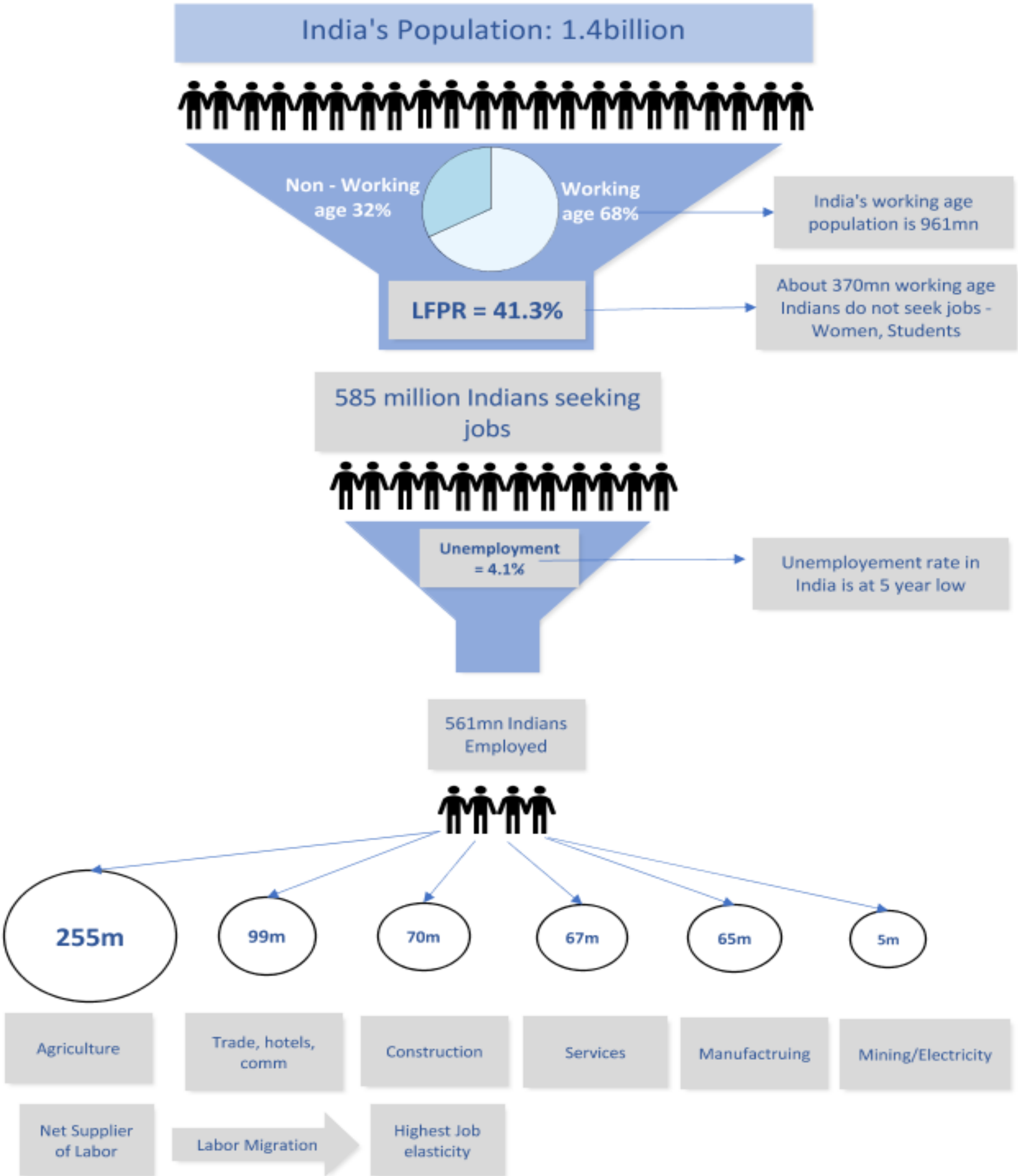
India will add 152mn to its middle age population which can drive savings and investment meaningfully



Source: UN, Jefferies

India's reported unemployment rate at 4.1% does not capture the underlying high labor force availability. There is significant under-employment, with >40% of workforce still employed in agriculture which compares with much lower levels such as in China (25%), Indonesia (29%) and the Developed countries (<5%).

Exhibit 23: India's labor force and its absorbers



Source: PLFS, Jefferies

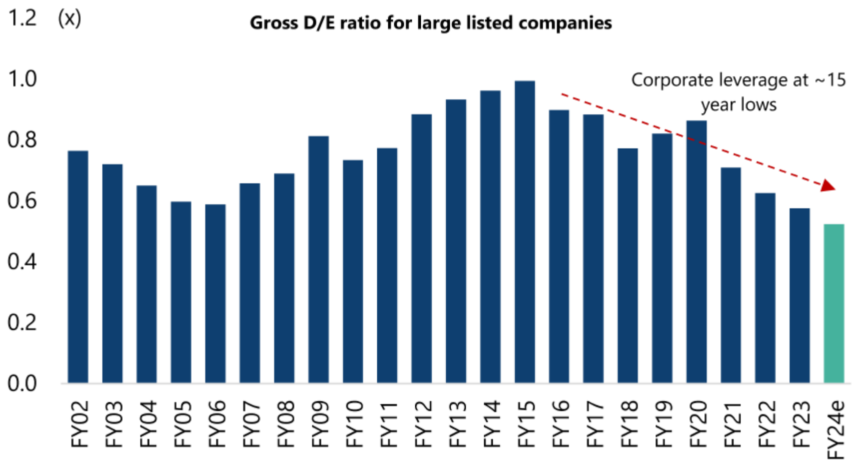
Agriculture / Rural workforce provides a steady source of migration to more remunerative employment such as construction and manufacturing. Additionally, the Labor Force Participation Rate (LFPR or % of population seeking work) is also much below international levels at 41%, and should rise over-time.

Durable labor availability provides a sustained competitive advantage to India on labor costs. Migration of labor from agriculture to more productive sectors is a classic productivity boost. Alongside, government's push for a digital transformation adds to the productivity gains. Overall, the higher GDP growth appears well supported by labor.

Lower corporate leverage makes GDP growth sustainable

India's GDP growth of over 6% over the last decade has come with reducing leverage, which is unique to its growth story. India's corporate sector has seen its Debt-to-Equity ratio reducing from close to 1.0x in FY15 to <0.5x in FY24. Low leverage makes the corporate sector well placed to drive growth through investment and capacity addition.

Exhibit 24: Gross D/E ratio of large listed companies



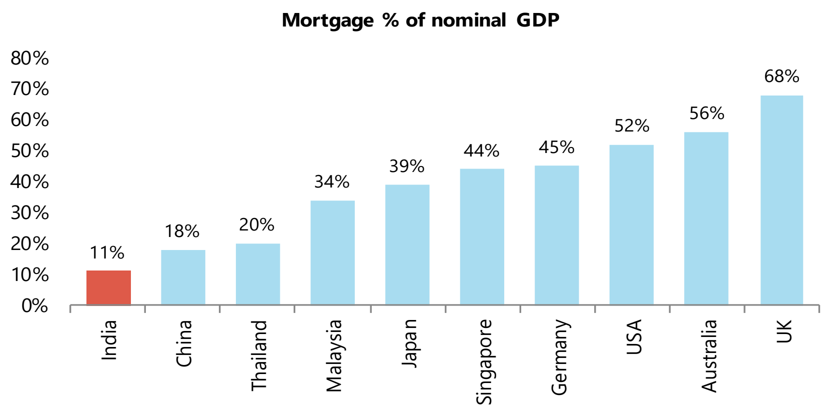
Source: Ace Equity, Jefferies, * Sample of ~600 listed companies

Corporate leverage at 15 year low, should bottom out as capex cycle revives

Consumer gearing is also low

Balance sheet support to India's next leg of GDP growth extends from the corporate side to the consumer side as well. India's mortgage loans, for example, as a % of GDP is among the lowest among major economies. This makes India's recent housing cycle uptick sustainable and to remain a key driver of GDP growth.

Exhibit 25: Mortgage as a % of nominal GDP

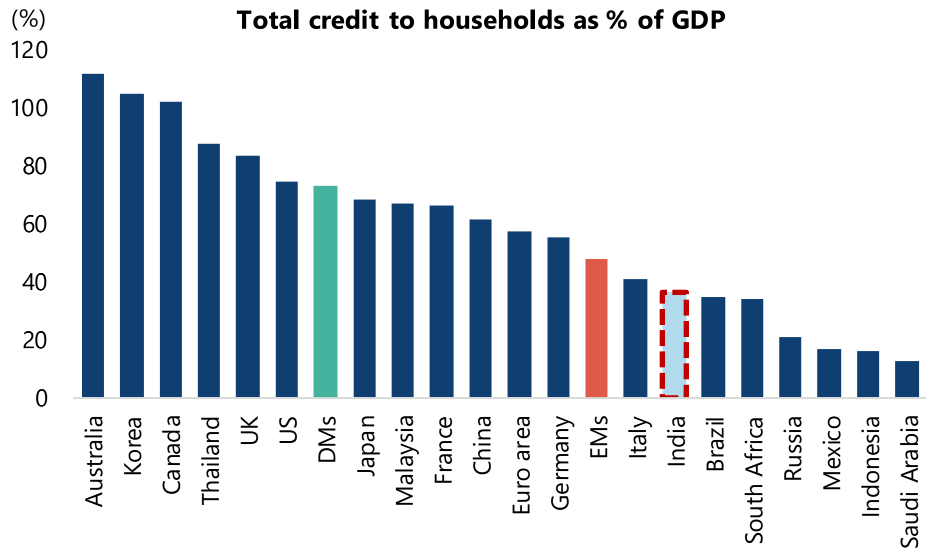


Source: Jefferies

India's mortgage to GDP ratio is low among major economies making India's housing cycle sustainable

From a broader consumer balance sheet perspective, India's overall household credit to GDP is also among the lowest at ~40% of GDP. This leaves higher discretionary income in the hands of Indian households to drive consumption and a potential to lever up over the medium to long term.

Exhibit 26: Household Debt as a % of GDP

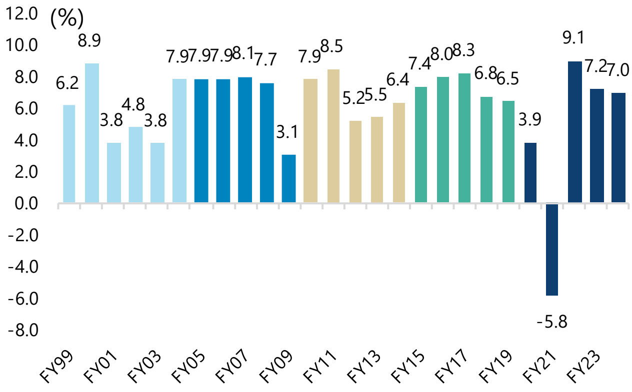


Source: IMF, Jefferies

India's overall household/retail credit to GDP ratio is moderate – supportive of long term growth.

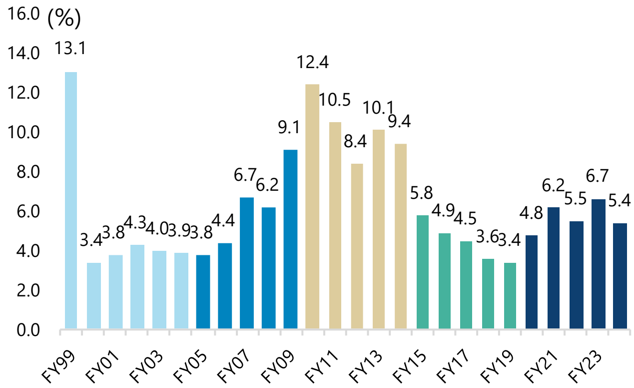
India Macro over the last 25 years

Real GDP growth rate



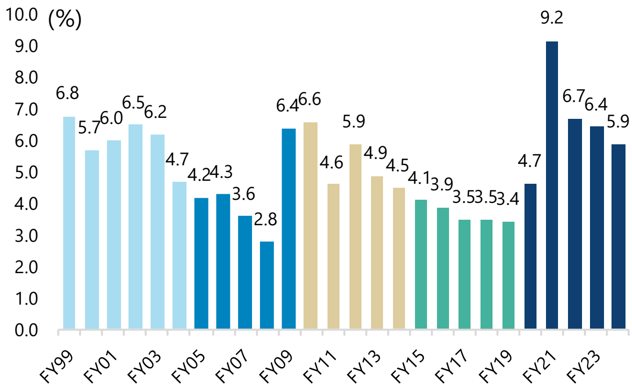
Source: Bloomberg, Jefferies

Consumer Price Index (CPI)*



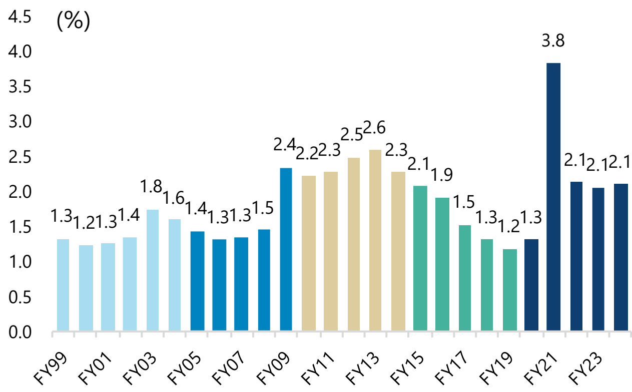
Source: Bloomberg, Jefferies

Central governments' fiscal deficit as a % of GDP



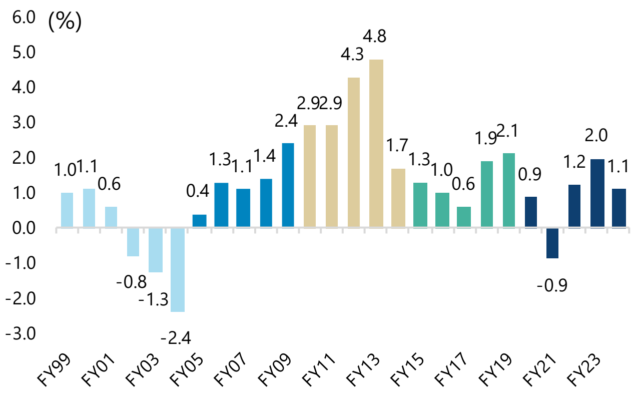
Source: Bloomberg, Jefferies

Subsidies as a % of GDP



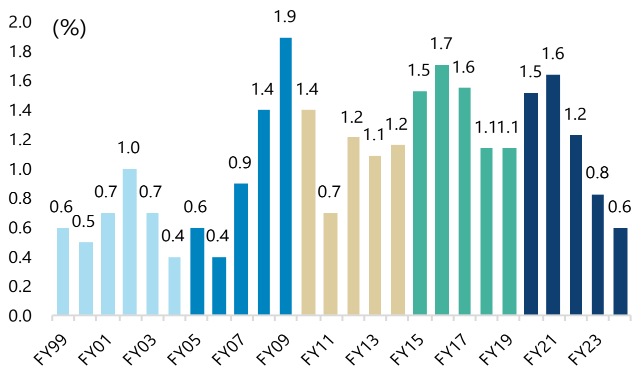
Source: Bloomberg, Jefferies

Current Account deficit as a % of GDP



Source: Bloomberg, Jefferies

Net FDI as a % of GDP



Source: Bloomberg, Jefferies

India's market cap to become $10trn by 2030

India's market cap at US$4.3trn ranks 5th in the world. Indian equity markets have been able to generate consistent 10% annual returns in USD terms over the last 5/10/15/20 year periods; much better than any of its global peers in the emerging market space. With a renewed capex cycle and robust earnings profile we believe that Indian equity markets will continue to deliver 8%-10% dollar returns over the next 5-7 years. Structural domestic flows arising from shift of savings to equities and potential listing of large unicorn in India can drive the market cap past $10trn by 2030.

India's market cap is the 5th largest globally but India's weight in Bloomberg global is still low at 2%. This should change.

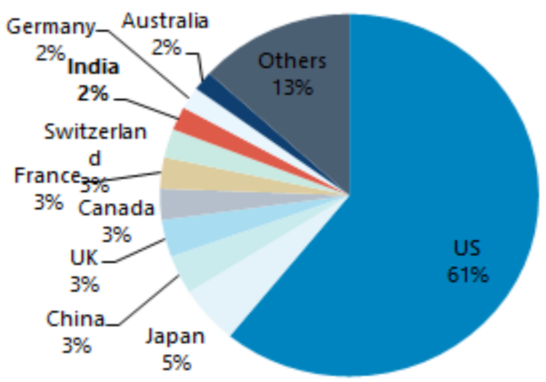
India rank's 5th not only in terms of nominal GDP but also in terms of market cap. India's market cap stands at $4.3trn behind US ($44.7trn), China ($9.8trn), Japan ($6.0trn) and HK ($4.8trn). India's market cap to GDP is 1.2x, which is still lower compared to major economies such as US and Japan which are at 1.9x/1.4x respectively.

India's weight in global indices still low at 2%. This could change with new listings and sell down by promoters & private equity

Indian markets are still under penetrated with just 5% of India's household saving in Equities and MF asset to GDP at just 16%, In comparison, the global average of MF assets to GDP is ~60% as per data compiled from the World Bank. With growing awareness around investment through mutual funds by regulators and the Finance Ministry, we expect to see much more savings flowing into India's equity markets.

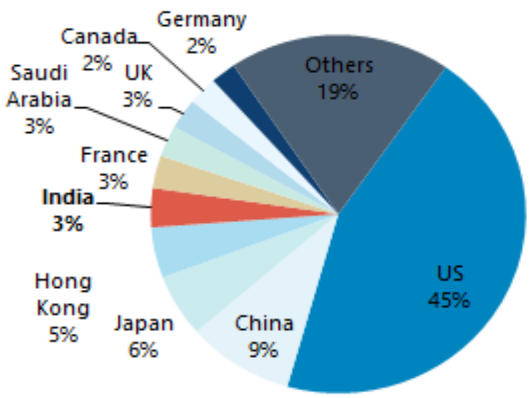
Secondly, even though India is 5th largest is terms of market cap, its ranking in the Bloomberg World Index is 8th with a weight of just 2.0% which, in our view, means there is tremendous scope for foreign investors to increase investment into the fastest growing country in the world.

Exhibit 27: India's weight in Bloomberg World index ranks 8th



Source: Bloomberg, Jefferies

Exhibit 28: India ranks 5th in Global Mcap

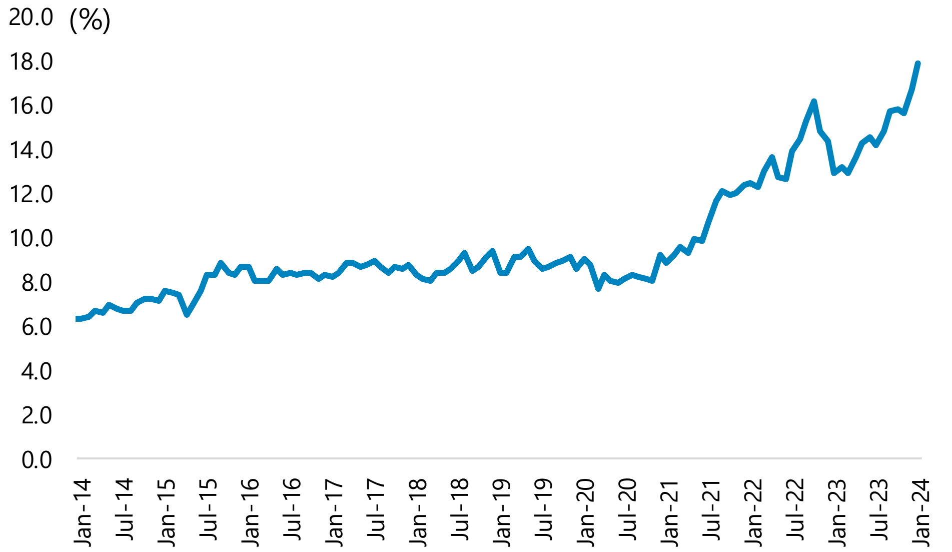


Source: Bloomberg, Jefferies

India's weighing in the indices has started climbing, with the jump in the MSCI EM weight seen post COVID being remarkable. The higher weights in global indices are also important from crowding-in of foreign capital from multiple discretionary funds as well. A rise in country weight in a global fund could make Indian stocks a must have for a much more diverse set of equity investors, beyond just the EM focused ones.

India's weight in MSCI EM is constantly increasing as India's investable market expands

Exhibit 29: India's weight in MSCI EM



Source: Bloomberg, Jefferies

India also fairs better in diversification it offers in terms of sectoral split among other EM indices. Top 3 sectors contribute ~50% of MSCI India index; compared to more than 60% for other regions. Only MSCI Thailand is more diversified in terms of sectoral split, but it's a much smaller market.

Top 3 sectors contribute ~50% of MSCI India index; compared to more than 60% for other regions

India is the most diversified after Thailand in terms of sector allocation in the MSCI index

Exhibit 30: Sector Weight in various MSCI indices in EM region

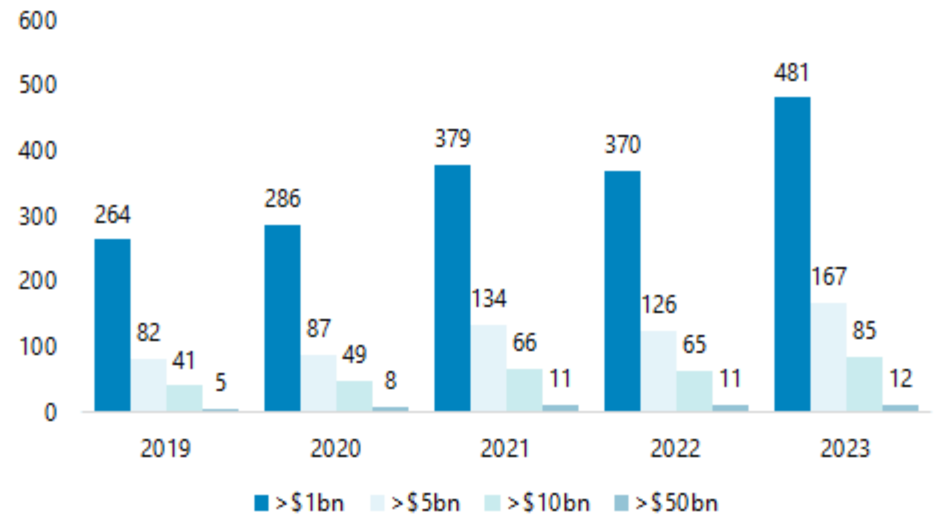
MSCI Sector Weights (%)											
Sectors	India	China	Taiwan	Korea	Philippines	Indonesia	Malaysia	Thailand	Mexico	South Africa	Brazil
Utilities	3.9	2.3	0.0	0.4	4.6	0.0	9.1	7.9	0.0	0.0	9.2
Real Estate	0.6	2.8	0.2	0.0	22.5	0.0	0.0	4.7	2.8	2.3	0.0
Materials	7.1	3.3	4.5	8.7	0.0	6.7	8.9	9.5	17.1	20.6	18.8
Information Technology	13.2	6.0	72.4	47.8	0.0	0.0	1.8	6.0	0.0	0.0	0.9
Industrials	7.3	5.2	2.6	11.6	33.2	6.1	7.1	9.4	10.8	2.1	8.2
Health Care	5.2	5.7	0.2	4.7	0.0	1.8	3.0	9.9	0.0	1.7	2.8
Financials	27.1	16.2	13.9	9.1	26.7	58.9	41.2	8.0	18.2	37.5	26.3
Energy	10.5	3.2	0.3	1.4	0.0	3.7	3.2	16.1	0.0	1.2	21.2
Consumer Staples	9.2	5.4	1.5	2.1	4.3	8.7	12.3	12.1	39.7	8.7	8.3
Consumer Discretionary	7.6	24.9	1.9	1.8	4.6	3.8	4.9	7.5	0.0	19.8	2.5
Autos	5.4	5.4	0.3	6.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Communication Services	2.8	19.8	2.3	5.6	4.1	10.3	8.5	9.0	11.3	6.1	1.8
Top 3 Sector Contribution	**50.8**	**60.8**	**90.7**	**68.5**	**82.3**	**78.0**	**62.5**	**38.1**	**69.2**	**77.9**	**66.3**
Top 5 Sector Contribution	**67.6**	**72.5**	**95.6**	**84.1**	**91.5**	**90.7**	**80.0**	**57.0**	**97.2**	**92.7**	**83.8**

Source: Bloomberg, Jefferies

The market depth in India has also increased considerably over the last few years with the number of stocks with >US$1bn market cap nearly doubling to ~500. While the largest cap stocks (>US$50bn) are still few, most of the largest caps are also privately owned and well run, in our view.

Exhibit 31: Number of companies in each market cap bucket

Number of stocks with >US$1bn M.Cap has nearly doubled to ~500 since 2019



Source: Bloomberg, Jefferies

India's equity markets have long history of >10% US$ Cagr

Indian equity markets are the only market across major EM economies which have consistently given >10% annualized returns over last 5yr/10yr/15yr/20yr periods. We believe the >10% US$ returns seems sustainable given that India is witnessing a multi-year cyclical uptrend.

Exhibit 32: Annualized returns of MSCI indices across EM economies

India's has a proven record of giving consistent returns over a longer period of time

CAGR in USD terms (%)	5yr	10yr	15yr	20yr
India (BSE 500)	**13.4%**	**12.1%**	**11.9%**	**10.7%**
Taiwan	12.4%	7.8%	10.1%	5.4%
Indonesia	-0.7%	1.3%	8.4%	8.7%
Korea	1.5%	0.6%	7.5%	5.6%
Mexico	8.6%	-0.7%	4.8%	6.5%
China	-5.4%	-1.4%	2.9%	4.9%
Thailand	-6.2%	-1.5%	7.1%	4.5%
Philippines	-3.7%	-2.0%	6.0%	7.2%
South Africa	-2.6%	-2.9%	2.5%	3.1%
Brazil	-3.2%	-3.2%	0.3%	4.6%
Malaysia	-6.6%	-6.9%	0.8%	1.2%

Source: Bloomberg, Jefferies; * BSE 500 Index for India, MSCI Indices for other countries

Nominal GDP growth of >10% should support earnings growth of >13%

As India's Nominal GDP enjoys a growth of 10%-11% through the decade; we believe it should support an earnings growth of at least a few percentage points higher. Alongside rising nominal GDP / income levels. Several drivers of corporate earnings make us positive of seeing 12%-15% earnings cagr through the decade. These include: a) the largest earnings contributor i.e. the banking sector's strong bank balance sheets combined with likely mid-teens loan growth; b) industrials and property cos enjoying the benefits of a cyclical upsurge;

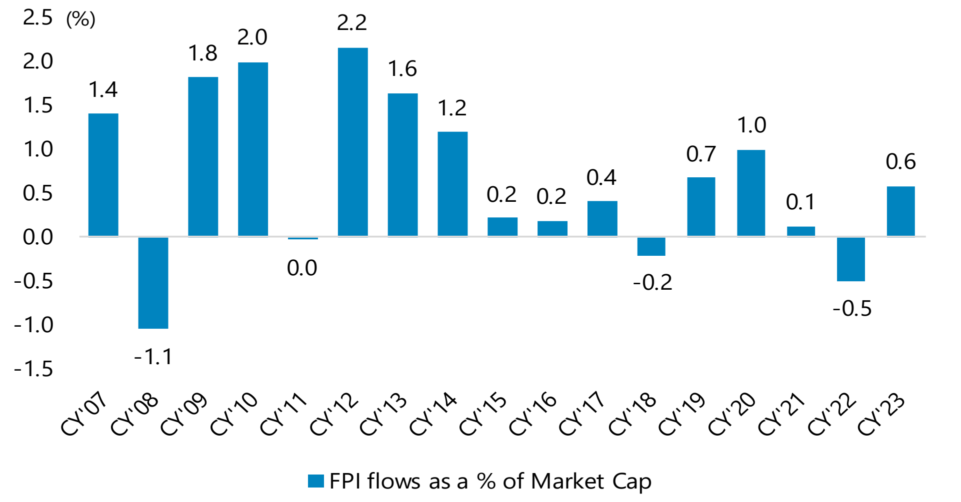
c) energy / utility cos also benefiting on the margin from higher industrials demand; d) consumer discretionary spending supported by the strong domestic economy.

International investors should find the market opportunity attractive.

We believe that a strong earnings growth profile, track-record of generating peer beating returns, rising India market weight and deep markets should attract incremental foreign flows.. The Indian markets saw US$20bn of equity flows in 2023, though it wasn't as high as compared to previous levels as a percentage of market cap..

Exhibit 33: FPI flows as a % of Market cap

FPI flows of $20bn in CY23 is just 0.6% of market cap, much lower than 2007-14 period

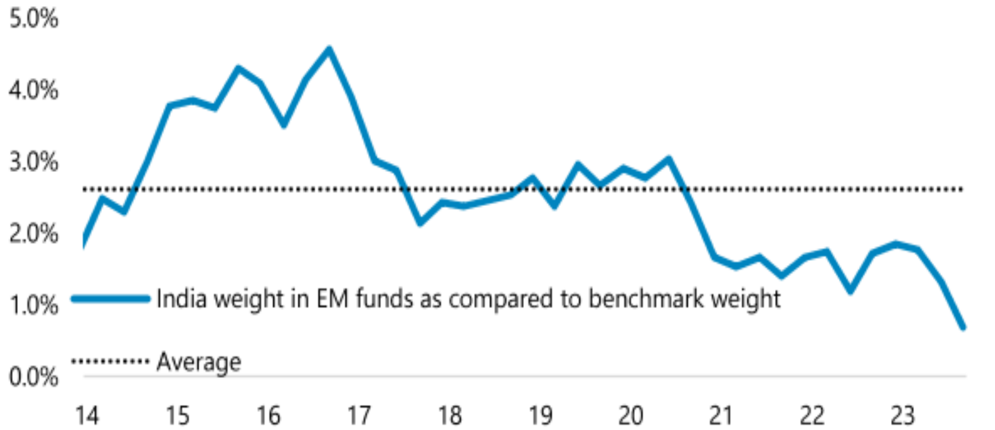


Source: Bloomberg, Jefferies

In terms of positioning, India Equities is most under owned by Global EM active funds since 2014. As India's weight in MSCI EM has gone up, foreign investors have still not shored up Indian equities with the same proportion leading to most under-owned position by Global EM funds which we believe should change going forward .

Exhibit 34: India Weight in Global EM funds vs in MSCI EM

Global EM funds are just 70bps OW on India compared to historical average of 2.5ppt OW



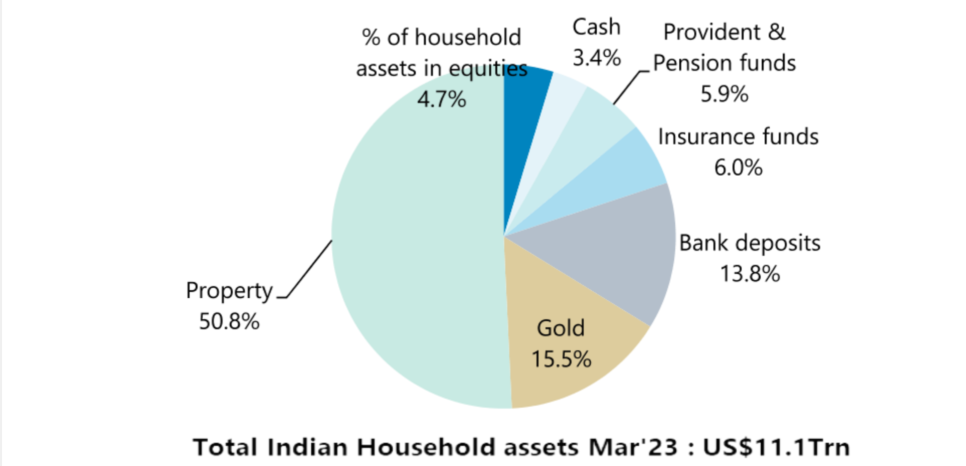
Source: Bloomberg, Jefferies

Continued financialization of household savings to drive equity flows

Savings into equity is still a small chunk of the overall investment pie in Indian households. Our proprietary analysis of India's household savings data shows that equity holdings and flows as a percentage of household assets and annual savings is less than 5%.

Equities still just 4.7% of India's total savings.

Exhibit 35: India household asset ownership



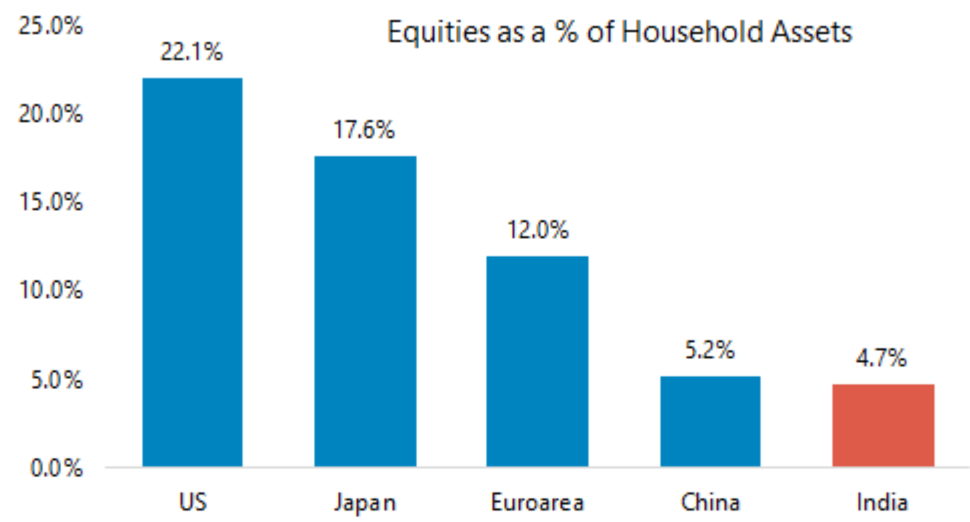
Source: RBI, AMFI, Jefferies

With growing awareness towards long-term savings into equities through mutual funds in India, we estimate the structural flows from retail to the equity markets at ~US$30-35bn/ annum. Indeed, just reallocation within the savings pie is enough to sustain retail flows in the market. Auto-deducted monthly flows into equities (SIPs) are just ~10% of annual incremental bank deposits; and can gain further share.

We estimate the structural flows from retail to the equity markets at ~US$30-35bn/ annum

India's saving share into equities is lower than several major economies

Exhibit 36: Equities as a % of household Assets



Source: RBI, Flow of Funds, Jefferies

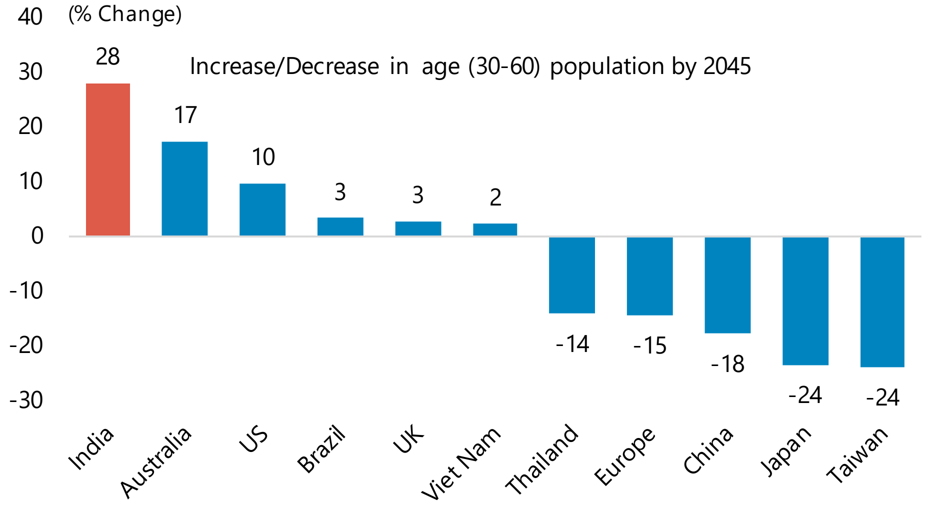
Secondly, India's demographics enters a phase where the middle age (30-60 age) cohort is growing faster than the rest of the population. The (30-60 age) population cohort are the

Growing investing age population

ones who have higher discretionary income, which can lead to higher saving flows. Based on the United Nations' population projections, we estimate India to add ~152mn people to its middle age cohort by 2045, which is the highest in the world. India's middle age cohort to increase by 28% by 2045 which makes the India structural flow story more sustainable, in our view.

Exhibit 37: Percentage increase /(decrease) in 30-60 age cohorts by 2045

India to add 28% additional people in the middle age cohort.

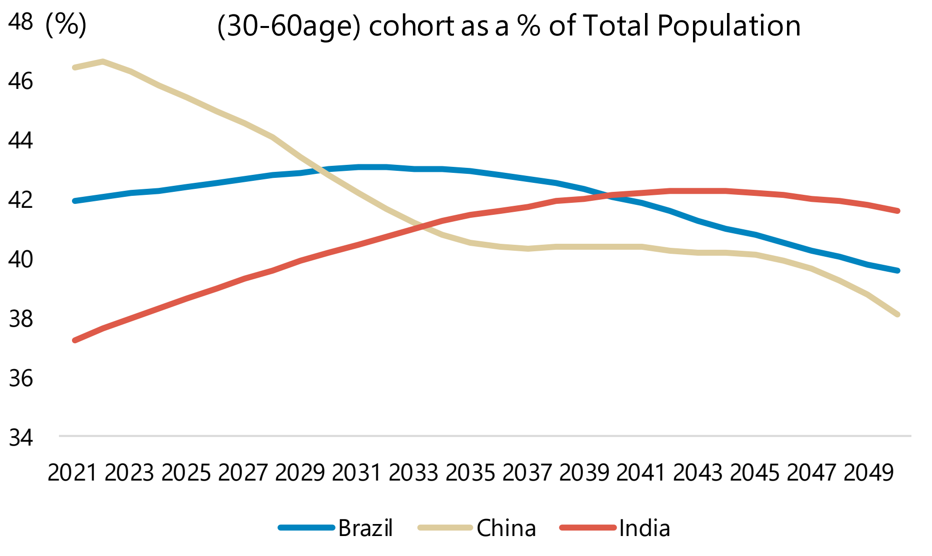


Source: UN, Jefferies

So domestic demand for Indian equities can benefit from both reallocation of savings into equities and growth of the savings pie providing a big backstop to any meaningful equity corrections.

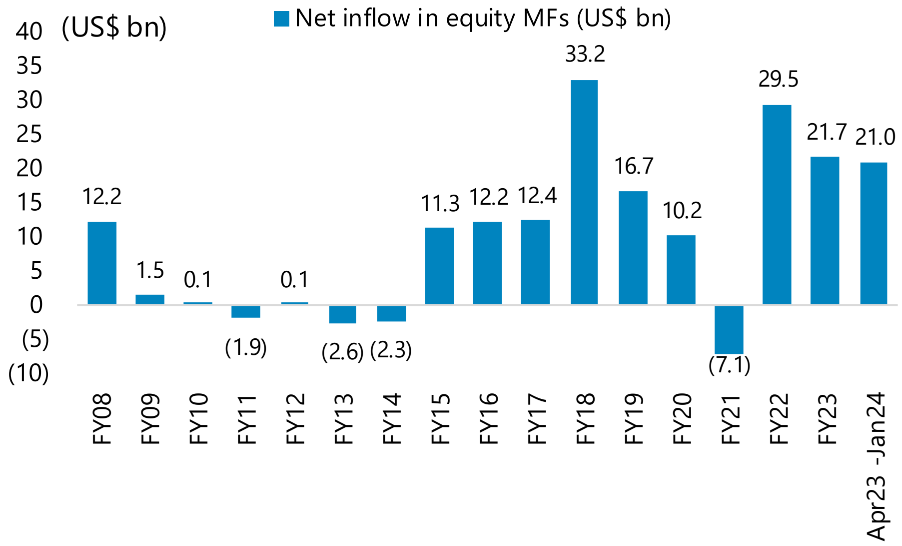
Exhibit 38: Addition in 30-60 age cohorts by 2045 as a % of total population

India's middle age cohort addition will peak in 2045 compared to other comparable countries which have already peaked



Source: UN, Jefferies

Exhibit 39: Net inflows into domestic Equity MFs



Source: AMFI, Jefferies

India's domestic flows into equities a structural positive

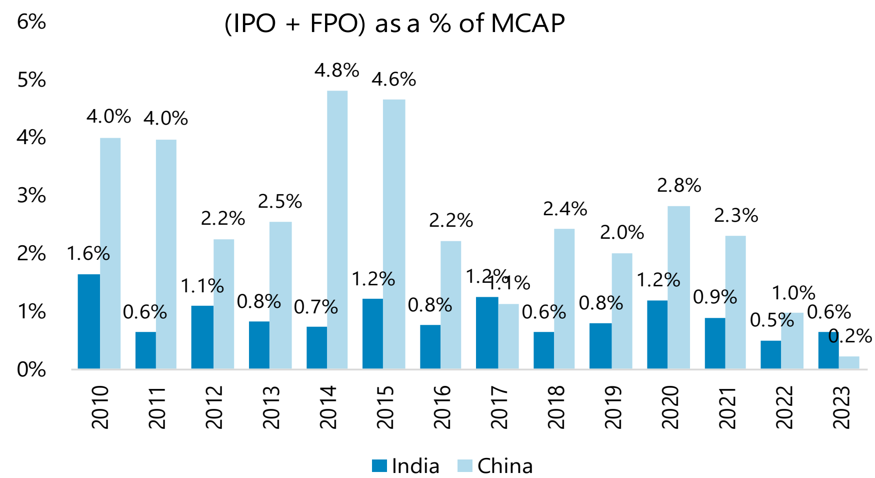
India equities primary market to become more vibrant

Robust demand for equities driven by rising domestic investors sets the stage for increased activity in the primary market in terms of IPOs, FPOs, block deals and PE/VC fundraising. The premarket market activity will be driven by promoter stake sale, government disinvestment, listing of large unicorns and continued PE churning as seen in 2023.

Chinese experience shows that equity market issuance can touch 4-5% of market cap

India's primary market activity i.e IPO and FPO issuance on average ranged around 0.8%-1.2% of market cap over the last decade. In contrast, Chinese markets which saw a spurt of big listings between 2010-2015 issuing around 4.5% of their market cap during that period.

Exhibit 40: Fund raising in primary market as a percentage of market cap



Source: Bloomberg, Jefferies

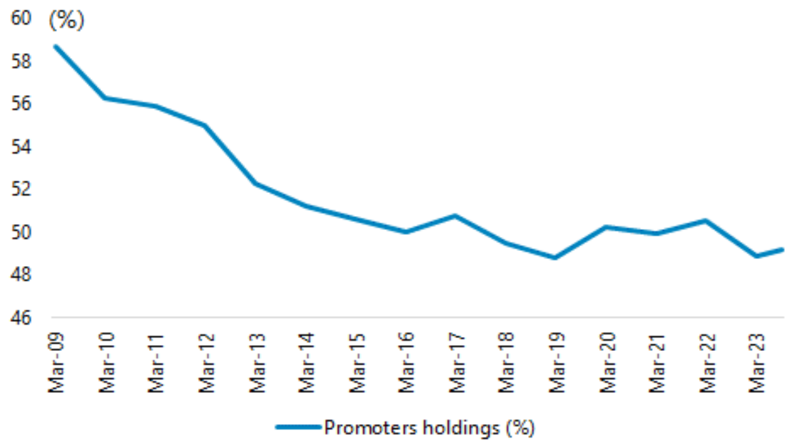
India could see a spurt in primary activity similar to what China saw in 2010-2015

We could see a similar story unfolding in India where the IPO + FPO issuance could reach 4%-5% of market cap as Indian Unicorns start maturing over the next 5-7 years and a capex cycle triggers requirement for equities across sectors.

Promoter / PE sell downs can further improve market liquidity & float

Promoters / PEs own ~50% of the stake in BSE500 cos and as such an annualized exit pace of ~0.7% of Indian market cap can imply a long supply pipeline. A large 74% of the equity issuances last year have been sell-down in stakes by 'promoters' and / or Private Equities (or large investors).

Exhibit 41: Promoter Holding in BSE 500 companies



Source: Ace Equity, Jefferies

Promoter holding is structurally declining in India providing liquidity and free-float in the market

Our analysis of 100+ such block transactions during 2023, finds that the split is almost even between the exits done by Private Equities (51%) and promoters (49%). The exits by PEs/long-term investors include where they have been large shareholders and also include PE exits from recently listed internet cos. The resilience that Indian markets have shown last year, even with high Promoter/PE exits, should give confidence to PE/VC investors going forward on exit opportunities available in India. With this confidence we can see fund raising activity increase by PE/VC investors helping India build bigger and better Unicorns.

CY'23 saw 100+ block transaction where PE/Promoters sold their stakes

Opportune time for global MNC companies to list in India

Hyundai India, which was established nearly 3 decades ago, recently announced its listing plans in India. We believe this announcement could open floodgates for many more multinational companies that are operating in India with a significant market share but are still unlisted in the Indian markets.

Companies like BAT, Hyundai and Whirlpool etc. are using India listed unit as a funding source

Some of the global MNCs listed in India have enjoyed market cap growth much faster than their Global Listed companies driven by higher sustainable multiples these companies enjoy in India which is not available in their home countries. Recently BAT (its stake in ITC), Whirlpool and Hyundai have announced monetization of their stakes in Indian companies. These examples may lead to more MNC companies operating in India to list / monetise their Indian assets. If larger global cos like Amazon, Samsung, Apple, Toyota etc. were to think on these lines – it can be a game changer for Indian equity capital markets.

Exhibit 42: Global MNCs listed in India

Name	Market Cap (US$ bn)	Global Mcap (US$ bn)	Stake in Indian Entity as a % of its Global Mcap
Hindustan Unilever Ltd	69.5	121.7	35.4
ITC Ltd	66.3	66.7	28.8
Maruti Suzuki India Ltd	40.4	23.2	101.1
Nestle India Ltd	28.8	228.4	8.0
Siemens Ltd	17.9	143.7	9.3
ABB India Ltd	11.4	81.9	10.5
Colgate-Palmolive India Ltd	8.3	69.7	6.1
Cummins India Ltd	7.7	34.7	11.3
Abbott India Ltd	7.2	194.6	2.8
Oracle Financial Services Software Ltd	6.9	318.3	1.6
Procter & Gamble Hygiene & Health Care Ltd	6.6	372.0	1.2
Schaeffler India Ltd	5.9	4.3	102.0
Linde India Ltd	5.7	197.4	2.2
3M India Ltd	4.5	52.4	6.4
Honeywell Automation India Ltd	4.1	129.3	2.4
Gland Pharma Ltd	4.0	4.3	53.3
Timken India Ltd	3.0	6.1	28.8
SKF India Ltd	2.7	9.1	15.8
Pfizer Ltd	2.6	152.1	1.1

Source: Bloomberg, Jefferies

Listed Indian subs could be a source of funding for foreign companies.

MNC's have started using the Indian markets as a funding source. For eg. Recently Hyundai India showed its interest to list in India to raise $3bn which would be India's biggest IPO at a valuation of up to USD 30 billion, which is more than half its market cap of $42bn in Seoul Similarly, Whirlpool corporation announced its plans to sell upto 24% stake in in Indian Arm, the proceeds of which will be used for debt repayment at the global unit.

IPOs of the large start-up base can drive attractive investor opportunities

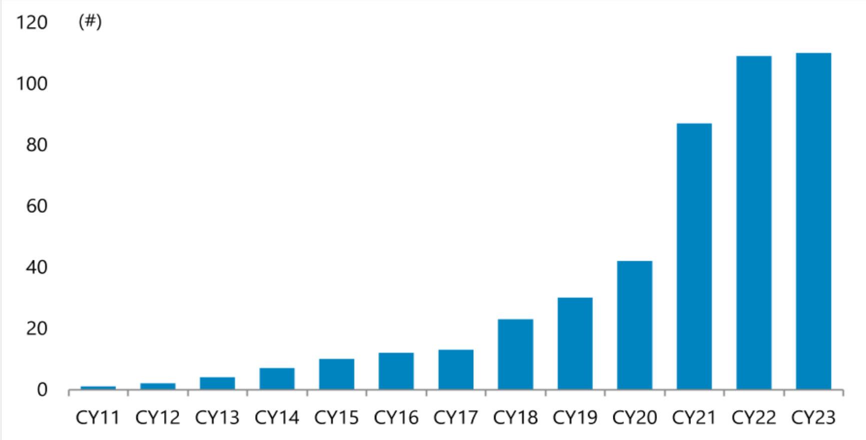
India saw a 5x growth in the number of unicorns over CY18-22 .

Indian Internet economy gave birth to over 100 unicorns over the last decade, making it the third largest unicorn hub only behind US and China. These unicorns operate across diverse industries including SAAS, e-commerce, fintech, gaming, edtech, D2C, logistics, mobility, Web3, healthtech etc. Together they have raised a cumulative funding of ~US$100bn and command a valuation of >US$350bn. India's unicorn birth rate has been much higher than other countries. While India saw a 5x growth in the number of unicorns over CY18-22, China and US saw a lower 2-3x growth.

These large unicorns brings immense listing potential over the next 5-7years Some examples of successfully listed startups in India are Zomato, Nykaa, PBFintech, Easemytrip, Infoedge, Honasa Consumers. While some unicorns such as Flipkart, Swiggy, Ola Electric, PhonePe can be listed in the near term.

Some other large companies Like Reliance Jio & Reliance retail can soon see value unlocking once demerge from Reliance industries.

Exhibit 43: Trend in Indian unicorn count (cumulative)



Source: Venture Intelligence, Jefferies

India has over 100 unicorns which together command a valuation of >US$350bn

Navneet Munot is the MD & CEO of HDFC Asset Management Company Limited (HDFC AMC). HDFC AMC manages over US$60bn across Equity and Fixed Income Mutual Funds for over 7.5 mn investors across the country. Navneet is also the Chairman of the Association of Mutual Funds in India (AMFI).

Do you share economic optimism on India?

I do believe there is every reason to be optimistic about India. We are witnessing an unprecedented era of economic development, rising standards of living, pro-business policies and macroeconomic stability. It is an era marked by a boom in Infrastructure (physical, digital and social), Investments (public and private) and Investors (domestic and foreign). It is an era in which India aspires to become a developed economy, a $20 trillion plus economy by 2047. While the last few years have been very positive for India, there is a much wider spectrum that we can view India's growth story with, one that draws some striking parallels with US in 1980s.

As Mark Twain famously said, "History doesn't repeat, but it does rhyme", there are 4 striking parallels between what happened in US in 1980's and India in this decade.

First, the then president of US, Mr. Ronald Reagan said that "the government has no business to be in business". India's PM Modi gave a loud call for "Less government, More governance" in 2014. India selling Government owned carrier Air India to Tata group was unthinkable prior to 2014. It reduced corporate tax rate at the time when demand for welfare spending was high. Several other measures were taken towards deregulation and lower government intervention, all of which led to ease of doing business and helped promote entrepreneurship.

The second parallel with US in early 1980's is on monetary policy. Paul Volcker, the then US Federal Reserve Chair famously broke the back of inflationary expectation in the US in the 80s. India used to have regular bouts of high inflation, but RBI introduced an Inflation targeting framework in 2014 and since then it has anchored inflation and inflationary expectation extremely well.

Third, India is enjoying the best of its demographic dividend that can be compared with baby-boomer's generation from the 80s with population in 30-50 range growing faster than population below 30 and above 50. For the next couple of decades India will enjoy the best demographics of a larger and more productive workforce, propelling economic growth with high discretionary expenditure as well as investment.

Fourth, as the faith in US policies on macro-economic stability and inflation anchoring became stronger, US citizens began to invest in risk assets for the long run. The 401-k wave in US transformed the financial markets due to abundance of capital in the system. It also gave rise to a large mutual fund industry, a large REIT and Infrastructure market, muni and high yield bonds, private equity and venture capital, and so on. With low levels of penetration among Indian households and advanced levels of sophistication and regulations, Indian markets are poised for a similar expansion. Rise in SIP (Systematic Investment Plans), despite it being voluntary and without a tax incentive, has ushered in a new wave of retail participation in mutual funds, one that finally puts to rest the overhang in markets around reliance on foreign investor flows.

All of this began one of the best periods for US markets, which we can call the NICE era – Non-Inflationary- Continued Expansion. Since 1980, for 40 years, US has been the best performing markets across asset classes.

With these striking parallels, I believe India has also begun experiencing its era of strong economic growth and performance across asset classes. India's capital markets are poised for an exponential growth over the next couple of decades.

India has witnessed a strong emergence of domestic inflows, do you think it's sustainable? How is the asset management industry benefiting from these flows?

Asset and wealth management in India is on the cusp of an explosive growth. It is visible from the way our industry has grown over the last 5-10 years. Just like the decades of growth experienced by US capital markets post-1980s, Indian capital markets have entered a new phase of sustained and inclusive growth. While foreign flows have been on the rise in absolute terms, it is the domestic flows that have become the star of the show. Mutual Fund SIP flows alone have now grown to about $2 bn a month. This positive trend, however, hasn't come easy. It is the result of a nationwide drive to promote household investment into Mutual Funds. India is a unique nation where the regulator has mandated Asset Managers to spend a certain percentage of managed assets (2 bps) towards investor education. While asset managers work on persuasion to invest, the ecosystem of investor education in India has already paved the way in the form of pre-suasion.

As India's massive household savings flow into Mutual Funds, the asset management industry is likely to continue seeing exponential growth. Again, if I compare with US in 1980s, the likes of Capital and Fidelity took many decades to get to $30-40 billion in AUM, and from there it multiplied 10X in one decade and then more than 10x again. Today, Capital would be managing around $3tn, Fidelity about $4.5tn and Blackrock, which didn't even exist in the 1980s is over $10 trillion. Even in the Alternatives space, Blackstone which started in 80s manages over a trillion dollar, and there are many other large names. I expect something similar in India. Mutual Fund AUM, for example, has crossed Rs 50 trillion (apps USD 600 Billion). Equity AUM has multiplied 10X in a decade or so. SIP flows from monthly household savings have been central to this growth. Very few countries in the world have delivered something like this for 30 years that India has delivered: a sustained periods of 10-11% nominal GDP growth, 11-12% corporate profit growth and 12-13% market cap growth. It has a structure that converts economic growth into corporate profit growth, a capital market to distribute this profit among a large number of minority stakeholders, and a MF industry which can provide professionally managed access to this growth with as little as Rs.500 (less than $7) in investment.

Bottom-up investable ideas are growing in India. Will this likely make the equity markets more liquid?

Yes, and this is already happening. Bottom-up opportunity is increasing with the size of market which has increased tremendously in Indian markets. Number of companies in India with more than $1bn has almost doubled in last 10yrs to about 500 companies. In private companies, we are seeing the trend of promoter holdings going down structurally. A large number of companies funded by Private equity and VCs have been lining up for listing. Globally, IPO market was moribund last year but India witnessed a large number of IPOs. We have seen private equity remitting back a lot of money this year which, in my view, is structurally positive. This will boost confidence to VC/PE investors that they can get an exit through a deep and vibrant secondary market. In India, along with financialization of savings, we are also seeing financialization of assets. The Government is working on disinvestment or asset monetisation. I believe this will be a big agenda going forward as well. REITs and InVits will continue to grow in size.

Unlike most of the other emerging markets, Indian capital markets are very broad and well distributed across sectors and industries. India has the lowest concentration among top 3 sectors compared to other EMs. And as the economy grows from $2500 per capita to higher levels in a population of 1.4 billion, a larger number of newer businesses will gain size and scale to be eligible for secondary listing.

Foreign investors have been net buyers of Indian equities for about 25 out of last 30 years mainly because of two reasons. First, the long-term structural growth story and macroeconomic stability in India. Second, the wide array of quality businesses across sectors and consequent bottom-up stock-picking opportunities. A third dimension has got added now, and that is sustained domestic flows neutralising the volatility associated with short term foreign flows. Rising domestic flows where a larger proportion is coming in a structured manner like monthly SIP or Pension scheme or Government Provident fund investing in ETFs should reduce volatility in Indian markets. We have already been witnessing it over the last couple of years. Indian bonds and currency markets are also far less volatile than peers or even some of the developed markets. This should make India rank better, not only on absolute returns but even risk-adjusted returns over a long period.

What is the biggest risk to India's economy and markets?

Unlike some other countries, India is a democratic country with a central election every 5 years, many state election within those five years and on top of that local level elections. It's the largest and a thriving democracy but also a noisy one. The trick to make money in India is to not get too bogged down by that noise.

Second, we now have strong domestic participation in capital markets, but we are a capital deficient country, and we will need global capital and global growth. Primary growth drivers will continue to be domestic consumption and investment, but we need global growth to support export of both goods and services. If anything goes wrong globally, whether through trade channels or through flow channels, it will also impact India, albeit to a lesser degree than in the past given India's structural improvement in macro-economic dynamics.

Third, we have come a long way in building relationships with global powers. But when you become a large economy and a large political power, you get compelled to take sides and you cannot be completely non-aligned. We have a strategic advantage where the world views India as a partner to counterbalance the rising influence of China. The current regime has done an outstanding job on the external front. But the world is a fragile place and India will have to be very nimble in handling geo-politics going forward.

For investors, another risk could be similar to the one seen in 1991-92, when post-liberalisation (in 1991) everybody thought India will do well over the long-term but priced that into a single year alone. Similarly, right now when the whole world is looking at India as a 10 year long growth story, the risk is that much of the returns get upfronted. That's why waiting for a large correction may not be a good idea given the structural growth runway.

Whether human beings or institutions, countries or societies, the biggest risk, in my view, is complacency. Because we are doing so well, because the stars seem to be aligned for us, it's easy to get complacent. I think to maintain the story for a very long-term we need to ensure that we remain agile and nimble. And this goes for both policymakers as well as the business community. We saw this in previous global boom, when several Indian businesses went overboard in buying all types of assets globally which didn't end very well. We have a long way to go and any mistake in such a fragile world can be dangerous. Global politics and global economics are not as supportive as they were till sometime ago. So, both policy makers and corporates need to be very agile and nimble in sustaining the growth momentum that we are seeing now.

Supportive global geo-politics

India has a vibrant democracy with 57 national/regional parties. The upcoming national elections in Apr/May'24 will have 1bn eligible voters. Successive Governments have adopted consistent growth & external relations policies. India has excellent relations with the western world, Japan, Australia and the middle-east making it a key beneficiary of China+1.

Democratically driven stable policy environment

India is the biggest democracy of the world with elections in India have been free and fair, followed by peaceful transfer of power among political parties. This democratic tradition has continued for more than seven decades since independence, with only a temporary interruption in the 1970s.

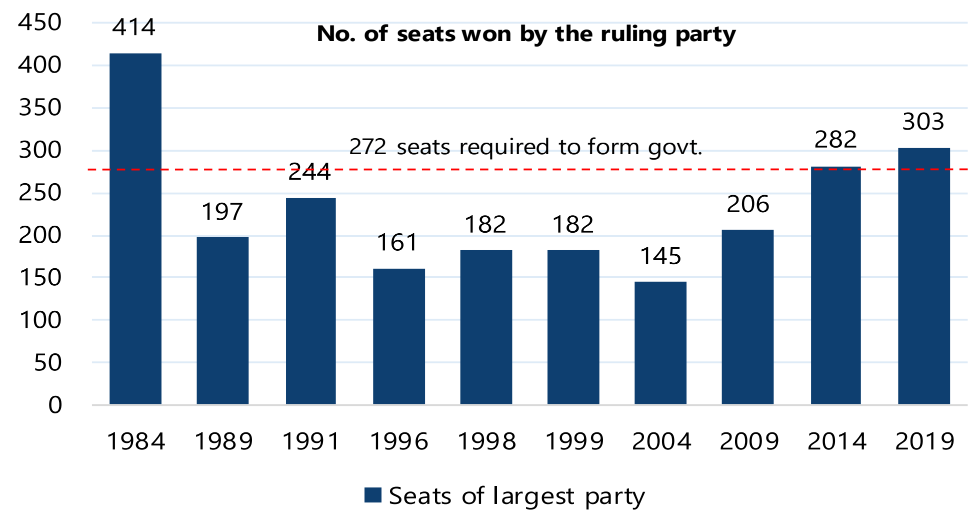
India is the biggest democracy in the world with large and intense election process.

Numerous political parties, and independent candidates, are able to contest the elections at multiple levels from city municipalities, to states to the national level. Parliamentary elections in India are a huge exercise. The general election of 2019 was the largest democratic exercise in the world, with over 900 million people eligible to vote and voter turnout surpassing 67% (including the highest participation of female voters in Indian history).

Elections are conducted by the independent Election Commission of India (ECI) whose members are appointed by the president. ECI has undertaken several efforts to improve the electoral process, including, among other initiatives, the introduction of electronic voting machines, the digitalization of electoral rolls, and the mandatory disclosure of income, assets and criminal background, if any, by all candidates at the time of filing nomination papers which helps in keeping elections transparent and fair.

The government formed after such a stringent election process creates a very stable policy environment. Since 2014, the incumbent BJP party has been elected with clear majority which provided room for passing out strong reforms over the last 9 years (discussed in details in the next section).

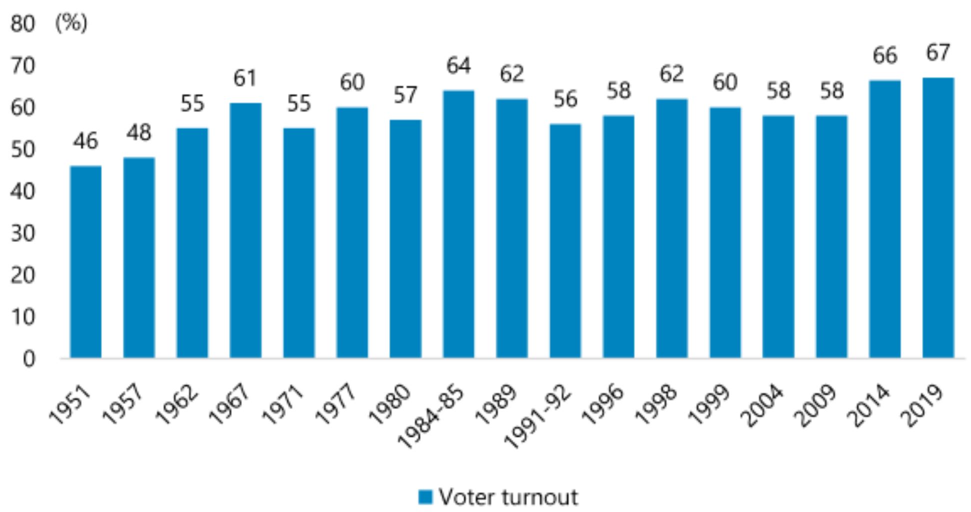
Exhibit 44: No. of seats won by the single largest party



Single party majority over the last 10 years has accelerated reform process.

Source: ECI, Jefferies

Exhibit 45: Voter Turnout trend in past election



Source: ECI, Jefferies

Back to back record turnouts shows enthusiastic participation in the democratic process

India has excellent relations with the western world, Japan and the Middle-East & several global majors

Within 1st year of assuming office PM Modi visited 18 countries and as of Nov 2023 he has made about 74 foreign trips visiting 66 countries which shows the intent and importance the Indian government has showcased on developing healthy relations with foreign leaders.

India's importance in global geopolitics is growing with healthy relation with many global leaders.

A testament to his efforts has been highly cordial relationship with world superpowers such as US, Japan, UK & Middle East.

We believe the participation of global leaders in the recent G20 summit in India was a testament to India growing in importance on global geopolitics.

Mr Elon Musk
CEO, Tesla
"He (Modi) really cares about India because he's pushing us to make significant investments in India, which is something we intend to do."

Exhibit 46: PM Modi with US President Joe Biden

Source: PIB, Jefferies

Exhibit 47: PM Modi with Saudi crown prince Mohammed bin Salman

Source: PIB, Jefferies

Exhibit 48: PM Modi with Italian PM Giorgia Meloni

Source: PIB, Jefferies

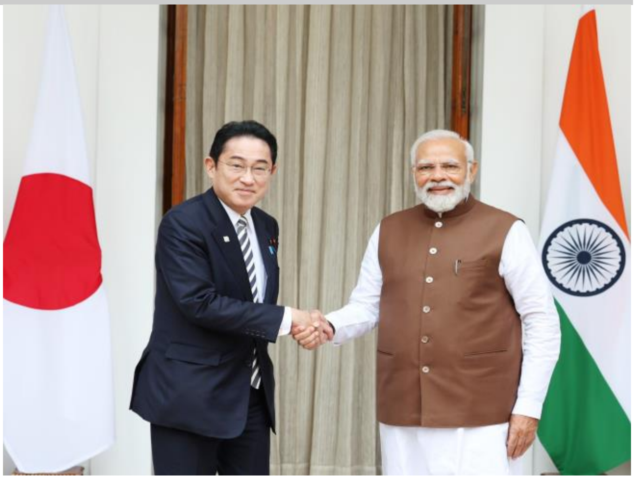
Exhibit 49: PM Modi with German Chancellor Olaf Scholz

Source: PIB, Jefferies

Exhibit 50: PM Modi with UK PM Rishi Sunak

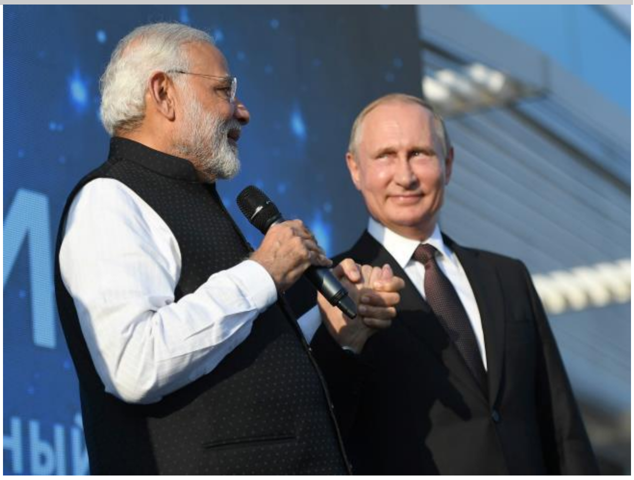
Source: PIB, Jefferies

Exhibit 51: PM Modi with Japan PM Fumio Kishida



Source: PIB, Jefferies

Exhibit 52: PM Modi with Russian president Vladimir Putin



Source: PIB, Jefferies

Exhibit 53: PM Modi with Australian PM Anthony Albanese

Source: PIB, Jefferies

Key beneficiary of China+1 policy

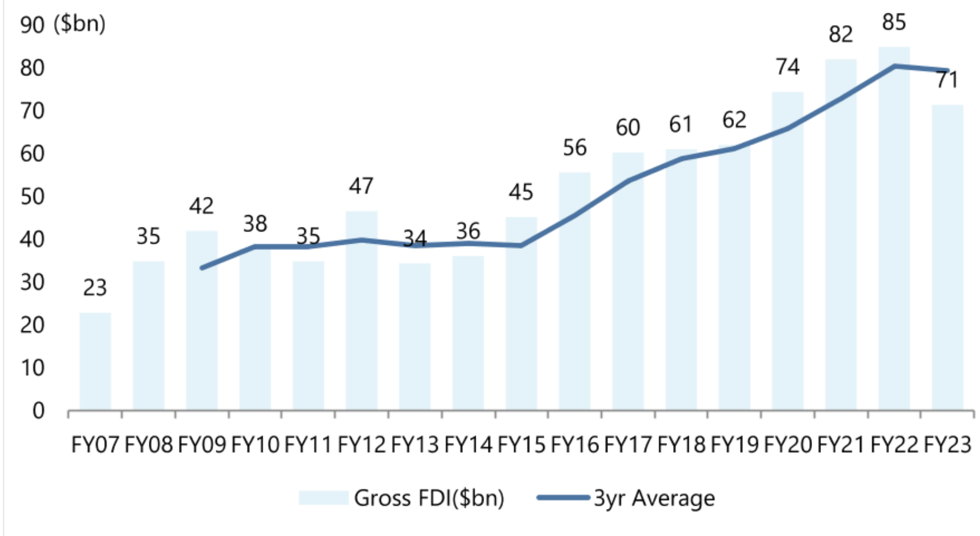
Multinational companies across the world are diversifying their supply chains away from China which accelerated post the trade war, geopolitical risk and strong zero-covid policy in China. We believe India sits in a good position to grab some of this opportunity with stable geopolitics, demographic dividend, easing business policy. The Indian government has also introduced a "Production Linked Incentive scheme" (PLI) to attract foreign investment into India on the manufacturing side.

PLI scheme is launched with a focus to gain Market share in China +1 supply chain Pie

PM Modi's foreign policies have helped India attract strong Foreign Direct Investment since assuming office in May 2014 where Gross FDI flows almost doubled, most of these FDI's have come in the services sector and India now moves it focus to the manufacturing sector.

Mr Chuck Robbins
Chair and CEO, Cisco
"“Our bet on India 27 years ago has paid off significantly. The physical and digital infrastructure improvements are astounding, and there’s a clear momentum and ambition in the country. The pace of growth is impressive, especially given the current global situation. As we continue to invest in India’s digital economy, we believe it will create a significant number of jobs and contribute greatly to the GDP. For Cisco and other multinational companies, India represents the biggest growth opportunity over the next decade, and we’re excited to be a part of its strong and growing tech startup ecosystem."

Exhibit 54: Gross FDI in India



Source: CMIE, Jefferies

Foreign direct investment steadily rising since Modi came into power

With the likes of Apple and Samsung starting to manufacture in India, India's electronics export has seen a massive jump in the last 2 years. India now is ready to capitalize the success of electronics to other manufacturing sectors as well.

Exhibit 55: iPhone production in India

Year	Models	Global shipment share (%)
2017	iPhone SE (1st Gen)	<1%
2018	iPhone 6S	<1%
2019	iPhone 7 & XR	~1%
2020	iPhone 11, SE (2nd Gen)	<2%
2021	iPhone 12	3%
2022	iPhone 13, 14	7%
2023	iPhone 15	10%

Source: Apple, Ministry of Commerce, Jefferies

Iphone production in India has gone up from <1% in 2017 to 10%in 2023

Mr William Cho
CEO, LG Electronics
"We are happy to be a partner in India's tech transformation journey for the last 26 years and we remain committed to creating more industry-leading localised innovations that address the need of our consumers. This year, we will also amplify our investments to expand the production capacity of premium home appliances in Noida and Pune factories".

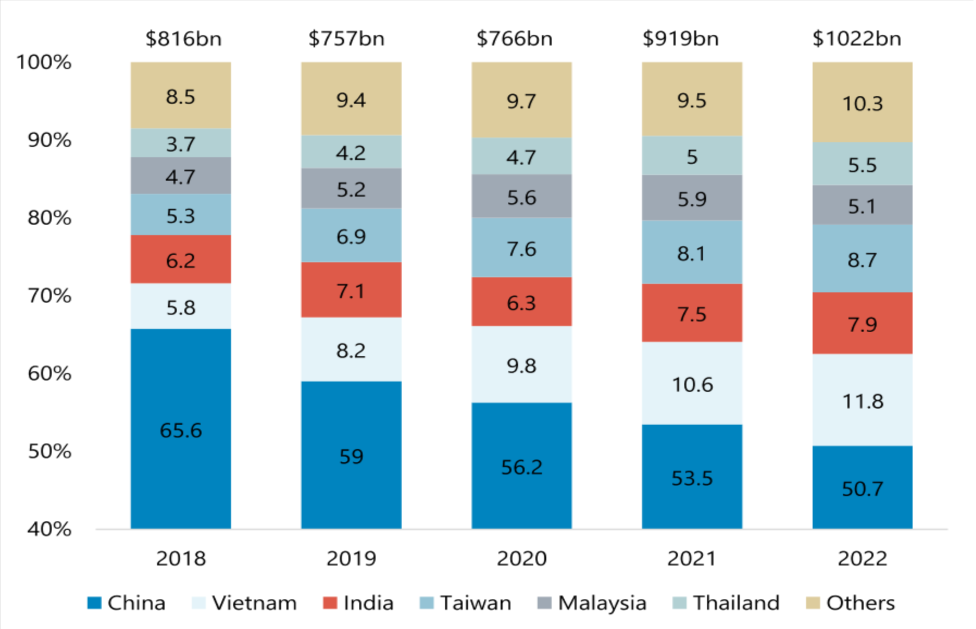
Exhibit 56: India Electronic exports trend

Source: Ministry of Commerce, Jefferies

Electronics export from India is rising rapidly but still has room to grow from value addition perspective.

India is still behind in gaining market share from supply chain moving out of China. China's share of manufactured goods into the US fell by 15ppt since 2018. Vietnam and Taiwan took the lion's share here with market share up by 6ppt and 3.4ppt respectively. India was able to gain just a 1.7ppt share in US imports from low cost countries. However, with the government's focus on manufacturing with announced PLI schemes, Road and Railway infrastructure near completion and private capex starting to kick in, we believe that India's share in global imports will start to trend up over the next 5 years.

Exhibit 57: Manufactured goods imported into US from Asian low cost countries



Source: Kearney, Jefferies

India still is yet to gain from Supply chain moving out from China in a meaningful way

Exhibit 58: PM Modi addressing the US house of Congress

Source: PIB, Jefferies

PM Modi gets a standing ovation as he addresses the Joint meeting of US Congress in June 2023

Exhibit 59: Global companies with India-origin CEOs

Company Name	CEO Names
Alphabet	Sundar Pichai
Microsoft	Satya Nadella
Youtube	Neal Mohan
Adobe	Shantanu Narayen
World Bank	Ajay Banga
IBM	Arvind Krishna
Albertsons	Vivek Sankaran
NetApp	George Kurian
Palo Alto Networks	Nikesh Arora
Arista Networks	Jayshree Ullal
Novartis	Vasant Narasimhan
Starbucks	Laxman Narasimhan
Micron Technology	Sanjay Mehrotra
Flex	Revathi Advaithi
Wayfair	Niraj Shah
Chanel	Leena Nair
OnlyFans	Amrapali Gan (Indian
Motorola Mobility	Sanjay Jha
Cognizant	Ravi Kumar S
Vimeo	Anjali Sud

Source: Media Articles, Jefferies

Large global companies have their CEO's of the Indian Origin

Mr Michel Combes
Global CEO, Alcatel-Lucent
...we believe there is tremendous potential… The underlying strengths of India remain. It is the largest producer of milk in the world; it is one of the top three producers of wheat in the world and has the largest growing middle class.

Nilesh Shah is the Group President & Managing Director at Kotak Mahindra Asset Management Co. Ltd. Kotak AMC is one of the large fund houses in India managing around $45bn in asset under management.

How has India's growth story changed over the last decade?

I think the first noticeable change is that India has been able to retain talent. Over the last 2-3 decades Indian talent aspired to look for opportunities outside the country in terms of both Jobs and Entrepreneurship which was mainly attributable to lack of strong high paying corporate sector, lack of capital infrastructure. But over the last 5-7 years these things have changed. Now, we have a strong capital infrastructure in terms of PE/VC investment which are ready to fund new business ideas. Physical infrastructure such as Road, Railways, airports and communication is much better bringing down cost of supply chain which is helping in retaining talent in India being a strong contributor to India's growth story.

Second, Leadership has changed meaningfully, PM Modi's government is making all the decision in the right direction with focus to grow the overall pie instead of excessive focus on distributing equally. Engagement with global companies to manufacture in India is being implemented right at the top. For example, Prime Minister Modi building relationships in pushing foreign corporates to get semiconductor fabrication in India is a great achievement mainly as it requires coordination at multiple levels. Introduction of schemes like PLI to capture China+1 opportunity is another step in the right direction. India's world class digital infrastructure has plugged a lot of leakages that India faced earlier. In the next term hopefully they manage to get the power cost down and make India the best manufacturing hub over the next 5-10 years.

Third, is empowerment at the bottom of pyramid level which is your e-gram Swaraj where Panchayati Raj institutions are able to showcase their work and voters are able to observe that their approval is happening online. So the government are empowering people through e-gram Swaraj. They are procuring goods in government with transparency and are plugging leakage with the help of JAM trinity. Online process of empowerment is making the bottom of pyramid economy efficient and self-reliant which helps in government to use their resources prudently.

What are the unique features of India growth story that you think are sustainable?

India is one of the few countries in the world with lower leverage. India's Debt to GDP ratio ranks among the lowest compared to other large economies and reduced further during covid for both corporate and households. US is twice India's GDP in PPP terms yet credit card loans is almost 40 times while student loan is about 90 times that of India. I will be fair to say that these economies are creating growth by borrowing while India's growth is without high leverage which makes India's growth story more sustainable. We are one of the very few countries where our FX reserve is more than net external debt (excluding NRI deposits). Our debt remains under control compared to China and other western economy and this prudence on both fiscal and monetary side is giving that strong impetus to India's economic growth.

Second, Governance in Indian corporate has improved multifold. Earlier there were many companies who used to take governance for ride, now things have changed, you see most companies behaving responsibly. We have seen examples where executive being voted out because their remunerations were not linked to performance.

We have seen examples where proxy advising has not approved son's appointment to the board just because they are promoters of the company. So overall the governance standard has gone up substantially in Indian corporates. Third, India has the lowest GDP per capita among large economies, but India has the lowest carbon emission per capita. It is incredible to see the 5th largest economy to be the lowest carbon emitter per capita. Currently India's 26% of power need is fulfilled by renewable source and with huge focus on renewables this share will only increase. So this combo of Growth, Governance and Green gives an exciting opportunity for foreign investors to invest in India's growth story.

How has market dynamics in India changed over last decade?

First big change is that corporate governance has improved in a big way as I explained earlier. Now there is a framework for corporate governance. You are able to understand what promoter is doing, regulator has empowered minority shareholder and related party transactions. They are also putting responsibility for conflict of interest with institutional investors, there is also foreign institutional investors who are now joining with local institutional investors to enforce good governance. Corporates are getting rewarded for good governance with valuation going up. The ability to raise capital goes up for companies with higher CG. With better technology It is not possible to trade in parallel economy and siphon of money. Other thing which is changing is that the next generation coming into business has studied investment. They have seen benefits of good governance and they don't want to take the pain of living in parallel economy anymore. They want to keep the options open for raising capital from market. They want to keep the options open selling the businesses to the deserving at a premium. So dynamics has changed and is now deeply enrooted in the culture.

Second, We have created an environment where global companies feel safe about their products and patents and can securely manufacture in India without worrying about their product getting copied. Global investors/corporate have had a good experience in India over time. Hindustan Unilever is now more of an Indian company and never had to worry about being thrown out of India. Similarly companies like Suzuki, GM, all succeeded in India without worrying about their IPR being copied in India. Government thinks this is the biggest strength of India we truly believe in "Atithi hi Devo Bhava" (Guest is God). India as a country does not discriminate between local investor or local company vs an international investor in global company. Even in Pharma, where it was the need of an hour for a country like India with large population. We needed cheaper medicine but we didn't indulge in theft or unfair competition. There is no other country where majority owner of some of the largest private sector companies is a foreigners .eg largest private sector bank, largest private sector insurance company, largest consumer FMCG company, largest automobile company, largest telecom company, largest asset management company all have majority stake held by a foreigner. So there is no other country, including America, which respects global capital and allows them to mature across so many industries.

Lastly, Indian capital markets have become efficient and more matured. There is lot of room still left with retail investors to join the India growth story and awareness and digitization is making it achievable. We might see exponential growth of investor participation in the market over the coming 3-5 years which could drive flows and ensure stability in the market.

What are the key risks to Indian economy and Indian equity markets?

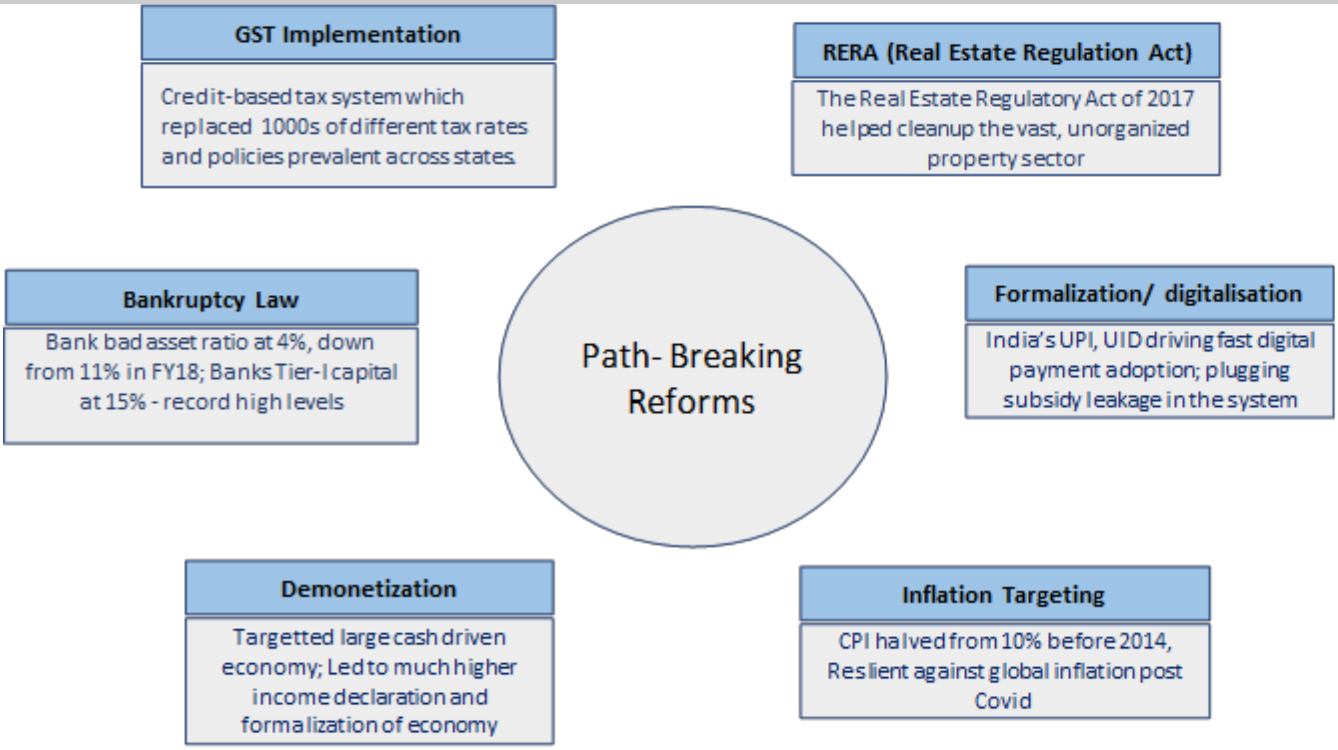
One risk is our Judicial process. Even though we have jumped multi-fold in ease of doing business, investors are still worried in setting up a new facility as land and labour reforms are still very tricky and controlled at the state level. Any upset in these areas leads to a long judicial battle eating up a lot of time and resources and missed opportunity. We are in the need of a strong judicial infrastructure which can resolve conflicts at the earliest.

Second risk is complacency. We have done most of the hard work over the last 10 years to be where we are, but we cannot afford to take the foot of the pedal. We need to keep accelerating and doing the hard work we have been doing. We need foreign companies to setup shops in India and stay. For example, Maruti Suzuki came to India and they stayed and are now selling more automobiles from India than Suzuki worldwide. But we should not have allowed Samsung to build bigger capacity in Vietnam which is a much smaller country. We didn't capitalize on Samsung's entry into India. So we need global companies to stay in India manufacture here and export. And for that to happen we need to move out from individual leadership to more institutional based leadership. Currently PM Mr. Modi himself is a part of many of the negotiation and his personal push has led to India's growth which I call more personality dependent growth but we need more robust institutions like RBI and SEBI at government level to continuously drive growth agenda.

Strong reforms over the last 10 years have laid the foundation of solid growth over the next decade

Since 2014, the Modi government has successfully delivered on a set of reforms with the aim of boosting 'Ease of Doing Business' in the country. The landmark GST reform of 2017 compressed a multitude of taxation structures into a common national system, akin to creating a 'Eurozone' style flow of goods and services across the Indian states. The Bankruptcy law of 2016 proved crucial in accelerating the cleanup of the bad loans from the banking system. The Real Estate Regulatory Act of 2017 helped to clean up the vast, unorganized property sector. Alongside, the Modi government has boosted governance through creation of digital public goods. The physical infrastructure is also undergoing a massive upgrade with capex to GDP by government doubling since 2019.

Exhibit 60: Path breaking reforms in India over the last decade



Source: Jefferies

GST implementation – Made India one single market in real terms. Akin to the formation of the €uro

Indian commerce suffered from internal borders issue with the states having different tax rates, and sometimes different laws, on taxing goods transfer. Flow of tax credits was also an issue, and together with complicated rate structures led to a higher cost of business. Tax inefficiencies were also exploited by local players, who would indulge in tax avoidance as a business strategy.

In 2017, though a constitutional amendment, the Modi government passed the landmark Goods and Services Tax Act in Jul'17. Fundamental to the reform was the unification of state government imposed goods taxes to a common one. Simultaneously, the taxation system shifted to a credit-based system which brought in efficiencies, as well as increased compliance. Also, the creation of a unified tax unlike other countries, GST in India was not a new tax and effective tax rates were lower.

Exhibit 61: Key impact of GST rollout

GST Implementation led to better tax compliance, simpler and lower taxation.

	Pre-GST	Post GST
No. of Indirect taxpayers (m)	4.4	14.1
No. of tax rates	100+	6
Median goods tax rate (%)	18-20%	15-16%
Inter-state tax on goods (%)	~2%	NIL
Median services tax rate (%)	12-14%	15-16%
Tax collections (Rs Trn/mth)	0.90 (GST launch year FY18)	1.67 (average for FY24)

Source: Ministry of Finance, Jefferies

Over the last 6 years since its rollout, GST has brought several improvements in indirect taxation in India. Tax offsets flow easily through the system, which alongside better data tracking, has driven an incentive for higher organization and tax declarations. Consequently, the number of indirect taxpayers has more than tripled to 14m by Jun23. The tax collections under GST have also risen consistently and at Rs1.7Trn/mth, are up 85% since the launch of GST.

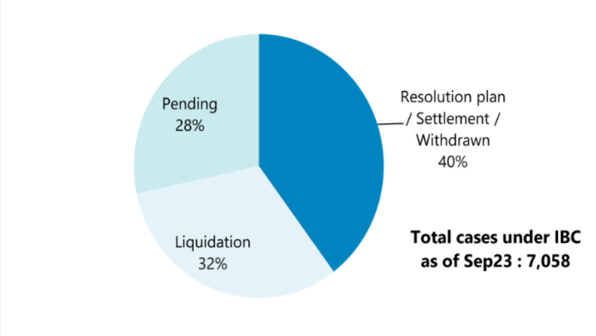
Bankruptcy reforms – A massive cleaning up of corporate and banking sector balance sheets

Bankruptcy reform has been instrumental in improving Bank's balance sheet

India had seen a sharp rise in bad loans from 2014 onwards, however, there was no proper Insolvency & Bankruptcy law. The Parliament, in 2016, passed the Insolvency and Bankruptcy Code (IBC), which brought in a time-bound process for cleaning up bad loans. Under the law, the power of creditors was substantially enhanced as they could take over the company facing insolvency and appoint an insolvency resolution profession who was empowered to resolve the problem loans through sell-off or liquidation.

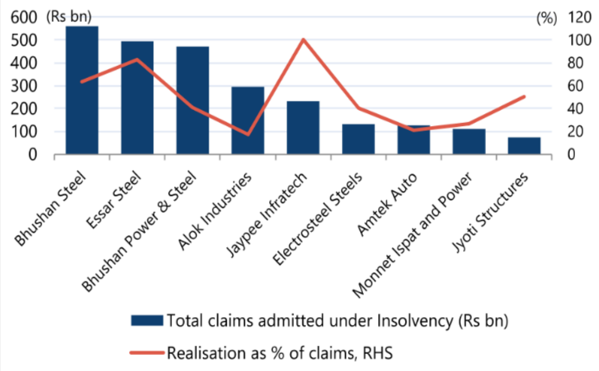
The IBC became effective from 2018 with several large insolvency cases directed by financial institutions to the newly constituted Insolvency & Bankruptcy Board of India (IBBI). Within a couple of years, IBC brought in profound changes in corporate India, alongside bank balance sheets as the companies have started changing hands among promoters (owners), driven by creditors – this never happened before in India before. Also, the promoters are now much more careful in taking leverage and servicing their loans.

Exhibit 62: Progress of Corporate Insolvency cases over Mar'17-Sep'23



Source: IBBI, Jefferies

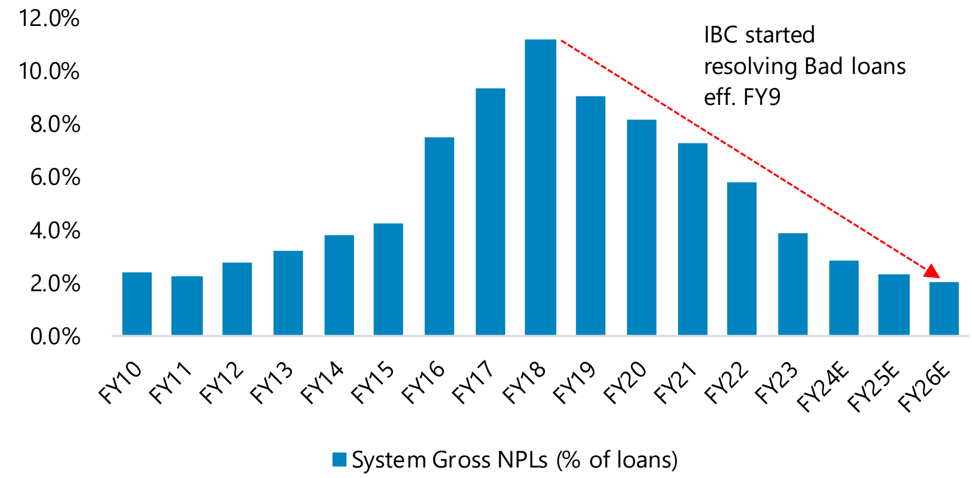
Exhibit 63: Large Bad loan resolutions under IBC



Source: IBBI, Jefferies

Through the IBC route, more than 5,000 cases have been resolved since Mar'17; which includes 2,200 liquidation orders being passed. The creditors have been able to recover Rs3.1Trn via the process as of Sep'23. The banks have also seen a sharp decline in their bad loan ratios over the time. Consequent to the IBC, some large bankruptcies have seen promoter changes which include Bhushan Power, Bhushan Steel, Alok Industries, Essar Steel, Jaypee Infratech, Dewan Housing Finance, Ruchi Soya etc.

Exhibit 64: Bad loan ratio as % total for banks



Source: RBI, Jefferies

Implementation of bankruptcy code led to stronger balance sheet of Indian banks

Mr David Novak
CEO, YUM! Brands
"Our long-term growth story in India is intact... Since 2008, we have more than doubled our sales in India. I believe the global megatrends mobility, urbanisation, water and agriculture will be the drivers for growth"

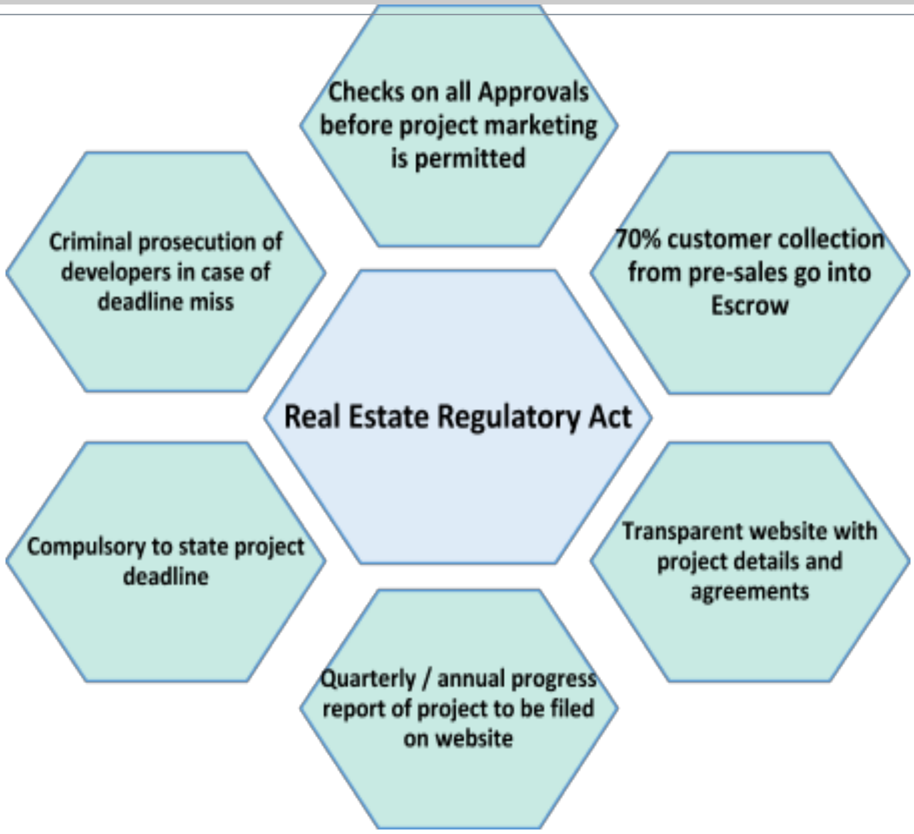
RERA (Real Estate Regulation Act) – A clean-up of property / housing sector – boosting buyer confidence.

RERA implementation formalized the largely unorganized property sector with better control over use of funds.

The Indian property cycle is running strong currently and a major driver of growth for the economy. The sector though has gone through a major transformation over the last few years. The residential property sector in India had seen a major loss of confidence from customers in the years around 2013-16 when delays by developers in construction led to large scale stalling of projects. The sector had largely run unregulated from a customers' standpoint, and in response to the situation, the government passed the Real Estate Regulatory Act (RERA) in 2016, implemented from mid'17.

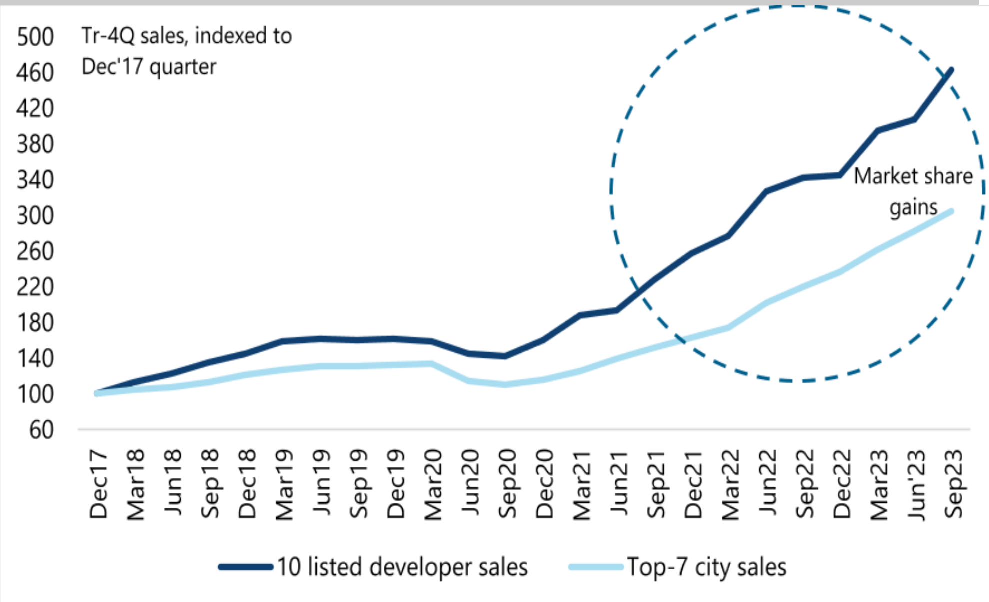
RERA brought in two major sets of changes for the way real estate sales are done in India. (1) It became compulsory for developers to secure all approvals (including the RERA certificate) before launching a project for sales. (2) 70% of the proceeds from customer collections on an under-construction project compulsorily go to an escrow account, from which money is withdrawn as per project construction.

Exhibit 65: Key regulations under RERA Act



Source: Jefferies

Exhibit 66: Trend in developer sales vs. sector sales



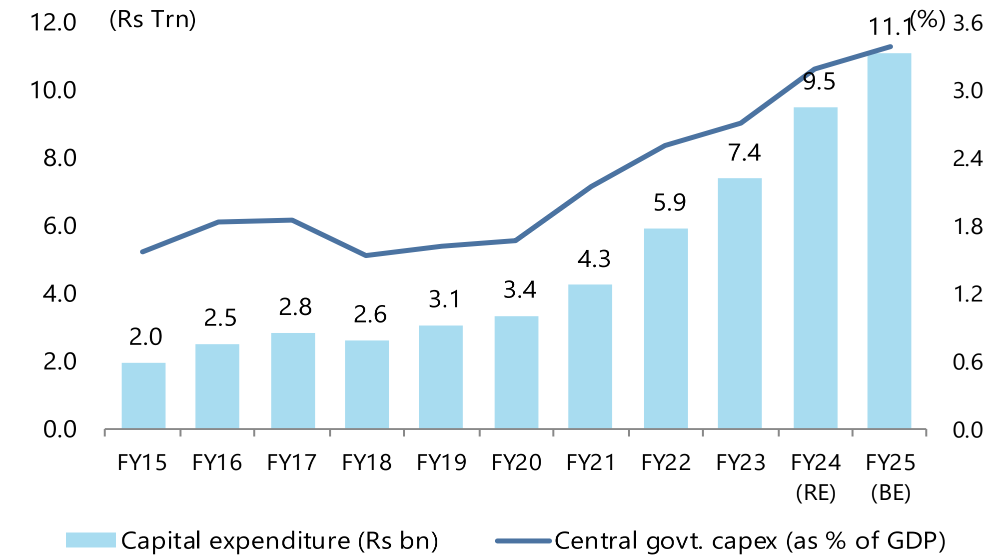
Source: Companies, Propequity, Jefferies

RERA implementation helped Listed developers which were perceived to be more compliant

Upgrade of physical infra – Roads, airports, railways etc

In addition to the upgradation of the 'soft infrastructure' as above; India has also seen a significant infrastructure upgrade program over the last decade. The fiscal tilt of the Modi-2 government has very much been on infrastructure development, as the government spending on Infrastructure growing 3x between FY20-FY24 to Rs10trn. The sharp jump in capex budgets, despite the COVID related social impact, is driving a significant upgrade of India's physical infrastructure. Focus areas have been railways (including metro rail), roads and airports.

Exhibit 67: Central government capital spending trend



Source: Budget documents, Jefferies

Government's Capex tripled in last 5 years

The Prime Minister himself has been a driver of the infra upgrade program. Mr. Modi, for example, has associated himself with the launch of the new European styled 'Vande Bharat' passenger railway trains. There are several large projects in advanced stages of completion touching multiple parts of the country, which are likely to see openings during 2023-2024, in the run-up to the national elections. These include Delhi-Mumbai expressway, Mumbai Trans Harbor Link, Mumbai coastal road, Navi Mumbai International Airport, Metro trains across several large cities etc.

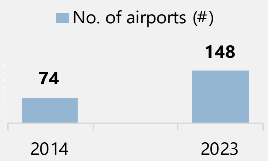
Exhibit 68: India Railways - Rapid transformation

- **Passenger Railways (Long distance)**
  - New "Vande Bharat" (European style) passenger trains launched
    - Cutting travel time down
    - Souped up amenities
    - Stable and smooth ride
  - Scale up started from 2HCY22. 25 routes operational. Nearly 300 trains ordered / ordering underway
- **Urban Transport (inter city)**
  - Rapid Rail Transit System – First project started between Delhi – Meerut (80Km) – in phases over 2023-2025
  - Raises speed to ~180Km vs. typical 80-100Km for suburban rails
- **Urban Transport (intra city)**
  - Metro expansion beyond metros started during Modi-1 tenure, gathered pace last 3 years
  - Operational metro network covers 855Km and spread on ~20 cities
  - Another 885Kms under construction – taking expansion to 7 more cities
- **Goods transport**
  - Commissioning of the Dedicated Freight Corridor
  - The DFC is a parallel route to existing tracks – significant enhancement of capacity across trunk routes for both passenger and goods happens
  - Trains can do double stacking, run upto 250+ wagons, multiplying freight volume carried
  - 70%+ of the ~2,000KM corridor is commissioned – mostly over 2022-23

Source: Indian Railways, Jefferies

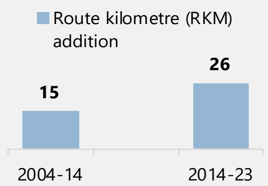
Exhibit 69: India Infrastructure upgrades

Airports



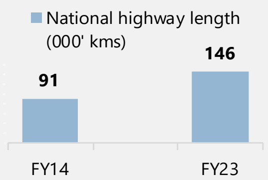
- Robust growth over the last decade attributed to government initiatives such as, Regional Connectivity Scheme UDAN (launched in 2016), under which 469 routes connecting 74 airports have been made operational
- Union Budget 2023-24, announced an additional 50 airports, heliports, water aerodromes, and advanced landing grounds that would be revived for improving regional air connectivity in the country

Railways



- Indian railways has the fourth largest system in the world operating 13,523 passenger trains and 9,146 freight trains daily
- In the Union Budget of 2023-24, capital outlay of Rs2,400bn ($29b) had been allocated to the Railways, ~9x the outlay in 2013-14

Roads



- 202 national highways are at the implementation stage (6,270 km in length)
- In the Union Budget of 2023-24, GOI allocated Rs2,700bn ($33b) to the Ministry of Road Transport and Highways

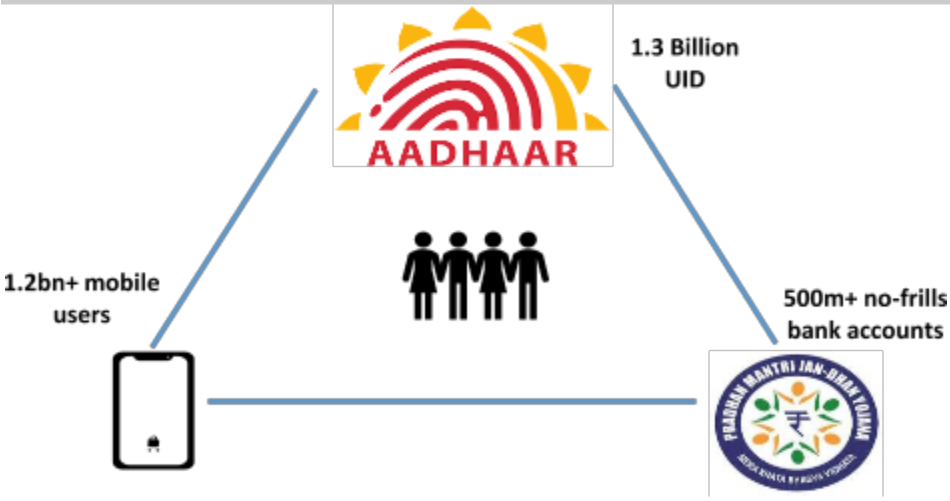
Source: Indian Railways, Jefferies

Digital infrastructure – UID + UPI + DBT has driven formalization of economy, aided by demonetization

A remarkable governance reform has happened in India over the past decade through digitisation. The welfare mechanism in India was earlier prone to leakages in subsidy transfers for multiple reasons including lack of a national identity, bank accounts and verification tools. India launched its Unique Identification (UID) program in 2010, which achieved saturation levels by 2018. The ID was digitally enabled, with electronic authentication inbuilt. In 2014, government launched a no-frills bank account campaign which added 500mn new bank accounts within the next 2-years. The UID and bank accounts were then linked via the mobile phone numbers to create a 'JAM (Jandhan-Aadhar-Mobile)' trinity, which was adopted as the platform to enable Direct Benefit Transfers (DBT) to government welfare scheme beneficiaries.

Exhibit 70: The 'JAM' trinity driving governance improvement

JAM trinity was a game changer drove digitization and formalization of economy



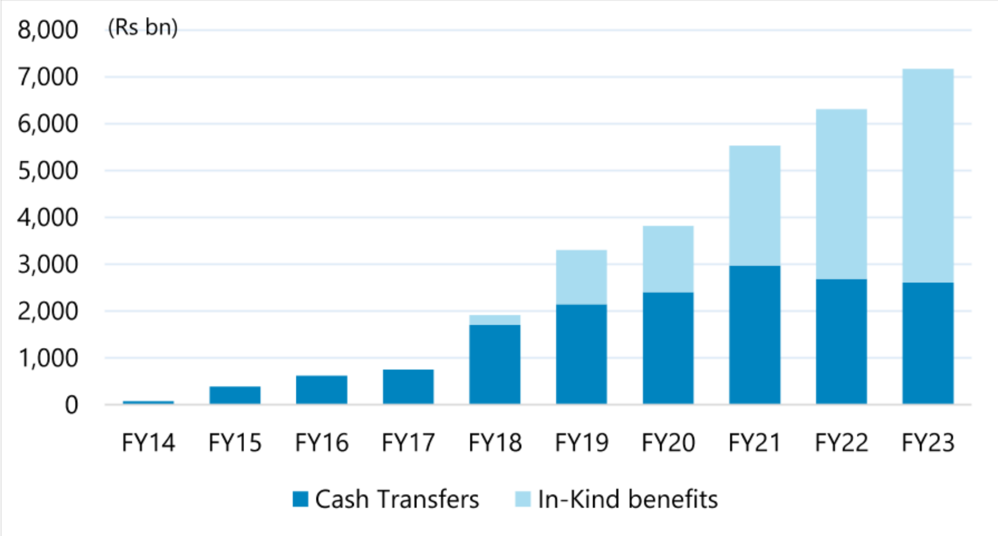
Source: Niti Aayog, Jefferies

Digitization led to Annual transactions under the DBT method worth ~US$90bn in FY23.

Annual transactions under the DBT method worth ~US$90bn were done in FY23. The scale-up of DBT proved very timely for the government when during COVID, India was able to transfer cash / welfare benefits to 1.05bn people in 2021 as part of COVID relief measures. The transfer also happened without any significant leakage given the UID based authentication systems built in. Government has also utilized the DBT mechanism for more efficient targeting of subsidies. For example, the subsidy on cooking fuels has now become a means tested subsidy, instead of lower prices for everyone. Moreover, the reduction in leakage has opened up fiscal space for the government to expand the cooking fuel distribution in rural areas.

Mr Daniel P Myers
Executive Vice President (global integrated supply chain), Mondelez International
"We are enormously excited about India and its long-term growth potential, which is one of the reasons why we made it into a separate division."

Exhibit 71: Value of transfers by the Direct Benefit Transaction (DBT) method

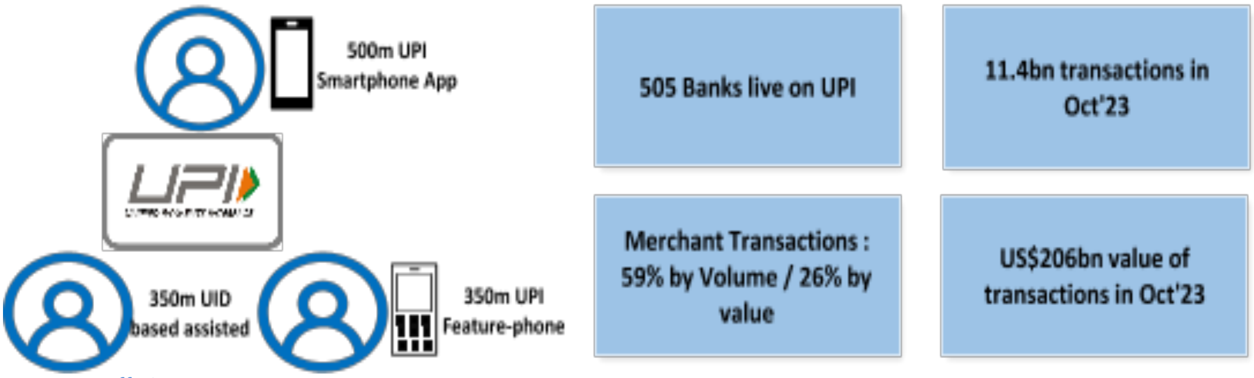


Source: Government of India, Jefferies

Leakages in Benefit transfers were plugged with the help of DBT

Alongside the above DBT architecture, India has also seen a strong adoption of the digital financial transactions, built on the native Unified Payments Interface (UPI). The UPI has accelerated the adoption of digital transactions in the small ticket B2C and P2P space. Monthly transaction run-rate vols have crossed 10bn under UPI, with value of transaction exceeded Rs17Trn (US$200bn) in Oct'23. The large scale adoption of digital transactions is itself a driver of formalisation of the economy as it helps to drive financialisation of an otherwise cash economy.

Exhibit 72: India's UPI digital transaction system is well spread



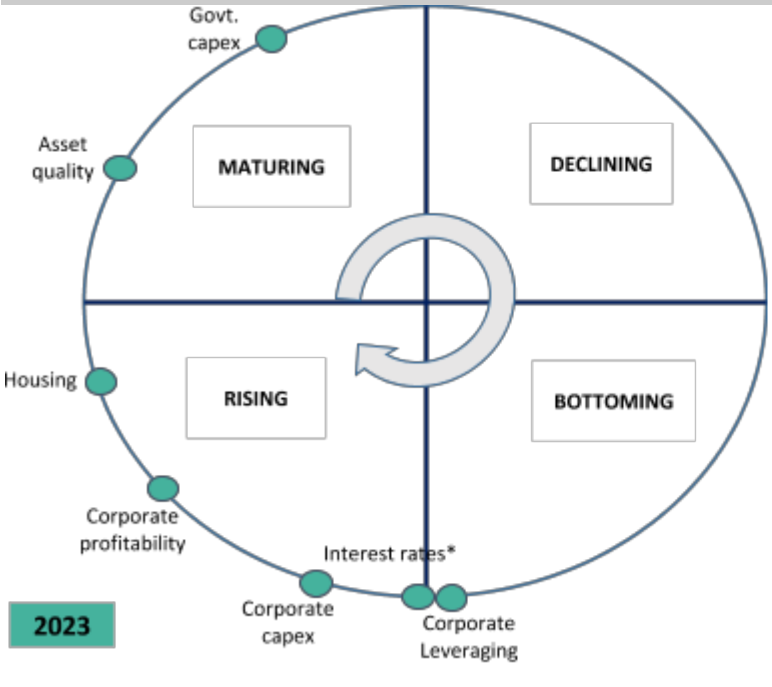
Source: NPCIL, Jefferies

Convincing turnaround in India's investment cycles – the key growth driver

The investment cycle in India as measured by the Capex to GDP ratio is in its third year of upturn, and we believe it likely has 5+ years to go. The investment cycle is coming of a nearly decade long slowdown, which impacted growth rates. Initially, the upturn in capex was driven by government investments; however the property sector saw a sharp upswing post COVID and is now into a firm upcycle, with affordability & pent-up demand implying another ~5 years to go. The final piece of the capex cycle i.e. corporate spends is also now turning as a decadal high utilisation rates across industries, among the lowest gearing ratios for corporate balance sheets and strong banking sector capitalistion provide the ingredients for a sustained upturn. Demographics also support the investment upturn, as the young population not only provides a large consumption base, but also ensures labor supply to keep the labor cost inflation contained.

Exhibit 73: India's Investment cycle and key drivers

India at the cusp of New investment cycle



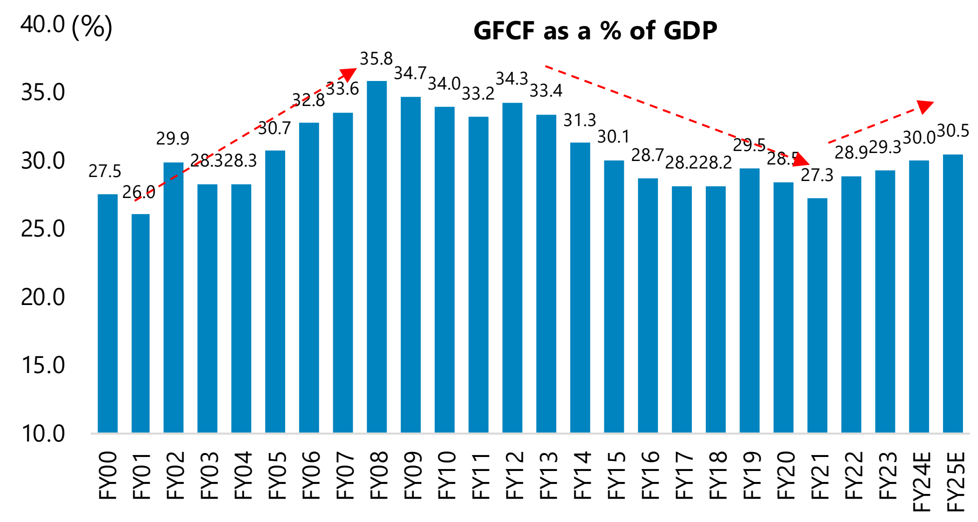
Source: Jefferies

C.10 years of investment cycle downturn created risk aversion in the economy; but that's now changing.

Investments as % GDP had peaked at an average 34% during FY07-FY13, when India enjoyed a strong investment cycle. However, capex came off substantially over the next 8-years and declined by 6ppt to an average 28% over FY17-FY21. Corporate India had entered a cycle of lower utilization rates and higher debt. The real estate cycle also peaked in FY13 with high inventory and affordability an issue. The ensuing risk aversion created a prolonged investment downturn. This investment downturn has now ended. Over the past three years, capex has bottomed out as evident in the capex to GDP ratio rising by 3ppt over FY22-24E, to a 9-year high of 30%.

Exhibit 74: Gross Fixed Capital Formation (GFCF - Nominal) as a % of GDP

India's GFCF as a % of GDP has started to trend up, but still a long way from previous peak

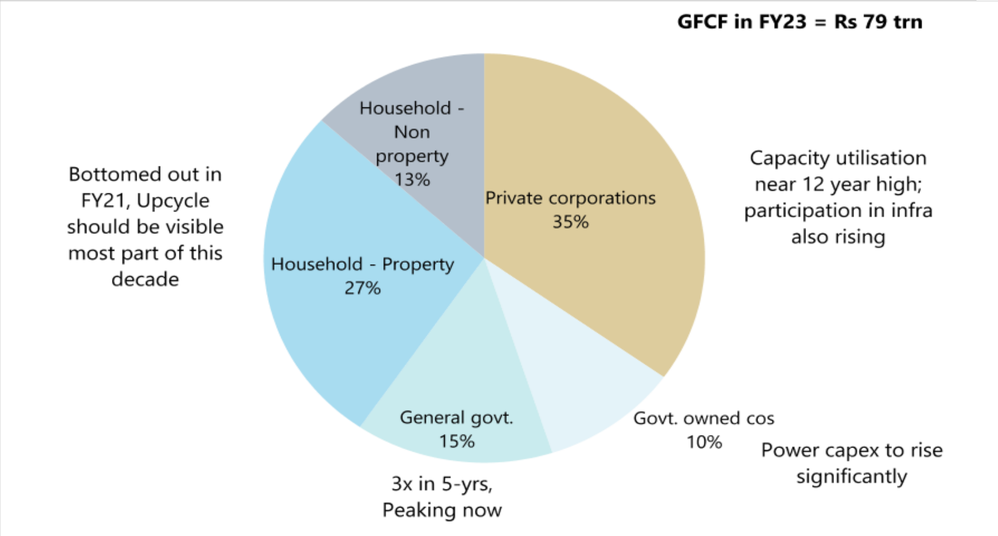


Source: CMIE, Jefferies

The government investments have been at a steady clip over the last 5+ years, however, at 15%; they are the smallest part of the investment bucket. The largest two chunks of investments are households (largely residential property, 40%) and corporate. Of these two, the former has marked a clear recovery in the last 3 years; while the corporate capex cycle has started emerging from the slowdown in the last ~12-mths.

Exhibit 75: Capex (GFCF) by institution

Private Capex and Housing the bigger chunk in India's GFCF pie will drive capex going forward as Govt Capex peaks



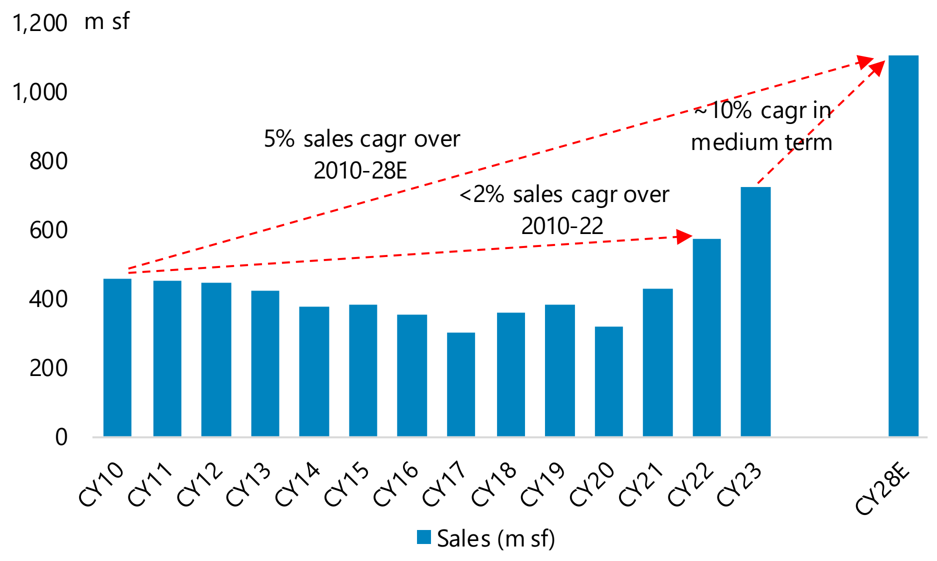
Source: MOSPI, Jefferies

Property upcycle in the 3rd year of upswing – sector now on a sustained upswing

The residential property cycle had topped out in 2013 with vols declining over the next 7 years, and pricing holding flattish during the same time. The RERA reforms and the slow property cycle gave way to a turnaround in late'20. By that time, the affordability had improved to be among the best in last two decades. Also, inventory overhang had dissipated from the system, partly as the developers saw major consolidation, curbing supply. Since 2020, the property cycle has seen a sharp turnaround in both volumes and pricing.

Exhibit 76: Top-7 city housing sales

Housing showing signs of multi-year upcycle

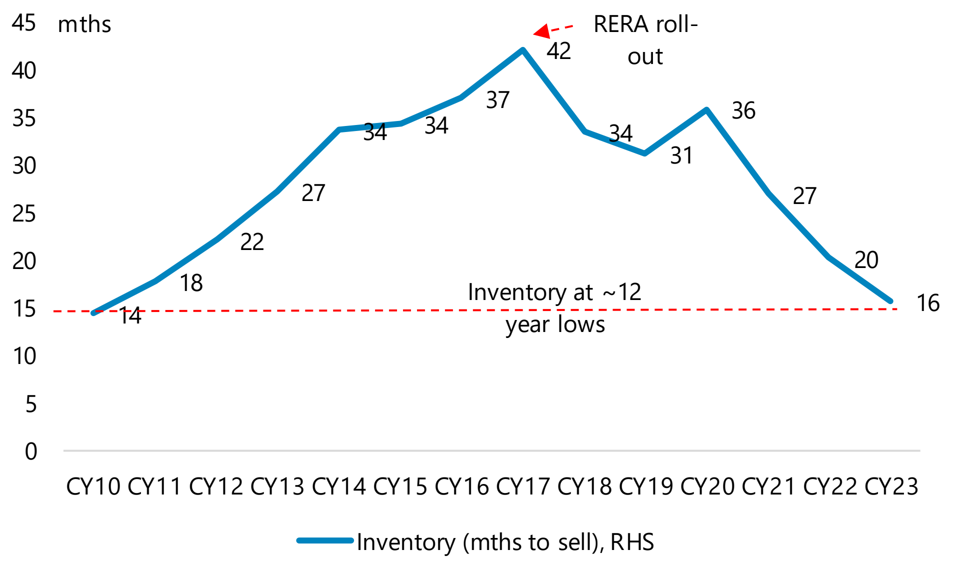


Source: Propequity, Jefferies

We believe that the property cycle still has ~5 years to go. The Indian property cycles tend to be 6-8 years long. Our analysis of the past 15-year data also suggests that even if one were to assume c.5% long term demand growth for urban housing (Top-7 cities), there is still a significant volume catchup to do over the medium term. Moreover, despite higher prices and a 200-225bps rise in mortgage rates since the COVID bottom; the affordability is still better than cycle average levels. Moreover, inventory has continued to decline over the last couple of years and is currently at ~12-year lows.

Mr Jeff White
President - India & SAARC, Cisco Systems
"We are looking to use India as a source, not just to make great product but also to make manufacturing equipment that we will use to produce our products in other countries."

Exhibit 77: Residential inventory in Top-7 cities (Tr-12 mths)

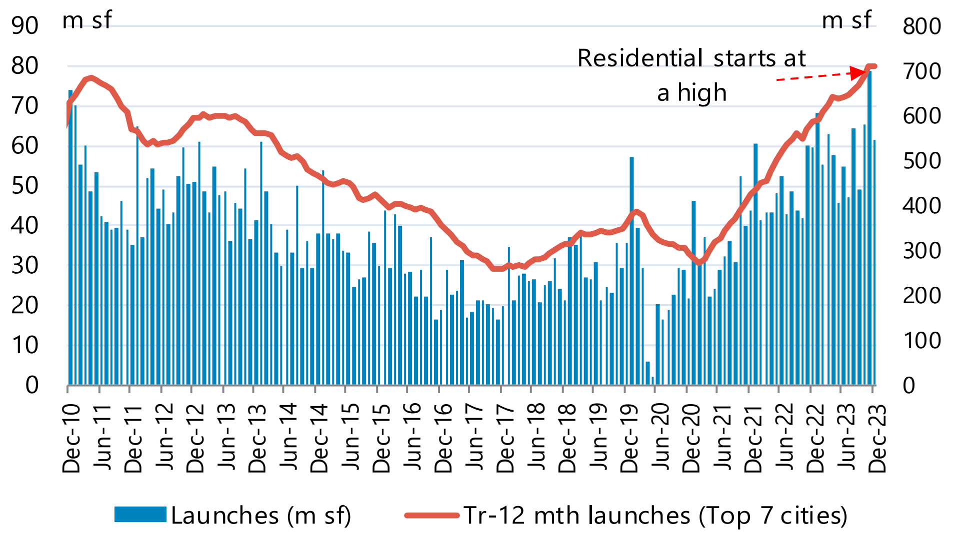


Source: Propequity, Jefferies

Housing inventory at multi year low will drive construction

The housing sector has traditionally deep linkages across the economy as it brings together multiple industries. Also, housing construction activity remains labor intensive and moreover is often the first step taken by agriculture labor outside of the farm sector, given the relatively low skills involved here. While the initial part of the housing upturn (2021) was driven by an inventory sell-down; over the last couple of years, new construction starts have risen to their highest ever levels by end 2023. Over the next few years, we believe the housing starts will translate to rising construction activity, triggering job creation and corporate capex alongside.

Exhibit 78: New residential launch trend in Top-7 cities



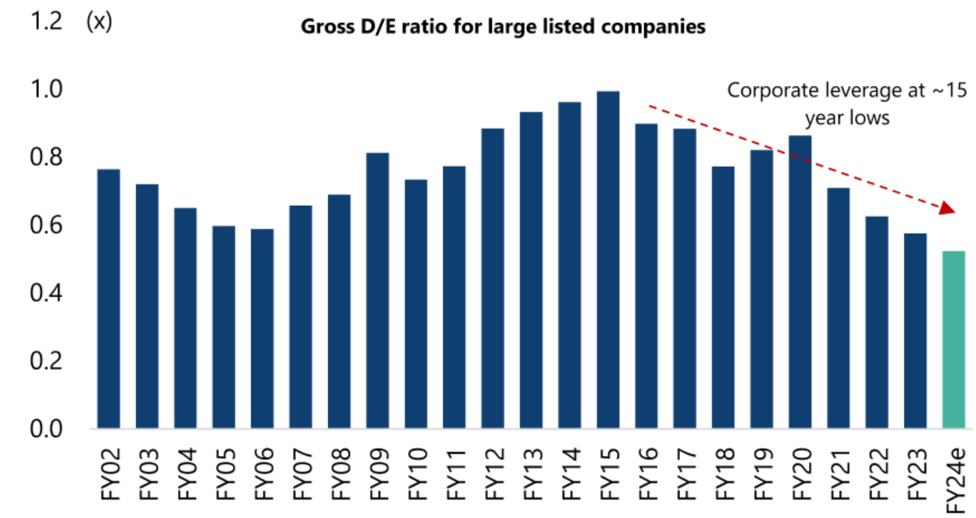
Source: Propequity, Jefferies

New residential housing starts have recently crossed a 12-yr old peak

Corporate D/E ratio at an all-time low. Several sectors at multi-year high capacity utilization

The prior corporate capex cycle had resulted in a scenario wherein high leverage was a significant concern, eventually resulting in a spike in bank bad debts. Government's enactment of insolvency laws in 2016 led to a steady cleanup of the corporate books. Alongside, through improved cash-flow discipline and steadily rising demand and profitability; the corporate balance sheets have also gone through a decade long deleveraging journey. We estimate that the debt/equity ratios in corporate India (500+ listed cos) are nearly at all-time low levels of ~0.5x. Opening up of the balance sheet headroom is critical for the corporate risk-taking ability to trigger the next capex cycle, as several cos also undertake expansion in new areas including PLI scheme driven sectors such as EVs, renewable, electronics etc.

Exhibit 79: Gross D/E ratio of large listed companies



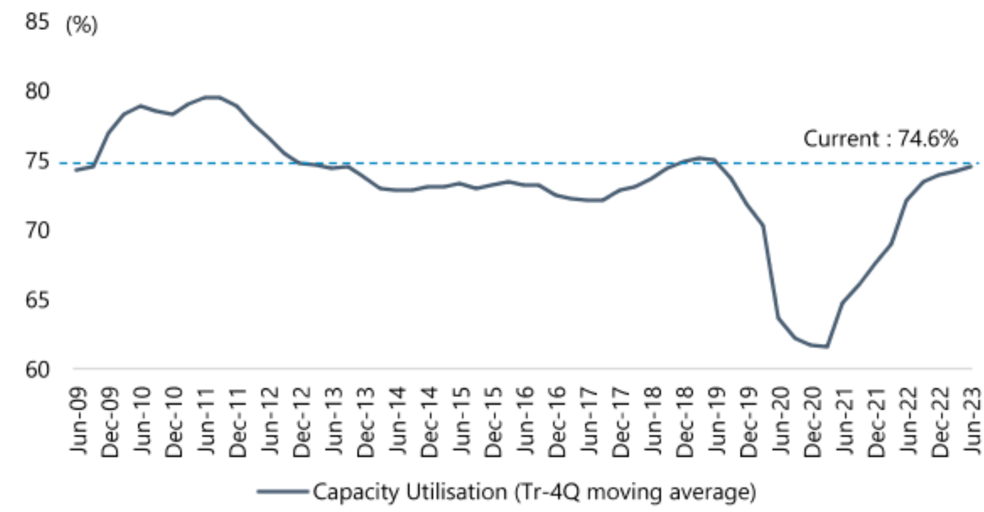
Source: Ace Equity, Jefferies, * Sample of ~600 listed companies

Corporate leverage at 15 year low, should bottom out as capex cycle revives

Corporate capex is also driven by higher capacity utilisation rates across several industries. The broader utilisation rates as measured by the RBI survey have reached near 10+ year high levels of 75%. The property cycle uptick is itself a driver of much higher demand across diverse industries in building materials and household durables chains. Rising utilisation levels (e.g. cement at 10-year high, thermal power at 81% in FY25E, 8-yr high), alongside Power capex growth at a 20% cagr over FY23-26E vs. -1% over last 5 years. Bottom-up analysis shows steel and cement projected capex over FY24-25E should average 2x the past 5 years' run-rate for both sectors.

Exhibit 80: Capacity Utilization

Capacity Utilization at previous peak

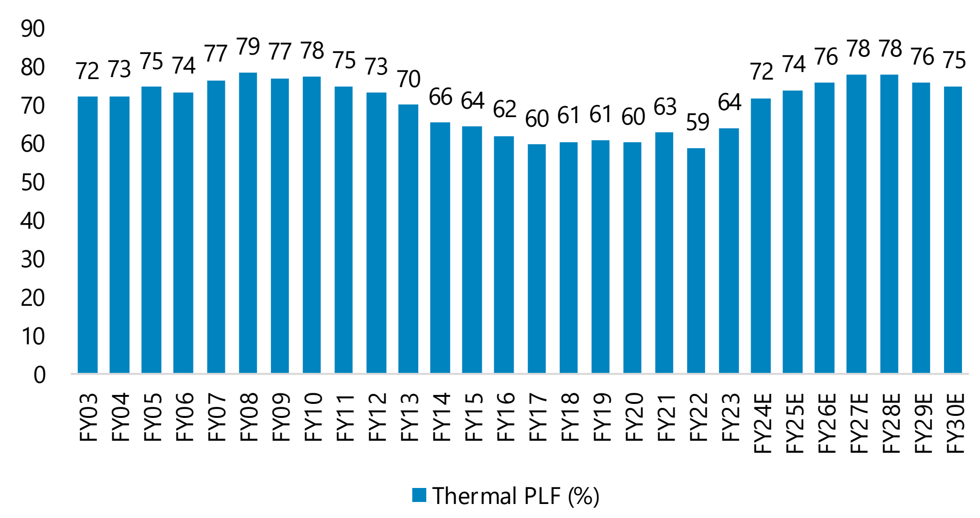


Source: CMIE, Jefferies

Supply chain diversification, alongside Production Linked Incentive (PLI) schemes, is driving optimism across industries. New project announcement data shows a surge in the chemicals industry - a key beneficiary of the supply chain split. The order flow with the cap goods majors (L&T, Siemens, ABB, Thermax) has risen by an average (Tr-4Q) of 25% YoY for the last 6 qtrs and up at a high 47% YoY in 1QFY24. Overall, our cap. goods analyst estimates a high-teen capital spending cagr over FY23-26E

Exhibit 81: Thermal power plant load factor

Thermal power load factor at all time high

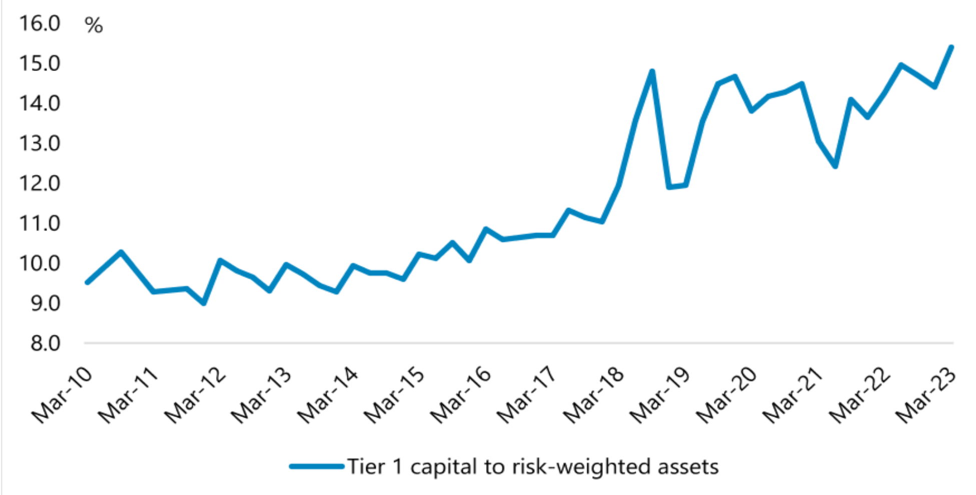


Source: Jefferies

Banking sector can support multi-year credit boom

To support the capex plans of the Indian corporate, we believe the banking system is fairly well capitalized. Bad loan ratios have declined to decade low ratios. Alongside, the provisioning for bad loans has meant that Net Non-Performing Loans in the system are quite low at ~1%. Banking Tier-1 capital ratios are at a high 15.7%. Part of the high banking system capitalisation is due to government's injection of Rs3.0Trn as equity in the public sector banks during 2017-20. Meanwhile, the private banks in India have maintained strong capitalisation and good profitability over the cycle.

Exhibit 82: Banks Capital Adequacy Ratio

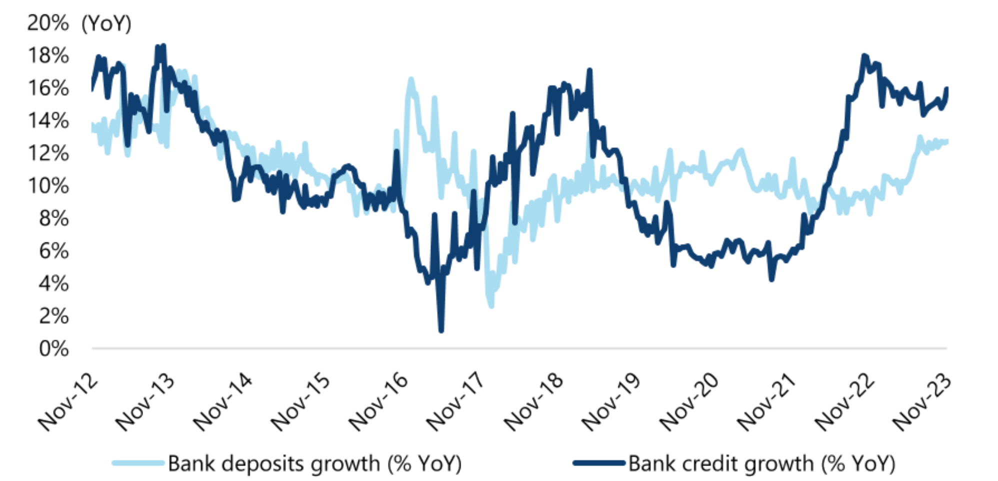


Source: IMF, Jefferies

Banks well poised to lead India's capex cycle

Loan growth in the banks is trending near decade highs of 15% YoY. This compares with deposit growth of 12%. RBI data shows that the loan approvals for new capex projects are surging recently, and as the projects enter the execution phase, loan demand should rise. High capitalisation levels provide headroom for the banks to fund the anticipated strong loan demand levels. Overall, with strong corporate balance sheets, as well as banks having adequate capitalisation, we believe corporate India is well funded for the capex cycle.

Exhibit 83: Bank Deposit and Credit Growth



Source: RBI, Jefferies

Both Credit and Deposit growth healthy in Indian banks

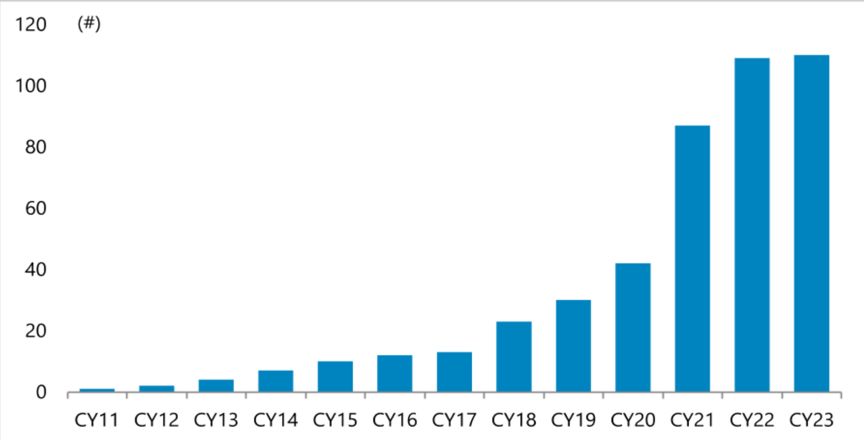
Vibrant start-up eco system driving innovation

The Indian Internet economy gave birth to over 100 unicorns over the last decade, making it the third largest unicorn hub, behind only the US and China. These unicorns operate across diverse industries including SAAS, e-commerce, fintech, gaming, edtech, D2C, logistics, mobility, Web3, healthtech etc. Together they have raised a cumulative funding of ~US$100bn and command a valuation of >US$350bn. India's unicorn birth rate has been much higher than other countries. While India saw a 5x growth in the number of unicorns over CY18-22, China and US saw a lower 2-3x growth.

India's unicorn birth rate has been much higher than other countries; while India saw a 5x growth in the number of unicorns over CY18-22,

The Indian start-up ecosystem is seeing exponential growth, evident from the surge in new start-up registrations. In 2016 there were only <500 start-ups registered with the commerce ministry. However, the new registrations have steadily increased over the years with 2022 alone seeing 27k new registrations. Currently, there are over >110k registered startups in India which operate across 56 diverse sectors including IT, healthcare, agriculture, education etc.

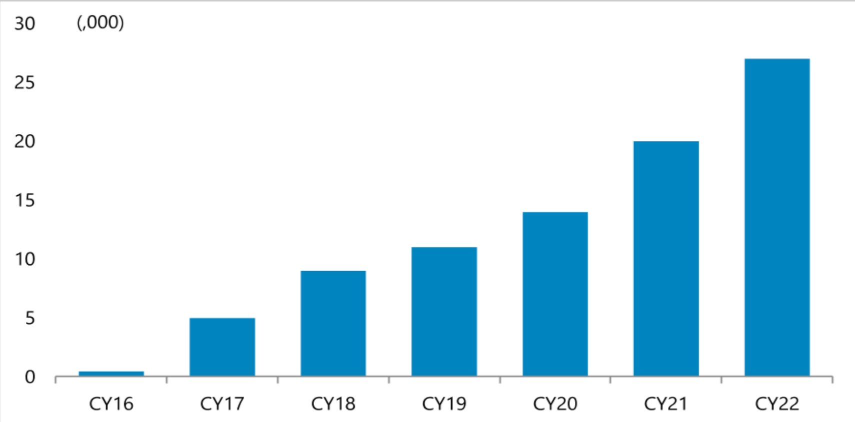
Exhibit 84: Trend in Indian unicorn count (cumulative)



Source: Venture Intelligence, Jefferies

India has over 100 unicorns which together command a valuation of >US$350bn

Exhibit 85: Trend in new start-up registrations with Ministry of Commerce



Source: Government, Bain analysis, Jefferies; Note: An entity is considered as a startup for up to 10 years from registration and if the turnover of entity hasn't exceeded Rs1bn for any year

Currently, there are over >110k registered startups in India which operate across 56 diverse sectors

Exhibit 86: List of Indian unicorns along with the industry vertical they operate in

Company	Vertical	Valuation (US$bn)
SAAS		
Fractal	Analytics	1.0
Mu Sigma	Analytics	1.5
Postman	API Development & Testing	5.6
Icertis	Contract Management	5.0
Uniphore Software	Conversational Service Automation	2.5
Leadsquared	CRM	1.0
Freshworks	CRM	NA
Druva Software	Data Management	2.0
Innovaccer	Healthcare Data Analytics	3.2
DarwinBox	HR	1.0
MindTickle	HR	1.2
Amagi Media Labs	Local Ads Targeting	1.0
Hasura	Programming Tools	1.0
Zenoti	Salon & Spa Management	1.5
BroswerStack	Software Testing	4.0
ChargeBee	Subscription Billing Solution	3.5
Citius Tech	IT Services - Healthcare	1.1
Infoedge	IT Services	NA
E-Commerce		
PayTM Mall	Horizontal	NA
Shop Clues	Horizontal	1.1
Snapdeal	Horizontal	2.4
Flipkart	Horizontal	37.6
FirstCry	Baby Care Products	1.7
Purplle	Personal Care & Products	1.1
Nykaa	Personal Care & Products	NA
DealShare	Social Commerce	1.7
Meesho	Social Commerce	4.9
Quikr	Marketplace - Classifieds	1.5
Apna.co	Marketplace - Jobs	1.1
Zetwerk	Marketplace	2.5
Udaan	B2B E-Commerce	3.1
Infra.Market	B2B E-Commerce	2.5
Moglix	B2B - Industrial Equipment	2.6
MakeMyTrip	E-Commerce -Travel	2.8
India Mart	E-Commerce	NA
MapmyIndia	IT	NA
EaseMyTrip	E-Commerce - Travel	NA
Healthtech		
Molbio Diagniostics	Healthtech - Diagnostis	1.5
Pristyn Care	Healthcare - Elective Surgery Serviced	1.4
CureFit	Healthtech - Welness	1.5
Pharmeasy	Online Pharmacy	2.8
Gaming, Content and Media		
InMobi	Adtech - Mobile Ads	1.0
Glance InMobi	Content - Lockscreen	2.0
Dailyhunt	Content - News	5.0
Gupshup	Conversational Messaging	1.4
Games 24x7	Gaming	2.5
Mobile Premier League	Gaming	2.3
Dream 11	Gaming	8.0
Sharechat	Social Media	4.9
Hike	Social Media - Messaging	1.4
Logistics Services		
XpressBees Logistics	Logistics Services	1.2
Elastic Run	Logistics Services	1.4
BlackBuck	Logistics Services	1.0
Delhivery	Logistics Services	NA
Rivigo	Logistics Services - Trucks	1.1
Shiprocket	Aggregator - Logistics Servies	1.2

Company	Vertical	Valuation (US$bn)
Fintech		
Zeta	API Banking Products	1.5
BillDesk	B2B Payments	1.6
Upstock	Brokerage	3.4
Groww	Brokerage & Mutual Funds	3.0
OneCard	Credit Cards	1.3
Slice	Credit Cards	1.0
Acko	General Insurance	1.1
Digit	General Insurance	4.0
Policy Bazaar	Insurance	NA
Oxyzo Financial Services	Marketplace SME Lending	1.0
Open Financial Technologies	Neo Bank	1.0
RazorPay	Payment Gateway	7.5
BharatPe	Paymments	2.8
PhonePe	Paymments	12.0
CRED	Payments & Credit Card Rewards	6.4
PayTM	Payments & Wallet	NA
Pine Labs	PoS Payment Solutions	5.0
CredAvenue	Marketplace - lending	1.3
Five Star Business Finance	NBFC	1.4
OfBusiness	NBFC - SME Loans	5.0
Edtech		
PhysicsWallah	Edtech	1.1
LEAD School	Edtech	1.1
Vedantu	Edtech	1.0
Unacademy	Edtech	3.4
BYJUS	Edtech	22.0
Eruditus	Edtech	3.2
upGrad	Edtech - Higher Studies	2.3
D2C		
Licious	D2C - Meat	1.3
Mamaearth	D2C - Personal Care	NA
Lenskart	Eyewear	4.5
Rebel Foods	Foodtech - Cloud Kitchen	1.4
The Good Glamm Group	E-Commerce	1.2
Global Bees	Aggregator - Consumer Brands	1.1
Mensa Brands	Aggregator - Consumer Brands	1.2
Mobility		
Ola Electric	Mobility	5.0
Ola Cabs	Mobility - Ride Aggregator	7.3
Spinny	Marketplace - Ued Cars	1.8
Cardekho	Marketplace - Ued Cars	1.2
Droom	Marketplace - Ued Cars	1.2
Cars24	Marketplace - Ued Cars	NA
Web3		
CoinSwitch	CryptoCurrency Exchange	1.9
CoinDCX	CryptoCurrency Exchange	2.2
Polygon	Web3 Infrastructure - Dapps	10.0
Hyperlocal		
Blinkit	Groceries	NA
BigBasket	Groceries	2.0
Swiggy	Foodtech	10.7
Zomato	Foodtech	13.0
Zepto	FoodTech	1.4
Urban Company	Marketplace - Handyman Services	2.1
PropTech		
LivSpace	Interor esign - Kitchen & Home	1.2
No Broker	Proptech - Classifieds	1.0
OYO Rooms	Proptech - Hotel Booking	9.6

Source: Venture Intelligence, Jefferies

Several structural drivers supporting the growth of Indian Internet economy

High smartphone penetration, low data costs, wide adoption of digital payments and an efficient delivery infrastructure have been fueling the growth of Indian Internet sector

The growth of the Indian Internet economy is supported by four key structural drivers: (1) data affordability, (2) high smartphone penetration, (3) robust digital payment infrastructure, and (4) an efficient logistics infrastructure.

The data costs in India are among the lowest in the world at <US$0.2/GB as tech advancements and competitive intensity drove a 95% decline in data costs over the last 8 years. This resulted in improved data affordability which supported a 4x growth in data subscribers to >800mn. The average data consumption per subscriber grew 6x over the last 6 years to 17GB/month, and higher than even China.

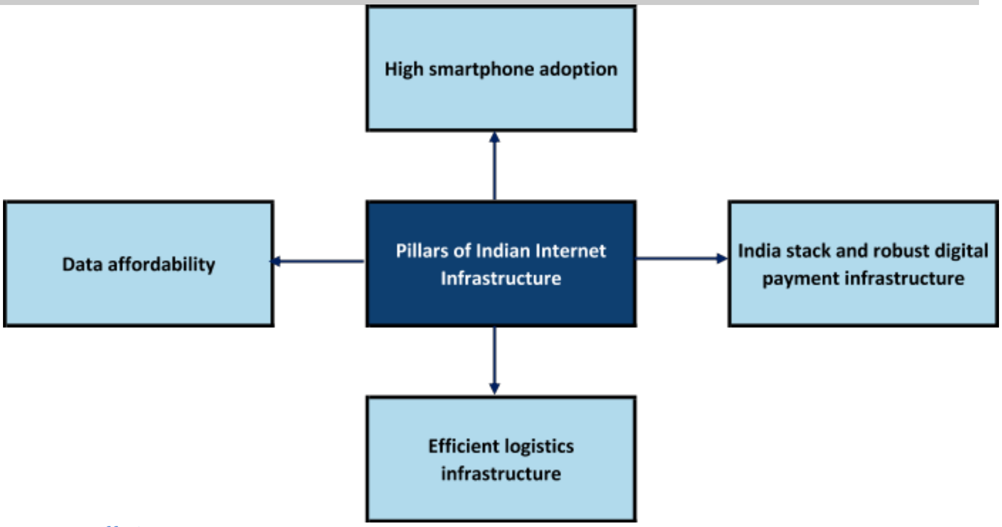
India has a large 500mn smartphone user base, only behind China. ~60% of all mobile devices in India are smartphones with the share seeing a steady increase.

Introduction of UPI made digital payments quick, convenient and reliable, which in turn drove wider adoption. UPI transaction volumes have seen an exponential rise over the years. Monthly transaction volumes have crossed the 10bn milestone.

E-commerce logistics costs have also reduced steadily over the years, supported by the use of technology coupled with scale efficiencies. E-commerce shipments have been growing at a sharp >30% CAGR over the last five years, in-line with the industry GMV.

Data costs in India are among the lowest in the world at <US$0.2/GB which has driven data consumption to 17GB/month

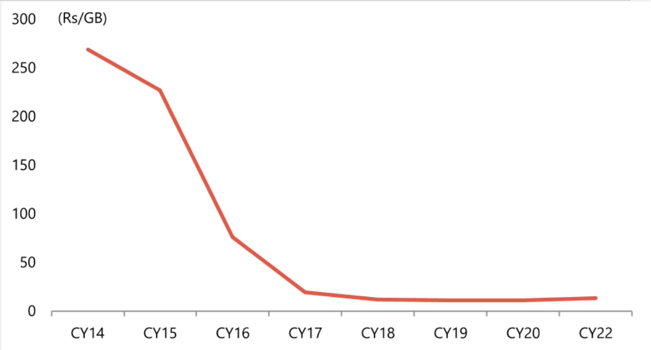
Exhibit 87: Pillars of Indian Internet Infrastructure



Source: Jefferies

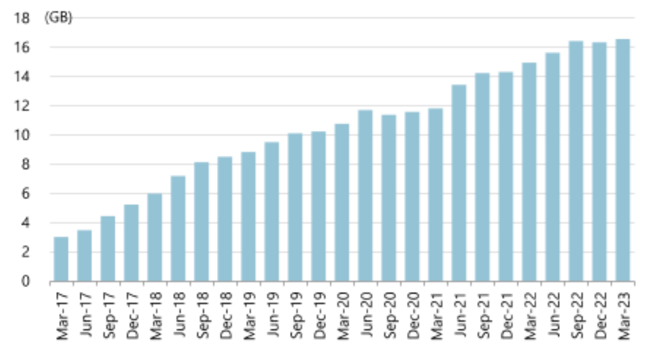
Data affordability drove data adoption and usage volumes even ahead of China

Exhibit 88: Trend in cost of data (Rs/GB)



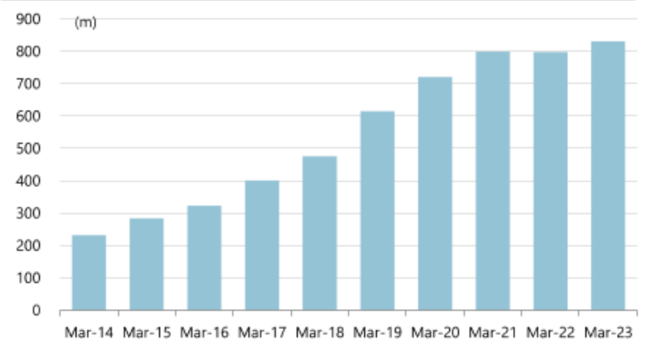
Source: Data costs have come down sharply to ~US$0.2GB per month

Exhibit 90: Trend in average monthly data usage per subscriber (GB)



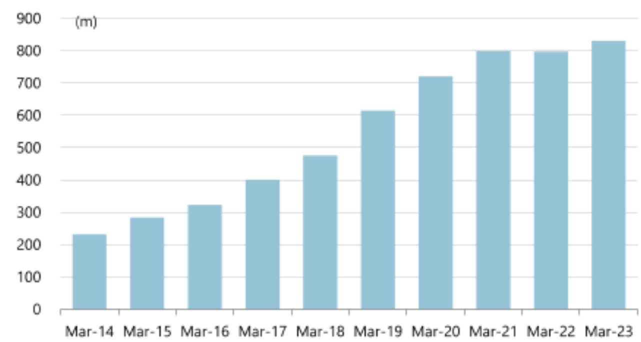
Source: TRAI, Jefferies

Exhibit 89: Trend in data subscribers (m)



Source: TRAI, Jefferies

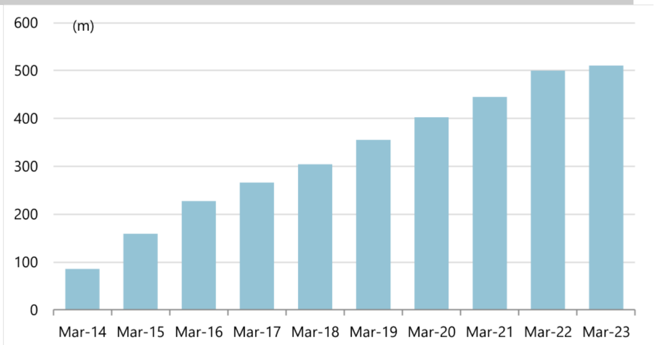
Exhibit 91: Trend in data subscribers (m)



Source: TRAI, Jefferies

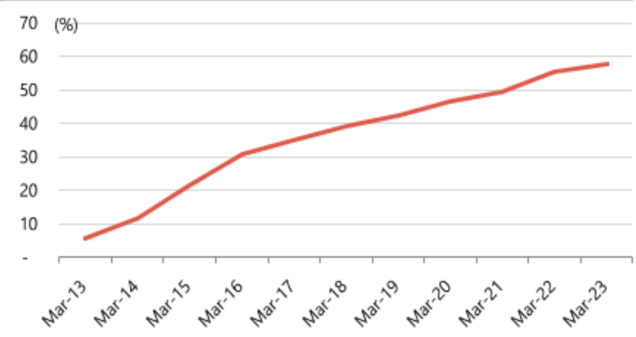
Smartphone count grew 13x in 10 years and makes up >50% share of mobile devices

Exhibit 92: Trend in smartphone user count (m)



Source: TRAI, Jefferies

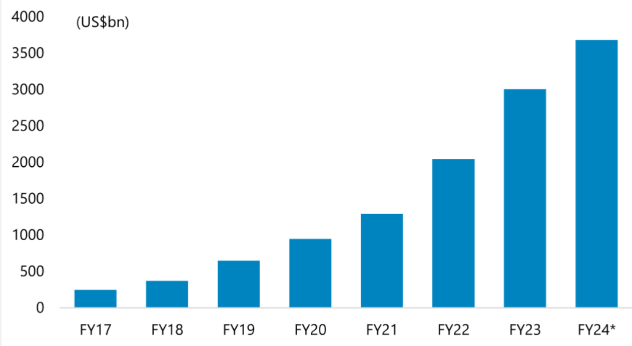
Exhibit 93: Share of smartphones



Source: TRAI, Jefferies

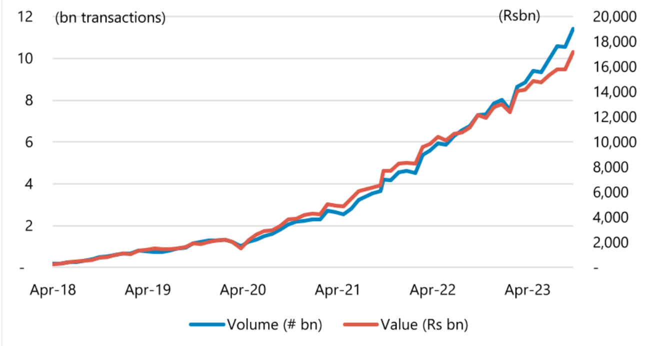
UPI made quick, reliable, convenient digital payments possible

Exhibit 94: Trend in retail digital payments in India



Source: RBI, Jefferies (FY24 numbers annualized basis latest data | Others includes AePS, ABPS, NACH, NETC etc.)

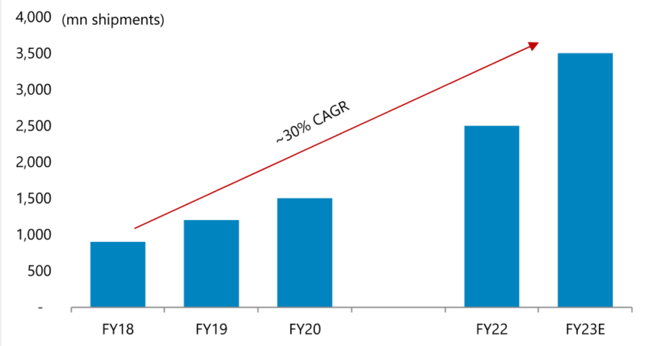
Exhibit 95: UPI transactions by volume and value



Source: NPCI, Jefferies

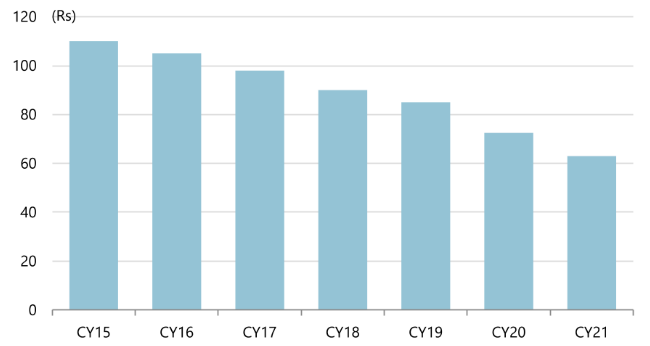
Use of tech and rising scale driving delivery costs lower

Exhibit 96: Volume of e-commerce shipments in India



Source: Delhivery, Jefferies

Exhibit 97: Average delivery cost per eCommerce parcel



Source: RedSeer, Blume Ventures, Jefferies

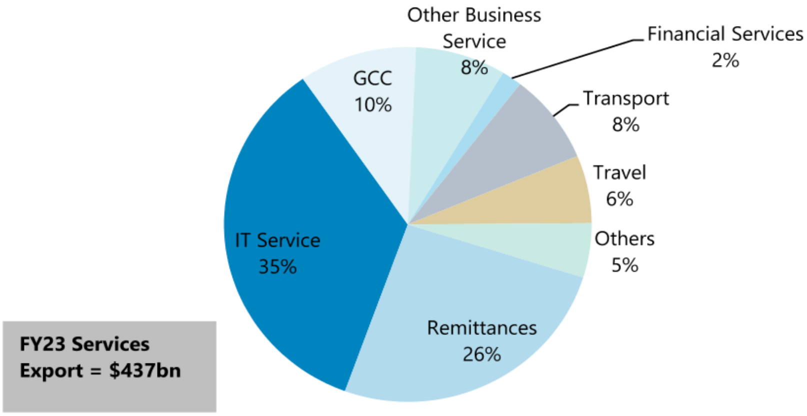
India now becoming a services exports hub

Services export (incl remittances) now accounts for nearly US$450bn/year. Several large global organizations have 10-20% of their employees based in India including cos like JP Morgan, Intel, NTT etc. Superior digital infra, young & well-educated human resources should drive this segment to keep growing.

Services exports (including remittances) now accounts for ~US$450bn/year

India's service export including remittances has grown by 10% CAGR over the last 5 years, double the pace of India's Nominal GDP which has grown by 5% in USD terms. India's services exports now account for $437bn compared to $264bn 5 years ago.

Exhibit 98: India's services Export breakup

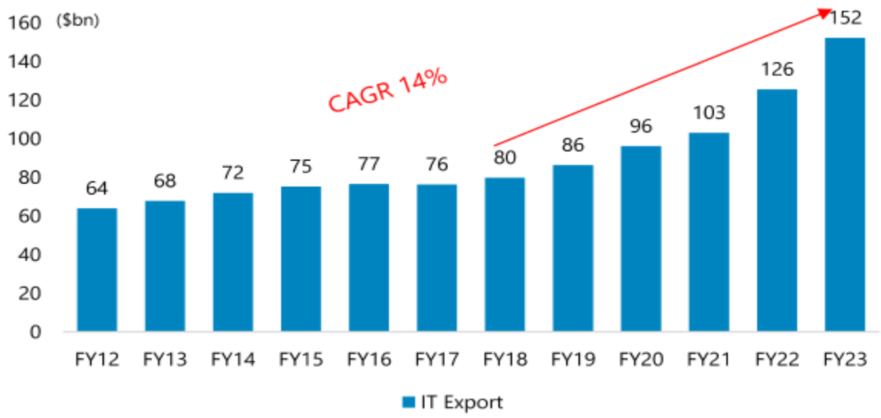


Source: MOSPI, Jefferies

IT Services and GCC contributes 45% to India's Service export Pie including remittances

IT services and Global Capability Centers (GCC) are the two main levers of services export growth in India. IT services capability, which is more matured and accounts for 35% of the total service export, grew by 13.7% CAGR over the last 5 years while GCC which accounts for 10% of the services export grew at a faster pace with 16.5% CAGR.

Exhibit 99: IT Export over past 10yrs



Source: BoP, Jefferies

IT services exports is well known story with majors like TCS, Infosys etc becoming big on the back of that theme

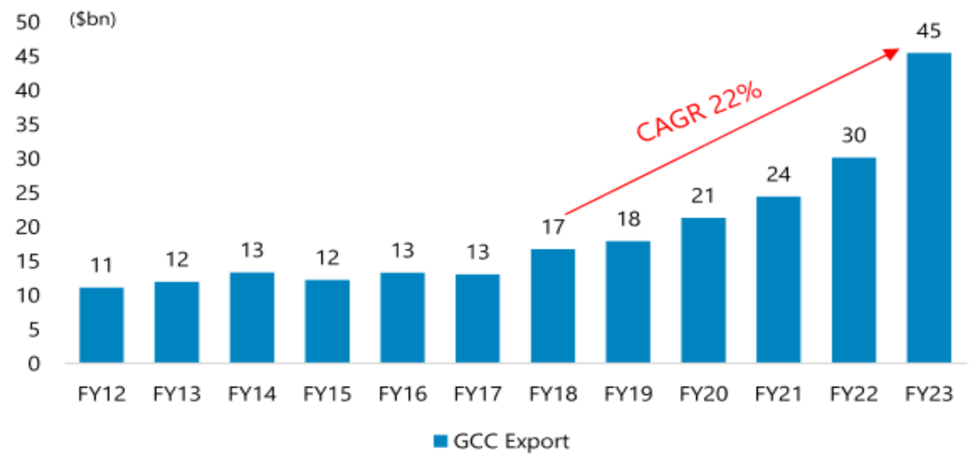
GCC is a lesser known phenomenon as it refers inhouse offshore development / back-office support centres in India by global majors such as Microsoft, Google, JP Morgan etc. Employees are on the payrolls of the companies but based out of India but supporting business operations in other high cost countries.

The success of this sector in India has had a multiplier impact on the Indian economy as this workforce is also a large consumer of goods and services and contributes to savings and investments in the Indian economy. Superior talent availability, digital skills & presence of a strong industry ecosystem are some of the key drivers IT services and GCC growth in India.

Remittances into India, though technically not part service export has also been growing at 10.1% CAGR over the last 5 years to $113bn now in FY23 providing cushion to India's BoP.

Travel services is back to pre-covid levels while transport services, which contributes 8% to the services export, has grown by 15% CAGR over the last 5 years.

Exhibit 100: Export from GCC over past 10yrs



Source: BoP, Jefferies

GCC grew at robust 22% CAGR, growth accelerated post covid

Several large global organisations have 10-20% of their employees based in India

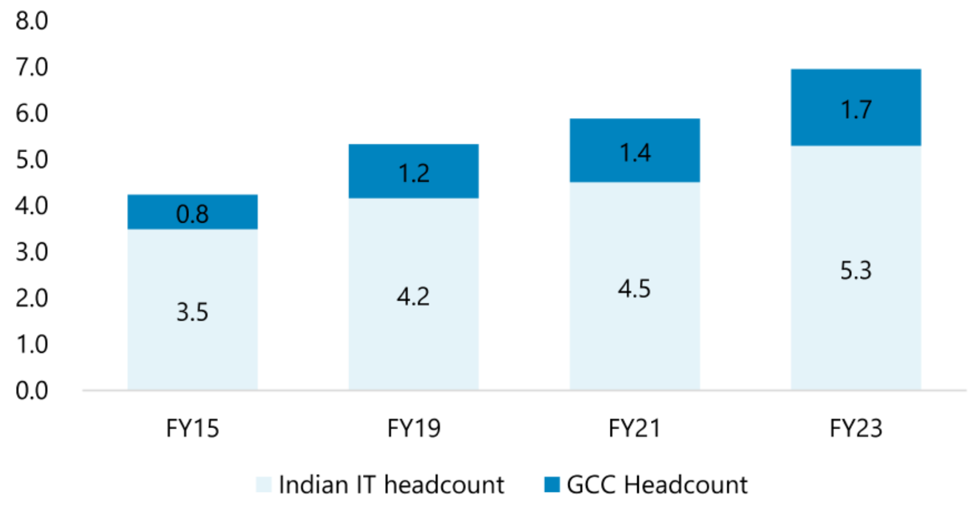
Global Capability Center (GCC) have been the growth engine for services export in India. Though traditional IT services still maintain the lion's share in India's service exports, GCC has been growing at much faster pace and now accounts for about 1/3rd of IT services export from about 1/5th 5 years ago.

GCCs headcount growth in India has been exponential over the last decade with now almost 10-20% of employees of many global companies now in India.

GCC has been growing both in numbers as well as in value of service provided. About a decade ago, GCC were established more as a cost arbitrage scaling up to provide delivery excellence and innovation. As of FY15, there were around 1000 GCC installed with a talent pool of 0.8mn generating revenue of US$20bn. Since then, GCC has scaled up in value proposition it provides with more inclusive roles providing end-to-end solutions becoming more indispensable part of the ecosystem for global companies. As of FY23 the number of GCC units jumped to ~1600 with a talent pool of 1.7mn generating $46bn in revenues.

India has been able to position and deliver itself as a hub of IT & allied services helped by India's demographic, ~2.5mn STEM graduate supply and high work ethics coupled with superior digital infrastructure. Several global companies now have ~10-20% of their employees based in India providing end-to-end solutions.

Exhibit 101: Headcount in IT services and GCC

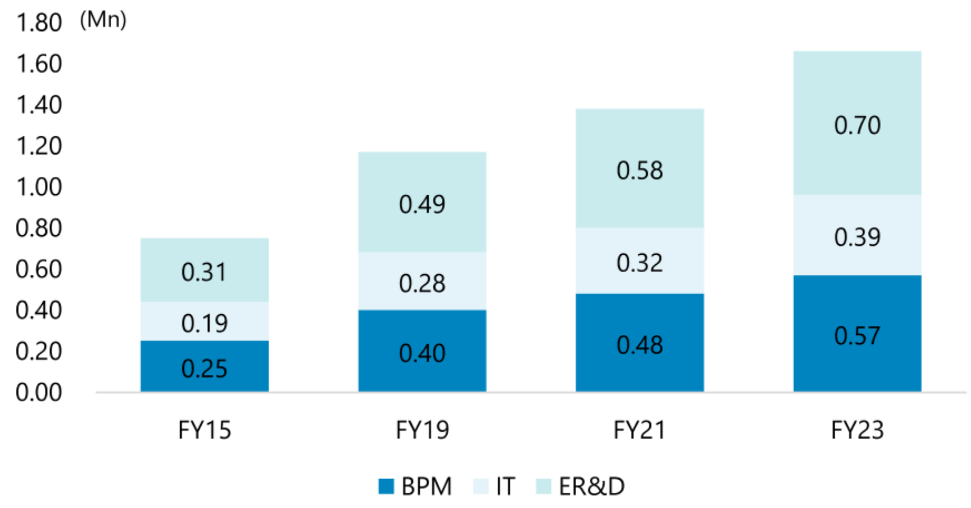


Source: Nasscom, Jefferies

IT services and GCC with combined headcount of 6.0mn is a large part of Indian formal economy

Over time, the quality of work in these GCC has evolved from data entry to data processing to now more value additive profiles. This can be seen in the growth of Employee head count in ER&D profiles which has more than doubled since FY15.

Exhibit 102: Breakup of headcount within GCC



Source: Nasscom, Jefferies

Higher value addition profiles within GCC growing the fastest

Superior digital infra, hard-working well educated human resources would imply that this segment will keep growing

We believe that Indian IT & allied services export with now proven capabilities is best positioned to propel growth in its services export to the next level. India's structural tailwind around a large hard-working well educated employable base should push India's case further towards becoming the 'global capital' for technology talent.

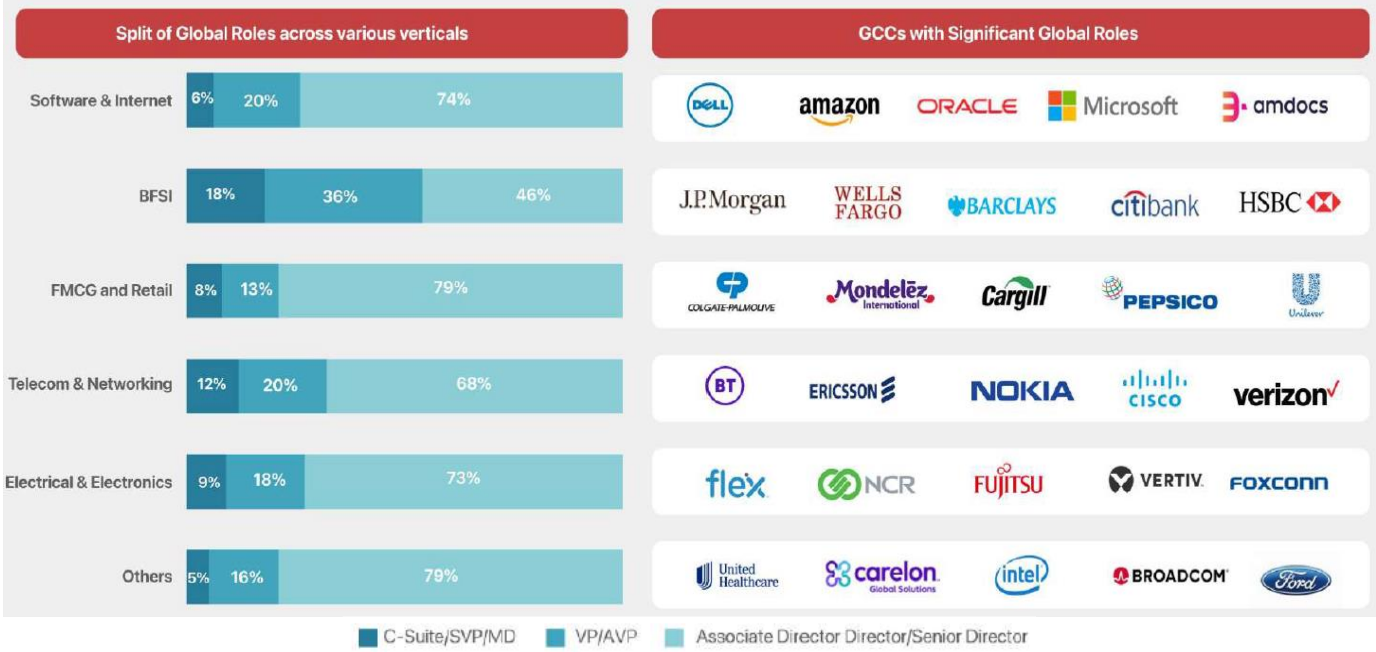
GCCs are getting more integrated with higher value proposition making global firms much more depend on GCCs

In the next decade, the share of transformational and more complex, expertise-based services will enable Indian IT services sector to grow faster. The Indian workforce is expected to solve the more complex problems and manage digital front-to-back-end functions of global corporations. It will help India transform from a technology back-office to a hybrid workforce helping the digital transformation wave of large corporate.

We believe Indian companies will look to grab opportunities on more value based services such as consulting, experience design, full stack digital engineering, product development the shift which has already started with ER&D's share in GCC's total revenue up 4ppt since FY15 to 56% ($26bn) in FY23.

Indian IT services companies should benefit from significant value creation enabled by accelerating on multiple levers. By creating new segments (e.g., Metaverse, 5G/xG) Powering market-leading growth in emerging segments (Cybersecurity, Digital and platform engineering, industrializing Automation and AI, Cloud managed services, and transforming their value proposition shifts from largely "run and operate" to also include "advice, build and implement" with the ability to provide end-to-end solutions.

Exhibit 103: GCC with significant Global Roles

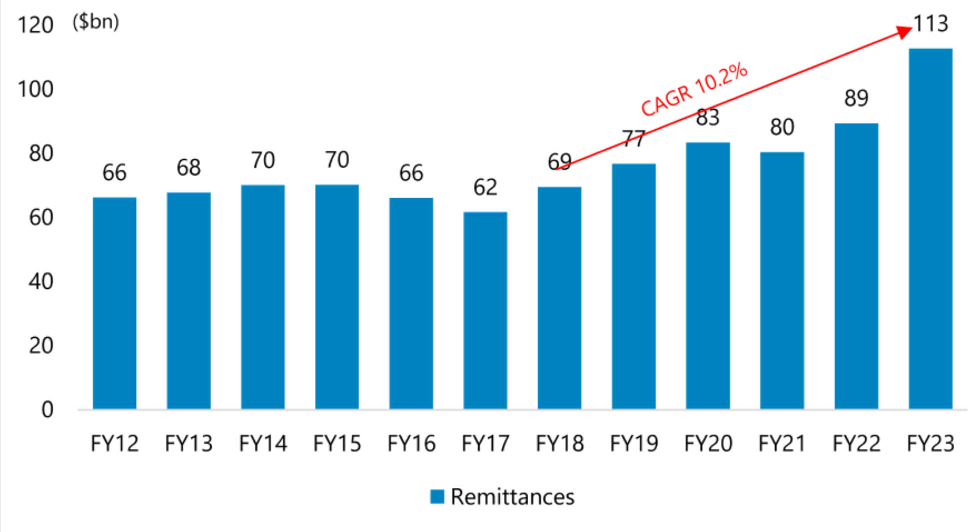


Source: Nasscom, Jefferies

Remittances are a large and growing pool of FX inflows

India is also the world's largest receiver of remittances, which crossed US$100bn for the first time in FY23. Remittances have been growing at a 10% cagr over the past 5-years and provide a strong addition to the overall service-export / Current Account Deficit situation.

Exhibit 104: Remittances to India

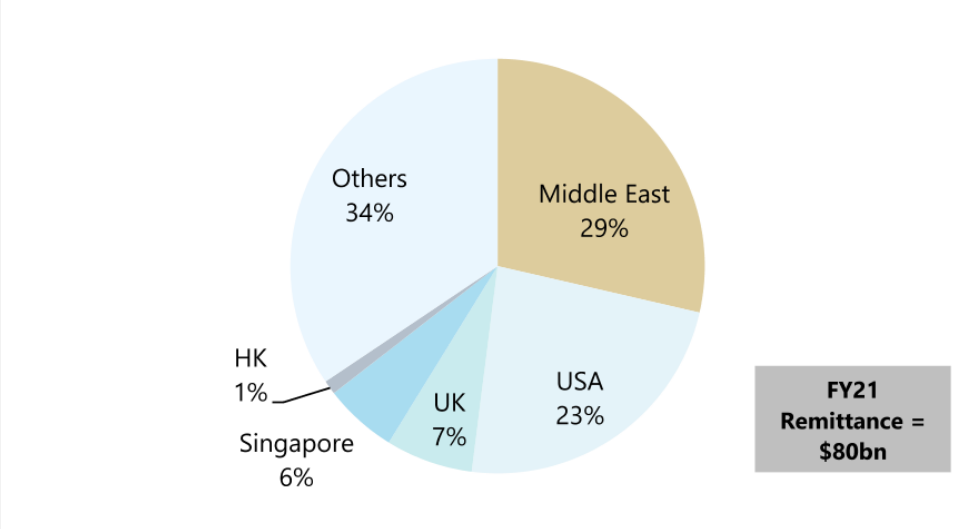


Source: RBI, Jefferies

Remittances back to India has grown significantly over the past 5 years

India's remittances are driven by the diaspora spread across the world. The two main drivers of remittances are the technology workers primarily working in the USA, UK and other developed nations. The other major source of remittance into India are the workers in the O&G rich Middle Eastern nations where a large Indian labor-force is deployed into multi jobs across the segments. Given India's favorable demographics, we believe its status as an exporter of talent to the world is likely to continue over the long term; thus aiding in the remittance inflow growth.

Exhibit 105: Inward remittance to India by source country (FY21)



Source: RBI, Jefferies

Middle east and US contributes to the biggest inward remittances to India

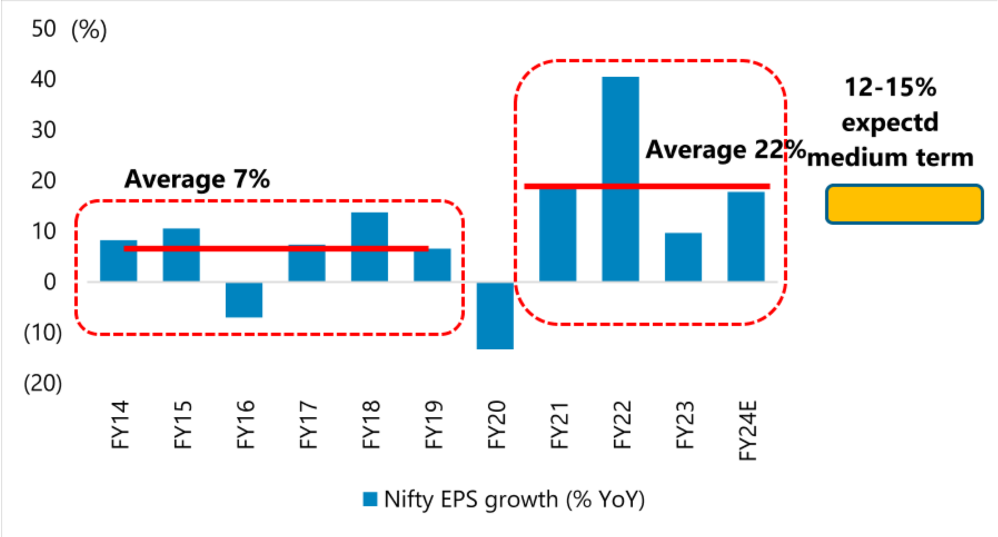
Strong earnings, consistent flows support valuations

Absolute valuations for India appear high at 20x PE, however, the valuations have to be seen in context of; (a) corporate earnings & discipline; (b) regional valuations and (c) flows. We believe earnings growth for the Indian markets should stay in the 12-15% range over the medium term, which should help to temper Indian valuations on PEG basis. Moreover, Indian corporate RoEs have risen to decadal highs and are trending at 15%, which shows disciplined spending. The valuations, as compared to regional benchmarks (MSCI AxJ) are also much closer to long term average, with room to rerate. Moreover, the steady clip of domestic inflows into mutual funds has served to deepen the markets, making them less vulnerable to sharp foreign flow deviations. This also reduces the volatility over the longer run, in-turn calling for sustainably higher PEs.

Expect corporate earnings growth of 12-15% cagr over the next decade.

Corporate profitability is enjoying a surge post COVID, with earnings for the benchmark Nifty growing at an 21% cagr over FY20-24E. The earnings are also undergoing a large cyclical uptrend, in our view, with the overall corporate profitability to GDP ratio of 5.8%, still below the previous peak.

Exhibit 106: Nifty EPS growth trend



Source: Bloomberg, Jefferies

NIFTY's EPS growth has shown strong performance in the last 5 years averaging 22%. We expect 12-15% EPS growth in medium term

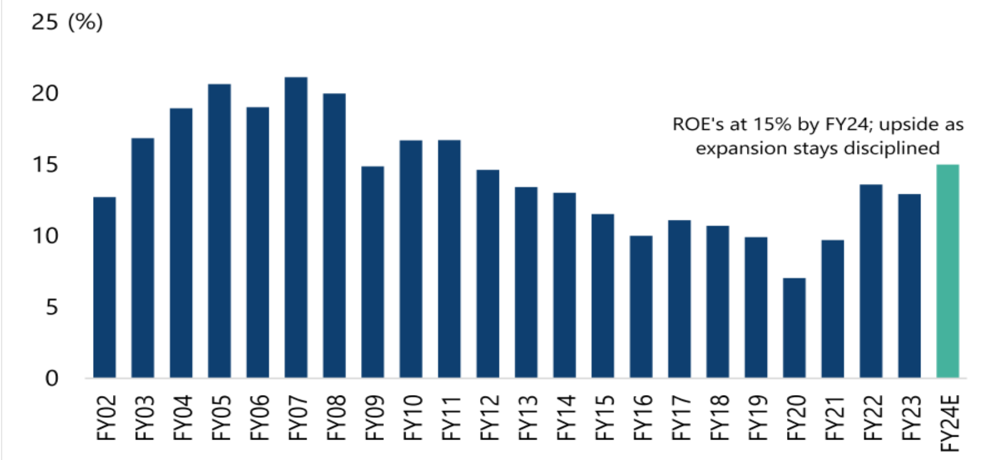
As India's Nominal GDP enjoys a growth of 10-11% through the decade; we believe it should support an earnings growth of at least a few percentage points higher. Alongside rising nominal GDP / income levels. several drivers of corporate earnings make us positive on a 12-15% earnings cagr through the decade. These include: (a) the largest earnings contributor i.e. the banking sector's strong bank balance sheets combined with likely mid-teens loan growth; (b) industrials and property cos enjoying the benefits of a cyclical upsurge; (c) energy / utility cos also benefiting on the margin from higher industrials demand; (d) consumer discretionary spending supported by the strong domestic economy.

NIFTY's EPS growth of 12-15% EPS driven by high GDP growth, cyclical upturn, strong balance sheets

RoE focused corporate sector a key positive

Corporate India has also demonstrated significant balance sheet restraint over the last decade, including so far in the recent capex uptick. Net debt/equity has declined to cyclical / all-time lows as companies have favored de-leveraging over built-up of excess capacity. The RoE's for Indian corporate, despite profitability yet to peak, is already in mid-teens and likely to climb further, in our view.

Exhibit 107: ROE of listed companies



Source: Ace Equity, Jefferies

ROE's of companies have also started to improve significantly

India offers exposure not only to a well-diversified sector base, but also with some high quality companies which are reasonably liquid. We believe that some of the best managed, capital efficient companies across banks, NBFCs, consumer staples, discretionary, autos, telecom, energy, IT outsourcing can be found in India as below.

Mr Glenn Hubbard
Dean, Columbia Business School
"We applaud the Indian government for taking on the challenge of providing broadband connectivity to 250,000 gram panchayats across the country."

Exhibit 108: BSE Large Cap index stocks with ROE more than 15%

Name	Sector	ADTO ($mn)	Market Cap ($bn)	FY23 ROE (%)
Life Insurance Corp of India	Financials	14.8	54.4	144.2
Britannia Industries Ltd	Consumer Staples	18.7	14.4	76.2
Coal India Ltd	Energy	52.7	26.4	56.1
Tata Consultancy Services Ltd	Information Technology	84.9	155.7	46.4
Hindustan Zinc Ltd	Materials	2.1	16.5	44.5
Adani Power Ltd	Utilities	76.1	25.0	44.4
Marico Ltd	Consumer Staples	9.4	8.4	36.4
Infosys Ltd	Information Technology	93.8	72.7	32.0
Titan Co Ltd	Consumer Discretionary	35.6	37.9	30.7
ITC Ltd	Consumer Staples	50.6	67.9	29.2
LTIMindtree Ltd	Information Technology	21.3	19.6	28.6
Asian Paints Ltd	Materials	34.5	37.3	27.6
Hindustan Aeronautics Ltd	Industrials	43.0	20.6	27.2
SBI Cards & Payment Services Ltd	Financials	15.0	8.6	25.7
HDFC Asset Management Co Ltd	Financials	19.5	7.8	24.5
Bajaj Finance Ltd	Financials	94.2	54.7	23.5
HCL Technologies Ltd	Information Technology	35.3	43.1	23.3
SRF Ltd	Materials	10.7	8.8	22.9
Bharat Electronics Ltd	Industrials	25.6	13.4	22.8
Dr Reddy's Laboratories Ltd	Health Care	26.8	11.6	21.4
Eicher Motors Ltd	Consumer Discretionary	25.5	13.6	21.1
United Spirits Ltd	Consumer Staples	12.1	9.4	20.7
Bajaj Auto Ltd	Consumer Discretionary	32.3	21.4	20.5
Berger Paints India Ltd	Materials	9.0	8.3	20.4
Cholamandalam Investment and Finance Co Ltd	Financials	28.9	11.5	20.4
Adani Total Gas Ltd	Utilities	15.1	11.6	20.4
Hindustan Unilever Ltd	Consumer Staples	48.9	72.6	20.4
Vedanta Ltd	Materials	27.8	10.9	20.2
Mahindra & Mahindra Ltd	Consumer Discretionary	49.3	25.3	19.9
Dabur India Ltd	Consumer Staples	10.9	11.8	19.7
Adani Green Energy Ltd	Utilities	32.9	25.7	19.6
Power Grid Corp of India Ltd	Utilities	41.2	24.9	19.4
Mankind Pharma Ltd	Health Care	4.8	9.4	18.9
Pidilite Industries Ltd	Materials	11.1	15.8	18.7
ICICI Lombard General Insurance Co Ltd	Financials	9.2	8.7	17.7
Tech Mahindra Ltd	Information Technology	31.0	14.4	17.6
Hero MotoCorp Ltd	Consumer Discretionary	25.8	9.2	17.3
ICICI Bank Ltd	Financials	160.0	85.6	17.2
HDFC Bank Ltd	Financials	357.5	148.5	17.1
Havells India Ltd	Industrials	13.3	9.9	17.0
State Bank of India	Financials	104.9	65.4	16.7
Sun Pharmaceutical Industries Ltd	Health Care	26.4	35.8	16.3
Avenue Supermarts Ltd	Consumer Staples	15.7	31.7	16.0
Siemens Ltd	Industrials	14.4	16.5	15.9
Wipro Ltd	Information Technology	24.7	25.4	15.8
Bank of Baroda	Financials	48.4	13.1	15.1
Divi's Laboratories Ltd	Health Care	17.9	12.0	14.9

Source: Bloomberg, Jefferies

47 companies within Largecap index has ROE >15%

PEG based valuation appear reasonable

Valuation comparison among peer markets has often been a concern with investors. However, we find the valuations to be within range of the longer term trend. Good returns from Indian markets over the past few years, are in the context of strong earnings growth. Looking at PE in conjuncture with growth we find Indian markets fairly valued and much above in rankings with other major economies. MSCI India's PEG ratio at 1.3x is much better than several markets which are growing more slowly such as Korea, Mexico and the Developed Markets.

Exhibit 109: PEG ratio of large economies

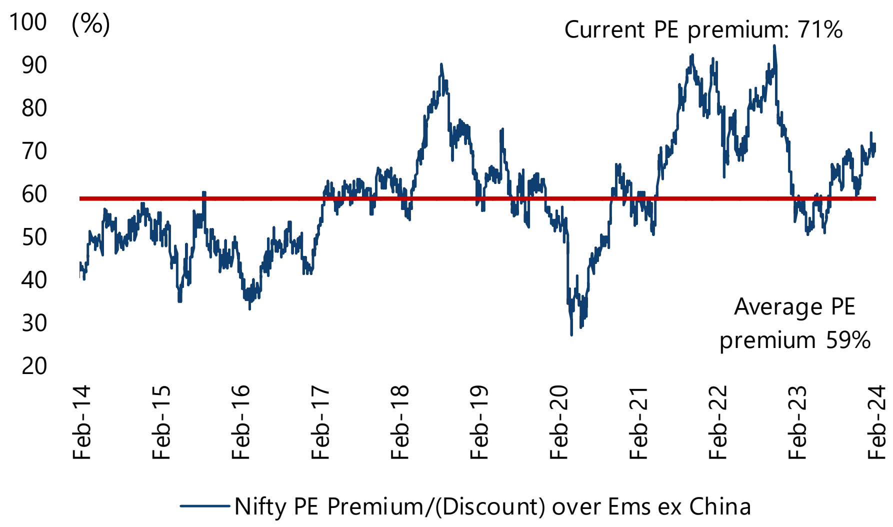
Countries	PE	EPS Growth(%) (CY24)	PEG Ratio
China	9.2	15.7	0.58
Indonesia	8.7	10.8	0.81
Brazil	8.3	9.7	0.85
Taiwan	16.0	17.8	0.90
Malaysia	13.6	13.3	1.02
Thailand	16.5	15.1	1.09
India	**22.3**	**17.0**	**1.31**
Korea	11.5	7.7	1.50
Canada	13.8	8.7	1.58
US	19.9	12.1	1.64
Japan	13.7	7.8	1.77
Euro	12.8	4.9	2.62
Mexico	13.3	4.8	2.78
Australia	16.5	4.1	4.00
UK	10.8	2.4	4.50

Source: Bloomberg, Jefferies, * MSCI country indices

India's valuation still reasonable given the growth and ranks well among its peers

In terms of relative valuations, Nifty's 1yr fwd PE premium over MSCI EM ex China is close to historical average and still ~20ppt below the peak levels that we have seen on several prior occasions. With India offering a longer duration capex upturn, alongside growing domestic flows, the premium multiples are likely to sustain over the long run.

Exhibit 110: Nifty 1-yr fwd PE Premium over MSCI EM ex China

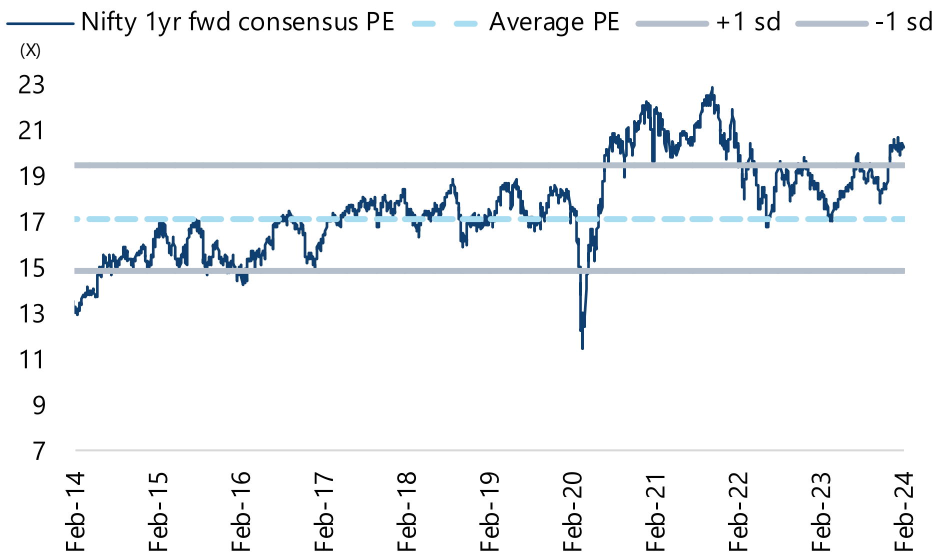


Source: Bloomberg, Jefferies

India's PE relative to MSCI ex China well below historic peak

When we compare the Indian markets on PE and PB basis, as compared to own history, the markets are trading closer to the +1sd levels of past 10-yrs, and approximately in the middle over the post COVID average. Given the robust earnings visibility of India companies, we believe the Nifty PE is likely to be sustained. Indeed, the multiples have held up the rate tightening cycle well as the robustness of Indian cos balance sheet withstood the higher rates and global slowdown well.

Exhibit 111: Nifty 1-yr fwd PE

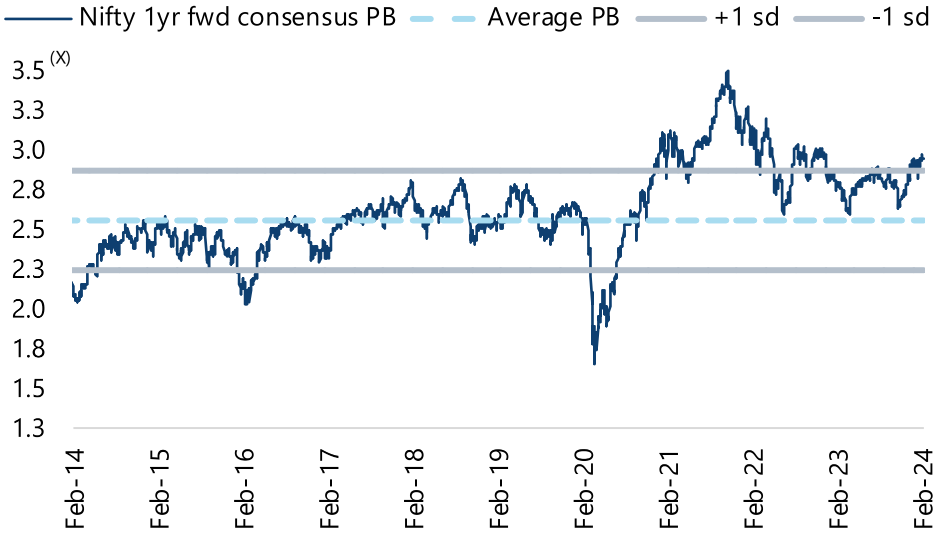


Source: Bloomberg, Jefferies

Nifty PE has seen consistent re-rating over the last 10 years

As double-digit earnings growth unfolds, amid a resilient domestic economy and consistent local flows, we believe Indian markets should provide a compelling investment opportunity for the global investors.

Exhibit 112: Nifty 1-yr fwd PB



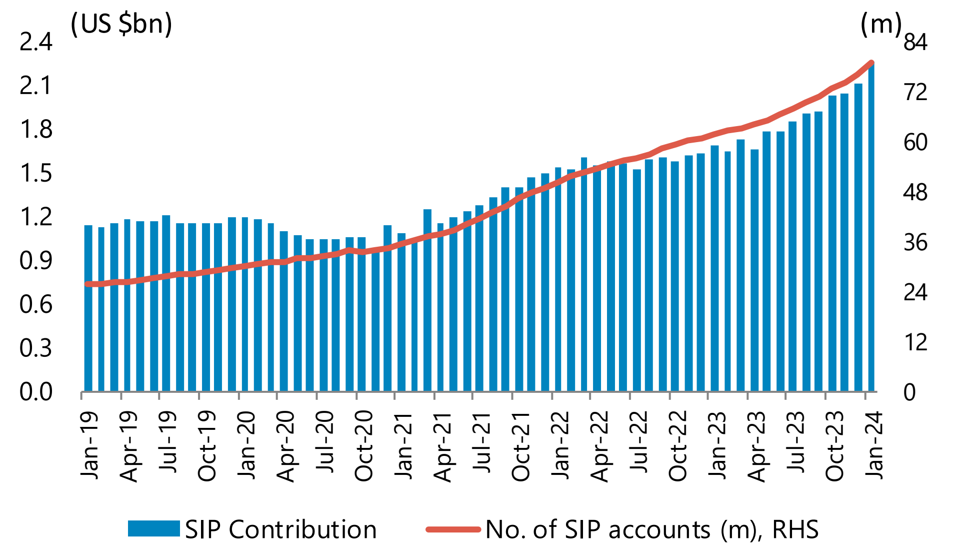
Source: Bloomberg, Jefferies

In PB terms as well Nifty has seen consistent re-rating as well with current valuations coinciding with decadal higher ROEs

Strong domestic flows absorbing volatility from Foreign flows

The Indian domestic investors have steadily stepped up their contribution to the domestic markets. Popularity of the 'SIP' (Sytematic Investment Plan) route for domestic investments is credited for the steadiness of retail flows in India. The SIPs are essentially monthly investments which are auto-debited from bank accounts into designated mutual funds. As of Jan'24, there were nearly 80m such SIP accounts, contributing US$2bn+ of monthly inflows to the Indian equity markets. The SIPs have proved remarkably resilient, with even the COVID period volatility not seeing a significant decline in inflows. On a Tr-12-mth basis, the net inflows into the Indian MFs have been positive for almost the entire past decade.

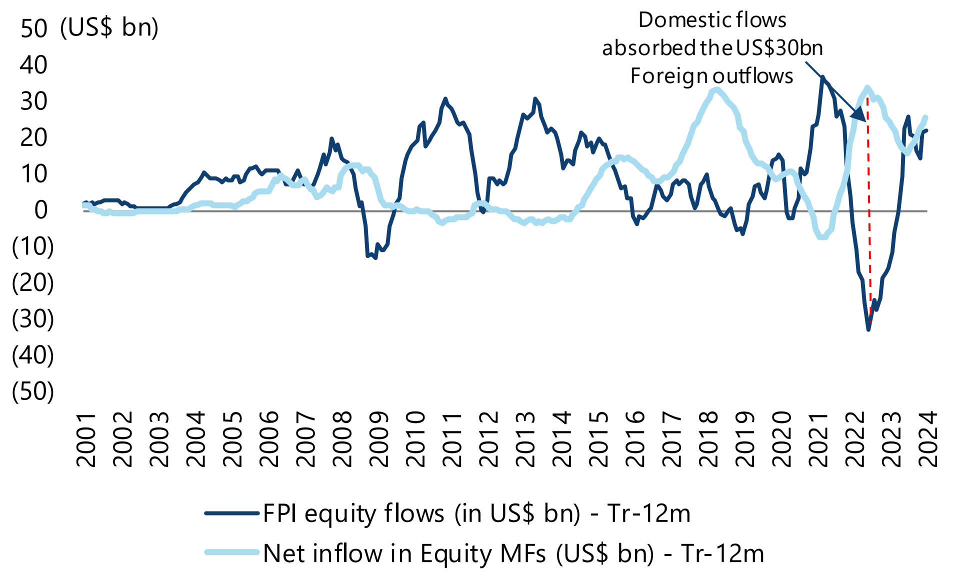
Exhibit 113: Inflows into Indian MFs via SIPs



Monthly fund flows into Indian Mutual Funds via the SIP route have grown to over US$2bn+ month

Source: AMFI, Jefferies

Exhibit 114: Tr-12mth Net Inflows into Indian MFs



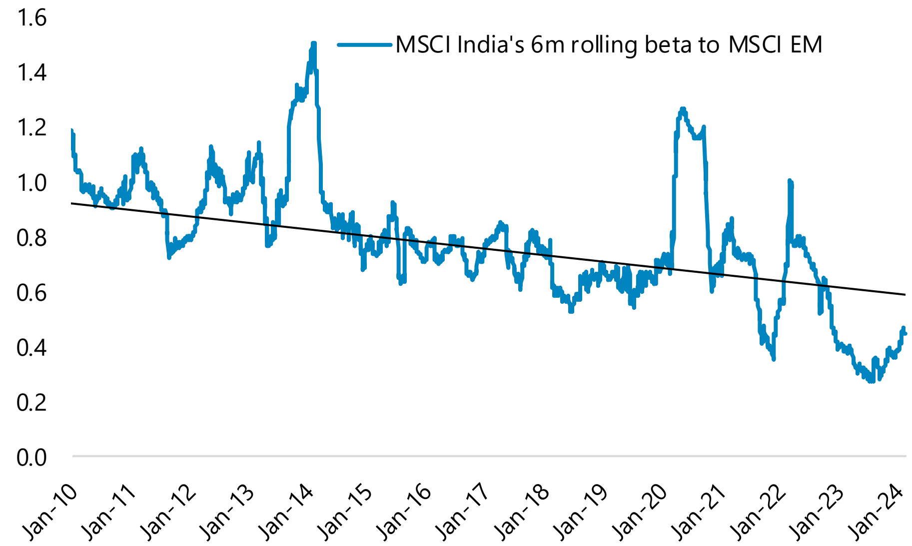
Domestic MF flows have been large in quantum and positive for almost the entirety of the last decade

Source: AMFI, Jefferies

The consistent domestic flows have thus served to counter the more volatile FII flows, which may move on multiple external factors as well as Indian local attractiveness. For example, during the recent mid'22 sell-off in Emerging Market equities, the flows into domestic MFs (Tr-12mths) at US$30bn+, matched the similar US$30bn outflow from the FPIs, keeping the market corrections shallow and making India a relatively consistent performer.

Indian markets have also seen lower volatility, as evident in the beta for Indian markets declining over time as compared to the MSCI EM. The lower beta is partly due to the flows to the Indian markets from domestic sources, which serve to reduce India's correlation with the EM directed flows and as such reduce the market volatility episodes. The lowering of volatility is also supportive of relatively higher multiples for India.

Exhibit 115: MSCI India's 6m daily return beta to MSCI EM

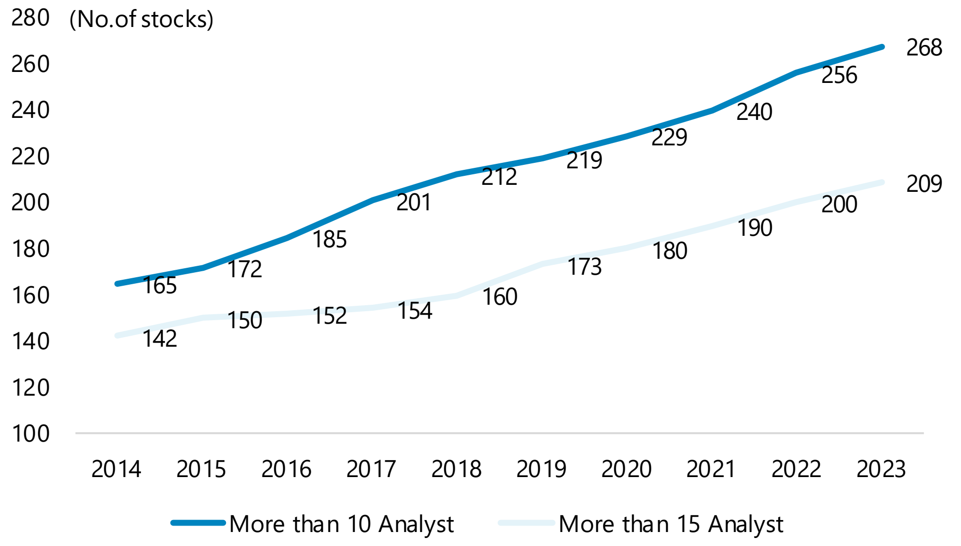


Source: Bloomberg, Jefferies

India's Beta to MSCI EM trending down over time partly explains the higher premium for India over MSCI EM

The growth of Indian institutional money into equities has also driven a greater depth of coverage of the markets from institutional brokers. Data from Bloomberg shows that there has been a consistent growth in stock coverage with more than 200 stocks covered by 15+ analysts and 268 by 10+ analysts. Alongside signaling a deep and growing pool of institutionally investable stocks; a larger coverage depth should aid efficient and quick price discovery, which should then encourage greater foreign participation in India over the long run.

Exhibit 116: Indian Stocks under coverage by various brokerage houses



Source: Bloomberg, Jefferies

Good depth of coverage across large number of stocks

Company Valuation/Risks

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(Article 3(1)e and Article 7 of MAR)

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- Asian Paints (APNT IN: INR3,012.35, UNDERPERFORM)
- Avenue Supermarts Limited (DMART In: INR3,754.80, HOLD)
- Bajaj Auto Limited (BJAUT IN: INR8,292.55, BUY)
- Bajaj Finance Limited (BAF IN: INR6,768.65, BUY)
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- Britannia Industries Limited (BRIT IN: INR4,923.65, HOLD)
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- Coal India Limited (COAl IN: INR446.55, BUY)
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- Dabur India Limited (DABUR IN: INR547.85, BUY)
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- HCL Technologies (HCLT IN: INR1,662.85, HOLD)
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- Hindustan Unilever (HUVR IN: INR2,402.80, HOLD)
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- State Bank of India (SBIN IN: INR760.10, BUY)
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