

Markets at 'high'

What now?

Markets at 'high'
What now?

Look long-term!

भाव भगवान्

भाव भगवान्

But what is the **foundation** of
भाव ?

Economic Growth

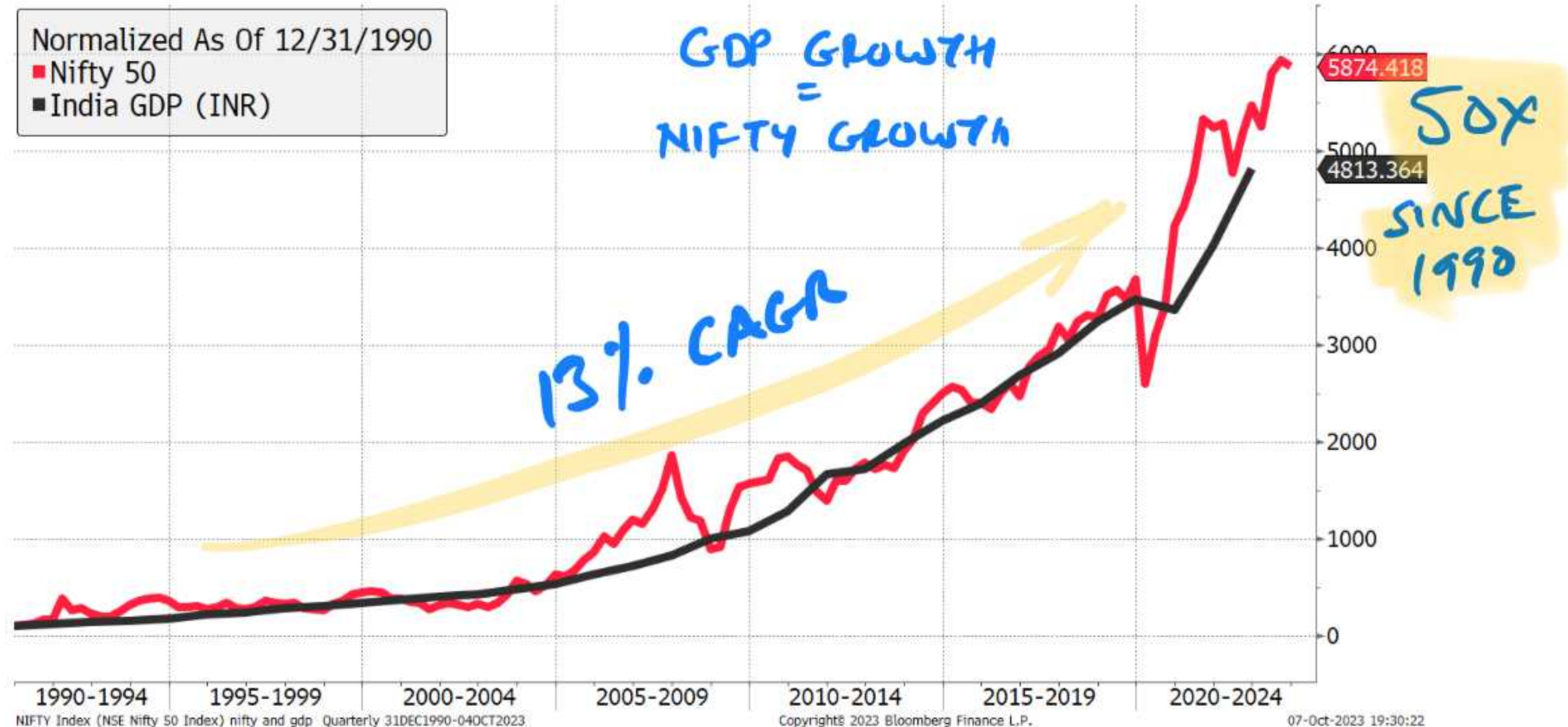
Leads to

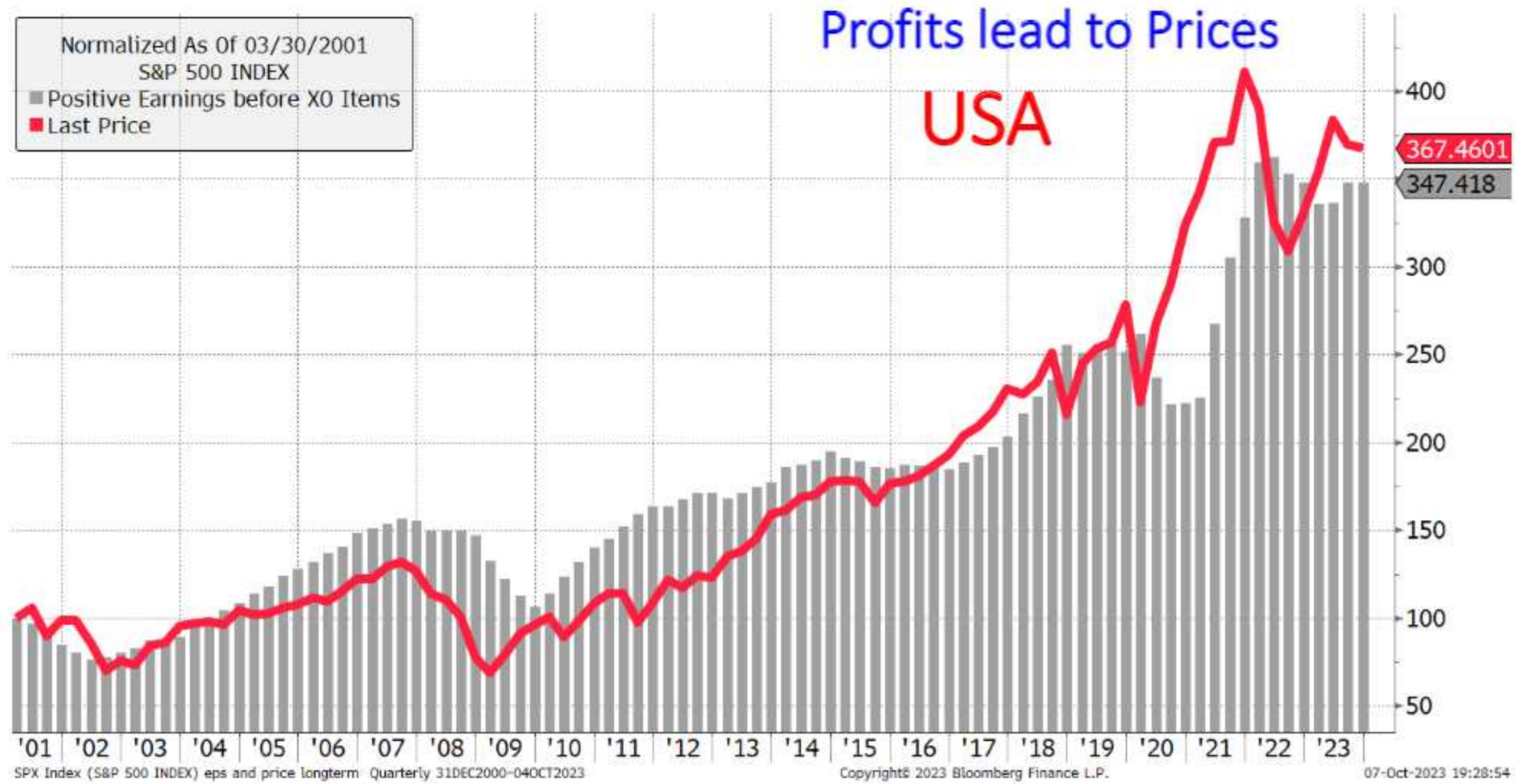
Profit Growth

Leads to

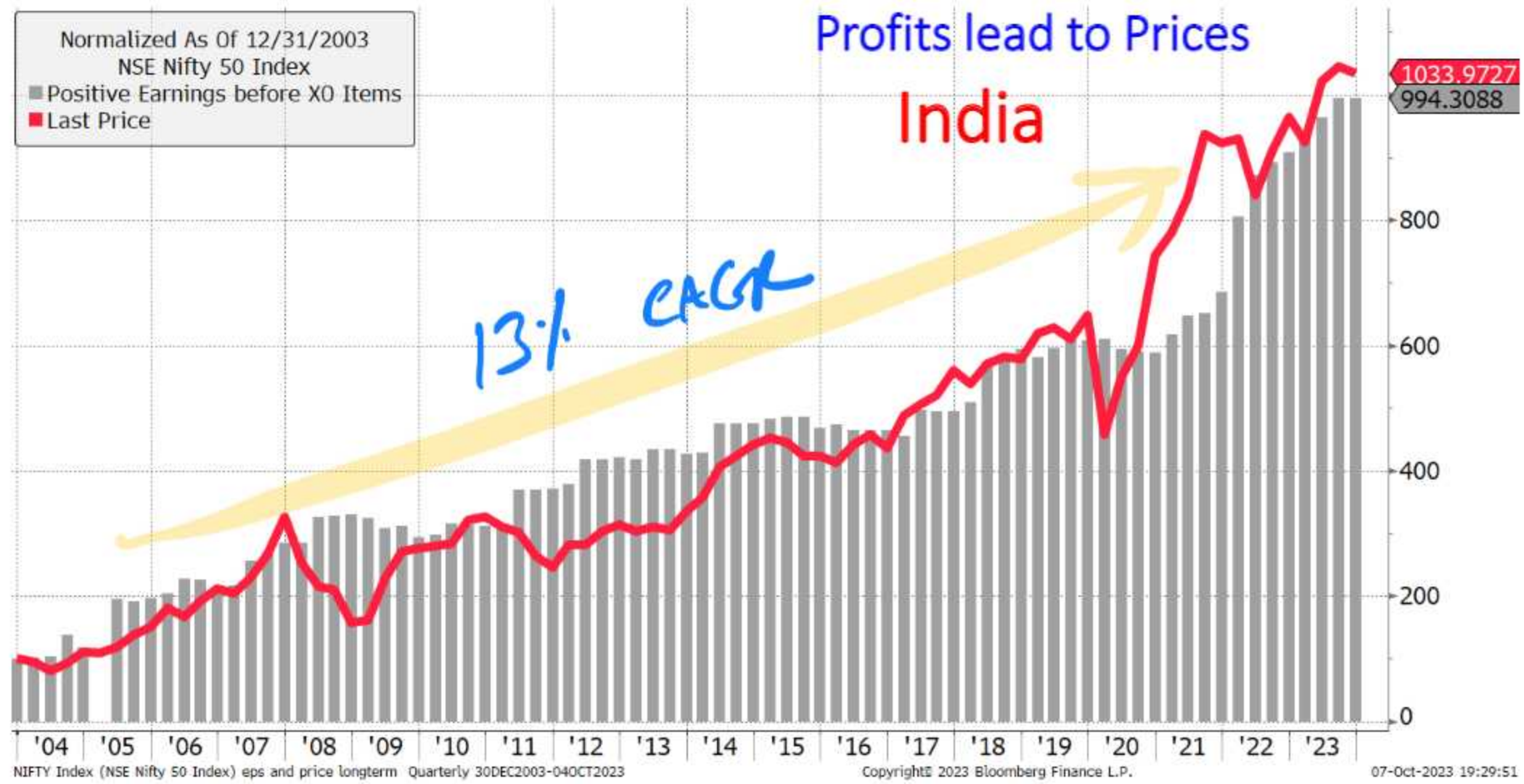
Price Growth!!

Growth -> Profits



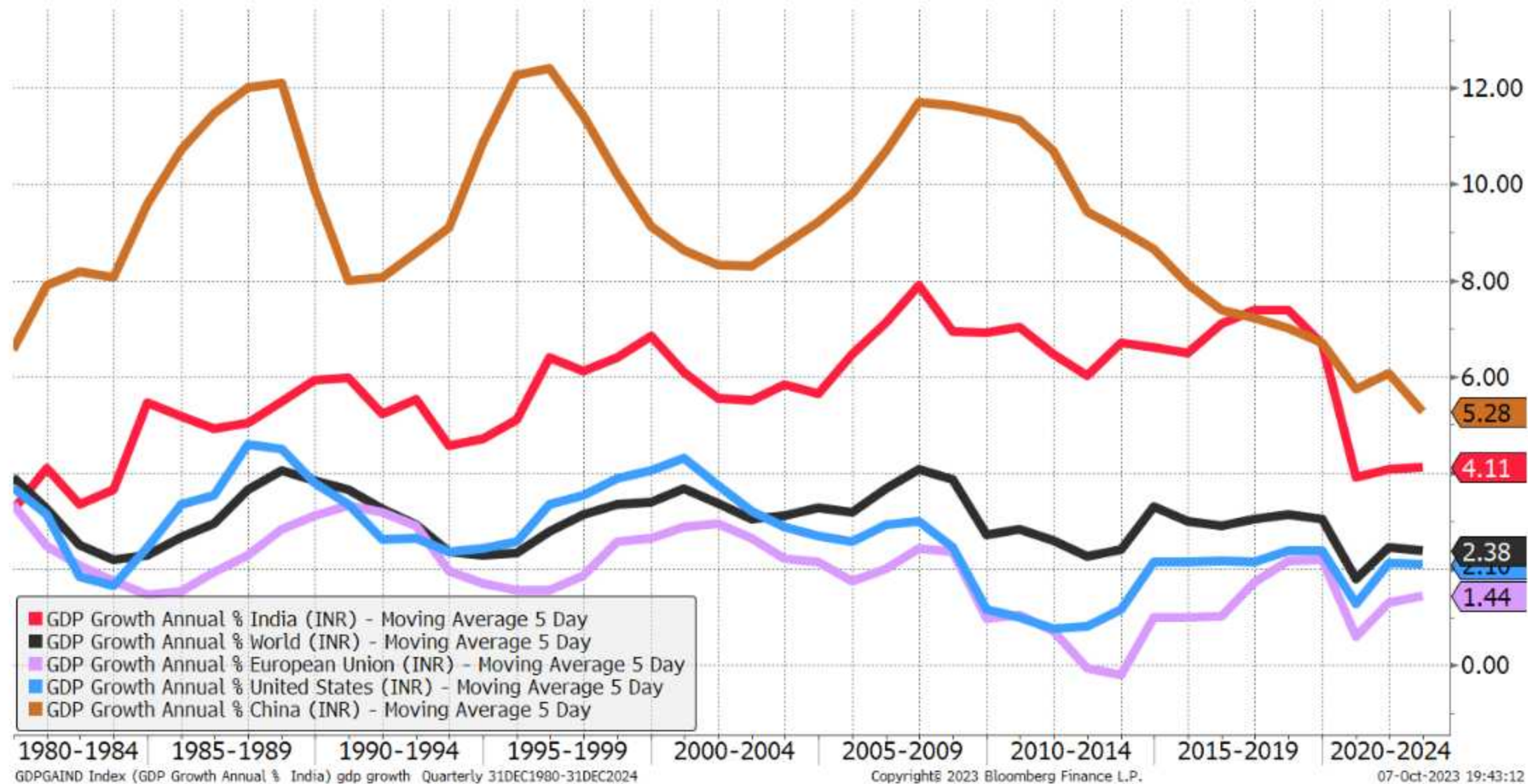


Profits -> Prices

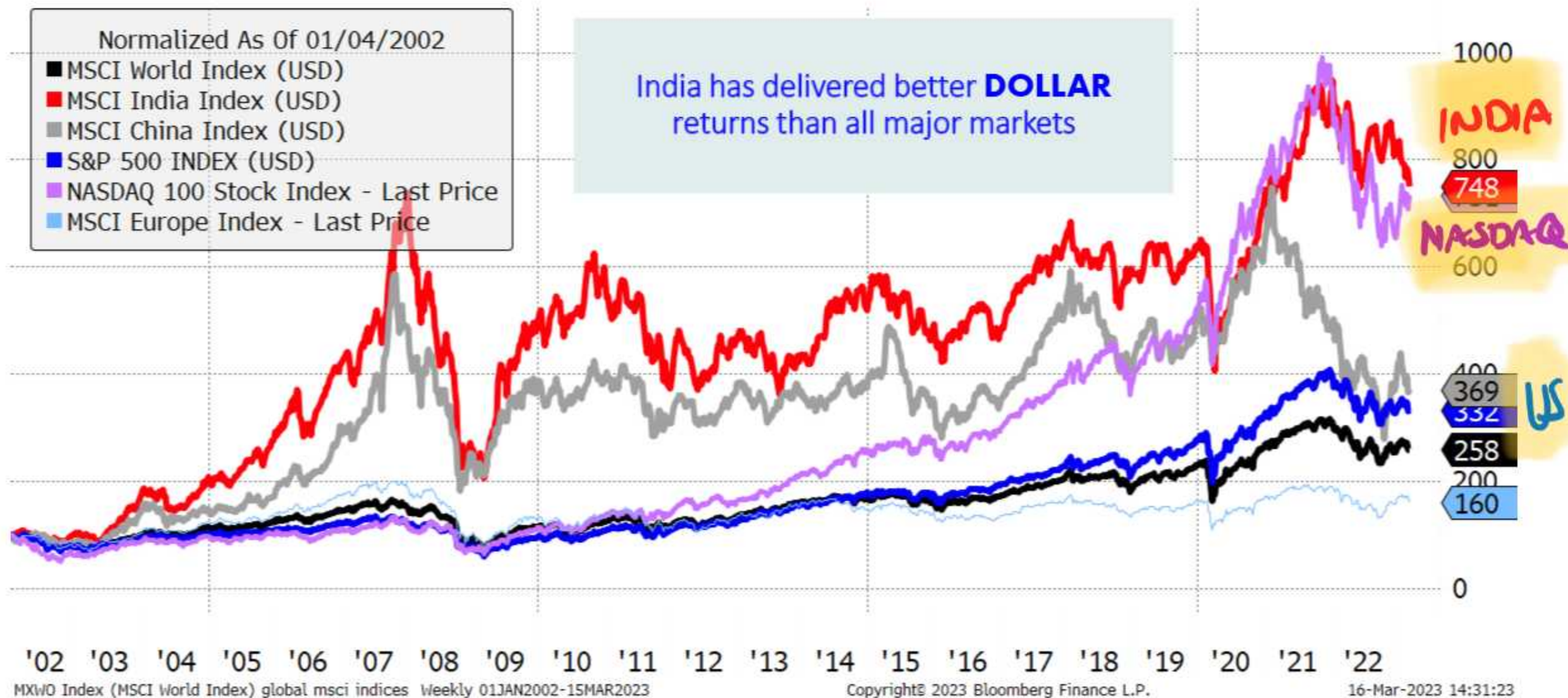


Higher growth = Higher
Valuations

India GDP growth versus rest of world – consistently higher growth since 40 years



Higher growth = higher performance



Higher growth = higher valuations

INDIA HAS ALWAYS
TRADED AT A
PREMIUM



NIFTY Index (NSE Nifty 50 Index) PE differences Weekly 13OCT2003-07OCT2023

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Structural positives for India versus the world

Endowments

De-globalization

Deregulation

Debt

Demography

Democracy

Digitization

(Nuvama Research)

Opportunities

Manufacturing

New Energy

Urbanisation

Consumption Premiumisation

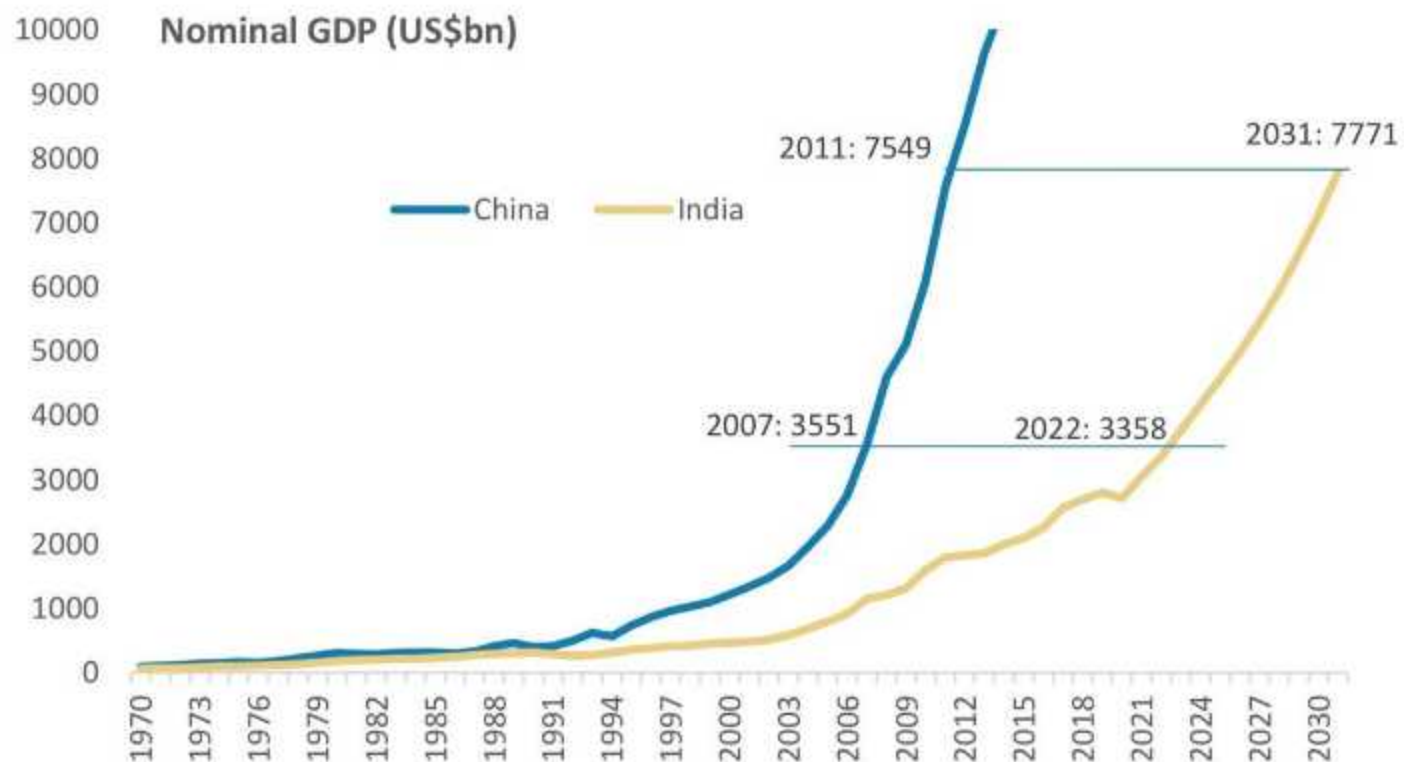
Equity Savings Cult

Technological Disruption

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We are where China was in 2007. While China took 4 years to double, we will take 9

Exhibit 2: From a nominal GDP and per-capita income perspective, India resembles 2007's China



Source: CEIC, Morgan Stanley Research estimates

India rising up the ranks

GDP Rank

India is on the rise whereas China has seen its prime – Nominal GDP (US\$ trillions)

| 2000 | 2010 | 2020 | 2022 | 2027 (E) |
|----------------|----------------|----------------|----------------|----------------|
| United States | United States | United States | United States | United States |
| Japan | China | China | China | China |
| Germany | Japan | Japan | Japan | India |
| United Kingdom | Germany | Germany | Germany | Japan |
| France | France | United Kingdom | India | Germany |
| China | United Kingdom | India | United Kingdom | United Kingdom |
| Italy | Brazil | France | France | France |
| Canada | Italy | Italy | Canada | Canada |
| Mexico | India | Canada | Italy | Brazil |
| India | Russia | Korea | Brazil | Italy |

Source: IMF, Spark Capital Research

Market Cap Rank

Market Capitalization Ranks

| 2000 | 2010 | 2020 | 2030 (E) |
|----------------|-----------------|------------------|--------------|
| 1. USA | 1. USA | 1. USA | 1. USA |
| 2. Japan | 2. China | 2. China | 2. China |
| 3. UK | 3. Japan | 3. Japan | 3. Hong Kong |
| 4. France | 4. Hong Kong | 4. Hong Kong | 4. Japan |
| 5. Germany | 5. UK | 5. UK | 5. India |
| 6. Switzerland | 6. Canada | 6. Canada | |
| 7. Canada | 7. France | 7. India | |
| 8. Italy | 8. India | 8. Saudi Arabia | |
| 9. Netherlands | 9. Brazil | 9. Germany | |
| 10. Hong Kong | 10. Australia | 10. South Korea | |
| 11. Spain | 11. Germany | 11. Switzerland | |
| 12. Australia | 12. Switzerland | 12. Australia | |
| 13. Sweden | 13. Spain | 13. Iran | |
| 14. Brazil | 14. South Korea | 14. South Africa | |
| 15. India | 15. Russia | 15. Brazil | |

India has emerged the 7th largest country in terms of Market Cap and is expected to be among the top 5 countries in this decade

Source: The World Bank

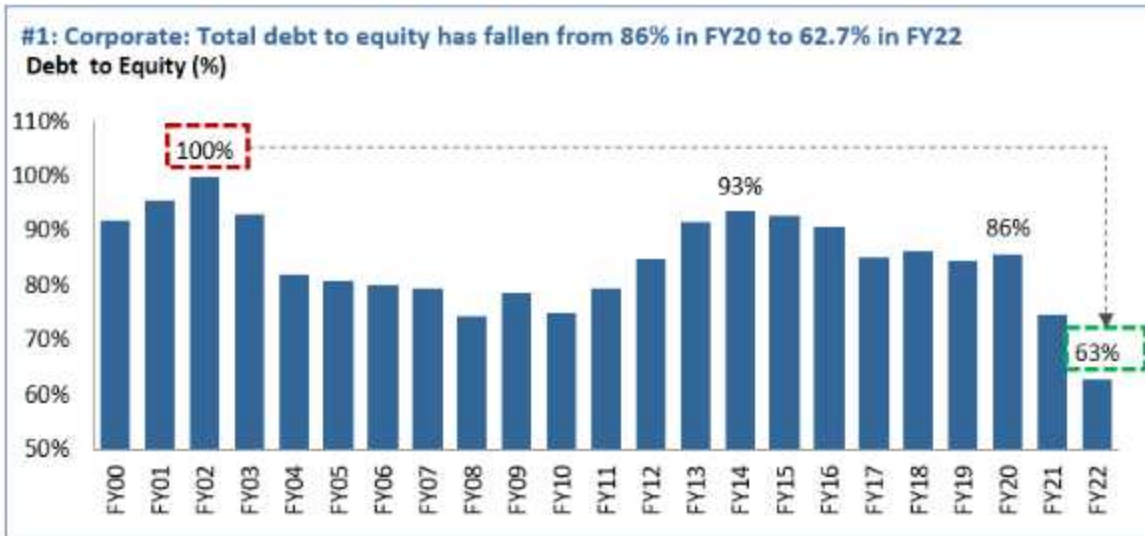
Foundation for next 10-20 years
is strong!

We just need to not to score
self-goals !!!

Macro

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We are not leveraged : Country, Corporates, Citizens

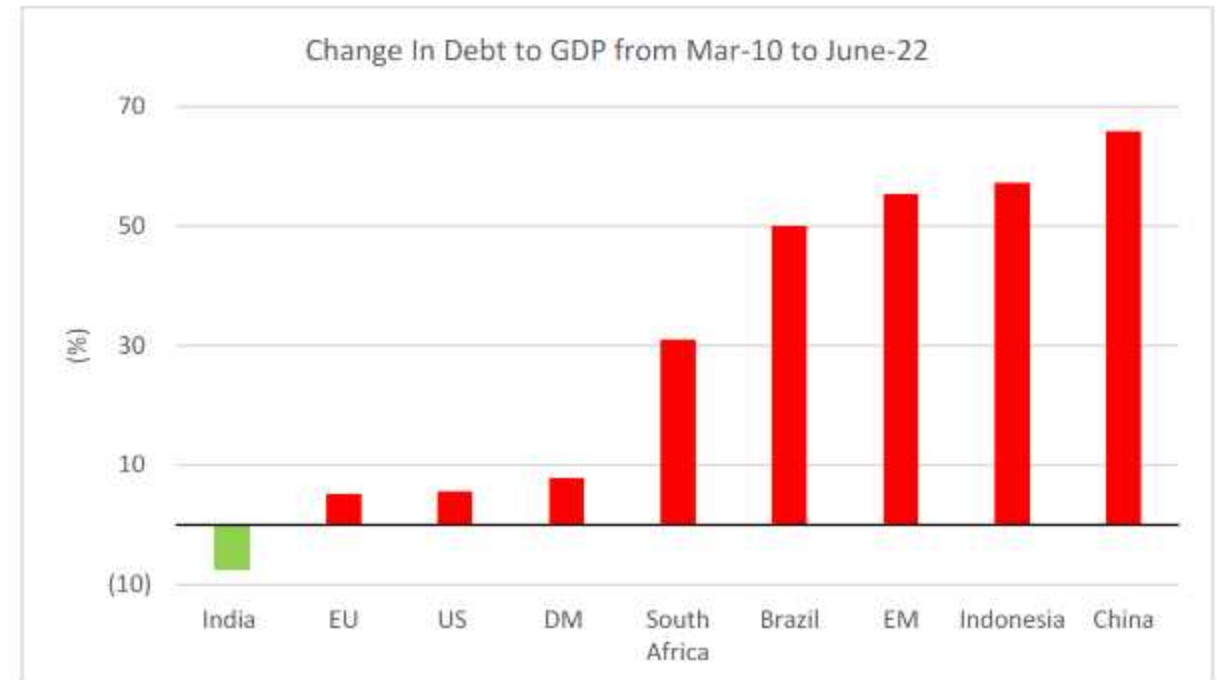


Source: CMIE, Spark Capital Research



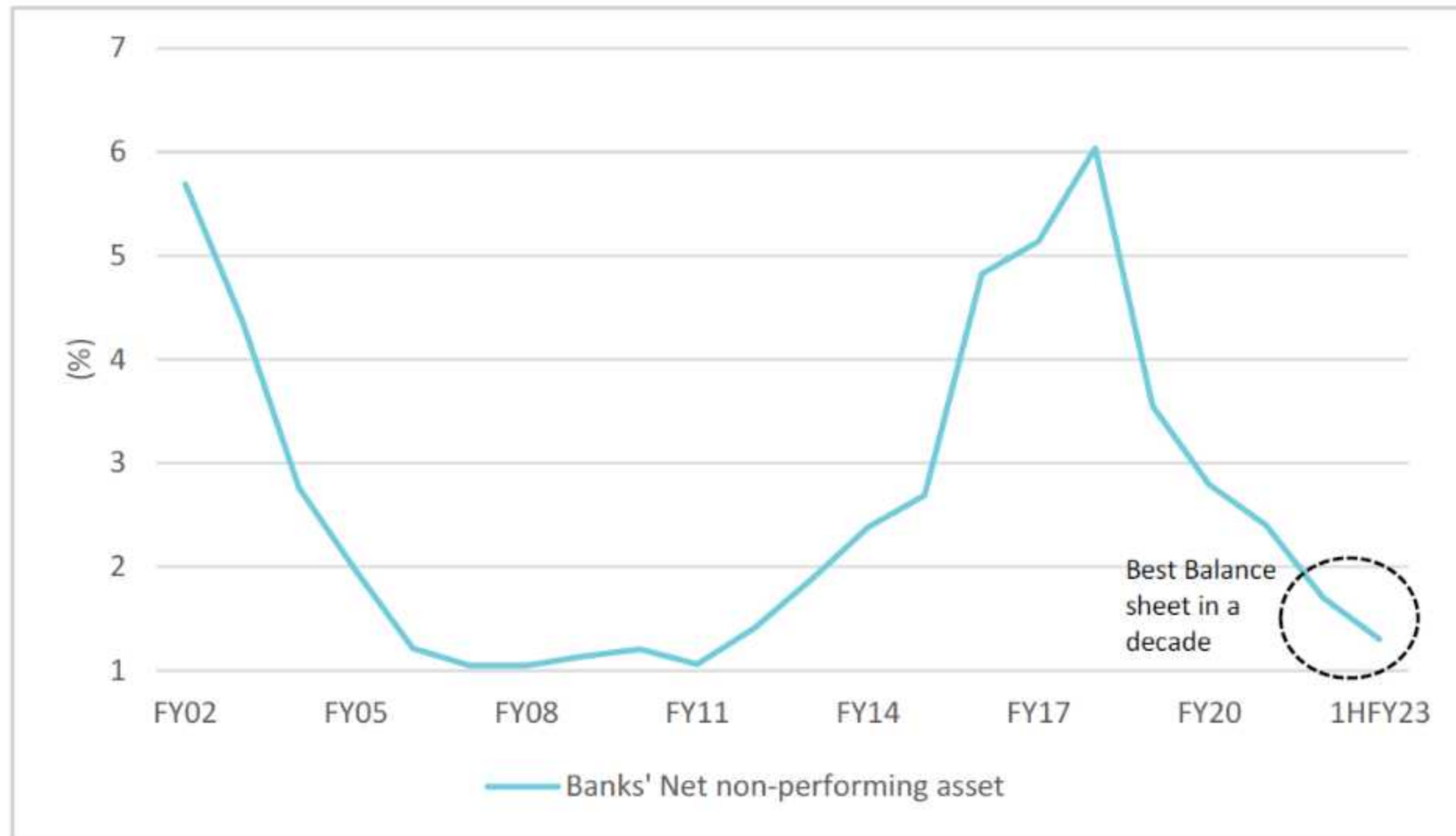
Source: Spark Capital Research

India's aggregate debt to GDP reduced even as it moved higher for world...



Source: BIS, Nuvama Research

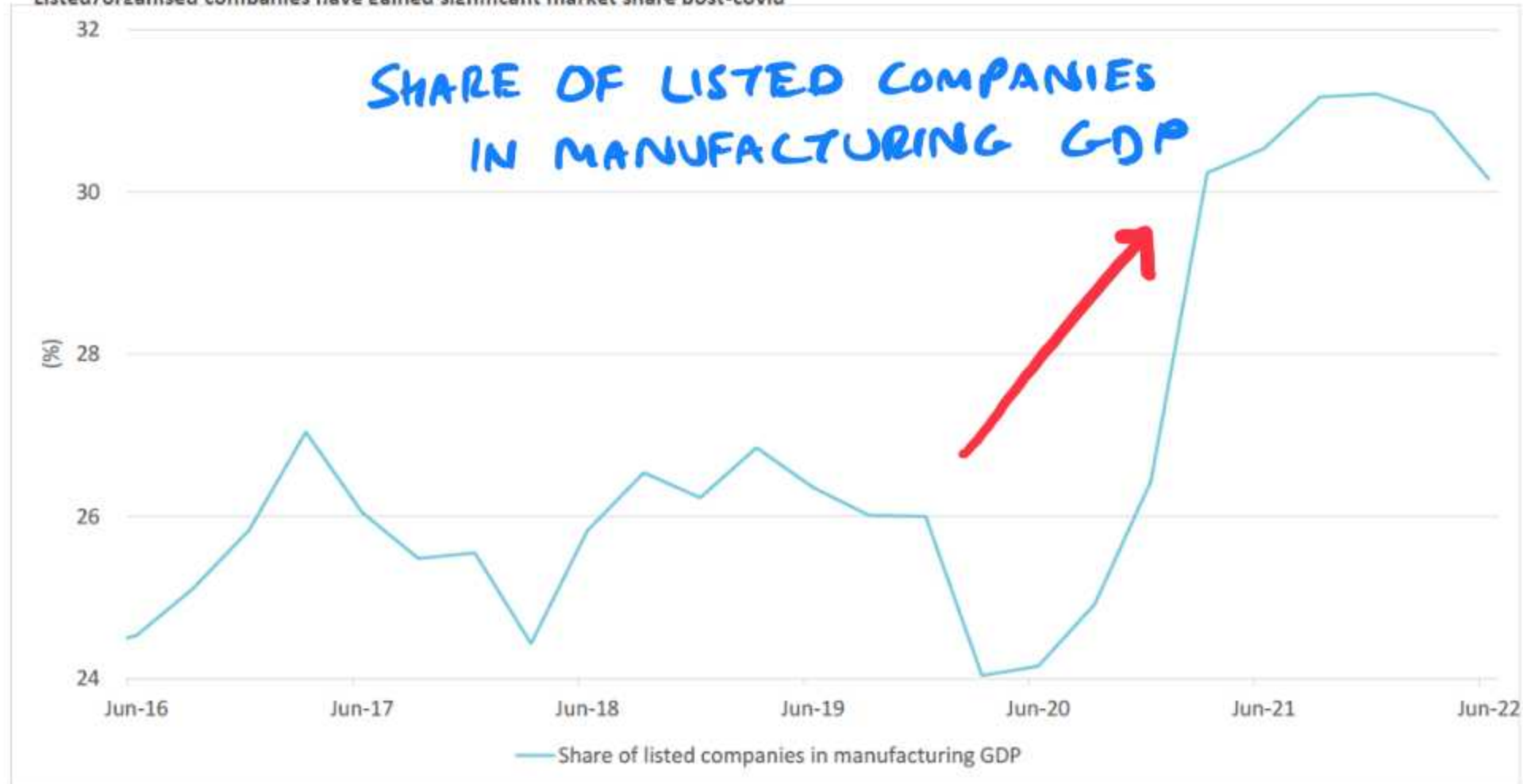
Banks are in great shape



Source: Company data, Nuvama Research @theMihirV

Corporate sector reforms: Jump in formalisation

Listed/organised companies have gained significant market share post-covid



Source: Bloomberg, Nuvama Research

Growth and Valuations

Nifty Valuations: Not in extreme zone



Nifty: Earnings Yield v/s Bond Yields – Above Average, not yet Extreme

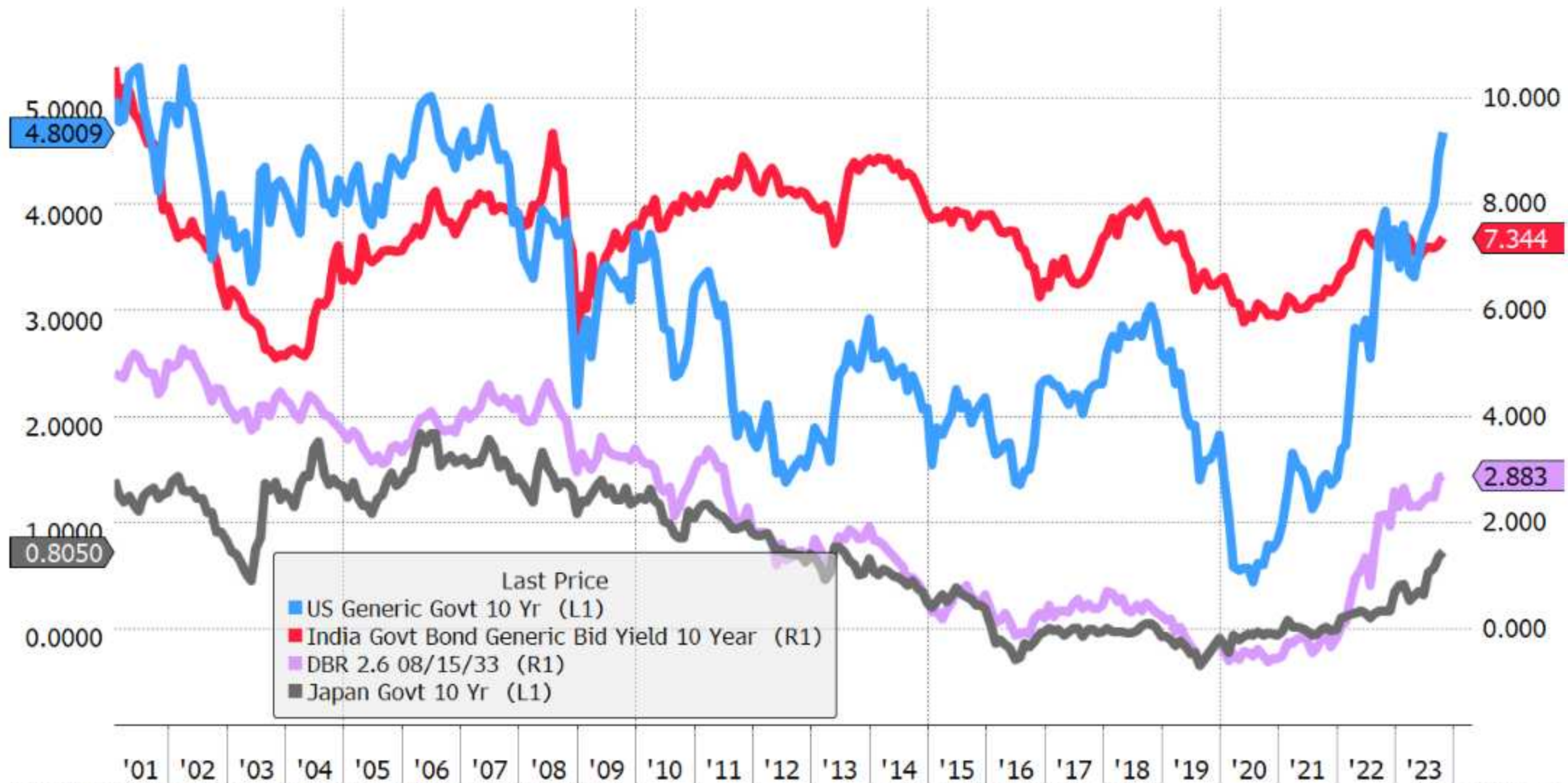


.EYIELD U Index (nifty earning yield) nifty Eyield vs bond Weekly 13OCT2003-07OCT2023

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Risk: Rising Yields



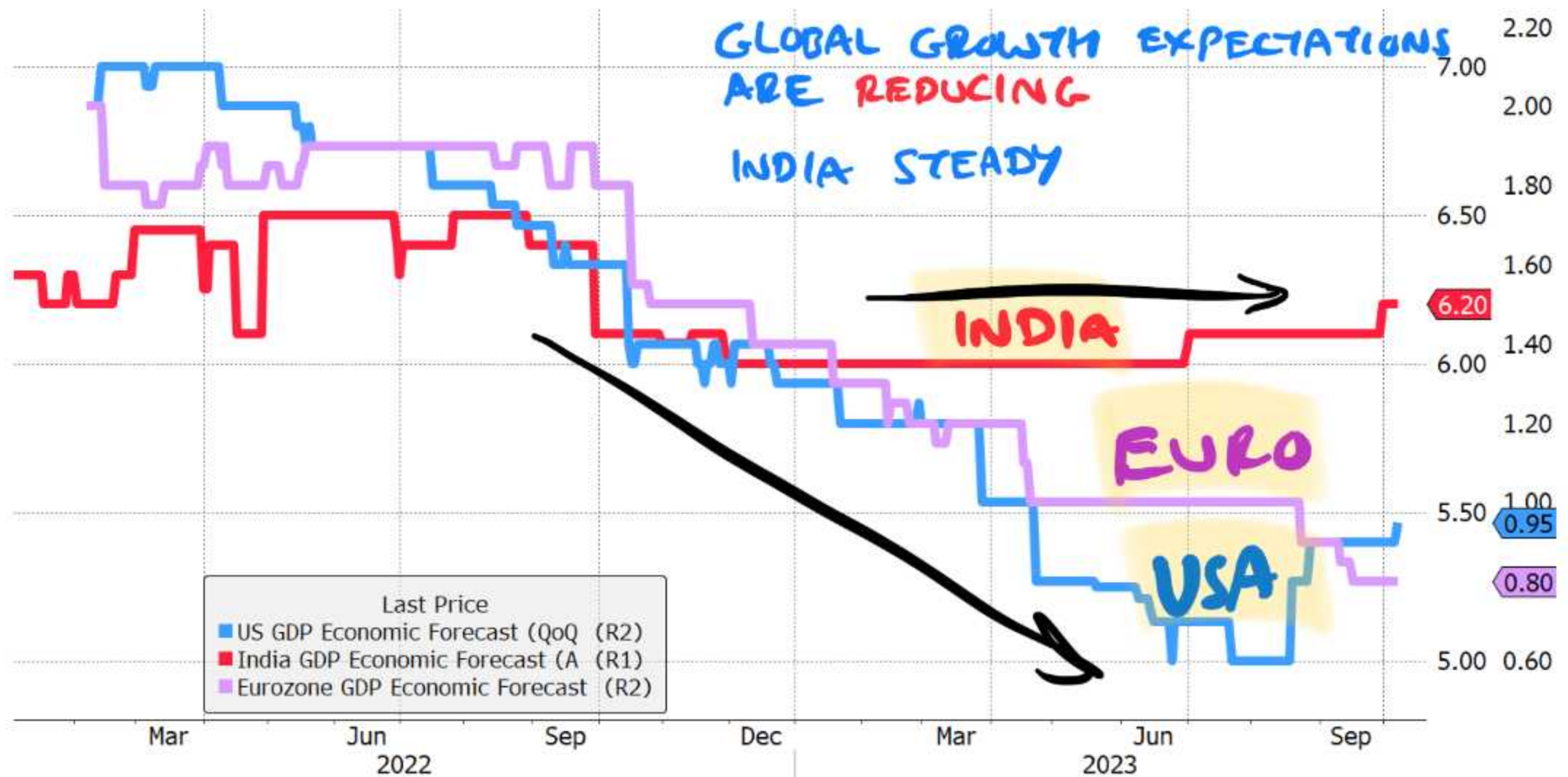
USGG10YR Index (US Generic Govt 10 Yr) interest rates Monthly 31DEC2000-06OCT2023

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Risk: Slowing Growth



ECGDUS 24 Index (US GDP Economic Forecast (QoQ) gdp growth est Daily 03JAN2020-06OCT2023

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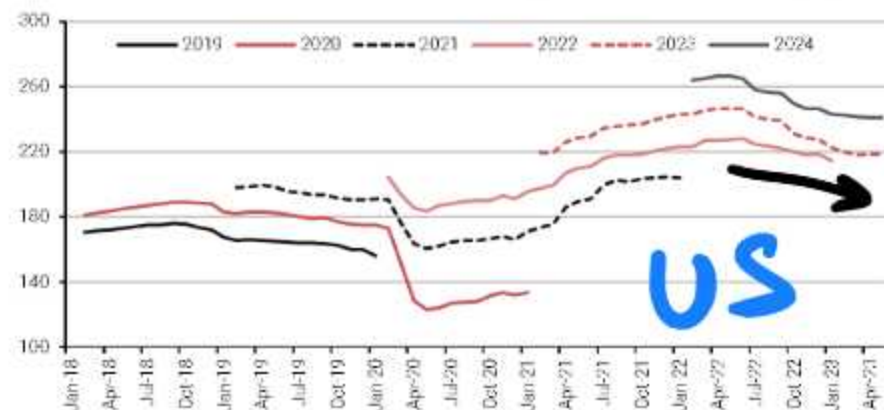
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Earning Estimates **Slowdown in the world**

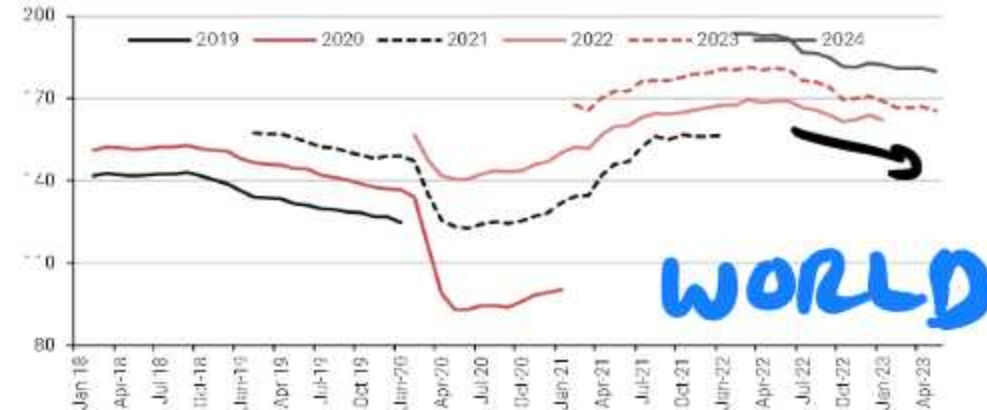
Earnings estimates for the past few years

S&P-500 Index EPS estimates trend, calendar year-ends, 2019E-24E (US\$)



Source: Bloomberg, Kotak Institutional Equities

MSCI World Index EPS estimates trend, calendar year-ends, 2019E-24E (US\$)



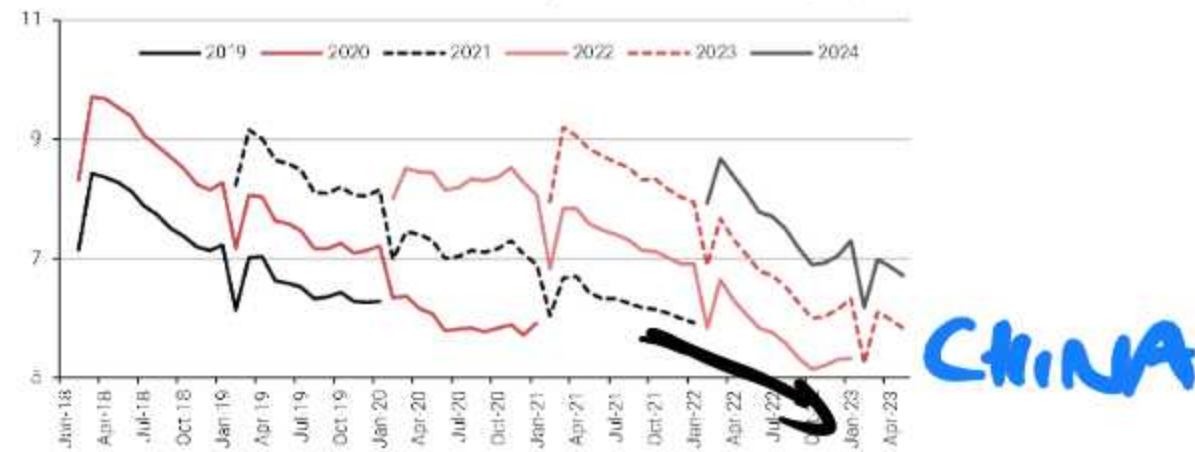
Source: Bloomberg, Kotak Institutional Equities

MSCI EM Index EPS estimates trend, calendar year-ends, 2019E-24E (US\$)



Source: Bloomberg, Kotak Institutional Equities

MSCI China Index EPS estimates trend, calendar year-ends, 2019E-24E (US\$)

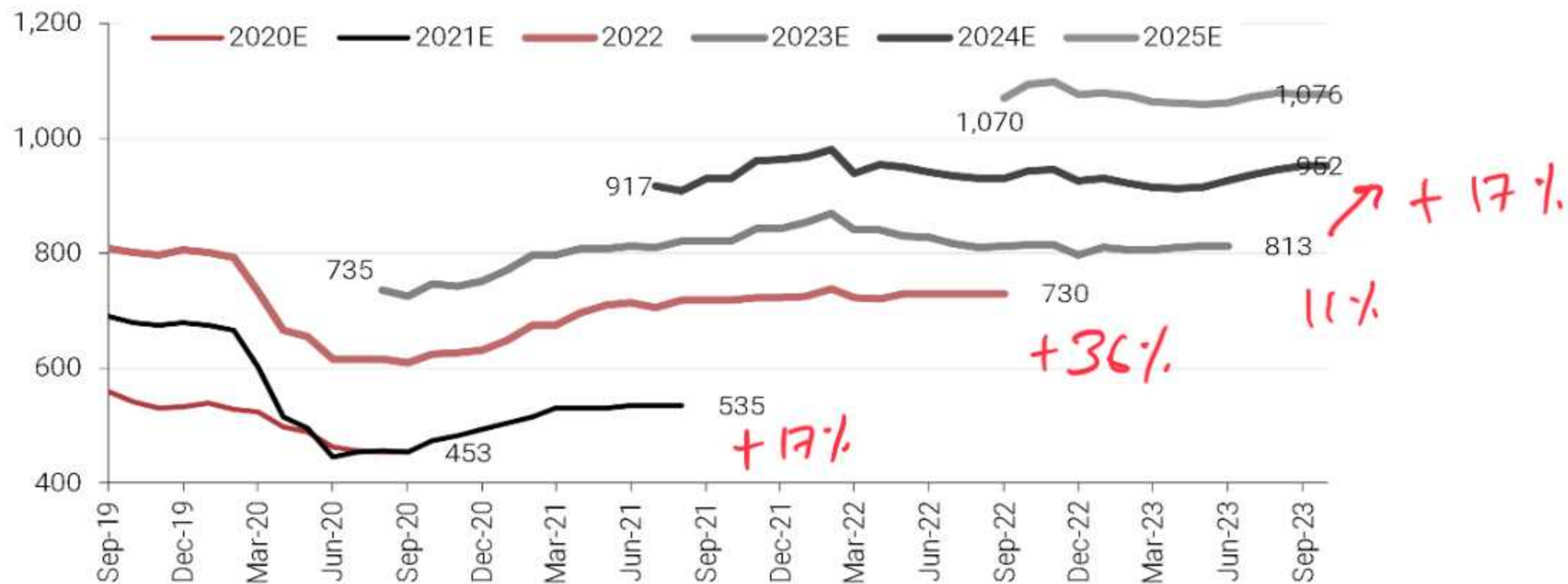


Source: Bloomberg, Kotak Institutional Equities

Earning Estimates. **India is steady**

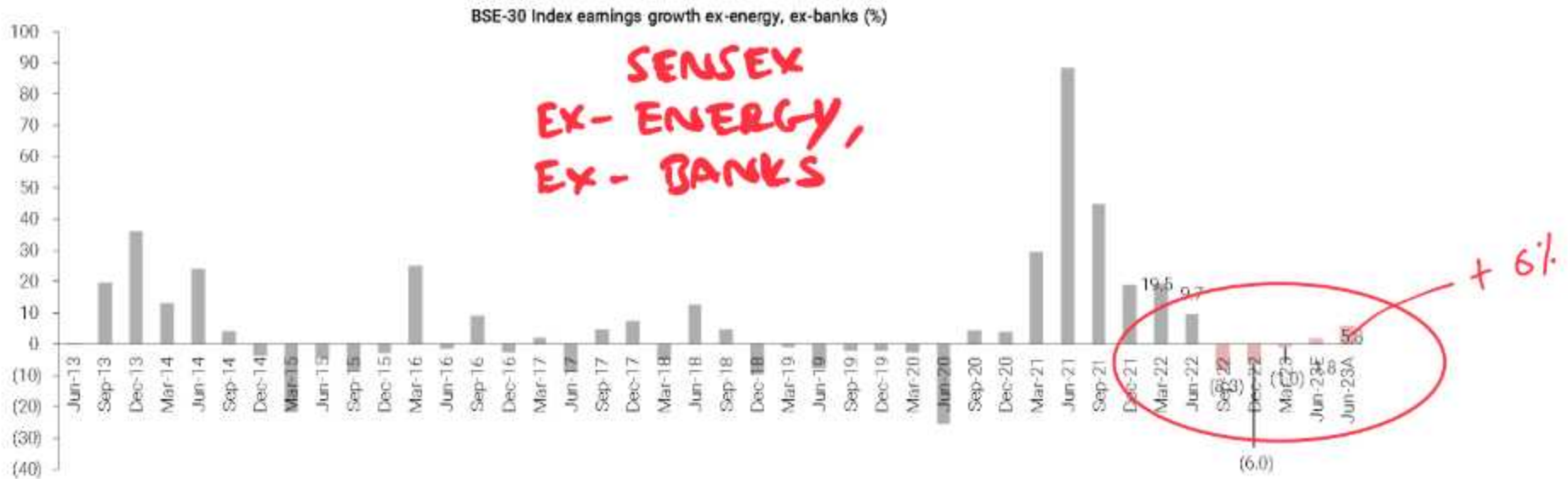
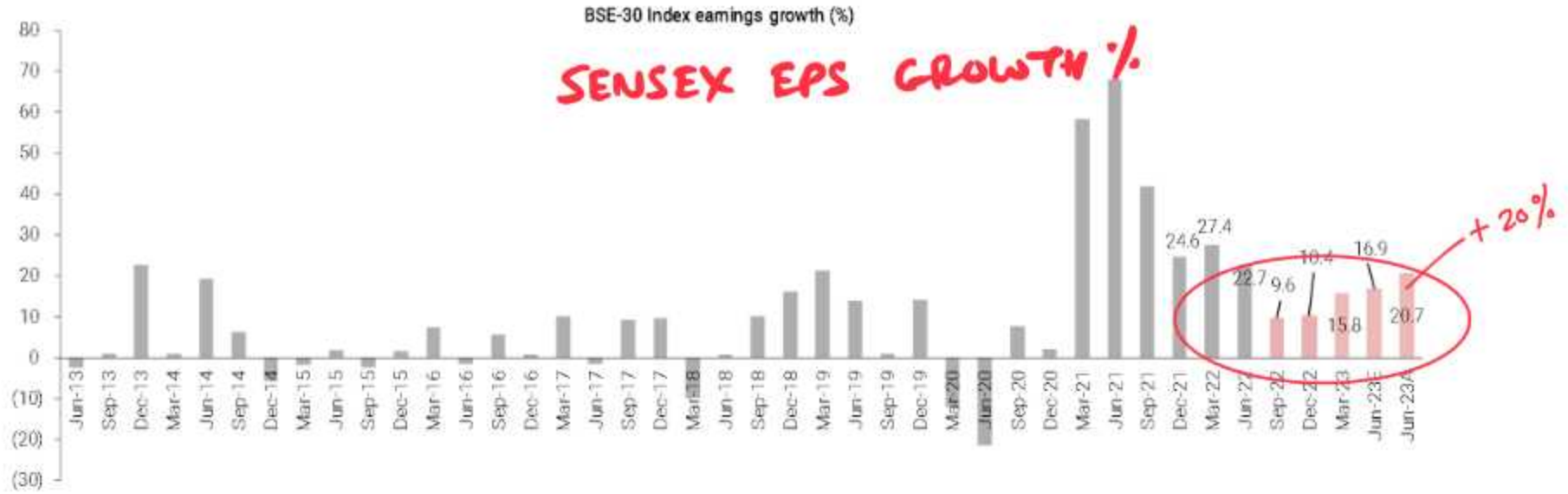
EPS estimates have been broadly stable over the past few months

Nifty-50 Index EPS estimates trend, March fiscal year-ends, 2020E-26E (Rs)



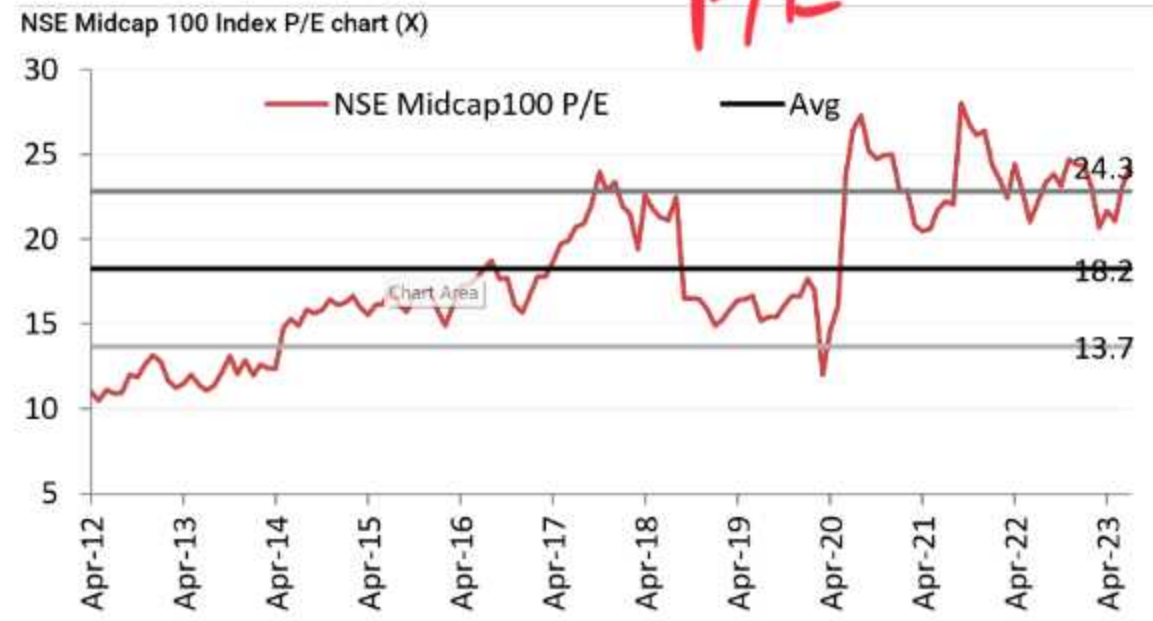
Source: Kotak Institutional Equities estimates

Growth: Driven by Banks and Commodities

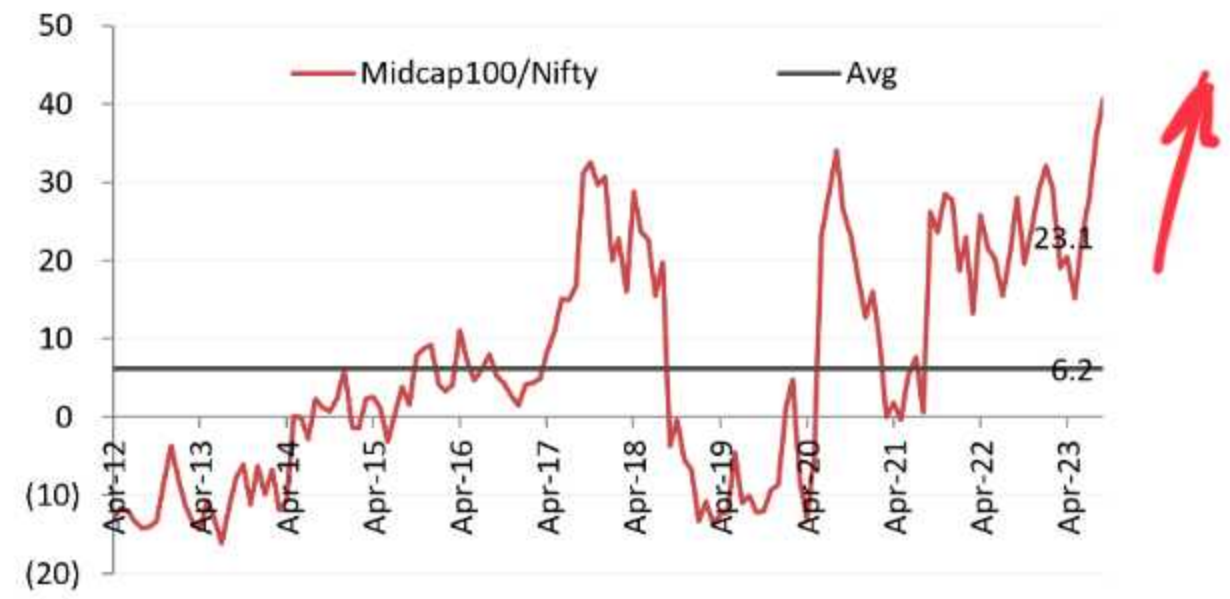


Pockets of OverValuation: MidCaps

P/E

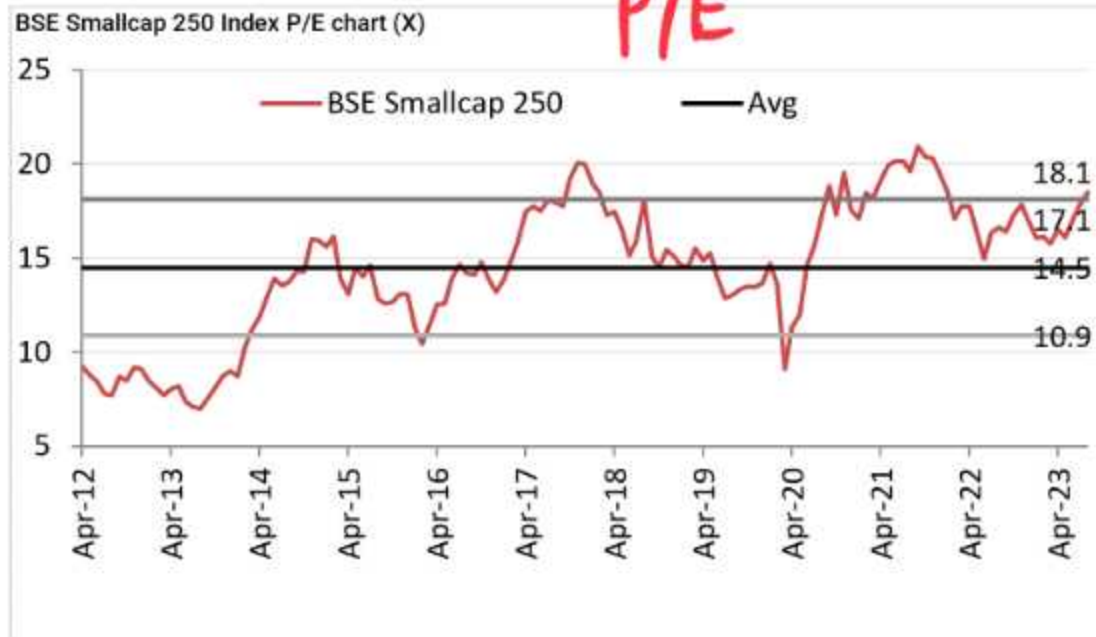


MIDCAP P/E - NIFTY P/E

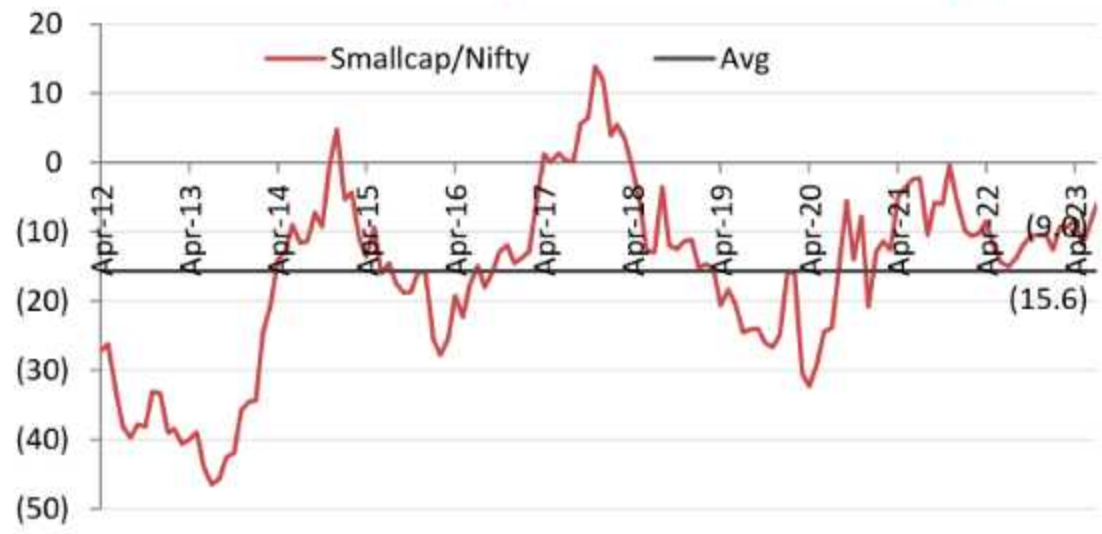


Pockets of OverValuation. SmallCap

P/E



SMALLCAP P/E - NIFTY P/E



Pockets of OverValuation: MicroCap and SME

Nifty Microcap 250, India, W, NSE -
O 16228.75 H 16360.10 L 15956.00 C 16344.35



MARCH 2023

S&P BSE SME IPO, India, W, BSE -
O 35894.80 H 36418.67 L 35276.53 C 36348.31

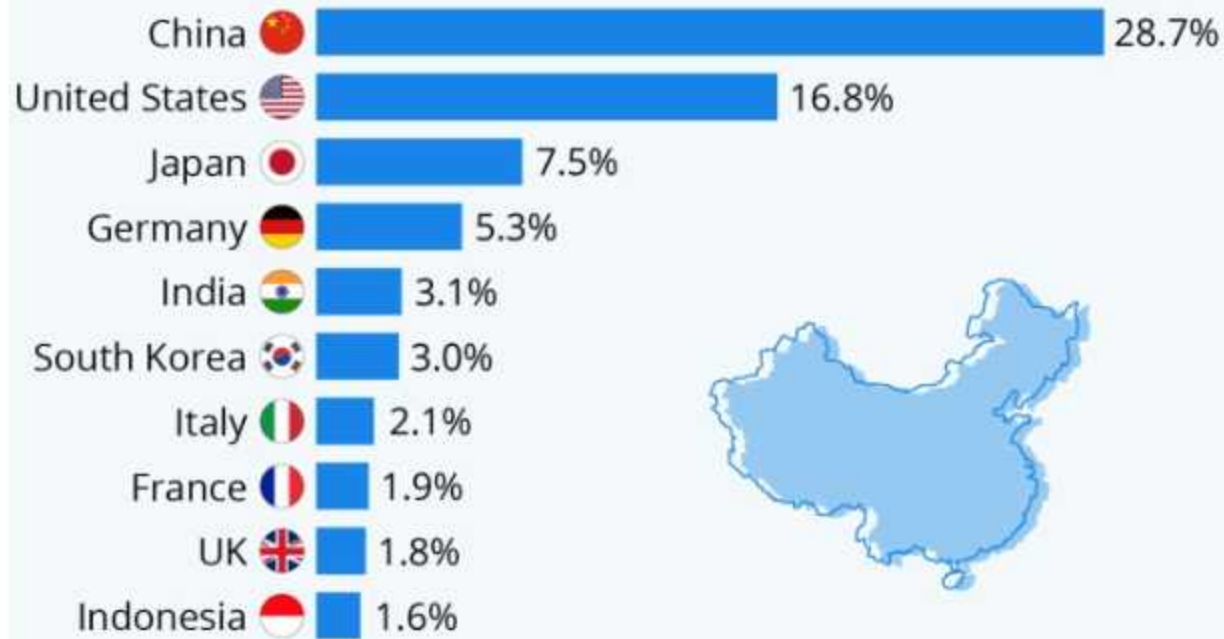


SME IPO INDEX

Manufacturing and Infrastructure

China Is the World's Manufacturing Superpower

Top 10 countries by share of global manufacturing output in 2019*



* output measured on a value-added basis in current U.S. dollars

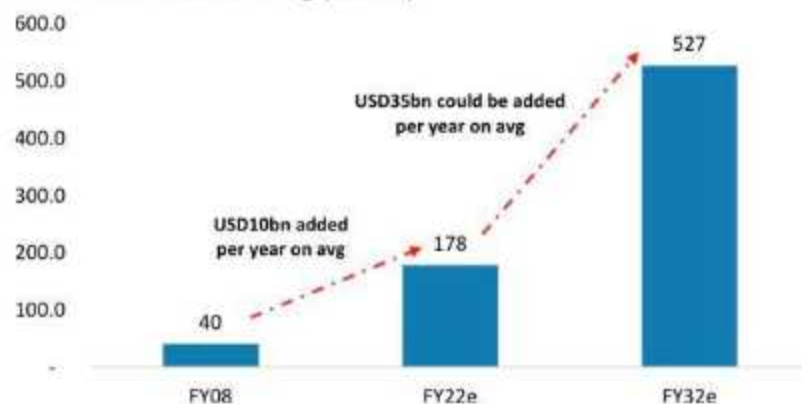
Source: United Nations Statistics Division

Government realizes that
MANUFACTURING is the only
way to create **JOBS**

So what are we doing about it?

IT will continue to accelerate

Exhibit 80: Indian IT exports to increase sharply over the next decade, assuming sustained market share gains for Indian IT players and global demand trends sustaining (US\$bn)



Source: Gartner, Nasscom, Morgan Stanley Research estimates

Exhibit 81: India's incremental exports (US\$m)



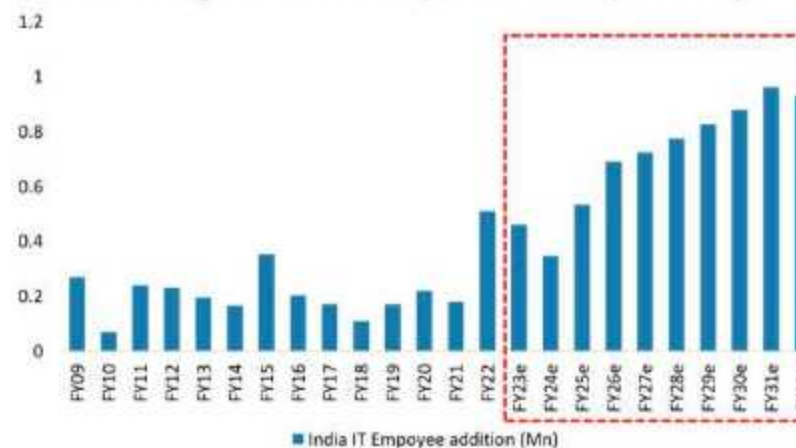
Source: Nasscom, Morgan Stanley Research

Exhibit 82: India's IT workforce to more than double by F32...



Source: Nasscom, Morgan Stanley Research

Exhibit 83: ...leading to significant employment generation in India, even after taking into account an uptick in revenue productivity



■ India IT Employee addition (Mn)

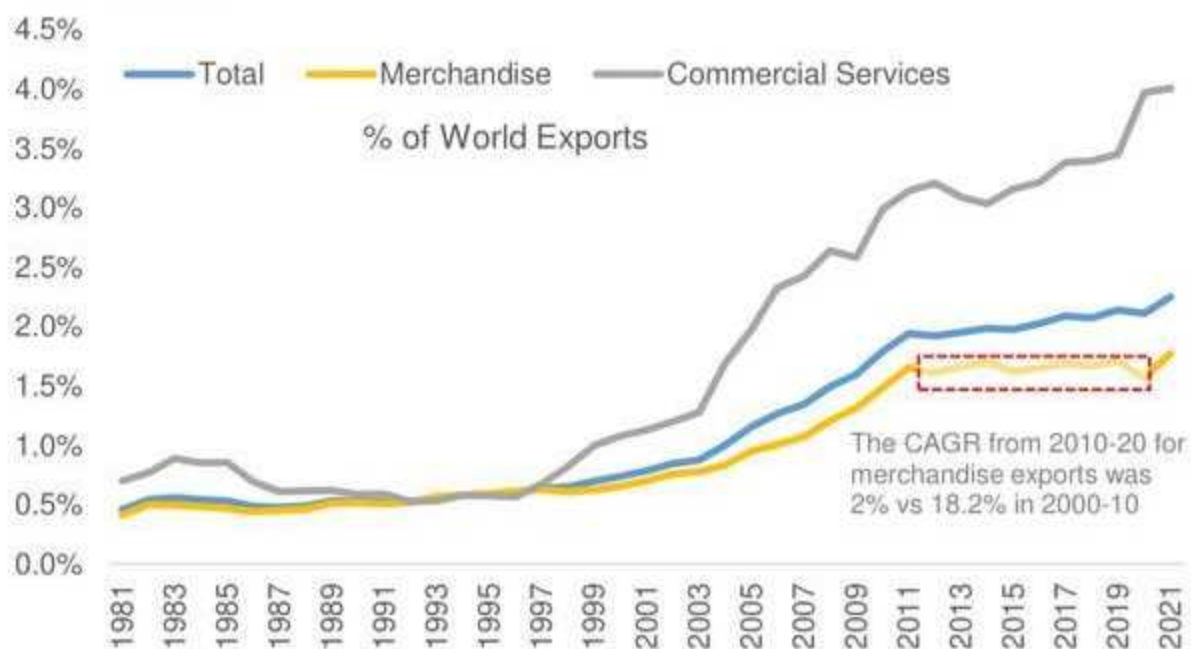
Exhibit 35: Share of manufacturing to increase to 21% of GDP by 2031



Source: CEIC, Morgan Stanley Research estimates

We have not exploited our labour force in Manufacturing even as Services did excellent

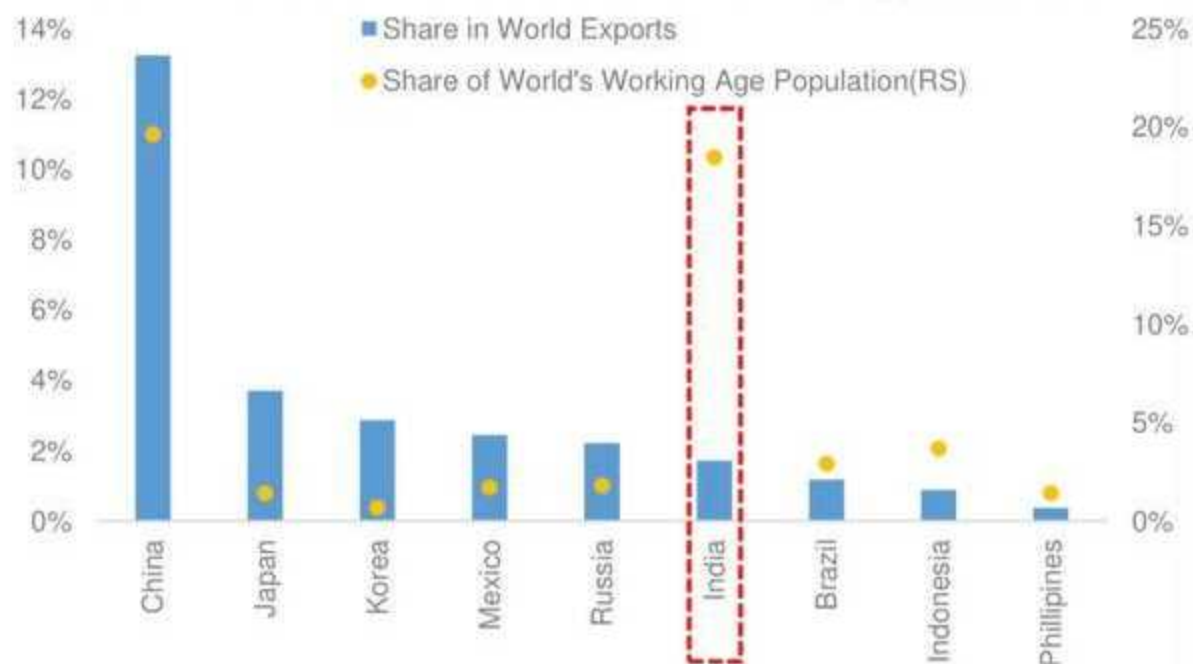
Exhibit 43: Growth in commercial services outperforms merchandise exports



Source: WTO, Morgan Stanley Research

Note: Data for Commercial Service Exports for 2021 is based on WTO estimates using quarterly data.

Exhibit 44: Share of world exports vs working-age population



Source: UN Population Database, WTO, Morgan Stanley Research

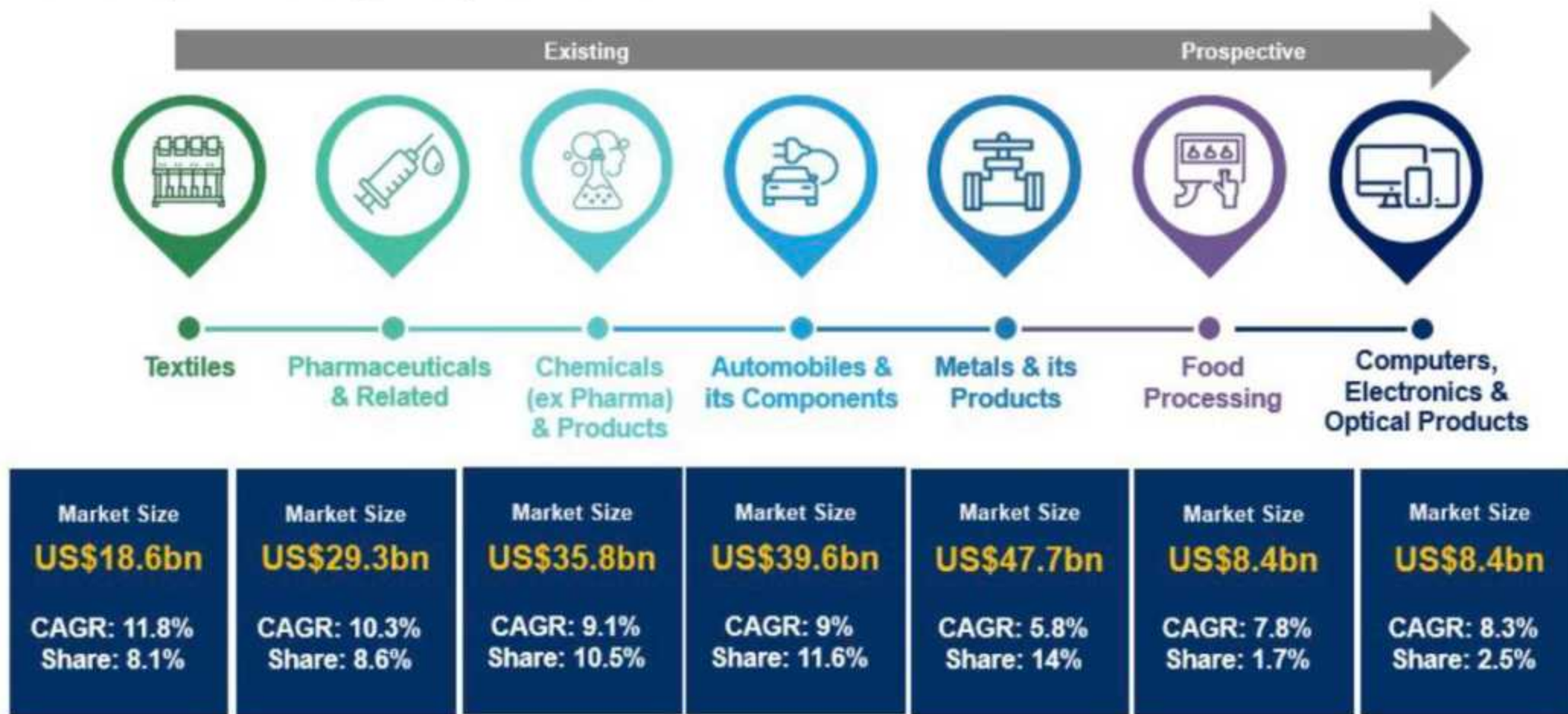
Reforms, ease of doing business

Exhibit 27: Supply-side reforms to make doing business easier

| Measure | Objective and impact |
|--------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Production-Linked Incentives | Boost large-scale domestic manufacturing in 14 sectors to reduce imports and increase global market penetration |
| Labor Reforms | Codification and rationalization of labor laws to facilitate flexibility in implementation. Key states have taken the lead in tweaking state labor laws |
| Land Reforms | Creation of land banks so as to make land easily identifiable for industrial projects and simultaneously provide details about logistics |
| Direct Benefit Transfers | Government benefits and subsidies are transferred directly to citizens living below the poverty line. This facilitates transparency and reduces system leakage |
| Direct Benefit Transfer: e-RUPI | e-RUPI are non-transferable prepaid vouchers delivered to the mobile phones of beneficiaries in an SMS string or a QR code. They do not require beneficiaries to have a bank account, thus ensuring access to welfare benefits for the unbanked population |
| Tax | <p>The corporate tax rate was reduced from 25% to 15% for new manufacturing firms, bringing it broadly in line with other Asian countries</p> <p>The Goods and Services Tax was introduced in 2016, with the objective of simplifying the tax system by subsuming all indirect taxes and establishing 'One Nation, One Tax'. It helps avoid cascading of taxes and is easy to administer</p> <p>Abolition of the retrospective tax ensures that no tax demand shall be raised on the basis of a retrospective amendment for any indirect transfer of Indian assets for a transaction before 28 May 2012</p> |
| National Asset Monetization Plan | National Monetization Pipeline to monetize the core assets of the central government through F2025. The pipeline is expected to realize potential funds worth Rs6trn through capital recycling of about 20 infrastructural sub-sectors, with the share of roads being the highest at 27% of the total. |
| PM Gati Shakti | With an allocation of Rs100trn, the PM Gati Shakti master plan aims at coordinating the planning of all infrastructure connectivity projects announced under the National Infrastructure Pipeline. It aims at minimizing delays between the government and stakeholders by focusing on ending inter-ministerial silos |
| Insolvency and Bankruptcy Code | Considered one of the biggest insolvency reforms in modern Indian history, the code was enacted for the reorganization and insolvency resolution of corporate persons, partnership firms and individuals in a time-bound manner for the maximization of asset values |
| National Asset Reconstruction Company Limited (NARCL) | The central government has approved a guarantee of Rs306bn to back security receipts issued by NARCL to set up a 'bad bank' for acquiring stressed loan assets. The guarantee by the government will help provide contingency buffers, impart credibility, and enhance liquidity (the security receipts are tradable) |
| Inflation Targeting & Monetary Policy Committee | The RBI adopted the flexible inflation-targeting framework in 2016, with the primary objective of ensuring price stability, i.e. keeping inflation at 4% within a tolerance of $\pm 2\%$ while also focusing on economic growth. Further, rate decisions are now taken by a monetary policy committee consisting of external and internal (RBI) members |

Production-Linked incentives to focus industries

Exhibit 38: Snapshot of existing and targeted industries



Source: CSO, CMIE, Morgan Stanley Research. Note: Market size is as of F21 and CAGR is for F2012-2021. Share is the share of respective sectors in manufacturing GVA

Defense manufacturing is a big thrust area

Exhibit 41: F25 defense production target: Rs1.75trn



Source: Ministry of Defence, Morgan Stanley Research

Exhibit 42: F25 defense export target: Rs350bn



Source: Ministry of Defence, Morgan Stanley Research

Roads and Railway

RAILWAY SPEND

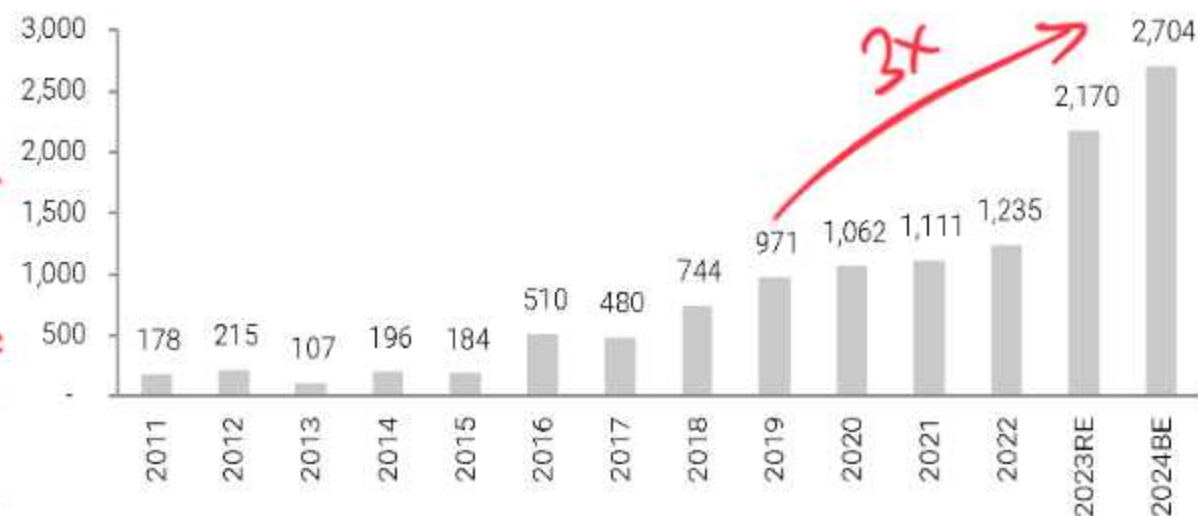
Healthy increase seen in overall railway spending over the last few years

Break-up of investment spends of Indian railways, March fiscal year-ends, 2016-24BE (Rs bn)

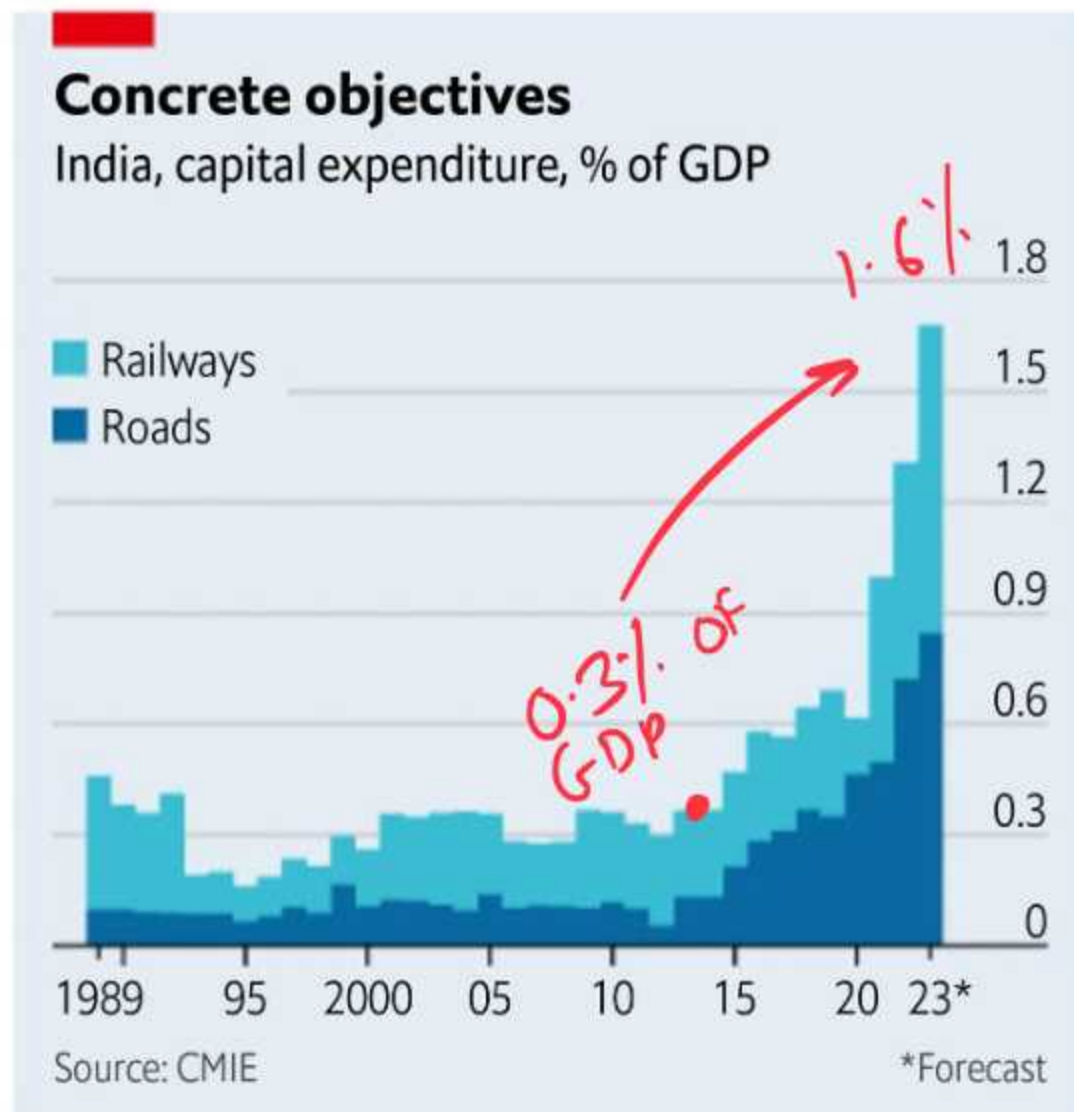
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023RE | 2024BE |
|-----------------------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| New lines (construction) | 202 | 143 | 82 | 94 | 127 | 149 | 212 | 260 | 319 |
| Gauge conversion | 36 | 38 | 29 | 42 | 41 | 40 | 28 | 38 | 46 |
| Doubling | 105 | 91 | 112 | 154 | 224 | 242 | 322 | 425 | 308 |
| Traffic facilities | 13 | 9 | 12 | 11 | 16 | 12 | 27 | 47 | 67 |
| Rolling stock | 194 | 196 | 201 | 283 | 371 | 322 | 414 | 600 | 475 |
| Leased Assets | 63 | 70 | 80 | 91 | 105 | 119 | 146 | 189 | 222 |
| Road safety, track renewals | 86 | 83 | 109 | 132 | 113 | 158 | 183 | 196 | 247 |
| Inv. In undertakings | 100 | 72 | 49 | 127 | 169 | 156 | 258 | 290 | 344 |
| Metro transport projects | 13 | 14 | 8 | 12 | 15 | 15 | - | 35 | 50 |
| Others | 124 | 384 | 337 | 387 | 299 | 1,131 | 287 | 372 | 525 |
| Total | 935 | 1,099 | 1,020 | 1,333 | 1,481 | 2,346 | 1,878 | 2,453 | 2,602 |

Source: Indian Railways, Kotak Institutional Equities

Overall spending in roads sector, March fiscal year-ends, 2011-24BE (Rs bn)

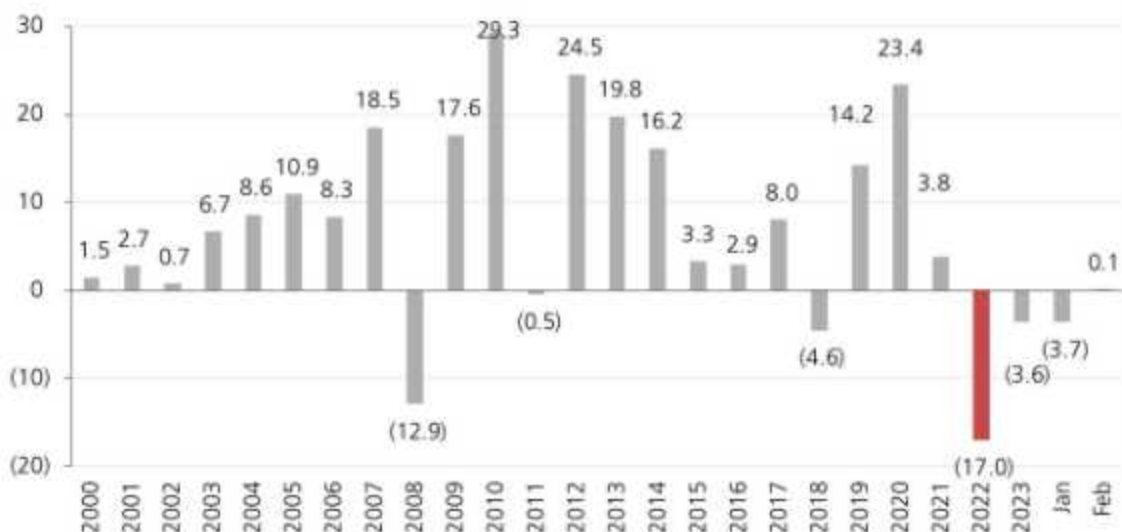


Source: NHA, Kotak Institutional Equities



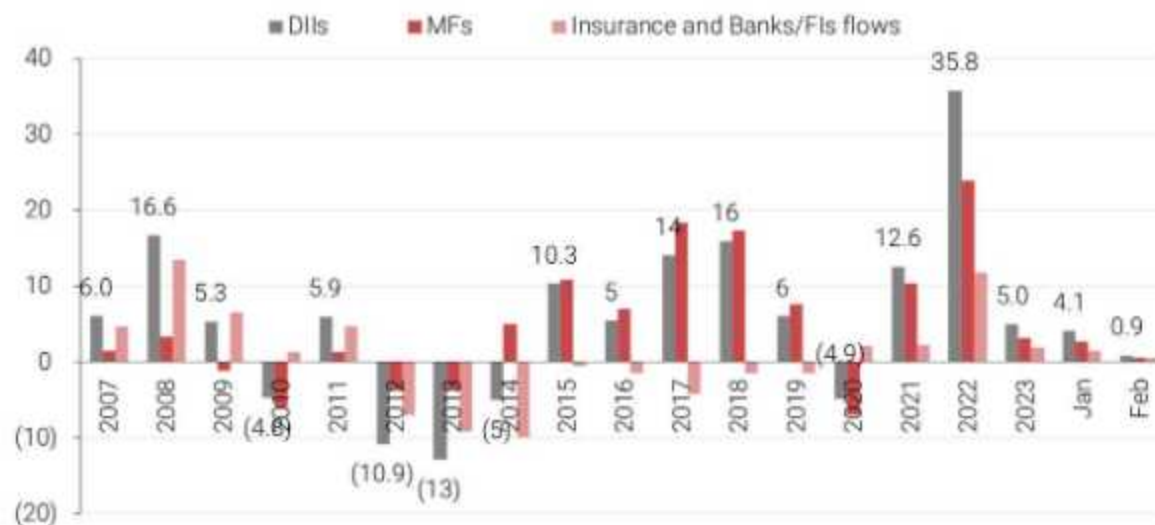
Capital Markets and Fund Flows

FPI flows in equity segment, calendar year-ends, 2000-23 (US\$ bn)



Source: SEBI, Kotak Institutional Equities

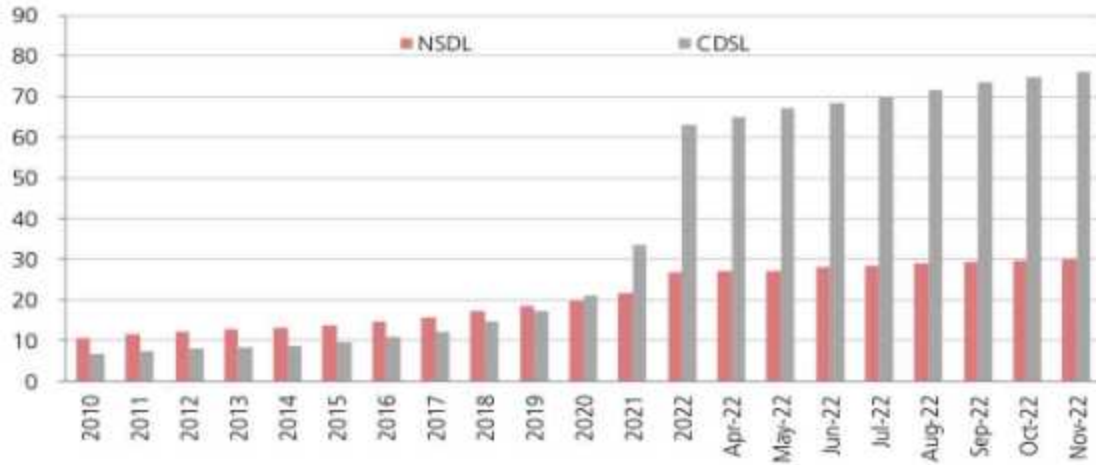
Equity flows by domestic institutions, calendar year-ends, 2007-23 (US\$ bn)



Source: Bloomberg, Kotak Institutional Equities

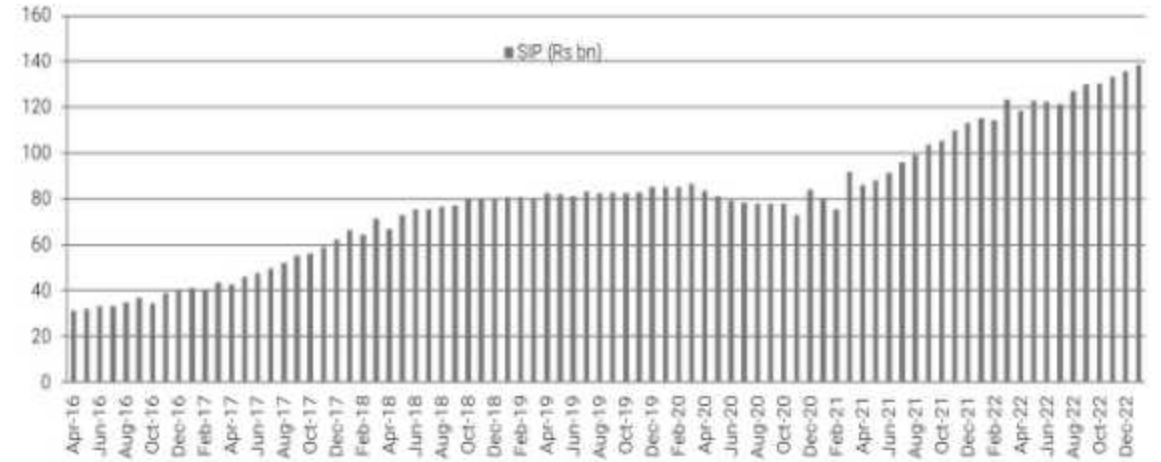
Investor account doubled in past five years

Number of investor accounts in CDSL and NSDL, March fiscal year-ends, 2010-23 (mn)



Source: SEBI, Kotak Institutional Equities

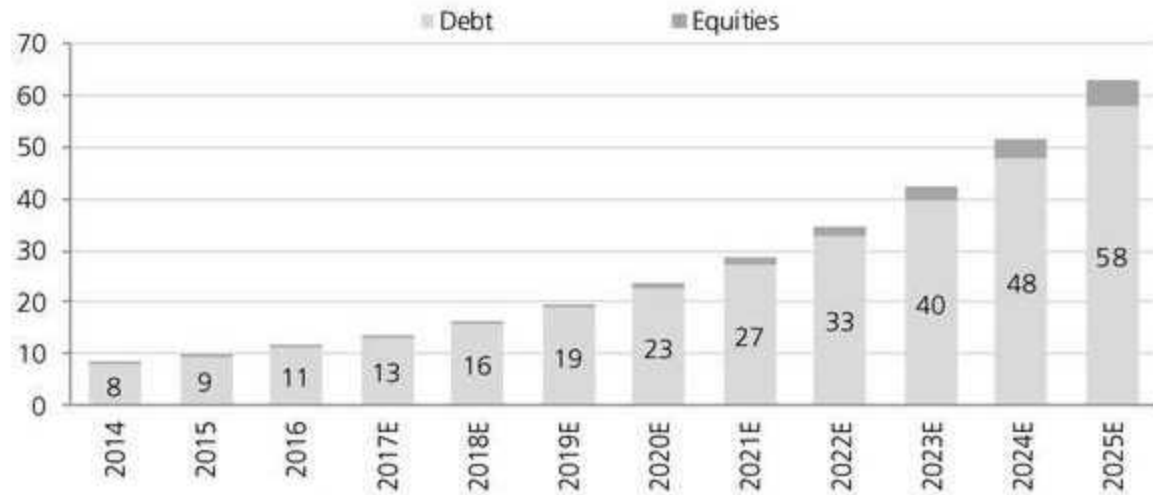
SIP flows, March fiscal year-ends, 2017-23 (Rs bn)



Source: AMFI, Kotak Institutional Equities

Retirement funds could manage Rs60 tn of assets by 2025E

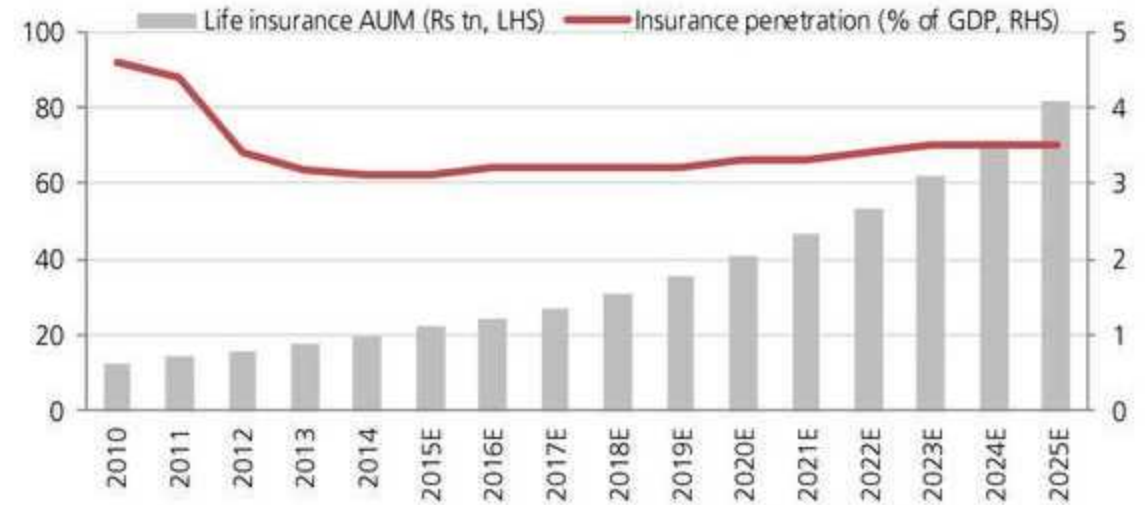
Cumulative assets of the EPF and the NPS, March fiscal year-ends, 2014-25E (Rs tn)



Source: Kotak Institutional Equities estimates

Insurance AUM to increase 4X over 10 years

Life insurance assets under management and insurance penetration



Source: Kotak Institutional Equities estimates

MF AUM has been increasing consistently since FY2012

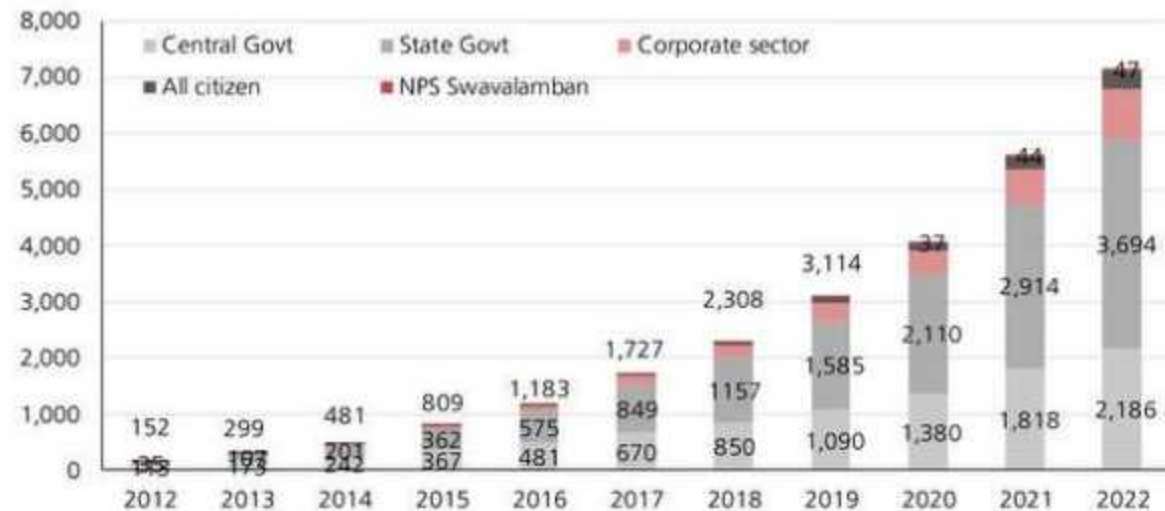
MF AUM, March fiscal year-ends, 2012-22 (Rs tn)



Source; AMFI, Kotak Institutional Equities

NPS AUM has seen strong growth in the past few years

NPS AUM, March fiscal year-ends, 2012-22 (Rs bn)



Source: NPS Trust, Kotak Institutional Equities

Thank You!

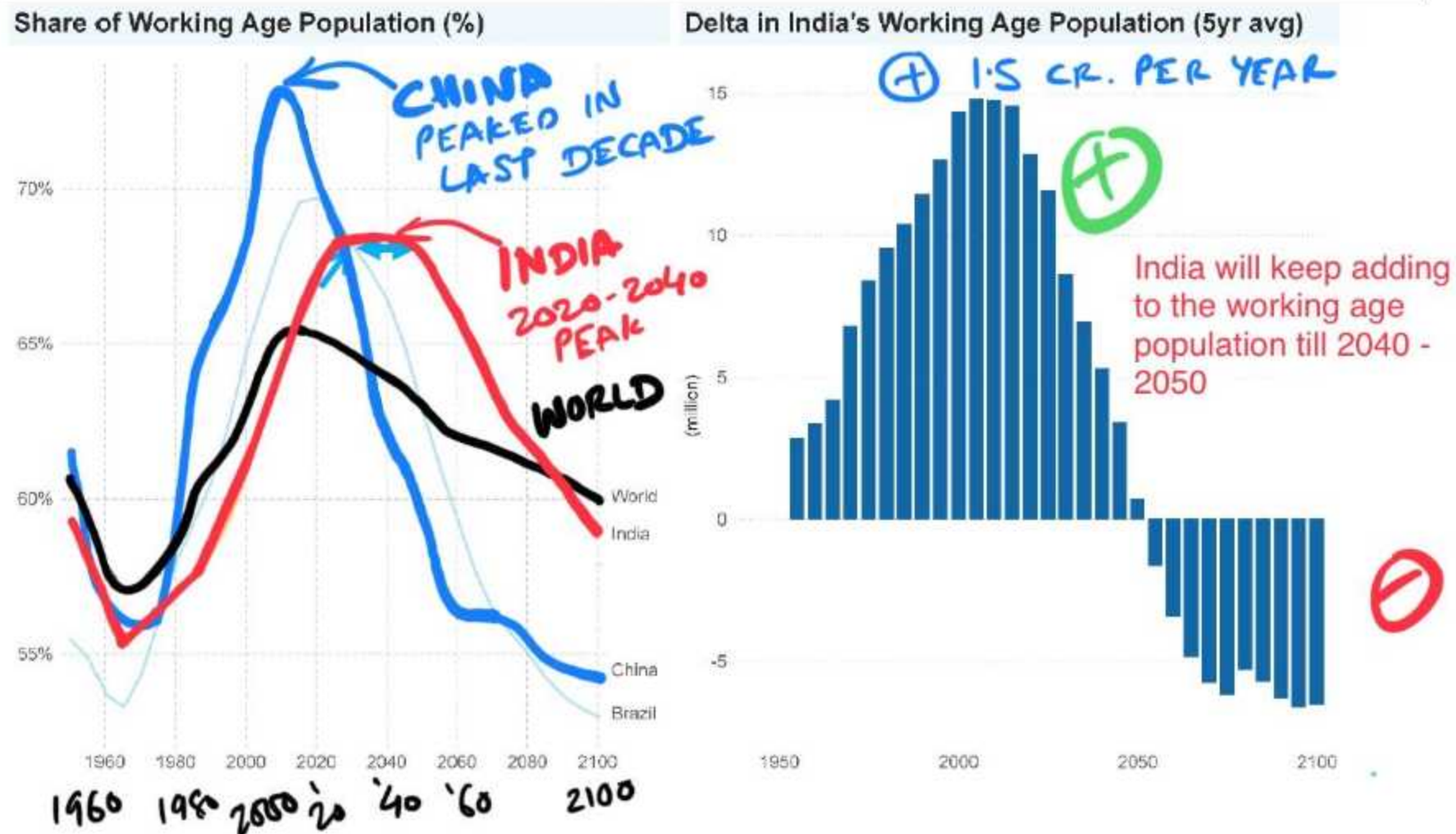
Twitter:

@theMihirV

Demographics

Demographics : India's inherent strength which cannot be reversed

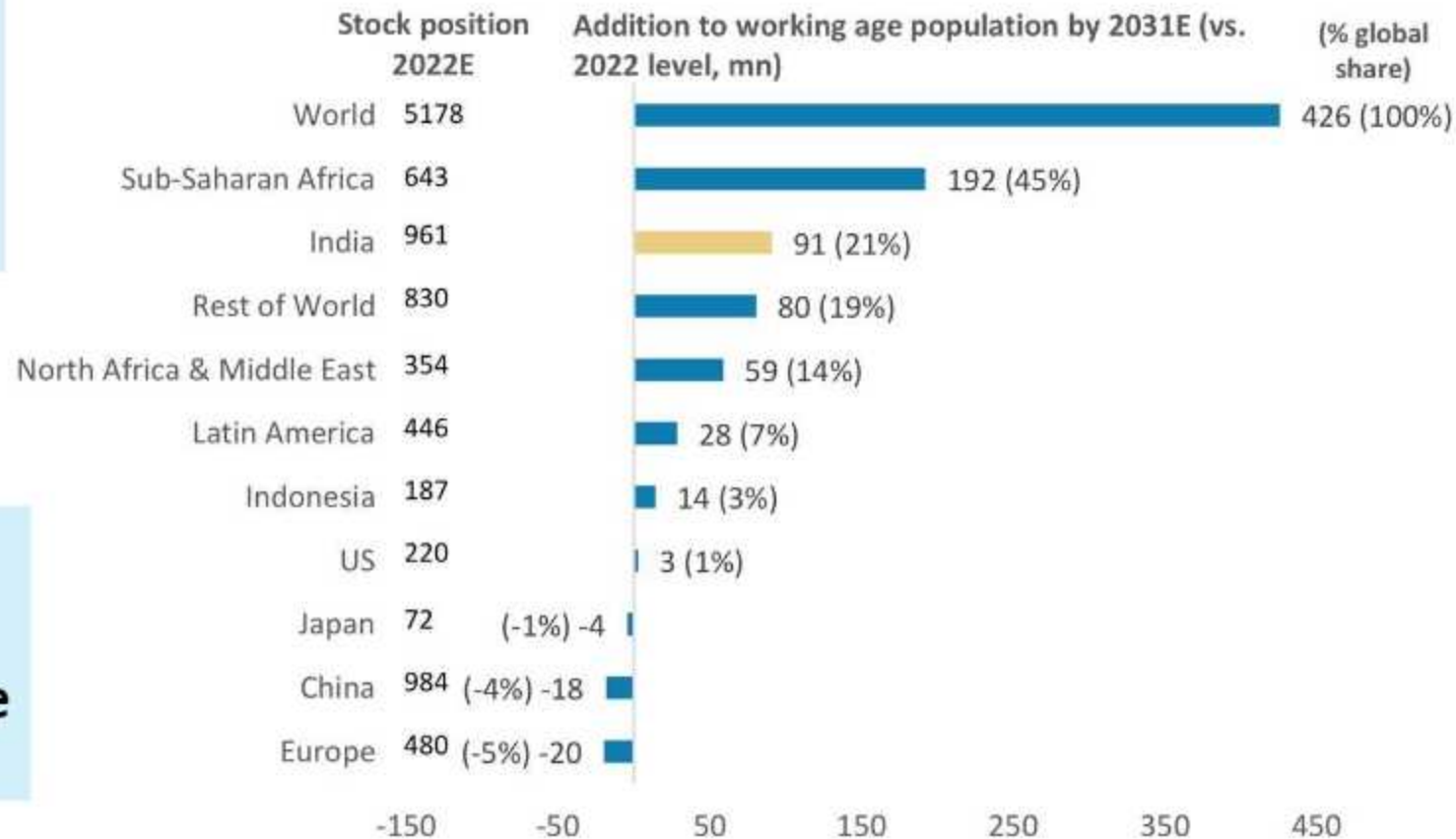
Fig 3 India versus world – working-age population – China has already passed the peak, while India is set to see further increases followed by a long plateau over the next two decades



Demographics :

India will add **20%** of the incremental workforce of the world in 20 years

India will contribute to **20%** of the world's GDP Growth in the next 10 years



Source: Haver, UN forecasts, Morgan Stanley Research. Note: Sub-Saharan Africa and North Africa & Middle East as regional aggregates defined by UN under their sustainable development goal.

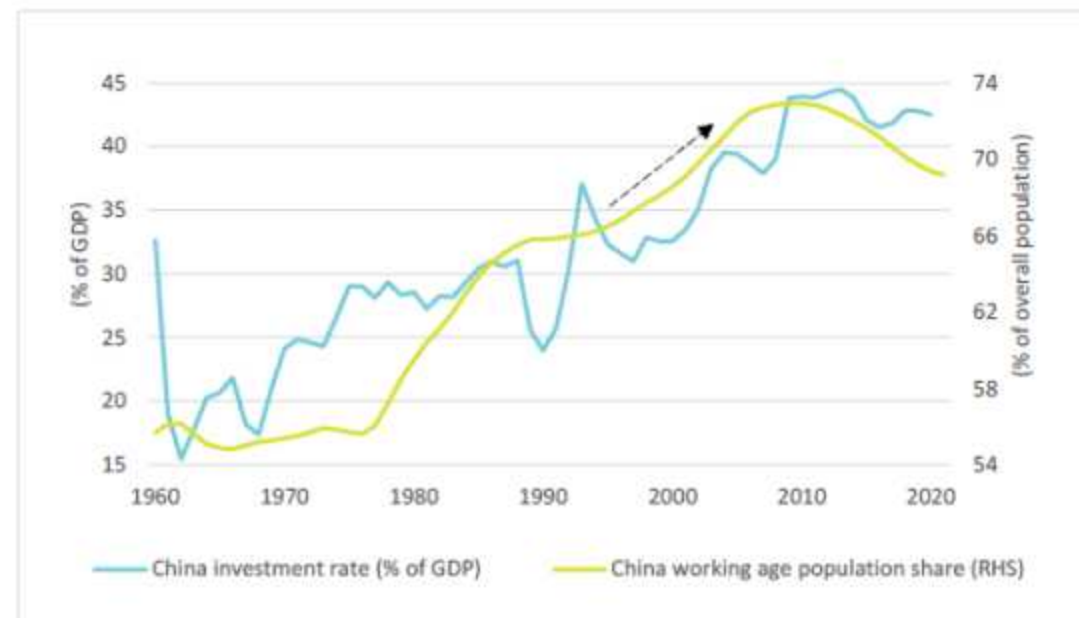
A young population fosters savings and investment boom

Demographic edge led to investment boom in South Korea...



Source: World bank, UN, Nuvama Research

...as well as in China



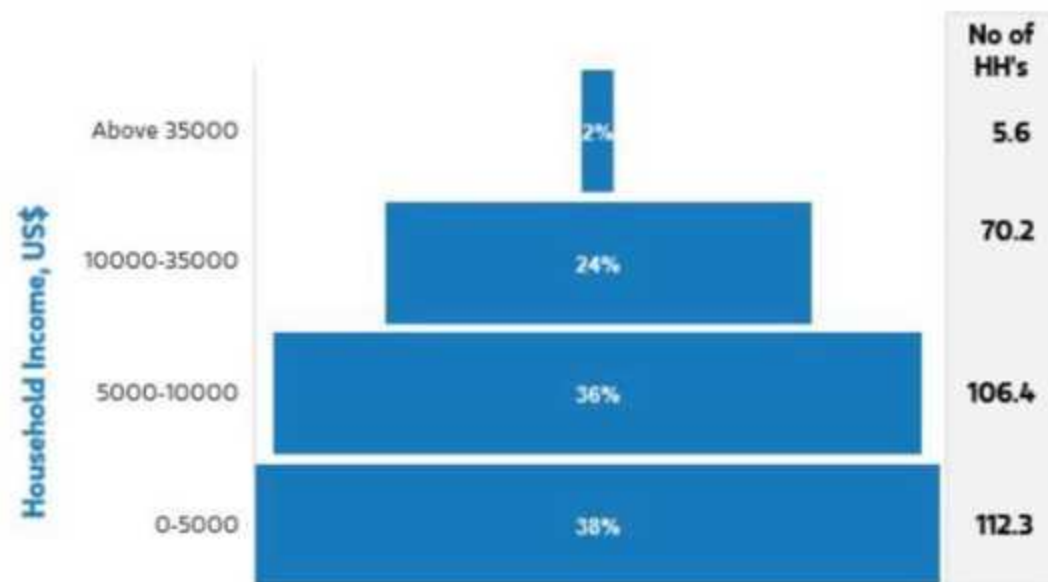
Source: World bank, UN, Nuvama Research

Income level shifts will add exponentially to market sizes

Exhibit 4: Major shift coming in India's income pyramid

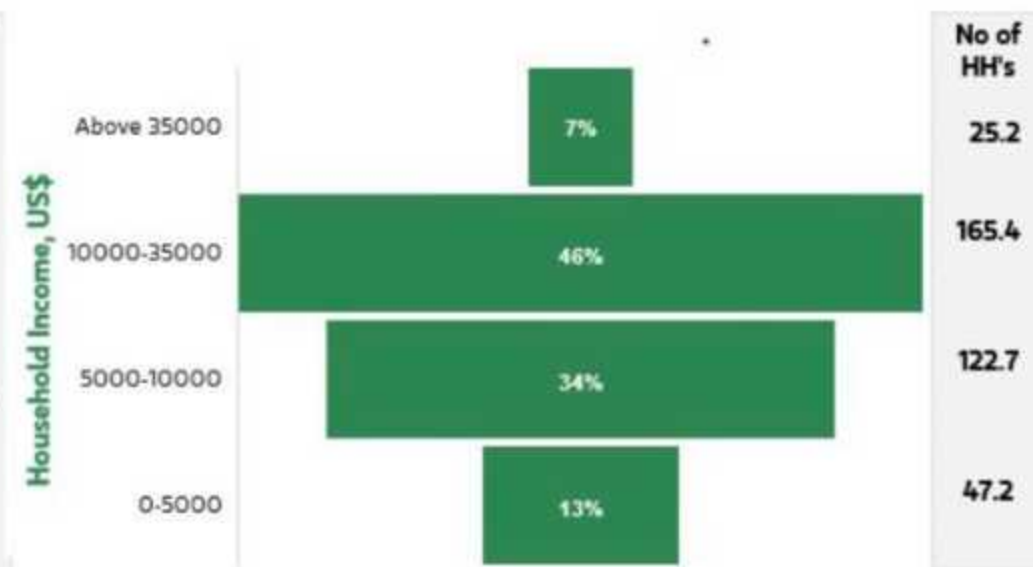
2021 Households by Income Distribution

Households: 294.8mn
GDP per capita: \$2278



2031 Households by Income Distribution

Households: 360.5mn
GDP per capita: \$5242



Source: Morgan Stanley Research estimates