

# **α** ALPHA STRATEGIST

## “Infranomics”



**WINNING PORTFOLIOS  
POWERED BY KNOWLEDGE**

November 2023 | Issue No. 131



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# India's GDP growth trajectory expected

## Making its way to the podium

Top 15 countries, GDP in USD

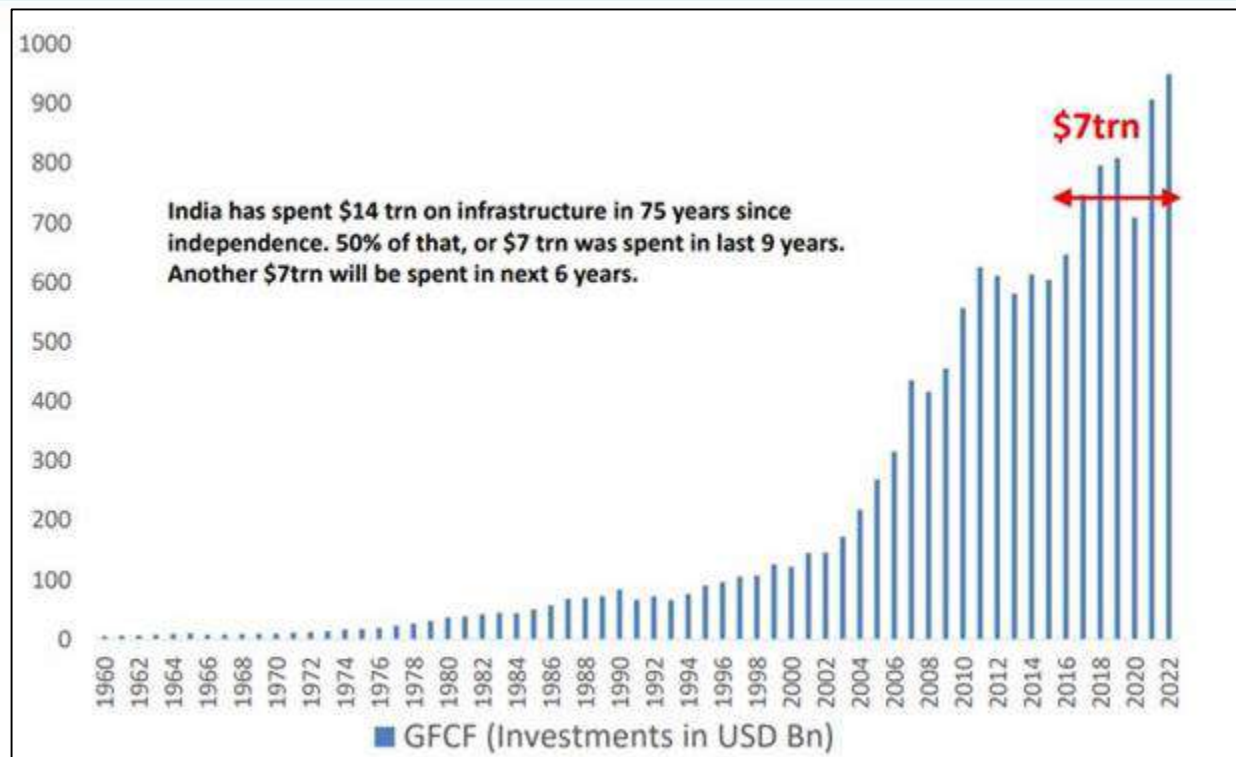
	2013	2023	2028
1	United States	United States	United States
2	China	China	China
3	Japan	Japan	India
4	Germany	Germany	Japan
5	France	India	Germany
6	United Kingdom	United Kingdom	United Kingdom
7	Brazil	France	France
8	Russia	Italy	Brazil
9	Italy	Canada	Canada
10	India	Brazil	Italy

Source: IMF April 2023 World Economic Outlook, UBS, as of 5 October 2023

- India has moved up the ranks of global GDP from 10<sup>th</sup> place 20 years ago to 5<sup>th</sup> place today and is en-route to become the world's 3<sup>rd</sup> largest economy by 2028, according to the IMF.
- One of the key underlying factors of GDP growth is **Infrastructure** development.



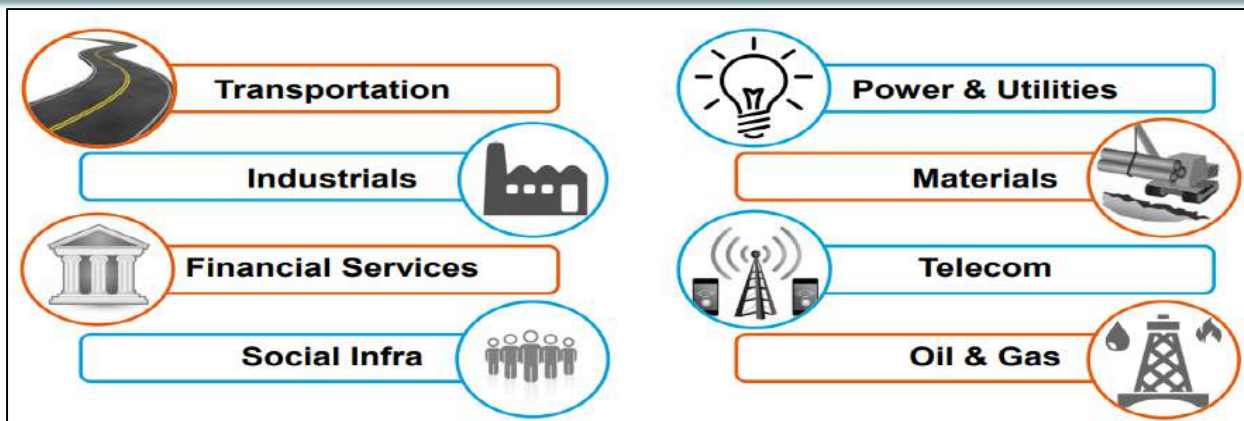
# India's Infrastructure Upsurge



- India's Investment to GDP ratio (measured by gross fixed capital formation to GDP) peaked in 2011 & remained low until COVID-led disruption upended the supply chains.
- There has been a spend of \$14 trn on investments since independence. This includes spending on housing by households, infra creation by Government, & private capital expenditure.
- **India has spent \$7 trn on new investments over the last 9 years. As the base becomes large this number is likely to repeat itself in the next 6 years**



# Infrastructure - Core Sectors



Allocation towards	Current	Target for 2025	Target of Adding
Length of national Highways (Kms)	1,40,995	2,00,000	42%
Railway – Cargo Capacity (Mn Tonnes)	1,231	1,600	30%
No. of Airports/ Heliports / Water/ Aerodromes	148	220	49%
Major port capacity (MMTPA)*	1,282	1,759	37%
Total length of Gas pipelines (Kms)	21,102	34,500	63%







\*Million Metric Tonnes Per Annum; Source: PM GatiShakti Report, Statista, PIB, MoPnG,

- In the Budget of FY24, Rs. 10 lakh crore of capex was allocated towards Infrastructure Development.

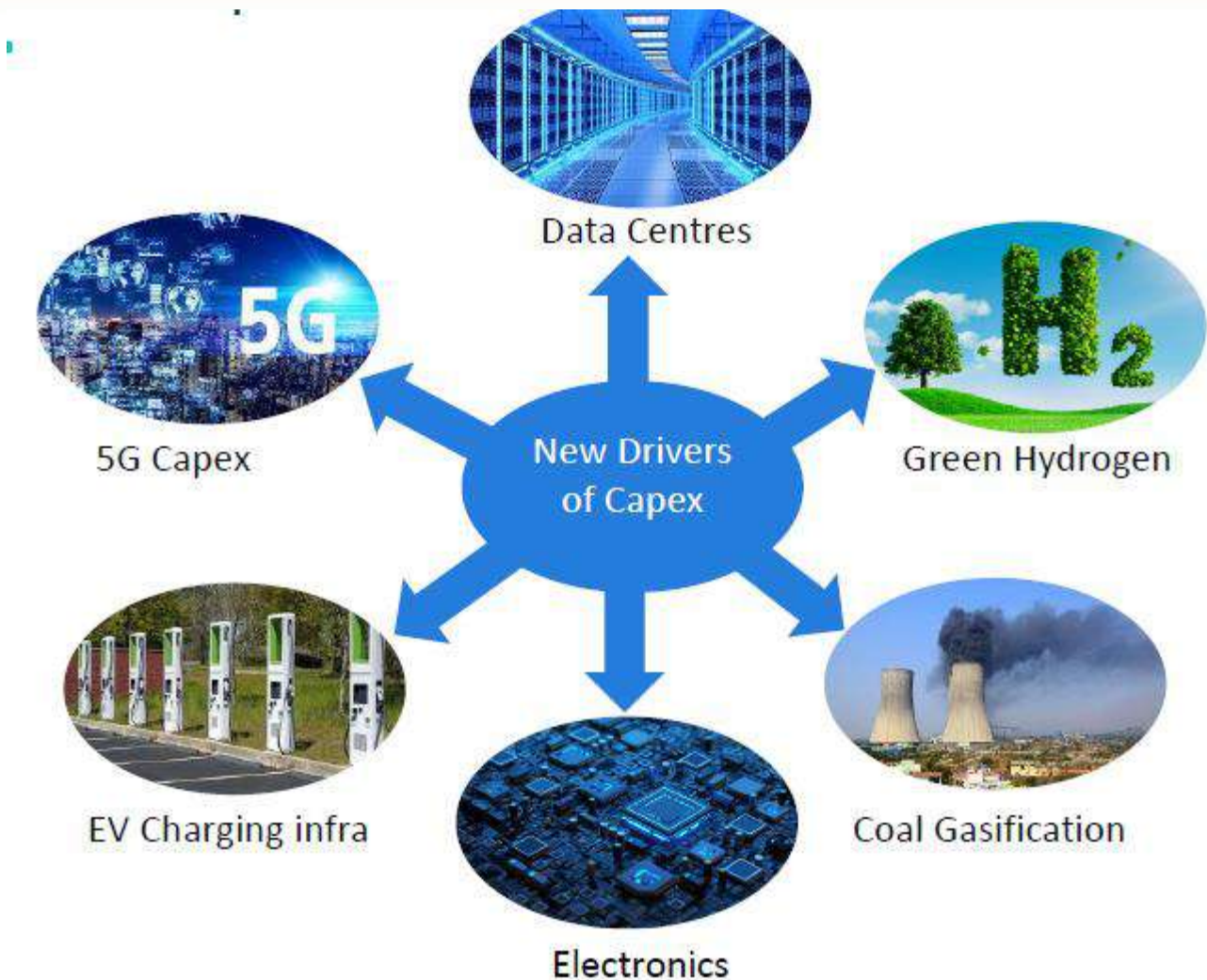




# Multiple drivers for cyclical recovery

SECTORS	DRIVERS
 <b>MANUFACTURING</b>	Government policy such as tax concessions, Performance Linked Incentives (PLI) and duties/imports bans to drive investments. India benefiting from China + 1 and Europe + 1 trend.
 <b>RENEWABLES &amp; TRANSITION</b>	Renewable capacity addition required to meet the incremental demand is many times larger. Storage, Hydrogen and electrification of transport are key drivers
	<b>URBAN INFRASTRUCTURE</b> Government is significantly increasing investments on Urban transport like Metro, water supply, effluent treatment and smart infrastructure
	<b>ROADS</b> New greenfield corridors being planned as expressways (e.g. the Mumbai-Nagpur, Mumbai-Delhi corridors)
	<b>RAILWAYS</b> Investments in areas such as Dedicated Freight Corridors, Bullet Trains, Station Development. Indian Railways has scaled up the capex to Rs 2.5 lakh cr. annually
	<b>REAL ESTATE</b> Inventory levels has dropped significantly, and new launches being planned in affordable segments. Real estate cycle revival after long down cycle.
	<b>METALLURGY, CEMENT, AUTO AND TELECOM</b> Several corporates have announced capital expenditure to meet rising demand. Strong balance sheets and improved profitability supporting the rising capex
 <b>DEFENSE</b>	Positive indigenization lists (imports ban, strategic partnerships) of USD 3 bn will benefit defense sector
 <b>LOGISTICS, DATA CENTERS &amp; WAREHOUSING</b>	Stronger manufacturing ecosystem, tax reforms and rise of ecommerce and recent national logistics policy to boost investments in logistics and warehousing. Increased data handling with localization norms to aid data centers







# NSE 500 Ex Financials

## Trend in capacity utilization (Asset Turnover)

					(3)		(2)	(1)	Figures in INR bn.		
	FY	Sales	PAT	Total Assets	Total Debt	Total Debt / Equity	EBITDA Margin	Asset Turnover	ROE	10 yr G-Sec Yield	Spread
(1) (2) (3)	FY99	3,095	160	4,593	1,778	1.0	13.8%	0.7		12.0%	
	FY00	3,844	192	4,957	1,803	0.9	12.8%	0.8	9.9%	10.8%	-0.8%
	FY01	4,672	266	5,434	1,868	0.8	12.6%	0.9	12.1%	10.3%	1.8%
	FY02	4,876	230	5,899	1,936	0.8	12.9%	0.8	9.7%	7.4%	2.3%
	FY03	7,095	482	7,859	2,237	0.7	14.3%	0.9	17.5%	6.1%	11.4%
	FY04	8,316	672	8,808	2,392	0.7	14.7%	0.9	20.0%	5.1%	14.9%
	FY05	10,741	1,029	11,164	2,759	0.6	15.9%	1.0	24.4%	6.7%	17.7%
	FY06	12,893	1,149	13,539	3,492	0.6	14.1%	1.0	21.4%	7.6%	13.9%
	FY07	16,862	1,708	18,475	5,171	0.6	16.0%	0.9	25.0%	8.0%	17.0%
	FY08	21,700	2,248	26,055	7,845	0.7	15.7%	0.8	24.5%	7.9%	16.5%
	FY09	26,719	1,879	33,404	10,979	0.8	12.8%	0.8	15.9%	7.0%	8.9%
	FY10	27,591	2,401	38,220	11,803	0.7	14.7%	0.7	16.7%	7.9%	8.9%
	FY11	33,986	2,942	47,570	15,198	0.8	15.2%	0.7	17.0%	8.0%	9.0%
	FY12	42,803	2,855	57,075	19,439	0.9	14.0%	0.7	14.2%	8.6%	5.7%
	FY13	47,117	2,694	61,848	21,941	1.0	13.1%	0.8	12.4%	8.0%	4.4%
	FY14	51,252	3,141	70,520	25,171	0.9	14.0%	0.7	13.1%	8.8%	4.3%
	FY15	52,021	2,768	75,053	26,658	1.0	14.1%	0.7	10.6%	7.7%	2.9%
	FY16	48,592	2,754	76,969	26,168	0.9	14.9%	0.6	10.0%	7.5%	2.6%
	FY17	54,480	3,650	81,392	26,604	0.9	15.0%	0.7	12.6%	6.7%	5.9%
	FY18	58,812	3,902	86,042	26,978	0.8	14.6%	0.7	12.6%	7.4%	5.3%
	FY19	69,706	4,300	96,213	29,979	0.8	14.7%	0.7	12.7%	7.3%	5.3%
	FY20	69,124	2,758	1,01,858	31,809	0.8	14.3%	0.7	7.6%	6.1%	1.4%
	FY21	66,067	4,464	1,06,091	29,444	0.7	17.3%	0.6	11.3%	6.2%	5.1%
FY22	84,072	7,267	1,16,645	29,624	0.6	16.7%	0.7	16.2%	6.8%	9.4%	
FY23	1,06,757	6,583	1,28,036	34,309	0.6	13.4%	0.8	13.3%	7.3%	6.0%	

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

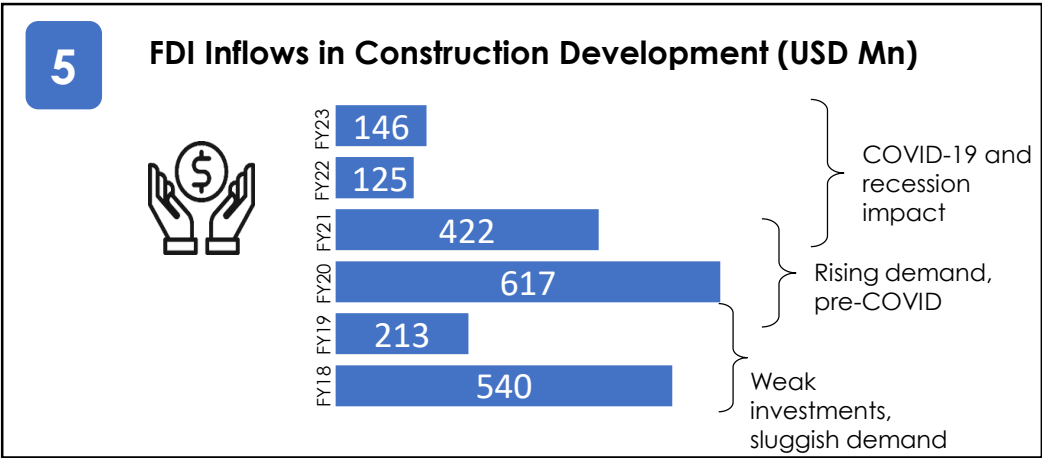
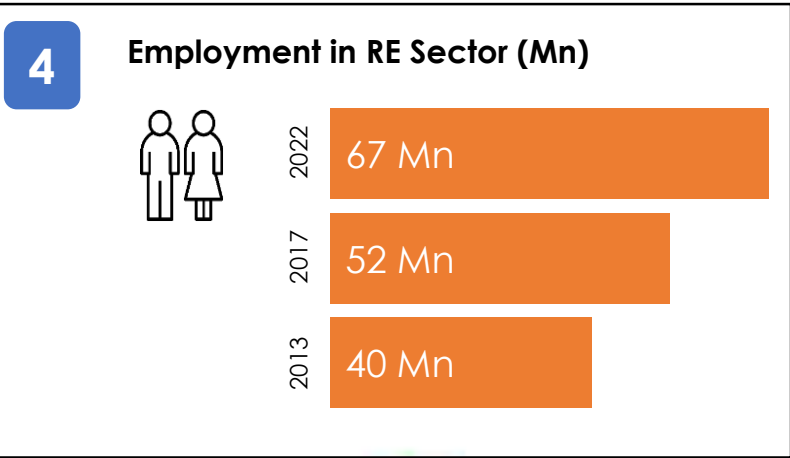
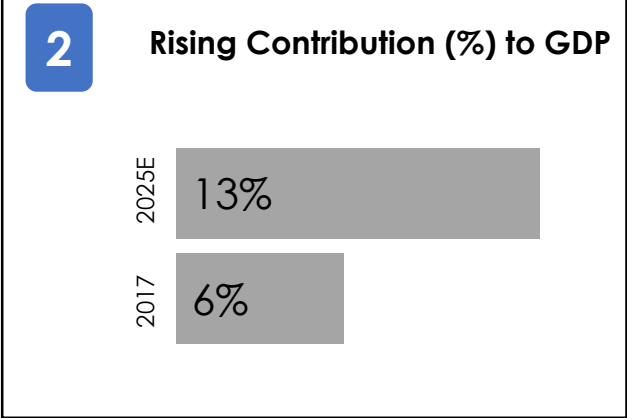
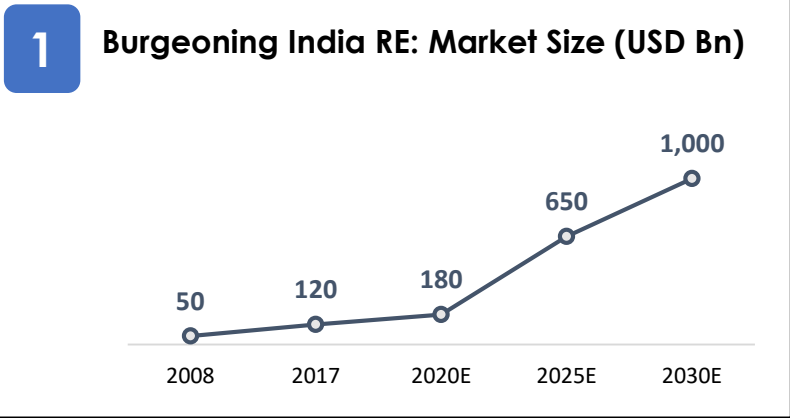
Source: ACE Equity

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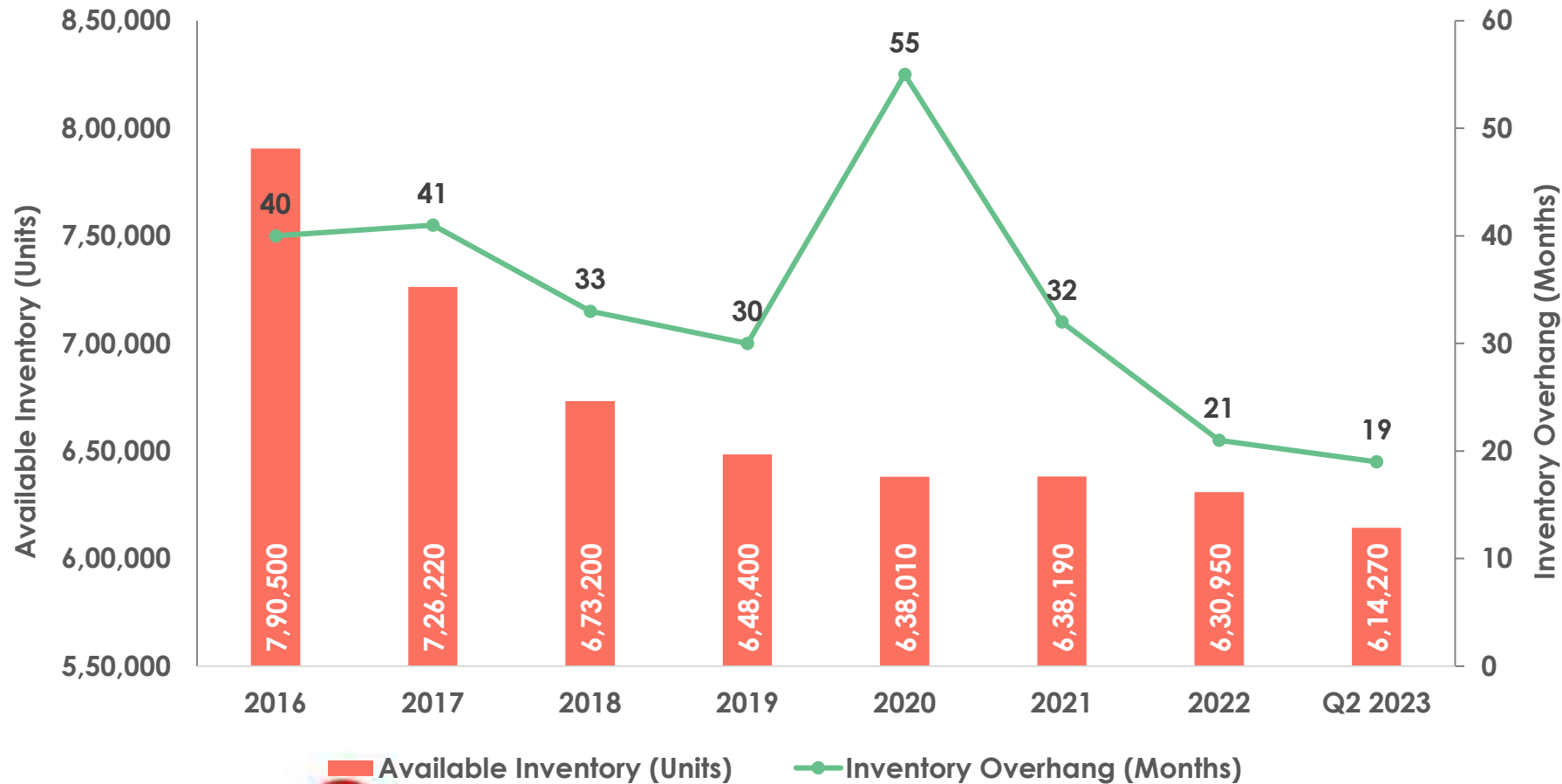


An organised sector and a key contributor to the economic growth and employment generation



# Improving Demand in Residential Segment

Strong sales amidst controlled supply led to a continuous decline in inventory overhang



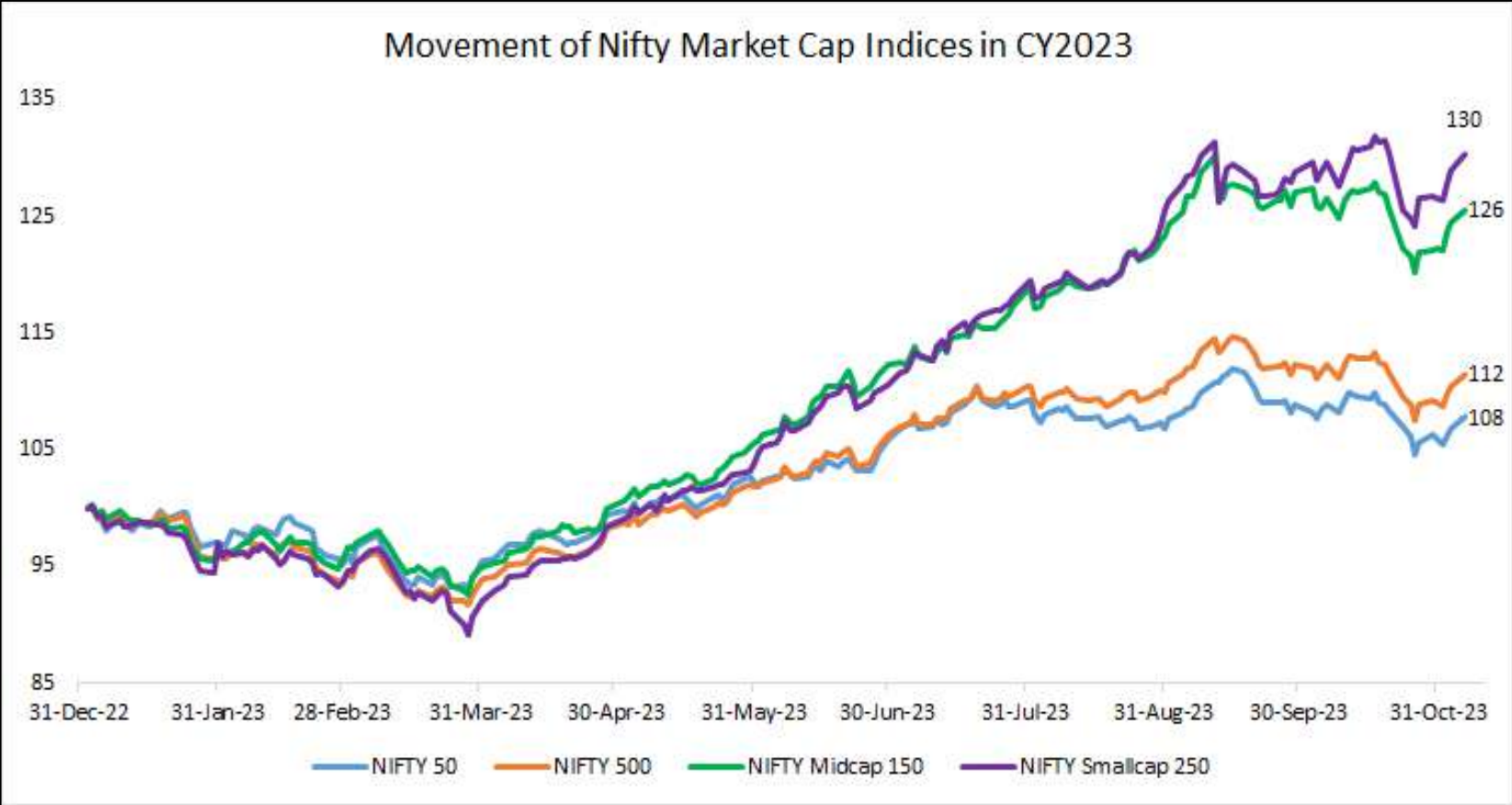


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Index Values are based to 100 at the start of this calendar year





# Nifty TRI Indices Performance – Wide Sectoral Divergence

TRI Indices	1st Jan 23 - 15th Sep 23	16th Sep 23 - 6th Nov 23	1st Jan 23 - 6th Nov 23
Nifty 50	11.9%	-3.7%	7.8%
Nifty 500	14.7%	-2.8%	11.5%
Nifty Midcap 150	27.8%	-1.7%	25.6%
Nifty Smallcap 250	29.5%	0.7%	30.4%
TRI Indices	1st Jan 23 - 15th Sep 23	16th Sep 23 - 6th Nov 23	1st Jan 23 - 6th Nov 23
Nifty Auto	30.6%	-1.5%	28.6%
Nifty Pvt Bank	9.5%	-5.2%	3.8%
Nifty PSU Bank	16.9%	-0.9%	15.8%
Nifty FMCG	18.7%	0.6%	19.3%
Nifty Infra	19.4%	-0.5%	18.9%
Nifty IT	17.4%	-6.5%	9.7%
Nifty Metal	2.5%	-6.6%	-4.3%
Nifty Oil & Gas	-4.8%	-1.9%	-6.6%

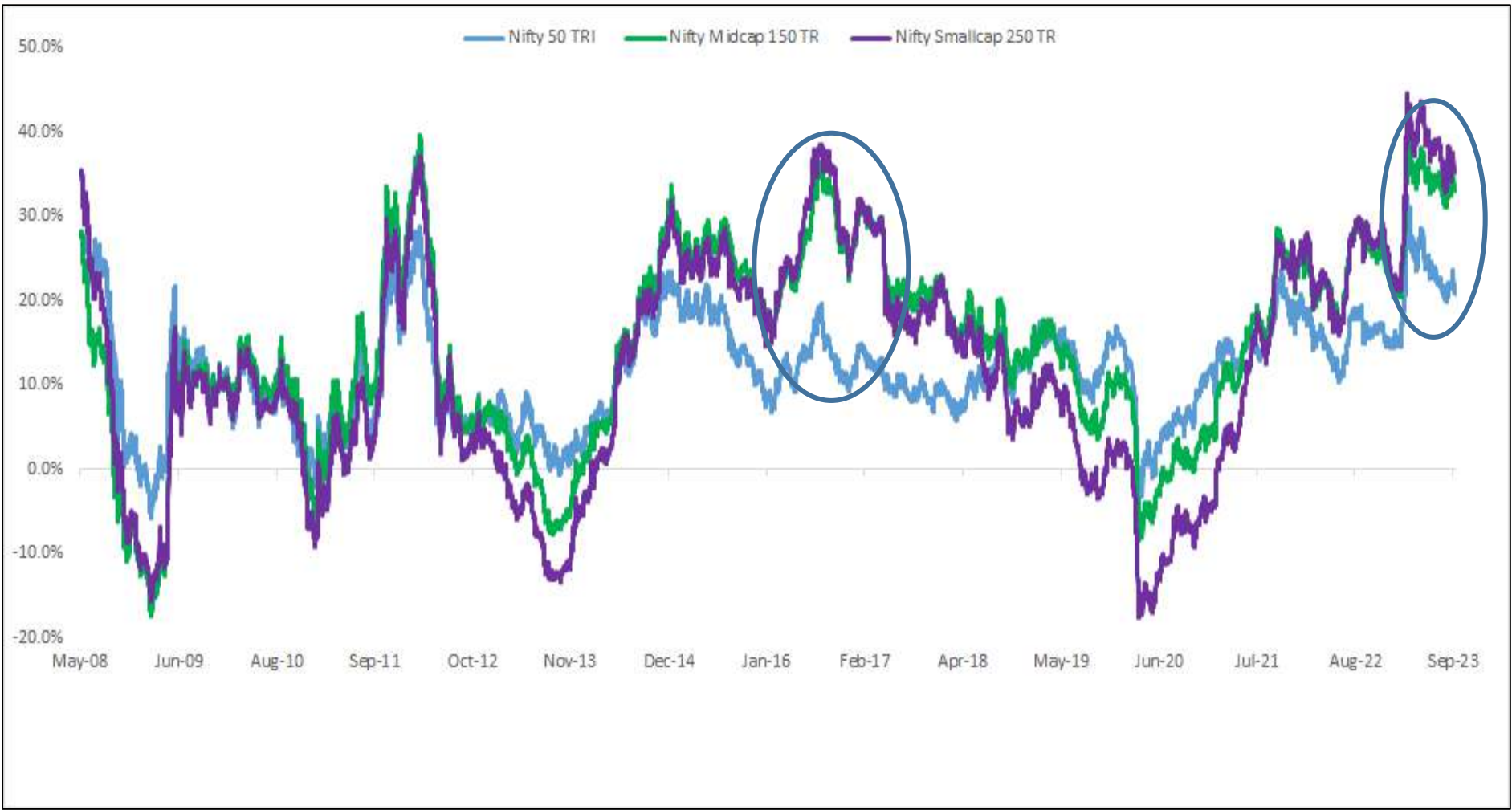


# Market Cap Indices – Fundamental Indicators

Indices	Quants	Current	Peak	10 Year average
Nifty 50	PE	20.96	28.17	24.55
	PB	3.41	4.63	3.63
	ROE	16.27%	16.44%	15.14%
Nifty 500	PE	22.05	29.48	26.96
	PB	3.45	4.50	3.37
	ROE	15.65%	15.26%	12.91%
Mid cap 150	PE	25	35.46	31.41
	PB	3.55	4.19	2.94
	ROE	14.20%	11.82%	10.00%
Small cap 250	PE	24.24	30.8	33.26
	PB	3.18	3.85	2.24
	ROE	13.12%	12.50%	8.69%



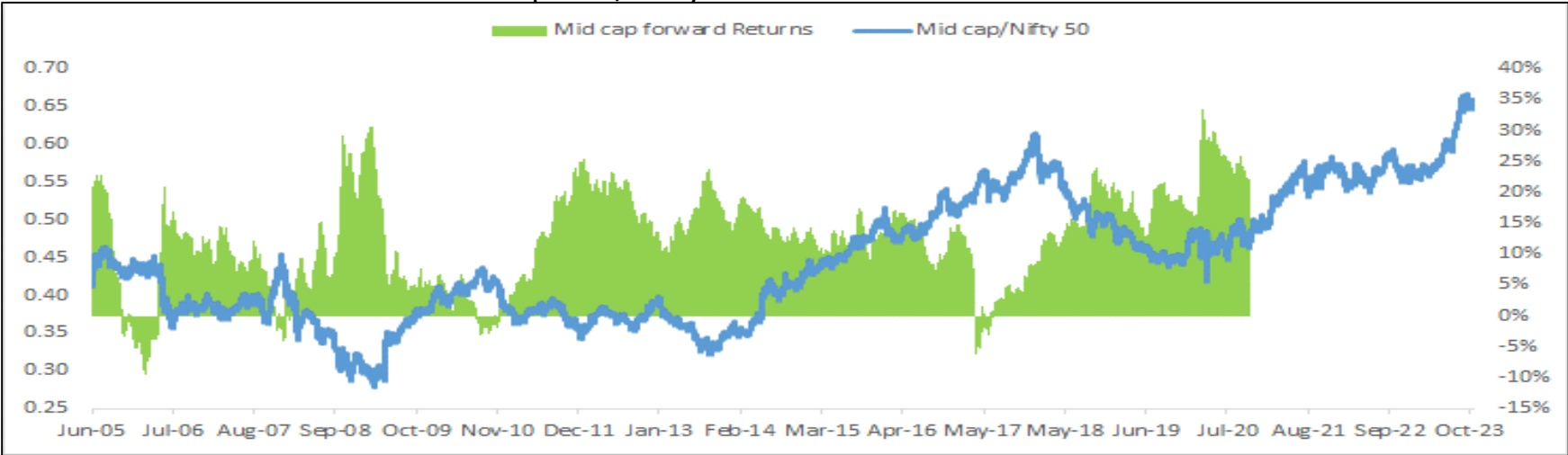
# Large, Mid & Small Cap Indices – 3 Year Rolling Returns



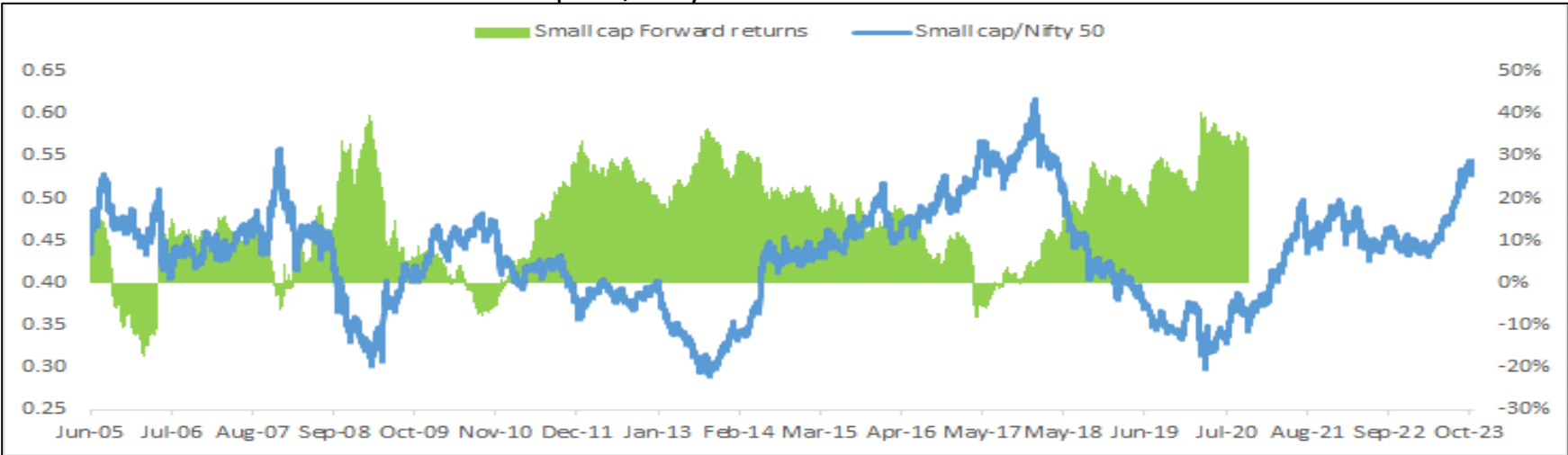
Source: NSE, Internal Research



Mid Cap 150 / Nifty 50 Ratio & 3Yr Forward Returns

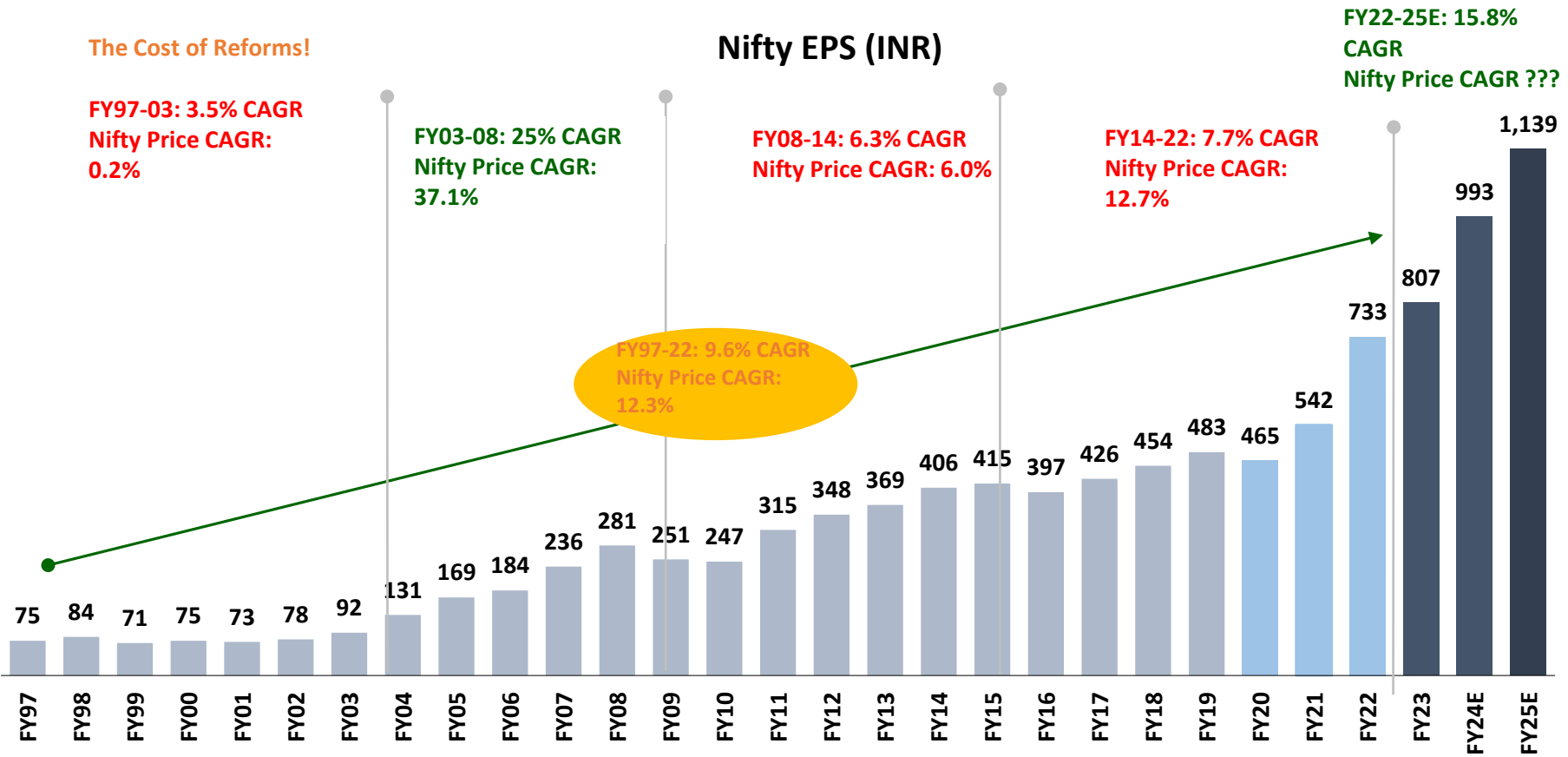


Small Cap250/Nifty50 Ratio & 3Yr Forward Returns





# Nifty 50 - Earnings Growth Outlook

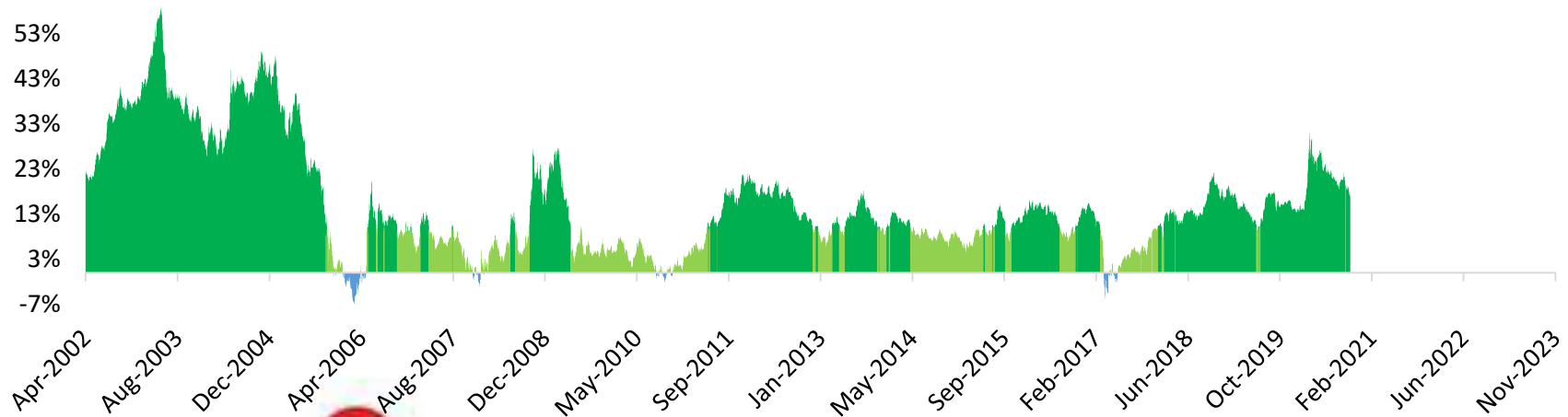
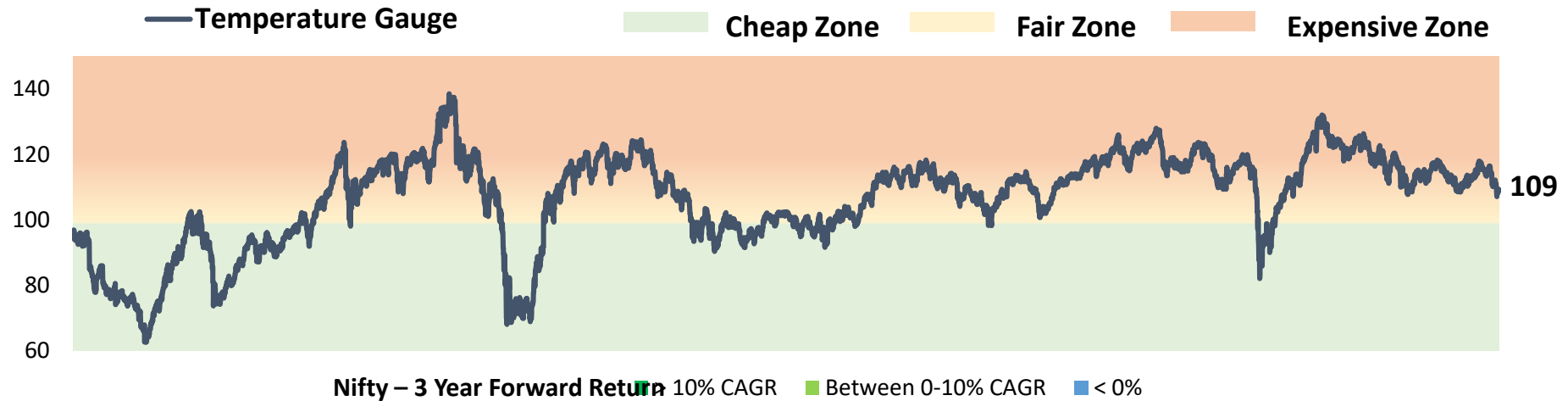


- For three consecutive years now, Nifty 50 earnings have grown by double digits
- It is likely that FY24E will also show a double digit earnings growth



# Temperature Gauge Index

- Temperature Gauge Index is an equally weighted index of EY-BY and MOVI Index
- It incorporates PE Ratio, PB Ratio, Div. Yield and G-sec Yield, and hence is a useful valuation metric.



# Temperature Gauge Index – Sensitivity Analysis

Temperature Gauge Index - Sensitivity Analysis					
10 yr Gsec/ Nifty50	6.91%	7.11%	7.31%	7.51%	7.71%
18150	105	106	107	108	109
18400	106	107	108	108	109
18650	106	107	108	109	110
18900	107	107	108	109	110
19150	107	108	109	110	111
19400	107	108	<b>109</b>	110	111
19650	108	109	110	111	112
19900	108	109	110	111	112
20150	109	110	111	112	113
20400	109	110	111	112	113
20650	110	111	112	113	114
20900	110	111	112	113	114
21150	110	112	113	114	115

Pink cell Indicates Current Level of Nifty 50 and 10 yr G-sec levels



# 3 Yr Forward Returns Of Nifty At Different Levels Of Temperature Gauge Index

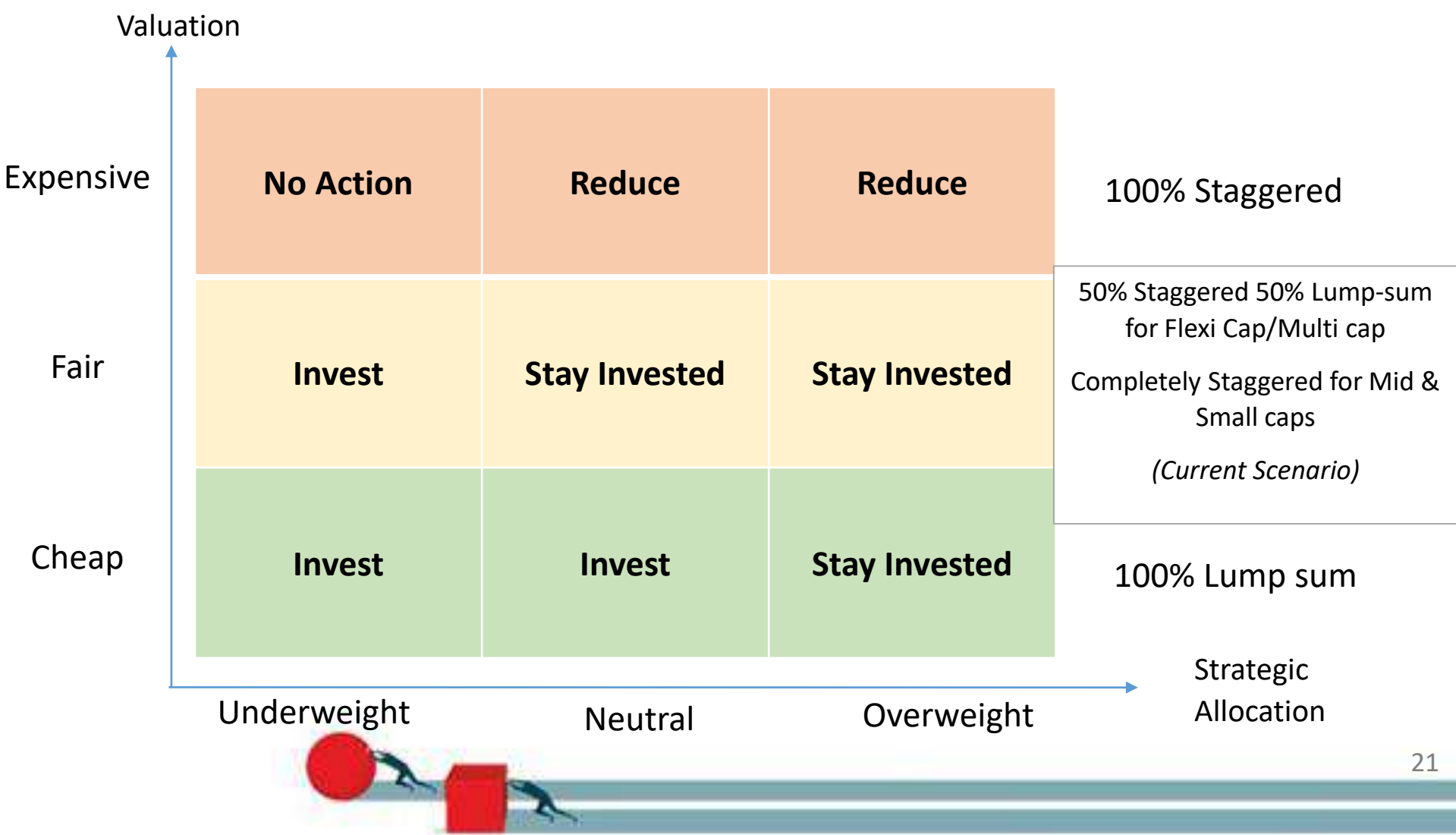
Nifty 50				3 Yr Return CAGR				% Times in CAGR range	
Index in Range		No. of Observations	% of Observations	Min	Max	Average	% Times Positive	6% to 10%	>=10%
65	70	60	1%	24%	57%	43%	100%	0%	100%
70	75	202	3%	15%	51%	32%	100%	0%	100%
75	80	285	4%	14%	45%	37%	100%	0%	100%
80	85	168	2%	15%	43%	34%	100%	0%	100%
85	90	207	3%	12%	49%	33%	100%	0%	100%
90	95	539	7%	2%	47%	27%	100%	1%	97%
95	100	832	10%	1%	44%	18%	100%	1%	91%
100	105	714	9%	-2%	30%	13%	99%	8%	71%
105	110	786	10%	-4%	22%	10%	86%	13%	57%
110	115	1630	21%	-7%	22%	9%	71%	15%	25%
115	120	1468	18%	-4%	21%	8%	77%	32%	22%
120	125	804	10%	-2%	18%	8%	62%	22%	33%
125	130	135	2%	0%	16%	10%	49%	16%	30%
130	135	84	1%	-2%	4%	1%	56%	56%	0%
135	140	28	0%	-3%	0%	-1%	11%	11%	0%





# Equity Allocation & Deployment Grid

➤ Below grid is based on Temperature Gauge Index



- Earnings growth is expected to remain steady over the next few years
- Based on Trailing 12 months Nifty-50 EPS, Temperature Gauge Index suggests that Large cap valuations are in fair zone and closer to the cheap valuation zone

## ➤ Existing Investors:

- As per their risk profile, investors having the appropriate level of Equity allocation should continue to remain invested
- If Equity allocation is lower than desired levels, recommend to increase allocation by investing **50% in lump sum and 50% in a staggered manner over the next 6 months in Multicap strategies.**
- **Adopt a complete staggered approach for select Mid & Small Cap strategies (MFs, PMS, AIF)**

## ➤ New Investors:

- **Invest 50% in lump sum and 50% in a staggered manner over the next 6 months in Multicap strategies.**
- **Adopt a complete staggered approach for select Mid & Small Cap strategies (MFs, PMS, AIF)**

## ➤ Accelerate deployment in the event of any sharp correction.





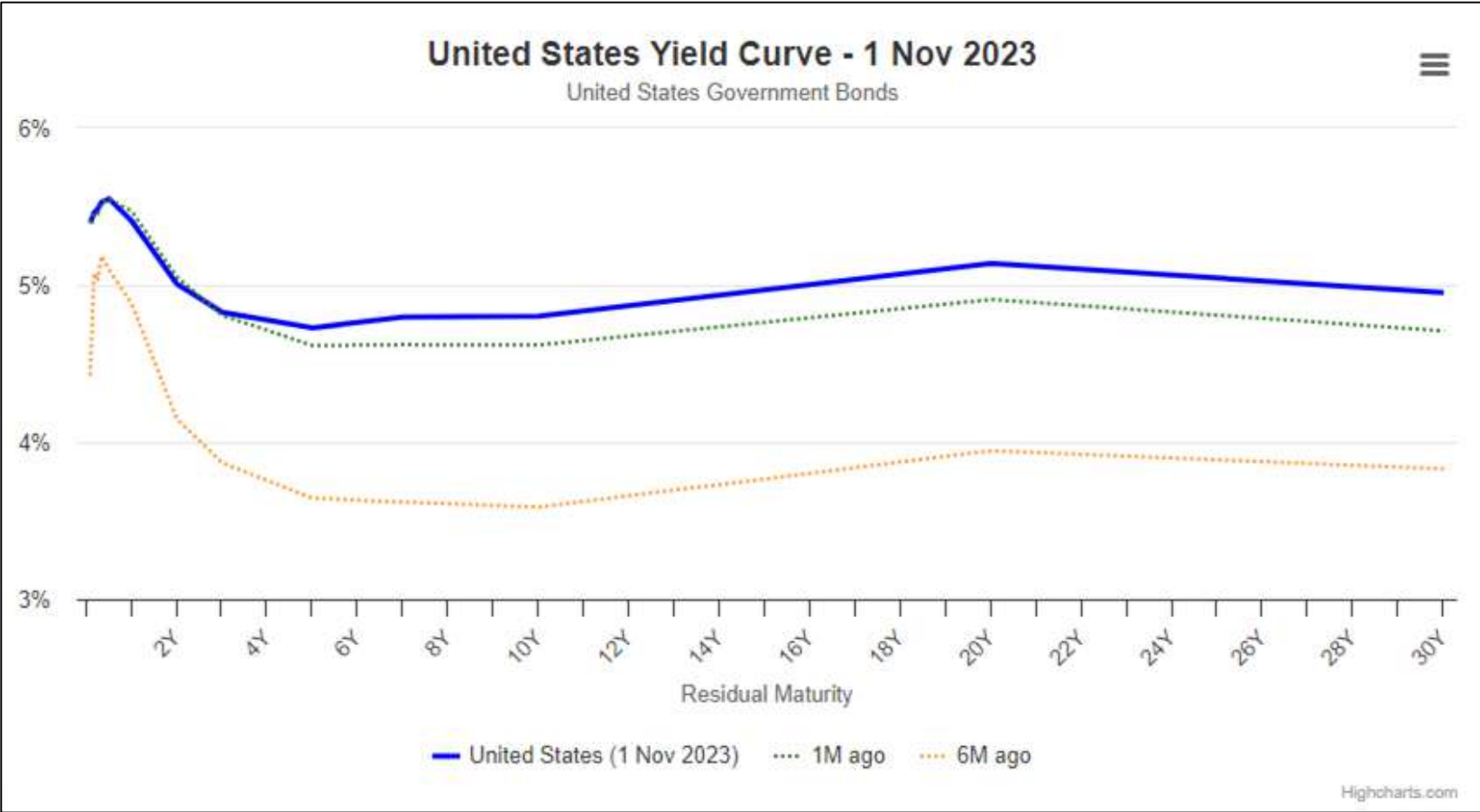
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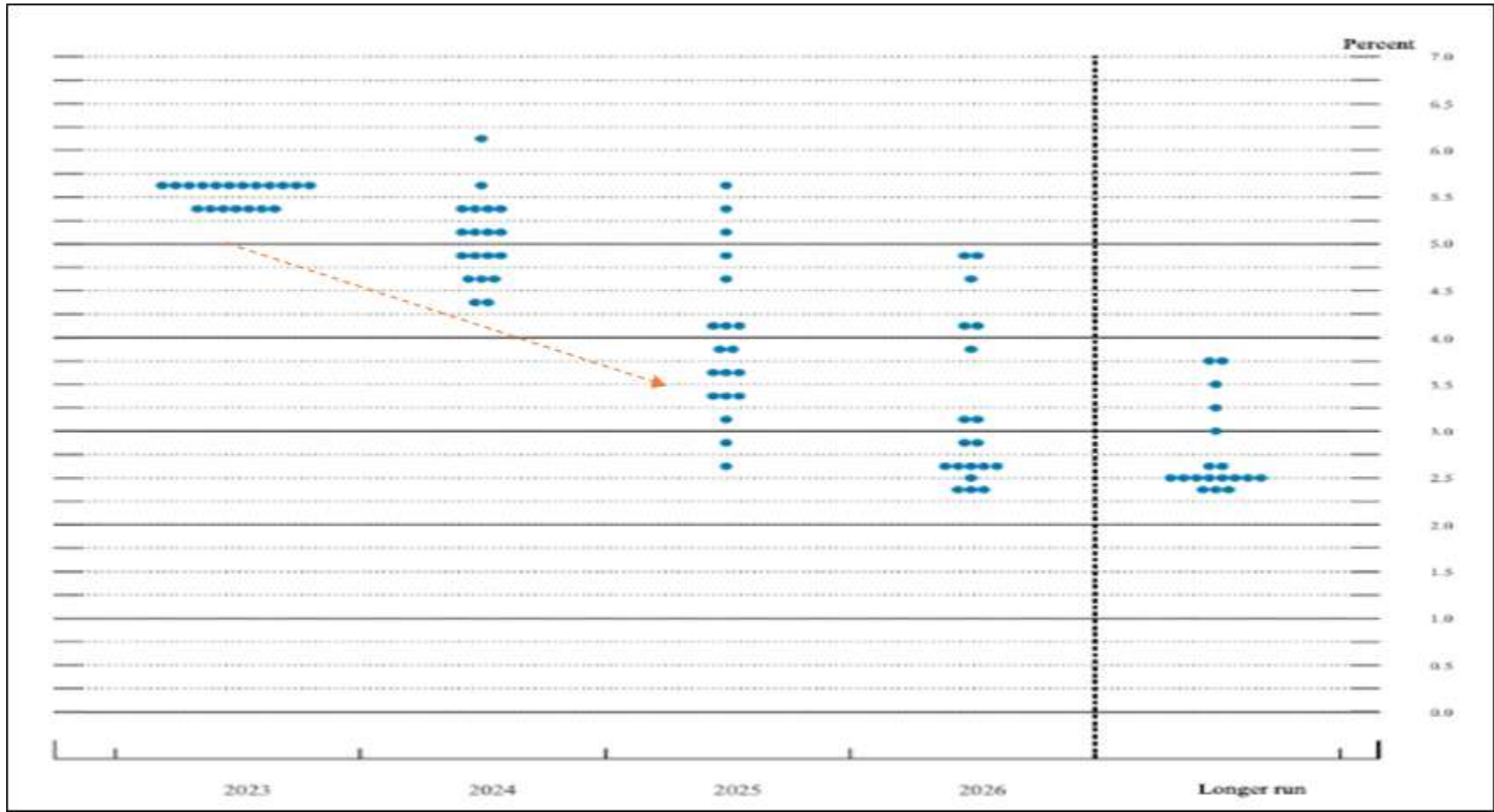
# US Yields – Expected to remain Higher for Longer





# US Fed outlook on interest rates

- The US Fed's rate projections suggest that the Fed Fund Rate is likely to trend lower from current levels of 5.25-5.50% to 3.5-4.0% by CY2025.

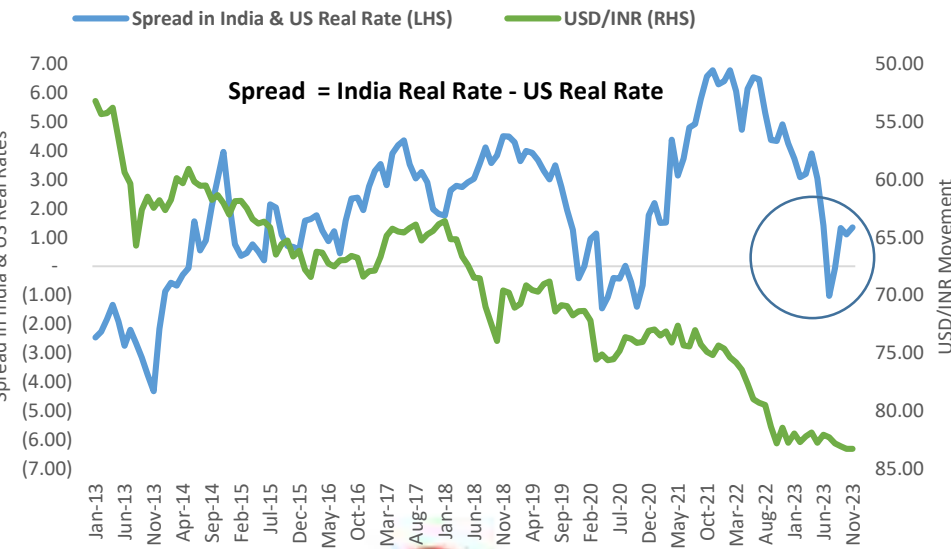
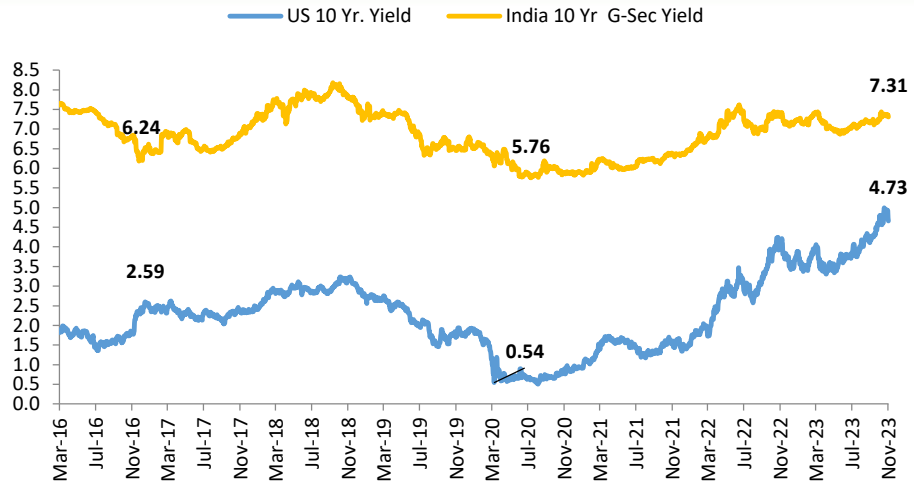
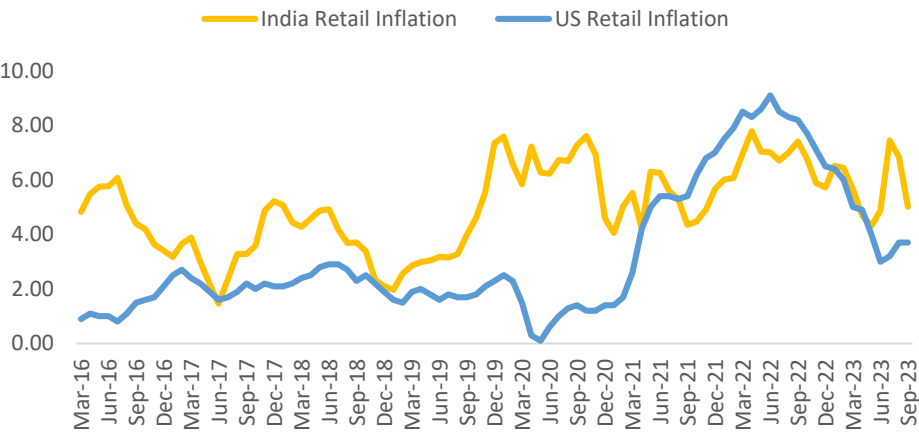


Data as on 20<sup>th</sup> September '23  
Sources: FOMC

# US vs India

## Inflation, Real Interest Rates, Bond Yields

Retail Inflation Trend in India & US

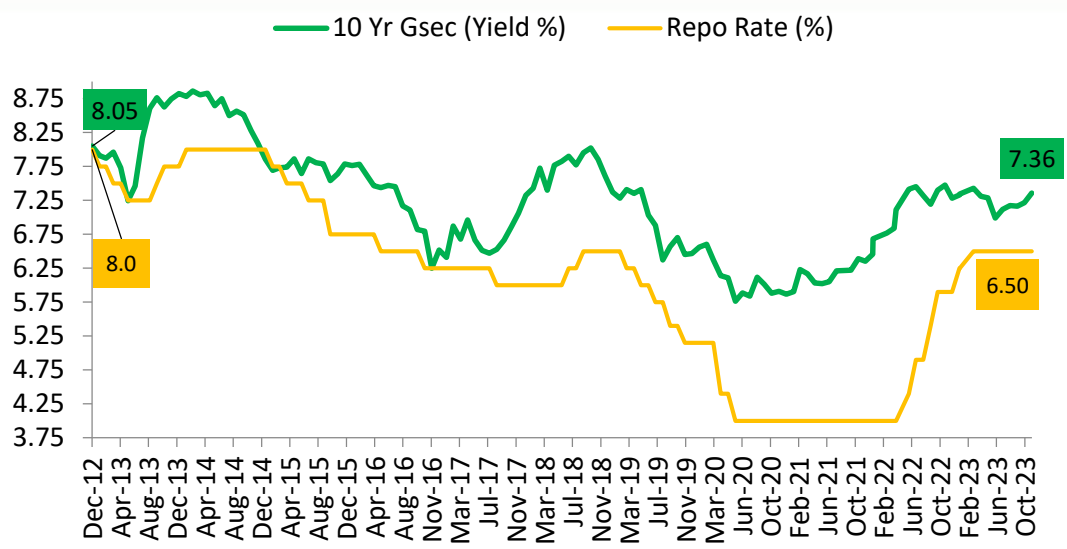


- The spread between India 10Yr and US 10Yr has narrowed to ~265 bps from historical high of ~550 – 580 bps
- Current inflation differential is ~130 bps as compared to historical high of 520 bps

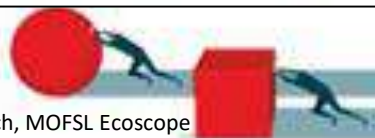
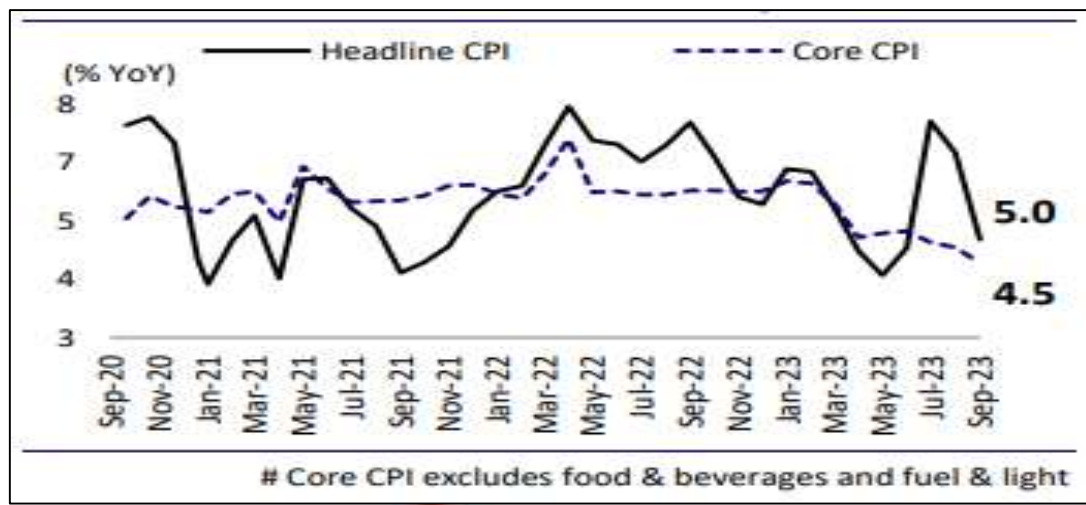
As on 2nd Nov 2023. (Real rate = 10 year Gsec Yield - Retail Inflation).



# RBI May Pause on Policy Rates for Longer

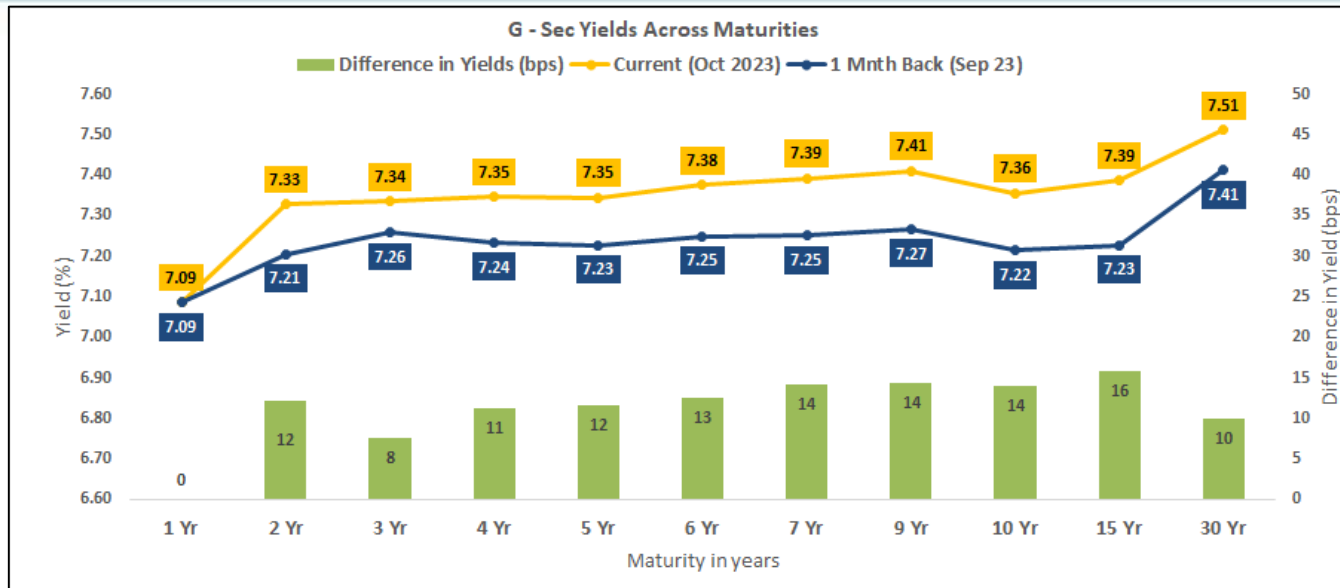


- RBI maintains no change in rates in latest policy
- Long pause in the monetary policy is a much likely scenario, with RBI adopting a wait and watch approach towards evolving inflation trajectory, actions by global counterparts and global macros.
- Sep inflation prints have eased to some extent, mainly on back of easing vegetable prices.
- Domestic Core CPI (ex-food & fuel) is witnessing a declining trend and is expected to gradually ease toward 4% by Mar-24.



# G-Sec Yield Curve

## – Time To Add Duration to the Fixed Income Portfolio



- A combination of factors, including the US Fed's medium term outlook on its interest rates, domestic inflation trending lower, India's stable Current Account Deficit (CAD), and the recent inclusion of India's Government Bonds in the JP EM Bond Index suite, suggest that:
  - Domestic interest rates have likely peaked
  - There is a reasonable to high probability that domestic 10-year g-sec yields are likely to trend lower from their current levels over the next 1-3 years.

Hence, we recommend to add duration to the Fixed Income Portfolio through a combination of long maturity G-sec / AAA oriented Mutual Funds & Bonds.



Going forward, we recommend to increase duration in the fixed income portfolio so as to capitalize on the softening of yields in the next 1-3 years

- **65% - 70% of the portfolio should be invested in combination of**
  - High quality (G-Sec/AAA equivalent) roll down strategies through a combination of 7 - 12 years' maturity Bonds/Funds
  - Equity Savings funds which aim to generate enhanced returns than traditional fixed income along with moderate volatility through a combination of equities, arbitrage and fixed income instruments.
- To improve the overall portfolio yield, **30% – 35% of the overall fixed income portfolio** can be allocated to select high yield NCDs, Private Credit strategies & REITs/InvITs.
- **For liquidity management or temporary parking**, investments can be allocated to Arbitrage/Ultra Short Term (minimum 6 months)/Liquid (1-3 months)/Overnight (less than 1 month) strategies.





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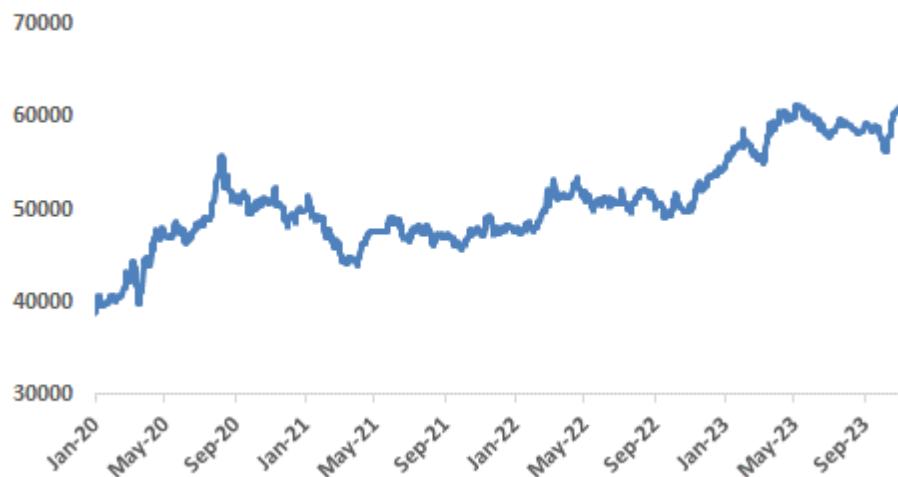
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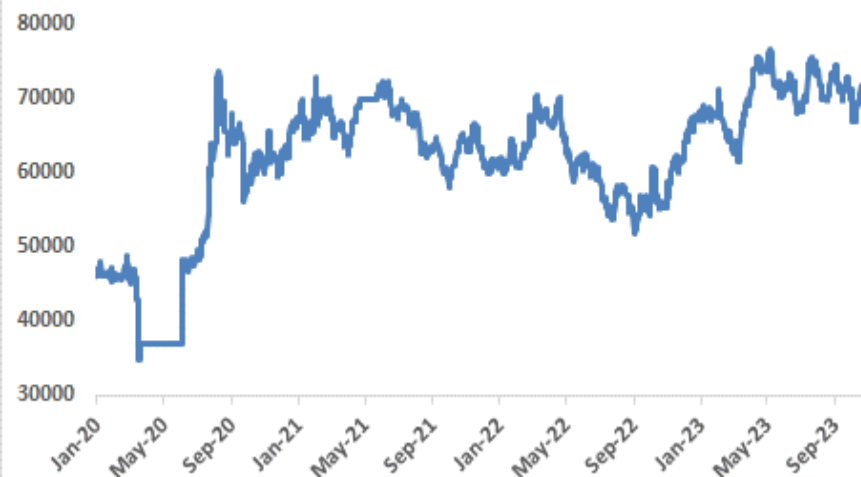


# Gold & Silver – Historical Performance

MCX Gold Spot (INR/10 gm)



MCX Silver Spot (INR/Kg)



Particulars	Absolute Returns (%)				CAGR (%)	
	1 month	3 months	6 months	1 year	3 year	5 year
MCX Gold Spot (Rs)	7.6%	3.1%	0.0%	21.8%	6.0%	14.0%
MCX Silver Spot (Rs)	5.1%	-2.0%	-6.2%	23.8%	4.3%	13.0%



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