ENAM Securities
India Research

INDIA 2015

August 15, 2010

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Rip van Winkle in India 2015:
Did it, or did it not happen?

Nandan Chakraborty
MD – Institutional Equity Research
nandan@enam.com; (+91 22 6754 7601)

Sachchidanand Shukla
Sr VP & Economist
sachins@enam.com; (+91 22 6754 7648)

Source: Websites – 1) mumbaisuburbanrailway 2) englishfor1a.blog & 3) constructionweekonline.in

August 15, 2015

Did Rip van Winkle see this in 2015?

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- Today, as India's **market cap** (USD **2.6** trn) becomes the **5th largest** in the world, is a good time to review what exactly happened in the last 5 years. And the **challenges ahead** as we stand today on the threshold of the next inflexion point of 2015–20

- Today India has:
  - **GDP** of USD **2.9** trn – world's **8th largest & fastest growing** @ 8.5 p.a.
  - **Private Consumption** at USD **1.7** trn – **the fastest growing consumer market in the world**, e.g., we buy 4.7 mn cars p.a. which is larger than that of Japan!
  - A **per capita income of USD 4,700 (PPP)** – our propensity to scale up the J curve has only just begun!
  - **Savings Pool of USD 1 trn** – the size of India's GDP in 2009!
  - **Largest Working population** (**770 mn**) **in the world** – while the US has NIL net additions to its workforce today, and China's workforce accretion has started decelerating

Where we are today*

	India	US	UK	China	Japan
Mkt cap (USD bn)	2,610	15,337	3,385	5,261	3,655
PE (x)	18	12	11	12	16
GDP growth (%)	8.5	2.0	1.6	7.5	1.0
Mkt cap/ GDP (%)	90	90	100	63	69

Macro Metrics (nominal)

(USD)	2015	2010	CAGR % (2010–2015F)
₹/ USD	40	47.4	(3)
GDP (USD trn)	2.9	1.2	19
GDP per capita (USD)	2,312	1,055	17
GDP per capita (PPP)	6,104	2,785	17
Pvt. Consumption# (USD trn)	1.7	0.8	18
% of GDP	59%	61%	-
Pvt. Consumption per capita (USD)	1,374	642	16
Gross domestic savings (USD bn)	1,028	436	19

Source: GoI Docs, ENAM Research ; **# Note** 3 approaches used for PFCE – 1) Multiple of PFCE/GDP, 2) PFCE growth/ GDP growth & 3) Sectoral growth rates

Note: *It tickles now to think, how we rejoiced in 2011 as we touched the then new market high of just 21K Sensex (as the Indyex was called then).
And the anguish last year, when the Indyex fell 10% in just a month, as the Govt. announced its urban dole-out program, to bring lazy urban voters to polling booths.
We almost forgot then, that it's happened before – remember 2011 again – when the European crisis erupted, leading to a 5% drop in the Indyex, even as the Dow fell by 20%, the first time that the Indian market's de-coupling really showed up – when finally, European and Japanese funds and oil-rich Sovereign funds started putting their dollops directly into India instead of through global money managers and EM funds.

Winners and Losers

- **Index Winners**: Services (BFSI, Retail), Infrastructure & Real estate, Capital goods & Utilities, Consumer discretionary
- **Of the above, those which achieve effective non-dilutive Revenue and Margin growth, outperformed**
- **Index Losers**: IT, Telecom, FMCG
- And **small cap multibaggers** were found in the following niches:
  - **Aspiration aggregators:** Media incl content, NBFCs, Education, Retail, Realty, Consumer durables, Leisure
  - **Whole globe as opportunity:** Pharma, Auto ancillaries
  - **Unique Product/ service with unlimited domestic demand:** Infra/ Tech enablers
  - **Next 5 yrs (2015–2020) as specific window of opportunity, though not necessarily a perpetually scalar LT business:** Mining, just as Merchant power in 2010–15
- **We provide our views on each of the Positive and Negative Growth Drivers in this report. And lastly, we also provide case studies of some Corporates who grew the most to their current gargantuan size, in Financials, Infra, Power, Automobiles and Retail – of course, these are only representatives in their sectors – there are so many more**

ToC

What drove this growth

What converted Demographics to Consumption

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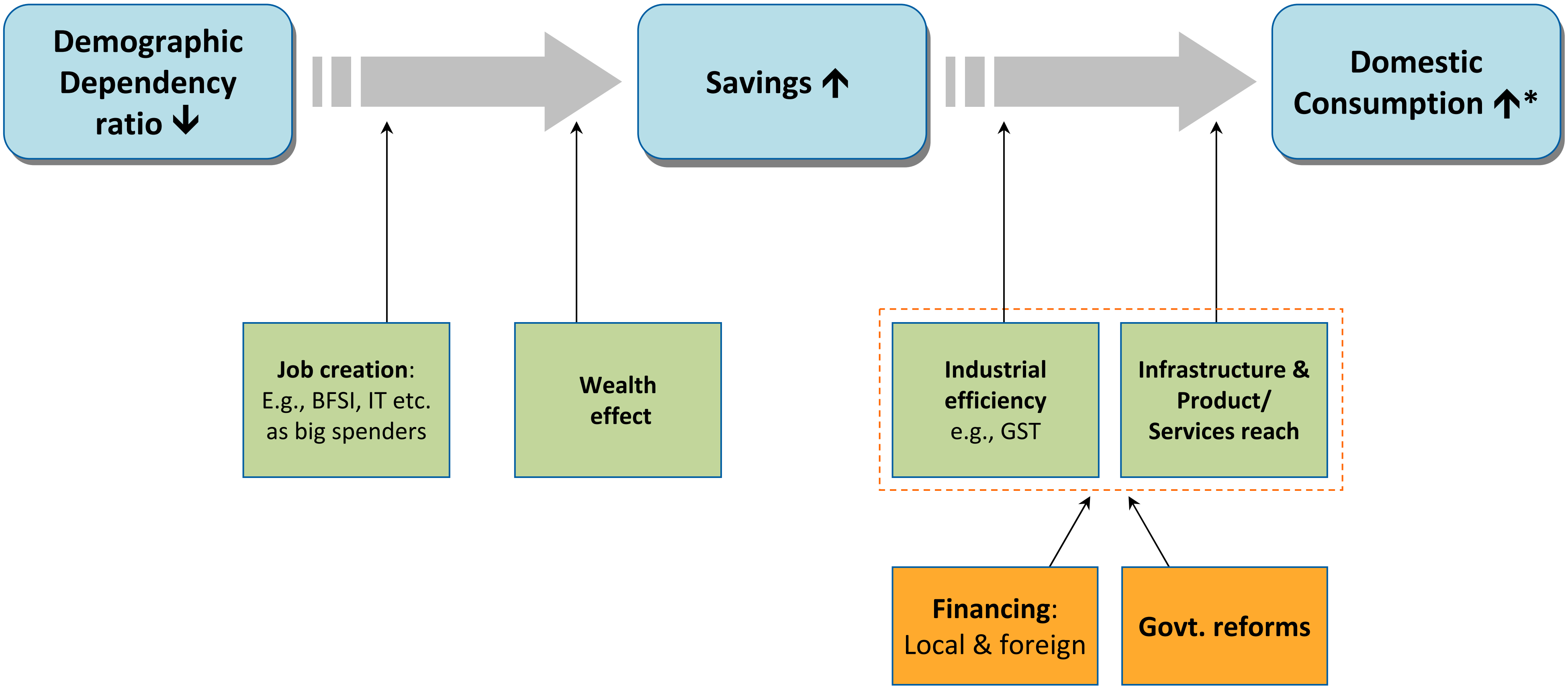

Obviously, the above is a simplified chain-model, instead of the Virtuous cycle model it actually is …

*instead of the Savings leaking away abroad due to inflation/ currency depreciation, corruption, and plain lack of domestic growth

What drove this growth …

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- It's a **Confluence** of the following, rather than any ONE factor, which drove this. For e.g., Reach drove Consumer Aspirations and Savings, which drove Politics to aspire for greater Reach, …
- **Consumption trends** driven by demographics and entrepreneurship:
  - **No. of middle-class households** (USD 5K to 12K p.a.) rose by 26 mn to **84 mn**
  - **Avg income** of these households increased by USD 1,980 to **USD 9K**
  - Hence, total **incremental spending power** = **USD 780 bn**
  - **Urbanisation** improved from 30% to ~**35%**
- **Savings explosion** *(Ref slides 23 & 53)* which funded growth – due to the above as well as increased credit penetration (53% to 60%)
- Implementation of **GST,** in particular lowered prices and unified markets, leading to volume growth and logistical & manufacturing efficiencies. Other transformational policies were in **allowing FDI** in transformational areas such as **retail** (transformed supply-chain logistics), **insurance** (revolutionised long-term funding), and **defence**. **Debt market reforms and Infrastructure financing mechanisms** also spurred infra creation
- Massive **Hard Infra creation** in Power, Urban Infra, and connecting Bharat to India (roads, telecom, electrification and broadband)

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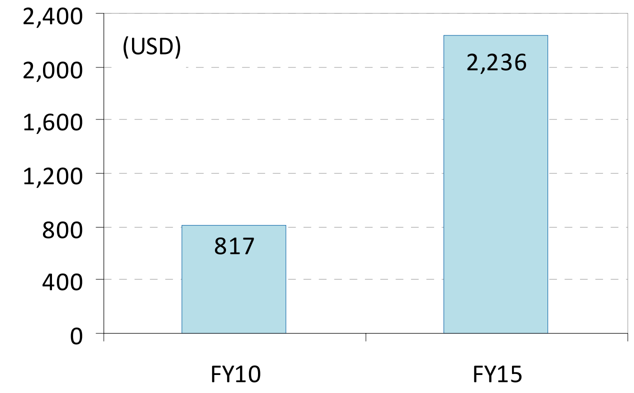
PDI per capita trebled



Source: Mospi, ENAM Research

Indicative Consumption, Savings and Infra metrics

(USD bn)	2015	2010	CAGR % (2010–2015)
2 Wheelers (mn units)	16.3	9.4	12
Passenger cars (mn units)	4.7	1.9	20
Mortgages outstanding	400	88	35
% Mortgages of GDP	*36%*	*35%*	-
Air Travel (mn pax)	9.8	5.2	14
National Highways (K km)	227	133	11
Port Traffic (mn t)	1,100	756	8

Source: ENAM Research

The metrics highlighted are expressed as Outstanding/ stock vs the rest which are p.a

… What drove this growth

- **Fiscal deficit** was **brought down** to the FRBM-mandated **<4%** and **Tax/ GDP rose to 13**%. This helped put a lid on interest rates:
  - **Tax receipts increased by ~USD 85 bn+** due to **GST & DTC** widening the tax-net and weeding away exemptions, and **growth-driven buoyancy**
  - **Divestment program**, Auction of **mining blocks** and land sales
  - **Subsidy control** in Oil and Fertilisers through UID* and price-decontrol
- **Capital inflows explosion**: As India becomes 10% of incremental world growth and as major capital suppliers had weak domestic growth with high labour costs, FDI and FPI both exploded. The rising INR also helped
- Govt's successful tackling of **internal security** through a combination of infra-connectivity, *realpolitik* and inclusive growth

Centre's P&L (% of GDP)

Particulars	FY05	FY10	FY15
Total Receipts	**11.8**	**9.9**	**13.0**
-- Revenue Receipts	7.1	7.5	9.0
-- Non Tax Receipts	4.7	2.4	4.0
Total Expenditure	**15.8**	**16.6**	**16.5**
-- **Revenue Exp**. (of which)	9.4	10.0	10.0
-- Interest	4.0	3.6	4.0
-- Defence	1.4	1.4	1.4
-- Subsidies	1.5	2.1	1.5
-- Admin & social services	2.1	2.5	2.5
-- Grants to States	0.5	0.8	1.0
-- Capital Expenditure	**3.6**	**1.9**	**4.0**
Fiscal Deficit	**(4.0)**	**(6.7)**	**(3.5)**

Source: Government of India Interim Budget, ENAM Research

- Note, to reiterate: The **transformation in 2010–15 didn't happen solely because of a committed Govt's top-down unleashing of intelligent policies in social and hard infrastructure**, like in the Chinese/ Singaporean model – and there was no Single reason which drove it. It was a **cumulative effect of bottom-up small, incremental Aspirational** (demographics, media, NGOs, etc.) and **Infrastructure** (pvt. sector driven) **drivers** which **urged** both **Politics** and **Investment** (of domestic savings and capital inflows) to **facilitate this transformation**

Note: *We just heard that Nandan Nilekani has been appointed as the head of the new National Literacy Mission

How this translated to Market Cap growth

How growth translated into market cap

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- Each of the macro drivers are actually only **incremental in isolation** – in 2015, they still remain **below developed world or Chinese standards**. It's their **Confluence which enables the Tipping point**, which in turn depends on tackling corruption, currency depreciation/ inflation, security and resource constraints *(Ref slides 14 & 15)*, etc.

- Further, as Jeremy Siegel in 2000 pointed out in "***The Future for Investors*"**, high growth stocks/ sectors/ countries give the **WORST returns, due to growth turning out to be less than the high expectations**. E.g., Brazil (despite currency depreciation + inflation + decreasing GDP growth) gave better stock returns in the last decade of the previous century than frenetically growing China, due to differing starting point of expectations

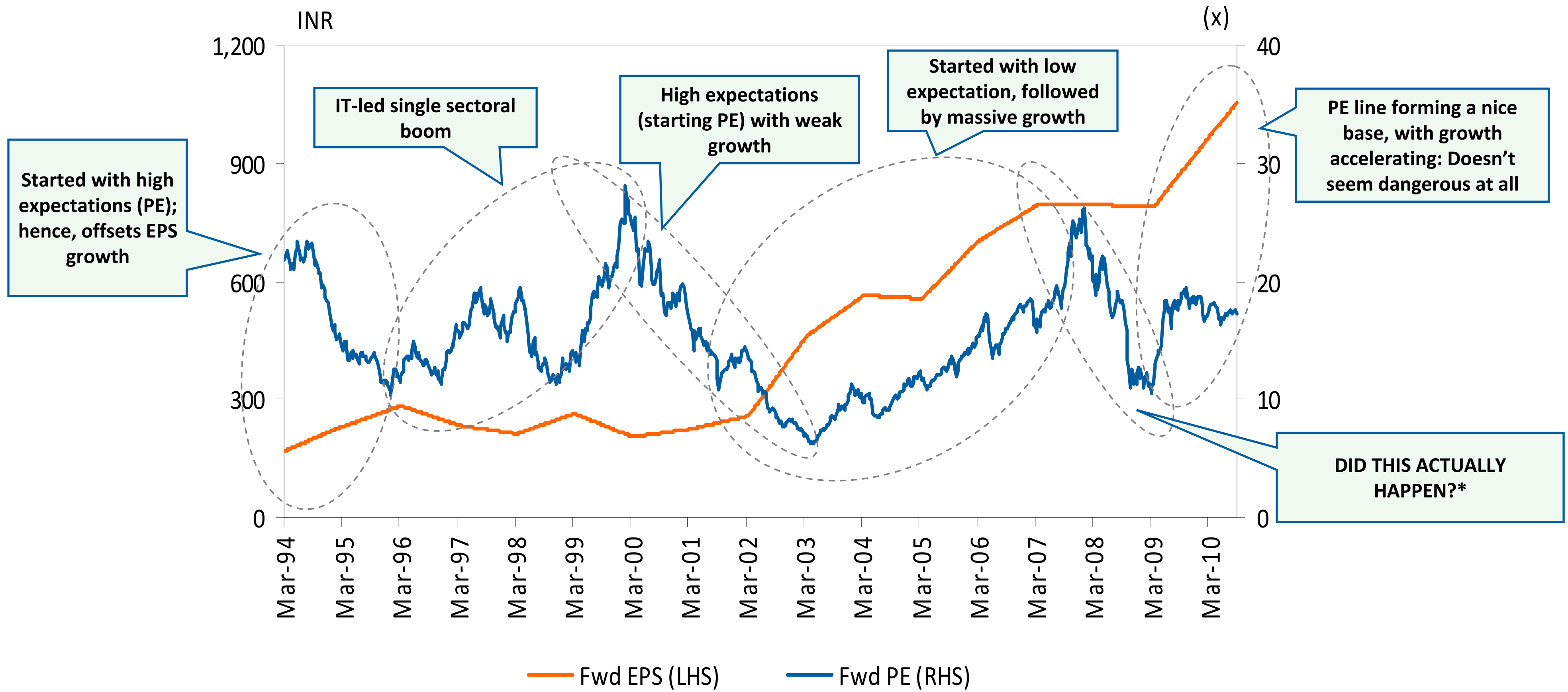
- **But in 2010, at 18x FY12, we were reasonably valued as a starting point, in translating this economic growth into market cap growth**: Ref next 2 pages

- What overall growth can also do, is make **certain segments blow out** even if the Index doesn't: See next 2 pages

- In 2010–15, **as Capex got created**, the **Indyex's RoE** and the growth **share of Consumption/ GDP** continued to **fall,** these two obvious corollaries of Capex growth were used as an excuse to temporarily sell-off markets (at times of global volatility and/ or shoe-throwing in Parliament), to the later chagrin due to the sharp pull-back to India's trajectory shortly thereafter

- In 2015–20, as **Social Infra starts getting created**, we will again have periods where the relatively slackening share of Infrastructure in GDP growth after the boom of 2010–15, and the resurgence of Chinese domestic consumption leading to high input costs (energy, food) are arguments used by Investors in falling markets, missing the point of the 2nd social transformation of India – which too, will continue to be an **incremental bottom-up story**

Historical sense of Sensex's Fwd PE and EPS



Source: ENAM Research

*I have a faint recollection of a nightmare I once had, but ....

Markets too reflect the new reality

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Sectoral shifts in sync with broader growth story (see order of US weights)

	India (Nifty)				China (SHCOMP)	Brazil (IBOV)	US (SPX)
Sector (% of index mkt cap)	**2000**	**2010**	**Historic trend**	**Future trend**	**2010**	**2010**	**2010**
Energy	17.5	20.1	↑	↔	19.4	19.6	10.3
Software & Services	24.4	13.0	↓	↓	0.6	2.2	9.6
Capital Goods	2.9	9.1	↑	↑	10.3	0.5	7.6
Pharmaceuticals, Biotechnology	6.7	2.5	↓	↑	2.2	0.0	7.6
Diversified Financials	1.2	1.2	↑	↑	2.5	1.5	7.6
Food Beverage & Tobacco	7.3	3.0	↑	↓	2.7	10.2	6.4
Insurance	0.0	0.0	↑	↑	4.9	0.0	4.7
Retailing	0.0	0.0	↔	↑	1.4	1.1	3.6
Utilities	1.1	10.9	↑	↑	3.5	6.0	3.6
Materials	6.4	11.9	↑	↔	8.8	23.9	3.4
Media	0.0	0.0	↓	↑	0.4	0.4	3.1
Telecommunication Services	3.9	5.3	↑	↔	0.7	5.2	3.0
Banks	9.8	14.6	↑	↑	27.6	22.9	3.0
Household & Personal Products	15.1	1.6	↓	↓	0.1	1.0	2.6
Real Estate	0.0	2.1	↑	↑	3.0	0.0	1.4
Automobiles & Components	3.1	4.5	↑	↑	1.8	0.0	0.7
Others	0.5	0.0			10.2	5.5	21.8
Total	**100**	**100**			**100**	**100**	**100**
Index Mkt. Cap (USD trn)	**0.1**	**0.7**			**2.8**	**1.0**	**10.3**
Country Mkt. Cap (USD trn)	**0.2**	**1.4**			**3.0**	**1.2**	**13.1**
*Index % of country mkt cap**	*41*	*53*			*95*	*80*	*80*
Country Mkt. Cap / Nominal GDP (x)	0.4	1.1			0.6	0.8	0.9

Source: Bloomberg, Prowess; Note: *Weights based on non-free float

Was it a Missed Opportunity?

Or did we miss the opportunity due to …

- **Education**: We face a severe shortage of "**employable**" work force, e.g., in **IT** (NASSCOM estimates shortage of 3.5 mn by 2020) & virtually all **Services** arenas incl. BFSI, & specifically **civil engineering** in Infra/ Mfg among many others
- **Choking Infrastructure**: The vast logistics framework opened up by GST and the logistics hubs being set up are borne primarily by Road networks. **Railways remain severely choked** as work on freight corridors has just started in 2015. On **ports, airports and power – despite massive scaling up today in 2015 vs. 2010, they are STILL near choking**. Movement of commodities remain difficult due to inadequate Rail infrastructure
- **Energy security**: Despite KG-D6 and further blocks through New Exploration Licensing Policy (NELP), India + China's demand could lead to global **crude prices sky-rocketing**, rocking our financial stability (Balance of Payments). We are yet to make significant progress in global energy acquisitions as China has. On Power too, we remain deficit even in 2015
- **External security**: With the US leaving Afghanistan effectively to Pak by 2012, terrorism and war are not ruled out
- **Food and Water distribution** : Increased urbanisation (35% of population by 2015) and Irrigation needs are already putting pressure today due to ineffective distribution mechanisms

Contd …

… missed opportunity due to …

- **Land**: Given our high population density and the demand for road, power, steel and other large projects, the **no. of people displaced for land acquisitions** is humongous, making environmental issues a key consideration
- **Non-Services sectors**: A **manufacturing-led exports strategy is missing**, which will possibly need a strong SEZ strategy. Just the IT industry will not help bring CAD down, especially if crude prices burgeon.
  Agri growth is still low due to small land holdings (lack of mechanisation), inadequate irrigation, low penetration of formal credit and crop insurance, and inefficient supply chain to market
- **CAD**: Current a/c deficit has been controlled at 2% now vs 2.7% in 2010, but was rather volatile during these last 5 years. Partly, this was due to the productivity catch-up that the IT sector had to do given an appreciating INR. Secondly, there were periods when the global liquidity deluge flared crude prices speculatively
- **Politics**: Achieving the balance on Spending on social security vs. Infrastructure creation. **These are just the challenges that the current Govt., now in its 2nd year in 2015 is also focusing on, which if addressed, will help in our entrepreneurs making 2015–20 India's 2nd inflexion epoch**

Progress is the Effect of Time on Matter

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- **John Fowles was famous for his multiple-ending stories, e.g., the *French Lieutenant's woman*, etc.**
- **In *Aristos*, John also provided the gem "<u>Progress is the effect of Time on Matter</u>", e.g., in the next 50 years, all Africans will wear shoes, or another AinStaain will be born inevitably (who knows, maybe in Pago-Pago or Baden-Baden), ...**
- **When there is a SINGLE driver, e.g., the West's urge to get spices in the 1700s, or a Command Govt. as in China this century, UNLESS that Driver manages to bring everything ELSE to a Tipping point, shoe sales don't necessarily skyrocket in Africa just because few Africans wear shoes today. As our PM Dr. Manmohan Singh also said recently, every country is given a window of opportunity every few centuries with One driver, and it's upto the country to capitalise on it, or not!**
- **As true Indians, we may continue to Opine and Opine before doing anything, even in 2020, but if the Politicians don't listen to the Opinion, they are out. Their task is to enhance inclusive growth through the appropriate balance between URGENT imperatives such as equitable resource distribution and IMMEDIATE imperatives of Infra-creation, both for the same ultimate purpose of social security/ growth and thus remaining in power**
- **Unlike the Chinese model of Command Govt., backed by an excellent entrepreneurial history and culture (unlike Russia), India's growth is chaotic and bottom-up – there is no Single driver really – so no risk of that Driver disappearing; but also by the same token, it's inexorable and sustainable. India's growth risk is really more to do with the AVOIDANCE of disasters, rather than big-bang moves alone. It's a heady mix of impulses, driven by bottom-up Aspirations!**

Consumption

India is the fastest growing economy in 2015

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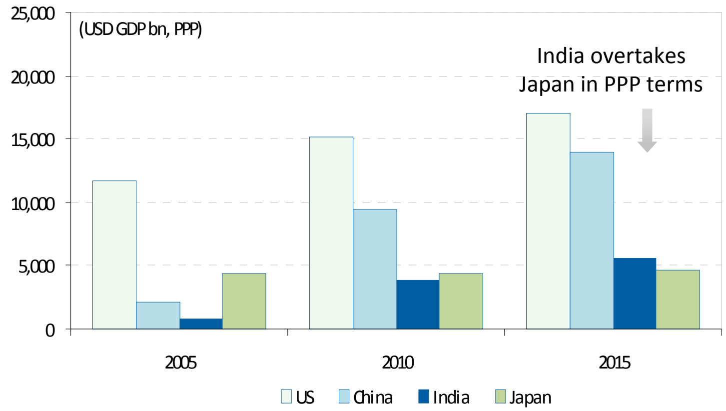
How India scaled the GDP charts

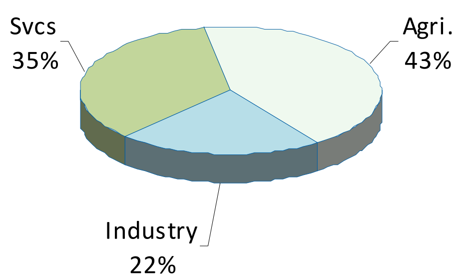


Source: IMF, ENAM Research

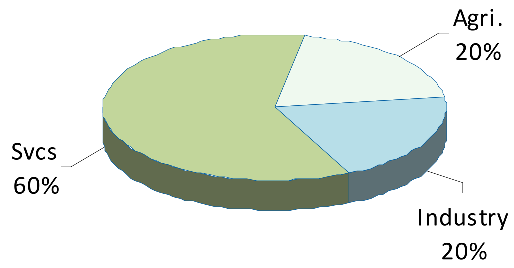
- **India's Potential GDP: Growth rate** of ~8.5% (Hodrick Prescott filter and Solow model) and avg WPI rate of 5.5% to arrive at the GDP growth rate of 14**%**
- **US & Japan:** Using HP filter
- **China:** Growth to stabilise ~8% due to structural shift from investment to consumption, and Yuan appreciation
- **By 2020, if the growth rates of India & China are as today, their combined global share of GDP growth would be 37%** – coincidentally the same as their estimated population share

A de-risked national economy: Industry share > Agri after 5 decades!

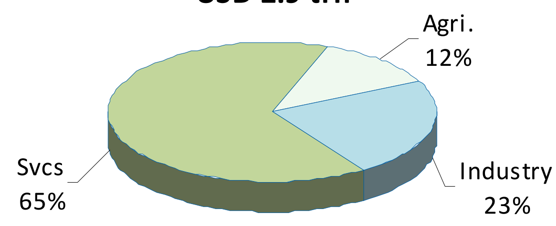
2004 GDP
USD 564 bn



2009 GDP
USD 1.3 trn



2015 GDP
USD 2.9 trn



Source: UN

Demographics

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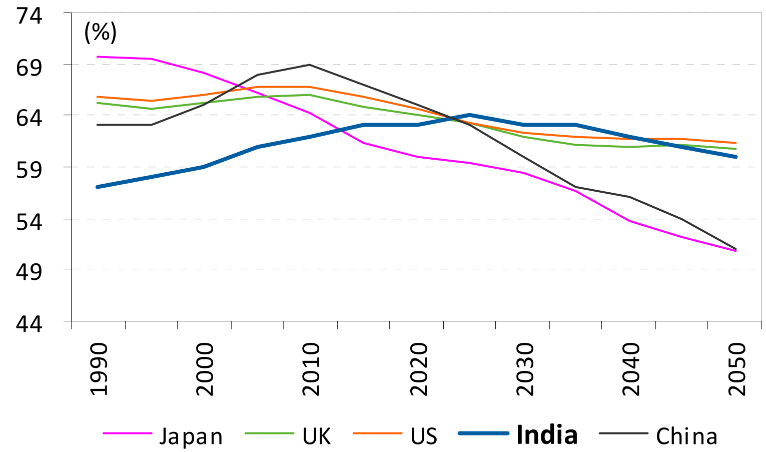
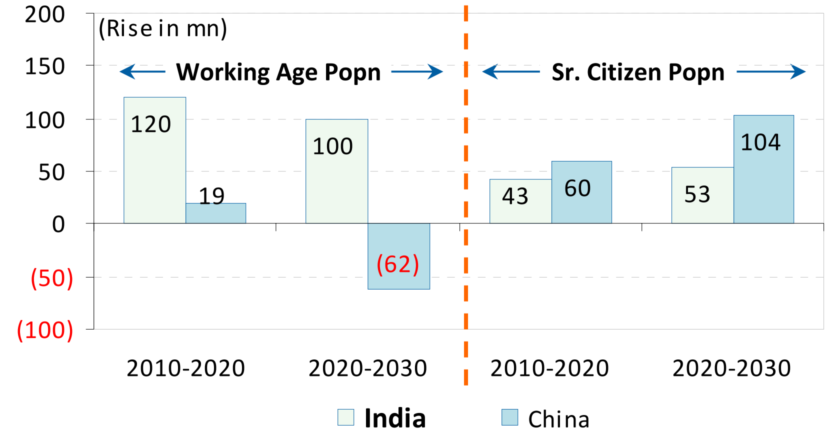
India to have the most favourable Working population (Aged 15–64) ratio



220 mn Indians to join the working age group vs. a decrease of ~60 mn in China by 2030



A bulging middle-class emerged with buying power

Income class (₹ mn pa)	% of HH FY02	FY05	FY10	FY15
<0.2	94	92	87	74
0.2 – 0.5	**4.8**	**6.1**	**9.9**	**23**
0.5 – 1.0	**0.9**	**1.2**	**1.8**	**3**
>1.0	0.4	0.7	1.0	1.7
Total	**100**	**100**	**100**	**100**

… leading to a huge consumption boom

- India with a median age of 25 years haviing 63% of the population in the working age group 15–64
- No. of middle-class households (USD 5K to 12K p.a.) rose by 26 mn to 84 mn
- Avg income of these households increased by ~USD 1,980 to USD 9K
- **Hence, total incremental spending power = ~USD 780 bn**

Source : NCAER, RBI, ENAM Research

Consumption drivers

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- **Income levels & demographics:** With more people joining the workforce, per capita income level rose to ~USD **1,680** creating capacity to consume
- **Urbanisation:** With rise in the rate of urbanisation from ~30% in 2010, India will have ~40% of the population in urban centres by 2020
- **Reach of media, education and infrastructure**: Hence, higher employment and aspirations
- **Housing boom**: Hence, acquisition of durables
- **Services growth**: Esp. in **Financials** (driven by reforms), **Realty, Communications** & **IT;** hence, bulging high-spenders: Note the ratio of % of GDP to % of workforce in the table
- **Bottom of the pyramid**: Rising **govt. social spend** (Rural Infra, Employment guarantee dole outs, Food guarantee etc.), **Connectivity** (Roads, electricity, Telecom) and **FDI in Retail** ("farm-to-fork" supply chain)

Key sectors driving job growth in 2010

Sector	% of GDP	% of workforce
Agriculture	**18**	**57.0**
Services	**56**	**23.0**
- Wholesale/ Retail trade	14	10.0
- Community services	11	7.0
- Transport	5	4.0
- **Banking & Insurance**	7	0.6
- **Dwelling/ Real Estate**	8	0.6
- **IT/ ITES services**	3	0.4
- **Communications**	6	0.2
- **Hotels/ Restaurants**	2	0.2
Industry	**26**	**19.0**
- Textile	2	8.0
- Infrastructure/ Const.	7	6.0
- Automotive	2	3.0
- **Mining & quarrying**	2	0.6
- **FMCG**	2	0.6
- **Other manufacturing**	6	0.8
- **Utilities**	2	0.3
- **Metals**	3	0.1
TOTAL	**100**	**100**

Note: Community services= Social (public admin and defense) + personal services (education, community, health and recreation). Construction= public works (roads, ports etc.), erection of new plants

Source: Indicus Analytics, Rama Bijapurkar, MGI

Wallet share & the gap with China

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Historical growth in Indian per capita spend across categories

(USD)	2003	2008	5 year CAGR (%)
Consumer services	19	45	19%
Rent	13	27	16%
Taxes	2	4	15%
Entertainment	5	10	15%
Education	20	40	15%
Conveyance	20	37	13%
Durable goods	15	27	12%
Others	117	185	10%
Food	181	295	10%
Total	**392**	**670**	**11%**

Headroom: Historical comparatives with China in 2010

Penetration %			Annual demand	
India	China		India	China
5	20	2-Wheelers (mn units)	9	45
1	3	Cars (mn units)	2	10
21	70	Washing Machine (mn units)	3	27
14	59	Refrigerators (mn units)	7	60
2	51	Air Conditioners (mn units)	3	81
Per capita conspn (USD)			**3-yr CAGR in Conspn %**	
1	2	Toothpaste	11	11
1	3	Shampoo	13	15
1	5	Skin care	20	21
Size p.a.			**3-yr CAGR %**	
21	470	Organised Retail (USD bn)	24	15
45	177	Dom. Airline traffic (mn pax)	18	12
66	3,730	National Highways ('000 km)	2	4
756	7,200	Ports' troughput (mmt)	8	10
160	655	Power generation (GW)	6	11

Source: SIAM, IBES, Whirlpool, HUL, Colgate, KSA, EIA, CMIE

- **Tipping point of 3K**: Consumer spend took off in China as its per capita income hit USD **3,000** (PPP)
- **India reached this level in 2010** and hence, was roughly lagging by ~8 years, though the lag varied for different segments
- **Sectors to take off**: Consumer Services (BFSI & NBFCs, Retail, Power, Telecom), Realty, Consumer durables, Media, Education and Leisure
- **For e.g., India's car sales lagged China by 6 years:** India and China had similar car sales p.a. at a given PCI in PPP terms in 2000–2006. However, with the same historical trend, India's car consumption hit 10 mn p.a. by FY15

India & China: Example for Car sales

	Year achieved		Car sales (mn)	
PCI in PPP (USD)	China	India	China	India
1500	1995	2000	0.5	0.7
2400	2000	2006	1.2	1.4
6000	2009	2015	10.3	10.0

Source: ENAM Research, NSS Survey, CMIE, UN

Representative Blow-out Sectors

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- **Consumption trajectories achieved in 3 representative unit cost brackets are:**
  - **<USD 1,000: DTH subscribers**
  - **~USD 10,000: Passenger cars***
  - **~USD 100,000: Mortgages as representative of Realty**

	2015	2010	Rationale
DTH subscriber base (mn)	54	18	Digital/ TV penetration increasing from 17% to 38%, of which DTH maintains 75%
Passenger car sales p.a. (mn)	5	2	Regression analysis of penetration to income levels in global geos implied car penetration of 2%
Mortgages Outstanding (USD bn)	400	88	Regression analysis of morgages/ GDP to income levels in global geos implied 9%

Source: ENAM Research

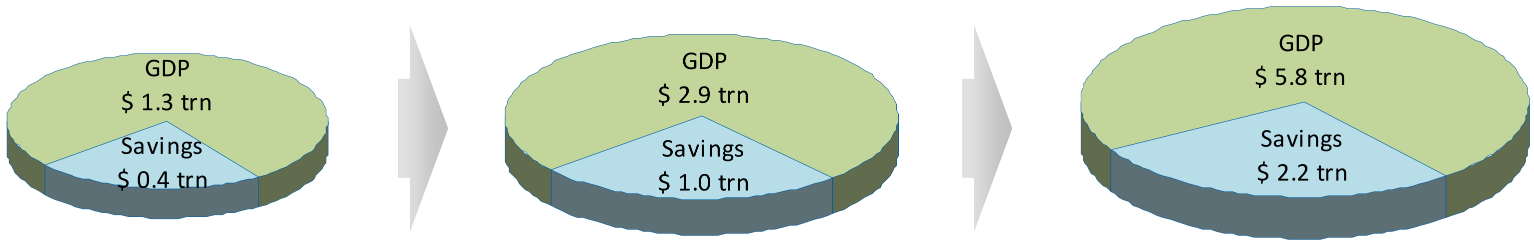
Note: *Mercedes' plans to build another plant shortly (e.g., ENAM's ESOPs are now vested with its 5,000 employees), and we may again run out of passenger car capacity in India, even as Nano now expands its production footprint to 5 states of India

Savings explosion and Funding Infrastructure

2009 — **Fin Savings – USD 123 bn**

2015 — **Fin Savings – USD 273 bn**

2020 — **Fin Savings – USD 539 bn**



India’s savings pool – Primary drivers

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- Savings rate primarily rose due to a fall in Dependency ratio: Historically, every **1% fall in dependency ratio has boosted savings rate by almost a similar magnitude** thus **doubling Financial savings** from USD 123 bn in 2009 to **USD 323 bn** in 2015
- **Turnaround in govt. finances** was the next contributor

(USD bn)	2015	2009
GDP (Nominal)	3,046	1,238
Household savings	714	266
- Financial	*329*	*123*
- Physical	*385*	*143*
Private sector savings	325	99
Public sector savings	48	17
Total Gross Dom Savings	**1,082**	**382**

- **Deeper Financial penetration due to Reforms** in 2010–15:
  - **Pension and Insurance**: Restrictions on investments by pension and insurance funds were liberalised, creating huge assets in pvt. sector securities, apart from public-sector securities
  - **Currency, interest rate and derivatives markets**: The weak institutional structures, poor liquidity and participation was enhanced by removing eligibility and origin barriers. This also enabled price discovery through arbitrageurs and risk-takers
  - **Bond markets**: With reforms, bond markets have increased ~6x to USD 500 bn by 2015 (McKinsey’s report on the Financial sector)
  - **Banking sector**: This began with divesting government ownership of public-sector banks, allowing investor voting rights in proportion to ownership, encouraging consolidation
- Note theoretically, Private Savings can eliminate govt. liabilities. Further, **wealth effect of gold and property** in India is considerable: *(Ref slide 53)*

How Savings funded Infrastructure and Equity

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How Infra was financed

(USD bn)	12th plan	p.a
Total Infra requirement	**1,000**	200
a) of which govt	270	54
b) Pvt requirement	**730**	146
1) of which equity (30%)	219	44
c) India Inc NW	370	74
d) of which RoE @17% x 5 yrs	315	63
e) Available for eqty/ lev	189	38
f) Equity issuance reqd pa (1-e)	30	6
2) of which debt (70%)	**511**	102
g) from banking system	280	56
h) pension/ insurance/ others	100	20
i) external borrowings	131	26

Source: ENAM Research

Savings into Equities exceed USD 50 bn

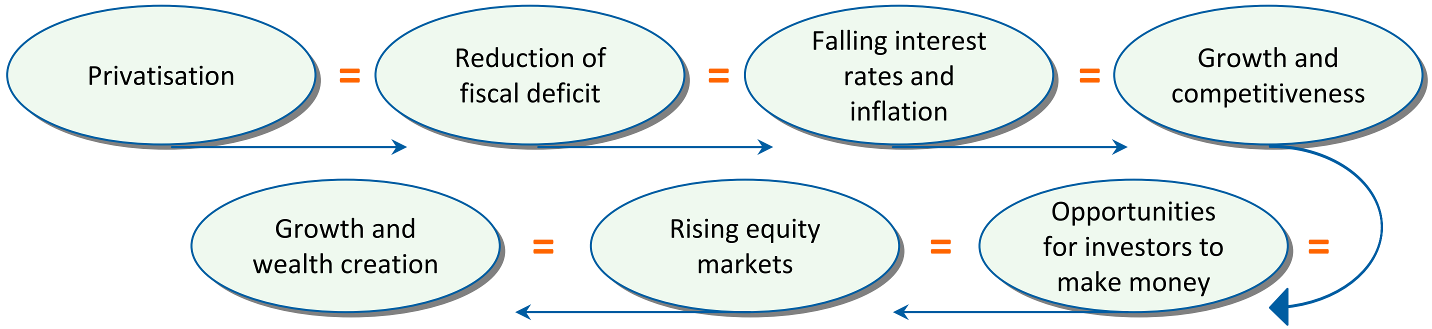
Break up of financial savings (USD bn)	2008	2015	2020
Contractual savings	32	65	124
Inv in shares and debentures	13	25	54
Claim on government	(6)	14	27
Deposits	70	147	291
Currency	13	22	43
Total	**123**	**273**	**539**

Source: RBI, ENAM Research

- **Infrastructure spend** est. for the 12th Plan (2013–18) was **~USD 1 trn**
  - **Of this, Govt. spend est. at ~USD 270 bn** (same as 11th Plan) – this is around 15% of Govt. receipts
  - The **pvt. sector** (BSE-500 cos) had a net worth of USD 370 bn and RoE of 17% in 2010. Hence, it could support USD **315** bn worth of funding through retained earnings
  - Assuming only 60% cos spend on capex, **India Inc** contribution shrinks to **USD 190 bn, leaving USD 30 bn to be financed by equity**
  - **Debt component USD 510 bn (~70%): The banking system** with 18% growth in deposits and 15% sectoral cap on Infra lending **can provide ~USD 280 bn**
  - **Pension/ Infra cos** were able to **plough in USD 150 bn** (their investments in 2010 were ~USD 20 bn p.a. + addl due to reforms)
  - Leaving **~80 bn to** be raised **via external commercial borrowings –** ~20% of total capital inflows in 2010
- **The pool of financial savings doubled to ~USD 270 bn in 2015 from 2010**
- Maintaining the constituent proportions, investments in **shares & debentures** at 9% = **USD 50 bn**

Govt's Deficit control and Key Reforms

Divestment and Wealth Creation



An altered Govt. P&L = lower interest rates

Centre's P&L (% of GDP)

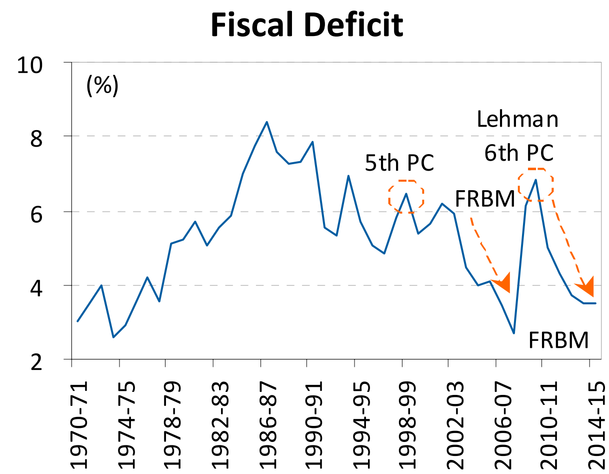
Particulars	FY05	FY10	FY15
Total Receipts	**11.8**	**9.9**	**13.0**
-- Revenue Receipts	7.1	7.5	9.0
-- Non Tax Receipts	4.7	2.4	4.0
Total Expenditure	**15.8**	**16.6**	**16.5**
-- **Revenue Exp.** (of which)	9.4	10.0	10.0
-- Interest	4.0	3.6	4.0
-- Defence	1.4	1.4	1.4
-- Subsidies	1.5	2.1	1.5
-- Admin & social services	2.1	2.5	2.5
-- Grants to States	0.5	0.8	1.0
-- Capital Expenditure	**3.6**	**1.9**	**4.0**
Fiscal Deficit	**(4.0)**	**(6.7)**	**(3.5)**

Source: Government of India Interim Budget, ENAM Research

- DTC + GST etc.: ~2% to GDP added (IT sector alone contributed ~USD 8 bn)
- GDP growth-led buoyancy + Non Tax revenues: ~0.8%

Coal auction + Divestments boosted non-tax revenues

Food subsidy went up due to Food Security Act, but Fertiliser and Fuel subsidies halved due to price decontrol and better targeting thru UID



Source: MoF, ENAM Research

A falling deficit reduced crowding out and hence lowered interest rates, in turn boosting savings and investments

Govt. revenue turnaround: USD 85 bn+ !!!

- **GoI tax receipts went up by ~3% by 2015** by weeding out most exemptions* and a widening of the tax net:
  - **DTC:** Implemented in 2012, it simplified the tax code and improved compliance. It also added newer sectors in the tax net (IT sector alone contributed ~USD 8 bn vs USD 1.5 bn in 2010)
  - **GST implementation:** Was the biggest Tax reform and unified the country with one tax rate in 2014, boosting volumes & supply chain efficiencies in organised manufacturing. GST also brought more services, middlemen etc. in the tax net
  - **GST & DTC**: While original estimates in 2010 were for GST and DTC to add 1% of GDP each to tax revenues, due to delay and dilution of original code, ultimately they contributed 0.5% each. Various other exemptions were removed in subsequent years (1%), i.e., 25% of the revenues foregone in FY10 due to variosu exemptions extant then (Ref table alongside)
  - **GDP growth & non Tax revenues: Revenue buoyancy (USD 12 bn) and non tax revenues (USD 11 bn) boosted revenues by ~0.8%**
- **Non Tax revenues:**
  - **Divestment: In FY11 alone, we did ~USD 9 bn**, and another **~USD 3 bn** was divested in subsequent yrs (**value of govt. listed cos was ~USD 400 bn in 2010)**
  - **Coal auctions:** Coal auction alone is potentially much larger than the USD 20 bn 3G auction the Govt. got in 2010
  - **Land value unlocking:** The Govt. also identified Railways & Postal dept which had huge land banks for value unlocking

Govt. revenues rose

	(USD bn)
DTC+GST	35
Removal of other exemptions	29
Rev Buoyancy + Non Tax rev	23
Total	**87**

Source:GoI documents, ENAM Research

Revenues foregone due to exemption

(USD bn)	FY10	% of total taxes
Customs	54	39
Excise	37	27
Corporate tax	17	13
Income-tax	9	6
Total	**117**	**85**

Source: MoF

Substantial Subsidy savings too

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- **Subsidy savings:** The tax-cut announced just before the general election last year (2014) is again worrying us about govt. finances, just as in 2009. However, we have come a long way since then, when the Govt. started its multi-pronged Subsidy-control measures:
- **Fertiliser:** In 2010, the Govt. had effected **price hikes in Urea** of 10%, followed by another hike in 2012. In 2010, it also **capped the outgo on complex fertilisers** and the pilot project for **direct credit to farmers** in 2010 was expanded in subsequent years with the implementation of Unique Identification Programme (**UIDP**) in 2013. Importantly until 2010, media reports suggested that there was large scale **leakage of subsidised fertilisers to neighbouring countries**. Overall, the **fertiliser subsidy has almost halved**

Fertilisers & Petro subsidies have halved from 2010

(USD bn)	2015	2010
Food	**18**	**14**
Fertilizers	**7**	**12**
Complex (P&K)	4	7
Urea	3	5
Petroleum Products	**4**	**10**
Kerosene	2	4
LPG	2	3
Diesel	0	2
Petrol	0	1
Total	**29**	**36**

Source: MoPNG, MoF, ENAM Research

- **Auto-Fuels:** While Petrol was decontrolled fully in 2010, diesel was decontrolled partially with ~USD 2 bn under-recovery left. However, by 2012, even diesel prices were fully deregulated, enabling a total **auto fuel subsidy saving of ~USD 3 bn**
- **LPG & Kerosene:** With better targeting under UID scheme, the flow of subsidised kerosene and LPG to industry and the prosperous middle-class was stemmed. Additionally, LPG prices have been increased marginally. Thus, **total savings of ~USD 3 bn**
- **Food:** Implementation of **Food Security Act** in 2012 **added ~USD 4–5 bn to the subsidy burden** by **including even the urban poor**

Capital Flows driven by Reforms

- **FDI explosion:** As India becomes 10% of incremental world growth and as major capital suppliers have weak domestic growth with high labour costs, FDI exploded. Allowing FDI progressively in **Defence, Retail, Insurance, Pension funds and Aviation** transformed a wide swathe of related industries and skill sets
- **FDI in Retail** entailed compulsory contribution to back-end infra creation and employment of rural workforce. Hence, it raised supply chain efficiencies and boosted agri productivity, apart from directly improving retail distribution efficiencies through inventory management, etc. **Insurance and PFs boosted infrastructure investments**
- **FPI explosion:** India's relative growth and stability induced capital-rich and domestically-slowing economies to fund India. An appreciating INR also helped

And Luck!

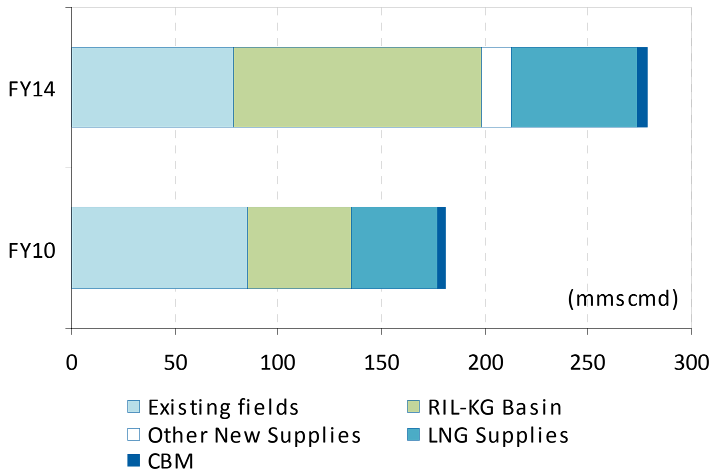
- **Energy is still scarce**, and China has been far more successful in global hydrocarbon acquisitions
- We remain vulnerable to energy price shocks!
- However, this has vastly improved from the previous precarious decade, with the **NELP**, and **hydrocarbon discoveries** by Reliance, ONGC, GSPCL and Cairn

KG Gas enabled huge savings to the economy

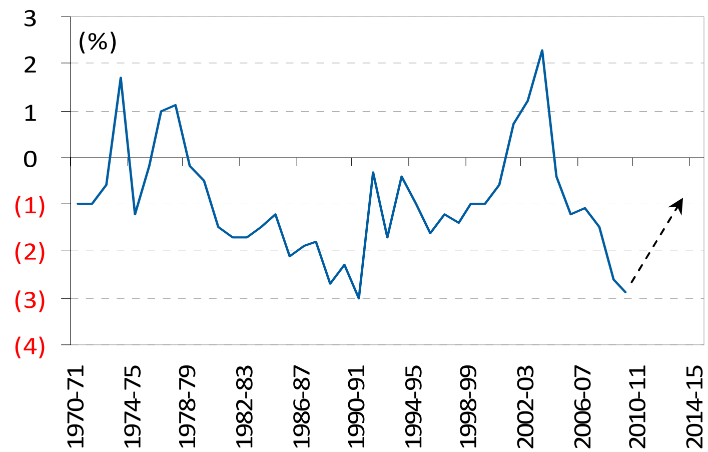
	(USD bn)
Gas replacement	**18**
- Govt subsidy	3
- Household fuel savings	3
- Rest of economy	12
Gas value chain players	**8**
- Upstream (E&P)	5
- Midstream (Pipeline & LNG terminals)	2
- Downstream (CGD Networks)	1
Total	**26**

Source: ENAM Research

Quantum jump in gas supplies



CAD: Shrunk with more gas & oil discoveries



Source: Government publications, ENAM Research

Infrastructure

Among the largest PPP Infrastructure Plans

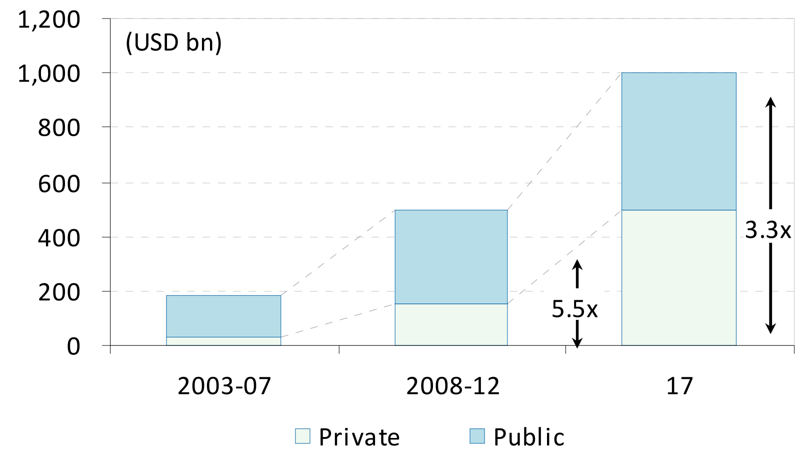
- **Infra spending in India has reached ~9% of GDP** from ~7.5% in 2010, mainly through executing one of the **largest Public-Private-Partnership** (PPP) Programs globally
- **India's infrastructure has witnessed massive capacity increases in power, road, ports and airports during 2010–15. Yet, Ports and Airports are still choked and Power is still deficit**
- **Railways remain our most precarious choke-point today, and we look forward to 2020 when the ribbons are cut for the dedicated freight corridor**
- **The example of Mumbai's urban infrastructure program is now being emulated by Kolkata**

Sectors	2015	2010	Growth (%)
Power (GW)	255	159	60
Road* (Lane Km)	227,172	132,660	71
Ports (mn tpa)	1218	756	61
Railways # (kms)	12,922	10,122	28

*Lane km of highways

Length of Golden Quadrilateral linking 4 Metros: carries 75% of freight & most of the expansion is here

PPP in India – Strong traction



Source: Government publications, ENAM Research

Power deficit: Supply has disappointed despite record Private Sector additions

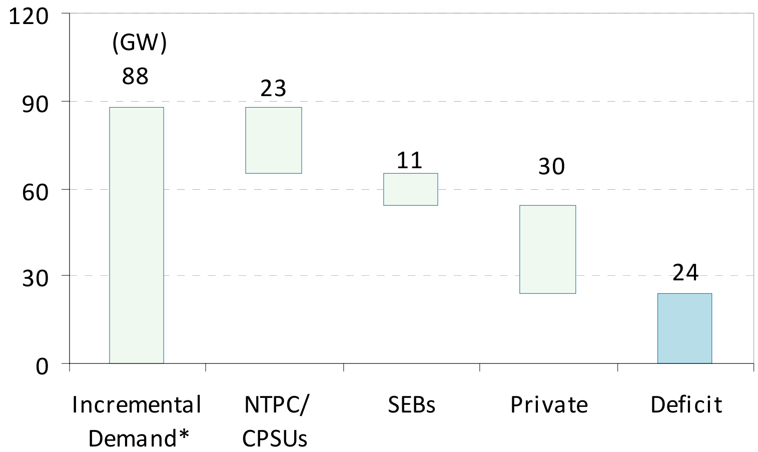
State projects were massively delayed…

Total Capacity (GW)	FY10	FY15	CAGR
Centre	51	88	12%
State	79	95	4%
Private	**29**	**72**	**20%**
Total	**159**	**255**	**10%**

Thermal Capacity Addition for FY11 & 12: State achieves < ½ of Govt's target; even NTPC under-performed

(GW)	Centre	State	Private	Capacity addition for FY11+ 12
Government Target	10	10	11	32
ENAM's Target	**7**	**5**	**13**	**25**

Incremental demand of just 10% p.a. have led to deficit increasing from 16 GW in FY10 to 20+ GW in FY15



*Note: The above incremental demand & capacities are PLF adjusted

High deficit + Cost of generating power at > ₹ 3/ unit led to high merchant rates

Selling Rate/ unit reqd for 18% RoE based on various fuel types	FY10 (₹/ kWh)	FY15 (₹/ kWh)
Captive Coal Block	**1.7**	2.2
Coal India's Coal		
- Pit head	*2.2*	*2.9*
- at Demand centre	*2.6*	*3.4*
Imported coal	**2.6**	3.9
Gas	**2.7**	3.3
Hydro	**2.9**	3.6

Source: ENAM Research; NO

Roads: Added over 100,000 lane kms in < 5 yrs

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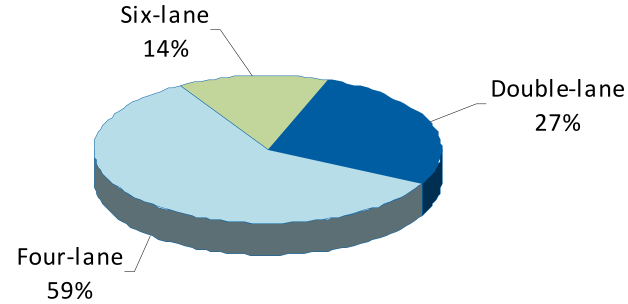
- **Efficient transport infrastructure** has resulted in India's high **logistics**/ prodn costs decreasing from ~14% in 2010 to the global avg of 6–7% (*W Bank*), **saving** USD 3–6 bn p.a. (~0.3% of GDP) – *R Mohan Report*

- NHAI has successfully nearly doubled the **Lane-Kms of National Highways from 132 k km in 2010 to 227 k km in 2015**

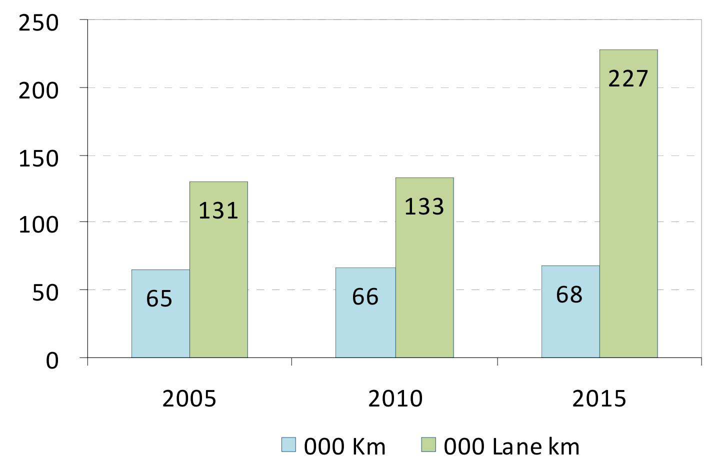
- The Policy initiatives that helped achieve this target:
  - Projects were awarded post 80% land acquisition
  - Mobilisation of funds from World Bank
  - Viability Gap Funding upfront

Highways/ Expressways 2015



Source: NHAI

Highways length in Km and lane Km



Source: NHAI, ENAM Research

Ports – Sea & Air: Capacity zooms, yet inadequate

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- **Major ports continue to run at ~100%** capacity utilisation in 2015, substantially higher than global avg of 70–75%
- **Port Traffic growth** was driven by:
  - **Thermal Coal** – Near doubling in power capacity
  - **Coking Coal** – Expansion by SAIL, Tata Steel
  - **Container Traffic** – Driven by economic growth
  - **Iron ore** – Rise in state production, esp. Sesa Goa
- **Airports**: Passenger traffic has multiplied. Apart from metros, non-metros have also witnessed positive traction
- Post modernisation of the **Mumbai airport** (Dec 12), the greenfield **Navi Mumbai** Airport is close to completion by 2017. Bangalore and Hyderabad airports have seen expansion completed in 2013. Greenfield airport tenders for 20 non-metros were awarded in 2012

Composition of Port traffic (mt)

Commodity	FY15	FY10	Growth (%)
POL	297	237	25
Iron Ore	222	138	60
Thermal coal	144	61	138
Coking coal	45	32	40
Container	185	126	47
Fertiliser	37	24	53
Others	184	138	34
Total	**1,114**	**756**	**47**

Source: IPA, ENAM Research

Passenger traffic at airports

(mn)	FY15	FY10	Growth (%)
Mumbai	37	26	44
Delhi	35	24	46
Bangalore	13	10	32
Hyderabad	9	7	33
Others	80	57	40
India	**175**	**124**	**41**

Source: AAI, ENAM Research

Railways: Dedicated Freight Corridor, the driver

- The railways makeover is underway with work under the **Dedicated Freight Corridor (DFC) in full swing – tenders were awarded in 2012**
- **DFC** comprises the Western and Eastern Freight Corridors and will cover close to 3,000 route km – i.e., **West's** Jawaharlal Nehru Port (JNPT), Mumbai to **North's** Tughlakabad and Dadri near Delhi and Ludhiana in Punjab, to **East's** Dankuni (1806 kms) near Kolkata
- Rail capacity on its busiest stretches (handling 75% of railway freight traffic) will be augmented by ~30% with the completion of DFC
- Logistics Cos' projections in 2010 have been borne out – that due to **inadequate Rail capacity in 2015**, a substantial freight traffic in 2015 has to be borne by the Road network, whose expansion has been in the nick of time – which is why you have the current **shortage in Commercial vehicle capacity** today

Railway Freight Corridor plan

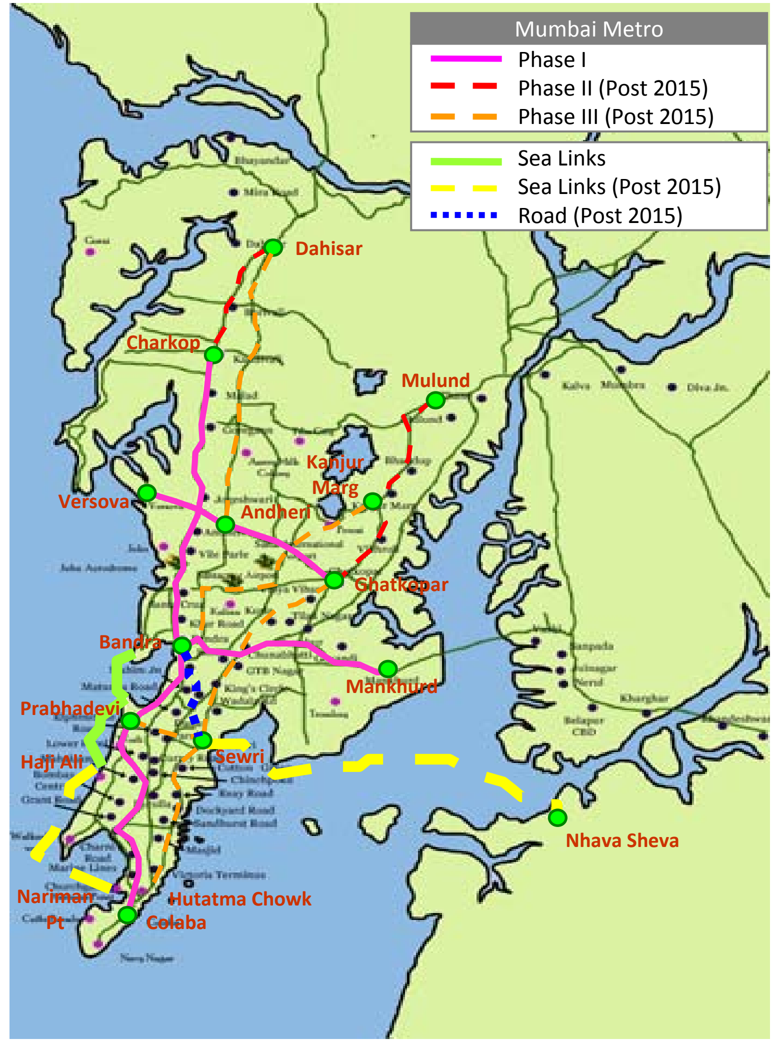
Source: Government publication

Urban Development: Picking up Pace …

- **In 2010, ~60% of households were dissatisfied with urban infrastructure in terms of housing, water, transportation and other basic amenities**. While the scenario today is not encouraging with the unanticipated urbanisation of the last few years, development is seeing pick-up
- **Focus on urban infrastructure has undoubtedly increased since 2010,** with global agencies extending loans for funding infrastructure development
- **Government has also been raising financing contribution** for Urban Schemes including JNNURM – ₹ 50 bn in FY08, to ₹ 145 bn in FY11 and then **3x from 2010 to 2015**
- **Private sector is also playing its part through PPP project awards for development of Metros and Flyovers in metro cities**
- **Mumbai City development plan as prime example: See next page**

Mumbai revamp: Prime example of Urban Infra

- **Rail and road connectivity projects of USD 10 bn is giving public transport in Mumbai a new identity**
- **Metro-rail**: While Phase-I of the prestigious Mumbai Metro was completed in 2012, **Phase-II and Phase-III are currently under development**
- **In 2010, Rail and Bus carried 6.5 and 4.8 mn people respectively. Now in 2015, mono rail will carry 8 mn**
- **Sea links**: Post completion of the landmark Bandra-Worli Sea Link project in 2009, leg 2 of Worli-Haji Ali further eased traffic constraints by 2014, **while the crucial Haji-Ali-Nariman Point and Nhava-Sheva links are under development**
- **Roads**: While elevated road projects like the Bandra-Sewri stretch are being developed, several other projects on similar lines are being planned
- Development of infrastructure in Mumbai is a prime example of **urban development leading to growth through easing connectivity**



Source: MMRDA

The new Govt's Key Focus

The new Govt's next Key Tasks

- The last decade was spent in the **Govt. reigning in finances and yet catapulting Hard Infrastructure** growth through **Private partnership**, **FDI** and enabling **infra-financing** frameworks
- The **Pending areas of Constraints** are largely where the **Govt. cannot abdicate or invite PPP** to solve them and largely where it's a **State or Concurrent subject** (education, land, power, labour, etc.). And now, that the Govt. has **reigned in finances** considerably, it can focus spend and policy-making on:
  - **Distribution of Resources**: **Food, Water**
  - **Provision of Higher Education**
  - **Enabling Manufacturing-led Exports growth including through an appropriate SEZ policy**: Apparel, auto components, electrical & electronics, and speciality chemicals
  - **Equitable and transparent land acquisition strategies, which would help maintain the Hard Infra and SEZ programs and further alleviate the remaining Naxalite problem**
  - **Labour reforms**: Amendments to key archaic and impractical regulations to help SMEs compete
- Now that states are vigorously competing for investments, and realised the fruits of collaboration a la GST implementation, some of the above is likely to be easily solved than in the 2000s. More balanced development will prevent a recurrence of the Naxalite problem that plagued us in the last decade
- The enhanced **Geo-Political** importance that India now has vs. in 2010 (which was largely bestowed on China) will lead to further initiatives to tackle:
  - Energy: **Global Energy acquisitions in natural gas, enhancing our nuclear power capabilities, and harnessing the hydro power of Nepal**
  - Import of Terrorism from Pakistan: **Ever since the US vacated Afghanistan in 2012, there has been a continuous increase in terrorist activity**

Education: Primary literacy addressed, Employable education precarious

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- Primary school enrollment has gained fair momentum due to the Govt's Sarva Siksha scheme (SSA) – Yet today in 2015, there are 500 mn with <5 years of schooling and another 300 mn with < 10 years of schooling
- The problem still remains of Higher education, where expenditure was just 6% of Govt's 11th Plan outlay (2007–12). Higher education infrastructure could admit only 7–8% of college-age students in 2009 (Netscribes)
- Conventional courses were not geared towards creating employability (FICCI survey of 2007: 64% of employers are not satisfied with quality of engineering graduates)
- As per the IIJT-Teamlease report, technically qualified workforce remained static at 3% over the years, creating shortages in employable workforce in each and every key Services sector, whether IT or BFSI or Construction … and not to forget, of Teachers!
- Influx of foreign universities with variety of course offerings and impressive infrastructure have been the main driving force, but they are still few and far between, leading to a large scale exodus of students to the West, which ultimately could lead to a Brain drain

Education enrollment forecasts

(%)	1980	2000	2020 Business-as-usual	2020 Best-case Scenario
Primary enrolment (1-5)	80	89	100	100
Elementary enrolnment (1-8)	77	79	85	100
Secondary enrolment (9-12)	30	58	75	100
Drop-out rate (1-5)	54	40	20	0
Drop-out rate (1-8)	73	54	35	0

Source: Planning Commission

High Employment sectors

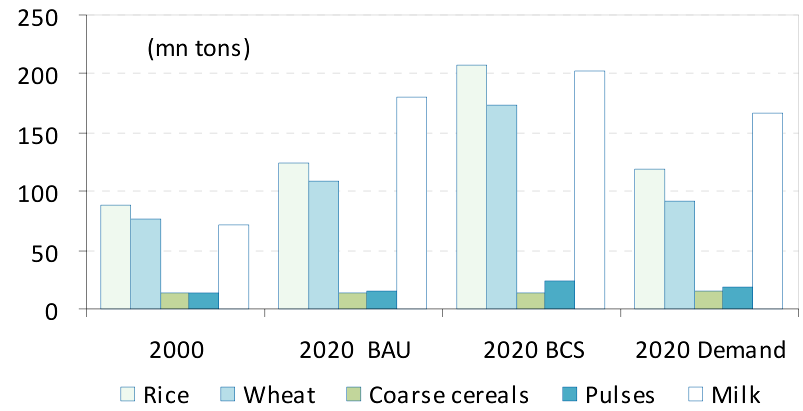
High employment sectors (mn)	2020
Services	**120**
- IT/ITES	14
- Education	> 4
- BFSI	10
- Healthcare	
- Tourism	90
- Others	
Core agri	**15**
- Forest development	11
- Textiles Manuf (excl SSI)	4
SSI	**18**
- Textiles	3
- others	15

Source: Planning Commission

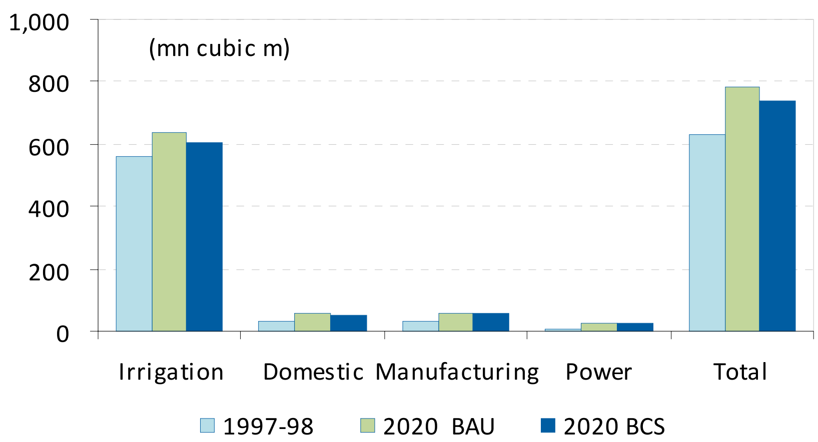
Food and Water distribution

- **Food:** As the Planning Commission's projections show, **quantum is not a problem**, it's the effective **distribution**. Initiatives required in:
  - Expanding storage capacity through PPP
  - Expansion of Rural roads
  - Supply chain management
  - Improved and targeted Public distribution system
  - Agri-productivity improvement
- **Water**: 4% of world's water for 16% of its population!
  - Better water management and distribution critical, given increasing urbanisation
  - Irrigation requirements are the largest – we hear talk of Karnataka and Tamil Nadu finally agreeing to sharing of river waters

Food demand scenarios



Water consumption scenarios



Source: Planning Commission.

Note: BAU = Business As Usual; BCS = Best Case Scenario

Case studies: Groups that scaled in the last 5 years

Adani Enterprises

- Adani Enterprises (AE), flagship company of Adani group, has **successfully become of India's largest integrated infrastructure companies.** It is handling India's busiest port at Mundra and is among the top 5 private power producers with a dominant presence in coal trading and mining businesses
- **Mundra Port**, AE's subsidiary, is India's largest port in cargo handling at 150 mn tpa, with a 10% market share

Adani Enterprises

(₹ bn)	FY15	FY10	CAGR (%)
Port Capacity (mn TPA)	150	80	13
Power (MW)	13,200	660	82
Coal Mining (mn TPA)	19	2	57
Coal Trading (mn Tpa)	60	29	16
Revenue	723	259	23
PAT	76	9	53
Cash Flow	95	11	55
Mkt Cap	3,575	715	38

Source: Company, ENAM Research

- **Adani Power**, AE's subsidiary, is among India's top 5 power generating companies at a capacity of 13,200 MW
- While AE scaled up its **coal mining production** nearly 10x, as its USD 2 bn investments in Australia and Indonesia bear fruit, this will witness further ramp-up
- **Coal trading** continues its strong traction as AE maintains its dominant 50% market share in India's coal imports
- **We anticipate AE will continue its strong growth trajectory, backed by good execution and focused approach**

Bajaj Auto

- Bajaj Auto's (BAL) **two-wheeler volume CAGR of 25%** has been higher than the domestic industry growth rate CAGR of 15% p.a. from 2010 to 2015
- BAL's superior growth was driven by: a) contribution from **exports** increasing from 29% in 2010 to 33% in 2015, and b) increasing market share in **motorcycles** from 24% in FY10 to 35% in FY15, due to product portfolio upgrades

Bajaj Auto

(₹ bn)	FY15	FY10	CAGR (%)
Volumes	7,167	2,848	26
2W	6,283	2,507	26
Domestic Mkt Share (%)	26	19	-
Revenues	343	123	29
PAT	47	19	24
Cash Flow	49	21	24
Mkt Cap	781	404	18

Source: Company, ENAM Research

- BAL's positioning as a **quality manufacturer** vs. the Chinese, has led to the high growth in **exports** in Africa and Latin American markets. Motorcycle exports now contribute 35–40% of volumes vs. 28% in FY10. Additionally, Bajaj Auto also has firmly established itself with multiple assembly facilities globally including China, and managed to extend the acquired KTM to a global franchise
- Besides the 2W business, Bajaj Auto has extended its operations to the highly lucrative **LCV** market and the **small car** market. Bajaj's strong three-wheeler franchise and distribution network have been the key reasons for this success
- BAL has **surplus of ₹ 140 bn** on its B/S, despite seeding the LCV and car businesses, making it one of the most **capital efficient** automotive companies in India. With its Cash hoard now considerable and the full effect of its product entries to play out over the next few years, its market cap growth has only just begun!

HDFC Ltd

- HDFC, in its new avatar of a **Holding Co**, presently **India's largest financial services company**, has diversified into various new businesses (e.g., education loans, venture funds, REITs) which have become specialised entities and leaders in their respective fields. It has mastered the art of **value unlocking from investments** (e.g., Insurance, AMC, BPO, etc.) and cross selling ability to leverage its brand image and management strengths

HDFC Ltd

(₹ bn)	FY15	FY10	CAGR (%)
Net income	112	43	21
Operating profit	107	40	22
PAT	76	28	22
Total assets	2,489	1,118	17
Mkt Cap	2,118	937	18

Source: Company, ENAM Research

- The ability of HDFC to **maintain consistency and quality** in all its operations, along with stringent risk management practices has aided in creating a strong and large financial behemoth
- It is well recognised across the globe as among India's **Best Managed Companies** for its business practices, professionalism, foresight and ability to sail smoothly across economic cycles. It has an asset base of over ₹ 2.4 trn and a customer base of over 25 mn
- Value unlocking from subsidiaries, sustainable growth rates, tapping under-penetrated products/ regions and specialisation in real estate/ mortgage financing business have acted as strong growth drivers for HDFC

ICICI Bank

- ICICI Bank (ICICI) is the **second largest financial group** in the country with a dominant presence across retail asset classes. It has successfully emerged as the largest funding source for outbound M&A and business activities of Indian origin across the globe. International business now contributes nearly one-fifth to its topline

ICICI Bank

(₹ bn)	FY15	FY10	CAGR (%)
Net income	329	156	16
Operating profit	219	97	18
PAT	121	40	25
Total assets	7,375	3,634	15
Mkt Cap	2,741	1,127	19

Source: Company, ENAM Research

- ICICI **grew both organically and inorganically**, which has further aided in creating a franchise (of over 5,000 branches, 20,000 ATMs and millions of business correspondents) for generation & distribution of retail products. The bank's huge capital base helps in meeting large ticket funding requirements and has metamorphosed it as the lender of first choice for infrastructure projects

- The group has **diversified across verticals and has become a one-stop-shop for financial products** catering to a diverse set of clients. Almost all its subsidiaries are the largest players in their respective segments in the private sector space with healthy growth rates. The bank's **advanced technology platform** has played a pivotal role in making the group's operations more streamlined and integrated

- ICICI has leveraged its ability to tap the mass market segments, cross sell products, adapt strategies to changing market needs and build a pan product retail bank. A deep hunger for growth and capture opportunities wherever available has transformed it to a financial power house

JaiPrakash Associates

- JaiPrakash Associates (JPA), has **maintained its standing as one of India's leading infrastructure conglomerates.** Over the last five years, it has seen near doubling of its EPC order book and cement capacity, and massive power capacity addition
- **EPC:** JPA has seen its order book soar to around ₹ 700 bn, with diversified presence in hydropower, roads and buildings

JaiPrakash Associates

(₹ bn)	FY15	FY10	CAGR (%)
EPC order Book (₹ bn)	700	370	14
Cement Capacity (mn Tpa)	40	22	12
Power (MW)	6,820	700	58
Revenue	377	81	36
PAT	57	4	70
Cash Flow	78	9	55
Mkt Cap.	766	261	24

Source: Company, ENAM Research

- **Cement:** In-line with the management vision, it is among the top 3 cement groups in India and further ramp-up in capacity will see it maintaining the strong growth trajectory
- **Power:** JaiPrakash Power Ventures, JPA's subsidiary, has seen its capacity multiply backed by strong execution ability. It remains among the leading players in hydro-power with a dominant presence in the thermal space also
- **Real Estate:** JayPee InfraTech, JPA's subsidiary, is successfully monetising its 530 mn sq. ft of real estate in phases around the Taj Expressway at Noida. Further growth will be driven by the ₹ 30 bn Ganga expressway project which is under construction
- **We anticipate JPA will continue its growth traction, backed by proven execution abilities**

JSW group

- JSW group, a Sajjan Jindal led enterprise with strong presence in steel and power has nearly quadrupled its market cap to USD 50 bn in the last 5 yrs. The increase in the market cap was driven by volume growth as well as P/E expansion due to backward integration
- The group has propelled to become India's largest pvt. sector steel producer with a capacity of 32 MMT and amongst the Top 3 pvt. power cos with 11 GW capacity
- A group that was perceived as over-leveraged and short on resources & exposing its earnings to volatility of international prices (coal & iron ore), has beautifully integrated itself backwards in both steel (75%) & Power (100%) and reduced its cost of production to the lower quartile of industry (USD 300/ ton for steel and ₹ 2/ kWh for Power)
- Further, the group did not dilute since 2010 and funded expansion through internal accruals, thereby creating significant wealth for minority shareholders

JSW group

(₹ bn)	FY15	FY10	CAGR(%)
Steel Capacity (mn tn)	32	8.2	23
Power Capacity (MW)	11,100	995	62
Sales	792	206	31
PAT	160	28	42
Mkt Cap	2,000	436	35

Source: Company, ENAM Research

Pantaloon India

- **Pantaloon India (PRIL) has grown to become India's largest organised retailer with revenue of USD 6 bn.** This makes it larger than the combine revenue of its next 3 nearest competitors
- Yet **PRIL's revenue-to-GDP at 0.2%, is till below the global average of 2.3%.** Organised retail market in India has just reached 8% share of total retail sales. Thus ample opportunity exists for further organised retail penetration
- Increasing per capita income and migration from rural markets has led to urbanisation. **PRIL now reaches more than 100 cities with retail space of 35 mn sq. ft**.
- Focus on improving capital efficiency/ store productivity and rising bargaining power due to increase in scale of operations, has enabled PRIL to improve ROE to 20%. The company has lowered its D/E to 0.6x, **divested all its non-core businesses and generates sufficient cash flows** to fund its retail expansion. **PRIL has partnered with global Multi-brand retailers** to improve sourcing and front-end capabilities across verticals

World Top Retailers: Revenue to GDP ratio

Country	Company	Revenue (USD bn)	GDP (USD bn)	Revenue/ GDP (%)
US	Walmart	408	14,256	2.9
France	Carrefour	119	2,676	4.4
Germany	Metro AG	91	3,353	2.7
UK	Tesco	90	2,184	4.1
Japan	Seven & I Holdings	49	5,068	1.0
Netherlands	Konklijke Ahold NV	39	795	4.9
Australia	Woolworths Ltd	37	997	3.7
Belgium	Delhaize Group	28	470	5.9
Brazil	Grupo Pao de	12	1,613	0.7
Chile	Cenco seed SA	11	169	6.6
China	Bailian Group	10	4,326	0.2
South Korea	Sinsegae	9	929	1.0
Russia	X5 Retail Group	8	1,608	0.5
Thailand	CP All pc	3	261	1.3
Indonesia	Hero	1	514	0.1
	Total	**918**	**40,455**	**2.3**

Pantaloon India

(₹ bn)	FY15	FY10	CAGR (%)
Retail space (mn sq ft)	36	14	20
Sales	272	93	24
PAT	10	2	36
Mkt Cap	285	94	24

Source: Company, ENAM Research, Bloomberg

Appendix

Pvt. India was wealthy enough to cover govt. liabilities

ENAM It's possible!

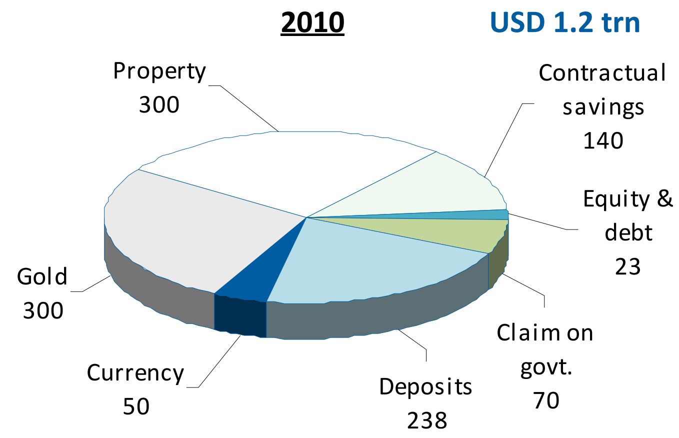
Government Balance sheet (USD bn)

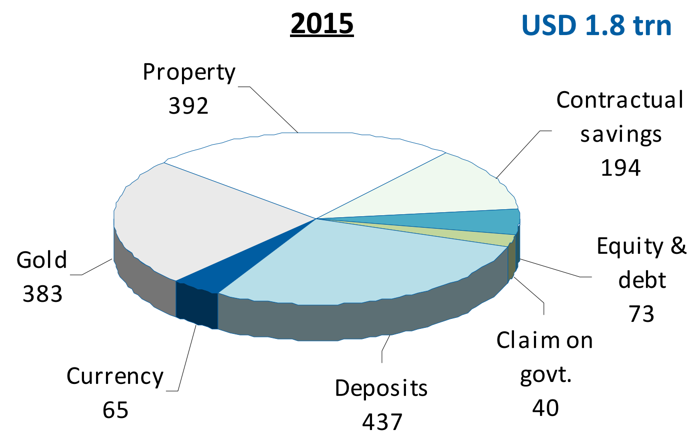
Liabilities	2010	2000	Assets	2010	2000
Public debt	523	178	Gen/ eco/ social	187	72
Internal debt	493	165	Other Outlay	148	68
External debt	29	13	Total capital outlay	335	140
Other liabilities	219	57	Loans	148	68
			Other	782	206
Total	**1,264**	**414**	**Total**	**1,264**	**414**

Source: MoF

- **Financial savings excl gold & property:** 5 years' growth trend extended, i.e., without considering a J curve take-off
- **Gold:** Est. stock in 2010, projected at inflation rate of 5.5%, i.e., ignoring net addns
- **Realty:** 5 years' stock (2005–10), compounded at 5.5%, i.e., incremental addns excluded

Pvt. India: Wealthy & unleveraged





Source: ENAM Research

Growing domestic savings structurally support major part of Capex creation

ENAM It's possible!

DOMESTIC Savings (USD 379 bn)

Household savings: USD 245 bn

Financial: USD 118 bn
- **Banks & Cash: USD 61 bn**
- **Stocks & MF: USD 17 bn**
- **Insurance: USD 30 bn**
- **Pension funds: USD 17 bn**

Physical: USD 127
- **Realty: Balance USD 100**
- **Gold: USD 13 bn**

Corporate sector: USD 90 bn

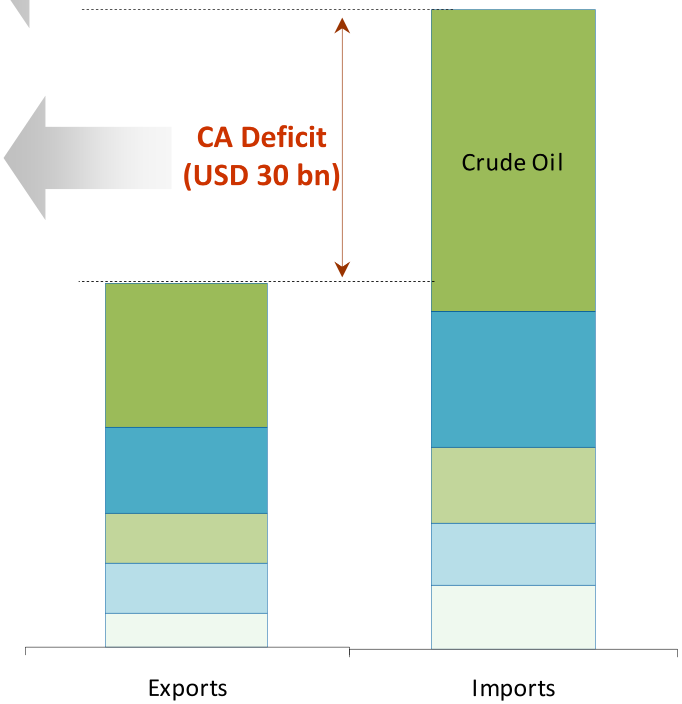
Govt.: USD 45 bn

USD 250 bn

Capex Creation
- Infrastructure
- Manufacturing
- Commercial Realty

EXTERNAL

Cap A/c USD 60 bn



India's savings & investment rates now akin to the Asian tigers this decade. However, as the Govt. dissaves (fiscal deficit), there is a greater need for external flows/ divestments to fund infra creation

Source: CSO, RBI, ENAM Research

ENAM Securities Pvt. Ltd.

7, Tulsiani Chambers, Free Press Journal Marg, Nariman Point, Mumbai – 400 021, India..
Tel:- Board +91-22 6754 7600; **Dealing** +91-22 2280 0167;
Fax:- Research +91-22 6754 7679; **Dealing** +91-22 6754 7575