

INDIA REWIND

India Rewind is a monthly update from DSP's Investment desk. It separates the alpha from the noise and aims to deliver key insights to readers, packed within a 2 minute reading time.

Indian automotive industry is the 5th largest in the world and is slated to become the 3rd largest by 2030. In line with EV adoption globally, electric mobility is picking up slowly and steadily across India. The country plans to achieve ~80% of two and three-wheelers to be electric in the next 6 years. This is in line with India's "Zero-emission" dream as well. As per govt. data, two-wheeler EVs rose by ~422% between FY19-21 (*lower base effect*). India's road to becoming a fully electric ecosystem faces a few hurdles like higher costs (mainly due to imported batteries) compared to regular fuel vehicles, charging facilities and high-performing EVs.

In order to understand how Indian companies plan to address these issues and develop better products, we visited one of the leading Indian electric 2W manufacturer's production facility in Bengaluru (*start-up capital of India*). Here are a few key insights from the war room:

- This is now the **largest 2W factory** in the world with a 10M annual production capacity (currently 4M) which is spread across ~500 acres of land,
- Currently ~80% of the components are produced **in-house** (inspired by the govt.'s **Make in India** initiative), which remains its biggest strength.
- The factory is based on the next-gen technology with more than 3000+ robots and with 80% of processes being automated. The key theme remains "**End of ICE** (Internal Combustion Engine) **age**"
- Working extensively on the production of electric 2W, cell manufacturing and chip technology, the **biggest beneficiary of the PLI scheme in advanced chemistry cell battery.**
- Currently they are importing the cell from Korea but have already started developing an in-house cell, in the final stages of development. This will be a massive boost as the **overall pricing will become very competitive** with the fuel vehicles.
- That's not all, they are even working on autonomous vehicles (*we got a test ride as well which was impressive*).

Overall, the electrification of two-wheeler vehicles in India remains at full throttle with a steady pace of adoption among customers. In the event of the evolving landscape, at present we remain cautious about traditional two-wheeler companies.

As a push for the "Make in India" initiative, the govt. proposed the production linked incentive (PLI) scheme across 14 sectors with an outlay of ~USD 30bn in FY21. Semiconductors (~25%), mobile and electronic components (~30%) and automobile components (~10%) are the largest sectors of the outlay. Incrementally we wanted to highlight the developments since the launch of the scheme (*please see chart of the month*). All 14 sectors have received bids so far and govt. has approved bids for 11/14 sectors while rest are in the final stages of approval.

Flows: Historically, July is one of the best months for Indian equities and this time it was no different, Nifty was up ~8.7% (**best month since Aug 21**). Indian equities have now witnessed FII selling of ~USD 29bn YTD, ~70% of the outflows have been from banks and infotech respectively. Maybe the trend has started to reverse now as last month FIIs have been net buyers (~USD 651mn), first time in the last 10 months. Domestic flows have remained extremely strong at ~USD 33bn YTD and the monthly systematic flows have remained on an average of ~USD 1.5bn which has supported the market.

Valuations and Earnings: For July'22, MSCI India USD Index returned ~9.2%, MSCI India Smallcap Index returned ~8.6% sharply outperforming MSCI EM ~-0.7% and MSCI DM ~7.9%. Nifty 12M forward PE is now at ~19X which is ~20% off the peak of ~22.9X, and 1SD above the long-term average. 1QFY23 results season gathered pace last month. About 60% of MSCI India (50 stocks) has reported earnings so far. Out of the 50 companies, 44% missed estimates, 26% reported in line while 30% beat estimates. Overall profits are up ~25% YoY, mainly led by banks

Chart of the Month: How PLI Scheme is shaping up ?

PLI Schemes					Progress -->				
S.no	Sector	Proposed Outlay	Potential/committed Investment	Incentive proposed*	Cabinet approval (Y/N)	Approval period	Bids invited (Y/N)	Number of Applications	
		in \$bn	\$bn	\$bn				Received	Approved
1	Semiconductor	7.5	-	-	Y	Dec-21	Y	5	-
2	Mobile & Electronic components	5.5	1.5	4.9	Y	Mar-20	Y	16	16
3	Automobiles and Auto Components	3.5	6.1	3.5	Y	Sep-21	Y	115	75
4	Advanced Chemistry Cell (ACC) Battery	2.4	6.1	-	Y	May-21	Y	10	4
5	Pharmaceuticals drugs	2.0	2.0	2.0	Y	Mar-20	Y	278	55
6	Telecom & Networking Products	1.6	0.5	1.6	Y	Feb-21	Y	31	15
7	Food Products	1.5	0.8	-	Y	Mar-21	Y	274	60
8	Textile	1.4	2.6	1.4	Y	Sep-21	Y	67	-
9	Drug Intermediaries & API	0.9	0.7	0.8	Y	Mar-20	Y	215	47
10	Speciality Steel	0.9	5.4	-	Y	Jul-21	Y	-	-
11	White Goods (ACs and LED)	0.8	1.0	0.8	Y	Apr-21	Y	76	61
12	Electronic/Technology Products	0.7	0.3	1.0	Y	Feb-21	Y	19	14
13	High efficiency Solar PV Modules	0.6	5.8	-	Y	Apr-21	Y	19	16
14	Medical devices	0.5	0.1	0.2	Y	Mar-20	Y	28	14
	Total	30.0	32.9	16.2	14/14			14/14	11/14

Chart Source: Goldman Sachs, Sources: Internal, Bloomberg, FII - Foreign Institutional Investor, DII- Domestic Institutional Investor, FY - Financial Year, CY - Calendar Year; YoY is Year over Year, YTD- Year to date, EM- Emerging Markets, DM- Developed Markets, EV- Electric Vehicle, 2W- Two wheelers.



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India at a Glance

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Economic Activity and Employment								
GDP, USD bn	2295	2651	2701	2871	2668	3174	3435	3773
GDP per capita, USD	1767	2018	2036	2141	1969	2318	2483	2699
Real GDP growth, %	8.3	6.8	6.5	4.0	-6.6	8.7	7.0	6.0
Prices, interest rates and money								
CPI inflation, % y/y (average)	4.5	3.6	3.4	4.8	6.2	5.5	7.0	5.0
Repo rate, % (year-end)	6.25	6.0	6.25	4.4	4.0	4.0	5.7	5.7
10 year bond yield, % (year-end)	6.7	7.4	7.4	6.1	6.2	6.8	8.0	7.5
USDINR (year-end)	64.8	65.0	69.2	75.4	73.5	75.8	80.0	82.0
Fiscal accounts								
General government budget balance, % GDP	-7.0	-5.9	-5.9	-7.8	-13.9	-10.7	-10.2	-9.5
Balance of payments								
Trade balance, USD bn	-112	-160	-180	-158	-102	-192	-251	-235
Exports, USD bn	280	309	337	320	296	422	456	461
Imports, USD bn	393	469	518	478	398	615	706	697
Current account balance, USD bn	-14	-49	-57	-25	24	-50	-99	-80
Foreign direct investment (net), USD bn	35.6	30.3	30.7	43.0	44.0	39.9	46.0	49.0
Total FX reserves, USD bn	370	425	413	478	577	607	550	545
Total external debt, % GDP	20.5	20.0	20.1	19.5	21.4	20.8	20.5	20.4
Credit ratings								
Moody's	Baa3	Baa2	Baa2	Baa2	Baa3	Baa3	Baa3	Baa3
S&P	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-
Fitch	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

Source: CEIC, Haver, UBS estimates; Note: Data is for FY ending March, E - Estimates

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