THE YEAR OF REIMAGINATION

FOR PROFESSIONAL INVESTORS

INDIA OUTLOOK 2021

BNP PARIBAS
ASSET MANAGEMENT

The asset manager
for a changing
world

CEO SPEAK

Sharad Sharma
MD and CEO,
BNP Paribas Asset Management
India Pvt. Ltd.

The year 2020 was to lay the foundation for growth in the roaring twenties (2020s). Instead, it put the world on pause.

The COVID-19 pandemic is possibly the biggest challenge that humankind has had to face in our lifetimes, an adversity of extreme proportions. With the spread of the virus, governments across the world resorted to lockdowns and implemented social distancing norms. Lives were lost and livelihoods were severely affected, with the economic activity coming to a virtual standstill. State and citizenry joined hands and have been fighting the pandemic over several months.

However, just as day follows night, we are now beginning to see light emerge at the end of the tunnel. Accelerated efforts by the global scientist and medical communities have borne fruit in the form of several COVID vaccines that promise to be effective. Thus, now is not the time to ruminate about the past, but an opportunity for us to envisage the trajectory of the next normal.

In this year's Annual Outlook, we take a closer look at the themes that could play out in the year ahead and ones that could help **reimagine a better, stronger tomorrow.**

The year 2020 has seen paradigm shifts in the way we work, interact, communicate and consume. These shifts have engendered great opportunities for economies and businesses that can proactively position themselves for the next normal. In order to move towards structured recovery and sustainability, enterprises need to focus on reimagining and re-envisioning their business processes and operating models. From a macro perspective, India is **poised to capitalise on the ongoing shifts in the global supply chain.** However, this will require a focused approach by the government and the announcement of supportive schemes that can attract foreign capital.

From a micro perspective, we expect the emergence of new workspaces and new business models that could be a **combination of Work from Home (WFH) and Work from Office (WFO).** Depending on the imperatives of the sector, the most viable model will be adopted. We are also likely to see **market leaders outperform challengers**, including those in the informal sector, due to their inherent strength and ability to tackle the challenges of the previous year. Further, the prevailing low interest rate regime is likely to augur well for business activity and provide an impetus to the housing sector.

We believe that in 2021, businesses are likely to focus on reimagining and re-envisioning of their processes and operating models to move towards structured recovery and sustainability.

As part of the global BNP Paribas Asset Management group that is one of the distinguished proponents of ESG, we have keenly observed **India's rising status in ESG** amongst other emerging economies. Indian corporates have become more conscious about ESG and investors are now increasingly looking for companies that are more socially and environmentally conscious. This is evident from the high number of ESG funds that have been launched in the past year, across the mutual fund industry.

All these factors combined are likely to create a fertile environment for India's recovery and growth. We will continue to observe global developments that could have a local impact, including the progress of COVID vaccinations and how it affects the current trajectory.

At BNP Paribas Asset Management India, we strive to keep an eye on the changing landscape. Changes, that create opportunities for delivering long term, sustainable growth for our investors and partners.

We hope that this Annual Outlook is a testament to that commitment and makes for an enriching read.

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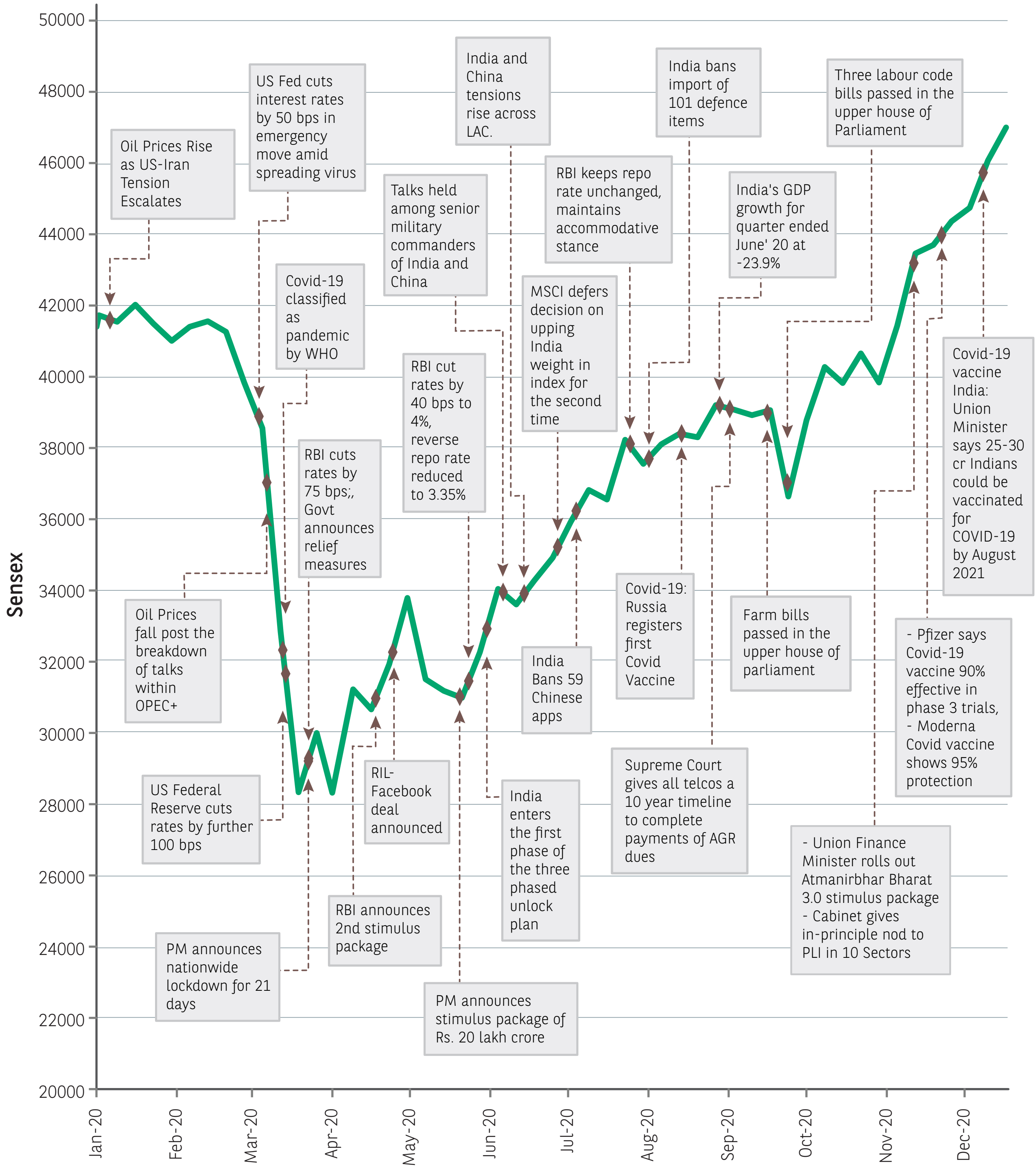


Source: Bloomberg, Morgan Stanley Research

UNION BUDGET 2021

	(in INR, Bn)		YoY, %		% of GDP	
	F2021 RE	F2022 BE	F2021 RE	F2022 BE	F2021 RE	F2022 BE
I. Revenue Receipts	15552	17884	-7.7%	15.0%	8.0%	8.0%
(a) Tax Revenue (net to Centre)	**13445**	**15454**	**-0.9%**	**14.9%**	**6.9%**	**6.9%**
-- Gross tax revenue	**19002**	**22171**	**-5.5%**	**16.7%**	**9.8%**	**9.9%**
Indirect Taxes + Other Tax	**9952**	**11091**	**3.6%**	**11.4%**	**5.1%**	**5.0%**
-- Customs	1120	1360	**2.5%**	**21.4%**	0.6%	0.6%
-- Excise	3610	3350	**50.0%**	**-7.2%**	1.9%	1.5%
-- GST	5151	6300	**-14.0%**	**22.3%**	2.6%	2.8%
---CGST	4310	5300	**-12.8%**	**23.0%**	2.2%	2.4%
---IGST						
---Compensation Cess	841	1000	**-91.2%**	**18.9%**	0.4%	0.4%
Direct taxes	**9050**	**11080**	**-13.8%**	**22.4%**	**4.6%**	**5.0%**
-- Corporation tax	4460	5470	**-19.9%**	**22.6%**	2.3%	2.5%
-- Taxes on Income	4590	5610	**-6.8%**	**22.2%**	2.4%	2.5%
-- Less Share of States	5500	6656	**-15.5%**	**21.0%**	2.8%	3.0%
(b) Non-tax Revenue	**2107**	**2430**	**-35.6%**	**15.4%**	**1.1%**	**1.1%**
-- Telecom proceeds*	337	540	**-51.8%**	**60.2%**	0.2%	0.2%
--Dividends of RBI, Nationalised Banks, FIIs*	618	535	**-58.9%**	**-13.5%**	0.3%	0.2%
II. Capital Receipts (ex-borrowings)	465	1880	-32.2%	304.3%	0.2%	0.8%
-- Divestment	320	1750	**-36.4%**	**446.9%**	0.2%	0.8%
III. Total Expenditure	34503	34832	28.4%	1.0%	17.7%	15.6%
-a Capital expenditure	4392	5542	**30.8%**	**26.2%**	2.3%	2.5%
-b Revenue expenditure	30111	29290	**28.1%**	**-2.7%**	15.5%	13.1%
--Interest	6929	8097	**13.2%**	**16.9%**	3.6%	3.6%
--Subsidy	6487	3699	**147.3%**	**-43.0%**	3.3%	1.7%
IV. Fiscal Deficit (III-I-II)	18487	15068	98.0%	-18.5%	9.5%	6.8%
V. Revenue Deficit (III.b-I)	14560	11406	118.4%	-21.7%	7.5%	5.1%
VI. Primary Deficit (IV-Interest Payments)	11558	6971	259.4%	-39.7%	5.9%	3.1%
-Memo Item						
Nominal GDP	**194820**	**222874**			**-4.7%**	**14.4%**
GDP (in INR, Bn)					**194820**	**222874**

Source: Union Budget 2021-22 Documents (https://www.indiabudget.gov.in/index.php). BE: Budget Estimate, RE: Revised Estimate

The overall tax revenue assumptions look reasonable given the nominal GDP growth assumption is pegged at 14.4%.

FY21 revised estimate for telecom receipts has been sharply revised downwards from Rs. 1330 billion to Rs. 337 billion. FY22 budgeted estimate for telecom receipts is Rs. 540 billion. The increase seems to largely factor in likely collections from upcoming spectrum auctions and a nominal increase in organic collections that are linked to revenues.

Focus on strategic disinvestment remains. The Government has budgeted for Rs.1750 billion for FY22 as against Rs.320 billion in FY21. Govt. intends to conclude the privatisation for BPCL, Concor, BEML etc. by Mar'22. While the intention of privatizing PSU banks for FY22 is encouraging.

The Govt. expenditure appears higher than initially expected and hence has the characters of a growth-oriented budget. Higher spends from the budget are primarily going in capital expenditure - up 26% YoY – which augurs well for the longer term economic growth.

The Budget estimates FY21 fiscal deficit at 9.5% of GDP and target for FY22 at 6.8% of GDP. This is higher compared to consensus expectation of 7.2%/ 5.5% for FY21/22 respectively. FY22 Gross market borrowing at Rs. 12 trillion. Gross borrowing for FY21 is expected at similar levels.

At the outset, this seems a very growth oriented budget with the Government showing intent to invest behind both physical infrastructure (Government capex expenditure up 26% YoY) and human capability building. This obviously seems to have come at the cost of increased fiscal deficit – both vs expectations, as well as the targets that were earlier set as per FRBM. While the pandemic did reset expectations, the outlined number is higher than initial expectations. On the receipts side too, most estimates seem quite reasonable, the overall 23% jump includes a very large contribution from disinvestment, and asset monetization – which also augurs well for the Government's thought process of Minimum Government and Maximum Governance.

NOTEWORTHY MINISTRY-WISE AND SECTOR WISE COMMENTS

BANKS AND FINANCE

- **New Ulips with premium above Rs. 0.25 m will be taxable at long-term capital gain tax rate:** From 1 Feb 2021, new Ulip policies with ticket size of Rs. 0.25 m or more will be subject to LTCG, alike Mutual Funds, on their maturity proceeds. This is negative for life insurers. Positive for Mutual Funds as negative arbitrage loss goes away in equities.
- **Insurance sector FDI limit hiked from 49% to 74%:** Should be positive for insurance companies – possible for weight hike / flows – it will also encourage new companies to set up or for smaller players to get capital from foreign partners.
- **NCLT & Bad Bank/ Asset Reconstruction Vehicles:** System will be strengthened – marginal positive for system, but actual impact depends on quality of action.
- **Privatization plans:** Govt. plans for privatization of two PSU banks and one general insurer
- **Development Finance Institution:** To provide funds for infrastructure sector it has proposed to set-up a DFI with capital of Rs. 200 bn and target AUM of Rs. 5 tn in 3 years
- **Housing impetus to continue:** It announced a) Affordable housing benefits for both buyers and sellers extended by another year - This is in line with expectations. b) Tax exemption for notified rental housing projects - usually low ticket.

CAPEX / INFRASTRUCTURE

- Govt. capex allocation is up 26% YoY Budget Estimate (BE) vs Revised Estimate (RE) – positive for infrastructure companies
- Overall capex including public sector enterprises is up 5% YoY BE vs RE – this is higher than the 2% YoY growth in FY21
- Within sectors, roads has seen the highest growth at 18% YoY BE vs RE
- **Railways:** On account of a sharp contraction in ticketing revenues in FY21, the government has advanced loans worth close to Rs. 80,000 crores for capital expenditure to the Indian Railways. This should help the Railways spend a total of Rs. 272,137 crores in capex in FY21 as compared to Rs. 215,370 crores in FY20. The budget for FY22 stands at Rs. 304,929 crores – an increase of 12%.
- **Defense Ministry:** Total outlay for capital expenditure is pegged at Rs. 135,000 crores in FY22 vs a revised estimate of Rs. 134,510 crores in FY21. The budgeted figure was Rs. 113,700 crores. In FY20, the actual expenditure was Rs. 111,092 crores. Although, there is no increase budgeted for FY22, there is a good 21% increase in FY21.

CEMENT

- Focus on affordable housing and infrastructure spends to augur well for cement demand
- **Extension of interest deduction for affordable housing:** Additional interest deduction of Rs. 0.15 m for loan on affordable housing is extended by one more year to Mar 2022; also to keep up the supply, affordable housing projects can avail a tax holiday for one more year
- **Higher outlay for central housing projects:** Housing and Urban affairs ministry has been given an outlay of Rs. 0.26 tn, an increase of 23% on FY21BE
- **Higher outlay for highways:** Capital outlay for Road Transport Ministry is higher by 18% over FY21RE to Rs. 1.08 tn; Additional 8,500 kms of highways has been announced, taking the completion target to 11,000 kms by March 2022

FERTILIZERS

As announced by the government a while ago, the revised estimate for fertilizer subsidy has been increased by 88% to Rs. 133,947 crores. This was to take care of the subsidy arrears of previous years. This is a major development and is positive for the balance sheet of all fertilizer companies. For FY22, the government has budgeted a total subsidy outgo of Rs .79,530 crores – an increase of 12% over the budgeted number of FY21. In our view, if the recent increase in NPK fertilizer prices (~20% over the last six months) sustains on account of higher agro commodity prices (corn, soybean, sugar, cotton etc.), the nutrient based subsidy budget may fall short, as it is lower than the budgeted FY21 figure.

COMMUNICATION

In FY22, the Telecom Ministry has budgeted Rs 27,547 crores towards investing in PSUs (MTNL and BSNL). This is mainly for 4G spectrum auction (Rs 20,300 crores), VRS payments to BSNL and MTNL employees and some financial support to MTNL. This is double of what the revised estimate of Rs 13,940 crores in FY21.

FY21 revised estimate for telecom receipts has been sharply revised downwards from Rs 1.33 trn to Rs 337 bn, not surprising considering the unrealistic target set last year. FY22 budgeted estimate for telecom receipts is Rs 540 bn. Assuming 20% industry revenue growth in FY22, we estimate Rs 230 bn rev share receipts. As per the Supreme Court verdict of 10 annual instalments for AGR dues, Vi will have to pay Rs60bn in FY22 (Bharti has paid till FY23). This suggests that the government is budgeting ~Rs 250 bn from fresh auctions in FY22. This probably includes receipts from 5G auctions, the bands and prices of which are yet to be decided.

OIL & GAS

LPG subsidy provision has been reduced to ~Rs 14,000 crs in FY22 (vs Rs 36,000 crs in FY21 RE) while kerosene subsidy provision has been reduced to NIL (from Rs 3,000 crs in FY21 RE) – this seems to be factoring crude price to stay around current levels of USD 55/bbl and continuation of monthly hike in price of subsidised LPG to gradually de-regulate the same over 3-5 years. This may pose a risk of subsidy burden to oil PSUs in the event of a sharp rise in crude price unless Govt. goes for additional parliamentary grants during the year.

FIXED INCOME MARKET OUTLOOK

The Government's intent has been to use expansionary fiscal policy to support growth, sidestepping concerns over debt sustainability and sovereign rating. The fiscal deficit is pegged at 6.8% of GDP in FY22 compared to a revised estimate of 9.5% for FY21. The focus has been on increasing capital expenditure both by the Centre (+26% year-on-year) and states.

It is clear that with healthy GST numbers, off late there is surely some consumption impulse and household savings of the last year is driving this. Now with Govt. looking to spend; what is important is that domestic output of productivity compliments this huge money supply in the system. This is important for inflation as well as imports going forward.

ON BOND MARKET

For the bond market, a higher-than-expected market-borrowing estimate of Rs. 12 trn in FY22 and additional borrowing of 800 billion rupees in FY21 are likely to add pressure on borrowing costs. The 10-year yield is up by 16 basis points since the budget announcement, crossing 6%. Over the coming year, higher market borrowing, concerns over inflation and a move towards normalising liquidity conditions by the RBI could maintain pressure on yields.

The upcoming RBI policy becomes very important where the market will be focusing on response to following questions:

1) The explicit commitment towards managing the huge supply of bonds

2) The accommodative stance of the RBI with reference to the liquidity as well as overnight rates (closer to reverse repo or repo)

We expect the 10 yr to trade in the range of 6.00/6.25 for the remaining part of this quarter CY21.

Source: Union Budget 2021-22 Documents (https://www.indiabudget.gov.in/index.php).

MACRO TRENDS

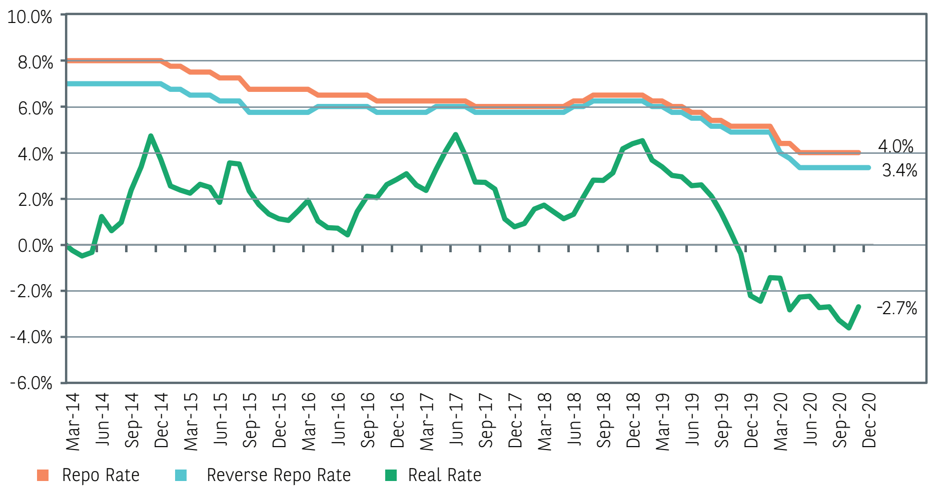
NEGATIVE REAL RATES AND IMPACT ON SAVINGS

The pandemic led global central bankers including the RBI to provide liquidity, reduce interest rates and commit to do whatever it takes to support the economy through the period.

Indian interest rates have lowered by 115 bps[1] during the year (CY20) leading to lowest Repo rates. Home loan rates too have come down to sub 7%[1] levels for prime borrowers. This along with stagnant property prices for last few years, developer discounts and stamp duty cuts in few states has made owning a house an attractive proposition for many, leading to a significant pick up in monthly new home registrations in some of the key markets in last few months of CY20. This trend may continue in the current year as well.

With negative real rates and almost zero real rates currently, even after assuming inflation normalization, physical savings, especially housing, may pick up in the short term.

Exhibit 1: Repo, Reverse Repo and Real Rates' Trend



Source: RBI, Morgan Stanley Research, BNPP AM. Real rates considered as the difference between consumer price inflation (CPI) and repo rates.

While inflation has been high due to supply disruptions and higher food prices, the same is expected to normalize in few months from now bringing it back closer to the RBI's target of 4%. In the last 5-6 years, positive interest rates have helped household savings being more inclined towards financial savings. With negative real rates and almost zero real rates currently, even after assuming inflation normalization, in the short term physical savings, especially housing may pick up. However, considering the gradual shift in demographics, better understanding of and access to financial savings products, the financialisation trend is here to stay for the next 5-10 years.

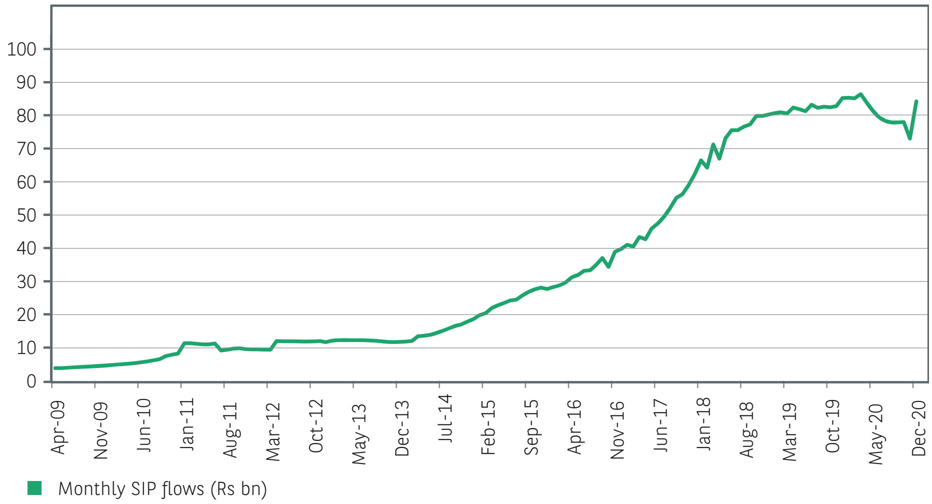
Due to gradual shift in demographics, better understanding of and access to financial savings products, the financialisation trend is here to stay for next 5-10 years.

The average Mutual Fund Systematic Investment Plan (SIP) ticket size being sub USD 50[1] per month provides granularity and higher stickiness than previously anticipated. While monthly SIP figures had fallen from peak by about 15% (refer exhibit 2), with the economy coming back to normalcy and market buoyancy in the last year, we believe the longer-term trend appears positive. While fixed deposits continues to take the lion's share of financial savings, lower rates may dissuade marginal investors who may look elsewhere including equities, Real Estate Investment Trusts (REITs), Infrastructure Investment Trust (InvITs) and physical assets chasing higher returns in the near term as long as rates remain low.

[1]Source: RBI, Bloomberg

Housing boom, Product Linked Incentive (PLI) scheme and continued consumption growth leading to better private sector capacity utilization, could eventually accelerate corporate credit in next 2-3 years.

Exhibit 2: Systematic Investment Plan Investment:



Source: AMFI, CAMS, Morgan Stanley Research

The low interest rates have provided impetus to housing sector. Industry too could benefit from the same. However, the banking sector is just coming out of a corporate asset quality cycle and may not be willing to aggressively lend to the weaker corporates unless the GDP growth momentum picks up to 7-8% level s for next few years. Even the corporates themselves have deleveraged and may not be willing to take on too much of debt. To add to it, the key debt consuming sectors like Power, Metals, Telecom and Infrastructure may not add capacity aggressively the way they did in the last decade. New instruments like InvITs too could act as a source of funding for some. Hence, the low interest rates may not trigger a corporate capital expenditure (capex) cycle directly for now. However, housing boom, Product Linked Incentive (PLI) scheme, and continued consumption growth leading to better private sector capacity utilization could eventually accelerate corporate credit in next 2-3 years.

IMPACT OF HIGHER CRUDE OIL PRICES IN 2021

The wave of lockdowns across nations resulted in a sharp decline in demand, which is now gradually finding its feet. After a tumultuous year, we expect crude oil demand to improve as economic activity recovers across the world. Of course, this is assuming that key consuming regions do not see any fresh wave of the Covid pandemic given a vaccine has been found.

Overall, we expect oil prices to remain firm for most of 2021. However, we do not see it crossing the average levels, seen in 2019, as a sharp uptick in demand may see an adequate supply response especially from the US shale oil producers.

OPEC+ (Organization of the Petroleum Exporting Countries) compliance, waiver of sanctions on Iran, Libyan exports and US shale activity will be some of the key events to watch out for as far as the supply dynamics goes. Overall, we expect oil prices to remain firm for most of 2021. However, we do not see it crossing the average levels seen in 2019 as a sharp uptick in demand may see an adequate supply response especially from the US shale oil producers. In addition, if the Biden administration decides to go easy on Iran, then the country may pump in an additional 1.5 to 2 mn barrels of oil per day in the export markets.

However, over the long term, the shift to renewable energy is the agenda for every government wanting to reduce the world's carbon footprint. We believe that emerging economies will continue to play an important role in the oil market dynamics. India being the third largest consumer of crude, oil market volatility plays an important role in influencing the twin deficits and retail inflation. India imported little more than 1.6 billion[2] barrels of oil in FY20, ~87%[2] of annual crude requirement.

Higher crude oil prices would lead to higher pressure on India's twin deficits and inflation. Every USD 10/bbl[2] increase in crude prices leads to an additional fiscal deficit of USD 12-13 bn[2] and a current account deficit of USD 10-11 bn[2]. However, a pickup in domestic economic activity and merchandise exports will offset some of the above-mentioned impact.

[2]Source: Bloomberg

Exhibit 3: Macro variable sensitivity to change in oil prices

Sensitivity to 10% decline in oil prices	
Current account deficit (% of GDP)	↓ -0.25%
CPI Inflation, YoY%	↓ -0.4%
WPI Inflation, YoY%	↓ -0.8%
Memo item	Hike of Rs. 1/ltr of excise duty on petrol and diesel
Oil taxes (% of GDP)	↑ 0.06%

Source: Morgan Stanley Research, data as of Dec 2020

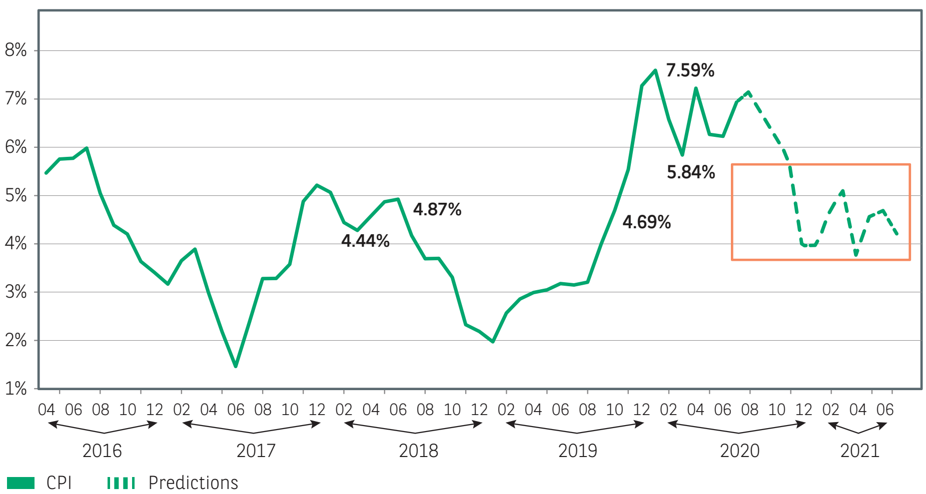
Higher crude oil prices could also keep the pressure on pump prices leading to higher retail inflation. Consumer Price Index (CPI) and Wholesale Price Index (WPI) see a direct and indirect impact as fuel and light make up 6.84%[3] of the CPI, while transport and communication's weight in the CPI is 8.59%[3]. Rising refined product costs will also result in higher cost of industrial production. Overall, the pressure on the twin deficits along with a rise in inflation is likely to influence the RBI's monetary policy in 2021.

The headline Consumer Price Inflation (CPI) is expected to average between 5.0%-5.25% for CY 2021, assuming a normal monsoon season and no negative supply shocks from food and fuel.

Our assessment of Inflation

The headline CPI is expected to average between 5.0%-5.25% for CY 2021 assuming a normal monsoon season and no negative supply shocks from food and fuel. This would fall within the RBI inflation band of 2-6% but higher than their medium term target of 4%. In our view, higher core inflation is likely to tilt the headline CPI towards the higher end of the band in 2021. This may be on account of higher fuel prices and demand/supply led inflationary impulse for various commodities like metals. Fuel prices is likely to be driven by higher taxes on petrol and diesel coupled with higher crude oil prices. Higher metal prices could in turn have an impact on prices of a range of manufactured goods. This year the RBI has looked through higher headline inflation in order to support growth. Next year, it will be interesting to see what their stance would be once economic growth recovers and inflation stays higher than its target levels.

Exhibit 4: Headline CPI Projections



Source: RBI, Bloomberg, BNPP AM. Based on trend analysis of average seasonal adjustments since start of index (2012) & its base effects.

[3]Source: Bloomberg

EVOLVING GEO-POLITICS AND WHERE INDIA STANDS

Apart from the health challenge that came up in 2020, there also was an escalation in tensions between India and China along the Line of Actual Control (LAC). Over the last seven months, although tempers have cooled off a bit, the standoff continues between the defence forces of the two countries. This `No War No Peace' scenario is unprecedented on the LAC.

China being in dispute with multiple neighbours across its vast boundaries does raise one question, not just for India but for the rest of the world too. Over the long term, will this turn out to be the norm rather than the exception? This remains to be seen. A look at the Belt and Road Initiative or the quantum of Chinese investments that have gone in sectors like mining and manufacturing in developing countries across Asia and Africa over the last decade, does portend towards the country's ambitions of playing a larger global role. The recent deterioration of relations between China and Australia could also be a fallout of these moves. While various moves on the trade front could also have resulted in this, it is something to be kept in mind.

For India, while China remains its major trading partner, it is more a one sided flow and hence the moves on economic and political front need to be tread in a cautious manner. On its part, the country has set out to reduce its import dependence (key reason for persistent current account deficit) in general through rollout of Production Linked Incentive (PLI) scheme, which focuses on incentivising mass scale manufacturing. With China's population starting to age and the world looking for a 'China Plus One' sourcing strategy, India could emerge as a good alternative, given the large young workforce and good institutional frameworks available.

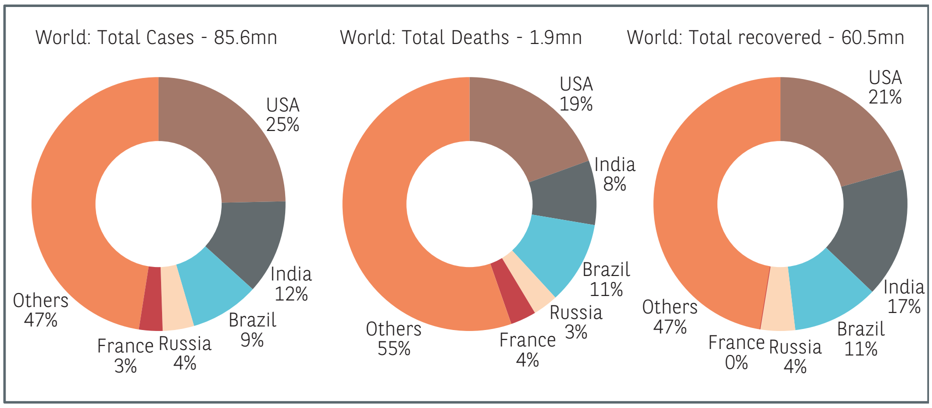
India's traditional border issues with the other neighbour Pakistan too continue. However, the effective handling of this matter over the past decade has led to this becoming a lesser threat. Further, by losing favour with the USA and being in the midst of an economic distress, Pakistan seems a lot more dependent on the support from China now. Thus, Indian geopolitics in the future could mostly revolve around China, than Pakistan.

On other areas, India is definitely well placed to play a big role as far as providing crucial support on supply of pharmaceutical supplies to a whole host of developing countries at very affordable prices without compromising on quality. This could really help India in the long run as far as its diplomatic relations with these countries and its position in the global arena is concerned.

COVID-19 AND INDIA'S CHALLENGE

India has registered the second largest number of covid cases in the world. However, India's death to positive ratio has been better than rest of the world.

Exhibit 5: Update on COVID-19 Cases



Source: Worldometer, as on Jan 04, 2021

Each dollar spent on the price of a vaccine, in a nation home to more than 1.3 billion people, will have financial consequences on administration.

Throughout the last year, public attention on the pharma industry shifted from pandemic treatment to efforts by pharma companies to develop new treatments and vaccines against COVID-19. With multiple vaccines on the way globally, 2021 will be the year in which government and policymakers will continue to focus on execution and delivering a low cost solution for India.

After 40+ nations, India too has approved the emergency use of two COVID-19 vaccines - i) Oxford-AstraZeneca vaccine Covishield, and ii) Bharat Biotech's Covaxin in collaboration with the Indian Medical Council of Research (ICMR) and National Institute of Virology (NIV).

While developed economies have mostly avoided pricing disputes in their roll-outs so far, the issue of how much the inoculations should cost amid a pandemic that is killing more than 10,000 people each day globally, is likely to loom large as distribution extends to the developing world.

For Prime Minister Narendra Modi, each dollar spent on the price of a vaccine, in a nation home to more than 1.3 billion people, is likely to have financial consequences for his administration.

Though AstraZeneca's shot has been tested in global trials and has received an emergency license from the U.K. and Indian regulators in recent days, Hyderabad-based vaccine developer Bharat Biotech International Ltd. has yet to start analyzing any Phase 3 testing data; the latter was also controversially granted limited usage approval by the nation.

Source for the above information is Company website, Ministry of Health and Family Welfare

The national dry run (in the first week of January 2021) looked at four areas: testing operational feasibility of Co-WIN (software platform) for largescale use, assessing linkages between planning, implementation, and reporting mechanisms, identifying challenges and addressing them before actual implementation and providing confidence to program managers at various levels.

India runs one of the largest immunisation programmes in the world. It already caters to the vaccine needs of more than 26 million newborns and 29 million pregnant women.

One key question that India needs to address is its ability to transport vaccine to mass population at the required temperature of 2 to 8 degrees for both vaccines. India runs one of the largest immunisation programmes in the world. It already caters to the vaccine needs of more than 26 million newborns and 29 million pregnant women. Today the primary focus of the government is to strengthen and gear up this logistics supply chain.

India's vaccination blueprint states that 300 million people will be inoculated in the first stage of deployment, the National Expert Group on Vaccine Administration for COVID-19 (NEGVAC) recommended that a prioritised population groups would specifically be vaccinated. It includes: (i) Approximately 10 million healthcare workers, healthcare providers and workers in healthcare setting, (ii) about 20 million frontline workers which includes personnel from state and central police, armed forces, home guards, civil defense and disaster management volunteers, municipal workers, (iii) approximately 270 milllion prioritized age group population above 50 years and persons below 50 years with associated co-morbidities.

India has successfully implemented the world's largest platforms to cover its large population base to include electoral roll with Voter ID cards, Aadhaar card (issued by Unique Identification Authority of India) for distribution of subsidy and linking PAN (permanent account number) to this platform for Income tax payers. Now, India's population and world will be watching India for its ability to deliver another large digital platform, the COVID Vaccine Intelligence Network (Co-WIN) system — a digitalised platform — will be used to track enlisted beneficiaries for the vaccination and anti-coronavirus vaccines on a real-time basis.

Source for the above information is Ministry of Health and Family Welfare, Various Media

THEME 1 : EMERGENCE OF NEW WORK SPACES

In the pre-COVID world, very few companies' entertained flexible work-from-anywhere culture, and only handful of employees had access to flexible workplaces. However, in the year that has gone by, the work-from-anywhere concept has emerged strongly and everyone has adjusted to it. As a result, the future of work has evolved significantly.

With physical office space becoming redundant, service oriented businesses and start-ups can now hire the best of talent worldwide. By shrinking the geographical boundaries, work-from-anywhere platforms ensures that talent, and not geographical location, is an important aspect of hiring.

> **By shrinking the geographical boundaries, work-from-anywhere platforms ensure that talent, and not geographical location, is an important aspect of hiring.**

The Indian Information Technology (IT) sector resisted work from home (WFH) for years even as the world embraced it. However, 2020, unlike any other, was forced to finally accept the concept—and now might never return to its pre-pandemic obsession with employees' sign-in and sign-out times. Post the Covid-19 outbreak, the Indian IT industry has swiftly moved to WFH model. While some companies are aggressively looking to adopt WFH permanently, others appear to target a more gradual adoption. That said, we think Indian IT companies are likely to see a permanent and meaningful shift to a more decentralized work environment.

We see two large benefits of WFH adoption for IT services industry:

1) It could lead to cost saving: In the first phase (near term), it would lead to higher costs as companies invest in bolstering IT infrastructure, cyber security, etc. to prepare to work in the WFH mode. In the second phase (medium term), we think early adopters would likely enjoy a large share of cost saving. It will also help the companies to expand their employee demography, in our view, as more women can participate given the convenience WFH offers in the final stage (long term).

2) Increased acceptance of Offshoring vs Nearshore Development Centers: In our view in post-COVID-19 world, businesses would be built on business processes that run the gamut—in-house, onshore, nearshore, and offshore. People are relying more on offshoring for three simple reasons: timesaving, digital services, and travel costs.

> **We see two large benefits of WFH adoption for IT services industry: a) It could lead to cost saving b) Increased acceptance of Offshoring vs Nearshore Development Centers.**

Most Indian IT companies are initially planning a phased return to work for their employees, depending on industry and government guidelines, and eventually plan to adopt a hybrid model.

Currently 97% employees in TCS, 99% in Infosys and 98% employees in Wipro are working from home, totalling to an average of little less than 1 million IT professionals.

It would now be useful for investors to start tracking this structural trend that could lead to large scale deal wins, near term cost savings and sustainable client connect for IT services in India.

Exhibit 6: Comments from Leading Technology Companies

Entity	Comments
Nasscom	Suggests that IT companies gradually bring employees back to work, starting with 10-15% workforce in the first phase, and then increasing up to 50% strength in 2-3 months
TCS	Targets 75% of employees globally to work from home by 2025
Infosys	Expects that gradually c50% of employees will work from home once normalcy resumes, and eventually c33% will work permanently from home
Wipro	Adopting a staggered approach and expects only a small percentage of workforce – less than 10% – to return to work from facilities during the initial phase
HCL Tech	Expects 50% of its staff will work from home on a rotational basis
Tech Mahindra	Planning to permanently move to a hybrid model where 25% of employees work from home in the long term
Hexaware	All employees are currently working from home and the company is likely to ramp down the number to c50%, depending on the health status in each community it operates in. Does not anticipate having more than 50% of staff in offices across locations till a vaccine is widely available
Capgemini	Plans less than 10-15% of employees to be in office in the near term
	Working to bring employees back to office in a phased manner and will increase gradually to 25-30% depending on the guidelines
Cognizant	Believes that WFH is poised to become an increasingly acceptable norm as seen in many countries
Global tech companies	
Twitter	CEO Jack Dorsey announced in May 2020 that staff would be allowed to work from home permanently if they so choose. The company is encouraging all 5,000 employees around the world not to come to office
Facebook	Recommends that employees work from home if their role allows until 2021. Aggressively opening up remote hiring and estimates that c50% of its 45,000 staff could work remotely in the next 5-10 years
Google	Recommends that employees work from home if their role allows until 2021
Apple	Employees won't return to the office until early 2021, as per CEO Tim Cook
Amazon	Employees around the world to work remotely if their jobs allow and headquarter employees will stay home at least until Jan 2021
Microsoft	Extended work from home for all employees till mid 2021
Spotify	Announced an extension of the WFH arrangement for all employees globally in May and that employees can choose to work from home through the end of the year

Sources: Companies, News articles, BNP Paribas Securities India Pvt. Ltd

We think long-term adoption of WFH still needs a few regulatory clarifications. For example, tax exemption in special economic zones (SEZs) and the Department of Telecommunication's approval for employees to work permanently on general virtual private network (VPN).

The Indian government has recently directed all IT and IT services companies to continue the Work from Home model as the number of COVID-19 active cases persist. While currently 97% employees in TCS[4], 99% in Infosys[4] and 98% employees in Wipro[4] are working from home, totalling to an average of little less than 1 million[4] IT professionals currently working from home; Infosys has announced to put in place a flexible "hybrid" work model[4].

As post-pandemic working models emerge, in our view, it would now be useful for investors to start tracking this structural trend that could lead to large scale deal wins from global fortune 500 companies, near term cost savings and sustainable client connect for IT services in India.

[4]Source: Company data

The above-mentioned companies are for illustrative purpose only, are not intended as solicitation of the purchase of such securities, and does not constitute any investment advice or recommendation.

THEME 2 : FORMALISATION TO GATHER PACE

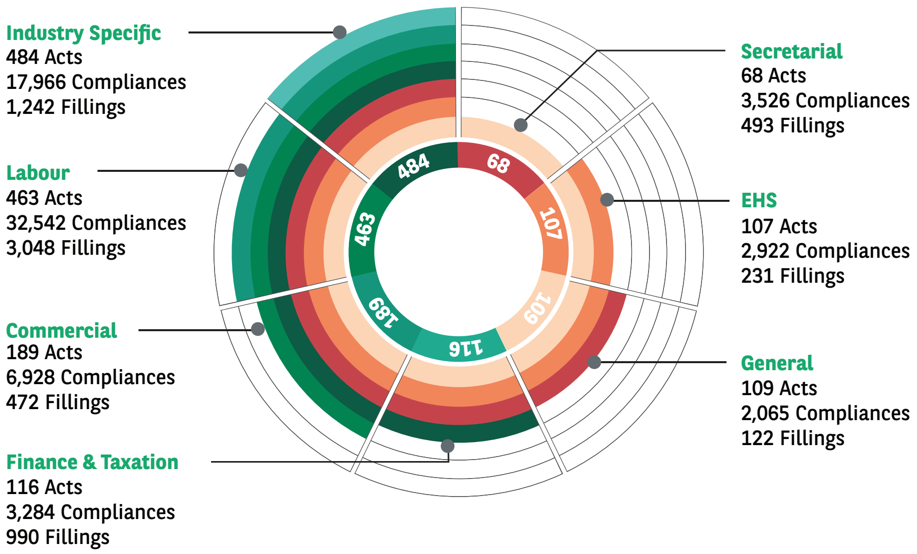
Given India's liberalization three decades ago and the Foreign Direct Investment (FDI) limits only being relaxed in a set of sensitive sectors over the last decade, the Indian industry has seen a host of regulatory arbitrages that existed primarily in the domain of land and labour policies for a greater part of its existence as a free country. This, coupled with limited domestic pools of capital (in addition to the higher cost of this capital) meant the businesses remained largely sub-scale and that they had to depend primarily on the Government to create critical infrastructure. This in turn, led to most sectors that had these regulatory arbitrages to be inward looking and did not build many industries that were truly of global scale. Such a market structure also led to many businesses remaining outside the formal system that did not:

(a) Create as many jobs that could have come from larger scale,

(b) The Government not being able to benefit from a larger tax base (both corporate and labour) which could be directed towards social needs, and

(c) Resultant higher consumption activity.

Exhibit 7: India's Compliance Universe



Source: TeamLease Annual Report FY20

Most sectors that had these regulatory arbitrages were inward looking and did not build many industries that were truly of global scale. Such a market structure also led to many businesses remaining outside the formal system.

However, post liberalization and a host of structural reforms that have accelerated over the past decade, we have started to see more and more businesses to come into the formal world. While these reforms have come a long way, the compliance universe has further scope to improve and the interactive approach adopted by the Government over the last few years, has definitely led to marked shifts – visible in the Ease of Doing Business rankings in the last few years.

In addition to this, during this period of post liberalization, some champion sectors did emerge in Autos (small cars, two wheelers, related components), Information Technology, Generic Pharmaceuticals, Marine Foods, Ceramic Tiles, Chemicals, etc. These, in addition

In line with the global trend of looking inwards, we have started seeing a host of measures from the Government to create domestic industries and creation of policies and reforms to help develop more industries that are of global scale.

to the young population, have led to a consumption driven economic growth, which was largely satisfied through imports – given India's penchant for value for money and China emerging as the manufacturing powerhouse globally that could satisfy this need at the required low cost. This started becoming unsustainable given this growth led to a twin deficit for a long period.

Exhibit 8: Policy initiatives aided the staffing sector

Government Initiatives	Launch Year	Description
Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY)	2014	Focused on skilling rural youth between the ages of 15 and 35 from poor families
Pradhan Mantri Kaushal Vikas Yogna (PMKVY)	2015	Provides free-of-cost skill training to over 10mn youth in four years; offers short-term training of 2-6 months
Employees' State Insurance (Central) Third Amendment Rules	2016	ESIC wage threshold increased to Rs 21,000/ month from Rs 15,000/month, ensuring that a larger workforce will receive the benefits of social security
Pradhan Mantri Rojgar Protsahan Yojana (PMRPY) scheme	2016	Govt. will pay 8.33% towards contribution of employees' pension scheme, and 3.67% towards EPF for the first 3 years of employment
The Maternity Benefit (Amendment) Act	2017	Duration of paid maternity leave for women employees extended to 26 weeks from 12 weeks
Goods and Service Tax (GST)	2017	Standardisation and simplification of tax rules due to GST helped reduce advantages to the unorganized sector
Industrial Employment Central (Amendment) Rules	2018	Fixed-term contracts extended to all sectors, resulting in increased use of temporary staffing

Source: PhillipCapital India Research

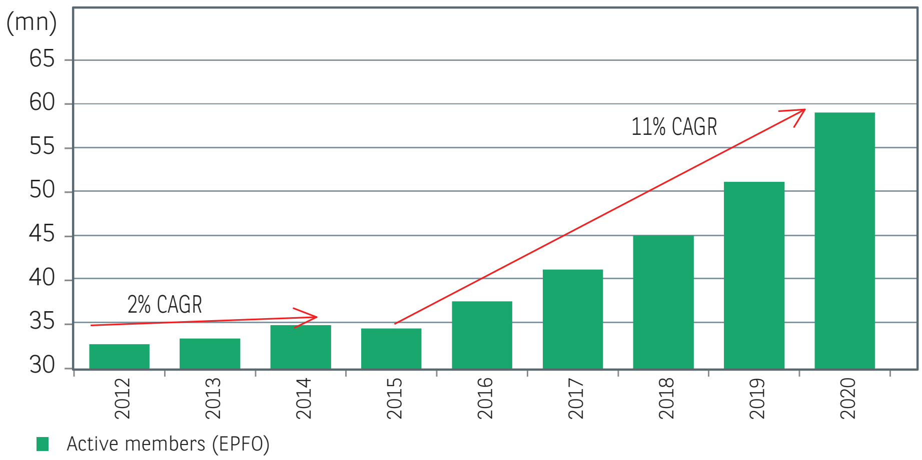
In line with the global trend of looking inwards, we have started seeing a host of measures like corporate tax cuts, production linked incentives, labour codes etc. from the Government to create domestic industries in these areas, and to create policies and reforms to help develop more industries that are of global scale.

Exhibit 9: New labour codes to accelerate formalization in the labour market

Labour Codes			
Code on Wages, 2019 (4 laws subsumed)	Code on Occupational Health, Safety & Working Conditions, 2019 (13 laws subsumed)	Code on Industrial Relations, 2019 (3 laws subsumed)	Code on Social Security, 2019 (9 laws subsumed)
Acts Subsumed • The Payment of Wages Act, 1936 • The Minimum Wages Act, 1948 • The Payment of Bonus Act, 1965 • The Equal Remuneration Act, 1976	Acts Subsumed • The Factories Act, 1948 • The Mines Act, 1952 • The Dock Workers Act, 1986 • The Building & other Workers,1996 • The Cine Workers & Cinema theatre workers Act, 1981 • The Plantations Labour Act, 1951 • The Contract Labour Act, 1970 • The Inter-state Migrant workmen Act, 1979 • The Working Journalist & Newspaper employees and Misc. provision Act, 1955 • The Working Journalist Act, 1958 • The Motor Workers Act, 1961 • The Sales Promotion Act, 1976 • The Beedi & Cigar workers Act, 1966	Acts Subsumed • The Industrial Dispute Act, 1947 • The Industrial Employment Act, 1946 • The Trade Unions Act 1926	Acts Subsumed • Employees' Compensation Act, 1923 • Employees State Insurance Act, 1948 • Employees Provident Funds and Miscellaneous Provisions Act, 1952 • Employees Exchange Act,, 1959 • Maternity Benefit Act, 1961 • Payment of Gratuity Act, 1972 • Cine Workers Welfare Fund Act, 1981 • Building and Other Construction Workers Cess Act, 1996 • Unorganised Workers Social Security Act, 2008

Source: PIB, PMKVY, PhillipCapital India Research. As on Dec 2020. Estimates for next 12-18 months

Exhibit 10: Initiatives taken by the government have helped drive formal employment

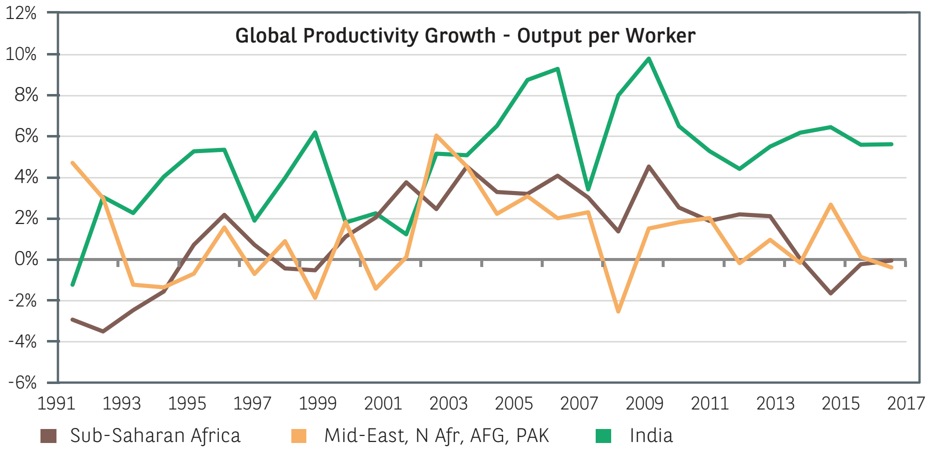


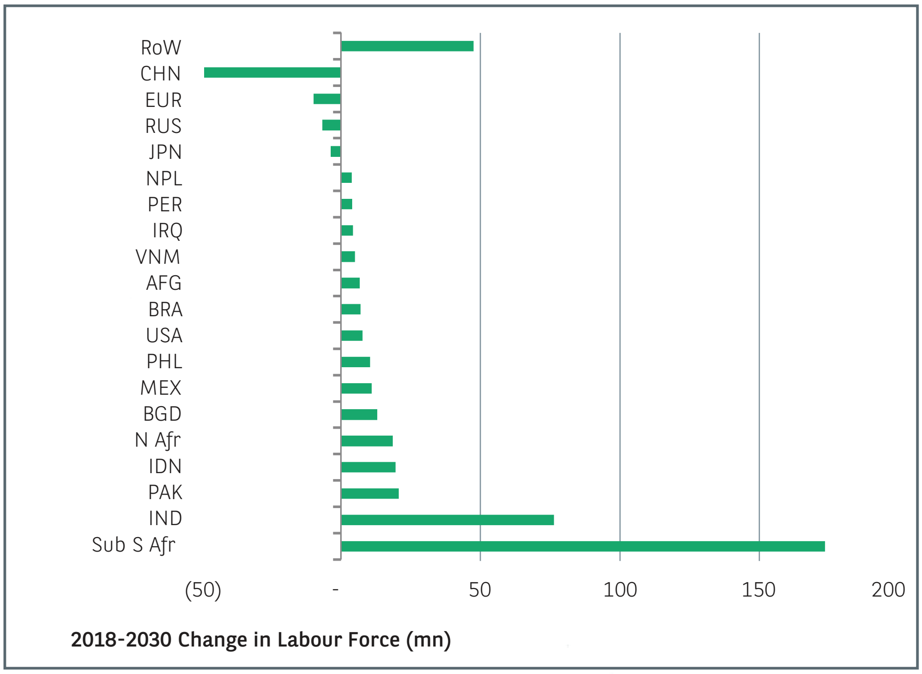
Source: India Skills Report, Ministry of Labour, PhillipCapital India Research

As a result, we have started to see marked improvement in the formalization of the Indian industry (visible in more formal jobs being created). However, we believe that there is a large opportunity available now post the pandemic as more and more countries are looking to move from a "Just in Time" model to a more "Just in Case" model to effectively diversify supply chains. Consequently "China Plus One" is emerging as a big theme, especially in light of the large scale reduction in labour force in China which very few other economies have the ability to fill in. Therein lies a big opportunity for India to create the right environment to take advantage and create jobs for its young population particularly in the formal system.

> There is a large opportunity available now post the pandemic, as more and more countries are looking to move from a "Just in Time" model to a more "Just in Case" model, which effectively is looking to diversify supply chains.

Exhibit 11 a. and b.: India to benefit from reduction in labour force and weak productivity





Source a and b: WTO, Ministry of Commerce, Credit Suisse

THEME 3 : INDIA'S OPPORTUNITY TO BE PART OF GLOBAL SUPPLY CHAIN

The Covid19 pandemic led to the dismantling of global supply chains as countries imposed lockdowns, exposing the reliance of businesses around the world on a few markets for fulfilling their manufacturing and sourcing requirements. For instance, the lean or the 'just-in-time' inventory strategies that entail manufacturers to maintain minimum raw material, is fractured. As multinational companies seek to relocate their global supply chains, emerging economies— including Thailand, Vietnam, Malaysia, Indonesia, Philippines and India—are increasingly seen as attractive sourcing destinations.

As a stable economy with a host of enabling factors for attracting investments, India emerges as a natural choice in filling the supply chain vacuum left by the exodus from China. Recognizing this opportunity, the Prime Minister of India, in his address to the nation on 12 May 2020, laid-out his vision of an 'Atmanirbhar Bharat' (Self-reliant India) and outlined economy, infrastructure, system, demography and demand as the five pillars.

As a stable economy with a host of enabling factors for attracting investments, India emerges as a natural choice in filling the supply chain vacuum left by the exodus from China.

Exhibit 12: Five Pillars for Self Reliant India - 'Atmanirbhar Bharat'

5 Pillars of Self-Reliant India				
Economy	Infrastructure	System	Demography	Demand
Quantum jumps, not incremental changes	One that represents modern India	Technology driven	Vibrant demography of the largest democracy	Full utilisation of power of demand and supply

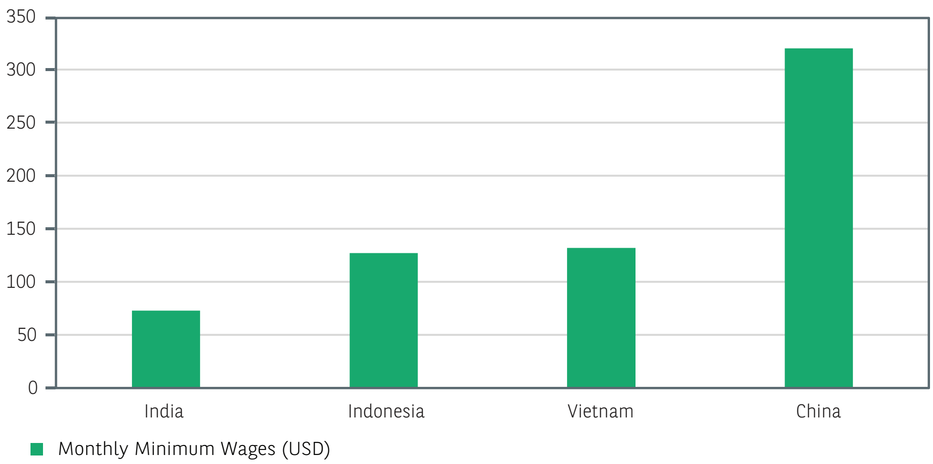
Atmanirbhar Bharat Abhiyan

Packages of Rs.20 lakh crores (about 10% of GDP*)	Focus on Land, labour, Liquidity and Laws	To cater to labourers, middle class, cottage industry, MSMEs and industries among others

*Including recent economic measures and RBI announcement

Source: GOI, Media

Exhibit 13: Low Labour Cost



Source: PhillipCapital India Research, 2019.

A young populace, a wide base of English speakers, robust macroeconomic indicators and massive consumption levels are among the other factors in India's favour.

The strength of India's case lies in its diverse business landscape, skilled workforce, and domestic market with growing disposable incomes. Labour costs are also relatively low--monthly minimum wages in India are USD73 vs USD320 in China[5], USD132 in Vietnam[5], and USD127 in Indonesia[5]. India has the 5th largest gross domestic product (GDP) by World Bank estimates and is ranked 9th in the list of global FDI recipients in 2019[6]. A young populace, a wide base of English speakers, robust macroeconomic indicators and massive consumption levels are among the other factors in India's favour.

The PLI scheme is a meaningful turn in India's industrial policy, wherein incentives are linked to output, thereby encouraging scale and specialization.

Production Linked Incentive (PLI) scheme – A new approach in India's industrial policy

Going one step ahead of "Infant industry support", in a somewhat rare instance of the Indian government working closely with industry, production linked incentive (PLI) schemes have been announced for 13 sectors, where, upon meeting production targets, firms are awarded meaningful pre-set incentives. The PLI scheme is a meaningful turn in India's industrial policy, wherein incentives are linked to output, thereby encouraging scale and specialization. Also the scheme is largely compliant with the World Trade Organisation (WTO) norms, unlike the erstwhile export oriented incentives. However, a drawback of the scheme is that the benefits will accrue only to a handful of large players, who will make incremental investments in Greenfield projects, precluding incumbents and small players.

Exhibit 14: Sector wise allocation of incentives of PLI schemes

Sector	Allocation (Rs.bn)
Automobiles & Auto Components	570.42
Advanced chemistry cell battery	181.00
Pharmaceuticals drugs	150.00
Telecom & Networking Products	121.95
Food Products	109.00
Textile Products: MMF segment and technical textiles	106.83
Speciality Steel	63.22
White Goods (ACs & LED)	62.38
Electronic/Technology Products	50.00
High Efficiency Solar PV Modules	45.00
Total	**1459.80**
Outlay for previously announced schemes	513.11
Grand total	**1972.91**

Source: Government of India

The objective of the PLI scheme is to create a conducive environment for the manufacturing sector in India and to offer incentives comparable with those offered in other countries to attract large investments into the manufacturing sector. For instance, the electronics-manufacturing sector suffers deficiencies of around 8.5% to 11%[7] on account of lack of adequate infrastructure, domestic supply chain and logistics, high cost of finance, inadequate availability of quality power, limited design capabilities and focus on R&D by the industry, and inadequacies in skill development. The PLI scheme seeks to compensate some of these deficiencies by offering incentives for domestic investment and incremental production.

[5]Source: PhillipCapital India Research, 2019.

[6]Source: United Nations Conference on Trade and Development (UNCTAD)

[7]Source: Ministry of Electronics & Information Technology

Potential to add 1.7% to FY27 GDP; meaningfully change the trade balance

Details are available only for three (large scale electronics manufacturing, bulk drug scheme and medical devices schemes – with a combined allocation of Rs. 513.1 bn) of the 13 schemes so far (total of Rs. 2 tn in incentives). For the remaining 10 sectors too, where the list of qualified firms should be out by Mar-21, initial industry feedback is mostly enthusiastic. As per various industry estimates, the schemes could generate USD 150 billion in new sales by FY27, and USD 70 billion of domestic value-add (1.7% of FY27 GDP), adding a substantial 0.3% to annual GDP growth between FY23 and FY27.

Direct impact of these schemes is likely to be larger on labour (2.8 mn new jobs) than on capex (US$ 28 bn), but the likely significant activity triggered upstream could drive further gains. Sectors and firms not directly benefiting from PLI schemes but from the surge in domestic production volumes are also likely to drive fresh investments. Even though the incentives are for additional production, the choice of sectors implies a large part would be exported (given domestic self-sufficiency), shifting India's annual trade balance by ~US$55 bn.
Source for the above information is Credit Suisse

As per various industry estimates, the schemes could generate USD 150 billion in new sales by FY27 and USD 70 billion of domestic value-add (1.7% of FY27 GDP).

Exhibit 15: Incremental sales and value addition to GDP from each PLI sector

As in FY27	Incremental Sales		Domestic Value Addition		Success Rate
	US$ Bn	As % of GDP	US$ Bn	As % of GDP	
Mobile	66	1.50%	25	0.60%	216%
Autos	16	0.40%	12	0.30%	70%
Battery	15	0.30%	1	0.00%	70%
Food	13	0.30%	10	0.20%	70%
Pharma	4	0.10%	2	0.00%	100%
Textile	10	0.20%	5	0.10%	80%
Telecom	7	0.20%	4	0.10%	50%
Others	19	0.50%	10	0.20%	70%
Total	**150**	**3.50%**	**70**	**1.60%**	**82%**

Source: Credit Suisse

Challenges to overcome

While India offers global investors a large and attractive market, a sizeable demographic advantage and a vibrant private sector, there are a few obstacles that needs to be addressed, if the country is to realise its immense potential as a global manufacturing hub. Two of the most well cited impediments are poor infrastructure and stifling bureaucracy. In addition to the above some of the other challenges could be:

- Uncertainty on final design of remaining 10 schemes
- No details on penalty on not meeting milestones, etc.
- Slow government pay-outs
- Definition and specifics of value-addition

There are a few obstacles that need to be addressed if the country is to realise its immense potential as a global manufacturing hub: poor infrastructure and stifling bureaucracy.

THEME 4 : CAPITAL EXPENDITURE REVIVAL ON THE HORIZON

India's capital expenditure (capex) cycle which includes (a) private corporate led in both pubic infrastructure and industry, (b) Government led in key infrastructure, and (c) individuals – property related capex, has seen multiple headwinds over the past few years. These led to the Gross Fixed Capital Formation in the country being at a much muted level.

Exhibit 16: Trend of India's Gross Fixed Capital Formation

Rsbn	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	CAGR - FY09-19
India GFCF	17.544	19.144	21.615	25.369	29.977	33.25	35.156	37.504	39.571	43.387	47.991	54.933	11%
%YOY	22.8	9.1	12.9	17.4	18.2	10.9	5.7	6.7	5.5	9.6	10.6	14.5	
% to GDP	35.8	34.7	34	33.2	34.3	33.4	31.3	30.1	28.7	28.2	28.1	29	

Source: CSO, Citi Research

India's capex cycle has seen multiple headwinds over the past few years. This has led to the Gross Fixed Capital Formation in the country being at a much muted level.

Some of this slowdown was driven by a combination of over investment in certain sectors (e.g. power generation, real estate, mining), regulatory approval delays (e.g. environment and forest clearance), balance sheet constraints, and execution bottlenecks. The slowdown led to further Balance sheet stress, which combined with a muted demand environment led to a further reduction in risk appetite to undertake capex.

While many of these issues persist, some have been set right over the last few years. For instance, the process of environmental and forest clearance is no longer a binding constraint. Some other factors have been at least partially eased out – land acquisition for roads and railways has become more expensive and is slow but is no longer stalled. Such practical solutions and the availability of wider pools of capital (multilateral funding, domestic institutions, InvIt/REIT structures, etc.) has meant that the projects are making a comeback. This is already visible in case of sectors like road and railways that have seen significant increases in capex over the past few years led by the Government awarding them on engineering, procurement and construction (EPC) basis.

Exhibit 17: National Infrastructure Pipeline (NIP) – Feasibility Assessment

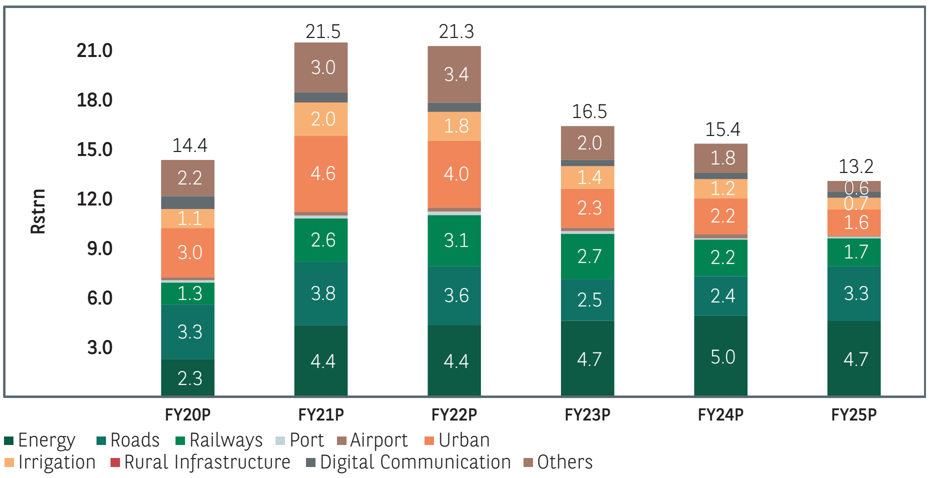
National Infrastructure Pipeline (NIP) – Feasibility Assessment		
Metric	Assesment	Key assumptions
NIP Projection/ Target	₹111trn Targetted	
Funding constrains	₹85-95trn of NIP is feasible	Funding falls short of even the identified 83-85% range (e.g. some assumptions regarding pick-up in bank/NBFC lending could be optimistic)
Infrastructure capex to GDP ratio	₹90-97trn of NIP is feasible	50-100bps increase in infra capex as a % of GDP compared to 5.3% achieved in FY13-19
Top-down sectoral capex	₹94trn of NIP is feasible	Normalized growth of 10-15% for each sector

Source: Citi Research

National Infrastructure Pipeline has outlined a stream of projects worth INR 111 Trillion. The analysis done by industry experts does suggest that a good 80-90% of this pipeline is executable.

These initiatives have led the Government to chalk out a National Infrastructure Pipeline (NIP) that has outlined a stream of projects worth INR 111 Trillion[8]. While this does seem a lofty target at the face of it (given India spent INR 57 Trillion[8] over FY13 to FY19), the analysis done by industry experts does suggest that a good 80-90% of this pipeline is executable.

Exhibit 18: NIP projections of India Infra spend and its composition (FY20E-FY25E)



Source: Citi Research, NIP. P: projected.

Note – In addition to above mentioned yearly numbers, INR 9 trillion on capex is envisaged whose phasing is not available.

[8]Source: Citi Research

In addition to this, one can also expect a slew of consumption driven sectors that had started to see increased utilisations for their capacities. This in addition to the trend being seen in a few sectors where historically there was more imports, the tariffs are starting to ensure that capacities are being created in India and there is infact a scale advantage to doing it within the country (given the large domestic market).

One can also expect a slew of consumption driven sectors that had started to see increased utilisations for their capacities.

Exhibit 19: Private sector capex in select sectors

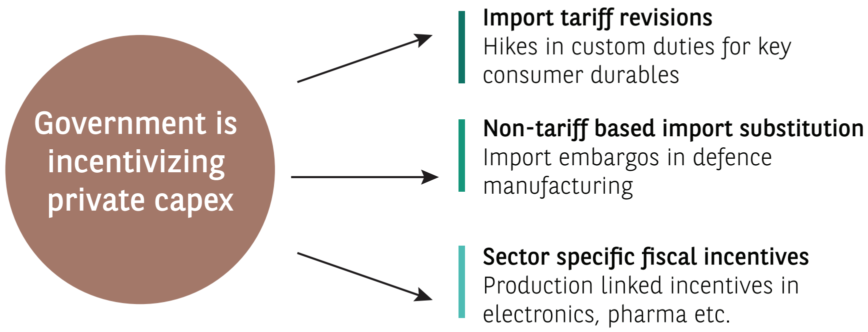
Private capex in select sectors should see faster pick-up

RBI data on private corporate capex pre-COVID indicated pick-up

- Funds sanctioned for private corporate capex grew 22% YoY in FY19 and 48% YoY in 1HFY20
- Provisional corporate capex in FY19 saw a growth after 7 years of successive fall

Asset turns in key consumption led-sectors showed improved utilizations in FY19

- Consumer durables and eletronics
- Consumer discretionary
- Food and beverges

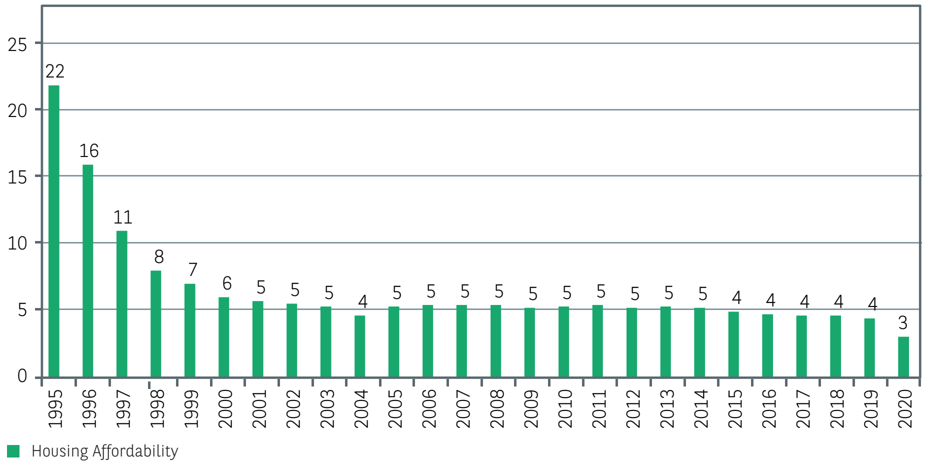


Source: Citi Research

One is starting to see some amount of pickup in the property cycle. Given its large multiplier impact, this can have a big cascading effect on multiple industries down the value chain.

On a separate note, after a long gap of nearly a decade, one is starting to see some amount of pickup in the property cycle – which is the biggest capex a household has in their lifetime. Given its large multiplier impact, this can have a big cascading impact on multiple industries down the value chain (housing accounts for 23% of GFCF). This has been set in motion by the low interest rates and improved affordability (real estate affordability at nearly a two decade high).

Exhibit 20: Affordability in housing sector is now at the best level in last 25 years



Source: Antique Stock Broking Ltd. Note: Housing affordability is calculated by dividing property prices by annual income

Exhibit 21: Effective home loan rate is at 4.4%, which is at a two decade low level

Particulars	FY20	FY00
Loan amount	50,00,000	50,00,000
Less: Subsidy under CLSS	2,30,156	0
Revised Loan amount	47,69,844	50,00,000
Nominal interest rate	6.90%	13.25%
Max deduction for interest allowed	2,00,000	75,000
Deduction on principal	1,50,000	20,000
Tax rate	30.90%	34.50%
Tenor (years)	20	20
Interest component	3,29,119	6,62,500
Tax amount saved	1,08,150	32,775
Effective interest paid on home loan	2,20,969	6,29,725
Effective interest on home loan	4.40%	12.60%

Source: Antique Stock Broking Ltd

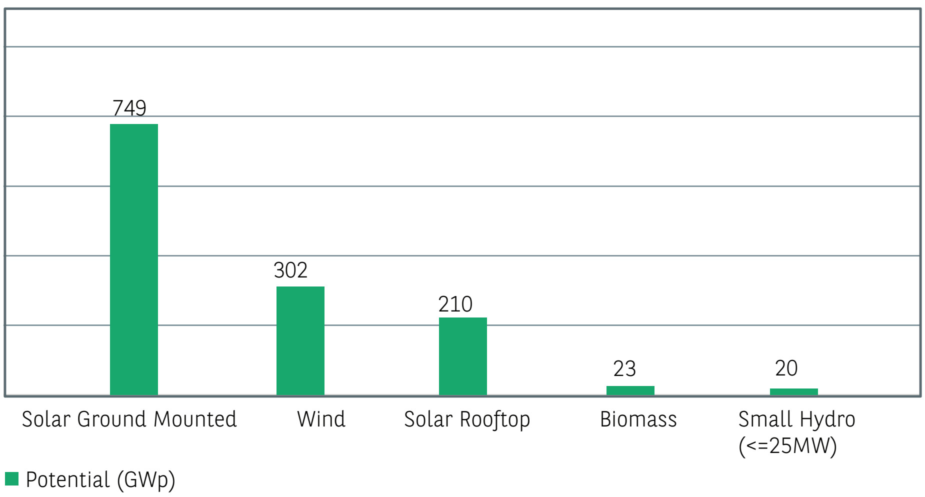
THEME 5 : INDIA LEADING ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) TREND IN EMERGING MARKETS

India, like most other countries across the globe, is seeing a big move towards embracing Environmental, Social, and Governance (ESG). However, the one area where India is at the forefront of this transition is the approach adopted by the Government towards this initiative. They have rolled this initiative at the country level and being one of the very few that is on course to meet the climate change targets agreed at the Paris agreement (COP 21). Additionally, the regulators have been proactive in bringing about policy changes through market driven mechanisms and disclosures that resulting in the corporate sector also moving in the right direction and in a transparent manner.

This journey now reflects in the Indian Capital markets as well with (a) a slew of ESG funds being launched in the Indian Equity markets; and (b) there is an increased capital cost for industries that operate in environmentally sensitive sectors.

India commits to reduce GHG emissions intensity per unit GDP by 33% to 35% below 205 levels by 2030.

Exhibit 22: India's Commitment on Clean Power in line with potential of 1,300 GW



Source: https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs/nationally-determined-contributions-ndcs

Our investment philosophy at BNP Paribas Asset Management India is "companies create wealth and not markets". While practicing this in our investment, we use our in-house BMV (Business – Management – Valuation) framework and we have historically also observed that, for long-term value creation, sustainability practices are a crucial aspect. This needs to be seen in a more holistic context of (a) Governance practices – sustainability and strengthening of corporate governance practices, (b) Environmental and Social practices – taking leadership in improving the lives of the various stakeholders in a holistic manner through their daily operations as well as business practices.

Doing these very basic but important things is integral to the way businesses are evolving globally and how capital is being incrementally allocated. In continuation of this, as a part of the investment process as well as ground work, we are consciously engaging with our portfolio companies and exchanging global best practices for the collective benefit of society, country, corporate, as well as our investors.

Such efforts by us, as well as other firms from the investment world, have contributed in some small manner towards the corporates in India as well embracing this change.

NDC: Nationally Determined Contributions

UNFCCC: United Nations Framework Convention on Climate Change

GHG: Greenhouse gas

CORPORATE INDIA'S INITIATIVES

Exhibit A: TATA Power Targeting Carbon Neutrality by 2030

FOCUS AREAS FOR BUSINESS

GROWTH

- No New Coal Capacity
- Waste Heat Recovery / Gas plants - Captive
- Selective opportunities in Hydro if policy in conducive such as Hydro RPOs

OPERATIONAL EXCELLENCE

- Coal Blending for fuel efficiency
- Reduce downtime through RCM & Advance Pattern Recognition
- Efficiency improvement through Laser & AI

ENVIRONMENT SUSTAINABILITY

- FGD order placed in MPL & CGPL; Jojobera approval underway
- 100% fly ash utilization & Hazardous waste disposed through MoEFCC certified recycler
- MoEFCC's notified Sox emission limits to be met in phased manner
- Large scale afforestation

ASSET MONETISATION

- At end of useful life, monetise plant & colony lands

THERMAL & HYDRO TO CONTRIBUTE 30% OF REGULATED EQUITY AND 14% OF EBITDA IN FY25

Source: Tata Power Investment presentation, Aug 2020

Exhibit B: Larsen and Toubro - Balancing Business Portfolio

The COVID-19 crisis has served to underscore the importance of the strategic balance we have been inducting into our business portfolio. Our increasing emphasis on tech-driven services businesses has insulated the Group, to some degree, from the fallout of the pandemic for it is obviously far easier to switch to remote working. In the period under review, L&T completed the acquisition of Mindtree Ltd., an IT-enabled services company, further consolidating our offerings in this space. Going forward, we plan to reduce debt by about Rs. 30,000 Crore in FY21 by selling our stake in L&T Infrastructure Development Projects and Nabha Power. We also intend to transfer our stake in the Hyderabad Metro to an Infrastructure Investment Trust (InvIT).

Source: Larsen and Toubro Integrated Report, March 2020

Exhibit C: NTPC – Leading India's Push towards Green Energy

NTPC RE PLAN ON MOVING TOWARDS 30% NON FOSSIL FUEL BASKET BY 2032

Present	In GW	In %
Thermal	58.4	92.9%
RES	1.1	1.7%
Hydro	3.4	5.4%
Nuclear	-	-
Total	**62.9**	**100%**

NTPC@2032	In GW	In %
Thermal	91	70.0%
RES	32	24.6%
Hydro	5	3.8%
Nuclear	2	1.6%
Total	**130**	**100%**

HIGHLIGHTS

- Solar Projects of 2 GW awarded under EPC mode
- MOU with MAHAGENCO for setting up 2.5 GW UMREPP
- MOU with ONGC for offshore wind & other RES
- Bids invited for acquisition of up to 1 GW RE capacity

NTPC RE PORTFOLIO (IN MW)

Status	In GW	In %
Installed	1,070	3,983
Under Implementation	2,348	1,600
Under Tendering	2,104	1,200
Total	**5,522**	**6,783**

NTPC TO PLAY A PIVOTAL ROLE

- NTPC being the largest power producer in the country is best placed to support intermittent nature of Renewable Energy Sources
- Our base load plants will play a key role in taking care of RE integration through Flexibilization

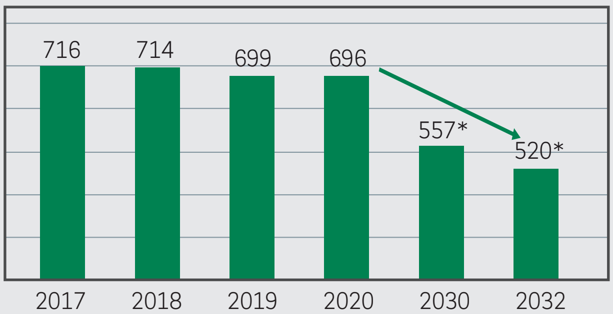
Source: NTPC Investor presentation, Aug 2020

Exhibit D: UltraTech Cement adopting Science Based Targeting Initiatives

SCIENCE BASED TARGETS INITIATIVE (SBTi)

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION



UltraTech joined the growing list of companies adopting **Science Based Target Initiative (SBTi)** as part of its climate commitment.

We are committed to build our business in line with **below 2 degree world under the Paris agreement.**

SBTi target of ~27% **reduction in CO_2 emission** by 2032 on the base year of the 2017. ***targets pending approval by SBTi**

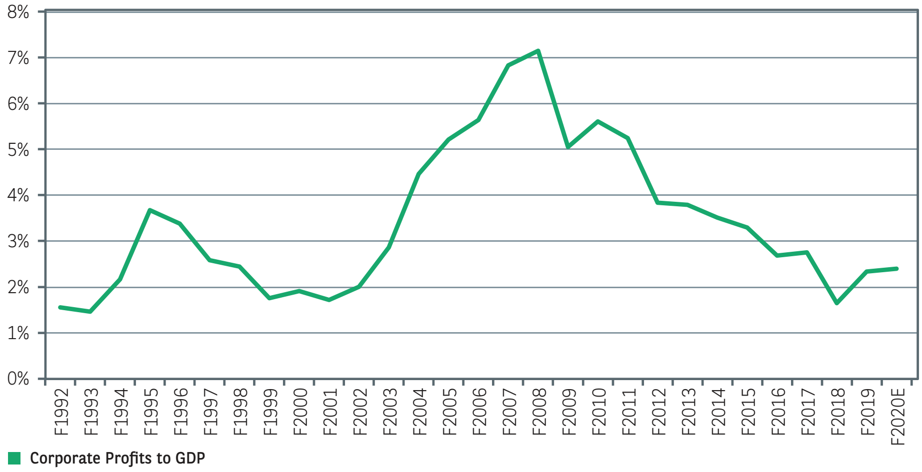
Source: UltraTech Investor presentation, Jan 2021

EQUITY MARKET OUTLOOK

Last decade has been abysmally poor in terms of corporate profit growth that stayed at low single digits at an aggregate level. Corporate profit to GDP has been declining over the years. However, the picture is a case of two halves, one half delivering high consistent growth while the other one delivering low growth or de-growth in profitability. FY21 is a year of decline due to the Pandemic impact. This led to sharp earnings cut for FY21 and FY22. However, the economy recovering sooner than expected, corporates having a tight leash on costs led to earnings surprises in last couple of quarters surpassing the "beaten down" consensus expectations.

With the economy recovering sooner than expected, corporates having a tight leash on costs led to earnings surprises in the last couple of quarters, surpassing the 'beaten down' consensus expectations.

Exhibit 25: Corporate Profit to GDP ratio

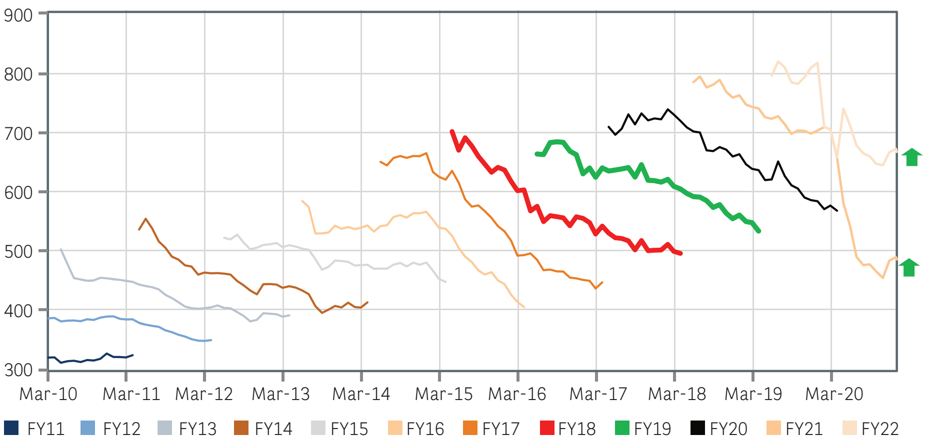


Source: CMIE, Morgan Stanley Research. E: Estimate

In last few months, consensus expectations have started to move up from the pandemic induced pessimistic growth numbers built for FY22. If current estimates are to be achieved, FY22 over FY20 would have close to double digit growth which would be a welcome change from the poor show over the last decade.

FY22, over FY20, would have close to double digit growth, which would be a welcome change from the poor show over the last decade.

Exhibit 26: Nifty 50 Index EPS Trend



Source: Axis Capital Research, Bloomberg, as on January 4, 2021. The same shall not be deemed to indicate any assurance or promise of future prospects of the Nifty 50 index performance. Please refer complete disclaimer on last page.

Valuations

The real factor that the markets have cheered across the globe is not so much of a sharp earnings growth trajectory for next few years, but the cost of capital going down for at least a few years till the excess liquidity in global system stays. While rates have moved close to zero in developed world, even emerging markets have seen declining rates leading to asset inflation. This has led to the price to earnings (PE) valuations moving up higher than the last few years trading average. The current setup seems like valuations will continue to be expensive.

Earnings Outlook

Most sectors seem to be better off in last few quarters compared to pre-pandemic levels. Base effect itself could make FY22 earnings growth look very strong. It remains the case with GDP as well. The sustainability of this may be tested only when the base normalizes after a year. However, all indications are towards a much broader recovery in earnings growth this time. India's long-term equity story is of favourable demographics, increasing per capita income and growing middle class consuming more. Penetration led consumption story is more structural and there are a lot of investing opportunities around the same. Even investment cycle could get kick-started should the global and local growth momentum continue.

> **Most sectors seem to be better off in the last few quarters compared to pre-pandemic levels. Base effect itself will make FY22 earnings growth look very strong. It remains the case with GDP as well. The sustainability of this will be tested only when the base normalizes after a year.**

Brijesh Ved
Head of Equities -
PMS & Offshore Advisory,
BNP Paribas Asset Management
India Pvt. Ltd.

Mr. Brijesh Ved, with over 15 years of experience, leads the Equities domain for Portfolio Management Services and Offshore Advisory at BNP Paribas Asset Management (BNPP AM).

Before being appointed to his current position in January 2015, Mr. Ved held several management roles including that of Executive Director and Fund Manager at Enam Asset Management Co. Pvt. Ltd., and Executive at KPMG.

Mr. Ved is influential in preparing comprehensive and long-term business models and devising growth strategies in the area of pooled assets such as PMS and offshore advisory, across classes, market sectors and styles.

Mr. Ved holds an MBA degree, a Diploma in Capital Markets and a B.Com degree.

CONTRIBUTORS*

Chockalingam Narayanan
Head - Equities

Abhijeet Dey
Senior Fund Manager
(Equities)

Karthikraj Lakshmanan
Senior Fund Manager
(Equities)

Mayank Prakash
Fund Manager
(Fixed Income)

Vikram Pamnani
Fund Manager
(Fixed Income)

Saumil Mehta
Senior Research Analyst

Sougat Chatterjee
Research Analyst

Deepa Gajra
Credit Analyst

Amol Jadhav
Product & Investment
Specialist

*Limited to authoring of research articles in this publication.

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