



GRASS ROOTS INDIA

July 2018

By: India Avenue Investment Management

“Think big, think fast, think ahead and above all, think of what we can do to brighten India’s Future.”

*Guiding principle of the founder (Late Mr. Dhirubhai Ambani) of one of our portfolio companies, **Reliance Industries**.*



Sajjan S Raut Desai
Director – Investment Research
India Avenue Investment Advisors

It’s a pleasure to reconnect with you through our quarterly publication ‘India Grass Roots’. India Grass Roots (IGR) focuses on providing its readers with the necessary insights when contemplating, assessing or understanding the impact of an investment in the capital markets of India’s fast growth economy.

In the sixth issue of IGR, we reflect on

1. The one year of GST in India. India’s GST rollout is undoubtedly a remarkable achievement particularly since it is the by-product of a rare political consensus in India and was implemented without any inflationary impact. Despite its initial glitches, the new tax regime has taken firm root and is altering the economic landscape in India positively. And;
2. Reliance Jio’s continued disruption of India’s Telecom Industry. Reliance Jio within a period of 22 months has a customer base of 215 million, a record no other telecom company has been able to achieve anywhere in the world, enabling millions of Indians to enjoy the power of digital revolution.

Prime Minister Modi as part of his mission to transform the nation, seeks to transform cities in India into clean and sustainable centres of economic activity through the ‘Smart City Mission’. The Smart City mission is expected to drive economic growth and improve the quality of life of people by enabling local development and harnessing technology to create smart outcomes for citizens. It is a giant leap in tackling the challenges of rapid urbanization in India. We discuss ‘**India’s Smart City Mission**’ in Section 2.

Robust consumption and industrial demand in India and the initiatives that the Modi Government has taken provide strong and sustainable growth opportunities for Indian corporates. In Section 3, we illustrate these thematic’s through two of our portfolio companies, Bharat Electronics and Power Grid.

One of the key propositions of our business is built on locally based Indian asset managers having a significant intellectual property advantage due to their understanding of local market networks, the mentality of local business founders and deeper knowledge of the competitive ecosystem that listed companies in India operate within. Section 4 looks at the stock preferences of India’s local asset managers.

Section 5 provides a snapshot of India’s economy. However, we believe the macro rhetoric is widely discussed and is provided only for information and reference and to give some context to our broader themes.

Finally, we also seek to provide investors with the relative positioning of India compared with other key emerging and developed economies. Section 6, the last section in this note, provides a bird’s eye view of India within a global context.

I would appreciate your feedback on the content and quality of this publication.

Please feel free to write to me at sajjan.rautdesai@indiaavenueinvest.com if you have any questions.

Table of Contents

Section 1:	4
Synoptics	
Section 2:	8
India's Smart City Mission	
Section 3:	18
Companies in Focus	
Section 4:	20
Asset Managers	
Section 5:	22
Economy Snapshot	
Section 6:	25
India in Charts	

Section 1: SYNOPTICS

"There are often teething troubles seen when a reform of this magnitude is carried out, but these issues were not only identified but also addressed in real time."

Narendra Modi, Prime Minister of India

Event 1: One year of India's GST

It's been a year since India's Prime Minister, Narendra Modi rolled out the Goods and Service Tax (GST), India's biggest tax reform on July 1, 2017. GST removed the multiple taxes and levies by the Central and the State government and subsumed them under Central GST and State GST with standard rates across the country. It laid the basis for cooperative federalism with the States and the Centre as stakeholders who can't move independently of each other. In the earlier tax regime, goods moved in India like they were transiting through different countries rather than states under the same federal union.

In the first financial year (FY18) of its launch, GST collections averaged Rs.896 bn (AU\$17.9 bn) per month (from Aug to Mar'18), collecting a total of Rs.7.41 tn (AU\$148.2 bn) for the nine-month period ended 31st March 2018. In FY 19, GST collections touched a record high of Rs1.03 tn (AU\$20.6 bn) in Apr'18 (potentially due to payment of tax arrears) and settled back to Rs.940 bn (AU\$18.8 bn) in May'18 and Rs.956 bn (AU\$19.1 bn) in Jun'18.

The introduction of e-way¹ bill from April 1, 2018 and its gradual implementation across all States by June 1st, 2018 (as part of the GST rollout) is expected to improve the buoyancy in GST collection, helping the government achieve its FY19 GST collection target of Rs.13 tn (AU\$260 bn). The e-way bill system is one of the anti-evasion features of the Goods and Services Tax that is expected to prevent manipulation of the value of goods transported. The e-way bill is expected to become a deterrent for tax evaders looking to keep transactions completely off books or to under-report turnover. Further, other anti-evasion measures like invoice matching with improved tax return forms, introduction of reverse charge mechanism and the requirement for some taxpayers to withhold tax while making payments are expected to further shore up the anti-evasion architecture and boost GST collections. Reverse charge is a mechanism through which large registered firms have to pay tax for purchases from small unregistered firms.

The introduction of GST in India, a large economy with 29 different states and 7 union territories with a multitude of taxes and levies (about 40) and multiple set of laws was probably one of the most complex tax reforms undertaken anywhere in the world. Undoubtedly, a reform of this magnitude will not be without its share of implementation challenges. Some of the key challenges were:

- **Complex return filing procedure:** The complex initial procedure of mandatory filing of three returns every month by businesses, apart from an annual return. This was brought down to one return per month, but still many small businesses find it extremely difficult to comply and their cost of operations has gone up.
- **System issues and complex rules for transitioning of credit:** Credit to be transitioned under the earlier tax regime had one set of rules for tax transition and another set of rules for cess transition leading to a lot of difficulties for businesses. Further, the Tran 1 form underwent lot of challenges due to system related issues that took a period of 3 months for the tax authorities to fix and allow transition credit.

¹ E-Way Bill is an electronic permit for shipment of all goods within the country above a value of Rs.50,000 (AU\$1,000) including local transportation above 50 kms

- **Complex refund procedure & system glitches:** Refund claim was also challenging initially due to a complex procedure for filling the returns online and comparing the data with the refund claim. Mistakes in filling of returns due to lack of clarity and non-functioning of the refund portal led to delays in processing of refunds initially, increasing the working capital cycle for businesses
- **Requirement to file separate return in each state:** Another challenge especially for businesses operating in multiple states (like Banks and Telecom companies) have been necessity to file separate returns for each state. While the incidence of tax paid remains same, the cost of compliance increases significantly due to the requirement of separate return filing for each state. A central filing procedure for such businesses with the system bifurcating the revenue share for each state would have been beneficial to businesses.
- **Need for balancing people's expectations:** Make people believe that the GST rates are indeed revenue neutral as promised, necessitating a need to cut taxes of several products and services from 28% to 18% and 18% to 5% in Nov'17 and again in Jan'18. For example, FMCG products in the earlier tax regime attracted an excise duty of 12.5% and a VAT of 13.5% resulting in an effective tax rate of 27.7%. The excise duty though was invisible to the consumer, so when a neutral GST rate of 28% was imposed on some FMCG products, the consumer was comparing it with the 13.5% VAT rate thus resulting in a dissonance in the mind of the consumer.
- **Supply chain imbalance due to mid-course rate reduction:** The above rate reductions were good from a business stand point as well as from the governments stand point. This though created supply chain inefficiencies as part of the inventory was at higher tax rates and hence a challenge for most business to manage.

While there have been many challenges and some serious implementation issues, the administrative will and flexibility to address most of these, with the Central and State government in India working together in the GST council, has been very good. Since its launch on July 1 last year, India's Goods and Services Tax regime has evolved significantly. During this period tax authorities in India were accommodative and pushed returns filing deadlines till most tax payers got a hang of the system and the GST network could augment its capacity.

Our View:

India's GST rollout is undoubtedly a remarkable achievement particularly since it is the by-product of a rare political consensus in India and was implemented without any inflationary impact. A stringent and detailed anti-profiteering mechanism ensured that the inflationary impact of the new tax regime was minimal by passing all the benefits accruing from GST to the consumers. The efforts of the Central and State governments and its administrative machinery for achieving the successful transition was commendable.

Despite its initial glitches, the new tax regime has taken firm root and is altering the economic landscape in India positively. ***The best sign of this is the entry of over 4.5 million entities in the country's tax net, many of which would have so far been part of the cash-driven, informal economy.*** The initial adjustment period for some of these businesses (especially smaller enterprises) though was tough as operating in the new environment increased the cost of doing business. For some, thriving on the tax arbitrage, life post GST got tough, resulting in job losses for a large segment of India's unorganised sector. Compliant businesses though prospered under the new regime. Some of the key visible benefits of GST are;

- Significantly reduced time and cost of interstate movement of goods due to a uniform tax structure and introduction of the e-way bill.
- Lowered one-to-one interaction with tax officials, improving ease of doing business
- Migrated cash-driven informal transactions into the formal economy boosting government indirect tax revenues. This expansion of the tax net will also help increase direct tax collections.

- Made the economy more efficient by ensuring compliance through a consumption-based tax, linking the entire supply chain beginning with the producer and culminating in the consumer. For seamless functioning and claiming of input tax credit, the complete supply chain must be part of the GST framework.
- The e-way bill and other anti-evasion measures taken under the GST regime stopped the age-old practise of paying low or no taxes (by under reporting), while moving goods across state borders by conniving with intra-state check post officials
- Last but not the least, GST will provide a boost to consumption due to lower tax incidence on many consumption items.

Overall, we believe that GST in India is off to a good start but is still a work in progress. The GST council in its second year will need to improve tax payer's woes by further simplifying the return form and improving the technology interface. It will have to think about providing earlier promised exemption for digital payments with a view to increase the number of transactions done digitally. The council will also need to work on a road map to bring excluded products like petroleum, real estate, electricity and alcohol under the ambit of GST. Considering India's national elections in 2019, the government may be tempted to take a few populist steps ahead of the elections, especially considering the fact that demonetisation and GST has led to unemployment in the unorganised sector. Such steps, if any will be detrimental to India's fiscal consolidation roadmap.

"We are determined to connect everyone and everything, everywhere – always at the highest quality and the most affordable price."

Mukesh Ambani, Chairman of Reliance Industries

Event 2: Reliance Jio, continues to disrupt India's Telecom Industry

Reliance Industries, India's second largest corporation by market capitalisation, had launched its 4G telecom service, Reliance Jio in September 2016 (refer Grassroots Q1 2017). Reliance Jio within a period of 22 months has a customer base of 215 million, a record no other telecom company has been able to achieve anywhere in the world. In a short period of time, Reliance Jio is the world's largest mobile data network with monthly data usage of 2.4 bn GBs, video consumption of 3.4 bn hours per month and voice usage of 5.3 bn minutes per day. Despite the large user base of 215 million customers, Reliance Jio's capacity utilisation is less than 20%, which means that the company can multiply its customer base without any additional investment and is well placed to achieve its target of 99% population coverage with 4G LTE. Reliance Jio offers data services with a usage limit of 2 GBs of data per day at less than AU\$ 3.6 per month.

Reliance Jio's handset 'JIOPHONE', a smart phone offered at a fully refundable deposit of AU\$30 has more than 25 million users. Reliance Jio plans to make its handset more affordable by offering JIOPHONE at AU\$10 by exchanging it with the customer's existing feature phone. The company plans to launch JIOPHONE2 in Aug'18 with additional features at a cost of AU\$60. Reliance JIO plans to acquire 100 million customers for JIOPHONE in the shortest possible time.

Reliance Jio also plans to rollout fibre based fixed line broadband connectivity solutions to homes, merchants, small and medium enterprise and large enterprises simultaneously across 1,100 cities in India from Aug'18. The fixed line broadband service would offer hundreds of megabits and even gigabits per second of data speeds and would be the largest greenfield fixed line broadband rollout anywhere in the world. The broadband service would be termed as JIO GIGAFIBER. JIO GIGAFIBER aims at taking India to be among the top 5 in fixed line broadband connectivity from the present 134th rank globally.

Our View

Reliance Jio disrupted the Indian telecom industry within a short period of time (22 months) by offering voice calls, mobile data access and handsets at very low prices, enabling millions of Indians to enjoy the power of the digital revolution. The move to reduce the prices of handsets even further (to AU\$ 10) will accelerate the process of technology adoption and potentially every Indian will be able to access the internet and enjoy the Digital life in a few years.

The offering of fixed line connectivity with high speed will take the digital experience in India to the next level. Home users will be able to watch ultra-high definition entertainment on TV screens, organise multi-party video conferencing, use voice activated virtual assistants, indulge in digital shopping and virtual reality gaming and avail smart home solutions that enable the control of home appliances using a smartphone at a much more affordable price. Availability of affordable fixed line broad band connectivity and cloud applications will empower small businesses to compete on level terms with larger businesses from a digital perspective.

The easy and affordable access of data will provide a boost to the Digital India initiative of the Modi government. This will enable citizens to access information and services anytime, anywhere, without delays and break the digital divide, making development inclusive and breaching the gap between hope and opportunity. Digital connectivity will also help India take a step forward towards a less cash economy. Further, the Reliance Jio's proposition to make all Indians digitally connected will facilitate India to create a whole new digital economy and position India well to strive to be a global leader in the Fourth Industrial revolution.

Section 2: India's Smart City Mission – An Initiative to Transform the Nation

Cities in the past were built on riverbanks. They are now built along highways. But in the future, they will be built based on the availability of optical fiber networks and next-generation infrastructure.

Narendra Modi, Prime Minister of India

What is the 'Smart City Mission' initiative?

The IESE Business School² Cities in Motion Index (CIMI) 2018' ranks New York as the best city in the World (from 165 selected cities) to live in, followed by London and Paris in terms of sustainability and the quality of life of their inhabitants, both in the present and in the future. New York's first place in the ranking is attributed to its performance in the dimensions of economy (position 1), international outreach (position 3), human capital (position 4) and mobility and transportation (position 4). It though was low in the dimensions of social cohesion (position 109) and the environment (position 99).

Exhibit 1: Top 10 liveable Cities in the World based on Different Index's

City Ranking	ICIM 2017 (IESE)	Global Cities index 2016 A.T. Kearney	Global Financial Centres Index GFCI, (Z/ Yen)	Global Power City Index 2017 (MMF)	Quality of Living City Ranking 2017 (Mercer)	Global Liveability Ranking 2017 (The Economist)	The Safe Cities Index 2017 (The Economist)	Sustainable Cities Index 2017 (Acardis)
1	New York	New York	London	London	Vienna	Melbourne	Tokyo	Zurich
2	London	London	New York	New York	Zurich	Vienna	Singapore	Singapore
3	Paris	Paris	Hong Kong	Tokyo	Auckland	Vancouver	Osaka	Stockholm
4	Tokyo	Tokyo	Singapore	Paris	Munich	Toronto	Toronto	Vienna
5	Reykjavik	Hong Kong	Tokyo	Singapore	Vancouver	Calgary	Melbourne	London
6	Singapore	Singapore	Shanghai	Seoul	Dusseldorf	Adelaide	Amsterdam	Frankfurt
7	Seoul	Chicago	Toronto	Amsterdam	Frankfurt	Perth	Sydney	Seoul
8	Toronto	Los Angeles	Sydney	Berlin	Geneva	Auckland	Stockholm	Hamburg
9	Hong Kong	Beijing	Zurich	Hong Kong	Copenhagen	Helsinki	Hong Kong	Prague

Source: IESE Cities in Motion Index 2018 Report

Only three Indian cities figured in the CIMI study and they too were at the bottom of the ranking amongst the selected 165 cities with Mumbai at 158, Delhi at 159 and Kolkata at 163. The low ranking of Indian cities in the study is attributable to the poor scoring of these cities on each of the 9 key dimensions of the ranking which include economy, human capital, technology, the environment, international outreach, social cohesion, mobility and transportation, governance and urban planning. Crowded and unplanned cities with multiple layers of red-tape, huge income disparity, severe traffic jams, pollution and dumping of waste across the cities have adversely impacted the scoring on the above dimensions.

Prime Minister Modi, cognisant of India's challenges and as part of his mission to transform the nation, seeks to transform cities in India into clean and sustainable centres of economic activity through the 'Smart City Mission'. The Smart City mission is expected to drive economic growth and improve the quality of life of people by enabling local development and harnessing technology to create smart outcomes for citizens. It is a giant leap in tackling the challenges of rapid urbanisation in India.

A Smart City means different things to different people. The conceptualisation of Smart City, therefore, varies from city to city and country to country, depending on the level of development, willingness to

² The IESE Business School is based in Barcelona, Spain and ranks amongst the top business schools in the world, ranks 11th in the World as per the Financial Times Business School Rankings.

change and reform, resources and aspirations of the city residents. The Smart City concept originated with the Smart Planet Initiative of IBM in 2008. As the concept gained popularity, many countries worldwide planned investments to prepare their cities for the future. A smart city is characterised by an urban region having modern technological infrastructure, access to smart energy, smart mobility, smart public utility services and ultra- fast communication network.

In India, the picture of a Smart City contains a wish list of infrastructure and services that describes the level of aspiration of Citizens. The aspirations and needs of citizens are planned to be fulfilled by building the entire urban eco-system comprising of physical, institutional, social and economic infrastructure adding on layers of smartness through Smart Solutions. This will be achieved by following urban planning best practices and taking a people first approach.

The core infrastructure elements in a Smart City include:

- Adequate and clean water supply,
- Dependable and adequate electricity supply,
- Efficient sanitation, including solid waste management,
- Reliable public transport and urban mobility,
- Affordable housing options for all the citizens,
- Robust IT connectivity and digitalisation,
- Good governance, especially e-Governance and citizen participation,
- Sustainable environment,
- Safety and security of citizens, particularly women, children and the elderly, and
- Accessible and efficient health and education systems.

An illustrative list of some of the Smart Solutions are shown below

E-Governance and Citizen Services <ul style="list-style-type: none"> • Public Information, Grievance Redressal • Electronic Service Delivery • Citizen Engagement • Video Crime Monitoring 	Energy Management <ul style="list-style-type: none"> • Smart Meters and Management • Renewables Sources of Energy • Energy Efficient and Green Buildings
Waste Management <ul style="list-style-type: none"> • Waste to Energy & Fuel • Waste to Compost • Waste Water to be Treated • Recycling and Reduction of C&D Waste 	Urban Mobility <ul style="list-style-type: none"> • Smart Parking • Intelligent Traffic Management • Integrated Multi-Modal Transport
Water Management <ul style="list-style-type: none"> • Smart Meters & Management • Leakage Identification, Preventive Maintenance • Water Quality Monitoring 	Others <ul style="list-style-type: none"> • Tele-Medicine & Tele-Education • Incubation / Trade Facilitation Centres • Skill Development Centres

The Smart City mission in India follows an area-based strategy, unlike many other government initiatives which follow a project-based approach. The components of these area-based development strategies are:

- **City improvement or retrofitting:** Retrofitting envisages providing more intensive infrastructure service levels and several smart applications in an existing built-up area (more than 500 acres) to achieve Smart City objectives.
- **City renewal or redevelopment:** Redevelopment envisages replacement of the existing built-up area (More than 50 acres) by adopting a new layout with enhanced infrastructure with mixed use of land, higher FSI and increased density. An example of this is the planned redevelopment of Bhendi Bazaar, a vibrant old-style market place and residential area in Mumbai into a modern commercial and residential development.

- **City extension or greenfield development:** Greenfield development will introduce most of the Smart Solutions in a vacant area (more than 250 acres) using innovative planning, plan financing and plan implementation tools. Greenfield developments are planned around cities to address the needs of the expanding population. One well known example of Greenfield development is the GIFT City in Gujarat (Prime Minister Modi's home state) near Ahmedabad.
- **Pan city development of smart solutions:** Pan-city development envisages application of selected Smart Solutions to the existing city-wide infrastructure. Application of Smart Solutions involves the use of technology, information and data to make infrastructure and services better. For example, applying Smart Solutions in the transport sector (intelligent traffic management system) and reducing average commute time or cost to citizens will have positive effects on productivity and quality of life of citizens. Another example is waste water recycling and smart metering which can make a substantial contribution to better water management in the city.

India plans to develop 100 smart cities distributed amongst its states based on an equitable criterion³. A list of state wise distribution of number of cities for identifying smart cities is shown below:

Exhibit 2: List of State Wise Distribution of Number of Cities

Sr. No.	State	No. of Cities Allocated
1	Uttar Pradesh	13
2	Tamil Nadu	12
3	Maharashtra	10
4	Madhya Pradesh	7
5	Gujarat	6
6	Karnataka	6
7	Rajasthan	4
8	West Bengal	4
9	Andhra Pradesh	3
10	Bihar	3
11	Other 26 States	32
	Total	100

Each of the Smart Cities that are being developed are expected to encapsulate in their plan either a retrofitting or redevelopment or greenfield development model, or a mix thereof and a Pan-city feature with Smart Solution(s). The pan-city development is an additional feature to be provided.

Benefits of Smart City Mission:

The comprehensive development undertaken in the Smart City Mission will help build inclusive⁴ cities, creating employment, enhancing income for all and improving the overall quality of life for all its residents. Some of the benefits of the initiative are;

Social Benefits

- Brings efficiency, accountability and transparency while offering public services to citizens by providing all services online, thus making governance citizen friendly and cost effective
- Reduces exploitation by corrupt officials in availing public services
- Achieves ecological balance by preserving and developing open spaces like parks, playgrounds and other recreational spaces, enhancing the quality of life of citizens
- Reduces congestion, air pollution and resource depletion by encouraging non-motorised transportation, creating walkable and cyclable localities⁵

³ The criterion gives equal weightage to urban population of the State and the number of statutory towns in the State while calculating the number of cities to be allocated to a State.

⁴ An inclusive city as per the World Bank is one that values all people and their needs equally. It is one in which all residents including the poorest of poor have access to legal and affordable housing, affordable basic services such as water, sanitation, electricity supply, etc., and access to sustainable livelihood.

⁵ Walkable & Cyclable localities provide all necessary administrative services within walking or cycling distance

- Improves liveability of the city as area-based development transforms existing areas, including slums into better planned living spaces
- Reduces crime and ensures better safety of citizens especially children, women and elderly through IT enabled surveillance and video crime monitoring
- Improves energy efficiency and reduces leakage through smart metering, using energy efficient lighting solutions and mandating at least 80% energy efficient green buildings
- Reduces carbon footprints by usage of alternative energy sources and re-cycling of water and waste
- Enables better disaster management by applying smart solutions to infrastructure and services

Economic Benefits

- Investment of over Rs.2.04 tr (AU\$40.8 bn) over the next 5 years providing strong boost to local economic activity
- Promote focussed leisure and business travel as cities are planned to be identified based on their main economic activity, local cuisine, art and culture, etc.
- Propel strong demand for building and construction material and allied industries
- Propel strong demand for technology solutions
- The initiative has potential to generate significant employment opportunities in the area

The 'Smart City Mission' will bring in visible improvement in cities across India with encroachment free public areas and no shabby overhead electrical and other wiring (underground wiring). Overall it will provide a better lifestyle for all its citizens and will also improve India's image globally, as a place to travel and do business.

Implementation Challenges

The Smart City Mission is to be implemented at the city level by a special purpose vehicle (SPV) created for the purpose. The SPV will plan, appraise, approve, release funds, implement, manage, operate, monitor and evaluate the Smart City development projects. The SPV is headed by a full time CEO and has nominees of Central Government, State Government and Urban Local bodies on its board. The process of implementing the scheme is detailed below:

- Letter from the Ministry of Urban Development (MoUD) to all state government to shortlist potential Smart Cities based on pre-defined qualifying criterion according to number of Smart Cities distributed to the state
- Based on the response from the State's, an initial list of potential 100 Smart Cities is announced by the Ministry of Urban Development
- Each potential Smart City prepares their Smart City Proposal assisted by a consultant (from a panel prepared by MoUD) and a hand holding external agency⁶.
- The City formulates its own concept, visions, mission, plan for mobilisation of resources and intended outcomes in terms of infrastructure up-gradation and smart applications.
- The Smart City proposal is evaluated by a panel of experts
- The selected cities declared as round 1 Smart Cities
- Selected cities set up SPV and start implementation of their Smart City Proposal. Other Cities prepare to improve their proposal for the next round of the challenge.

The panel of experts evaluated the proposals received from cities and an initial list of the top 20 cities was released in January 2016. Another 13 cities were selected in May 2016, followed by 27 cities in September 2016 and another 30 in mid-2017. Nine more cities were added to the list in early 2018 taking the total number of cities picked under the mission to 99.

These cities would receive Rs.5 bn (AU\$100 mn) in funding from the central government to implement their plans over a period of 5 years. An equal amount, on a matching basis, would have to be contributed by the state or the urban local bodies.

⁶ Handholding agencies include the World Bank, Asian Development Bank, Japan International Cooperation Agency, US Trade and Development Agency, AFD France, KfW Germany, Department of International Development, UK, United Nations Habitat, United Nations Industrial Development Organization, etc.

Exhibit 3: 99 Proposed Smart Cities to make Investments of AU\$40.8 bn

	Round 1	Round 2	Round 3	Round 4
No. of Cities selected	20	40	30	9
Period of Selection	Jan 2016	Sept 2016	June 2017	Jan 2018
Total No. of Projects	829	1809	1890	262
Investment (In AU\$ Bn)	9.6	16.7	11.5	2.6

Source: Ministry of Urban Development, Government of India

91 of the 99 cities have set up a SPV⁷ as required under the mission. The SPV's in most cities have already begun work on a central command and control system that will use information and communication technology to manage services such as water supply, sanitation, housing and waste management. A total of 3,183 projects worth AU\$29 bn have been planned at this stage of which projects worth AU\$ 0.99 bn have been completed. Work has commenced in projects worth AU\$4.65 bn and tenders have been issued for projects worth AU\$3.44 bn.

While it's still early to see a visible change due to the implementation of the Smart City mission, some initiatives under the mission across cities are noteworthy. Some of these are shown pictorially below:

Exhibit 4: Command and Control Centre Ahmedabad and Vadodara

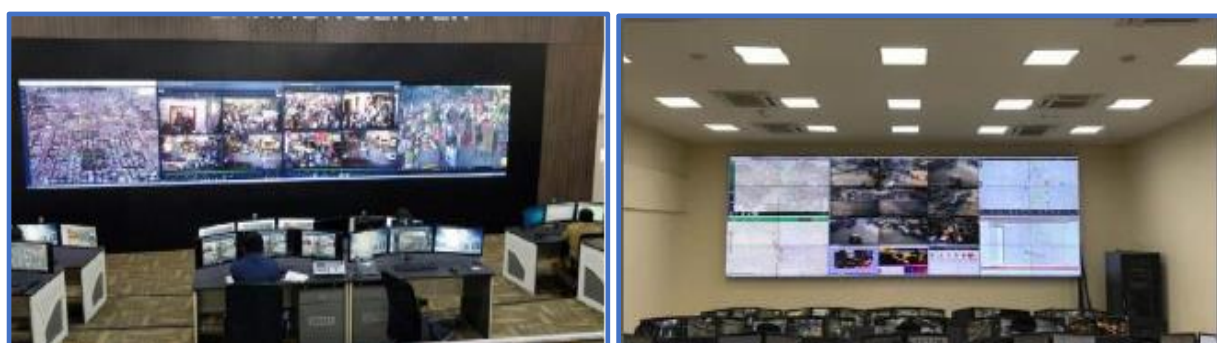
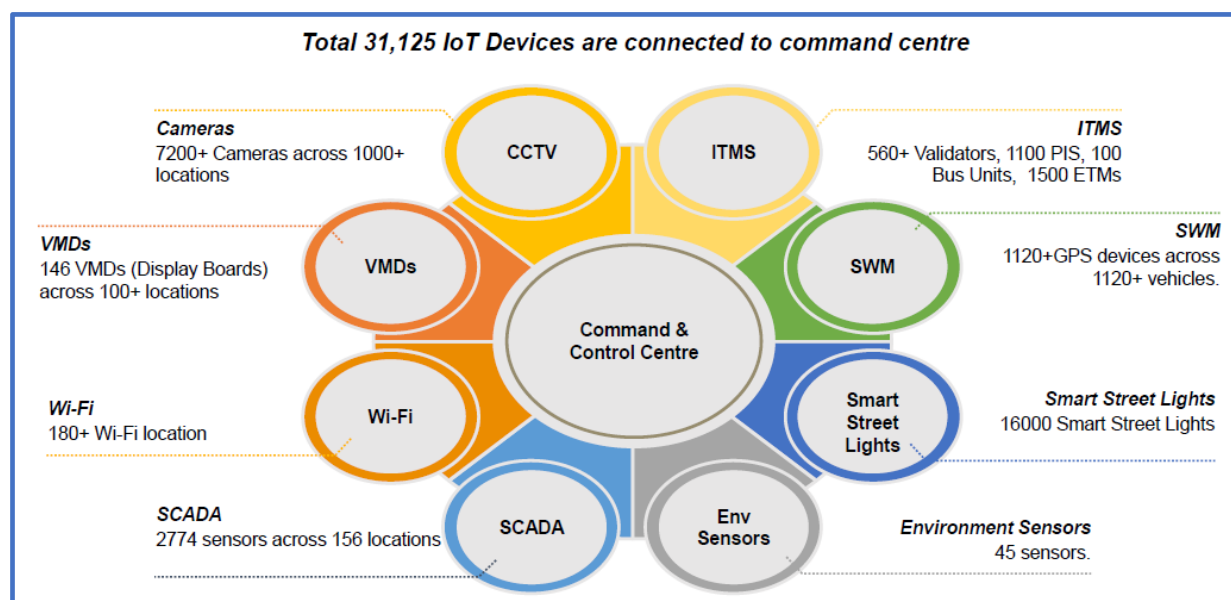


Exhibit 5: Connected Devices⁸ at Command and Control Centre Ahmedabad



Source: Ahmedabad Smart City Project Presentation

Exhibit 6: Upgradation of Bengaluru City Roads (Before and After Implementation)

⁷ The SPV is a public limited company with the state and local urban body holding 50:50 equity shareholding and is run by a professional CEO.

⁸ VMD – Visual Metrics Display; CCTV – Closed Circuit TV; ITMS – Integrated Transportation Management System; SWM- Solid Waste Management; SCADA – Supervisory Control and Data Acquisition System



Exhibit 7: Cycle Track - Bhopal (A Non-Motorised Transportation Development Initiative)



Exhibit 8: Shabby Conventional Telecom Towers being replaced by Wireless Smart Poles - Bhopal



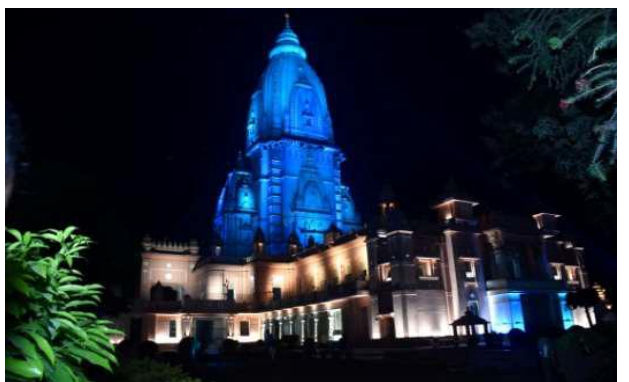
Exhibit 9: Utility Ducts on Footpath for Housing Electrical and Optic Fibre Cables – Bhopal and Surat



Exhibit 10: Facelift of Slums & Self Defence Training for Women - Bhubaneswar



Exhibit 11: Facelift of Public Spaces – Varanasi



The pictures above do raise hopes that the smart Indian cities of the future will provide a better quality of life to its citizen. The progress though on this initiative has been slow. The conclusion of the four rounds of challenge for the selection of 100 cities itself took over 3 years. Till date work has commenced on only 16% of the projects planned and tenders invited for another 12% of the work. Considering the above and the already completed work of about 3.4%, nearly 69% of the implementation is still in report stage. **This means that a significant pick up in implementation pace will be required to achieve the Smart City Mission targets of achieving completion by 2020-21 for round 1 cities, 2021-22 for round 2 and 3 cities and 2022-23 for round 4 cities.**

Implementing a scheme like the Smart City mission in a democracy like India is not an easy task. The implementing agencies have to face many difficulties and challenges. Some of the key challenges are

- Co-ordination and collaboration between multiple central, state and local government agencies for obtaining clearances in a timely manner
- Time taken for drawing up plans with consultants, finalising technical specifications, preparing detailed drawings and cost estimates, preparing detailed project report and thereafter tendering and awarding contract in a bureaucratic set up plagued with red tape.
- Difficulties in getting all utilities on board and non-availability of data for present network of utilities
- Lack of interest from contractors to implement such projects
- Arranging for Project Funding
- Challenges in procuring land and space availability to accommodate various utilities
- Project execution on functional roads drawing backlashes from motorists and activists
- Disruption from Media
- Political setback and bounces

Exhibit 12: Challenges of Executing on Functional Roads



Exhibit 13: Media and Activists Backlash



The government has tried to address some of these challenges by involving senior level officials and politicians from the centre, the state and the city in various committees set up for enabling smooth co-ordination between the various government agencies for implementing the smart city mission.

The government has also mandated cities to seek convergence at planning stage itself with other central and state government programs like the Atal Mission for Rejuvenation and urban Transformation (AMRUT), Swaach Bharat Mission (Clean India Mission– refer our Grassroots Q2, 2017), National Heritage City Development and Augmentation Yojana (HRIDAY), Digital India (Refer our Grassroots Q3, 2017), Skill development, Housing for All (Refer our Grassroots Q1, 2018), construction of Museums funded by the Culture Department and other programs connected to social infrastructure such as Health, Education and Culture. This would also enable in overcoming some of the challenges that may arise while implementing the mission. The Ministry of Urban Development, the nodal ministry for the 'Smart Cities' mission has also identified few key impactful projects for early completion (before national elections in 2019) and is working closely with the respective State and City authorities to complete these projects.

Our View

We view 'Smart City Mission' as one more key step taken by the Modi government to transform India from a developing to a developed nation, wherein many cities in India will compete over the next few years to be the most liveable city in India and at some stage, few of these cities will compete to be amongst the most liveable cities in the world. While the progress of the initiative so far has been tepid, we believe that with most of the ground work now having completed and the irritants to execution being addressed, the pace of implementation moving forward should improve. The fast tracking of some of the impactful projects with the national elections in mind should improve the implementation ratio significantly in the next one year.

With IT as its core strength, India has the potential for setting up a smart city infrastructure that can be created and replicated in other cities in India and anywhere across the globe. Some of the Smart Indian Cities have the potential to emerge as model cities that set standards for modern urban planning. Projects initiated under the Smart City mission like the upgradation of city roads with cycling tracks, broad foot paths and nice landscaping (created as an alternative for motorised transport), open spaces created for public use, facelift of slums and other public spaces and online delivery of public services using technology have already started creating a feel good factor about the mission in some of the cities. Monitoring cameras and ICT have been used successfully to reduce crime and driving offenses in some of these Cities.

While the outcomes of the above initiatives are good, a lot more is desirable in some of the areas under implementation. The Bus Rapid Transportation System (BRTS), one of the initiatives under the Smart City mission, has created traffic chaos in Pune. The planned migration from private transportation to the new bus system is a distant dream as the connectivity, frequency and quality of buses under the new system is still very poor forcing citizens to travel by private vehicles. With not much changeover to public transportation, the time taken to travel short distances of about 3-5 kms in Pune by private vehicles has increased from say 5-10 minutes to anywhere between 30 to 60 minutes primarily due to the BRTS. Ironical, but the blame for the failure of the local administration to rollout an efficient BRTS ends up with Prime Minister Modi, with Modi's mission of developing Smart Cities termed as a failure by many politicians as well as local citizens.

Hence besides being timely, the implementation hereon will also need to be efficient both from construction/development of the facility (the road connectivity and construction in case of BRTS example at Pune) as well as execution of the service being provided (frequency and quality of buses) so that citizens are not inconvenienced by the facilities being created with a promise of better quality of life in the city. Hopefully, from the experience of the initial implementation, the local administrations will improve on their execution.

Nevertheless, we believe that the Smart City Mission will

- Provide better planned spaces offering better quality of life for its citizens
- Reduce congestion, air pollution and resource depletion
- Bring efficiency and transparency in availing public services
- Reduce crime through IT enabled surveillance and video crime monitoring
- Generate employment opportunities

- Propel strong demand for Technology solutions
- Propel strong demand for building and construction materials
- Better equip the cities to accept influx of migrants from villages and smaller towns

Exhibit 14: Investment opportunities emanating from Smart City Mission

Area of Opportunity	Beneficiary Companies
Banks & NBFCs	ICICI Bank, HDFC Bank, Kotak Mahindra Bank, SBI, etc.
Cement	ACC, Gujarat Ambuja, Dalmia Bharat, India Cement, Ultra tech Cement
Construction	NBCC, Ashoka Buildcon, Dilip Buildcon, Larsen & Toubro, Gammon India, HCC
Information & Communication Technology	Tech Mahindra, Sterlite Technologies, Smartlink Holdings, Zicom Security Systems, NIIT Technologies
Engineering	Bharat Electronics, Schneider Electric, ABB, Siemens, Kalpataru Power Transmission, KEC International, Honeywell Automation, V. A. Tech Wabag, Thermax
Electrical and Consumer Goods	Crompton Greaves, Bajaj Electricals, Havells India
Non-Motorised Transportation	Atlas Cycles, Tube Investments
Utilities	Power Grid, NTPC, Tata Power, Reliance Energy

Source: India Avenue

Section 3: Companies in Focus

"Bharat Electronics is continuously exploring opportunities in non-defence areas. Some of the new areas of focus in non-defence segment include homeland security and smart city solutions"

M V Gowtama, Chairman and MD Bharat Electronics

Investment Theme: Smart City Mission Beneficiary – Bharat Electronics

Company Description:

Bharat Electronics Limited was established by the Government of India under the Ministry of Defence in 1954 to meet the specialized electronic needs of the Indian defence services. Over the years, it has grown into a multiproduct, multi-technology, multi-unit company servicing the needs of customers in diverse fields in India and abroad.

Playing the India Thematic:

Government led spending will be the key growth driver for Cement demand in India. The industry will benefit from government's focus to build infrastructure and provide housing for all by 2022.



Industry Outlook:

- Government of India's Defense spending, automation drive to improve governance in public services and the Smart City initiatives will be the key growth driver for manufacturers of communication products and electronic components for defense and civilian applications in India

Industry Outlook:

- Growing defense and security needs and increasing defense allocation for modernisation and upgrade augurs well for the industry. India at AU\$ 59.1 bn is the fifth largest defense spender in the world
- Increased impetus on homeland security, growing market for solar based power plants and the smart city mission provides non-defense growth opportunities for the industry

Company Outlook

- Bharat Electronics is well positioned to benefit from the rising defence expenditure, supported by a strong manufacturing base (Capacity utilization of ~60%) and execution track record
- Strong relationship with defence and government agencies and strategic collaboration with foreign technology partners for new products development along with in-house R&D capabilities (R&D spend at 9% of revenues) positions Bharat Electronics well to tap the opportunity
- Good order backlog of Rs.401bn (AU\$8.02 bn) as at the end of FY18 provides strong revenue visibility of 4x its trailing twelve-month revenue. This is expected to strengthen further with finalisation of two large defence orders in 1HFY19

Exhibit 15: Financials

Bharat Electronics = Rs. 237	CY 18	CY 19 E	CY 20 E
Sales (Rs. Bn)	103.3	119.1	136.0
EPS	5.7	6.5	7.3
P/E	18.2	16.0	14.2

"Power Grid is exploring new opportunities in implementation of charging infrastructure for Electric Vehicles as well as venturing into Smart City projects. We are closely associated with implementation of Smart Grid at Varanasi & Gurgaon."

I.S. Jha, Chairman & MD, Power Grid

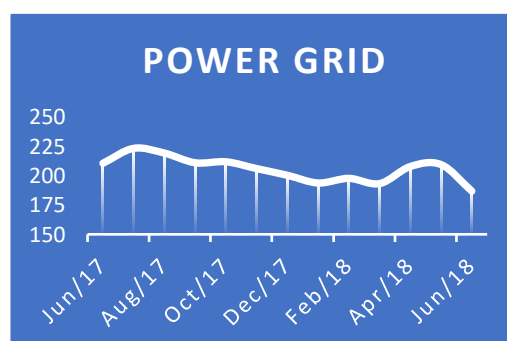
Investment Theme: Domestic Utilities Beneficiary – Power Grid

Company Description:

Power Grid Corporation of India (PWGR) is a central transmission utility (CTU) in India. It owns and operates most of India's inter-state and inter-regional (ISIR) power transmission system. It has been identified as a nodal agency by the government to set up interregional transmission capacity.

Playing the India Thematic:

Rising share of renewable energy, uneven distribution of fuel/water resources and demand, and bottlenecks in rail infrastructure will keep driving demand for investment in transmission capacity in India.



Industry Outlook:

- The uneven disposition of energy resources in India, most generation capacity being located in western region and peak deficits in southern and northern region, demand for transmission capacities in India is expected to remain strong
- The need for inter-regional transfer capacity based on load analysis for various seasons is expected to increase from 74GW in FY17 to 198GW by FY33-34 as per the Ministry of Power. This provides for strong long-term visibility for the transmission sector in India

Company Outlook

- PWGR, being a central transmission utility (CTU), PWGR enjoys a near monopoly in the interstate and inter-region (ISIR) domain. Though the private sector is keen to grow in the transmission business, stretched balance sheets and higher weighted average cost of capital (WACC) for private players may constrain their participation in the sector
- PWGR's pace of project execution remains superior to other players in the industry. Of the 5 Tariff Based Competitive Bidding projects completed on time in India, 3 projects were by PWGR
- PWGR has Rs. 900 bn (AU\$18 bn) worth of projects pending execution over the next 3-4 years, which will drive EPS CAGR of 13% over FY18-20

Exhibit 16: Financials

Power Grid = Rs.181.65	FY18E	FY19E	FY20E
Sales (Rs. Bn)	299.4	362.2	399.5
EPS	15.4	20.7	21.9
P/E	11.8	8.8	8.3

Section 4: Indian Asset Managers

Most Preferred Stocks

Stock market investors develop a liking for quality businesses which enjoy sustainable competitive advantages. The allocations made to these companies in high conviction portfolios tend to be high. In this section, we have listed a few of these companies in terms of their popularity with India's Fund Managers.

Indian Mutual Fund's tend to be more focused on short-term peer relative behaviour, seeking short-term payoffs to generate sales/distribution. Given there is a lower presence of long-term pension related investments (compared to developed markets), it tends to be a shorter-term performance horizon. Stock turnover tends to be high, particularly for flagships funds of the asset management company, where so called "star" portfolio managers look for the next exciting story, whilst keeping one eye on positioning of their peer group.

However, given approximately 6,000 listed stocks on the NSE/BSE, Multi, Mid and Small Cap fund managers have a significant number on unique stock names to select from. As we descend the market cap curve, the unique names in portfolios increase, given differentiated insights based upon internal research rather than brokers. The ability to source new ideas and identify growth opportunities is a practiced skill, which is not necessarily easy to access in the appropriate way.

We study holdings of Multi-Cap Funds which are equivalent to all cap equity funds, with a mandate to look across the market cap spectrum to find growth and value. Some of the key observations of the study were:

- The quarter witnessed quite some changes in the preferences of mutual funds in India, HDFC Bank though remained as the most preferred company in India amongst the multi-cap fund managers
- Preference for technology stocks increased potentially as a defensive bet providing valuation comfort during times of market volatility. Three stocks Infosys, TCS and HCL Technologies made it to the list top 20 preferred most stocks. Earlier only Infosys was part of the top 20 most preferred stocks
- Fund managers continued to prefer private sector banks, the preference though reduced during the quarter. Besides HDFC Bank, ICICI Bank, State Bank of India and Kotak Mahindra Bank were amongst the top 10 most preferred stocks
- Larsen & Toubro (Industrial), ITC (Consumer Staples - Cigarette), HDFC (Financials), Maruti (Consumer Discretionary – passenger vehicles) and Mahindra & Mahindra (Consumer Discretionary – Utility Vehicles) were the other most preferred stocks i.e. in the Top 10
- Reliance Industries, NTPC and Bajaj Finance were some of the stocks that moved in the preference and were amongst top 20 most preferred stocks. Bajaj Finance moved into the top 20 most preferred stocks during the quarter with 2 more funds buying into the company
- Few Portfolio Managers exited from Sun Pharma (5 funds exited) and Tata Motors (7 funds exited). The continued disappointment from these companies (Sun Pharma on US pricing related issues and regulatory woes and Tata Motors – loss of market share in domestic business) to deliver growth would have enthused the exits, despite valuations of both companies being attractive

Exhibit 17: Most Preferred Stocks of Indian Multi cap Funds

Rank	Company Name	Value Holding (Rs. Bn.)	No of Funds	% Value Holding	Popularity Score	Popularity Index	Rank Last Quarter
1	HDFC Bank Ltd.	158.8	34	6.6%	5.90	100	1
2	Infosys Ltd.	99.1	33	4.1%	3.57	61	2
3	ICICI Bank Ltd.	86.4	30	3.6%	2.83	48	4
4	State Bank Of India	92.7	27	3.8%	2.73	46	5
5	Larsen & Toubro Ltd.	80.3	31	3.3%	2.72	46	3
6	ITC Ltd.	67.8	28	2.8%	2.07	35	6
7	HDFC Ltd.	55.7	24	2.3%	1.46	25	7
8	Kotak Mahindra Bank Ltd.	49.7	21	2.1%	1.14	19	9
9	Maruti Suzuki India Ltd.	40.9	23	1.7%	1.03	17	8
10	Reliance Industries Ltd.	45.4	20	1.9%	0.99	17	13
11	Mahindra & Mahindra Ltd.	44.4	20	1.8%	0.97	16	10
12	Sun Pharmaceutical Industries Ltd.	43.4	19	1.8%	0.90	15	17
13	Tata Steel Ltd.	35.9	22	1.5%	0.86	15	11
14	Axis Bank Ltd.	37.2	21	1.5%	0.85	14	20
15	Bharti Airtel Ltd.	30.0	22	1.2%	0.72	12	15
16	Tata Consultancy Services Ltd.	39.7	15	1.6%	0.65	11	12
17	NTPC Ltd.	35.6	14	1.5%	0.54	9	14
18	Yes Bank Ltd.	26.3	18	1.1%	0.52	9	28
19	Bharat Petroleum Corporation Ltd.	24.4	18	1.0%	0.48	8	23
20	GAIL (India) Ltd.	25.0	16	1.0%	0.44	7	16

Source: ACE MF, India Avenue as on 30th June 2018

Section 5: Economic Snapshot

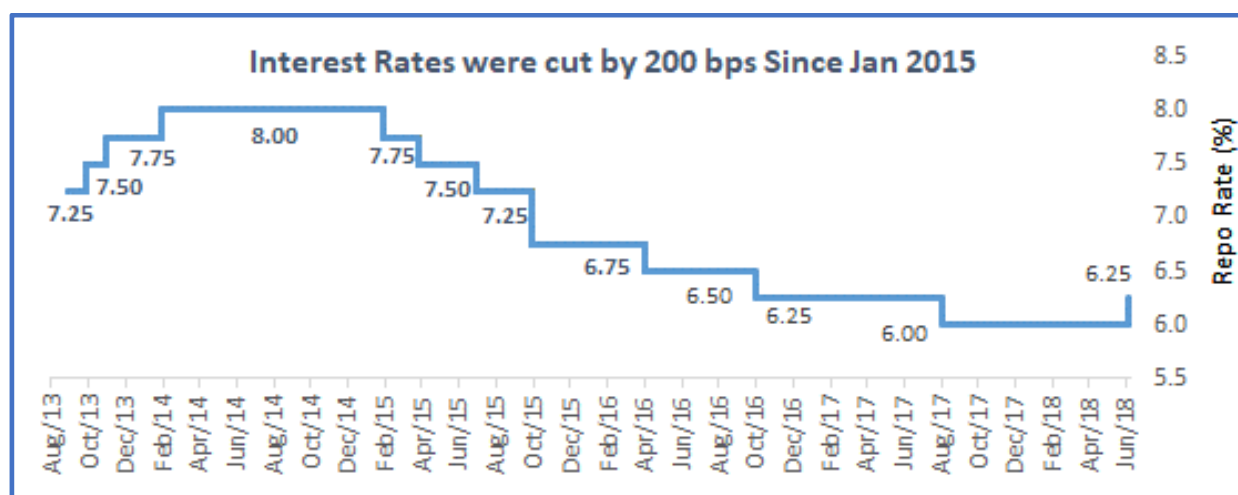
Markets	Measure	Last	Date	Previous	Frequency
Currency	Rs.	50.55	Jul-18	50.58	Daily
Government Bond 10Y	%	7.79	Jul-18	7.78	Daily
Stock Market	Sensex	36592	Jul-18	36548	Daily
GDP					
GDP Annual Growth Rate	% y-o-y	7.70	Mar-17	7.00	Quarterly
Prices					
Inflation Rate	%	5.00	Jun-18	4.87	Monthly
Producer Prices Change	%	4.43	Jun-18	3.18	Monthly
Food Inflation	%	2.91	Jun-18	3.10	Monthly
Money					
Interest Rate	%	6.25	Jun-18	6.00	Daily
Foreign Exchange Reserves	USD \$Bn.	405.8	Jul-18	406.1	Weekly
Loan Growth	%	12.8	Jun-18	12.7	Biweekly
Trade					
Balance of Trade	USD \$Bn.	-16.60	Jun-18	-14.62	Monthly
Exports	USD \$Bn.	27.70	Jun-18	28.86	Monthly
Imports	USD \$Bn.	44.30	Jun-18	43.48	Monthly
External Debt	USD \$Bn.	529.67	Mar-18	513.44	Quarterly
Foreign Direct Investment	USD \$mn	4859	Apr-18	1795	Monthly
Government					
Government Budget (% of GDP)	%	-3.53	Dec-17	-3.52	Yearly
Business					
Manufacturing PMI	Index	53.1	Jun-18	51.2	Monthly
Services PMI	Index	52.6	Jun-18	49.6	Monthly
Industrial Production	%	3.2	May-18	4.8	Monthly
Manufacturing Production	%	2.8	May-18	5.3	Monthly
Car Registrations	Cars	264308	May-18	256459	Monthly
Competitiveness Rank	Rank	40/144	Dec-17	39/144	Yearly
Ease of Doing Business	Rank	100/189	Dec-17	130/189	Yearly
Consumer					
Consumer Confidence	Index	95.1	Mar-18	96.9	Quarterly
Consumer Spending	INR Bn.	18999	Mar-18	19190	Quarterly

Source: www.tradingeconomics.com (14 July 2018)

Event 1: India's Monetary Policy

India's Monetary Policy Committee (MPC), in contrast to market expectations hiked policy interest rates (repo rate) by 25 bps to 6.25% in its meeting held on 6th Jun'18. The decision to raise rates was taken unanimously, with all six MPC members voting in favour of the decision. The move was surprising as majority of the market participants were expecting the RBI to maintain status quo. The Reserve Bank of India (RBI) though continued with its neutral policy stance, re-iterating its objective of achieving the medium-term target for consumer price index (CPI) inflation of 4% within a band of +/- 2 per cent, while supporting growth.

Exhibit 18: Monetary Policy



Source: RBI

The RBI has revised marginally upward its inflation projection for 1HFY19 to 4.8% - 4.9% from its earlier projection of 4.7%-5.1%. It has raised its inflation projections for 2H to 4.7% from 4.4%. The RBI has maintained its FY19 GDP growth forecast at 7.4%. The RBI continues to highlight upside risks to inflation from 1) uncertainty owing to global financial market developments, 2) rising household inflation expectations 3) HRA revisions by state government 4) revision in Minimum Support Prices (MSP's) and 5) potential for a benign monsoon.

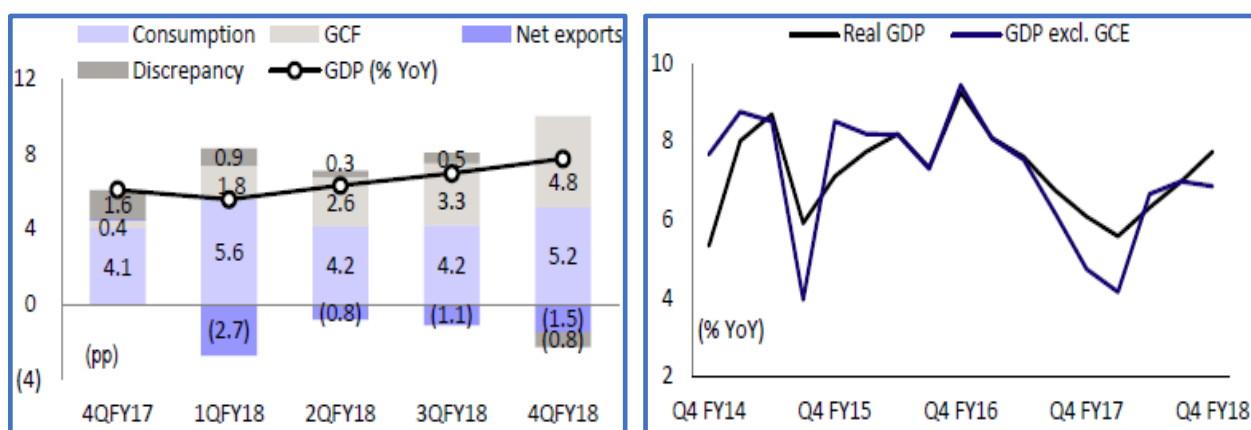
We believe the RBI's surprising move to hike rates could have either been to stem currency depreciation or mitigate the risk of rising core inflation. If this is the objective of the RBI, a 25bps hike may be insufficient and RBI may hike rates in the future assessing the situation on these two factors.

Event 2: GDP Growth

India's real gross domestic product (GDP) growth came in at 7.7% YoY during 4QFY18 (Year end, March), its fastest pace in seven quarters. The GDP numbers were higher than the market consensus of 7.4% YoY growth and up from 7.0% YoY growth in 3QFY18. Overall, real GDP grew 6.7% in FY18, the slowest pace in four years.

The pick-up in GDP growth during 4QFY18 was mainly driven by investments (+14.3% YoY v/s 13.0% in 3QFY18), which rose at the fastest pace in 24 quarters. The growth though was also aided by a favourable base as investments grew just 1.1% in 4QFY17 post demonetisation. Consumption growth improved to a three-quarter high of 8.1%, aided by 16.9% growth in government spending. While imports surged by 10.9% YoY, export growth was sluggish at 3.6%. As a result, net exports dragged down GDP growth by 1.5% in 4QFY18. The construction and manufacturing sector saw sharp improvement during the quarter. Construction activities rose by 11.5% YoY in 4QFY18, up from 6.8% YoY in 3QFY18, this was the fastest pace of its growth in six years. Manufacturing growth touched a seven-quarter high of 9.1% in 4QFY18 (3QFY18: +8.1%), growth in services was steady at 7.7%.

Exhibit 19: Contributors to GDP Growth in 4QFY18



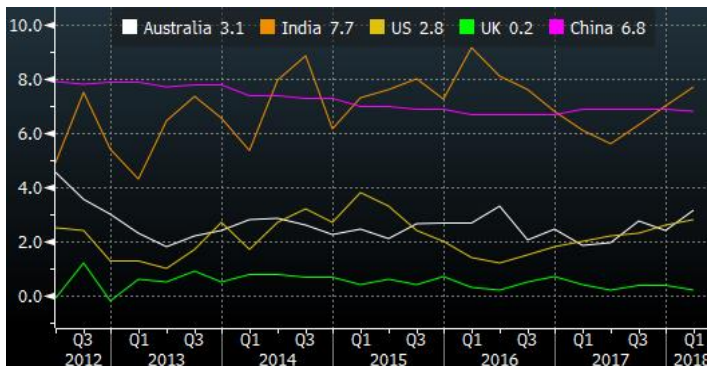
Source: MOSPI, Government of India

The latest GDP release signals that India's economy is on a recovery path supported by the ongoing recovery in rural economy, improvement in consumption demand, Government's consumption expenditure, infrastructure spend and industrial capex recovery. The fact that the GDP growth is gradually transitioning from consumption driven to investment led is a long-term positive. This transition forms the base for growth to move to its next trajectory.

In the near term though, widening of trade deficit due to slower export momentum, increase in fiscal deficit, hardening of core inflation and domestic currency depreciation pose risks to growth. Government's spending ability has moderated, having breached the fiscal deficit target in FY18. This may in turn lower the contribution of government spending to real GDP going forward. However, consumption demand and private capex recovery should support growth. This implies that GDP growth will potentially remain below 7% for the second consecutive year in FY19.

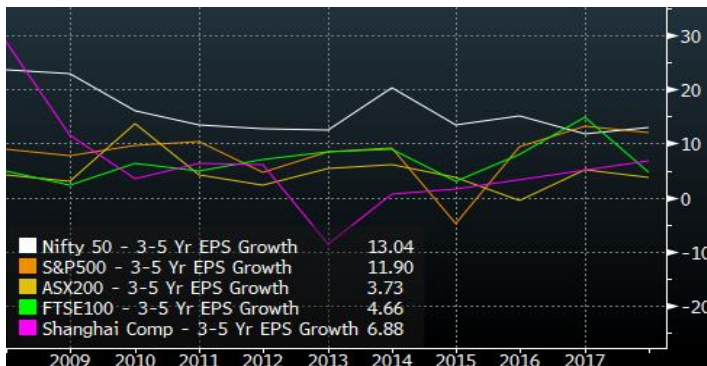
Section 6: India in Charts

Exhibit 20: GDP Growth



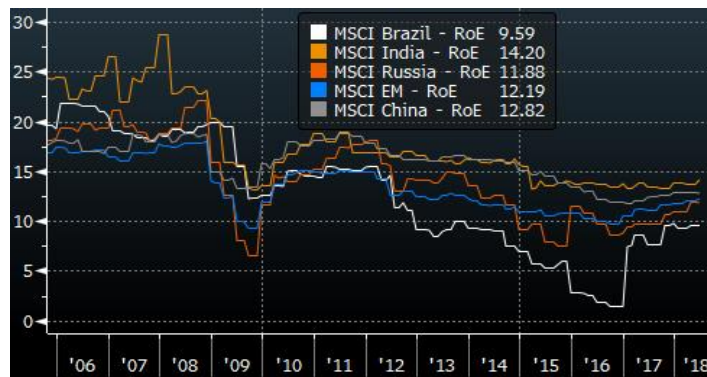
India's GDP growth came in at 7.7% YoY in 4QFY18, its fastest pace in seven quarters, up from 7.0% in 3QFY18. The pick-up in GDP growth during 4QFY18 was mainly driven by investments (+14.3% YoY v/s 13% in 3QFY18), which rose at the fastest pace in 24 quarters.

Exhibit 21: Forward Earning Growth



FY19 is expected to mark the recovery of earnings in India. The worst of bad debt issues will be behind, and earnings of PSU banks and Corporate Private Banks will look better. Recovery in Rural India will drive consumption growth, public spending and the recovery in private investments will drive earnings growth of above 20% in FY19.

Exhibit 22: ROE



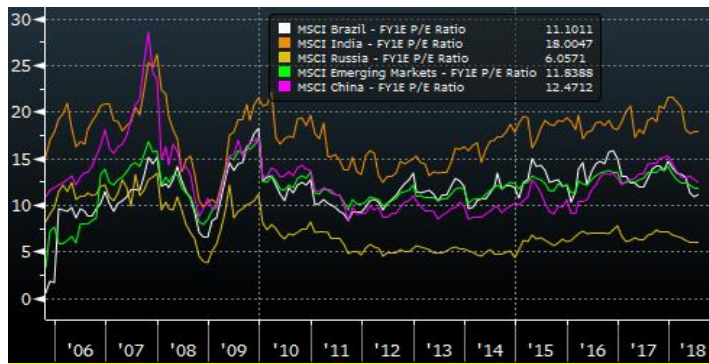
India's high ROE, superior to most emerging markets has been an important differentiator for India's valuation premium. While presently India's ROE at 14.2% is below its long period average of 17% and peak of ~27%, it is still above most emerging markets and is expected to improve.

Exhibit 23: Benchmark Performance



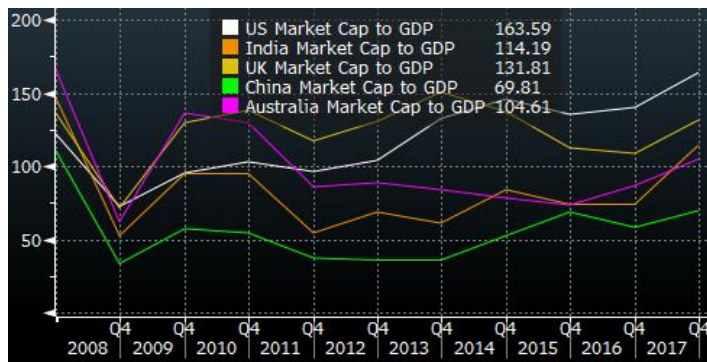
PM Modi's reform agenda, Strong forward earnings growth potential and high ROE has enabled India to out-perform most emerging markets (EM) since 2014. MSCI India (+11%) outperformed MSCI EM (+6%) over the last 12 months despite global investors pulling back allocations to EM on rising US interest rates

Exhibit 24: P/E Ratio



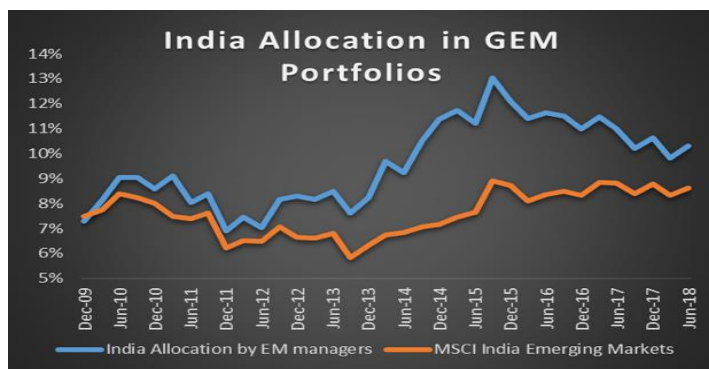
India has traded at a significant premium to other emerging markets with a historical average premium of ~43% to MSCI EM. The premium is currently at 59% above its historical average. MSCI India currently trades above its long-term average at 18.0 x FY19E PE for MSCI India.

Exhibit 25: Market Cap to GDP



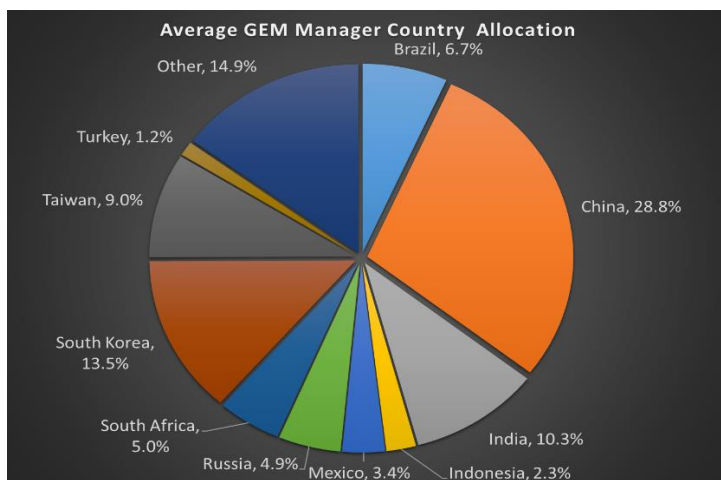
India's Market Cap-to-GDP has increased steadily from 55% in FY09 to 84% now based on FY18E GDP, which is above its long-term average of 78%. The significant increase in India's market cap by 52% drove the increase in valuations to being fairly-valued.

Exhibit 26: India Allocation in GEM Portfolios



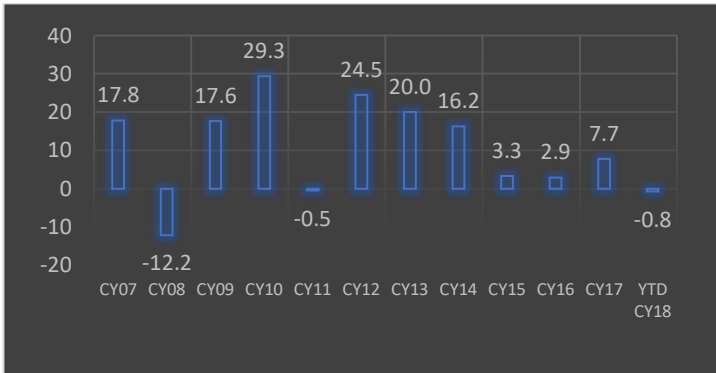
GEM portfolios have been overweight India since 2013 on hopes of a change in government. The emergence of a reformist, majority government led by PM Narendra Modi stirred GEM portfolios to increase their over-weight position further. This reduced a tad, on pull back in emerging market allocations.

Exhibit 27: GEM Investor Country Allocation



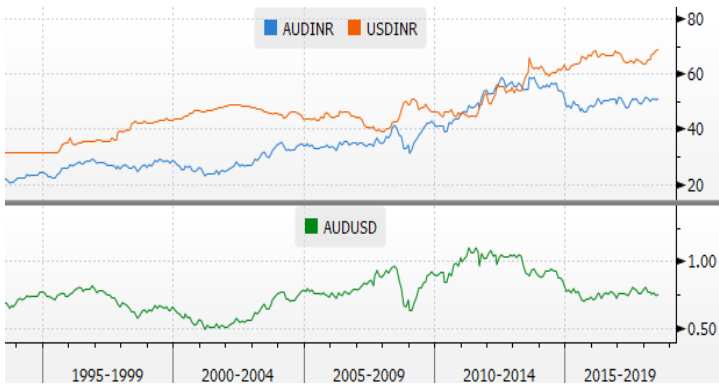
India has the third highest allocation in GEM portfolios at 10.3% (10.6% last quarter). Minor pullback in allocation during the quarter could be due to the deteriorating macro. Earnings recovery and benefits accruing from the implementation of some key reform initiatives like GST may see increased focus on India.

Exhibit 28: Foreign Portfolio Investors (FPI) Flows



Foreign Portfolio Investors (FPIs) sold US\$ 0.8 bn YTD CY18, after investing US\$7.7 bn in 2017. FPI's pulled back on global sell off led by rising US interest rates, trump led trade wars, inflationary pressures, introduction of long term capital gains on Indian equities and unleashing of governance issues in state owned and a two private sector banks in India.

Exhibit 29: Currency



India's currency has been depreciating against the USD and AUD given its inflation differential. The INR though appreciated against the AUD over the past 3 years with interim volatility. The INR after showing resilience against the USD for a long period depreciated recently on deteriorating fiscal and current account balance.

Source: Bloomberg

Visit: www.IndiaAvenueInvest.com

Write to us at: info@indiaavenueinvest.com



This document has been issued for information purposes. The views and opinions contained in it are those of India Avenue Investment Management Australia Pty. Ltd. (IAIM) ABN 38 604 095 954 & AFSL 478233. Its contents may not be reproduced or redistributed. The user will be held liable for any unauthorised reproduction or circulation of this document, which may give rise to legal proceedings. All the information contained in it is provided for information only and should in no way be taken as investment advice. Past performance is not indicative of future returns. Information contained here is based on our assumptions and can be changed without prior intimation. It is not, and may not be relied upon in any manner as legal, tax or investment advice. Please consult your advisors. Investment in securities is risky and there is no assurance of returns or preservation of capital. Neither the firm, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost capital, lost revenue or lost profits that may arise from or in connection with the use of this information. No part of this material may be copied, duplicated or redistributed without prior written permission of IAIM.