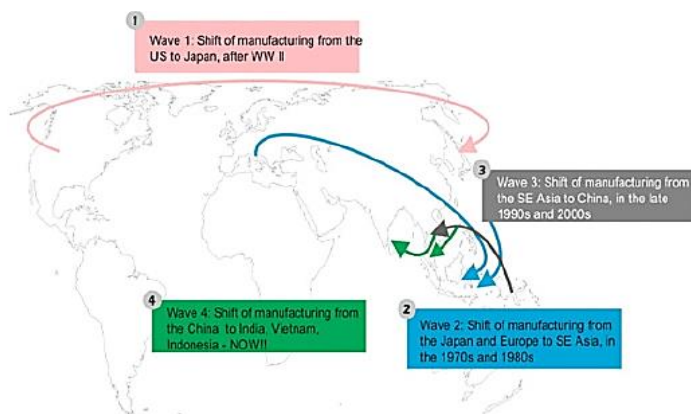


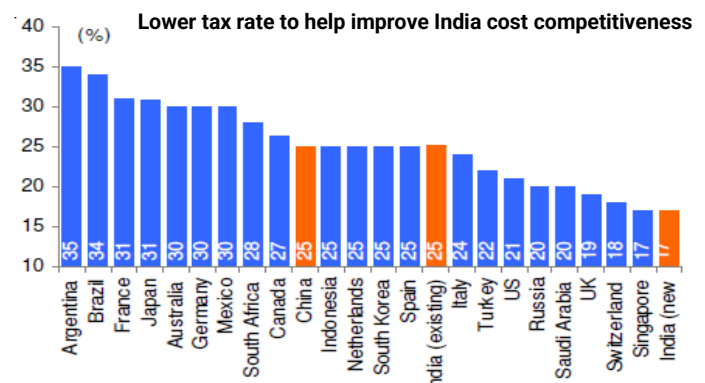
## Background

2021 served as a landmark year for the Indian economy as government's initiative of keeping India self-reliant (Atmanirbhar Bharat) accelerated with the formal implementation of various PLI schemes and a push to negotiate full free trade agreements. The idea was to restore the economy from the covid-19 slowdown, boost domestic production capacity and reduce trade dependency. As a result, the country received a record gross FDI of US\$81.97 billion and US\$83.6 billion in FY 21 and FY 22 respectively. The industrial sector has been drawing strong investor interest due to high demand from the domestic market.

## Global Trend: Lower cost dynamics & China+1 strategy may lead to shift in global supply chain

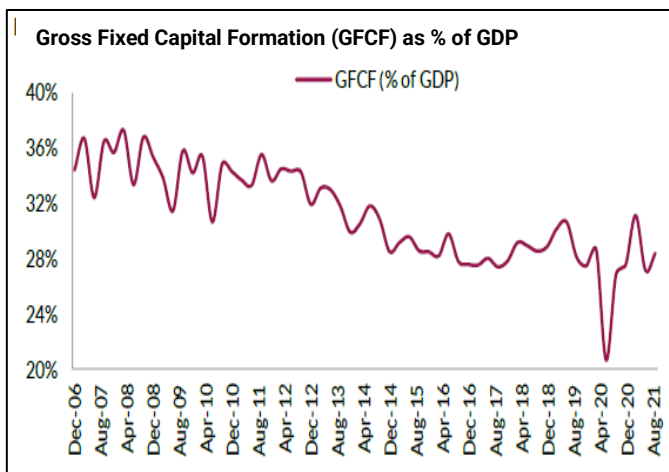


Source: CMIE, Antique, Axis Capital

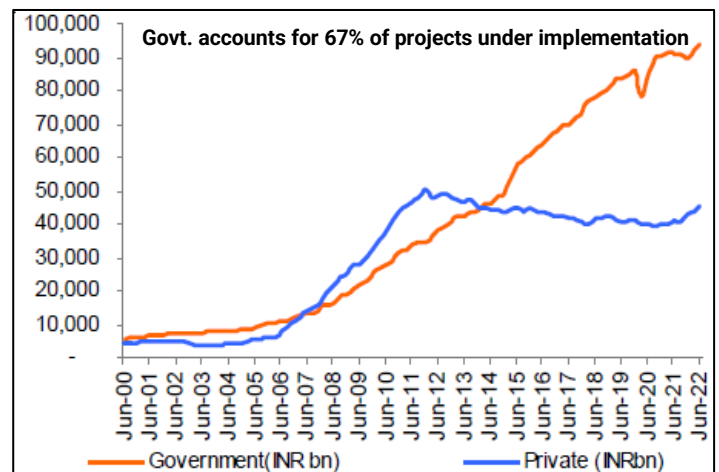


## India's Capex Cycle: Green shoots visible in Private Capex

- In the past decade, capital expenditure was driven by public investment. Investment projects under implementation by government have grown at ~10% CAGR over 2011-21. Public investment growth was led by infrastructure, particularly transportation.
- Private sector capex which was muted since FY2011 is seeing initial green shoots from FY22. Sustainable revival in the private sector capex could lead to strong impetus to capex cycle recovery.
- FY23 Union Budget, aggregate capex of Centre and PSUs saw 10% YoY growth, with 13% YoY growth in areas addressed by its business.
- India spent ~Rs 57 trn on Infrastructure over FY13-19, ~5.7% of nominal GDP. The National Infrastructure Pipeline (NIP) laid down a target to spend ~Rs 111 trn (~USD 1.5 trn) on infra over FY20-25 ~7% of GDP.

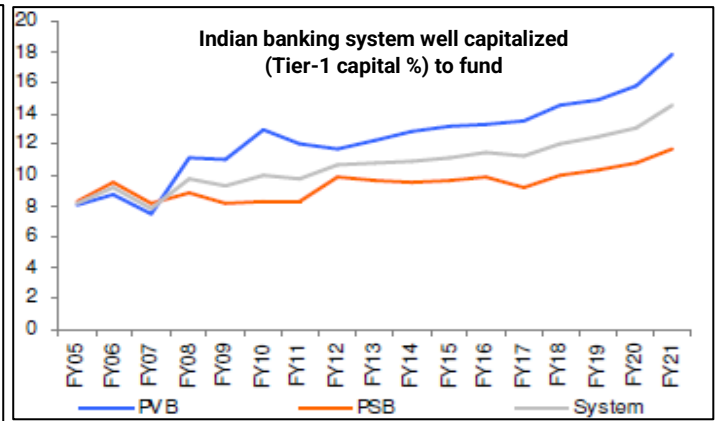
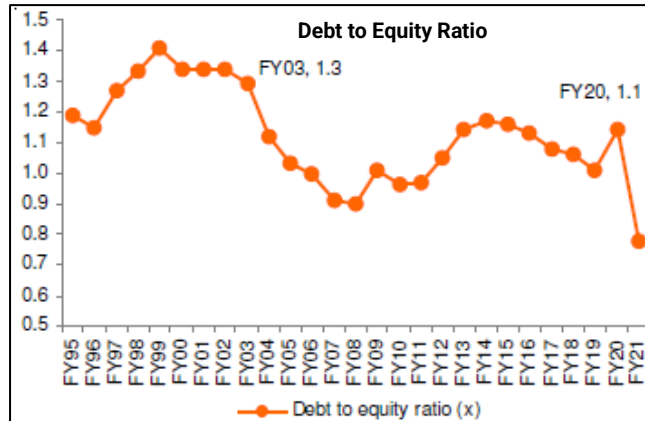


Source: CMIE, Antique, Axis Capital

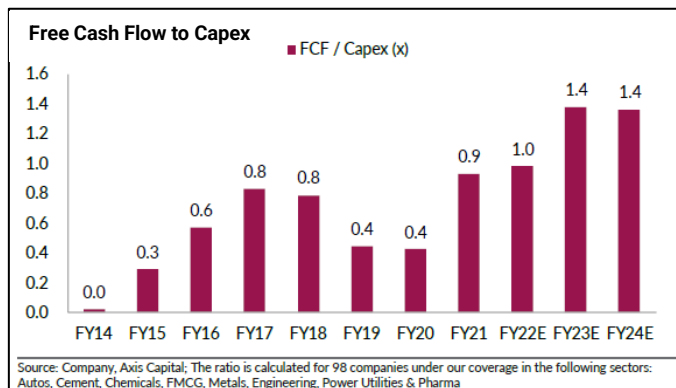


## Healthy corporate balance sheet to help fund capex

- Corporate de-leveraging process over last few years have strengthened its balance sheet.
- Higher provisioning over past few years and increase in Tier-1 capital position have strengthened the banking system balance sheet as well.

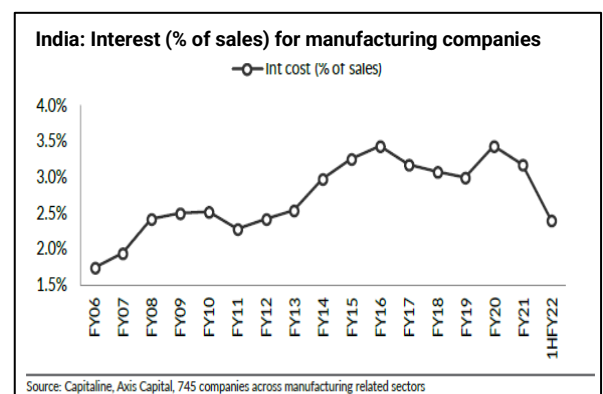
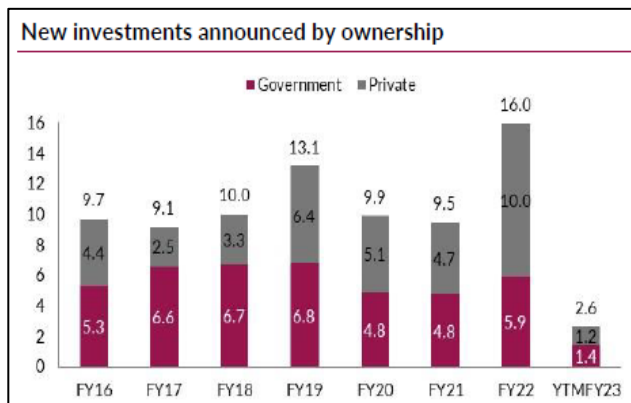


## Corporate India well geared to step up capex



- Free cash flow-to-capex ratio averaged at 0.5x over FY14-20 is likely to accelerate to 1.2x over FY22-24. Manufacturing companies can set up factories in India under a concessional tax rate regime till Mar-24 now.

- **Order inflows for large**, listed capital goods companies (excl. L&T) at Rs 258 bn is the highest in the last 15 quarters and recorded a 52% growth vs. Dec-20 and 35% QoQ. Similarly, **order backlog** at Rs 925 bn as of Dec-21 is at record levels since FY15 and witnessed growth of 16% vs. Mar-21 and 7% vs. Sep-21.



- **Data Centre proliferation:** India's data centre capacity is 650 MW. Europe is more than 10x the size at 8,500 MW, although India's internet user base stands at 700 mn vs Europe's 400 mn. USD 13.9bn spends are committed with 1,000 MW capacity, while another 1,350 MW is in advance stages of discussion.

## Production Linked Incentive (PLI) scheme:

The PLI schemes are a set of well-planned schemes primarily focusing on attracting FDI and promoting the 'Make in India' campaign. Although the schemes give more preference to large scale enterprises, they also have special criteria with lower threshold investment requirements for MSMEs, thereby aiming to make the entire scheme a holistic one.

## PLI & Global supply chain diversification to drive Manufacturing:

- Manufacturing is likely to be another growth engine which may drive higher capex growth over next 5 years on back of
  - India may be one of the key beneficiary of global strategy of de-risking global supply chain;
  - Production linked incentive may induce private capex of INR 7.7 trn over next 5 years. In addition, the recent approval to provide INR 760bn fiscal support to set-up semi-conductor and display manufacturing to help establish electronics manufacturing eco-system in India;

**PLI should garner cumulative capex of ~Rs.4.4tn over the next 4-5 years and could fast track the capex plans from the private sector at least by two years**

Category	Overall PLI Incentive committed (Rs. Bn)	Committed/ Likely Investment/ Capex (Rs. Bn)	Asset Turnover (x)	Incremental Revenue over 5-year period (Rs. tn)	Employment (Direct + Indirect)	Duration	Companies
Mobiles	410	110	~25x	10.5	5,00,000	FY22-FY27	▪ Samsung, Foxconn Hon Hai, Rising Star, Wistron and Pegatron, Lava, Bhagwati (Micromax), Padget Electronics, UTL Neolyncs and Optimus Electronics.
Pharma	150	100	~3x	2.9	1,00,000	FY21-FY29	▪ Aurobindo Pharma Group, Hetero Group, Karnataka Antibiotics and Pharmaceuticals Limited, Kinvaan Pvt. Ltd, Natural Biogenex
Pharma - API/KSM	63	54					▪ Siemens Healthcare, Wipro GE healthcare, BPL Medical Technologies, Nipro India Corporation, Sahajanand Medical Technologies, Integris Health, Poly Medicure.
Pharma - Medical Devices	28	9					
White Goods & LED	62	79	3-4x	1.7	4,00,000	FY22-FY27	▪ 42 firms, including Daikin, Panasonic, Syska and Havells, with committed investment of Rs. 46bn have been provisionally selected as beneficiaries under the production linked incentive (PLI) scheme for the white goods sector.
Solar PV	45	175	~4x	3.5	1,50,000	5 years	▪ Jindal India Solar, Shirdi Sai Electricals, Reliance & Adani Infrastructure have emerged as the lowest bidders for the PLI scheme for solar PV manufacturing
Telecom	122	30	~20x	2.4	40,000	FY22-FY27	▪ Nokia India, HPTCL, Dixon Technologies, Flextronics, Foxconn, Coral Telecom, VVDN Technologies, Akashastha Technologies, and G5 India
Food	109	61	~4-5x	1.2	2,47,730	FY22-FY27	▪ 60 companies including Amul, ITC, HUL, Britannia Industries, Parle Agro, Tata Consumer Products and Nestle
Automobile & Auto Components	260	425	~4-5x	2.3	7,50,000	FY23-FY28	▪ Hyundai Motor India, Suzuki Motor Gujarat, Ashok Leyland, Mahindra & Mahindra (M&M), Hero MotoCorp, Bajaj Auto, Ola Electric Technologies have been approved for the Production Linked Incentive (PLI) Scheme for the automobile sectors.
IT Hardware	50	24	~20x	3.3	1,50,000	FY21-FY25	▪ Applicants are Dell, ICT (Wistron), Flextronics, Rising Stars Hi-Tech (Foxconn), and Lava. They include Dixon, Infopower (JV of Sahara and MITAC), Bhagwati (Micromax), Symra, Orbic, Neolync, Optimus, Netweb, VVDN, Smile Electronics, Panache Digilife, HLBS, RDP Workstations, and Coconics
Speciality Steel	63	400	~1x	2.0	5,25,000	FY23-FY28	NA
Textile	107	190	~3x	3.0	7,50,000 (2,40,134 Direct Employment)	FY23-FY28*	▪ The govt. approved financial aid to 61 companies. Part one of the scheme plans a minimum investment of Rs. 3bn and has 13 companies including Shahi Exports, Paragon Apparel, and Trident. Part two has a minimum investment of Rs 1bn and it has 48 companies, including Arvind Ltd, Suchi Industries, and SVP Global Textiles.
EV Battery	181	450	~1x	~2.2	-	FY23-FY28	▪ Reliance New Energy Solar Limited, Ola Electric Mobility Private Limited, Hyundai Global Motors Company Limited and Rajesh Exports Limited, have been selected to receive incentives under the government's Rs 181bn (PLI) scheme for (ACC) battery storage.
Semiconductor	760	2300	~0.4x	~4.6	1,35,000	FY23-FY27	▪ Vedanta, Foxconn to form JV to bid for PLI
<b>Total</b>	<b>2,410</b>	<b>4,407</b>		<b>39.6</b>	<b>37,47,730</b>		

Source: Spark capital

## Fund Exposure and Outlook:

- Quarterly numbers were broadly in-line despite rising Raw material pressure countered with Operating leverage.
- Strong Earnings growth to continue in foreseeable future backed by strong order book.
- Valuations punchy - No room for re-rating in top names Earnings will drive growth

Valuation data of Companies*			
Company	EPS CAGR (FY22-24)	P/E FY23	P/E FY24
ABB India Ltd	13%	71	61
Action Construction Equipment	25%	19	15
AIA Engineering Ltd	20%	34	30
Apar Industries Ltd	13%	15	13
Bharat Electronics Ltd	19%	24	21
Cummins India Ltd	88%	36	30
GMM Pfaudler Ltd	17%	41	32
Grindwell Norton Ltd	38%	62	53
Honeywell Automation India Ltd	22%	82	61
Larsen & Toubro Ltd	28%	22	18
Praj Industries Ltd	63%	32	23
Ratnamani Metals & Tubes Ltd	20%	30	25
Voltamp Transformers Ltd	37%	26	22

(Data as of 31st July 2022, \* in Long only funds)

Most long-only portfolios are currently overweight on industrial sector. Following are some key holdings in Industrial sector across long-only funds.

Company	Edelweiss Flexi Cap Fund	Edelweiss Large & Mid Cap Fund	Edelweiss Large Cap Fund	Edelweiss Long Term Equity Fund	Edelweiss Mid Cap Fund	Edelweiss Small Cap Fund
	% of NAV in Portfolio					
ABB INDIA LTD	2.3%	3.0%		2.7%	4.3%	1.2%
ACTION CONSTRUCTION EQUIPMENT LTD	0.4%	0.4%			0.7%	0.8%
AIA ENGINEERING LTD		0.5%			0.3%	
APAR INDUSTRIES LTD						1.2%
BHARAT ELECTRONICS LTD	1.6%	1.8%	0.8%		2.0%	
CUMMINS INDIA LTD	2.0%	2.2%		1.0%	3.6%	1.7%
GMM PFAUDLER LIMITED	0.6%	0.6%		1.2%	0.9%	2.2%
GRINDWELL NORTON LTD						1.5%
HINDUSTAN AERONAUTICS LIMITED			1.2%			
HONEYWELL AUTOMATION INDIA LTD	0.3%	0.4%				
KEC INTERNATIONAL LTD						1.2%
KEI INDUSTRIES LTD						2.6%
LARSEN & TOUBRO LTD	2.7%	1.9%	4.3%	3.0%		
PRAJ INDUSTRIES LTD	0.8%	0.7%		1.3%	1.1%	2.0%
RATNAMANI METALS & TUBES LTD				0.8%		1.8%
RHI MAGNESITA INDIA LTD						1.3%
TIMKEN INDIA LTD						2.2%
VOLTAMP TRANSFORMERS LTD						1.7%

Portfolio holdings (% of NAV) as on July 31, 2022.

## Disclaimer

The purpose of this product is to offer a brief & simplified rationale behind our investments in certain businesses/themes in our long only portfolios. This is not meant to be an elaborate research report or a recommendation. In this note we explain why we are positive on industrial sector. This Note is for information purposes only for distributors and does not constitute an offer or recommendation to buy or sell any scheme of Edelweiss Mutual Fund. This also does not constitute an offer or recommendation to buy or sell any financial products offered by Edelweiss. Any action taken by you on the basis of the information contained herein is your responsibility alone and Edelweiss Asset Management Limited (the AMC)/Edelweiss Trusteeship Company Limited/ Edelweiss Mutual Fund or its directors or employees will not be liable in any manner for the consequences of such action taken by you. The AMC takes no responsibility of updating any data/information in this material from time to time. The information shall not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of the AMC.

For fund Riskometer, please click [here](#)

**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**