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PSU BANKS - SHIFTING PARADIGM OR HYPE?

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Investment Commentary

February 2024

PSU Banking Stocks – Shifting Paradigm or Hype?

PSU Banking stocks are up 80% over the past year and is one of the best performing sector YTD, up 23%. Everyone has an opinion, many are skeptical. We review the investment opportunity.

Earnings & Valuation Update

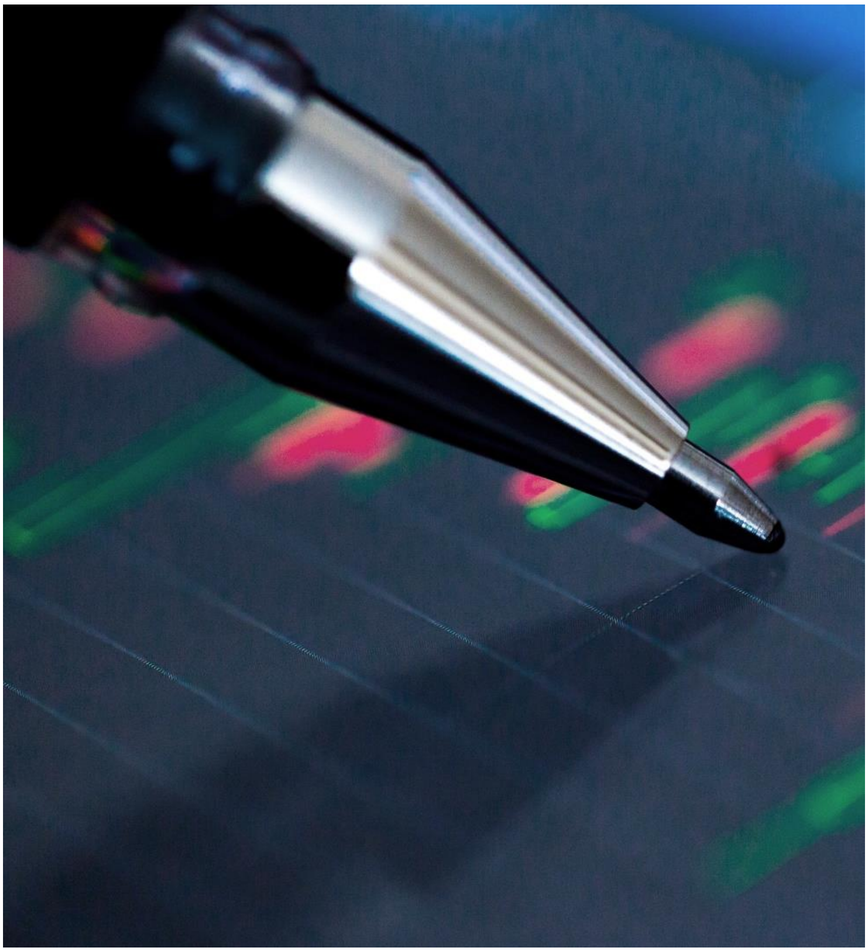
Earnings & Valuation update for India Equities.

Investment Outlook

Investment Outlook, style preferences and key portfolio tilts.

Market Data, Tactical Asset Allocation & Rationale

Key market data across asset classes, tactical preferences and rationale.



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Chief Investment Strategist

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PSU Banks – Timeline of a Historic Turn-Around

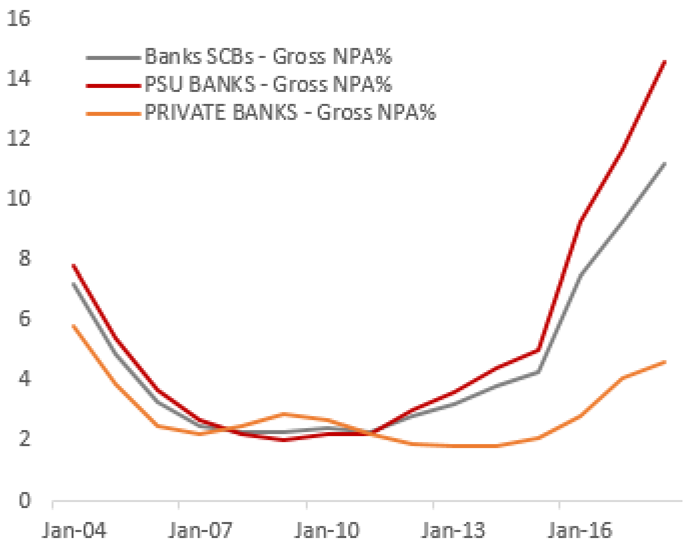
Background

Public sector banks have traditionally accounted for roughly 70% of total deposits, and PSU banks play a dominant role in extending loans and collecting deposits, particularly in rural areas.

By 2016, a large number of projects had begun encountering severe stress. PSU banks were reticent to recognize these loans as non-performing. Balance sheets were stressed and it was starting to look inevitable that PSUs would not have adequate capital to cover the non-performing assets on the books. Large criminal frauds were detected at some of the banks.

The IL&FS default in 2018 exacerbated the situation, leading to worries about systemic stability of the financial system. Provisions had to be increased further and losses written off. The IL&FS default stoked fear and risk aversion among market participants, led to increased costs of borrowing, especially for those with perceived asset-liability mismatch concerns.

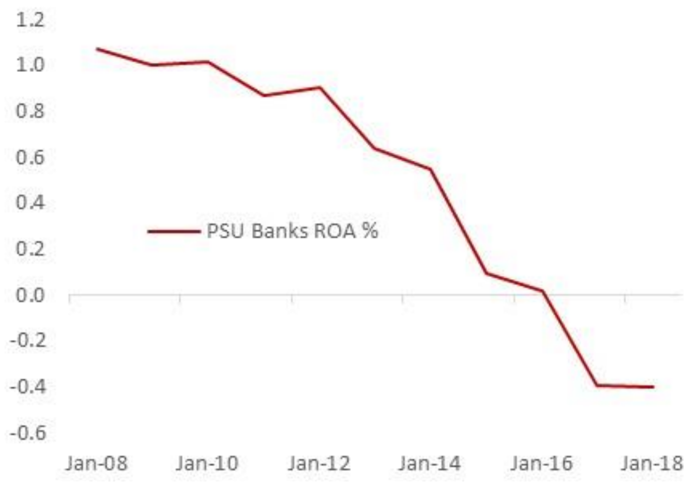
PSU Gross NPA% Rose to An Alarming 14.6% in 2018



Source: Bloomberg, NSE unless noted otherwise.

Loans are assets for banks, lending generates revenues. If assets stop generating revenues, they turn into non-performing assets and those then need to be provisioned, reducing bank profitability and future lending capability.

PSU Banks ROA Turned Negative in 2017



Source: Bloomberg and company financials.

Over the years, the government was also disinclined to infuse capital into PSUs, given the alarmingly deteriorating asset management and project selection track record.

Need for Action

The capital shortage and a weakening national banking system had become an impediment in the government's ambitions of achieving 8% GDP growth, creating a manufacturing base via Make in India, enhancing the nation's infrastructure, and achieving the goals of an economic powerhouse. Something had to be done. Further exacerbating the situation, Basel II guidelines adopted globally post the 2008 crisis, required banks to maintain a CAR of 11.5% by 2019.

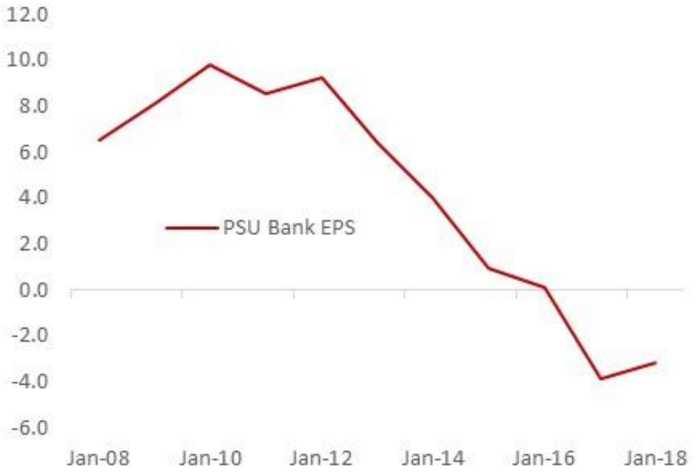
The 4 Rs Strategy

The government and RBI recognized that a healthy banking system was critical in shedding the Fragile Five moniker. PSU banks were an essential cog in the strategy of banking the masses, accounting for roughly two-thirds of India's banking system, with a large presence in rural areas, supported the weaker sections of the economy, and were an important growth driver for the rural economy. A critical decision was made to provide government support, improve oversight, implement stricter risk management controls, enhance technology, and implement reforms. The RBI and Ministry of Finance initiated a 4 R Strategy: Recognition, Resolution, Recapitalization, and Reform.

Recognition

An asset quality review led to PSU banks reporting one of their worst quarters in a decade in 2016. The RBI's AQR identified roughly 3.5% of the system as stressed loans. Total stressed loans identified were in the neighborhood of INR 2.5 trillion.

PSU Bank Losses Started Mounting in 2016



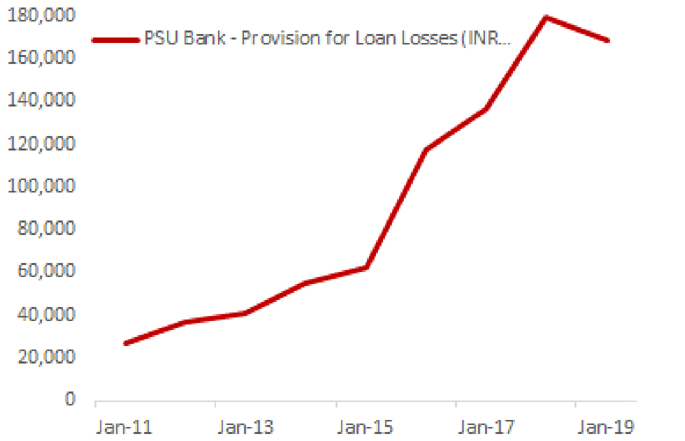
Following the AQR, banks initiated transparent recognition, reclassifying restructured advances as NPAs and providing for expected losses. Gross NPAs of the public sector banks rose from 5.0% in March 2015 to 14.6% in March 2018. The increase in NPAs led to additional provisioning, which affected the profitability of banks, and a number of PSBs were brought under the prompt corrective action (PCA) framework of RBI, adversely impacting the business growth of PSBs.

The AQR ensured that whatever loans needed to be provisioned for were provisioned for. The banks would write off a huge amount of bad loans, more than INR 10.19 lakh crore during the period.

Restructuring

Loans were restructured across modalities; more time, a feasible interest rate structure, restructuring covenants to increase the likelihood of repayments, changes in the structure of the loan and ultimately, some relief to deserving borrowers to increase likelihood of repayment.

Provisioning for Loan Losses Soared in 2016-18



Source: Bloomberg, company financials.

Recovery

Failing restructuring, the next step would be to equip banks with the mechanisms to implement strong and swift legal action, and the authority to proceed with collateral sale, legally forcing bankruptcy on the debtor and ultimately incentivizing willing defaulters to repay borrowings.

Recapitalization

The final and most important step was the recapitalization of the public banking system. 22.3% of NPA loans were written off, in the process cleaning up the bank balance sheets and affording them a fresh start.

As part of the strategy, the government infused an unprecedented Rs 3.1 lakh crore to recapitalize PSBs from 2016-17 to 2020-21. The recapitalization program provided much-needed support to the PSBs and prevented the possibility of a default.

Mergers & Consolidation

20 PSUs were merged to form 12 PSUs. Strong PSUs were merged with weak PSUs, and 6 mega PSU banks resulted. Banks with high NPAs and low capital adequacy were merged with healthier banks in a manner that reduced stress in the system and created post merger entities that met the capital adequacy requirements and had manageable net NPAs.

IBC Resolution

The IBC provided an invaluable mechanism for the sale of assets of defaulting borrowers, helping recover monies owed in NPAs. It provided a framework for the swift resolution of stressed assets, an efficient and speedy debt recovery process, created incentives for a higher probability of recovery by increasing pressure on willing defaulters to repay.

The new bankruptcy code was a huge success and the average recovery rate through IBC was in excess of 40%, versus an average recovery rate of 26% through prior means. IBC reduced resolution time from 4.3 years to 460 days in 2021 and improved India's ease of doing business rankings. Most importantly, IBC established a credible deterrent for future defaulters. The 4 R resulted in some of the best loan recovery outcomes in the world.

Reform & Improving Governance

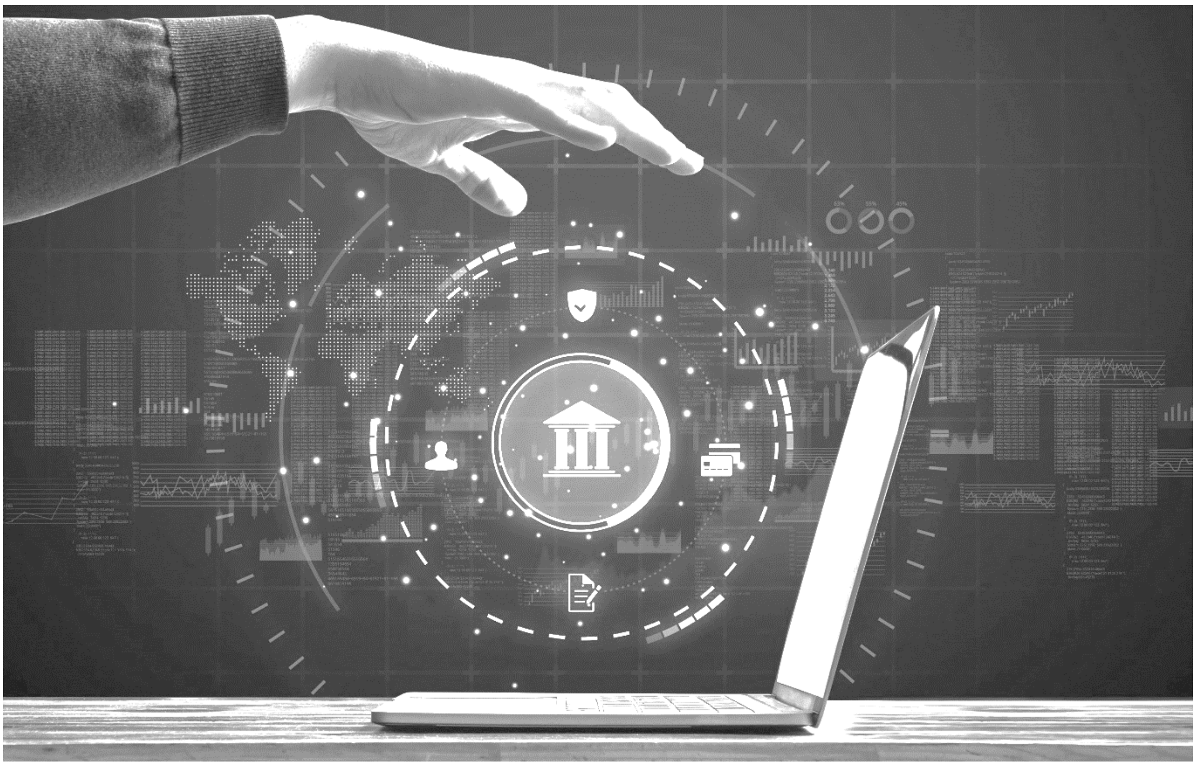
The Banks Board Bureau was instituted in 2016 with far reaching control and authority over PSU banks, governing PSUs with respect to tracking performance, deciding on chairpersons, MDs, senior officials, ensuring proper diversity in the board room, implementing controls and overseeing risk, internal controls, assessing penalties, and protecting whistleblowers.

Asset Reconstruction

NARCL - National Asset Reconstruction Company Limited - a government entity was incorporated in 2021 with a majority stake held by PSUs and balance by private banks as a registered asset reconstruction company. The government provided a guarantee of 30,600 cr INR to security receipts issued by NARCL. NARCL paid up to 15% of the value of the bad loans in cash and remaining 85% would be government guaranteed security receipts. This was beneficial for banks as it helped clear toxic assets off their books, enhancing profits, and created additional revenue sources via bad asset recoveries.

Digitalization

Every aspect of the public banking system has been digitalized. While the perception is that PSUs are lagging in technology, the reality is that PSUs are rapidly closing the gap and are far more digitized than are being given credit for.

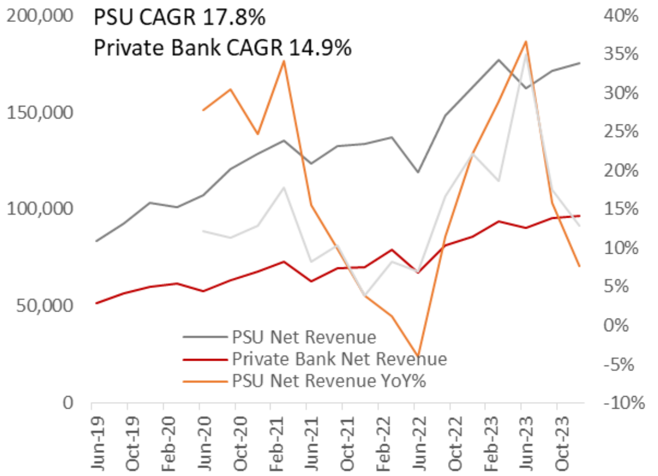


INVESTMENT CASE - PSU BANKS

An Impressive Financial Turn-around

We share a variety of financial metrics and compare PSUs versus Private Banks.

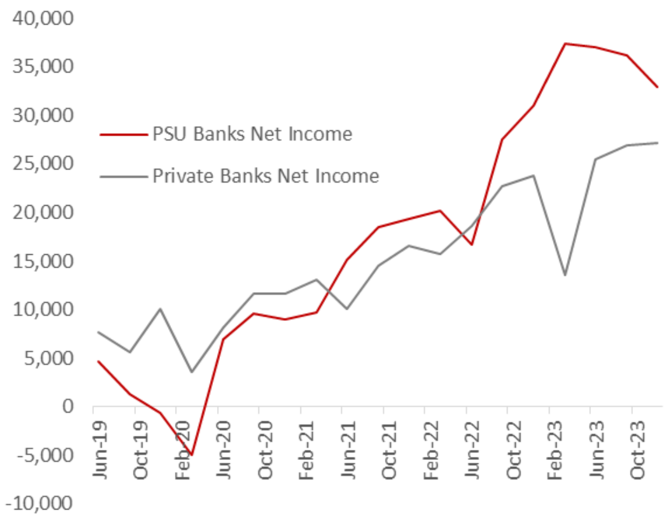
PSU Banks Have Grown Net Revenue Faster Than Private Banks Since 2019



Note: HDFC Bank not included due to merger comparability issues prior to June 2023.

Starting with top line, PSU banks have grown net revenues at a 17.8% CAGR versus private banks 14.9%, despite working from a larger revenue base. Stated another way, PSU revenue growth rates have better than private banks (see chart above), while sporting much lower valuations.

PSU Banks Have Grown Net Profits At a Faster Pace Than Private Banks Since 2019

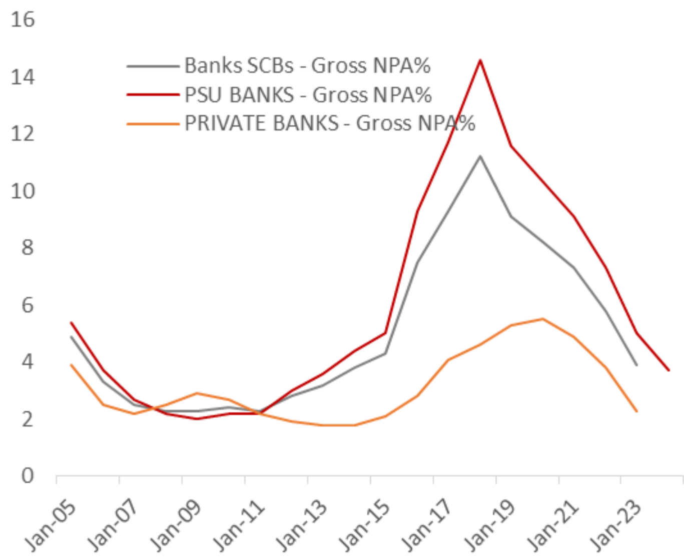


Note: HDFC Bank not included due to merger comparability issues prior to June 2023.

On net profits, PSU banks have also outperformed private banks. PSU banks profits were negative in March 2020 at -4,940 cr. From that base, PSU banks have grown profits at a 17-18% CAGR since 2019, faster than private banks (see chart above) and are expected to do so over the next two years. Only 2 out of 21 PSB were profitable in 2018, but in 2024, all PSU banks are showing profits.

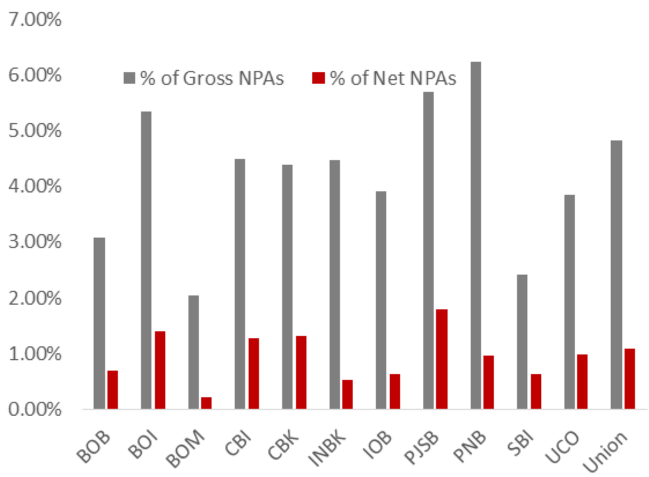
Meanwhile, gross non-performing assets (NPAs) of PSU banks have dropped from a peak of 14.6% to 3.7% in 3QFY24. That's a massive and impressive turnaround.

Gross PSU NPA% Have Dropped to 3.7% as of Q3 FY24 from a Peak of 14.6%



Source: Bloomberg. Data as of Dec 31, 2023 for PSU banks.

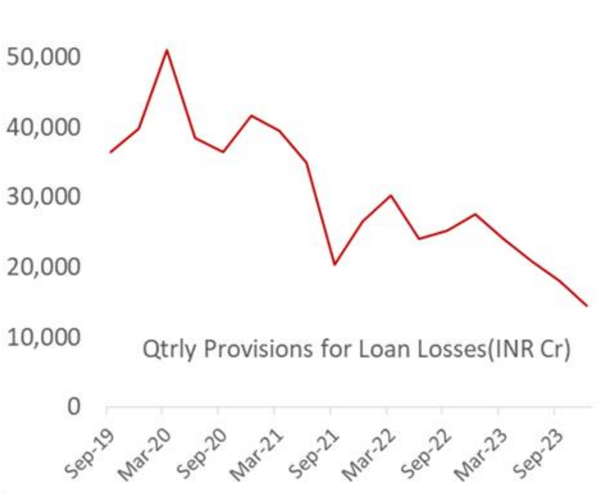
PSU Bank Gross and Net NPAs



Source: Company reports, data as of 12/31/2023

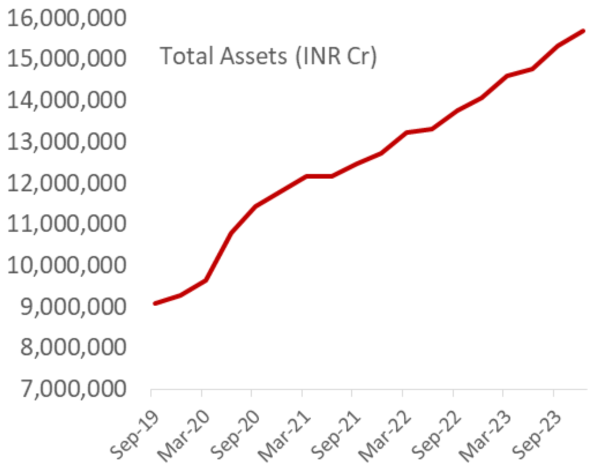
Net NPAs have declined from 5.9% in 2017 to 0.85% and are essentially at levels similar to private banks. Provisions have declined.

PSU Bank Provisions for Loan Losses Declining

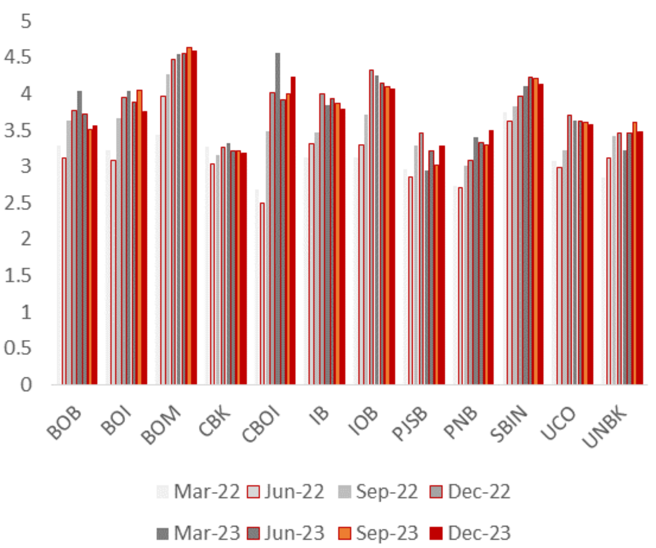


Source: Bloomberg, company financials.

While Asset Growth Has Been Strong



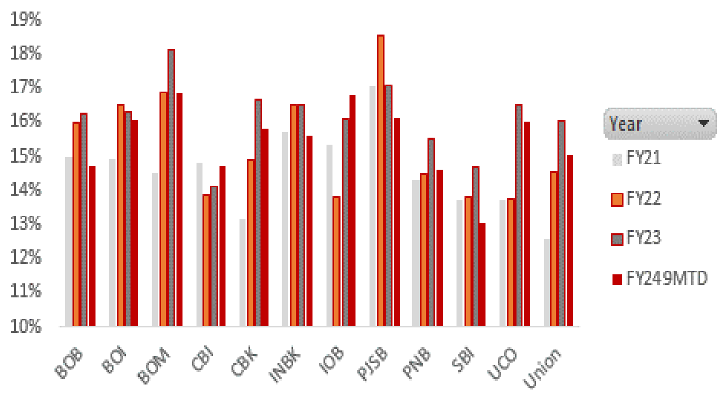
Spreads between Credit Cost to Yield on Advances Has Held Steady or Improved



Capital Adequacy Ratio is a percent of a bank's capital to its risk weighted assets and current liabilities. The aim is to prevent banks from taking on excess leverage, and ensuring banks have enough capital to redeem deposits.

Much like debt-to-equity in a manufacturing company, it is a measure of a bank's financial strength. In India, the Reserve Bank of India (RBI) mandates the CAR for scheduled commercial banks to be 9% and for public sector banks, 12%. All PSUs are maintaining healthy CARs, up substantially from 11.5% in March 2015.

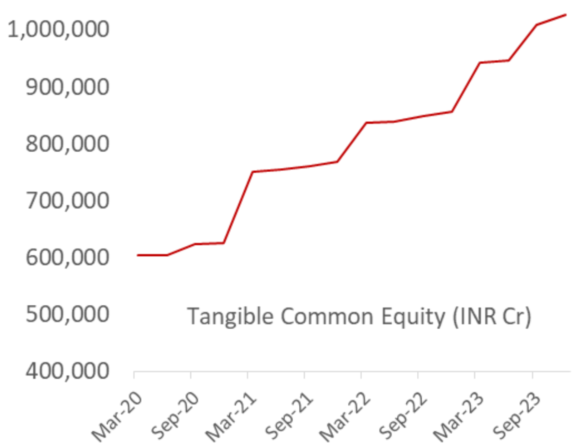
Capital Adequacy Ratios Healthy



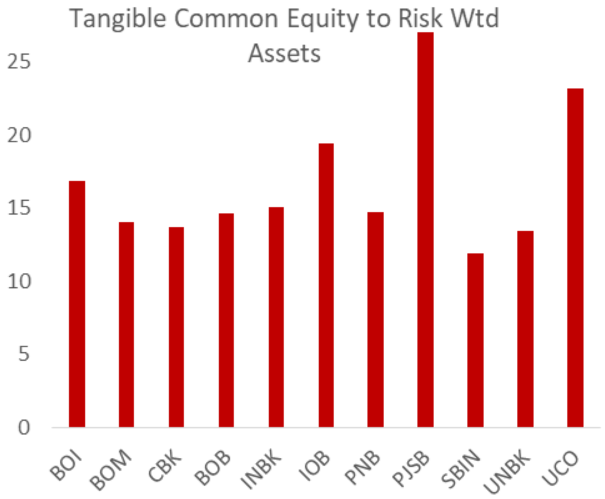
Banks earlier placed under Prompt Corrective Action (PCA) framework by the RBI, made significant improvement resulting in each one existing the PCA restrictions.

Across all metrics, PSU Banks have strengthened their balance sheets. Another key metric, tangible common equity – a measure of a bank's ability to deal with potential losses – has risen steadily, and TCE relative to risk weighted assets (RWA), is well above Basel norms.

Tangible Common Equity Has Been Rising Steadily



Tangible Common Equity to Risk Wtd Assets



Source: Bloomberg and company financials

In Dec 2023, the Finance Minister announced that the ED has restituted around INR 15k crore seized, back to public banks.

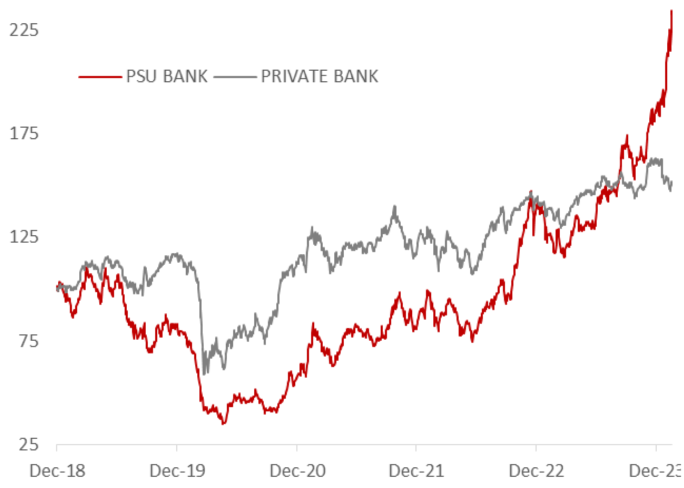
PSU banks financials are now largely in line or converging towards their private banking peers. Markets price at the margin, and financials, alongside strategic factors, go a long way in explaining why PSUs have delivered strong returns while private banks have generally languished in 2023.

A Paradigm Shifting Performance

In a stunning reversal, PSU banks ran roughshod on their private counterparts in 2023. Among the top banks in the private sector, HDFC Bank and Kotak have underperformed. Meanwhile PSU Banks have ranked consistently amongst the top 3 performing sectors of the market.

On the weekly chart, the PSU Bank index has broken out of its multi year falling trend line, indicating an end to a 12-year bearish trend.

The Tide Has Turned – PSU Banks Are Massively Outperforming Private Banks



Next we consider qualitative factors for investment, and whether this could be the start of a multi-year move.

FUNDAMENTAL FACTORS – PSU BANKS

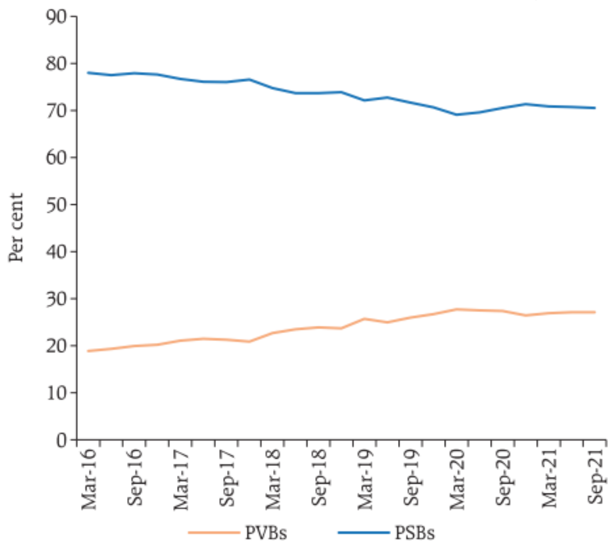
PSU Bank Inherent Advantages as Deposit Gatherers

In a tight liquidity environment, the competition for deposits has been getting progressively intense. PSUs with their government backed status, strong financial standing, present a safe, viable and attractive alternative to savers.

A Natural Partner for Government Investments

The government will boost infrastructure spending by 11% to 11.1 trillion rupees ($134 billion) in the coming fiscal year. The government's aggressive capex will continue to boost PSU loan book growth and offer significant opportunities for PSU banks to finance large-scale projects. Such opportunities are now being recognized on company calls. Public sector banks (PSUs) are a natural partner to the government. Capex-led loan disbursements are generally routed via PSUs lending money to the government for capital spending. PSU banks are well-positioned to benefit from the structural and natural growth of the economy.

Share in Infrastructure Lending



Source: RBI.

Inclusion in Global Indices: A Paradigm Shifter

The recent decision to include Indian bonds in global indices, such as JP Morgan and potential inclusion in Bloomberg indices, opens up new opportunities for PSU banks. PSU banks will garner global visibility, be in position to attract significant capital. Estimates for FI capital inflows range from $30 billion and upwards, starting in H2 CY24.

The introduction of the Fully Accessible Route (FAR) in 2020 also removes investment restrictions, making Indian government bonds more attractive to foreign investors.

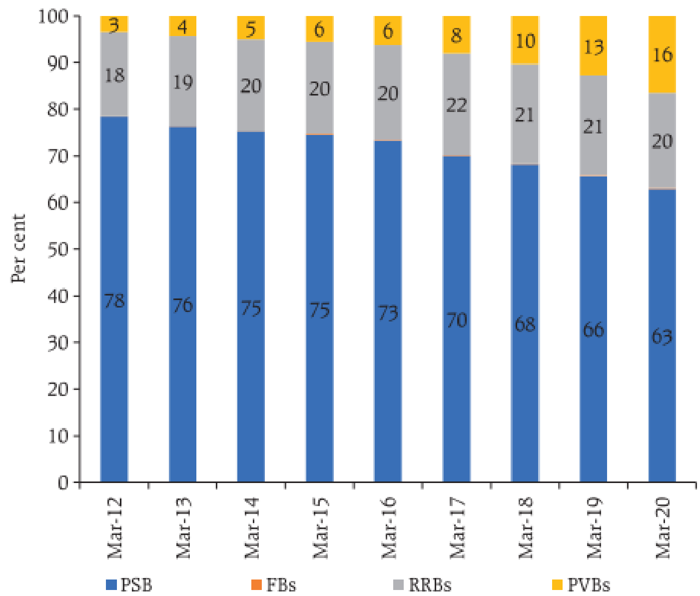
Fiscal Prudence Boost

Lowering the fiscal deficit and borrowing estimates will boost PSU bank earnings in coming quarters. PSU banks hold a higher proportion of government bonds compared with private banks. 10 Yr G-sec bond yields are expected to decline and that could provide a boost to PSU bank earnings.

A Key Player in Rural Growth

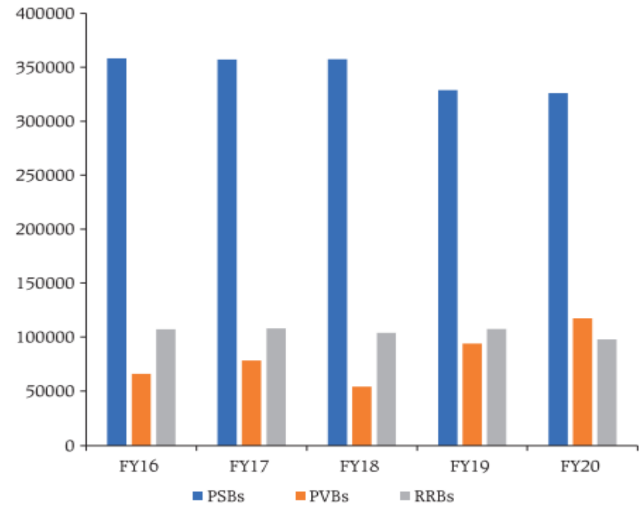
PSUs have played a key role in improving financial inclusion and making credit available to the bottom of the pyramid. A recent paper by the RBI makes the case that India's private sector banks have failed customers in rural and semi-urban areas, and customers here have depended on public sector banks for banking services. State-owned banks contribute to macroeconomic stability in developing economies, while private banks are opportunistic and pro-cyclical in comparison.

Share of Bank Groups in Rural Lending



Source: Quarterly statistics on Deposit and Credit of scheduled Commercial Banks, RBI.

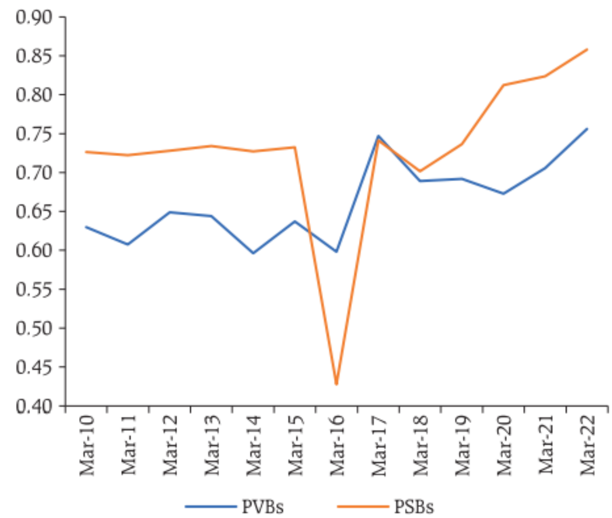
BC Outlets in Villages – Bank Group Wise



Source: Phukan *et. al* (2021).

Source: RBI Quarterly Statistics

Average Labour Cost Efficiency of Banks: PSBs vis-à-vis PVBs (At-end March)

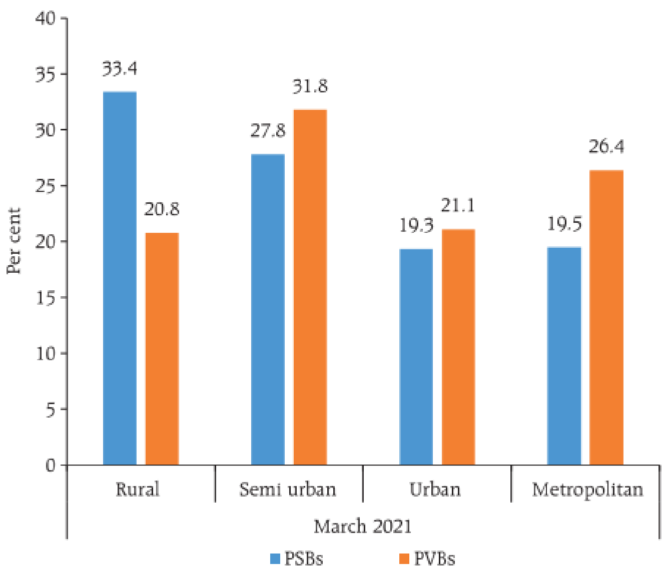


Source: Authors' calculation using RBI data.

Distribution Network & Reach

Public sector banks operate more rural branches than private banks. They meet the lion's share of credit demand in rural areas. Private banks have been timid in their attempt to make inroads into India's villages, mainly because of profitability considerations. PSU banks have more than double the number of ATMs in rural India. They also account for more than 60% business correspondent outlets in villages.

Chart 1a: Geographical Distribution of Branches (at end March 2021)



Source: RBI.

Table 1: Distribution of PMJDY beneficiaries at bank-group level

(Number of beneficiaries in crores)

Bank Type	Number of Beneficiaries at rural/ semi-urban centre bank branches	Number of Beneficiaries at urban metro centre bank branches	Number of Rural-Urban Female Beneficiaries	Number of Total Beneficiaries
Public Sector Banks	22.66	13.54	19.96	36.2
Regional Rural Banks	7.31	1.14	4.88	8.45
Private Sector Banks	0.7	0.6	0.71	1.3
Grand Total	**30.67**	**15.28**	**25.55**	**45.95**

Note: Data as on July 6, 2022

Source: Pradhan Mantri Jan Dhan Yojana, Government of India

Source: RBI Quarterly Statistics

Reduced Government Interference

The bad lending practices that prevailed over 2009-14 were responsible for the NPA crisis of 2016-21. The biggest reform is the reduced government interference in lending and increased government oversight on operations.

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A Strong Multi Year Credit Cycle

Demographics, solid corporate balance sheets, low debt, healthy household savings, rising urban wages, a real estate recovery, strong economic growth all suggest that the cycle is likely to continue for the next few years, albeit with cyclical downturns and volatility. Credit growth accelerated in 2023 to the highest in over a decade, despite tepid global growth. Retail has been a strong driver, particularly housing and autos, alongside leisure and travel to a lesser degree.

Robust margins led by strong loan book growth

Not only have PSU banks grown their loan books, but they've also improved margins in the past few quarters. These expanded margins are the result of a gradual rise in deposit rates, alongside a rapid change in lending rates. This widening spread propelled yields and margins. Improving margins have allowed banks to write off the provisions made for loans off the balance sheet, leading to strengthening financials and improved prospects for growth.

Building Retail Capabilities:

Prior to 2018, most PSU banks did not have capabilities to do retail lending or earn fee income not related to lending. PSUs are undertaking initiatives to improve their retail capabilities, and are increasingly leaning on tech solutions, e.g. Yono by SBI.

PSU Banks Now Competitive

One of the primary reasons a bank can offer a competitive rate on loans is a higher CASA ratio, which allows for a lower cost of funds and the ability to offer competitive rates on loans. PSU banks have caught up with private banks on CASA ratios. With credit backing from the government, PSU banks are arguably the safest options for depositors to consider, alongside a select handful of large private banks.

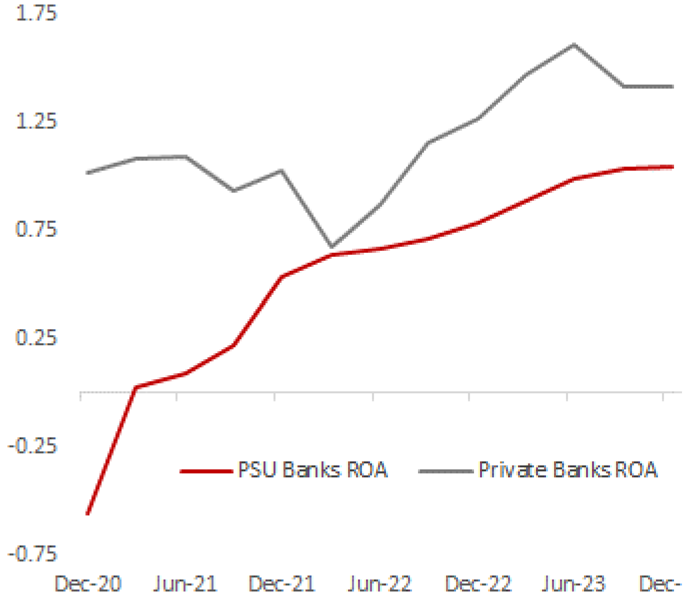
Private Banks Challenges

Meanwhile, private banks seem to have run into challenges that are impeding their growth and market performance. Transitions to a new CEO for one bank, disappointing performance, lack of clear strategic vision and execution for another, regulatory oversight for a third. Provisions have surged on AIF investments, as have operating expenses.

An Attractive Relative & Absolute Valuation Opportunity

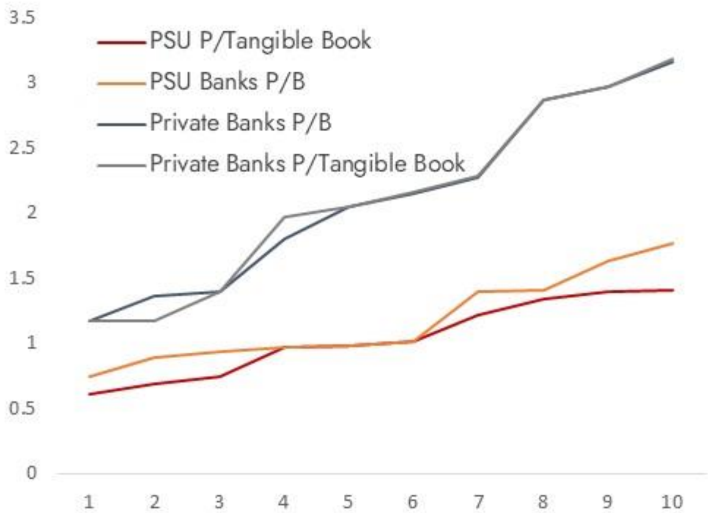
PSU banks trade at a substantial valuation discount to large private banks. The chart below highlights 10 PSU Banks P/B vs 10 largest private banks.

PSU Banks Are Consistently Narrowing the Gap vs Private Banks on Financial Metrics...



Note: Average ROAs for Top 10 PSUs and Private banks.

Despite This, a Large Valuation Spread Remains



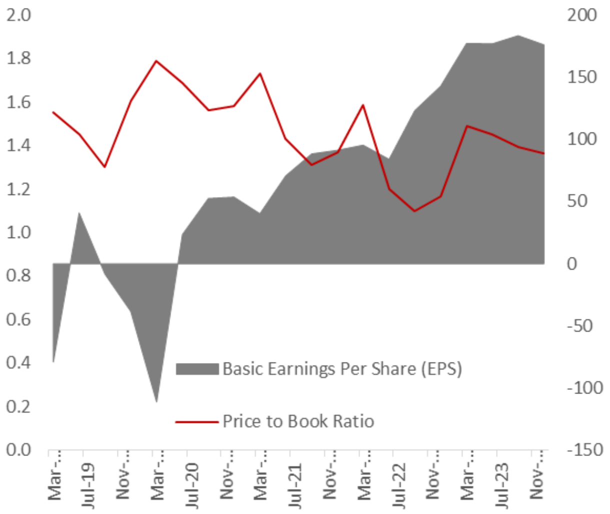
Source: Bloomberg, company financials.

Outlook for PSU Banks

We've listed key reasons why we believe a medium term paradigm shift is underway, and PSU banks are a low risk, high return opportunity over the medium to long term.

In the short term, we lack visibility on a tightening liquidity environment, the RBIs mandate increasing risk weights for riskier consumer credit, election uncertainty etc. However, the medium term story is robust, and we'd look to use sell-offs to add exposure, focusing on banks with strong and growing CASA franchises, slowing provisioning, strong top line and earnings.

It is Noteworthy that PSU Valuations Have Held Steady...Ergo, Earnings are Driving Performance



Long Runway Ahead

Low absolute valuations, a large valuation disparity versus private banks, and the market, alongside expected strong earnings growth and improving fundamentals form the basis of our positive outlook, alongside the qualitative factors listed earlier.

These banks have arisen out of the fire leaner and stronger. The 2 year forward expected CAGR is around 17-18%.

Should the thesis play out as expected, PSU Banks are positioned to be strong performers through the end of the decade. While short term volatility is a given, the long-term outlook for PSU banks looks promising. As India's economy continues to grow and evolve, these banks are poised to play a crucial role in the nation's financial buildout, infrastructure buildout, creating a compelling choice for investors with a horizon beyond the immediate.

Earnings & Valuation Update

Companies Deliver Healthy 14-20% Earnings in Q4 CY23

By and large, earnings delivery is coming through. Top line growth has been a bit sluggish, but profit growth has been strong, aided by the inflation challenged environment of a year ago. Nifty 50 sequential sales and profit trends are healthy as well. In the small and mid-cap space, many companies have delivered stellar profit growth, and the opportunities to own reasonably priced portfolios continue to be present. Valuations continue to stay reasonably close to fair value.

Earnings Growth for the Nifty 50, Nifty Mid Cap and Small Cap

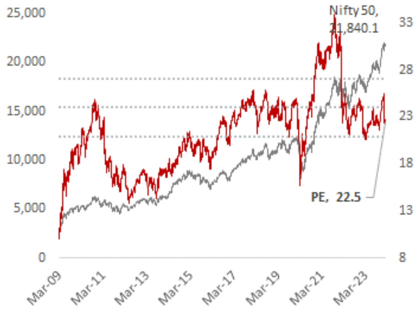
Nifty 50	Cap Wt %	Profit Contrib %	Sales YoY %	Operating Profits YoY%	Net Profits YoY%	Sales QoQ %	Operating Profits QoQ%	Net Profits QoQ%	Oper Margin	Net Margin
Communication Services	4.1%	1.7%	21.3%	9.6%	10.1%	2.3%	-0.4%	37.4%	52.3%	7.6%
Consumer Discretionary	10.3%	11.2%	21.3%	33.6%	50.5%	2.7%	11.4%	22.8%	14.8%	8.4%
Consumer Staples	9.7%	5.7%	2.2%	0.1%	-0.6%	-0.8%	2.1%	-0.6%	27.4%	20.4%
Energy	17.4%	25.9%	0.4%	9.5%	9.6%	5.4%	-4.4%	-17.1%	14.4%	7.9%
Financials	15.4%	20.0%	33.2%	41.1%	16.8%	12.2%	2.2%	2.1%	31.3%	16.1%
Health Care	4.9%	3.4%	10.4%	15.3%	19.6%	1.2%	1.6%	0.0%	25.4%	17.1%
Industrials	6.9%	4.7%	21.3%	33.2%	51.4%	12.7%	4.8%	30.9%	16.2%	8.6%
Information Technology	20.1%	15.8%	2.0%	-0.2%	-3.6%	1.5%	2.8%	0.7%	22.8%	15.1%
Materials	7.7%	5.8%	0.9%	32.7%	30.7%	-0.7%	-3.9%	253.5%	14.5%	4.4%
Utilities	3.6%	5.6%	21.3%	-5.2%	8.7%	-3.3%	3.0%	8.6%	39.6%	17.0%
Total	**100.0%**	**100.0%**	**7.6%**	**16.9%**	**14.2%**	**4.2%**	**0.5%**	**3.5%**	**19.9%**	**10.2%**

Note: Excludes HDFC and State Bank of India to improve YoY comparability.

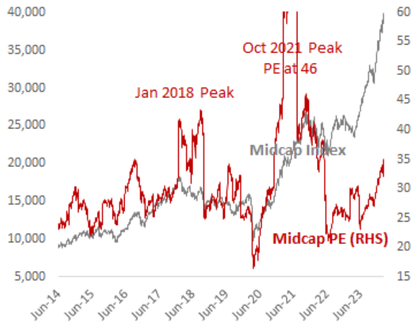
Nifty Midcap 150	Cap Wt %	Profit Contrib %	Sales YoY %	Operating Profits YoY%	Net Profits YoY%	Sales QoQ %	Operating Profits QoQ%	Net Profits QoQ%	Operating Margin	Net Margin
Communication Services	3.2%	-8.2%	5.9%	33.7%	-37.8%	0.6%	1.7%	-26.3%	37.4%	-18.5%
Consumer Discretionary	12.7%	8.1%	14.7%	26.7%	50.5%	1.8%	2.8%	19.0%	15.5%	8.8%
Consumer Staples	3.5%	1.2%	-0.3%	-2.6%	-17.5%	-1.3%	31.0%	3.0%	7.6%	5.1%
Energy	2.4%	7.6%	0.7%	0.7%	8.6%	17.2%	-1.4%	-38.1%	5.4%	3.3%
Financials	23.1%	47.3%	19.4%	32.0%	-2.6%	4.1%	6.0%	-4.5%	58.7%	13.9%
Health Care	10.1%	8.6%	16.1%	34.9%	66.0%	0.9%	20.6%	16.1%	22.2%	14.6%
Industrials	14.7%	8.1%	9.4%	21.5%	26.7%	3.6%	9.4%	19.8%	13.7%	8.4%
Information Technology	4.9%	3.6%	10.8%	18.3%	23.5%	5.0%	2.7%	23.8%	22.6%	16.1%
Materials	13.8%	13.5%	-4.7%	7.4%	3.1%	-7.6%	7.2%	-9.9%	17.4%	9.1%
Real Estate	4.4%	2.4%	7.5%	7.1%	-6.5%	10.5%	22.7%	-26.2%	33.9%	20.3%
Utilities	7.2%	7.7%	18.9%	47.6%	98.0%	-6.0%	32.3%	-56.4%	27.0%	14.6%
Total	**100.0%**	**100.0%**	**8.9%**	**27.4%**	**20.0%**	**3.6%**	**7.3%**	**-10.5%**	**28.5%**	**8.9%**

Nifty Smallcap 250	Cap Wt %	Profit Contrib %	Sales YoY %	Operating Profits YoY%	Net Profits YoY%	Sales QoQ %	Operating Profits QoQ%	Net Profits QoQ%	Operating Margin	Net Margin
Automobile and Auto Com	3.8%	3.3%	13.8%	20.8%	28.9%	-2.4%	10.5%	-9.1%	13.3%	6.1%
Capital Goods	13.1%	10.7%	12.4%	31.9%	47.0%	4.6%	22.0%	-18.9%	12.2%	7.5%
Chemicals	5.5%	5.1%	-26.3%	-43.6%	-52.0%	-9.5%	16.7%	-38.7%	9.0%	4.6%
Construction	5.2%	5.2%	20.2%	13.2%	23.3%	7.5%	-5.9%	22.7%	14.2%	6.6%
Construction Materials	1.4%	0.9%	0.8%	112.8%	1191.4%	-2.4%	-10.9%	8.0%	13.7%	3.0%
Consumer Durables	5.2%	2.5%	16.6%	6.7%	-2.7%	16.8%	-12.6%	13.0%	8.7%	4.6%
Consumer Services	4.6%	2.6%	12.5%	20.0%	6.5%	11.0%	3.8%	61.4%	20.7%	8.9%
Diversified	0.4%	0.8%	-6.2%	-19.7%	-29.7%	12.1%	-31.3%	645.9%	14.7%	7.9%
Fast Moving Consumer Goo	4.5%	5.1%	12.5%	19.0%	-0.2%	3.6%	12.9%	22.1%	13.1%	8.7%
Financial Services	26.6%	40.0%	25.8%	35.8%	35.7%	6.0%	6.1%	7.5%	61.0%	18.3%
Forest Materials	0.6%	1.0%	5.9%	-16.6%	-7.1%	8.2%	-27.2%	15.9%	18.3%	10.6%
Healthcare	8.4%	5.7%	9.1%	20.6%	29.5%	-0.5%	9.3%	1.4%	19.8%	10.2%
Information Technology	4.6%	3.2%	11.8%	40.6%	22.7%	7.5%	1.9%	-11.6%	15.9%	9.3%
Media Entertainment & Pu	1.3%	-0.2%	9.2%	-36.1%	-150.9%	-9.9%	27.4%	-211.0%	4.7%	-1.3%
Metals & Mining	2.0%	2.2%	4.2%	60.5%	61.7%	10.9%	-25.1%	-9.6%	18.2%	9.6%
Oil Gas & Consumable Fue	1.9%	4.0%	1.8%	13.0%	16.3%	10.2%	6.9%	-5.2%	19.5%	13.3%
Power	2.7%	2.3%	-5.5%	170.7%	205.7%	-15.3%	-8.9%	-63.2%	23.3%	10.0%
Realty	1.9%	1.1%	73.0%	85.8%	248.7%	6.0%	42.7%	27.3%	15.1%	9.3%
Services	2.6%	5.1%	6.0%	-9.3%	-3.1%	4.9%	-0.9%	2.1%	5.3%	4.0%
Telecommunication	2.4%	-1.0%	-5.7%	-34.3%	113.8%	-1.2%	8.5%	22.9%	9.3%	-7.1%
Textiles	1.2%	0.4%	-4.5%	30.7%	-537.8%	-3.7%	35.0%	-13.6%	9.8%	2.1%
Total	**100.0%**	**100.0%**	**7.3%**	**23.0%**	**18.3%**	**2.8%**	**5.6%**	**-4.0%**	**21.6%**	**8.6%**

Nifty 50 Trailing P/E is 22.5



Midcap P/E is 32.5 with an EPS 5 Yr CAGR of 19%



Source: Bloomberg

Investment Outlook

India Gaining Global Recognition

Bloomberg reports that the main U.S. ETF buying Indian stocks received record inflows in the final quarter of 2023, while the four largest China funds combined saw outflows of $800~ million. Active bond funds have put 50 cents to work in India for every dollar they pulled from China since 2022, according to EPFR. Five of the Japan India-focused mutual funds now feature among their top 20 by inflows. India's weight in the MSCI benchmark for developing-market equities is now an all-time high of 18%, as China's share has shrunk to lowest on record 24.8%.

The Next Growth Story

U.S. and developed world investors have been long time fans of the Chinese growth story, and till late, did not consider India big enough to warrant attention. That's changing. Investors are paying close attention to the contrasting trajectories of two of Asia's greatest powers. India is now being touted globally as the next China. Hedge funds are investing. Japan's traditionally conservative retail investors are embracing India and paring exposure to China.

Key Policy Successes

Much of India's recent success traces back to key policy decisions. One, restructuring the public banking system, as we've detailed this month, rather than bailing out and printing money. Two, focusing on infrastructure investments – physical and digital – layered on an exceptional ecosphere anchored by the India stack.

With per capita income at the lower end, India is set for multi-year expansion. India offers the right combination of ebullient growth as well as value and predictability viewed in relation to that growth.

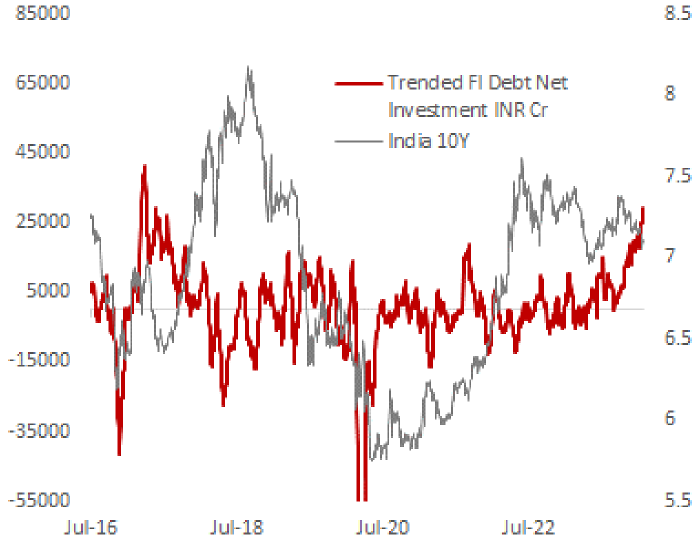
The bullish sentiment about India isn't new, but the standout performance and the growing size of the Indian economy is causing many to bet with India rather than against it.

Rising FI Flows into Indian Debt – A Potential Game Changer

Global funds are buying Indian debt at the fastest level since 2017. Global funds have purchased a net 13,000 crores in Indian debt this month. The implications of rising debt purchases are potentially significant. Should yields drop as a result of the billions of dollars of inflows, our models suggest an approximately 1.5 point rise in the fair value P/E for every 50 bps decline in yields.

Moreover, the declining cost of borrowing would improve margins for companies. Such a rise in fair value valuation would equate to a potential 1500 rise in fair value Nifty price. Combined with mid teens growth in earnings, that equates to continued healthy growth expectations.

Rising Flows into Debt by FIs



India's Investment Case Now Well Known

India's investment case is now well known: strong earnings, macro stability, demographics, domestic flows, structural reforms, Make in India, geo-political shifts, government investment, labor cost advantages, urbanization, move to organized, improving productivity and ease of doing business etc. Bullishness on India is now fashionable consensus, domestically and amongst institutional overseas investors.

Deficit Spending Tailwinds

U.S. deficit spending has offset much of the Fed tightening that might otherwise slow the economy into recession. Only twice in history has the annual deficit spending represented a larger percentage of GDP, during the great financial crisis and Covid-19 pandemic. The picture is much the same in India with high deficit spending as well.

Domestic Macro Remains Healthy

Domestic factors remain positive, with healthy earnings growth, strong structural reforms and government investments, a positive impetus for flows, and the expectation of political stability beyond 2024. We have no changes with respect to our equity allocations and remain over-weight.

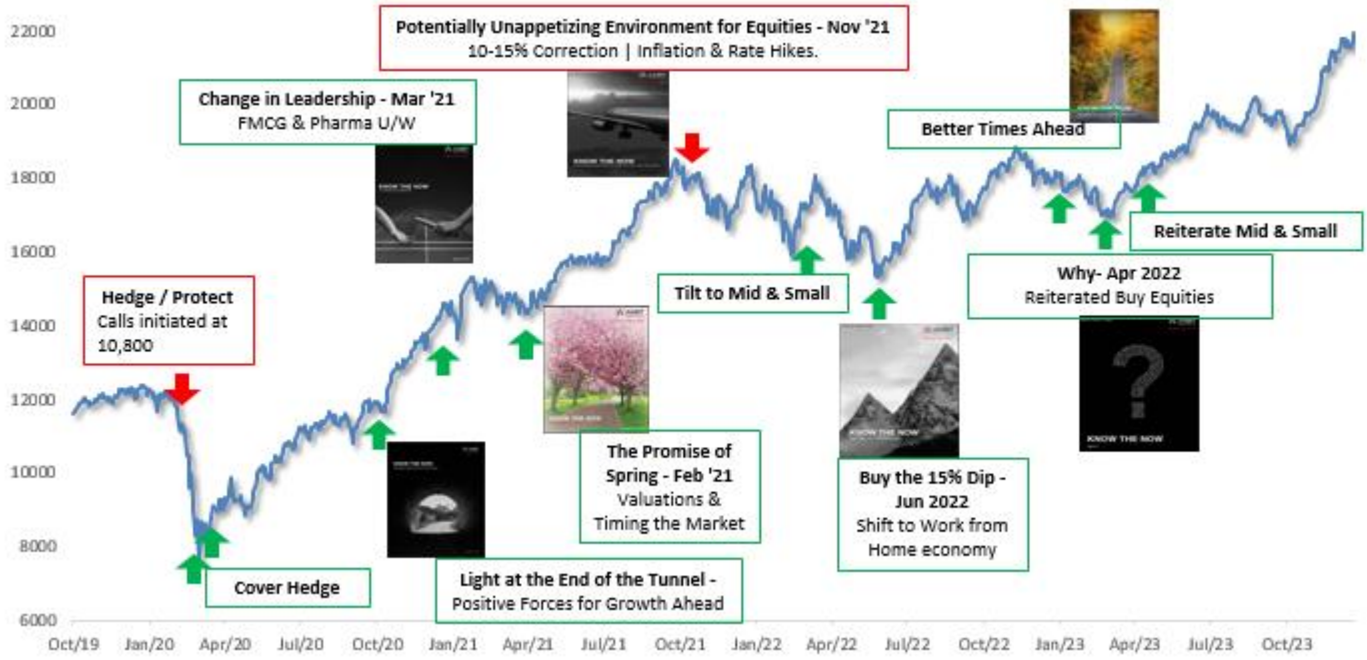
Stock, Sector & Manager Selection

Portfolios are comprised of individual companies. However, post a strong run-up, we don’t expect 2024 to be like 2023 - a rising tide lifts all boats kind of market. Stock, sector and manager selection will be key determinants of portfolio performance in 2024.

KEY CALLS FROM PAST COMMENTARIES

- Hedge in March 2020, Exited Hedge at the Bottom March 24, 2020
- Neutral Summer 2020
- Bullish Fall 2020 – Nov 2021
- Cautious Nov 2021 – Expected a 10-15% Correction
- Bullish in June 2022, Reiterated in April 2023 post the Regional Bank crisis
- Tilt to Mid & Small Caps in Apr 2022, Reiterated in May 2023

Know the Now - Equity View - Timeline



Equity Index Performance

19/02/2024	Price	5 Day %	1 Mo %	MTD %	3 Mo %	6 Mo %	QTD %	YTD %	1 YR %	% from 52 Wk Hi	% from 52 Wk Lo
Nifty 50	**22,122**	**2.3**	**2.3**	**1.8**	**12.1**	**14.6**	**1.8**	**1.8**	**23.3**	**-0.3%**	**31.5%**
Americas											
S&P 500 Index	5,006	-0.4	3.4	3.3	10.9	14.6	4.9	4.9	22.7	-0.8%	31.4%
Dow Jones Indus. Avg	38,628	-0.1	2.0	1.3	10.5	12.0	2.5	2.5	14.2	-0.8%	22.9%
Nasdaq Composite	15,776	-1.3	3.0	4.0	11.7	18.7	5.1	5.1	33.8	-1.9%	43.6%
Nyse Fang+ Index	9,791	-1.1	8.9	8.7	19.6	34.0	12.3	12.3	76.8	-1.9%	89.8%
Canada	21,256	1.2	1.7	1.1	5.4	7.3	1.4	1.4	3.6	-0.3%	13.7%
Mexico	57,132	-0.3	3.0	-0.4	8.4	7.4	-0.4	-0.4	6.2	-3.2%	19.6%
Brazil Bovespa	128,726	-0.9	0.9	0.8	3.2	11.5	-4.1	-4.1	17.9	-4.2%	32.7%
Europe											
Euro Stoxx 50 Pr	4,747	0.0	6.7	2.1	9.3	12.7	5.0	5.0	11.0	-0.8%	19.2%
FTSE 100	7,712	1.8	3.3	1.1	2.8	6.2	-0.3	-0.3	-3.7	-3.8%	7.0%
CAC 40 Paris	7,732	0.6	4.9	1.0	6.9	7.9	2.5	2.5	5.2	-0.9%	14.1%
DAX Germany	17,053	0.1	3.0	0.9	7.1	9.5	1.8	1.8	10.1	-0.8%	17.9%
Asia											
Nikkei 225	38,470	4.3	7.0	6.0	14.5	22.3	15.0	15.0	39.8	-1.0%	44.4%
Hang Seng	16,156	1.7	5.5	4.3	-7.4	-10.0	-5.2	-5.2	-22.0	-23.3%	9.2%
Shenzhen CSI 300	3,404	7.1	3.4	5.9	-5.8	-14.2	-0.8	-0.8	-17.6	-18.4%	9.5%
Australia	7,665	0.7	3.3	-0.2	8.7	7.2	1.0	1.0	4.3	-0.5%	13.5%
Taiwan	18,636	3.7	5.4	4.2	8.3	13.8	3.9	3.9	20.4	-0.5%	22.7%
Korea	2,680	2.3	8.4	7.3	8.5	7.0	0.9	0.9	9.3	-0.1%	17.9%
Straits Times Index STI	3,226	2.8	2.3	2.3	3.2	1.6	-0.4	-0.4	-3.1	-4.9%	6.1%
Vietnam Ho Chi Minh	1,225	3.3	3.7	5.2	11.2	4.0	8.4	8.4	15.6	-2.4%	20.9%
Jakarta Indonesia	7,297	0.9	1.0	1.2	4.6	6.4	0.3	0.3	5.8	-1.4%	11.5%
Phillipines	6,799	-0.1	4.5	2.3	9.4	8.1	5.4	5.4	0.3	-1.9%	14.8%

Leadership Stocks – U.S. & India

19/02/2024	Price	5 Day %	1 Mo %	MTD %	3 Mo %	6 Mo %	QTD %	YTD %	1 YR %	% from 52 Wk Hi	% from 52 Wk Lo
Nifty 50	**22,122**	**2.3**	**2.3**	**1.8**	**12.1**	**14.6**	**1.8**	**1.8**	**23.3**	-0.3%	31.5%
Microsoft Corp	404	-3.9	1.4	1.6	9.2	27.7	7.5	7.5	56.6	-4.0%	64.5%
Meta Platforms Inc-Class A	473	1.1	23.4	21.3	41.3	67.1	33.7	33.7	173.8	-3.1%	182.3%
Apple Inc	182	-3.5	-4.8	-1.1	-3.9	4.5	-5.3	-5.3	19.5	-8.7%	26.7%
Walt Disney Co/The	112	3.0	19.9	16.2	18.5	29.8	23.6	23.6	6.1	-1.2%	41.7%
Amazon.Com Inc	170	-2.8	9.1	9.2	16.8	27.2	11.6	11.6	74.4	-3.4%	92.4%
Netflix Inc	584	4.0	20.9	3.5	25.3	44.4	19.9	19.9	67.8	-2.2%	104.7%
Alphabet Inc-Cl A	141	-5.7	-4.0	0.3	3.9	10.2	0.6	0.6	48.9	-8.6%	58.6%
Hdfc Bank Limited	1,417	1.9	-3.6	-3.1	-5.8	-10.9	-17.1	-17.1	-14.4	-19.4%	3.9%
Icici Bank Ltd	1,044	4.8	4.5	1.5	13.2	9.8	4.7	4.7	21.0	-1.5%	28.8%
Tata Consultancy Svcs Ltd	4,104	-0.4	4.1	7.5	17.7	22.4	8.7	8.7	17.8	-1.9%	34.3%
Bajaj Finance Ltd	6,713	2.2	-8.3	-2.2	-7.0	-2.2	-8.4	-8.4	4.6	-18.1%	22.4%
Hindustan Unilever Ltd	2,387	0.1	-6.9	-3.8	-5.6	-6.6	-10.4	-10.4	-5.1	-13.8%	1.7%
Nestle India Ltd	2,513	2.2	-0.0	0.3	3.1	15.1	-5.4	-5.4	32.1	-9.2%	40.6%
Titan Co Ltd	3,695	3.1	-3.0	-0.1	10.7	21.1	0.5	0.5	47.8	-4.9%	59.2%
Asian Paints Ltd	2,998	1.5	-5.3	1.4	-5.4	-5.2	-11.9	-11.9	5.8	-16.0%	11.0%
Srf Ltd	2,347	2.6	1.6	0.9	-0.6	3.0	-5.3	-5.3	1.2	-11.0%	15.1%
Central Depository Services	1,842	-0.5	1.1	3.7	3.5	60.8	0.9	0.9	82.8	-10.9%	109.0%

Large, Mid & Small

19/02/2024	Price	5 Day %	1 Mo %	MTD %	3 Mo %	6 Mo %	QTD %	YTD %	1 YR %	% from 52 Wk Hi	% from 52 Wk Lo
India Indices											
Nifty 50	**22,122**	**2.3**	**2.3**	**1.8**	**12.1**	**14.6**	**1.8**	**1.8**	**23.3**	**-0.3%**	**31.5%**
Sensex	72,708	2.3	1.4	1.3	10.5	11.9	0.6	0.6	19.2	-1.0%	27.4%
Nifty 500	20,241	2.9	3.2	2.2	15.0	20.8	4.2	4.2	34.9	-0.3%	42.8%
NIFTY Midcap 100	49,311	3.4	3.1	1.5	17.9	30.4	6.8	6.8	60.9	-0.9%	68.9%
NIFTY Smallcap 100	16,258	4.1	5.0	1.4	17.1	39.2	7.4	7.4	72.6	-2.6%	87.3%

AMBIT
Acumen at work
Global Private Client

Nifty Sectors

19/02/2024	Price	5 Day %	1 Mo %	MTD %	3 Mo %	6 Mo %	QTD %	YTD %	1 YR %	% from 52 Wk Hi	% from 52 Wk Lo
Nifty Sectors											
Nifty Auto	20,482	5.5	9.6	6.5	21.2	33.1	10.0	10.0	55.9	-0.3%	72.1%
Nifty Bank	46,536	3.7	1.8	1.2	6.8	6.1	-3.6	-3.6	13.1	-4.3%	20.5%
NIFTY Private Bank	23,297	3.4	-1.0	-1.3	2.6	3.0	-6.3	-6.3	11.0	-6.9%	18.9%
Nifty Financial Services	20,549	3.2	0.6	0.3	5.1	5.5	-4.4	-4.4	11.5	-5.0%	19.0%
Nifty India Consumption	9,889	3.0	2.6	2.7	12.9	20.3	3.2	3.2	34.6	-0.2%	40.5%
Nifty FMCG	53,943	1.2	-4.8	-2.0	2.3	4.8	-5.3	-5.3	18.3	-6.9%	21.5%
Nifty Energy	39,805	4.5	13.8	8.3	40.6	51.3	18.9	18.9	77.2	-1.0%	84.0%
Nifty Infrastructure	8,112	3.0	5.8	3.2	26.2	35.8	11.1	11.1	57.2	-0.3%	63.3%
Nifty IT	38,363	1.0	3.5	4.7	19.2	25.4	8.0	8.0	23.5	-0.5%	46.5%
Nifty Metal	7,981	1.0	3.2	0.1	17.3	22.9	0.0	0.0	37.4	-4.4%	53.2%
Nifty Pharma	19,038	2.0	9.5	6.1	20.5	24.7	13.1	13.1	56.6	-0.2%	64.9%
Nifty PSU Bank	7,101	7.0	19.4	13.2	40.2	54.2	24.3	24.3	86.3	-2.5%	101.2%
Nifty Realty	877	3.2	1.0	2.4	26.6	65.4	12.0	12.0	117.2	-2.0%	136.6%
Nifty Sectors & Themes											
Nifty Media	2,174	3.8	-8.3	1.1	-4.5	-3.5	-9.0	-9.0	18.8	-13.4%	32.8%
Nifty CPSE	5,850	7.3	14.6	8.1	41.0	70.4	20.4	20.4	103.9	-1.4%	106.9%
Nifty PSE	9,411	6.7	13.2	8.5	45.2	75.2	19.8	19.8	112.8	-1.6%	117.2%
Nifty Commodities	8,323	3.2	7.6	4.4	25.3	34.6	7.9	7.9	47.8	-0.8%	55.5%
Nifty MNC	24,957	3.1	3.3	2.7	11.3	15.1	3.1	3.1	28.1	-0.2%	33.8%

Crude Oil, Commodities and Precious Metals

19/02/2024	Price	5 Day %	1 Mo %	MTD %	3 Mo %	6 Mo %	QTD %	YTD %	1 YR %	% from 52 Wk Hi	% from 52 Wk Lo
Nifty 50	**22,122**	**2.3**	**2.3**	**1.8**	**12.1**	**14.6**	**1.8**	**1.8**	**23.3**	**-0.3%**	**31.5%**
Gold U.S. & India											
Gold Spot $/Oz	2,019	-0.1	-0.5	-1.0	2.1	6.5	-2.1	-2.1	9.6	-5.5%	11.9%
Gold India	61,828	-0.3	-0.5	-1.2	3.0	6.2	-1.8	-1.8	10.6	-2.5%	12.6%
Platinum Spot $/Oz	911.5	2.1	0.9	-1.2	-1.3	-0.4	-8.1	-8.1	-1.9	-19.7%	8.1%
Crude											
Brent Crude	82.7	0.8	5.3	1.2	2.6	-2.5	7.3	7.3	-0.4	-15.4%	17.9%
WTI Crude	78.9	2.5	7.4	4.0	3.9	-2.9	10.1	10.1	3.3	-17.0%	23.9%
Metals											
LME Copper	8,409.2	4.3	1.7	-1.1	3.5	3.6	-0.6	-0.6	-6.5	-8.4%	7.9%
LME Aluminum	2,198.6	0.6	1.7	-1.9	1.0	4.9	-6.3	-6.3	-6.6	-9.7%	6.7%
LME Nickel	16,112.8	2.8	1.3	0.6	-4.0	-17.5	-1.6	-1.6	-38.7	-39.4%	3.2%
LME Zinc	2,357.3	3.3	-6.7	-6.4	-8.3	3.4	-10.7	-10.7	-22.2	-25.6%	6.1%
LME Lead	2,073.5	1.5	-0.2	-4.3	-9.3	-2.3	1.9	1.9	2.8	-10.4%	4.6%
LME Tin	26,778.0	2.4	7.5	2.9	7.3	8.2	6.4	6.4	-0.1	-9.2%	23.1%
Commodities											
Lumber	8,409.2	4.3	1.7	-1.1	3.5	3.6	-0.6	-0.6	-6.5	-8.4%	7.9%
Palm Oil	3,963.0	1.1	0.0	3.9	4.0	2.8	8.2	8.2	-3.2	-8.9%	22.6%
BBG Cmdty ex-Prec Mtl	85.7	-1.0	-0.7	-2.6	-6.9	-10.3	-2.2	-2.2	-12.6	-14.5%	1.1%
CRB Metals Index	1,011.4	1.5	-0.3	-1.9	1.2	3.9	-2.0	-2.0	-7.1	-11.3%	4.2%
Bloomberg Commodity Index	96.3	-0.7	-0.6	-2.3	-5.6	-7.7	-2.4	-2.4	-9.6	-11.6%	1.1%
CRB Commodities Index	522.6	0.3	3.2	0.2	-2.0	-5.0	2.4	2.4	-5.5	-8.1%	3.6%
Wheat	560.5	-6.1	-3.7	-5.8	1.3	-6.2	-10.7	-10.7	-26.7	-27.9%	6.3%
CRB Raw Industrials Index	545.9	0.9	1.3	0.5	0.7	-1.0	0.4	0.4	-3.7	-4.4%	2.0%
Commodities											
Bloomberg Grains Spot	228.01	-2.6	-4.2	-5.0	-10.2	-14.5	-9.9	-9.9	-30.2	-30.4%	0.0%
Raw Sugar	23.08	-3.9	2.5	-4.4	-15.1	-4.6	12.1	12.1	7.6	-18.0%	15.2%
Simex Iron Ore	128.45	-0.2	-4.1	-4.9	-0.7	19.8	-5.8	-5.8	2.3	-14.3%	30.6%

Interest Rates and Inflation

19/02/2024	Price	5 Day %	1 Mo %	MTD %	3 Mo %	6 Mo %	QTD %	YTD %	1 YR %	% from 52 Wk Hi	% from 52 Wk Lo
India G-Sec Yields											
10 Year India G-Sec	7.10	7.11	7.15	7.14	7.24	7.21	7.17	7.17	7.32	-0.35	0.16
5 Year India G-Sec	7.09	7.10	7.07	7.08	7.20	7.19	7.13	7.13	7.30	-5.0%	3.4%
3 Year India G-Sec	7.07	7.07	7.02	7.03	7.21	7.19	7.08	7.08	7.13	-4.8%	4.1%
1 Year India G-Sec	7.09	7.08	7.08	7.08	6.83	7.38	7.09	6.72	6.30	-4.0%	4.8%
3 Month India G-Sec	7.03	7.00	6.93	7.02	6.92	6.78	7.00	7.00	6.74	-1.3%	5.4%
Repo Rate India	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25		
India CPI											
India CPI Combined YoY	5.10		5.69	5.10	4.87	7.44	5.69	5.69	6.52	-2.34	0.79
India WPI	0.27		0.7	0.3	-0.3	-1.2	0.7	0.7	4.8	-93.0%	-106.5%
India Core CPI	3.79		4.1	3.8	4.5	5.3	4.1	4.1	6.5	-42.0%	0.0%
U.S. & China Yields & CPI											
U.S. 10 Year	4.28	4.18	4.12	3.91	4.44	4.25	3.88	3.88	3.81	-0.74	1.03
U.S. 5 Year	4.27	4.14	4.05	3.84	4.44	4.39	3.85	3.85	4.03	-0.72	1.07
U.S. 2 Year	4.64	4.47	4.38	4.21	4.89	4.94	4.25	4.25	4.62	-0.62	1.09
U.S. 1 Year	4.71	4.88	4.86	4.72	5.24	5.34	4.77	4.77	4.99	-0.79	0.65
U.S. 3 MO T-BILL	5.22	5.39	5.35	5.37	5.39	5.44	5.34	5.34	4.80	-0.30	0.82
Spread 10-2	-0.36	-0.29	-0.26	-0.29	-0.45	-0.69	-0.37	-0.37	-0.80		
Spread 5-1	-0.43	-0.74	-0.81	-0.88	-0.80	-0.96	-0.93	-0.93	-0.96		
U.S. CPI	3.10		3.40	3.10	3.20	3.20	3.40	3.40	6.40	-48.3%	3.3%
China CPI	-0.80		-0.3	-0.8	-0.2	-0.3	-0.3	-0.3	2.1	-180.0%	0.0%
Inflation Expectations 10 Year US	2.20		2.2	2.2	2.2	2.2	2.2	2.2	2.2	-7.6%	0.1%
U.S. Dollar & INR											
USD INR	83.0	83.0	83.1	83.0	83.2	83.0	83.2	83.2	82.7	-0.6%	1.7%
Dollar Index	104.2	104.2	103.3	103.3	103.9	103.4	101.3	101.3	103.9	-2.9%	4.7%

Tactical Asset Class Rationale

Equities	Weight	Rationale
India Equities	Over Weight & Stagger	Outlined in the commentary, we continue to remain moderately over-weight equities and prefer staggered deployments into equities. Due to high valuations of many large caps and earnings growth / revisions trends, we continue prefer a higher over-weight exposure to mid and small caps.
India Hedge Funds	Marginal Over Weight	Hedged portfolios provide an attractive complement to equity portfolios, providing a diversifying non-correlated asset class that enhances risk adjusted return, while holding the opportunity to provide equity-like returns with debt-like risk. Typically, rising volatility is a constructive environment for hedge fund managers; however, we have not witnessed it translate to alpha for fund managers.
Long Short (Absolute Return)	Marginal Over Weight	Long short funds that have consistently delivered post-tax 8% returns are a worthy consideration for portfolios. Due to the sharp rally, and the upcoming elections, the environment is favourable for L/S strategies. We remain marginally over weight here.
U.S. Equities	Market Weight	Indian HNI portfolios are dramatically underweight U.S. equities. Diversification provides strong portfolio optimization benefits. U.S. equities have dramatic barriers to entry and global leadership. We recommend a staggered accumulation approach.
Emerging Market Equities	Market Weight	The Japanese economy is witnessing a surprising uptick after many years. China concerns remain around real estate and debt. Other emerging markets are valued reasonably and showing growth, but India remains a standout outperformer.
Europe Equities	Under Weight	Growth in India, emerging markets is likely to outpace European growth and therefore find limited triggers to gain exposure to European equities.
Fixed Income	**Weight**	**Rationale**
Duration	Positive	Baring geopolitical shocks led spike in commodity prices leading to higher inflation, duration looks attractive. Current domestic macros offer a good risk reward opportunity and it is advisable to take advantage of same. Locking in long duration yields will enable investors to position their portfolios for capital gains that will be visible once rate action starts. Investors are advised to consider their appetite to digest intermittent mtm volatility and basis that do allocation.
Accrual	Selectively Positive	Accrual space offers good opportunity to lock in yields. Investors will enjoy good returns based on their ability to lock in spreads in quality papers available currently. Dual advantage of constant high spread and roll down will result in good returns. The near and belly of the curve offers good options for investors.
Credit Risk	Selectively Positive	Rich pickings are available in credit space of lesser understood / lesser known issuers and they offer attractive risk reward opportunities for risk savvy investors. Post RBI change in norms for NBFCs, spread widening for certain subsectors is likely. While there could be higher returns, they will come with higher risks too and investors are cautioned to be mindful of same while taking advantage of richer pickings available.
REITs	Selectively Over Weight	Real estate investment trusts (REITs) lagged in 2020 and 2021 due to the impact of Covid on retail and urban office space. However, REITs recovered in 2022. During an uncertain and inflationary environment, REITs offer an attractive inflation hedge that provides exposure to fixed assets. We recommend exposure be considered only with strong due diligence on a case by case bottom up basis.
InvITs	Over Weight	Infrastructure Investment trusts offer an attractive opportunity to invest in diversified portfolio of assets generating an attractive yield through regular income distribution
Alternate	**Weight**	**Rationale**
Private Unlisted	Selectively Positive	We are selectively positive and expect significant value and wealth creation in the unlisted space in India primarily led by Technology, Financial and New Age Consumption companies. Our Direct Deal Thesis focuses on late stage companies with significant market share & profitability and our Manager Selection in early stage investments focuses on fund managers with established track record across cycles.
Gold	**Weight**	**Rationale**
Gold	Under Weight	Given the recent run up in Gold prices and attractive opportunities available in equities and fixed income, and where we are in the business cycle, we recommend an under-weight position in Gold.

Ambit Global Private Client - Asset Allocation & Investment Committee

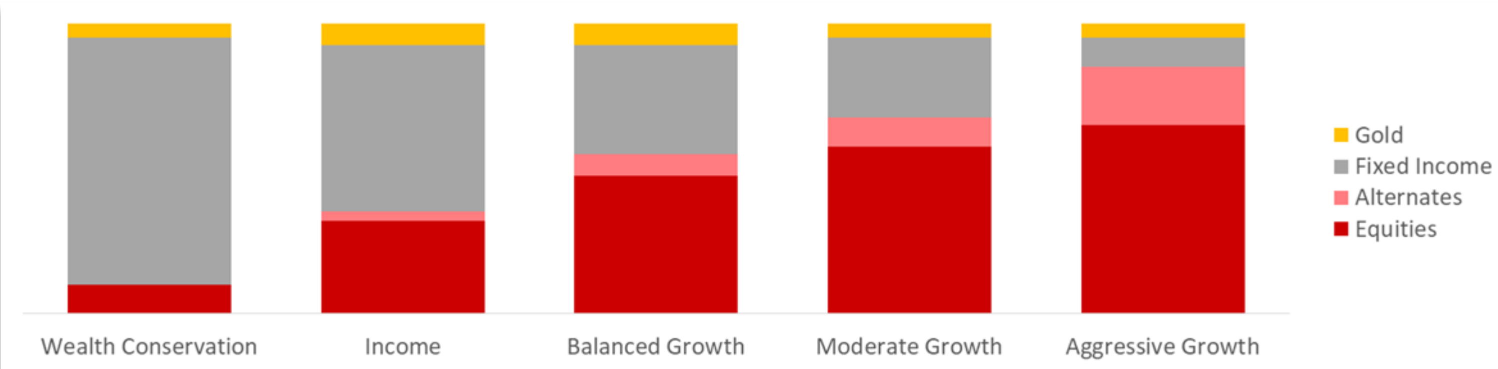
The Ambit GPC Asset Allocation & Investment Committee (AAIC) is a group comprised of the CEO, Head of Products and Alternates, Chief Investment Strategist and Head of Fixed Income (listed below). The team has over 100 years of collective investment experience in markets. The AAIC meets monthly and as necessary during periods of market volatility to discuss the economy and markets. The committee determines the investment outlook that guides our advice to clients. The AAIC continually monitors developing economic and market conditions, reviews tactical outlooks and recommends asset allocation model changes, as well as analysis, investment commentary, portfolio recommendations and reports.

Tactical Allocation Weights Vs Strategic

Asset Class Pairs	Scale											View
	-5	-4	-3	-2	-1	0	1	2	3	4	5	
Equities												Over-Weight
India Equities – Large												Over-Weight
India Equities – Mid & Small												Over-Weight
U.S Equities												Market-Weight
International ex-U.S.												Under-Weight
Long Short												Over-Weight
Hedge Funds												Over-Weight
Fixed Income												Positive
Duration												Positive
Accrual												Selectively Positive
Credit Risk												Selectively Positive
InvITs												Over-Weight
REITs												Over-Weight
Alternates												Neutral-Weight
Private Unlisted												Selectively Positive
Gold												Under-Weight

Wealth Profiles - Summary

Strategic Asset Class Weights by Profile



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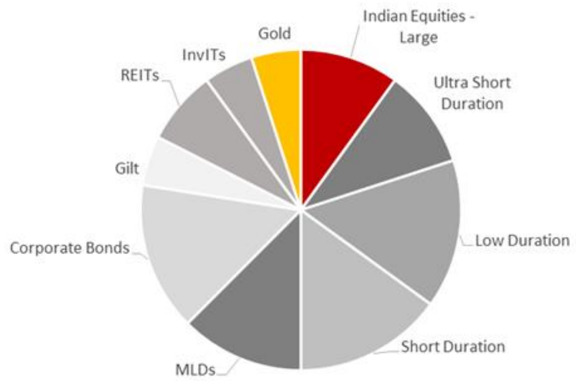
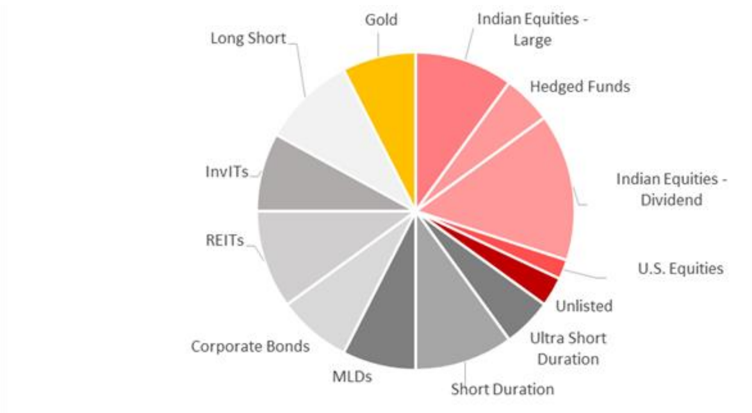
Ambit GPC Wealth Profiles - Strategic Weights

The Ambit GPC Asset Allocation & Investment Committee (AAIC) provide guidance on asset allocation via our wealth profile models below. The models are listed on a scale of rising return and rising risk and represent the most common investor profiles that we base our portfolio construction around.

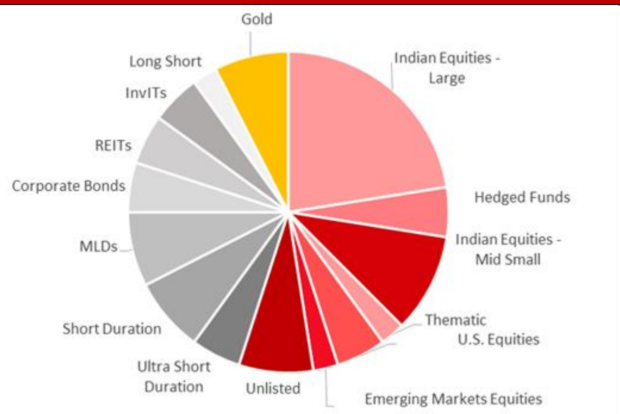
Wealth Conservation



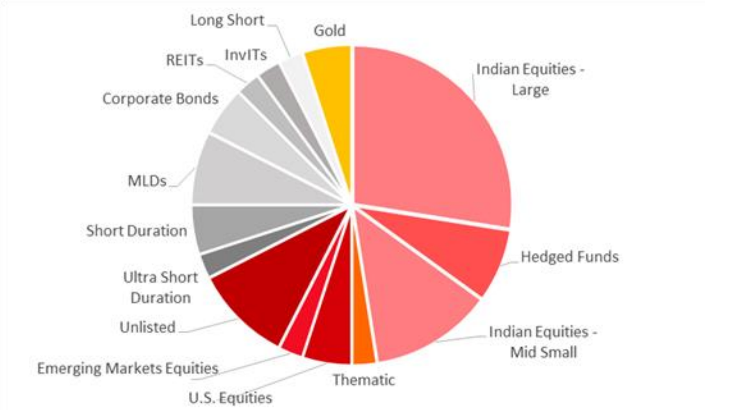
Income



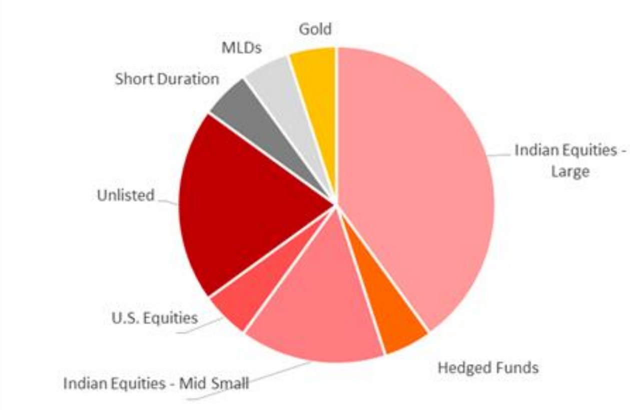
Balanced Growth



Moderate Growth



Aggressive Growth



Ambit Global Private Client – Asset Allocation & Investment Committee

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Sources: All sources unless otherwise noted are Bloomberg, NSE.