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Top of Mind

Right Lensing The Market

July 25, 2022

RIGHT LENSING THE MARKET

Executive summary

In one of our previous reports *"Best of times & Worst of times"* in 2019, we highlighted interesting flywheel building up in the Indian economy with capital markets lagging the economic pick-up – we believe it is good time to revisit the thesis which is delayed (due to Covid -19) but one could argue is slowly but surely picking up now.

In volatile times, investors are conflicted between choosing minimising risks and timing the markets in the short term vs. building a long term high growth portfolio by investing through the cycle. Being too conservative could lead to amiss investing in great long term trends and businesses at reasonable valuations and investing too early in the correction could lead to immediate losses in the portfolio – This essentially brings us to how one can **Right lens the market** in such times? And investment strategies which could help one balance risks in the short term and optimize returns in the long term.

We would also like to put on an extra-long lens to look at some long term trends which could span over a decade and have profound impact on the markets, world economies and humanity at large.

This decade could witness events which could be tectonic in terms of changing world order and such changes seldom happen without profound impact on capital markets*. The other key trend is climate change - Morgan Housel in his book "psychology of money" describes how a minor degree change in earth axis creates ice ages and now since advent of industrial age we increased global temperature by **1.5 C & consuming 1.6x of sustainable earth resources** potentially leading to frequent occurrences of calamities, virus outbreaks and soil degradation.

This makes one wonder how long we can afford to ignore consequences of irreversible impacts of climate change and not make Net Zero Carbon (NZC) an economic necessity. Both the trends if happen could throw up potential investment opportunities which could be compelling over the long-term.

*****(*Changing World Order by Ray Dalio*)

RIGHT LENSING THE MARKET

Short cycle

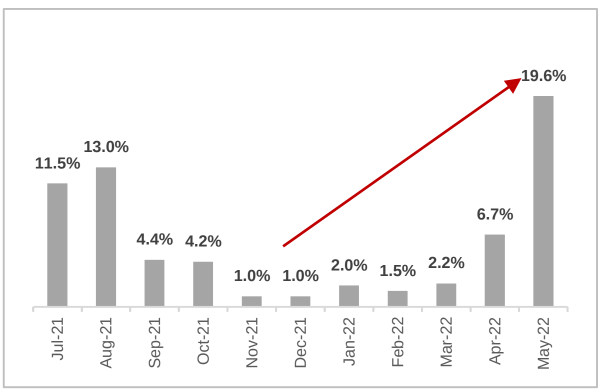
The year started with a vibrant economic cycle with corporates looking at a strong rebound in earnings, robust consumer demand and technology led innovation permeating all facets of our lives. However beneath the strong economic outlook there lay a vulnerable global monetary system which was leveraged in times of the pandemic crisis to pump prime the economies. This became the proverbial Achilles heel and all it needed was a push which came in the form of Ukraine-Russia war.

In the short cycle we will be looking at the indicators which could give a perspective to current economic environment right from the Monetary Policy, Inflation construct (Cyclical vs Structural), Money Supply, Global Debt Stock, Commodity prices, Un-employment rate, Fund Flows and some high frequency indicators.

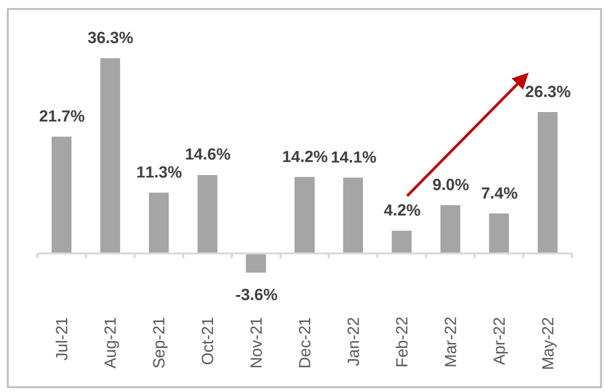
Select high frequency indicators improved in Q1 2022, although overall exhibiting mixed trends

Select Industrial metrics YoY showing some resilience

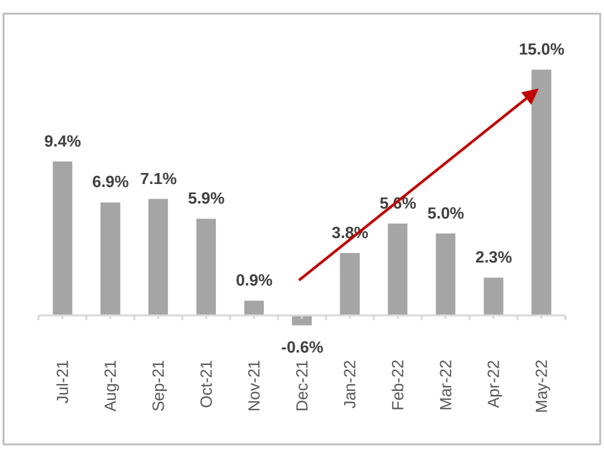
India's IIP YoY grew post Jan 2022



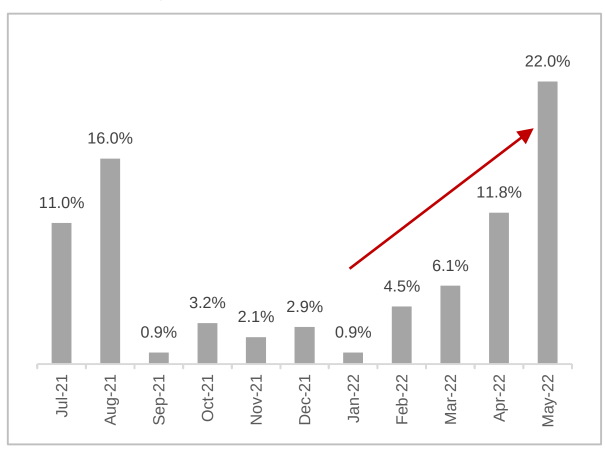
India's Cement production continues to grow



Steel Production recovered in May'22 post fall from Feb'22



Electricity consumption growth contributing to overall IIP growth



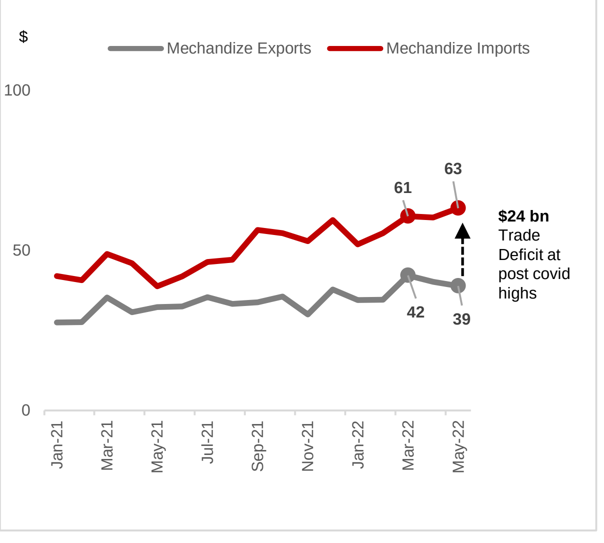
Source: Bloomberg, CEIC

RIGHT LENSING THE MARKET

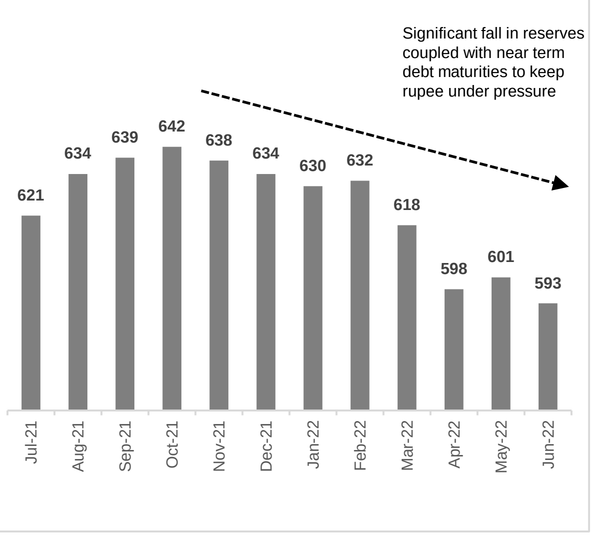
Short cycle

Merchandize trade (US$ Bn) gap increased and investment grew over the previous months

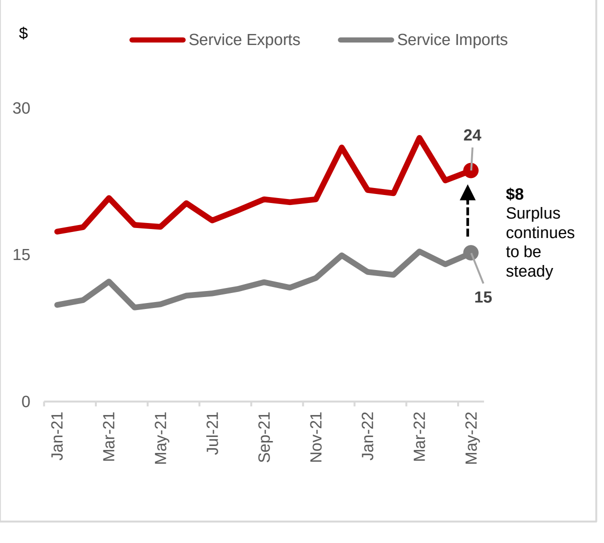
Merchandize trade gap growing constantly



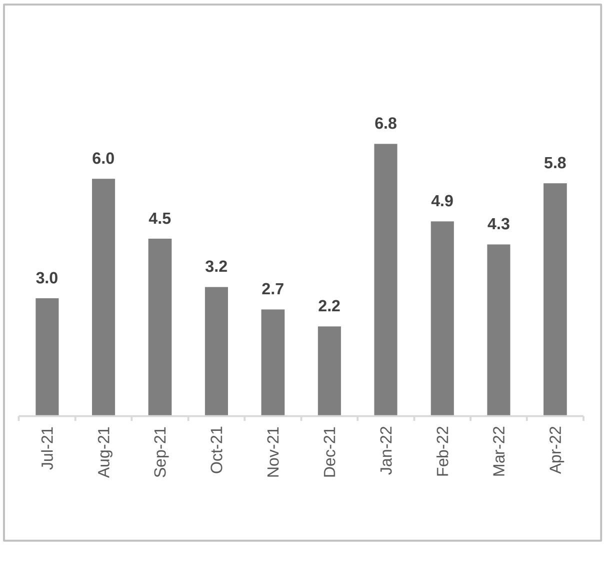
Forex Reserves falling since Mar'22 to save INR fall



Services trade surplus…but marginally



Investments via Foreign Route remains volatile on back of global inflationary cycle



Source: Bloomberg, CEIC.

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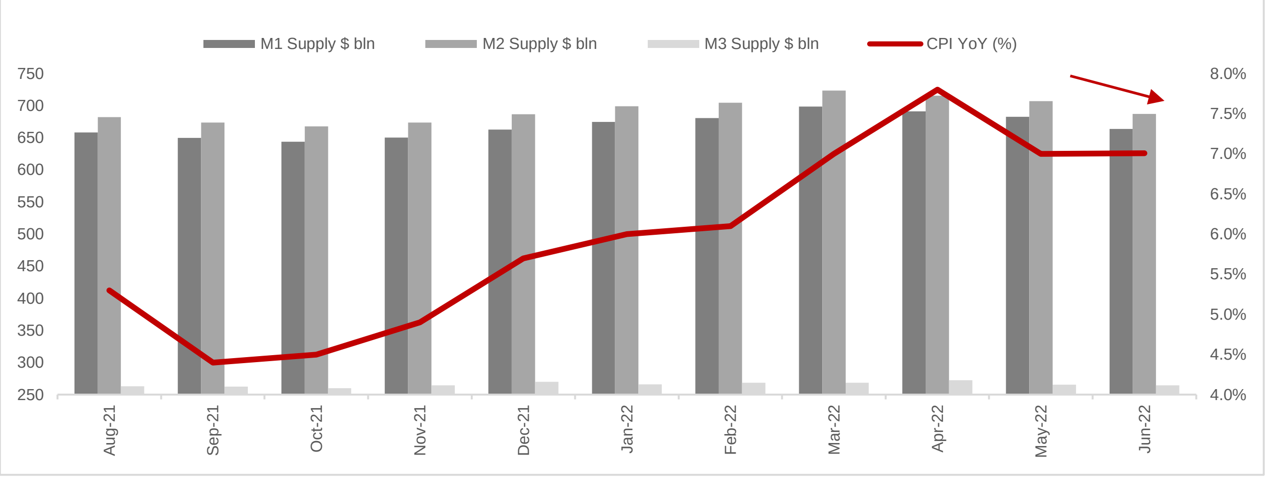
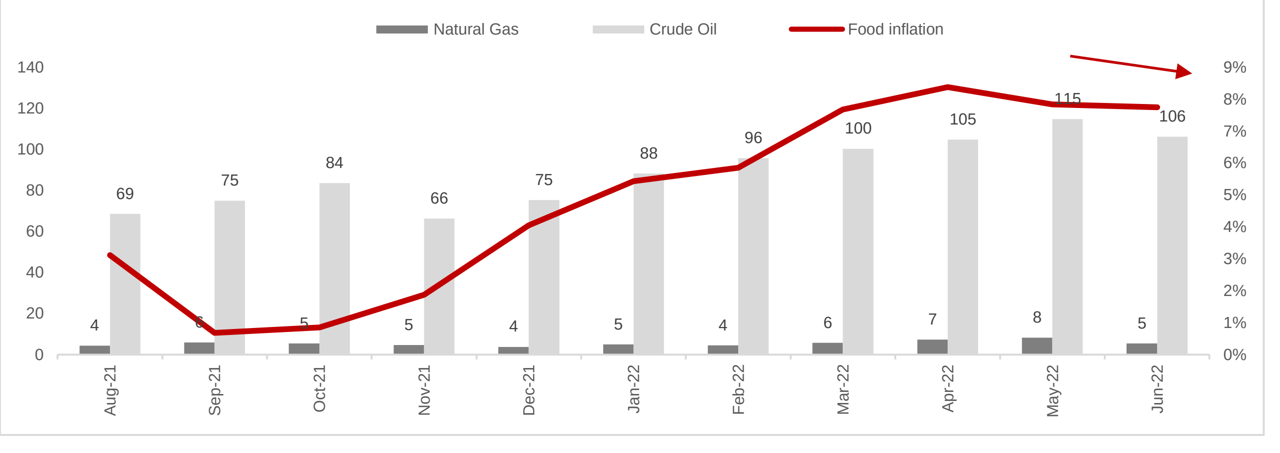
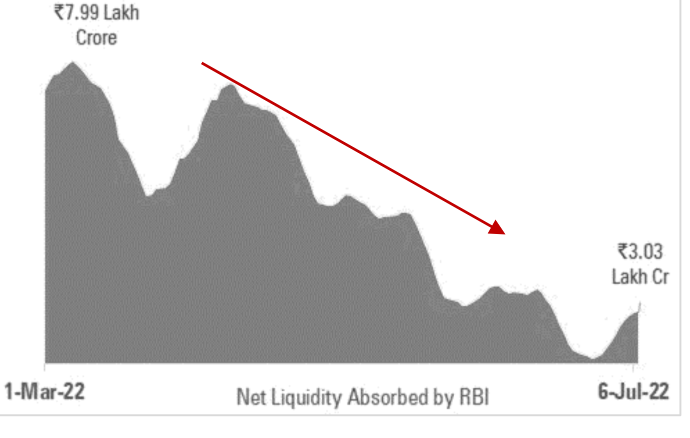
Short cycle

Broad Money supply is decelerating and the odds of a demand-driven surge in consumer price inflation is also quite low







Significant pull back by RBI on liquidity (to support Rupee vs Dollar) marks the end of excess liquidity conditions in India and we could see corporate yields and spreads inching up over the next 2-3 quarters.

Pull back of liquidity and money supply could soften inflationary pressures over the next few quarters. There are early signs of flatting of the curve.

Source: Bloomberg, ICICI Pru AMC.

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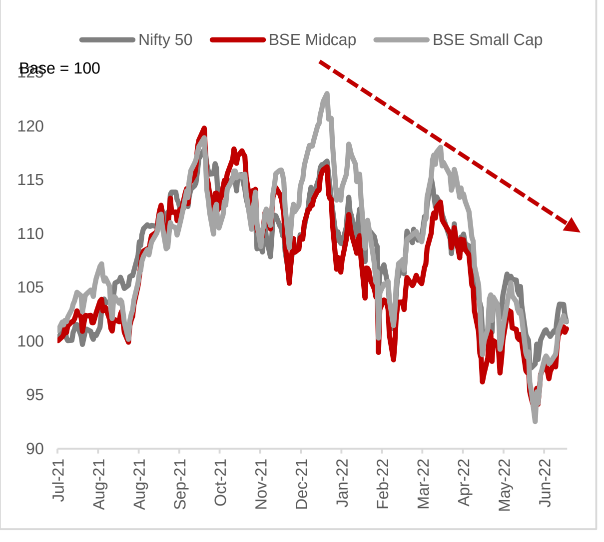
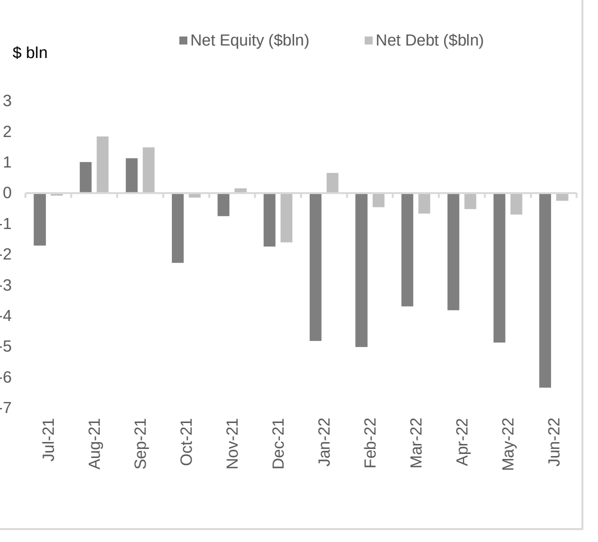
Short cycle

Indian Equities have seen record outflows as rate cycle reversed globally

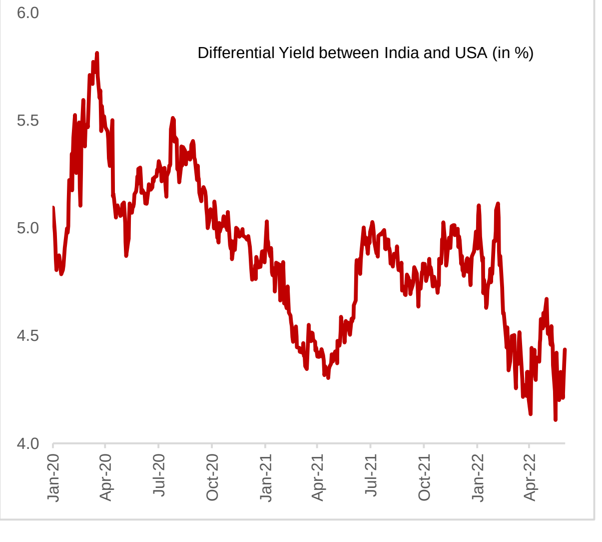
Indian market corrected post Oct'21 on back of…..



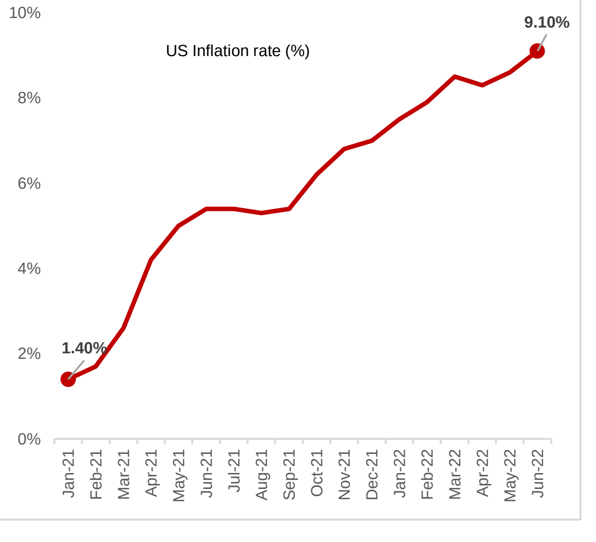
….FII outflow of US$29 Bn since Jan'22; and..



Diminishing spreads between India and USA bond yield due to faster rise in FED rates, prompting flow of funds into USD assets



Increase in FED rates on the back of four decade high inflation rate largely driven by spike in energy prices



Source: Bloomberg

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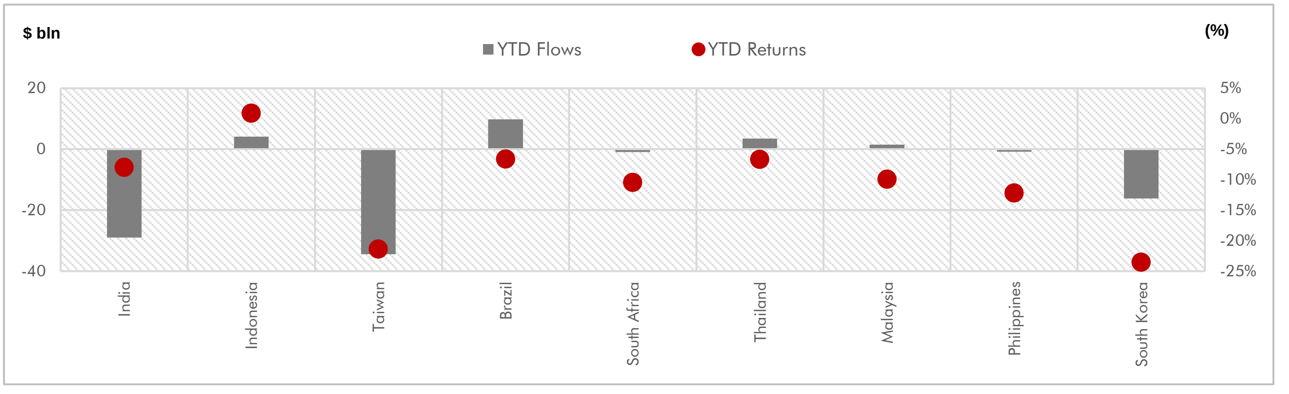
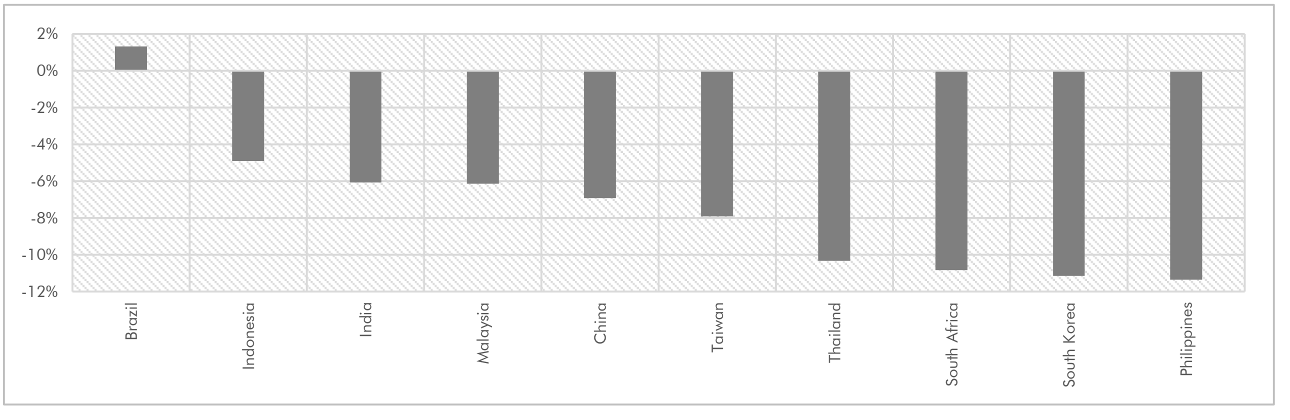
Short cycle

Emerging markets saw FII outflows which resulted in market fall and currency weakness

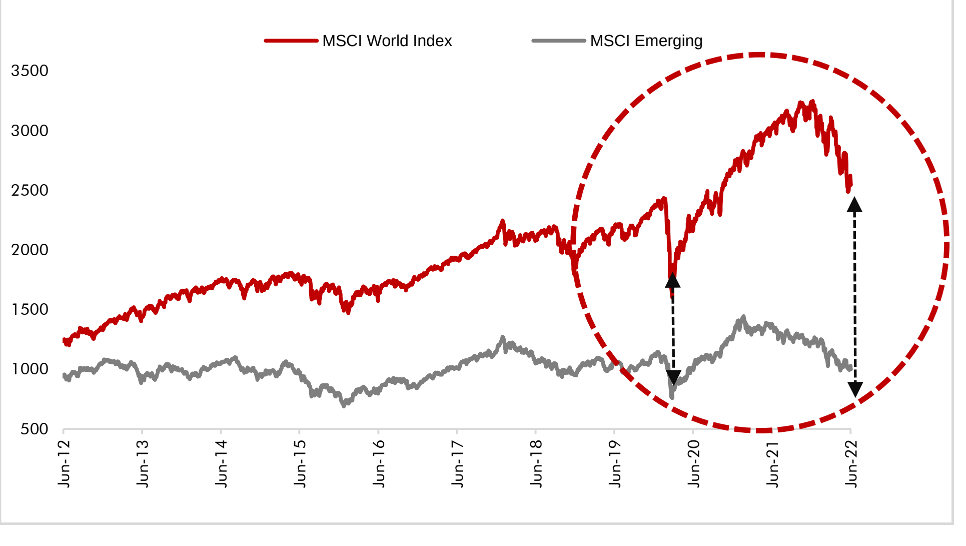
FII outflows led to correction in emerging markets



Currency depreciation of major emerging economies



The last decade saw developed markets outperforming emerging markets



The rise in FED rates coupled with underperformance of emerging markets led to FII outflows across all markets into USD (Safe Haven).

Source: Bloomberg

RIGHT LENSING THE MARKET

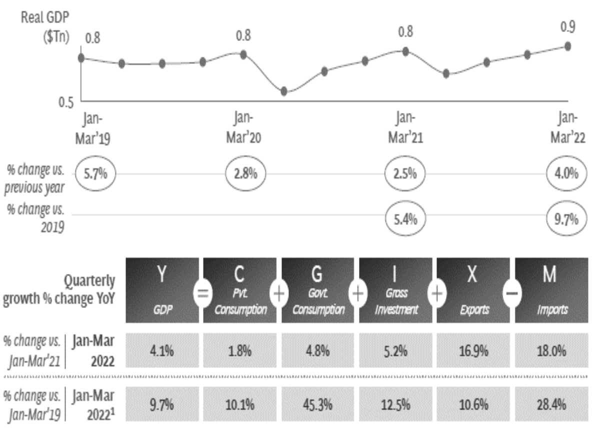
Long cycle

Despite the global uncertainty and financial market turmoil, domestic economic recovery has been robust and economy is better placed compared to global peers.

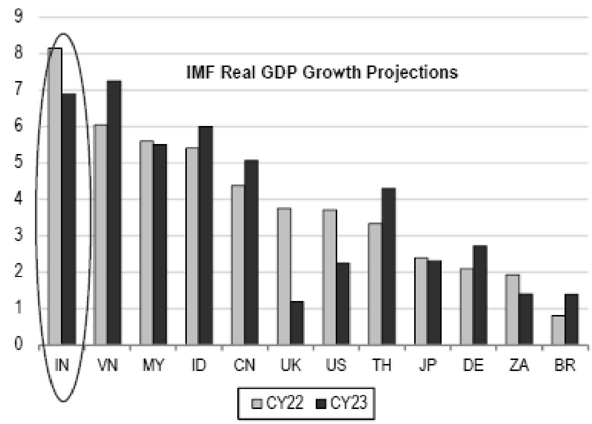
Long Term

India's GDP growth forecasted to be highest among major economies

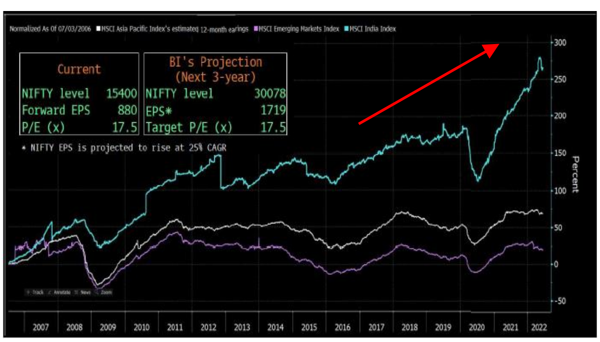
Real GDP surpassed pre-pandemic level with **9.7%** growth rate



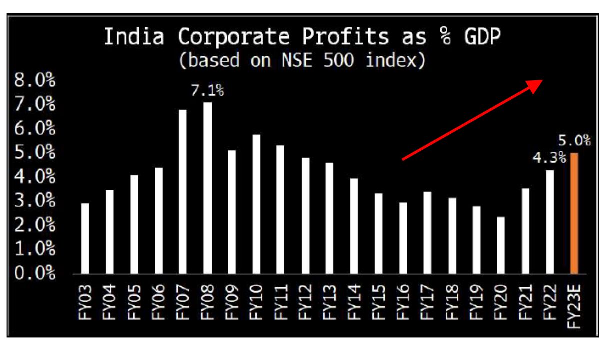
India's Growth forecasted to be highest among major economies



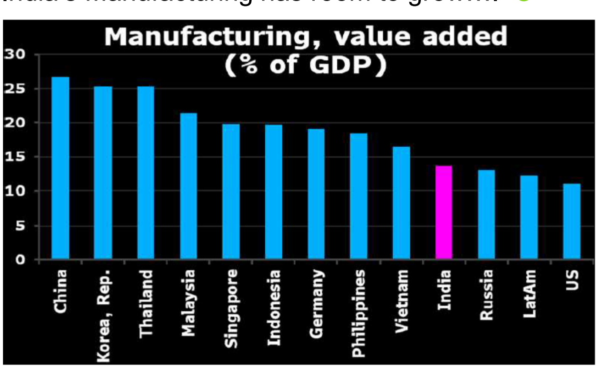
India's Profits have risen faster than EM / Asia



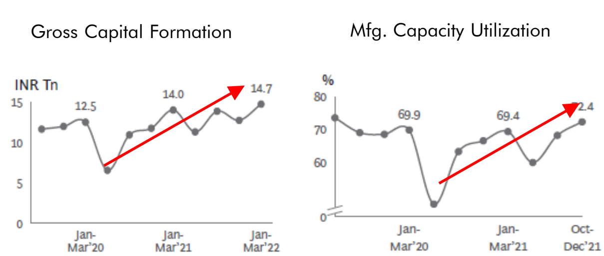
Corporate Profitability on an uptrend



India's Manufacturing has room to grow….



…which is visible in improvement in Gross capital formation and manufacturing capacity utilization



Source: Bloomberg, BCG Research, Credit Suisse Research

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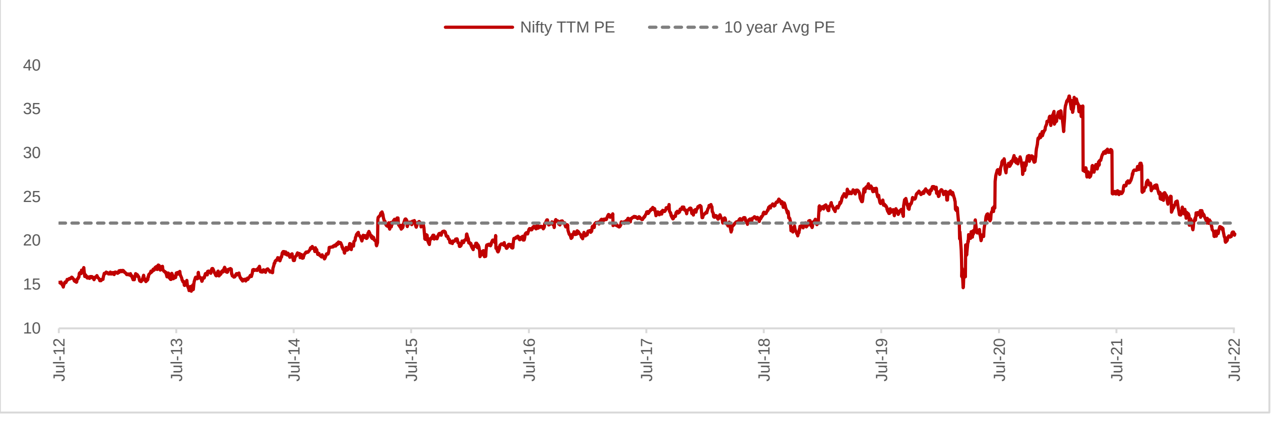
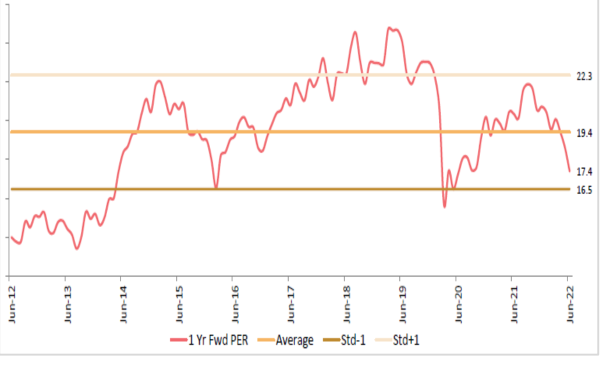
Long cycle

Current Valuations are in line with 10 year average

P/E is back to last 10 year average

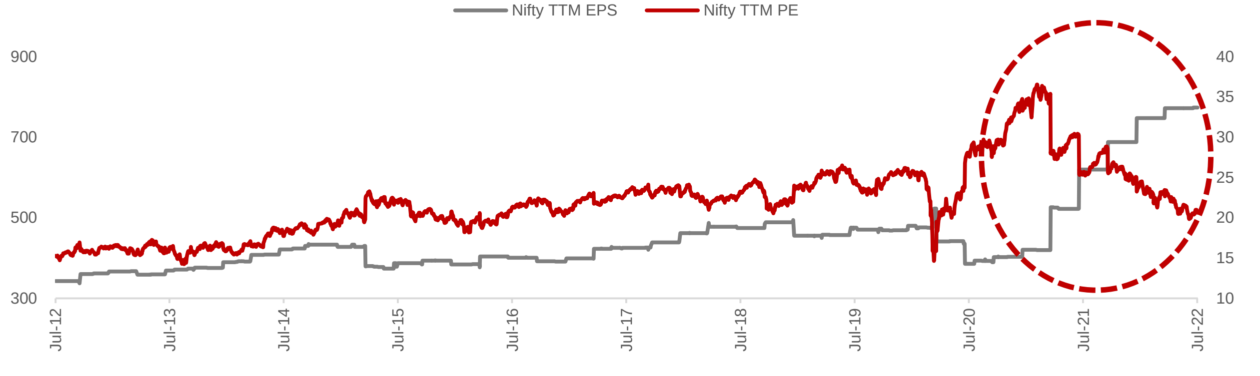


Nifty Forward valuations are now becoming attractive



Despite correction in P/E, India's premium continues to be elevated

Nifty 50 earnings remain strong despite P/E compression



Source: Bloomberg, Edelweiss Research, Credit Suisse Research

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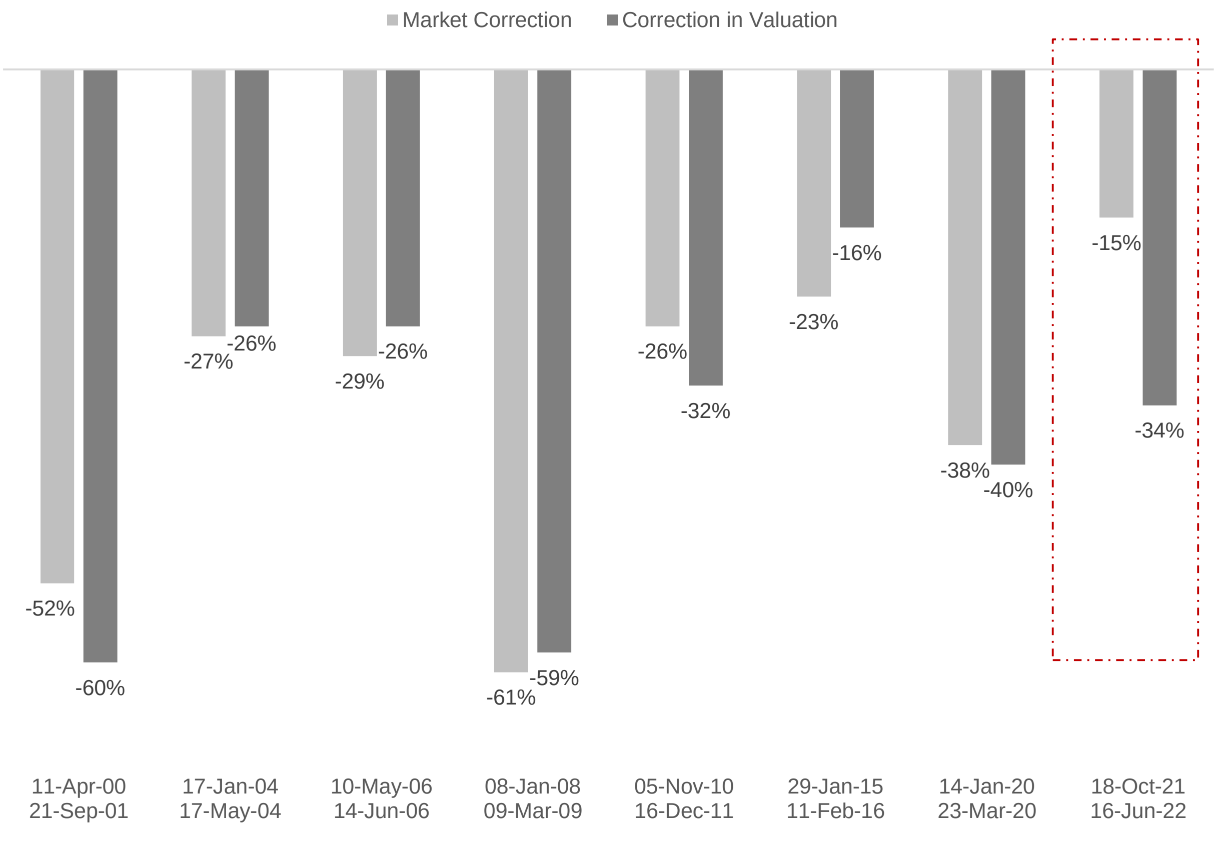
Long cycle

For the first time in two decades, the correction in valuation of the Sensex is much higher than the correction in prices.



Source: Bloomberg

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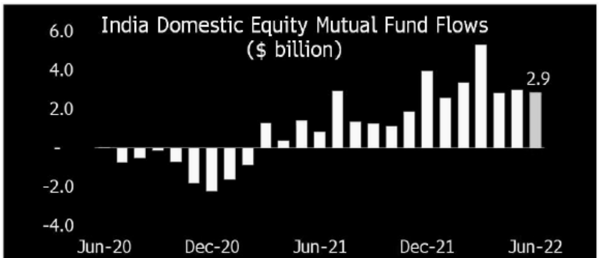
Long cycle

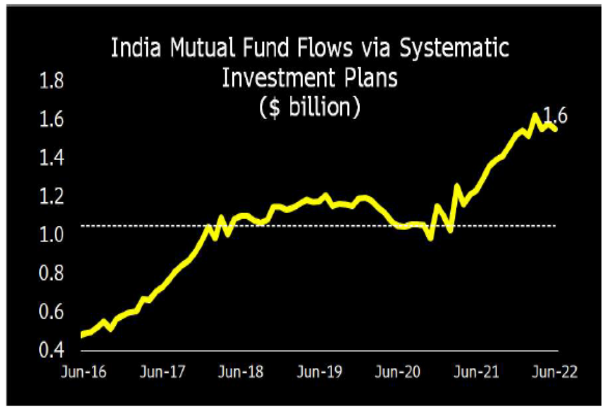
Despite FII outflows, domestic Investors remained steadfast in adding equity exposure as seen over the 16 consecutive months.

Domestic equity fund flows stay steady

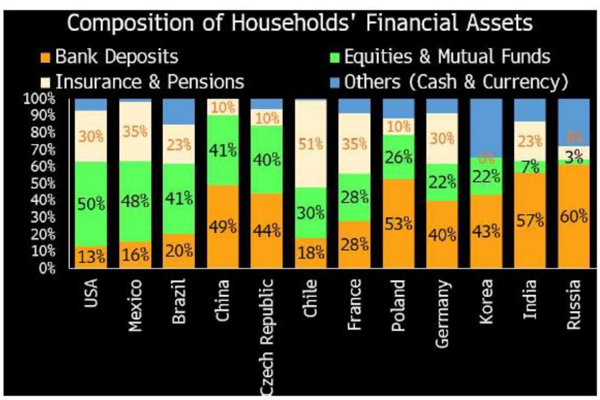


	May-22	Jun-22	1-yr Avg.
Gross Sales ($ bn)	5.0	4.5	5.4
Gross Redemptions ($ bn)	-1.9	-1.6	-2.8
Net flows ($ bn)	3.0	2.9	2.6
Redemption to Sales	39%	36%	53%

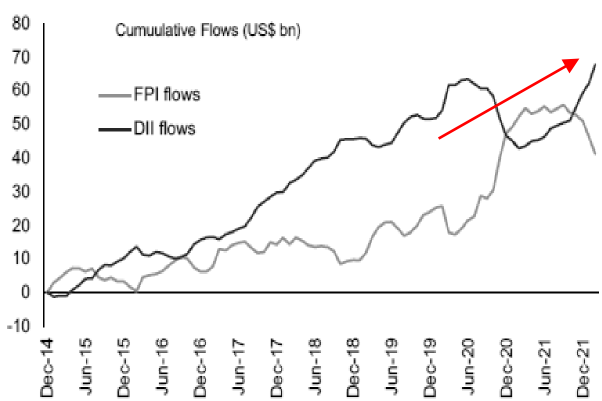
Strong inflows in domestic funds via SIPs



However, India has low equity allocation v/s major developed and emerging markets

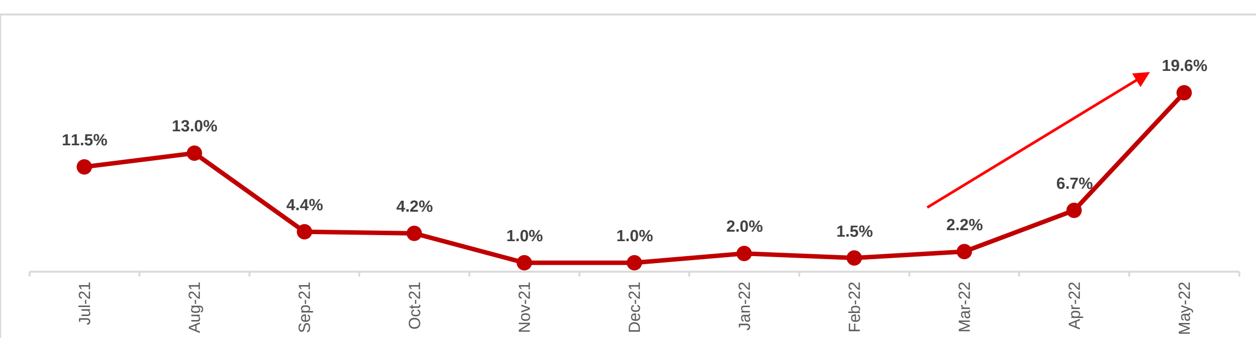


DIIs continue to be net buyers



Demand conditions have been improving as reflected by high frequency indicators

Strong recovery in Industrial Production (IIP YoY %)



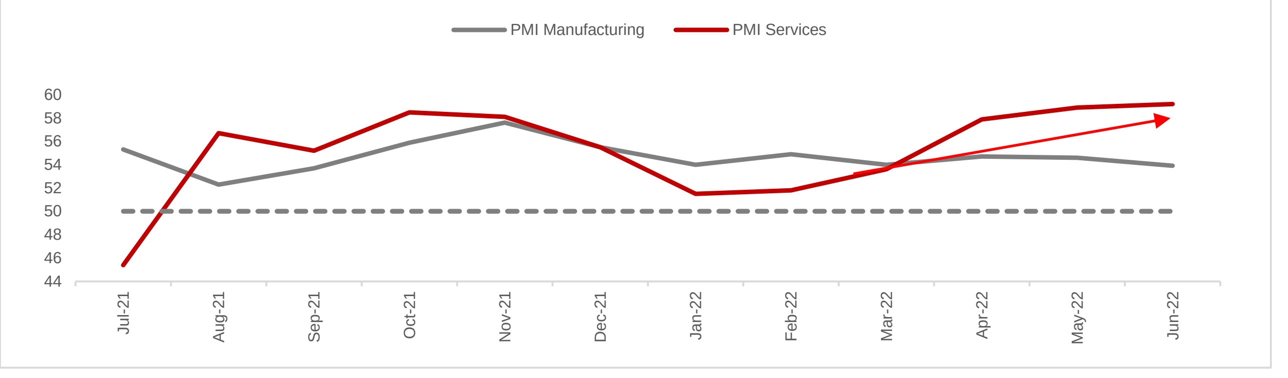
Source: Bloomberg, Credit Suisse Research

RIGHT LENSING THE MARKET

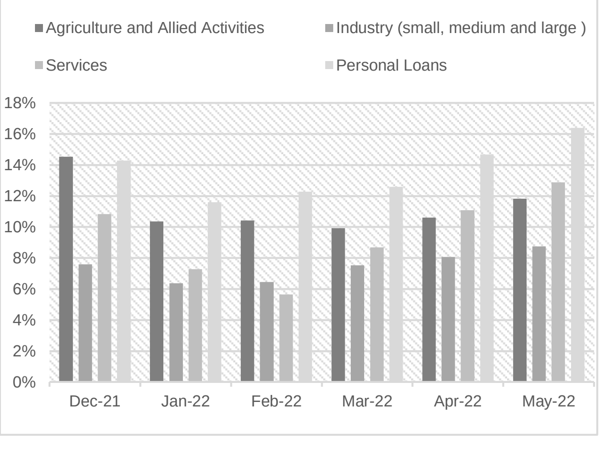
Long cycle

Demand conditions have been improving as reflected by high frequency indicators

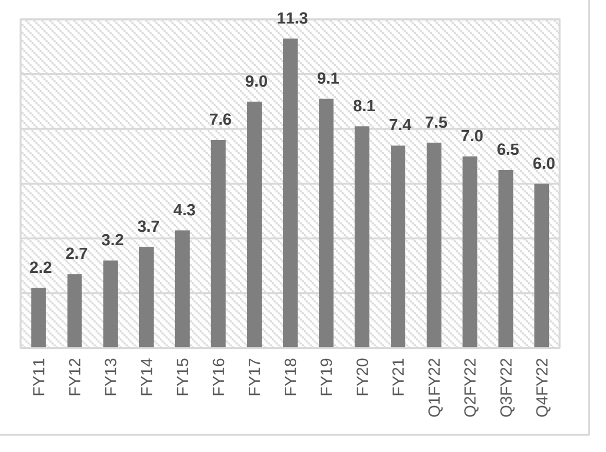
PMI data well above the 50 level



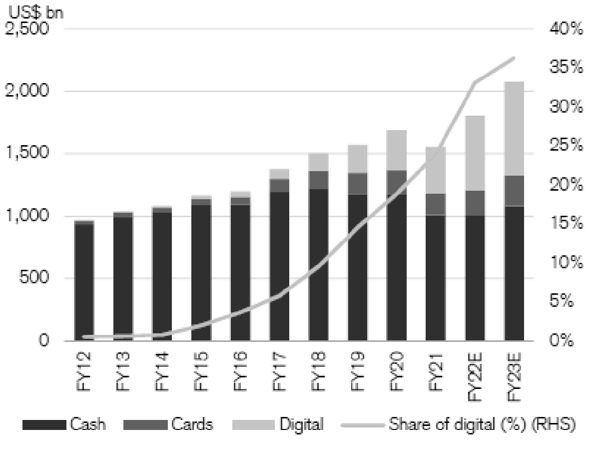
Uptick in bank credit across sectors



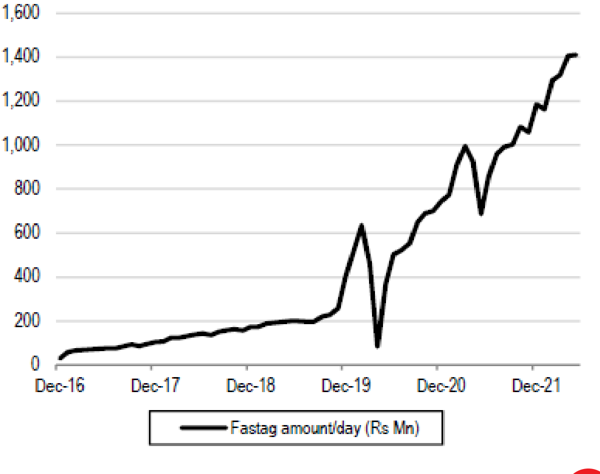
Sector asset quality continues to improve



Financial Digitization continues, UPI to further accelerate digital payments



Daily FasTag collections now above INR1.4 Bn/day



Source: Bloomberg, Credit Suisse Research

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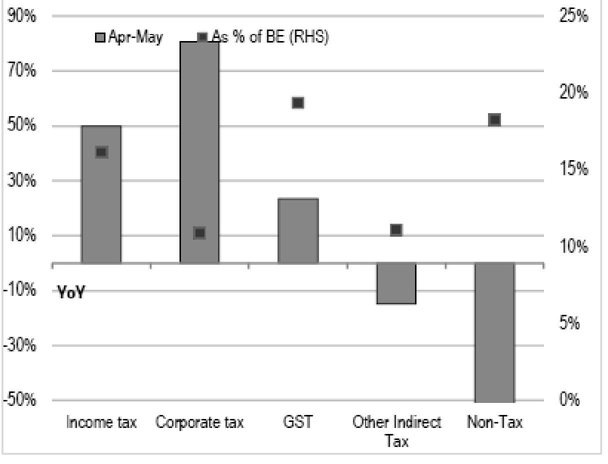
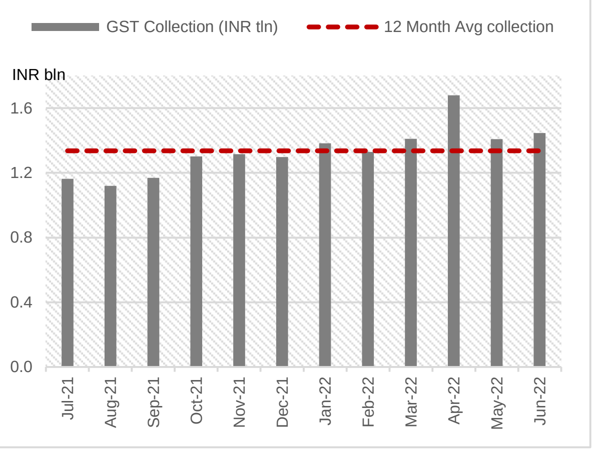
Long cycle

Strong growth in gross tax collection, led by direct taxes



GST revenues show a healthy trend



		2008-09	2012-13	2013-14	2018-19	2022 (YTD)
INR / USD	Avg +/-	-12.40%	-11.90%	-10.14%	-7.80%	-6.90%
Current Account Deficit	% of GDP	2.50%	4.80%	1.74%	2.11%	1.20%
Forex Reserves	$ billion	278	293	288	403	593
Import Cover	in months	11.5	7.2	7.7	9.4	9.9
FPI outflows	$ billion	-9.9	31	8.8	-5.5	-28.7
Short term external debt (STED)	$ billion	43.3	78.1	91.6	108.4	114.6
STED to Forex Reserves		15.6%	26.7%	31.8%	26.9%	19.3%

- INR depreciation limited to ~6.9% as compared to past period (avg ~10.5%)
- CAD remains more than ½ of that in 2012-13
- FPI outflows more than two and half times of 2008-09
- Forex Reserves more than doubled since 2008-14 and Import covers remain higher since 2012
- Short term external debt remains manageable at 19% of Forex (lower than since 2012)

Source: Bloomberg, Credit Suisse Research

SUMMARIZING THE CYCLE : LONG & SHORT

THE HEAT MAP

In the current environment of conflicting economic and market narratives, it is essential to right lense the information across Long and Short cycles and plan your investment strategies.

	Short Factors	Description	Heat Map
1)	Economic High Frequency Data	IIP, Cement, Steel, Electricity consumption	
2)	External Account	Forex, Trade Deficit, Exports, Imports	
3)	Monetary Policy	Benchmark Rates and Money Supply	
4)	Liquidity	Interbank Liquidity	
5)	Market Flows	FII & DII flows	
	Short Cycle : Heat Map		**1 / 5**

	Long Factors	Description	Heat Map
1)	GDP growth forecast	Surpassed Pre Covid levels & forecast highest globally	
2)	Corporate Profitability	Highest amongst Asian economies & trending up	
3)	Manufacturing	Increase in Capital formation & Utilisation	
4)	Equity Valuations (P/E)	At 10 yr average and fair for long term	
5)	Credit uptick & Digitisation	Credit & Digital transactions at 10 yr high	
	Long Cycle : Heat Map		**4 / 5**

Short term indicators give a cue towards further volatility in the near term. We recommend staggering risk allocation over 6 months to invest for the next economic and market cycle (long term).

Investment strategies for playing the cycle, we prefer ..

- **Equity**
  - Overweight on Growth (GARP) over Value strategies, and Balanced Funds over Hedge Funds
  - Staggering Equity and risk investments (STP and SIP)
- **Fixed Income**
  - Gradually build G-Sec (HTM) and select high quality Credits to play the rate cycle
  - Overweight InvITs & REITs to play the long rate cycle, considering current inflation and growth dynamics
- **Alternate**
  - Focus on Monopoly, profitable and near profitable businesses, and Growth Focused PE Funds

INVESTING FOR THE LONG CYCLE

GARP STRATEGY

- Equities have corrected globally as well as in India in the last 6-9 months. Basis historic analysis, we have seen a clear observation that Value stocks have strongly outperformed Growth stocks, aided by reflationary macro environment and rising interest rates.
- As growth begins to revive in near to medium term, an opportunity could be building up in this space.
- We believe this opportunity could be played out in a staggered manner through the year, with a holding period of 3-4 years or beyond.

How Globally Growth performed ?

Growth portfolio outperformed value portfolio by 150 bps over 22 years

Period: 31 Dec 00 to 31 May 22	CAGR Returns	
	iShares Russell 1000 Growth ETF	iShares Russell 1000 Value ETF
2001-2005	-4.62%	2.84%
2006-2010	2.34%	-1.24%
2011-2015	11.68%	8.57%
2015-2020	19.37%	6.92%
2020-2022 YTD	-0.87%	11.53%
Full Period	6.28%	4.67%

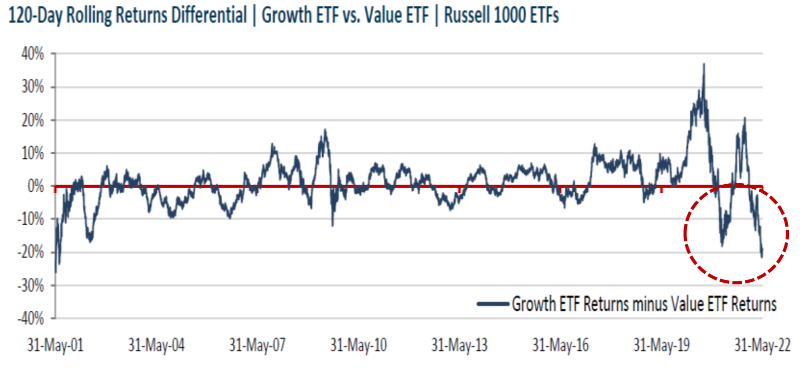
Similar trends in India

Period: 31 Dec 00 to 31 May 22	CAGR Returns		
	NIFTY 500 Value 50 TRI	Nifty 100 TRI	NIFTY Large Midcap 250 TRI
Dec'09 - Dec'14	10.60%	11.50%	12.50%
Dec'14 - Dec'19	1.70%	9.60%	9.80%
Last 2 Years	55.30%	32.50%	39.20%
Last 1 Year	14.80%	7.60%	9.00%
Full Period	9.64%	11.43%	12.85%

GARP Strategies Set For A Revival?

Period	Correction		Return in the next 1 year		Return in the next 2 year	
	GARP Fund	Nifty MidSmall	GARP Fund	Nifty MidSmall	GARP Fund	Nifty MidSmall
Jan'08 - Feb'09	-26%	-63%	82%	136%	43%	54%
Dec'12 - Aug'13	-8%	-24%	121%	82%	84%	45%
Jul'15 - Feb'16	-21%	-18%	41%	45%	43%	36%
Dec'17 - Feb'19	-39%	-23%	19%	3%		
Jan'22 - May'22	-22%	-18%	??		??	

Though in CY22, Value ETF outperformed Growth ETF by 17%, due to which Growth ETF is relatively at all time low vis a vis Value ETF

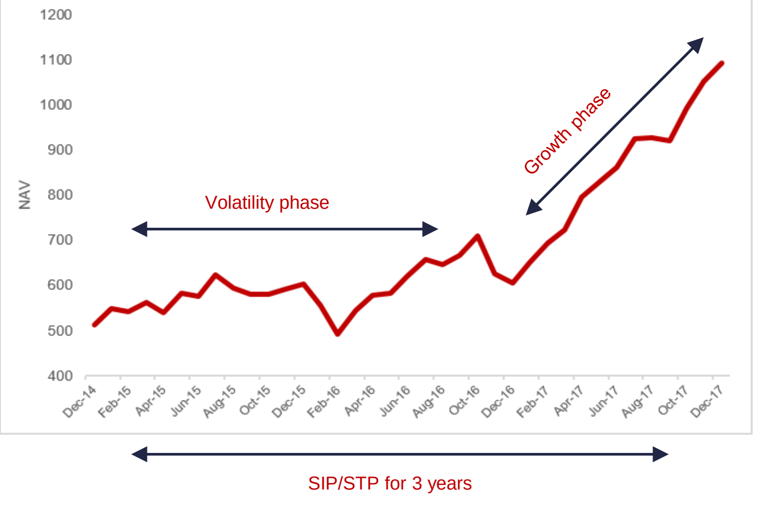


- India is widely considered a growth story and it is evident from data as growth stocks have largely outperformed value in the decade of 2010-2019.
- Corrections in Indian market as well have been majorly led by growth stocks/sectors. There could be an opportunity building up in this space aided by fairer valuations.

INVESTING FOR THE LONG CYCLE

STAGGERED vs LUMPSUM

A staggered (SIP/STP) investment approach yielded better IRR vis-à-vis lump sum approach for a growth strategy in a volatile market



Lump sum : Complete amount invested on the initial investment date

Amount Invested:
INR 3600 in the beginning

XIRR: 28.7%

SIP/STP : Amount staggered (equally) over 3 years Amount

Invested: INR 3600 in equal instalment of INR 100 for 36 months

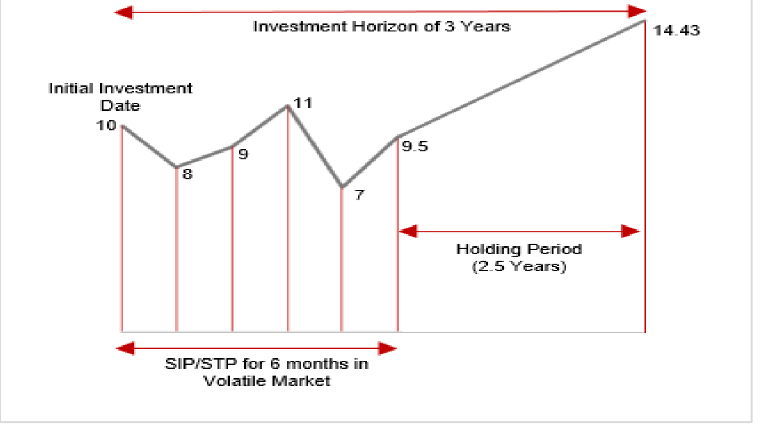
XIRR: 37.4%

INVESTMENT STRATEGY

To capture the above opportunity, we believe in staggered (SIP/STP) investments approach in growth strategies via:

- **Ambit Caliber Portfolio**
- **Ambit Alpha Growth Portfolio**
- **Abakkus All Cap Approach**

Below representation shows how an SIP or STP could generate alpha over lump sum investment in Growth strategy in a volatile market



Approach: Staggered through SIP/STP over 6 months
Holding period: 3-4 years

Lump sum: Complete amount invested on the initial investment date

Amount Invested: INR 6000

Value after 3 Yrs: INR 8660

Returns: 44%(absolute) & 13% (XIRR)

Lump sum: Amount staggered (equally) over 6 months period

Amount Invested: INR 6000

Value after 3 Yrs: INR 9745

Returns: 62%(absolute) & 19% (XIRR)

INVESTING FOR THE LONG CYCLE

BALANCED ADVANTAGE FUNDS (BAFs) & HEDGE FUNDS

Balanced Advantage Funds :

- Hybrid funds have a dynamic asset allocation and invest across equity and fixed income instruments.
- The funds can modify their asset allocation according to market conditions.

Hedge Funds :

- It takes long positions in assets that are expected to outperform the market, while taking short positions in assets that are expected to underperform.
- The funds use strategies aimed at mitigating market volatility, including leverage and derivatives.

P2P PERFORMANCE

Fund	1M	3M	6M	1Y	2Y	3Y	5Y
AERF II	-0.8%	-0.9%	-7.0%	4.9%	23.2%	10.1%	NA
True Beacon	-2.2%	-1.6%	-3.9%	-3.7%	19.7%	NA	NA
DSP IEEF^	0.4%	1.2%	0.0%	4.0%	9.9%	8.1%	8.7%
ICICI Pru Long Short	0.4%	2.7%	3.6%	9.2%	18.2%	13.8%	NA
Hedge Funds (Avg)	-0.5%	0.4%	-1.9%	3.6%	17.7%	10.6%	8.7%
ICICI Pru BAF	-0.3%	1.0%	1.9%	7.8%	21.5%	11.0%	9.9%
Edelweiss BAF	-2.3%	-1.7%	-2.7%	5.0%	21.0%	12.7%	10.7%
HDFC BAF	-1.3%	3.3%	5.4%	12.9%	33.5%	11.7%	11.3%
BAF (Average)	-1.3%	0.9%	1.5%	8.6%	25.3%	11.8%	10.6%
Nifty 50	-3.0%	-1.3%	-2.4%	6.4%	31.5%	11.6%	11.5%

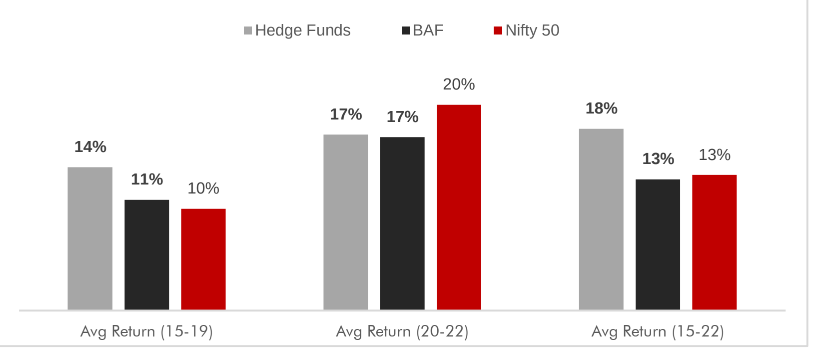
Data Source: MFI Explorer/ AMC Presentation
^Performance is before applicable taxes/performance fee but after deducting fixed management fee
Performance less than or less equal to a year are annualized; more than a year are compounded annualized
Past performance is not indicative of future performance
Hedge Fund returns are Net of Management Fees & Pre Taxes unless indicated by marks
Please refer to SID / KIM for details on Risk-o-meter for respective fund / scheme
Data as on May 31, 2022

INVESTING FOR THE LONG CYCLE

BALANCED ADVANTAGE FUNDS (BAFs) & HEDGE FUNDS

ALPHA REDUCTION

Pre-tax basis, CAT III AIFs had relatively better performance over BAF's, but the differential has reduced in past 2 years.



TAX IMPACT

CAT III AIFs have an effective tax rate of 20-40% with ICICI Pru Long Short having the highest effective tax rate given the underlying strategy. Consequently, on a post tax basis BAFs score over CAT III AIFs.

Name	AERF II	True Beacon	ICICI Pru Long Short	DSP IEEF	Hedge Funds	ICICI BAF	Edel BAF	HDFC BAF	BAF	Nifty 50
Average Annual Return (Gross)	9.1%	17.2%	13.1%	10.3%	12.4%	11.8%	10.4%	12.5%	11.6%	10.5%
Average Annual Return (Net)	6.8%	12.5%	7.6%	8.3%	8.8%	10.6%	9.3%	11.0%	10.3%	

RISK – RETURN MATRIX

BAFs have performed better on a risk-adjusted basis for the period under consideration.

Particulars	Avendus Enhanced Return Fund - II	True Beacon	DSP IEEF	ICICI Pru Long Short Fund	ICICI BAF	Edelweiss BAF	HDFC BAF	Nifty 50
1 Year								
Return	4.9%	-3.7%	4.0%	9.2%	7.8%	5.0%	12.9%	6.4%
Standard Deviation	14.8%	6.1%	5.7%	2.3%	3.6%	6.3%	8.9%	12.3%
Risk-Adjusted Return	4.2%	-3.4%	3.7%	9.0%	7.5%	4.7%	11.7%	5.6%
2 Years								
Return	23.2%	19.7%	9.9%	18.2%	21.6%	21.1%	33.6%	31.6%
Standard Deviation	14.0%	10.4%	6.5%	4.6%	7.3%	8.6%	15.4%	14.9%
Risk-Adjusted Return	19.9%	17.7%	9.2%	17.3%	20.0%	19.3%	28.5%	26.9%
Sharpe Ratio (1Yr)	-0.1	-1.6	-0.3	1.4	0.5	-0.2	0.8	0.0
Downside Volatility	4.4%	2.9%	0.7%	2.5%	2.7%	1.7%	3.2%	3.5%

Data Source: MFI Explorer/ Value Research/ AMC Presentation
Tax Rate Assumed to be AERF-II: 20%, TB: 25%, ICICI Pru Long Short: 42%, ICICI Pru BAF: 10%, Edel BAF: 10%
Past performance is not indicative of future performance
Data as on May 31, 2022

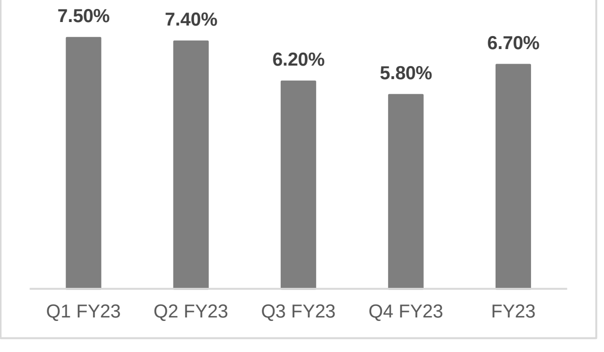
INVESTING FOR THE LONG CYCLE

FIXED INCOME

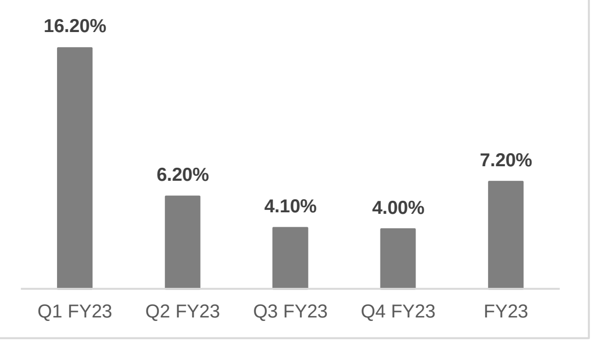
Monetary Policy Update

- The Monetary Policy Committee (MPC) voted unanimously to increase the repo rate by 50 basis points to 4.90% with immediate effect.
- The standing deposit facility (SDF) rate stands adjusted to 4.65% and the Marginal Standing Facility (MSF) rate and Bank Rate to 5.15%.
- The MPC also decided to continue its focus on withdrawal of accommodation to ensure that medium term inflation remains at the target of 4% (+/- 2%).
- RBI's inflation forecast for FY23 was revised upwards to 6.7% from 5.7%.

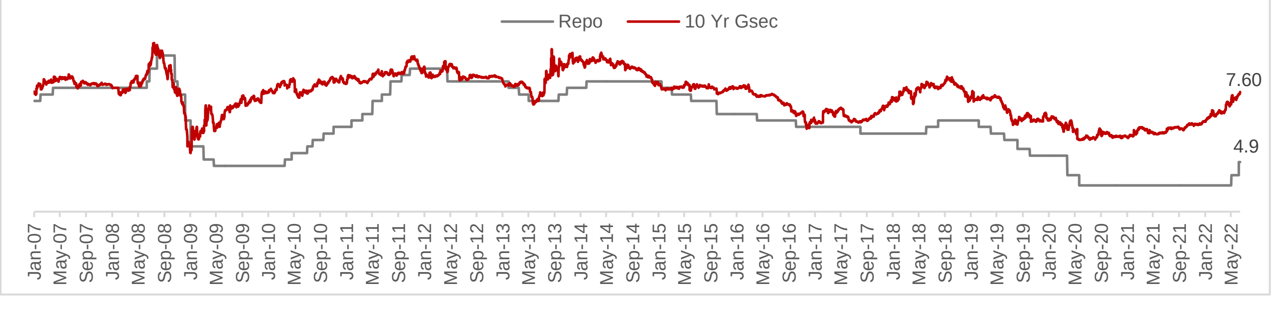
CPI Inflation Outlook



Real GDP Growth Outlook



Policy Rates and Benchmark



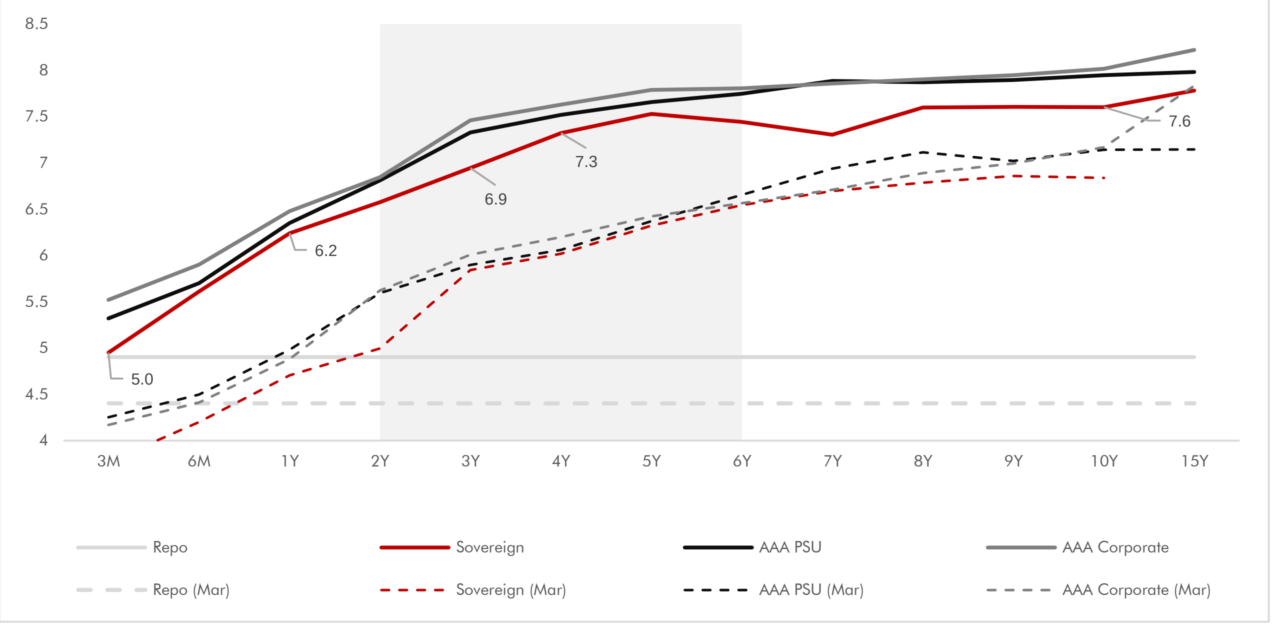
Date	Repo	10 Yr Gsec
5-Feb-19	6.50	7.38
4-Oct-19	5.15	6.69
27-Mar-20	4.40	6.14
22-May-20	4.00	5.75
3-May-22	4.00	7.12
2-Jun-22	4.40	7.43
13-Jun-22	4.90	7.60

- Benchmark yields last traded at around 7.5% levels in early 2019. The pandemic saw yields at sub 6% levels for a considerable part of 2020.
- Despite a 50 bps rate hike, the spread between the 10 year benchmark and repo rate is 270 bps vis-à-vis an average spread of ~100 bps over the period.

INVESTING FOR THE LONG CYCLE

FIXED INCOME

Yields have risen by 100-200+ bps across the curve over the past 15 months; the mid segment of the yield curve offers value given the steepness and spreads have narrowed as well.



Data Source: RBI, Bloomberg, ICICI Prudential
Data as on June 13, 2022

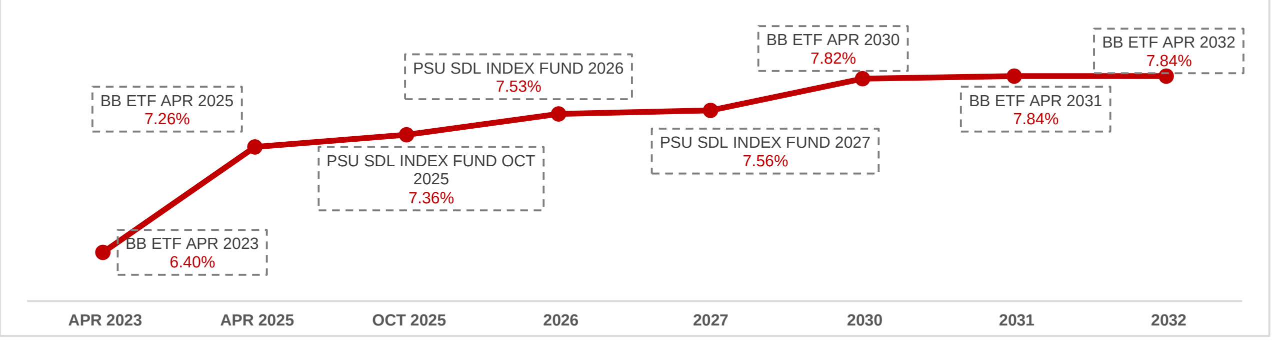
Our Views

- We have been conservative duration in the past (barring the tactical IRF and Gilt trades in Mar-2020).
- The recent developments build a case for building staggered allocations to duration via exposure to Gilts. While keeping the core allocation wherein portfolio duration is in sync with investment horizon, we believe allocations can be done via multiple tranches to:
  - Medium duration Gilt Funds and active Gilt Funds can be scaled over the next few months given favourable duration risk adjusted returns.
  - Long duration Gilt Funds can be staggered on further hardening in benchmark yields over the course of the year.
  - Medium duration AAA PSU and SDL Funds from a Hold-to-Maturity (HTM) perspective taking credit spreads into consideration.
  - Bharat Bond medium and longer maturities as alternative to tax free bonds.

INVESTING FOR THE LONG CYCLE

FIXED INCOME

PORTFOLIO LADDERING VIA PASSIVE FUNDS



TARGET MATURITY FUNDS & TAX-FREE BONDS

Comparison of Investments with 4 and 5 year maturities

	Nifty PSU SDL Index Fund - 2026	Tax-Free	Nifty PSU SDL Index Fund - 2027	Tax-Free
Tenor (Nearest)	4Y	4Y	5Y	5Y
Pre-Tax Yield	7.48%	5.35%	7.55%	5.43%
Tax Rate	20.80%	--	20.80%	--
Post - Tax Yield	6.98%	5.35%	7.04%	5.43%

Comparison of Investments with 8 and 9 year maturities

	BB ETF 2030	Tax-Free	BB ETF 2031	Tax-Free
Tenor (Nearest)	8Y	8Y	9Y	9Y
Pre-Tax Yield	7.73%	5.42%	7.77%	5.42%
Tax Rate	20.80%	--	20.80%	--
Post - Tax Yield	7.20%	5.42%	7.24%	5.42%

Target Maturity Funds like Bharat Bond and PSU & SDL Index Funds can be considered as an alternative to Tax Free Bonds given the post-tax yield differential from a Hold-to-Maturity perspective.

FUND DETAILS

Fund Name	YTM	Mod Duration	AUM (INR Crs)	Sovereign	AAA & Eq.	Call & Cash
Bharat Bond ETF APR 2023	6.38%	0.77	4,960	--	97	3
Bharat Bond ETF APR 2025	7.20%	2.35	9,871	--	96	4
Edelweiss PSU SDL INDEX FUND OCT 2025	7.37%	2.53	545	55	36	9
Edelweiss PSU SDL INDEX FUND 2026	7.48%	2.91	5,961	73	19	8
ABSL Nifty SDL Plus PSU Bond Sep 2026 60:40 Index Fund	7.42%	3.21	5,230	78	16	6
Edelweiss PSU SDL INDEX FUND 2027	7.55%	3.63	2,230	68	25	7
ICICI Pru PSU Bond Plus SDL 40:60 Index Fund - Sep 2027	7.43%	4.04	3,916	58	38	3
Bharat Bond ETF APR 2030	7.73%	5.49	12,848	8	89	3
Bharat Bond ETF APR 2031	7.77%	6.05	10,297	5	90	5
Bharat Bond ETF APR 2032	7.78%	6.66	6,500	12	85	3

INVESTING FOR THE LONG CYCLE

REIT / InvIT

- Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) are innovative vehicles that allow developers to monetize revenue-generating real estate and infrastructure assets, while enabling investors or unit holders to invest in these assets without actually owning them.
- Such monetization benefits developers by allowing them to release capital for funding new infrastructure/real estate projects, and provides liquidity to investors or unit holders as the units of the trust are listed on exchanges.
- Apart from these, REITs and InvITs enjoy favorable tax treatment, including exemption from dividend distribution tax and relaxation of capital gains tax.
- We believe, with rising threat of inflation, InvITs and REITs offer an attractive inflation hedge that provides exposure to fixed assets.

REAL ESTATE INVESTMENT TRUST (REITs)

Particulars	Embassy Office Parks REIT	Mindspace Business Parks REIT	Brookfield India Real Estate Trust REIT
Sponsor	Embassy Property Developments Pvt Ltd BRE Mauritius Investments (Blackstone)	Anbee Constructions LLP Cape Trading LLP (part of K Raheja Corporate group)	BSREP India Office Holdings V Pte. Ltd.
Total Leasable Area	42.8 million sq. feet	31.3 million sq. feet	18.6 million sq. feet
No. of properties	12	10	32
Geographical Spread	Bengaluru (74%), Pune (9%), Mumbai (10%), NCR (7%)	Mumbai Region (41%), Hyderabad (40%), Pune (16%), Chennai (3%)	Mumbai Region (17%), Gurugram (28%), Noida (39%) Kolkata (17%)
Occupancy	87%	84.60%	83%
No. of tenants	200+	170+	110+
Weighted Average Lease Expiry	7.0yrs	6.9 yrs	7.3 years
Revenue from Operations	INR 29,626 mn (FY22)	INR 4,401 mn (Q3 FY22)	INR 1,951 mn (Q3 FY22)
EBITDA	INR 24,250 mn (FY22)	INR 3,443 mn (Q3 FY22)	INR 1,465 Crs (Q3 FY22)
IPO Price (Date)	INR 300 (Mar 20, 2019)	INR 275 (Jul 29, 2020)	INR 275 (Feb 16, 2021)
Current Market Price (May 10, 2022)	373.76	348.24	326.48
52 Week High	394.95	369.48	337.28
52 Week Low	314.00	274.95	241.00

- REITs offer an attractive opportunity to invest in a diversified portfolio of commercial real estate assets generating an attractive yield through regular income distribution and providing potential of capital appreciation.
- Allocation to Embassy Office Parks REIT, Mindspace Business Parks REIT and upcoming REITs can be considered.

INVESTING FOR THE LONG CYCLE

INFRASTRUCTURE INVESTMENT TRUST (InvIT)

Particulars	Powergrid InvIT	IndiGrid InvIT
Sponsor	Powergrid Corporation of India Limited (PGCIL)	Esoteric II Pte. Ltd (an affiliate of KKR) and Sterlite Power Transmission Limited
Investment Manager	Powergrid Unchahar Transmission Limited (100% subsidiary of PGCIL)	IndiGrid Investment Managers Limited (majority owned by KKR)
# of SPVs in the InvIT	5	13
Line length / Substations	11 transmission lines, ~3,699 CKMS / 3 Substations - ~6,630 MVA	40 transmission lines, ~7,570 CKMS / 11 Substations - ~13,550 MVA
AUM	INR ~104 Bn	INR ~213 Bn as of end of Sept '21
Net Debt to AUM	Estimated at below ~50% post IPO	~56% as of end of Dec'21
Revenue	INR 3,422 Crs (Q3 FY22)	INR 5,706 mn (Q3 FY22)
EBITDA	PBT: INR 14,626 Crs (FY21)	INR 5,179 mn (Q3 FY22)
NDCF	2,730.49 mn (Q3 FY22)	2,586 mn (Q3 FY22)
DPU FY22	INR 3.00 (Q3 FY22)	~INR 3.19 (Q3 FY22)
Indicative Pre-tax Distribution Yield.	10.5%[1] basis average estimates over FY22-24	Estimated at 8.7% on FY22 with management DPU guidance of INR 12.75 per unit (calculated on CMP of INR 147.0)
Residual Contract	~ 35 Years	~30 Years
Rating	AAA Rated by CRISIL, ICRA and CARE Ratings	AAA Rated by CRISIL, ICRA and India Ratings
NAV (FY21)	INR 113.46 (as of Dec 31, 2020)	~INR 132.53 (Q3 FY22)
IPO Price (Date)	INR 100 (May 14, 2021 – Listing date)	INR 100 (Jun 6, 2017 – Listing date)
CMP (May 10, 2022)	136.58	147.0
52 Week High / Low	160.00 / 102.84	154.00 / 125.76

- Focused Business Model
- Long Term Contracts
- Low Operating Risks
- Stable Cash Flows

- Value Accretive Growth
- DPU accretive acquisitions

- Predictable Distribution
- Quarterly/ bi-annually distribution
- Min. 90% of net cash flow distributed

- Optimal Capital Structure
- Cap on leverage at 70%
- AAA Rating, Prudent liability management

- Power sector InvITs offer an attractive opportunity to invest in a diversified portfolio of power assets generating an attractive yield through regular income distribution.
- Allocation to IndiGrid InvIT & Powergrid InvIT can be considered.

REIT / InvIT

Name	Tenure (Yrs)	Since Inception: Cash Yield	Price Appreciation	Total Returns	IRR	Nifty IRR	G-Sec* IRR	Current Entry Yield#
IndiGrid InvIT	5.0	59%	41%	101%	18%	10%	7%	9.5%
Powergrid InvIT	1.1	10%	27%	37%	35%	5%	-1%	10.5%
Mindspace REIT	1.8	9%	18%	27%	14%	20%	1%	5.2%
Brookfield REIT	1.3	8%	25%	34%	25%	3%	0%	6.6%
Embassy REIT	3.2	22%	28%	50%	15%	10%	7%	5.4%
Average					22%	10%	3%	

INVESTING FOR THE LONG CYCLE

ALTERNATE – Private Market (Direct Deal)

AMBIT APPROACH

- To endeavor for relative lower absolute risk & higher risk adjusted returns through superior investment approach

Thesis Led	Top down approach to identity long term investment opportunities
Asset Sourcing	Leverage Ambit Ecosystem - Investment Banking, Global Private Client
Selection Framework	Bottom Up approach - Diligence, Preference towards leaders / Monopolies
Deal Structures	Stand alone (ESOP, Secondary), Co-Investment (PE & VC), Strategic investments
Engagement Model	Regular Financial updates, interaction with management etc.

- Ambit pioneered proprietary METT & Risk frameworks towards alternate investments
- METT - Market demand, Exit strategy, Technology & Team

RISK FRAMEWORK

	Nature of Business	Type of Instrument
Low Risk	▪ Profitable Businesses ▪ Leaders / Monopolies ▪ Natural Moats ▪ Strong Product , Technology IP ▪ Growth / Late Stage	▪ Liquidity Preferences ▪ Senior Instruments ▪ Collateralized ▪ Superior Rights – Drag , Tag etc
High Risk	▪ Loss Making Businesses ▪ Emerging leaders ▪ To Establish Moat ▪ Early Stage	▪ No Liquidity Preferences ▪ Sub Senior Instruments ▪ Non Collateralized ▪ Inferior Rights – Drag , Tag etc

There is a merit in both the risk metrics however risk adjusted returns to be far superior in High risk allocation and asset selection to be far more stringent.

DIRECT DEAL SUMMARY

Deal	Deal IRR	Nifty IRR	Midcap IRR	SmallCap IRR
Early Stage				
Lido	**-70%**	30%	46%	53%
Cropin*	**171%**	16%	27%	31%
SmartExpress	**0%**	13%	18%	19%
Chai Point	**0%**	-23%	-43%	-61%
Mid Stage				
Rapido	**400%**	10%	1%	-12%
Waycool	**130%**	-23%	-43%	-61%
Late Stage				
NSE 1	**106%**	33%	47%	57%
NSE 2	**207%**	10%	1%	-12%
CIBIL	**55%**	16%	27%	31%
NSDL	**-**	-	-	-
Policybazaar	**60%**	13%	18%	19%
Total Portfolio	**165%**	**27%**	**30%**	**24%**

Deal Performance as of 25-Feb-22
*Deal is not yet closed, still at Term Sheet discussion status

- **No. of Deals: 11**
  - Early: 4
  - Growth Stage: 2
  - Late Stage: 5
- Invested Value: INR 1,700 Crs
- Current Value: INR ~3,600 Crs
- **Total Gains: INR ~2,000 Crs**

INVESTING FOR THE VERY LONG CYCLE (DECADE)

- Last three years has shown quite dramatically that things can quickly turn out rather different than predicted. Nonetheless, corporate strategies need to rely on well-founded assessments of future trends.
- The Right Lensing report (the Very Long Lenses) comprises six megatrends shaping the world between now and 2050. They encompass economic factors as well as social, environmental, technological, and geopolitical shifts. Our awareness and understanding of these megatrends help us develop sustainable solutions for the challenges and opportunities ahead.

SIX MEGATRENDS THAT SHAPE THE FUTURE DEVELOPMENT OF WORLD UNTIL 2050

1	2	3	4	5	6
People & Society	Health Care	Environment & Resources	Economic & Business	Technology Innovation	Politics & Governance
Population Migration Values Education	Pandemic Diseases Treatment Welfare	Climate Change Resources Raw Material	Globalization Power Shifts Sectoral Transformation Debt Challenge	Technology Value Artificial Intelligence Human & Machine	Future of Democracy Governance & Geopolitics Global Risk

CUEING THE VERY LONG LENSE

- Our Current carbon foot print is 1.6x which means we need resources equivalent to 1.6 times of Earth to sustain and grow our per capita consumption globally. Exponential growth in technologies and efficiencies of near net zero carbon economy – EV, Solar, Hydrogen, Lithium Battery could be a multi decade opportunity.
- China is expected to overtake US and become No 1 global economy (GDP) by 2030* resulting in multi polar geo political and economic world order and such changes in world order are historically marked by events of conflict, there by global diversification of investments and currency might become a necessity for all investors.
- Peaking out of global population, ageing of population, multiplier effects of technology could lead to long term deflation (over the next decade) and profound impacts on savings, interest rates and pension funds. Save early, save more and invest in growth.
- Technological innovation is a long term trend and we could see continued break troughs in AI, Health Care, Fintech and business services. Keep investing in Technology in India and globally.

* As per CEBR

INVESTING FOR THE REAL LONG CYCLE

Environment and Resources

- We are faced with a most pressing megatrend: **Environment** and **Resources**. Here, we look at climate change and various aspects of pollution, as well as the challenges posed by scarcity versus abundance of resources, and ecosystems at risk.

- Climate Change & Pollution: Manmade global temperature increases can only be limited below 2^{o}C if significant additional efforts are undertaken to become carbon free by 2100.

- Human activities like burning fossil fuels (coal, oil and natural gas), agriculture, deforestation caused additional warming of earth currently 1.2^{o}C.
- Rising temperatures are not the only concern of global scope: Environmental threats, such as the many forms of pollution, place an alarming global burden on our health, on our economy as well as nature's ability to thrive.
- Pollution possess not only key environmental threat to the human health but also economic cost remain significant.

- To comply with Paris Agreement, in order to keep global warming > 2°C, preferably to 1.5°C, the transformation to more renewable energy sources must happen.

- To implement energy transmission in line with Paris Agreement, an additional US$ 35 trillion needs to be invested by 2050, resulting in payoff of US$ 62 trillion by 2060 due to savings from reduced externalities.

- Rise of technologies such as solar and wind, lithium-ion batteries, and alternative fuels have paved the way for decarbonization in various end-use sectors (Cost of renewables expected to fall to INR 2 Cr per MW, making it cheaper than fossil fuels by 2030).

- Due to rise in usage of renewables, electricity supply will fluctuate more – New technological solutions are needed to balance the power system

- **Green hydrogen** turns out to be more flexible solution with multiple possible options for further processing and use. Hydrogen is an energy carrier and can be stored for long time. It can be used for a wide array of energy and industrial applications.

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