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ATMA NIRBHAR BHARAT

India Equity Strategy

Varun Lohchab
varun.lohchab@hdfcsec.com
+91-22-6171-7334

Punit Bahlani
punit.bahlani@hdfcsec.com
+91-22-6171-7354

India Equity Strategy

Atma Nirbhar Bharat

Indian Govt. has clearly chosen the strategic roadmap for India to emerge out of this economic crisis (by making India self-reliant and push towards local manufacturing) rather than tactical short-term fiscal stimulus. While it's easier said than done, we believe infrastructure development and manufacturing led growth is the only sustainable model for India's development in medium to long term, given India's demographics. Gradual import substitution, growing domestic market and market share gains in global exports could help boost GDP growth trajectory and make development model more balanced. However, it's a long winded and arduous path which would test the patience of entrepreneurs and investors. If executed well, multiple sectors could emerge winners over a 5 year time frame, viz. speciality chemicals, pharma, agri processing, consumer durables, defence, autos and capital goods.

Self-reliant India, a more sustainable model for growth vs current model

Last 10 years saw India's growth being largely led by consumption, fuelled further by govt. handouts to rural poor and financing led retail consumption boom in urban (which resulted in strong performance of consumption stocks and retail banks/NBFC's). High food inflation, high fiscal and trade deficit which emerged as a consequence of above due to infrastructure and manufacturing bottlenecks acted as automatic stabilisers.

Enablers slowly falling in place to create a virtuous cycle of growth

Cost of traditional factors of production (land, labour, capital) went haywire in early part of decade due to imbalances in growth model which has stalled the growth engine. However, we are now in a better situation with falling land prices and cost of capital, stable labour costs and lower corporate taxes. While India's ranking has improved in terms of ease of doing business, several impediments are still there in land acquisition, flexibility of labour, rate transmission and availability of capital which will have to be ironed out soon if India were to be able to capitalise on this opportunity.

Technological innovation and entrepreneurship needs to be revived as well

In today's era, technological innovation and entrepreneurship are more relevant than traditional factors of production. India has lagged behind on these parameters as well in last decade but clearly has the potential to come back.

Global backdrop supportive for India post covid

Post covid, global businesses will look to realign their supply chains and reduce over-dependence on China. Even assuming no draconian measures, we expect a gradual market share loss for china in global exports, which could help India, if it plays to its strengths (e.g. a small 100bps shift away from China to India in US import basket, could mean a 50% jump for India even though competition from other emerging low cost Asian nations, Vietnam, Bangladesh, Indonesia etc, remains stiff for India).

Winners and losers in this paradigm shift

Sectors within our coverage which could see tailwinds include chemicals (Navin Fluorine, Alkyl Amines), Pharma (Aurobindo), Autos (Bajaj Auto, Maruti), Durables (Voltas, Havells), Cap goods/defence (L&T), E-Commerce (RIL). Outside our coverage sectors, we see a range of potential beneficiaries across agrochemicals and fertilisers, solar panels, agri processing, plastics, auto components, steel products. We recommend investors to closely watch developments in these sectors to see signs of improvement for multi-year investible themes. Consumption and financials might take a back seat as they would revive with a lag.

Major Imports of India ($ Mn)	Mar-19	6 Yr CAGR
Petroleum Crude & Products	140,884	-2.6%
Gems & Jewellery	64,666	1.7%
Electronic Items	55,476	9.4%
Chemical & Related Products	47,803	5.0%
Machinery (Capital Goods)	46,052	6.8%
Ores & Minerals	33,623	5.3%
Base Metals	32,364	7.0%
Transport Equipments	19,762	3.4%
Total Imports of Merchandise	507,410	2.0%

Major Exports of India ($ Mn)	Mar-19	6 Yr CAGR
Petroleum Products	46,397	-5.0%
Chemical & Related Products	43,758	6.0%
Gems & Jewellery	40,190	-0.5%
Textiles & Allied Products	36,879	0.0%
Machinery (Capital Goods)	29,088	8.8%
Agri & Allied Products (FMCG)	28,434	-2.4%
Transport Equipments	26,699	3.2%
Total Exports of Merchandise	331,000	0.9%

Varun Lohchab
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punit.bahlani@hdfcsec.com
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Import Substitution- Need of the hour

While crude, gold and metals imports (~50% of total imported goods basket) wont be easy to substitute, the other key import items such as electronics items, chemicals, machinery etc. form a major chunk (~30% of total imports) which should be the thrust area for India to shore up local manufacturing capabilities. Electronics (smartphones, durables) boom in India cannot continue unless we start manufacturing locally. Apart from low cost advantage of China, the entire ecosystem will have to be created from app developers to small component manufacturing which requires specialisation and focus.

Major Imports of India	$ Mn	% of Merchandise imports
Commodity	**Mar-19**	**Mar-19**
Petroleum Crude & Products	**140,884**	**27.5%**
Gems & Jewellery	**64,666**	**12.6%**
Electronic Items	**55,476**	**10.8%**
Chemical & Related Products	**47,803**	**9.3%**
-Bulk Drugs, Drug Intermediaries	3,560	0.7%
-Drug Formations, Biologicals	2,019	0.4%
Machinery (Capital Goods)	**46,052**	**9.0%**
Ores & Minerals	**33,623**	**6.6%**
Base Metals	**32,364**	**6.3%**
Transport Equipments	**19,762**	**3.9%**
-Auto Equipments	5,860	1.2%
-Vehicles	413	0.1%
Agri & Allied Products (FMCG)	**18,560**	**3.6%**
Plastic & Rubber Articles	**18,469**	**3.6%**
Total Imports of Merchandise	**507,410**	

- Another area of import substitution is lower value added items (~10% of import basket) such as agri and allied products, plastics and rubber articles, furniture, apparel, footwear etc. where the key advantage for China is low cost of production and scale advantage. “Swadeshi” sentiment would imply need to pay up higher for most goods (as it would be difficult to match China’s cost of production) resulting in higher inflation. These sectors are also labour intensive and can help provide employment in SME segment.

India Imports from China vs Total Imports CY2018 (US$ Bn)

Particulars	Imports from China	Total Imports	% Share in Indias Total Imports
Machinery and electrical equipment	36.87	115.46	31.93%
Textiles & Clothing	4.40	8.84	49.75%
Metals	6.12	39.81	15.37%
Transportation	1.86	17.29	10.74%
Plastic or Rubber	3.23	23.12	13.97%
Footwear	0.92	1.01	91.69%
Chemicals	12.88	57.96	22.22%
Stone & Glass	2.18	83.10	2.62%
Wood	0.88	9.96	8.85%
Hides & Skins	0.65	1.36	47.55%
Food Products	0.15	3.40	4.36%
Animals	0.01	0.24	2.15%
Vegetables	0.19	21.54	0.86%
Fuels	1.00	205.11	0.49%
Minerals	0.16	10.60	1.55%
Miscellanous	5.40	19.14	28.22%
TOTAL	**76.88**	**617.95**	**12.44%**

Source for Import & Export Data: Ministry of Commerce Annual Reports, World Trade Statistics & HSIE Research

Major Imports of India	$ Mn						CAGR
Commodity	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	
Petroleum Crude & Products	**164,765**	**138,326**	**82,944**	**86,964**	**108,659**	**140,884**	**-2.6%**
Gems & Jewellery	**58,436**	**62,351**	**56,509**	**53,739**	**74,668**	**64,666**	**1.7%**
Electronic Items	**32,384**	**36,857**	**40,022**	**41,930**	**51,541**	**55,476**	**9.4%**
Chemical & Related Products	**35,645**	**38,554**	**36,888**	**33,681**	**40,393**	**47,803**	**5.0%**
-Bulk Drugs, Drug Intermediaries	3,147	3,246	3,248	2,738	2,993	3,560	2.1%
-Drug Formations, Biologicals	1,492	1,563	1,583	1,662	1,841	2,019	5.2%
Machinery (Capital Goods)	**31,103**	**32,023**	**33,217**	**32,769**	**39,149**	**46,052**	**6.8%**
Ores & Minerals	**24,604**	**26,918**	**20,684**	**21,637**	**31,744**	**33,623**	**5.3%**
Base Metals	**21,563**	**27,047**	**24,704**	**21,552**	**27,429**	**32,364**	**7.0%**
Transport Equipments	**16,168**	**15,288**	**15,394**	**19,560**	**19,175**	**19,762**	**3.4%**
-Auto Equipments	4,264	4,668	4,885	4,571	5,632	5,860	5.4%
-Vehicles	339	336	337	369	385	413	3.3%
Agri & Allied Products (FMCG)	**13,492**	**19,004**	**20,674**	**23,211**	**22,223**	**18,560**	**5.5%**
Plastic & Rubber Articles	**12,769**	**14,327**	**13,761**	**14,020**	**17,038**	**18,469**	**6.3%**
Total Imports of Merchandise	**450,200**	**448,034**	**381,007**	**384,356**	**465,581**	**507,410**	**2.0%**
Total Imports of Services	**78,700**	**81,600**	**84,600**	**95,900**	**117,500**	**125,500**	**8.1%**
Total Imports	**528,900**	**529,634**	**465,607**	**480,256**	**583,081**	**632,910**	**3.0%**

- India has not been able to lower dependence on imports in electronics, machinery etc. as it has continued to grow in-line with domestic demand. Lower crude prices and lower gold tonnage consumption have helped keep overall imports in check.

Exports market share gains - Opportunity in a crisis

- While import substitution would be a long term trend and will have to be more driven internally and gradually, exports market share gain opportunity might be bigger in near term and faster to pull off as globally companies would look to realign their supply chains and reduce over dependence on China. However, other emerging Asian countries such as Vietnam, Bangladesh and Indonesia (apart from traditional exporters such as Thailand, Malaysia, South Korea etc) are strong competitors.

India and China Exports to US CY2018 (US$ Bn)

Product Classification	India	% Share	China	% Share
Machinery and electrical equipment	5.40	10.5%	222.37	46.4%
Miscellanous	1.53	3.0%	69.54	14.5%
Textiles & Clothing	8.10	15.7%	45.95	9.6%
Metals	3.11	6.0%	24.85	5.2%
Transportation	3.47	6.7%	23.02	4.8%
Plastic or Rubber	1.28	2.5%	22.16	4.6%
Footwear	0.43	0.8%	16.74	3.5%
Chemicals	8.35	16.2%	16.73	3.5%
Stone & Glass	11.19	21.7%	11.93	2.5%
Wood	0.36	0.7%	9.36	2.0%
Hides & Skins	0.57	1.1%	7.16	1.5%
Food Products	0.93	1.8%	4.54	0.9%
Animals	2.09	4.0%	1.96	0.4%
Vegetables	1.64	3.2%	1.64	0.3%
Fuels	3.03	5.9%	1.23	0.3%
Minerals	0.14	0.3%	0.52	0.1%
TOTAL	**51.63**	**100.0%**	**479.70**	**100.0%**

Indias Share in total imports of US	**2.16%**
Chinas Share in total imports of US	**21.57%**

India and China Exports to EU & Central Asia CY2018 (US$ Bn)

Product Classification	India	% Share	China	% Share
Machinery and electrical equipment	9.13	13.5%	217.39	42.1%
Textiles & Clothing	10.52	15.6%	64.45	12.5%
Metals	7.00	10.4%	35.94	7.0%
Transportation	4.08	6.1%	22.57	4.4%
Plastic or Rubber	2.83	4.2%	20.49	4.0%
Footwear	1.74	2.6%	18.71	3.6%
Chemicals	9.95	14.8%	28.64	5.5%
Stone & Glass	5.02	7.4%	10.88	2.1%
Wood	0.38	0.6%	7.96	1.5%
Hides & Skins	1.73	2.6%	11.96	2.3%
Food Products	1.23	1.8%	4.31	0.8%
Animals	1.14	1.7%	3.38	0.7%
Vegetables	3.06	4.5%	4.18	0.8%
Fuels	7.14	10.6%	3.37	0.7%
Minerals	0.36	0.5%	0.76	0.1%
Miscellanous	2.12	3.2%	61.60	11.9%
TOTAL	**67.42**	**100.0%**	**516.59**	**100.0%**

Indias Share in total imports of EU & Central Asia	**1.50%**
Chinas Share in total imports of EU & Central Asia	**12.83%**

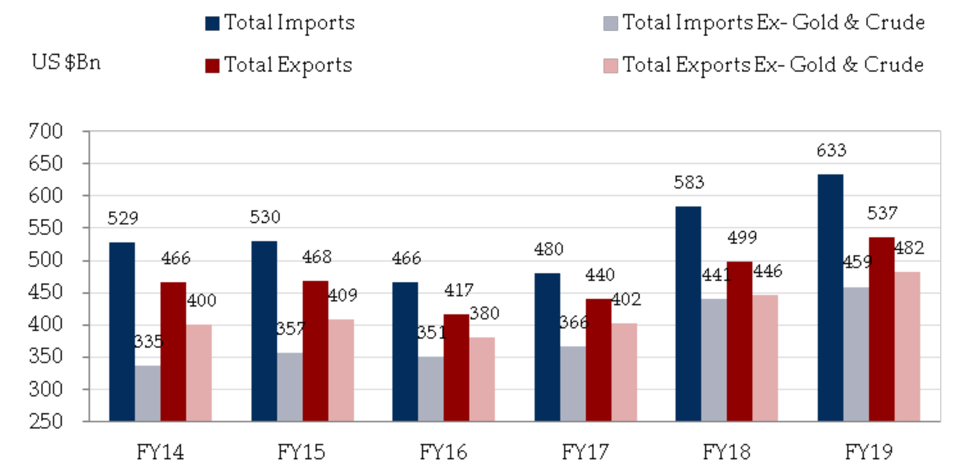
Source for Import & Export Data: Ministry of Commerce Annual Reports, World Trade Statistics & HSIE Research

- Machinery and electrical equipment (largely tech hardware) is a big category of imports in US, EU and Central Asia from China, which might be difficult to achieve in near term. However, categories such as apparel, transportation, chemicals, footwear offer relatively easier opportunities for India given India's own capabilities currently. Agri-processing is another area for India to gain prominence in given its resources.

Major Exports of India	$ Mn						CAGR
Commodity	**Mar-14**	**Mar-15**	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	
Petroleum Products	**63,177**	**56,794**	**63,177**	**56,794**	**37,465**	**46,397**	**-5.0%**
Chemical & Related Products	**30,794**	**31,731**	**32,169**	**32,779**	**37,560**	**43,758**	**6.0%**
-Bulk Drugs, Drug Intermediaries	3,611	3,561	3,597	3,384	3,540	3,911	1.3%
-Drug Formations, Biologicals	10,669	11,216	12,648	12,666	12,909	14,389	5.1%
Gems & Jewellery	**41,389**	**41,266**	**39,283**	**43,413**	**41,544**	**40,190**	**-0.5%**
Textiles & Allied Products	**36,968**	**37,141**	**36,968**	**37,141**	**36,049**	**36,879**	**-0.04%**
Machinery (Capital Goods)	**17,569**	**19,705**	**18,922**	**20,152**	**24,633**	**29,088**	**8.8%**
Agri & Allied Products (FMCG)	**32,954**	**30,147**	**24,522**	**24,549**	**27,778**	**28,434**	**-2.4%**
Transport Equipments	**22,165**	**26,636**	**21,336**	**23,163**	**23,481**	**26,699**	**3.2%**
-Auto Equipments	5,659	6,087	5,605	5,700	6,993	7,694	4.0%
-Vehicles	7,669	8,548	8,505	9,186	10,474	10,627	5.6%
Base Metals	**22,366**	**24,743**	**18,498**	**21,890**	**28,211**	**25,429**	**2.2%**
Plastic & Rubber Articles	**6,860**	**6,615**	**6,416**	**6,438**	**7,573**	**9,444**	**5.5%**
Electronic Items	**7,635**	**6,009**	**5,690**	**5,689**	**6,072**	**8,397**	**1.6%**
Total Exports of Merchandise	**314,400**	**310,300**	**262,300**	**275,900**	**303,500**	**331,000**	**0.9%**
Total Exports of Services	**151,800**	**158,100**	**154,300**	**164,200**	**195,100**	**205,800**	**5.2%**
Total Exports	**466,200**	**468,400**	**416,600**	**440,100**	**498,600**	**536,800**	**2.4%**

- Petroleum Product exports have witnessed a significant downfall in line with imports. Machinery, Electronic Items, Drugs & Biologicals have huge potential for growth (Despite +ve CAGR) and should play a big role in reducing the trade deficit

Imports & Exports Comparison



Winners in the paradigm shift

Sectors within our coverage which could see tailwinds include chemicals (Navin Fluorine, Alkyl Amines), Pharma (Aurobindo), Autos (Bajaj Auto, Maruti), Durables (Voltas, Havells), Cap goods/defence (L&T). Outside our coverage sectors, we see a range of potential beneficiaries across agrochemicals and fertilisers, solar panels, agri processing, plastics, auto components, steel products. We recommend investors to closely watch developments in these sectors to see signs of improvement for multi-year investible themes. Consumption and financials might take a back seat as they would revive with a lag after manufacturing and job creation led growth kicks-in

List of Stocks which would benefit

Sector	Coverage	Not covered/ Unlisted
Chemicals	Alkyl Amines Galaxy Surfactant Navin Fluorine	Aarti Industries Deepak Nitrite
Pharma	Aurobindo Dr Reddys	Mankind Intas IPCA Alembic Pharma
Consumer Durables	Voltas Havells Crompton Symphony	Dixon Amber Bluestar
Autos	Bajaj Auto Maruti Suzuki	
Industrials	L&T Siemens ABB	Kajaria BEL BEML
FMCG	Dabur Marico GCPL ITC	
Retail	Avenue Supermarts ABFRL	Fab India Reliance Retail

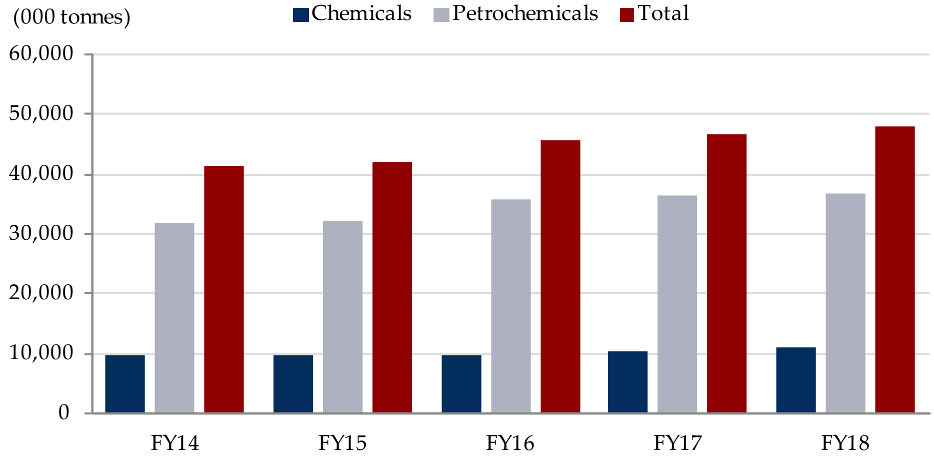
Source for Import & Export Data: Ministry of Commerce Annual Reports, World Trade Statistics & HSIE Research

Chemicals, Oil & Gas

Import substitution and export orientation opportunity for Indian chemical industry

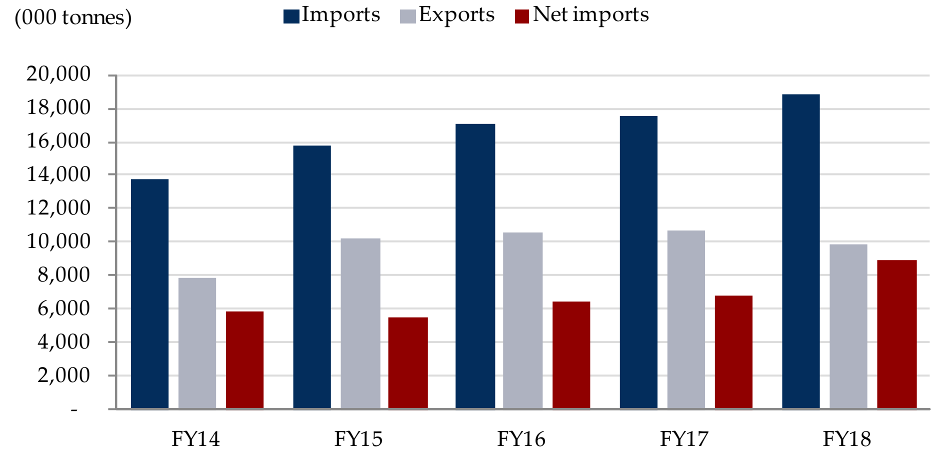
- Indian chemical industry is one of the fastest growing industry in the world. Currently it ranks 3rd In Asia and is 6th largest market in the world with respect to output after USA, China, Germany, Japan and South Korea. Indian chemical industry's growth is largely driven by country's consumption growth story and export opportunity. Chemical and petrochemical consumption grew from 41.3 Mn tonne (mmt) in FY14 to 47.8mmt in FY18 at CAGR of 3.7%. During the same period, imports jumped from 13.8mmt in FY14 to 18.7mmt in FY18 at CAGR of 8% while exports increased from 5.9mmt in FY14 to 8.9mmt in FY18 at CAGR of 5.8%. India is net importer of chemical and petrochemicals. This gives opportunity for Indian chemical manufacturers for import substitution. Besides, per capita consumption of chemicals in India is low even among developing countries. This makes India a very attractive destination to investment and grow.

India's chemical and petrochemical consumption trend



Source: Chemical and petrochemical statistics

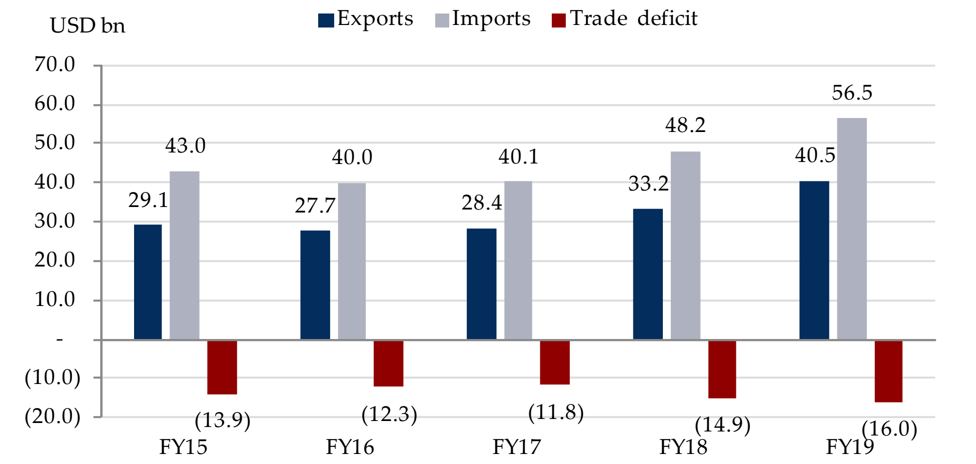
India's Chemical and Petrochemicals Imports-Exports



Source: Chemical and petrochemical statistics

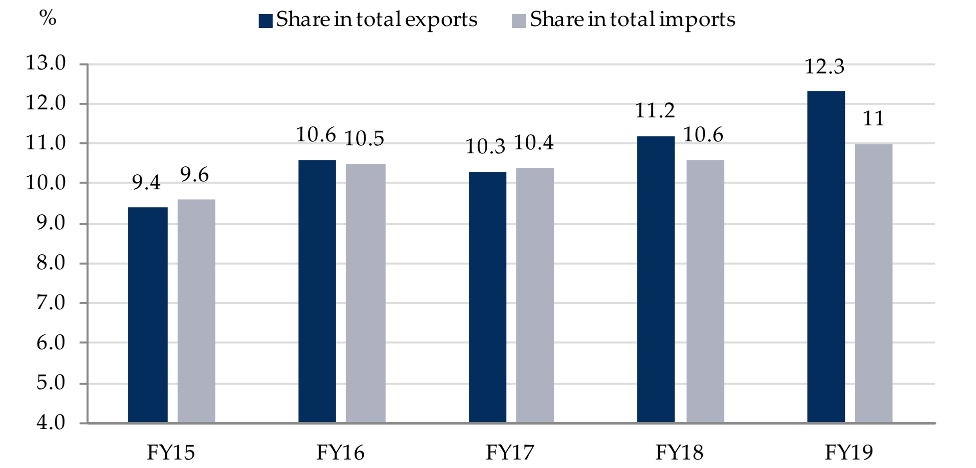
- India has a chemical trade deficit of USD 15.9 bn in FY19. Analysis of India's chemical exports and imports, opens up door to two opportunities- (1) Building self-sufficiency in chemical and petrochemicals to plug the domestic supply shortfall, (2) Increasing exports in value added products, specialty chemicals.
- The chemical industry already contributes significantly to India's export-import trade. Share of chemical and petrochemical imports was 11% in India's total imports value in FY19, up from 9.6% in FY15 while in exports it swelled to 12.3% in FY19 from 9.4% in FY15. Still India's share in global chemical and petrochemical trade is only 3%. This shows significant opportunity for Indian chemical companies.

India's export-imports and trade deficit of chemical and petrochemical (USD bn)



Source: Ministry of Chemicals & Fertilizers Department of Chemicals and Petrochemicals

Share of Chemical and Petrochemicals Exports and Imports in total value

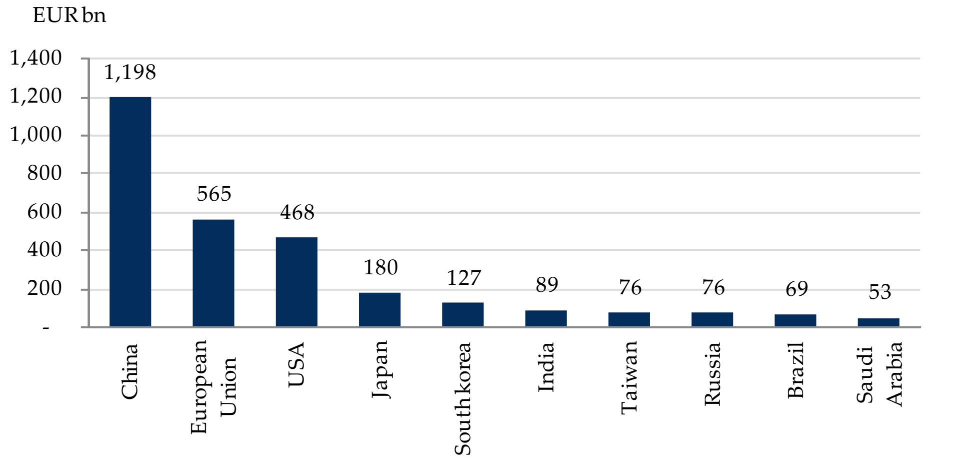


Source: Ministry of Chemicals & Fertilizers Department of Chemicals and Petrochemicals

China's Pain will be India's Gain

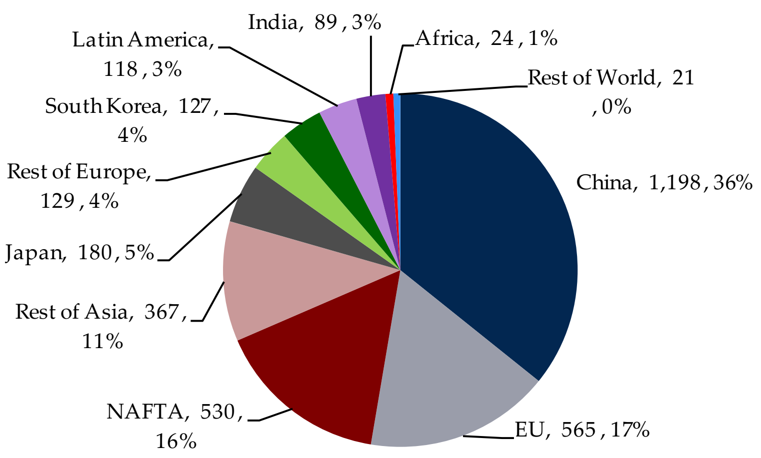
- Trade conflicts have erupted around the world, especially among China, the United States and Western Europe. These have led to shifts in global supply chains, affecting bilateral trade between China and the US. China is the largest chemicals producer in the world, contributing 35.8% of global chemical sales in 2018 with sales of EUR 1,198bn. India's contribution is merely 3% with total sales of EUR89 bn.
- USA has imposed tariffs on Chinese imports while China has responded with tariffs on USA goods. Subsequently, many countries in western Europe impose tariff on Chinese goods. Chemicals forms large part of china's exports to USA (EUR 10.9bn in CY2017) and Europe (EUR 16.4bn in CY2017).
- Imposition of tariffs will impact the trade between US/Europe and China adversely. Thus, many downstream multinational companies that imported the bulk of their chemical requirements from China may consider supplementing this supply from elsewhere. Large chemical markets that remain accessible in this scenario could present opportunities for Indian chemical companies.

Chemical sales by country: top 10 in 2018



Source: Cefic

China's share in global chemical sales increased to 36% in 2018



Source: Cefic

Opportunity in petrochemicals

- Petrochemicals are basic building blocks for downstream specialty chemicals. India faces challenges in sourcing petrochemical domestically. Basic chemicals and Petrochemical intermediates are top import segment among the chemicals. India has been facing significant domestic supply shortfall in commodity petrochemicals and petrochemical intermediates. This has led imports of these compounds to grow steadily at a CAGR of 6.6% over 2014-18. This domestic supply shortfall in petrochemical commodity and intermediates creates an attractive opportunity for oil refiners like RIL, IOC, HPCL, BPCL, MRPL etc. to enter into downstream opportunities or expand their petrochemicals capacities to compensate for the falling gross refining margins (GRMs). Besides this is the opportunity for pure play petrochemical manufacturers like OMPL, OPAL, GAIL etc.

Imports of basic and intermediate petrochemicals

Import (tonne)	FY14	FY15	FY16	FY17	FY18	FY19	CAGR
Commodity							
Ethylene	24,791	40,923	21,050	80,917	39,119	60,583	
Propylene	247	2,127	3,354	431	8,813	8,069	
Butadiene	113	4	28	9	21	3	
C6 (Benzene, Toluene, Xylene)	734,691	735,595	860,708	1,221,904	906,875	882,369	
Sub total	**759,842**	**778,649**	**885,140**	**1,303,260**	**954,828**	**951,024**	**4.6**
Intermediates							
C4-Raffinate	23,254	13,010	15,853	20,051	48,702	44,558	
Di-Ethylene Glycol	1,576	2,451	918	1,712	1,606	2,310	
Ethylene Dichloride (By Product)	439,537	465,292	600,033	503,987	713,334	581,677	
Phthalic Anhydride (PAN)	54,934	52,350	79,803	92,058	130,440	144,801	
Vinyl Chloride Monomer (VCM) (By Product)	303,042	317,887	358,872	344,424	484,390	457,532	
Sub total	**822,343**	**850,990**	**1,055,480**	**962,232**	**1,378,472**	**1,230,878**	**8.4**
Total	**1,582,185**	**1,629,639**	**1,940,620**	**2,265,492**	**2,333,299**	**2,181,902**	**6.6**

Scope for Specialty chemicals

- Specialty chemical industry can be subdivided base on end-user industry into agrochemicals, dyes and pigments, personal care ingredients, polymer additives, water chemicals, textile chemicals and application driven segment. These are the largest constituents of the specialty chemical industry and cumulatively constitute over 80% of the specialty chemicals universe.

- Low cost labour and raw material availability have been the advantages enjoyed by Indian chemical manufacturing companies traditionally. However, increasingly, specialty chemicals companies are focusing beyond these traditional cost advantages and have evolved as a robust and reliable supplier of specialty chemicals. In agrochemicals, there focus is largely on branding and distribution. Many companies have shown product development capabilities and have exhibited their competences like Aarti industries, Navi fluorine, Vinati organics etc. Surfactants and dyes are areas where scale and operational efficiency are the success factors. Here, companies are increasingly become highly integrated and scale up their capacities over the period.

- The growth for specialty chemicals is driven by both domestic consumption and exports. For agriculture chemical growth has a strong linkage to the growth of the rural economy while for application driven segment it is driven by the overall growth of the industry. In certain segments such as agrochemicals, dyes and pigments flavours and fragrances a significant proportion of production in India is exported. Exports are growing rapidly as India is becoming an important manufacturing hub for such chemicals tightening environmental norms in developed countries and the slowdown of china is contributing to the growth of exports.

Opportunity for companies under coverage

Alkyl Amines and Balaji Amines

- The demand of amines from pharmaceuticals and agrochemical cater through imports. India imported >63mt of methyl amines and its derivatives and 42mt of acetonitrile in FY19. Alkyl and Balaji have doubled their capacities over last five years still there is enough opportunity for import substitution. Alkyl is expanding methyl amines and acetonitrile capacity to tap this opportunity. Balaji Specialty chemicals, subsidiary of Balaji amines has commissioned Ethylenediamine (EDA), Piperazine (PIP), Diethylenetriamine (DETA) plant in 2HFY20. All these products are import substitutes and first time being manufactured in India.

Galaxy surfactant

- Galaxy surfactants exports entire specialty care and ~50% performance surfactant to Africa, Middle East & Turkey (AMET), Europe and US market. Exports contributes ~65% to its revenue. Global outbreak of the virus will spur demand for hygiene products, in domestic market as well as in Europe and US, triggering higher consumption of personal care products such as hand wash.

Pharma

Indian pharma industry supplies ~20% of global demand for generic medicines in terms of volumes. However, the industry's reliance on imports of bulk drugs is very high. **India imported USD3.56bn worth of bulk drugs in 2018-19 of which ~70% (USD2.4bn) was from China** (as per Trade Promotion Council of India). With high import dependency, the industry is at risk of supply disruption and unexpected price movements.

Indian API industry ranks third globally, next to China and Italy. China accounts for ~20% of global API output. Over the years, the availability of low cost imports eroded India's manufacturing capacity of many bulk drugs. The dependence on China is very high for certain fermentation-based APIs (antibiotics), vitamins and many key starting materials (KSM). In light of Covid-19 outbreak, the importance of being self reliant cannot be overemphasized.

Policy measures announced, fast-paced implementation is the key:

In Mar 2020, Indian government announced package of Rs99.4bn for bulk drug industry to boost domestic production and exports.

Bulk drug parks scheme:

- Approval to set up three bulk drug parks with common infrastructure facilities with an outlay of Rs30bn over the next five years.
- These bulk drug parks will have common facilities such as solvent recovery plant, distillation plant, power & steam units, common effluent treatment plant so that all material and ecosystem necessary to manufacture drugs are available at the same point.
- The government will give grants-in-aid to the states with a maximum limit of Rs10bn per park.

Production linked incentive (PLI) scheme:

- The government approved Rs69.4bn for a production linked incentive (PLI) scheme for promoting domestic manufacturing of critical KSMs/Intermediates and APIs in the country. They have identified 53 key APIs, including paracetamol and antibiotics, pencillin and ciprofloxacin whose output will be boosted on priority.
- Financial incentives will be given to eligible manufacturers of these 53 critical bulk drugs on incremental sales over the base of (2019-20) for a period of six years. Of these 53 drugs, 26 are fermentation based bulk drugs and 27 are chemical synthesis based bulk drugs.
- In the near term, the government is mulling to provide fiscal and capital subsidy to revive defunct API units to boost production of bulk drugs

Impact on API industry:

- The Indian bulk drug (API and intermediates) industry is estimated to be ~Rs963bn in size. The API industry is largely fragmented and dominated by MSMEs. The top 14-16 players account for ~16-17% of the market. Most large and mid-sized players export to large regulated markets whereas mid to small players mostly export to semi regulated markets and serve the domestic demand.

- We believe the Indian API industry has capabilities (strong regulatory and chemistry skill set, skilled workforce, stringent regulatory compliance) to not only become self reliant but also to gain market share globally in the long run. Import substitution itself can potentially open up an opportunity worth ~USD3.56bn for the industry.

- Furthermore, global companies want to de-risk their supply chain especially for certain critical APIs for which they are heavily reliant on single country. Companies are looking at alternate source of procuring these APIs/KSMs and/or contemplating to manufacture them in-house. We believe Indian companies can be the biggest beneficiary of this shift given our cost competitiveness, proven manufacturing capabilities and higher number of regulatory approved plants. With the adequate support of government and all stakeholders, Indian API industry can cement its position as a global hub for API supplies.

- Below mentioned are some of the companies which can potentially benefit from the above mentioned government initiatives.

- **Listed players**: Aurobindo, Divis, Dr. Reddy's, Ipca, Laurus Labs, Neuland Labs, Alembic Pharma, Shilpa Medicare, Jubilant life Sciences, Dishman, Biocon, Solara Active Pharma, Sequent scientific, Aarti Drugs

- **Unlisted Players**: Mankind, Intas, Hetero, Symed Labs, Smilax Labs, Concord Biotech, Virchow, Vasudha Pharma, Symbiotec, Covalent Labs, Porus Labs

Consumer Durables

We believe Atmanirbhar Bharat will have significant impact on the Consumer Durable sector as it has high dependence on imports (particularly from China). Govt. has already been pushing Make-in-India campaign since the last 5 years and wanted to be less reliant on imports. Many foreign and Indian players are setting up plants in India and the pace can further accelerate led by corporate tax benefits (Sec 115BAB- 17% ETR for domestic mfg companies set up after 1st Oct, 2019 till 31st Mar, 2023) and govt.'s push for make in India. Covid-19 has already shattered companies and trade partners (particularly cooling products) wrt fear of product unavailability from China. We expect sector will see more manufacturing in India and can also gain share in global market.

Focus on reducing dependence on imports

- Atmanirbhar Bharat campaign can further accelerate focus on reducing dependence on imports. Consumer Durable market (including IT and Mobile) is close to Rs 3,600bn (USD 48bn). IT (laptop, etc) and Mobile has high share (60-65%) in the sector and is highly reliant on imports (particularly from China). Many foreign players are setting up plants in India and the pace can further accelerate over the next 3-5 years led by corporate tax benefits (Sec 115BAB) and govt.'s push for make in India.
- Consumer Durable market (ex-IT and Mobile) is also a sizeable market (Rs 1,300bn) driven by C&W, Lighting, Ref, RAC, Washing M/C, Fans, and Microwave etc. Most of these products are manufactured in India but it still has high dependence on imported raw material (Compressors for RAC and Ref, LED chips, etc) and small electrical appliances.
- Companies are not only focusing on less dependence on imports (higher share from own manufacturing and local sourcing) but also focusing on reducing import dependence on particular country. Voltas (Beko) and Havells (Lloyd) have also entered into large home appliances and with their manufacturing ability we expect that Indian manufacturing of larger home appliances will further increase.
- Companies like Dixon and Amber, who are third party manufacturers of Washing M/C, Lighting, TV Panels, and Air Conditioners, are competent wrt to product quality with cost efficiency. Such OEM players can also increase share of local manufacturing.

% of Price	FY14		FY17		FY21P	
	India	China	India	China	India	China
FPD TV						
Raw Material	65%	60%	60%	55%	50%	50%
Utilities	13%	13%	13%	14%	12%	15%
Labour & Overheads	12%	13%	13%	16%	13%	20%
	90%	**86%**	**86%**	**85%**	**75%**	**85%**
Mobile Phones						
Raw Material	70%	60%	65%	55%	55%	53%
Utilities	12%	13%	12%	14%	13%	15%
Labour & Overheads	12%	13%	13%	18%	13%	20%
	94%	**86%**	**90%**	**87%**	**81%**	**88%**
Washing Machine						
Raw Material	58%	54%	54%	52%	45%	50%
Utilities	13%	12%	12%	13%	12%	14%
Labour & Overheads	12%	13%	13%	16%	13%	18%
	83%	**79%**	**79%**	**81%**	**70%**	**82%**
LED Lamps						
Raw Material	70%	65%	60%	50%	50%	48%
Utilities	12%	13%	12%	14%	13%	15%
Labour & Overheads	12%	13%	13%	16%	13%	18%
	94%	**91%**	**85%**	**80%**	**76%**	**81%**

Source: Dixon RHP

- Manufacturing in China is expected to get costlier as labour cost increases progressively. The table above presents a comparison of costs incurred while manufacturing in India vs China. As the cost of manufacturing in India reduces, due to stable labour and utility cost, we expect to see more cos shifting manufacturing here to India. Indian cos with existing manufacturing capabilities will be in an advantageous position to competitors from other countries in international markets and could witness market share gains.

Exports opportunities

- India is a net importer of electrical goods driven by high imports of Mobile, IT (laptops, etc) and raw materials for large home appliances. However, many Indian companies have a manufacturing edge in Lighting, C&W, Fan and Switch Gears. Cos are already exporting these products to a few countries but still, share from exports is very low. Indian companies are also cost competitive for many products (comparing China) and better scale of operations can further control cost. Havells and Crompton MGTs have already mentioned on increasing focus on higher revenue from exports. With high focus on Make-in-India and Atmanirbhar Bharat campaign, we believe export of these products can increase significantly.

- Cables and Wires will gain increased traction as the need for high speed broadband will increase due to cos adopting work from home and more cos move towards shifting manufacturing and operations to India. Havells, KEI, Polycab and V-Guard could be beneficiaries due to a strong presence in the domestic market.

- Voltas and Blue Star are having presence in international market through their EMPS business. They have strong presence in MENA and African markets.

- Symphony has an opportunity to gain market share in the international market through its subsidiaries in Mexico and Australia. Currently, co supplies a significant portion of sales in Mexico through products produced in India. It has also begun cross selling into the Australian and US markets through its subsidiary.

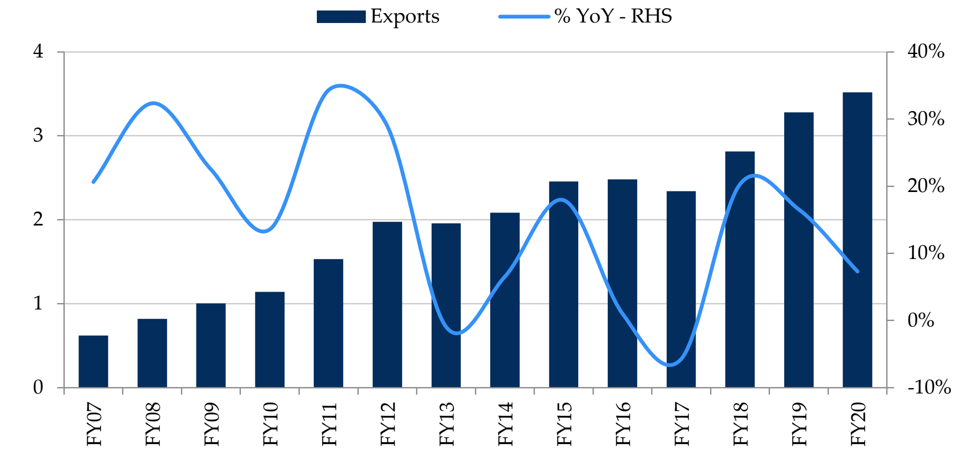
Market share gain for Indian companies

- Covid-19 is also expected to benefit Indian companies in terms of gaining market share. RAC market which is largely split equally between Indian (Voltas, Lloyd, Godrej, Videocon, Onida, etc) and foreign players (LG, Daikin, Whirlpool, OGeneral) can also see a swing towards Indian players. Voltas is already market leader with 24% share and has also become no.1 player in the inverter AC after beating LG. Demand for cooling products in the ongoing summer 2020 has been disrupted due to Covid led lockdown. However, our channel checks suggest that demand for Indian brands have been relatively good. A similar trend is also likely to play out for other appliance categories if the Atmanirbhar Bharat campaign gets more success. TV Panels have been significantly disrupted by Chinese players over the last 2-3 years, there is a possibility that the trend can reverse (positive for Lloyd). Voltas (Beko) and Havells (Lloyd) have also entered into large home appliances, we expect that it will increase market share of Indian companies in the large home appliances segment too.

Autos

- **Two-wheeler exports:** Indian auto industry has matured over the past decade and has emerged as one of the success stories with regards to exports. The two-wheeler segment is the largest in the world with annual production in excess of 20mn units. The benefits of scale manufacturing have enabled exports of two wheelers to regions across the world including South America, Africa as well as Asian countries. Thus, two-wheeler exports have risen 14% CAGR over FY07-20. Export volumes now stand at 3.5mn units p.a. and account for 17% of total industry sales. In Africa, Bajaj Auto is now the leading OEM in large markets such as Nigeria with an aggregate market share of ~40%. The Pune based company now derives 45% of its vols from the overseas markets.

Indian 2W exports (in mn units)



Source: SIAM, HSIE Research

- Further, Bajaj has bought a significant stake in European premium bike maker - KTM. Thus, the Indian facility is now being utilised to manufacture sub 500cc bikes for KTMs global markets. A similary strategy is also being adopted by TVS and BMW - where the south based OEM is producing sub 500cc bikes for the latter's global operations. Similar tie ups are now shaping up as Bajaj has collaborated with Triumph and TVS has recently bought Norton, UK. Another luxury bike maker - Royal Enfield is exporting its 650cc segment bikes to developed markets including USA and Europe as it has entered the global mid-size lifestyle segment.

- **Three-wheeler exports:** Bajaj Auto, followed by TVS are the largest exporters of 3Ws. The industry export volumes currently stands at ~5 lakh units. Three-wheeler exports have risen 10% CAGR over FY07-20.

OEMs	FY20 exports as % of volumes
Bajaj Auto	47%
Eicher Motors RE	6%
Hero Motocorp	3%
TVS	26%
2W Industry	***17%***
3W Industry	***44%***

- **Passenger car segment:** Passenger car segment in India has several multinational OEMs that have set up base here. The low-cost manufacturing advantage has enabled the various passenger car cos to supply compact vehicles to global markets including in Europe, Africa amongst others. Passenger car exports now account for 20% of overall car sales with Hyundai in particular deriving 26% of sales from exports. Export volumes are ~6.7 lakhs in unit nos.

OEMs	FY20 exports as % of volumes
Hyundai	26%
Mahindra	6%
Maruti	7%
4W Industry	***20%***

- **Increasing technical know-how:** Indian OEMs such as Tata Motors and Mahindra have acquired marquee brands overseas including the British based Jaguar Land Rover and Ssangyong, Korea. The know-how and joint collaboration with these companies has enabled the local OEMs to become self-reliant for their technology requirements in India. The locally produced cars from Tata have significantly improved in design and quality as the Indian OEM is incorporating learnings from the global subsidiary. Similarly, Mahindra is collaborating with its Korean subsidiary to jointly develop cars (XUV300) and gasoline power trains.

- **Auto ancillary exports** in FY19 were at $15bn, accounting for ~20% of total industry turnover. The auto ancillary industry exports multiple components including forgings, engine components, suspension and braking components, amongst others. The industry exports to the developed markets including USA and Europe. The exports are cost competitive due to India's low manpower costs coupled with technical expertise. Also, as several Indian companies have bought businesses abroad and multinationals have set up base in India, the local production is being shipped abroad to sister companies.

- **Imports:** While imports range between 5-25% across cars and two wheelers, the OEMs and auto part companies are making efforts for import substitution. The imports are for high end components including electronics, sensors and engine components. Leading OEMs such as Maruti have set up their own R&D facilities including test tracks, which will enable them to shorten design and develop times for vehicles. Maruti's imports are at 18-20% of sales and the OEM is attempting to lower the import of direct components. Similarly, part of the imports are offset by exports of passenger cars. Imports are typically from Europe and Asia - any disruption due to restrictions from Chinese based imports will be limited in our view as India does not import a significant portion from that country.

Industrials & Defence

Data centers, setting manufacturing facilities and associated infrastructure may benefit EPC players

- Demand for storing data locally will push the demand for data centers and storage of data in Indian Servers rather than global servers. Further, per capita increase in data consumption will lead to demand for data servers and storage. Both Indian and Global companies are exploring options to invest in data centers in India. Localization of data storage may lead to construction of large data centers near coast rather than Cities, as undersea cables for data transmission may require huge last mile connectivity. Setting up manufacturing offices and buildings shall augur well for EPC players like Capacite, Ahluwalia Contracts and Larsen & Toubro. Automation and Power solutions for these data centers may be positive for Capital Good players like Siemens, ABB India etc. Currently, data centers is not a big part of the overall ordering. We estimate about Rs 100-150bn of Data centers awarding opportunity over the next 3-4yrs.

Export opportunities in SAARC, MENA, Europe etc

- Siemens Ltd, ABB India, KSB Ltd, Honda Siel, etc export capital goods to MENA, SAARC, Europe, USA etc as part of global supply chains. They also import components which currently are not part of indigenous manufacturing. Export accounts for 15-20% of revenue for these companies. ABB India has earlier highlighted that it has been increasing localization in manufacturing and that has helped in improving gross margins. Even at current manufacturing locations capacity expansions can be carried out without new land acquisition. The global supply linkages need to be aligned and Indian Govt's intent to make exports more conducive need to be followed in spirit for making the Atmanirbhar program successful. Local manufacturing needs to not only suffice domestic demand but also open up exports markets. Capital Goods companies likely to benefit include: Siemens, ABB, KSB, Honda Siel, Cummins India etc.

Setting up infrastructure, roads, power grids, logistics, warehousing, port connectivity etc will encourage development of manufacturing hubs

- Indian National Infrastructure Pipeline program of Rs 111tn envisages taking up Infrastructure investment from 5% to 10% of GDP over next 2-3yrs. Infrastructure has been a key bottle neck where India lacks the competitive advantage. Debottlenecking, port connectivity, DFC, Airport Modernization, Industrial warehouses, subsidized land, long term manufacturing facilities on say 9-10yrs lease, low cost of capital, highly skilled work force are some of the factors which may tilt scale once the global supply chain get more distributed to other countries. India has advantage of low cost of labor, and infra development will accelerate localization. Industrial Automation to improve productivity and digitalization will reduce capex outgo. Companies to benefit include: Larsen Toubro, Siemens, ABB, KNR, PNC, Ashoka, KEC, Kalpataru Power, etc.

Vocal for local and Atmanirbhar to benefit toll operators as toll growth is directly linked to GDF growth

- Toll volume growth has 0.9-1.2x GDP elasticity. Local manufacturing will increase local traffic right from raw materials sourcing to final product manufacturing. The multiplier effect will aid improved toll collections and IRRs for Private/Public toll companies. Rising income levels will help passenger car traffic in second leg of growth as first leg commercial traffic will increase. NHAI toll asset portfolio valuation will also increase and demand for TOT monetization will see increased interest. This will make additional funding available for Indian Highways roll out program. Companies like, IRB Infra, Ashoka Buildcon, IRB Invit Fund will benefit.

Company	**Segment**
Real Estate	
DLF	Residential, Office, Retail
Prestige Estates	Residential, Office, Retail
Brigade	Residential, Office, Retail
Sobha Ltd	Residential, Affordable Housing
Kolte Patil	Residential, Affordable Housing
Puravankara	Residential, Affordable Housing

Company	Segment
Capital Goods	
Larsen Toubro	Heavy Engineering, Buildings, Fabrications
Siemens Ltd	Automation, Manufacturing
ABB India	Automation, Manufacturing
EPC	
KNR Constructions	Highways
PNC Indfra	Highways
Capacite Infra	Super High Rise buildings, Data Centres
Toll Operators	
IRB Infra	Toll operators
IRB Invit	Toll operators
Ashoka Buildcon	Toll operators

Defence

In the fourth tranche of "Atmanirbhar Bharat" package, govt. announced hiking of FDI limit in defence sector from 49% to 74% under automatic route and banning imports of certain weapons & platforms, amongst other measures, to indigenize defence. We believe both the measures are positive in long term and will help in substituting imports of mid to low tech equipment. Though, dependence on imports for high tech weapons will continue. With persistent thrust for local manufacturing, India has cut its defence import bill by 32% in CY14-19 (vs CY10-14) and propelled exports by 11x during FY14-19. Push for localizing defence could benefit L&T (BUY), BEL, BEML, HAL & BDL (Bharat Dynamics).

Imports down, exports up

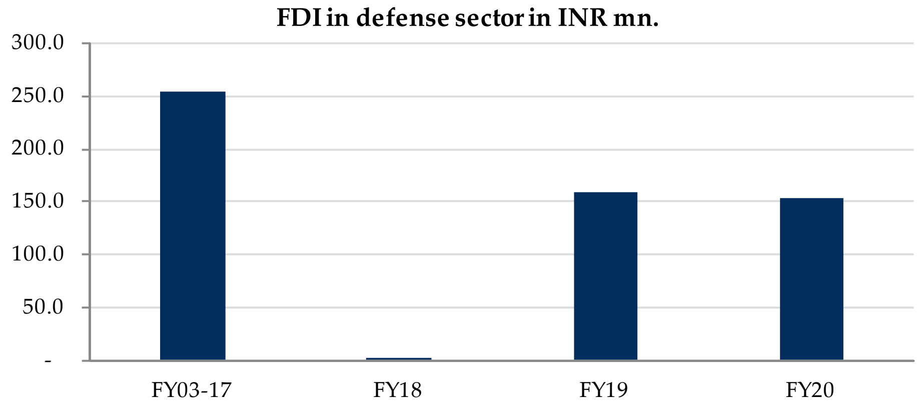
- As per report by SIPRI (Stockholm International Peace Research Institute), India's defence import was USD 13bn over CY14-19, 32% below CY10-14 period. This is on the back of rising production by DPSU (6% CAGR in FY14-19, including OFB) and private players (11% CAGR in FY17-19). Despite substantial cut on imports, India still figures second, after Saudi Arabia, on the list of largest importers of weapons, signifying room for further localization. Nevertheless, India has taken a huge stride in exports of defence equipment, increasing 11x over FY14-19 and plans to clock revenue of USD 5bn a year by FY23.

List of companies likely to benefit on Atmanirbhar Bharat Abhiyan

COMPANY	PORTFOLIO OF PRODUCTS
L&T	Submarines, anti-submarine warfare, interceptor boats, rocket launchers, torpedo launchers, floating dock, control system
BEL	Weapon systems, naval system, radars, coastal survelliance system, simulators, batteries
BDL	Light weight torpedo, AKASH weapon system, medium range surface to air missiles
HAL	Light utility helicopters, dorniers, light combat aircrafts, avionics
BEML	Armoured vehicles, Rocket launcher, tompoon bridge,
BHARAT FORGE	Advanced towed artillery, BHARAT-52
ASHOK LEYLAND	Military vehicles
TATA MOTORS	Wheeled amphibious platform
TATA BOEING	Aero components
TATA ADVANCE SYSTEM	Aero components
MAHINDRA DEFENCE	Armour Shielding
DASSAULT RELIANCE	Aero components

Source: Companies, Ministry of Defence

FDI in defense sector



Source: DIPP, FY18 – FDI is Rs 0.8mn

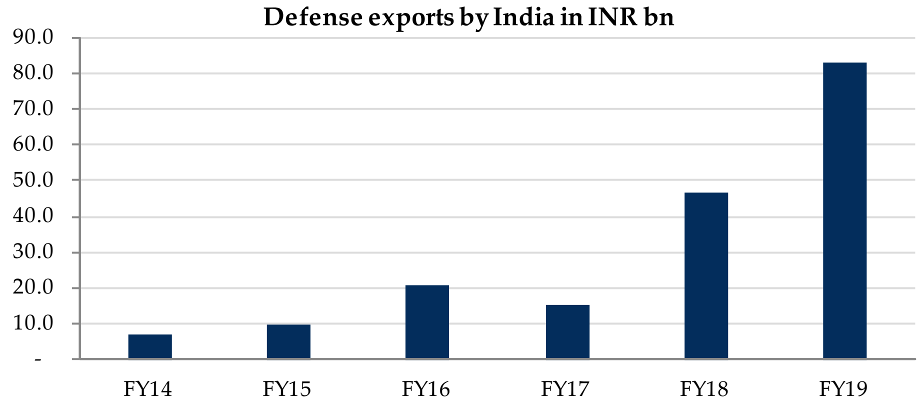
India Defence: High reliance on imports:

- India's defence expenditure budget has grown by 6.1% CAGR over last 5 years (FY15-20). Expenditure budget (ex-Defence salaries, Defence Civil, Revenue expenditure) for FY21 has been pegged at Rs 1.13tn (USD 14.7bn) towards capex. India has been relying on imports for its defence procurement. To encourage domestic manufacturing, Govt. opened up the sector for 100% private participation in 2002 and has been relaxing FDI norms. Although FDI in defence still remains elusive, private participation has increased over the past few years. Production at DPSUs and OFB (Ordnance Factory Board) has also been ramped up but India is still dependent on imports for 70% of defence procurement, presenting ample opportunities to DPSUs and private players.

FDI policy tweak addresses concern of control over technology and operations

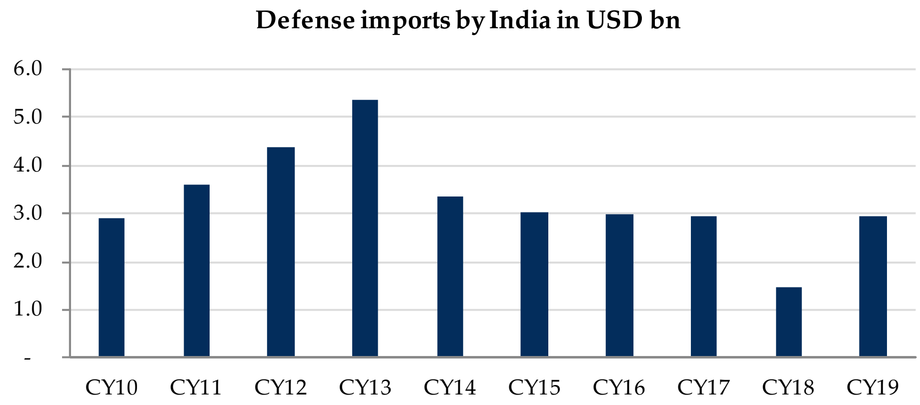
- Govt. unveiled slew of measures for defence sector in "Atmanirbhar Bharat" package: a) Increase in FDI limit from 49% to 74% under automatic route, b) Negative list for imported weapons, c) Corporatization of OFB and d) Separate budget for defence equipment made in India. As on FY20, cumulative FDI investments in India's defence sector remains at meagre Rs 569mn as cap on FDI limit to 49% denied MNCs control over technology and operations. Raising FDI limit to 74% solves this issue and would attract investments from MNCs. Creation of negative list and subsequent expansion of the list is a positive step for augmenting local production.

Defense exports by India



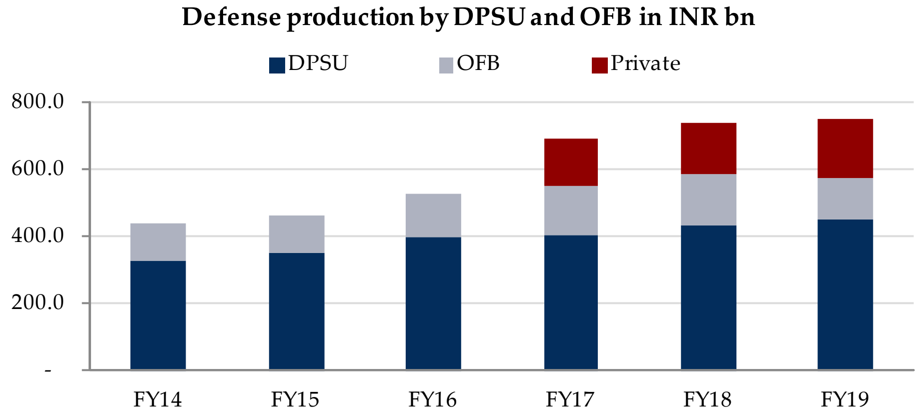
Source: Ministry of Defence

Defense imports by India



Source: World Bank (SIPRI)

Defense production by DPSU and OFB



Source: Ministry of Defence

Technology

The acceleration of digital has led to blurring lines between businesses and technology as technology has moved from being just an enabler and a differentiator to being 'the business'. 1) Rapid fall in cost of computing, 2) Expansion in digital user base, and 3) Proliferation of multiple technologies have unleashed new business models, improved efficiencies as well as created redundancies. Indian Tech's market attractiveness is supported by its scale of digital operations and a large consumer base (including ~700mn on internet). The growth catalyst towards self-reliance can only be supplemented by increasing investments in key technologies (Cloud, AI, IoT, 5G) to bridge the gap with BigTech/China Tech and benefit from the mega trends.

- **Indian Tech compass**: Indian tech sector has gained global eminence in multiple areas resulting in addition of >USD 100bn to revenue (touching USD 191bn ex-eCommerce with IT exports at USD 147bn) and >2mn tech job additions (4.4mn currently) over the past decade. Creation of strong tech ecosystem by Indian start-ups (>9,000 nos. and revenue of USD 54bn) including large number of deep tech, as well as growing base of global captive centres (>1,250 nos.) have aided growth in the sector.

Indian Tech (USD bn)	IT services	ER&D, Software products	BPM	Hardware	Total IT ex-eCommerce	eCommerce
Exports	79	34	33	0	146	
Domestic	18	6	5	16	45	
Indian IT Total	**97**	**40**	**38**	**16**	**191**	**54**

Source: NASSCOM

- Key foundational technologies such as Cloud, Big data & Analytics and Cybersecurity will drive growth, as per NASSCOM. The advanced technologies driving the impact include 1) AI, 2) IoT (wearables, sensors/NFC), 3) Robotics, 4) Blockchain (distributed ledger tech), and 5) Immersive media (AR/VR). There is increased usage of technologies like Deep Learning, Machine Learning, Robotics/Automation, and Natural Language Processing (NLP) in areas of Finance, Insurance, Retail, Healthcare, Defence, etc.

- **Investments are paramount to benefit from mega trends:** China has built a large tech ecosystem by invested heavily in technologies like AI, Industrial IoT, 5G, Data centres and EV charging stations (investing >USD 40bn/year on AI & data centres alone). This has led to creation of tech giants such as Baidu, Alibaba, Tencent and Huawei, supported by state ownership of carriers and regulation on BigTech. India's spend on AI is expected to grow at 39% CAGR over 2019-25 to USD 11.8bn, as per IDC and investments is paramount in order to grow disproportionately in a post-covid normalisation phase.

- The multi-year mega trends that'll create opportunities for the Indian tech sector has also been envisaged by NASSCOM under 1) Asian Economic eminence, 2) Mass urbanization & hyper-personalisation, 3) Environmental sustainability (smart solutions), 4) Data-led economy, and 5) Disrupted Future of Work (now distributed workforce). Global data has been doubling every 3 years and is expected to reach 175 ZBs by CY30. With a high share of M2M data and data with short span, requirement for real-time analytics and IoT technologies will boom. Demographic benefits for India such as high-share of incremental global middle-class and mass urbanisation will lead to creation of hyper-local clusters.

- **Indian e-commerce exponential growth opportunity:** India's eCommerce market is among the fastest growing B2C markets in the world growing at 25% including eRetail (51% of eCommerce) that grew 31% in FY20 and eTravel (41% of eCommerce) that grew 15%. The growth in various categories within eCommerce is being driven by fast growing digital payment base and investments in supply-chain infrastructure. The rapid expansion of customer base across digital channels such as eRetail, OTT & aggregators and access to capital provides exponential growth opportunities.

Source for Import & Export Data: Ministry of Commerce Annual Reports, World Trade Statistics & HSIE Research

FMCG

We believe Atmanirbhar Bharat would have minimal impact on Indian FMCG sector. Potential change in consumer trends led by this will be low owing to (1) High consumer stickiness, (2) Low imported products, (3) Most brands are market leaders, (4) High dependence on product availability, and (5) Highly trusted brands. However, ayurvedic/naturals trend can see more acceleration because of this trend. Sector has already witnessed share gain for ayurvedic/naturals products over the last 3-4 years. Many leading MNCs have also launched ayurvedic/naturals products after seeing a spike in demand.

Indian FMCG companies have done well in gaining share in the global market over the last 10 years. GCPL, Dabur, Marico have significant revenue share (30-45%) from international market (mostly in personal care categories). These companies have done well in Asia and few market of Africa. These companies have ability to further deeper in the existing market along with entry into newer geographies.

Following is the table that comprises impact of Atmanirbhar Bharat on each category in the domestic market and subsequent players in the category:

Categories	Possibility of impact of Atmanirbhar Bharat	Potential Change in Consumer Trend	Gainers	Losers
Packaged Food				
Biscuits	Low	It is already dominated by Indian players (Britannia, Parle, ITC) so there will not be any change	na	na
Bread, Rusk	Low	Largely led by regional players, so we do not see any change	na	na
Packaged Atta	Low	Largely led by regional players, so we do not see any change	na	na
Dairy products	Low	Largely led by regional players, so we do not see any change	na	na
Chocolate	Low	Largely led by MNCs (Mondelez and Nestle), but there is no strong domestic player who can replace these companies. We do not see any change	na	na
Edible Oil	Low	Largely led by regional and Indian players, so we do not see any change	na	na
Aerated drinks	Low	Largely led by MNCs (Coca-Cola and Pepsico), category has been already underperforming as consumers are shifting towards dairy based drinks and fruit juices. This trend can further accelerate	Dabur, ITC	Coca-Cola and Pepsico
Ice- Cream	Low	Largely led by regional and Indian players (Amul, Mother Dairy, Hatsun). HUL (Kwality Walls) is the only MNC player. We do not see any meaningful change in consumer trend	na	na
Noodles	Low	Largely led by MNCs (Nestle, Nissin), ITC is the only Indian player. Brand stickiness on Maggi will not change	na	na
Health Supplement	Low	Largely led by regional and Indian players, so we do not see any change	na	na
Fruit Juices	Low	Dabur and ITC can be the gainers	Dabur, ITC	Pepsico
Personal Care				
Hair Oil	Low	Largely led by regional and Indian players, so we do not see any change	na	na
Shampoo	Low	Largely led by MNCs (HUL, P&G), Indian players like Dabur can be the gainer	Dabur	HUL, P&G
Hair Color	Low	Largely led by MNCs (L'Oreal, Garnier), Indian players like Godrej can be the gainer	Godrej	L'Oreal and Garnier
Skin Care	Low	Largely led by MNCs (HUL, J&J, Beiersdorf), Indian players like Himalaya, Emami can be the gainers	Himalaya, Emami	
Oral Care	Medium	Naturals/Ayurvedic trend can accelerate, Dabur, Patanjali can be the beneficiaries	Dabur, Patanjali	Colgate, HUL
Deodorant	Low	Limited outings by consumers will reduce consumption	na	na
Male Grooming	Low	Largely led by MNCs (Gillette, Garnier), Indian players like Emami can be gainers	Emami	Gillette, Garnier

Categories	Possibility of impact of Atmanirbhar Bharat	Potential Change in Consumer Trend	Gainers	Losers
Home Care				
Detergent	Low	Largely led by MNCs (HUL, P&G), Indian players like Jyothy, Nirma, Rohit Surfactant (Ghari) can be gainers	Jyothy, Nirma, Rohit Surfactant (Ghari)	HUL, P&G
Soaps	Low	Largely led by MNCs (HUL, Reckitt), Indian players like GCPL, Wipro can be the gainer	GCPL, Wipro	HUL, Reckitt
Toilet Cleaner	Low	Fragmented market	na	na
Dishwasher	Low	Largely led by HUL and Jyothy	Jyothy	HUL
HI	Low	Largely led by regional and Indian players (GCPL, Jyothy). We do not see any meaningful change in consumer trend	na	na
QSR	Low	Most Pan India players are MNCs (Domino's, McD, Pizza Hut, Subway, etc), no impact on this category	na	na
Liquor	Low	Largely led by MNCs (UNSP, Pernod, Beam Suntory), Indian players like Radico can be the gainer	Radico	UNSP, Pernod
Cigarette	Low	ITC has 80% vol mkt share, no impact will be visible	na	na

International Presence of Indian FMCG Companies

Companies	International Revenue (Rs mn)					International Revenue Mix (% of total)					YoY Growth (Reported)				
	FY18	FY19	FY20P	FY21E	FY22E	FY18	FY19	FY20P	FY21E	FY22E	FY18	FY19	FY20P	FY21E	FY22E
GCPL	46,054	46,617	44,683	46,260	49,744	47%	46%	45%	44%	45%	1%	1%	-4%	4%	8%
Dabur	21,618	23,670	24,352	24,716	26,819	28%	28%	27%	26%	26%	-6%	7%	5%	1%	9%
Marico	13,642	15,780	16,569	16,646	18,311	22%	22%	23%	22%	22%	1%	16%	5%	0%	10%
Britannia	4,758	5,376	5,860	6,329	7,088	5%	5%	5%	5%	5%	-3%	13%	6%	8%	12%
Emami	3,014	3,356	3,595	3,419	3,662	12%	12%	13%	13%	13%	10%	11%	7%	-5%	7%

Source for Import & Export Data: Ministry of Commerce Annual Reports, World Trade Statistics & HSIE Research

Retail

We believe Atmanirbhar Bharat would have minimal/no impact across categories on Indian Retail sector. Potential change in consumer trends led by this will be low across F&G and Apparel retailers for varying reasons ranging from (1) Low imported products, (2) Reasonable-to-strong brand equity, (3) High dependence on product availability, and (4) Lack of a domestic substitute.

Economics dictates local sourcing in Food & Grocery and Value Fashion Retailing. (Wafer-thin margins). All Fast Fashion/Private label retailers (H&M, Marks and Spencer, Splash) have near 100% local sourcing. (with the exception of Zara, 100% imports). However, Zara's brand positioning remains unmatched in the geographies it operates in (21 stores primarily in Metros/Tier 1 cities). Legacy brands such as ABFRL and Arvind Fashions source ~85-95% of raw materials locally and can be increased to near 100% quickly, if need be. Also, their respective brand portfolios (Madura and AFL's Power brands) have strong brand equity and category share in their respective markets.

Given Thrust on vocal for local stronger Indian apparel brands might gain mkt share vs foreign brands.

In Jewellery, RM (Gold) is a global commodity with no meaningful domestic substitute (As domestic output of Indian gold miners remains immaterial). Banks/Gold Exchange schemes form the largest source of Gold for Organized Jewellers. Unorganized Jewellery largely relies on Gold Jewellery exchanges too.

Following is the table that comprises impact of Atmanirbhar Bharat on each category in the domestic market and subsequent players in the category:

Categories	Possibility of impact of Atmanirbhar Bharat	Potential Change in Consumer Trend and Sourcing mix
Food & Grocery	None	95%+ of F&G is sold in local Kirana stores. Strong Organized Retail plays already have a robust 'Discounter' positioning. Economics dictates 100% local sourcing
Fast Fashion (Apparel)	Low	Fast Fashion remains in infancy. Dominated by MNCs/JVs with MNCs and have a strong brand pull in Metros/Tier 1 cities. Ex-Zara, all source almost entirely from India.
Legacy Brands (Apparel)	Low	Strong legacy brands have reasonable brand pull and market share in relevant price points and in key markets (Metro/Tier 1). 85-95% of sourcing is local. Can easily be pivoted to near 100% sourcing if need be
Value Fashion (Apparel)	None	Entirely led by regional players, so we do not see any impact. 100% locally sourced
Ethnic Wear (Apparel)	None	Entirely led by regional players, so we do not see any impact. 100% locally sourced
Jewellery	Low	Entirely led by regional and national domestic players, so we do not see any impact. The RM (Gold) is a global commodity with no meaningful domestic substitute (As domestic output of Indian miners remains immaterial). Banks/Gold Exchange schemes form the largest source of Gold for Organized Jewellers. Unorganized Jewellery largely relies on Gold Jewellery exchanges too.

Cement

The Indian cement industry has always remained "Atmanirbhar". Owing to its peninsular topography, global trade to/from India for low value cement is largely unviable. However, the cement industry meets large chunk of its fuel (petcoke/coal) through imports, owing to low cost economics. In the long run, this import dependence is expected to reduce as the Indian govt is contemplating liberalisation of domestic coal mining.

- **India is the 2nd largest cement producer globally:** The Indian cement industry is the 2nd largest cement producer globally, after China. While China currently produces ~50% of world's cement, India's share stands at ~8%, followed by Vietnam and USA (~2% each).

- **Limited cement trade with the world:** Globally, cement exports account for ~5% of world production. Asian countries accounts for almost half of exports. However, the Indian cement industry has limited trade with other countries. This is mainly on account of India's peninsular topography and as cement is a low value, high volume commodity. This renders logistics costs too high to be economically viable. Thus, India exports a paltry ~2-3% of its total production – mainly to neighboring countries of Sri Lanka, Nepal, and Bangladesh. There is also marginal import from Pakistan in the northern region and clinker import from neighboring SE Asian countries in eastern region. However, these imports don't account for more than 1% of India's total demand.

- **Fuel import by the India cement industry:** While there is miniscule global cement trade, the Indian industry imports a large chunk of their coal/petcoke requirements for cement production. The industry largely operates its clinkerisation plants (more than 70%) on petcoke for its better cost economics, and the rest is on thermal coal. Majority of petcoke is imported from the USA and Middle-East. Even for electricity generation and clinkersation, Indian industry depends on thermal coal from Indonesia, South Africa and the USA owing to their better availability and cost competitiveness vs domestic supplies. As the Indian government is contemplating liberalization of the coal mining in India for end users like cement industry. This could drive reduction in fuel import by the cement industry in the long run.

Real Estate

Real Estate sector is largely indigenous

About 75-80% of real estate is residential of which 70-75% is indigenous and 5% of the ultra luxurious residential demand sees imports of building materials, viz lighting, fitting, house automation, tiling, sanitary wares etc. We estimate total annual residential demand at 360mn sqft or about Rs 2.1tn. Of this ultra luxurious would be 5% or Rs 110bn and imported building material and accessories could be anywhere 20-30% or Rs 30bn hence not meaningful.

Building materials demand can shift to Indian Industry

- Imported tiles, sanitaryware fitting, granite, lighting accessories, home automation can shift and localized/indigenized. Key beneficiary could include tiling/sanitaryware companies like Kajaria, Cera, Somany, Asian Granito, Hind Sanitaryware etc. In lighting space, Havells, Philips, Crompton, etc may benefit.

Increase in share of manufacturing in GDP may lead to incremental leasing/affordable housing demand

- Indian office demand is largely driven by services sector. The Atmanirbhar theme over longer term may lead to increase of manufacturing share in GDP. This will require more office space as India is still far behind developed economies in Grade A office stock. India's grade A office stock is about 530mn sqft which is similar in size when compared to Manhattan office stock of 520mn sqft. In near term, demand for back office, processing centers, medical transcription, IT/ITES will drive demand. Work from home may results in 12-15% demand shifting and another 12-15% may shift to floating offices in co-working spaces. From demand perspective about 15% will be replace by WFH or in an annual net India absorption of 45mn sqft, its about ~7mn sqft. This shortfall may partly get offset by manufacturing push in India. Also affordable housing demand will increase as the income levels increase with employment opportunities emerging from manufacturing expansion in India. **Rental office players likely to benefit include, DLF, Embassy REIT, Mindspace, Prestige Estates, Brigade Enterprises, Panchshil, RMZ, Salarpuria etc. Affordable residential players include – Brigade Enterprises, Kolte Patil, Sobha , Puravankara etc**

HSLIE Research Team

INDUSTRY	ANALYST	EMAIL ID	PHONE NO.
Head - Research (Consumer, Strategy)	Varun Lohchab	varun.lohchab@hdfcsec.com	+91-22-6171-7334
Autos, Logistics, Aviation	Aditya Makharia	aditya.makharia@hdfcsec.com	+91-22-6171-7316
	Mansi Lall	mansi.lall@hdfcsec.com	+91-22-6171-7357
AMCs, Brokerages, Insurance	Madhukar Ladha	madhukar.ladha@hdfcsec.com	+91-22-6171-7323
Banks	Darpin Shah	darpin.shah@hdfcsec.com	+91-22-6171-7328
	Aakash Dattani	aakash.dattani@hdfcsec.com	+91-22-6171-7337
	Punit Bahlani	punit.bahlani@hdfcsec.com	+91-22-6171-7354
Cement	Rajesh Ravi	rajesh.ravi@hdfcsec.com	+91-22-6171-7352
	Saurabh Dugar	saurabh.dugar@hdfcsec.com	+91-22-6171-7353
Construction & Infrastructure, Real Estate	Parikshit Kandpal	parikshit.kandpal@hdfcsec.com	+91-22-6171-7317
	Rohan Rustagi	rohan.rustagi@hdfcsec.com	+91-22-6171-7355
Consumer Durables, FMCG	Naveen Trivedi	naveen.trivedi@hdfcsec.com	+91-22-6171-7324
	Aditya Sane	aditya.sane@hdfcsec.com	+91-22-6171-7336
IT Services & Exchanges	Apurva Prasad	apurva.prasad@hdfcsec.com	+91-22-6171-7327
	Amit Chandra	amit.chandra@hdfcsec.com	+91-22-6171-7345
	Vinesh Vala	vinesh.vala@hdfcsec.com	+91-22-6171-7332
Oil & Gas, Chemicals	Harshad Katkar	harshad.katkar@hdfcsec.com	+91-22-6171-7319
	Nilesh Ghuge	nilesh.ghuge@hdfcsec.com	+91-22-6171-7342
	Divya Singhal	divya.singhal@hdfcsec.com	+91-22-6171-7348
Pharma	Bansi Desai	bansi.desai@hdfcsec.com	+91-22-6171-7341
Retail & Fashion	Jay Gandhi	jay.gandhi@hdfcsec.com	+91-22-6171-7320
	Rutvi Chokshi	rutvi.chokshi@hdcsec.com	+91-22-6171-7356

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com