Padma India Fund

FONDS professionell KONGRESS 2019
Mannheim, 30 – 31 January 2020
Reset of world’s 6th largest economy

- Demonetization
- Disruption in businesses
- Goods and services tax
- General election
- Slow down in investment
- Muted demand
- Non banking financial companies defaults
- Slump in rural economy
- Deceleration in GDP growth
- Real Estate Regulatory Act (RERA)
- Large corporates default on commercial papers
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Flight to safety

Total investments in INR trillion

- 201-500 companies: 18.5 trillion
- 101-200 companies: 12.0 trillion
- 51-100 companies: 5.5 trillion
- Top 50 companies: 5.5 trillion

Allocation per market cap

- 201-500 companies: 77%
- 101-200 companies: 33%
- 51-100 companies: 33%
- Top 50 companies: 100%

Source: GoI / Picard Angst AG
The impact on the stock market

- US – China trade war
- Iran sanction rise in crude oil price
- Essel Group financial stress
- US – China trade war
- Corp. tax rate cut
- GDP growth 4.5%
- General election BJP-Modi wins with majority
- IL&FS defaults on its commercial papers

Source: Bloomberg / Picard Angst AG
The Indian decade

**Demography**
India has a population of 1.35 billion people, over half of whom are under 27 years old.

**Economy**
India is currently world's 6th largest economy: GDP of USD 5 trillion is expected by 2025.

**Politics**
The world's largest democracy is politically stable.

**Innovation**
India is building its future on the latest technology and by promoting innovation.

**Consumption**
A fast-growing middle class will make India the world's 3rd largest market by 2025.

**Infrastructure**
Thanks to large-scale investments, India is making great strides in modernizing its infrastructure.
What to expect from Modi 2.0

2014 - 2019

1st mandate

- Ease of doing business
- GST implementation

Fix the basics

2019 - 2024

2nd mandate

- Infrastructure push
- ESG mandate to be incorporated in CY20
- Education
- Target to reach top 50 in ease of doing business

Corporate tax rate cut

Corporate governance is higher than ever

Recovery in corporate earnings

Boost private sector capex

Growth will improve

Affordable housing

Boost rural income

Increase in employment

Further facilitation of FDI inflow

Target to reach top 50 in ease of doing business

2014 - 2019

2019 - 2024
Leading indicators showing signs of recovery

No. of air passengers picks up

Normalization of non-performing assets (NPA) to support credit upcycle

Source: GoI / UBS
Improvement in ease of doing business

Ease of doing business – world rank

Corporate tax rate

Source: World Bank

Source: GoI / UBS / Picard Angst AG
Small and mid-cap valuation below average

Source: Bloomberg
Small & Mid Cap vs Nifty 50 Index

S&P BSE Small cap Index vs Nifty 50 Index

S&P BSE Mid cap Index vs Nifty 50 Index

Source: Bloomberg

SML (Small, Nifty)  SML Since Start  ---+1sd  ---1sd

SML (Mid, Nifty)  SML Since Start  ---+1sd  ---1sd

Source: Bloomberg
India will become the 3rd largest economy

GDP in 2018: 2.6 trillion USD

United States | China | Japan | Germany | UK | India | France | Brazil | Italy | Canada
---|---|---|---|---|---|---|---|---|---
- | 5,0 | 10,0 | 15,0 | 20,0 | 25,0

Government target GDP: 5 trillion USD by 2025

United States | China | India | Japan | Germany | Brazil | UK | France | Canada | Russia
---|---|---|---|---|---|---|---|---|---
- | 5,0 | 10,0 | 15,0 | 20,0 | 25,0

Source: GoI / Picard Angst AG
Changing consumer landscape

- Social media payment acceptance
  - 62% in India
  - 35% global avg
- Mobile-optimised shopping
  - 70% in India
  - 43% global avg
- Merchants payments
  - 81% in India
  - 63% global avg
- M-payments via apps
  - 98% in India
  - 90% global avg
- Consumer using m-payments
  - 88% in India
  - 71% global avg

Source: GoI / Outlook Business
Finance and technology

• The demographic shift with young population aspiring for a better lifestyle and increasing consumption offers great growth opportunities for consumer finance

• Indian banks have started to use Blockchain-linked funding for micro, small and mid-sized enterprises

• Cost effective innovative technologies will support the financial sector to grow at a faster pace

• India is on the way to establish itself as a leader in technological development and has an advantage of talent and low cost

• India ranks 3rd as the top global tech innovation leader behind USA and China and India is the 2nd most connected country in the world, just behind China

• Many companies are using emerging technologies to cater the Indian Millennials
Indian mid-cap vs Emerging market – short term

Source: Bloomberg

MSCI Emerging Market Index (USD)
Indian mid-cap vs Emerging market – long term

MSCI Emerging Market Index (USD) vs S&P BSE MidCap Index (USD)

Source: Bloomberg
Why small & mid cap?

- Leading indicators pointing towards a gradual economic recovery
- Government on the move to boost demand
- Corporate tax cut
- Underperformance sharpest in last 15 years and the valuations are very attractive
- The valuation gap between the Nifty Index and Small Cap Index is at a 20-year high
- Gain exposure to rapidly growing industries and business
- The Indian entrepreneurial talent is best captured in the small and mid cap companies
How do we tap India’s growth story?
Investment process

Screening process done on a quarterly basis. Criteria applied i.e. free float and trading frequency

Background check done on the corporate governance, the management and promotors’ integrity

Qualitative factors, growth potential and valuation

Subset of best in class companies
Share of private consumption

Source: Bloomberg / Picard Angst AG
Dixon is the largest player in the electronic manufacturing services. The company is mainly in the consumer electronic, home appliances and LED/CFL lighting, digital video recorder and mobile phone segments. Panasonic, Phillips, Xiaomi, Samsung are among its clients base.
KEI Industries Ltd.

KEI manufactures power cables and caters to various sectors such as power, railways, auto, cement, steel, oil refineries and housing. Brand visibility and increase in penetration will create strong retail franchise. The company has presence across the complete range of cables up to 400kV. It has a technological collaboration with Brugg Kabel AG in Switzerland.
Padma India Fund – daily performance

Source: Bloomberg
Risks

- Trade wars
- Geopolitical instability and stress in the Middle East
- Sudden surge in commodity prices, mainly crude oil price
- Regulatory changes
- Extreme movements in the exchange rates
Picard Angst – independent since 2003

Picard Angst is an independent Swiss financial service provider. We have been offering institutional investors a full range of services in structured products and accepting individual asset management mandates since 2003. We also offer a variety of investment funds. Picard Angst is subject to the Swiss Financial Market Supervisory Authority (FINMA).

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Booth 171
Level 2
Thank you.
India is a country of countries
Economy in 2020

Bottoming out
Power and auto demand the deceleration has decreased
Government has taken several measures that are long term in nature
Non performing assets (NPA) moving on the right direction and declining in provisioning will room for more lending.
If global factors are supportive the growth will be faster

Structural reforms lead to long term efficiencies with short term growth costs
Digital platform
Credit availability through bank reforms
Infrastructure investment push
PMI Mfg highest since July
Food inflation – farmers getting higher revenue
Reverse the weak sentiment and risk aversion
Corporate sector has deleveraged, so when the cycle turns the investment will pick up
Economy in 2020

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Economy in 2020

Ability of the financial sector to lubricate the rest of the economy would improve
The reforms such as GST have not added to GDP growth so far
Once stream lined efficiency-led spurt in growth over the medium term
Effective tax rate of 17% for new manufacturing companies is attractive enough for many US multinationals facing heat in China to move their manufacturing base to India. Will lay a good base to increase exports led by investments

Having addressed the supply the budget will focus on demand side (dvd distribution tax 20%)
Disinvestment of public sector utilities (PSU)