



## Equity Outlook

Multi-bagger sector to invest in:

India is evolving. There are thousands of reasons that can come in one's mind depending on the thinking to justify the evolution of India. We clearly believe that the single most factor attributing to the growth of India is the young age of population. The demographic dividend of India is structural in nature and impregnable. There has been a cultural shift in the mindset that borrowing or taking leverage is no longer an offense or a sin. This alone change in the thinking process has made Housing Finance Companies a multi-bagger investment opportunity in the past. The change in the approach to borrow at low cost of interest to own a car or a passenger vehicle will result in manifold increase in auto sales in future. The change of Indian mindset is a blessing in disguise.

Indian automobile industry is apparently one of the first ones to adopt and showcase the govt. theme of "MAKE IN INDIA" –the whole intent of this theme is to make quality products in India at a competitive rate, generate employment opportunities and create a platform to export the end product in the international market. The Indian automobile industry exhibits all of these traits and aptly placed to act as a lead example on the MAKE IN INDIA theme. Almost all big players are present in India today – Suzuki, Toyota, Honda, Hyundai, GM, Ford etc. Eyes of all these players are on the rising middle class, their aspiration for a value product and more importantly on the export markets.

Maruti is setting up a plant in Gujarat that will have a capacity to roll out a car every 15 seconds. The capacity of this plant is almost equal to the annual demand in India, but this plant is being geared up for the export market as well. The plans of almost all auto players are same in terms of capacity (for export market) and efficiency (time to roll out a product). Back end all suppliers (auto ancillary companies) or vendors are also geared for having supplies in place to meet the demand from auto manufacturer. In nutshell the Indian auto industry including its vendors has reached global levels and global expertise in manufacturing and is a role model for the Make in India theme.

A caveat that needs to be highlighted is the emergence of the electric car. Maruti has been successful because it could pick up the Indian nerve of "Kitna Deti hai". Electric Car, its arrival and emergence will sound the death knell for all of them. However, real research lies in being alone, being one of the first ones to pick an emerging trend, being able to visualize a trend that is likely to emerge. An observation we foresee is that there are products similar to the new arrival of electric car as well as the existing car models. We believe that investing in companies in the auto ancillary segment that caters to lights, wheels, horns, switches, mirrors and such ancillary products will be true multi-bagger in days to come. A corollary that emerges is that companies that cater to fuel injection systems, gaskets, engine products, pistons and almost all the products in the bonnet of the car could face a serious headwind in days to come. We in the PMS are bullish on the auto ancillary theme but obviously not en-masse but selective and strongly believe that lot of money making opportunity exists for the ones who dare to be brave...

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