The Upper Edge

Quarterly Investors' Digest

The Big Indian Fiscal Push

OCTOBER 2023 | ISSUE 2

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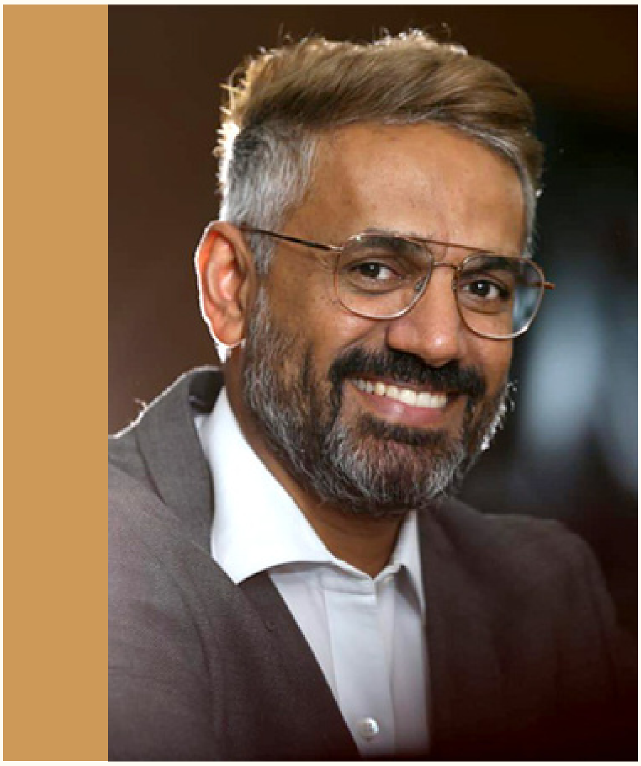


By Durgesh Pandya
Chairman, UpperCrust Wealth

Banking on New Opportunities

"Over the years, I've come to view complaints as opportunities rather than obstacles", Guy Winch, in The Squeaky Wheel.

Most investors had given up on the PSU (Public Sector Undertaking) space - largely by extrapolating harsh realities of how branch employees in PSBs (Public Sector Banks) would overflow with complacency, arrogance and non-negotiable lunch breaks.

On the other hand, private banks were gaining share. The simple math would be - if the Indian economy grows sustainably at 12-15%, and credit growth is at 15-20%, private banks could easily grow at 20-25%.

This convincing equation drove valuations for private banks and NBFCs, and PSBs on the other hand ended up becoming value traps. Traps that have managed to result in severe underperformance, even for the best fund managers out there.

But, times are changing, and fast. In the last one year, the Nifty PSU Bank index has rallied >60%, outperforming the Private Bank index, which is up just about 10%.

This sea change in how PSBs have performed is not just about PM Modi's 'Invest in PSUs' remark in the parliament. There is legit change on ground.

In the last quarter, PSBs recorded a net profit that was double of what was in the same quarter last year. Most banks also recorded NIMs of over 3%. And it's not just about the last quarter.

NPAs have come down to a 10-year low of 3.9% of total advances. At the same time, banks have recovered bad loans worth over Rs. 8.6 lakh crore in the last eight financial years.

Several measures by the government have helped in this revival, at the centre of which is the 4Rs strategy - recognition, resolution, recapitalisation and reforms.

Often, when faced with competition from private players, PSUs wither away with time. The slow decay has been glaring in cases like MTNL and Air India. But the option to die a slow death just isn't available for PSBs - they constitute to more than 60% of India's entire banking system.

Luckily, the government understands the gravity of the situation, and the structural opportunity of double-digit credit growth. Kickstarting improvement in even one of the pillars of capital adequacy, competitive funding costs, and prudent lending was enough to get the sector of a paralysis.

The beauty of this improvement from an investing standpoint is that - even if PSBs successfully stem their decline, let alone the possibility of thriving or reversing market share loss, valuations make for a colossal upside.

To put things into perspective - the 12 stocks in the Nifty PSU Bank Index have a combined market cap of Rs. 12 lakh crore. That's equal to HDFC Bank's market cap alone.

PSBs are trading at such a deep discount compared to private peers, that the slightest positive can lead to massive value creation. And the story of PSBs is just one of the cards in the pack.

In this edition of **The Upper Edge**, we bring forth several such pockets for you where government action has the potential to unlock multi-year opportunities of value creation in the new Bharat, which you as investors can participate in.

> As always, I invite you to get in touch via mail@uppercrustwealth.com if there is any aspect of our service to you that requires attention.

Anupes Pandya

Market Update

Bharat at the Global Centre-stage

By Manish Shah
Executive Director, UpperCrust Wealth

THE QUICK TAKE

> The steps India is taking are setting us for years of being the fastest-growing economy in the world. In this backdrop, the markets are bound to benefit from both - high growth, and high valuations.

Other than lighting up streets across the country, the G-20 summit brought India to the global centre-stage like never before. The country now commands unprecedented attention and soft power, making it the most preferred destination for any global company or investor.

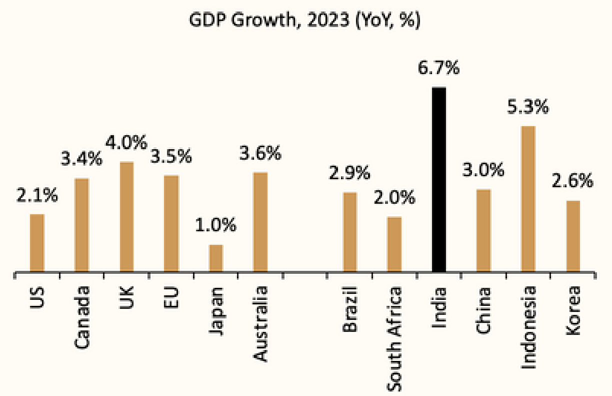
With 6.5% growth, India is expected to be the fastest-growing large economy in the world in FY24. This place on the podium is likely to remain for the next many years, with favourable and long-term oriented policy decisions.

The several elements that should support the multi-decadal rise of India include (i) inherent factors like favourable demographics, (ii) structural steps like the focus on digitisation and infrastructure, and (iii) tactical initiatives like Make in India, with the world looking for an alternative to China.

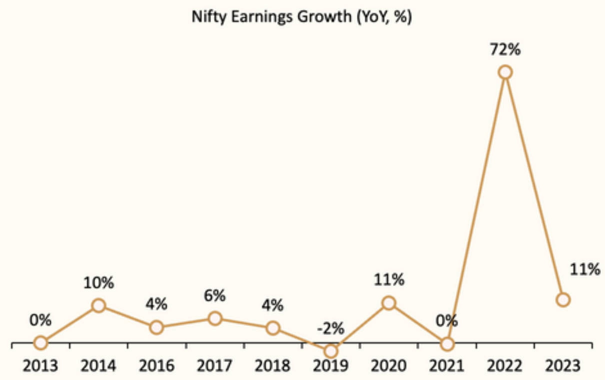
Most global investors do now realise the role India plays over the coming decades, and that's evident from India's weight in the MSCI EM (Emerging Markets) index doubling to 16% in just 2 years, and from FII inflows into India while the world struggles to find a safe place for their funds.

It is then not surprising that India now commands a valuation premium which is at record levels, compared to both the MSCI World and EM indices. In our experience, in periods of high growth, high valuations sustain. So ignore all that chatter, and stay invested or you will miss out on the hero's act!

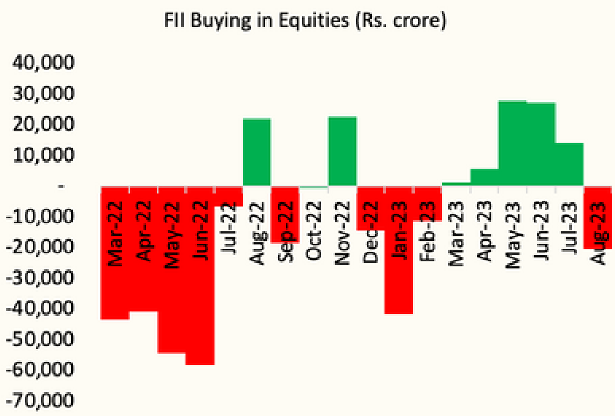
India's emerging as the fastest growing large economy in the world



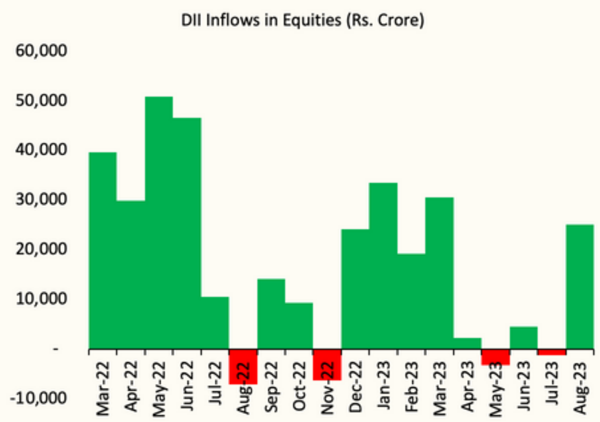
With a multiplier effect on corporate earnings



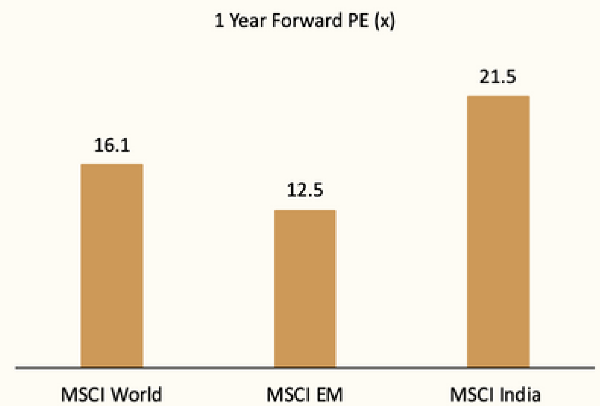
Resulting in inflows into Indian equities amid a global sell-off



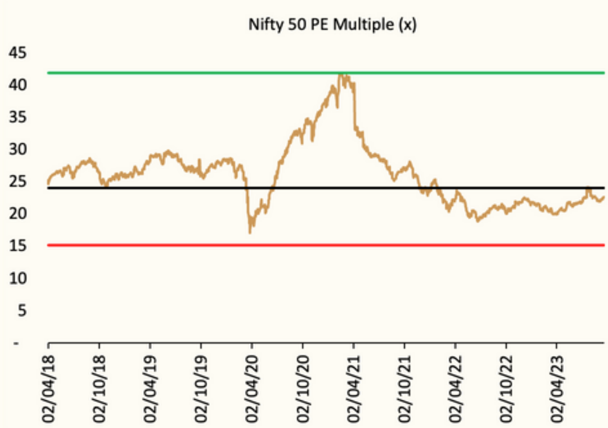
Combined with strong domestic buying



India is trading at a steep valuation premium compared to the world



But valuations are still near the long-period-average, leaving headroom



Economic Views

Investments for Today, and Tomorrow

By Yash Joshi
Director - Private Wealth, UpperCrust Wealth

THE QUICK TAKE

> The aggressive fiscal policy that the government has undertaken is not just lifting economic growth now, but is also set to result in high and stable growth over the next many years.

India's economic growth has been good, but lumpy over the last three decades, post liberalisation. The challenge for the current India-centric narrative to stand is for growth to follow a high and stable trend.

India has come out of the pandemic very strong, with 7.2% growth in FY23, and is expected to remain the fastest growing within the G20 even in the next year - reflecting well on how the stock markets have performed.

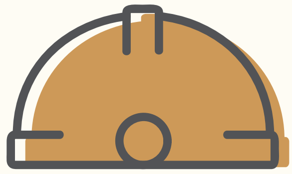
But the key question remains - can India sustain high growth? Our answer is a screaming “yes”!

Returning to basic economics for a jiffy - a country's GDP can be broken down into three components: capital, labour and productivity. Over the next decade we expect capital to be the prime growth driver for India.

In FY23, investment as a percentage of GDP already reached a 10-year high of 34%, with the government being the prime driver, through aggressive spending on infrastructure projects, and by incentivising manufacturing.

With private capex following suit, and the seeds of physical and digital infrastructure initiatives bearing fruit, the heavy weight-lifting that government spending is currently doing will distribute in a healthier manner over the coming years.

1. Labour - Demographically well-placed



With the largest and fastest-growing working-age population, India has a natural demographic advantage over the world.

However, labour force participation at 55% (and only 32% among women) has been disappointing. So far, India hasn’t been able to make use of its demographic advantage.

There are hopes though that deregulation, up-skilling initiatives and private investments would result in better numbers in the future.

2. Capital - Government first, private later

The government gone all-in on spending, especially with 30% growth in infrastructure spend; including a whopping 1.7% of GDP on transport (double of the US and Europe).

Additionally it is spending nearly Rs. 2 lakh crore on boosting manufacturing, primarily by incentivising private capex.

While government effort has been front-ended, private capex is seen picking up, supported by the steady double-digit credit growth seen, despite rate hikes.

3. Productivity - Set in motion

India has emerged as the global leader on technology deployment. We’ve already seen the effect of Aadhar on financial inclusion, and of GST on tax collections.

This appears to be the beginning of a long cycle productivity improvement through UPI, ONDC, Account Aggregator framework, Fastag, among others.

The confluence of physical and digital infrastructure have a back-ended effect. Investments made now are likely to result in productivity.

Sector Analysis

5 Investment Themes, for Bharat

By Sagar Lele
Fund Manager, UpperCrust Wealth

THE QUICK TAKE

> Big bucks being spent by the government to keep the economy in a sustained high-growth phase opens up several opportunities for investors to benefit from over the long run.

The beginning of 2023 started on a gloomy note. The world was choked by high inflation, and aggressive rate hikes almost made it certain that a recession was coming.

On the other hand was India, held by the same containing factors of inflation and regressive monetary policy, but also bolstered by a super expansionary fiscal policy.

The government has been spending hefty sums of money, not just to boost growth in the short term, but also equip India with potential for sustained outperformance over decades to come.

We've identified 5 places which stand at the confluence of favourable long-term policy tailwinds and potential value creation opportunities from the stock markets.

Our five investment themes for Bharat are: (1) manufacturing, (2) defence, (3) power, (4) railways, and (5) banking.

Hop on to this bandwagon, stay invested, and ride the Bharat story in a once-in-a-lifetime opportunity to become wealthy! Smart investors across the world are cashing in. What are you waiting for?

Manufacturing

What's happening?

India is set to spend Rs. 1.97 lakh crore on enhancing manufacturing capabilities, and boosting exports.

This comes at a critical time and serves the dual purpose of becoming self-reliant (while boosting growth, jobs, etc.) and serving as a strong alternative in the movement of the global supply chain away from China.

The scheme encourages private capex, and incentives companies for investing money across 14 sectors, over the next 5 years.

Key sectoral beneficiaries

Mobile manufacturing, electronic components, electronic/technology products and white goods are all major beneficiaries of the scheme.

Incentives to automobiles and auto component manufactures are likely to bode well for several listed companies, which have already committed PLI investments over the next 5 years.

There are several indirect beneficiaries of the PLI scheme, which serve direct beneficiaries, and include companies in sectors like materials, technology, packaging, logistics, etc.

Stocks for the watchlist

- **Electronics** - Dixon Technologies
- **Automobiles** - Timken, Asahi India Glass, Bajaj Auto, Maruti
- **Enablers** - Tega Industries, Carborundum, Cigniti Tech

Defence

What's happening?

India has now become the third largest spender on military after the US and China, with an allocation of 13% of the total budget.

Other than increasing spending, India has been making strides to manufacture locally. It has already reduced reliance on imports to 50% from 70%. Defence production has more than doubled in just the last 4 years.

In a complete turnaround, India's ambitions to export are also catching speed. Exports have grown more than 10x in the last 6 years.

Key sectoral beneficiaries

From depending on imports, India has gone to developing its own platforms for fighter jets and helicopters. Coupled with a dire need to modernise the fleet, mega orders are flowing in.

India's naval force has been lagging, and the government is fully focussed on strengthening it, especially given China's increasing naval prowess. Orders for carriers and submarines are picking up.

The focus on indigenisation has been resulting in an increasing number of products and components being made and sourced locally, resulting in all-round demand generation.

Stocks for the watchlist

- **Airforce** - HAL
- **Ships** - Mazagon Dock Shipbuilders
- **Equipment** - BDL, Data Patterns, Solar Industries, BEL, Bharat Forge

Power

What's happening?

India aims to achieve 900 GW installed capacity by 2032. A projected Rs. 34 lakh crore investment is expected to fuel this push, and also take non-fossil capacity from 42% now to 70%.

This also mandates augmented transmission infrastructure, for which Rs. 1.5 lakh crore is expected to be spent ongrids, and efficiency improvement.

The entire sector is getting an overhaul - right from generation to transmission to distribution, spurring opportunities in all directions.

Key sectoral beneficiaries

Now that India has gone from a peak deficit to a surplus, and has 100% electricity coverage, focus is shifting to fuelling the fastest growing economy, which will result in even higher power needs.

Efficiency improvement has been the solution for both higher capacity and a profitable turnaround of the sector. This is resulting in a major overhaul of the entire ecosystem.

Along with growth, India has set stringent targets to be a leader in renewable energy adoption. A majority of the incremental capacity is expected in solar, hydro and wind.

Stocks for the watchlist

- **Power** - NTPC, Tata Power
- **Equipment** - BHEL, CG Power, Hitachi Energy
- **Renewables** - JSW Energy

Railways

What's happening?

The government, in the previous budget announced an outlay of Rs. 10 lakh crore for infrastructure, marking a 30% increase over the previous year.

Allocation for railways was at Rs. 2.4 lakh crore, up 10x in 10 years for building new tracks, coaches, and stations. Additionally, the drive towards 100% electrification has accelerated, with only 15% of the goal remaining.

The high-speed network of Vande Bharat is not just spurring enthusiasm and pride, but also investment opportunities.

Key sectoral beneficiaries

With an expansion of the network and carrying capacity for trains and metros, there is a large increase in the number of wagons required

The government is adopting innovative ways to finance its spends, while also maintaining fiscal prudence, resulting in higher relevance for specialised infrastructure financing companies

Along with an increase in the number of passengers, the Indian Railways are also seeing an upgrade with higher AC travellers, more online ticket bookings, and higher F&B revenue

Stocks for the watchlist

- **Wagons** - Titagarh Wagons
- **Specialised Infrastructure Financing** - IRFC, RVNL
- **Ticketing and Catering** - IRCTC

Banking

What's happening?

Despite the increase in interest rates over the last year, credit growth in India has remained strong, clocking double digits consistently.

With domestic consumption still slow, a majority of the credit growth can be linked to businesses incurring capex for future growth.

Aggressive spend by the government on both infrastructure and manufacturing is likely to be followed by a pick-up in the capex cycle, which will further fuel credit growth, and benefit the overall banking system.

Key sectoral beneficiaries

A mega transformation has been underway in how PSBs operate, with growth bouncing back, operational efficiency improvement, reduced NPAs, and a doubling of profits.

The commencement of the capex cycle, and an expected acceleration of private investments is expected to drive growth for corporate lenders.

The government has been using innovative ways to finance its massive spend, including a higher usage of financing entities, which benefit from low funding costs and credible exposure.

Stocks for the watchlist

- **PSBs** - SBI, Bank of Baroda, Canara Bank, Indian Bank
- **Private Banks** - ICICI Bank, Kotak Mahindra Bank
- **Financing** - IRFC, RVNL, PFC, REC, Bajaj Finance

Personal Finance

Protecting Your Human Capital

By Rahul Agrawal
Founder, Ideal Insurance Broking

THE QUICK TAKE

> The need for protecting an asset is directly correlated to how valuable the asset is. This is no different for human life, which makes term insurance a must-have in your portfolio.

What good is an asset if it doesn't appreciate over the years, right? Funny how, the most valuable asset you have is one that depreciates over time - your life. In economic terms, this can be represented by something known as human capital.

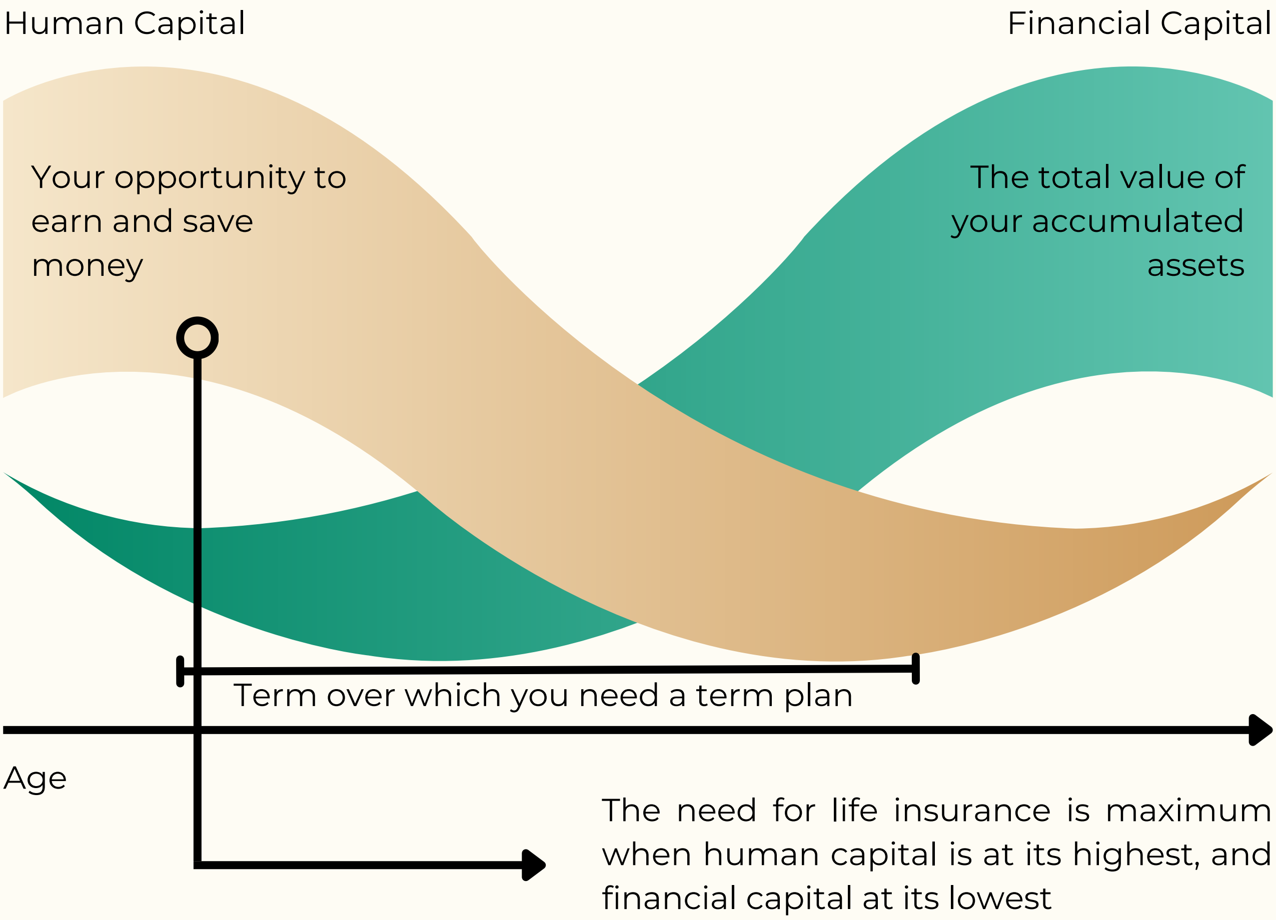
Human capital is the present value of all your future earnings. When you're young, the most valuable asset you have is human capital - your potential to generate and accumulate wealth over your life.

But as you age, the value of human capital (ability to earn) deteriorates, and the value of your financial capital (money, investments, assets) appreciates.

Sure enough, human capital needs to be protected when it is the most valuable. Not as a security for your own future, but for those that depend on you.

And the only way to efficiently do that is to have someone else replace the monetary value of your human capital for your dependents, by paying them a relatively small amount. In simple words - get a **term life insurance** plan.

Your wealth is good enough to protect your loved ones when you've made it. Before that, let an insurance company carry that burden for you!



The importance of term insurance

1. **Income replacement** - Term insurance provides a lump sum payout in the event of death during the policy term. This payout can replace the lost income, enabling the family to maintain their current lifestyle and cover daily expenses.

2. **Debt repayment** - The payout can also be utilised to repay any existing debts, like mortgages or even personal loans. This helps reduce potential financial burden, especially with the loss of income.

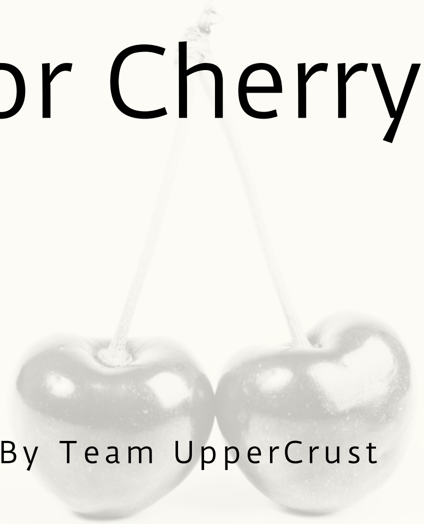
3. **Education funding** - With an income gone, the family shouldn't be put in a position where there is a compromise on the launchpad for the next generation, setting progress behind by decades.

4. **Peace of mind** - Just knowing the fact that care will be taken care of can eliminate a majority of the worries associated with financial dependence occuring through the loss of a life.

5. **Flexibility** - Policies can be added, altered or even stopped in order to reach a level of customisation that the family needs. The flexibility ensures the right level of coverage at different life stages.

Asset Allocation Strategies

Time for Cherry-Picking



By Team UpperCrust

THE QUICK TAKE

Markets are at an all-time, and that gives an opportunity to make some portfolio tweaks. Record valuations calls for some prudence and bottom-up stock picking to protect from potential downside.

EQUITY	DEBT	GOLD	INTERNATIONAL
Positive on equity markets given India's relative growth superiority and sustenance	Potential for yields to start going lower as rates plateau, and with cuts expected next year	Likely to continue being preferred because of a flight to safety	Lower probability of recession makes some countries attractive from a valuation standpoint
High exposure, with a bottom-up approach, ensuring stocks have earnings visibility and valuation comfort	Moving from short-term debt to long-term debt to lock-in higher rates	Steady allocation to Gold to add cushioning to portfolios	Markets like China, Taiwan and Korea look attractive for the growth potential they have to offer

UpperCrust Wealth
FAMILY WEALTH OFFICE

Strategic Partnerships

We believe strategic partnerships are a major driver of the success of any business. We are committed to creating milestones, with all our partners.

As we scale newer heights, we want to take a moment to thank our growth partners for their long term relationship with us.

IDEAL INSURANCE Brokers Pvt. Ltd.

Insurance broking partner

CFOSME Shared CFO Services

Corporate service partner

FGi FEDERATION OF GUJARAT INDUSTRIES

Mentorship and networking partner

UpperCrust Wealth
FAMILY WEALTH OFFICE

UpperCrust Updates and Performance

as of September 30, 2023

951

Up 155% QoQ

New SIPs started in the last quarter

Rs. 698 crore

Up 11% QoQ

Total assets under management

2,365

Up 4% QoQ

Total family investment accounts

UpperCrust Wealth
FAMILY WEALTH OFFICE

Investment Philosophy at UpperCrust

In the ever-evolving world of portfolio management, it's essential to have a clear and consistent philosophy.

Quality Management

Great businesses aren't just about impressive numbers; but also about the people behind them. We firmly believe that the quality of a company's management team is a significant determinant of its long-term success.

Our focus is to identify those leaders who not only have a vision but also the capability to execute that vision.

We look for teams that are transparent, ethical, and have a proven track record of steering their companies through both good and challenging times.

Free Cash Flow

Cash is king, as the old adage goes. In investing, free cash flow stands as a testament to a company's financial health and its ability to generate profits beyond its operating and capital expenses.

By focusing on companies with robust free cash flows, we're targeting businesses that have the financial flexibility to invest in growth, weather economic downturns, and provide returns to shareholders.

It's this financial prowess that often sets apart the great companies from the merely good ones.

Capital Allocation

Having cash is one thing, but knowing where and how to deploy it is another. Superior capital allocation is about making strategic decisions that will yield the best returns.

Whether it's reinvesting in the business, acquiring companies, or returning capital to shareholders, we value companies that demonstrate a knack for allocating capital judiciously.

Our goal is to identify those companies that not only generate cash but also know how to use it to compound wealth over time.

UpperCrust Wealth
FAMILY WEALTH OFFICE

Difference Between PMS and MFs

Portfolio Management Services		Mutual Funds
Focused on absolute return generation	**Objective**	Generating alpha by beating index returns
Rs. 50 lakh	**Minimum Investment Amount**	Rs. 100
15-30 stocks	**Portfolio Concentration**	More than 20 stocks, with maximum stock weight capped at 10%
Flexible to choose profit sharing model	**Fee Structure**	Fixed fee for all investors
Capital gains tax is triggered every time the PMS rejigs a portfolio	**Tax Structure**	Taxed only at the time of redemption of units held by the investor

Moat Financial Services Private Limited
(Investment Manager to UpperCrust Wealth Funds)

UpperCrust Wealth Fund

A portfolio made of high-quality stocks, with strong moats, meant to compound over the long-term and generate wealth

UpperCrust Growth Fund

Diversified multi-asset portfolio investing in stocks, MFs, ETFs, and bonds to generate long-term capital appreciation and constant risk-adjusted returns

UpperCrust One Fund

A non-discretionary fund, custom built to suit your needs. Made by you and our team of experts, so you see your money grow first hand

NEW!

UpperCrust Defence Fund

PMS investing in defence and space technology stocks, taking advantage of multi-decadal tailwinds

Our PMS philosophy isn't just a set of guidelines; it's a commitment. A commitment to our clients, to diligence, and to the pursuit of excellence.

In a world filled with noise, we stay true to our philosophy, always on the lookout for the superior compounding growth stories that will shape the future.

Join us on this journey. Let's build wealth, the UpperCrust way.

Life At UpperCrust

Being in a service business, we at UpperCrust depend entirely on the people that make UpperCrust.

The well-being of people that build us is important not just for our performance, but also for the performance of all the wealth our clients trust us with.

Over the last quarter, we got together on several instances to learn, share, and laugh. Some notable times where we came together as a team included:

- Attending trade fairs together, representing our common mission, gaining knowledge and building our network to achieve common goals,
- Celebrating Independence Day at a time when we couldn’t be more bullish on Bharat, and
- Rejoicing our common passion for music in the presence of Priyaansh Shaah, and for health which we shared through the practice of yoga

Life At UpperCrust

We also spent a significant amount of time in team activities - not just to celebrate victories, but also to strengthen bonds. After all, results for us a team are defined by how strong our links are.

Over the course of the quarter, we celebrated wins - we went out for lunch on hitting the Rs. 4 crore mark in terms of cumulative investments in P2P. We also celebrated over games and go karting after a SIP challenge we held within the team.

We find that taking a pause to celebrating achievements is as important as achieving in the first place. These moments are what make us look forward to achieving even greater heights, together.

As ‘Wealth Warriors’, our bond as a team stands at the core of being able to generate enormous wealth for all our stakeholders.

Life At UpperCrust

Rahul Agarwal, the Founder of Ideal Insurance has converted his entire experience of building a Rs. 300 crore company in a book.

In his book - "The Ideal Entrepreneur: An Idiot's Guide to Building a 300 Cr Company", he has poured his heart out, sharing the ups and downs, triumphs and tribulations, and the invaluable lessons he learned over 20+ years of his entrepreneurial journey.

It's a story of determination, resilience, and unwavering belief in the power of dreams. Whether you're an aspiring entrepreneur, a business enthusiast, or simply seeking inspiration, this book has something special to offer you.

My Nation, My Pride

Invest in Bharat

https://www.uppercrustwealth.com

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