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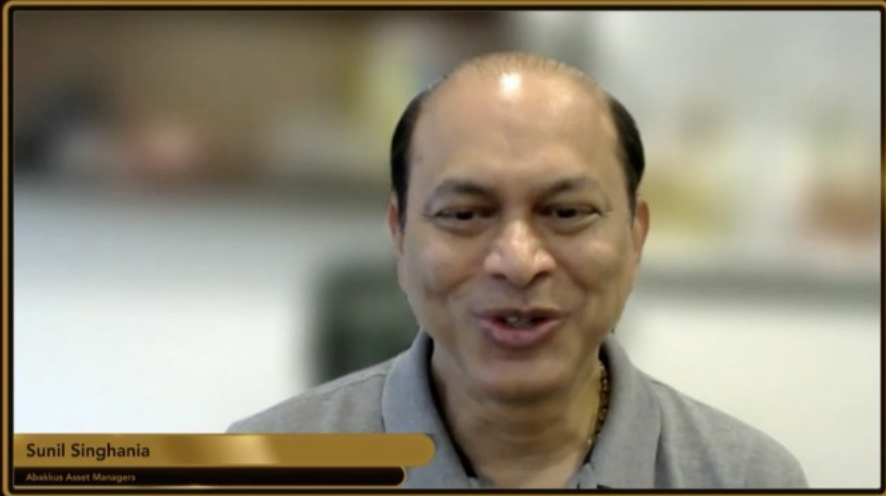


Crystal Gazing 5.0

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Few Glimpses

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Sunil Singhania
Abakus Asset Managers

 PMS AIF WORLD

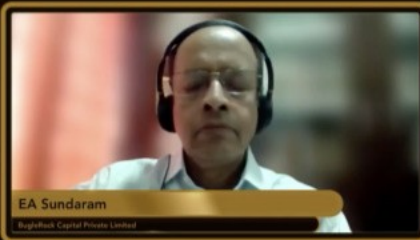
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1. Are we heading towards a bubble OR is this the beginning of the Mega Bull Run?

The Nation's balance sheet stands robust instilling confidence. Projections of high teens earning growth and India's ascent as a global middle-class leader offer a beacon of hope, underscoring the immense potential for wealth creation in the coming decade.

Strategic reforms have emerged as a beacon of progress. Each reform, carefully interlinked with each other, created a tapestry of growth. From digitalisation to the banking environment, these reforms didn't just add up; they multiplied, creating a geometric progression of prosperity.

Amidst this backdrop, India's economic story is unfolding with remarkable vigour. And, the journey is far from over; with the vast expanse of its GDP stretching towards the horizon, the sky truly seems the limit. So, the story of India's economic evolution continues, a tale of strategic reforms, prudent investments, and a relentless pursuit of progress. As we turn the pages of this saga, one thing becomes clear: the journey is as important as the destination, and the path ahead is filled with promise and opportunity.

Five key themes are emerging - Urbanisation is fuelling real estate renaissance, government capex is injecting vitality, digitalization is fortifying the financial systems, and experiential consumption is eclipsing traditional goods.

However, it's an era shifting paradigms, where supply chains are getting shifted and interest rates are no longer favourable for free capital. This has led to a renowned focus on unit economics favouring capital-intensive businesses. From real estate to energy, a resurgence in pricing power heralds a return in earnings growth. This further accentuates the importance of ROEs and Risk-reward ratios in wealth creation.

2. Is this a breakout moment for India?

Yes, indeed. This is due to 3 reasons:

- Indian talent which was migrating to abroad is now staying back & creating new opportunities here
- Talent also requires capital – and that capital is being funded by the PE & VC ecosystem here.
- Talent & Capital together need Infrastructure. This is another area where India is growing rapidly.

This combination of Talent, Capital, and Infra is what is giving India this breakout moment. We've moved away from 10th largest economy in 2014 to the 5th largest economy in 2023, and with this synergy of talent, capital, and infrastructure, we are logically placed to become the 3rd largest economy by 2030. While the world grapples with recession, India stands tall with a 7%+ growth trajectory. This transition underscores India's dynamic economic evolution and its emerging global stance.

3. What is the view on Manufacturing Sector?

India is no longer rising at an incremental speed of growth; it is now running at an exponential speed of growth. India is now figuring out solutions on its own to the problems being faced, rather than just relying on the West. In this transition, the manufacturing sector plays a key role. Today, manufacturing contribution to GDP is \$0.5 Tn, and by 2047 when India becomes a \$35 Tn economy, manufacturing GDP is bound to grow by 16x to \$8 Tn. India cannot just remain a service-oriented economy and keep seeing the 7% rise in GDP; manufacturing will play an important role. Within manufacturing India's foray into sunrise industries - the focus is going to be on electric mobility, battery storage, semiconductors, and mobile manufacturing. Also, the vision for India to become a \$35 trillion economy by 2047 would significantly elevate the per capita income, and this will potentially transform the lives of 1.4 billion people which means higher & rising demand for consumer discretionary.

4. What is the view on domestic technology sector given the rising competition from global AI focused tech giants ?

All the worries that artificial intelligence hovers over, are probably known to the markets and thus reflecting in valuations already. The worry should not be that AI will lead to fall of domestic tech companies; the worry should be focusing on the companies and understanding which companies will use AI to make the business more efficient and more revenue generating. IT companies have transformed over the years – from application writing, to cloud computing, to consulting and now AI, to provide better solutions. The financial health of the company should determine its capability to leverage AI and generate more revenue or to be scared of AI and go bankrupt. Fund managers believe that Indian IT companies will reinvent themselves & come up with cheaper, better, faster solutions Indians.

5. What is the view on the future of Alternative Investments in India?

Globally, alternative assets are projected to grow from \$16.3 Tn in 2023 to \$24.5 Tn by 2028, at a 10% growth rate. In India, alternative assets have seen a 26% CAGR over the last five years. PMS & AIF industry expected to reach INR 43 lakh crore by 2028. There are unique opportunities in the Indian private equity and venture capital space, showcasing a robust pipeline for growth equity and late-stage investments, with a history of significant value creation leading up to IPOs. One such way that investors can harness this is via Pre-IPO funds. These funds invest in businesses during their growth phase only. The idea of these funds is to get potentially good quality businesses at throwaway valuations. This strategy of investing in smaller, growing companies rather than larger ones is what is often creates wealth. The key to success with such investments is not just selecting the right companies but also knowing the optimal time to exit.

6. Since 2023 was a good year for equities, does this mean 2024 could be a bad one and hence investor expectations should be sober?

The leaders of the last bull run won't be the leaders of next bull run, and this always happens. Thus, 2023 will be the year of sector & stock rotation with heightened degree of volatility. Some correction may occur as well and the same needs to be viewed positively. Sitting out of the market is probably a bad idea. Adopting patience and selecting those good funds which invest over-time, and picking stocks with margin of safety is a good solution. Index valuations seem frothy but that does not mean all businesses are expensive right now – cherry picking attractive businesses is what fund managers should do. Also, in terms of valuations one cannot wait too much in the market as earnings growth momentum is intact. Lastly, for fund managers who work hard, there are opportunities in every market. Along with stock selection, sector selection is also crucial, as certain sectors may contribute significantly to index returns, and identifying these is very important to generate alpha.

7. Large-caps vs Small & Mid-caps

While a few large-cap companies might offer 5x to 10x returns in the next six years, the overall large-cap index is unlikely to exceed on an average 14% returns. Therefore, investors aiming for higher returns over the next 5-6 years should consider diversifying into mid and small-cap funds. This strategy generates higher returns over the long term because of the potentially higher growth rates of business earnings among mid & small companies, compared to their larger counterparts. However, anyone entering this space now should come in with a minimum horizon of 5 years and an expectation of under-performance over the next 1-2 years, maybe. But that is still just a probability, which can be overcome by topping up on existing investments, in case a rough patch comes.

8. What is the view on PSUs?

Public sector undertakings (PSUs) have significantly matured, shedding their long-standing underperformance till 2021. Today, there is a significant change in the perception of PSUs and they're seen as equitable to private firms, driven by a new era of accountability and autonomy, marking a pivotal change in investment narratives. PSUs are no more working as a public good, but are now managed as moated businesses focused towards increasing profit pools. This is why 2023 witnessed unbelievable rise in PSU stocks. In fact, in the last 6 months, the BSE PSU Index has seen a remarkable 62% increase. Investors are advised against overlooking these stocks, noting that their major shareholders have adopted a distinct and clear philosophy towards business management.

9. How should portfolio diversification be followed?

Investors should diversify not only across asset classes, but within the asset class itself. Within equity, investors should diversify their portfolio not simply in large-mid-small caps but across fund managers with different styles of investing like flexi cap, special situations, quant, pre-IPO, and so on. Such an approach secures the risk of the overall portfolio doing well in a certain cycle and then going completely lopsided in another cycle. Investors should give money to different fund managers who, at different times will follow different styles and different strategies and this will ultimately generate wealth. Definitely find an advisor like PMS AIF WORLD who helps you not only make well informed decisions, but prevents you from over-diversifying at the same time. Objective way of selecting different funds is the prime approach to generating superior risk adjusted returns. While creating a portfolio, investors should be patient in their attitude, focused on their long-term goals, and rather than focusing too much on market timing, they should focus on their own investment objectives and avoid the trap of greed & fear.

10. What is that one important lesson which markets remind us time & again?

Recency bias is one of the biggest reasons that is responsible for most investors making mediocre returns. It suggests that investors put more weight on recent events and forget past historical trends when making decisions. With the increasing number of new investors in the market, many are trapped in this recency bias and continuously invest without considering the risks they are taking. Overcoming this bias in one's own investment portfolio is next to impossible. The only solution is to hand over funds to a professional, who follows data and aims to manage without the emotions of recency biases.

11. Quant Vs Non-Quant Funds

Investing decision making is prone to human biases but Quant is unbiased and hence definitely holds a place in the investor's portfolio. In fact, in 2023, quant funds did well because quant could see the changing trend towards PSUs & Infrastructure stocks vs Private Financials & Tech stocks. However, there are 2 risks involved in Quant Funds –

1. Quant is historical and relying too much on history could be risky because India is writing its new future with unimaginable growth trajectory, and
2. Meeting with management is an important part of primary research which quant funds miss, at times.

12. What is the view on the Performing Credit ecosystem?

UHNIs are witnessing a skew towards the Credit Funds ecosystem – be it the Performing Credit Funds, or High Yield Funds, or Real Estate, and the likes. Most Performing Credit Funds are being able to generate Pre-tax 14% returns and this deliverable is being seen as an alternative, as most traditional investments are not able to generate these returns, as we speak. These kind of AIF investments definitely do carry higher risk, but based on a calculated risk, the expected returns are far higher. From an investor perspective, more awareness is needed and the advisor should rightly guide the investor on what kind of sizing & allocation s/ he should bring in to his/her overall portfolio – A risk-averse investor can look at something like a Performing Credit Fund, while an investor who likes the flavour of equity with a little higher risk, can opt for a Turnaround Strategy kind of a fund.



Watch the 12 sessions here

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