

ALQUITY INDIA: A VIEW FROM THE GROUND

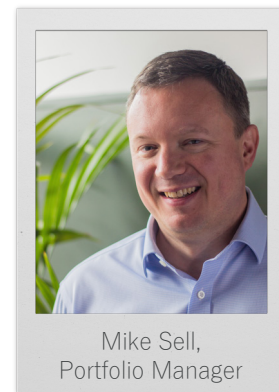
As I reflect on my recent two-week trip across India, visiting 39 companies in Mumbai, Calcutta, and Delhi, I'm more convinced than ever of India's resilience and growth potential. Let me share some key insights that emphasize why India remains an exciting investment destination.

SLOWDOWN OR FAKE NEWS?

Firstly, let's address the misconception of an economic slowdown. We've seen some **temporary headwinds** over the last months - heatwaves, elections, a skewed wedding season and flooding - but all of these are transitory. Our portfolio companies tell us a different story. For instance, across certain companies across the travel, financials, consumer discretionary and industrial sectors, we've seen average revenue growth exceeding 20% and net profit growth over 40% in the last quarter (YoY). These numbers speak volumes about the **underlying strength of the Indian economy and our holdings**.

POVERTY REDUCTION PROVIDES GROWTH OPPORTUNITIES

The consumer story in India is evolving rapidly. During my visit, I witnessed firsthand the transformation from traditional retail to modern formats. Aditya Vision, a **leading electronics retailer in Bihar**, is just one example. It exemplifies perfectly the growth potential in areas where poverty levels have significantly decreased and where electricity consumption has more than doubled over the past decade. Aditya's same-day delivery and service model has secured them a strong market share in these **regions transitioning from subsistence to consumer economies**. Aditya is just an example of the companies in our portfolio that are still relatively 'unknown', undercovered by sell-side brokers in India, and which we aim to hold for the long-run.



Mike Sell,
Portfolio Manager



Another example is **Lemon Tree Hotels**. During my trip, I stayed in three of their hotels. The travel sector is benefiting from rising disposable incomes and ongoing improvements in transport infrastructure. Hotel room demand (9.7%) is projected to outpace supply (5.9%) in the coming years, with **India's hotel supply penetration remaining extremely low** at just 0.2 rooms per 1,000 people. Furthermore, despite growing at a similar rate, currently this small and less well-known company trades at half the multiple (16.3x) of Indian Hotels (31.2x), which is part of the Indian and EM indices.



TRUMP V2 IS NOT A THREAT DESPITE THE SHORT-TERM NOISE

Despite recent outflows and negative sentiment among foreign investors, I believe **the investment case for India is now even more compelling**. India's growth story is primarily **domestic driven**, making it relatively resilient to global economic fluctuations. This is crucial in the face of potential global trade tensions. Unlike countries heavily dependent on exports such as Mexico and Vietnam, India's exports to the US account for just 2.7% of its GDP.

WHY GOVERNANCE MATTERS

Our rigorous **ESG process** has helped us avoid corporate governance pitfalls, such as **Vakgrangee**, and over the last 2 years, the **Adani Group controversies**. Adani was flagged as a 'fail' in our ESG analyst long before the recent public allegations or Hindenburg's report. Strong governance is a cornerstone of our ESG analysis, helping to prevent value destruction and protect our interests as minority shareholders.

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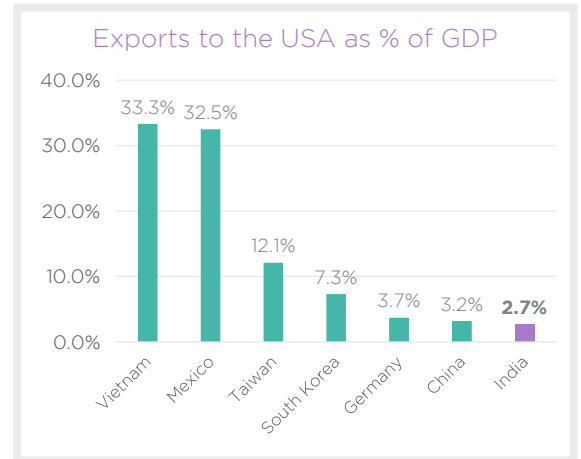
Adani Charged by US in \$250 Million Bribery Case, Shaking India

- Authorities allege scheme to bribe officials in India
- Adani Group denies allegations; market value drops \$30 billion

VALUATIONS

While valuations for the Indian market may initially appear expensive at 25.2x earnings as of end of November, it offers compelling value when factoring in growth, with currently a PEG ratio of just 1.3* — cheaper than the UK (4.5), Japan (1.8), the US (1.6), and Europe (2.6). Additionally, this growth is accompanied by higher returns on equity, with an average estimated ROE of 16% for 2024. Hence, **India's exceptional multi-year earnings growth and high returns on equity** justify the multiples, and historic market performance demonstrates that these are not a bar to strong returns. Furthermore, **the market is not over-owned by foreign investors**, suggesting room for increased international participation.

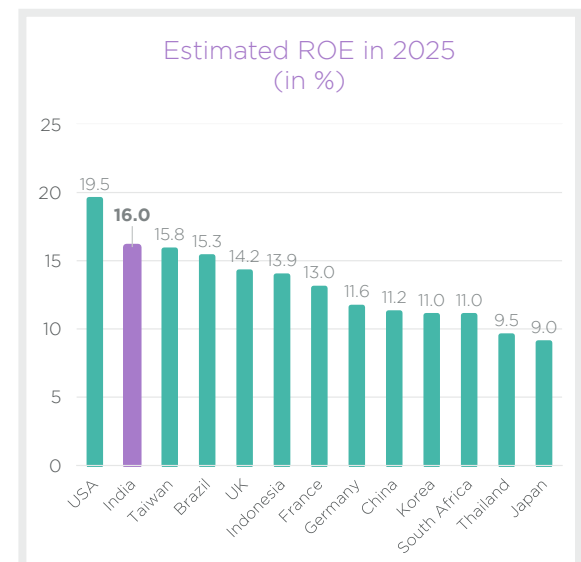
* Assuming a 17% growth rate over the next two years for India, which is conservative versus recent history



Source: WITS, BIS, Worldometer (exports to the US data, as of 2022)



Source: Google Finance, as of 15th December 2024



Source: Bloomberg, CLSA as of 12th September 2024

FOR MORE INFORMATION ON ALQUITY, PLEASE CONTACT

EUROPE AND UK

Marc Rugel
+33 644 3265 04
marc.rugel@alquity.com

NORTH AMERICA

Renee Arnold
+1 215 350 9063
renee.arnold@alquity.com



www.alquity.com



Alquity Investment
Management

SOURCES

Sources: Alquity, Bloomberg (P/E ratio, as of November 2024), Alquity, Bloomberg (PEG ratios 2 years forward, as of November 2024), Bloomberg, CLSA (ROE and growth, as of 12th September 2024), Bloomberg and company reports (revenue and net profit growth for Q3 2024, as of 15th November), Google Finance, Alquity (Adani Green stock price, as of 15th December 2024), WITS, BIS, Worldometer (exports to the US data, as of 2022), Source: Alquity, Lemon Tree (India's hotel room supply, demand and penetration estimates, as of 30th November 2024).

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