

THE DECADE OF REAL ASSETS

Are your portfolios ready?

21st March, 2026

Executive Summary

The era of owning asset-light businesses that benefitted on the back of structurally falling interest rates is reversing or reversed. A new structural regime is taking hold: one defined by **as the cost of money rises, de-dollarisation, re-regionalisation of supply chains, and the physical demands of the next technology wave**. The rotation from financialised, asset-light models to productive, Valued Added, **asset-heavy businesses is our decadal theme**.

Macro Backdrop

- **Global debt has crossed USD 348 trillion**
- **Nominal GDP growth as the most viable debt-management path that will be chosen**
- **The USD's share as a reserve currency has fallen from ~70% to 56.5% since 2001**
- **Global Fixed Capital Formation (GFCF) divergence to the East from West**
- **Intersection of de-dollarisation, globally high debt, and re-regionalisation.**

ROE reversal:

Metrics	Asset-Light (IT/Software etc)	Asset-Heavy (Metals/Infra/Energy etc)
Current ROE (FY25E)	~22–26%	~16–21%
ROE Direction (2025–27E)	↓ Declining	↑ Rising
Median PE (x)	29.6	32.5
PE Direction	↓ Compressing	↑ Expanding
Operating Leverage	Negative (AI capex)	Positive (utilisation rising)
Balance Sheet Trend	Cash-generative but capex mode on	Deleveraging
Investment Horizon	Cautious / Tactical	Structural Overweight

India – at a momentous stage:

- Government Focus has been on capex
- Balance sheet is more focused on productive expenditure than on revenue expenditure
- **Decreased Port Turnaround Time**
- **Easing logistics via Dedicated Freight Corridors**
- **Defence indigenisation**
- **Using Administrative frameworks to remove bottlenecks and creating pivots**

Despite these changes, we feel the portfolios still carry a lot of bias against Real Asset Facing industries

Structural Change in Investment Frameworks:

We question traditional valuation models with changing construct. We believe DCF alone is no longer sufficient. With structurally higher rates, terminal values face heavier discounting - directly compressing the present value of asset-light businesses built on cheap money. Terminal



values historically were a reasonably large component of valuations, and with that uncertainty around Investors will look for more comfort. A dual-model approach - DCF **paired with intrinsic value frameworks** – will be preferred by investors till we can forecast with some degree of certainty.

Economies across the world are consistently facing threat of inflation due to various factors especially geopolitics; higher interest rates is becoming structural theme – we believe countries will shift focus on **increasing nominal GDP**, in turn giving utmost focus on securing commodities and real assets.

We believe this focus on Real assets is going to be a decadal theme, underpinning a fundamental re-allocation from asset-light models to productive, asset-heavy businesses.

Investment implications and Portfolio Strategy:

- ▶ We believe portfolios are reasonably underweight most of the Real Asset owning themes as they come with their share of cyclicality
- ▶ Shifting from previously owned favourable themes is getting uncomfortable and hope continues to drive each quarter
- ▶ Many of these sectors require different skills and specialisation (Metals, Energy, Infrastructure operators, Industrial manufacturing, Real asset enablers – Select banks), which need to be built in
- ▶ Investors will need to focus on step-by-step increasing allocation as per comfort but Risk management in this era is going to be of paramount importance, as these themes can be volatile and one needs to have key monitorables

Risks:

Risk	Comments	Key Monitorable
Re-globalisation	Easing geopolitics revives global supply chains, eroding domestic pricing power	Trade agreements, US-China tariffs
India Rate Reversal	INR weakness or oil > \$100 halts rate cuts, reversing earnings tailwind	Brent crude, CPI, INR, DXY
China Demand	Slowdown offsets re-industrialisation tailwinds on commodity demand	China PMI, property data, copper inventory
ROE Ceiling	Asset-heavy ROEs capped ~18-22%; peak-cycle margins not sustainable	P/B vs. history, ROE-WACC spread
India Execution	Infrastructure delays, labour/equipment constraints slow earnings visibility	NHAI awards, railway progress, order inflow

"Biases about structural transformation create the most attractive entry points. The time to act is before the consensus arrives." – Pravia Investment Advisors



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Detailed Note

Introduction

While the world navigates fiscal stress, rising rates, and mounting debt pressures, India finds itself in a rare and favourable position. It is one of the few major economies still in the early stages of its capex build-up cycle – as interest rates are moving in the right direction (downwards) at a time when the rest of the world is struggling under the weight of tighter monetary conditions. Simultaneously, India's manufacturing ecosystem is being focused on, and a lot of it being built from the ground up. This ecosystem is being backed by a government with both the political will and the policy apparatus to see it through. As the global cycle turns decisively in favour of production, capital investment, and real assets, **it is turning in the direction India is already heading.**

In a world overwhelmed by noise, we attempt to cut through it and endeavour to offer a clear view on portfolio positioning. We lay out our rationale for overweighting asset-heavy businesses and sectors.

1) Macroeconomic Backdrop:

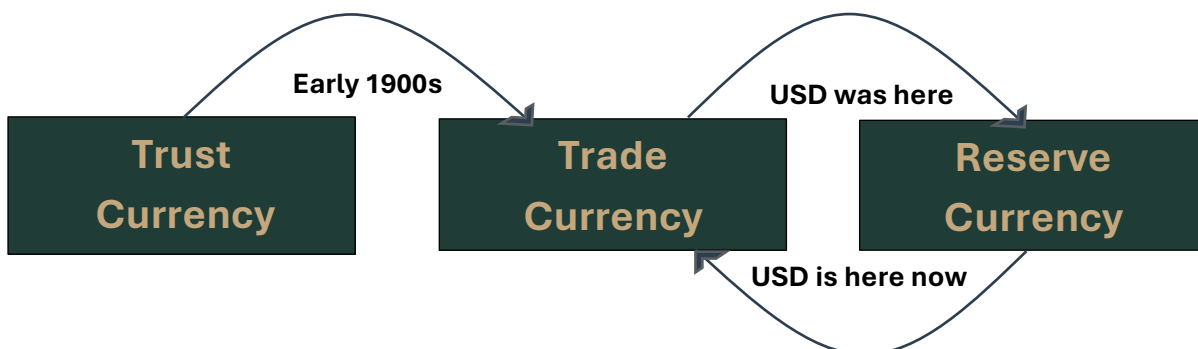
De-dollarisation playing out

Major currencies have different stages of global recognition. The title of ‘**Reserve Currency**’ comes with its advantages, but also comes with major responsibilities.

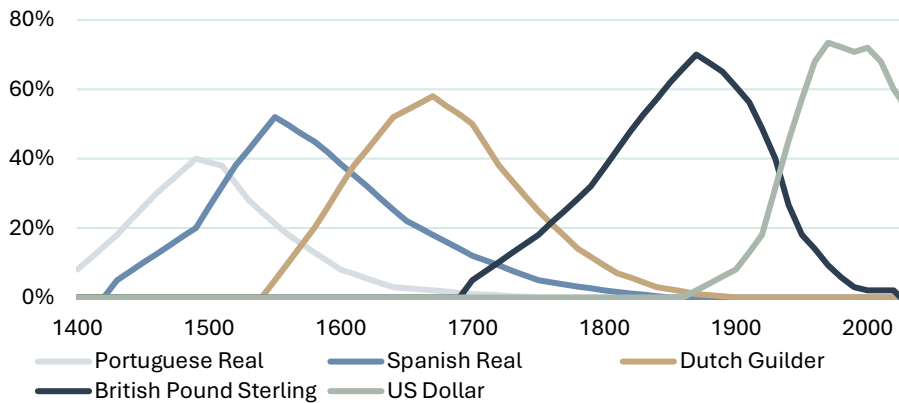
Reserve currencies emerge as trust in a nation's economic and institutional strength grows, driving adoption in international trade and finance. As this adoption expands and ultimately surpasses that of the prior leading currency, the new reserve currency is born.

This status, however, is not permanent. It rests on three pillars, which may evolve and put pressure on country’s finances:

1. **Trade** → Loss of competitiveness, leading to the currency staying strong artificially, leading to persistent current account deficits (CAD).
2. **Debt** → Reserve currency status tempts the country to over-leverage itself, creating unsustainable Debt-to-GDP ratios and hence, unsustainable interest payments.
3. **Credibility** → Inflation and loss of confidence leading to questions around validity of currency.

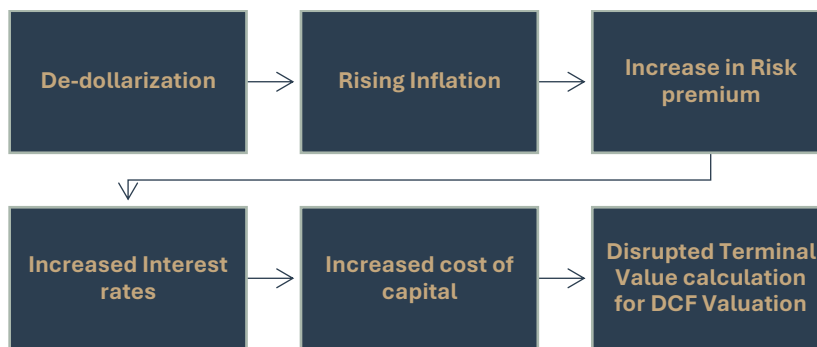


World (Currency as % of Reserves)



Source: Ray Dalio; This graph is for illustration purposes only

Our core thesis continues to be **de-dollarisation**:



The Global Debt problem:

Global debt has now exceeded **USD 348 trillion** in 2025. Advanced economies bear most of this burden. The pace of debt accumulation has consistently outrun GDP growth, driving debt-to-GDP ratios to unjustifiable levels. Higher debt → Higher interest payments – resulting in shrinking discretionary spending, and a narrowing ability to invest in future growth. The West has historically relied on monetary expansion (money printing) as its escape valve. **We believe this escape valve is closing.**

General Gov. Fiscal balance (% of GDP)	2019	2020	2021	2022	2023	2024	2025P	2026P	2027P	2028P	2029P	2030P
World	-3.5	-9.5	-6.3	-3.7	-4.9	-5.0	-5.1	-4.7	-4.5	-4.5	-4.5	-4.6
Advanced Economies	-3.0	-10.3	-7.2	-2.9	-4.6	-4.7	-4.3	-3.9	-3.8	-3.9	-3.9	-4.0
Euro Area	-0.5	-7.0	-5.1	-3.5	-3.6	-3.1	-3.2	-3.4	-3.5	-3.5	-3.6	-3.7
France	-2.4	-8.9	-6.6	-4.7	-5.4	-5.8	-5.5	-5.9	-6.1	-6.1	-6.0	-6.1
Germany	1.3	-4.4	-3.2	-2.1	-2.5	-2.8	-3.0	-3.5	-3.9	-4.1	-4.3	-4.4
Italy	-1.5	-9.4	-8.9	-8.1	-7.2	-3.4	-3.3	-2.8	-2.6	-2.4	-2.5	-2.5
Spain	-3.0	-10.0	-6.7	-4.6	-3.5	-3.2	-2.7	-2.4	-2.3	-2.2	-2.1	-2.0
Japan	-3.0	-9.1	-6.1	-4.2	-2.3	-2.5	-2.9	-3.1	-3.3	-4.0	-4.6	-5.3
United Kingdom	-2.5	-13.2	-7.7	-4.6	-6.1	-5.7	-4.4	-3.7	-3.1	-2.8	-2.6	-2.3
United States	-5.8	-14.1	-11.4	-3.7	-7.2	-7.3	-6.5	-5.5	-5.4	-5.6	-5.5	-5.6
EM & Developing Economies	-4.4	-8.4	-5.0	-4.8	-5.2	-5.5	-6.1	-5.9	-5.5	-5.4	-5.3	-5.3
Asia	-5.6	-9.4	-6.3	-7.0	-6.4	-6.7	-7.6	-7.6	-7.2	-7.2	-7.1	-7.1
China	-6.0	-9.6	-5.9	-7.3	-6.7	-7.3	-8.6	-8.5	-8.1	-8.1	-8.0	-8.1
India	-7.7	-12.9	-9.4	-9.0	-7.9	-7.4	-6.9	-7.2	-7.1	-7.0	-6.8	-6.7
Vietnam	-0.4	-2.9	-1.4	0.7	-2.4	-1.6	-3.4	-3.2	-3.0	-2.9	-2.9	-2.9
Latin America	-3.7	-8.2	-3.9	-3.6	-5.2	-4.8	-4.8	-4.0	-3.4	-3.1	-2.9	-2.9

Source: IMF

Pravia's Insights –

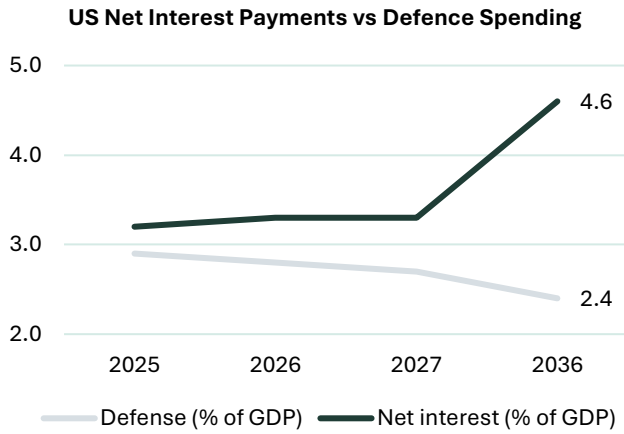
10 out of 27 EU countries had a deficit-based breach based on gov. debt and gov. fiscal deficit exceeding 60% and 3% of GDP respectively.

With negative rates ending in Japan, interest payments are set to 2.5x from current levels (JPY 10.5 Tn now vs JPY 25.8 Tn in 2034)

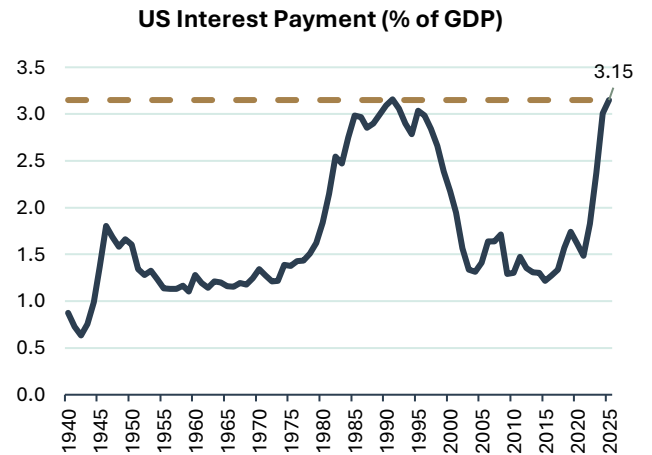


Pravia's Insights –

The US is facing a similar problem, as interest payments reach levels similar to what was observed in 1985-1995 – which was the result of 20% interest rates in June 1981 to counteract excessively high inflation. This interest rate hike damaged US fiscal health significantly, causing Interest payments to go above 3% of GDP, even though Federal Debt-to-GDP was only 25%. While the current inflation scenario may not be as aggressive, the 3.15% number is soon going to increase to 4.6% in 2036 as estimated by the Congressional Budget Office.

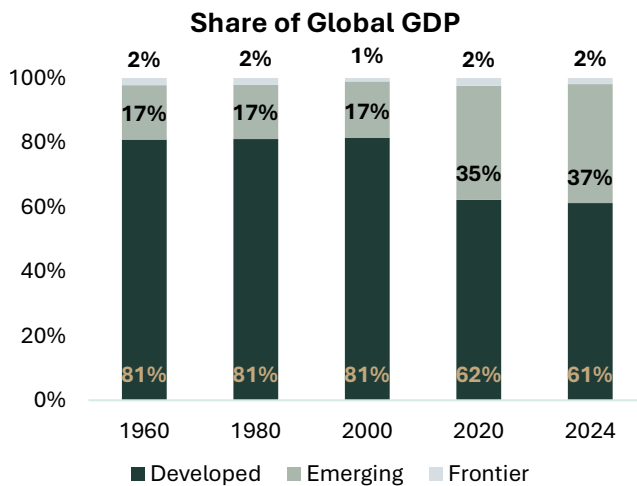


Source: Congressional Budget Office (CBO)

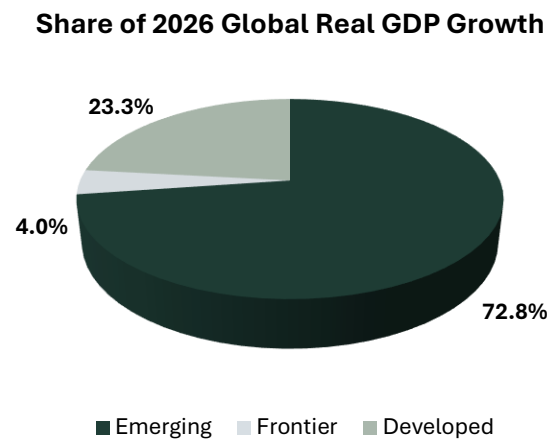


Source: FRED

The share of developed markets in the global GDP has been on a downtrend since 2000. Currently, Emerging markets contribute to almost 73% of the global GDP growth.



Source: Pravia Research, IMF



Source: Pravia Research, IMF, Visual Capitalist

This is not a cyclical blip – it is a structural reckoning the West has been deferring for 30 years.



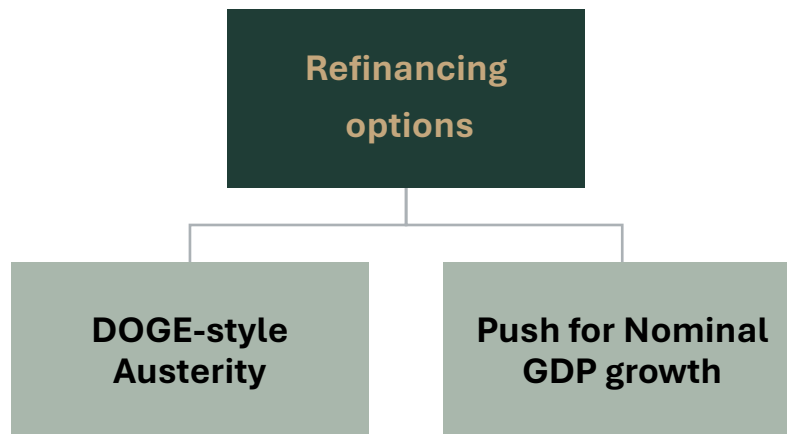
GFCF (% of GDP)	1970	1980	1990	2000	2010	2020	2024
Developed							
United States	20.26	23.53	21.29	23.15	18.31	21.89	21.70
Germany	29.25	25.90	24.37	22.88	19.19	21.34	20.46
United Kingdom	23.98	23.27	24.02	18.23	16.59	18.22	18.67
Japan	38.89	34.58	34.96	28.49	22.62	25.47	26.08
Korea, Rep.	25.62	32.59	36.80	31.50	30.46	31.04	30.03
<i>Average</i>	<i>27.60</i>	<i>27.97</i>	<i>28.29</i>	<i>24.85</i>	<i>21.44</i>	<i>23.59</i>	<i>23.39</i>
Emerging							
China	24.10	28.51	23.94	32.65	43.52	41.85	39.87
India	15.54	19.68	26.08	26.02	33.23	27.32	29.90
Indonesia	13.62	20.87	30.55	19.85	31.00	31.71	29.15
Vietnam	0.00	0.00	0.00	27.65	35.16	30.28	29.02
<i>Average</i>	<i>13.32</i>	<i>17.26</i>	<i>20.14</i>	<i>26.54</i>	<i>35.73</i>	<i>32.79</i>	<i>31.98</i>
Spread	-14.29	-10.71	-8.14	1.69	14.29	9.20	8.60

Source: Pravia Research, IMF; GFCF → Gross Fixed Capital Formation; Spread = Avg. EM – Avg. Developed GFCF

The divide between the West and the East is defined by GFCF, not just culture. While the West directs nearly 70% of its GDP toward immediate consumption – effectively hollowing out its scope for growth – the East maintains a GFCF often double that of its rivals, **aggressively reinvesting in the physical infrastructure and machinery that drive output**. This divergence has turned the West into a debt-driven engine focusing on the **present** and the East into a production-oriented architect of the **future**. Ultimately, the West is consuming its capital to sustain its lifestyle, while the East is compounding its capital to build industrial gravity, forcing a global repricing of where real value actually lives.

Debt Refinancing

With debt at historically high levels, there are only two realistic mechanisms for refinancing:



Source: Pravia Research

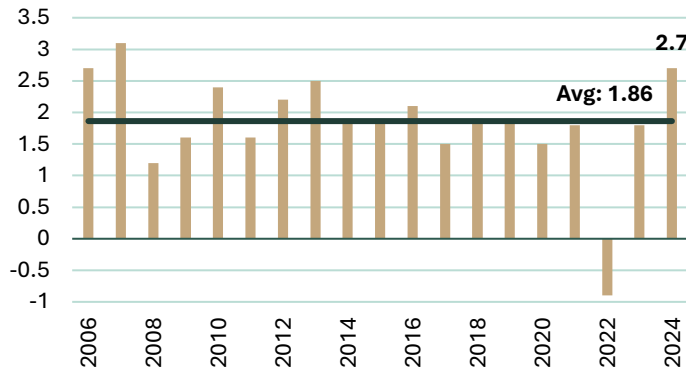
- **DOGE-style Austerity** involves extreme cost-cutting measures. However, this has proven politically untenable in Western democracies (e.g., Portugal, Italy, Greece and Spain having to decrease standard of living measures in the EU (as they couldn't devalue the currency), France's fiscal constraints and DOGE itself in the US failing).
- **GDP Growth** – This is the path the West is now pursuing – and it tolerates, or even requires, higher inflation.



2) We are amidst an intersection of multiple cycles

→ The west is facing higher energy and labour costs:

Global wage growth (%)



Industrial electricity prices, USD per MWh

Year	2019	2020	2021	2022	2023	2024	% Change
EU	105	95	130	215	195	163	55.2%
USA	68	67	69	78	80	81	19.1%
China	84	80	94	88	65	62	-26.2%
India	103	98	100	101	93	93	-9.7%

Source: International Labour Organisation (ILO)

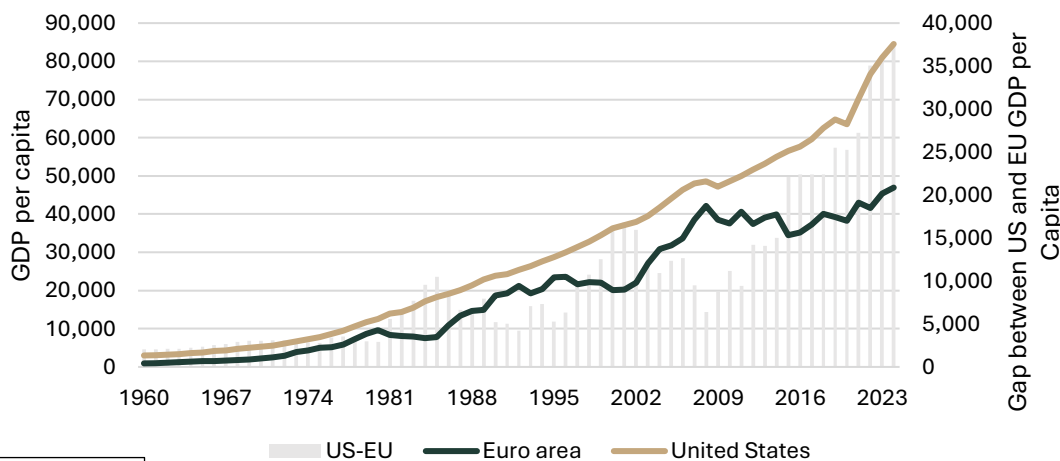
Source: IEA

Pravia's Insights –

The 2022 energy shock permanently restructured global energy supply chains. While spot prices have since moderated, Western industrial energy costs remain structurally elevated relative to their pre-2022 baseline - and significantly above the levels faced by Asian competitors. Europe's shift from cheap Russian pipeline gas to expensive LNG imports has locked in a lasting competitive disadvantage for European industry that spot price movements alone cannot resolve.

In a scenario where Europe is already facing a growth slowdown due to significant regulation and strict labour laws coupled with higher taxation, we are moving towards an increasingly fragmented world, with the west having differing ideologies amongst itself:

Gap between US and EU GDP per Capita is widening



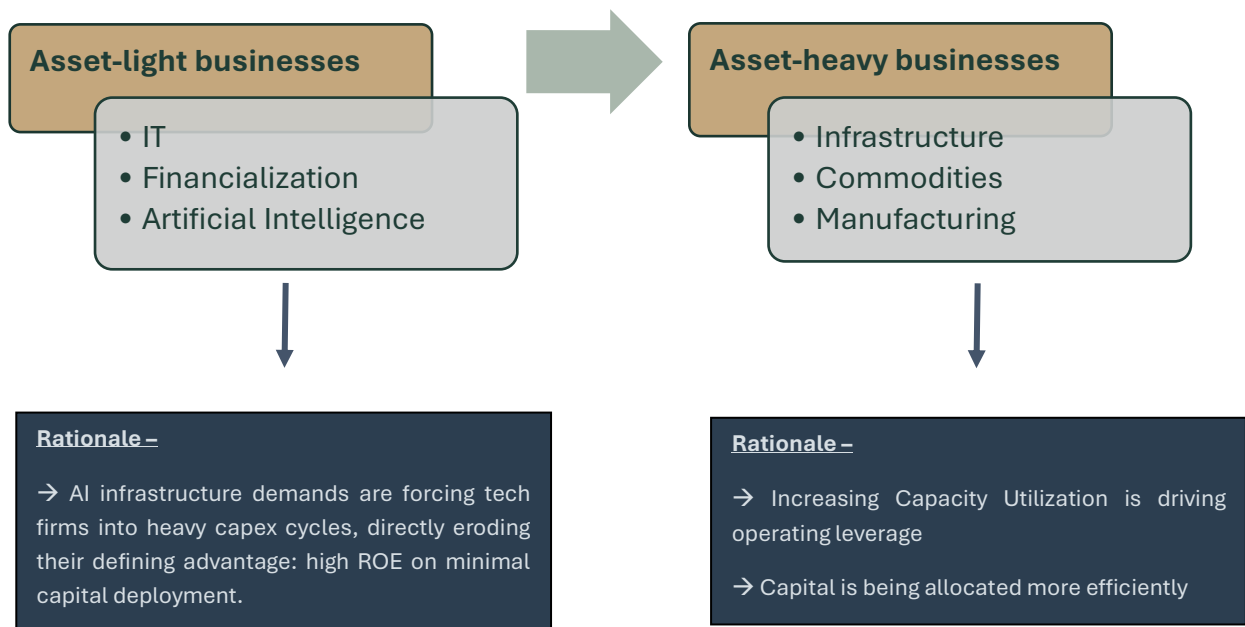
Source: IMF



→ **Intersection of multiple structural cycles:**

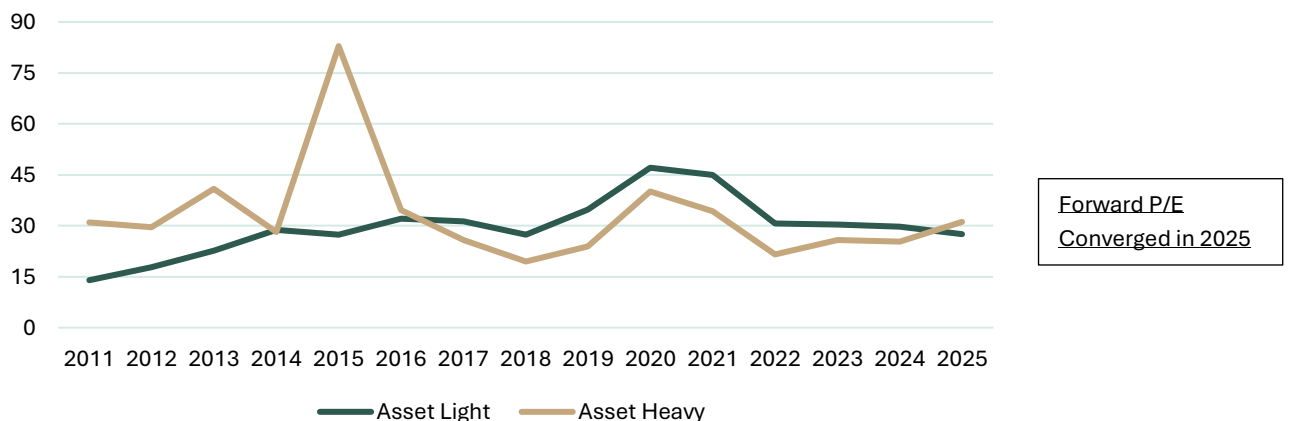
- 1. De-dollarisation:** Global shift away from USD as the singular reserve/trade currency, pushing up commodity prices and making trade more complex.
- 2. Global Bad debt cycle:** West’s legacy over-leveraging now reaching a point of unsustainability.
- 3. High Capex, Production-Oriented Cycle:** Re-regionalisation driving countries to build their own industrial capacity.

This is the dominant new theme, which is driving us to the following conclusion:



Asset-light businesses are fully dependent on the underlying commodities and infrastructure (which are Asset-heavy businesses by nature) but the underlying commodities and infrastructure aren’t solely dependent on these Asset-light businesses

Forward PE Convergence



Source: Pravia Research, Ashwath Damodaran, NYU Stern

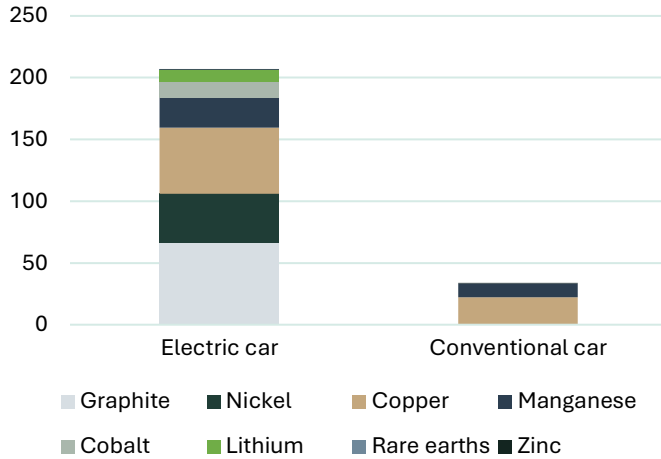


3) Thematic Drivers for Asset-heavy companies

The next wave of technology is highly resource-intensive – Driven by:

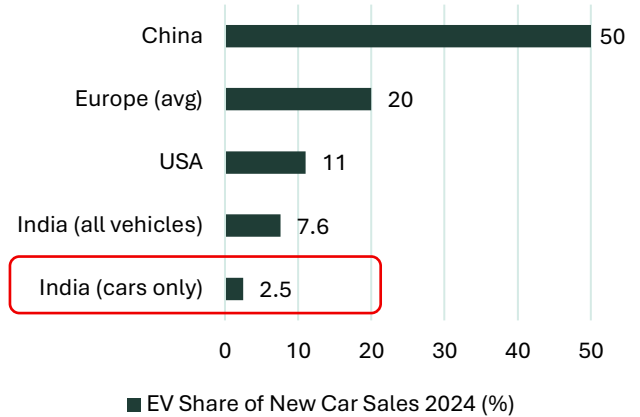
EV adoption →

Kgs of materials used



Source: IEA

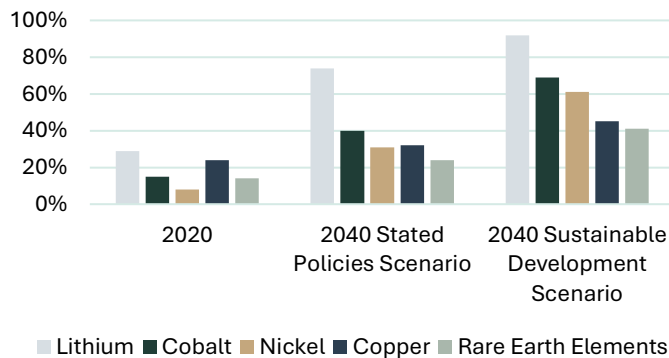
EV Penetration (%)



Source: IEA, Niti Ayog, S&P Global

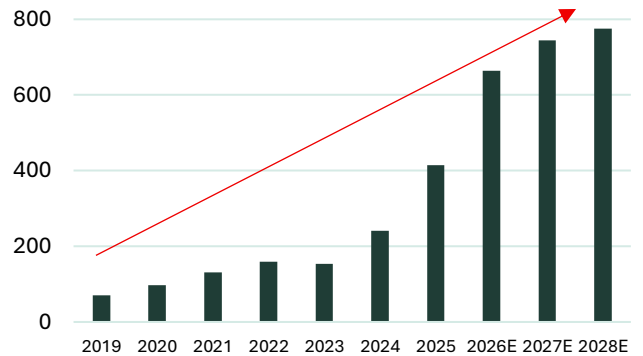
Demand for Metals is increasing due to Energy transition and AI spending →

Metals demand due to Green Tech



Source: IEA

Hyperscalers Capex (USD Bn)



Source: JP Morgan

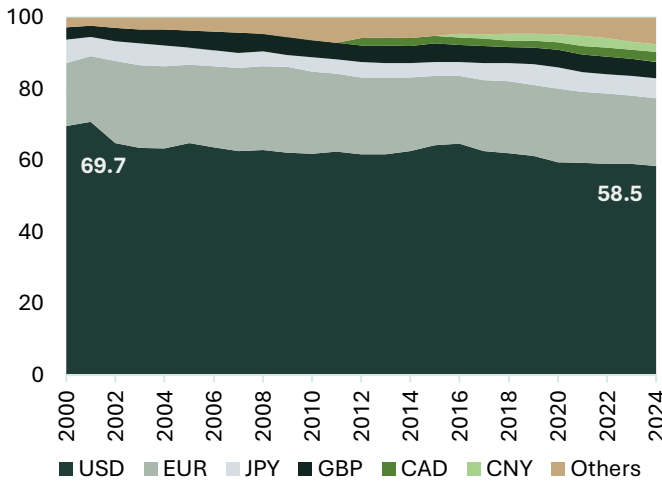
Pravia's Insights –

New technologies are resulting into more physical demand. Every new tech theme ultimately translates into demand for more energy and more metals - the physical economy underpinning the digital one.

The cycle of de-dollarisation is well underway – The share of USD as a reserve currency has fallen from ~70% (2000) → 58.5% (2024) → 56.5% (Q3 2025). With political polarization, global trade tensions and wars seeming to be in a never-ending cycle, global trust is moving away from USD towards Gold, as is very evident in the charts below:

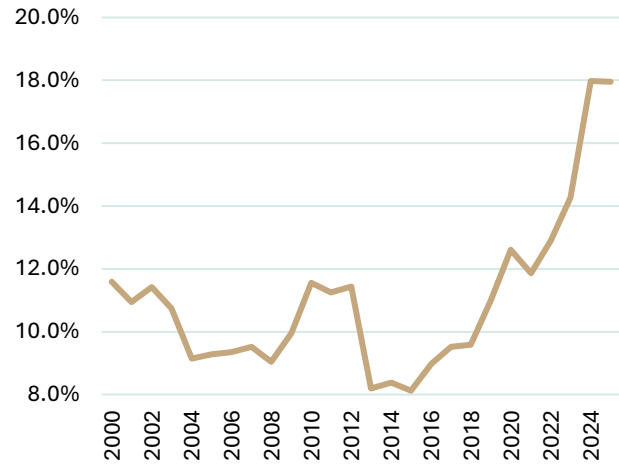


Currency reserves (% of total currencies)



Source: StLouisfed.org

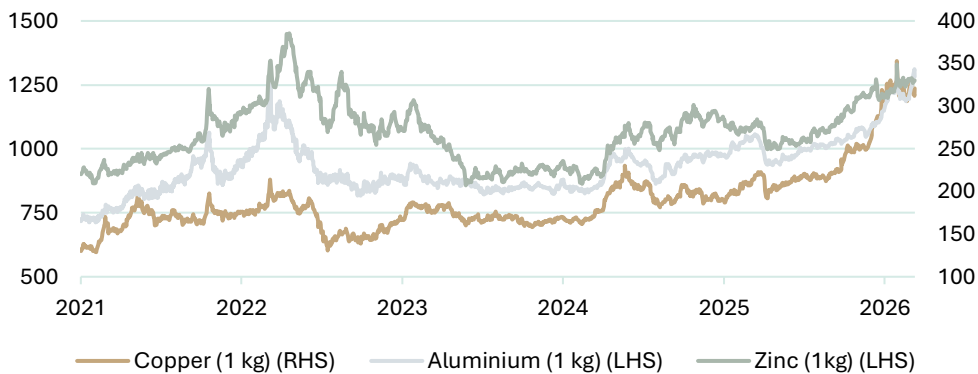
Gold Reserves (% of total reserves)



Source: World Gold Council

De-dollarisation increasing prices of commodities and other real assets, causing a boom, as is seen in the 5-year boom on industrial metals below:

Metal Spot Prices, INR per kg

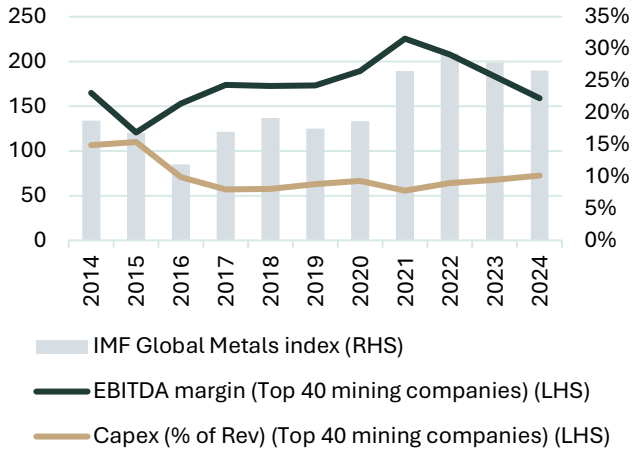


Source: MCX

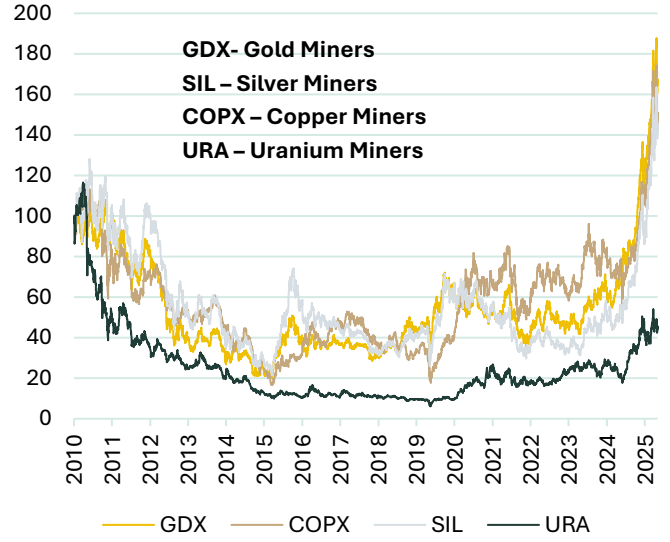
- Along with Industrial metals, each of the 17 rare earth elements are essential components of electronics and defence equipment.
- Uranium is becoming increasingly important as countries diversify away from dependence on exhaustive sources like Oil & Gas.
- Realisations for metal companies have maintained even as revenue has increased significantly, favouring mining and recycling companies further up in the cycle.



Global Mining EBITDA margins sustaining at scale



Source: Fred, PWC, Pravia Research



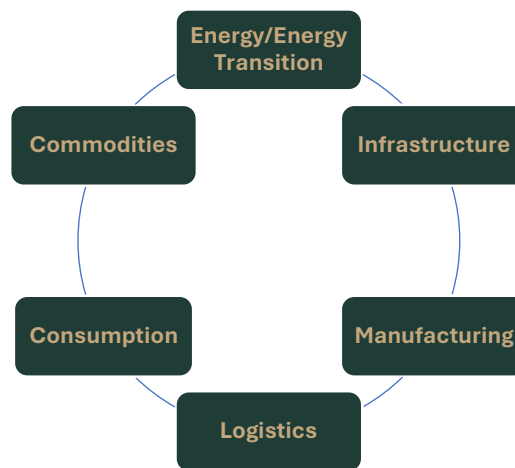
Source: Investing.com, Pravia Research;
Prices are indexed to 100 as on 08-11-2010



4) Re-regionalization over globalisation:

- De-globalisation is creating structural demand: countries are creating their own industrial capacity rather than relying on global supply chains.
- India’s example → domestic metal production is scaling up, preparing for full capacity despite Chinese overcapacity in the same materials.
- De-globalisation sustains commodity demand. If/when globalisation returns, commodity prices may collapse - but until then, they continue to rise.
- Inter-connected trade with 'friend nations' (friend-shoring) is creating favouritism and premium pricing for aligned producers.

Real assets are inherently commodity- and energy-intensive — creating structural, sustained demand across key secular themes:



Current Interest rate environment is favouring Real assets

We are in a global interest rate cut cycle, which is still underway for most of the developed markets - although 0% interest rates might be difficult to be seen again. India has managed inflation much better than developed markets and even most emerging markets.

Country	Bottom Rate	Peak Rate	Change (Bottom to Peak)	Current Rate	Change from Peak
United States	0.00–0.25%	5.50%	5.25-5.50%	3.50–3.75%	1.75 - 2.0%
Euro Area	0.50%	4.00%	3.50%	2.00%	2.00%
United Kingdom	0.10%	5.25%	5.15%	4.25%	1.00%
Japan	0.10%	0.75%	0.65%	0.75%	0.00%
Australia	0.10%	4.35%	4.25%	3.60%	0.75%
Canada	0.25%	5.00%	4.75%	2.75%	2.25%
India	4.00%	6.50%	2.50%	5.25%	1.25%
China	3.85%	3.85%	0.00%	3.00%	0.85%
Indonesia	3.50%	6.25%	2.75%	4.75%	1.50%
Brazil	2.00%	15.00%	13.00%	15.00%	0.00%
Turkey	8.50%	50.00%	41.50%	42.50%	7.50%

Source: Respective Central Banks



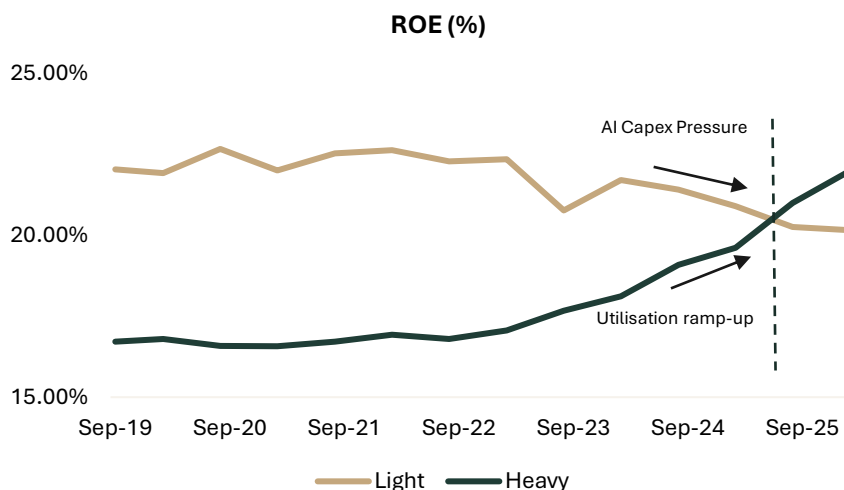
5) Domestic Universe – the ROE crossover

We are at a generational turning point in markets. For three decades, the dominant investment thesis was straightforward: own Asset-light businesses – software, IT services, financials – that could compound capital with minimal physical investment. **That era is ending.** A confluence of structural forces – fiscal stress in the West, re-regionalisation of global supply chains, the physical demands of new technology, and a structural increase in interest rates – is orchestrating a rotation of historic proportions.

The core thesis of this note: The PE(x) gap between Asset-heavy and Asset-light businesses is closing – but more importantly, **the ROE gap is reversing.** Asset-light companies are being forced to spend on AI infrastructure, **eroding their defining advantage.** Asset-heavy companies – metals, energy, manufacturing, infrastructure – **have done capex in the past, incremental capex is when it is necessary,** rather than out of necessity – and are now **harvesting operating leverage.**

Perhaps the most important chart an investor can look at today is not a price chart – it is the trajectory of Return on Equity across two business model archetypes. For the last 2 decades, the story was simple: IT and software businesses generated 25–35% ROEs with minimal capital intensity. Asset-heavy companies – the steelmakers, the port operators, the energy companies – generated single-digit to low-teen ROEs and were valued at a discount.

That calculus is inverting. The data tells a compelling story →



Source: Morningstar Data, Pravia Research

Why Asset-Light ROEs Are Falling –

The Asset-light model's competitive moat **was** simple: **generate enormous returns with little capital reinvestment.** A top-quartile Indian IT services company historically spent 3–5% of revenues on capex. That era is over.

- ▶ **Forced AI Infrastructure Spend:** The global AI arms race has made it existentially necessary for IT companies to invest in computing infrastructure, GPU clusters, and data pipelines — precisely the kind of capex that was antithetical to the Asset-light model.



- ▶ **Cloud & Data Centre Build-Out:** Leading IT services firms have committed billions to cloud-native infrastructure just to remain competitive. This capital was previously returned to shareholders.
- ▶ **Pricing Pressure from Automation:** The same AI that is forcing capex is also compressing the per-FTE (Full Time Equivalent) revenue model that sustained margins. The cost-of-service delivery is rising even as pricing power weakens.
- ▶ **Valuation De-rating:** Despite deteriorating ROE fundamentals, many Asset-light businesses still trade at premium multiples – creating a **double negative:** deteriorating earnings quality at elevated valuations.

Pravia's Insights: The **Nifty IT Index capex-to-revenue ratio has nearly doubled** from ~3% in FY21 to ~5.5% in FY25. While this sounds modest, for companies valued at 30–40x earnings, even a modest erosion in ROE has an outsized impact (downward) on intrinsic value.

Why Asset-Heavy ROEs are Rising

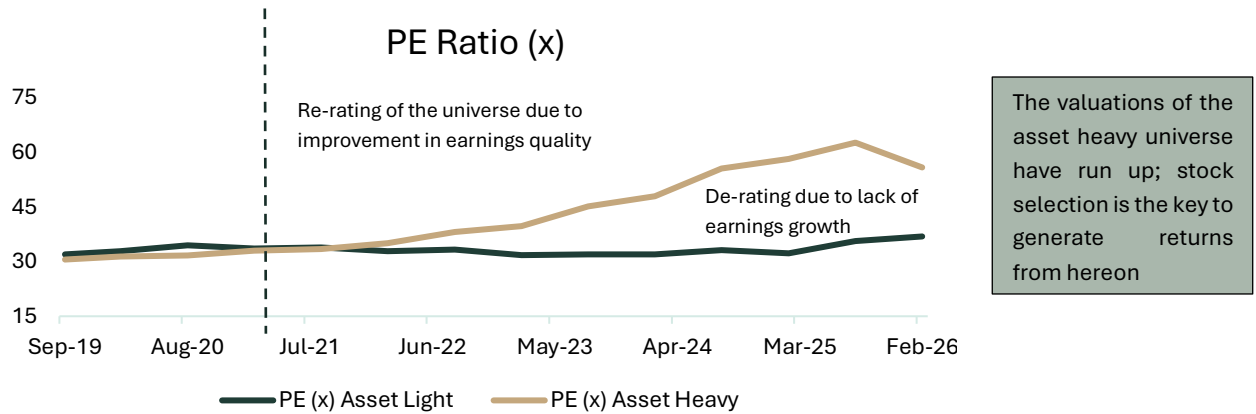
The narrative around Asset-heavy businesses has been dominated by memories of the 2009–2014 bad debt cycle – a period of indiscriminate over-investment, commodity price collapses, and catastrophic balance sheet destruction. That scar tissue (which has to be overlooked now) has paradoxically created the conditions for the next bull market in these sectors:

- ▶ **Capex Cycles are done:** The major capex outlays in steel, aluminium, cement, ports, and roads were completed largely between 2012–2022. Companies are now in harvest mode – utilising installed capacity rather than building new.
- ▶ **Operating Leverage Kicking In:** With fixed costs already absorbed and capacity running at higher utilisation rates, each incremental unit of revenue flows disproportionately to the bottom line.
- ▶ **Disciplined Reinvestment:** Scarred by the 2009–2014 experience, management teams at Asset-heavy companies are **deeply reluctant to over-borrow or over-invest**. This discipline – is actually a quality signal for longer-term compounding.
- ▶ **Commodity Price Tailwind:** A structural re-pricing of metals and energy (discussed in the macro sections) is flowing directly into revenue and EBITDA for producers.



6) The P/E Multiple Convergence in Indian Markets

The PE gap between asset-light and asset-heavy businesses is narrowing from both ends – asset-light multiples are compressing as growth and ROEs deteriorate, while asset-heavy multiples are expanding as the market reprices improving earnings quality.



Source: Morningstar Data, Pravia Research

Key Statistics of Nifty 500 Universe:

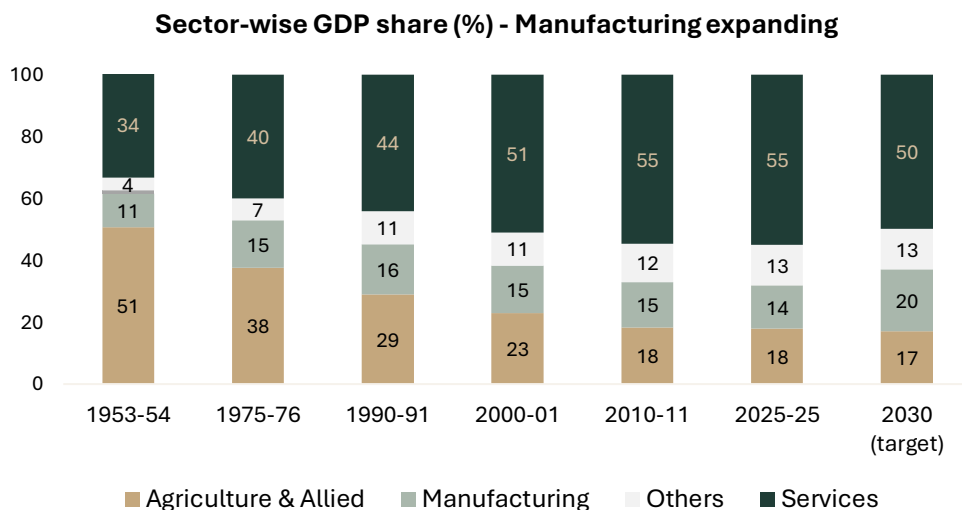
Metrics	Asset-Light (IT/Software etc)	Asset-Heavy (Metals/Infra/Energy etc)
Current ROE (FY25E)	~22–26%	~16–21%
ROE Direction (2025–27E)	↓ Declining	↑ Rising
Median PE (x)	29.6	32.5
PE Direction	↓ Compressing	↑ Expanding
Operating Leverage	Negative (AI capex)	Positive (utilisation rising)
Balance Sheet Trend	Cash-generative but capex mode on	Deleveraging
Investment Horizon	Cautious / Tactical	Structural Overweight



7) Domestic Tailwinds – India Story

A. Make in India: Manufacturing Ecosystem Building

- a. India is building a domestic manufacturing ecosystem that parallels the global re-regionalisation theme.
- b. The '**We don't stand anywhere close**' bias is a questionable narrative – it was the same narrative in defence in 2018.
- c. **Defence case study:** In 2018, India's PSUs were weak, indigenisation was minimal, the story **seemed** uninvestable. Since then, indigenisation has happened through global tie-ups, L1 supplier lists have been rebuilt, and companies have multiplied in valuation.
- d. Biases prevent participation in these stories – the same will happen across other manufacturing verticals.



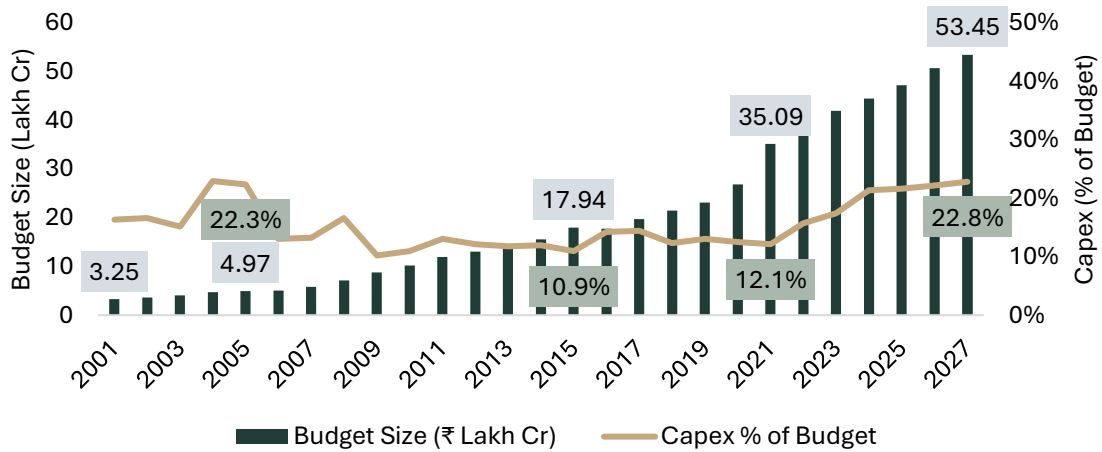
Source: MOSPI

B. Infrastructure Transformation

India is in the early-to-middle innings of an infrastructure transformation that has no modern precedent in its own history and few parallels globally outside of China's construction boom of the 2000s. The scale, pace, and political commitment behind this transformation are systematically underappreciated by markets - in part because the memory of past false starts (particularly in roads and power in the 2000s) has made investors congenitally sceptical.

That scepticism is now a mispricing opportunity. The infrastructure of 2024 India is fundamentally different from 2014 India – and the data confirms it.



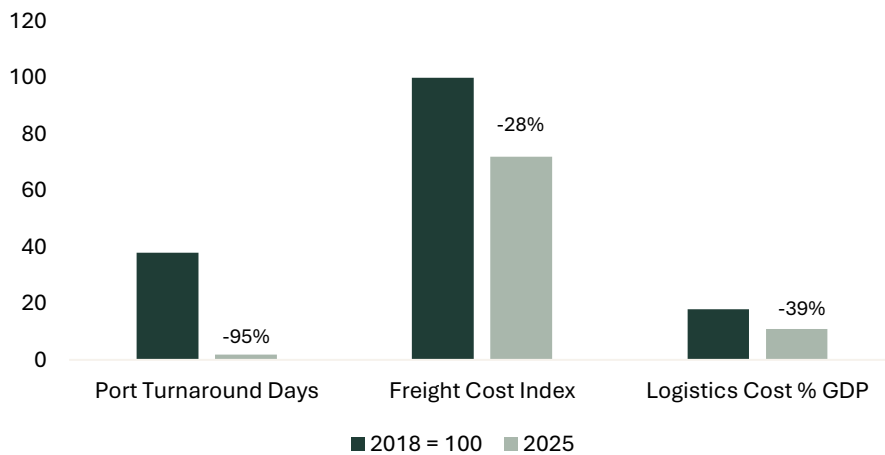


Source: PIB, GOI

Ports →

India's major ports were once byword for inefficiency. Container ships would anchor for days awaiting berths. Freight costs were structurally elevated because of poor port throughput. That story has changed – dramatically.

India Logistics & Infrastructure - Before and After Reform



Source: Ministry of Ports, Shipping & Waterways

- ▶ **Port Turnaround Time:** Reduced from an average 30-45 days to 24-48 hrs at major ports.
- ▶ **Logistics Cost as % of GDP:** India's logistics costs have fallen from ~13-14% of GDP to an estimated 8–9% - just above the 8% global average but converging rapidly. Each % point improvement represents hundreds of billions of rupees in economic savings annually.
- ▶ **PM Gati Shakti:** The National Master Plan for Multi-Modal Connectivity, has created a unified digital platform integrating 16 ministries and enabling real-time project tracking. This is unprecedented coordination in Indian infrastructure planning.



Railways →

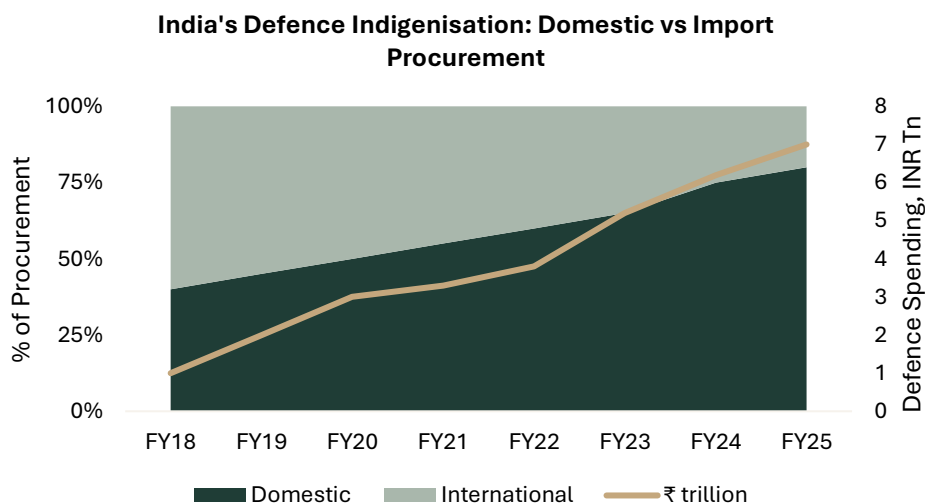
India's railway network is one of the most heavily utilised in the world — and historically one of the most congested. Passenger trains and freight trains competed for the same tracks, creating chronic delays, unreliable transit times, and elevated logistics costs.

- ▶ **Eastern Dedicated Freight Corridor (EDFC):** 1,856 km connecting Ludhiana to Kolkata. Operational since 2022 – freight transit time reduced from 6–7 days to **under 3 days**.
- ▶ **Western Dedicated Freight Corridor (WDFC):** 1,504 km connecting Mumbai/JNPT to Dadri. Final sections commissioned in 2024. Enables double-stacking of containers, **tripling freight capacity** per train.
- ▶ **Impact on Industrial Location:** The DFCs are already reshaping where companies locate manufacturing – warehouses and factories are clustering along the DFC corridors, creating new industrial real estate demand in previously peripheral areas.
- ▶ **Cost per Tonne-km:** DFC **reduces freight cost** by an estimated 30–40% per tonne-kilometre compared to the general network – **improving margins** for heavy industry users like steel, cement, and fertilisers.

The Defence Indigenisation Blueprint: Why Biases Created the Opportunity

Of all the Indian investment narratives, the defence indigenisation story was perhaps the most underappreciated – and the most instructive for how bias prevents participation in transformational themes.

In 2018, the thesis seemed difficult: India's Public Sector Undertakings (PSUs) were notoriously inefficient, foreign OEMs dominated procurement, indigenisation was minimal, and the political will behind "Make in India" for defence seemed more rhetorical than substantive. The narrative at the time, "India will never really indigenise defence - there are too many vested interests," – was clearly wrong.



Source: Ministry of Defence Annual Report

- ▶ India has gone from ~40% domestic procurement in FY18 to ~75% in FY24: A 35% shift in six years represents a fundamental restructuring of the defence supply chain.



- ▶ **Positive Lists (Import Embargo):** The government has issued multiple "Positive Indigenisation Lists" – items on these lists cannot be imported. This is a structural demand guarantee for domestic producers, not a cyclical or policy-dependent boost.
- ▶ **Global Tie-ups:** Indian PSUs and private firms have established technology transfer arrangements with global OEMs (Lockheed Martin, Safran, GE, Thales) – giving domestic companies access to technology without the full R&D cost.
- ▶ **Valuation Outcome:** Companies like HAL, BEL, and MTAR Technologies – dismissed in 2018 as uninvestable PSU stories - delivered returns of 10-25x over 5-7 years.

Pravia's Insights: The defence case study is the template for what will happen in semiconductors, specialty chemicals, medical devices, and capital goods. The same "it will never happen here" narrative is present in each - and each is in a different stage of the same indigenisation journey that defence has already completed.

Key risks:

Risk	Comments	Key Monitorable
Re-globalisation	Easing geopolitics revives global supply chains, eroding domestic pricing power	Trade agreements, US-China tariffs
India Rate Reversal	INR weakness or oil > \$100 halts rate cuts, reversing earnings tailwind	Brent crude, CPI, INR, DXY
China Demand	Slowdown offsets re-industrialisation tailwinds on commodity demand	China PMI, property data, copper inventory
ROE Ceiling	Asset-heavy ROEs capped ~18-22%; peak-cycle margins not sustainable	P/B vs. history, ROE-WACC spread
India Execution	Infrastructure delays, labour/equipment constraints slow earnings visibility	NHAI awards, railway progress, order inflow

8) Investment Implications

The structural thesis outlined above has clear and actionable portfolio implications. The challenge for most investors is not intellectual - it is behavioural. Rotating out of high-quality, familiar, liquid IT and FMCG holdings into "old economy" businesses feels uncomfortable precisely because the narrative of the last cycle has become deeply embedded in the investment psyche.

The implementation framework below is designed around two principles: (1) maximum structural alignment with the thesis, and (2) simplicity of expression - using ETFs, Mutual Funds, and REITs where direct stock selection introduces unnecessary complexity or concentration risk.

We follow the **ICM** (Infrastructure-Consumption-Manufacturing) model for driving allocation in the growth bucket of portfolios.

Infrastructure & Logistics (I)	Consumption (C)	Manufacturing (M)
<ul style="list-style-type: none"> • Metals, mining & REE* – favourable commodity cycle, high dividend yields • Energy – grids, thermal, OMCs, capital goods cos., oil producing companies • Infra build-out – roads, rail, ports <p><small>*REE – Rare Earth Elements</small></p> <p>*Recommendations are for clients only</p>	<ul style="list-style-type: none"> • New Age & Digital Consumer – structural shift in consumption patterns • Discretionary – pent-up demand and premiumization trends • QSR / Food & Beverages – selective opportunities • Healthcare – hospitals, diagnostic centers, CDMO, medical tourism • Tourism – higher travel spending, disrupted tourism in the middle-east. • Consumer Durables – growing GDP/capita 	<ul style="list-style-type: none"> ▪ EMS (Electronics Manufacturing Services) – structural import substitution play ▪ Auto & Auto Ancillaries – domestic demand + EV transition ▪ Textiles – PLI beneficiary, China+1 opportunity ▪ Specialty Chemicals – import substitution, export-oriented recovery ▪ Robotics, Automation & Productivity enhancement – thematic allocation ▪ Defence – indigenization, leadership positions available

- ▶ **Overweight Real Assets:** Metals (steel, aluminium, copper), energy (conventional + transition), infrastructure operators, and industrial manufacturing.
- ▶ **Sectors aiding Capex:** Ports, railways, defence PSUs/private, cement, capital goods - companies where capacity utilisation is rising **without excessive new debt**.
- ▶ **Selective on Consumption:** Domestic consumption is a late-cycle play; wait for capacity utilisation and rural wage data to confirm before rotating in.
- ▶ **Reduce Asset-Light Exposure:** Avoid long-duration growth stories reliant on DCF valuations built on low rates. AI capex is compressing margins and re-rating multiples simultaneously.
- ▶ **Preferred Vehicles:** ETFs, thematic actively managed mutual funds, and select direct equity ideas based on suitability in client portfolios



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