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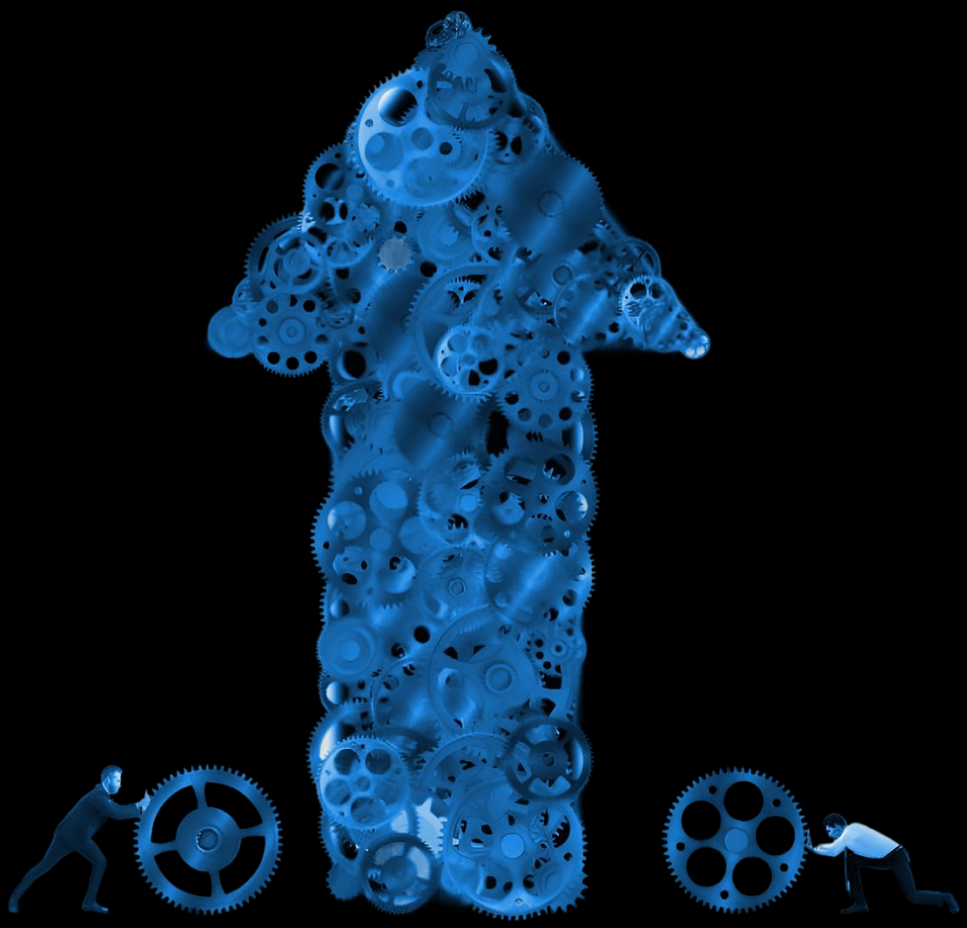

VQ PERSPECTIVES - JULY 2025

New Engines, New Trajectory: Fueling India's Next Growth Phase

By: Ravi Dharamshi

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Following nearly a decade of public sector-led investment cycles, India's growth model has reached a structural inflexion point - the great economic handoff. Between FY14 and FY24, the central government undertook a counter-cyclical investment role, driving infrastructure outlays and initiating capex-heavy budgets to stabilize growth through uncertain global and domestic conditions.

FY25 marks a decisive transition. With fiscal groundwork laid and enabling policy mechanisms in place, the private sector is emerging as the dominant growth driver. Capex data, project announcements, and corporate balance sheet trends now confirm a shift in leadership away from government-led stimulus toward enterprise-led expansion.

This is not a retreat of state involvement, but a deliberate shift in the primary driver of investment. The government's role evolves from being the primary growth engine to becoming an enabler through regulatory frameworks, policy incentives, and fiscal consolidation. The outcome is a coordinated transition to a multi-engine growth model with broader sectoral and institutional participation.

India's macroeconomic architecture is undergoing a structural shift, where the baton of growth leadership is passing from the public sector to a more capital-efficient, execution-ready private sector.

The Foundation Phase: Government Sets the Stage (2014-2024)

For nearly a decade, the Central Government played the lone ranger, driving the investment cycle through infrastructure outlays and capex-heavy budgets. This was essential groundwork, building the infrastructure backbone, establishing fiscal discipline, and creating institutional capacity.

The government's infrastructure-heavy approach was designed to create the foundation for private sector participation. Now, with the groundwork laid, the transition to private sector leadership represents the natural evolution of India's growth strategy.

The government's decade-long infrastructure focus has successfully created the platform for private sector acceleration.

The Transition Moment: Where Leadership Changes (FY25)

FY25 marks the year of India's great economic transition. The shift is both visible and significant:

Private (corporate) capex has overtaken government capex ₹11 trillion vs ₹10.5 trillion

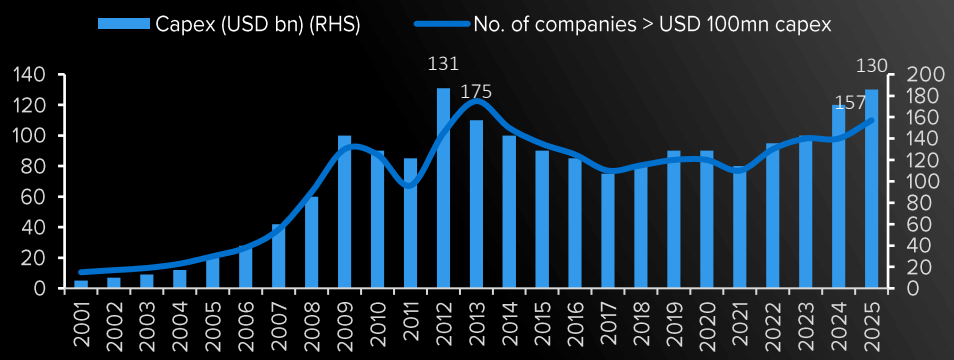
Over 157 private sector projects worth atleast $100 million comparable to the 2012 peak

Order books and execution pipelines are the strongest in a decade

The leadership transition is coordinated, not chaotic

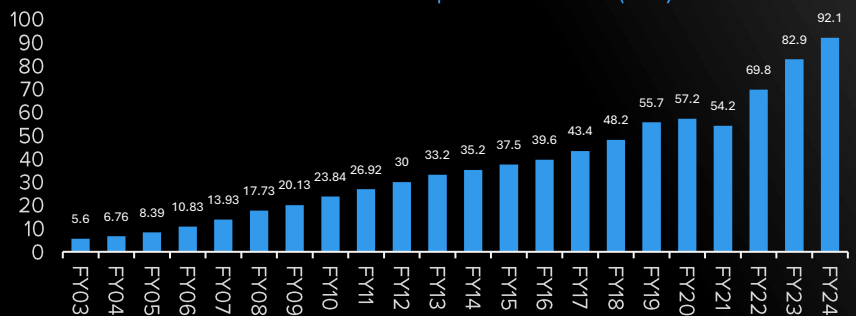
This represents a planned evolution where the government has successfully prepared the private sector for its enhanced role in driving India's economic expansion.

Corporate Capex and Project Initiation Trends



(Source: ISEC)

Total Gross Fixed Capital Formation (₹ tn)

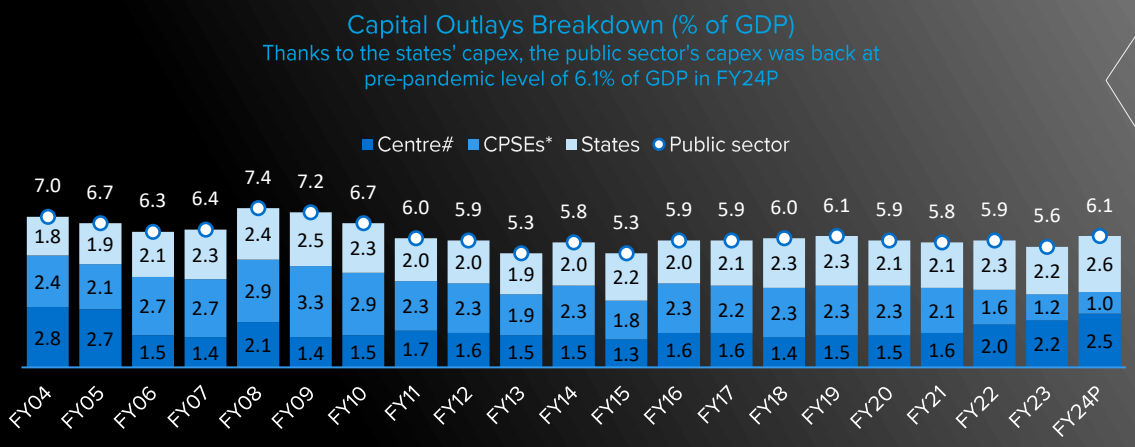


(Source: MOSPI, RBI)

This isn't the end of government's contribution - it's the beginning of a coordinated multi-engine approach where each sector plays to its strengths.

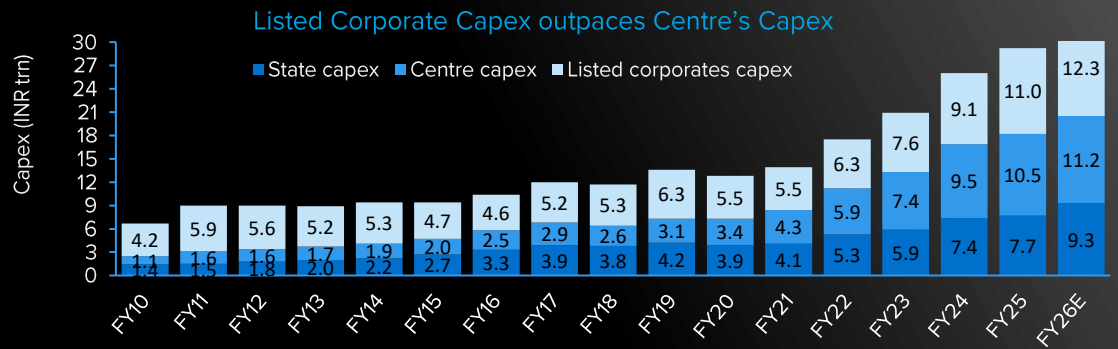
Historical Context: Comparing Two Growth Cycles

The capex cycle of the 2000s was powered by aggressive government outlays, a global commodities boom, and easy capital. It was longer and more linear, yet concentrated in traditional sectors like power, steel and telecom.



#Excluding L&As and equity infusion to PSUs ^All states estimates based on 20 large states
**Excluding FCI FY24P for Center and states; FY24RE for CPSEs*

(Source: Various national sources, CEIC, MOFSL)



Combined capex of govt. and listed corporates likely to breach the INR 30 trn mark in FY26

(Source: CEIC, ISec)

Today's cycle presents a dramatically different profile. The listed private corporate capex has breached ₹11 trillion, clearly overtaking the central government's capex of ₹10.5 trillion. The breadth of participation is unprecedented with 157 companies initiating major projects, approaching the 175 mark from the 2012 peak.

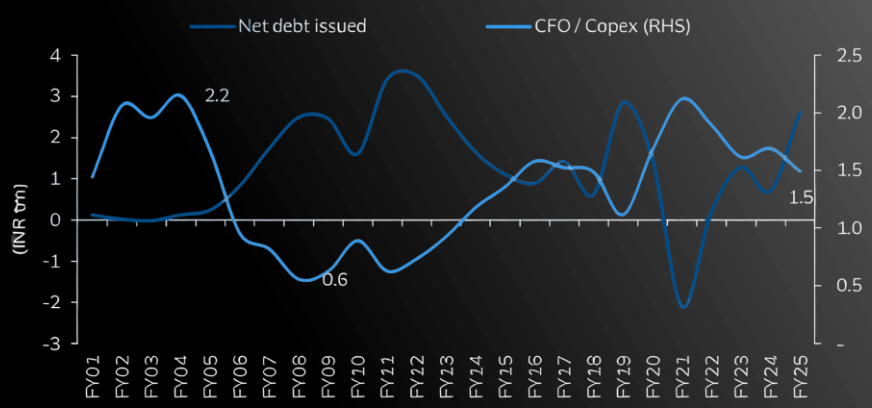
While the earlier cycle featured long-gestation infrastructure and energy projects, today's focuses on short-cycle, execution-light, tech-forward themes: renewables, battery storage, defense, precision manufacturing, semiconductors, and data infrastructure.

If the 2003-2010 cycle was about scale and endurance, this cycle emphasizes speed, efficiency, and technological advancement.

Private Sector Leadership: Capital Flows and Corporate Confidence

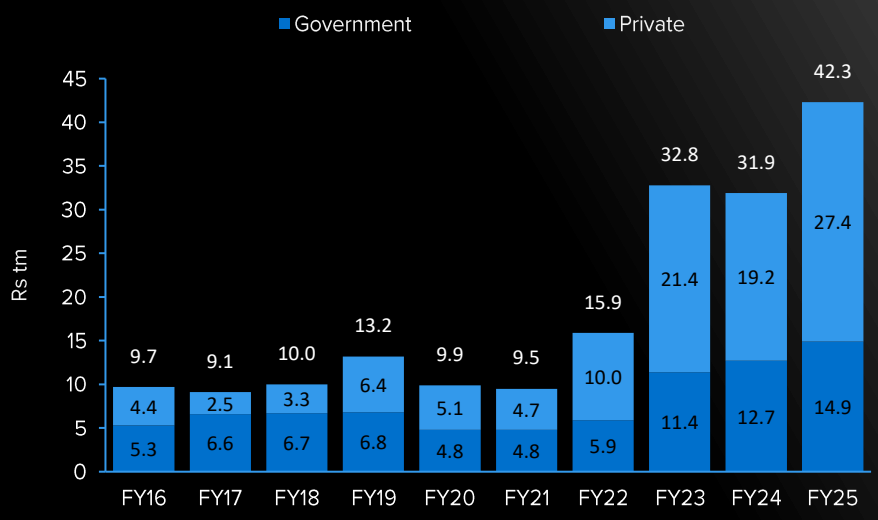
This shift is structural, not cyclical. Corporate India's capex now exceeds government capex, and this is happening despite a slight recent decline in cash flows. The CFO/capex ratio has dipped to 1.5x, down from a cycle peak of 2x, suggesting that private firms are beginning to lever up appropriately; a key driver for broader economic multipliers.

CFO/Capex Ratio and Net Debt Trends



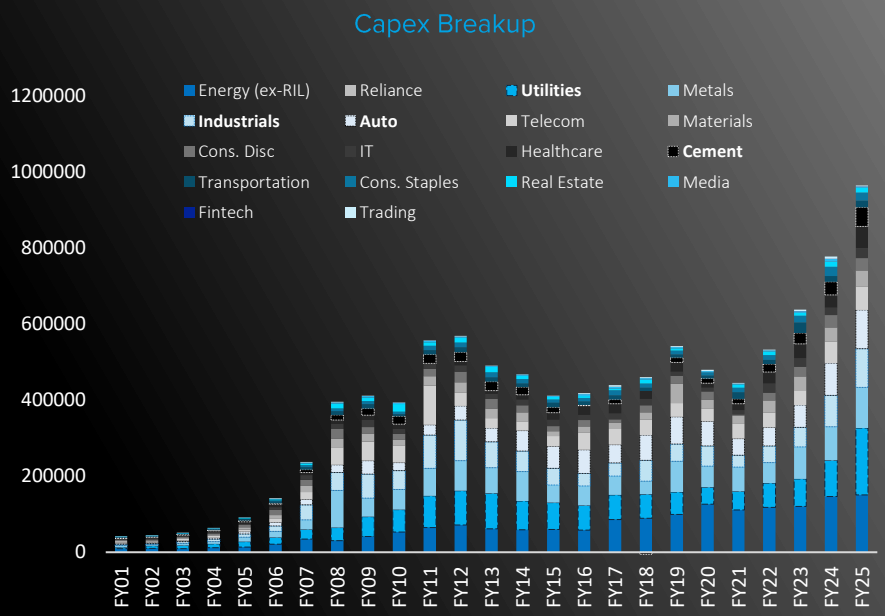
(Source: Capitaline, ISEC)

Government vs Private Sector Capex Trends



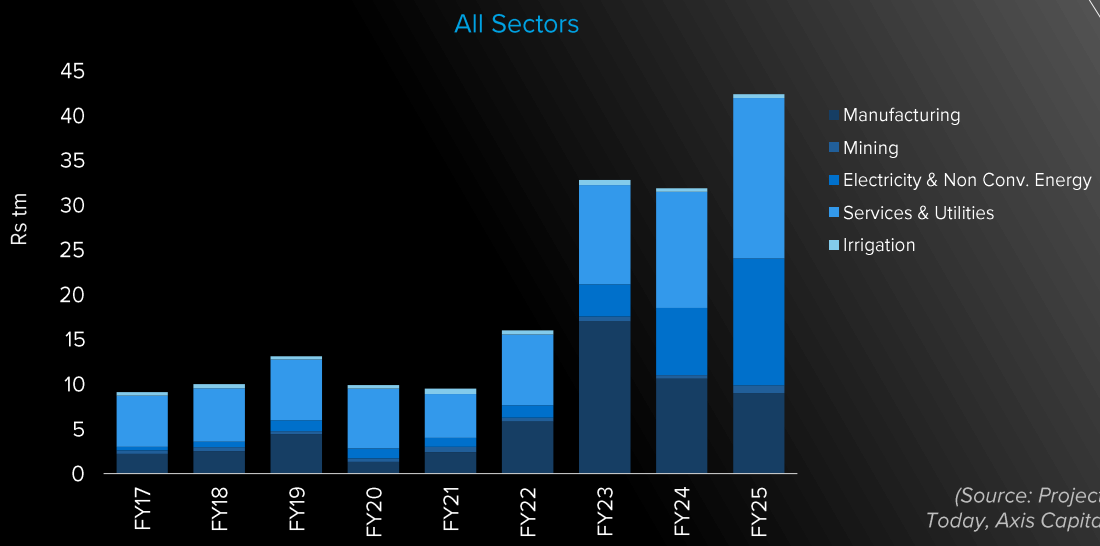
(Source: Projects Today, Axis Capital)

Sectorally, capex growth is strongest in utilities, industrials, autos, and cement. Notably, even with muted RIL spend, aggregate numbers are rising, pointing to decentralized, broad-based participation rather than a few conglomerates steering the wheel.



(Source: ISEC)

Overall capex has been rising consistently post-covid. The incremental expenditure is not concentrated in any particular segment. Utilities and industrials are seeing strong growth as government policy creates enabling conditions for private investment.



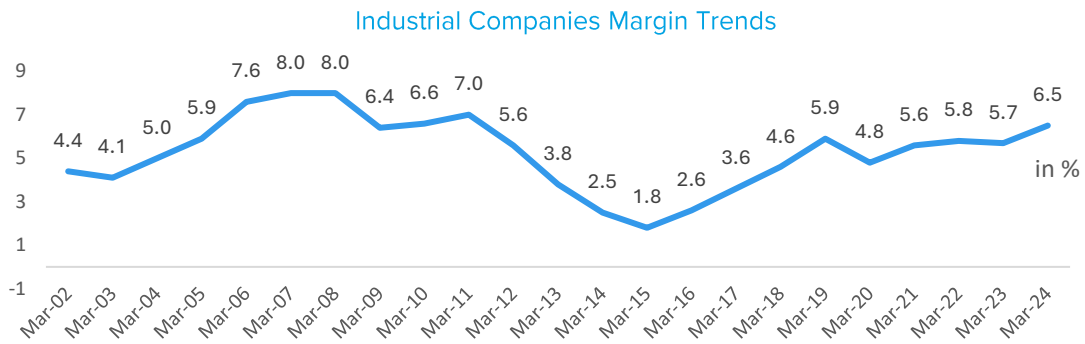
(Source: Projects Today, Axis Capital)

The government's front-loaded FY26 outlay and falling fiscal deficit (~4.4% of GDP) create a supportive environment without crowding out private investment.

Corporate India is demonstrating both the capability and confidence to lead the next phase of economic expansion.

Operating Leverage Returns: The Profitability Enhancement

In the last major capex cycle, corporate profitability soared as fixed costs were spread across higher volumes, classic operating leverage. EBIT margins for capital goods and industrial companies rose 300-500 bps during the 2003-2010 window.



(Source: ISEC)

In FY25, E&C (engineering & construction) companies are again reporting record-high margins, aided by softer input prices (cement, diesel, bitumen) and leaner working capital structures. Companies like L&T have already surprised the Street with margin beats and strong RoEs trending toward 18% by FY28E. *(Source: Bloomberg)*

Given the acceleration in execution and short-cycle nature of projects like renewables and data centers, the margin improvement could arrive faster than in the **previous** commodity-heavy cycle.

> Improved operational efficiency and higher asset utilization are driving margin expansion across key industrial sectors.

Four Distinguishing Factors of This Cycle

This investment cycle is distinguished by four critical factors:

Technology & Policy Convergence

PLI schemes, digital infrastructure, and energy transition projects are creating a more efficient investment framework with government policy acting as enabler rather than direct investor.

Global Market Integration

Indian companies like L&T* are now winning multi-billion-dollar international orders and executing projects for global clients, bringing international expertise to domestic operations.

Execution Efficiency

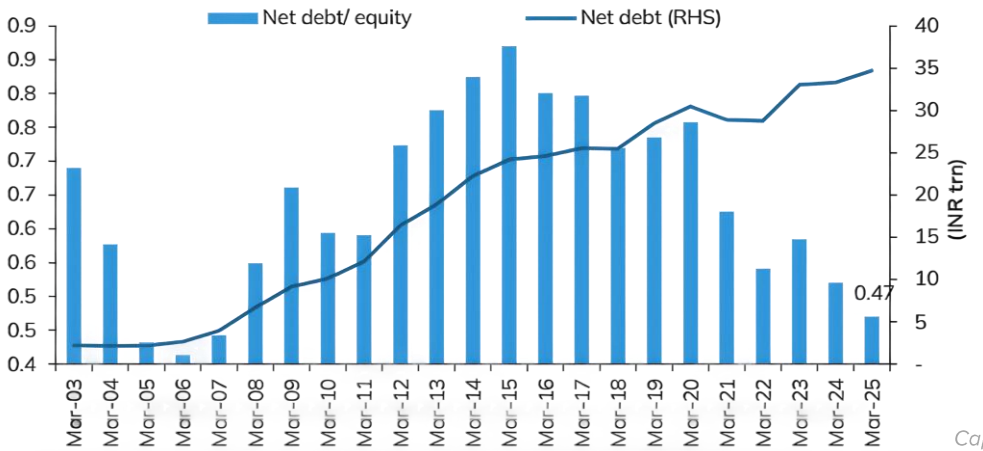
Today's projects—from solar farms to gigafactories—are faster to execute and often modular, improving ROI while limiting execution risk compared to traditional long-gestation projects.

Balance Sheet Strength

With corporate debt-to-equity at multi-decade lows (Nifty avg. ~0.4x), companies are well-positioned to fund capex from internal accruals and access credit markets when needed.

**Note – The stocks discussed herein are for illustration purpose and should not be construed as buy/sell recommendations*

Net debt trends over time



(Source: Capitaline, ISEC)

This cycle combines policy support, global integration, operational efficiency, and financial strength, a compelling combination for sustained growth.

Market Momentum: The Numbers Behind Private Sector Confidence

The quantitative evidence supporting this transition is compelling. **The FY25 book-to-bill ratio in key sectors stands at 3.8x,** and FY25 E&C order books are up 23% YoY; the strongest metrics in a decade.

Private sector intent, once elusive, is now visible in project pipelines across renewables, manufacturing, pharma, and logistics. This broad-based participation suggests sustainability beyond individual corporate cycles.

While skeptics argue that private capex cycles require government support, this transition demonstrates that proper foundation-laying can enable sustainable private sector leadership. The interplay of domestic policy support, improved fiscal conditions, and India's strategic positioning in global supply chains creates optimal conditions for sustained private sector-led growth.

If the 2003-2010 cycle was about scale, this one emphasizes **speed, efficiency, and sustainability.**

Every key metric suggests private sector confidence has reached levels that can sustain independent growth momentum.

Beyond Corporate Investment: The Household Sector Joins

The economic expansion extends beyond corporate boardrooms to household balance sheets. Real estate is emerging as a credible and sustained driver of the economic cycle, supported by improving financial conditions and employment stability.

The household investment drivers:

- Interest rates down 100 bps since FY24 peak
- Home registrations up 38% YoY across top 7 cities
- Cement and construction-linked consumption at record highs

This rebound is not speculative; it is formal, funded, and fueled by rising middle-class confidence. Households are upgrading from survival to aspiration, investing in homes, home improvement, and future-readiness. *(Source: Bloomberg)*

The expansion beyond corporate capex to household investment creates a more balanced and sustainable growth foundation.

Corporate Financial Readiness: Balance Sheets Built for Growth

India Inc is entering this expansion phase with resilience as a starting point. Clean balance sheets and high internal accruals enable investment without financial stress, providing a strong foundation for sustained reinvestment.

The financial foundation shows:

- Nifty companies' average debt-to-equity has fallen to ~0.4x
- CFO-to-capex ratios are normalizing as firms prepare for reinvestment
- PLI schemes and global opportunities are accelerating both intent and execution capability

This represents a healthier, broader-based expansion, less dependent on commodity cycles and more diversified across technology-forward sectors.

Corporate India enters this growth phase with the strongest balance sheets in decades, enabling both growth and resilience.

The Earnings Cycle: Early Stages of Sustained Performance

We believe the earnings cycle is far from over. The convergence of multiple growth drivers, private capex, formal job creation, real estate recovery, policy support, and global supply chain opportunities, positions India for sustained superior performance.

The earnings momentum indicators:

- FY25 consensus EPS growth bouncing back at 17-18%
- Broad-based upgrades visible in industrials, financials, and capital goods
- Operating leverage beginning to show in short-cycle sectors

This decade may well be defined by the convergence of multiple sustainable growth drivers that create a more balanced, resilient, and enduring expansion trajectory. *(Source: Bloomberg)*

The convergence of corporate investment, household participation, and policy support creates conditions for sustained earnings growth.

ValueQuest's Investment Perspective: India's Reindustrialisation Era

At ValueQuest, we view this transition as more than just a capex comeback, it's the beginning of India's reindustrialisation era. From energy transition and engineering to data infrastructure and domestic manufacturing, Indian enterprises are asserting not just capital but conviction.

This moment demands disciplined capital allocation, sectoral foresight, and the ability to back long-term enablers of transformation. Our investment philosophy focuses on identifying companies with the right combination of balance sheet strength, execution capability, and strategic positioning for sustained competitive advantage.

Championship portfolios are built on disciplined research, strategic sector allocation, and the ability to support companies through multiple growth cycles.

Looking Forward: A Generational Investment Opportunity

The next phase of India's economic cycle will be defined by **depth, duration, and diversity**. Private capex is accelerating. Real estate is recovering. Consumption is broadening. Earnings remain in early stages of a sustained cycle.

For long-term investors, this represents a **generational opportunity** not just to participate in recovery, but to benefit from India's structural transformation into a more balanced, private sector-led economy.

The economic engines are gaining momentum now is the time to **stay invested in the transformation**, not just the transition.

What began as a government-led infrastructure build-out is now evolving into a comprehensive economic expansion, driven by private enterprise, household confidence, and India's enhanced role in global supply chains.

> Leadership has transitioned. Momentum is building. The foundation is set for sustained, multi-engine economic growth.

India's economic narrative is no longer single-dimensional. It is **multi-faceted, private sector-led, and built for sustained expansion,** powered by both corporate ambition and financial capability.

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ValueQuest Investment Advisors Pvt Ltd.
Quest, 1073, Raja Bhau Desai Marg, Century Bazaar, Prabhadevi, Mumbai 400025, India

ValueQuest Investment Advisors Pvt Ltd.
Kohinoor Square Business Park, B – 4101, 41st Floor, NC Kelkar Marg, Shivaji Park, Dadar West, Mumbai 400028, India

022 69394444 info@valuequest.in www.valuequest.in

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