

THE AI GLOOM

Maybe its only us, but there seems to be all pervasive gloomy feeling that India has been left behind as the world transitions to the golden age of AI. Well, this is a cheer up note for the Indian policy investors and makers. To start with, the hand wringing is comparing us to the best in the world. That’s a good start. We also believe –

The AI bubble will burst soon.

Energy prices are in a long-term structural decline.

Times like these lead to policy actions that normal times don’t.

India depth and breadth of businesses in the capital markets is unparalleled in the world and capital flows will return – tax free or not. We have businesses that have generated great returns (cash flows) in the past and will continue doing the same in the future too.

Lets deep dive into the bubble and thesis and how this may unfold going ahead.

The hyper scalers have spent around 350 bn USD in AI related infrastructure last year and will spend 650 bn USD in the current year and 1 trillion USD in the next year (as per Gemini). For a technology which is as transformative, so far so good. The question is for how many years can they keep spending this kind of money and not make a return that makes economic sense. The markets think 30 years. We also think that the US GDP growth is being propped with the crazy AI related investments and there will be normalisation (reckoning) once this binge is done.

Lets see what the poster boy of this bubble – NVIDIA has been up to. It now earns 70% gross margins and 55% net margins. At the current 5.50 trillion USD MCAP, they will need to sustain their sales and margins for the next 30 years. This is so important that it needs repeating - *for the next 30 years the world needs to sustain an investment of 1 trillion dollars a year for the company and the sector to justify its valuation.*

NVIDIA sales and profit growth:

Fiscal Year	Annual (Revenue)	Gross Profit Margin	Net Profit Margin
FY 2026	\$215.94 Billion	71.07%	55.60%
FY 2025	\$130.50 Billion	74.99%	55.85%
FY 2024	\$60.92 Billion	72.72%	48.85%
FY 2023	\$26.97 Billion	56.93%	16.19%
FY 2022	\$26.91 Billion	64.93%	36.23%

To us, these numbers look more like cyclical commodity businesses and not structural ones. What happens when demand normalises? Once the initial set of capacities come up and you no longer need to have capacity available “as of last week”. We had first written about the AI craziness (valuation, not technology) in our October newsletter. Since then even in Asia we have companies in the trillion-dollar market cap club - Samsung, TSMC and SK Hynix. It seems a good sign to us that capital is rapidly flowing into all kinds of derivative AI plays.

The arguments about the strong cash flows of these businesses and “normal” PE ratios hold till the time one assumes the sustainability of very high capex for decades, which is a big assumption to make, in our view.

So, when does the action begin? We would watch the back to back IPO of SpaceX, Anthropic and OpenAI very closely, starting as early as next month till Dec this year. As students of history, it will be interesting to see how this one plays out.



WHAT WE LIKE

STOCK

For a decade, the familiar golden bottle of Bajaj Almond Drops carried the entire weight of **Bajaj Consumer Care** — today, the company is building something far bigger on this solid foundation.

The transformation from a single-product business to a multi-category personal care platform is playing out in real time —rewarding shareholders with a 200% return in the past one year.

The non-core portfolio already contributes 20% of revenues and is expected to grow at 30% CAGR — sitting alongside a core that commands 60%+ market share in the light hair oil category with a debt-free balance sheet and a 25%+ ROE.

Deepening quick commerce, premiumization of the personal care landscape and government-led consumption stimulus, together create conditions for sustained growth across the board.

The company has perfectly positioned itself to take advantage of this opportunity, with a well-diversified portfolio, large reserves being put to work with a new management actively transforming the business.

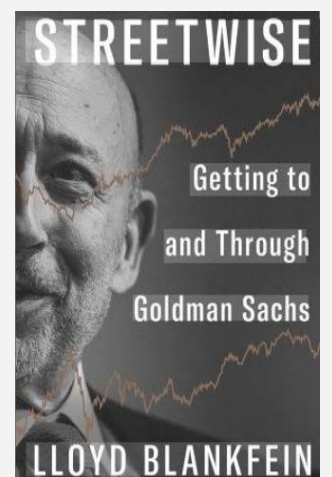
The business trades at 38x P/E, a 18% discount to its pure-play peers. This valuation gap offers meaningful scope for re-rating, as business fundamentals continue to strengthen and the company keeps delivering on its promise.

BOOK

Good judgement, not pedigree, is what separates those who see a crisis coming from those it swallows whole.

Streetwise by Lloyd Blankfein is part memoir, part masterclass - written by someone who grew up in the public housing projects of Brooklyn and ended up at the helm of Goldman Sachs during the global financial crisis.

The missteps, the victories and the self-awareness running through the book makes it genuinely worth the read. It is not a conventional tale of ambition rewarded, rather is on how to think under pressure when everything is on the line.



MOVIE

The greatest races aren't always won on the track; sometimes they're won in the quiet moments of belief when the whole world has stopped believing.

Based on a beautiful true story of the “greatest racehorse ever” and its owners, Secretariat shows how they both influence each other as they go through ups and downs.

A horse that gave a woman her wings and a woman who gave a horse its legend, and when they finally ran together, every record in sight was shattered. Watch it on Prime Video.

