India: THE GLOBAL ECONOMY'S NEW POWERHOUSE

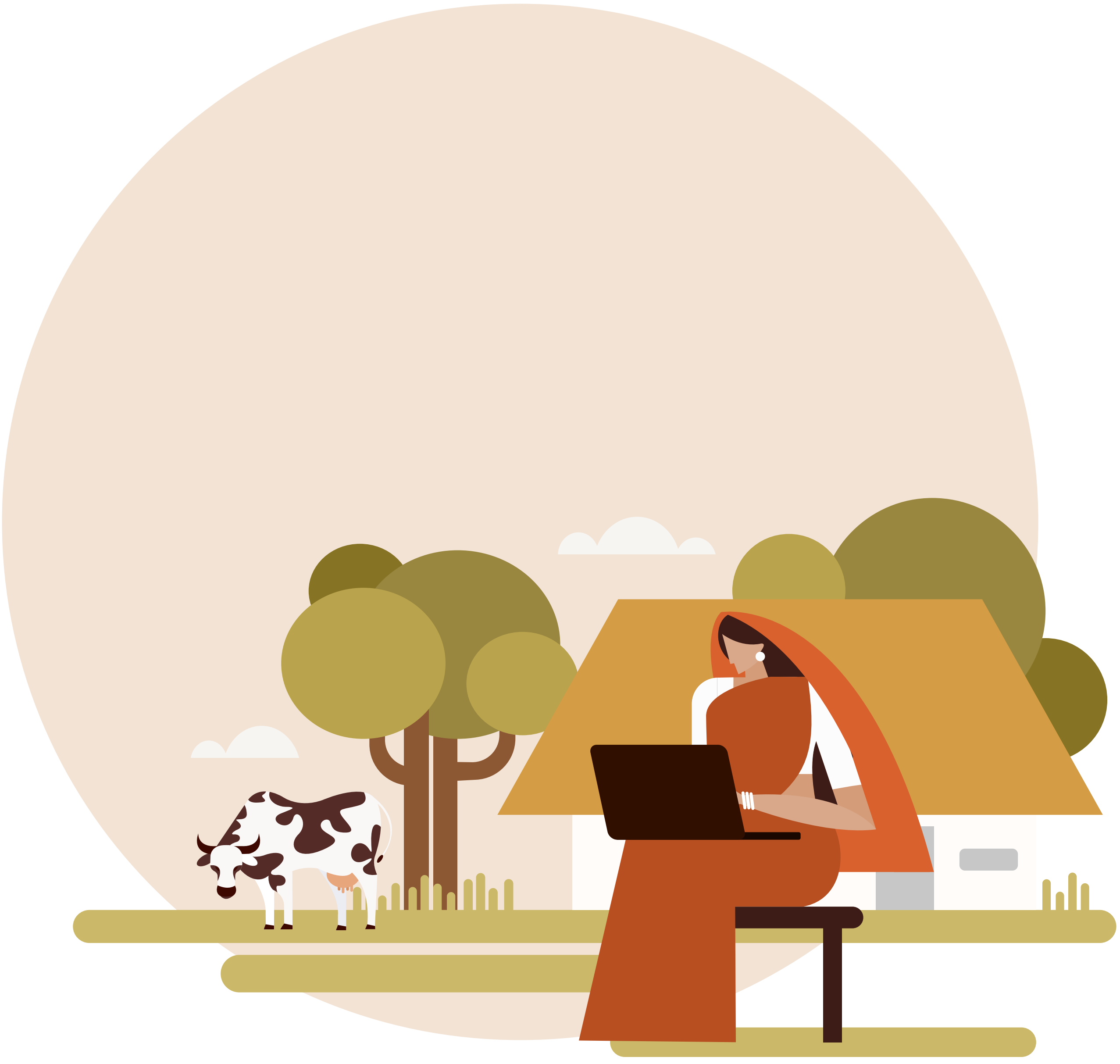
IF INDIAN EQUITIES WERE A STOCK, IT WOULD BE A ONCE-IN-A-GENERATION MULTI-BAGGER

EXECUTIVE SUMMARY

That India has entered "Amrit Kaal' is not just an eye-catching phrase.

Built on the foundation of liberal democracy, supported by a population of more than 1.4 billion, powered by the twin growth engines of investment and consumption, India slowly but surely is inching towards its moment of glory in the world economy. The growth projections for the Indian economy are the highest for any large economy over the coming decades. In 2022, India surpassed the UK as the world's fifth-largest economy in terms of market exchange rates. Experts project India capturing the coveted third spot soon.

With China's period of rapid expansion over, thanks to geopolitics and slowing growth, the global economy needs a new powerhouse. The search for alternatives has accelerated and no country seems better poised to benefit than India.

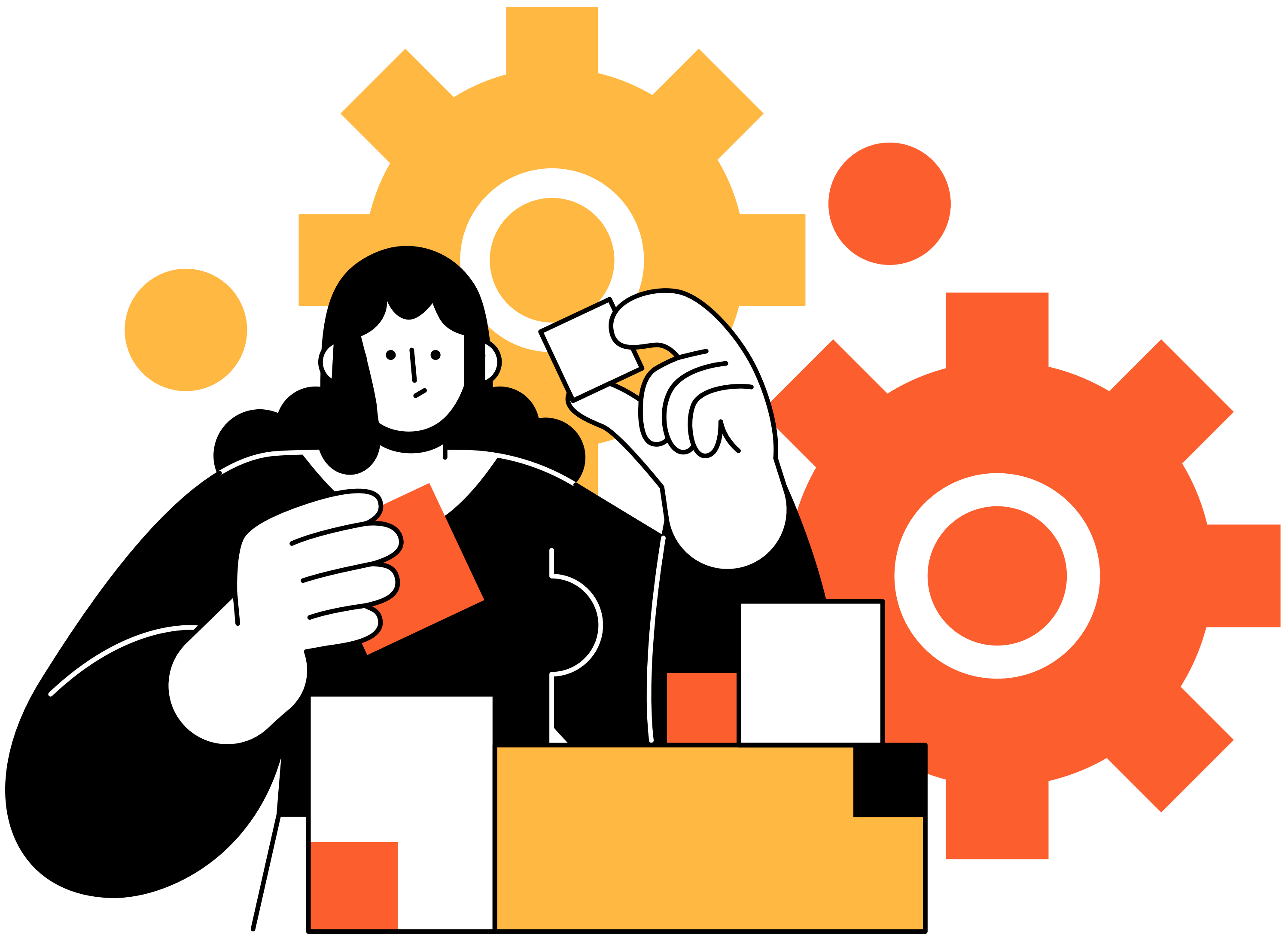


The Indian economy presents a picture of resilience, supported by strong macroeconomic fundamentals. Sustained growth momentum, moderating inflation, a narrowing current account deficit (CAD) and rising foreign exchange reserves, ongoing fiscal consolidation, and a robust financial system are setting the Indian economy on a path of sustained growth.

India's growth story is at a turning point. It is uniquely positioned among major economies with its large and growing middle class and a young working-age population, at a time when a large part of the world is ageing fast. This young population not only reinforces India's competitive advantage in the services and manufacturing sectors but also unleashes the consumption power of a young population. As the largest country in terms of population, India is set to become the largest contributor to the global workforce for the next several decades.

India’s digital public infrastructure and its ready adoption by the masses provides us with a unique competitive advantage, not only by reducing the cost of doing business, but also by formalising the economy, supporting financial inclusion, and creating new business opportunities.

Acceleration in infrastructure investment, especially transportation and logistics, is directly boosting growth while steadily improving competitiveness for enterprises. The National Infrastructure Pipeline (NIP) of $1.4 trillion underpins the large infrastructure investment opportunity in India.



Given that the old ways of "carbon-intensive" industrialisation are no longer sustainable, India is in the process of executing an ambitious plan for a shift to cleaner energy sources. Renewable energy in India promises to be an enabler of several key strategic objectives such as advancing sustainable economic development, improving energy security (and reducing the trade deficit, since the country is a net fossil fuel importer), providing new jobs, and mitigating climate change.

Disruptions during the pandemic along with geopolitical conflicts have forced several global players to diversify their supply chains. Recognising this as a great opportunity to establish itself as a manufacturing hub, the government has introduced various initiatives. Buoyancy in manufacturing would help create new job opportunities, drive investments in infrastructure, and spur growth in services.

We believe India's current strengths, such as the transition to sustainable energy, the trillion-dollar manufacturing exports opportunity, its unique advantage to become a global service hub, and the great infrastructure build-up, along with the evergreen consumption opportunity, are mega trends for investors to ride on for many more years.

With the macro on a strong footing, the stock markets are unlikely to remain lethargic. The earnings growth story in India is trending higher in a structural manner, supported by favourable demographics, improvement in labour productivity, and a multipolar world dynamics that will drive services exports and FDI. The structural reforms of the last few years are bearing fruit and unlocking growth opportunities.

The formalisation of the economy is getting reflected in the earnings growth of Corporate India. Deleveraging and a shift to the organised sector post the GST along with new vistas of growth emerging

from supply-chain diversification, energy transition, etc., are structural tailwinds that would support double-digit earnings growth for the Indian markets. The CAGR in earnings that had fallen to a low of 5 percent between FY08-FY18 is expected to rise to high-teens over the period of FY20-FY25e.

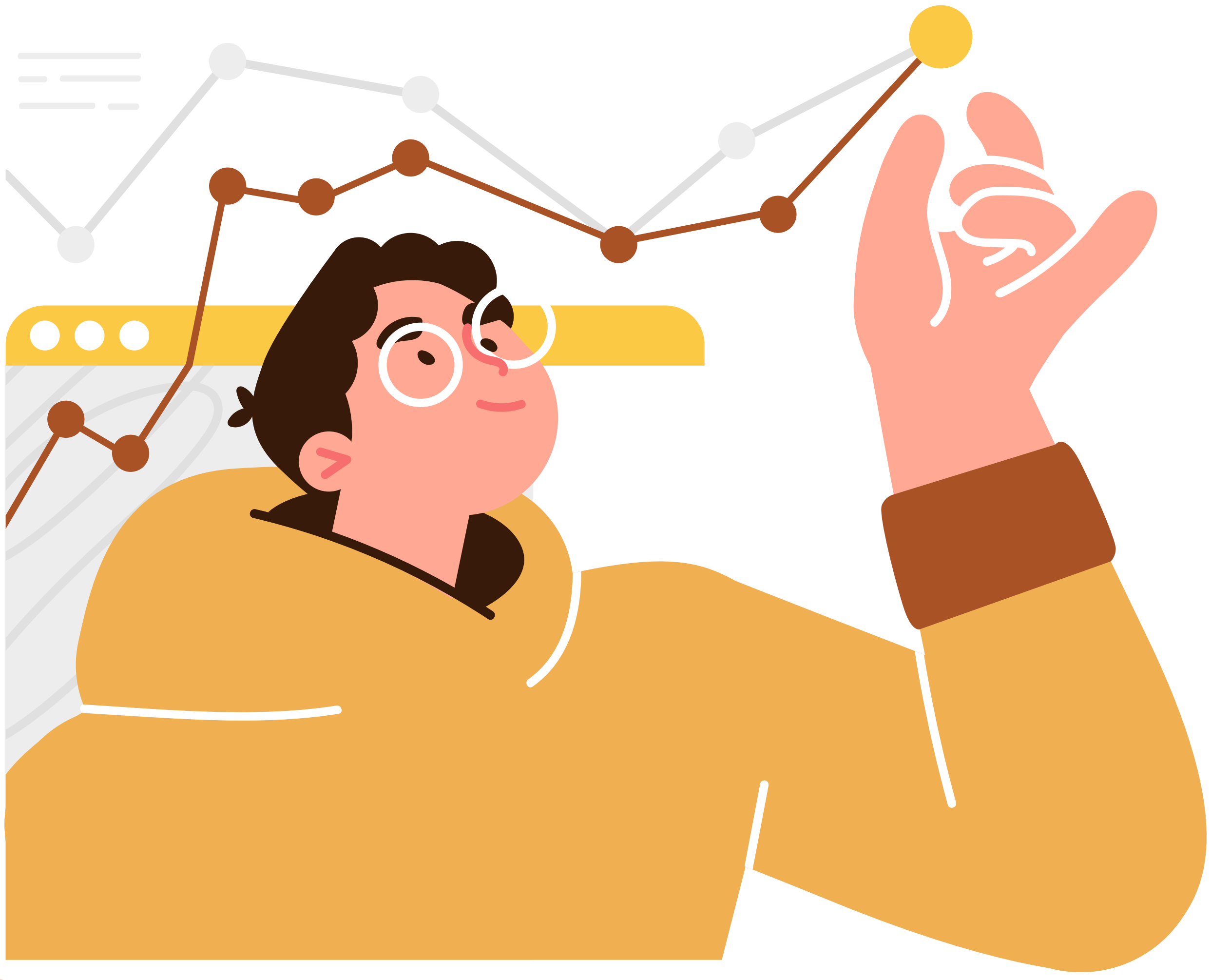
We have reasons to believe that beyond earnings growth, there are several structural changes, including reduced reliance on volatile foreign flows, the coming of age of Indian retail investors, and a rising share of stable domestic liquidity, which would keep flows to equities elevated for many more years.

In a nutshell, if Indian equities were a stock, it would be an enviable multi-bagger.
The report authored by Moneycontrol Pro Research highlights the strength of the Indian macro story in the first section.

The mega investment trends have been captured in the second section. And the last section argues why Indian markets are a multi-year investment opportunity with the confluence of strong fundamentals and growing liquidity support.

While India is fast capturing its place under the sun, we have to remain mindful of challenges emanating from a large population, lack of enough employment opportunities, inability to provide quality healthcare/education to the masses, environmental challenges, disruptive technologies like generative AI and its impact on jobs, and last, but not the least, geopolitical conflicts.

We wish all our readers an exciting investment journey with our well-researched investment ideas. Get set to ride the bullish India wave.



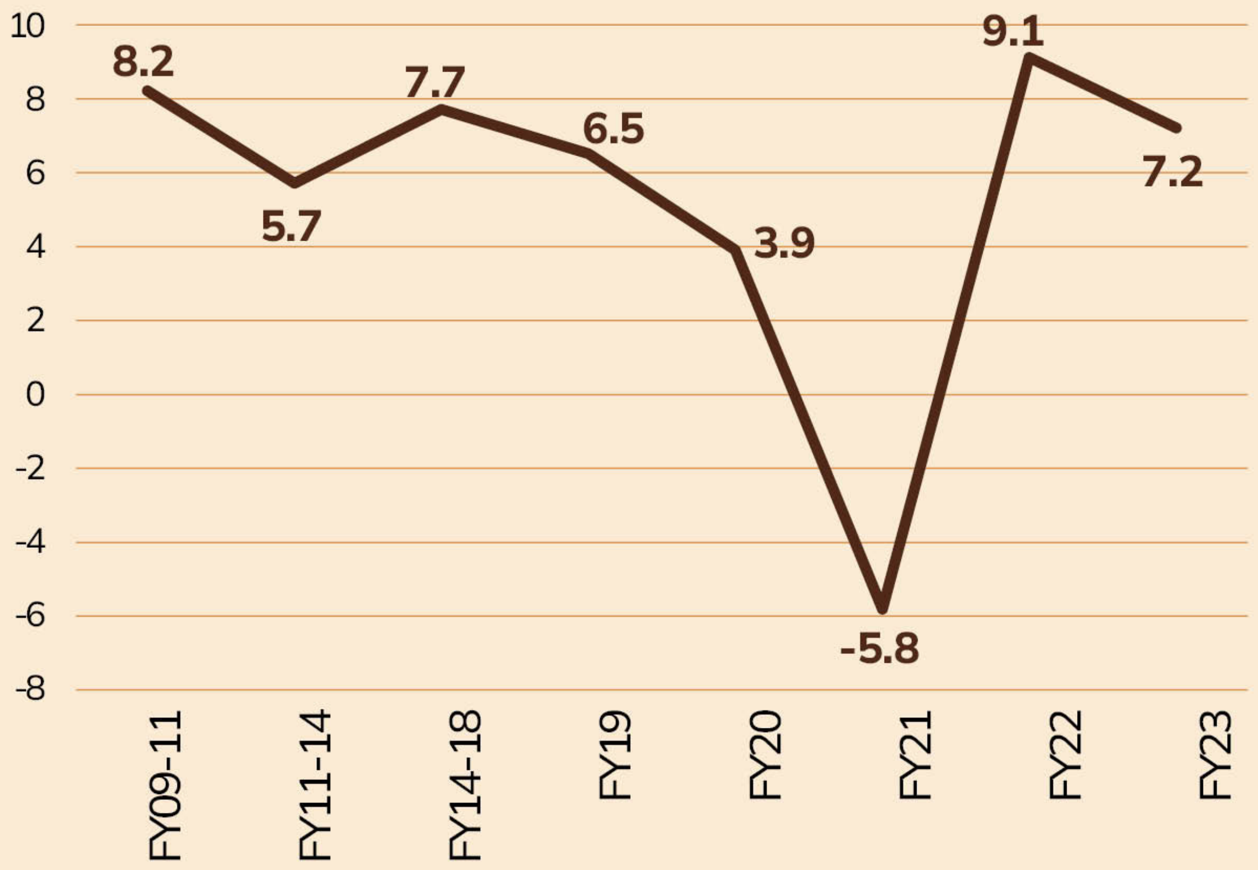
IS THIS INDIA'S MOMENT?

Over the last three years, the global economy has been navigating successive high-amplitude shocks — the COVID-19 pandemic, protracted geopolitical hostilities, rapid monetary policy tightening, and the recent banking turmoil.

1 INDIA TO REMAIN THE GROWTH LEADER

Amid heightened uncertainties and formidable headwinds, India stands out for its economic resilience. It is among the fastest growing large economies with a 7.2 percent GDP (gross domestic product) growth in FY23 and 6.5 percent estimated for FY24 (by the Reserve Bank of India).

India's Real GDP growth in the last decade

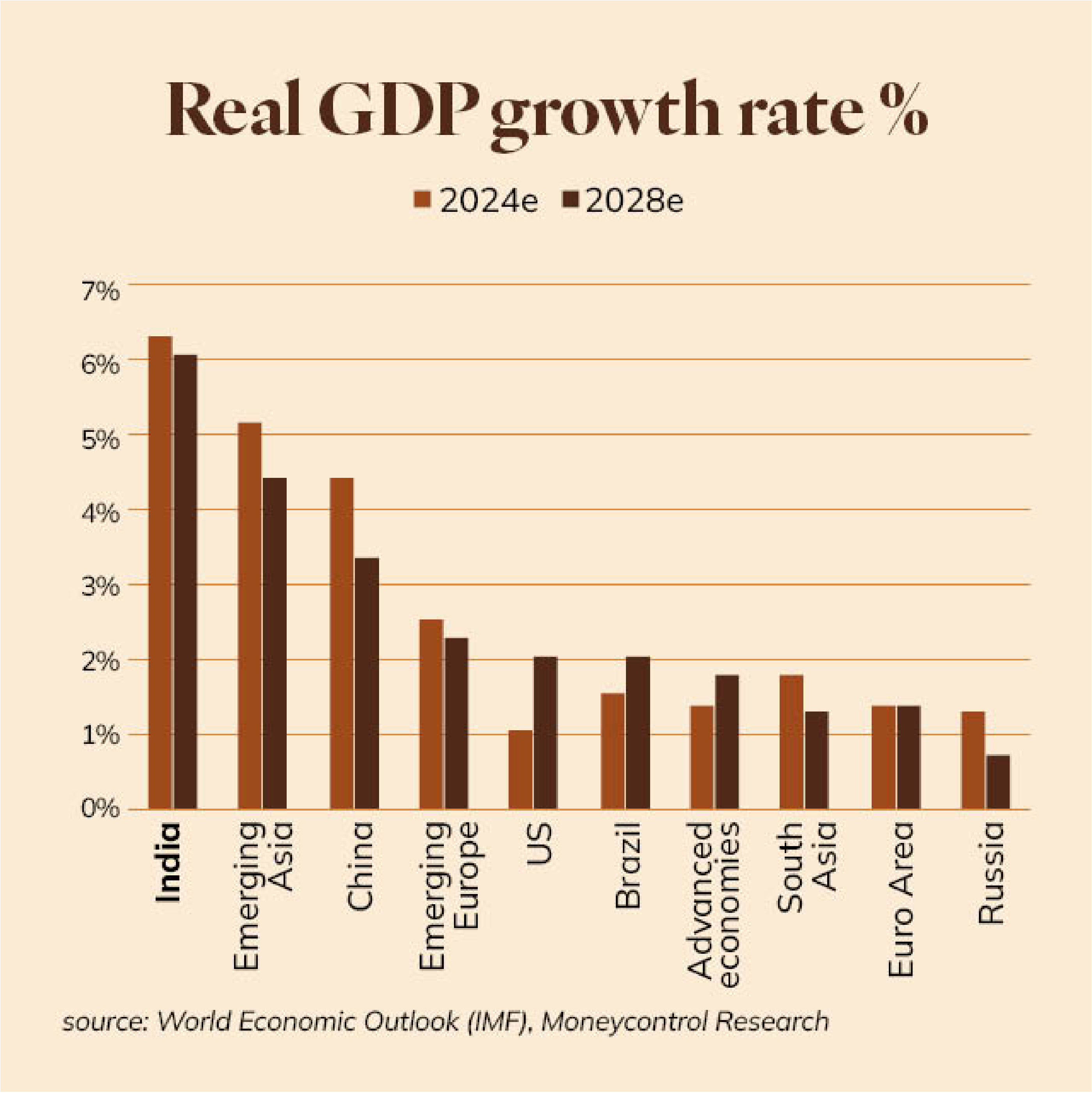


All the figures are in %
Source: RBI Annual report, Moneycontrol Research

Built on the foundation of liberal democracy, supported by a population of more than 1.4 billion, and enabled by growth engines of investment and consumption, India slowly but surely is inching towards its moment of glory in the world economy.

In 2022, India surpassed the UK as the world's fifth-largest economy in terms of market exchange rates and is the third largest in terms of purchasing power parity (PPP). The Organisation for Economic Cooperation and Development (OECD) has forecast that, in terms of PPP, India will be the second largest economy of the world by 2048.

India's GDP growth eclipsed China's in 2021 and 2022 and is likely to do so again in 2023, 2024, and beyond.



Indian economy stands to benefit from new geopolitical equations.

The interlinkage between geopolitics and economic prospects of nations has become stronger, with each influencing the other.

According to the International Monetary Fund (IMF), the global economy is now experiencing geo-economic fragmentation, operating through five key channels — trade, technology, capital flows, labour mobility, and global governance.

With China's economic brilliance marred by geopolitics and slowing growth, the global economy needs a new powerhouse. The search for an alternative has accelerated and no country seems to be more ready than India. The endeavour of the US to find a counter-balance to an expansionist China has put India in geopolitical spotlight and will transform the country's economic growth path.

2 FAVOURABLE MACROECONOMIC FUNDAMENTALS

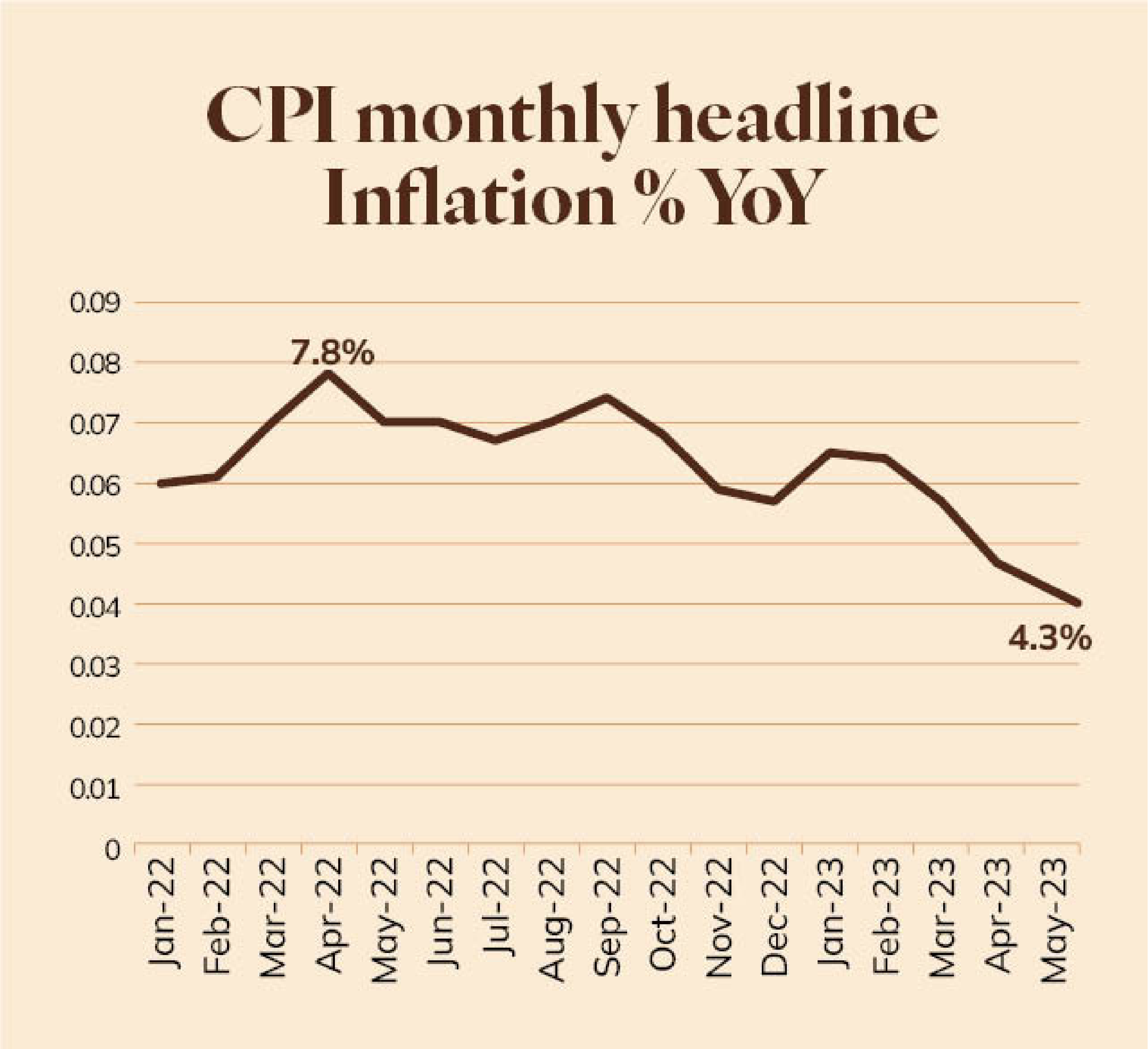
The Indian economy presents a picture of resilience, supported by strong macroeconomic fundamentals.

Buoyancy in growth, moderating inflation, shrinking current account deficit (CAD) and rising foreign exchange reserves, ongoing fiscal consolidation, and a robust financial system are setting the Indian economy on a sustained path of development.

Moderating inflation

When inflation across the world hit multi-decade highs in 2022, India breached its inflation target range of 2-6 percent by a maximum of 1.8 percentage points. Unlike several countries in the developed world, inflation in India did not reach double digits. This was due to India's measured and calibrated fiscal and monetary stimulus during the COVID pandemic.

Driven by broad-based moderation in prices, the headline consumer price index (CPI) inflation came down sharply from a peak of 7.8 percent in April 2022 to 4.3 percent in May 2023, though core inflation (i.e., excluding food and fuel items) remained somewhat higher at 5.1 percent.

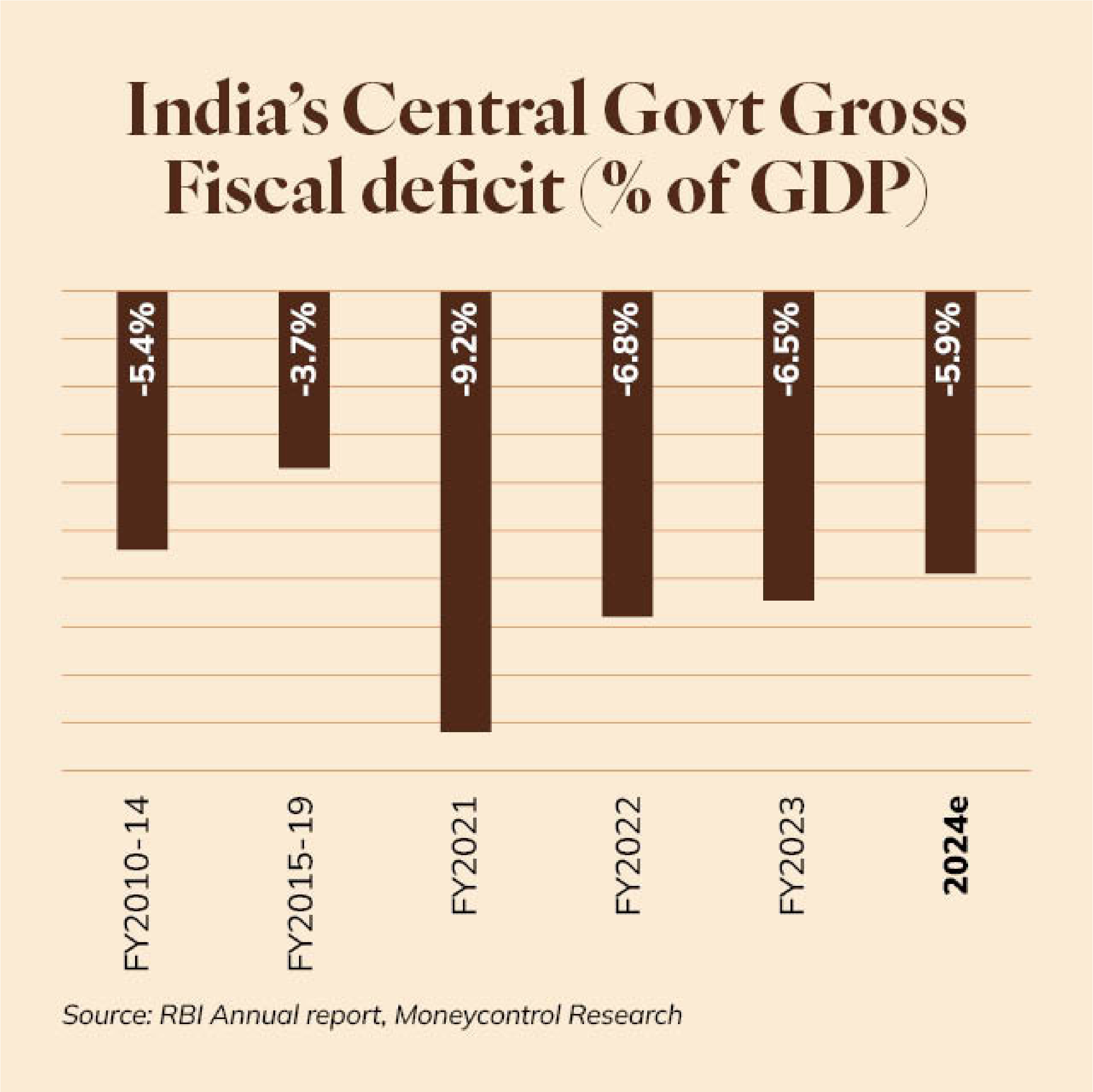


Source: MOSPI, Care ratings, RBI, Moneycontrol Research

A combination of monetary policy tightening and supply-side measures led to the softening of inflation. According to the latest survey (June 2023), inflation expectations of households have been moderating since September 2022.

India's twin deficit situation is much better, fiscal consolidation is progressing well, while the quality of spending has improved

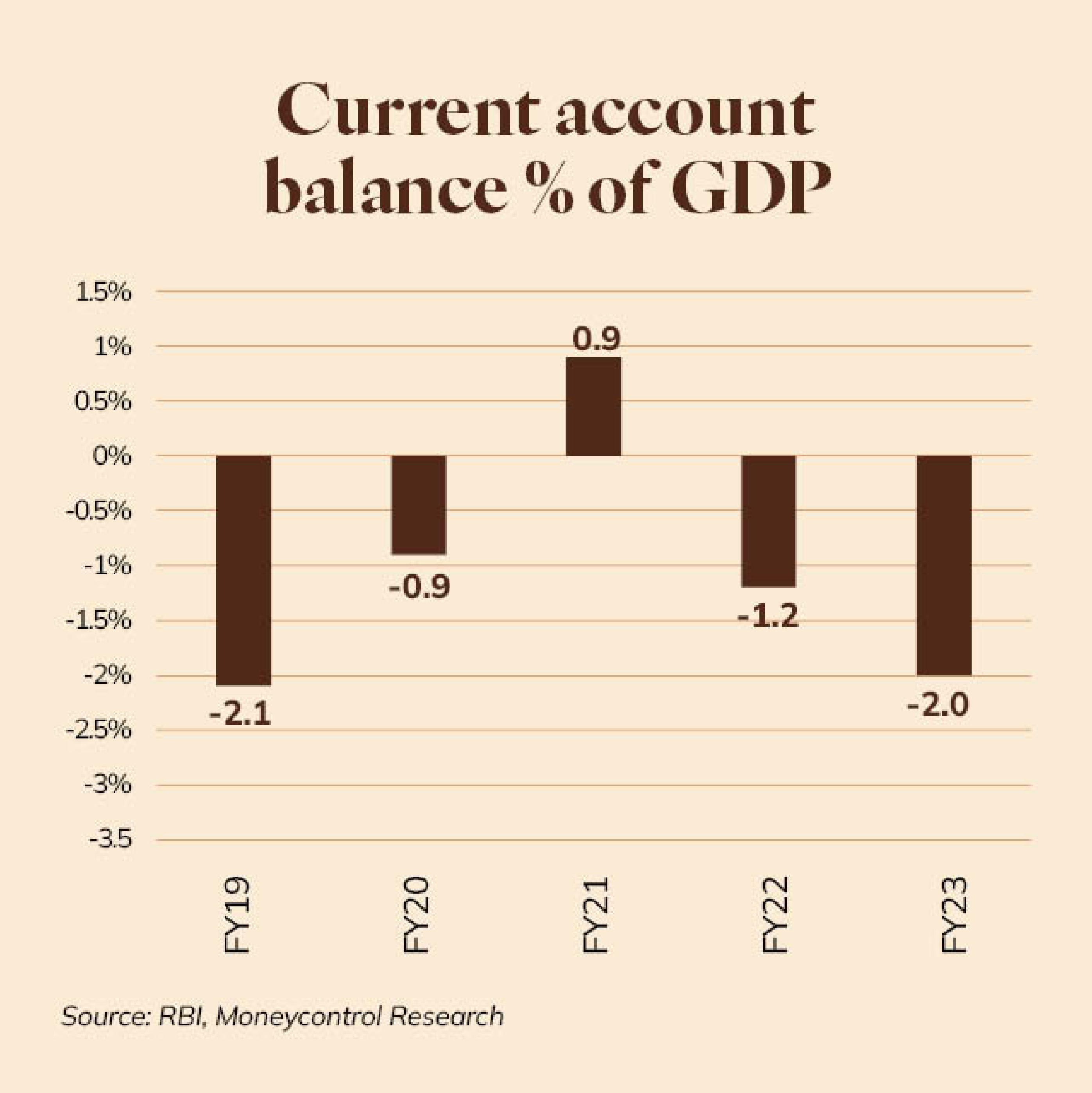
The government had achieved its budgeted gross fiscal deficit target of 6.4 percent of GDP in FY23 as higher subsidy pay-outs on the back of elevated commodity prices were offset by buoyant direct tax and GST (goods and services tax) collections. The growth in capital expenditure stood at 24.2 percent compared to a revenue expenditure growth of 7.9 percent, reflecting the ongoing improvement in the quality of expenditure.



For FY24, the gross fiscal deficit target is budgeted at 5.9 percent of the GDP. The consolidation is sought to be achieved by containing revenue expenditure with a rollback of spending on subsidies. Capital expenditure, on the other hand, is budgeted to rise to 3.3 percent of the GDP from an average of 1.7 percent of GDP during 2010-20. The spending thrust will be led by the ministries of road and railways.

Manageable Current Account Deficit

Belying market fears of a possible spike in India's external vulnerabilities, India's current account deficit (CAD) at 2 percent of the GDP in FY23 remained sustainable, although it expanded from 1.2 percent a year ago. The sustainability of the external sector has improved on the back of strong exports of services and a narrowing of the merchandise trade deficit.



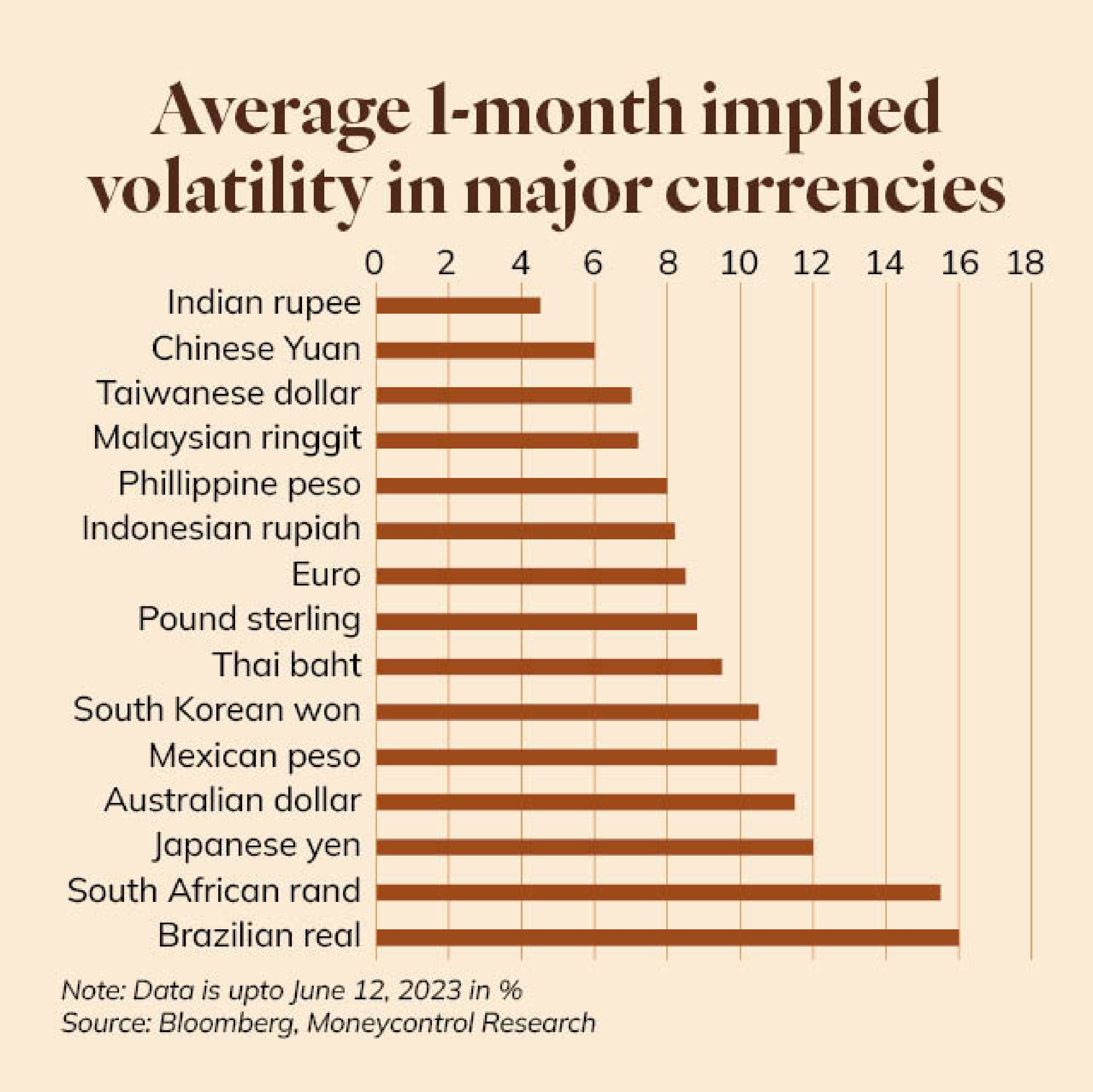
The CAD is expected to remain manageable in a narrow range as easing commodity prices will weigh on the rise in merchandise imports. The overall merchandise export growth is also likely to be muted due to soft global demand. However, export growth will be supported by the demand for India's medium- and high-technology goods, which are expected to perform relatively better on the back of several initiatives by the government (rationalisation of customs duties on intermediate inputs, PLI schemes, National Electronics Policy) to encourage investment in such sectors, particularly in electronics.

Strong forex reserves

There has been a healthy accretion to India's foreign exchange reserves in the past few years that stood at $593.7 billion on June 9, 2023. The huge reserves provide a buffer against external shocks such as large capital outflows. The current reserves can be termed as adequate as it is sufficient to cover imports for 10 months, or 97 percent of the total external debt outstanding at end-December 2022.

Source: RBI, Moneycontrol Research

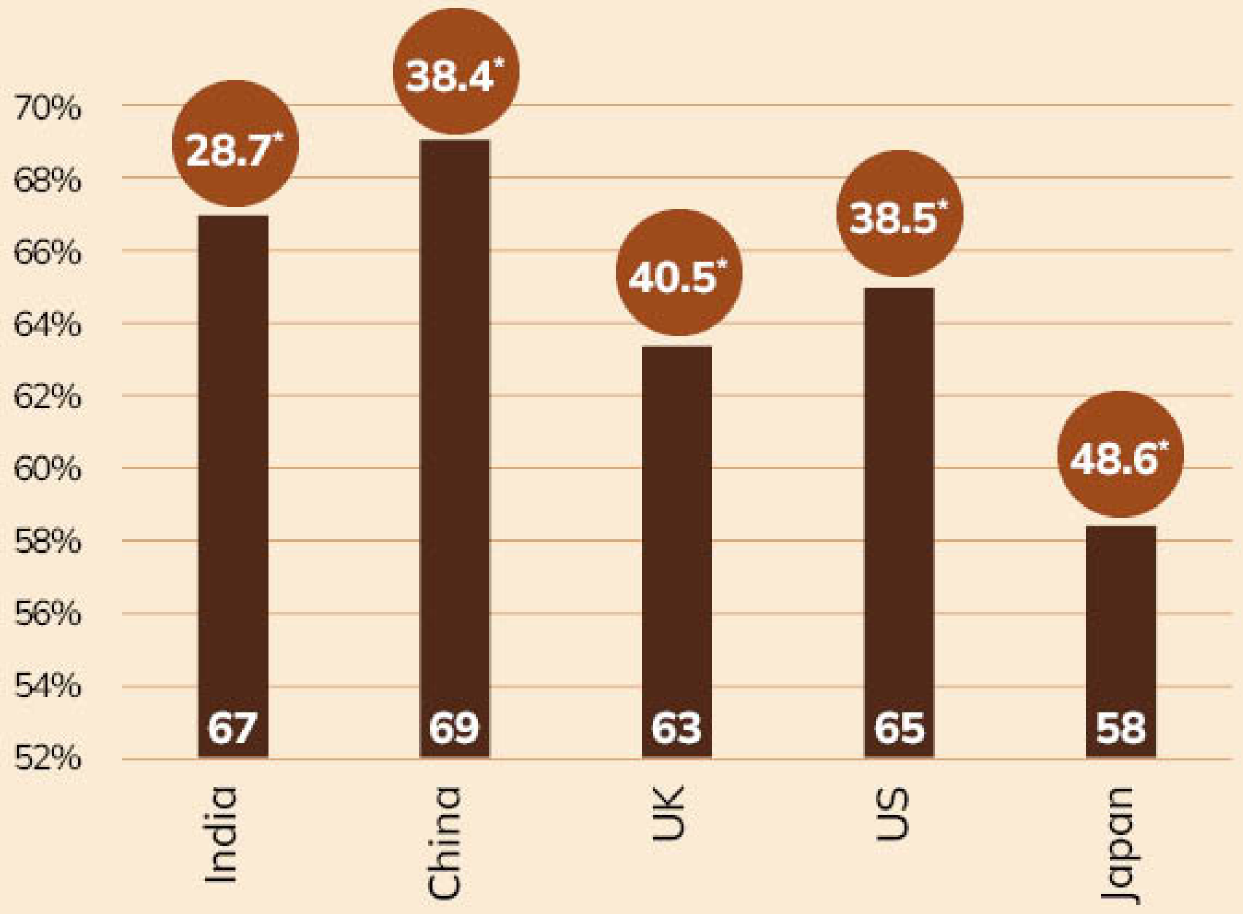
Thanks to the strong reserves, the Indian currency (INR) has emerged as one of the least volatile among major currencies, with the least one-month implied volatility in 2023 till 12 June



3 THE DEMOGRAPHIC DIVIDEND

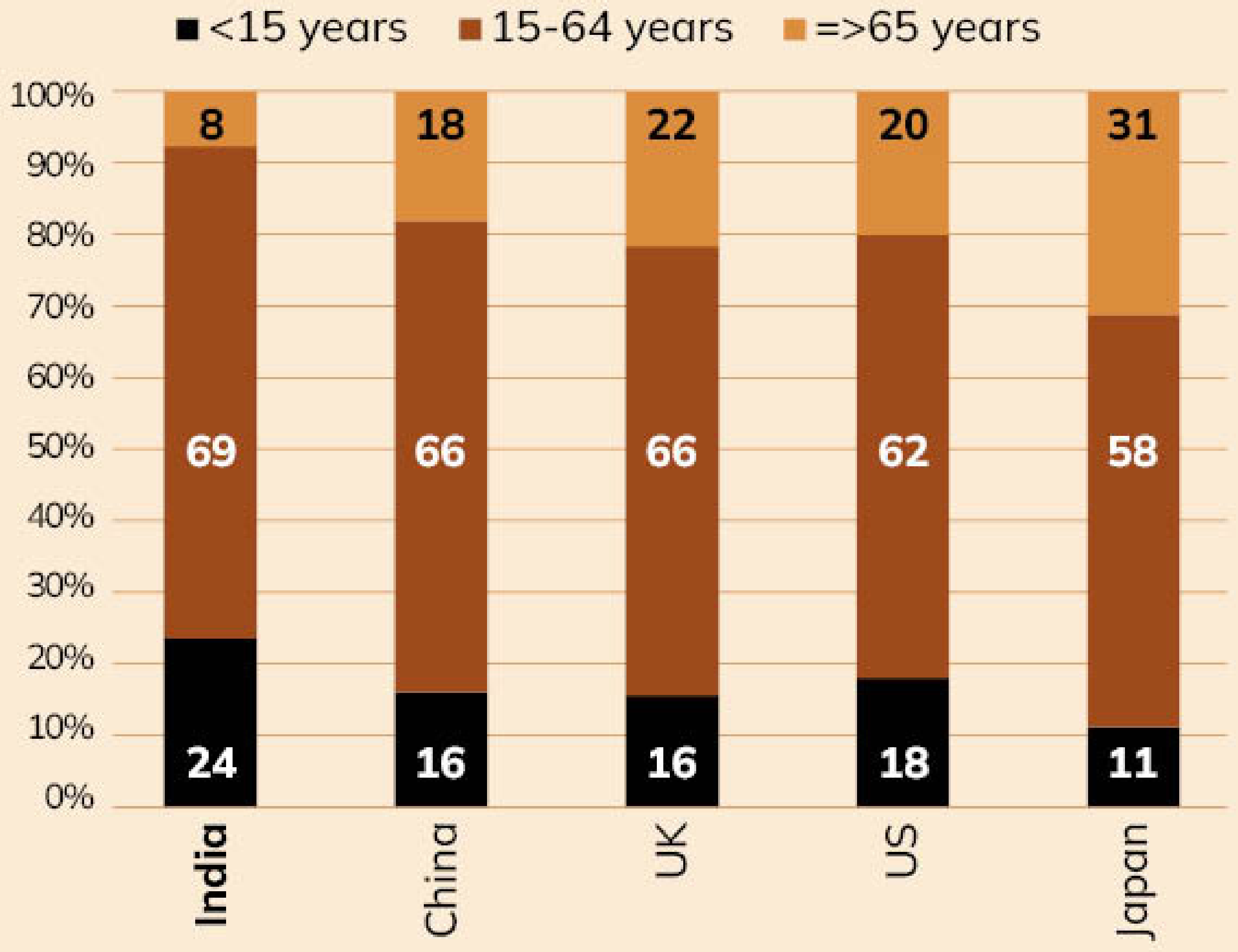
India's youth-dominated population, with a median age of 28.7 years, gives it a distinct advantage over China and the US, where the median age is around 38 years. It remains the world's youngest nation, boasting the second-largest working-age population. By 2030, India is projected to have the largest working-age group, accounting for approximately 69 percent of its population, ensuring continued demographic benefits.

Working age population %: 15-64 yrs (2022)

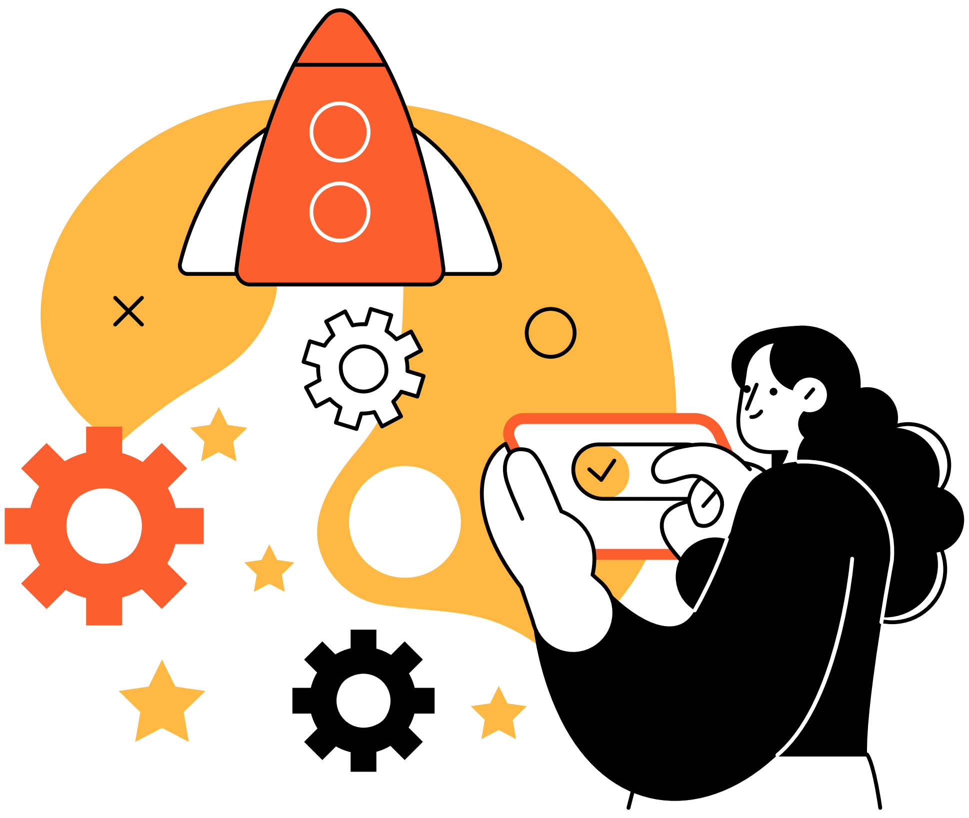


Note: *= Median age in years
Source: World bank data, Moneycontrol Research

India will continue to be a young nation in 2030

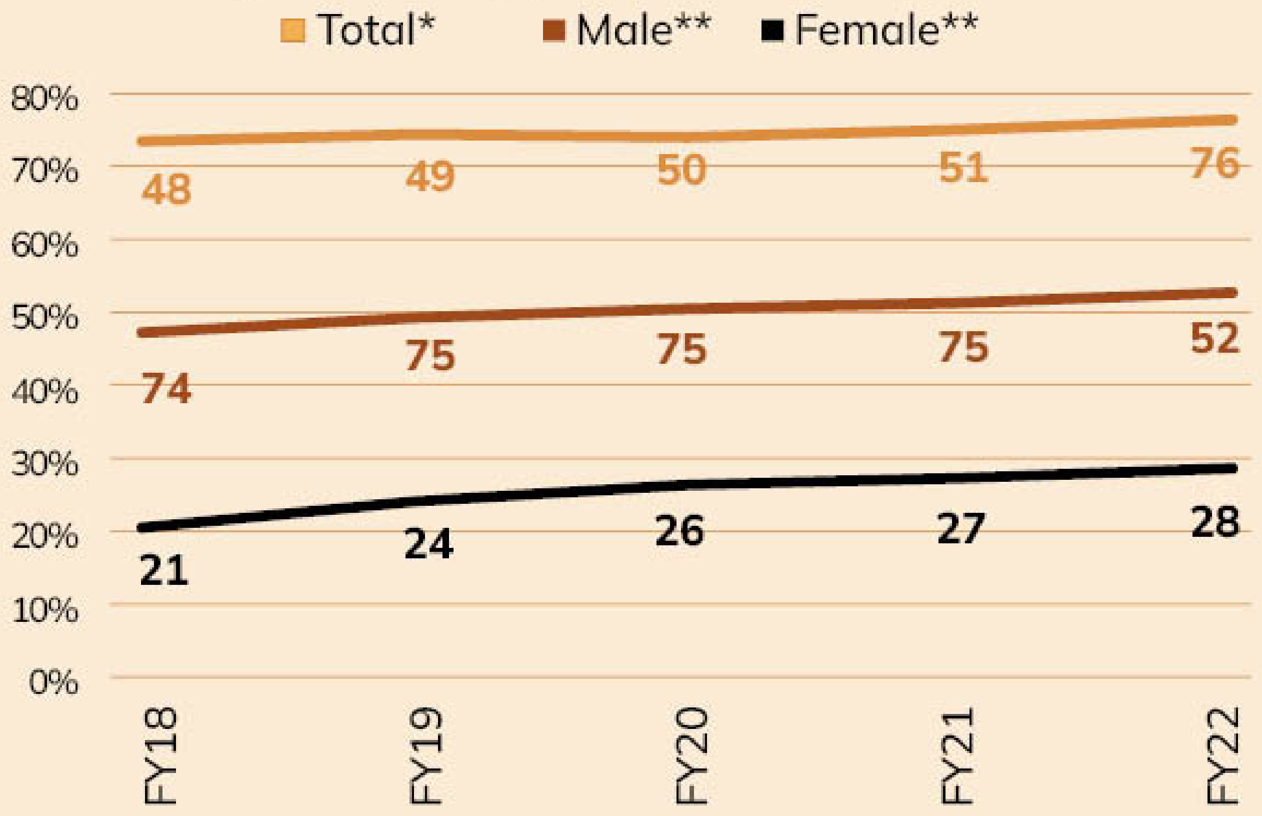


Source: Year 2030 estimates by OECD, Moneycontrol Research

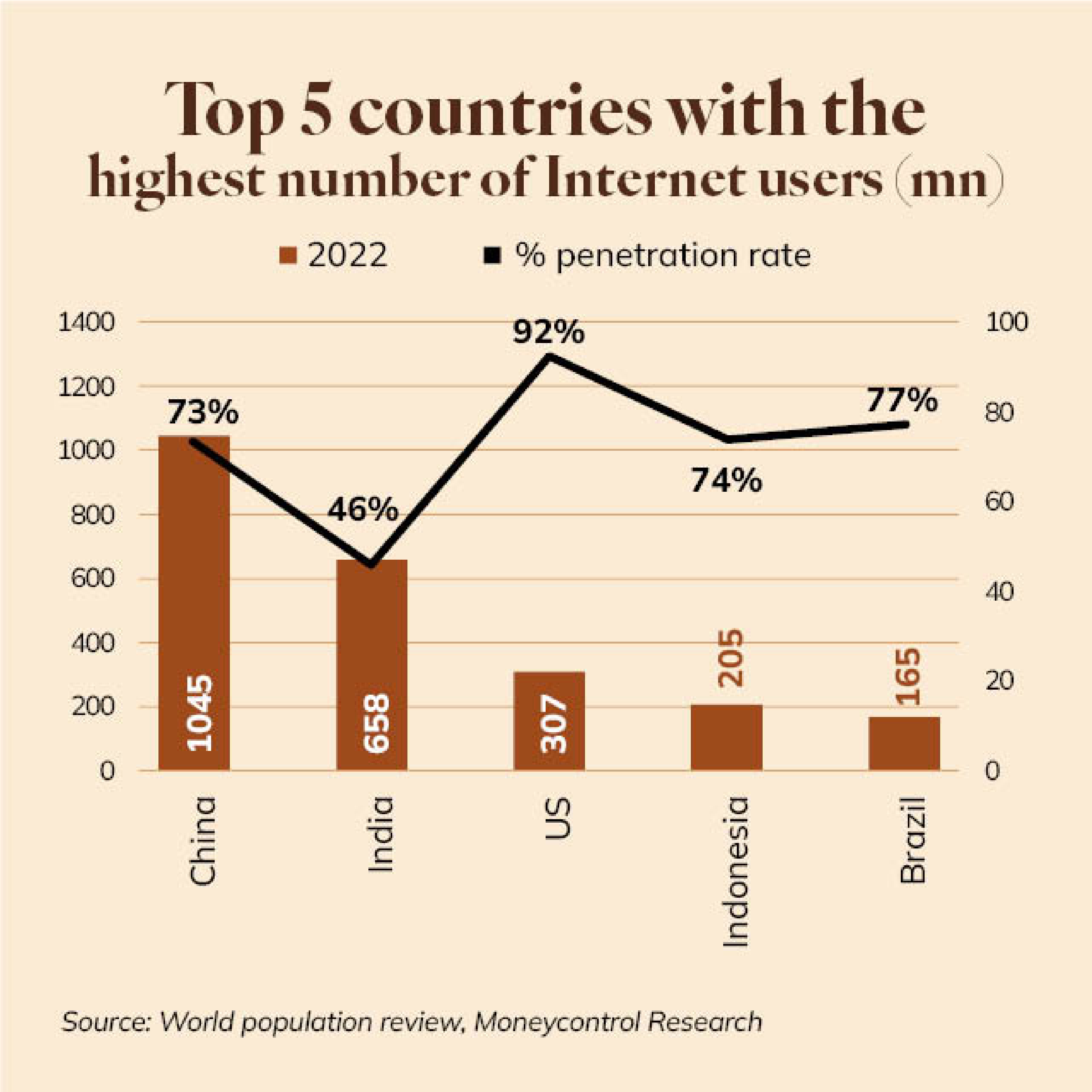


It is anticipated that India will contribute over 20 percent to the global workforce growth, making it a significant player in the coming decade. Moreover, India's Digital India initiative has expanded Internet access, making it the second-largest Internet user base globally after China. This technological prowess and its young workforce position India as a potential global office hub.

India's Labor force participation rate %



Total = Ratio of labor force to total population above 15 years of age*
***= Ratio of male/female labor force to respective population above 15 years of age*
Source: World Bank data (national estimates), Moneycontrol Research



4 THE BIG INFRASTRUCTURE THRUST

The central government unveiled a mega infrastructure plan — the National Infrastructure Pipeline (NIP) — spread over FY20-25. The original plan encompassed around 5,800 projects worth Rs 111 lakh crore.

About 45 percent of the original target (Rs 50 lakh crore) has been spent till the end of FY23, with railways and roads leading the overall expenditure. It is expected that about 75 percent of the NIP projects will be completed by the end of FY25, indicating substantial achievement of the stated targets.

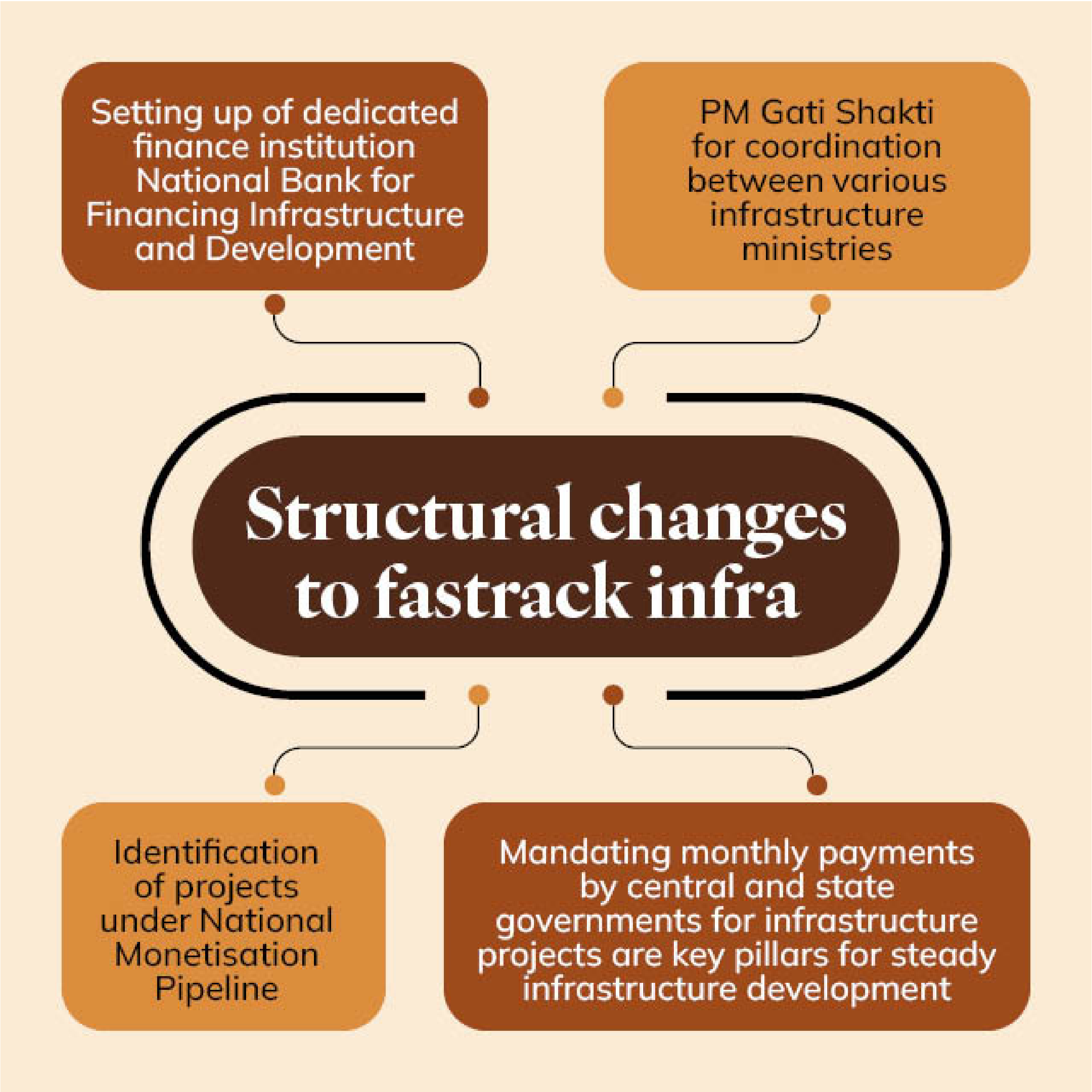
Any new infrastructure project is now tagged under the NIP, expanding its scope to 9,000 projects worth Rs 142 lakh crore.

National Infra Pipeline-Targets revised upwards (Rs lakh crore)

	Orignal target	Revised target 1	Revised target 2
Energy	27	29	30
Road	20	31	31.5
Urban infra	18	16.5	17
Railways	13	16.5	17
Irrigation	9	10.5	11
Ports	1	1.5	2
Others	20	25	25.5
Total	**111**	**135**	**142**

Note: other sectors include airports, telecommunication, rural infra, social infra, industrial infra and digital communication
Source: Crisil MI&A Research, IIG

Additionally, various structural changes have been initiated which would facilitate speedy project execution and avoid delays and cost overruns.

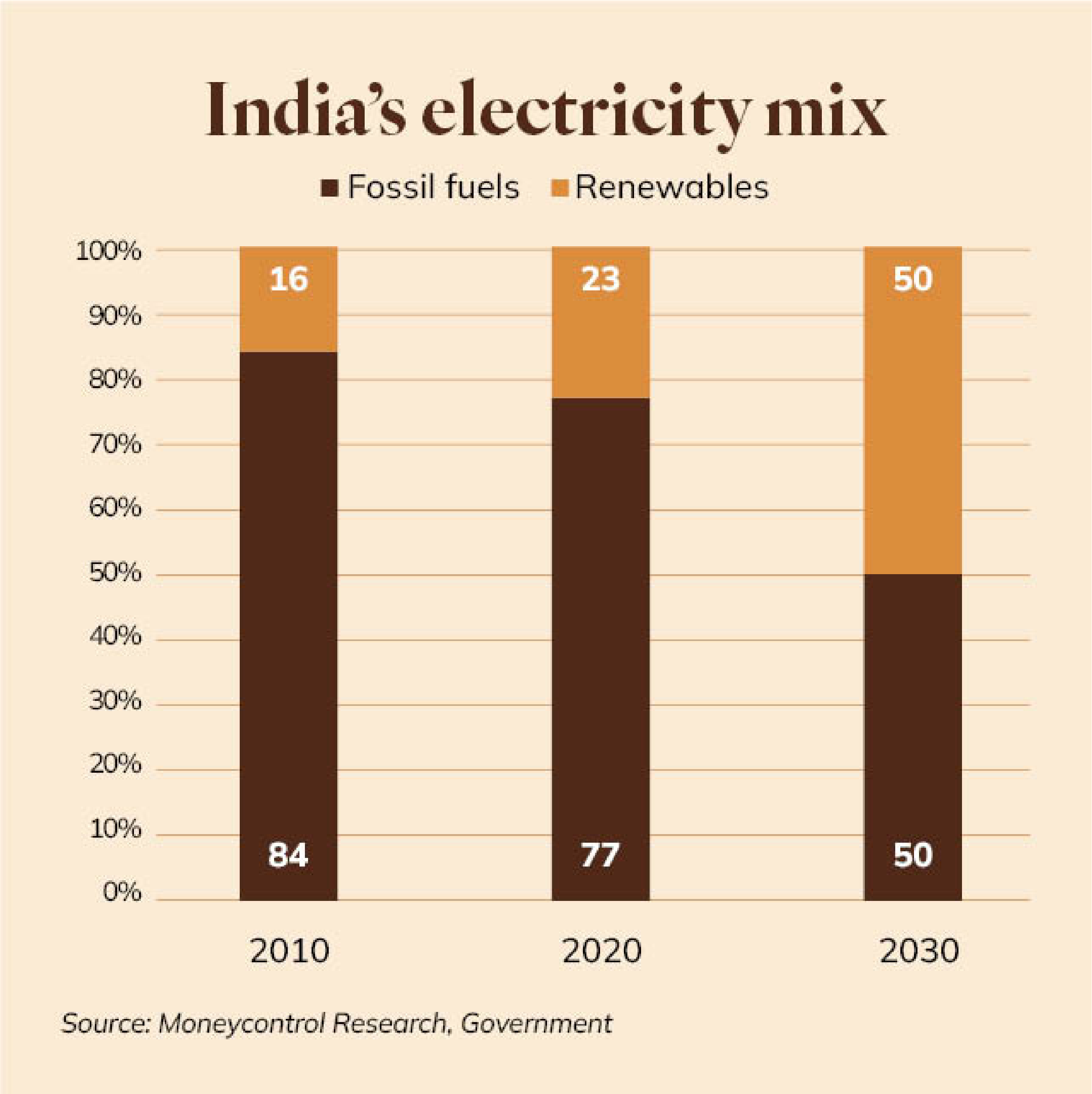


SOURCE: MONEYCONTROL RESEARCH

5 THE JOURNEY TO ENERGY SECURITY

Over 80 percent of India's energy needs are met by three fuels: coal, oil, and biomass. Against the backdrop of rising demand and the need to decarbonise, India has set an ambitious aspiration of becoming energy independent by 2047.

India’s four-pronged energy security strategy revolves around diversifying sources of supplies, finding and producing more oil and gas domestically, switching to alternate energy sources (solar, wind, and hydro), and using gas and green hydrogen as a pathway to energy transition.



6 RISING GLOBAL COMPETITIVENESS

Varied policy reforms in the last decade, substantial investment in infrastructure, and the adoption of technology have improved the business climate in the country.

The ease of doing business index — a ranking system developed by the World Bank – shows that India's rank jumped from 142 (2014) to 63 in 2019. This, in turn, has helped India's competitiveness in the global context. One of the enabling factors for the same is enhanced government efficiency — a key factor in IMD's World Competitiveness Ranking. In the recent report (June 2023), exchange rate stability and control over pollution are seen as supporting variables for India's competitiveness.

India's rank in IMD's World's Competitiveness ranking

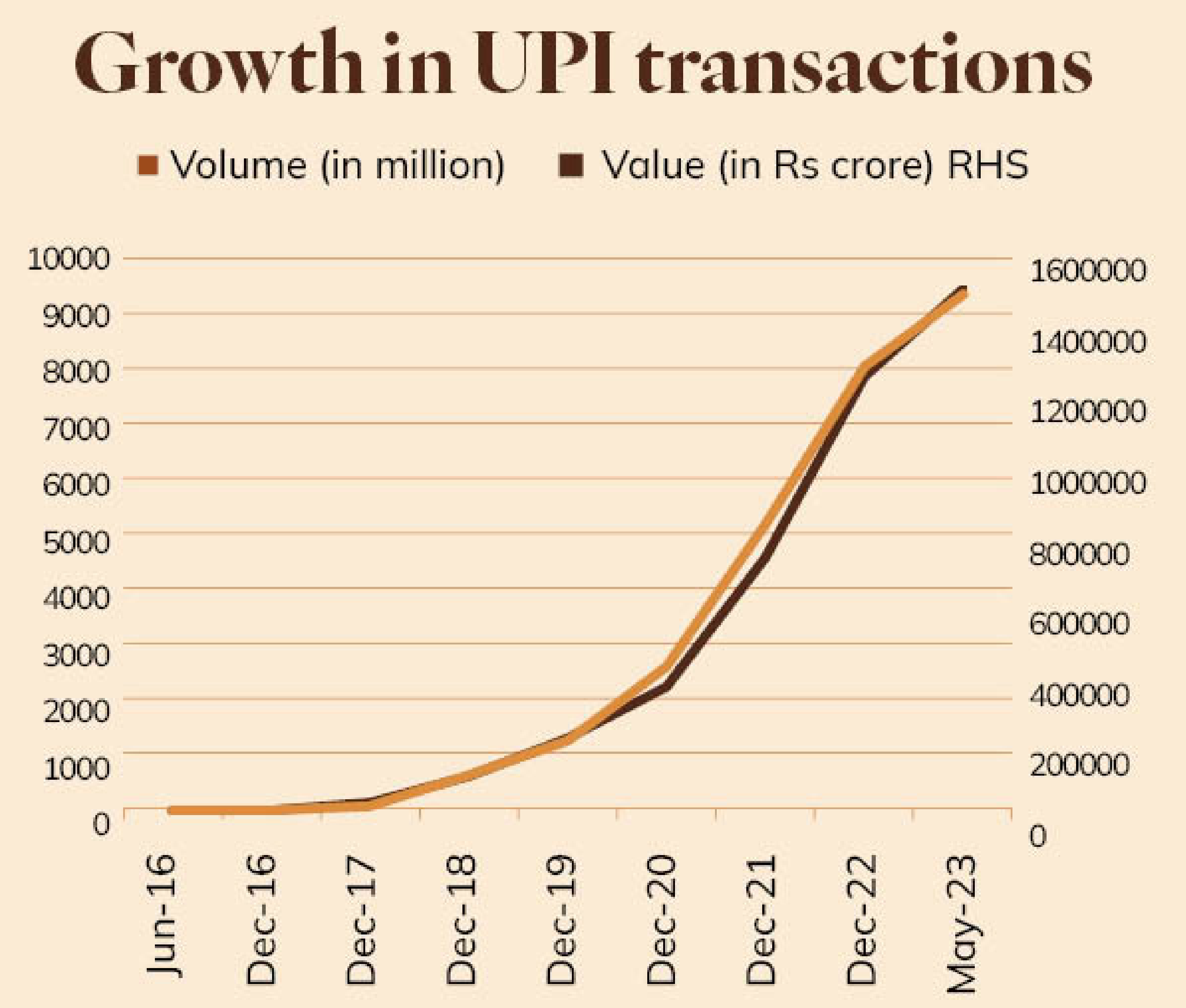
Particulars	2019	2020	2021	2022	2023
Overall Ranking	43	43	43	37	40
Economic Performance	24	37	37	28	33
Government Efficiency	46	50	46	45	44
Business Efficiency	30	32	32	23	28
Infrastructure	55	49	49	49	52

Source: www.imd.org, Moneycontrol Research

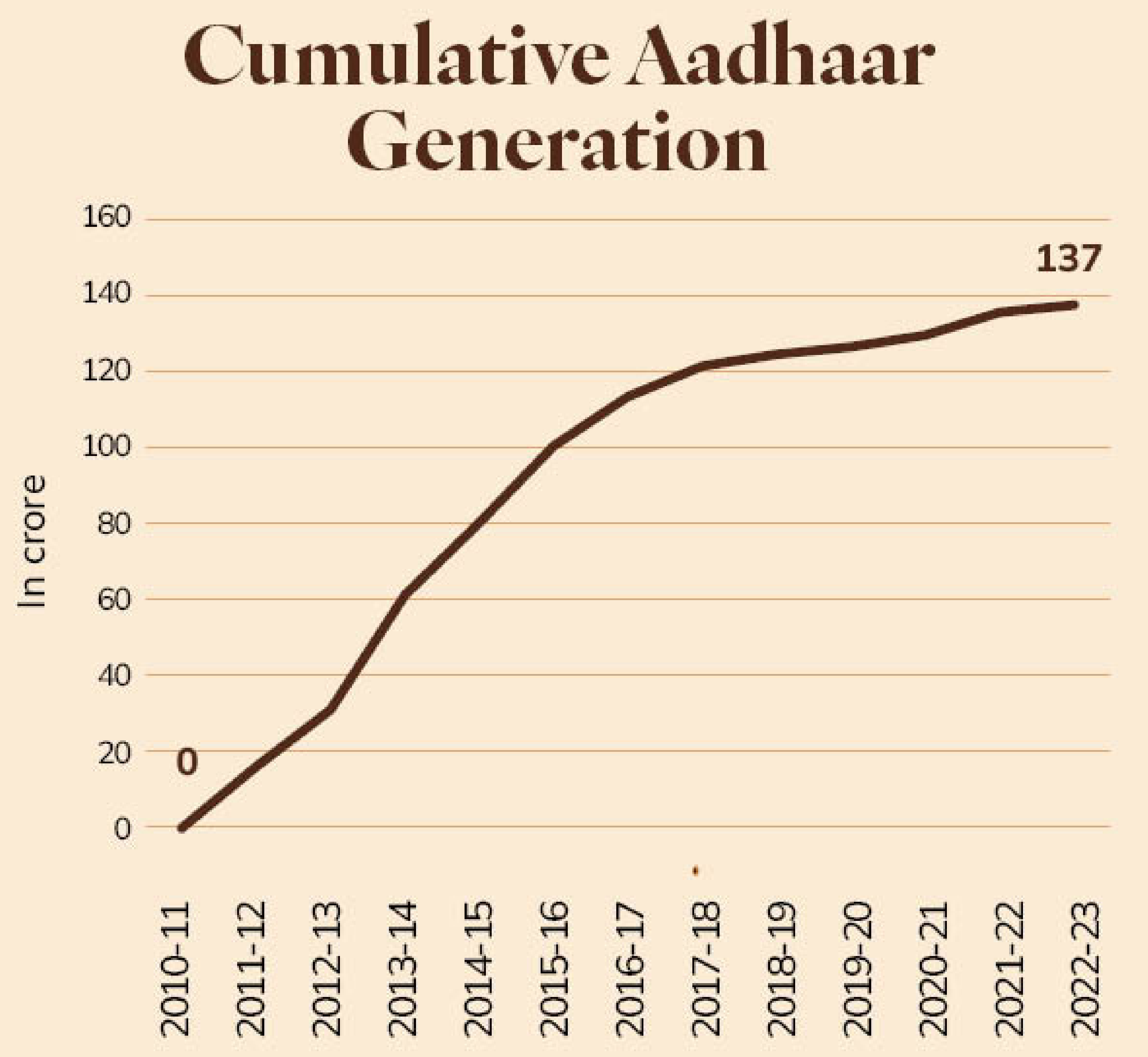
7 THE POWER OF THE DIGITAL ECONOMY

The JAM Trinity (Jan Dhan account, Aadhaar, Mobile) was the foundation stone for India’s digital economy. These three instruments helped to create an interlinkage between unique national identity, bank account, and digital transactions.

At the government level, this has helped to plug subsidy loopholes, aid tax compliance, and strengthen fiscal balance sheet. At the same time, quick adaptation and a new set of digital stacks have resulted in tremendous improvement in productivity. Advantages are seen in terms of seamless payment systems (UPI), facilitation of expressway transportation & toll/ collection (FASTag & E-way bills), and disintermediation across supply chains in various industries. Most importantly, it has been a catalyst for the e-commerce space. In this context, the ONDC (Open Network for Digital Commerce) — a seamless payment system for for e-commerce — is an emerging platform to watch out for.



Note: Data excludes transactions having debit/credit to the same account from the month of August 2018 onwards
Source: NPCI



Source: UIDAI

India's digital infrastructure and platforms

	Number of users in million
Account Aggregators (Finance)	3
e-Sanjeevani (health platform)	92
Online learning platforms	93
BHIM (payment platform)	209
DIGIT (e-gov)	250
Food delivery platforms	268
UPI (Payment interface)	300
ABHA (health ID)	322
Smartphone users	493
Social media platforms	497
E-commerce platforms	644
Active internet users	692
Internet subscribers	851
Co-Win (vaccination)	1,040
Telecom subscribers	1,250
Aadhar (foundational)	1,360
Population	1,400

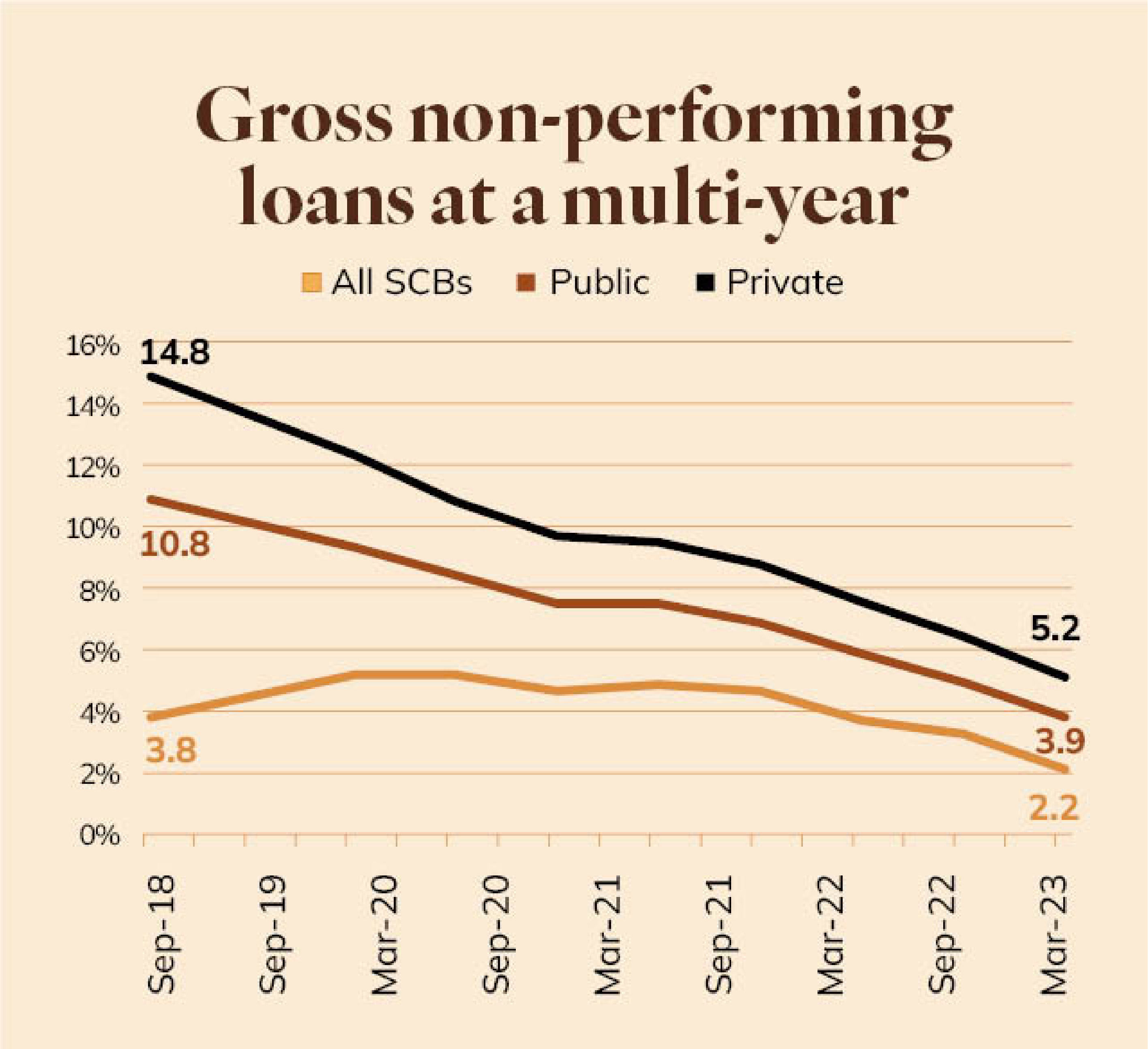
Source: ICRIER Prospus, IPCIDE Team

8 REFORMS-ORIENTED ECONOMY, ROBUST FINANCIAL SYSTEM

India has undergone many structural reforms that have strengthened the macroeconomic fundamentals of the economy.

Some of the significant reforms are the introduction of the Goods and Services Tax (GST), the Insolvency and Bankruptcy Code (IBC), the enactment of the Real Estate Regulation Act (RERA), a new privatisation policy, the reduction of direct taxes for businesses and individuals, large-scale digitalisation, the ramping up of public investment, a new national logistics policy, and the introduction of a production linked incentive (PLI) scheme for businesses.

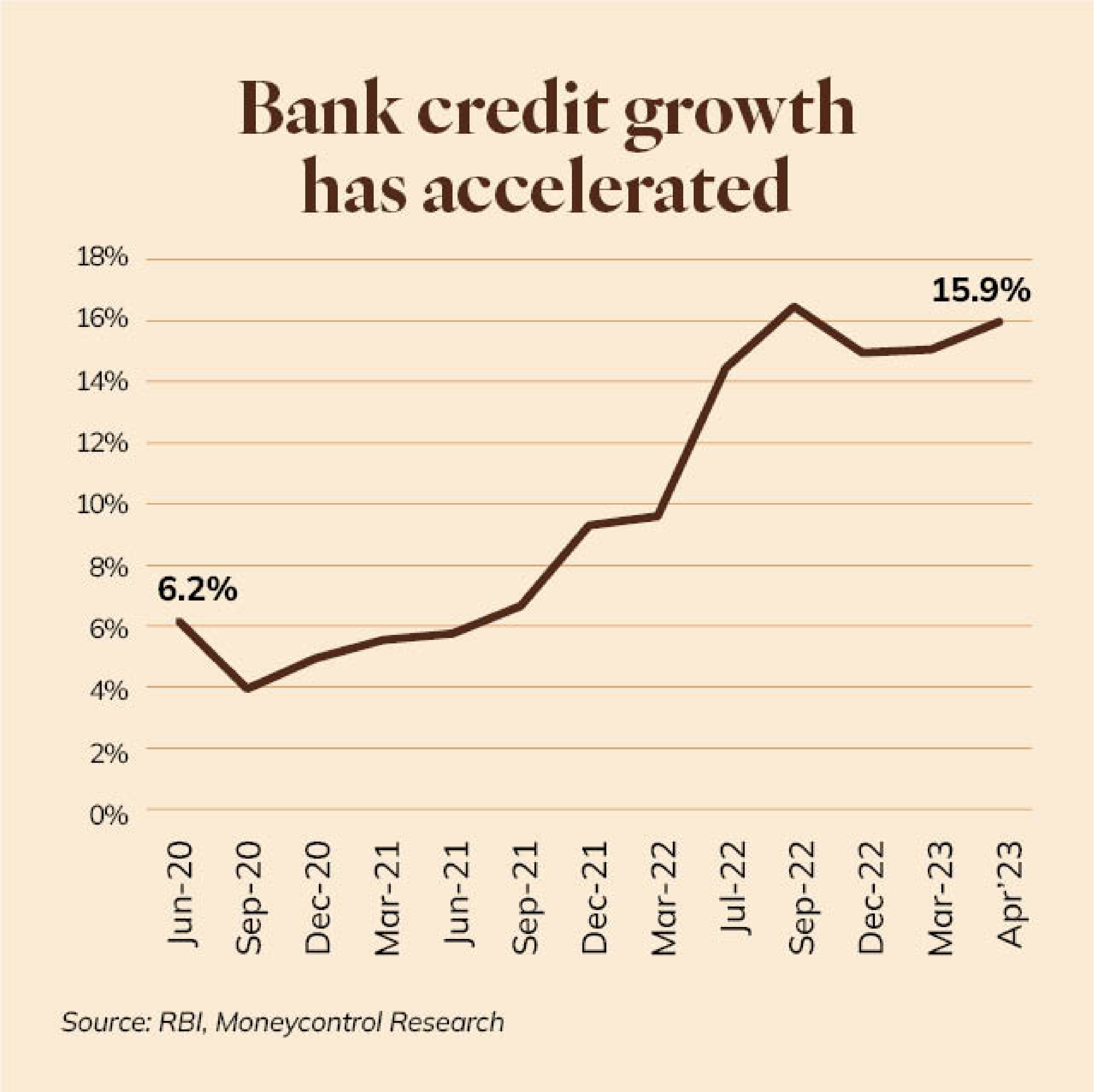
Macroeconomic stability, along with an economic framework that is transparent and makes it easier to do business here, has triggered investor interest, making India



Source: RBI Financial Stability report (FSR), Moneycontrol Research

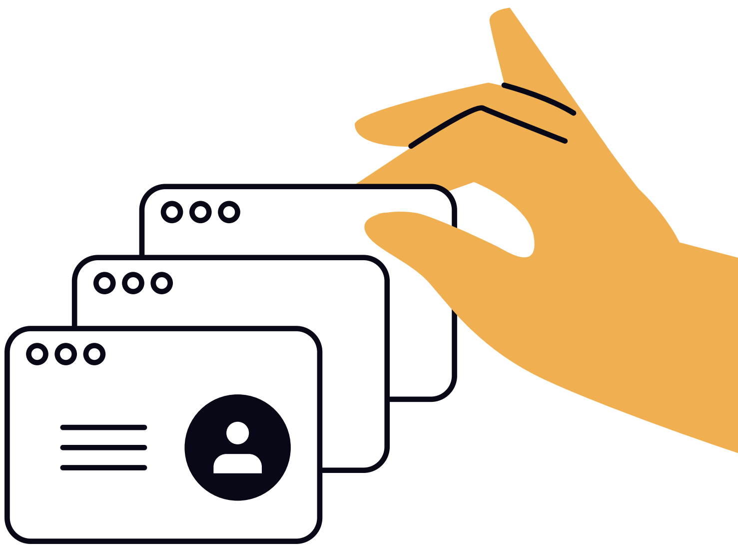
a preferred destination among emerging economies for greenfield investment.

The global financial system has been under strain since early March 2023 because of the banking turmoil in the US and Europe. In contrast, the financial sector in India has been stable and resilient as reflected in the sustained growth in bank credit, low levels of non-performing assets, and adequate capital and liquidity buffers. Both banking and corporate sector balance sheets have been strengthened and, in the words of RBI governor Shaktikanta Das, engendered a "twin balance sheet advantage" for growth.



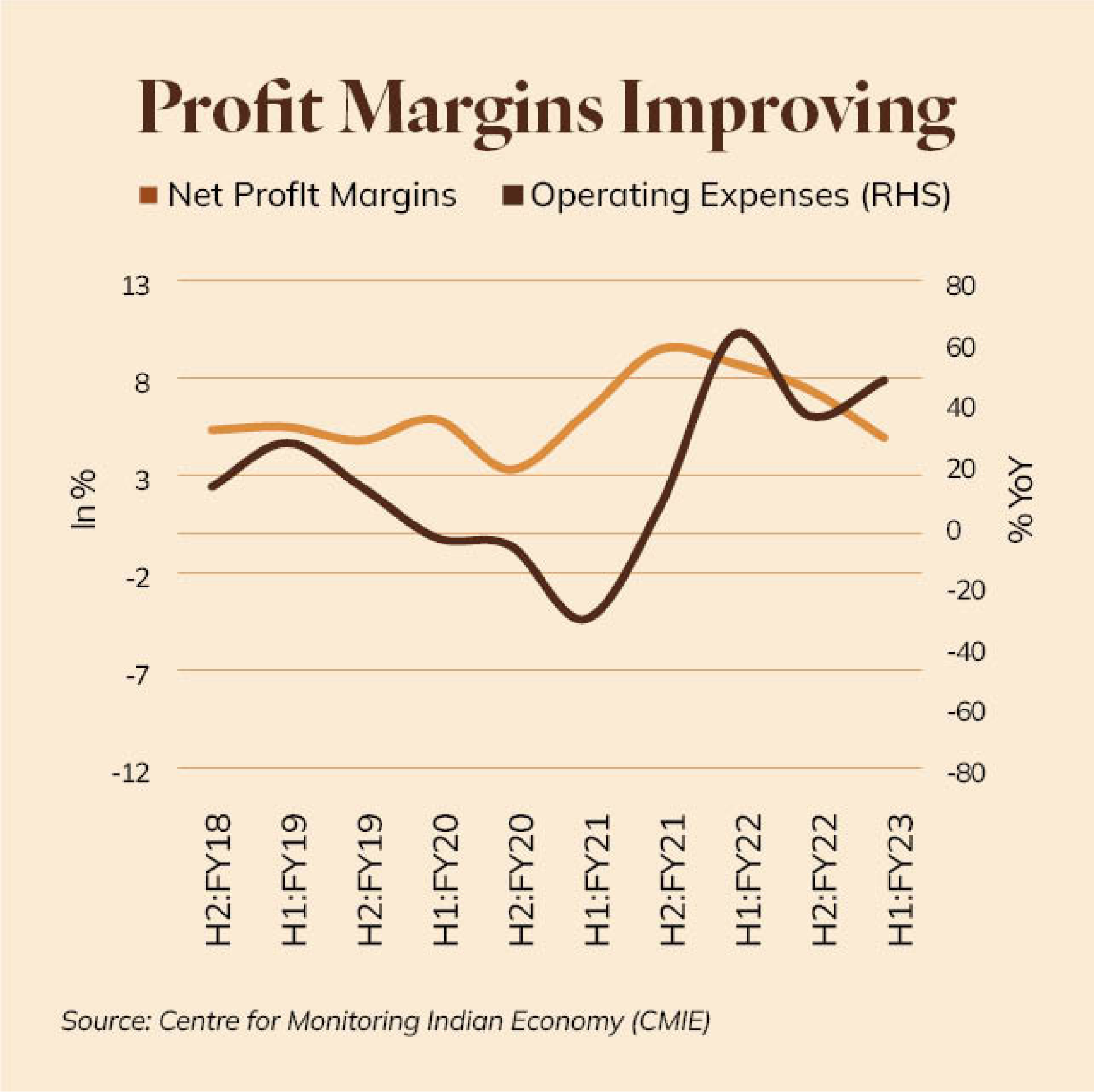
9 DE-LEVERAGING BY CORPORATE SECTOR TO SPUR CAPEX AS DEMAND REVIVES

Banks' ability to provide credit has improved



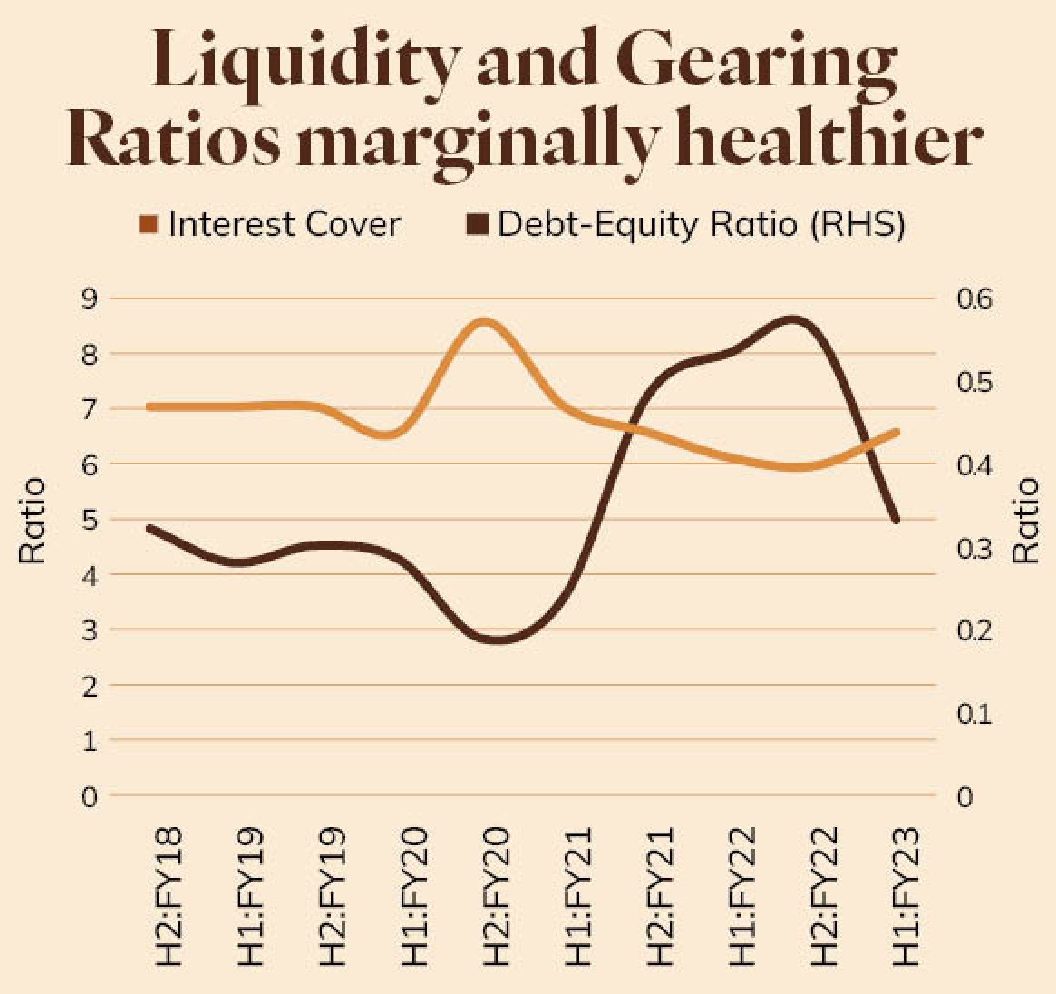
Deleveraging has strengthened corporate balance sheets, with core debt in the private non-financial sector declining. Credit to the private non-financial sector, as a percentage of the GDP, reached a low of 83.8 percent in December 2018 but took a pause during the pandemic. After peaking at 100.7 percent in March 2021, core debt decreased to 87.8 percent of the GDP, approaching the pre-pandemic levels. This improvement can be attributed to better corporate performance and the GDP recovery.

In the first half of FY23, there was an improvement in the interest coverage ratio, which stood at 5, surpassing the five-year average of 3. The debt-equity ratio also declined from 0.8 to 0.4. With declining commodity prices, profit margins have improved. These positive developments, along with expected profit increases and stronger balance sheets, have made the corporate sector financially stronger and optimistic about the future.

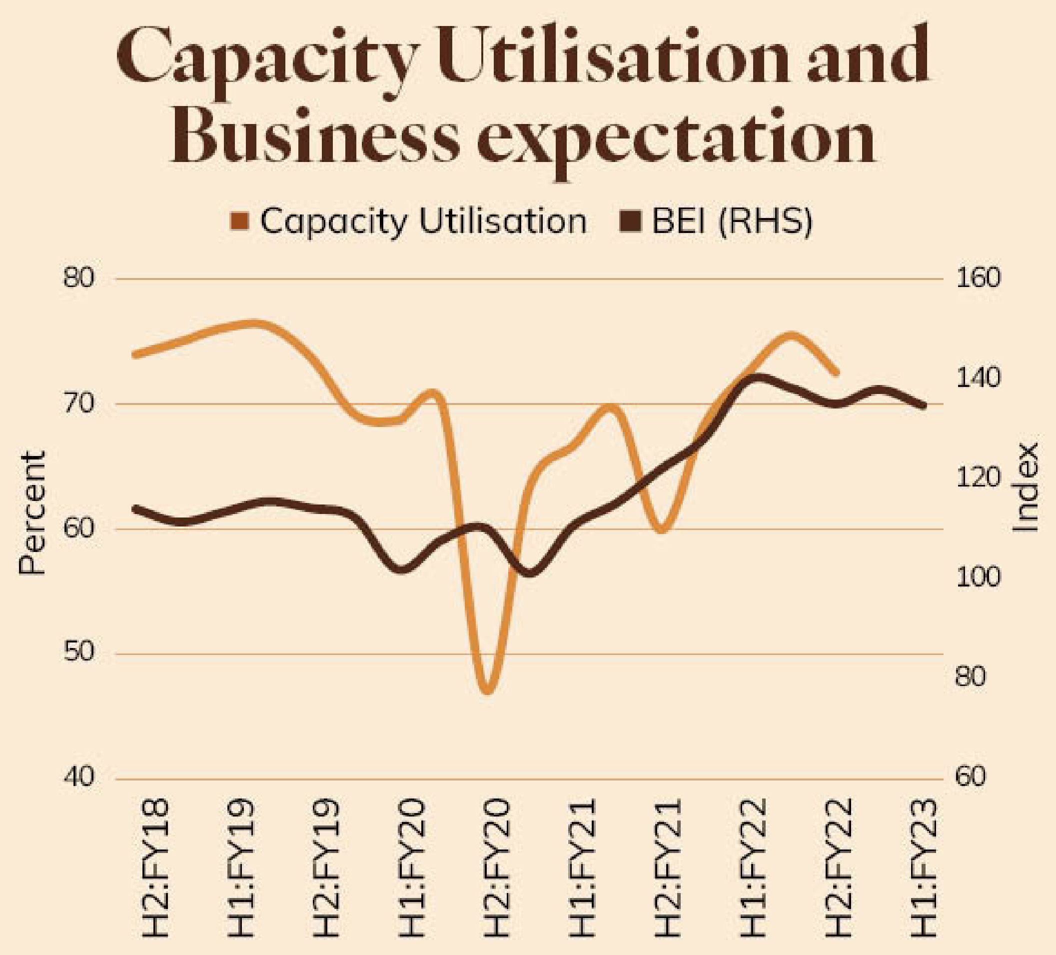


According to the RBI's Industrial Outlook Survey conducted in July-September 2022, the outlook is positive for production, order books, employment, and profit margins until the first quarter of FY24.

With companies reaching high levels of capacity utilisation on the back of demand revival, there is need for capacity addition, which will drive the next capex cycle.



Source: Centre for Monitoring Indian Economy (CMIE)



Note: BEI stands for Business Expectation Index
Source: RBI

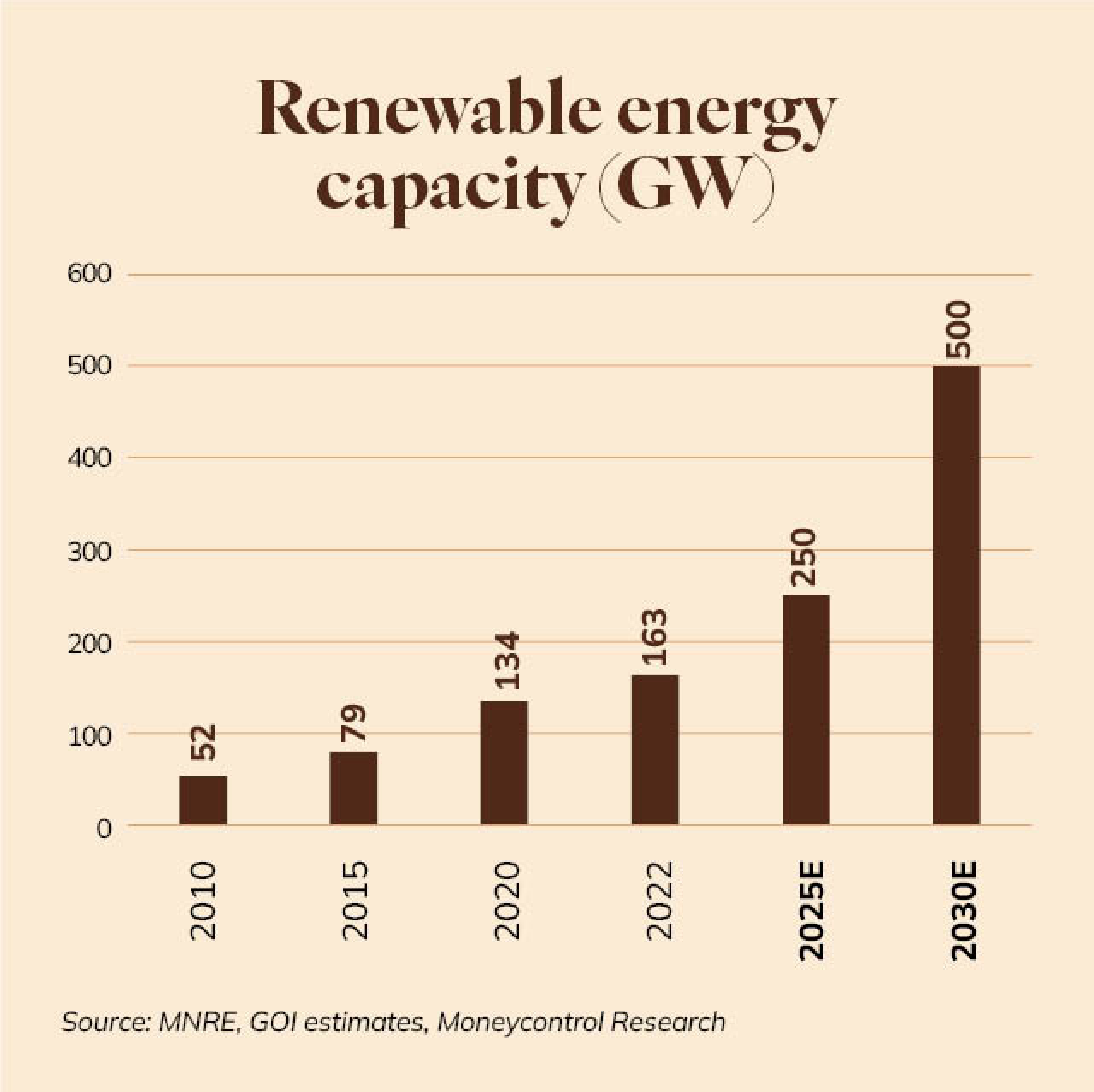
THE MEGA INVESTMENT THEMES TO RIDE ON

THEME 1

TRANSITION TO SUSTAINABLE ENERGY

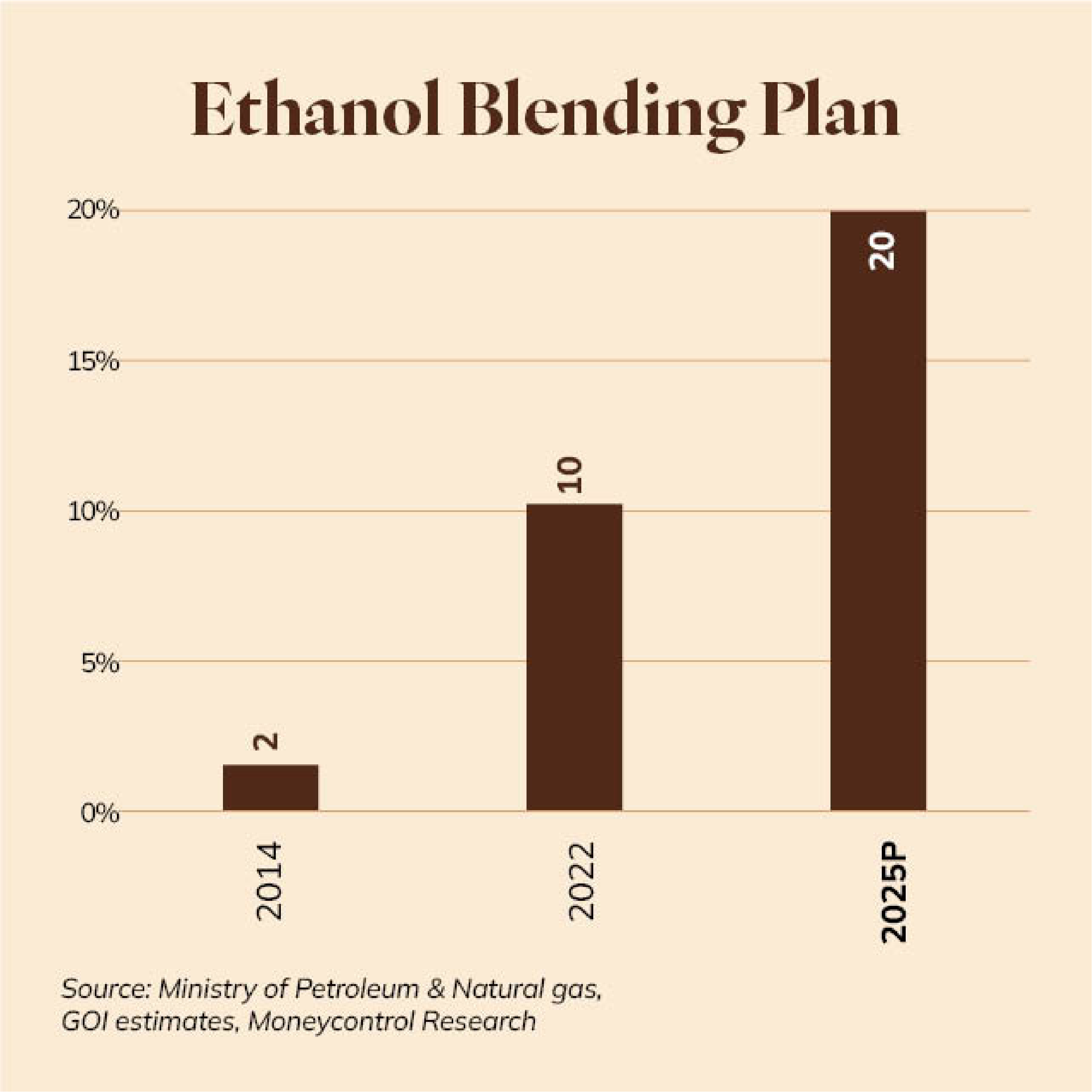
TRANSITION TO SUSTAINABLE ENERGY

India aims to achieve 500 GW of renewables capacity by 2030, thereby meeting 50 percent of its energy requirements through alternate sources. India has a liberal foreign investment policy for renewables, allowing 100 percent FDI through the automatic route and has announced PLI schemes worth Rs 24,000 crore to attract investment in the sector.



To reduce oil and gas imports and promote green fuel, India is blending locally produced ethanol with petrol to strengthen its energy security.

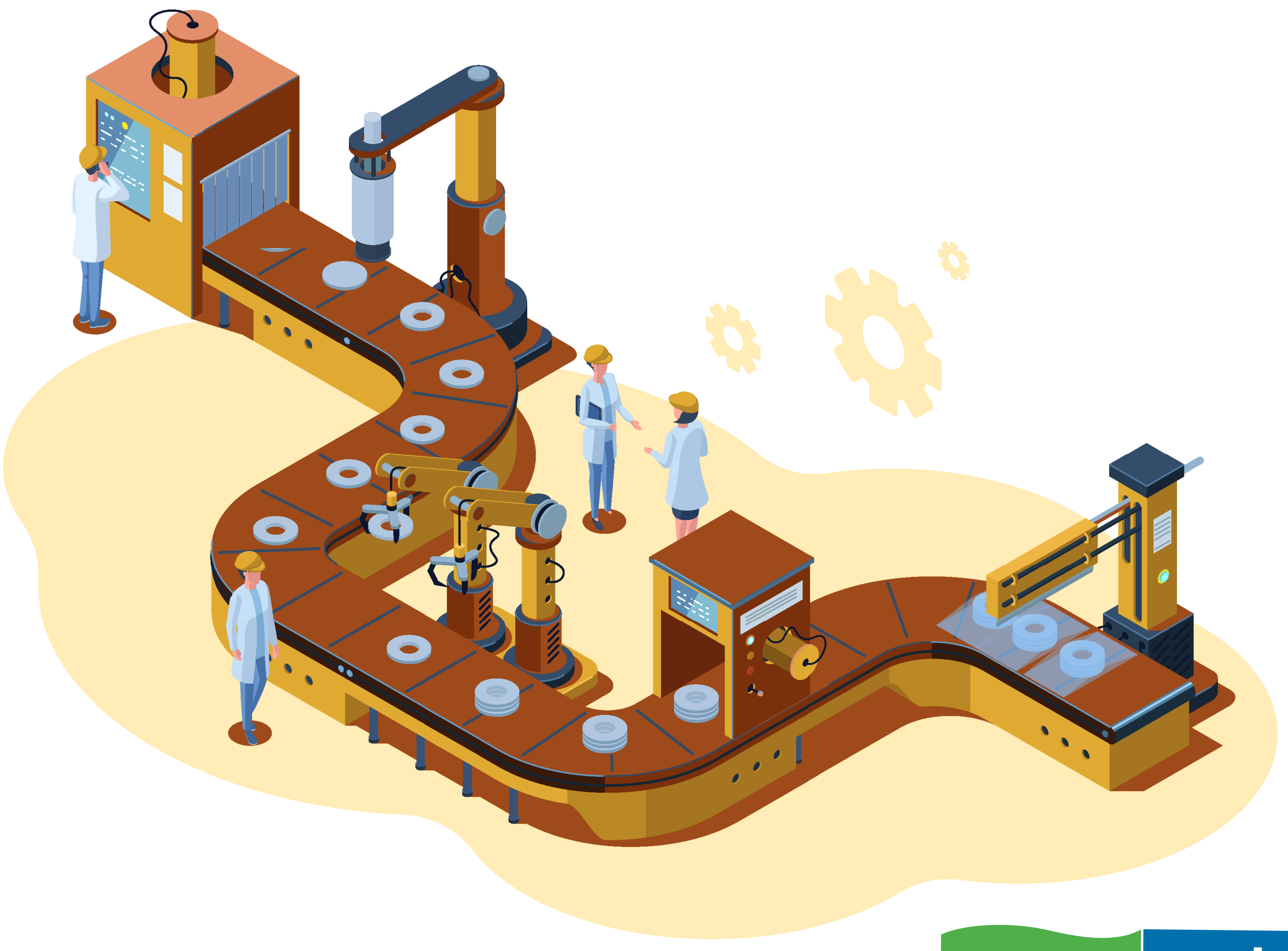
Meanwhile, the government is also pumping around Rs 20,000 crore into the National Green Hydrogen Mission to develop green hydrogen production capacity of 5 MMT (Million Metric Tonnes) by 2030.

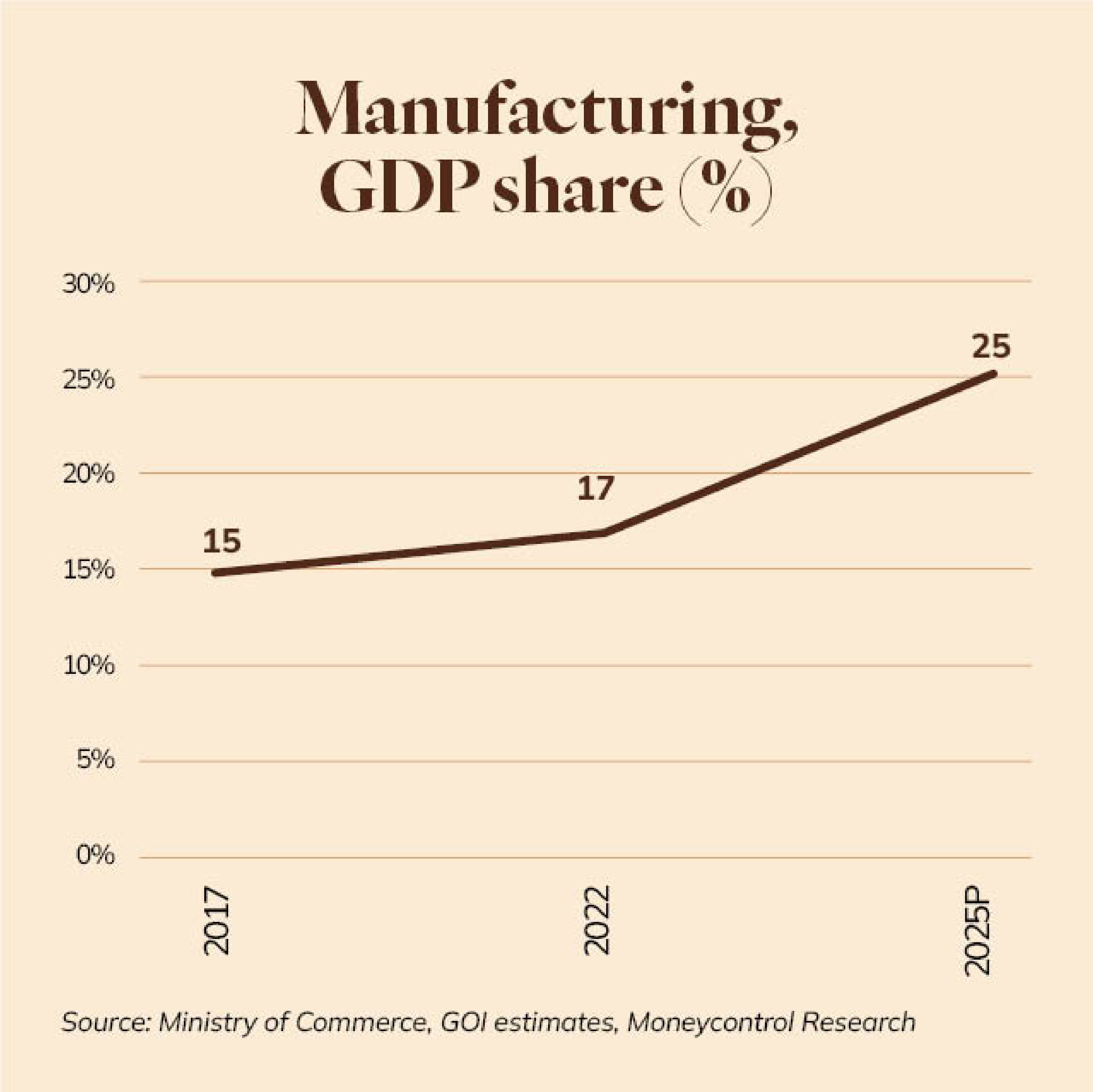


THEME 2

THE TRILLION-DOLLAR MANUFACTURING EXPORTS OPPORTUNITY

India is on the cusp of a structural shift in the manufacturing sector, thanks to supply-chain diversification (China+1 strategy), skilled workforce, cost and location advantage, government initiatives and incentives (PLI schemes, tax cuts), and big capital expenditure on manufacturing and infrastructure.





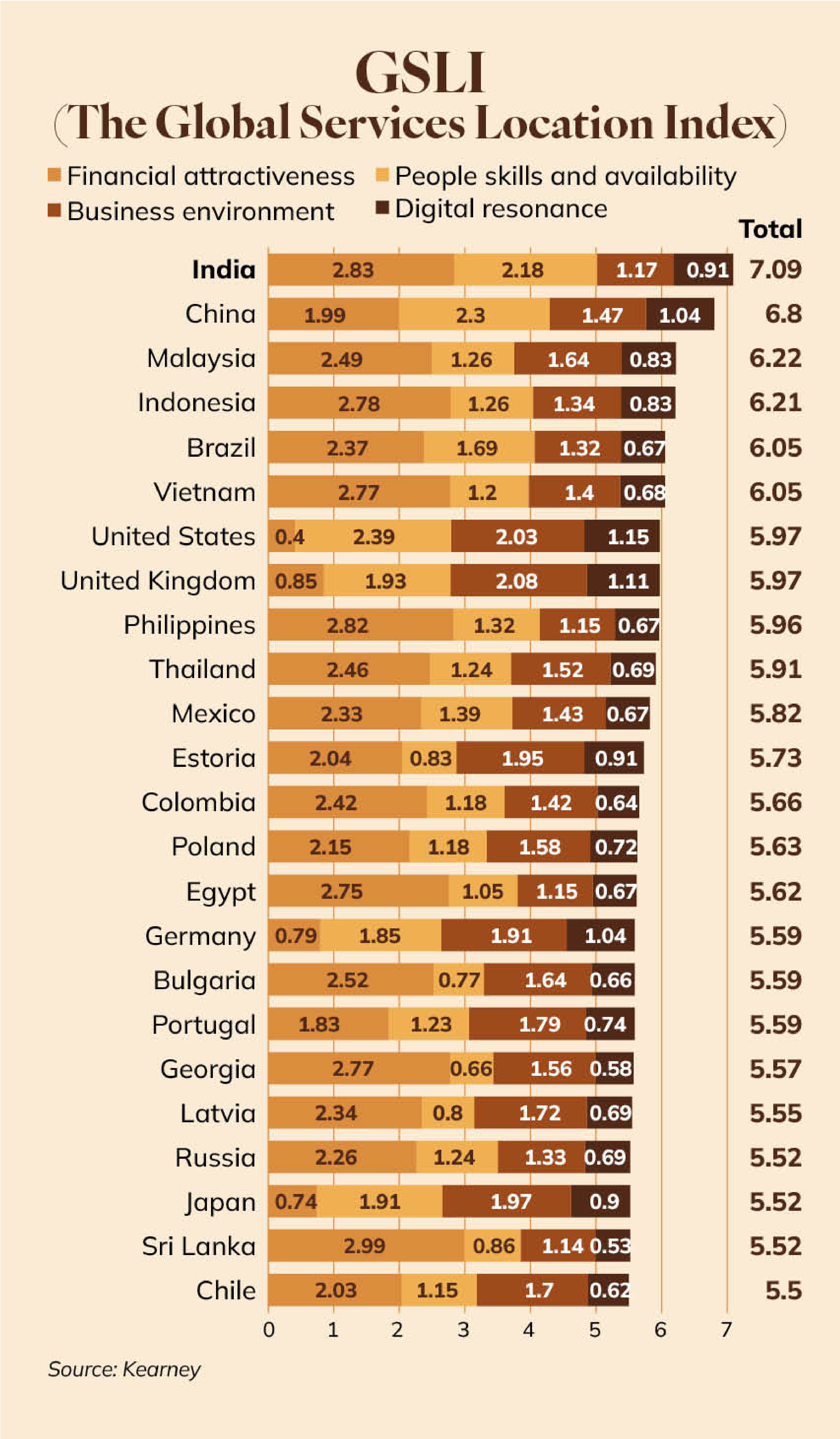
India's exports have soared in the past three years on the back of robust manufacturing and an enabling policy landscape. While India's exports touched a record high of $447 billion in FY23, representing a year-on-year (YoY) growth of 6 percent on a high base of FY22, exports of electronic goods from India jumped 50 percent in FY23 to $23.6 billion — from $15.7 billion in the previous year.

The National Manufacturing Policy aims to raise the share of manufacturing in the GDP to 25 percent by 2025. Driven by growth in priority sectors (such as automotive, engineering, chemicals, pharmaceuticals, and electronics) and propelled by the favourable mega trends in manufacturing, India is expected to scale up its manufacturing exports to $1 trillion in 5-7 years.

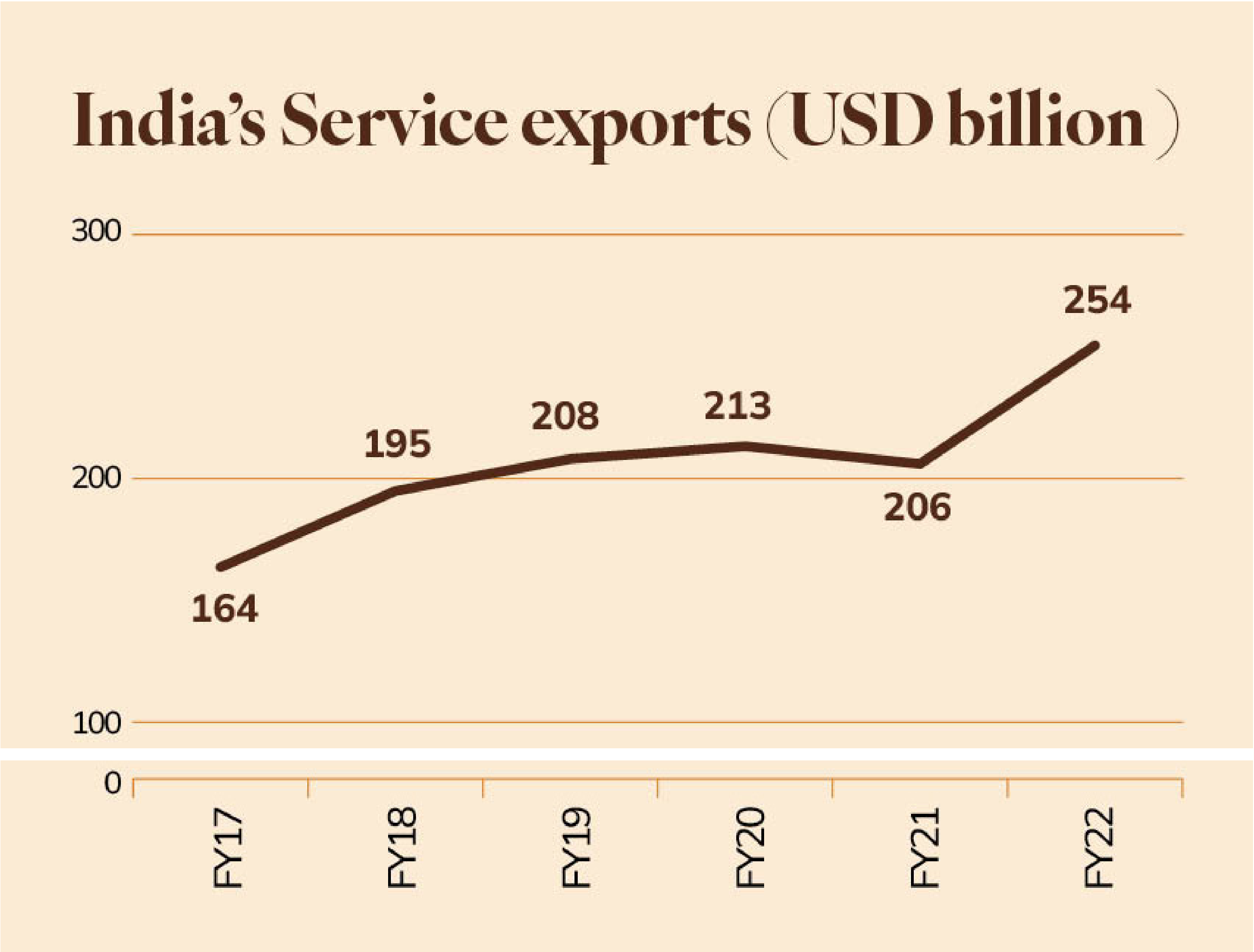
THEME 3

INDIA THE EMERGING SERVICES HUB

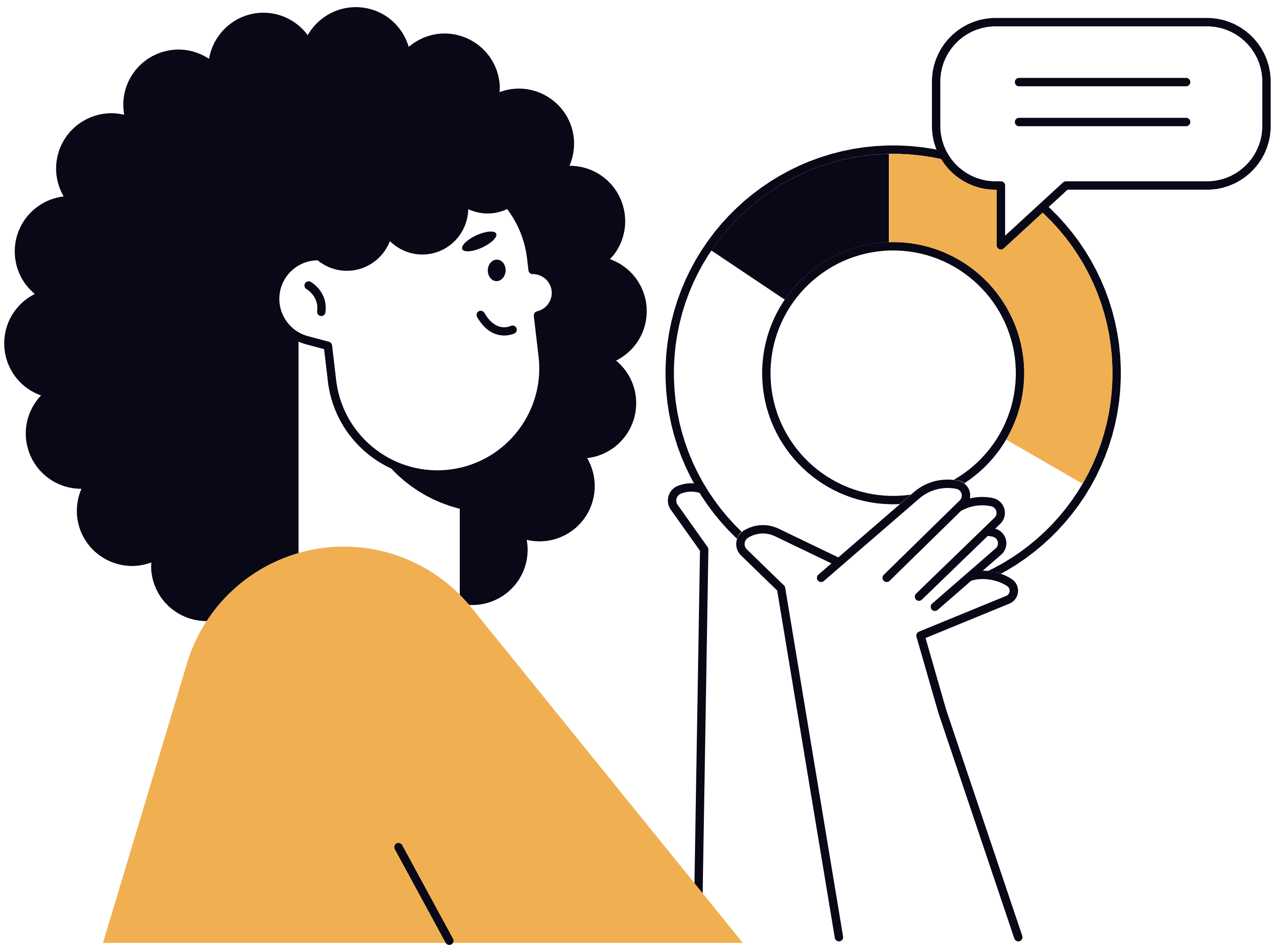
India has long held a top-tier position in the overall GSLI (The Global Services Location Index)



India’s services exports have grown 14 percent over the last two decades and stood at $254.5 billion in 2021-22



A large part of the services exports is from Information Technology (IT) Services and Business Process Outsourcing (BPO) services, valued at $157 billion in 2021-22.



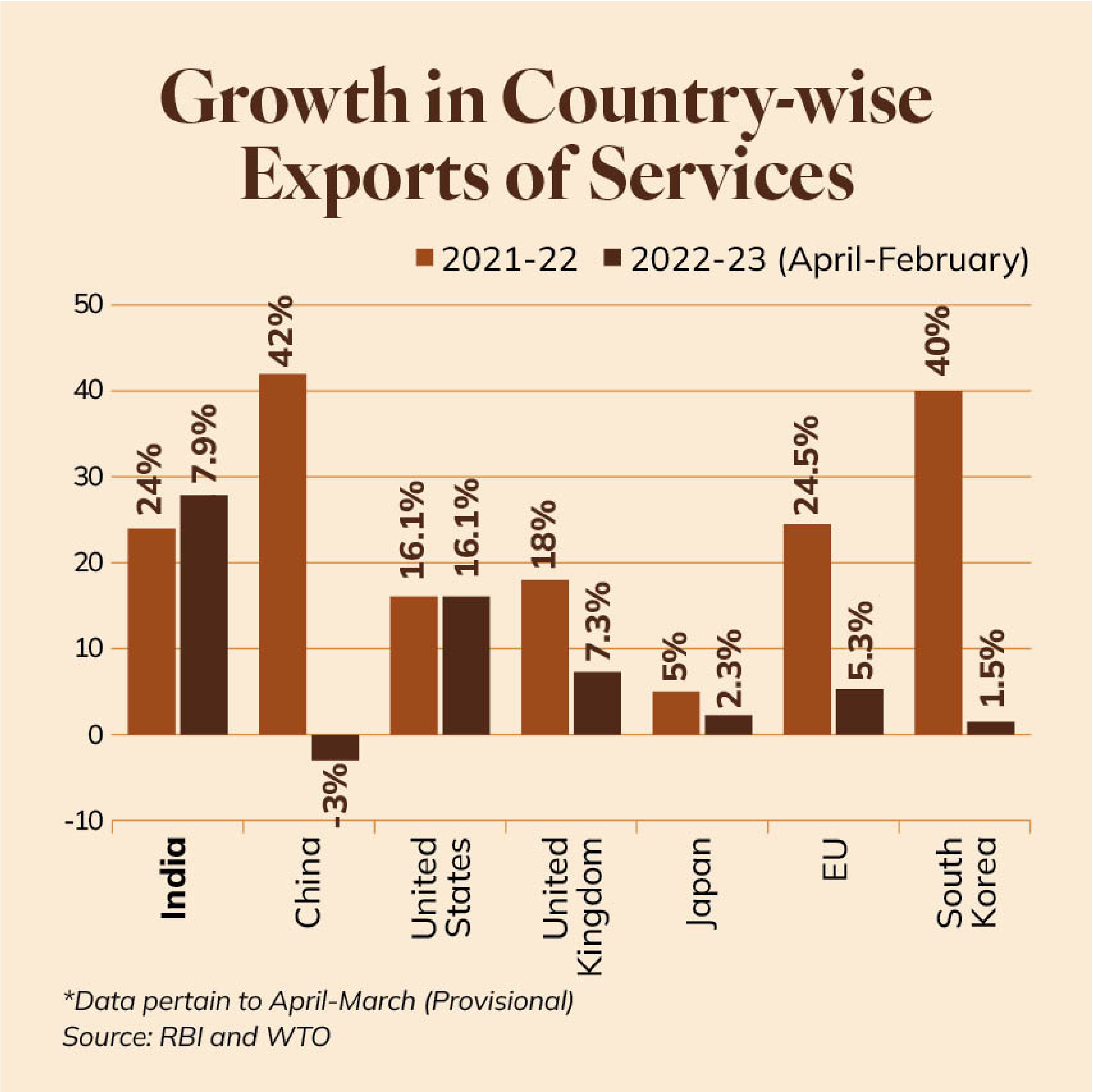
Besides IT companies, global corporations are leveraging Indian talent through their capability centres in India, which employ over 5 million people. What began as a cost arbitrage has now become a key source of high-quality talent and leading-edge innovation.

The 1500 Global Capability Centres (GCCs) in India, representing 45 percent of total GCCs, are an acknowledgement that these centres are scalable with access to manpower skilled in new technologies.

India now has an opportunity to become an “office of the world” for corporations as they look to adopt technology at a global scale.

In non-IT services segments, such as education and healthcare that are increasingly delivered through digital channels, India has a unique opportunity to fill in the talent gap as developed economies face a shortage of skilled talent due to demographic changes.

As of 2022, about 68 percent of India’s population was in the working age group and about 24.3 percent of the incremental global workforce over the next decade will come from India. This is an opportunity given the rapidly ageing population in the developed world.



Data pertain to April-March (Provisional)
Source: RBI and WTO

The services sector would continue to be an important pillar of growth for the Indian economy, employing close to 31 percent of the workforce and is one of the largest recipients of FDI in India. Opportunities exist in new services such as tourism, tele-medicine, medical value tourism, audio visual services, construction, and engineering with a focus on digital engineering services.

THEME 4

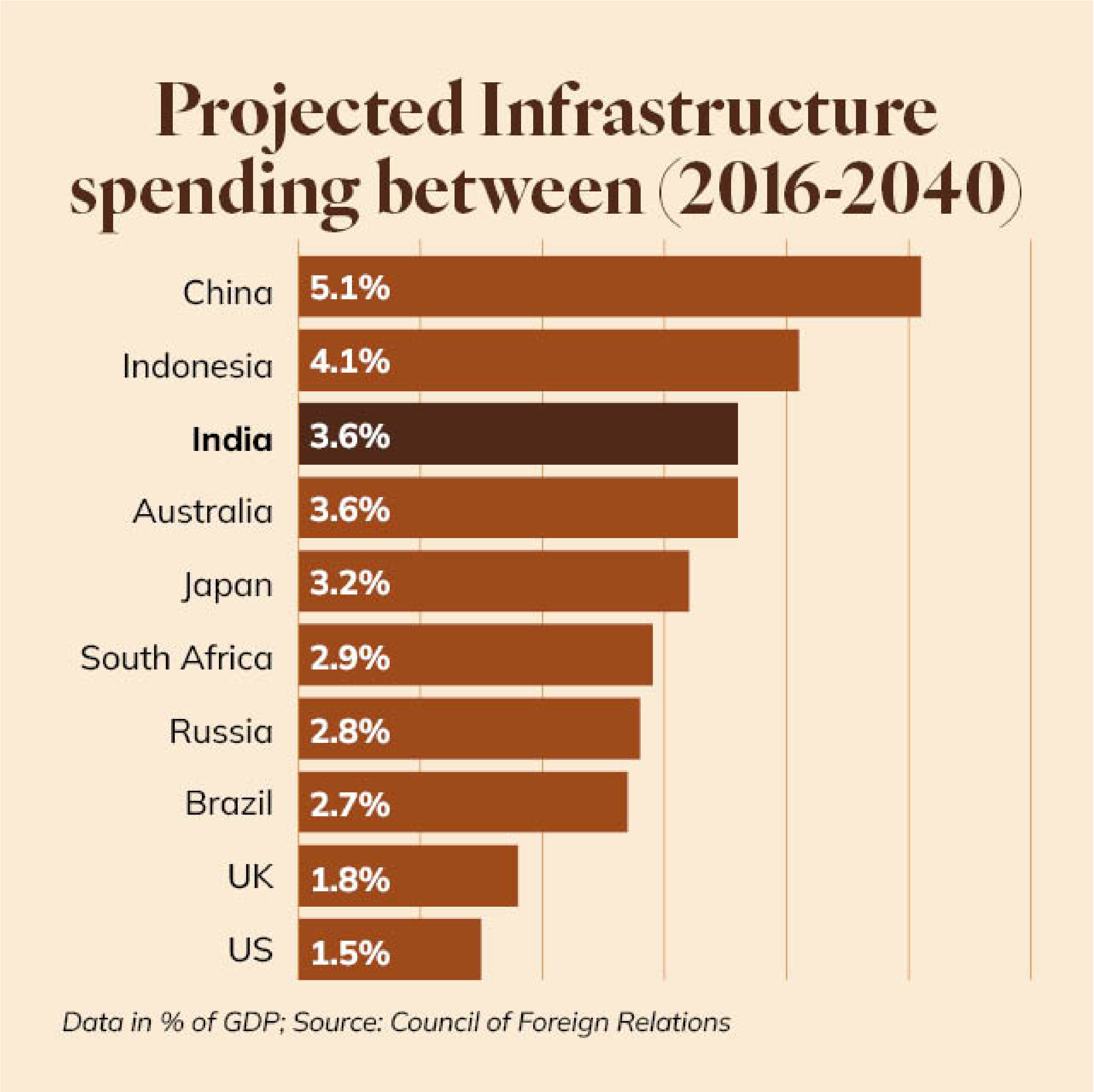
THE INFRASTRUCTURE BUILD-UP OPPORTUNITY

India's focus on Infrastructure

Infrastructure development is key to hasten economic growth as it has a multiplier effect. It creates employment (as per the RBI, spending in infrastructure and construction creates 5x-6x employment of the average of the economy) as well as drives consumption of allied industries such as cement, steel, and metals. As per a study by the National Institute of Public Finance and Policy, every rupee spent on capex leads to a cumulative multiplier effect of Rs 4.8 in the economy

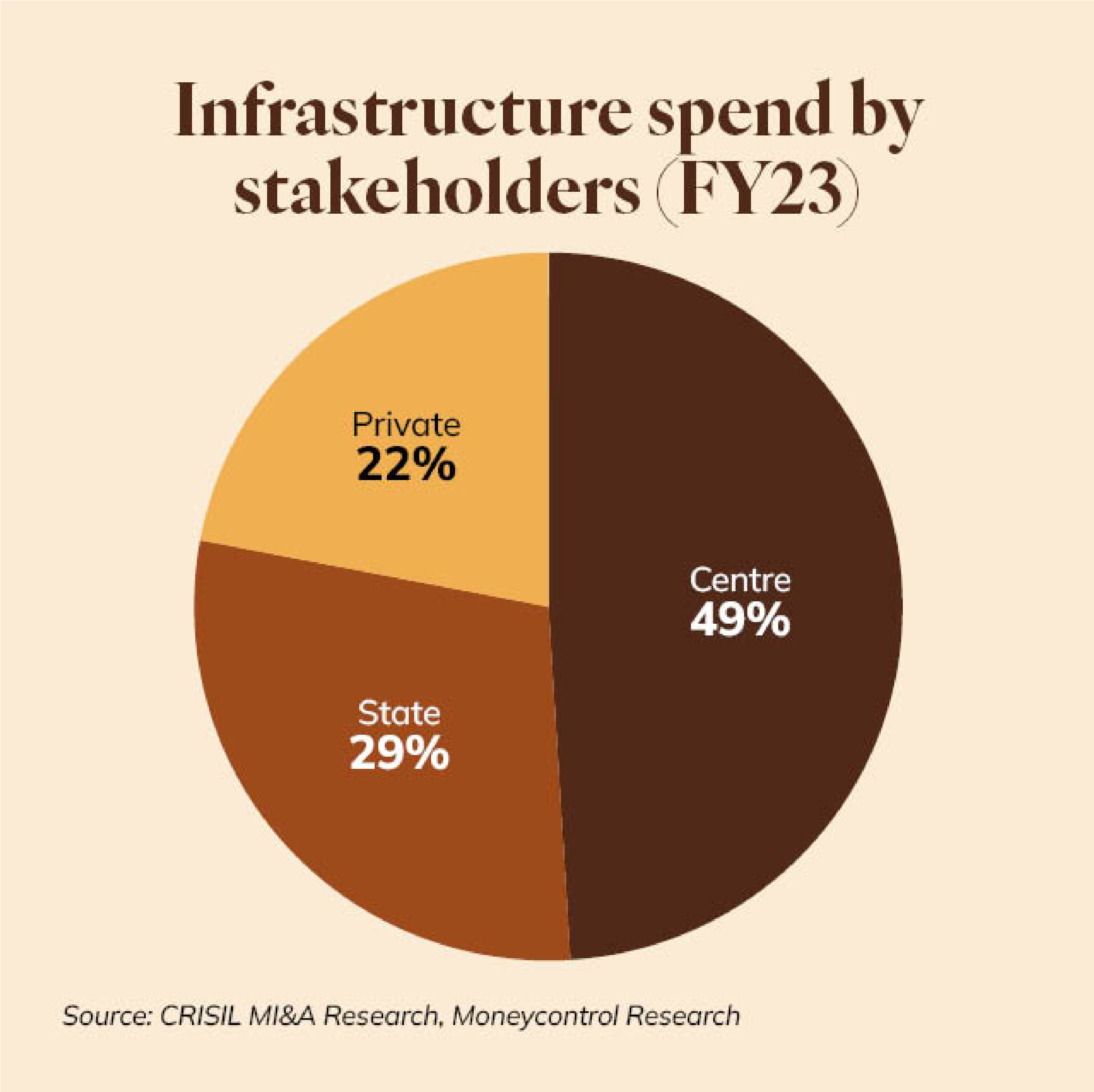
Also, infrastructure development is essential to reduce logistics costs and improve efficiency as well as competitiveness. India aims to bring down logistics cost from 14-18 percent of the GDP to the global best practice of 8 percent by 2030.

India is poised to invest about 3.6 percent of the GDP in infrastructure by 2040, which will be the third-largest globally and much ahead of developed economies.

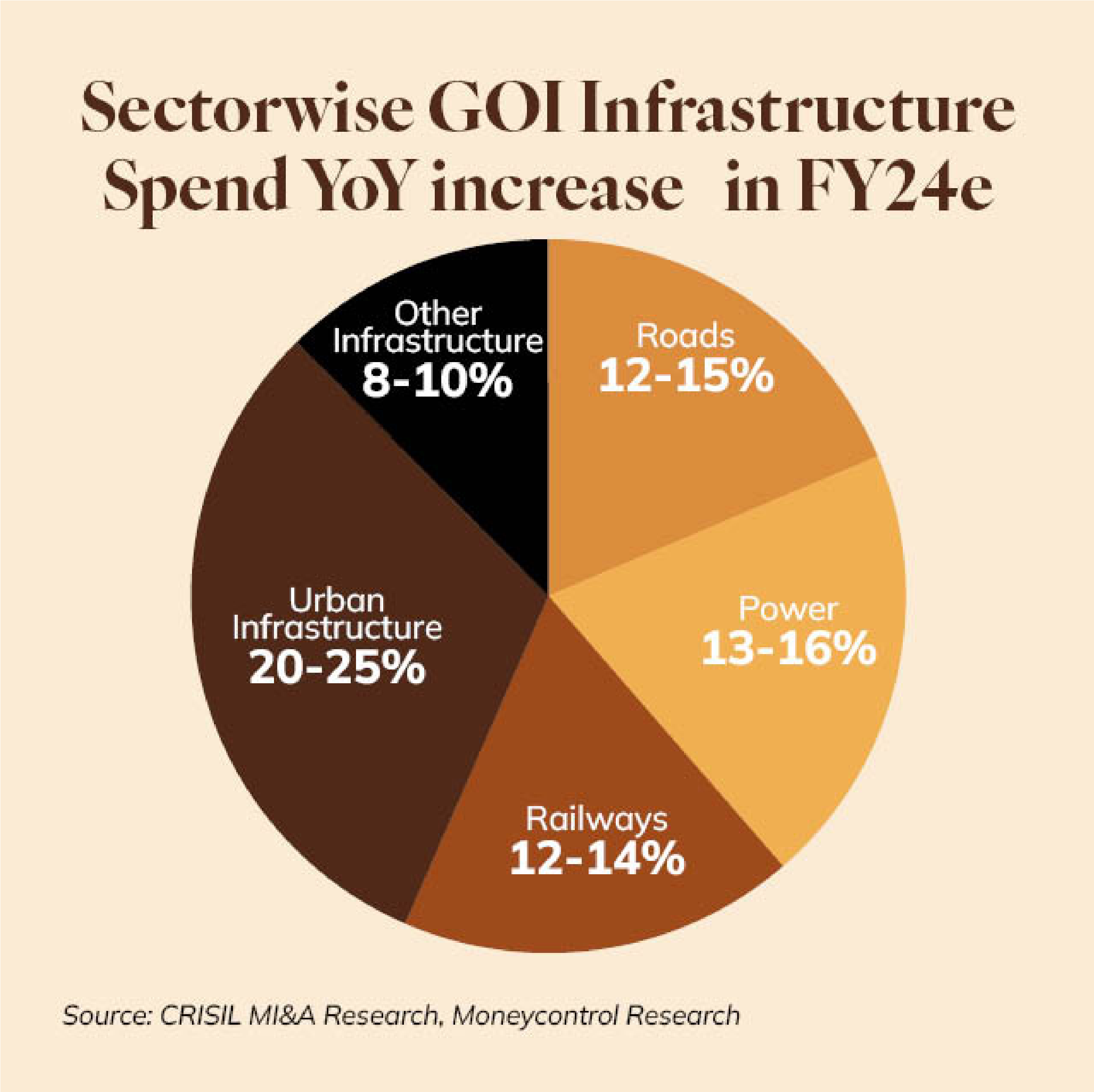


Robust increase in infrastructure investments; Centre leading the way

The central government has been leading the infrastructure capex, contributing about half of the investments in FY2023. States contributed 29 percent, while the private sector contributed the remaining 22 percent in infrastructure investments.

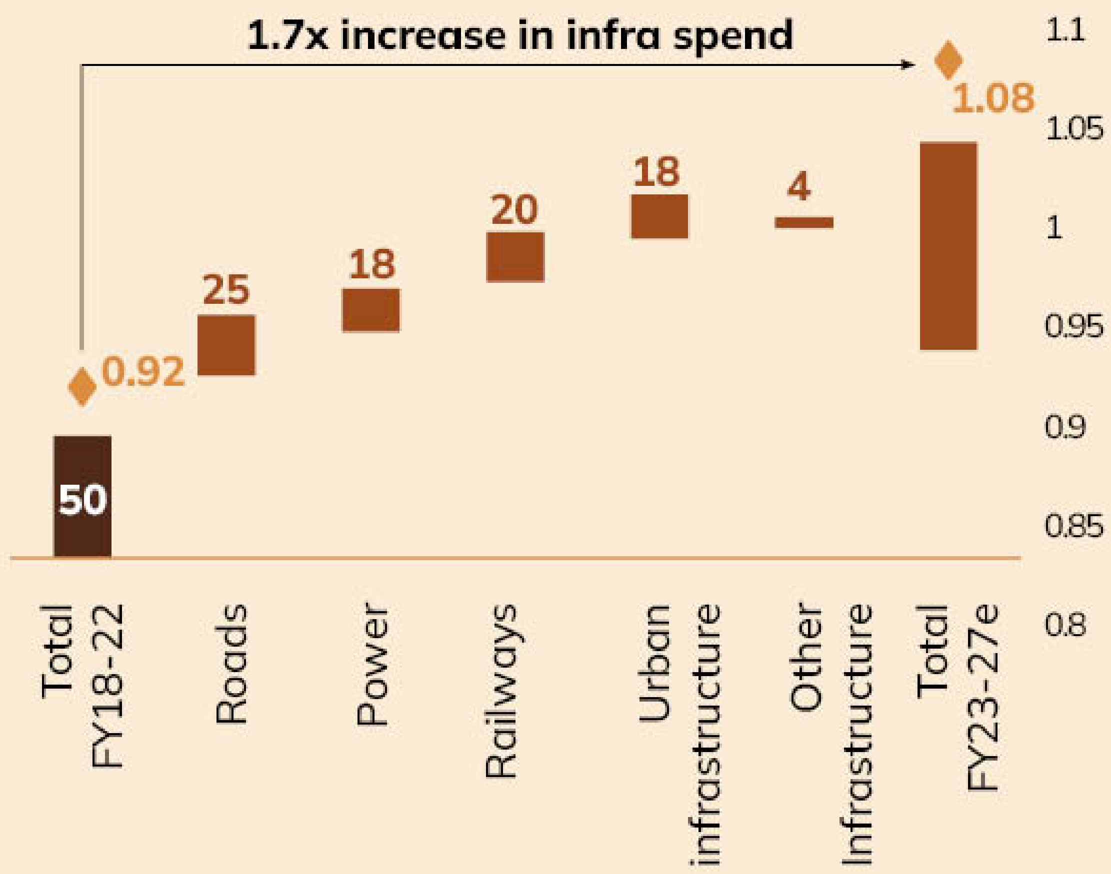


With key states going to polls later this year and the Lok Sabha election next year, the central government is expected to take the lead in infrastructure investments in FY24 as well. The Centre has already announced a massive 33 percent increase in capex spend for FY24 in the last Union budget.



Over the next four years (FY23-27), investments in infrastructure are expected at Rs 80-85 lakh crore, which would be 1.7x the investments made in the preceding time period of FY18-22.

Total infrastructure spend

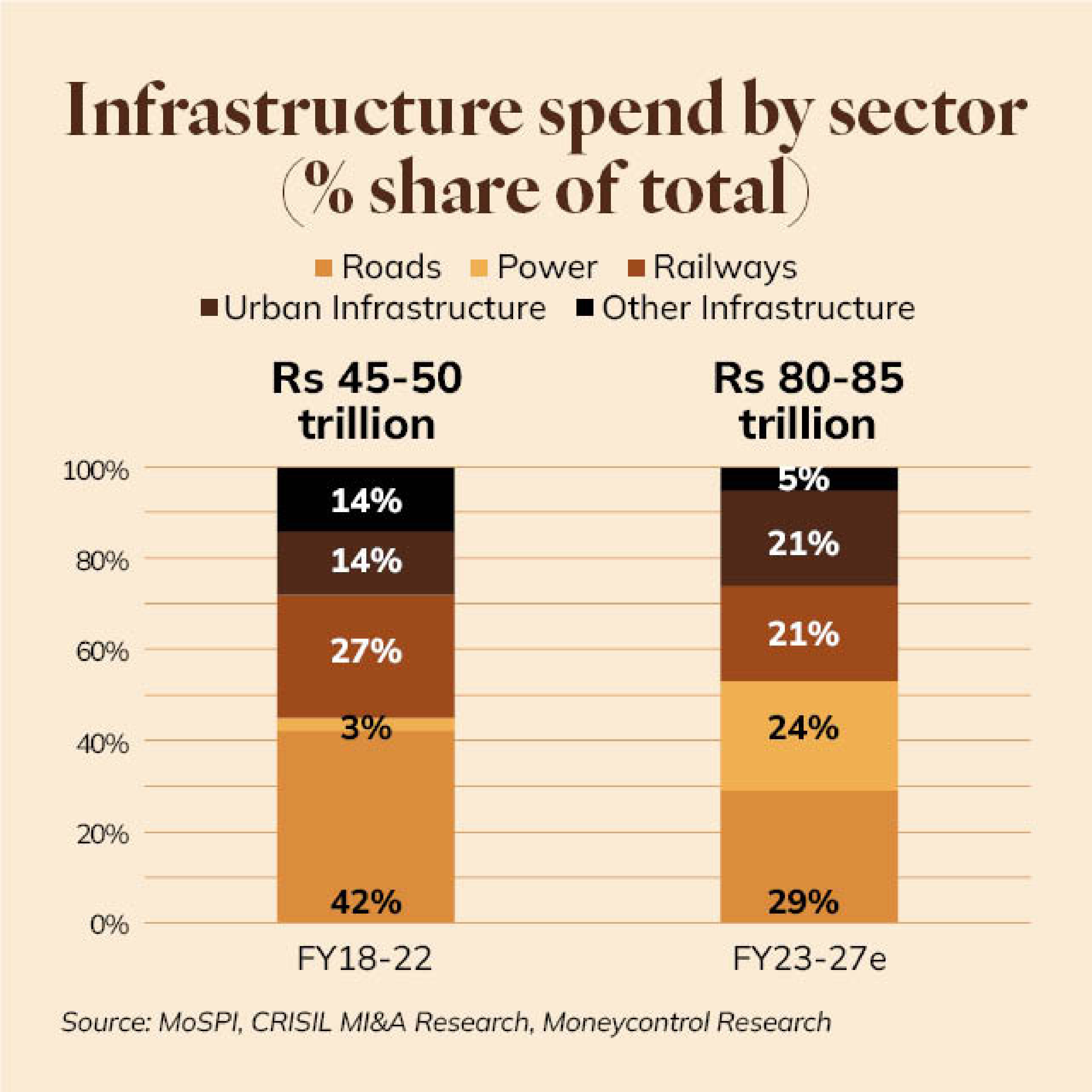


in Rs lakh crore;
♦ = Growth Multiplier calculated as CAGR of block infrastructure spends over CAGR of block current GDP spends (block period=5 years)
Source: MoSPI, CRISIL MI&A Research, Moneycontrol Research

Areas of infrastructure capex

Roads and railways would be at the forefront of infrastructure investment over the next few years, contributing about half of the spends. Investments in urban infrastructure should also remain strong and would contribute about 21 percent of the spends.

Investments in power sector which have been lagging over the past few years are expected to gain pace, with power contributing about 24 percent of the spends.



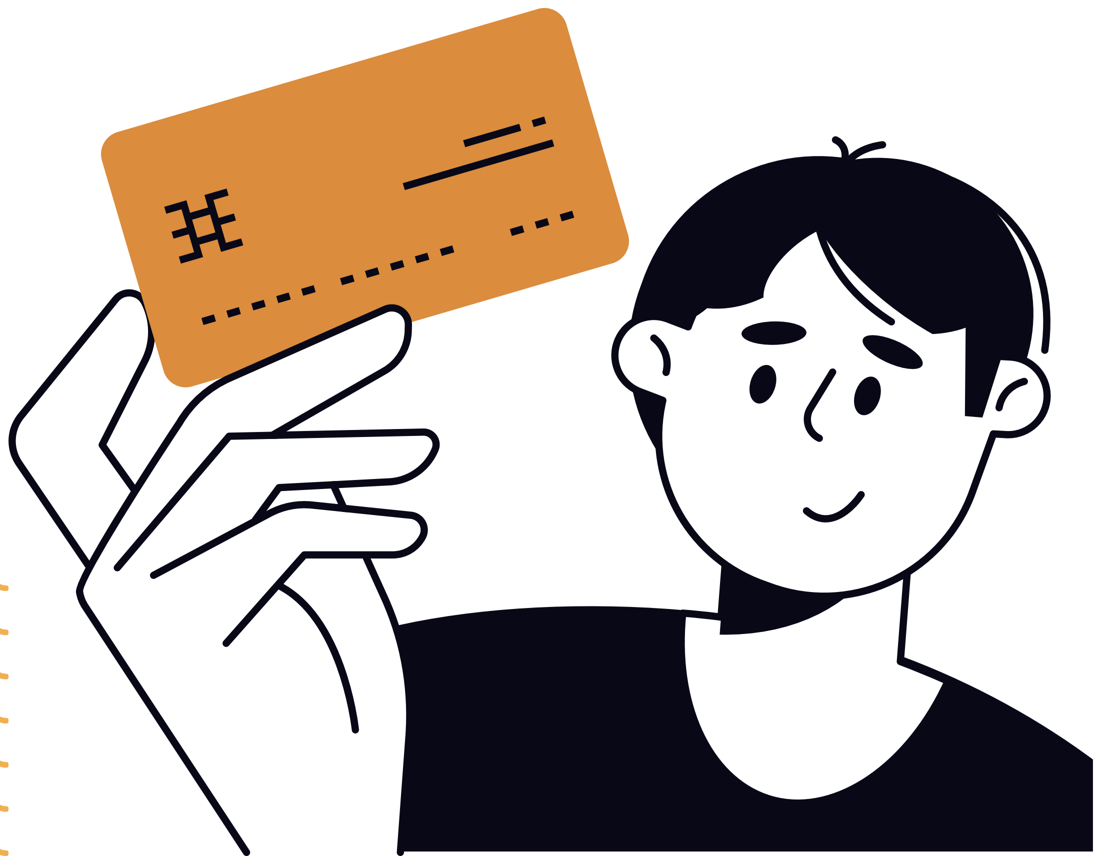
THEME 5

THE GREAT INDIA CONSUMPTION STORY

Consumption has been the key pillar of the economy, growing at a healthy 12 percent CAGR over the last decade. The share of consumption in the GDP has increased from 55 percent to 60 percent.

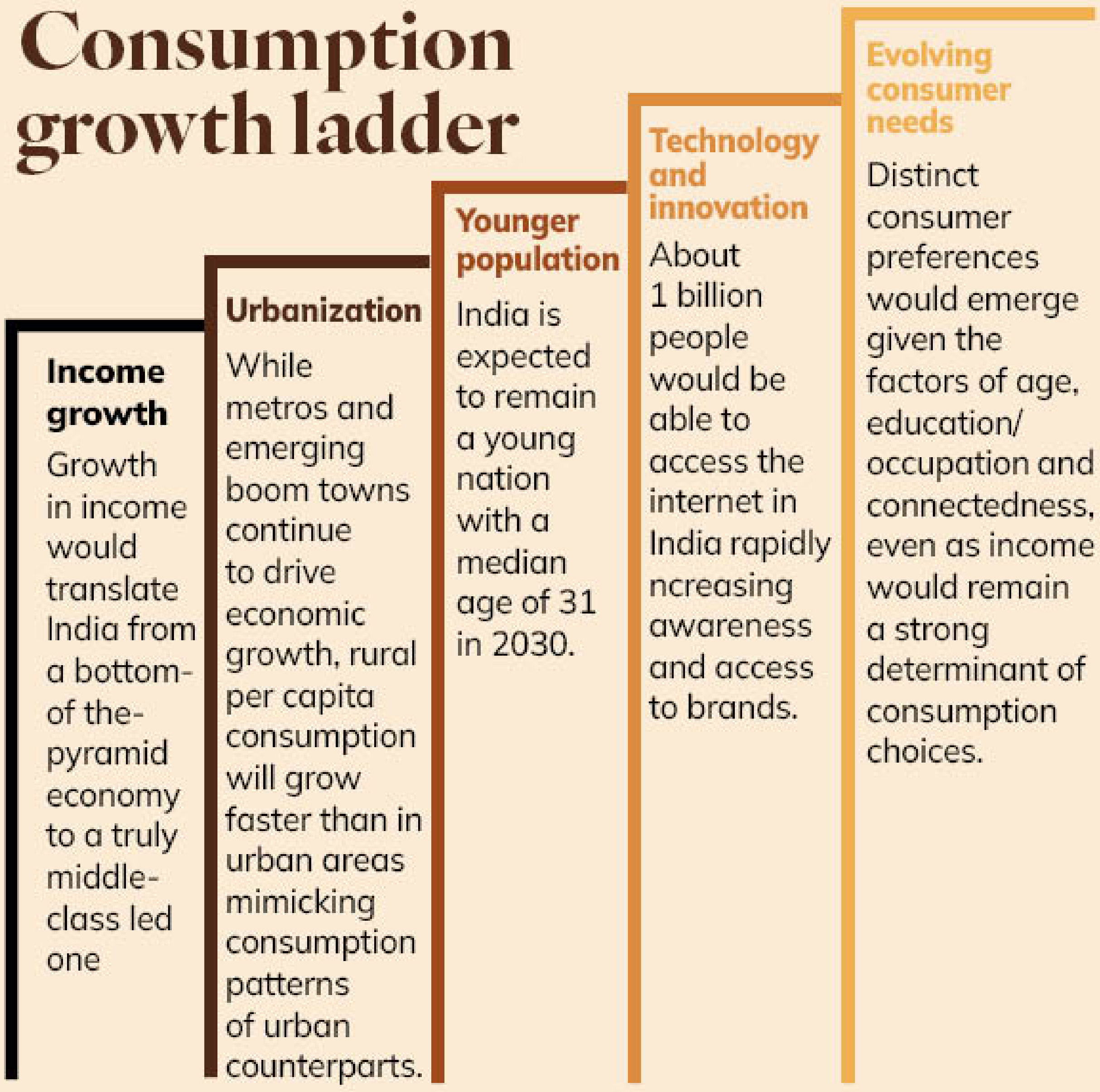
India is expected to remain a consumption driven economy led by various factors such as income growth, urbanisation, a young and consuming population as well as greater access to technology. Consumption growth is expected to almost quadruple to $6 trillion by 2030 from 2020 levels

Higher savings rate (savings/income) of 22 percent in India as compared to low rates of 6-10 percent in developed economies provides a buffer for further consumption.



Consumption growth ladder

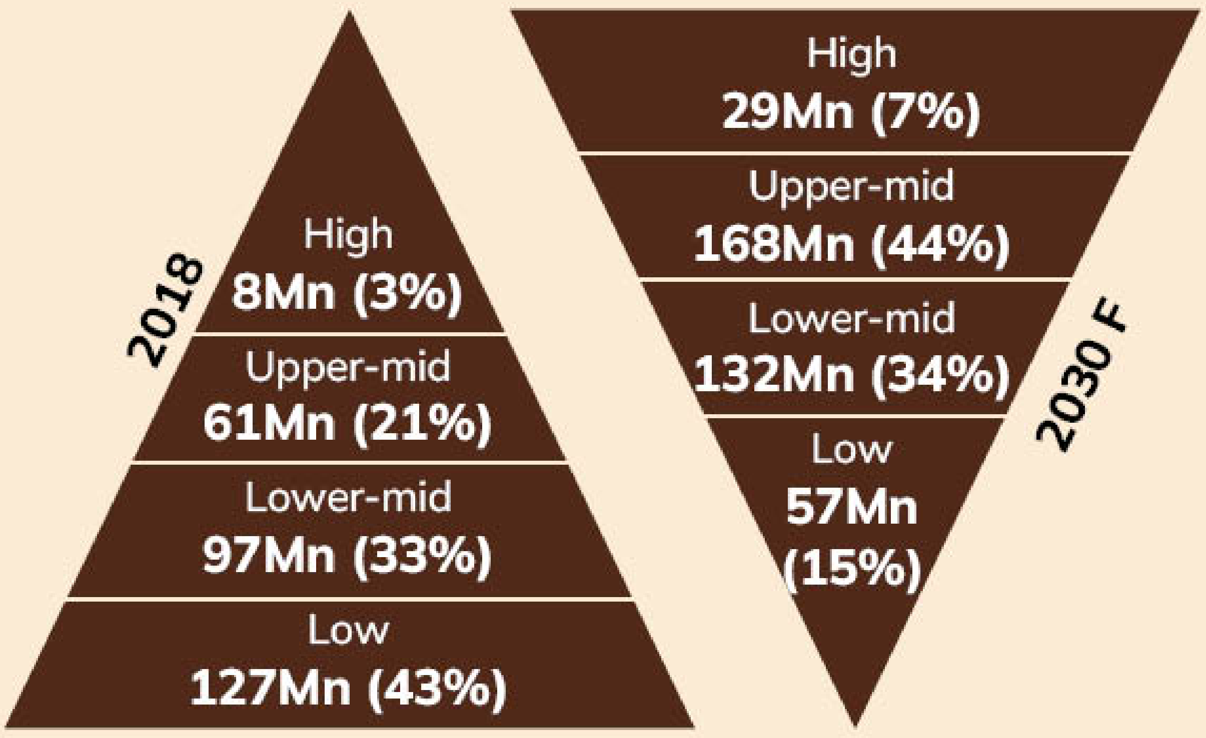
Consumption growth ladder



Source: Moneycontrol Research

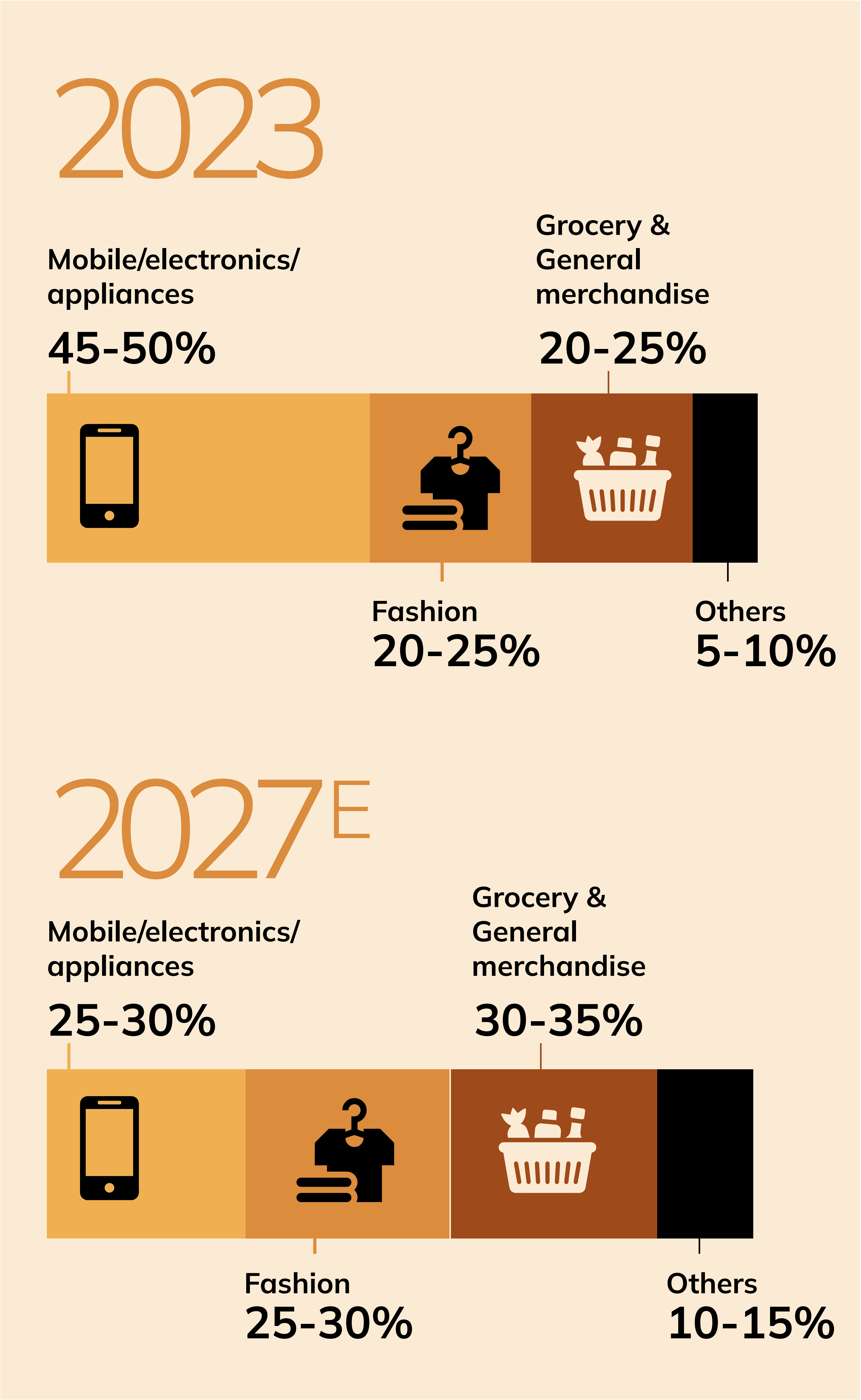
Income growth

Income distribution across households



Note: Low income: <$4,000, Lower-mid: $4,000-8,500, Upper-mid: $8,500-40,000, High income: >$40,000 basis income per household in real terms;
Source: PRICE Projections based on ICE 360 Household Surveys (2014, 2016, 2018)

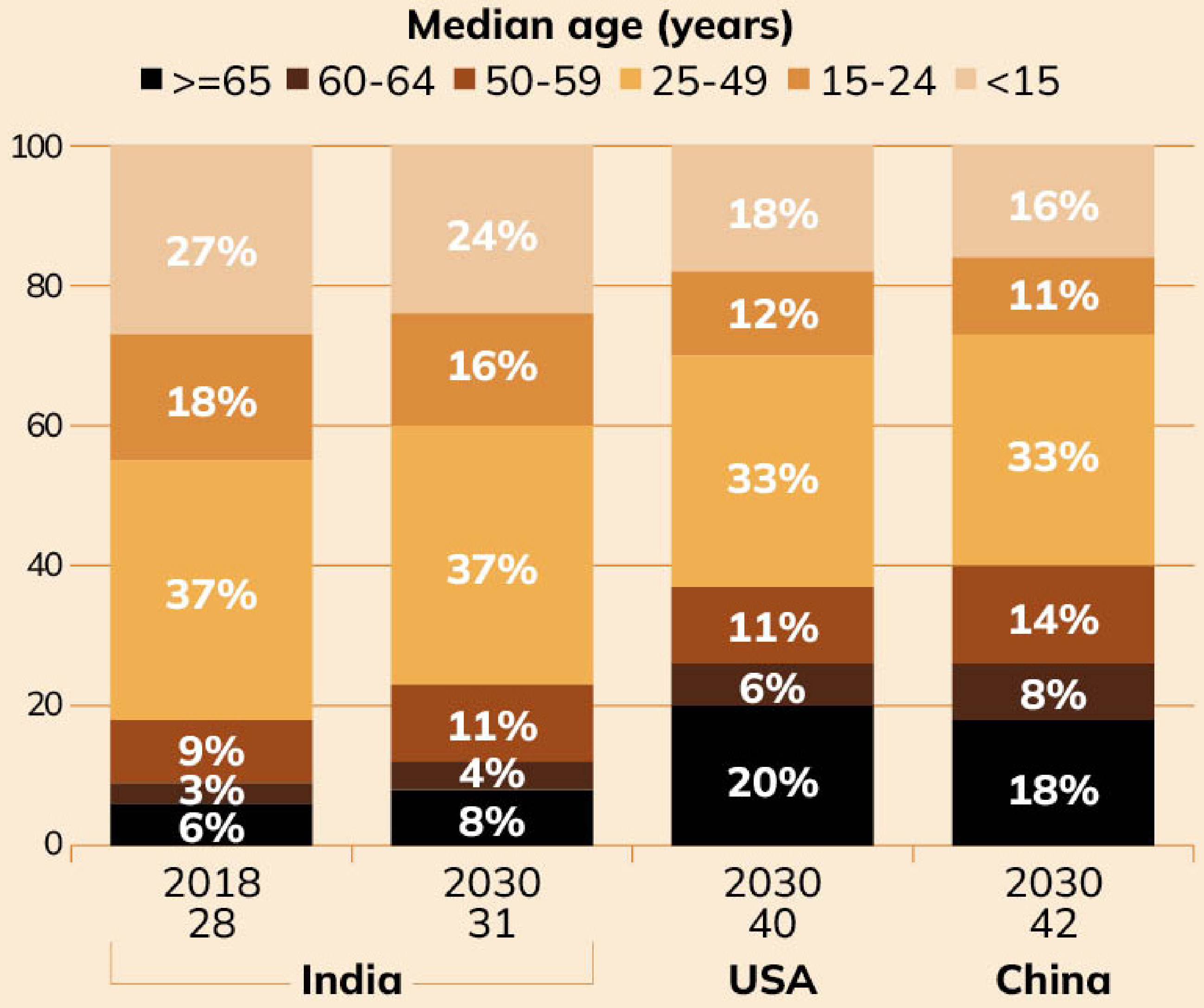
E-com boosting consumption-technology and innovation



SOURCE: HOW INDIA SHOP ONLINE 2022, BAIN AND COMPANY
(SNIP FROM: ECONOMIC SURVEY 2022-23)

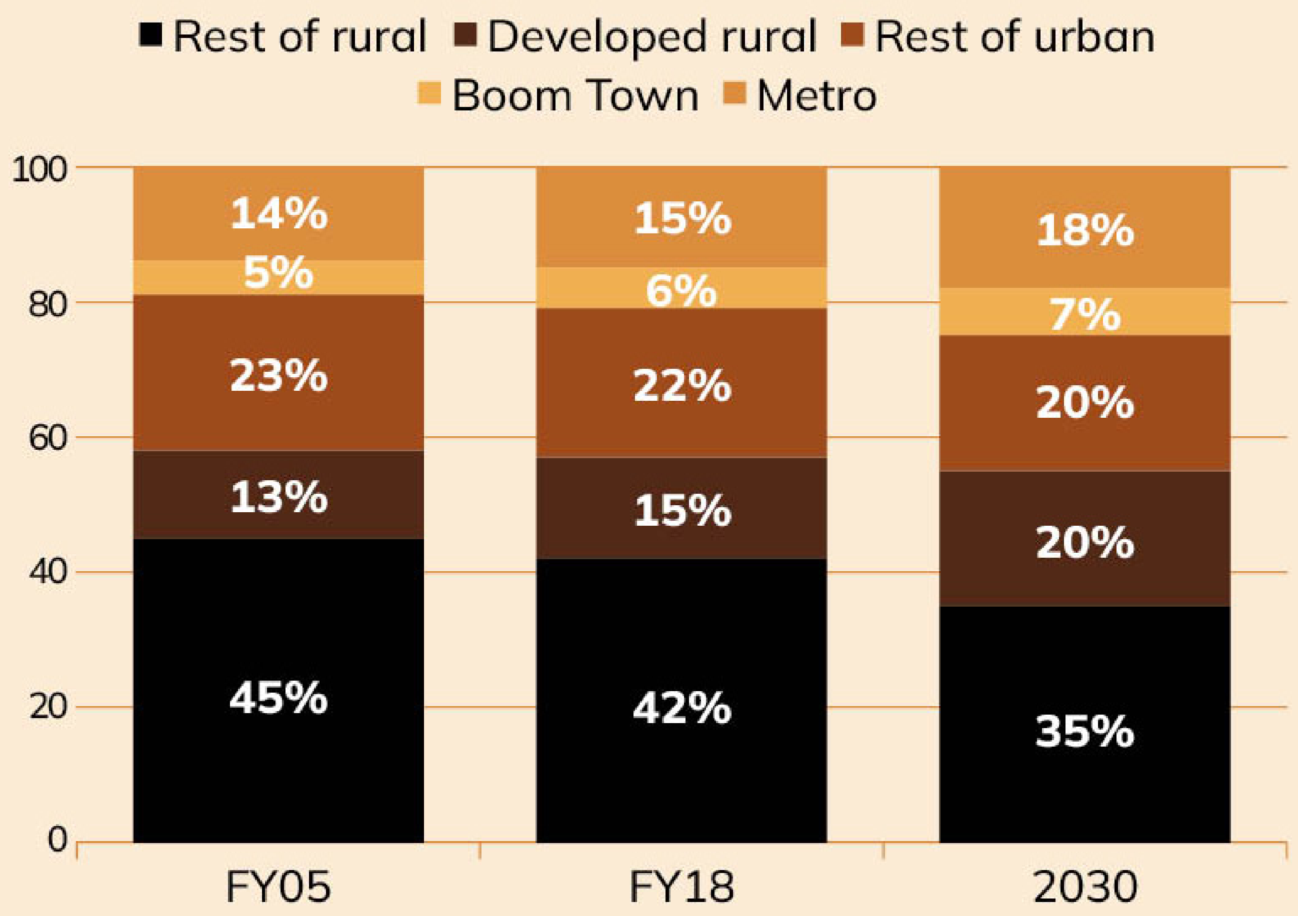
India: Young population advantage

Population by Age

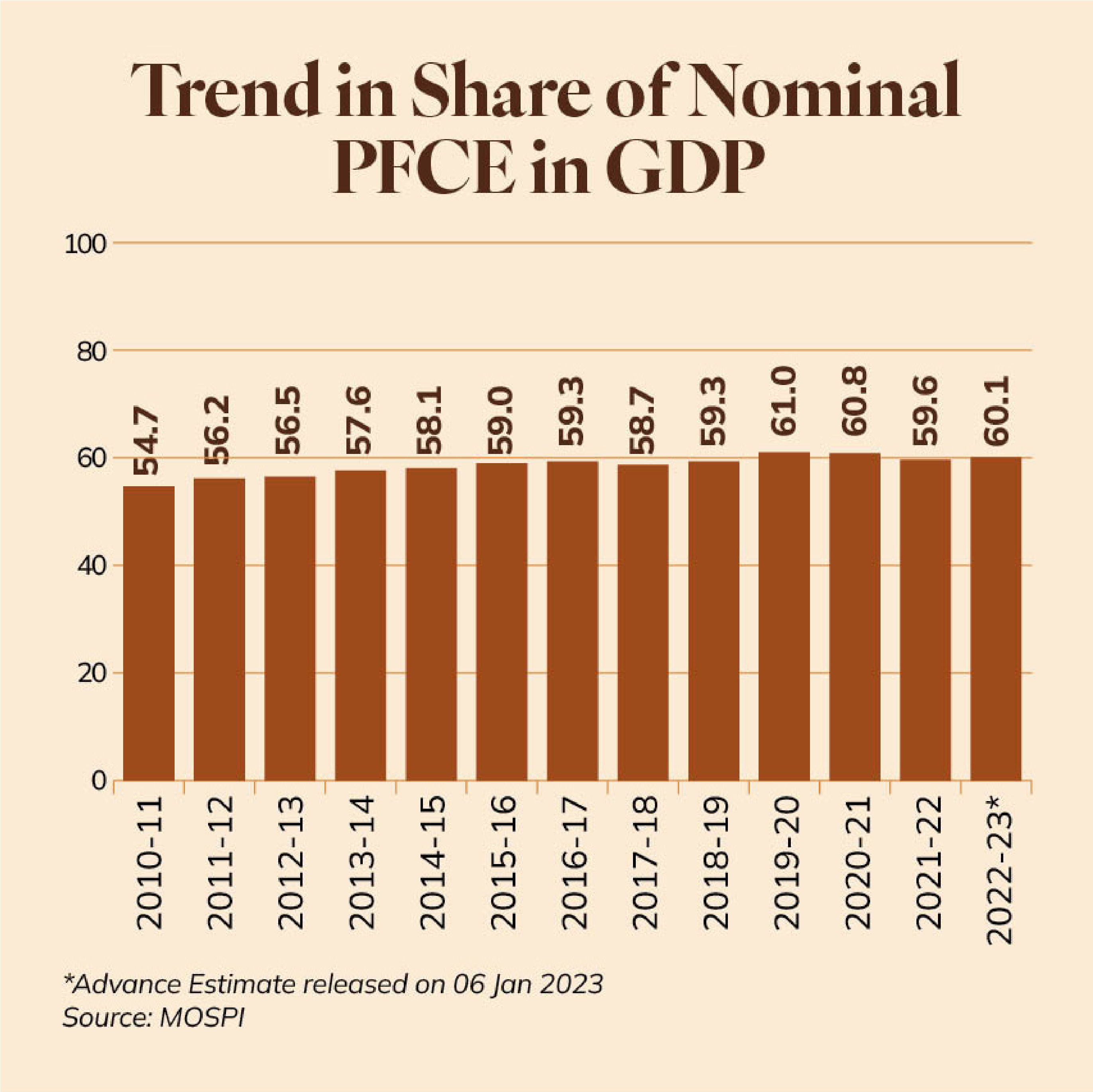


Source: Euromonitor

Consumer Expenditure in India Across City Types (% total)



Note: Projections with GDP growth assumed to be 7.5% at 2017-18 prices
Source: Price Projections based on ICE 360o surveys (2014,2016,2018), World Economic Forum



Retail sector

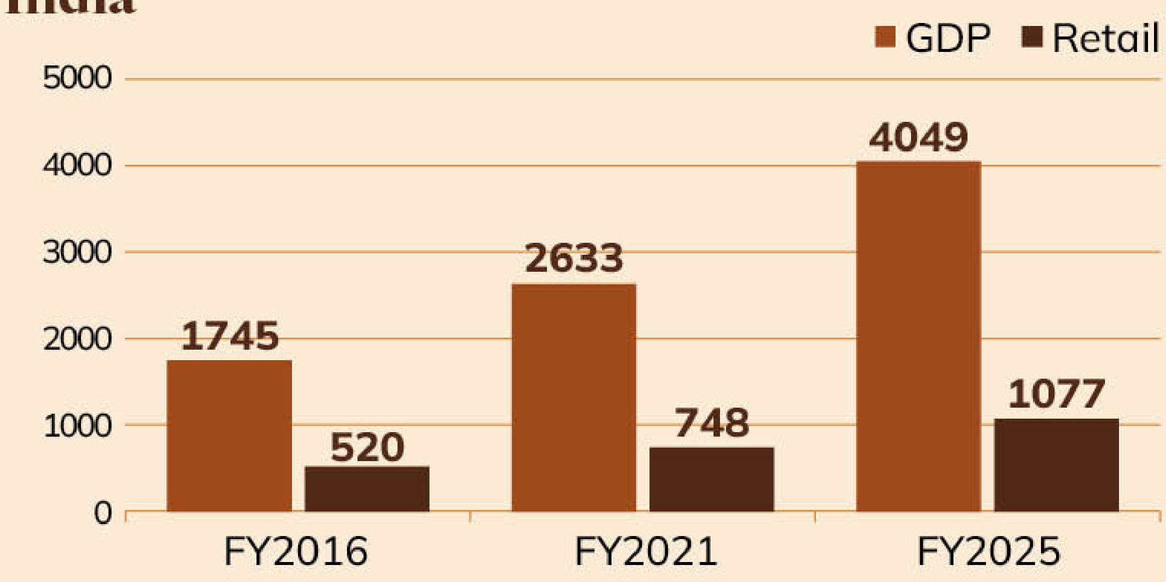
Retail sector forms a major chunk of about 60 percent of the consumption demand. Given India's consumption driven economy, India's retail sector's contribution to the GDP at 28 percent is higher than most developed economies such as the US, Germany, and the UK, while lagging only to China.

The retail sector is seeing an increased shift from the unorganised to the organised segment (including e-commerce) across consumption categories owing to the preference for brands as well as branded players enhancing their distribution reach. The share of organised retail is expected to increase from 12 percent in FY20 to 22 percent in FY25.

Country Wise GDP & Retail Contribution (USD billion)

		USA	China	Germany	UK
CY2015	GDP	18200	11000	3400	2900
	Retail	4900	3900	554	590
CY2020	GDP	20936	14722	3806	2707
	Retail	5506	5130	610	553
CY2024	GDP	21862	16983	4810	2781
	Retail	5581	5815	769	559

India



1USD - 75

Source: Technopak Analysis

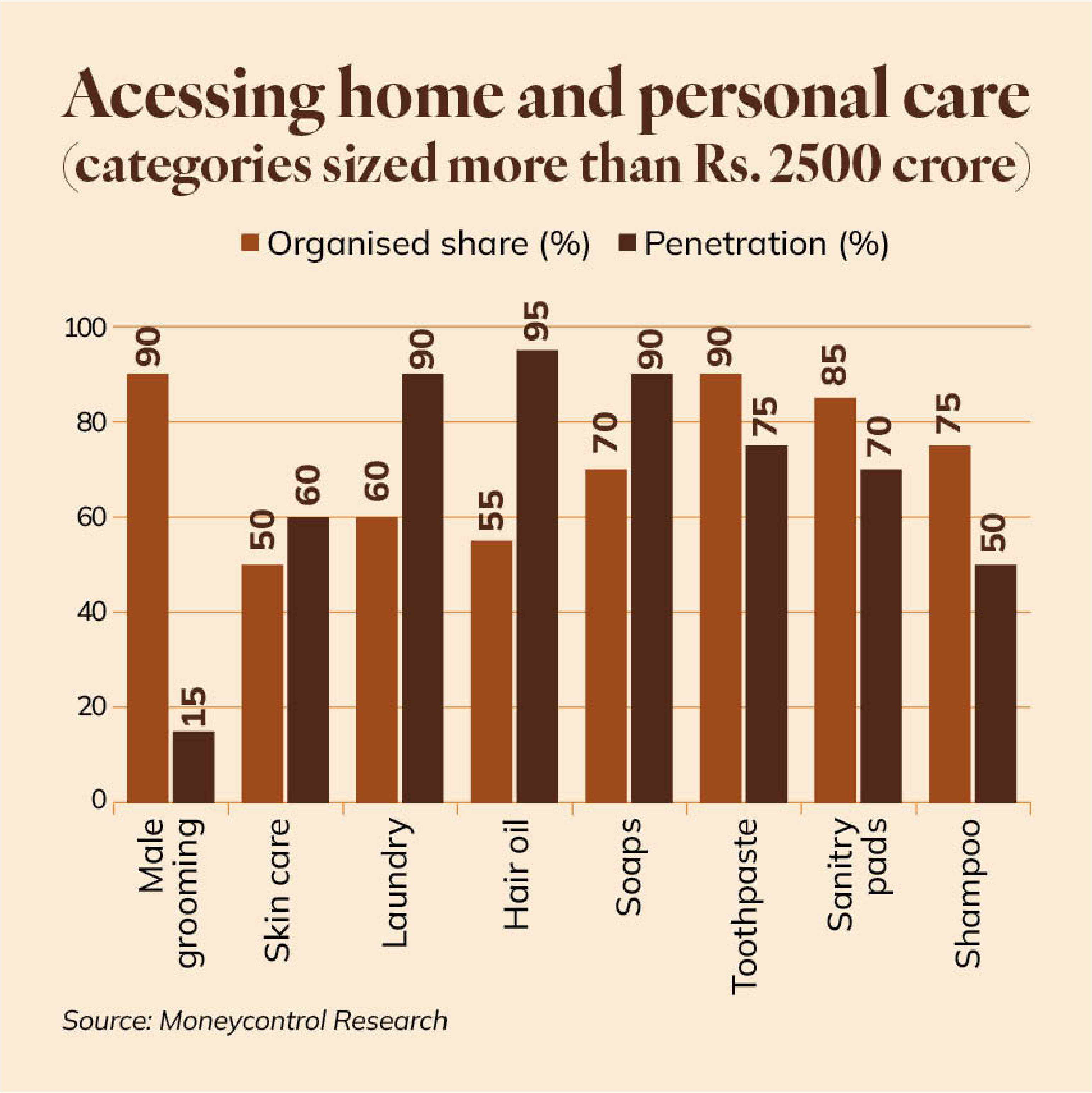
Share of Brick and Mortar and E-commerce across Categories

	Share of Retail	Organised market size (USD Billion)	Share of Retail	Organised market size (USD Billion)
Food and Grocery	66.10%	23.7	63.30%	61.3
Jewellery	7.50%	19.1	8.40%	36.4
Apparel and Accessories*	8.30%	21.1	9.3%	44.7
Footwear	1.20%	2.7	1.30%	5.3
Pharmacy and Wellness	2.90%	2.3	3.30%	7.1
Consumer Electronics	6.40%	16.3	7.10%	34.5
Home and Living	4.30%	5.1	4.40%	14.1
Others	3.30%	3.7	2.90%	6.9
Total	100%	94	100%	210

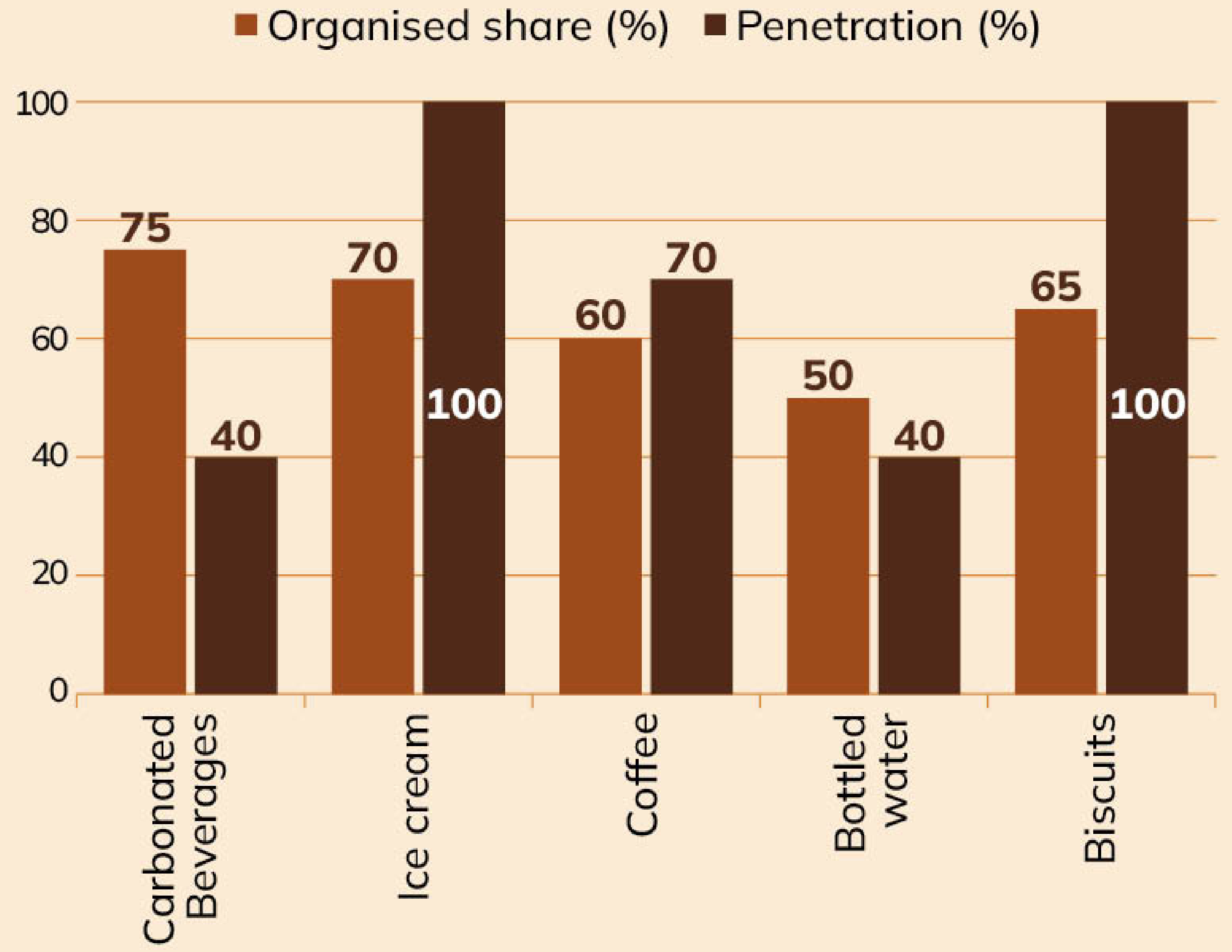
**Accessories include Bags, Belts, Wallets and Watches*
Source: Technopak Analysis, Note: 1US$ = rs 75

Staples (Fast Moving Consumer Goods)

- Market development efforts have been undertaken by larger players as in most of the categories market penetration is still below 20-30 percent.
- Premium FMCG products are likely to play a major role, thanks to the growth in incremental per capita income.
- Organised branded players are likely to gain market share compared to unorganised players, given the trust factor



Acessing Food and Beverages
(categories sized Rs. 5000 - 50000 crore)

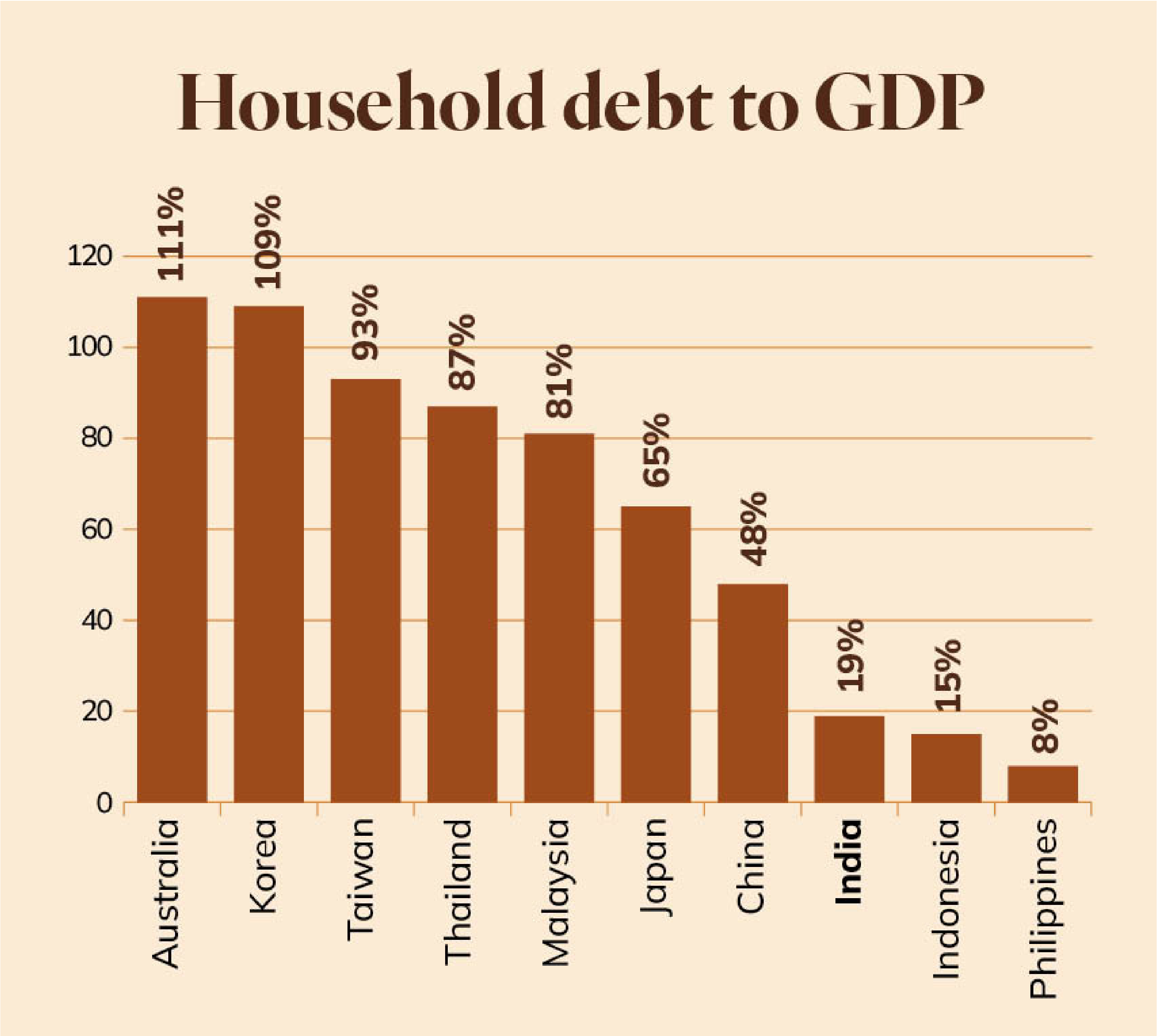


Source: Moneycontrol Research

WHY INDIA REMAINS A "BUY ON EVERY DIP" MARKET

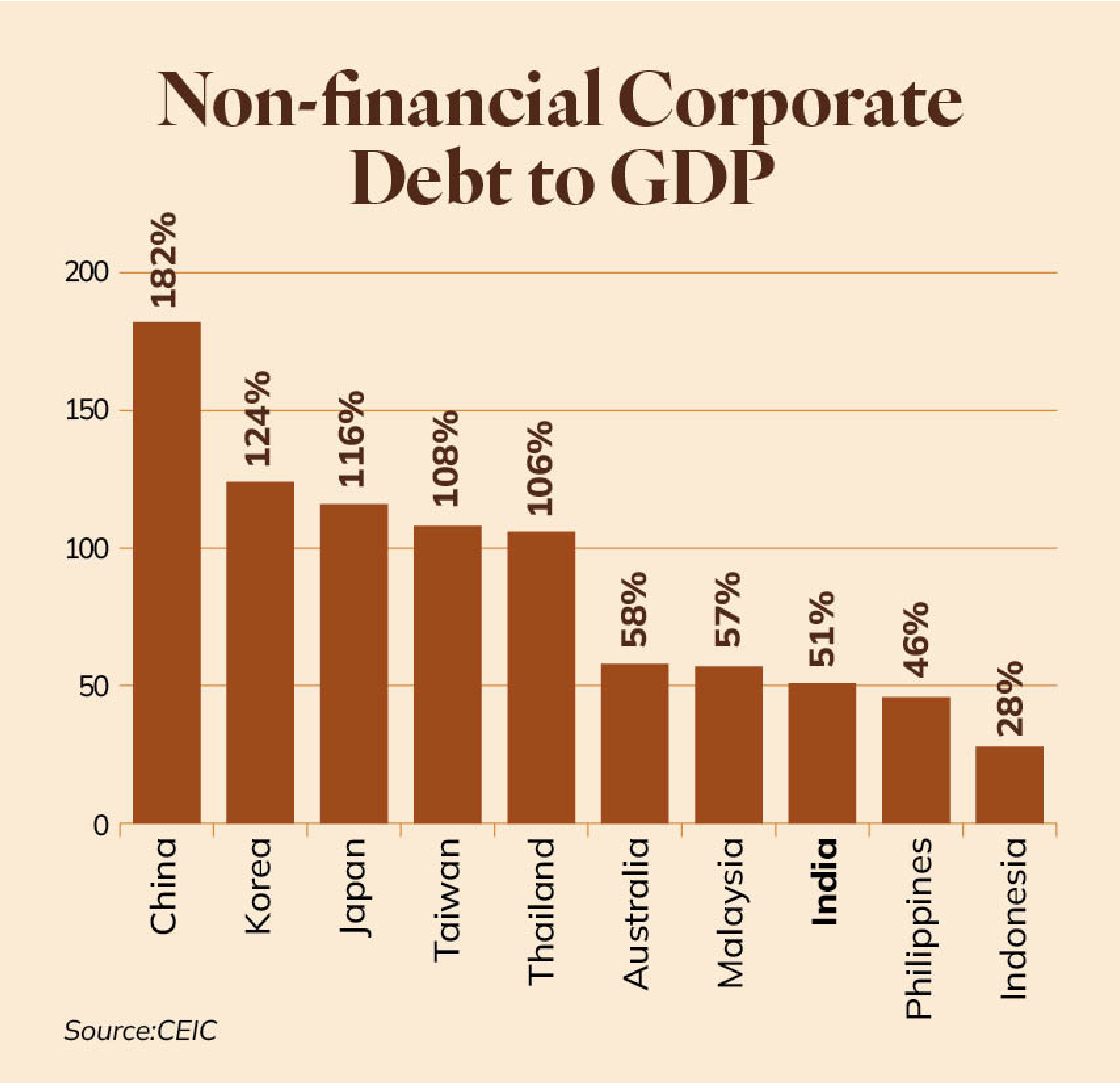
India's macro indicators are looking resilient in a world where most other emerging markets and the developed world are looking somewhat shaky. The earnings growth story in India is trending higher in a structural manner, supported by favourable demographics, improved labour productivity, and a multipolar world dynamics that will drive services exports and FDI. The structural reforms of the last few years are bearing fruit and unlocking growth opportunities.

Supply-side policy reforms — including corporate tax rate cuts and production-linked incentive schemes — started in 2019-20 and infrastructure progress is satisfactory. Regulation and formalisation of the economy have also come a long way with the introduction of the GST and increasing digitalisation. With a per capita GDP of $2500 — as against China's $12,700 — and positive demographic trends, India is arguably at the start of a long boom. According to many experts, India's future looks to a significant extent like China's past.

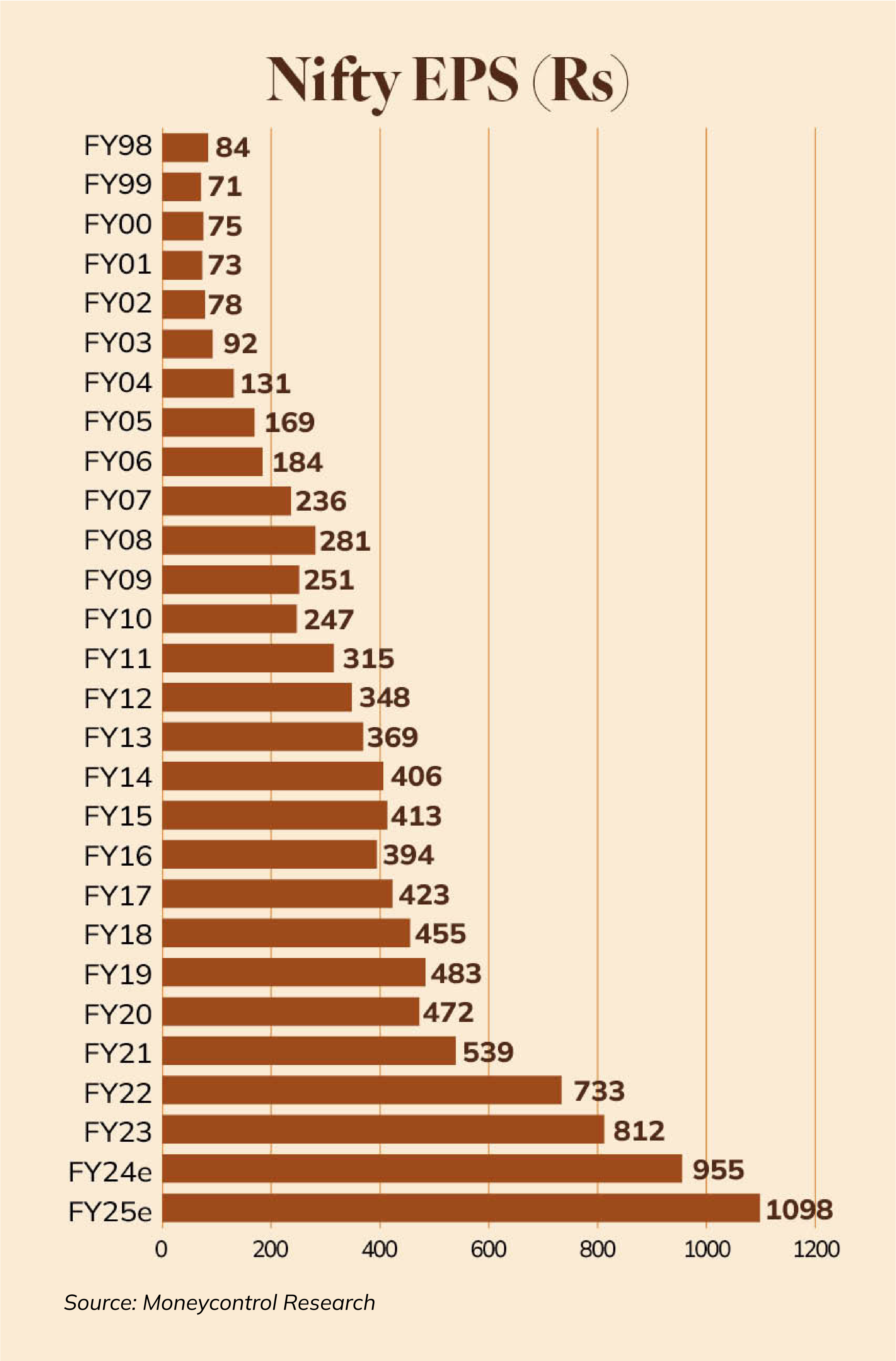


Source:CEIC

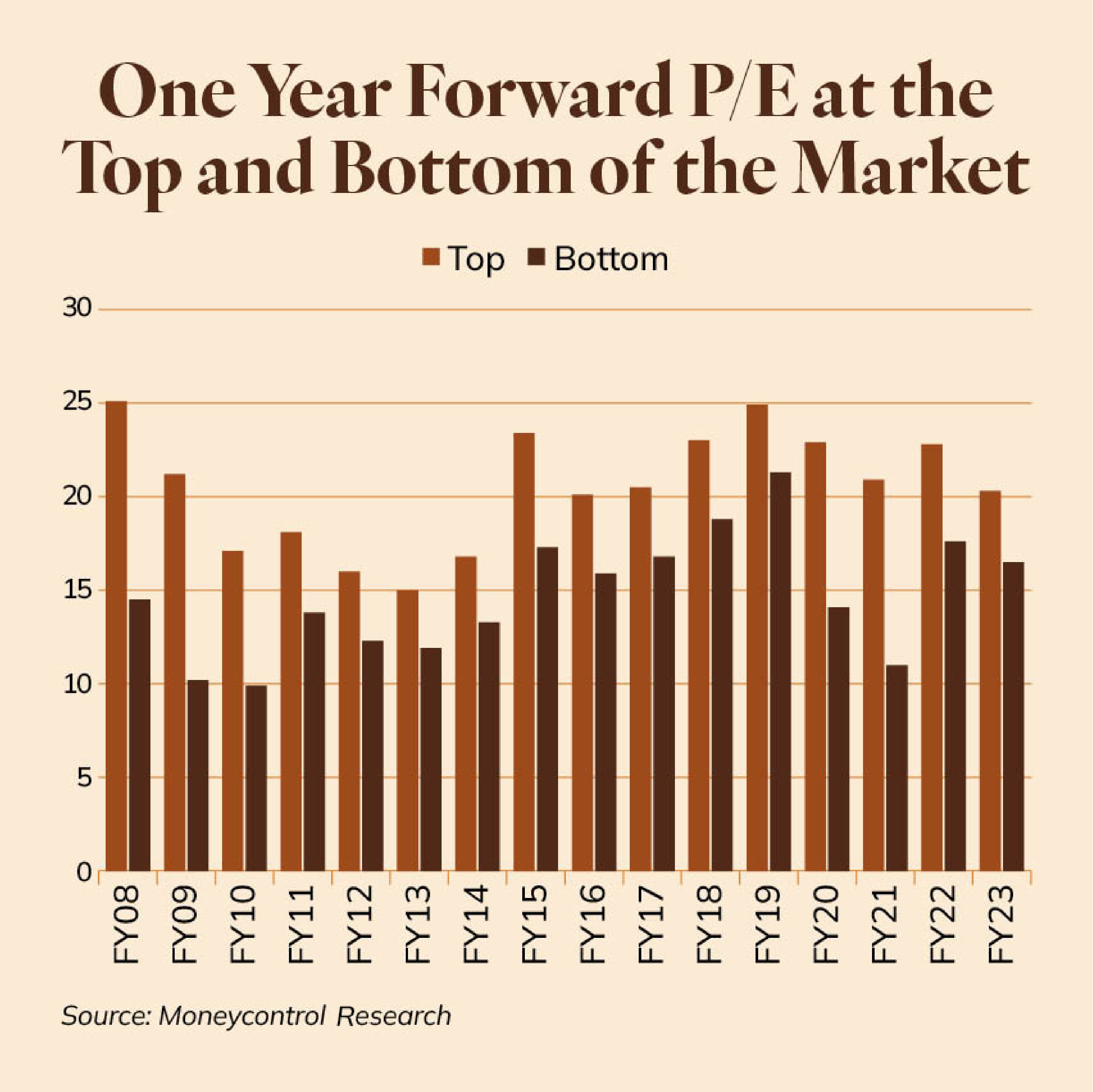
In spite of the boom in retail credit, India's household debt/GDP in India is just 19 percent against 48 percent for China and only 2 percent of Indian households have life insurance, thereby paving the way for a multi-year growth opportunity in the financial sector. Manufacturing and services PMIs have rallied consistently since the end of Covid restrictions and real estate transaction volumes and construction activity have picked up pace.



The formalisation of the economy is getting reflected in the earnings growth of Corporate India. Deleveraging and a shift to the organised sector post GST along with new vistas of growth emerging from supply-chain diversification, energy transition, etc., are structural tailwinds that would support double-digit earnings growth for the Indian markets. The CAGR in earnings that had fallen to a low of 5 percent between FY08-FY18 is expected to rise to the high-teens over the period of FY20-FY25e.



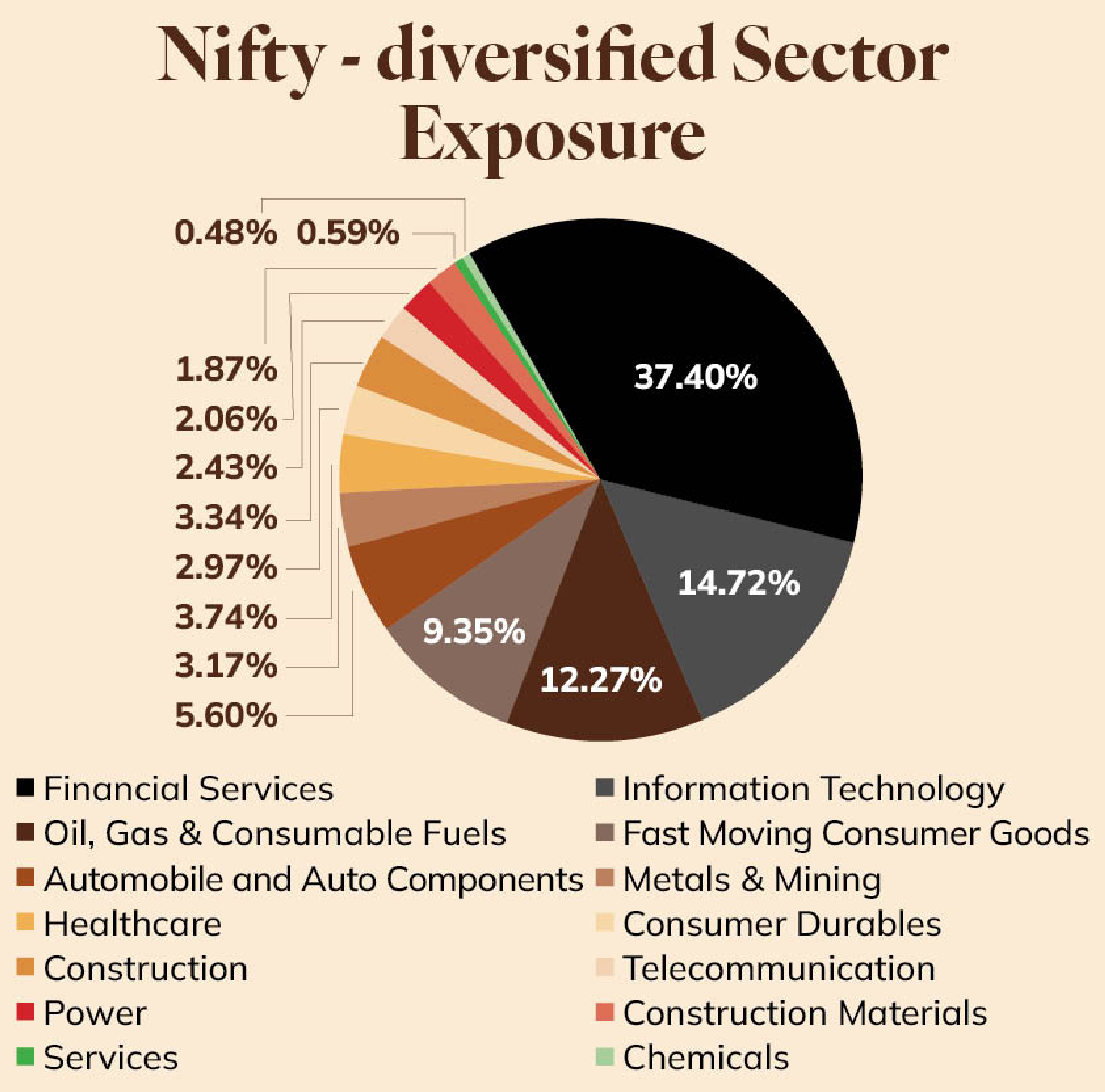
While the bull run in recent months has taken the valuation multiple to its median point, the earnings trajectory and liquidity support should ensure that it is a multi-year growth market with occasional dips. For Indian markets, the comfort is that while the rallies could be dictated by flows, they are anchored in strong fundamentals. Hence, every dip is an opportunity to go long.



We have reasons to believe that beyond earnings, which remain a critical anchor for market performance, there are several structural changes that will continue to support strong flows into Indian equities for many more years:

I. Unmatched diversification across sectors

For foreign institutional investors (FIIs), a key attraction is that the Indian market offers unmatched diversity in terms of sectors and companies, unlike most other emerging markets. Most competing emerging markets are commodity linked and extremely cyclical.

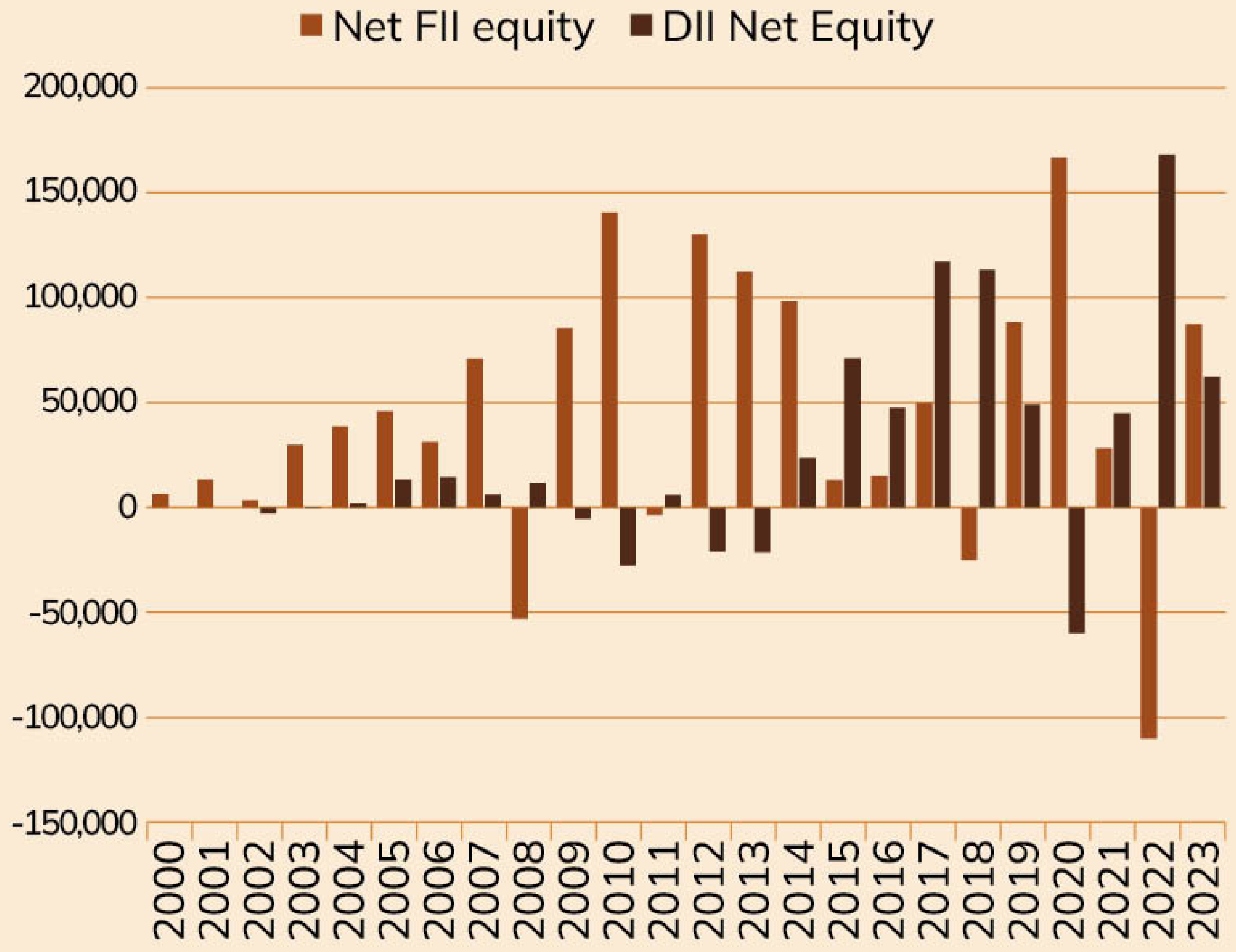


Source : NSE

II. Indian markets not at the sole mercy of foreign inflows

For long, the FIIs had swayed the Indian markets, as they were the biggest players with an almost insatiable appetite and an unending reservoir of cheap money. This gave them the power to move the market. But that is changing fast and the market's dependence on FII flows is waning as domestic liquidity is on the rise.

Rising Importance of Domestic Money (Net Inflows in Rs Crore)

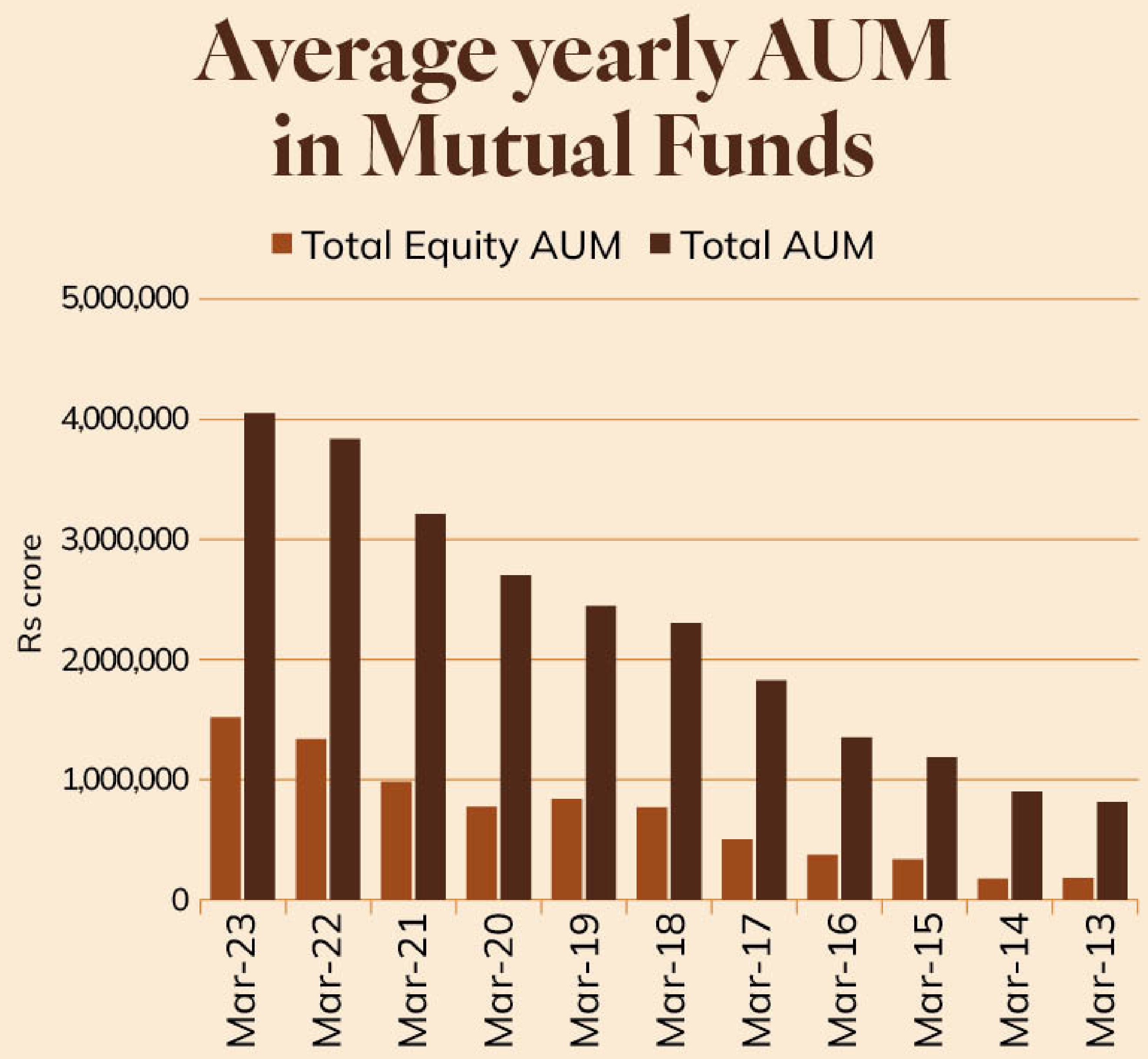


Source: Moneycontrol Research

The ownership of FPIs (Foreign Portfolio Investors) in Indian equities (NSE-listed companies) has been declining — from the peak share of 23.3 per cent in March 2015 to 20.6 per cent by end-March 2023 — as DII (domestic institutional investor) inflows have outpaced FPI inflows. The share of DIIs (including domestic mutual funds, insurance companies, and pension funds) in the market capitalisation of Indian equities increased further to 16.4 percent at end-March 2023 from 13.7 percent in March 2022.

III. Mutual Funds becoming a critical conduit to channel domestic savings to equities

The rise in domestic liquidity is best captured in the growth of assets of mutual funds. The MF industry's asset under management (AUM) grew more than five times over the past 10 years (as of March 2023). The AUM grew from Rs 7.01 lakh crore in March 2013 to Rs 39.42 lakh crore in March 2023.

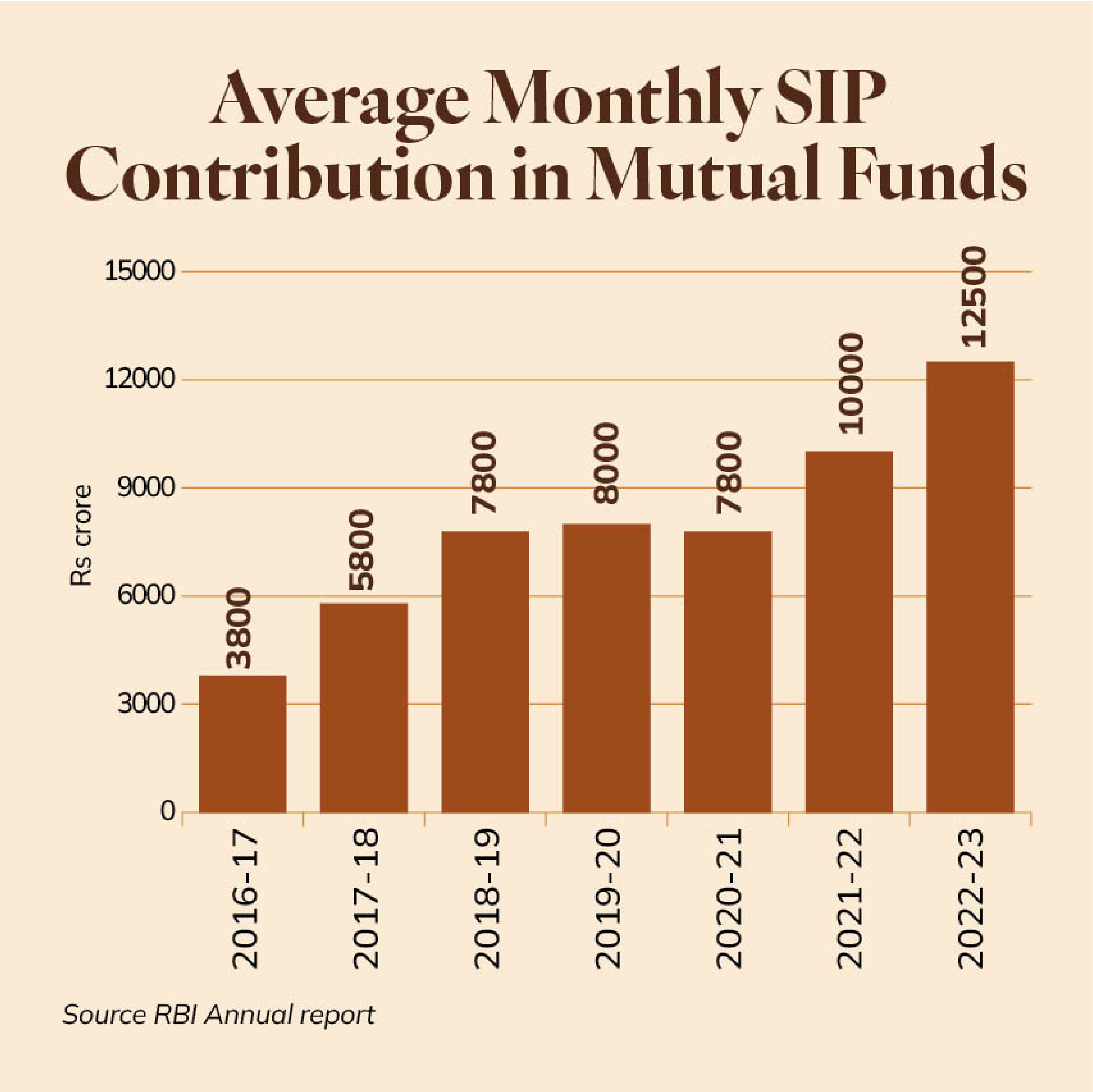


Note: Equity AUM includes ELSS but not hybrid, index funds, ETF or FOF.
Source : AmfiIndia

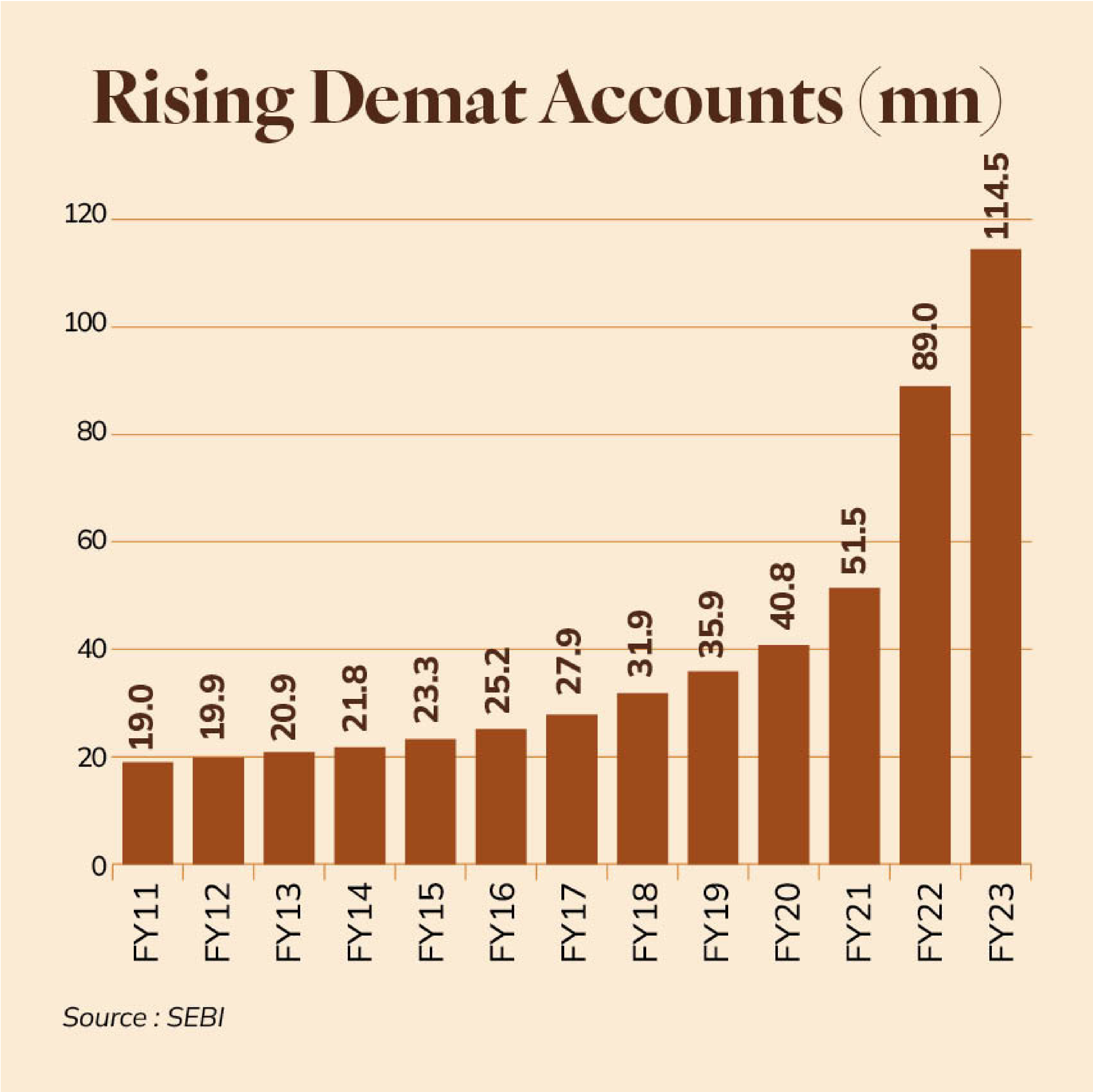
Individual investors, including high-net individuals (HNIs), held mutual funds worth Rs 23.27 lakh crore as of March 2023, or 59 percent of the total AUM.

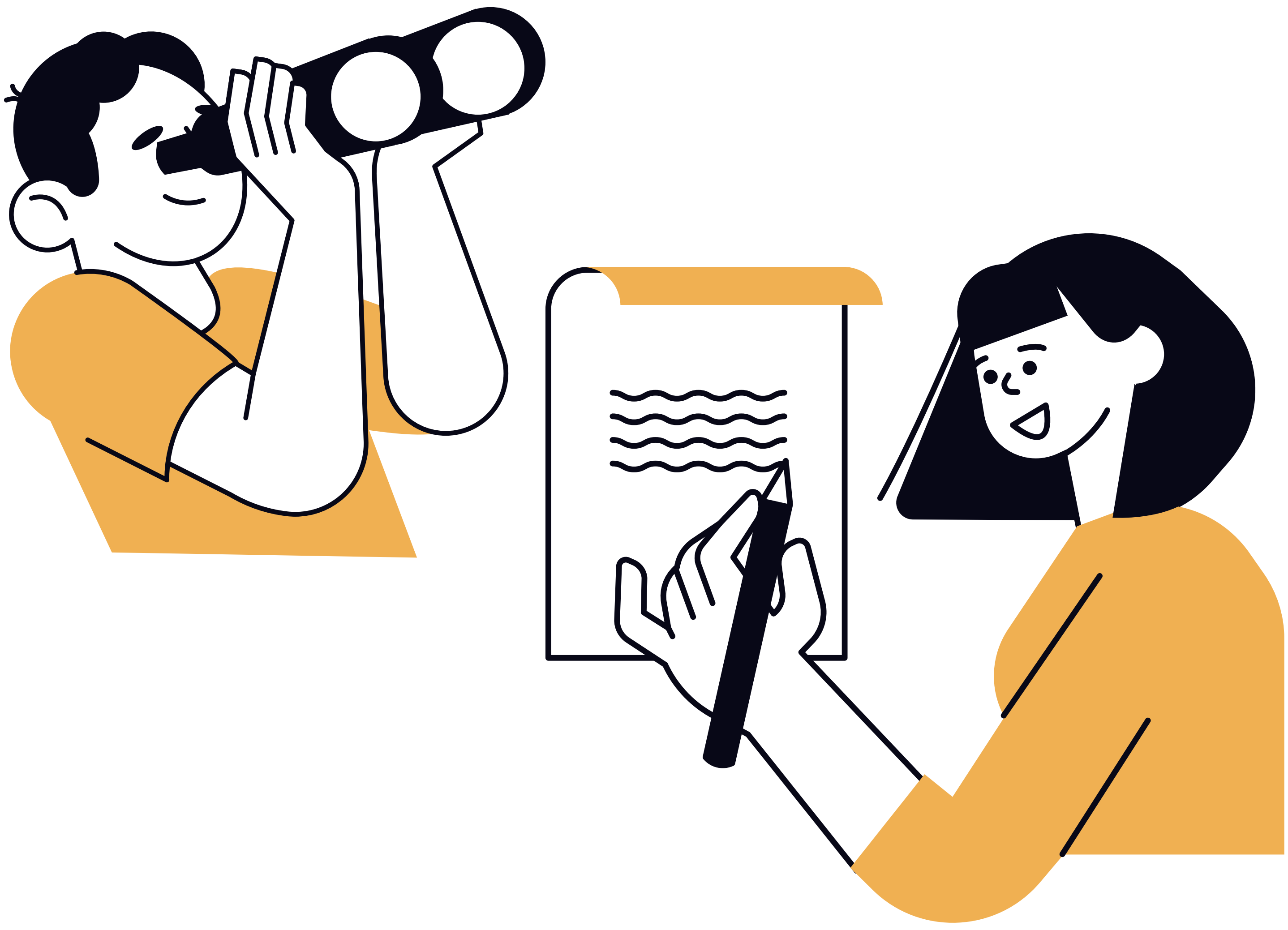
IV. Retail investors warming up to equities like never before

These are some fundamental changes in retail investors' approach to investing in mutual funds. They are now coming from all over the country, embracing regular investing, more so in equities, and are staying invested for long. This is reflected in the rising share of SIPs (systematic investment plans) that have been a major source of stable liquidity.



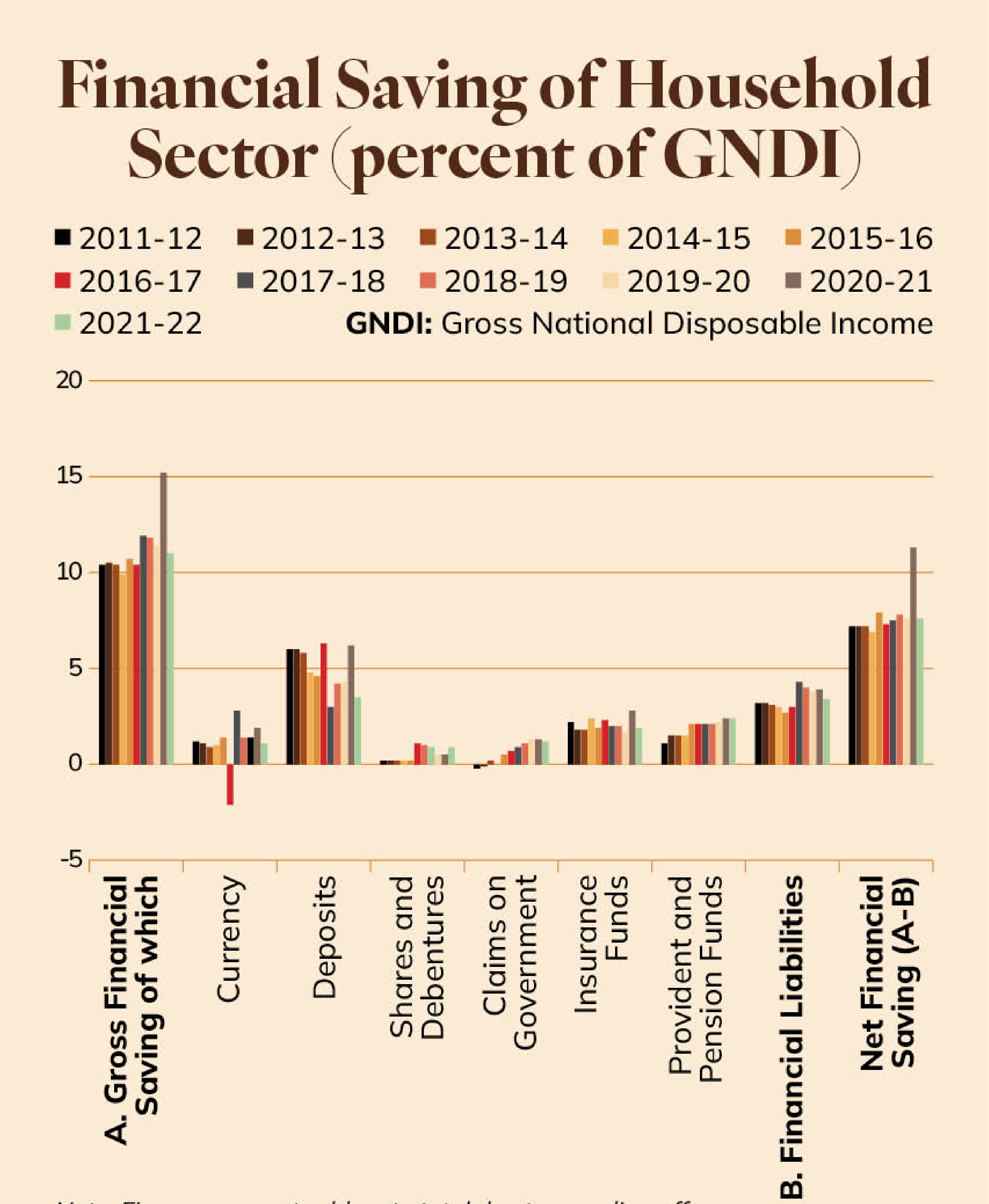
The rising interest of retail investors is also reflected in the growth of demat accounts, although there has been a slowdown since the rush seen during the pandemic.





V. Equities still a small percentage of household savings

However, despite the coming of age of retail investments in equities, macro level data suggests that equities still remain an under-penetrated category, offering enough headroom for growth.

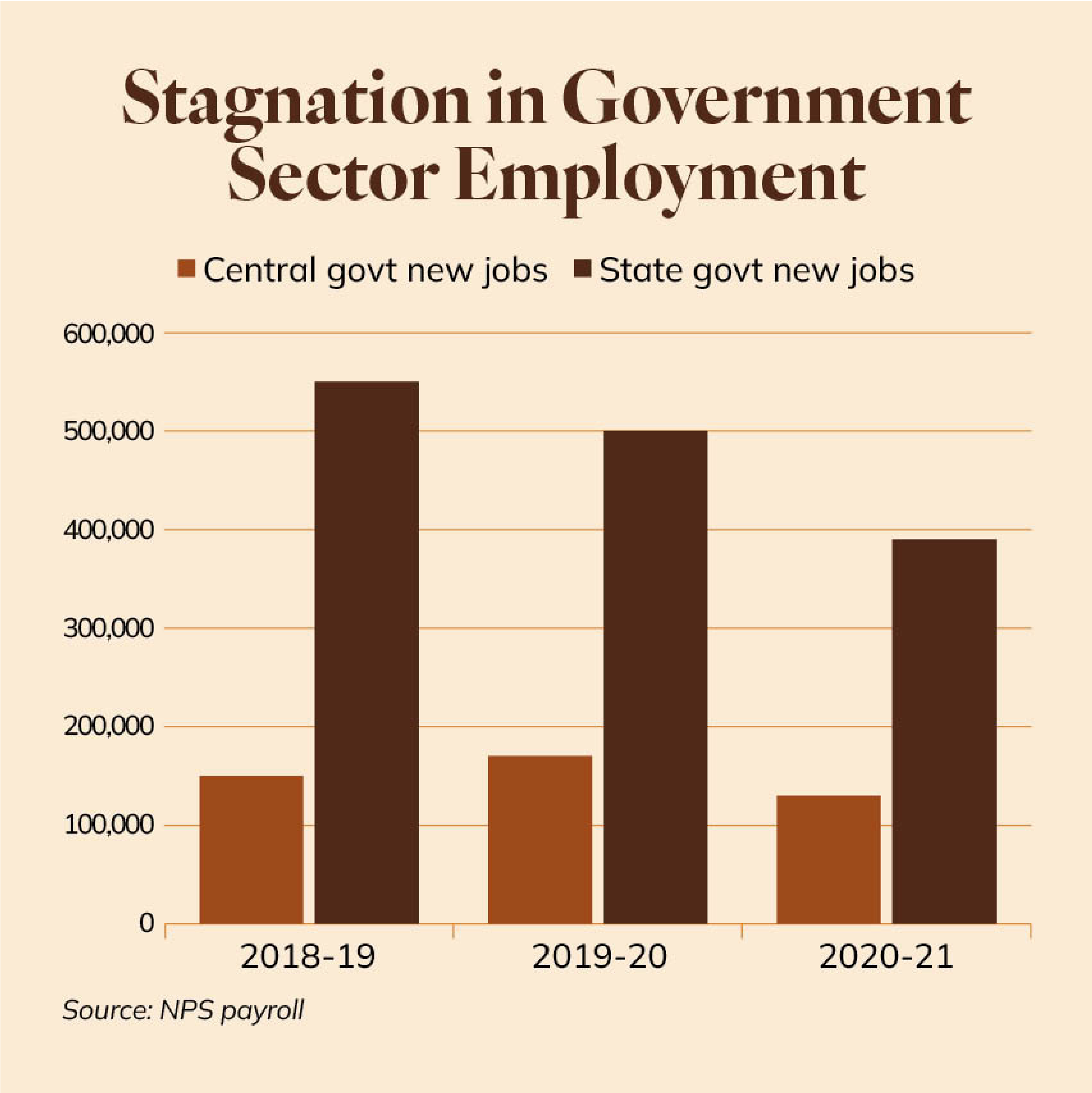


Note: Figures may not add up to total due to rounding off
Source: NSO

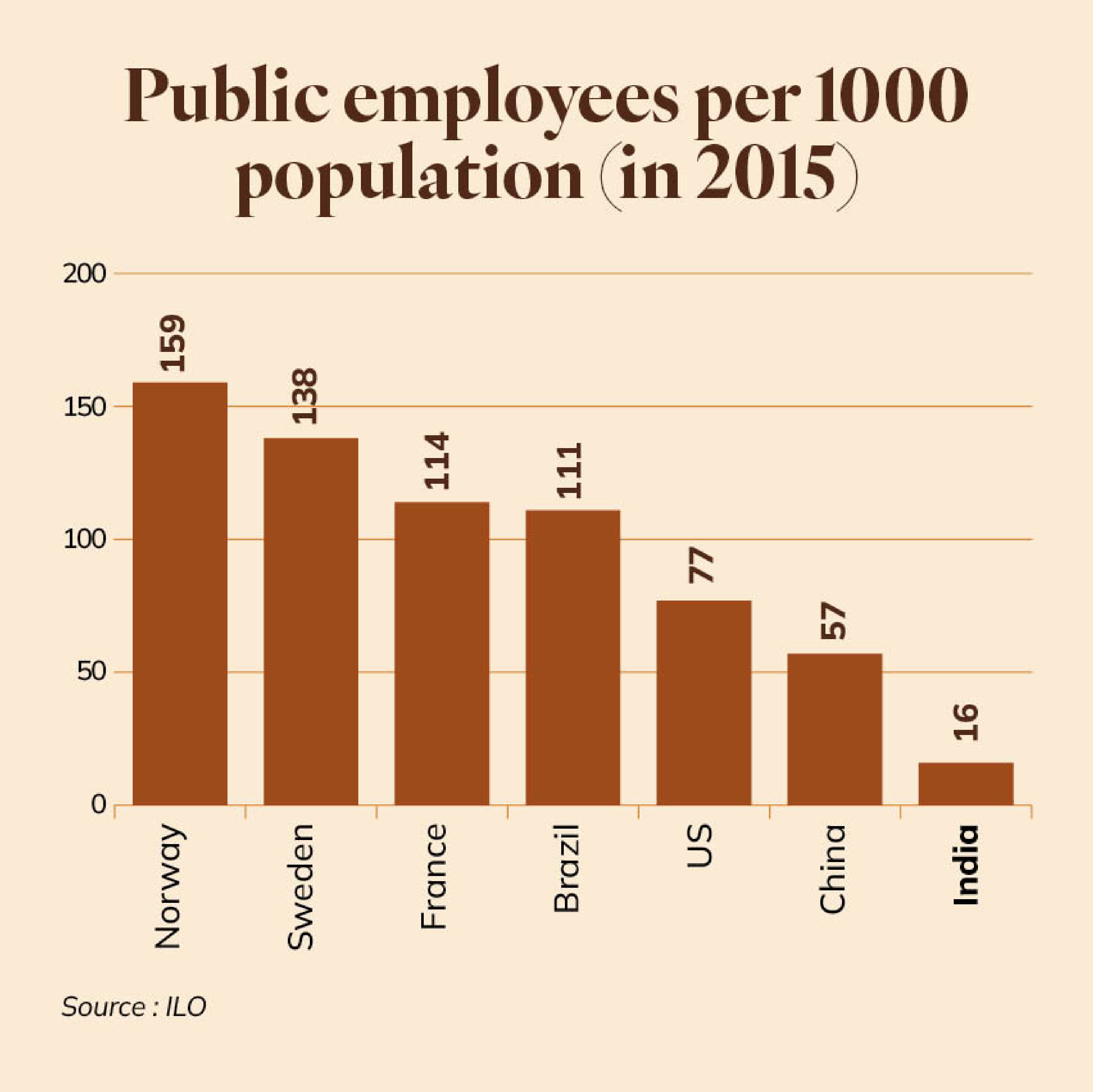
VI. An upcoming generation devoid of defined benefit pensions from employers, making it imperative to invest in an inflation beating asset class

It is not just the attractiveness of equity returns but also the need to channel savings into an inflation-beating asset class for people who do not have the luxury of a guaranteed pension from the employer/government which will keep domestic flows growing.

Available data suggests a stagnation in government sector employment and steady shrinking of the sector.



In fact, the size of the government sector employment in India is less than in most countries.



To conclude, India is fast capturing its place under the sun, but we have to remain mindful of challenges emanating from a large population, lack of enough employment opportunities, inability to provide quality healthcare/education to the masses, environmental challenges, disruptive technologies like generative AI and its impact on jobs, and last, but not the least, geopolitical conflicts, especially the tension across its several borders.