Ambit
Asset Management

INVESTOR COMPASS

DECEMBER 2021

INDIA AT US$10TN: ~~IF?~~ HOW?

In its eighth decade of independence, India, with its large digitally enabled middle class, is looking at an unprecedented economic growth.Over the past two decades, India's GDP has risen from ~US$0.5tn to US$2.9tn, thereby moving millions of its citizens into the middle class category. We believe that the ground work is in place for India to become a US$10tn economy over the next 10-15 years. Per capita income rising to ~US$6500 (assuming population of 155cr.) from ~US$2000 (assuming population of 138cr.) coupled with a 9% GDP growth rate would help secure India's needs to create 10-12m jobs every year. In this note, we set out to understand what sectors will help India achieve the US$10tn economy target, and subsequently benefit from the same.

1. Low composition and penetration of financial assets

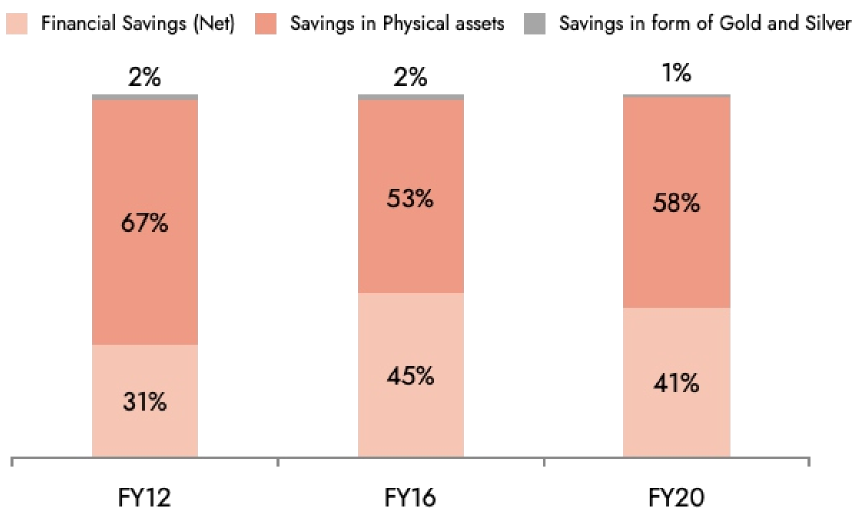
Financial services ecosystem plays a crucial role in the economic development of a country. India is significantly under penetrated across various financial services products such as Credit, Insurance, Wealth Management etc. **(Refer to Exhibit: 1)**, which provides huge opportunity for players to grow across various sub segments. Government's efforts to formalize the shadow economic activity by undertaking reforms such as – (1) increasing financial inclusion by opening no-frills JAN DHAN account (2) enactment of GST (3) Sector specific regulations like RERA, which in turn, have boosted financial inclusion. The increased share of higher yielding financial assets has changed the saving profile of the Indian households with movement seen from assets such as gold and real estate into the equity, debt and alternative assets.
This migration will lead to increased penetration and bode well for the companies in financial services like Insurance, Asset Management and Other Financial services.

Exhibit 1: Comparison of penetration across various Financial Products in economies that have touched US$10tn mark - huge scope for Indian companies in this space

	India	China	USA
Household Debt as % of GDP[1]	11%	55%	75%
Credit card penetration[2]	4%	53%	328%
Insurance premium as % of GDP[3]	3.8%	4.3%	11.4%
% of population participating in stock market[4]	3%	13%	55%
Retail mutual fund (AUM of % of GDP)[5]	16%	19%	145%

Note: 1. For 2019; 2. 2019, except for India (2012), average no of cards per 100 populations; 3.Includes Life and Non-Life Insurance; 4. 2020; 5. 2020E
Source: PAYTM DRHP, Ambit Asset Management

Exhibit 2: Breakdown of household savings in India



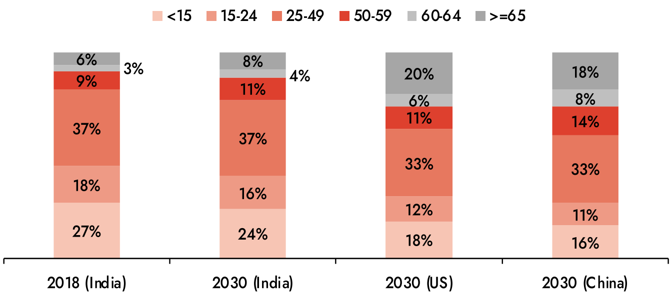
Source: Star Health DRHP, Ambit Asset Management

2. Rising Discretionary spending

As per the World Economic Forum, India's domestic consumption, which powers 60% of the GDP today, is expected to grow into a US$6tn opportunity by 2030. This consumption growth will be supported by a 1.4bn strong population that will be younger than that of any other major economy. Household savings have historically been high as cautious Indian families put away >20% of their incomes for a rainy day. This buffer provides support to domestic consumption expenditure even during economic down-turn.By 2030, ~80% of households will be in the middle-income cohort driving 75% of consumer spending. Population in the metros will spend on premiumization and new category adoptions which could drive the marginal spend on discretionary sectors **(Refer Exhibit 4.)**. The reduced information divide (due to Internet and smartphones) between urban and rural consumers could lead to additional spend of up-to 2x on essential categories and consumer durables items.

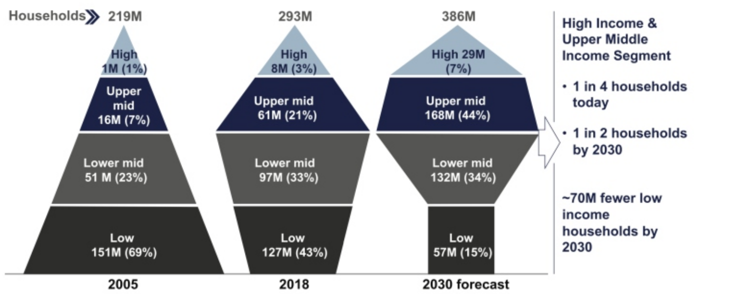
Companies in sectors like Consumer Discretionary / Durables, FMCG, Leisure and Travel & Hospitality could be the biggest beneficiaries of this consumption boom aided by changing income profile

Exhibit 3: Millennials and GenZ is expected to constitute 77% of India's populations, while demand for affordable housing will help drive the Construction and Building Materials sectors.



Source: World Economic Forum

Exhibit 4: The emergence of a sizable mid/high income segment will power India's discretionary consumption growth



Source: WEF 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;Projections with annual GDP growth assumed at 7.5%Source: PRICE Projections based on ICE 360o Surveys (2014, 2016, 2018)

3. Manufacturing the growth

India's focus on the manufacturing sector (through the PLI scheme + Make in India) will help the sector undergo significant shifts over the next 5-10 years. It has the potential to increase the manufacturing share in GVA. Additionally, the government's efforts in supporting SMEs by expanding the manufacturing sector, localizing of manufacturing ecosystems by encouraging global firms to set shops in the country, and reducing the dependency on exports will ensure the small and mid-sized companies could be relative winners. The benefits in terms of increased share in manufacturing will only be visible gradually. It will also play an important role in generating employment opportunities in order to absorb the massive addition of working-age population over the years. Supply side disruptions have resulted in companies looking for other alternatives to sourcing along with China and adopting a China+1 policy. Indian companies have also started to de-risk themselves from China. This opens significant growth opportunities for Indian SME's.

Sectors such as Auto, Pharmaceutical, Speciality Chemicals, Green Energy, Textiles, and Food Processing are expected to reduce India's dependence on imports and help become self-sufficient for future needs.

Exhibit 5: Relative positioning of sectors under PLI scheme - some are better positioned than others to take advantage of the scheme

	Particulars	Auto/Auto components	Mobile phones/parts	Pharma	Advanced Chemistry Cells	Telecom Infrastructure	Food processing	Techinal Textiles/MMF	ACs	Solar PVs
Competitiveness	Capability and talent	◕	◕	◕	◔	◑	◕	◕	◕	◔
	Cost competitiveness	◕	◑	◕	◑	◑	●	◑	◑	◑
Market size	Domestic market size	◕	●	●	◕	◑	●	●	◕	◕
	Export opportunity	◕	●	●	◕	◕	●	●	◕	◕
	Import independence	◕	◑	◑	◔	◑	●	◑	◑	◔
Enabling factors	States' support	◕	◕	◕	◑	◑	◕	◑	◑	◕
	Taxes and trade	◑	◕	◑	◑	◑	◑	◑	◕	◕

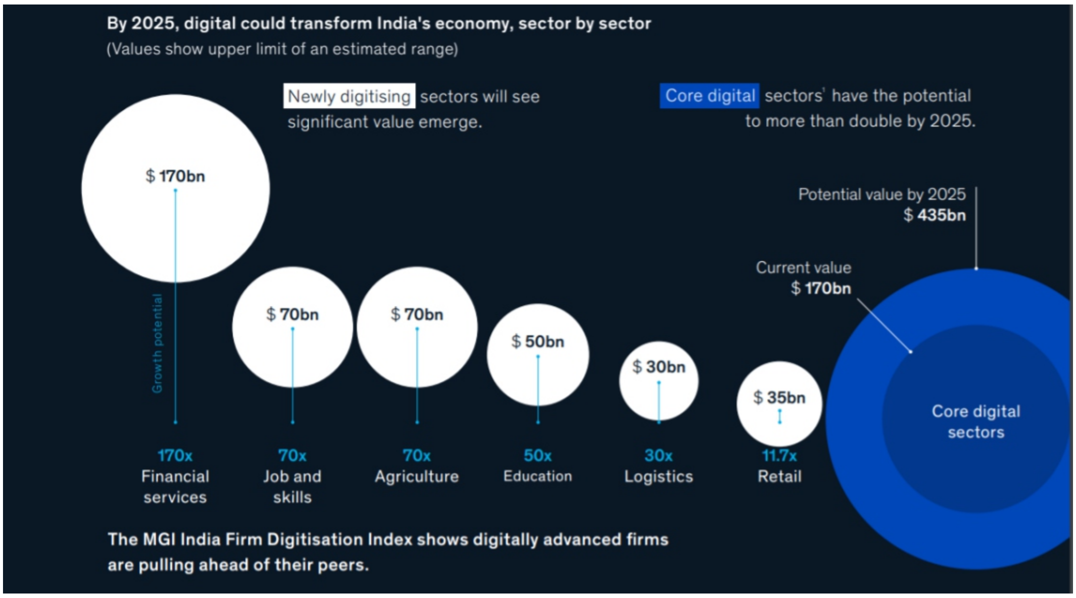
Note: ● to ◑ indicates decreasing advantage

4. New age economy!

The lockdown in 2020 demonstrated the need to break the old models of economic growth and development by injecting technology-led innovation into the next phase of growth. With the aim of enhancing digital literacy and infrastructure, the next phase of India's prosperity will be driven by digitalisation with next-gen technologies. Digitalisation has become a key prerequisite for the Government's flagship programs - such as 'Make in India,' 'Start-up India,' and 'Skill India' – by emphasising on deploying digital tools in the priority sectors of healthcare, education, financial services, agriculture, and transportation. Attaining the US$10tn economy over the next 10-15 years will depend on India's adoption of technology in all sectors and transformation into a digital economy.Technology will thus help create new business models to serve India's unique needs and preferences.

Online service aggregators, subscription models and Ed-tech and Health-tech services for well-being will be the business models of the future in India.

Exhibit 6: Digital Transformation opportunities across each sector is expected to grow multi-fold

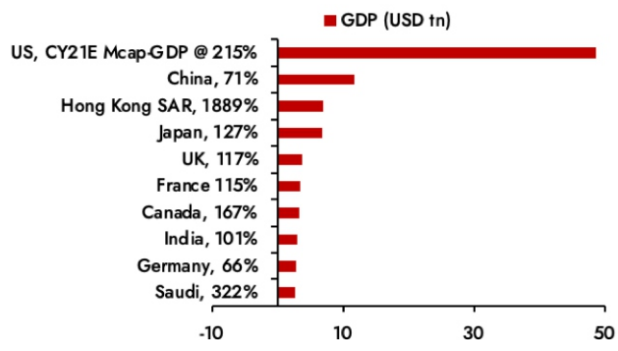


Source: Mckinsey Co.

Small to Big!

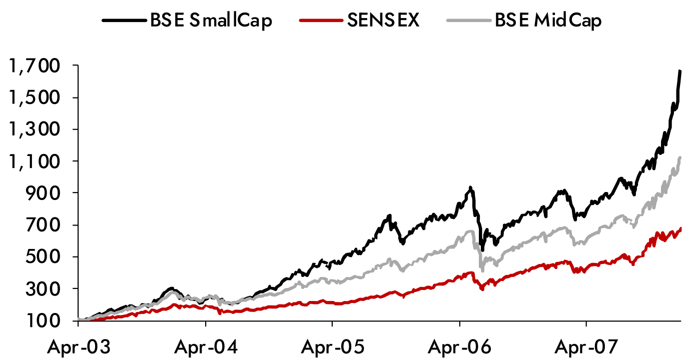
The journey to US$10tn mark for the Indian economy will generate humongous opportunities for companies across sectors that have positioned themselves well and invested ahead of the curve. This will be supported by K-Shaped growth with segmental leaders gaining market share at the expense of smaller, unorganized players.The M.Cap of the listed universe will benefit from the resultant growth plus M.Cap-GDP expansion of India **(Refer to Exhibit: 7).** Moreover, among this listed universe, Small / Mid Cap companies within sectors like Financials, Consumer Discretionary and Manufacturing (biggest beneficiaries of the T10 journey) that (1) Operate in an identified niche of their, (2) are relatively less discovered by investors, (3) expected to be beneficiary of K-Shaped ,and (4) are at a small base relative to size will benefit the most. This trend was witnessed in the 2003-07 bull cycle **(Refer to Exhibit: 8).**

Exhibit 7: MCap and MCap-to-GDP of the biggest economies in the world – India amongst the 3rd lowest



Source: CMIE, IMF. Data as on 30th September, 2021

Exhibit 8: Mid / Small Cap generated 1.6x/2.5x better return than Sensex (large cap) during the 2003-2007 rally



Source:Bloomberg

One needs to identify companies that can be a beneficiary of India's T10 journey and grow their earnings by 10x over the next 10-15 years as India heads towards the US$10tn mark. The opportunity (subsequent returns) is too sweet to miss! (Refer to Exhibit: 9, 10)

Exhibit 9: % of companies that shifted from one market capitalization bucket to another

% shift from one category to another		FY10			
		1-100	101-250	251-500	501-1000
FY20	1-100	53%	15%	3%	
	101-250	28%	24%	12%	3%
	251-500	6%	23%	32%	10%
	501-1000	8%	20%	23%	34%
	Exclusion	5%	18%	30%	53%

Exhibit 10: Stock returns of companies that moved up the market cap. bucket were disproportionately high

Avg. Performance CAGR %		FY10			
		1-100	101-250	251-500	501-1000
FY20	1-100	6%	21%	34%	
	101-250	-6%	9%	21%	37%
	251-500	-20%	-34%	6%	22%
	501-1000	-32%	-18%	-9%	5%

Source: Ambit Asset Management Note: We analyzed the MCap movement of Top1000 listed companies from FY10 to FY20 and ranked them as per there MCap in FY10 into 4 buckets. We repeated this for FY20 and analyzed the movements across buckets and the subsequent returns generated by them over the 10 year period

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