



Aiding Australian Investors to Turbo-Charge Portfolios with Indian Investment Opportunities

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India is at the phase of a massive growth influx, with rapid transformation, rising reforms, increasing innovations, and a huge and eager market. In this insights, we will see how it ties together different aspects of its vast market, beckoning investors to cash in on the growth potential.

Economic outlook

India's economic fundamentals are strong, and its dominance amidst the growing emerging markets stands a testimony to this (See McKinsey's table). Being the fastest growing economy in the world, with third largest purchasing power parity, along with increasing urbanisation, the country's growth story is picking up steam for all right reasons.





¹ Composite index (political, financial, and macroeconomic).

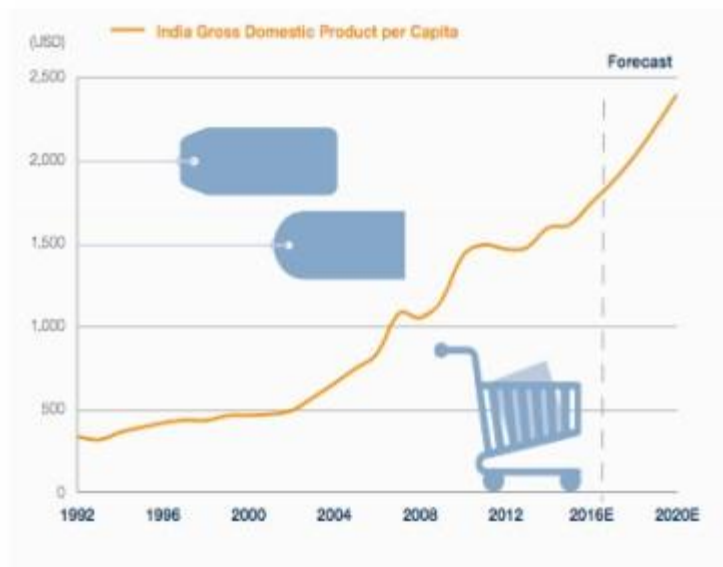
Source: The Economist Intelligence Unit; IHS; McKinsey Global Institute analysis

Let's look at some of the drivers of Growth

- Called as subcontinent due to its vast and distinct geography, India plays its population to its strength with its working age population to touch 1 billion by 2030, and the demographics dividend drives strong consumption led growth. The chart below depicts this rising consumption trajectory, and the age advantage.

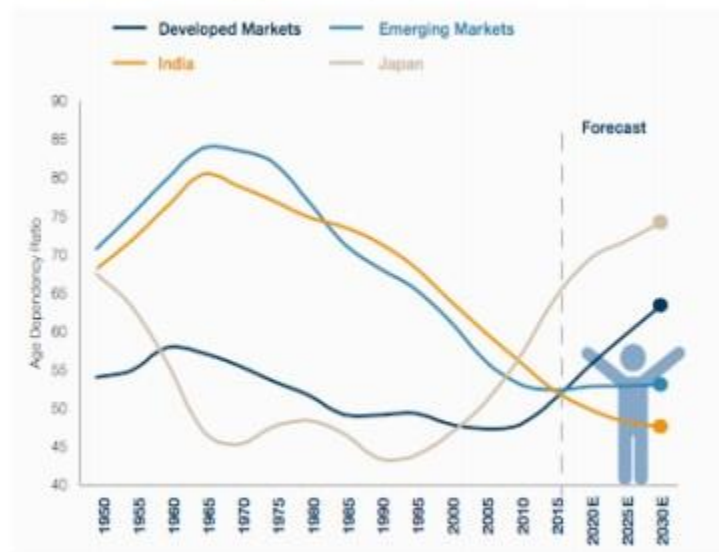


Burgeoning Consumption



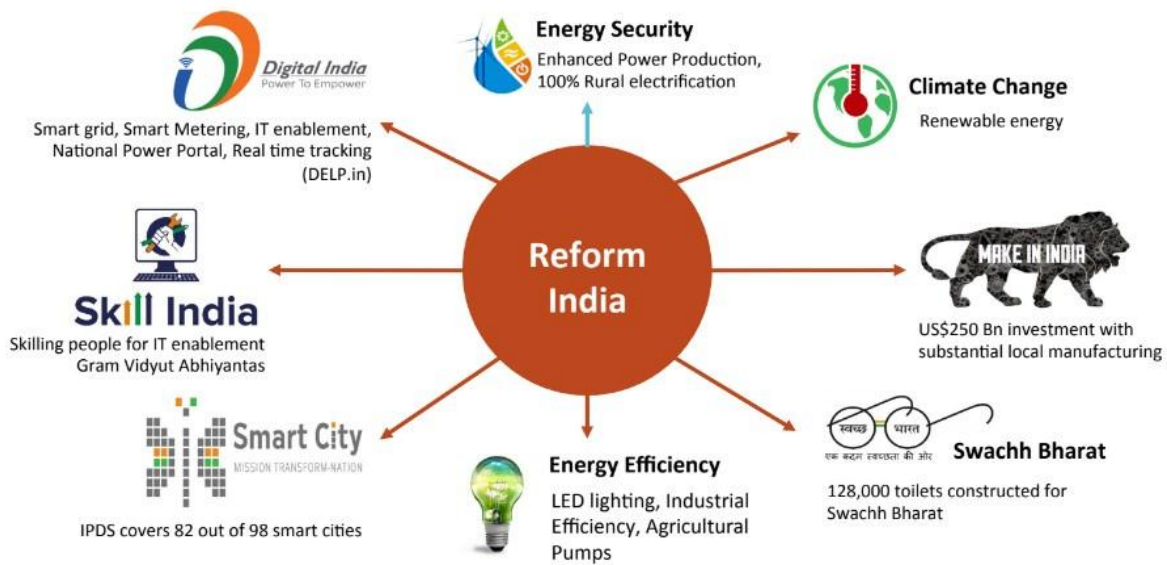
Source: International Monetary Fund, World Economic Outlook Database (April 2016)

Positively Young Demographics



Source: UN, Department of Social Economic and Social Affairs, World Population Prospects, Mirae Asset Global Investments (2017)

- The new government on chair is leading the reforms momentum with long term structural reforms and building world class infrastructure. This has led the nation to tap into diverse skill sets in diverse domains, creating newer markets and employment opportunities:



- The rapid digitisation and integrated markets has enabled anytime and anywhere access, coupled with the increasing ease of doing business & lowering avenues for corruption

Improved Ease of Doing Business



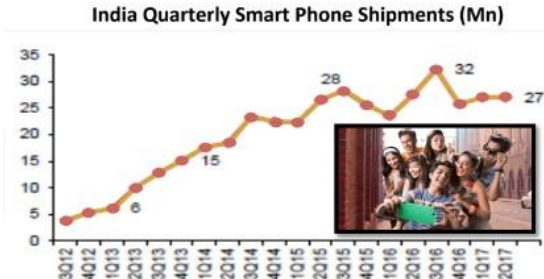
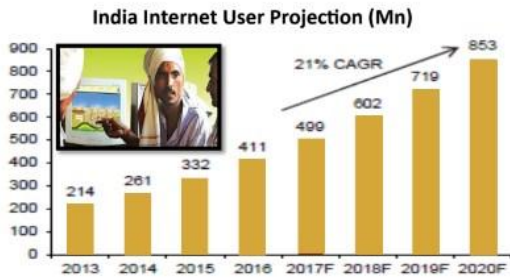
Source: World Bank Doing Business Report, Mirae Asset Global Investments (November 2016)

Lower Current Account Deficit & Higher FDI

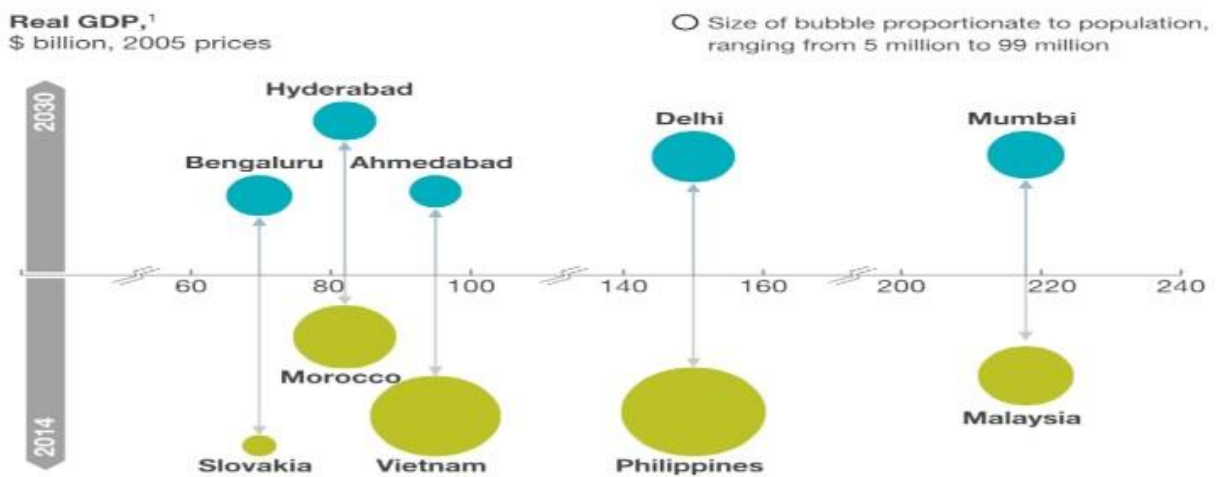


Source: CLSA, RBI, CME, Mirae Asset Global Investments (January 2017)

- As per the economic survey of 2016, India saw 19,000 startups in the technology-enabled sector alone, and this kind of strong entrepreneurial culture has been creating disruptive new businesses, stirring interests from all quarters.
- A much sought after knowledge driven economy, it is leaving a global footprint in technology, healthcare and related exports.



As we even saw earlier, the geographic depth and breadth of this country brims with advantageous potential that Mckinsey estimates by 2030, India's top 5 cities will be comparable to middle-income countries of today:



¹Top 5 cities, based on 2030 GDP values.

McKinsey&Company | Source: World Bank; McKinsey Global Institute analysis

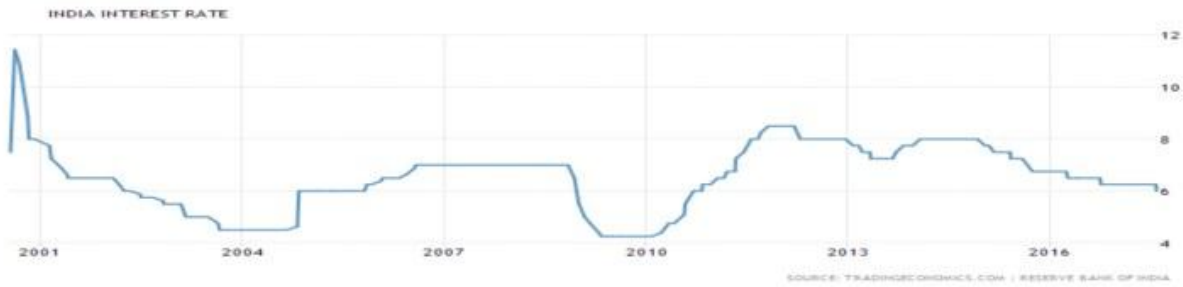
Macro indicators:

With a dynamic and well-governed financial system, India's financial position has been improving over the years, and the reducing deficit and improving GDP also reflects the consumer and investor confidence in the state of affairs.

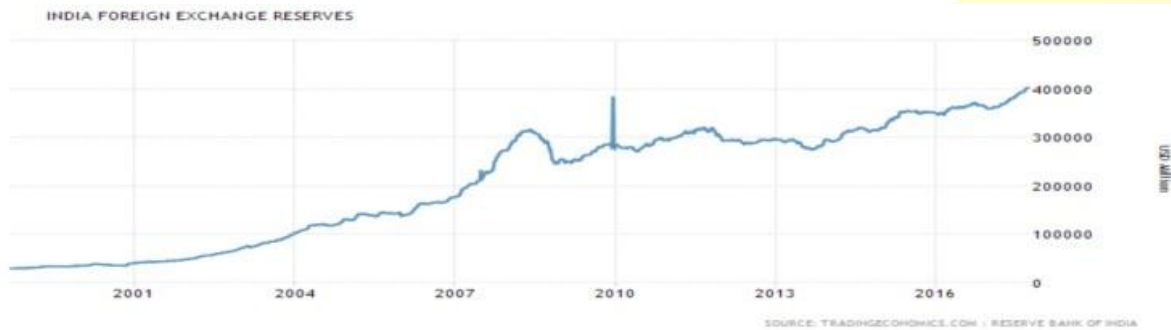
Macro indicators showing improving trajectory



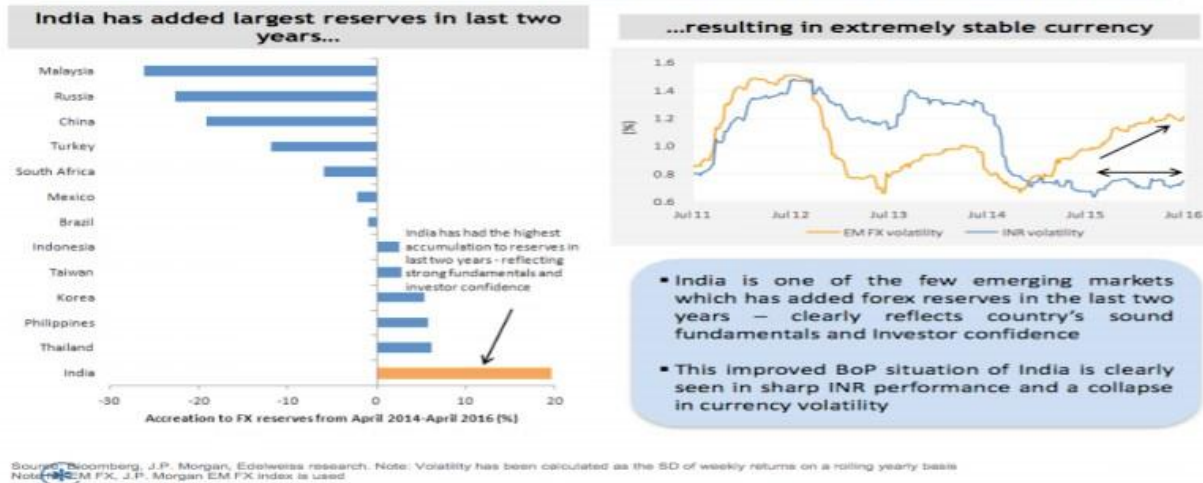
When we look at the Interest Rates in India, for instance, it averages at 6.68% from 2000 until 2017, with an all-time high of 14.50% in August of 2000, which is now set steady at a 7-year low of 6%.



Likewise, India's foreign exchange reserves stood at an all time high of 402,510 USD Million in September 2017.



One Among Few Other EMs to have Added Forex Reserves in the Last Two Years

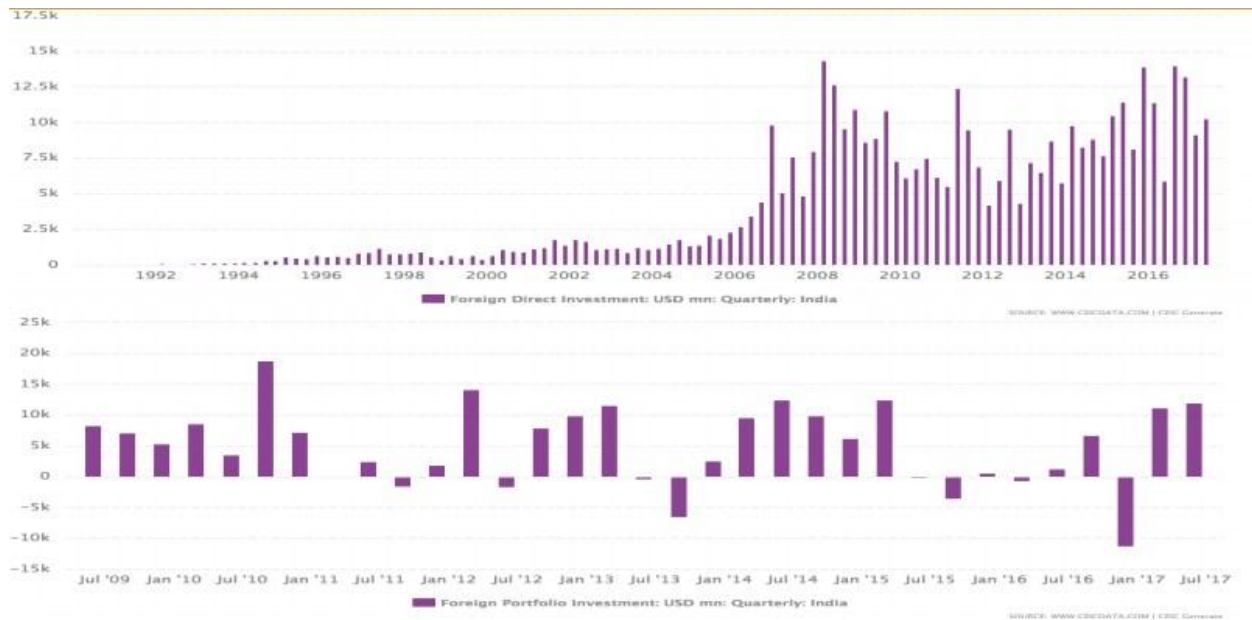


While the recent GST and demonetisation reforms has given rise to minor halts and slower growth figures, it has thrown light to the fact that people are still acclimatizing to the changing business landscape. For instance, the Indian economy expanded 5.7% YoY in the second quarter of 2017, below 6.1% in the previous period and market expectations of 6.6%. It remains the weakest growth rate since the first quarter of 2014 due to a slowdown in consumer spending and exports.

Despite this collateral slump, India's centralised system for a single market, along with the ease of doing business, lowering corruption, digitisation, better regulation, etc., will play a key role in fueling this growth story, as India works on transforming these bumps into major milestones for its vision ahead. Infact, the landslide victory by the current ruling party has been a precursor to this overall citizen sentiment of building a better India.

For instance, the new reforms have bettered the Foreign Direct Investment inflows reaching an all time high of 8579 USD Million in Aug'17.





Opportunities & Risks:

The subcontinent offers a secular cum unparalleled opportunity for brave and long term investors in both public and private sectors, be it equities, bonds or real assets.

Equity:

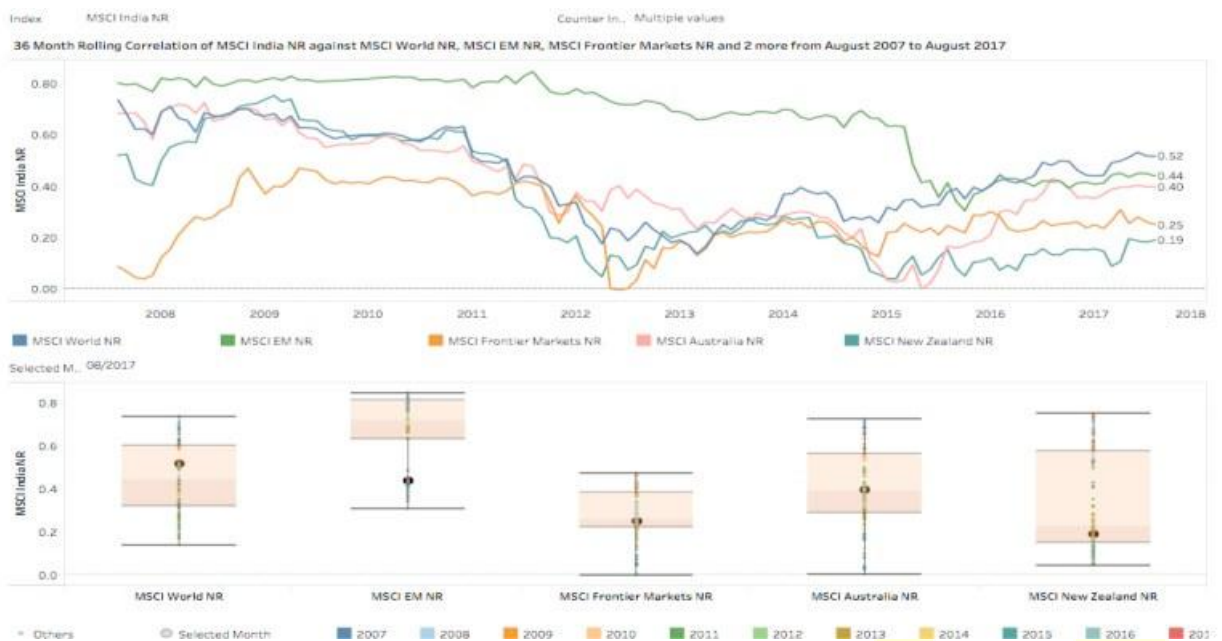
If we take the BRICs for instance, India's equity performance has been growing strong over the years (see image below):





[Note: The equity shares in India are traded through two stock exchanges - National Stock Exchange of India (NSE) and Bombay Stock Exchange (BSE).]

Though India's equity market is underrepresented, MSCI India Earning Per Share (EPS) growth has been on the rise, offering diversification benefits to its investors, with stable Earnings growth rate of 4.49% and ROE of 5.61%



Real Estate:

Real Estate is one of the booming sectors in India, more so due to urbanisation, and rise of the Indian middle class.

With still an enormous potential in its wing, this boom will continue to peak due to rise in services sector as well as housing shortage, which are driving further demand for residential property. Likewise Serviced apartments appear particularly attractive within the hospitality space, and at the corporate end, the office space absorption across top 8 cities alone amounted to 34 mn sq feet in 2016, with Bengaluru topping the highest net absorption. This trend is only expected to rise further.

The real estate market is expected to touch US\$ 180 billion by 2020, contributing 5-6% to the National GDP. Infact, as the largest employer after agriculture in India, property sector is expected to grow at a rate of 30% over the next decade. Here is an image that looks at some key points:

Real Estate – A Significant Sector...



Bond:

The debt market in India comprises broadly two segments, viz., government securities market and corporate debt market.

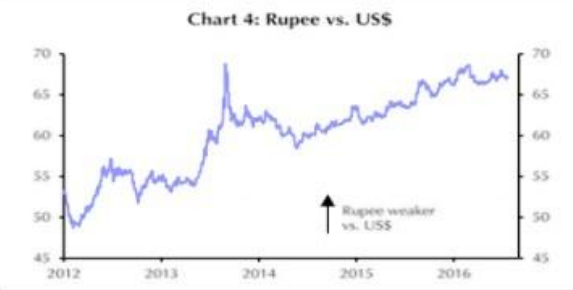
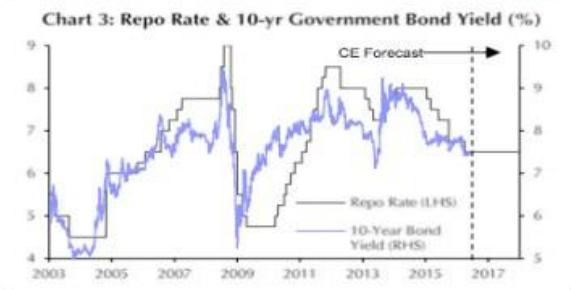
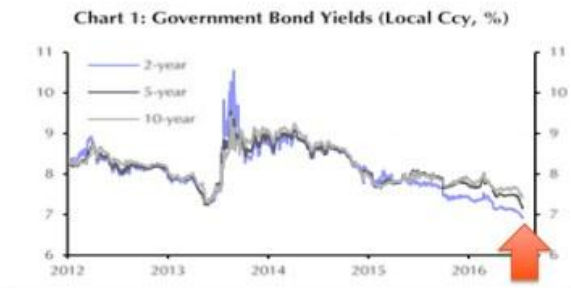
If we see, the size of domestic debt market is low in India and China, compared to rest of the world; however other countries have opted for fiscal stimulus and monetary easing during crisis, while the ratio at India and China has been mostly stable.

Table 1: Relative Size of Outstanding Domestic Debt Securities to GDP

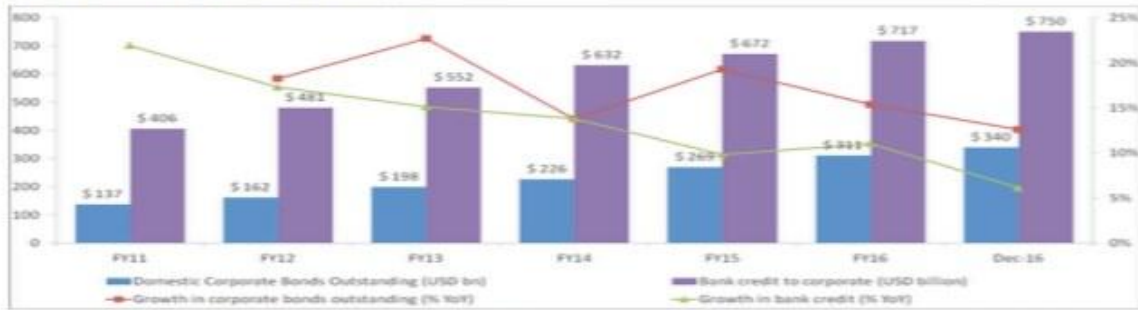
(in per cent)								
Year-end	US	China	Germany	India	Italy	Japan	South Korea	UK
2005	164	40	70	35	121	183	100	44
2006	161	44	77	36	136	193	103	50
2007	166	48	79	40	142	203	103	48
2008	172	49	71	34	141	228	93	46
2009	183	51	85	48	151	229	128	71
2010	178	51	79	43	145	250	109	73
2011	175	46	70	33	140	255	103	72

Source: World Economic Outlook and BIS

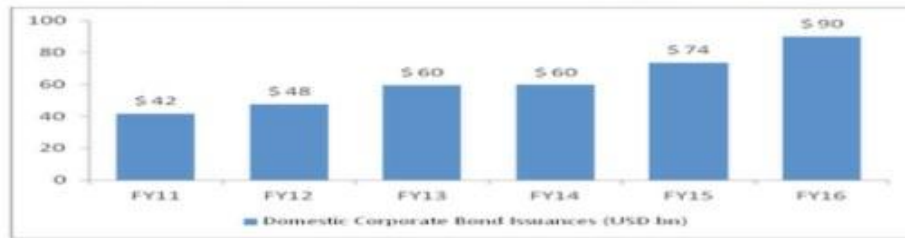
India, by far, faced little to no impact during the economic crisis of 2008, showing its robust domestic influence. Let's look at the performance of government and corporate bonds in the recent past:



c. 17% over FY11-16. In FY16, domestic bond issuances by corporates, grew by 22%, vs bank credit growth of c. 11% (non-food credit).



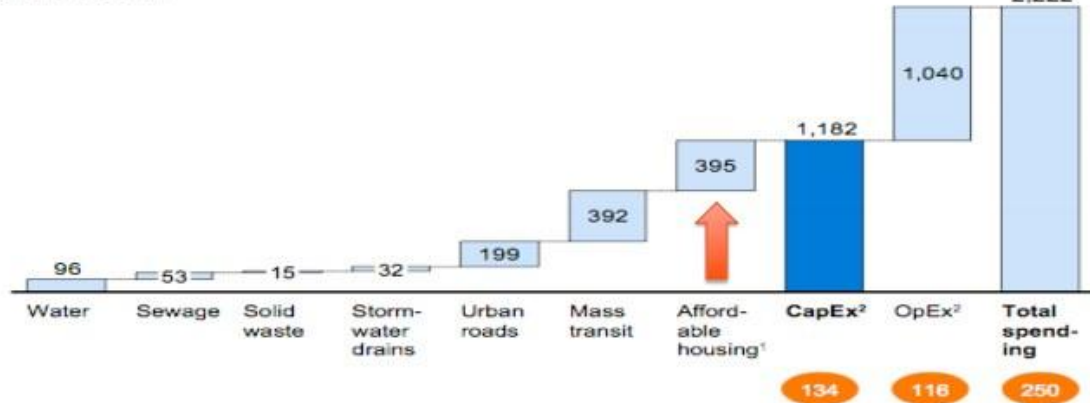
Total domestic corporate bonds outstanding vs bank credit to corporate sector (USD billion)²



Annual Domestic Corporate Bond Issuances (USD billion)²

If these are at one end, keeping in mind the Smart Cities and other initiatives brought out by the Modi government, India is full of opportunities amidst various sectors. If we take infrastructure, for instance, there is a requirement of \$1.2 trillion capex over the next 20 years for its cities:

Indian cities need capital expenditure of \$1.2 trillion over the next 20 years, equivalent to \$134 per capita per annum
 Funding requirement for urban sectors, 2010-30
 \$ billion, real 2008



¹ Net of beneficiary contribution.
² CapEx = capital expenditure; OpEx = operational expenditure.
 SOURCE: India Urbanization Funding Model; Detailed Project Reports from the Jawaharlal Nehru National Urban Renewal Mission; McKinsey Global Institute analysis

The question remains if opportunities outweigh the risk of investing in an emerging market like India. So let's look at the potential risks on a short term and long term basis:

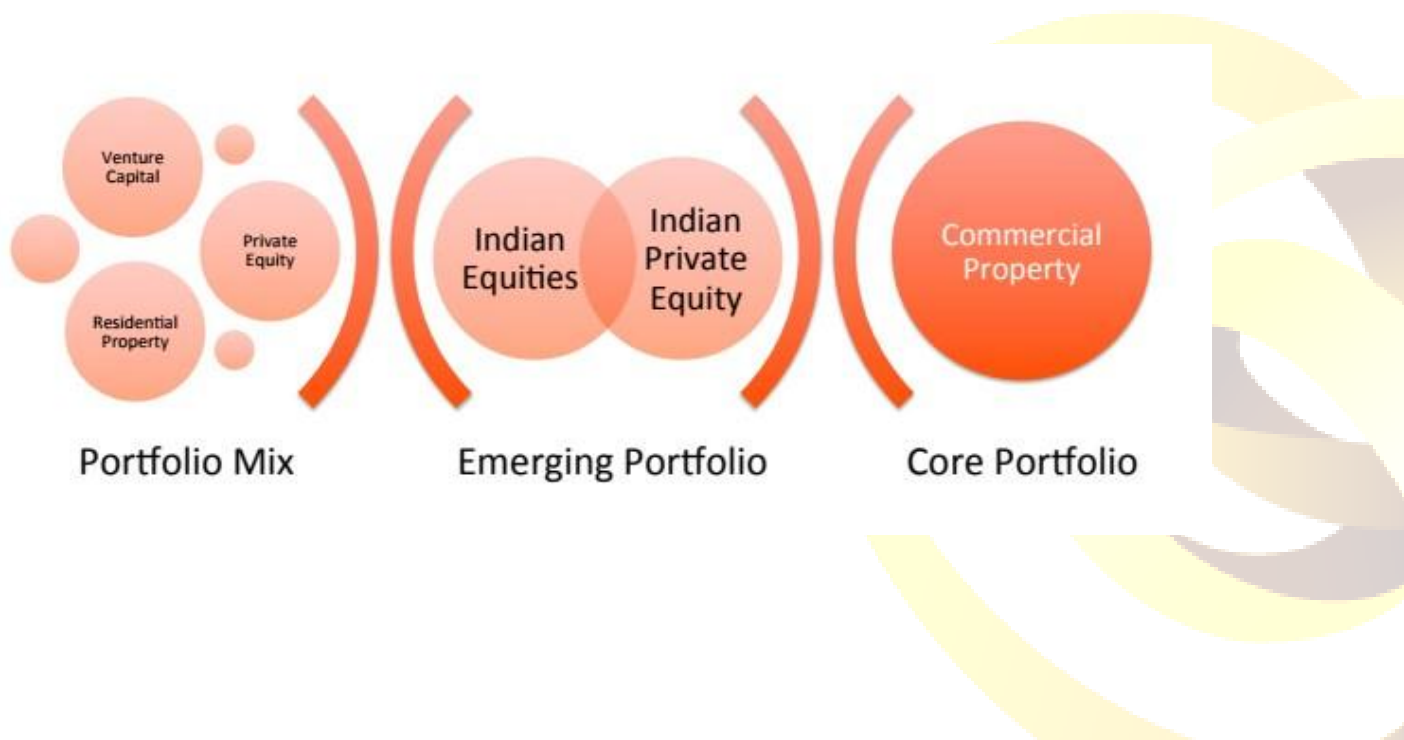
- Cyclical Risks (1-3 years)
 - NPL's need to moderate meaningfully
 - Private capex to pick up
 - Valuations at highs, but on low cycle earnings
 - Potential risks in the implementation of reforms
- Structural Risks (3+ years)
 - Job creation plays a crucial role in upping the ante for economic development and reform
 - Stock market and currency volatility
 - Rising commodity prices – food / oil
 - Higher inflation
 - Spearheading this growth wave has been Indian Prime Minister Modi, and if he loses election in 2019, a potential threat looms over the economy

With a longer and larger development vision such as this, no wonder India's development potential comes with its share of risks. This is why orchestrating the right access and implementation holds a lot of weight, and many [investors and investment management companies](#) are already doing this. Most importantly, taking the cue or help from specialists could go a long way!

The great Indian spread:

Several of the corporates such as Fiducian, India Avenue, Edelweiss, Mirae Asset, Alpha Capital, Keystone Private, Moss Investments, etc., are already offering eclectic spread of Indian investments, with investors thereby enjoying returns from the unique and compelling landscape that India is becoming by the day.

Let's now look at some of the use cases from an Australian Family Office perspective:

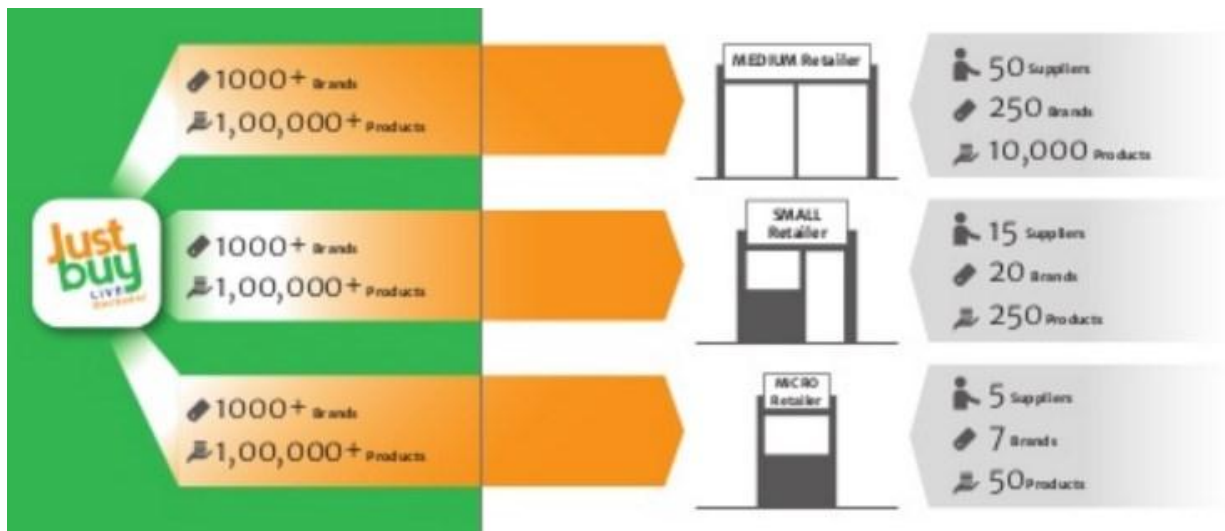


Indian Private Equity: Use Case – JustBuy Live

Just Buy Live is world's first e-distributor in India, which has disrupted the distribution chain by connecting Retailers with Brands directly, eliminating the need for intermediaries.

Just Buy Live offers huge advantage to retailers for over 1000+ brands and 1,00,000 + products, be it they are Medium, Small or Micro.

Headquartered in Mumbai, the firm operates in 15 cities across India.



It recently secured USD\$100 million fresh investment from a new investor, which is 2.20 times Alpha Capital's investment within 20 months.



Indian Private Equity: Use Case – INCRED

InCred is a cutting edge fintech company, with focus on SME, Personal, Educational and Home loans, and has gained enough investor attention that its first round of capital raise was at the same terms as blue-chip investors and promoters.



Its highlights:

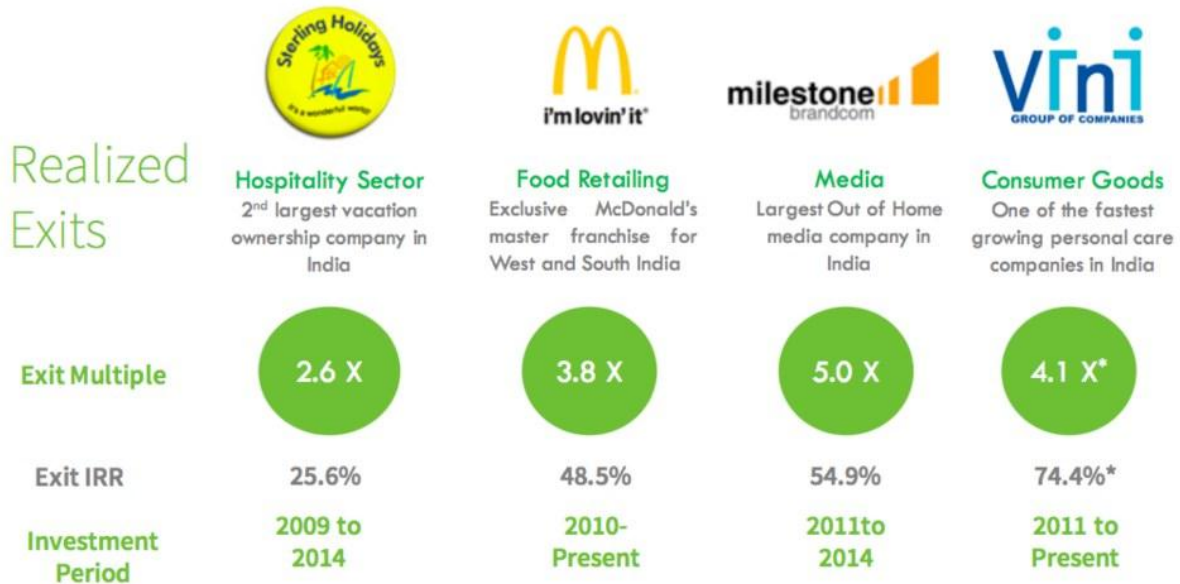
- New age digital NBFC tackling monster markets – with GOI tailwinds
- Bhupinder Singh, CEO (Ex-DB Asia head) has assembled team of A-players
- Public sector banking crisis has opened the door for private NBFCs
- Insatiable demand for credit to fuel the consumption economy
- Growth of private sector at twice the rate of PSUs and accelerating, Public sector banks losing market share to private banks and NBFCs

Indian Private Equity: Alpha Capital

Alpha Capital is the most awarded financial advisor in India, with its focus on Multi Family Office, Wealth Management, Private Banking, Investment Planning and Portfolio Management.

With the management team having more than 50 years of experience in capital market, its sole aim is to help the clients in creating wealth and to simplify their finance.

Here is a snapshot of the company's track record, highlighting its strong foothold over the market:

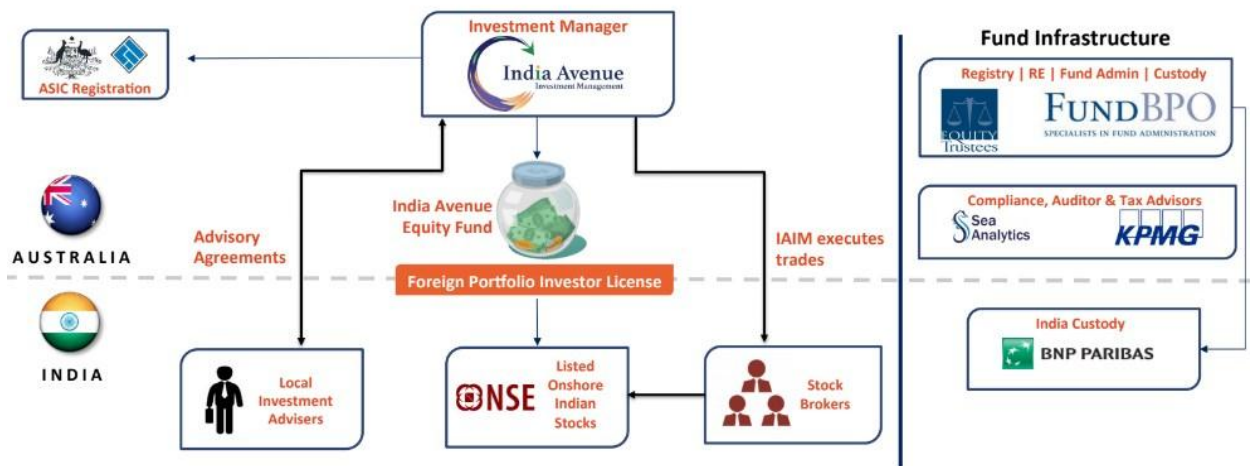


Indian Equities: Use Case – India Avenue

Sydney based India Avenue focuses on creating optimal investment solutions in India's capital markets for investors in Australia and New Zealand. Its India Avenue Equity Fund has been awarded a 'Recommended' rating from Lonsec Research, their second highest rating, and a rating of 'Superior' from SQM Research.

The below chart shows an overview of the company:





The IAE fund shows bias towards companies which are experiencing strong growth through rising local demand, and given below is the upward trend of its performance figures over the year:



Conclusion:

As we have been seeing in all our recent insights, India is definitely making businesses and investors from around the world turn their heads, as the sub-continent preps for a grand development stride under the able leadership of its new leader Prime Minister Narendra Modi. As for Australia, it has much to gain from this thriving entrepreneurial cum consumer market, which is also the world's fourth fastest growing economy in the world.

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