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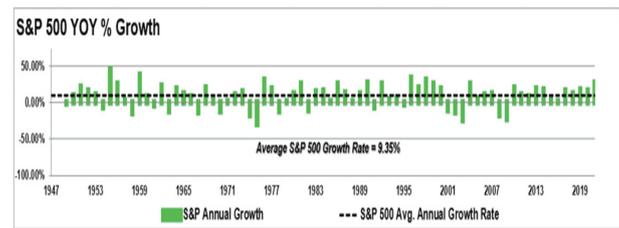
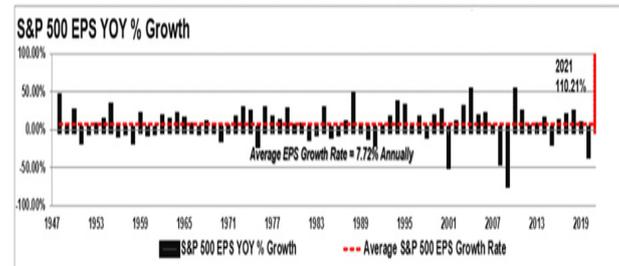
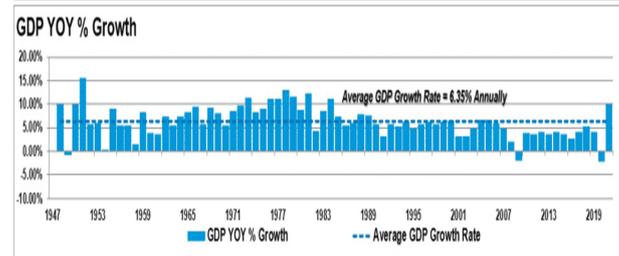
**Market Perspective**

May 2023

**Growth Magnets for the New Bull Market  
India Equity Outlook**

# The Truth : Price Growth-EPS growth-GDP growth

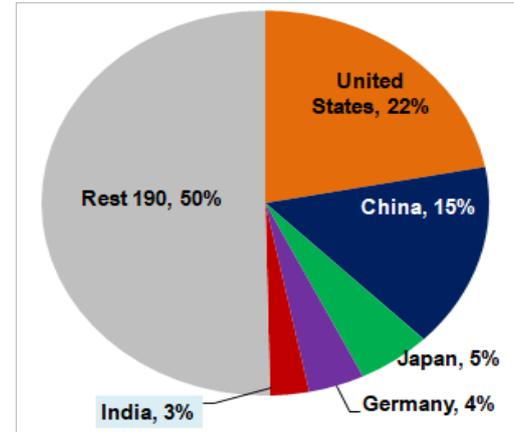
- » On a long term period, as GDP of an economy grows, the Earnings of companies grow at a higher rate and Stock markets provide returns even higher than profit growth
- » US Real GDP since 1947 has grown by 3.3%, with an average inflation of 3%, the nominal GDP growth has been at 6.35%
- » EPS growth of S&P 500 during the period has been at a CAGR of 7.72% i.e greater than the nominal GDP growth of 6.35% as Margins expands due to operating leverage when revenues rise
- » S&P500 Index has delivered a Price return of 9.35% CAGR i.e greater than 7.72% EPS growth due to multiple re-rating
- » India's nominal GDP is set to grow at 10% , this will translate into Index Net profit growth of ~12-13% and hence Stock market return is expected to may average at 14-15% CAGR



# Long Term Bull Market Requires Sustained Strong Economic Growth

## History as a Marker for Future

- » Top 5 economies by GDP contribute to 50% of the total World's GDP
- » India has entered the league of top 5 economies of the world by GDP
- » **Important fact to note is that Both- High Growth and Dominance Matters for a long term bull market**
- » Stock Market Returns of all world Indices over last 30 years is +3.1% CAGR while Stock Market Returns of Top 5 economies over last 30 years is +6.5% CAGR



Top 5 countries contribute 50% of World's GDP

China took a decade to jump from 6th to 2nd Future

India took a decade to jump from 9th to 5th

[https://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_largest\\_historical\\_GDP](https://en.wikipedia.org/wiki/List_of_countries_by_largest_historical_GDP)

<https://economictimes.indiatimes.com/markets/stocks/news/global-equities-deliver-5-20-cagr-since-1900-this-market-is-top-performer/articleshow/74317000.cms?from=mdr>



# TEAM INDIA

## Growth Magnets

### TOP ORDER

Goods Export

BATTER

Services Export

BATTER

Credit Cycle

BATTER

Defense Production

BATTER

### MIDDLE ORDER

Infra- Digital

KEEPER

Infra Physical

ALL ROUNDER

Foreign Flows

ALL ROUNDER

MSME

ALL ROUNDER

### LOWER ORDER

Strong Tax to GDP

BOWLER

Macro Stability

BOWLER

Demographic Dividend

BOWLER

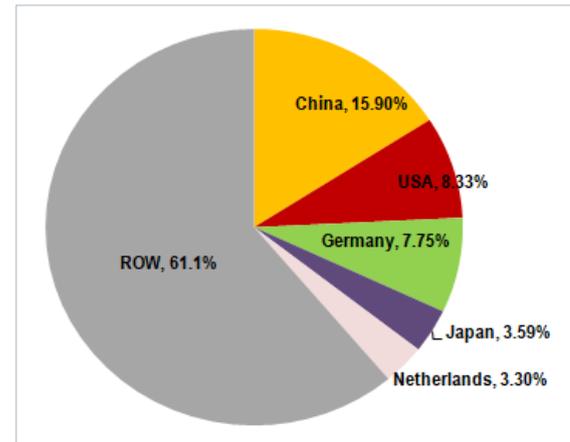


# 1. Merchandise Export

- » **Right Strategic steps will ensure success in plan of merchandise exports of \$1tn from \$0.39tn currently**
- » India rank is 17 in terms of merchandise exports
- » **Setting the Right Priority through emphasis on right sectors** (which form large part of world's exports) : Auto & Auto Components, Elec Equip, Electronics, Chemical & Pharma is 6trillion \$ of global trades. India is currently exporting 11 bn\$
- » **Right Push through schemes** like Production Linked Incentive Scheme which will not only add yearly Rs2 lac Cr exports but also reduce China's imports by 50%

## Target with a logical plan

Top countries in World's Merchandise Exports



World's GDP ~ \$100tn

World's Exports= \$22tn  
(22% of GDP)

Top 5 exporters=38%  
(\$21tn)

India Exports= \$0.39tn  
Rank:17 (12% of GDP)

# 1. Merchandise Export

## History as a Marker for Future

- » China got a smooth runway of last 20-30 years to become What it has become- 'Factory of the world'
  - » Commanding 15% of the world merchandise export
  - » Merchandise Export is 21% of its own GDP.
  - » China is No. 1 in merchandise export in the world
- » Helped the world keeping goods inflation low for the last 30 years

## Target with a logical plan

World's Exports= \$22tn  
China is No. 1

China Exports= \$3.3tn  
(15% of World's Exp)

China Exports=21%  
of its GDP

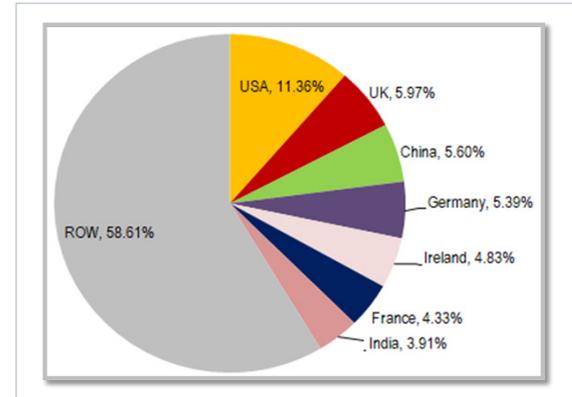


## 2. Services Export-An Opportunity for India

### INDIA- OFFICE OF THE WORLD

- » India will get a smooth runway of for next 20-30 years to become What it will become- 'Office of the world'
  - » At \$1tn, India will be commanding 15% of the world Services export
  - » It will be ~20% of its own GDP.
  - » And India will be No.1 in the world in services export
  - » Helping the world keeping services inflation low for the next 20 years
- » List of high demands Services for export across the world- IT & Tech Enabled Services, Tpt & Logistics, Financial Services, Tourism, Medical Services, Accounting, Auditing, Legal, Construction, Audio / Video

### Top countries in World's Merchandise Exports



Global Services Exports= \$7tn

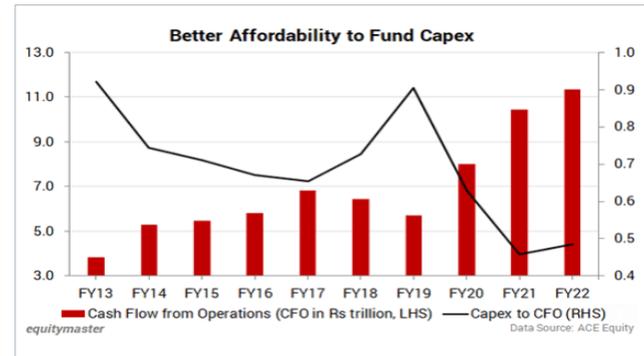
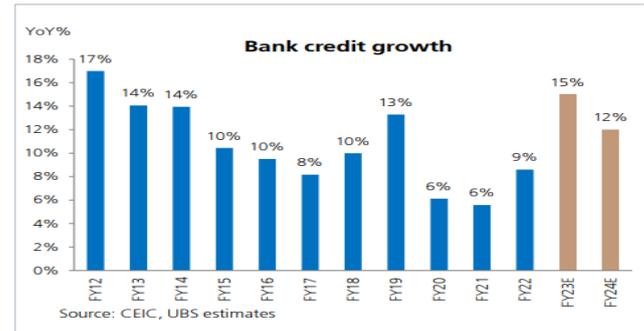
Services= 64% of GDP

India Exports= \$0.27tn  
(6th Rank)

India Target Services Exports= \$1tn by FY27

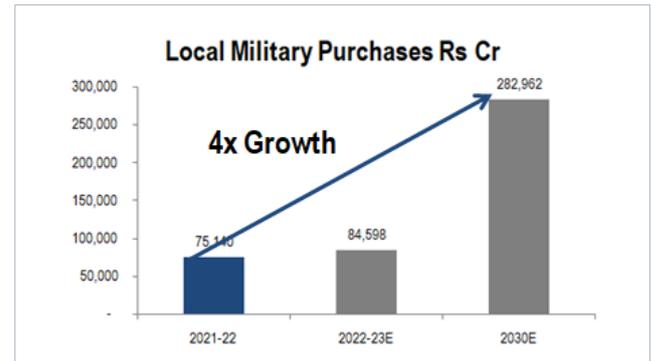
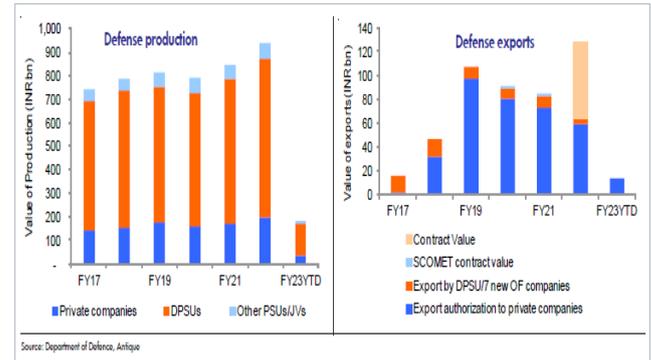
### 3. Healthier-Stronger Credit Cycle

- » Healthier and Stronger credit Cycle to contribute 6% Growth in GDP
- » Credit Growth witnessed at 12%
- » Improved Lenders' capacity as
  - » digitization and formalization has led to better credit information
  - » Better capital availability ( Capital to RWA is 16%)
  - » NPA cycle improving ( Fallen to 5% from peak of 11.6% in FY18)
- » Improved Borrowers' Capacity as
  - » Better affordability to fund capex ( capex to CFO <0.5)
  - » Better Debt to Equity ( 60% in Year 2000 to 40% in 2020)
  - » Better margin profiles



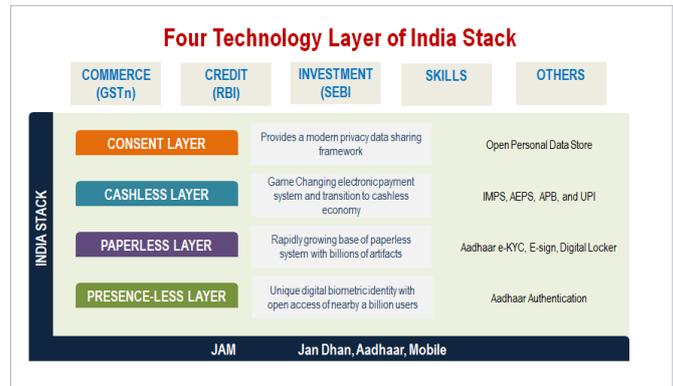
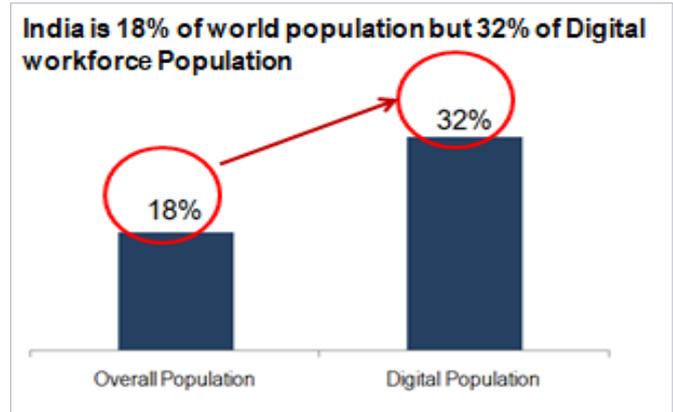
## 4. Defense Production

- » **India is the 3rd largest military spender in the world, with its defence budget at 2.15% of the country's total GDP.** India has allocated 5.25lac Cr for military spending in the budget for 2022-23, Vs 4.78Lac Cr in 2021-22.
- » For 2022-23, India has earmarked 84,598 crore -- 68 % of the military's capital acquisition budget -- for purchasing locally produced weapons and systems. The expenditure on defense procurement from foreign sources has reduced from 46% of the overall expenditure to 36% in the last 4 Yrs i.e. 2018-19 to 2021-22.
- » GOI aims to achieve a turnover of USD 25 Bn including export of USD 5 Bn (more than ~Rs 80,000Cr) in Aerospace and Defence goods and services by 2025. Defence exports are ~Rs 16,000 Cr in FY22-23, over 10-times increase since FY 16-17.
- » Till October 2022, a total of 595 Industrial Licences have been issued to 366 companies operating in Defense Sector.
- » Measures such as simplification of procedure for procurement of defence products, provision for funding of up to 70% of development cost by the government, and a hike in FDI to 74% through the automatic route are expected to further boost investments in the sector.



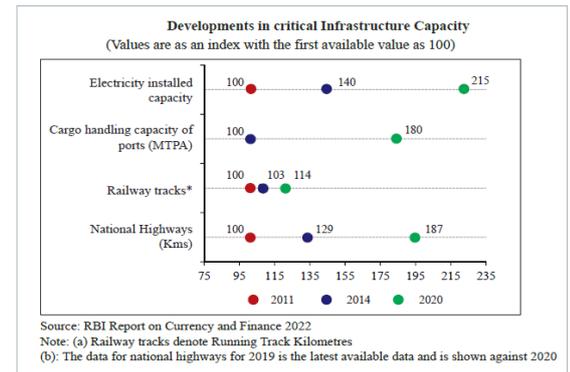
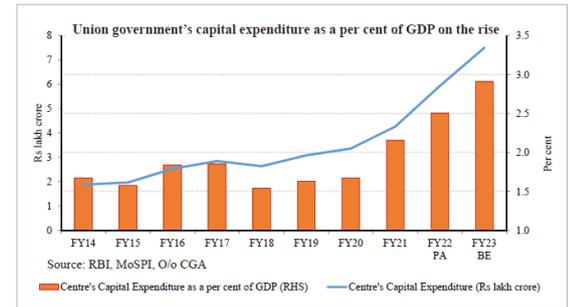
## 5. Infra - Digital - India Stack

- » India's Digital Economy will grow from \$ 200 bn in FY18 (8% of GDP) to \$ 800bn (18% of GDP) by FY25.
- » 50-70% global technology and operations headcount are based out of India GCCs
- » Based on the pillars of a digital identity Aadhar, linking bank accounts with PM-JanDhan Yojana, and the penetration of mobile phones (JAM Trinity), the population covered with bank accounts increased from 53 per cent in 2015-16 to 78 per cent in 2019-21
- » Since the inception of DBT, cumulative transfers of over `26.5 lakh crore in respect of Central schemes have been made through the DBT route. In this process, total savings of over `2.2 lakh crore have accrued as on 31 March 2021 for Central schemes alone due to the removal of 9.4 crore duplicate, fake/non-existent beneficiaries across databases.
- » Mobile broadband subscribers have increased from 345m to 765m over the past 5yrs
- » India's data traffic usage in 2017-21 is amongst the highest in the world with CAGR of 53%.



## 6. Infra - Road/ Rail/ Air/ Sea/ River

- » **In order to achieve USD5tn GDP by FY25, India needs to spend about USD1.4tn in this period**
- » National Infrastructure pipeline projected investment of around 111 lakh crore during FY20-25 to provide high quality infrastructure within which the transport sector constituted more than half of the projects.
- » National Monetisation Pipeline aims at asset creation through monetisation. The process of monetisation entails a limited period license/ lease of an asset, owned by the government or a public authority, to a private sector entity for upfront or periodic consideration.
- » National Logistics Policy aims at reducing logistics cost from 14-18% to global benchmark of 8% of GDP
- » Rising GDP and falling logistics costs will help efficiencies
- » Improved mix in different modes of transport and reduction in turnaround time
- » Improved margin Profiles for Corporate and its trickle down effects
- » The dedicated programs for road connectivity -Bharatmala , port infrastructure –Sagarmala, electrification, railways upgradation, and operationalising new airports/ air routes- UDAN have significantly improved the physical infrastructure



## 7. Destination for global flows

- » In terms of GDP we are 3.5% of the world but in terms of Investments only 0.2% of the world
- » This ratio should get better in coming years as India will be amongst very few countries ( less than 10 out of 200 countries for which data is available) growing at greater than 5% in terms of GDP.
- » India's gross FDI has increased from an average of 2.2 per cent of GDP during FY05-FY14 to 2.6 per cent in FY15-FY22 . The highest-ever annual gross FDI inflow of USD 84.8 billion was recorded in FY22. These trends are an endorsement of India's status as a preferred investment destination amongst global investors.
- » Total FDI received from 1947 roughly around \$950 bn out of which \$532 have come in the past 90 months from 162 countries
- » FDI has come across 61 sector & 31 states in India.
- » 93% of the FDI came from the open route

Investment in India Public markets	Equity \$bn	Debt \$bn	Hybrid \$bn	Total \$bn	As a % of global Total AUM
Central Bank/ Sovereign Wealth Funds/ Governments	82.8	11.6	1.3	95.7	1.20%
Pension Funds	51.3	2.6	0.2	54.1	0.10%
Endoments/ Foundation	2.6	0	0	2.6	0.30%
Insurance	7.7	1.3	0	9	0.00%
Investment Advisors/ Asset Managers/ Funds and other	449.8	34.7	2.3	486.8	0.30%
<b>Total</b>	<b>594.2</b>	<b>50.2</b>	<b>3.8</b>	<b>648.2</b>	<b>0.20%</b>

Source: NSDL Data, Global AUM data: PWC, OCED, Towers Watson, Quantum Analysis and Assumptions

### Trends in Investment Through FDI route Highest-ever FDI inflows of US\$ 84.8 billion in FY22

China	1980-1990	1991-1993	1999-2014
	Less than 1%	High of 6%	Average of 3%
India	Pre 2005	2006-2008	2022
	Less than 1%	High of 4%	3.10%

## 8. MSME Resurgence - Indicator of Country wide Prosperity

6 Crore MSMEs

30% of GDP  
50% of FY25E GDP

50% of Exports

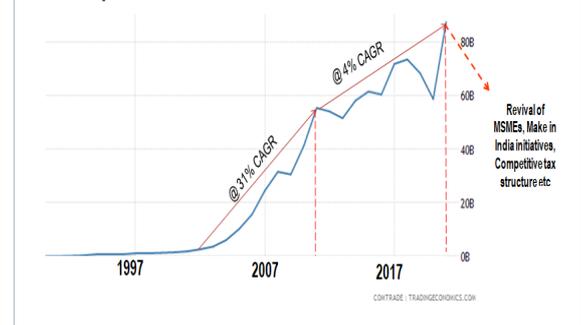
Employs 111 million people

2001 to 2011	4 Bn to 58 Bn	31%	Was hazardous to our MSME sector, revenues declined, margins curtailed, many turned from manufacturers to distributors
2011 to 2021	58 Bn to 83 Bn	4%	RERA, GST, compliances burden, lack of financing

- » GST paid by MSMEs after declining in FY21 has been rising since and now has crossed the pre-pandemic level of FY20, reflecting the financial resilience of small businesses and the effectiveness of the pre-emptive government intervention targeted towards MSMEs
- » Enhancing opportunities and productivity of the MSME sector have large-scale implications for a resilient production ecosystem, thus strengthening the growth prospects of the industry and the economy as a whole

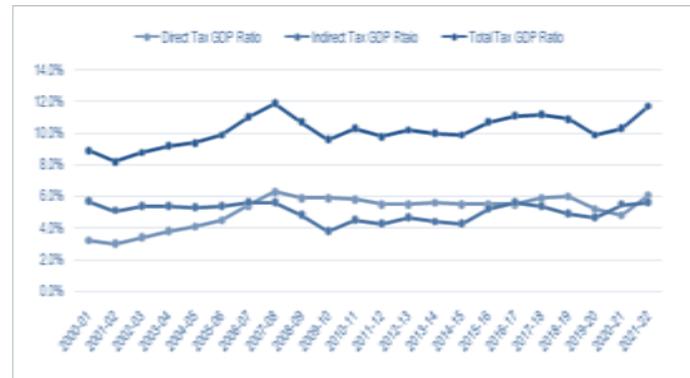
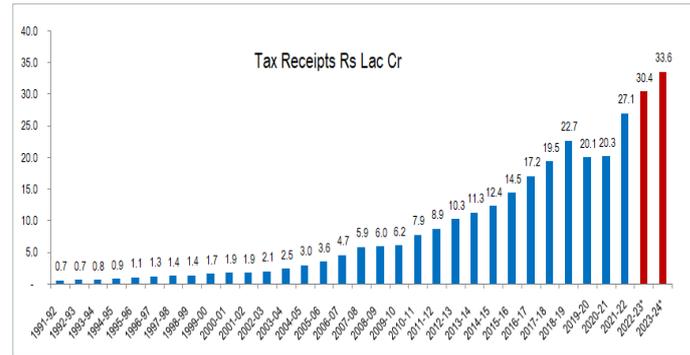


China Imports into India



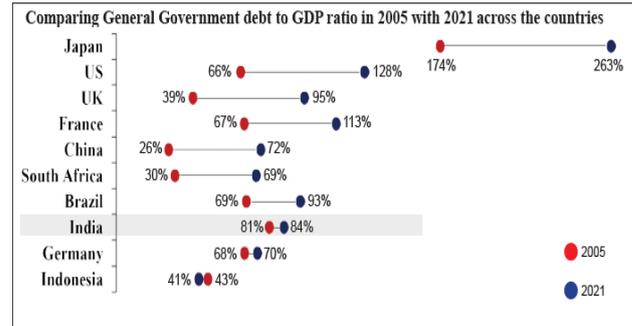
## 9. Strong Tax to GDP

- » US tax revenue to GDP is around 20% of GDP. China tax revenue to GDP during 1996-2000 was similar to current India's tax to GDP of 10-12%, however, on being a matured economy, the ratio has risen to 20%. India's Tax to GDP should growing to similar ratios.
- » The Corporate tax collections for April to November 2022 have increased by 21.1% YoY compared to a longer-term average of 10.3% YoY from Fy13-FY19.
- » GST taxpayers have increased from nearly 70 lakh in 20172 to more than 1.4 crore in 2022.
- » Introduction of technology-backed tax governance reforms for simplifying tax processes, enhancing compliance, and improving fraud detection systems are some tax reforms .
- » **Higher tax collections augur well for future economic growth and future resource mobilisation in the economy.**
- » Taxes are the government's revenue for financing public spending, including building roads, schools, hospitals, and for funding local government services like police and fire departments, parks and playgrounds, and public libraries etc

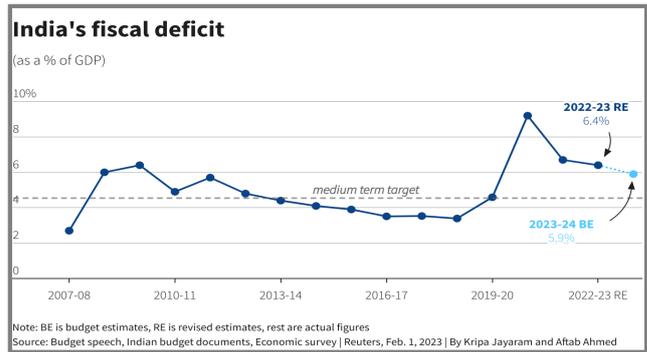


# 10. Macro Economic Stability

- » Continuing the path of fiscal consolidation, the govt. intends to bring the fiscal deficit below 4.5% of GDP by 2025-26
- » Revenue deficit is expected to be at 2.9 % in FY 2023-24 over 4.1% in 2022-23.
- » Global supply chain bottlenecks are rapidly easing. Price pressure seems to have eased, while core inflation remains sticky
- » India's Interest rate differential with US is likely to narrow and hence rising interest rates in US may not impact Interest rates in India to the same extent as earlier



Source: World Economic Outlook, October 2022.



Note: BE is budget estimates, RE is revised estimates, rest are actual figures  
Source: Budget speech, Indian budget documents, Economic survey | Reuters, Feb. 1, 2023 | By Kripa Jayaram and Aftab Ahmed

# 11. Demographic Tailwind

- » Purchasing power of over a billion people has driven economic growth- Increased consumption has underpinned the economic growth over the last decade.
- » Private Final Consumption Expenditure (PFCE) has grown at a CAGR of 11.3% (in nominal terms) over the last 10 years as against a nominal GDP growth rate of 10.6%. The ratio of PFCE to GDP has increased from 55% to 60%.
- » **5X growth in per capita income by 2030 of more than 1.5 billion Indians would unleash an unprecedented consumer boom.**
- » The share of India's working age population to total
- » population will reach its highest level at 68.9% by 2030. India would remain the largest provider of human resources in the world. About 24.3% of the incremental global workforce over the next decade will come from India

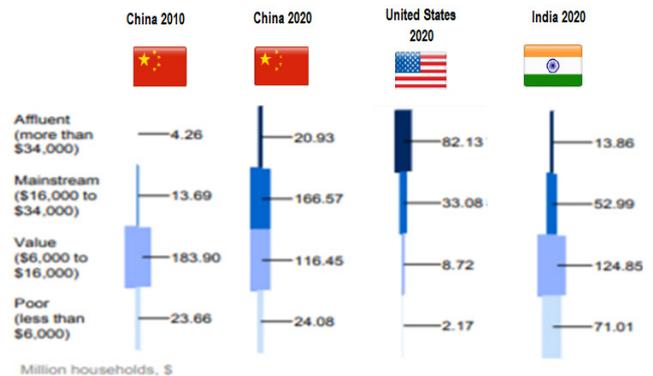
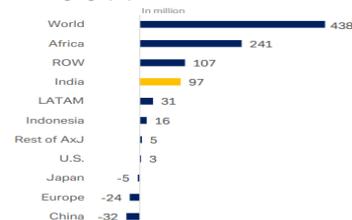


Figure 2: India is expected to add 22% of world's working-age population over the next decade



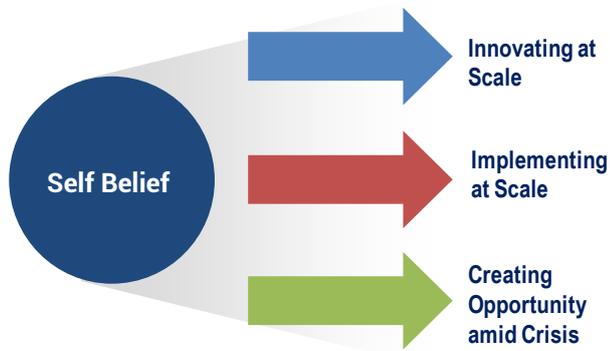
Source: UN population estimates, Morgan Stanley, Deutsche Bank AG. Data as of February 2023.

India – Median Age  
28 China, US -38,  
West Europe-43,  
Japan- 48

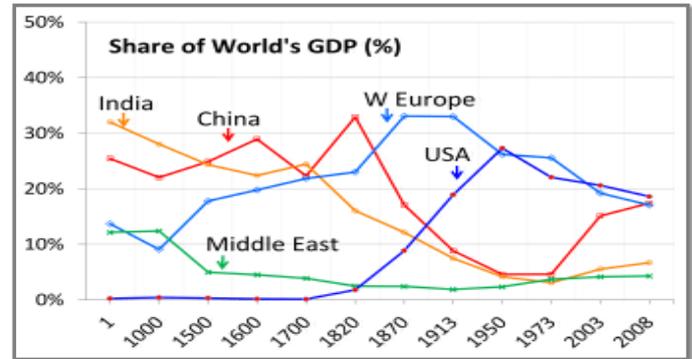
China's Median  
Age in 2000 was  
~28

## 12. Self Belief

India Was the World's Highest GDP Country for > 1500 Years



We have done it in the past



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