

# India Investment Opportunity

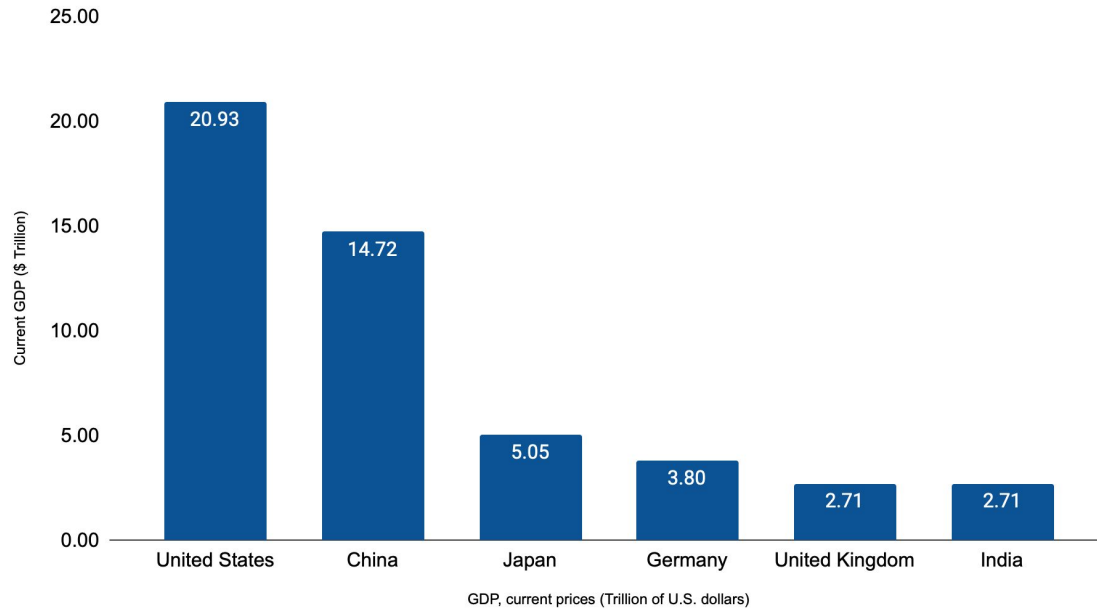
# Pillars of Economic Growth

# Strong Precursors for Growth

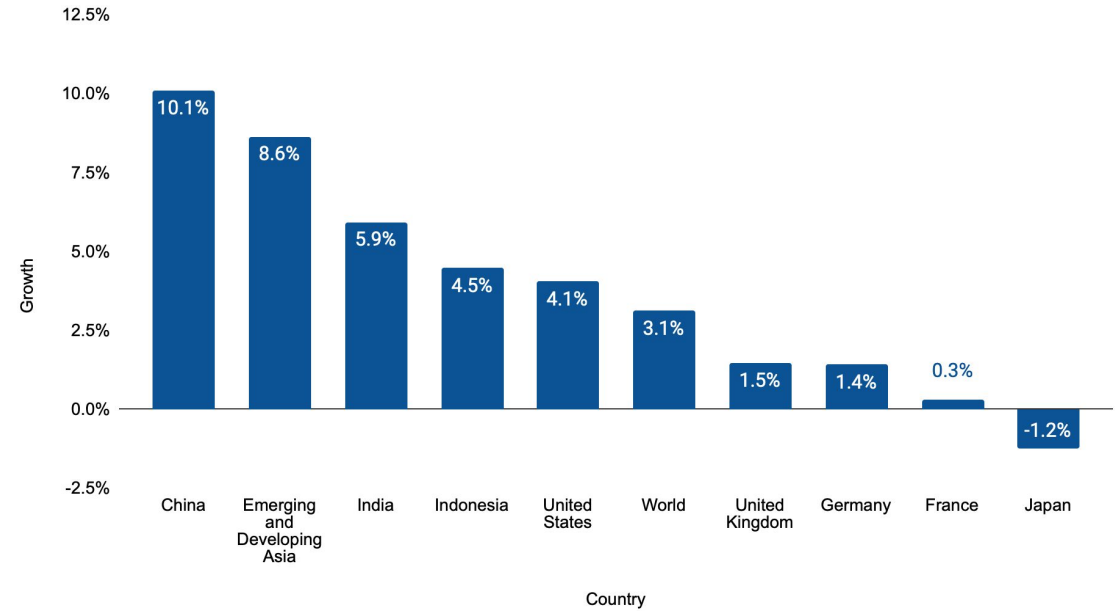
Strong Fundamental Growth Drivers	<ul style="list-style-type: none"><li>• Highly favourable demographics</li><li>• Large &amp; fast-growing middle-class with rising aspirations</li><li>• Increasing Per Capita Income</li></ul>
Structural Reforms	<ul style="list-style-type: none"><li>• GST, RERA, Financial Inclusion</li><li>• Labour Reforms</li><li>• Manufacturing Focus Policies</li><li>• Strong Digital Stack</li></ul>
Institutional Infrastructure of a democracy	<ul style="list-style-type: none"><li>• Property Rights</li><li>• Independent Central Bank, Judiciary and EC</li></ul>
Areas of Value Creation	<ul style="list-style-type: none"><li>• BFSI, Consumer, IT, Pharma, Manufacturing</li><li>• Thriving Start-up and VC Ecosystem</li></ul>

# Large & Fast Growing Economy

Largest Economies



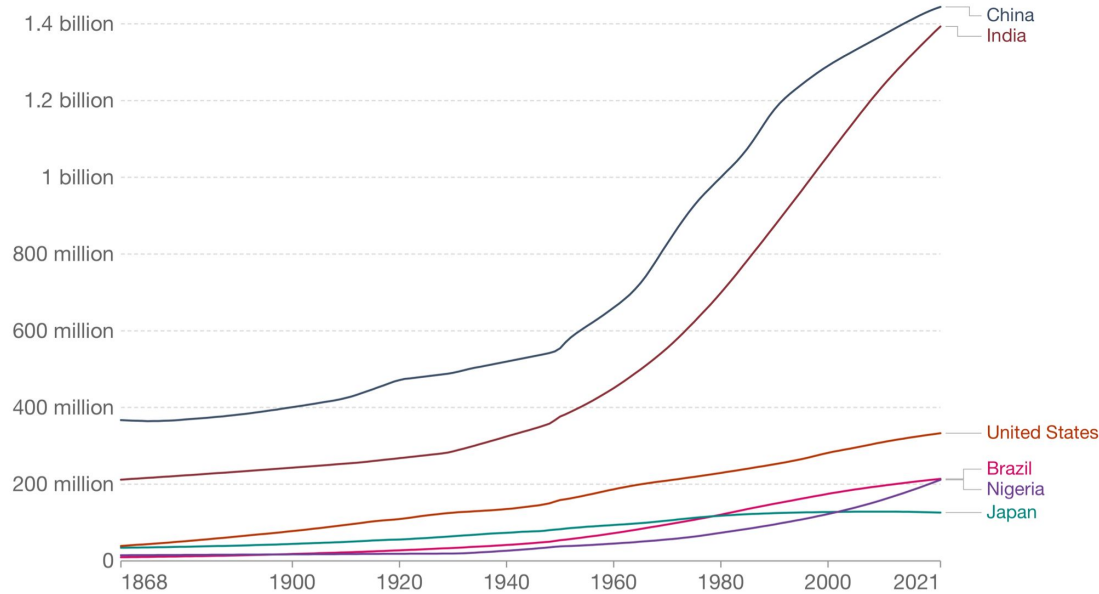
Economic Dollar Nominal GDP Growth CAGR over 2010-2019



# Large & Young Population

## Population, 1868 to 2021

Historical estimates of population, combined with the projected population to 2100 based on the UN's medium variant scenario.

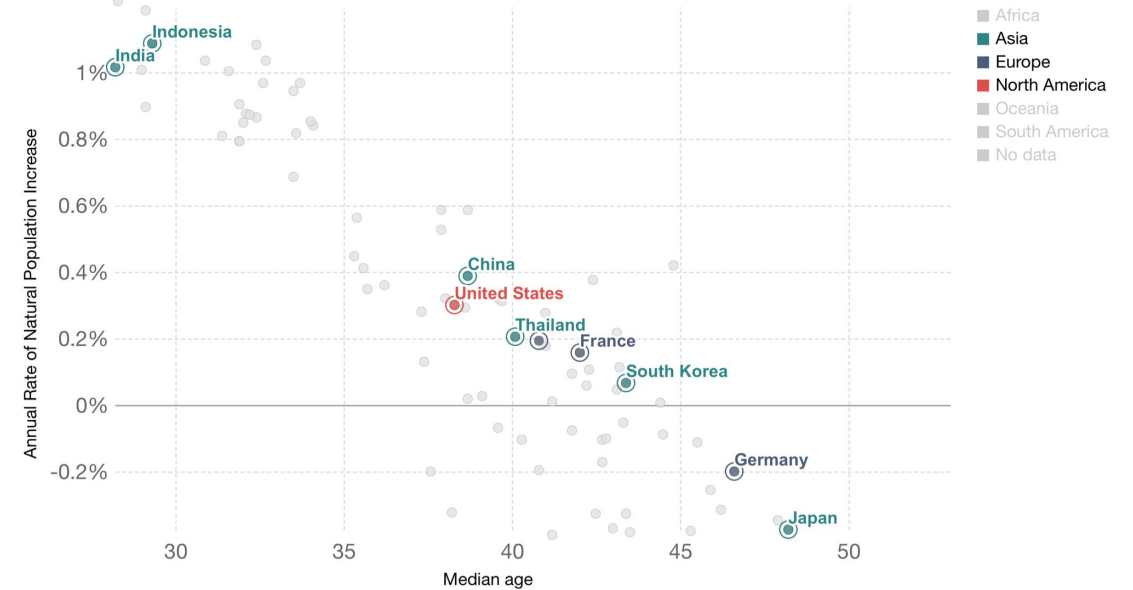


Source: Gapminder & UN Population Revision (2019) Medium Scenario  
 Note: Historical country data is shown based on today's geographical borders.

OurWorldInData.org/future-population-growth • CC BY

## Population growth rate vs. median age, 2020

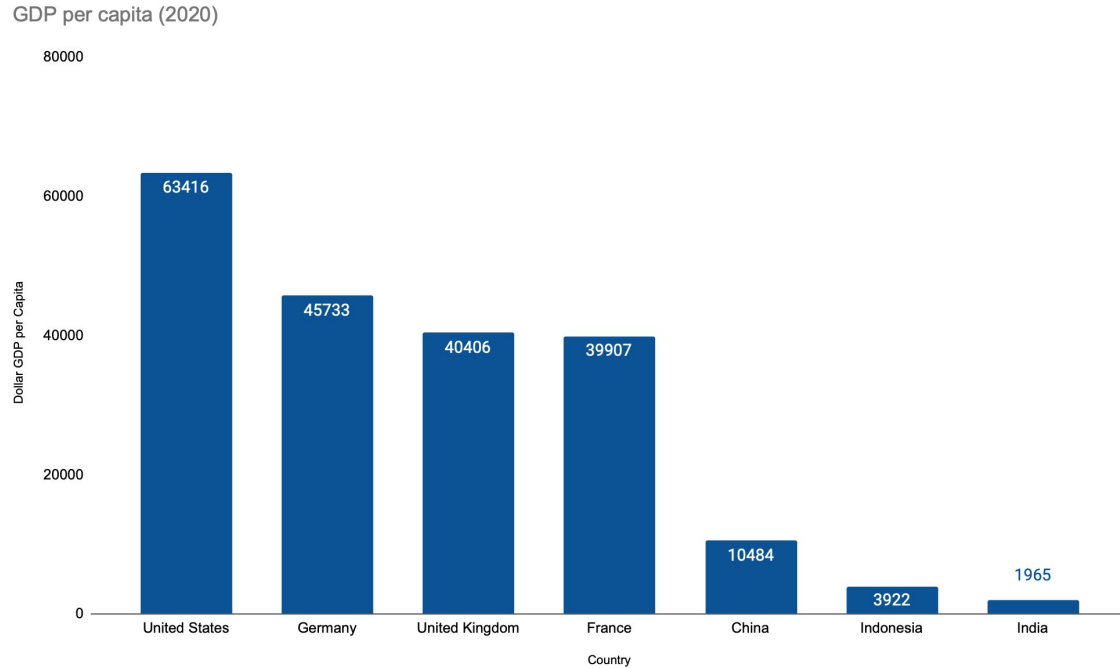
Median age is the age that divides the population in two parts of equal size, that is, there are as many persons with ages above the median as there are with ages below the median. In this metric of population growth changes due to migration are excluded and only births and deaths are taken into account.



Source: UN Population Division (2019 Revision)

OurWorldInData.org/age-structure • CC BY

# Per-capita Income



## The Classic Consumer Product S-Curve

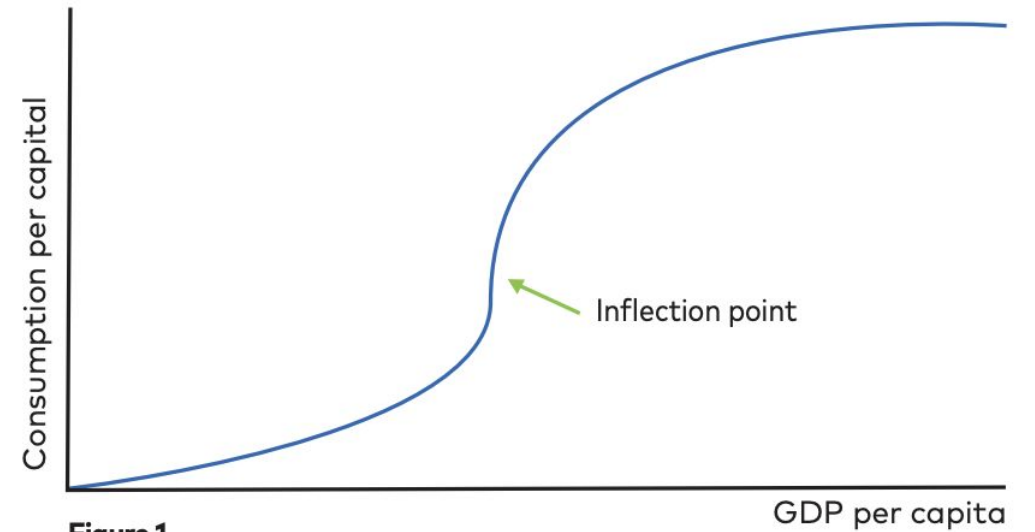
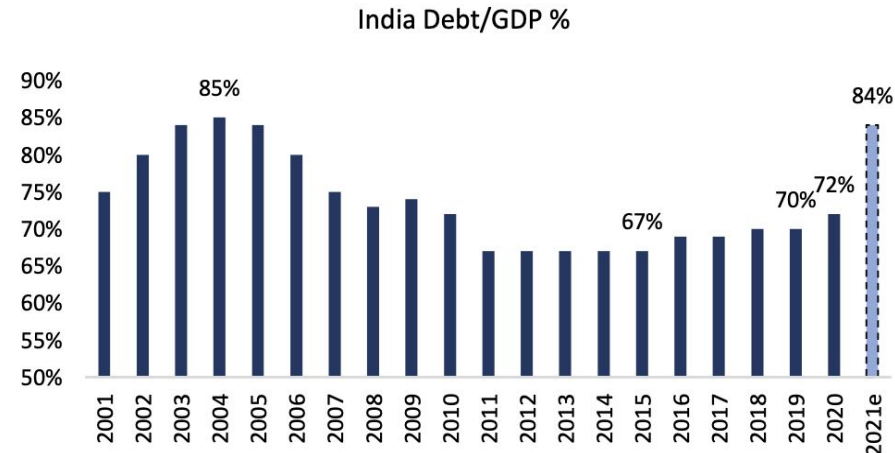
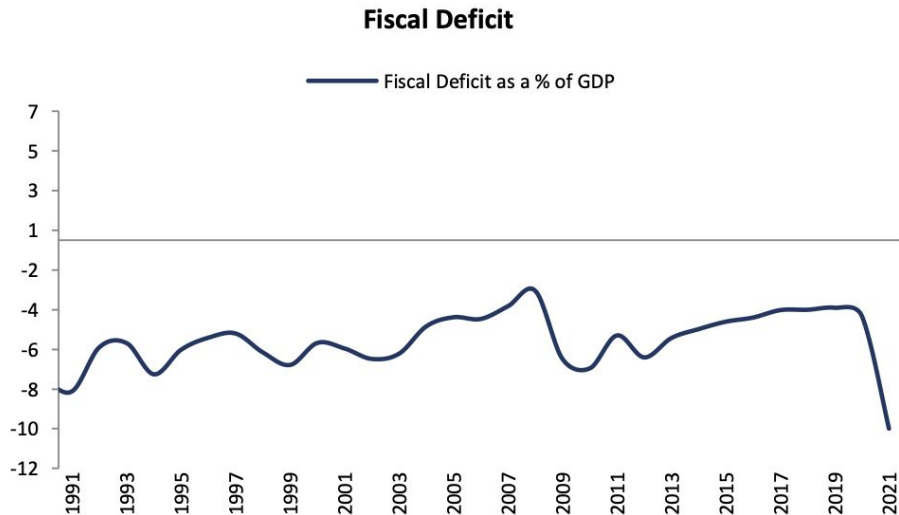
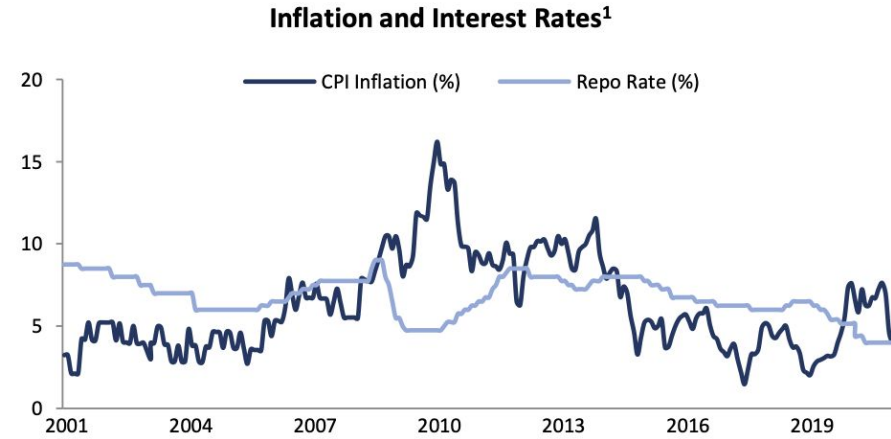
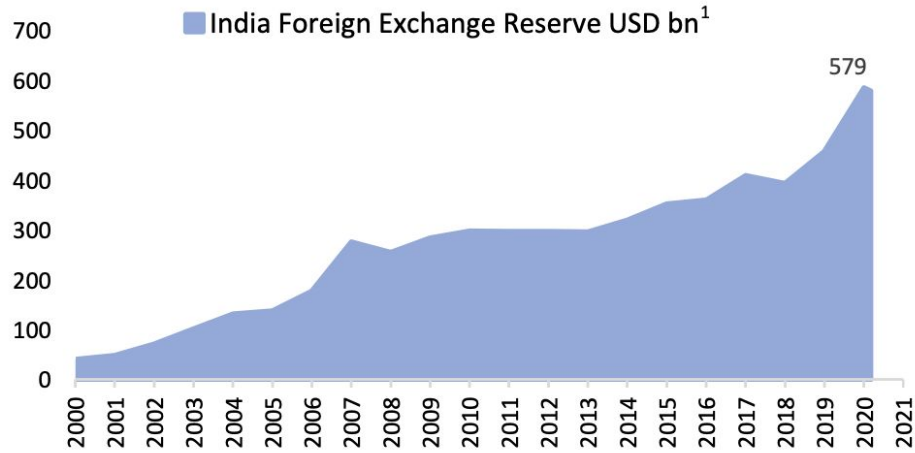
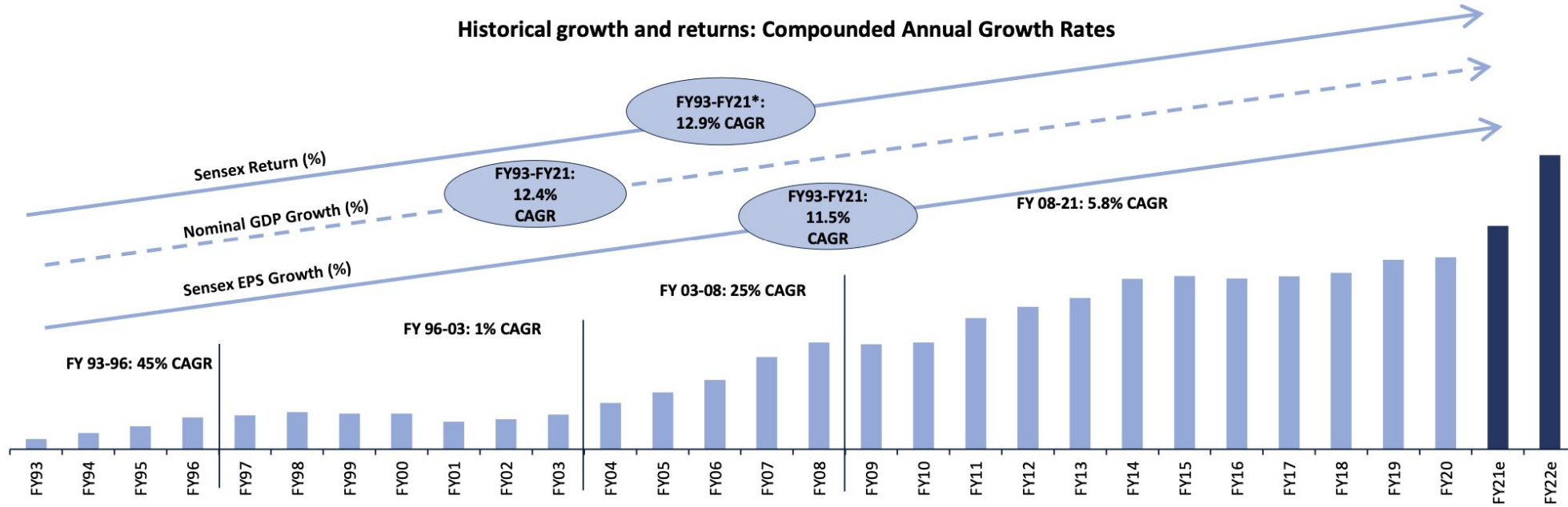


Figure 1

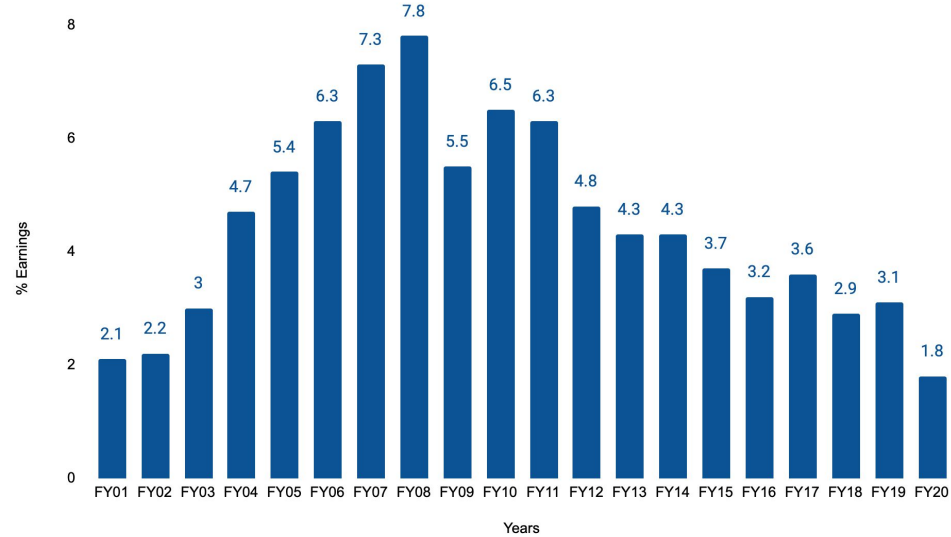
# Economic Fundamentals are Strong



### Historical growth and returns: Compounded Annual Growth Rates



### % Earnings to GDP





# Reforms & Growth Enablers

# Structural Reforms

## Phase I- 'Restructuring'

- GST- *creating a common market*
- Modern bankruptcy law - *Time bound resolution of bad loans*
- Real Estate regulation reform- *Increasing transparency in real estate*

## Phase II- Growth enabling

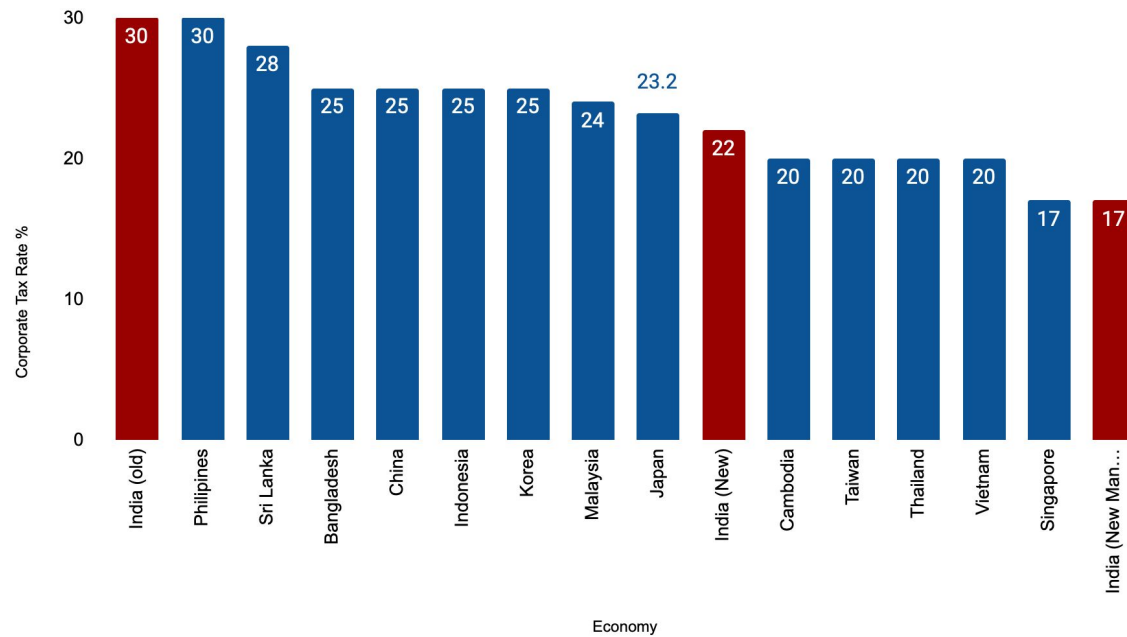
- Labour reforms - *easing of compliance burden*
- Outright privatisation- *Oil marketing companies, SOE banks, Logistics*
- Mining & Agri reforms- *Liberalisation of coal mining; sweeping changes in agri sector*

## Phase III- Growth enhancing

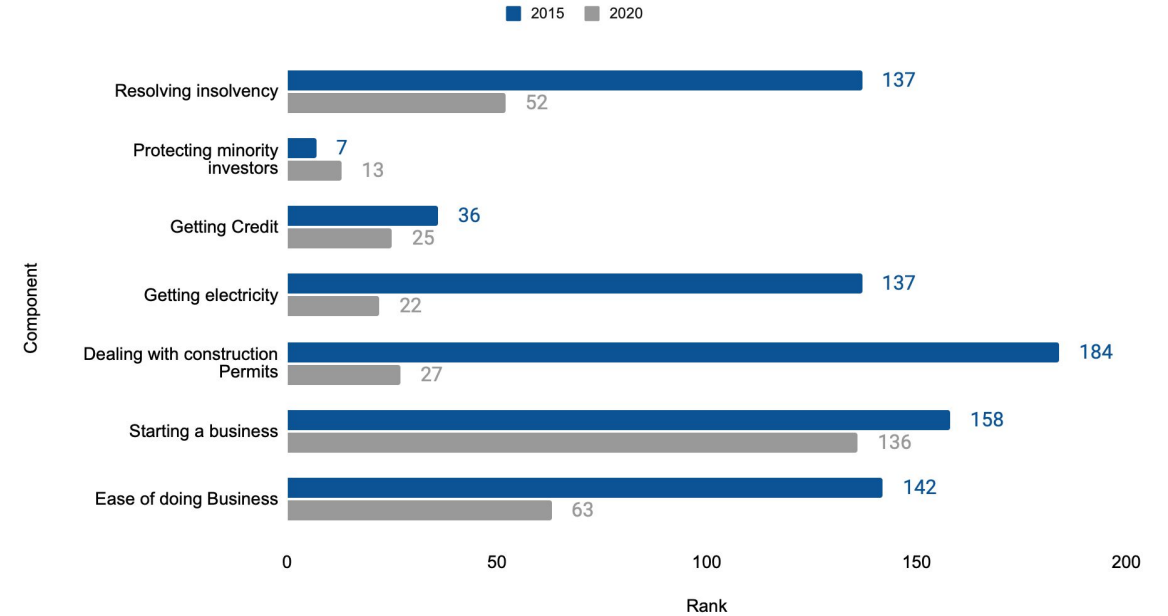
- Corporate tax rate cuts - *India's tax rate the lowest among EMs*
- Production Linked Incentives (PLI) - *facilitating 'Make in India'*
- National Infrastructure Pipeline - *addressing infra bottlenecks, improving competitiveness of the economy*

# Attracting Global Capital

Corporate Tax

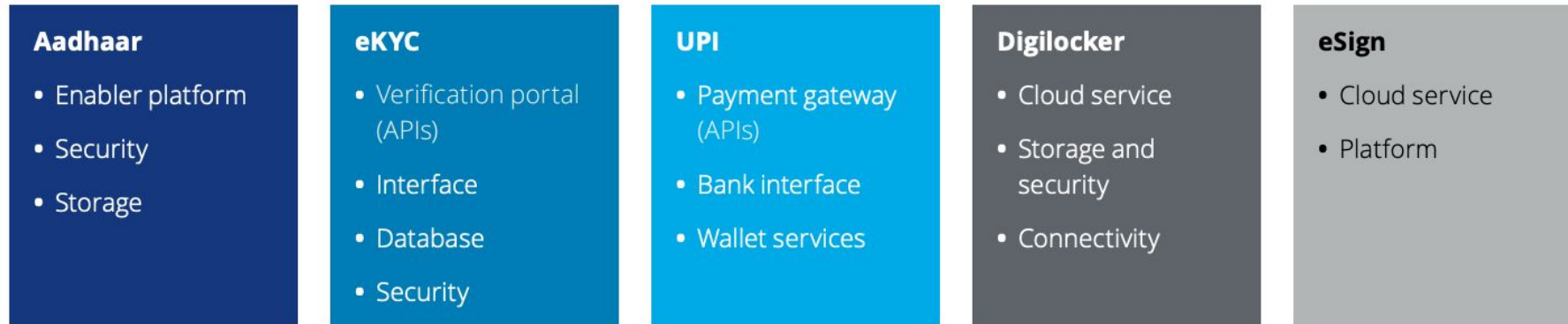


Ranks across various components of Ease of Doing Business (across 189 countries)



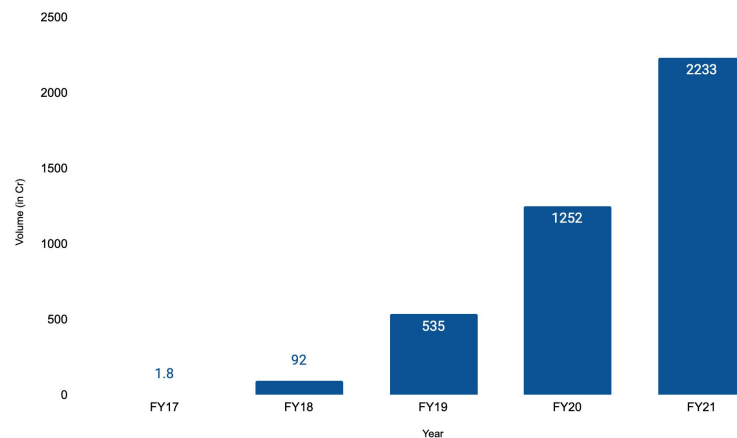
# Strong Digital Stack

Figure 12: API's for India

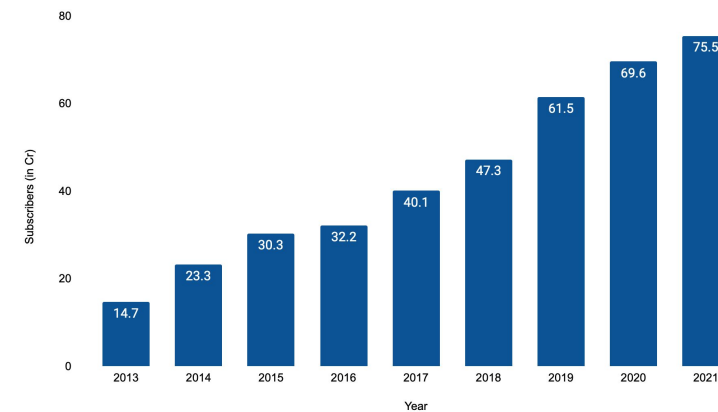


Source: IndiaStack

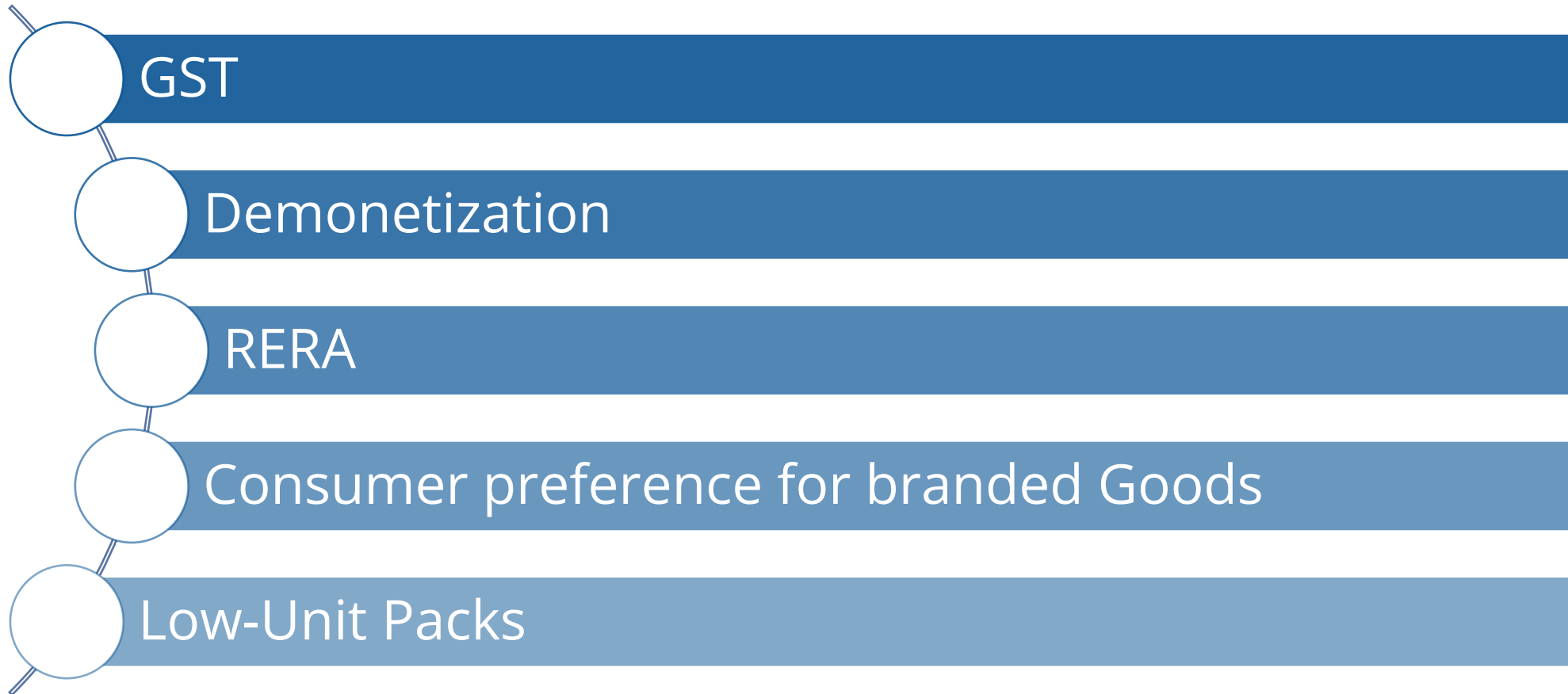
UPI Retail Transaction by Volume



4G Subscribers



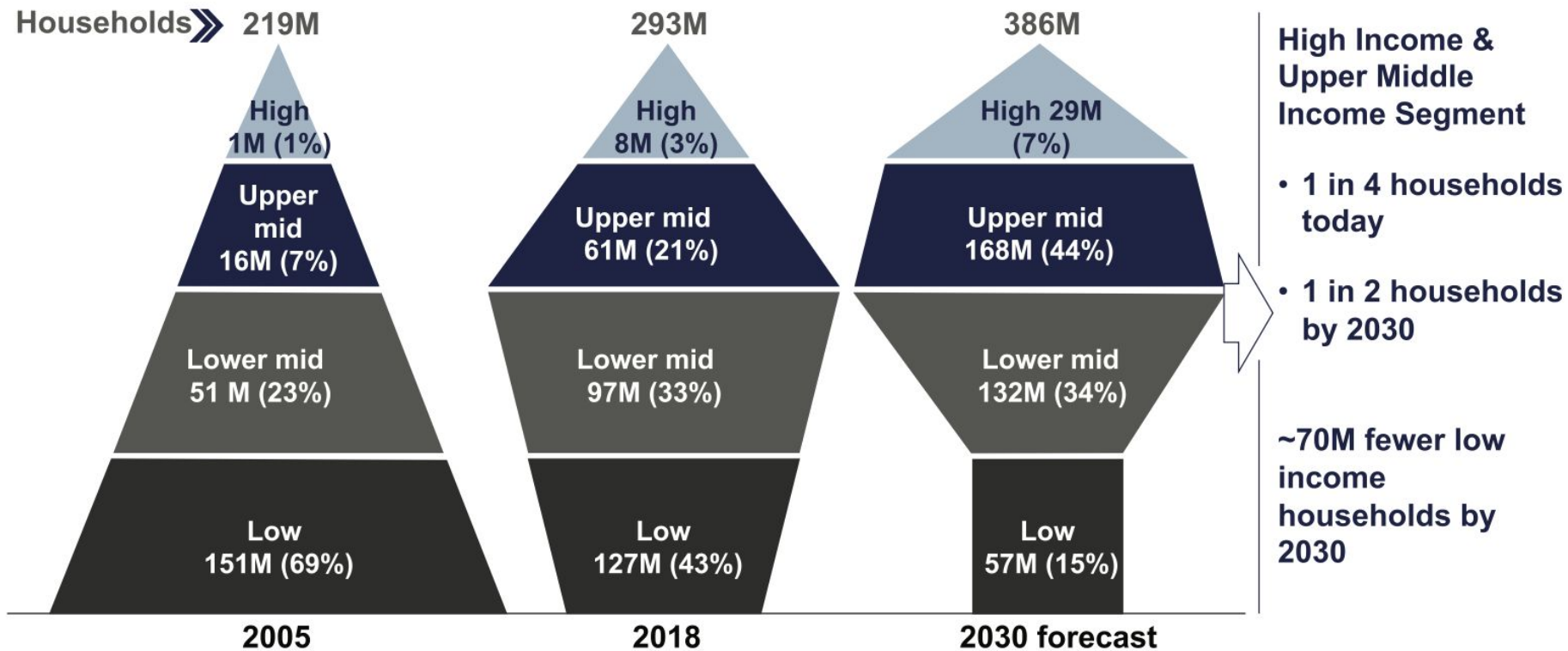
# Formalisation of Economy



# Strong Demographics

# Rise of Middle Income

Figure 2: Evolution of the household-income profile in India

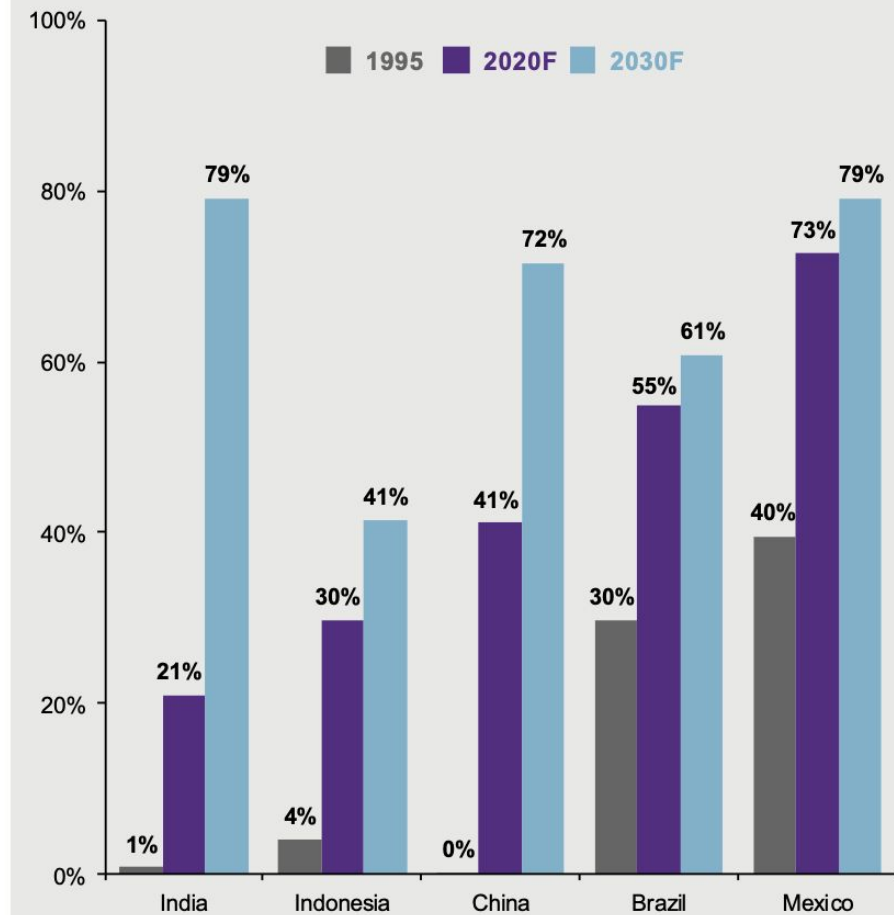


Note: Low income: <\$4,000, Lower-mid: \$4,000-8,500, Upper-mid: \$8,500-40,000, High income: >\$40,000 basis income per household in real terms; Projections with annual GDP growth assumed at 7.5%  
 Source: PRICE Projections based on ICE 360° Surveys (2014, 2016, 2018)

# India contributes the most

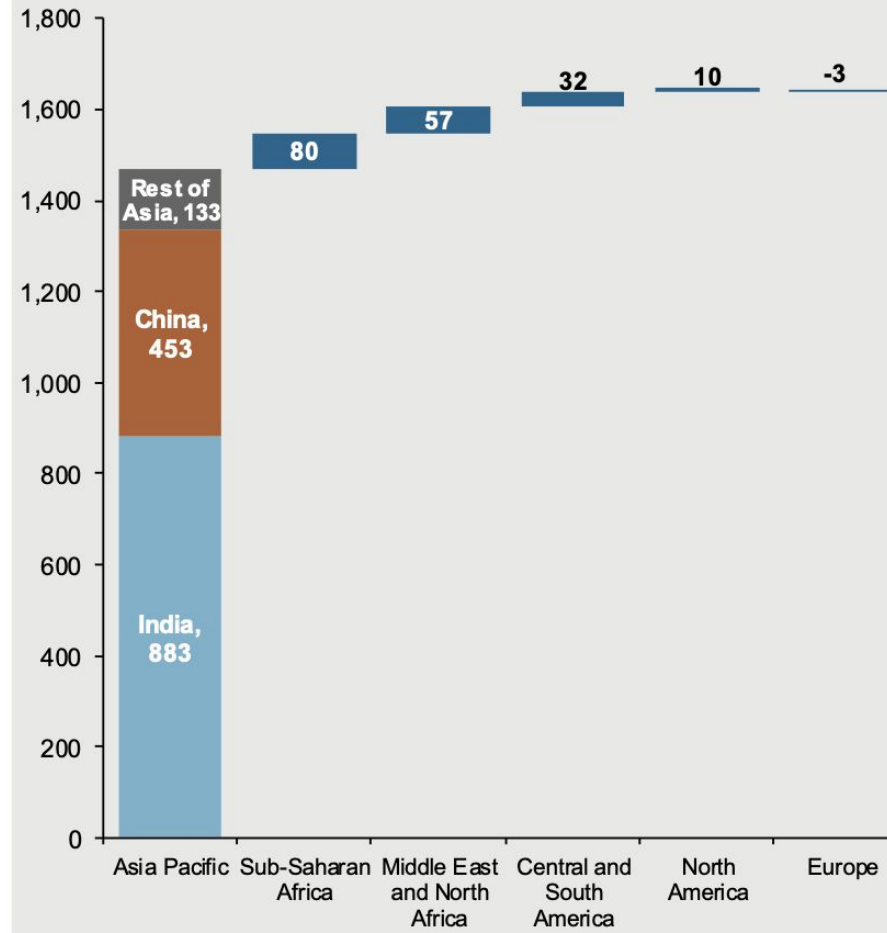
## Growth of the middle class

Percent of total population



## Regional contribution to middle class growth: 2020 to 2030

Millions of people



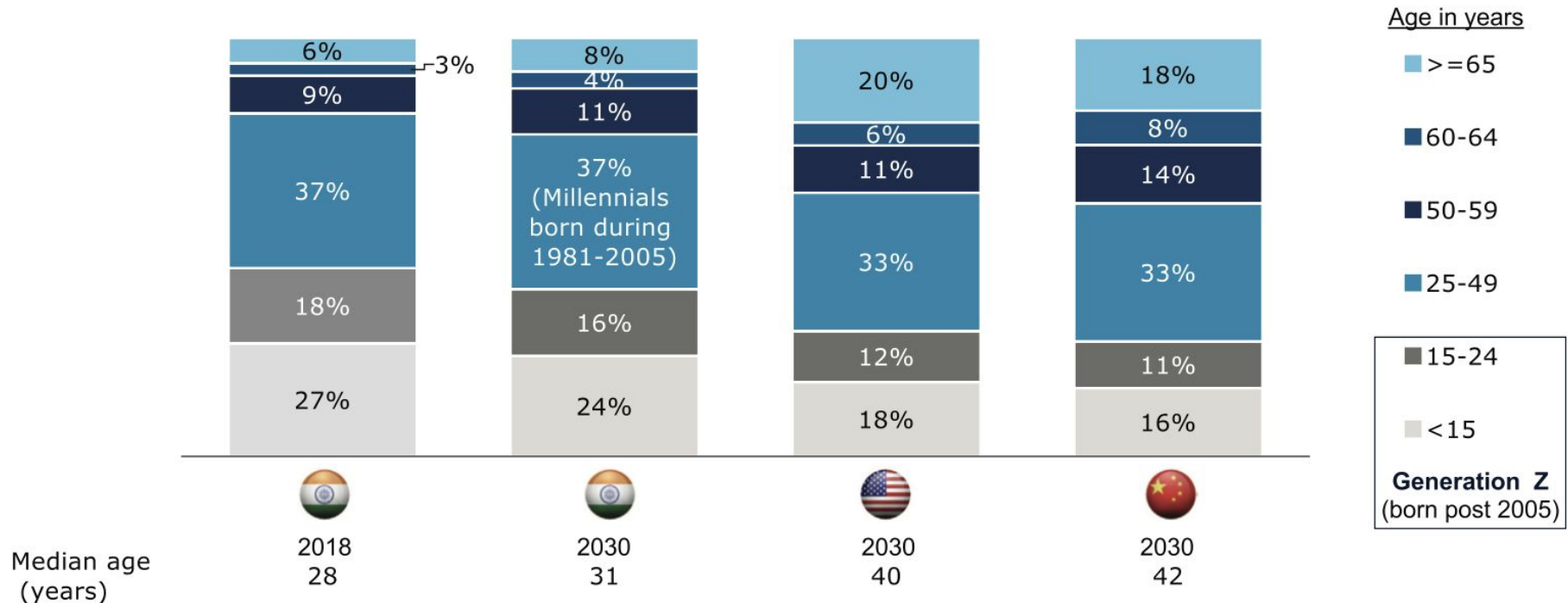
Source: Brookings Institution, J.P. Morgan Asset Management.



# Youngest Working Age Population

**Figure 4:** In 2030, 77% of India's population will comprise Millennials and Generation Z

Population by Age cohort



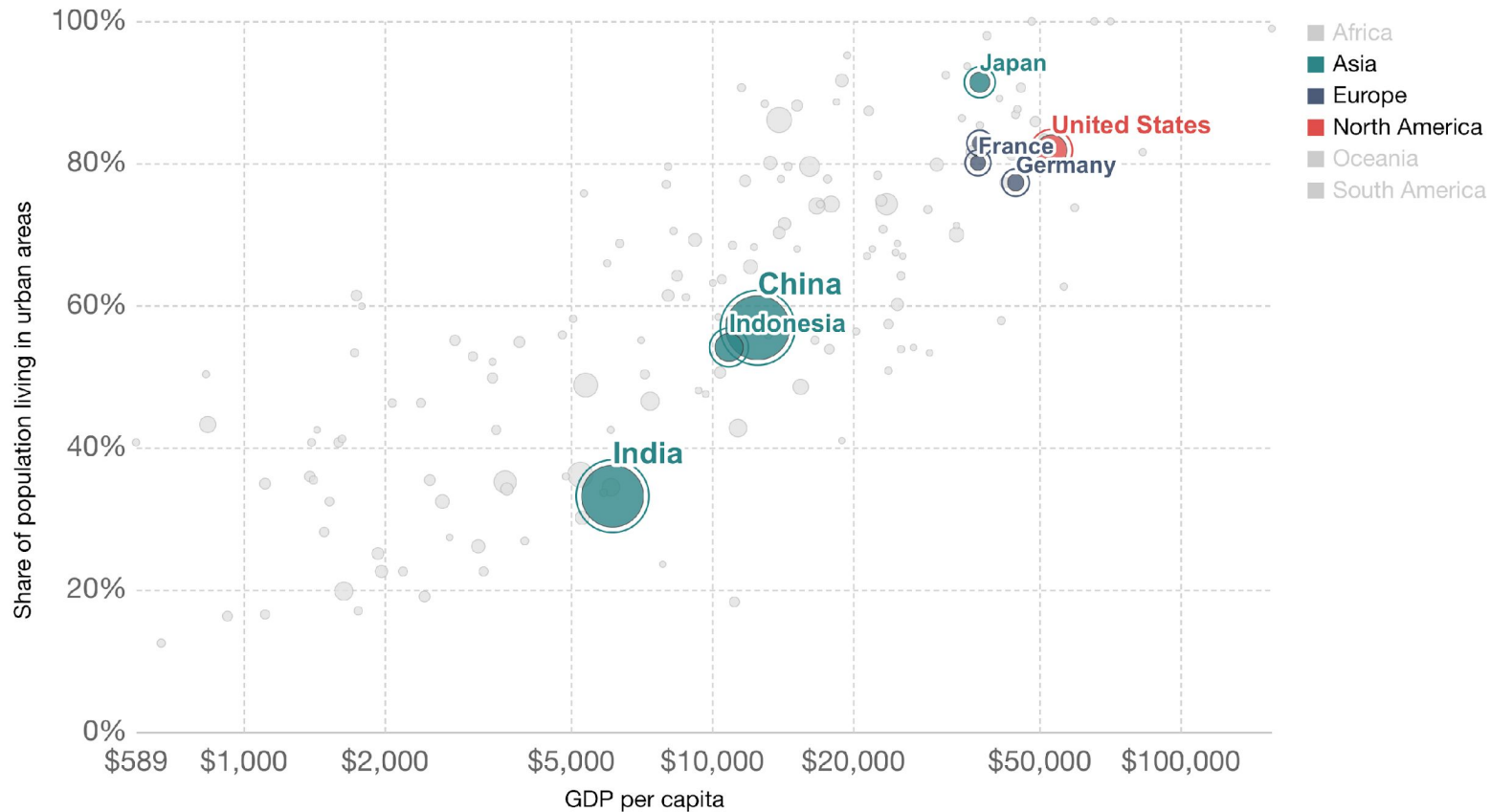
Note: Age groups 20-64 represent working population; Source: Euromonitor

# Urbanisation

## Urban population vs. GDP per capita, 2016

Share of the total population living in urban areas versus gross domestic product (GDP) per capita, measured in 2011 international-\$.

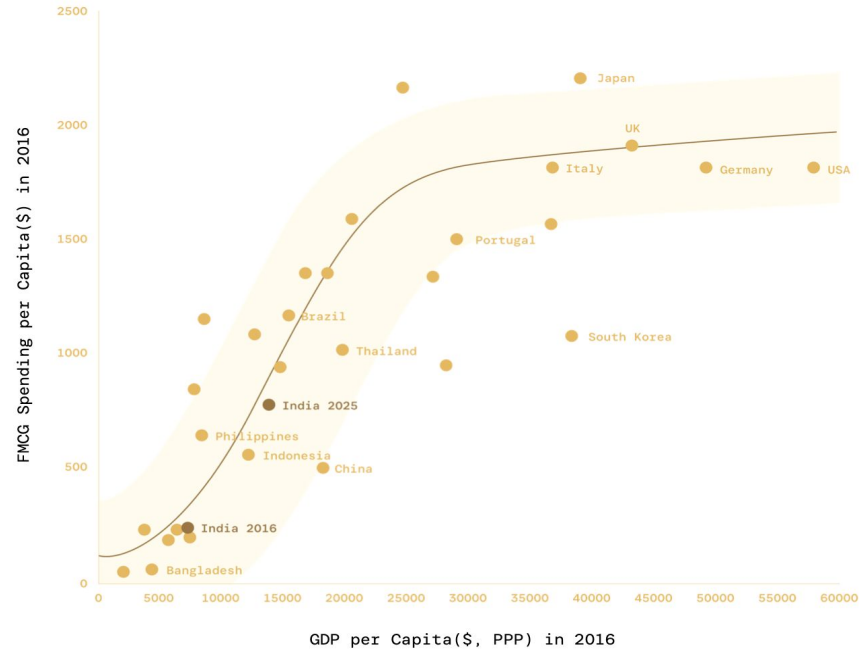
Our World  
in Data



Source: OWID based on UN World Urbanization Prospects (2018), Maddison Project Database 2020 (Bolt and van Zanden (2020))  
OurWorldInData.org/urbanization • CC BY

# Consumption Boom

# Consumption 'S' Curve



The Classic Consumer Product S-Curve

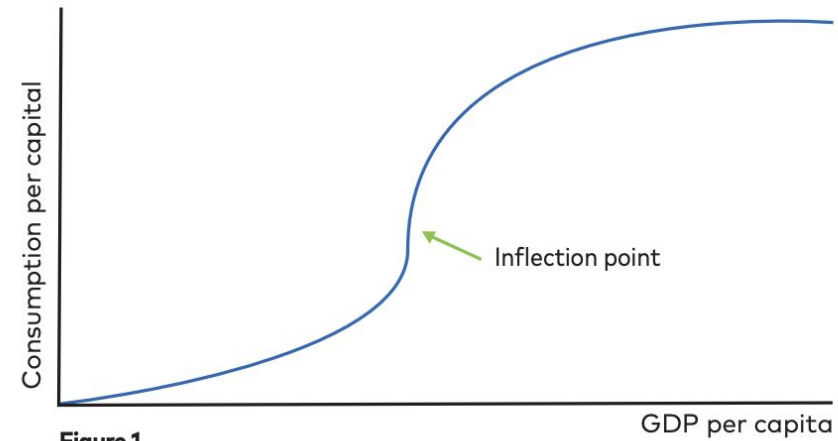
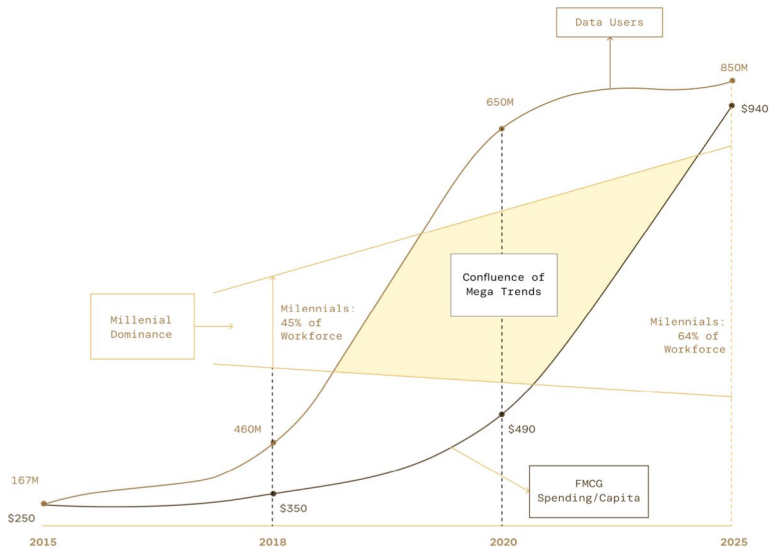


Figure 1

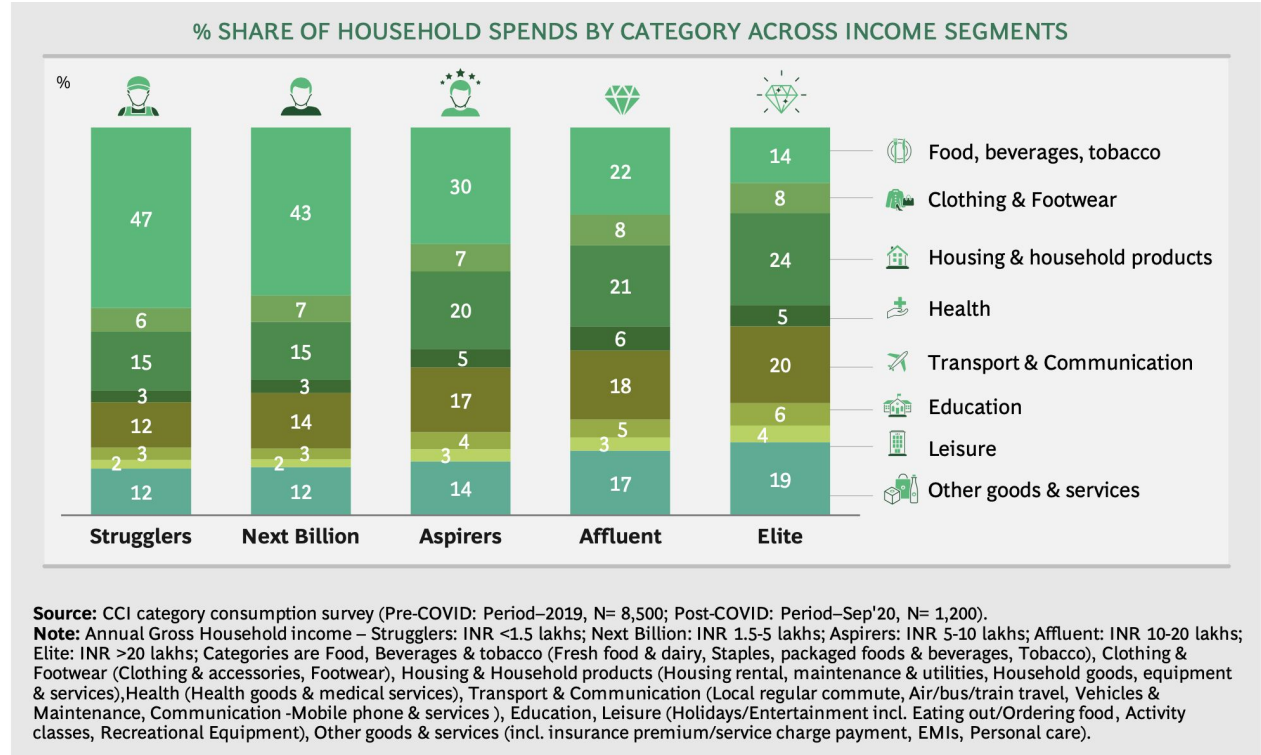
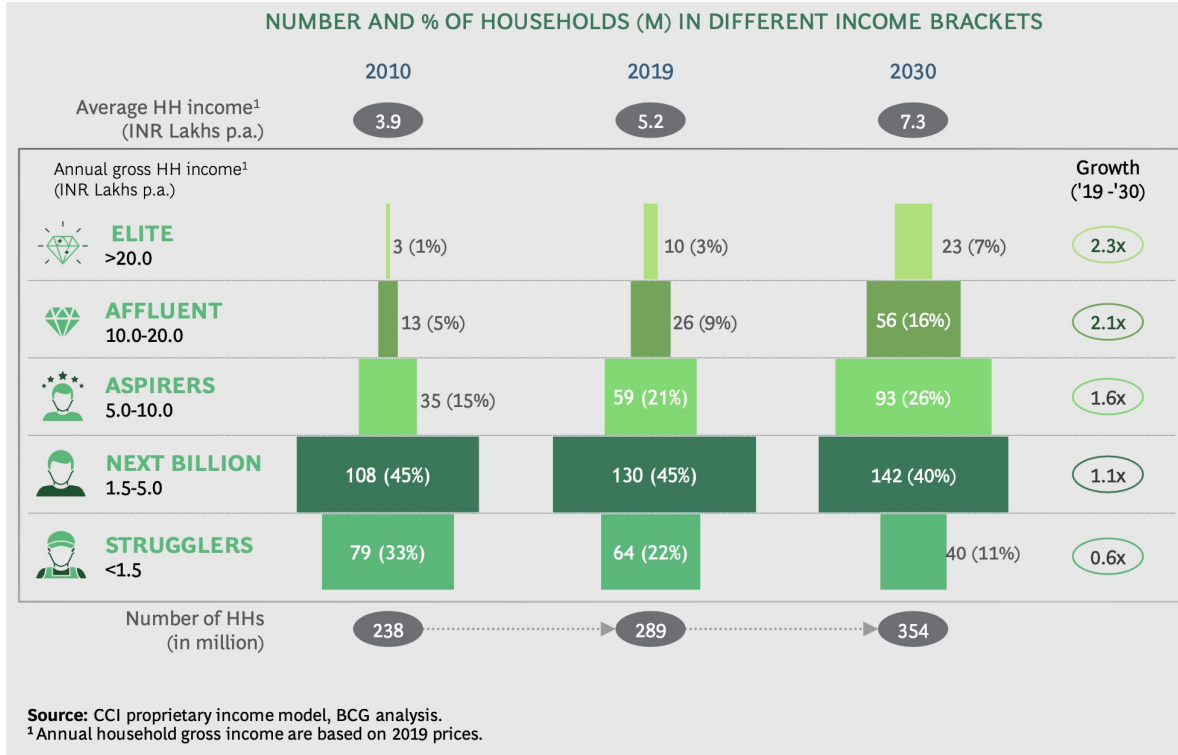


- Higher GDP per capita propels spending
- S-Curves can be drawn for different goods, with specific product categories showing varying patterns

# Spending Behavior

Per Capita Income	High Growth Potential	At par Growth Potential	Low Growth Potential
Below \$2000	Cereals Two Wheelers	Apparel Meat	Beverages Appliances/Durables Health Care Education Consumer Credit Cars Electronics Tourism/Travel Beauty Products
\$2000-\$5000	Meat Apparel	Beverages Appliances/Durables Cars/ 2W Cereals Education Beauty Products Electronics	Health Care Consumer Credit Tourism/Travel
\$5000-\$10000	Beverages Cars Electronics/ Appliances Beauty Products Education	Meat Apparel Health Care Consumer Credit Tourism/Travel	Cereals 2W
\$10000-\$20000	Education Healthcare Consumer Credit Beauty Products Tourism/Travel	Cars Electronics Beverages	Cereals 2W Appliances Meat Apparel

# 2 Charts of BCG

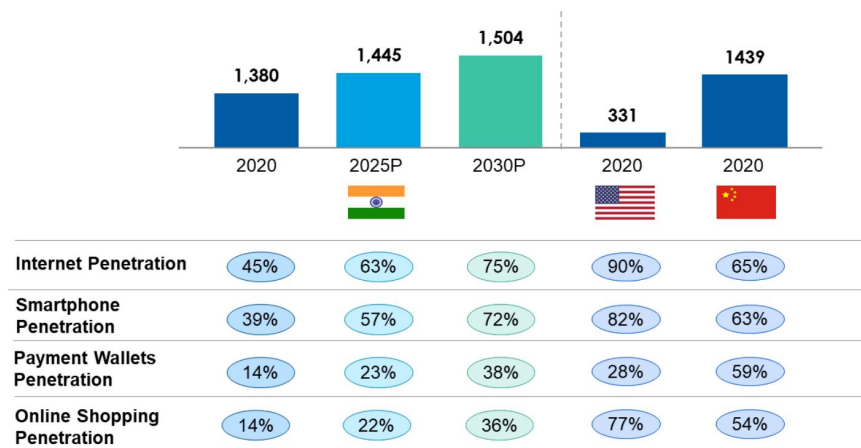


# Under-penetration

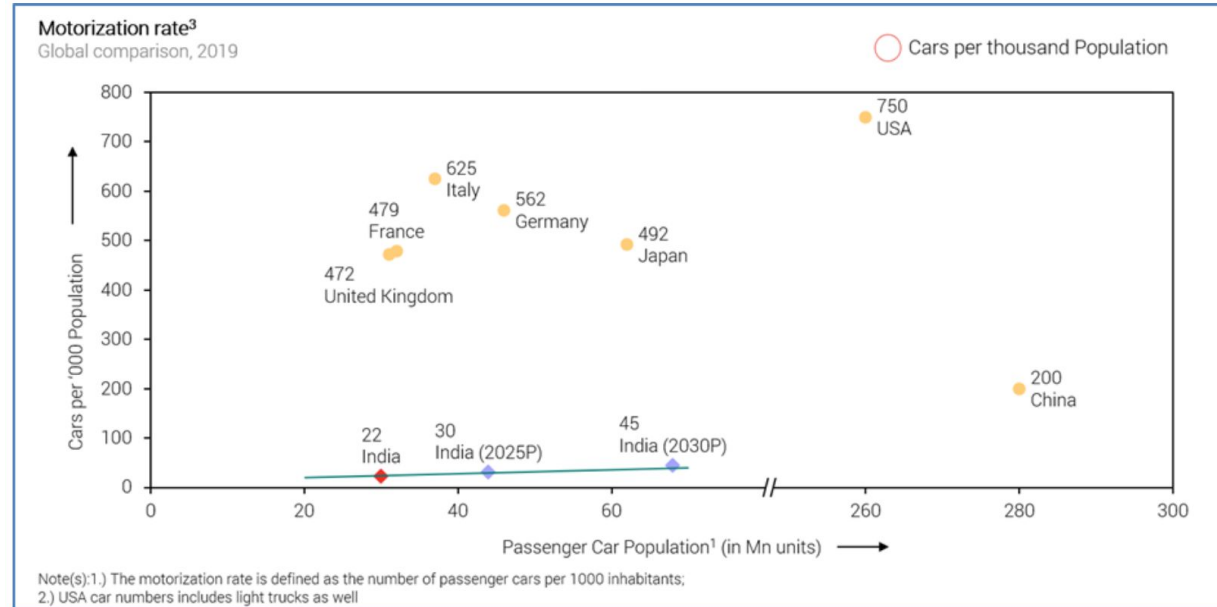
- Passenger Vehicles are underpenetrated in India
- Host of other consumer products such as AC, Television, amongst other white goods are also underpenetrated compared to peers

## Online Consumer Trends – India, USA, China

Total population (millions) in 2020, 2025P, 2030P

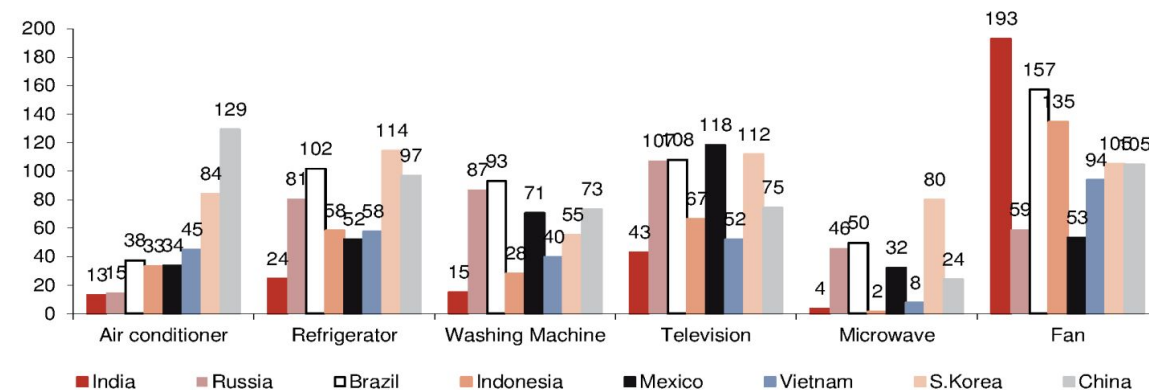


Source: RBI, Frost & Sullivan Analysis



FHWA-DOT (USA), United Nations Economic Commission for Europe (UNECE), RedSeer analysis

Fig. 5: Global penetration (per 100 HH) comparison of various consumer durables categories

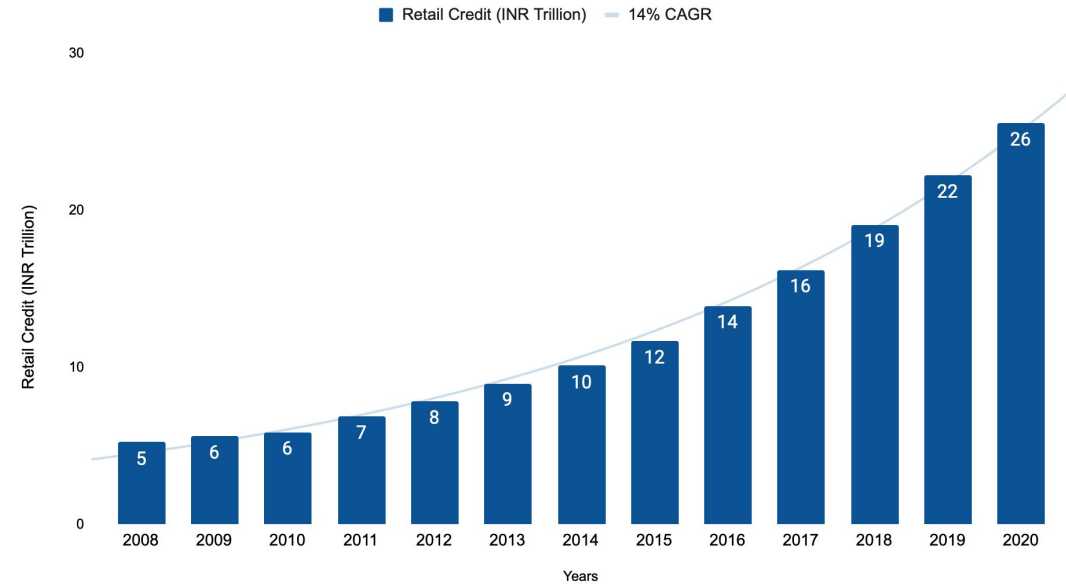


Source: Euromonitor, Nomura research

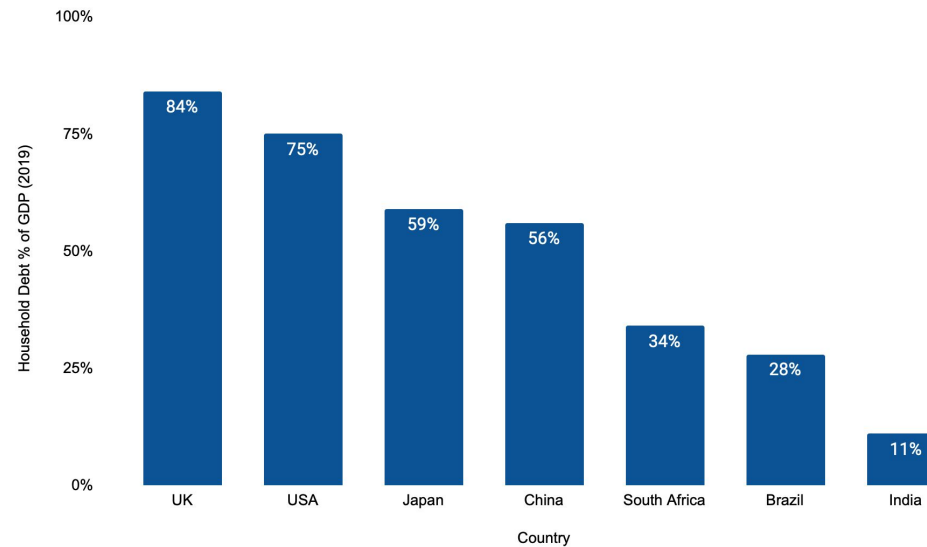
# Retail Credit

- Consumption can be driven by credit, which continues to remain low

Retail Credit (INR Trillion) vs Years



Household Debt % of GDP (2019) - Country wise





# **Banking & Financial Services**

# Underpenetrated Financial Services

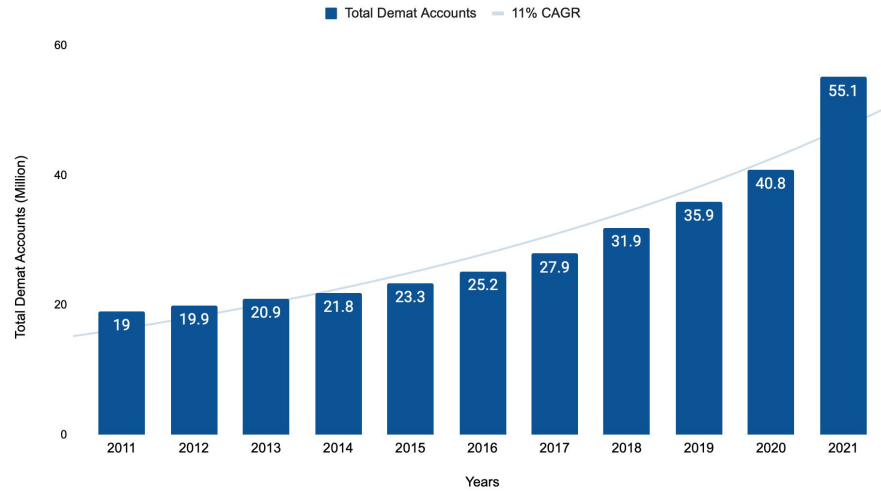
	India	China	US
Household debt as % of GDP <sup>1</sup>	11%	55%	75%
Credit Card penetration <sup>2</sup>	~4%	53%	328%
Insurance premium as % of GDP <sup>3</sup>	3.8%	4.3%	11.4%
% Population participating in stock market <sup>4</sup>	3%	13%	55%
Retail mutual fund (AUM as % of GDP) <sup>5</sup>	16%	19%	145%

Notes:

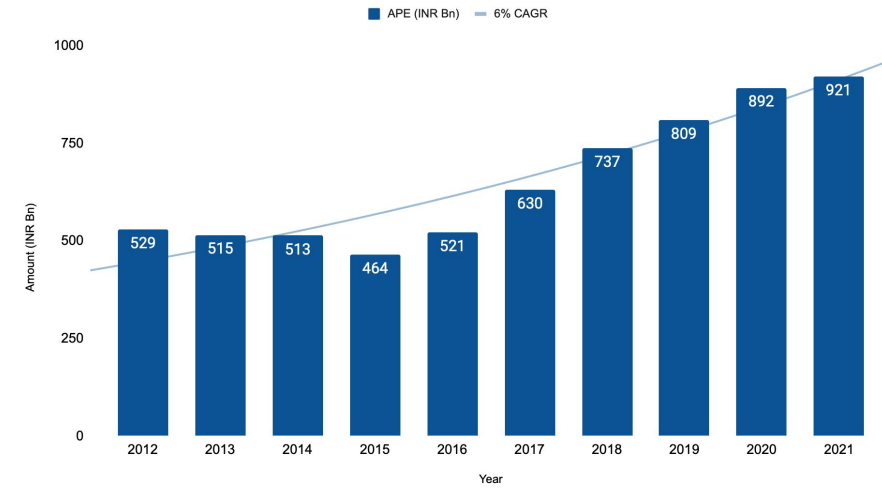
1. For 2019
2. 2019, except for India (2021). Credit Card penetration defined as average number of cards per 100 population
3. Includes Life and Non-Life Insurance
4. 2020, as a percentage of population, includes participation in direct equity and mutual funds
5. 2020E

# Chart on pick-up in demat accounts, other accounts to show this growing

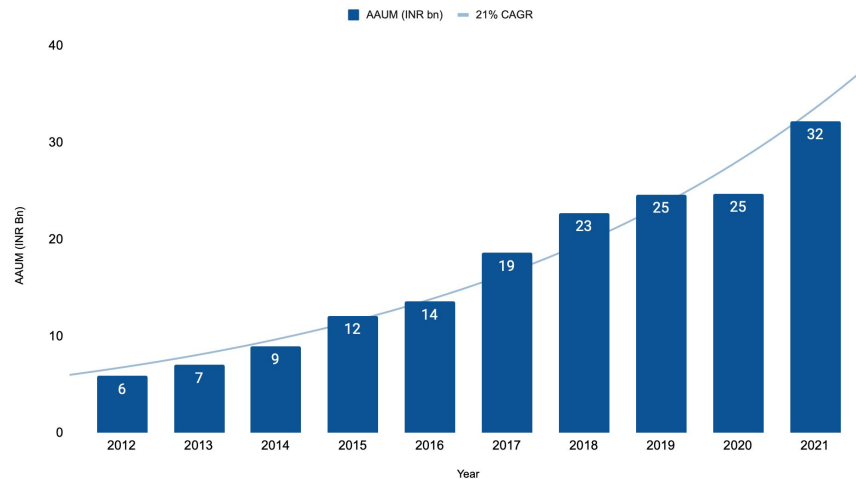
Demat Accounts Growth



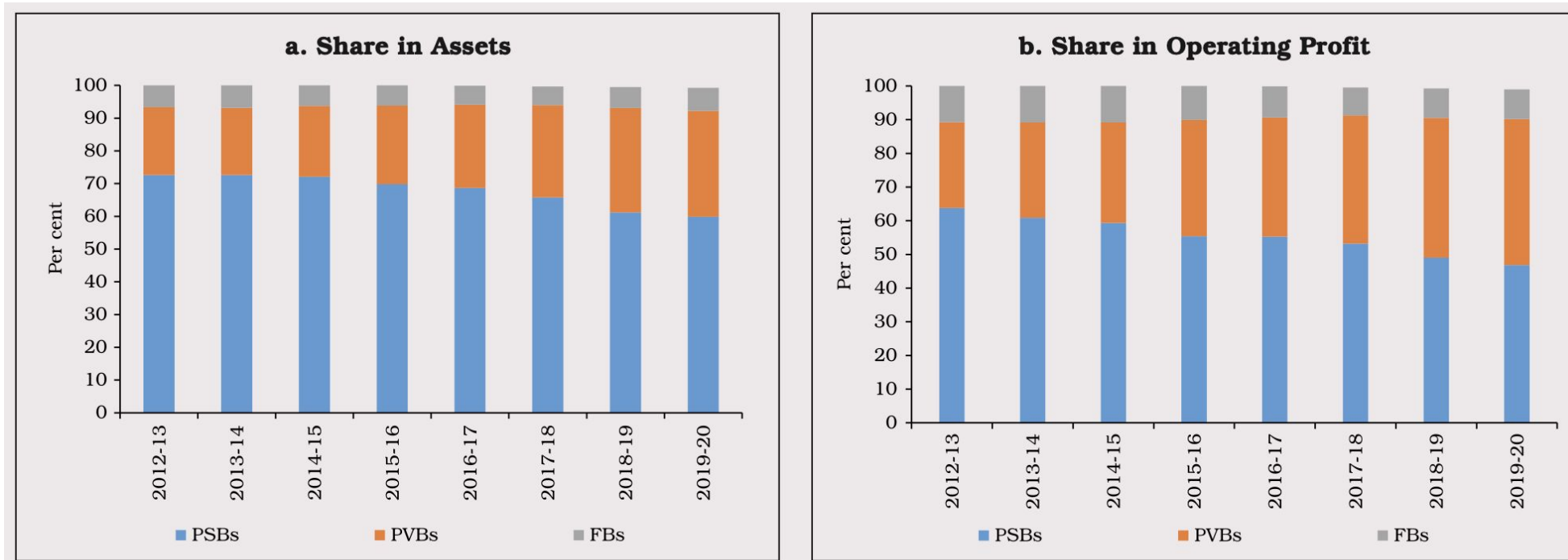
Insurance APE



AAUM (INR Bn) vs Year



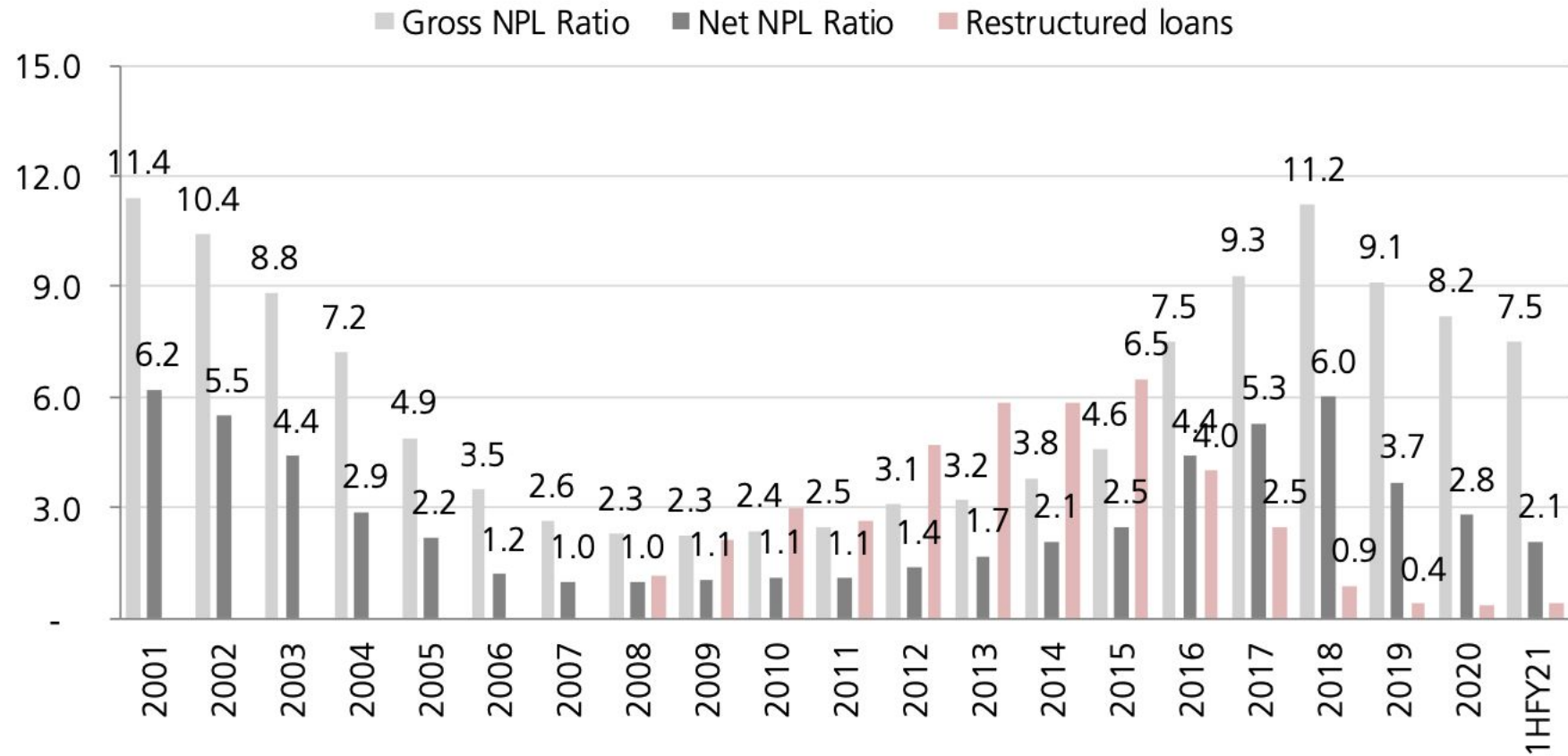
# Large Value Migration underway



# Corporate NPA Cycle Pain Peak

Exhibit 3: NPL recognition had peaked in FY2018

GNPL, NNPL and restructured loans, March fiscal year-ends, 2001-1HFY21 (%)



Source: RBI, Kotak Institutional Equities

# IT Services

This describes what you will see in the section

# Enterprise Technology

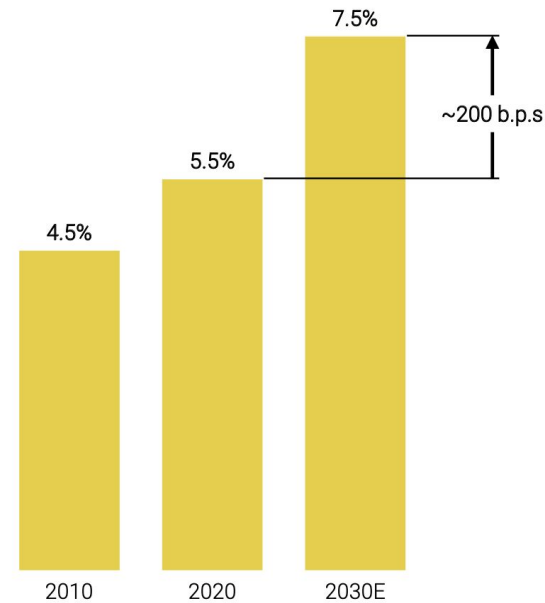
Chart 1: Evolution of the business model for IT-ITeS

Dimensions	1990	2000	2010-2015	2016-2020
			Customer Centric	Customer + Collaboration
Services	One client, one solution	Enterprise Services	Enterprise Solutions	Digital Enterprise products & solutions
Service Delivery	Custom, People Driven	Industrialised capacity & Method-driven	Capacity & IP driven	Platforms & Automation
Technology	Mainframe to Client Server	Y2K, dotcom enablement	Cloud, virtualisation, Mobile computing	Digital Tech (AI, ML/NLP, IoT, Blockchain)
Pricing	Input-based, Fixed Costs	Output-based, Fixed Costs or Gain share	Pay-per-use	Outcome-based
Deal structure	Deals relating to CAD/M & Maintenance	Multiple vendors, Large size, Long duration	Small deal wins, Short duration, End-to-end	Structured deals, Internet focused transactions
Resources	Staff-augmentation	Fixed Capacity	Non-linear	Humans+Machines, Domains & Tech Experts
Time to Deploy	Years	Months	Weeks or Days	Continuous Releases

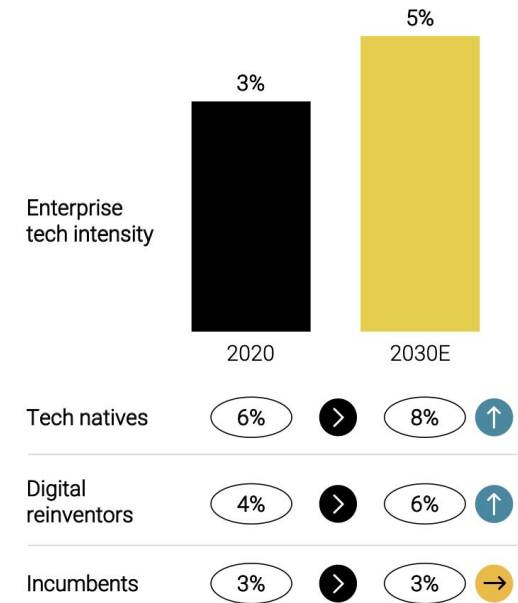
Source: NASSCOM

## Enterprise tech intensity expected to grow to about 5% in the next decade

Global enterprise and consumer spending on technology (estimated share relative to GDP)



Enterprise tech intensity<sup>1</sup> (estimated average enterprise tech spend as share of revenue)

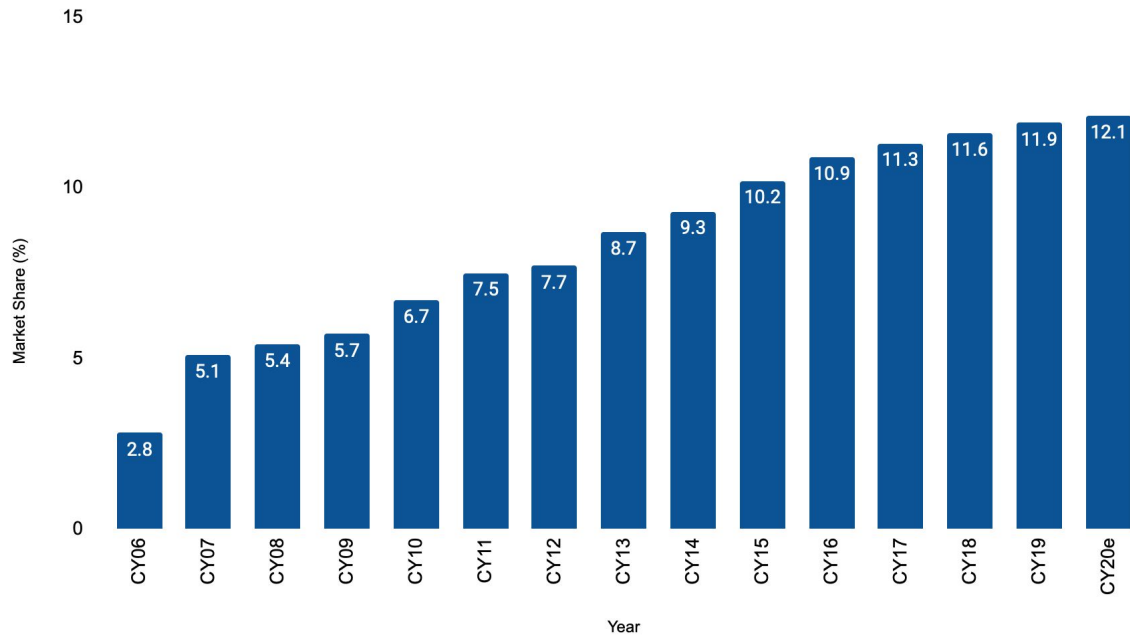


1. Analysis based on G2000 companies as ranked by Forbes, N=2000

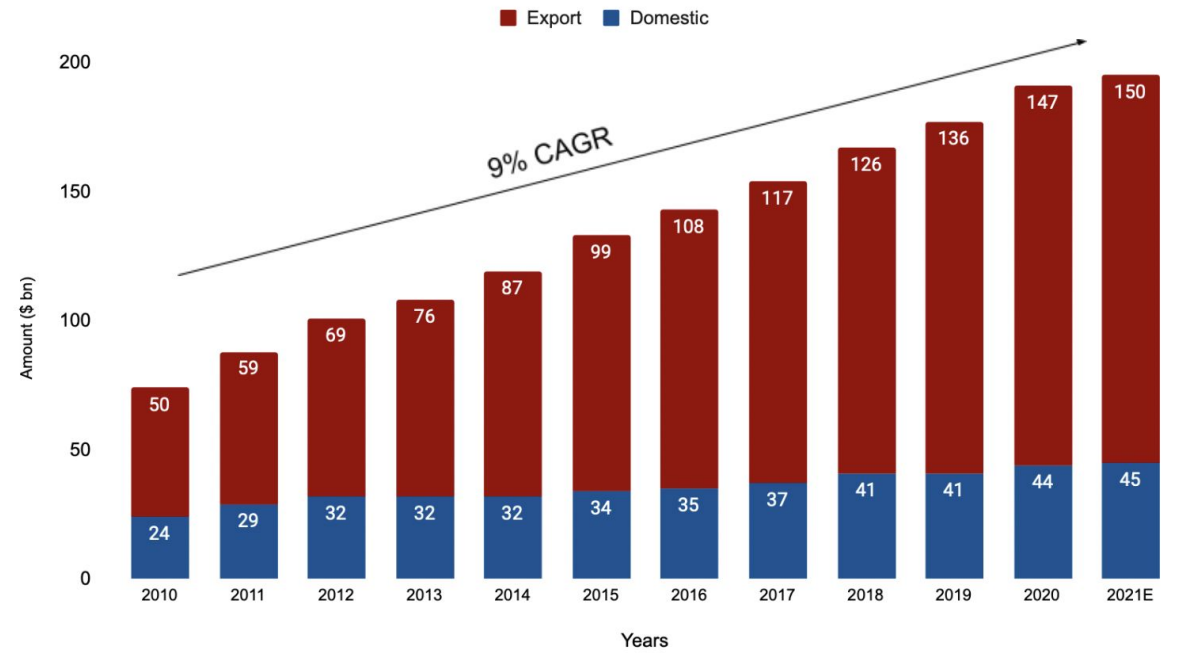
Source: IDC, World Bank, Global data 2019 Tech Spend, Team analysis, Annual reports

# Indian IT Industry

Indian IT Global Market Share %



India IT Industry \$bn



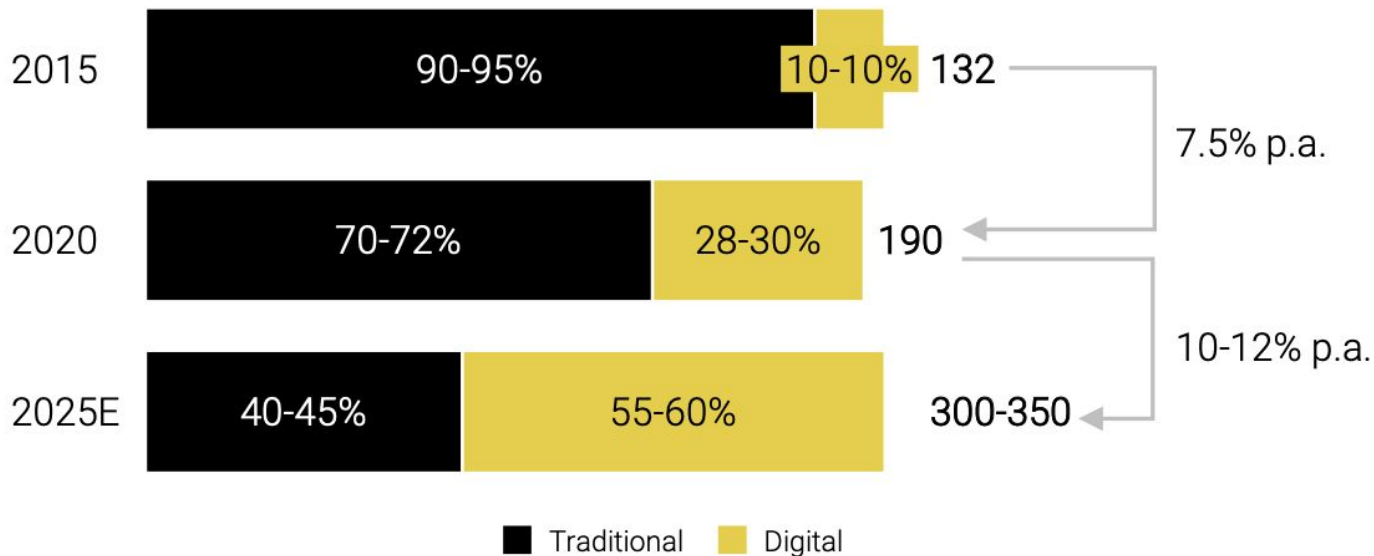


# Adopting Industry

Indian technology services could reach USD 300-350 billion in revenues by 2025

## Revenue of the Indian tech services industry<sup>1</sup>

USD billion



### Key digital spend battle grounds to drive growth

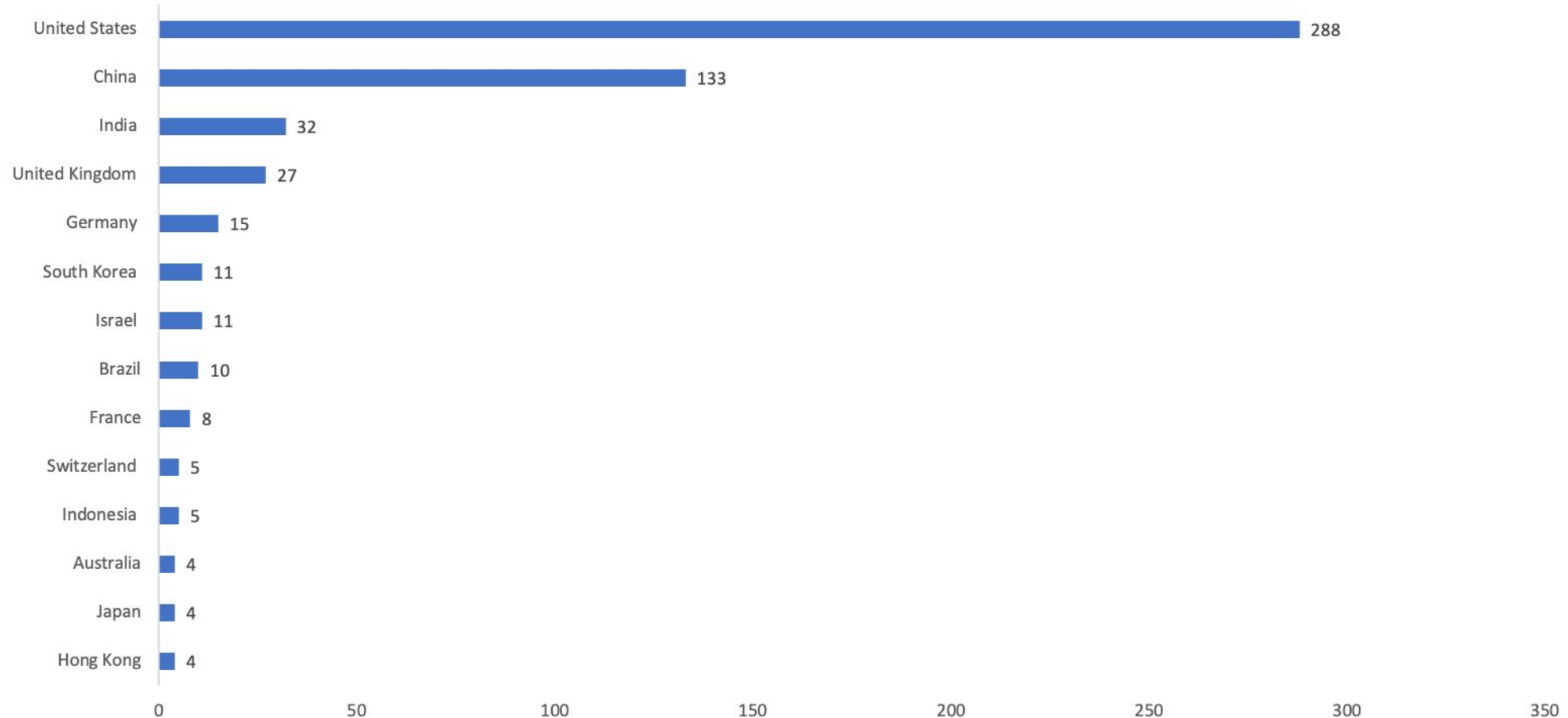
- 1 Cloud services
- 2 Artificial intelligence
- 3 Cybersecurity
- 4 Customer experience, UI/UX
- 5 Internet of things

1. Does not include e-commerce revenues

# Start-up Ecosystem

# Lists with Descriptions

Number of unicorns worldwide as of April 2021, by country



# Large Value Creation lead by VC

Exhibit 6: Large value creation has happened in the start-up space in the past seven years

Value of major unicorns of India, March fiscal year-ends, 2014-21 (US\$ bn)

	2014	2015	2016	2017	2018	2019	2020	2021
Billdesk						1.0	1.8	1.8
Byju's					1.0	4.0	10	15
Delhivery				0.7		1.5	1.6	3.0
Dream11						0.7	2.5	5.0
Flipkart	1.6	7.0	15.5	11.5		21		25
Nykaa						0.9	1.2	3.0
Ola Cabs			2.5	3.0	4.3	5.7	6.1	3.3
One 97 communications		1.5	2.8	6.0	10	10	15	16
Oyo Rooms		0.4		0.8		5.0	10.0	8.0
PhonePe					0.5			5.5
PineLabs						0.9	2.0	3.5
Policybazaar				0.5		1.0		2.4
Razorpay						0.5	1.0	3.0
Swiggy					0.9	1.3	3.3	3.6
Udaan						1.0	2.8	3.1
Zomato				0.5	1.1	2.0	3.0	5.4
<b>Total</b>	<b>2</b>	<b>9</b>	<b>21</b>	<b>23</b>	<b>18</b>	<b>56</b>	<b>60</b>	<b>107</b>

Notes:

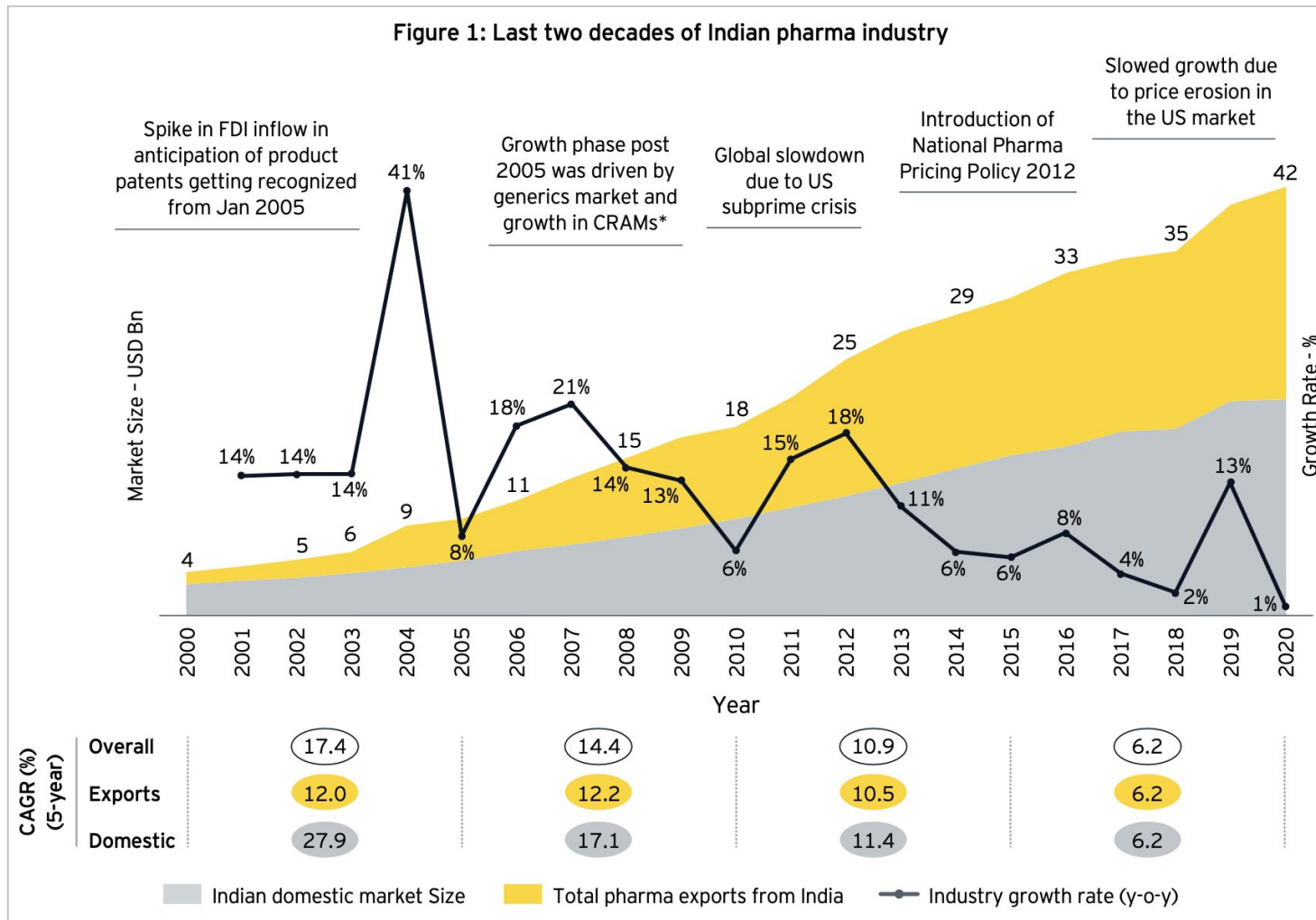
(a) We use the last reported value of each financial year.

Source: Media articles, Tracxn, Kotak Institutional Equities

# World's Pharmacy

# Indian Pharma: Critical to Global Healthcare

Figure 1: Last two decades of Indian pharma industry



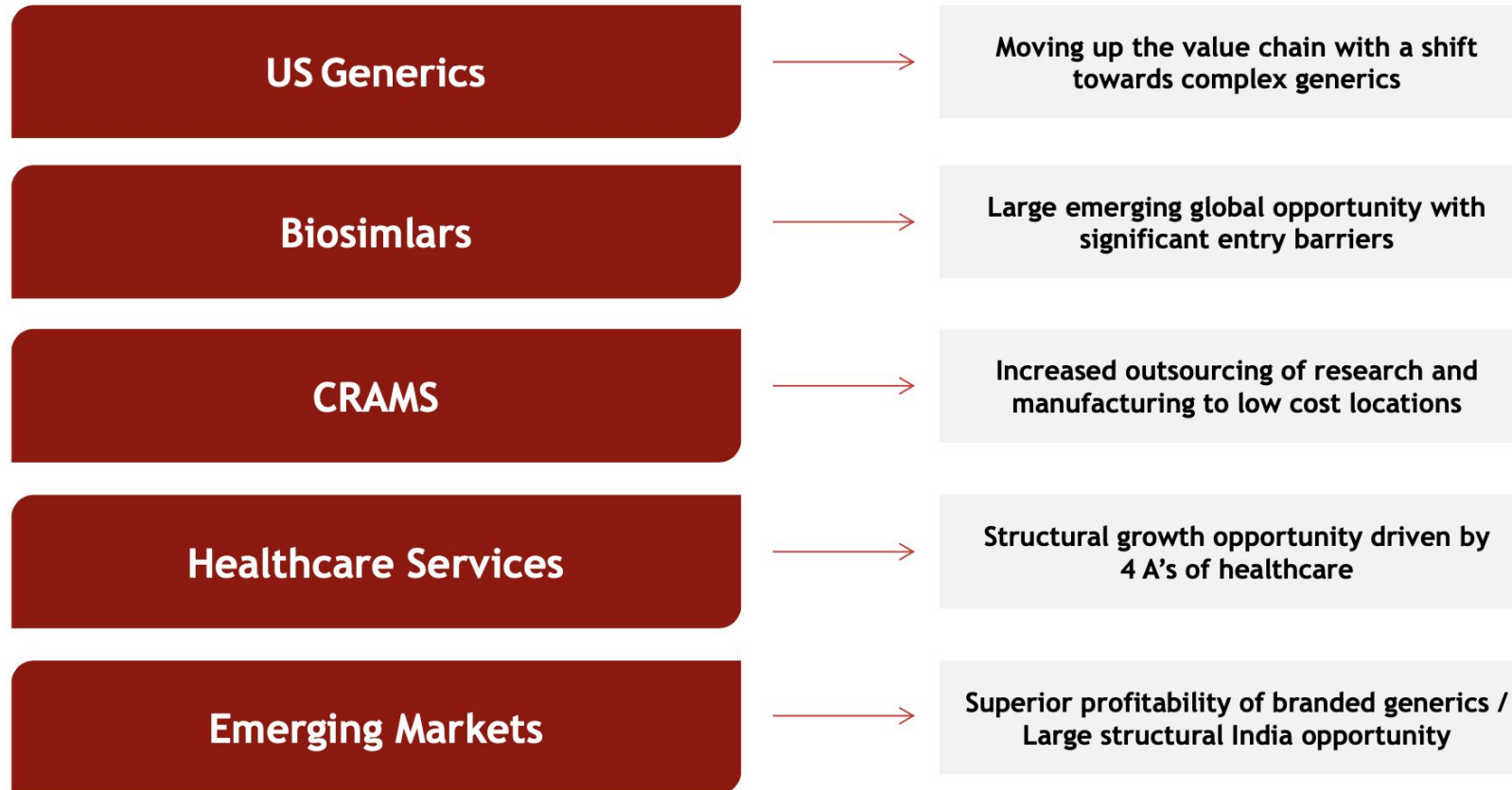
\*CRAM: Contract Research and Manufacturing

Source: EY analysis

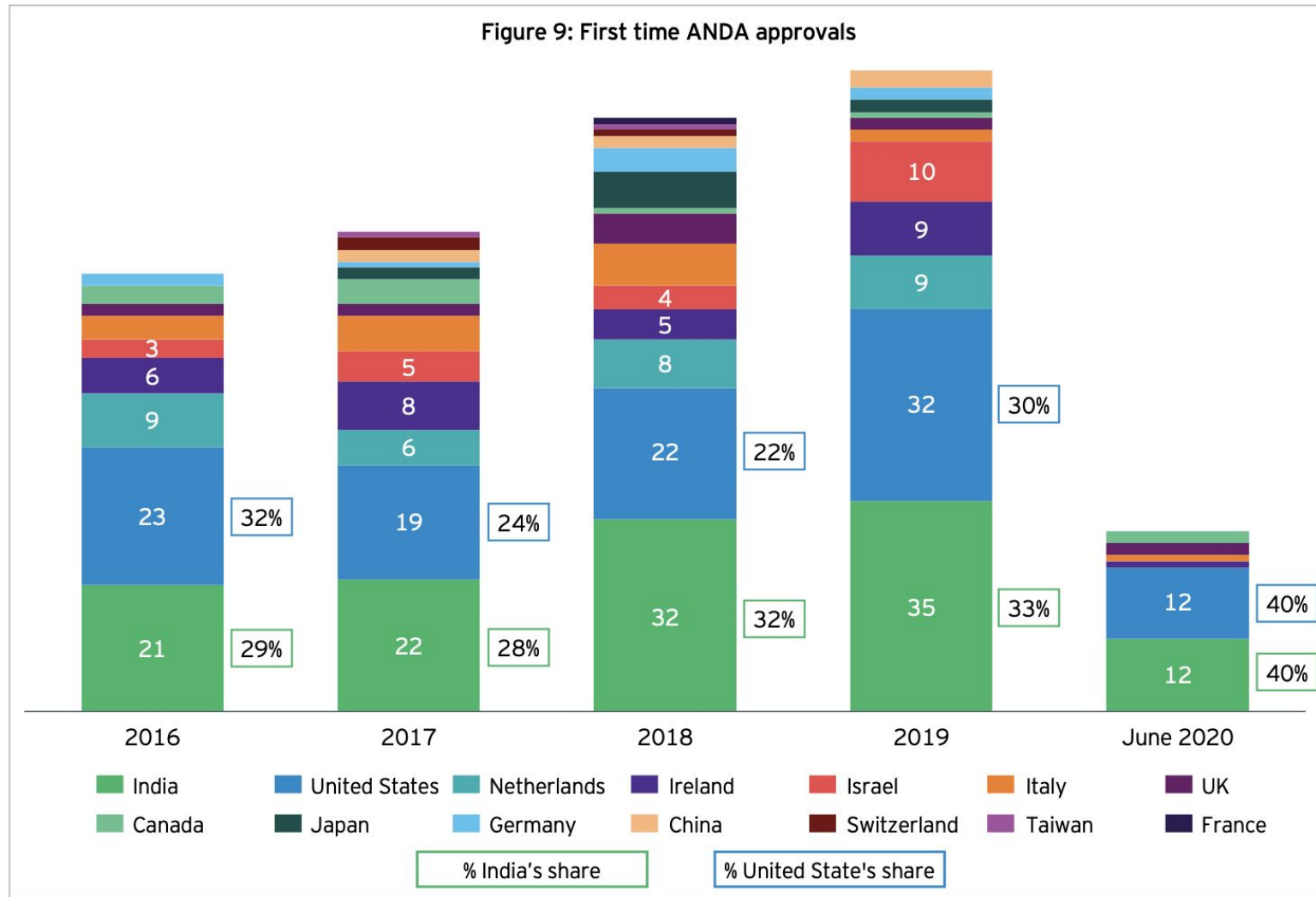
# Core Themes

## 5 Core Themes

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# India Leads in ANDA Approvals

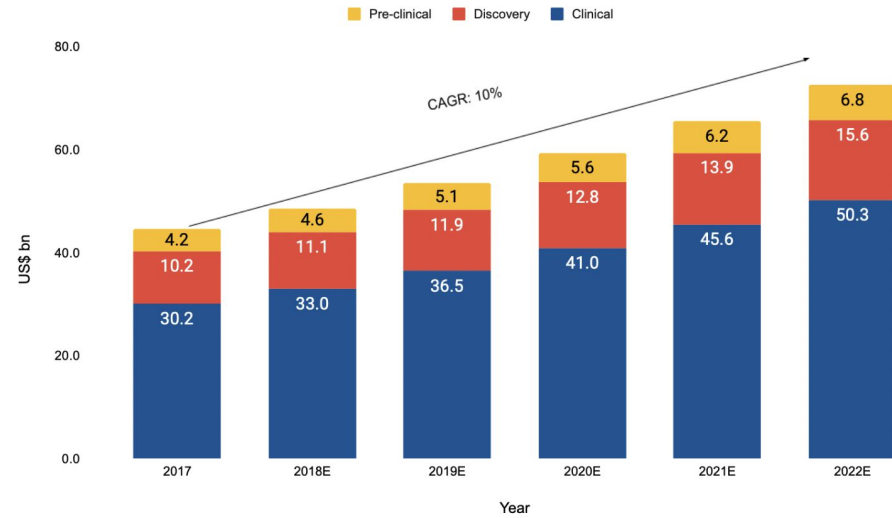


Source: USFDA website, EY analysis

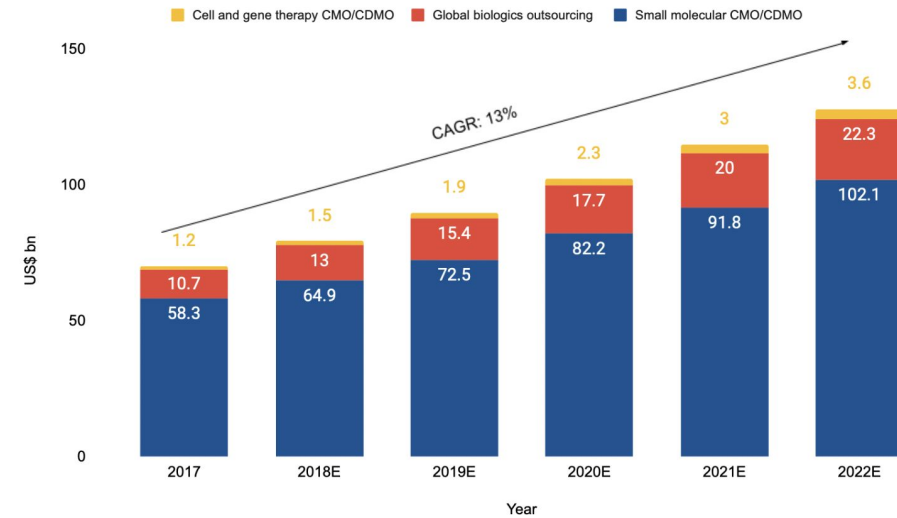


# Global CRO and CDMO

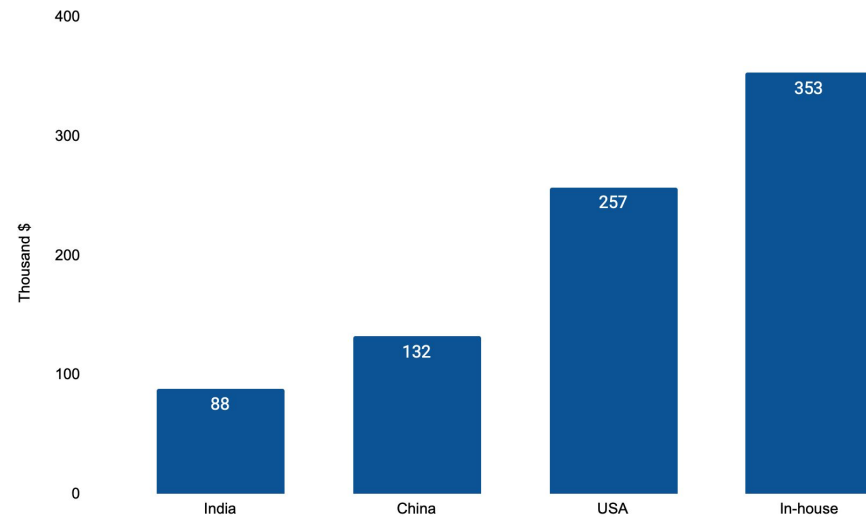
Global CRO



Global CDMO



Average Annual Salary per Scientist

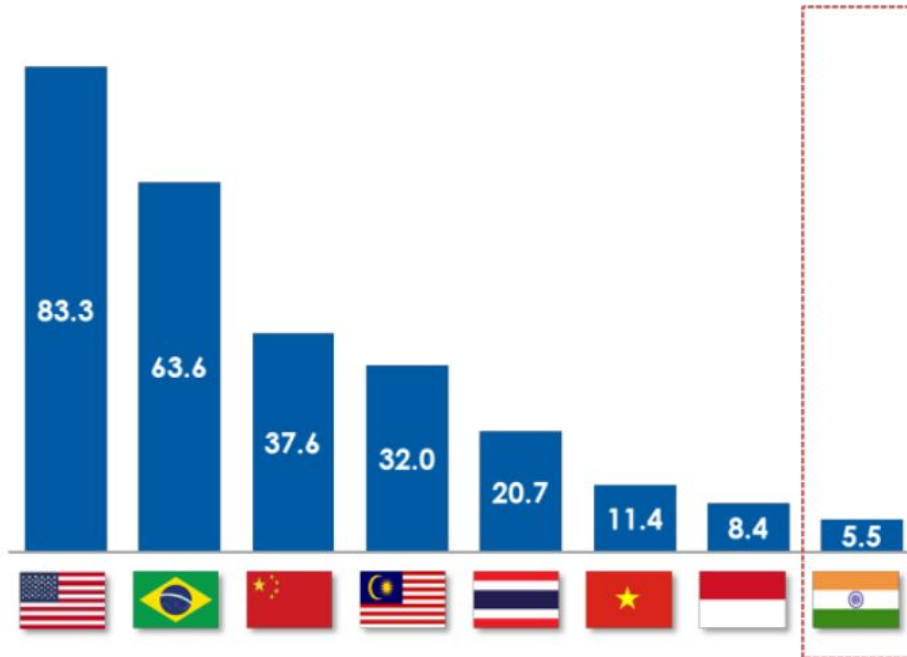


# Healthcare Services

## India's Healthcare Expenditure is Amongst the Lowest Globally

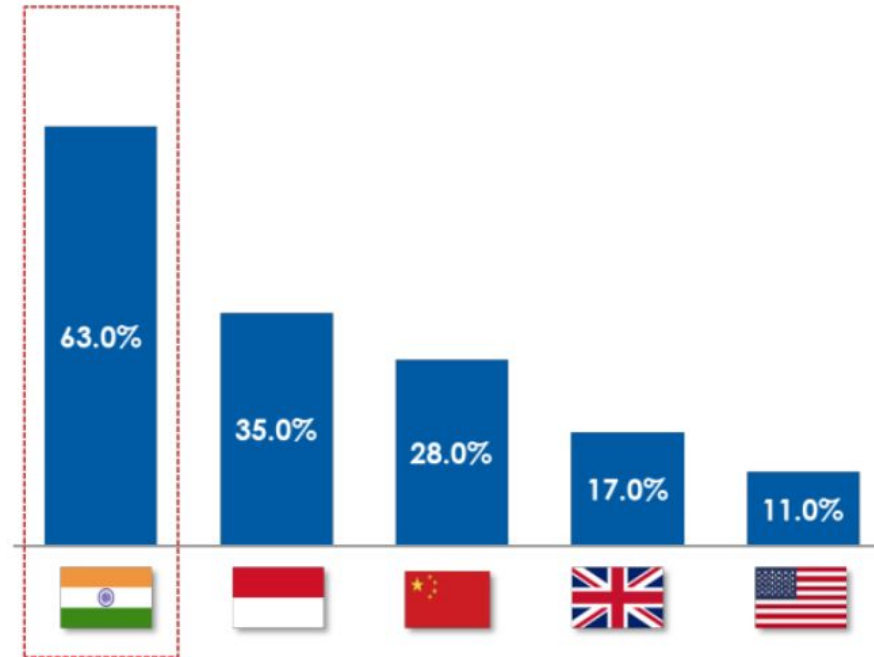
### India has Low Health Expenditure Per Capita<sup>(1)</sup>

₹ thousands



### 63% of Healthcare Spend is out of Pocket<sup>(1)</sup>

Out of pocket spends (% of healthcare expenditure)



Source: Frost & Sullivan Analysis

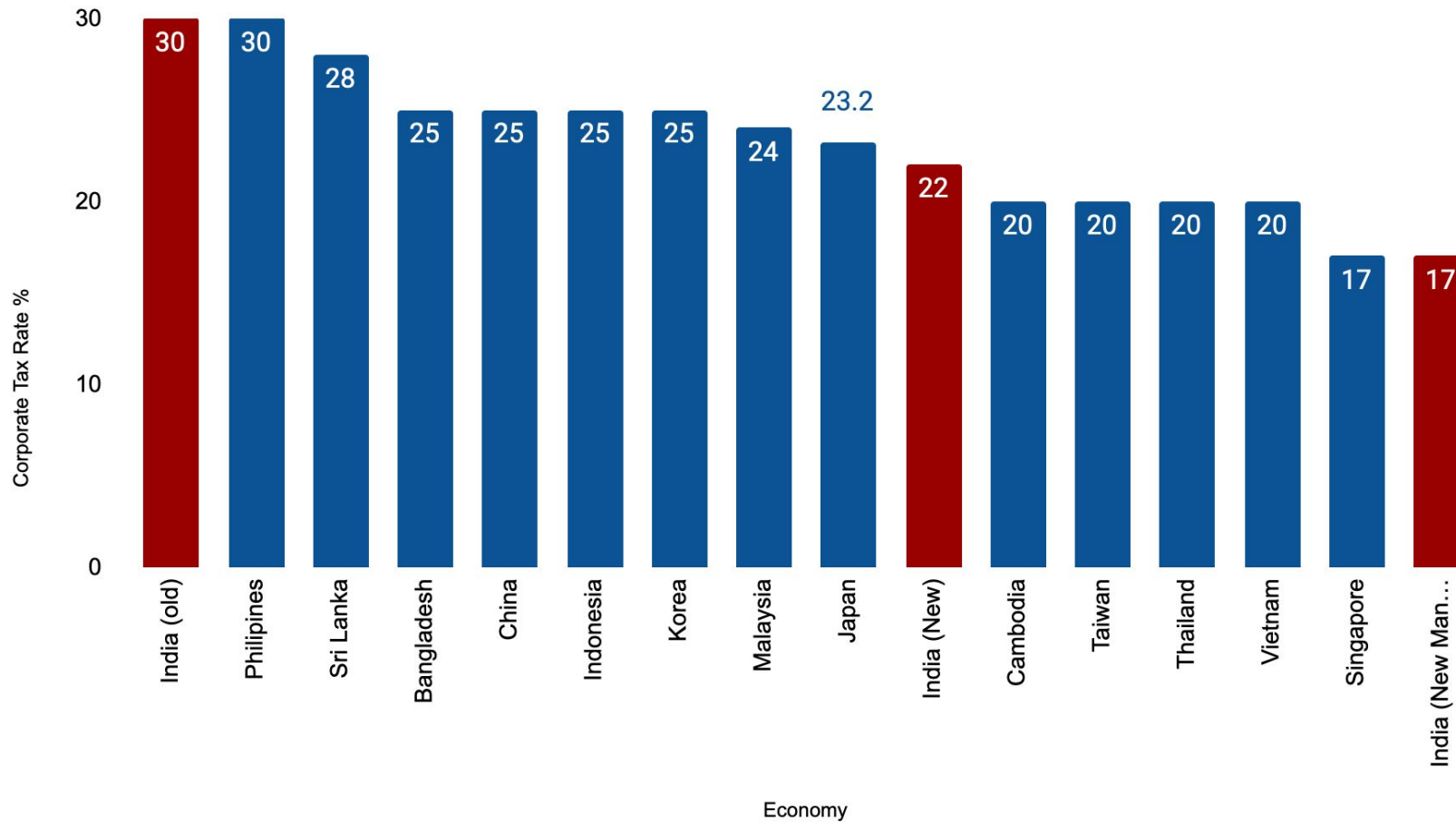
**Note:**

1. Healthcare expenditure data as of 2018

# **New Area of Focus - Manufacturing**

# Landmark Tax Reforms

Corporate Tax



# Make In India Push

## PLI 1

- US\$ 7 Billion outlay over 5 years
- Mobile manufacturing, API and medical devices

## PLI 2

- US\$ 20 Billion outlay over 5 years
- Automotive, batteries, pharmaceuticals, telecom

## Labour Reforms

- Significantly reduced compliance burden
- Removed bottlenecks for scaling up

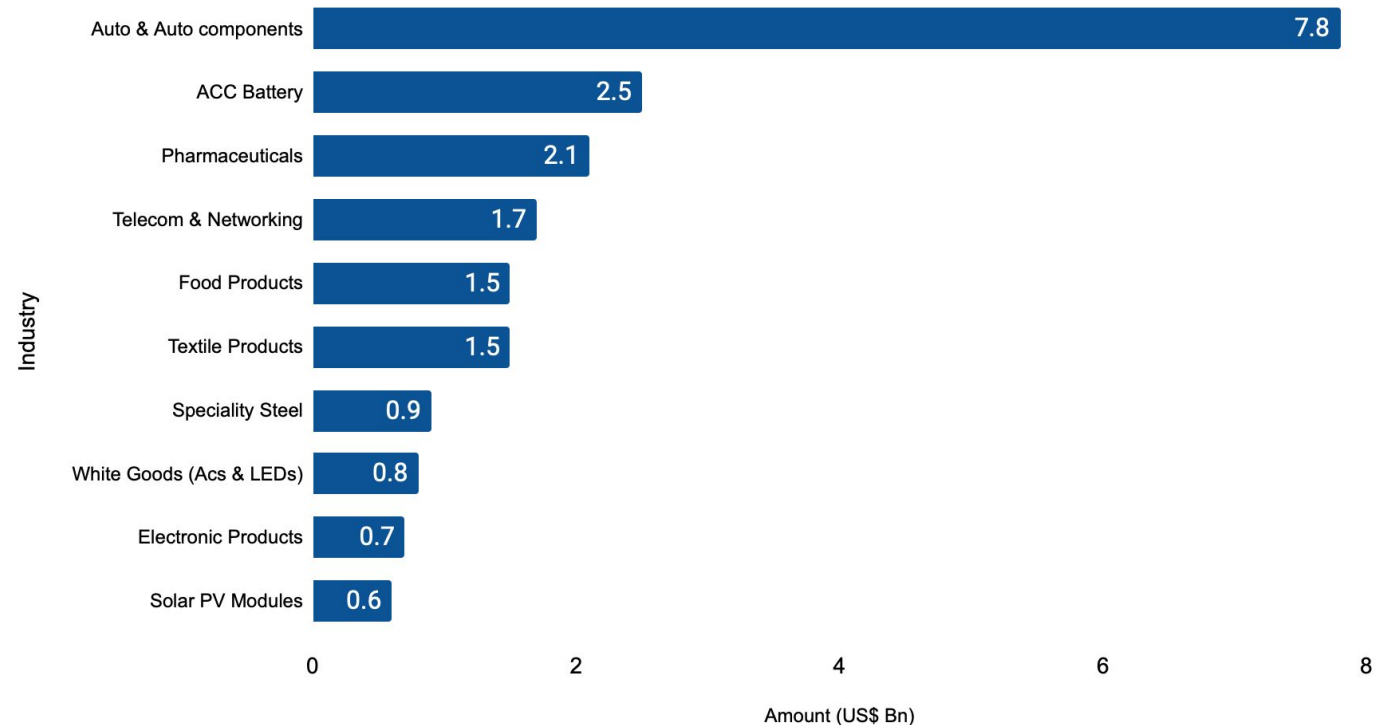
## Favourable Taxation

- 17% tax rate for new manufacturing companies

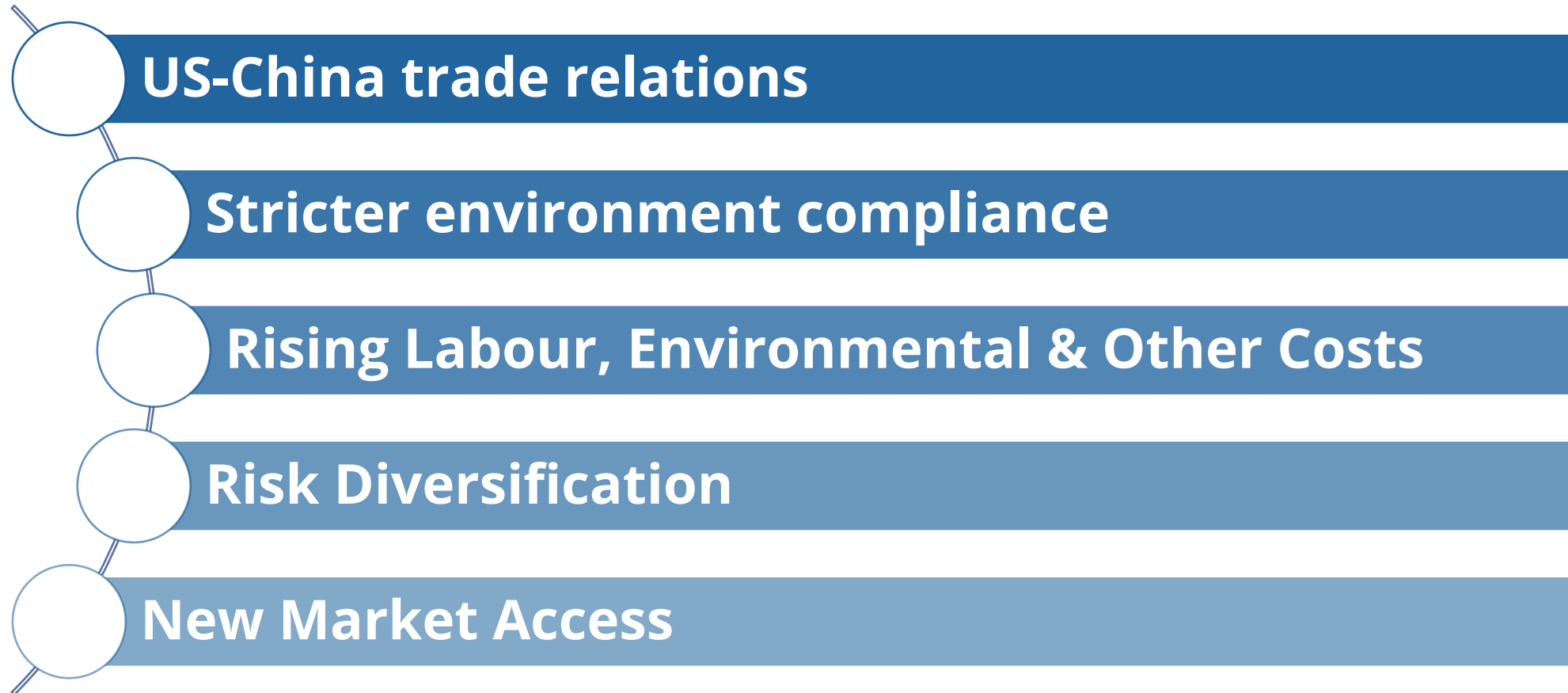
## Support Import Duty Structure

- Duty support across nascent industries to boost domestic manufacturing

PLI 2.0 Cumulative Outlays- US\$ bn



# Factors Driving China Derisking



# Factors Determining New Manufacturing Locations

## Factors Determining New Manufacturing Locations

- Labour Costs
- Infrastructure
- Market Size
- Country-specific risks

## Policy Initiatives

- Tax Cuts
- PLI
- Improving Infrastructure
- Custom Duty Hikes on Intermediary Products

## Beneficiaries

- Consumer Durables
- Consumer Electronics
- Textiles
- API
- Food Processing
- Chemicals

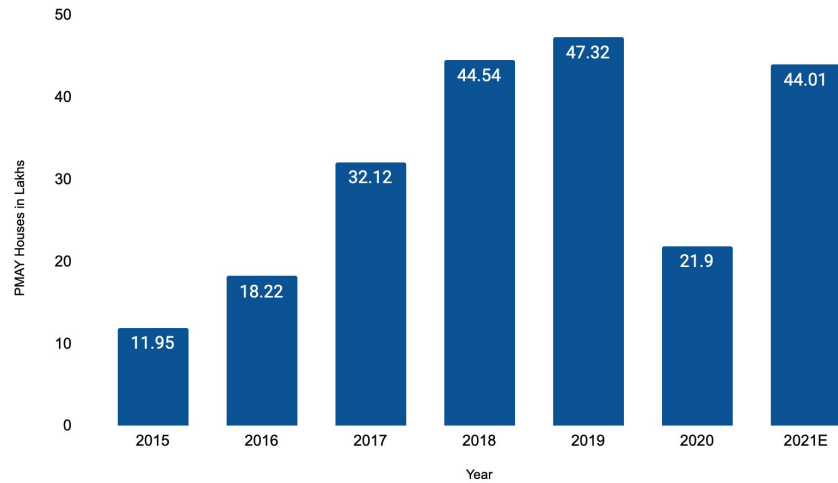
# Physical Asset Creation

This describes what you will see in the section

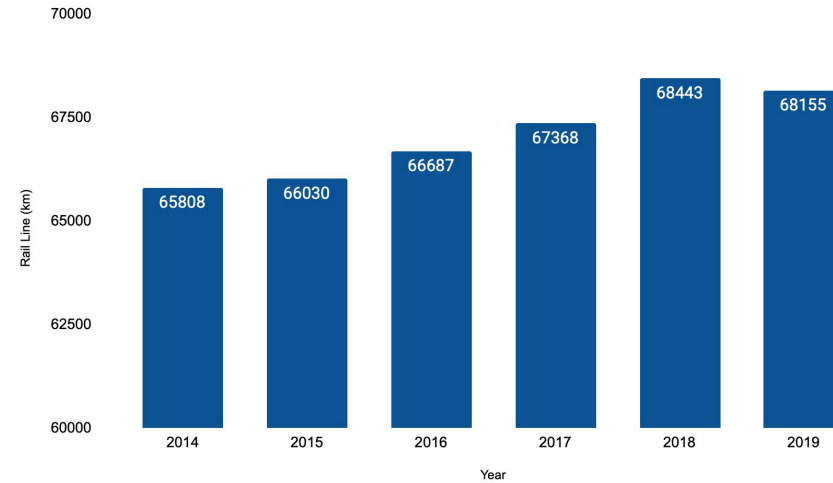


# Improving Infrastructure

Houses Built under PMAY



Rail Line (km)



WEF World Competitiveness Index - India Infrastructure

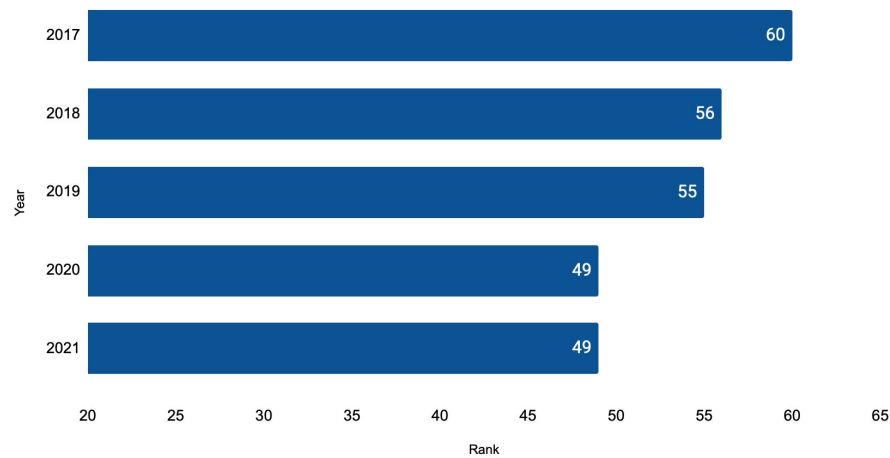
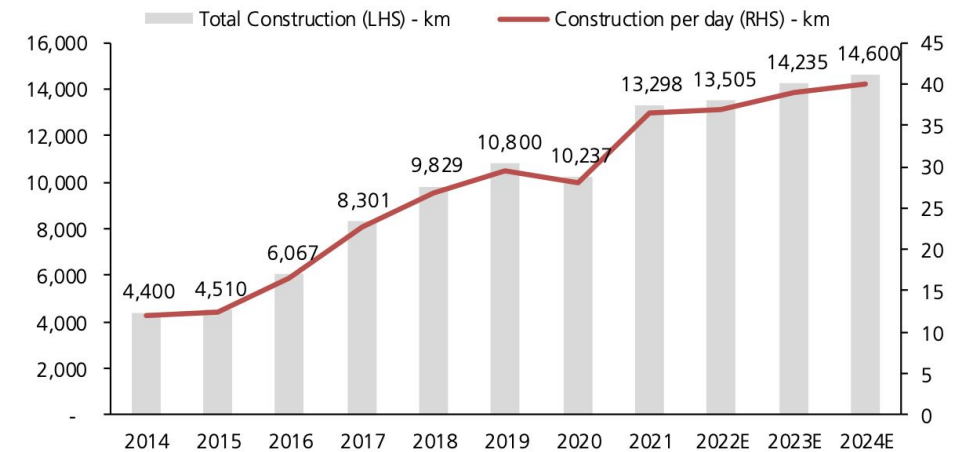


Exhibit 2: Pace of construction has been on an uptrend. Ministry is upbeat of scaling it to 40km/day. Details of road construction per day, 2014-2024E, March fiscal year-ends (km)



Source: PIB, MORTH, NHAI, Kotak Institutional Equities estimates

## NIP Segment-wise Spending (in Lakh Crores) over FY20-25

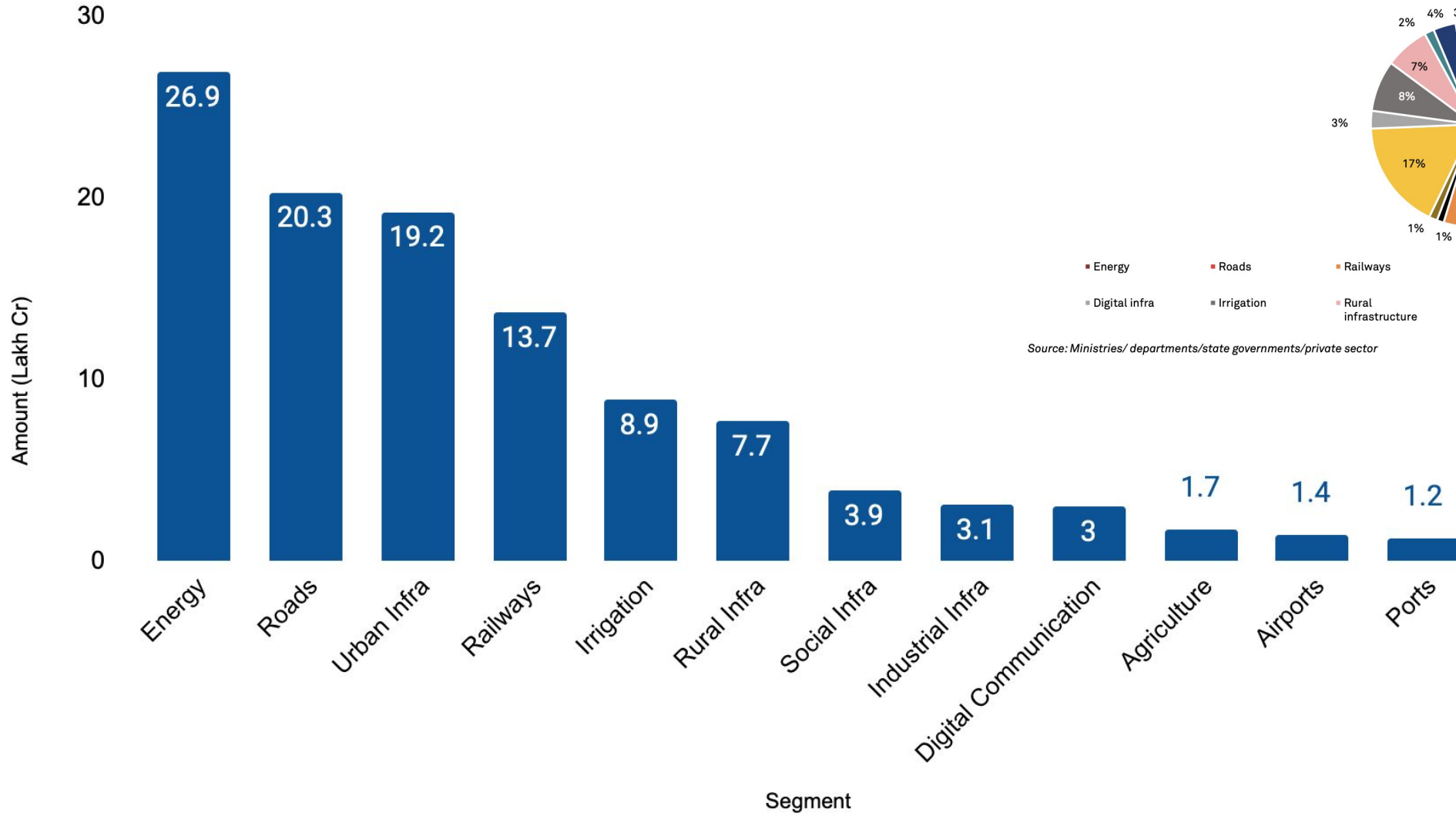
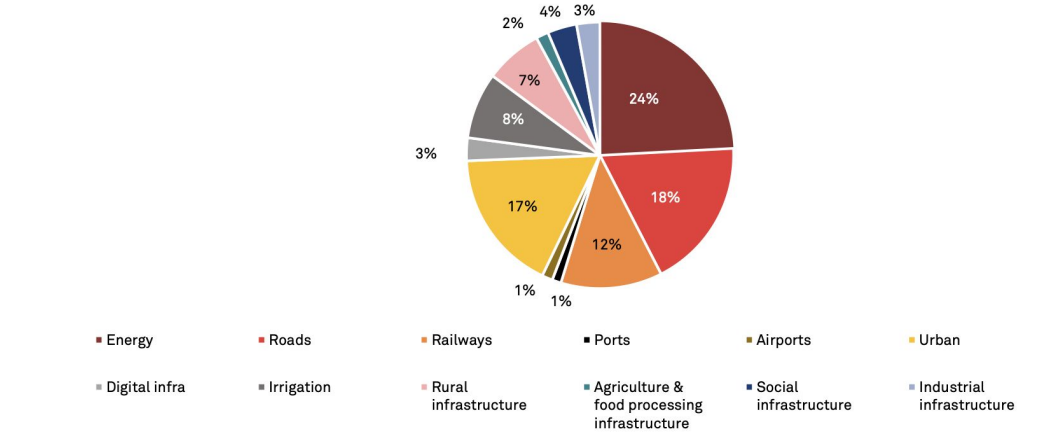


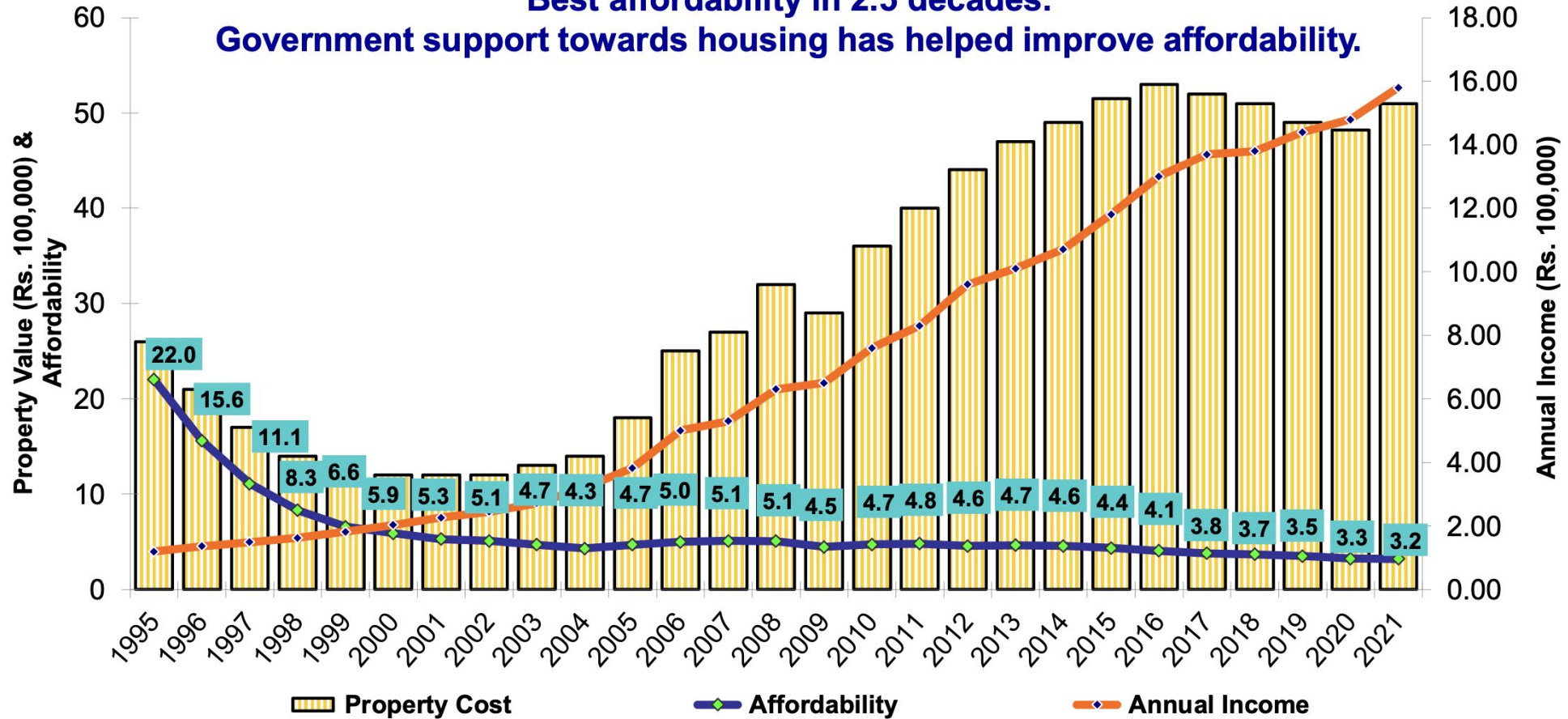
Figure 11 Sector-wise break-up of capital expenditure of Rs 111 lakh crore during fiscals 2020-2025



Source: Ministries/ departments/state governments/private sector

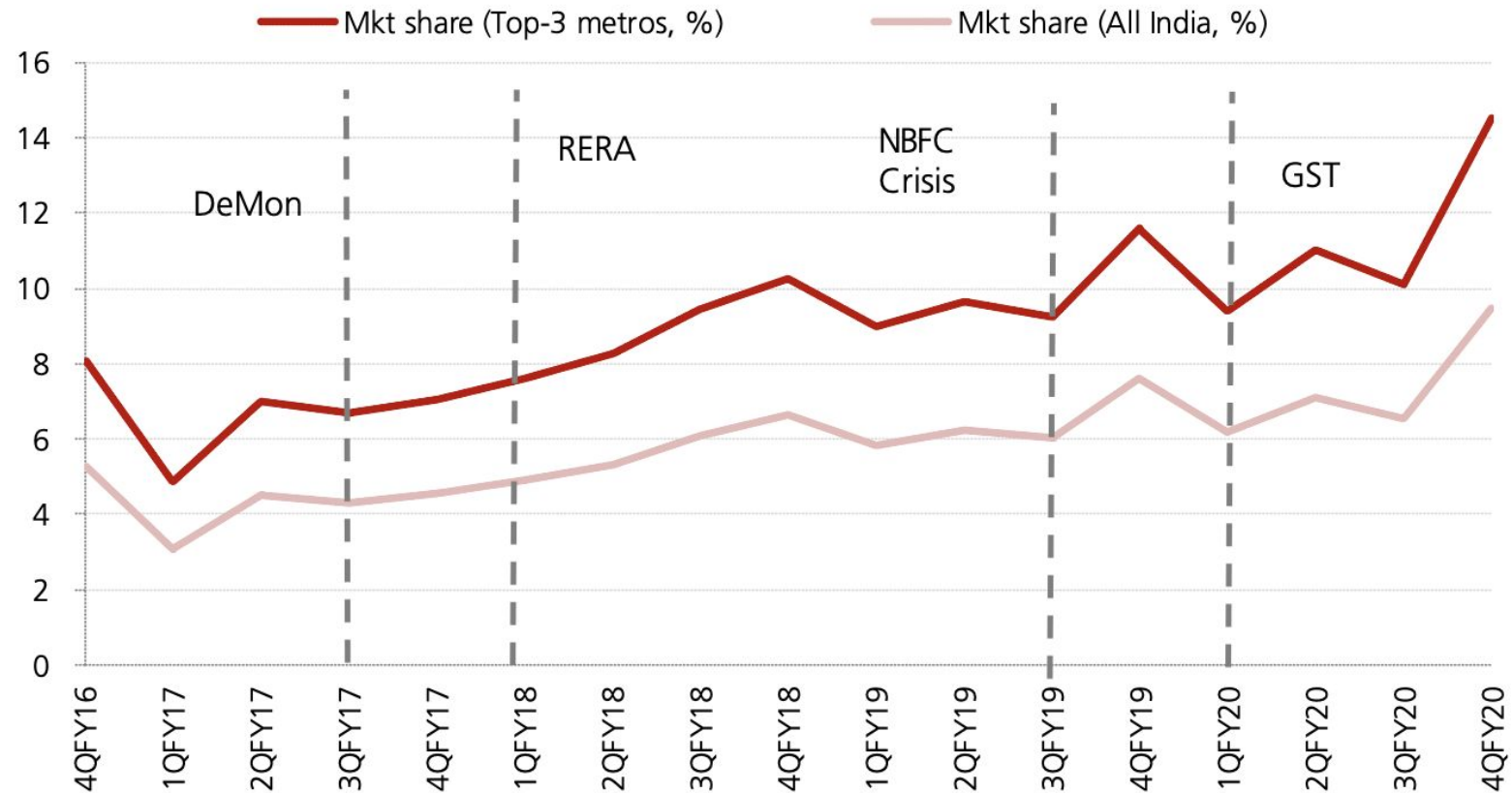
# Affordability at its highest

**Best affordability in 2.5 decades.  
Government support towards housing has helped improve affordability.**



# Large Branded Companies Continue to Benefit

Exhibit 50: Market share of listed players has significantly improved  
Market share of listed real estate players, March fiscal year-ends, 4QFY16 - 4QFY20 (%)



Source: PropEquity, Companies, Kotak Institutional Equities

**Thank You**