

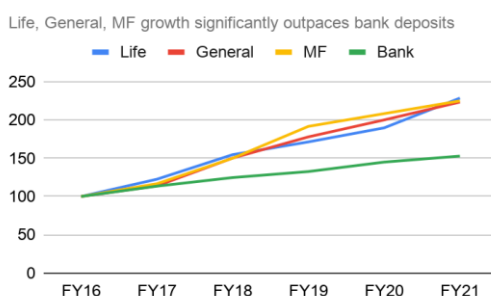
Key themes that will emerge and shape the Indian economy over the next 5 years

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A. Financialization of India's Savings -

- Drivers & story:** India has historically been a savers market, with investors **preferring physical assets over financial and fixed deposits over equity and insurance**. Sharp fall in rates, increased ease of access driven by both digital penetration and reach into B30 markets, and increased financial literacy and economic mobility are driving India's financialization.
- Evidence:** Trading volumes on Indian exchanges have grown **20x over the past 20 years**[1] India's largest depository has grown users by 33% over the last year[2] Share of retail participation in the markets **has grown 17pps from 37% to 54%**[3]. **Life insurance premiums have grown at 18%**[4], **General insurance premiums at 17%**[5] and **Mutual Fund AUM has grown at 18%**[6] over the last 5 years **growing significantly faster than bank deposits** growing at 9%[7]. With Bank deposits still comprising ~56% of Indian financial assets[8], there is significant headroom to grow. **Financial assets in themselves form less than 5% of total Indian wealth**[9], materially lower than most advanced economies.
- Key Winners:** Leading mutual funds (HDFC AMC), Life insurance (HDFC Life), General Insurance (ICICI GI), depository (CDSL), transfer agents (CAMS), exchanges (NSE- yet to be listed).



B. India's Quasi-Monopolistic Profit Pool Growth -

- Drivers:** India is a large and diverse country (making **distribution a key challenge** for consumer staples), a low trust society (more **important in sensitive categories like banking and infant care**), and often has **strong regulations creating natural monopolies**. These firms grow stronger through economic downcycles reaching quasi-monopolistic status.
- Evidence:** Monopolies across India continue to grow profit significantly faster than the market capturing greater profit pools [10]. Three primary India specific drivers strengthen the moats help this process - Extensive and efficient distribution networks for consumer players which drive a **virtuous cycle of faster turns for distributors via demand and high demand via extensive availability**. [11]; Platforms with network effects operating in regulated markets become **cash machines with near 100% market share** [12]; Firms in sectors where trust is critical (banking, infant care) benefit via **cheaper source of funds or higher pricing power** that customer readily gives as a trade-off for trust.[13]. All of these moats are extremely enduring which drives strong and robust growth for these firms.
- Key Winners:** Regulated platforms (CAMS, IEX, MCX, CDSL), Distribution (ITC, Marico, Asian Paints, Pidilite) Trust (HDFC, Kotak, SBI, Nestle)

Distribution	%share	%growth	Platforms	%share	%growth	Trust	%share	%growth
ITC	75%+	13.1%	CAMS	70%+	20.9%	HDFC	8%+	20.8%
Marico	70%+	9.5%	IEX	95%+	15.2%	Kotak	2%+	25.6%
Asian Paints	50%+	11.6%	MCX	95%+	20.1%	SBI	16%+	12.8%
Pidilite	70%+	8.6%	CDSL	50%+	10.1%	Nestle	85%+	20.1%

C. India's Rural and Semi-Urban Purchasing Power -

- a. **Drivers:** India is still predominantly rural with 70% of its population residing in rural areas. **Rising purchasing power, strong policy focus on rural wealth building, increased aspiration, and increased ease of access** is driving a strong multi-decadal growth in India's hinterlands. Agriculture and allied industries, FMCG, consumer durable and banking are most well placed to benefit from this shift.
- b. **Evidence:** Governments have historically demonstrated a strong subsidization intent with the rural economy via consistent double digit growth **growth (13%-30%) in MSPs** [14] and **MNREGA** [15]. The rural sector is also seeing support from structural reforms along increased **electrification & power supply** [16], **disintermediation and increased industry access** [17], **increased digitalization** [18] and **increased credit and savings focus** [19]. The combination of these events has led to a boost in growth of consumer discretionary spend [20], micro-credit [21] and higher staples volume growth. The structural nature of the reforms, the importance of the rural electorate driving growing budgetary outflows, and a more robust earnings pool in Indian villages gives us confidence in the longevity of these trends.
- c. **Key Winners:** Affordable two wheelers (Hero Moto), very spread consumer staples (Dabur, HUL), and stable building materials (UltraTech, Ambuja).

D. India's Affordable RE and Infrastructure Boom -

- a. **Drivers:** The government has a strong focus on growing infrastructure in India. Infrastructure growth boosts both employment at the bottom of the pyramid as well as the long-term investment attractiveness of India, leading to support across the political spectrum.
- b. **Evidence:** India's focus on Infrastructure is made clear via its **111-lakh crore national infrastructure pipeline**. [22] India's focus on infrastructure growth is demonstrated via strong investments and execution in power production [23], power and gas transmission infrastructure [24], ports and airports, railroad doubling [25], and highway and rural road creation [26]. Infrastructure investments booms are typically accompanied by growth in **allied sectors** (steel, cement, building materials) as well as **multiplier effects** as they put money in the hands of people most likely to spend a bulk of their earnings.
- c. **Key Winners:** Leading road and infra players (Dilip Buildcon, Ashok Buildcon, L&T), marquee allied industries (APL Apollo, Ultra Tech) and monopolist energy players (Powergrid, GAIL, NTPC).

E. India as a Global Export Hub-

- a. **Drivers:** India has firmly cemented its places as a services export's hub driven by its abundant supply of **inexpensive, skilled, English-speaking workforce** and **best in class process innovation** allowing it to deliver consistently at scale. The recent **anti-China wave** - driven by a combination of rising Chinese wages and anti-globalization sentiment has presented an opportunity for emerging markets manufacturing exporters including India, Vietnam and Bangladesh. **Food processing** [27], consumer electronics and cell phones [28], **generic pharma** strengthened by India's recent COVID goodwill [29] and **auto** could be the next set of firms to benefit from India's growth as an export hub.
- b. **Evidence:** There has been extensive policy focus via **policy linked incentives** [30] to encourage manufacturing in India. India has demonstrated competitiveness via increasing market share in consumer electronics and generic pharmaceuticals. India's position as a pharma exporter [32] has been further cemented via PPE and COVID vaccine exports to international locations. Indian **two-wheeler auto has been consistently growing market share** in international emerging markets. [31]
- c. **Key Winners:** **Contract Consumer Manufacturers** (Dixon, Amber), **Generic Pharma Manufacturers** (Sun, Aurobindo, Dr Reddy), **Established food processing value chains** (ITC), Export Quality Auto manufacturers (Bajaj Auto, Eicher Motors).

Appendix

[1] Trading volumes (INR tn)

FY98 - 5

FY05 - 17

FY10 - 55

FY15 - 52

FY20 - 97

(source: NSE, BSE, GSN Invest Research)

[2] CDSL Accounts - User milestones

1st crore - August 2015

2nd crore - January 2020

3rd crore - January 2021

(source: CDSL, GSN Invest Research)

[3] Share of Retail Client Participation

FY16-37%

FY17-41%

FY18-45%

FY19-46%

FY20-47%

FY21-54%

(source: NSE, GSN Invest Research)

[4] Life insurance premiums (INR cr)

FY15 -113,143

FY16 -138,657

FY17 -175,022

FY18 -193,866

FY19 -214,673

FY20 -258,686

(source: IRDA, GSN Invest Research)

[5] General Insurance premiums (INR cr)

FY15 -84,684

FY16 -96,376

FY17 -127,212

FY18 -150,662

FY19 -169,448

FY20 -189,216

(source: IRDA, GSN Invest Research)

[6] Mutual Fund AUMs (INR tn)

FY15 -12

FY16 -14

FY17 -18

FY18 -23

FY19 -25

FY20 -27

(source: AMFI, GSN Invest Research)

[7] Bank Deposits (INR tn)

FY15 -89

FY16 -101

FY17 -111

FY18 -118

FY19 -129

FY20 -136

(source: RBI, GSN Invest Research)

[8] Indian Financial Assets [US\$500 bn, 5% of total Indian wealth]

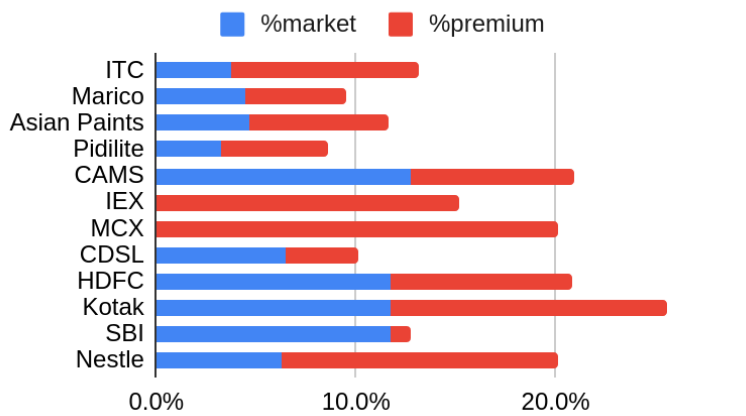
Bank Deposits - 56%
 Mutual Funds - 7%
 Insurance Funds - 14%
 Currency - 12%
 (source: RBI, GSN Invest Research)

[9] % of wealth in financial assets

India: 5%
 USA: 74%, Japan 61%, Germany 42%, UK: 52%, France 40%, Italy 39%, Canada 53%, Australia 42%
 China: 53%, Spain 29%, South Korea 37%
 (source: Credit Suisse Global Wealth Report, 2019, GSN Invest Research)

[10] Monopolist growth rates vs market

All market leaders continue to gain share



(Source: Annual reports FY 16 -FY20, GSN Invest Research)

[11] Distribution Moat - the virtuous cycle of high turns - greater reach

Company	Peer 1	Peer 2	Dist
ITC	59	72	4.3M+
Marico	63	80	1.7M+
Asian	51	72	70K+
Pidilite	47	72	3.6M+

(source: Annual reports, Investor presentations, GSN Invest Research)

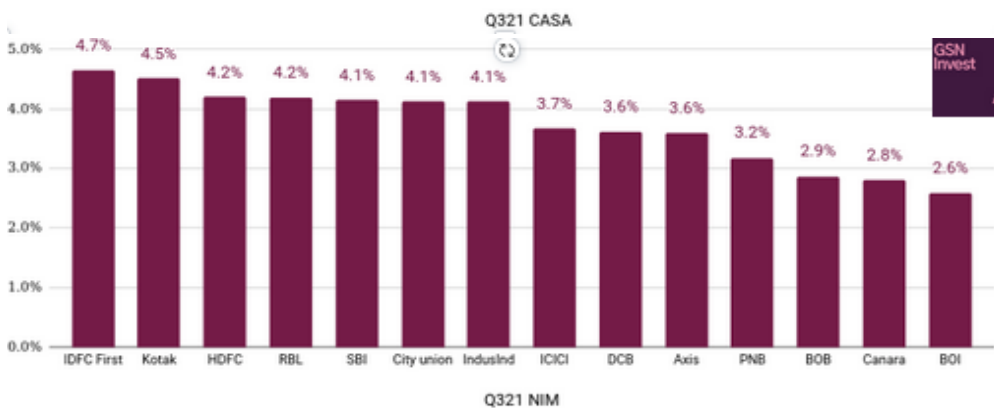
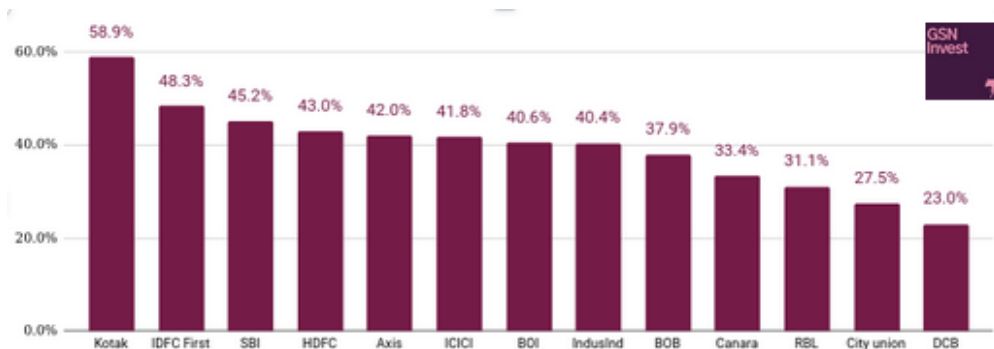
[12] Platform Moat - Strong cash generation, market share, growth

	%share	%growth	%margin
CAMS	70%+	20.9%	24.1%
IEX	95%+	15.2%	59.3%
MCX	95%+	20.1%	47.1%
CDSL	50%+	10.1%	37.3%

(source: Annual reports, GSN Invest Research)

[13] Trust Moat - Helps banks access cheaper capital, helps infant care brands retain share

Trusted banks are able to pull in more retail deposits at lower rates, reflected in their CASA and NIM



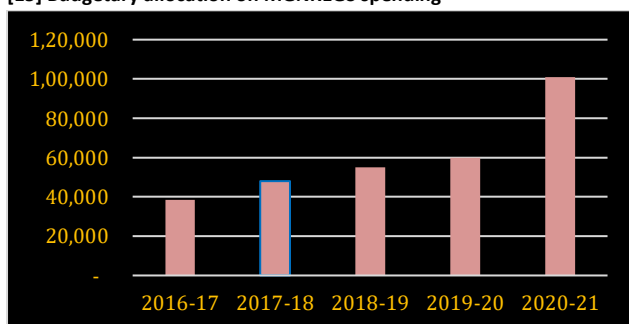
Nestle has consistently maintained 90%+ market share in the infant nutrition segment.
(source: Annual and Quarterly filings, GSN Invest Research).

[14] Increasing level of MSP for all Rabi crops

	2017-18	2018-19	2019-20	2020-21	Growth
Wheat	1735	1840	1925	1975	14%
Barley	1410	1440	1525	1600	13%
Gram	4400	4620	4875	5100	16%
lentil	4250	4475	4800	5100	20%
Rapeseed & Mustard	4000	4200	4425	4650	16%
Safflower	4100	4945	5215	5327	30%

(source: Ministry of Agriculture, GoI, GSN Invest Research)

[15] Budgetary allocation on MGNREGS spending –



(source: Ministry of Rural Development, GoI)

[16] Electrification & power supply

India hit 100% electrification in 2020

Budget 2020 proposed outlay of 22K cr for reliably electricity by 2020

While significant stretches still exist where electricity availability and affordability hasn't been addressed, we have reached 20hr+ electricity access in most states.

(PIB: Government of India)

Sl. No.	Name of the State	Average hours of power supply in a day to rural areas
1	Andhra Pradesh	23.6
2	Arunachal Pradesh	14.3
3	Assam	19.0
4	Bihar	21.8
5	Chhattisgarh	23.0
6	Gujarat	24.0
7	Haryana	17.7
8	Himachal Pradesh	24.0
9	Jammu & Kashmir*	16.0
10	Jharkhand	17.5
11	Karnataka	18.9
12	Kerala	24.0
13	Madhya Pradesh	23.5
14	Maharashtra	24.0
15	Manipur	23.5
16	Meghalaya	18.5
17	Mizoram	15.0
18	Nagaland	20.0
19	Odisha	22.2
20	Punjab	24.0
21	Rajasthan	22.0
22	Sikkim	16.8
23	Tamil Nadu	24.0
24	Telangana	24.0
25	Tripura	23.5
26	Uttar Pradesh	17.6
27	Uttarakhand	24.0
28	West Bengal	24.0

[17] Disintermediation and increased industry access

The government of India passed three bills that will further disintermediation and improve industry access and collaboration, driving up farmer income

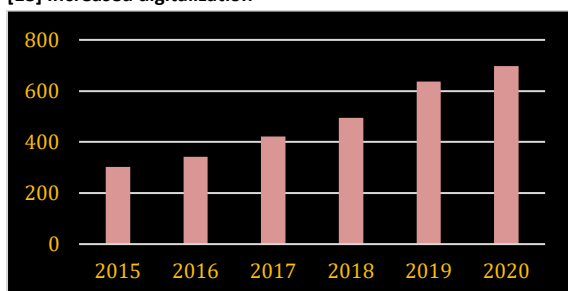
Farmer's produce trade and Commerce Act, 2020

Farmer's Agreement on Price Assurance and Farm Services Act, 2020

Essential Commodities (Amendment) Act, 2020

(source: PIB, Government of India)

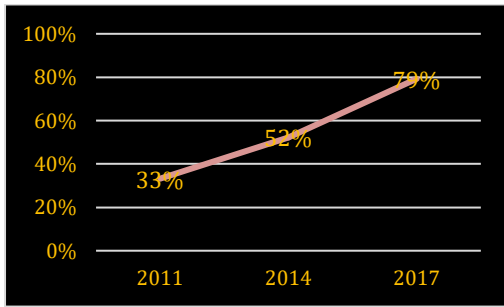
[18] Increased digitalization



Exponential growth in mobile internet users in India driven by affordable devices and data

(source: Statista)

[19] Increased rural credit and savings focus



80%+ rural population now has a bank account
 (Source: World Bank: Global Findex survey)

[20] Consumer discretionary spend

Expected size of applied and consumer electronics segment, will be ~1.48lakh crore driven by increasing rural household demand
 (Source: IBEF)

[21] Micro-credit growth

	Bank
Dec-18	33%
Mar-19	34%
Jun-19	34%
Sep-19	40%
Dec-19	40%

(source: SIDBI and Equifax Microfinance Pulse report June 2019, GSN Invest Research)

[22] National Infrastructure Pipeline

Allocation by sector	
Energy	23.9%
<i>o/w Power</i>	11.5%
<i>o/w Renewable</i>	9.1%
<i>o/w Atomic</i>	1.5%
<i>o/w Petro LNG</i>	1.9%
Roads	19.2%
Railways	13.4%
Ports	1.0%
Airports	1.4%
Urban	15.9%
Telecom	3.1%
Irrigation	7.5%
Rural Infra	7.5%
Agri & Food	0.6%
Social	3.5%
Industrial	3.0%

(source: PIB Government of India, GSN Invest Research)

[24] Power transmission Growth - Electricity, Gas

2014	16.8
2015	22.1
2016	28.1
2017	26.3
2018	23.1
2019	22.4

(source: Powergrid Annual Report, GSN Invest Research)

[23] Power Capacity - Electricity

Installed Capacity	FY16	FY17	FY18	FY19	FY20
Capacity	46,653	50,498	53,651	55,126	62,110

(Source: NTPC Annual Report, GSN Invest Research)

[25] Railroad pipeline

13.4% of NIP allocation to railroad growth in India

Roads	19.2%
Railways	13.4%
Ports	1.0%
Airports	1.4%

(source: PIB Government of India, GSN Invest Research)

[26] Road pipeline

Roads	19.2%
Railways	13.4%
Ports	1.0%
Airports	1.4%

(source: PIB Government of India, GSN Invest Research)

[27] Food processing infrastructure

FY20- 1,15,359cr

FY19- 1,30,506cr

FY18- 1,19,880cr

(Source: APEDA.gov)

[28] Consumer Electronics

Smartphone – YoY growth in smartphone export was 91% with India exporting devices worth Rs 21,000crores.

FY20- 36Mn

FY19- 17Mn

In FY20, there was also a decrease in imports by 81% to 2mn units from 26mn units in the previous fiscal year.

(Source: Ibef.org)

[29] COVID related goodwill

As a goodwill gesture, the Ministry of External Affairs will export 8.1 lakh doses of Covaxin, a vaccine against COVID-19, to Myanmar, Mongolia, Oman, Bahrain, Philippines, Maldives, Mauritius for free of cost

(source: CNBC TV18)

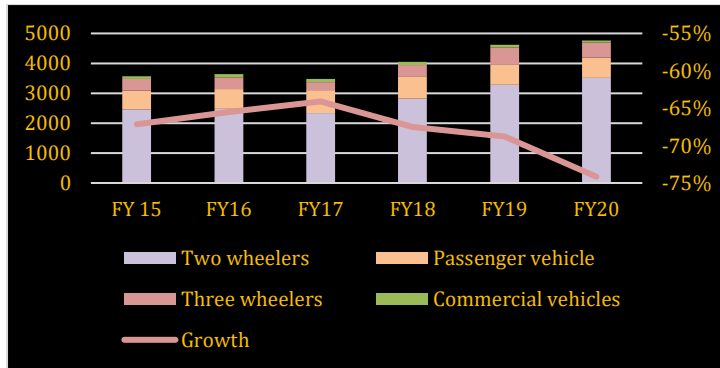
[30] Production linked incentives

The Union Cabinet approved the production-linked incentive (PLI) scheme for 10 sectors on November 11 2020. These are pharmaceuticals, automobiles and auto components, telecom and networking products, advanced chemistry cell batteries, textile, food products, solar modules, white goods, and specialty steel.

(source: PIB, Government of India)

[31] Auto Export Growth

Automobiles export volume (in 1,000) – Declined 15% in FY20.



(Source: SIAM)

[32] Indian Pharma Export Growth

FY20 - \$10.8

FY19- \$19.1

FY18- \$17.3

FY17- \$16.8

FY16- \$16.9

FY15- \$14.9

(Source: Pharmexcil)