

# India: Great Expectations



# India: Great Expectations

India is widely expected to be one of the fastest growing economies in the world despite challenges of poor infrastructure, a complex regulatory environment and a low-skilled labor force. The optimism towards India can be attributed to its favorable demographics, growing domestic consumption and scope for economic reforms. India's growth profile is creating exciting investment opportunities for long-term investors.

## Fast-growing Economy

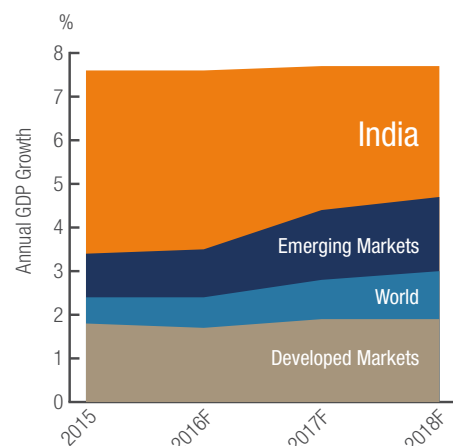
In a world where slower economic growth has become the norm, India stands out as having one of the world's fastest growing economies. India's gross domestic product (GDP) is forecast to grow 7.6% this year while world GDP is projected to only grow 2.4% (chart 1).

Over the past two decades, India has been overshadowed by China. However, with China's economy slowing, India's future

growth is now expected to outpace economic growth in China and other developed and emerging economies.

Political and economic reforms, along with increased consumer and investor confidence, have supported India's economic growth. As the Indian government continues to drive the economy forward, more reliance would be placed on the manufacturing and service sectors as the engines of growth.

**Chart 1: India is projected to be one of the world's fastest growing economies**



F=Forecast. Source: World Bank, Global Economic Prospects June 2016.

Forecasted numbers are projections and not guarantees.

## Beneficiary of Lower Oil Prices

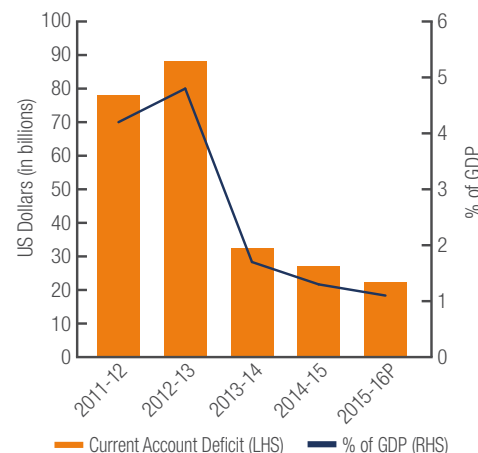
Supporting the economic growth story in India is the lower price of oil. Since mid 2014, the price of oil has declined by around 60% (from \$113 per barrel in June 2014 to \$47 per barrel in August 2016<sup>1</sup>). As one of the world's largest importers of oil, the Indian economy significantly benefits from lower oil prices.

The Indian government utilized the downward trend in oil prices to help reduce the country's current account deficit. Over the past few years, India's current account deficit has steadily declined. For the

2015-16 fiscal year, the current account deficit stood at \$22.2 billion or 1.1% of GDP, significantly down from a high of \$88.2 billion in 2012-13 or 4.8% of GDP (chart 2).

Though oil prices have rebounded since reaching new lows in the beginning of 2016, they remain significantly below their 2014 peak. Current oil price levels are likely to continue to be beneficial for India. India's improved current account balance should contribute to more stable government finances which, in turn, ought to help the economy gain momentum and boost investor confidence.

**Chart 2: India's declining current account deficit**



P=Preliminary. Fiscal year ends in March. Source: Reserve Bank of India.

Past performance does not guarantee future results.

<sup>1</sup> Bloomberg, based on Brent crude oil.

# Youthful Advantage

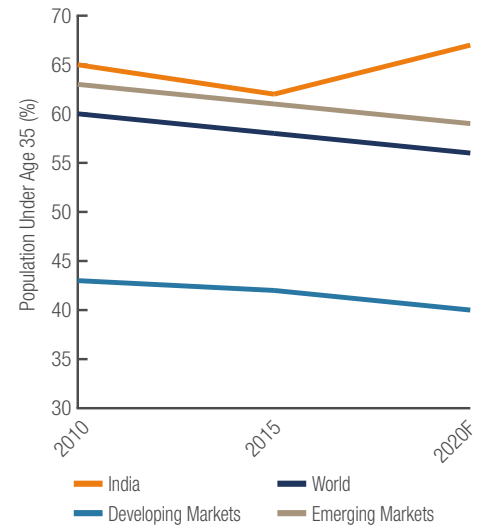
India is the world's largest democracy with a population of about 1.3 billion people and boasts having one of the world's largest and youngest workforces. Currently, 62% of the population is under the age of 35 and this is forecast to increase to 67% by 2020, significantly higher than the rest of the world (chart 3). By 2020, India is expected to account for 28% of the world's workforce. India's workforce will have an average age of 29 years compared to 37 years in China and the US and 45 years in Western Europe.<sup>2</sup>

India's young and growing workforce is favorable for the country's competitiveness by providing benefits such as a low-cost

labor force, improving labor productivity, and an expanding domestic market. India's de facto national language, English (as a result of the country's history as a British colony), is also a positive differentiation relative to other emerging markets for many global businesses.

If India is able to meet the challenge of creating enough jobs for the existing workforce, raising education standards and producing skilled workers, the country would have a significant advantage in global markets.

**Chart 3: India has one of the world's youngest populations**



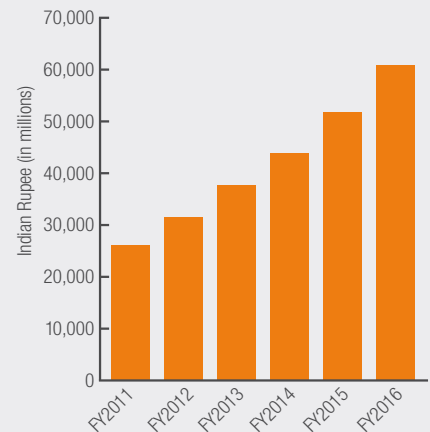
F=Forecast. Source: US Census Bureau. Forecasted numbers are projections and not guarantees.

## Apollo Hospitals

Apollo Hospitals is a leading private sector healthcare services provider in India and operates one of the largest hospital networks in Asia. With a network of 69 hospitals and over 9,500 beds, Apollo Hospitals is well-positioned to benefit from demand growth from a rapidly growing middle class in India. The company's revenue grew at a compounded annual growth rate of 18% from 2011 to 2016.

Mirae Asset Global Investments may or may not hold positions in the companies discussed and this is not a recommendation to buy, hold or sell these companies.

**Revenue**



Source: Apollo Hospitals Annual Report. Financial year ends in March.

<sup>2</sup>Ernst and Young, FICCI, "Reaping India's promised demographic dividend."

## Rise in Consumption

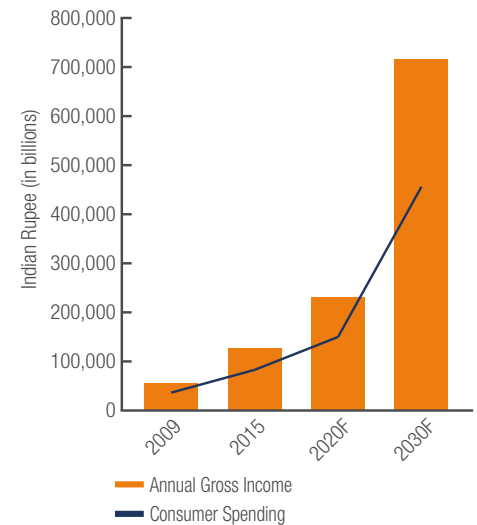
Younger consumers typically have more spending years ahead of them and a higher propensity to spend. Naturally, an increase in disposable income should also lead to more spending. India has indeed experienced an upsurge in consumerism as a result of higher incomes. From 2009 to 2015, annual incomes and consumer spending have more than doubled and these upward trends are anticipated to continue (chart 4).

As the India consumer moves up the consumption ladder, spending behavior and patterns will inherently change. Discretionary spending is likely to increase as Indian

consumers gain more awareness, demand better-quality products and seek more aspirational items such as cars and smartphones. According to India's largest car maker, Maruti Suzuki India, the local car market in India is projected to reach 5 million units in annual sales by 2020, up from 2.7 million units in 2015.<sup>3</sup>

By 2030, India is forecast to have the second largest consumer base, after China, in the world.<sup>4</sup> The sheer scale of this consumer base attests to the vast investment opportunities presented by India's domestic demand story.

**Chart 4: Income and consumer spending expected to continue growing**



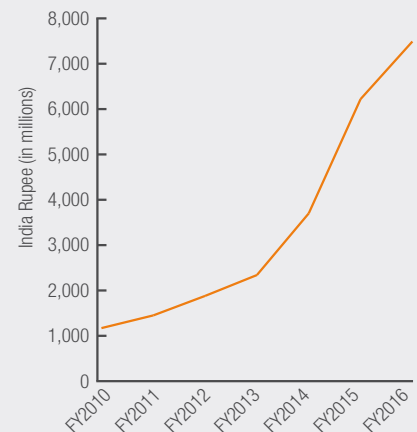
F=Forecast. Source: KPMG-FICCI.  
Forecasted numbers are projections and not guarantees.

## Britannia Industries

Britannia is a leading food company in India with access to more than half the Indian population through their retail outlets. The company has the advantage of understanding the local palate and the demands of the rising middle class in India. Britannia has seen a steady increase in net profit over the past six fiscal years.

Mirae Asset Global Investments may or may not hold positions in the companies discussed and this is not a recommendation to buy, hold or sell these companies.

### Net Profit



Source: Britannia Industries Annual Report.  
Financial year ends in March.

<sup>3</sup> 2015 car sales data from OICA (International Organization of Motor Vehicle Manufacturers).

<sup>4</sup> KPMG-FICCI.

## “Make in India”

Narendra Modi became the 15th Prime Minister of India in May 2014. After years of economic disappointment in India, Modi's vision of a stronger, pro-business and economy-focused India led him to win the election with the largest majority in over 30 years. Since then, he has embarked on an ambitious plan to modernize India. Included in this plan is the “Make in India” initiative which was launched in September 2014. The goal of “Make in India” is to transform India into a global manufacturing hub which aims to create 100 million additional manufacturing jobs, boost the global competitiveness of the sector, and raise the manufacturing contribution to GDP from 16% to 25% by 2022.<sup>5</sup>

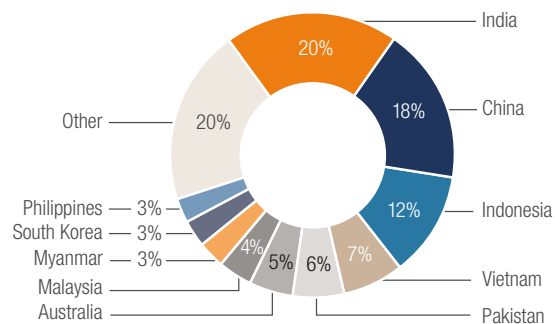
A main priority of the initiative is to attract and increase foreign investments by making a number of bold and unprecedented reforms to rules on foreign direct investments (FDI) into India. Reforms include opening up new sectors for foreign investment, easing or removing FDI caps on existing sectors (see sidebar for full list of sectors), and simplifying the FDI policy to improve the ease of doing business for foreign companies.

These reforms have helped India become a more attractive investment destination. In 2015, India overtook China to become the top FDI destination in the Asia-Pacific region with investments of \$63 billion compared to China's \$57 billion (chart 5).

India has also moved up 16 places on the Global Competitive Index from 2015 to 2016,<sup>6</sup> another sign that the government's

reform efforts have improved its business standing around the world. While the speed of reforms is proceeding slower than markets expected, progress has been made. This includes the passage of the Goods and Services Tax Bill which simplifies India's current complicated tax structure and is widely considered to be an important step towards modernizing India.

**Chart 5: India is the top FDI destination in Asia-Pacific in 2015**



Source: The FDI Report 2016. Based on capital investments.

## 25 “Make in India” Sectors



AUTOMOBILE

- ▣ Automobile Components
- ▣ Aviation
- ▣ Chemicals
- ▣ Construction
- ▣ Defense Manufacturing
- ▣ Electrical Machinery
- ▣ Electronic Systems



BIOTECHNOLOGY

- ▣ Food Processing
- ▣ IT & Business Process Management
- ▣ Leather
- ▣ Media & Entertainment
- ▣ Mining
- ▣ Oil & Gas



PHARMACEUTICALS



RENEWABLE ENERGY

- ▣ Ports & Shipping
- ▣ Railways
- ▣ Roads & Highways
- ▣ Space
- ▣ Textiles & Garments
- ▣ Thermal Power
- ▣ Wellness



TOURISM AND HOSPITALITY

<sup>5</sup> Source: Make in India.com.

<sup>6</sup> World Economic Forum.

# Investing in India's Dynamic Economy

India is poised to become the world's third largest economy by 2030.<sup>7</sup> Its fast-growing economy is an indication that the country is likely to have a major role in the global economy and investors have many reasons to be bullish. The Modi government's economic and pro-business initiatives have brought confidence back to India and helped position the country as a very attractive market for investors.

Rising incomes are likely to continue to encourage consumption going forward. India's large and diverse consumer base, along with the country's economic reforms and manufacturing focus, presents a vast array of opportunities for investors in sectors ranging from retail to pharmaceuticals to banking.

Amid India's enormous investment opportunity, challenges and risks persist. Uncertainty and volatility typically feature in the markets of fast-growing economies. Investors should have a long-term outlook, and the companies that are likely to benefit most from India's growth potential will need to have a deep understanding of local markets, business practices, and cultural preferences. As an emerging markets expert with offices on-the-ground and investment professionals around the world, Mirae Asset has the expertise to identify companies that may succeed and thrive in today's India.

<sup>7</sup> Cebr Global World Economic League Table.

# Disclaimer

This document has been prepared for presentation, illustration and discussion purpose only and is not legally binding. Whilst compiled from sources Mirae Asset Global Investments believes to be accurate, no representation, warranty, assurance or implication to the accuracy, completeness or adequacy from defect of any kind is made. The division, group, subsidiary or affiliate of Mirae Asset Global Investments which produced this document shall not be liable to the recipient or controlling shareholders of the recipient resulting from its use. The views and information discussed or referred in this report are as of the date of publication, are subject to change and may not reflect the current views of the writer(s). The views expressed represent an assessment of market conditions at a specific point in time, are to be treated as opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. In addition, the opinions expressed are those of the writer(s) and may differ from those of other Mirae Asset Global Investments' investment professionals.

The provision of this document shall not be deemed as constituting any offer, acceptance, or promise of any further contract or amendment to any contract which may exist between the parties. It should not be distributed to any other party except with the written consent of Mirae Asset Global Investments. Nothing herein contained shall be construed as granting the recipient whether directly or indirectly or by implication, any license or right, under any copy right or intellectual property rights to use the information herein. This document may include reference data from third-party sources and Mirae Asset Global Investments has not conducted any audit, validation, or verification of such data. Mirae Asset Global Investments accepts no liability for any loss or damage of any kind resulting out of the unauthorized use of this document. Investment involves risk. Past performance figures are not indicative of future performance. Forward-looking statements are not guarantees of performance. The information presented is not intended to provide specific investment advice. Please carefully read through the offering documents and seek independent professional advice before you make any investment decision. Products, services, and information may not be available in your jurisdiction and may be offered by affiliates, subsidiaries, and/or distributors of Mirae Asset Global Investments as stipulated by local laws and regulations. Please consult with your professional adviser for further information on the availability of products and services within your jurisdiction.

**Hong Kong:** Before making any investment decision to invest in the Fund, investors should read the Fund's Prospectus and the Information for Hong Kong Investors of the Fund for details and the risk factors. Investors should ensure they fully understand the risks associated with the Fund and should also consider their own investment objective and risk tolerance level. Investors are also advised to seek independent professional advice before making any investment. This document is issued by Mirae Asset Global Investments and has not been reviewed by the Hong Kong Securities and Futures Commission.

**United Kingdom:** This document does not explain all the risks involved in investing in the Fund and therefore you should ensure that you read the Prospectus and the Key Investor Information Documents ("KIID") which contain further information including the applicable risk warnings. The taxation position affecting UK investors is outlined in the Prospectus. The Prospectus and KIID for the Fund are available free of charge from <http://investments.miraeasset.eu>, or from Mirae Asset Global Investments (UK) Ltd., 4th Floor, 4-6 Royal Exchange Buildings, London EC3V 3NL, United Kingdom, telephone +44 (0)20 7715 9900.

This document has been approved for issue in the United Kingdom by Mirae Asset Global Investments (UK) Ltd, a company incorporated in England & Wales with registered number 06044802, and having its registered office at 4th Floor, 4-6 Royal Exchange Buildings, London EC3V 3NL, United Kingdom. Mirae Asset Global Investments (UK) Ltd. is authorised and regulated by the Financial Conduct Authority with firm reference number 467535.

**United States:** An investor should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. This and other important information about the investment company can be found in the Fund's prospectus. To obtain a prospectus, contact your financial advisor or call (888) 335-3417. Please read the prospectus carefully before investing.

**India:** Mutual Fund investments are subject to market risks, read all scheme related documents carefully.