

Golden Decade of India



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There comes a time in the life of an individual or a family or a society or a nation, when it gains momentum from several factors/catalysts at work which catapults it into a Golden phase. Very often these catalysts come from a crisis. Its not that those catalysts couldn't take place earlier but the crisis makes them happen and acceptable without much resistance. I

think post pandemic, India is in this phase.

Pre-pandemic, India also chose to willingly undertake some of the most difficult structural reforms like JAM, GST, RERA, IBC, Banking sector consolidation, Mining reforms and many more, which build framework for a scalable model. Of course, this will always be WIP but a good start was made. These reforms are helping India capture a once in a lifetime opportunity to leapfrog and become USD 5tn economy and pull her population out of poverty and create prosperity.

I have highlighted mega trends which will shape the Indian economy and markets, thereby providing enormous wealth creation opportunity for early movers.

1. Technology will rule the way individuals, businesses and organisations operate, creating several opportunities

While migration to technology is well understood and has been underway for decades, Covid has accelerated its adoption like never before. There are many opportunities around this, some very obvious, some second and third order impact/opportunities created on account of the J curve in technology adoption. Humanity will never be the same on this front and this forced adoption of technology will create several opportunities.

Cloudification, Data and Artificial Intelligence: Digital migration, Data and Artificial Intelligence will create significant jobs and businesses like never before - much bigger than Y2K, ERP & the initial internet wave.

IT Services is the one sector where demand is global and supply is only Indian. It will embark on a massive growth journey. Our research reveals USD 90 bn of incremental digital opportunity for Indian IT sector translating into USD 50-60 bn crores of incremental salary p.a. in the hands of Indian IT employees, which is 5-6x of MNREGA. This will have

huge impact on demand generation on the economy just like how MGREGA had.

Second order impact of adoption of technology is that it brings about transparency and efficiency. As availability of information improves, intermediation business will either get disrupted or will have to be reimaged. Across sectors be it consumer goods, financial services, media, entertainment, etc businesses will migrate to direct customer thereby disrupting or putting pressure on intermediation business. Government to Citizen will again create and disrupt many business models like farm mandis, ration shops, toll collection. Technology will enable Government resources being directed to the desired section more efficiently.

2. Manufacturing will be a significantly large opportunity for India Inc.

Historically, manufacturing has always been the less desired sector in India. China became the world's factory over the last 3 decades. Pandemic has served Y2K moment of manufacturing for India. With every large country and corporation looking to diversify away from China at the earliest, India will be a big beneficiary, especially in areas where India has inherent strength like Chemicals, API and Pharma, Auto Ancillaries, Capital Goods, Materials, Textiles, etc.

Government of India also has come out with aggressive plans to reduce imports through Phased Manufacturing Plans, PLIs, Tariff and non-tariff barriers, which will give big boost to manufacturing.

We believe, manufacturing alone has the potential to create a USD 1 tn opportunity in the coming decade.

This will have massive impact on the job creation, as it is expected to generate USD 50-60bn of incremental salary income, which is 5-6x of MNREGA.

Capex Cycle which was missing in the last one decade has got kick started and closely linked to pick up in demand environment which is likely to remain very robust across the board. India will witness USD 50-100 bn of incremental capex annually across private and public sector in the next 5 years.

3. BFSI will find new wings

BFSI has seen a structural change over the last 4-5 years with utmost focus on asset quality, building strong liability franchisee along with efficient technology enabled delivery platforms. Its Balance Sheet has emerged much stronger, entities are consolidated, PSUs are more independent now. Banks with utmost focus on building technology led platform and AI led risk management tools will survive and thrive. There is huge scepticism around credit growth especially corporate credit, we believe this will surprise positively. Credit growth number

can be as strong as 20% over next 2-3 years. We foresee a BFSI to be a force multiplier over next 10 years not only in wealth creation but also enabling growth. **We believe, the profit pool of the banking sector will grow to ~USD 80 bn, a 20x jump from FY 20.**

4. Alternate energy will create and disrupt things -

While this is underway for some time, we think this will happen sooner than markets are anticipating. EVs will disrupt many companies as well as create new companies. Renewable energy, bio fuel and energy storage will be the big game changers. This will disrupt many businesses in mobility while creating many new models. India has made serious progress & commitment to alternate energy. The most important aspect is dropping energy cost (one of the most significant cost in everything) will have a deflationary effect. This is a very big structural trend which will keep India protected from inflationary pressures.

5. Real estate sector will emerge as the sunrise industry -

RERA implementation across the country has given this unorganised sector new wings to fly which will accelerate the shift from unorganised to organised players. We foresee significant consolidation to happen in the sector. What has happened to many sectors in the past like Banks, Capital markets will happen to this sector as well. This is a decadal opportunity. Total market cap of the sector is USD 20 bn which is less than ~1% of the total Market Cap. This can multiply manifold from here.

This sector has a huge potential to become force multiplier in terms of gross capital formations and job creation. Housing for all by GOI only adds to this.

6. Massive Investment in Infrastructure

An aggressive investment in infrastructure building across Roads, Ports, Urban Infra, Railways, Gas & Energy infra, Water Infra, Digital Infra, is being implemented. Over USD 100 bn of annual investment is planned across various agencies purely in Infrastructure development. This is only set to increase from here.

Any investment in Infrastructure not only creates jobs and demands but also reduces inefficiencies thereby improving cost competitiveness and ease of business. It is estimated, all the investment in DFC and related infrastructure will save India 4% of total cost. These are significant drivers.

7. Start-up eco system: This is the one factor where India was always under invested for long despite having huge talent and potential. We have seen emergence of a big wave in start-up system, with more than 20 Unicorns getting created in last few years. This is only accelerating. IPOs of new tech companies shows that maturity of the market to accept the new age type of investment. Many global scale platforms like Byju will get created from India.

This trend is only accelerating and will have huge impact on job creation, income generation and wealth generation.

8. Big structural change in the interest rate scenario will fuel growth engine –

We believe interest rate band in India has structurally moved downward, which is a big shift. India has historically seen interest rates spikes largely because of imported inflation or due to serious distress on our forex reserves or currency. Our forex reserves are likely to remain very robust due to strong capital flows and more importantly well-placed CAD deficit (growth in IT services, manufacturing exports and import substitution). Capital flows can be erratic but balanced CAD brings lots of stability to the interest rates. **We believe India has never witnessed this set up before and is likely to create a huge cushion both for interest rates and liquidity.** Also, low interest rates channelises more capital to risk, thereby fuelling growth.

Combination of all these factors will drive India's growth, which is going to be a balanced growth. Growth driven by Investment, consumption and exports. Whenever there is balanced growth, it cushions any country from external shocks. This is a rare set up India is going through.

Charlie Munger said, "Amplifying impact of several factors at work is always more than sum total, calling it lollapalooza effect".

India is in her best phase ever and I am convinced that India's golden decade has arrived.