

10th Edition

2012-2013

OMAN IN FOCUS



Heritage

Handicrafts

See OMAN

Sultanate of Oman
Ministry of Tourism
www.omantourism.gov.om



A Publication on Sultanate's 42nd National Day by Oman Embassy in New Delhi

India – A Long Term Growth Story

By Pankaj Chopra

Chief Executive Officer, Reliance Wealth Management Limited

Current Backdrop:

In addition to the uncertainties in terms of the negative news-flow from the U.S. and Eurozone, few issues that are keeping investors from investing in India are:

- Economic growth and corporate earnings growth have slowed down and are below potential
- Macro-economic headwinds and government policy inaction has brought down the investment cycle significantly
- Regressive policy decisions such as implementation of GAAR (General Anti-Avoidance Rules), retrospective tax etc (though the govt. has clarified and these have been diluted and postponed).
- Impact of global macroeconomic factors including on exports from the country

In light of the above and the fact that investors have not made returns in the last 3-4 years in stock market, there is a lot of skepticism and negativity towards Indian equities. This has also meant that whatever little good news did emerge, was greeted with suspicion and discounted in the markets with no visible positive impact on stock prices. In fact, any brief rallies in the current calendar year have been used by investors to exit positions, due to lack of long term conviction.

However, we believe that it is against this very backdrop that the India as a country stands out and needs a long hard look as to the risk to return tradeoff and the



magnitude of absolute returns that can be generated from here on.

The rationale for the above belief is the fact that the India growth story is more domestic driven and less dependent on exports and therefore global cycles. Moreover India's demographic profile is structurally positive for the country where 42% of its population is currently below the age of 20 years.

Rising Power:

India has in the past often been portrayed as a country wracked with problems such as poverty, poor infrastructure, power and water shortages, corruption and stifling bureaucracy. But the reality is that despite these ongoing challenges, the country has transformed in recent years, and is now an aspiring economic superpower. Since the reform process was initiated in the 1990s,

which went a long way to ridding India of excessive regulation and protectionism, growth has accelerated and a range of factors are now driving an economy which pundits predict will become the third largest in the world by the year 2050.

At the current juncture, India appears to be at an inflection point. Most economies experience a doubling of their GDP in the shortest time when their per capita income moves from US\$1000 to US\$2000. With India's per capita income crossing US\$1,200 recently, its US\$1.5 trillion economy is expected to show significant acceleration and is expected to double over the next 5-7 years. This is expected to generate a huge potential of investment in Infrastructure. The Indian government itself plans to invest US\$1 trillion in next 5 years in the infrastructure sector

India's Demographic Dividend:

- 42% of India's population is currently below 20 years of age which is a big structural positive for the country. India is likely to add around 10 million new workers annually which will lead to increase in savings and growth rate.
- 75% of its population which is under the age of 35, is largely educated and English speaking has put the country on global opportunities map. Leading global names are ramping up offshore development centres in India, while Indian players

are gobbling up client facing business across the globe. Both are looking to benefit from the cost arbitrage and scaling up possibilities that India has to offer

- India's demographic profile is similar to that of the US in the baby boomer era and China in the 1990's, suggesting India will soon witness a huge structural spurt in consumption growth
- A quantum jump in personal disposable income (per capita income is now around US\$1200) has made the population a potent consumption machine. Increasing incomes are leading to an unparalleled consumption explosion. Coupled with under penetration of most products, India is today perhaps the biggest latent demand market in the world
- India's growth is more sustainable as it is largely driven by domestic consumption and infrastructure spending. Lesser reliance is on exports, which form less than 20% of GDP.

Recent policy announcements by Indian Govt.:

The month of September'12 was quite remarkable for Indian economy as the govt. unleashed a series of reforms such as opening up of FDI in Retail, Aviation and Broadcasting and has further proposed FDI in Pension and Insurance sector.

These are important reforms as India is a growing economy and it needs huge capital for its infrastructure development and other sectors. And the long term foreign money in the form of FDI can propel the country to even higher growth rates.

Most of these policy measures including FDI in multi-brand retail can have far reaching impact including increased employment generation and pick up in ancillary businesses, thereby growth and prosperity in the country.



From right: Mr. Harsh Munjal, General Manager - NBO, Mr. Pankaj Chopra, CEO - Reliance Wealth and Mr. Moosa Jadidi, Head of Private Banking - NBO at the Launch of the Strategic Tie-up between National Bank of Oman and Reliance Wealth Management in Muscat

As per Price Waterhouse Coopers (PWC), the Indian retail industry is pegged at US\$ 500 billion and is expected to reach US\$ 1.3 trillion by 2020. Organised retail is expected to reach 25% of this from a current very low base. It is estimated that post these measures, India's organised retail market could attract upwards of US\$ 15 billion in the next three years.

Outlook:

- Despite the challenging macro-economic environment, India's structural growth is intact. The economic slowdown in developed nations and subsequent drop in demand has also highlighted the benefits of India's economic orientation to its domestic market
- The Indian stock market has undergone a meaningful correction. Valuations are reasonable both in absolute and relative terms providing an attractive entry level for the medium to long term
- A century old stock market, with more than 7,000 companies

listed and a combined market cap of about US\$1.2 trillion. Indian equity markets are a trove of opportunity. With compounded average annual returns of 18 per cent plus over the last 30 odd years, the markets have had an enviable long-term track record. With more and more drivers to growth emerging, we find it difficult to believe these long-term returns can deteriorate sharply from here on

- The three broad themes that appear as key drivers to growth going forward are: domestic consumption, infrastructure investments and global outsourcing. Businesses that leverage off these opportunities are likely to do well
- The risks we see relate to the macro- environment, more particularly the fiscal deficit of the Government and high inflation and interest rates currently. An acceptable resolution of these issues is critical for the full potential of the economy to be realized. ■