

# ETF Securities

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## The changing face of India: the next big investment destination

### Key Points:

- India has the world's second largest population and is soon expected to surpass China
- The median age is just 28, this young demographic is powering significant growth
- The World Bank has estimated that India's 2019/20 GDP growth will be 7.5%
- ETF Securities have launched Australia's first ETF giving access to Indian equities (ASX Code: NDIA)



The colour and chaos that is India has always captivated the imagination like no other country. From ancient agrarian beginnings, shaped by five thousand years of political, cultural and religious diversity, India is now emerging as an economic powerhouse.

With a population of almost 1.3 billion people and one of the fastest growing economies in the world, many commentators are hailing India as 'the new China'.

Australian investors now have the opportunity to access this vibrant and rapidly growing economy with the launch by ETF Securities of the first exchange traded fund offering exposure to Indian stocks.

### What is propelling the India growth story?

It is difficult to ignore the sheer scale of India. Currently the world's second most populous nation, India is expected to claim the number one spot from China within the next decade.

By 2025, it is estimated that one fifth of the world's working age population will be Indian. And, with a median age of just 28 years, India's young demographic is expected to power the country's economy into the next decade.

The potential is clearly shown by the pace at which Indians have embraced digital technology. With a take up rate second only to Indonesia, the number of Indian internet users is expected to hit 1.1 billion by 2030. Already, Indians spend more time on social media than their counterparts in China and the United States.

The World Bank recently estimated that India's GDP would grow by 7.5% in 2019/20, and continue this pattern in 2021 and 2022, pointing to the increasing resilience of its economy.

Consumption among India's younger demographic is only part of the story. The growth upswing is also being driven by increased foreign investment, which has been encouraged by structural reforms in the taxation and business sectors.

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Reserve Bank of India figures show that investment activity accelerated by 12.2% in 2018/19 compared to 7.6 % in the previous year. Significantly, much of the investment over the past two decades has found its way not into industry but into a booming services sector.

Social reforms and policy initiatives in infrastructure development, health and rural transformation have also played a big part, shifting India's economy from one characterised by overwhelmingly high levels of poverty to one with an increasing degree of self-sufficiency.

The changing face of India is reflected in the shrinking number of its citizens living in extreme poverty, which was slashed from 46% to an estimated 13.4% in the two decades leading up to 2015, according to the World Bank.

In the past two decades, per capita income in India has risen fivefold, passenger car sales by 5.5 times and the number of inbound tourists by 8 times.

The Asian Development Bank in its latest *Asian Development Outlook* said that it, too, expected the Indian economy to outperform, although its forecasts were slightly less bullish than the World Bank at 7.2% for FY2019/20.

“India has a golden opportunity to cement recent economic gains by becoming more integrated in global value chains. The country's young workforce, an improving business climate and a renewed focus on export expansion all support this,” the ADB said.

“An increase in utilisation of production capacity by firms, along with falling levels of stressed assets held by banks and easing of credit restrictions on certain banks, is expected to help investment grow at a healthy rate.”

### Challenges ahead

Although India's economic development in recent years has outstripped that of many other emerging markets, the country still faces some challenges to ensure progress extends to all demographic and geographic areas.

These key challenges include skill development and employment for the future workforce, creating a healthy and sustainable population, and lowering barriers for socio-economic inclusion of India's rural population.

Some commentators predict that India needs annual growth of 8% to create enough jobs for the more than 12 million young Indians entering the workforce each year. However, the unevenness of the growth in the economy has meant that growth in jobs has not kept pace.

A recent McKinsey Global Institute study concluded that the digitisation of India's economy could create 65 million jobs by 2025 but 40 million workers would need to be retrained to do them.

India is at a tipping point and the time is ripe for key stakeholders within the public and private sector to come together to address these issues head on. Doing so will unshackle the potential of India's youthful and technologically connected population and allow India to be a model for other fast-growing consumers markets.

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## Indian election

The recent return to power of the Bharatiya Janata Party (BJP), headed by Narendra Modi has been viewed as a positive, although the government faces several challenges to maintain the country's economic momentum.

Modi has been praised for his swiftness in dealing with geopolitical issues and implementing key supply-side reforms. Some commentators, however, have been critical that he has not delivered on economic promises to create more jobs, particularly in rural areas, where two thirds of the population is based. This will be a key target for his government over his second five year term.

## First ETF for India (NDIA)

ETF Securities has teamed with Reliance Nippon Life Asset Management, one of India's largest asset managers, for the launch of its NDIA ETF. Reliance has a 23 year track record in India and has some \$USD 61 billion under management.

NDIA will invest in a basket of stocks based on the Nifty50 Index – which comprises the 50 biggest listed companies listed on the National Stock Exchange (NSE), including HDFC Bank, Reliance Industries, Housing Development Finance Corporation, Infosys, ITC, ICICI Bank and Hindustan Unilever. It accounts for 13 sectors representing about 66.8% of the free float market capitalisation of the stocks listed on the NSE. The Nifty50 is up 13.6% over the past year and 16.3% over five years.

Until now, India has been difficult for offshore investors to access due to the country's strict foreign investment rules.

Although there are a few unlisted “active” funds that invest in India, ETF Securities' NDIA is the first vehicle for passive investment available to Australian investors.

ETF Securities is Australia's only independent ETF provider. Founded by philanthropist Graham Tuckwell, the group has more than A\$1 billion in funds under management, across sectors as diverse as robotics, biotechnology, infrastructure and commodities.

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