

The Opportunity of India

Key Points:

- The Indian economy is primed to benefit from the structural reforms of the Modi government.
- Domestic consumption is powering 60% of Indian GDP.
- The average age in India is just 28 supplying a young and agile workforce that are increasingly connected.



India is the world's largest democracy, the sixth largest economy and has a population of 1.3 billion, 54 times the number of people in Australia for approximately the same land size.

The nation is undergoing a rapid transformation that was truly initiated by the liberalisation of the economy beginning in 1991. Structural changes to the economy have been brought about in recent years by the Modi government aiding the significant growth seen today. The fundamental driver of this growth is the increase in domestic consumption throughout the nation.

Structural Reform

Key reforms initiated by Modi have begun the process of formalising India's economy and created a better environment for business. This has been reflected in the World Bank's ease of doing business ranking, India is now ranked 77th in the world and significantly, this represents an increase in 53 positions over two years.

Contributors to this progress include the introduction of GST in mid-2017 which centralised 17 indirect taxes that were previously levied. 2017 also saw the sovereign credit rating upgraded one level by Moody's, the first movement in this in 14 years.

The evolution of the economy can be seen through the fundamental shift from the previous agrarian focus to the more service-based economy we see today.

Consumption

A 2019 report by the World Economic Forum identified domestic consumption as the key driver of India's economy today, powering 60% of GDP. The report outlines five significant contributors to India's growing consumption:

1. Income growth

India is undergoing a transformation in wealth, it is projected that 25 million households will be lifted out of poverty by 2030, reducing the percentage of households in poverty from 15% today to less than 5%. This is introducing a huge expansion of the middle class and uptick in consumption of everyday items.

2. Urbanisation

40% of Indian's will live in urban areas by 2030 as there is a steady migration from rural regions to cities and increased population density urbanises previously small towns. This

movement is compounding the need for core infrastructure developments to cope with additional population pressures.

3. Demographic change

India has a median age of just 28 years. This young and, comparatively, highly educated work force will remain young through to 2030 with an expected median age of 31 years. Compare this to the expected median age in Australia of 40 years and China at 42 years.¹

4. Technology and innovation

Indian's have embraced the new digital age, and in many cases, they have leap-frogged many of those technologies that emerged during the dot-com bubble. 80% of Indian's use their mobile as the primary platform for accessing the internet with the desktop computer bypassed completely.

This has created a highly engaged and agile market who are adopting many of the new technologies the share economy has to offer. Rideshare company Ola, a strong rival to Uber, was valued at \$6.2 billion in May 2019 and has set a goal to bring one million electric vehicles onto the roads by 2021.²

Projections suggest there will be 1.1 billion internet users in India by 2030, with each representing further opportunities to extend consumption and engage with the new service-based economy.

5. Changing consumer attitudes

As the Indian population has become wealthier and more connected, the core attitudes of consumers are also changing. The growing middle class has led to the emergence of sectors in the market that were previously very small, including dining out, personal hygiene, organic food, health and fitness.

Opportunity Awaits

The Nifty50 Index is primed to benefit from the structural reforms currently happening in India. Financials make up almost 40% of the Nifty50 and these companies will arguably benefit the most from recent changes. With the policy of demonetisation and the introduction of GST boosting their performance. The second biggest overall sector in the index is the consumer sector, making up about 17% of the index, which will also benefit from India's growing middle class, household consumption and urbanisation.

India's overall economic growth has been driven through domestic consumption and the Nifty50 is no different, with the index constituents generating a significant portion of their revenue onshore, despite their large cap nature. As global volatility increases with the threat of trade wars and political uncertainty, India can rely on its domestic consumption to achieve the 7.5% forecast growth in 2020 (IMF, April 2019).

¹ <https://www.statista.com/statistics/260493/median-age-of-the-population-in-australia/>

² <https://www.financialexpress.com/industry/sme/indias-2nd-most-valuable-startup-ola-valuation-to-hit-6-2-billion-new-funding-proposal-by-hyundai-kia-motors-show/1565464/>

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