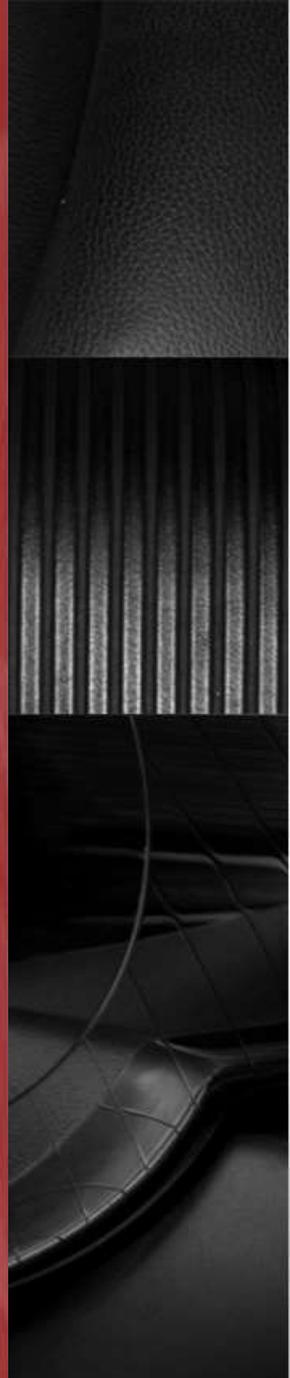


India – What to Expect

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Demographics

- Size: 7th Largest Country by Area.
- Population: 1.2 billion (2nd largest) with 65% aged less than 35. Great demographic dividend potential (risk).
- ~1/5th of the world's working age population.
- Literacy Rate: 74.04%.
- English Speaking Population of 12.16% (compared to 4.94% in Brazil, 0.83% in China).
- Rapid Urbanization: 30% population live in urban areas.



Macroeconomics

- GDP: US \$1.85 trillion, 3rd largest by PPP (2011)
 - Services – 55.6%.
 - Industrial – 26.3% (46% in China).
 - Agriculture – 18.1%.
- Real Growth Rate:
 - 2003-2011 – 8.1%.
 - 2011-12 – 6.2%.
 - 2012-13 – 5%.
- Persistent High Inflation:
 - Current WPI of 5.96% (March 2013).
 - Double digit retail inflation.



Macroeconomics

- Fiscal Deficit: 5% of GDP.
- Government Debt: 68% of GDP.
- Current Account Deficit: 6.7% of GDP (Dec 2012)
 - Oil Accounts for 30% of import bill, gold for 10%.
 - Likely to be ~5% in 2012-13.
- Independent Central Bank RBI:
 - Free floating exchange rate regime: ~INR 54/USD.
 - Current Repo Rate: 7.25%.



Economy

- 2nd largest producer of cement (320 million TPA).
- 3rd largest road network. 4th largest rail network.
- Textile is second largest employer after agriculture.
- Information Technology large driver of services sector.
- Telecom explosion with teledensity of 74.15%.
- Pharma industry is 3rd largest in terms of volumes. 2nd after U.S. in FDA approved manufactures.
- 250+ Indian MNCs (for every \$ of incoming FDI 65 cents of outgoing investment).



Financial Markets

- BSE:
 - Asia's first bourse.
 - 10th largest by market cap.
 - 5th most active in terms of transactions.
- Banking Sector:

Gross NPAs: ~3.5% in 2013 (safe).

 - Yet to see consolidation, opening to international banks.
 - New banking licenses in pipeline.
- Stringent securities regulator SEBI.
- Strong and established accounting and legal standards.
- Primary markets quiet since a few years, but recently active private equity.
- High interest rates have impacted corporate balance sheets and infrastructure investments.



FDI

- 2011: \$34.62 billion
- 2012: \$22.78 billion
- 2013-14 forecast: \$36 billion
- Need of the hour to finance CAD, infrastructure.
- United Nations Conference on Trade and Development (UNCTAD) survey showed India as 2nd most important FDI destination (1st China).
- FDI gradually being liberalized in multiple sectors – aviation, multi-brand retail, insurance, defense. Recent surge in FDI.



Political Environment

- Chaotic but stable democratic institutions at both national and state level.
- Largely independent regulatory bodies, Apex Court, CAG.
- Strong RTI laws.
- UPA led by Indian National Congress currently in power.
- Regional and state parties continue to be strong determinants in coalition politics.
- Reform agenda slowed down in last few years but picking momentum in last 6 months.



Energy Sector

- Installed Capacity: 220 GW (5th largest).
- 4th largest consumer after U.S., China, Russia.
- Very low per capita consumption (~750 kWh per capita consumption compared to ~2600 kWh world average).
- Low Penetration: ~300 million still lack electricity.
- Coal imports hit record highs 135 million MT in 2012-13.
- Large no. of mega projects stalled due to slow clearances, low availability of resources.
- Public power utilities need reforms to reduce bank NPAs.



Metals & Mining Industry

- Ferro-alloys Capacity of 5.15 MTPA but almost 40% unused.
- Power single largest cost component in production.
- Grew by 19.9% in 2011 to reach \$141.9 billion.
- Forecasted to grow at 12.5% CAGR till 2016 to \$255.8 billion.
- Ferro-alloys expected to see sustained domestic demand. FDI inflows of \$4.13 billion in last decade.
- Iron and Steel is the largest segment (68.5%). 3rd largest producer of iron ore.
- Slow infrastructure momentum has impacted demand for mining.



Steel Industry

- 4th largest producer of Crude Steel.
- 110 million tonnes per annum (5% of world production).
- Growing at CAGR of ~8% over last 5 years.
- Expected to be 2nd largest producer by 2016.
- Per Capita consumption of 110 lbs vs. 330 lbs (world average).
- 2012 was dismal with demand growing at 2.5%.
- However due to global rebound forecasts for increase in demand stand at 5.9%(world-2.9%) in 2013 and 7.5%(world 3.2%) in 2014.



Manganese Industry

- India is a net importer with 1.33 MT imports in 2012-13, expected to double by 2016-17.
- Imports almost entirely of high and near-high grade ores.
- Low grade manganese abundant (only 20% of known deposits are of high enough grade for steel).
- Manganese Ore India supplies 42% of total ore, 75% of high grade ore.
- Mammoth potential growth in infrastructure augurs well for manganese industry.



What to Expect

- Expectations:
 - Falling population below poverty line, rising per capita income levels, especially rural.
 - GDP Growth Rate in 2013-14: ~6%.
 - Fiscal deficit target in 2013-14: 4.8%.
 - Further accelerating growth up 8% levels in medium-term.
 - Eventual convergence of CPI and WPI.
 - Progressively declining interest rates.
 - Decelerating population growth.
 - Green shoots visible in quarterly results, earnings forecasts.
 - Easing commodity prices especially oil and gold reduce strain on CAD.
 - Power, tax code, FDI reforms.



What to Expect

- Key Risks:
 - Current Account Deficit unsustainable.
 - Rampant red-tapism, corruption, poor governance.
 - Huge investment in terms of domestic money and FDI required.
 - Grossly inadequate Infrastructure.
 - 2009 Goldman Sachs report says India needs investments of \$1.7 trillion in infrastructure by 2020 to meet economic needs.
 - Unemployed youth.
 - Political Environment
 - General Elections in 2014. Coalition government is certain.
 - Maybe earlier due to increasing anti-incumbency, coalition politics.
 - Reforms might be put on a hold due to uncertainty, populism.



What to Expect

- Conclusion – Strong Fundamentals:
 - Favourable population dynamics, large working age population, stable democracy, stable institutions, stable savings rate(~32%).
 - Strong entrepreneurial spirit in SMEs are drivers of economy.
 - 2011 PWC report says GDP is expected to grow at CAGR of 8% over next 4 decades.
 - Depreciating Rupee helps Indian exporters.
 - Declining commodities aid manufacturing.
 - Reform process slow but steady, irrespective of government.