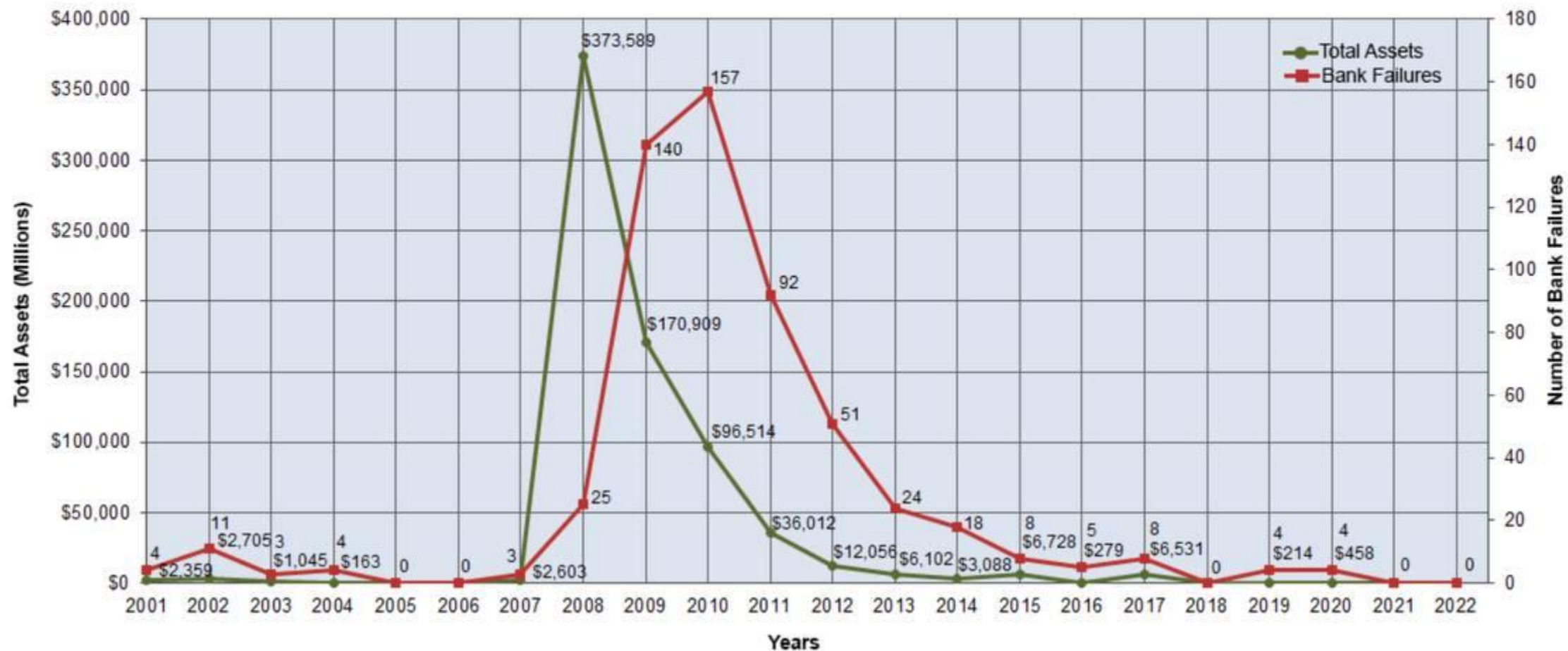


India in the global context

563 bank failures in the US since 2001

Bank Failures in Brief – Summary 2001 through 2023

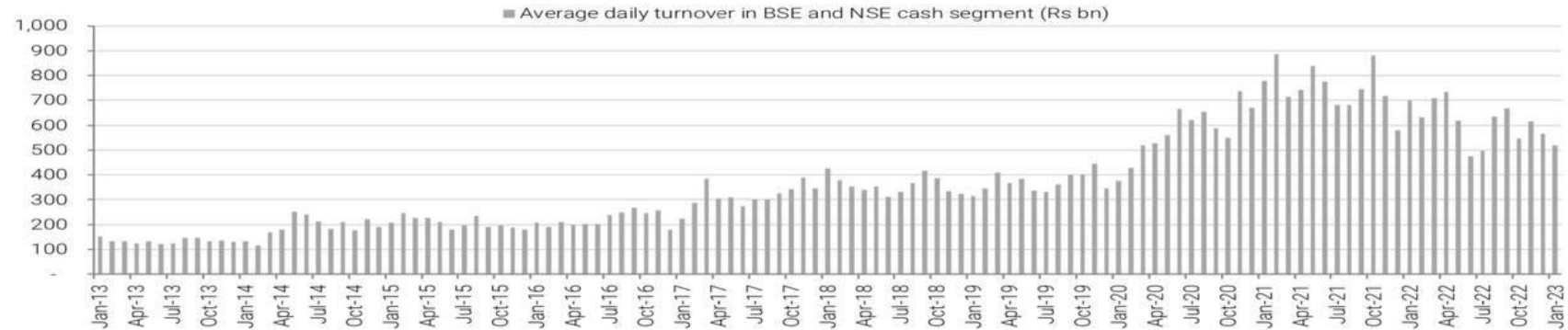
There were 563 bank failures from 2001 through 2023. Please select the year buttons below for more information.



Turnover—cash and derivatives segment

Average daily turnover in cash segment has come off recently

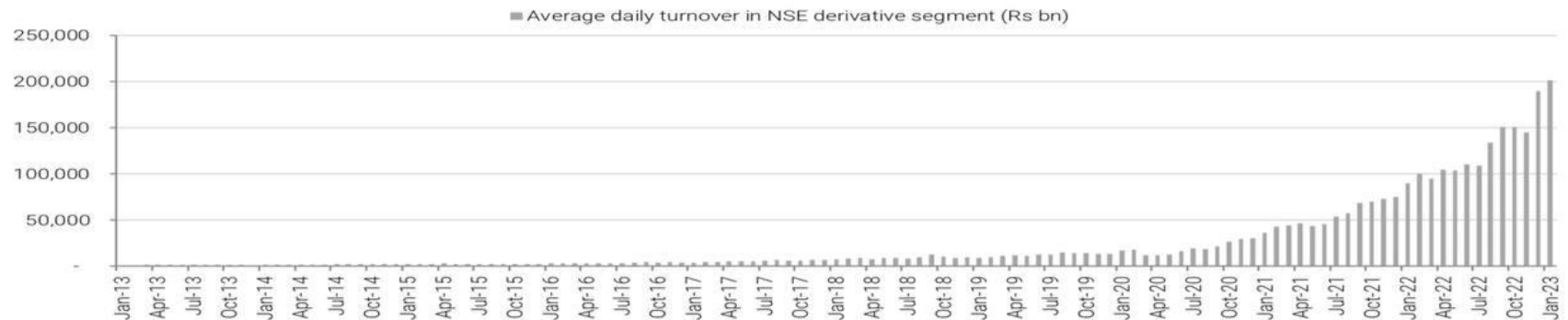
Average daily turnover in BSE and NSE cash segment (Rs bn)



Source: NSDL, Kotak Institutional Equities

Average daily turnover in derivatives segment increased consistently since March 2020

Average daily turnover in NSE derivatives segment (Rs bn)



Source: NSDL, Kotak Institutional Equities

Instrument wise Volume and Turnover

As on Jan 25, 2023 15:30:13 IST			
Product	No. of contracts	Turnover (cr.)*	Premium Turnover (cr.)
Index Futures	6,88,184	66,228.29	-
Stock Futures	25,71,512	1,75,076.65	-
Index Options	39,65,37,071	3,96,36,328.97	64,735.00
Stock Options	33,32,266	2,42,711.64	3,376.68
F&O Total	40,31,29,033	4,01,20,345.55	68,111.68

Note:

* In case of Option Contracts "Turnover" represents "Notional Turnover"

India in the global context

भाव भगवान्

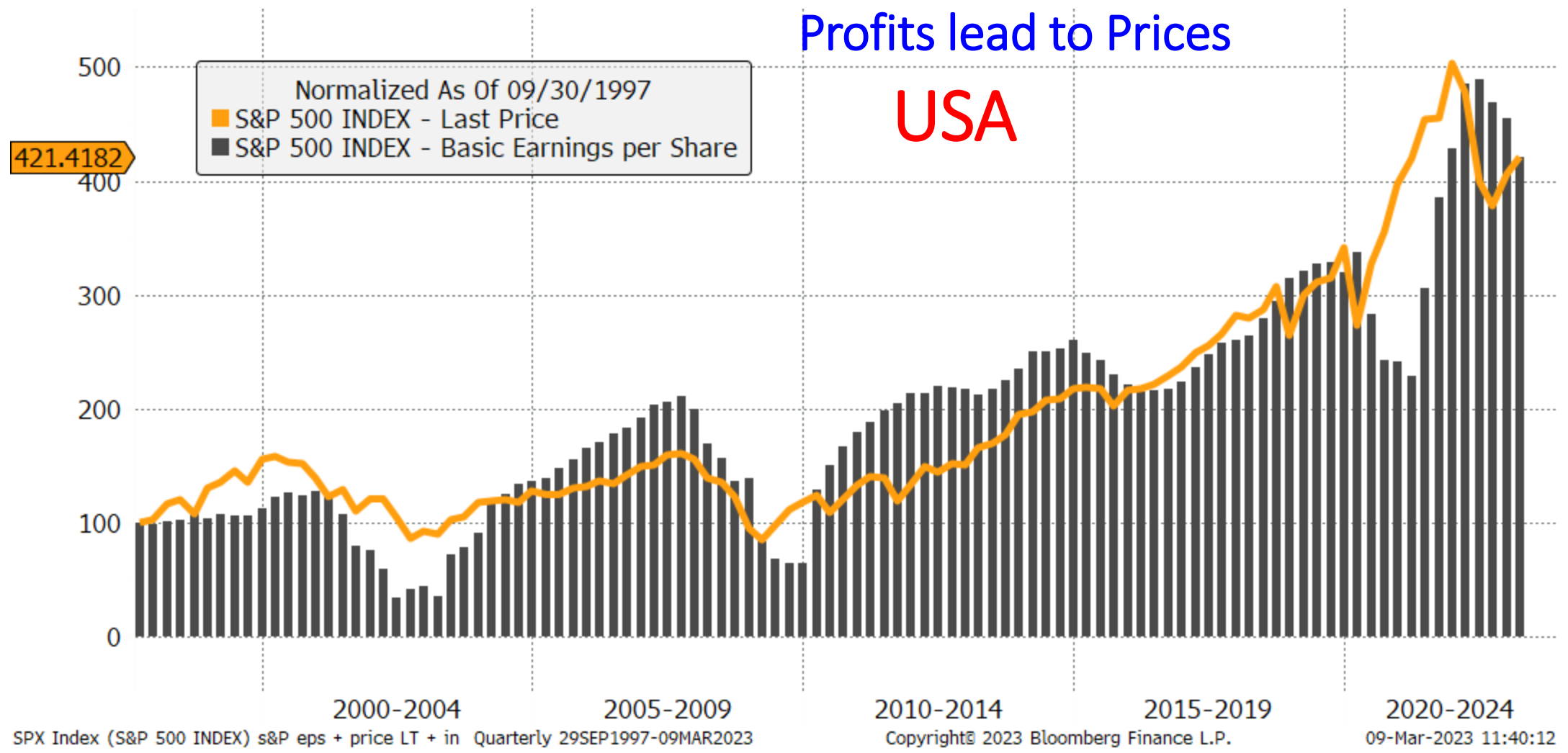
भाव भगवान्

But what is the **foundation** of
भाव ?

Profits, Profits, Profits

Profits lead to Prices

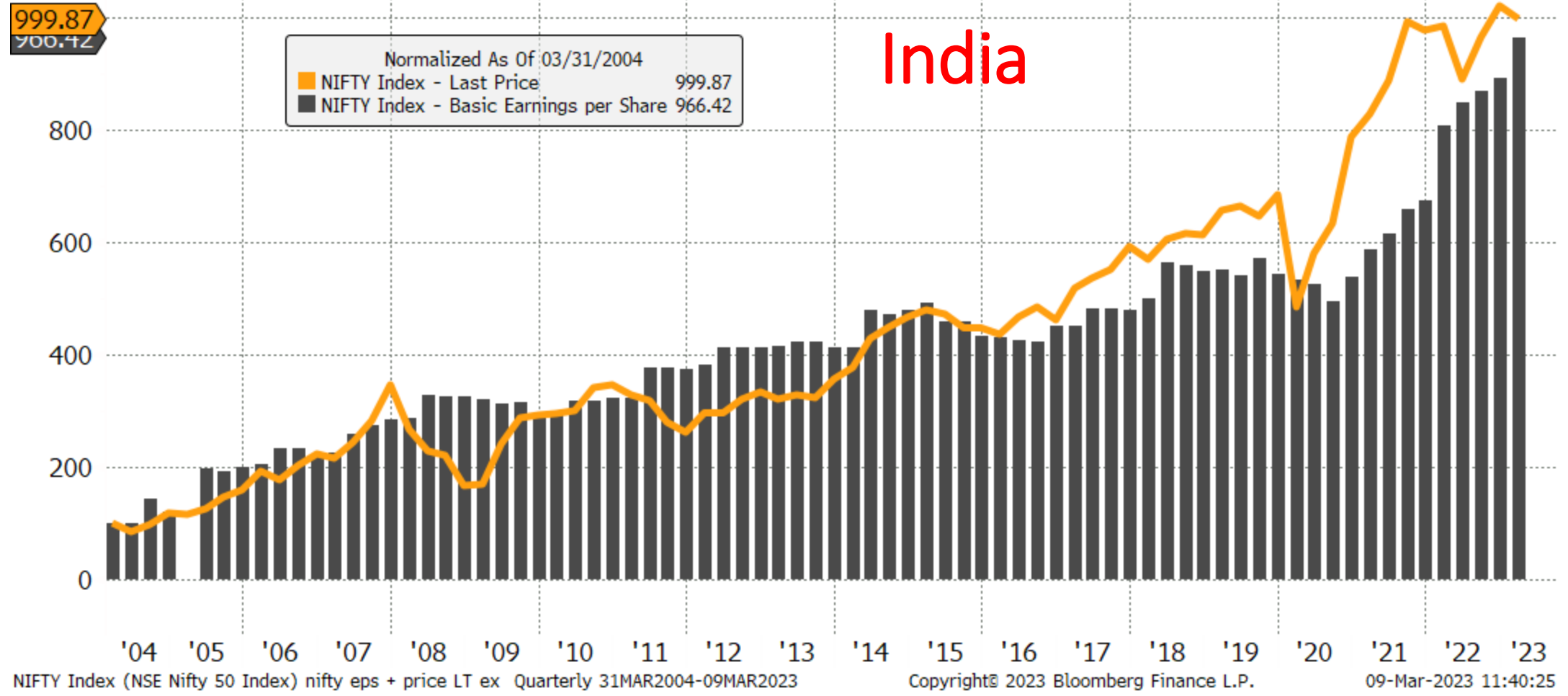
USA



Profits, Profits, Profits

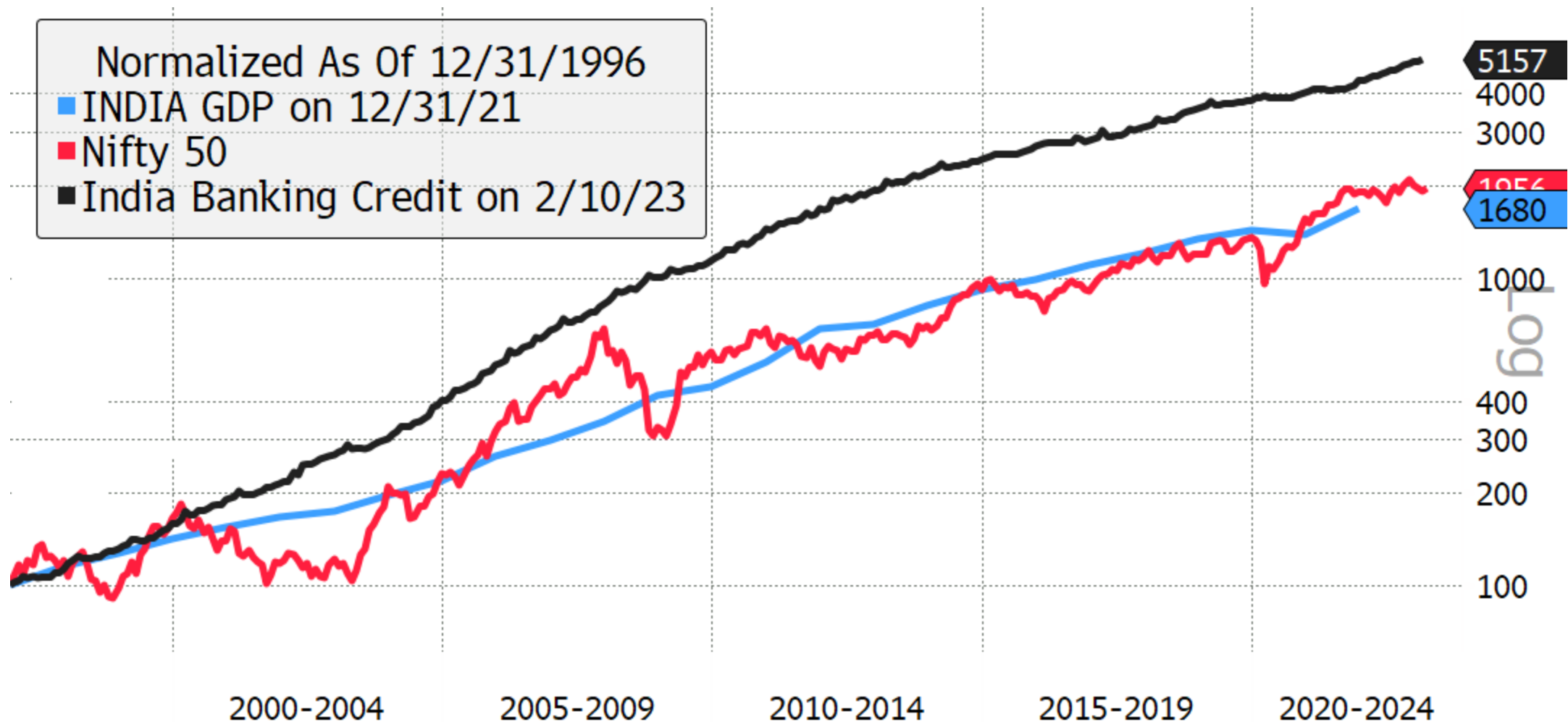
Profits lead to Prices

India



And what leads to Profits?

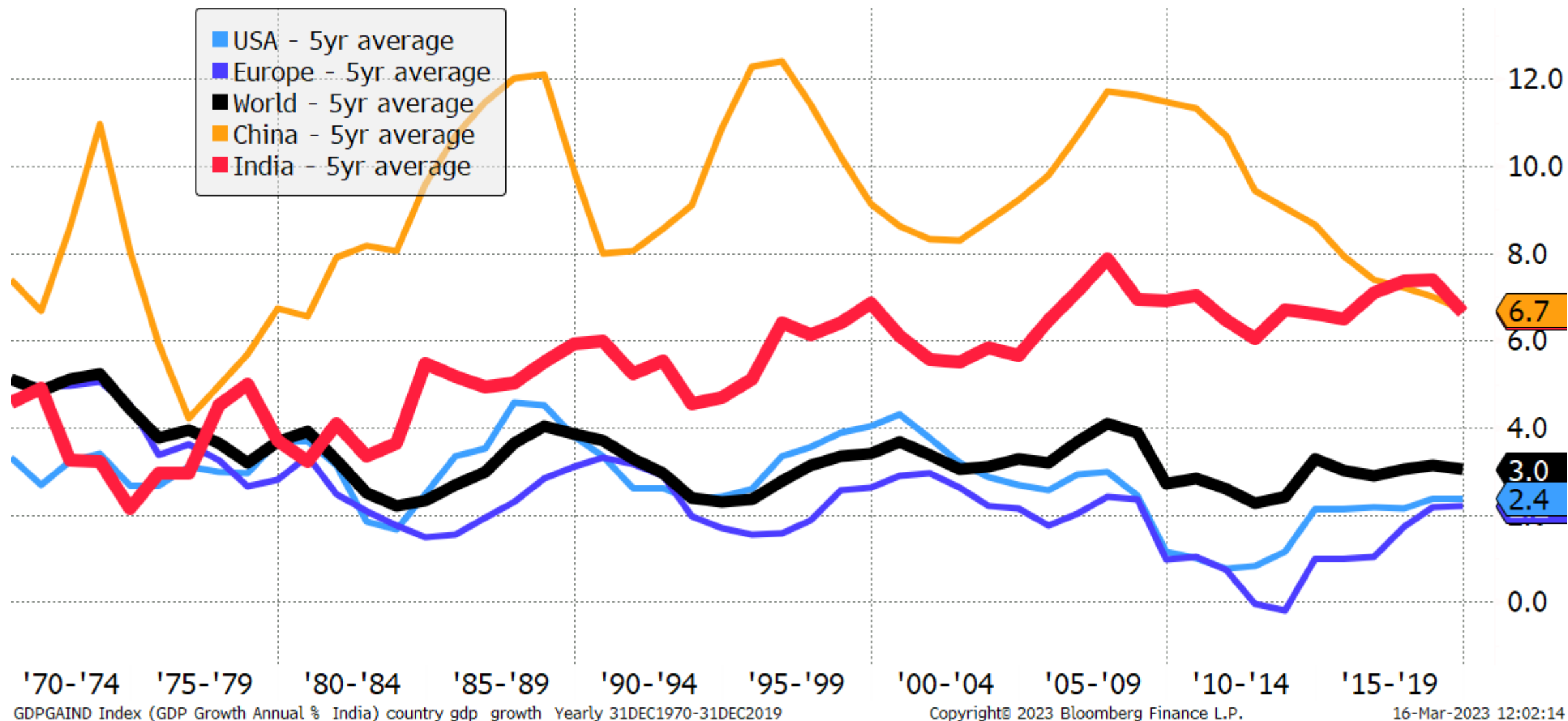
Growth leads to profits -> leads to prices



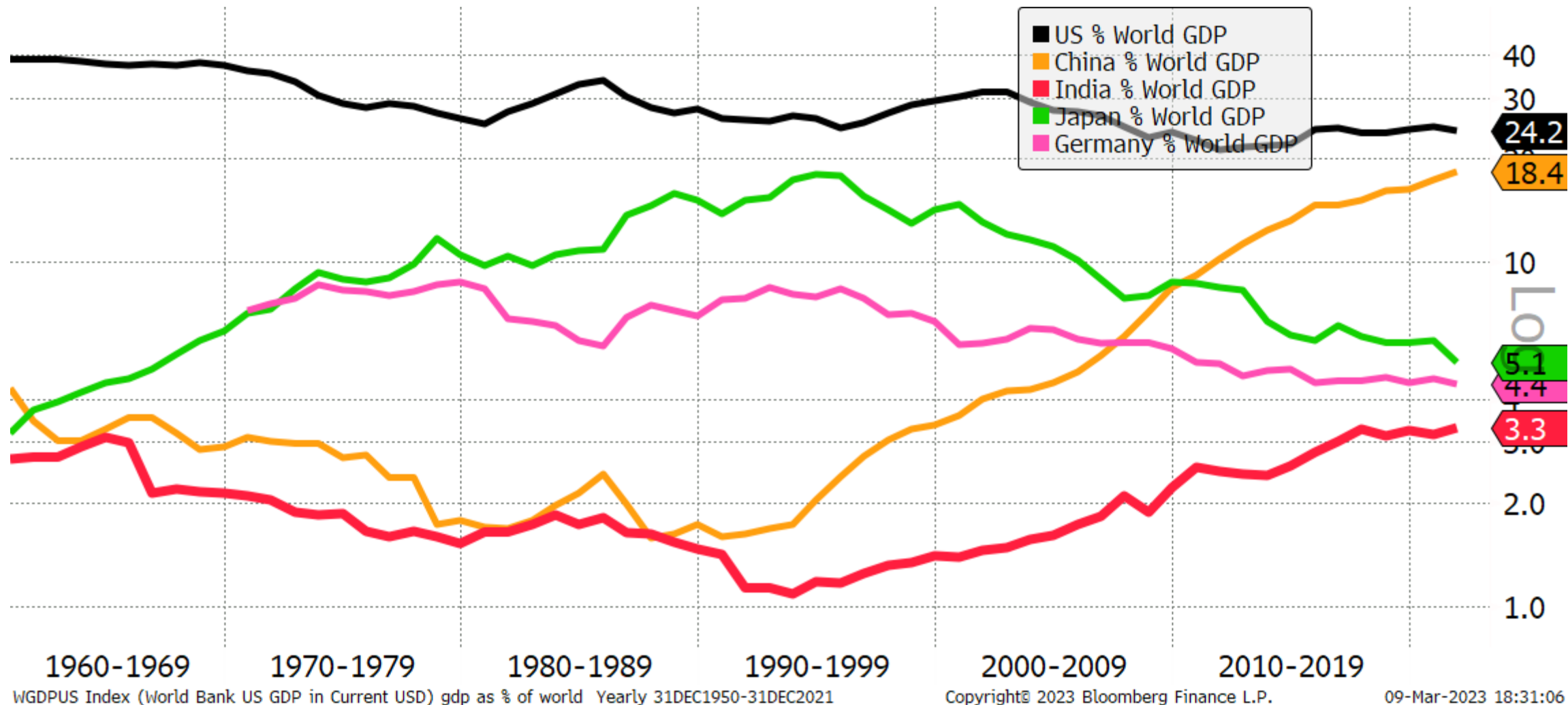
WGDPINDI Index (World Bank India GDP in Current USD) india long macro Monthly 31DEC1996-09MAR2023

Copyright© 2023 Bloomberg Finance L.P. 09-Mar-2023 16:01:48

India GDP growth versus rest of world – consistently higher growth since 40 years



India's share of world GDP is growing as India grows faster than others



India rising up the ranks

GDP Rank

India is on the rise whereas China has seen its prime – Nominal GDP (US\$ trillions)

2000	2010	2020	2022	2027 (E)
United States	United States	United States	United States	United States
Japan	China	China	China	China
Germany	Japan	Japan	Japan	India
United Kingdom	Germany	Germany	Germany	Japan
France	France	United Kingdom	India	Germany
China	United Kingdom	India	United Kingdom	United Kingdom
Italy	Brazil	France	France	France
Canada	Italy	Italy	Canada	Canada
Mexico	India	Canada	Italy	Brazil
India	Russia	Korea	Brazil	Italy

Source: IMF, Spark Capital Research

Market Cap Rank

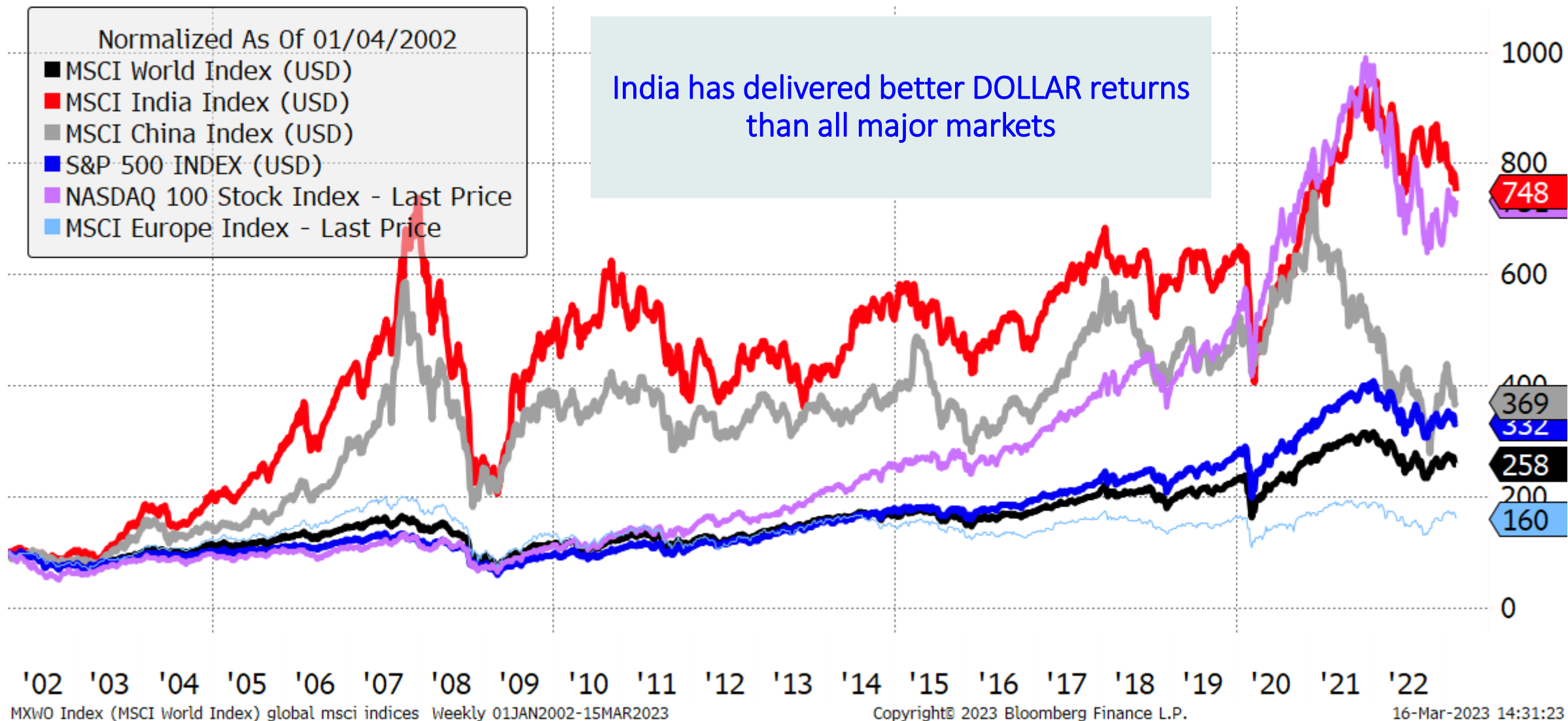
Market Capitalization Ranks

2000	2010	2020	2030 (E)
1. USA	1. USA	1. USA	1. USA
2. Japan	2. China	2. China	2. China
3. UK	3. Japan	3. Japan	3. Hong Kong
4. France	4. Hong Kong	4. Hong Kong	4. Japan
5. Germany	5. UK	5. UK	5. India
6. Switzerland	6. Canada	6. Canada	
7. Canada	7. France	7. India	
8. Italy	8. India	8. Saudi Arabia	
9. Netherlands	9. Brazil	9. Germany	
10. Hong Kong	10. Australia	10. South Korea	
11. Spain	11. Germany	11. Switzerland	
12. Australia	12. Switzerland	12. Australia	
13. Sweden	13. Spain	13. Iran	
14. Brazil	14. South Korea	14. South Africa	
15. India	15. Russia	15. Brazil	

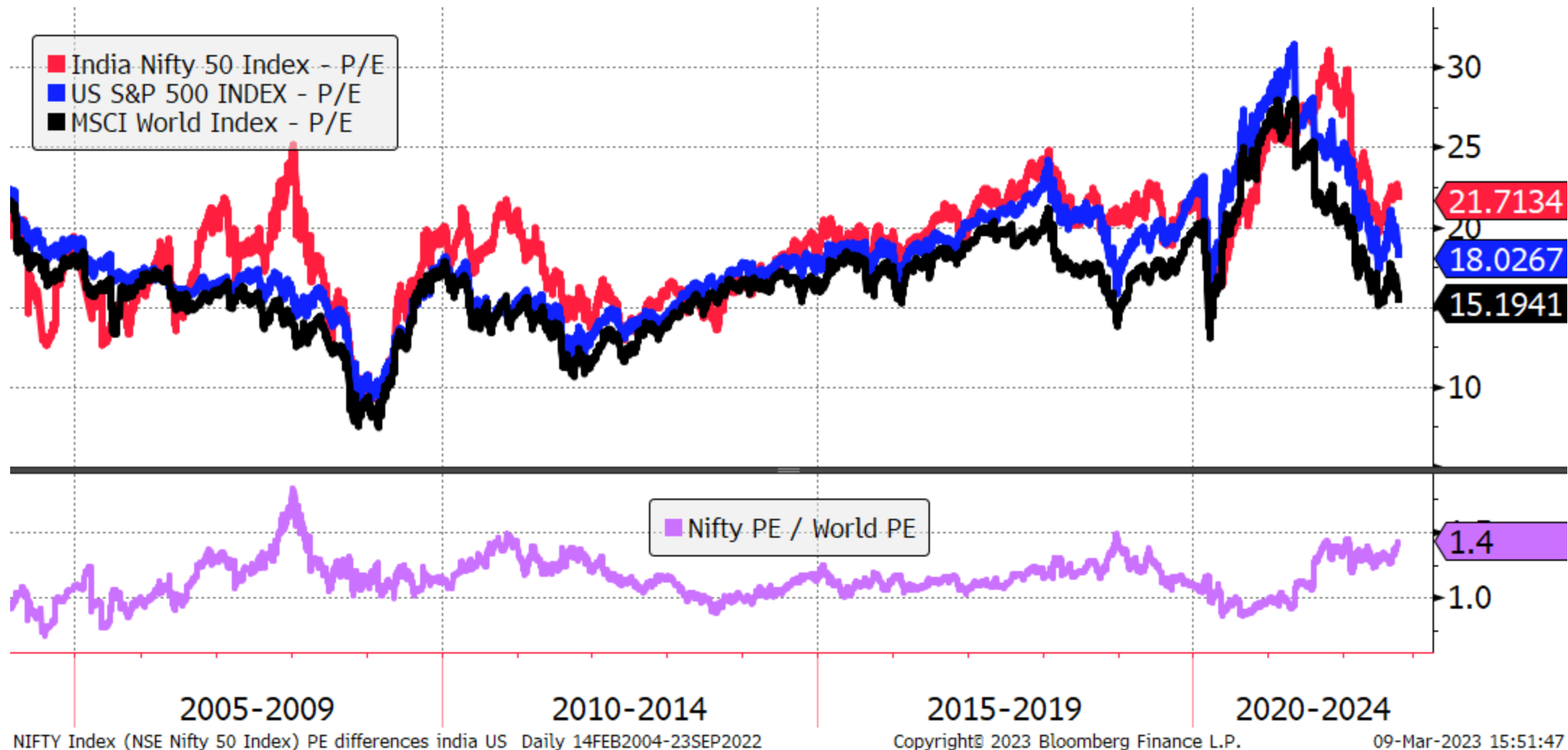
India has emerged the 7th largest country in terms of Market Cap and is expected to be among the top 5 countries in this decade

Source: The World Bank

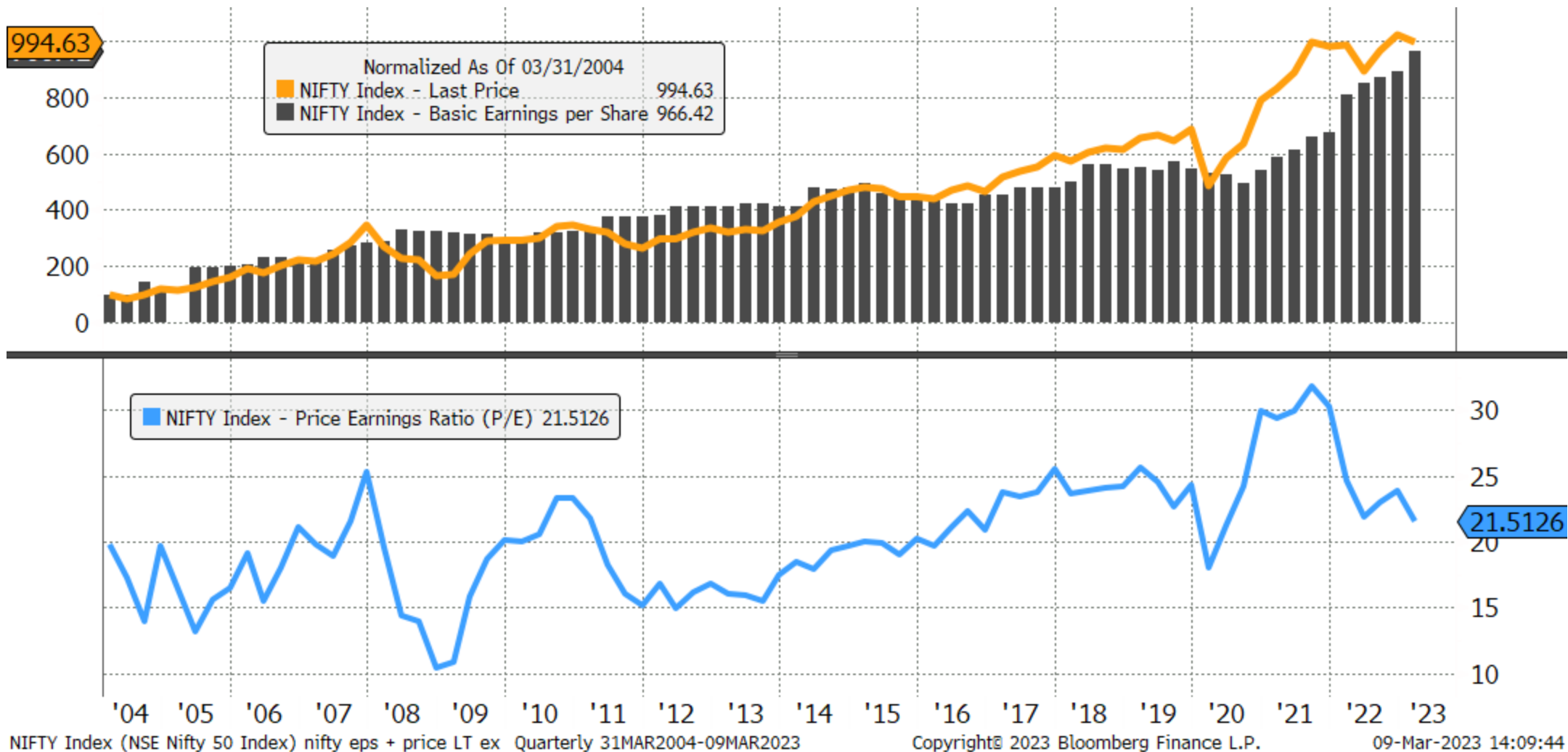
Higher growth = higher performance



Higher growth = higher valuations



Higher growth = higher valuations



Structural positives for India versus the world

Endowments

De-globalization

Deregulation

Debt

Demography

Democracy

Opportunities

Manufacturing

New Energy

Urbanisation

Consumption Premiumisation

Equity Savings Cult

Long-term themes that will shape India (Kotak)

Demographics			Disruption				
Consumption	Consumer leveraging	Financialization	Environment	Formalization	Privatization (indirect)	Standardization	Technological disruption
Favourable demographics, rising income levels, urbanization will lead to higher penetration of various goods and services	Households to increase debt levels for consumption led by easy availability of retail finance	Financial savings should increase on account of high real interest rate and growing financial inclusion	Clean air and higher share of renewables in India's energy mix	Shift from unorganized to organized will gather pace	Private banks will gain further share from PSU banks (currently have around 70% share in deposits & loans); Airlines	Products will be more generic/standardized	Technological advancement will lead to disruption of business models along with increasing productivity
Key beneficiaries: Consumer businesses (durable and non-durable), retail banking, financial saving companies	Key beneficiaries: Automobiles, retail banks, NBFCs, consumer durables	Key beneficiaries: Banks, NBFCs, insurance companies and mutual funds	Key beneficiaries: Natural gas, renewables, pollution control equipment suppliers	Key beneficiaries: Consumer companies in sectors with high share of unorganized sector, private banks, large real-estate developers and organized retailers	Key beneficiaries: Private banks, private airlines		Key beneficiaries: Adaptive businesses, private banks, clean energy companies
		Key losers: Real estate	Key losers: Automobiles (IC-based), coal, oil (E&P and R&M)	Key losers: Building component companies, NBFCs	Key losers: PSU banks, railways	Key losers: Semi-branded commodities such as building components and consumer appliances	Key losers: Automobiles (IC-based), coal, oil, semi-branded businesses

Source: Kotak Institutional Equities estimates

Long-term themes that will shape India (Kotak)

Emerging themes, some positive

Emerging themes that will shape the Indian markets

Emerging market forces may bring new opportunities as well as challenges

Impact of emerging forces (4-D framework) on various sectors

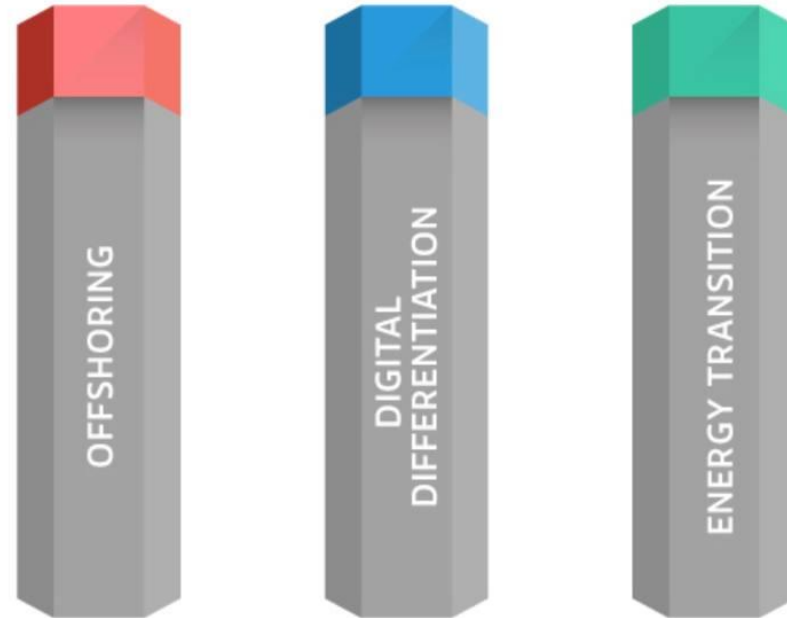
Sector	New forces			
	De-globalization	Diversification	Digitalization	Darwinism
Automobiles	OEMs will need to invest in local supply chains; risks to export ambitions	Global OEMs integrating with domestic component manufacturers	Shift in dealerships from physical to digital to reduce costs for OEMs	Weaker players may have to exit
Banks-payments			Invest in digital processes	
BFSI-savings			Investing in individual capacity	Passive funds, low-cost insurance products
Capital goods	Boost to defence and engineering manufacturing	Indian product companies may benefit from diversification of global supply chains from China	Increasing investment in digital/automated processes to improve efficiency	Weak EPC payers at risk
Consumer staples			New players through e-commerce platforms	Category diversification, new player entering, in-house brands of retailers
Healthcare services			Digital delivery of consultation (tele-consultation) and pharmaceuticals	Consolidation may benefit leaders in a capital-intensive fragmented industry
IT services	Onshoring and visa regulations may reduce profitability of Indian IT Services companies;		Change in service model, new agile competitors, disruption in end-users' business (faster digital transformation versus lower IT budgets)	
Media			Consumption through digital platforms	Exit of weaker players in print, theaters
Oil, gas & consumable fuels		Rising share of renewables from fossil fuels to reduce India's dependence on imported energy		Falling oil demand, incremental investment in renewables in lieu of fossil-based energy
Retailing	Boost to contract manufacturing of appliance components		E-commerce to gain market share at a faster clip	Marginal retailers at risk
Transportation				Weaker airlines may have to exit

Notes:

	High risk
	Medium risk
	Low risk
	Medium risk but positive
	High risk but positive

Source: Kotak Institutional Equities estimates

Drivers for India (Morgan Stanley)



Government
policy



Multipolar
world thesis



Paris
Accord



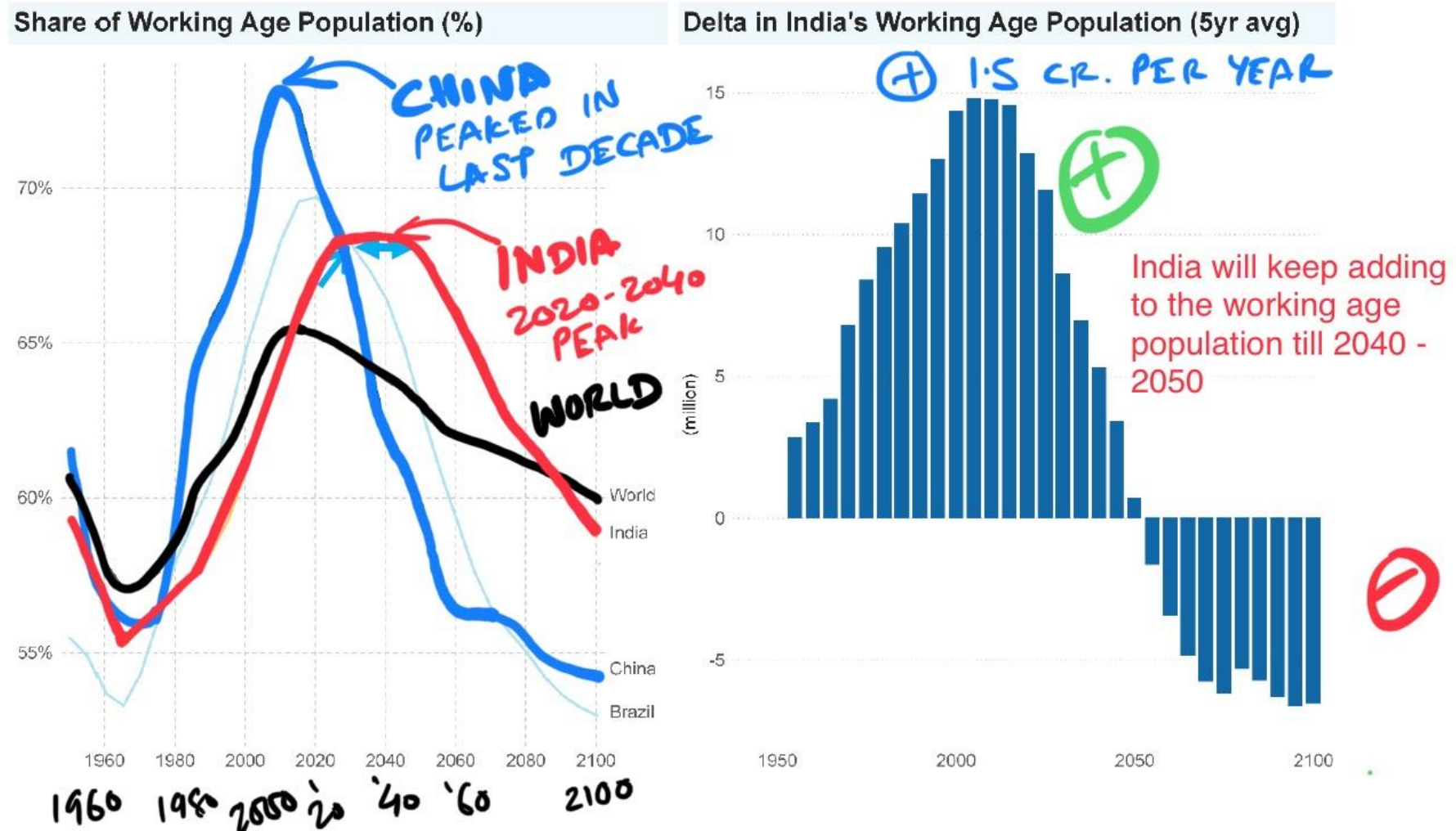
Aadhaar

Today we will focus on

- Demographics
- Manufacturing
- Infrastructure
- Digital

Demographics : India's inherent strength which cannot be reversed

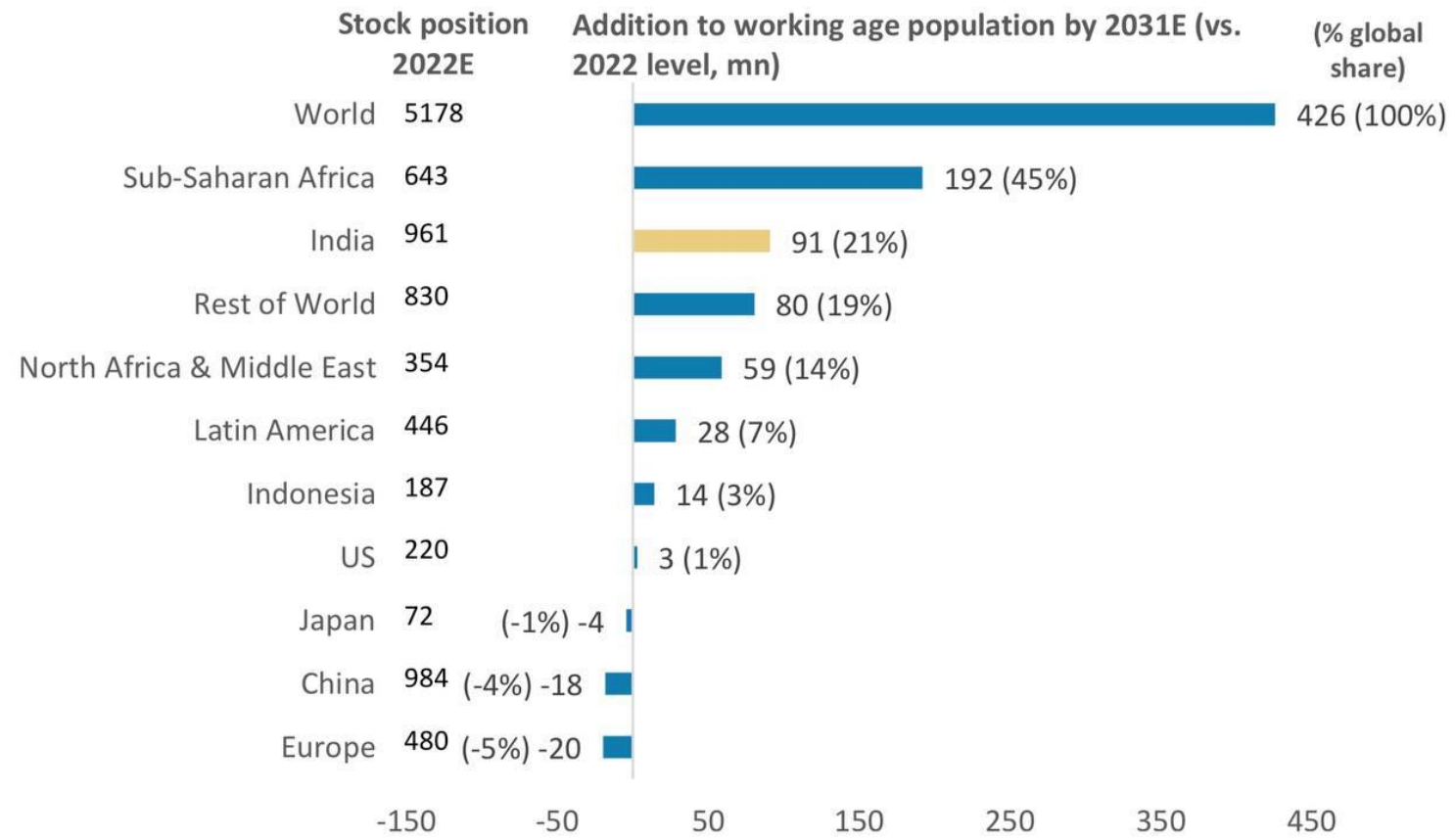
Fig 3 India versus world – working-age population – China has already passed the peak, while India is set to see further increases followed by a long plateau over the next two decades



(Macquarie Research)

@theMihirV

Demographics : India will add 20% of the incremental workforce of the world in 20 years

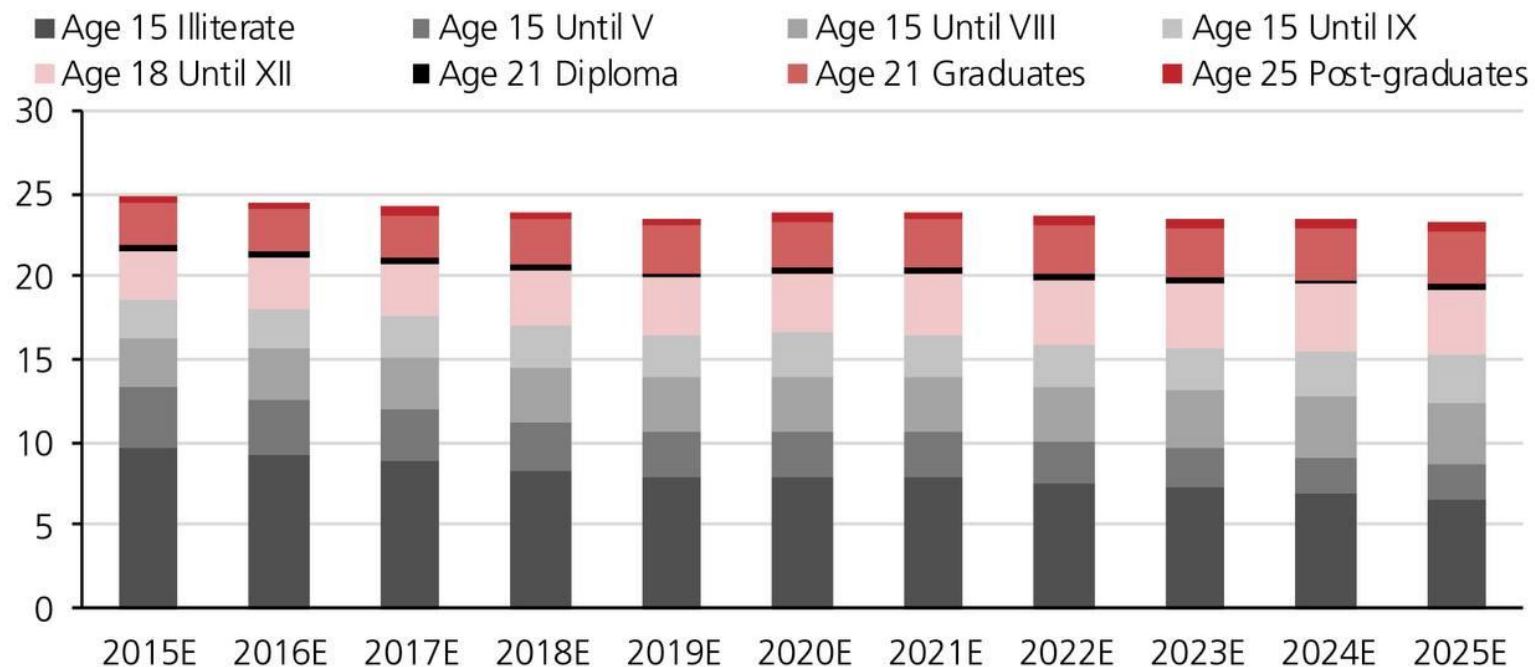


Source: Haver, UN forecasts, Morgan Stanley Research. Note: Sub-Saharan Africa and North Africa & Middle East as regional aggregates defined by UN under their sustainable development goal.

Young demographics needs higher and higher employment opportunities, job creation

23-25 mn people will join the workforce every year

Education levels of people becoming eligible to enter the workforce in India, March fiscal year-ends, 2015-2025E (mn)



Source: Census of India, Kotak Institutional Equities

Young demographics needs higher and higher employment opportunities, job creation

India has historically created 7 mn employment opportunities every year

Growth in employment across sectors over time , March fiscal year-end (mn)

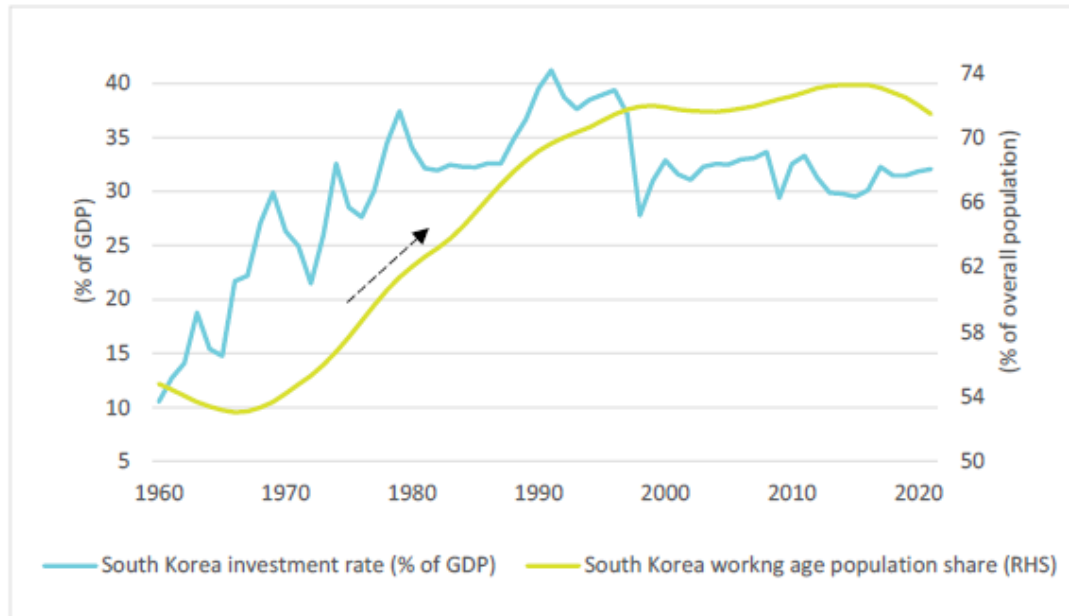
	Estimated	
	1983-1994	1994-2005
Agriculture	3.3	0.8
Mining and Quarrying	0.1	0.0
Manufacturing	0.7	1.3
Electricity, water, etc.	0.0	0.0
Construction	0.5	0.9
Trade, hotel, and restaurant	0.9	2.1
Transport, storage, and communication	0.3	0.7
Finance, insurance, real estate, and business services	0.1	0.4
Community, social, and personal services	1.1	0.2
Total	7.1	6.5

Source: Planning Commission XIth plan document

GDP growth (% pa)	Employment generation per annum (mn)			
	Agriculture	Industry	Services	Total
9	2.0	3.8	6.3	12.1
7	1.3	3.2	5.4	9.9
5	0.5	2.6	4.6	7.7

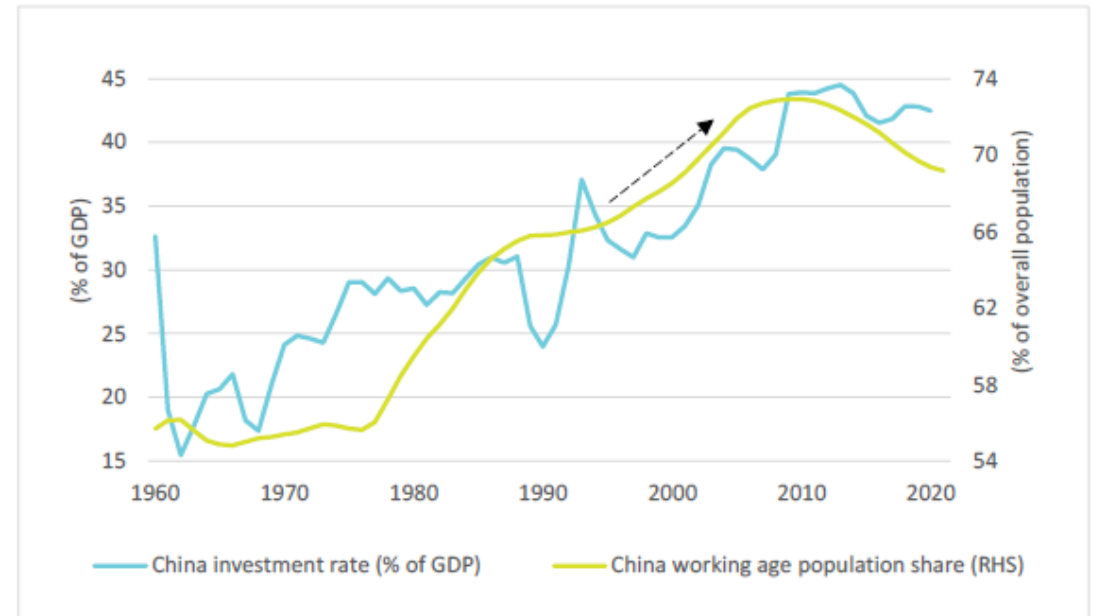
A young population fosters savings and investment boom

Demographic edge led to investment boom in South Korea...



Source: World bank, UN, Nuvama Research

...as well as in China

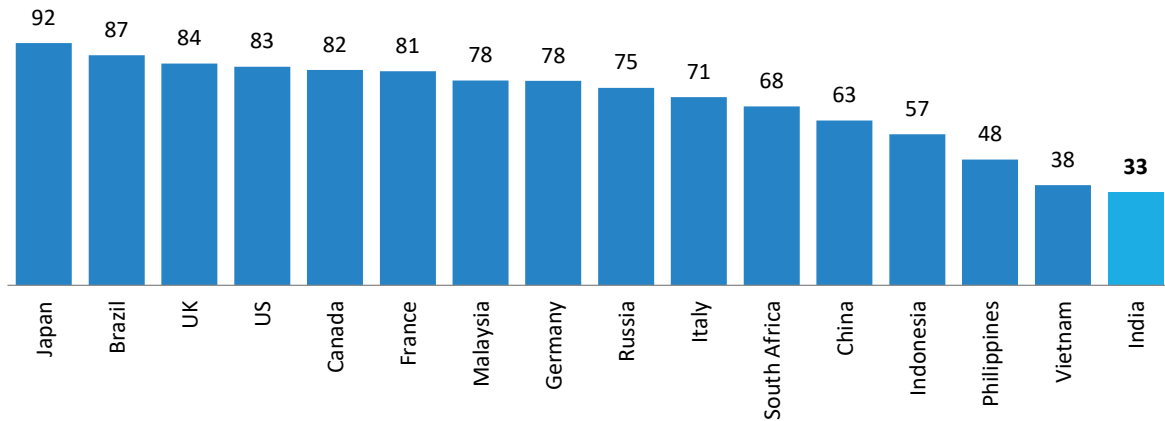


Source: World bank, UN, Nuvama Research

Urbanization and consumption: Structural trends

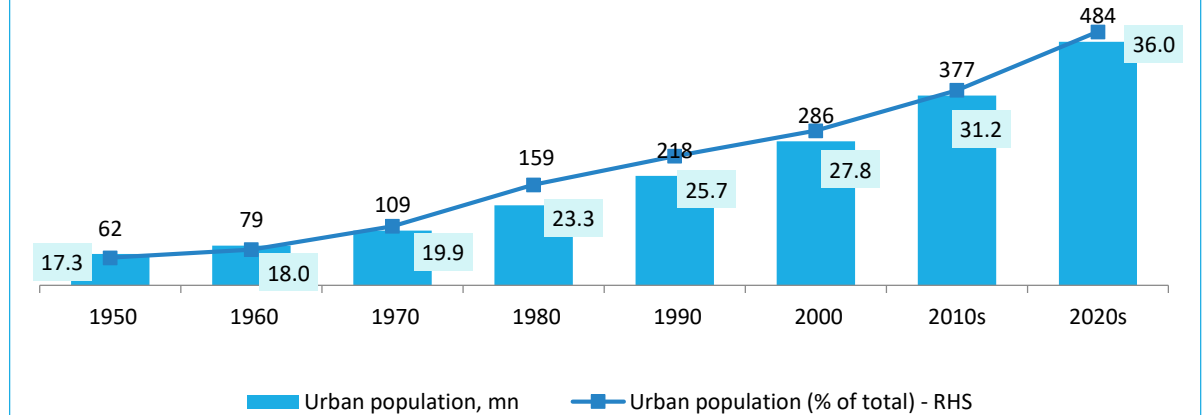
#1: India is the least urbanized among all emerging economies...

Urban population (% of total)



Source: World Bank, Spark Capital Research

#2: ...but its urban population is expected to rise to 36% of total population in this decade



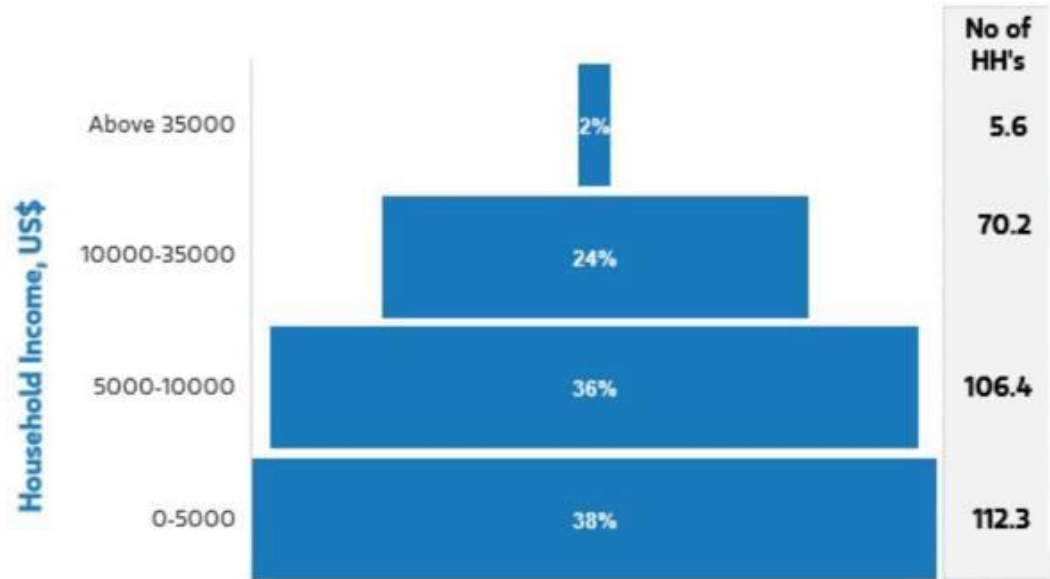
Source: World Bank, Spark Capital Research

Income level shifts will add exponentially to market sizes

Exhibit 4: Major shift coming in India's income pyramid

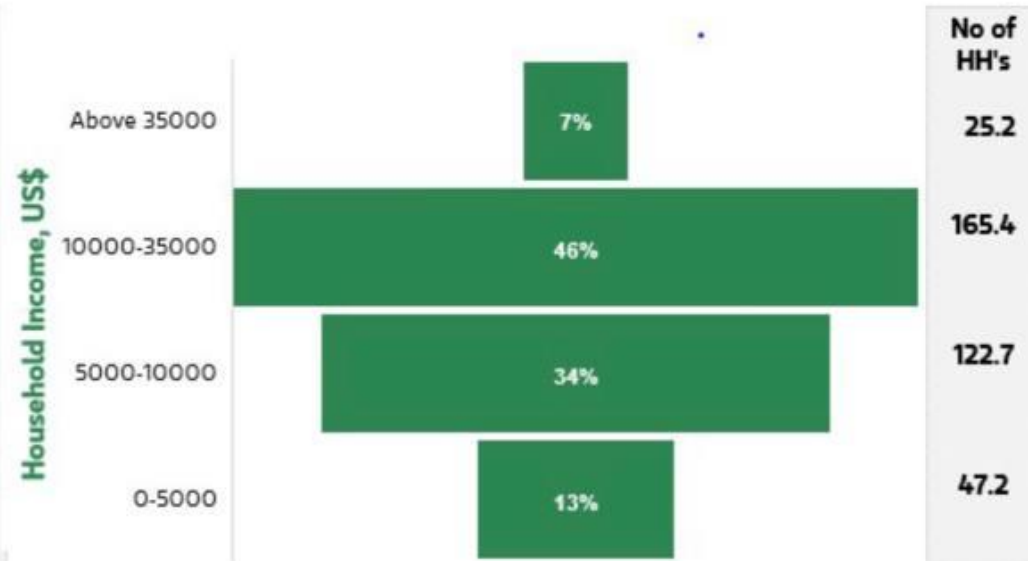
2021 Households by Income Distribution

Households: 294.8mn
GDP per capita: \$2278



2031 Households by Income Distribution

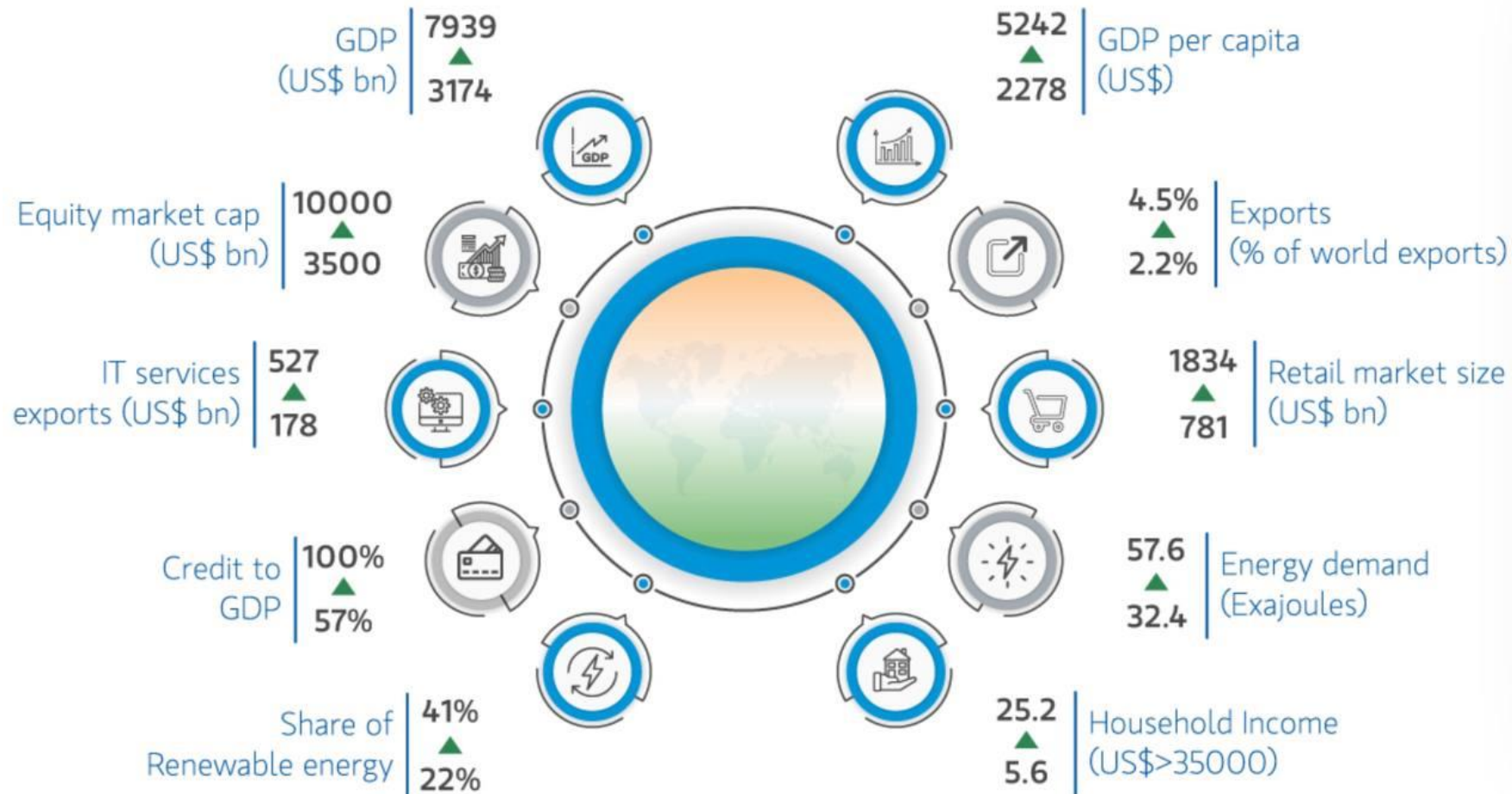
Households: 360.5mn
GDP per capita: \$5242



Source: Morgan Stanley Research estimates

Drivers for India (Morgan Stanley)

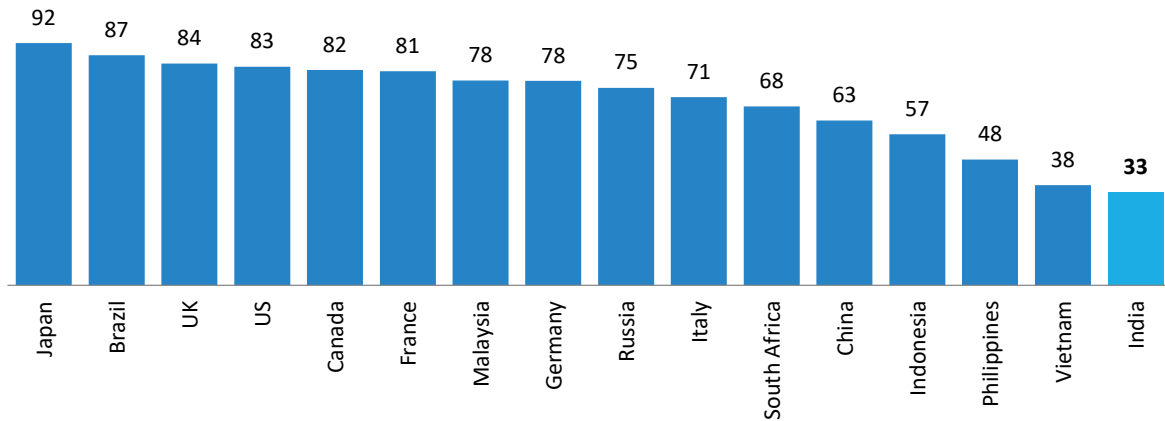
THE NEW INDIA WILL DRIVE A FIFTH OF GLOBAL GROWTH THROUGH THE END OF THIS DECADE



Urbanization and consumption: Structural trends

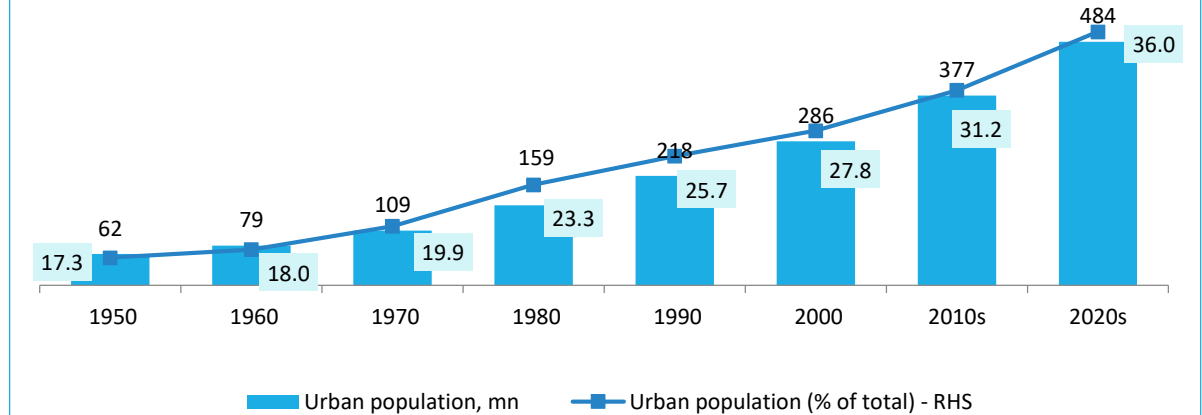
#1: India is the least urbanized among all emerging economies...

Urban population (% of total)



Source: World Bank, Spark Capital Research

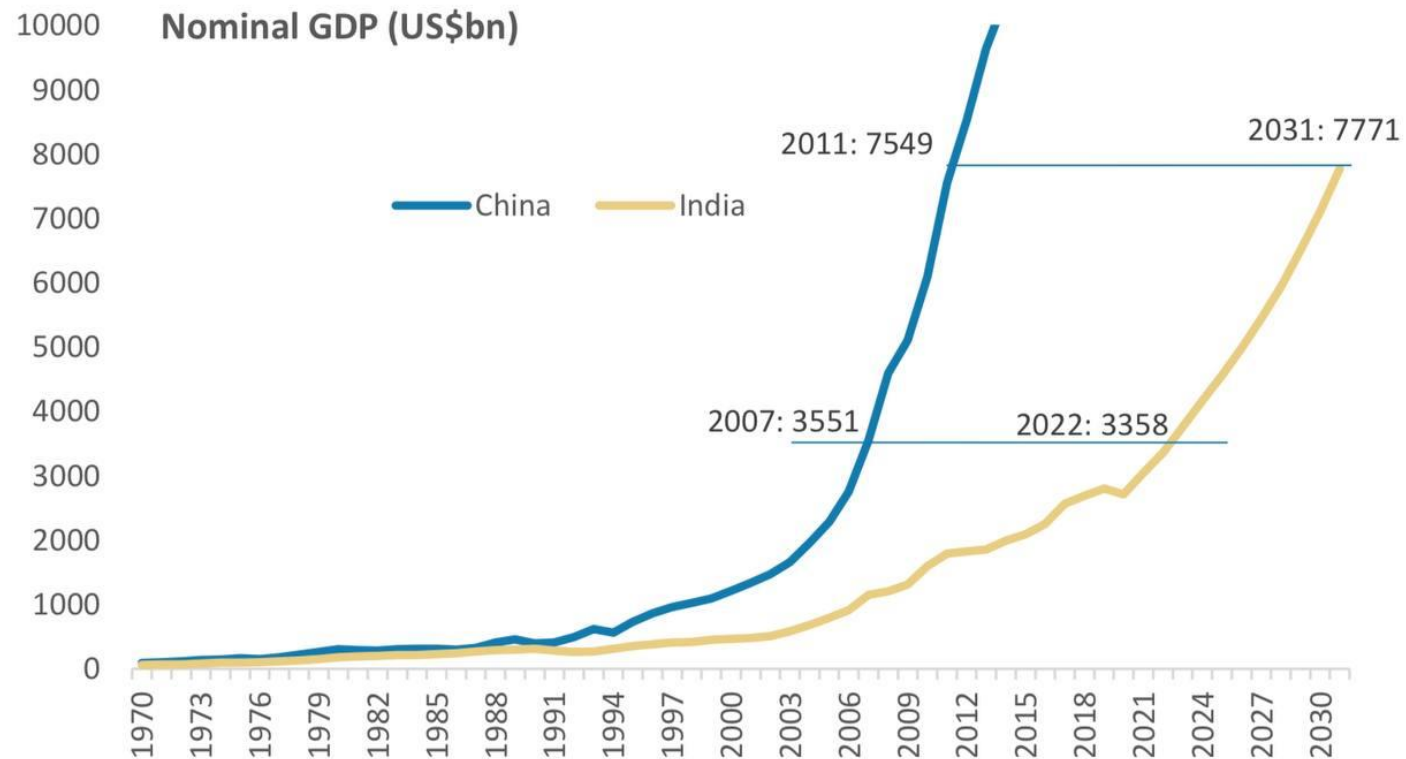
#2: ...but its urban population is expected to rise to 36% of total population in this decade



Source: World Bank, Spark Capital Research

We are where China was in 2007. While China took 4 years to double, we will take 9

Exhibit 2: From a nominal GDP and per-capita income perspective, India resembles 2007's China



Source: CEIC, Morgan Stanley Research estimates

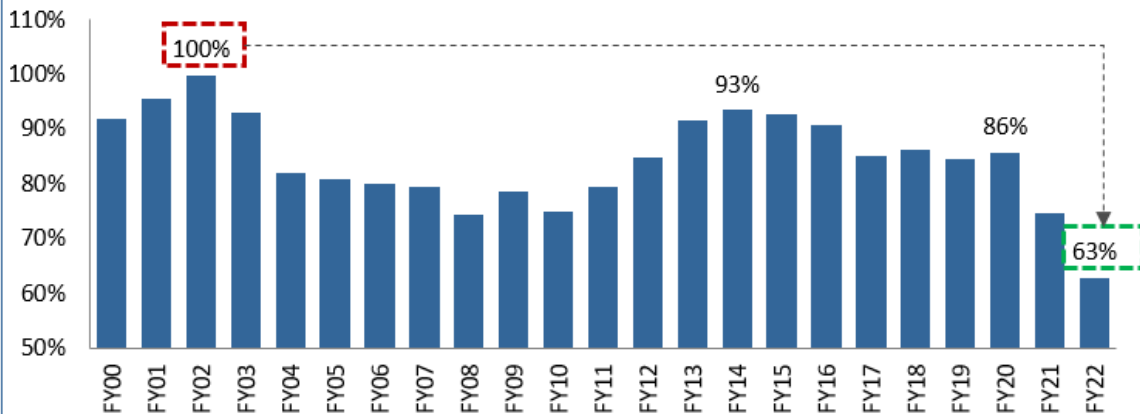
Foundation for next 10-20 years
is strong!

We just need to not to score
self-goals !!!

We are not leveraged : Country, Corporates, Citizens

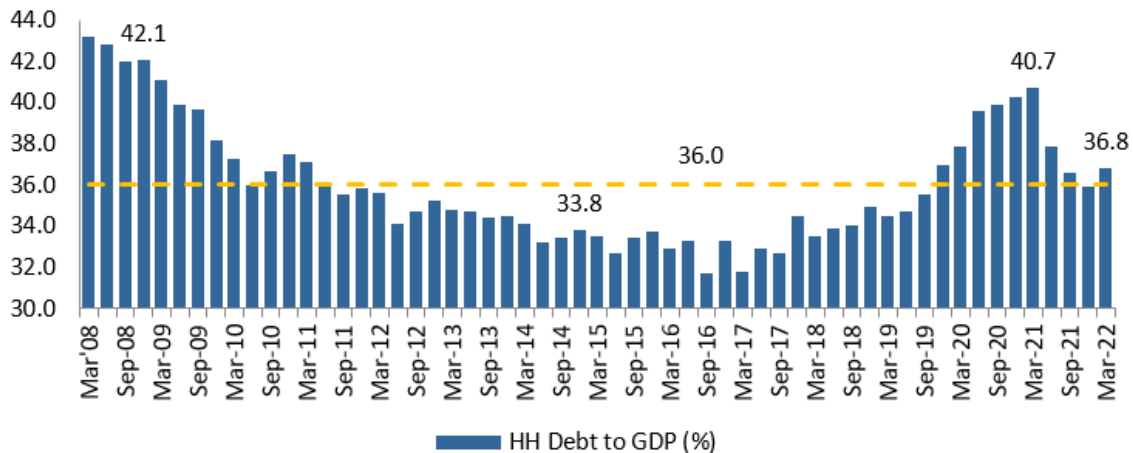
#1: Corporate: Total debt to equity has fallen from 86% in FY20 to 62.7% in FY22

Debt to Equity (%)



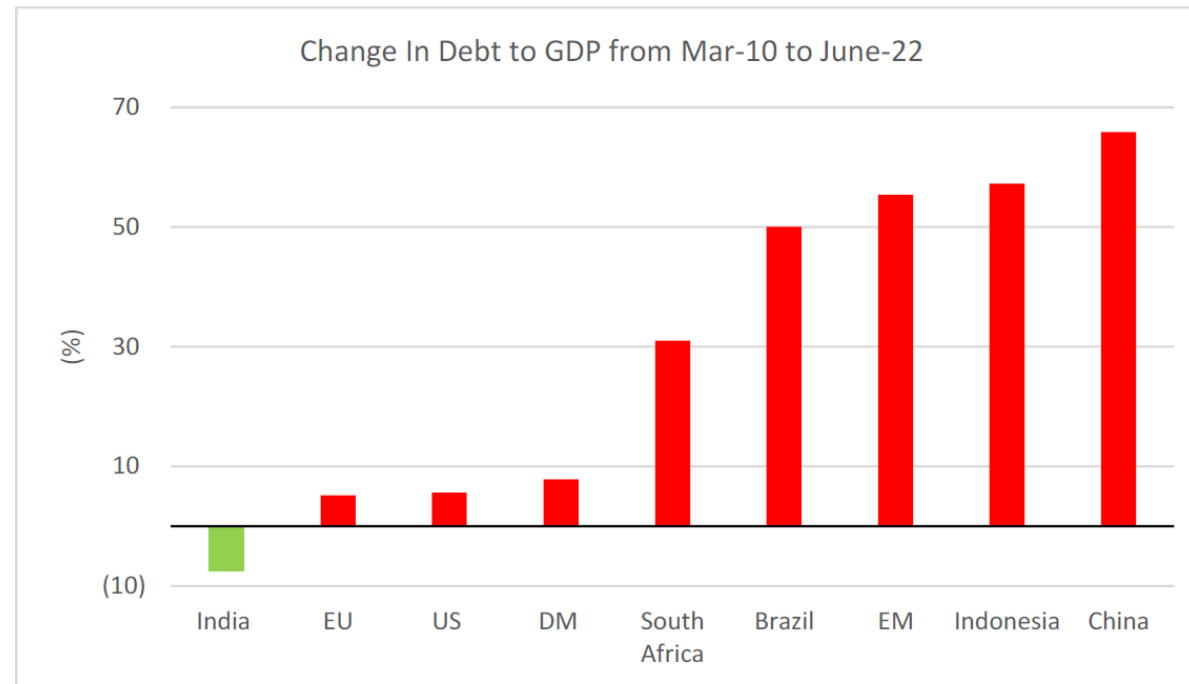
Source: CMIE, Spark Capital Research

#3: Household Debt to GDP has moderated to 36.8% in Mar'22 from 40.7% a year ago



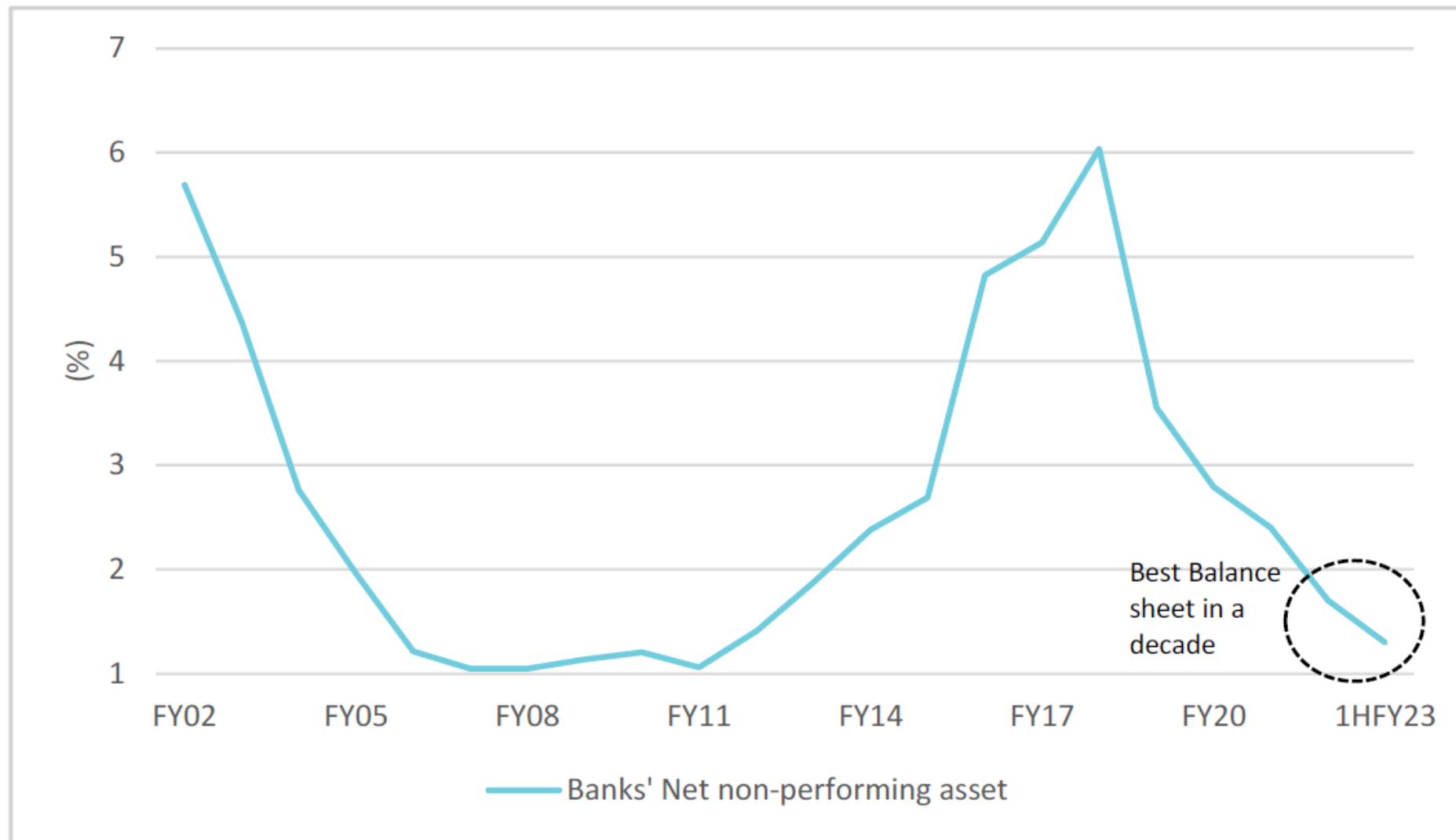
Source: Spark Capital Research

India's aggregate debt to GDP reduced even as it moved higher for world...



Source: BIS, Nuvama Research

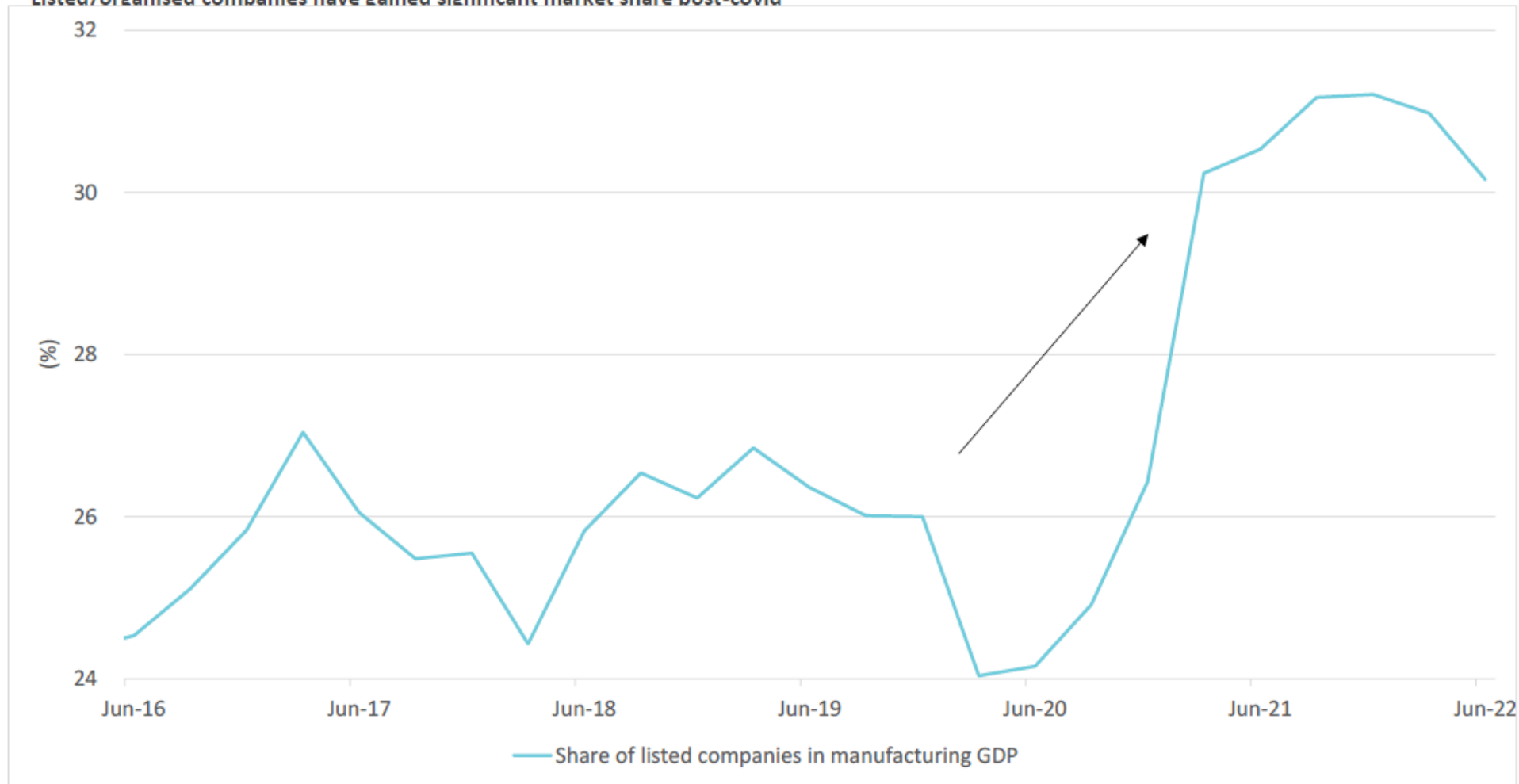
Banks are in great shape



Source: Company data, Nuvama Research @theMihirV

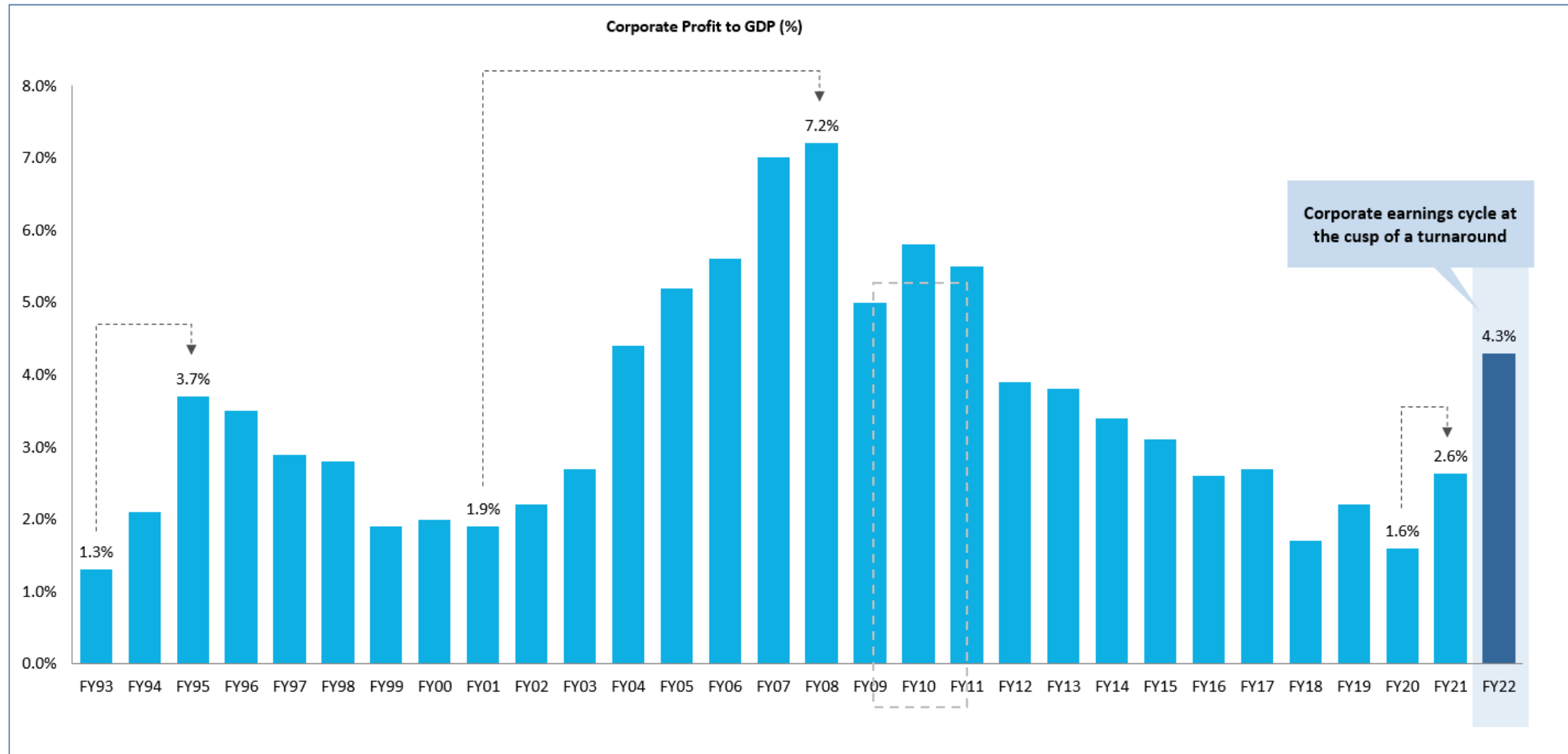
Corporate sector reforms: Jump in formalisation

Listed/organised companies have gained significant market share post-covid



Source: Bloomberg, Nuvama Research

Corporate profits improve with initial rise in inflation, but it starts deteriorating after inflation continues to rise to higher levels



Source: GoI, CMIE, Spark Capital Research

Foundation for next 10-20 years
is strong!

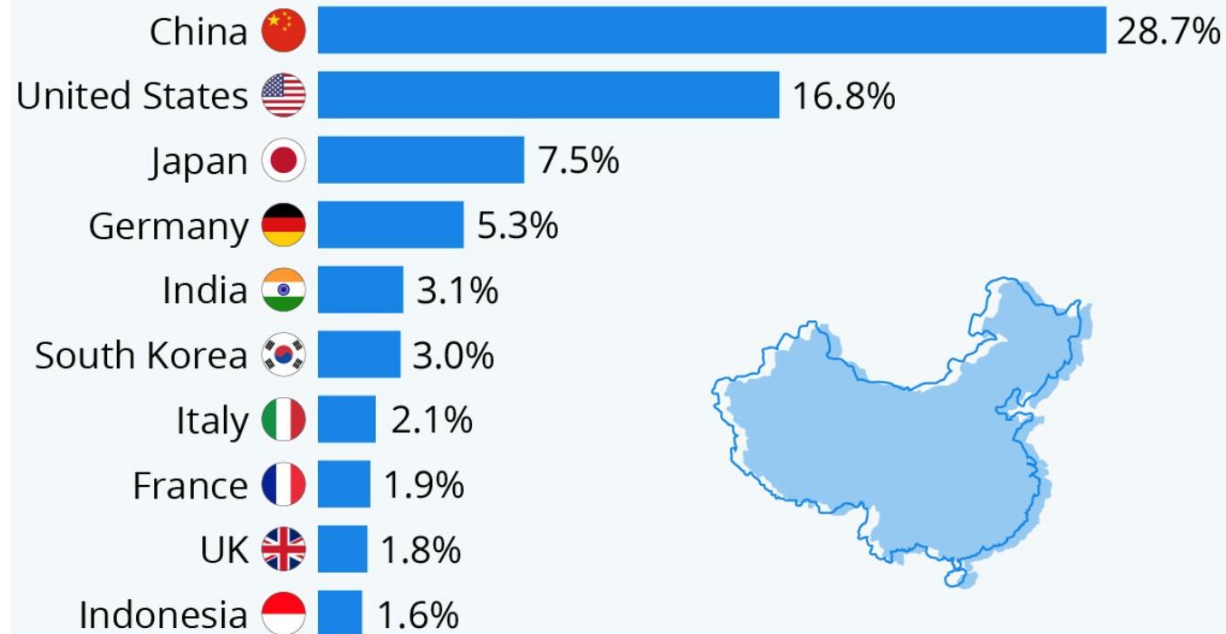
We just need to not to score
self-goals !!!

Government realizes that
MANUFACTURING is the only
way to create **JOBS**

So what are we doing about it?

China Is the World's Manufacturing Superpower

Top 10 countries by share of global manufacturing output in 2019*

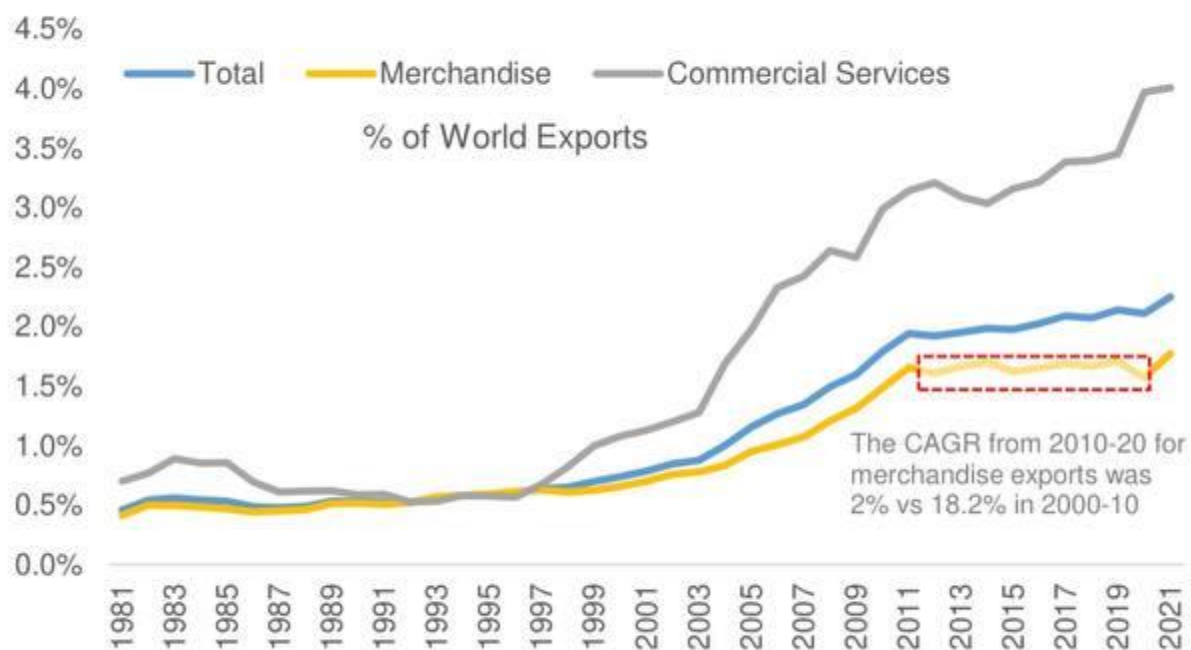


* output measured on a value-added basis in current U.S. dollars

Source: United Nations Statistics Division

We have not exploited our labour force in Manufacturing even as Services did excellent

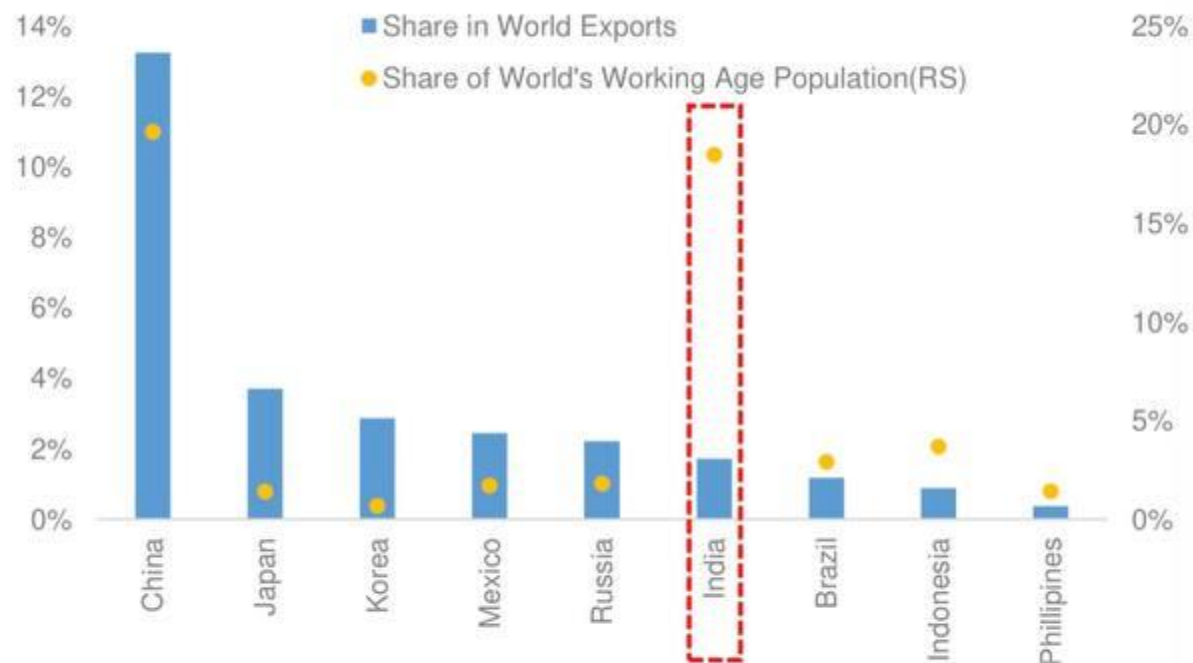
Exhibit 43: Growth in commercial services outperforms merchandise exports



Source: WTO, Morgan Stanley Research

Note: Data for Commercial Service Exports for 2021 is based on WTO estimates using quarterly data.

Exhibit 44: Share of world exports vs working-age population

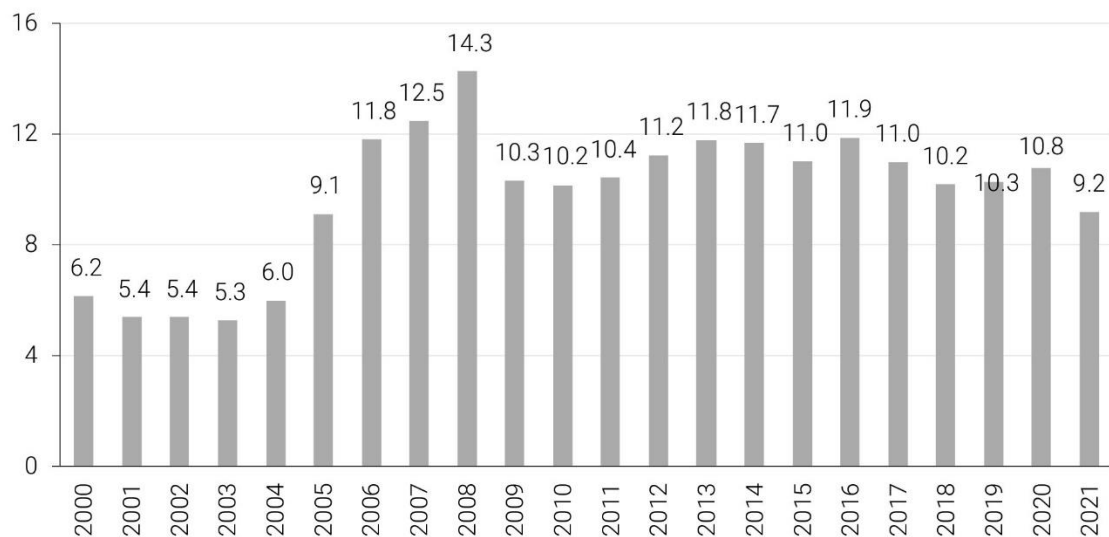


Source: UN Population Database, WTO, Morgan Stanley Research

Private sector has not invested much in the past 7 years

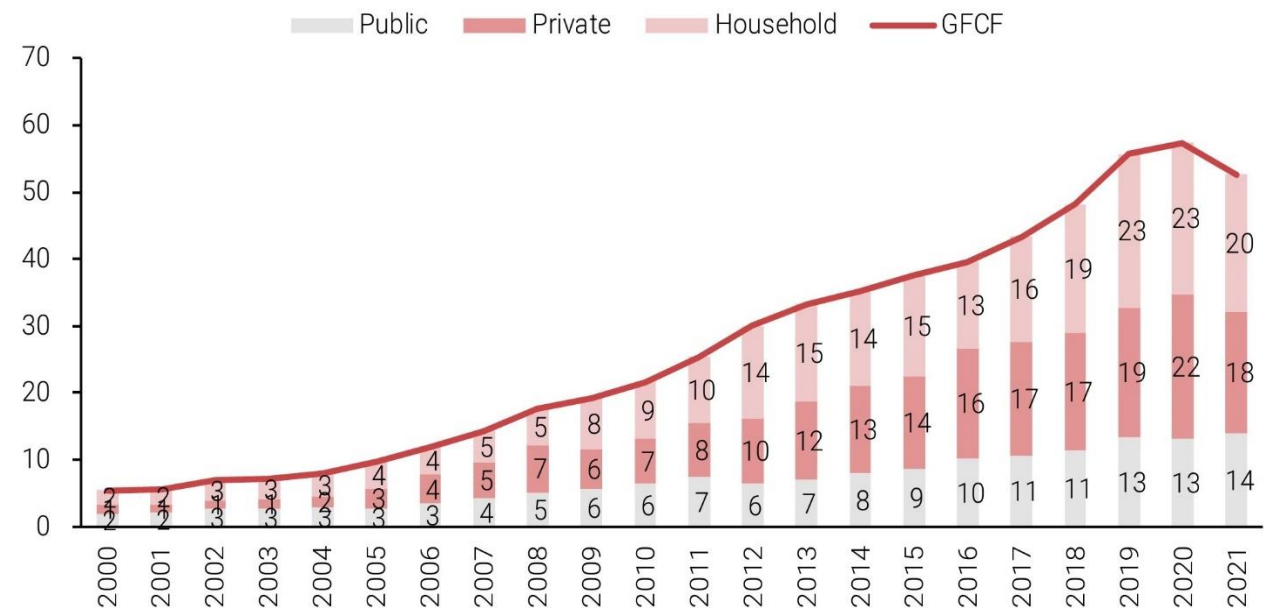
Private sector GFCF has remained muted over last few years

Private sector gross fixed capital formation as a % of GDP, March fiscal year-ends, 2000-21 (%)



Investment rate weakened in FY2021

Sector-wise GFCF, March fiscal year-ends, 2000-21 (Rs tn)



Source: RBI, Kotak Institutional equities

Source: RBI, Kotak Institutional equities

Government realizes that
MANUFACTURING is the only
way to create **JOBS**

So what are we doing about it?

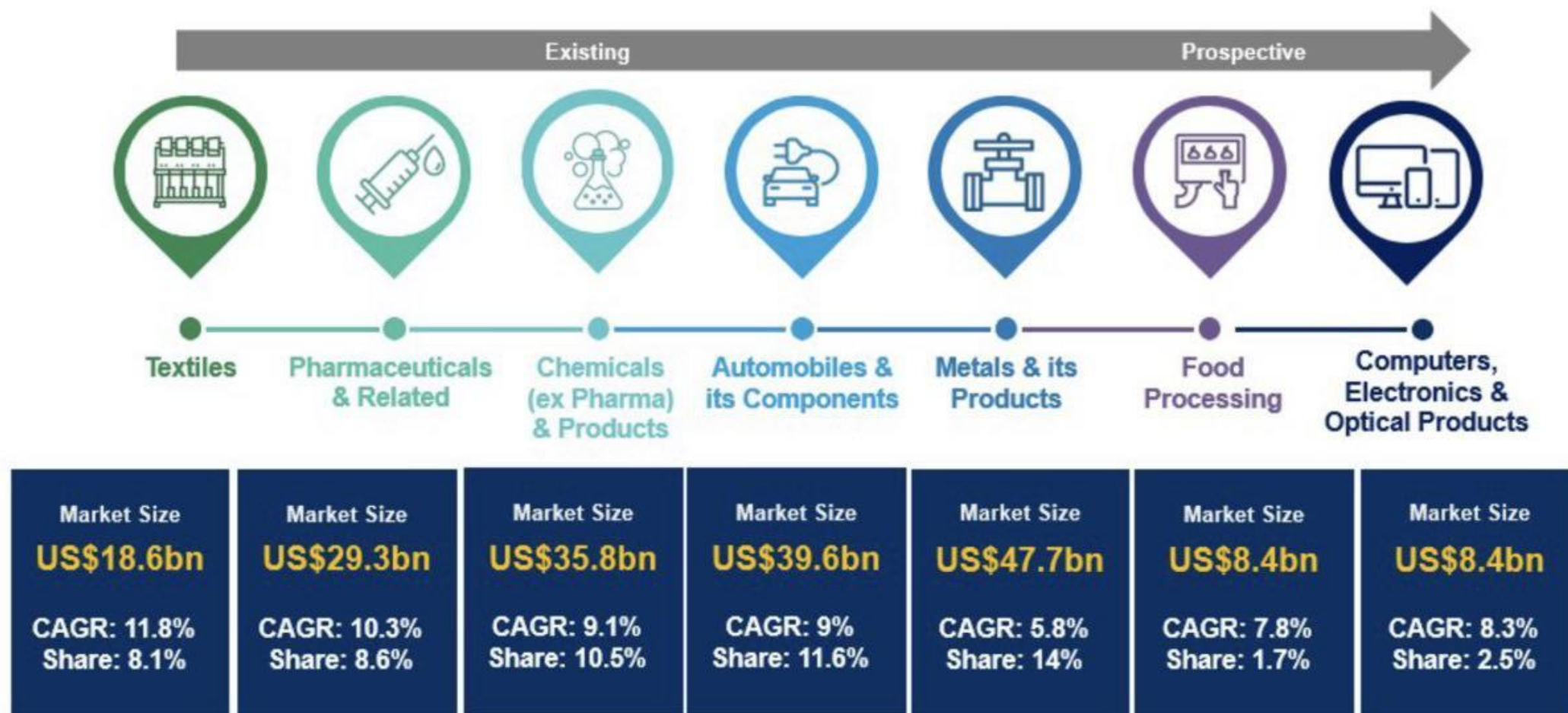
Reforms, ease of doing business

Exhibit 27: Supply-side reforms to make doing business easier

Measure	Objective and Impact
Production-Linked Incentives	Boost large-scale domestic manufacturing in 14 sectors to reduce imports and increase global market penetration
Labor Reforms	Codification and rationalization of labor laws to facilitate flexibility in implementation. Key states have taken the lead in tweaking state labor laws
Land Reforms	Creation of land banks so as to make land easily identifiable for industrial projects and simultaneously provide details about logistics
Direct Benefit Transfers	Government benefits and subsidies are transferred directly to citizens living below the poverty line. This facilitates transparency and reduces system leakage
Direct Benefit Transfer: e-RUPI	e-RUPI are non-transferable prepaid vouchers delivered to the mobile phones of beneficiaries in an SMS string or a QR code. They do not require beneficiaries to have a bank account, thus ensuring access to welfare benefits for the unbanked population
Tax	<p>The corporate tax rate was reduced from 25% to 15% for new manufacturing firms, bringing it broadly in line with other Asian countries</p> <p>The Goods and Services Tax was introduced in 2016, with the objective of simplifying the tax system by subsuming all indirect taxes and establishing 'One Nation, One Tax'. It helps avoid cascading of taxes and is easy to administer</p> <p>Abolition of the retrospective tax ensures that no tax demand shall be raised on the basis of a retrospective amendment for any indirect transfer of Indian assets for a transaction before 28 May 2012</p>
National Asset Monetization Plan	National Monetization Pipeline to monetize the core assets of the central government through F2025. The pipeline is expected to realize potential funds worth Rs6trn through capital recycling of about 20 infrastructural sub-sectors, with the share of roads being the highest at 27% of the total.
PM Gati Shakti	With an allocation of Rs100trn, the PM Gati Shakti master plan aims at coordinating the planning of all infrastructure connectivity projects announced under the National Infrastructure Pipeline. It aims at minimizing delays between the government and stakeholders by focusing on ending inter-ministerial silos
Insolvency and Bankruptcy Code	Considered one of the biggest insolvency reforms in modern Indian history, the code was enacted for the reorganization and insolvency resolution of corporate persons, partnership firms and individuals in a time-bound manner for the maximization of asset values
National Asset Reconstruction Company Limited (NARCL)	The central government has approved a guarantee of Rs306bn to back security receipts issued by NARCL to set up a 'bad bank' for acquiring stressed loan assets. The guarantee by the government will help provide contingency buffers, impart credibility, and enhance liquidity (the security receipts are tradable)
Inflation Targeting & Monetary Policy Committee	The RBI adopted the flexible inflation-targeting framework in 2016, with the primary objective of ensuring price stability, i.e. keeping inflation at 4% within a tolerance of $\pm 2\%$ while also focusing on economic growth. Further, rate decisions are now taken by a monetary policy committee consisting of external and internal (RBI) members

Production-Linked incentives to focus industries

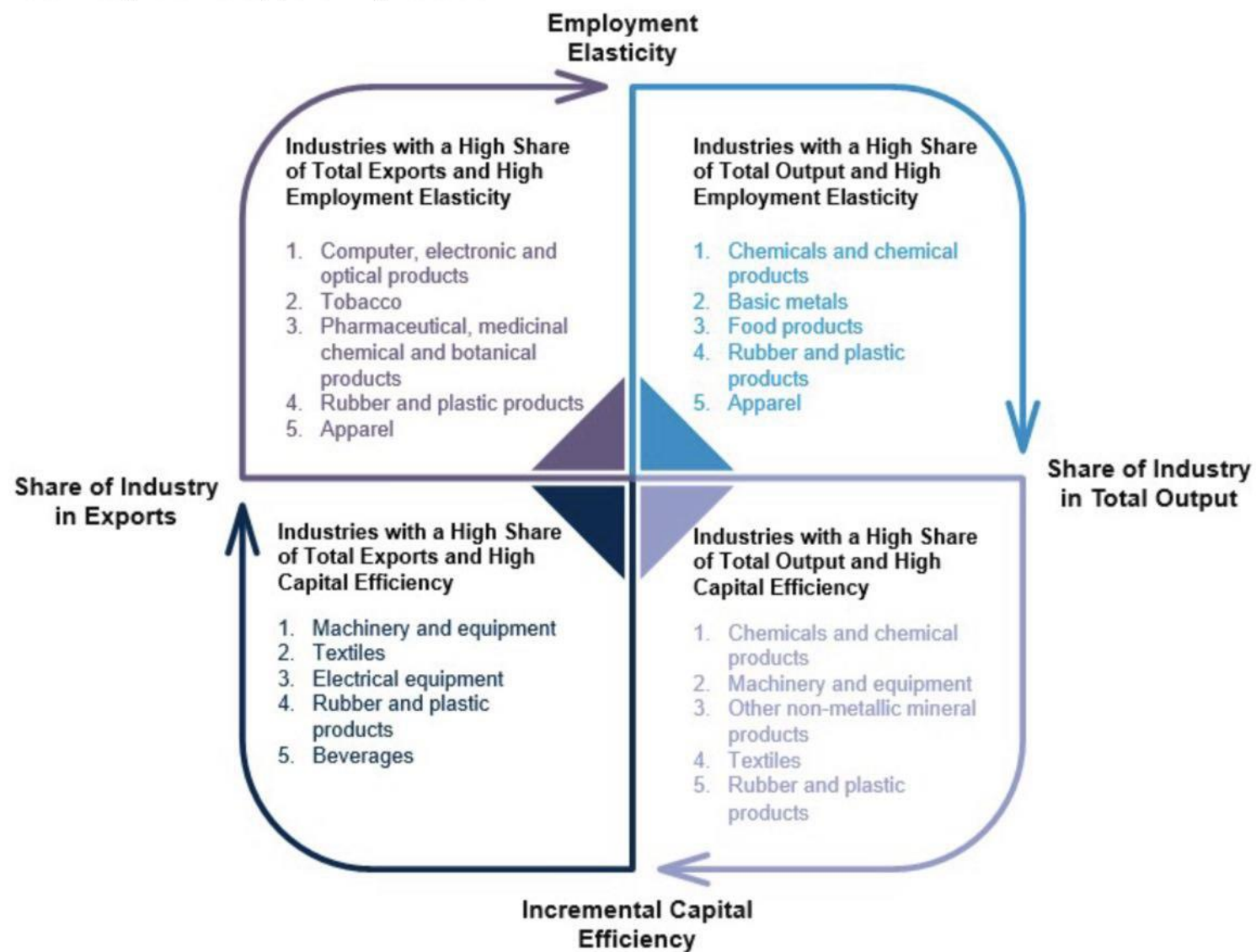
Exhibit 38: Snapshot of existing and targeted industries



Source: CSO, CMIE, Morgan Stanley Research. Note: Market size is as of F21 and CAGR is for F2012-2021. Share is the share of respective sectors in manufacturing GVA.

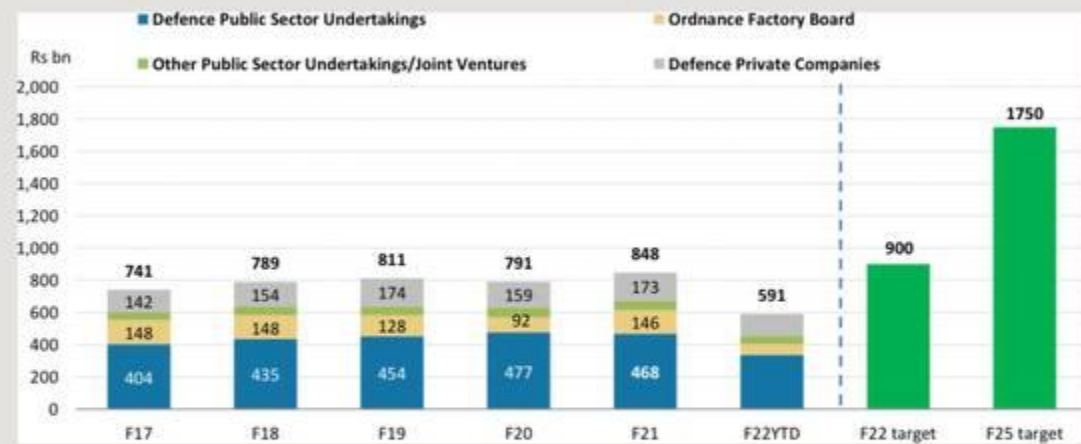
Production-Linked incentives to focus industries

Exhibit 37: Segment-wise top performing industries



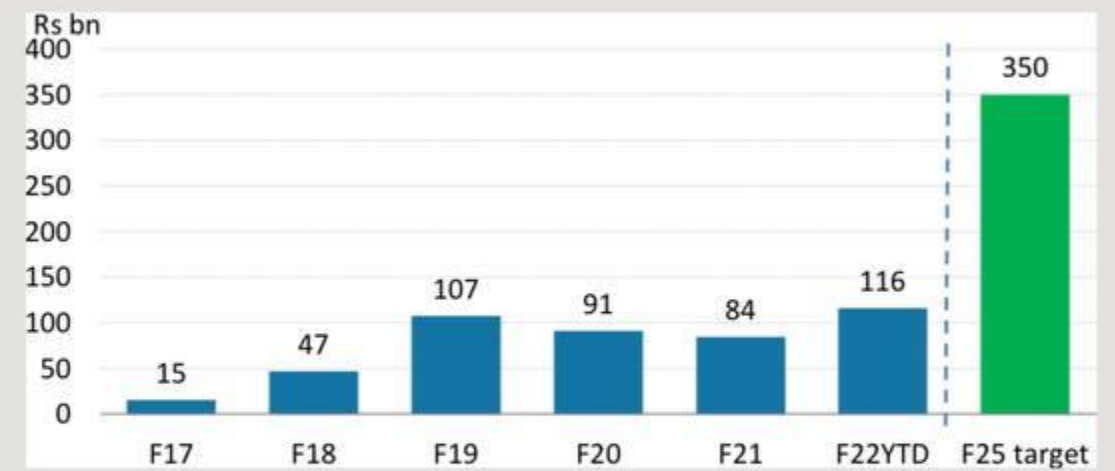
Defense manufacturing is a big thrust area

Exhibit 41: F25 defense production target: Rs1.75trn



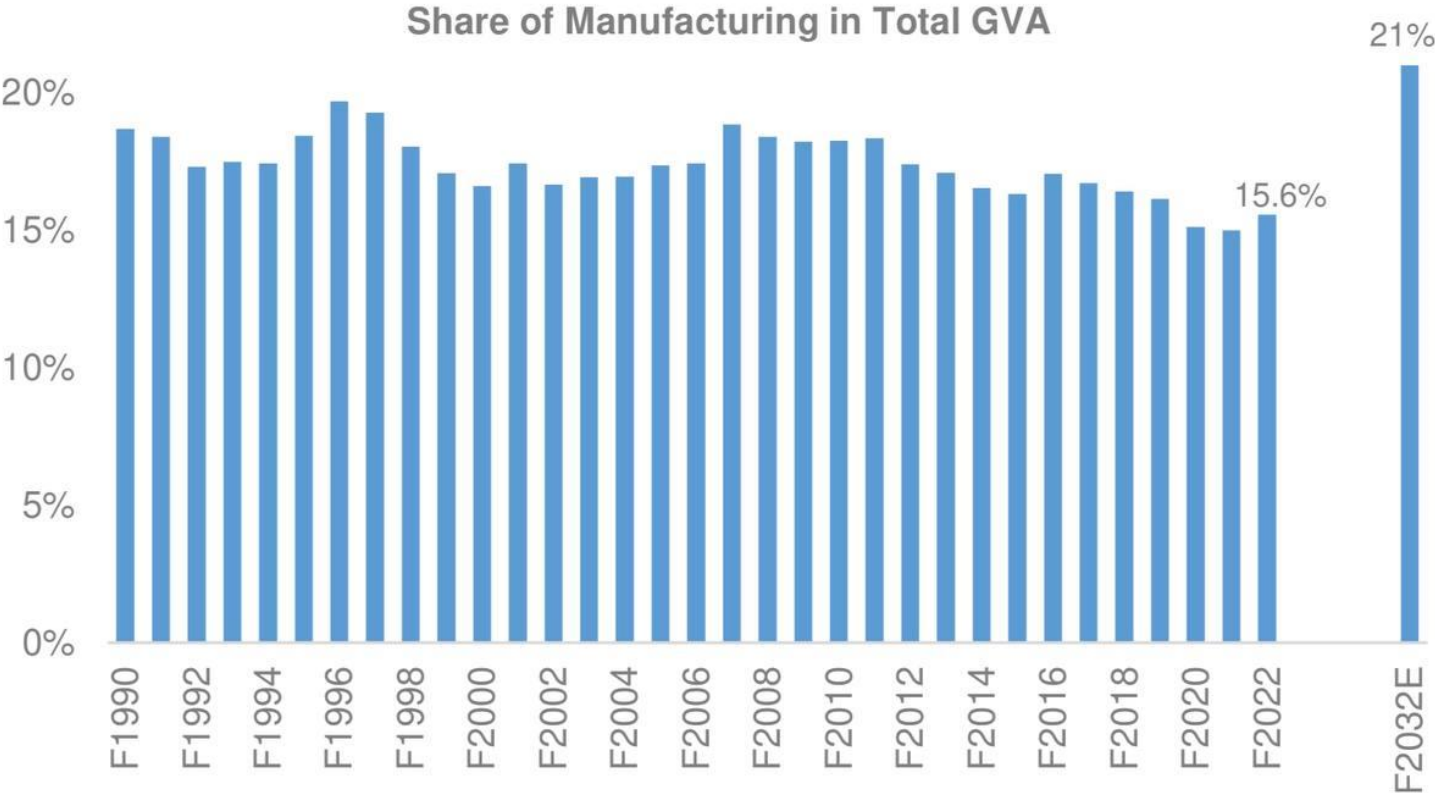
Source: Ministry of Defence, Morgan Stanley Research

Exhibit 42: F25 defense export target: Rs350bn



Source: Ministry of Defence, Morgan Stanley Research

Exhibit 35: Share of manufacturing to increase to 21% of GDP by 2031



Source: CEIC, Morgan Stanley Research estimates

The facilitator for Manufacturing
is INFRASTRUCTURE

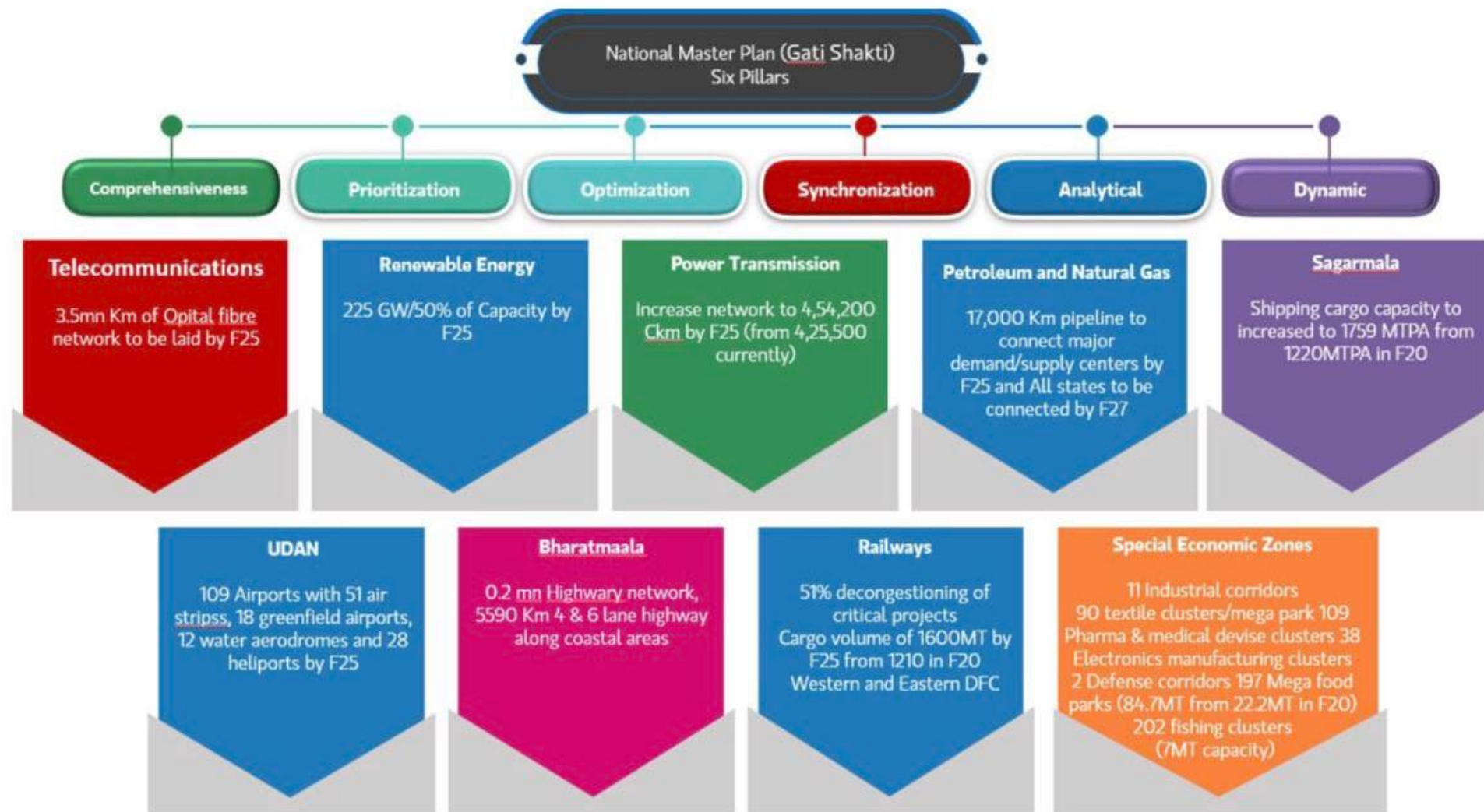
Infrastructure also adds to
GROWTH while we are building
it

Government has aided Infrastructure in a big way as private sector was weak



Gati Shakti to increase logistics efficiency and reduce costs

Exhibit 59: Gati Shakti



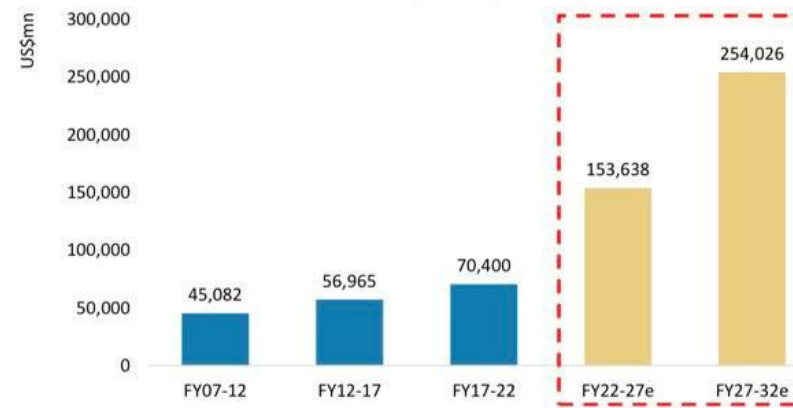
IT will continue to accelerate

Exhibit 80: Indian IT exports to increase sharply over the next decade, assuming sustained market share gains for Indian IT players and global demand trends sustaining (US\$bn)



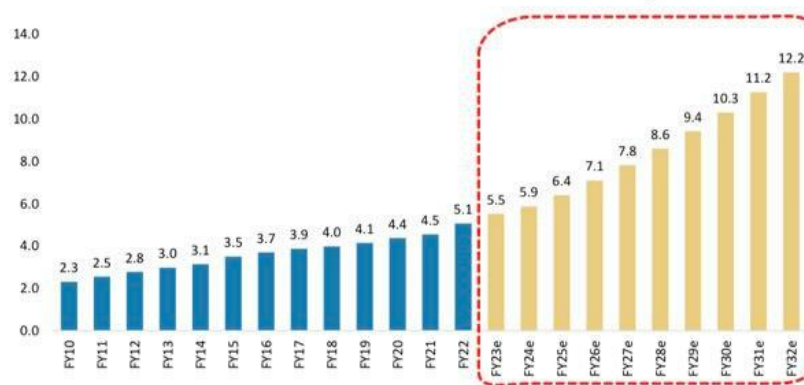
Source: Gartner, Nasscom, Morgan Stanley Research estimates

Exhibit 81: India's incremental exports (US\$m)



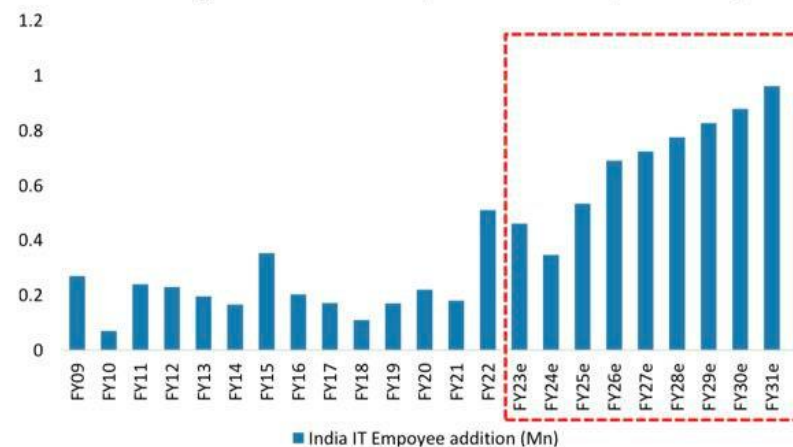
Source: Nasscom, Morgan Stanley Research

Exhibit 82: India's IT workforce to more than double by F32...



Source: Nasscom, Morgan Stanley Research

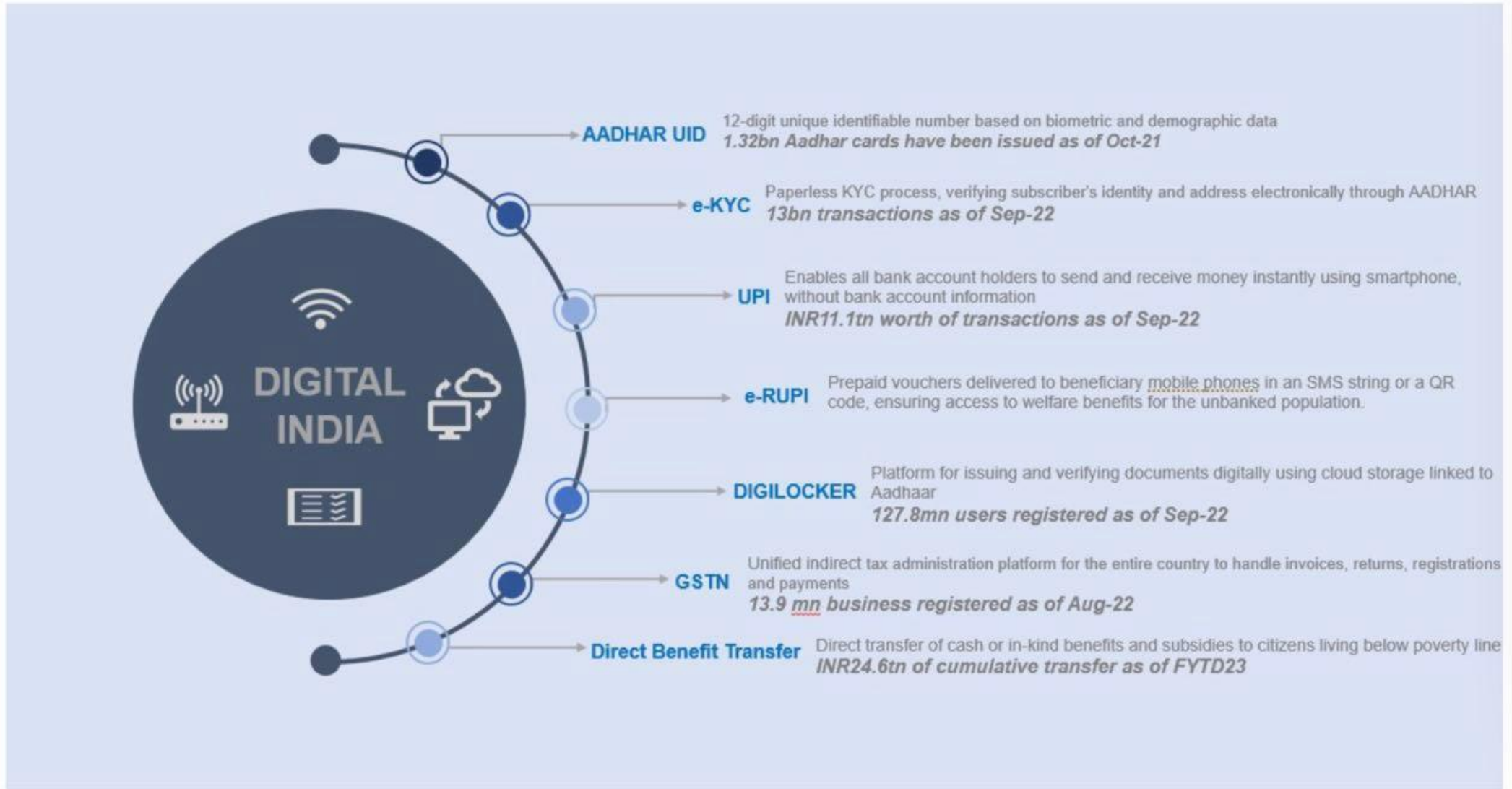
Exhibit 83: ...leading to significant employment generation in India, even after taking into account an uptick in revenue productivity



■ India IT Employee addition (Mn)

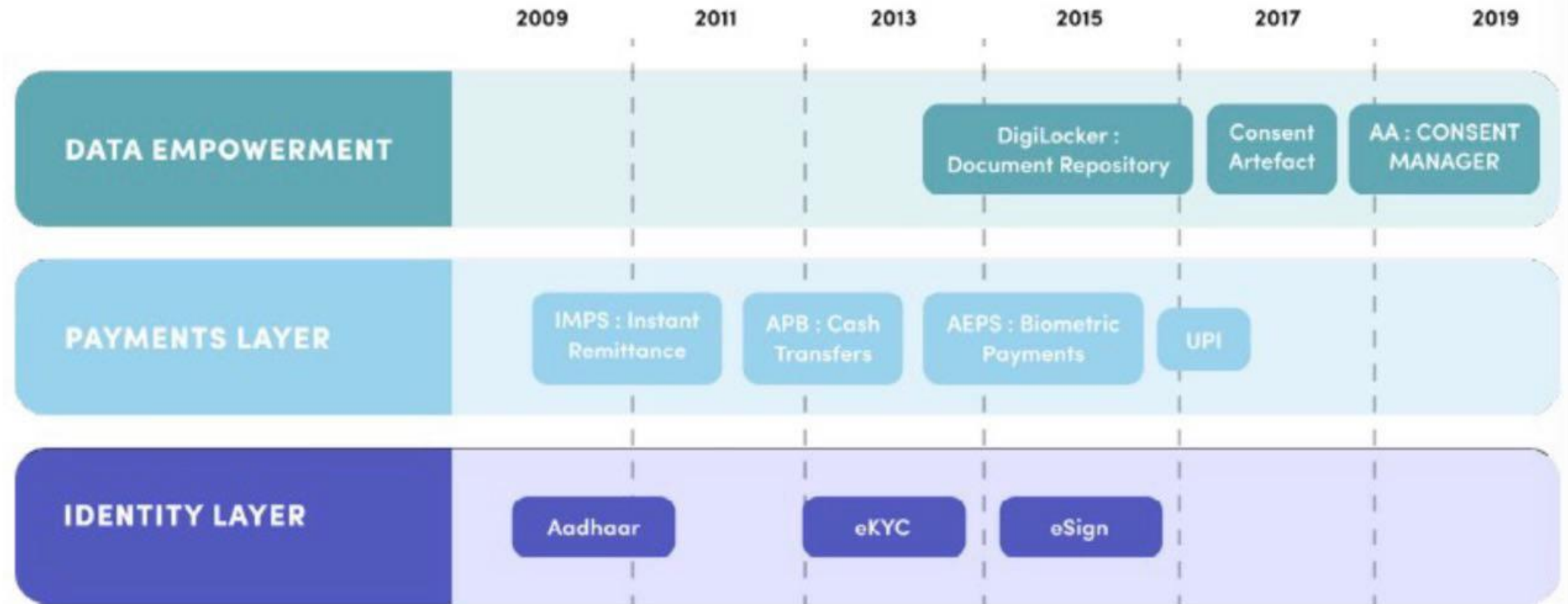
Digital Infrastructure

Exhibit 113: The components of Digital India



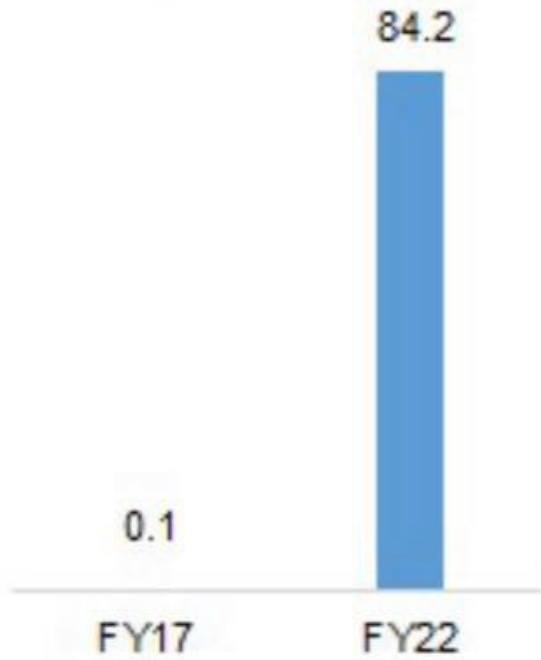
Source: Morgan Stanley Research

Exhibit 111: APIs launched under IndiaStack over the last decade

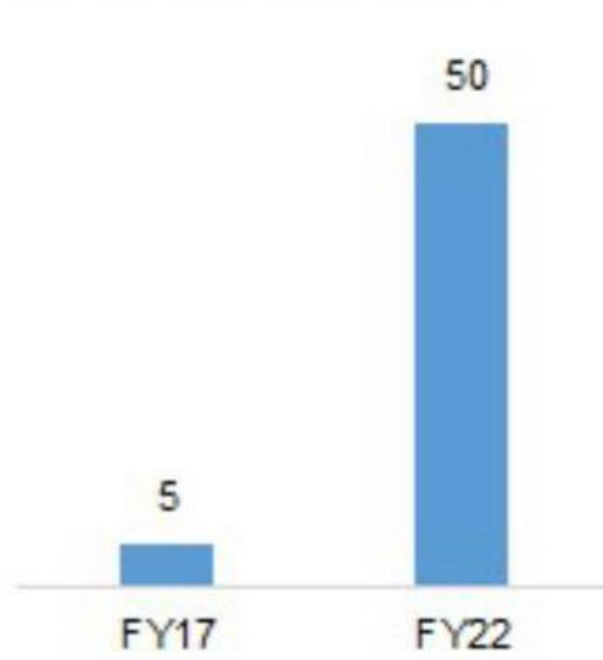


Source: DEPA report August 2020, Morgan Stanley Research

UPI (Rs Trn)



Digital Merchants (Mn)



Demat Accounts (Mn)

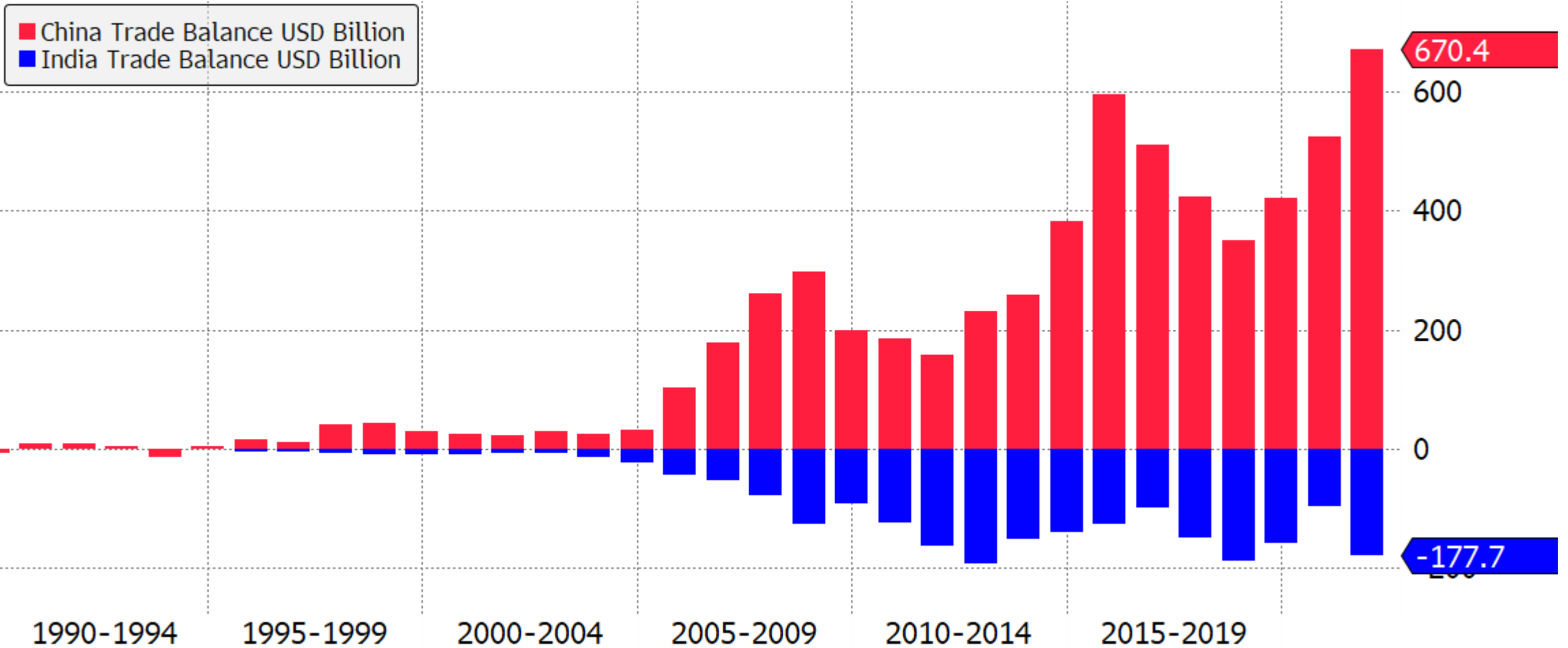


Source: RBI, media articles, Morgan Stanley Research

Economic stability needs growth
in manufacturing and exports

Global trade is stagnating



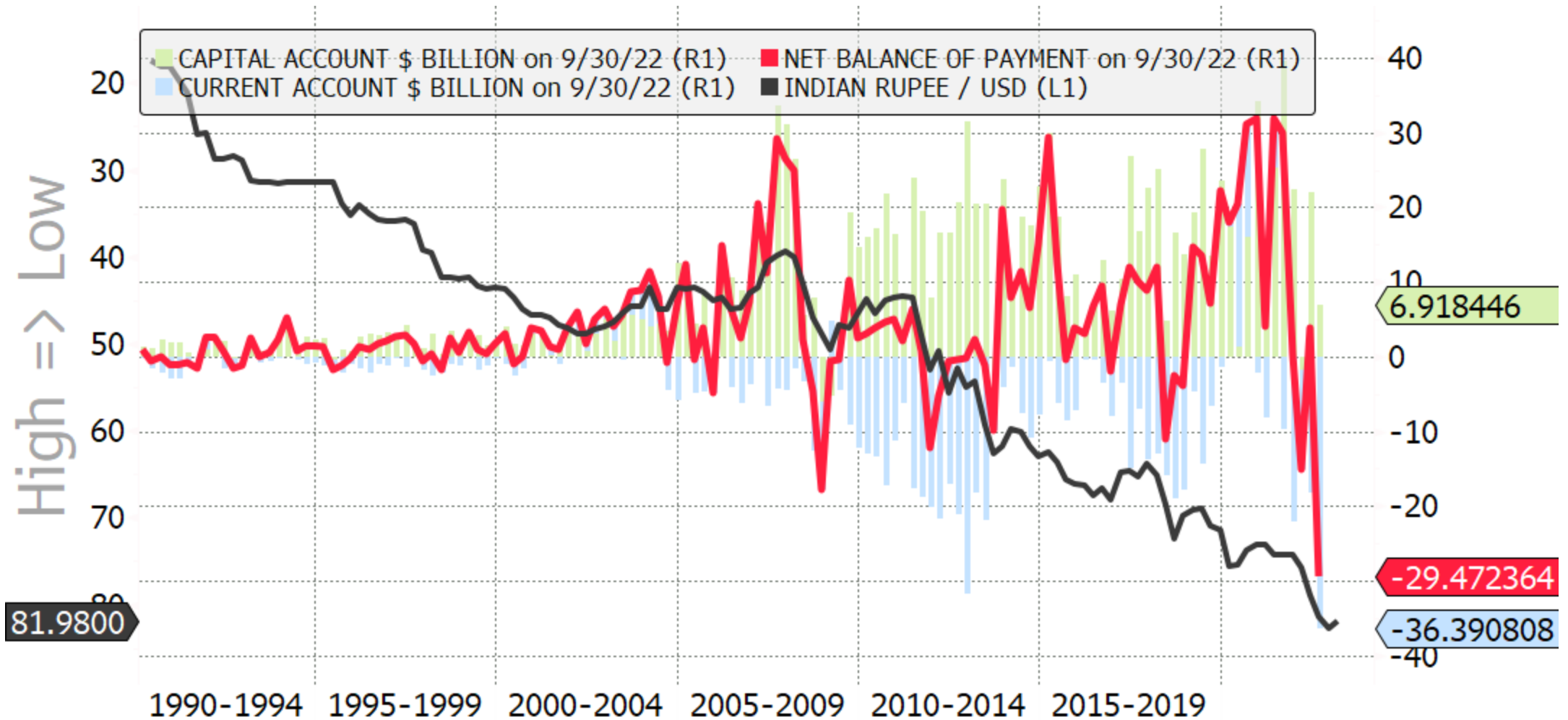


WGDPUS Index (World Bank US GDP in Current USD) gdp as % of world Yearly 31DEC1950-31DEC2021

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INBQCAP Index (India Balance of Payments Capital Account) india curr cap account Quarterly 31MAR1990-30SEP2023

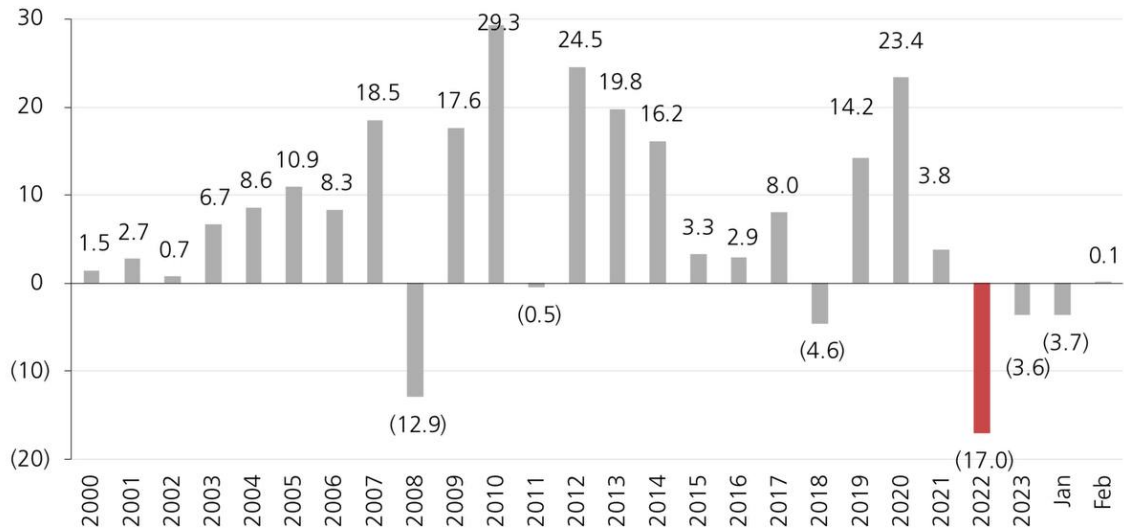
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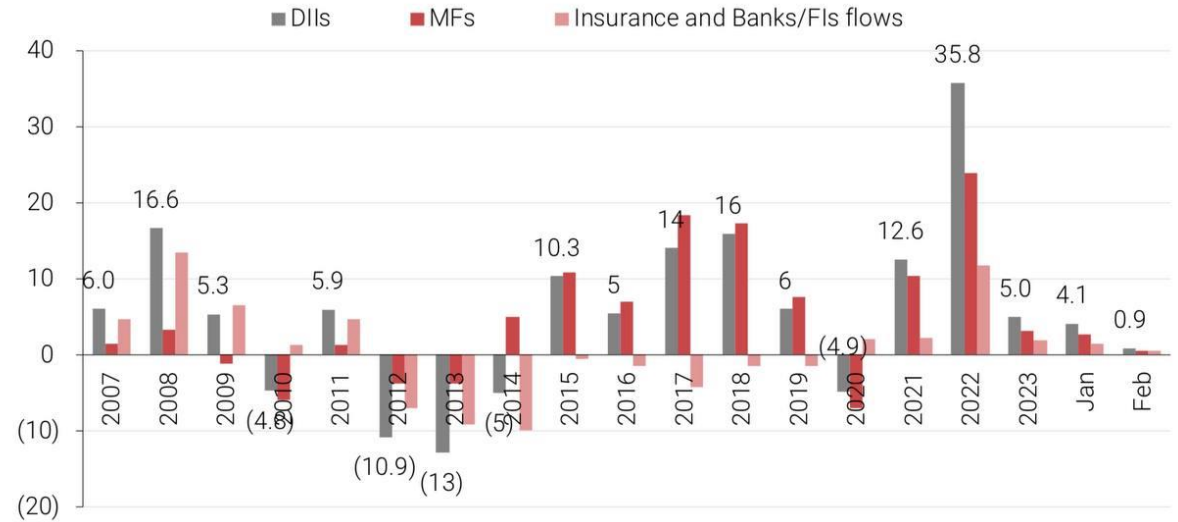
Capital Markets and Fund Flows

FPI flows in equity segment, calendar year-ends, 2000-23 (US\$ bn)



Source: SEBI, Kotak Institutional Equities

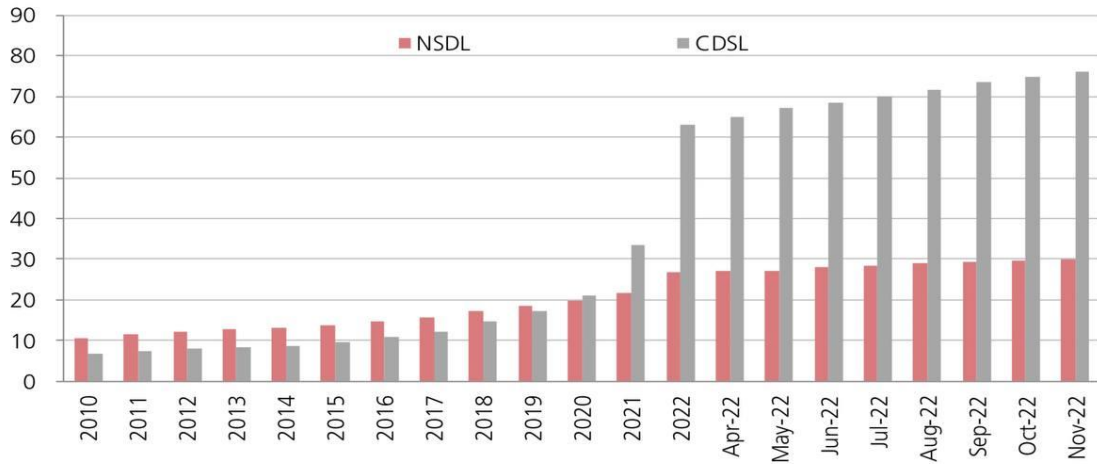
Equity flows by domestic institutions, calendar year-ends, 2007-23 (US\$ bn)



Source: Bloomberg, Kotak Institutional Equities

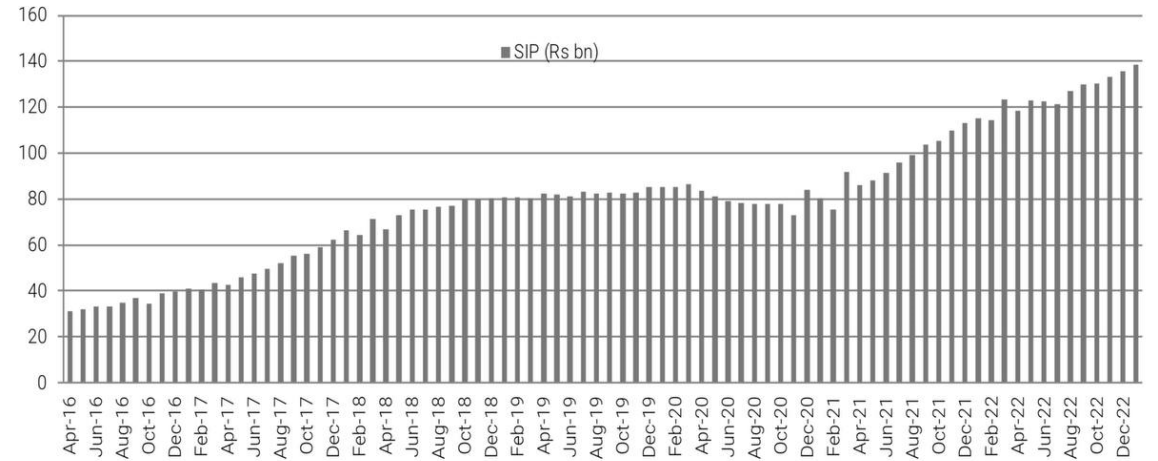
Investor account doubled in past five years

Number of investor accounts in CDSL and NSDL, March fiscal year-ends, 2010-23 (mn)



Source: SEBI, Kotak Institutional Equities

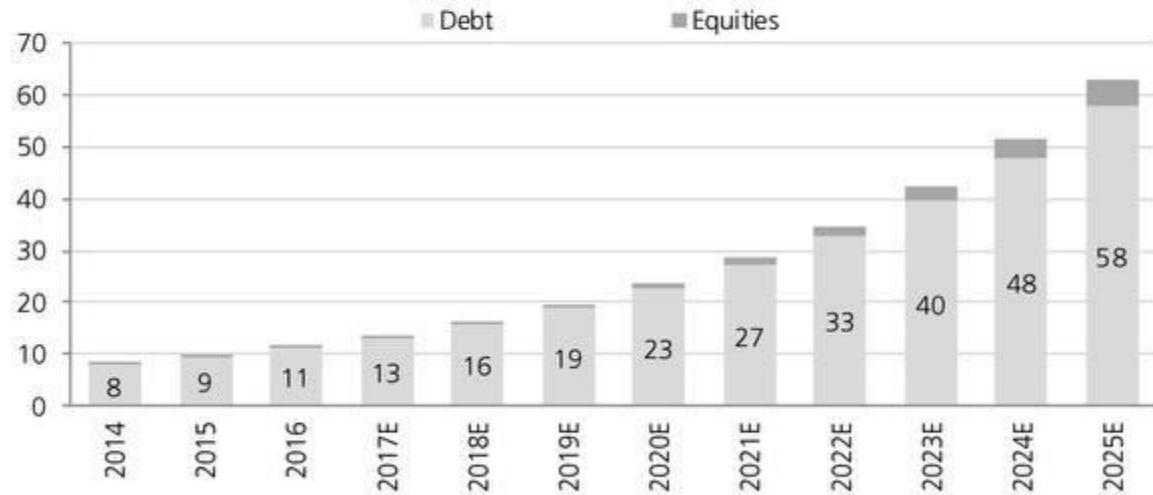
SIP flows, March fiscal year-ends, 2017-23 (Rs bn)



Source: AMFI, Kotak Institutional Equities

Retirement funds could manage Rs60 tn of assets by 2025E

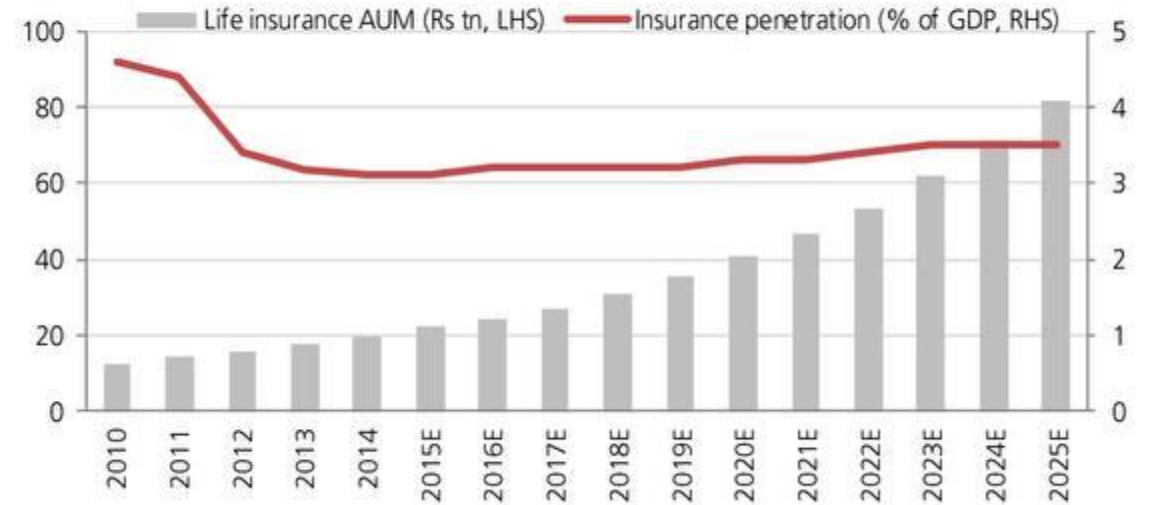
Cumulative assets of the EPF and the NPS, March fiscal year-ends, 2014-25E (Rs tn)



Source: Kotak Institutional Equities estimates

Insurance AUM to increase 4X over 10 years

Life insurance assets under management and insurance penetration



Source: Kotak Institutional Equities estimates

MF AUM has been increasing consistently since FY2012

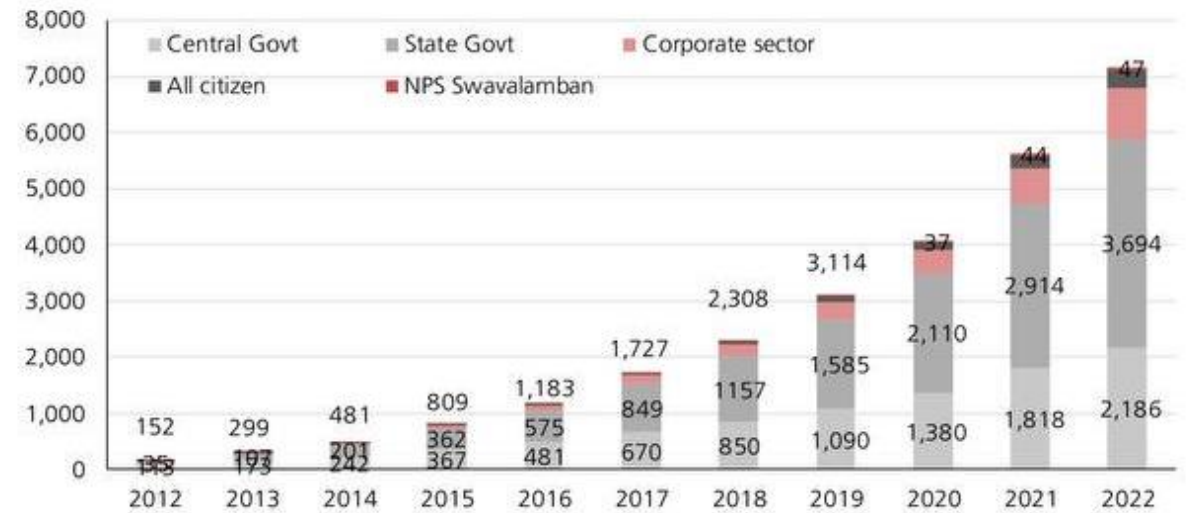
MF AUM, March fiscal year-ends, 2012-22 (Rs tn)



Source; AMFI, Kotak Institutional Equities

NPS AUM has seen strong growth in the past few years

NPS AUM, March fiscal year-ends, 2012-22 (Rs bn)



Source: NPS Trust, Kotak Institutional Equities

Thank You!

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