India: A structural bull case

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'Kos Kos pe badle paani, char kos pe baani'. This popular aphorism - which translates to 'the taste of water changes every Kilometer and the language every few Kilometers' - sums up the diversity of India like none other. By most accounts, there are more than 100 languages and thousands of dialects India speaks in. There is another language which India speaks and writes in. One which has usage across states, across length and breadth of our country. The language of economic development. While India always had an eye on economic development; today, through a synergy of long-term vision and speedy execution, India has become the cynosure of all eyes on the global economic landscape.

Last year, India overtook China on the population leader board to become the most populous country. This naturally led to comparison of India's journey with China's. While India is taking a leaf out of China's book through a resolute focus on manufacturing and infrastructure; unlike China, India's holistic approach to infrastructure push will focus on People, Planet and Prosperity. Unlike China, where the growth model has been state-driven and environmentally unsustainable, in India, one can expect the growth to be more inclusive - driven by entrepreneurship and with the Government acting more as a facilitator. Vibrancy of Indian capital markets too makes India's growth more inclusive. In fact, in China, while the economy witnessed a robust growth over the last 3 decades, MSCI China Index yielded paltry returns during the same period. On the other hand, in India, sustained economic growth has been matched by growth in corporate profitability and commensurate returns from equity markets.

While India's growth journey is very unique, there are interesting parallels one can draw with US of the 1980s.

1980s – A decade of reckoning for US

1980s is often remembered as a period of tectonic change for US's economic policy. In the 1980s, owing to the Baby Boomer effect, the U.S. reaped the demographic dividend of a relatively young population. Secondly, one cannot look back at this period in U.S. history without a mention of Reagan's famous words, "Government has no business to be in business." Moderation of government spending, reduction of tax rates, deregulation, and lower government intervention in business formed the pillars of economic policy during this period. Thirdly, this period was also marked by then US Fed chair Paul Volcker's decisive actions to rein in runaway inflation and set US firmly back on track for long term economic expansion. Lastly, around the same time, the widespread rollout of 401(k) revolutionized the way Americans saved for retirement. This also ensured a huge supply of patient long-term capital, which also aided the massive innovation and growth in mutual funds, private equity, venture capital, high yielding bonds, securitization, muni bonds, REITs, etc. All of this led to the U.S. enjoying a long period of NICE (Non-Inflationary Continuous Expansion), the fruits of which were enjoyed by investors in the long-run.

India in Amrit Kaal – An uncanny resemblance to the US of 80s

Like the US of the 1980s, India has been reaping the demographic dividend of a large young population. Secondly, India is firmly treading on the path of 'less government, more governance'. The focus on privatisation being a case in point. Ease of doing business and simplification of laws have also been at the top of Government's agenda. Introduction of regulations like GST, IBC, RERA etc has also proven to be a big success. Thirdly, like the US Federal Reserve of 1980s, Reserve Bank of India (RBI) has adopted inflation targeting under the Monetary Policy Framework. Lastly, just like 401(k) triggered a culture of long-term investment in American investors; in the Indian context, increasing acceptability of SIPs (Systematic Investment Plans) has laid the foundation for disciplined long-term approach to investing.

Beyond the comparison with US of 1980s, India has quite a few tailwinds which can propel it in the right direction. India's trailblazing adoption of technology being one such factor. The progress that we have made in the last few years on the front of digital connectivity is commendable. Within a decade, India has made the transition from a 'data-poor country to the most data-rich country'. Over the years, India's education and healthcare systems have not been able to match up to the standards of our more developed peers. Wider digital adoption could provide the panacea to these challenges by bringing the best-in-class services to the masses the way it has been done in financial inclusion.

Focus on inclusive growth : A distinguishing feature of India's growth pursuit

In fact, unlike other economic success stories, the unique aspect of India's growth is its emphasis on inclusive development. Success of JAM trinity (Jan Dhan Account, Aadhar, Mobile Number), which facilitates direct benefits transfer of welfare subsidies into bank accounts of the needy, being a case in point. Other flagship schemes like Pradhan Mantri Awas Yojana (PMAY) -Housing for All, Swachh Bharat Abhiyan for universal sanitation coverage, PM Ujjwala Yojana for cooking gas, Tap water and basic electricity in every home, PM Suraksha Bima Yojana, Atal Pension Yojana etc. have all been steps in the right direction.

Bullishness on India a no-brainer!!!

Globally, supply chains which seemed to be gradually recovering post the Covid shock have been frayed again owing to 2 long-drawn wars in Ukraine and the Middle-East. This, against the backdrop of a western world struggling with growth and China grappling with real estate crisis has soured the global economic landscape. Amidst this, India has emerged as the most resilient economy with an equally robust capital market.

While there are numerous reasons why one can be optimistic about India, there are 3 key reasons for it. Firstly, India's macro-economic stability makes it much more resilient compared to other peers. Strong macro-economic fundamentals, pro-business environment and sustained structural reforms hold India in good stead. What's equally noteworthy is that India's growth journey has a long runway ahead given the low starting base in terms of per capita GDP. Secondly, India has large number of companies with wide array of businesses catering to a diverse set of customers. This presents a diverse set of opportunities in term of stock selection – something which cannot be paralleled by most peers. With high quality management, strong corporate governance, emphasis on capital efficiency, robust regulatory framework and wide array of investment avenues, Indian equity market can live up to its billing of being a 'Stock pickers paradise'. Thirdly, sustained domestic liquidity now makes Indian markets relatively less susceptible to volatility associated with foreign capital flows. While foreign capital will continue to hit Indian shores owing to India's relative attractiveness to foreign investors, robust domestic flows from DIIs can help to provide the counterbalancing stability.

Indian equities: Strong fundamentals, rising corporate profitability and a bullish sentiment

The framework to look at equity market landscape involves evaluation of 4 factors viz. macro fundamentals, corporate profitability, valuations and liquidity/sentiment. Strong fundamentals, rising corporate profitability and a bullish sentiment on India imply that the long-term prospects look good for Indian equities. However, valuations are stretched in certain pockets of the market. Equity returns are ultimately a function of earnings growth, dividend yield and change in valuations. Given the current valuation landscape, going forward, equity returns are expected to be in line with earnings growth. Investor sentiment is like a pendulum that swings from extreme optimism to exaggerated pessimism. In the short run, equity markets are bound to be volatile. However, in the long-run, equities do track corporate profit growth and investors would do well to remember this.

Historically, rise in corporate profitability has reflected in Indian equity returns

One often-overlooked fact about India is that historically, its economic growth and rise in corporate profitability have reflected in equity returns. Something which cannot be said about economies like China, where equity returns have been lackluster in spite of robust economic growth. With long runway of economic growth ahead of us and increasing financialization of savings, investors with a long-term horizon and disciplined approach could reap the rewards of India's Amrit Kaal. Amidst market volatility, investors could pay heed to Charlie Munger's wise words that 'The big money is not in buying and selling but in the waiting"

Winds of opportunity blowing in India's direction

While 19th Century belonged to Europe and 20th Century belonged to US; the 21st century is often called the 'Asian Century'. Not only is the axis of political power shifting from the West to the East, even the winds of growth have started blowing eastwards and India is understandably expected to be the shining star in this new global landscape. There could be cyclical ups and downs in the market as equities do not give returns in a linear fashion. However, India's structural growth story is here to stay for a long time. India, on its part, has always been culturally and spiritually rich; it is high time that in this Amrit Kaal, every citizen also becomes economically rich and we regain our old title of 'Sone ki Chidiya' or 'The Bird of Gold'.