The Economic Times | Markets
English Edition | 11 January, 2022, 11:57 AM IST | E-Paper

India could become a poster boy for EMs in this decade

Synopsis
The economic growth and equity performance of India is next to none and, hence, India warrants a larger share for EM alpha creation. As visible in real gross domestic product (GDP) growth, India's growth in trailing 10 years towers close to that of China.

AFP

India equities have been massively outperforming the EM benchmark in 1/3/5/10 or 20-year basis (generating annualised alpha of 300-800 points), according to Bloomberg.

RELATED

Be selective! Going may get tough for India Inc in coming quarters

A 'juicy chicken pizza': Jefferies sees 75% upside in this market debutant

Correction or no correction? Hope lingers for market amid gloom over new corona variant

FPI money to track new variant of worry

Looking beyond the home bias, there are strong fundamental reasons to believe India will be the beacon of growth in the emerging markets' (EM) space in this decade, and will warrant higher weight in the EM indices as well. There are some key fundamental reasons supporting this statement.

China merits a separate equity class

China's equity market has a listed market cap of $18 trillion with 8,900 listed stocks, according to a Goldman Sachs Report. China's weight in the MSCI EM Index has doubled in the last 5 years to almost 35%, and it will be over 40% in the next 5 years, according to the MSCI. However, MSCI EM ex-China has a compelling case as it represents more than half of the stocks and two-thirds of the index capitalisation. Sectorally speaking, MSCI EM ex-China has 6% exposure to retail and internet, versus 45% by including China, according to the MSCI website. Chinese equity market performance has widely diverged from that of EMs as reflected by the lower than 0.2 correlation in 2021. The fundamental variable of ex-China is much better with EPS growth of 33% in 2021. Investor positioning in EM ex-China is also over 500 bps lower than the MSCI EM Index.

Hence, China merits being its own equity asset class given its size and dominance in the EM index. Ex-China, Taiwan, India and Korea all have similar weights. EM ex-China is expected to offer strong earnings growth this year with cheaper forward valuations.

Ad Policybazaar

Born b/w 1965-1990? Get 1 Cr Term Plan at ₹ 490/month*

VISIT SITE

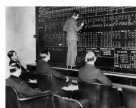
Sponsored by

ET CONTRIBUTORS

EM market characteristics	MSCI EM	MSCI EM ex China	MSCI China
Size of Opportunity			
Number of stocks	1418	678	740
Tottal mkt cap ($US ttn)	7.9	5.2	2.7
Fundamentals			
EPS Growth (2021/22 CAGR)	27%	33%	17%
Sales Growth (2021/22 CAGR)	10%	7%	17%
12m fPE (x)	12.7 x	12.4 x	13.4 x
LTM PB (x)	1.9 x	2.0 x	1.8 x
LTM DY	2%	3%	2%
PEG (past 5 yr avg)	1.0 x	1.1 x	0.8 x
ROE (past 5 yr avg)	11.60%	10.80%	12%
OP mgn (past 5 yr avg)	10.80%	8.70%	13%
EPSg (past 5 yr avg)	7%	6%	14%
Composition			
Wgtt in EM (Current)	100%	66%	34%
Concentration (Wgt of top 10 stocks)	24.80%	25.20%	42.70%

Source: MSCI, Goldman Sachs

ET PRIME - POPULAR MARKET STORIES


In a value vs. price face-off, New Age traders bet on technical trends over stock fundamentals

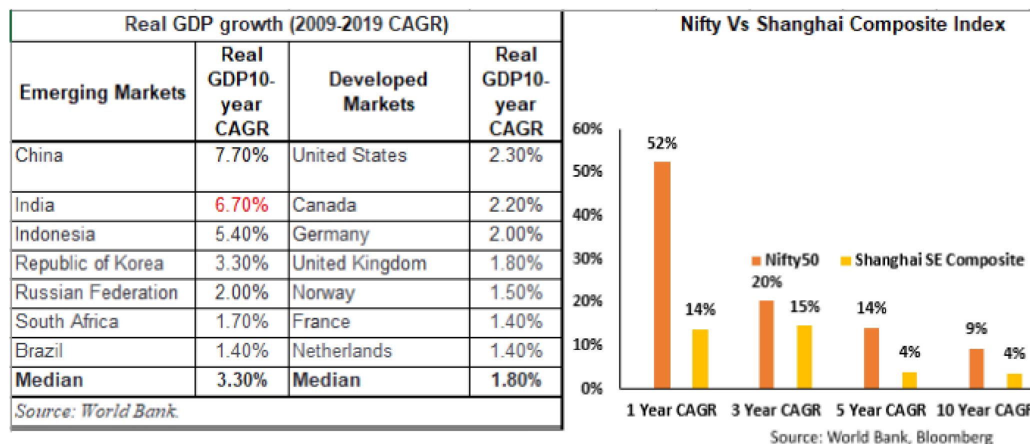
Investing with sur, taal, and lay: the circle of fifths and how it plays out in the stock market

Subscribe to **ETPrime**

Indian equity market performance eclipses China

The economic growth and equity performance of India is next to none and, hence, India warrants a larger share for EM alpha creation. As is visible in real gross domestic product (GDP) growth, India's growth in trailing 10 years towers close to that of China. However, differentiation in the stage of economic development and the per capita income levels ensures better return in Indian equity markets. As there are only a handful of mega-cap businesses in India, they can dominate the market share and generate ROE & revenue growth that eclipses the equity market returns of China (in % of companies) over longer periods. As these components form a major part of the Indian stock market, the key indices' returns in India can beat that of the Shanghai composite Index.

ET CONTRIBUTORS



Real GDP growth (2009-2019 CAGR)

Emerging Markets	Real GDP10-year CAGR	Developed Markets	Real GDP10-year CAGR
China	7.70%	United States	2.30%
India	6.70%	Canada	2.20%
Indonesia	5.40%	Germany	2.00%
Republic of Korea	3.30%	United Kingdom	1.80%
Russian Federation	2.00%	Norway	1.50%
South Africa	1.70%	France	1.40%
Brazil	1.40%	Netherlands	1.40%
Median	**3.30%**	**Median**	**1.80%**

Source: World Bank

Pro-growth policy initiatives have triggered a multi-year profit cycle

Policy activism in the last couple of years has been one of the most disruptive in India. Demonetisation, the goods and services tax, the Production-Linked Incentives, reduction on corporate tax rate are a few. In the last couple of years, the government has made a dramatic shift in policy that favors profit share in GDP. For India, this policy has done wonders in the past as well. Policy to boost profits has triggered private capex investments that have created jobs in the past also. Policy experiments between 1999 and 2004 caused profits to boom between 2004 and 2007. This time as well, policy interventions are already having a strong effect: like the robust GST collection of over Rs 1.1 lakh crore on an average in the trailing 1 year, according to the Press Information Bureau. If this kind of improvement continues, a 10% real GDP growth will not be a distant dream. If you add corporate profits' long-term average of 3.5% till 2025, then we are looking earnings growth of 25% (a number most analysts are working with but "only" in the next two years). The second degree derivative that played out in 2004-2007 was that higher profit feeded into real GDP growth and the cycle continued, thereby fueling higher share prices.

Glass half full or half empty

The consensus of the FII intelligentsia from outside India is that the economy's growth was slowing down even before Covid, it will again disappoint and India's growth will again fall below 5%. In reality, India has already paid the price for insufficient second-generation reforms, limited productivity growth, a lack of investments and poor industrial policy design, which prioritise self-sufficiency over exports via balance sheet recession and extreme risk aversion. The reality is that we are seeing green shoots as corporates come out leaner and less leveraged after Covid. In fact, if you just look at a quarter or so, corporate India has been very upbeat about growth prospects. Real estate and private capex cycles are also showing improvement. IT hiring has catapulted to a newer orbit and the startup ecosystem is on fire. It has never been easier to raise capital in India or buy an apartment.

India already continues to be an oasis in equities

India equities have been massively outperforming the EM benchmark in 1/3/5/10 or 20-year basis (generating annualised alpha of 300-800 points), according to Bloomberg. Inclusion of India Bonds in the Global Index could be a major step in taking this forward. India can deliver a multi-year growth cycle with teen and mid-teen earnings growth, which is an oasis in the current low-growth world. Hence, India clearly deserves a higher allocation in EM indices and these structural changes are bound to happen in this decade.

Sure enough, the higher annualised standard deviation of Indian equity returns will continue to keep some participants on the sidelines. With short-term noises like the oil price surge and taper-less tantrum, they may actually miss the train.

The long-term growth trajectory for India Inc has been the best in over a decade. And if one can use the current consolidation/profit-taking to build positions in the equity market, that would become the beacon of growth in this decade.

(The author is Head PMS & Principal Officer, LIC Mutual Fund Asset Management Ltd. Views expressed are personal.)

(Disclaimer: The opinions expressed in this column are that of the writer. The facts and opinions expressed here do not reflect the views of www.economictimes.com.)

Pick the best companies to invest

BECOME AN ETPRIME MEMBER

*(What's moving **Sensex** and **Nifty** Track **latest market news**, **stock tips** and **expert advice** on **ETMarkets**. Also, ETM* ...mo

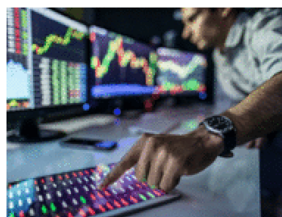
Pick the best stocks for yourself

Weekly Top Picks: Stocks which scored 10 on 10

4 mins read

Check out how Bank Nifty stocks are faring this week

3 mins read

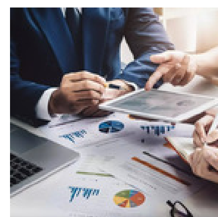


After rallying up to 300% in 2021, these 6 stocks can break out further

4 mins read

Nifty50 stocks that analysts recommend buying in the last week of 2021

4 mins read



Weekly Top Picks: Sto which scored 10 on 10

7 mins read

Subscribe to ETPrime