India’s Edge in Post Pandemic Era

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‘In India, Cricket isn't just a sport, it's a religion’ these were the words of Australian cricket legend Steve Waugh. Indeed, Cricket is a festival, a celebration, and an emotion to millions in the country. But there was one particular phase, which, very few Cricket enthusiast would like to remember – The World cup of 2007. India was believed to be a serious contender then. But what unfolded, came as a huge blow to Team India & millions of Fans back in India. India lost to the underdog Bangladesh and was out of the tournament. The loss did not only end India’s dream of winning world cup, along with that it also ended cricket interest of a number of fans. Few even started believing that it was the beginning of the end of Cricket in India. What happened thereafter was not less than a fairy tale story. Much to everybody’s surprise India went on to win the T20 world cup in late 2007 under the able leadership & captaincy of M.S. Dhoni. And there was no looking back from there. Team India rose from being the underdog to become the unbeatable squad. In 2011, India were the favorites, the mighty contender and went on to lift the World cup.

The Analogy

The blow of Pandemic in my view is like the World cup of 2007 for Indian Equity markets. Pre-Pandemic, India was struggling with falling GDP growth, slowing credit growth, rising inflation, unfavorable monsoon, suboptimal tax receipts and relatively stretched government finance. The outbreak of Pandemic made the situation even worse. We went under country-wide lockdown. human mobilization stopped, growth halted, and government had to lower down the interest rate further to boost consumption. Many believed that the growth story of India is set for spiral downward motion.

Fast forward to today, economies are gradually crawling out of Pandemic. India showcased strong character in combating the Pandemic especially with a population base of over 1.3 billion. This achievement was not less than a T20 world cup victory of 2007. In my view the road ahead for India as an economy and the equity market is going to give us a déjà vu moment. As per International Monetary Fund (IMF), India is set to be the fastest growing economy. Indian macroeconomic position is better than many other countries especially the Emerging Markets (EMs).

The Pandemic & its impact

Equity markets across the globe witnessed shift in trend while the world was fighting the Pandemic. Multi-level drop-in interest rates resulted in higher cash in the system. Easy access to money resulted in rise in prices across asset class. Money flowed in Equities, Real estate, Gold, crypto currencies etc. If experts were to be believed valuations got expensive across asset class and froth started forming in the equity valuations.

What’s going on, as we speak?

As countries started recovering from the Pandemic, growth started coming back albeit in slower pace. However due to increase in flow of money into the system, inflation across the globe started making central bank vigilant. Today central banks across the globe have started raising the interest rates to curb inflation. As a result, excess money is getting absorbed from the system. During such liquidity squeezing scenario, asset classes may see correction taking out the froth formed in the valuations due to excess liquidity. As liquidity in the system gets scarce, money finds its way only in avenues which have strong fundamentals.

Our case for Shining India

I am of the view that India’s fundamentals are stronger than other EMs. India’s high frequency data is showing strong signs of recovery, our government finances is also in relatively better shape. On the domestic front, rising income level and strong rural growth may lead to faster recovery. All these factors may build a strong case for India to see larger inflows from FIIs in the near future.

What’s so special about us?

Core factors
The IMF, which released its World Economic Outlook, raised India's GDP growth estimate to 9% for 2022-23 and for 2023-24 it forecast the economy to grow by 7.1% higher than any economy. India’s demography is younger than any of our peer EMs. Income levels are in rising trend with rural growth showing strong signs of recovery. Stable political environment with improving government finances and its focus on introducing structural reforms should lay a solid foundation for India to become global manufacturing hub.

External factors
Growth has been the concern for countries across the globe. The US & Europe is suffering from slower growth rates, rising inflation and increase in employment albeit at slower pace. Moreover, India is relatively less vulnerable to the ongoing geopolitical tensions. Russia accounts for less than a percent (or 80bp) of India’s total exports. Imports from Russia accounted for ~1.3% of India’s total imports during FY19-21 and only 1.6% share in total imports of India during Apr’21-Jan’22 (Source: Motilal Oswal Report). India is also expected to benefit from ‘China Plus 1’ strategy adopted by large corporates. A number of reforms directed towards ‘Atmanirbhar Bharat’, ‘Make in India’ and recently launched Performance Linked Incentive (PLI) Scheme across various sector is only going to give boost to India’s aspiration to become global manufacturing hub.

What does history suggest?
If history were to give us any indication, it is understood that the benchmark Index of any economy grows the fastest during the economy’s road to $5 trillion club (GDP). The US took 11 years to go from $2 Trillion to $5 Trillion (1977-1988). The Dow Jones rose from 700 levels to 12000 between 1977 and 2000, a 17x gain. Japan took 8.5 years to go from $2 Trillion to $5 Trillion (1978-1986). The Japanese stock market zoomed from 2000 to 37000 (1978-1991) – an 18.5x gain. China took five years to go from $2 Trillion to $5 Trillion (2004-2009). During this time, the Hang Seng went from 8500 to 32000 (Source: CEIC). India entered the $2 trillion club in 2015. We have a long way to go before we reach $5 trillion. This makes a pretty good case for foreign as well as domestic investors to invest in equity markets at least for the next 5-8 years, till India becomes a $5 trillion economy. And with large part of India still at nascent stage in financial investment, Mutual funds is an appropriate route for new investors to participate in equity market buoyancy.

Potential of Mutual Fund
MF industry is still at the nascent stage despite the industry managing ~Rs. 38trn of AuM (Source: AMFI). With a large part of India still being underpenetrated, we have just scratched the surface. The world average of MF AUM to GDP is 75%, whereas India is only 15%. US is highest at 140%. Also, in terms of Equity AUM as a % of GDP, the world average is 43%, India is at mere 6% (Source: IMF, CRISIL Research). Additionally, India’s population as compared to the world is a younger lot. In my view, the next phase of growth in our industry will be triggered by an inclusive growth philosophy where smaller cities will contribute more to the incremental AUM growth. We at LICMF have aligned our corporate goal taking this into consideration.

Rising income level, increasing financial inclusion in the smaller cities and villages, increasing share of financial assets among population, lack of options in traditional investment etc will result in more and more people entering equity market through mutual funds in the medium term.

Embarking a journey from Underdog to Unbeatable
Indeed, India is expected to have edge over other EMs and transform itself from underdog to the mighty unbeatable like our Indian Cricket Team.

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MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.