



# The case for India

The outlook for Indian equities has improved as the economy gradually emerges from the COVID-19 shock and corporate earnings improve. We believe there is a great opportunity for investors to harness growth in this country, as it benefits from structural growth trends, and an increasing likelihood that over the coming decade more technology and manufacturing jobs will relocate there from across the region, driven by US-China trade tensions and India's own development.

## Capturing returns as momentum builds

Building on the widespread liberalisation of the country in the 1980s and 1990s, India is experiencing a wave of development under Prime Minister Modi. The government's most recent package of reforms, known as Make in India 2.0,<sup>1</sup> could be a game-changer if executed well.

The plan is to create 100 million manufacturing jobs and increase the manufacturing sector's contribution to GDP to 25% by 2025, from the current 16%. It also features a doubling of infrastructure spending in the next five years versus the past five years.

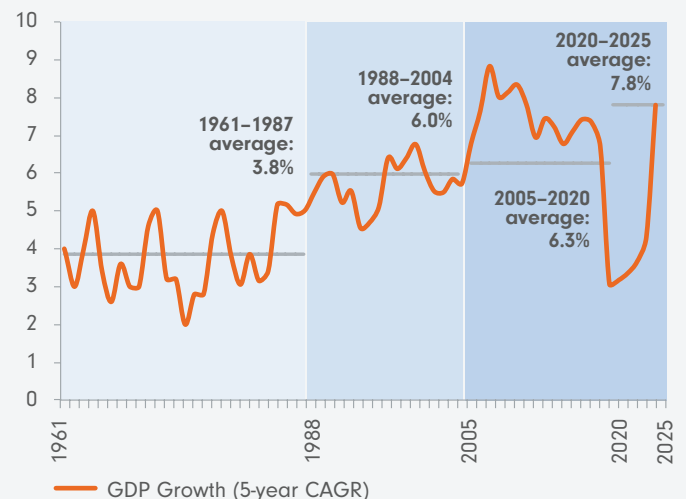
There are also production-linked incentives and tax incentives, and protectionist increases in import duties/bans in areas where local manufacturing can easily substitute imports. The focus seems to be shifting from high-end manufacturing to import substitution, which seems more achievable.

Overall, we expect an immediate contribution of around 0.5 percentage points of incremental GDP growth, and eventually the multiplier effects may lead to a contribution of about 2.5 percentage points.

## More on GDP growth

Over the last 60 years, India's average GDP growth rate has increased from about 4% till about the late 1980s, to 7% to 8% now (refer Figure 1). There is still a lot of scope for economic expansion in India, ranking it one of the fastest-growing economies of the world.

**Figure 1. India's rate of GDP growth from 1961–2025**



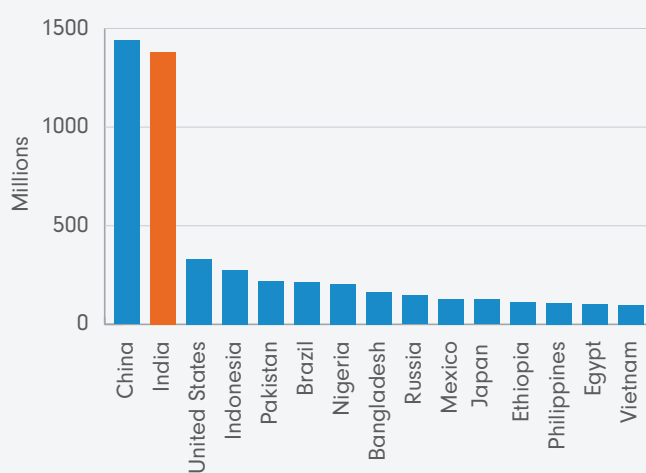
Source: Fidelity International and IMF World economic outlook database as at October 2020.

While growth has so far lagged that of its neighbouring mega-economy China, the key to speeding the rise of India's young, affluent, urban and educated consumer base is within reach. These reforms and planned infrastructure spend will be key to unlocking the growth potential of India's hugely favourable demographics.

## A surging demographic tailwind

India has a population second only to China, and together these two countries contain more than one-third of the world's population.<sup>2</sup>

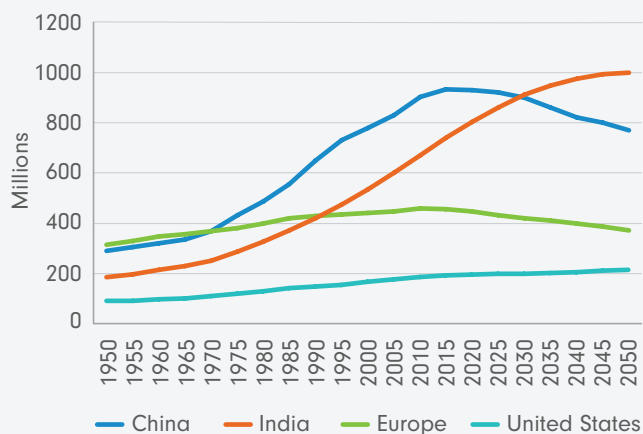
**Figure 2. The world's 15 most populated countries**



Source: United Nations Population Division, World Population Prospects 2019.

Forecasts suggest that by 2050, India is expected to add 200 million people to its workforce and will surpass China's working population in size in five years (refer to Figure 3).

**Figure 3. India's workforce is expected to climb by 200 million in the next 30 years and surpass China's in 5 years.**



Source: United Nations Population Division, World Population Prospects 2019.

The purchasing power of the country's emerging middle class is also set to rise dramatically in the next decade or so, with much of this spending spree driven by a surge in urbanisation.

Table 1 ranks the top 10 fastest-growing cities in the world by GDP between 2018 and 2035, highlighting these are all Indian cities. Agra, home of the Taj Mahal, is expected to lead the world in middle-class population growth according to the World Economic Forum,<sup>3</sup> which ranked 17 of the world's 20 fastest-growing cities over the next 15 years to also be in India.

**Table 1: India is home to the top 10 fastest-growing cities in the world, 2019–35**

Rank	Growth (% y/y, 2019–35)	City	GDP 2018 (\$ billion, constant 2018 prices)	GDP 2035 (\$ billion, constant 2018 prices)
1	9.17	Surat	28.5	126.8
2	8.58	Agra	3.9	15.6
3	8.50	Bengaluru	70.8	283.3
4	8.47	Hyderabad	50.6	201.4
5	8.41	Nagpur	12.3	48.6
6	8.36	Tiruppur	4.3	17.0
7	8.33	Rajkot	6.8	26.7
8	8.29	Tiruchirappalli	4.9	19.0
9	8.17	Chennai	36.0	136.8
10	8.16	Vijayawada	5.6	21.3

Source: Oxford Economics, 'Global Cities: The Future of the World's Leading Urban Economies to 2035', November 2018.

## A large domestic economy

In 2020, COVID-19 disrupted supply chains and geopolitics saw many countries enforce trade restrictions across regions. However, with private consumption driving 60% of the economy, India has the domestic demand to sustain growth, regardless of global economic trends.<sup>4</sup>

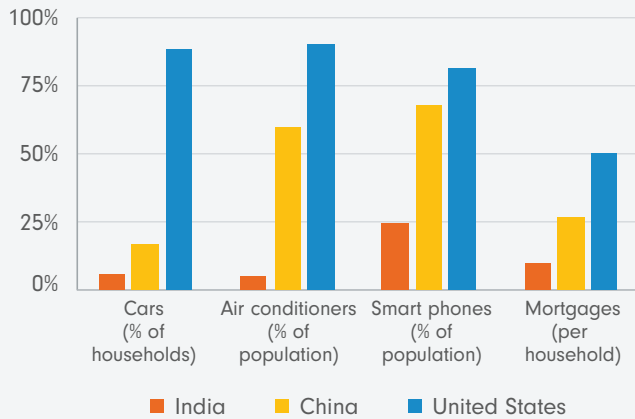
We expect the trend from globalisation to regionalisation to continue. In the face of this, India is well positioned for sustained growth with reform programs focused on investing in manufacturing and infrastructure with demand growing from a young and affluent middle class.

## Indian equities are maturing

In 2020, India had a stock market capitalisation of US\$2.5 trillion<sup>5</sup> and offers a broad investment universe, diversified across sectors. There are well over 5,000 listed companies to choose from.

Opportunities for growth across retail, automotive and finance industries look promising. With consumer penetration levels in cars, white goods, mortgage and retail loans lagging far behind countries such as China and the US, the stage is set for many companies to profit from exponential growth in India's middle class.

**Figure 4. Product and services penetration**



Source: Statista, EMF Hofinet, HDFC, December 2020.

Beyond consumer goods, other sectors that stand to gain from an acceleration in structural reforms include financials, industrials and healthcare. Having a strong research presence close to the market is critical to pinpoint the companies best positioned to profit from these growth trends.

## The active advantage for risk and return

As a key emerging market and a proxy for global risk appetite, India took the full brunt of investor sell-offs when COVID-19 hit in early 2020. Going into 2021, while uncertainties remain, we expect the economy to continue its recovery path and the long-term structural opportunities will again come into focus.

We have a large investment team on the ground in India, backed by 400 investment professionals worldwide, so we understand the factors shaping returns and risks in this dynamic region.

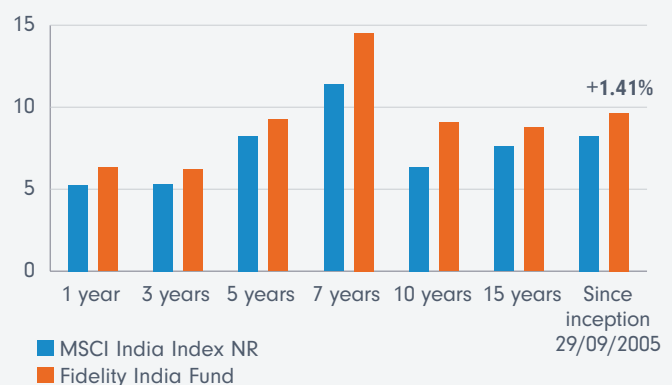
With Fidelity, investors can access India's opportunities through our Fidelity India and Asia Funds, or gain exposure via the Fidelity Global Emerging Markets Fund, which is available as a managed fund and an active ETF. The Fidelity India Fund invests in a diversified portfolio of 30 to 50 quality Indian companies.

As well as applying disciplined analysis to stock selection, the portfolio is carefully weighted for diversification across sectors and companies. This further supports our goal of delivering sustained returns and managing downside risk for investors.

Recommended as a long-term holding, we aim to outperform the benchmark over a five- to seven-year timeframe.

## Delivering returns to investors for more than a decade

**Figure 5. Net returns of the Fidelity India Fund as at 31 December 2020 (% p.a.)\***



\*Total net returns represent past performance only. Past performance is not a reliable indicator of future performance. Returns of the Fund can be volatile and in some periods may be negative. The return of capital is not guaranteed. Benchmark: MSCI India Index NR.

NR: NR at the end of the benchmark name indicates the return is calculated including reinvesting net dividends. The dividend is reinvested after deduction of withholding tax, applying the withholding tax rate to non-resident individuals who do not benefit from double taxation treaties.

### HDFC Bank

**HDFC Bank** is India's largest private sector bank. It was among the first to receive approval from the Reserve Bank of India (RBI) to set up a private sector bank in 1994. Headquartered in Mumbai, HDFC Bank is the best run and new generation private sector bank providing a wide range of services with a focus on the non-mortgage retail lending. Today, HDFC Bank has a banking network of 5,345 branches and 14,533 ATMs spread across 2,787 cities and towns.

The company's solid brand franchise with a dominant market share in a growth market like India, and its robust track record of product innovation and capital strength makes it a long-term holding in the Fidelity India Fund.

## Expert access to the best investment opportunities in India

Fidelity has been investing in India for over 25 years, with a number of investment specialists based in India.

Our extensive track record and presence in the country means we have a unique and independent view of factors shaping returns from Indian companies.

### Like to know more?

If you'd like to know more about the Fidelity India Fund, visit our website or call or email our client services team:

**Telephone**  
1800 044 922

**Email**  
aclientservices@fil.com

**Website**  
fidelity.com.au

“ I am optimistic on the Indian economy and equities in the medium to long term due to the presence of structural drivers of growth, strong demographics, presence of quality institutions and a culture of entrepreneurship. The Fund continues to focus on owning quality businesses which are market leaders in the structural growth segments. ”

**Amit Goel**, Portfolio Manager  
Fidelity India Fund

[fidelity.com.au](https://www.fidelity.com.au)



**References:** 1. <https://www.makeindia.com/home> 2. <https://www.un.org/en/sections/issues-depth/population/> 3. World Economic Forum, How India's globalized cities will change its future, January 2019. 4. World Economic Forum/Bain Insight Report, Future of Consumption in Fast-Growing Consumer Markets: INDIA, January 2019. 5. <https://www.livemint.com/market/stock-market-news/indias-market-cap-swells-to-2-5-trillion-11609719574403.htm>

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