

MARKET PERSPECTIVES

Rising India Summit

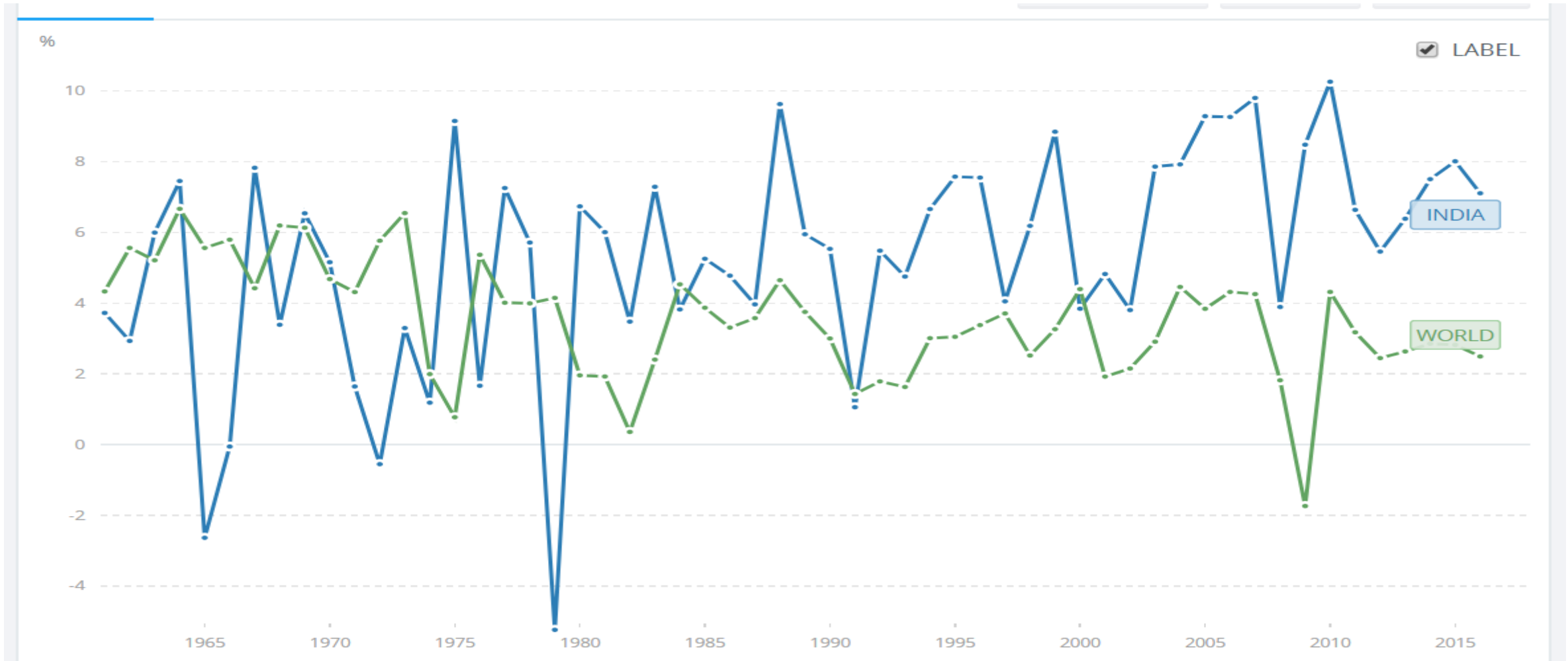
WORLD VS INDIA

- India lagging behind major economies in last 1-1.5 years
- Demonetisation
- GST
- Structural Banking Issues
 - More than 70% assets in India with Public Sector Banks – Highest in world
 - Average across Emerging Markets - 1/3rd assets with PSBs
 - Incremental financial activities through Private Sector Banks
 - Public Sector loosing in value

SHORT TERM NEGATIVES FOR INDIA

- Regulatory Overkill
 - Public Sector Banks frozen to lend
 - Access to credit to get skewed to big, stable corporate
 - Big to become bigger. SMEs to suffer the most
 - Cost of bad loan equal to criminal offense
- 23,000 Millionaires left India since 2014
 - Trend indicates gradual increase from 4,000 in 2016 to 7,000 in 2017
 - Largest share of any major economy in the world
 - One reason could be government's excessive focus on corruption and black money
 - Any developing economy would need locals to stay put and invest

INDIA VS WORLD GDP TILL 2016



POSITIVES FOR INDIA

- Highest number of quality companies
 - More than 70 companies with market cap of \$1B+ doubled in value in last 5 years
 - The same number for Brazil around 15-20. For Russia it's 6-8
- Enough high quality companies even at these valuations
- Good Billionaires (Technology, Manufacturing) more than Bad Billionaires (Government controlled sectors)
 - However inherited billionaire at 60% double the emerging market's average

BUSINESS OF ELECTIONS

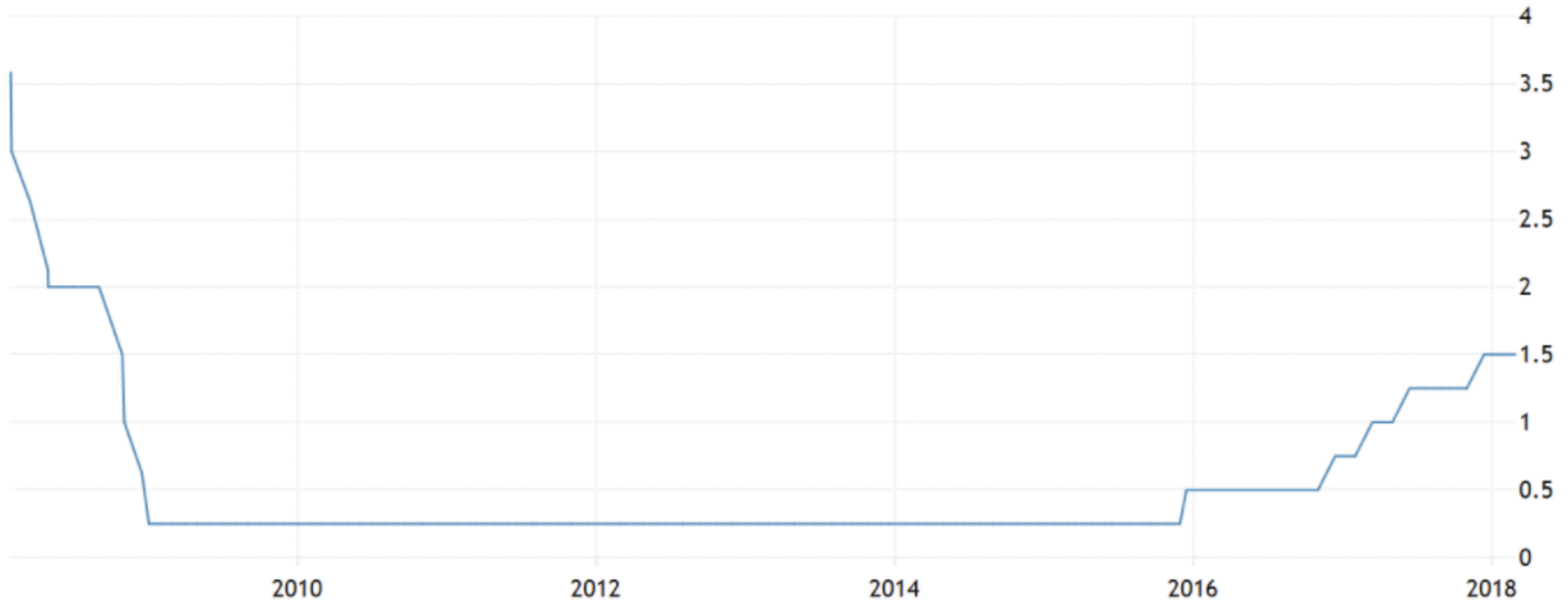
- It's extremely exaggerated wrt markets
 - Indian markets have been generally wrong about politics in the initial stages
 - Thanks to low base, natural momentum of market to continue irrespective of elections
- Opportunity to do major reforms missed in 2015
 - Banks privatisation
 - Corporate tax rate reduction
 - GDP methodology change made government complacent about growth rate
- Anti Incumbency prominent primarily in India – leads to government turning populist
 - 2 out of 3 elections in India are lost – broken state, political funding, small vote % change
 - Many Indian states have hardly ever had two continuous terms of CM
 - In USA its the reverse
 - In UK 80% of sitting politicians re-elected in last two elections

GLOBAL MARKETS

- Zero interest rate responsible for market rally in last decade
 - This era coming to an end
 - Next 12-18 months extremely volatile
 - However many Emerging Markets (excluding China) have underperformed wrt USA in last decade
 - Indian market almost at same level as 2007 in USD terms, USA up almost 60-70%
- Demography a major worry
 - Big fall in world's working age population growth rate
 - 40 countries in the world including China, Germany with shrinking working age population
- Unemployment rate 40 years low across Developed markets
 - Lowest unemployment the world has seen in years
- India an outlier – favourable demography but less jobs
 - Much deeper problem than GDP growth rate

USA FEDERAL FUND RATE TREND

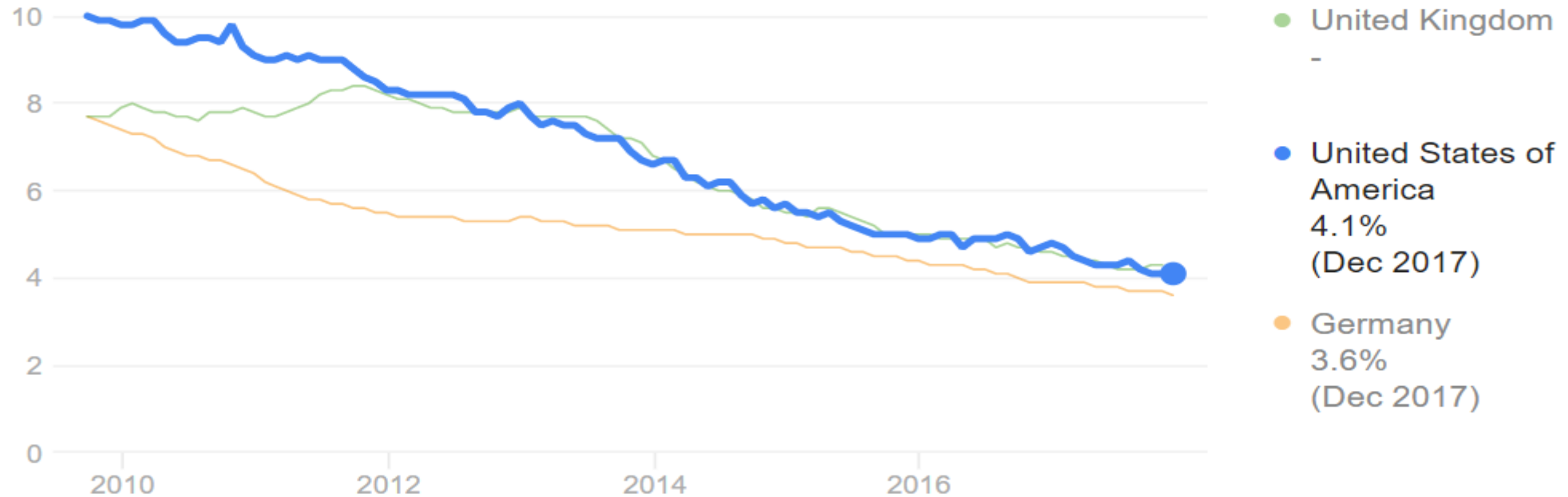
US FED FUNDS RATE



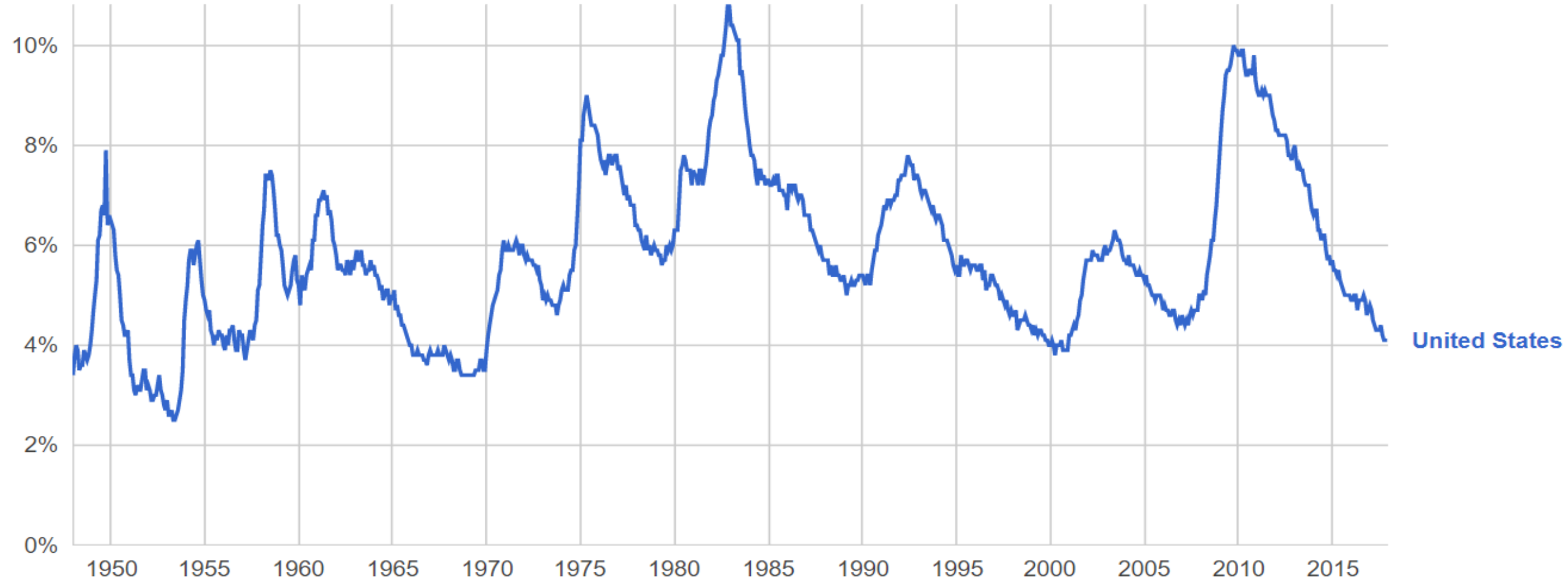
UNEMPLOYMENT RATE US / EUROPE

United States of America / Unemployment rate

4.1% (Dec 2017)



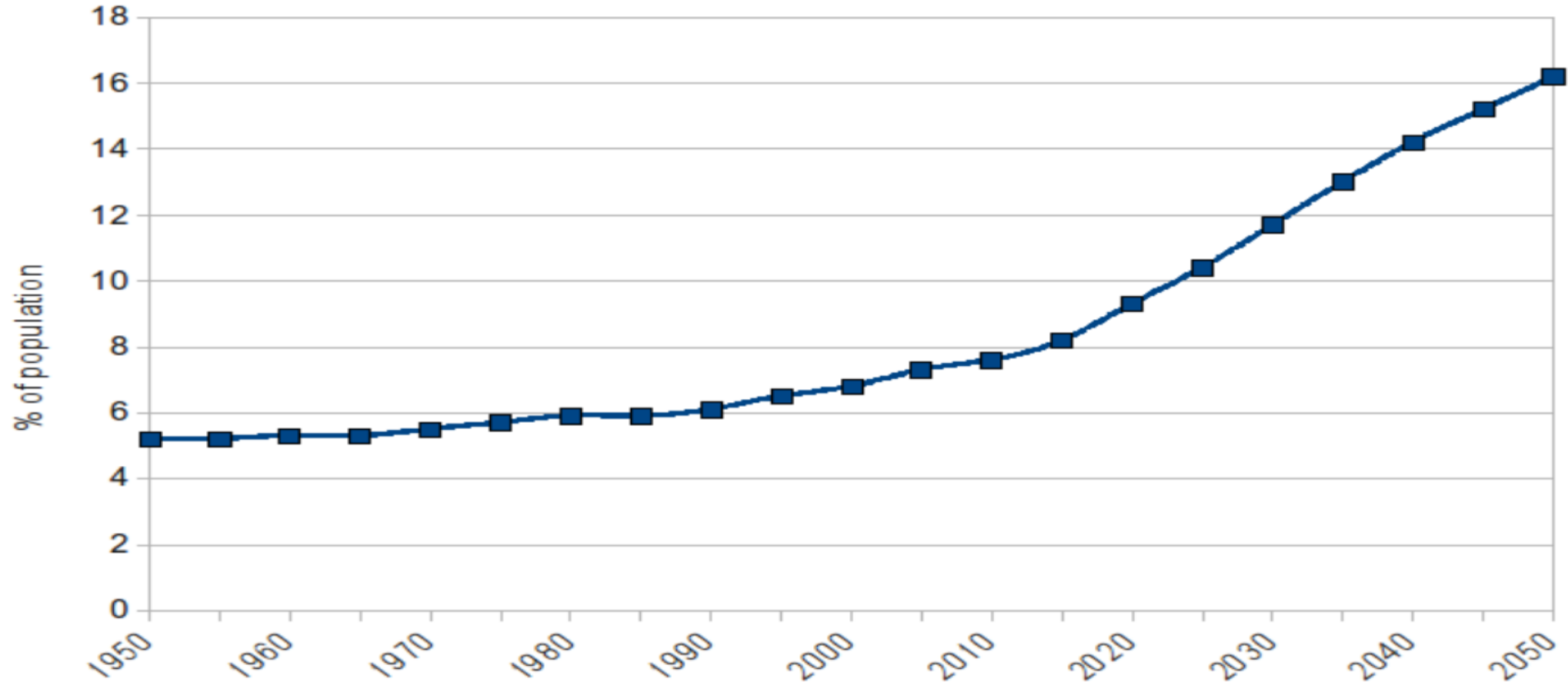
UNEMPLOYMENT TREND USA



AGEING POPULATION

Percentage of the World Population Over 65, 1950-2050

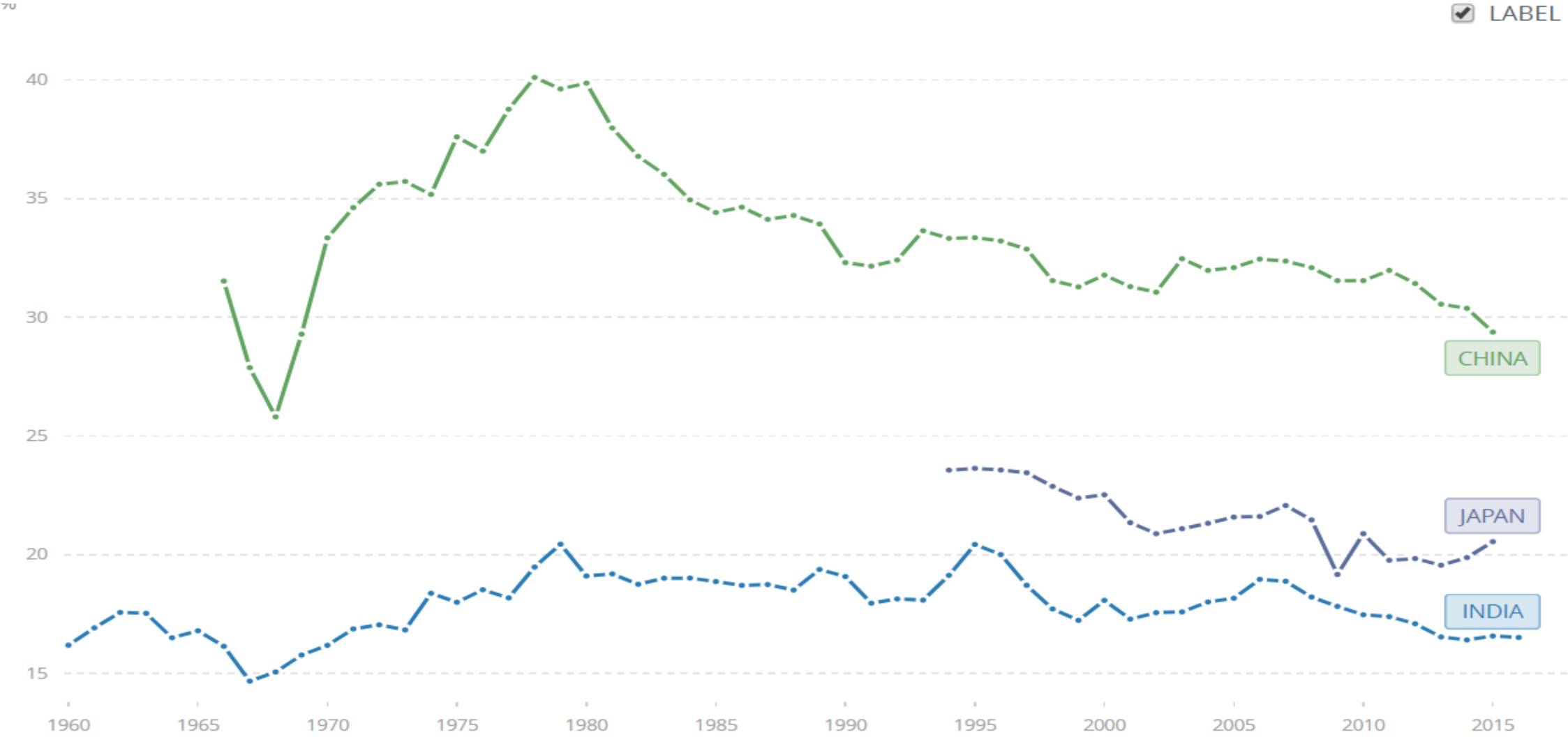
Source: UN World Population Prospect, 2008



OPPORTUNITIES FOR INDIA

- Export is the way to prosperity – China, Japan, Korea, Taiwan
- Low end manufacturing goods – Poor skill set not much of an impediment & mass employment
- Manufacturing share of GDP has remained consistent at 16%. Infrastructure, Labour law not supportive
- Tougher to implement as Global trade as a percentage of GDP reducing after 2008
- Also tougher because of trade wars – India has trade surplus with USA
- Major reason of India's GDP was export growth of 30% in last decade. Down to single digit now
- 8% growth unrealistic. In 2007 30-40 countries were growing at 7%+, now not even 4-5 (including smaller countries)
- Competitive federalism needs to be encouraged

MANUFACTURING/GDP INDIA VS CHINA



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THANK YOU