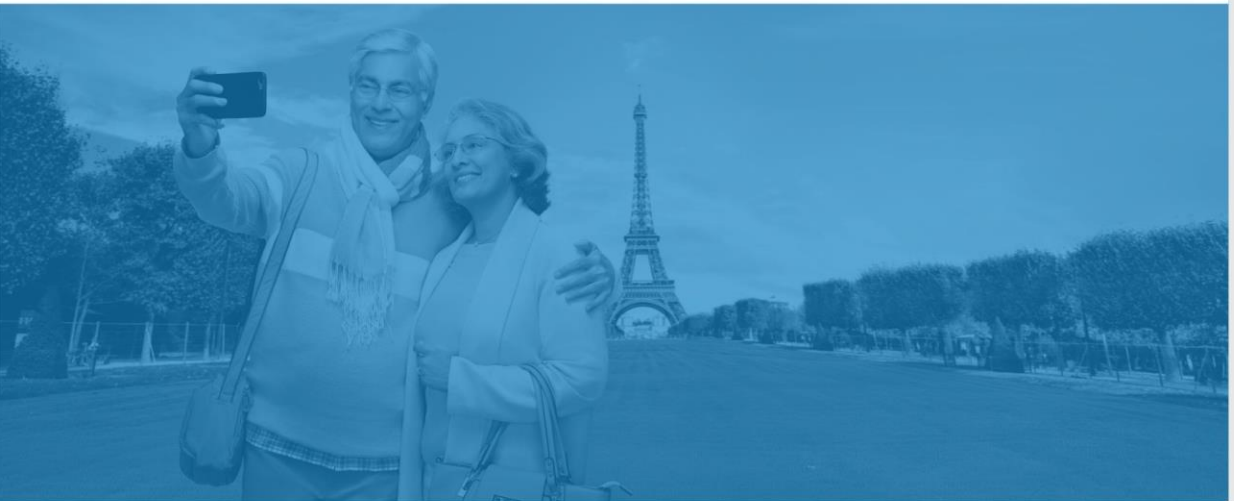


# The India Growth Story

March 2019

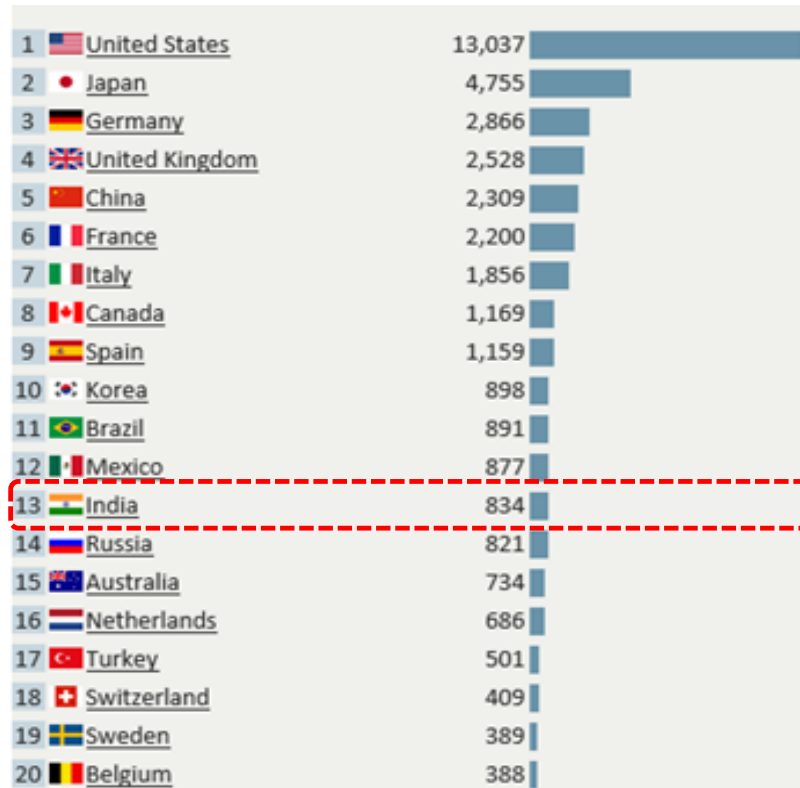
LIFE GOALS. **DONE.**



# India Story – The Big Picture!

# India's global GDP ranking has been rising, is now \$2.7 trn economy

GDP at current prices (USD in Billion) – 2005

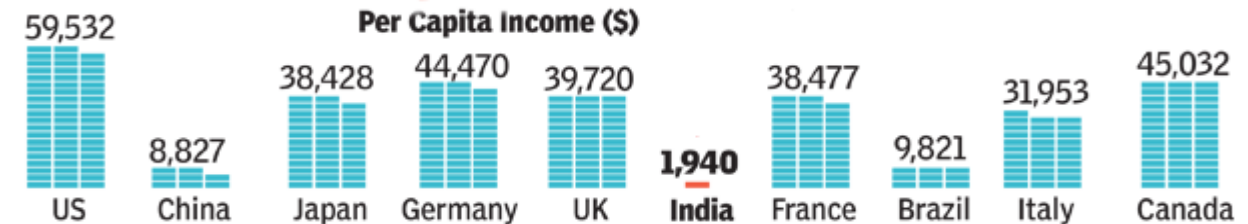


GDP at current prices (USD in Billion) – 2018 (F)



As a high growth economy India is expected to surpass France & UK in 2019, to become the fifth largest in the world.

However, India's per capita income still remains comparatively lower than peer EM economies, and has a long way to go



# India has been one of the fastest growing major economies over the long term

G20 Countries	15 Yr CAGR	10 Year CAGR
China	8.9	7.6
India	7.6	7.3
Indonesia	5.6	5.4
Turkey	5.0	5.8
Korea	3.4	3.3
Saudi Arabia	3.3	3.6
Australia	2.8	2.7
Russia	2.5	1.8
Argentina	2.5	1.4
South Africa	2.4	1.8
Mexico	2.3	2.9
Brazil	2.2	1.4
Canada	1.9	2.3
United States	1.9	2.3
Germany	1.6	2.1
European Union	1.5	1.7
United Kingdom	1.4	1.8
France	1.2	1.4
Japan	0.8	1.4
Italy	0.1	0.3
Source: Phillip Capital, IMF. Data is CAGR ended 2019, and sorted on 15 year period in descending order		

- Indian economy presents many opportunities to invest
- Multiple industries from knowledge based sectors like IT, Pharma to basic industries
- India is now a key contributor of global growth
- Next ten years would be India's growth moment.

# India to lead global growth, in spite of global headwinds, and growth slowdown

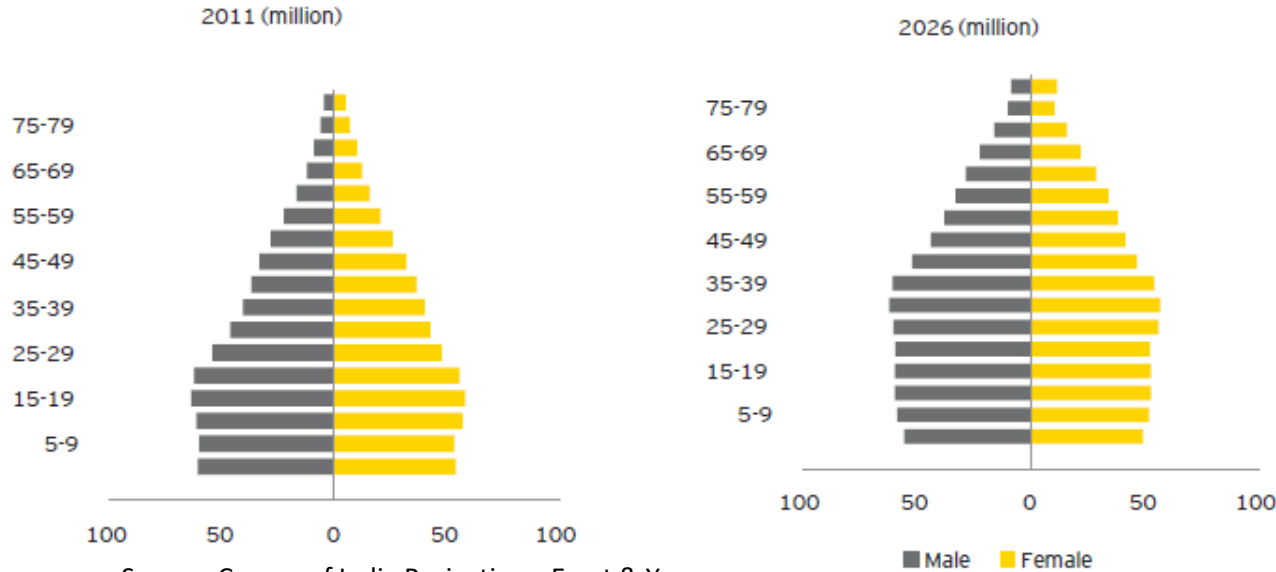
IMF GDP growth forecast (in %)

	2017	Estimates 2018	Projections 2019	2020
World Output	3.8	3.7	3.5	3.6
Advanced Economies	2.4	2.3	2.0	1.7
United States	2.2	2.9	2.5	1.8
Euro Area	2.4	1.8	1.6	1.7
Germany	2.5	1.5	1.3	1.6
France	2.3	1.5	1.5	1.6
Italy	1.6	1.0	0.6	0.9
Spain	3.0	2.5	2.2	1.9
Japan	1.9	0.9	1.1	0.5
United Kingdom	1.8	1.4	1.5	1.6
Canada	3.0	2.1	1.9	1.9
Other Advanced Economies 3/	2.8	2.8	2.5	2.5
Emerging Market and Developing Economies	4.7	4.6	4.5	4.9
Commonwealth of Independent States	2.1	2.4	2.2	2.3
Russia	1.5	1.7	1.6	1.7
Excluding Russia	3.6	3.9	3.7	3.7
Emerging and Developing Asia	6.5	6.5	6.3	6.4
China	6.9	6.6	6.2	6.2
India 4/	6.7	7.3	7.5	7.7
ASEAN-5 5/	5.3	5.2	5.1	5.2
Emerging and Developing Europe	6.0	3.8	0.7	2.4
Latin America and the Caribbean	1.3	1.1	2.0	2.5
Brazil	1.1	1.3	2.5	2.2
Mexico	2.1	2.1	2.1	2.2
Middle East, North Africa, Afghanistan, and Pakistan	2.2	2.4	2.4	3.0
Saudi Arabia	-0.9	2.3	1.8	2.1
Sub-Saharan Africa	2.9	2.9	3.5	3.6
Nigeria	0.8	1.9	2.0	2.2
South Africa	1.3	0.8	1.4	1.7

- Global GDP growth is expected to slow from 3.7% in 2018 to 3.5% in 2019, due to slowing growth in advanced economies
  - IMF projects US GDP growth to slowdown from 2.9% in 2018 to 2.5% in 2019 and 1.8% in 2020
- However, India's growth is expected to pick up from 6.7% in 2018 to 7.3% in 2019 and 7.5% in 2020
- Whereas, China's growth is projected to slow to 6.2% in 2019, from 6.6% in 2018

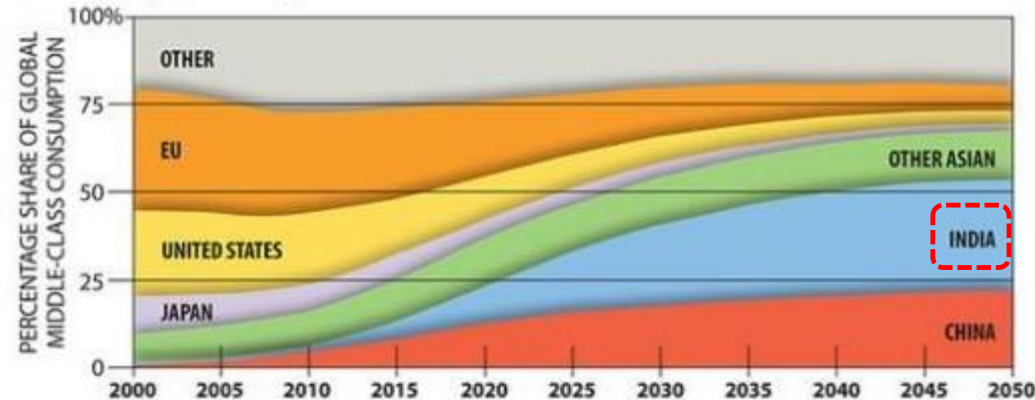
# India has a large working population, with growing consumer base

## India's Population Pyramid



Source: Census of India Projections, Ernst & Young

## Global Middle-Class Trend (in %)

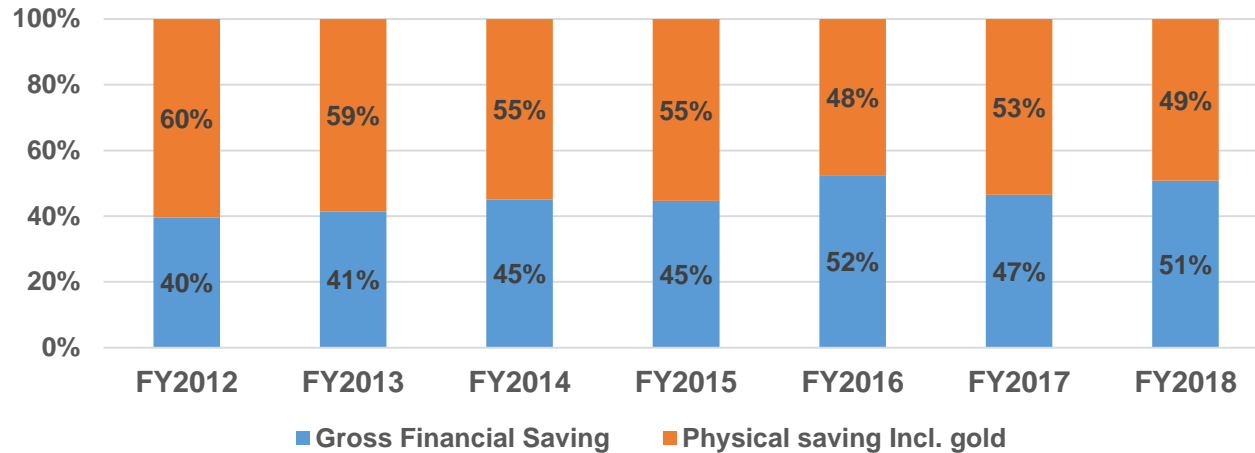


Source: OECD, World Economic Forum

- Relatively young population, with about 66% of its population under working age (15-64 Years)
- Much of work force is not employable
- Skilled manpower has been a challenge, in spite of several initiatives
- Middle class population growth is expected to accelerate
- India's middle class population is expected to surpass China
- Growing middle-class population to provide boost to domestic consumption

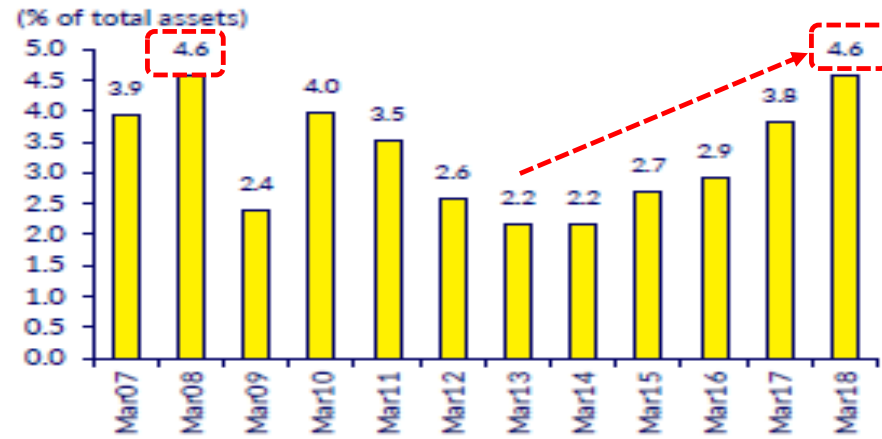
# India's households investments in financial assets is steadily rising

Financial savings rising in India households

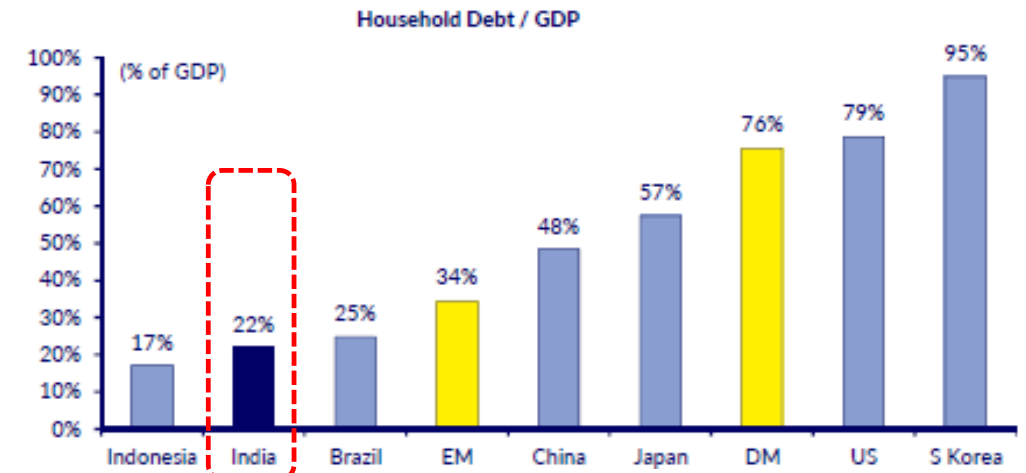


- For Developed economies, 60% of household savings is in financial assets. This indicates that there scope for further penetration of financial assets in India.
- Household debt at 22% of GDP is at comfortable level
- Flow into equity assets is rising but still small, on a relative basis

Equity assets share in household financial savings is improving



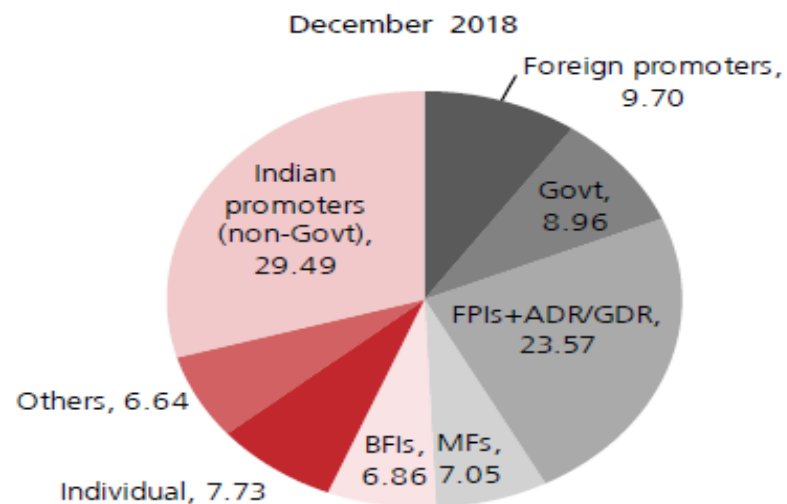
India's household leverage amongst the lowest globally





# FII's have one of the largest holding in Indian equities

Promoters have the largest holding of Indian equities, followed by FII's & MF



Source: Bloomberg, Kotak Institutional Equities, Prime Database

## Equity Flow data

Source: SEBI, BSE	Rs in Crore			
Year	Flls	Dlls	MFs	Insurance
FY2008	52,572	47,794	15,948	31,846
FY2009	(48,250)	60,040	6,962	53,078
FY2010	110,752	24,211	(10,235)	34,446
FY2011	110,121	(18,709)	(19,974)	1,265
FY2012	43,738	(5,347)	(1,384)	(3,963)
FY2013	140,032	(69,069)	(22,008)	(47,061)
FY2014	79,709	(54,161)	(21,069)	(33,092)
FY2015	111,445	(21,446)	40,087	(61,533)
FY2016	(14,171)	80,416	66,143	14,273
FY2017	60,196	30,787	56,209	(25,422)
FY2018	21,074	113,258	140,517	(27,259)
FY2019 (upto Feb)	(33,206)	86,045	95,127	(8,771)

- India has been favorite of Foreign portfolio investors with aggregate value of investments at about \$450 bln.
- In the last decade , FII's have been big buyers of Indian equities, although we have seen outflows over last year, in line with FII outflows from other peer emerging markets.
- DII's (esp. mutual funds) have become a strong counter-force to FII's in the past few years.



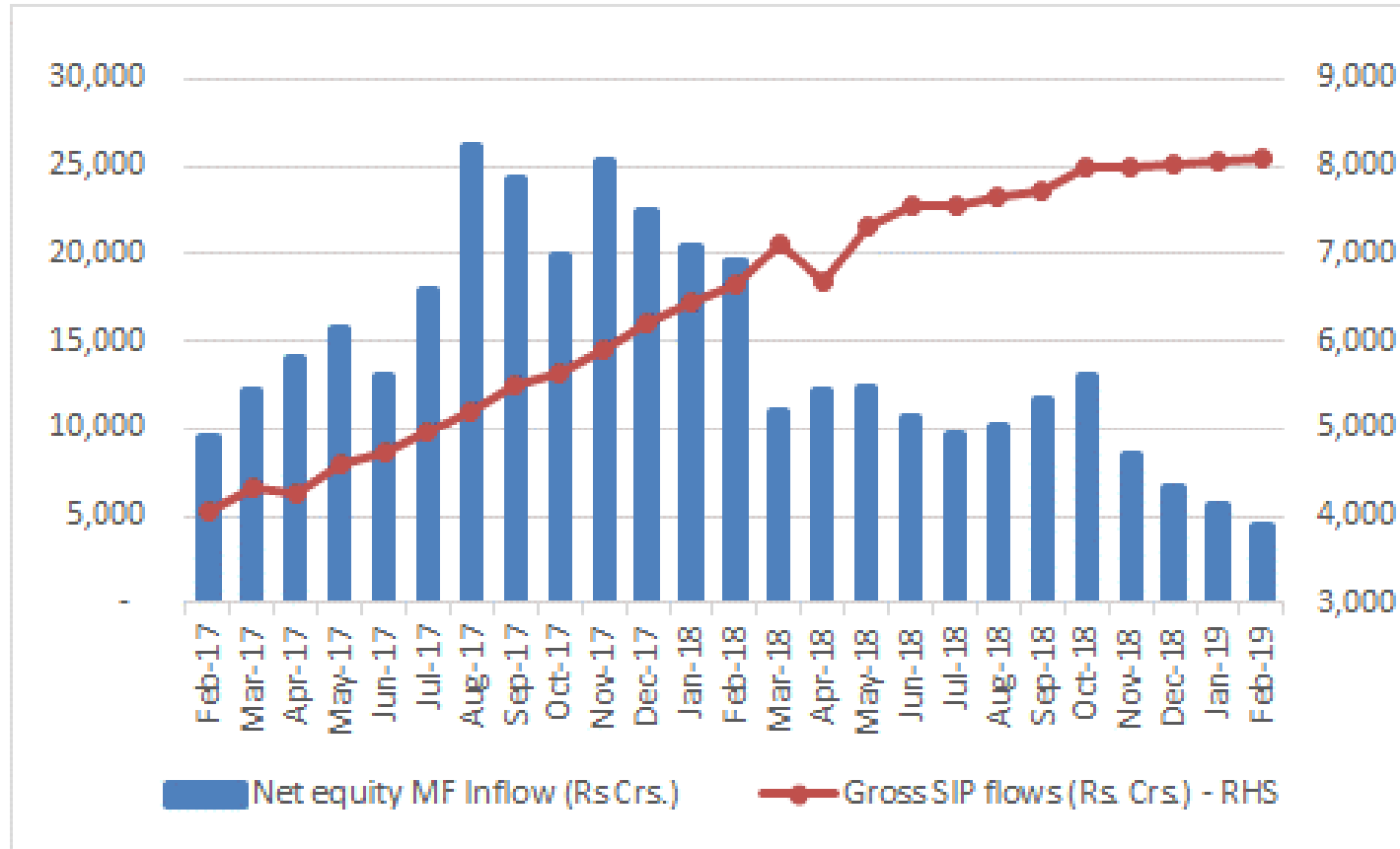
# FII's rate India better, due to its growth potential and high ROE

	AEJ funds (US\$95 bn)		EM funds (US\$405 bn)		Overall MFs globally* (~US\$1.8 tn)	
	Country	OW/UW allocation (in bp)	Country	OW/UW allocation (in bp)	Country	OW/UW allocation (in bp)
<div>OW</div> <div>↑</div> <div>↓</div> <div>UW</div>	India	475	Hong Kong	180	Hong Kong	30
	Indonesia	80	India	130	Singapore	15
	Singapore	70	Philippines	20	India	5
	Thailand	55	Indonesia	20	Philippines	0
	Philippines	35	Singapore	15	Thailand	-5
	Hong Kong	-65	Thailand	10	Indonesia	-10
	Malaysia	-140	Malaysia	-50	Malaysia	-40
	Taiwan	-175	Taiwan	-110	Taiwan	-115
	China	-410	China	-375	Korea	-200
	Korea	-450	Korea	-495	China	-310

Note: Overall MFs include AEJ, GEM and global-focused MFs (including ETFs) with an aggregate AUM of ~US\$1.8 tn; as of Dec '18

- Across different categories of foreign funds (Asia ex Japan, Emerging Market, Global) India has been a overweight (OW) market, relative to benchmark index.
- Offers diverse exposure.
- High Return on Equity (ROE) market, with a world class regulatory and trading system.

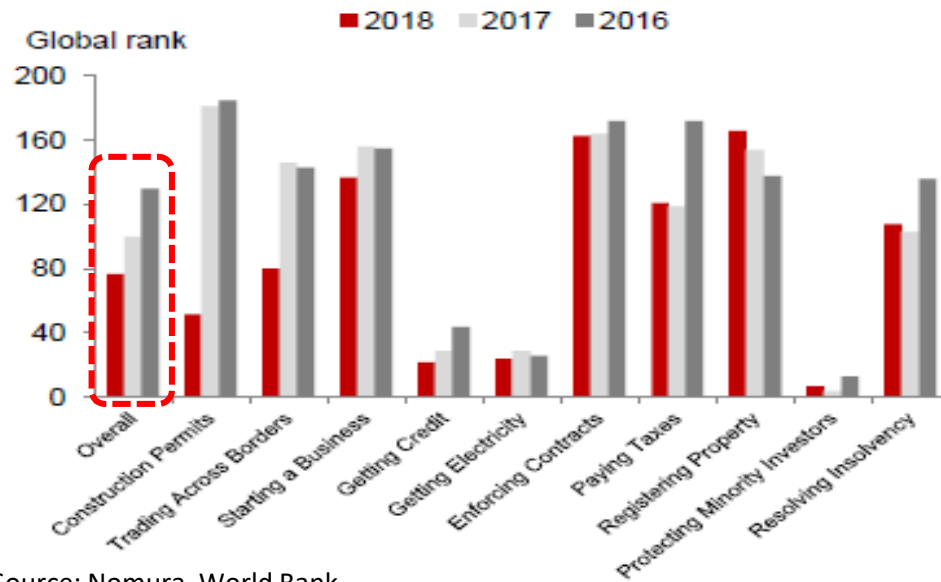
Domestic MF SIP flows have been growing, and are largely sticky in nature. MF lump-sum equity flows have seen some slowdown lately.



Source: AMFI. MF Equity flows include Equity funds, ELSS, 65% equity portion of balanced funds

# India's global ranking in "Ease of doing business" has improved considerably. FDI flows have been healthy.

## India's ranking in World Bank Ease of Doing Business

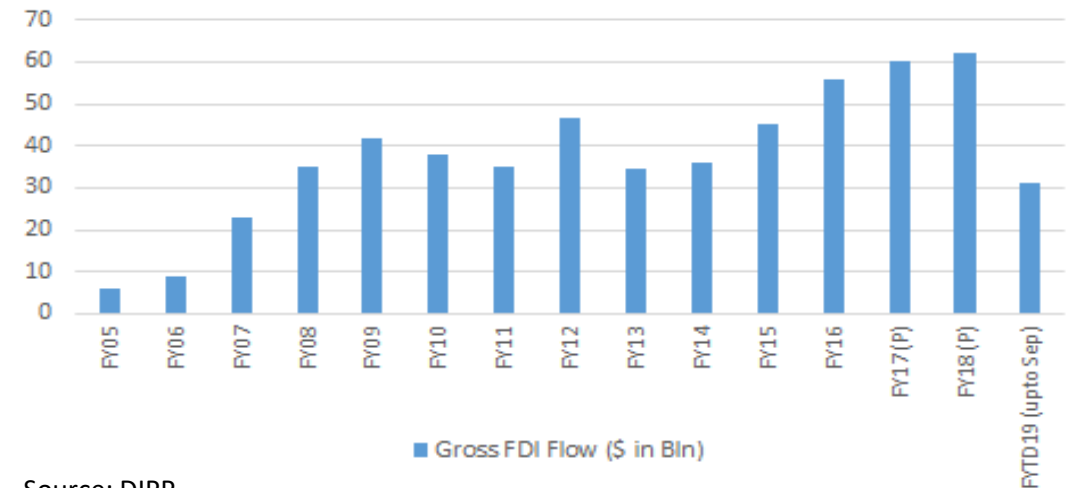


Source: Nomura, World Bank

- India has seen healthy pick-up in FDI flows over the past few fiscal years, but there has been some slowdown lately.
- Sectors receiving the highest FDI include Financial Services, IT (E-commerce) & Telecom.

- India's global ranking in World Bank "Ease of Doing Business" has jumped to a record high of 77 in 2018 (out of 190 countries), from 100 in 2017 and 130 in 2016.
- The biggest improvements (since the 2016 rankings) were seen in the categories of Construction Permits, Trading across borders, Paying taxes, and Resolving insolvency.

## Fiscal Year-wise Gross FDI Flows (\$ in bln)



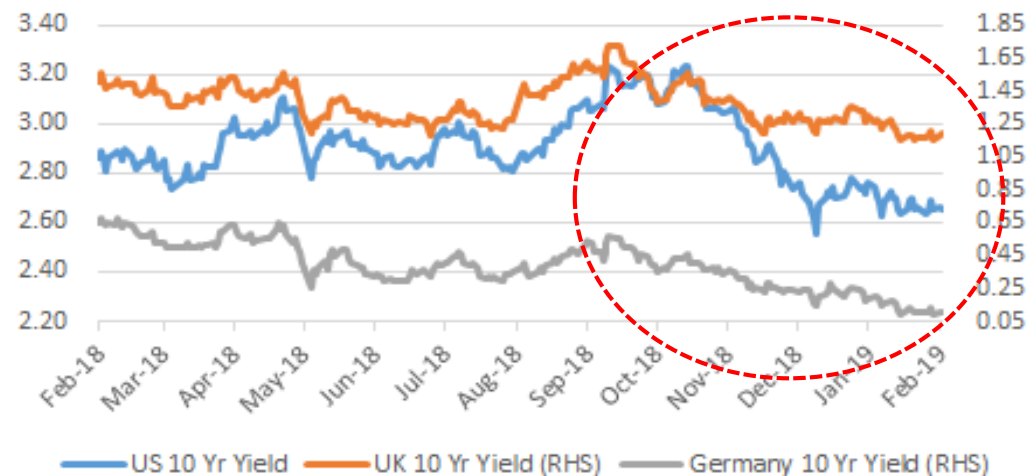
Source: DIPP

# US Fed & ECB stance has turned dovish lately - favourable for EM currency, yields and flows

US Fed Balance Sheet (USD in Million)



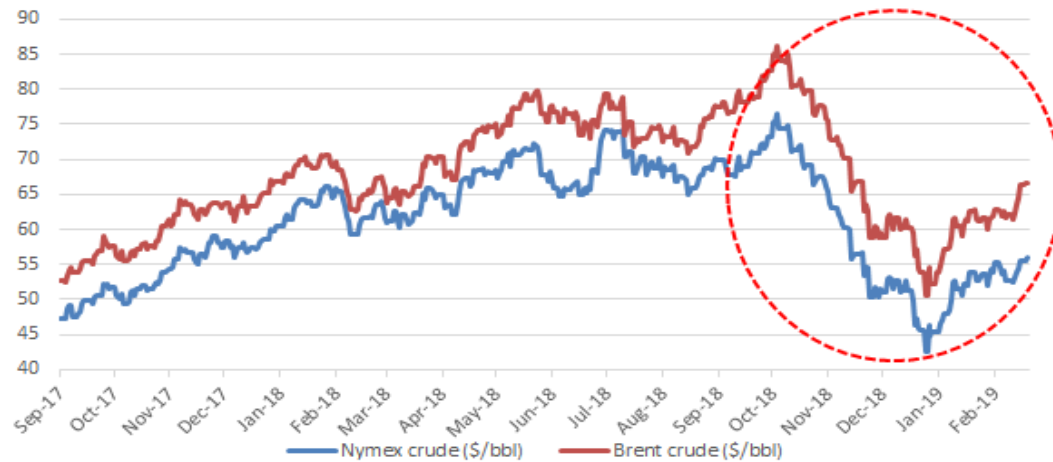
Global Bond Yields (%)



- US Fed turned dovish lately :
  - Interest rate projections cut in the Dec 2018 meeting
  - In Jan 2019 meeting, US Fed indicated that it :
    - ❑ will be “patient” on future adjustments
    - ❑ is prepared to adjust the pace of balance sheet normalization
- Recently in March 2019, European Central Bank (ECB) also turned quite dovish--cut inflation & growth forecasts, and said that interest rates would be unchanged through 2019.
- Substantial softening of global bond yields from 2018 highs
- Further dovishness in monetary policy of major global central banks will be beneficial for EMs (including India)
- Recently seen pick-up in foreign flows into EMs (particularly EM ETFs)

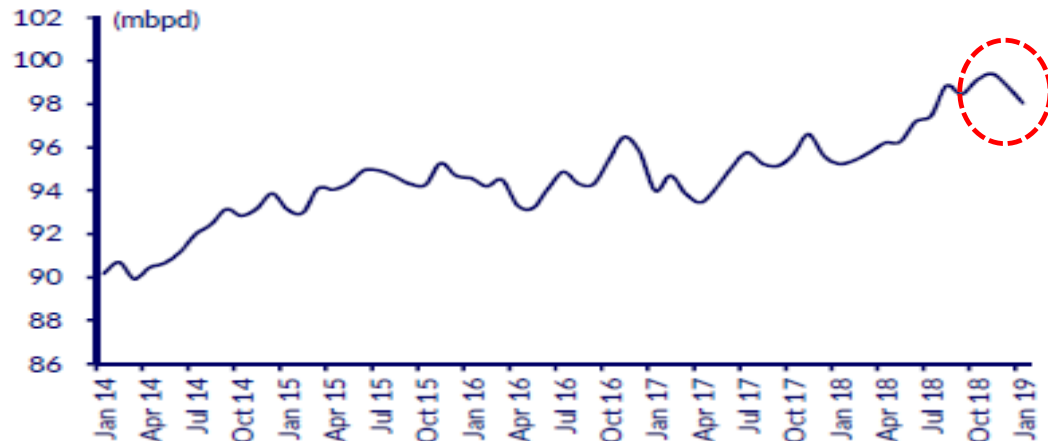
# Crude is softer than 2018 highs; helped to improve CAD & inflation outlook

After falling sharply, crude has rebound in 2019 due to supply cut



Crude supply cut from OPEC, although US increases production

## Global crude production



CAD (FY19) projected at ~2.3-2.5%; BoP expected to be negative

India Current Account Balance & Balance of Payments Trends (\$ bn)				
	FY17	FY18	FY19 (F)	FY20 (F)
Exports	280.1	309	333.1	351.4
Imports	392.6	469	516.3	547.2
<b>Trade Account</b>	<b>-112.4</b>	<b>-160</b>	<b>-183.2</b>	<b>-195.8</b>
% of GDP	-4.9	-6.2	-6.9	-6.7
Invisibles	98.1	111.4	121	130.4
% of GDP	4.3	4.3	4.5	4.5
<b>Current Account</b>	<b>-14.4</b>	<b>-48.7</b>	<b>-62.3</b>	<b>-65.4</b>
% of GDP	-0.6	-1.9	-2.3	-2.2
<b>Capital Account</b>	<b>36.4</b>	<b>91.3</b>	<b>42.7</b>	<b>77.1</b>
% of GDP	1.6	3.5	1.6	2.6
<b>Overall BOP</b>	<b>21.5</b>	<b>43.6</b>	<b>-19.6</b>	<b>11.7</b>

- India imports ~1.1 bln barrels per year, so a \$20/bbl fall in crude price will result in ~\$20 bln saving in import bill per year
- India is a large net oil importer, and oil imports account for ~80% of domestic oil demand & ~50% of merchandise trade deficit

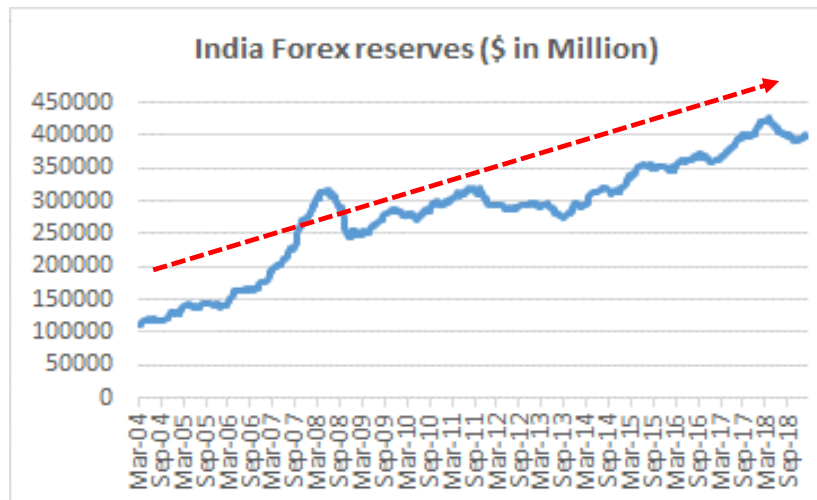
# INR has been one of the most stable currencies, amongst peer EM currencies, over the long term

Performance of Various Currencies against USD (in %, as of Feb 2019)			
Name	1 Yr	3 Yrs	5 Yrs
Thai Baht	-0.4	4.2	0.7
Hong Kong Dollar	-0.3	-0.3	-0.2
Taiwan Dollar	-5.1	2.6	-0.3
Yuan Renminbi	-5.3	-0.7	-1.7
Japanese Yen	-4.1	0.5	-1.7
Swiss Franc	-5.1	0.0	-2.4
<b>Indian Rupee</b>	<b>-8.4</b>	<b>-1.3</b>	<b>-2.7</b>
Philippine Peso	0.7	-2.8	-2.9
Indonesian Rupiah	-2.3	-1.7	-3.8
Euro	-6.6	1.6	-3.8
Malaysian Ringgit	-3.7	1.1	-4.2
Australian Dollar	-8.7	-0.1	-4.5
Pound Sterling	-3.5	-1.5	-4.5
South African Rand	-16.0	3.9	-5.2
Pakistan Rupee	-20.2	-8.9	-5.4
Brazilian Real	-13.4	2.0	-9.0
Russian Ruble	-14.6	4.4	-11.4
Turkish Lira	-28.6	-17.9	-16.2
Argentine Peso	-48.4	-26.4	-27.4

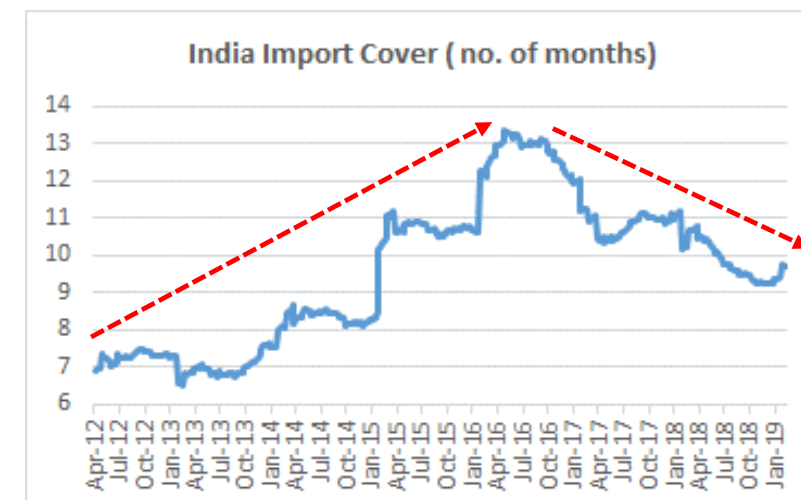
Source: Morningstar Direct. Data sorted on the basis of 5 Yr Return.  
Returns greater than 1 year are CAGR

- INR is stable due to healthy Forex reserves of \$400 bn, with import cover of 9-10 months
- Rupee has been among the most stable currencies (among EM peers) over the long term (5 years)
- Vulnerability to global trade is less, as compared to most other emerging markets – India's exports are only ~18-20% of GDP
- Political stability, benign macros (low inflation, stable growth) augur well for Rupee in the near term

## FX reserves have seen healthy growth



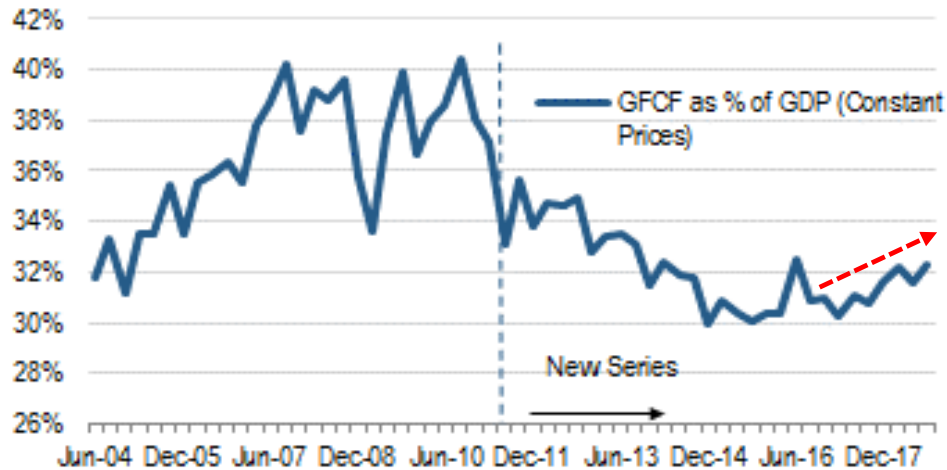
## Import Cover had risen post Fed Taper Tantrum in 2013, but has fallen lately



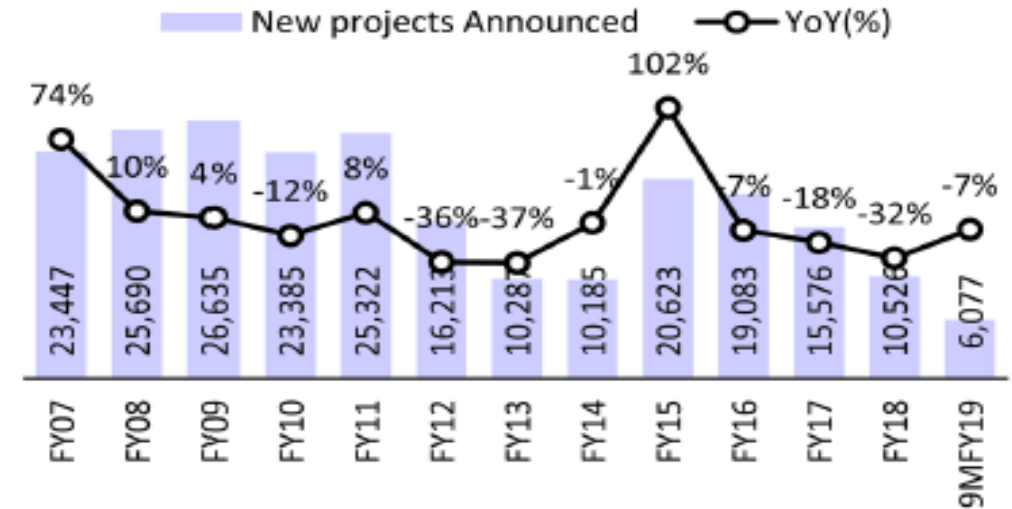


# Capex cycle seems to be bottoming out, recovery to accelerate post general elections

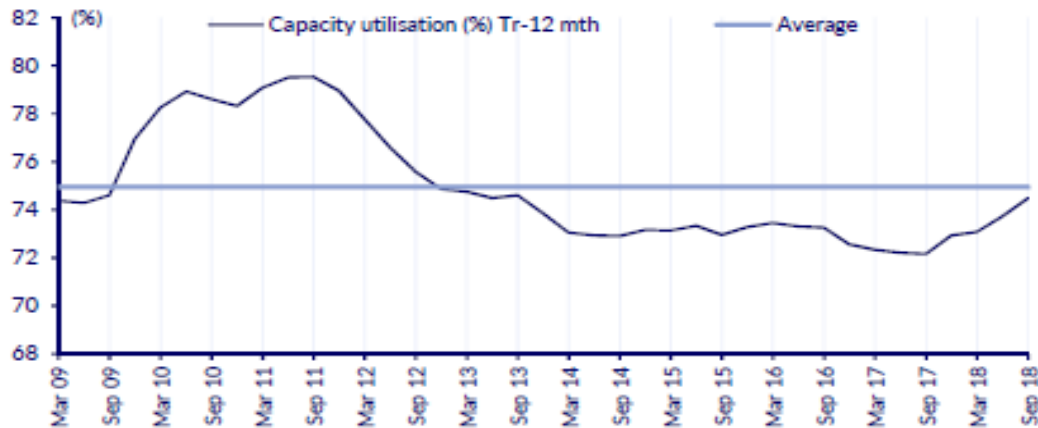
## Gross Fixed Capital Formation as % of GDP bottomed out



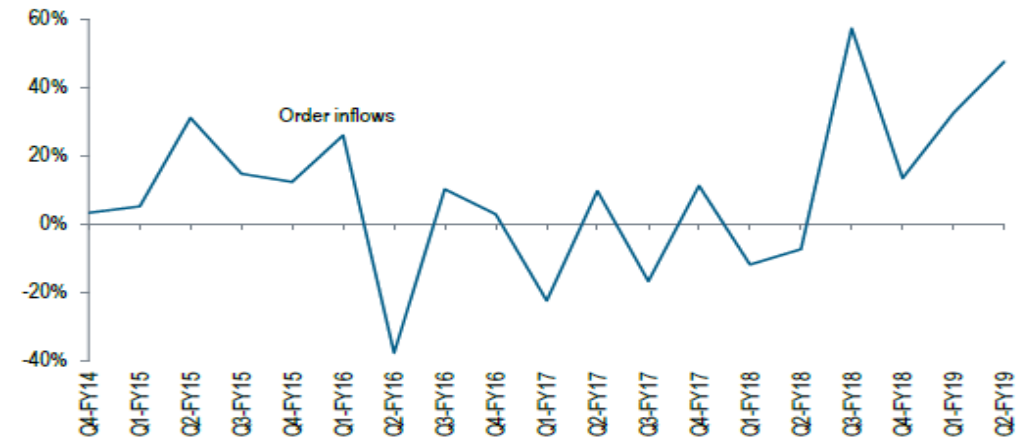
## New Project Announcements still lackluster & growth in negative



## Industry Capacity Utilization Rate showing signs of recovery



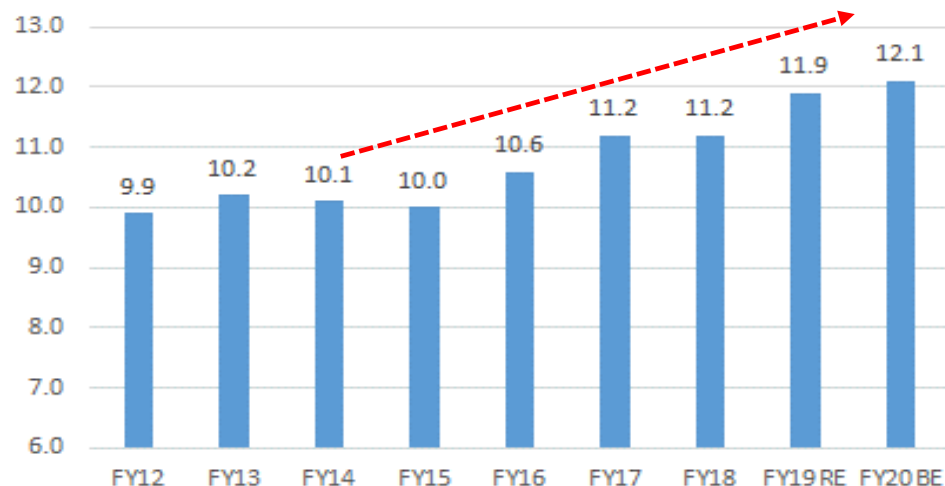
## Order inflows of large industrial companies\* picking up



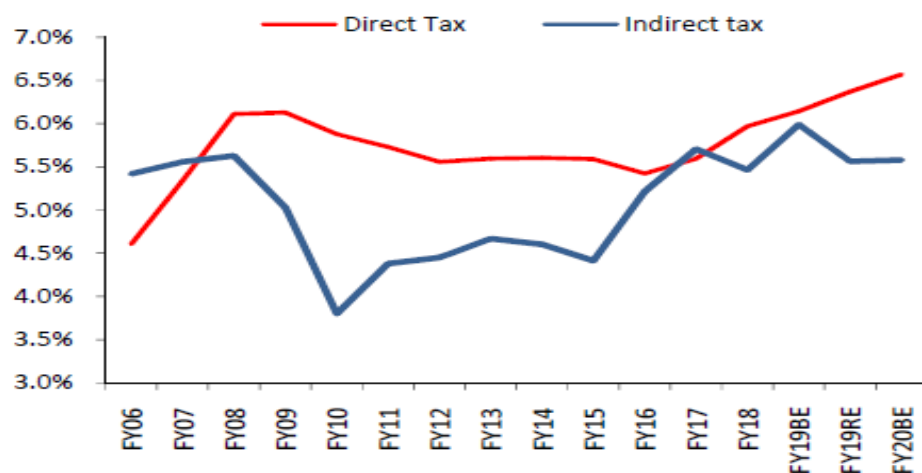


# Tax buoyancy & compliance increasing in India

## Tax to GDP ratio Trend

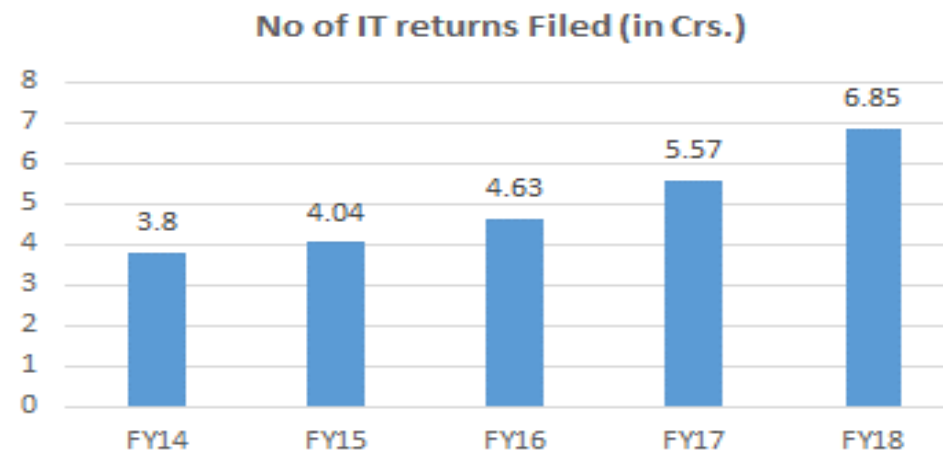


## Direct & Indirect Tax Trend (% of GDP)



- Tax to GDP ratio rising steadily over the past years
  - The contribution of direct taxes has been increasing over the past few years, as indicated by direct tax as % of GDP
  - Indirect taxes have seen some slow-down due to lower than budgeted GST collections in FY19. With teething issues getting resolved and tax compliance expected to rise, it should improve going forward
- Number of IT returns filed has been increasing – indicating increasing tax compliance

## Income Tax Returns Filing Return Trend



# Markets, Valuations & Earnings

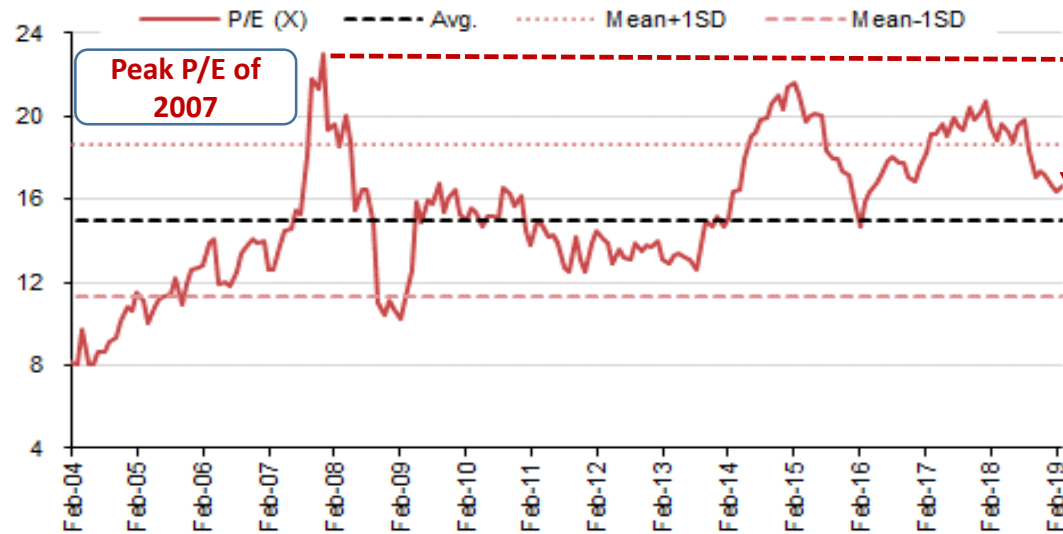
## Amidst the correction in global markets, India has fared relatively well

Performance of International Indices (ended Feb 2019, in %)					
Index Name	Country / Region	1 Yr	3 Yrs	5 Yrs	10 Yrs
BOVESPA	Brazil	12.0	30.7	15.2	9.6
<b>Nifty 50</b>	<b>India</b>	<b>2.9</b>	<b>15.6</b>	<b>11.4</b>	<b>14.6</b>
S&P 500 PR	United States	2.6	13.0	8.4	14.2
Nikkei 225	Japan	-3.1	10.1	7.6	10.9
Shanghai Composite	China	-9.8	3.0	7.4	3.5
JSX Composite	Indonesia	-2.3	10.5	6.9	17.5
Hang Seng	Hong Kong	-7.2	14.4	4.6	8.4
MSCI World PR USD	World	-1.5	10.5	4.5	10.8
FTSE SET All Share	Thailand	-9.5	7.2	4.2	14.7
MSCI AC Asia Ex Japan PR USD	Asia ex Japan	-10.3	12.6	3.9	9.9
TSEC TAIEX	Taiwan	-3.9	7.3	3.8	8.6
CAC 40	France	-1.5	6.4	3.5	6.8
FSE DAX TR	Germany	-7.4	6.6	3.5	11.6
S&P/ASX 200	Australia	2.5	8.1	2.7	6.3
KOSPI Korea	South Korea	-9.6	4.6	2.1	7.5
MSCI EM PR USD	Emerging Markets	-12.1	12.4	1.7	7.7
FTSE 100	United Kingdom	-2.2	5.1	0.8	6.3
FTSE/SGX STI	Singapore	-8.7	6.4	0.6	7.3
RTSI PR USD	Russia	-7.6	15.6	-1.3	8.1
FTSE Bursa Malaysia KLCI	Malaysia	-8.0	1.1	-1.4	6.7
Source: Morningstar Direct. Returns are in local currency of index, and returns greater than 1 year are CAGR Date sorted on the basis of 5 Years return in descending order					

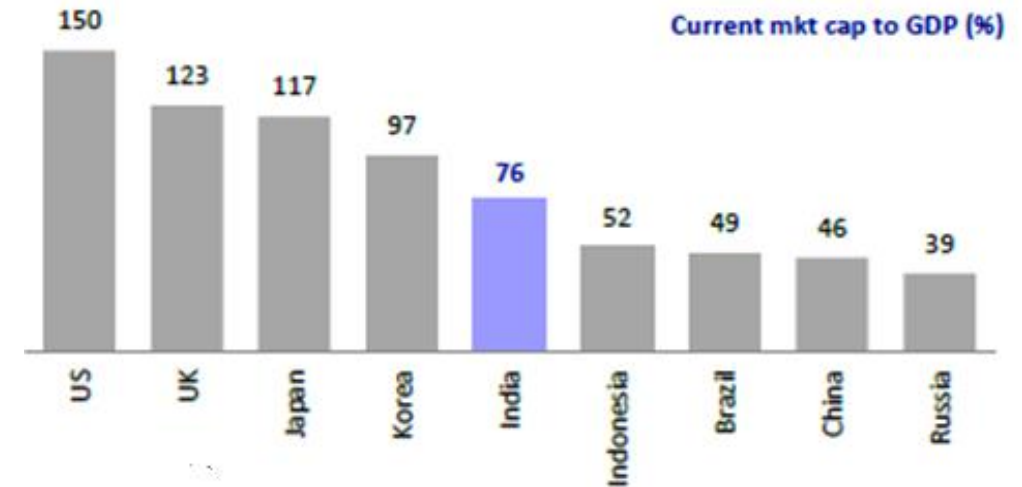
- Despite correction in global markets in 2018, India has been one of the top performing markets in 2018
- Over the long term (5 years) too, India has been one of the top performing markets globally
- India's valuations premium to emerging markets remains

Market Fwd P/E has become more reasonable after the correction, and still quite far away from the peak P/E of 2007. Market Cap to GDP ratio also reasonable.

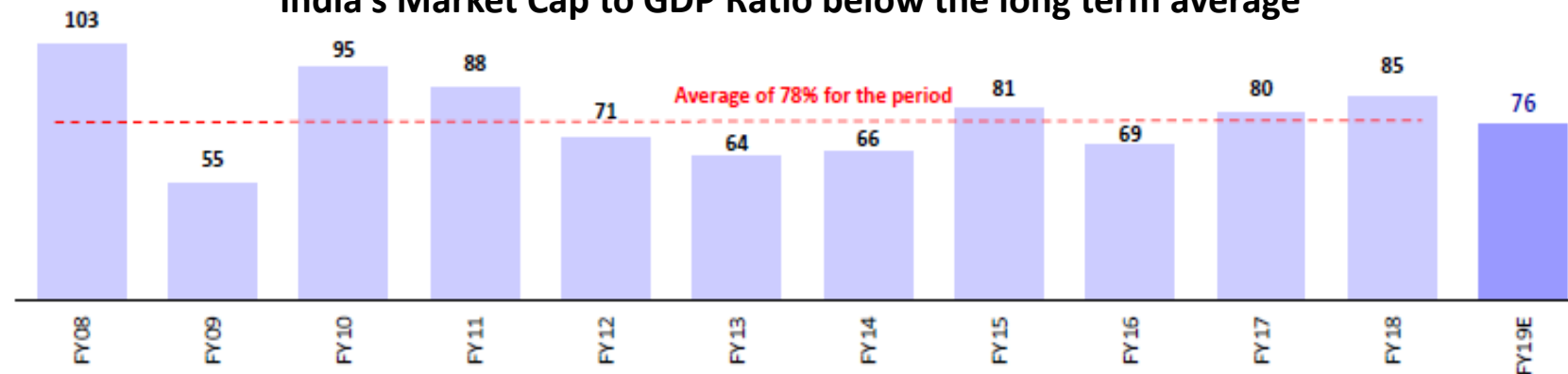
Nifty 12-month Forward PE (x)



India's Market Cap to GDP Ratio below or comparable to that of peer countries

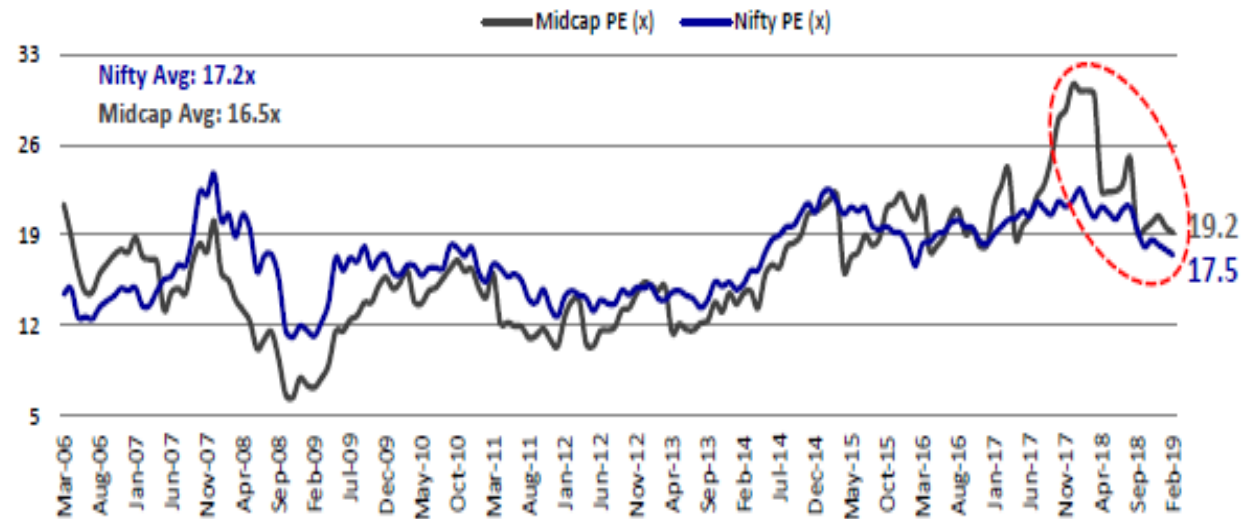


India's Market Cap to GDP Ratio below the long term average

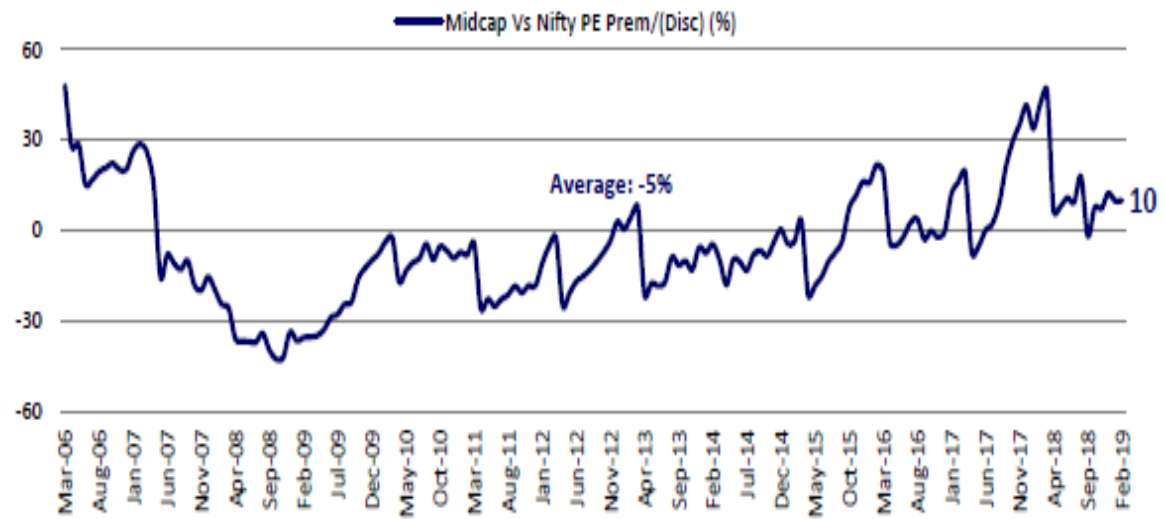


# Midcap companies have seen their valuation premium compress, after the correction

12-month Forward PE of Nifty Vs Midcap Index (X)



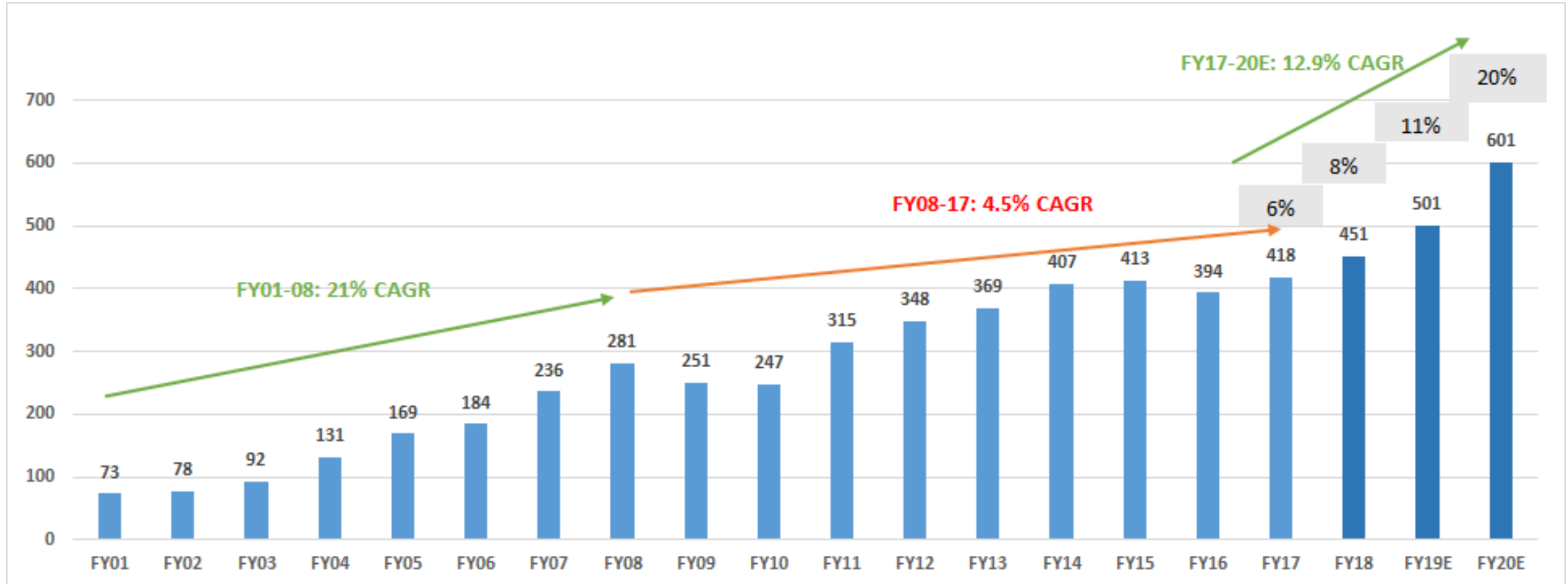
Midcap Vs Nifty Premium (in %)



Source: Bloomberg, Motilal Oswal

# Corporate earnings growth expected to accelerate in FY20, after subdued growth over the past few years

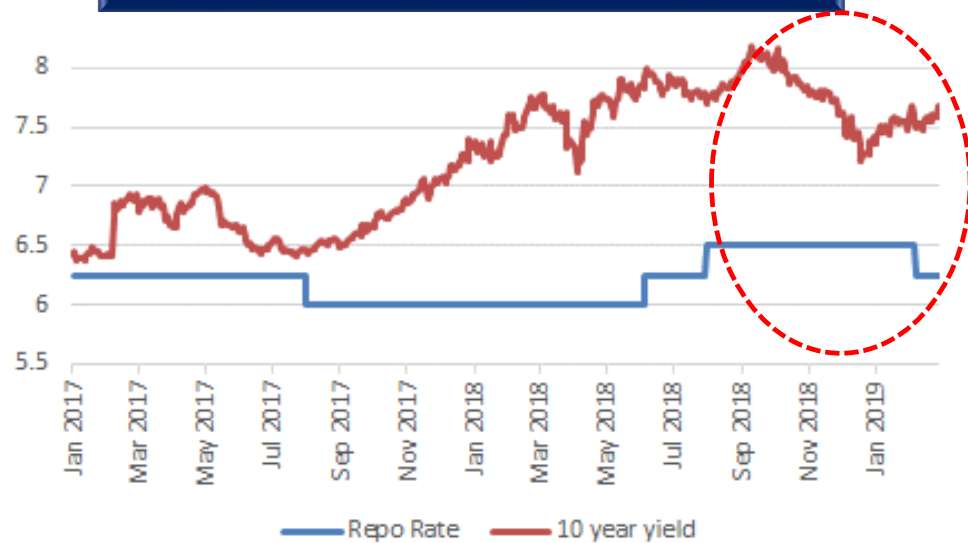
## Nifty Earnings Per Share (EPS) Trend



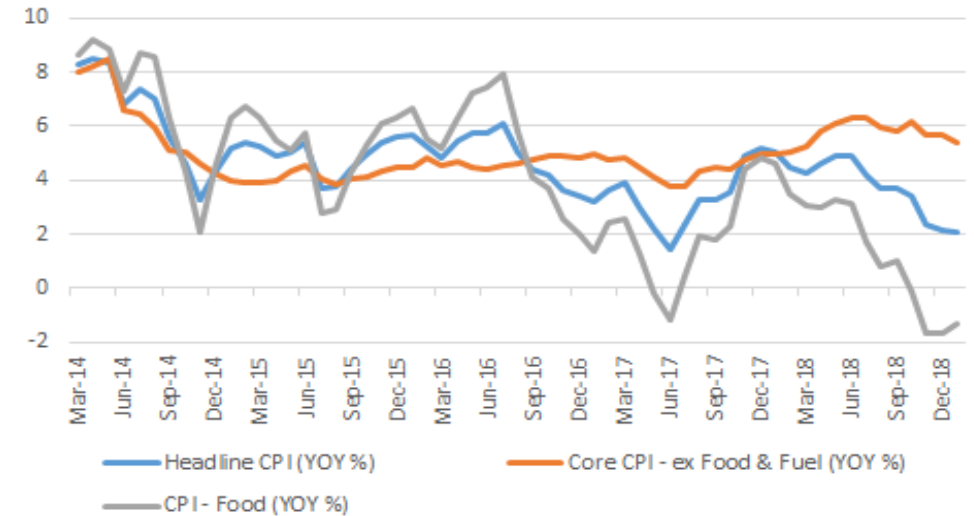
Source: Bloomberg, Bajaj Allianz Research

# Debt markets: RBI turns dovish on inflation; bonds yields softened in late 2018

India 10 Yr G-Sec Yield Vs Repo Rate (%)



India CPI & Components Trend (YoY %)



Source: Bloomberg

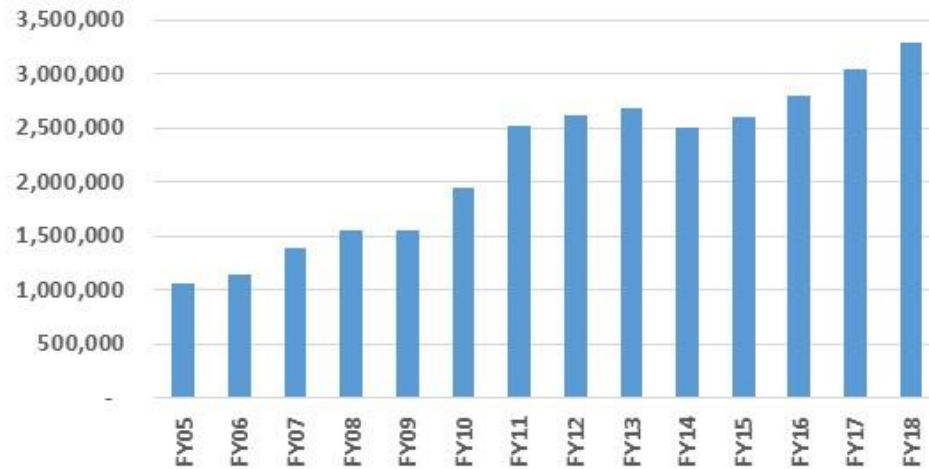
- The 10 year bond yield (old) had softened considerably in late 2018, and in 2019 hardened a bit to around 7.6% at the end of Feb 2019.
- Government bond yields to remain soft due to
  - Lower inflation: Headline & food inflation has fallen considerably and likely to remain low.
  - **RBI turned dovish**, cutting its inflation forecasts. Further rate cuts expected, and will be data dependent.
- Corporate bond spreads to remain elevated due to risk aversion due to recent credit crisis, We presently prefer the shorter to medium term part of yield curve.



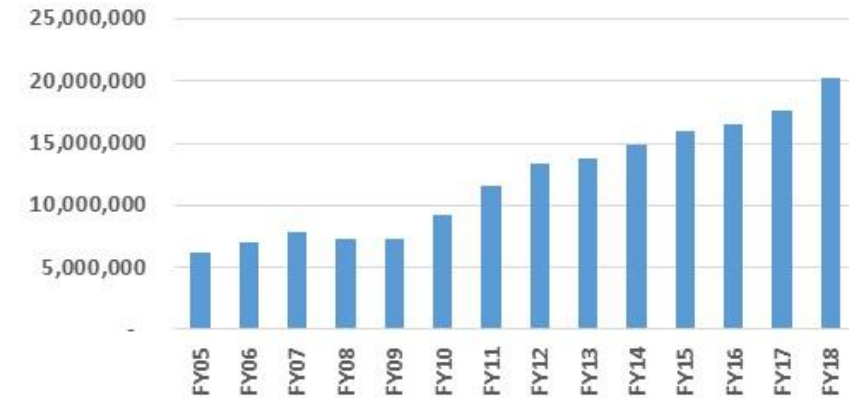
## Key long term sector trends

# Consumption has been a secular story in India, and is expected to continue

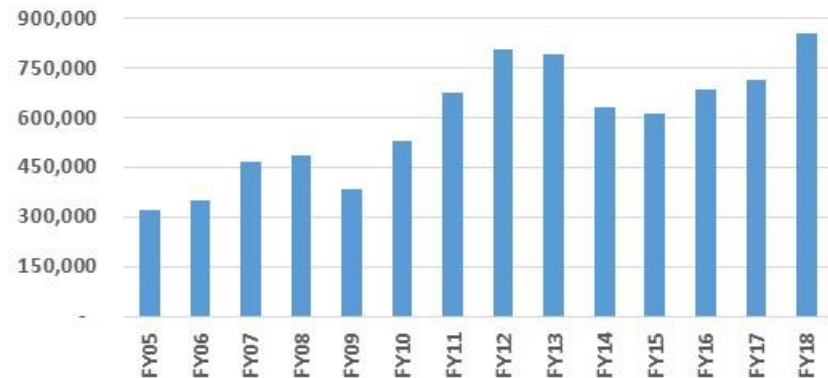
Passenger Vehicle sales vol has grown at a CAGR of 9.1%



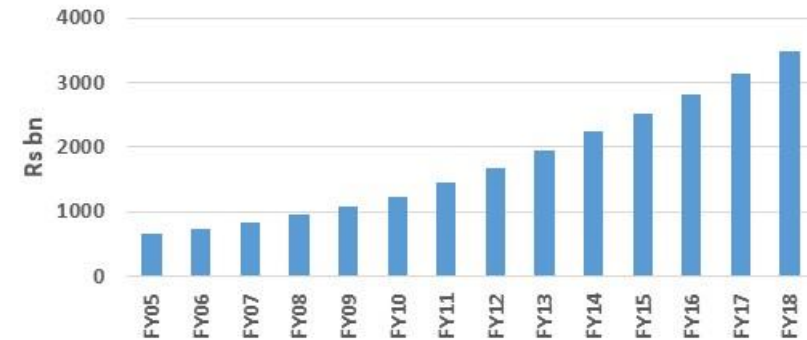
2-wheeler sales vol has grown at a CAGR of 9.6%



Commercial vehicle sales vol has grown at a CAGR of 8%

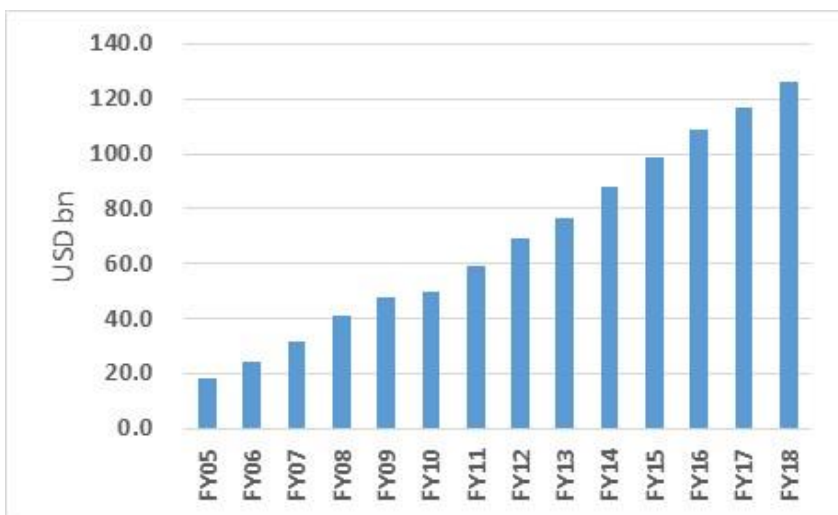


FMCG sales have grown at a CAGR of 13.5%

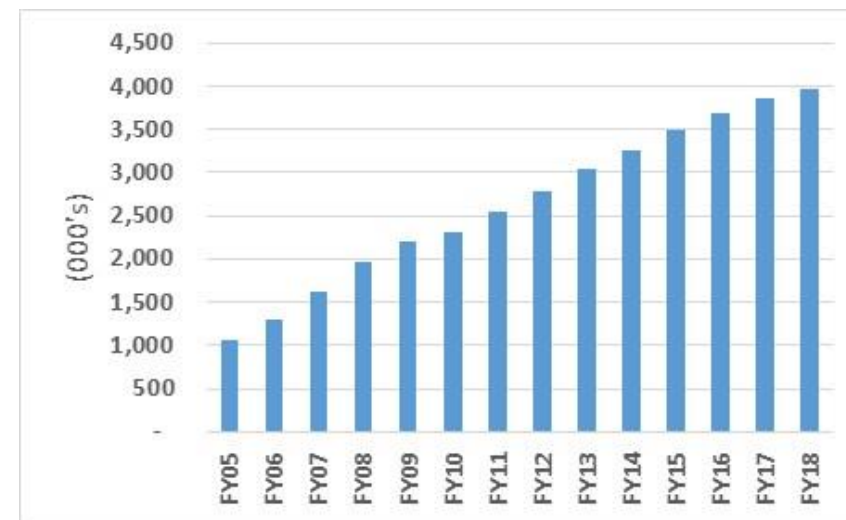


# IT and Pharma have given India recognition in the International market

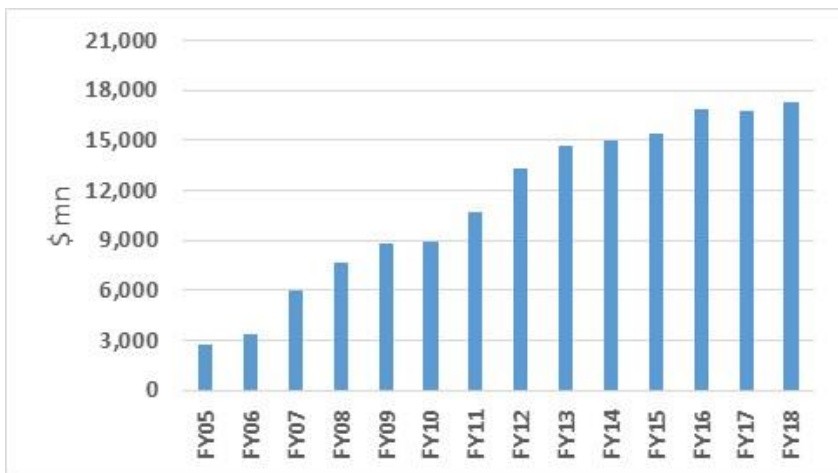
IT exports have grown at a robust CAGR of 16%



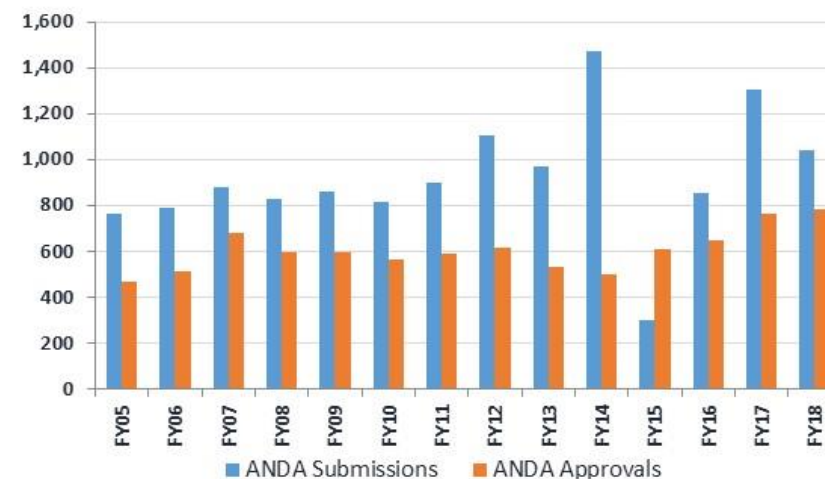
IT sector employee addition has been strong, CAGR of 10.7%



Pharma exports have grown at a CAGR of 15.1%

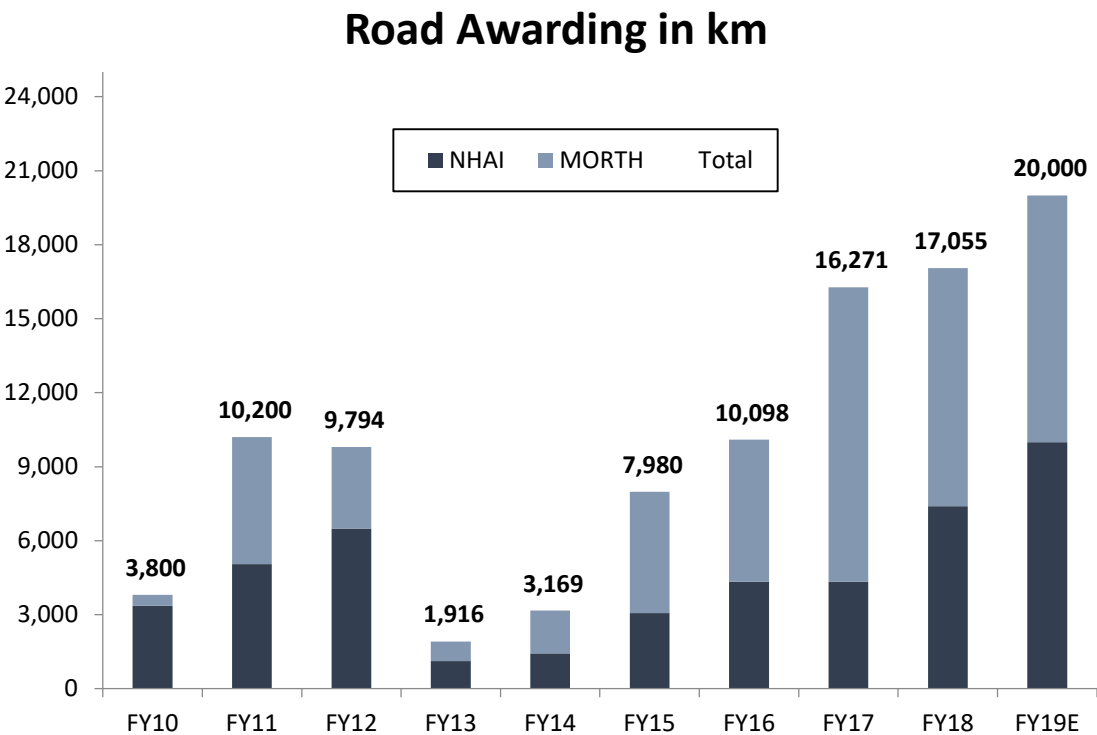


ANDA\* submission and approvals in US are consistent and growing

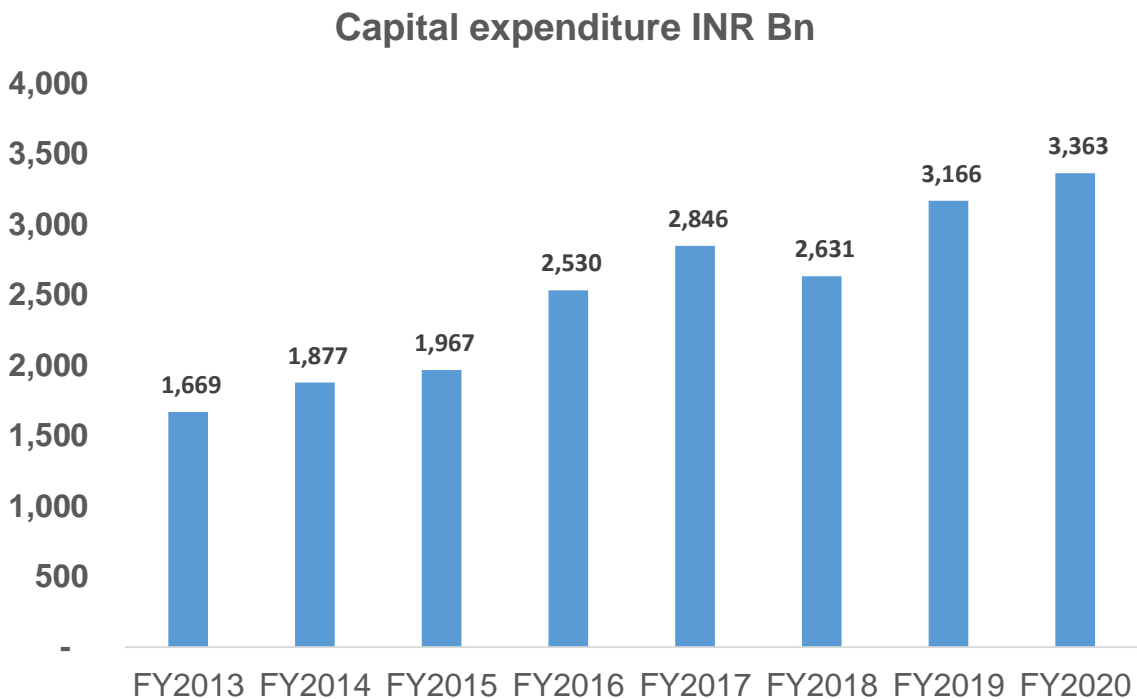


# Capex growth fuelled by public spending; road sector has seen robust growth

Road awarding increased by 6x in last 5 years

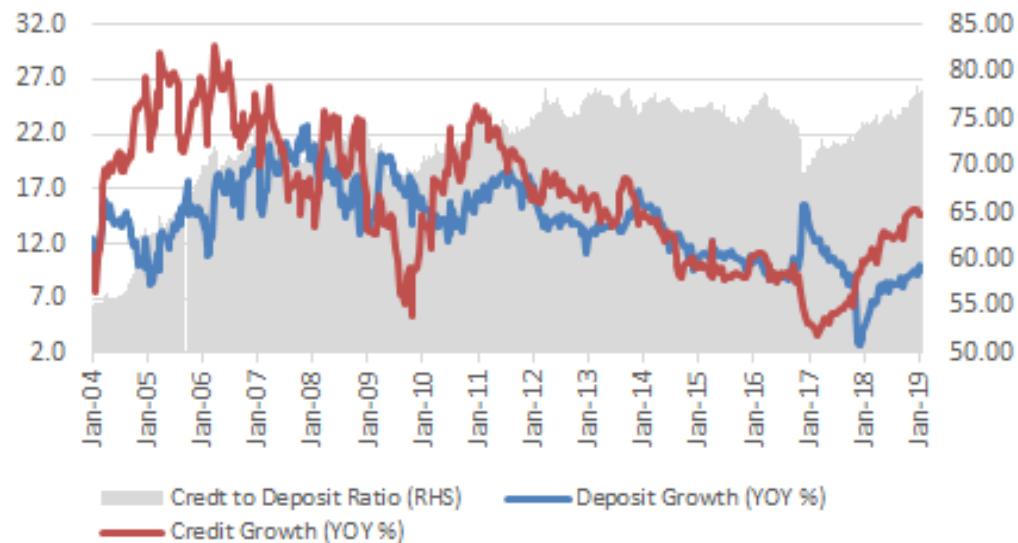


Capex increased at CAGR 9.5%

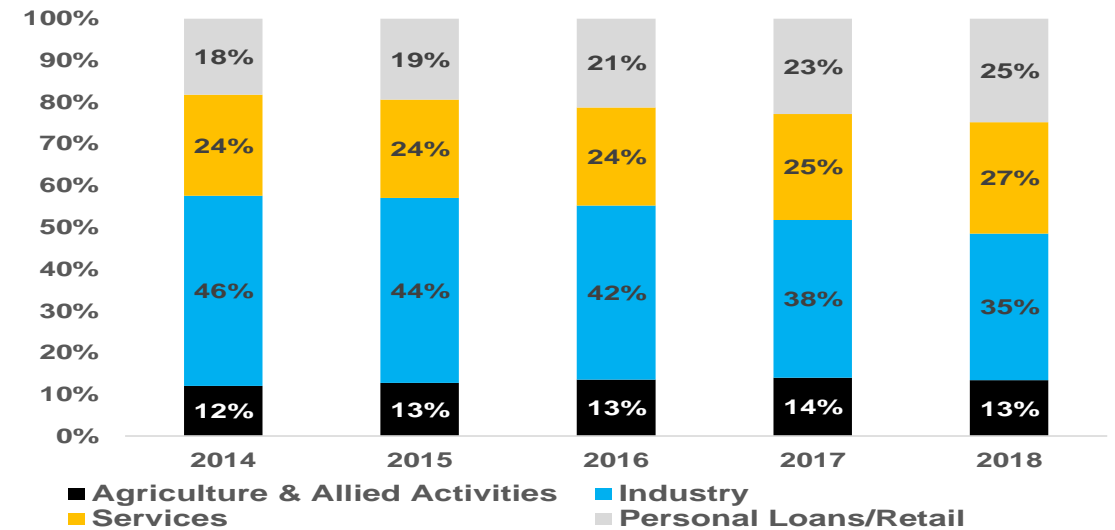


# Banking Sector is on a road to revival, with most of the asset quality issues behind us

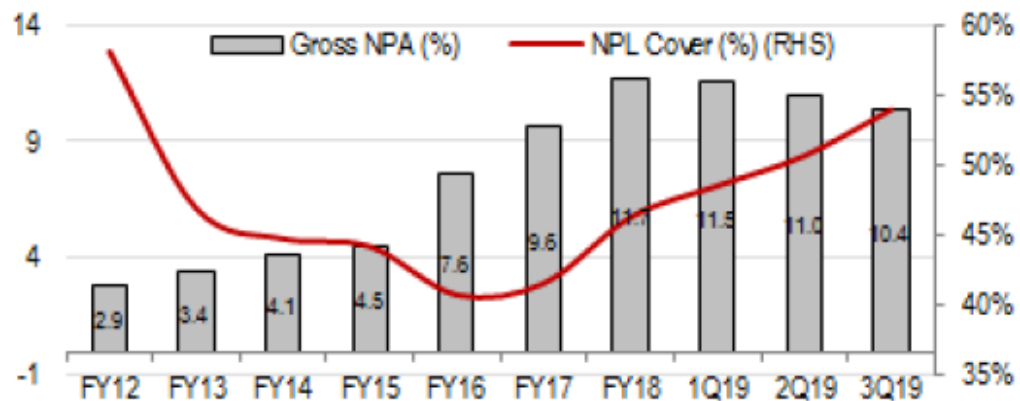
Credit growth picking up, C/D ratio elevated



Credit to industry remains weak, growth is driven by retail loans



Bank NPAs start to moderate & NPA coverage also improving



- IBC- Insolvency & Bankruptcy Code, is an important reform for the sector
- Recapitalization of PSU banks is helping PSU banks to exit Prompt Corrective Action (PCA)—will help to aid credit growth
- NPA cycle is largely behind us
- Credit to industry may revive in FY20

# Market Outlook

## Key factors guiding the market in the near term & Outlook

- Domestic markets have been quite narrow over past year. Broader markets have corrected meaningfully, while few heavy-weights in the Nifty are keeping the headline index up.
- We expect FY20 to witness an acceleration in corporate earnings growth.
- Inflation remains in check (will put less pressure on bond yields). GDP growth is bottoming out, and is expected to pick up.
- Post the correction in mid caps and small caps, attractive bottom-up investment opportunities have emerged. Although we are more positive on large-caps from a risk-reward perspective, some allocation can be considered in mid-caps by long term investors.
- Investors can continue to systematically invest in equities to benefit from India's long term growth story.
- Eye needs to be kept on the extent of global growth slowdown, and its impact on global risk appetite, as it will have an impact on Indian markets as well. That being said, the recent dovish tone of major central banks will be beneficial for EM flows & currencies.
- Developments on US-China trade tariffs also needs to be tracked.



# THANK YOU

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