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Sundaram Alternates – Strategy Note

Decisive mandate…political stability…positive for India growth & India equities.

With BJP sweeping Hindi heartland in India, the scenario for 2024 general assembly elections looks biased towards pro-incumbency. Decisive mandate for third term to Mr. Modi can lead to not just policy stability, but also acceleration. This can result in pro development spending against social spending over the next 5 years, which can propel a strong domestic economic growth rate. India becoming a $7tn economy by 2030 may not remain a difficult target to achieve. India's dream of becoming third largest economy globally looks achievable much before 2030.

We expect FII flows to turn positive, they have been net sellers for some period. Interest rates seem to have peaked out, oil is back to $80, and inflation is manageable. So emerging markets can see higher inflows and India will be at the forefront.

We can expect an upswing in investment to GDP ratio supported by both public and private capex. Corporate capex will continue, despite global recessionary fears, given domestic demand and government spending, leading to decent consumption growth. Make in India, import substitution, global supply chain de-risking, domestic demand growth trends and pollution control related capacity limits globally will favor a sustainable growth in manufacturing sector in India. Indian corporates will now commit more capex, given political and policy certainty. The low leverage of the corporate balance sheet and healthy profit cycle will provide significant impetus to growth capex.

Domestic demand was weak, except in luxury and premium space over last 1 year, due to inflation. With inflation worries behind us and domestic growth continuing, we expect a broad-based domestic consumption recovery. We are structurally positive on urban consumption. The number of Upper middleclass income households will almost double by 2030, with growing per capita income. These households will spend a disproportionate part of their income on healthcare, education, shelter, mobility, travel, dining, entertainment, etc. Online penetration in many of these segments will be meaningful.

With both investment and consumption growing together, the credit to GDP ratio will move from 50% to 75% over the next decade. With rising per capita income more people become bankable, and formalization of lending will happen at an accelerated pace over the next 10 years. With low leverage and increasing capacity utilization corporate borrowing will accelerate meaningfully. We see low to mid-teens credit growth continuing over the next 10 years. Banking space looks attractive for investment structurally.

Given the above view, our approach of playing India growth story by investing in structural themes like 1. Manufacturing 2. Discretionary consumption and 3. Financial inclusiveness look compelling with the recent development on political side in India.

Source: In-house

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