

Goldman Sachs The Markets
Is India still attractive for investors?
Hiren Dasani, co-head of Emerging Markets Equity,
lead portfolio manager of India Equity Strategies,
Asset & Wealth Management, Goldman Sachs
Chris Hussey, Host
Recorded: June 6, 2024

Chris Hussey: The Indian markets have had a wild week as investors struggle to make sense of election results in the most populous country. So, what's behind the volatility and is the India growth story intact? This is The Markets.

I'm Chris Hussey with Goldman Sachs Research and I'm joined by Hiren Dasani, co-head of Emerging Markets Equity and lead portfolio manager of India Equity Strategies for Goldman Sachs Asset Management.

Hiren, thanks for taking the time on what must be a very busy week for you.

Hiren Dasani: Thank you so much, Chris. Happy to be here.

Chris Hussey: We've seen day after day of sharp moves. One day the market's down 6 percent. The next day, the

market's up 3 percent. This is usually a sign that something surprised the markets and that surprise, I think, was the elections. Walk us through it. What happened in the elections? Why are people so surprised?

Hiren Dasani: Yeah, so it was expected that Prime Minister Modi and his party BJP would get a clear majority on their own for the third term. For the benefit of listeners, India 543 seats Parliament, prior Parliament, Modi's party had 300+ seats. It was expected by the exit polls that you would get a similar number of seats. And based on that, the markets were very strong on Monday.

Obviously, the actual results turned out to be somewhat weaker. Modi's party has still the absolute highest number of seats at 240. But to reach to the midway mark of 272, they do need support of some of the smaller regional parties who form the coalition.

So, obviously, markets reacted negatively because they were positioned for absolute majority by BJP. But as the dust settled on the next day, markets recovered very quickly because it seems that Prime Minister Modi would still be the PM for the third term. And it would still be a

stable government over the next five years.

So, as market gains more confidence about the policy continuity, they are rebounding back.

Chris Hussey: Is the big concern here around India that there could have been some policy shift that wouldn't be as market friendly? Or was it just the uncertainty of it all?

Hiren Dasani: I think it was less about the uncertainty and more about the policy shift. If there was a change in the government, if you look at India over the last 30 years, there have been various shades of government, coalition governments between '90 into 2014. Absolute majority by a single party over the last ten years. And we are going back to the coalition era.

Having said that, we have never seen in the last 30 years, I repeat, never seen any U-turn of the policies. So, irrespective of the party in the power, the general tone of the policy is opening up of the economy, more inviting investments, more FDI spend [?], So forth.

So, the big reforms over the last ten years - tax

rationalization, inflation targeting, all of them are going to stay.

Chris Hussey: All right, so you mentioned a couple of things like tax reform and having a business-friendly environment over the last 30 years as we've had a continuity of policy. But round that out for our listeners. You know, what is that long-term India growth story? You say it's intact. Why are you so confident?

Hiren Dasani: So, long-term growth story is irrespective of politics. And that is driven by demographics, 27 - 20 years of average age, consumption going up, per capita income of more 2,500 dollars, and we keep growing in high single digits on a per capita basis, and premiumization, as well as this whole newfound, I would say, competitiveness of manufacturing by India. Historically, it was all about service and consumption. Now we are also seeing that India is becoming more competitive in manufacturing in a world where multinational companies are trying to diversify their supply chain.

So, to put that all into the numbers, if you look at India market returns, are in double digit dollar terms over the

last 30-year period. And those market returns have broadly come from the earliest growth. But nominal GDP grows at about 10 to 11 percent. That yields to corporate earnings growth of about 10 to 11 percent. And that leads to the market returns of about 10 to 11 percent over a period of time. And that story very much remains intact. We don't see any kind of big division from that.

One last point I would make is that currently we are in that phase of the economic cycle where earnings growth is much faster than the nominal GDP because profitability of the corporates is improving. So, as a result, the markets are even looking better because of the faster earnings.

Chris Hussey: Yeah. That's a great point. Nominal earnings grow at 10 or 11 percent, you're going to get a pretty good fast-growing market over a long period of time there.

Talk to us a little bit about positioning now, if you can, because, you know, India is one of the most populous countries in the world. So, you would think there would be a retail domestic investor. But I imagine the foreign investor has come in pretty hard as well. How is that

investor changing over the course of time here in India?

Hiren Dasani: This is the surprising element to most of the people. Foreign ownership of Indian equities today is at the lowest point in the last ten years. Not in the highest point. It's about 20 percent of the market is owned by the foreigners. And this is at the lowest number in the last ten years.

If you look at year to date, those foreigners are net sellers. The market has been driven almost entirely by the domestic flows. There is a big shift happening in India where the financialization of the household savings is happening. And that is leading to more and more flows from the retail individuals, as well as households investing into the mutual fund type of vehicles. And that is what is driving the market.

And this is very sticky money with home buyers. So, that is what is driving the market in the absence of foreigners. Foreigners are always there. But they're not super overweight as we speak at this point of time.

Chris Hussey: Yeah, it's like the United States in 1982.

It's a fascinating situation as we shift to the financialization of the household.

All right, step back for a second. Let's look at India versus the rest of Asia because, you know, Asia started with, let's say, Japan and then it handed off to Korea and then to China. And now it's to India. But if you look at those first three, China, Japan, and Korea, they were driven by export economies. India's is less so. Is that a good thing or a bad thing? How do you see that playing out in terms of India's sustainable growth?

Hiren Dasani: Historically, India has grown by consumption and services. Manufacturing was not very competitive. But now India is finding that we need to create millions of jobs for our young demographics which are entering into the workforce. So, services alone cannot create about 12 million jobs there need to be every year. And that's where manufacturing is now becoming the focus area.

There have been sustained investments in the infrastructure, about 20 percent compounded growth and spending on infrastructure by the government over the last

ten years. Labor was always cheap, but the productivity of the labor is also getting better now. And finally, the energy cost, it was a big issue, again, on energy cost as well. But as available and as it becomes more dominant, the energy cost for industry is also becoming lower for India.

So, all put together, manufacturing is becoming more competitive. Consumption and services will continue to be the growth drivers. But manufacturing will be the additional growth going forward for India is what we believe.

Chris Hussey: Terrific. So, against that backdrop, where do you see the best opportunities in India today? Where are you looking to put the money?

Hiren Dasani: Generally, we are very bottom up. We like to find the best ideas across the market cap spectrum. But generally, alpha is more driven in the mid and small-cap space of the market because they are less efficient segments of the market. That's where we find a lot of alpha opportunity.

Sectorally, obviously, consumption, financials, information

technology. Those are some of the sectors which are great sources of alpha generation over a period of time for us.

Chris Hussey: As we go forward into the next week, what are you going to be watching for across emerging markets? What are you going to be watching for in India?

Hiren Dasani: Well, over the weekend, every Indian is going to watch the cricket match, if I may say so, which is India/Pakistan cricket game. But other than that, obviously on a serious note from markets point of view, obviously in July the China [UNINTEL] will be important to watch for. In Asia, in the other markets like Taiwan and Korea, Taiwan is all about AI supply chain, as you know. And in Korea, the value [UNINTEL] is something which is being very closely watched by the market.

Chris Hussey: Thanks so much for taking the time with us here today. Really appreciate it.

Hiren Dasani: Thank you so much, Chris.

Chris Hussey: That does it for another episode of The Markets. Be sure to find us on Apple Podcasts, Spotify, or

wherever you get your podcasts.

And to learn more, please visit us at [GS.com](https://www.gs.com) and subscribe to Briefings, our weekly newsletter on the global economy.

I'm Chris Hussey. Thanks so much for listening.

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