

GLOBAL EMERGING MARKETS



MARTIN CURRIE

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For institutional, professional and wholesale investors only

TALES FROM THE ROAD: INTRIGUED BY INDIA

Portfolio Manager Aimee Truesdale recently conducted a research trip to India. Here, we outline her key observations around the exciting growth opportunities in India.





Aimee Truesdale

Portfolio Manager

We continue to be excited by the growth prospects in India. Portfolio manager Aimee Truesdale conducted a research trip to India, visiting Mumbai and Chennai, meeting a number of companies and getting out on the road. Compared to Aimee's last visit pre-Covid in 2020, there are a number of constants: India's domestic growth prospects remain bright and investment opportunities remain plentiful. But she also witnessed a number of changes. There has been a notable shift away from cash towards digital payments, and activity around infrastructure has increased as observed through a notable uptick in large infrastructure projects. Here are Aimee's key observations from the trip.

Consumer Discretionary strength

Commentary from various companies underlined that the mass affluent proportion of the population continues to thrive, with urban areas showing strong growth trends. During a discussion with Asian Paints, management noted that they are seeing faster growth from the large Tier 1 and 2 cities. Consumer spending in the fourth quarter of 2022 was 22% above the level it was at in 2019¹.

One beneficiary of mass affluent spending is Titan, the Indian manufacturer and retailer of jewellery, eyewear and other accessories. The Indian jewellery market is undergoing a transition towards formalisation, and the organised players continue to take share², which is a positive driver for Titan's growth. Titan is a market leader, yet due to this shift towards formalisation its current market share is around 7%, leaving plenty of room for growth in a fast growing market³. Titan is expanding digitally and through physical retail, and it continues to increase the number of stores, which now sit at 2,537, which is an increase of 22% compared to the previous year⁴. The pervasiveness of Titan's stores was clear whilst spending time in Mumbai and Chennai. Eye catching store fronts, prime locations, popularity and busyness of Titan's stores were all observed through visits to a number of stores during the trip.

¹Source: Statista "Consumer spending in India Q2 2018 to Q4 2022".

²Source: <https://www.gold.org/goldhub/research/jewellery-market-structure-india-gold-market-series>

³Source: Titan Q3FY23 Earnings Presentation.

⁴Source: Titan Q3FY23 Earnings Presentation and Titan Q3FY22 Earnings Presentation.

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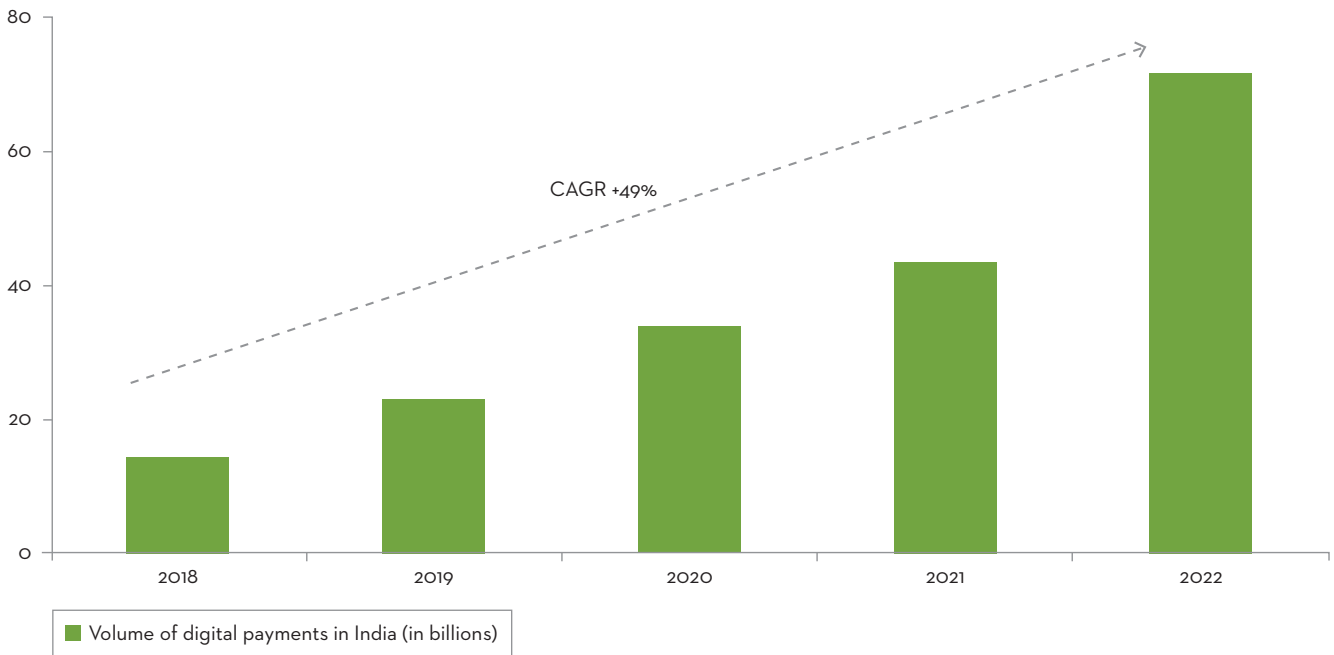
“ Commentary from various companies underlined that the mass affluent proportion of the population continues to thrive, with urban areas showing strong growth trends. ”

Aimee Truesdale, Portfolio Manager

Digitisation of Financials

There has been a notable shift towards the digitisation of payments. A key driver of this was the National Payments Corporation of India (NCPI) developing the Unified Payments Interface (UPI). This is an instant, real time payment system that allows users to connect all their bank accounts in a single application and make transfers quickly and simply using their mobile phone. It is run as open-source application and operates as the digital backbone of the Indian financial system. Since its launch in 2016, it has seen exponential growth in the numbers of transactions made using UPI: from 2.7m transactions in 2016 to 74bn in 2022⁵. Having made digital payments ubiquitous in the Indian market, the overall volume of digital payments has grown dramatically over the last five years:

Figure 1



Source: Statista "Volume of digital payments India FY 2018-2022".

This was reinforced during the trip, seeing that even small street-side vendors were taking payment by QR code or digital transfer. Additionally, a number of people commented that in the larger cities people have stopped carrying or using cash, even for small payments.

Banks are well-positioned for this digital shift, having invested in technology such as user-friendly banking apps, and are gaining share from non-banking finance companies who have struggled with a regulatory clamp-down⁶. Bank credit growth in the September-December 2022 quarter was very strong at 17% year on year⁷ and the banks Aimee met with continued to see positive momentum.

Although digital has grown a lot, physical bank branches continue to play an important role in the financial space in India. Many customers are using these financial or digital products for the first time and need to be talked through how to use them. Additionally, although digital has grown there is still a sizeable informal, economy especially in lower tier cities and rural areas which have yet to be converted to digital. During a meeting with HDFC Bank, management discussed how they are tapping into this demand by expanding the company's branch network into these harder to reach areas. HDFC currently have over 7,100 branches, of which around half are in rural and semi-urban areas⁸. They expect this to help them reach new customers in an environment where banks are competing for customer deposits.

⁵<https://www.npci.org.in/what-we-do/upi/product-statistics>

⁶Source: <https://bfsi.economictimes.indiatimes.com/news/nbfc/nbfc-cede-ground-to-banks-as-their-market-share-in-credit-drops-to-a-five-year-low>

⁷Source: Reserve Bank of India "Report on Trend and Progress of Banking in India" December 27 2022.

⁸Source HDFC Bank Roadshow Presentation 21 February 2023.

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Infrastructure and Construction

India's drive towards modernisation has also manifested itself in significant infrastructure projects. Throughout India, there are 16 metro projects (both expansions to existing systems and new systems) under construction, and 16 upcoming projects⁹. One of these is a 243km expansion to the Regional Rapid Transport System (RRTS) in the Delhi, Rajasthan and Haryana area⁹. Another of these projects is an ambitious expansion to Mumbai's metro network. Visually, the scale of the project is breath-taking, with both overground and underground lines being built. Although in the short term it is not helping Mumbai's traffic situation, once completed it will have massive benefits for the city. Despite the various headwinds that abound, these projects are ongoing and will make major changes to the Indian skyline over the next few years.

During a meeting with the cement company Ultratech, management discussed the opportunities they are seeing not just in infrastructure, but also in residential housing construction. Covid has resulted in more demand for living space, and household incomes are rising. The company saw low double digit year-on-year volume growth in the September-December 2022 quarter, and strong overall sales growth¹⁰. This demonstrates that demand for cement is robust and has been able to withstand price increases implemented as a result of raw material inflation.

Conclusion

Overall, we remain optimistic about our positioning within the Indian market. The consumer space is particularly exciting as the names we hold benefit from the trends around formalisation as well as rising income levels. In the financials space we have been focused on the digital leadership of our holdings as well as the resultant opportunities. Our approach to the Indian market is in line with our portfolio more broadly. We continue to believe our highly selective, stock-focused approach will prosper through accessing companies with a high return on equity that operate in structurally growing industries.

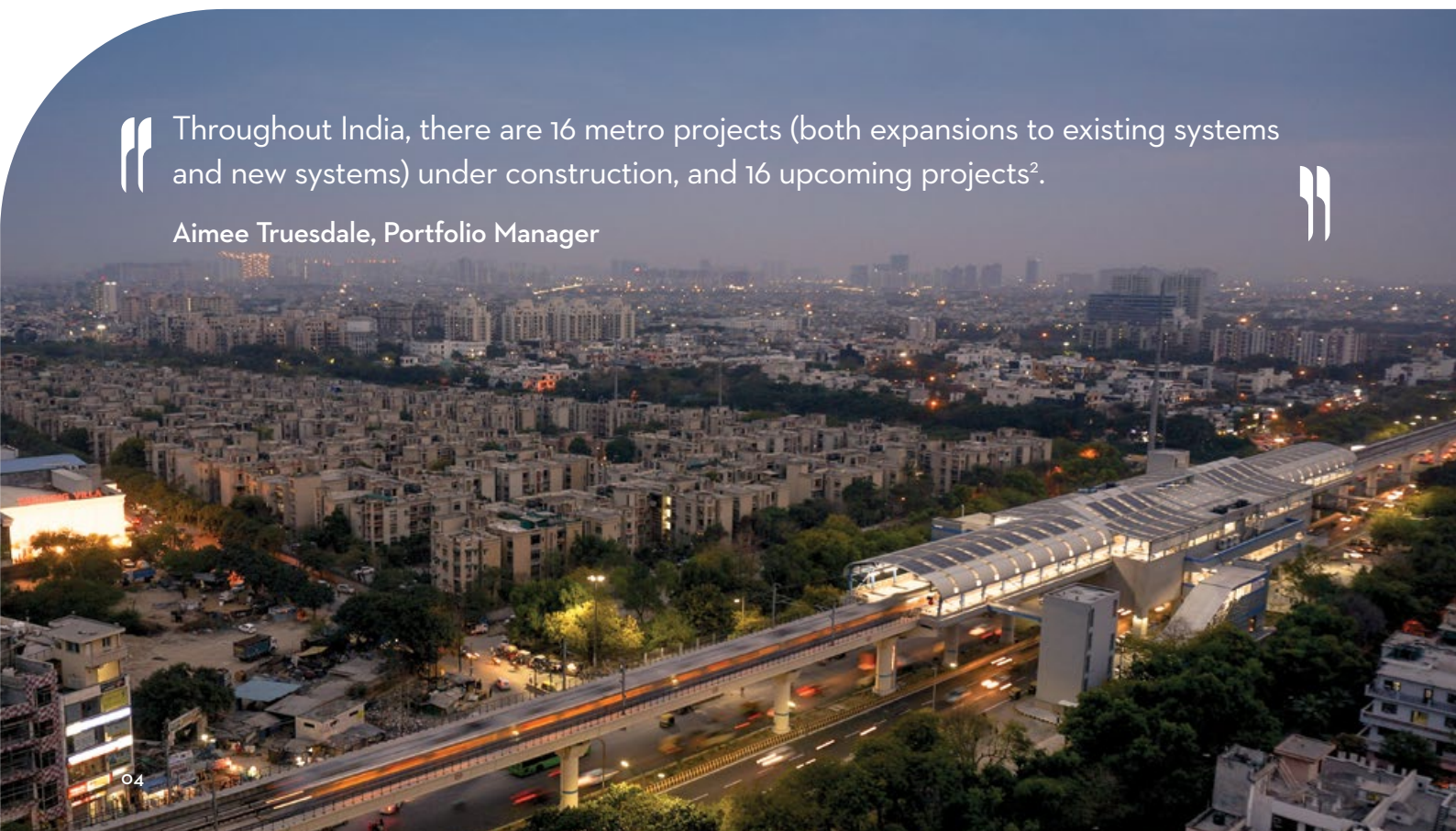
⁹Source: Kotak research report "All is (not that) bad"

¹⁰Source: Ultratech Q3 FY22 Earnings Presentation.

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“ Throughout India, there are 16 metro projects (both expansions to existing systems and new systems) under construction, and 16 upcoming projects². ”

Aimee Truesdale, Portfolio Manager



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