Edelweiss ALTERNATIVES

INDIA

An Era of Compounding

Knowledge Partner

CRISIL
An S&P Global Company

Contents

Executive summary

India's decade

The Indian economy is on a path of high growth, propelled by regulatory reforms, humongous infrastructure spending and proliferating digitalisation.

The facilitations have been aplenty, such as the introduction of Goods and Services Tax, the Insolvency and Bankruptcy Code, the Production Linked Incentive (PLI) scheme, the National Infrastructure Pipeline, materially better access to government schemes via Aadhaar and lowering of corporate taxes.

The opening up of new trade avenues and continuous efforts to reduce reliance on imports have been helpful as well.

Such investor-friendly regulations and reforms are why the Indian economy has been resilient in recent times despite facing a plethora of headwinds such as the Covid-19 pandemic and geopolitical conflicts.

They have also enabled a quicker economic rebound after the pandemic subsided.

CRISIL MI&A Research, in this report for Edelweiss Alternatives, evaluates the key elements within the four pillars — infrastructure, industrial capex, consumption and digitalisation — that should shape India's long-term growth trajectory, improve capacity utilisation across sectors and propel industrial capital expenditure.

Already, tailwinds from the PLI scheme are enhancing India's attractiveness as a global manufacturing hub and enabling the country to narrow the gap with other global manufacturing powerhouses such as China.

And underlining the significant investment opportunities amid strong domestic consumption growth is a policy framework with reforms and proactive policies as its bedrock, and spurs for the private sector.

Government incentives and investments have been ballasts for domestic competitiveness, too.

Additionally, favourable demographics, such as a growing working-age population, increased labour force participation, urbanisation and an expanding middle class are driving a shift in consumption patterns with health, well-being and organic foods gaining prominence.

So much so, the economy relies a lot on private consumption.

Growth is becoming increasingly inclusive through digital platforms and innovations, which are improving productivity and efficiencies across value chains. It is also the boat that is lifting financial inclusion like never before.

The much-touted — and deservedly so — India Stack technology platform, supported by increasing mobile and internet penetration, has transformed digital solutions, increased consumption via e-commerce platforms and rooted the Unified Payments Interface (UPI) into an enormous transaction ecosystem.

Successful global adoption of the UPI has kickstarted India's journey towards becoming a global leader in population-scale technologies.

With the presence of one the largest talent pools with artificial intelligence-related skills, India is also well positioned to benefit from the digital revolution now ongoing.

It is also the fastest-growing large economy and the fifth-largest one in the world.

The strengthening of the four pillars and the convergence of a raft of policy and regulatory facilitations leading to improving ease of doing business should ensure India will continue to grow at a healthy clip over the long term.

India's continued ascent

India is set to be the world's fastest-growing economy in 2023. Going forward, it would continue to outgrow other major economies as growth enablers remain intact. Softening inflation, improving current account balance, healthy foreign reserves, resilient rupee, steady foreign direct investments and strong policy support would also augur well for the economy and place it comfortably in an attractive Goldilocks situation. This growth would be supported by 4 key pillars - infrastructure capex, industrial capex, consumption and digitalization.

India to sustain its growth momentum, become the third largest economy by fiscal 2028

	Nominal GDP size $ trillion and rank 2023		Real GDP growth forecast 2024-2028	Nominal GDP size $ trillion and rank 2028	
Brazil	2.1	11th	1.9%	2.8	8th
China	17.7	2nd	3.9%	23.6	2nd
Germany	4.4	4th	1.4%	5.5	5th
India	3.7	5th	6.3%	5.9	3rd
Japan	4.2	3rd	0.6%	5.2	4th
Korea	1.7	13th	2.2%	2.1	12th
United Kingdom	3.3	6th	1.6%	4.6	6th
United States	26.9	1st	1.9%	32.7	1st

<2% 2-5% >5%

Source: IMF, CRISIL MI&A Research

- Even as the global economy grappled with macroeconomic headwinds and recessionary pressures, India became one of the fastest-growing major economies in 2022, driven by strong domestic demand, robust infrastructure investments, healthier corporate balance sheets and a thriving financial sector.
- However, inflation remained sticky above the Reserve Bank of India's (RBI) targeted band (4%, +/-2%) owing to factors such as geopolitical tensions and global supply-chain bottlenecks. It was still lower than many of its peer countries, some of which had enjoyed lower inflation than India historically.
- Going forward, the pace of India's economic growth would continue to outpace those of other major economies as growth enablers remain intact. The growth would be further supported by softer inflation, improving current account balance, healthy foreign reserves, resilient rupee, steady foreign direct investments and strong policy support.
- India, currently the fifth largest economy, would see rapid growth facilitate achievement of its $5 trillion economy target and catapult it to the position of the world's third largest economy overtaking Japan and behind China and the USA.
- In fact, between 2024 and 2028, the country would account for around 6% of the world's total incremental GDP, underlining its growing significance in the global economy.

India already the world's fastest-growing major economy...

	Decadal GDP growth 2011-2021	2022	Current GDP growth 2023	
United States	2.1%	2.1%	2.1%	Developed economies.
United Kingdom	1.2%	4.1%	0.5%	Developed economies.
Germany	1.1%	1.8%	-0.5%	Developed economies.
Japan	0.6%	1.0%	2.0%	Developed economies.
France	0.8%	2.5%	1.0%	Developed economies.
China	6.7%	3.0%	5.0%	Emerging economies.
Brazil	0.4%	2.9%	3.1%	Emerging economies.
India	5.5%	7.2%	6.3%	Emerging economies.
Indonesia	4.3%	5.3	5.0%	Emerging economies.
Korea	2.6%	2.6%	1.4%	Emerging economies.
Malaysia	3.8%	8.7%	4.0%	Emerging economies.
Vietnam	5.8%	8.0%	4.7%	Emerging economies.

Source: IMF, CRISIL MI&A Research

...with inflation better controlled than developed countries in recent times

	2022	Decadal Average	2023	
United States	8%	**1.9%**	4.1%	Developed economies.
United Kingdom	9.1%	**2.5%**	7.7%	Developed economies.
Germany	8.7%	**1.4%**	6.3%	Developed economies.
Japan	2.5%	**0.5%**	3.2%	Developed economies.
France	5.9%	**1.1%**	5.6%	Developed economies.
China	1.9%	**2.1%**	0.7%	Developed economies.
Brazil	9.3%	**5.8%**	4.7%	Emerging economies.
India	6.7%	**5.8%**	5.5%	Emerging economies.
Indonesia	4.2%	**4.0%**	3.6%	Emerging economies.
Korea	5.1%	**1.3%**	3.4%	Emerging economies.
Malaysia	3.4%	**1.8%**	2.9%	Emerging economies.
Vietnam	3.2%	**3.7%**	3.4%	Emerging economies.

Source: IMF, CRISIL MI&A Research

Targeted action plans supported by strong macroeconomic factors to boost competitiveness

- Notable reforms such as the goods and services tax (GST) implementation, which unified all central and state indirect taxes; the Production Linked Incentive (PLI) scheme, which aims to enhance the country's manufacturing prowess; and the National Infrastructure Pipeline (NIP), which is focused on large-scale infrastructure development will complement the country's strong macroeconomic position. While India has lagged countries such as China, Vietnam and South Korea in reforms and schemes, the reforms undertaken are likely to help the country catch up with the peers.
- India's position in the Logistics Performance Index improved from 44th in 2022 to 38th in 2023. A slew of reforms the government introduced, specifically the scrapping of the retrospective tax law in fiscal 2021, and the post-pandemic recovery of the domestic economy aided the improvement.
- It has also made major strides in tech infrastructure, especially environment-related technologies. India to play vital role in global climate change mitigation efforts through scaling of renewables and green hydrogen.

Macro factors well placed to support India's emergence as the fastest growing economy

Strong FDI equity inflows
$46 billion FDI equity inflows in fiscal 2023

India's logistics index ranking
Improved from rank 44th in 2022 to 38th in 2023

External debt as % of GDP
Reduced to 19% in fiscal 2023 vs 24% in fiscal 2014

India's forex reserves
$587 billion as of Sept 2023

Policy and reforms
Outlay of Rs 147 trillion for National Infrastructure Pipeline and Rs 1.8 trillion for Production Linked Incentive

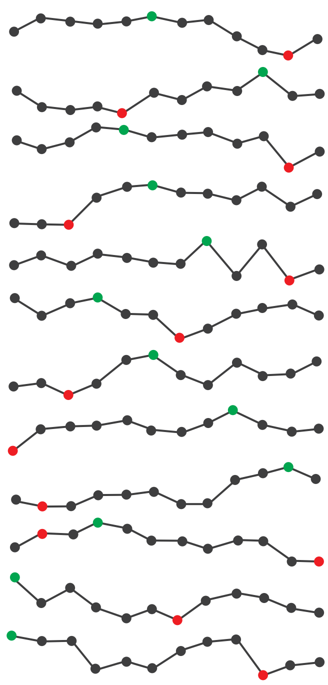
Source: CRISIL MI&A Research

Economic growth to be supported by strong fundamentals

Current account balance position improved significantly during 2012-2022

	Current account balance as % of GDP		
	2012	2022	2023*
United States	-2.6%	-3.8%	-2.9%
United Kingdom	-3.3%	-3.8%	-3.7%
Germany	7.1%	4.2%	6.0%
Japan	1.0%	2.1%	3.3%
France	-1.0%	-2.0%	-1.2%
China	2.5%	2.2%	1.5%
Brazil	-3.8%	-2.8%	-1.9%
India	-4.8%	-2.0%	-1.8%
Indonesia	-2.7%	1.0%	-0.3%
Korea	3.8%	1.8%	1.3%
Malaysia	5.1%	3.1%	2.7%
Vietnam	4.7%	-0.3%	0.2%

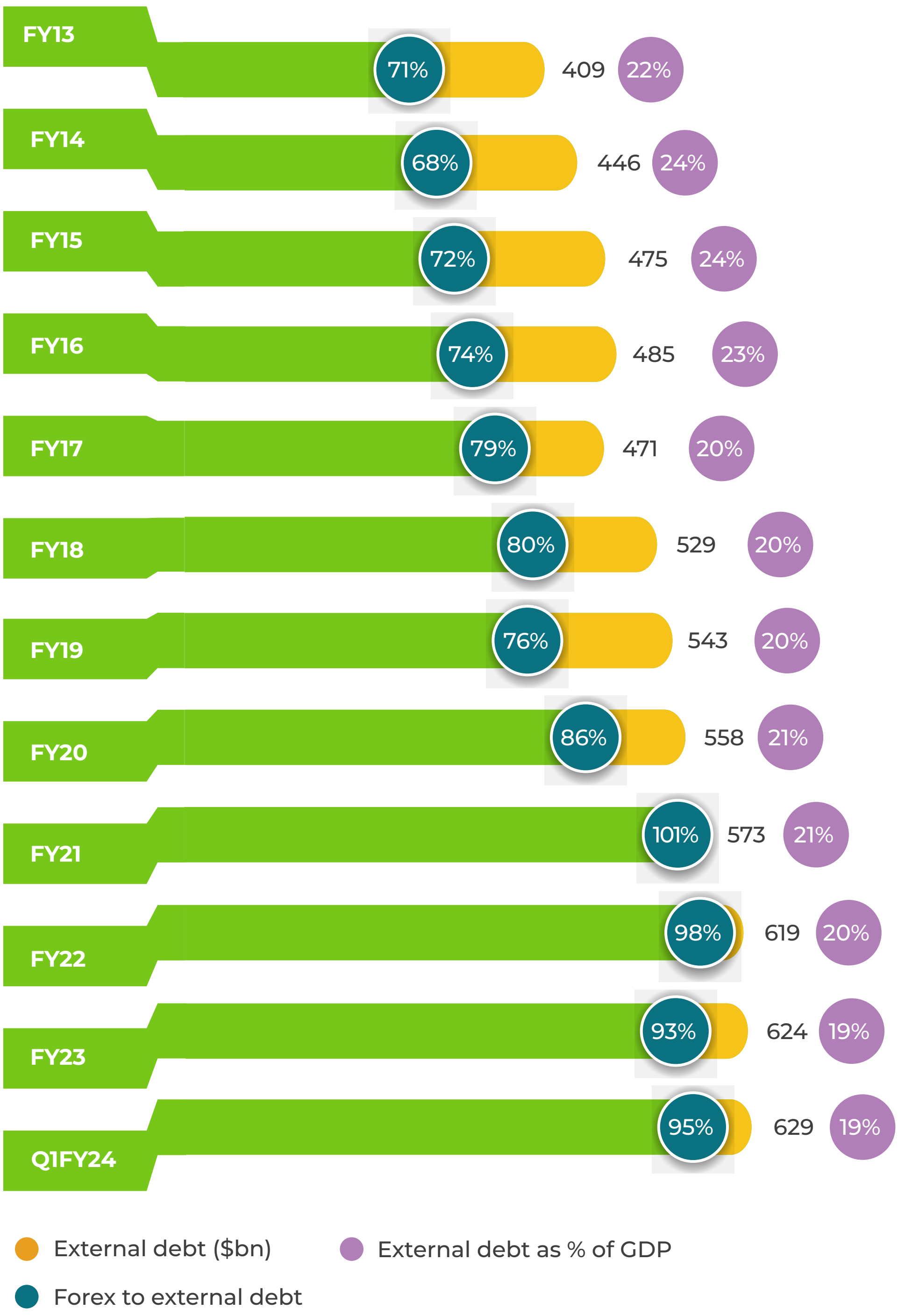
Trendline for last 10 years



Notes: Red: <-2.5%; yellow: -2.5% to 2.5%; green: >2.5%. *2023 data is basis IMF forecasts as per World Economic Outlook October 2023 Trendline: green: peaks; red: lowest; Source: IMF, CRISIL MI&A Research

- Indian economy has seen a sharp decline in its current account deficit from 4.8% of GDP in 2012 to 2.0% in 2022. It is expected to further improve marginally in 2023 on account of softening global prices of commodities, which are a major contributor to the country's import bill.

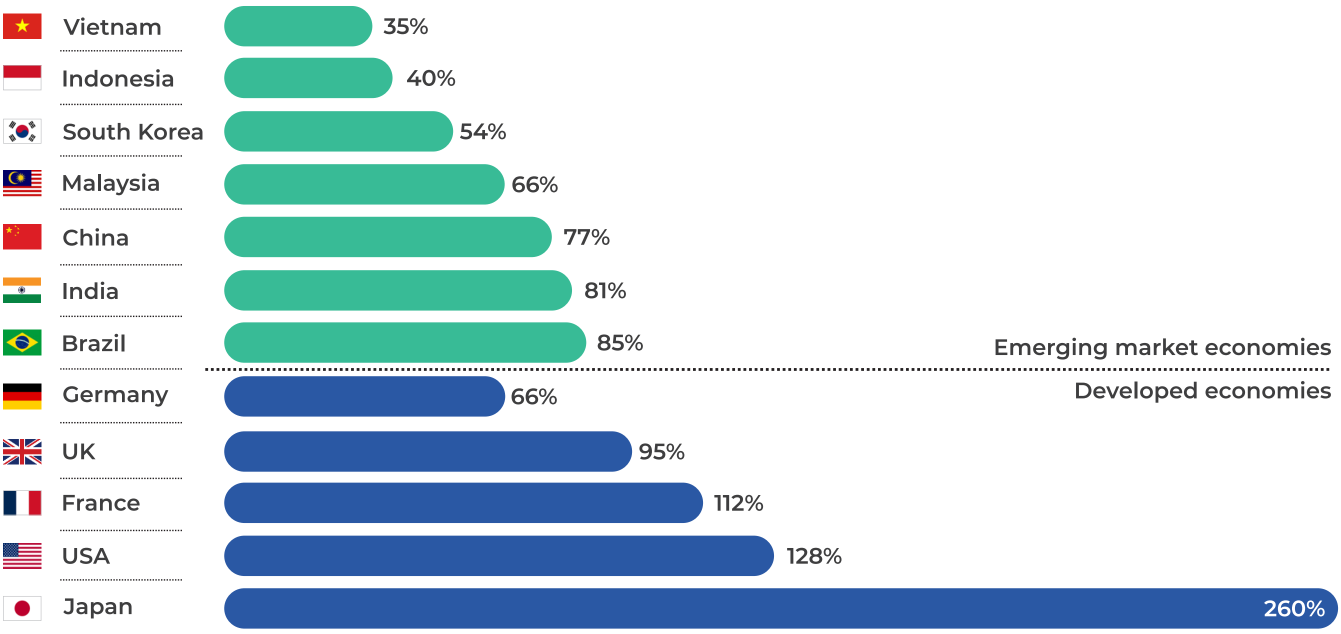
External debt coverage for India far better than other emerging economies



Source: RBI, CRISIL MI&A Research

- In the past decade, the country's external debt grew significantly. However, its share as a percent of GDP declined from 24% in fiscal 2014 to 19% in fiscal 2023. Notably, as per the International Monetary Fund's (IMF) data, the corresponding figure for emerging market economies is 30% on average.
- Further, with dollar reserves surging, the forex cover of external debt rose to 95% as of June this fiscal. This supports the country's debt sustainability and also the GDP growth because the country may require incremental debt as public funds constitute a large proportion of infrastructure funding.

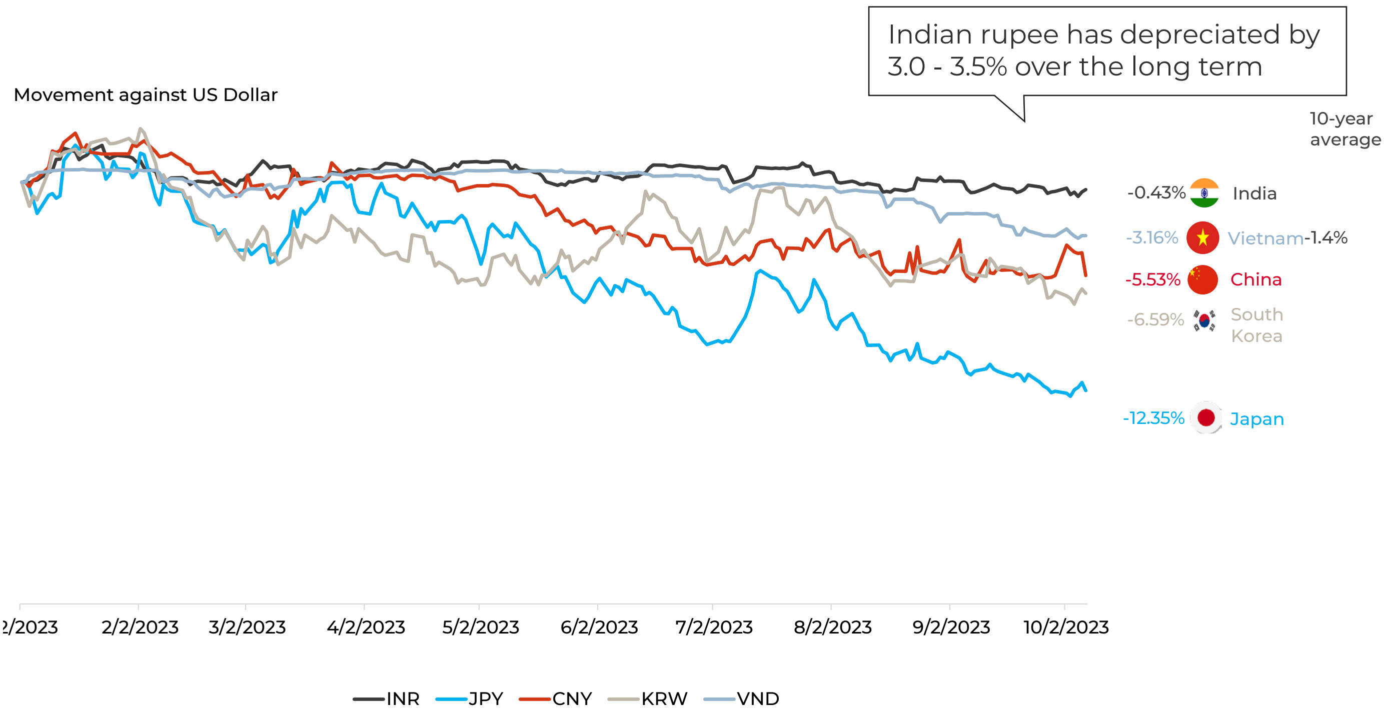
India has higher gross government debt to GDP ratio than most emerging market peers, but has cushions



Source: IMF, CRISIL MI&A Research

Resilience of the rupee

Indian Rupee has been relatively stable during 2023 supported by better macroeconomic fundamentals and RBI intervention

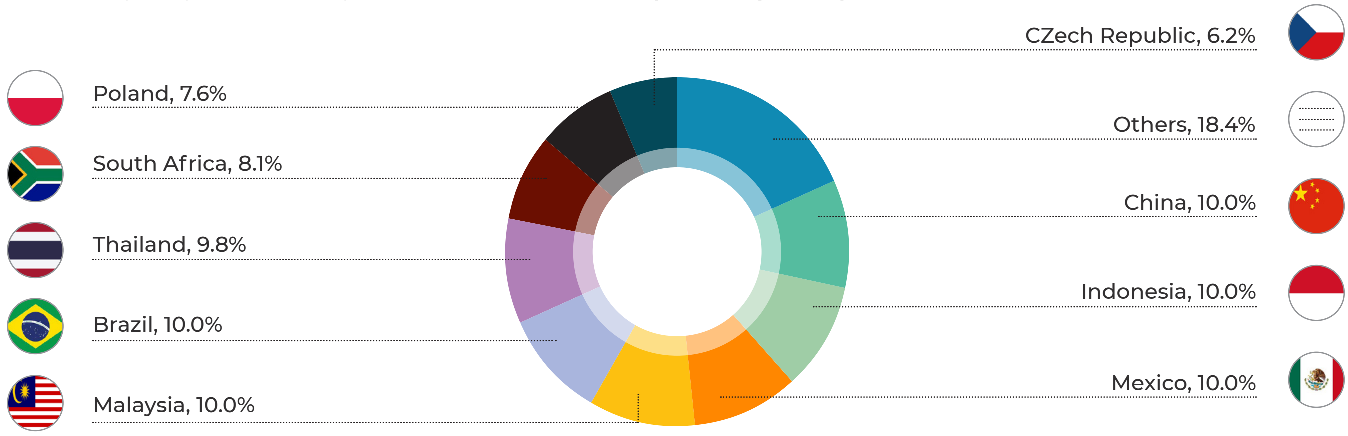


Source: Industry, CRISIL MI&A Research

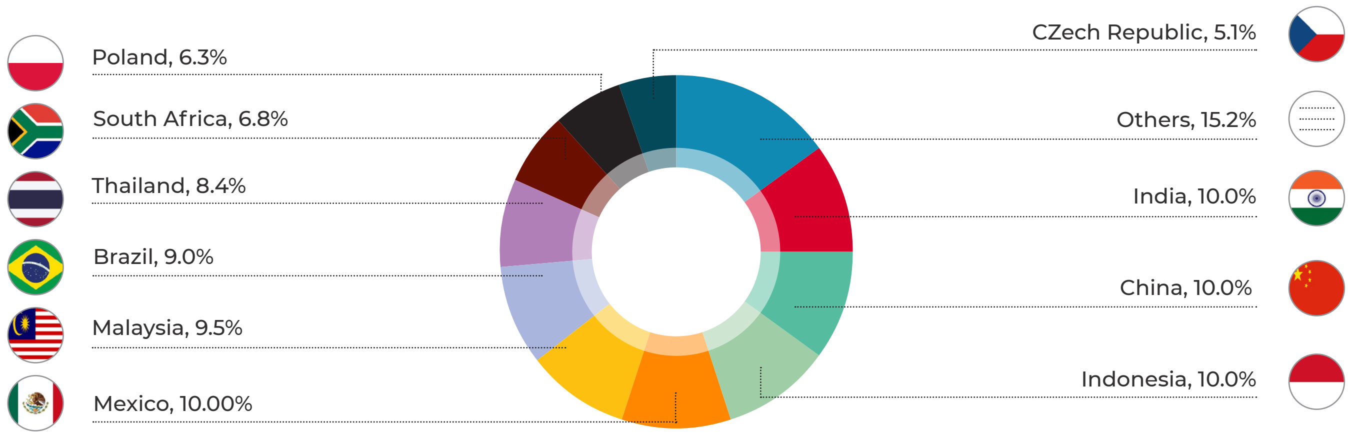
- The Russia-Ukraine conflict altered trade flows, aggravated the volatility and gave rise to unease in 2022. Global central banks increased interest rates multiple times to rein in high inflation linked to commodity prices. This, in turn, resulted in the outflow of FII money, exerting pressure on emerging market currencies. As a result, the Indian rupee depreciated by 10% in 2022.
- Nonetheless, supported by factors such as moderating inflation, better domestic macroeconomic fundamentals, higher foreign portfolio investor inflows and the RBI's proactive monetary policy, the rupee has remained largely stable in 2023 and has in fact, performed better than many of its peers.
- The country's economic strength is likely to impart strength to the rupee. Furthermore, as per industry estimate inclusion of India's sovereign bonds in the JP Morgan's global bond index is likely to result in higher foreign currency inflows (the market expects around $23 billion from global bond investors by March 2025). This is expected to boost the rupee's strength apart from increasing forex reserves and lowering borrowing costs for the government.

Inclusion in global bond index augurs well for funding avenue to large corporates and infrastructure and industrial capex

Current weightage in JP Morgan GBI-EM Bond Index (as of Sep 2023)



Likely weightage in JP Morgan GBI-EM Bond Index after India's inclusion (as of March 2025)



Source: JP Morgan, CRISIL MI&A Research

Consistently strong FDI inflow underlines India's position as a preferred investment destination

	Developed economies					Emerging market economies						
	USA	UK	Germany	Japan	France	China	Brazil	India	South Korea	Malaysia	Indonesia	Vietnam
FDI Stock as of 2022 ($ billion)	10,462	2,699	1,008	225	897	3,822	816	511	272	199	263	210
10-year FDI Inflow CAGR %	4%	-13%	-9%	34%	9%	5%	0%	7%	7%	4%	2%	11%
Percentage of GDP	41%	88%	25%	5%	32%	21%	42%	15%	16%	49%	20%	52%

Note: 10-year CAGR %: red: < 0%; yellow: 0-5%; light green: 5-10%; dark green: >10%
Source: IMF, UNCTAD, CRISIL MI&A Research

Services sector drives bulk of the FDI equity inflows in india

	Share in cumulative FDI equity inflow (Apr, 2000 – Jun, 2023)
Services sector	16%
Computer software & hardware	15%
Telecom	6%
Trading	6%
Auto	5%
Construction (infrastructure)	5%
Construction (development)	4%
Chemicals (other than fertilizers)	3%
Drugs & pharmaceuticals	3%

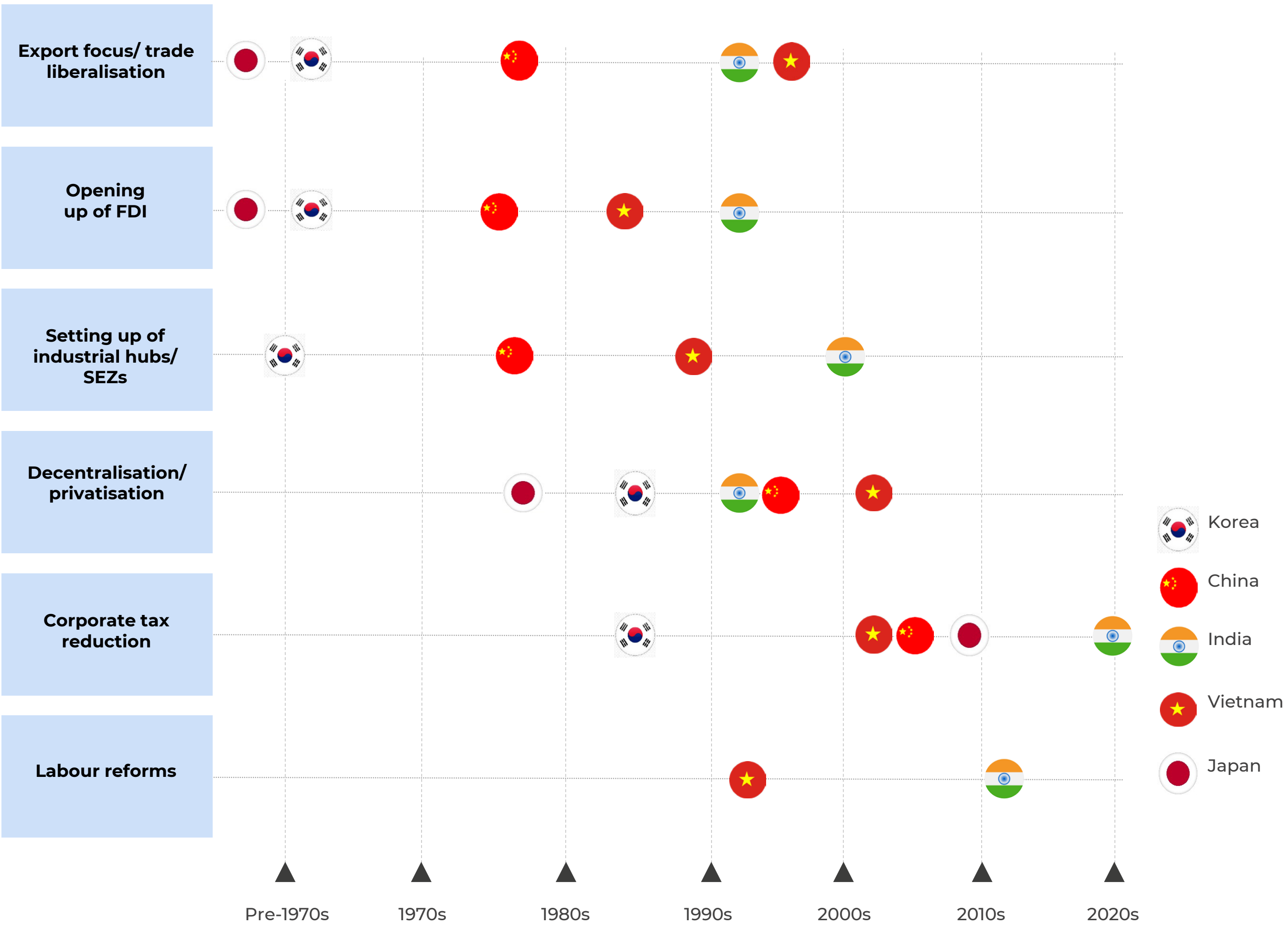
Note: Share: Red: < 5%, Yellow: 5-10%, Light green: 10-15%, Dark green: >15%
Source: DPIIT, CRISIL MI&A Research

- Over the past decade, the country had recorded the highest CAGR in FDI inflows among its peers countries due to favourable policies such as 100% FDI in multiple sectors, streamlining of approval processes and the introduction of schemes such as the PLI.
- Though in fiscal 2022 inflows saw adverse impact of global factors, the country was still the second largest host country for international project finance deals and the third largest for greenfield project investments.
- However, despite this, India's FDI stock as a percent of its GDP remains low as of 2022, implying ample headroom for growth. Given the country's promising economic outlook and strong fundamentals, FDI inflows into the country are likely to increase going forward.

India playing catch-up in policy reforms; new initiatives augur well

- India has lagged other Asian countries such as China and Vietnam in introducing reforms. These countries had taken place pro-investor steps, such as signing free-trade agreements and imposing zero import duty on raw materials much before India. They had also opened multiple sectors fully to FDI long before India, leading to high inflows.

First movers: Timely reforms pivotal to growth



Source: World Bank, CRISIL MI&A Research

Focus and frequency of reforms have nurtured India's growth foundation

Manufacturing focused

Semiconductor Mission
Rs 760 bn over for development of semi-conductors and display manufacturing ecosystem in India

SPECS
25% on capital expenditure for the identified list of electronic goods that comprise downstream value chain of electronic products

PLI Scheme
Sales and capex-based incentives of **Rs 2.0 tn** over across 15 sectors for import substitution and boosting exports

National Industrial Corridor Development Programme
To promote world class manufacturing facilities and futuristic industrial cities **11** industrial corridor projects undertaken with **32** projects

Phased Manufacturing Programme
Phased increase of basic customs duty on mobiles and components to support domestic production

Make in India
Focussed on ease of doing business, increasing FDI and local sourcing norms
India jumped to the **63rd** position, in WB ranking

Timeline

2022
2021
2020
2019
2018
2017
2016
2015
2014

Infrastructure focused

National Logistics Policy & PM Gati Shakti
Unified logistics programme to enable integration between ministries and states with a focus on technology

National Monetisation Pipeline
Assets monetization blueprint of **Rs 1.6 tn** to recycle capital

National Infrastructure Pipeline
To develop world-class infrastructure across sectors with an aim of **Rs 111 tn** investment till 2025

Bharatmala Pariyojana
Phase-1 target of constructing 84,000 km of national highway network at an investment of **Rs 10.63 tn**

Real Estate Regulatory Authority
Led to transparency and prompt work implementation for builder and buyers of properties

Smart Cities Mission
Tech-led local area development – **Rs 980 bn** approved for developing 100 smart cities

Pradhan Mantri Awas Yojana
Affordable housing to the urban poor with a target of building **20 mn** houses

Overarching

Atmanirbhar Bharat
COVID-19 relief measures to make India self reliant – **Rs 1.7 trillion** stimulus package

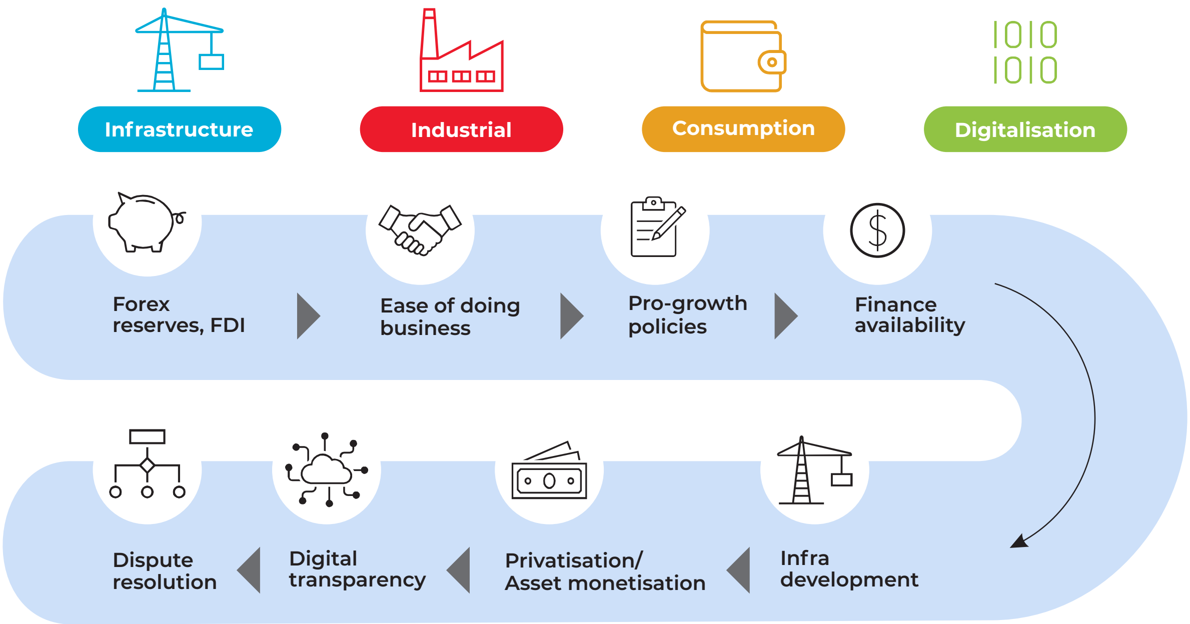
Labour reforms
In 2019 and 2020, **29** central labour laws, rationalised and simplified under 4 labour codes.

Goods & Services Tax
GST replaced and consolidated several Central and State indirect taxes, government estimates **2% GDP** boost via GST implementation

Source: CRISIL MI&A Research

India's sprint towards becoming the third-largest economy by 2027 would rely on 4 key pillars - infrastructure, industrial, consumption and digitalization.

Four pillars sustaining India's growth trajectory



Infrastructure

The infra space is gaining considerable traction in India, with the Centre doing the heavy lifting – capex is expected to rise 28% year-on-year in fiscal 2024. Hence, overall growth, which was a healthy 10% CAGR in the past five years, is projected to accelerate at 11% CAGR over the next three years.

Industrial

The industrial sector is projected to grow 1.4x over the next four years, with manufacturing potential increasing following the central government's push via schemes such as Make in India and Production Linked Incentive.

Consumption

60% of India's growth is dependent on private final consumption expenditure, which is expected to rise substantially by fiscal 2028. In fact, the country's youth population is slated to be the highest in the world, comprising 982+ million in the working age group.

Digitalisation

90% of the population has telecom connectivity and over 60% has internet connection. India Stack is expected to play pivotal role in digital landscape. Open application programming interface (APIs) and digital public goods and forms the backbone of multiple tech-based innovations.

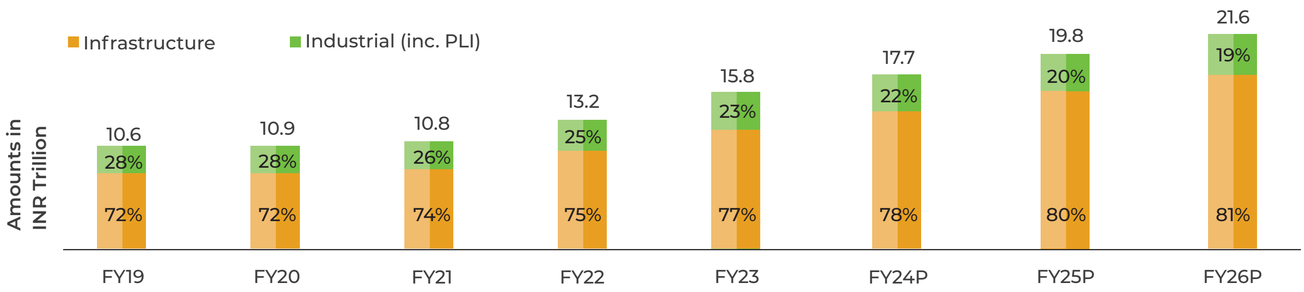
Infrastructure investments act as a catalyst for economic growth

Infrastructure capex has a significant GDP multiplier effect as it opens up growth avenues for other sectors. Government-backed infrastructure spending with increased budget allocation and infra focused schemes will play the catalyst behind sharp rise in infrastructure capital expenditure. The growing funding needs will promote innovative asset classes like InvITs, unlocking asset monetization and fresh sector investment prospects.

Infrastructure to drive robust growth in overall capex

Total investment opportunity (capital expenditure) in India is expected to increase at 9% CAGR from fiscal 2024 to 2027, with Infrastructure share increasing from 78% to 82%.

Overall capex between fiscals 2024 to 2027 to be 62% higher than that of last four fiscals



P: Projected
Source: CRISIL MI&A Research

Infrastructure investments

Infrastructure investment in India has grown rapidly in the past few years on sharp focus by the Centre as well as the state governments. Infrastructure spending gained momentum following the onset of Covid-19, as the government looked to revive the economy. This augurs well for the economy owing to the high multiplier effect of infrastructure investments.

Between fiscals 2020 and 2023, infrastructure investment in India had logged 13% CAGR, with the government doing the heavy lifting – the Centre and state governments accounted for 49% and 29% share of expenditure, respectively. From fiscal 2024 to 2027, infrastructure capex is expected to log a higher 11% CAGR, led again by government spend.

Infrastructure to lead capex growth

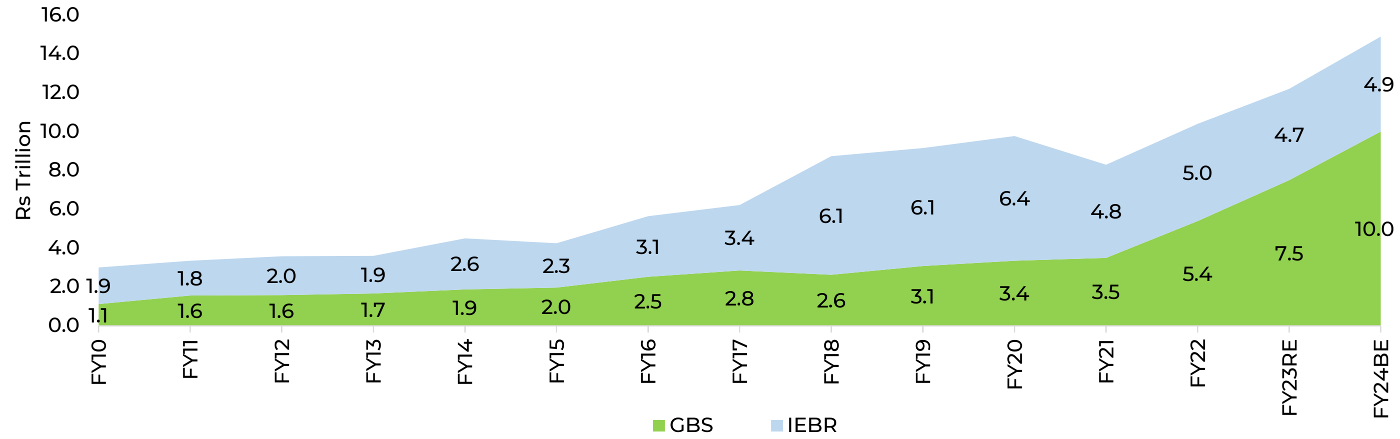
Sector	FY19-FY23 CAGR	FY23 Rs Trillion	FY24P	FY25P	FY26P
Infrastructure (A)	10%	12.2 - 12.7	10-14%	12-16%	9-12%
Roads	12%	3.4-3.6	10-12%	11-13%	10-12%
Power	7%	2.6-2.7	5-7%	35-40%	15-20%
Railways	18%	2.5-2.6	12-14%	7-9%	7-9%
Urban infrastructure	23%	1.8-1.9	30-32%	4-6%	2-4%
Other infrastructure	2%	2.4-2.5	14-16%	7-8%	8-10%
Industrial (B)	2%	3.2-3.3	6-8%	3-5%	3-5%
Total investments (A+B)	10%	16.9-17.2	11-13%	10-12%	8-10%

P: Projected
Source: CRISIL MI&A Research

Healthy rise in allocation for aggregate capex and core infrastructure sectors for fiscal 2024

- Aggregate capex, which includes capital outlay, grants for capital creation, and internal and external budgetary resources of Rs 18.6 trillion, for this fiscal is up 28% year-on-year over fiscal 2023 revised estimate. The share of gross budgetary support and grants allocated for capital creation increased to 74% from 69% of the overall capital outlay, which indicates reliance of government on direct budgetary support, thereby improving fiscal transparency
- Overall expenditure for total of 11 core infrastructure ministries, hike of 28% is observed in budget of fiscal 2024 over revised estimate of fiscal 2023. Roads and railways account for ~55% of the overall infrastructure capital expenditure.

Healthy rise in allocations for aggregate capex and core infrastructure sectors for fiscal 2024

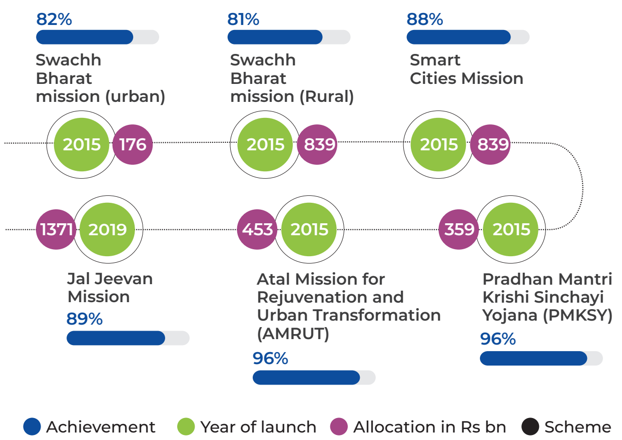


Note: Values from FY10-FY22 are actuals; RE: Revised estimate; BE: Budget estimate, GBS: Gross budgetary support; IEBR - Internal and Extra Budgetary Resources (Irefers to the resources raised by Public sector undertakings (PSUs) through debt and equity)
Source: Budget documents, CRISIL MI&A Research

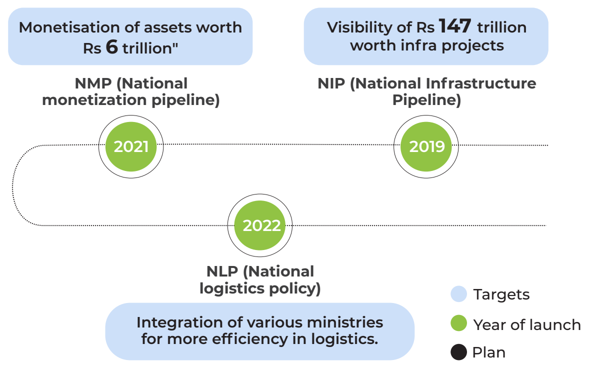
Strong government thrust can be further corroborated from the fact that allocation to six key schemes launched since fiscal 2015 amounts to Rs 3.6 trillion (88% has been spent of this amount).

Achievement ratio in most infrastructure schemes is >80%

Achievement at ~4% of the overall infra spend



Govt now focused on more integrated plans on development of infrastructure



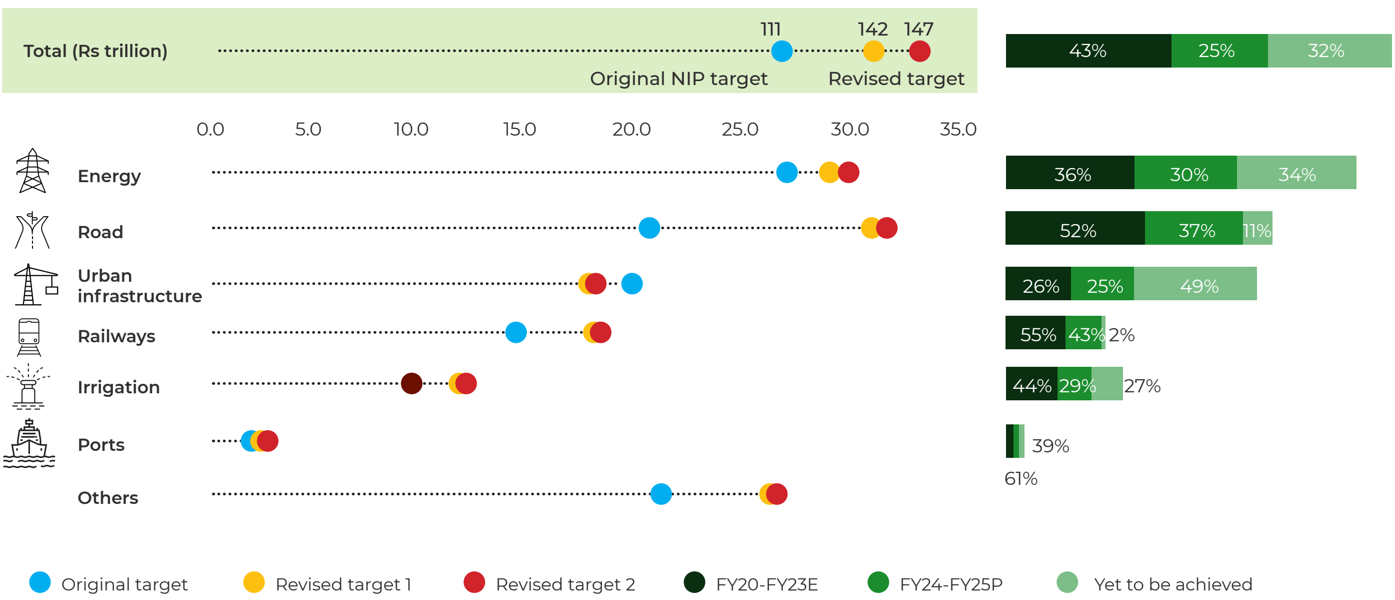
Note :Achievement calculated as actual expenditure over budgeted spends from fiscal 2016 to fiscal 2024
Source: Budget documents, IIG, CRISIL MI&A Research

Sharp focus on large-scale infrastructure investments is likely to translate into a healthy multiplier effect. As per the Reserve Bank of India's study, infrastructure capital expenditure has a significant GDP multiplier of 2.45 in the first year and 3.14 in the following year for every rupee spent by the central government.With National Infrastructure Pipeline (NIP), infrastructure investments are likely to remain firm and thus, ensure healthy GDP growth over fiscals 2024 to 2028.

NIP investment target expanded; roads, railways and energy to dominate incremental spend

- The NIP, which was envisaged in fiscal 2019, had an original budget of Rs 111 trillion, encompassing ~5,800 infrastructure projects. Subsequently, the target was revised and is currently Rs 147 trillion.
- While overall NIP completion stood at 38% as of end-fiscal 2023, 70% of the original target is expected to be achieved by fiscal 2025. However, sectors such as irrigation and urban infrastructure have underperformed. Notably, these sectors depend majorly on state government funds. Sectors such as irrigation and urban infrastructure, which were poor performers until last fiscal, though, will continue to lag in fiscal 2025.
- The government (central and state) funded 55-60% of the total infrastructure development between fiscals 2021 and 2023. This is set to increase to 60-65% over fiscal 2024 to 2026, with the top 20 states' share at 28%.

Infrastructure spend under NIP set to achieve 70% of original target by fiscal 2025



Source: IIG, CRISIL MI&A Research

Going forward, roads, railways, power and urban infrastructure are expected to contribute at substantial levels in incremental capex of overall infrastructure. In keeping with the targets set out in COP27, power investments, driven by renewables, would also support investments.

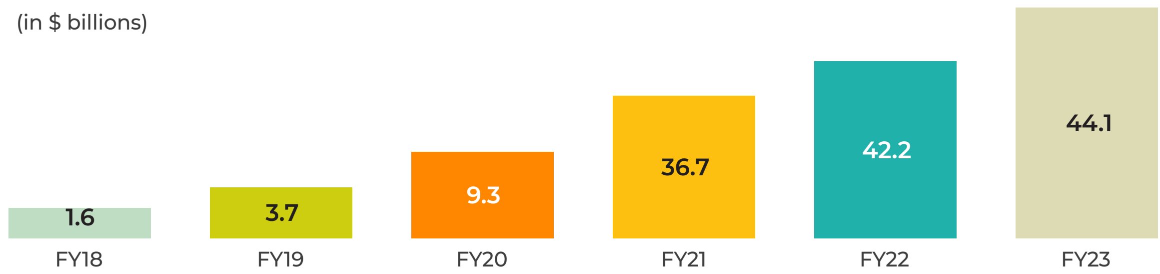
Financing of infrastructure capex to be key

Given the large-scale infrastructure investments, funding will be crucial. As bulk of the funding will be driven by the government, conventional sources, such as borrowings, might put additional fiscal burden on the exchequer.

As a result, asset monetisation through innovative modes, such as REITs and InvITs present attractive options. And while these are at nascent stages in India, investor interest has picked up rapidly owing to favourable risk-return profiles. Private players have also increasingly adopted this route, as it helps them to deleverage their balance sheets and free up cash flow.

Thus, going forward, InvITs and REITs can play a significant role in infrastructure funding.

AUM of InvIT has seen a strong rise over years



Note: Exchange rate taken as 1 USD = 83.17 INR.
Source: CRISIL MI&A Research

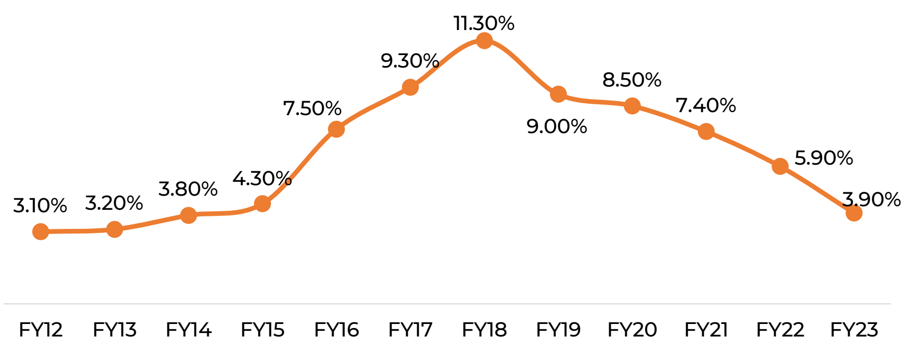
InvITs and REITs, though at nascent stages in India, have garnered sizeable investor interest

Country	Introduction year	No. of active REITs & InvITs	Sectoral Presence	Market Capitalization ($ billions)
USA	1960	206	Commercial offices, retail & industrial realty Fiber network & residential broadband Telecommunication & Telecom service Energy distribution and network Transmission assets Renewable energy Infrastructure Power utility Natural gas Healthcare Railways Hotels	1300
Singapore	1999	42		102
Japan	2000	61		108
Hong Kong	2003	11		27
UK	2007	40		76
India	2014	19	Commercial realty, road, power transmission, telecom tower	18+

Source: CRISIL MI&A Research

- An improvement in GNPA has also been seen primarily due to lower slippages, higher recoveries, upgrades, and anticipation of recoveries through the National Company Law Tribunal (NCLT) and the National Asset Reconstruction Company Ltd (NARCL)routes.
- Insolvency and Bankruptcy Code (IBC) have also helped in the situation of rising NPA by facilitating a collective mechanism for resolution of distressed assets while maintaining a delicate balance for all stakeholders to preserve the economic value of the process in a time bound manner.
- Lower GNPA levels, along with improved capital adequacy ratios, augur well for financing of infrastructure capex, as banks and financial institutions would have greater headroom for lending to infrastructure projects. Additionally, equity raising and domestic and international bond markets would also be critical for growth in infrastructure capex.
- Improved conditions of the financial institutions would also provide a thrust to industrial capex, which is at the cusp of a boom, owing to rising capacity utilization levels and manufacturing-focused reforms.

Banks also in favourable position to lend, with overall gross non-performing asset (NPA) reaching a 10-year low, at just 3.9%



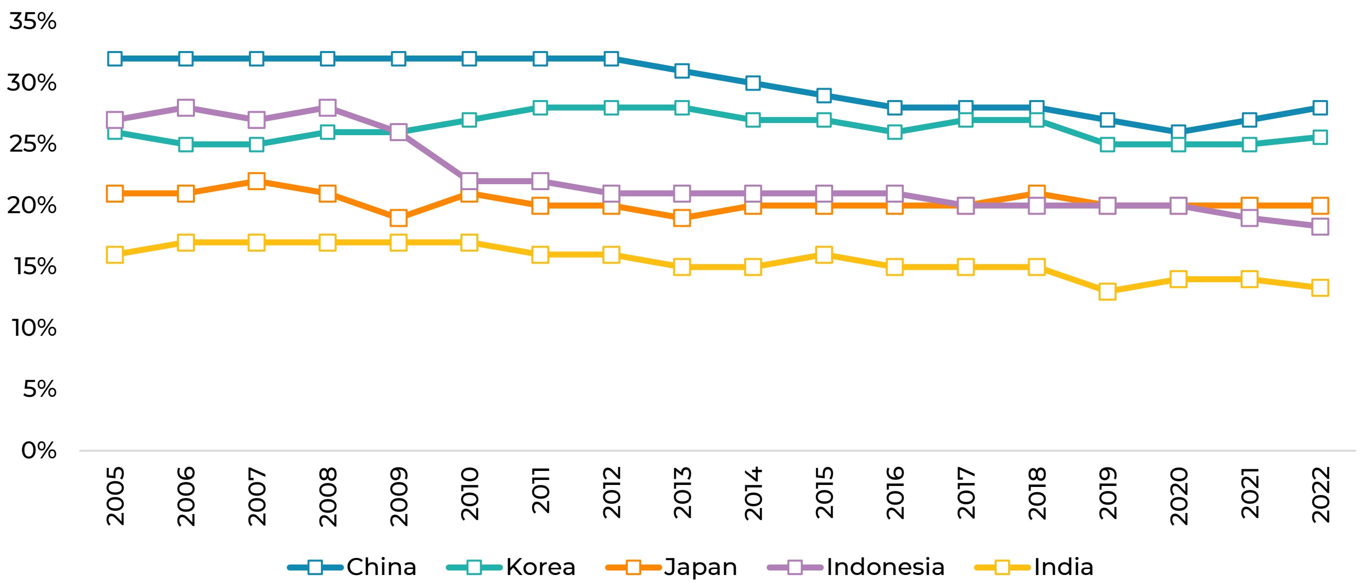
Source: Company reports, CRISIL MI&A Research

India's industrial capex at an inflection point

Rising capacity utilization levels across sectors and manufacturing-focused schemes such as PLI are likely to result in a surge in industrial capex. The PLI scheme will not only drive 9% of the total industrial capex in the next 4 fiscals but also provide attractive incentives to the approved players. This is likely to enhance India's attractiveness as a global manufacturing hub and enable it to narrow the gap with other advanced manufacturing economies such as China.

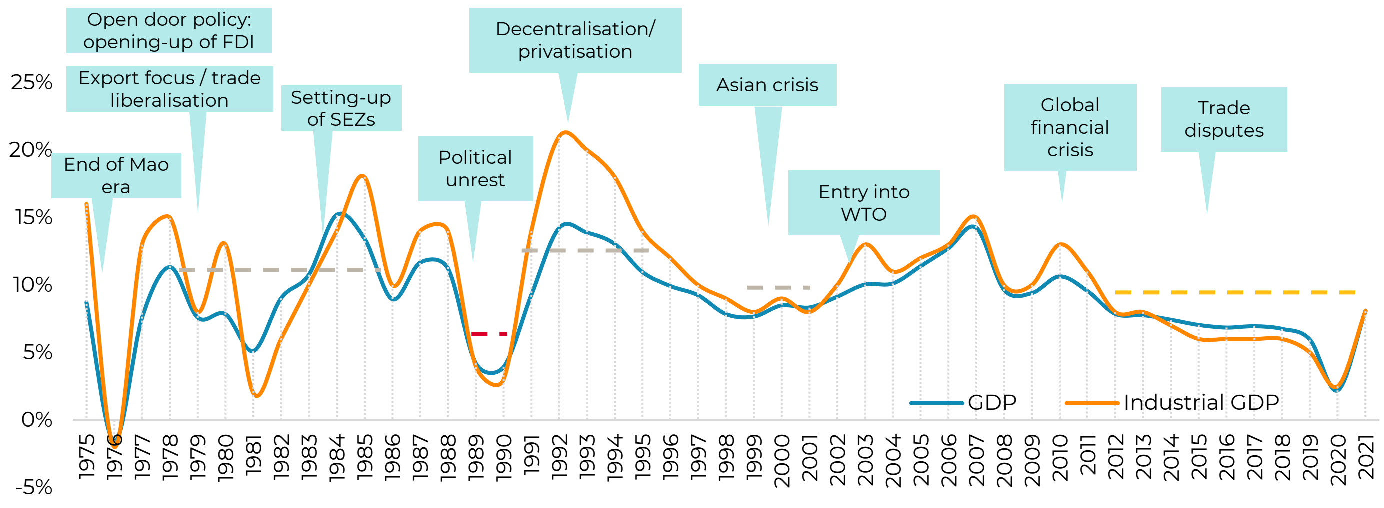
- As India embarks on its next phase of rapid economic growth, industrial capex is expected to play a pivotal role.
- So far, India has lagged peer South Asian countries like China and South Korea in terms of manufacturing sector's share in the GDP. This can be attributed to the delayed introduction of manufacturing-focused reforms vis-à-vis peer countries like China and Vietnam.
- For instance, growth in China's manufacturing sector was propelled by policies such as trade liberalization and the setting-up of special economic zones (SEZs), which eventually contributed 22% to China's GDP and 60% to its exports. Furthermore, China's entry into the World Trade Organisation (WTO) in 2001 massively boosted the potential of its exports and further buoyed its manufacturing sector.
- The situation has been no different for Vietnam, with the government policy push playing a critical role in ramping up the share of manufacturing.
- Contrarily, India's economic growth was driven by the services sector in the last 2 decades and the agriculture sector prior to that with manufacturing taking a backseat.
- Tax for new manufacturing companies has been reduced from 25% to 15%, also for corporations not seeking any incentives/exemptions have effective corporate tax rate of 25.17% which was earlier 30%.

Manufacturing as a % of GDP, lowest among Asian peers



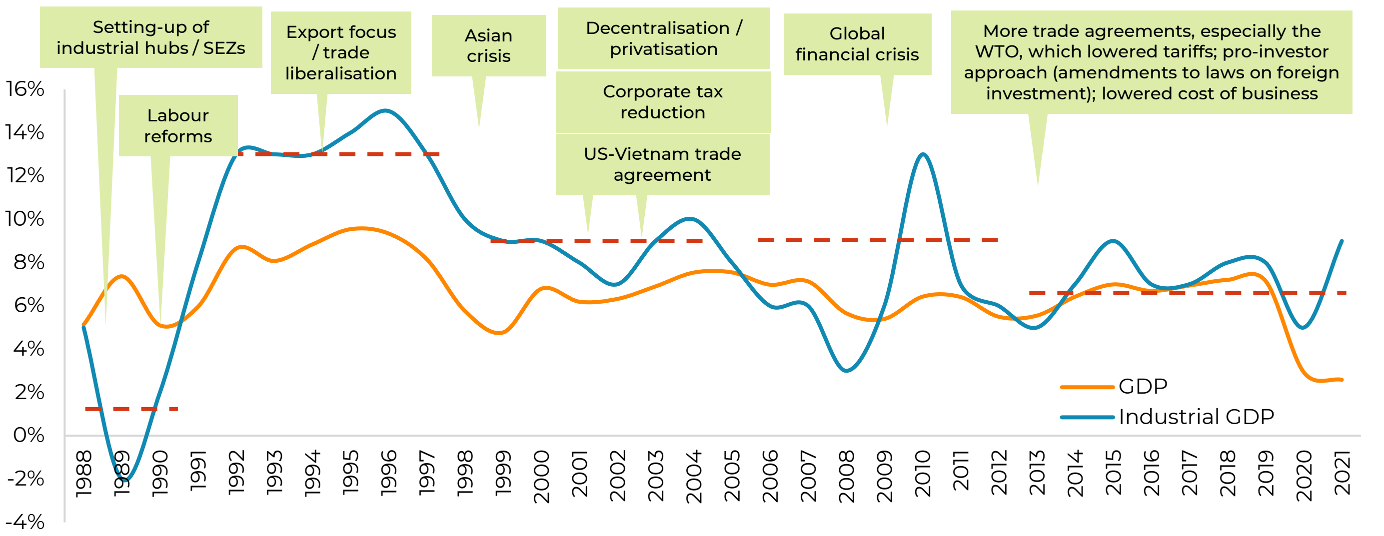
Note: 2022 figures for Japan is estimated as actuals are not yet available
Source: World Bank, CRISIL MI&A Research

China: Early years helped country's climb, recent years have witnessed a downfall



Source: World Bank, Industry papers, CRISIL MI&A Research

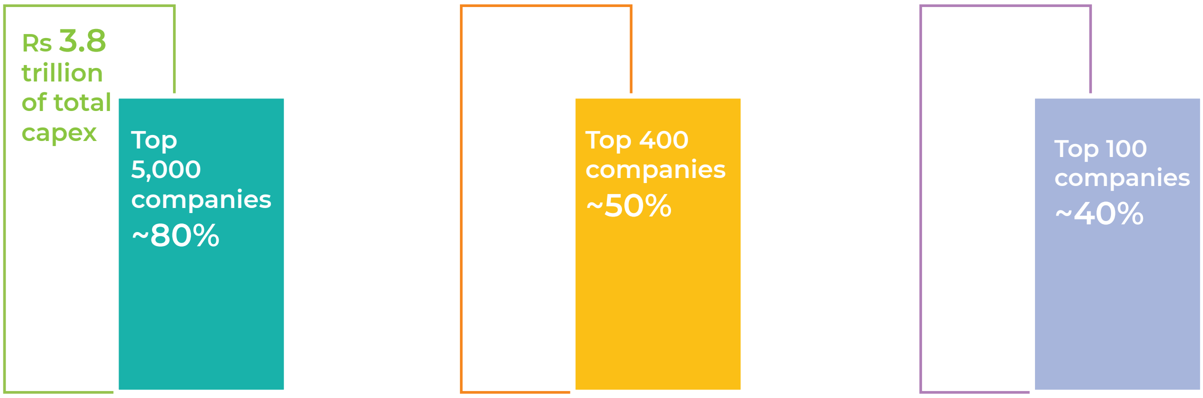
Vietnam: Industrialization led by foreign investment and export-focused policies



Source: World Bank, Industry papers, CRISIL MI&A Research

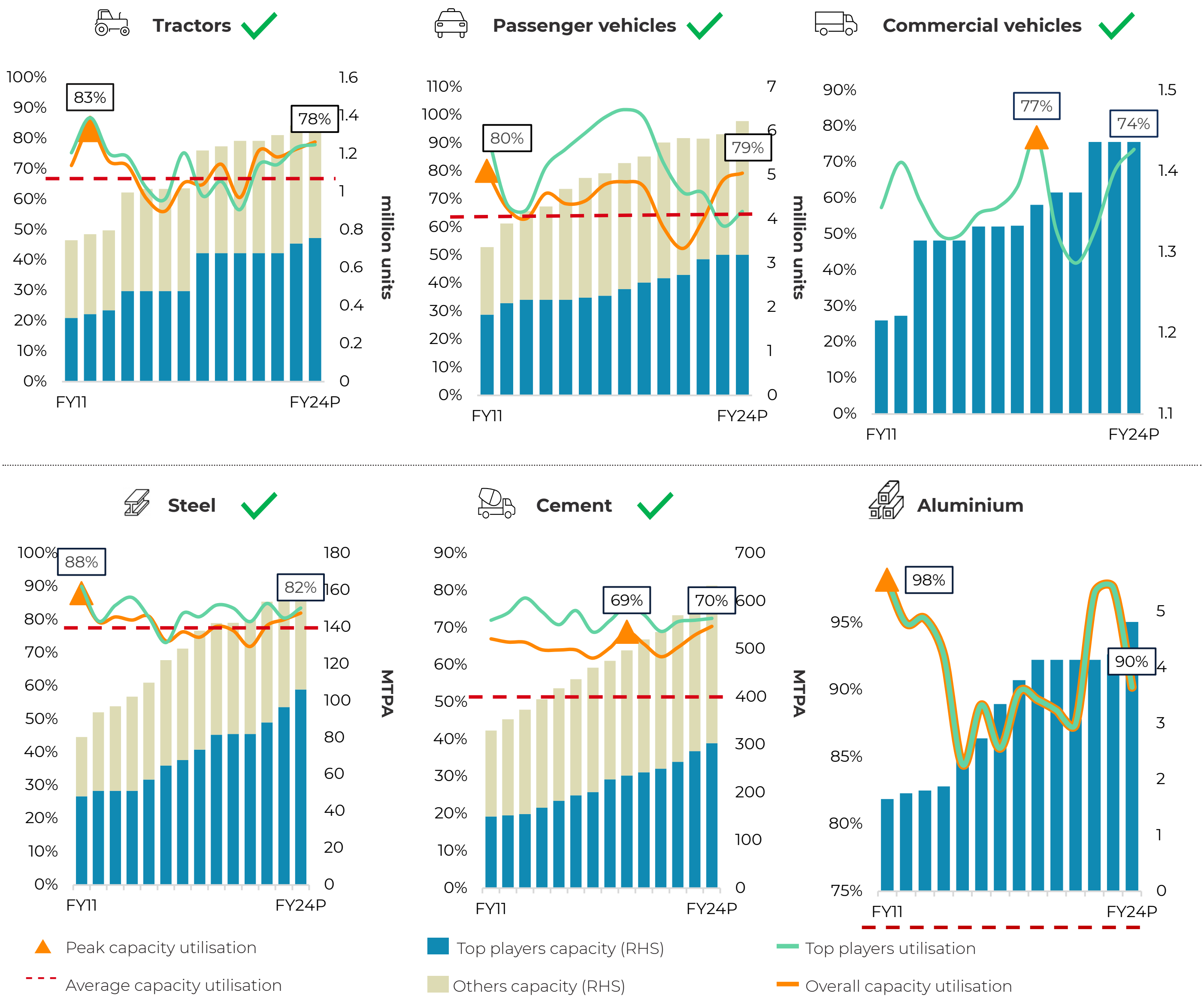
- However, with manufacturing-focused schemes such as 'Make in India' and the Production-Linked Incentive (PLI) scheme, the Indian manufacturing sector is primed for growth.
- Rising capacity utilization levels across sectors along with these manufacturing-focused schemes is likely to provide a thrust to industrial capex, which has traditionally been a concentrated affair with top 400 companies accounting for 50% of the overall industrial capex.
- In absolute terms, overall capex averaged Rs 4.2 trillion between FY20 and FY23. We see this number rising to ~Rs 5.9 trillion on average between FY24 and FY27, marking a ~1.4x increase on an annual basis.
- Overall, PLI and new-age sector capex could account for nearly 19% of the capex between FY24 and FY27.
- At a sectoral level, sectors such as oil & gas, automobiles and metals would be the flagbearers for industrial capex and would alone account for almost 50% of the industrial capex over the next 4 fiscals mainly due to capacity expansion and investment in emergent segments such as electric vehicles.
- Furthermore, as per CRISIL MI&A's analysis of capex plans of ~250 companies, around 50% of their announced capex would be completed by FY25, thereby implying robust industrial capex activity in the next few years, which would provide a thrust to the economic growth.

industrial capex a concentrated affair with top 400 companies accounting for ~50% of the overall capex



Source: Company reports, CRISIL MI&A Research

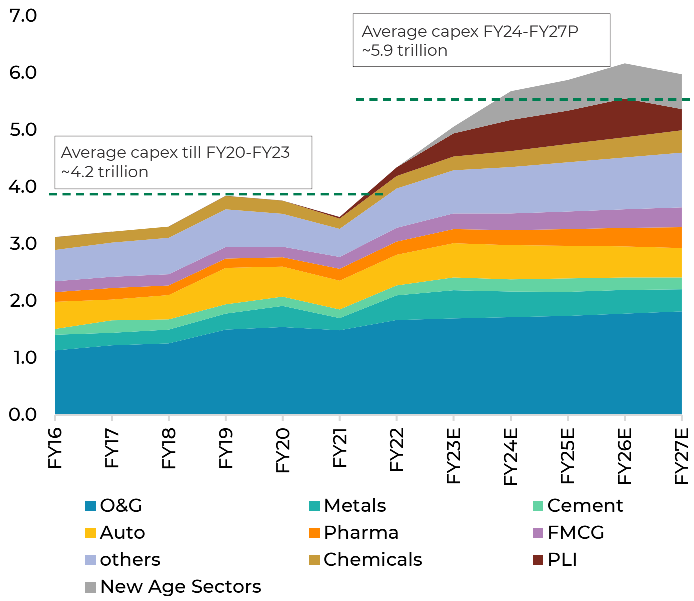
Most legacy assets breached the decadal average and were a notch below the all-time high in terms of capacity utilization



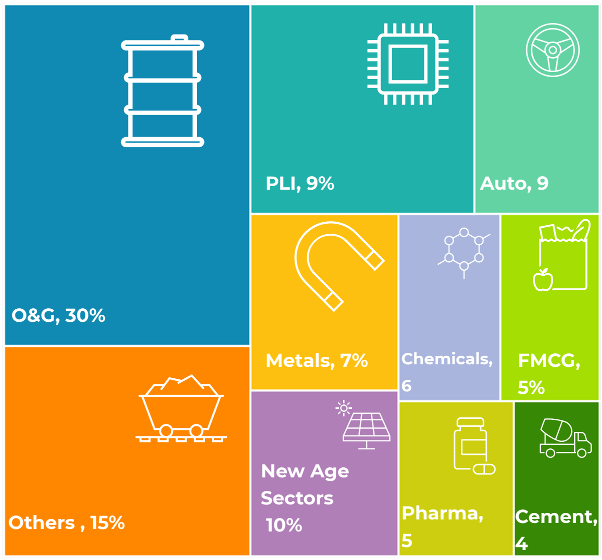
Source: Company reports, CRISIL MI&A Research

PLI and new-age capex drives Industrial growth

Sector-wise industrial capex



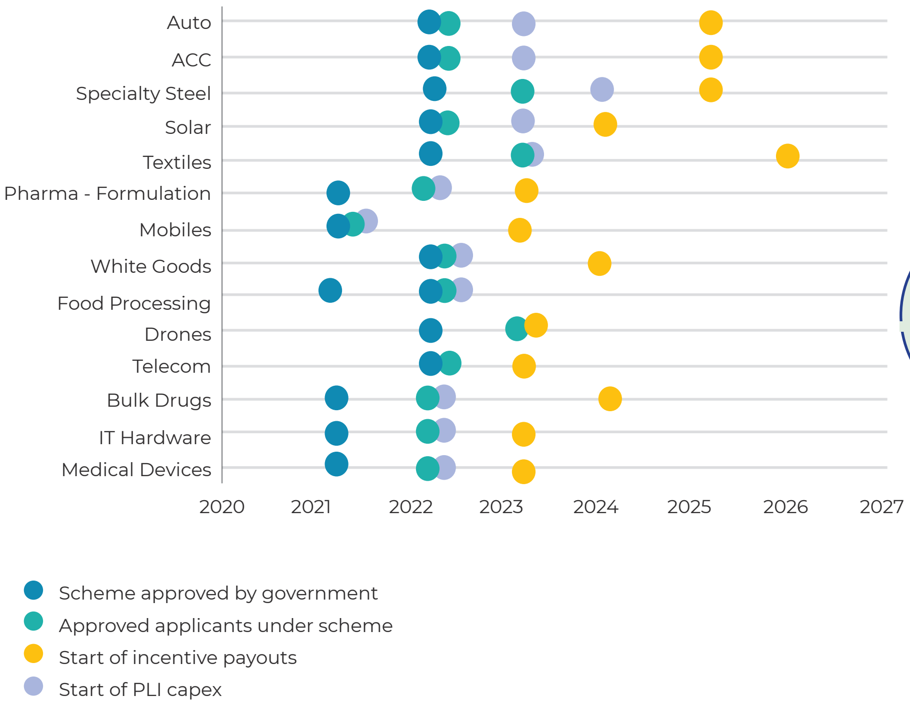
split over the next four fiscals

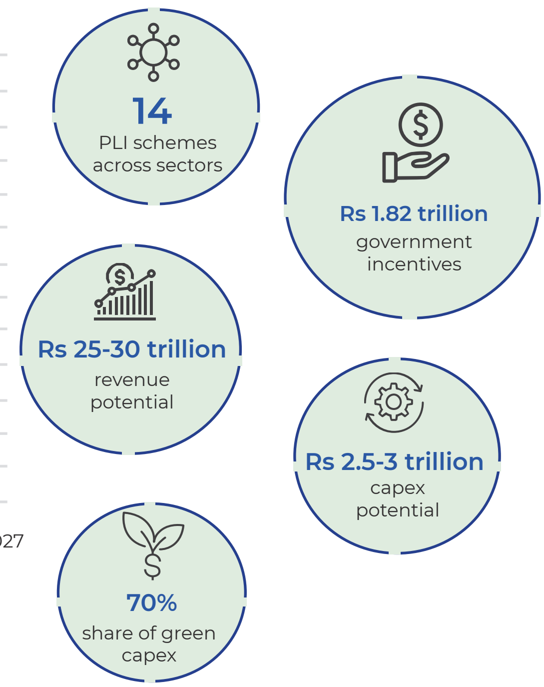


Note: New age sectors include green hydrogen, semiconductors, wearables and solar modules (excluding PLI); others include textile, consumer durables, mining and paper.
Source: CRISIL MI&A Research

PLI Scheme to boost industrial investments and enhance India's manufacturing potential despite certain monitorables

PLI Progress at a glance

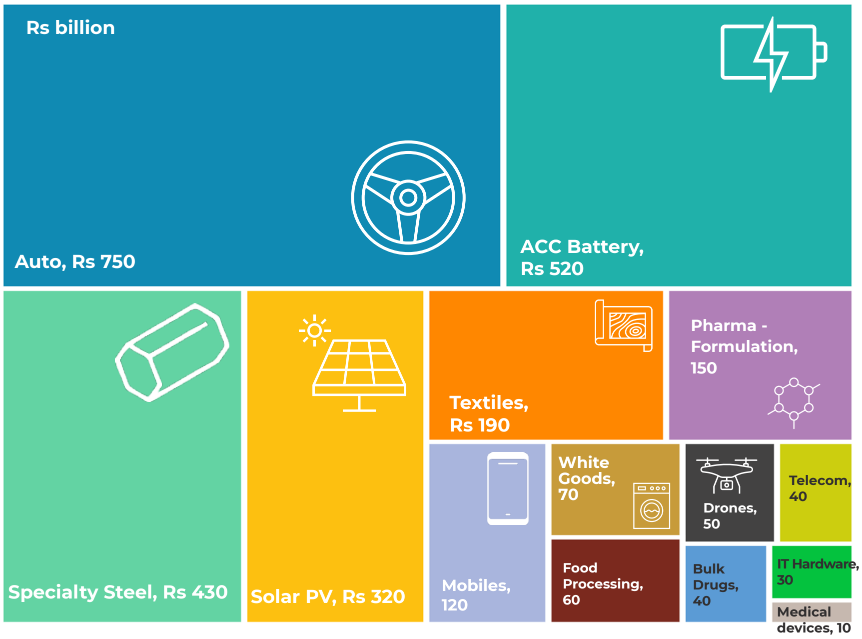




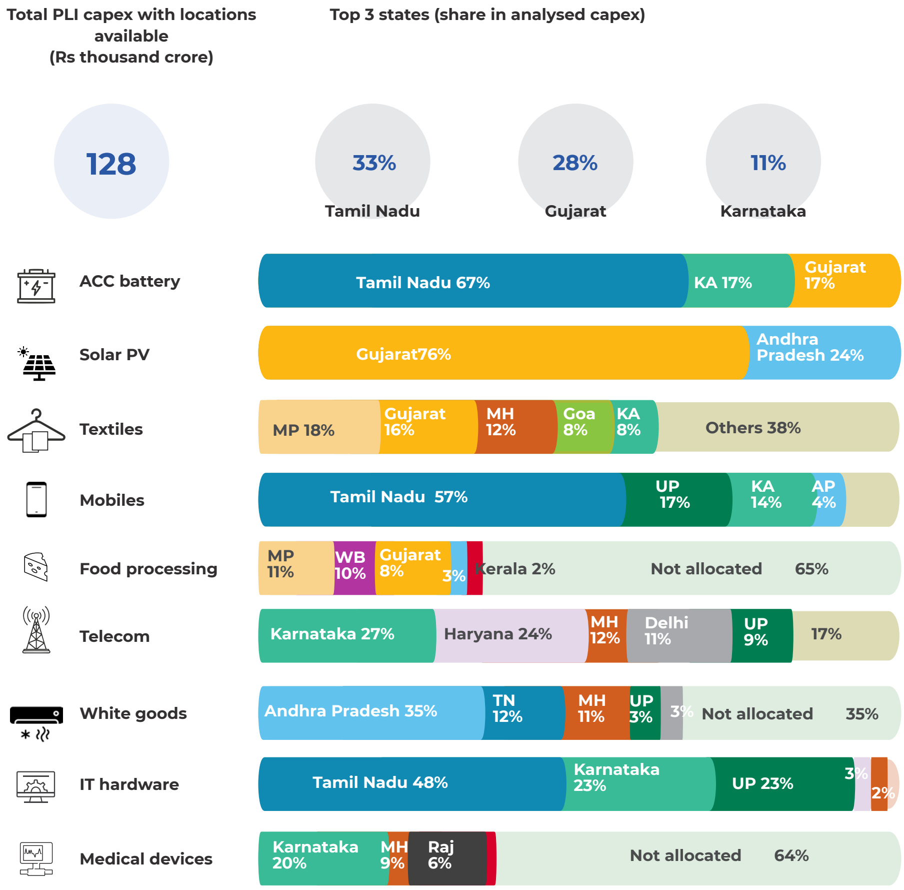
Source: PIB documents, CRISIL MI&A Research

- The PLI scheme, positioned by the government as a game changer in making India a global manufacturing hub, has been focusing on integrating existing manufacturing value chains to reduce import dependence and improving competitiveness to support exports as well.
- The scheme would dole out incentives of Rs 1.82 trillion for generating revenue close to Rs 30 trillion and capital spends of Rs 2.5-3 trillion. The numbers could go up as round two for a few sectors nears completion.
- Notably, top 3 sectors account for more than 60% of the total PLI capex and therefore, successful progression of these sectors are crucial for realizing the full potential of the scheme.

Rs 2.76 trillion capex; top 3 sectors to account for over 60% of the total spend



Source: Cabinet Ministries, PIB, CRISIL MI&A Research



Source: Cabinet Ministries, PIB, CRISIL MI&A Research

- CRISIL's assessment indicates that locations have been finalized for close to 50% of the capital spends with three states accounting for nearly 70% of the total spend. Land allocations at a discount, faster clearances, and other benefits have enabled these states to be better placed than the rest.

- As part of the scheme, the government would dole out close to Rs 1.82 trillion in incentives to the players undertaking the capital expenditure upon meeting the incremental sales targets. These incentives would not only boost the profitability of these players but is also likely to make their exports more competitive.

Top 3 sectors account for close to 50% of the total incentive payout under the PLI scheme

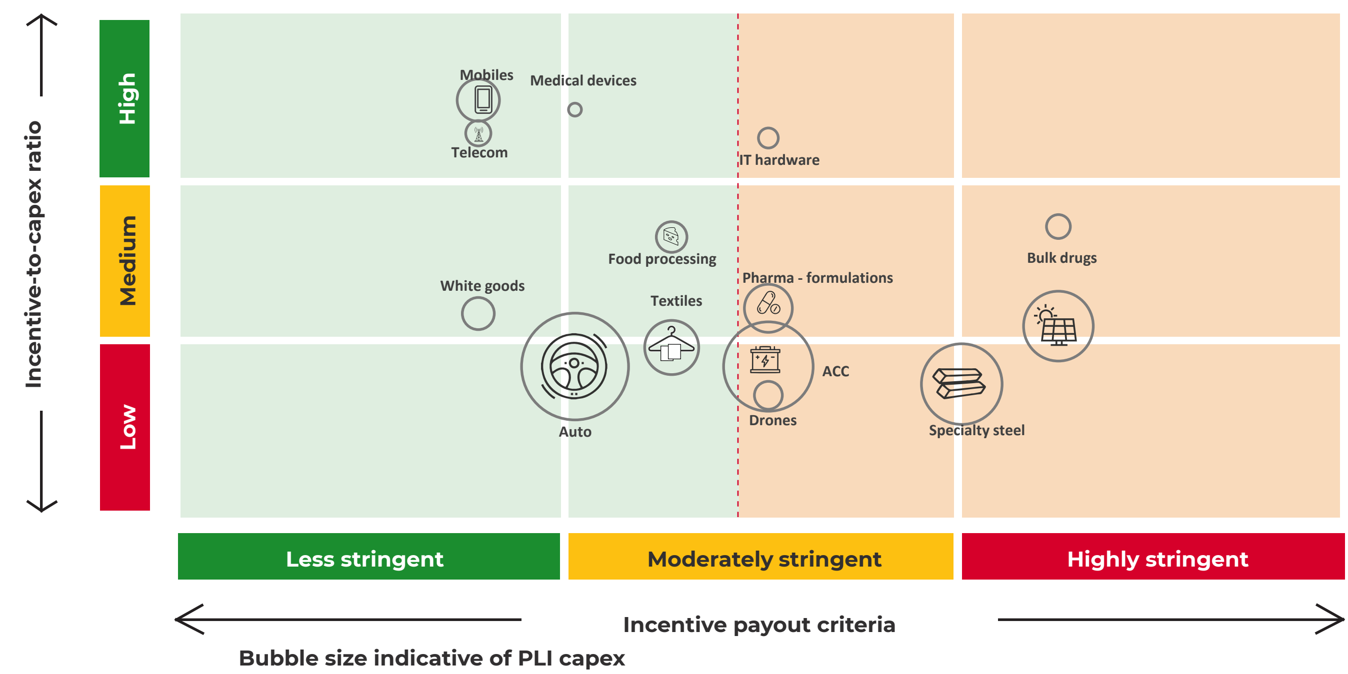
(in Rs billions)

Sector	Incentive payout	Share
Mobile	372	(20%)
Automobiles	259	(14%)
Solar PV	240	(13%)
ACC battery	181	(10%)
Pharma - formulations	150	(8%)
Telecom	122	(7%)
Food	106	(6%)
Textile	102	
IT hardware	69	
Bulk drugs	63	
Specialty steel	62	
White goods	61	
Medical devices	32	
Drones	1	

Note: % indicates the sector's share in total incentive payout
Source: Central government ministries, PIB, CRISIL MI&A Research

- However, post implementation of the scheme, the process for claiming incentive payouts has been pretty complex so far. Clarifications are required on inclusions and exclusions for quarterly disbursements by stakeholders and many stakeholders are holding discussions to address such concerns.
- Further, incentive criteria have evolved over time. An assessment conducted by CRISIL MI&A indicates that at least eight sectors where ecosystems are being established, meeting technical parameters will be crucial and a key monitorable to ensure incentive payouts are on time and without penalties.
- An evaluation shows that qualification criteria for at least 56% of incentive payouts across six sectors are relatively complex and stringent. This will hence remain a key monitorable for the scheme.

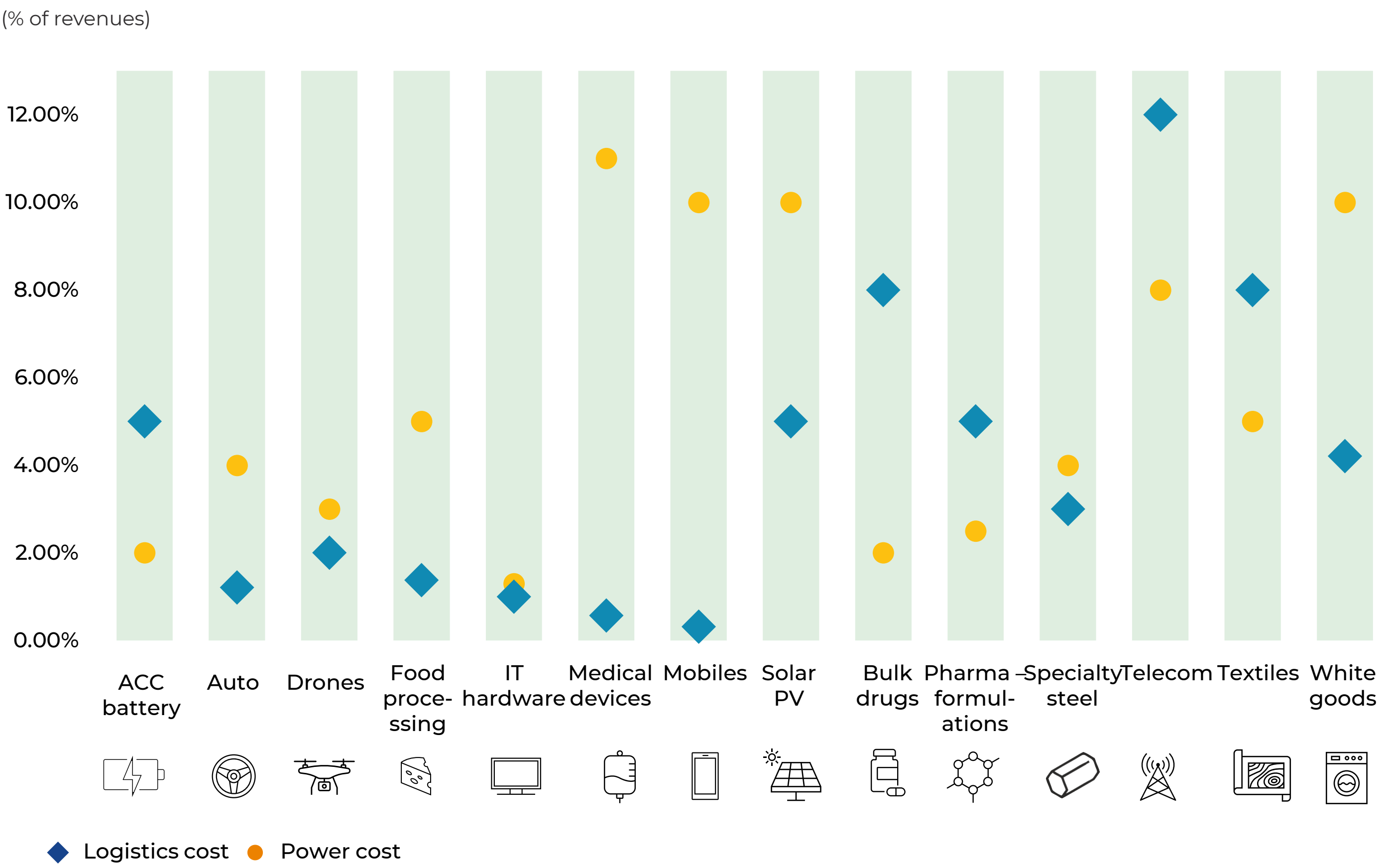
56% of incentive payouts linked to stringent criteria



Source: CRISIL MI&A Research

- A dip stick survey across a few sectors indicates that PLI will aid ecosystems to get established, though certain areas would need deeper focus.
- Additionally, in many of these sectors, India is ranked substantially lower in terms of scale. As a result, another round of scale-based incentives is essential for the key manufacturing sectors to reach its full potential.

Power and logistics costs are areas of focus for improving India's cost competitiveness further



	China	India	South Korea
Power cost (in $ cents)	8-9	10-13	8-9
Minimum wages (US$ 2019 per month)	217	65	1,256
Logistics performance index 2023 rank	19	38	17

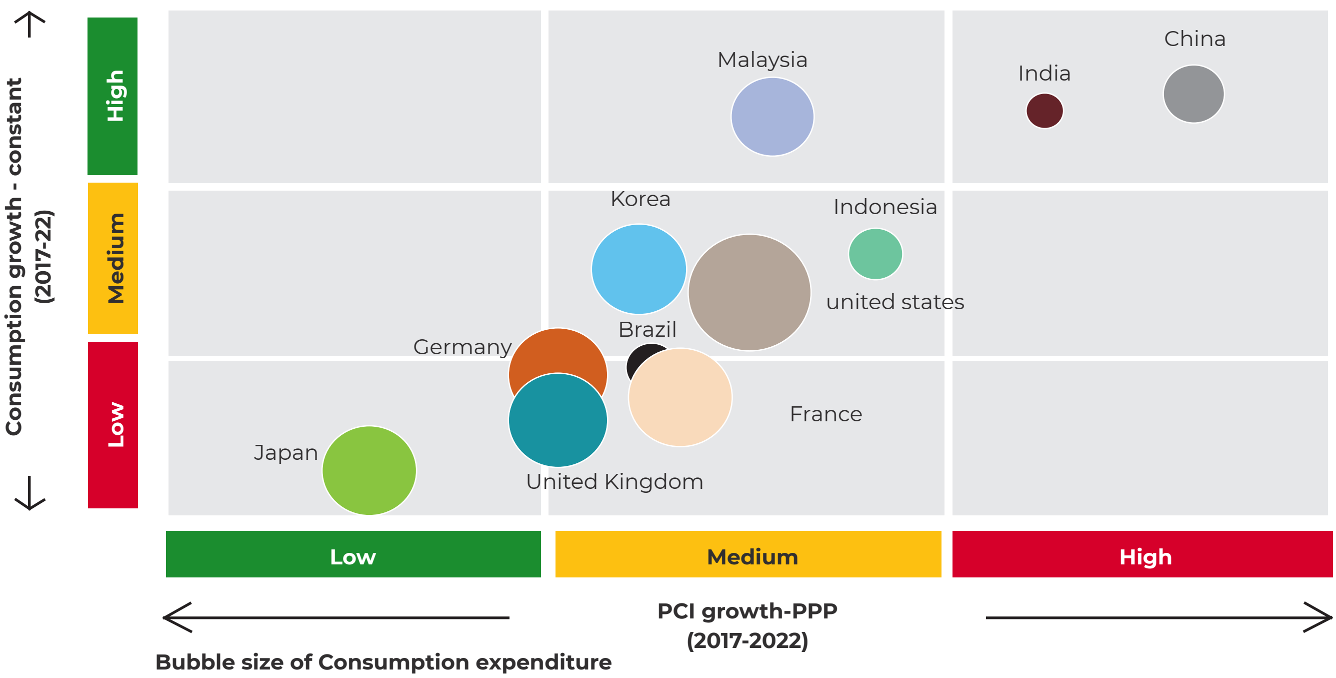
Source: CRISIL MI&A Research

India's consumption tale: modest origins to significant advances

India's GDP heavily relies on private consumption. Favorable demographics such as a growing working-age population, increased labor force participation, urbanization, and an expanding middle class are driving changes in consumption patterns with areas like health, well-being, and organic foods gaining prominence.

India derives nearly 60% of its gross domestic product (GDP) from private final consumption expenditure (PFCE). Consequently, external shocks have a limited impact on India. In comparison, China's and Japan's PFCE is 50%, while for other developed economies such as the US and the UK, it is ~70%. PFCE, in turn, is closely linked to per capita incomes, as demonstrated across economies. India has attained the world's fastest-growing economy tag of late and its PFCE is expected to grow substantially by fiscal 2028.

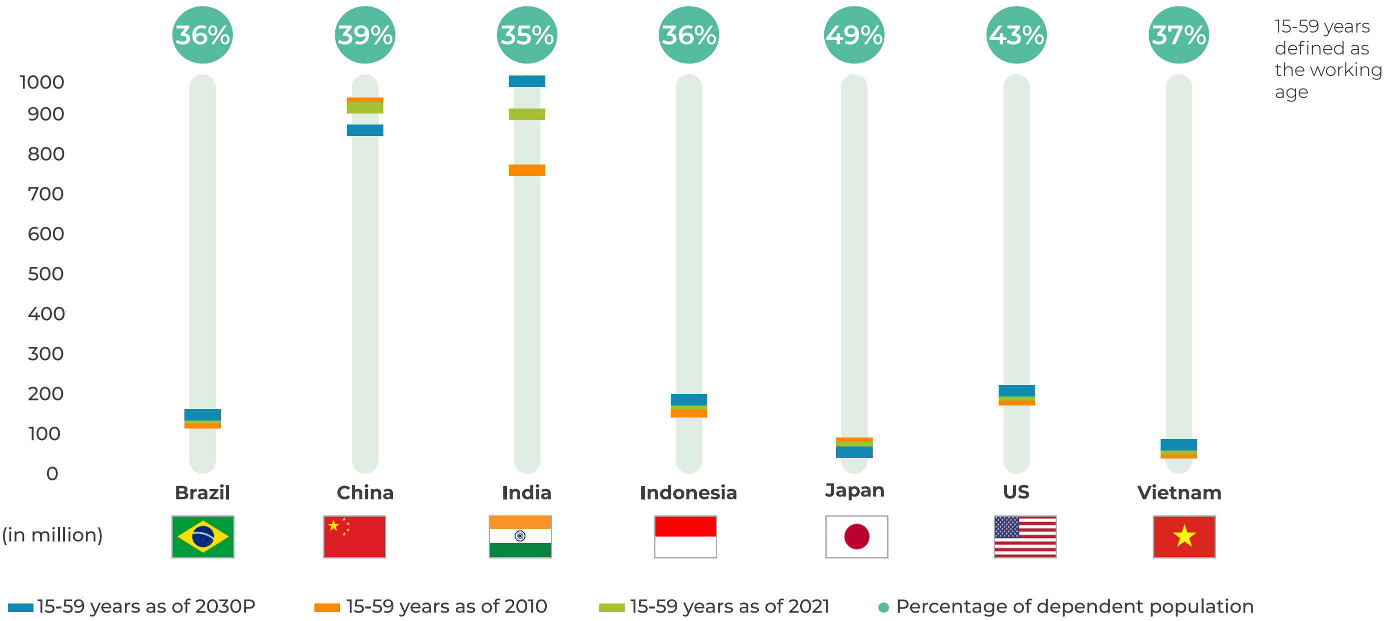
Consumption growth by country; PCI drives consumption



Note: PCI - Per Capita Income, PPP- Purchasing Power Parity
Source: United Nations, CRISIL MI&A Research

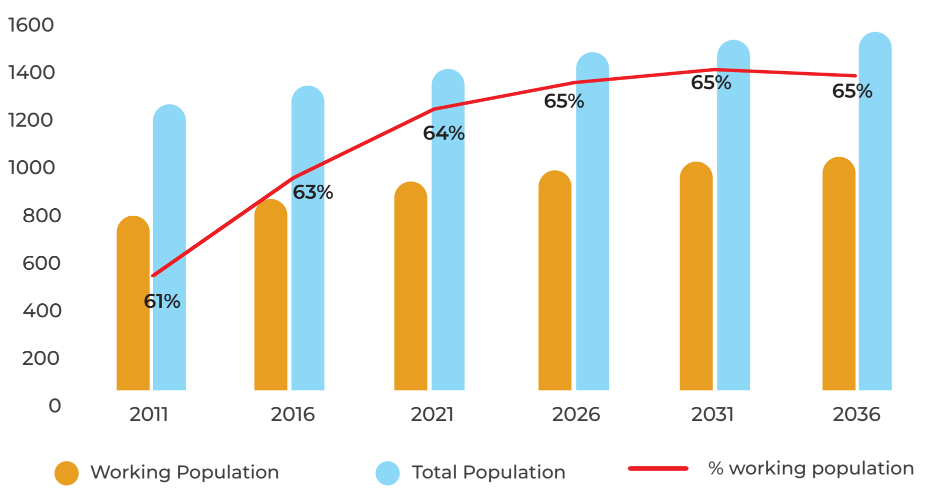
Drivers of consumption

India will have highest working age population than any other nation by 2030.



Note: The intermediate forecasts have been considered
Source: United Nations, CRISIL MI&A Research

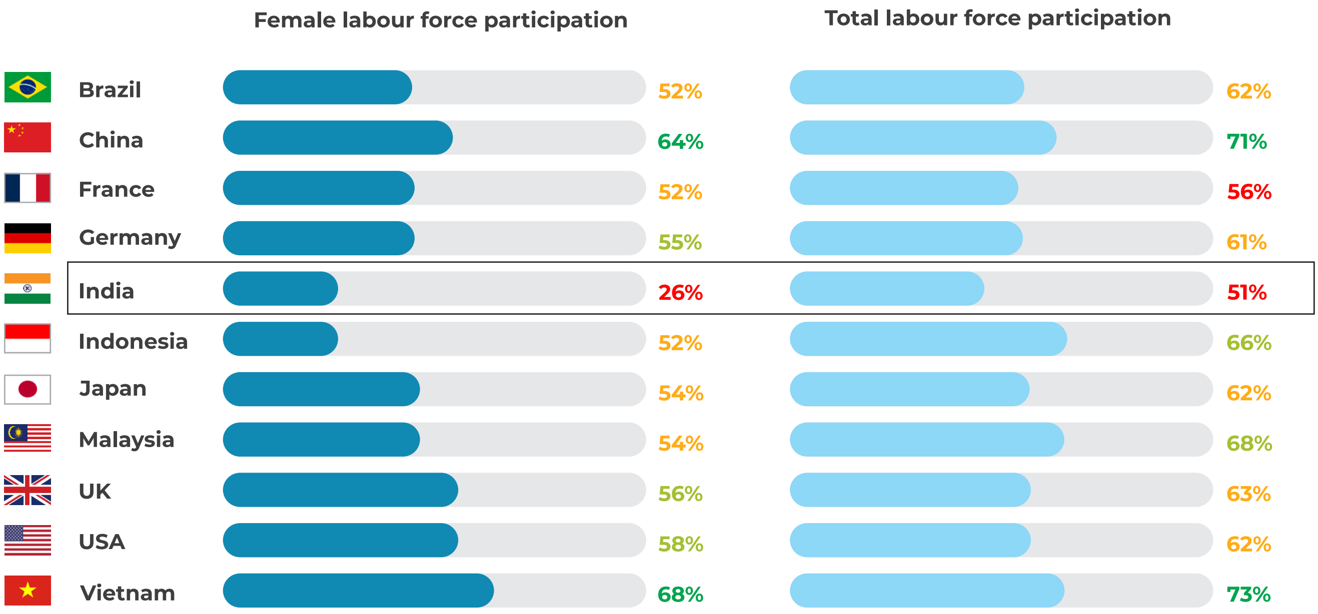
- By fiscal 2030:
  - India is projected to be home to the world's most youthful population, comprising over 982 million individuals in the working age group, resulting in a dependency ratio nearing to 0.35.
  - India's working-age population may surpass China's by 15% and exceed the combined working populations of the US, Japan, Brazil, Indonesia, and Vietnam by ~50%.



Source: MoSPI, CRISIL MI&A Research

- Moreover, the participation rate of women in India's labour force currently stands at 26%, one of the lowest worldwide. This suggests that there is significant untapped earning potential among Indians.

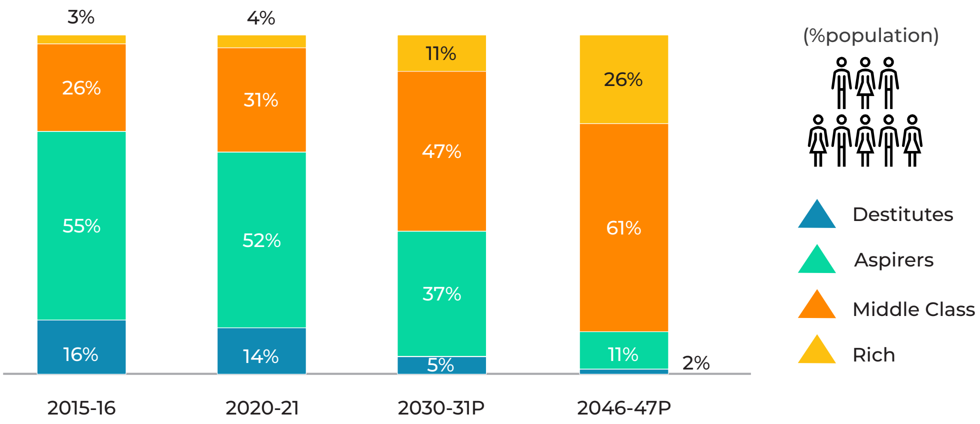
There is room for labour force participation to increase further



Note: Female labour force participation: Red: <50%, Yellow:50-55%, Light green: 55-60%, Dark green:>60% ; Total labour force participation: Red: <60%, Yellow: 60-65%, Light green: 65-70%, Dark green: >70%
Source: World Bank, CRISIL MI&A Research

- With a population of nearly 200 million middle-class households with an average income of Rs 1.5 million ($18,750), middle-income individuals in India are poised to contribute to ~55% of the increased consumption spending by fiscal 2030.

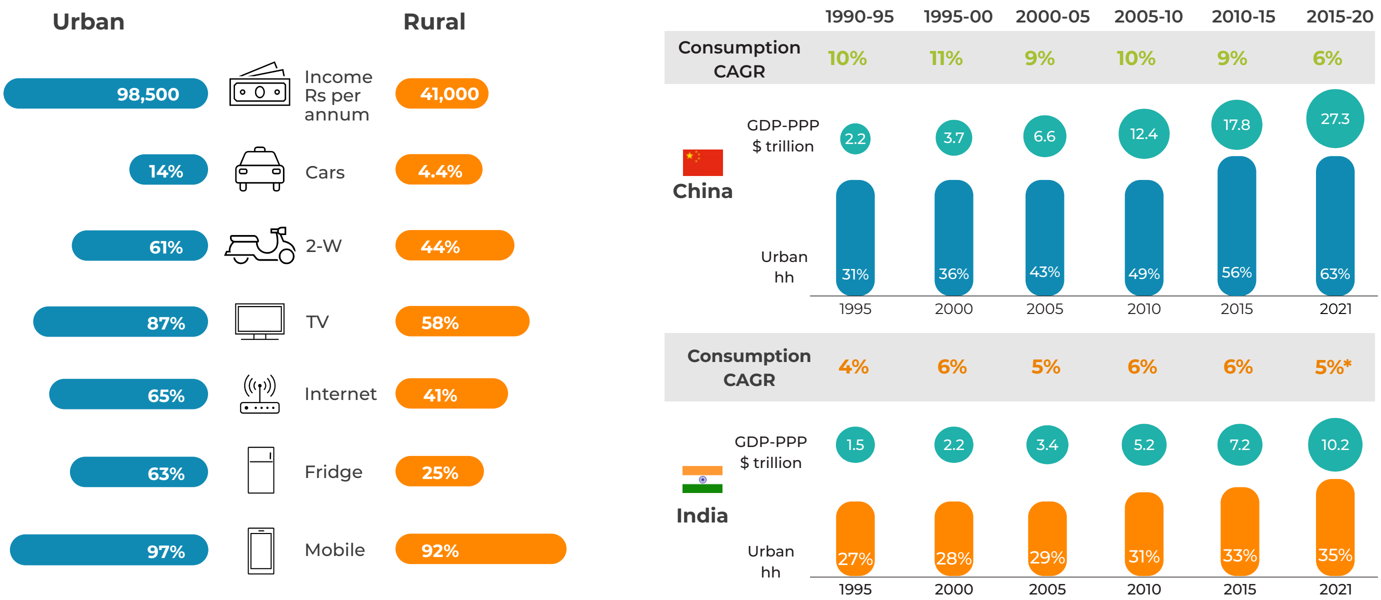
Shift from bottom-of-the-pyramid to middle class



Note: Destitute <Rs 125,000 per annum, Aspirers Rs 125,000-500,000, Middle class Rs 500,000-3,000,000, Rich >Rs 3,000,000
Source: PRICE Report

- Rising income levels will shift India from an economy driven by aspirations to one led by a robust middle class. This shift will result in consumer spending increasing from ~$1.87 trillion currently to ~$5.16 trillion by fiscal 2031.
- The middle-class and high-income segments are expected to be primary drivers, contributing to 55% (~$1.82 trillion) and 31% (~$1.03 trillion) of all incremental consumption, respectively.

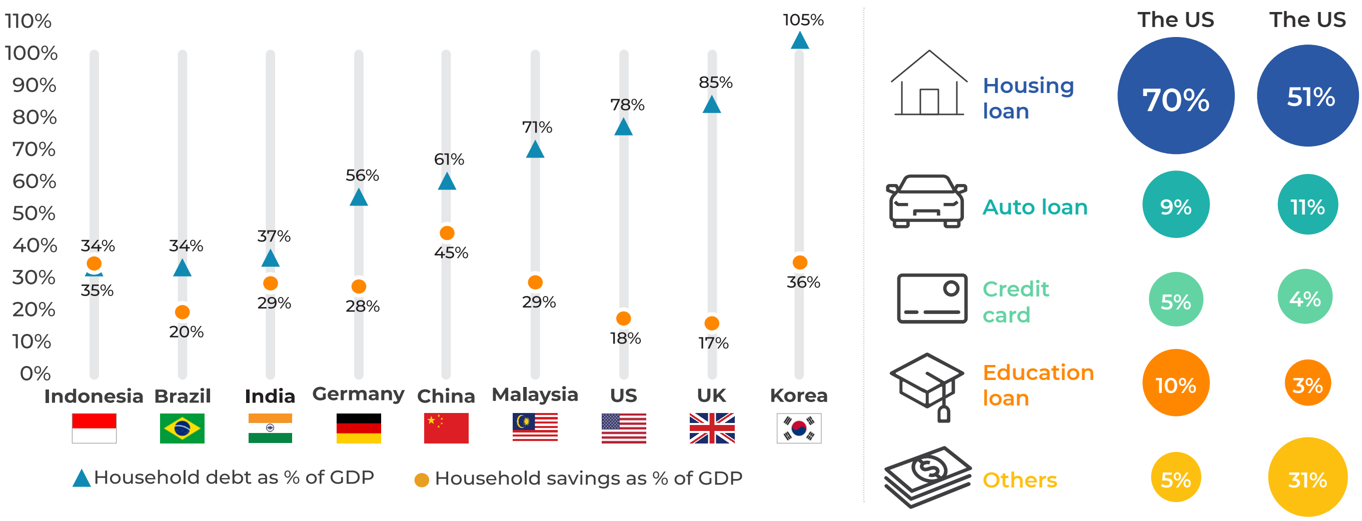
Urban-rural divide stark in India, rising urbanisation to drive healthy growth



Note: Penetration % of households that own, India consumption CAGR is for 2015-21
Source: NFHS-5 Survey 2019-21, World Bank, CRISIL MI&A Research

- India remains a story of two halves. One part of India has an income of 2.2x, on average, of the other. This, in turn, reflects in the penetration levels across key segments. Penetration levels in India also remain significantly lower than in China or most BRIC economies as urban incomes are almost double that of rural incomes.
- Hence, planned urbanisation, a key target of the government, will trigger the next wave of sharp consumption growth.

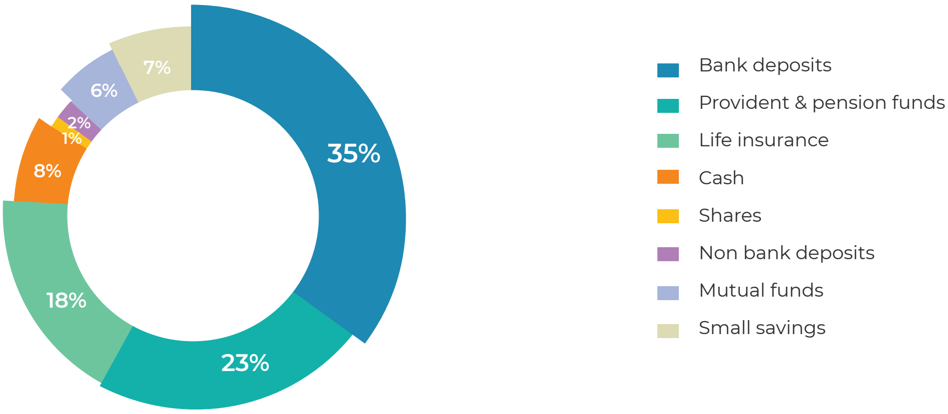
India's savings rate among the highest, low exposure to debt good for consumption



Note: Others include consumer durables, gold, healthcare, personal loans etc.
Source: World Bank, CRISIL MI&A Research

- India's savings rates may be comparable with most of its Asian counterparts, but low household debt augurs well for consumption growth in the long term. Further, a lower proportion of long-tailed housing loans and a better skew towards liquid savings would also boost consumption growth.

84% Indian households savings are in less risky liquid financial assets; only 7% are invested into relatively riskier assets like shares and mutual funds



Source: Indian household savings data, RBI, CRISIL MI&A Research

- CRISIL MI&A Research finds 84% of savings were in safe and secure investments, 8% in cash and only 7% in risky instruments such as shares and mutual funds.
- Overall, Indians continue to avoid risky instruments.
- Share of liquid assets rising as savings grow, spendable cash at nearly a quarter of financial savings.

Premium products to continue outperformance across sectors

		FY20-FY22	FY23	FY24P	
Cars and UVs	Above Rs 1 million	146%	97%	↑	Higher waiting period of premium vehicles compared with lower-priced ones
	Below Rs 1 million	-9%	30%	↑	
Two Wheelers	Above Rs 90,000	-12%	44%	↑	Increasing model launches in >Rs 90,000 segment; rising EV penetration with EVs concentrated in >Rs 90,000 segment
	Below Rs 90,000	-24%	16%	↑	

Chart represents sales volumes of PVs and 2Ws; FY22 growth is over FY20 and FY23 growth is for 9MSource: SIAM, CRISIL MI&A Research

	FY20-FY22	FY23	FY24P	
Air conditioners	14%	36%	↑	Shift from window ACs to split/inverter ACs driving premiumisation
Small household appliances	14%	11%	↑	High penetration as well as increase in prices of fans due to BEE rating revision to keep growth moderate

Chart represents revenue growth of a sample set of companiesFY22 growth is over FY20 and FY23 growth is for 9M Source: Company reports, CRISIL MI&A Research

	FY20-FY22	FY23	FY24P	
Premium food	20%	16%	↑	Higher consumption in urban market, which has high price elasticity; companies in RTE/RTC and instant food driving growth
Regular food	-1%	21%	↑	Higher consumption in price sensitive rural markets; Low pack sizes to drive sales

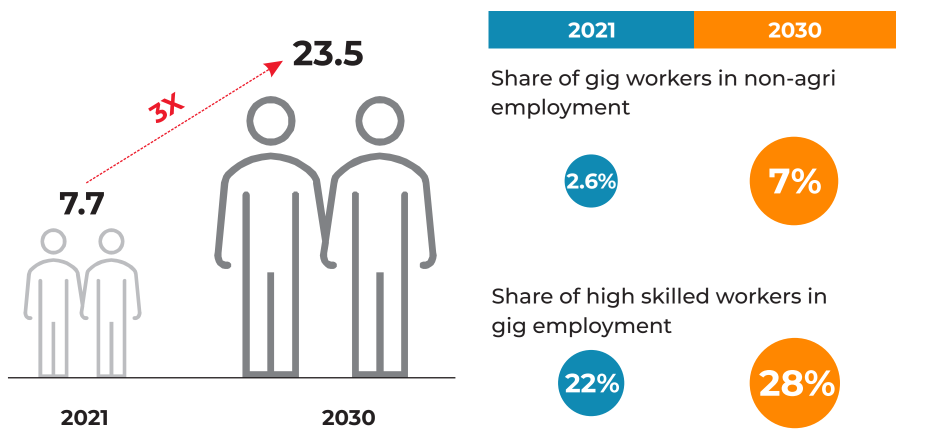
		FY20-FY22	FY23	FY24P	
5-star hotels	RevPAR	-29%	134%	↑	Despite increasing ARR, occupancy level is expected to remain at all-time high
	Occupancy	51%	72%	↔	
Airlines	Passenger traffic	-42%	73%	↑	Passenger traffic to surpass pre-Covid levels in FY24 and fares to remain stable
	Blended fare	8%	29%	↓	

Note: EV: Electric vehicle, BEE: Bureau of Energy Efficiency, RTE: Ready to eat, RTC: Ready to cook, ARR: Average room rate, RevPAR: Revenue per available room

- The pandemic-induced lockdowns and subsequent income setbacks had a disproportionate impact on low-income groups, exacerbated by a sustained period of inflation. In contrast, high-income individuals maintained stable incomes and savings over fiscals 2021 and 2022, owing to reduced travel and spending on social events caused by the lockdowns.
- This uneven recovery is evident across various consumption sectors, encompassing consumer discretionary goods such as automobiles and two-wheelers, consumer durables, and consumer discretionary services such as hotels and airlines.

Gig employment may lead to emergence of new consumption patterns

India's gig workforce to rise 3x; almost one-third to be high skilled



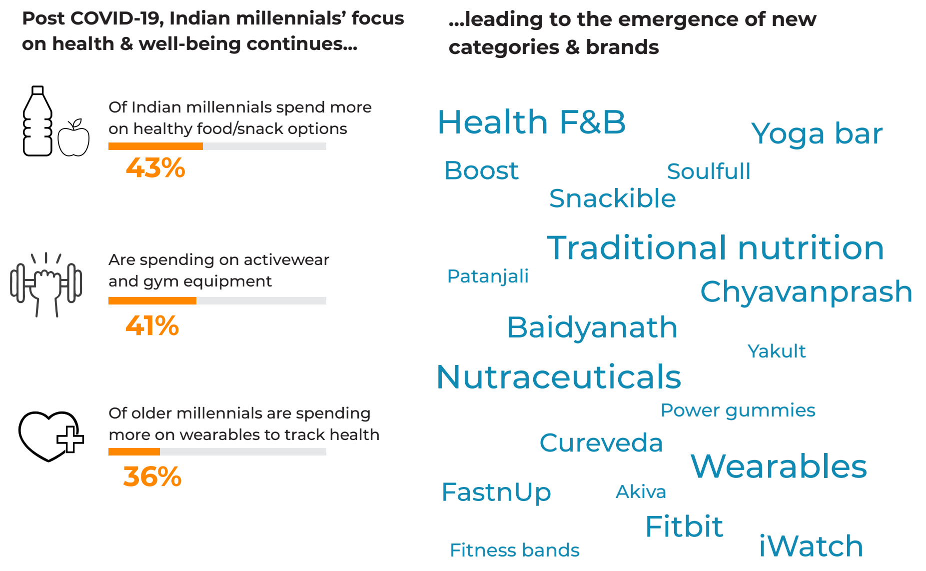
Source: CRISIL MI&A Research

- The consumption patterns of Indian consumers are shifting, leading to a rise in emergent segments such as food delivery, health and well-being, and organic foods. While these segments are in their nascent stages currently, they present immense growth opportunities going forward.
- A large proportion of the incremental skilled work force now earns on an hourly basis. The flexible income is used either to generate incremental income for the existing work force or support new entrants in the work force.

Digitalisation is changing consumption patterns, shifting focus towards niche segments

Source: WEF, Industry, CRISIL MI&A Research

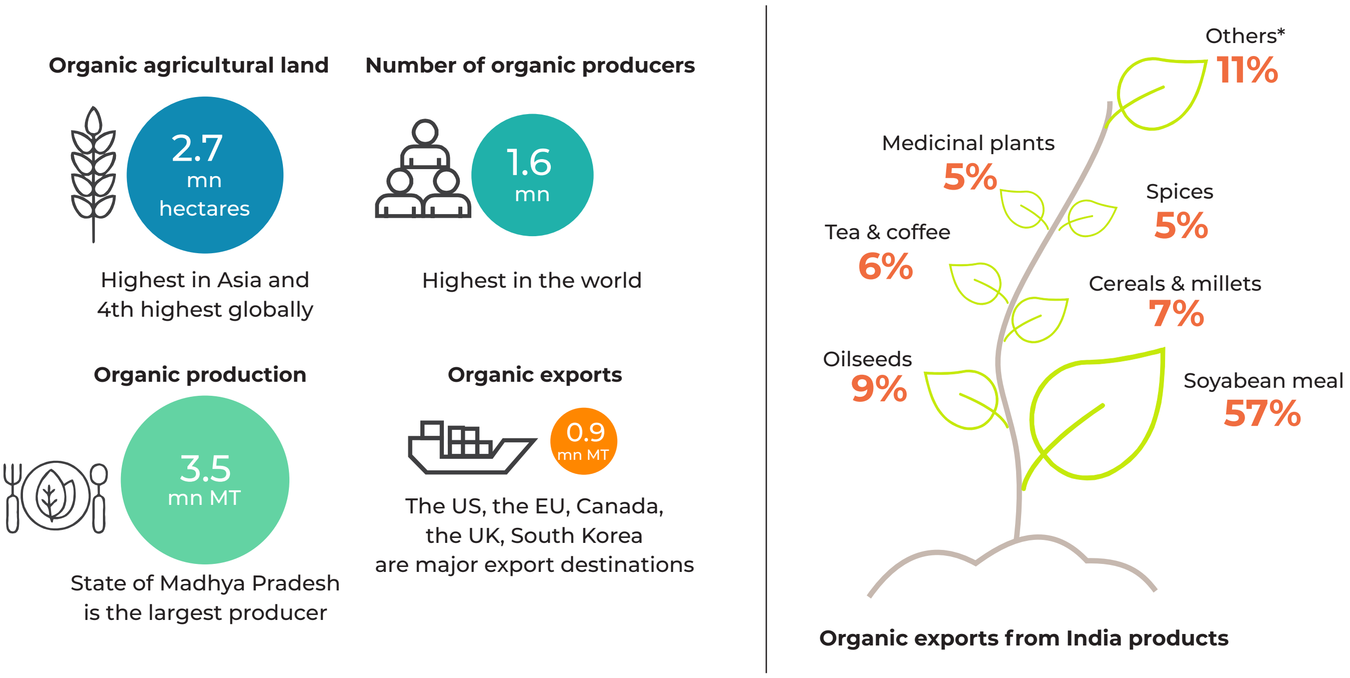
Health and well-being, a new area of spend



Source: Industry, CRISIL MI&A Research

- Companies like the Tata Group have recently made investments in startups like CULT, which offer comprehensive health and well-being solutions. Similarly, enterprises such as Reliance Industries are venturing into the diagnostics sector, which falls more into the realm of preventive medicine rather than traditional healthcare.
- Conglomerates like ITC are also considering acquisitions in the rapidly expanding nutri bar segment, which has experienced a 30% growth in last fiscal and has a market size of nearly $10 million in India.

Organic food spends have been on a rise even after the pandemic



Source: FAO, CRISIL MI&A Research

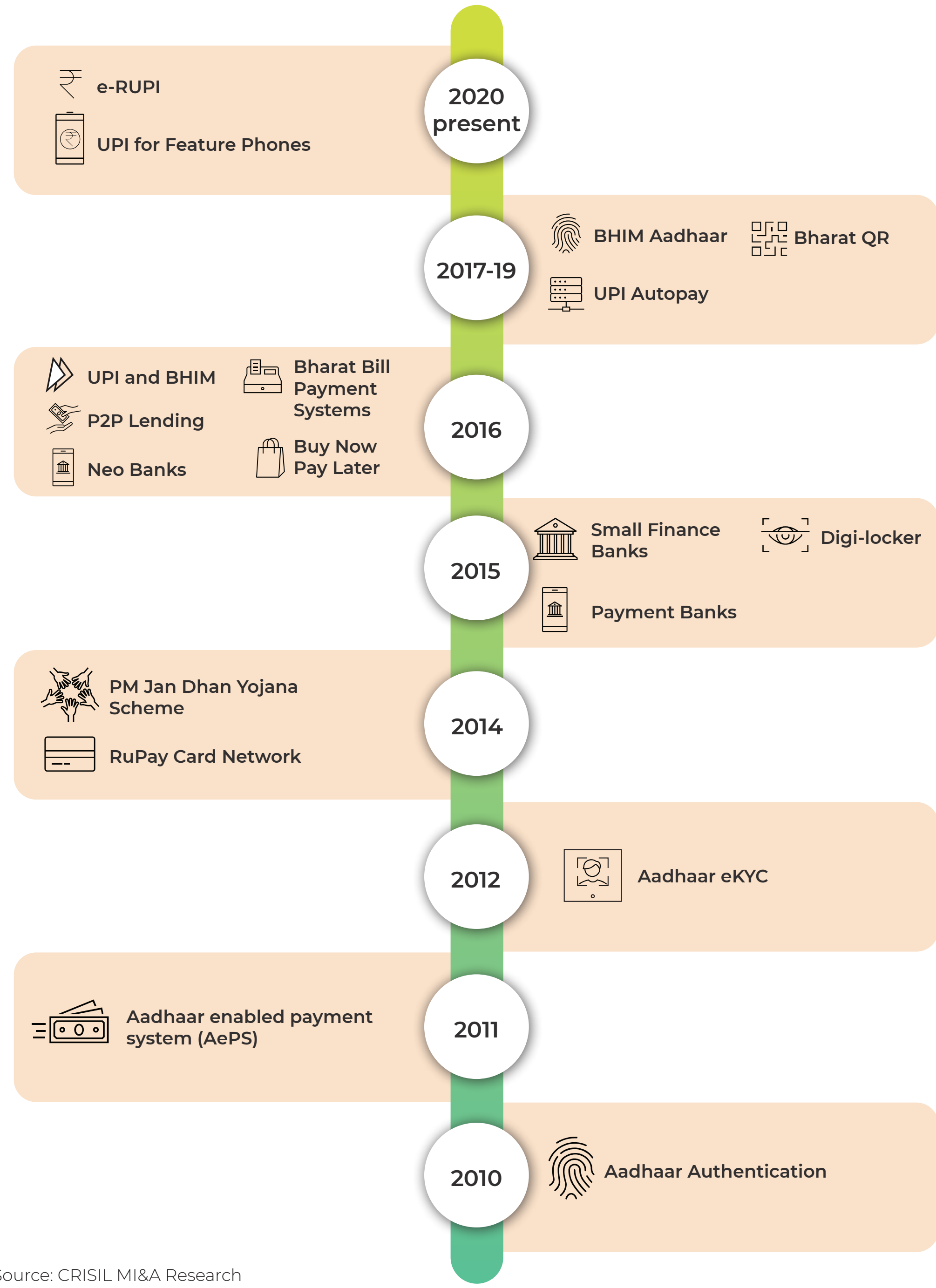
India's organic food production was 3.5 million tonne (MT) as of fiscal 2022, with exports at 0.9 MT and total realisation at $1.04 billion. Realisation of organic foods is 3-4x normal produce. They also enjoy better margins owing to the presence of branded players. Growth in the domestic organic food market has been multi-fold, especially in pulses, grains and fruits.

Digital initiatives to empower future

The India Stack, supported by increasing mobile and internet penetration, has transformed digital solutions, impacting consumption behaviours through E-commerce and real-time UPI payments. The successful global adoption of UPI has already kickstarted India's journey towards becoming a global leader in technology. Furthermore, with the presence of one the largest talent pool with AI-related skills, India is also well positioned to benefit from the upcoming AI-driven digital revolution.

India has seen a spate of digital innovations since fiscal 2010. India Stack is a set of digital infrastructure components that collectively enable various entities, including governments, businesses, and individuals, to interact and conduct transactions electronically. The creation of India Stack is facilitated by government to widen access to financial services, which is a set of open Application Programming Interface (APIs) and digital public goods, has formed the backbone of multiple tech-based innovations, opening up new investment opportunities that would further strengthen the fundamentals of the Indian economy. These innovations are bringing about a transformation in the patterns of payment and skill development.

India's digital technology prowess has grown rapidly since fiscal 2010



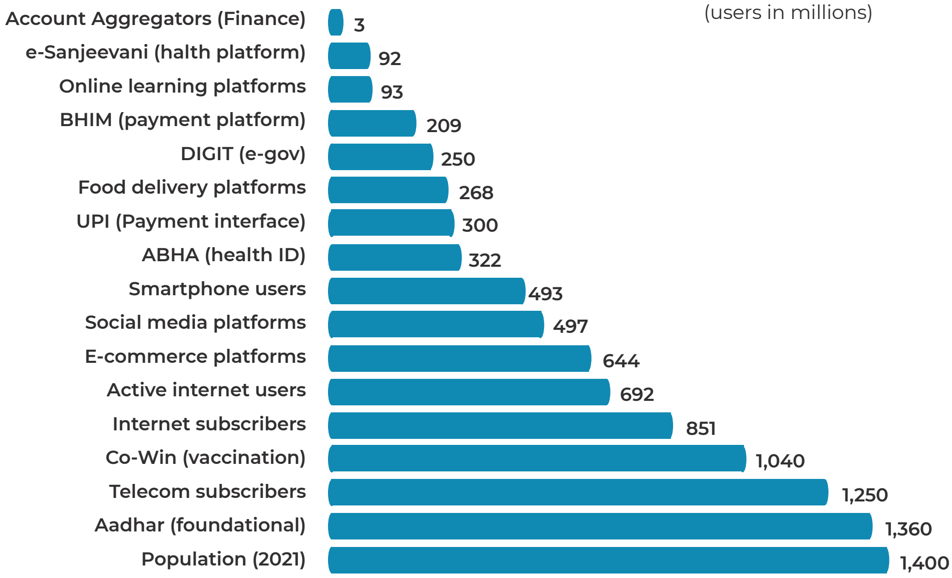
Source: CRISIL MI&A Research

India Stack facilitates - tech-based innovations

Source: CRISIL MI&A Research

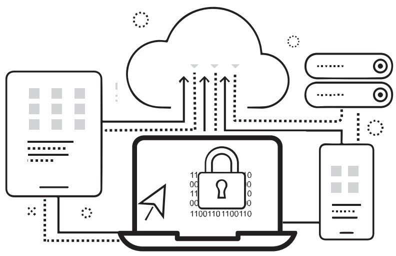
- India Stack has played a crucial role in advancing digitalisation in the country.
- This comprehensive digital infrastructure framework, which encompasses open APIs and technological capabilities such as Aadhaar for digital identity, e-KYC for paperless authentication, digital lockers for secure document storage, and Unified Payments Interface (UPI) for seamless, real-time digital transactions, has promoted and facilitated adoption of digital services.

Penetration levels across most digital technology parameters



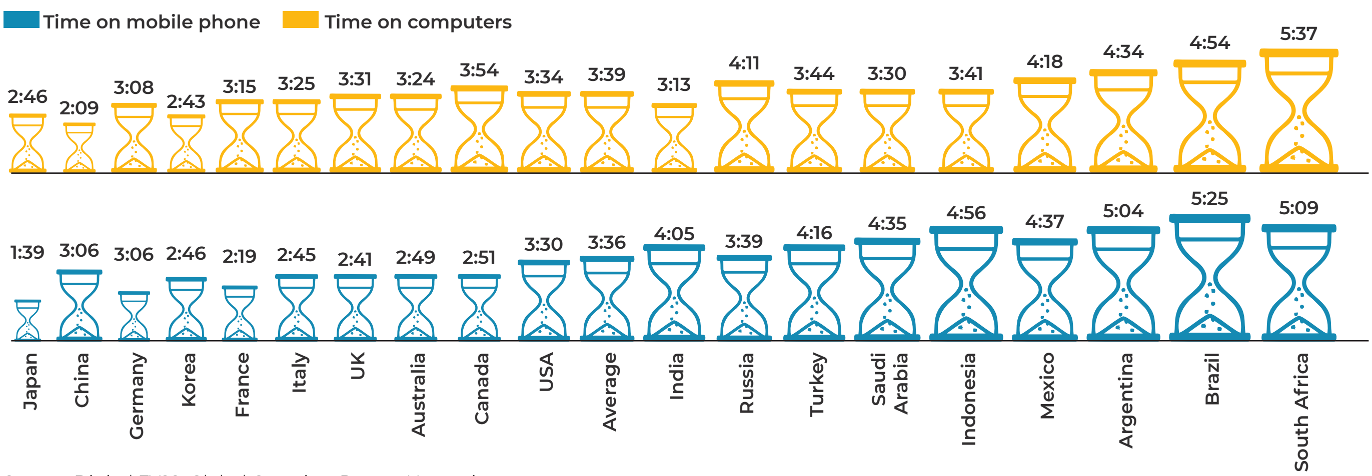
Source: OECD.AI, Crisil MI&A Research

India has considerable potential for advancements in digital technology, given the high penetration of digital platforms.



Computer and mobile usage of Indians among the highest globally

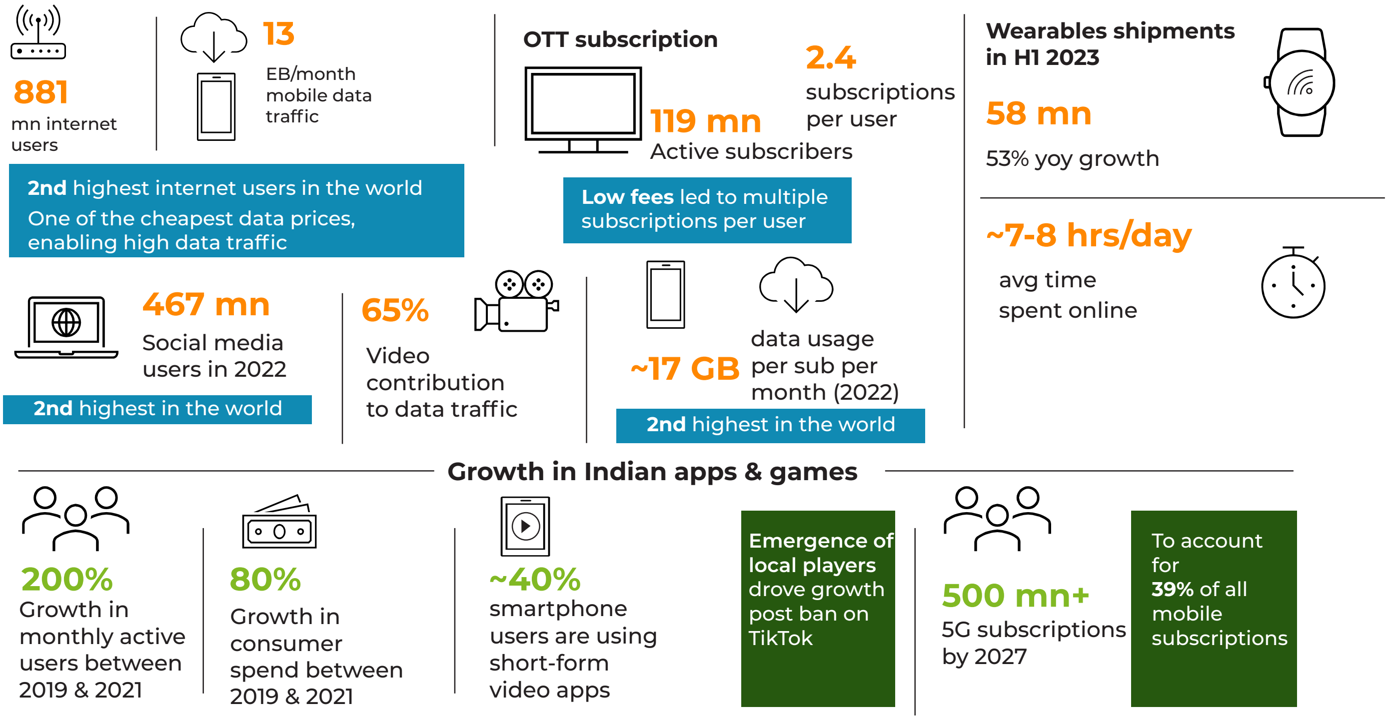
(hours per day)



Source: Digital FY22; Global Overview Report Hootsuite

The trend has been well-complemented by sharp growth across most data consumption metrics in India, supported by inexpensive data and high internet penetration, among other factors. A strong thrust to social media and over-the-top content, and increased online presence in the country have also led consumption patterns to see a marked shift towards e-commerce and other digital sales channels.

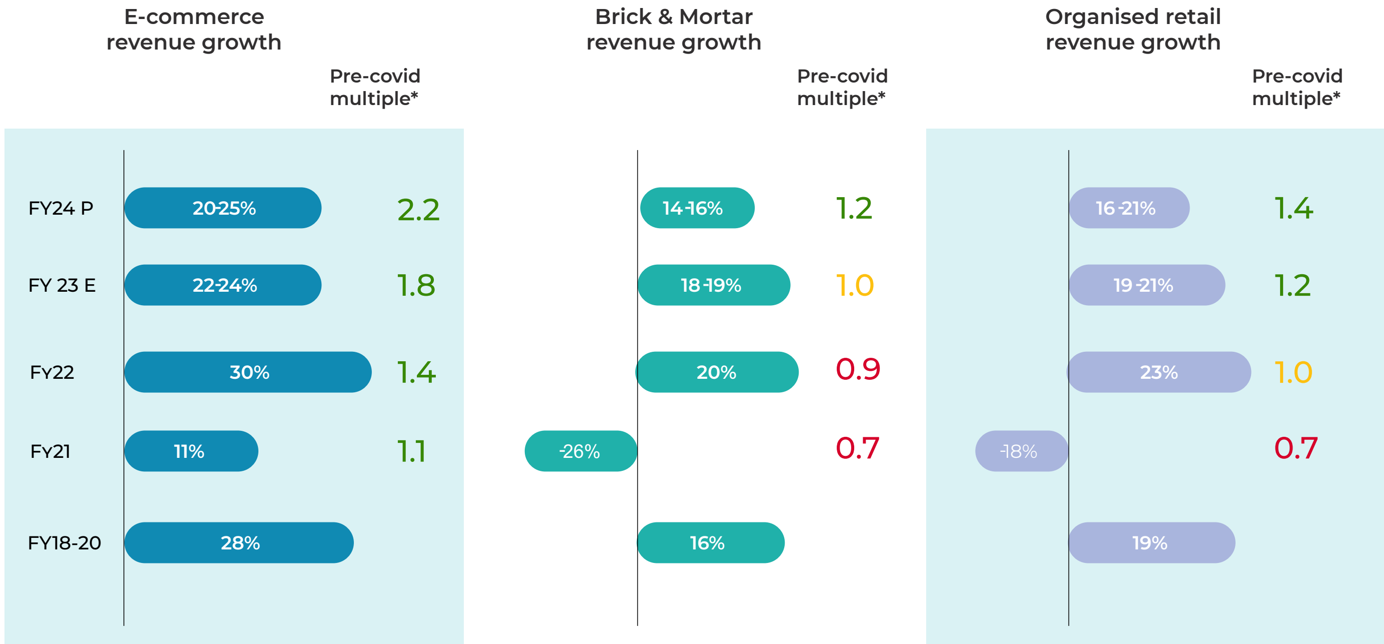
India a global leader on most data consumption metrics



Note: Exabytes (1 EB= 1000 TB);
Source: Nokia MBIT Report 2022, Ericsson Mobility Report 2021 TRAI, industry, CRISIL MI&A Research

Digitalisation to drive e-commerce consumption and sales

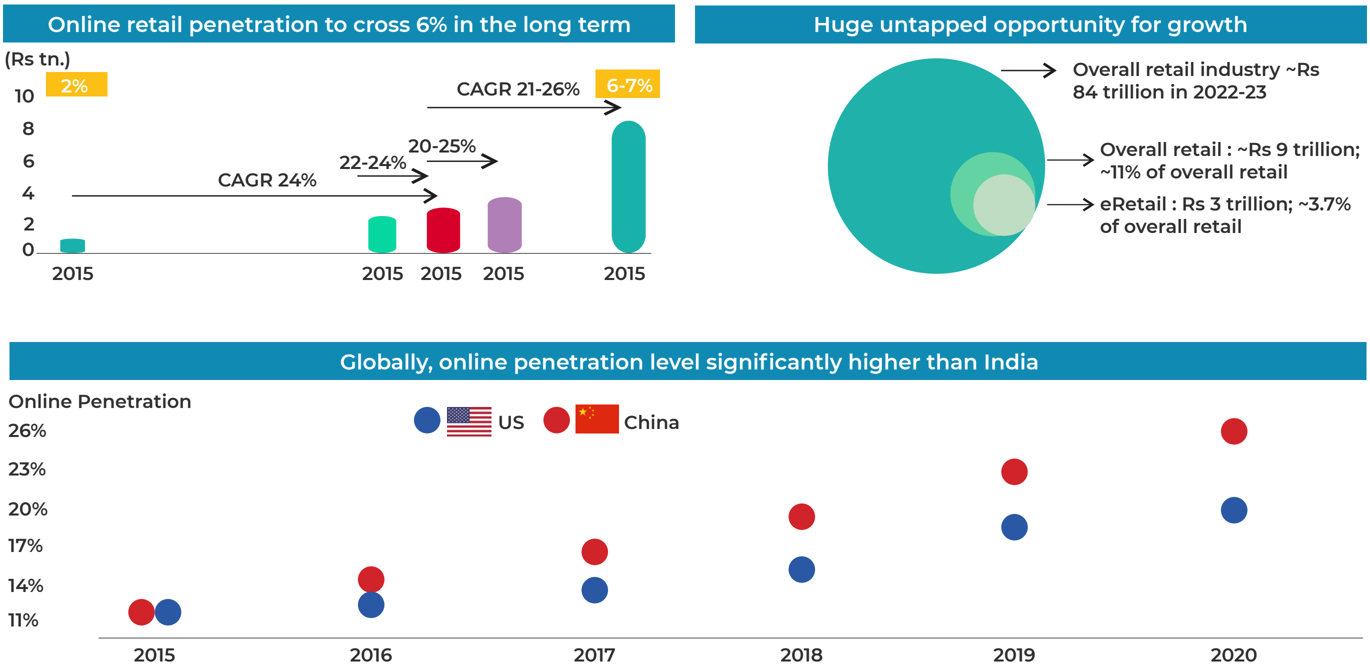
Brick-and-mortar retail revenue is expected to just surpass its pre-pandemic level in fiscal 2024, and e-commerce, to be at 2.2 times.



Note: *- Represents the revenue level for that particular fiscal compared with FY20; E — estimated, P — projected
Source: CRISIL MI&A Research

The pace of e-commerce adoption in India picked up rapidly especially during the pandemic, helped by the increased convenience it presents and shorter delivery times offered by various platforms. While the shift has been rapid, the country is highly underpenetrated compared with peers, implying ample headroom for growth.

Low penetration provides sufficient headroom for growth



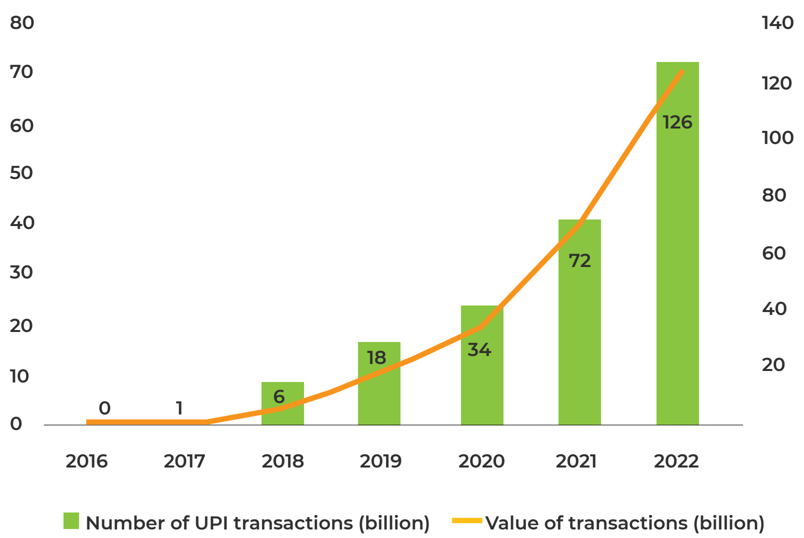
Source: CRISIL MI&A Research

Segment-wise, food and beverages, and gems and jewellery have seen the largest expansion since Covid-19, while apparel and footwear have seen a relatively slower pace of growth. Nonetheless, as the Indian e-commerce market grows, business models will evolve and likely present even more investable opportunities in future.

UPI has revolutionised India's digital payments landscape

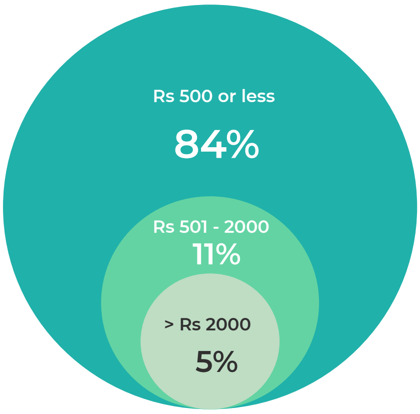
UPI has turned out to be one of the most significant technological innovations, as seen from its use cases and global adoption.

Since its launch in fiscal 2016, UPI has achieved scale rapidly, logging stellar growth in terms of both penetration and usage. The uptake has been aided by the platform's inherent benefits, such as convenience, no transaction fees, security, and real-time transfers. With increasing smartphone and internet penetration, UPI's usage and importance will likely increase massively going forward.



Source: CRISIL MI&A Research

Around 84% of UPI transactions are of Rs 500 or less

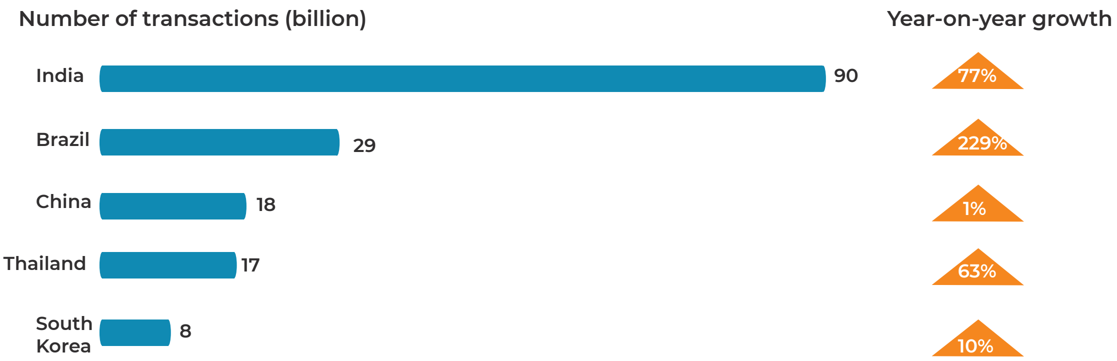


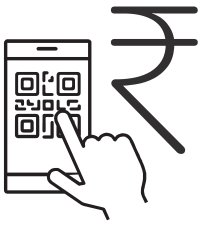
Source: CRISIL MI&A Research

Transactions data is analysed at a granular level. It was observed that of a total of 5,364.63 million peer-to-merchant UPI transactions in June 2023, ~84% were of Rs 500 or less. UPI being widely used for regular day-to-day transactions indicates its high adoption at the grassroot level.

By virtue of UPI, India has become a global leader in the real-time payments space. The country is one of the largest real-time payment markets in the world. Owing to the stupendous success of UPI in India, many other countries have shown interest towards adoption of UPI. This growing trend is likely to entrench India's position in digital innovation and benefit its economy via stronger bilateral ties.

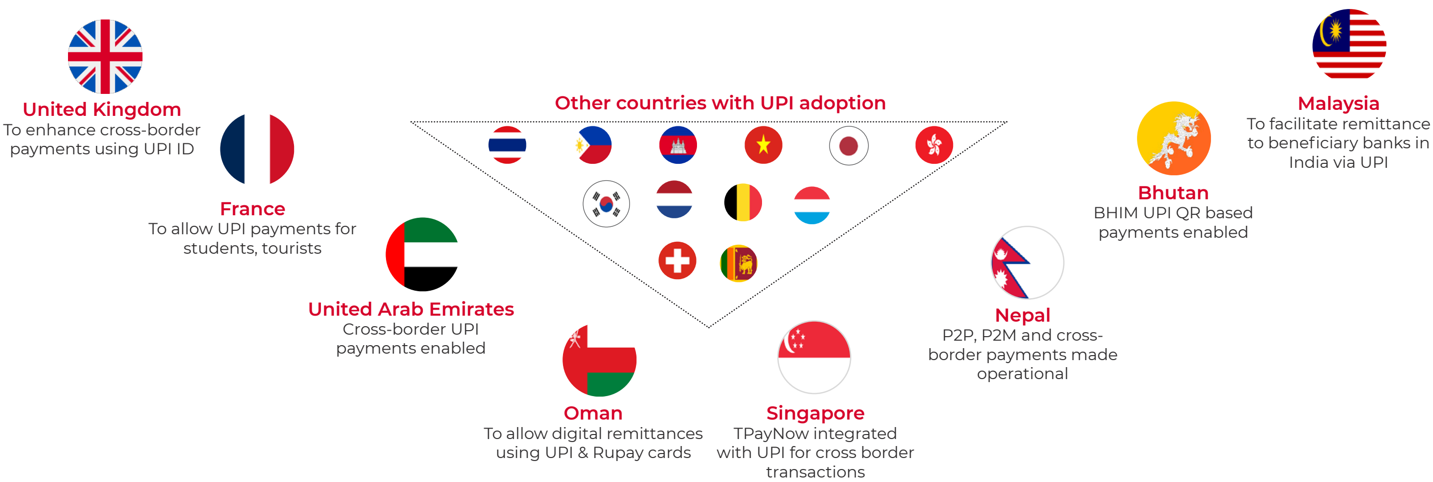
India the world's largest real-time payment market





Source: ACI Worldwide, CRISIL MI&A Research

Global UPI adoption growing rapidly



Note: Other countries include Thailand, Philippines, Cambodia, Vietnam, Japan, Hong Kong, South Korea, Netherlands, Belgium, Luxembourg, Switzerland and Sri Lanka
Source: CRISIL MI&A Research

The evolution of UPI has resulted in the emergence of multiple fintech startups as well, which have attracted healthy investments over the years, despite the industry being in the nascent stages. Technology has also been observed to propel growth in fields such as artificial intelligence (AI), which has quickly gained prominence as a major investment theme.

- As the global leverage and usage of AI increases, a similar advantage in terms of skilled labour could help India become the global leader in the field. With one of the largest talent pools for AI globally and a favourable demographic dividend, this could result in the proliferation of AI-based startups and investment opportunities in the country.

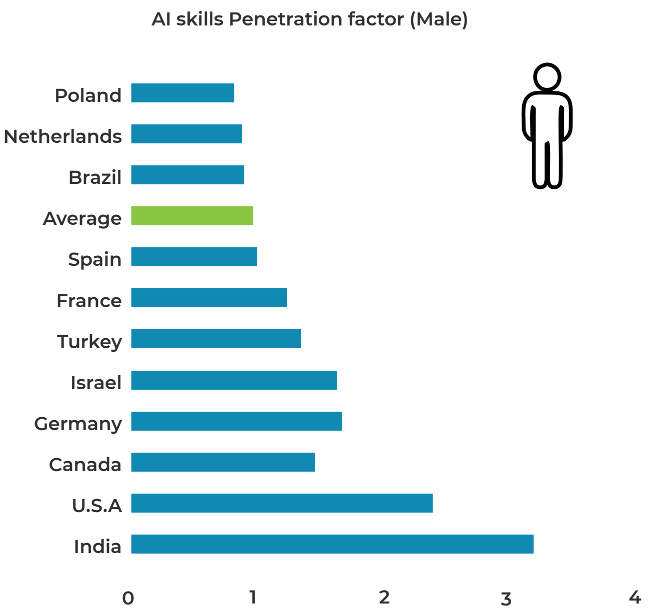
India well-placed to benefit from AI revolution

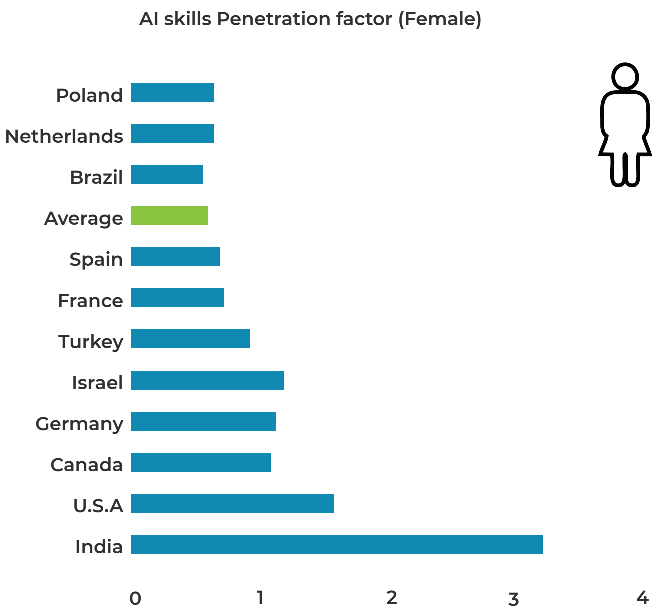
- The world has seen enormous technological development in recent times, with the emergence of cloud computing, big data analytics, internet of things, augmented reality and virtual reality.
- AI has carved a space of its own, emerging as the most promising technology for future. For more than a decade, India has been the global leader in information technology (IT) services and solutions, helped by the abundance of skilled employees well-versed with technology.

India has the largest talent pool for AI-related skills

- With over 1.6 million digital talent pool, India has emerged as the prime destination for talent globally.
- Complementing the availability of workforce well-versed in AI-related skillsets, demand for such skills has also been rising.

Likelihood of a worker having AI skills against the cross-country average, by gender (2015-2023)

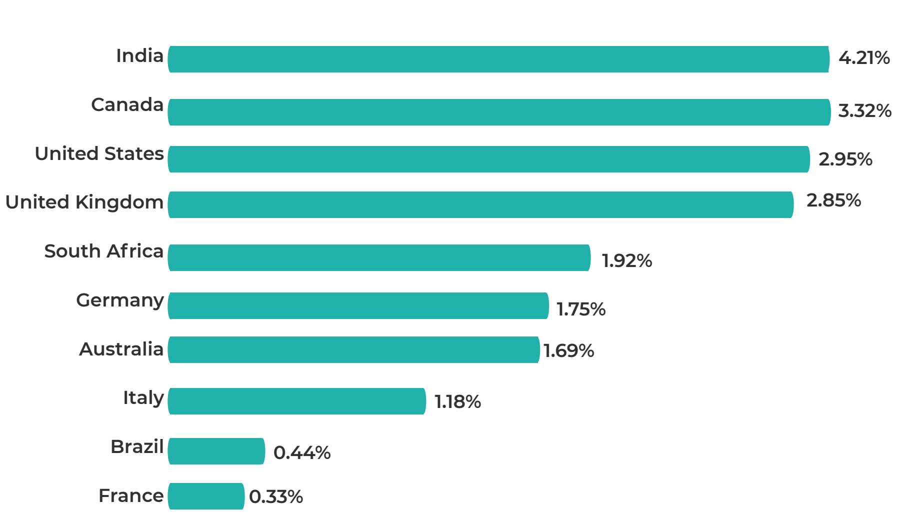


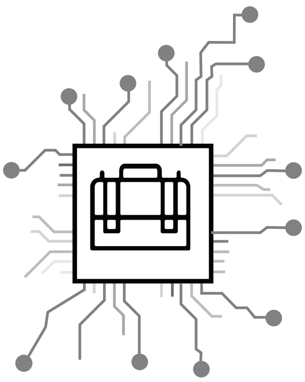


Source: OECD.AI, CRISIL MI&A Research
Note: This chart shows the prevalence of workers with AI skills – as self-reported by LinkedIn members from 2015-2023 – by country, gender and compared to the average of the countries included in the chart. A country's AI skills penetration for women of 1.5 means that female workers in that country are 1.5X more likely to report AI skills than the average female worker in all countries pooled together

- The share of IT-related job posting for AI skills was the highest among major peer countries.
- These trends, in conjunction, show that India is fast becoming a hotspot for AI-related jobs and services. This augurs well for the country's economy as higher supply and demand for AI-related skills could lead to increased investment and proliferation of AI-related companies in the country.

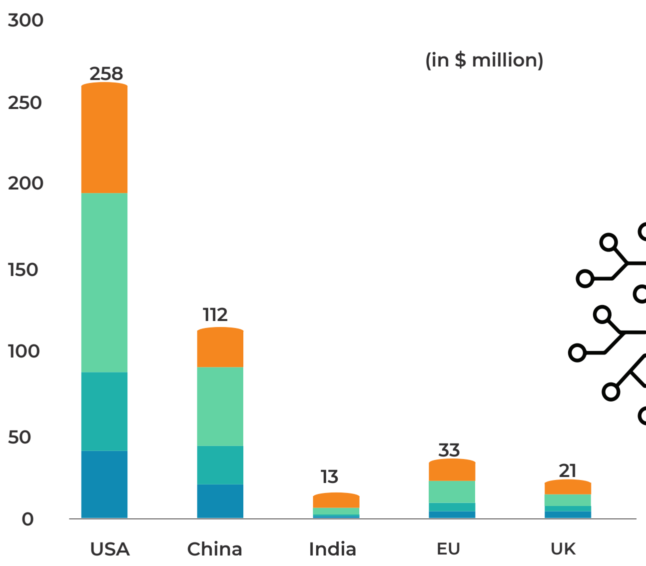
Demand for AI skills among the highest in India

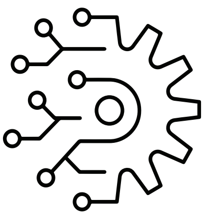




Source: OECD.AI, Crisil MI&A Research

Venture capital investments in AI (2018-2022)





- The advancement of AI in India is likely to lead to new investment opportunities in the country. India had the fifth-highest inflow of AI-related venture capital (VC) investments in 2022.
- The quantum is low compared with the US and China. However, there is enormous potential for growth in tandem with the country's rise as a global hotspot for AI
- As the world moves towards a new phase of technological revolution, AI is set to play a key role and with a rise in AI capabilities, India will be well-placed to entrench its position as a technological leader in the world.

Source: OECD.AI, Crisil MI&A Research

Notes

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