

## India post-elections: What lies ahead?

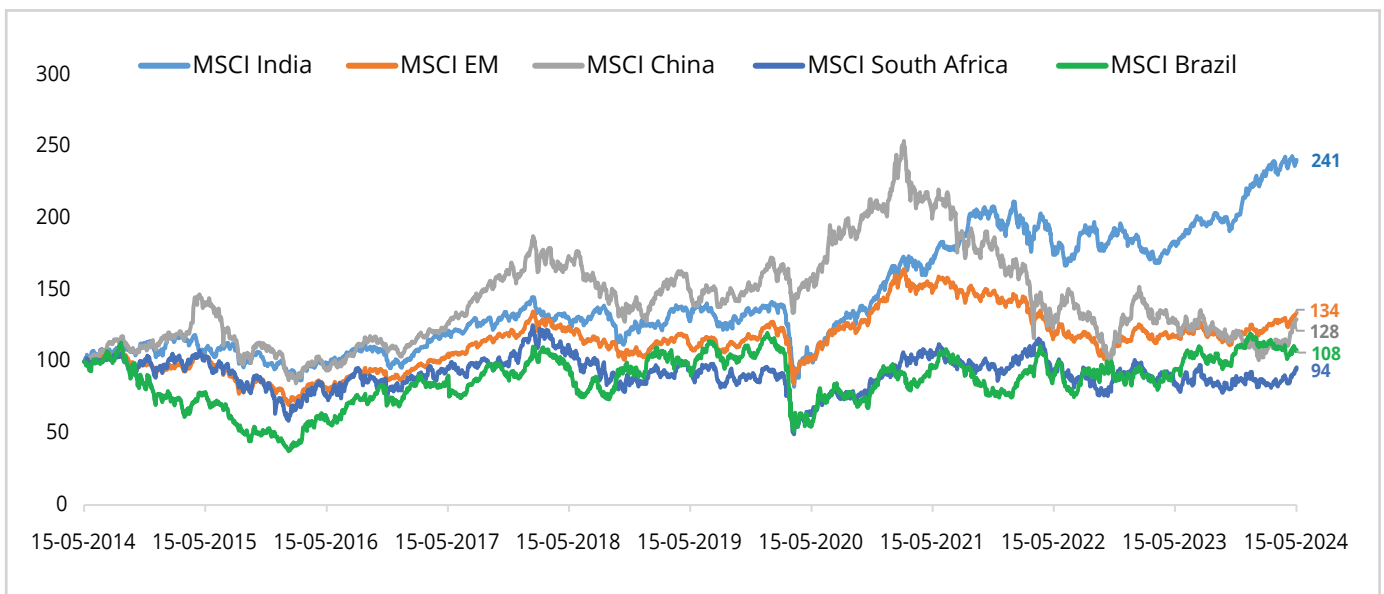
In this note, with India's elections currently underway (polling from 19th April to 1st June 2024, results on 4th June), we look at what is on the cards for India if the current government (Mr. Modi led National Democratic Alliance (NDA)) comes to power for a third consecutive term (2024-2029).

### The decade since 2014

The Indian economy has come a long way since 2014, when Mr. Narendra Modi became the Prime Minister of India for the first time. In under a decade since then, India has emerged as the fifth-largest economy in the world and is billed to become the third-largest by 2030. All that growth has been underpinned by reforms having substantial structural impact, such as the Goods and Services Tax (GST), Insolvency & Bankruptcy Code (IBC) and Production Linked Incentive (PLI) schemes for industrial sectors.

The Indian capital markets have been shining through this period, with the MSCI India outperforming all other emerging markets handsomely (please see figure below). India is now the second largest weight in the MSCI Emerging Markets index, at ~18%. It was at just ~8% pre-pandemic. India's market cap is currently the 5th largest globally at USD 4.5 trillion but India's weight in global indices is still low at ~1.6%. India's weight is likely to increase as market free float rises and other index construction anomalies get sorted out. Assuming market returns in line with the last 15-20 year history and new listings, India is moving towards becoming a USD 10 trillion market by 2030<sup>1</sup> - making it a market impossible for global investors to ignore.

### Performance of various EM indices since 2014



Source: Morningstar Direct

Further, the government has undertaken several process reforms to help streamline procedures and bring about transparency, including the Real Estate (Regulation and Development) Act, the merger and cleanup of public sector banks to improve their efficiency, fast-tracking clearances and business permits, reducing corporate tax rates, and easing foreign direct investment (FDI) norms. In the first term of this Government, the Indian economy was going through challenging times that had culminated in lower than 5%<sup>2</sup> GDP growth for two consecutive years, i.e. 2013 and 2014.<sup>3</sup> Since then, however, the economy has undergone structural reforms that have strengthened its macroeconomic fundamentals. These reforms have led to India emerging as the fastest-growing economy among the G20 nations.

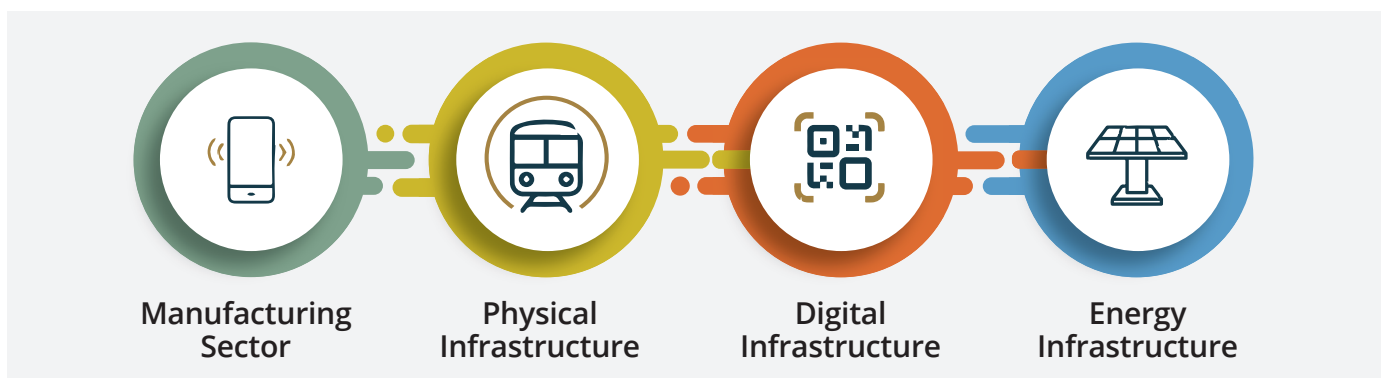
### Transformative phase envisaged till 2030



Source: International Monetary Fund (IMF)

The current government, if elected back to power, will likely spare no effort in strengthening the foundation of a developed India. If the first 2 terms steered India in a new direction through major reforms in key areas, some of which have been cited above, the next leg will likely focus on development across four themes — **manufacturing, physical infrastructure, digital infrastructure and energy transition** — thereby revolutionizing India's economic landscape.

### Four likely pillars of the current government, if re-elected

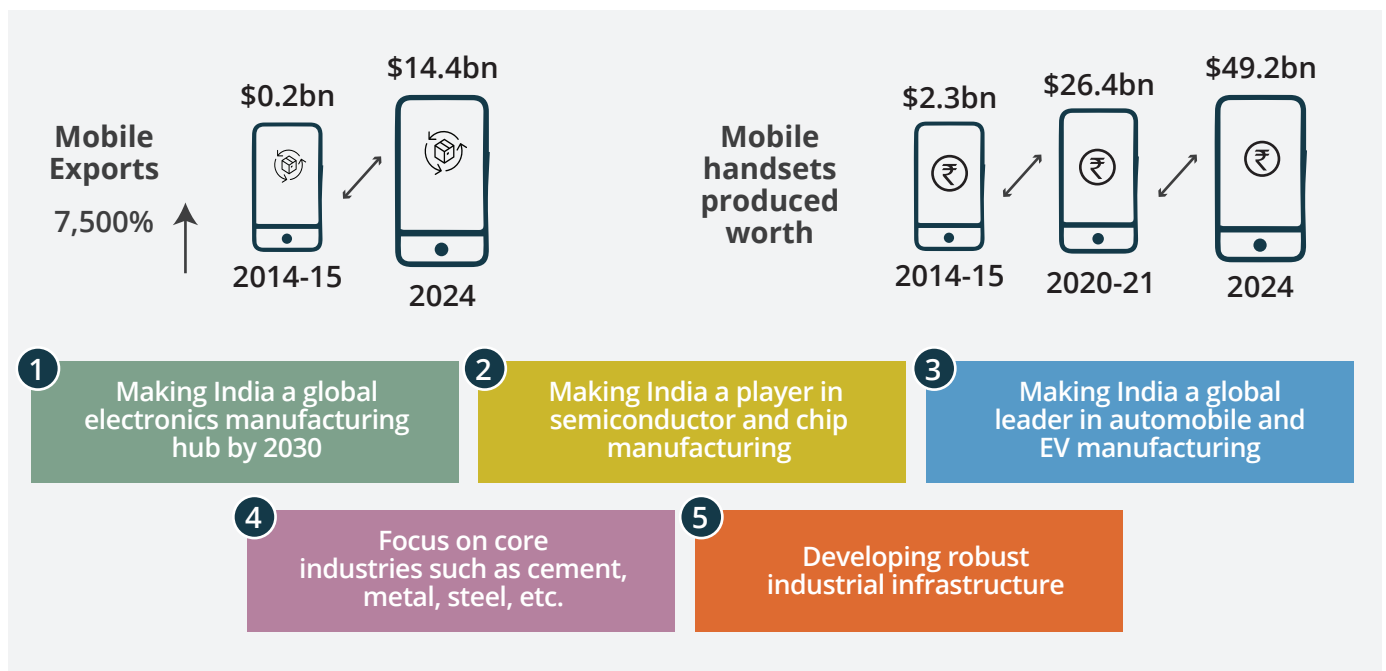


### 1. Manufacturing sector to get priority:

Under the current government, India emerged as the second-largest manufacturer of mobile phones, marking its first major success in the manufacturing sector. This is expected to grow exponentially if the government continues for the third term.

The introduction of the PLI scheme in 2020 has been a game changer for the manufacturing industry. In May 2017, the Indian government announced schemes to promote domestic production of mobile handsets. The count of mobile phones manufactured in India in the last 10 years has reached 2.45<sup>4</sup> billion units and is expected to touch USD 48<sup>5</sup> billion in value terms, as the PLI scheme plays a critical role in attracting global players to boost local production.

**The current government, if elected back to power, likely to make India a global manufacturing powerhouse**



Source: India Cellular and Electronics Association (ICEA)

**Note:** These are taken from Mr. Modi's party Bhartiya Janata Party's poll manifesto specific to manufacturing.

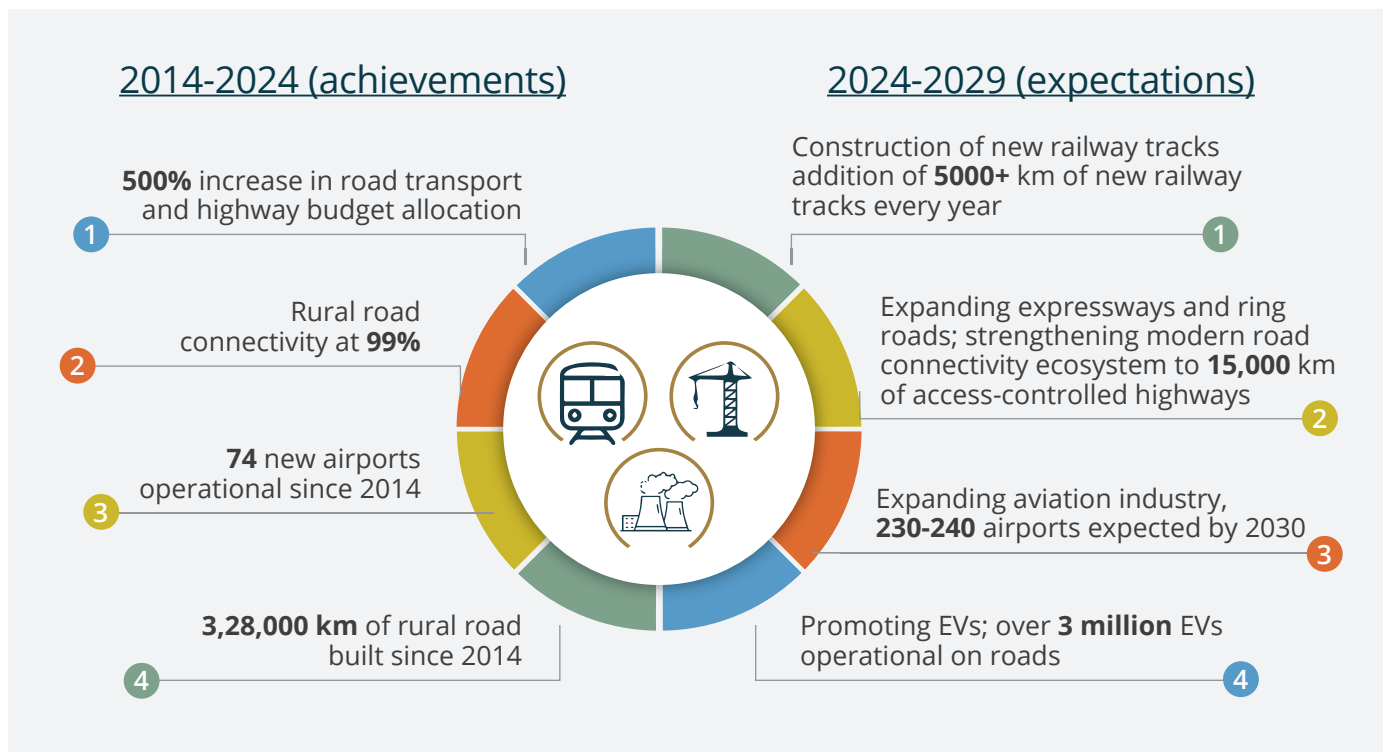
Today, 97%<sup>6</sup> of mobile phones sold within the country are manufactured domestically, bolstering the nation's economy and creating employment opportunities. Also, local value addition in India currently stands at an average of more than 15%<sup>7</sup>, and there is much scope to grow. Also, 30%<sup>8</sup> of total production happening in India is targeted at exports. As we await the repositioning of supply chains in the manufacturing sector, the budgetary estimate for PLI is expected to increase by ~33%<sup>9</sup> compared to 2024. Aligned to the backward integration focused in electronics sector, the thrust on manufacturing sectors such as batteries and photovoltaic cells will continue over medium term.

## 2. Physical infrastructure revolution:

Execution of the National Infrastructure Pipeline will likely be in focus if the current government gets a third term. The government's capex has largely been towards infrastructure creation to improve physical connectivity and thereby reduce logistics cost and improve competitiveness.

To augment infrastructure development, India will spend USD 1.7<sup>10</sup> trillion between 2024 and 2030, focusing on modernising highways, railways, airways, and waterways across the country—more than twice the government's spend of USD 803<sup>11</sup> billion on infrastructure development in 2017-23. Of the total, nearly USD 430<sup>12</sup> billion will be green investments, marking a 5x rise compared with 2017-23.

### Physical infrastructure revolution

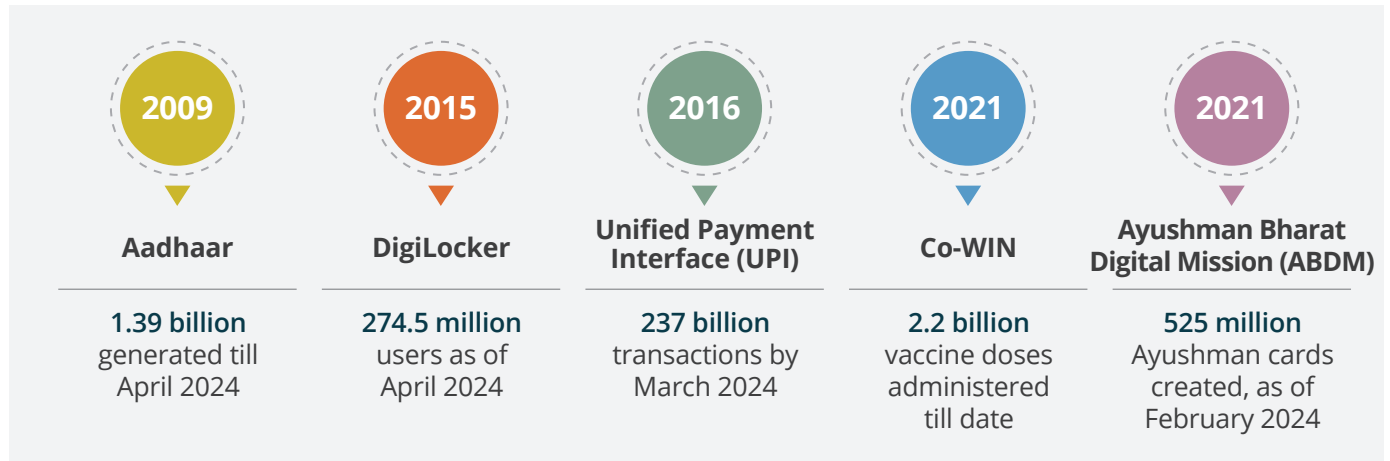


Source: Modi Government's Five Frontiers of Infrastructure Development, Modi ki Guarantee 2024

## 3. Boom in digital infrastructure:

The successful rollout of digital public infrastructure has put India in the spotlight globally. Along with all other digital services that have been implemented in the 2 terms, financial inclusion in India has surged from 59%<sup>13</sup> in 2014 to 81.5%<sup>14</sup> in 2021.

### Digital services so far



Source: National Payments Corporation of India, National Portal of India, National Health Authority

India's transformation to a digital economy is likely to continue and digital public infrastructure for agriculture will be on the implementation priority list. An app for farmer registry has been developed and a pilot programme is already underway. This app is primarily built to provide farmer-centric solutions and services through relevant information services for crop planning and health, improved access to farm inputs, credit, and insurance, help for crop estimation, market intelligence, and support for growth of agritech industry and start-ups.

### Financial repository the next big move?

The past decade has seen a consistent sharpening of focus on development of digital public infrastructure in the country, riding on wide acceptance of Aadhaar-based digital biometric identification. As of April 2024, the Unique Identification Authority of India (UIDAI) has issued more than 1.39 billion Aadhaar cards. With the help of Aadhaar and PM Jan Dhan Yojana, the number of bank accounts grew from 1.44 billion (many well-to-do individuals have more than 1 account) as of March 2015 to 2.53 billion as of March 2023. This has boosted financial inclusion and facilitated transfer of government benefits directly to beneficiary accounts.

Over the past five years, UPI-based payments have seen significant growth as it offers superior user experience than banks' traditional payment methods and enables real-time transfer of funds at zero cost. In fact, over 2021-2023, UPI transaction volumes grew ~4x.

The government will perhaps usher in a new era of financial services with the implementation of a fintech repository which will contain information about fintech entities, their activities, products, technology stack and financial information. This repository will be helpful to banks and non-banking financial companies (NBFCs) enabling better cooperation between the fintech ecosystem and regulatory authorities.

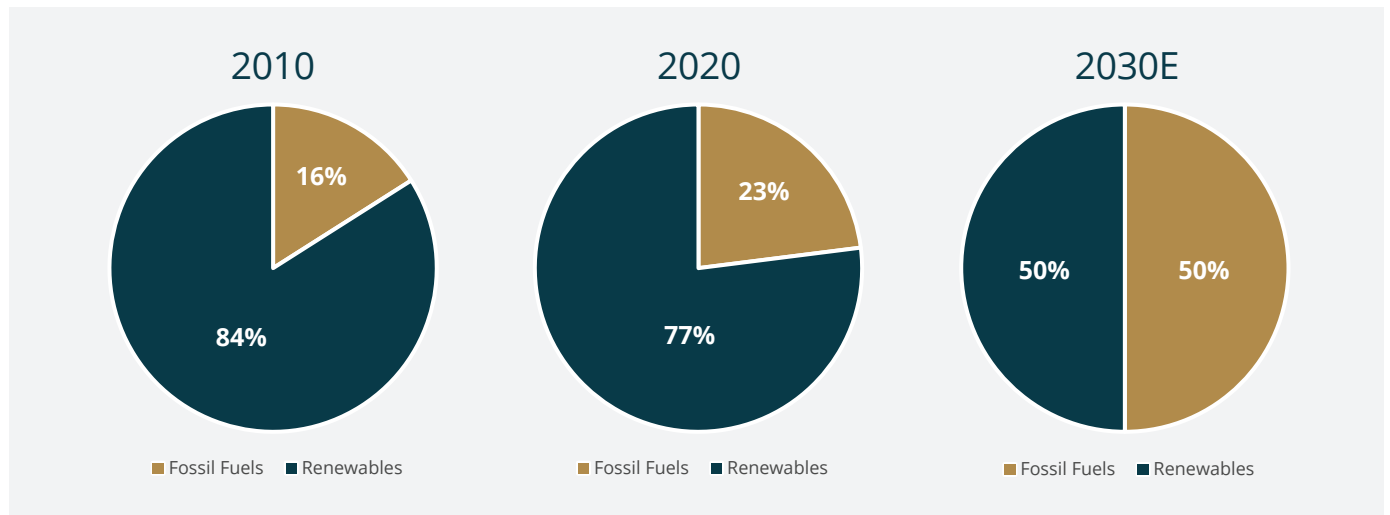
### 4. Energy infrastructure to become greener:

Green GDP is another key focus area. Electric vehicles (EV) and renewable energy are the key sectors in the energy transition. India plans to increase the share of non-fossil fuels in installed electrical power capacity to meet its target of a 45%<sup>15</sup> reduction in emission intensity in GDP by 2030 compared with the 2005 level.

This is crucial because India's historical cumulative carbon emission share is only 4%<sup>16</sup> despite the nation being home to 17%<sup>17</sup> of the world's population. The installed capacity is likely to grow a substantial 86%<sup>18</sup> from 416<sup>19</sup> GW in 2023 to 770-780<sup>20</sup> GW by 2030. Non-fossil fuel sources are expected to constitute ~90%<sup>21</sup> of this additional capacity.

For India's commitment to achieving the net-zero emission target, reduction of emissions from the transportation sector remains a key priority. A rapid transition and increase in penetration levels in the EV segment would encourage auto manufacturers to build large capacities. The current government has committed to continue improving India's energy mix by focusing on the development of environmentally sensitive energy sources if their government comes to power again. The below figure illustrates India's electricity mix through 3 decades<sup>22</sup>.

#### India's electricity mix (electricity generation by source in India)



Source: International Energy Agency (IEA)

### Development and growth the way forward!

Needless to say, any government that comes to power on 4th June 2024 will need to prioritise the above 4 key themes amongst others if India's potential is to be decisively tapped in the coming decades. Portfolios like ours, that reflect these themes, should be well positioned to play the incredible India growth story-from a USD 3.7 trillion economy today towards a USD 7 trillion economy by 2030.

To learn more about ASK's investment strategies, please write to us at [info@ask-capital.com](mailto:info@ask-capital.com)

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- <sup>2</sup> Refer to The Indian Economy: A Review January 2024
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