Fidelity INTERNATIONAL




The case for India

We believe India is well positioned to weather some of the challenges around geopolitics, global growth and rates. Its structurally higher growth, robust economic fundamentals, improved government finances, lower inflation and positive real rates are attractive to many global investors.

The country's growth prospects are also well supported by an expanding consumer sector and a strong government focus on manufacturing and infrastructure development.

> "India is a market where we can always take a longer-term investment view, given its strong underlying structural growth and relatively stable policy environment. We will be looking for volatile periods as an opportunity to buy into high quality growth businesses at attractive prices."

Amit Goel, Portfolio Manager, Fidelity India Fund

Building on the widespread liberalisation of the country in the 1980s and 1990s, India is experiencing a wave of development under Prime Minister Modi. Investment in manufacturing should act as a new growth driver, driven by the opportunity to leverage the 'make in India' program and the diversification of global supply chains.

India has a large services sector that contributes about 50% of its GDP and employs much of its skilled labour. However, its manufacturing sector has been languishing at low growth levels for years. The government doubled its infrastructure spending in financial years 2020–2025 (versus the preceding five years) to create an enabling environment for manufacturing. The plan is to increase the manufacturing sector's contribution to GDP and, in the process, create more jobs to employ its semi-skilled and unskilled workforce.

There are also production-linked incentives, tax incentives, and protectionist increases in import duties/bans in areas where local manufacturing can easily substitute imports. The focus seems to be shifting from high-end manufacturing to import substitution, which seems more achievable.

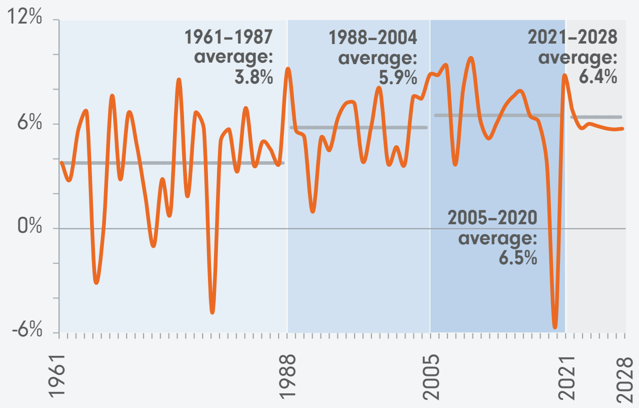
Investment in infrastructure is helping to drive the market. The amount of roads, airports, bridges and highways being built is the highest ever in India. The infrastructure and large-scale projects like the freight corridor from the north of India to the western coast, giving the ability to move freight freely on an exclusive railway line, have started to be completed at a high pace. These projects are also funded well by central and state governments.

A key growth engine for the world

On an economic front, India has been a key growth engine for the world, contributing 16% to global growth in 2023, which was considered the second-highest among the G20 countries and almost twice the average for emerging market economies that year, according to the World Economic Forum.

Over the last 63 years, average GDP growth rate has sustained at 6% to 7%. There is still scope for further economic expansion in India, ranking it as one of the fastest-growing economies of the world.

Figure 1. India's rate of GDP growth from 1961–2028



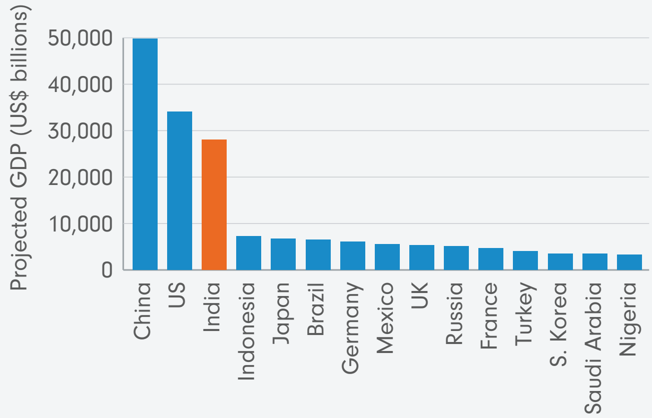
Source: IMF World Economic Outlook Database and World Economic Outlook Growth Projections, October 2023 and January 2024 update.

Fulfilling India's national and global ambition will require strategic policymaking to tread the delicate balance between economic growth, social development, and environmental sustainability. Its demographics will be important to its growth story only if coupled with broader labour market reforms and developments to skill one of the world's largest workforces.

A surging demographic tailwind

It is projected that, by 2050, India will be the third-leading economy (as measured by GDP) after China and the United States – see Figure 2.

Figure 2. Top 15 world economies projected to be the largest by 2050 (GDP US billions)

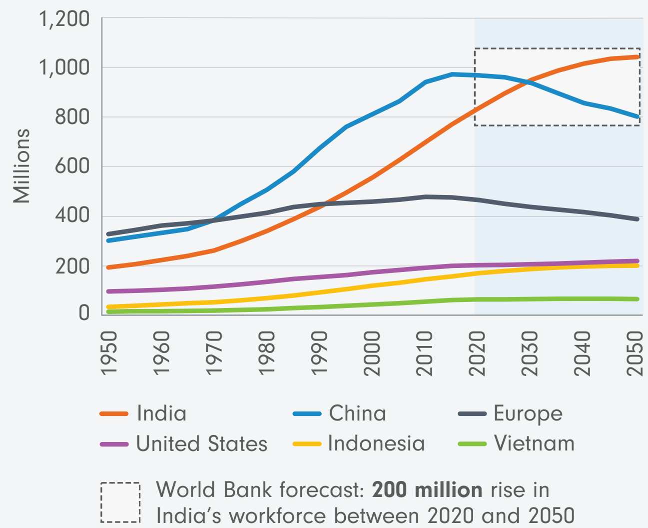


Source: https://www.worldatlas.com/articles/world-economies-projected-to-be-the-largest-by-2050.html

Not only has India one of the youngest working populations in the world, with nearly 53% of its citizens under the age of 30; the population has grown by more than a billion people since 1950 and it's estimated to have more than 1.4 billion people, equal to China.

Forecasts suggest that, by 2050, India is expected to add 200 million people to its workforce and will surpass China's working population in size in five years – see Figure 3.

Figure 3. India's workforce is expected to climb by 200 million in the next 30 years and to surpass China's in 2030



Source: United Nations Population Division, World Population Prospects 2019.

The purchasing power of the country's emerging middle class is also set to rise dramatically in the next decade or so, with much of this spending spree driven by a surge in urbanisation.

Table 1 highlights the Indian cities driving GDP growth. With its diverse landscape and dynamic industries, India's economic growth is heavily influenced by the performance of its cities.

Table 1. India's economic contributors: The cities driving GDP

City	Sector focus	GDP
Mumbai	Financial capital	$310 billion
Delhi	Political centre	$110 billion
Bengaluru	'Silicon Valley' of India	$78.6 billion
Chennai	Manufacturing hub	$75.2 billion
Hyderabad	Pharma and IT	$75.2 billion
Ahmedabad	Industrial centre	$68 billion

Source: Indian cities GDP: The biggest contributors – City Monitor.

Indian equities are maturing

In 2023, India had a stock market capitalisation of US$3 trillion, making it the eighth-largest market globally. It offers a broad investment universe, diversified across sectors; there are well over 5,300 listed companies to choose from.

In the past few years, the retail investor has poured money into the local sharemarket – with the number of equity trading accounts for retail investors four to five times higher than it was five years ago. Sustained domestic retail investments have acted as a counterbalance to relatively volatile foreign institutional flows.

Opportunities for growth across retail, automotive and finance industries look promising. With consumer penetration levels in cars, white goods, mortgages and retail loans lagging far behind countries such as China and the US, the stage is set for many companies to profit from exponential growth in India's middle class (Figure 4).

Beyond consumer goods, other sectors that stand to gain from an acceleration in structural reforms include financials, industrials and healthcare. Having a strong research presence close to the market is critical to pinpoint the companies best positioned to profit from these growth trends.

The active advantage for risk and return

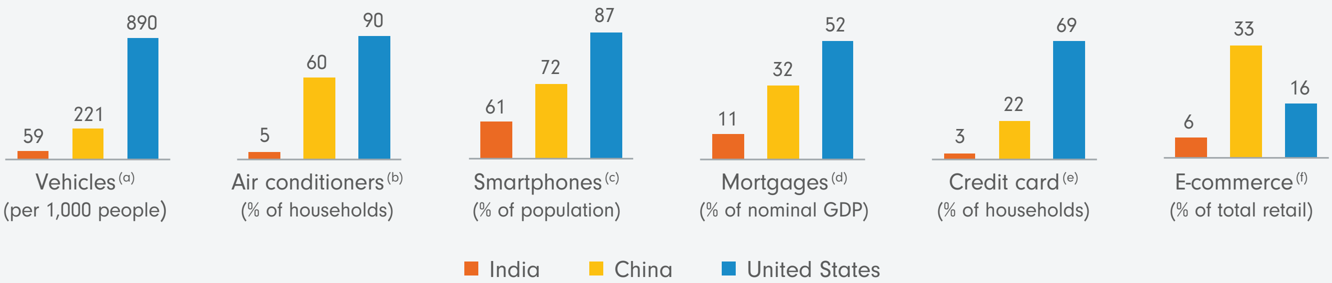
Going into 2024, while uncertainties remain as the country goes into its national elections, we expect policy continuity and the economy to remain on its recovery path, and the long-term structural opportunities to again come into focus. Any volatility on the way will provide an opportunity to buy into high-quality businesses at a more attractive price.

Meanwhile, many investors worry about India's relatively high valuations. But this is partly justified by the presence of high-quality private sector companies in the index that consistently generate higher return on equity. Also, index valuations hide substantial stock-level disparity – India remains a stock-picker's paradise, and we continue to find several high-quality investment opportunities at reasonable valuations.

We have a large investment team on the ground in India, backed by over 400 investment professionals worldwide, so we understand the factors shaping returns and risks in this dynamic region.

With Fidelity, investors can access India's opportunities through a number of funds: Fidelity India Fund, Fidelity Asia Fund or Fidelity Global Emerging Markets Fund.

Figure 4. Product and services penetration: The evolution of rising income levels across India have the ability to boost penetration levels across a number of products and services



Sources: (a) Vehicles excluding 2-wheelers. CEIC, China Ministry of Public Security, Hedges & Company. Data for 2022. (b) International Energy Agency. Data for 2018. (c) Payments & ecommerce report, PPRO Financial, 2022. (d) EMF, Hofinet, HDFC estimates, Wind, China NBS, 2022. (e) Payments & ecommerce report, PPRO Financial, 2022. (f) Payments & ecommerce report, PPRO Financial, 2022.

Fidelity India Fund

The Fidelity India Fund invests in a diversified portfolio of 40 to 60 quality Indian companies. As well as applying disciplined analysis to stock selection, the portfolio is carefully weighted for diversification across sectors and companies. This further supports our goal of delivering sustained returns and managing downside risk for investors.

Recommended as a long-term holding, we aim to outperform the benchmark over a seven-year timeframe.

Case study

Infosys

Infosys, founded in 1981, is India's second-largest IT services company, with 240,000+ employees. It operates in an industry with attractive structural growth, as global companies focus on cost rationalisation by outsourcing their non-core activities and increasing their technology intensity. IT services companies are better equipped to deploy and customise technologies such as generative AI for global enterprises, which may not have the same depth and breadth of capabilities.

Infosys is expected to gain market share, given its strong positioning in the digital and business transformation segments, increasing penetration in Europe and focus on large deals along with expanding skilling and localisation. The company has a track record of strong, free cash flow generation and robust capital allocation, while valuations provide a healthy margin of safety.

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