



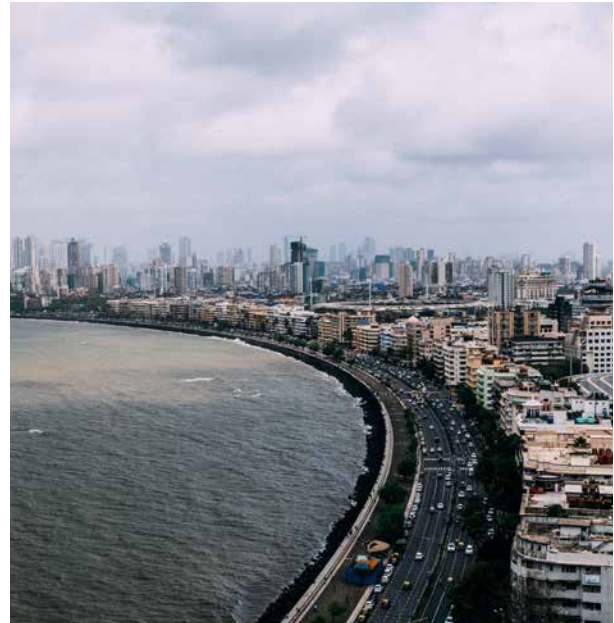
India's Ascendancy Continues: How We Invest in the World's Fastest-Growing Economy

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India is at the cusp of gaining its rightful place in the world order, and we believe India is the most compelling, longer-term single-country investment opportunity globally. Never has the country been as favorably placed as it is now – both in the context of geopolitics and economic contribution. Despite many global uncertainties, India's macroeconomic stability has been remarkable. According to Morgan Stanley, India is expected to contribute a meaningful 18% to global GDP growth in 2024.

India is the 5th largest economy (USD 3.75 trillion GDP) amongst the developing economies (and 5th largest overall) and has a similarly large financial market. Recently, it overtook Hong Kong to become the 4th largest equity market in market

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capitalization terms. India is home to one of the youngest populations in the world, with an average age of just ~28 years, providing it with a strong structural-demographic advantage for decades to come. Its GDP per capita has recently surpassed USD 2500, which places it favorably to benefit from the ensuing consumption growth for the next decade as it transitions into a middle-income country.

While the Indian opportunity has existed for several years, the country could not capitalise on it due to certain structural challenges that impeded sustained growth. Over the last 8 years, though, India has witnessed several deep structural reforms which have largely addressed these issues. Without delving deeper into each reform, suffice it to say that each one of the reforms has aimed to address one of the four factors of production framework, namely, land, labor, capital, and entrepreneurship.

Overall

Our approach at C Worldwide is to capitalise on the significant long-term growth potential of the country. We have therefore identified four actionable investment themes in India: 1) Financialization, 2) Formalization, 3) Housing, and 4) Capex Recovery & Exports. Within

this thematic framework, we seek to identify leading companies with strong balance sheets participating in one or more of these identified themes.

Long-term investing

India has been the best-performing emerging stock market over the last 30 years, delivering a CAGR of 8.69% USD returns (and it has been the second-best performing market globally after the US). The principal reason for India's superior stock market returns is the strong underlying growth coupled with superior capital efficiency. India's nominal GDP growth is expected to be 11-12% over the next decade, with real GDP growth of around 6-7% and inflation around 4-6%. We seek to identify well-run companies that outgrow their peers and the overall economy. Therefore, over the long term, such companies can aim to deliver above 15% earnings CAGR, which makes for a healthy, double-digit currency-adjusted return. Additionally, we look to identify companies that can im-

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1 C WorldWide research/Bloomberg, November 2023.

prove their relative market position during periods of weakness in their respective sector.

Mid-caps

Despite the large size of the economy, several sectors haven't matured yet to their full potential. Therefore, we can identify several examples of well-run companies that are champions in their sectors/sub-sectors but still qualify as mid-caps (under USD 5 bn market cap). As the Indian economy grows to become the 3rd largest globally by 2028 these opportunities/categories will expand and correspondingly the size of these companies. We have seen this materialise over the past 20 years in some sectors, but we will see it happen even more broadly going forward. Currently, nearly two-thirds of our portfolio companies can be classified as mid-caps.

Mid-cap companies in India have outperformed large-cap companies over a long period – over the last 10 years, the Nifty Midcap (Nifty is the frontline index of India) has generated 17% CAGR USD returns even though the Nifty 50, which counts as the 50 biggest companies on the stock exchange in India, has also returned an impressive 11% CAGR USD².

Markets tend to be fixated on the market share of the companies to define them as leaders, but we choose to emphasise sustainable profitability instead. Sometimes the two go hand in hand, but other times, they don't. There are two main reasons this metric becomes important to us - 1) it reflects discipline in capital allocation, and 2) it is a statement of how the company values its resources.

Corporate Governance

Since we are long-term investors (we look at an investment horizon of at least 3-5 years), we need to understand and assess the quality of company management appropriately. We emphasise corporate management teams whose values and strategic priorities are aligned with ours. Amongst the methods we use are channel checks and forensics. We engage with channel partners of companies to seek feedback on various aspects of the business and practices

to build a superior understanding of the business. Additionally, we focus on forensic research to establish an effective translation of management commentary/intent into financials. Forensic research is also a filter for us to avoid certain companies.

Sustainability

While India is a high-growth country, it is important for investors not to overlook sustainability. Our efforts are focused on identifying and understanding material ESG risks through our in-house research and supplemented by external specialist service providers. As a rule, we emphasise companies with the right, long-term corporate mindset tend to address the sustainability agenda as well as risks and opportunities more seriously. Since ESG disclosures and data availability in an emerging market such as India is less developed, it becomes even more important for us to engage with companies directly around sustainability.

Conclusion

We believe India is the most compelling, longer-term single-country investment opportunity in the world. The country continues to mature and progress economically, socially, and politically. This translates to exciting thematic tailwinds as well as a growing stock market, giving access to an increasing number of stock-picking opportunities with significant return potential.

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As always, selectivity remains key. Our hands-on expertise ensures that we filter out short-term noise and market gyrations and focus on what makes a difference and is most impactful on longer-term investment returns.

² C WorldWide research/Blomberg, November 2023.

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