



# Plenty of reasons for India to celebrate

**T**HIS WEEK, MILLIONS OF people both in India and around the world will celebrate the festival of lights, also known as Diwali. It is an auspicious occasion that celebrates the plight of good over evil but is also used as a time to spruce up the home, buy new clothes and even start new business ventures. Money is gifted and friends and family are blessed with wealth and good fortune.

So why does this year's Diwali, which takes place on 4 November, promise to be particularly prosperous? After suffering from one of the world's deadliest waves of Covid-19 earlier this year, India has bounced back like no other country.

More than 400,000 deaths and 30 million infections were recorded, yet this time round, India's economy remained, for the most part, open and no major corporate bankruptcies were reported. Furthermore, this year has seen certain sectors such as technology, grow at a faster pace than ever.

Investment bank Jefferies recently said India's economic cycle suggests conditions are ripe for a repeat of its 2004-2010 style upturn in the coming years, with annual economic growth forecast to be between 8% to 9%.

Foundations are being laid for the start of a highly anticipated 'super-cycle' with the market trading well above its long-term averages and

earnings growth starting to pick up. Meanwhile, concerns from earlier this year such as a higher level of bad loans following the deadly second Covid-19 wave appear to be reversing.

## Focus on growth

From a political perspective, after years of reform, the government is finally prioritising growth. The Goods and Services Tax and Insolvency and Bankruptcy Code have now been around long enough to see their positive impact while the larger banknote demonetisation among other reforms has weeded out a good chunk of India's black money and corruption.

Companies have passed through the country's new and revolutionary system and many have come out the other side for the better. Meanwhile, banks have started lending again and are managing both their accounts and customers more efficiently. While some are still risk averse, their balance sheets have improved dramatically.

India is also committing to its climate change goals and lower carbon futures, having increased investment

in renewable energy and clean-energy vehicles. James Thom, a senior manager within the Aberdeen New Dawn (ABD) investment trust team says the country is well positioned for this trend, which should create opportunities for quality companies across sectors, including electric cars, batteries and alternative power generation.

There have also been a record number of unicorns – private companies worth more than \$1bn – created in India this year, with well over \$28bn being raised between January and September. There are now 72 unicorns in India, 32 of which only joined this year. 2021 has also witnessed the entry of the first health-tech, social commerce and e-pharmacy unicorns.

There are also 25-30 'sooncorns' (soon to be unicorns) and reports suggest India will boast more than 100 unicorns by 2023, much earlier than the previous estimation of 2025.

## Rise of India's digital era

But it is not just India's start-ups that are embracing the country's digital revolution

72

Number of 'unicorns' – private companies worth more than \$1bn – currently in India.

\$28bn

Value of 'unicorns' raised between January and September this year.

– even the more traditional sectors from banking and retail to mining are embracing the digital revolution.

David Cornell of the country-specialist investment trust, India Capital Growth (IGC), says investors are thinking about the Indian digital consumer and anticipating huge value creation as all the necessary digital infrastructure is now in place for a major tech boom.

He adds that India is seven-to-eight years behind China in terms of internet users, e-commerce, and digital adoption, but expects it to catch up at a higher growth rate.

## Short-term risks

Of course there are also risks that investors should keep an eye on such as domestic inflation, which has been rising, and could be hit by a shift in the Federal Reserve's commentary about the pace of monetary tightening. This would adversely impact emerging markets in general.

IGC's Cornell also highlights the ongoing upward pressure in international oil and commodity

prices that impact inflation and will be passed through to consumers over time. He said India's handling of the Covid crisis put the lack of investment in healthcare infrastructure under the spotlight which caused a devastating impact in all parts of the population both rural and urban, rich and poor.

Ironically, the arrival of the festive season could also cause short-term issues as it may result in a rise in infections, and sadly even deaths, if last year's celebrations are anything to go by with such a large number of people posing significant challenges for social distancing.

But today, the country says it is prepared for a third wave and its vaccination programme is in full swing and proving so far, so good considering India's vast population. And if the rumours are true that it is indeed about to enter a new super-cycle, then of course that's something we have to celebrate.

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