



Sector Insights in India

July 13, 2020

The tailwinds—and headwinds—to development in India are affecting the investment landscape in distinct ways across sectors. The common theme, however, is that as digital connectivity unlocks new sources of growth and as the playing field in India becomes more level from a policy perspective, high-quality companies may have more opportunity to expand their competitive advantages.

Financial Services: Huge TAM and Four Rs

India represents a highly attractive total addressable market (TAM) for financial services because of its low levels of penetration for banking, credit, and digital payments. Experian estimates that more than half of the country's 1.3 billion residents are potential credit customers.

Furthermore, as recently as 2017, less than 10% of Indians with bank accounts used their mobile phones to complete financial transactions, compared with about 50% in developed countries and China, according to the World Bank.¹

The government's investment in the Unified Payments Interface (UPI) and Reliance Jio's investment in a high-speed fiber-optic network have set the stage for a rapid expansion of India's financial services industry.

Indian banks continue to work through the "Four Rs" process to address the country's hangover of bad loans: Recognition, Recapitalization, Resolution, and Reform.

This wide-reaching effort by banking regulators to strengthen the financial system has proceeded in fits and starts,

but ultimately it should enhance the long-term investment opportunities in India's financial services industry.

We believe the companies best positioned to capitalize on India's massive financial services TAM will be those with strong corporate cultures and management teams, as well as a disciplined approach to growth and innovation.

The flight to quality and focus on balance sheet strength have been particularly pronounced among lenders, and there has been a significant divergence in funding costs across institutions over the past 12 months.

Technology, Media, and Telecom: Can an Elephant Dance?

Reliance Jio's transformation from an energy company to a diversified technology and consumer company has the potential to challenge the fundamentals across several sectors in India. This has already occurred within the telecom industry, where consolidation has taken place and data pricing has been spiraling downward.

The threats to incumbents aren't limited to just the technology, media, and telecom industries. As more Indians gain access to high-speed wireless data, sectors such as education and healthcare will become ripe for disruption.

Real Estate: Consolidation Gains Steam

One of the prevailing themes of the formalization of India's economy is a surge in consolidation activity across sectors. This is especially true in the real estate industry.

Large developers, most of whom made it through the credit crisis relatively unscathed, are gaining market share. Over-leveraged developers, on the other hand, are struggling to gain access to capital and refinance debt.

A slowdown in new residential construction projects is causing the unsold inventory levels to decrease. While sales have been resilient, many consumers are deferring purchase decisions as property values stagnated over the last four years. Housing affordability has increased significantly, which can have a trickle-down effect on the overall economy.

Chemicals: Opportunities Amid Environmental Concerns

India's chemicals industry stands to benefit from the government's efforts to promote local manufacturing, known as the "Make in India" initiative.

In addition, Indian chemicals companies are well positioned internationally. The United States and Europe have uncompetitive cost structures and strict pollution controls, while China is imposing stricter environmental controls.

As a result, many multinational corporations are de-risking their sourcing arrangements, looking to add India as a chemicals supplier. These are all powerful tailwinds for India's chemicals industry, but the country must reconcile this growth while addressing air pollution and other environmental concerns.

Automotive: Volatility Illustrates the Bumpy Road to Growth

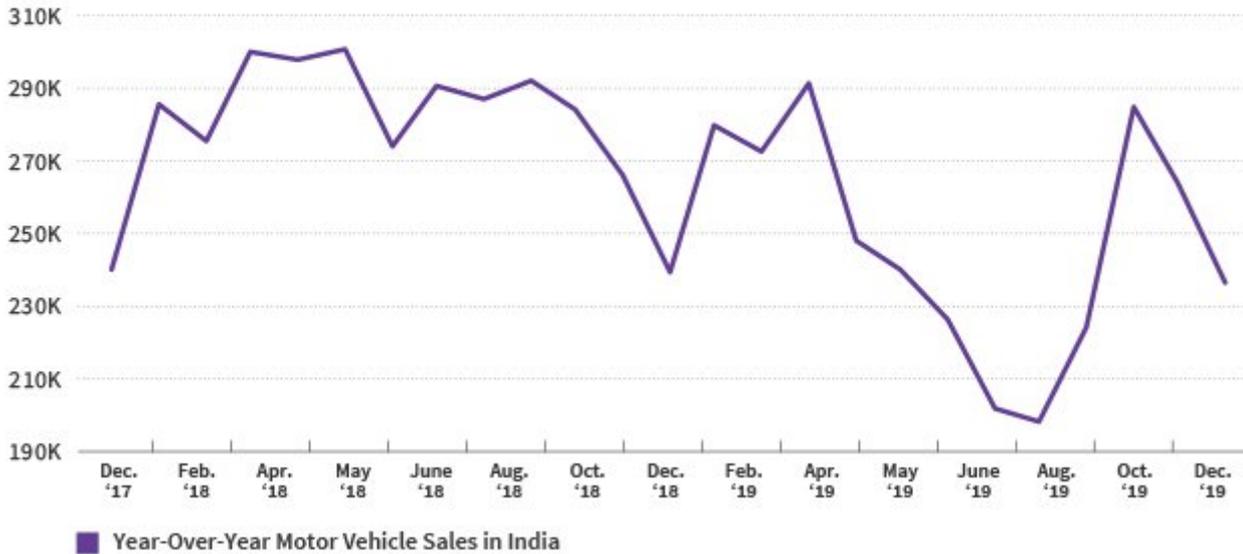
It may be tempting to assume that China's path to economic development provides clues to what India's roadmap will look like; however, because India isn't a centrally planned economy, its growth trajectory will likely be more volatile, featuring sharp peaks and troughs in both demand and investment.

The automotive industry provides a stark example. India was once considered one of the world's most promising markets for auto sales, attracting investment from many of the world's largest vehicle manufacturers.

But the collapse of India's non-bank lending industry caused auto sales to plummet in 2019; in August, year-over-year sales of passenger cars fell 32%.²

India Vehicle Sales Hit a Major Bump in the Road

Vehicle sales in India have slowed considerably since 2019. This slowdown is partly driven by the collapse of India’s shadow lending industry.



Source: Society of Indian Automobile Manufacturers, as of December 2019.

Trends That COVID-19 May Accelerate

Last fall, nine of our team members traveled to India to meet with the management teams of more than 80 companies. Then the COVID-19 pandemic struck, leading us to re-think our analysis.

Many of the long-term structural changes to the Indian economy resulting from COVID-19 will depend on the post-pandemic assessments that are made by policymakers and the political reception of their actions.

This process really has not yet begun to play out, but in the meantime, we have been assessing the ways the investment landscape may change.

For example, as a consumer, you may not spend much time thinking about the series of connections and interactions that take place within a few seconds after you swipe your credit card, click “complete purchase” on a screen, or tap your smartphone on a sensor. But cashless transactions have been a huge area of growth, and we expect this trend’s pace to pick up globally as people avoid hand-to-hand transactions.

We could also see a radical makeover in healthcare and a new role for surveillance programs in mitigating the risk of future pandemics.

1 Source: World Bank Group. “Global Findex Database 2017.”

2 Source: Society of Indian Automobile Manufacturers. December 2019.

India in 2020 Series

Part 1: [Active Perspectives on India's Evolution00](#)

Part 2: [Headwinds \(and Tailwinds\) in India](#)

Part 3: [Sector Insights in India](#)



Anil Daka, CFA, is a global research analyst for William Blair Investment Management. Bryan Shea is a global research analyst for William Blair Investment Management.

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