

India poised for gargantuan leap

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All the elements are all aligned to make India a global powerhouse. So said Christine Lagarde, Managing Director of the International Monetary Fund (IMF) in an address titled "Seizing the India Moment" at Lady Shri Ram College in New Delhi on March 16, 2015.

"This is a special moment for India. Just as many countries around the world are grappling with low growth, India has been marching in the opposite direction," Lagarde stated.

As a matter of fact, India's economy is forecast to grow by 8% - 8.5% in Fiscal 2016, compared to 7.4% in Fiscal 2015.

"It now appears feasible that India can achieve double-digit growth rates in the near future," says Bhim D. Asdhir, President and CEO of Excel Funds Management Inc.



"The investor friendly, business savvy and entrepreneurial Modi spurred renewed optimism over the future of India" - Bhim Asdhir

"The government's commitment to ensuring that India becomes an economic superpower is firmly entrenched in its reform-oriented policies," he added. Excel is the Manager of the Excel India Fund, the largest and longest running mutual fund in Canada focused on investing in India.

To put India's meteoric rise to economic superpower status in perspective, the IMF chief estimates that by 2019, the Indian economy will more than double in size compared to 10 years ago.

Said Lagard: "When adjusting for differences in purchase prices between economies, India's GDP will exceed that of Japan and Germany combined; and India's output will also exceed the combined output of the next three largest emerging market economies - Russia, Brazil and Indonesia."

India, the world's largest democracy with a population of 1.2 billion, is currently the third largest economy in the world based on Purchasing Power Parity, behind the United States and China; and the 10th largest in terms of GDP, ahead of Canada, according to World Bank data.

Long recognized as the sleeping giant, India awakened with the election of Narendra Modi as Prime Minister in May 2014, who led the Bharatiya Janata Party to India's first majority government in more than a quarter of a century.

"The investor friendly, business savvy and entrepreneurial Modi spurred renewed optimism over the future of India," said Asdhir.

Asdhir continued: "Modi's outstanding track-record as former Chief Minister of Gujarat, India's fastest growing state under his tenure for more than a decade, combined with his pro-business reputation and willingness and ability to implement major policy and structural changes, has given foreign investors the confidence that he can bring change to India.

He is also expected to foster greater stability and increased transparency by eliminating corruption and regulatory bottlenecks that have impeded the country's progress."

In the span of less than a year, Modi's vision of a "New Age India" has begun to materialize. His structural, policy, regulatory and institutional reforms are beginning to come to fruition.

His vision is premised on nurturing an ecosystem where the economy is primed for growth which promotes all-round development; where development is employment-generating, enabled by skills; where skills are aligned with production that is benchmarked to quality; and where quality meets global standards that will drive prosperity.

He has so far implemented the "Make in India" initiative to promote local manufacturing, and plans are afoot to establish several other programs such as Digital India to reform government systems and empower citizens; Skill India to harness the country's demographic dividend; and the National Institution for Transforming India. Steps are also being taken to improve the primary education and health systems, increase productivity in agriculture and establish a well-designed welfare and subsidy mechanism.

On the economic front, Modi plans to build 100 new smart cities. The government has put its plan in motion by allowing municipalities to issue bonds to fund their development. Incidentally, the rapidly maturing Indian bond market is becoming increasingly attractive to investors. The yield on 10-year Indian government bonds was 7.71% on February 24, 2015, down from a recent high of 9.1% on April 8, 2014, largely due to expectations of lower interest rates on the back of falling inflation.

Like most emerging markets, India primarily issued hard-currency debt, mostly in US dollars. However, in recent years the focus has shifted to rupee-denominated bonds. Incidentally, local currency debt reduces hard currency liabilities and exposure to foreign currency fluctuations; and lessens dependence on external debt.

Countries like India now have stronger balance sheets, higher levels of foreign reserves and more stable currencies - enabling them to command more respect in the global bond market.

The government has also made changes in a range of areas, among them promoting massive infrastructure development, relaxing foreign investment limits; reforming the

Land Acquisition Bill and mining laws; implemented the direct transfer of subsidies; introduced the Goods and Services Tax; and lowered corporate taxes.

To put infrastructure development plans in motion, the country's recent budget proposed an increase in capital expenditure by 25.5% in 2015, comprising primarily of a 52% increase in spending on railways and a 174% increase in roads and bridges.

In addition to government initiatives to transform the country, India has youth on its side, with the median age of its population at 27 years. Lagard identifies this opportunity, say-



IMF Managing Director, Christine Lagarde -

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India's Prime Minister Narendra Modi

As a result of India's phenomenal growth, its stock market was the best performing in the world for the one-year period ending February 28th, 2015, with the Sensex Index up 59.24%, compared to the S&P 500 which was up 30.77% and the S&P/TSX 10.32%. The Excel India Fund, with a one-year gain of 73.74%, was the best performing mutual fund in Canada out of more than 4,000 other mutual funds. Major investment houses such as Goldman Sachs and Bank of America Merrill Lynch predict that the Indian markets will continue to head much higher.

ing: "The conditions are ripe for India to reap the demographic dividend and become a key engine for global growth."

By 2030, India is expected to have the largest labor force in the world. At more than one billion people of working age, India's labor force will be larger than the combined labor force in the United States, the Euro Area, and Indonesia.

The demographic dividend is accentuated by India's growing, upwardly mobile middle class, which is expected to fuel consumption and infrastructure development, supporting the acceleration of growth of Indian companies and the economy.

Recognizing that the government cannot develop India on its own, Modi has called for an increase in the role of the private sector, saying the government has no reason to be in business. He has also relaxed foreign institutional and foreign direct investment restrictions, opening the doors to foreign investors.

Last year foreign private and institutional investments into India reached a record \$37 billion, with a dramatic increase expected in 2015. US investors have committed to invest over \$41 billion over the next three years and China and Japan are expected to invest \$100 billion and \$35 billion respectively over the next 5 years.

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Looking ahead, "we are optimistic about the performance of the Sensex, with a general base case target of 38,700 in two years, compared to 29,000 today," says Asdhir.

Lagarde aptly sums up India today. It is on the verge of a new chapter, filled with immense promise. It is more than the sum of its parts and is set to take its rightful place in the global economy.