

INDIA: SEIZING OPPORTUNITIES IN THE NEW ERA

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Recently, the Institutional Investor Forum (IIF) held its two-day annual India Investment Forum. There was much hype going into the conference, as a slew of ministers and distinguished institutional investors were slated to speak. Not only was the forum well-placed in terms of attendance, it also shed light on India's investment landscape in the context of Prime Minister Narendra Modi's vision for the country's growth trajectory. The key takeaway was that India's future growth model will be led by frugal innovation, primarily through locally minted talent. We believe that this is an important factor that distinguishes India from the rest of the [emerging market \(EM\)](#) block, particularly China, and that it will underpin a sustainable growth model in decades ahead. Below, we outline some key discussions from the various panelists concerning India's future economic potential.

What Separates India from the BRICS Nations? A key differentiator between India and the other BRICS nations is an emphasis on education, in particular on higher education. Over the past decade, India's higher education system has grown at a tremendous pace, adding over 20,000 colleges and more than eight million students. The key here is India's focus on higher-level education and working on building globally competitive universities, such as the Indian Institute of Management (IIM) and Indian Institute of Technology (IIT). According to the panelists, this is where China lags. In terms of Prime Minister Modi's track record, his record in Gujarat is notable. When Modi took office in Gujarat, there were approximately 14 universities, and today that number stands at over 100. Further, in Modi's July budget rollout, he allocated over Indian Rupee (Rs) 500 [crore](#) to train more skilled workers, such as weavers and construction personnel, whose skillsets are in high demand.

Characterizing India's Growth Model Jayant Sinha, a prominent member of the Indian parliament, led a keynote session on India's growth model. Sinha strongly believes that a crucial conversation for India today focuses on how the country can appeal to the West—and not necessarily the other way around. From a [macroeconomic](#) standpoint, India is approximately a \$2 trillion economy and is capable of doubling that in ten years, provided that the country is able to maintain a sustainable [gross domestic product \(GDP\)](#) growth rate of 7%–8% annually. He added that if the Indian rupee is left to "float freely," it will most likely trade at levels closer to 56, rather than the current rate, which is north of 61¹. According to Sinha, the reason that the rupee is trading above 61 is primarily that Raghuram Rajan, the governor of the Reserve Bank of India (RBI), and the RBI have been working to shore up reserves. What we found most compelling was Sinha's characterization of India's growth trajectory as one that will be both peaceful and sustainable in nature. This is a growth model he aptly termed "Japan-like," drawing parallels to Abe and his administration circa 2012. Further, Sinha is confident in Modi's reelection in 2019, which would set the stage for a Modi-led Indian rule over the next ten years. This would give the single-party-majority Congress sufficient time to put much-needed structural reforms in place.

What Does India Need from the World? According to Sinha, the answer to this is simple: energy, technology and capital that will serve to feed its growth engine. It is estimated that India needs to raise \$1 trillion in the near future; thus the reform agenda has become more urgent.

What Can India Give to the World? India's growth model is one that Sinha terms "frugal innovation." He qualifies this by stating that India's growth strategy will be built on the initiation and start-up of many types of new industries that draw on India's innovative and engineering horsepower. India will slowly but surely make the transition from a service-based economy (call center and information technology, outsourcing related) to one that focuses more on affordable innovation. Frugal innovation is a concept of low-cost and highly efficient innovation that will be made affordable to the masses globally.

- **Pharmaceuticals:** One industry that can potentially present an impactful area of opportunity is pharmaceuticals. India is exploring areas, such as manufacturing low-cost stents, producing affordable medical device detection tools, and manufacturing generic drugs that can forever change the face of the Health Care sector globally. Take for example, Solvadi, a Hepatitis C drug that costs \$84,000 for a 3-month regimen. It is said that generic drug-makers in India are considering licensing a deal set at \$2,000, or 2% of the U.S. price for an equivalent drug.
- **Renewable Energy:** Rooftop solar is a large opportunity in India, particularly when it comes to Modi's rural electrification plans and giving the masses access to electricity.
- **Automotive:** Sinha quoted Maruti Suzuki, which has publically stated that India has the potential to become the biggest car manufacturer in the world and is optimistic that

Modi's government can work to remove factors that have adversely impacted India's competitive advantage in the manufacturing space. Additionally, Daimler Benz believes in India's potential in the truck manufacturing space, adding that India can be the largest truck manufacturer and exporter globally in the near future. To conclude, it is important to realize that India is not China. India's growth model will be driven by technological innovation and heavy-engineering related industries. It will draw on its competitive advantage in efficient and low-cost manufacturing, which will ultimately make high-end technology affordable to the masses. India's growth model is one that Prime Minister Modi himself says will be led by democracy, demographic diversity and dividend. This model is a powerful combination of both hard and soft power. ¹Refers to the spot exchange rate between the Indian rupee and the U.S. dollar. As of 9/30/2014.

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DEFINITIONS

Emerging market : Characterized by greater market access and less potential for operational risks when compared to frontier markets, which leads to a larger base of potentially eligible investors.

BRICS : An acronym for Brazil, Russia, India, China and South Africa.

Crore : is part of the Indian counting system. One crore = 10 million.

Macro : Focused on issues impacting the overall economic landscape as opposed to those only impacting individual companies.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.