



Investing in India by Understanding India

June 2024



MARCELLUS INVESTMENT MANAGERS PVT. LTD.

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Hikaru Nakamura (in white) vs Vidit Gujrathi (in black), FIDE Candidates, Toronto, 6th April' 24



- Gujrathi is offering the bishop on h3 as a sacrifice but....Nakamura is hesitant to make that move.
- Instead, Nakamura focuses on his knight in the centre of the board (in e5) and moves that to safety.
- Unfortunately for Nakamura, that's the wrong move. On the next move itself, Gujrathi's first bishop, was eyeballing Nakamura's queen.
- So why does Nakamura make the wrong move given that he's top 3 ranked player?
- If Nakamura took the bait and captured Gujrathi's bishop, Gujrathi would slide his queen on the back rank to the b8 square, thereby paralysing Nakamura's knight in the centre of the board. If Nakamura then moved the knight, Gujrathi could place his queen on the g3 square, crippling Nakamura's king.
- So, Nakamura's fatally incorrect move looked – to his trained mind – to be the logical move to make.
- Just as Gujrathi's seemingly sacrificial bishop was not really a sacrifice, so too with the economic, political & social changes in India – closer attention is required to understand what is happening and what should be your next move.

When Vidit moved his bishop to h3 in his Round 2 game at the Candidates chess tournament, Hikaru had two options: recapture the h3 square or move his knight from e5 square. He chose the latter. (PHOTO: Screenshot courtesy Lichess.org)

Profits are getting democratised in the Indian market...finally



3 drivers of the democratisation of profits



Steady buildup of India Stack and UPI



Greater access to credit for SMEs



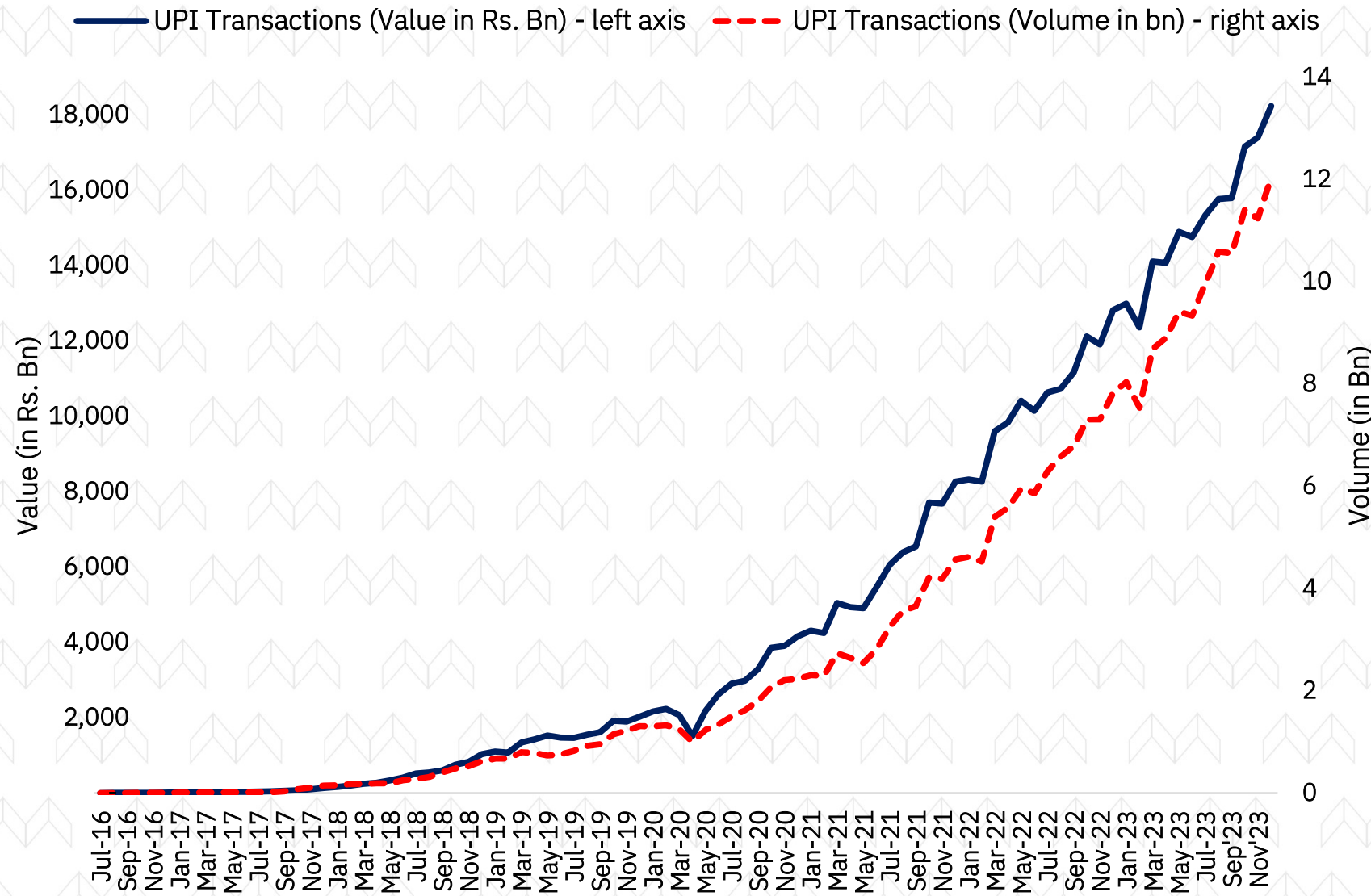
Brand creation & marketing through social media

Source: Marcellus Investment Managers, CMIE (sourced by IIFL Securities), Bloomberg, Ace Equity; the CMIE data for FY23 pertains to nearly 12k companies, whose data has been updated on CMIE as opposed to the previous years when data for nearly 30k companies was used; Profit After Tax or PAT for top 20 has been checked for companies as of each of the financial years respectively; due to high variance in the measure, a 3 year average has been calculated to smoothen out any sudden movements; Free Cashflow to Equity (FCFE) has been calculated as cash flow from operations less capex plus net borrowing, whose 3 year average is calculated to smoothen out sharp movements; for financials, PAT instead of FCFE used

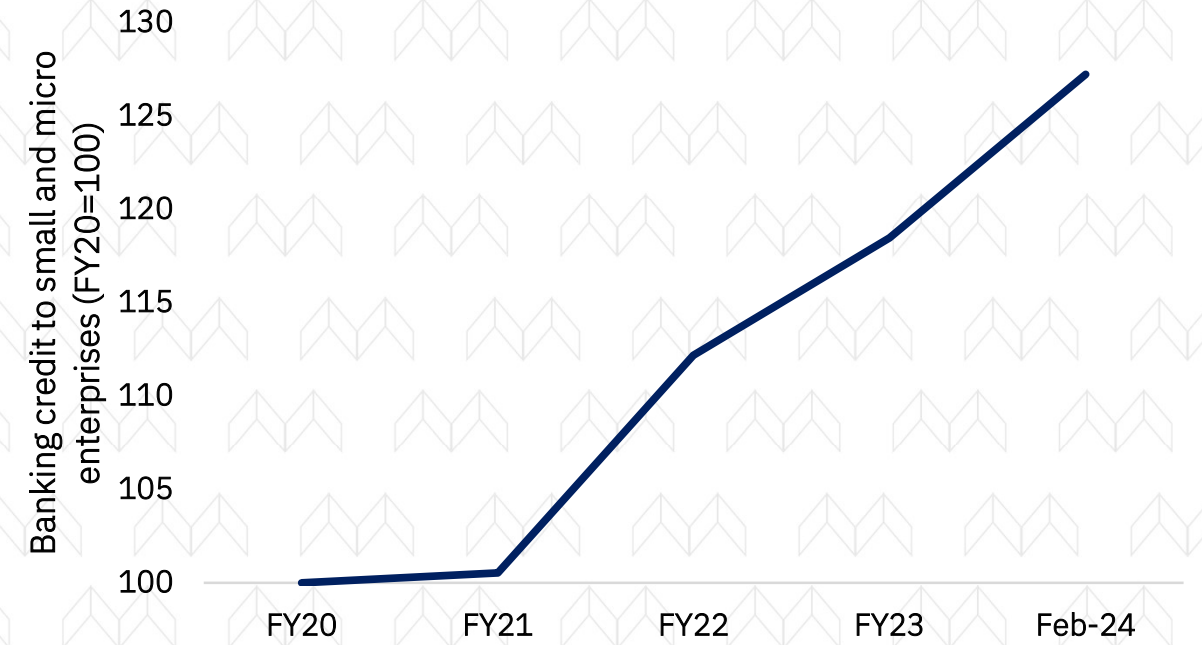
Key drivers of the democratization of profits



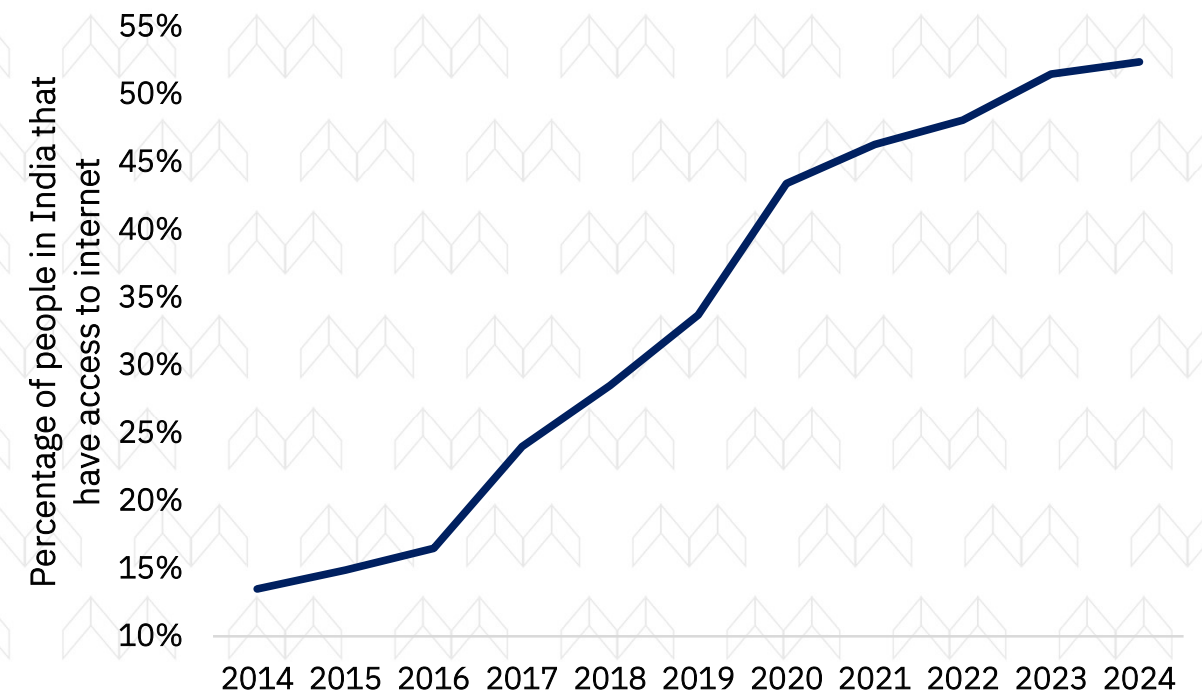
The Exponential Growth of UPI



Skyrocketing of loans to SMEs



Access to internet for 700mn+ people



Source: Marcellus Investment Managers, National Payments Corporation of India, RBI, Statista; the figure indicates % of population that has access to any kind of internet connection (cellular/broadband etc)

Five Megathemes are making their way into our portfolios



W . E . S . C . O



Women

Urban Indian Women Have More Money in the Bank Than Men



Education

For the first time, people from non-IIT, non-IIM, non-foreign degrees run the majority of Nifty50 companies



South

Seven Southern states have per capita incomes 50% higher than the rest of the country



China+1

China's Unravelling and Creation of a US\$ 300 Billion per annum opportunity for India



Octopus

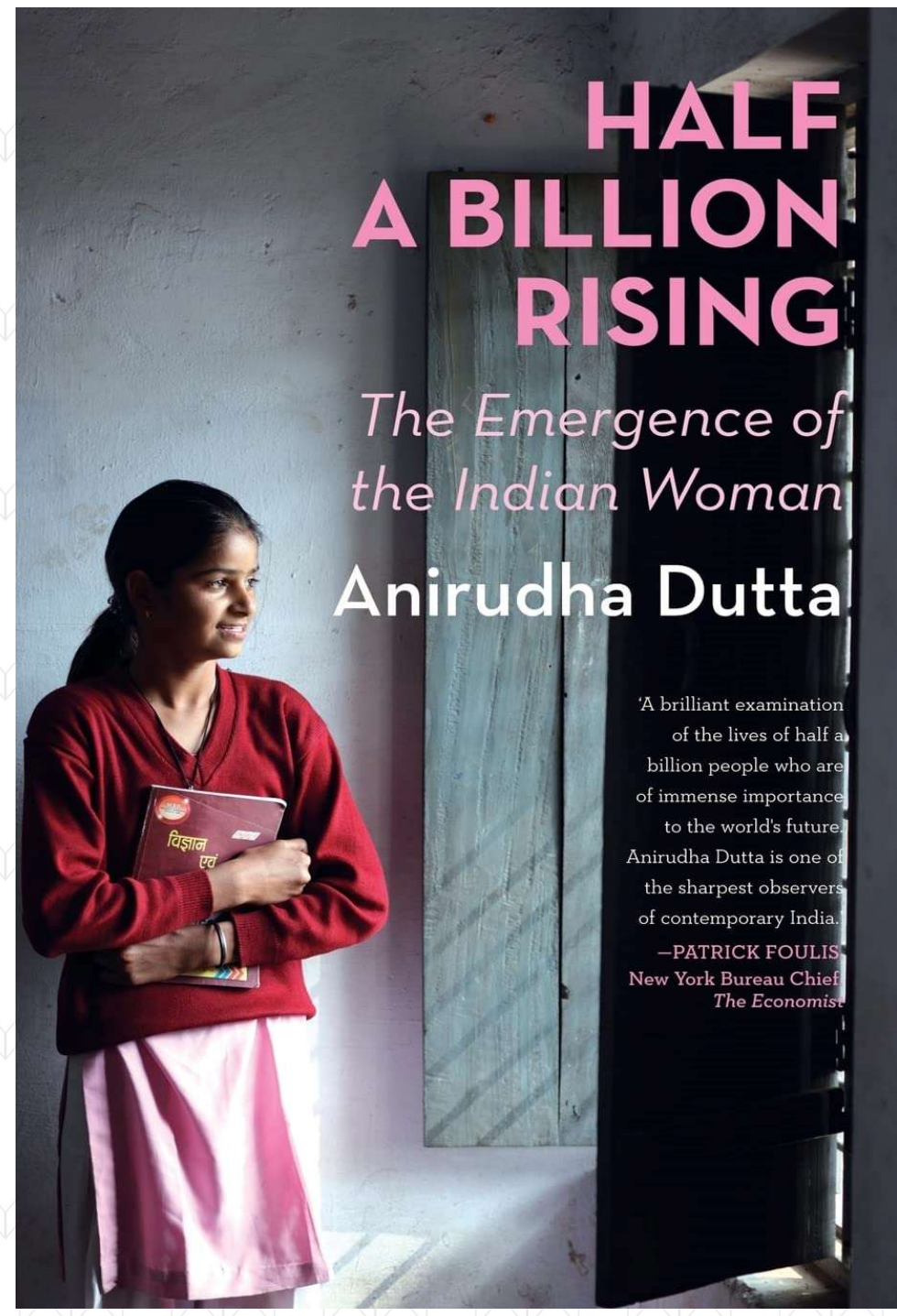
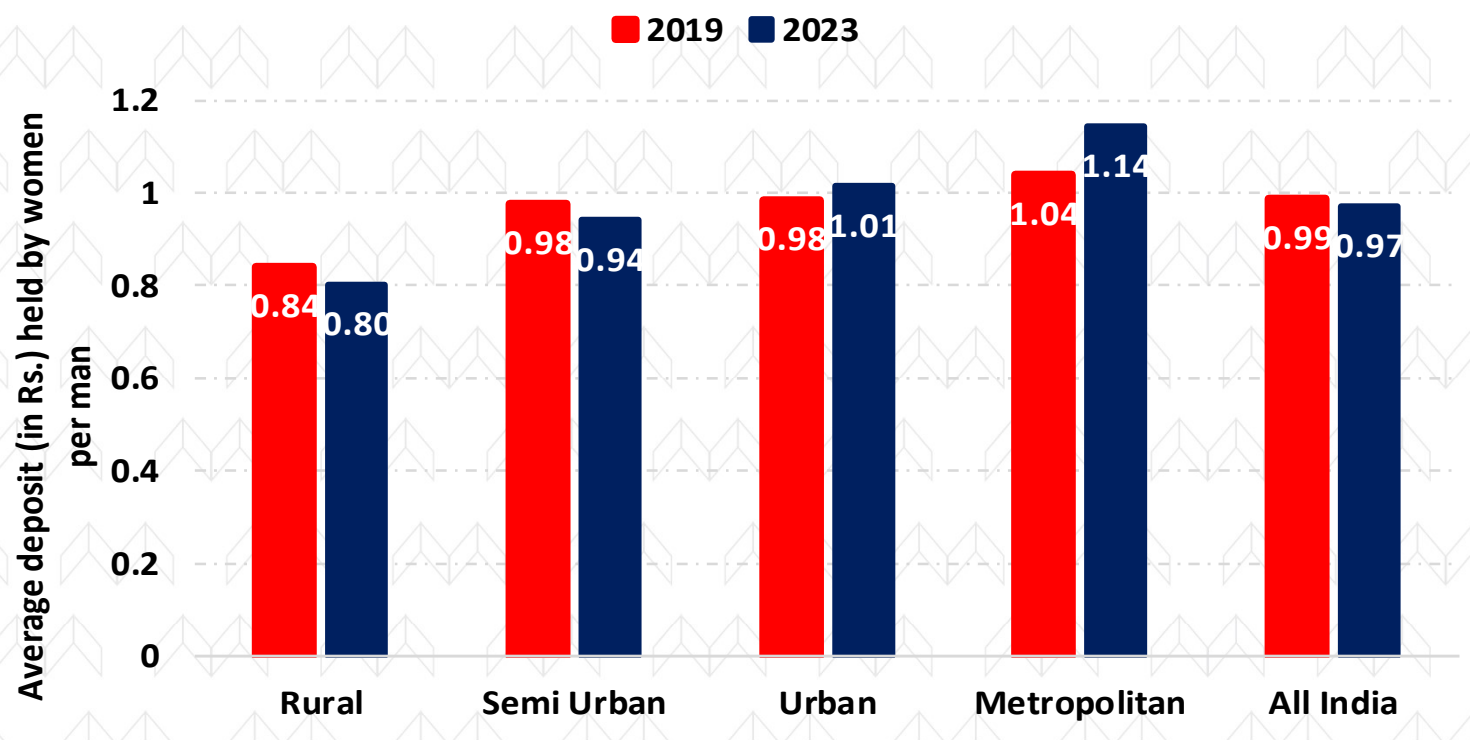
Emergence of ~200K octopi families whose wealth has surged more than 16x in the last 20 years

Urban Indian Women Have More Money in the Bank Than Men



- More Indian women are getting educated than men.
- Women's pass rates are much higher than those of men.
- Women are staying in the education system for longer than men.
- On average, Urban Indian women have more money in their bank accounts than men (14% more in the metros).
- Women in the tech industry earn on an [average 7% more than men](#).

On an average women in metro and urban areas hold more in deposits than men

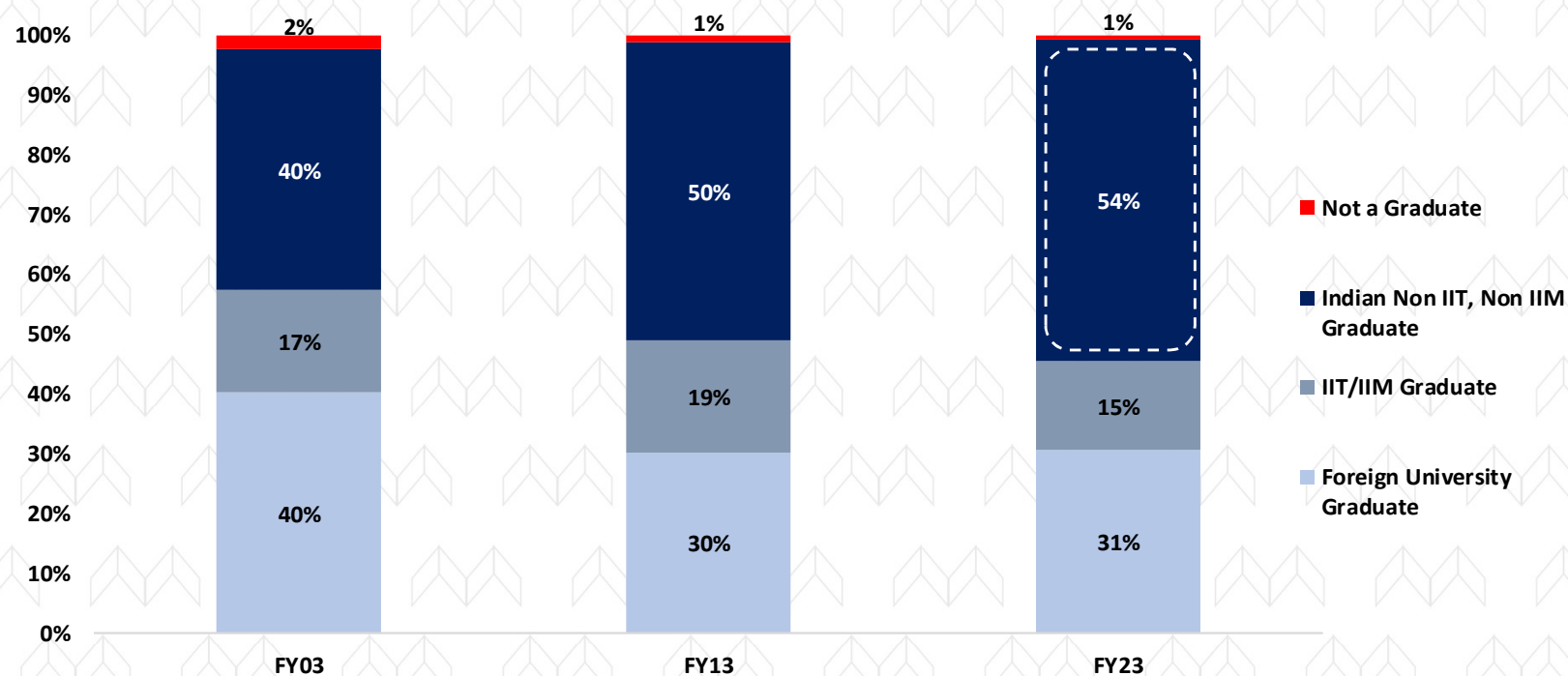


Source: Marcellus Investment Managers, National Statistics Office, MOSPI; metric used is average deposit or total deposit for men and women each divided by the number of accounts held by each gender, disaggregated by geography; see our blog on the subject [here](#); Nestle, Trent, and Rainbow Hospitals are part of Marcellus portfolios; their mention here is illustrative and not recommendatory; Half a Billion Rising - Copyrights of above book is exclusively reserved with Author/Publisher of the above book; The Logos of the companies used in the presentation are the property of respective companies and we do not claim any rights of the above used logos.

The Democratization of Opportunity in India's Boardrooms

- For the first time, the majority of the Directors of Nifty50 companies now have 'normal' Indian degrees (non-IIT, non-IIM and not educated abroad).
- The old conglomerates run by elite families are steadily fading away; a new type of business leader is rising usually with a middle class non-elite upbringing.
- Entrepreneurial drive, technological aptitude, and harnessing diverse talent pools are now crucial for success in modern India.

For the First Time, a Majority of the Promoters and Executive Directors of Nifty50 Companies are 'Normal' Graduates



CARYSIL
German Engineered

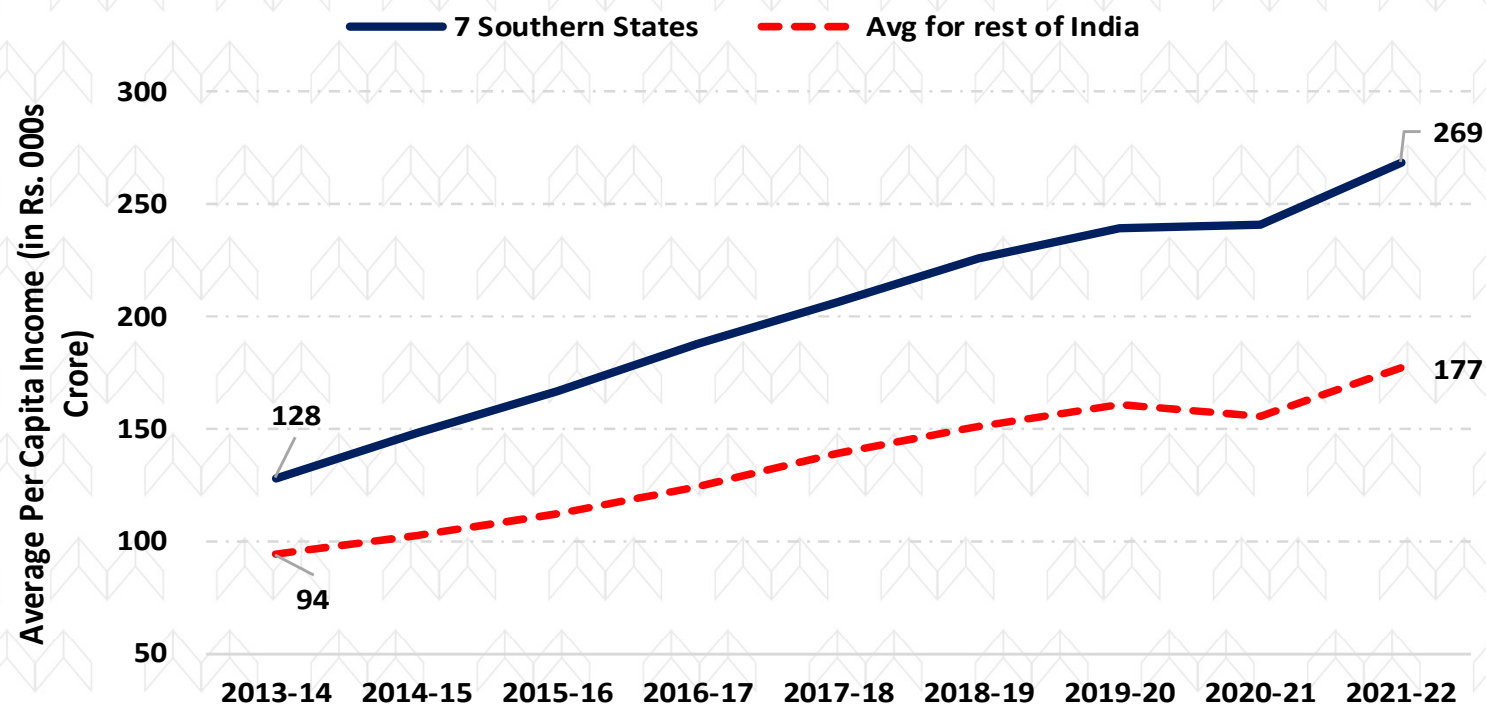


Source: Marcellus Investment Managers, company annual reports, Bloomberg; non-overlapping promoters and executive directors for FY03 identified using company annual reports; for FY13 and FY23 Bloomberg was used; Nifty 50 companies as of the respective financial years were used to build the list of promoters and executive directors; instances where the educational qualification data was not available were excluded from the analysis; totals may not seem to be 100% due to rounding; see our blog on the subject [here](#); HDFC Bank, Astral, Mas financial services, and fine organics are part of multiple Marcellus portfolios; their mention here is illustrative and not recommendatory; India's New Capitalists - Copyrights of above book is exclusively reserved with Author/Publisher of the above book; The Logos of the companies used in the presentation are the property of respective companies and we do not claim any rights of the above used logos..

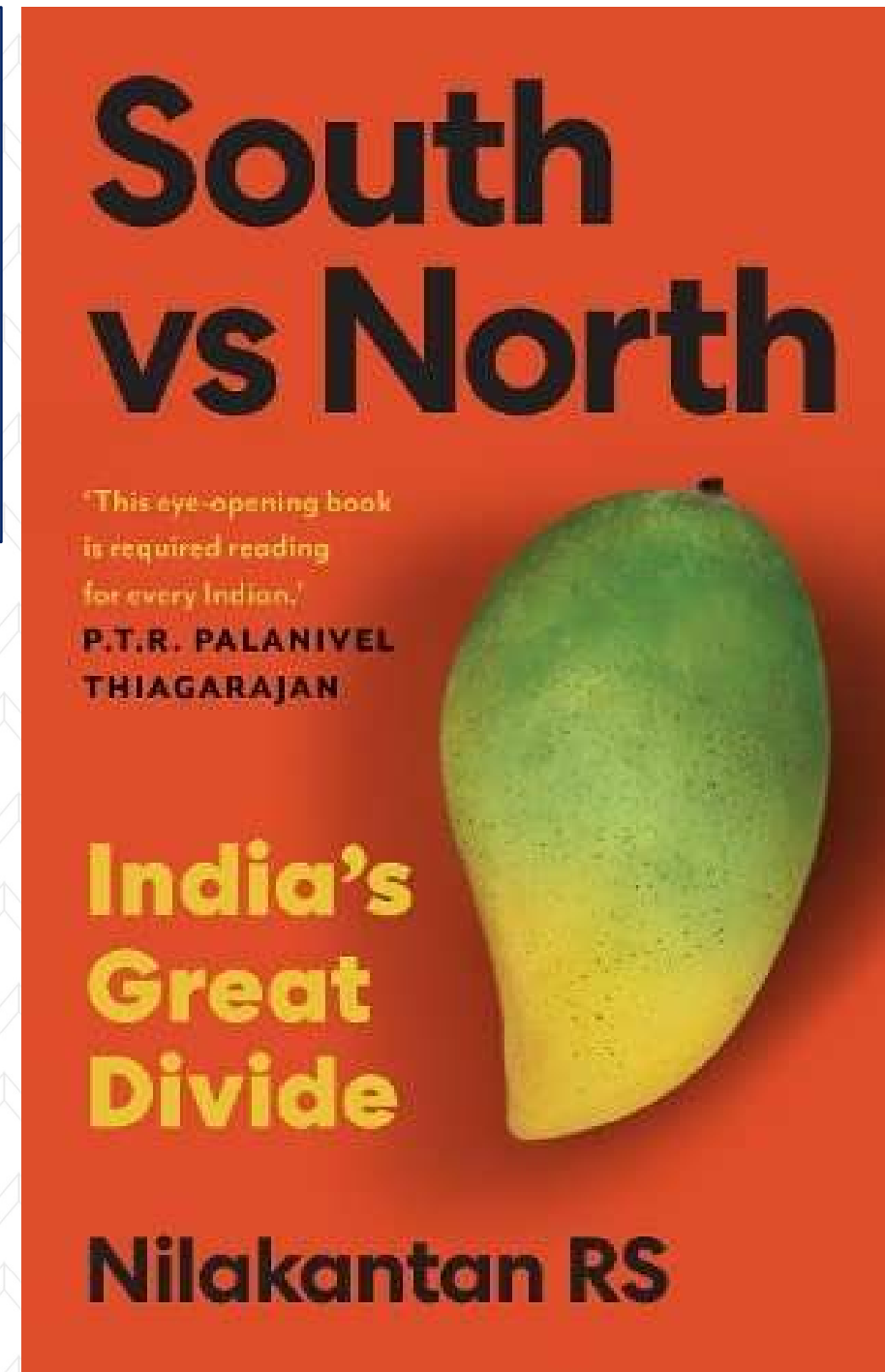
The Explosive Ascent of Southern India

- Seven southern states' (Tamil Nadu, Telangana, Andhra, Kerala, Karnataka, Goa, and Maharashtra) per capita income has grown at 10% p.a. CAGR in FY14-22.
- The Southern Seven account for 30% of population, 45% of GDP and avg per capita income of ~\$3.3K.
- Southern Seven's per capita income is 50% higher than rest of India's; decade ago, it was 35% higher.
- The Southern Seven account for 33% of Lok Sabha seats.

Average per capita income of the southern states is zooming past the rest of India



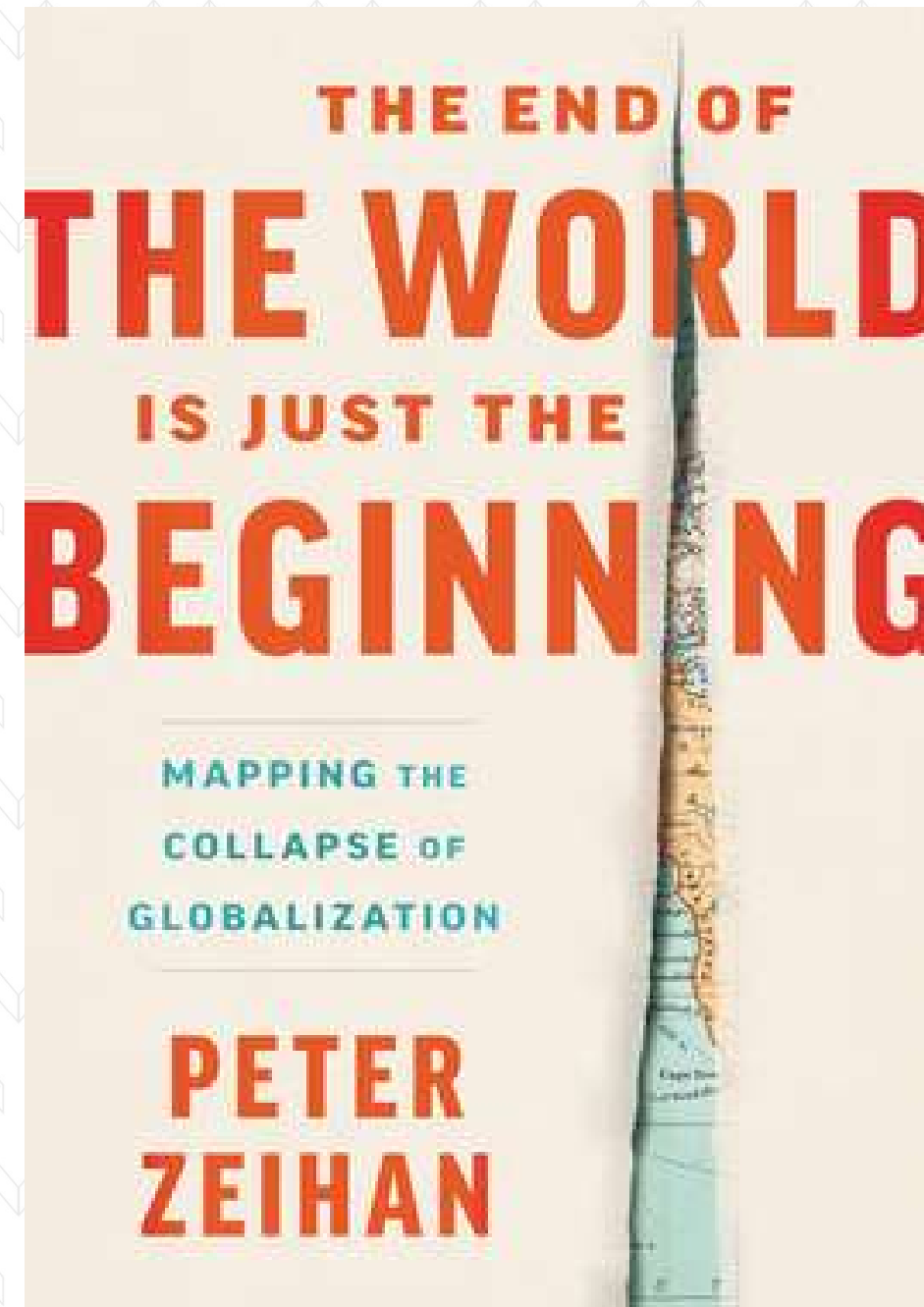
Source: Marcellus Investment Managers, Economic Survey of India 2022-23; 7 southern states identified as Telangana, Andhra, Maharashtra, Goa, Tamil Nadu, Kerala, and Karnataka; rest of India are all other states and union territories; due unavailability of data for many states in 2022-23, data is considered only until 2021-22; see our blog on the subject [here](#); HDFC Bank, Asian Paints, Titan, and Trent are part of multiple Marcellus portfolios; their mention here is illustrative and not recommendatory; South vs North - Copyrights of above book is exclusively reserved with Author/Publisher of the above book; The Logos of the companies used in the presentation are the property of respective companies and we do not claim any rights of the above used logos.



China's Unravelling Creates a \$300 billion opportunity for India



- China's economy has been pulverized due to the implosion of a massive real estate bubble, a beleaguered banking system, and a face off with America.
- India, with its large skilled labor force, stands to gain from these developments.
- Knowledge intensive manufactured products like smartphones, APIs, and medical devices could create a \$300 bn per annum (10% of GDP) opportunity for India.
- Global giants like Apple, Foxconn and Merck are proactively rewiring their supply chains away from China and towards India.



Alkyl Amines Chemicals Limited



Divis Laboratories Ltd.



Market sizing the 'China Unravelling' Opportunity for India (All Units are in \$bn)

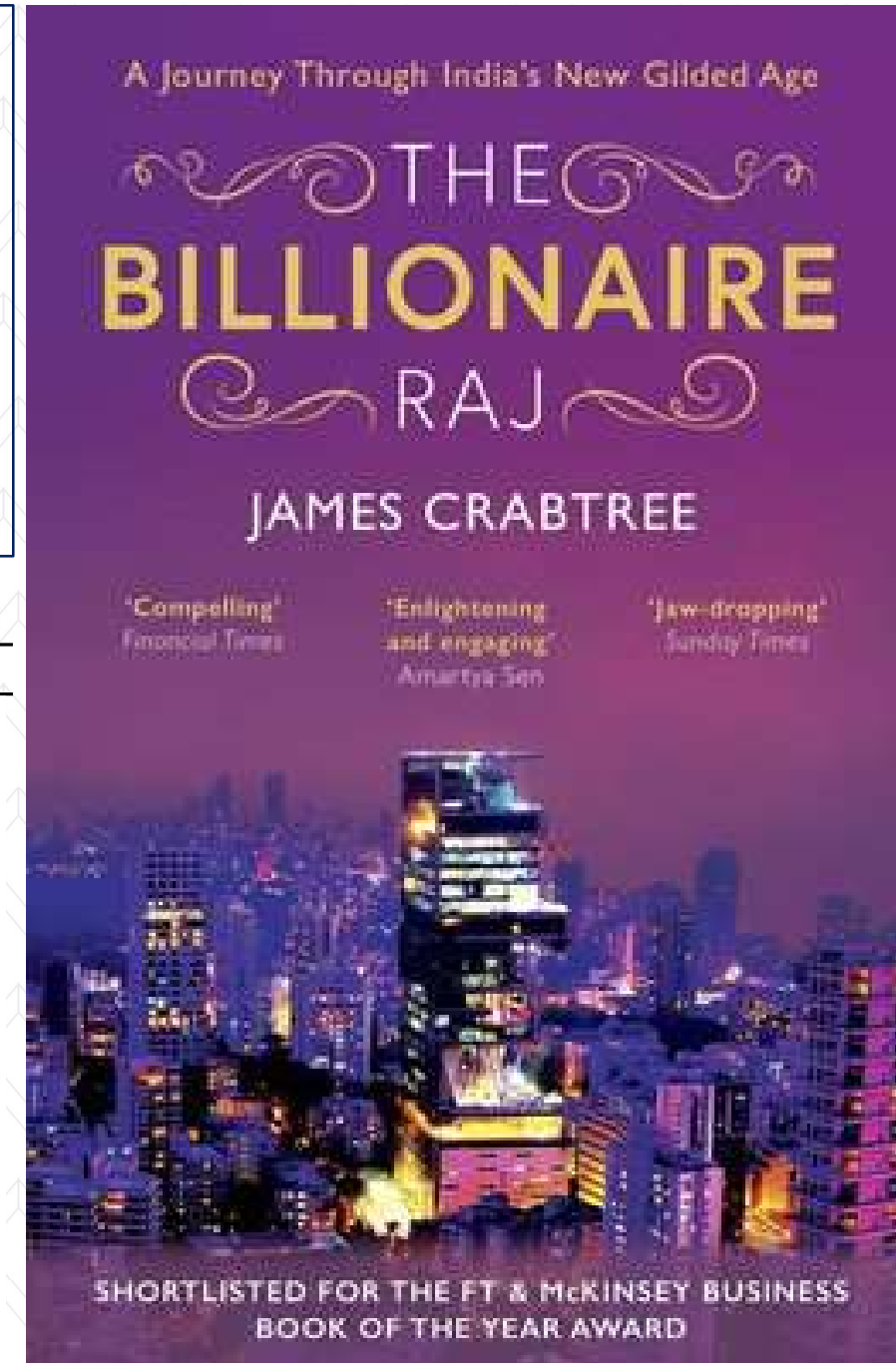
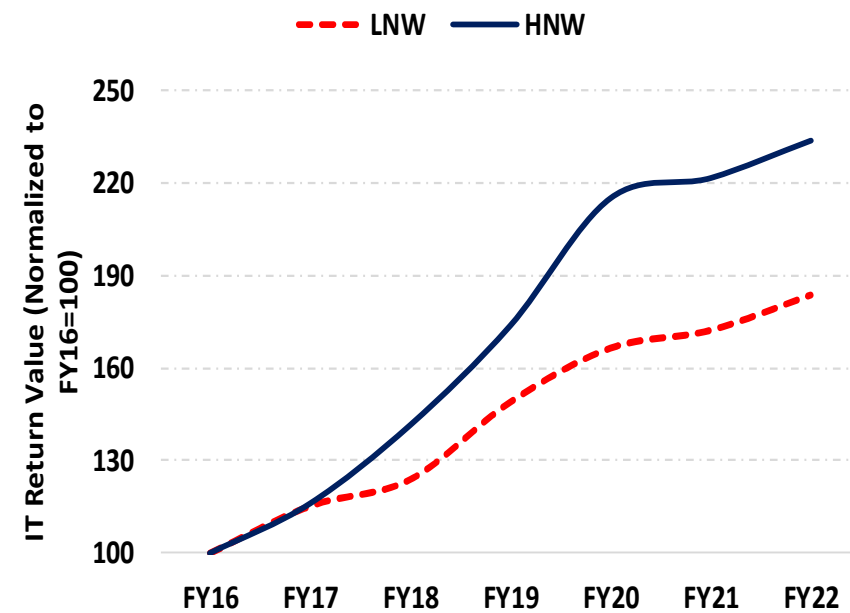
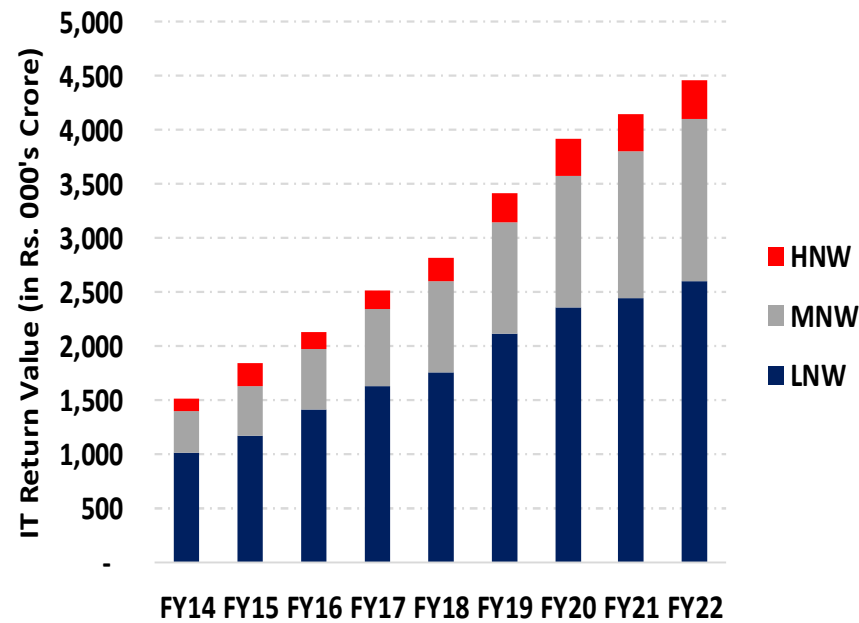
Industry	Indigenisation in India of goods imported from China (grown at 3.5% p.a. over 10 years)	Current domestic production 10 years hence (grown at 12% p.a.)	Total expected opportunity 10 years hence
Smartphones	46	83	128
Active Pharmaceutical Ingredients (API)	32	62	94
Medical devices	35	37	73
Total Market Opportunity	113	182	295

Source: Marcellus Investment Managers, company annual reports, Business Standard, Live Mint, Economic Times, CNBC, Grandview Research, IBEF, FrontiersIN. org, beroeinc.com, and EIN news; All values are in US\$ bn; Chinese export shift assuming a fourth of their current exports shift to India over the next decade; World nominal GDP growth rate of 3.5% used to grow export shift for the next 10 years; Indian nominal GDP growth rate of 12% used to grow domestic production for the next 10 years; see our blog on the subject [here](#); GMM Pfaudler, Alkyl Amines, Divis Labs, and Apple are part of multiple Marcellus portfolios; their mention here is illustrative and not recommendatory; The End of the World is Just the Beginning - Copyrights of above book is exclusively reserved with Author/Publisher of the above book; The Logos of the companies used in the presentation are the property of respective companies and we do not claim any rights of the above used logos.

The Octopus Ascends: The Rise of Crazy Rich Indians

- Emergence of ~200K octopi families (or 1 million individuals) whose wealth has surged more than 16x in the last 20 years.
- This is a result of the:
 - Financialization of physical assets
 - Networking of India through roads, air & internet
 - Rise of highly paid executives
 - Concentration of financial and political power.
- 'Class' consumption is growing much faster than 'Mass' consumption.

Rise of the 'Crazy Rich Indians'



Source: Marcellus Investment Managers, incometaxindia.gov.in; HNW is defined as individuals earning ≥ 1 crore income p.a.; LNW is defined as individuals earning ≤ 10 lakhs p.a.; all the individuals earning between 10 lakh and 1 crore p.a. are classified as MNW; because of lack of detailed information available for FY23 at the time of writing this note, data only until FY22 has been considered; see our blog on the subject [here](#); Titan, Eicher Motors, Kotak Bank, and Kering are part of multiple Marcellus portfolios; their mention here is illustrative and not recommendatory; The Billionaire Raj - Copyrights of above book is exclusively reserved with Author/Publisher of the above book; The Logos of the companies used in the presentation are the property of respective companies and we do not claim any rights of the above used logos.



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Thank You!

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