

The Case for a Standalone India Allocation



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India is rapidly emerging as a key player in the global economy, currently ranked as the fifth-largest with a nominal GDP of US\$ 3.9 trillion. It is projected to become the third-largest economy by the end of the decade, with GDP expected to surpass US\$ 6 trillion.

With a median age of 28, India possesses a significant demographic advantage that is expected to last for several more decades. It is the world's **largest provider of human resources**, with the United Nations estimating that ~21% of the incremental global workforce (or 96 million people) over the next decade will come from India. The country also leads in science, technology, engineering and mathematics graduates, who are English speaking. Multinational corporations are increasingly establishing global capability centres in India to perform an array of strategic functions, including R&D, product engineering, AI and digital transformation. India currently hosts over 1,700 such centres, with revenues of US\$ 65 billion. NASSCOM projects that by 2030 this will rise above 2,400 with combined revenue of US\$ 110 billion. India really will be **"an office to the world."**

India's growth is consumption-driven, with private consumption constituting 64.8% of nominal GDP (December 2024). Although overall GDP per capita is low, India has a distinct income pyramid: the top tier matches global spending levels, while the bottom tier

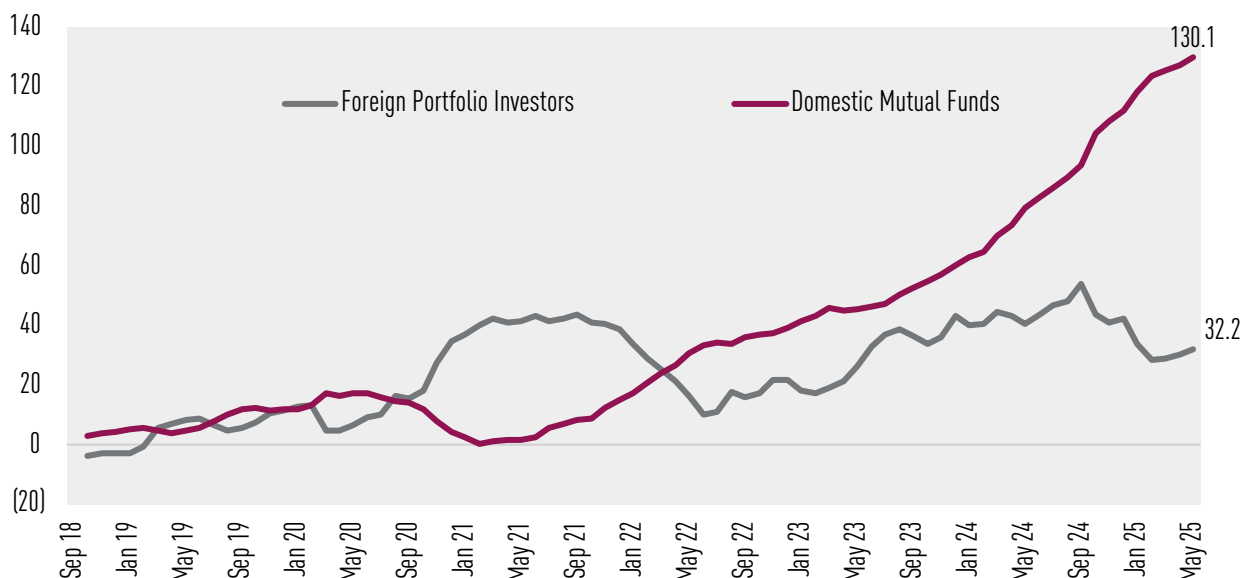
remains relatively poor. Tier-2 and Tier-3 cities are emerging as strong growth hubs, boosting demand for organised retail and branded products. Consumer spending is expected to grow by 46% to reach US\$ 4.3 trillion by 2030, up from US\$ 2.4 trillion in 2024, driven by rising incomes, rapid urbanisation, aspirational youth, credit availability and digitalisation. This burgeoning domestic market provides immense opportunities to local and global businesses.

Under the stable political regime of Prime Minister Narendra Modi, who has held office since 2014, India has addressed long-standing issues that had blocked its full economic potential. A major achievement in the past decade has been the scaling up of physical infrastructure through better execution and policy. Roads, railways, ports and airports have seen unprecedented expansion and upgrades. Over the next five years, India will spend US\$ 1.1 trillion on infrastructure (1.6 times the amount spent over last five years).

While India is rapidly improving its physical infrastructure, it is ahead of most countries in terms of digital infrastructure. The "JAM Trinity" which integrates bank accounts (Jan Dhan), biometric identification (Aadhaar), and mobile connectivity, has enhanced the effectiveness of Direct Benefit Transfer schemes, ensuring subsidies and welfare benefits reach recipients directly. This has curbed corruption, reduced inequality and benefited rural areas and women in particular. The widespread adoption of the Unified Payments Interface, a real-time digital payment system, has formalised even small transactions. It has contributed to India's journey towards a cashless economy, leading the world with a 48.5% share in global real-time payments volumes.

The implementation of Goods and Services Tax (GST) bill in 2017 has simplified the indirect tax regime through end-to-end digitisation.

Cumulative net flows into Indian equity (US\$ billion)



This has expanded the tax base, improved governance and formalised the economy. The average monthly GST collections now exceed US\$ 22 billion.

The Indian Government is also focused on increasing the manufacturing sector's ~15% share in GDP. Several initiatives have been launched to incentivise global companies to establish manufacturing facilities, and early successes include mobile phone manufacturing, where India has transformed from an importer in 2017 to the world's second largest producer. Similar successes are visible in defence, auto, electronics manufacturing and pharma.

Further, robust macroeconomic fundamentals, along with a well-calibrated policy approach, fiscal discipline, moderate inflation, healthy forex reserves and a relatively stable currency have enhanced overall economic resilience. This has enabled India to withstand recent global headwinds such as the Russia-Ukraine conflict, geopolitical tensions in the Middle East and proposed US trade tariffs. The domestic nature of the economy too makes it less susceptible to global trade disruptions.

Equity markets:

India is the fifth-largest stock market with a market capitalisation of over US\$ 5 trillion. The National Stock Exchange is the world's largest derivative exchange by number of contracts traded (~1 trillion contracts in FY24). The country's weight in MSCI EM index has more than doubled from 8% in 2020 to 19% in 2025, backed by strong performance and the expanding universe of listed companies. Over 600 companies have a market cap of greater than US\$ 1 billion. The number of companies with ROE greater than 15% has gone up from

175 in Mar-15 to 279 in Mar-24. The sector composition is domestically oriented with representation across cyclicals, defensives and sensitive sectors and is spread across B2B and B2C businesses.

Domestic investors have become strong participants in the equity market over the last decade aided by sustained systematic investments from households as well as passive flows from provident funds, pension funds and insurance. Over the last three years (until May-25), domestic mutual funds have cumulatively invested US\$ 100 billion, while foreign investors have invested US\$ 16 billion, taking their ownership of Indian equities at a multi-year low of 17.5%. We believe that the financialisation of savings in India has just begun as only 7% of the household assets are in equities.

While market valuations for India have been perennially expensive compared to MSCI EM and the world, these high valuations are supported by superior earning profile of companies.

In all, India stands out as one of the few countries offering high GDP growth, favourable demographics, high savings rate, debt levels lower than most countries, political stability, a domestically driven consumer-oriented economy and a large and liquid stock market. The healthy participation from domestic investors also helps cushion volatility during major global events.

Although past performance is not an indicator of future performance, Indian equities have outperformed most EM's over the long term. We believe foreign investors should utilise market corrections as opportunities to invest in India as a standalone allocation through an active management approach to benefit fully from its high growth potential.

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