The Economic Times article by Mr. Azeem Ahmad,

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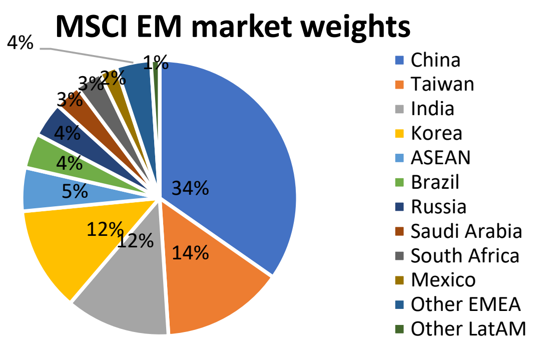
India could become a poster boy for EMs in this decade

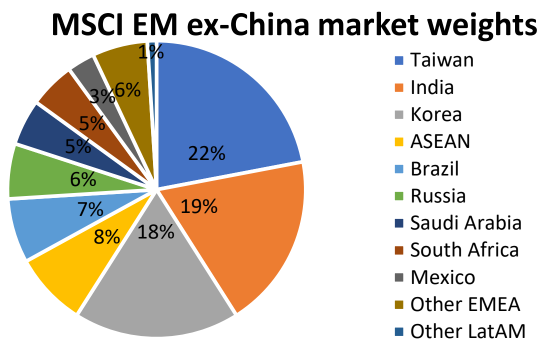
Looking beyond home bias, there are strong fundamental reasons to believe India will be the beacon of growth in EM space in this decade and will warrant higher weight in EM Indices as well. Let's discuss key fundamental reasons supporting this statement.

China merits a separate Equity class

Chinese equity market has a listed market cap US $ 18tln with 8900 listed stocks (source: Goldman Sachs Report). China's weight in EM (MSCI EM) index has doubled in last 5 years to almost 35% (& will be over 40% in next 5 years) (Source: MSCI website). However, MSCI EM ex-china has compelling case as it represent more than ½ of stocks and 2/3rd of Index Capitalization. Sectorally speaking MSCI EM ex-china has 6% exposure to retail and internet (vs 45% with China Incl) (Source: MSCI website). Chinese equity market performance has widely diverged from EM as reflected with lower that 0.2 correlation in 2021. Fundamental variable's ex-china is much better with EPS growth of 33% in 2021. Investor positioning in EM ex-china is also over 500 bps lower than MSCI EM Index!!

Hence, China merits being its own equity asset class given its size and dominance in the EM index. Ex China, Taiwan, India and Korea all have similar weights.





Source: MSCI, Goldman Sachs

EM ex-China is expected to offer strong earnings growth over this year with cheaper forward valuations

EM market characteristics	MSCI EM	MSCI EM ex China	MSCI China
Size of Opportunity			
Number of stocks	1418	678	740
Tottal mkt cap ($US ttn)	7.9	5.2	2.7
Fundamentals			
EPS Growth (2021/22 CAGR)	27%	33%	17%
Sales Growth (2021/22 CAGR)	10%	7%	17%
12m fPE (x)	12.7 x	12.4 x	13.4 x
LTM PB (x)	1.9 x	2.0 x	1.8 x
LTM DY	2%	3%	2%
PEG (past 5 yr avg)	1.0 x	1.1 x	0.8 x
ROE (past 5 yr avg)	11.60%	10.80%	12%
OP mgn (past 5 yr avg)	10.80%	8.70%	13%
EPSg (past 5 yr avg)	7%	6%	14%
Composition			
Wgtt in EM (Current)	100%	66%	34%
Concentration (Wgt of top 10 stocks)	24.80%	25.20%	42.70%

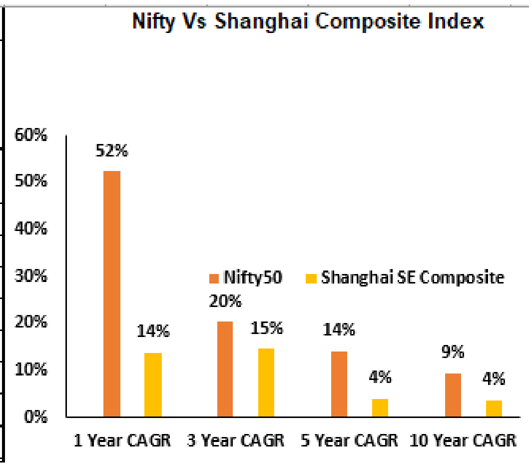
Source: MSCI, Goldman Sachs

Indian Equity Market Performance eclipses China

The economic growth and equity performance of India is next to none & hence India warrants a larger share for EM alpha creation. As visible in real GDP growth, India's growth in trailing 10 years towers close to that of China. However, stage of economic development and Per capita income levels differentiation ensures better return in Indian equity markets. As there are only handful of mega cap businesses in India, they can dominate the market share and thereby generating ROE & Revenue growth that eclipses the equity market returns of China (in % of companies) over long period of times. As these components form a major part of Indian stock market, the key indices return of India far outpowers that of Shanghai composite Index.

Real GDP growth (2009-2019 CAGR)			
Emerging Markets	**Real GDP10-year CAGR**	**Developed Markets**	**Real GDP10-year CAGR**
China	7.70%	United States	2.30%
India	6.70%	Canada	2.20%
Indonesia	5.40%	Germany	2.00%
Republic of Korea	3.30%	United Kingdom	1.80%
Russian Federation	2.00%	Norway	1.50%
South Africa	1.70%	France	1.40%
Brazil	1.40%	Netherlands	1.40%
Median	**3.30%**	**Median**	**1.80%**

Source: World Bank.



Source: World Bank, Bloomberg

Pro-gorwth Policy Initiatives have triggered a multiyear profit cycle

The policy activism in last couple of years has been one of most disruptive in India from Demonetization, to GST, PLI, Reduction on Corporate tax rate to name a few. In last couple of years GoI, has made a dramatic shift in policy that favors profit share in GDP. For India, this policy has done wonders in the past as well. Policy to boost profits triggers private Capex investments that created jobs in past. The policy experiment between 1999 and 2004 caused profits to boom between 2004 and 2007 bears the testament. This time around as well, the policy interventions are already having strong effect (robust GST collection of over 1.1 lakh cr on an average in trailing 1 year) (Source: PIB). If this kind of improvement continues than a 10% real GDP growth in not a distant dream and if you add corporate profit long term average of 3.5% till 2025, then we are looking at earnings growth of 25% (a number most analyst are working with but "only" in next two years). Second degree derivative that played out in 2004-2007, was that higher profit feeded into real GDP growth and the cycle continued thereby fueling higher share prices.

Glass Half Full or Half Empty

The consensus FII intelligentsia (sitting outside India) belief in India slowing down even before pre covid and will again disappoint and that India's growth will again fall below 5%. In reality, India has already paid the price for Insufficient second-generation reforms, limited productivity growth, a lack of investments and poor industrial policy design, which prioritize self-sufficiency over exports via balance sheet recession and extreme risk aversion. Reality is we are seeing green shoots as corporates come out leaner, less levered post Covid. In fact if you just look at Quarter or so, Corporate India has very upbeat about future prospects. The real estate and private capex cycles is also showing improving. IT hiring has catapulted to a newer orbit and the start-up ecosystem is on fire. It has never been easier to raise capital in India or buy an apartment.

India already continues to be an oasis in equities

India Equities have been massively outperforming EM benchmark in 1/3/5/10 or 20-year basis (generating annualized alpha of between 300-800 points) (Source: Bloomberg). Inclusion of India Bonds in Global Index could be first step in achieving this. As explained above, India can deliver multiyear growth cycle with teen/ mid-teens earnings growth, which in the current low growth world an oasis. Hence India clearly deserves a higher allocation in EM indices and this is structural change bound to happen in this decade.

Sure enough the higher annualized standard deviation of Indian equity returns will continue to keep some participants on sidelines and with short term noises like Oil Price Surge and Taper less tantrum may actually make them miss the train.

Long term growth trajectory for India Inc has been the best in over a decade and if one can use the current consolidation/profit taking to build positions in Equity market that will the beacon of growth in this decade.