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TRIP NOTE
INDIA RISING

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Long in the shadow of neighboring China, India is projected to be the world's fastest growing economy in 2023 and 2024.¹ Walter Scott investment manager Alan Lander and investment analyst Connor Graham spent two weeks in the country, speaking to management teams and taking the pulse of Asia's "other superpower." Here, they share key takeaways and first-hand views from their recent trip.

We have been regular visitors to India for more than 30 years, witnessing in that time economic transformation on an epic scale. Surpassing China in 2023 as the world's most populous nation, there is a growing sense that India stands on the cusp of an exciting new stage in its development.

Our conversations with both domestic and global businesses throughout our visit allowed us to dig deeper into what we think could be some new and potentially interesting investment candidates. Many of these businesses have strong product or service offerings in parts of the Indian economy currently enjoying macro and geopolitical tailwinds, whether that be the country's fast-growing middle class, alignment with government policy or the diversification of global supply chains. Even if they don't translate directly into portfolio investments, we think the insights afforded by these meetings will prove valuable in our ongoing research and analysis back in Edinburgh.

A New Age of Prosperity

For Prime Minister Narendra Modi, the transformative moment seems to have arrived for the Indian economy. Modi believes the years ahead will likely see the country "ascend to new heights of prosperity" and there is no denying he is deploying considerable resource in its service.² Evidence of this investment was abundantly clear in Mumbai, our first stop. Whether it is a new eight-lane road set to halve the north-

south travel time across the city, or the ongoing expansion of the metro rail network, construction is everywhere you look.



One focus of Modi's initiatives is manufacturing. Long in the shadow of India's service sector, manufacturers are benefiting from government actions aimed at facilitating investment, easing barriers, fostering innovation and encouraging onshore capacity expansion. The hope is these measures will not only support import substitution, but also help grow exports.

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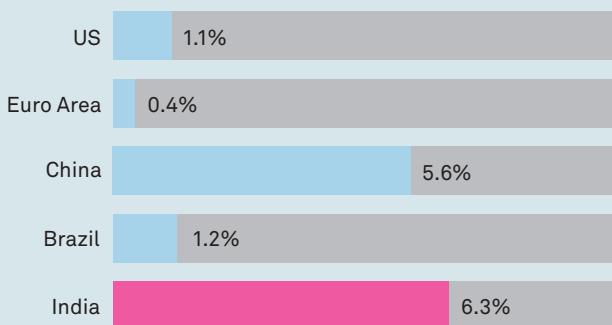
One company leveraging all of this is speciality chemicals business, Aarti Industries. Considered a trusted partner to large international players such as Bayer, BASF and DuPont, Aarti has built a reputation in its production of a diverse range of chemical compounds. Focusing on areas where it can command a significant share of the global market, the business has built

1. World Bank – Global Economic Prospects, June 2023.

2. Business Today, India. November 2022.

roughly a 35% share in most product categories and is typically a top-three supplier globally.

INDIA PULLS AHEAD: FORECAST GDP GROWTH 2023



Source: World Bank - Global Economic Prospects June 2023

Rising Incomes, Growing Opportunities

As well as an important manufacturing hub, Mumbai is also India's financial center and home to the country's insurance industry. Life insurance in India remains a nascent market —penetration stood at only 3.2% of the population in 2021—but the long-term opportunity could be enormous.³ As the country's 1.4 billion population grows more affluent, demand for wealth protection products will also grow. While this same narrative is playing out across the developing world, few markets hold the potential of India.

The benefits of this shift in focus were clear when we spoke with ICICI Prudential Life (IPLIC). Four years ago, IPLIC set out to double its Value of New Business (an important measure of profitability for life insurance companies) by 2023. Today, the business is on course to hit its target, despite the disruption wrought by Covid-19 in the intervening years. Importantly, this push for greater penetration also aligns with Indian government policy, which bodes well for future growth.

From Mumbai, via stops in Hyderabad and Ahmedabad, we traveled to Bengaluru, where we met with United Spirits, a

drinks company majority owned by Diageo. Under Diageo's guidance, it has evolved into a value-led operation with a focus on efficiency and margin expansion and the long-term opportunity in India's drinks market. Positive demographics, rising incomes among Indian consumers, and a less-regulated approach to alcohol sales – a slow but seemingly inevitable process – we believe will enable United Spirits to not only sell more of Diageo's global brands in India, but also take greater share of the higher-margin premium end of the market.

And while it would be unwise to underestimate the scale of the challenge that lies ahead for the country as it aims for developed nation status by 2047 – India remains beset by high levels of corruption, poverty and inequality – it would be equally misguided to downplay the considerable efforts now underway to accelerate the country's development.

Reflections

One of the enduring benefits of trips such as these is the chance to take the pulse of a country and of those involved in the 'day-to-day' of its economic life.

From our meetings in India, a picture emerged of a nation confident in itself and its future, both in the near and long term. And while it would be unwise to underestimate the scale of the challenge that lies ahead for the country as it aims for developed nation status by 2047 – India remains beset by high levels of corruption, poverty and inequality – it would be equally misguided to downplay the considerable efforts now underway to accelerate the country's development. Progress may not prove linear, but these are undoubtedly exciting times for India Inc.

3. Invest India, BFSI - Insurance, India is projected to become the 6th largest insurance market by 2032, as of June 2023.

DID YOU KNOW?

India...

Surpassed China as the world's most populous country¹ in **2023**

Could reach developed nation status by

2047²

Is projected to become a

US\$10 TRILLION

economy by 2035³

India's manufacturing and industry growth is on the rise....

US\$1 TRILLION

potential value of total goods exported by 2030⁴

TOP IN-DEMAND

careers: blockchain development, data science, digital marketing, IT, cybersecurity⁵

India's

FASTESt GROWING INDUSTRIES:

healthcare, food, digital technology, financial services, infrastructure, software development⁶

1. United Nations, UN DESA Policy Brief No. 153: India overtakes China as the world's most populous country, April 2023.

2. Business Today, India, November 2022.

3. World Economic League Report, The Centre for Economics and Business Research, December 2022.

4. India Brand Equity Foundation, Manufacturing Sector in India, accessed July 2023.

5. Techgig, Top fastest-growing careers in India for 2023, July 2023.

6. Business Connect Magazine, Unveiling the Top 10 Fastest Growing Industries in India, June 2023.

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