

A Case For Investing In India

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Currently, he is a co-founder of All Seasons India Opportunities Fund where foreign citizens can invest in Indian growth stocks like Tanla operating in hyper-growth markets like CPaaS.

For a foreigner, India can be very incredibly difficult to fathom. The closest comparable would be, in my opinion, Europe when you peer through the lenses of cultures, languages and ethnicities. While Europe predominantly has one religion that united them in an administrative sense, India has far too many. The religious and cultural practices are so wide and different, many may wonder how we remain united as a country.

Since time immemorial, kings and emperors have walked through Bharat or Hindustan and made it their temporary abode, and now it exists in its current form as the Republic of India, the largest democracy in the world by population – and the most diverse and complicated nation that defies stereotypical definitions. Many foreigners have been drawn by its spirituality and mysticism. Mavericks like Steve Jobs and legendary musicians like the Beatles are some of them.

So much for the preamble but we are here to talk about investments in India. So, let's dive in.

Bridge Water Associates (BW) is the world's biggest hedge fund and arguably one of the most successful ones. Notably, they employ an army of researcher. For years, I had access to their **"Daily Observations"** exclusive newsletter.



If my memory serves me right, about four years ago, BW put out a paper outlining a neat logical framework backed by a powerful algorithm which aims to forecast the future 10-year performance of an economy. It's better by a wide margin than any other forecasting model that I have encountered.

Ray Dalio, BW's founder says, "the model would have predicted the subsequent **10-year real growth** of the **20 countries** shown over the last **70 years within 2%** of the realized growth about **85% of the time** and within **1% two-thirds** of the time, with the average **miss of less than 1%** .

That's highly impressive, I'd say.

To put it in a nutshell, what he says is that the major shifts in economic growth are about two-thirds driven by productivity and one third driven by indebtedness. This makes sense. A country's production (productivity) will equal the number of its workforce multiplied by the output per worker (each worker's productivity). Productivity then boils down to how cost effectively a country can produce. And it's a country's productivity levels, relative to other country's productivity levels that matters. This determines a country's competitiveness. The more competitive a country is, the faster it will grow.

Indebtedness is a measure of a country's ability to productively use leverage in order to invest in high return on investment projects or consume. Both boost demand in the short-term. This is what drives the short-term debt cycle (7-9 years) otherwise known as the business cycle.

BW's models break these two inputs to sub-components to get a more finely tuned, granular understanding of a country's actual and potential productivity. And the long- and short-term debt cycle is intricately woven into this elaborate latticework.

Based on the outputs from the algorithm's most recent projections for future economic growth over the next 10 years, India dominates the top position with future growth roughly double that of China's which sits in second place.



India's 10-year real GDP is projected to be in the **7.2% to 9.2%** range making it first out of the world's 20 major economies.

Bridgewater opines, "Over the next ten years we expect India to be much better than most major countries (**implying a growth rate of 9.3% on its own**) and indebtedness conditions to be better than other countries (**implying a growth rate of 5.1% on its own**). India's biggest relative strengths are the value of its workers provide relative to education levels and its levels of investment, and its biggest relative problems are its level of bureaucracy".

The algorithms is rigorously quantitative. There's minimal arbitrary or discretionary human input. It's solely based off their vast data repositories.

So, while the model provides an excellent forecast (it has an excellent forecasting track record). In cases where there's significant qualitative changes, occurring the forecast can drastically over or underestimate future growth.

There's no country in the world that is going through more large-scale changes than India. It is extremely easy to make a collage of all the inefficiencies in India. The politics sucks, the infrastructure is creaky, the bureaucracy and corruption are intolerable, but all of this can only improve from here.

The greatest thing going for India is its demographics and large population. Permit me to digress a bit.

Before the advent of high-speed computers and smart phones, the West always had an edge and monopoly over information. That gap is narrowing up dramatically and the two countries that has and will benefit the most out of it will be India and China. Listen to what Dalio says.

"While countries that operate effectively will grow at faster paces than countries that operate inefficiently, the countries that will grow the fastest are those that big inefficiencies that are disposed of". In a world of investing you gain alpha by taking advantage of the relative payoff.

One of India's largest hurdles has been the size of its informal economy. Roughly **85% of business** has been conducted outside of the official economy.



This is because nearly half of India's **1.3 billion citizens** have had no form of identification (no birth certificate or national ID whatsoever). Without any type of government identification, they couldn't open a bank account, get a loan, buy insurance, pay taxes, etc.

This perpetuated the cycle of widespread poverty and stagnation. It put a low ceiling on half the country's populace by limiting their ability to climb up the socioeconomic ladder. In a very short time, all this is changing escaping the attention of the outside world.

The current prime minister Mr. Narendra Modi may be criticized for many things, some apparently deservedly so. But four years ago, he set India on a path to build what has become the world's largest IT project.

The goal was to bring India's entire population into the modern economy. Make government and commerce more efficient. And in doing so make India a world leader in large scale smart technological use. The basis for this technological revolution is **Aadhaar**.

Aadhaar is the world's largest digital biometric identification system. In just a few years, India went from half its population without IDs to having the fingerprints and retina scans of **1.2 billion of its 1.3 billion population**. This digital identification system is being built into every aspect of the country's economy and in how government is administered.

With this technology, you don't even need to walk into a physical bank branch anymore to open an account. You can just swipe your thumb on a mobile phone and open an account or apply for a loan, all in under two minutes.

Think about the large-scale efficiency gains of this single change alone. They're massive and Aadhaar is just the start. There's a whole ecosystem of innovation spawning from this technological foundation.

Remember what Dalio said, **“the big shifts in economic growth are about two-thirds driven by productivity and one third driven by indebtedness”**. Now, conceptualize what this technological revolution is likely to do for India. I don't think any of us can wrap our heads around it.



In **2016**, India introduced another innovation called India Stack.

Think of India Stack as a massive secure cloud storage system, a Google Drive or Dropbox of sorts, but used to store and track all of the documents that are created in the normal business of a nation's economy.

Everything from one's personal data such as medical records, bank statements, employment history and tax filings are completely digital and seamlessly uploaded to the stack. The stack is accessed simply by using one's Aadhaar biometric authentication.

Indians can now open a brokerage account, file for a marriage license, do their taxes, send their medical information to another doctor, store their proof of life insurance coverage, all on the India Stack. All stored in the cloud, accessed using only a mobile phone.

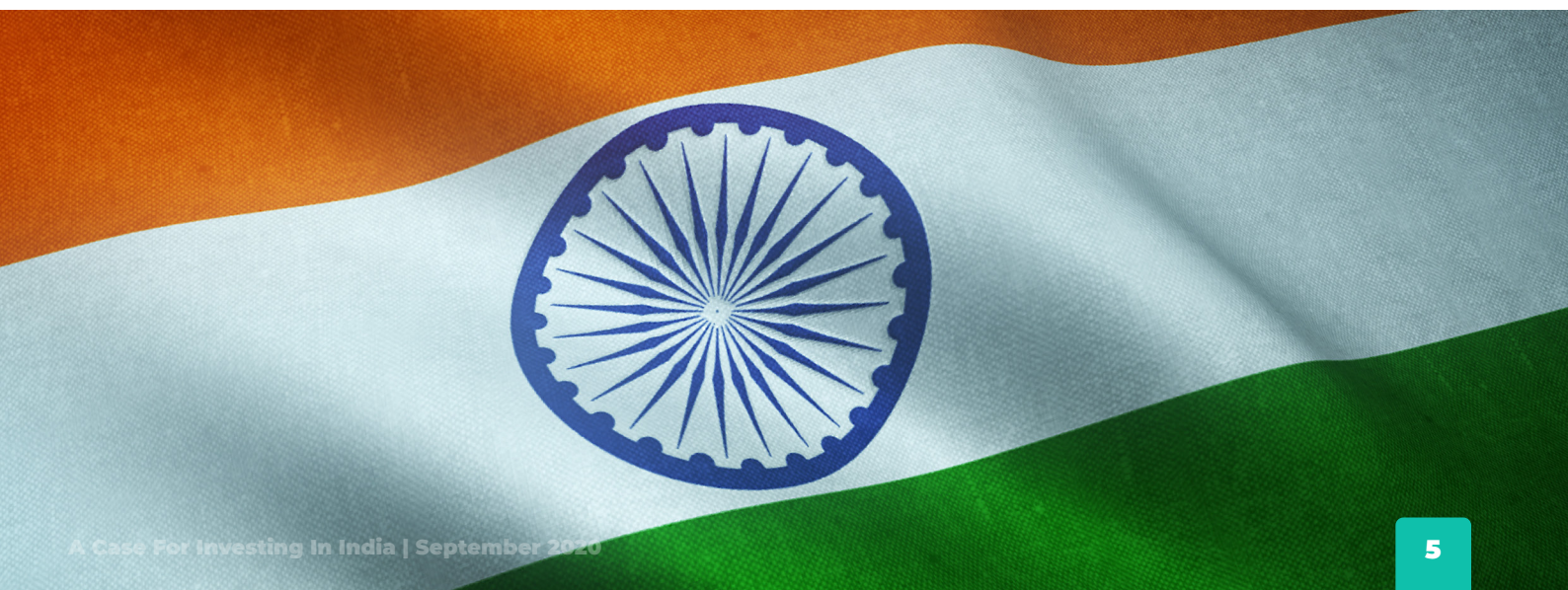
This is amazing. Fraud and corruption severely kneecapped in one go. A retina scan and thumbprint are infinitely more difficult than a fake ID and falsified signature.

India Stack is now the largest open API in the world. The government has welcomed tech giants from around the world to develop applications that can plug into the system.

An example of one of the applications built onto the Aadhaar Stack network is **Bharat Interface for Money (BHIM for short)**. BHIM is a nation-wide digital payments platform using a Unified Payments Interface (UPI). It means that payments can now be made without physical cash. Just a fingerprint and PIN code.

In the US, they still have chips in their physical debit/credit cards which is technology from the 1980's but all of India can pay for things with their thumb scan and a PIN. The productivity gains that will accrue from this technological revolution are unimaginable.

So far, we talked about one of the world's best quantitative hedge fund Bridgewater Associates findings on how you measure a country's future growth potential. We talked about productivity and indebtedness and how they are inextricably linked. The more productive a country becomes the more it borrows to invest into its future, making it more productive. This creates an important psychological shift within an economy.



India is a country that's emerging from a state of being **“structurally poor and focused on survival or subsistence”**. It's torched the **“big barriers”** that have long hindered its development. And is now seeing the beginnings of a “virtuous cycle” kicking in.

This will be one of the biggest exciting secular growth stories you will ever come across. According to Bridgewater, India dominates the top position with future growth roughly double that of China's which sits in second place.

India was previously a cash-based economy (it had to be since most of it was informal) Roughly **70% of transactions were done in cash**. This helped to perpetuate endemic tax evasion and rampant corruption.

Modi's government banned **500- and 1000-rupee** notes by way of demonetization to root out 'black' money (unaccounted money in local parlance) but it created a lot of pain in the short-term since it led to a large liquidity crunch. The merits of that action are still debatable, but it forced the Indians to leapfrog into the digital economy which brings the benefits of greater efficiency, rising tax receipts, while also helping to recapitalize the banking sector.

The government also introduced one of the biggest tax overhauls done by any nation ever by simplifying the gargantuan tax code and unifying it under the reform called the Goods and Services Tax Bill (GST). This will have far reaching positive implications for the country. Previously, only **3%** of its employable population actually paid taxes. Less than half its citizens even had a bank account. Now over a billion people have a mobile phone and a bank account. Around **44% have a smart phone**.

Previously, the government was not only starved for revenue, limiting the scope of the public works projects that could have modernize India's decrepit infrastructure. But its economy was financially stunted. No real lending which curtailed growth and innovation.

Now, the unparalleled digital infrastructure ushers the world's second largest population into the formal economy. You actually get better Wi-Fi connection in Delhi than in Manhattan.

This means access to an expanding financial economy (bank loans, insurance, securities and derivatives market). There is a massive generational mind shift underway that's to result in more leveraging and investing and they have the numbers to back it up. Boosting demand growth.

The reality is that India won't be the next China. It has the potential to be much more.



In the 1970's when the Arabian Peninsula Gulf states became wealthier with the discovery of oil, there was a saying that **“we just moved from the camel to the Cadillac”**. India will be making a much bigger leap.

It took **70 years** for India to become a **2.5 trillion** economy and it is expected that in the 7 to 8 years, India will be a 5 trillion economy. If you believe in Dalio's theory of productivity and indebtedness and the way India is leapfrogging into the digital economy, I reckon that it will be even shorter. For comparison, China took five years to become 5 trillion economy from **2.5 trillion** and US took 10 years to become a 5 trillion from **2.5 trillion**.

Amazon's biggest investment outside of US is in India. I am sure you don't want to argue with the world's richest man. SoftBank has so much of investments planned for India but I don't have the numbers. Marriott has the largest number of rooms in India. The Taj Group, an Indian brand is a distant second.

So, can you miss not being invested in India? I believe the next 7 years belong to India.

While the world was devastated by COVID-19 pandemic, massive investments to the tune of billions of dollars were initiated in India.

A few years ago, **Mark Zuckerberg** of Facebook came to India and made an impassioned pitch on what his company Facebook could do to help India grow faster. The Indian political leadership, bureaucrats and business community gave him time to listen but dismissed his idea due to national security concerns.

Zuckerberg being a young and dynamic visionary could not let India out of his mind. When the world was under lockdown, we heard the news one fine morning that Facebook is investing 5.7 billion dollars into the fairly new company called **“Jio Platforms”** owned by the biggest Indian conglomerate Reliance Industries. This was Facebook's biggest single investment after they bought WhatsApp for 14 billion dollars. Zuckerberg very well knew that if he wants to do business in India, he had to find a local partner. ***So why not ally with the best in India?***

In India, execution is hard. You make investments not for 5 or 10 years but for 30 or 50 years. Intra-state trade regulations between the 28 states can make online commerce complicated and convoluted. There are multiple language barriers and different religious and cultural sensitivities to overcome. But once you overcome all these teething issues you are set. You are also setting up strong barriers for other entrants to challenge your business.

Facebook's investment sparked the imagination and interests of a bevy of investors from all over the world. They were private equity funds, sovereign wealth funds and other big investors. From Abu Dhabi alone, two sovereign wealth funds bid for an opportunity to be associated with Reliance. It is very rare for two SWF's from Abu Dhabi to make investments in the same company, but it happened without delay.

Why this is all important? We all know the continuing meteoric rise in the US stock markets being fuelled by a handful of technology stocks. The major ones being Apple, Facebook, Google, Microsoft, Amazon. Out of these Facebook, Google and Microsoft have recently invested massively with Jio Platforms. Amazon already has their biggest investment outside of US in India. Apple is moving its assembling units from China to India. Another major US company Walmart has also partnered big time with Flipkart in India.

While Reliance will dominate the digital space with the investments and support of the US tech giants Facebook, Google and Microsoft, Amazon and Walmart are not going to lay low in finding their niche in the country. In no time, Reliance has become the second-best brand in the world after Apple and Mukesh Ambani the main shareholder in Reliance industries the 7th richest man in the world.

When Jio platforms was introduced in 2016 there were **28 million** smart phone users in India. In 18 months, that has risen to **100 million**. Reliance has spent **35 billion dollars** to lay fibre optic cables in India and over **200,000 towers** for 4G network. Very soon we are moving to 5G and Mr Ambani has announced that he already has a full Indian designed solution for 5G without depending on Chinese technology. The Chinese company Huawei which has become the scorn of many countries mainly being the US, is the front runner in 5G technology. 5G is supposed to be minimum 100 times faster than 4G. All the future technologies like driverless cars, IoT, advanced cloud computing, AI, virtual reality, augmented reality will need 5G.



India has the world's cheapest data. All this excess data was not useful to Indians as the downloads have been so terrible. 5G will change everything. With the rest of the world shunning China and with the burgeoning talent pool that is available in India, there will be a migration of companies wanting to set up shop in India. With the cost arbitrage that exists for major companies in US and also the tighter immigration policies that will exist for Indian talent to travel abroad mainly US, major technology hub cities like Bangalore, Hyderabad, Chennai, Mumbai and Delhi will be satellite centres for many Silicon Valley companies.

With that comes new talents being developed in India. A new ecosystem where research, ideas, analytics, and a host of other things will emerge on the international scene from India. I think entrepreneurship will thrive and many new companies from India will be listed on the major international stock exchanges. It may even start as early as next year. Sure, there are still bureaucratic red tape and occasionally, you still have to dodge cows on the road.

I really think Mukesh Ambani is leading and paving the way for these latent values to be harnessed and exploited. In the US, Rockefeller, Carnegie, Henry Ford and J.P. Morgan were billionaires who made a lot of money for themselves and set up many foundations. But they all came on the scene as pioneers of setting up a new industry. JP Morgan was to banks what Henry Ford was to automobiles. Rockefeller was to oil what Carnegie was to steel. I envision that Mukesh Ambani could be the pioneer for the **"New Digital"**.

As you see in western movies there is a golden rule: **"One who has the gold, makes the rules"**. Mukesh Ambani has the gold. The opportunity far outweighs the costs in India. It will be like not investing in Amazon because the P/E was too high. Ensclosed under the coattails of Jio Platforms, Facebook should emerge as one of the biggest beneficiaries.

Do not miss being part of this profitable journey!

Read the updated online essay [HERE](#).





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September 2020