

In evaluating investment ideas, the first question that always comes to our mind is: Whether the Opportunity size being pursued by the business under consideration is large enough and growing? In the process of scanning opportunities across segments of Indian investment arena, we have tried to capture some interesting perspectives and insights which forms the theme of our 5th Newsletter.

Lot of what is there in the following paragraphs is being talked about at different forums and presentations and we have all been reading it in bits & pieces in various articles, reports or newspapers. What we have tried is to assimilate these snippets into a story that can very well be encapsulated in what Mr Mukesh Ambani mentioned in one of his speech at World Economic Forum:

***“India is Not a Land of Billion Problems but a Land of Billion Opportunities”***

Amidst India's cultural, lingual, and topographical diversity lies a common theme: a large and rising population of youth. Accounting for more than 50% of population of the country, this is India's own generation of baby boomers - one that is acting as a catalyst in unravelling the Billion Opportunities for the country. This large and rising population graduating from pocket money to salary, drives consumption demand supported by increasing income, rising aspirations and improving awareness.

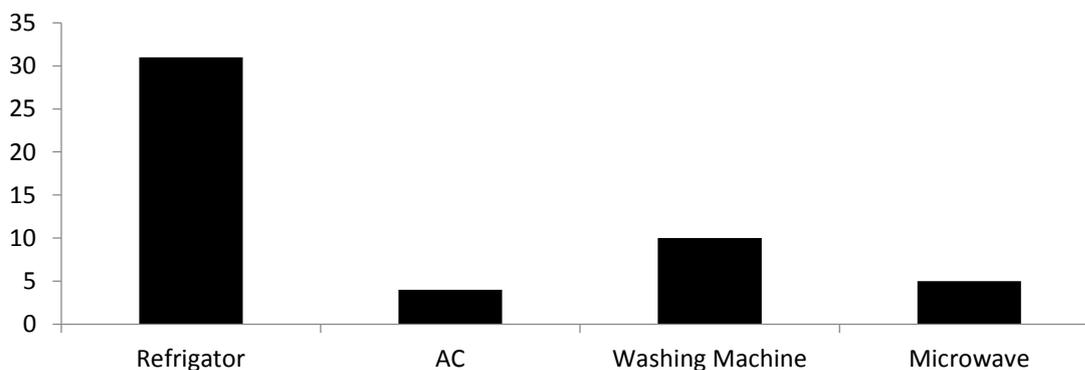
But hasn't the country already seen a great consumption boom in the mid-late 2000s, you may wonder. Not yet. How many residential Air-conditioners (A/Cs), do you think, are sold in a country of 100cr plus people? Only 40 lakh - a penetration of a mere 4%!!

We think there are many sectors which will have a journey similar to that witnessed in mobile telephony where the penetration levels have reached 90% plus in a period of 15 years (subscription levels are ~70%) creating world class organisations and serious wealth creation opportunity with a combined market capitalisation of ~USD 40bn (total combined market cap of three large listed players as on July 09 2015). Over the next few paragraphs, we discuss a few such sectors and their long term growth potential.

**Consumer Appliances**

As seen below, not just in A/Cs, but India has a huge growth headroom for most consumer appliances to grow.

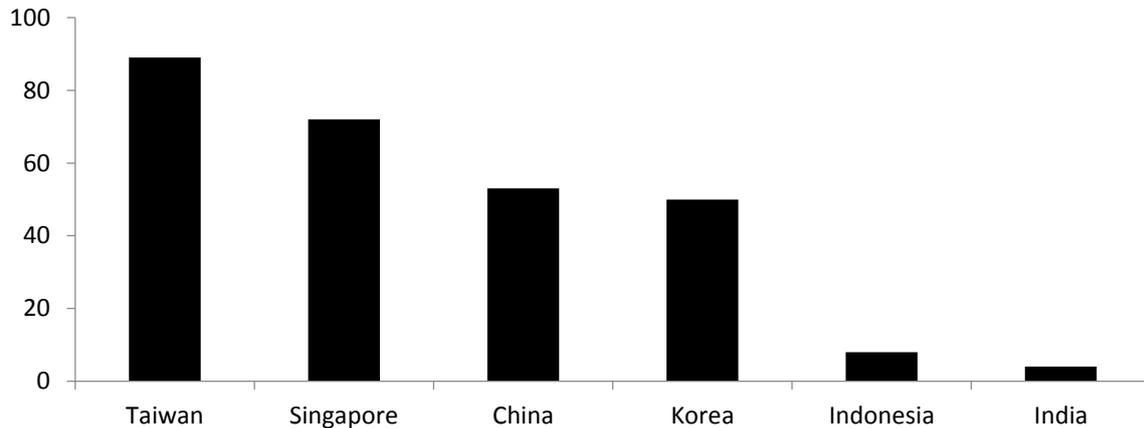
**Figure 1: Penetration levels of consumer appliances in India**



Source: Industry data

A quick comparison with other countries highlights the huge gap that currently exists between Indian and its Asian peers. We believe that with economic growth, rising per capita income, younger population and improving availability of finance, India will slowly close the gap, creating a huge upside potential for business growth as well as wealth creation over a period of time.

**Figure 2: Comparison of Penetration of Air Conditioners in select Asian Economies**

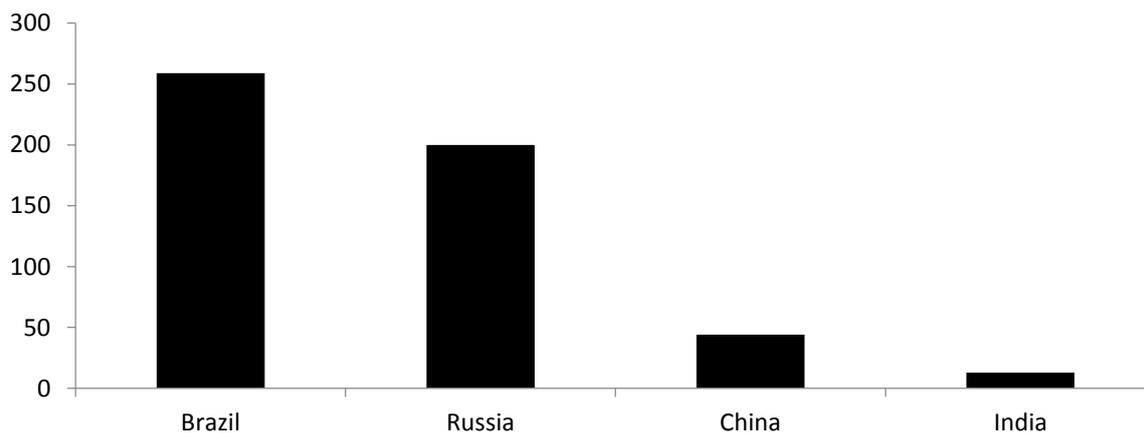


Source: Tamohara, Industry Reports

**Automobiles**

With millions of cars being sold every year, the relative under-penetration of this sector may surprise many. However, even when we compare with developing countries (the penetration in developed countries like USA and in Europe are much higher), we think that there is a significant scope for growth for a very long period of time even after factoring in some skewness due to a large population base.

**Figure 3: Passenger Car penetration per 1000 population**



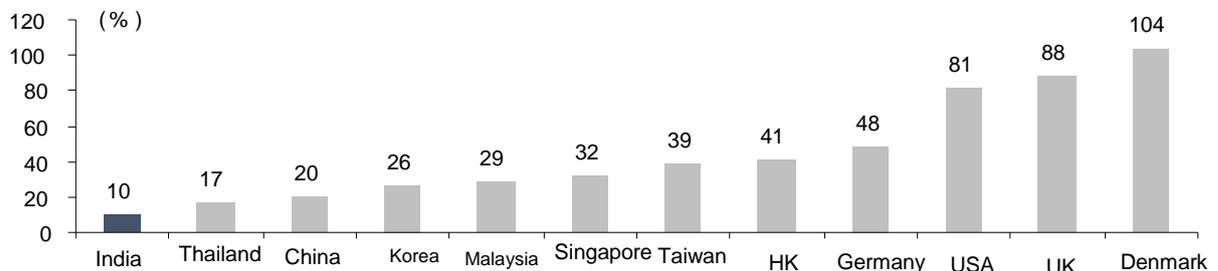
Source: Tamohara, TTMT Presentation

**Housing and Mortgage**

Latest report by KPMG cites that India currently has a shortage of 6cr housing units. With the Government's focus on "Housing For All" by 2022, India would need to develop about 11cr houses to overcome the current shortage and meet the incremental demand - a potential investment of about USD 2trn. Although time will tell whether the vision would materialise or not, there is indeed a huge growing demand in the sector, thanks to increasing urbanisation and reducing joint families. There is

also a huge underlying opportunity to finance growing housing demand as the mortgage penetration India is one of the lowest in the world (as seen below)

**Figure 4: Mortgage penetration in select global economies**



Source: Tamohara, HDFC

## Roads

India has the second largest Road network in the world with about 48L Kms of roads across the country. However, National highways are only about 93000 km, which is about 2% of the total road network, while they carry about 40% of the traffic. With focus back on the road sector and increasing requirement of last mile connectivity for moving men and material, we believe large opportunities will unfold in the sector over next many years to come. Highway development, as well as development of motorable roads is critical for the economic prosperity and has a multiplier effect on the economy.

## Banking and Finance

Banking penetration in India stands at about 53% which has moved up from about 35% in last 3-4 years on account of government push of opening bank accounts through the Jan-Dhan Yojana. However the bigger challenge is the dormancy rates which are one of the highest in the world. In the first round of reforms we have seen private banks becoming important part of India's growth engine leading to emergence of large banks which are comparable in size and scale with the public sector banks which have been around for decades. With the next leg of reforms being ushered through Payments bank, Small finance banks and clearer regulatory guidelines for NBFC's and micro lending organisations, India should witness further deepening in banking penetration and financial inclusion in rural and semi-urban areas. Further with increasing internet and mobile penetration, larger portion of population will get covered ushering significant growth opportunities for the sector as a whole.

The enormous rise of e-commerce is one of the many examples of India's increasing demographic dividend. Numerous such opportunities would arise in other sectors like Packaged Foods, Garments, Home Entertainment, Travel, Insurance etc. After all, a demographic dividend is defined as: *a boost in economic productivity that occurs when there are growing numbers of people in the workforce relative to the number of dependents*. Indeed, we are excited about the size of this opportunity; however we are also cognizant of the risks to such opportunities.

First and foremost, India's ability to seize these opportunities will depend on the success of its efforts to address the key challenges of providing education and vocational training. Success will ensure the prosperity of our own people in becoming the workhorse of the world, as other countries' ageing populations turn to us for the provision of goods and services. Failure, on the other hand will become a demographic disaster, since a frustrated and unemployable youth can cause severe social unrest, among other things.

The second consideration is more generic to the profession of investing - seizing the opportunity while it is still young. Regular readers would recollect our discussion on durability of value in our May 2015 newsletter. We have used the example of the telecom industry - the same industry quoted above as an example of the demographic dividend - to illustrate how certain stories can be value traps. Indeed early investors in the telecom industry reaped the benefits of growth; however as the industry matured, returns were closer to than on Government bonds or worse. Thus, identifying an investment opportunity at the right time is as important as understanding the size of the opportunity.

Until next month,

**Team Tamohara**

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