

# INTELLECT

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## The Great Indian Consumption Opportunity



*Only for information purpose and not for making investment decisions*



# A Consumption Engine called India



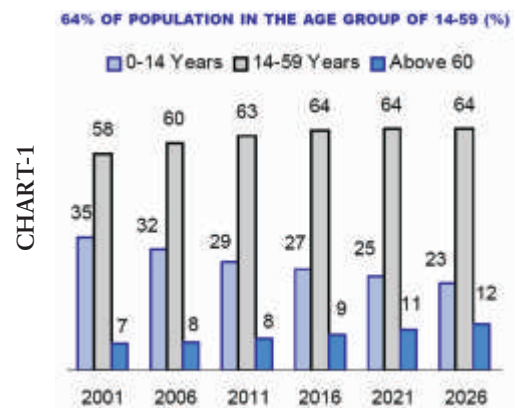
During my growing up years way back in the 1980s and 1990s, we were always told that the huge population of India was a biggest curse and that the advanced nations of whom we only dreamt were well off because of their sparse population. The example of Australia was often cited in this regard as a country where every person owned several acres of land. Population was clearly seen as a bane and there was no escape route from poverty because of this large mass of humanity would clog all the routes that could lead us to riches.

For some reason, unknown to me even to this day, nobody ever spoke of this population as the great growth engine “purring” before taking off. But now times have changed. This same enormous population, the bane for mankind all of a sudden is being projected as a boon. So did bane turn to boon? And how is it that nobody saw this coming in the past?

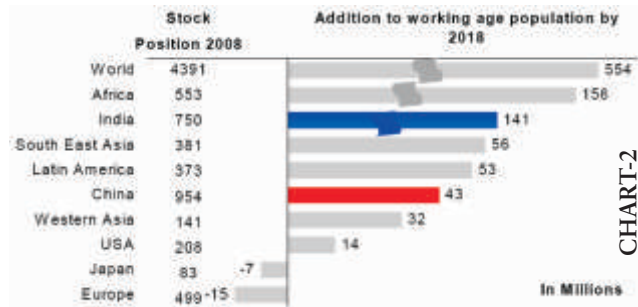
The success of the Media and Entertainment industry, IT

industry, Pharmaceutical industry and last but not the least the Mobile Phone industry has at last convinced 'pundits' and all the naysayers that India rocks on the back of its huge population.

The favorable demographic that India enjoys as we move into the future is the best insurance for our next generation.



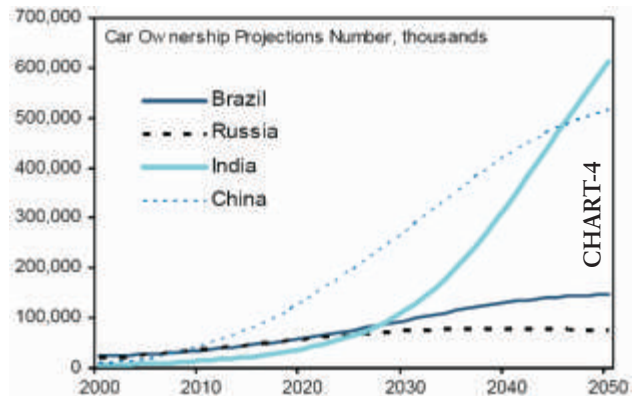
A large population helps to scale up businesses and bring down the cost of goods and services. This, in turn, helps to enhance the lives of millions of people and lift them above the poverty line. As can be seen in Chart 1, India is fortunate that for the next several years we will have a favorable composition of population consisting of people in the 14-59 years age bracket. The availability of people in the “working” age bracket would augur very well for India as she marches on into the future.



Source: Morgan Stanley

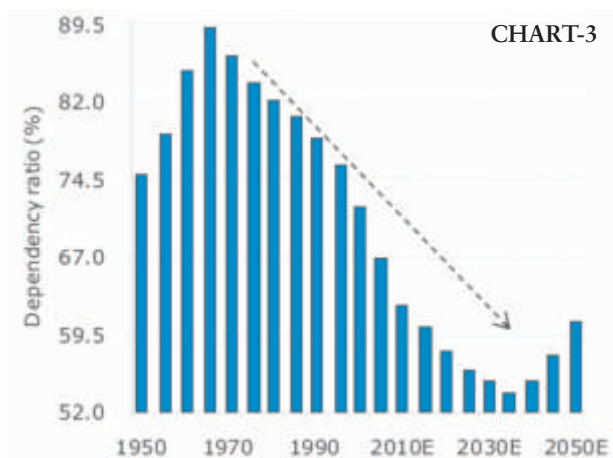
This age group would not only help in creating value for the country but also give tremendous impetus to consumption. In this context one should appreciate that consumption is the first step in the economic cycle which leads to demand for goods and services which consequently opens up avenues for growth of manufacturing and service industries. As can be seen in Chart 2, with the expectation of adding 141 million people into the work force by 2018, India is well positioned to dive into the growth pool.

proportion of the Indian population would be involved in “value creation” bringing prosperity to the country. As can be seen in Chart 3, while the dependency ratio of India could hover between 50 to 60% for long, those of China, Japan, Korea and other advanced nations could shoot up to levels of 70 to 80% going forward.



Source: Goldman Sachs BRICs Model Projections

In this context, as can be seen in Chart 4, it is interesting to note that in terms of demographic composition the US and China had a lead over India for which they witnessed stupendous growth in their economies till 2000. India is approaching this magic composition and is expected to see tremendous traction come its way in the next few years. The arrival of this tipping point is popularly known as the J Curve effect.



Source: Edelweiss Research

India also finds itself well poised with respect to its population's dependency ratio disposition. The dependency ratio which is the percentage of people of a population that is dependant (typically comprising of young children and retired persons) is and will continue to be low for several years to come. Hence the major

CHART-5

| (mn)                              | 1998 | 2005  | 2007  |
|-----------------------------------|------|-------|-------|
| TV                                | 70   | 90    | 115   |
| Cable TV Sub                      | 25   | 60    | 70    |
| Cellular Subscriber               | 1    | 55    | 162   |
| 2 Wheelers                        | 28   | 59    | 74    |
| Cars                              | 3    | 7     | 9     |
| Home Mortgage Outstanding (Rs.bn) | 145  | 1,700 | 2,210 |

Source: ENAM

The evolution of the middle class population in India has been represented in a very interesting manner in chart 5. Looking at three distinct periods of 1997-98, 2005-06 and 2009-10 what stands out starkly is the increasing level of affluence and the decreasing number of destitutes over this period. This situation is only set to improve as we chart our way into the future.

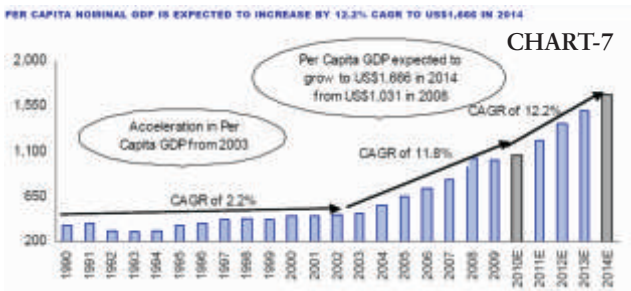
As the country liberalized and took on competition head on in 1991, several cynics proclaimed that India would falter in the face of international competition. But all such predictions have fallen flat on their face. The Indian industry has not only combated international competition valiantly but has also emerged a winner in several areas.

This has changed perceptions of Indian from being a land of snake charmers and fakirs to that of an “intelligent” and growing economy. This interest has driven capital into the Indian economy which has fuelled unprecedented growth over the past decade. Easy access to capital has made it possible for banks to lend money at attractive rates which has in turn has induced demand. The prohibitive rate of interest of the past is competitive and banks are forthcoming in encouraging people to build homes and live better. People from various sections of the society have started experiencing affluence in different forms.

| CHART-6  | 1994   | 2007  | 2009  | Rise in affordability (x) |
|--|--------|-------|-------|---------------------------|
| Housing (Ratio of Hsng Price/Annual Inc.) (x)              | 22     | 5.1   | 4.5   | 0.9                       |
| Housing EMI (Rs.) (10-year repayment / Rs.100,000 / month) | 1,740  | 1,350 | 1,250 | 0.9                       |
| Cost of (in Rs.)   |        |       |       |                           |
| 21" Color TV   | 18,000 | 8,000 | 5,000 | 0.6                       |
| Washing Machine  | 18,000 | 8,000 | 6,500 | 0.8                       |
| Refrigerator (195 Ltr)                                     | 12,000 | 7,000 | 8,500 | 1.2                       |
| Cordless Telephone   | 4,000  | 2,000 | 2,000 | 1.0                       |
| Cellular Phone   | 25,000 | 1,000 | 1,000 | 1.0                       |

Source: ENAM Research

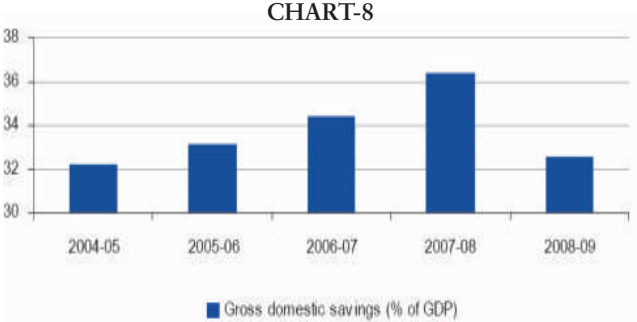
Competition has given rise to better jobs. Salaries have shot up and it has become easier to lead a better quality of life for more and more people. As can be seen in Chart 6, if one were to draw a comparison, in 1994 the cost of a house was about 22% of one's annual income. This number has reduced to 4.5% in 2009. Similarly the cost of washing machines, cell phones, computers, refrigerators have been steadily declining while salaries on the other hand are moving up. A television which was a luxury during my growing up years has entered the slums of Mumbai in color and with a satellite antenna. Retail lending and consumption are at the heart of the growth that the Indian economy is witnessing year on year for the past several years.



Source: MOSL

The per capita GDP which was growing year on year till 2002 at a rate of approx 2.2 % grew at nearly 12% between 2002 and 2009 and is expected to clip at near

about this rate for the next few years as can be seen in Chart 7.



Source: CSO

Indians have displayed discipline in savings because of which India has a savings rate of above 30% as can be seen in Chart 8. With the proportion of working population in the country set to rise in the years to come this savings rate is likely to grow in the future. The savings find their way into the economy by way of investments & form the “bedrock” for economic growth.



Source: CSO, BofA Merrill Lynch Global Research. Financial Year

Chart 9 shows us that private consumption, which has been steadily rising year on year, has played a crucial to rev up the economy as well as it provides the traction for sustained demand of goods and services. Consumption sets the production gears in motion to bring about a virtuous cycle of sustained growth.

Even consumption patterns have undergone a sea change over a period of time. Traditionally food and clothing comprised a very large proportion of private consumption but as the economy grew and people prospered the share of essential items has seen a remarkable drop making way for discretionary items such as entertainment, tourism, education, transportation, health care etc whose share in the consumption pie has been steadily increasing.

All this augurs well for sectors such as durables (refrigerators, washing machines automobiles), semi durables (clothing) non durables(FMCG, Food products) and services(health care, education and telecom).



*The road ahead for India is long, seemingly endless and notwithstanding the frenetic growth that we are witnessing, there is a lot of catching up that still needs to be done.*

As industries have flourished and scaled up their offering, they have passed on the benefits to customers who in turn have increased their demand for goods and services. Products such as LCDs, laptops, mobile phones and services etc have seen a huge growth momentum on the back of such passed on cost savings.

CHART-10 (All values in US\$ Bn)

| Category                     | Size 2009 | Size 2014 |
|------------------------------|-----------|-----------|
| Food & Grocery               | 270       | 339       |
| Healthcare                   | 36        | 58        |
| Apparel & Home Textiles      | 34        | 45        |
| Housing                      | 33        | 47        |
| Education                    | 30        | 47        |
| Telecom                      | 26        | 42        |
| Jewelry & Watches            | 26        | 36        |
| Personal Transport           | 25        | 39        |
| Travel and Leisure           | 13        | 21        |
| CDIT                         | 12        | 18        |
| Home – Furniture, Furnishing | 11        | 15        |
| Personal Care                | 10        | 15        |
| Eating out                   | 5         | 8         |
| Footwear                     | 4         | 6         |
| Health & Beauty Services     | 1         | 2         |

Source: Technopak

As can be seen in Chart 10, industries that seem to be shaping up well to gain from future are health care, home textiles, housing, education, jewelry and other personal accessories, personal transportation, travel and leisure besides the expected sectors such as telecom and food.

The road ahead for India is long, seemingly endless and notwithstanding the frenetic growth that we are witnessing, there is a lot of catching up that still needs to be done. Even in sectors such as mobile phones and PCs which have led the economic growth, the penetration levels as compared to advanced economies are abysmally low.

This is nothing short of music to the ears of policy makers and industry leaders who are gearing themselves to ride this growth and stay abreast with the huge force of consumption that's being unleashed. Astute thinking and smart economic planning would pave the way for the economy to embark upon a new growth trajectory which will take it past the developed economies and show the way to the world.

■ Dharmendra Satapathy



# The Magic of IPL

Last year, the Indian Premier League IPL was held in South Africa and despite all the hype of taking IPL international, it was not the same feeling. The excitement was not the same. Somehow the efforts just didn't add up. Come 2010, IPL3 was back with a bang and all the excitement seems restored.

**Hence the question that comes to mind:** Why is the zing missing when cricket is taken offshore? The stadiums there are more comfortable and spacious. While people struggle to find a patch to rest their tired legs at the Eden, there is so much room to wander at the Wanderers. While you get yourself roasted at Nagpur you could lord over the heat at Lords. But still the magic unfolds only in India.

There are several reasons that take cricket all the way up to the pinnacle of entertainment. One, as we all know, is the passionate cricket loving nation that India is and two the large army of consumers who have the capacity and means to consume goods, services which includes loads of cricket in all formats at a rate faster than ever before.

If one wants to see the word "consumerism" come alive, one need not look beyond the magic of the IPL.

*IPL as job creator:* There was so much happening in and around the IPL to drive up consumption and spending that as an economy it would not hurt to acknowledge this contribution. IPL has been responsible for the creation of new jobs and expansion of old ones. Let us look at the businesses that have been reinvigorated by the IPL:

**1) Hotel Industry:** Across the country in all major cities five star hotels were buzzing with action busy playing host to various IPL franchisees and their teeming entourage. Besides the direct guests, there were large numbers of indirect guests from sponsor companies and their several agencies. There were also several groups of enthusiastic fans who have bought the alluring travel packages designed by smart marketing minds. All of these people needed places to stay and this for sure was music to the ears of hoteliers.

**2) Airlines:** The teeming IPL entourage had to be ferried from one city to another and none of the airlines companies would mind the extra business before the summer holidays kick in.

**3) New jobs:** IPL is responsible for the creation of several different kinds of unusual jobs. Ever thought there



*If one wants to see the word "consumerism" come alive, one need not look beyond the magic of the IPL.*



would be such a surge in demand for cheerleaders? Other jobs that have emerged include blog writers, podcasters, team photographers and many more.

4) **Entertainment jobs:** As entertainment seamlessly merges with cricket on the IPL platform, professionals such as musicians, singers, choreographers and others from the creative ilk get into action at the venues as well as IPL associated off-ground programs and events.

5) **Advertising and Marketing jobs:** IPL is the biggest event for Indian television and marketers wait with bated breath to leverage this event for launching their goodies. The “TRP stuffed” IPL matches provide the perfect backdrop for marketers to communicate their product offering. While the telecom brands such as Vodafone, Airtel, Idea, Docomo have been shouting from the rooftops in all the IPLs so far, this year we have seen the coming of age of mobile handset brands through the launch of Maxx mobiles, Karbonn mobiles and Samsung's low cost handset “Guru”. And while the handset and mobile services brand jostle for a share of mind of the viewer, there are several other brands too riding the IPL wave with hopes in their hearts and strategy in their minds. What goes unseen is the behind the scene work that goes into making these advertisements. Marketing campaigns are brought to

fruition by the coordinate efforts of several brand teams comprising of direct employees, their agencies and vendors that constitute the entire supply chain. It is this harmonious coming together of all these constituents that helps stitch together a canvas as large as the IPL.

Big money has been chasing the IPL and its dividends flow all the way down either directly or indirectly to several stakeholders. Thus the IPL puts disposable and discretionary income in the hands of the people who then with “moolah” in hand go after the goodies stacked up on the shelves of shops and malls thereby kicking off a “virtuous consumption cycle”. This spending spree gives a fresh lease of life to the people who create goods and services. Thus IPL in a sense sets the production gears of manufacturing and service organizations into motion.

*Psychological impact:* When consumers feel good they tend to spend more. In the world of finance this feeling is termed as “sentiments” and in that sense IPL has given a boost to our collective sentiments. A successful IPL season portends several positives about the country. It makes one believe that the nation is reasonably secured and safe and moreover financially doing well.



*IPL in a sense sets the production gears of manufacturing and service organizations into motion.*

## LEARNING

The IPL has also helped shape the esteem of Indians. From being perceived as a third world country, we now see ourselves as equals or perhaps more than equals. The best of the international cricketers such as Kallis, Perterson, Symonds, Warne, Watson, Gilchrist, Hayden, Hussey to name just a few have been hired by Indians to play for city franchises.

Doesn't it make our chests swell with pride to see these stars playing for us, dancing to our tunes, speaking our language in advertisements especially in the context of our having grown up reading about our not so envious past under colonial rule? Doesn't being Indian suddenly feel very nice? That's what IPL has done for us and our sentiments. The market as we know it, latches on to

positive sentiments and gets into overdrive mode which further reinforces sentiments and creates another virtuous cycle

The IPL thus has created a perfect setting for consumerism and consumption to bloom, to give rise to a surge in demand, to enhance manufacturing and service capacities, to create an exciting environment that prods one to invest personal wealth in a seemingly bright and high yielding future and finally to create several exciting jobs and to put more money in the hands of consumers and to induce more demand to sustain a virtuous consumption and growth cycle for the economy.

■ Dharmendra Satapathy



*The IPL has helped shape the esteem of Indians.*

# Understanding MSS (Market Stabilization Scheme) and how it helps to control inflation

- When there is too much of liquidity of “money” in the market, it can cause inflation. The Central Bank then intervenes by releasing MSS bonds to control inflation.
- So what are MSS bonds and how do they help in controlling inflation? MSS bonds control inflation by sucking up the excess liquidity.
- For the uninitiated all this sounds like Greek and Latin. Let's try and understand through a story.
- Imagine the situation when summer holidays start. Its fun times for the kids and they hardly stay at home. From the start of the day till the end of the day they are out playing, watching movies, going out with friends, eating out, shopping etc. Only by the end of the day they return to sleep and moreover when they are out of the house they are spending their pocket money.
- Now imagine a city where thousands of kids have invaded the streets, the restaurants, the movie halls, the game parks, the shopping malls etc.
- Seeing this huge surge in demand, the owners/management of malls, multiplexes, restaurants, game parks raise their prices. This is quite natural as price is directly proportional to demand.
- So there are too many kids in the market and hence prices start to rise.
- In a sense these “kids' are like the excess liquidity in the markets. Excess liquidity too causes prices to go up just as excess kids cause prices to increase due to excess demand for the same supply.
- Now let's imagine all the parents get together and express their displeasure about their kids being out of the house all the time.
- They start putting together plans that would make their kids stay longer at home.
- They hit upon an idea!
- They print a large number of pamphlets in which they write a message for all the kids.
- The message says, “ Kids if you agree to spend more time at home we will lift all restrictions on watching television, listening to music, reading books, eating chocolates. You can also call your friends at home and play any indoor games including video games.”
- Then they distribute these pamphlets in the market where the kids are having fun.
- When the kids read the message it pleases them. They start thinking of home as a much better place as compared to be out in the hot sun. They think of their air-conditioned homes, the pampering that their parents would do, the fun that they could have with friends at home, the watching of TV and surfing of the internet without any restrictions. The house with no restrictions and lots of love is the home they now want to go to.
- All of a sudden the kids start moving into their homes and start emptying the market. The mall owners, theatre owners, restaurant owners and others are aghast at the sight of the disappearing kids. They try their best and coax them to stay on and spend in the market. They start offering discounts and lower their prices as well.
- But the kids are not willing to stay back any more and simply head for their homes.
- After the kids disappear the demand falls and the various merchants have no option but to further drop prices so that there is some off-take at least.
- Now in this example, the pamphlets that were printed by the parents and released in the market are like the MSS bonds that are released by the central banks and just like the kids were sucked into their homes by the favorable promises made in the pamphlets in the same way the MSS bonds too suck up liquidity by making people invest in these bonds due to favorable returns that are promised in these bonds
- This is how MSS bonds are able to regulate liquidity in the market / economy which leads to controlling the prices of goods and services and brings down inflation.
- I hope you can now imagine the concept of controlling the inflation by releasing MSS bonds.



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**Performance at a Glance (%) CAGR as on 30th April 2010**

|                              | 1 Year        | 3 Years       | 5 Years       | Since Inception |
|------------------------------|---------------|---------------|---------------|-----------------|
| <b>Tata Pure Equity Fund</b> | <b>71.63%</b> | <b>14.08%</b> | <b>25.18%</b> | <b>28.58%</b>   |
| <b>BSE Sensex</b>            | <b>53.98%</b> | <b>8.16%</b>  | <b>23.31%</b> | <b>12.97%</b>   |

**Past Performance may or may not be sustained in future.** Returns are given for growth option. All payouts during the period are assumed to be reinvested in the units of the scheme at the then prevailing NAV & while calculating returns dividend distribution tax is excluded. Date of Inception: May 7, 1998

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