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Valuation – Gathering Momentum

INTRODUCTION:

In the last century the world followed globalization pattern and started sourcing products and services where those are available at cost-effective rates. This resulted in very complex supply-chain across the globe and China emerged at the manufacturing hub of the world. Along with other countries in the world, Indian economy has sustained a major blow due to COVID-19 situation. COVID-19 affected China the most and due to their political situation and bamboo veil world was not aware of the severity, but countries across the globe could make out that China has been affected badly due to huge disruptions in the supply chain.

World wanted a dependable, open and reliable manufacturing hub to substitute the Chinese manufacturing hub.

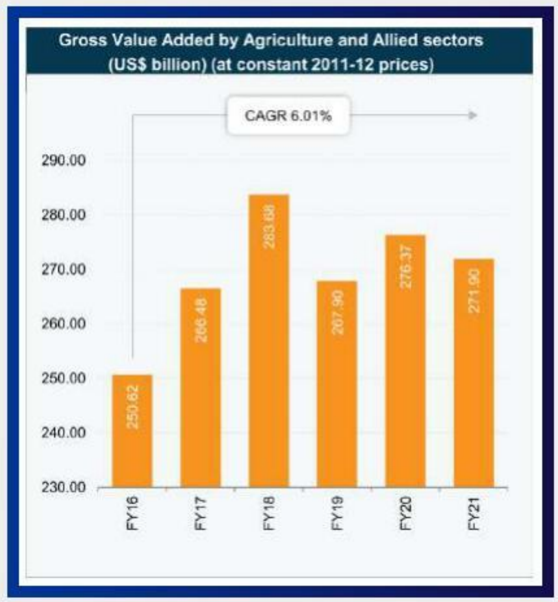
Post COVID-19 situation, the world and India were re-starting from the brief pause where the major stumbling block was Russia-Ukraine war and as the world was grapping with high energy, food grain, fertilizer costs, India due to its good relations with Russia getting cheaper oil and that too in Indian Rupees, due to green revolution ample food grains. India has huge market of its own and all this resulted in Indian economy to grow at rapid pace than the world. Bigger economy means more factories, more money and hence more chances of valuation. Let's discuss this in detail.

GROWTH OF INDIAN ECONOMY:

Indian economy grew at a rate of 8.8% in Financial Year 2021-22 and 6.6% in FY 2022-231. During the same period, the per capita GDP grew by 8.3% and 7.0% respectively. This means that there is more money available with average Indian citizen for their disposal giving rise to more consumption and hence more growth. This demand growth also needs to be supported by supply growth to meet the demand supply gap. In order to get the supply growth, all three sectors i. e. Primary (agriculture), Secondary (manufacturing) and Tertiary (services) need to grow. Let's see how this is happening.

GROWTH IN PRIMARY SECTOR:

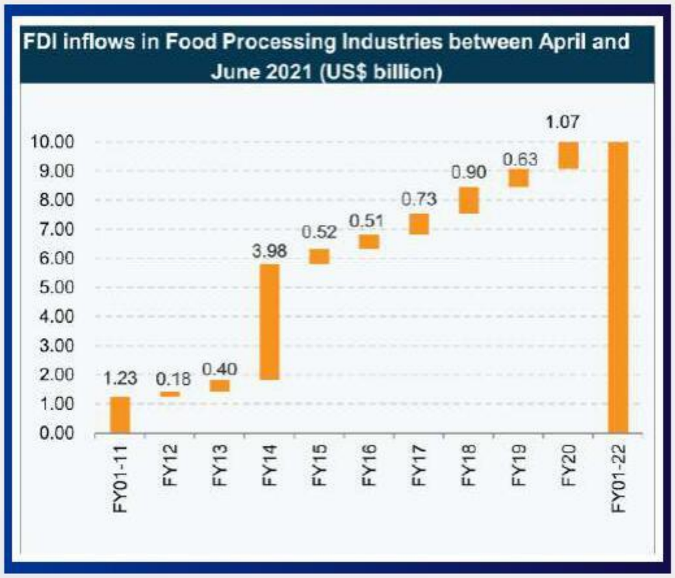
India has the second-largest arable land resources in the world. With 20 agriclimatic regions, all 15 major climates in the world exist in India. The country also possesses 46 of the 60 soil types in the world. Another favourable condition being Strategic geographi location and proximity to food importing nations favour India in terms of exporting processed foods2 . Both these conditions lead to increasing farm mechanizations (there was highest sales growth rate for tractors post COVID19 situation).Following chart shows that there is continuous growth in agriculture and allied sectors at a CAGR of 6.01%. This has given a solid base for growth of other sectors depending upon this primary sector.



Due to this high growth in agriculture sector,valuation opportunities in that sector would increase such as valuations of:

- ↘ Agricultural land,
- ↘ Plantations,
- ↘ Agricultural machinery,
- ↘Agro-industries, etc.

This opportunities growth would lead to more potential and hence there is more FDI inflow in this sector as given below:



Due to more FDI, those companies would look at valuations from reliable third parties and hence growth for valuations in primary sector would be there.

GROWTH IN SECONDARY SECTOR:

Organised manufacturing is the biggest private sector employer in India. Overall, more than 30 million people are employed in the sector (organised and unorganised) and will become the engine of growth as it tries to incorporate the huge available workforce in India, most of who are semi-skilled. The sector will push growth in the rural areas where more than 5 million manufacturing establishments are running already. This will be an alternative available to the new generation of farmers. Government aims to achieve 25% GDP share and 100 million new jobs in the sector by 2022. The manufacturing sector of India has the potential to reach US$ 1 trillion by 20252as given below:

Policy support for growth of manufacturing sector by government of India as follows. Under the PLI scheme, the government plans to create global manufacturing champions across 13 sectors and has allocated ~Rs. 1.97 lakh crore (US$ 27.13 billion) over the next five years (starting FY22). In September 2021, the government approved PLI scheme worth Rs. 26,058 crore (US$ 3.53 billion) for auto industry and drone industry to boost India's manufacturing capabilities. In May 2021, the government approved a PLI scheme worth Rs. 18,000 crore (US$ 2.47 billion) for production of advanced chemical cell (ACC) batteries; this is expected to attract investments worth Rs. 45,000 crore (US$ 6.18 billion) in the country, and further boost capacity in core component technology and make India a clean energy global hub. The PLI for semiconductor manufacturing is set at Rs. 760 billion (US$ 9.71 billion), with the goal of making India one of the world's major producers of this crucial component.

All the above lead to Monthly PMI always recording more than 50% (that is increase in production compared to the last month) from July 2021.

More PMI means that there would more supply of manufactured goods to meet the increasing demand. This would lead to manufacturing sector becoming more vibrant and cash reach leading to taking up expansion projects by taking loans from banks or financial institutions leading to more work for valuers. Due to the above PMI chart, we can see that some manufacturing companies would become stronger and that would lead to more mergers and take-overs for consolidating market position. This would also lead to more opportunities for valuers.

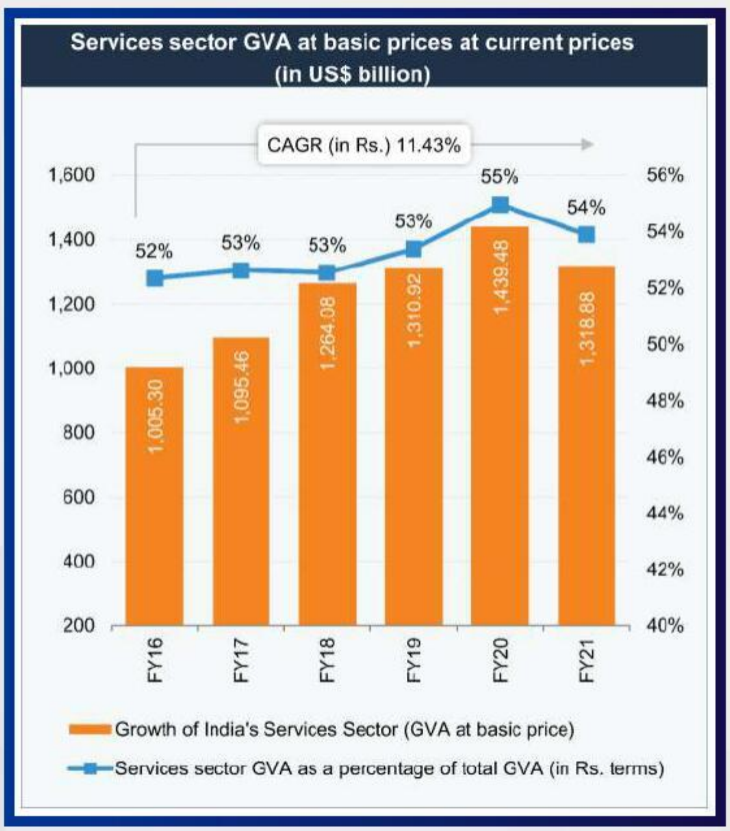
GROWTH IN TERTIARY SECTOR:

a. The services sector of India remains the engine of growth for India's economy and contributed 53% to India's Gross Value Added at current prices in FY21-22 (as per advance estimates). In the healthcare sector, the telemedicine market is driving growth with the increasing demand for remote consultation. By 2025, the telemedicine market in India is expected to reach US$ 5.5 billion. To build IT capabilities and competitive advantage over international players, Indian companies plan to deploy ~10 cloud platforms to drive business transformation in sectors such as retail, telecommunication and insurance, which is expected to boost growth in the IT & BPM sector4.The above was possible due to competitive advantages due to growing participation PPP and large pool of skilled man-power, especially in the areas of IT & BPM available at a relatively low cost and a rapidly increasing youth population looking to migrate from agriculture to other sectors.

From the above chart, we can see that India's services sector has grown at a rate of 11.43% CAGR.

This growth is bringing in foreign currency into India as seen in the following table. This net income of foreign currency increases the disposable income in the hands of the people employed in this and allied industries giving rise to more demand for primary and secondary sectors.

So due to increase in Tertiary sector growth rate, the primary and secondary sector of India are growing leading to more opportunities for valuers.



Sector	Indicators	Unit	Period					
			2009-10	2017-18	2018-19	2019-20	2020-21	2021-22
IT- BPM	IT- BPM service revenues	US$ billion	64	167	181	191	177.9*	-
	Exports	US$ billion	50	126	136	147	149.1*	-
	Domestic	US$ billion	14	41	45	44	28.9*	-
Aviation	Airline Passengers (Total)	Million	77.4	308.8	204.2	341.05	115.7	106.5*
	Domestic	Million	45.3	243.3	275.21	274.50	105.6	95.6*
	International	Million	32.1	65.5	69.48	66.54	10.1	10.9*
Telecom	Telecom Connections (wireline and wireless)	Million	621.3	1,206.2	1,776.75	1,177.02	1,181	1,180.8*
Tourism	Foreign Tourist Arrivals	Million	5.2	10.5	10.6	10.89	799.3	810.1*
	Foreign Exchange earnings from tourism	US$ billion	11.1	28.8	27.7	29.96	2.74*	-
Shipping	Gross tonnage of Indian shipping	Million GT	9.7	12.6	12.7	12.7	6.96*	-
	No. of ships	Numbers	998	1,382	1,405	1,431	13	12.96 (till August 2021)

GROWTH IN TERTIARY SECTOR:

In a way COVID-19 situation has created many opportunities for India for her primary, secondary and tertiary sectors leading to export growth from these sections. Also due to the vast and varied resources available inside India, her own market size is growing. All these have created more disposable income at the hands of the citizens of India leading to more real estate sales and hence more valuation opportunities. It has also increased manufacturing activities leading to companies going in for expansion more and hence more valuation opportunities in those sectors as well. So overall for next few years there would be growth in valuation industry of India.