

The increasing pursuit of SDGs represents sound investment opportunities in India

BY JEROEN TIELMAN, QSTONE CAPITAL

Influenced by economic liberalization in the early Nineties, India became one of the fastest growing major economies in the world. The country is now the seventh largest economy in the world presenting interesting investment opportunities, including plenty of sustainable ones. Srinivasan Sridhar has been the Chairman of the Central Bank of India and has been involved in different initiatives to improve social conditions for many years. What are his views on investment opportunities in India in general, and on sustainable ones in particular?

What is your current role in the financial industry and what is your contribution to sustainable investment initiatives in India?

'I have been both a commercial banker and a development banker and I have initiated, participated in and led projects in sustainable investing and lending. For example, as the Chairman of the Board and CEO of National Housing Bank (NHB), a wholly owned subsidiary of the Reserve Bank of India, I contributed significantly to the evolution of Affordable Housing.

As the mortgage regulator, I created a new genre of mortgage financiers, called Affordable Housing Finance Companies (AHFCs). I set up an electronic registry of mortgages and launched the mortgage guarantee and I decreed that financial support for low income housing would not be available unless each of the houses had a toilet.

I played a key role in developing a Grassroots Initiative Partnership between Export-Import Bank of India and International Finance Corporation wherein several micro level projects were undertaken, marrying sustainability and export development (like women's cooperatives in a range of products).

In the Central Bank of India, I developed a Partnership with the Commonwealth Secretariat in London to develop entrepreneurship and self-employment in youth in selected

backward districts in the country. I chaired a National Task Force on Housing Microfinance and was instrumental in establishing a State-backed credit guarantee program for low income housing.

I continue to be actively involved in some of the initiatives, by participating as a non-executive statutory advisory board member for, amongst others, the affordable housing financing subsidiary (Sitara) of the Self Employed Women Association in India.'

China is by many investors considered as the most attractive and deepest investable market in Asia. How would you compare India to China in this respect?

'China is the second largest economy in the world with a GDP of USD 14.2 trillion in 2018 and India is seventh with a GDP of USD 2.7 trillion. China embarked on economic liberalization in the mid-Eighties, whilst India started in the early Nineties. China emerged as the manufacturing pole of the world, while India focused on the services sector. China's political model continues to be one of State control, notwithstanding the flourishing of private enterprise. India is a vibrant parliamentary democracy with a federal setup and the inevitable cacophony that may impede the process and speed of decision-making. India was a late-comer to foreign investment, but has incrementally positioned itself as an attractive investment destination with inflows USD 37.3 billion in 2018-19.'

Why should institutional investors consider India?

'India with its population of 1.3 billion and GDP of USD 2.7 trillion is one of the most attractive markets in the world for business, with an estimated size of the middle class of 350 million people, which is 28% of the population, making it amongst the largest in the world in terms of aggregate purchasing power.

Demographics favor India as the median age in India is 28 years, against 37 in the US and China and 45 in Western Europe. Since 2018, India's working age population (people between 15 and 64 years of age) is higher than the dependent population which trend is projected to continue

till 2055. This bodes well for a longer term stable growth of the economy.

India is a robust, functioning democracy with a written constitution whose basic structure cannot be changed. Three wings of governance function independently through a system of checks and balances: the executive (government), the legislature, and the judiciary system.

Economic growth in India has been steadily increasing, making it the fastest growing economy in recent years with an average growth of 7.5% per year in last five years compared to 6.9% in China. Although the growth has slowed down to 6.8% in 2018-19, it is still one of the highest in the world for a major economy, considering the synchronized slowdown in the global economy.

Finally, India has arguably the largest pool of skilled manpower in the world at a relatively low cost. Whilst Indian expertise in IT is well known, there is also a deep talent pool in other sectors, like chemical, bio technology, engineering design, manufacturing, and financial services.'

Now that Prime Minister Modi has been appointed for a second term, what do you see as his most important economic goals and what is your view on the stability of the Rupee?

'Prime Minister Modi will seek to consolidate on the many strategic initiatives that he had launched during his first term, but were not completed. Broadly, these measures can be classified into two: reformist and welfare.

Reforms that Modi initiated, will be continued. They include the Goods and Services Tax (GST), the single indirect tax, and banking reform, which refers to the cleaning up of balance sheets and the recapitalization and mergers of state-owned banks. The reforms also include an improved regulatory and supervisory framework for the systemically important non-banking finance companies (the 'shadow banks'), sorting out the initial teething troubles in the implementation of the new bankruptcy law and digitalization of the economy across the board, such as financial transactions, trade and production. Investment is actively promoted and the reform of direct taxes must position India as a tax efficient and friendly jurisdiction.

Welfare policies accommodate financial inclusion. This means enabling access to bank facilities for the poor, including direct benefits transfer (DBT), which means disbursement of welfare payments directly into the bank accounts of the identified beneficiaries, health insurance for rural poor and energy access to urban and rural poor in the form of solar power, improved water and sanitation. Economic growth with inflation control would be the overarching objective.

Photo: Archive S. Sridhar



CV

Srinivasan Sridhar has more than 45 years of professional experience in development and commercial banking. He has been the Chairman and Managing Director of Central Bank of India, the Chairman and Managing Director of National Housing Bank, the regulator of housing finance companies and development financial institution for housing. He was also the Executive Director of Export Import Bank of India and had also worked in the State Bank of India. He is currently a non-executive, independent Member or Chair of the Boards of some leading corporates and in institutions in Europe and the Middle East.

As regards the exchange rate of the rupee, I expect it to remain steady in the 1 USD = Rs 70.5-72.5 band with some bias towards depreciating. This view is predicated on the oil prices continuing to remain stable and further momentum developing in the application of renewable energy.'

There is a lot of debate on the question whether sustainable investing leads to lower returns. What is your view on this?

'I have always held that sustainability invariably makes good business. I do not see a fundamental conflict. I think the best way to address this issue is for the investor to stipulate a minimum threshold of sustainability below which it is a no-go. Above the threshold, the investment decision should be based on the financial merits of the investment.'

Which Sustainable Development Goals (SDGs) do you see as most 'investable' in India?

'In recent years, the increasing pursuit of SDGs has represented sound business investment opportunities, such as affordable housing, solar and hydro power generation, clean water and sanitation, solid waste management and education.'

What are the most important political and economic drivers behind these most investable SDGs?

'Interestingly in India, despite the usual dissent in Indian politics, there is a remarkable consensus across the political spectrum on economics. The difference in economic policies is in their relative priorities and emphasis. Furthermore, the manifestoes of the principal parties mirror the SDGs.'

Despite having a GDP of USD 2.7 trillion, the per capita income is still quite low at USD 2041. Although development admittedly has been impressive, with an estimated 271 million people being lifted out of poverty (over 2006-2016), over 300 million people are still being considered poor from a multidimensional standpoint. Increasing urbanization and rising aspirational youth present huge growth and development challenges. The democratic system reflecting aspirations of the people has been a major political driver in implementation of the SDGs.'

The realisation that the poor actually constitute a consumer class and there are rich pickings to be had at the bottom of the pyramid, has driven changes in economic policy and business models as well. In fact, the largest FMCG companies in India including subsidiaries of MNCs derive a significant portion of their revenues from the mass clientele, including rural poor. Microfinance has led us to believe that the poor are not bad credit risks and in fact, the 'willingness to pay'-quotient is arguably higher than the average, while the 'ability to pay'-factor may be constrained due to a variety of reasons including external.'

New Delhi and Mumbai are megacities with more than 20 million inhabitants each. The trend towards further urbanization is evident. In addition, economic growth in urban areas is higher than in non-urban areas. Which of the above mentioned SDGs would mostly apply to urban areas?

'SDG 6 'Clean water and sanitation', SDG 7 'Affordable and clean energy' and SDG 11 'Sustainable Cities and communities' would be the SDGs that might be most relevant. For example, the government had introduced the concept of Smart Cities which have sustainability as their main objective, of which several are under development by the States. Slicing the pie differently, the investable themes are: affordable housing, renewable energy, water and sanitation, smart city development and infrastructure.'

Where do you see the opportunities for institutional investors that are looking for sustainable and attractive returns in India?

'To my mind the real opportunities lie in the unlisted space, some of which may offer reasonably good returns expressed in euro terms.'

The entry vehicles for new Dutch investors might be to participate in alternative investment funds offering debt and/or equity, non-banking finance companies for debt offering and direct investment in carefully selected projects with the right Indian partners. Firms like QStone Capital and Millerhill. Advisors with leadership experience in Indian and European banks and other financial services companies, could be of help. Dutch investors could also consider co-financing tie-ups, working with select Indian DFIs/banks or other financial intermediaries.'

Which type of Indian investors are leading in sustainable investing and how could Dutch institutional investors align with them?

'State-owned Insurance companies, such as the Life Insurance Corporation of India and New India Assurance Company state-owned Development Financial Institutions, such as the National Bank of Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), India Infrastructure Finance Company Ltd. (IIFCL) and Housing and Urban Development Company Ltd. (HUDCO), and the State-sponsored National Infrastructure Investment Fund (NIIF) in which overseas investors including International DFIs, Pension Funds, Sovereign Wealth Funds have invested, are currently active in investing in programs that address the SDGs. There are several local Impact Investors active, but their scale of operations is limited. The sustainable investment space in India is largely dominated by international institutions and Dutch investors could well align with them.' «