India's manufacturing sector will drive next phase of growth: Sonia Dasgupta, MD & CEO of Investment Banking, JM Financial

By Sutanuka Ghosal, ET Bureau • Last Updated: Dec 30, 2022, 06:32 PM IST

Synopsis
"Global companies have realised the need for a resilient supply chain. Although the exact form of de-globalisation trend is uncertain at this stage, this shift would be a major opportunity for India to capture the global manufacturing space."

Sonia Dasgupta MD & CEO of Investment Banking, JM Financial Limited, who has been an investment banker for more than 25 years, talks about where the Indian economy is headed and which sectors will witness more mergers and acquisitions in 2023.

1. India has emerged as the fifth-largest economy in the world. What are the factors which will drive the next phase of growth for the economy?
Indian economy is better placed than many other economies globally. India's GDP growth is estimated to be in the range of 6.5-7% and CAD is expected to settle in the range of 3-3.2%. The capex cycle has all the conditions needed to grow. India's manufacturing sector (in addition to the existing strong services sector) will drive the next phase of growth. Global companies have realised the need for a resilient supply chain. Although the exact form of de-globalisation trend is uncertain at this stage, this shift would be a major opportunity for India to capture the global manufacturing space. Fiscal efforts towards boosting manufacturing through its policy initiatives like PLI, PM Gati Shakti, and National Logistics Policy would help India capture the global manufacturing space. We believe the governments' strong capex (both Centre and state) would spur private capex as the current manufacturing capacity utilisation is at its highest in the last 3 years (73.4% 3 Months Moving Average). In addition, the banking system is well poised to take care of the corporate credit demand (thanks to the excess SLR Rs. 17.5tn that it is carrying). Hence, conditions are conducive for a pick-up in the private investments. Further, India's export basket is already reflecting a shift from low-skilled products to high-skilled products indicating that our economy is already rising up the value chain. Coordinated fiscal measures in enhancing the quality of exports and identifying new products and geographies would help broaden our export basket including services exports. Higher production would not only lead to higher exports and improved employment opportunities but also would give a fillip to private consumption which is a major contributor (61%) to our GDP.

2. The M&A volumes are witnessing a steady uptick in 2022 thanks to reasonable valuations. What are the sectors which will drive the growth, going forward?
Reasonable valuation is a powerful trigger that motivates companies to pursue inorganic growth opportunities. India witnessed a record number of M&A deals in CY22 across all sectors. In YTDCY22, the collective value of M&A deals in India amounts to $152 billion compared to $107 billion in CY21. Domestic deals account for the bulk of the deals (72% by value and 52% by volume). Rising interest rates and volatility in equity capital markets are creating M&A opportunities as over-leveraged companies and PE-funded companies are looking for an exit. M&As will also be driven by the consolidation theme across sectors, divestiture of non-core assets, and availability of stressed assets at attractive valuations through NCLT and government-led divestments. The trend of acquiring new technologies or brands in the healthcare or consumer space will also push M&A growth. M&A driven by consolidation will gain scale in sectors like healthcare, consumer and industrials, renewable energy, and power. Sectors like financial services, technology, etc. will witness strong momentum in M&A as well.

3. India has outperformed China in Asia Pacific's PE-backed activity in 2022 in terms of volume. What are the factors that have reignited the interest of PE investors?
India makes a strong case for investments given the growing investor concerns over China. India has emerged as a lucrative market for private equity investors. In terms of deal value, private equity exits in FY 22 stood at USD 28.5 billion as compared to USD 10 billion in YTD FY 23. In FY 22, technology and power and power ancillary accounted for 26 % and 19 % of the total private equity exits in terms of value. The factors that have contributed to this emergence have been political and economic stability in India coupled with better governance framework and disclosures. Also, the diversity of fund sizes and types with an abundance of committed capital has also helped the investment scenario in India. This has culminated into India pulling ahead of China when it comes to attracting capital from global private equity funds that invest in Asia. Funds that used to typically allocate a larger share of capital to China have increased allocation and focus toward India over the past few years. This is reflected in the deal volume in India which witnessed a rise of (3%) (9M2022 vs 9M2021), compared to a drop of 7% in China during the same period. Private equity investments typically shadow the public markets. Historically, capital harvested through exits (enabled by buoyant public markets) has culminated in subsequent spikes in private equity investment activity. In terms of Private Equity exits, technology, financial services and healthcare sectors (20% each in terms of value) have contributed to the deal activity in India in 2022, with Technology (70% of deal value) being the only dominant sector in China in 2022.

4. Given the fall in India Inc.'s overseas borrowing, how do you view the corporate's outlook toward raising equity from the capital market?
External commercial borrowing has of late become less attractive thanks to an interest rate increase by central banks and the depreciation of the rupee against the US dollar. Fundraising from overseas sank to a 76-qtr low in Q2 FY23 to $210mn amid volatility in the currency markets, a sharp rise in interest rates in the United States, and fund availability in India. Corporates have de-levered their balance sheets over the last few years and therefore have some cushion to raise more debt. However, due to the extreme volatility witnessed in earnings, corporates will aim to keep a healthy mix of debt and equity. We thus expect corporates to continue to actively raise funds through equity markets.

5. The IPO market is becoming busy and active again. How do you foresee the performance of the IPO market in 2023?
The IPO markets have been extremely buoyant over the last 2 years and investors have made money. Both global and domestic investors have become active in secondary markets and we have witnessed this momentum building into primary markets as well thus giving us comfort that Indian markets will be able to absorb larger deals. As many as 90 companies are scheduled to launch their IPOs in 2023 and may raise around Rs 1.4 lakh crore by listing on the exchanges. Retail investors especially have a bigger role to play. Currently, there are 10.4 crore Demat accounts from about less than 2 Crore Demat accounts a few years ago. The retail investors holding in the NSE-listed universe is at a 15-year high of 9.7% as of March 2022. The primary market still has an appetite for companies following regulatory and governance norms and those companies capable of delivering sustainable value. Having said that, some significant headwinds that would impact investors include expanding trade deficits, foreign institutional investors' outflows, volatile currency fluctuations, and constricting liquidity conditions.

6. What is your growth outlook for JM Financial investment banking business for the year ahead?
As we approach the year ahead, our deal and transaction pipeline spread across industries and product segments look robust and quality-driven. We believe, given the tailwinds of deal-making in India, we will have a busy 2023.