THE DAILY CHECK-IN WITH GOLDMAN SACHS

GUEST: PULKIT PATNI, EQUITY ANALYST IN GOLDMAN SACHS RESEARCH

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LIZ BOWYER: Hi Pulkit.

PULKIT PATNI: Hi Liz.

LIZ BOWYER: You're an equity analyst in Goldman Sachs Research in India. You've recently released a report on the country's "Make in India" initiative. Can you tell us about that program?

PULKIT PATNI: So, the government of India actually came up with the "Make in India" initiative a few years back. But the progress was initially slow. Now, during the pandemic what happened was that the government augmented this with a theme of self-reliance, where the objective was to reduce India's dependence on import, create domestic capacity and capability, so that domestic job creation happens and helps the country get out of this crisis. In addition to that, what has also happened is that there have been increased tensions between India and its neighboring countries in the last few months. And that is also something that is accelerating the government to reduce its dependence on imports come China.

LIZ BOWYER: So what kind of implications do you see the initiative having on India's economy?

PULKIT PATNI: So, if you look at India's GDP in the first quarter of this fiscal, it was one of the worst globally with a decline of over 25 percent. Now with the "Make in India" initiative, the objective is to accelerate job creation, and create domestic manufacturing capability, and also to promote export. Now, the government is targeting to increase manufacturing's contribution to GDP, which is currently at about 16 percent, to 25 percent over the next two years if the scheme is well executed. And based on this, we could see much higher GDP growth which has had a long-term growth rate of about five to six percent to jump to over eight percent if the scheme goes well.

LIZ BOWYER: This isn't the first time that India's launched a program around self-sufficiency. What's different this time around?

PULKIT PATNI: The tough decisions get taken during crisis and when you're pushed to the wall. So what is different this time around is, firstly, we have seen a sustained focus in multiple steps from the government, one after the other, to push through this initiative over the last six months. Whether it is production-linked incentive or it is increasing duties on selective imports, we have seen them coming thick and fast over the last six months.

The second reason why we believe it's different this time around is because this is not only an initiative taken by the government of India. If you actually go across and look at multiple global corporations, all of them are evaluating a China plus one strategy. And we believe that's where India fits in at this point in time.

LIZ BOWYER: And what sectors do you think are most likely to benefit from the “Make in India” initiative?

PULKIT PATNI: Sure. So, what we have seen is that these policies were initially set up for the pharmaceutical sector, particularly for the API which is the active pharma ingredients, and on mobile phones where a production linked incentive scheme has been announced by the government already. There are import restrictions that have also been put recently on television and on air conditioners. These are the various sectors where the government has started the scheme with. In addition to that, there are also various defensive imports which have been put on the restricted list and can now only be source domestically. However, this is not it. We are also expecting that more steps will come through for the automobile and the textile sector where we think that there is domestic capability that already exists. Basically, the objective of the government is to try and promote domestic manufacturing where the basic capability exists through manufacturing incentives and import disincentives.

LIZ BOWYER: So, India is known for having bottlenecks in its economy. How do you expect the initiative to tackle those moving forward?

PULKIT PATNI: Liz, this is one question that we get asked a lot, about execution issues in India. Now, if you look at the the enablers for “Make in India” to be successful, clearly infrastructure is one of them. Here with the steps that have been think by the government the last few years, whether it is creating a robust road network, better cargo transportation, port infrastructure, we think we are in a much better place where we were a few years back.

In addition to that, there have also been some major reforms made both on the labor and the agriculture front, which also we think are going to enable the success of “Make in India.” All of that said, we still need better central and state government coordination as that is something that leads execution issues. And we need the implementation of these reforms through the bureaucracy which is something which has created problems in the past. So, we think that there are steps that have been taken right now. And they should help in successful implementation of this scheme.

LIZ BOWYER: Finally, Pulkit, one of the initiatives of the program is to incentivize foreign firms to move parts of their business, including supply chains, to India. But that hasn't really happened yet. How do you expect the initiative to address that?

PULKIT PATNI: So, India has always been a very exciting market for multinational companies. I mean, with the world's second largest population, I think the opportunities in India are endless. But the country has always lacked the concept of ease of doing business, which is why you've not seen a big manufacturing set up in the past.

Factor elements for production, like land, labor, infrastructure were not easily available. We think some of these bottlenecks have been addressed over the last few years. Now with cash incentives being offered on production, imposing higher import duties on imports coming from other countries, there is an attempt to make India a level playing field with some other countries. And hence, we expect that global corporations will look at India very seriously as an alternate to the China plus one strategy.

LIZ BOWYER: Thanks Pulkit.

PULKIT PATNI: Thank you so much Liz.