

India's Re-emergence as a Manufacturing Hub

From manufacturing Shunya (the digit Zero) in the 5th century to the latest phones and semiconductor chips in the 21st century, India's dormant manufacturing prowess is coming back to life.

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- ◆ **India has always been a manufacturer. From manufacturing 'Zero' in the 5th century** - long before the concept of Zero as a digit emerged in the West and made modern engineering, technology and computing possible - **to manufacturing the latest smartphones today**, and everything in between. India's manufacturing prowess, aided by its focus on mathematics, science and technology has always existed in various domains. However, this manufacturing prowess had been lying latent in recent years.
- ◆ **But now, as India ambitiously marches towards becoming a \$7 trillion economy by 2027¹**, a key pillar of its multifaceted growth strategy is the (re)rise of Indian manufacturing. Thanks to Indian government's '**Niyat**' (strategic intent), '**Niti**' (policies) and '**Kootniti**' (international diplomacy), bottlenecks have been cleared and Indian manufacturing is on a solid growth trajectory, cementing its role in India's economic expansion. India's strategic vision to become a **Viksit Bharat** (developed India) by 2047 is underpinning initiatives like 'Make in India' and '**Atmanirbharta**' (self-reliance), sitting at the heart of its industrial policy.
- ◆ **The stars are aligning for Indian manufacturing** - a confluence of enabling internal and external factors is underpinning the multi-decadal growth in Indian manufacturing:
 - **The presence of a huge domestic consumer base and a large export market.**
 - **Enhanced capabilities:** Unmatched pool of human capital; lower operational costs; and thanks to India's grip on tech, the evolution of its manufacturing from cost arbitrage to value added solutions.
 - **Next level improvements in India's infrastructure ecosystem (like the development of Industrial corridors)** are supportive of high-end manufacturing.
- ◆ **A stable and conducive domestic policy environment:** India's unmatched policy stability and continuity over the last decade has been a boon for its manufacturing and export sectors. Policies like the Production Linked Incentives (PLIs); taxation reforms; labour laws; and other reforms have enhanced the ease of doing business. India's democracy and the rule of law provide stability and predictability to foreign companies.
- ◆ **Favourable geopolitics:** Given its growing '**Diplomatic Influence**', India is well placed to leverage its strong ties with international allies and benefit from the West's '**China Plus One**' supply chain diversification trend. Shifting supply chains in sectors like pharma are fast turning **India into world's low-cost pharmacy**.
- ◆ **India's new semiconductor thrust:** An extension of India's diplomatic influence is the recent emergence of its '**Silicon diplomacy**' which aims to make India a viable alternative to Southeast Asia's semiconductor chips' manufacturing capabilities. With India's growing clout in new age manufacturing and technology, the government aims to grow its electronics sector to \$500bn by the end of the decade. It is therefore rolling out incentives to attract more chips companies to India by forging strategic partnerships with global allies.
- ◆ **Lastly, with the private sector's capacity utilisation levels near historic highs**, India's private capital formation should begin to unfold soon and should be accretive to Indian manufacturing. '**Sunrise sectors**' like electronics, specialised chemicals, generic pharmaceuticals, and energy transition look attractive to us.

India has always been a manufacturer. In the 5th century, long before the concept of Zero as a digit emerged in the West, an Indian mathematician named Aryabhata manufactured Zero as a digit of its own. The use of Zero later proved indispensable for key pillars of mathematics like algebra, algorithms and particularly calculus which underpinned the birth of modern engineering and technology. And it is the use of 'Zero' and 'One' within the binary system that made modern computing possible. From manufacturing 'Zero' in the 5th century to manufacturing the latest smartphones today, and everything in between, India's manufacturing prowess, aided by its focus on mathematics and science has always existed in various domains.

However, centuries of colonisation and a post-independence economic policy dominated by Fabian socialism suppressed India's economic, entrepreneurial and manufacturing potential, until India's economic liberalisation in 1991.

This first step in economic liberalisation laid the initial groundwork for the birth of modern India by abolishing the '**License Raj**' i.e., removal of licencing restrictions for most industries; incentivised FDI and technological advancements; and dismantled the monopoly of the public sector in all arenas by limiting its dominance to just essential goods, services and infrastructure.

But despite the economic liberalisation in 1991, India's manufacturing prowess lain dormant until a few years ago...

Indian manufacturing ailed for several years post 1991 because of a lack of a clear industrial policy. Add to this policy void, the supply constrained nature of the Indian economy until a few years ago and there was a perfect cocktail to depress the nation's manufacturing.

Another big reason for India's inadequate industrialisation until a few years ago was its **infrastructure deficiency**, which also increased the operating and logistics costs for Indian businesses. Consequently, Indian manufacturing was adversely affected. Indian products were not cost competitive in export markets as inflationary pressures were quick to build in the cost base. Therefore, until 2014, poor infrastructure, high logistics costs, complex labour laws, lack of government's focus and unfavourable Free Trade Agreements – collectively stunted Indian manufacturing's growth.

... until the Indian government's strategic intent, policies and diplomacy turned the bottlenecks into opportunities

Thanks to the current government's '**Niyat**' (strategic intent), '**Niti**' (policies) and '**Kootniti**' (international diplomacy) and its strategic ambition to become a '**Viksit Bharat**' (Developed India) by 2047, India's 'infrastructure deficiency' has been **turned into 'infrastructure sufficiency'** over the last few years.

Three consecutive terms for PM Modi's government have given India the unprecedented benefit of **policy continuity**. Whilst the third term has only recently started in June 2024, it has already

brought about some much-warranted reforms on job creation and helping the lagging rural economy by re-emphasising a focus on Indian MSMEs (Micro, Small and Medium Enterprises) and manufacturing.

The first two terms between 2014-24 were pivotal in stabilising India's macroeconomic parameters while integrating millions into the digital economy and creating a uniform national market for all businesses by reforming the disjointed and complex tax system of various states and implementing the uniformity of the current Goods and Services Tax (GST) across India.

Indian government's investment in infrastructure – both its physical and the Digital Public Infrastructure (world's first of its kind) have together reduced the operational frictions in the system, creating a healthy business ecosystem for Indian businesses to thrive. Improved technology, last mile connectivity and reduced logistics' costs were some of the **key building blocks** that were needed to lay the foundations of new-age Indian manufacturing.

With these basic building blocks well-seated in the economy, Indian manufacturing is now on a solid growth trajectory, cementing its role in India's economic expansion. It is expected that in this phase of accelerated Indian economic growth, **manufacturing should contribute circa 32% to the incremental Gross Value Added**, powered by robust domestic demand, export potential, and supportive government policies, including Production Linked Incentive (PLI) schemes. (Source: IDBI capital, ToI, September 2024).

Drivers of Indian manufacturing and exports









Source: HSBC Global Private Banking, October 2024.

Stars are aligning for Indian manufacturing

A confluence of enabling domestic and international factors is underpinning a multi-decadal growth in Indian manufacturing:

- 1.) **The presence of a huge domestic and export market:** India's young population creates a rising middle class of consumers. India's household spending is expected to exceed \$3 trillion as disposable income rises by a compounded 14.6% annually until 2027. Consequently, India's consumer market is set to become the world's third largest by 2027 as the number of middle-to-high-income households rise.

Manufacturing and exports' growth drivers

	Chemical	~\$110-\$130Bn	<ul style="list-style-type: none"> Projected exports CAGR: 19-23% Hot segments: specialty chemicals, agrochemicals
	Pharma	~\$45-\$50Bn	<ul style="list-style-type: none"> Projected exports CAGR: 16-18% Hot segments: active pharma ingredients and drug intermediaries
	Industrial Machinery	~\$70-\$75Bn	<ul style="list-style-type: none"> Projected exports CAGR: 18-20% Hot segments: food processing machines and textile machines
	Electrical & Electronics	~\$120-\$145Bn	<ul style="list-style-type: none"> Projected exports CAGR: 35-40% Hot segments: mobile phones & industrial electronics
	Automotive	~\$45-\$55Bn	<ul style="list-style-type: none"> Projected exports CAGR: 15-18% Hot segments: EV components
	Textile & Apparel	~\$95-\$110Bn	<ul style="list-style-type: none"> Projected exports CAGR: 13-16% Hot segments: man-made fibres, technical textiles

Source: HSBC Global Private Banking, HSBC Mutual Fund, Bain analysis, October 2024; Data as on August 2022, Note Projected exports and all the growth numbers are from FY22-28.

Moreover, **the changing structure of the Indian middleclass** from a 'Pyramid' (signifying a small rich class and a very large low-income class) to a 'Diamond' (comprising of a smallish layer of lower income groups, a huge bulge of middle class in the center and a smaller but increasing layers of rich and super-rich on top) **is creating trends like premiumisation of Indian consumption**. Rising lifestyles are boosting domestic consumption demand, which is a huge tailwind for domestic manufacturing of several underpenetrated categories of consumer goods, like electronics.

An expanding Export market: The pandemic led to the onset of a new trend in Indian pharmaceuticals when India emerged as a strong developer and exporter of Covid vaccines. This trend of India's continuous advancements in pharmaceuticals has continued since and is benefitting from the world majors' demand for **Indian APIs (Active Pharmaceutical Ingredients)**. Consequently, Indian pharma exports have seen consistent growth over the last few years and should see further acceleration, benefitting from the new **US BIOSECURE Act**, which means more US drugmakers will now be shifting their supply chains to Indian pharmaceutical firms. Add to this the fact that the world is aging, and India, with its production cost efficiencies and pharmaceutical breakthroughs, is **becoming a low-cost pharmacy to the world**. It's win-win and shows how the stars are truly aligning for Indian pharmaceuticals.

This trend of growing global demand for Indian products isn't just limited to pharmaceuticals though. It has expanded to other sectors like specialised chemicals, industrial materials, electronics, automobiles, and textiles and apparel - thanks to the expansion of

India's competitive strength in these key sectors. Consequently, Indian exports have been strongly scaling up in the post Covid era – growing at a healthy clip of 10% CAGR compared to the pre-Covid era. This is 1.7x of its nominal GDP growth and is indicative of a healthy external demand for Indian goods and services².

On the services side, India has graduated from being a **low-cost IT exports hub** of the early 2000s and has become **the corporate headquarter** for 40% of corporate leadership and staffing needs via its **Global Service Centres (GSCs)** for global banks, insurance companies, legal firms and professional services like management consulting.

Given this rapid ascent, India now targets to grow its exports from \$783bn in 2023 to \$2trn by 2030². This appears reasonable considering the existing strong base of services exports, coupled with government's renewed focus now on driving merchandise exports. This is obviously a big tailwind for India's manufacturing sector.

- 2.) **Unmatched human capital and lower operating costs:** India is playing to its knowledge economy in a big way. As per the Indian Patent Office (IPO), India set a record last year, with over 75,000 patents granted in 2023. With the highest number of PhDs and the highest number of patents registered last year compared to its own 20-year history, when it comes to human capital, India offers access to a large pool of highly educated, English speaking, STEM professionals. At the other end of the spectrum, there's no dearth of semi-skilled and low-skilled labour. The country therefore provides unmatched access to ALL types of labour pools - all of which play a crucial role in any manufacturing process.

Furthermore, with relatively low costs of all four factors of production – land, labour, capital and organisation –

the overall operating costs in India are much lower for foreign manufacturers.

- 3.) **India's infrastructure build-out is entering its next phase of unrepresented growth:** It is well televised how the unprecedented development of India's infrastructure ecosystem (both physical and digital) in recent years has stoked the rise of new age entrepreneurship and a 'start-up culture' in India.

But now, India's infrastructure build-out is entering a new phase of unprecedented acceleration with more projects scheduled for completion than ever before. In just two years, between 2024-2026, the total value of completed infrastructure projects is set to surge to INR 44.4 trillion based on an analysis of the Centre for Monitoring Indian Economy's Capex database (Source: Bloomberg, August 2024). That is equivalent to the value of completed projects over the past 11 years, even adjusted for inflation. The rise is being driven by substantial increases in public spending over the last four years to modernise and expand road and railway networks and deploy renewable energy capacity. As these projects come online, they will likely catalyse growth by bolstering manufacturing competitiveness, enhancing productivity, and alleviating supply-chain bottlenecks. This should keep lowering logistics costs.

Drawing inspiration from successful international models, in August 2024, the Indian government committed to **building 12 industrial nodes/cities under National Industrial Corridor Development Programme (NICDP)**, a pivotal strategy aiming to transform the country's industrial landscape. These industrial corridors are defined as linear zones that link key economic hubs through a comprehensive network of infrastructure and connectivity like roads, railways, ports and airports. These corridors typically involve the **development of smart cities – or industrial clusters** – equipped with modern facilities and utilities.

Keeping in sight the international best practices and infrastructure in countries like Japan, South Korea, Indonesia, Vietnam, China, Singapore and Taiwan, they aim to replicate the success of these international models by creating industrial corridors that are **"ahead of demand"**; which aid productivity and competitiveness; and reduce logistics' costs. This means developing infrastructure and industrial zones before the need arises, thereby attracting investments and driving economic growth.

In doing so, the Modi government is clearly sending out a message to the world – that **India is open for business** and is facilitating it by merging the 'ease' of doing business with the 'speed' of doing business.

Key features of India's new industrial corridors as per the 'InvestIndia' initiative, are as follows:

- **Integrated infrastructure:** that includes multimodal transport systems, utilities and Information and Communication Technology-enabled (ICT-enabled) services.
- **Plug-and-play facilities:** These are ready-to-use facilities that allow businesses to start operations with minimal set-up time. These include pre-built industrial plots, access to utilities and streamlined regulatory processes.
- **Sustainability initiatives:** These modern industrial corridors aim to incorporate sustainable practices such as green buildings, waste recycling, and use of renewable energy to minimise environmental impact.
- **Skill development and employment generation:** These corridors often focus on creating a skilled workforce through training and educational initiatives conducted partnership with various institutes.
- **Special Economic Zones:** Special economic zones in industrial corridors provide tax incentives and regulatory advantages which help in attracting FDI and promote exports.
- **Public-Private Partnerships:** Between private enterprises and government bodies are encouraged and often result in efficient resource allocation and management. (Source: InvestIndia, September 2024).

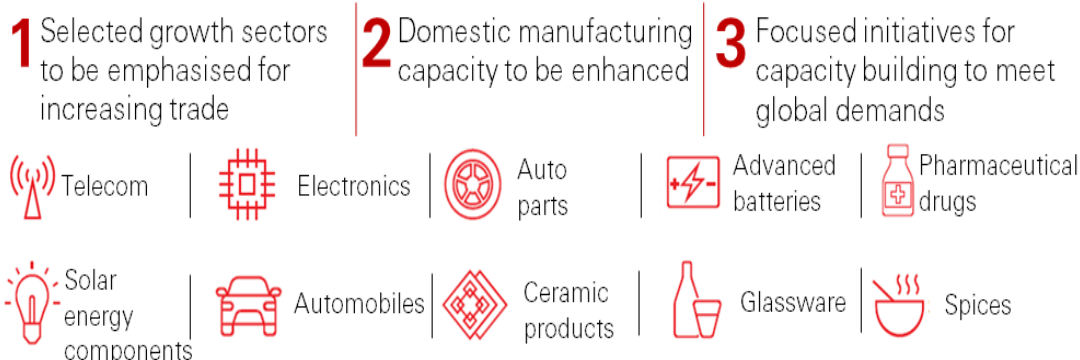
Given these enhanced capabilities, Indian manufacturing is fast evolving from **cost arbitrage** in sectors like textiles **to high value-added solutions** in areas like pharmaceuticals, electronics, EVs and semiconductors. This evolution can also be seen in Indian companies' foray in the energy transition and security space.

Aided by government's policy tailwinds, some well-known Indian companies are focusing on the production of solar panels and other forms of renewable energy like modular nuclear energy, advanced thermal power plants. **This is further paving a roadmap for 'hard to abate' industries and making Indian manufacturing ready for the future.**

India's policy initiatives are creating champions of tomorrow by investing today

Moving from traditional sectors to sunrise sectors

Drivers for Exports



Source: HSBC Global Private Banking, October 2024

- 4.) **A conducive and stable policy environment:** In the last decade, India has made huge strides in cutting red tape and improving its ease of doing business by introducing regulatory reforms like the bankruptcy code; a rationalised tax regime (GST); improved land and labour laws; and judicial reforms to swiftly resolve any litigation/disputes. India's **Production Linked Incentives (PLIs)** have helped boost India's sunrise sectors. We expect the push on PLI schemes which incentivise local manufacturing and create jobs, to continue. This is helping manufacturers of technology hardware, telecom equipment, electronics, and medical devices among others. The current government also reduced BCD (Basic Customs Duty) to promote exports and reduce the cost of imported inputs of production. In addition, government initiatives like '**Make in India**' are not just promoting manufacturing, but have also helped in creating jobs, expanding exports and aim to make the economy more **self-reliant (Atmanirbhar)** by reducing the need for imports, especially in sectors like electronics.

Such policy reforms and their continuity over the last decade are creating a conducive environment to make India an attractive manufacturing destination for foreign companies, especially as the Indian government offers subsidies in key sectors like EVs, smartphones and semiconductors and is taking further steps to attract more FDI in high-end manufacturing.

Several Indian states like Gujarat, Maharashtra and Tamil Nadu have become key manufacturing hubs for global smartphones, EVs and semiconductor manufacturers. Due to their friendly policies, and ready availability of land, labour and expertise, they are attracting FDI, giving competition to not just other Indian states but also to the likes of Vietnam and Mexico (Source: Bloomberg, September 2024).

These Indian states are extremely competitive and are producing to global standards. They are analysing global supply chains to target strategic sectors and key players in the global manufacturing ecosystem; improving the efficiency of their ports; and are connecting international investors with their local supplier base. Consequently, in India's most industrialised state of Tamil Nadu, "it is raining investments" as per Bloomberg, just as it netted ~\$12bn in FDI commitments in 2024 alone.

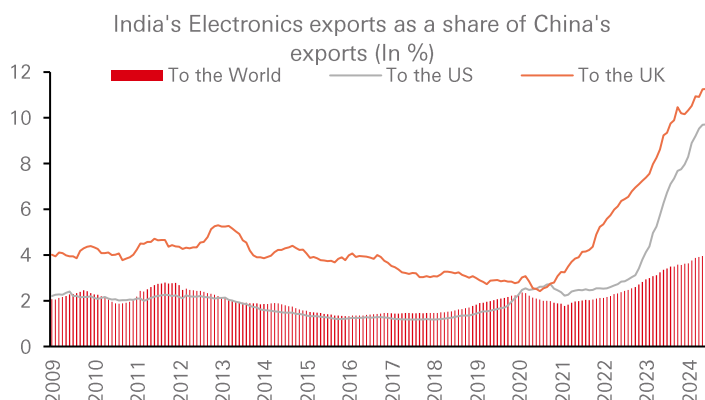
- 5.) **Benefitting From 'China Plus One', India is positioning itself as an alternative manufacturing hub:** In the global drive for supply chain resilience, India has been touting its role as an alternative and trying to benefit from corporates' 'China plus one' strategy, which sees manufacturers developing back-up capacity in other countries. By offering incentives like reduced tariffs and easing FDI rules, India is increasing its appeal for businesses that want to hedge against rising geopolitical tensions by spreading their operations more broadly. These tariff cuts have proven pivotal in consistently increasing India's share in global smart phone manufacturing.

As the chart on the next page shows, in the post pandemic era, India has been steadily chipping away at China's dominance in several industries like electronics, semiconductors and speciality chemicals as global companies diversify their supply chains away from the world's factory to other parts of Asia. The impact is most pronounced in the UK and the US, where geopolitical tensions with China have increased in recent years. India's electronics exports to the US as a ratio of China's increased to 7.65% in November 2023 from 2.51% in

November 2021, (Source: Fathom Financial Consulting, August 2024).

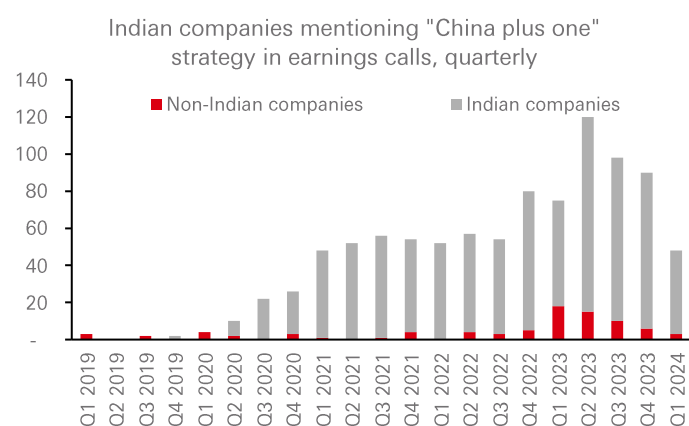
In the UK, the share rose from 4.79% to 10%. Indian government is luring electronics manufacturers to the country with heavy incentives, such as tax cuts, rebates, easier land acquisition and capital support. The aim is to expand the domestic manufacturing industry to export more, and help businesses grow to global scale through partnerships.

India's electronics' exports are steadily rising



Source: LSEG Datastream, Fathom Consulting, HSBC Global Private Banking, September 2024. Note: Figures are 12-month trailing sum.

The mention of 'China Plus One' in Indian companies' quarterly calls has risen manyfold since the pandemic



Source: Bloomberg, HSBC Global Private Banking, October 2024.

Will India's latest semiconductor thrust make it the next chip powerhouse?

Aligned with India's vision to become a developed nation by 2047 is India's semiconductor ambition. Benefitting from the fact that semiconductors have grown into a crucial resource, especially as the geopolitical chasm between Washington and its traditional suppliers continues to widen and importers in the West look to reduce their reliance on overseas producers in China and Taiwan. India is undoubtedly emerging as one of the beneficiaries of this global trend and is trying to woo more chipmakers into the country by providing them subsidies in much the same way it did with the global smartphone manufacturers.

India's electronics market currently stands at about \$155bn and is set to grow severalfold. In September 2024, at a semiconductor conference near New Delhi, PM Modi unveiled a new front in India's diplomacy - its **"Silicon Diplomacy"** - when he projected a \$500bn domestic market for electronics by 2030 and called India one of the biggest markets *"for the world's semiconductor companies to come and do business in"*. At the same event, PM Modi touted India's increasing clout in technology and several chip industry executives from India and abroad outlined their growth plans in the country, while making investment commitments to widen their R&D in India. PM Modi's administration has also created a new \$10bn program to attract chipmakers and their suppliers to India. (Source: SEMICON India 2024, 11 September 2024, Bloomberg).

Furthermore, India's latest semiconductor pact with Singapore and an agreement with the US for setting up a **semiconductor fabrication plant** to manufacture chips including infrared, gallium nitride and silicon-carbide semiconductors exhibit India's focus on its 'Silicon Diplomacy' and its resolve to put its stamp on a sector marred by input shortages.

We think a speedy execution holds the key to the success of India's semiconductor thrust. If India manages to attract more FDI in the semiconductor space and implement its diplomatic agreements well by leveraging its international diplomacy and tech know-how, its latest semiconductor thrust could take the Indian manufacturing sector to the next level of growth and proliferation.

Finally, India's private capex cycle is about to unfold and should benefit Indian manufacturing

After remaining subdued for years on end, India's private capex is finally gaining traction. Private sector balance sheets are looking healthy, and their capacity utilisation levels are already at or near historic highs, and therefore there's a clear need for them to build-up capacity to meet greater domestic and international demand.

According to a report by the RBI in August 2024, envisaged capex is set to increase 54% to INR2.45 lakh crore in FY25 from Rs 1.59 lakh crore in FY24. As per the RBI - rising domestic demand and

capacity utilisation, improved profitability of corporates, sustained credit demand, business optimism and government's thrust on infrastructure development, along with policy measures to encourage investment activities - all bode well for private capital formation. While the government in its recent budget continued the thrust on capex allocating INR 11.11 lakh crore for FY25, a 17% increase from the previous year, as the capital formation baton gets handed over from the government to the private sector, this private capital formation should further underpin greenfield (new) manufacturing projects and aid the existing ones.

These ambitions and global tailwinds are well and good, but what about the potential challenges/risks to these ambitions?

Whilst the stars are aligning for Indian manufacturing, potential domestic and international challenges remain on the horizon too:

- 1.) **Chinese overcapacity:** A key challenge to India's new-age manufacturing ambitions, in our view, would be a world already grappling with Chinese overcapacity and overproduction – a key reason for the tensions between China and the West. Whilst the reorientation of global supply chains is certainly a tailwind for India, it remains to be seen how far it can leverage this trend.
- 2.) **Managing environmental challenges whilst boosting its manufacturing sector:** Another key challenge is how well India manages to walk the tight rope on managing environmental challenges and its energy transition ambitions with its manufacturing growth ambitions, especially as it seeks to expand sunrise sectors like specialist chemicals which could pose environmental challenges.
- 3.) **Adapting rural labour to manufacturing jobs:** Whilst India's young pool of English-speaking STEM graduates is its strength in expansion of sunrise sectors which require specialist knowledge and skills like EV, energy transition, pharmaceuticals etc., how well India manages to upskill and adapt its rural labour force to working in urban/semi-urban factories remains another major challenge. In addition, how it manages to tap into its rural/semi urban female labour force potential is an extension of this human capital challenge.
- 4.) Other challenges like **the need for further rationalisation of taxes under GST; the need for more land and labour reforms** to enhance ease of doing business and introduce efficiencies; continued formalisation of the Indian economy and ensuring adequate credit lending is available to sectors in need are some of the bottlenecks that Indian authorities need to be mindful of and would need to iron out to help Indian manufacturing prosper.

Summary

Fueled by the Indian government's '**Niyat**' (strategic intent), '**Niti**' (policies) and '**Kootniti**' (international diplomacy), India is finally reigniting its latent manufacturing prowess as it ambitiously marches towards becoming a \$7 trillion economy by 2027.

What the Indian government fully appreciates is that:

- a.) Alongside domestic consumption, Indian manufacturing is a key ingredient of its fast economic growth recipe; and that
- b.) This is the most opportune time to fully leverage its demographic dividend (unmatched pool of human capital) and the favourable global geopolitical environment to boost Indian manufacturing.

As such, India is making full use of the opportunities that are emerging due to the technological and geopolitical changes taking place in the world.

The stars are aligning for Indian manufacturing. The presence of a huge **domestic market** and an ever-expanding **export market**, propelled by global supply chain de-risking and "**China Plus One**" strategy is beneficial for India as a viable alternative manufacturing location.

To make use of this growing opportunity set and also motivated by its '**Niyat**' to grow India into a developed nation (**Viksit Bharat**) by 2047, the Indian government has introduced **new policies** (**Niti**) to underpin the manufacturing sector and help it evolve from **cost arbitrage to value added solutions**. Introduction of regulatory reforms like the bankruptcy code; a rationalised tax regime (GST); improvements in land and labour laws; and judicial reforms to swiftly resolve any litigation/disputes, along with India's Production Linked Incentives (PLIs) have helped boost **India's sunrise sectors** like solar components, specialised chemicals, pharmaceuticals, and auto components etc.

Moreover, the Indian government is taking its investments in physical and digital infrastructure over the last decade to the next level in 2024 and beyond, by establishing **a dozen new industrial corridors and smart cities** equipped with modern facilities and utilities. Their latest '**Plug and Play**' facilities like multimodal transport systems, utilities and Information and Communication Technology-enabled (ICT-enabled) services should not only lower logistics' costs, but they should also enhance the '**ease**' and the '**speed**' of doing business. By focusing on providing seamless infrastructure and connectivity, the Indian government is making sure that investors find India a hassle-free and attractive place to do business and is committed to making India one of the top destinations for global investments.

When it comes to '**Kootniti**' or international diplomacy, India's '**Diplomatic Influence**', stemming from PM Modi's global leadership and its policy of '**Strategic Non-Alliance**' have already helped the nation catapult to number #3 position in the Asia Power Index 2024 published by Lowy Institute. India is now leveraging on its growing diplomatic influence by unveiling a new

front in what is called India's **"Silicon Diplomacy"**. It aims to leverage India's clout in technology and give India's semiconductor manufacturing ambitions a new thrust by attracting the world's semiconductor companies to come and do business in India. If India succeeds in its 'Silicon Diplomacy', it could help India's electronics sector to grow from C.\$155bn currently to \$500bn by 2030. We think speedy execution holds the key to the success of India's semiconductor thrust.

Last but not the least, after being in hibernation for years, **India's private capex cycle is about to unfold** and should benefit Indian manufacturing. Healthy corporate balance sheets, low levels of leverage, combined with the fact that private sector's capacity utilisation levels are already at or near historic highs bode well for building capacity to cater to higher domestic and international demand. As the capital formation baton gets handed over from the government to the private sector, this should further underpin greenfield (new) manufacturing projects and aid the existing ones.

To us, **India's 'sunrise' sectors** like electronics, specialised chemicals, generic pharmaceuticals, auto components and energy transition provide attractive opportunities.



Sources:

- 1.) IMF forecast, August 2024
- 2.) World Bank, HSBC Mutual Fund, December 2023

Risk Disclosures

Risks of investment in fixed income

There are several key issues that one should consider before making an investment into fixed income. The risk specific to this type of investment may include, but are not limited to:

Credit risk

Investor is subject to the credit risk of the issuer. Investor is also subject to the credit risk of the government and/or the appointed trustee for debts that are guaranteed by the government.

Risks associated with high yield fixed income instruments

High yield fixed income instruments are typically rated below investment grade or are unrated and as such are often subject to a higher risk of issuer default. The net asset value of a high-yield bond fund may decline or be negatively affected if there is a default of any of the high yield bonds that it invests in or if interest rates change. The special features and risks of high-yield bond funds may also include the following:

- Capital growth risk - some high-yield bond funds may have fees and/or dividends paid out of capital. As a result, the capital that the fund has available for investment in the future and capital growth may be reduced; and
- Dividend distributions - some high-yield bond funds may not distribute dividends, but instead reinvest the dividends into the fund or alternatively, the investment manager may have discretion on whether or not to make any distribution out of income and/or capital of the fund. Also, a high distribution yield does not imply a positive or high return on the total investment.
- Vulnerability to economic cycles - during economic downturns such instruments may typically fall more in value than investment grade bonds as (i) investors become more risk averse and (ii) default risk rises.

Risks associated with subordinated debentures, perpetual debentures, and contingent convertible or bail-in debentures

- Subordinated debentures - subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in the event of the issuer's liquidation.
- Perpetual debentures - perpetual debentures often are callable, do not have maturity dates and are subordinated. Investors may incur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest payments may be variable, deferred or cancelled. Investors may face uncertainties over when and how much they can receive such payments.
- Contingent convertible or bail-in debentures - Contingent convertible and bail-in debentures are hybrid debt-equity instruments that may be written off or converted to common stock on the occurrence of a trigger event. Contingent convertible debentures refer to debentures that contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event. These debentures generally absorb losses while the issuer remains a going concern (i.e. in advance of the point of non-viability). "Bail-in" generally refers to (a) contractual mechanisms (i.e. contractual bail-in) under which debentures contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event, or (b) statutory mechanisms (i.e. statutory bail-in) whereby a national resolution authority writes down or converts debentures under specified conditions to common stock. Bail-in

debentures generally absorb losses at the point of non viability. These features can introduce notable risks to investors who may lose all their invested principal.

Contingent convertible securities (CoCos) or bail-in debentures are highly complex, high risk hybrid capital instruments with unusual loss-absorbency features written into their contractual terms.

Investors should note that their capital is at risk and they may lose some or all of their capital.

Changes in legislation and/or regulation

Changes in legislation and/or regulation could affect the performance, prices and mark-to-market valuation on the investment.

Nationalisation risk

The uncertainty as to the coupons and principal will be paid on schedule and/or that the risk on the ranking of the bond seniority would be compromised following nationalisation.

Reinvestment risk

A decline in interest rate would affect investors as coupons received and any return of principal may be reinvested at a lower rate. Changes in interest rate, volatility, credit spread, rating agencies actions, liquidity and market conditions may have a negative effect on the prices, mark-to-market valuations and your overall investment.

Risk disclosure on Dim Sum Bonds

Although sovereign bonds may be guaranteed by the China Central Government, investors should note that unless otherwise specified, other renminbi bonds will not be guaranteed by the China Central Government. Renminbi bonds are settled in renminbi, changes in exchange rates may have an adverse effect on the value of that investment. You may not get back the same amount of Hong Kong Dollars upon maturity of the bond. There may not be active secondary market available even if a renminbi bond is listed. Therefore, you need to face a certain degree of liquidity risk. Renminbi is subject to foreign exchange control. Renminbi is not freely convertible in Hong Kong. Should the China Central Government tighten the control, the liquidity of renminbi or even renminbi bonds in Hong Kong will be affected and you may be exposed to higher liquidity risks. Investors should be prepared that you may need to hold a renminbi bond until maturity.

Alternative Investments

Hedge Fund - Please note Hedge Funds often engage in leveraging and other speculative investment practices that may increase the risk of investment loss. They can also be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and may involve complex tax structures and delays in distributing important information. Alternative investments are often not subject to the same regulatory requirements as, say, mutual funds, and often charge high fees that may potentially offset trading profits when they occur.

Private Equity - Please note Private Equity is generally illiquid, involving long term investments that do not display the liquid or transparency characteristics often found in other investments (e.g. Listed securities). It can take time for money to be invested (cash drag) and for investments to produce returns after initial losses.

Risk disclosure on Emerging Markets

Investment in emerging markets may involve certain, additional risks which may not be typically associated with investing in more established economies and/or securities markets. Such risks include (a) the risk of nationalisation or expropriation of assets; (b) economic and political uncertainty; (c) less liquidity in so far of securities markets; (d) fluctuations in currency exchange rate; (e) higher rates of inflation; (f) less oversight by a regulator of local securities market; (g) longer settlement periods in so far as securities transactions and (h) less stringent laws in so far the duties

of company officers and protection of Investors.

Risk disclosure on FX Margin

The price fluctuation of FX could be substantial under certain market conditions and/or occurrence of certain events, news or developments and this could pose significant risk to the Customer.

Leveraged FX trading carry a high degree of risk and the Customer may suffer losses exceeding their initial margin funds. Market conditions may make it impossible to square/close-out FX contracts/options. Customers could face substantial margin calls and therefore liquidity problems if the relevant price of the currency goes against them.

The leverage of a product can work against you and losses can exceed those of a direct investment. If the market value of a portfolio falls by a certain amount, this could result in a situation where the value of collateral no longer covers all outstanding loan amounts. This means that investors might have to respond promptly to margin calls. If a portfolio's return is lower than its financing cost then leverage would reduce a portfolio's overall performance and even generate a negative return.

Currency risk – where product relates to other currencies

When an investment is denominated in a currency other than your local or reporting currency, changes in exchange rates may have a negative effect on your investment.

Chinese Yuan ("CNY") risks

There is a liquidity risk associated with CNY products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads.

CNY is currently not freely convertible and conversion of CNY through banks in Hong Kong and Singapore is subject to certain restrictions. CNY products are denominated and settled in CNY deliverable in Hong Kong and Singapore, which represents a market which is different from that of CNY deliverable in Mainland China.

There is a possibility of not receiving the full amount in CNY upon settlement, if the Bank is not able to obtain sufficient amount of CNY in a timely manner due to the exchange controls and restrictions applicable to the currency.

Illiquid markets/products

In the case of investments for which there is no recognised market, it may be difficult for investors to sell their investments or to obtain reliable information about their value or the extent of the risk to which they are exposed.

Environmental, Social and Governance ("ESG") Customer Disclosure

In broad terms "ESG and sustainable investing" products include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors to varying degrees. Certain instruments we classify as ESG or sustainable investing products may be in the process of changing to deliver sustainability outcomes. There is no guarantee that ESG and Sustainable investing products will produce returns similar to those which don't have any ESG or sustainable characteristics. ESG and Sustainable investing products may diverge from traditional market benchmarks. In addition, there is no standard definition of, or measurement criteria for, ESG and Sustainable investing or the effect of ESG and Sustainable investing products. ESG and Sustainable investing and related measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

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evolving area and new regulations and coverage are being developed which will affect how investments can be categorised or labelled in the future.

An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future. When we allocate an HSBC ESG and Sustainable Investing (SI) classification: HSBC ESG Enhanced, HSBC Thematic or HSBC Impact (this is known as HSBC Purpose in the UK) to an investment product, this does not mean that all individual underlying holdings in the investment product or portfolio individually qualify for the classification. Similarly, when we classify an equity or fixed income under an HSBC ESG Enhanced, HSBC Thematic or HSBC Impact (this is known as HSBC Purpose in the UK) category, this does not mean that the underlying issuer's activities are fully aligned with the relevant ESG or sustainable characteristics attributable to the classification. Not all investments, portfolios or services are eligible to be classified under our ESG and SI classifications. This may be because there is insufficient information available or because a particular investment product does not meet HSBC's SI classifications criteria.

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