# India's growth story

Gaurav Narain, portfolio adviser of India Capital Growth Fund, says a domestic economy that's firing on all cylinders points to India as an exciting destination for investors seeking long-term structural opportunities

**Q: After a strong year for Indian equities in 2023, why is now still a good time to invest?**
In India it's all about growth – the economy is doing exceptionally well, but perhaps more importantly is it's structural in nature and we anticipate sustained growth for several years to come. Government reforms and a systematic clean-up of the system has resulted in a more robust economy. Public infrastructure investment has kick-started the economy and now the private sector has also come into play.

Geopolitics is also favouring India. While the global market may be weak, we are finding many Indian companies benefiting from a structural shift as businesses move out of China. At the same time, India also has a very large domestic market with favourable demographics. Whatever statistics you look at, macro data is positive in India and the government is relatively stable.

I would say a lot of the building blocks for growth are already in place, meaning it is unlikely to be a short-term phenomenon. It's a long-term story and the growth will only accelerate as the global environment improves.

**Q: Where are you seeing the best investment opportunities given the expensive valuations across the market?**
It's true markets have run up, largely driven by strong earnings. For example, in the past four quarters, in terms of company results we have only seen upgrades of earnings. However, during the past six months Indian valuations have re-rated, and by any valuation parameter India looks expensive both on a historical level and compared with other emerging markets.

Right now there seems to be more value in the large-cap area than in mid- and small caps, which is a unique situation. You need to take a longer-term view because, based on a one-year perspective, India has always looked expensive.

In terms of absolute valuations, the only sector I see having a lot of value, even based on historical multiples, is financials. Banks and financials have absolutely clean balance sheets, there are no asset quality issues and growth is strong, trending at high double digits. Nonetheless, valuations are below historical levels, so that's one sector where we can see both earnings and re-rating.

**Q: Why should investors consider a standalone Indian fund rather than access it through emerging markets?**
First, India is a very large market, not only is it the fifth-largest economy in the world, it's also the fastest-growing of the large economies, with sustainable real GDP growth of 6-7% per annum predicted for the next several years.

Second, India is unique compared with other emerging markets in the sense that it is very diversified with no individual sector dominating the market. It's a much more domestic-orientated market, and unlike counties such as Brazil, it's not driven by commodities. In fact India is a net commodity importer.

Historically, India has been under-represented within emerging market funds. Three years ago it represented just 8% of the MSCI Emerging Markets Index, while China was over 30%. Today, this weighting has increased to about 14-15%, but the nature of the market compared with other emerging markets is very different.

India has a long capital market history. The Bombay Stock Exchange is over 100 years old and highly regulated, meaning India has a highly structured market where the risk levels are lower when compared with some other markets.

**Q: Does investing in this area suit a closed-ended fund more than an open-ended vehicle?**
Yes! First of all there are no liquidity issues. For example, 40% of our portfolio is in small-cap companies, while we have owned 65% of the portfolio for over five years. We can take structural long-term calls in less-liquid companies in the small and mid-cap space.

Second, we are not beholden to inflows and outflows, therefore we aren't forced sellers or buyers within the portfolio. Both of these factors mean we can take very long-term calls, which is especially important in a country such as India where there's a lot going for it over the long term.

India is a vast and fairly liquid market. There are more than 300 companies with a free-float market cap of over $2bn, and a further 700 when you get down to $200m to invest in. Even in a large-cap open-ended structure, the opportunity set is very large.

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