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Issue Date: June 2023

Conrad Burge
Fiducian Investment Manager
fiducian.com.au

India's Economy continues to show resilience

India's economy is expected to increase by 6.7% in the calendar year 2024, according to a recent UN report. What are some of the factors setting India up well?

The Indian economy has been growing strongly over recent years, averaging 5.7% per annum in real terms over the 10-year period 2013-2022 (IMF data) and India's growth rate is forecast to stay above 6% a year for the next few years at least. In per capita terms, GDP in $US terms has been rising by over 5% a year over the last decade and is forecast to accelerate to over 7% per year over coming years. With the population estimated to reach 1.45 billion next year and continuing to grow by around 13 million per year, the Indian government has to continue to focus on strong economic growth to maintain power in a democratic society. With living standards rising, the middle class has been finding its feet. Some factors setting India up for continuing strong growth include:

- Educational standards are high and rising.
- The national government has been implementing increasingly pro-business policies.
- Foreign investment is being encouraged and major international companies are finding it expedient to move production to India, especially given heightened problems with investment in China. Advanced technology companies are included in this move, such as Apple, Cisco, Hyundai, Volkswagen and many others, with consumer electronics manufacturing forecast to double within 5 years.
- India has highly favourable demographics, with a median age of 28, compared with China's 38. Furthermore, 35% of India's population is under 20 years of age, compared with only 23% for China.
- The country has high national saving and investment rates (29% and 33% of GDP respectively for 2022) that give the country a competitive advantage in terms of being able to generate the capital required for productive investment.
- What in the past has been burdensome regulation is being cut across many sectors.
- India is one of the few major countries with strong earnings growth forecast for this year (24%) and next (15%), compared with estimated world averages of 0% and 11%.
- The country is resistant to global economic shocks, as the economy is largely domestic consumption driven, with a low export to GDP ratio, although this ratio is expected to increase as foreign investment grows. Exports are targeted to rise by 50% from 2021 to 2023.
- The country is the world's largest democracy with a high proportion of competent English speakers and it is expanding its free trade agreements with other democracies, including Australia (completed), the UK (expected this year), the EU (expected in 2024) and the US.

Why should India be on Australian investors' radar right now, especially for those seeking alternatives to China?

The Indian economy is forecast to be the third largest in the world (measured by GDP) by 2030 and this makes it essential that investors have some exposure to this country. With corporate earnings forecast to grow very strongly, the stock market is the obvious place to seek exposure to liquid assets. The Bombay Stock Exchange is well regulated and is accessed by internationally well-regarded fund managers.

The Fiducian India Fund utilises four well-respected fund managers and provides access for Australian-based investors to a registered Australian fund with maximum liquidity and ease of access to carefully selected large cap, mid-cap and small cap stocks across the spectrum of listed Indian companies.

What are some of the risks of investing in India?

India still has a way to go before achieving the government's goal of becoming a strong fully free market economy. According to Transparency International, India still ranks only 85 out of 180 countries on its corruption index. However, the government has been moving in recent years to reduce this negative influence on economic growth. Reforms, such as the introduction of a goods and services tax (GST) in 2017, have reduced tax evasion and widened the tax base for the economy, while other reforms have reduced the 'black' economy by discouraging the use of cash for large transactions.

Of more relevance for investors, the stock market, as with many other emerging markets, is likely to be more volatile than many developed markets and investors should only be aiming to invest a small part of their overall investment funds in this market and should be investing for the long-term only.

The Fiducian India Fund saw returns of -1.2% for the year to 31 March 2023. What has changed since the fund was achieving double-digit positive returns in 2020-21?*

The Fiducian India Fund, as is the case for any emerging markets fund, can be expected to be highly volatile at times. This is why returns should only be assessed over the longer-term. For example, the annual average return for this fund over the 10 years to 31 March this year was 14.6%, which is well above the 6.7% average annual return for the emerging markets index (MSCI in $A) and even the 11.6% for the Indian index (Bombay Stock Exchange 100). The advantage of the Fiducian India Fund, compared with other Indian equity funds is that it is extremely well diversified across managers (4 respected on-the-ground Indian-based managers) and, especially importantly, has considerable exposure to the small and mid-cap sectors, which most Indian funds lack. This exposure can add to short-term volatility but longer-term can potentially bring above-index returns, as has been the case over the last decade. Strong long-term out-performance can be anticipated because the small and mid-cap sectors of the Indian market are where the domestic dynamism of the Indian economy comes through and can be accessed by investors. This is where the enormous growth of the underlying Indian economy shows up but it comes with an expectation of short-term high relative volatility.

* Past performance and historical data is not a reliable indicator of future performance. Investment returns are not guaranteed, and we do not guarantee the performance of the Fund or any specific rate of return.