India: Impressions From A Week In Delhi

Even at one o'clock in the morning in a taxi from the airport, the roads around Delhi are astonishingly busy, and one can only marvel at the ability of drivers to cope with the stress and avoid disaster. At that time of the morning around Heathrow the roads would be empty, and it is impossible not to feel that everyone is busy and that this is a country in a hurry.

And a week spent meeting and listening to corporate leaders is an uplifting experience, and certainly reinforces that impression. First, the management quality is outstandingly high, and in general, far above any other Asian country. Invariably it seems, senior managements are extremely well educated, usually at business schools in America, are often entrepreneurial founders of their companies, or else have been committed to them for a substantial time. That said they do not speak in business school language but have a clear-eyed view of what is required and how to address the amazing opportunities ahead of them. In the course of the week, I met or listened to around 30 senior managements of listed and unlisted Indian companies and every single one gave an impressive account of their prospects. But there were two outstanding presentations from the CEOs of Bharti Airtel, India's largest mobile telephone operator, and Indian Hotels, the country's leading hotel brand. Both are holdings in the Aubrey Global Emerging Markets Strategy.

India is rapidly becoming wired up. Five years ago there were 200 million mobile telephone users. Now there are 800 million mobile customers, the majority using smartphones, and Bharti Airtel has over 350 million customers representing around 40% of the market. The company has made huge investments in infrastructure, with 355,000 towers, 12 data centres and 440,000 RKms of domestic fibre. Although they charge slightly more than their two other competitors, there is a perception in India that a premium price represents a premium service, and they have the highest Average Revenue Per User (ARPU) in the sector. Broadband connectivity is growing at an astonishing pace as people become accustomed to ecommerce and internet-based entertainment. The company is capitalising on this by introducing family packages and locking customers into monthly subscriptions. A basic data package in India is still only around $2 per month and is increasingly regarded as a necessity. Although still heavily indebted due to the purchase of spectrum and a heavy investment programme, the company is now generating operating cashflow of $5bn a year and is fast reducing the burden. It is an outstanding investment proposition.

Indian Hotels is one of the Tata Group listed companies and operates 228 hotels across several brands, the best known of which is Taj, epitomised by their old and venerable flagship hotel in Bombay. They have a development pipeline of a further 112 hotels mostly in India and are developing a new brand called Ginger which they are modelling on Hampton by Hilton to cater for the mid-market customer. The real drivers are not just the growing middle class, but also India's rapid development as a tourist destination, thanks in large part to a massive improvement in infrastructure and the opening of 14 new international airports in the last few years. The company is accelerating their expansion by undertaking joint ventures and signing management contracts with other hoteliers, rather than building themselves. They describe this as their "asset light" approach and like to remind investors that theirs is a hospitality business not a real estate operation. The cost of land alone can account for up to 60% of total hotel development costs. Already such asset light enterprises account for 60% of their portfolio, and although the margins on these are lower, so is the downside in the event of a downturn in the industry. The company is now debt free and able to continue its expansion without taking on new obligations.

The expansion of airports and airlines is a key area of interest to the government and GMR Airports, with a portfolio of airports including Delhi and Hyderabad, is one of the more obvious ways to capitalise on this. Delhi has four runways, covers 230 acres, and caters for 74 million passengers per year at present. They believe they can expand this to 100 million without the need for significant capital expenditure, although from personal experience I would suggest that this will be difficult without replacing the army soldiers who man and operate the security checkpoints. They are absurdly slow and ridiculously thorough. Perhaps more appealing therefore is Interglobe Aviation, more commonly called Indigo which is by far the country's largest airline. They provide a low cost, quality service with a fleet of 360 Airbus aeroplanes and average around 2000 flights per day. They are operating at a load factor of 87% with a breakeven load factor of 60% and carried 100 million passengers last year to 88 destinations in India, as well as 34 international ones.   They made the point that seven billion passengers travel on the Indian Railways every year. It takes 16 hours by rail from Delhi to Bombay and a mere two by air. (Perhaps four if you include security clearance at Delhi!). The ticket prices are very similar at around $70, (for first class rail), and while I accept that comparatively few of the seven billion will become Indigo customers in the short term, I like the thought. GMR Airports confirmed that Indigo is an extremely efficient and capable operator, and for the foreseeable future there really is no rival to their hugely dominant position in the market.

The property market in India remains in rude health, and it is generally accepted that it is in the third or fourth year of an upturn following eight years in decline. Affordability is good, interest rates are certainly stable and indeed are expected to fall slightly between now and the end of the year, and the market remains astonishingly fragmented. The opportunity for the very few large players such as Macrotech Developers and Godrej Properties to grow market share is extremely exciting. Cars and motorcycles remain in strong demand, and meetings with Eicher Motors who make the much coveted Royal Enfield motorcycles, and Mahindra and Mahindra who make tractors and SUV cars were very encouraging. Indeed, Mahindra and Mahindra has a 42% share of the Indian tractor market which is apparently starting to recover from a five year despond. They have 2,800 dealers nationwide, and see an additional opportunity in farm machinery, which in most countries is about four times the size of the tractor market but in India is half the size. They have just introduced a rotavator and a combine harvester and expect the sector to expand rapidly as farms become larger.

The last day of the week was spent listening to private companies, all of which have plans to list in the near future. They ranged from a home services provider, (cleaners to plumbers and electricians), to a provider of shaving products, logistics, and a maker of wearable audio products. It was a fascinating insight into the difficulties of starting businesses in India, and the commitment required to grow to a viable size. All of the companies that presented will merit serious consideration should they list as public companies, which seemed likely to be within the next eighteen months.

Some concerns abound about the weight of money being committed to the market. And indeed, there is now a very sizeable Indian domestic investment management industry and as an example, HDFC Asset Management, one of the country's leading providers now has $90 billion under management. The growth has come from a vast number of people committing even quite small sums to equities in regular savings plans. These currently amount to around $6 billion per month, up from about $4 billion at the start of the year. Perhaps this is a sign that the market is getting a touch hot. But foreign investors have generally been slow to capitalise on the powerful gains that have been made over the last several years, and it seemed that the attitude of most foreign investors at the conference was one of cautious regret at their underweight position. Because it is not an easy market for foreigners to access directly it is widely ignored, and in our view foreign investors do so at their peril, and most seemed to be trying to muster the courage to address this deficiency. Indian valuations are always a big issue that are hard to fully justify. But, at Aubrey we have long held the view that the country is by far the most exciting long term prospect in emerging markets. It is a capitalist democracy, with some brilliantly managed dominant incumbents with a strangle hold on their sectors. These qualities seem to us to merit a premium valuation.

The Indian stock market has been the best in Asia since the election of Narendra Modi in 2014, and his governments have overseen an astonishing transformation in the country, with vastly improved facilities and opportunities for ordinary Indians, coupled with a considerably improved business environment. One question I repeatedly put to a number of business leaders was how embedded this changed politics had become in the country, and how likely therefore was it to endure. Without exception they felt that the bad old days of socialism espoused by The Congress Party had been expunged and that the wider and better opportunities available to even quite ordinary people were now widely appreciated. So long as this remains the case, we believe that notwithstanding the inevitable and occasional correction, it will continue to offer some outstanding opportunities, and at present far outshines every other emerging market.

Biography

Andrew Dalrymple | Investment Manager

Andrew is Founder, Director and CIO at Aubrey, as well as being lead Investment Manager of the Global Emerging Markets and Global Conviction strategies.

A graduate of Cambridge University, he began his career at Cazenove & Co then joined James Capel in 1987 and was transferred to James Capel (Far East) in Hong Kong in 1991. He continued in his role as an Asian specialist working with UBS Warburg from 1992-1998 in Hong Kong.

Andrew joined Stewart Ivory in 1998 and in 1999 he established the Global Opportunities Fund, the First State Global Opportunities Fund, which remained his signature fund throughout his tenure at First State Investments. Since inception (August 1999) through June 2006 the fund rose 112.2% compared to a rise of 3.8% in the MSCI World Index. The Fund was top quartile over 1,2,3,4,5 years and since inception.

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