

The Indian Conundrum

Fresh back from a research visit, there is little doubt that India is among the best-managed large economies globally, with a humbling combination of ministerial and managerial competence. Real GDP growth is running at a healthy 7%, and inflation is under the RBI's target at about 3%. The fiscal deficit is declining, despite another round of sensible tax reforms, this time through a rationalisation of the Goods and Services Tax ("GST") system.

There are some complaints about lower nominal growth now that inflation has been tamed. While mathematically correct and clearly impacting company top line growth, this misses the broader point. With room to cut interest rates further, coupled with tax cuts, we suspect that today's nominal growth of 10% is the base, and upside from here is highly likely.

Indian companies are in particularly good shape, well-managed, and among the most innovative in our view. Valuations, stretched a year ago, have now consolidated and look more reasonable. Domestic fund flows remain supportive, especially through regular monthly savings schemes, although this is offset by a stream of new issuance through IPOs. Foreign flows remain the swing factor, and these, for the moment at least, are focused elsewhere. AI is the market focus today. While Taiwan and Korea produce the hardware and China is increasingly putting it to practical use, India is less of a natural beneficiary. However, almost every company we meet is actively incorporating AI, suggesting that India is steadily catching up.

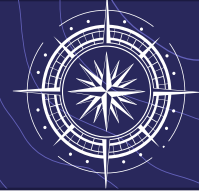
There are clear pockets of interest where secular growth is too powerful to be smothered by the seemingly modest growth and negative flows. The retail landscape is ever changing, and e-commerce is now reaching the sweet spot of growth. Quick Commerce (QC) is capturing a large share of growth at the upper end, with **Eternal** continuing to lead in this market. But the QC user base is still only around 40 million, or the top 3% of the population. While there is scope for this user base to double, it remains a premium service. Traditional e-commerce players, Amazon and Flipkart operate in the top 100-120 million of the population, still significantly less than 10%, so there is plenty of room for all. Longer term, tapping the next 500 million where value is key, is the next stage and **Meesho** is the clear leader here, although still unlisted.

Another pocket of strength lies in automobiles. Two of the better performers in recent times in the portfolio have been Indian motorcycle maker **Eicher Motors** and tractor and SUV leader **Mahindra & Mahindra**. Both are clear beneficiaries of the recent GST cuts since a 10% tax reduction in some of their products represents a meaningful amount in rupees. **Mahindra** continues to capitalise on the Indian desire for SUVs and has made a bold entry into EVs, with market EV penetration rising from 2% to 6% in the past year. **Eicher** has broadened its array of highly desirable Royal Enfields, which remain the aspirational choice in India and as mentioned, they have just become 10% more affordable.

Elsewhere, similarly strong growth trends are clear in healthcare and hospitals, as well as travel and hospitality, although the latter has taken a brief pause this quarter after the Pakistan conflict and the Air India crash in Ahmedabad.

The Indian stock market has had a year of consolidation and, broadly speaking, moved sideways. The underlying growth story has not changed, and prospects remain excellent, but for the first time in many years, there have been other opportunities in emerging markets. As a result, India has underperformed.

The question now is where the next catalyst will come from. The October–November festival season will be a tailwind to corporate earnings and sentiment, encouraging investors to revisit India. However,



a sustained refocus of global attention and investor flows may also depend on a pause in other large emerging markets, whether AI-driven or otherwise.

Biography

Rob Brewis | Investment Manager



Rob is a Director of Aubrey, and Investment Manager of the Global Emerging Markets Strategy. He joined the firm in 2014.

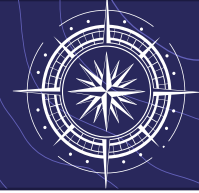
An engineering graduate from Cambridge University, Rob began his career in 1988 at Thornton Management in London. Then he spent ten years in Hong Kong as an Asian fund manager with Credit Lyonnais International Asset Management. This company was later bought by Nicholas Applegate and then Colonial First State, where Rob ran the North Asian investment team as well as managing the Asian Special Situations Fund and a number of single country funds investing in India, Pakistan, Indonesia and Thailand.

He then went on to co-found emerging markets investment boutique BDT Invest LLP in London in 2000. Whilst at BDT, Rob co-managed a number of emerging market portfolios as well as the BDT Asian and Oriental Focus Funds.

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