

Why India: investing in the Indian subcontinent

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Investment returns in the subcontinent have been primarily driven by India since she liberalised her economy in 1991. Investment into one of the earlier Indian indices would have yielded compounded returns of approximately 9% in USD from December 1992 to date. This compares very favourably with other global and emerging market indices over the same period.

Liberalisation and reform fires growth

1991 was an important year for India as the balance of payments crisis led to the liberalisation of the economy, setting her on an irreversible developmental path. Economic growth averaged roughly 4% in the three decades prior to 1991, and approximately 6% in the three decades following.¹ There is consensus cutting across political lines on the benefits of the 1991 liberalisation and the reforms adopted since. There is also broad agreement on the sustainable development challenges that need to be addressed for the next generation. Successive governments might differ slightly on how they approach these challenges but the direction of travel remains the same. Such continuity makes the region quite predictable.

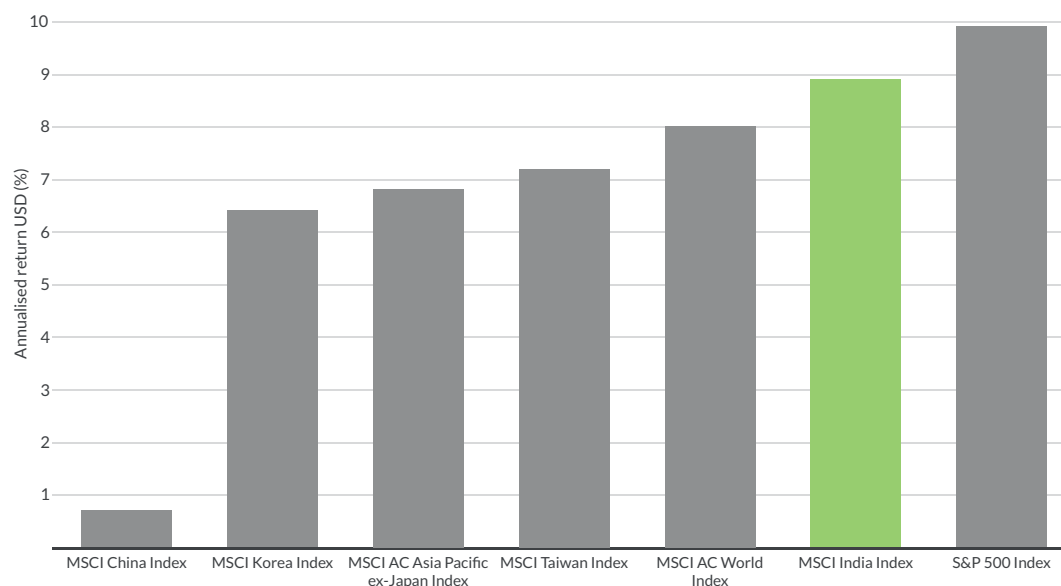
The region is home to roughly 20-25% of the world's population.¹ India currently ranks 132 in the Human Development Index (HDI)², while its neighbours aren't doing much better. Many human development issues such as access to affordable finance, quality healthcare and education, and infrastructure are yet to be solved. An impending climate crisis means the subcontinent has to leapfrog many phases of evolution that the West or even China have endured. Evolution of mobile telephony, digital payments and e-commerce is evidence that such leapfrogging is both possible and desirable. India's GDP per capita is USD 2,257 as per the World Bank estimates¹. If the Indian economy grows at 6% per annum, we believe it will take India roughly 30 years to reach the standards of living we see in China today, as per our estimates. This is an attractive long-term opportunity for investors. However, a stable socio-political regime with sufficient checks and balances is necessary to stay on this development path.

The unsung heroes of long-term capital allocation

It is rare to see tens of thousands of people protest peacefully outside a nation's capital for months. It is more rare in the polarised times we live in. The Indian farmer protests in 2020 were a sign that society can challenge the prevailing government of the day. It is not the first time. Back in 2012, there were peaceful anti-corruption protests across the nation, which eventually led to the fall of the previous government.

The ability of companies and society to engage with governments and hold them accountable where necessary is key for the sustainable development of economies. Institutions - such as the judiciary, state governments, media, the not-for-profit sector, an independent central bank - and the many rights for citizens enshrined in the Indian constitution provide a solid foundation upon which the economy is being built. These are the unsung heroes of long-term capital allocation.

Index returns since 31 December 1992



Source: Stewart Investors and FactSet as at 31 December 2022.

A steady current of reforms beneath a vibrant (and noisy) democracy

India's vibrant and often loud democracy is misunderstood as chaotic and risky. We believe the opposite is true. Underneath the surface is a steady current of reforms and progress. India's diversity and the need to pursue a different development path to the West requires a more patient investment approach. We struggle far more with the opacity and the binary risks that come alongside investing in high-growth, authoritarian regimes. However, investing in the subcontinent is not without risks and potential market volatility. Fragile borders, water shortages, rising social divisions, inequality and climate change are key challenges. Yet the biggest challenge is to improve the standards of living of more than a billion people living in the subcontinent.

Exceptional businesses delivering disproportionately better returns

India is also home to many high-quality companies. Our past decades of investing in the Indian subcontinent have demonstrated that exceptional businesses managed by competent, conservative stewards deliver disproportionately better returns through cycles. Companies like HDFC, India's leading mortgage financiers, focuses on steady growth of their loan book with a keen eye on risk, making home ownership affordable for millions of Indians. With a team of long-term managers at the helm and benefitting from the structural growth tailwinds of deepening mortgage penetration across the country, HDFC has delivered a compounded return of 18% per annum in USD over this time period.³

Sustainable development in the region

More recently we have been excited by the resurgence of good old-fashioned Indian conglomerates - the Tatas, Murugappas and Mahindras. These companies engage

in diverse businesses which are well positioned for sustainable development in the region.

Internal improvements and macro tailwinds; the driver of continued investment returns?

A generational transfer of leadership in each of these groups is setting them up for an exciting future. These institutions have survived and thrived over decades, partly because of their ability to admit to mistakes and correct course when necessary. A rare and exceptional quality. Such a combination of internal improvements and macro tailwinds could be powerful for investment returns.

A reward for patient investors?

Consensus on economic reform across political lines, a democratic system with checks and balances, a long runway for growth, and a rich universe of high-quality companies makes India an attractive destination for long-term investors. We are optimistic that the Indian subcontinent should continue to reward patient investors with sound absolute returns in the coming decades.

Stewart Investors have been investing in emerging markets for over 30 years, and invest across Asia Pacific, Europe, Global Emerging Markets, the Indian Subcontinent, and Worldwide. Find out more at stewartinvestors.com

FOOTNOTES:

- Source: The World Bank, data to end of 2021
- Source: UNDP, Human Development Report 2021-22
- Source: Stewart Investors and HDFC 31 December 2022



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