

Tap into India's growth story with mid-cap stocks



A professional investor tells us where he'd put his money. This week: David Cornell of the India Capital Growth Fund picks three top-performing companies

The British and Indian stockmarkets have much in common. The FTSE 100's constituents make most of their sales abroad, while the same applies to India's big-caps in the BSE Sensex 30. The index does not accurately reflect the real state of the domestic economy, so investors seeking exposure to India often find they have unwittingly bought into broader global trends rather than local spice. As in the UK, the area of the listed market that best reflects the performance and prospects of the local economy is the small-and mid-cap segment. This is the engine room of both economies, though in India's case overall GDP growth is nearer 8% than the UK's 2%. Over the last 15 years, India's mid-cap equity index has averaged impressive annual returns of 12.3% in US dollars, around four times more than the FTSE All-Share.

For UK-based investors, however, getting hold of single stocks in India can be a highly bureaucratic process. Buying an Indian equities fund is easier, especially if the assets are held in a closed-ended structure.

This ensures the manager's investment strategy will not be affected by fund flows, which can unsettle the portfolio, and also allows investors to take advantage of the fact that the share price often trades at a discount to the trust's net asset value (NAV – the value of the underlying portfolio).

Cashing in on credit cards

Stock pickers have an array of entrepreneurial management teams to choose from across a range of sectors. In the underpenetrated banking space, for example, we have invested in RBL Bank (Mumbai: RBK), which has a market

capitalisation of \$3bn. In 2010, Vishwavir Ahuja left Bank of America Merrill Lynch to take over a small local lender. Having improved processes and risk management, he floated RBL in 2016. It is expanding into the retail space, particularly with credit cards, where it has grown market share for four years in a row.

Consumers hit the shops

Consumption is also a well-known theme in India. In 2011, Jyothy Laboratories (Mumbai: JYL), whose market value is \$1bn, acquired Henkel's failing Indian subsidiary. This gave it a diversified product range including mosquito repellents, dish-washing and hand soaps, detergents, and deodorants. The integration of the purchase has been a success, leading to a 30% increase in earnings over five years, and leaving our investment well placed to capture future consumption growth.

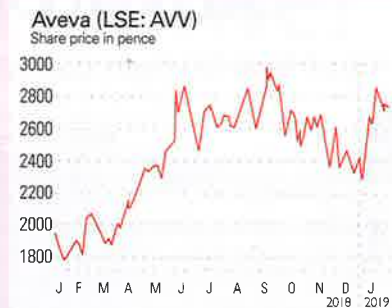
A global car-parts supplier

India is the only emerging market that has companies that are globally competitive across a broad range of industries.

Motherson Sumi Systems (Mumbai: MSS), with a \$6bn market cap, is a case in point. If you reversed out of your driveway this morning there's a one in four chance you used a rear-view mirror produced by them. The company supplies most global car makers, and its technical expertise extends to door panels, bumpers and wiring harnesses that connect the car's computer system to the rest of the vehicle. The diversified product portfolio has helped the company deliver compounded net profit growth of 30% over five years.

"India boasts firms that are globally competitive across an array of industries"

If only you'd invested in...



Aveva (LSE: AVV), the software company, saw its profits before tax for the six months to the end of September increase by 54% from £39.2m to £60.5m, while revenue rose by 11% to £60.5m. The sales growth is due largely to the integration of the industrial software division of its majority owner, French group Schneider Electric, along with some contracts being renewed earlier in the current year than in the previous year. The Cambridge-based business thinks it is will benefit from growing demand in sectors such as cloud computing and augmented reality.

Be glad you didn't buy...



Debenhams (LSE: DEB), the struggling department store, is sitting on net debt of £268m after a disappointing Christmas followed three profit warnings in 12 months. At the beginning of this year, the chain's chairman and chief executive were ousted from the board after two of the biggest shareholders, including Mike Ashley's Sports Direct, voted against them. Debenhams is now in talks with lenders as part of an attempt to bring in new sources of funding. The chain will struggle to refinance its debts if it doesn't attract new cash, said credit-ratings agency Moody's.

