

India: 2020 vs 2010

Where was India in 2010?

A decade ago a much higher nominal GDP growth rate (driven by consumption) was the norm, but an investor sitting in 2010 would have had cause to hesitate before allocating money to India. The government's fiscal deficit was 6.5% of GDP, an 11 year high, and inflation was double digits with real interest rates negative and rising. A weak coalition government was unable to pass legislation and was facing the onset of high profile corruption scandals. 2010 also coincided with India's worst ranking in the World Bank's Ease of Doing Business Index at 139th out of 190 countries.

How has it changed over the years?

The period around 2010 in India can be characterised by high demand driven by global liquidity and excessive government spending but insufficient supply, leading to inflation. Today the reverse exists. Demand has collapsed as credit availability has shrunk due to a powerful combination of inflation targeting, stronger banking sector balance sheet disclosure standards, and anti-corruption measures such as the Insolvency and Bankruptcy Code (passed in 2016).

On the flipside, two consecutive single party governments since the election of Prime Minister Modi in 2014 has provided the political stability necessary for supply side reforms which in themselves have also impacted demand in the short term. An example is the replacement of a complex myriad of state level sales levies with a nationwide VAT under the GST Act 2017. On the infrastructure side, one has witnessed a ramp-up in execution. India was building just 12km of new roads per day in 2010 compared to 30km last year. Annual addition to port capacity was 55m tonnes compared to 293m tonnes in 2018. Households and commerce faced chronic electricity shortages but the deficit of power supply has shrunk from 15% to below 2%. India is now much better placed to deliver non-inflationary growth over a longer period of time than in previous cycles.

Where is India now?

The coronavirus has flared just at a time when India was showing signs of a recovery in demand. Whilst the temptation is to be quick to judge, it's too early to opine how it has handled the pandemic, particularly as comparisons with other countries are difficult as few others face similar challenges on a similar scale with a similar toolkit – a large and densely populated country with a free media and democratically accountable decision makers. The rate of new infections, concentrated in the metro-cities, is concerning. The rate of recovery and the current lack of spread into the hinterland is encouraging. Similar to everywhere else, the number of new cases has to come down in the near term for demand to have a chance of recovering.

Why should an international investor consider India now?

India is transitioning from a volatile, boom and bust, liquidity driven economy to a steadier and more sustainable growth story that is attracting a different type of investor. Historically dependent on *flighty* risk capital, the likes of Google, Facebook, Amazon, Walmart, Berkshire Hathaway have committed serious investment into the country, whilst Apple has just announced its plan to have 10% of its global manufacturing sourced from India within five years. To contextualise these anecdotes with a data point, in 2011 India's net foreign direct investment flows were \$11.8bn, but since 2015 they have consistently clocked above \$30bn annually. This stability is also evidenced by the performance of the Rupee since the onset of COVID-19. Global disruption usually meant significant depreciation of the Indian currency, but a 6% fall against the US Dollar this time round signals a more robust economy. Compared to 2010, inflation is low, interest rates are coming down, and growth (Corona-dependent) is bottoming. Political stability has allowed a rules based system to replace a patronage driven one. As mentioned, the country which was ranked 139th in the World Bank's Ease of Doing Business Index has now climbed to 66th. The world views India differently now and for good reason.

Regulatory Information

This Document and any related documentation provided herewith (this “Document”) is given on a confidential basis for informational purposes only and does not constitute the provision of investment advice. In addition, the information in this Document does not convey an offer of any type and is not intended to be, and should not be construed as, an offer to sell or a solicitation of an offer to purchase any interest in the Gateway to India Fund or India Capital Growth Fund (each a “Fund” and collectively, the “Funds”). Any such offer or solicitation may be made only pursuant to the prospectus and relevant supplement of each Fund (the “Prospectus”) and not on the basis of the information contained in this Document. This Document is qualified in its entirety by the relevant Prospectus. In the case of any inconsistency between the descriptions or terms in this Document and the Prospectus relating to a Fund, the Prospectus shall control.

Nothing herein shall imply that information contained herein is correct as of any time subsequent to the date of this Document. The information in this document does not constitute or contain an offer or invitation for the sale or purchase of any shares in any Fund in any jurisdiction, is not intended to form the basis of any investment decision, does not constitute any recommendation by any Fund, its directors, agents or advisers, is unaudited and provided for information purposes only and may include information from third party sources which has not been independently verified. Interests in the Funds have not been and will not be registered under any securities laws of the United States of America or its territories or possessions or areas subject to its jurisdiction, and may not be offered for sale or sold to nationals or residents thereof except pursuant to an exemption from the registration requirements of the U.S. Securities Act of 1933, as amended (the “Securities Act”), and any applicable state laws. In addition, none of the Funds is and nor will be registered as an investment company under the U.S. Investment Company Act of 1940, as amended.

This Document is not intended for public use or distribution. It is the responsibility of every person reading this Document to satisfy themselves as to the full observance of any laws of any relevant jurisdiction applicable to such person, including obtaining any governmental or other consent which may be required or observing any other formality which needs to be observed in such jurisdiction. While all reasonable care has been taken in the preparation of this Document and all the information prepared in this Document is believed to be accurate, no warranty is given on the accuracy of the information contained herein, nor is any responsibility or liability accepted for any errors of fact or any opinions expressed herein.

This Document may include indications of past performance of certain investments or asset classes. All performance information contained herein relates to the activities of each Fund as a whole. Information presented may not take into account (i) variations in fees, investment restrictions or other differences between various classes of interests, (ii) the impact of any contractual arrangements between a Fund and an investor and (iii) the impact of the timing of subscriptions and redemptions. As a result, the information may not reflect actual performance for any specific investor. Rather, the information is intended to provide investors with generalized performance and exposure statistics for each Fund.

All information provided herein is for informational purposes only and should not be deemed as a recommendation to buy or sell the securities referred to herein. All performance results are calculated net of all fees and expenses, including an investment management fee and, where applicable, a performance fee, and assume the reinvestment of all capital gains, interest, dividends and other earnings, and should not be regarded as final until audited financial statements are issued covering the period shown. Current performance may be lower or higher than performance quoted. Past performance is not a reliable indicator of and is no guarantee of future results. Investment returns may fluctuate with market conditions and every investment has the potential for loss as well as profit. The value of investments may fall as well as rise and investors in the Fund may not get back the amount invested. Emerging market equities can be more volatile than those of developed markets and equities in general are more volatile than bonds and cash. The value of an investment in a Fund may go down as well as up and there is no guarantee that an investor will get back the amount that they invested. Currency movements may also have an adverse effect on the capital value of your investment. Investing in a country specific fund may be less liquid and more volatile than investing in a diversified fund in the developed markets. The Funds may use derivatives (financial instruments whose value is linked to the expected price movements of an underlying asset) for investment purposes and the objective of protecting of the value of the Fund, including taking long and short positions, and may use borrowing from time to time. The use of derivatives in this manner may have the effect of increasing the overall risk profile of a Fund.

The Funds should be seen as long term investments and you should read the Prospectus, paying particular attention to the risk factors section, before making an investment. This Document may include case studies. Such studies express no views as to the suitability of the products or strategies described herein for the reader of this Document or to the individual circumstances of such reader or otherwise. Returns may fluctuate with market conditions and every investment or strategy has the potential for loss as well as profit. Where reference to a specific class of security is made, it is for illustrative purposes only and should not be regarded as a recommendation to buy or sell that security. Market index information shown herein such as that of the S&P BSE-500 Index and S&P BSE Mid Cap Total Return Index is included to show relative market performance for the periods indicated and not as standards of comparison, since indices are unmanaged, broadly based and differ in numerous respects from the Fund. Any comparisons to an index or benchmark are provided solely as a convenience to investors.

The Funds are not intended to track any index, and may hold positions which are not contained within the index shown. The volatility and risk associated with an investment in any Fund may differ materially from the volatility and risk associated with an investment in the index shown. This document is issued by Ocean Dial Asset Management Limited and views expressed in this document reflect the views of Ocean Dial Asset Management Limited and its Mumbai based affiliated company and adviser, Ocean Dial Asset Management India Private Limited as at the date of publication. Comments on individual sectors and companies also reflect those views as at that date. Subsequent events may cause such views to change. It may contain forward-looking statements, which can be identified by words like “anticipate,” “intend,” “believe,” “plan,” “hope,” “goal,” “initiative,” “expect,” “future,” “intend,” “will,” “could” and “should” and by similar expressions, in reliance upon certain “safe harbour” provisions of applicable securities laws.

Other information herein, including any estimated, targeted or assumed information, may also be deemed to be, or to contain, forward-looking statements. Prospective investors should not place undue reliance on forward-looking statements as this information is subject to various risks and uncertainties. Forward-looking statements are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying any forward-looking statements will not materialize or will vary significantly from actual results for many reasons. Variations of assumptions and results may be material. This information is for the use of intended professional and institutional investor recipients only and may not be reproduced, redistributed or copied in whole or in part without the express consent of Ocean Dial Asset Management Limited. Ocean Dial Asset Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom. Registered office 13/14 Buckingham Street, London WC2N 6DF.