How to profit from India's high-tech recovery

A professional investor tells us where he'd put his money. This week: David Cornell, fund manager, India Capital Growth Fund, selects three favourites

Consumption patterns and corporate strategy in India have changed significantly in response to the pandemic, and keen-eyed investors have noticed. Widespread smartphone usage, combined with lockdowns, have accelerated the advent of e-commerce and digital banking. India's young population are early digital adopters, and the country's advanced tech ecosystem is first-class. Data is cheaper than anywhere, and per-capita usage is the highest globally; 99% of all online activity happens on smartphones.

Similarly, India's next generation of vehicle buyers will not be wedded to the merits of combustion engines and will willingly "go electric", since most will be first-timers. An open-minded society combined with a vast population of consumers (50% of which are under 25) suggests that vehicle manufacturers will see India, not Europe or China, as the real market of the future.

Another side-effect of the pandemic has been the urgency with which multinational corporations are diversifying supply-chain risk away from China owing to mounting political tensions with Western countries. This bodes well for India, a winner in sectors such as electrical equipment, speciality chemicals and pharmaceutical production. This is largely due to an English-speaking workforce, lower labour costs (now one third of China's) and ongoing deregulation fostering enterprise.

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The boom in digital advertising

Affle (Mumbai: AFFLE) is a digital-advertising technology agency that operates only via smartphone. It stands to profit from an increase in post-Covid-19 digital spending. It adopts a targeted advertising approach, and is rewarded only when customers are converted to a service or product. It uses artificial-intelligence (AI) algorithms to create a virtuous circle whereby the more data is applied the more conversions occur, which in turn encourages more advertising through its platform. Affle is expected to grow sales by an annual 47% over the next three years. Profits should grow at a similar pace.

Exporting Tesla parts to China

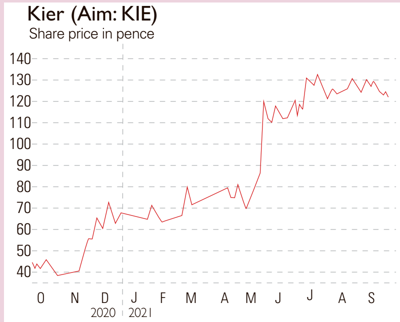
Equally affected by consumers' changing habits is **Sona Blw (Mumbai: SONACOMS)**, an automotive-component manufacturer; specialisms include starter motors. It is a direct beneficiary of electric-vehicle (EV) adoption globally, as its precision-engineered parts are critical to an EV's high-torque requirements. As the sole supplier to Tesla's China plant (as well as to other car manufacturers globally), Sona is a recent example of Indian companies exporting to China. Profits are set to grow handsomely as EV sales ramp up globally.

A leader in outsourcing

A low-cost producer of electrical equipment such as LED lighting, washing machines, TVs and smartphones, **Dixon Technologies (Mumbai: DIXON)** benefits from the government's policies aimed at reducing Chinese imports.

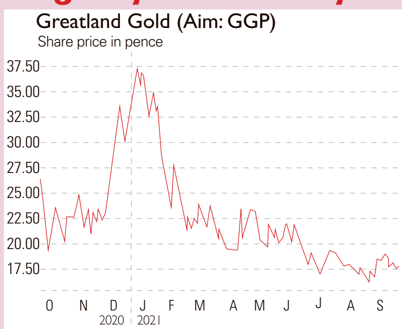
As well as being an outsourcing solution for the global branded manufacturers needing to reduce manufacturing costs, it also provides a supply-side alternative to China, and enables these companies to penetrate India's huge consumer market. We expect Dixon to generate annual sales growth of more than 45% over the next three years while maintaining its industry-leading return on capital of over 30%.

If only you'd invested in...



Kier (Aim: KIE) is a construction and infrastructure company. The firm embarked on a turnaround programme in June 2019 amid a collapse in its share price, mounting debts and accusations of poor payment practices, says Construction News. It reported its first pre-tax profit since 2018 for the financial year ending 30 June, earning £5.6m compared with last year's loss of £225.3m. Revenue declined by 4.2% in the same period thanks to virus-induced restrictions, but the firm's order book for 2022, bolstered by long-term projects, looks strong. The shares have risen by 166% in 12 months.

Be glad you didn't buy...



Greatland Gold (Aim: GGP) is a miner of industrial and precious metals operating in Western Australia and Tasmania. It recently published encouraging drilling results from its flagship Havieron project, but the stock has still dropped by 30% over the last year. The firm has found high-grade gold ore, but similar discoveries had already been made last year, says The Motley Fool. There is continued uncertainty surrounding the project's pre-feasibility study. Odds look favourable, but mining is "exceptionally complex". The study should be finished by the end of 2021, but until then GGP's share price is likely to remain volatile.