Retail investors look for growth in India-focused funds

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India's economy is seen by some investors as a beacon of light in a global economy where growth is at a premium

AFP

Private investors in Britain have been piling into Indian shares on the back of a strong stock market performance for the subcontinent and despite warnings from some quarters that the market is starting to look overheated.

Jupiter India Fund, a £560 million vehicle for backing Indian companies, was the second most popular fund on the Hargreaves Lansdown platform in November and climbed to first place in the first half of December, with its net sales beating every other single fund.

Other investment platforms including Interactive Investor have reported similarly strong British buying interest in investment trusts centred on India, including Ashoka India Equity and India Capital Growth, both of which have appeared in the top ten of bestselling UK trusts recently.

"India has been on a tear of late," Emma Wall, head of investment analysis at Hargreaves Lansdown, said.

Gaurav Narain, who runs the £165 million London-listed India Capital Growth Fund, said that British investors were starting to see India as a separate market in its own right. “They used to bracket it with other emerging markets,” he said.

Sentiment has soured on China, the biggest emerging market of all, sending investors looking for alternative markets in Asia. Overseas investors withdrew a net $17 billion from the Indian stock market in 2022, but that trend has gone into sharp reverse, partly thanks to the country’s recent strong record of economic growth.

However, it is the country’s large and growing domestic savings base that is really moving the dial, according to Avinash Vazirani, who manages Jupiter India. Generation X and Generation Z were increasingly investing domestically through their savings plans and pensions. “They see the growth happening in front of their eyes,” he said. India’s economy is on track for growth of 7 per cent in gross domestic product for the year to March 2024 and most economists have been upgrading their forecasts.

That is being achieved while inflation remains relatively quiescent. “India didn’t have that helicopter drop of money during Covid,” Vazirani said, so had been less affected by the inflationary pressures that wrongfooted the West. The digitising of the economy has been another huge benefit, not only in boosting productivity but also in lifting the tax take. With so many transactions taking place digitally, much of the economy has been bought into the formal financial system, producing a bonanza of consumer tax revenues

While there are still “pockets” of good value, the market looks fully priced, according to the Mumbai-based Narain. “I’ve been taking profits in particular stocks,” he said. People investing now were “very late to the party”.

Vazirani was still confident, but warned that shocks — in particular, an unexpected surge higher in the price of crude oil — could still derail the economic juggernaut. While India has made strides in renewable energy, it is still heavily dependent on imported oil.

Private investors have been attracted, too, by the country's favourable demographics. Unlike China's ageing population, the result of its one-child policy, India's working-age population is set to soar in future. And Indian politics is seen as favourable. The Bharatiya Janata Party of Narendra Modi, the prime minister, has done better than expected in five state elections in recent weeks, raising expectations that the politician, who is considered to be pro-business, will be returned to power in a general election due to take place in the spring.

The Nifty 50, the country's index of large listed companies, ended the year up by 19.4 per cent. According to Vazirani, by some measures India is now the second-best-performing market over ten and twenty years, eclipsed only by the S&P 500 in the United States.

However, valuations are no longer seen as cheap. The Nifty trades on about 20 times forecast profits. That compares with 17 to 18 times five years ago and 14 times ten years ago.