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Global Fundamental

November 2023

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India: a shining light in emerging markets

This time of year marks the religious occasion of Diwali – also known as the Festival of Lights – a five-day festival that celebrates new beginnings and the triumph of good over evil and light over darkness.

While in India and across the world millions of Hindus, Sikhs and Jains will be marking the festival with celebrations, there are also strong reasons for investors to be positive about India.

The return of the investment cycle

There is no doubt the Indian economy has gone through some difficult times over the past decade. While the election of prime minister Narendra Modi in 2014 was greeted positively by markets, the Indian market largely trod water from 2015-2019, both in absolute terms and relative to wider emerging markets, as the economy went through a half-decade of repair. This was then immediately followed by the Covid pandemic, which also hit the Indian economy hard.

Yet since then the picture has been far brighter, with the cyclical recovery from nationwide shutdowns coinciding with a powerful structural recovery from the years of steady repair.

The International Monetary Fund recently revised its GDP growth forecast for India to 6.1% for 2023, up from 5.9%, because of stronger domestic investment. Indeed, the stable macro environment and growing economy have attracted substantial institutional investor inflows while India has also become an attractive investment destination for foreign investors.

India's industrial sector has been a key beneficiary of this upswing, benefiting a range of manufacturing companies, a specific sub-sector example being cables and wires. The segment enjoys large, resilient and growing end markets that stand to benefit from long-term trends such as renewable energy buildout, shifting overhead power lines underground and the digitalisation of the economy.

The Indian investment story has many exciting pathways ahead as the country enjoys an ever-growing presence on the global stage and in the global economy. All of these pathways will ultimately be facilitated by the execution of the required infrastructure projects to support this growth. Years of steady repair have now set the economy up for the next long-term investment phase.

Make in India

While historically India has been much less frequently associated with manufacturing prowess, with China being considered the so-called 'workshop of the world', over the past decade this story has quietly been reversing thanks to a targeted policy programme in India to grow high-value manufacturing exports, coinciding with a reluctance of global corporations to rely solely on China.

India's ascent as a manufacturing base stems from a combination of push factors (from China) and a considered strategy by the Modi government to create an attractive investment base for global manufacturing. India's huge labour pool and vast domestic market are obvious attractions, but we believe that the *Make In India* programme, launched in September 2014 was a key catalyst in "transforming India into a global design and manufacturing hub".

The policy has emphasised the importance of being competitive in terms of quality, not just on price – shifting up the value chain is a key goal. Critical elements have been building out the physical and digital infrastructure required for value-add manufacturing in the 21st century, encouraging domestic procurement for government projects and taking steps to reduce the complexity of doing business.

While the macro backdrop for investment in India has been improving steadily, there has also been a matching upgrading of company manufacturing capabilities and ambitions. We believe that areas especially fertile for investors are those where increasing complexity and specialisation of production create positive mix effects – establishing a protective moat around the business to fend off competition and entrench companies deeper into supply chains, leading in turn to higher returns on investment.

The opportunity in India's burgeoning middle class

With over 1.4 billion people within its borders and an enviable demographic profile, India's consumer market is of a truly staggering scale. With two-thirds of the population – nearly a billion people – under the age of 40 this is also a young population, making the spending habits of younger generations crucial to determining the profile of India's developing consumer market.

As consumers become more affluent, their priorities naturally shift away from necessities and towards luxuries, putting greater emphasis on aesthetic and design qualities over value for money. Premiumisation is the watchword in the Indian consumer market today – bringing new categories to the fore and changing the focus within existing markets.

Digitalisation of the economy is a further driver accelerating these consumption trends – access to electronic devices alongside government investment in digital infrastructure has led to an increasingly online consumer culture. As India moves steadily towards upper-middle income status over the coming years, the expansion of this group of consumers offers immense opportunities for those companies able to capture consumers' lifestyle aspirations, and deliver them across multiple platforms, engaging with them digitally.

To conclude, we remain positive on the outlook for India over the coming decade as the country shifts towards upper-middle income status. Already the largest country by population, the economy is on track to become the world's third largest after the US and China in the next few years. India is currently enjoying a cyclical recovery in conjunction with a structural investment cycle following a decade of low investment in order to work off the previous cycle, leaving the economy in excellent condition with very low corporate and consumer debt as well as robust macro-economic fundamentals.

For a comprehensive list of common financial words and terms, see our glossary at:
https://www.liontrust.co.uk/benefits-of-investing/guide-financial-words-terms

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested. We recommend any fund is held long term (minimum period of 5 years). We recommend that you hold funds as part of a diversified portfolio of investments.

Overseas investments may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of the Fund.

This Fund may have a concentrated portfolio, i.e. hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the Fund's value than if it held a larger number of investments.

The Fund may encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.

Investments in emerging markets may involve a higher element of risk due to less well-regulated markets and political and economic instability. This may result in higher volatility and larger drops in the value of the fund over the short term.

Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term.

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