

## An Indian Summer

Among the long list of so-called emerging markets, India stands out like a sore thumb. It has all the things we like in an emerging economy: a low-income, fast-growing economy, at an early stage of urbanisation with a young and increasingly dynamic population. A recent visit to Mumbai, Pune and Delhi, the first trip to the country since before Covid, only served to re-enforce this view.

India's current government, and Prime Minister Narendra Modi, is overwhelmingly popular and, in our opinion, among the most competent anywhere. Consider that only 13% of Indian households had tap water in 2015, whereas today it is 52%. For electricity it was 56% in 2015, today it is 96%. Indoor sanitation pre-Modi was 43%, now it is 89%. The Bank of America estimates that cumulative infrastructure capacity in roads, railways and ports in the next 10 years until 2025 (basically coinciding with Modi's first two terms) will exceed all that was added in the previous 65 years since independence. The Indian government has grasped the benefits available from technology, and it is that which is undermining the ingrained corruption that has hampered the development of the Indian economy for so long.

The ID system, or Aadhar, was the start: amongst other benefits it led to handouts to the poor reaching the beneficiaries in full and not being syphoned off by middlemen on the way. This facilitated lending to consumers who were previously outside the credit system thanks to improved 'Know Your Customer' processes. This has now led to near full roll out of bank accounts across the country. The Goods and Services Tax is another reform which has transformed tax collection and helped improve government finances. The government sponsored Unified Payment Interface (UPI) has also helped. Next up is the Open Network for Digital Commerce, an attempt to democratise e-commerce. Watch this space.

The positive statistics about India's prospects and potential are well known, especially in the context of our consumer approach. The youthful demographics (375 million Generation Zedders, nearly 50% more than China, and 5x those in Indonesia); the penetration of almost anything (packaged food, soft drinks, organised retail, cars - to name a few) is a fraction of where it is in, say, China. Plus, urbanisation is just at the start of the journey, again, somewhere close to where China was thirty years ago. This is why a number of the companies we own in India, and visited in our recent trip are so well positioned, Varun Beverages (soft drinks), Trent (apparel retail) and Lodha (residential property) to name but three.



As well as having an impressive government, India is also the beneficiary of a couple of current trends. First, it is not China! Manufacturing is looking for a new, or at least an alternative, home outside of China. Top of the list today, other than perhaps Vietnam, is now India which also comes with the promise of future access to its potentially huge domestic market. Speaking to companies in India on our recent visit, and there were certainly concerns about costs: raw materials, energy etc but not once was the cost of labour mentioned. This is something that India has in abundance, particularly at the low skilled end of the spectrum. Software services exports are a well-worn story, but one that has boomed once again during covid. Now, however, physical exports are also growing rapidly thanks to Modi's Make in India thrust. India is targeting \$1 Trillion worth of exports by 2028, which would represent a compound growth rate of 15% per annum.

Second, although India buys oil and arms from Russia, and as a result has remained generally neutral on Ukraine, in today's geopolitical climate, it is increasingly becoming a friend to the US, and a counterbalance to both Russia and China.

Third, India is very well placed in a world moving from oil to solar as an energy source. It has very little of the former and lots of the latter. A visit to the National Institution for Transforming India Commission, more commonly known as the NITI Aayog, revealed an entirely competent and impressive team focussed on pushing the transformation to electric vehicles. Cars are a luxury item in India, so they will not waste resources subsidising them, instead the focus is on 2 and 3 wheelers, which account for 75% of the fleet, as well as on public transport. The fruits of their efforts are obvious on Delhi's streets, with 2 and 3-wheeler battery swapping systems vying for business amongst the delivery drivers in the petrol station forecourts. In Pune, electric buses are increasingly as common as conventional ones.

Finally, Indian property is now emerging from a near decade long downcycle. It is important to remember that the bulk of Indian urbanisation and the need for huge scale residential housing lies in the future. Contrastingly, in China this has largely been achieved. Industrial capacity utilisation is also rising and should soon lead to more investment. Companies and banks are, in general, underleveraged and well placed to facilitate this.

What about the short term? While elevated, inflation in India has been relatively well behaved and well below that being recorded in Europe or America today. The generally competent Reserve Bank of India has hiked rates from 4% to nearly 6% and that should be sufficient.

The other side of this argument is that when oil prices fall, as they seem to be doing today, India is exactly where you want to be. Many complain that India's valuations are too high. Arguably that was the case late last year, but the combination of lower equity prices and continued strong earnings growth has corrected much of this. We would also argue that you get what you pay for. There are good reasons why India has been consistently among the top performers in Emerging Markets over the past decade, and there are many more, including those mentioned here, why this should continue. Your average benchmarked EM fund will have a mere 12% in India. We believe this is woefully inadequate when you consider where that number might be in a decade from now.



## Performance

Net Performance (USD) as at 31 July 2022	YTD	1 Year	3 Years	5 Years	7 Years	Inception
Aubrey Global Emerging Markets Strategy*	-21.3%	-23.8%	24.3%	33.3%	65.5%	152.6%
MSCI TR Net Emerging Markets USD (NDUEEGF)	-17.8%	-20.1%	2.7%	4.9%	29.9%	22.9%

\*All figures are presented net of fees in USD. MSCI Emerging Markets Index is used for comparative purposes only. Investment returns may increase or decrease as a result of currency fluctuations. Past performance is no guarantee of future results. Our firm claims compliance with GIPS. The performance record disclosed in the table is that of the firm's composite for the Aubrey Global Emerging Markets Strategy. To obtain a GIPS Composite Report, please get in touch.

## Biography

### Rob Brewis | Fund Manager



Rob, who joined Aubrey in 2014, is a Director and co-Fund Manager of the GEMs strategy.

An engineering graduate from the University of Cambridge, Rob began his career in 1988 at Thornton Management in London. Then he spent ten years in Hong Kong as an Asian fund manager with Credit Lyonnais International Asset Management. This company was later bought by Nicholas Applegate and then Colonial First State, where Rob ran the North Asian investment team as well as managing the Asian Special Situations Fund and a number of single country funds investing in India, Pakistan, Indonesia and Thailand.

He then went on to co-found emerging markets investment boutique BDT Invest LLP in London in 2000. Whilst at BDT, Rob co-managed a number of emerging market portfolios as well as the BDT Asian and Oriental Focus Funds.

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