

Investing in

INDIA

A Standalone Opportunity,
Not Just an Emerging Market Play

India: A Unique Investment Opportunity

India is no longer just a component of an Emerging Market (EM) allocation - it is a high-growth economy with distinct structural advantages that warrant a standalone consideration. The following analysis underscores the importance of having a dedicated allocation to India to enhance portfolio diversification, rather than simply grouping it within the broader EM basket.

1

Fastest-growing major economy:

Amongst the world's largest economies, India consistently outpaces others in growth, driven by domestic consumption, a young and educated workforce, and strong policy reforms. With GDP surpassing \$3.9 trillion and a projected growth rate of over 6.5% for the next decade, India is poised to become the third-largest economy in the world by 2028 .

(Source: IMF WEO)



2

Strong domestic fundamentals:

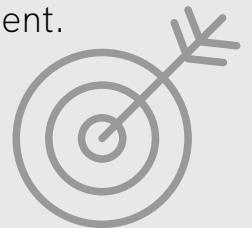
Unlike many EMs dependent on commodity cycles or external trade, India's economy is powered by a robust internal market, contributing nearly 60% to its GDP.



3

Political stability & reform-driven growth:

Pro-business reforms like GST implementation, Production-Linked Incentives (PLIs), and ease-of-doing-business initiatives have created a favourable investment environment.



A comparative analysis



*As of Feb 28, 2025

Why Invest in an India Public Equity Fund instead of an EM Fund?

1

Higher and More Consistent Returns:

India-focused funds have historically provided superior returns with lower volatility than broad EM funds.

MSCI India has shown remarkable performance across different time frames. As illustrated in our **Spotlight Edition “The Indian Advantage” (p.10 and p.11)**, MSCI India has delivered an annualised USD return of ~15% and ~9% over the 5 years and 10 years ending September 2024, respectively, significantly surpassing MSCI EM and MSCI China Index. India has navigated economic challenges more effectively than China, which suffered from a real estate downturn.

2

Better Sectoral Exposure:

Unlike broader EM funds that are often overweight on commodities and state-owned enterprises (SOEs), India's equity market offers direct access to high-growth sectors such as technology, financial services, consumer goods, oil and gas, telecom, and healthcare. Only 14% of India's top 100 companies' market capitalization comes from SOEs (vs. 57% in China), fostering a competitive environment driven by private enterprises.

Besides, most of the EM Funds try to capture India's growth potential primarily through investment in large cap segment with very limited exposure to mid/ small cap stocks which leads them to miss out on various pockets of alpha generation.

3

Decoupling from China and Other EM Risks:

Most EM equity funds have significant exposure to China (~30-40%), which has faced regulatory challenges, slowing growth, and geopolitical risks. India, on the other hand, has emerged as a self-sustaining growth story, benefiting from supply chain diversification and strong domestic demand.

As illustrated in our **Spotlight Edition “The Indian Advantage” (p.5)**, India and China present two contrasting perspectives, where in the case of India, earnings have largely increased in line with economic growth and the markets have rewarded this performance. In contrast, China's rapid economic expansion has not translated into comparable earnings growth. As a result, market returns have significantly lagged nominal GDP growth, highlighting a disconnect between China's broader economy and corporate profitability.

4

Stronger Market Liquidity and Depth:

India's stock market has a capitalization of close to \$5 trillion, making it the 5th largest globally. The daily traded volume on Indian stock exchanges (BSE and NSE) consistently ranks among the highest in Emerging Markets, ensuring efficient price discovery and lower impact costs for investors.



5

Higher Institutional Participation and Governance:

Over the years, Indian equity markets have demonstrated increased resilience as supported by a significant increase in domestic institutional investor (DII) participation which has helped to offset any volatility and market corrections triggered by foreign portfolio investor (FPI) selling on occasions. Our **Spotlight Edition “The Indian Advantage” (p.16 and p.22)** shows the steadily rising participation of DIIs within overall institutional flows. Corporate governance standards have improved significantly, with the adoption of global best practices in financial reporting and transparency.

6

Rupee Stability vs. Other EM Currencies:

The Indian Rupee has been relatively more stable compared to other EM currencies, reducing currency related risks for foreign investors. While many EM currencies have faced sharp devaluations, India’s foreign exchange reserves remain strong at \$620+ billion, acting as a buffer against volatility.



7

Impressive compounding hit rate vs. other major markets:

Over the past decade, 15% of Indian stocks have delivered an annualised return of greater than 20%, far surpassing China, Europe, Japan, and Korea, where only 2-3% of stocks have delivered same milestone. Even US and Taiwan lag behind significantly. (Spotlight Edition “The Indian Advantage” p.13 and p.14)

India also stands out with the highest long-term average ROE of 16.9% vs. 13% for MSCI EM and 11.7% for MSCI China. This not only highlights the robust and broad-based performance of India’s capital market but also shows a significant potential for capital appreciation.



How to Capitalize on India's Growth?

For investors looking to harness India's long-term growth, standalone investments through India-dedicated funds offer superior exposure compared to a broad EM allocation. The correlation between MSCI India and the broader MSCI EM Index has significantly declined over the years, making India an attractive standalone diversification opportunity (**Spotlight Edition "The Indian Advantage" p.12**)

A focused India strategy will ensure targeted participation in the country's success story, unlocking opportunities in high-growth sectors across market cap segments that often get diluted in a generalized EM fund.

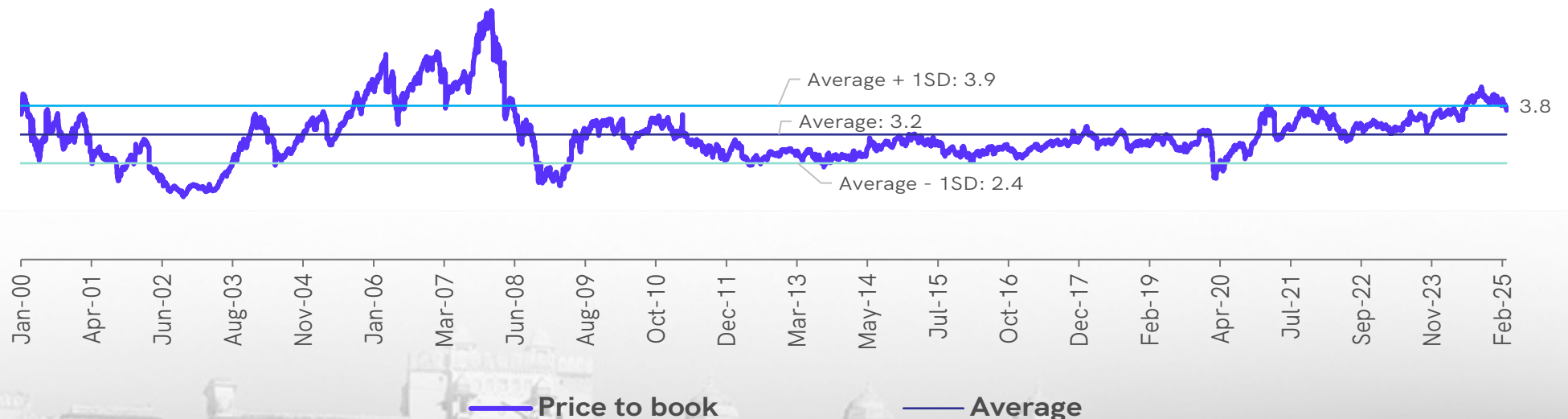


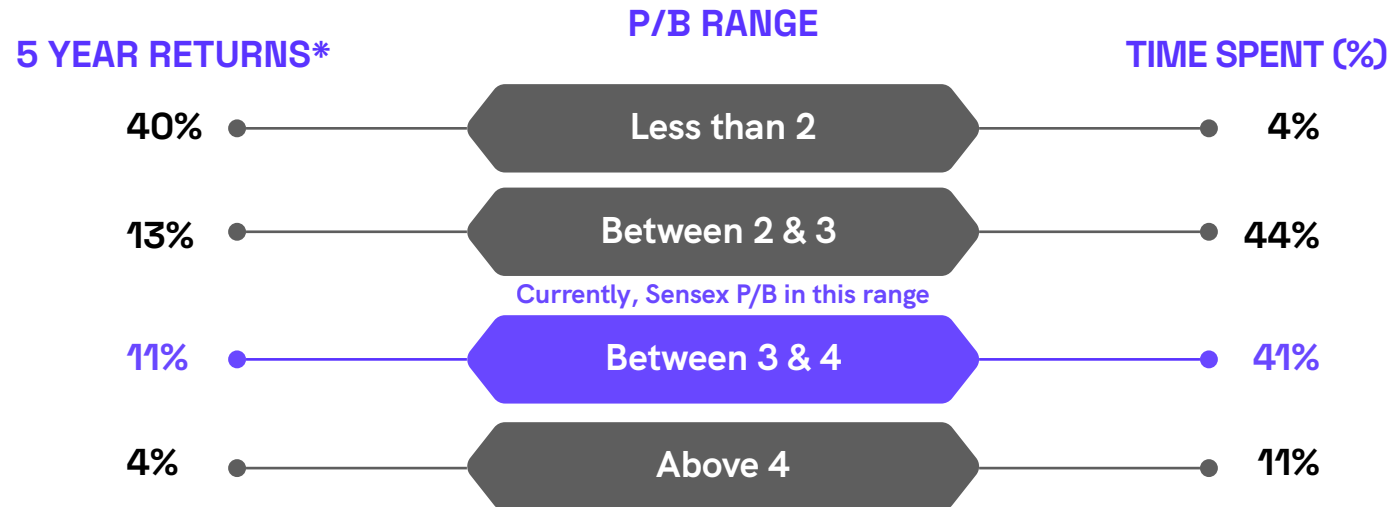
Is it the right time to invest in India?

At times, premium valuations in India compared to other EM markets have concerned foreign investors. India equities have traded at P/B ratio of 3.2x to 3.4x on a long-term average, vs. 1.8x to 2.2x for several other standalone emerging markets and MSCI EM in aggregate. (Spotlight Edition "The Indian Advantage" p.24, p.25 and p.26).

But, it should be noted that India has always commanded higher valuations in the past as well, primarily owing to its structural long-term growth profile. At the same time, the markets have consistently delivered strong returns on equity, thereby justifying these premium valuations reflecting the country's growth potential and strong fundamentals. Almost 85% of the times in the last 25 years, Sensex has traded between 2x to 4x P/B, with an average of 3.2x. Hence, this is not an unusual situation for India and timing the market will be inconsequential as long as the valuations remain within this range. Also, within this valuation range, the market returns have been in the range of 11-13% in INR terms at the index level (with manager alpha over and above).

Sensex Price to Book Ratio





Source: Bloomberg, BSE India. *Median 5-year CAGR. Data from Jan 2, 2000 to Feb 28, 2025
Past performance may or may not be sustained in future.

Only 11% of the times, the market has traded above 4x, which was the case last year around September 2024 when the valuations peaked to 4.25x. We have been highlighting the same in our monthly newsletters since the last 6-8 months saying that *“Equity valuations remain elevated, particularly within the small and mid-cap segments. These valuations have been upheld by strong earnings growth and robust economic momentum. In the short term, there could be some downside due to premium valuations; however, the outlook remains positive from a long-term perspective.”*

But with all the market correction that has happened since then, the valuations are slowing coming back to their normal range (Sensex P/B 3.8x on a trailing basis and 2.9x on a one-year forward basis). Hence, from a valuation standpoint, we believe it is an opportune time for investors to start allocating to the standalone Indian market with a 3 to 5 year time horizon.



Insights on India



Spotlight: The Indian Advantage

This report compares Indian equity markets with other key global markets, examining parameters such as economic growth trajectory, market capitalisation trends, risk-adjusted performance, sectoral composition, and market return correlations. The report also explores how economic growth influences market performance and identifies the key factors differentiating India's market performance from China's.

[Click here to read full report](#)

Insights on India



Outlook: Navigating the Rural-Urban Divide

The report provides a detailed analysis of the contrasting rural and urban consumption patterns, examines the drivers behind these trends, and shares our perspective on how rural-urban dynamics might evolve.

[Click here to read full report](#)

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