

# MARKET COMMENTARY

## India

5 July 2019



Avinash Vazirani, Fund Manager, Emerging Markets

Avinash joined Jupiter in 2007 and is currently a fund manager in the Emerging Markets team. He manages the Jupiter India Select fund (SICAV).

Before joining Jupiter, Avinash was CIO (South Asia and Africa) of BNP Paribas Asset Management. He later founded Peninsular Capital Partners LLP in 2005, where he was managing partner. He was also the CEO of GEM Dolphin Investment Managers from 1994 until its sale in 1997.

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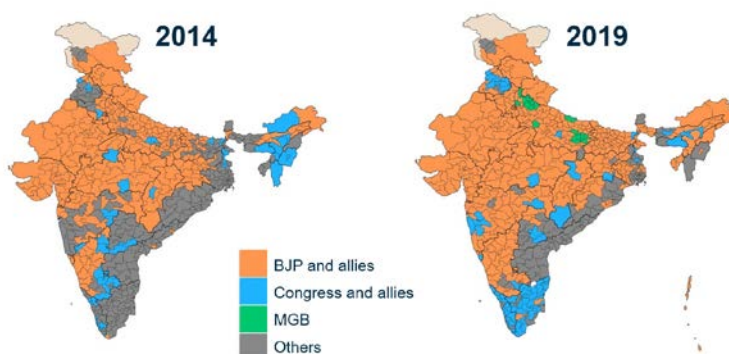
### About Jupiter

The listed British investment manager with boutique-like investment approach, located in London and founded in 1985, employs more than 400 employees worldwide (thereof about 35 fund managers). Today Jupiter is one of the UK's most respected asset management groups.

„The Jupiter Global Fund SICAV“ (a Luxembourg based UCITS structure) provides clients outside the UK access to the diverse investment capabilities through its 29 sub funds which are registered for distribution in several European countries. Jupiter's total AUMs are GBP 42.7 bn as of 31 December 2018.

## Modi's re-election: More ambitious reforms to come

The results of India's 2019 general election were announced on 23 May with Narendra Modi securing an additional five-year term. In our view, this was a significantly positive outcome for India, not only because of the continuity in governance, but also because of the additional "game-changing" reforms we can expect to be delivered over the next five years.



### Ongoing reforms – still reaping the benefits

Over the past five years, Modi's government has successfully initiated several game-changing structural reforms. Some of these have caused significant short-term disruption, such as "demonetisation", when 86% of cash by value was taken out of the system. However, we believe their positive impact is yet to be fully felt and that India will continue to reap the benefits for many years to come.

We believe Modi's administration introduced four key game-changing reforms during its previous term. These are Financial inclusion, Goods & Services Tax (GST), Insolvency & Bankruptcy code (IBC) and Direct Benefit Transfers system (DBT).

### Future ambitious reforms

We expect to see additional, potentially more ambitious reforms from the BJP over the next five years. Top of the list is the **National Health Protection Scheme** – commonly dubbed "**Modicare**". It is likely to take several years for the government to fully implement Modicare, and the estimated costs are huge, at around US\$1.7bn a year.<sup>1</sup> However, it should vastly improve income levels and quality of life for the lowest-income families, and from an investor's perspective, we believe it should also create a wealth of investment opportunities.

Other potential reforms include those related to speeding up the legal process and delivering a more uniform standard of justice, as well as land and labour market reforms which are important from an economic growth standpoint. We believe changes in these areas would allow India to become a manufacturing hub, which could present great growth opportunities. While the Indian population is skilled and readily available at an attractive price, many companies struggle to navigate the complex regulations.

<sup>1</sup> Source: <https://in.reuters.com/article/india-health/indias-modicare-to-cost-about-1-7-billion-a-year-sources-idINKBN1FM0FA>



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## **Where do the investment opportunities lie?**

Ambitious future reforms, along with continued infrastructure spending, require a significant amount of money. Given that Modi's government has been financially prudent and has stated its intention to remain so, we think that it could fund some of these reforms by selling off government-owned assets. Public sector companies could therefore stand to benefit from Modi's re-election, and in particular public sector banks, where there is already talk of consolidation and sell-offs.

We hold several public sector banks including State Bank of India, Canara Bank and Oriental Bank of Commerce. These banks have been beneficiaries of the government's drive towards financial inclusion, and they have also made considerable progress towards cleaning up legacy bad assets. While public sector banks on aggregate have been losing market share, we think that select public sector banks with higher quality management teams will be able to hold their own against the private banks.

We also think that the ongoing and future reforms will lead to an expanding middle class, and that companies related to consumption will benefit from this. One example of a potential beneficiary from the portfolio is India's largest airline InterGlobe Aviation. This company runs by number of passengers, and recently reported an almost 50% market share in the domestic market.<sup>2</sup> While the company has had some short-term tailwinds this year as a competitor was forced to exit the market, we think it stands to benefit in the long term as an increasing proportion of the population can afford to travel by plane.

## **Outlook for India**

We believe that Modi's government will continue to focus on good governance and will double down on reforms from here. It is evident that there is little opposition to the BJP at a state or central government level, which we think means that Modi will be able to fulfil a lot of the unfulfilled expectations from his previous term.

We do think that there could be some short-term disruption; last quarter GDP growth came down to 5.8%<sup>3</sup>, and several sectors, including autos, have seen a slowdown in growth from a high base. Rural incomes have been stagnant for several years, thanks to below-average monsoon rains and lower commodity prices.

However, we continue to believe that India has strong growth prospects over the long term. The country reported GDP growth of 6.8% in the financial year ended 31 March 2019, and we expect it to remain around the 7% level. India's score in the World Bank's Ease of Doing Business rankings has also improved dramatically, from 130th in 2017 to 77th in 2019<sup>4</sup>, which should continue to attract more business to the country. In the past few years we have seen several significant structural changes, and we believe the benefits of these changes have not yet been fully absorbed.

## **Important information**

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Holding examples are for illustrative purposes only and are not a recommendation to buy or sell.

Every effort is made to ensure the accuracy of any information provided but no assurances or warranties are given.

<sup>2</sup> Source: [https://www.business-standard.com/article/companies/indigo-s-market-share-touches-50-on-jet-closure-737-max-grounding-119052300014\\_1.html](https://www.business-standard.com/article/companies/indigo-s-market-share-touches-50-on-jet-closure-737-max-grounding-119052300014_1.html)

<sup>3</sup> Source: <https://in.reuters.com/article/india-economy-gdp-idINKCN1T11I3>

<sup>4</sup> Source: <http://www.doingbusiness.org/en/rankings>



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