



India: What Makes it Unique?

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The latest GDP figures of 7.3% year-over-year in India indicate growth is outpacing that of China, and affirms its spot as one of the world's fastest-growing economies. With its vast population and the rapid changes taking place, some liken today's India to China 20 years ago. We think this comparison is too shallow and does not tell the entire story. India's evolution has been very different from the rest of the developing world. Here are five aspects unique to the Indian economy.

Highly diversified equity market—India offers a diverse equity market with over 5,500 listed companies and access to the domestic growth story. Businesses in India represent more long-term secular trends than cyclical growth trends, as the services and consumer sectors account for a majority of the S&P Bombay Stock Exchange 100 Index.

India benefits from lower global commodity prices—As a net oil importer, India benefits from weak commodity prices that have helped to improve the country's current account position and keep inflation in check. The structure of the economy suggests India is also well-positioned to weather a global slowdown as growth relies largely on domestic demand, unlike the majority of export-driven emerging economies.

Corporate earnings less exposed to global cycle—As the majority of listed companies are oriented toward domestic activity the earnings of Indian companies tend to be less exposed to the global macroeconomic cycle. Even still, our focus is on finding quality companies that are impervious to the economic cycle and policy moves and that can better navigate headwinds in what is often a challenging domestic macroeconomic environment.

Strong entrepreneurial spirit—Though those doing business in India can still encounter hurdles, successful companies can adapt in response to the red tape and complex environment. While some leaders use their political connections to build businesses, those companies that are resilient and can build long-term wealth without making such compromises can often develop into world class management teams. We believe this helps to create companies that are innovative and of high quality. As a result, the top 20 stocks by market capitalization today are very different to the top 20 companies from a decade ago.

Positive demographics—Half of India's population of 1.2 billion is under the age of 25. This is in contrast to China, where the effects of the previous one-child policy are leading to a steady decline in the working-age population. By some estimates, by 2020, India is expected to become the youngest country in the world, given steady rates of population growth. As the working age of the population increases, this should also support growth in incomes and domestic demand.

India certainly has its own challenges to overcome, including excessive regulation, lack of progress in structural reform and corporate governance issues unique to the country. Macro fundamentals have also not been supportive as India has struggled with high inflation and twin deficits leading to a steady depreciation of its currency. These hurdles have precipitated continued volatility in the equity market. Given the complexity involved in navigating India's macro and micro environments, we believe our bottom-up approach to active management is more likely to yield positive returns than a macro or policy-based approach.

Despite its issues, India has a healthy corporate sector with many well-run, entrepreneurial companies. Although more needs to be done on the reform front in order to sustain its growth path, India remains a secular and buoyant growth story. It is one of the few faster-growing economies that investors can access via a well-established and diverse equity market. We also believe that there are enough compelling companies run by transparent and motivated management teams that are better-placed to deliver solid growth in spite of political or macro setbacks.

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