



India's Evolving Equity Market

Dynamics & Opportunities

Amid geopolitical tensions and economic uncertainties that have reduced international investment in China, India has become a significant force in emerging markets.

Top-Performing Market Among Major EMs

India's equities have displayed exceptional resilience, achieving a market capitalisation ranking third after China and Taiwan within the emerging markets. Since January 2021, while Chinese equities have dropped by 43%, Indian equities have increased by an impressive 74%, positioning it as the best-performing market among the six largest emerging markets.¹ This growth is driven by robust economic expansion, demographic strengths, and an increasing integration of the local investor base, which has raised concerns among international investors deterred by high valuations. This performance has continued in 2024 with MSCI India up 23% in USD to end August markets,² despite earnings being revised only 2% higher.³

Local Support Amid Foreign Investor Caution

The share of foreign institutional investors (FIIs) in the Indian markets has fallen to about 15% of the total market cap, approximately \$656 billion, marking one of the lowest levels of foreign holdings in the past decade.⁴ Despite this, the Indian stock market has reached all-time highs, supported by strong domestic institutional and retail investor participation, which now represents 27% ownership in listed equities.⁵ This local support has pushed valuations higher, driven by optimistic growth expectations, limited investment alternatives, and a market composition dominated by a few large-cap stocks. For context, domestic savings plans known as SIPs now contribute \$2.5bn per month to the market, compared to \$25bn of foreign inflows for the whole of 2023.⁶

Fiera Capital's Strategic Approach

Our bottom-up strategy in emerging markets has enabled successful capitalisation on opportunities within India, particularly outside the major bluechip names. Our focus is on identifying fundamental industry leaders across various sectors that benefit from growing economic activity and possess superior business models, solid financials, and strong management teams aligned with the interests of minority shareholders, all at attractive valuations. The 146 members of MSCI India may represent 68% of Indian market capitalisation, but just 6% of total companies listed on the National Stock Exchange⁷. There is a deep pool of liquid companies not included in indices nor particularly well covered even by local brokers. This approach has led to consistent outperformance of the local Indian equity market since the onset of Covid. While mid-caps have dominated performance and moved as a group to a near 100% valuation premium versus large-caps, this is still the area where we have found our most successful holdings, exploiting a lack of coverage in bringing these names to a wider audience.

Showcasing Effective Stock Picks

Two notable investments underscore the potential for finding attractive

opportunities in India's growth sectors in renewable energy and logistics. For instance, we were cornerstone investors in the IPO of a non-bank financial company focused on green financing. This company provides project financing to renewable energy ventures and secures wholesale funding from markets and multinational institutions, with government projects representing 92% of its loan book. With a high visibility growth pipeline and extremely low default rates given the typical customer, it has seen rising returns and enjoyed a substantial re-rating from our entry point. Another successful investment is in a leading logistics and supply chain company that handles and stores oil, gas, and chemicals. Benefiting from global supply chain adjustments and sustained domestic manufacturing demand, this stock has risen by 125%, supported by solid profit margins, a low-risk business model and a significant cash reserve for portfolio expansion. The portfolio today maintains exposure to these themes, alongside the financialisation of local savings and rising capital market activity.

Going Against the Tide

Overall, our strategy has continued to outperform the local Indian equity market significantly since COVID-19, with most of our gains coming from mid-cap selections not typically covered by benchmark indices and that have



not yet been appreciated by the market. Our approach to India underscores to tenets of our philosophy. First, that we do not want to own great companies at the wrong valuation, and second, that no matter how strong the top-down arguments for an allocation, we need to ensure the bottom-up stock ideas make sense from a fundamental and valuation perspective. We recognise the growth potential embedded in Indian valuations today, but a glance at our allocations across emerging markets suggests that at a broad country level, we can find similar or higher levels of earnings growth, usually with a greater degree of valuation safety. There is much to admire in the Indian investment story but with historically high valuations and room for earnings risk among the larger names, we continue to be highly selective.



Dominic Bokor-Ingram
Senior Portfolio Manager

ENDNOTES

1. Bloomberg using USD returns of the MSCI China and MSCI India Indices from 01/01/2021 to 30/08/2024.
2. Bloomberg using USD returns of the MSCI India Index from 01/01/2024 to 30/08/2024.
3. Bloomberg Consensus estimates as on 30/01/2024.
4. <https://www.indmoney.com/articles/importance-of-foreign-institutional-investors>
5. <https://www.livemint.com/market/stock-market-news/retail-investors-key-force-behind-markets-stellar-performance-report-sensex-nifty-mutual-fund-demat-accounts-11720420623167.html>
6. <https://www.livemint.com/market/stock-market-news/retail-investors-key-force-behind-markets-stellar-performance-report-sensex-nifty-mutual-fund-demat-accounts-11720420623167.html>
7. MSCI as of 30/08/2024 and <https://www.nseindia.com/>

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