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India-focused investment funds rally on economic stimulus plan

Four London-listed investment trusts could benefit from India's tax changes

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Indian Prime Minister Narenda Modi has slashed corporate tax rates in a bid to boost the faltering economy in a move triggering euphoria in the Indian equity markets.

INDIA-FOCUSED INVESTMENT TRUSTS RALLY ON TAX NEWS

Investment Trust	Share price change*
Aberdeen New India	10.1%
JPMorgan Indian	8.9%
India Capital Growth	8.6%
Ashoka India Equity	5.3%

*20 Sep to 24 Sep 2019. Source: Shares, SharePad

Shares in the UK stock market's quartet of India-focused investment trusts all joined in the rally, being **Aberdeen New India (ANII)**, **Ashoka India Equity (AIE), India Capital Growth Fund (IGC)** and **JPMorgan Indian (JII)**.

Modi's $20bn tax cut package, estimated at 0.8% of GDP, risks increasing the budget deficit. But by reducing India's effective corporate tax rates from 35% to 25% it provides a major boost to the domestic manufacturing sector and the 'Make in India' vision.

Taxes on new manufacturing investment were slashed to 17%, making India more competitive versus tax rates in Vietnam, Indonesia and Bangladesh.

Against a backdrop of rising US-China trade tensions, which are reconfiguring global supply chains, India's corporate tax cuts are expected to help encourage jobs-generating foreign direct investment.

Ramesh Mantri of White Oak Capital Management, the investment adviser to Ashoka, says this reform will reduce the cost of doing business in India and make India globally competitive to attract new investments and new businesses.

He adds: 'A boost to corporate earnings and earnings growth is just the first order impact. The second order effects could be lower consumer prices, aiding demand revival along with spurring private investments.

'While there could be fiscal deficit concerns, the resultant growth spurt and better tax compliance due to lower taxes are major mitigants.'

David Cornell, fund adviser to India Capital Growth, believes the biggest immediate beneficiaries will be consumer discretionary and banking. He comments: 'Any new investment in manufacturing will enjoy a rate cut from 25% to 15%, making India's tax rates globally competitive at a time when investment into China is under threat.'

Rob Brewis, an investment manager at Aubrey Capital Management, argues the corporate tax cut ‘throws up very few losers and plenty of winners’.

He adds: ‘The economic impact will hopefully be felt mostly in corporate investment, especially in manufacturing and infrastructure, which will in turn lead to much needed job and income growth.’