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India Capital Growth: India and US 'need each other more than ever'

Recent technology deals between the two countries are a turning point in relations, driven by the increasing threat of India's bellicose neighbour, says top-performing fund manager Gaurav Narain.

BY **JAMIE COLVIN**

The recent technology deals announced between India and the US prove that relations have moved to the next level as, historically, the US has backed Pakistan and Russia has backed India, said Gaurav Narain, manager of **India Capital Growth** (IGC).

Two weeks ago, US president Joe Biden and Indian prime minister Narendra Modi announced Nasdaq-listed chipmaker **Micron** would set up a $2.75bn facility in India and provide an $800m investment. They also announced that India will co-produce fighter jet engines with **General Electric**.

The deals mark a repositioning of India's alliances in the face of the rising threat of China, with which it shares a 3,500km border, where skirmishes broke out in 2021, leading to strains in the previously good relations between Modi and China's president Xi Jinping.

There has already been evidence of the US onshoring semiconductor manufacturing as it shortens and derisks its supply chains, such as last year's Chips Act which provided $2bn to the domestic suppliers.

These latest technology deals with the world's most populated country marks a larger change, especially since India has historic ties with Russia that Modi does not want to damage, Narain said.

'These are very strategic tech-related moves, showing that India and US relations have moved to the next level. I think it's a lot to do with geopolitics; both countries have realised that they need each other more than ever, with India and the US both coming from a China perspective,' Narain (pictured) told Citywire.

The deals will act as a boost to the domestically focused economy, whose share of manufacturing global trade is around 2%, compared to China's 20%, despite having the biggest population in the world.

There is overlap between technology and financials in the top-performing portfolio as Modi's 'Digital Stack' measures have hugely improved the country's e-commerce infrastructure with a much higher proportion of the population opening a bank account.

The £139m small and mid-cap focused trust, whose investment manager Ocean Dial was recently bought by **AssetCo** (ASTO), has a 23.8% weighting to the financials sector, 18% in consumer discretionary and 9.1% in consumer staples, which is a play on the country's growth, Narain said.

'India's having a big growth phase, especially on the infrastructure side, and I'm playing a lot of that through banks, rather than buying developers. I don't want to end up with an Adani,' he said referring to the debt-laden ports to power plant group subject to a high profile shorting attack this year.

'A lot of that infrastructure capex I'm playing through banks and the second-largest exposure will be the consumer, which is the other growth story in India,' added Narain, who took part in a Citywire virtual event in March.

Banks have been among the portfolio's top performers over the last 12 months, driving shareholder returns of 50%, more than double the India BSE Midcap's 23.6%, according to Numis data.

The trust's largest positions, **IDFC Bank**, **Federal Bank** and **Indusind Bank**, which have respective weightings of 6.8%. 6.1% and 5.2% in the portfolio, have robust balance sheets after a challenging period between 2015-2019, with non-performing assets at all-time lows, Narain said.

India is better shielded against a global slowdown than other emerging markets, which is reflected in its higher stock market valuation, with share prices trading about 18 times above their historic average, whereas most countries are trading at a discount, he added.

The trust has a second redemption facility for the end of this calendar year, giving shareholders the option to sell some or all of their holdings at no more than a 3% discount to asset value.

At the first redemption opportunity at the end of 2021, investors sold back 13.9% of the trust's shares at an exit discount of 6%.

Currently trading at a 3.8% discount, narrower than the sector average of 13.6%, the trust is the top-performer in its four-strong sector. Over three years it has delivered a 171% total return that beats the BSE Midcap index's 104.5%, although over 10 years its impressive looking 304% advance underperforms the benchmark's 373%, according to data from Numis Securities.