Why India stands out amid global turmoil

As China grapples with how to deal with the various issues and challenges it faces at shoring up both its markets and confidence at home and abroad, India finds itself in a position to benefit, says Karun Marwah of Motilal Oswal Financial Services.

India and China have traditionally been front-and-centre in terms of attracting foreign direct investment.

But as China's appeal has been fading recently amid concerns about sluggish economic growth and sustained market turmoil, now might be the time when more money is diverted to India.

Its appeal is based on several factors: a large internal consumer base; a business-friendly government intent on bringing about economic reforms; and the fast growth potential of a country trying to catch up with its more developed neighbours. "India is among the few avenues amongst large economies globally with serious medium to long-term potential for investors," says Karun Marwah, the head of international business at Motilal Oswal Financial Services.

Indeed Brazil and Russia, which comprise the other two BRIC economies, are also besieged by problems. For example, Russia faces a long-term decline, while Brazil is headed for its worst recession since 1901.

Marwah's optimism also comes from other sources. Unlike for many other developing countries, India is generally benefiting from the decline in the prices of natural resources. The sharp drop in crude oil prices, for instance, has helped the country to be able to curb its import bills and, in turn, bring fiscal deficit under greater control as part of the strengthening of its economic fundamentals.

"Many things are working for India, such as strong leadership, falling oil prices and low inflation," he explains.

As a result, he believes that some parts of the USD15 trillion or so rebalancing of global wealth created by the drop in commodity prices, will find its way into benefitting the country.

KARUN MARWAH
Motilal Oswal

At the same time, the potential for pay-offs is much higher in India than in China. "People made their money in China when they made their investment bets in the late 1990s," says Marwah. "India is on the cusp of a similar change that China witnessed close to two decades ago. This presents an opportunity to reap the benefits from investing in India, similar to what people investing in China in the 90s reaped."

A MORE TARGETED APPROACH

In tapping the Indian opportunity, global emerging funds (GEMs) have historically provided the lion's share of investments into the country.

Increasingly, however, investors are adopting a more selective approach as they realise that emerging markets can no longer be grouped together as a single bloc.

"I do not think one gets the best bang for their buck by investing into an Indian sleeve of a larger GEM fund, as this neutralises what might be negative returns from say other economies such as Brazil or Russia, which are commodity dependent," says Marwah.

Pouring investments into a broad-based or passive exposure is not the most prudent strategy either.

"Foreign investors are best served by letting go of the safe approach of hugging the index," says Marwah. "India is an alpha market, and one must instead invest into buying the earnings growth potential of a few good quality companies, rather than trying to play a broad macro theme. The asset and risk allocation has already taken place at the investors end once they have decided to allocate to an EM. That capital now needs to be actively allocated in search of quality growth."

Plus, he adds, using a locally-based manager means they get access via people who are more likely to understand the market dynamics

"We, for example, have investment experience through multiple cycles," he adds. "We understand not just the opportunity but also the management teams. In India, it is so important to get the management right."

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A LONG-RUN STRATEGY

The Motilal Oswal investment philosophy, regardless of asset class, is best known for promoting only one style.

This is based on an investment approach designed by the firm's top management in line with what they see as key take-aways from market movements over a five-year span.

The style has been termed QGLP – standing for 'quality, growth, longevity and price'.

It also entails targeting only equities. "QGLP involves high concentration of 15 to 20 stock portfolio, benchmark agnostic, very low churn, focused on absolute returns," says Marwah.

"We don't deploy shorting as one of the means to deliver the absolute return. We are long only. That's our style," he explains.

This narrow focus has earned the firm the reputation of something of a specialist in equities, and it now wants to position itself in that way globally.

As part of its international focus, it is looking at the markets in the US, Canada, Australia and the Middle East, as well as Singapore and Hong Kong.

Once it has made headway in these regions, it will think of expanding its presence further into Japan and Chile, among other countries.

In Chile, the pension fund is a big draw.

"There are seven pension funds there and they are open to single country allocations and typically co-invest together. Thus, if you get a mandate from one or two of them, you stand a good chance to get allocations from the others as well," adds Marwah.

In the US, it is looking to tap the opportunities in foundations, endowments, funds of funds and the family office space.

"Family offices are going to be a big part of the business in the US. They are a big part of our focus there," explains Marwah.

"At the same time, we would opportunistically look at family offices in Switzerland, besides Hong Kong and Singapore," he adds. ■