

In 2023, India has been a welcome haven for investors, away from turmoil, geopolitical tensions and economic disappointment elsewhere.

The local market is up strongly for 2023 to date, and with the Rupee unusually resilient against the dollar, foreign investors have enjoyed these gains as well. Headline-grabbing real GDP growth – up 7.6% year-on-year in the most recent quarter – has provided further support to investor enthusiasm.

Observers are happy to credit Modi with much of the success, and he enjoys 75% approval ratings in domestic opinion polls. His BJP governments have ironed out a patchwork of state-level tax and regulations into a single national framework. He has also been instrumental in promoting India's "digital stack", a collection of systems that provide free digital identity, data and payments for all Indians, accessed via their fingerprint or iris scan. Finally, heavy government investment in infrastructure is behind a road & rail building campaign and a plethora of new airports. This has been good news both for the economy and, incidentally, your author's falling levels of travel stress when trying to navigate between company meetings.

The crucial question as always is: where to from here? Much of the strong recent GDP figures are still a catch-up to the pre-covid trend: the annualised three-year growth rate is only 3%. However, neutral observers accept 6-7% growth is viable over the medium-term from here. This relies on the relatively somnolent private sector being encouraged to join in as well. Anybody who has visited a residential neighbourhood or Indian industrial park in recent years can attest that a capex boom is desperately needed. Companies in the portfolio will enable this to varying degrees: Reliance Industries is one obvious example, and the financial sector also clearly has an important role to play.

The catch is that the government is already walking a fiscal tightrope, running near 10% combined fiscal deficits and one of the most indebted governments across emerging markets. India is hampered by a low net savings rate, with households putting aside only 5% of GDP a year, insufficient to fund the growth rates India desires and needs.

This means that top-down, we are cautious. There's likely a trade-off where either growth doesn't hit expected levels, or it materialises but is paid for by external financing which creates a currency vulnerable to depreciation. Domestic sentiment doesn't appear to reflect this. One of our analysts returned from a trip to the country last month, commenting that he's "*never been on an investment trip where everybody was so unconditionally positive about the future*".

Furthermore, both when we look top-down or speak to companies, we don't see the fundamentals of an export-oriented manufacturing economy, the kind that drove EM peers China, Taiwan, Korea up the prosperity curve. The causes of this are manifold and date back to Nehru, with a polarisation between micro-enterprises and his heavy 'temples of modern industry', but not much in between. We meet many companies trying to correct this legacy, from biotechnology to electronics manufacturing. While they are admirable and many of their shares have recently been riding a wave of enthusiasm (notably the midcaps), the fundamentals do not yet justify long-term investment.

Accordingly, it is necessary to be selective, but remain observant. India's democracy and business environment, however imperfect, do permit a vibrant entrepreneurial culture. We have recently picked up the newly published book, *Unboxing Bengaluru*. It is a tale of the \$500 billion dollar start-up scene in India today and a vivid reminder that irrespective of the country-

level statistics, there are microcosms that offer tremendous opportunity. Long-standing holdings in the Indian IT outsourcing companies demonstrate the strength of individual talent available, while some of the more recent start up success stories in India offer a taster of what may be to come as many more of these businesses grow and come to public markets. That said, we believe a modest underweight position in India is appropriate at present. Like many, we are excited for India's promise, but we are also cautious about the prohibitively high valuations in some areas of the market.

## **Risk factors and important information**

The views expressed should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

This communication was produced and approved in December 2023 and has not been updated subsequently. It represents views held at the time of writing and may not reflect current thinking.

### **Potential for profit and loss**

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

This communication contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research, but is classified as advertising under Art 68 of the Financial Services Act ('FinSA') and Baillie Gifford and its staff may have dealt in the investments concerned.

All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

The images used in this communication are for illustrative purposes only.

### **Important information**

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK.

## **Financial intermediaries**

This communication is suitable for use of financial intermediaries. Financial intermediaries are solely responsible for any further distribution and Baillie Gifford takes no responsibility for the reliance on this document by any other person who did not receive this document directly from Baillie Gifford.

### **Europe**

Baillie Gifford Investment Management (Europe) Limited provides investment management and advisory services to European (excluding UK) clients. It was incorporated in Ireland in May 2018. Baillie Gifford Investment Management (Europe) Limited is authorised by the Central Bank of Ireland as an AIFM under the AIFM Regulations and as a UCITS management company under the UCITS Regulation. Baillie Gifford Investment Management (Europe) Limited is also authorised in accordance with Regulation 7 of the AIFM Regulations, to provide management of portfolios of investments, including Individual Portfolio Management ('IPM') and Non-Core Services. Baillie Gifford Investment Management (Europe) Limited has been appointed as UCITS management company to the following UCITS umbrella company; Baillie Gifford Worldwide Funds plc. Through passporting it has established Baillie Gifford Investment Management (Europe) Limited (Frankfurt Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in Germany. Similarly, it has established Baillie Gifford Investment Management (Europe) Limited (Amsterdam Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in The Netherlands. Baillie Gifford Investment Management (Europe) Limited also has a representative office in Zurich, Switzerland pursuant to Art. 58 of the Federal Act on Financial Institutions (FinIA'). The representative office is authorised by the Swiss Financial Market Supervisory Authority (FINMA). The representative office does not constitute a branch and therefore does not have authority to commit Baillie Gifford Investment Management (Europe) Limited. Baillie Gifford Investment Management (Europe) Limited is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited and Baillie Gifford & Co are authorised and regulated in the UK by the Financial Conduct Authority.

## **Hong Kong**

Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 licence from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford's range of collective investment schemes to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 can be contacted at Suites 2713-2715, Two International Finance Centre, 8 Finance Street, Central, Hong Kong, Telephone +852 3756 5700.

## **South Korea**

Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.

## **Japan**

Mitsubishi UFJ Baillie Gifford Asset Management Limited ('MUBGAM') is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

## **Australia**

Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth) and holds Foreign Australian Financial Services Licence No 528911. This material is provided to you on the basis that you are a 'wholesale client' within the meaning of section 761G of the Corporations Act 2001 (Cth) ('Corporations Act'). Please advise Baillie Gifford Overseas Limited immediately if you are not a wholesale client. In no circumstances may this material be made available to a 'retail client' within the meaning of section 761G of the Corporations Act. This material contains general information only. It does not take into account any person's objectives, financial situation or needs. South Africa.

## **South Africa**

Baillie Gifford Overseas Limited is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

## **North America**

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005 and is registered with the SEC. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in North America. Baillie Gifford Overseas Limited is registered with the SEC in the United States of America. The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. Baillie Gifford Overseas Limited is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. Baillie Gifford International LLC is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. Baillie Gifford Investment Management (Europe) Limited ('BGE') relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

## **Israel**

Baillie Gifford Overseas Limited is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755-1995 (the Advice Law) and does not carry insurance pursuant to the Advice Law. This material is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.

# **Baillie Gifford™**