IS INDIA'S SLOWING GROWTH A REASON FOR CONCERN?

Back in late September 2017 our weekly view titled "Does One Indian Summer Indicate a Good Investment Opportunity?" highlighted the general positive market outlook for investment in India at that time – which we, as an investment committee also agreed with, resulting in the deployment of client monies into a specialist Indian equity fund.

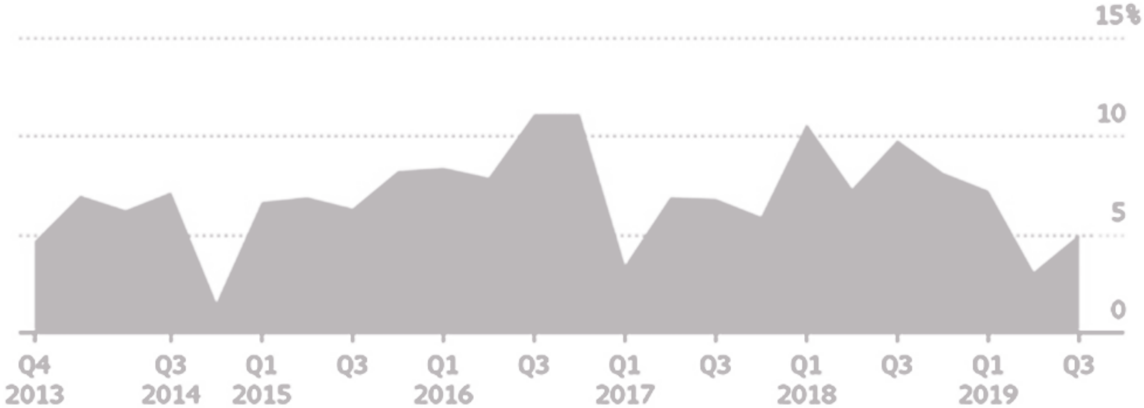
Has our view changed and if so, why?

India's growth story has come under some scrutiny in recent days, following the release of GDP data showing growth of 4.5 per cent in the third quarter. This compares with a brisk 8.1 per cent growth rate as recently as Q1 of 2018, since then we have seen six consecutive quarters of slower expansion, highlighting the depth of the downturn afflicting a nation that was only recently revelling in its status as the world's fastest-growing economy.

The recent deceleration is in no small part due to the ripple effect being felt across India's shadow banking sector, following the collapse of lender Infrastructure Leasing & Financial Services Ltd ('IL&FS') during 2018 – bringing an abrupt end to the easy credit that was supporting an ever-expanding consumer spending trend. We continue to watch this space with a critical eye to ensure that further participants within the informal financing sector don't follow in the footsteps of IL&FS, which would put further pressure on the Indian consumer and economy.

India's GDP from 2013 - 2019

Falling off a cliff: Indians are consuming less. And it's hurting their economy



Source: Ministry of Statistics and Programme Implementation & Bloomberg

During the last quarter, investment grew just 1 per cent year-on-year, down from 4 per cent in the previous quarter and manufacturing output contracted by 1 per cent. On a more positive note, private consumption levels increased by a higher than expected 5 per cent, up from 3.1 per cent in the previous quarter, with the biggest impetus to economic growth being provided by government spending which increased 15.1 per cent.

As a result of the downturn in economic growth, our view is that we can expect further stimulus measures, including interest rate cuts, from a Modi-led BJP government that has already shown intent by cutting the corporate tax rate of 30 per cent to 22 per cent, providing a $20 billion tax bonanza to companies. Only time will tell to what extent these tax cuts are used by companies to boost further investment levels or whether they are used to pay down existing debt levels; either way, however, their impact is overwhelmingly positive.

In conclusion, we still believe that the long-term secular growth story in India remains strong especially with such a pro-growth government in situ and numerous monetary and fiscal levers at their disposal – we'll continue to keep a close eye on future data points being released, to ensure our assessment of the investment opportunity remains intact.

Simon Sharrott

Joint Managing Director (Guernsey) & Portfolio Manager

www.mitonoptimal.com