

# Market insight – India

March 2016

## EMs not all gloom and doom, a bright spot does exist: India

Emerging Markets, usually synonymous with growth opportunities, have been hit by several headwinds – a possible hard landing in China, lower commodity prices and corruption scandals in Brazil, to name but a few. While some investors have had enough and have ended their love affair with EM, we believe that bright spots still exist. Specifically, we have identified India as a potential source of long-term growth.

### A challenging start to the year for EMs

2016 began on a weak note with increased volatility and stress across global markets. Equity markets fell, spreads on high-yield bonds widened and commodities tanked further. Fears of a hard-landing in China heightened concerns of a deeper global economic slowdown, which in turn contributed to the decrease in oil prices. The trade balance of EM oil exporting countries such as Brazil and Russia worsened as consequence.

Meanwhile, diverging monetary policy, the Fed rate increase and the Bank of Japan's move to negative rates, only served to increase confusion and uncertainty surrounding global growth prospects. The Fed's decision translated into further pressure on Emerging Markets assets.

### India: clearly standing out

However, despite current malaise, we believe that India is well positioned to outperform Emerging Markets over the coming years. Low oil prices, a stable government in power, and the presence of long term structural drivers – demographic advantage, low household debt, urbanisation – highlight India's potential for future growth.

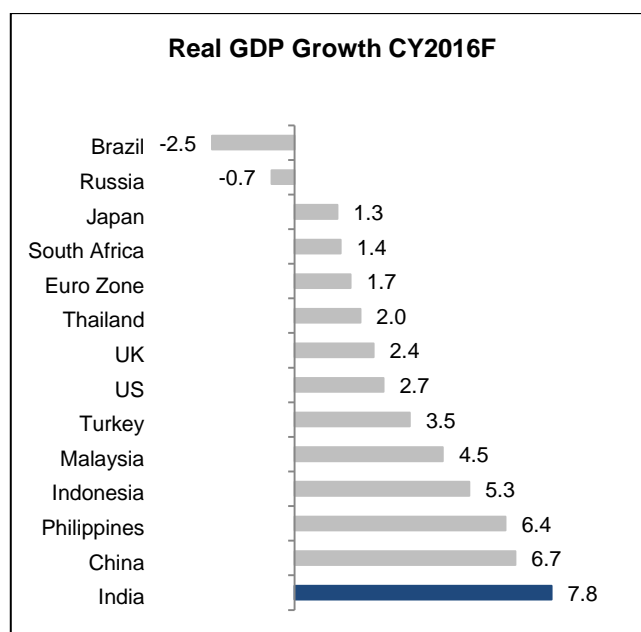
In order to tap into this growth potential, Sankaran Naren, CIO of ICICI Prudential Asset Management and advisor for the Nordea 1 – Indian Equity Fund thinks that India warrants a single country allocation as opposed to an exposure as part of the MSCI Emerging Market Index. He believes **exposure to an EM index deprives investors from realising the true potential of investing in a high growth economy such as India.**

Despite poor performance of Indian equities since the beginning of 2016, which has been largely due to global uncertainties and outflows from foreign investors, we remain

optimistic about the asset class. The current volatility provides an opportunity for investors to systematically build long term portfolios.

### Sound macroeconomic fundamentals...

India remains an attractive investment destination as it is likely to emerge as one of the fastest growing economies in the world according to various International agencies.



Source: World Economic Outlook Report. Date: 31.01.2016

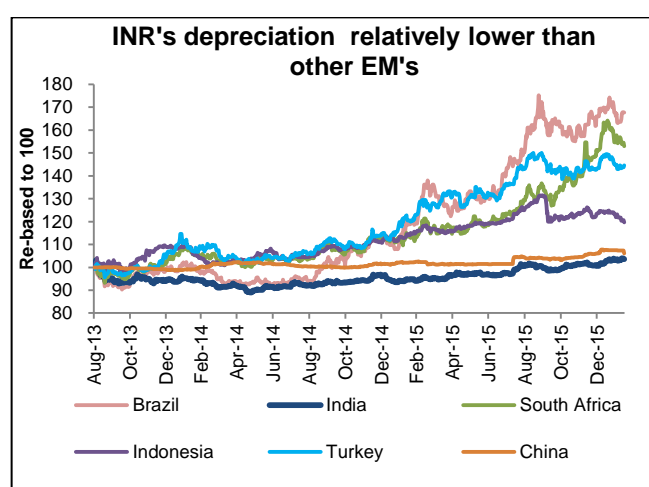
On the domestic front, the fundamentals of the Indian economy are relatively better than most of the other EM economies. India's twin deficits - Current Account Deficit and Fiscal deficit - have shown remarkable improvement over the past few years, mostly because India benefits greatly from low oil prices. Slashing fuel subsidies, coupled with curbs on gold imports and increased indirect tax collections, have helped bring down the twin deficits. With inflation largely under control, India's central bank is likely to stay on an easing course, despite a reversal in the US Fed's monetary stance.

### ...with further room for monetary easing...

With 10-year sovereign yields at 7.8% levels, India has one of the highest interest rates compared to most economies. While the Central Bank has reduced rates by 125bps (from 8% to 6.75%) in 2015, banks have transmitted only 60-65bps to end

consumers. Stable macros and softening inflation, along with benign commodity prices, provide enough room to reduce rates further.

The Indian Rupee (INR) remained firm amid sharp volatility in global currencies since the taper tantrum started in September 2013. In 2015, with depreciation of 4.7% versus USD, the Indian Rupee was among the best performing currencies over the year. Going forward, we expect the rupee to behave relatively well compared to most other EM's. While it could depreciate 3%- 4% p.a. against the USD, this is in line with its long term historic trend.



Source: Bloomberg. Period under consideration: 31.08.2013 - 15.02.2016

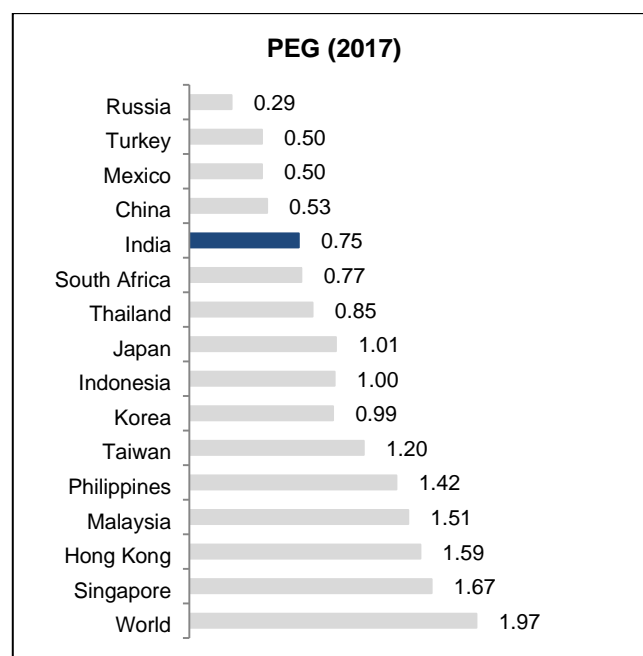
### ... and structural reforms on the horizon

On the reforms front, while major legislative reforms like the Land acquisition Bill and the Goods and Services Tax Bill have not seen progress so far, there are early signs of progress on executive reforms. Notably, foreign direct investment (FDI) caps in major sectors such as railways, defense and insurance have been raised. FDI inflows touched a record high of USD 35 billion in 2015, reflecting the faith by global investors into the Indian economy.

In addition, initiatives like “Make in India” and “Ease of Doing Business” are also seeing traction as India rises in recent global rankings.

**But corporate earnings are yet to pick up.** Stronger macroeconomic fundamentals have yet to translate into a better ‘micro’ outcome, and broad based earnings’ recovery is yet to take shape. Corporate profitability has been affected by two successive years of bad monsoons (hence low rural income and demand), weak global demand, higher interest rates and weak capacity utilization. However, with full transmission of interest rates, better capacity utilization, lower input costs due to

benign commodity prices and a boost from Government on capex, we expect corporate earnings to pick up going forward. With growth at 7.8% levels, India has one of the lowest Price-to-Earnings growth (PEG) ratio.



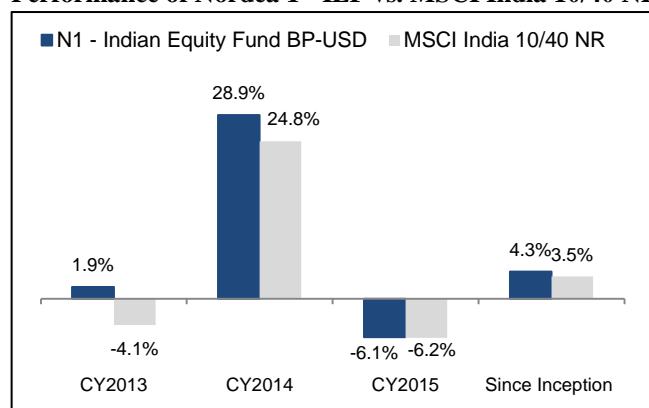
Source: Credit Suisse. Date: 15.02.2016

### A good entry point to tap Indian equity markets with the Nordea 1 – Indian Equity Fund

We believe the Nordea 1 – Indian Equity Fund is well placed to capitalize on India’s potential. The combination of “top-down” and “bottom-up” approaches helps us identify sectors that are best positioned to participate in the growth of the Indian economy, and then to pick stocks with strong fundamentals and attractive valuations.

Since its launch on July 05, 2012, the fund has delivered annualized returns of +4.25%, outperforming its benchmark (MSCI India 10/40 Index) by +0.8% p.a. The fund has also outperformed the benchmark all calendar years since launch.

## Performance of Nordea 1 - IEF vs. MSCI India 10/40 NR



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Performance in USD.

In terms of valuation, the fund is attractively priced in comparison to its benchmark, both on a P/E and P/B basis. The fund is then well positioned to generate higher returns going forward, providing what we believe to be a good entry point for investors.

## Valuation Metrics

	Fund	BM
Price/Earnings	12.87	19.33
Price/Book	1.57	2.65
Dividend Yield	1.65%	1.90%
Average Mkt Cap (USD mn.)	7,928	16,593

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Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration: 01.01.2013 – 29.02.2016. Performance calculated NAV to NAV (net of fees and Luxembourg taxes) gross income reinvested, in the base currency of the respective sub-fund, excluding initial and exit charges as per 29.02.2016. Initial and exit charges could affect the value of the performance. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. The value of shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured.** If the base currency of the respective sub-fund differs from the currency of the country where the investor resides the represented performance might vary due to currency fluctuations.

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