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THE BEST OPPORTUNITIES INDIA HAS TO OFFER

Strong Indian companies are not cheap, but they are worth the price, says Vipul Mehta.

Vipul Mehta's approach to stock selection is straightforward. He likes strong companies that can navigate India's chaotic markets, poor infrastructure and bureaucracy to deliver growing market share, cash flow and profits.

His faith in quality management, products and services is justly rewarded. The Nomura India equity strategy has outperformed the MSCI India index by at least 10% in each of the last four years (including 2017). His top five stocks rose around 42% in rupee terms in the first eight months of 2017, compared with nearer 25% for the MSCI India index. Quality businesses also deliver fewer negative surprises, insulating the portfolio from wider market volatility.

'The good companies keep getting better and better,' says Mehta, Head of Investment, Asia Pacific ex-Japan, at Nomura Asset Management Singapore (NAMS) and strategy leader.

'Housing is a game changer in theory'

'We make no bones that we buy quality and are willing to pay for it. You do not get good and cheap,' he says.

Correspondingly, the Nomura India equity portfolio is comparatively expensive on a price/earnings basis. But Mehta counters that recent quarterly reporting confirms his stocks are stronger earners. Analysts are busy marking down the index over this year and next as GDP growth remains sluggish but Mehta's stocks have been awarded upward revisions.

The financial sector is a stark illustration of how strong companies can pull ahead of weaker rivals. It has long been the longest and the heaviest weighting in the portfolio, at 40%. The state-owned banking sector is weighed down by non-performing loans and their inability to make new loans to business is holding back the economy. Private banks have lent more carefully and continue to gain market share as they plug gaps in supply. Profitability continues to rise.

'Recent measures to clear bad loans are more stringent from a defaulter's point of view. But even if they have to get assets away, the banks need to find buyers for them,' says Mehta.

He is also selectively optimistic about the consumer sector. Growth remains patchy and volatile following the recent demonetisation and introduction of a general sales tax, however, whilst job creation is weak there are few job losses on the horizon.

Industrial activity is even patchier, with few signs of expanding capacity in the private sector. Construction could be a bright spot but politics and regulations are hindering progress.

India's infrastructure spending plans are big. If executed well, the economy will benefit significantly from new transport and power supplies. Land appropriation and clearance is complex and slow; Mehta expects no big impact on spending, consumers or business in the near future.

The government has also announced plans for 50 million new affordable homes to be built by 2022. The government intends to supply land as necessary, with actual construction left to the private sector. Mehta thinks the framework is sound – with caveats.

Vipul Mehta
Head of Investment, Asia Pacific ex-Japan, Nomura

'Housing is a game changer in theory; the numbers are huge. It will have a big multiplier impact on the economy if it works out,' he says.

Again, politics and regulations could slow progress. But if the estimated $400bn in annual spending takes place, there will be significant upside for the steel, cement, paint, fixtures and appliances industries. Developments in Tier 3 and 4 cities are underway. The big impact will come when established developers take up the challenge in larger sizes, predicts Mehta.