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Why every investor wants to know about India

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Indian investments have had a highly dubious record of return.

To prove one's mettle as a savvy and long-term investor involves positioning ahead of changing circumstances and not pivoting every time new, trendy or sudden events unfold.

For Australian Ultra High Net Worth global investors, interesting to observe since the 2013 Taper Tantrum has been the somewhat new — but recurring — trend that when developed markets (DM) rally for any sustained periods emerging markets (EM) become heavily discounted. And as soon as those developed markets, such as the US, falter or stall then EM investment opportunities once again return and become all the rage.

Maybe this goes a long way to explaining why investments in India have again become the hot topic among both institutional and UHNW global investors. I have received more investment queries regarding India than any other thematic this year.

Investing in India remains both an exciting and concerning proposition. As Indian activist Kailash Satyarthi observed, "India may be a land of over a 100 problems, but it is also a place for a billion solutions".

What is agreed by most is that the world's most populous democracy, which currently enjoys growth metrics better than those seen in China, has much potential, especially under the leadership of Narendra Modi.

Where divisions soon arise, especially within UHNW investment communities, which have had mixed experiences on the subcontinent, surrounds questions of value, longevity and, most important, the redemption of capital. The question surrounding redemption — or return — of capital is highly sensitive in this particular investment community, simply because in previous cycles Indian investments have had a highly dubious record of returning funds back to foreign global investors.

This concern alone is a kibosh for many Australian UHNW investors. Then again, for those who have confidence that these hazards can be managed or avoided, the allure of investing in India has once again returned.

Here's four key reasons why:

●When comparing India to other popular EM markets such as China, Mexico, Vietnam or, indeed, Indonesia, India is the most under-allocated, when looking at foreign holdings of equities, bonds and FDI relative to GDP.

● In contrast to China, private sector debts are relatively low.

● India is a large beneficiary from lower oil prices, given its oil deficit.

●Unlike China, where heavy industry and state-owned commerce drives almost everything, India's main engine of activity is personal consumption, something China greatly envies.

Separately, for overseas investors there is the appeal of India's primary bourse; the Nifty 50 attracts some Australian global investors simply because pricing and valuations appear comparative — both currently priced between 23 x P/E and 20 x P/E and with similar total market capitalisations — yet India has a population of 1.3 billion consumers and growing.

According to a 2015 Credit Suisse Global Wealth Report, even though just 0.3 per cent of the Indian population has a net worth over $US100,000, due to India's large population this equates to a staggering 2.4 million people, with 254,000 of them in the global top 1 per cent.

But this is where the comparisons end and the investment premises of China and India significantly bifurcate. Everybody knows that, where India is an intensely bureaucratic democracy, China does not enjoy a separation of autonomy between fiscal and monetary arms of government.

On this, the Modi administration 2017 fiscal year (FY2017) budget released on March 1 matters to global investors who have recently been underwhelmed by India's deteriorating corporate profitability, depreciating currency and concerns that momentum on reform has been slower than expected.

Most notably, this budget provided investors' confidence that the Modi administration is beginning to address longstanding infrastructure concerns, especially those in the power sector. This administration is also importantly raising limits on foreign portfolio and direct investment.

Even though this budget reinforces the trend for domestic lending to gradually shift from state-owned to private sector banks, China's and India's monetary systems facilitate credit and the money-multiplier effects very differently and this has a material impact of listed equities, real estate and other FDI investment opportunities.

China's ability to so easily extend credit through what is known as "total social financing" may not be without its problems, as is being borne out today, but in the context of this discussion it does raise questions about whether India's banking system can stoke similar continued growth that warrants investment market buoyancy and longevity.

Whereas China has this money-supply amplifier, the US had Quantitative Easing, Europe the ECB stimuli and Japan its QQE programs, the Indian economy, like Australia, is still sitting in positive interest rate territory.

Although the Reserve Bank of India is expected to cut rates one more time in April, clearly India, nor Australia, for that matter, can rely on monetary means to drive future investment returns.

There is little question that India continues to intrigue and seduce, but as an investment destination caution has to be heeded. It may be the home of a billion solutions, but the question remains: which ones?

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