1 Billion Reasons To Invest In India

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Within a few decades, India will be the world's second-largest economy.

India's astonishing emergence may have been overshadowed by events in China, but it has proved equally rewarding for investors.

Nobody escaped the credit crunch, and India certainly wasn't immune, but the pace of its recovery has been impressive. Its market has rallied a mighty 112% since March, and although it is still down 23% against its peak on January 2008, that is still a speedy turnaround.

But I'm always cautious about investing anywhere after a sharp rally, so have latecomers left it too late?

First isn't everything

We all know China is expected to be the world's biggest economy by 2040, but fewer realise that India is set to take second place.

I can't imagine a world where the US isn't even the planet's second largest economy, but it seems likely to happen in my lifetime.

India's economy isn't as dependent on manufacturing exports as Far Eastern powers such as China, Japan and Taiwan. Exports form just 18% of its GDP, which means it hasn't been hit anywhere near as hard by recent plunging demand from the West.

The areas it does specialise in, notably call centres and software, have survived the ravages of the recession.

Better still, its manufacturing export industries tend to be in defensive areas such as pharmaceuticals, rather than, say, cars or consumer electronics. And its financial services industry is relatively strong. The banks are still lending.

So plenty of good news there then.

The numbers game

With a population of 1.1 billion, and rising at a faster pace than in one-baby China, India certainly has the numbers on its side, provided it can turn this to its advantage.

The number of middle-class or rich households currently stands at just 14.5m out of 207m, but McKinsey has predicted that by 2025, that will have risen to 158m out of 280m.

That means a massive expansion of the middle class, and if it happens, a huge rise in domestic consumer demand.

Commodity crunch

Unlike Brazil and Russia, India isn't sitting on a deep pool of natural resources. With commodity prices rising, the cost of importing oil, metal and other materials have hampered the economy, sinking its balance of trade.

The country is also horribly overspent and has a huge fiscal deficit, which may limit desperately needed investment in its infrastructure.

It also has social and political problems aplenty, including regional and ethnic tensions, but remains a well-established democracy that has survived the many challenges thrown at it.

In May, victory by India's ruling Congress and a stock markets a massive boost, rising a record-breaking 17% in a day, as the investors celebrated this as a sign of political stability.

Focus on Diwali

Having risen 112% in just over six months, India is no longer cheap. Teera Chanpongsang, manager of Fidelity India Focus Fund, says stocks have hit mid-cycle levels since the recent rally, but there are still attractively-valued companies out there.

Chanpongsang says investors should benefit from the country's strong economic fundamentals and the wider global recovery. "Favourable demographics, less reliance on exports relative to regional peers and strong domestic consumption trends bode well. The country's political environment is stable, and this has increased the likelihood of speedier economic reforms and prudent fiscal policies."

Now might be a good time to pop a little bit of money into the country. Indians celebrate Diwali on Saturday, and in nine out of the last 10 years, the market has performed better in the 30 days after the celebration, according to Fidelity. It has suffered an average fall of -2.26% before, compared to a rise of 6.5% afterwards.

India is a BRIC

You don't have to get a specialist India fund to gain access to the market, but can choose anything with BRIC in its name. Funds such as **Henderson TR Pacific** (LSE: HPI) and **Blue Planet Worldwide Financials** (LSE: BPW) also have major exposure to India.

The best-selling funds investing in India over the past 12 months are Allianz RCM BRIC Stars, Fidelity India Focus, Jupiter India, First State Indian Subcontinent, Neptune India and Schroder ISF BRIC.

As a fan of investment trusts, I have long favoured **JP Morgan Indian** (LSE: JII), which is up 200% over the last five years, and 48% in the past 12 months, yet is still trading at a slight discount. But it is trailing its benchmark MSCI Index, which grew 57% over the last 12 months, and has been trounced by rival unit trusts such as Jupiter India, which grew 87% over the same period, and Neptune India, which grew 83%.

Barring accidents, India has a big future. The only thing that would put me off investing now is that it has done so well lately, and nobody in their right mind can expect a repeat of that performance.

But if you believe in the BRIC story, you surely want a slice of India. Expect turbulence in the short term, but in the longer term, 1.1 billion people can't be ignored.

Source-The Motley fool

http://www.fool.co.uk/news/investing/investing-strategy/2009/10/14/1-billion-reasons-to-invest-in-india.aspx