FSSA Investment Managers

November 2021

For institutional/adviser use only

Monthly Manager Views

FSSA Regional India Strategy

Change is the only constant

We have written about the spate of Initial Public Offerings (IPOs) in India and our reasons for staying away from them, for the most part. This time, we want to talk about why new listings are important to keep the market vibrant and to keep the entrepreneurial spirit in the country alive.

In the last 18 months or so, India has witnessed more than 120 IPOs and follow-on offerings. This may seem like a maniacal pace, and indeed it is. However, this statistic absolutely pales in comparison to the five-year period from March 1992 to March 1997, during which an astounding 4,712 listings occurred – equivalent to nearly three IPOs every single day for five years![1]

For reference, there are around 6,000 companies listed in India today.[2] So, a not insignificant number of companies that we currently invest in owe their existence to the IPO boom in the '90s. For example, in 1992 a dynamic financial institution backed by the Asian Development Bank, called the Industrial Credit and Investment Corporation of India, listed in India. Over the years, this institution has morphed into ICICI Bank, currently the largest holding in our India strategy. Other top holdings which listed during that period are HDFC Bank (March 1995), Infosys (February 1993) and Godrej Industries (April 1993). Therefore, it would not surprise us if a few from the current crop of fresh listings become large investments for us in the future, despite our current misgivings about elevated valuations.

Over the past 20 years, nearly a thousand companies have listed in India and with them several sectors of the economy – hitherto inaccessible to public market participants – have opened up. Examples include sectors such as Insurance, Telecom, Modern Retail, Fast Food, Diagnostics, E-commerce, Food Delivery and several more, which did not exist in the Indian stock market 20 years ago. There are two positive effects of such a trend. Firstly, the stock market is then truly a barometer of the economy, rather than a crude imitation. We have seen, firsthand, that some emerging markets become stale, with a handful of sectors dominating the business landscape and investor returns. Secondly, the entrepreneurial drive to succeed is amplified when one witnesses the new cohort of managers/owners listing their businesses. Indeed, in top business schools and colleges across India, there is a welcome shift in mindset among students wherein entrepreneurship is respected, whereas just a decade ago, only the odd student would dare to step out of the well-established route of getting into a top corporate job.

Another change in the Indian stock market was the government's decision, in 2018, to re-impose long-term capital gains taxes on investors. This might be old news but, as we point out, the effects are only being felt now. For one thing, as prudent operators, while we pay actuals, we do account for the tax on an accrued basis, providing for a sum that would become due were we to sell all our holdings tomorrow. This effectively depresses the Net Asset Value (NAV) of the strategy and as we come up to the 4th anniversary of this rule change, in a strong rising market, it has become noticeable as a substantial drag when one looks at relative numbers.

Plus ça change!

[1] Source: Prime Database. https://www.primedatabase.com/pub_demo.asp

[2] Source: Bloomberg

*Company data retrieved from company annual reports or other such investor reports. Financial metrics and valuations are from FactSet and Bloomberg.
As at 30 November 2021 or otherwise noted.