Results analysis: Ashoka India Equity

AIE has been the best-performing trust in its sector since its IPO in 2018...

Update
20 March 2024

- **Ashoka India Equity (AIE) has released its half-year results for the period ending 31/12/2023. The trust delivered share price and net asset value (NAV) total returns of 16.3% and 15.7% respectively over the period, both in sterling terms. Equivalent returns for the trust's benchmark, the MSCI India IMI Index, were 16.4%.**

- **Despite being flat on the benchmark over the half-year, AIE delivered strong outperformance over 2023 as a whole, with NAV total returns of 24.5%, compared to 18.4% in the benchmark. Since inception in 2018 through to the end of February 2024, the trust delivered annualised NAV total returns of 18.1%, compared to 12.8% for the benchmark.**

- **AIE issued 12.1m new shares in the second half of 2023, raising gross proceeds of £27.6m. Since the period end, the trust has issued another 11.4m shares. Shares are issued at a premium to NAV, meaning there is no dilution for existing shareholders.**

- **The board has stated they are monitoring the closed-ended fund sector for potential consolidation opportunities, assuming they fit with the long-term interest of shareholders. The AIE board noted that the trust's growth since inception means it is in a strong position to act as a consolidator.**

- **Key contributors to performance for the half-year period included Kaynes Technology, an electronics manufacturing company, and Gokaldas Exports, a garment manufacturer.**

- **Chairman Andrew Watkins said: "Both Acorn and White Oak remain focused on delivering outstanding returns from a broadly diversified portfolio of investments from across the market cap spectrum. Your board has great confidence in their abilities to outperform and produce superior returns from one of the world's most dynamic and fastest-growing markets."**

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Kepler View

Ashoka India Equity (AIE) has been the best-performing India specialist trust since its launch in 2018. The trust has the largest in-country research team in the sector. The managers place a heavy emphasis on corporate governance and valuations, with the latter backed by a proprietary cash-flow centric valuation framework.

India's stock market has had a strong few years, with multiple tailwinds for the country. Firstly, it has been relatively more immune to a strengthening dollar than in the past. There has also been a substantial build-up of foreign reserves, and its economy was not subject to the same sort of inflationary shocks that affected the developed countries in 2022.

Secondly, economic growth has also been strong. India's GDP grew by 7.3% last year, making it the fastest-growing major economy in the world. That is partly driven by rising exports, as companies shift away from China not only due to political risks but also for economic reasons – Indian labour force is not only cheaper but also younger and still growing in size.

Meanwhile, poor earnings growth, erratic crackdowns on certain industries, and rising political risks have made many investors reallocate away from China. India's democratic political system, favourable demographics, and growth potential make for an attractive alternative. India's earnings have also outpaced EM peers, growing by 15% on an annualised basis over the last three years.

However, possibly the most compelling reason for investing in India is the opportunity to generate outsized alpha. One of the reasons for the alpha opportunity is that India remains a highly under-researched market and, hence, very inefficient. This makes it a fertile ground for bottom-up stock selectors. While there are strong opportunities across the market capitalisation spectrum, India has a vast, heterogeneous SMID-cap segment which is even less well researched and hence provides strong alpha generation potential.

AIE has a near six-year track record of taking advantage of these opportunities, delivering strong outperformance in the process. Although there have been some arguments that the Indian stock market is overheated, we believe the AIE team has shown great aptitude in sorting the wheat from the chaff. They are valuation-conscious and aim to not buy at higher valuations unless the growth opportunity is there. The team also places a heavy emphasis on corporate governance, which has helped them avoid some poor performers in the last couple of years.

Of course, there are no guarantees that this rosy picture will continue indefinitely. Nonetheless, the wider macroeconomic picture remains positive for India and the country's stock market continues to deliver solid earnings growth. We think AIE remains an attractive vehicle to take advantage of these opportunities.

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