



One-nil to the Arsenal

India’s growth story remains intact.

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While there’s no doubt Arsenal were aided by their close rivals having bad seasons, one could easily argue that the North Londoners’ recent Premier League triumph had been coming.

Ever since he was given the task of turning around their then-waning fortunes in 2019, Mikel Arteta slowly built a title-winning squad. Three consecutive second-placed finishes had brought the moniker of ‘bottlers’, yet they managed to fulfil their potential at the opportune moment. Time will tell if they can become the dominant force they had been during Arsene Wenger’s heyday.

Within the investment world, we’re seemingly currently witnessing the waning of India’s star, yet we believe it won’t be long until the country’s stock market fortunes turn around.

India had for long been one of the darlings of the emerging market universe, with a strong rise in its stock market propelling it to account for c. 21% of the emerging markets index by the middle of 2024.

India’s growth story is predicated on highly favourable demographics, entrepreneurially driven capital allocation, superior corporate profitability, fast digitisation, economic formalisation and manufacturing expansion. In addition, the fact that it is one of the world’s largest democracies helped to give it a clear valuation edge over its developing peers.

What we’ve seen recently is a slowing in India’s growth momentum. Growth in corporate profitability over recent quarters has been between 7% to 10%, while real economic growth is forecasted to be within the 6.5% to 7.5% range.

Consumer price inflation for the ongoing fiscal year is expected to rise to 5.1%, still within the central bank’s target range of 2% to 6%. But it is the Indian rupee, which has fallen c. 9% against sterling over the last one year, that has resulted in negative returns for investors.

Higher oil prices, increased hedging demand from importers and higher outbound investment by Indian firms – to strengthen their supply chain – has weighed on the currency in the near-term. However, this has made India’s exporters more competitive versus other countries and counter tariffs imposed by the US.

At a time when the shiny new artificial intelligence enablers such as chipmakers, be that in the US, Taiwan or Korea have come to the fore with strong revenue growth trends, India has, inevitably, been left behind. India’s weighting in the emerging markets index has almost halved to c. 12% and has been overtaken by China, Taiwan and South Korea.

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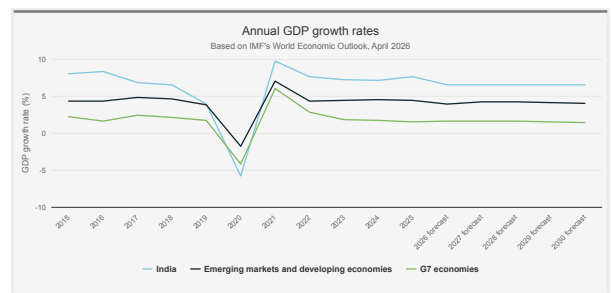
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On the comeback trail

Yet, we see the current pullback in India as being a reset in valuations and nothing else. In fact, we believe India continues to be on the path to realise its true economic potential. The International Monetary Fund is also forecasting India’s GDP growth of 6.5% in each year between 2026 and 2031 – much higher than growth of c. 4% for emerging and developing nations and sub-2% growth from advanced economies.

Fig.1: Forecast Economic Growth



Source: International Monetary Fund

Overall, between full-year 1993 and full-year 2026, nominal GDP growth has compounded at an annual rate of 12.2%. Earnings per share growth from the BSE Sensex index has matched that, at 12.1%.



Between 2005 and 2025, return on equity of Indian firms averaged 16.9%, well above the 12.1% from Asia Pacific ex Japan, the 13.1% from emerging markets and the 12.2% from global equities.

All of this from a now much cheaper valuation base: the forward price-to-earnings ratio of the Sensex has fallen to c. 18.1x, not far off the average since 1993 of 17.7x and lower than the average since 2014 of 20.7x.

In addition, those well-known structural drivers haven't disappeared; if anything, they've become more embedded. They've also broadened out. The prominence of Taiwan and Korea's AI behemoths have overshadowed India's AI advances, but the advances India has made here are real.

Indian companies have been building meaningful manufacturing capabilities in areas key to several of the most relevant investment themes shaping global markets today, including AI infrastructure, data centres, industrial electrification, defence manufacturing and energy security.

Sure, India's story as a consumption market is important, and its young workforce and population marks it out from other economies both developed and emerging, yet it is also now becoming an increasingly important manufacturing and engineering hub across multiple layers of the industrial and data centre ecosystem. That's an important distinction in a world where hyperscale computing, AI workloads and digital infrastructure investments are accelerating.

Owning the AI story

We've observed these themes within the portfolio of **Ashoka India Equity (AIE)**. Indeed, companies with exposure to these enduring, structural themes have been some of the top-performing investments within the trust.

TD Power Systems designs and makes AC generators for steam turbines, gas turbines, hydro turbines, diesel engines, and gas engines, which it supplies to some of the leading original equipment manufacturers (OEMs) worldwide. It should benefit from rising demand for dependable power solutions, particularly in data centres and other mission critical applications where gas engines and turbines are increasingly being deployed.

Azad Engineering and MTAR Technologies both make highly engineered, precision-machined components or systems for different industries.

In Azad's case, its components are often mission- or life-critical, meaning they must meet stringent quality requirements, providing a significant barrier to entry. Azad cements its position by having a significant cost advantage compared to peers. Again, its OEM customers

are big hitters: the likes of General Electric, Honeywell International, and Mitsubishi Heavy Industries.

MTAR's systems cater to sectors such as clean energy, civil nuclear power, space, aerospace, and defence. The company supplies crucial products to Bloom Energy, a leading global player in solid oxide fuel-cell technology, which is increasingly relevant for data centres where reliable, efficient, and cleaner power supply is becoming a key requirement.

This trio are relatively small fish, coming in at between £1bn and £1.8bn in market capitalisation, showing the depth and breadth of AIE's well-resourced and on-the-ground team.

We think that AIE remains well positioned to capitalise on these under-the-radar opportunities, differentiating the trust from other Indian trusts, as well as broader emerging markets, which have become skewed to a narrow handful of chipmakers.

Crucially, the Indian market is still relatively under-researched, especially in the small and mid-cap space. This is the area AIE tends to favour and gives management the opportunity to add significant alpha over and above both the benchmark and peers.

AIE is well-aligned with shareholders, with management remunerated not by an annual management fee, but by a performance fee only, incentivising alpha generation over asset gathering. While the fee policy was tweaked recently to enable the managers to take the performance fee partly as cash and partly as shares, the managers elected to take all of the fees as shares, giving them real skin in the game, too.

Sure, there are risks, namely a sharp reversal in global markets and a sustained spike in oil prices, but those same risks are true of all other regions, too. We think that all of the factors we've mentioned place India as one of the most promising economies over the medium term and make for a highly compelling investment proposition.

Within AIE, too, the current turmoil has opened up a rare opportunity. AIE's strengths have meant that the trust has traded on a premium for much of its existence. At the time of writing on 05/06/2026, it's fallen to a c. 4% discount.

Like Arsenal before it, India may need to take one or two steps backwards in order to build renewed momentum to recapture its old place as the most exciting story within not only emerging markets, but globally. If that is indeed the case, the buying opportunity that's opened up in AIE shares may not last for long.

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