



# Why India: Home to high-quality companies

## Exceptional businesses delivering disproportionately better returns

India is home to many high-quality companies. Our past decades of investing in the Indian subcontinent have demonstrated that exceptional businesses managed by competent, conservative stewards deliver disproportionately better returns through cycles. We have been invested in companies like HDFC, India's leading mortgage financiers, for the past 25 years. HDFC focuses on steady growth of their loan book with a keen eye on risk, making home ownership affordable for millions of Indians. With a team of long-term managers at the helm and benefiting from the structural growth tailwinds of deepening mortgage penetration across the country, HDFC has delivered a compounded return of 18% per annum in USD over this time period<sup>1</sup>.

## Sustainable development in the region

More recently we have been excited by the resurgence of good old-fashioned Indian conglomerates - the Tatas, Murugappas and Mahindras. The Stewart Investors Indian Subcontinent Sustainability Strategy has roughly 40% of its assets invested across many companies stewarded by these groups<sup>2</sup>. These companies engage in diverse businesses which are well positioned for sustainable development in the region.

It is difficult to reconcile with the unceremonious removal of Tata Sons' previous Chairman, Cyrus Mistry. It is equally difficult to disagree with the choice of his successor - Natarajan Chandrasekharan, the former CEO of Tata Consultancy Services. Over the last six years, Chandrasekharan has been resolute in rekindling a culture of focus, accountability and performance, while holding on to the group's cherished ethos and long-termism. The group now desires less risky balance sheets while tilting its emphasis back to India after a decade of outward investments. Microsoft, under the leadership of Satya Nadella, is another good example of the potential returns investors can reap when great businesses find quality managers to steer them.

The Murugappa Group felt the overhang of an inter-generational leadership transition within the family. The succession is now firmly in place and the group is becoming bolder in its aspirations, as seen at Tube Investments, headed by Vellayan Subbiah. The company's acquisition of CG Power, a maker of industrial motors, is a clear sign that Tube Investments has set its sights on becoming a leading engineering conglomerate. Recent forays into electric commercial vehicles and tractors is evidence of the evolutionary traits of the group. We believe that the group's multi-decadal time horizons, competent leadership and conservative approach to financials makes many of their businesses an attractive investment opportunity for the strategy.

The Mahindra Group had two wonderful decades under the stewardship of Anand Mahindra. However, a global expansion in automobiles and some investment choices away from their core strengths set them back recently. Incoming CEO Anish Shah has spent the last six years understanding the group's history, culture and evolution. He has sought inspiration from how the Mahindras responded to the oil crisis in the 1970s and to the dotcom bubble in the late 1990s. A raging pandemic did not stop the group from admitting to some of their recent strategic mistakes. Much of the repair is completed, paving the way for an exciting decade ahead.

## Internal improvements and macro tailwinds; the driver of continued investment returns?

A generational transfer of leadership in each of these groups is setting them up for an exciting future. These institutions have survived and thrived over decades, partly because of their ability to admit to mistakes and correct course when necessary. A rare and exceptional quality. Such a combination of internal improvements and macro tailwinds could be powerful for investment returns.

We continue to believe that there is no dearth of such opportunities in the Indian subcontinent today. We remain focused on our strength as patient, active managers: to identify these high-quality stewards, businesses, and opportunities bottom-up to ensure we can deliver resilient absolute returns for clients over the coming decades.

## Stewart Investors' approach to investing in India

- > We are long-term investors.
- > We are absolute-return investors. We treat risk as the permanent loss of capital.
- > We invest in companies that contribute to, and benefit from, sustainable development.
- > We have a proven track record of investing in the Indian subcontinent since 1991.

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<sup>1</sup> Source: Stewart Investors and HDFC 31 December 2022

<sup>2</sup> Source: Stewart Investors 31 December 2022

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## Investment terms

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For more information please contact:  
[client.engagement@stewartinvestors.com](mailto:client.engagement@stewartinvestors.com)

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