Dalton India – The First Decade and The Next Decade

Part 1 – The Transformation of the Indian Economy

Dalton launched its first dedicated Indian fund (the Dalton India Fund) in July 2014, following the arrival of Portfolio Manager Venkat Pasupuleti at the firm. Over time, Dalton's Indian investment capabilities have evolved, with the opening of a Mumbai office, the addition of two more investment team members and the launch of two more Indian funds, serving our European and domestic Indian client bases, respectively. With the Dalton India Fund now more than ten years old, we thought it would be useful to step back and consider how the investment case for India has evolved over the last decade and how attractive the return potential is for the second decade of the fund's life. In the first part of our review, we consider the transformation in India's economy and stock market.

India's Place in the Global Economy

When the Dalton India Fund launched in 2014, India had a GDP of US$2.0 trillion and ranked slightly behind Italy as the world's 8th largest economy. Over the last decade, India's GDP has grown at a remarkable 7% CAGR in USD terms, reaching US$3.6 trillion and rising to become the 5th largest economy globally. Can this growth trajectory be maintained? If anything, the IMF expects growth to accelerate, with the Indian economy projected to touch US$5 trillion by 2027, overtaking Japan and Germany to become the world's 3rd largest economy, driven by favorable demographics, stronger institutions, and improved governance. This economic ascent highlights India's growing influence as a key driver of global growth.

GDP Ranking in Nominal US$ terms

Rank									CY'27 GDP ($tr)
0									$31.5tr
1	US	US	US	US	US	US	US	US	$23.6tr
2	JP	JP	CH	CH	CH	CH	CH	CH	$5.4tr
3	GR	GR	JP	JP	JP	GR	GR	IN	$5.3tr
4	UK	UK	GR	GR	GR	JP	IN	GR	$4.9tr
5	FR	CH	FR	UK	UK	IN	JP	JP	$4.3tr
6	CH	FR	UK	FR	IN	UK	UK	UK	$3.5tr
7	IT	IT	BR	IN	FR	FR	FR	FR	$2.6tr
8	CN	CN	IT	IT	IT	IT	BR	BR	$2.5tr
9	MX	SP	IN	BR	CN	BR	CN	CN	$2.5tr
10	BR	KR	RU	CN	KR	CN	IT	IT	$2.4tr
11	SP	MX	CN	KR	RU	RU	MX	MX	$1.9tr
12	KR	BR	SP	RU	BR	MX	RU	KR	$2.0tr
13	IN	IN	AU	AU	AU	KR	KR	RU	$1.9tr
	CY'00	CY'05	CY'10	CY'15	CY'20	CY'23	CY'26	CY'27	

Source: IMF and Jeffries Research

India's Economic and Social Progress

Over the past decade, India has made significant economic and social strides. It emerged as one of the fastest-growing major economies, driven by digital transformation, infrastructure development, and a thriving startup ecosystem. Socially, poverty levels declined, financial inclusion expanded through initiatives like Jan Dhan (expanding affordable access to financial services such as bank accounts, remittances, credit, insurance and pensions) and Unified Payments Interface ("UPI" – an instant payment system, which now processes 18 billion transactions a month), while major reforms in healthcare and education improved quality of life for hundreds of millions of people

Change in Economic and Social Factors over 10 years

Economic Factors	2014	2024	Growth (%)
GDP	$2.0 trillion	$4.3 trillion	114%
Per Capita Income	$1,020	$2,500	145%
Market capitalization	$1.6 trillion	$4.8 trillion (peak $5.7 trillion)	200%
Foreign exchange reserves	$319 billion	$705 billion	121%
Number of stocks with $1 billion mcap	166	522	215%
Number of unicorns	8	118	14.8x
Brokerage Accounts	23 million	180 million	8.0x
Monthly SIP Flows	$0.01 billion	$3.1 billion	265x
Unique Registered Investors	16.5 million	110 million (~17% household)	567%

Social Factors	2014	2024	Growth (%)
People with bank accounts	150 million	512 million (>96% household)	240%
Digital payments volume	2.2 billion	185.9 billion	84.5x
Internet subscribers	252 million	954 million	279%
Number of operational airports	74	157	112%

Source: Government Data

As we look out over the coming decade and beyond, we applaud the Indian government's bold quantitative goals under its "India@2047" vision, targeting a $30–35 trillion economy and a per capita income of $18,000–$20,000 (up from current levels of just under $3,000). This India@2047 vision coincides with the country's 100th year of independence. Export targets include achieving a 10% share in global trade by 2047 (up from the current level of below 3%), with intermediate objectives such as reaching $2 trillion in total exports by 2030 (versus $825 billion in FY25 and $780 billion in 2024). While these targets may seem lofty, they are backed by major initiatives which could support such dramatic change. Key examples include the Production Linked Incentive (PLI) schemes (such as the flagship "Make in India" initiative), which are being deployed across sectors such as electronics, semiconductors, and pharmaceuticals, with the aim of rapidly scaling up manufacturing. As an example, the electronics manufacturing sector alone is aiming for $500 billion in production and 6 million jobs by 2030. Major policy reforms, such as Goods and Services Tax (GST) for tax harmonization, as well as labor code consolidation for improved workforce flexibility, are designed to enhance ease of doing business. In addition, digital infrastructure expansion through programs like Digital India (aimed at improving online infrastructure and increasing internet accessibility) and PM Gati Shakti (a US$1.2 trillion project aimed at providing multimodal connectivity infrastructure to all economic zones of India) have the potential to radically improve productivity. Together, these initiatives form the foundation for India's targeted transition into a globally competitive and inclusive economy by 2047.

On the social front, initiatives such as the Jal Jeevan Mission (for safe drinking water), rural electrification, and expanding financial inclusion (driven by broader access to banking and digital platforms) are set to improve quality of life, particularly in rural regions. Collectively, these reforms aim to enhance social well-being, alleviate poverty, and build a more inclusive and equitable society, setting the stage for sustained development across India.

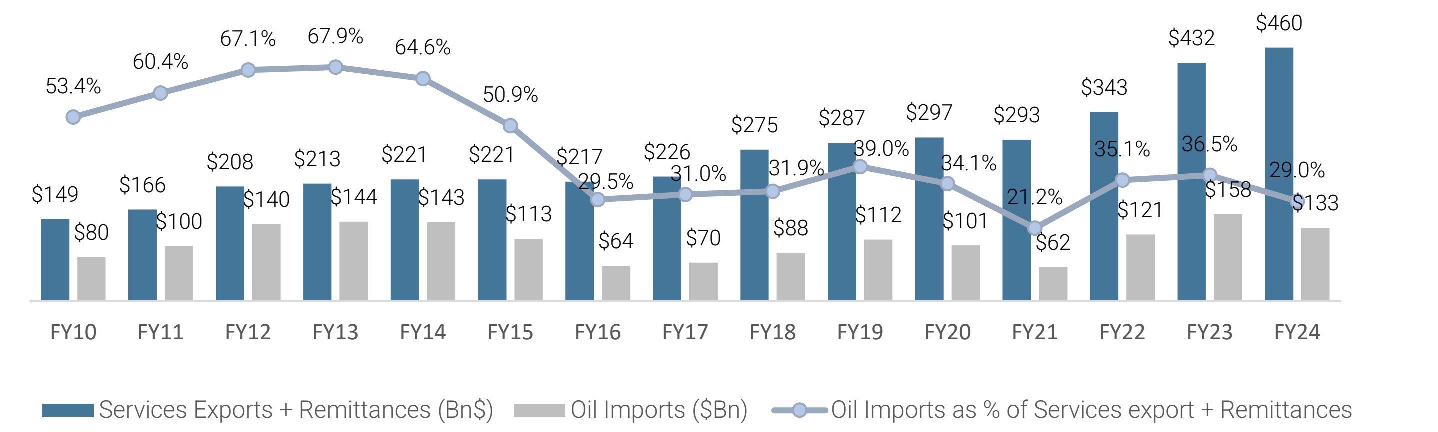
The Robustness of the Indian Economy

In 2014, India was known as a boom and bust economy, which was part of Morgan Stanley's "fragile five" list of vulnerable economies. Looking back a decade later, we can observe that India has made significant progress in enhancing macroeconomic stability, supported by prudent fiscal management, inflation targeting, and a resilient external sector. The Reserve Bank of India has effectively maintained inflation within its target range, despite occasional food and fuel shocks, while the government has worked toward reducing the fiscal deficit post-pandemic. Strong foreign exchange reserves, robust remittance inflows, and a competitive services sector have kept the current account deficit manageable.

A key reason for India's relative fragility a decade ago was its dependency on oil imports. While India's oil import dependency remains high at 89.1%, significant growth in service exports and a steady flow of remittances now cushion the impact, significantly reducing India's vulnerability to oil price volatility. Indeed, over the past five years, India's service exports have grown at nearly double the pace of its nominal GDP. Large global organizations, including JP Morgan, Intel, and NTT, now have 10-20% of their workforce based in India. Additionally, India has retained its position as the world's top recipient of remittances, growing at an 8% CAGR over the last five years, thereby bolstering overall service exports.

As a result, despite India's high dependency on oil imports, the country is now better insulated from fluctuations in global oil prices.

Service Exports and Remittances vs Oil Imports



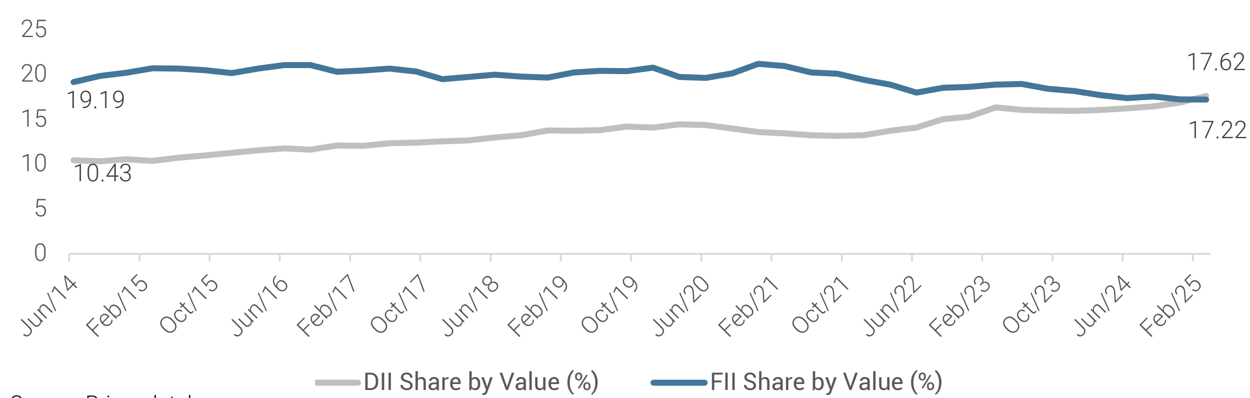
Sources: Reserve Bank of India, World Bank, GOI

The Stability of the Indian Equity Market

Since the launch of the Dalton India Fund in July 2014, the Indian market has compounded at around 8% per annum with the Fund’s return of around 11% (net of fees) (in USD, as of 3/31/25), substantially outpacing this market return. While these market returns have comprehensively outpaced broader Asian and emerging markets benchmarks over this period, these strong returns have come with periods of pronounced volatility and drawdowns. We have already covered why we believe the Indian economy has become fundamentally more stable over the last decade, but should this translate into a smoother ride for stock market investors over the coming decade? We believe so, for one simple reason – the explosion in equity market participation by domestic savers in India.

India's financial markets are undergoing a significant shift, with domestic investors increasingly taking the lead over foreign capital. As of March 2025, Domestic Institutional Investors (DIIs), which includes domestic mutual funds and insurance companies, collectively hold a 17.62% stake in NSE-listed firms, surpassing the 17.22% held by Foreign Institutional Investors (FIIs) for the first time. This shift, reflecting a growing reliance on domestic savings and investment, has been powered by the wall of money flowing into domestic mutual funds from Systematic Investment Plans (SIPs), which allow an investor to invest a fixed amount of money every month in their selected mutual fund scheme(s). In 2019, just 1 in 14 Indian households had stock market investments; due to the success of the SIP program, it is now 1 in 5. The change signals the maturation of India's financial ecosystem, with domestic capital playing a more prominent role in driving market dynamics. While foreign investment remains important, the increasing dominance of domestic investors suggests a more resilient and self-sustaining market in the future.

DII vs FII ownership of the Indian market



Source: Prime database group

Conclusion

India has delivered remarkable economic growth and strong stock market returns over the last decade. As we have revisited the key elements of the investment case for India, we conclude that India remains a compelling long-term structural buy, underpinned by a young and expanding population, rising middle class, and rapid urbanization. Major reforms such as the GST, the PLI schemes, and digital infrastructure initiatives have laid the groundwork for a more formalized and productive economy. Strong macroeconomic stability, supported by improving terms of trade, a declining primary deficit, and reduced inflation volatility, reinforces India's solid fundamentals. The country also benefits from global supply chain diversification trends and government-led capex revival, positioning it well for sustained growth. Indian equity markets rank 4th globally in terms of the number of listed companies with market capitalizations above US$5 billion and in firms with average daily volume traded exceeding US$5 million, reflecting a broad and liquid investment landscape. Furthermore, India's diverse and well-established industrial base, with low sectoral concentration relative to peers, enhances its resilience and long-term attractiveness as an investment destination.

At Dalton, we remain focused on investing in high-quality businesses, trading at reasonable valuations, where we have a strong alignment of interest with capable management teams. We hope and expect our portfolio to continue delivering outsized investment returns for our client's capital and our own over the decade to come.

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