

Dalton India – The First Decade and The Next Decade

Part 2 – Geopolitics, Tariffs and Valuations

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 that time, Dalton's Indian proposition has 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, it makes sense 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 considered the transformation in India's economy and stock market. While we believe there remains a compelling investment case for both the long-term of the economy and the increasing robustness of the stock market, in this increasingly uncertain world it is also important to consider the potential macro risks to this thesis, as well as the starting valuations for an investment in India.

India's Geopolitical Role

Relations between India and the US have not always been as warm as one might imagine based on the current "bromance" between Prime Minister Modi and President Trump. Indeed, if we were to go back 25 years, there were US sanctions in place on India, and India's closest ally was perhaps Russia, which it depended on for the vast majority its military imports. Further, the US' key regional ally was India's great enemy, Pakistan. Over the last decade, Prime Minister Modi has successfully improved relations with the West (and particularly with the US) while maintaining a foreign policy of "multi-alignment", putting India in the somewhat unique position of being able to engage with the US, Russia, the EU and regional powers, all while maintaining strategic autonomy. This policy has led to a significant rise in India's geopolitical significance, bolstered by its strategic location, expanding global trade role, and status as the world's most populous nation. As one of the fastest-growing major economies, we believe India is increasingly central to the global economic order. India's growing defense capabilities and security partnerships with (and military hardware from) various major powers contributes to regional stability. At the same time, the global shift away from China, accelerated by geopolitical tensions,

presents a strategic opportunity. The "China +1" strategy being adopted by global corporations is accelerating supply chain diversification in India's favor. Supported by a large workforce, improving logistics and digital infrastructure, and targeted government initiatives like the Production Linked Incentive (PLI) schemes (such as the flagship "Make in India" initiative), India is emerging as a competitive manufacturing hub in sectors such as electronics, semiconductors, and pharmaceuticals. Its deepening economic engagement with the US, including active discussions toward a comprehensive bilateral trade agreement, underscores India's appeal as a strategic and reliable trade partner. Multilateral platforms such as the Quad, which promotes a free and open Indo-Pacific, further strengthen India's role in global security and economic cooperation. Additionally, India's leadership in IT services and a deep talent pool strengthen its position as a global services partner. These developments, supported by policy reforms and infrastructure investments, can help India play a larger role in the evolving global economic order.

While predicting geopolitical outcomes over the long term is an incredibly difficult task, as we assess the situation today, we believe it is tough to find a country with a better set of geopolitical cards to play than India.

USA Tariff Impact on India

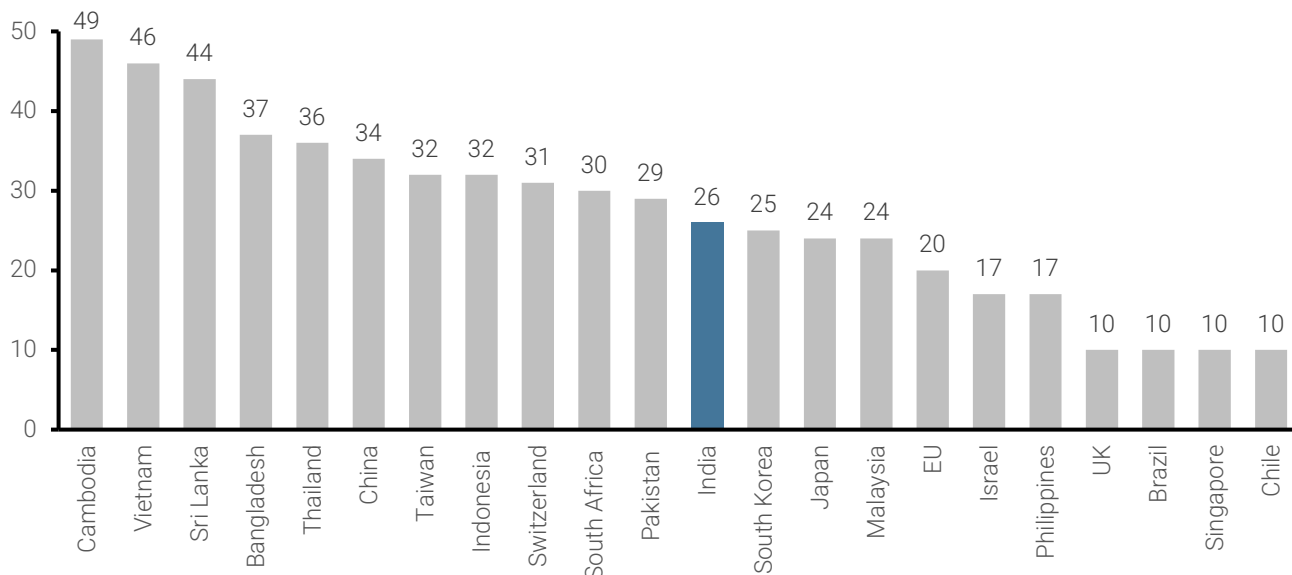
As we complete this review and consider the investment opportunity in India for the coming decade, it would be remiss not to discuss the potential impact of a more isolationist US on the Indian market. On April 2nd, President Donald Trump announced that the US was imposing a broad 26% country-level tariff on exports from India, effective midnight on April 5th. However, this measure has been temporarily paused until July 9, 2025. While this represents a significant shift in trade policy, it is noteworthy that proposed tariffs on other countries are even higher: China (34%), Vietnam (46%), Taiwan (32%), Thailand (36%), Indonesia (32%), and Bangladesh (37%). This potentially offers Indian manufacturers a near-term competitive advantage. Nevertheless, the overall volume of global trade is likely to decline amid rising protectionism and economic slowdown, posing challenges for India and other economies.

In response, India and the US are actively working towards a bilateral trade agreement. During a recent visit to India, US Vice President JD Vance emphasized the importance of strengthening US-India relations, particularly in defense, energy, and trade. He highlighted that both nations aim to finalize the

first phase of a comprehensive trade deal by Fall 2025, with a long-term goal of doubling bilateral trade to \$500 billion by 2030.

India's exports to the US account for approximately 19% of its total exports, while imports from the US make up about 7% of total imports. These US imports are primarily concentrated in energy, gems and jewelry, electronics, and transport equipment. Going forward, the US is expected to push for higher Indian imports in other strategic categories such as oil & gas, commercial aircraft, defense goods, electronics, and machinery. If anything, this remarkable shake up of the established global trading system may result in a closer binding of the US and Indian economies, accelerating India's efforts to replace China as the new factory of the world.

US reciprocal tariffs on major countries as of Apr 5 (currently under 90-day pause)



Source: Media reports, Kotak Institutional Equities

India Market Valuation

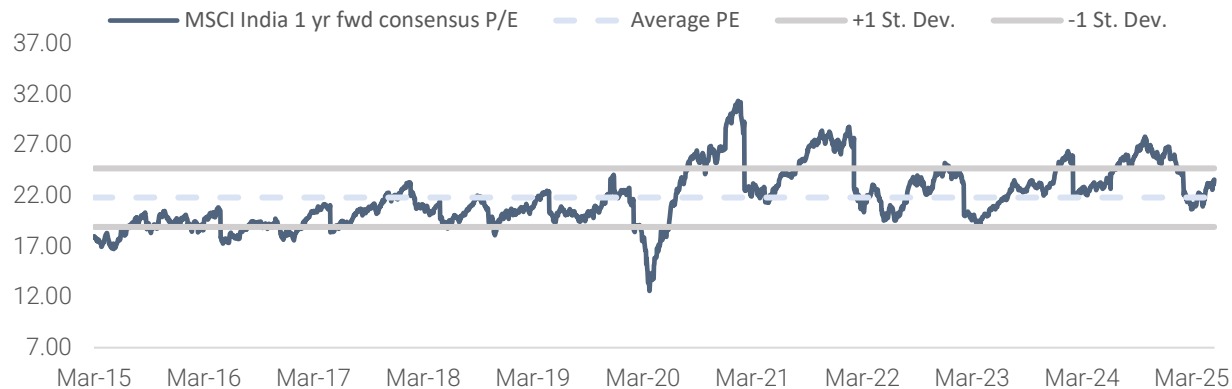
At the launch of the Dalton India Fund, Indian market valuations were at a historically low ebb, both in relative (to other emerging markets, represented below by the MSCI EM index) and in absolute terms versus India's own history. As we assess the situation in April 2025, it is fair to say that the Indian market is at more "normalized" levels in both absolute and relative valuations

In the first part of our review, we made the case for why we believe the Indian market should trade at a structurally higher valuation than it has over its history. In our view, India's growth potential remains, but fundamental and market risk has significantly reduced. We also believe a structural premium relative

to other emerging markets is warranted, given India's superior dynamics and also the higher quality of the businesses which comprise its stock market indices.

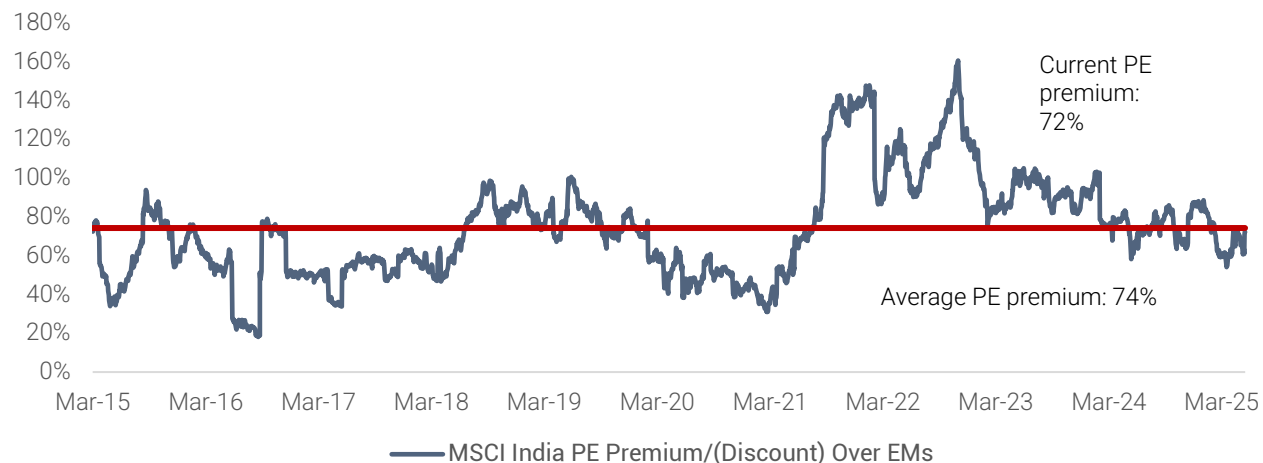
We would view any further major pull backs in the Indian stock market as a good opportunity to build out exposure to India for the decade ahead.

MSCI India valuations are around 10-year average



Source: Bloomberg, data as of 16 May 2025.

MSCI India Relative Premium to MSCI EM index is around 10-year average



Source: Bloomberg, data as of 16 May 2025.

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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