

# India Is Pricey. Investors Still Love It.

BY RESHMA KAPADIA

As investors look beyond China, India has a lot going for it.

A raft of reforms has set up the world's most populous country for economic growth. India just crossed the \$2,500-per-capita income mark that supercharges demand for cars and services, and it is benefiting from a fraying U.S.-China relationship.

The one drawback: valuation. Since *Barron's* highlighted the opportunity in India in November 2022, the **iShares MSCI India** exchange-traded fund (ticker: INDA) is up almost 30%. The MSCI India now trades at 23 times 2024 earnings, compared with 9.7 times for the MSCI China index and 21 times for the S&P 500 index.

But earnings for Indian companies have kept pace with the rise in valuation, and the country's economic and fiscal outlook is much improved. "India is underinvested; India is underleveraged and in a geopolitical sweet spot in a multipolar world," says Jitania Kandhari of Morgan Stanley Investment Management's emerging markets equity team.

Capital Economics expects India's economy to be the world's strongest this year. Digital innovation is spurring a tech-savvy workforce to use artificial intelligence to boost productivity. The property market is re-

bounding, and banks are lending after years of cleaning up bad debt.

Private investors are flocking to India, with U.S. and European venture-capital firms setting up shop to tap into a start-up boom in the country. Companies looking to diversify their supply chains are coming to India.

Strategists struggle to see a spark for a pullback. The biggest spoiler would be an upset loss for Prime Minister Narendra Modi in the coming general election, when he is expected to win a third term and continue the business-friendly policies that have fueled economic growth.

Investors could be burned by waiting for Indian valuations to drop. "Fundamentals are so strong, and these companies are so good. If you are waiting for a big correction, you will miss the boat," Todd McClone of William Blair's emerging markets strategies tells *Barron's*.

Investors haven't crowded in. India accounts for just 17% of the MSCI Emerging Markets index, far below China's recent weighting of 30% plus.

To deal with the valuation conundrum, some money managers have been trimming holdings, especially in small and midsize companies, a part of the market where Indian regulators have raised flags about the rush of money flooding in from investors. Ramiz Chelat, a manager for Vontobel's quality growth strategy, has added to companies where earnings growth is still strong, including private-hospital companies like **Max Healthcare Institute**.

McClone has added to healthcare and financial-services companies and snapped up industrials like **ABB India** and **Voltamp** as India upgrades its power infrastructure. **B**