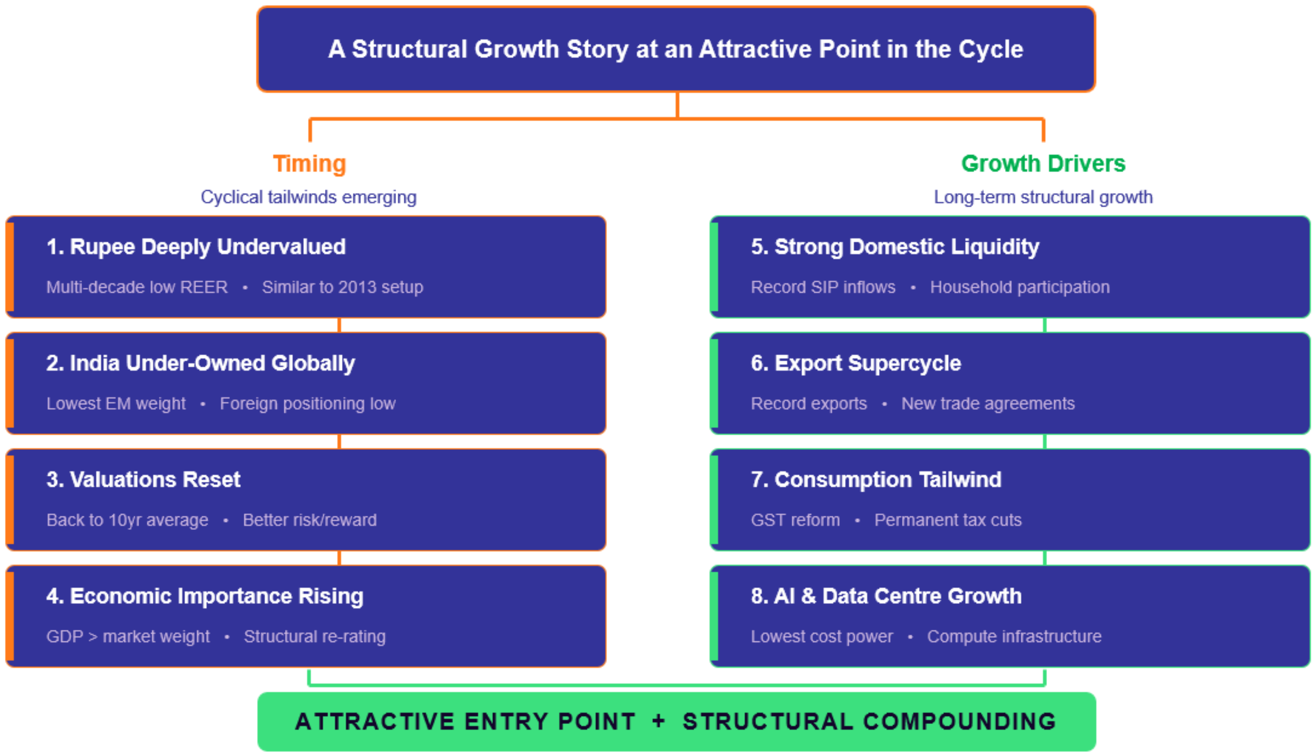
India – Why Now?

India has long been regarded as one of the world's most compelling long-term investment opportunities. Supported by favourable demographics, rising productivity, accelerating formalisation and a rapidly expanding middle class, the country has consistently delivered economic growth well above that of most major economies. Yet, despite these structural strengths, Indian equities have experienced a challenging period over the past two years. A weaker rupee, sustained foreign investor outflows, elevated oil prices and a global rotation towards semiconductor and AI-related markets have weighed on returns and investor sentiment.

We believe these headwinds have created an unusually attractive entry point rather than undermined the long-term investment case. Many of the factors driving recent underperformance are cyclical, temporary and increasingly reflected in market valuations and positioning. At the same time, India's structural growth drivers continue to strengthen. Domestic investors are providing record levels of capital to equity markets, exports are reaching new highs, major trade agreements are expanding market access, tax reforms are supporting consumption, and India is emerging as one of the world's lowest-cost locations for AI and data centre infrastructure.

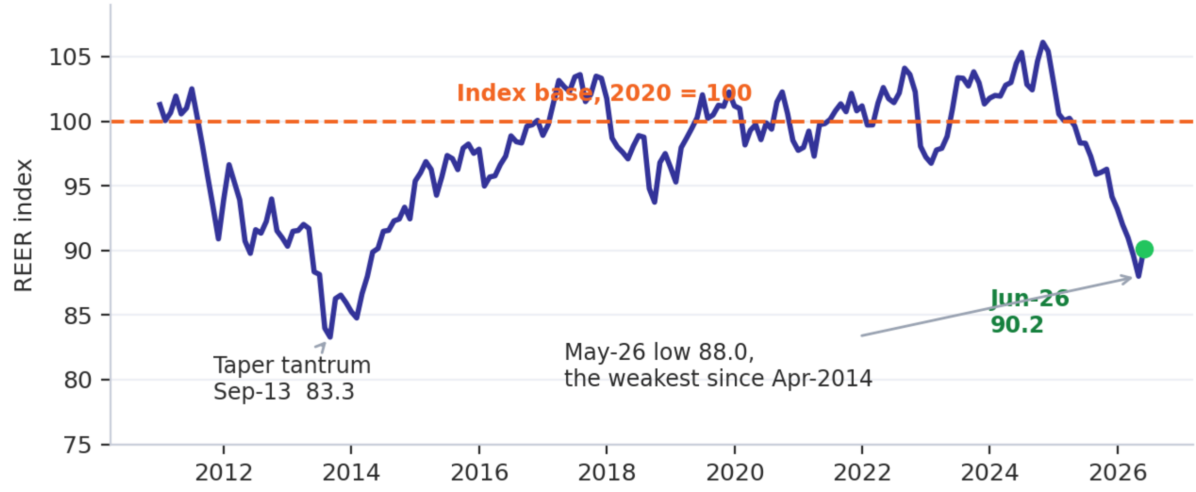
This paper outlines why we believe the current environment represents one of the most compelling opportunities in recent years to increase exposure to Indian equities. We examine eight key reasons why the outlook for India is improving – from currency valuation and foreign positioning to domestic liquidity, exports, policy reform and long-term structural growth. Individually, each is supportive; together, they present a strong case that the balance of risks and potential returns has shifted in favour of long-term investors.



1. The Rupee's Direction

The Rupee at One of its Cheapest Levels in Decades

The single largest drag on an Australian investor's India return has been currency. Over the twelve months to 28 July 2026 the rupee fell 15.9% against the Australian dollar, which is most of the gap between MSCI India's 3.7% decline in local currency and its 17.5% decline in Australian dollars. What that has produced, though, is a currency that is now unusually cheap. On the Bank for International Settlements real effective exchange rate the rupee fell to 88.0 in May 2026, its weakest reading since April 2014, and it has since recovered to 90.2. In real, trade-weighted terms the rupee has not been this competitive since the aftermath of the 2013 taper tantrum.



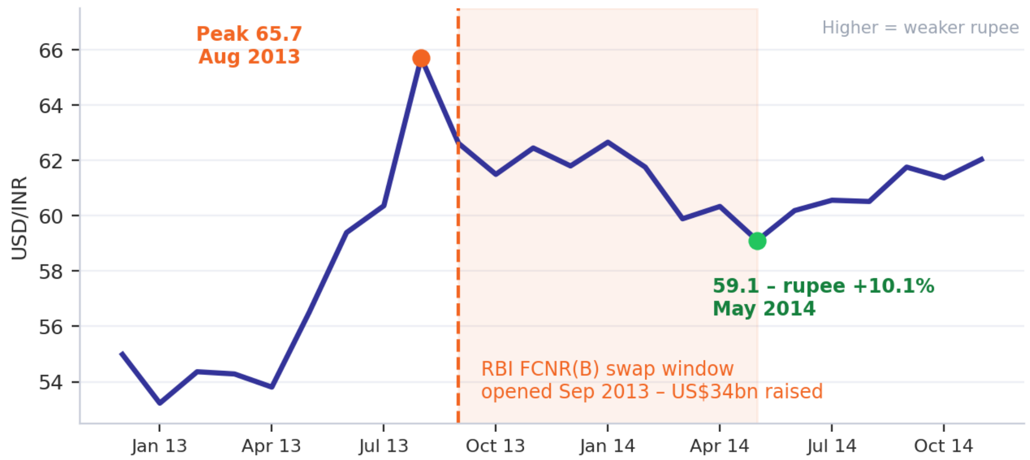
India real broad effective exchange rate, monthly, index 2020 = 100. A lower reading means a more competitive currency. Source: Bank for International Settlements via FRED, to June 2026.

Importantly, the cause is the capital account rather than the trade account. India's current account deficit is 0.6% of GDP; the pressure has come from foreign portfolio outflows and elevated profit repatriation, not from an economy living beyond its means.

RBI Intervention Then and Now: The Rupee's Path to Recovery

On 5 June 2026, the RBI reopened its concessional swap window, operational from 8 June. The mechanism is simple: the RBI absorbs the currency hedging cost on new 3-5 year foreign-currency (FCNR(B)) deposits, worth roughly 3% a year, so banks can pay non-resident Indians far more to bring dollars home. Deposits are exempt from reserve requirements and carry a one-year lock-in. FCNR(B) rates have moved to around 7.1%. In the first five weeks, the window pulled in US$20.7bn, of which US$17.4bn was deposits. It stays open for deposits to 30 September 2026.

In 2013, the RBI did something similar. After the taper tantrum, Raghuram Rajan opened an almost identical window in September 2013 and raised US$34bn in a few months. The USD/INR had peaked at 65.7 in August 2013; by May 2014 it had recovered 10.1% to 59.1 (rupee appreciating), and Indian equities delivered their best year in five – the Nifty rose 31.4%, and MSCI India returned 23.9% in USD over calendar 2014.



USD/INR month-end. Source: Bloomberg. The shaded period runs from the swap window opening to the rupee's 2014 low.

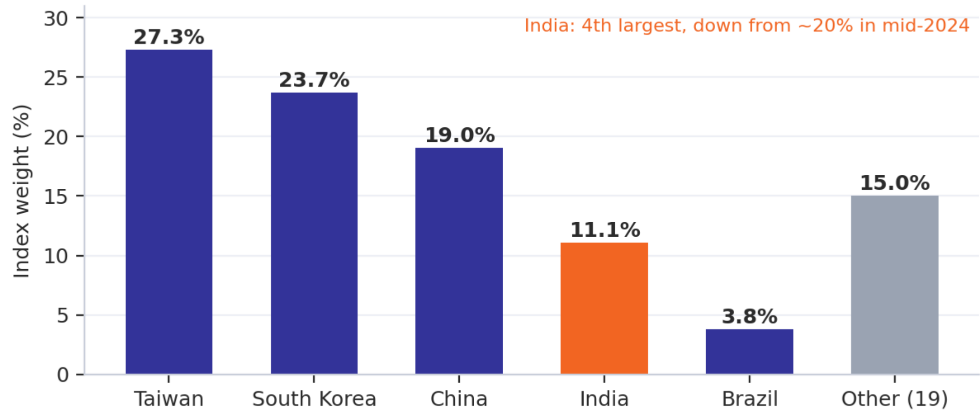
India enters this episode from a far stronger position than in 2013

India today carries more than twice the reserves and one-eighth the current account deficit it had in 2013. It is in a stronger position than in 2013, and has fewer barriers to recovery with the same support mechanism in place.

	September 2013	June-July 2026
Current account deficit	4.8% of GDP (FY13)	0.6% of GDP (FY26)
FX reserves	~US$275-322bn	US$676bn
Import cover	~7 months	8+ months
Policy rate	7.25%, rising	5.25%, on hold
Raised under the window	US$34bn (final)	US$20.7bn in 5 weeks (open to 30 Sep)

2. India vs EM: the lowest weight since 2020, substantially under-owned, and at the narrowest premium in seven years

India's weight in MSCI Emerging Markets has roughly halved, from about 20% in mid-2024 to 11.1% at 30 June 2026, dropping it from the second to the fourth largest country. The capital went to the AI trade: Taiwan and Korea together are now 51.1% of the index, information technology is 45.3% of it, and TSMC alone carries a 15.1% weight – larger than the whole of India.



MSCI Emerging Markets Index country weights, 30 June 2026. Source: MSCI index factsheet.

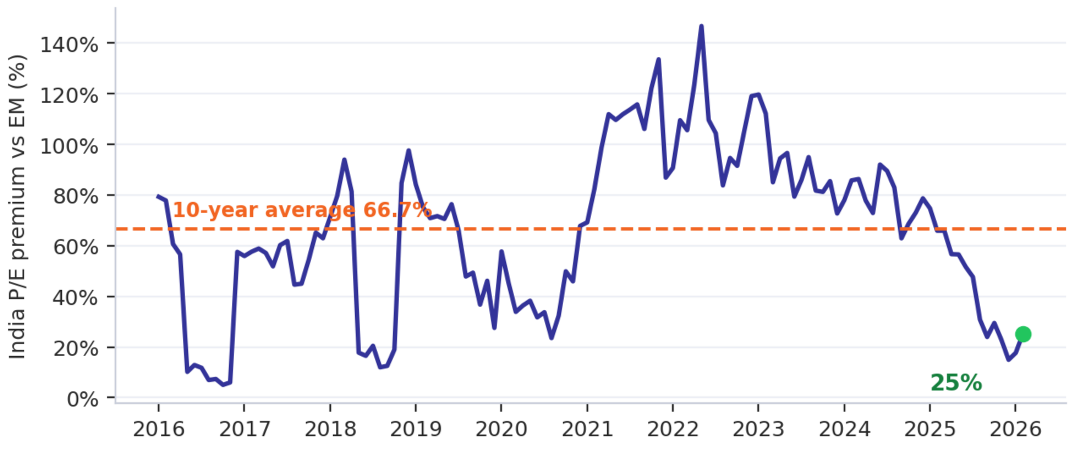
Foreign institutional investors have sold roughly US$58bn of Indian equities in the 22 months since the market peaked in September 2024. According to Motilal Oswal, foreign ownership of the Nifty 500 has fallen to 17%, a new low, from 18.9% a year earlier (as of 31 July 2026).

After maintaining a structural overweight to India for more than 15 years (2007–2023), global emerging market (GEM) funds have shifted to a meaningful underweight position, with allocations now at multi-decade lows relative to the benchmark. This reflects a more cautious stance among foreign investors and suggests there remains potential for incremental capital flows if sentiment towards India improves and investors move back towards neutral or overweight positioning.

Figure 2: India underweight in GEM funds at 24-year lows (bps)

Source: Citibank. Data as of 30 June 2026.

At the same time, India's valuation relative to EM has come down. India has historically traded at a large premium to the rest of EM – a 66.7% average over the past decade, and as much as 147% in 2022. It is now 25% – little more than a third of that long-run average and the narrowest India has been priced against its emerging market peers since early 2019.

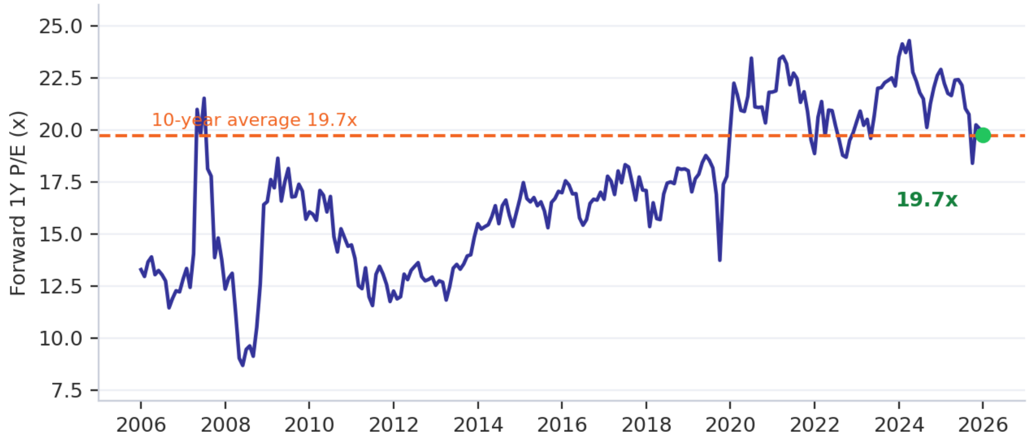


MSCI India price/earnings premium over MSCI Emerging Markets, monthly since 2016. Source: Bloomberg, MSCI.

A global emerging market allocation now carries far more single-industry risk than it did two years ago, India is the natural diversifier against it, and India is simultaneously the cheapest it has been relative to the index in seven years and the most under-owned.

3. Valuations have returned to historical averages

MSCI India trades on 19.7 times forward earnings – exactly its ten-year average of 19.7 times, and well below the 24.3 times it reached in September 2024.



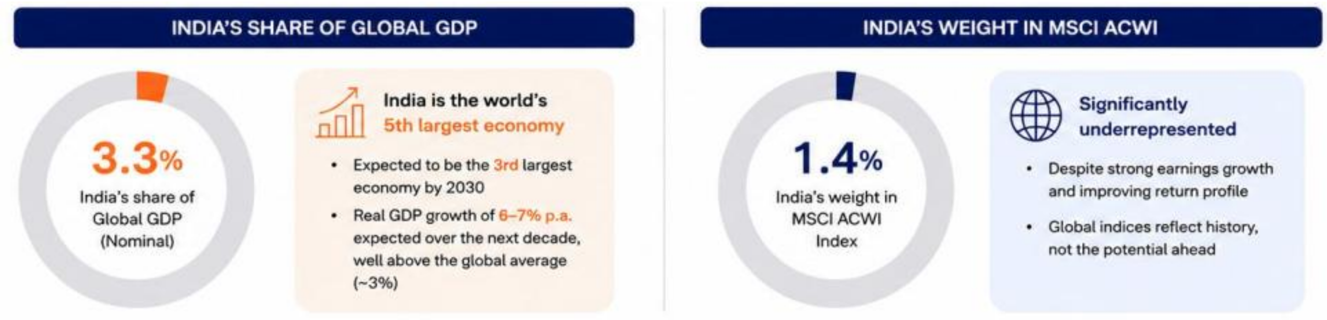
MSCI India forward 12-month P/E, monthly since 2006, against its 10-year average. Source: Bloomberg, MSCI, to 30 June 2026.

For completeness, the earnings yield on Indian equities relative to the 10-year government bond sits at its 45th percentile – neither stretched nor cheap against bonds, which is a reasonable place to be with the policy rate at 5.25% and an oil shock still unwinding.

4. India’s Economic Weight and Market Representation Understate Its Growth Story

India is now the world's fifth-largest economy and one of the fastest-growing major economies, yet it remains materially underrepresented in global investor portfolios. Over the coming decade, India's real GDP is widely expected to expand at around 6–8% per annum, more than double the long-term global average of approximately 3%. Sustained growth at this pace should see India's share of global economic output continue to increase, reinforcing its importance within the global economy.

Despite this, India's representation in global equity indices remains disproportionately low relative to both its current economic scale and its long-term growth trajectory. In other words, while India's contribution to global GDP has expanded rapidly, its weight in global equity benchmarks has not kept pace.



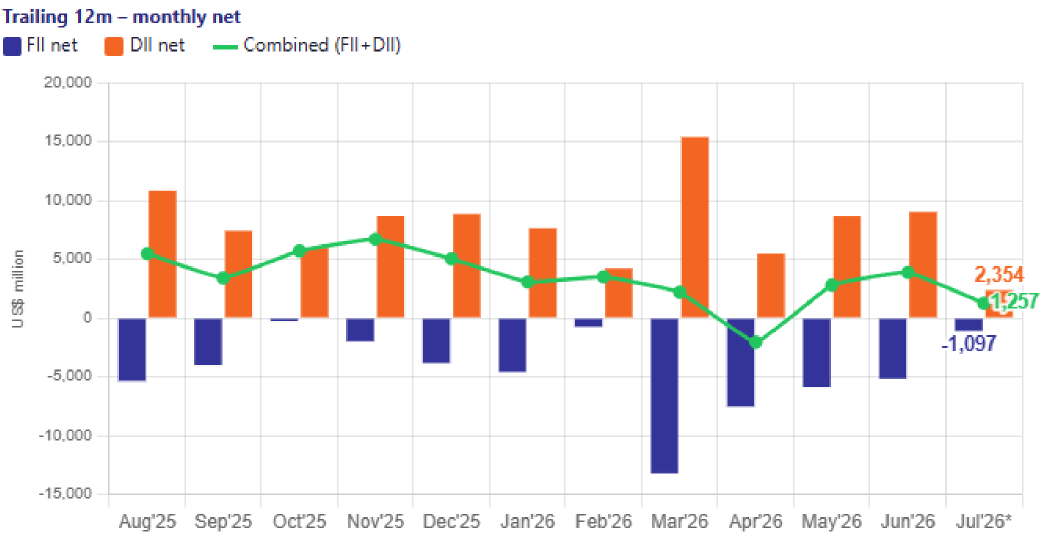
Source: IMF (31 Dec 26), MSCI (31 Mar 26), World Bank.

This disconnect presents a compelling structural investment opportunity. As India's economy continues to formalise, corporate profitability deepens, and capital markets mature, the earnings power and market capitalisation of Indian companies are likely to grow faster than those of many developed and emerging market peers. Over time, this should support a rising weight in global equity indices as well as increased allocations from international investors.

The imbalance is therefore significant – India's economic contribution and long-term growth potential substantially exceed its current representation in global equity portfolios. As this gap gradually closes, investors stand to benefit not only from strong underlying earnings growth but also from the powerful tailwind of increasing global ownership and index inclusion, a combination that has the potential to drive sustained long-term compounding returns.

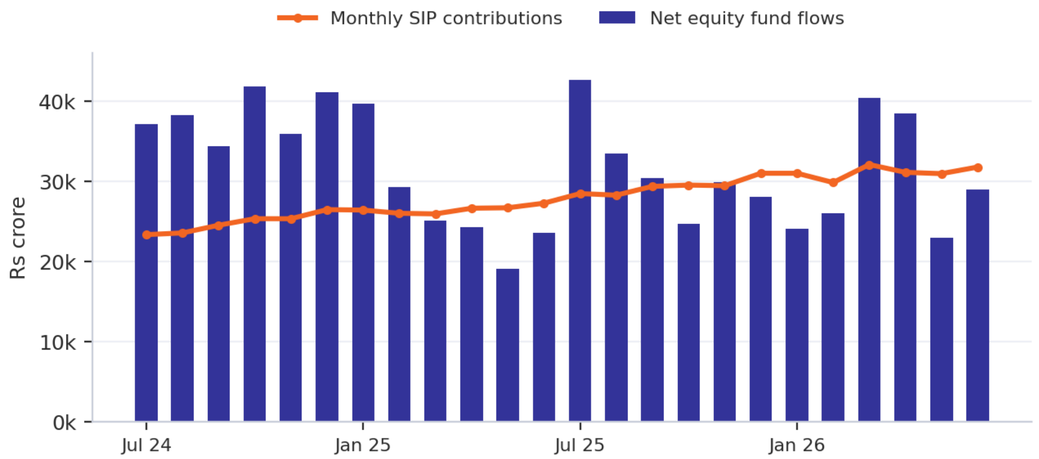
5. Domestic mutual fund flows providing liquidity and support to the market

Despite sustained foreign investor outflows over the past two years, India's equity market has remained well supported by strong domestic capital flows. Domestic net inflows have not only offset foreign selling but have exceeded the magnitude of these outflows, providing a structural source of liquidity and market resilience. There has been only one month of aggregate net outflows, with domestic investors consistently adding capital in almost every other month (the green line in the chart below reflects total net flows). This reflects a fundamental shift in India's market structure, where domestic investors have become the dominant source of incremental liquidity and now account for a larger share of net inflows than foreign investors.



Source: NSE/BSE, CDSL, 24 months to June 2026. Data as of 23 July 2026. Figures converted to USD.

In the last 2 years, Indian investors have been investing every single month at a steady and linear growth rate. The systematic investment plan (SIP) book, which is monthly, automated and salary-linked, has risen 36% over the period to Rs 31,781cr (~US$3.3bn) a month, an annual run-rate near US$40bn.

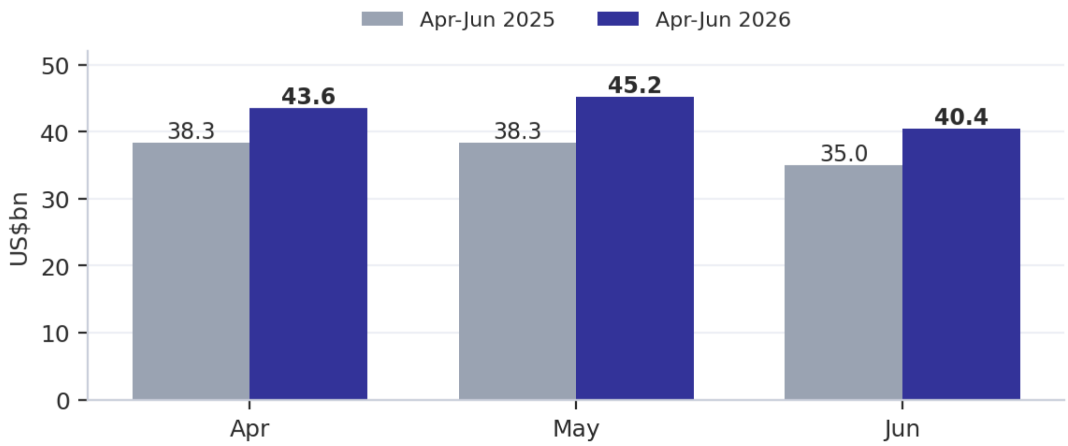


Monthly net equity mutual fund flows (bars) and SIP contributions (line), Rs crore. Source: AMFI, 24 months to June 2026.

With equity market participation among Indian households still remarkably low at just 7-9% of the population, the domestic savings-to-equities transition remains in its early stages. This provides a significant runway for continued domestic capital inflows, creating a structural and increasingly important source of liquidity for Indian markets.

6. Exports are at record levels, and trade agreements have only just started

The weak rupee is doing what a weak rupee is supposed to do. Merchandise exports reached US$129.3bn in the June quarter, 15.9% above the same quarter a year earlier, with May's US$45.2bn the highest monthly figure India has ever recorded. Growth has been led by engineering goods, electronics and petroleum products rather than by a single commodity, which is the more encouraging composition.



India monthly merchandise exports, US$bn. Source: India Ministry of Commerce and Industry, to June 2026.

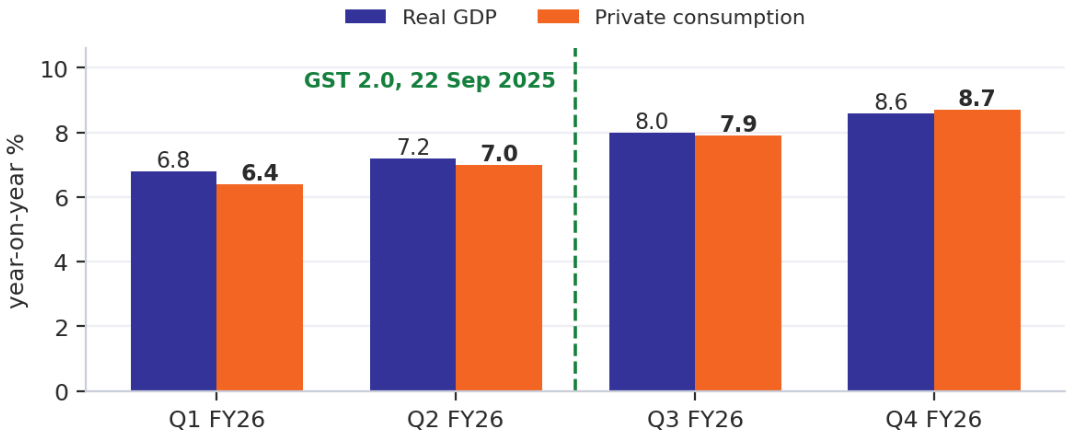
Layered on top of that is a trade architecture that looks materially different from two years ago. Three agreements have moved from negotiation to reality in under a year, and their effect on export volumes has barely begun to show in the data because two of them are weeks or months old.

Agreement	Status	What it does
India and EFTA (TEPA)	In force from 1 Oct 2025	Market access for 99.6% of Indian exports; US$100bn of committed investment over 15 years
India and UK (CETA)	In force from 15 Jul 2026	Duty-free or preferential access for about 99% of Indian exports to the UK; bilateral trade targeted to double to US$112bn by 2030
India and EU	Concluded 27 Jan 2026, awaiting ratification	The largest trade agreement either side has signed; about 90% of tariffs eliminated or reduced across a relationship already worth more than EUR180bn

Taken together, and adding the existing UAE and Australia agreements, broker estimates put the incremental annual export opportunity at roughly US$53bn by 2029. We would treat that as an order of magnitude rather than a forecast; trade agreements consistently take longer to convert than their announcements imply, and the UK agreement is two weeks old. The honest counterweight in the current data is the import side: June's trade deficit widened to US$30.4bn as the oil bill rose, and until crude retreats, strong exports and a wide deficit will continue to coexist.

7. The GST cut – a permanent reduction in the cost of consuming

On 22 September 2025, India collapsed a four-slab goods and services tax into two rates of 5% and 18%, with a 40% rate reserved for luxury and sin goods. It was the largest change to India's indirect tax system since GST was introduced in 2017, and unlike a stimulus payment, it is permanent. The effect showed up in the very next quarter and has persisted.



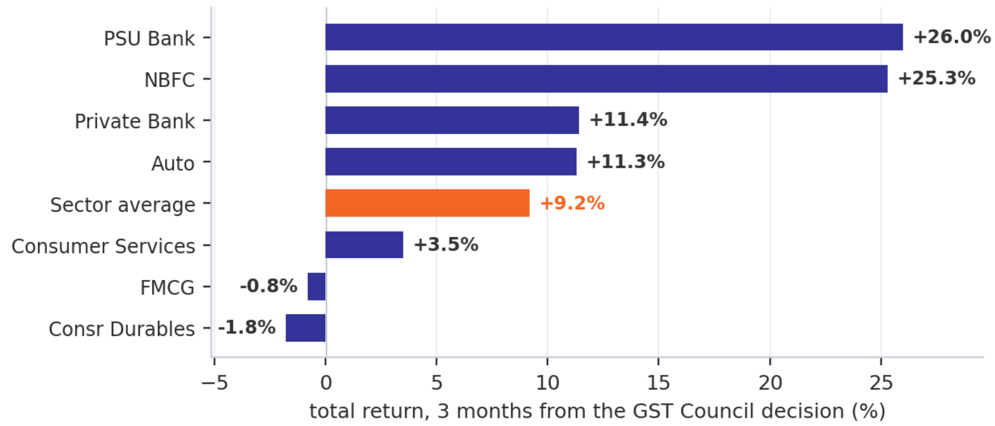
India real GDP and private final consumption expenditure, year-on-year. Source: MoSPI via Trading Economics, ICRA, PIB. FY26 full-year GDP growth was 7.7%, the strongest since FY2022.

Private consumption accelerated from 7.0% to 7.9% and then 8.7% year-on-year across the two quarters following the cut, and full-year FY26 GDP growth of 7.7% was the strongest since FY2022. ICRA estimates the demand boost is worth 100-120bp of GDP growth spread over four to six quarters, and that the rate cut alone takes 25-35bp off headline inflation – which is why the RBI has been able to hold the repo rate at 5.25% through an oil shock.

Category	Taxable supplies, YoY	Comment
Buses and passenger cars	+20%	Passenger vehicle registrations up 18-29% YoY in each of the last three months
Cement	+19%	Construction and housing pass-through
Two-wheelers	+18%	The mass-market consumption signal
Tractors	+17%	Rural demand
Prepared food items	+17%	Urban discretionary
Pharmaceuticals	+13%	Staples-like demand

Impact on the equity market

The market reaction to the GST reform is instructive because it did not unfold along the most obvious lines. In the three months following the GST Council's decision on 3 September 2025, the 16 Nifty sector indices delivered an average return of 9.2%. Autos, the most direct beneficiary of lower taxation, outperformed with an 11.3% return. However, the sectors whose products experienced the immediate price reduction under the reform lagged significantly: Consumer Services returned just 3.5%, FMCG declined 0.8%, and Consumer Durables fell 1.8%, all below the broader market average.



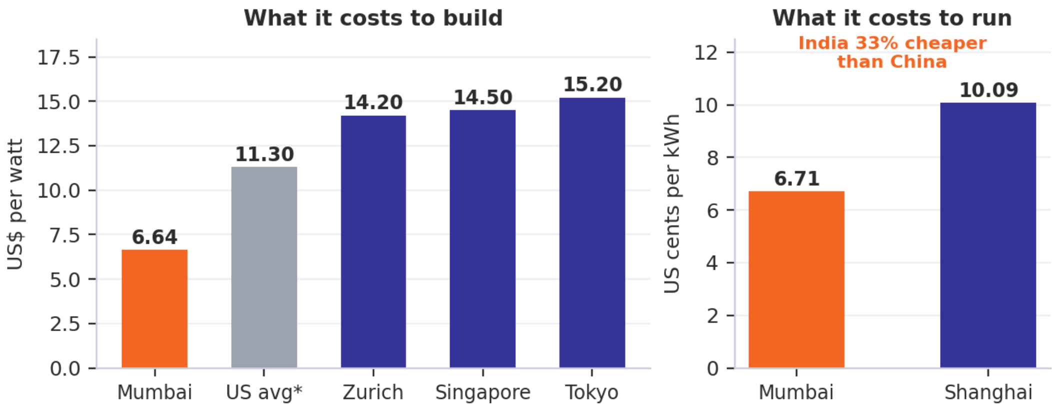
Nifty sector total returns, 3 months from the GST Council decision (September to November 2025). Source: NSE total-return indices via India Avenue.

Instead, capital flowed towards the second-order beneficiaries of the policy change: PSU banks (+26.0%), NBFCs (+25.3%) and private banks (+11.4%). The market interpretation was that a structural reduction in the cost of large-ticket consumption would stimulate financed demand, while lower indirect taxes would ease inflation pressures and support a more favourable interest rate environment. The key investment lesson is that the GST opportunity was ultimately a credit and volume recovery trade, rather than a direct consumer staples trade. This explains why expectations of a consumption-led recovery have not translated into an immediate rally in traditional consumption sectors.

For investors, the more important distinction is that this reform represents a permanent improvement in household purchasing power rather than a temporary fiscal stimulus. A lower structural price level across many of the goods consumed by Indian households, combined with income tax relief and a declining interest rate cycle, creates a sustained tailwind for consumption. Given that consumption accounts for approximately 60% of India's GDP, a durable reduction in household costs represents one of the most powerful policy levers available to accelerate economic growth.

8. Data centres: India builds and runs a gigawatt cheaper than almost anywhere

Turner & Townsend's 2025-26 index ranks Mumbai the second cheapest of 52 global data centre markets at US$6.64 per watt – against roughly US$11.3m per MW for the US average, US$14.2 in Zurich, US$14.5 in Singapore and US$15.2 in Tokyo, the most expensive in the world. The running cost is the more telling number: Mumbai draws power at 6.71 US cents per kWh against 10.09 cents in Shanghai, a third cheaper than in China.



*Left: construction cost per watt. Right: industrial electricity tariff. Sources: Turner & Townsend Data Centre Construction Cost Index 2025-26 (52 markets) for Mumbai, Zurich, Singapore, Tokyo and both power tariffs; *US average from 2026 industry construction-cost benchmarks.*

The competitive advantage lies not in the concrete, but in the power that runs it. India now has the lowest utility-scale solar costs among major markets at just US$35/MWh, edging out China (US$36/MWh) and well below the global average of US$44/MWh. Even more importantly, solar paired with battery storage can now provide round-the-clock clean electricity at just Rs 4.0-4.3/kWh (approximately US4.2-4.5 cents). For power-intensive industries, where electricity is often the single largest operating cost and customers increasingly demand low-carbon production, this represents a structural competitive advantage.

	Position today	Direction of travel
Installed capacity	~1.5 GW (2025), ~2 GW during 2026	~6.5 GW by 2030, a fourfold rise
Investment pipeline	~US$90bn committed	vs US$13-15bn invested 2020-24
Hyperscalers	AWS, Microsoft and Google: US$67.5bn	Google's Visakhapatnam campus: 1GW, reported at up to US$15bn over 2026-30, with US$2bn of dedicated renewables
Compute policy	IndiaAI Mission, Rs 10,372cr (~US$1.1bn)	38,000+ GPUs offered at Rs 65/hour (~US$0.68), up to 40% below market

The strategic opportunity is for India to transition from being a consumer of compute capacity to becoming an originator and exporter of it. The foundations are compelling: abundant low-cost renewable power, available land, a deep engineering talent pool, and a national AI strategy that is accelerating access to infrastructure and capability. The risks remain execution-related, including grid reliability, water availability, and the fact that India's installed data centre base remains small relative to the US. Other markets, particularly parts of China and Southeast Asia, can also offer competitive construction costs. However, India's differentiation lies in the long-term operating cost advantage and its strategic alignment with Western hyperscalers seeking scalable, cost-efficient AI infrastructure. The investment case ultimately rests on a cost curve that will be difficult for competitors to replicate.

Why the timing is interesting

The factors that have weighed on India in 2026 have been largely cyclical and identifiable: elevated oil prices, rupee weakness, foreign investor outflows and the global rotation towards semiconductor-related opportunities. Importantly, each of these headwinds is either being actively managed or increasingly reflected in current positioning. The RBI's currency measures, including its swap window, have already strengthened external liquidity using a framework that proved effective during the 2013 taper episode, while India's index weight has fallen sharply and its valuation premium has compressed to its lowest level in a decade.

By contrast, India's underlying investment drivers remain structural and compounding. A permanent reduction in consumption taxes is beginning to flow through to economic activity, domestic savings are generating approximately US$40bn of equity inflows annually with consistent monthly contributions for two consecutive years, and India is positioned to become one of the world's lowest-cost destinations for data centre capacity just as global demand for compute emerges as one of the defining infrastructure themes of the decade.

How India Avenue is positioned

The India Avenue Equity Fund is built on the premise that the greatest opportunities in India exist where the market is least efficient. While India has more than 6,000 listed companies, only around 1,000 are sufficiently liquid for institutional investment. Research coverage and institutional ownership, however, remain heavily concentrated in the largest 100–150 companies, leaving much of the market, particularly companies ranked between 250 and 1,000, materially under-researched and, in our view, more likely to be mispriced. Our strategy is to access this inefficiency by partnering with locally based Indian investment managers who possess an informational advantage.

The result is a portfolio that is deliberately differentiated from the benchmark and positioned to capture the structural themes shaping India's next phase of growth. The portfolio currently holds 78 companies, with the top ten positions representing 36.5% of the portfolio, and maintains a significantly higher allocation to mid- and small-cap companies than the MSCI India Index. These segments provide greater exposure to the domestic consumption, capital expenditure and export-led growth themes that are expected to drive India's economy over the coming decade.

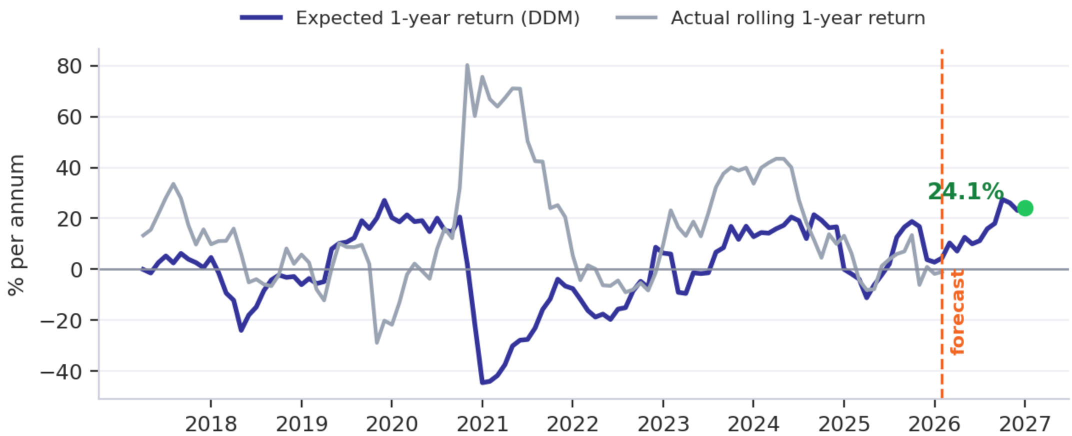
Portfolio composition at 30 June 2026	IAEF	MSCI India
Large cap	52.6%	70.0%
Mid cap	11.6%	20.0%
Small cap	33.7%	10.0%
Number of holdings	78	146

Importantly, this positioning has not come at the expense of valuation discipline. On a look-through basis, the portfolio trades at a lower valuation while offering materially stronger earnings growth than the benchmark. The fund is valued at 19.7x one-year forward earnings compared with 21.7x for the MSCI India Index (a 9% discount) yet is expected to deliver 24.6% forward earnings growth versus 17.6% for the index, representing a 7% growth premium.

Look-through characteristics	IAEF	MSCI India
Forward 1-year P/E	19.7x	21.7x
Forward 2-year P/E	16.9x	18.4x
Forward 1-year EPS growth	24.6%	17.6%
Forward PEG ratio	1.25	1.32
Free cash flow yield	4.9%	4.3%

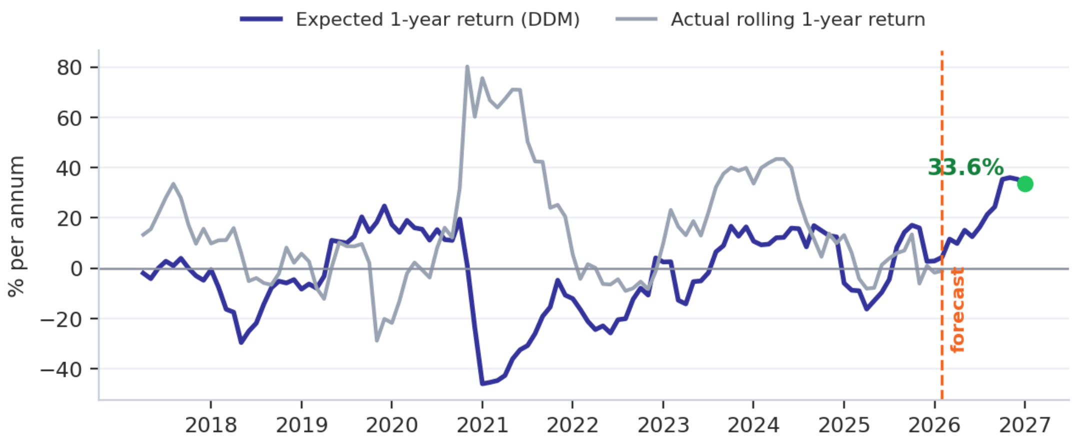
Gross profit margin	40.7%	37.6%

The metric we monitor most closely is our forward-looking expected return model. Each month, we apply a dividend discount framework across our holdings, incorporating current share prices, consensus earnings forecasts and relative valuation to estimate the return the portfolio could generate over the following 12 months if those forecasts are realised. We then compare these implied returns with subsequent realised outcomes to assess the model's predictive power over time. As at 30 June 2026, the model estimates an expected one-year return of 24.1% in Indian rupee terms, near the upper end of its historical range over the past nine years. The improvement reflects a powerful dynamic – share prices have corrected while earnings expectations have remained broadly intact, increasing the prospective return available from owning the same underlying businesses.



IAEF expected one-year return from a dividend discount model, plotted at the date it forecasts rather than the date it was calculated, against the actual rolling one-year return. Rupee terms. Source: Bloomberg, IA Internal, to 30 June 2026.

For Australian investors, the outlook is potentially even stronger. Our AUD expected return model incorporates an additional assumption that the Indian rupee gradually normalises towards its long-term real effective exchange rate, rather than continuing to depreciate from its currently undervalued level. Based on this assumption, currency normalisation contributes an additional 9.6% to expected returns, lifting the projected one-year return to 33.6% in Australian dollar terms. While currency movements are inherently uncertain, the combination of attractive equity valuations, resilient earnings expectations and a potentially undervalued currency create an unusually compelling return profile for long-term investors.



The same model in Australian dollars, adding a normalisation of the rupee's real effective exchange rate to its index base of 100. Source: Bloomberg, IA Internal, to 30 June 2026.

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