DeMo to bring opportunity for investors in 2017

*Jaipur Asset Management is an Australian-based specialist asset management firm facilitating investments in India. **Neelesh Mehta**, its co-founder and MD, brings a range of experience in capital markets and financial services in Southeast Asia, India and Australia with specialisations in mergers and acquisitions, investments, capital raisings, corporate restructuring, finance, governance and treasury management. Mehta feels post-demonetisation, it will take some time for the Indian economy to resume the growth trajectory of 2016. However, by mid-2017, there may be some positive outcomes for the economy as a whole. This presents a specific opportunity for all investors, he says in a conversation with **Ritwik Mukherjee**. Excerpts:*

NEELESH MEHTA

Interview

■ The idea behind floating Jaipur Asset.

The founders of Jaipur Asset Management (JAM) have substantial connections with India. After many years of deliberation, they concluded that the reforms being undertaken by PM Modi provide a new way for Australians to access the Indian economic growth in a simple, relatively de-risked manner. The firm's establishment met the twin objectives of allowing Australians to participate in the opportunities in the world's fastest growing market, whilst giving them the opportunity to provide more capital to India's corporate and social sectors. Our firm has also deep social commitments in India and Australia.

■ How does the firm work?

Our initial offer is the Jaipur India Growth Fund (JIGF), a single growth unit within the Jaipur Master Trust, which is a fund of Funds-style Unit Trust, domiciled in Australia. JIGF is available to sophisticated or wholesale investors, residing in Australia for tax purposes. We have appointed three Indian asset managers (the international arms of Birla Sun Life Mutual Fund, SBI Funds Management and UTI Asset Management). Our target markets are HNIs, family offices and small to medium institutions.

■ How many funds have you launched so far and what are the plans going forward?

Our initial offer is the JIGF. However, our structure allows for the launch of specific funds if needed by a client. While our current focus is JIGF, our longer-term plans include additional opportunities for investors.

■ What would be the size of the funds or the typical ticket size of your investment?

The focus is on facilitating significant investment into India. We have consciously kept the minimum investment relatively low at Rs 25 lakh (A$50,000) to cater to individual investors. However, we expect substantially higher investments (ticket sizes) from most of our target clients. Essentially, we believe that up to 2 per cent of a global portfolio should be allocated into India.

■ How has the recent demonetisation impacted the capital market for a non-resident and foreign investor?

The uncertainty created by the demonetisation has caused much confusion in India and the reporting of this confusion by Australian media has created an expectation that the Indian economy may struggle to recover from this shock. A structural shift has taken place. Our view is that it'll take some time for the Indian economy to resume the growth trajectory of 2016. However, by mid-2017, we anticipate positive outcomes for the economy as a whole. This presents a specific opportunity for all investors.

■ What impact would demonetisation have on cash intensive sectors like real estate, construction and consumption?

Our discussions with our partners indicate that real estate (residential) will suffer from an immediate drop in liquidity, so short-term negative, but return to growth when current stock has been taken up, albeit starting from a lower base. General construction has a substantial focus on infrastructure and we do not anticipate a change there — if anything, the banking system, which is now flush with funds, could give a much needed impetus to the sector. Consumption is harder to predict due to the previous levels of cash transactions driving consumption generally. However, the move to digital transactions and the rapid acceptance of debit cards and utilisation of mobile phones should facilitate the movement of funds and a return to consumption, at least at the day-to-day level. New regulations around higher level transactions make this type of consumption harder to predict specially from outside India.

■ What would be your take on the fundamentals of the Indian economy and the capital market?

We believe the Indian economy is fundamentally strong, although with inherent structural issues, which are not well understood by non-Indians. The capital market may be impacted by the proposed changes to taxes for foreign investors, especially companies. We expect that the additional funds deposited within the banking system may offset this in the short-term. Close monitoring of this will be required, which from our perspective re-inforces the need for asset managers to be closer to the market and the companies in which they invest.

■ How are institutions/FIIs looking at India now? Do you think this outlook will continue for some time?

Many FIIs are actively considering India as a potential area for investment. We expect this will continue as long as the programme of reform being undertaken by the government continues and some of the more obvious detracting factors such as low level of free float of the India markets are addressed. India does need to market itself as an investment destination of choice and highlight its structural strengths. History shows that whilst the stars to align other countries have seized the opportunity, India has waited. We believe that this time it may be different. Prime minister Modi appears to have taught the elephant to tap dance.

■ Which are the sectors, investors should focus on at this point of time?

JAM outsources this decision to our underlying asset managers. Their current focus is on internal consumption, financials, infrastructure and the provision of professional services as an export earner.

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