

Nepean Capital LLP: US Visit Notes (May 8 - June 3)

Monday, 5 June 2023
Mumbai

It's 2:30 am and I am penning my findings of the last 4 weeks in the U.S. Besides battling jet lag, I am also wrestling with the pre-monsoon heatwave sweeping the country with Mumbai at 35 degrees C/95 F (but feels more like 40 C/104 F). My U.S. visit included meetings with asset allocators, fund managers and some on the ground channel checks. The highlights:

Inflation is Persistent: I have never seen the U.S. this expensive, that includes everything from food to transportation to hotels. And I am comparing prices with when I was there the same time last year. Sample the below:



Large Latte: \$6.00



Trail Mix: \$8.00



Veg. Enchilada: \$25.00*

A one way Uber ride from midtown Manhattan to Newark airport was over \$100. All the flights that I took within the U.S. were not only packed but the airports were so congested that the planes had to wait 20-40 minutes to find a gate.

While New York is not representative of the rest of the country (much like Barcelona is not representative of the economic issues in Spain), restaurants, hotels and shops were full of tourists, both local and foreign. While Bloomingdales wore a deserted look, Macy's on 34th street was heaving with customers even as last week the latter lowered its sales guidance for the current year.

The owner of Bombay Palace, an Indian restaurant in Los Angeles, told me that wage inflation was eating into her profits and that she was finding it hard to retain her staff. A chatty Lyft driver in Atlanta said her supermarket bill was up 60% vs. pre-COVID.

Looks like all the rate hikes taken by the Fed since March last year seem to have had limited impact (so far) on demand and as a result on inflation.

**at a moderately priced restaurant in Cary, North Carolina*

Asset Allocation: The two countries which seemed to have the most interest were Japan (the NIKKEI is at a 33 year high) and India (near lifetime highs). I found that allocators were shying away from China, which is no surprise given US-Sino relations. Most of the allocators that I met knew the India story quite well and had been investing in both its public and private markets. One allocator said that they have been overweight India and underweight China since 2017. Many of them made recent visits to India and had come back more positive. They agreed that this was a seminal moment for India as it strives to attract more FDI into manufacturing and as a greater percentage of the population moves up the per capita income curve.

I said that the best brand ambassador for the country was none other than Prime Minister Narendra Modi. However, the key concern that investors had was, whether he would secure a third term in next year's general election (held every five years).

India Outsourcing: The world has woken up to its overdependence on China for manufactured goods and is diversifying to other markets. India is *one* of those China + 1 alternatives. My annual visits to Walmart (this year in Raleigh, NC) and COSTCO (in Simi Valley, CA) revealed that more products are now sourced from India. Sample the below:



T-shirts



Towels



Bedsheets

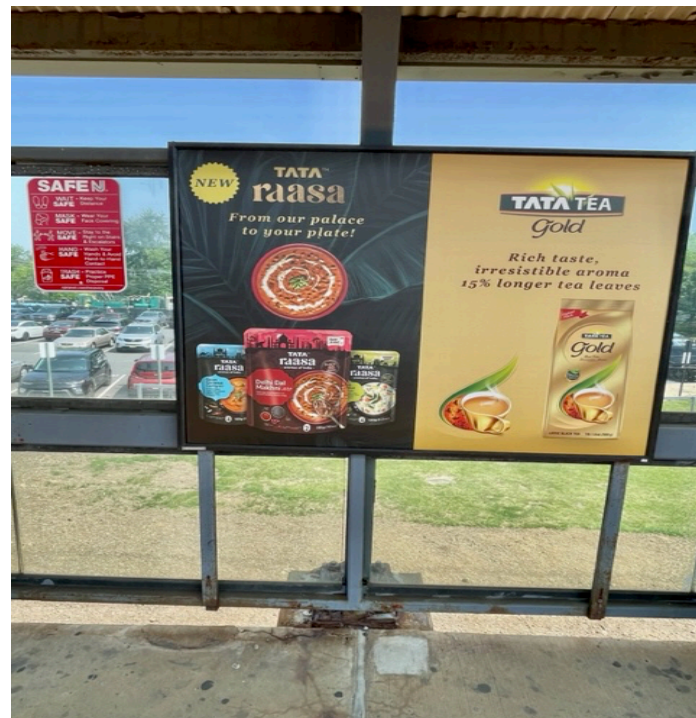
I was delighted to find an expensive shirt at Ralph Lauren, proudly Made in India.



Furthermore, I discovered that availability of Indian food has significantly improved. While I don't pine for Indian food when I am overseas, I was pleasantly surprised to find it in stores like Trader Joe's. This is great news for resident Indians and students alike, who otherwise mostly shop at Patel Brothers (www.patelbros.com; 54 stores nationwide and counting). The products below are made in India for Trader Joe's private label.



Also, I was amazed to see an advertisement at a train station in New Jersey for ready-to-eat Indian food and Indian tea from Tata Consumer Products, one of the Top 5 performing stocks in our first India fund. It's been a great turnaround story with the stock up 200% over the past five years. Besides packaged food (see above), the company has the #1 salt brand in India (Tata Salt), #2 tea brand (Tata Tea), #4 tea brand in the UK (Tetley), Eight O'Clock coffee in North America, #1 natural mineral water (Himalayan) in India and a 50:50 JV with Starbucks (333 stores in 41 Indian cities and counting).



CONCLUSION:

While investors can't figure out if the US will dodge a widely anticipated recession this year or not, I have returned home more confident of how the India story is perceived in the U.S.

Prime Minister Modi's vision of taking India's GDP from the current \$3 Tn to \$5 Tn will play out over the next 5 years, unleashing a plethora of opportunities for investors (foreigners and locals, alike) to make money. This will be aided by:

- The formalization of the Indian economy triggered by GST compliance, thereby leading to higher tax revenues for the government
- Improvement in infrastructure
- China +1 attracting more outsourcing and FDI in manufacturing
- Further penetration of UPI (currently 300 Mn users, targeting a billion people) leading to democratization of finance
- ONDC (currently live in 236 cities, 35,000 merchants, 2.4 Mn products) will help increase inter-country commerce

I believe that India is the best Long-Only market in the world and the better way to play it is to stay invested in a concentrated portfolio of high conviction stocks.