Nilesh Shah's open letter to Jim Rogers: Don't repent, please return to D-Street

By *Nilesh Shah*, ET CONTRIBUTORS | Updated: Apr 17, 2017, 10.27 AM IST

Dear Jim,

Ours is a one-way relationship. I had written you an open letter in 2015 when you had profoundly declared to exit the Indian equity market. In your recent interview, you have understandably regretted that decision. I wish you had read my letter and acted upon it, as by now you would have more-than-doubled your wealth in USD terms by investing in Kotak Emerging Equity Fund with a nominal leverage.

I am writing this letter to present facts that have been overlooked by you.

'The Indian Equity markets are at an all-time high'
It is half-truth to say that equity markets are at all-time high.

Numerically, Sensex is near an all-time high level, but from the valuation point of view, it is far away from the levels seen in bubble years of 1992 and 2000 or expensive valuations of end 2007. My recommendation will be to look at valuation, not numerical level of index.

We have made money for our unit holders for the past 20 years by investing even at times when markets were at an 'all-time high', as you like to say. We could do it as we were focused on stocks.

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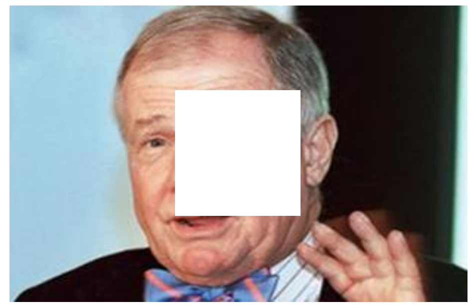

Don't repent, please return to D-Street: Nilesh Shah to Jim Rogers

Many years ago when HDFC Bank got listed, R K Damani, a legendary Indian investor, bought it aggressively not only at all-time high prices but also at very high valuations. Someone asked him why he was buying HDFC Bank at such high price/valuation. His golden reply was: "Dharavi (a slum area of Mumbai) is Dharavi and Peddar Road (an upmarket area of Mumbai) is Peddar Road."

The bottom line: You can make money by picking up good stocks and giving them time to deliver. Equity investing is like growing a tree. Find a good seed, plant it in right place, nurture it well and wait for it to deliver delicious fruits.

'I am not aware of any big steps to boost FDI'
I am sure you are aware that India has become the largest recipient of FDI in the world overtaking China in FY 17. You might not be aware that our FDI numbers don't include retained earnings like in China. Global FDI investors are undoubtedly turning positive on India because they can see success stories, such as Maruti.

As you may know, Maruti is a subsidiary of Suzuki Motors. Maruti has outperformed Suzuki shares in USD terms since its listing by more than 12 times. This is despite Suzuki owning 53 per cent of Maruti and receiving royalty from Maruti. Maruti now has become bigger than Suzuki in market cap creating tremendous wealth for its shareholders including Suzuki.

FDI investors are coming to India because of positive experience of corporates like Nestle, Unilever, Suzuki, Bosch, Glaxo, LG, Samsung, Citi Bank, Pfizer, Cummins, P & G, Timken, Cognizant, Accenture, IBM, Abbot and Facebook etc... Don't go by what Snap Chat CEO Evan Spiegel talked about India. He will soon eat his words like Tommy Hilfiger. We treated Uber much more favourably than your favourite country where they had to make a hurried exit in favour of a homegrown company.

'I don't want to jump into a moving train. When you jump into a moving train, you get hurt'

For the last 20 years, I have advised my investors that you must jump into equity train irrespective of whether it is standing or running. There are chances that you might get hurt if you catch a running train. But time will heal all your wounds. What is more important is to be on the train rather than waiting on the platform for the next train to arrive.

My recommendation will be to take some risk and get the thrill of catching a running train. It will be equally joyful like your bike ride around the world.

'India still has lot of debt unlike Russia which has a low debt and a convertible currency. Indian debt-to GDP ratio is high at 90 per cent'
Our debt-to-GDP ratio is currently 69 per cent down from 84 per cent in Mid-2000. Our credit to-GDP ratio is one third of Chinese official number. We couldn't create enough credit to push growth as we were obsessed with currency notes. We kept 12 per cent of GDP in currency notes restricting creation of credit through velocity of money. We completed world's largest demonetisation exercise recently.

These will move cash from currency in circulation to bank deposits helping create credit to support accelerated growth.

Our rupee is fully convertible for foreigners. In my industry, numerous FDI and FII investors have taken their money out even at the depth of US sub-prime crisis in 2008. We have never put any restriction on selling of stocks and repatriating money like your favourite country did in 2015. You will be reassured to know that for more than 5,000 years, we have never defaulted to any foreigner.

'Will invest in India if government makes the currency convertible and opens up the market'
Our currency is fully convertible for foreigners as explained earlier. We have an open market as we follow the maxim of "Atithi Devo Bhava" - Guest is God. If you don't believe me, please show me one country which has welcomed FDI and foreign trade like India.

In the listed space, our largest bank, insurance company, FMCG company etc. are majority owned by foreigners. Almost half of our listed free float is owned by foreigners.

Our ability to open economy can be linked to your ability to accept our labour as we have surplus labour and you have surplus capital. Shouldn't there be a level-playing field whereby you take our labour and we take your capital?

'I invested, but Modi did nothing much for two years, and then I sold'
Let me list out a few things, which the Modi government has done since May 2014, which will have a positive bearing on the Indian economy in days to come. - We were using energy-guzzling incandescent bulbs. The Modi government launched a programme to provide energy-efficient LED bulbs to save power.

- Their bulk purchase reduced prices of LED bulbs by about 90 per cent. India will be saving 20,000 MW of power annually by 2019 when we distribute about 770 million bulbs.

- You are well aware of the leakages in the subsidy distribution. The Modi government scaled up Aadhaar which is a biometric identification like your Social Security Number to remove ghost recipients from food and fuel subsidies. These steps are helping the country save about $4 billion annually.

- There are more than 10 million Indians who have voluntarily given up their cooking-gas subsidy to enable the government to provide subsidised cooking gas to rural households. Health benefits to rural woman who were inhaling smoke from wood and coal daily in absence of cooking gas are beyond financial analysis.

- In India, 70 per cent of goods move by road making it an expensive and time-consuming affair. Several steps are being taken to move cargo by the railway and the water route.

- Dedicated Freight Corridor is a game-changing project under implementation. It will improve speed of a goods train from about 25 km to about 75 km and cargo carrying capacity from 1,300 tonnes to 5,000 tonnes. These 3,380 km of railway track will connect Northern India to Western and Eastern India reducing cost of transportation.

Similar steps are taken to connect Eastern and Western India through the sea route through Southern India. Hyundai now uses the sea route to transport automobiles from Southern India to Western India reducing transportation costs.

Our annual import of coal averaged about $17 billion between FY11 to FY14 despite having sufficient coal reserves. In FY15, we incrementally produced more coal than previous four years.

In the past, our power plants faced shortage of coal. Now, they face the problem of storage of excess coal. India is expected to stop importing thermal coal by 2019. Jobs, which we were helping create in Indonesia, South Africa and Australia, are now being created in India. I am sure that as a commodity guru, you will be aware of these as it has brought down global coal prices.

The world is moving towards a digital architecture. Many developed countries are allowing private companies to build architecture and create billions of dollars of market cap. In India, we are creating digital architecture in public space like UPI, Aadhaar, BHIM etc, and making it available at a nominal cost. I will recommend you to read an article written by your peer macro investor Raoul Pal on digital transformation of India.

The benefits of digital transformation of India are not yet discounted by the market.

We annually spend about $7 billion to provide employment to rural people through a programme called MGNREGA. Now, this programme is used to deepen existing water bodies and developing new water bodies.

In last two years, we have developed/cleaned 1 million plus water bodies, which will help in recharging ground water and improving farming. The benefits of such developments are not yet reflected in the Indian agriculture and rural economy or markets.

I will need entire newspaper to write about the work done by the Narendra Modi government. It is not that they have done everything right. The government has to take steps to resolve NPAs in banking sector, revive private-sector investment, improve ease of doing business and create millions of job.

Our economy and markets will go through ups and down. It is possible that our markets can correct from the current level.

However, for a long-term patient investor, India will remain a good opportunity.

I strongly recommend you to jump in the moving train and be part of the fabulous India Growth Story. I am sure you won't be regretting that decision in future.

Yours truly, Nilesh Shah

P.S: My apologies if you find this letter unwarranted. You are far more senior and elder to me in age and stature. My intention is to make you aware about the correct situation of India.