Some Investors in Other Mkts would be Envious of the Multiples in India

ET Q&A

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Indian equities remain reasonably valued by global standards despite the market correction, and a more favourable long-term capital gains (LTCG) tax regime could further bolster foreign investor appetite, says Rich Handler, chief executive of Jefferies Group. In an interaction with **ET**'s **Vinod Mahanta**, Handler, along with Jefferies India co-heads Mahesh Nendurkar and Ashish Jhaveri, also discusses India's potential as an AI hedge, the risk of an AI bubble and prospects of a broader market crash. Edited excerpts:

Foreign investors are pulling money out of India. Is this a temporary rotation or a structural reassessment of India's valuations?

Richard Handler: Despite the market correction, Indian stock valuations are reasonable by any measure. Some investors in other markets would be envious of the multiples they see here. India remains attractive to global investors because of its remarkable human capital, strong work ethic, stable government, well-functioning capital markets, sound legal system and favourable demographics.

Over the last few years, AI has attracted a disproportionate share of global capital, diverting funds from India as well as non-tech businesses in the US and elsewhere. While AI is inevitable, I believe we may now see a pause and a rethink of investment strategies. This is not just about the US election. US debt markets are also signalling caution, forcing investors to reassess which AI strategies can succeed, and which capital-intensive projects have the financial backing to completion. This is reflected in widening yields of some US AI companies. I think this is a healthy pause. Whenever you have exponential growth, it is good to have checks and balances on how much capital flows into it. India, along with other markets and non-AI businesses, could benefit from this shift.

I also see significant opportunities in data centres and AI in India. So, this is not about investors losing faith in India. Global capital has been concentrated in one sector, with AI stocks driving the indexes. Investors and hedge funds have followed that trade. Fundamentally, investors remain very bullish on India over the long term.

Would scrapping LTCG tax for foreign investors materially change India's attractiveness?

Handler: That would be a very constructive move. There are regulations everywhere, but simplification always makes a market more attractive to investors. Greater transparency and less tax friction also help bring more investors into India.

How much are US interest rates and bond yields driving capital away from India?

Handler: I don't think India should feel defensive about its attractiveness to investors. Capital moves in and out of markets for various reasons. A short period of capital outflows is not a statement on the country. It could reflect investors who were overweight India, facing redemptions or redirecting capital towards opportunities such as AI. Ultimately, relative value wins, and there is plenty of relative value in India.

AI INVESTMENT

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Ashish Jhaveri: If you look at the three biggest factors over the last 12 months, they have been tariffs, AI and oil. India has probably been among the few large markets affected by all three. This has led global investors, who also assess markets on a relative basis, to find better opportunities elsewhere. Currency depreciation has added to the pressure. The good part is that domestic fundamentals are strong. The impact has largely been external. As these factors begin to reverse, I believe India could see better relative performance too.



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Could India emerge as an AI hedge for investors seeking to diversify away from the increasingly concentrated US technology trade?

Handler: I don't think India needs to position itself as an AI hedge for investors. It should focus on businesses it knows and does well; that alone is enough to attract capital. Data centres could become a significant opportunity. India has the ingredients to build a competitive advantage, and hyperscalers are looking for alternatives. India is attractive in its own right, with the potential to become more diversified if it gets the data centre opportunity right.

China sustained 10% growth for years, while India has settled around 7%. Do we need a new generation of reforms to shift the economy to a higher growth trajectory?

Handler: I think you're being too hard on yourselves. Much of the world envies India's growth, demographics, work ethic and human capital. Sacrificing democracy for a slightly higher growth rate in the short term would be a mistake.

Taiwan and South Korea are witnessing sharp corrections and foreign investor outflows. Yet India has not emerged as an automatic beneficiary of this shift. Are global investors reassessing the AI trade, or is this simply a rotation within emerging markets?

Handler: There is considerable uncertainty globally, and I don't think any market is benefiting. Over the last six weeks, investors have moved into cash amid concerns about an overheated AI trade, two major wars and political uncertainty. We have seen a broader deleveraging. The money hasn't rotated into India, but neither has it flowed into other markets. Investors are simply reducing risk.

IPO BOOM

India is fortunate to have a steady stream of domestic capital, with long-term retail investors investing in the market

Have you noticed any shift in how global business leaders perceive India as an investment destination?

Handler: India was a big beneficiary of the shift away from China, as global investors became more comfortable with the investment climate here. I don't think there has been any aversion to India. The combination of higher oil prices and currency pressures explains the lack of inflows. I believe that will change.

Is India's IPO boom sustainable?

Handler: India is fortunate to have a steady stream of domestic capital, with long-term retail investors investing in the market. Historically, equities have outperformed fixed income over longer time horizons. By discouraging investment in fixed income and encouraging equity participation, you are promoting broader wealth creation and distribution across society. There may be periods when this doesn't feel good, but over the long term, I think it is a smart approach and wouldn't change it.

Nandurkar: Indian households are increasingly financialising their savings and taking a longer-term view of investments. They are no longer swayed by a few months or quarters of market weakness. The asset management industry has done a remarkable job of popularising SIPs, allowing even small investors to participate in India's growth story. This disciplined investment approach has ensured steady flows into equity markets. As long as this continues, it creates a virtuous cycle for entrepreneurs: venture capital leads to private equity, which eventually leads to public market listings. This entire funding chain encourages entrepreneurship, even at the grassroots level. I think it's a healthy cycle, and I hope it continues.

Are you seeing warning signs of a major market correction or even a crash?

Handler: If I could anticipate these market surprises, I would have done so the last 12 times they occurred. I look at the global financial system, particularly in the US, and see healthy liquidity. Interest rates are higher than they were, but they are not particularly high by historical standards. The US legal and financial regulatory systems are functioning well. Yes, there has been excessive investment in AI, two wars are raging and interest rates are higher. But the broader financial system is working. Capital markets remain open, and markets are nowhere near distress levels. Hopefully, the wars will end, creating a much more positive environment for global investment.

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