Quarterly Commentary

Aberdeen Standard Investments

The India Fund, Inc. (IFN)

Fund performance

The India Fund returned -5.56%[1] on a net asset value basis for the third quarter of 2018, and underperformed the -2.25% return of its benchmark, the MSCI India Index.[2] Both stock selection and asset allocation had a negative impact on Fund performance. The underweight to the energy sector was the key driver of the Fund's underperformance, while the exposure to the consumer discretionary sector was a contributor.

The key detractor from Fund performance for the quarter was the underweight allocation to the energy sector relative to the benchmark. Specifically, the lack of exposure to Reliance Industries weighed on performance as the stock price rallied on higher oil prices and continued growth of Jio, its telecom business. The Fund's overweight to consumer staples also hurt performance as the sector had a good run through August, and eventually saw profit-taking on valuation grounds. Stock selection in financials was another detractor from Fund performance for the quarter. The sector came under pressure from fears arising from the debt defaults of non-banking financial company Infrastructure Leasing & Financial Services (IL&FS), which the Fund does not hold. Among the Fund's individual holdings, Kotak Mahindra Bank, HDFC Bank and Piramal Enterprises were notable detractors from performance. However, we believe that the correction in some quality names is overdone, so we took the opportunity to add to the position in HDFC.

On the positive side, the Fund's underweight exposure to the consumer discretionary sector contributed to performance. We recently initiated a holding in automaker Maruti Suzuki on share price weakness. The company is a market leader which we believe will benefit from the growth in rural demand. Similarly, the Fund's relatively large positions in IT services companies Tata Consultancy Services (TCS) and Mphasis boosted Fund performance as the information technology sector benefited from a weaker Indian rupee and rising demand in its key markets.

During the third quarter, we initiated holdings in life insurer SBI Life; market-leading automaker Maruti Suzuki; engineering outsourcing company Cyient; and property developer Prestige Estates Projects. In our opinion, SBI Life is positioned well to take advantage of the low penetration within the sector, amid an expanding middle class and stabilizing regulatory environment. Similarly, we think that Maruti Suzuki combines Japanese technology with local "know-how" and supply-chain capabilities to capitalize on the rising demand for passenger vehicles as wealth levels rise. Cyient benefits from a weakening currency as most of its earnings are in U.S. dollars. While we were familiar with the company for some time, we believed that the recent market volatility provided an opportunity to invest at an attractive valuation. Prestige Estates is a leading South Indian property developer with a good reputation for executing and completing projects. We feel that the company is well-placed to benefit from ongoing reforms in the real estate industry and the recovery of the Bangalore property market.

Additionally, we continued to build the Fund's positions in Bandhan Bank, India's largest microfinancier.[3] The company has a reputation for prudence and is well-positioned to grow in its core markets, in our judgment. Bandhan Bank also announced solid earnings for the first quarter of its 2019 fiscal year. We also added to the Fund's holding in IT services provider Infosys, which delivered good June-quarter results, and Bharti Airtel on share-price weakness. Additionally, we viewed the recent share price correction in HDFC as overdone, so we took the opportunity to add to the Fund's position.

We funded these transactions by trimming the Fund's positions in pharmaceutical firms GlaxoSmithKline India and Sanofi India. Moreover, shares in the IT services and pharmaceutical sectors performed well over the quarter, supported by a strengthening U.S. dollar and a weaker rupee. This provided us with the opportunity to take profits from the Fund's positions in TCS, Mphasis, and Sun Pharmaceuticals. Furthermore, shares of pharmaceutical companies advanced as drug volumes recovered, enabling us to trim the holding in GlaxoSmithKline India. We also took some profits from the holdings in automotive and industrial products maker Bosch after its recent share-price run-up, and in pharmaceutical firm Piramal Enterprises prior to the market correction.

[1] ***Past performance is no guarantee of future results. Investment returns and principal value will fluctuate and shares, when sold, may be worth more or less than original cost. Current performance may be lower or higher than the performance quoted. Net asset value return data include investment management fees, custodial charges and administrative fees (such as Director and legal fees) and assumes the reinvestment of all distributions.***

[2] The MSCI India Index measures the performance of the large- and mid-cap segments of the Indian equity market. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

[3] Microfinanciers provide banking services to unemployed or low-income individuals or groups who otherwise would have no other access to financial services.

We exited the Fund's position in ICICI Bank, given our concerns about the asset quality of its balance sheet, as well as uncertainty within its management. We also exited the holding in pharmaceutical company Lupin as its earnings for the first quarter of its 2019 fiscal year generally did not meet the market's expectations amid continued declines in its U.S. generics business and margins.

Market review

Indian equities touched new highs during the third quarter, but pulled back amid U.S. Federal Reserve interest-rate hikes, rising oil prices, a strengthening U.S. dollar, global trade tensions, tighter liquidity conditions and political uncertainty. The financials sector also came under pressure on fears of contagion risk arising from the debt defaults by IL&FS.

The Reserve Bank of India (RBI) raised its benchmark interest rate for the second time in 2018 due to its expectation of higher inflation fueled by elevated oil prices and weakening currency. External shocks also led to a widening of the current account deficit, prompting the government to impose measures such as higher import tariffs in a bid to support the currency.

However, the first-quarter 2018 gross domestic product (GDP) growth rate of 8.2%, driven largely by manufacturing and construction, suggested a robust domestic economy. Recent trends from corporate earnings indicated a healthy rural demand for the consumer sector; IT stocks, particularly those providing outsourcing services, were performed well, with stronger demand from key overseas markets; asset quality in financials appeared to be stabilizing, with banking sector reforms underway; and the cement industry's fundamentals appeared to improve, with better volume growth and utilization.

Outlook

In the near term, we believe that geopolitical and trade tensions will continue to test both Indian equities and the currency, which has depreciated significantly on global and domestic concerns. In the domestic market, tighter liquidity conditions, a weaker rupee and higher oil prices could hamper capital investment and growth. In such an environment, we think that companies with pricing power and strong balance sheets will emerge stronger.

However, GDP growth has been robust and despite the recent rupee weakness, foreign-exchange reserves are healthy. Overall inflation remains benign thanks to low food prices. Rural spending is robust as we head into the national elections in 2019. Additionally, the weaker currency has helped the export-oriented sectors and earnings upgrades are gradually broadening out across most industries. Moreover, data from leading indicators suggest that the large domestic economy should buffer it against external shocks.

Looking ahead, we are more cautious about valuations, in light of emergent political concerns. There are growing worries that newly forged coalition arrangements could dislodge the Bharatiya Janata Party (BJP) from power next year. Nevertheless, Prime Minister Narendra Modi remains personally popular, and the BJP is still expected to stay in power. A reduced majority could force the party into a coalition, but we do not believe that this should significantly derail its reform agenda. However, we feel that election expectations may lead to volatility in the market. We remain optimistic about the Fund's holdings, given their solid fundamentals and experienced management. In our view, this should benefit the Fund's performance over the long term.

Top Ten Equity Holdings*

Holdings	%
Housing Development Finance Corporation	9.4
Tata Consultancy Services	7.9
ITC	5.1
Kotak Mahindra Bank Ltd.	4.3
Infosys	4.1
Hindustan Unilever	3.9
Asian Paints Ltd.	3.7
UltraTech Cement	3.6
Mphasis	3.6
Piramal Enterprises	3.5
Total	**49.1**

*Holdings are subject to change and are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities shown. The top ten holdings are reported by share class. Certain companies listed may be held in additional share classes not listed above.

Total Returns* (%)

	Cumulative as of September 30, 2018			Annualized as of September 30, 2018				
	1 Mo	3 Mo	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception 02/23/94
NAV	-9.9	-5.6	-6.5	1.5	8.9	12.7	8.6	9.2
Market Price	-10.3	-5.8	-7.3	-0.2	8.4	13.0	7.3	8.3
MSCI India	-9.1	-2.2	-9.6	1.1	7.0	9.7	6.5	**6.6

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**For the MSCI India benchmark, the returns provided for since inception are based on month-end level valuations as of February 28, 1994.

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