

MORGAN STANLEY INDIA INVESTMENT FUND, INC.
Form N-CSR
March 09, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-08238

Morgan Stanley India Investment Fund, Inc.
(Exact name of registrant as specified in charter)

522 Fifth Avenue, New York, New York
(Address of principal executive offices)

10036
(Zip code)

John H. Gernon

522 Fifth Avenue, New York, New York 10036
(Name and address of agent for service)

Registrant's telephone number, including area code: 212-296-0289

Date of fiscal year December 31,
end:

Date of reporting period: December 31, 2017

Item 1 - Report to Shareholders

Morgan Stanley India Investment Fund, Inc.

Directors

Nancy C. Everett

Jakki L. Haussler

Joseph J. Kearns

Patricia Maleski

Fergus Reid

Advisory Directors

M.J. Marcel Vivian
Descroizilles

Ravindranath Santosh

Kumar Hazareesing

Mamode Izam Nathadkhan

Officers

John H. Gernon

President and Principal Executive Officer

Francis J. Smith

Treasurer and Principal Financial Officer

Timothy J. Knierim

Chief Compliance Officer

Mary E. Mullin

Secretary

Michael J. Key

Vice President

Adviser and Administrator

Morgan Stanley Investment Management Inc.

522 Fifth Avenue

New York, New York 10036

Sub-Adviser

Morgan Stanley Investment Management Company

23 Church Street

16-01 Capital Square, Singapore 049481

Custodian

State Street Bank and Trust Company

One Lincoln Street

Boston, Massachusetts 02111

Stockholder Servicing Agent

Computershare Trust Company, N.A.

211 Quality Circle, Suite 210

College Station, Texas 77845

Legal Counsel

Dechert LLP

1095 Avenue of the Americas

New York, New York 10036

Counsel to the Independent Directors

Perkins Coie LLP

30 Rockefeller Plaza

New York, New York 10112

Independent Registered Public Accounting Firm

Ernst & Young LLP

200 Clarendon Street

Boston, Massachusetts 02116

For additional Fund information, including the Fund's net asset value per share and information regarding the investments comprising the Fund's portfolio, please call toll free 1 (800) 231-2608 or visit our website at www.morganstanley.com/im. All investments involve risks, including the possible loss of principal.

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INVESTMENT MANAGEMENT

Morgan Stanley
Investment Management Inc.
Adviser

Morgan Stanley
India Investment Fund, Inc.
NYSE: IIF

Annual Report

December 31, 2017

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Morgan Stanley India Investment Fund, Inc.

December 31, 2017

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Morgan Stanley India Investment Fund, Inc.

December 31, 2017

Letter to Stockholders (unaudited)

Performance

For the year ended December 31, 2017, the Morgan Stanley India Investment Fund, Inc. (the "Fund") had total returns of 46.21%, based on net asset value, and 48.83% based on market value per share (including reinvestment of distributions), compared to its benchmark, the MSCI India Index (the "Index")*, which returned 38.76%. On December 31, 2017, the closing price of the Fund's shares on the New York Stock Exchange was \$33.15, representing a 11.2% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

Please keep in mind that double-digit returns are highly unusual and cannot be sustained. Investors should also be aware that these returns were primarily achieved during favorable market conditions.

Factors Affecting Performance

- Overall, in 2017, the Indian market's performance ranked sixth among emerging markets (as measured by the Index and the country index constituents of the MSCI Emerging Markets Index). Despite India being a non-tech market and technology being the single biggest driver of performance for emerging markets this year, India's performance has been in line with the broad emerging markets index, with the MSCI India Index up 38.76% and the MSCI Emerging Markets Index up 37.28%.
- The Fund outperformed the Index in the reporting period. Stock selection and sector allocation both contributed to the outperformance.
- At a sector level, our underweight allocations to the information technology and health care sectors were the largest contributors to performance. Detracting from performance was our underweight allocation to the energy sector.
- The stock selection in the financials, utilities and information technology sectors contributed to performance, while stock selection in the energy and materials sectors detracted from performance over the period.

Management Strategies

- The year 2017 was marked by two large macro displacements in the form of demonetization (the government's currency replacement program, which took effect starting in November 2016) and the goods and services tax (GST). As a result, the country did not have a clean growth number over this period. Encouragingly, in the most recently available data, the July to September 2017 gross domestic product (GDP) numbers reflect a growth of 6.3% (versus 5.7% in the preceding quarter), reversing the decelerating trend and reinforcing that the economy is slowly working its way out of these twin displacements. We stayed true to our growth convictions in the post-demonetization environment. The economy swiftly normalized after a poor October to December 2016 quarter, and our growth and quality convictions were rewarded over the reporting period.
- One year on, the report card of the Indian economy reflects mixed consequences from demonetization. The displacement remains largely concentrated in the unorganized sector (which dealt largely in cash). However, we do believe that the short-term

Morgan Stanley India Investment Fund, Inc.

December 31, 2017

Letter to Stockholders (unaudited) (cont'd)

upheaval has set in motion a process of long-term "formalization" of the economy. Listed companies have been big beneficiaries of the transition from the unorganized to the organized space. Another salutary effect of demonetization has been a rapid "financialization" of the Indian economy. Savings were rapidly moving away from the traditional avenues of gold and real estate into financial assets, a trend that has gained momentum post-demonetization. This has been a large theme for us in the portfolio as well. We have owned private sector banks, securities exchanges, asset managers and wealth managers in our portfolio. This financialization theme was the largest contributor to performance in calendar 2017.

- July 2017 was marked by the introduction of the GST, arguably India's biggest indirect tax reform and the longest in the making. It eliminates the cascading impact of various central, state and local body taxes and unifies them into a single levy. This is expected to lead to a better allocation of resources and is likely to improve overall growth in the medium term by improving the ease of doing business. The GST is also expected to improve tax compliance with its built-in incentive of input tax credits (which can be set off against tax on final products) and thus help a widespread formalization of the economy. Corporate earnings for the June quarter were largely subdued (especially in the consumer-facing sectors) as distribution channels ran down inventories to start the new tax regime with minimal/no stock. However, we saw re-stocking pick up pace toward the end of the year to cater to festive season demand in October and November 2017. Our base case is a sustained recovery in consumer demand once the initial phase of hiccups is over.
- The condition of the state-owned banks was an oft-quoted macro worry for India, with bad loans amounting to nearly 15% of assets.ⁱ The government announced that it would recapitalize the state-owned banks with \$33 billion worth of capital (composed of recapitalization bonds worth \$21 billion, already budgeted fiscal support worth \$3 billion and banks' own capital raisings worth \$9 billion). Under International Monetary Fund classification, this will not be treated as fiscal deficit but only as higher public debt to GDP. Broader macro risk perceptibly receded with the recapitalization. Banks should benefit from the system-wide unclogging that could occur when state-owned banks with shored-up capital take haircuts on bad assets and move on.
- Foreign institutional investors (FIIs) were net sellers of the Indian market in calendar year 2017. However, continued strong investments by domestic institutions acted as the balancing force for the Indian markets. In essence, financialization – the greater use of formal financial institutions by Indian savers, which accelerated post-demonetization – reduced the impact of FII selling on the equity market. The calendar year 2017 saw domestic inflows of \$30 billion, and is on track to post the second largest number since 2008.ⁱⁱ
- India's improving growth outlook and structural reforms agenda got a shot in the arm with Moody's upgrading India's local and foreign currency rating to Baa2 (outlook positive), a notch above its prior rating of Baa3 (outlook stable). It is the first upgrade of India's rating in 14 years. The Moody's upgrade endorsed recent reforms such as GST, measures to address the banking system's non-performing loans and Aadhaar-enabled direct benefit transfers, a mechanism for transferring government subsidies directly to citizens that is intended to reduce informality in the economy.

Morgan Stanley India Investment Fund, Inc.

December 31, 2017

Letter to Stockholders (unaudited) (cont'd)

- India's rank in World Bank's Ease of Doing Business survey improved by 30 places, according to the survey's annual report released in October 2017.ⁱⁱⁱ This, too, marked progress on a front where India was considered sorely lacking.
- Strong foreign flows into the debt and equity markets have helped the rupee, which was up about 6.3% versus the U.S. dollar year-to-date through December 31, 2017.^{iv}
- A phase of big macro improvements on inflation and current and fiscal accounts is behind us and warrants a course change, in our view. While the macro scorecard is still in good shape, we think it is time to be especially rigorous on sell discipline. We continue to orient the portfolio toward long-term growth themes where we have better valuation comfort.

Sincerely,

John H. Gernon
President and Principal Executive Officer January 2018

*The MSCI India Index is a free-float adjusted market capitalization weighted index that is designed to measure the performance of the large and mid cap segments of the Indian market. The performance of the Index is calculated in U.S. dollars and assumes reinvestment of net dividends. It is not possible to invest directly in an index.

ⁱ Source: Reserve Bank of India, Macquarie, Company Data

ⁱⁱ Source: Bloomberg L.P., Jefferies India Private Limited

ⁱⁱⁱ Source: World Bank Group, "Doing Business In 2018: Reforming to Create Jobs," October 31, 2017.

^{iv} Source: Bloomberg L.P.

Morgan Stanley India Investment Fund, Inc.**December 31, 2017**

Portfolio of Investments

| | Shares | Value (000) |
|--|-----------|----------------|
| COMMON STOCKS (106.9%) | | |
| Aerospace & Defense (1.7%) | | |
| Bharat Electronics Ltd. | 3,113,114 | \$ 8,864 |
| Air Freight & Logistics (1.4%) | | |
| Allcargo Logistics Ltd. | 2,231,821 | 7,294 |
| Auto Components (6.1%) | | |
| Bosch Ltd. | 25,068 | 7,895 |
| Motherson Sumi Systems Ltd. | 4,174,488 | 24,811 |
| | | 32,706 |
| Automobiles (3.4%) | | |
| Bajaj Auto Ltd. | 349,304 | 18,211 |
| Banks (17.0%) | | |
| HDFC Bank Ltd. | 859,362 | 25,448 |
| ICICI Bank Ltd. | 5,895,259 | 28,907 |
| IndusInd Bank Ltd. (Foreign) | 1,177,583 | 30,416 |
| Yes Bank Ltd. | 1,099,202 | 5,418 |
| | | 90,189 |
| Capital Markets (7.1%) | | |
| IIFL Holdings Ltd. | 1,389,901 | 14,509 |
| Motilal Oswal Financial Services Ltd. | 707,649 | 16,580 |
| Multi Commodity Exchange of India Ltd. | 468,330 | 6,687 |
| | | 37,776 |
| Construction & Engineering (4.5%) | | |
| Larsen & Toubro Ltd. | 753,277 | 14,851 |
| Voltas Ltd. | 907,473 | 9,324 |
| | | 24,175 |
| Construction Materials (7.1%) | | |
| Ramco Cements Ltd. (The) | 1,235,984 | 15,207 |
| Shree Cement Ltd. | 79,334 | 22,499 |
| | | 37,706 |
| Diversified Financial Services (3.8%) | | |
| L&T Finance Holdings Ltd. | 7,481,556 | 20,352 |
| Electronic Equipment, Instruments & Components (2.5%) | | |
| Redington India Ltd. | 4,768,837 | 13,085 |
| | | Value (000) |
| Food Products (0.2%) | | |
| GlaxoSmithKline Consumer Healthcare Ltd. | 8,832 | \$ 905 |

| | | |
|--|------------|---------|
| Gas Utilities (9.4%) | | |
| GAIL India Ltd. | 2,051,202 | 16,013 |
| Indraprastha Gas Ltd. | 6,446,418 | 33,900 |
| | | 49,913 |
| Information Technology Services (4.5%) | | |
| Infosys Ltd. | 721,003 | 11,756 |
| Persistent Systems Ltd. | 1,064,977 | 11,978 |
| | | 23,734 |
| Machinery (10.6%) | | |
| Ashok Leyland Ltd. | 14,070,460 | 26,194 |
| Eicher Motors Ltd. | 63,185 | 29,990 |
| | | 56,184 |
| Media (4.7%) | | |
| Zee Entertainment Enterprises Ltd. | 2,733,808 | 24,917 |
| Oil, Gas & Consumable Fuels (9.2%) | | |
| Bharat Petroleum Corp., Ltd. | 3,285,061 | 26,611 |
| Petronet LNG Ltd. | 5,572,996 | 22,214 |
| | | 48,825 |
| Personal Products (3.4%) | | |
| Colgate-Palmolive India Ltd. | 447,752 | 7,709 |
| Marico Ltd. | 2,106,912 | 10,644 |
| | | 18,353 |
| Pharmaceuticals (5.4%) | | |
| Cipla Ltd. | 759,688 | 7,223 |
| Eris Lifesciences Ltd. (a)(b) | 902,776 | 11,229 |
| Natco Pharma Ltd. | 687,584 | 10,358 |
| | | 28,810 |
| Thriffs & Mortgage Finance (2.9%) | | |
| LIC Housing Finance Ltd. | 1,760,580 | 15,513 |
| Transportation Infrastructure (2.0%) | | |
| Gateway Distriparks Ltd. | 2,882,532 | 10,640 |
| TOTAL COMMON STOCKS (Cost \$348,670) | | 568,152 |

The accompanying notes are an integral part of the financial statements.

Morgan Stanley India Investment Fund, Inc.**December 31, 2017**

Portfolio of Investments (cont'd)

| | Shares | Value (000) |
|--|-----------|----------------|
| SHORT-TERM INVESTMENT (0.4%) | | |
| Investment Company (0.4%) | | |
| Morgan Stanley Institutional Liquidity Funds Government Portfolio Institutional Class (See Note E) (Cost \$2,011) | 2,010,597 | \$ 2,011 |
| TOTAL INVESTMENTS (107.3%) | | 570,163 |
| (Cost \$350,681) (c)(d) | | |
| LIABILITIES IN EXCESS OF OTHER ASSETS (-7.3%) | | (38,754) |
| NET ASSETS (100.0%) | | \$531,409 |

(a) Non-income producing security.

(b) 144A security Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.

(c) The approximate fair value and percentage of net assets, \$542,704,000 and 102.1%, respectively, represent the securities that have been fair valued under the fair valuation policy for international investments as described in Note A-1 within the Notes to the Financial Statements.

(d) At December 31, 2017, the aggregate cost for federal income tax purposes is approximately \$351,006,000. The aggregate gross unrealized appreciation is approximately \$230,790,000 and the aggregate gross unrealized depreciation is approximately \$11,633,000, resulting in net unrealized appreciation of approximately \$219,157,000.

Portfolio Composition

| Classification | Percentage of Total Investments |
|-----------------------------|------------------------------------|
| Other* | 33.0% |
| Banks | 15.8 |
| Machinery | 9.9 |
| Gas Utilities | 8.8 |
| Oil, Gas & Consumable Fuels | 8.6 |
| Capital Markets | 6.6 |
| Construction Materials | 6.6 |
| Auto Components | 5.7 |
| Pharmaceuticals | 5.0 |
| Total Investments | 100.0% |

* Industries and/or investment types representing less than 5% of total investments.

The accompanying notes are an integral part of the financial statements.

Morgan Stanley India Investment Fund, Inc.

December 31, 2017

Financial Statements

Statement of Assets and Liabilities

December 31, 2017