How to get a foothold in India's hot art market

The Indian art market is up 485 percent in the last decade. New investment funds allow investors to take advantage of managers' expertise, reports Fortune's Rupali Arora.

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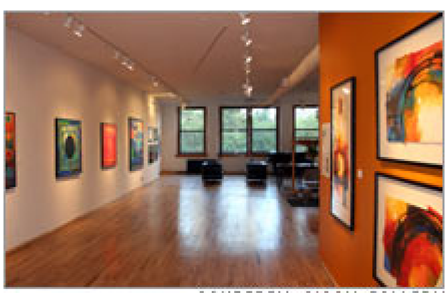
NEW YORK (Fortune) -- Interested in riding the Indian art boom? A half dozen art investment funds are betting on next-generation artists in their 30s and 40s, allowing fund managers to do the work for investors who want to get in on returns that have driven the Indian art market up 485 percent in the last decade and turned it into the fourth-most-buoyant art market in the world. [India Inc.]

The funds identify up-and-coming artists and their undervalued art, and sell their work at gallery shows, exhibitions and auctions in India, Europe and the United States. One of the first such funds opened in New York in 2004, the Arts India Fund I run by Prajit Dutta, owner of the largest Indian arts gallery in the United States, Gallery Arts India. The fund has grown from $4 million to $9.5 million and expects to pay out an annual return of 50 percent to more than a dozen investors at the end of this year. "The returns have been embarrassingly high," says Dutta.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Spurred by the success, Dutta opened the Arts India Fund II in April last year, requiring a five-year, minimum investment of $200,000. The fund owns 250 pieces of contemporary Indian art, including an impressive lineup of younger artists such as Riyas Komu, Shibu Natesan, G.R. Iranna and Yogesh Rawal. They will be up for sale in Dutta's gallery, two years before the end of the fund's term in 2011.

Another investment vehicle, Copal Arts, launched in 2006 in New Delhi, is on the verge of floating two more funds this year, one in July worth $40 million and the other in November worth $250 million. Run by entrepreneur Ajay Seth, the fund allows investors to own title to the paintings in their portfolio, taking advantage of Seth's expertise in recommending new artists. The average fund holder will own a $25,000 portfolio.

"The work of artists we invested in for our first two funds appreciated 100 percent," says Seth. "Investing in funds with work of the grand masters is too expensive, so new investors are looking at funds like ours, focused on young artists such as Kishore Shinde, Veer Munshi and Siraj Saxena. These artists have less than three auctions to their name." Another of Copal's picks, T. Vaikuntam, enjoyed sharp appreciation in the last year: A colorful 8x10 tempera painting valued at $2,000 appreciated to $7,500.

Edelweiss Securities, which marketed its Yatra art funds in Mumbai last year, values the Indian art market at $350 million, up from $200 million in 2005. According to Anurag Mehrotra, Edelweiss wealth management head, the traditional investor profile, comprising art collectors, high-net-worth individuals and ultra-high-net-worth individuals, now extends to young entrepreneurs and non-resident Indians living abroad, and rapid sales of artworks by speculators seeking quick returns could prove to be one of the markets biggest risks. "Though the future for art-only investment is very positive, going forward we may not see returns as high as we have witnessed in the past," he says.

However connoisseurs like Neville Tuli, founder of Mumbai-based auction house Osian's, which launched a $25 million art-investment fund in 2006, have their sights set on long-term gains. "All investments in art are but a stepping stone to building a great collector base and moving towards transforming the arts into a major developmental force," says Tuli. "It is inevitable that for every 10 investors at least one or two will become a serious art collectors over three to four years of involvement." Tuli's fund posted an annual return of 35 percent in February this year.

Osian's is also expanding its portfolio with an offshore fund in early 2008. This fund will be investing in various aspects of Indian and Asian art - including modern and contemporary art, miniatures and sculptures, film memorabilia, books, and other related cultural artifacts - giving the foreign investor a chance to profit from the entire spectrum of the subcontinent's fashionable equity. ■

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