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Indian Stocks May Gain 15 Percent This Year, India Capital Says

By Pooja Thakur

Indian stocks may advance 15 percent this year, extending their best performance since 1991, as investors bet on a spending boom in the world's second-fastest growing major economy, India Capital Management Ltd. said.

Gains in the benchmark Sensitive index may mirror 15 percent to 18 percent growth in earnings, said Jon Thorn, who manages $450 million in Indian equities as director at India Capital in London. Banks, engineering, consumer and power stocks are expected to lead the advance, he said.

"It could be a good year," Thorn, whose India Capital

Fund returned 123 percent over the past year, said in an interview yesterday. "Banks are a play on India's economy and GDP growth will translate into higher earnings."

India Capital's return beat the Bombay Stock Exchange's dollar-linked Dollex 30 index, which almost doubled in 2009, as well as the Sensex's 81 percent advance.

Thorn, who has about 5 percent of his holdings in cash, the most in more than a year, plans to fully invest in Indian stocks by the middle of the year. About 70 percent of his holdings are in companies with market values of more than $2 billion.

India injected fiscal and monetary stimulus equivalent to more than 12 percent of gross domestic product between September 2008 and April, helping Asia's third-largest economy grow 7.9 percent in the quarter ended Sept. 30, the fastest pace in 1-1/2 years. Indian companies are expected to post their first earnings increase in five quarters, BNP Paribas said last week.

EARNINGS

The outlook for earnings prompted JPMorgan Chase & Co. to predict Indian stocks to rise a further 17 percent by the end of the year. India's earnings may post compound annual growth of 22 percent over the fiscal years ending March 2011 and March 2012, JPMorgan said in a report today.

Thorn said he favors Indian banks because they are cheaper and more transparent than lenders in China, he said. Most of China's biggest banks are controlled by the government, while India has private lenders, Thorn says. The Bombay Stock Exchange's banking index trades at 14.5 times earnings, compared with 19.6 times for the CSI 300 Index's measure of financial stocks in China. He declined to name individual stocks.

Increasing domestic demand is creating investment opportunities for consumer stocks, Thorn said. India this week reported industrial production grew at the fastest pace in 25 months in November.

"Companies that can price aggressively and have a range of products to offer look attractive," he said.

TIGHTENING

Thorn said he'll take investment cues from signs of liquidity being withdrawn as central banks start removing the $2 trillion spent worldwide to boost economies. He expects India's central bank to raise the cash reserve ratio, or the money banks must set aside, followed by interest rate increases in the year.

"It's like a kitten, if you pick it up too quickly it will scratch you, while if it's done gently, it will be nice to you," he said. **"We'll have to tread gingerly because of the uncertainty on monetary tightening."**

Reserve Bank of India policy makers are scheduled to meet on Jan. 29 to decide on borrowing costs.

Thorn is betting India stocks will post gains in the next two to three years. The economy will grow at the fastest pace after China among the Group of 20 nations next year, according to the International Monetary Fund.