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Interview: Jon Thorn

Infosys now represents value: India Capital Fund

Growth investors are exiting Infosys, and it is time for value investors to pick up the stock. The new prices are in line with global market realities, says India Capital Fund's Jon Thorn

Life has changed dramatically for Indian software exporting stocks, since last morning. That was when Infosys told the market that it is expecting to grow its earnings only 11–12% in FY04. Infosys itself has lost nearly 40% of its market worth in two trading sessions. Most IT stocks have seen 15–50% erosion in their market capitalisation since yesterday. That has considerably jolted hopes of foreign money coming into India from SARS-affected East Asia, and bolstering money supply in the Indian equities market.

CNBC India spoke to Hong Kong-based **Jon Thorn of India Capital Fund** about the change in perception on Infosys, and the Indian IT exports story among FIIs. Thorn finds the newly skinned Infosys stock attractively valued, in line with global market realities. Excerpts from the interview:

Q: What have you made of Infosys' guidance that it gave yesterday? Have you made any adjustments in your portfolio?
A: The final reality is coming to the valuation on the outlook. It will be more realistic in relation to what the rest of the world economy can handle. I think the market was a little bit too optimistic. It is a very big shock to the market and I think there may be other shocks to come from other stocks and we will see Infosys, which I consider the best if not the biggest, fall harder and faster. But I think at this price, it is reasonable and represents some value whereas before, the expectation was very aggressive.

Q: Infosys is a very well owned stock and foreign funds are considerably invested in the Indian IT services exports story. Do you see a lot of churning away from technology?
A: Yesterday you saw some tragic loss of capital in a number of technology scrips. But, we saw some banks up. There were some other defensives up as well, like cement stocks. There is a rotation across sectors, which is logical. People need to understand that the sectors which lead a growth or a bull market are never the ones that lead markets out of that phase. So, it is very hard to imagine that technology can be the leader again in any market. The people who were dreaming at Rs 4,100 or even at Rs 4,400 to get out of Infosys at Rs 5,000. That greed is probably over now. The assumptions probably should have changed much earlier, but they are certainly changing now.

Q: There was an expectation that after the SARS virus in Asia, money would start flowing into India. Is that assumption now gone after the meltdown in tech stocks here?
A: I think that assumption is also wrong. SARS is continuing. It is not going away. Actually it is getting worse. The diffusion within the society in China and Hong Kong is actually growing. Everyday there are more cases in Hong Kong and in China and controlling this is not easier now than it was three weeks ago. The World Health Organisation, WHO, and everybody else is involved. But they really do not have a handle on it. It may not be over till mid-summer. A lot of funds have sold Infosys because they think now, that this is a de-rated growth stock. It can be very hard for them now to come back and buy back. Why would they? They may, however, be other funds, which may consider this could be a buy. We didn't own it before. We would own it now. So, there maybe new buyers for these stocks at these lower valuations. So, there may be, in effect of some rotation of money coming in — growth stock owners selling, quasi-market valuation buyers coming in. SARS will definitely affect doing business with some of these Indian companies because America tends to look at Asia together. There may be no SARS in India, but SARS is in Asia and generally you are going to change the plane at Singapore, Hong Kong, to reach India.

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