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Investors in India Bet Nation Won't Go to War With Pakistan

neutral weighting on India within an Asian portfolio, but is overweight on the country in its world-wide emerging markets portfolio.

The manager of one of the better-performing India mutual funds, Aberdeen International's India Opportunities Fund, is similarly sanguine. With "slightly more than usual" levels of cash, "the fund is ready with cash if and when we see the market overreact," says Singapore-based Robert Penaloza.

The war aside, a sharp move down could come as early as today. Over the weekend, India's largest mutual-fund provider declared a net asset value of 5.81 rupees (12 U.S. cents) for its flagship and suspended - US-64 Fund, significantly below the 7.50 to 8.50 rupee level the market was predicting Friday. Unit Trust of India used to buy and sell its fund's shares with no relationship to the net asset value, but that will change starting Jan. 1.

Late last week, strategists were predicting only a short-term drop by the market after the announcement of the net asset value. Salomon Smith Barney strategist Han Ong said some redemptions by fund holders who have been frozen out of the market since the summer could happen, but the effect would only be a "short-term nasty" one. But now, with a net asset value 22% lower than the low end of the accepted range of predictions, nasty is probably the operative word for what happens today.

Where could available cash move in the event of a firm market bottom? One candidate is **Reliance Petroleum**, one of India's largest stocks (and one of US-64's biggest holdings), which has taken a beating of late. With a refinery in Jamnagar in the border state of Gujarat, the same town where the Indian Air Force has a base, investors figure that in case of a war the refinery would be a prime target. The stock was down 17% last week before gaining 7% on Friday, as the market figured a war was a remote possibility.

Reliance Petroleum still looks cheap, whatever happens today: It is trading at 8.6 times trailing earnings and 8.5 times forward earnings. For a company that has been able to increase earnings in double digits, that isn't expensive. Reliance Petroleum is a long-term outperformer of the Sensex despite this year's showing.

And if the market is wrong and there is a war? The distance from the Pakistani border to the refinery isn't that different from the distance to New Delhi, says a fund manager who loves the stock. "If someone were to blow up the Reliance Petroleum refinery, all stocks in India would fall as much as Reliance Petroleum would."

One company that has proved a safe haven is **Hindustan Lever**, the consumer products giant with the best distribution network in India. At 36 times last year's earnings and 30 times next year's, the shares have sold for as much as 80 times earnings when the Indian market has been hot. The stock's dividend yield is now at its highest in 10 years.

Analysts who like Hindustan Lever often base their view on the idea that India is less dependent on exports than other emerging markets. With an Indian economy that is growing about as quickly as any in Asia other than China's, Hindustan Lever is a proxy for healthy domestic consumption.

Jon Thorn, who manages the $15 million India Capital Fund from Hong Kong, is loading up on one of the dogs of the Sensex this year, Zee TV. The stock is down 90% from last year, hammered by superior programming at rivals Star TV and Sony. But now a new strategic partnership with Turner Broadcasting means "in effect they're going to suddenly start delivering very good content, international content, to India," says Mr. Thorn.

It all sounds fine, and with a possible redemptions wave there could be buying opportunities this week, providing there is no war. But even among the doves, there was the occasional note of caution. In the words of Foreign & Colonial's Mr. Khat "The uncertainty is when you start sabre-rattling, the sabre might drop."