



**BUSY BROKERS**

This time, domestic investors are leading the rally

they are being more judicious in their picks than last year's crop of gullible outsiders.

**REAL EARNINGS.** Locals are also quicker to pick on the significance of some recent reforms. For instance, there's increased regulatory oversight of unusual market volatility and the futures market. In the broader economy, the central bank has cut short-term rates from 10% to 8% in the past year. Privatization of the state sector is slowly proceeding. In October, India's leading software maker, Tata

Consultancy Services, bought CMC Ltd., a government software services firm. India's economy is still growing at 5%. The war in Afghanistan is proceeding. "It's all going reasonably O.K.," says Manish Chokhani of Enam Asset Management Co. in Bombay.

Also, domestic and multinational companies are using strategies to enhance value that they learned from the U.S. In the past four months, Indian companies, including Reliance, Tata, and Birla, have been buying back their stock. In mid-November, cement and textiles maker Grasim Industries bought out Reliance's 10% stake in construction company Larsen & Toubro for \$160 million, a 50% premium. The merger of the AT&T-Tata-Birla telecom combine with Bangalore's BPL is under way, the cement industry is consolidating and investment bankers are expecting mergers in the tech and Pharma sectors.

Will the rally last? Some skeptics urge caution. "Should global markets be hit again, India will not be immune," says Ruchir Sharma, head of Morgan Stanley Investment Management (India). Sharma worries about the low growth rates of

India's top tech companies and the country's continuing failure to adopt market reforms. Serious stuff but at least the market is back in the land of the living. And real companies with real earnings are leading the rally.

*By Manjeet Kripalani in Bombay.*

**INDIA**

**LOOKING LIVELY IN BOMBAY**

The market's rebound may signal new growth for the economy

For a while there, the Bombay bourse looked like the stock exchange where nothing could go right. One of Asia's oldest, the exchange had gotten a big boost in early 2000 from global investors' interest in India's hot software houses. But last spring, everything went haywire. Securities regulators charged the president of the Bombay Stock Exchange with insider trading. An influential stockbroker who had over leveraged his positions came crashing down, resulting in massive losses to banks and shareholders. The stock exchange's Sensex index lost almost 30% of its value between mid-February and April. When the September 11 attacks occurred, the market fell further, to a seven-year low of 2600, on war fears.

Yet, after being given up for dead by most foreign investors, the Indian market is suddenly showing signs of life. In the past two months, the Sensex has surged nearly 30%. The bounce-back may be a sign that India's economic outlook is not as grim as pundits thought.

Some of the jump in stock values is clearly related to the revival in tech equities around the world. India's leading software shops, Infosys Technologies and Wipro, are up 80% in the past two months, while smaller tech companies like NIIT and Polaris Software Lab have

risen by as much as 200%. These are solid companies: Earnings of Wipro and Infosys were up 40% last quarter.

India is not just getting a lift from the Nasdaq. Old economy stocks like refiner and textile giant Reliance Industries Ltd. and cement maker Associated Cement Cos. have perked up by 50%. Pros say there's still plenty of upside. **"The Indian market overcorrected on the way down," says Jon Thorn of the \$15 million India Capital Fund in Hong Kong. "From being the most bombed-out big market in the world this year, it's now offering the best value." Thorn sees good deals in pharmaceutical stocks like Nicholas Piramal, Cipla, and Ranbaxy.**

Another encouraging sign is that the Indian rally is being led by domestic investors rather than the foreign funds that moved the market last year. One stock driven to ridiculous heights by foreign investors was telecom equipment maker Himachal Futuristic, which is now languishing. Local investors knew its management was suspect. Now the feeling is that

