India Capital plays on domestic growth

By Beverly Mathews

BOMBAY, March 7 (Reuters) — Offshore hedge fund India Capital Fund Ltd. is betting on India's robust domestic consumption-led growth and is cutting its holding in export-driven software and drug stocks, one of the fund's directors said on Monday.

"India's large domestic market, where a middle-class of some 300 million people has been driving demand for products from cosmetics to cars, made the country less vulnerable to global cycles compared with Taiwan or South Korea," said Jon Thorn, the fund's Hong Kong-based managing director.

India Capital Fund has $160 million invested in sectors such as banks, metals and automobiles, Thorn said. It has shifted away from or cut back on pricey technology stocks and export-focused sectors vulnerable to a possible slowing in the U.S. economy.

"The domestic growth story is the big story. Valuations in stocks driven by strong consumption and the uptrend in the commodity cycle look more attractive than those on technology shares," Thorn told Reuters by telephone.

He declined to say which stocks the fund was invested in.

The 30-share Bombay stock index, which hit a record 6,902.49 points on Monday, had further to climb, Thorn said.

India consumes ninth-tenths of what it produces, though exports are growing strongly.

Car sales in India rose over 20% in April-January, fuelling stocks such as number-one car maker Maruti Udyog Ltd. and largest truck maker Tata Motors Ltd.

The number of mobile phone users is growing at 3-5% a month, boosting firms such as Bharti Tele-Ventures Ltd., the nation's largest listed mobile firm, and state Bank of India, the country's biggest lender, expects its loans to grow over 20% in the current year to March 31.

India's $600 billion economy, Asia's fourth-largest, is set to grow nearly 7% this fiscal year, after 8.5% last year, with 8.9% growth in the manufacturing sector.

The country's commodities sector offered good opportunities because of heavy government spending on infrastructure and booming demand for metals from China, Thorn said.

The sector is dominated by Steel Authority of India Ltd. Tata Iron and Steel Co. Ltd. and cement maker Grasim Industries Ltd.

Thorn said that even after a near doubling in the key stock index in the last two years, the market lagged the strides the economy had made over the past decade following economic reforms.

He estimated the trailing price-earnings multiple of index stocks at 13, little changed over the past 10 years, suggesting there was room for a re-rating.

"India is under-owned relative to markets such as South Korea," Thorn said, adding he expected foreign funds to step up their exposure in India.

Overseas investors have ploughed more than $2.4 billion into Indian stocks so far this year, more than a quarter of last year's record $8.5 billion and compared with $6.7 billion in the whole of 2003 — taking the total since their entry a decade ago to almost $33 billion.

Still, he noted, foreign funds owned just 22% of the market, compared with about 40% in South Korea.