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Money and Investing:

India's IPOs Branch Out

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It is a good problem to have, especially for a developing country like India: The planned $900 million initial public offering of a 10.25% stake in India's biggest utility, National Thermal Power, will likely have to wait until next month. Why? To let the nation digest its largest-ever IPO, the $1.2 billion deal that took Tata Consultancy Services public last week.

Having a $900 million IPO bump up against a $1.2 billion offering hardly looked like a problem India would need to worry about this spring. After the Congress Party unexpectedly won power from the reform-minded Bharatiya Janata Party, the stock market melted down: Bombay's Sensex plunged 22% to a low of 4,505.16 on May 17. Investors worried that the communist-backed government would reverse economic progress and India's privatization efforts. Wrong.

Instead, between the sales of government stakes and private companies going public or issuing American Depositary Receipts, foreign investors suddenly find they will have a lot to choose from in India.

"Considering the overwhelming response for TCS, this should be a turning point for new, high-quality IPOs to get cleared in the market," says Ravi Kapoor, head of equity capital markets for DSP Merrill Lynch. TCS, a major player in outsourcing, was oversubscribed by 7.7 times, with half the demand coming from Indian investors and the rest from institutional buyers.

Americans cannot directly buy stocks on the Sensex, India's main stock exchange. Foreign individual investors must instead buy Indian companies' American Depositary Receipts or Global Depositary Receipts, or invest through mutual funds specializing in India or in emerging markets.

Soon they will have more individual stocks to choose from. "The next wave of ADRs is coming through," says Jon Thorn, portfolio manager of the $100 million India Capital Fund, who is expecting about 15 new Indian ADRs in the next two years. Americans and others with at least $250,000 to invest can look to Thorn's India Capital Fund or other India-focused investment companies to invest in local Indian stocks.

Access to capital could turn Indian companies into global competitors. "A lot of Indian companies are fairly competitive on a global basis, they just don't have the scale," says Chetan Ahya, India economist for Morgan Stanley (nyse: MWD - news - people). "[Now] they are thinking big. Indian companies are more and more looking at global IPOs."

Take Bharati Televentures, India's second-biggest cell phone operator. Mobile phone sales are growing in India as fast as in China. The cell phones are reliable, compared with India's creaky land lines, and text messages let Indian cricket fans keep up with the latest game scores on their phones. Bharati plans to issue ADRs in the next nine months.

Not only is the new government planning to go ahead with selling a 5% stake in power company NTPC (the company is selling the other 5.25%), but the government also plans to sell its remaining stakes in some other big Indian companies, including Maruti Udyog and Balco. The government also announced it would lift limits on foreign direct investment in Indian companies. Foreigners will be allowed to own 74% of telecom companies, up from 49%; 49% of insurance companies, up from 26%; and 49% of airlines, up from 40%.

With both Chinese and Indian companies increasingly accessible to foreign investors, India experts lean toward the tigers instead of the lions. "In India you've got good companies and good auditors," says Thorn. "There are very few companies that are making money in China." Privately, many China watchers agree.

Experts on the Indian market like **Tata Motors**, whose cars and commercial trucks are making market share gains, and Hindalco Industries, a metals company benefiting from rising aluminum prices.

Their favorite locally traded Indian stocks are **Tata Iron & Steel**, better known as TISCO, which ranks among the lowest-priced steel companies globally; HDFC, a bank whose stock price may be helped by the strong performance of its subsidiaries; **Maruti Udyog**, the automaker benefiting from fast auto sales in India; and Oil & Natural Gas, which is benefiting from high oil prices.