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India's Accelerating Economy May Draw More Overseas Investors

By Chan Sue Ling

India's economy, expected to grow at its fastest pace in 15 years, will draw more investors to its stock market, which last year lured a record \$6.6 billion in overseas investments, analysts such as **Jon Thorn** said.

Asia's third-largest economy after Japan and China expanded an estimated 8.9 percent in the fiscal third quarter to Dec. 31, Finance Minister Jaswant Singh told reporters in Mumbai last night. That's quicker than the 8.4 percent expansion of the preceding quarter. India's GDP is forecast to expand 8.1 percent, the fastest in 15 years, in the fiscal year to March 31.

"That's a remarkable achievement," said Thorn, who helps manage \$100 million at India Capital Fund Ltd. "Where can you get that kind of GDP growth going forward? India now is where China was 10 or 15 years ago, when it was getting ready to get out of the starting blocks. The difference between India and the rest of the world is that this is sustainable in India. We had a monsoon a while ago, we're getting significant inflow of foreign exchange in the economy and we're seeing a huge consumer credit takeoff."

The Indian government has said the economy needs to grow at about 8 percent, double the expansion rate in the last fiscal year, to eradicate poverty in the world's second most-populous nation. As many 40 percent of India's 1 billion people live on less than \$1 a day, according to the World Bank.

Economic expansion and rising overseas interest in India's stocks has led to a flow of overseas money into India. Overseas investors poured a record \$6.6 billion into Indian stocks last year, according to the Securities & Exchange Board of India, the country's capital market regulator.

Offshore investors were attracted by companies such as software services exporter Infosys Technologies Ltd. And drugmaker Dr. Reddy's Laboratories Ltd., which compete globally and have management styles resembling that of their U.S. counterparts, the report said.

Banks, Pharmaceuticals

"We like the banks and the pharmaceuticals," said Thorn of India Capital, which owns shares of State Bank of India, the nation's largest lender, and Cipla Ltd., the country's third-biggest drugmaker by market value.

An expanding economy will also draw interest in Indian companies that will benefit from growth, analysts said.

India's government today begins selling shares in Indian Petrochemicals Corp., the first of six sales the country plans to complete by April in a bid to meet a \$3.2 billion asset-sale target. The sale plan culminates in a \$2.3 billion offering next month of Oil & Natural Gas Corp., India's biggest share offer. The timing of the Indian Petrochemicals offer "is fantastic," said Rajiv Jain, managing director at Vontobel Asset Management Inc., which has about \$90 million in Indian shares and manages \$40 billion worldwide. "The industry is doing well globally and people are interested when things are going good. They'll be able to sell very easily."

As investors pour money into Indian assets, demand for the rupee has risen.

The local currency has strengthened 0.8 percent this year against the dollar, following on a 5.2 percent rise in 2003, making it one of the top seven performers among the 15 most-traded currencies in Asia and the Pacific tracked by Bloomberg data. The Indian rupee traded at 45.2525 per dollar at 10:33 a.m. in Mumbai, compared with 45.26 yesterday.

With reporting by Sam Nagarajan and Ravil Shirodkar in Mumbai. Editors: Kennedy, Teo, Velloor, Mohideen.