Bloomberg News

India's Stock-Market Rally May Resume as Overseas Demand Rises

By Sara Webb and Pooja Thakur

India Fund Inc.'s shares changed hands for 40 percent less than the value of its assets four years ago. Now they trade at a 12 percent premium. Statistics on overseas investment in India, Asia's second best-performing stock market in 2003, tell a similar story. In January, equity funds that invest in the country drew the most new cash in four years, according to EmergingPortfolio.com, a Boston-based fund research firm.

The inflow of funds may help revive a rally that stalled last month, when the Sensex index declined for the first time since April and was the region's second-worst performer among market benchmarks.

Stocks such as Hindustan Lever Ltd., India's biggest consumer-products company, and Infosys Technologies Ltd., the country's second-largest software maker, slid as the government tightened rules on overseas investing.

"People will put more money into India" even though it is "a frothy market," said Alistair Thompson, deputy head of Asia Pacific equities at First State Investments (Singapore), which manages the equivalent of $6.4 billion invested in emerging markets. His firm's funds owns shares of Ranbaxy Laboratories Ltd., India's largest drugmaker.

Fund Inflows

Last year, the Sensex jumped 82 percent in dollar terms as government reforms spurred growth in the economy and corporate earnings. In Asia, only Thailand's SET Index beat the Sensex with a 136 percent surge.

India's stock market got busier as prices climbed. Daily trading on the Mumbai Stock Exchange averaged $356 million last year, up a fifth from the $293 million average in 2002.

Investors based outside India bought a net $6.6 billion of stocks, according to the country's Securities & Exchange Board. The amount was a record, and exceeded by more than 70 times the $91 million purchased by local mutual funds. Funds dedicated to the country took in $386.6 million of cash in January, according to EmergingPortfolio.com. The inflow was the largest in a month since February 2000. The firm tracks funds with a total of $2.5 billion in assets.

HSBC Global Investment Funds' Indian Equity Fund, the biggest one in the category, has $1 billion. Firms including Switzerland's Pictet & Cie., Geneva's largest bank catering to the wealthy, also run country-specific funds.

Daughter-in-Law

Kumar-Sinha is the daughter-in-law of Yashwant Sinha, India's foreign minister and former finance minister. Economic growth has accelerated in India, partly because of Sinha's work to improve relations with neighboring Pakistan and to reduce taxes. The central bank has forecast the economy will expand for the year ending March 31 by more than 7 percent, the fastest pace in seven years. Moody's Investors Service last month upgraded the nation's long-term foreign currency rating to investment grade for the first time in almost six years.

Earnings have climbed as well. Wipro Ltd., India's largest software maker, said third-quarter profit increased 22 percent to a record 2.66 billion rupees ($58.7 million) as the company signed up 24 new clients.

Seeking Momentum

"People are looking at India as a sustainable theme as long as the earnings momentum continues," said Anthony Muh, who oversees $59 billion in Asia as the chief investment officer at Citigroup Asset Management in Hong Kong. The firm holds more assets in Indian shares than represented in the MSCI Asia Pacific index, he said.

The market showed momentum last year, when the Sensex's eight-month winning streak almost doubled its value. The rally was the longest since a nine-month advance that ended in March 1992.

In January, the index slipped 2.5 percent. Only the SET Index, which dropped 9.5 percent, had a worse performance among Asian benchmarks. Stocks slid as the securities board restricted overseas investment in participatory notes, whose value changes along with underlying securities such as stocks and bonds.

Speculation that the regulator would bar hedge funds from owning notes sent the index tumbling 2.9 percent, its biggest one-day decline in nine months, on Jan. 22. A week later, the board said only overseas companies regulated in India or their countries of incorporation would be able to own the securities. The change takes effect today.

Removing Politics

Hindustan Lever fell 7.8 percent in January and Infosys lost 6.6 percent. Together they accounted for about two-thirds of the Sensex's drop. Hindalco Industries Ltd., Asia's third-largest aluminum maker by market value, tumbled 17 percent for the biggest decline among index members.

Even as the securities board takes steps to avoid speculative trading, India's government is overhauling the banking, power and telecommunications industries to attract overseas funds. The country may hold a general election as soon as April.

In November 2002, the government passed a law allowing banks to seize and sell assets of borrowers who default. In May 2002, a new law enabled utilities such as Tata Power Ltd. and BSES Ltd., two of India's biggest publicly traded power companies, to sell to consumers. Last month, India raised foreign ownership limits on non-state banks, and some oil refiners to 74 percent from 49 percent and deferred a decision to raise limits on phone companies.

'Lot of Calls'

Overseas investors such as Jon Thorn, a Hong Kong-based fund manager who runs the $85 million India Capital Fund, said demand among local investors may nevertheless be the key for the rally to resume.

"In 2003, foreigners made a lot of money and locals missed out on gains," said. "If local liquidity isn't coming into the market, the market won't go up a lot more from here." His fund has 3 percent of assets in cash, down from 15 percent before the market's January slide.

Bloomberg News / Feb. 3, 2004