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India Capital Funds' Jon Thorn Comments on Outlook for Stocks

Jon Thorn, who helps manage \$50 million of Indian stocks at India Capital Fund Ltd. in Hong Kong, comments on the outlook for shares and early elections. He spoke in a telephone interview from Hong Kong.

India's benchmark stock index has gained 5.4 percent this year. Overseas investors have invested a record \$7.6 billion in Indian stocks and bonds in 2003.

On overseas funds investing in India:

"Both growth and valuations are very attractive. The outlook for gross domestic product has just been raised. Valuations are still quite cheap compared with growth and comparatively with the region in Asia.

"Then there's potential for a peace dividend with Pakistan, and prospective good elections coming up. Increasing liberalization and openness in the economy" are encouraging investors. "All these things are very positive."

India and Pakistan this month agreed to begin peace talks in February. The discussions will include control of the Himalayan territory of Kashmir.

On elections:

"The only matter of concern would be if one of the opposition parties were to be elected. Then it will be a matter of deep concern. I am sure the majority of the people will sell their holdings, including us. "The present government is very pro-business and pro-liberalization. They understand what needs to be done to improve the economy. And they seem to doing this most of the time." Though the Congress party, now the main federal opposition, began the country's economic change program "some of the pronouncements I have read, seem to be against it. Some of the things I have read say they will stop the privatization process and they have argued against some of the liberalization proposals that have been put forward."

India's ruling Bharatiya Janata Party has said it wants to complete a general election by the end of April, six months before schedule.

On concerns for overseas investors:

"The only thing that could change is a resumption of tension with Pakistan, or a strange turnaround in the political outlook in the elections. Both those things would give foreign funds a cause for pause. Apart from those two things, I can't see what can change things."

On the government's recent decision to lower import duties:

"India has existed for many decades under a ludicrous system of licenses and tariffs that has kept people poor. Once that starts to change, the economy starts to change and competitiveness of Indian companies will improve and people will become wealthier."

On investing in software companies:

"We don't personally like IT companies. Infosys had a very strong ramp in headcount numbers. That's a very good forward indicator that revenue will be strong and sustained because they tend to only hire in the face of contracts coming on stream. Plus there's a good strong addition of new clients.

"But margins were flat in an environment where we had weak and declining margins. In an environment of declining margins such as we have had, these are obviously poor investments because earnings are down as a result. If margins can be maintained or raised a bit, then some of these companies can start making a lot more profit."

Thorn's fund doesn't own shares of any Indian software companies.

Infosys Technologies Ltd. is India's second-largest software services exporter. It's third-quarter profit rose 28 percent to 3.28 billion rupees. It hired 3,666 workers in the three months to Dec. 31, the company said last week.