

UP, UP AND AWAY...

The bull run from April 2003 on the Indian stock markets has been one of the longest in recent times. While a correction is likely, the indices are likely to go up further as global players re-rate India, reports **Daksesh Parikh**.

The torrential downpour which brought Mumbai to a grinding halt in the last week of July failed to stop the bull run on the Indian stock markets despite the damage to industry. The benchmark Bombay Stock Exchange sensitive index for 30 shares, known as the Sensex, continued marking new tops for 12 consecutive weeks. Since the beginning of the financial year in April, the Sensex has gained 26 per cent.

Other indices have done even better. The small-cap index is up of 32 per cent while the Bankex, which tracks bank stocks, has provided the highest returns of 34 per cent. The Morgan Stanley India Index returned 7.5 per cent in the first quarter April-June in dollar terms. The heightened interest displayed by Indian funds, retail investors, foreign funds and private equity investors in June and July has added to the rise though some analysts say the boom is liquidity driven owing largely to Japanese money flowing in.

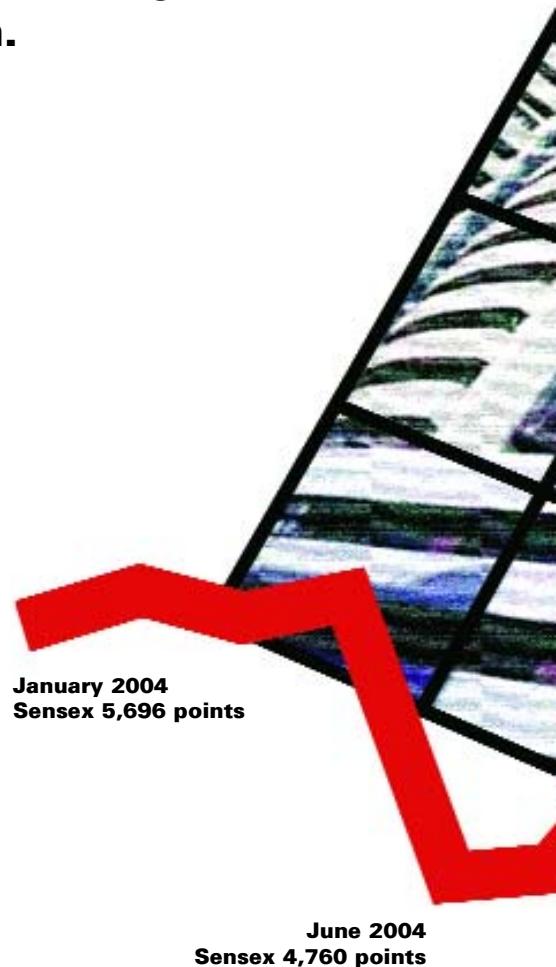
Foreign inflows in June and July 2005 crossed \$2.7 billion. Since the beginning of January 2005 the inflows in equity has crossed roughly \$4 billion, which is one-third more than inflows brought in last year in the same period. And this trend is catching on.

Foreign funds which have already taken an exposure to Indian markets earlier and have made decent returns are increasing their exposure by committing additional funds from those marked for emerging

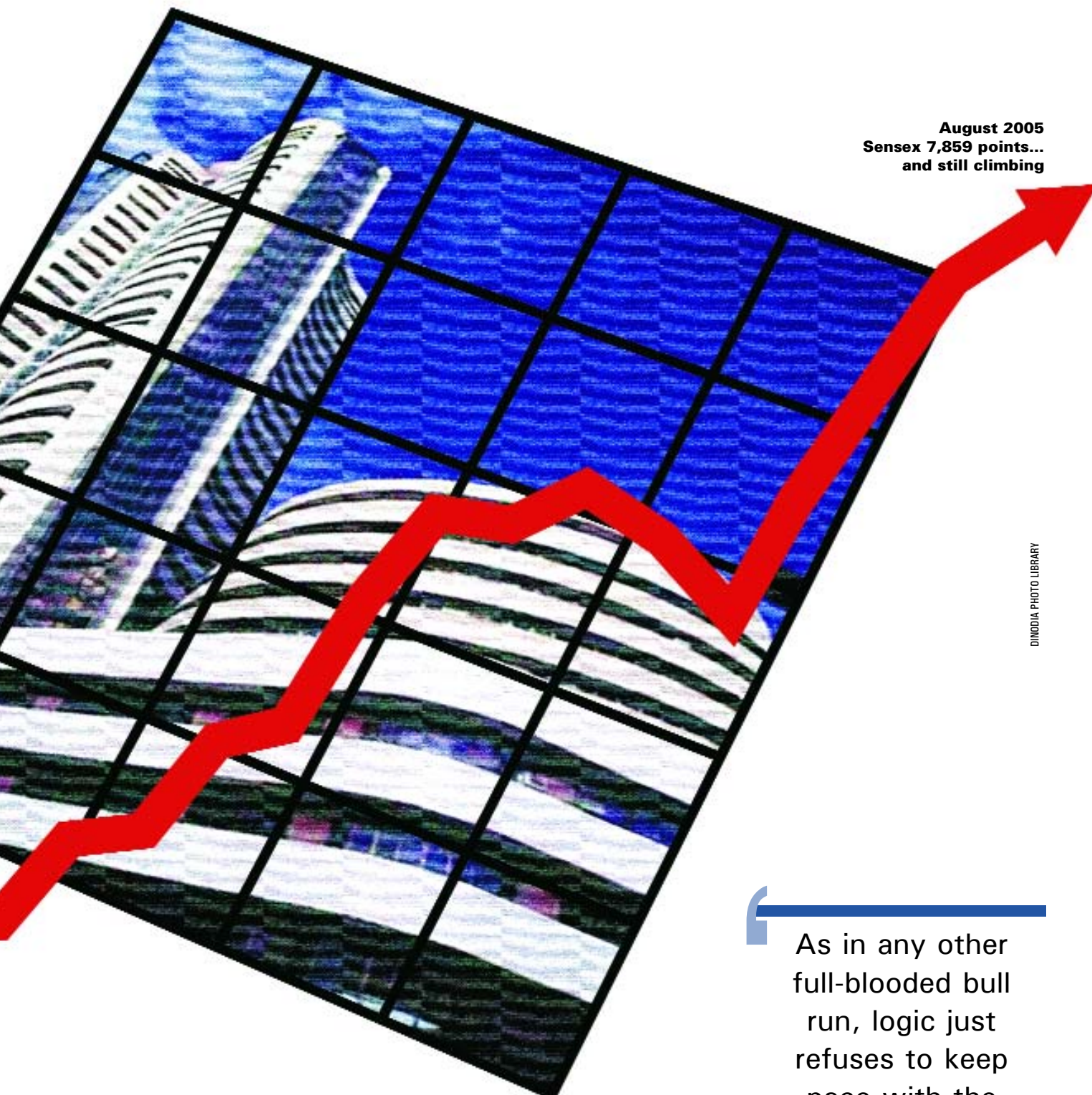
market investments. Besides, new investors are also taking a re-look at India following the sterling performance of its economy and the corporate sector. Even the otherwise cautious Japanese funds are looking at India as an alternative to China. An estimated \$4 billion from Japan has been reportedly committed and South Korea is also looking at setting up India specific funds. Fidelity, Nomura and patient investors like Calpers are all increasing their stake in India.

What has given an impetus is the revaluation of the Chinese Yuan by linking it with a basket of currencies, which is making investors take a re-look at India as a 'safe and alternate haven' for parking funds. A report in *The Scotsman* said that Aberdeen Asset Management believed India's investment boom has some way to go, and was sticking with its 'aggressive' exposure to the country. While the benchmark Morgan Stanley Companies Asia Pacific (Free) Ex-Japan Index, which is closely followed by institutional investors for allocating funds to bourses in emerging markets, gives India a weightage of 5.2 per cent, Aberdeen accords a weightage thrice over at 16 per cent. Adrian Lim, an investment manager at Aberdeen, said in the report that "India has come a long way over the past decade or so and we continue to believe that the investment boom of the last several years still has some way to go." Aberdeen manages a \$900 million India fund from Singapore.

The market movements mirror the



On the Web
Bombay Stock Exchange:
www.bseindia.com



**August 2005
Sensex 7,859 points...
and still climbing**

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As in any other full-blooded bull run, logic just refuses to keep pace with the frenzied stories.



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THE RISE IN THE STOCK MARKET INDEX HAS BEEN MATCHED BY HEIGHTENED PERFORMANCE BY INDIA INC: Inside a steel foundry

robust growth witnessed in the economy and the corporate sector. In the first quarter of this fiscal, April-June 2005, industrial production is estimated to have gone up by 12 per cent. This compares with a 10.9 per cent growth registered during the same quarter last year. Tax collections have also gone up. In the first quarter, tax collections are up 34 per cent owing to the buoyancy in import duties and higher corporate profits. Strong industrial growth coupled with a robust surge in the service sector and agriculture has made a GDP growth rate of 7 to 8 per cent sustainable over the next few years. The business confidence level, according to a study done by the reputed National Council of Applied Economic Research, has vaulted to a 10-year peak.

Several other factors have also contributed to making India an attractive destination for global investors. Years of savage restructuring has seen Indian companies cut their costs considerably. Says Naval Bir Kumar, managing director of Standard Chartered Mutual Fund, "The restructuring among corporates undertaken since the mid-90s necessitated by economic liberalisation has resulted in discernible productivity gains across sectors. Companies are becoming more and more focussed and globally oriented with the ability to raise capital at very competitive and cost effective rates. Unlike in the past

when returns tended to fluctuate greatly, returns today are more sustainable. All things considered the quality of equity as an asset class has become more robust."

The fund manages assets of \$1.67 billion, and recently collected over \$220 million in its premier equity offering.

The price earnings ratio of the Sensex companies is close to 17, the highest for emerging markets in the region, and considerably higher than the P/E of 11.5 for China and 10.7 for Russia. Despite the higher ratio, India remains on the radar of foreign funds because of a 30 per cent growth in earnings in the Sensex companies, which is again amongst the highest in the region. The expected growth in the earnings per share of Sensex companies in the current financial year 2006 is expected to see the P/E come down between 14 to 14.5 and next year's earnings are expected to bring the ratio down still further to 13.

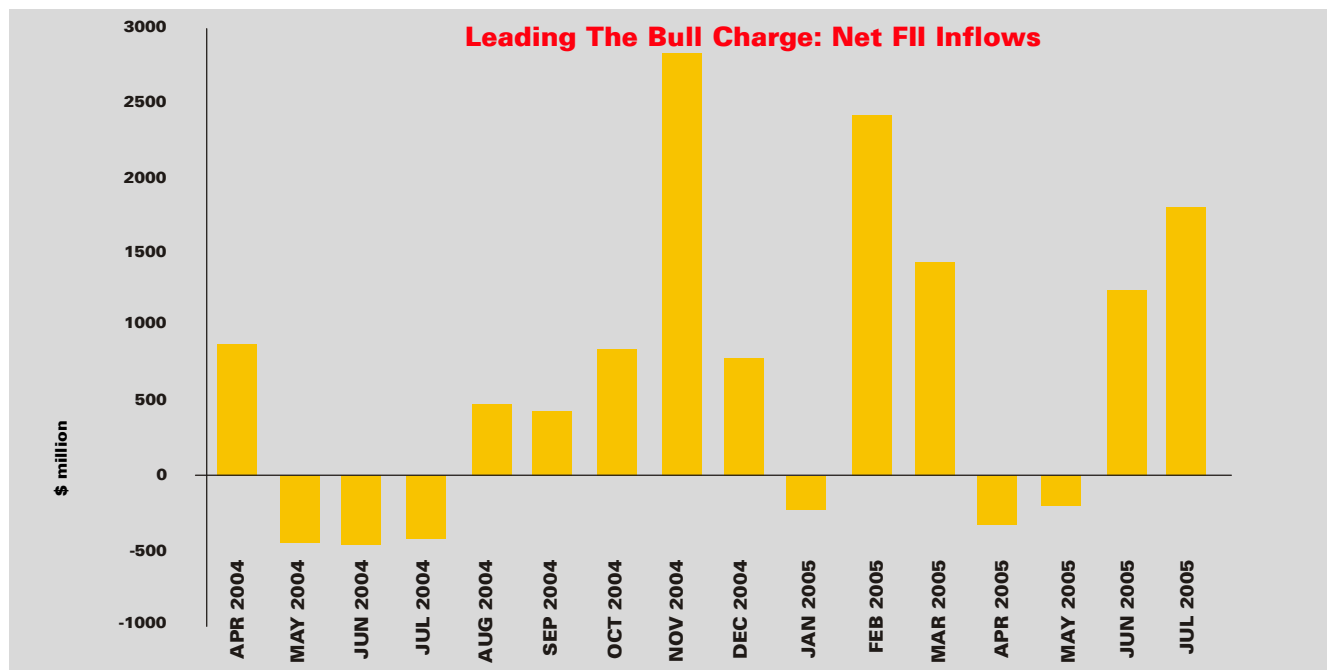
Why are earnings by corporates so high currently? Higher investment outlays by the government on infrastructure, as well as sweating of assets by the private sector coupled with increased spending by consumers on durables are the factors being held responsible for the swinging performance of India Inc.

Reliance Industries, India's largest pri-

vate company, reported a 60 per cent rise in its net profit for the quarter April-June 2005 to \$513 million, while sales increased 23 per cent. Reliance has announced big capacity expansion plans aimed at doubling its refining capacity to 60 million tonnes by 2009.

The heightened performance of India Inc. is reflected across many sectors, including cement, power, steel and engineering. Gujarat Ambuja Cement, a major cement company, saw profit after tax surge 43 per cent at \$115 million in the year ended June 2005. Top line growth was 28 per cent at \$686 million. The management has attributed the higher operating margins of 30 per cent to better efficiency, better productivity and better prices. Double digit volume growth on higher price realisation is evident across most commodity companies.

The virtuoso performances are not confined to just private sector companies, which are run by private entrepreneurs. Their counterparts are the public sector enterprises, which are state-owned. Even these government-controlled goliaths, largely in the utilities and heavy industries businesses, have learnt to dance nimbly. Steel Authority of India Ltd, better known as SAIL, had its PBT rise by over 41 per cent. From India's largest loss making steel company, SAIL has become the



Source: SEBI/RBI

leading profit generator.

National Thermal Power Corporation, amongst the world's largest power utilities, reported a growth of 24 per cent in PAT to \$291 million on a 15 per cent top line increase. Other government-controlled companies such as the gas distribution company Gas Authority of India Ltd and power equipment manufacturer Bharat Heavy Electricals Ltd also saw massive increases in PAT.

Increased cash profits have been augmented with borrowings from overseas by several mid-cap and even small-cap companies, thanks to liberalised norms for accessing these financial markets. The lower interest rates and a stable rupee have resulted in a surge in medium term paper, convertible debentures, and preferential issues being made to foreign investors. Expansion plans of private sector companies which were put on the backburner till recently are being updated. Steel, aluminium, textiles, crude oil exploration and production and petrochemicals are some of the industries which will see a rapid expansion in capacities.

Does this mean that the stock market boom will continue? Sceptics argue that most of the gains in profitability were due to cost-cutting and this cannot continue indefinitely. Optimists point out that while growth due to paring costs may slow

MSCI ASIA (ex-Japan)

Countries	Weightage (%)
China	10.6
Hongkong	16.4
India	7.9
Indonesia	2.3
Korea	23.4
Malaysia	4.9
Pakistan	0.4
Philippines	0.7
Singapore	8.3
Taiwan	22.6
Thailand	2.7
Total	100

Source: CLSA - Asia Pacific Markets

down, this would be offset by volume growth fuelled by rising consumer spend as well as gains accruing from the huge expansion in capacities in India as well as globally.

Another argument concerns the drying up of foreign inflows. While inflows have been well over normal during the past year, if these were to dry up for any reason, the impact on the stock markets would be substantial. The counter view is that India will continue to attract attention among the emerging markets. Says V K Sharma, vice-president Anagram

Securities, "India stands out amongst other markets. In case of Taiwan for instance, the markets are heavily skewed in favour of electronics and hardware companies, Malaysia is still dominated by property companies. Indian markets not only provide a much wider choice but also score well on factors like corporate governance and political stability amongst other markets in the Asian region. Even Korea is looking at India for growth."

The spurt in oil prices and the widening trade deficit are also causes for concern. Some analysts are worried that foreign funds, which have seen their portfolios give enviable double digit returns in just three to four months, may be tempted to book profits and exit. However, their sales could be absorbed by fresh funds ready to absorb the paper sold by the funds which want to exit.

As in any other full-blooded bull run, logic just refuses to keep pace with the frenzied stories. However no market can be an eternal one way street. And in a market like the current one, falls are bound to be sharp and swift. Call them corrections or mid-course aberrations, markets will have to slow down and even backtrack in the short run before resuming its onward march.

But the underlying fact is that global investors are bullish on the India scrip. 🌱