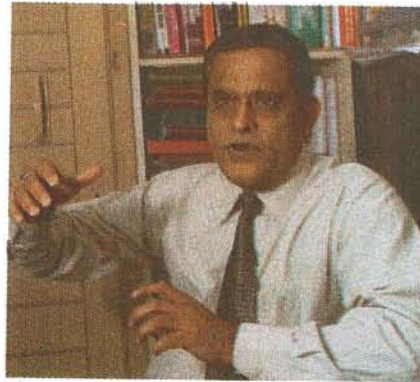


Ruling the roost

FIIIs bullish on the Indian market, more inflows likely

The stock market had given the Union Budget 2010-11 a thumbs-up for its encouraging allocations and thrust on infrastructure development, the government's inclination to reduce fiscal deficit, a smaller-than-expected 2 per cent hike in excise duties, and reduction in taxes for individuals which will boost disposable incomes. The finance ministry's confidence regarding modest GDP growth of about 8 per cent and inflation of about 4.5 per cent for 2010-11 were the other key positives in the budget.

Now, in the post-budget era, these are more than enough reasons for the stock market to witness the emergence of foreign institutional investors (FIIIs) reallocating funds to the 'India growth' story. "India is currently in the midst of synchronised recovery with an aggressive government stimulus, strong balance sheet and ever growing share of global GDP. Since December 2008, the Indian stock market has been at par with emerging markets. But now it has gone ahead of all the emerging markets in attracting FII funds," observes Lalit Dangi, chairman, Libord Capital. In just a week up to 18 March 2010, FIIIs invested \$1.35 billion in Indian equities – the highest in five months and the best in any week after the budget since 2001. The fiscal consolidation outlined by the government



Dangi: FIIIs will continue to invest

has strengthened the attractiveness of India as an investment destination.

"This is not a knee-jerk reaction by FIIIs. They have been scanning the Indian horizon for long. This is just the beginning," says Gautam Chand, CEO, Instanex Capital, which comes out with an Instanex FII Index. This index continues to show a strong uptrend outperforming the broader-based indices such as Nifty and Sensex, which indicates the sustained optimism by FIIIs that started last year and higher institutional ownership in Indian stocks.

"This phenomenon is largely due to lower risk of sovereign defaults, expectations of low interest rates in the US over a sustained period and low US growth," reasons Chand, predicting that FII inflows will take the Indian equity market higher over the next few weeks, expecting over 25 per cent returns over the next 12 months. Over the next few years, he expects institutional investors – both foreign and domestic (FIIIs and DIIs) – to increase their holding of Indian equities, while promoter holding will come down from 58 per cent. Most of the increase in holdings will come from the largest FIIIs and DIIs and they look for large, liquid companies to justify their investment of time and effort in analysing these stocks.

"We have also observed a strong preference on the part of FIIIs and DIIs to add to existing positions when

they have additional inflows, before they add a new stock to their portfolio. All of this should cause the top FII and DII holdings to outperform the rest of the market over the next decade," says Chand.

Today, FII investments in Sensex-based stocks have already touched 17 per cent. "It is likely that FIIIs will continue to invest in mid and small-cap stocks since these companies are expected to perform well, as soon as the growth engine of the Indian economy turns full circle," says Dangi.

Gaining momentum

Currently, the market has gained momentum due to the government's policy to control fiscal deficit. "Retail investors are shying away from the market at this juncture, but the Sensex is likely to take a strong step at any point of time, since most FIIIs feel India is an attractive investment destination," adds Dangi.

India's GDP growth rate has recovered, led by industries and services. There has been a rise in tax revenue to the extent of 20 per cent and increase in expenditure is restrained at 8.5 per cent, without compromising on focus areas like healthcare, infrastructure and education.

Foreign investment is also receptive to structural reforms like implementation of goods & services tax and Direct Tax Code from April 2011, abolition of surcharge on companies, regulations for financial supervision, banking licences for private sector players, setting up a coal regulatory authority, transparency in fiscal accounting, and disinvestment for FY11 set at around Rs40,000 crore, which is 60 per cent higher than the previous year.

"The market may remain volatile in the near term as derivatives expiry is fast approaching and traders roll over positions from the March series to April, ahead of the expiry on 25 March 2010," says V.L.L.N. Sastry of Firstcall India. He feels that going forward, the key triggers for the stock market are structural reforms and financial sector reforms. The market is likely to move into consolidation mode as the RBI policy is around the corner.

• LANCELOT JOSEPH

