

**Market News**

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## On a new high

**Everyone is betting on India's growth story**

The Indian stock markets seem to be enjoying their moment of glory. And are all set to create new records. Currently they are hovering around their all time high. FII money continues to pour in. By the time this magazine hits the stands, the total inflows during this year could well cross ₹1 lakh crore. This is the highest annual inflow since the markets opened up. While one set of investors are awaiting a correction and holding back, another do not expect the flows to stop in a hurry. "The growth story of India is only getting stronger, with strong sustained domestic consumption, infrastructure build-out and a solid financial framework. The FII interest in India has surged in view of the relatively strong economic growth that is a multiple of 9x-10x as compared to the West," says Ajay Srinivasan, CEO, Aditya Birla Financial Services group. "While the strong flows are expected to continue, the volatility in flows would increase in the time to come, with the second quantitative easing (QE) looming large in the US."

The public sector IPOs of Coal India and follow-on issues of SAIL, Shipping Corporation, ONGC, Indian Oil and others are expected to see a further surge in FII inflows. Everyone is betting on India's growth story, and given that the global markets are awash with liquidity and money is available at low interest rates, the

*Srinivasan: growth story gets stronger*

interest in India may be sustained for some more time.

**Gaining momentum now**

Interestingly, Indian markets have only started gaining momentum. Since January they have given returns of under 20 per cent as compared to returns of 42 per cent given by Indonesia, 35 per cent by Thailand and 33 per cent by Turkey. Venezuela has given 22 per cent returns, Russia 10 per cent

while Brazil and Mexico have been virtually flat since the beginning of the year. The fact that, despite the surge in liquidity, Indian markets have still not run up to the extent of other markets also points to the potentials ahead.

The optimism is mirrored in the Nifty October Futures which are currently traded at a premium of nearly 25 per cent over the spot markets.

Domestic retail investors are becoming savvy this time around. Unlike in earlier rallies, where they were seen as buyers at the top end of the market, they appear to be booking profit on every rise over 20000. Mutual funds have seen net redemption in equity funds in September and the first fortnight of October. They have been net sellers to the tune of ₹19,000 crore since June 2010.

One view held by rationalists is that the surge in FII flow is also getting reflected in the sharp rise of the rupee against the dollar which is hovering around the ₹44 level. They feel that a further rise could provoke the RBI at the behest of the government in taking some actions to stem the pace of inflows. A holding tax on repatriation or other such measures could be tried, they feel. However, given past experience, others feel that the government would not take foolhardy steps in a hurry.

Meanwhile, smart investors are looking at paring their exposure to front-line stocks by diverting funds to IPOs and non-index stocks. ICICI Direct.com, in a study, has identified possible companies which are potential bonus candidates. These include Patni Computers, Maharashtra Seamless, Colgate, BASF, Bayer Crop Science, GlaxoSmithKline Consumer, Allcargo, Cummins and Novartis amongst others (see table).

While bonus shares do not provide immediate gains it has a psychological impact on investors' sentiments as the action not only demonstrates the confidence of the management in servicing the higher capital but also provides shareholders with an opportunity to get enhanced amount of dividend in years to come.

The festive spirit in the markets may well continue post Diwali.

♦ DAKSHESH PARIKH

**Bonus candidates**

	Last bonus issued	Equity cap.	Reserves to eq. (times)	Reserves	Net profit FY10	Net profit FY09
		₹ crore		₹ crore	₹ crore	₹ crore
Exide India	2003	85.0	23.7	2,104	537	284
Colgate-Palmolive	1993	13.6	22.6	313	423	290
Asian Paints	2003	14.5	68.6	312	775	362
Bayer Crop Science	1987	39.5	10.3	520	127	95
BASF India	1988	40.8	20.2	825	97	69
GlaxoSmithKline Cons	1997	42.0	20.5	863	233	188