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## Will The FIIs Love Affair With India Continue?

Monday, February 24, 2014  
By Mayura Shanbaug

**Short-term there's dissatisfaction, but long-term international investors are far more optimistic, given the inherent potential. India is often referred to in the same breath as China – that's how strong the fundamentals are. We certainly have not been written off...**

General elections in independent India have always been a very important event, but this time it is deemed as the most talked or anticipated event for more reasons than one. People and markets are anticipating a change of guard at the center with a very strong anti-corruption, anti-inflation, degrowth sentiments playing influencer. With India's economic growth at a decade low; although with a slight promise of inching towards the positive and the US monetary stimulus yet to show its full impact on Indian markets, what are the chances that the foreign investors would continue their love affair with emerging markets like India?

"It's an extremely difficult call to make as in the current scenario with current ongoing circumstances, it seems like wishful thinking," says Hemen Kapadia, CEO, Chart Pundit.

"With QE3 being eased on a regular basis its nothing short of a challenge for India as a stronger dollar will take its toll on the Indian rupee and every other emerging market currency," he says. Kapadia points out that the current account deficit and raging inflation continues to wreak havoc on the economy with GDP growth poised to slip below 5% which doesn't sound to appertising from an FII point of view.

"A single biggest make or break factor for the stock market and the economy as a whole is the electoral process as the need for a decisive government is acute to pull India back from the morass that the existing government has dragged itself into," he says.

But there are many experts who do not agree with Kapadia's views and feel that the outcome of the general election will be a short term blip in the whole affair and the long term relationship will continue if India's growth story promises to remain attractive.

"The average GDP growth rate for India has been over 6% for the last 34 years, irrespective of the type of government (strong single party or a weak coalition). One might see a near term sentimental impact based on perception of political stability or instability post elections, but over the long term, the focus will shift to corporate earnings growth and earnings quality which remain the key driver of company valuations," says Nilesh Shetty, Associate Fund Manager- Equity, at Quantum AMC .

"The long term India story remains robust and one would expect continued FII interest given growth differential favoring India versus the west, however the near term could be impacted based on election outcomes and its perceived impact. But that would just be temporary," says Shetty. He feels that over the long term the economic factors coupled with the skills and knowledge set available in India will help the country remain in the good books of FIIs.

According to Vikram Dhawan, Director, Equentis Capital, FIIs like all other Institutional Investors may continue to buy selectively and the divergence between underperforming vs. outperforming stocks and sectors will continue. "However, all this is subject to a stable rupee that fortunately may be the case at least in the short to medium-term. In the longer-term a business friendly Government coming to power post elections in May will be a great booster for the Indian Capital Markets," explains Dhawan.

However, D. R. Dogra, MD & CEO, CARE Ratings strongly feels that the elections will be critical as investors are looking for a steady stable government. "A pro growth and pro industry government will work very well with investors. We need to have affirmative policies with respect to markets and that will help revive sentiment," says Dogra.

"FIIs will to my mind continue to invest selectively in emerging markets where prospects are exciting. While the quantum will not be as high as, say in 2009 - 2012, it would remain positive as valuations are good. India does have good prospects here but should pay well in terms of policies so as to retain interest," he adds.

Anuj Puri, Jones Lang LaSalle India Country Head and Chairman, visited Davos last month to attend World Economic Forum summit and gauged the mood and sentiments of the global investors, he came back with non negative news for the country.

"My fear was that confidence may have abated, but that's not the case. I'd characterise the overriding feeling as 'dissatisfied optimism'. Short-term there's dissatisfaction, but long-term investors are far more optimistic, given the inherent potential. India is often referred to in the same breath as China – that's how strong the fundamentals are. We

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certainly have not been written off," wrote Puri in his article 'How likely is a post-election recovery in India?' on his company's website.

So, will the elections and its outcome figure out in the major scheme of things? The voices are unanimous in the favour of stable and able government at the centre.

For Puri the consequences of one election outcome are clear: a hung parliament won't be good news for investment: "Investors want conclusive action," says Puri. "We've had plenty of great intent, but too much over-promise and under-delivery. Investors at Davos are saying they'll hold off for a couple of quarters for conclusive evidence that the new government means business. If it's a hung parliament they just won't be interested."

Echoing similar sentiments Dhawan says that the Investors would prefer any one of the major political parties along with their genuine allies getting absolute majority in the upcoming elections. "This will ensure faster decision making in policy matters and remove uncertainty in pace of reforms. It is our belief that reforms are inevitable irrespective of who comes to power, as kick starting the investment cycle is not an option but a necessity to generate jobs and revive stalled projects," he says.

To instil confidence what the new government will have to do? Dogra feels that a government with a strong central party is needed to instill confidence. "Next the government should take immediate steps to revive investment and a growth oriented budget where government kick starts infra will be needed. Further the stance on foreign investment will be crucial as this can be a turning point," he says.

According to Nilesh Shetty, for a positive investment environment a country like India today needs a period of benign inflation. "While RBI has made its intentions clear that it will target inflation and aims to bring down CPI below 4% in the long run, it looks like there is still a long way to go," explains Shetty.

"Other than the inflation, investment sentiments will also depend on the clearance of stuck projects by the government. Finally, a reduction in leverage of asset owners to start a fresh leg of investment cycle. To spur overall growth for a country and create a positive investment environment it is important for large players to come up with more and more new businesses that will act as an investment avenue for investors," he says. "On the global front it is the Fed tapering that affects market moods to a large extent if only Ms. Yellen decides to go slow with tapering could the FIs remain in India," he adds

Whereas Hemen Kapadia feels a stronger currency, which is also directly dependant on the political outcome may be the influencer. This without a credit rating downgrade for the country and a much needed pickup in the GDP growth will be extremely positive. "Lower crude prices could also be vital to investment sentiment not to mention a lower budget and current account deficit," he says. "A carrot and stick approach could do a world of good while a decisive government could bring credibility back to the table for India as an investment destination," concludes Kapadia.

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Normal business activity will assure a steady income. A proposal that can generate some quick money will have to be firmly rejected as it may conflict with the way you work and think. There will be profits no doubt but you will lose your peace of mind. Family life may be a bit strained. Accept rather than change things for what you would like them to be. Bide your time right now.



Select Sun sign: Aries (Mar 21 - Apr 20)

Aries (Mar 21 - Apr 20)



What the cards say: Use your energy constructively Path: Chill. Take things easy. Don't be in such a hurry. Give yourself some leisure. Ally: Taurus will slow you down. Avoid Leo who could make you hyper. Card for the week: Tarot key no. II The High Priestess.

You need to connect with your rich inner resources and the inner world of harmony and knowledge. A time for reflection and meditation rather than action. Something hidden will be revealed.

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