

Will we see a reversal in foreign fund flows?

The backdrop: Foreign Institutional Investors have been net sellers in the Indian markets this year on concerns of slower growth and inflation

Short-term negatives persist

India has been a favoured destination for FIIs in the past four to five years with their ownership in the Indian market having risen over three-fold to 20 per cent. With valuations looking cheap as compared with other emerging economies, FIIs pumped in \$17 billion in 2007, but in the current year they have turned net sellers to the tune of \$7 billion owing to high inflation, slower GDP growth and attractive investment opportunities in other asset classes. Despite the slowdown, India will grow at about 7.5-8 per cent, making it the second-fastest growing economy globally. Valuations have also come down to reasonable levels (compared with January 2008) and the commodity cycle too seems to be reversing. These factors should make India a favoured destination in the medium term. However, further significant losses for large global institutions and an overall reduction in the risk appetite are short-term negatives for FII flows.

Commodity reversal will help

The overall valuation compared with other emerging markets and rising inflation were the major reasons for FIIs pulling out of the market. There was also a change in the asset class with money going into commodities such as oil and gold. But a reversal in FII flows is likely as the monsoon has been reasonably good this year and we have seen a correction in commodities worldwide. Oil has been cooling off over the past few weeks. Today, valuations in the domestic market look attractive, which is a positive for equities. A lot of hedge funds are sitting on cash and will definitely look at Indian stocks now. A major positive was the UPA government winning the trust vote. The government will now be able to move ahead with reforms like FDI investment in insurance, change in corporate and individual taxation and PSU divestment. Frontline stocks in the capital goods and IT sectors are good bets.



DIPEN SHAH

Vice-President, PCG - Research
Kotak Securities



JIGNESH DESAI

Head, Institutional Sales
SBI/CAP Securities Ltd