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from the ringside

2006: A year of consolidation

Jaipur, one of India's prime tourist destinations, recently played host to a high-profile investors' conference. The 10th India Investors' Conference, organised by Merrill Lynch, witnessed high-quality presence of global institutional investors in what was described as ''62 presentations over 5 days at Jaipur''. Two years ago, while addressing a similar conference in Udaipur, I had interacted with a modest number of 50 participants. This year, the number exceeded 150 and as Chairman, DSP Merrill Lynch, Hemendra Kothari explained, a large number of participants had to be turned away due to paucity of rooms. Against a minimum of 250 rooms they could cobble together just 180 rooms. Paucity of hotel rooms in India is a serious constraint in attracting worthwhile international events, but that subject deserves a separate treatment.

The timing of the conference just after the Sensex had breached the psychological barrier of 10,000 and the recently released upbeat GDP figures suggesting 8 per cent growth had already buoyed investor sentiments. The participants at the conference were resource-rich, enthusiastic about India and not a complaining lot which all of us have encountered many a time. One-to-one investor meet which is customary and also the more productive aspect of such a conference saw the presence of most Indian majors like ONGC, Reliance, Infosys, Bharti, TISCO, Ranbaxy, Jet Airways, L&T, to name a few.

So what has changed in the last two-three years? First and foremost, expectations. There is renewed confidence that the India success story is a sustainable one and the perceived risks rather low. Earlier, such meetings invariably had a daunting 'Wishlist' on unfinished reforms, policy infirmities, regulatory opaqueness and the familiar bureaucratic and procedural irritants. This time around the Wishlist was not of 'Constraints' but of 'Opportunities'. Investors were busy with potential India partners in delineating emerging opportunities. There was seriousness in their intent and anxiety not to miss the present Indian boom cycle.

Second, the continuity of the reform momentum in multiple directions is now generally accepted. Roads are getting better, civil aviation is opening up quickly with airport modernisation in sight, telecom is a runaway success, even though the power sector remains a worrisome concern. Visible progress and the government saying all the right things (not all of which they have translated into practice) coupled with significant success in forging strategic alliances with the USA along with improved relations with China, ASEAN countries has made a decisive psychological difference.

Third, institutional investors are by temperament somewhat wary of Greenfields or long-gestation period projects. Their preference always lies in listed companies and to be part of their diversification strategy where risks are better hedged. That is why the one-to-one with leading Indian corporate houses was a productive exercise. In the medium term, there was strong interest in urban townships, the transport and construction sector, the Special Economic Zones and participation in Special Purpose Vehicles with possible access to the recently created viability gap funding mechanism.

The research team of Merrill Lynch outlined its '10 Thoughts for India 2006' on market and economy. These included the following: To view 2006 as an year of consolidation which will see some volatility in markets after a one-way bullish market and their movement would be closely co-related to all global emerging markets. The economic momentum would be sustained by a continuation of the consumption cycle and notwithstanding rising interest rates, higher infrastructure spending will be the big driver of economic growth. Upward movement in interest rates to mitigate inflationary expectations with rising current account deficit and slow down reserve accretion will be part of the scenario. In the pleasant surprises there is expectation that post-Assembly elections in West Bengal, Kerala, Assam, Tamil Nadu and Pondicherry, there would be greater willingness on the part of the allies to support reform initiatives. A possible fall in oil prices would help lower interest rates and ease inflationary fears. The enactment of the Pension Fund Reforms could trigger large investment in equities. Of course, there are worries that India being a major beneficiary of FII flows over the past three years ,a significant change in the global liquidity environment could see the reversal of these flows.

No doubt, all this optimism assumes purposeful action. A Budget without excessive populism, return to fiscal rectitude, sharp reduction in tariffs to align with ASEAN rates, continuation of a regime of moderate tax rates with administrative and procedural simplification (abstaining from clever but unfriendly irritants), introduction of the promised legislation on raising the insurance cap, early passage of Pension Bill, tangible action (not promises) on banking reforms and flexibility in labour policies are necessary pre-conditions for a continuation of the current bullish sentiment.

Policy makers need not be wary of shifting goal posts. After all we have now reached a new threshold. However, we need not lament either if 2006 turns out to be a Year of Consolidation.

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