

High on India

Lured by intoxicating returns, foreign investors are piling into the Indian stock market. But not everyone can be a Big Fish

BY WILLIAM GREEN

Finding a job in the investment world was always going to be easy for Navroz Udhwadia, a second-year student at Harvard Business School and a former Rhodes scholar at Oxford. But what made him stand out was not just his brain—it was that he'd grown up in Bombay and had a passion for Indian equities. "Every hedge fund I interviewed with was fascinated by my Indian background," says Udhwadia. Four of them offered him jobs. One didn't even wait for him to graduate—the fund's managers gave him \$5 million to invest in Indian stocks in his spare time between classes.



Entrusting millions to a grad student may seem foolhardy, but everyone these days seems to be groping for a way to get rich off India. Foreign institutional investors poured \$8.5 billion into Indian equities in 2004 and \$2.6 billion so far this year, up from \$750 million in 2002. Awash in cash from overseas, the Sensex—India's main stock index—has doubled in two years, hitting an all-time high in March. As Udhwadia puts it, "astute foreign investors" now realize that India's rise is "a unique opportunity." He's right, of course. On a recent visit to Bombay, I quickly found myself as intoxicated as everyone around me. It's hard not to be dazzled: the economy is growing at 6-7%, per-capita income is rising 11% a year, and Indian companies are more competitive than ever before. Yet this flood of foreign money into Indian stocks has me spooked.

In the past, India has often been a terrific place in which to lose money. If you'd bet on the Sensex in 1992, say, you'd have been 30% poorer by 2003. But investors have short memories, and financial firms create whatever products are suddenly in demand. Today, that means a new generation of India-focused mutual funds and hedge funds, often with wonderfully alluring names like (my favorite) the **Monsoon**

India Inflection Fund. The most vogueish vehicles of all are mid-cap funds that bet on riskier Indian companies that may one day grow up to be blue chips. In November and December alone, the CNX mid-cap index jumped 28%. Nilesh Shah, head of equity strategy at **Kotak Securities** in Bombay, says his team's fledgling mid-cap fund, targeted at foreigners willing to pony up \$100,000, soared 59% in the six months after its August launch.

Over tea at Bombay's Taj Mahal Hotel, a broker waxed rhapsodic to me about a new Swiss-based hedge fund that he's hawking to foreigners. "The upside potential is huge, the downside risk is minimal," he said, explaining cryptically: "There's a strategy which will be key to our success." Foreign investors are now so gung-ho about India that this kind of giddy pitch might just work. Indeed, a director at a Bombay brokerage says he's been startled by his recent encounters with foreign investment firms. Their attitude, he says, is: "Let's just get invested quickly. It's going to boom for the next 20 years, so let's get a piece of the action." They're not focused on valuations." As in any frothy market, the media feed the euphoria. Indian TV viewers are now treated to a regular CNBC program called *Wizards of Dalal Street*, showcasing the wisdom of local investment

gurus. Another channel, NDTV Profit, offers a rival show called *Big Fish*, as well as one called *Sensex and the City*. Indian publications pile on with headlines like THESE IPOs CAN MAKE YOU A SUPERSTAR INVESTOR.

Superstar investors contemplating the frothier realms of the market should be getting nervous. **Indiabulls**, a financial-services firm that hopes to profit as wealthier Indians buy more stocks, has seen its shares quintuple since last fall, while shares of **Pantaloon Retail**—a chain of clothing stores, malls and supermarkets—have risen eighteenfold in two years as investors bet on the spending power of the Indian shopper. But such gains are less a reflection of unlimited promise than of limited supply, with investors bidding up the few stocks that offer a way to play these trends.

Does all this mean you shouldn't have a dime riding on India? Not at all. If you want a sense of how significant the country is becoming, consider this: since December, about 150 of Udhwadia's Harvard classmates (out of some 900) have traveled to India to witness the emergence of this economic powerhouse. But don't wade into these waters with a blithe sense that the returns of the past two years are repeatable—or you'll end up battered and fried, alongside a whole lot of Big Fish. ■