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A Ride Through 1,743 Points

Chills and thrills on Dalal Street

Our Bureau MUMBAI

AT THE closing bell on Wednesday, few in dealing rooms had a clue who was batting at Wankhede. For the first few hours, they tried in vain to cover their trades and save their clients as they saw millions melting like cotton candy. For the rest of the day, they desperately tried to cover the lost ground as the finance minister talked up the market in what turned out to be a dramatic recovery. Cricket was the last thing on their mind.

A clarification by Sebi and a statement from FM came as a silver lining for local investors who swung into buying mode. But FIIs were not impressed. For all their conviction in the India growth story, most FIIs were missing in action early on in the day as trading on both exchanges was suspended for an hour, less than a minute after the session began. According to provisional data released by the exchanges, FIIs net sold Rs 2,012 crore worth of shares on Wednesday. For a change, local funds used the decline to load up on stocks, making net purchases of Rs 285 crore. The biggest local investor LIC also stepped in to buy.

Barely Rs 168 crore worth of shares had changed hands on BSE and NSE when trading was temporarily halted after the indices breached the first trigger point for the day's circuit filter on the downside. Memories of April 2004 were revived as the Sensex plunged 1,743.96 points or 9.1% to 1,7307.90. The Nifty tumbled 524.15 points or 9.2% to 5,143.90. The Sensex finally settled at 18,715.82, down 336.04 points over the previous close. The Nifty closed at 5,559.30, down 108.75 points.

Experts see more hiccups in near term

ADRs of several Indian companies were up in early trades. In distant markets, there were trades of another kind. Sensing that Sebi will go ahead with the PN curbs, there was active trading of PNs. Investors who were overexposed pared their positions.

And as is usually case whenever there is a sharp downtrend, retail investors in the local market exited their long positions at the first signs of recovery, according to broking circles. Elsewhere in Asia, Japanese stocks wobbled, mainly because quite a few investors in that country have exposure to Indian equities by way of yencarry trades (where you borrow in low-cost yen and invest in high-yielding emerging market equities). South Korean shares fell 1% and Taiwanese shares were marginally down, but other markets were largely unruffled.

Market observers say despite the recovery, it is too early to say if the issue has been blown over. "There might be slight hiccups in the near term. However, this issue will settle down slowly and money will find its way in," says Sage Capital Advisors MD Manish Kanchan. "Not many can afford to stay away from the India story and they will find a way to enter the market. Maybe, we will witness the launch of many new India-dedicated funds. Serious players will still come to India," he added.

On the role played by insurance companies, HDFC Standard Life Insurance MD Deepak M Satwalekar said: "Insurance companies have become a counter-balancing stabilising factor to FIIs. We do not trade in and trade out, because insurance companies are long-term players. It is estimated that as on March 31, 2007, insurance companies brought Rs 1,50,000 crore into the markets."

Secondline shares were hit harder by the selling pressure. Both the BSE-100 and BSE-200 shares fell over 2%. In sectoral trends, banking and real estate shares fared the worst with the BSE indices, for the respective sectors, falling around 4%. IT shares held ground as investors are betting that the Sebi proposals will check dollar inflows into the country and weaken the rupee in the process.

Aviva India associate director (fund management)Jyoti Vaswani said: "We use corrections or dips such as these to buy aggressively as insurance companies have a steady flow of money. We believe that India has a good growth story and such corrections will not really change the fundamentals of the Indian economy. Our preferred sectors are infrastructure companies and the domestic consumption plays."

Today's stock
market reaction was a knee-jerk one...Flow of funds without clarity is a real concern for the market regulator. I don't think the regulator is saying that foreign money cannot come in or hedge funds and other overseas entities cannot invest in the country.
MIHIR DOSHI
COUNTRY HEAD, CREDIT SUISSE

If implemented as
proposed, the measures appear harsh and will adversely affect net portfolio inflows. Several investors are wishing that there would be a meaningful rollback of the proposed measures, but they are likely to be disappointed.
RAJEEV MALIK
VP & SR ECONOMIST, JP MORGAN CHASE BANK, SINGAPORE

Hopefully, Sebi may
be more open in introducing further reforms to the FII regime such as NRI/OCB participation issue, foreign corporate/foreign individual sub-accounts. In the long run this could end the uncertainty surrounding the offshore derivatives instruments.
SIDDHARTH SHAH
HEAD OF FUNDS PRACTICE GROUP, NISHITH DESAI ASSO

In the long term it's a
move in the right direction, but it can have some short-term pain. Till foreign nationals can invest in the Indian market through an Indian broker, the regulator may look at registering more entities as FIIs for investing directly in the Indian market.
UDAY KOTAK
VC & MD, KOTAK MAHINDRA BANK

We hope foreign
investors do not consider this as a negative, but look at it as a way to manage dollar inflows. It's ironical that at a time when we have sold a good story to the world, we are unable to channelise the money."

R RAVIMOHAN
MD & REGIONAL HEAD, S & P SOUTH ASIA