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India best bet for foreign Invesment
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Morgan Stanley has come a long way since it ended its partnership with JM Financial. Narayan Ramachandran, CEO of Morgan Stanley Investment Management and country head, Morgan Stanley India, speaks to George Smith Alexander about the firm's strategy

What are Morgan Stanley's plans for India?

We have been in India for many years in different avatars. Our asset management firm has been here for well over 14 years, first as a joint venture and then majority owned by Morgan Stanley. Our securities firm was established in the mid-1990s and then went through a joint venture phase, from which we came out last year. Probably among non-Indian competitors, we have been here the longest.

The business footprint here is the same as anywhere else in the world. Securities business — both fixed income and equities —, investment banking, asset management and wealth management. The only business that will come up eventually, as circumstances and markets change, is the prime brokerage business, where we help hedge funds go about their business. Other than that, the footprint is intended to be exactly the same as Morgan Stanley in London, New York or Tokyo. The timeframe to establish this is short — no later than middle of this year we would have presence in all of the segments.

What are the plans on the NBFC front? Will you lend to corporates through this route? What about a banking licence?

We got a licence for a fully-owned NBFC last year. It will be used by the fixed-income and private wealth management businesses. We will also engage in a range of capital market activities. We have also applied for a primary dealership licence. The minimum capital has already been invested — $7.5 million, which will be scaled up to $50 million. We are in the process of capitalising it further.

We are not a bank and won't do a straight lending programme to corporates. The lending will be in the context of their capital market activities. We will eventually look at a banking licence, but are not seriously contemplating it right away. For a capital market participant like us, the advantage of a banking licence is the ability to participate in the forex market. Most likely, we will go in for a partnership before we go ahead and apply for a banking licence.

Given the attractiveness of the Indian markets over time, we will eventually have billions of dollars of capital deployed here

Would Morgan Stanley look at joint ventures in India?

The operative word, particularly in emerging markets, is never say never. Partnerships and joint ventures are the norm in the future for any business, particularly financial business. We can't be in every business and in every place all the time. We are seeking all kinds of partnerships. You start with a client- or a market-place need, and you figure out how to solve it.

Are you looking at inorganic growth in India?

We are always open to inorganic modes of entry. But in India, information dissemination is very high. The consequence of which is that you don't get mid- or small-sized entities that are completely unknown and undiscovered that you might be able to partner at a price that makes sense. Price gets discovered very quickly. In principle, inorganic modes of entry in virtually every business is completely open, adjusted for price that's probably not that high. That said, we will be open to looking at teams, as we have done in our private wealth management entity and as we will do in others.

What are the plans on private equity front?

We think of private participation in three buckets — private equity, infrastructure and real estate. In real estate, we were among the first in India. But on infrastructure and private equity, we have gone slow in the past year or so, since we were concerned about some of the hype and the associated valuations. But you will see us getting active in both the spaces very soon. At this moment we don't have any big plan for India-specific funds. But all our global funds are allowed to invest in India, though without targeted allocations. They will make those investments, as real estate has already done.

We have invested around $1 billion in real estate while the investments through the other two funds have been small — a couple of small deals. We have examined a lot of infrastructure deals in India, but we don't have on the ground capital allocation of any serious magnitude. But as the hype gets worn out, we will be much more interested to put this money to work in both private equity and infrastructure.

How much capital is Morgan Stanley looking to deploy in India?

I think given the attractiveness of the Indian markets over time, we will eventually have billions of dollars of capital deployed through the three private equity entities and also through fixed-income proprietary investments.

You have been speaking of a bull market next year. What is the reasoning behind this theory?

Policy, particularly in the US, will react fast and furiously. If risk preference changes in the US, where do you put the money? The most likely destination is emerging markets of which India is one.

My observation for a bull market in 2009 is really an emerging market observation, which then translates into an observation about India. I think it's possible and that it's not 10% and 20% returns, but 50% to 75% returns. In India, there was a need for earnings expectation adjustments as we are going through a slowdown. Four months from now, you will get the full impact of fiscal policy, the early stage impact of a 300 basis point cut by the Fed. Just watch for the "dollar carry trade". At 2.25% it's days away from being kicked off. Hold everything constant — dollar being financed at 2.25%, don't change the PEs of Indian stocks, just give me 15% earnings growth. This is without leverage.

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