# Investors are pricing in hope rather than reality: Macquarie

Expectation that a change in national government would revive the economy, long stalled structural reforms would be back on agenda, which would improve private sector visibility, seems to be wishful thinking, says a report by Macquarie Equity Research.

Since October 2013, investor attitude towards India has changed from an expectation of volatility and poor returns to a far more upbeat mood. This has been possible due to several steps taken by the central bank and prospects of the development oriented BJP coming to power.

However, Macquarie says that the new government, which would be a coalition one will not find the going easy on account of problems of coalition building, high levels of endemic corruption and 'tug-of-war' between national and local government.

Macquarie feels in the short-term there are enough economic reasons to be underweight on India. On a relative basis, Indian corporates have one of the most stretched balance sheets as compared to its peers in Asia Pacific region. In some ways they are even more stretched than Chinese corporates. Indian corporates have the lowest cash position of 6% of current assets, highest cash flow leverage ratios – net debt to cash flow of 3.5 times and one of the highest gearing ratio – net debt to equity of 60%. On top of it, cash conversion rate has increased to 68 days as compared to 50 days in 2004.

Slowdown on account of policy log-jam and directionless growth by the Manmohan Singh-led government at the centre along with overall slowdown globally has resulted in Indian manufacturing operating at a historically low level of 73%. Macquarie adds that RBI's forward looking outlook does not suggest any improvement going forward.

In terms of attraction for foreign investors, India is the most overbought market in the region. Valuations which are in line with historical averages are not compelling enough. India along with Indonesia remains extremely exposed to any sizeable rise in volatilities in global currency and bond markets and capital flows.

***(Business standard)***