Boom and Bust
Resistance is futile

Overweight
Consumer Discretionary
Energy
Healthcare
Materials

Underweight
Consumer Staples
Telecommunication Services
Utilities

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A Reliance Capital company

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Boom and Bust

Resistance is futile

India Strategy

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As the markets gain new heights, investors are now worried whether the rise is too fast to last. We worry as well. But our analysis suggests resistance might be futile. On the back of a sharply improving 2011 earnings that, in turn, should benefit from rising availability and falling cost of capital, we expect the BSE Sensex to rise to 18000 in the next 200 days. In this note we go through the rationale and help you position for that rise.

- **18000 by year end**
  We expect the BSE Sensex to trade between 17x and 19x FY11 earnings by December 2009, which, in turn, is expected to rise by an impressive 17-22% over FY10. There is scope, however, for a further rise in the market's multiples. Put simply, India is at a significantly superior growth and risk category relative to its past cycles or competing global investment destinations. Past cycles have seen better than 20x one-year forward earnings.

- **Global forces to determine returns**
  Domestic factors like elections might appear to trigger the rally, but make no mistake: the Indian market will be dominated by global dynamics. The excess liquidity created by the global monetary authorities WILL drive asset prices, and in particular emerging markets, higher. Capital costs are key for consumer and investment demand in India. On the back of expected greater credit availability and falling credit costs, our economist expects Indian FY11 GDP growth of 7%. The global asset allocation shift will magnify the dollar-denominated returns from markets like India, feeding a virtuous cycle.

- **Material risks remain and are rising**
  While we wish it could be a one-way bet, risks are indeed rising in global markets that could, in turn, impact India. The wall of liquidity could well fuel inflation in developed markets resulting in monetary tightening. Such a tightening would impact the key driver of Indian earnings—the availability and cost of capital. For the moment, though, rising global bond yields are a good sign. Indian markets have significantly outperformed global and most other emerging markets but this is not new and could continue as many domestic investors have been sceptical and are playing catch up. It is extremely rare for Indian markets to have just a 12-14 week rally: the average is 53 weeks.

- **Launching Reliance Equities International Model Portfolio: "REIMP"**
  We launch our model portfolio, REIMP, along with a recommended sectoral asset allocation. This is a synthesis of our bottom-up and top-down view.

Nice run but where next?

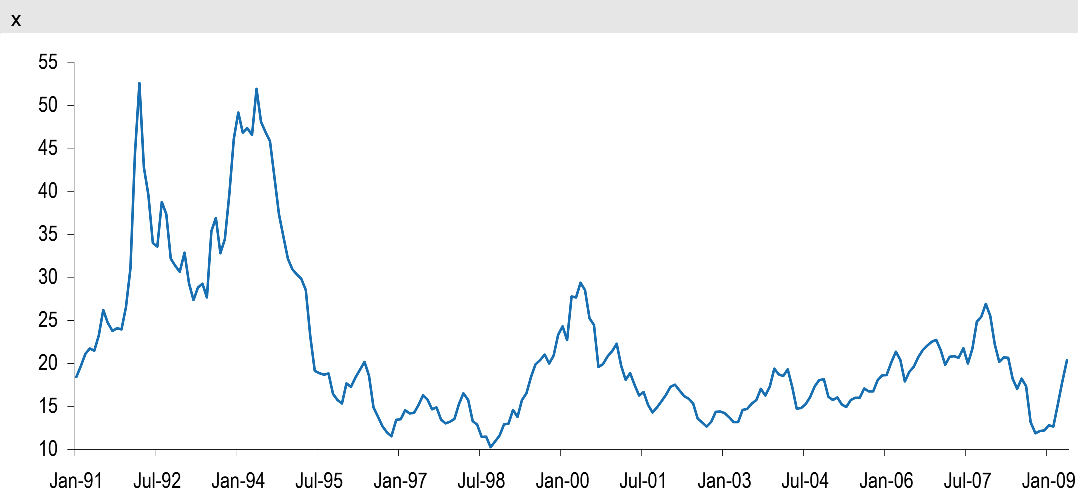
In late March, we set our Sensex target for the year end (December 2009) at 13700 and launched our deep value portfolio, REIDV. Little did we realise how "short sighted" the target would prove to be. As we watched the post election relief rally in amazement, the question arose: what is the year-end target now? Cutting to the chase, we now see the market in the 16500-19000 range by December 2009, i.e., about 15-30% upside from here.

The market currently trades at about 15.5x our March 2011 bottom up earnings estimates or about 19x March 2009 earnings. This might appear fairly expensive. Figure 1 below suggests that, relative to the history of the market, it really is not. At the cusp of the cycle, it is usual for analyst estimates to lag significantly. Analysts wait for hard data prior to revising earnings. Alas, markets do not wait for such niceties. Markets typically move ahead of analysts and such other mere mortals discounting somewhat incomplete or inconclusive data and more distant future earnings resulting in a significant expansion or contraction of trailing P/Es.

We base our revised target on what we consider to be the most plausible scenario but with a margin of safety—a Grahamesque concept. Our target is based on FY11E EPS growth of 17-22% and a P/E of 17-19x FY11E. Looking at it from a trailing earnings perspective, our target implies a trailing P/E of 22x FY09 consensus earnings. In the last two market recoveries, one-year forward P/Es crossed 20x while trailing P/Es crossed 25x.

Figure 1: P/E Sensex (trailing four quarters)

x



Source: BSE, Reliance Equities research.

So what is the rationale behind our growth and P/E targets?

Our targets do have some margin of safety.

Firstly, on valuations, our growth targets are modest if you look at them from a historical perspective. As Figure 2 suggests, EPS usually grows 15%-20% in the year following a declining profit year in the market. However, EPS growth would be higher if the survivorship bias in the index was adjusted.

Will history repeat itself? We think so—particularly if the country has better governance and global factors are not disabling.

Figure 2: YoY Sensex returns and EPS growth

Units as shown

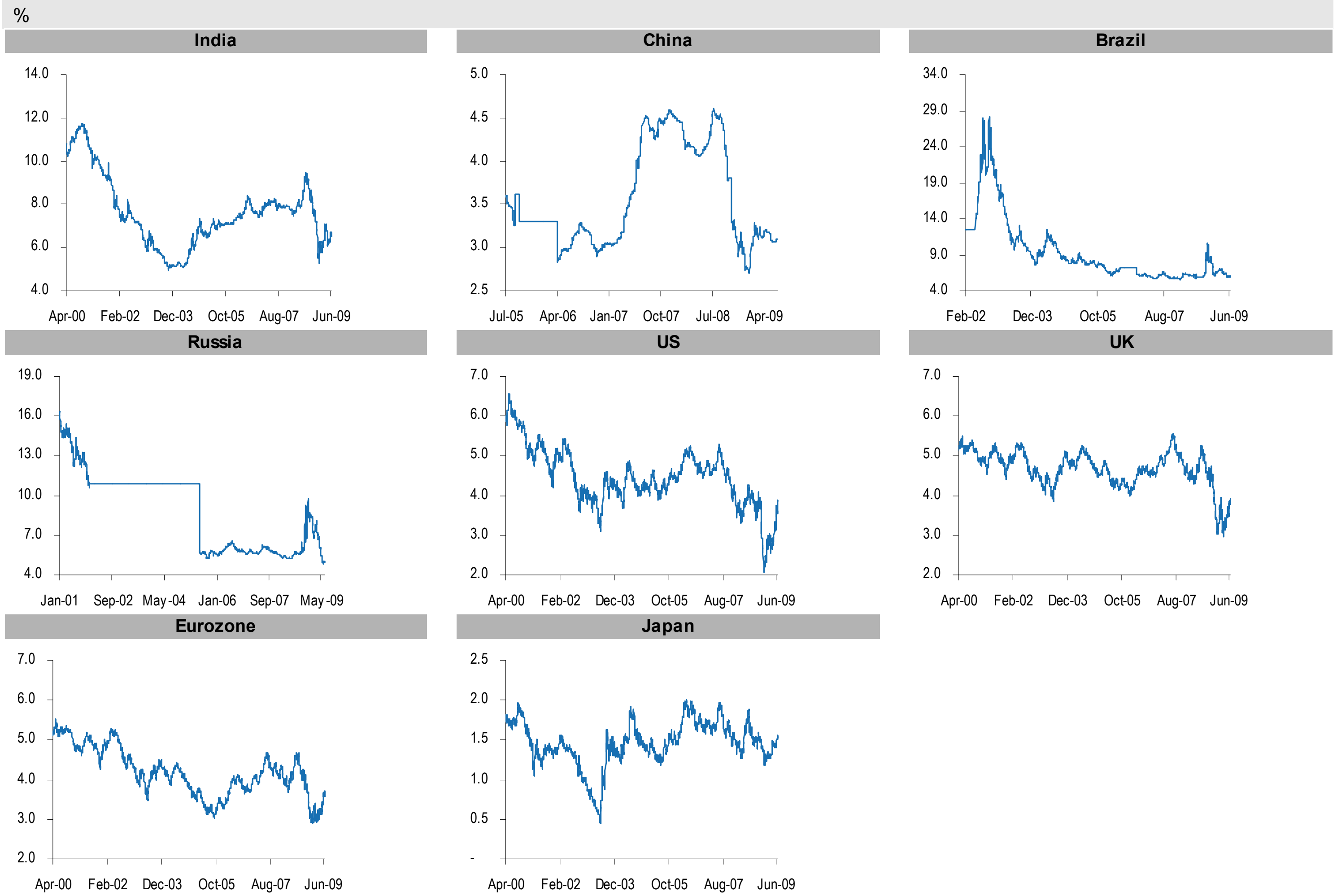
	Index return	EPS growth Sensex
Mar-95	-13.7%	38.3%
Mar-96	3.2%	37.9%
Mar-97	-0.2%	23.1%
Mar-98	15.8%	9.8%
Mar-99	-3.9%	-14.4%
Mar-00	33.7%	14.3%
Mar-01	-27.9%	-28.7%
Mar-02	-3.7%	18.8%
Mar-03	-12.1%	31.4%
Mar-04	83.4%	19.5%
Mar-05	16.1%	48.8%
Mar-06	73.7%	20.9%
Mar-07	15.9%	31.1%
Mar-08	19.7%	30.4%
Mar-09	-37.9%	-10.5%

Source: BSE, Reliance Equities research.

Secondly, for our market P/E target, we are assuming a relatively modest expansion of P/Es from the current 15.5x one-year forward to 17-19x one- year forward as investors' increase their appetite for risk. This is the normal trend 12 months from the bottom of every past cycle.

We think that India deserves a higher P/E rating relative to the past recoveries and its peer group. Since 2000, India has had one of the steepest reductions in the cost of capital (assuming 10-year bond yields as a proxy) anywhere in the world over 2000–08, declining by over 350 bps.

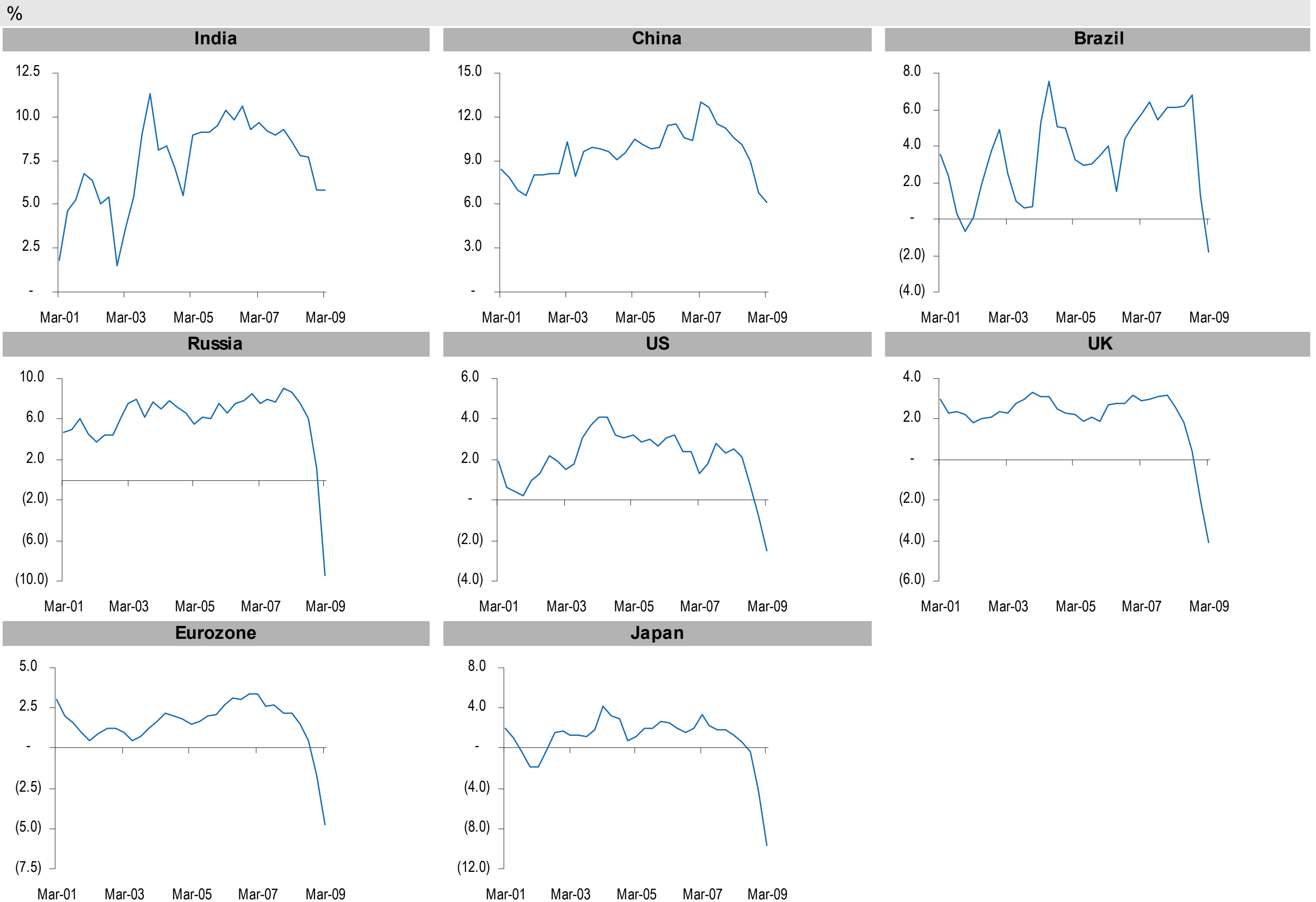
Figure 3: Global 10-year government bond yields—India has experienced some of the steepest declines



Source: Bloomberg, Reliance Equities research.

Indian GDP growth, on the other hand, is significantly higher relative to past cycles. Growth this year is expected to be the second highest amongst all major economies in the world. Indeed, we expect Indian growth to equal or better China over the coming decade. But discussion of that topic is for another day.

Figure 4: Global GDP growth—Indian growth next only to China



Source: Bloomberg, Reliance Equities research.

Turning to peer market valuations, in isolation P/E ratios for India could appear relatively high from a global perspective. However, on a growth-adjusted basis (PEG ratio ranking), India is in the second quartile (see Figure 5)—more attractive relative to most European markets, Japan and emerging markets including China, Malaysia, South Africa and Taiwan. Given what we have said before about liquidity and India's comparative advantages and the fact that India hasn't had a strong government at the helm for a long time, we do not expect Indian markets to underperform global or emerging markets in the near term.

Figure 5: On a growth adjusted basis, India is cheap relative to China, and most European markets

Units as shown

			GDP (%)		EPS growth (%)		P/E (x)			P/BV (x)			Price %	
Index	**Country**	**Price**	**2009**	**2010**	**CY09**	**CY10**	**CY08**	**CY09**	**CY10**	**CY08**	**CY09**	**CY10**	**YTD**	**PEG**
BSE SENSEX 30	**India**	**15,104**	**6.3**	**7.0**	**(9.8)**	**17.4**	**16.1**	**17.9**	**15.2**	**3.4**	**2.8**	**2.4**	**56.6**	**0.9**
NSE S&P CNX NIFTY	**India**	**4,587**	**6.3**	**7.0**	**(4.3)**	**16.3**	**16.7**	**17.5**	**15.0**	**3.4**	**2.7**	**2.4**	**55.0**	**1.0**
CSI 300	China	2,939	6.5	7.3	28.5	20.5	28.8	22.4	18.6	3.2	2.7	2.5	61.7	1.4
Shanghai SE A Share	China	2,891	6.5	7.3	32.4	19.0	27.9	21.1	17.7	3.0	2.7	2.4	51.2	1.5
Jakarta Composite	Indonesia	2,079	2.4	3.2	75.1	15.0	23.5	13.4	11.7	2.3	2.3	2.0	53.4	1.6
Hang Seng	HongKong	18,680	(5.8)	0.6	(1.9)	17.9	16.7	17.1	14.5	1.8	1.7	1.6	29.8	0.9
All Ordinaries	Australia	3,969	(0.8)	1.6	111.3	5.5	30.9	14.6	13.9	1.6	1.6	1.6	8.5	5.6
Nikkei 225	Japan	9,768	(6.7)	0.8	(318.9)	96.2	N/A	44.4	22.6	1.3	1.3	1.2	10.3	NM
Kuala Lumpur Comp.	Malaysia	1,076	(3.0)	1.2	15.0	14.7	18.1	15.7	13.7	1.5	1.6	1.5	22.7	1.2
Straits Times	Singapore	2,396	(8.8)	1.0	(23.0)	11.2	12.6	16.4	14.8	1.5	1.5	1.4	36.0	1.1
Kospi	South Korea	1,395	(6.0)	0.4	109.5	43.0	29.5	14.1	9.9	1.1	1.2	1.1	24.0	0.7
Taiwan Taiex	Taiwan	6,767	(6.5)	0.4	131.3	60.3	63.5	27.5	17.1	1.6	1.7	1.7	47.4	1.1
Thai Stock Exch	Thaliand	605	(4.4)	1.1	86.5	14.0	21.4	11.4	10.0	1.3	1.3	1.2	34.4	1.5
DJ EURO STOXX 50 € Pr	Euro area	2,534	(4.1)	0.5	67.6	19.0	19.7	11.7	9.9	1.3	1.2	1.2	3.5	1.0
FTSE 100	UK	4,474	(3.7)	0.6	133.5	16.1	29.8	12.7	11.0	1.7	1.7	1.6	0.9	1.8
DAX	Germany	5,142	(5.5)	0.5	89.4	31.0	27.5	14.5	11.1	1.4	1.3	1.3	6.9	0.9
CAC 40	France	3,378	(2.8)	0.5	5.3	9.5	12.0	11.4	10.4	1.2	1.2	1.1	5.0	1.3
FTSE/JSE Africa All Shr	S. Africa	23,423	(1.8)	3.1	3.3	10.3	12.7	12.3	11.2	2.0	1.9	1.7	8.9	1.2
IBEX 35	Spain	9,607	(3.5)	0.5	(13.2)	4.0	8.8	10.1	9.7	1.6	1.5	1.4	4.5	2.2
Russian RTS INDEX $	Russia	1,157	(5.0)	2.0	(31.5)	38.9	7.2	10.5	7.5	1.0	0.9	0.9	83.1	0.2
Dow Jones Indus. Avg	USA	8,830	(2.8)	1.6	(13.3)	84.2	21.8	25.2	13.7	4.0	3.9	3.1	0.6	0.3
Nasdaq Composite	USA	1,863	(2.8)	0.6	20.7	35.7	28.4	23.5	17.3	2.4	2.4	2.2	18.1	0.8
S&P/TSX Composite	Canada	10,552	(2.3)	1.7	(19.9)	25.9	13.3	16.6	13.2	1.8	1.7	1.6	17.4	0.5
Mexico Bolsa	Mexico	24,748	(4.4)	1.2	12.7	17.6	16.0	14.2	12.1	2.4	1.9	1.8	10.6	0.9
Brazil Bovespa Stock	Brazil	54,244	(1.5)	2.7	57.9	32.7	21.9	13.8	10.4	1.8	1.7	1.6	44.5	0.7
Argentina Merval	Argentina	1,655	(3.5)	0.5	(11.5)	24.1	10.0	11.3	9.1	1.4	1.4	1.5	53.2	0.4

Source: Bloomberg, EIU, Reliance Equities research.

Simply put then, India is in a superior risk and growth category relative to its past and peers. This should put India's P/E ratios at a higher level relative to past market recovery cycles and other competing investment destinations. However, we have not assumed such a relative P/E expansion in reaching our targets. But beware of such possibilities.

On the darker side, we believe global equity risk premiums should be higher than any time in the past few decades. A major portion of the global economy needs to adjust to a prolonged household and government debt reduction cycle and we are unconvinced that risks in terms of inflation or dollar weakness have been mitigated. Rising growth could soon be followed by even bigger challenges which potentially could stunt or reverse a global market recovery.

What will drive the market? Global liquidity, domestic demand

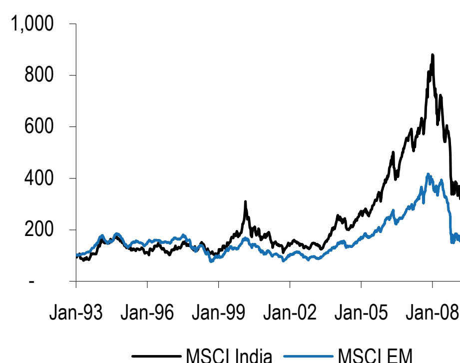
Yes, the recent rally in India was driven by domestic factors, i.e., a surprise election result and the formation of a stable government focused on growth. Obviously, for the 'feel good' sentiment to sustain, government rhetoric will need to be followed by action—particularly on infrastructure and regulations. We are reminded of American writer Harry Browne: "Government is good at one thing: it knows how to break your legs, then hand a crutch and say, 'See, if it weren't for us you wouldn't be able to walk'." It is ironical that the Indian government is talking about infrastructure, an area it has studiously made a mess of over the past many decades. Such scepticism aside, in our sector allocation and model portfolio we recommend playing a few domestic stories like infrastructure growth. However, we believe global markets will remain the overwhelming dominant driver of the Indian market. The world is in an ever-tightening feedback loop.

Correlation

%

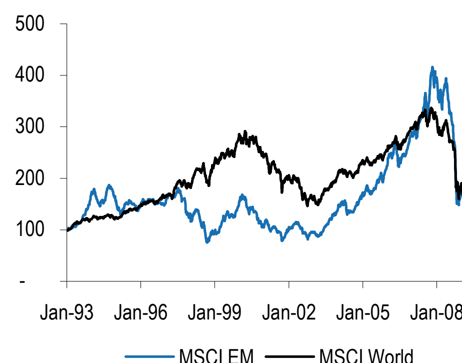
	India/EM	EM/World
Jan 04-Jan 07	98%	99%
Jan 93-Jan98	81%	45%
Jan 98-Jan03	81%	76%
Jan 03-Jan 08	99%	97%
Jan 07-May 09	95%	92%

Figure 6: MSCI India versus MSCI EM



Source: Reliance Equities research.

Figure 7: MSCI India versus MSCI world



Source: Reliance Equities research.

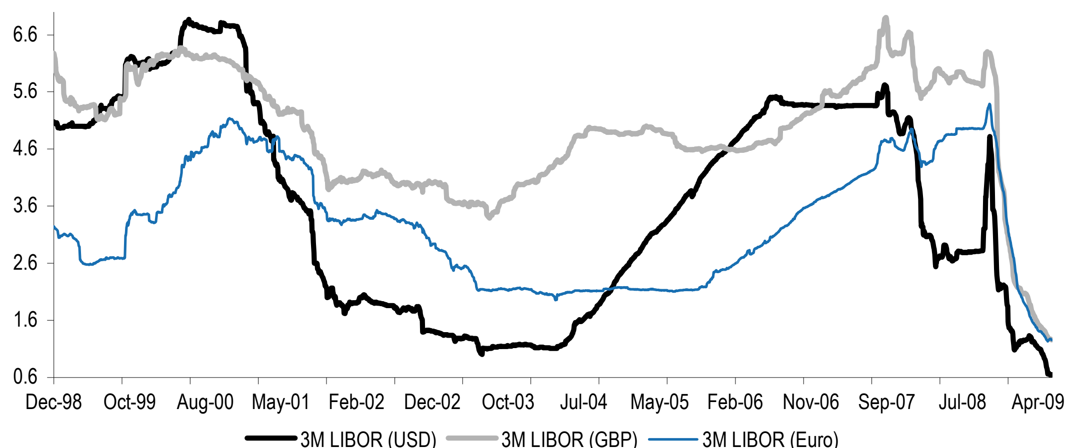
Global liquidity and its impact on domestic consumer and investment demand

Global excess liquidity has reached record highs impacting cost of borrowing (see Figure 8). This will (note, WILL) support asset prices in the near term including emerging markets and commodities. India is less exposed to global trade flows relative to most other emerging markets but availability of foreign capital is key for its domestic demand. Abundant global and local liquidity is now being reflected in greater credit availability and falling credit costs for corporates. This bodes well for investment demand. At the same time, liquidity is not yet reflected in higher prices for non-commodity items, creating a benign inflationary environment in the near term. As food prices stabilise in India and non-food prices remain benign, consumer purchasing power will improve and will be reflected in sales volumes.

On the technical side, institutional investors' cash levels in India have recently been high and they have been caught out by the sharpness of the rally. Their 'catch-up' efforts will continue to support markets.

Figure 8: LIBOR rates

Units as shown



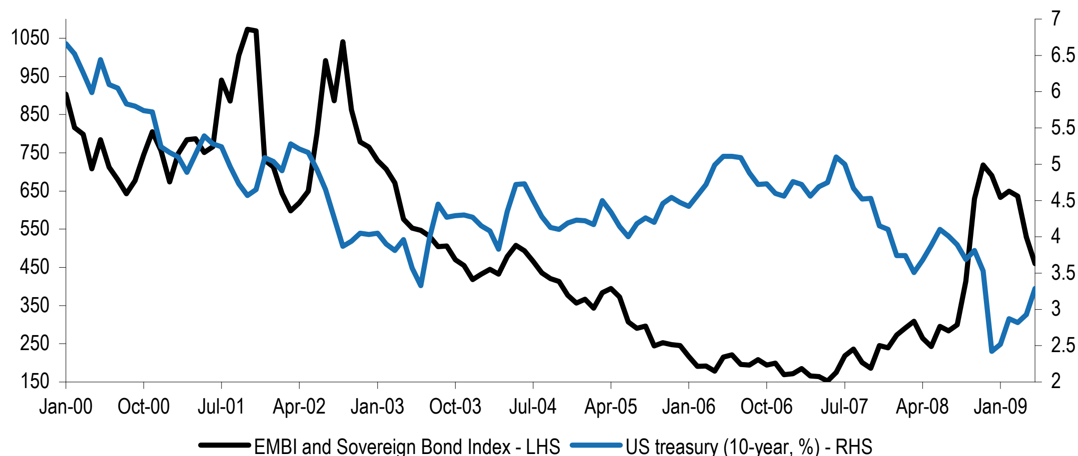
Source: Reliance Equities research.

Rebalancing of global assets

Emerging markets, and in particular Asia, will benefit from a shift in global asset allocations. In the face of the severity of macroeconomic challenges in western markets and the rising risks of a dollar decline, we see Asian allocations increasing as a defensive move as well. The shift from dollar to Asian assets will further intensify as this feedback loop plays out (higher Asian returns magnified by a falling dollar) and Indian equities will be amongst the key beneficiaries. The movement in Emerging Markets + Bond Index (EMBI +) is illustrative of the shift in investor sentiment towards emerging markets. This will sustain, in our view.

Figure 9: EMBI + new lows indicate shift in investor appetite for emerging markets

Units as shown



Source: Reliance Equities research.

Will there be an intermediate material consolidation?

Frankly, we do not know if this will be the case. Indian markets have materially outperformed, emerging market returns YTD. But this has happened repeatedly in the recent past (see Figure 10 below).

Figure 10: India has been outperforming other emerging markets since 2005

Units as shown

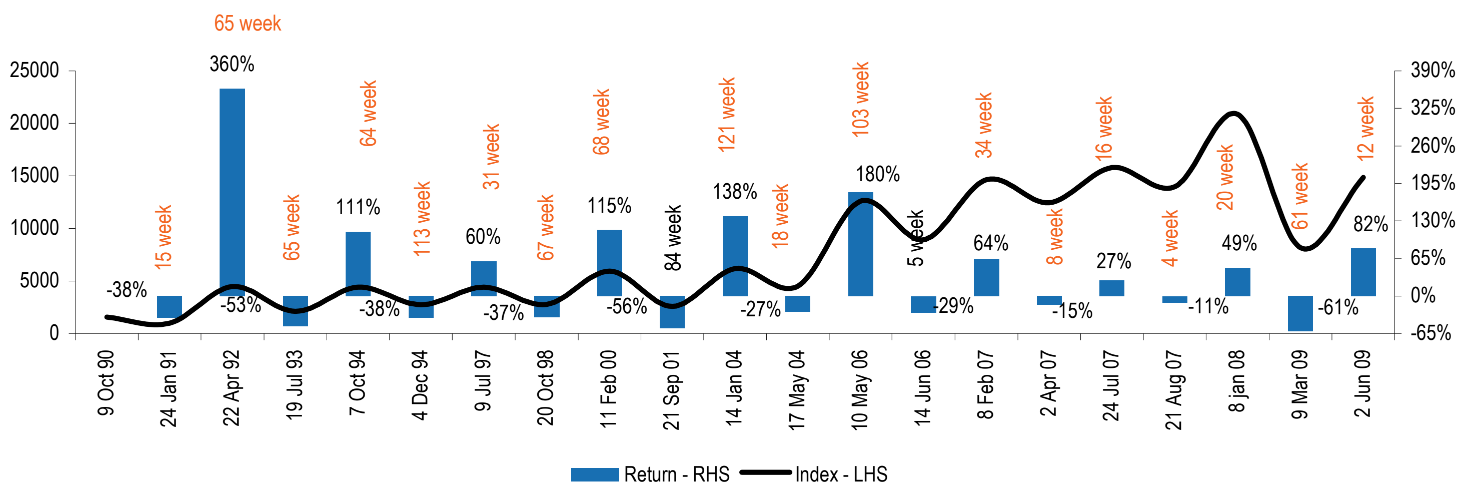
Growth	MSCI India	MSCI EM
2005	40%	30%
2006	46%	29%
2007	52%	37%
2008	-58%	-56%
YTD	54%	35%

Source: Bloomberg, Reliance Equities research.

We are concerned that the Indian market has moved up too much too fast. But we believe resistance is futile. It is extremely unusual for a market's rally to fizzle out so soon. The average bull market in India lasts for 53 weeks. In a world beset with an ever-increasing speed of response, such moves might be shrunk and play out over shorter periods. But 12-14 weeks (see Figure 11) is just too short a time for a market rally to end.

Figure 11: India bull and bear market depths and duration

Units as shown



Source: Bloomberg, Reliance Equities research.

What are the risks for our target not being met?

There are indeed material risks, particularly those emanating from global markets. As India remains heavily dependent on availability of foreign capital and the cost of capital, a sharp rise would have a significant impact on Indian growth (2-3%).

Capital costs rising sharply

The factors that could raise capital costs are either G3 tightening and/or a heightened risk aversion. On our base case, our economists do not see G3 tightening for at least six months. However, the US and UK authorities, in particular, are experimenting with monetary policies that have never been tested before. For the moment, rising bond yields globally is a signal of victory of monetary authorities over the dark forces of deflation.

Even so they might have created larger challenges that could result in significant inflation and/or currency devaluation followed by sharp monetary tightening. Such events could result in a significant rise in cost of capital resulting in value destruction around the world.

Commodity prices rising sharply

The other risk is commodity prices rising sharper than expected to mid-2008 levels. In the absence of sufficient pricing power, sharply rising commodity prices could materially hit margins. The related commodity price rise-related risk is India underperforming relative to other commodity exporting emerging markets.

Although we are expecting a continued rise in commodity prices for some more time, at this point, such a sharp rise is not our base case scenario. We do not believe that such a sharp commodity price increase could sustain without a significant acceleration in G3 growth, and we do not think this acceleration is likely in the near term. Turning to relative performance of India versus other emerging markets, we note that major commodity exporting emerging markets (Brazil, Russia, Indonesia, South Africa) have already risen as much as, or better than, India without a comparable expected economic growth profile.

Poor monsoon in India

The other major risk is a poor monsoon in India. The rain god continues to have a major impact on demand and inflation. So far, there are some signs of delay (a week or so) in monsoon but whether this will result in an overall poor monsoon remains to be seen. A poor monsoon will have an impact on food prices and consumer demand, particularly those from rural India. If food prices rise, the consumer purchasing power story will be short-lived, even with help from government procurement and subsidies. The impact of a bad monsoon will be felt October-November onwards in food inflation and in consumer demand for several months thereafter. But we will not know until late July/August whether this risk is actually going to pan out.

What, then, is our sectoral asset allocation?

We suggest **Overweight** positions on Energy, Materials, Consumer Discretionary and Healthcare sectors; **Market Weight** on Financials, Industrials and IT; and **Underweight** on Consumer Staples, Telecoms and Utilities.

Figure 12: Sectoral allocation in the REIPM

	EPS growth (%) FY11E	P/E (x) FY11E	PEG	Recommended Allocation	Rationale
Energy	22.8	12.6	0.5	Overweight	Oil price, weak dollar, deregulation benefit
Consumer Discretionary	18.8	13.6	0.5	Overweight	Valuation still reasonable at this stage of the cycle
Materials	32.9	9.1	NM	Overweight	Commodity story, domestic infrastructure spending
Health care	46.7	17.9	0.1	Overweight	Attractive valuations, play on US healthcare spending
Financials	14.6	17.1	1.0	Marketweight	No longer cheap but credit growth could still surprise
Industrials	22.1	21.5	1.1	Marketweight	Revenue positive surprise might mitigate margin pressure
Information Technology	6.4	15.2	NM	Marketweight	Low expectations but client budgets still under pressure
Consumer Staples	14.4	17.4	1.4	Underweight	Expensive valuations, unexciting growth
Telecommunication Services	11.2	14.0	1.7	Underweight	Defensive characteristics, more competition
Utilities	7.6	17.8	3.3	Underweight	Defensive characteristics, execution challenges

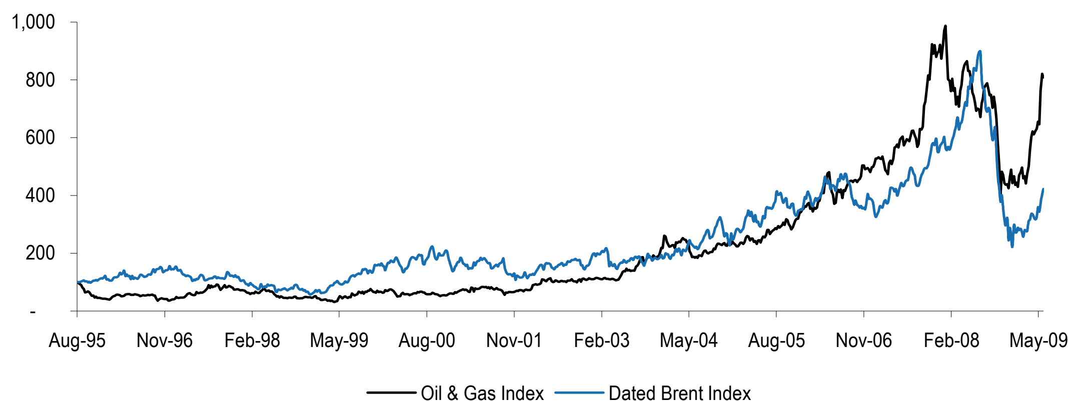
Source: Reliance Equities research.

Energy: Oil prices have more upside than downside, rupee movement favourable
The oil sector is about to receive an auspicious confluence of events. We expect oil prices to rise further as the green shoots of recovery gather root. The weakening of the dollar is another powerful force boosting oil and other commodity prices. Fortunately, both are positive for upstream oil companies in India. As Figure 13 suggests, the Indian energy sector (represented by RIL + ONGC synthetic index) is highly correlated with crude prices and very inversely / weakly correlated with USD/INR rates. Additionally, retail energy pricing deregulation, if implemented, would be an additional boost for the sector particularly for oil marketing companies. The new government has given enough indications that this should be implemented over the next three months. Even if this does not materialise, the oil price itself should continue to drive the sector.

Correlation

%	Crude/Index	Rs/Index
Last 14 years	93%	11%
Last 10 years	91%	-50%
Last 5 years	80%	-47%
Last 3 years	70%	-59%
Last 2 years	72%	-74%
Last 1year	85%	-88%

Figure 13: Crude against Indian oil sector (RIL+ ONGC as proxy)



Source: Bloomberg, Reliance Equities research.

Financials: NPL growth expectation ratcheted down sharply, valuations to drag
The financial sector has benefited tremendously in the last three months with the BSE Bankex rising by about 110% against 78% for the Sensex. This was on the back of a rapid decline in NPL expectations. The first three months of 2009 had seen fears of rising NPL expectations for banks. Improvement in business conditions has led the market to readjust all those concerns. However, improvement in the outlook for GDP could improve credit growth expectations and financial sector reforms (insurance, pension) could also benefit sentiment. On balance, we recommend a market weight stance on this sector. Typically, financials outperform at the beginning of a bull market cycle.

Figure 14: Financials typically outperform at the beginning of a bull market cycle

Units as shown

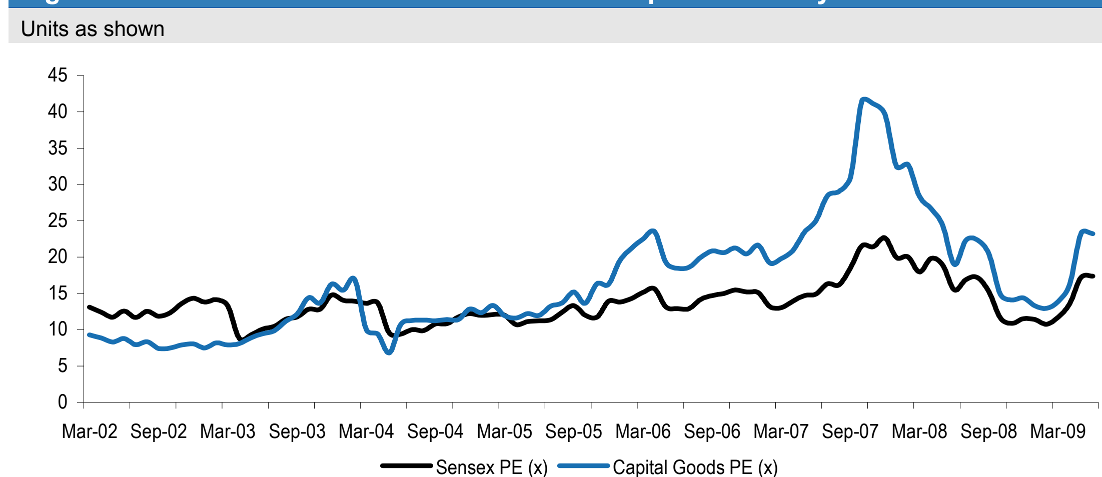
		Return	
From	**To**	**Sensex**	**HDFC + SBI basket**
Dec-96	Jul-97	60%	87%
Oct-98	Feb-00	115%	62%
Sep-01	Jan-04	138%	242%
May-04	May-06	180%	141%
Jun-06	Feb-07	64%	70%
Apr-07	Jul-07	27%	55%
Aug-07	Jan-08	49%	66%
Mar-09	Jun-09	85%	114%

Source: Bloomberg, Reliance Equities research.

IT: Low expectations are helpful but client budgets are still under strain
IT has underperformed the BSE Sensex by 20% over the last three months as business sentiment in the US and UK (which form the bulk of IT's customers) has not improved, particularly relative to the improvement in Indian business sentiment. While this will likely continue to be the case, we expect decision making to improve as business conditions stabilise in these markets. Given that Indian IT is a play on US/UK productivity improvement requirements, this should underpin improvement in business conditions. Further, a gradual decline in the dollar would be positive for the sector's earnings. A combination of low expectations and relatively weak business outlook lead us to recommend a market weight stance on this sector.

Figure 15: Industrials re-rated since 2005. Market premium not yet excessive

Units as shown



Source: Reliance Equities research.

Industrials: Market weight, revenues might mitigate margins
The industrial sector will benefit disproportionately from an increase in fixed capital formation. In isolation the sector appears expensive and has outperformed (up 123% in the last three months), giving us pause for thought. However, its premium to the market is not excessive relative to its last 4–5 year history. The sector has essentially been re-rated since 2005. The United Progressive Alliance (UPA) government's focus on infrastructure should continue to benefit the sector, particularly if its intent is converted into execution. While our bottom-up analysts' view of the sector reflects stock specific challenges (particularly margin concerns), this may be mitigated by a better-than-expected revenue evolution relative to the broader market.

Consumer staples: Underweight on valuation concerns
The sector's defensive characteristics obviously have little appeal in this phase of the market. Despite its significantly higher returns, it is even more expensive relative to the market. Our bottom-up view has turned less positive on ITC on duty and competitive concerns, while that on Hindustan Unilever (HUL) has turned positive as the company's business momentum might be bottoming out.

Telecoms: Underweight on returns and valuation concerns
We expect the telecom sector to continue its underperformance of the broader Indian market. Growth is slowing and returns are peaking out in this sector. The sector might witness some improvement in its regulatory framework (e.g., 3G/WiMAX spectrum auction, uniform spectrum charges). Nevertheless, on a growth adjusted basis, the sector does not look promising, despite its relative underperformance. The sector leader Bharti's recent move towards acquisition of MTN lacks a compelling strategic rationale according to our analyst. Given Bharti's weight in the sector, this will only add to its underperformance.

Utilities: Underweight on execution challenges, exacerbated by valuation issues
This sector is one of the most expensive which cannot be presently justified, in our view. Delays in capacity addition on the back of execution challenges only add to the sector's dim outlook. Sector leader, National Thermal Power Corporation (NTPC) is one of the most expensive utilities in the world.

Materials: Overweight on the back of a declining dollar
Our overweight stance on this sector is underpinned by our bullish view of commodity prices. The declining dollar is one of the primary drivers of rising commodity prices, in our opinion. Excess global liquidity that is driving emerging markets should drive commodity prices as well.

Consumer discretionary: Overweight on decent valuations, improving sentiment
The sector is underpinned by modest valuations and improving consumer sentiment. The realty industry, which is one of its sub-sectors, has outperformed the market massively (c120% over three months) but from an excessively depressed level. The valuations remain modest, in our view.

Healthcare: Overweight—take advantage of the relative lack of love
The sector has underperformed given its defensive characteristics. As a result, on a growth adjusted basis, the sector is attractive. The sector should benefit from the Obama administration's healthcare policies.

Launching Reliance Equity Model Portfolio (REIMP)

Enough has now been said about strategy. This must crystallize into an actionable portfolio. With this in mind we are launching the Reliance Equities Model Portfolio (REIMP—see Figure 16). The portfolio synthesizes our top-down and bottom-up views and, consequently, distills Reliance Equities' overall view on the market and our stock ideas. However, not all the stocks are necessarily under our active bottom-up coverage at all times.

The portfolio will have the following characteristics and constraints reflecting our clients' portfolios.

- It is benchmarked to the BSE Sensex.
- No stock in the portfolio should constitute more than 10% of the weight of the portfolio.
- Stocks with more than 5% weight in the portfolio should not collectively make up more than 40% of the portfolio.
- The portfolio consists of liquid stocks only (average weekly trading volume in excess of 0.4 million shares).

Figure 16: Reliance Equities International Model Portfolio (REIMP)

Units as shown

Name	GIC sector classification	Sensex weight	Portfolio weight
ACC Ltd.	Materials	0.81%	1.0%
Bharat Heavy Electricals Ltd.	Industrial	3.59%	3.5%
Bharti Airtel Ltd.	Telecoms	5.02%	3.0%
DLF Ltd.	Financial	1.59%	1.0%
Grasim Industries Ltd.	Industrial	1.58%	1.0%
HDFC	Financial	5.68%	4.5%
HDFC Bank Ltd.	Financial	4.70%	3.5%
Hindalco Industries Ltd.	Materials	0.94%	1.0%
Hindustan Unilever Ltd.	Consumer Staple	2.50%	1.5%
ICICI Bank Ltd.	Financial	7.66%	9.0%
Infosys Technologies Ltd.	Information Technology	7.55%	5.0%
ITC Ltd.	Consumer Staple	4.64%	2.5%
Jaiprakash Associates Ltd.	Industrial	1.38%	1.5%
Larsen & Toubro Limited	Industrial	7.34%	8.0%
Mahindra & Mahindra Ltd.	Consumer Discretionary	1.36%	2.0%
Maruti Suzuki India Ltd.	Consumer Discretionary	1.43%	2.0%
ONGC Ltd.	Energy	4.63%	8.0%
Reliance Communications Limited	Telecoms	2.24%	1.0%
Reliance Industries Ltd.	Energy	15.96%	10.0%
Reliance Infrastructure Ltd.	Utility	1.64%	2.0%
State Bank of India	Financial	4.76%	4.0%
Sterlite Industries (India) Ltd.	Materials	1.75%	2.5%
Sun Pharmaceutical Industries Ltd.	Healthcare	1.02%	3.0%
Tata Consultancy Services Limited	Information Technology	1.62%	1.0%
Tata Motors Ltd.	Consumer Discretionary	0.88%	1.0%
Tata Power Company Ltd.	Utility	1.54%	1.0%
Tata Steel Ltd.	Materials	2.18%	2.0%
Wipro Ltd.	Information Technology	1.05%	0.5%
Cairn	Energy	0.00%	4.0%
IOC	Energy	0.00%	2.0%
Axis Bank	Financial	0.00%	2.0%
JSW Steel	Materials	0.00%	1.0%
JSPL	Utility	0.00%	1.0%
Tech Mahindra	Information Technology	0.00%	2.0%
Mphasis	Information Technology	0.00%	1.0%
Yes Bank	Financial	0.00%	1.0%
Sensex stocks not in the portfolio			
NTPC Ltd.	Utility	2.49%	0.0%
Ranbaxy Laboratories Ltd.	Healthcare	0.44%	0.0%

Source: Reliance Equities research.

Figure 17: REIMP sector asset allocation versus Sensex

Units as shown

	Sensex weight	Portfolio weight
Energy	20.6%	24.0%
Information Technology	10.2%	9.5%
Industrial	13.9%	14.0%
Consumer Staples	7.1%	4.0%
Materials	5.7%	7.5%
Consumer Discretionary	3.7%	5.0%
Financial	24.4%	25.0%
Telecoms	7.3%	4.0%
Healthcare	1.5%	3.0%
Utilities	5.7%	4.0%
	100.0%	**100.0%**

Source: BSE, Reliance Equities research.

Investment conclusion

With an expected 15-30% upside over the next six months, we are positive about the prospects of the Indian market. Our asset allocation and model portfolio reflect this view. While risks are clearly rising, the wall of global liquidity will find a relatively safer home in increasing Indian domestic consumption and infrastructure spending-led growth.

We believe investor scepticism about the current rally is a healthy sign for it to continue. Just as in *Star Trek*, the “Borg” (the half humanoid, half machine race) assimilates the human race communicating through a ‘hive mind’, so will the nay-sayers in this rally be assimilated. Resistance is futile.

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Key to REIPL recommendations

Buy = Expected return more than +15%
Sell = Expected return +15% or less
All returns calculated over a 12-month period.

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