

Strategy In-Depth

14 September 2007 | 11 pages

India Equity Strategy

Owning India Inc

- **Ownership trends in Indian market** — In this report, we take an in-depth look at ownership patterns and trends for Indian companies. For the top 500 companies, the key owners are promoters/govt 54%, FIIs + ADRs/GDRs 22%, domestic MFs 4.3%, insurance/other institutions 5.5%, and the public 10%.
- **FIIs most overweight on Telecoms, Materials, Industrials and Financials** — The overweight on Financials and Industrials has been reduced a bit in recent quarters. The biggest underweights are IT Services and Energy. While the underweight on Energy has been rising, the underweight on IT Services has started to come off a bit.
- **Domestic Mutual Funds (DMFs) most overweight in Industrials and Consumer Discretionary** — Other overweights are Materials (declining trend) and Healthcare. They are underweight on Energy, IT Services, Financials, and Telecoms.
- **Declining active positions for FIIs; just the reverse for MFs** — Trends of the past 6 years indicate lower Overweight/Underweight dispersion for FIIs, while local funds have taken bigger positions.
- **Our sector recommendations** — In our India model portfolio, we are Overweight on Industrials (Capital Goods), Financials, IT Services and Telecoms. The biggest consensus match seems to be our overweight on Industrials. The most non-consensus recommendation is our overweight on IT services.

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See Appendix A-1 for Analyst Certification and important disclosures.

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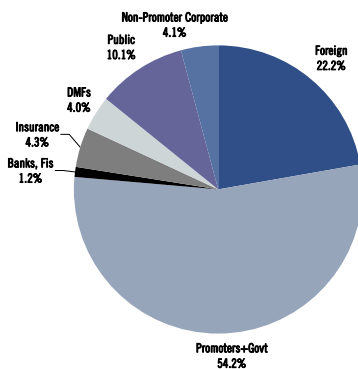
Ownership patterns have changed considerably in India over the last 5 years, with foreign ownership rising to 22% now vs. 12% in 2001, while domestic fund ownership has come down. In this report, we analyse recent trends in sectoral positioning for various investor categories to enable investors to ascertain how they might be positioned versus consensus.

Indian market ownership trends, 2001-07

Methodology

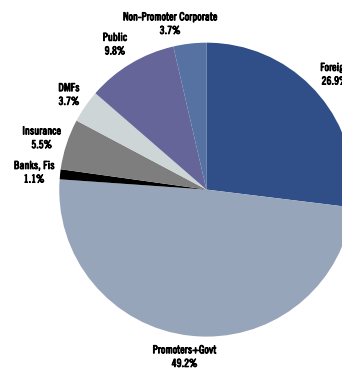
In this report we take a detailed look at the ownership patterns and trends for Indian companies. Our analysis is based on quarterly shareholding data for the BSE500 universe of stocks (comprising 90% of the Indian market) since March 2001. Sectoral analysis is based on the MSCI sector classification (with 10 sectors). For the Indian market, ownership is divided into Promoters (major shareholders or founders)/Govt 54%, FIIs + ADRs/GDRs 22%, Domestic Mutual Funds (DMF) 4.3%, insurance/other institutions 5.5%, and public 10%. FIIs' portfolio has been benchmarked against the MSCI India Index and DMFs' against the Sensex.

Figure 1. BSE500 — Ownership Pattern



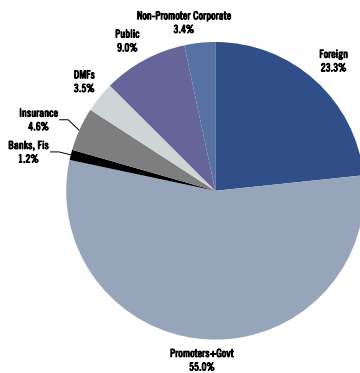
Source: Citigroup Investment Research

Figure 2. BSE30 Sensex — Ownership Pattern



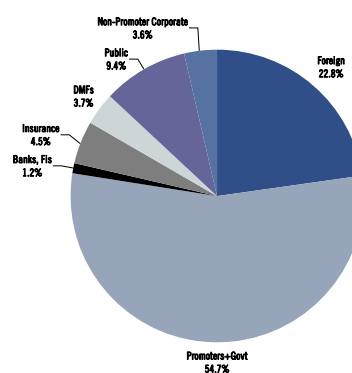
Source: Citigroup Investment Research

Figure 3. Top 100 Companies — Ownership Pattern



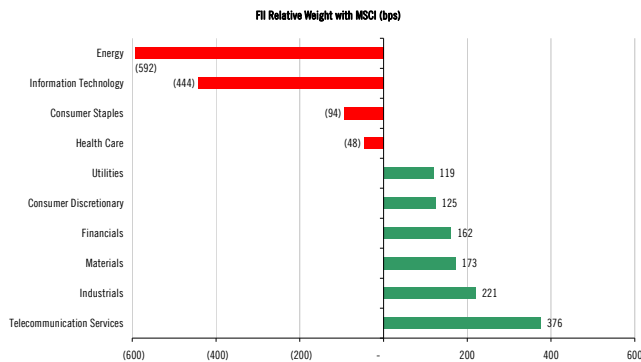
Source: Citigroup Investment Research

Figure 4. Top 200 Companies — Ownership Pattern



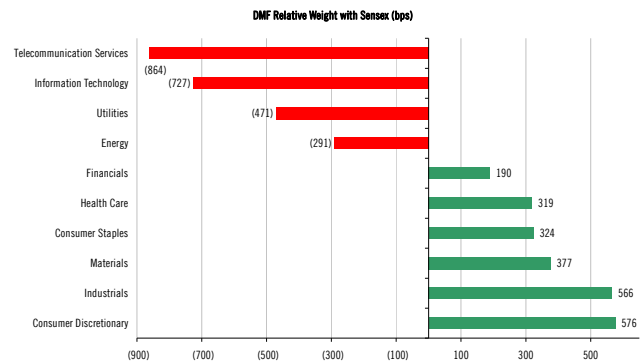
Source: Citigroup Investment Research

Figure 5. FII Sectoral OW/UW vs MSCI India (bps)



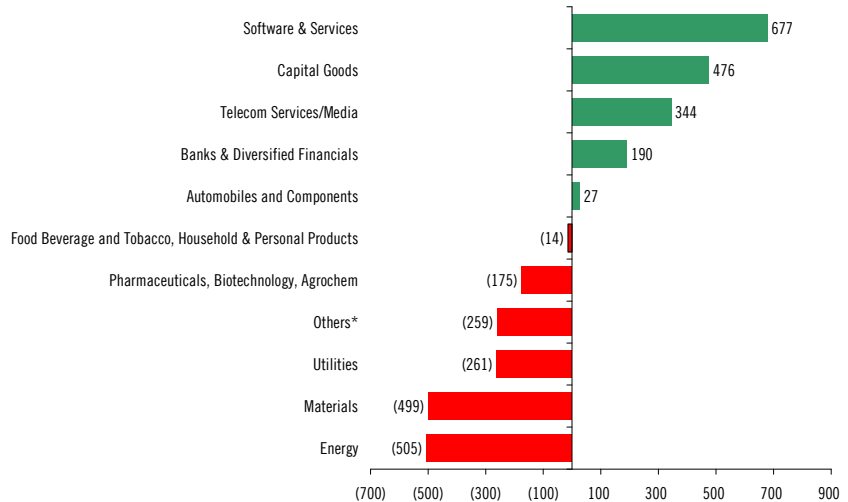
Source: Citigroup Investment Research

Figure 6. Domestic Mutual Funds Sectoral OW/UW Sensex (bps)



Source: Citigroup Investment Research

Figure 7. Model Portfolio OW/UW vs. MSCI India (bps)



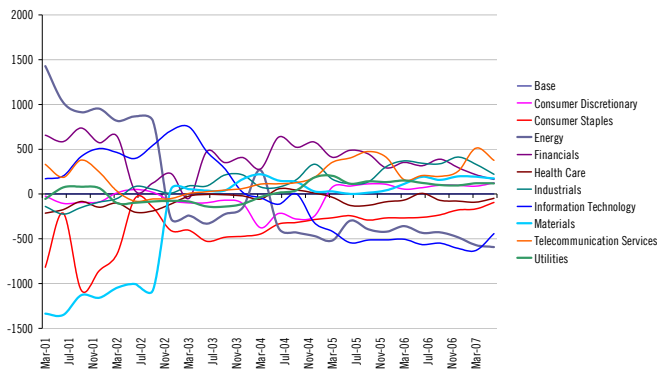
Source: Citigroup Investment Research

FII vs. DMFs: Energy, IT Services universally disliked. Huge divergence in Telecoms

The biggest Overweights (OW) for FIIs are Telecoms, Industrials, Materials and Financials. Their biggest Underweights (UW) are Energy and IT Services, with Consumer Staples and Healthcare/Pharma as other underweighted sectors. While Energy and IT Services are big underweights for domestic mutual funds as well, their biggest UW is on Telecoms (a view diametrically opposite to that of FIIs). Domestic funds are also more positive on Consumer Staples and Healthcare/Pharma.

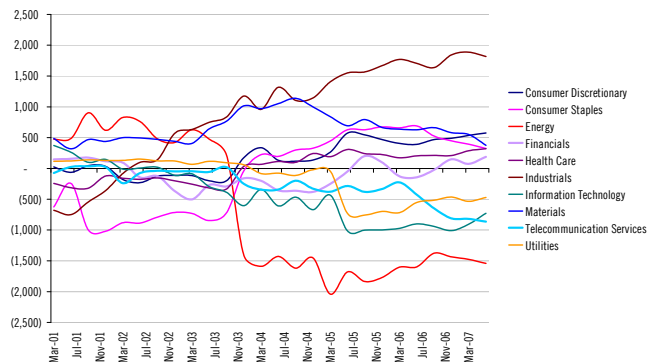
Another interesting trend is that dispersion of sectoral OW/UW among FIIs has declined markedly in this bull market compared with the previous one. The reverse is true for domestic funds, which have a very outsized OW on Industrials and a very outsized UW on Telecoms (see Figure 8 below).

Figure 8. FII vs. MSCI India — Sectoral OW/UW Trend (bps)



Source: Citigroup Investment Research

Figure 9. Domestic MF vs. Sensex — Sectoral OW/UW Trend (bps)



Source: Citigroup Investment Research

FIIs: Declining OWs on favored sectors; UW on IT Services reduced

Foreign ownership (FII + ADRs/ GDRs) in the Indian market has seen a steady rise over the past few years, from 12.1% in March 2001 to about 21.0% in June 2007. The foreign institution owned portfolio value currently stands at US\$193bn. For the purpose of OW/UW, we exclude ADRs and GDRs and benchmark FII sectoral ownership to MSCI India.

For FIIs, their biggest OWs currently are on Telecoms, Industrials, Financials, and Materials. Their biggest UWs are on Energy and IT Services, with a small UW in Consumer Staples as well (see Figure 10 below).

OWs on Industrials and Financials have been coming down consistently since last year. Telecom OW rose markedly in 1Q07, before being cut down a bit in the last quarter.

Energy UW has not only sustained over the past year, but has risen further in the last couple of quarters. A negative view on IT Services seems widely prevalent among FIIs as well as domestic funds, although FIIs have cut down on that UW in the last quarter, indicating perhaps some bottoming out for the sector.

Figure 10. FIIs: Sectoral OW/UW Trends vs. MSCI India

Sector	Shareholding				OW/UW vs MSCI India					
	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07
Consumer Discretionary	8.4%	8.3%	8.0%	7.7%	8.4%	71	98	96	88	125
Consumer Staples	6.3%	5.5%	4.6%	4.3%	6.3%	(261)	(233)	(178)	(166)	(94)
Energy	12.8%	11.5%	10.6%	11.6%	12.8%	(434)	(427)	(484)	(571)	(592)
Financials	19.9%	23.1%	23.6%	23.2%	19.9%	315	388	294	215	162
Health Care	4.9%	4.6%	4.3%	4.3%	4.9%	7	(70)	(80)	(92)	(48)
Industrials	13.0%	12.7%	13.2%	12.5%	13.0%	344	337	412	331	221
Information Technology	15.4%	15.4%	15.7%	15.1%	15.4%	(565)	(548)	(608)	(629)	(444)
Materials	9.5%	8.8%	9.0%	8.0%	9.5%	192	158	197	192	173
Telecommunication Services	6.2%	6.5%	7.8%	9.8%	6.2%	206	197	254	512	376
Utilities	3.6%	3.5%	3.3%	3.6%	3.6%	124	100	96	120	119

Source: Citigroup Investment Research

Figure 11. Latest FII Portfolio vs. MSCI India

As at 30-Jun-2007	FII	MSCI	OW/UW (bps)	
Consumer Discretionary	7.0%	5.8%	125	OW
Consumer Staples	4.1%	5.1%	(94)	UW
Energy	11.8%	17.7%	(592)	UW
Financials	24.9%	23.3%	162	OW
Health Care	3.7%	4.2%	(48)	MW
Industrials	14.1%	11.9%	221	OW
Information Technology	13.6%	18.0%	(444)	UW
Materials	8.5%	6.7%	173	OW
Telecommunication Services	8.7%	4.9%	376	OW
Utilities	3.6%	2.4%	119	OW

Source: Citigroup Investment Research and BSE

Domestic Mutual Funds – Maintaining big OW on Industrials

For domestic mutual funds, we have used Sensex as the benchmark to analyse sector positioning, as it is free-float-based and a widely followed index.

DMFs currently have a huge outsized OW on Industrials, with Consumer Discretionary and Materials being the next most favored sectors.

DMFs also hold a diametrically opposite view on Telecoms vs. FIIs. DMFs are not only OW Telecoms, but have been raising that since the past year.

Their big UW on energy has sustained through the last 4 quarters, while UW on IT services has been pared down a bit in the last quarter.

Figure 12. DMFs: Sectoral OW/UW Trends vs. Sensex

Sector	Shareholding					OW/UW vs Sensex					
	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	
Consumer Discretionary	11.2%	11.5%	10.8%	10.6%	10.1%	314	397	414	459	521	
Consumer Staples	15.8%	13.3%	10.9%	9.9%	8.5%	340	216	160	132	87	
Energy	6.8%	7.1%	6.3%	7.3%	7.3%	(1,113)	(954)	(871)	(907)	(978)	
Financials	8.6%	11.4%	13.9%	12.3%	15.4%	(600)	(560)	(472)	(562)	(473)	
Health Care	5.0%	5.1%	4.8%	5.4%	5.3%	119	123	121	198	248	
Industrials	23.0%	22.3%	23.9%	24.8%	25.4%	1,630	1,568	1,739	1,742	1,648	
Information Technology	10.9%	9.9%	10.5%	11.1%	10.1%	(647)	(751)	(871)	(849)	(686)	
Materials	13.4%	13.5%	12.4%	10.8%	9.9%	349	427	349	358	196	
Telecommunication Services	3.2%	3.6%	4.1%	5.3%	5.3%	(288)	(358)	(481)	(470)	(492)	
Utilities	2.0%	2.3%	2.4%	2.5%	2.7%	(102)	(107)	(88)	(100)	(72)	

Source: Citigroup Investment Research, BSE

Figure 13. MF Weights vs. Sensex Weights and OW/UW

As at 30-Jun-2007	DMFs	Sensex	OW/UW (bps)	
Consumer Discretionary	10.1%	4.9%	521	OW
Consumer Staples	8.5%	7.6%	87	OW
Energy	7.3%	17.0%	(978)	UW
Financials	15.4%	20.1%	(473)	UW
Health Care	5.3%	2.8%	248	OW
Industrials	25.4%	8.9%	1,648	OW
Information Technology	10.1%	17.0%	(686)	UW
Materials	9.9%	8.0%	196	OW
Telecommunication Services	5.3%	10.2%	(492)	UW
Utilities	2.7%	3.4%	(72)	UW

Source: Citigroup Investment Research

Figure 14. BSE500 — Companies With Biggest Rise in FII Holdings, 2007ytd (Percent)

Rank	RIC	Company	Price	Shareholding (%)			Change (%)	
				Dec-06	Mar-07	Jun-07	Last 3 months	Last 6 months
1	GVKP.BO	GVK Power Infra	563.5	7.9	12.2	60.8	48.6	52.9
2	ELDP.BO	Elder Pharma	435.6	11.4	35.7	37.0	1.3	25.6
3	PHOE.BO	Phoenix Mills	2163.9	-	8.6	22.6	14.0	22.6
4	GHFC.BO	Ganesh Housing	413.75	15.0	36.3	36.5	0.1	21.5
5	PROV.BO	Provogue (India)	725	8.5	24.6	25.3	0.7	16.8
6	TDIL.BO	Tele Data Infor.	64.25	1.5	13.0	17.5	4.4	16.0
7	AFTK.BO	Aftek Ltd	61.45	3.8	14.9	18.8	3.9	15.0
8	MAXI.BO	Max India	214.9	25.8	25.5	39.7	14.1	13.9
9	ROLT.BO	Rolta India	484	23.0	30.7	36.6	5.9	13.7
10	INBA.BO	Indian Bank	152.3	-	11.4	13.6	2.2	13.6

Source: Citigroup Investment Research and BSE

Figure 15. BSE500 — Companies With Biggest Fall in FII Holdings, 2007ytd (Percent)

Rank	RIC	Company	Price	Shareholding (%)			Change (%)	
				Dec-06	Mar-07	Jun-07	Last 3 months	Last 6 months
1	HMFC.BO	Himachal Futuris	20.6	33.1	27.3	20.4	-6.9	-12.7
2	HTMT.BO	Hinduja TMT	475.2	20.7	15.7	9.4	-6.3	-11.3
3	BLTE.BO	Balaji Telefilms	247	22.1	13.0	10.9	-2.1	-11.2
4	APLH.BO	Apollo Hospitals	473	42.8	44.0	33.7	-10.4	-9.2
5	ARMI.BO	Arvind Mills	51.95	21.3	18.5	12.2	-6.3	-9.1
6	BJFN.BO	Bajaj Auto Fin.	359.15	28.0	19.0	19.3	0.3	-8.7
7	ACC.BO	ACC	1106.3	24.3	20.1	16.0	-4.1	-8.2
8	RNCL.BO	Rain Calcining	39.3	11.7	5.1	4.0	-1.1	-7.7
9	EICH.BO	Eicher Motors	362	16.9	16.1	9.2	-6.9	-7.7
10	BHAR.BO	Bharati Shipyard	545.1	20.4	16.9	13.5	-3.4	-6.9

Source: Citigroup Investment Research and BSE

Figure 16. BSE500 — Companies With Biggest Rise in DMF Holdings, 2007ytd (Percent)

Rank	RIC	Company	Price	Shareholding (%)			Change (%)	
				Dec-06	Mar-07	Jun-07	Last 3 months	Last 6 months
1	TVTO.BO	T.V. Today	151.4	1.0	9.9	12.3	2.3	11.3
2	UTVS.BO	UTV Software	578	4.8	6.5	15.2	8.7	10.4
3	FED.BO	Federal Bank	355.8	4.6	10.6	14.0	3.4	9.4
4	GVKP.BO	GVK Power Infra	563.5	0.5	6.2	9.2	3.0	8.6
5	HTMT.BO	Hinduja TMT	475.2	5.0	8.5	13.4	5.0	8.5
6	TIIN.BO	3i Infotech	142.9	3.2	7.9	11.3	3.4	8.1
7	BHAR.BO	Bharati Shipyard	545.1	18.6	22.1	26.6	4.4	8.0
8	GHFC.BO	Ganesh Housing	413.75	0.1	7.7	7.5	-0.2	7.5
9	SKCT.BO	Sasken Comm.Tech	353.05	2.9	5.1	10.2	5.1	7.3
10	SREI.BO	SREI Infra. Fin.	99.8	0.1	1.3	6.9	5.6	6.8

Source: Citigroup Investment Research and BSE

Figure 17. BSE500 — Companies With Biggest Fall in DMF Holdings, 2007ytd (Percent)

Rank	RIC Co_Name	Price	Shareholding (%)			Change (%)	
			Dec-06	Mar-07	Jun-07	Last 3 months	Last 6 months
1	LKMC.BO Lak. Mach. Works	3150	19.4	20.3	3.4	-16.9	-16.0
2	ALFA.BO Alfa Laval (I)	995	9.5	9.2	0.1	-9.2	-9.4
3	NIIT.BO NIIT Tech.	155.6	18.6	15.9	11.4	-4.5	-7.2
4	TNNP.BO T N Newsprint	100	22.1	20.1	15.4	-4.7	-6.7
5	TVSM.BO TVS Motor Co.	71.6	16.5	12.9	10.1	-2.7	-6.3
6	WLSP.BO Welspun India	61	26.9	20.7	20.5	-0.2	-6.3
7	PTRA.BO Punjab Tractors	240.2	8.0	7.6	1.8	-5.8	-6.2
8	ANSP.BO Ansal Properties	252	13.2	10.3	7.2	-3.1	-6.0
9	KEIN.BO KEI Inds.	87.7	14.5	11.4	9.0	-2.4	-5.5
10	MCLE.BO Mcleod Russel	61.9	5.9	3.6	0.4	-3.2	-5.5

Source: Citigroup Investment Research and BSE

Figure 18. BSE500 Companies With Biggest Rise in Promoter Holdings, 2007 ytd (Percent)

Rank	RIC	Company	Price	Shareholding (%)			Change (%)	
				Dec-06	Mar-07	Jun-07	Last 3 months	Last 6 months
1	ILFI.BO IL & FS Investsmart	185.6	29.6	73.2	73.2	0.0	43.6	
2	FINX.BO Finolex Inds	73	18.9	19.0	51.7	32.7	32.9	
3	IFLX.BO I-Flex Solutions	1935	54.8	81.0	80.6	-0.4	25.8	
4	MAXL.BO Matrix Labs.	234	55.1	76.4	76.2	-0.1	21.1	
5	ALFA.BO Alfa Laval (I)	995	64.1	64.1	76.7	12.6	12.6	
6	APTA.BO Aptech	368.5	18.4	27.8	27.8	0.0	9.5	
7	SWAN.BO Swan Mills	105.35	73.1	70.2	82.0	11.8	9.0	
8	GSPT.BO Guj. St.Petronet	58.95	42.3	50.5	50.5	0.0	8.3	
9	ACC.BO ACC	1106.3	35.4	38.3	43.2	5.0	7.9	
10	GACM.BO Ambuja Cem.	143	31.2	32.6	37.1	4.5	5.9	

Source: Citigroup Investment Research and BSE

Figure 19. BSE500 Companies With Biggest Fall in Promoter Holdings, 2007 ytd (Percent)

Rank	RIC	Company	Price	Shareholding (%)			Change (%)	
				Dec-06	Mar-07	Jun-07	Last 3 months	Last 6 months
1	GVKP.BO GVK Power Infra	563.5	64.9	64.9	25.1	-39.8	-39.8	
2	TNSL.BO Tanla Solutions	530.9	69.7	35.0	35.5	0.6	-34.2	
3	GHFC.BO Ganesh Housing	413.75	60.5	40.1	39.0	-1.1	-21.6	
4	INBA.BO Indian Bank	152.3	100.0	80.0	80.0	0.0	-20.0	
5	PHOE.BO Phoenix Mills	2163.9	84.4	76.5	64.4	-12.2	-20.0	
6	STRL.BO Sterlite Inds.	617.65	79.3	79.3	62.5	-16.8	-16.8	
7	Shree Ram Mills	336.85	83.9	61.4	67.3	5.9	-16.6	
8	SFTS.BO SSI	180.1	70.9	57.4	57.4	0.0	-13.5	
9	BRFL.BO Bombay Ryn Fash	240.7	55.9	43.4	43.4	0.0	-12.4	
10	ANRA.BO Anant Raj Inds.	1239	70.0	67.1	58.1	-9.0	-12.0	

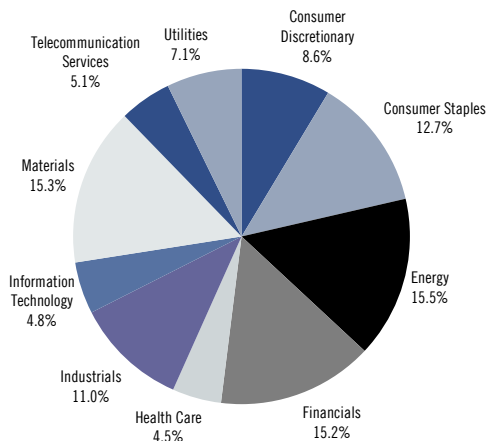
Source: Citigroup Investment Research and BSE

Figure 20. FII Holdings in Largest Companies by Market Cap

RIC	Company	FII Shareholding (%)			Change (%)		MarketCap (US\$m) Jun-07
		Dec-06	Mar-07	Jun-07	Last 3 months	Last 6 months	
RELI.BO	Reliance Inds.	19.9	19.5	20.1	0.64	0.20	58,467
ONGC.BO	O N G C	9.1	8.7	8.7	0.00	-0.44	47,615
BRTI.BO	Bharti Airtel	25.6	25.4	24.9	-0.54	-0.69	39,134
NTPC.BO	NTPC	6.8	7.1	6.9	-0.12	0.14	30,998
TCS.BO	TCS	7.0	7.1	7.7	0.68	0.77	27,752
INFY.BO	Infosys Tech.	33.9	32.6	31.8	-0.73	-2.07	27,193
RLCM.BO	Reliance Communi	13.0	13.0	12.5	-0.52	-0.57	26,087
ICBK.BO	ICICI Bank	44.7	45.0	45.8	0.80	1.13	22,746
SBI.BO	St Bk of India	11.9	11.9	11.9	0.00	0.00	19,809
WIPR.BO	Wipro	5.0	5.1	5.3	0.12	0.27	18,664
BHEL.BO	B H E L	21.7	20.0	19.5	-0.51	-2.17	18,581
LART.BO	Larsen & Toubro	17.5	18.3	17.8	-0.43	0.30	15,379
ITC.BO	ITC	12.9	12.8	12.7	-0.05	-0.15	14,362
SAIL.BO	S A I L	5.6	6.2	6.4	0.24	0.79	13,362
IOC.BO	Indian Oil	1.8	1.9	2.1	0.18	0.26	13,040
RPET.BO	Reliance Petro	2.7	3.1	3.1	-0.02	0.32	12,331
SUZL.BO	Suzlon Energy	21.4	21.3	22.5	1.19	1.08	10,606
HLL.BO	Hind. Unilever	12.9	12.3	12.3	0.04	-0.56	10,285
UNTE.BO	Unitech	6.6	7.4	7.7	0.30	1.08	10,106

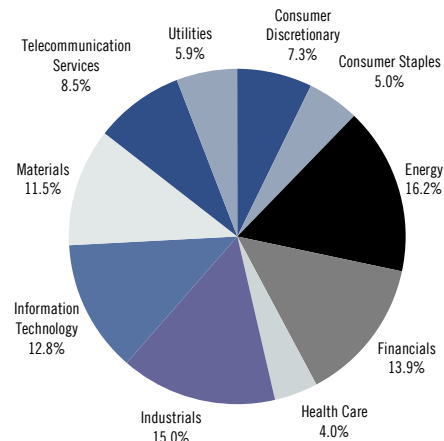
Source: Citigroup Investment Research and BSE

Figure 21. Insurance Companies' Portfolio (LIC + Others)



Source: Citigroup Investment Research and BSE

Figure 22. BSE500 Sectoral Weights



Source: Citigroup Investment Research and BSE

Appendix A-1

Analyst Certification

I, Ratnesh Kumar, research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Data current as of 19 July 2007

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