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Updates

Insurance: Expect insurance companies' investments in equities to remain high despite recent volatility

News Roundup

Corporate

- Kohlberg Kravis Roberts & Co (KKR) has picked up a 2-2.5% stake in Bharti Infratel for US\$250 mn. (ET)
- Aditya Birla Group, the US\$24 bn diversified conglomerate, intends to scale up its shareholding in its cement flagship Grasim Industries to at least 40%, although it did not set a timeframe for the same. (ET)
- A nine-company consortium that includes Bharti Airtel and Tata-owned Videsh Sanchar Nigam Ltd signed a formal construction and maintenance agreement in Rome to build a high-capacity fibre-optic submarine cable from India to France via Egypt and Italy. (BS)
- Boeing Co, which is at last eight months behind schedule on delivering the 787 Dreamliner commercial jet, said it will partner a Tata group company to build structural components for the aircraft. (FE)

Economic and political

- A WTO dispute settlement panel has dismissed the United States' complaint against India over the excise duties levied on foreign wines and spirits. In an interim ruling, the panel vindicated India's stand that excise duties levied by states on foreign wines and spirits do not constitute as border measures. (BS)
- Media reports suggest the finance ministry is considering a proposal to bring sports people under the ambit of TDS (Tax Deducted at Source). This could mean that professional sportspeople may soon have to pay at least 10.3% as tax on their match fees and money for endorsing corporate logos on their apparel and other gear. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

EQUITY MARKETS

India	Change, %			
	6-Feb	1-day	1-mo	3-mo
Sensex	18,139	(2.8)	(12.3)	(6.5)
Nifty	5,323	(2.9)	(15.2)	(8.0)
Global/Regional indices				
Dow Jones	12,200	(0.5)	(4.7)	(10.7)
Nasdaq Composite	2,279	(1.3)	(9.0)	(19.3)
FTSE	5,875	0.1	(7.5)	(9.3)
Nikkie	13,007	(0.7)	(10.3)	(19.2)
Hang Seng	23,469	(5.4)	(13.7)	(21.0)
KOSPI	1,697	0.4	(9.0)	(17.4)
Value traded - India				
		Moving avg, Rs bn		
	6-Feb	1-mo	3-mo	
Cash (NSE+BSE)	199.9	253.7	108.1	
Derivatives (NSE)	422.3	671.8	830	
Deri. open interest	705.7	1,231	921	

Forex/money market

	Change, basis points			
	6-Feb	1-day	1-mo	3-mo
Rs/US\$	39.5	0	22	18
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.5	(1)	(25)	(40)

Net investment (US\$m)

	5-Feb	MTD	CYTD
FIs	143	1,249	(4,271)
MFs	(75)	(70)	1,923

Top movers -3mo basis

	Change, %			
	6-Feb	1-day	1-mo	3-mo
Best performers				
Rashtriya Chem	96	5.0	(32.1)	66.2
Punjab Tractors	269	0.4	(22.4)	43.6
Apollo Tyres	48	(3.3)	(15.9)	34.2
Thomas Cook	76	(1.4)	(28.9)	37.4
Gujarat Narm Vly	205	1.4	(5.7)	30.4
Worst performers				
Titan Inds	1,144	(8.1)	(31.3)	(32.2)
Crompton Greaves	301	(4.4)	(22.8)	(26.2)
MRF	4,964	(0.4)	(29.1)	(23.6)
Thermax	634	0.2	(22.9)	(28.5)
Tvs Motor	41	-	(47.4)	(26.5)

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Insurance

Expect insurance companies' investments in equities to remain high despite recent volatility

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- **Insurance companies typically collect 40% of full year premium in 4Q**
- **Insurance companies to continue to invest at least US\$1 bn in equities per month, in our view**

Insurance companies typically collect 40% of their full year premium in the last quarter of the financial year. Assuming this trend sustains, companies will likely garner close to Rs350 bn in the last quarter alone. Based on our interaction with insurance companies, we believe that close to 95% of the retail policies sold are ULIPs and within this, 80% of the funds are garnered in equity-linked products.

We estimate that insurance companies have been investing around US\$700-800 mn on a monthly basis in equities from new premiums collected (around US\$300-350 mn by private players and US\$400-450 mn by LIC). This assumes around 50% of the overall collection—both retail and group premium is invested in equities.

Even if we assume that the proportion of investment in equities comes off in the last quarter to about 30%, we believe insurance companies would nevertheless invest around US\$1 bn or more in equities per month. If the proportion remains at 50%, the investment could be closer to US\$1.4 bn.

Our analysis does not include renewal premiums received. Including this, the premium investment in equities will likely be higher. Our numbers could carry risk in case investors actively move out of equity and switch to debt funds.

Close to 40% of the business is contracted in the 4Q

Proportion of full year's business contracted during the period mentioned (%)

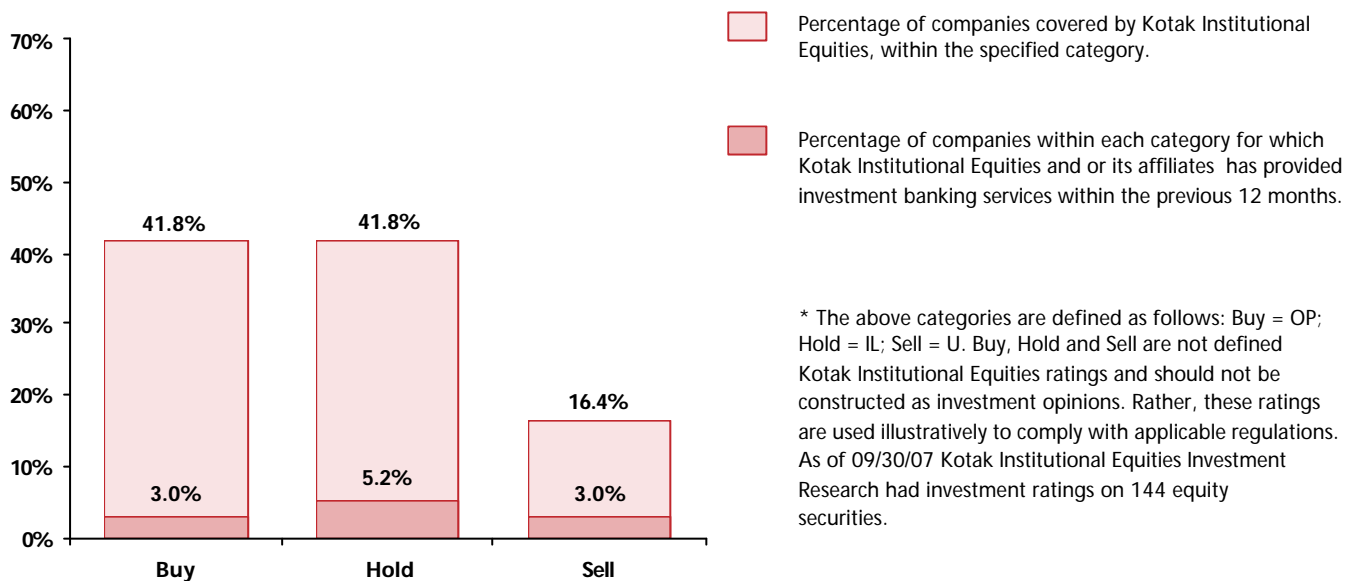
	4QFY06	4QFY07
Bajaj Allianz	49.7	54.0
SBI Life	69.1	52.1
HDFC Standard Life	40.2	38.8
ICICI Prudential	41.6	42.0
Birla Sunlife	41.9	40.4
Max NY	36.0	31.3
Reliance Life	56.4	52.6
Private sector	45.1	44.8
LIC	46.9	29.8
Total	46.3	35.0

Source: IRDA.

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Tabassum Inamdar."

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Source: Kotak Institutional Equities.

As of September 30, 2007

Ratings and other definitions/identifiers

New rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

SELL: We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

Old rating system

Definitions of ratings

OP = Outperform. We expect this stock to outperform the BSE Sensex over the next 12 months.

IL = In-Line. We expect this stock to perform in line with the BSE Sensex over the next 12 months.

U = Underperform. We expect this stock to underperform the BSE Sensex over the next 12 months.

Our target price are also on 12-month horizon basis.

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive (A), Neutral (N), Cautious (C).

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