

India Market Strategy -----Maintain OVERWEIGHT

June 2009 ownership: moving to higher beta through industrials, real estate, banks

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- The latest listed companies' holdings data highlights the impact of substantial foreign inflows over the last quarter (US\$6.6 bn) with FII ownership of markets rising by a record 160 bp over the March-end number to 18.3%. At its peak in 2007, FII ownership of Indian markets was at 21%.
- Most of the incremental flow from institutional investors – likely post elections – seem to have been directed towards high beta/domestic demand driven sectors such as industrials, real estate and banks rather than to low beta/external demand driven sectors like staples, IT services, pharma and telecom
- Both FIIs and domestics have maintained most of their biases – even the choice of high beta sector has been as per previous preferences, i.e., domestics have chosen to raise beta through industrials whereas FIIs have reverted to their preferred financials.
- In our recommended portfolio, we continue to prefer most of the high beta sectors as we expect Indian markets to benefit from the liquidity surge both globally as well as in the domestic economy.
- Post the change in Nifty calculation methodology to free float based (from 26 June), the current quarter's data should provide interesting evidence to show if there is a rebalancing of portfolio weights by the domestics to reduce tracking error versus the index.

Figure 1: Portfolio allocation across sectors for different categories of investors

MSCI sectors	MSCI wt	Nifty wt	Instt.	FIIs	Dom.	Insurance	MFs
Discretionary	4.3	3.4	4.9	4.7	5.2	4.9	4.7
Staples	5.7	6.5	6.6	4.3	10.1	13.2	11.3
Energy	20.2	16.9	14.5	15.2	13.5	13.2	11.9
Financials	24.9	25.2	27.7	31.1	22.5	25.7	18.8
- PSU banks	1.3	4.6	5.9	4.5	8.0	11.7	7.1
- Priv. banks	13.8	12.9	12.6	15.9	7.6	9.4	8.2
- NBFCs	7.7	5.9	8.0	8.9	6.6	4.3	3.2
- Real estate	2.2	1.7	1.2	1.9	0.3	0.3	0.4
Health care	3.3	2.1	3.6	3.4	3.8	3.7	4.7
Industrials	10.5	13.8	14.0	11.1	18.4	9.7	24.2
IT services	13.1	10.2	9.1	12.2	4.4	2.7	6.0
Materials	8.8	8.7	9.0	8.5	9.6	12.5	8.1
Telecom	2.6	7.3	5.4	5.9	4.7	6.3	4.5
Utilities	6.7	6.0	5.1	3.5	7.6	8.2	5.8

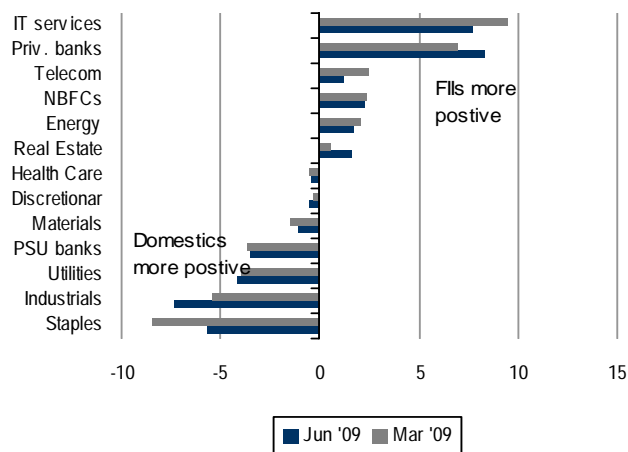
Note: 1) MSCI wt is neutral weights in MSCI India; 2) Ownership data is as of June 2009 quarter-end for all MSCI covered stocks. Source: Credit Suisse estimates.

Figure 2: Ownership of different categories of investors

Investor type	Ownership (%)		Holding value (US\$ bn)
	Jun-09	Mar-09	
FIIs	18.3	16.7	182
Domestic Instt	12.2	12.0	121
MFs	4.3	4.0	42
Banks	1.9	1.3	19
Insurance	5.5	6.1	54
Other domestic instt.	0.6	0.5	6

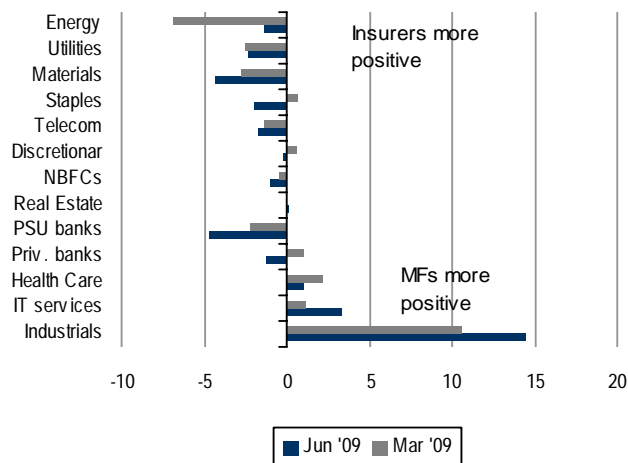
Note: As of June 2009-end; assuming total market cap of US\$992 bn; FII holding includes ADR/GDR holding; Source: CMIE, Credit Suisse estimates

Figure 3: FIIs vs domestic investors: difference in weights in portfolio



Source: CMIE, Credit Suisse estimates

Figure 4: MFs versus insurers: difference in weights in portfolio



Source: CMIE, Credit Suisse estimates.

Figure 5: Extent of OW/UW of investors versus index benchmarks

Sectors	FIIs versus MSCI India				Domestics versus Nifty*			
	Sep-08	Dec-08	Mar-09	Jun-09	Sep-08	Dec-08	Mar-09	Jun-09
Discretionary	35	10	87	49	276	229	208	188
Staples	-173	-249	-118	-131	670	744	798	359
Energy	-572	-757	-666	-504	-1,140	-977	-1,098	-338
Financials	403	748	482	622	407	536	561	-266
Health care	22	69	57	14	153	212	232	174
Industrials	109	47	-4	64	791	567	517	467
IT services	-123	-185	8	-90	-470	-372	-461	-579
Materials	62	-43	-4	-32	220	229	211	94
Telecom	447	646	505	336	-546	-591	-457	-255
Utilities	-211	-285	-347	-328	-362	-576	-512	156

*Note: Change in calculation methodology for Nifty since June has led to a sharp changes in extent of OW/UW data for domestics versus Nifty; Source: CMIE, Credit Suisse estimates

Disclosure Appendix

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