

# India Equity Strategy

## Owning India Inc.: Foreign Ownership – Ebb...Before the Swell?

- Market EBB: Foreign ownership at a 6-year low of 15.03%** — Foreign ownership in the Indian market has hit a 6-year low of 15.03% as at March 2009 (latest data), valuing foreign ownership at c.\$86bn, but falling 56bps in the quarter (\$1.3bn outflow). This is a long way from the September 2007 peak of 21% ownership, a value high of \$260bn, and an annual inflow peak of \$17bn (CY2007).
- Market SWELL: There has been a foreign flood** — We estimate inflows from April-to date of \$4.1bn have raised foreign ownership levels to c.15.6% of India's Top500 companies, and that this portfolio value is now c.\$130bn. This is amongst the most concentrated foreign inflows (Sept-Oct 2007 (\$9.1bn) was the biggest, but there were outflows thereafter). This flood of funds is almost all foreign with domestic MFs negative in current quarter. Domestic Insurance (over a third of foreign money now) should be positive and stable (but no reliable intra-quarter data).
- Underweight India/Equities: Domestic getting more defensive than foreigners** — Institutional investors started the April quarter relatively defensively: a) FII's underweight MSCI 46bps, b) Domestic with estimated 14-15% cash weightage, and c) Overall portfolio bias more defensive than at January 2009. Within portfolios, Foreigners are positioning less defensively than domestics in Jan-Mar 2009 quarter.
- Sector Positioning** — Financials and Industrials are key Overweights with foreigners and domestics. Energy (Reliance effect) and IT are consensus Underweights. Domestic are significantly Overweight Consumer Staples and foreigners are Overweight Telecom (Bharti effect). Relatively few changes in sector positioning in Jan-Mar 2009, although significant outperformance in beta sectors/stocks in Apr-May 2009 suggests the current quarter should see significant portfolio re-casts.

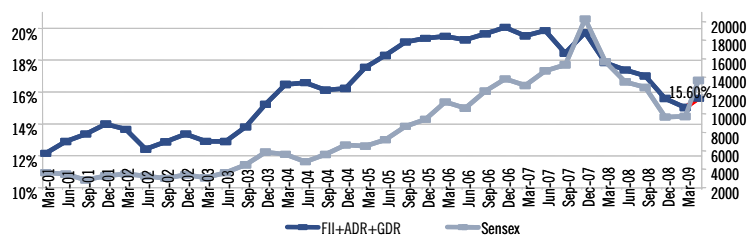
**Aditya Narain, CFA<sup>1</sup>**

+91-22-6631-9879  
aditya.narain@citi.com

**Tirthankar Patnaik<sup>1</sup>**

+91-22-6631-9887  
tirthankar.patnaik@citi.com

Figure 1. FII Ownership of the Indian Markets



Source: Citi Investment Research and Analysis, BSE

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

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<sup>1</sup>Citigroup Global Markets India Private Limited

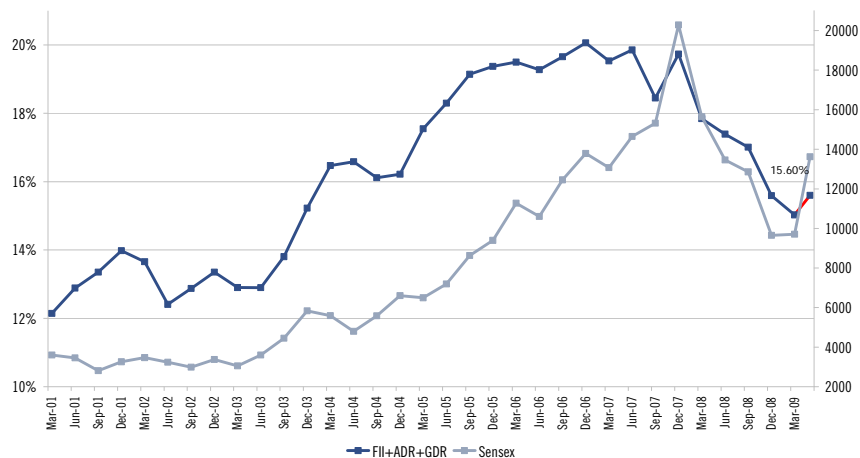
# Owning India Inc. — 4QFY09 (Jan-Mar 2009)

## Foreign Ownership - Ebb...Before the Swell?

The Ebb...Foreign ownership in India continued to fall in Jan-Mar 2009. Latest data suggests a 6-year low of 15.03% at quarter-end (56bps fall in quarter), a fall for the 5<sup>th</sup> quarter running, an absolute ownership level not seen since December 2003, and a total foreign-owned market value of \$86bn.

Since then, a Swell...We estimate net foreign inflows should have raised foreign ownership levels in India's BSE 500 companies to c.15.6% or +60bps. With the next data point due on 30<sup>th</sup> June a lot can change before then.

Figure 2. FII Ownership Trend and Market



Source: Citi Investment Research and Analysis, BSE

Inflows relatively balanced between secondary market inflows and capital issuances (latter have more than recouped the \$1.3b outflows in Jan-Mar 2009).

Figure 3. Capital Flows Since April 2009 (US\$m)

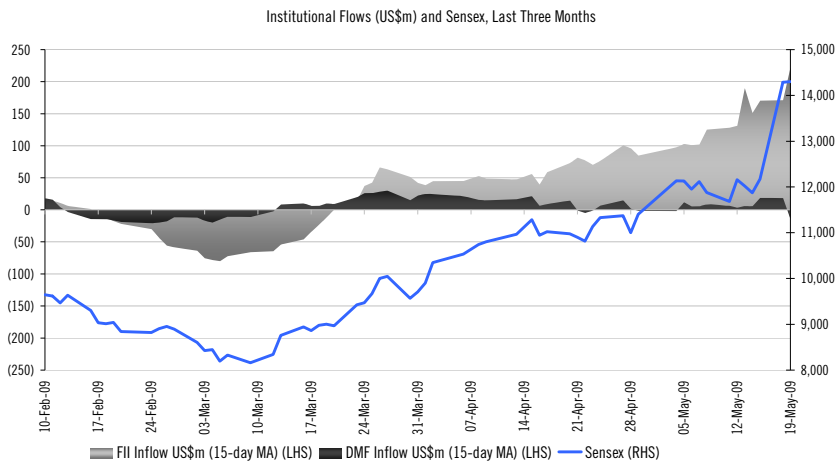
**Capital Flows QTD**

Overall	4,205.4
QIP	1,650.0
Secondary Market	2,555.4

Source: Citi Investment Research and Analysis

Foreigners bring in all the money this time...domestic MF's have been marginal sellers in the current quarter...Insurance companies have continued to be buyers (raised ownership share six quarters running) but steady ones.

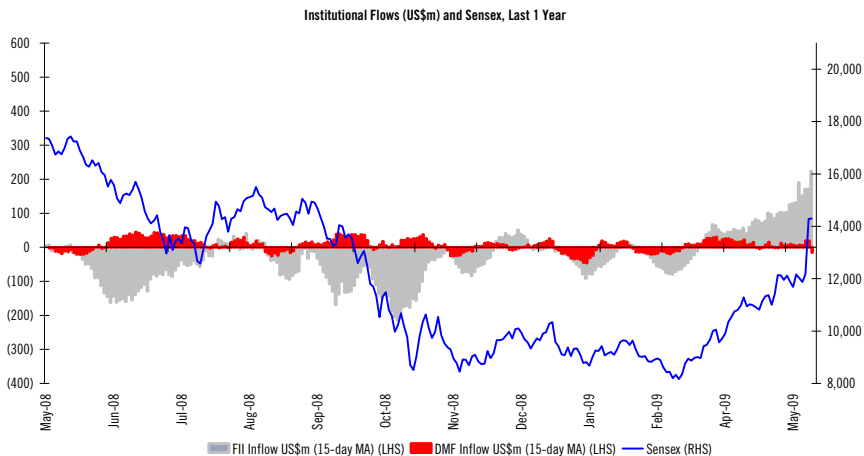
Figure 4. Institutional Flows (FII and Domestic Mutual Funds), and the Market, Last Three Months



Source: Citi Investment Research and Analysis, Bloomberg, NSE

Foreign investment cycles appear longer and deeper than domestic ones.

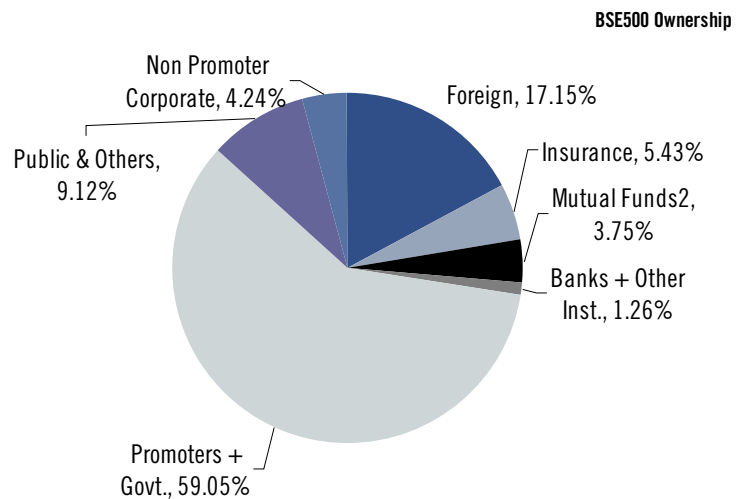
Figure 5. Institutional Flows (FII and Domestic Mutual Funds), and the Market, Last 12 Months



Source: Citi Investment Research and Analysis, Bloomberg

Foreign institutions remain the largest non-promoter shareholders of the Indian market.

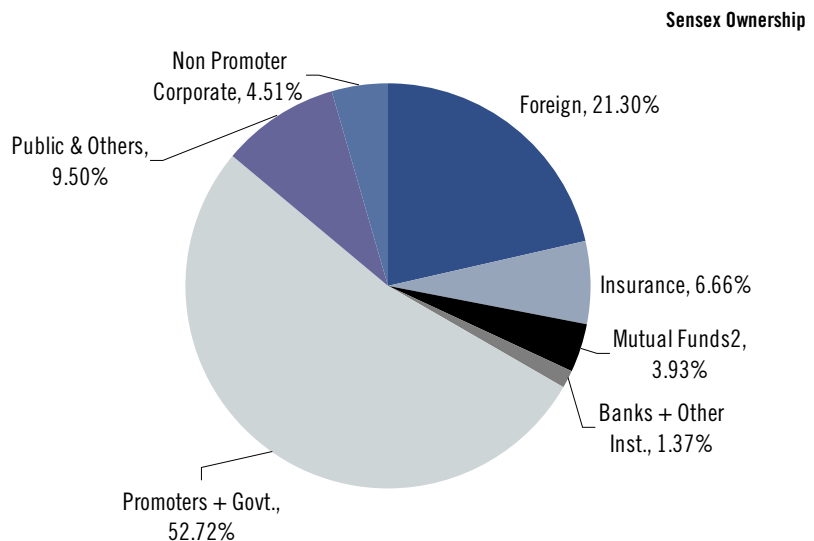
**Figure 6. BSE500 Ownership, March 2009**



Source: Citi Investment Research and Analysis, BSE, Capitaline

Foreign ownership is largely concentrated in large-cap stocks, rising from 15% in the BSE500 to over 21% in the Sensex stocks, but has come down from 22% in December 2008.

**Figure 7. Sensex Ownership, March 2009**



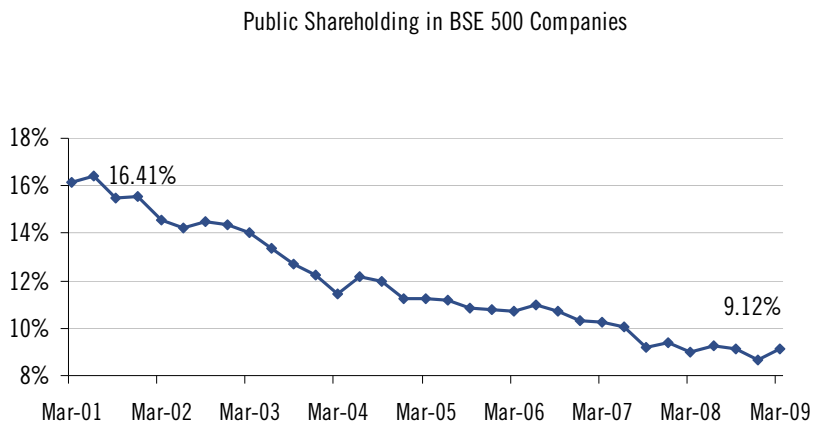
Source: Citi Investment Research and Analysis, Capitaline

Retail ownership continues to fall structurally but they were buyers in Jan-Mar 2009, ostensibly stepping in where institutions stepped out.

Domestic insurance companies continue to be the big market support. They raised their share for the 6<sup>th</sup> quarter running, have a portfolio value estimated at \$32b+, are now over a third of total foreign money in India, and hold 45% more equity assets than the Indian mutual fund industry. Basically they are big and getting bigger.

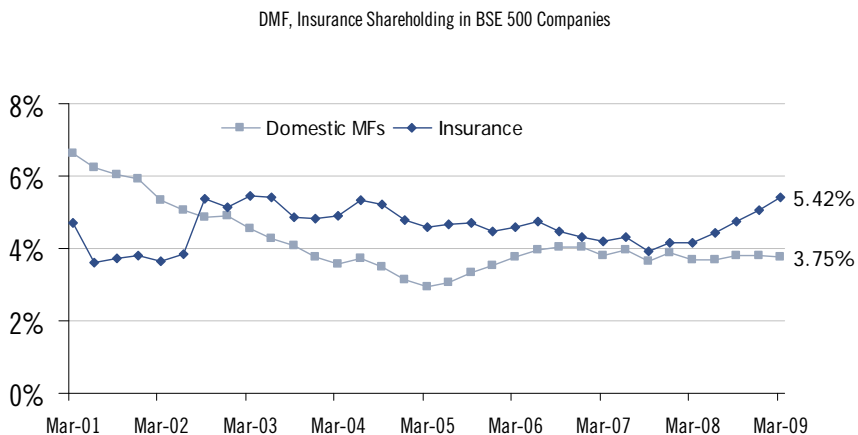
## Ownership Trends

Figure 8. Public Shareholding Trend in BSE500 Companies



Source: Citi Investment Research and Analysis, BSE, Capitaline

Figure 9. Mutual Fund and Insurance Shareholding Trend in the BSE500, March 2009

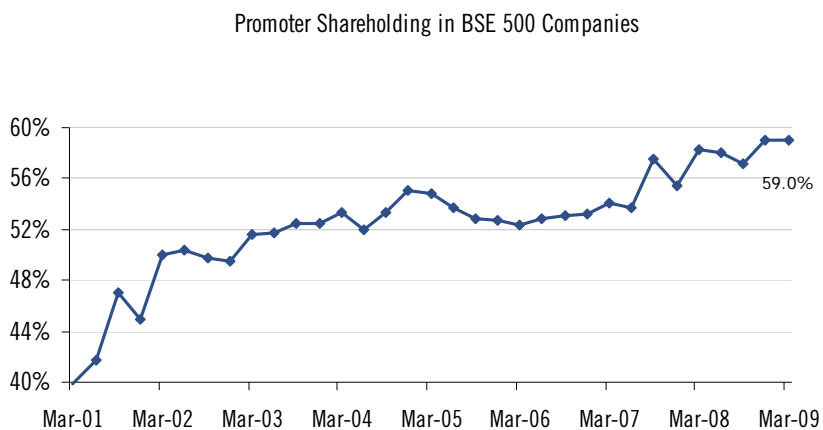


Source: Citi Investment Research and Analysis, BSE, Capitaline

Promoter holdings have remained high, but are flat sequentially. Early signs of a capital raising cycle and some talk of Government divestments could see promoter ownership levels fall.

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Figure 10. Promoter shareholding Trend in BSE500



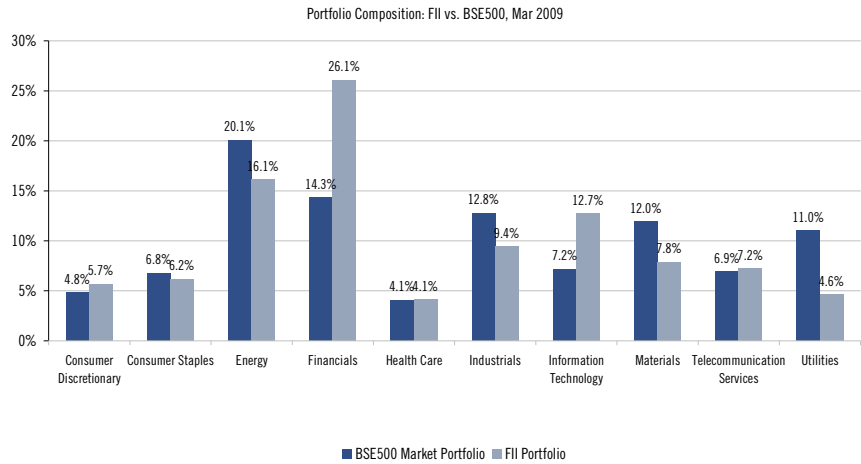
Source: Citi Investment Research and Analysis, BSE, Capitaline

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FII's prefer Financials, Information Technology and Telecoms vis-à-vis the broad market...

## Portfolio Balance

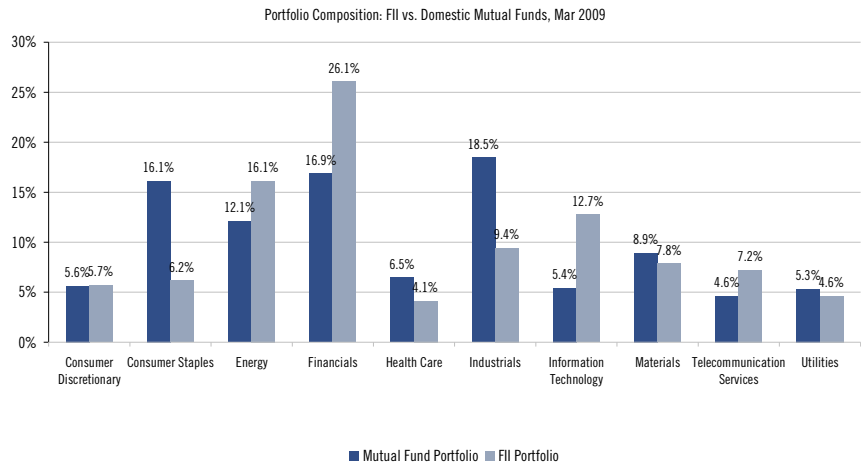
Figure 11. Portfolio Composition: FIIs vs. BSE500, March 2009



Source: Citi Investment Research and Analysis, BSE, Capitaline

...and this preference is apparent even against the domestic mutual funds.

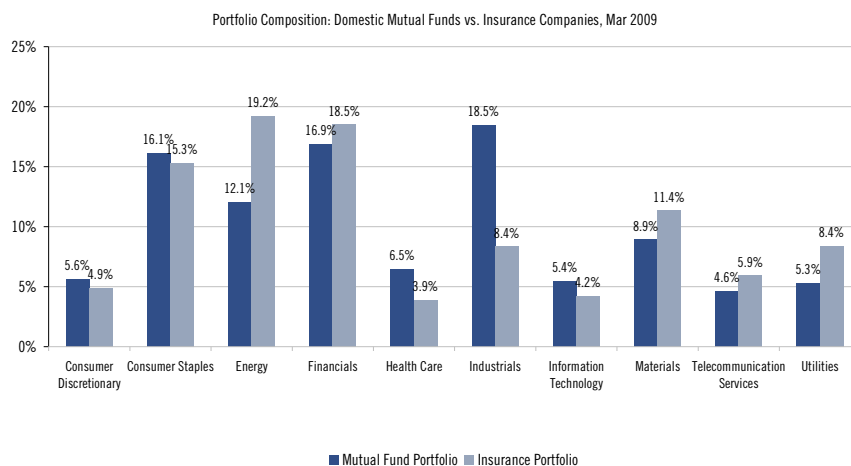
Figure 12. Portfolio Composition: FIIs vs. Domestic Mutual Funds, March 2009



Source: Citi Investment Research and Analysis, BSE, Capitaline

Domestic mutual funds and Insurance companies have similar preferences in Telecom, Information Technology, and Consumer Staples.

Figure 13. Portfolio Composition: Domestic Mutual Funds vs. Insurance Companies, March 2009



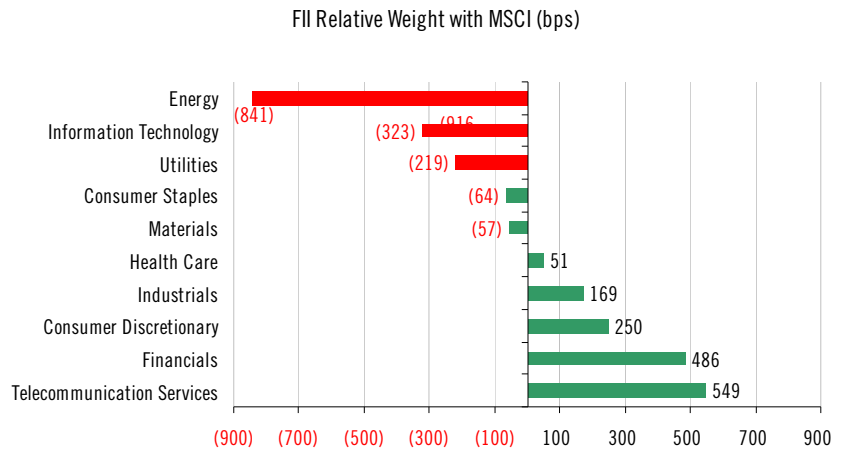
Source: Citi Investment Research and Analysis, BSE, Capitaline



## FII: Here's How They Are Positioned

FII's are relatively aggressively positioned, with Overweights on Financials, Consumer Discretionary, and to some extent Industrials. Telecom is largely due to Bharti's absence in the benchmark.

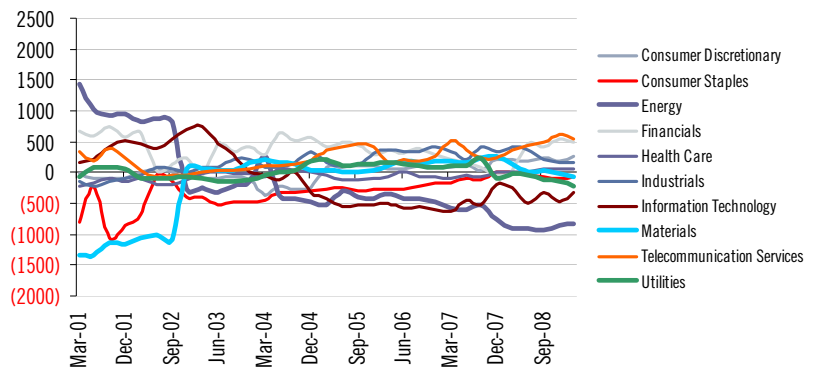
Figure 14. FII OW/UW vs. MSCI India by Sector (bps), March 2009



Source: Citi Investment Research and Analysis, BSE, Capitaline, MSCI

The investment profile, and the recent divergence in sector weighting from the benchmark, has sustained, although relatively limited portfolio variation over the quarter.

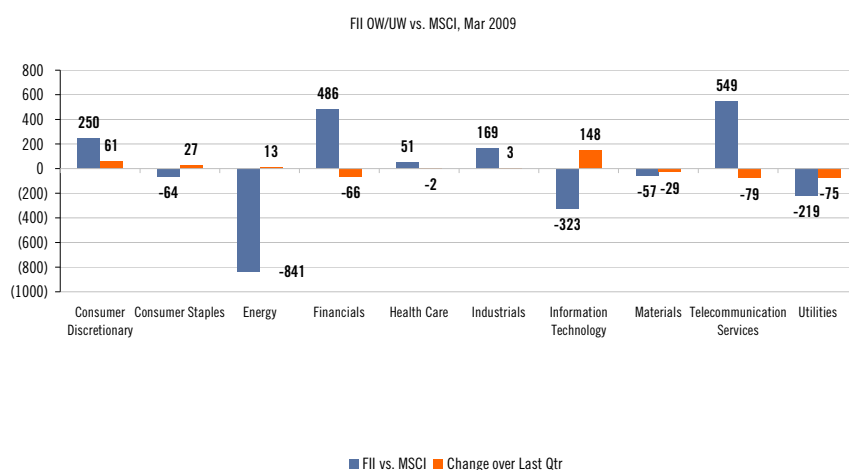
Figure 15. FIIs vs. MSCI India—OW/UW Trend by Sector (bps)



Source: Citi Investment Research and Analysis, BSE, Capitaline, MSCI

Information Technology and Consumer Discretionary have been the preferred sectors this quarter, favored over Telecom and Utilities.

Figure 16. FII Portfolio OW/UW Change, March 2009



Source: Citi Investment Research and Analysis, BSE, Capitaline

Figure 17. FII OW/UW Near-Term Trends by Sector

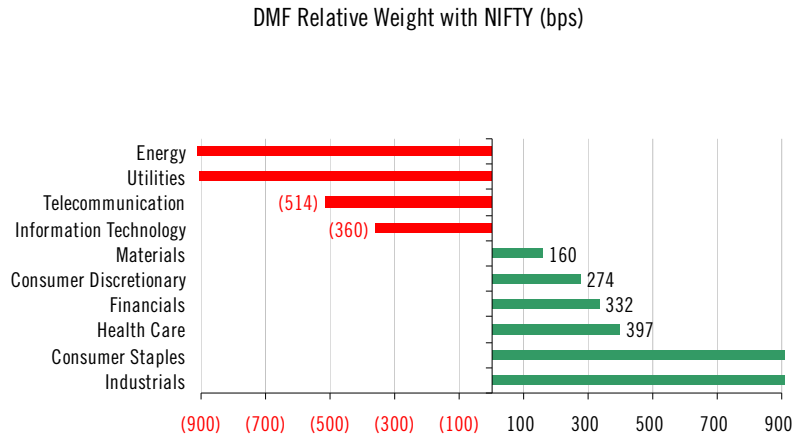
Sector	Shareholding					OW/UW MSCI (bps)				
	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Consumer Discretionary	4.95%	4.77%	5.64%	5.14%	6.46%	207	198	243	189	250
Consumer Staples	4.91%	5.16%	5.68%	7.20%	7.14%	1	(31)	(66)	(91)	(64)
Energy	12.47%	13.34%	13.59%	12.10%	15.09%	(917)	(908)	(931)	(854)	(841)
Financials	27.69%	26.63%	27.89%	29.60%	24.74%	34	454	413	552	486
Health Care	3.66%	4.51%	4.45%	4.65%	4.41%	16	13	57	53	51
Industrials	14.20%	11.99%	11.28%	10.55%	10.43%	422	363	203	166	169
Information Technology	10.20%	11.40%	10.67%	9.22%	10.86%	(249)	(496)	(317)	(471)	(323)
Materials	9.59%	9.70%	8.13%	6.80%	7.64%	144	21	21	(29)	(57)
Telecommunication Services	7.54%	7.92%	8.02%	9.33%	7.91%	361	431	493	627	549
Utilities	4.81%	4.57%	4.66%	5.41%	5.32%	(21)	(45)	(116)	(144)	(219)

Source: Citi Investment Research and Analysis, BSE, Capitaline

Mixed portfolio characteristics, with large Industrials bet, offset by defensiveness in Consumer Staples.

## Domestic Mutual Funds

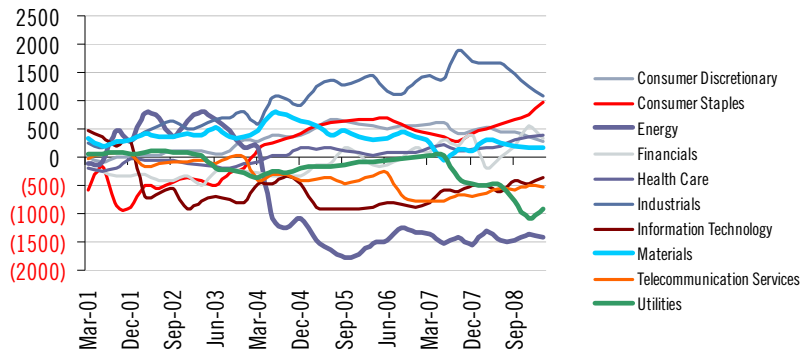
Figure 18. Domestic Mutual Funds OW/UW vs. NIFTY by Sector (bps)



Source: Citi Investment Research and Analysis, BSE, Capitaline

Outsized bets on Industrials have been pared for the last few quarters, while exposure to Consumer Staples is being increased (but largely keeping away from benchmarks).

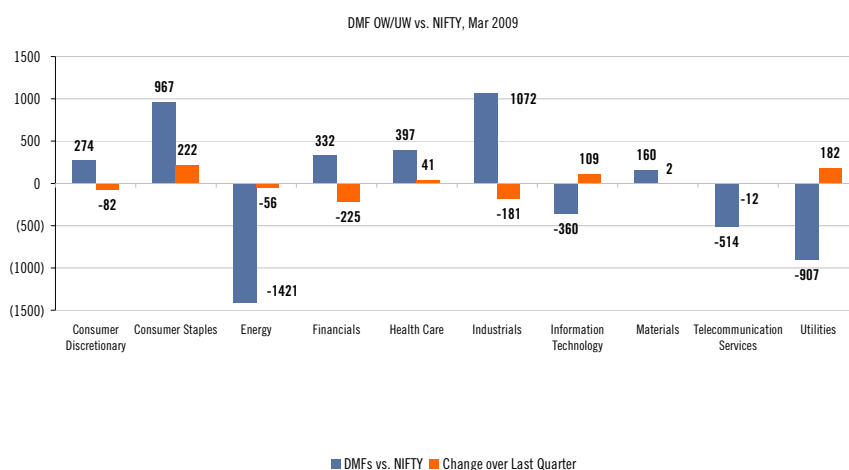
Figure 19. DMFs vs. NIFTY—OW/UW Trend by Sector (bps)



Source: Citi Investment Research and Analysis, BSE, Capitaline

Domestic Mutual Funds bought Consumer Staples and Utilities last quarter, but sold Financials and Industrials – a defensive shift.

Figure 20. DMF Portfolio OW/UW Change, March 2009



Source: Citi Investment Research and Analysis, BSE, Capitaline

Figure 21. DMF OW/UW Near-Term Trends by Sector

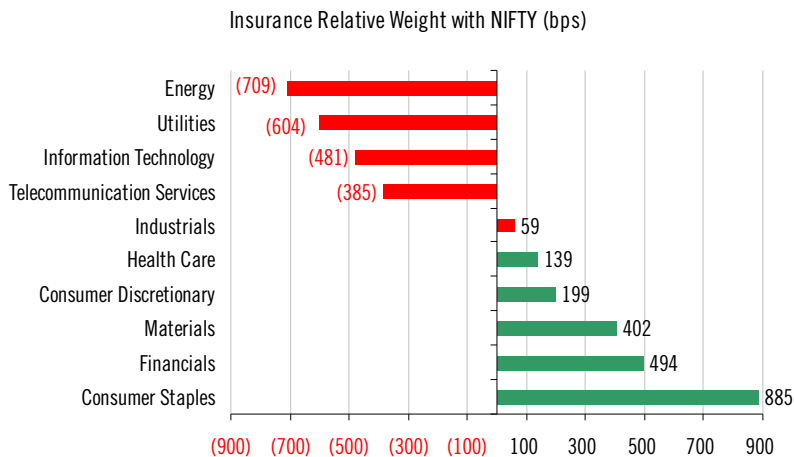
Sector	Shareholding					OW/UW NIFTY				
	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Consumer Discretionary	7.36%	6.68%	6.88%	6.16%	5.62%	533	454	443	356	274
Consumer Staples	9.28%	10.50%	11.86%	14.47%	16.13%	495	573	661	746	967
Energy	11.22%	10.58%	10.99%	10.49%	12.08%	(1317)	(1463)	(1485)	(1365)	(1421)
Financials	15.33%	14.08%	16.97%	20.12%	16.88%	(206)	(11)	204	557	332
Health Care	4.10%	4.97%	5.31%	6.14%	6.46%	169	185	293	356	397
Industrials	26.06%	25.16%	23.86%	20.17%	18.47%	1673	1655	1474	1253	1072
Information Technology	4.89%	6.06%	5.23%	4.59%	5.44%	(504)	(598)	(422)	(470)	(360)
Materials	12.74%	12.30%	9.96%	8.26%	8.94%	296	252	189	158	160
Telecommunication Services	4.26%	5.27%	4.79%	5.19%	4.63%	(636)	(552)	(579)	(502)	(514)
Utilities	4.77%	4.41%	4.14%	4.40%	5.34%	(504)	(494)	(779)	(1089)	(907)

Source: Citi Investment Research and Analysis, BSE, Capitaline

Insurance companies have had a relatively defensive position, with a huge Overweight on Consumer Staples.

## Insurance Companies

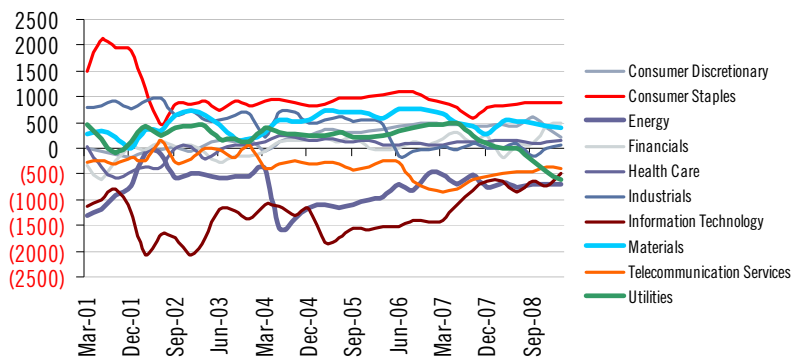
Figure 22. Insurance OW/UW vs. NIFTY by Sector (bps), March 2009



Source: Citi Investment Research and Analysis, BSE, Capitaline, NSE

Relatively stable in positioning vis-à-vis the index in the last few quarters, except the reduced weighting in Consumer Discretionary stocks.

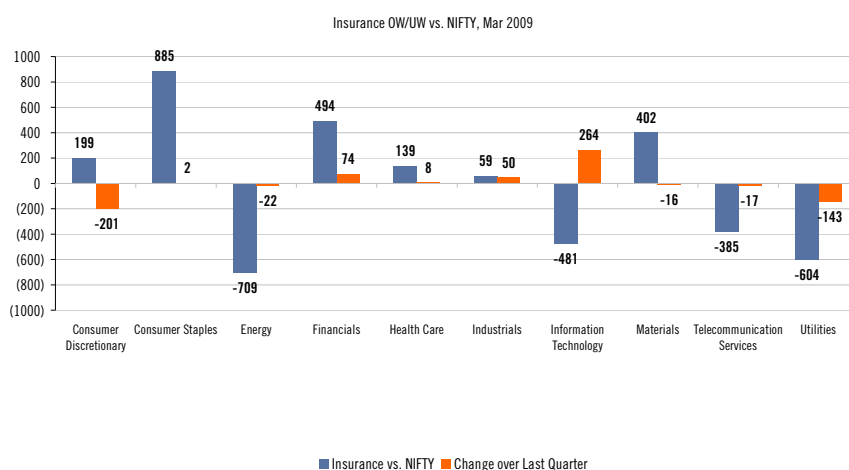
Figure 23. Insurance vs. NIFTY—OW/UW Trend by Sector (bps)



Source: Citi Investment Research and Analysis, BSE, Capitaline, NSE

Insurance companies bought IT Services, and to some extent Financials stocks, in Jan-Mar this year, selling Consumer Discretionary (Autos, Hotels) and Utilities, probably currency hedges in a weak INR environment.

Figure 24. Insurance Portfolio OW/UW Change, March 2009



Source: Citi Investment Research and Analysis, BSE, Capitaline, NSE

Figure 25. Insurance OW/UW Near-Term Trends by Sector

Sector	Shareholding					OW/UW NIFTY				
	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Consumer Discretionary	6.74%	6.55%	8.68%	6.59%	4.87%	471	441	624	400	199
Consumer Staples	12.56%	13.30%	14.03%	15.84%	15.31%	822	853	877	883	885
Energy	17.70%	17.60%	18.75%	17.27%	19.21%	(670)	(762)	(709)	(687)	(709)
Financials	15.56%	14.74%	15.92%	18.75%	18.50%	(182)	55	98	420	494
Health Care	3.97%	4.66%	3.44%	3.90%	3.88%	157	154	105	132	139
Industrials	9.44%	9.42%	7.64%	7.74%	8.35%	11	82	(149)	10	59
Information Technology	3.57%	3.38%	3.00%	1.84%	4.24%	(637)	(865)	(645)	(745)	(481)
Materials	15.07%	14.86%	13.08%	10.86%	11.35%	530	508	502	418	402
Telecommunication Services	5.72%	6.13%	5.86%	6.53%	5.92%	(490)	(466)	(471)	(368)	(385)
Utilities	9.67%	9.36%	9.60%	10.67%	8.36%	(14)	1	(233)	(461)	(604)

Source: Citi Investment Research and Analysis, BSE, Capitaline, NSE

## Appendix A-1

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Data current as of 31 Mar 2009

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