

PAIR STRATEGY: LONG INDIA CEMENTS - SHORT GRASIM

Featured Pair: India Cements/ Grasim

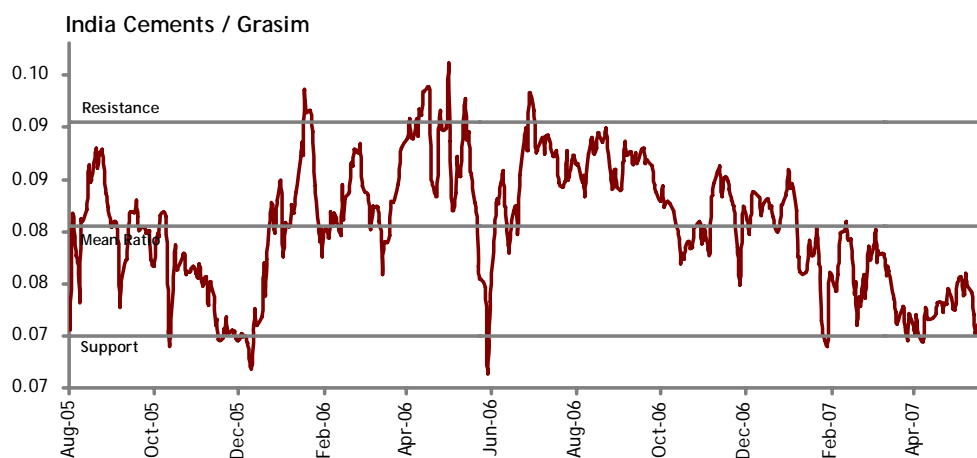
Strategy:

Buy India Cements and sell Grasim on a rupee-neutral basis in anticipation of a reversion to the price ratio of 0.0746. The current price ratio is trading 2.07 standard deviations below its 21 day mean price ratio. Over the past 21 trading sessions, India Cements has fallen by 8.8% against a decline of 2.6% in Grasim.

Rationale:

South has witnessed the sharpest cumulative price increases ~ INR 23-30/bag (INR 3-5/bag for other regions) in Q4FY07 which increases the base for FY08 realizations. Further south has witnessed price hikes of up to ~INR 3-12/bag in Apr-Jun '07 vis-à-vis no significant price hike in the rest of the country during the same period. India Cements is primarily a southern player with ~90% of its sales (FY06) being in the south against only 23% of Grasim's FY06 dispatches. We believe that the impact of southern price increases will be reflected in India Cements quarterly earnings.

Chart I: Price ratio India Cements & Grasim



Risk Reward

The price ratio has been mean reverting in nature. The ratio is currently at its long term support level of 0.070, which has also acted as a reversion level in the past (see chart I above). The premium/discount of the price ratio over its 21 day mean has been -6% which is currently near the lower end of its range (see chart II). Reversion to the target price ratio would yield a return of 6% on GEP.

Key Statistics

Stock ratio data		Average ratio		Correlation		Z-Score	
Current Ratio	0.070	21 day	0.074	3 months	71%	21 day	(2.07)
Expected Ratio	0.074	60 day	0.075	6 months	72%	60 day	(1.82)
% return	6%	256 day	0.081	1 year	76%	256 day	(1.99)

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India Cements

Bloomberg code	NICEM
Price	169
30/90 day percentile	0%/31%
6 month beta*	1.42
Market cap	39,072
Avg. cash volume	2,554
Avg. futures volume	6,175
52 Week High/Low	250/107

Grasim

Bloomberg code	NGRASIM
Price	2,421
30/90 day percentile	0%/47%
6 month beta*	0.52
Market cap	224,619
Avg. cash volume	1,140
Avg. futures volume	2,182
52 Week High/Low	2909/1574

Mkt. Cap & Volume in INR mn

** beta relative to Nifty*

Return Matrix (%)

Period	India		Out/under
	Cements	Grasim	Perf.
10 days	(11.4)	(1.9)	(9.5)
21 days	(8.8)	(2.6)	(6.1)
30 days	(1.2)	1.8	(3.0)
60 days	10.0	16.9	(6.8)
256 days	(0.2)	29.0	(29.2)

Chart II: Premium/Discount of price ratio over its 21 day moving average

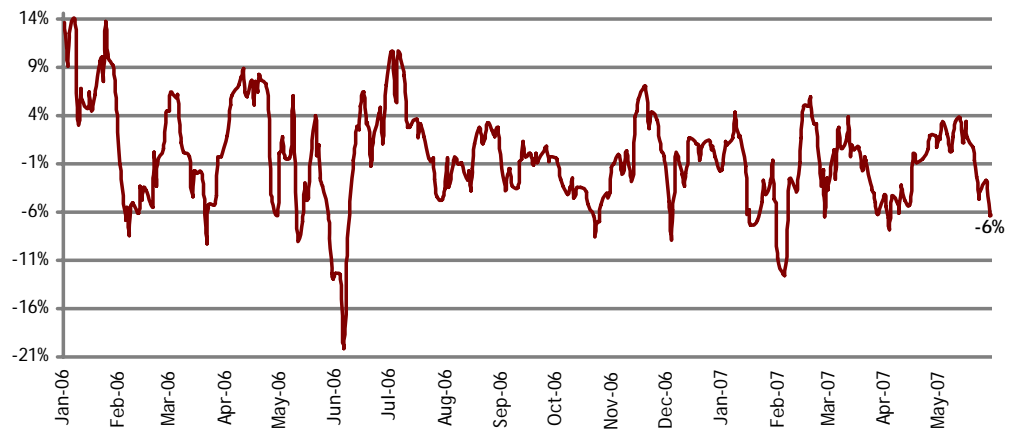


Chart III: Ratio Occurences

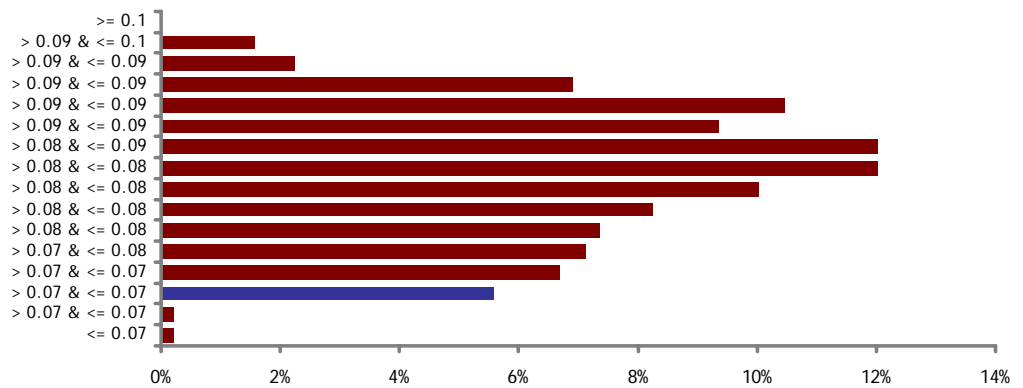
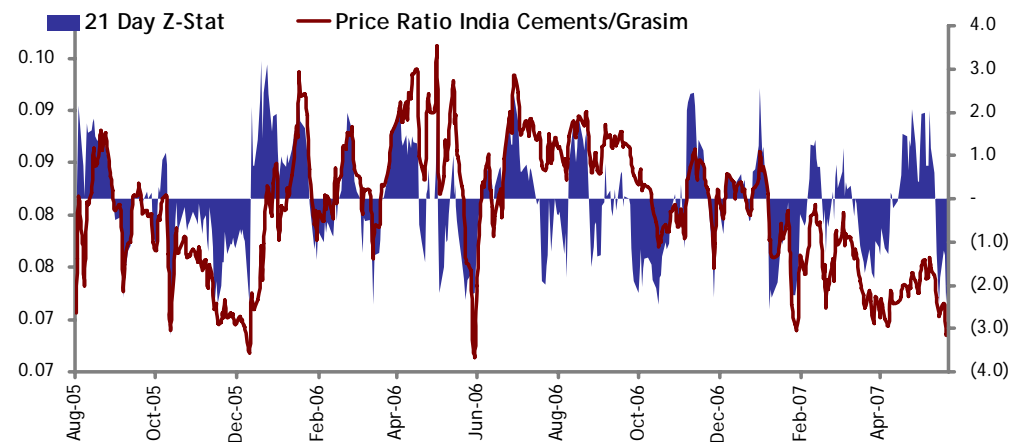


Chart IV: Price ratio & 21 day Z-Score



Current Portfolio

Start Date	Strategy	Entry Price	Entry Ratio	Current Price	Current Ratio	Target Ratio	Return on GEP*	Return on AD#	Max Gain on GEP*	Max loss on GEP*
18-May-07	Long RCOM Short IDEA	516 122	4.230	521 121	4.298	4.50	1.6%	3.2%	1.6%	0.0%

*at 25% for Stock Futures, 15% for Index Futures

** Gross Equity Exposure, # Amount Deployed for Margin on Futures

Closed Trades

Start Date/ Closing Date	Strategy	Entry Price	Entry Ratio	Close Price	Close Ratio	Target Ratio	Return on GEP*	Return on AD#	Max Gain on GEP*	Max loss on GEP*
18-May-07	Long HDFC Bank	1,070	0.170	1,148	0.181	1.790	6.7%	13.4%	6.7%	0.0%
31-May-07	Short Bank Nifty	6,291		6,325						
8-May-07	Long REL	506	0.852	552	0.923	0.921	8.3%	16.6%	8.3%	0.0%
21-May-07	Short Tata Power	593		598						
16-Apr-07	Long Nifty	4,013	0.736	4,084	0.770	1.790	4.5%	9.0%	6.8%	0.0%
27-Apr-07	Short CNXIT	5,453		5,302						
15-Mar-07	Long Infosys	2,079	1.685	2,087	1.654	1.790	-1.9%	-3.8%	1.1%	-5.4%
13-Apr-07	Short TCS	1,234		1,262						
24-Jan-07	Long Nifty	4,090	0.675	3,691	0.739	0.729	7.7%	15.5%	7.7%	-0.4%
4-Mar-07	Short Bank Nifty	6,056		4,995						
31-Jan-07	Long Satyam	472	0.370	433	0.344	0.390	-7.0%	-14.0%	2.1%	-7.0%
19-Mar-07	Short TCS	1,278		1,261						
14-Dec-06	Long ACC	1,029	7.42	1,014	7.80	7.87	5.0%	10.1%	5.0%	-1.9%
20-Feb-07	Short Gujamb	139		130						
6-Feb-07	HLL	209	1.19	200	1.14	1.25	-5.0%	-10.0%	0.0%	-5.0%
20-Feb-07	ITC	175		176						
7-Feb-07	Long Grasim	2,873	2.55	2,745	2.77	2.70	7.6%	15.1%	7.6%	0.0%
13-Feb-07	Short Ultratech	1,126		991						
8-Jan-07	Long Grasim	2,819	2.58	2,875	2.78	2.76	7.4%	14.8%	7.6%	4.3%
25-Jan-07	Short Ultratech	1,092		1,033						
9-Jan-07	Long Maruti	886	0.97	912	0.96	1.04	-1.4%	-2.9%	1.4%	3.4%
19-Jan-07	Short Tata Motors	911		951						
1-Dec-06	Long Realty Basket	511	1.00	517	1.13	1.06	11.8%	23.5%	11.8%	0.0%
4-Jan-07	Short Parsvnath	511		456						
6-Dec-06	Long GACL	140	0.12	137	0.13	0.13	7.7%	15.4%	7.7%	0.0%
11-Dec-06	Short ACC	1,145		1,036						
21-Nov-06	Long TCS	1,149	0.51	1,165	0.54	0.54	5.8%	11.6%	5.8%	0.0%
29-Nov-06	Short Infosys	2,257		2,157						
14-Nov-06	Long ACC	1,007	7.43	1,097	8.06	7.90	8.6%	17.1%	8.6%	-0.2%
17-Nov-06	Short Gujarat Ambuja	136		136						
8-Nov-06	Long Syndicate Bank	79	0.27	79	0.27	0.29	0.4%	0.8%	2.6%	0.0%
10-Nov-06	Short Canara Bank	289		289						
28-Aug-06	Long RCVL	300	0.72	348	0.76	0.76	5.8%	11.5%	6.7%	-2.1%
5-Oct-06	Short Bharti	417		459						
13-Jul-06	Long RCVL	269	0.09	300	0.089	0.09	5.0%	10.0%	5.0%	-4.7%
28-Aug-06	Short NIFTY	3,169		3,387						
5-Jan-04	Long HCLT	322	1.16	327	1.30	1.22	11.0%	21.9%	13.3%	-
13-Jan-04	Short NIIT	277		252						

* Gross Equity Exposure # Amount Deployed

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Head, Institutional Equities

Vikas Khemani – 2286 4206

Head, Institutional Equities

INDIA RESEARCH	SECTOR	INSTITUTIONAL SALES
Shriram Iyer - 2286 4256	Head – Research	Nischal Maheshwari - 2286 4205
Gautam Roy - 2286 4305	Airlines, Textile	Rajesh Makharia - 2286 4202
Ashutosh Goel - 2286 4287	Automobiles, Auto Components	Vikrant Oak - 4019 4712
Vishal Goyal, CFA - 2286 4370	Banking & Finance	Shabnam Kapur - 2286 4394
Revathi Myneni - 2286 4413	Cement	Abhijit Chakraborty - 4019 4823
Harish Sharma - 2286 4307	Infrastructure, Auto Components, Mid Caps	Balakumar V - (044) 4263 8283
Priyanko Panja - 2286 4300	Infrastructure, Engineering, Telecom	Ashish Agrawal - 2286 4301
Parul Inamdar - 2286 4355	Information Technology	Nikhil Garg - 2286 4282
Priyank Singhal - 2286 4302	Media, Retail, FMCG	Swati Khemani - 2286 4266
Prakash Kapadia - 4097 9843	Mid Caps	Neha Shahra - 2286 4276
Niraj Mansingka - 2286 4304	Oil & Gas, Petrochemicals	Priya Ramchandran - 2286 4389
Manika Premsingh - 4019 4847	Economist	Anubhav Kanodia - 2286 4361
Sunil Jain - 2286 4308	Alternative & Quantitative	Tushar Mahajan - 2286 4439
Yogesh Radke - 2286 4328	Alternative & Quantitative	Harsh Biyani - 2286 4419
		Nirmal Ajmera - 2286 4258
		Ankit Doshi - 2286 4671
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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

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