

16 November 2007 | 13 pages

India Equity Strategy

Owning India Inc. – 2QFY08

- **FII: Overweight on Industrials, Financials, Materials, Telecom, Utilities** — The overweight (OW) on Industrials, Materials and Utilities has been stepped up a bit in the last quarter. Extent of the OW on Financials has declined for the 5th quarter in a row. The underweight (UW) on IT Services and Energy has remained at a high level.
- **Domestic mutual funds (DMFs): Outsized OW on Industrials stepped up further** — Local funds have raised their already high OW on Industrials very significantly (500bps) to ~1900bps. Key UWs remain Energy, IT Services and Telecoms. For the first time in over a year, local funds now have a significant UW on Utilities.
- **Insurance companies: Not buying the Industrials frenzy** — Insurance companies' equity holdings are now bigger than that of DMFs. Unlike other investors, insurance companies don't have a positive stance on Industrials (neutral). Their key OWs are Consumers and Materials. Biggest UWs are Energy, IT Services, and Telecoms. They have cut their UW on IT Services significantly in recent quarters.
- **Key takeaways** — Suggested OWs in our India model portfolio are: Industrials, Financials, IT Services and Telecoms. Industrials have the biggest consensus positive view among all investor categories, making the sector more vulnerable to any negative surprises. Mixed positioning in Financials and Telecoms is a positive for their performance. IT Services and Energy are the most under-owned and well-positioned if fundamentals and news flow turn around.

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

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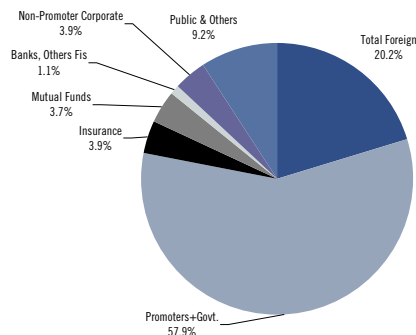
Owning India Inc. – 2QFY08 (Jun-Sep 07)

We extend our analysis of ownership trends in Indian companies to include the data now available for the quarter ended Sep-07. FIIs have maintained their OW on Industrials, Financials, Materials and Telecoms, although key to note is that the extent of OW on Financials has declined for the 5th consecutive quarter now. Domestic mutual funds' outsized OW on Industrials has been raised even further. Insurance companies are not so gung-ho on Industrials and their biggest OWs are in the Consumer space. The most under-owned sectors are Energy and IT Services.

Overall market ownership pattern

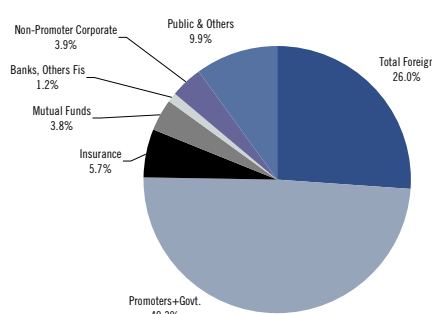
In our report "Owning India Inc."¹, we examined ownership patterns in India in the period 2001-mid 2007, based on quarterly shareholding data from the BSE500 universe of companies. With shareholding data now available for the Sep-07 quarter, we extend our analysis to include this period. Current ownership of the BSE500 mostly rests with Promoters (58%), Foreign (20.2%), Mutual Funds (3.7%), Insurance and other institutions (5%), and the public (9.2%). For the latest quarter, promoter ownership has gone up, while ownership of all other categories has come down. This has been mainly due to stronger performance of high promoter stake companies, rather than a major sell down by any category of investors.

Figure 1. BSE500 – Ownership Pattern



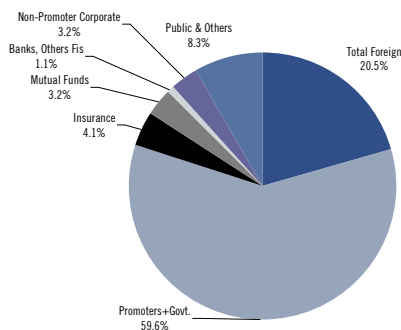
Source: Citi Investment Research

Figure 2. BSE Sensex – Ownership Pattern



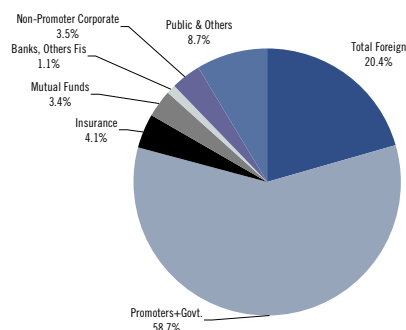
Source: Citi Investment Research

Figure 3. Top 100 Companies – Ownership Pattern



Source: Citi Investment Research

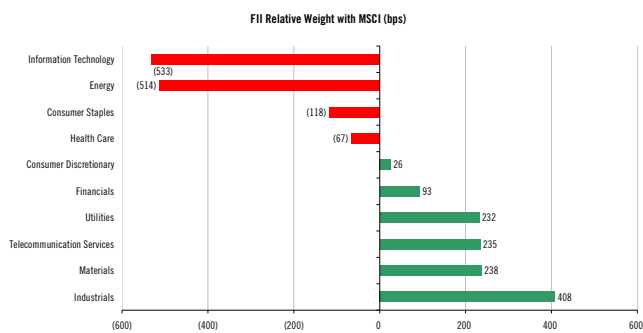
Figure 4. Top 200 Companies – Ownership Pattern



Source: Citi Investment Research

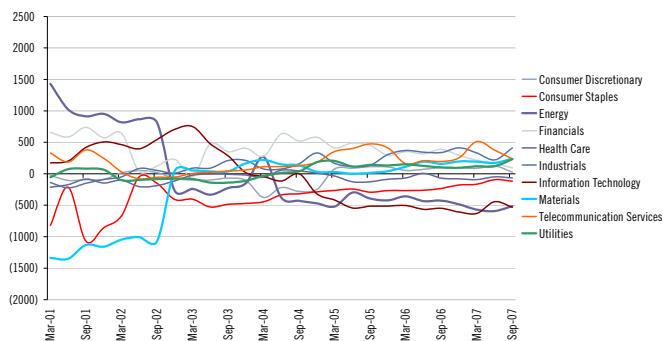
¹ For more details, please see 'Owning India Inc.' <https://www.citigroupgeo.com/pdf/SAP09270.pdf>.

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



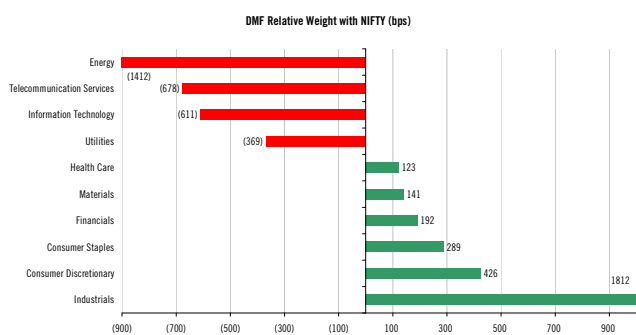
Source: Citi Investment Research

Figure 6. FII vs. MSCI India --- Sectoral OW/UW Trend (bps)



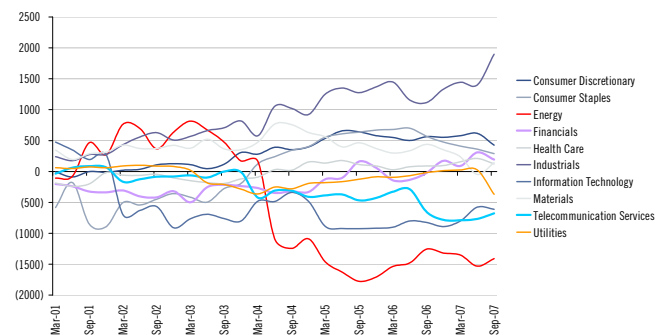
Source: Citi Investment Research

Figure 7. DMF Sectoral OW/UW vs NIFTY (bps)



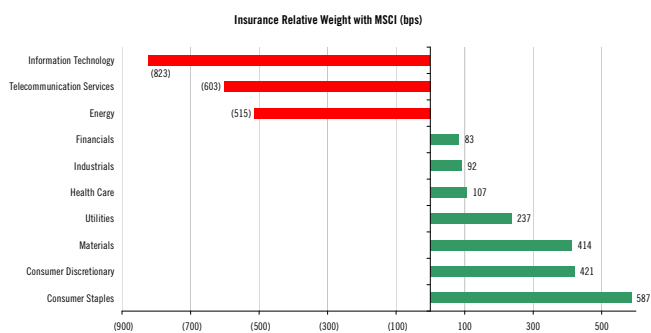
Source: Citi Investment Research

Figure 8. DMF vs. NIFTY --- Sectoral OW/UW Trend (bps)



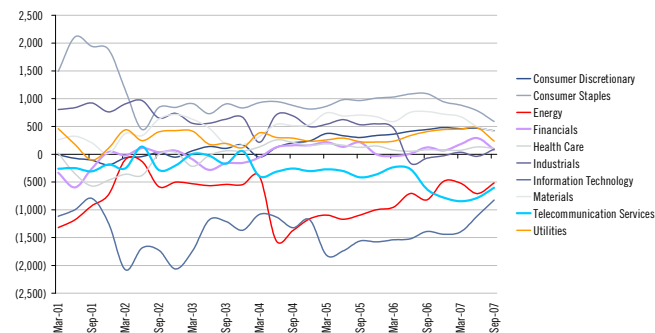
Source: Citi Investment Research

Figure 9. Insurance Sectoral OW/UW vs NIFTY (bps)



Source: Citi Investment Research

Figure 10. Insurance vs. NIFTY --- Sectoral OW/UW Trend (bps)



Source: Citi Investment Research

FII's raise OW on Industrials, more UW on IT now

We benchmark the FII portfolio in India to the MSCI India index. Key overweight sectors for FIIs are Financials, Industrials, Telecoms, Materials and Utilities, while underweights are on Energy, IT Services, Consumer Staples, and Healthcare.

FIIs' biggest OW on Industrials has been stepped up further last quarter. Utilities have been the other sector to see an increase in OW. Despite the prospects of lower interest rates and easier banking sector liquidity, OW on Financials has been cut for the 5th consecutive quarter. Telecoms OW has also come down for two successive quarters now.

IT Services is now the biggest UW sector for FIIs, as the sector's UW was further increased during the last quarter. Energy is the other big UW, although the last quarter saw some moderation in that negative view.

Figure 11. FIIs: Sectoral OW/UW Trends vs. MSCI India

Sector	Shareholding					OW/UW MSCI				
	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07
Consumer Discretionary	8.3%	8.0%	7.7%	7.0%	5.4%	98	96	88	125	26
Consumer Staples	5.5%	4.6%	4.3%	4.1%	3.7%	(233)	(178)	(166)	(94)	(118)
Energy	11.5%	10.6%	11.6%	11.8%	13.7%	(427)	(484)	(571)	(592)	(514)
Financials	23.1%	23.6%	23.2%	24.9%	28.4%	388	294	215	162	93
Health Care	4.6%	4.3%	4.3%	3.7%	2.8%	(70)	(80)	(92)	(48)	(67)
Industrials	12.7%	13.2%	12.5%	14.1%	15.2%	337	412	331	221	408
Information Technology	15.4%	15.7%	15.1%	13.6%	9.2%	(548)	(608)	(629)	(444)	(533)
Materials	8.8%	9.0%	8.0%	8.5%	9.5%	158	197	192	173	238
Telecommunication Services	6.5%	7.8%	9.8%	8.7%	6.8%	197	254	512	376	235
Utilities	3.5%	3.3%	3.6%	3.6%	5.3%	100	96	120	119	232

Source: Citi Investment Research

Figure 12. Latest FII Portfolio vs. MSCI India

Sector	FIIs	MSCI	OW/UW (bps)	
Consumer Discretionary	5.4%	5.1%	26	MW
Consumer Staples	3.7%	4.9%	(118)	UW
Energy	13.7%	18.8%	(514)	UW
Financials	28.4%	27.4%	93	OW
Health Care	2.8%	3.4%	(67)	UW
Industrials	15.2%	11.1%	408	OW
Information Technology	9.2%	14.5%	(533)	UW
Materials	9.5%	7.1%	238	OW
Telecommunication Services	6.8%	4.5%	235	OW
Utilities	5.3%	3.0%	232	OW

Source: Citi Investment Research

DMFs – Outsized OW on Industrials raised even further

We benchmark the domestic mutual funds' (DMFs) portfolio to the local Nifty50 index. As evident in figure 8, DMFs have been taking bigger bets in recent years with much more significant divergence from the benchmark than foreigners. That trend has continued in the last quarter. The outsized OW on Industrials by DMFs has in fact been raised even further! Their other OWs are Consumer Discretionary, Consumer Staples, Financials, Materials and Healthcare.

DMFs' biggest UW is on Energy, almost matching their OW on Industrials. Contrary to FIIs, DMFs are UW on Telecoms and Utilities. Domestic funds have also further raised their UW on IT Services, similar to foreign funds.

Figure 13. DMFs: Sectoral OW/UW Trend vs. NIFTY

Sector	Shareholding					OW/UW NIFTY				
	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07
Consumer Discretionary	11.5%	10.8%	10.6%	10.1%	7.9%	564	553	578	618	426
Consumer Staples	13.3%	10.9%	9.9%	8.5%	7.2%	570	475	412	360	289
Energy	7.1%	6.3%	7.3%	7.3%	7.8%	(1256)	(1321)	(1352)	(1532)	(1412)
Financials	11.4%	13.9%	12.3%	15.4%	16.4%	(23)	174	90	309	192
Health Care	5.1%	4.8%	5.4%	5.3%	3.7%	89	96	157	211	123
Industrials	22.3%	23.9%	24.8%	25.4%	29.7%	1116	1334	1445	1400	1898
Information Technology	9.9%	10.5%	11.1%	10.1%	5.6%	(825)	(892)	(801)	(577)	(611)
Materials	13.5%	12.4%	10.8%	9.9%	12.3%	439	351	237	(47)	141
Telecommunication Services	3.6%	4.1%	5.3%	5.3%	4.6%	(655)	(784)	(789)	(767)	(678)
Utilities	2.3%	2.4%	2.5%	2.7%	4.7%	(18)	13	23	25	(369)

Source: Citi Investment Research

Figure 14. DMF Weights vs. NIFTY Weights and OW/UW

Sector	DMFs	NIFTY	OW/UW (bps)	
Consumer Discretionary	7.9%	3.7%	426	OW
Consumer Staples	7.2%	4.3%	289	OW
Energy	7.8%	21.9%	(1412)	UW
Financials	16.4%	14.5%	192	OW
Health Care	3.7%	2.5%	123	OW
Industrials	29.7%	10.7%	1898	OW
Information Technology	5.6%	11.7%	(611)	UW
Materials	12.3%	10.9%	141	OW
Telecommunication Services	4.6%	11.4%	(678)	UW
Utilities	4.7%	8.4%	(369)	UW

Source: Citi Investment Research

Insurance companies – Not sold on the Industrials frenzy

With 3.9% ownership of the BSE500, domestic insurance companies' equity portfolio (US\$57bn) is now larger than that of domestic mutual funds. Insurance majors are also seeing robust growth in flows and have been able to aggressively step in the market at times of sharp corrections. A close look at the equity portfolio of insurance companies vs Nifty50 reveals some interesting trends.

Unlike FIIs and DMFs, insurance companies don't seem as convinced on the high-growth Industrials sector, where their holdings are just about neutral. Quite contrary to DMFs and FIIs, insurance companies' biggest OWs are in Consumer Discretionary and Consumer Staples, although that has been cut a bit in recent quarters. Their other OWs are Materials and Utilities.

Insurance companies are in sync with FIIs and DMFs in their UWs on Energy and IT Services. At the same time, there has been a sharp reduction in their UW on IT Services in the last few quarters, as that sector has continued to underperform significantly. A similar reduction in the underperforming Energy sector (UW) is also visible.

Figure 15. Insurance: Sectoral OW/UW Trend vs. NIFTY

Sector	Shareholding					OW/UW NIFTY				
	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07
Consumer Discretionary	10.28%	10.03%	9.43%	8.62%	7.86%	445	480	461	468	421
Consumer Staples	18.47%	15.62%	14.62%	12.71%	10.13%	1,089	943	885	781	587
Energy	11.48%	14.63%	15.65%	15.51%	16.75%	(820)	(484)	(521)	(708)	(515)
Financials	12.87%	12.88%	13.20%	15.21%	15.32%	122	68	181	290	83
Health Care	5.06%	4.60%	4.57%	4.54%	3.56%	80	74	72	133	107
Industrials	10.48%	10.32%	10.68%	11.03%	11.66%	(69)	(26)	36	(38)	92
Information Technology	4.23%	5.00%	5.13%	4.78%	3.45%	(1,388)	(1,441)	(1,397)	(1,110)	(823)
Materials	16.77%	16.06%	15.19%	15.32%	15.08%	767	722	676	494	414
Telecommunication Services	3.85%	4.17%	4.72%	5.14%	5.38%	(631)	(780)	(845)	(783)	(603)
Utilities	6.52%	6.69%	6.82%	7.14%	10.79%	406	445	452	473	237

Source: Citi Investment Research

Figure 16. Insurance Weights vs. NIFTY Weights and OW/UW

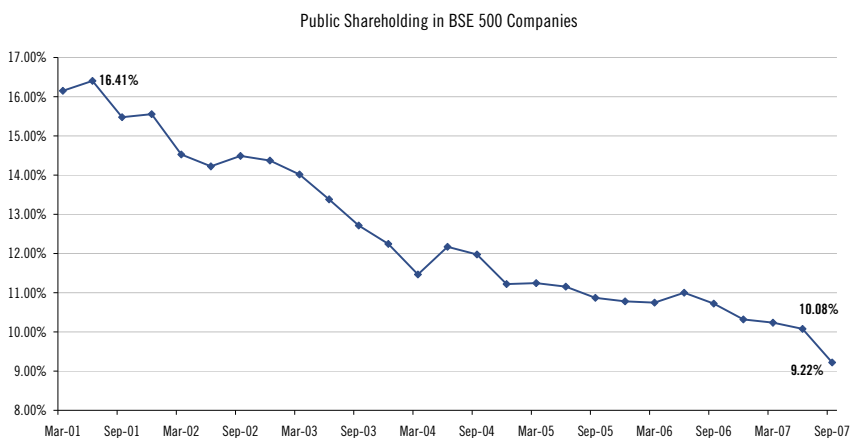
Sector	Insurance	NIFTY	OW/UW (bps)
Consumer Discretionary	7.86%	3.65%	421 MW
Consumer Staples	10.13%	4.26%	587 UW
Energy	16.75%	21.91%	(515) UW
Financials	15.32%	14.49%	83 OW
Health Care	3.56%	2.49%	107 UW
Industrials	11.66%	10.74%	92 OW
Information Technology	3.45%	11.68%	(823) UW
Materials	15.08%	10.93%	414 OW
Telecommunication Services	5.38%	11.42%	(603) OW
Utilities	10.79%	8.43%	237 OW

Source: Citi Investment Research

Retail public shareholding

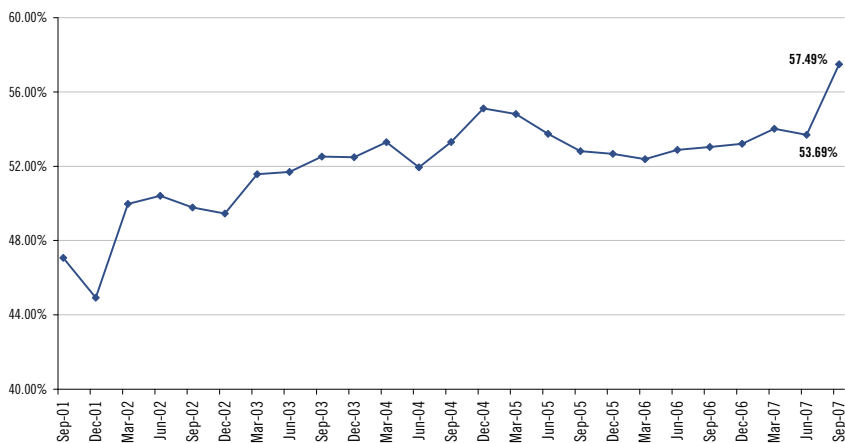
Public shareholding in the BSE500 companies has been on a steady downward trend since June 2001, when it was at a high 16.4%, to a current share of 9.2% in our period of analysis.

Figure 17. Retail Public Shareholding in BSE500 Companies



Source: Citi Investment Research

Figure 18. Promoter's Stake in BSE500 Companies



Source: Citi Investment Research

Figure 19. BSE500 – Companies with Highest Rise in FII Holdings (Percent)

Rank	RIC	Co_Name	Price	Shareholding				Change (%)	
				Dec-06	Mar-07	Jun-07	Sep-07	Last 3 months	Last 6 months
1	PHOE.BO	Phoenix Mills	1932.0	0.0	8.6	22.6	42.6	20.0	34.0
2	GJNC.BO	Guj. NRE Coke	122.3	4.6	6.2	8.4	25.1	16.8	19.0
3	LEEG.BO	Lloyd Electric	171.7	25.9	28.8	30.5	40.9	10.4	12.1
4	PUJL.BO	Punj Lloyd	505.3	13.3	9.3	10.2	19.9	9.7	10.5
5	KART.BO	Karuturi Net.	222.5	5.9	8.8	15.8	24.7	8.9	15.9
6	GEOE.BO	Genus Power	671.6	4.1	3.5	8.7	17.0	8.2	13.5
7	PRJE.BO	Prajay Engg.	328.0	59.5	58.4	57.9	66.1	8.2	7.7
8	IDFC.BO	Infra.Devlp.Fin	194.0	35.1	32.8	34.6	42.6	8.0	9.8
9	SRAM.BO	Shree Ram Urban	375.2	1.0	0.9	1.5	9.1	7.6	8.2
10	IIFL.BO	India Infoline	1098.1	14.7	15.7	18.4	25.9	7.5	10.3

Source: Citi Investment Research

Figure 20. BSE500 – Companies with Highest Fall in FII Holdings (Percent)

Rank	RIC	Co_Name	Price	Shareholding				Change (%)	
				Dec-06	Mar-07	Jun-07	Sep-07	Last 3 months	Last 6 months
1	HMFC.BO	Himachal Futuris	26.5	33.1	27.3	20.4	8.8	-11.5	-18.4
2	SFTS.BO	SSI	147.0	10.6	9.6	8.8	1.6	-7.2	-8.0
3	ZEEN.BO	Zee News	62.4		20.4	19.7	12.8	-6.9	-7.6
4	HEXT.BO	Hexaware	93.5	53.2	52.2	52.6	46.0	-6.6	-6.2
5	HOPF.BO	House of Pearl	219.4		11.1	9.8	3.4	-6.4	-7.7
6	PTRA.BO	Punjab Tractors	201.8	9.3	10.1	6.8	0.7	-6.1	-9.5
7	DSTV.BO	Dish TV	70.8		0.0	24.6	19.1	-5.5	19.1
8	REAG.BO	REI Agro	820.3	9.6	11.0	11.1	5.6	-5.5	-5.4
9	WIWI.BO	Wire & Wireless	46.2	32.7	31.1	27.1	21.7	-5.4	-9.4
10	MAPR.BO	Madhucon Project		28.0	26.9	25.2	19.8	-5.4	-7.0

Source: Citi Investment Research

Figure 21. BSE500 – Companies with the Highest Rise in Promoter Holdings (Percent)

Rank	RIC	Co_Name	Price	Shareholding				Change (%)	
				Dec-06	Mar-07	Jun-07	Sep-07	Last 3 months	Last 6 months
1	ADLF.BO	Adlabs Films	942.7	54.9	54.9	54.9	67.0	12.1	12.1
2	MBFL.BO	MphasiS Ltd	279.1	51.1	50.6	50.5	60.9	10.4	10.3
3	MICO.BO	M I C O	4559.6	60.5	60.5	60.5	69.7	9.2	9.2
4	ADEL.BO	Adani Enterprise	843.7	66.9	66.9	66.9	75.0	8.1	8.1
5	SHPR.BO	Sh. Precoat. Stl	345.8	57.0	56.1	55.9	61.7	5.9	5.6
6	AREV.BO	Areva T&D	3084.5	66.6	66.6	66.6	72.2	5.5	5.5
7	BRTI.BO	Bharti Airtel	859.7	61.0	61.0	60.9	65.9	5.0	4.9
8	VENR.BO	Venus Remedies		21.0	21.0	21.1	25.9	4.7	4.8
9	ALOK.BO	Alok Inds.	67.2	28.9	29.9	30.6	34.3	3.7	4.4
10	ICSA.BO	ICSA (India)	316.4	17.1	16.5	16.5	20.1	3.6	3.6

Source: Citi Investment Research

Figure 22. BSE500 – Companies with Highest Fall in Promoter Holdings

Rank	RIC Co_Name	Price	Shareholding				Change (%)	
			Dec-06	Mar-07	Jun-07	Sep-07	Last 3 months	Last 6 months
1	SFTS.BO SSI	147.0	70.9	57.4	57.4	32.7	-24.7	-24.7
2	KART.BO Karuturi Net.		53.4	56.1	52.3	31.9	-20.4	-24.2
3	PHOE.BO Phoenix Mills	1932.0	84.4	76.5	64.4	47.9	-16.5	-28.6
4	SUTV.BO Sun TV Network	324.8	90.0	90.0	93.0	80.0	-13.0	-10.0
5	PSLH.BO PSL	469.8	64.3	60.4	60.2	48.9	-11.3	-11.5
6	SRAM.BO Shree Ram Urban	375.2	83.9	61.4	67.3	59.1	-8.2	-2.3
7	GEOE.BO Genus Power		51.2	51.1	50.9	42.9	-8.0	-8.2
8	PRAJ.BO Praj Inds.	196.0	30.2	30.1	28.2	20.9	-7.3	-9.2
9	BEML.BO BEML Ltd	1718.2	61.2	61.2	61.2	54.0	-7.2	-7.2
10	INRL.BO Indiabulls Real	630.8		30.7	30.7	24.0	-6.7	-6.7

Source: Citi Investment Research

Figure 23. BSE500 – Companies with Highest Rise in Mutual Fund Holdings (Percent)

Rank	RIC Co_Name	Price	Shareholding				Change (%)	
			Dec-06	Mar-07	Jun-07	Sep-07	Last 3 months	Last 6 months
1	MGLC.BO Mangalam Cement	180.9	2.1	2.4	0.3	8.2	8.0	5.9
2	ZEEN.BO Zee News	62.4		6.6	8.6	16.0	7.4	9.4
3	SADE.BO Sadbhav Engg.	957.5	1.6	1.8	2.0	9.0	7.0	7.2
4	EMCO.BO EMCO	1289.0	13.7	13.3	15.3	22.3	7.0	9.0
5	MALD.BO Mahindra Lifespa	610.2	4.7	2.5	1.9	8.8	6.9	6.2
6	MAPR.BO Madhucon Project		2.6	3.9	5.5	11.8	6.3	7.9
7	BLTE.BO Balaji Telefilms	304.1	3.2	3.4	8.3	14.5	6.2	11.1
8	PSLH.BO PSL	469.8	0.9	0.9	2.1	8.1	6.0	7.2
9	IPCA.BO Ipca Labs.	625.8	21.2	22.1	25.4	30.8	5.4	8.7
10	MCNL.BO McNally Bharat	259.5	10.8	11.1	12.5	17.5	5.1	6.4

Source: Citi Investment Research

Figure 24. BSE500 – Companies with Highest Fall in Mutual Fund Holdings (Percent)

Rank	RIC Co_Name	Price	Shareholding				Change (%)	
			Dec-06	Mar-07	Jun-07	Sep-07	Last 3 months	Last 6 months
1	ESAB.BO Esab India	437.9	19.2	21.5	25.4	12.5	-12.9	-9.0
2	INFE.BO Infotech Enterpr	260.8	23.0	24.8	25.6	15.8	-9.8	-9.0
3	WALC.BO Walchan. Inds.	10304.6	9.3	9.3	9.3	3.9	-5.3	-5.3
4	PUJL.BO Punj Lloyd	505.3	9.9	14.7	16.2	11.2	-5.1	-3.6
5	RYMD.BO Raymond	400.1	15.9	14.8	16.3	11.4	-4.9	-3.3
6	MICO.BO M I C O	4559.6	5.9	6.7	7.1	2.3	-4.8	-4.4
7	NITT.BO NIIT Tech.	261.1	18.5	15.9	11.4	6.7	-4.7	-9.2
8	SFTS.BO SSI	147.0	5.2	5.2	5.2	1.0	-4.2	-4.2
9	EIDP.BO EID Parry	152.0	10.0	8.3	9.5	5.3	-4.2	-2.9
10	ICI.BO ICI (India)	521.0	9.5	9.5	9.4	5.6	-3.8	-3.9

Source: Citi Investment Research

Figure 25. BSE500 – Companies with Highest Rise in Insurance Holdings (Percent)

Rank	RIC Co_Name	Price	Shareholding				Change (%)	
			Dec-06	Mar-07	Jun-07	Sep-07	Last 3 months	Last 6 months
1	MRTI.BO Maruti Suzuki	1038.6	10.1	10.7	11.3	15.0	3.8	4.4
2	RYMD.BO Raymond	400.1	18.4	19.2	19.4	21.1	1.7	2.0
3	TAMO.BO Tata Motors	707.3	9.9	10.7	10.9	12.4	1.4	1.7
4	RANB.BO Ranbaxy Labs.	427.9	15.3	16.3	17.1	18.5	1.4	2.2
5	BRLC.BO Birla Corp.	319.9	4.3	4.3	4.3	5.6	1.3	1.3
6	CIPL.BO Cipla	182.1	5.8	5.7	9.5	10.8	1.2	5.1
7	LUPN.BO Lupin	560.5	1.8	1.8	2.6	3.7	1.2	1.9
8	REDY.BO Dr Reddy's Labs.	605.1	7.4	8.3	11.6	12.7	1.1	4.4
9	SATY.BO Satyam Computer	430.8	4.9	5.5	6.0	7.1	1.1	1.6
10	MAHM.BO M & M	715.5	14.8	15.3	17.6	18.7	1.0	3.3

Source: Citi Investment Research

Figure 26. BSE500 – Companies with Highest Fall in Insurance Holdings (Percent)

Rank	RIC Co_Name	Price	Shareholding				Change (%)	
			Dec-06	Mar-07	Jun-07	Sep-07	Last 3 months	Last 6 months
1	TTPW.BO Tata Power Co.	1310.0	22.3	22.9	23.7	21.0	-2.7	-1.9
2	RLEN.BO Reliance Energy	1920.4	22.3	21.5	21.5	18.9	-2.6	-2.6
3	REAG.BO REI Agro	820.3	4.4	3.0	2.4	0.0	-2.4	-3.0
4	GRAS.BO Grasim Inds.	3668.3	10.6	11.1	12.8	10.4	-2.4	-0.7
5	ICSA.BO ICSA (India)	316.4	0.0	4.0	3.9	1.8	-2.2	-2.2
6	ALOK.BO Alok Inds.	67.2	9.0	7.7	9.7	7.6	-2.1	-0.1
7	ICMN.BO India Cements	269.4	9.3	9.9	10.1	8.5	-1.6	-1.4
8	KAPT.BO Kalpataru Power	1832.6	3.6	3.1	4.1	2.7	-1.4	-0.4
9	AREV.BO Areva T&D	3084.5	7.5	7.4	7.1	5.8	-1.3	-1.6
10	GESC.BO GE Shipping Co	513.2	11.5	10.5	10.3	9.1	-1.2	-1.3

Source: Citi Investment Research

Appendix A-1

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