

# India Equity Strategy

 Equity 

## Owning India Inc.: FIIs - Investing More, Owning Less

- A lot of foreign flow, but less and less to show** — A fair amount of foreign money flowed into India in the March–June quarter (\$2.5b) while domestic MF flows were negative; but foreigners owned less of India Inc. at the end of the quarter (-40bps, 16.4%). This appears an extreme outcome - probably a combination of flow timing, underperformance (buying high selling low?), paper supply and insurance company buying. But a longer-term trend of foreign flows/market performance suggests that more and more foreign money is still moving the market, but by less and less.
- Staying bullish – foreigners more so than domestics** — The market is up <5% YTD and 21% yoy, but portfolio appearance suggests more bullishness than market performance so far. FII portfolios appear most bullish (financials, discretionary and industrials key over-weights), the domestic MFs a little less so but hugely overweight capital goods, and the insurers probably the only ones playing a little safe – but building up on their OW financials call. Energy, IT and Utilities are the consensus UWs. No big positioning/sectoral shifts within the quarter – with some marginal shifts toward the benchmark, across investors.
- Ownership mix; settling down, or are domestic flows destined to dip?** — CY10 has witnessed little change in key owner classes: Promoters at about 50%, FIIs 16-18%, Domestic (MFs and insurers) sub 10%, and individuals about 8%. Is this here to stay or is it the lull before a massive (domestic) regulatory storm? With MFs already hurting due to new distribution regulations (-\$2b YTD), insurers anxiously preparing for a sea change in distribution/product changes (effective Sep 1, 2010 – key risk to incremental growth/flows) and retail investors preparing for possible long-term capital gains tax from April 2011 (zero currently), will it be only foreign money hereon? Time will tell, but if that does happen, FIIs would probably need to invest less to own more – unlike the last quarter.

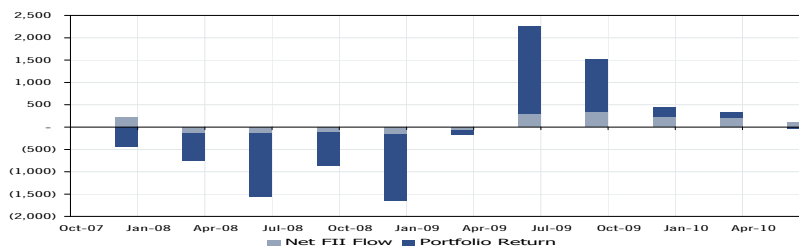
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Figure 1. Flow vs. Valuation Gains/Losses of India FII portfolio (Rs bn)



Source: CMIE, CIRA

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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# Owning India Inc – 1QFY11 (Apr-Jun 2010)

## FII - Investing more, Owning Less

Even as foreign flows have remained buoyant, foreign ownership has actually dipped...unusual and mathematically challenging, but likely a combination of flow timing (buying at the top, selling low and possibly buying back – it's called underperformance), capital raising – including large secondary market sales, and insurance company buying...over the year though, within the now fairly stable 16-18% range

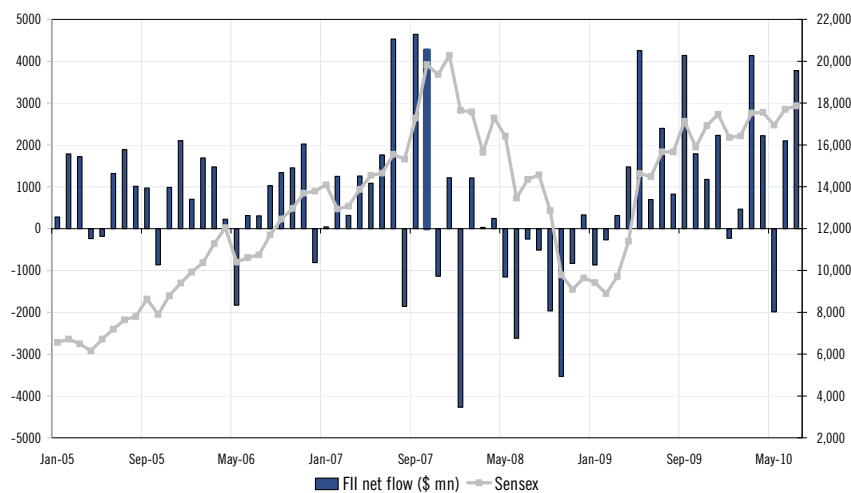
Figure 2. Foreign Institutional Ownership and the Market



Source: CMIE, Bloomberg, CIRA

But let there be no two views on this ...foreign flows have had a consistently huge impact on the market...the market has tended to match foreign flows, and foreign flows will remain a huge driver of the market

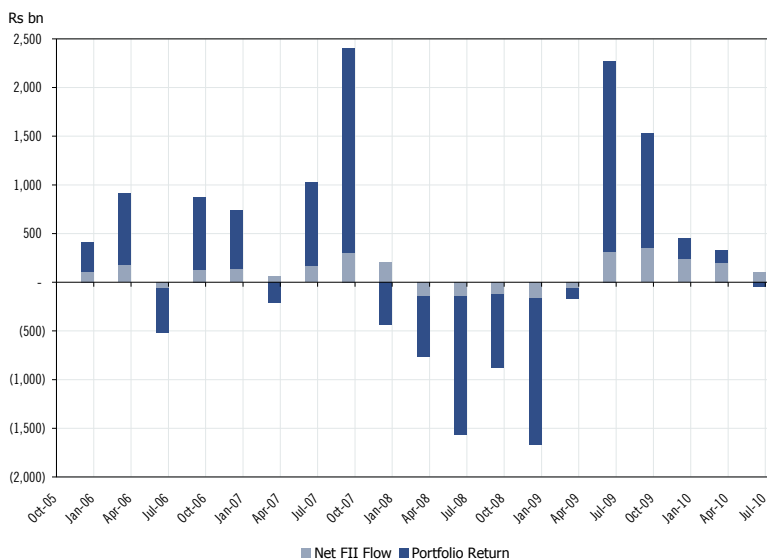
Figure 3. FII flows and the Market



Source: Bloomberg

.. however, over time, the fluctuations in existing portfolio returns with new inflows have been becoming smaller

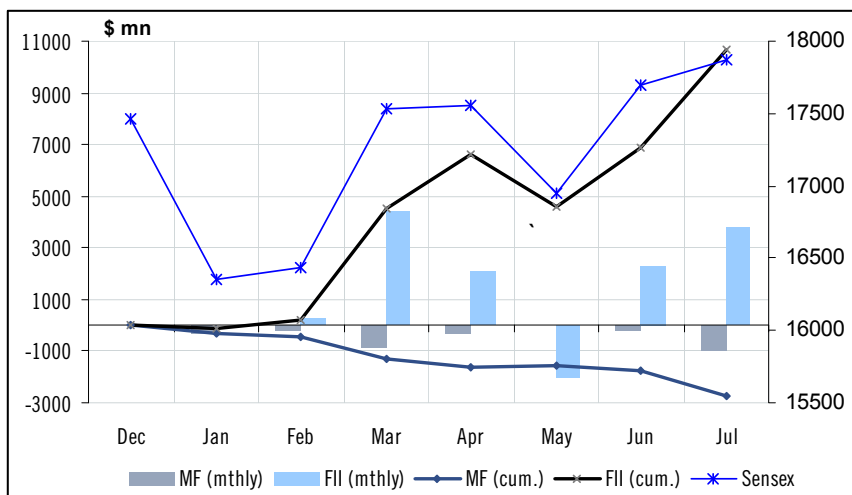
Figure 4. Flow vs. Valuation Gains/Losses of India FII portfolio



Source: CMIE, CIRA

YTD, it's only been foreign flows ...volatile during the last quarter, but fairly decisive and over-riding in July

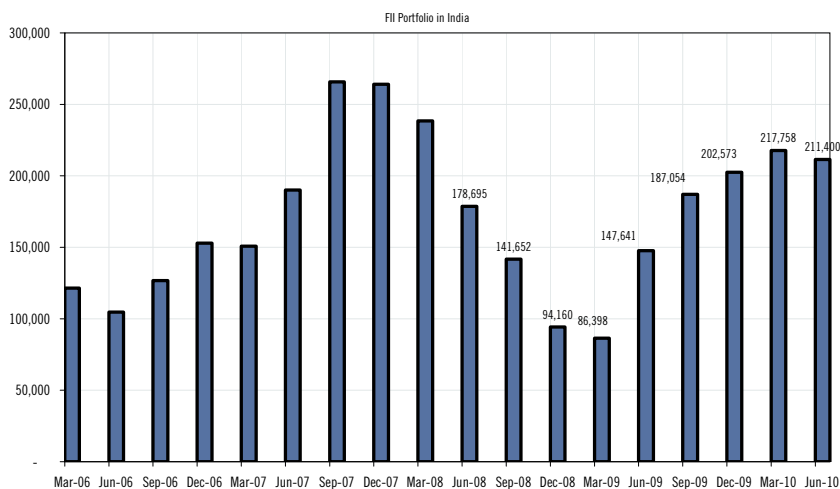
Figure 5. YTD Institutional Flows and the Market



Source: Bloomberg, CIRA

The valuation loss shows....FII portfolio value is relatively stable, but is down over the quarter in spite of net inflows

Figure 6. Foreign Institutional Portfolio in India

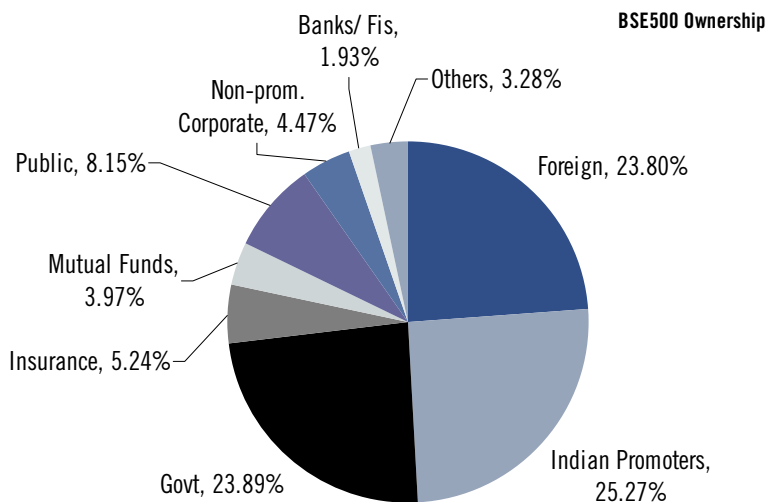


Source: CMIE, CIRA

No material shifts in ownership trends...could change if the government presses ahead with its divestment agenda, or corporates expedite minimum 25% listing timing (currently spread over 3 years), or if flow patterns change meaningfully

### Who Owns What

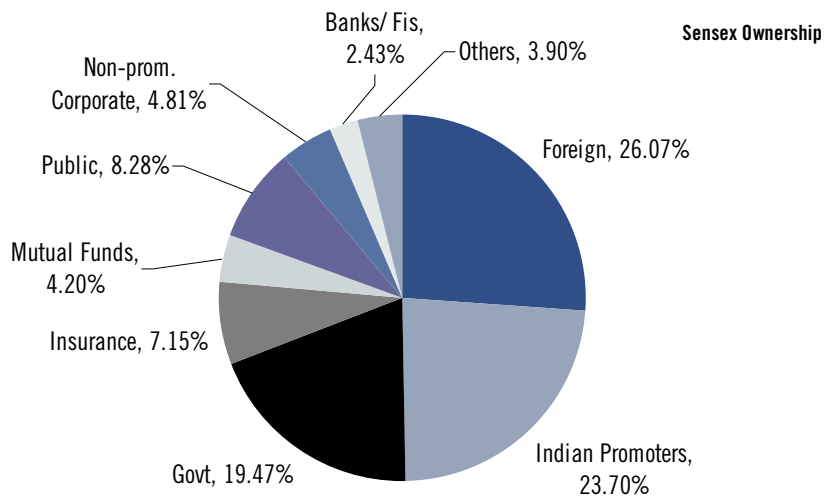
Figure 7. BSE500 Ownership, June 2010



Source: CMIE, CIRA

Expectedly, more concentrated ownership in the large caps/Sensex companies. Sensex companies capture 44% of BSE500 market cap, and half of the institutional portfolio is invested in Sensex

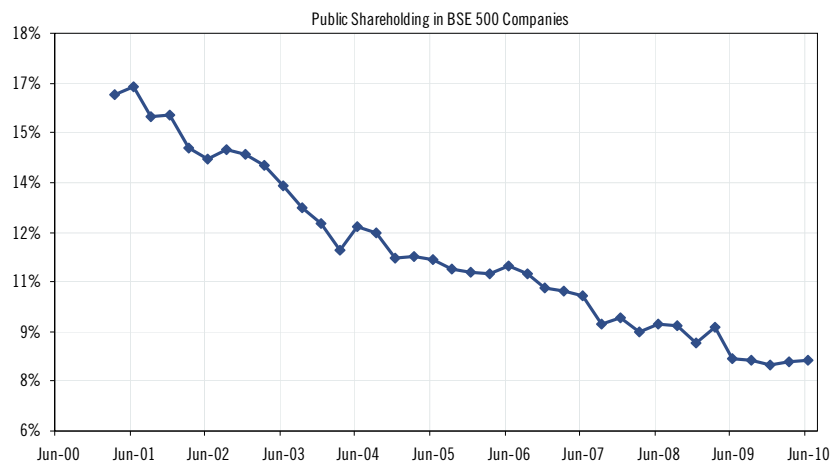
**Figure 8. Sensex Ownership, June 2010**



Source: CMIE, CIRA

Retail participation now seems to have stabilized in 2010 after a steady downtrend in 2009...not yet buying more...but probably not selling as much either

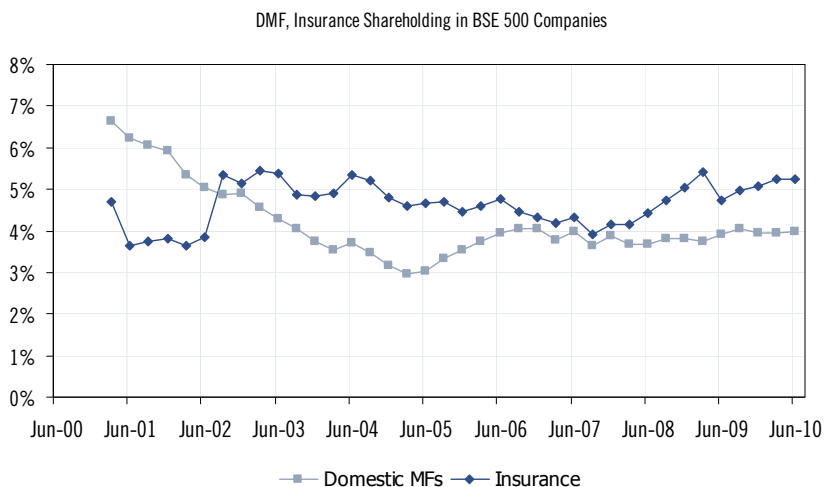
**Figure 9. Retail Shareholding of the BSE500, June 2010**



Source: CMIE, CIRA

Insurers have built up a structural gap over MFs – but with regulatory challenges on growth up ahead for the insurers (MFs already facing them), will the gap continue to widen?

Figure 10. Mutual Fund and Insurance Ownership of the BSE500, June 2010

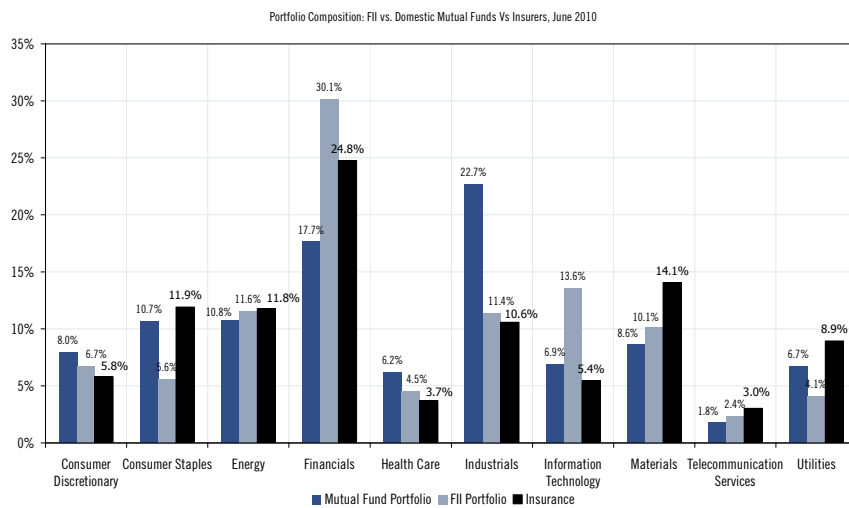


Source: CMIE, CIRA

### Investor Portfolio Stance

Pretty bullish – the foreigners and insurers on financials, the MFs on industrials

Figure 11. Portfolio Composition: FIIs + ADR/ GDR vs. DMFs vs. Insurers

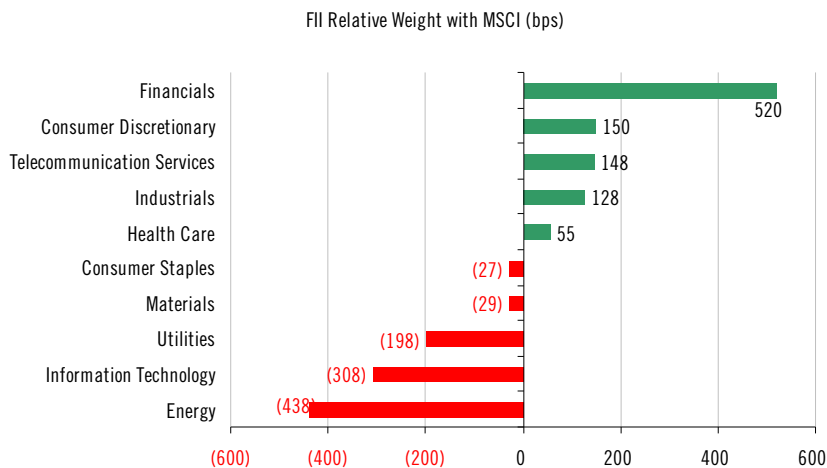


Source: CMIE, CIRA

FII – Leading the charge, with decent sized OWs on financials, consumer discretionary and industrials, and UW on IT and utilities

## Investor Portfolio Stance – Foreign Investors

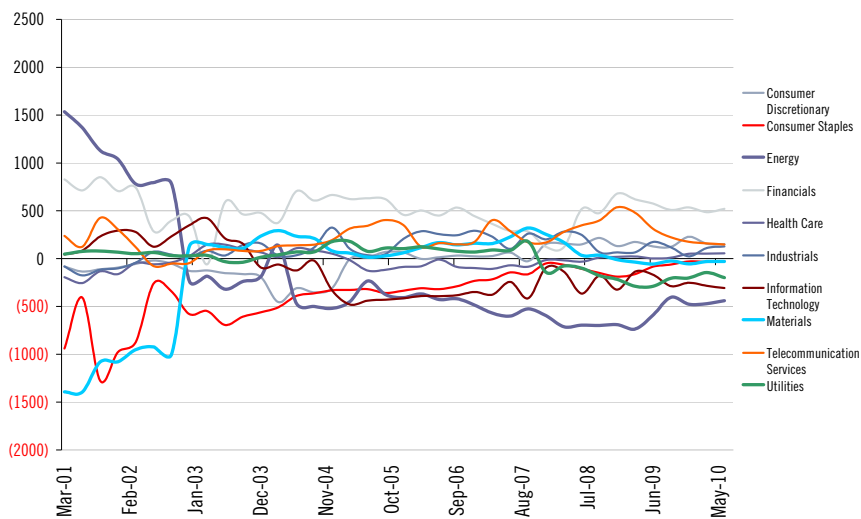
Figure 12. FII OW/ UW vs. MSCI India by Sector (bps), June 2010



Source: CMIE, MSCI, CIRA

No big bets though...converging to the benchmark

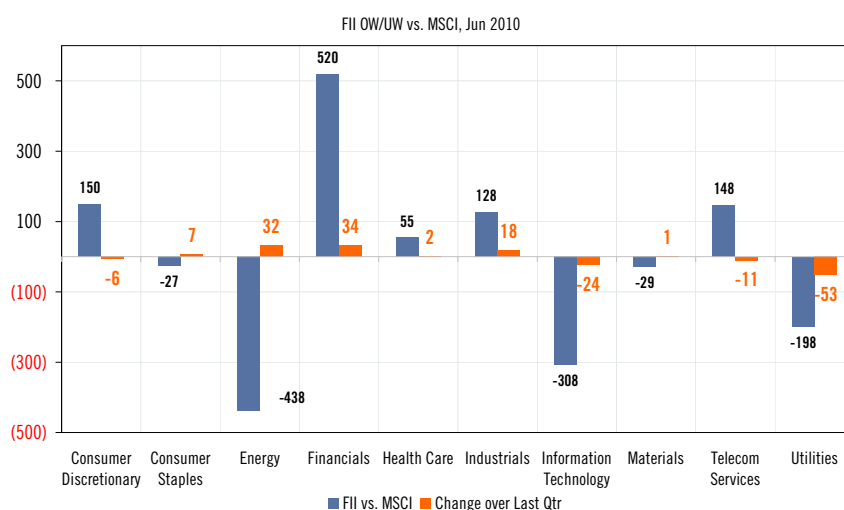
Figure 13. FIIs vs. MSCI India – OW/ UW Trend by Sector (bps), June 2010



Source: CMIE, MSCI, CIRA

More aggressive (financials, industrials),  
less defensive (IT Services, Utilities)

Figure 14. FII Portfolio OW/UW Change, June 2010



Source: CMIE, MSCI, CIRA

Figure 15. FII OW/UW Near-term Trends by Sector

Sector	Shareholding					OW/UW rel. MSCI				
	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
Consumer Discretionary	5.33%	5.73%	6.90%	6.30%	6.67%	128	123	228	156	150
Consumer Staples	4.71%	4.46%	5.00%	4.92%	5.57%	(84)	(62)	(29)	(34)	(27)
Energy	14.27%	13.30%	11.81%	11.17%	11.58%	(590)	(404)	(476)	(470)	(438)
Financials	30.99%	31.13%	29.49%	29.34%	30.11%	575	509	535	486	520
Health Care	3.29%	3.39%	3.92%	4.18%	4.54%	1	10	51	53	55
Industrials	11.84%	10.66%	9.98%	10.63%	11.37%	173	118	25	110	128
Information Technology	11.37%	12.65%	13.92%	13.50%	13.58%	(168)	(288)	(252)	(284)	(308)
Materials	8.51%	10.16%	11.81%	12.77%	10.12%	(57)	(24)	(55)	(30)	(29)
Telecommunication Services	5.71%	4.50%	3.01%	2.86%	2.36%	312	223	175	159	148
Utilities	3.99%	4.02%	4.15%	4.33%	4.11%	(290)	(204)	(201)	(145)	(198)

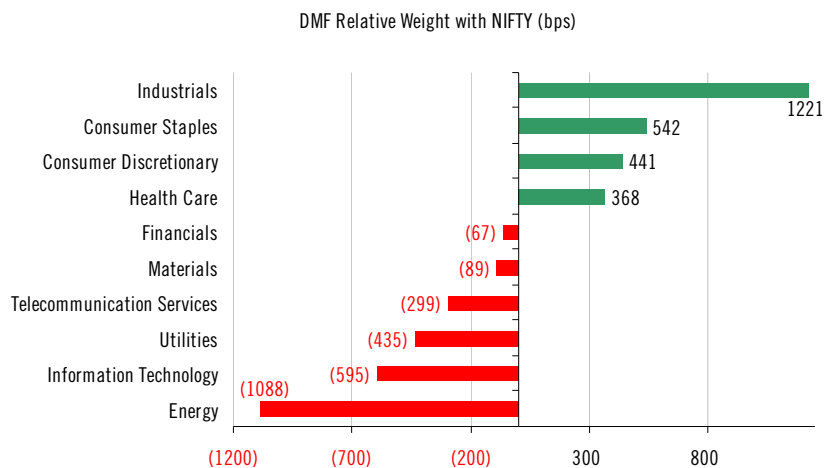
Source: CMIE, MSCI, CIRA



Betting the house on Industrials...has been the case for a while now

## Investor Portfolio Stance – Domestic Mutual Funds

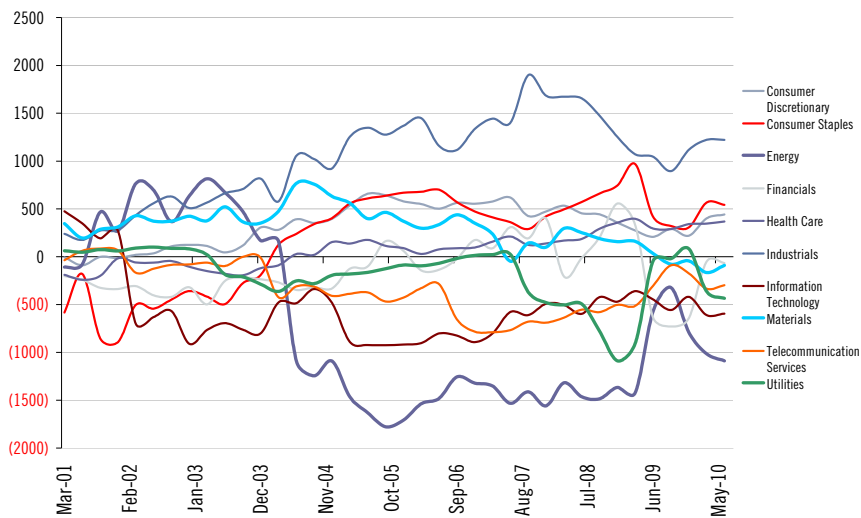
Figure 16. Domestic Mutual Funds (DMFs) vs. NIFTY by Sector (bps), June 2010



Source: CMIE, Bloomberg, CIRA

Actively seeking Alpha, and moving away from benchmarks...pressures of outflows?

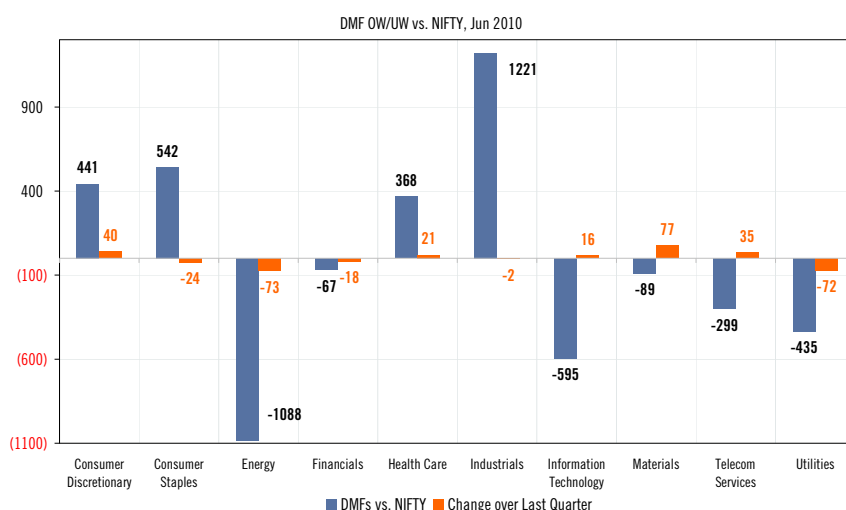
Figure 17. DMFs vs. NIFTY – OW/ UW by Sector (bps), June 2010



Source: CMIE, Bloomberg, CIRA

Single sector play on Industrials, but unlike others, UW on Financials

Figure 18. DMF Portfolio OW/ UW Change, June 2010



Source: CMIE, Bloomberg, CIRA

Figure 19. DMF OW/UW Near-term Trends by Sector

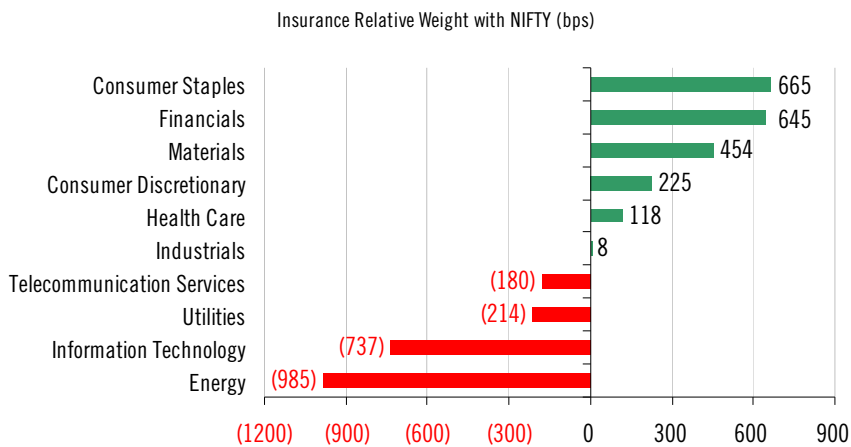
Sector	Shareholding					OW/UW rel. NIFTY				
	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
Consumer Discretionary	5.54%	6.75%	7.30%	7.38%	7.96%	208	291	220	401	441
Consumer Staples	10.80%	10.42%	10.75%	10.28%	10.67%	419	322	307	566	542
Energy	11.09%	11.42%	10.05%	9.93%	10.76%	(571)	(323)	(789)	(1014)	(1088)
Financials	18.66%	18.89%	17.20%	17.48%	17.65%	(635)	(729)	(644)	(49)	(67)
Health Care	4.99%	5.18%	5.67%	6.01%	6.19%	294	290	341	347	368
Industrials	23.74%	22.26%	22.35%	22.47%	22.71%	1046	894	1118	1222	1221
Information Technology	5.72%	6.64%	7.80%	6.94%	6.87%	(446)	(557)	(419)	(611)	(595)
Materials	9.18%	9.11%	10.12%	10.25%	8.62%	34	(79)	(43)	(166)	(89)
Telecommunication Services	4.20%	3.36%	2.08%	1.97%	1.84%	(303)	(90)	(173)	(334)	(299)
Utilities	6.09%	5.96%	6.66%	7.29%	6.74%	(44)	(20)	83	(363)	(435)

Source: CMIE, Bloomberg, CIRA

Playing it relatively safe.....and structural rather than cyclical?

## Investor Portfolio Stance – Insurance Companies

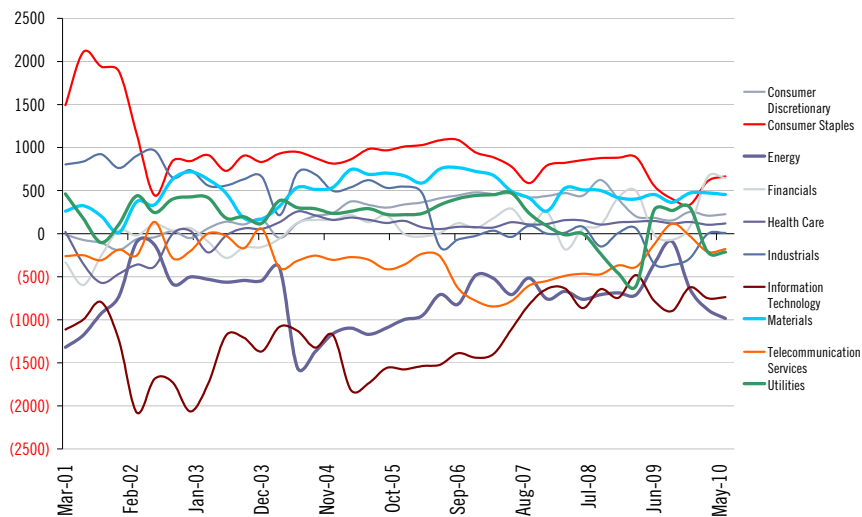
Figure 20. Insurance Companies vs. NIFTY by Sector (bps), June 2010



Source: CMIE, Bloomberg, CIRA

Closing in on the benchmark

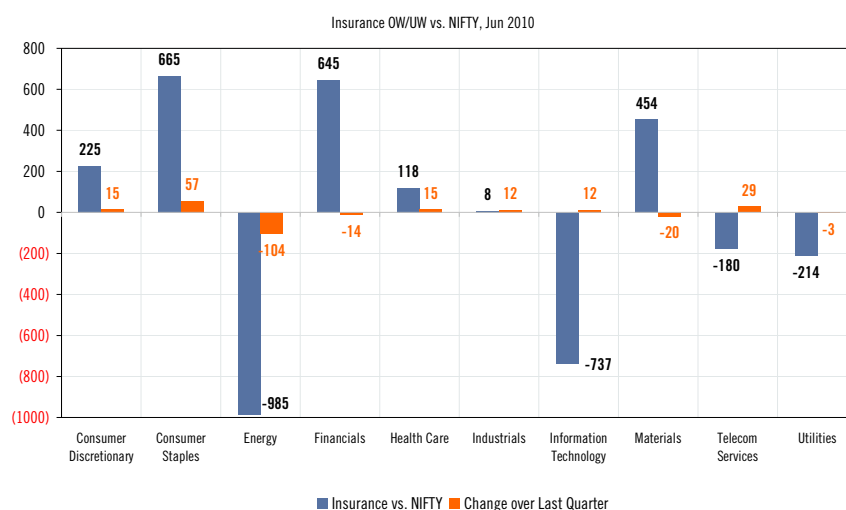
Figure 21. Insurance Companies vs. NIFTY – OW/UW Trend by Sector (bps), June 2010



Source: CMIE, Bloomberg, CIRA

Generally trimming their bets

Figure 22. Insurance Portfolio OW/UW Change, June 2010



Source: CMIE, Bloomberg, CIRA

Figure 23. Insurance Portfolio OW/UW Near-term Trends

Sector	Shareholding					OW/ UW rel. NIFTY				
	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
Consumer Discretionary	5.29%	5.37%	7.63%	5.47%	5.81%	183	153	253	210	225
Consumer Staples	12.19%	11.25%	11.05%	10.70%	11.90%	558	405	336	608	665
Energy	13.26%	13.75%	11.55%	11.26%	11.79%	(354)	(90)	(639)	(881)	(985)
Financials	24.95%	25.47%	24.40%	24.57%	24.78%	(6)	(71)	76	659	645
Health Care	3.53%	3.46%	3.62%	3.58%	3.69%	148	118	135	103	118
Industrials	9.79%	9.69%	8.32%	10.21%	10.58%	(349)	(363)	(286)	(4)	8
Information Technology	2.40%	3.23%	5.74%	5.55%	5.44%	(778)	(898)	(624)	(749)	(737)
Materials	13.40%	13.54%	15.26%	16.65%	14.05%	456	364	471	474	454
Telecommunication Services	5.96%	5.41%	3.54%	3.21%	3.03%	(127)	115	(27)	(209)	(180)
Utilities	9.25%	8.84%	8.90%	8.80%	8.94%	272	268	306	(212)	(214)

Source: CMIE, Bloomberg, CIRA

## Appendix A-1

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