

India Equity Strategy

Color of Money: Tracking institutional ownership - 2Q

- Special focus – Quarterly changes in Institutional ownership:** Latest data released for the June 09 quarter indicates that FIIs continue to adopt a more aggressive portfolio stance. Positive global cues and a decisive verdict in the National Elections appear to have buoyed sentiment. Local institutions however have gone defensive over this period. We have been overweight growth cyclicals over the last quarter.
- Investor activity, buoyant over July:** Most indicators of investor activity, including trading volumes and value, institutional participation, EMBI spreads, VIX and open interest in the F&O markets, remained positive. Sentiment was aided by better than expected 1Q FY10 results. August is however expected to be relatively light on news flow. Our money flow monitor points to inflows over the month into IT and Consumer sectors and outflows from Industrials and Energy sectors.
- Rates & FX markets:** The financial system remains flush with liquidity. But the yield curve continues to shift north, given expectations of a firming up of rates into 4Q CY09. The INR remained flat, despite aggressive portfolio inflows. The trend could be attributed to sustained weakness in trade data and an increase in global crude oil prices. FX markets have also been suggesting substantial US\$ purchases for subscribing into IMF bonds.
- Insider activity.** Insiders were marginal net buyers over the month.

Net buy: Kotak Mahindra, Jindal Steel & Power, HDFC Bank, NTPC

Net sell: IDFC, ITC, Axis Bank, Ambuja Cement, Dr. Reddy's Lab.

India Market Strategy

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Sectoral preference and institutions – Ownership changes (Apr 09 to June 09)

	Sectors in favor	Sectors out of favor
Insurance Companies	Health Care, Consumer Staples	Consumer Discretionary, IT
Domestic Mutual Funds	Consumer Staples, Utilities	Telecom, Health care
Foreign Institutional Investors	Financials, Industrials	Consumer Staples, Health care

Source: Capitaline, J.P. Morgan.

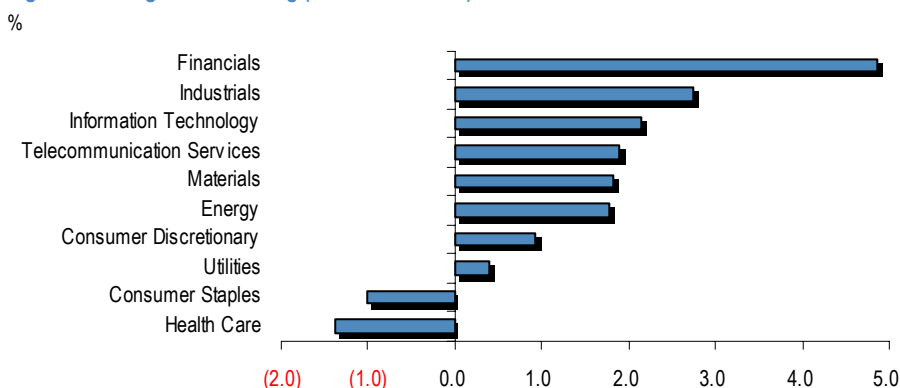
See page 19 for analyst certification and important disclosures, including non-US analyst disclosures.

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Special focus: Tracking Institutional Ownership

FII holding trend

Figure 1: Change in FII Holding (Mar-09 to Jun-09)

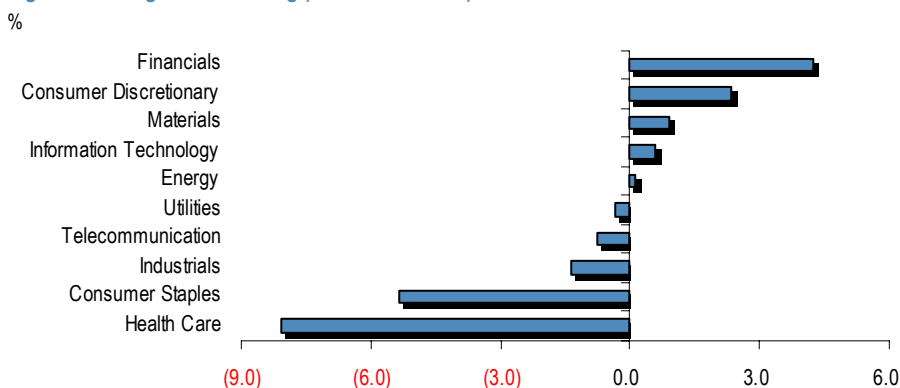


Over Mar-09 to Jun-09, FIIs turned more aggressive in their portfolio stance and increased holdings in Financial, Industrials and IT, while they decreased their holdings in defensive sectors i.e. Health care and Staples

A part of the increase in ownership for key sectors was through participation in QIPs

Source: NSE, MSCI, Capitaline

Figure 2: Change in FII Holding (Jun-08 to Jun-09)



Over the last 12 months (Jun-08 to Jun-09), FIIs increased their holdings in Financials and Consumer Discretionary, and reduced their ownership of Health care and Staples sectors

Source: NSE, MSCI, CapitalLine

Table 1: Stocks with significant changes in FII ownership (Mar-09 to Jun-09)

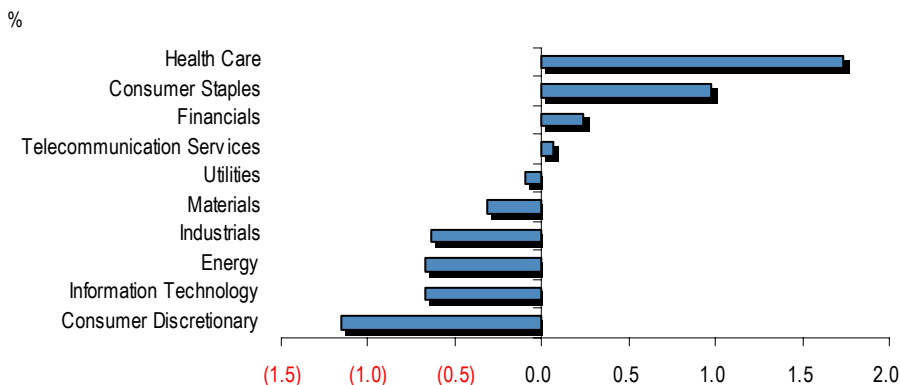
Higher holding		Reduced holding
1	Indiabulls Real Estate	Zee Entertainment Entertainment
2	IDFC	Mahindra & Mahindra
3	DLF	Glenmark Pharmaceuticals
4	Jaiprakash Associates	United Spirits
5	Larsen & Toubro	GMR Infrastructure
6	Axis Bank	NTPC
7	Dr Reddys Laboratories	United Phosphorus
8	Reliance Infrastructure	Abb
9	Hindalco Industries	Bharat Petroleum
10	Sesa Goa	Power Grid Corp.Of India

Source: NSE, MSCI, CapitalLine.

Insurance Companies holding trend

Over Mar-09 to Jun-09, Insurance companies increased their holdings in defensive sectors (Health care and Staples), while they reduced their holdings in Discretionary, IT and Energy sectors

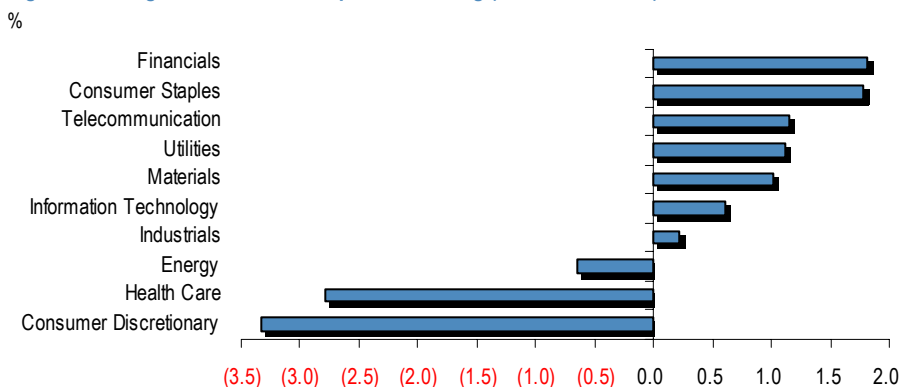
Figure 3: Change in Insurance Companies' Holding (Mar-09 to Jun-09)



Source: NSE, MSCI, Capitaline

Over the last 12 months (Jun-08 to Jun-09), Insurance companies increased their holdings in Financials, Staples and Telecom sectors, while Discretionary and Health care sectors witnessed a sharp decrease in ownership

Figure 4: Change in Insurance Companies' Holding (Jun-08 to Jun-09)



Source: NSE, MSCI, CapitalLine

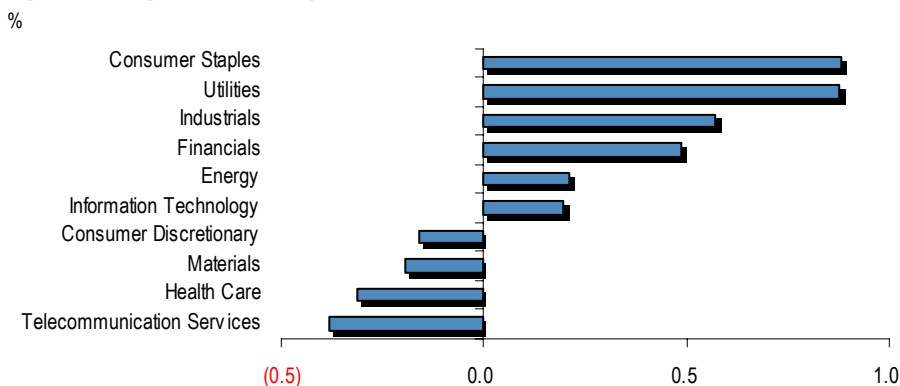
Table 2: Stocks with significant changes in insurance companies' ownership (Mar-09 to Jun-09)

Higher holding		Reduced holding	
1	ICICI Bank		ONGC
2	HDFC		Infosys Technologies
3	Power Grid Corp.Of India		Maruti Suzuki India
4	Idea Cellular		Reliance Infrastructure
5	Kotak Mahindra Bank		Cairn India
6	IDFC		Bajaj Auto
7	Reliance Communications		Bharat Petroleum
8	Jindal Steel & Power		Tata Power
9	Steel Authority Of India		Cipla
10	Hindalco Industries		Hero Honda Motors

Source: NSE, MSCI, CapitalLine.

Mutual Funds' holding trend

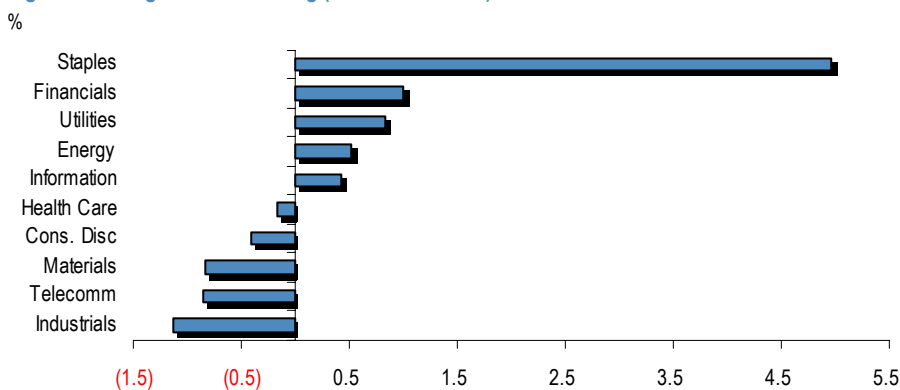
Figure 5: Change in MF's holding (Mar-09 to Jun-09)



Over Mar-09 to Jun-09, MF's increased their holdings in Consumer Staples, Utilities and Industrials, while they reduced their holdings in the Telecom, Health care and Material sectors

Source: NSE, MSCI, Capitaline

Figure 6: Change in MF's holding (Jun-08 to Jun-09)



Over the last 12 months (Jun-08 to Jun-09), MF's increased their holdings in Consumer Staples, Financials and Utilities, while they reduced their holdings in Industrial, Telecom and Material sectors

Source: NSE, MSCI, CapitalLine

Table 3: Stocks with significant changes in MF's ownership (Mar-09 to Jun-09)

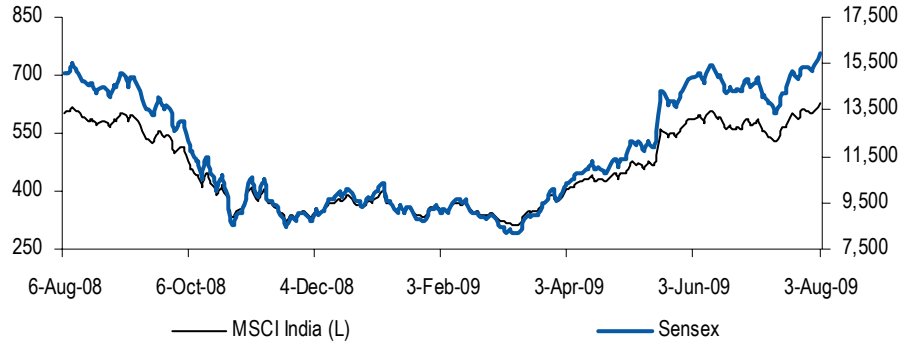
Higher holding		Reduced holding
1	Indiabulls Real Estate	Axis Bank
2	Zee Entertainment Entertainment	Larsen & Toubro
3	Jaiprakash Associates	IDFC
4	Mahindra & Mahindra	Tata Steel
5	Sesa Goa	United Phosphorus
6	Hindalco Industries	HDFC Bank
7	Reliance Infrastructure	Jindal Steel & Power
8	Tata Power	Bajaj Auto
9	Reliance Natural Resources	Glenmark Pharmaceuticals
10	Cairn India	Hero Honda Motors

Source: NSE, MSCI, CapitalLine.

Market Performance

The MSCI India gained 8% over the month

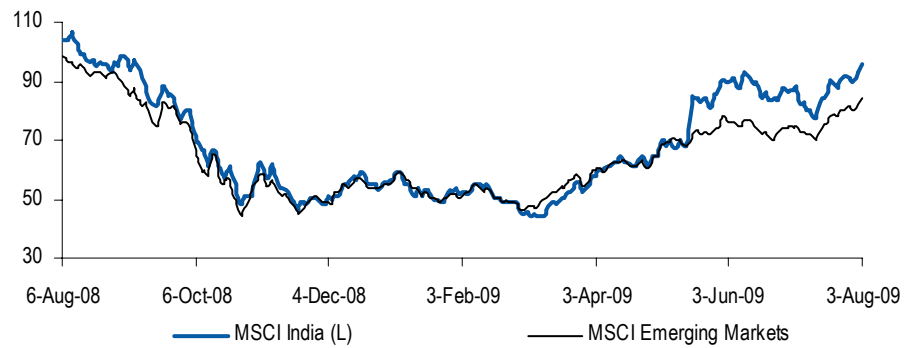
Figure 7: BSE Sensex and MSCI India



Source: Datastream.

Indian equities underperformed peer group over the month. MSCI India (US\$) gained 8% vs. a gain of 12.8% for MSCI EM

Figure 8: India vs. emerging markets

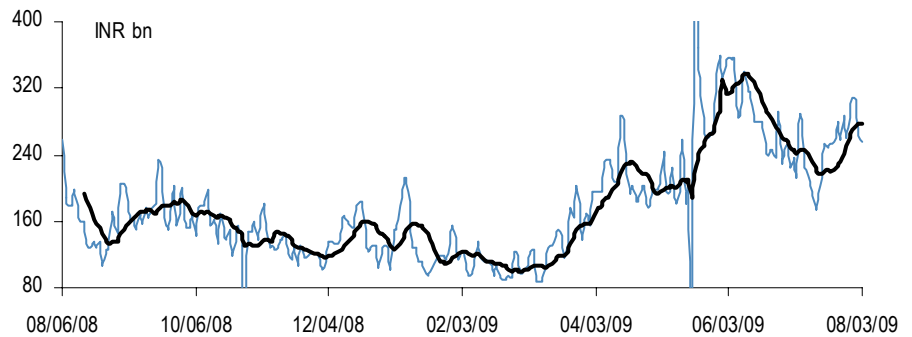


Source: MSCI, DataStream. Note: Rebased performance of MSCI US\$ indices.

Trading activity

Traded value in equity markets moderated marginally over the month

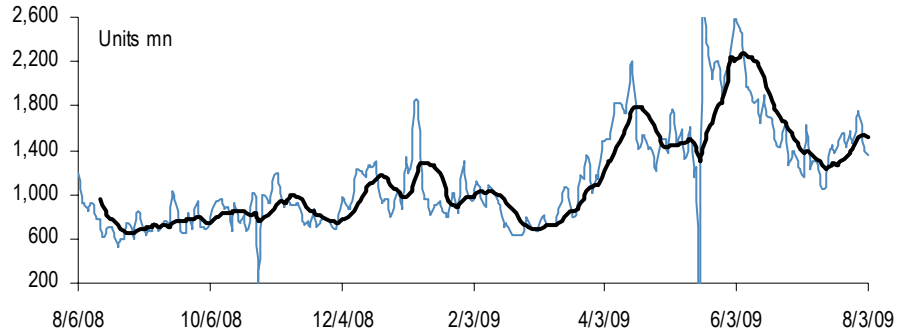
Figure 9: Cash market – Trading value



Source: Bloomberg. Notes: Aggregate turnover of NSE and BSE. Bold line is 10-day moving average.

Trading volumes too moderated over July. Mid Caps however outperformed large caps over the month

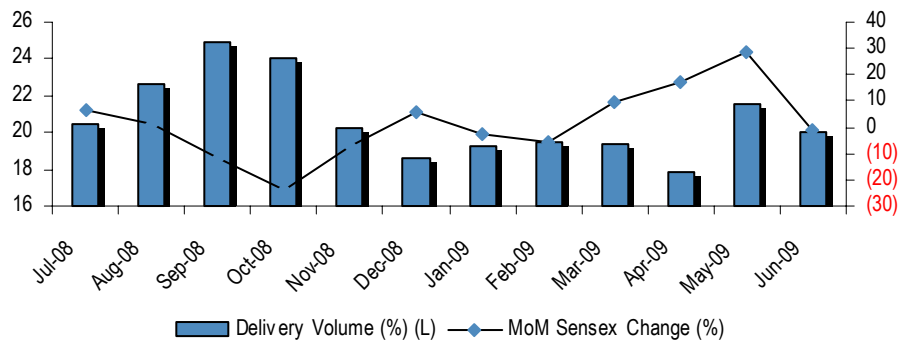
Figure 10: Cash market – Trading volume



Source: Bloomberg. Note: Aggregate turnover of NSE and BSE.

Delivery volumes (20.1%) declined over the month of June
 Average delivery volume for the last 12 months stands at 20.7%

Figure 11: Aggregate delivery volume (Percentage of total cash volume traded)



Source: NSE, BSE.

IT and Consumer sectors witnessed inflows, while investors moved out of Energy and Industrials

Table 4: Money flow monitor – July

Outflow	Inflow
Reliance Industries Ltd	Infosys Technologies Ltd
Oil & Natural Gas Corp Ltd	Housing Development Finance
ICICI Bank Ltd	Hindustan Unilever Limited
BHEL	Indiabulls Financial Service
State Bank Of India	Axis Bank Limited
Jindal Steel & Power Ltd	ITC Ltd
Sun Pharmaceutical Indus	Zee Entertainment Enterprise
Gail India Ltd	Maruti Suzuki India Ltd
HDFC Bank Limited	Ultratech Cement Ltd
Larsen & Toubro Limited	Tata Power Co Ltd

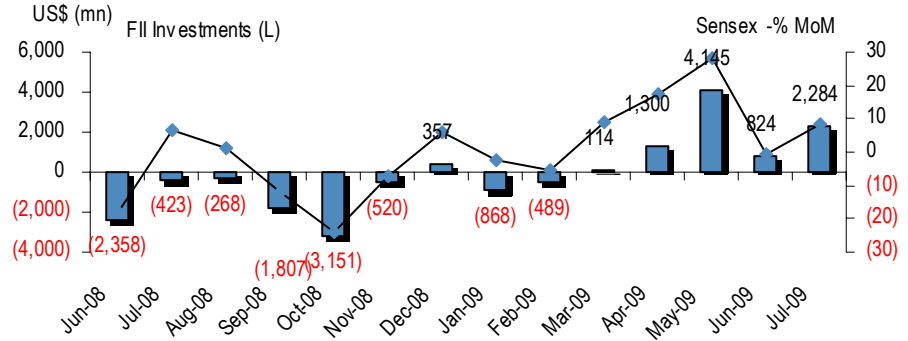
Source: Bloomberg. Note: Money flow is sum of daily trade volume * daily price change.

Foreign Institutional Investor (FII) activity

FII bought equities aggregating US\$2.3B over July

YTD FIIs have bought US\$7.3 bn of Indian equities

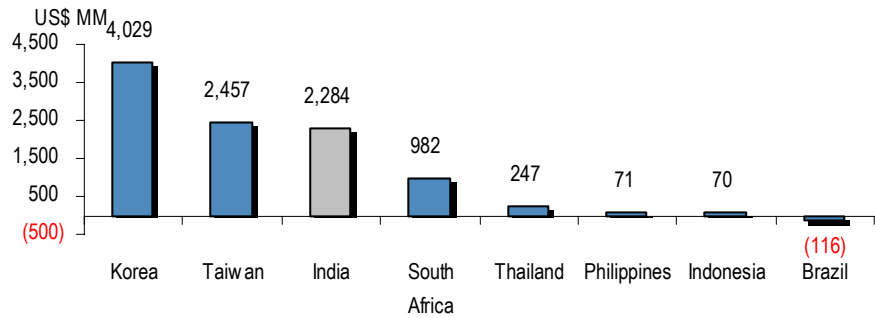
Figure 12: FII investments and Sensex



Source: DataStream, Sebi.

Figure 13: Key emerging markets and FII flows –July

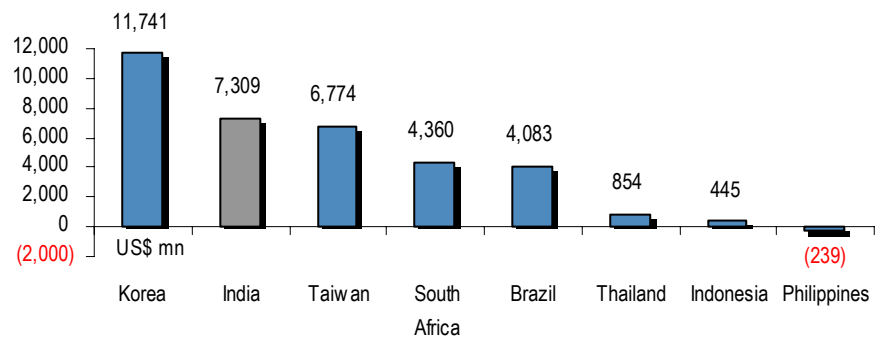
FII remained buyers of equities in EMS over July except Brazil



Source: Bloomberg.

YTD, key EMS have seen net inflows, with the exception of Philippines

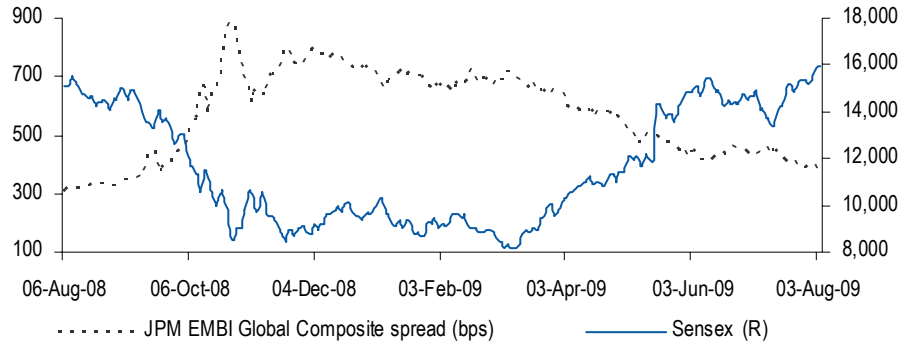
Figure 14: Key emerging Markets and FII net flows – YTD (2009)



Source: Sebi.

EMBI spreads narrowed further over the month
Lower EMBI spreads typically indicate higher risk appetite and is conducive for EM outperformance

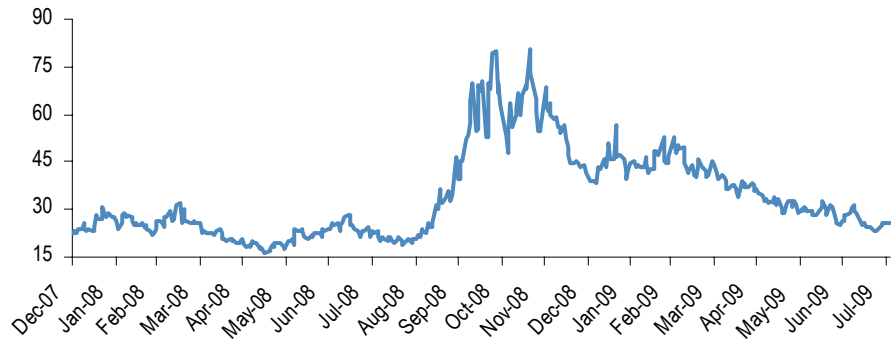
Figure 15: EMBI spreads and Sensex



Source: Datastream.

VIX continued to drift lower supported better than expected corporate performance and supportive economic developments

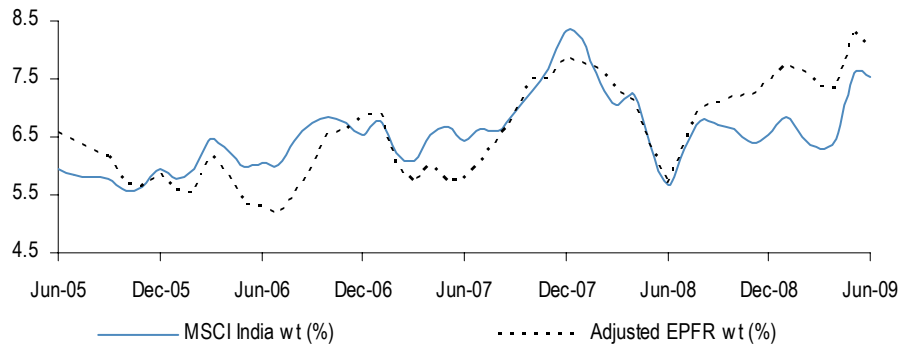
Figure 16: S&P 500 Volatility Index (VIX)



Source: Datastream.

Last available EPFR data for June suggests that foreign investors continue to remain overweight on India in the emerging market universe. The extent of the overweight position has reduced though

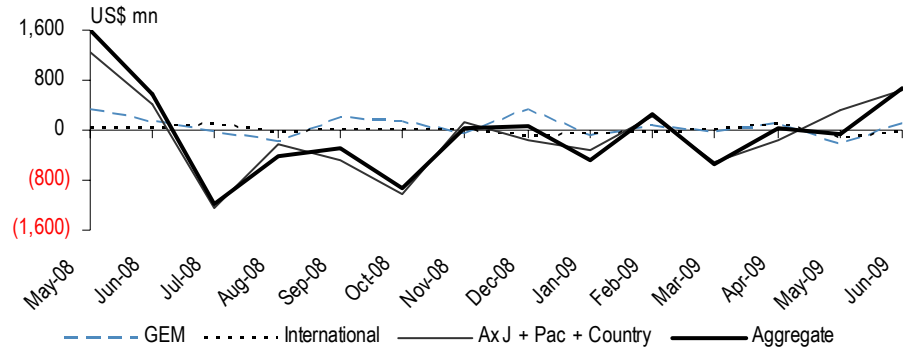
Figure 17: India weight in MSCI and EPFR universe (%)



Source: MSCI, Datastream, EPFR.

GEM and Asia / Country funds were buyers of Indian equities over June, while international fund remained on the sidelines

Figure 18: International flows into India and fund style

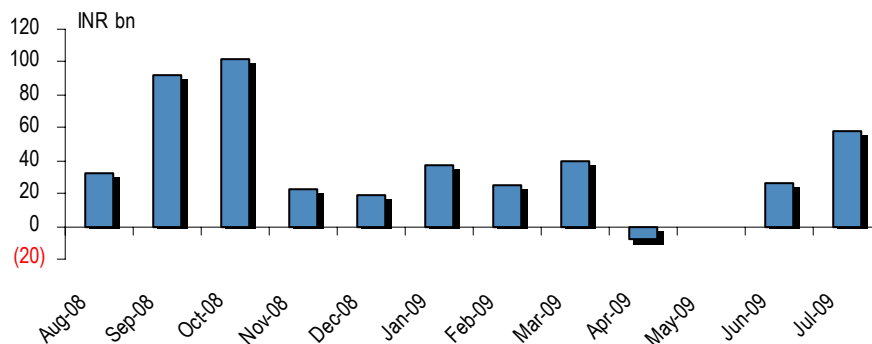


Source: EPFR.

Domestic institutional investor (DII) activity

DII's bought equities aggregating US\$1.2B in July. YTD, DII's have bought equities aggregating US\$3.6B

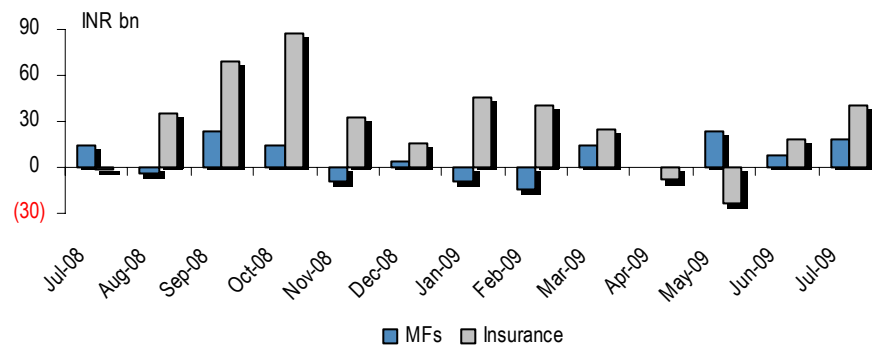
Figure 19: DII investments



Source: NSE, Bloomberg, Sebi
 Note – These numbers are based on NSE provisional data.

Insurance companies bought US\$826mm of equities. Mutual funds' complemented with net buying of US\$378mm

Figure 20: Breakdown of domestic institutional activity



Source: NSE, Bloomberg, Sebi

First-year premia collected by the life insurance sector declined by 6% oya

While LIC reported a growth of 10% oya, private sector declined by a substantial 25% oya

Table 5: Life insurance premium and estimated investments in equities

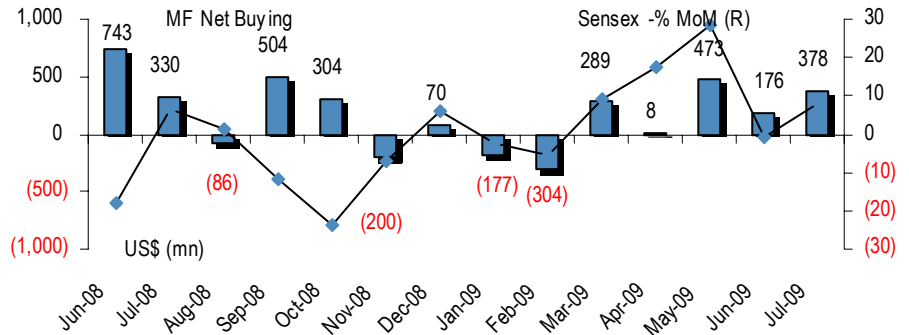
(INR mn)	Jun-09	May-09	Apr-09	Mar-09	Feb-09	Jan-09
LIC	36,738	32,418	21,131	90,707	40,250	104,011
Private Sector Cos	21,285	18,107	14,885	60,202	26,550	26,426
Industry	58,023	50,525	36,016	150,909	66,799	130,437
(YoY growth)	-6%	-5%	30%	-28%	-24%	37%
Renewal premium (E)	63,825	55,577	39,617	166,000	73,479	143,481
Total Amt	121,848	106,102	75,633	316,909	140,279	273,918
@ 25% amt. of first year premium into equities	14,506	12,631	9,004	37,727	16,700	32,609

Source: Irda, J.P. Morgan calculations

Local mutual funds bought equities aggregating US\$378mm over the month

YTD, domestic mutual funds have bought US\$842 mm in Indian equities

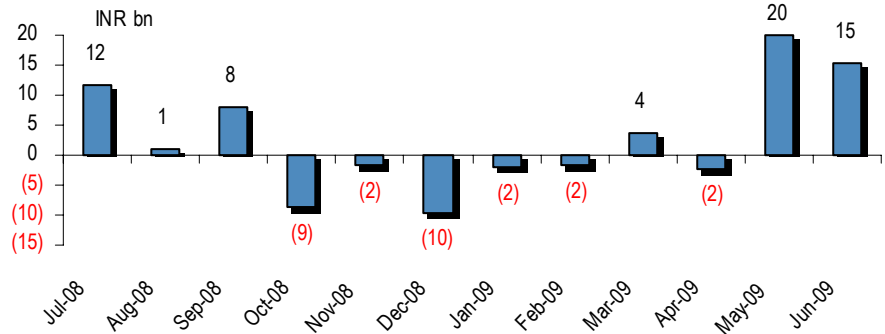
Figure 21: Domestic mutual fund investments and Sensex



Source: Sebi, Datastream.

Inflows into equity MF schemes have increased substantially over the last few months on the back of improved investor sentiment

Figure 22: Mutual Funds - Equity funds* net subscription

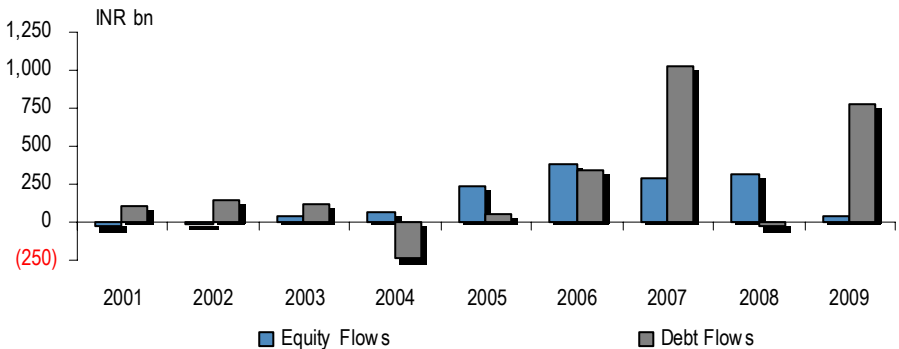


Source: AMFI.

* - Chart for growth fund only.

Subscriptions into debt mutual funds picked up substantially as liquidity remains abundant. Note that liquid-plus (short-term) funds are now classified as bond funds and not liquid funds

Figure 23: Mutual funds – Equity and debt subscription



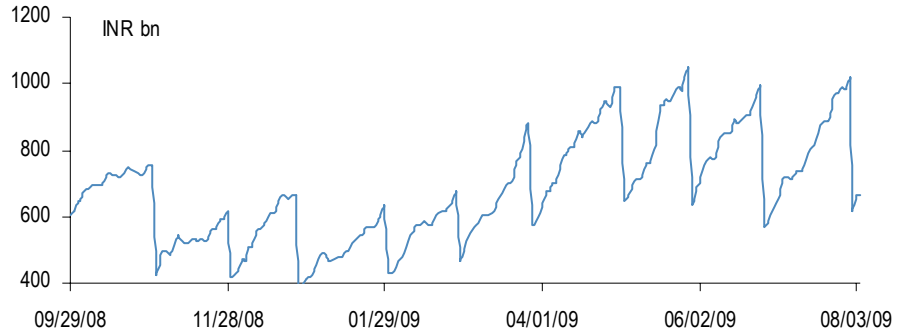
Source: AMFI.

Note – 2009 data is only till Jan-Apr

Equity Derivatives trends

Aggregate F&O open interest increased marginally over the month

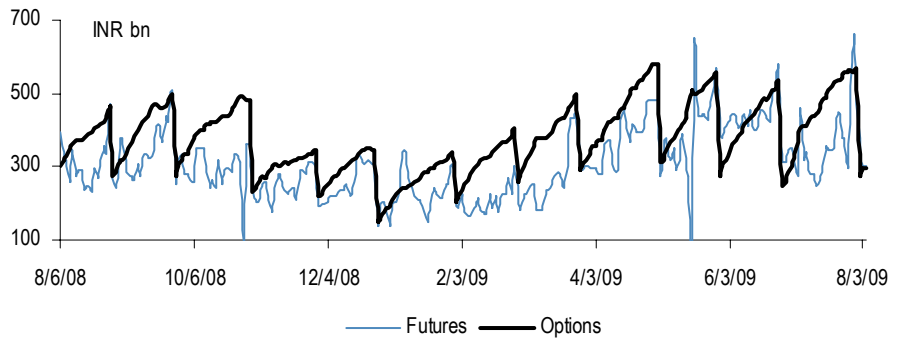
Figure 24: Aggregate F&O open Interest



Source: Bloomberg.

Open interest in options increased marginally over the month too

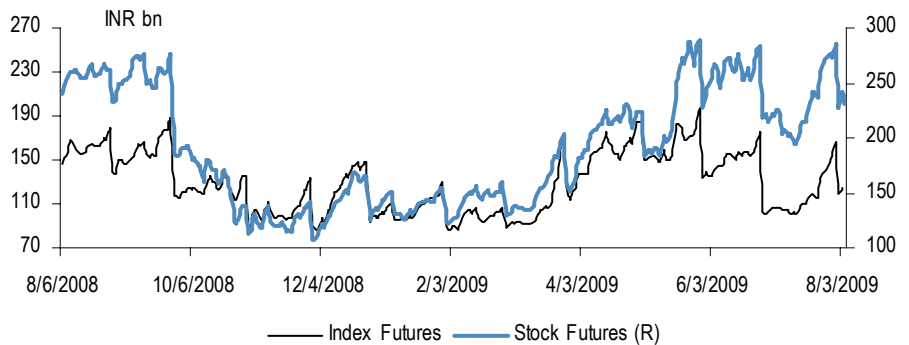
Figure 26: Futures and Options – Open interest



Source: Bloomberg.

Open interest declined marginally in index futures, but remained unchanged for stock futures

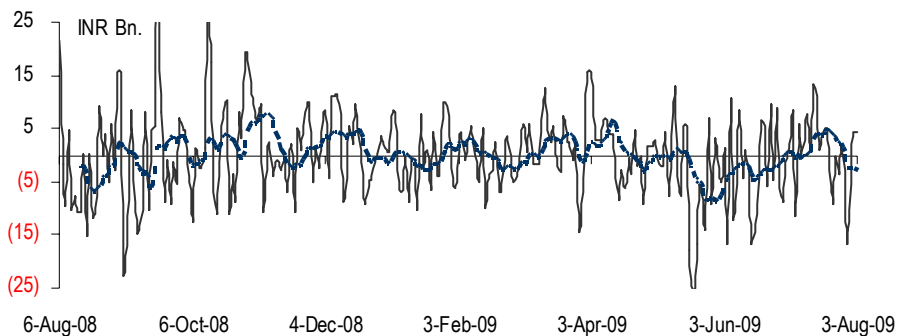
Figure 25: Open interest – Index and stocks futures



Source: Bloomberg.

FII's turned net sellers in the futures market towards the end of the month

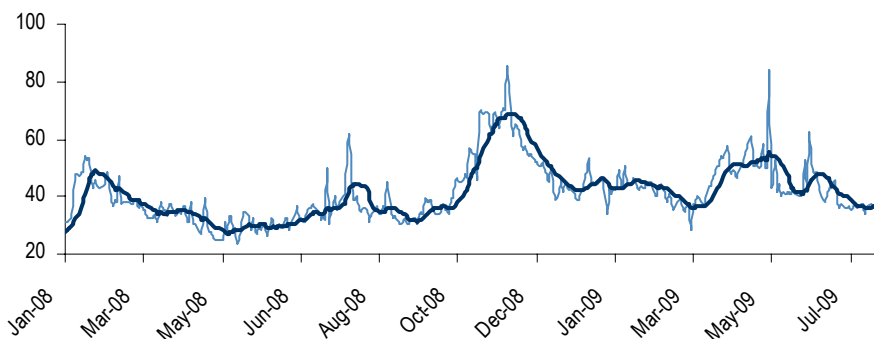
Figure 27: FIIs in the futures markets– Net buy/sell



Source: Bloomberg.

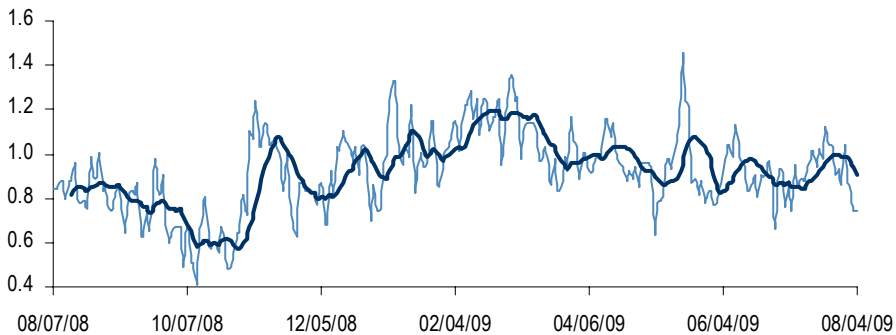
Implied volatility further declined over the month

Figure 28: Nifty Index option - Implied volatility (%)



Source: Bloomberg.

Figure 29: Nifty Index option – Put/call ratio



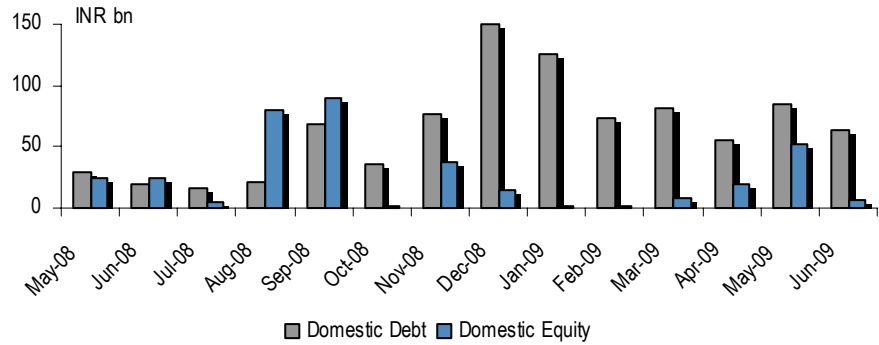
Source: Bloomberg.

Corporate activity

Equity issuances have been picking up over the last quarter, due to improved investor sentiment

Debt issuances also has picked up from April lows

Figure 25: Capital raised from primary markets - Domestic

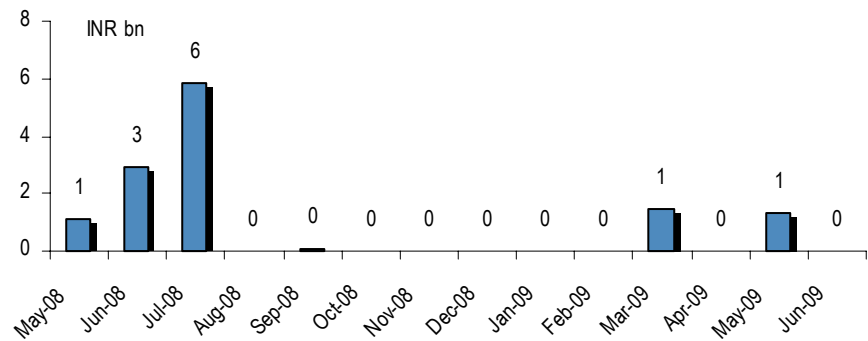


Source: CMIE.

Fund-raising, through international instruments, remains insignificant

Anecdotal evidence suggests that overseas fund raising has picked up substantially in July

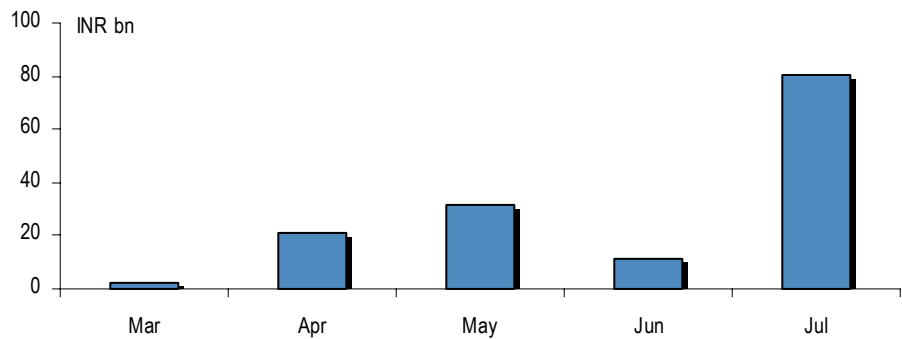
Figure 26: Capital raised from primary markets -Overseas



Source: CMIE.

Capital raising through QIP (Qualified institutional Placement) remains firm

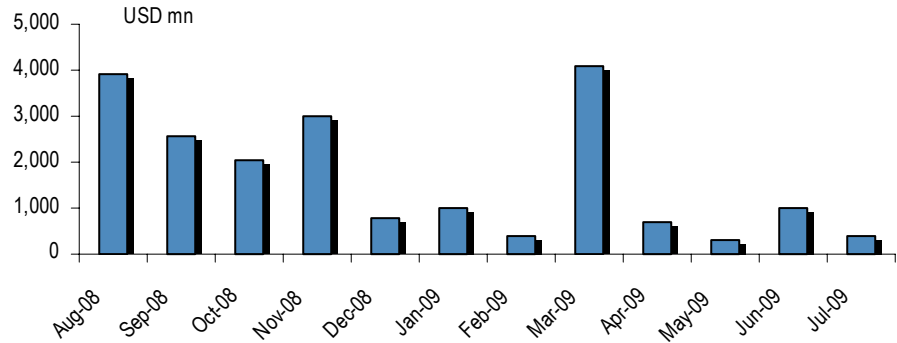
Figure 27: Capital raised through QIPs



Source: CMIE.

M&A announcements remained weak over the month of July

Figure 28: Mergers & acquisitions announced

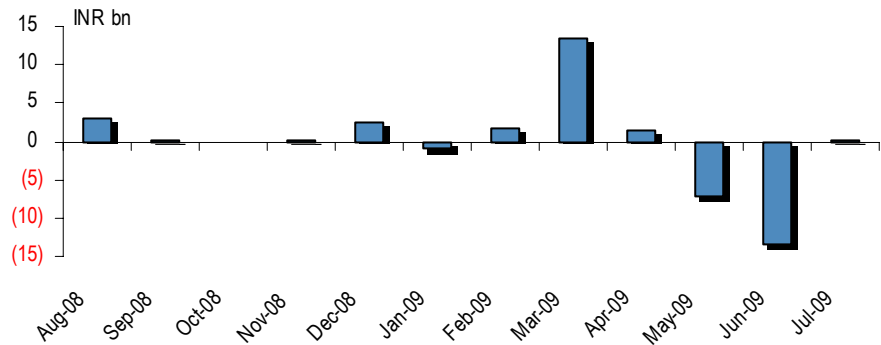


Source: Bloomberg.

Insider activity

Insiders were marginal net buyers over the month

Figure 29: Net insider transaction value – MSCI India companies



Source: MSCI, Bloomberg, J.P. Morgan.

Table 6: Insider net buy / sell – May

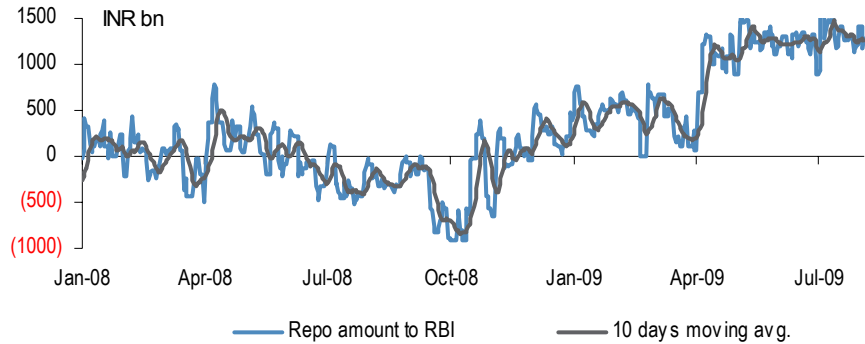
Buy	Sell
KOTAK MAHINDRA BANK	INFR.DEV.FINANCE CO.
JINDAL STEEL & POWER	ITC
HDFC BANK	AXIS BANK
NTPC	AMBUJA CEMENTS
	DR REDDYS LABORATORIES

Source: Bloomberg, J.P. Morgan

Rates markets

Indian banking system remains flush with liquidity

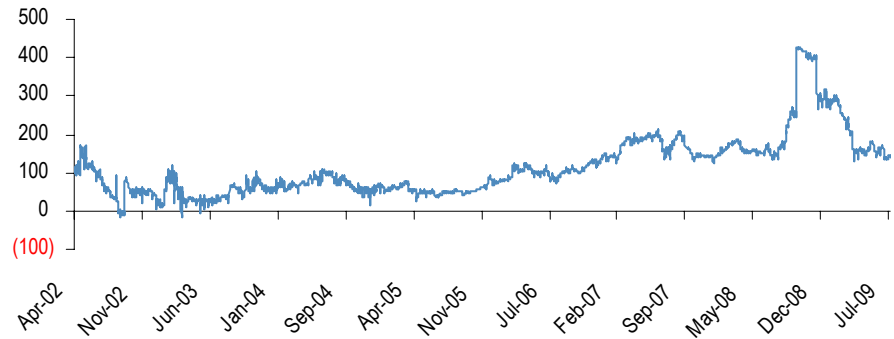
Figure 30: Liquidity in the Indian banking system



Source: Bloomberg

The spread between 5 year corporate and government bonds continues to ease from peak levels, indicating an improvement in the banking systems risk appetite

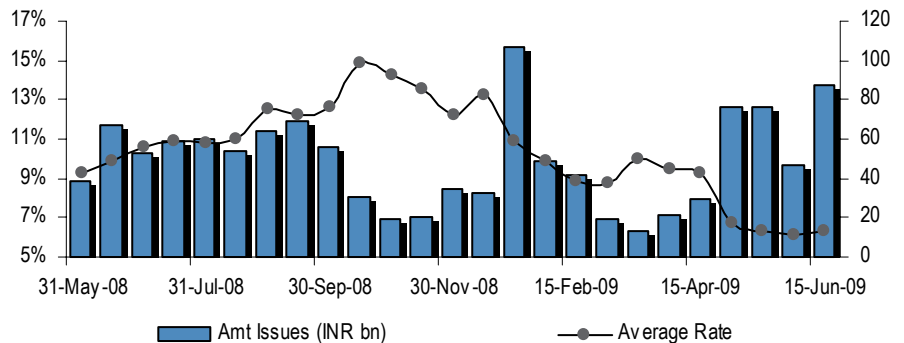
Figure 31: 5 year AAA Corporate bond spread (vs. Government bonds)



Source: Bloomberg, J.P. Morgan Calculations

Corporate fund raising further picked up during the month

Figure 32: Commercial paper issuance and primary market rates



Source: RBI

J.P. Morgan expects RBI to keep key policy rates unchanged until 1HCY10. Monetary tightening is expected to begin from 3Q10 with a 25bps in increase in benchmark rates

Our economics team expects the Zero interest rate scenario in the US to continue over 2009

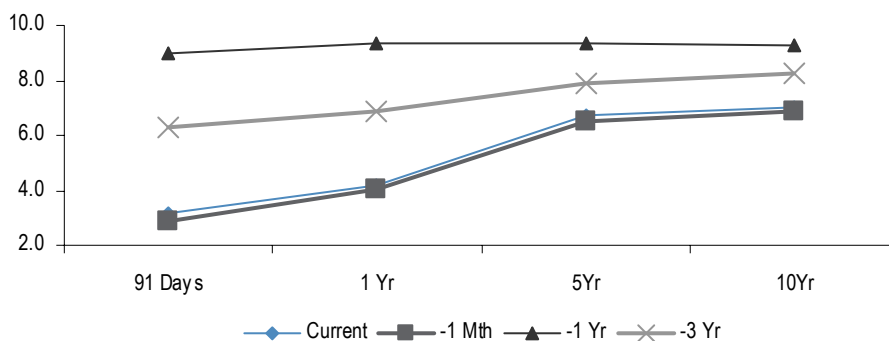
Table 7: Global interest rate trend

(%)	Dec-07	Dec 08	Current	Dec 09 (E)	Dec 10 (E)
US	4.25	0.125	0.125	0.125	0.125
Japan	0.50	0.10	0.10	0.10	0.10
Euro	4.00	2.50	1.00	1.00	1.00
India	7.75	6.50	4.75	4.75	5.25

Source: J.P. Morgan Economics.

The yield curve shifted north marginally over the month

Figure 33: Indian yield curve

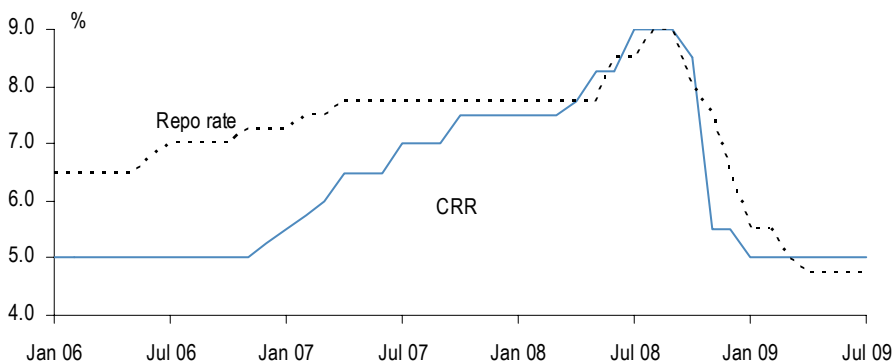


Source: Datastream.

In the quarterly credit policy, the RBI left the key rates (Repo, Reverse Repo, CRR) unchanged

Since Oct-08, RBI has cut repo rate and CRR by a substantial 425 bps and 400 bps respectively to initially overcome tight liquidity conditions and subsequently to boost growth

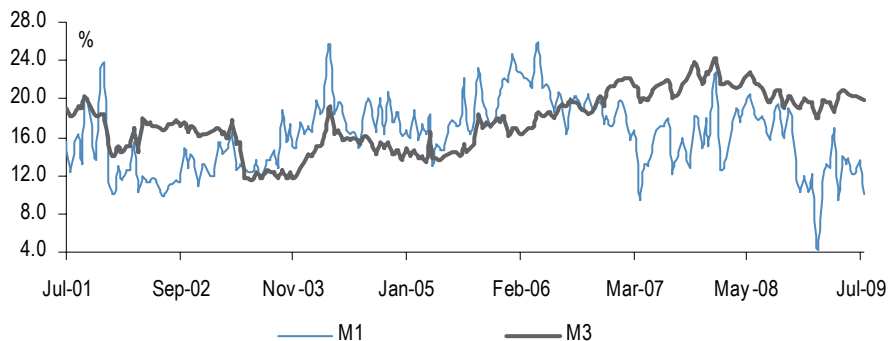
Figure 34: Cash reserve ratio and Repo rate



Source: J.P. Morgan Economics.

**Broad money supply (M3)
 growth remains robust at 19.8%**

Figure 35: Money supply growth – M3 and M1 (% YoY)



Source: Bloomberg

Currency markets

**INR ended the month flat at
 Rs47.7/US\$**

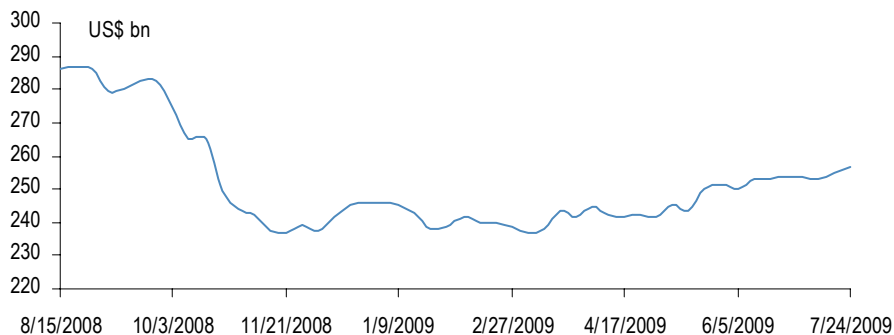
Figure 36: Exchange rate – INR / US\$



Source: Bloomberg

**Foreign currency reserves
 increased by US\$3bn over the
 month**

Figure 37: Indian foreign currency reserves



Source: Bloomberg.

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