

Capitulation - Time to Wake up!

Global Markets are facing the write offs and as consequently rest of the markets of the world are in a sell-off mode.

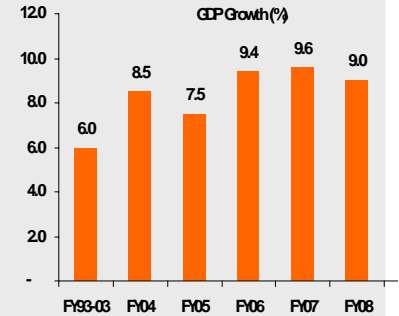
We have always believed that India is relatively strong due to its internal consumption led demand boom. However, now it is on a potential threat of losing this advantage as global sell-off is impacting its asset valuations.

1. Market capitalization to GDP now stands reduced to 0.81 v/s 1.33 at the time of budget.
2. Loss in market wealth is affecting the collateral strength enjoyed by banks, which is weakening their positions and could invite de-rating from rating agencies hereafter.
3. Since 15th September, out of the top 5 biggest falling stocks in Nifty, one may find that their delivery volume is just 32%, which means that bear traders are shorting and pocketing cash at the end of the day, playing on fear psychosis and using the situation to their advantage. (See Exhibit 1)
4. Unfortunately, the 'out of proportion' fall is resulting in consequential fall by even the die-hard investors including long-only funds and MFs.
5. Since 15th September 2008, we find that FIIs have net sold Rs 7,345 crore (Gross Purchases Rs 52,744 crore, Gross sales Rs 60,089 crore) and DFIs have net bought Rs 1,487 crore (Gross Purchases Rs 10,339 crore, Gross sales Rs 8,852 crore) in cash markets. Against this, we find that the stocks which have lost market cap of 10% and above are 32 from Nifty, 72 from BSE 100 and 234 from BSE mid cap. (See Exhibit 2)
6. Another problem is the cash settled F&O market, which has attracted an average volume of Rs 9,951 crore in Nifty 50 stocks in last 5 trading days. In comparison, cash Market volume is Rs 6,435 crore. During this period the Nifty has lost market cap of Rs 2,85,000 crore, which is ~14%. The oversold F&O market can be read from the Nifty OI outstanding and PCR fall from 0.94 at the beginning of 15th September to 0.80 now. If one further analysis the intraday figures one finds that cash settled MTM is fully exploited for intraday shorting and short covering on a daily basis by bear traders. (See Exhibit 3)

In a bearish market, it tarnishes the market cap which has larger consequences as discussed earlier. The situation demands that F&O market should be restricted from building further positions for now and it must have feature of delivery settlement as against cash settled as of now.

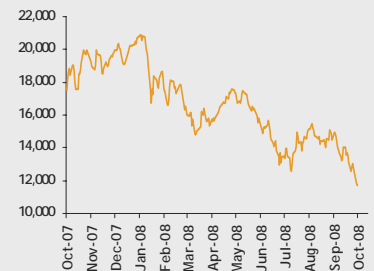
October 8, 2008

GDP growth trend



Source: Bloomberg, KRC research

Bse Sensex



Share Holding pattern BSE Sensex (%)

Particulars	30/6	31/3	Chg
Promoter	42.4	42.5	-0.1
Foreign Holdings	27.4	28.3	-0.9
Institutions	15.0	14.6	0.4
Public	15.2	14.6	0.6
Total	100.0	100.0	-

Source: Bloomberg, KRC research

www.krchoksey.com

It is not out of place to add that in last 4 years whenever the markets have crashed it's this cash settlement which has aggravated the fall. Indian markets are the only markets of world in F&O who settles trades on cash basis while attracting volatility of same measure as of other markets of the world. Which means that the contention of higher volatility under delivery settled market is unfounded from the experience of globe.

7. Rupee has depreciated to 48.72 against the dollar, which is also due to weakening of our capital markets. Unfortunately, weak Rupee has negated the advantage of fall in crude price of the country.

Our View

While we cannot stop any one from selling his holding, we can always stop traders from shorting in the F&O markets. If we as market participants and regulators find that this argument holds merit, it should be implemented without it damages our markets further.

We strongly believe that insurance companies and MF investors will feel much more comfortable to invest at current juncture if they are given protection from the bear hammering in F&O markets. Even if those sceptics who propagate free markets all the time, they will know that others in the world have also protected their wealth with curb measures when they banned short selling! We believe that it will serve the purpose if we restrict further position building in F&O markets for now.

After all, there is nothing wrong in trying for a limited period for results. Who doesn't try, even the fellow drowning in mid sea would take support of even a straw for life saving hope.

Exhibit 1 : Deliverable Volume Analysis Top 10 Nifty Losers since 15th September 2008

Symbol	1 Month Daily Average Volume (Rs. In Crs.)	Average Daily Volume since 15th Sep 08 (Rs. In Crs.)	% Change in Avg. Volume	% Change in Stock Price Since 15th Sep. 08	Deliverable Volume 1 month before 15 th Sept	Deliverable Volume from 15th sep	% Change	Weight in Nifty
RANBAXY	292	179	-39%	-44%	37%	32%	-13%	0.43%
SUZLON	215	291	35%	-43%	36%	39%	10%	0.84%
UNITECH	141	167	19%	-38%	22%	24%	10%	0.70%
STER	160	185	16%	-36%	40%	42%	5%	1.00%
DLF	390	430	10%	-35%	22%	25%	13%	2.33%
TATASTEEL	460	384	-17%	-32%	30%	32%	7%	1.18%
SATYAMCOMP	119	176	48%	-32%	49%	53%	8%	0.85%
SIEMENS	33	40	19%	-31%	45%	44%	-2%	0.54%
RELINFRA	329	336	2%	-30%	15%	22%	46%	0.69%
TCS	94	117	24%	-29%	44%	54%	24%	2.54%
NIFTY	13,968	17,743	27%	-11%				

Source : Capitaline, KRC Research

Exhibit 2 : Institutional Participation since 15th September 2008
Mutual Funds in Cash Market

Trading Date	Gross Purchases	Gross Sales	Net Investment
06-Oct-2008	528	759	(231)
03-Oct-2008	331	673	(343)
01-Oct-2008	632	484	148
30-Sep-2008	894	492	402
29-Sep-2008	636	671	(35)
26-Sep-2008	477	544	(67)
25-Sep-2008	1,067	688	379
24-Sep-2008	654	639	16
23-Sep-2008	320	547	(226)
22-Sep-2008	477	809	(332)
19-Sep-2008	1,071	911	161
18-Sep-2008	1,489	549	939
17-Sep-2008	799	365	434
16-Sep-2008	964	722	242
Total	10,339.5	8,852.2	1,487

Source : SEBI, KRC Research

FII's in Cash Market

					Rs Crore	
Trading Date	Gross Purchase	Gross Sale	Net	Net (US \$ In Mn)		
Total in October till 7 th October, 2008	6,750	9,202	(2,452)	(608)		
06-Oct-2008	1,995	3,117	(1,121)	(278)		
03-Oct-2008	2,785	3,831	(1,046)	(259)		
01-Oct-2008	1,970	2,254	(284)	(71)		
30-Sep-2008	4,203	4,119	85	21		
29-Sep-2008	3,395	3,008	387	96		
26-Sep-2008	2,712	3,316	(604)	(150)		
25-Sep-2008	4,215	4,918	(704)	(175)		
24-Sep-2008	3,506	3,680	(174)	(43)		
23-Sep-2008	1,896	2,764	(868)	(215)		
22-Sep-2008	3,245	3,134	111	28		
19-Sep-2008	6,826	5,658	1,168	290		
18-Sep-2008	7,147	7,745	(599)	(148)		
17-Sep-2008	3,762	5,096	(1,334)	(331)		
16-Sep-2008	3,092	4,333	(1,241)	(308)		
Total	52,744	60,089	(7,345)	(1,821)		

Source: SEBI, KRC Research

FII's in Derivative Market

					Rs Crore	
Trading Date	Details	Open Interest	Gross Buy	Gross Sell	Net	
07-Oct-2008	Index Futures and Options	28,977	3,187	3,083	105	
	Stock Options and Options	14,661	854	937	(83)	
	Total	43,639	4,041	4,020	22	
06-Oct-2008	Index Futures and Options	28,262	2,024	2,980	(956)	
	Stock Options and Options	14,422	468	720	(252)	
	Total	42,684	2,492	3,700	(1,209)	
03-Oct-2008	Index Futures and Options	29,031	1,779	1,809	(29)	
	Stock Options and Options	15,267	662	722	(60)	
	Total	44,299	2,441	2,531	(89)	
01-Oct-2008	Index Futures and Options	28,608	1,512	1,399	113	
	Stock Options and Options	15,604	567	246	321	
	Total	44,213	2,078	1,645	433	
30-Sep-2008	Index Futures and Options	28,054	2,507	1,964	544	
	Stock Options and Options	15,399	877	629	248	
	Total	43,453	3,384	2,592	792	

Trading Date	Details	Open Interest	Gross Buy	Gross Sell	Net
29-Sep-2008	Index Futures and Options	27,123	2,973	3,220	(247)
	Stock Options and Options	15,098	765	818	(53)
	Total	42,221	3,739	4,038	(300)
26-Sep-2008	Index Futures and Options	25,000	1,455	1,394	61
	Stock Options and Options	15,408	700	588	112
	Total	40,409	2,155	1,982	173
25-Sep-2008	Index Futures and Options	25,304	4,202	5,306	(1,105)
	Stock Options and Options	15,488	4,833	4,149	684
	Total	40,793	9,035	9,455	(420)
24-Sep-2008	Index Futures and Options	40,853	3,917	4,061	(144)
	Stock Options and Options	23,783	3,784	3,750	35
	Total	64,636	7,701	7,811	(110)
23-Sep-2008	Index Futures and Options	40,382	5,421	5,587	(166)
	Stock Options and Options	23,362	3,857	3,966	(109)
	Total	63,745	9,278	9,553	(275)
22-Sep-2008	Index Futures and Options	40,002	4,959	4,779	180
	Stock Options and Options	23,749	3,222	2,890	332
	Total	63,751	8,181	7,669	512
19-Sep-2008	Index Futures and Options	39,768	6,991	3,841	3,150
	Stock Options and Options	23,748	2,663	1,832	830
	Total	63,516	9,654	5,673	3,981
18-Sep-2008	Index Futures and Options	36,434	4,843	3,870	973
	Stock Options and Options	21,486	1,338	1,316	22
	Total	57,920	6,182	5,186	996
17-Sep-2008	Index Futures and Options	35,297	2,445	2,250	195
	Stock Options and Options	21,313	891	704	188
	Total	56,610	3,336	2,953	383
16-Sep-2008	Index Futures and Options	35,333	2,205	3,221	(1,016)
	Stock Options and Options	21,822	1,075	1,112	(38)
	Total	57,155	3,280	4,333	(1,053)
	Net	769,040	76,976	73,141	3,835

Source: SEBI, KRC Research

Exhibit 3 : Open Interest, Volume Analysis

Company Name	CMP (Rs)	Total Mkt. Cap (Rs Cr)	Free Float (Rs Cr)	Open Interest Rs in cr	OI as a % of Free Float Mkt Cap	Avg derivative daily Volume* (Rs Cr)	Avg. Vol as a % of Free Float Mkt Cap	Avg Cash Volume** (Rs Cr)	Avg Cash Vol as % of free float
DLF	309	52,654	6,234	385	6.2%	349.1	5.6%	212.5	3.4%
Reliance Petro	122	55,080	13,561	705	5.2%	532.8	3.9%	114.4	0.8%
Ranbaxy Labs.	279	10,419	6,792	320	4.7%	112.6	1.7%	125.4	1.8%
NTPC	176	144,914	15,216	680	4.5%	450.4	3.0%	106.4	0.7%
Reliance Power	138	33,004	5,023	201	4.0%	132.6	2.6%	84.9	1.7%
S A I L	117	48,160	6,829	262	3.8%	221.2	3.2%	127.4	1.9%
Hindalco Inds.	91	11,142	7,641	289	3.8%	84.1	1.1%	29.4	0.4%
Reliance Infracore	639	14,812	9,382	350	3.7%	195.1	2.1%	210.4	2.2%
Unitech	94	15,333	3,901	143	3.7%	140.5	3.6%	94.2	2.4%
Suzlon Energy	113	16,945	5,780	191	3.3%	184.8	3.2%	147.8	2.6%
Pun. Natl. Bank	490	15,442	6,516	206	3.2%	94.1	1.4%	36.6	0.6%
Power Grid Corp.	90	37,985	5,181	157	3.0%	71.0	1.4%	28.3	0.5%
Sterlite Inds.	293	20,773	7,796	217	2.8%	108.2	1.4%	68.3	0.9%
Tata Steel	338	24,716	16,327	444	2.7%	295.8	1.8%	111.7	0.7%
Natl. Aluminium	378	24,371	3,132	78	2.5%	50.6	1.6%	11.9	0.4%
Reliance Communi	299	61,787	20,933	523	2.5%	261.1	1.2%	122.2	0.6%
Tata Motors	300	11,567	7,703	169	2.2%	41.1	0.5%	28.6	0.4%
St Bk of India	1,318	83,696	33,972	677	2.0%	1035.5	3.0%	297.6	0.9%
Maruti Suzuki	688	19,873	9,100	179	2.0%	91.0	1.0%	39.7	0.4%
B H E L	1,469	71,898	23,209	413	1.8%	288.4	1.2%	327.6	1.4%
Larsen & Toubro	967	28,261	28,261	475	1.7%	553.6	2.0%	228.7	0.8%
Tata Comm	463	13,196	3,135	52	1.6%	24.5	0.8%	28.3	0.9%
Idea Cellular	66	17,327	7,331	114	1.5%	47.2	0.6%	33.7	0.5%
Reliance Inds.	1,649	239,664	132,295	1,988	1.5%	1612.9	1.2%	1005.4	0.8%
ACC	572	10,731	6,120	84	1.4%	36.1	0.6%	18.4	0.3%
O N G C	964	206,080	53,292	704	1.3%	296.0	0.6%	141.8	0.3%
Cairn India	172	32,489	11,449	148	1.3%	104.9	0.9%	51.0	0.4%
Tata Power Co.	808	17,849	11,889	153	1.3%	66.0	0.6%	67.4	0.6%
TCS	547	53,491	12,645	162	1.3%	103.0	0.8%	77.6	0.6%
ICICI Bank	454	50,507	50,507	647	1.3%	526.5	1.0%	746.0	1.5%
Wipro	283	41,338	8,507	109	1.3%	74.8	0.9%	33.3	0.4%
Bharti Airtel	733	139,191	46,629	533	1.1%	281.9	0.6%	355.7	0.8%
Hind. Unilever	238	51,877	24,849	283	1.1%	176.3	0.7%	137.7	0.6%
B P C L	342	12,368	4,420	48	1.1%	32.0	0.7%	42.3	1.0%
Satyam Computer	265	17,811	16,274	170	1.0%	122.3	0.8%	156.1	1.0%
Grasim Inds.	1,573	14,419	10,787	107	1.0%	23.4	0.2%	12.2	0.1%
Siemens	328	11,052	4,954	47	0.9%	26.9	0.5%	26.2	0.5%
Hero Honda Motor	873	17,423	7,847	72	0.9%	36.7	0.5%	39.2	0.5%

Company Name	CMP (Rs)	Total Mkt. Cap (Rs Cr)	Free Float (Rs Cr)	Open Interest Rs in cr	OI as a % of Free Float Mkt Cap	Avg derivative daily Volume* (Rs Cr)	Avg. Vol as a % of Free Float Mkt Cap	Avg Cash Volume** (Rs Cr)	Avg Cash Vol as % of free float
Zee Entertainment	176	7,647	4,474	41	0.9%	17.7	0.4%	20.8	0.5%
A B B	692	14,663	7,022	63	0.9%	34.8	0.5%	27.7	0.4%
HCL Technologies	188	12,507	4,060	35	0.9%	17.4	0.4%	14.5	0.4%
GAIL (India)	247	20,883	8,907	70	0.8%	68.9	0.8%	40.8	0.5%
Infosys Tech.	1,254	71,786	59,934	442	0.7%	285.3	0.5%	284.0	0.5%
Sun Pharma.	1,370	28,373	10,294	73	0.7%	72.9	0.7%	26.0	0.3%
Ambuja Cem.	73	11,061	5,921	41	0.7%	20.9	0.4%	11.2	0.2%
Cipla	207	16,086	9,751	64	0.7%	37.8	0.4%	20.4	0.2%
H D F C	1,888	53,669	53,669	295	0.6%	173.6	0.3%	304.3	0.6%
M & M	485	11,917	9,218	43	0.5%	29.7	0.3%	20.0	0.2%
HDFC Bank	1,106	46,965	37,844	168	0.4%	338.4	0.9%	172.8	0.5%
ITC	166	62,484	62,484	252	0.4%	213.2	0.3%	136.6	0.2%
Total		2,107,688	928,999	14,075	1.5%	10195.4	1.1%	6605.5	0.71%

Source: Bloomberg, KRC Research

* Average derivative daily volume of last 6 trading days (Except today)

** Weekly Average Cash volume (Except today)

Rajiv Choksey	Institutional Sales	rajiv.choksey@krchoksey.com	+91-22-6653 5135
Anuj Choksey	Institutional Sales	anuj.choksey@krchoksey.com	+91-22-6696 5500
Poran Das	Institutional Sales	poran.das@krchoksey.com	+91-22-6696 5548
Alok Agarwal	Institutional Research	alok.agarwal@krchoksey.com	+91-22-6696 5502

Disclaimer:

This publication has been prepared solely for information purpose and does not constitute a solicitation to any person to buy or sell a security. While the information contained therein has been obtained from sources believed to be reliable, investors are advised to satisfy themselves before making any investments. Kisan Ratilal Choksey Shares & Sec Pvt Ltd., does not bear any responsibility for the authentication of the information contained in the reports and consequently, is not liable for any decisions taken based on the same. Further, KRC Research Reports only provide information updates and analysis. All opinion for buying and selling are available to investors when they are registered clients of KRC Investment Advisory Services. As per SEBI requirements it is stated that, Kisan Ratilal Choksey Shares & Sec Pvt Ltd., and/or individuals thereof may have positions in securities referred herein and may make purchases or sale thereof while this report is in circulation.

Please send your feedback to krc.research@krchoksey.com

Visit us at www.krchoksey.com

Kisan Ratilal Choksey Shares and Securities Pvt. Ltd.**Registered Office:**

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai - 400 001.
Phone: 91-22-6633 5000; Fax: 91-22-6633 8060.

Branch Office:

ABHISHEK, 5th Floor, Link Road, Dalia Industrial Estate, Andheri (W), Mumbai - 400 058.
Phone: 91-22-6696 5555; Fax: 91-22-6691 9576.