

India Market Strategy -----Maintain OVERWEIGHT

December 2008 ownership update: Financials' holding at ever more worrying levels

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- The latest listed companies' ownership data shows that FIIs' holding has gone down further to 17.6%, a decline of 100 bp from the previous quarter. Effectively, their holding of equities reduced by over 3 p.p. in 2008 – with net outflows amounting to US\$14 bn. Domestic institutions' ownership rose by 50 bp during the period.
- Institutional investors continue to hold more than a quarter of their portfolio in banks. All different types of institutions have the sector as their largest overweight versus respective benchmarks. We feel that the sector is extremely vulnerable to a large-scale sell-off if asset quality concerns rise.
- Relative reduction in industrials continues particularly for domestic MFs. The relative beneficiaries are defensives such as staples, healthcare and IT services.
- In the energy sector, Reliance's conversion of warrants raised the sectors' weightings in benchmarks, creating an impression of a relative sell-off. The sector's un-investible weights, on account of Reliance Industries' size, continues to trouble benchmark-oriented investors on tracking errors, although its latest in line with market performance has mitigated the effect somewhat.

Figure 1: Portfolio allocation across sectors for different categories of investors

MSCI sectors	MSCI wt	Nifty wt	Instt.	FIIs	Dom	Insurance	MFs
Discretionary	3.4	2.4	4.0	3.5	4.7	5.4	4.7
Staples	8.3	6.5	9.1	5.9	13.9	17.0	15.2
Energy	22.0	23.0	13.9	14.4	13.2	17.5	10.9
Financials	22.5	16.4	26.7	30.0	21.8	19.0	21.1
- PSU banks	1.3	5.4	6.9	5.7	8.6	8.8	9.4
- Priv. banks	12.8	5.0	11.8	15.2	6.9	6.9	8.6
- NBFCs	7.5	3.0	7.4	8.2	6.1	3.3	3.0
- Real estate	0.9	3.0	0.6	0.9	0.1	0.0	0.2
Health care	3.8	2.6	4.6	4.5	4.7	4.0	5.7
Industrials	8.4	9.6	11.4	8.8	15.3	7.5	20.1
IT services	14.9	8.3	9.6	13.0	4.6	2.7	5.3
Materials	7.3	6.4	7.6	6.9	8.7	10.1	7.4
Telecom	2.4	11.6	7.6	8.9	5.7	6.8	5.5
Utilities	7.0	13.1	5.4	4.1	7.3	10.1	4.1

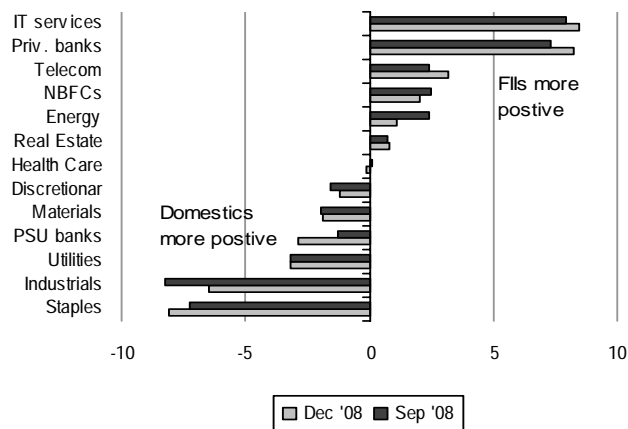
Note: 1> MSCI wt is neutral weights in MSCI India 2> Ownership data is as of Dec'08 quarter-end for all MSCI covered stocks; Source: Credit Suisse estimates.

Figure 2: Ownership of different categories of investors

Investor type	Ownership (%)		Holding value (USD bn)
	Dec-08	Sep-08	
FIIs	17.6	18.6	114
Domestic Instt	11.8	11.4	76
MFs	4.2	4.1	27
Banks	1.3	1.3	9
Insurance	5.8	5.4	37
Other domestic instt.	0.6	0.6	4

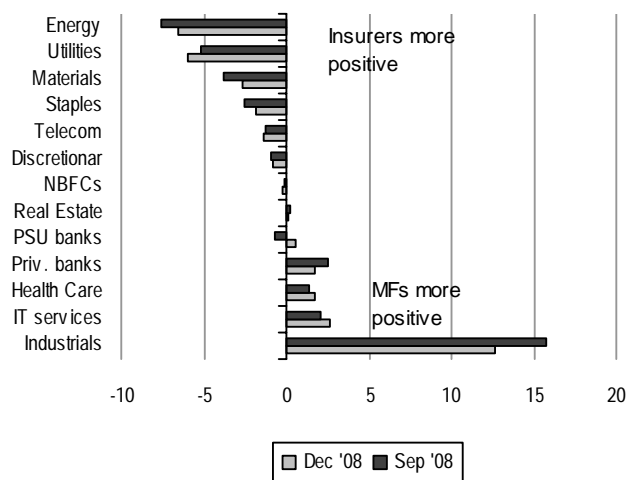
Note: As of Dec '08 end; Assuming total market cap of USD650bn; FII holding includes ADR/GDR holding; Source: CMIE, Credit Suisse estimates.

Figure 3: FIIs vs domestic investors: difference in weights in portfolio



Source: CMIE, Credit Suisse estimates.

Figure 4: MFs vs. insurers: difference in weights in portfolio



Source: CMIE, Credit Suisse estimates.

Figure 5: Extent of OW/UW of investors vs. index benchmarks

Extent of OW/UW (bps)	FIIs vs. MSCI India				Domestics vs. Nifty			
	Mar-08	Jun-08	Sep-08	Dec-08	Mar-08	Jun-08	Sep-08	Dec-08
Discretionary	39	64	35	10	359	309	276	229
Staples	-85	-111	-173	-249	576	658	670	744
Energy	-795	-676	-572	-757	-1,039	-1,182	-1,140	-977
Financials	317	335	403	748	194	298	407	536
Health Care	6	5	22	69	141	167	153	212
Industrials	266	147	109	47	983	910	791	567
IT services	-128	-103	-123	-185	-515	-641	-470	-372
Materials	165	123	62	-43	171	242	220	229
Telecom	332	386	447	646	-609	-575	-546	-591
Utilities	-116	-169	-211	-285	-259	-187	-362	-576

Source: CMIE, Credit Suisse estimates.

Companies Mentioned (Price as of 04 Feb 09)

Reliance Industries (RELI.BO, Rs1307.40, NEUTRAL [V], TP Rs1504.00)

Disclosure Appendix

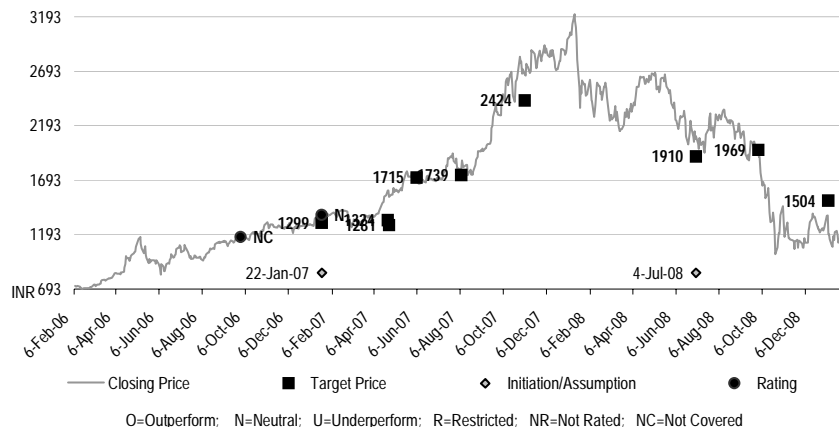
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3-Year Price, Target Price and Rating Change History Chart for RELI.BO

RELI.BO Date	Closing Price (INR)	Target Price (INR)	Rating	Initiation/Assumption
29-Sep-06	1,171.05		NC	
22-Jan-07	1,373.45	1299	N	X
25-Apr-07	1,599.85	1324		
27-Apr-07	1,538.2	1281		
5-Jun-07	1,745.05	1715		
7-Aug-07	1,805.85	1739		
5-Nov-07	2,663.65	2424		
4-Jul-08	2099	1910		X
30-Sep-08	1,946.35	1969		
7-Jan-09	1,196.8	1504		



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Method: Our target price for Reliance Industries is Rs1,504. We value the company using a discounted cash flow (DCF) based sum-of-the-parts valuation. We use a weighted average cost of capital (WACC) of 12.2%. Our DCF-based valuations for the core business - Chemicals and Refining - imply an EV/EBITDA (enterprise value/earnings before interest, tax, depreciation, amortisation) of 4.2x and 5.3x, respectively, for 2010, in line with its global peers. We value the existing known blocks in E&P at US\$19.3bn, and the exploration at US\$7.2 bn for the reserves that have not been discovered.

Risks: There are risks on the downside to our Rs1,504 target price for Reliance Industries if: 1) global growth slows and chemical and refining margins revert back to mid-cycle faster than expected; 2) gas reserves are lower than modelled; 3) gas pricing is lower than modelled, 4) execution of the retail business build-out is short of our expectations on either market growth, or Reliance's market share.

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