

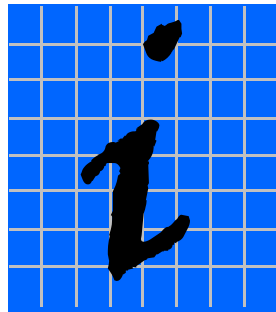
A CASE OF LOCAL CONVENIENCE

GLOBAL INDIAN EQUITY TRADING BY FOREIGN INVESTORS

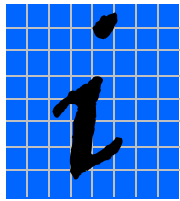
Third Research Meeting of NIPFP-DEA Program on Capital Flows

New Delhi

Oct. 1, 2008



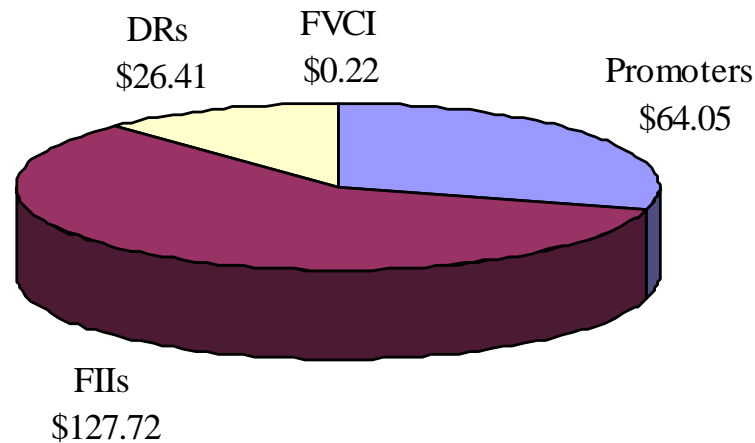
**GAUTAM CHAND
INSTANEX CAPITAL**



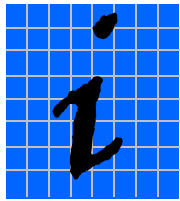
SUBSTANTIAL FOREIGN OWNERSHIP

- ❑ Foreigners own US\$218 billion (23%) of India's listed market capitalization of US\$936 billion

**Foreign Ownership of Indian Equities
(US\$ Billions)**

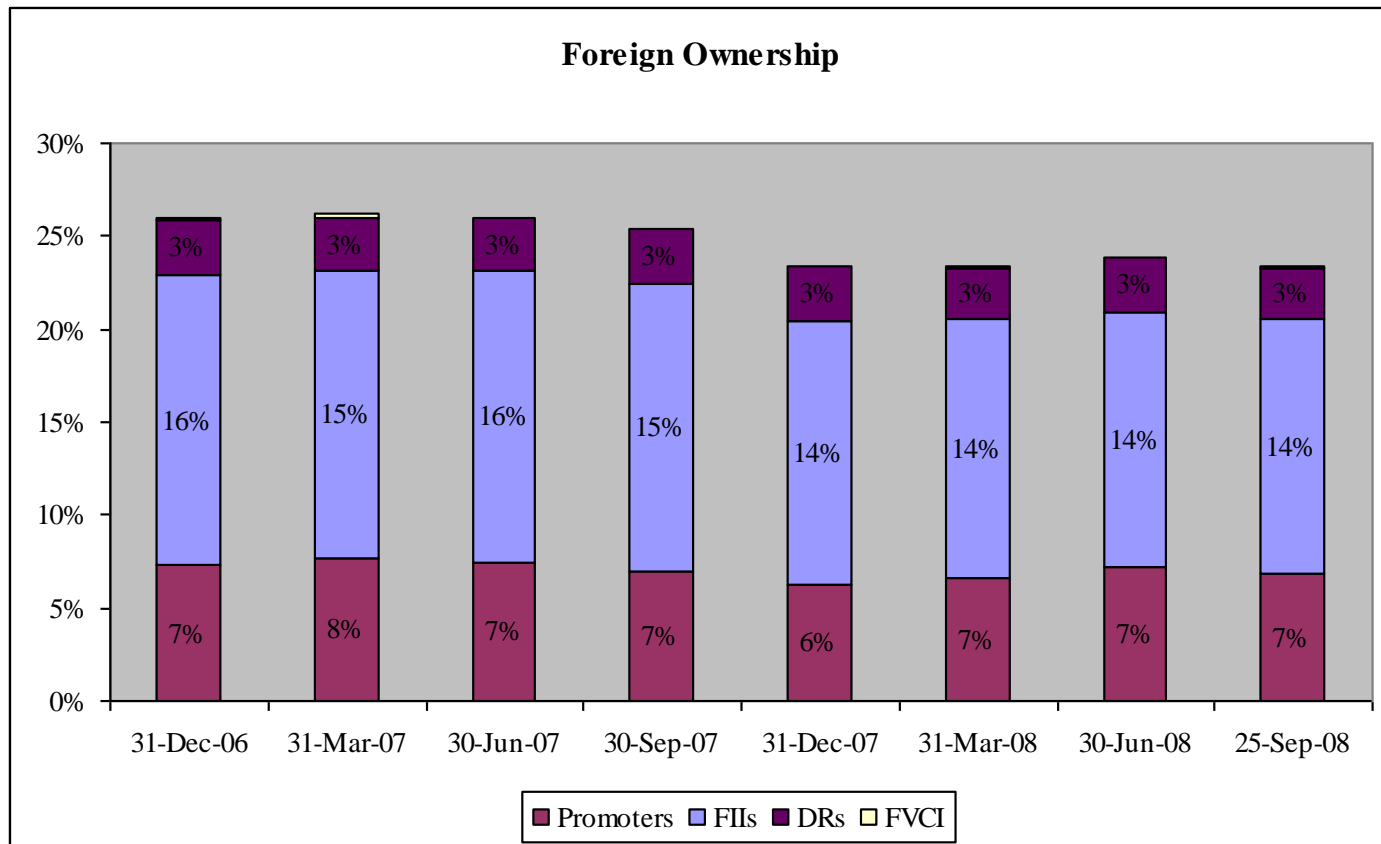


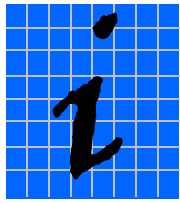
As on Sep. 25, 2008



STEADY FOREIGN OWNERSHIP

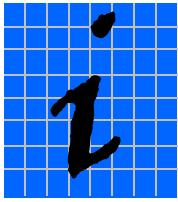
- The foreign-owned percentage of Indian market capitalization has remained steady





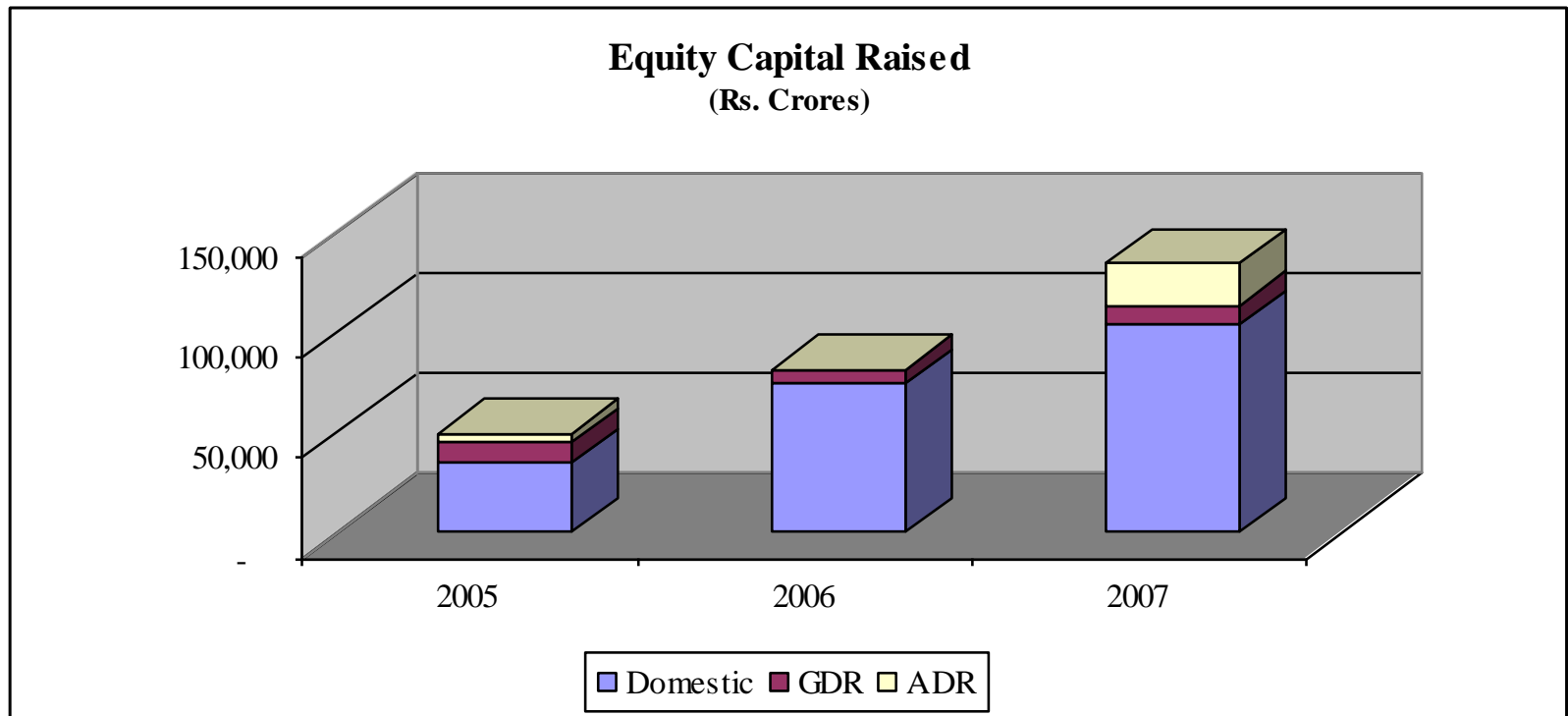
SIGNIFICANT LISTINGS ABROAD

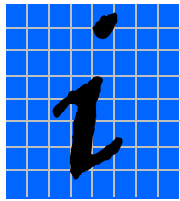
- ❑ Over US\$31 billion of foreign holding is represented by listed equity instruments abroad
 - ❑ US\$4 billion is represented by ETFs
 - ❑ US\$27 billion is represented by 170 depositary receipts
 - ❑ US\$14 billion in 15 ADRs
 - ❑ US\$13 billion in 155 GDRs



INCREASING FOREIGN LISTINGS

- Indian companies are steadily adding to the existing basket of ADRs and GDRs

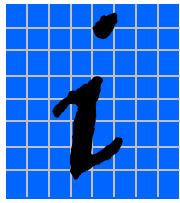




DEPOSITARY RECEIPTS POPULAR

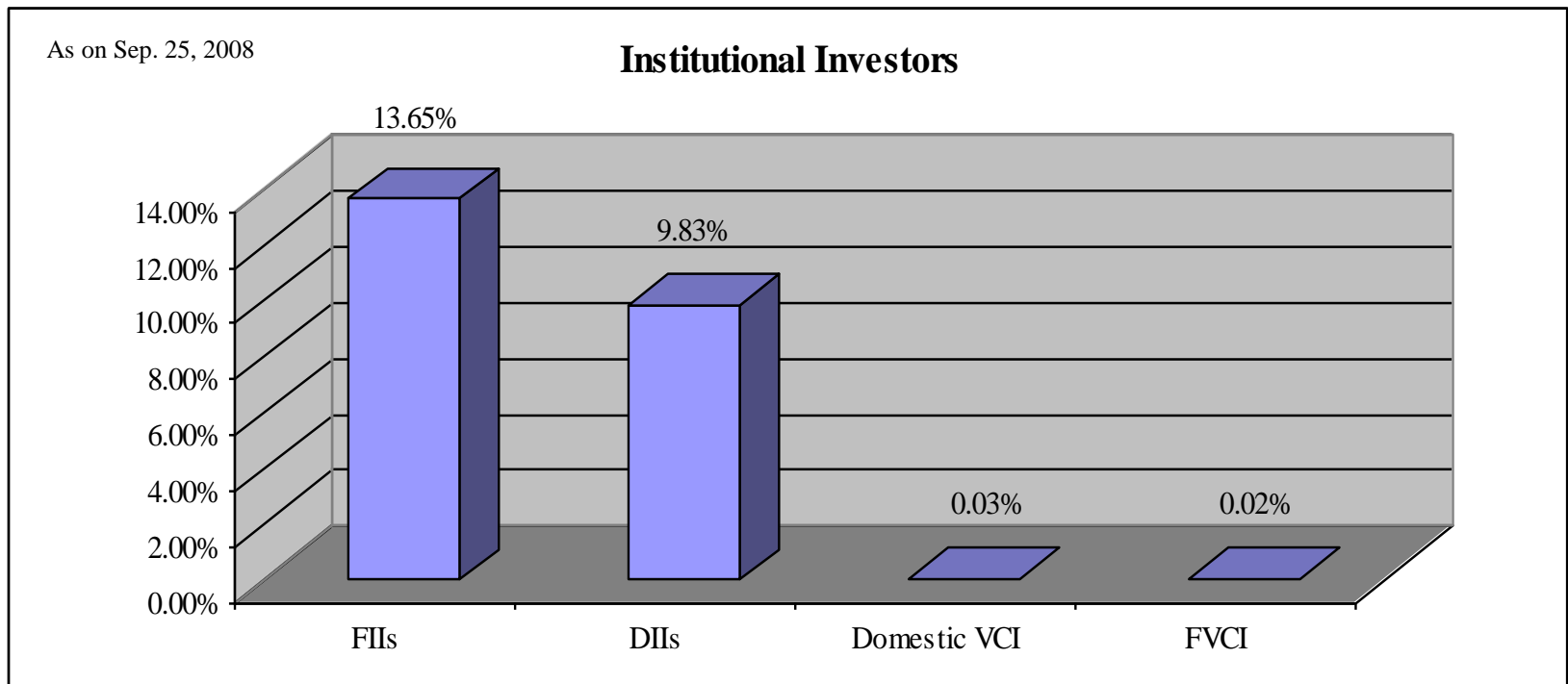
- In 2005-07, an average of 20% of total capital raised by Indian companies was in DRs

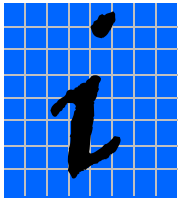
Equity Capital Raised			
	2005	2006	2007
Domestic	70%	91%	77%
GDR	22%	9%	7%
ADR	8%	0%	15%
TOTAL	100%	100%	100%
Source: INSTANEX CAPITAL			



FII's – TOP INSTITUTIONAL OWNERS

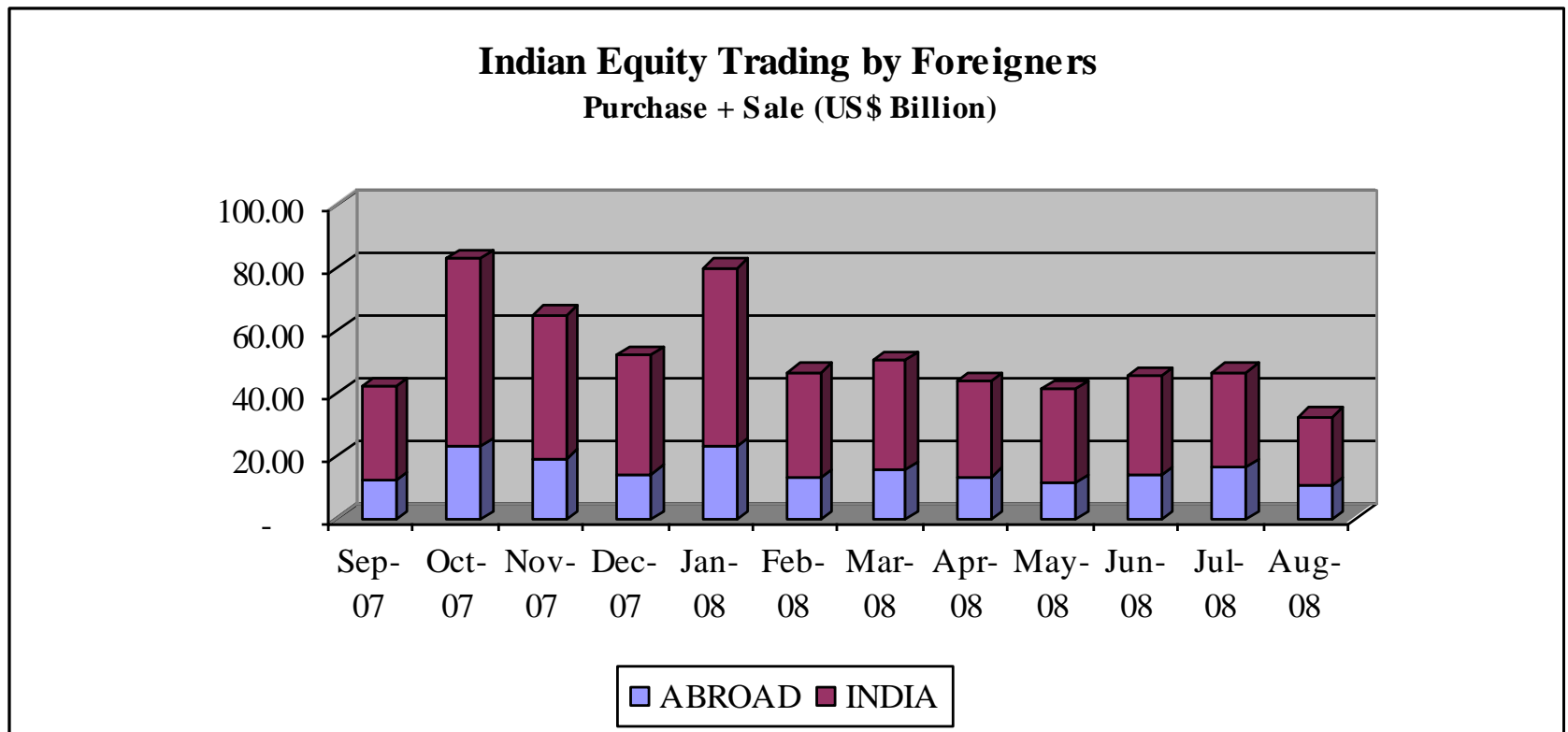
- In India, FIIs are the largest institutional owners, holding US\$128 billion (13.65%) of listed Indian equities

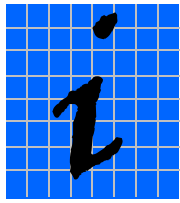




LARGE FLOWS BY FOREIGNERS

- Indian equity trades by foreigners (purchase + sale) average US\$52 billion a month in India, USA and UK





70% TRADED IN INDIA

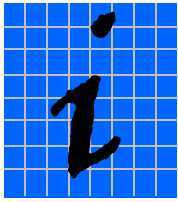
- 70% of foreigner purchase + sale is done on Indian exchanges

GLOBAL INDIAN EQUITY TRADING BY FOREIGNERS

	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Avg
ABROAD	12.51	23.05	19.19	14.36	22.80	13.20	15.50	13.48	11.63	14.00	16.64	10.81	15.60
INDIA	29.49	59.94	45.66	37.95	57.05	33.37	34.87	30.37	29.59	31.26	30.04	21.92	36.79
TOTAL	42.00	82.99	64.86	52.31	79.85	46.58	50.37	43.85	41.22	45.26	46.67	32.73	52.39

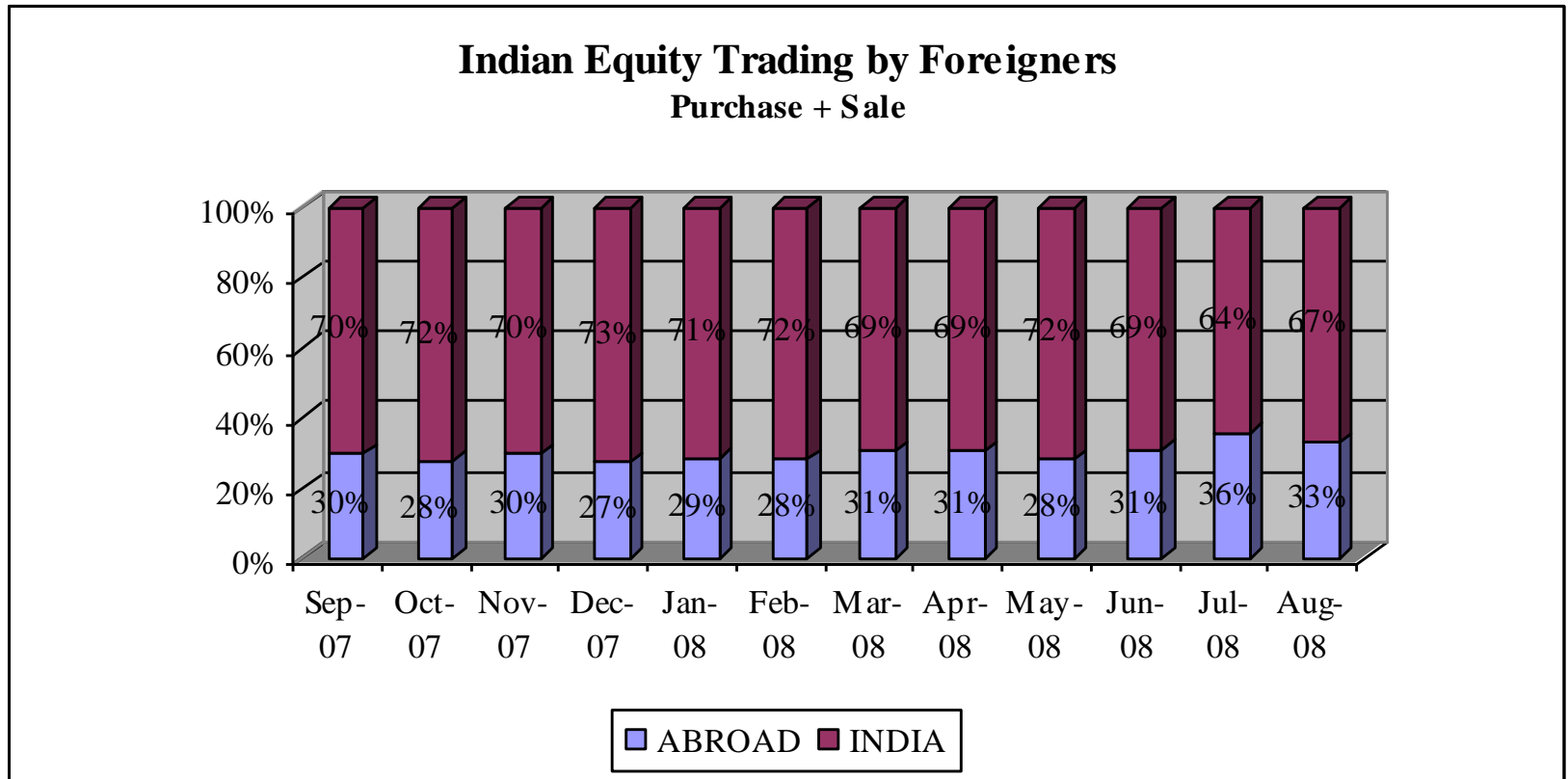
US\$ Billion

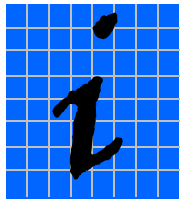
Source: INSTANEX CAPITAL



30% TRADED ABROAD

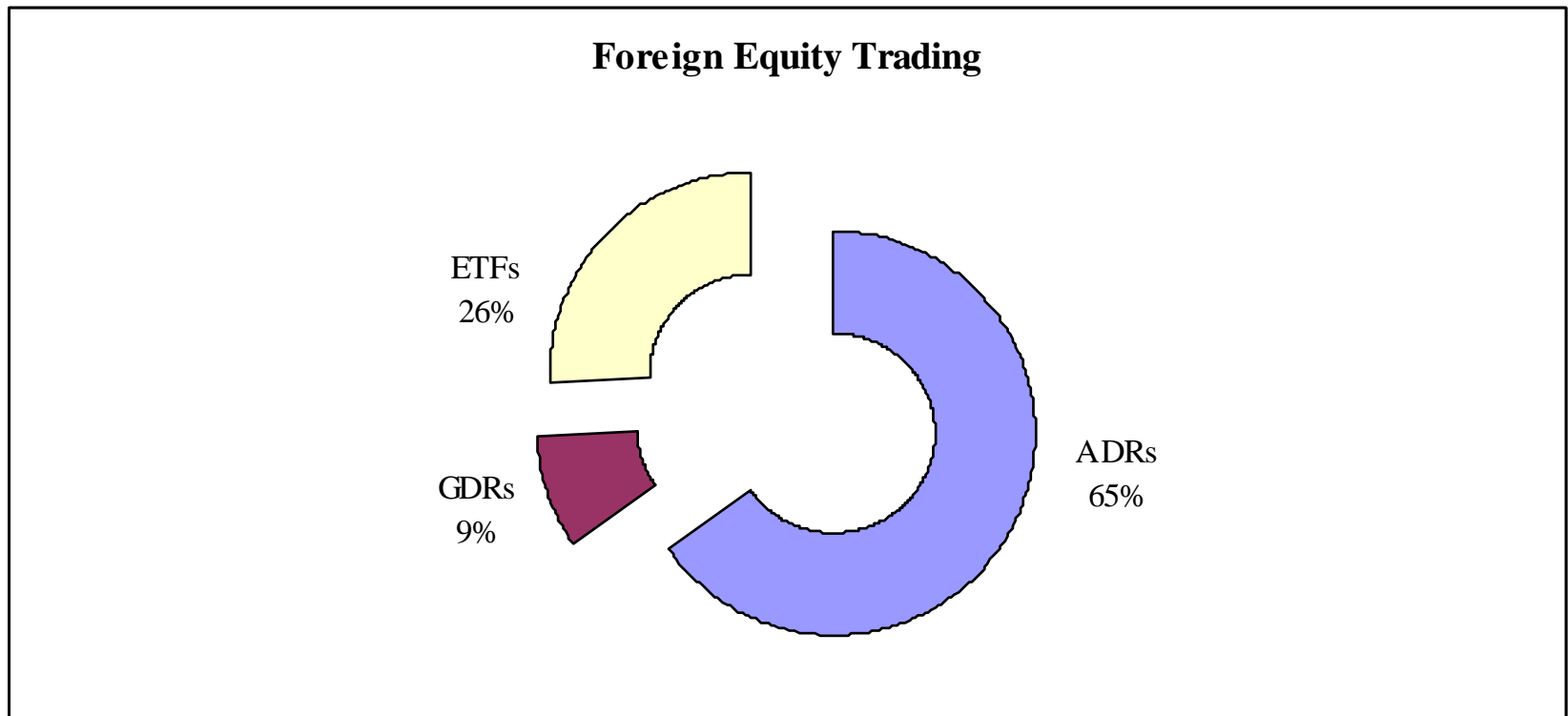
- 30% of value is traded outside India in the form of GDRs, ADRs and ETFs

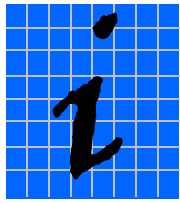




MAINLY IN DRs

- ❑ Of the approximately US\$16 Billion traded abroad monthly 74% is in ADRs and GDRs

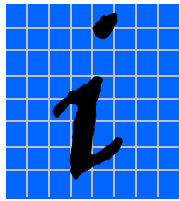




DEPOSITARY RECEIPT TRADES

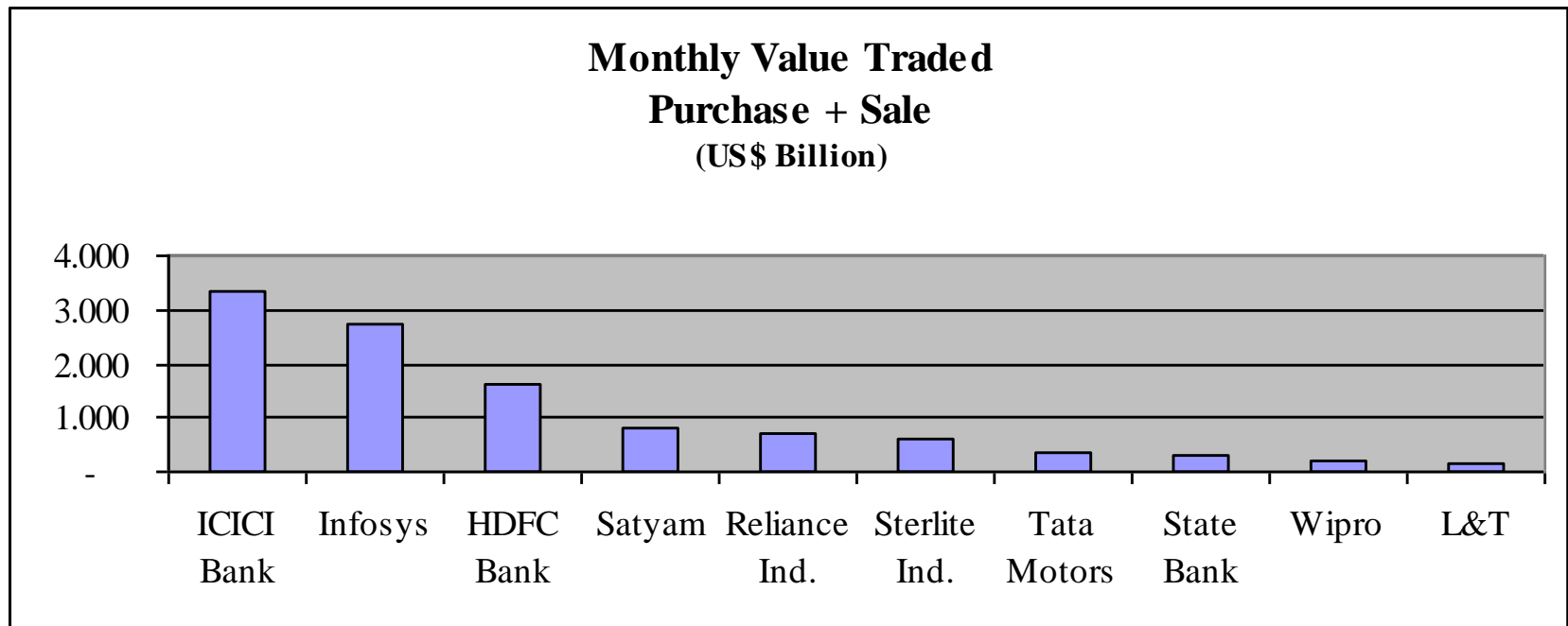
☐ ADRs and GDRs trade (B + S) US\$600 million / day

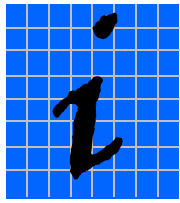
Top Traded Depository Receipts														
Issuer	Traded	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Avg
ICICI Bank	NYSE	3.467	4.885	4.063	2.477	5.045	3.109	3.786	2.485	2.057	2.581	3.857	2.160	3.331
Infosys	NASDAQ	1.802	3.415	2.902	1.908	3.398	2.534	2.314	3.471	2.840	3.082	3.113	2.181	2.747
HDFC Bank	NYSE	1.046	2.198	1.821	1.482	2.169	1.450	1.880	1.368	0.967	1.419	2.135	1.402	1.611
Satyam	NYSE	1.028	1.191	0.751	0.490	1.125	0.575	0.708	0.965	0.613	0.828	1.086	0.481	0.820
Reliance Ind.	LSE	0.567	0.971	0.771	0.663	1.178	0.578	0.640	0.600	0.481	0.779	0.558	0.499	0.690
Sterlite Ind.	NYSE	0.569	1.221	1.459	0.675	0.916	0.455	0.461	0.289	0.282	0.409	0.478	0.265	0.623
Tata Motors	NYSE	0.552	0.552	0.406	0.344	0.581	0.104	0.074	0.297	0.329	0.385	0.360	0.192	0.348
State Bank	LSE	0.202	0.264	0.434	0.268	0.532	0.249	0.252	0.365	0.360	0.244	0.316	0.224	0.309
Wipro	NYSE	0.182	0.214	0.229	0.163	0.279	0.162	0.139	0.172	0.115	0.142	0.203	0.133	0.178
L&T	LSE	0.035	0.199	0.721	0.107	0.157	0.091	0.110	0.107	0.065	0.137	0.133	0.100	0.163
TOP 10		9.451	15.108	13.557	8.577	15.379	9.306	10.363	10.120	8.108	10.006	12.239	7.638	10.821
ALL DRs		10.289	16.285	14.510	9.570	16.521	10.123	11.234	10.626	8.668	10.622	12.707	8.143	11.608
US\$ Billion														
Source: INSTANEX CAPITAL														



TOP 10 DEPOSITARY RECEIPTS

- ❑ Eight of top 10 DRs are listed on US exchanges as ADRs
- ❑ Banks account for 45% of the value of trades and IT 33%

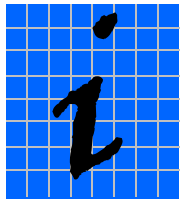




VOLUMES CONCENTRATED

□ The top 10 DRs account for 93% of the value traded of all DRs

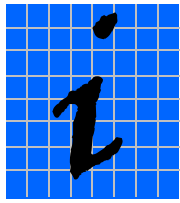
Top Traded Depository Receipts													
Issuer	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Avg
ICICI Bank	34%	30%	28%	26%	31%	31%	34%	23%	24%	24%	30%	27%	28%
Infosys	18%	21%	20%	20%	21%	25%	21%	33%	33%	29%	25%	27%	24%
HDFC Bank	10%	13%	13%	15%	13%	14%	17%	13%	11%	13%	17%	17%	14%
Satyam	10%	7%	5%	5%	7%	6%	6%	9%	7%	8%	9%	6%	7%
Reliance Ind.	6%	6%	5%	7%	7%	6%	6%	6%	6%	7%	4%	6%	6%
Sterlite Ind.	6%	7%	10%	7%	6%	4%	4%	3%	3%	4%	4%	3%	5%
Tata Motors	5%	3%	3%	4%	4%	1%	1%	3%	4%	4%	3%	2%	3%
State Bank	2%	2%	3%	3%	3%	2%	2%	3%	4%	2%	2%	3%	3%
Wipro	2%	1%	2%	2%	2%	2%	1%	2%	1%	1%	2%	2%	2%
L&T	0%	1%	5%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
TOP 10	92%	93%	93%	90%	93%	92%	92%	95%	94%	94%	96%	94%	93%
ALL DRs	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Source: INSTANEX CAPITAL													



ADRs TRADE US\$ 10 BILLION / MONTH

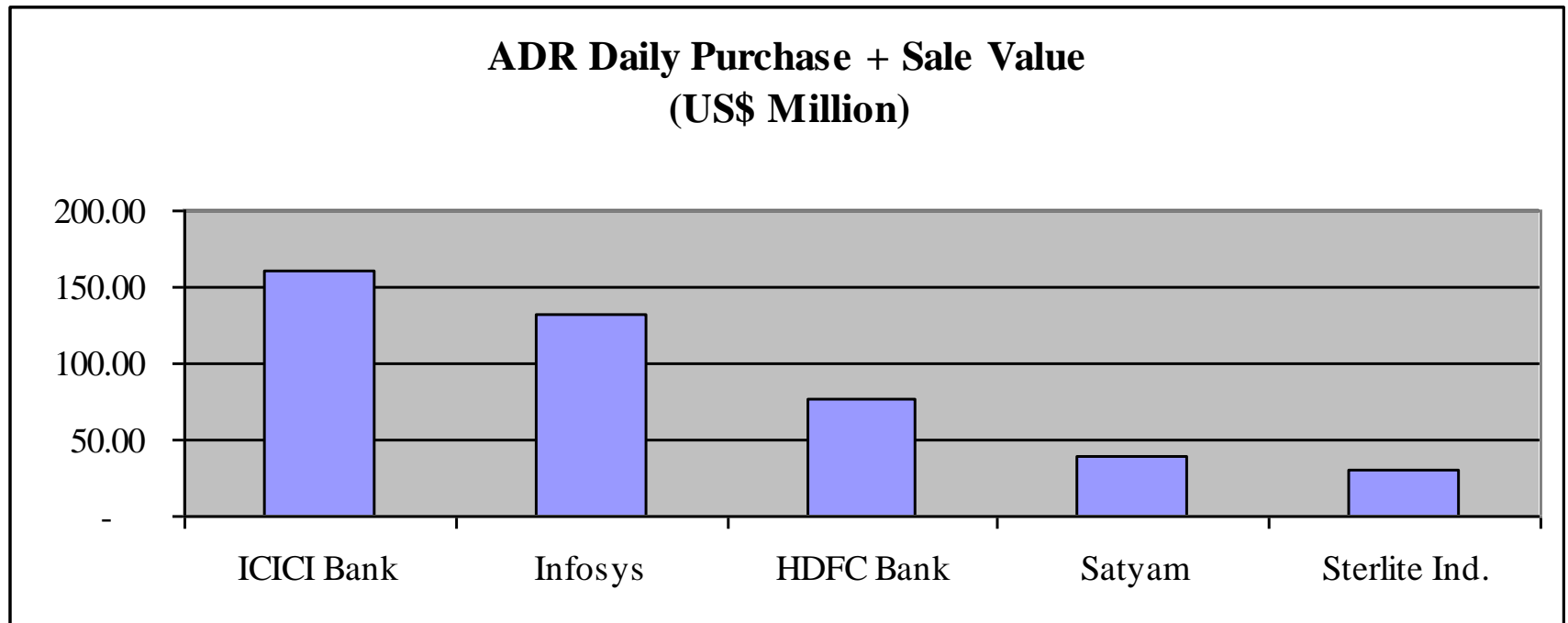
❑ Except Infosys, all major ADRs are listed on NYSE

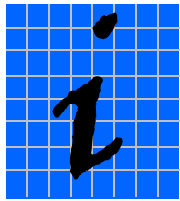
Top Traded ADRs													
Issuer	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Avg
ICICI Bank	3.467	4.885	4.063	2.477	5.045	3.109	3.786	2.485	2.057	2.581	3.857	2.160	3.331
Infosys	1.802	3.415	2.902	1.908	3.398	2.534	2.314	3.471	2.840	3.082	3.113	2.181	2.747
HDFC Bank	1.046	2.198	1.821	1.482	2.169	1.450	1.880	1.368	0.967	1.419	2.135	1.402	1.611
Satyam	1.028	1.191	0.751	0.490	1.125	0.575	0.708	0.965	0.613	0.828	1.086	0.481	0.820
Sterlite Ind.	0.569	1.221	1.459	0.675	0.916	0.455	0.461	0.289	0.282	0.409	0.478	0.265	0.623
Tata Motors	0.552	0.552	0.406	0.344	0.581	0.104	0.074	0.297	0.329	0.385	0.360	0.192	0.348
Wipro	0.182	0.214	0.229	0.163	0.279	0.162	0.139	0.172	0.115	0.142	0.203	0.133	0.178
VSNL	-	0.157	0.133	0.143	0.240	0.323	0.424	0.065	0.034	0.086	0.068	0.065	0.145
Dr. Reddy's	0.135	0.170	0.115	0.133	0.197	0.084	0.084	0.064	0.099	0.069	0.095	0.078	0.110
Genpact	0.227	0.087	0.064	0.045	0.067	0.061	0.070	0.052	0.093	0.101	0.069	0.078	0.085
TOP 10	9.010	14.088	11.943	7.861	14.017	8.856	9.938	9.228	7.429	9.104	11.464	7.037	9.998
ALL ADRs	9.290	14.483	12.222	7.999	14.221	8.958	10.059	9.332	7.530	9.212	11.556	7.132	10.166
US\$ Billion													
Source: INSTANEX CAPITAL													



ICICI BANK IS TOP TRADED ADR

- ❑ ICICI Bank is top traded ADR, accounting for 32% of total ADR turnover (buy + sell)





TOP ADRS MORE LIQUID THAN LOCAL

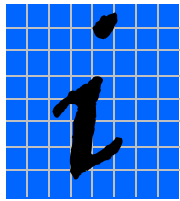
- Many top ADRs are more liquid than their local shares as a percentage of free float
- Dual-traded ADRs have significantly lower volume on LSE than on NYSE

ADR vs Local Liquidity							
Issuer	ADR Traded	ADR M. Cap.	ADR Avg. Val. Traded (Net)*	Daily Liquidity - ADR	Local Free Float M. Cap.	Local Avg. Val. Traded (Net)	Daily Liquidity - Local
ICICI Bank	NYSE	4,165	119.92	2.88%	10,257	108.27	1.06%
Infosys	NASDAQ	3,584	65.92	1.84%	12,049	74.56	0.62%
HDFC Bank	NYSE	2,274	58.01	2.55%	7,384	27.73	0.38%
Satyam	NYSE	931	29.52	3.17%	3,451	37.16	1.08%
Sterlite Ind.	NYSE	1,235	22.44	1.82%	1,523	35.78	2.35%

All prices as on Sep. 25, 2008

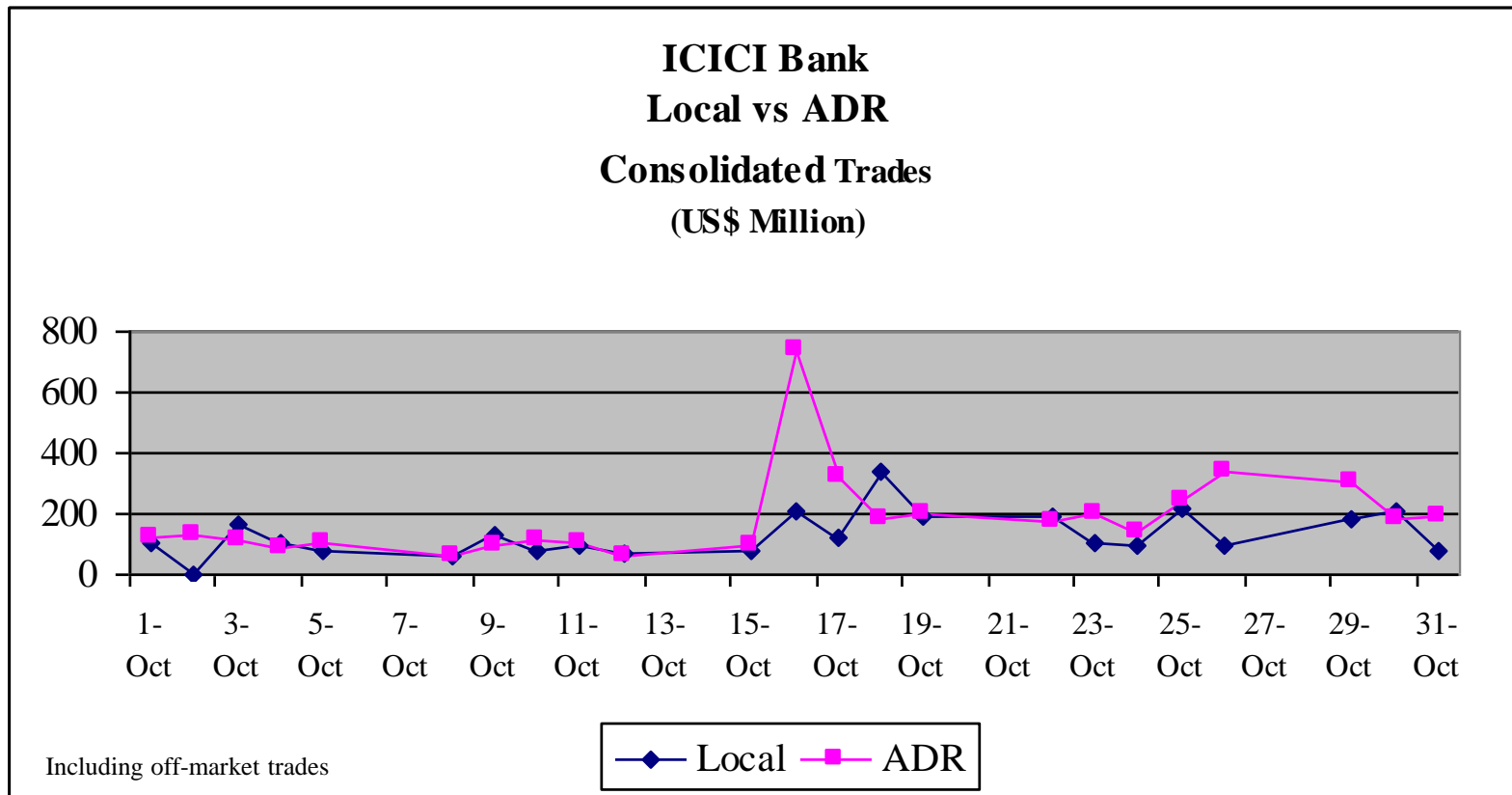
US\$ Million *Including off mkt. trades

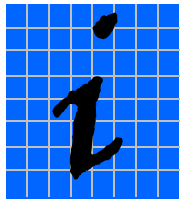
Source: INSTANEX CAPITAL



LIQUIDITY DURING OCT 2007

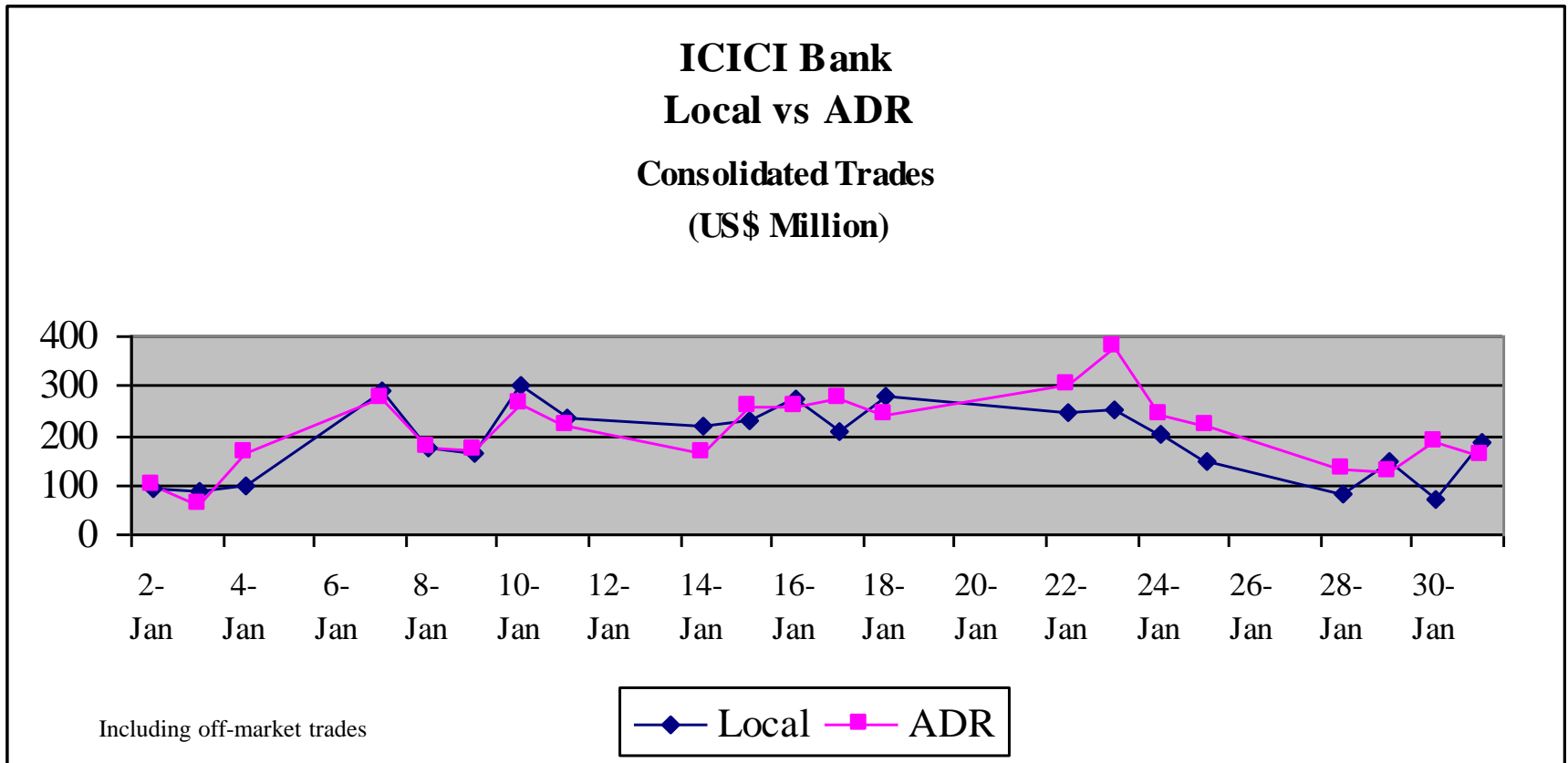
- ❑ EVENT: SEBI discussion paper on modified P-Note regulations
- ❑ Average daily value of ICICI Bank ADR - US\$187 million/day

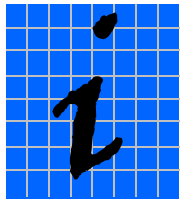




LIQUIDITY DURING JAN 2008

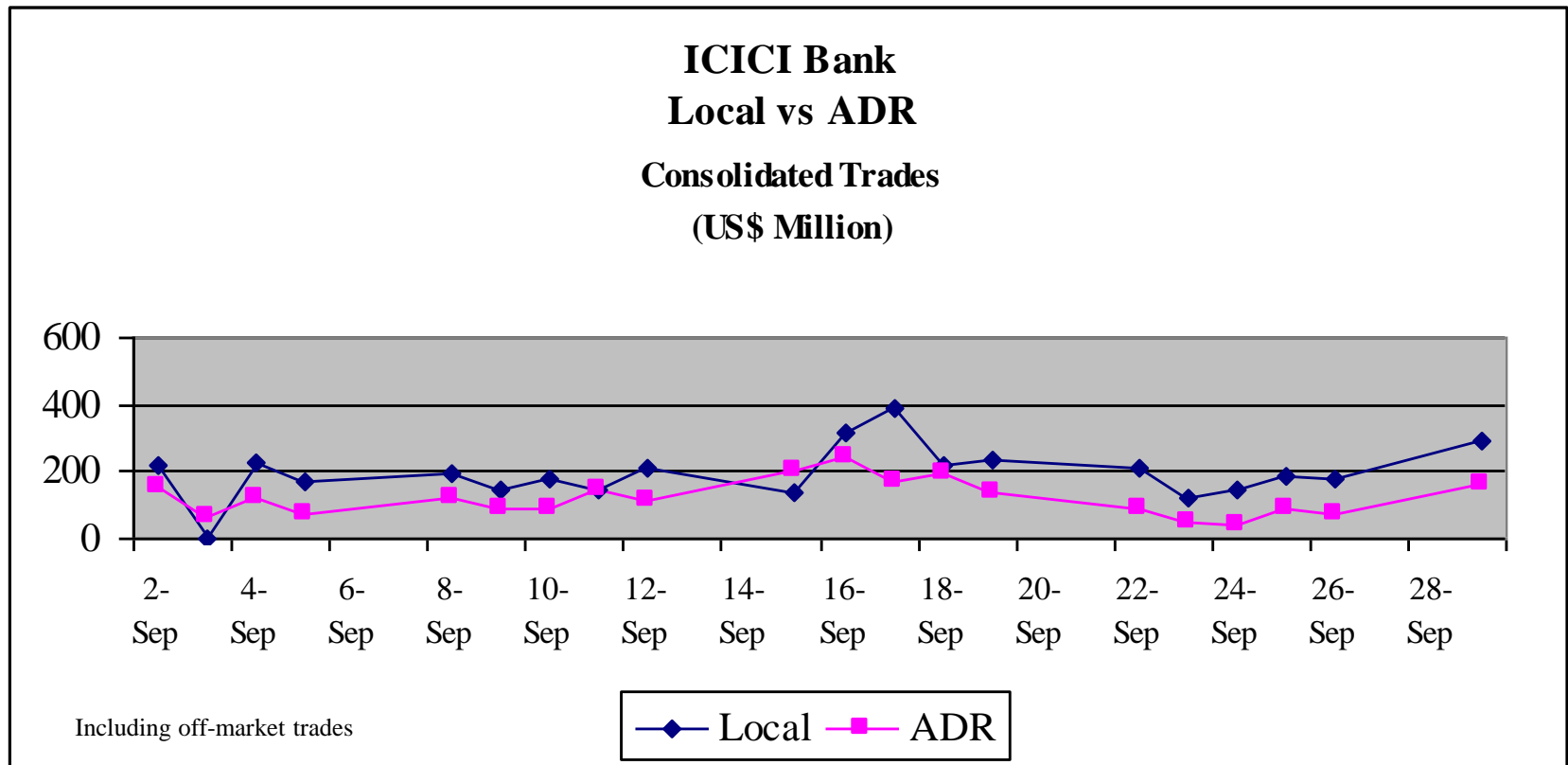
- ❑ EVENT: High volatility in Indian markets
- ❑ Average daily value of ICICI Bank ADR - US\$207 million/day

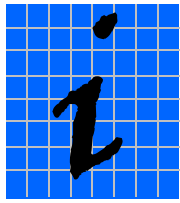




LIQUIDITY DURING SEP 2008

- ❑ EVENT: Reduction in ADR market-making capacity
- ❑ Average daily value of ICICI Bank ADR - US\$121 million/day

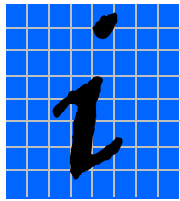




GDRs TRADE US\$ 1.4 BILLION / MONTH

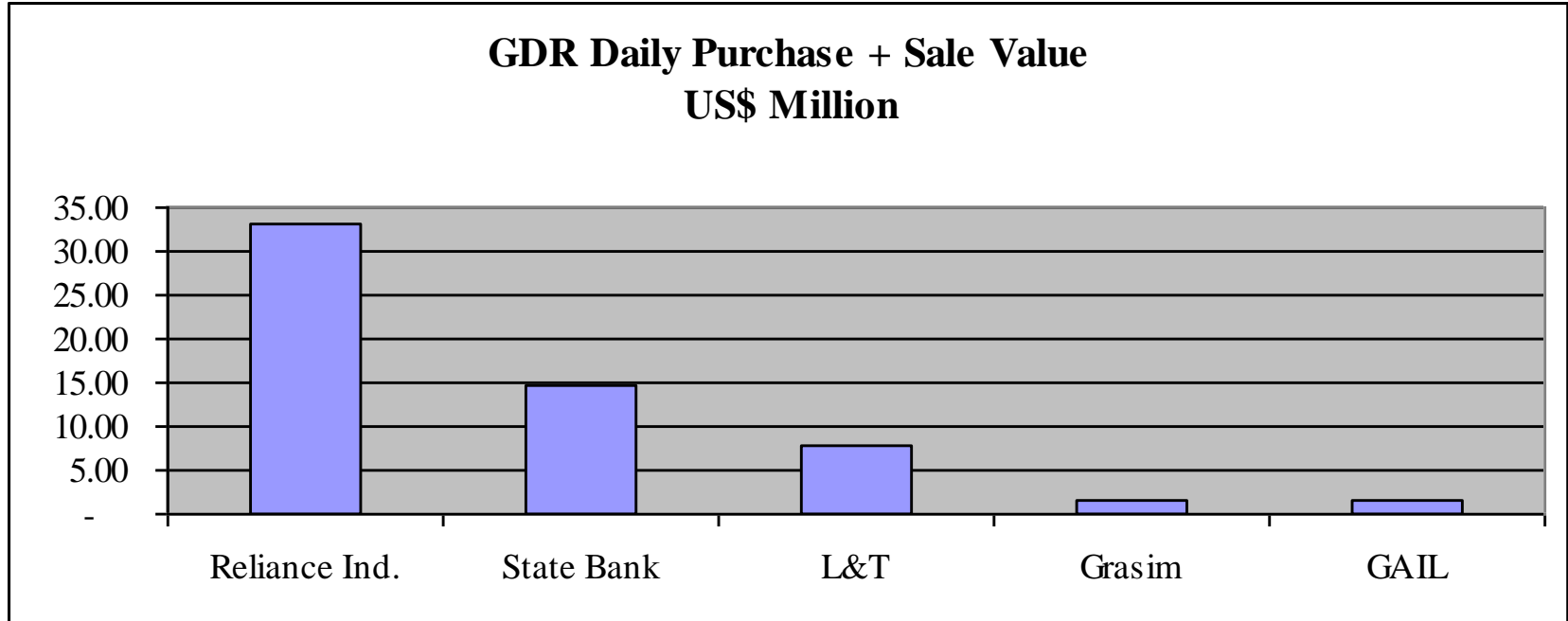
- GDRs trade mainly on the London Stock Exchange's International Order Book

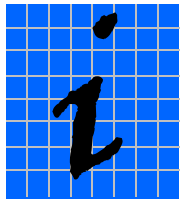
Top Traded GDRs													
Issuer	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Avg
Reliance Ind.	0.567	0.971	0.771	0.663	1.178	0.578	0.640	0.600	0.481	0.779	0.558	0.499	0.690
State Bank	0.202	0.264	0.434	0.268	0.532	0.249	0.252	0.365	0.360	0.244	0.316	0.224	0.309
L&T	0.035	0.199	0.721	0.107	0.157	0.091	0.110	0.107	0.065	0.137	0.133	0.100	0.163
Grasim	0.031	0.033	0.026	0.037	0.027	0.018	0.035	0.050	0.057	0.058	0.014	0.017	0.034
GAIL	0.009	0.035	0.034	0.049	0.042	0.022	0.012	0.005	0.026	0.012	0.040	0.096	0.032
I Bulls Fin	0.001	0.016	0.005	0.238	0.053	0.001	0.004	0.006	0.002	0.001	0.007	0.001	0.028
Ranbaxy	0.020	0.026	0.022	0.015	0.025	0.016	0.035	0.024	0.010	0.079	0.013	0.022	0.025
ITC	0.015	0.019	0.022	0.029	0.049	0.022	0.010	0.023	0.029	0.022	0.012	0.013	0.022
Rel Infra	0.009	0.051	0.113	0.030	0.036	0.011	0.012	0.008	0.011	0.018	0.005	0.002	0.025
Hindalco	0.008	0.038	0.033	0.028	0.043	0.009	0.024	0.015	0.030	0.008	0.008	0.006	0.021
TOP 10	0.897	1.651	2.181	1.464	2.140	1.016	1.134	1.202	1.071	1.357	1.106	0.981	1.350
ALL GDRs	0.999	1.802	2.288	1.571	2.300	1.166	1.174	1.294	1.137	1.410	1.151	1.010	1.442
US\$ Billion													
Source: INSTANEX CAPITAL													



RELIANCE – ALMOST HALF OF ALL GDR TRADING

- ❑ Reliance Industries continues to be the top traded GDR in London, accounting for 49% of traded value of Indian DRs on LSE





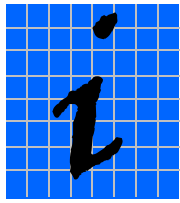
GDRs LESS LIQUID THAN LOCAL

- Unlike top ADRs, GDRs are less liquid than their local shares

GDR vs Local Liquidity							
Issuer	GDR				Local		
	GDR Traded	GDR M. Cap.	Avg. Val. Traded (Net)	Daily Liquidity - GDR	Local Free Float M. Cap.	Avg. Val. Traded (Net)	Daily Liquidity - Local
Reliance Ind.	LSE	2,515	16.57	0.66%	28,605	243.19	0.85%
State Bank	LSE	1,333	7.42	0.56%	7,034	68.11	0.97%
L&T	LSE	675	3.92	0.58%	15,638	96.42	0.62%
Grasim	LSE	464	0.81	0.17%	2,320	7.75	0.33%
GAIL	LSE	234	0.76	0.33%	2,918	17.49	0.60%

US\$ Million All prices as on Sep. 25, 2008

Source: INSTANEX CAPITAL

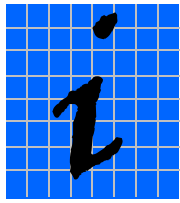


SKINDIA GDR INDEX

- CONSISTENTLY AT PREMIUM TO PARITY

□ Majority of top DRs trade consistently at a premium to their local shares

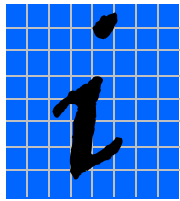
SKINDIA GDR INDEX®			
Company	Weight	Price (\$) 26-Sep-2008	Prem/Disc to Local
Skindia GDR Index	100.00%	1,966.10	5.84%
Dr. Reddy's (A)	2.28%	11.49	3.75%
GAIL (G)	2.27%	54.20	4.04%
Grasim Industries (G)	2.87%	39.00	2.91%
ICICI Bank (A)	19.36%	24.94	3.45%
Infosys Tech (A)	19.51%	33.61	8.09%
ITC (G)	0.81%	4.15	1.43%
L & T (G)	5.15%	53.72	1.34%
Mahindra & Mah. (G)	1.54%	11.60	1.81%
Ranbaxy Labs (G)	0.45%	5.85	-0.01%
Reliance (G)	16.63%	85.54	1.55%
Satyam Computers (A)	8.23%	17.83	28.93%
State Bank of India (G)	8.85%	64.00	3.89%
Sterlite Industries (A)	7.71%	9.61	0.05%
Tata Communications (A)	1.47%	21.35	6.64%
Tata Motors (A)	2.85%	8.40	4.77%



ETFs BECOMING POPULAR

- ❑ NYSE-listed, Indian Exchange Traded Funds trade as much as GDRs

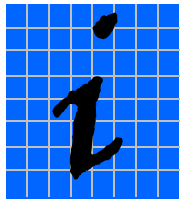
NYSE ETFs							
Issuer	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Avg
iPath MSCI	0.78	0.57	0.67	0.80	1.01	0.70	0.76
India Fund	0.83	0.40	0.35	0.44	0.49	0.37	0.48
Wisdomtree India	0.29	0.24	0.28	0.27	0.25	0.16	0.25
India Investment	0.19	0.17	0.13	0.14	0.17	0.07	0.15
Power Shares	0.04	0.05	0.04	0.04	0.05	0.03	0.04
TOTAL	2.13	1.43	1.48	1.69	1.97	1.33	1.67
US\$ Billion							
Source: INSTANEX CAPITAL							



ETFs HIGHLY TRADED

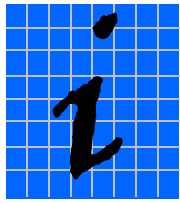
- ❑ On NYSE Indian ETFs trade (net) US\$40 Million / day
- ❑ Liquidity as percentage of float is extremely high

ETF Liquidity				
Issuer	Traded	M. Cap.	Avg. Val. Traded (Net)	Daily Liquidity ETF
iPath MSCI	NYSE	0.59	0.0247	4.18%
India Fund	NYSE	0.23	0.0030	1.30%
Wisdomtree India	NYSE	0.06	0.0005	0.79%
India Investment	NYSE	0.43	0.0045	1.05%
Power Shares	NYSE	1.48	0.0152	1.02%
US\$ Billion		All prices as on Sep. 25, 2008		
Source: INSTANEX CAPITAL				



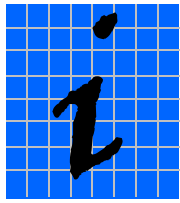
CFOs POSITIVE ON FOREIGN LISTINGS

- Indian CFOs interviewed said that foreign exchange-listings:
 - Increase liquidity
 - Enhance research coverage and visibility
 - Offer a new venue for raising equity capital
 - Enable price parity with global peers
 - Facilitate M&A by providing an acceptable acquisition currency
 - Aid in the creation of competitive incentive programs for employees



SUMMARY

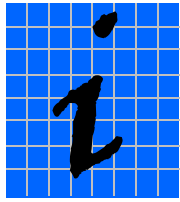
- ❑ Foreigners are major holders and traders of Indian equities
- ❑ Surprisingly, 30% of their Indian equity trading is done outside India
- ❑ Top ADRs and GDRs have significant premiums to local shares
- ❑ DRs display greater relative liquidity than their local shares
- ❑ Indian CFOs raise a significant percentage of equity capital using DRs



CONCLUSION

DRs and ETFs will increase in popularity since they offer foreign investors:

- Local convenience of their home market
- Familiarity of trading and settlement systems
- Standard disclosure and accounting requirements
- Lower custody and safekeeping charges
- Dividends and corporate action notifications in home currency and language



THANK YOU

GAUTAM CHAND

GautamC@instanex.com

83 Maker Chambers III, Nariman Point, Mumbai 400 021

Tel: +91(22)2282-8513 · Mobile: +91 98203-39444

© Instanex Capital Consultants Pvt. Ltd.