The Front Page

March 12, 2009

- What's Inside: Bharti Airtel (BUY), Infosys (Reduce), IDFC (SELL), Telecom, Events calendar, Pledged shares

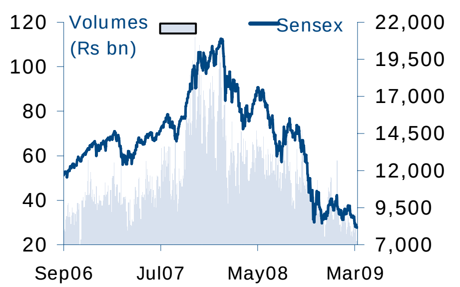
Market Front Page

Index Movements	Closing	% Chg	% YTD
Sensex	8,160	(2.0)	(15.4)
Nifty	2,573	(1.8)	(13.0)
BSE Smallcap	2,867	(1.5)	(22.2)
CNX Midcap	2,938	(1.5)	(21.4)
Nasdaq	1,372	1.0	(13.0)
DJIA	6,930	0.1	(21.0)
IBOV	38,805	0.0	3.3
FTSE	3,694	(0.6)	(16.7)
CAC	2,674	0.4	(16.9)
Turnover		**US$m**	**% Chg**
BSE		416	(34.4)
NSE		1,258	(29.1)
Derivatives (NSE)		7,316	(22.7)
FII F&O (US$m)		**Index**	**Stocks**
Net buying		84	1
Open interest		5,165	2,605
Chg in open int.		252	(45)
Equity Flows (US$m)	**Latest**	**MTD**	**YTD**
FII (6/3)	(0.4)	(543)	(2,263)
DII (9/3)	58	396	1,710
MF (6/3)	25	(131)	(614)

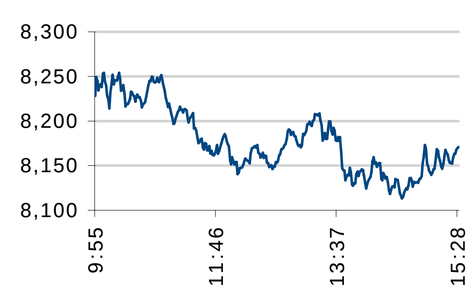
ADR/GDR (US$)	Latest	% Chg	% Prem
HDFC Bank	50.2	(1.6)	8.6
Reliance	46.0	2.2	3.5
Infosys	24.5	(0.0)	5.7
Satyam	1.8	(1.1)	(4.9)
Wipro	5.8	(3.2)	45.6
ICICI Bank	11.3	(2.7)	11.2
SBI	35.2	(4.8)	2.0
Sterlite	5.0	(0.2)	6.7
Tata Motors	3.5	(2.8)	32.9
Commodities	**Latest**	**%Chg**	**%YTD**
Gold (US$/ounce)	910	0.1	3.2
Crude (US$/bl)	42	(7.4)	(5.1)
Aluminium (US$/MT)	1,339	1.3	(13.1)
Copper (US$/MT)	3,589	(3.5)	16.9
Forex Rates	**Closing**	**% Chg**	**%YTD**
Rs/US$	51.8	0.3	6.9
Rs/EUR	65.4	0.4	(4.1)
Rs/GBP	73.1	(0.2)	4.4
Bond Markets		**Closing**	**bps Chg**
10 yr bond		6.5	23.0
Interbank call		3.6	2.0

Charts Front Page

Sensex price volume



Sensex intraday



Corporate Front Page

- **Satyam Computers** has set March 20 as the deadline for prospective investors to submit Expression of Interest (EoI) to pick 51% equity in the company. (BL)
- **TCS** signs a multi-year contract with Infineon Technologies AG. (FE)
- **Tata Sons** pledged an additional 5% equity in **Tata Motors**, taking its total pledge to 13.4%. (BS)
- The Petroleum Ministry has asked **GAIL** (India) Ltd to keep **RIL**'s eastern offshore fields (D6 block) gas price, as one of the benchmarks, while negotiating the revised price for the Cairn India-operated Ravva/Ravva Satellite field. (BL)
- The Planning Commission criticizes **GAIL India** for shifting focus from its core activity of gas transmission to non-core activities. (ET)
- **BHEL** has bagged a contract for manufacturing and supplying generator transformers for the 1,980MW Tirora Thermal Power Project of Adani Power Maharashtra Ltd. (FE)
- **Infosys** to hire 20,000 engineering graduates this year at over 8.3% higher salary than was offered last year. (ET)
- **ITC**'s Lifestyle retailing business targets 20% growth for its premium Wills Lifestyle brand in 2009-10. (ET)
- **Reliance Industries** eyes tie-up with **Indian Oil**, **BPCL** and **HPCL** to revive its shut petrol pumps. (FE)
- **Reliance Industries** may tweak draft sales agreements to address concerns raised by fertilizer companies. (ET)
- The Rihand Project of **NTPC** is set to expand in the next financial year by adding two units of 500 MW each. (BS)
- **RCom** placed Rs3bn order with two Chinese equipment vendors, Huawei Technologies and ZTE Corporation, for around 1mn plug-n-play USB modems. (BS)
- **R-ADAG** company Reliance Power transmission to invest Rs18bn for 1,500-km power link. (ET)
- **Ranbaxy Laboratories** gets USFDA nod to sell Ramipril capsules, a drug used to treat cardiovascular diseases. (ET)

Market Front Page

Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
Satyam Computer	49	15.8	-71.4	Tata Teleservice	20	-15.7	-9.9
Wire And Wireless	12	8.3	-3.7	Rolta India	43	-12.0	-63.1
Divi Labs	844	4.7	-36.8	Tanla Solutions	22	-9.5	-68.9
Jain Irrigation	345	4.6	0.0	Shree Precoated	24	-9.0	-35.9
Kalpataru Power	236	3.8	-15.0	Television 18	56	-8.2	-37.0

Volume spurts

Company	CMP	M.Cap	Vol. (in '000)	10D A.Vol (in '000)	% Chg
Punjab Tractors	96	112	20	2	900
Patni Computer	106	263	1,640	295	457
Federation Bank	123	407	1,726	345	400
Nicholas Piramal	42	20	50	12	336
Kalpataru Power	236	121	117	31	272
BILT	14	148	2,870	808	255
Biocon	100	385	654	191	242
IOB	38	402	4,730	1,454	225
Rolta India	43	133	23,517	7,562	211
Dabur India	90	1,495	1,449	511	183

FII - FII trades

Scrip	6/3/2009			9/3/2009		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Pnb	200	311	0.5	327	310	2.0
Union bank	-	-	-	195	118	1.2
Iob	-	-	-	35,363	36.50	-
Ing vysya bank	-	-	-	490	106	1.0
Grasim	42.0	1,414	3.5	32	1,440	2.5

Corporate Front Page

- The UK government approved a grant of £27mn to **Tata Group**-owned Jaguar Land Rover for producing a new eco-friendly car. (BS)
- **Wipro Technologies'** subsidiary Infocrossing has entered into a five-year contract to provide IT and infrastructure services delivery for CSG Systems International. (BS)
- **Tata Motors** plans to ramp up production at Dharwad unit to 1,250-1,300 buses per month. (BS)
- **Ashok Leyland** has increased number of working days at its manufacturing units to five from three. (BS)
- **Ashok Leyland** is increasing its CV manufacturing capacity to 150,000 by end of Mar '10. (BS)
- Reliance Power Transmission Ltd, a subsidiary of **Reliance Infrastructure** Ltd, through its two special purpose vehicles, has signed power transmission agreements with eight power companies and departments from the western region. (BL)
- **Tech Mahindra** is in talks to buy Bangalore-based niche telecom solutions player Sloka Telecom. (ET)
- **TVS Motors** plans to launch a unisex scooter in FY10. (ET)
- **Pfizer-Aurobindo** pact may expand to CIS and the Asian market. (BS)
- **SBI** to purchase 4,000 ATMs to ramp up network. (ET)
- **Pfizer** to set up 600 smoking cessation clinics in two years. (ET)
- **Kalpataru Power Transmission** bagged contract of Rs3.8bn for laying 550 km of pipeline as Part of Mundra-Bhatinda pipeline project for transportation of crude oil from Mundra to Guru Govind Singh Refinery at Bhatinda. (BS)
- **Allahabad Bank** plans to raise Rs10bn through bonds by the end of March. (BS)
- **Dabur India** decides to split its sales force and stockists beginning April 1, 2009 with focus on three specific categories, home and personal care, health care and foods. (ET)
- **Coal India** is likely to award the turnkey contract for its Rs25bn project to develop seven underground coal mines with an estimated reserve of over 400MT by end of this year. (FE)

Corporate Front Page

- **HCL Infosystems** announced a tie-up with Korean major Nautilus Hyosung, to provide customized automated teller machines solutions in India. (FE)
- Syngene International, a subsidiary of **Biocon Ltd** announced its agreement as alliance partner with DuPont Crop Protection. (FE)
- Barun Das, CEO of **Zee News**, has said that the company will put expansion plans on hold due to the current economic slowdown. (BS)
- **BPCL** has slashed prices of its branded premium petrol and diesel with immediate effect. (ET)
- **Godrej Industries**, the holding company of **Godrej Consumer Products** has acquired an additional 2.5% stake from group firms like Godrej and Boyce Manufacturing and Godrej Investments. (ET)
- **Bajaj Electricals** launched a premium range of home appliances – Bajaj Platina in the premium lifestyle category. (ET)
- Hewlett-Packard and Computer Sciences Corporation are seen evaluating the possibility of acquiring a majority stake in **Satyam**. (ET)
- Aditya Birla Nuvo, a part of the **Aditya Birla Group** has acquired a 76% stake in the retail broking company Apollo Sindhoori Capital Investment. (ET)
- **ICICI Prudential Life Insurance** could break even in two years. (ET)
- Draximage, a subsidiary of **Jubilant Organosys**, has said it has entered into an agreement with France-based Guerbet for distribution of its nuclear medicine products in the European markets. (BL)
- **Jyothy Labs** launches 'Fabric Spa', a laundry business set up with an initial cost of Rs400mn. (ET)
- **PVR** to add 50 screens in 2009-10. (ET)
- GE Security and **Wipro Infotech** signs an agreement for physical security solutions in India. (ET)

Economy Front Page

- Trai reduced termination charge for all types of domestic calls from 30 to 20 paise a minute. (BS)
- Government may miss RBI's growth target, says Subbarao. (ET)
- The Maharashtra government has decided to levy a fee to grant its consent to companies and other bodies to raise money against leasing government owned land. (BS)
- At least nine non-metro airports may get to charge Rs300-350 per passenger, as user development fee (UDF). (ET)
- The Government is planning to issue tax-free bonds worth up to Rs100bn to the general public every year until 2020. (ET)
- The Government may consider a further interest subsidy on loans to companies in select sectors. (ET)
- ICAI has deferred a decision on relaxing AS 11, which mandates MTM provisioning in the profit and loss account for foreign exchange-related gains and losses. (BS)
- The Wireless Planning and Co-ordination wing of the Department of Telecom has finalised the National Frequency Allocation Plan, which will be the guiding policy for all spectrum allocation in the country. (BL)
- GSM operators added 9.1mn new subscribers in February. (BL)
- TRAI endorses 3-year lock in on stake sale by new telcos. (ET)

Insider Trading

Company	Name of Acquirer / Seller	Transaction Date	Buy / Sale	Quantity	Price (Rs)	Deal Size (Rs m)	Shares Transaction (%)	Holding after Transaction (%)
Himatsingka Seide Ltd	Bihar Mercantile Union Ltd	04/03/2009	Sell	940,000	20.2	19	1.0	8.6
Himatsingka Seide Ltd	Dinesh Kumar Himatsingka	04/03/2009	Buy	470,000	20.2	9	0.5	11.9
Himatsingka Seide Ltd	Mr Ajoy Kumar Himatsingka	04/03/2009	Buy	470,000	20.2	9	0.0	4.1
India Securities Ltd	Essar Capital Ltd	02/03/2009	Buy	1,311,500	13.4	18	4.9	9.6
Marson's Ltd	Mrs Charu Kotia	02/03/2009	Buy	4,432,100	1.7	8	4.9	12.6
MIC Electronics Ltd	Venkata Ramana Rao Maganti	26/02/2009 - 02/03/2009	Sell	1,722,120	18.6	32	1.7	31.5
Zenith Infotech Ltd	Raj Kumar Saraf - HUF	--	Buy	29,838	162.0	5	0.2	10.6

Deal size worth more than Rs5m considered. The exchange does not report transaction prices, so we have assumed them to be closing prices for the respective days. Hence, actual deal sizes may vary from the figures above.

BSE/ NSE - Bulk Deals

Company	Name of Acquirer / Seller	Transaction Date	Buy / Sale	Quantity	Price (Rs)	Deal Size (Rs m)
Indian Overs	Tci Cyprus Holding Limited	9/3/2009	Sell	12,863,437	36.5	470
Indian Overseas Bank	Life Insurance Corporation Of India	9/3/2009	Buy	15,000,000	36.5	548
Indian Overseas Bank	Tci Cyprus Holding Limited	9/3/2009	Sell	22,500,000	36.5	821
Patni Comput	Swiss Finance Corporation Mauritius Limited	9/3/2009	Sell	714,978	105.7	76
Rolta Ind	Credit Suisse Singapore Limited	9/3/2009	Sell	925,000	44.5	41
Rolta India Ltd.	Credit Suisse (Singapore) Limited A/C Credit Suisse (Singap	9/3/2009	Sell	2,075,000	44.5	92
Rolta India Ltd.	Fidelity Investments Management (Hong Kong) Ltd A/C Fid Inv	9/3/2009	Sell	1,571,000	44.7	70

Bharti Airtel - BUY

Telecom

12 March 2009

IUC cuts – Could have been worse

The amended IUC regulations (effective 1 April 2009) will come as a relief for Bharti, despite a MTC (mobile termination charge) cut from Rs0.3 to Rs0.2 (in line with our expectations). It could have been worse: the rival lobby had been pushing for an MTC cut to zero, which would have significantly dented Bharti's earnings. Besides, a cut to zero would have enabled RCOM and other start-up networks to price outgoing cross-network plans far more effectively, and possibly resulted in a congestion in Bharti's network. On the other hand, the cut does represent a setback to Bharti's rural expansion economics.

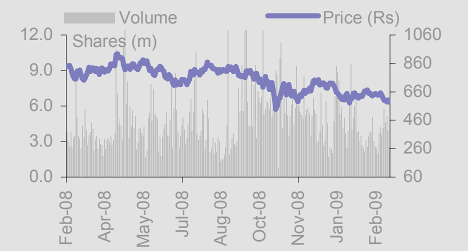
Mobile-to-fixed termination charge has also been cut from Rs0.3 to Rs0.2, and this is favourable to wireless operators. Incoming TC on ILD has been raised only to Rs0.4 from Rs0.3, well below our expectation. We estimate that all these TC cuts—after factoring in licence fees, spectrum charges and service tax—will take 3.2% off Bharti's EPS in FY10ii and FY11ii. We see the termination amendments as the termination of a lengthy period of uncertainty for Bharti. For the present, we see no significant regulatory threats, despite imminent change at the helm in TRAI. RCOM's gains from this mild move will be limited, whereas Idea should be relatively unaffected. We upgrade Bharti to BUY with a target price of Rs710.

CMP	**Rs588**
12-mth Target price (Rs)	***710 (21%)***
Market cap (US$ m)	**21,502**
Bloomberg	**BHARTI IN**
52Wk High/Low (Rs)	980/483
Diluted o/s shares (m)	1898
Daily volume (US$ m)	55.4
Dividend yield FY09ii (%)	0.0
Free float (%)	32.9
Shareholding pattern (%)	
Promoters	67.2
FIIs	22.0
Domestic MFs/Insurance cos	6.5
Others	4.4

Price performance (%)

	1M	3M	1Y
Bharti	-11.7	-16.2	-21.7
Rel. to Sensex	3.1	-5.2	27.2
RCOM	-20.2	-35.9	-75.5
IDEA	-0.4	-12.0	-54.9
MTNL	-12.4	-18.3	-45.6

Stock movement



Financial summary

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	185,196	270,250	371,190	432,442	511,175
EBITDA Margins (%)	40.1	42.1	40.7	39.8	39.9
Pre-Exceptional PAT (Rs m)	42,573	67,007	81,600	95,306	114,330
Reported PAT (Rs m)	42,573	67,007	81,600	95,306	114,330
EPS (Rs)	22.5	35.3	43.0	50.2	60.2
Change				-3.2%	-3.1%
Growth (%)	88.5	57.2	21.8	16.8	20.0
PER (x)	26.2	16.7	13.7	11.7	9.8
ROE (%)	37.4	37.4	31.0	27.1	24.7
Debt/Equity (x)	0.6	0.2	0.3	0.1	-0.1
EV/EBITDA (x)	16.2	10.7	8.2	6.8	5.2
Price/Book (x)	8.2	5.0	3.7	2.8	2.1

Source: Company, IIFL Research

Figure 1: IUC cuts to take 3.2% off Bharti's FY10 earnings

Items (Rs m)	FY10ii	FY11ii
Interconnect (Local)		
Change to Revenue	19,515	23,362
Change to EBITDA	-4,710	-5,639
% Change to EPS	-3.9%	-3.7%
Interconnect (ILD incoming)		
Increase in Revenue	1,020	1,233
∆ in EBITDA (after assuming O/G cut =50% of EBITDA)	423	512
% Change to EPS	0.3%	0.3%
Total		
∆ Revenue	-18,495	-22,129
∆ Revenue %	-4.1%	-4.1%
∆ EBITDA	-3,863	-4,615
∆ EBITDA %	-2.2%	-2.2%
∆ EPS %	-3.2%	-3.1%

Source: Company, IIFL Research

Rs0.1 cut in domestic TC – not as bad as feared; EPS impact of (-) 3.2%; subscriber economics will worsen:

- The cut in termination charges is from Rs0.30 to Rs0.20 on all domestic calls (F2F, M2M, F2M, M2F). Note that the rival start-up/dual-technology lobby was asking for zero mobile termination charge (MTC). This would have pushed MTC below cost and enabled rivals to offer large volume off-net outgoing plans to jumpstart utilisation of their as-yet-largely-unused networks. Major incumbents such as Bharti and Vodafone would have faced network congestion and moreover, would have been unable to respond with similar offerings, since their network capacity utilisation is already high.
- The cut in mobile-to-fixed TC will bring a bit of relief: as per TRAI data, on aggregate, GSM operators have 12min/month outgoing calls to fixed networks, and 5 minutes of incoming calls per month from fixed (according to industry sources). Based on this, we estimate that the net of 7 minutes incoming is around 14% of the 50min/month mobile net-in (estimated) for Bharti.

  Taking both the cuts together, we estimate that the hit to EPS will be 3.2% and 3.1% respectively for FY10ii and FY11ii.

  However, rural growth will be a challenge for Bharti, as TC is revenue that operators get as a result of their net-receiving rural subscribers. Bharti, with the highest share of rural subscribers (30%), presented data in the IUC open house that in the sub-Rs80 ARPU category, 2/3rd of the ARPU is made up of termination charges. Hence, in rural areas, this portion will fall by 33%, i.e., Rs80 ARPU should immediately fall by 22% to Rs62.

Rs0.1 hike in ILD incoming TC a very mild positive (0.3% impact if one assumes that 50% of gains are passed on to subscribers through lower outgoing calls, and no change in volumes)

- TRAI could have played to the gallery by raising TC on incoming ILD by more than just Rs0.1, but chose not to. Bharti would have been the biggest beneficiary from a bigger hike, as it is believed to have the highest proportion of incoming/outgoing ILD calls, which would have enabled the company to cut ILD rates for outgoing calls much more sharply, and thus outprice competition. As such, we estimate the impact on EPS—assuming that Bharti passes on 50% of the benefit in the form of cheaper outgoing ILD calls—will be merely 0.3%. More importantly, the gap between the average ILD outgoing termination rates (estimated at Rs3.5/min) and incoming (now Rs0.4/min), continues to be substantial, and we expect that COAI will continue to push for an upward revision.
- Though a bigger cut (say Re1) on incoming ILD TC would have boosted EPS, the entire gain would not have been available to the domestic operator. Such a sharp hike in TC would have likely triggered renegotiation of other elements in the overall settlement (such as carriage charges) and the international carriers would likely not have borne the entire cost increase.

Intra-circle transit/carriage charges cut from Rs0.2 to Rs0.15 – not a material positive:

- The **intra-SDCA** transit charge for ILD calls has been reduced from Rs0.20 **cap** to Rs0.15. Also, **intra-circle** transit charges between mobile and fixed networks have been cut from Rs0.20 to Rs0.15. This will marginally benefit all private operators as this charge is paid to BSNL.
- **Stringent reporting norms for NLD operators and IUC for SMS:** TRAI has included a regulation requiring all NLD operators to report carriage rate per minute and total amount charged on a quarterly basis. Also, all operators would be required to report similar metrics for amount paid to NLD operators.

  All operators are required to report IUC charges for SMSes received and paid to other operators on a quarterly basis.

Figure 2: IUC charges as per 10th amendment to IUC regulations

Charges	Amount Rs / min		Description
	Existing	New (effective 1 April 2009)	
Mobile-to-mobile termination charge	0.3	0.2	Flat rate
Mobile-to-fixed termination charge	0.3	0.2	Flat rate
Incoming ILD	0.3	0.4	Flat rate
Origination charge			Forbearance
Carriage charges	0.65	0.65	Ceiling
Transit charges			
NLDO to NLDO (where the first NLDO is not present)			Forbearance
Intra-circle mobile-to-fixed (must be handed over to BSNL)	0.2	0.15	Flat rate
Intra-circle NLD (mobile-to-mobile), must only be thru' BSNL	< 0.2	< 0.15	

Source: TRAI, IIFL Research

Appendix

TRAI press release (key highlights)

New Delhi, 9 March 2009: The Telecom Regulatory Authority of India today issued the "Telecommunications Interconnection Usage Charges (Tenth Amendment) Regulations" with the following key features:

- **Termination charge** for all types of **domestic calls** viz. fixed to fixed, fixed to mobile, mobile to fixed and mobile to mobile has been reduced to 20 paise per minute from 30 paise per minute.
- **Termination charge** for **incoming international calls** would be 40 paise per minute against the existing charge of 30 paise per minute. The Authority expects that the service providers would pass on this benefit in the form of lower tariff for outgoing international calls.
- **Ceiling on carriage** of domestic long distance calls retained at 65 paise per minute. Non-reduction of this ceiling would encourage national long distance operators to expand into rural areas.
- **Origination charge** has not been specified as it would be residual from tariff after payment of other charges. This would provide service providers flexibility of introducing innovative tariff plans
- **Transit/Carriage** charge from Level-II Trunk Automatic Exchange to Short Distance Charging Area(SDCA) to be 15 paise per minute as against existing charge of 20 paise per minute
- **Intra SDCA** transit charge to be less than 15 paise per minute down from less than 20 paise per minute
- Termination charge for **3G voice** calls shall be same as 2G voice calls
- The new charges to be effective from **1 April 2009**

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Infosys – REDUCE

INFO IN	Rs1196	IT Services	12 Mar 2009	Company Update

De-growth to force acquisitions?

With FY10 likely to be Infosys's first ever year of a revenue decline, the company looks increasingly more likely to explore inorganic growth options. Speculation has been rife in recent times, with media reports even naming two potential targets: BCC and Ciber Novasoft. While global IT companies have successfully used acquisitions to develop offshore bases or grow new business lines, Infosys' track record with acquisitions is negligible. While acquisitions would mean another uncertainty to deal with, Infosys is the best positioned to benefit from the depreciating rupee (it has the lowest hedges among top-tier vendors). Also, anecdotal evidence on cost cutting (rise in involuntary layoffs) indicates that the initiatives are intense and are likely to offset a pricing pressure of 3-5%.

Indian vendors' experience with acquisitions has been lukewarm at best: IBM, Accenture and HP, among others, have shown themselves to be adept at growing their service lines and even offshoring bases through acquisitions. In the past five years, Accenture has made ~25 acquisitions, as against two by Infosys. Infosys's high cash balance (US$1.8bn) and a likely decline in revenues in FY10 make this one of the most likely periods for an acquisition. However, it has little experience in integrating acquisitions: Three BPO centers of Philips and a small Australian firm (Mainstream software) have been its only acquisitions in the past five years. In addition, its pseudo-inorganic way to expand into high-value service lines like consulting has also underperformed the company's own expectations.

Sharp cost cuts give high margin defence: Anecdotal evidence indicates that project cancellations and ramp-downs have increased in 2009 YTD. Also, management has become decisively more bearish on pricing (it is now saying clients are demanding 5-15% price cuts, as against ~5% in December 2008). While these are significant revenue challenges, it has been cutting costs sharply. We believe the sharp cuts in variable salaries and employee layoffs could completely offset the margin pressure due to pricing. Based on our channel checks, we estimate involuntary attrition of ~2000 employees in 2009, with a potential for a further 2000.

Benefits the most from a depreciating rupee: Infosys has the lowest currency hedges among the top four IT vendors (13% of FY10ii revenues vs 30-70% at peers). As a result, we reckon it is the biggest (among top 4 Indian vendors) potential beneficiary of a depreciating rupee: a one-rupee fall in the rupee-dollar exchange rate could add ~Rs4 to the company's EPS. Though we maintain our negative stance due to premium valuations (to peers) and revenue risks, the sharp cost-cutting and depreciation in the rupee are significant tailwinds.

Layoffs (FY10ii) gives high margin defense

Involuntary attrition	Margin defence
4%*	97bps
6%	145bps
8%	193bps
12%	293bps

Source: IIFL Research; Our current FY10 ii estimate

Financial Summary

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	138,930	166,920	216,868	215,027	236,851
YoY (%)	45.9	20.1	29.9	-0.8	10.1
EBITDA Margins (%)	31.6	31.4	32.9	30.9	31.7
Reported PAT (Rs m)	38,560	46,590	59,319	57,041	57,974
EPS (Rs)	67.4	81.3	103.5	99.5	101.1
YoY (%)	51.1	20.5	27.3	-3.8	1.6
PER (x)	**18.1**	**15.0**	**11.8**	**12.3**	**12.1**
ROE (%)	34.3	33.8	33.6	26.7	23.1
EV/EBITDA (x)	**14.5**	**11.7**	**8.2**	**8.4**	**7.1**

Price as at close of business on 09 March 2009

12-mth Target price (Rs) 1200 (0%)

Market cap (US$ m)	**13,272**
52Wk High/Low (Rs)	2047/1040
Diluted o/s shares (m)	573
Daily volume (US$ m)	46.9
Dividend yield FY09ii (%)	2.5
Free float (%)	83.5

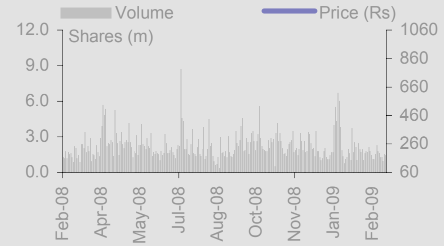
Shareholding pattern (%)

Promoters	16.5
FII	33.0
Domestic MF/Insurance	8.6
Others	41.9

Price performance (%)

	1M	3M	1Y
Infosys	-7.7	5.9	-14.8
Rel. to Sensex	7.7	21.4	33.9
TCS	-10.1	-8.8	-43.8
Wipro	-7.1	-17.4	-47.5
HCL Tech	-20.8	-21.2	-65.7

Stock movement



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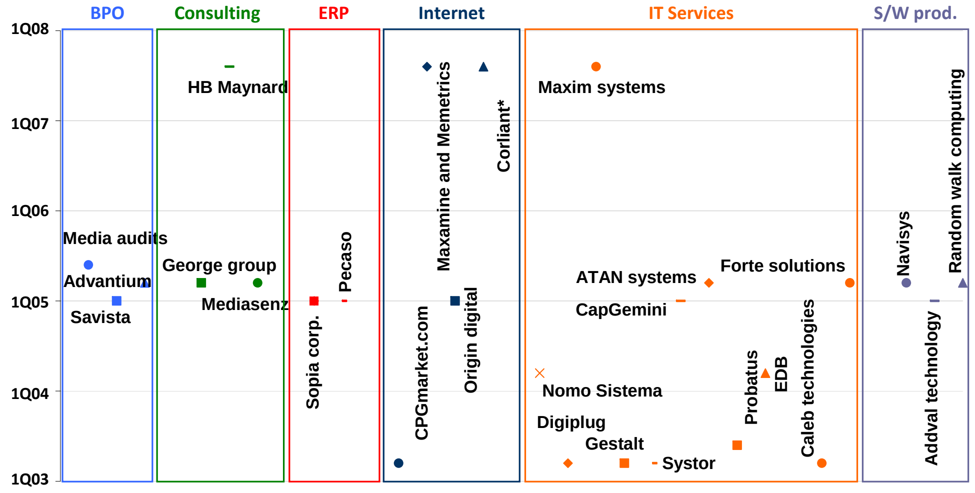
Sparse history of acquisitions at Infosys

Given the high growth rate at Infosys and its preference for organic growth, acquisitions have been sparse. As volume growth becomes difficult (we expect a QoQ volume decline for 4QFY09 and 1QFY10), we believe acquisitions become increasing likely. Wipro, TCS and HCL Tech all made US$100m-800m acquisitions during FY09.

We believe the prospect of the first year of revenue decline could make Infosys look at acquisitions actively. Media reports suggest that management has been eyeing acquisitions in German, France and Japan. While MNC vendors have been active in expanding service lines and even offshore bases through acquisitions, Infosys has been rather circumspect. For example, in the past five years, Accenture had made ~25 acquisitions (in areas ranging from BPO to software products), as against two by Infosys.

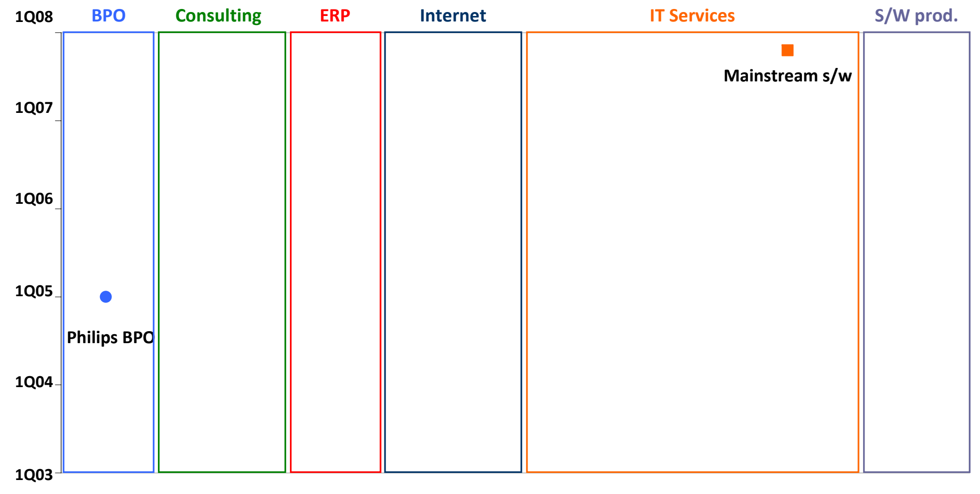
In addition to lack of experience in dealing with integration challenges, its history of growing new business lines through acquisition has been poor. Its consulting division, which started in 2004 (by recruiting high-profile consultants), failed to achieve its own employee growth objectives by 2008 (~250 vs targeted 500). In addition, some of the acquisition targets stated by media (Ciber Novasoft and BCC) are in the ERP domain, which is witnessing a severe contraction in spend. As such, though inorganic growth from acquisitions could offset an organic revenue decline, the integration challenges introduce another uncertainty factor.

Figure 1: Accenture has made ~30 acquisitions in the past 5 years vs 2 of Infosys



Source: IIFL Research

Figure 2: Hardly any acquisitions by Infosys over the past 5 years



Source: IIFL Research

Performance-based layoffs should help protect margins

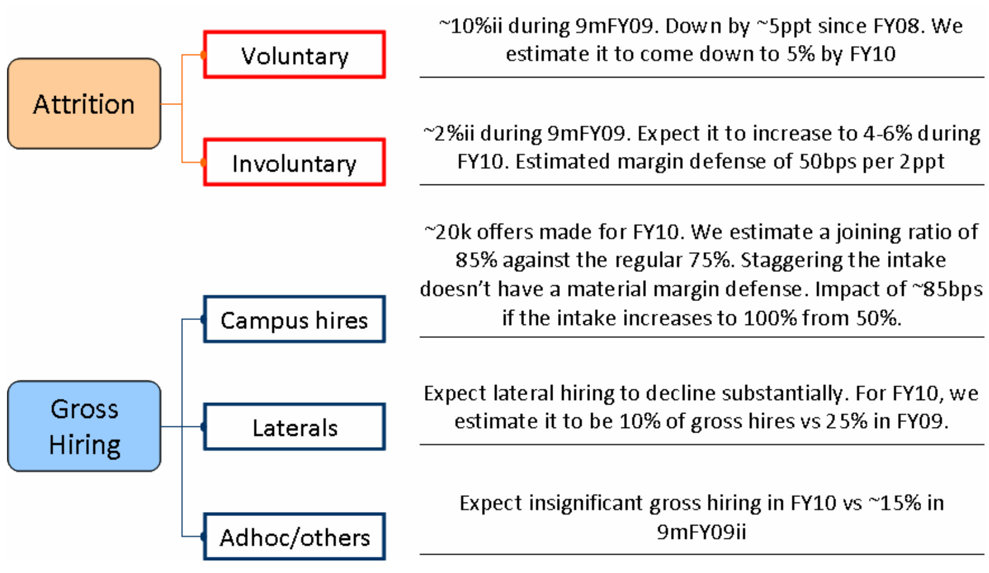
High recruitments and poor revenue growth during 3QFY09 have caused Infosys's utilisation rate to fall to ~68%. We expect a revenue decline for the next two quarters and the utilisation to fall to ~63%—its lowest ever. Its earlier lowest utilisation was in FY01—65%—but then, the high revenue growth rate of posed little risks of further decline in utilisation rates.

We believe Infosys is likely to counter this combination of revenue decline and low utilisation rate though performance-based cuts in headcount. Based on our channel checks, we estimate involuntary attrition of 2,000 in 2009 with a potential for an additional 2000. For FY10, we estimate that involuntary attrition would remain at 4%, against the usual ~2%. With aggressive performance-based layoffs (8% involuntary attrition), however, it could obtain an incremental margin defence of ~100bps. Our estimate for voluntary attrition is conservative, at half of FY09ii levels.

We also believe that intake of campus hires in FY10 will be staggered. Against a likely total intake of 17,000 (assuming 85% joining ratio against 75% in FY09), we currently estimate a net intake of ~9,000 (50% of net total intake including the impact of staggering). However, Infosys can honour its commitments without resorting to spreading joining dates at minimal margin impact. Given the lower salaries (40% less than average) of employees at this level, their impact on margins would not be significant. We estimate that even if 100% of employees were to join in the beginning of the year, the additional impact on margins would be less than 100bps.

In addition, anecdotal evidence indicates that involuntary attrition is typically happening with experienced employees. In this environment, the possible substantial addition at the base of employee pyramid could address the aging of pyramid for the next 2-3 years.

Figure 3: Performance-based layoffs have high margin levers, as they involve a higher proportion of experienced employees



Source: IIFL Research

Figure 4: Additional margin defence (FY10ii) of 100-200bps from performance-based layoffs

Involuntary attrition	Employee count	Utilisation	Margin defense	Incremental margin defense
4%*	4,123	62.6%	97 bps	0 bps
6%	6,185	64.3%	145 bps	48 bps
8%	8,246	66.0%	193 bps	97 bps
12%	12,498	70.0%	293 bps	196 bps

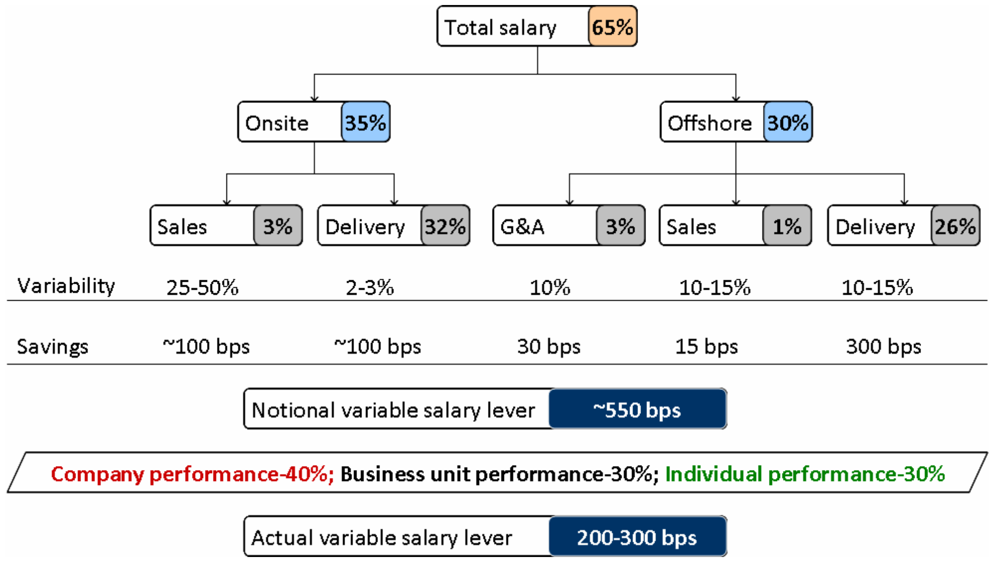
Source: IIFL Research; *-our current FY10 estimate

Figure 5: Infosys can honour all its campus commitments for next year with minimal impact on margins

Campus intake @	Intake	% employees	Utilisation	Margin defense	Incremental margin defense
25%	4,250	4.1%	66.6%	- 44 bps	50 bps
~50%*	9,000	8.7%	62.6%	- 94 bps	0 bps
75%	12,750	12.4%	59.8%	- 133 bps	-39 bps
100%	17,000	16.5%	56.9%	- 178 bps	-84 bps

Source: IIFL Research; *-our current FY10 estimate

Figure 6: Variable salary cuts alone may be insufficient to offset the impact of pricing cuts on margins. However, combined with performance based layoffs, pricing pressure of ~3-5% could be offset.

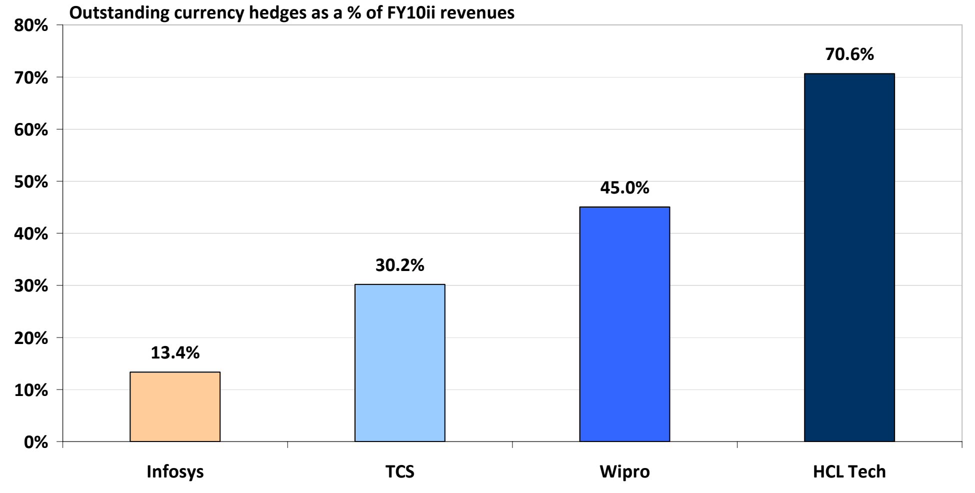


Source: IIFL Research

Benefits the most from a depreciating rupee

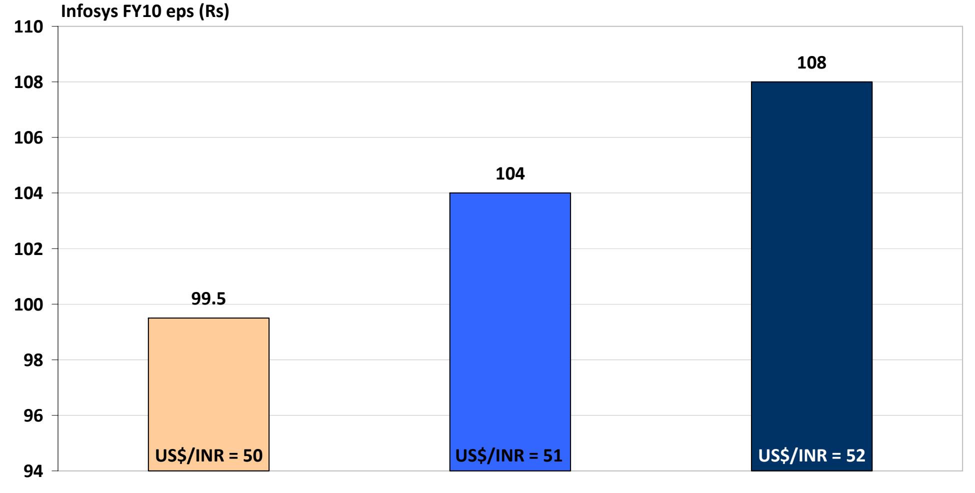
The latest (end-3QFY09) outstanding forex hedges at Infosys are the lowest among sector leaders, at US$576m vs US$2bn-3bn at peers. As % of revenues, the difference is even starker—13% for Infosys vs 30-70% for peers. As a result, we believe Infosys will be the largest economic beneficiary of a depreciating rupee. Against our assumption of US$/INR of 50 for FY10, if it were to prevail at the current levels of US$/INR of 52, the EPS upside would be as much as 8%.

Figure 7: Infosys has the lowest hedges among sector peers



Source: IIFL Research

Figure 8: At INR/US$ of 52, we estimate ~8% upside to our current FY10 EPS estimate



Source: IIFL Research

Financial summary

FY10 assumptions:
Pricing pressure of 4.5%
Margin pressure of 200bps
Volume growth of 0%

Income statement summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenue	138,930	166,920	216,868	215,027	236,851
EBITDA	43,910	52,380	71,452	66,516	75,028
EBIT	38,730	45,390	63,041	57,704	65,008
Other income	3,720	7,040	4,414	10,202	12,290
Exceptional items	40	1,010	910	0	0
Others	0	0	0	0	0
Adj. Profit before tax	**42,530**	**54,450**	**69,274**	**67,906**	**77,298**
Taxes	3,860	7,860	9,956	10,865	19,325
Net profit	**38,560**	**46,590**	**59,319**	**57,041**	**57,974**

Low revenue growth before FY11 causes a significant change in tax rate. Our current assumption for FY11 is 25.

Cashflow summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Profit before tax	38,770	46,400	63,951	57,704	65,008
Depr. & amortization	5,140	5,980	7,501	8,812	10,020
Tax paid	-3,860	-7,860	-9,956	-10,989	-19,750
Working capital Δ	-12,660	7,330	274	-781	2,427
Other items	3,720	2,749	4,414	10,977	13,993
Operating cashflow	31,110	54,599	66,184	65,723	71,698
Capital expenditure	-20,530	-11,560	-12,000	-6,000	-12,000
Free cash flow	**10,580**	**43,039**	**54,184**	**59,723**	**59,698**
Equity raised	12,354	830	0	0	0
Dividends paid	-6,490	-19,019	-17,754	-17,267	-17,733
Other items	-1,284	1,010	910	0	0
Net change in cash	**15,180**	**25,860**	**37,340**	**42,456**	**41,964**

Source: Company data, IIFL Research

High cash balances are likely to be used for acquisitions

Balance sheet summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Cash & equivalents	62,050	84,680	119,005	158,528	197,481
Sundry debtors	33,410	46,220	56,032	57,358	62,771
Other current assets	920	1,190	0	0	0
Fixed assets	**28,060**	**34,530**	**43,269**	**46,456**	**45,436**
Other term assets	9,650	13,240	9,000	3,000	6,000
Total assets	**134,050**	**179,860**	**227,306**	**265,343**	**311,688**
Sundry creditors	14,690	19,120	24,274	24,791	27,013
Other current liabs	6,810	22,790	26,532	26,561	32,178
Net worth	**112,550**	**137,950**	**176,500**	**213,992**	**252,497**
Total liabs & equity	**134,050**	**179,860**	**227,306**	**265,343**	**311,688**

Expect US$ revenues to degrow by 8.5% in FY10

Ratio analysis

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenue growth (%)	45.9	20.1	29.9	-0.8	10.1
Op Ebitda growth (%)	42.1	19.3	36.4	-6.9	12.8
Op Ebit growth (%)	45.9	17.2	38.9	-8.5	12.7
Op Ebitda margin (%)	31.6	31.4	32.9	30.9	31.7
Op Ebit margin (%)	27.9	27.2	29.1	26.8	27.4
Net profit margin (%)	27.8	27.9	27.4	26.8	25.0
Dividend payout (%)	16.8	40.9	30.0	30.0	30.0
Tax rate (%)	9.1	14.4	14.4	16.0	25.0
Net debt/equity (%)	-55.1	-61.4	-67.4	-74.1	-78.2
Net debt/op Ebitda (x)	-1.4	-1.6	-1.7	-2.4	-2.6
Return on equity (%)	34.3	33.8	33.6	26.7	23.1
ROCE (%)	34.4	32.9	35.7	27.0	25.7
Return on assets (%)	28.8	25.9	26.1	21.7	19.0

Source: Company data, IIFL Research

IDFC – SELL

IDFC IN	Rs47	Banking	12 March 2009	Company Update

Strong headwinds

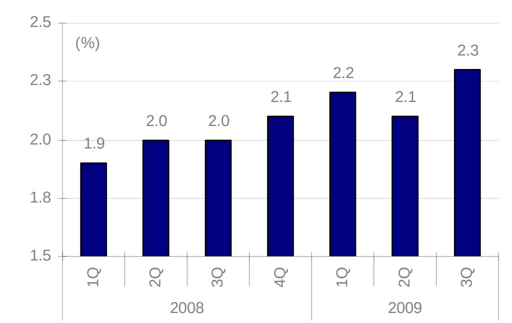
Infrastructure lending has slowed down materially as financial closures of projects get pushed back and raising both equity and debt has become difficult. Fee income from investment banking and advisory activities is falling sharply. No new equity investments were made this year and unrealised gains remain only on the company's NSE stake. PE fund management is the only bright spot as AuM has tripled to US$2.3bn. Growth is expected to be severely constrained in the medium term and we expect net profit to fall in FY09 and in FY10, after cutting them by 14% and 30% respectively. Moreover, goodwill amounting to 17% of net worth may have to be written-off. Maintain SELL with revised target price of Rs43 (1x FY10ii tangible book).

Loan disbursals to further slowdown: Corporates are curtailing their expansion plans and financial closures of new infrastructure projects are slowing down. Lenders now require a more conservative debt:equity mix of not more than 70:30. Raising of matching equity is now extremely difficult and as such lending to new projects is also likely to contract going forward. Loans grew by a mere 7% YoY in 3QFY09 compared with 42% and 25% in the previous two quarters. We do not expect loan growth to pick-up over the next several quarters, and estimate FY10 loan growth to be 8-10%.

No new equity investment made this year: Principal investment was a key business for IDFC and consistently contributed to 20-30% of profits in the previous years. Presently it has an equity book of Rs13.5bn, having made no new investment this year. Out of this only one investment – its 8.5% stake in NSE – has unrealised gain of over Rs10bn and can be sold to maintain this revenue stream. As such, gains here can be very lumpy with zero gains in several quarters. Other non-interest income sources including investment banking and advisory fees are also in sharp contraction.

Goodwill of Rs10.8bn may need to be written-off: Goodwill of Rs10.8bn, arising primarily from the acquisition of Standard Chartered AMC, is currently outstanding. This amounts to 17% of shareholders' funds. The management will have to decide if it's desirable to continue to carry this large goodwill in the company's books or it should be written off as the high acquisition price can no more be justified in current market conditions. While this will not impact the company's Tier-I CAR, it will reduce its stated book value.

1-year rolling spread



Source: Company, IIFL Research

Financial Summary

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Op income (Rs m)	7,158	13,236	13,646	13,346	15,268
Net profit (Rs m)	5,039	7,422	7,181	6,742	7,627
EPS (Rs)	4.5	5.8	5.6	5.2	5.9
Growth (%)	28.6	29.9	-4.2	-6.1	13.1
PER (x)	10.5	8.1	8.5	9.0	8.0
Dividend yield (%)	2.1	2.5	2.5	2.5	2.5
Price/Book (x)	1.8	1.1	1.0	0.9	0.8
Price/Tangible Book* (x)	1.9	1.2	1.2	1.1	1.0
ROA (%)	3.4	3.2	2.4	2.1	2.1
ROE (%)	18.3	17.4	12.3	10.6	11.1
CAR (%)	20.4	22.2	20.8	20.7	19.9

Price as at close of business on 09th March 2009. *Book value less goodwill

12-mth Target price (Rs) 43 (-9%)

Market cap (US$ m)	**1,178**
52Wk High/Low (Rs)	191/45
Diluted o/s shares (m)	1295
Daily volume (US$ m)	11.8
Dividend yield FY09ii (%)	2.9
Free float (%)	79.8

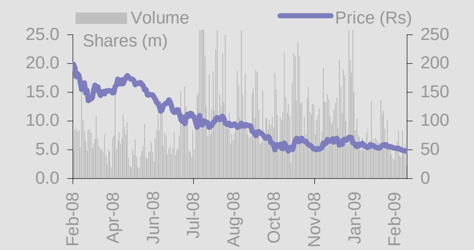
Shareholding pattern (%)

GOI/IDBI	20.2
FII	41.6
Domestic MF/Insurance	26.6
Others	11.7

Price performance (%)

	1M	3M	1Y
IDFC	-14.3	-22.8	-72.1
Rel. to Sensex	0.5	-11.8	-23.2
HDFC	-15.8	-16.9	-52.2
SBI	-22.0	-23.4	-51.3
PFC	-4.2	12.5	-18.9

Stock movement



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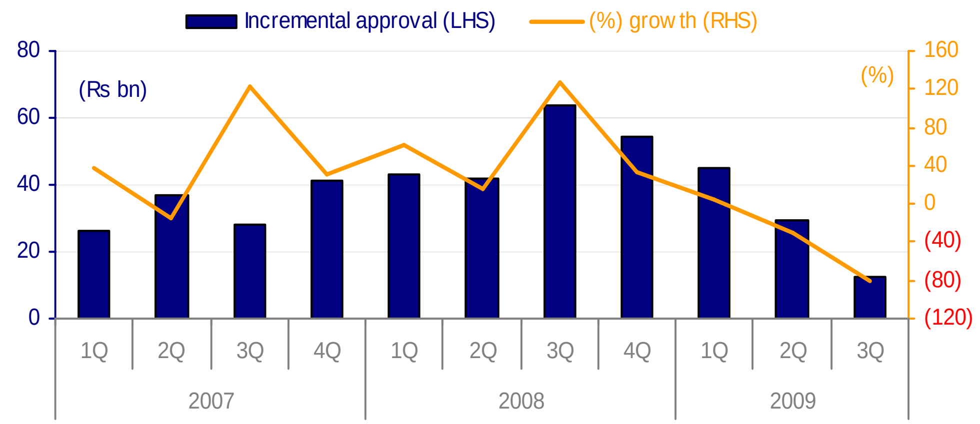
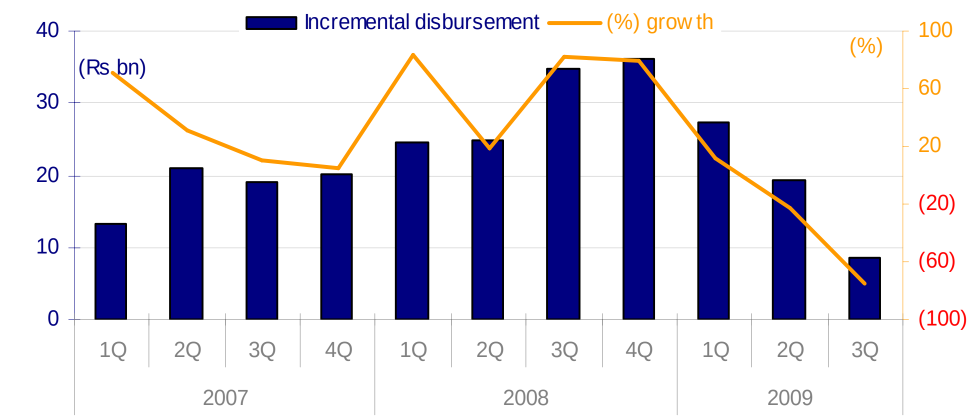
Strong headwinds

Figure 1: Loan approvals decelerate…



Source: Company, IIFL Research

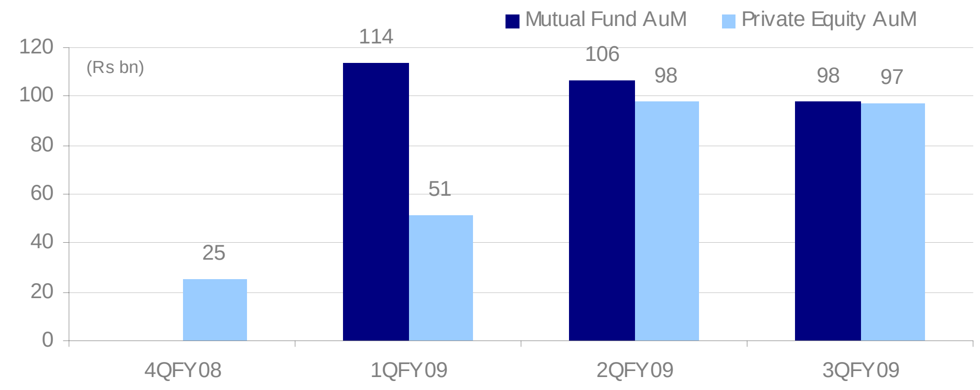
Figure 2: … as do loan disbursements



Source: Company, IIFL Research

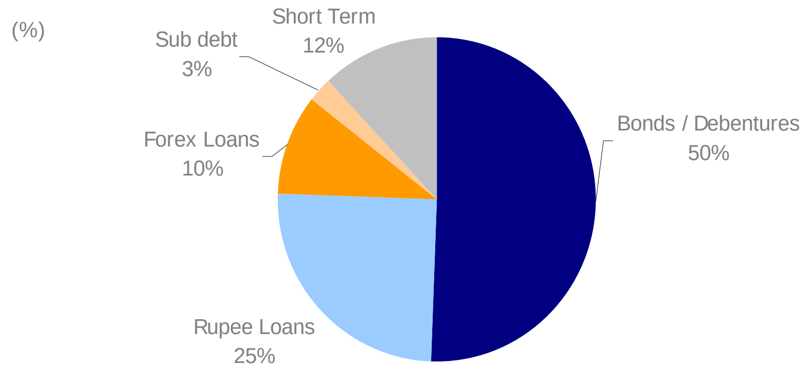
PE fund management is the only bright spot: PE AuM has risen from US$650m last year to US$2.3bn this year, which will significantly boost asset management fees as IDFC earns it on the entire amount collected. Only $900m out of the total $2.3bn is committed/deployed so far. A key risk here is that of investors reneging on their commitments and pulling out even at the risk of losing existing investments. As of February 2008 IDFC Mutual Fund is the 12th largest AMC in the country with AuM of Rs136bn and debt:equity mix of 70:30. While it has managed to stem any outflows and the size of AuM remains respectable, it's unlikely to be able to raise any alternate funds as planned earlier, and consequently profitability will remain low.

Figure 3: PE & MF AuM are the bright spots



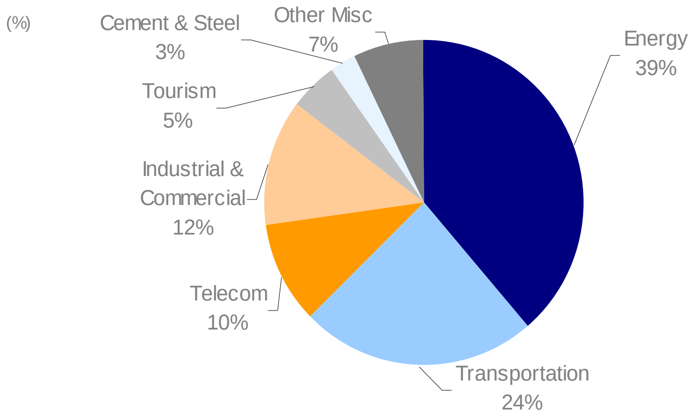
Source: Company, IIFL Research. Acquired Standard Chartered MF in March 2008.

Figure 4: Wholesale funding restricts significant balance sheet expansion



Source: Company, IIFL Research

Figure 5: Loan book break-up: 12% exposure to Industrial & Commercial sector

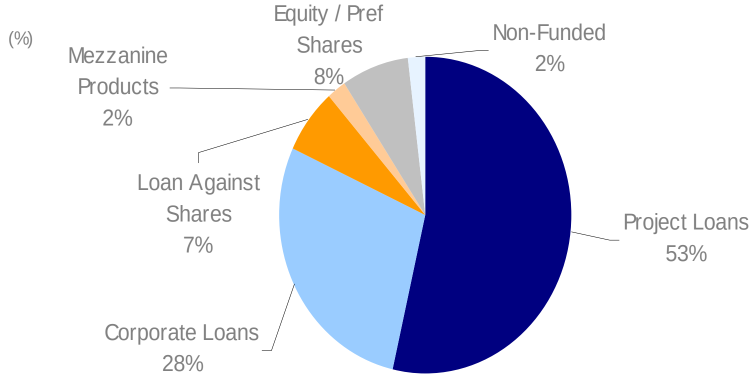


Source: Company, IIFL Research

Higher NPAs from real estate exposure and loans against shares: Loans to commercial and industrial infrastructure amount to Rs30bn or 12% of the loan book. These include loans to special economic zones (SEZs), townships, educational institutes, healthcare facilities and commercial real estate. About two-third of this exposure is towards commercial real estate. The management expects this segment to be under greater stress. Also 7% of loans are against shares. While the company maintains that it has adequate cover and that the exposure is gradually being would down, these loans do remain vulnerable in falling equity markets.

Keen to acquire a banking license: IDFC cannot significantly expand its asset base without a retail deposit taking franchise. Since the RBI no longer issues deposit-taking licenses to NBFCs, the only alternative left with IDFC is to acquire a banking license. This is provided RBI grants IDFC a license. Even if granted, it will be quite a task in acquiring a bank, re-branding it, developing a retail deposit franchise, maintaining CRR and SLR and carrying on other business that go with a commercial bank including retail and priority sector lending. Certainly, IDFC would no longer remain an infrastructure play, which is its key strength.

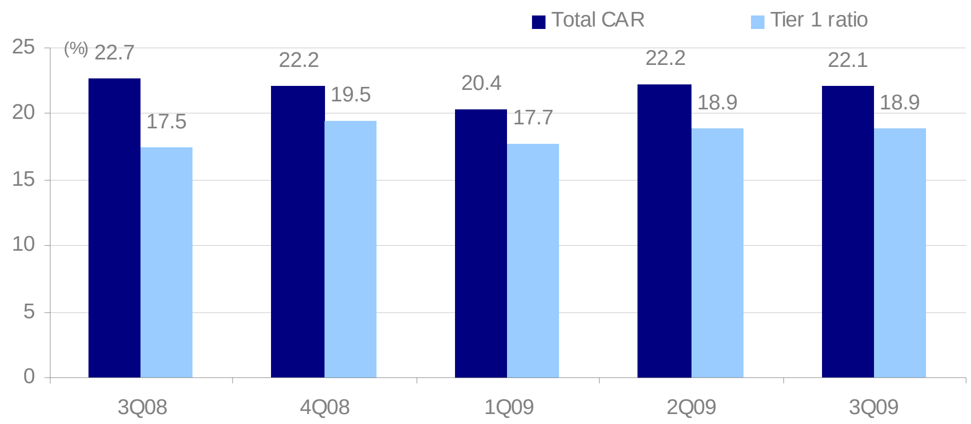
Figure 6: Product split: Loan against shares are 7%



Source: Company, IIFL Research

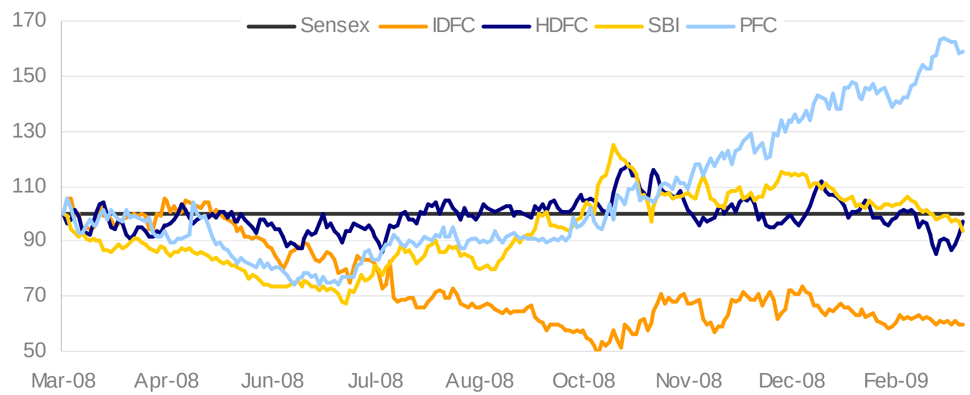
CAR constraints remain: The company's net capital consumption is now almost zero as a result of the sharp slowdown in loan growth and Tier-I CAR is 18.9% (total CAR 22.1%). While no new equity issuances may be required, it will still continue to constraint future growth and cap ROE.

Figure 7: IDFC – Total CAR and Tier 1



Source: Bloomberg, IIFL Research

Figure 8: IDFC – Relative performance vis-à-vis peers



Source: Bloomberg, IIFL Research

Financial summary

Cost-to-income ratio set to rise

EPS CAGR of 3% over FY09-11ii

Loan growth to moderate

Income statement summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Interest income	13,043	21,885	27,468	29,856	34,010
Interest expense	8,555	14,829	18,939	20,946	23,415
Net interest income	**4,488**	**7,056**	**8,529**	**8,910**	**10,595**
Fee Income	1,340	4,020	3,562	3,036	3,134
Others	1,330	2,160	1,555	1,400	1,540
Non-interest income	**2,670**	**6,180**	**5,117**	**4,435**	**4,673**
Total operating income	**7,158**	**13,236**	**13,646**	**13,346**	**15,268**
Employee cost	480	1,677	2,096	2,096	2,411
Other operating expenses	341	855	1,018	1,074	1,215
Total operating expenses	**821**	**2,532**	**3,114**	**3,171**	**3,626**
Pre provision operating profit	**6,337**	**10,705**	**10,532**	**10,175**	**11,642**
Provisions	175	700	920	1,150	1,438
Profit before tax	**6,162**	**10,004**	**9,613**	**9,026**	**10,204**
Taxes	1,241	2,480	2,403	2,256	2,551
Minorities and other	118	102	28	27	26
Net profit	**5,039**	**7,422**	**7,181**	**6,742**	**7,627**

Balance sheet summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Net loans & advances	139,184	199,051	218,956	240,852	269,754
Cash & equivalents	10,800	18,081	3,542	7,110	7,431
Other interest earning assets	23,903	52,257	73,396	77,502	93,101
Total interest earning assets	**173,888**	**269,390**	**295,895**	**325,465**	**370,287**
Fixed assets	490	3,850	4,019	4,153	4,281
Other assets	9,463	16,172	22,306	21,316	22,282
Total assets	**183,841**	**289,412**	**322,220**	**350,934**	**396,850**
Other interest bearing liabilities	149,028	223,035	250,445	273,202	312,172
Total interest bearing liabilities	**149,029**	**223,036**	**250,446**	**273,203**	**312,173**
Other non-interest bearing liabilities	5,335	10,442	10,471	11,505	12,641
Total liabilities	**154,365**	**233,479**	**260,918**	**284,708**	**324,814**
Net worth	**29,476**	**55,933**	**61,303**	**66,227**	**72,036**
Total liabilities & equity	**183,841**	**289,412**	**322,220**	**350,935**	**396,851**

Source: Company data, IIFL Research

Share of non-interest income to fall

Conserving capital for higher Tier I to retain AAA credit rating

Ratio analysis

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Balance Sheet Structure Ratios (%)					
Loans / Borrowings	93.4	89.2	87.4	88.2	86.4
Loan Growth	38.0	43.0	10.0	10.0	12.0
Growth in Borrowings	58.9	49.7	12.3	9.1	14.3
Growth in Total Assets	49.4	56.4	11.8	8.9	13.2
Profitability Ratios (%)					
Net Interest Margin	3.0	3.2	3.0	2.9	3.1
Return on Average Assets	3.4	3.2	2.4	2.1	2.1
Return on Average Equity	18.3	17.4	12.3	10.6	11.1
Non-Int Inc as % of Tot Inc	37.3	46.7	37.5	33.2	30.6
Net Profit Growth	29.0	47.3	-3.2	-6.1	13.1
FDEPS Growth	28.6	29.9	-4.2	-6.1	13.1
Efficiency Ratios (%)					
Cost to Income Ratio	11.5	19.1	22.8	23.8	23.7
Salaries as % of Non-Int Costs	58.4	66.2	67.3	66.1	66.5
Credit Quality Ratios (%)					
Gross NPLs as % of loans	0.2	0.2	0.5	1.0	1.1
NPL coverage ratio	284.3	105.6	128.8	115.9	145.8
Total prov as % avg loans	0.1	0.2	0.3	0.4	0.5
Net NPLs as % of net loans	0.00	0.03	0.00	0.00	0.00
Capital Adequacy Ratios (%)					
Total CAR	20.4	22.2	20.8	20.7	19.9
Tier I capital ratio	16.1	19.5	18.1	18.2	17.7
Key earnings drivers (%)					
Loan growth	38.0	43.0	10.0	10.0	12.0
Net interest margin	3.0	3.2	3.0	2.9	3.1
Net int income growth	57.8	57.2	20.9	4.5	18.9
Core fee income growth	40.3	200.0	-11.4	-14.8	3.2
Non-int inc as % of total	37.3	46.7	37.5	33.2	30.6
Operating costs growth	50.6	208.2	23.0	1.8	14.4
Cost/income ratio	11.5	19.1	22.8	23.8	23.7
Gross NPAs as % of loans	0.2	0.2	0.5	1.0	1.1
Total prov as % of loans	1.4	1.5	1.4	1.5	1.6
Tax rate	20.1	24.8	25.0	25.0	25.0

Source: Company data, IIFL Research

Vodafone catches up with Bharti

Vodafone's net adds grew for the fourth consecutive month, and at 2.6m, has almost drawn level with Bharti. Bharti's net adds dropped by 14% and 16% MoM in metro and category 'A' circles respectively, though this drop was offset by a higher growth in other circles. Idea's net adds for Mumbai and Delhi put together were the highest, though its overall net adds dipped, primarily owing to a spike in Mumbai net adds in January 2009. Aircel started operations in Kerala and Karnataka and is now present in 12 circles. The total SIM count is estimated to be 377.5m.

Figure 1: Monthly net GSM adds – Vodafone and BSNL continue to show strong growth

	Nov-08	Dec-08	Jan-09	Feb-09	Up by
Aircel	715,960	700,551	685,936	715,217	4.3%
Bharti	2,720,846	2,730,140	2,732,025	2,732,213	0.0%
BPL Mobile	74,422	65,343	59,636	65,881	10.5%
BSNL	676,402	874,223	1,311,623	1,507,523	14.9%
Idea Cellular	1,226,783	1,401,198	1,853,128	1,406,064	-24.1%
MTNL	77,398	78,584	103,946	80,772	-22.3%
RCOM GSM	381,002	390,144	391,112	391,112	0.0%
Spice Comm (Idea)	68,765	96,033	150,180	96,396	-35.8%
Vodafone	2,060,658	2,168,988	2,406,872	2,580,878	7.2%
Total	**8,002,236**	**8,505,204**	**9,694,458**	**9,576,056**	-1.2%
Growth % MoM	-0.6%	6.3%	14.0%	-1.2%	

*RCOM's GSM adds assumed unchanged from January. Also excludes GSM adds for RCOMs 14 new circles for Jan & Feb-09. COAI, IIFL Research

- We estimate combined GSM+CDMA additions for February 2009 at 15m, taking India's total wireless subscriber base to 377.5m, with the GSM subscriber base at 277.5m (incl. RCOM's subscriber adds from its new GSM launch).
- Idea's net adds were down from last month's peak due to a drop in net adds for Mumbai from the spike in Jan-09 (278,380 subs) to 87,343 subs in Feb-09. This impacted the overall MoM net adds.

Figure 2: GSM subscriber growth has maintained its momentum

M subs	Nov-08	Dec-08	Jan-09	Feb-09
Aircel	15.4	16.1	16.8	17.5
Bharti	82.9	85.7	88.4	91.1
BPL Mobile	1.9	1.9	2.0	2.1
BSNL	40.5	41.4	42.7	44.2
Idea Cellular	32.8	34.2	36.1	37.5
MTNL	3.8	3.9	4.0	4.1
RCOM GSM*	10.0	10.4	10.7	11.1
Spice Comm (Idea)	3.7	3.8	4.0	4.0
Vodafone	58.8	60.9	63.3	65.9
Total	250	258	268	278

* Excludes RCOM's GSM subs from the 14 new circles. Source: COAI, IIFL Research

Figure 3: Idea's net adds were the highest for Mumbai and Delhi

Net adds	Delhi	Mumbai
Bharti	97,981	29,831
Vodafone	82,951	69,507
IDEA	94,595	87,343

Source: IIFL Research

Figure 4: Bharti net adds drop in metro and 'A' circle – this could be attributed to more aggressive schemes from competitors

MOM growth in net adds	Metro	Category 'A'
Bharti	9%	-16%
Vodafone	19%	-14%

Source: IIFL Research

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Events calendar – March 2009

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
2	**3**	**4**	**5**	**6**	**7**
Jan Exports ↓ **-16%** Jan Imports ↓ **-18%**			WPI for 21 Feb ↓ **3.03**	Nestle (Dec 08)	
9	**10**	**11**	**12**	**13**	**14**
			Jan IIP data WPI for 28 Feb		
16	**17**	**18**	**19**	**20**	**21**
			WPI for 7 Mar		
23	**24**	**25**	**26**	**27**	**28**
			WPI for 14 Mar		
30	**31**				
	3QFY09 - BoP data				

Black: Quarterly results, Blue: Economic data, Red: India Holiday

Events

	Jan-Mar 09	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10
Economics / Politics	• RBI's Monetary Policy meeting (end Jan) • Interim budget 2009-10	• India's national elections • State elections in Andhra Pradesh, Orissa, Sikkim • RBI's Monetary policy meeting (end April)	• Revised Budget for 2009-10 (July) • RBI's Monetary policy meeting (end July)	• RBI's Monetary policy meeting (end October)	
Auto	• **Tata Motors** - Launch of the eagerly awaited Nano. • **Maruti** – launch of the Splash	• **Tata Motors** – Repayment of the US$3bn bridge loan taken for the JLR acquisition (Jun-09)		• **Tata Motor's** Nano plant at Sanand to start operations	• **M&M's** Chakan plant with a capacity of 320,000 vehicles to start operations.
Cement	• **Dalmia Cement's** 2.3mtpa Cuddapah plant to start production • **Kesoram** 1.7 mtpa cement capacity expansion • **India Cements** 1.5 mtpa Malkapur, AP plant to start • **Deccan cements** 1.1 mtpa AP plant to start • **JK Lakshmi Cement** 0.5 mtpa plant to start • **Madras Cements** 2mtpa plant at Ariyalur to start	• **JK Cement** 3.5 mtpa Karnataka plant to start • **Orient Cement** 1.6 mtpa Devapur, AP plant to start • **Grasim's** 4.4 mtpa Kotputli expansion to commence prod. • **OCL's** 2.0 mtpa Orissa plant to start • **Chettinad Cement** 2mtpa plant at Ariyalur to start • **Murli Industries** 2.5mtpa Chandrapur plant to start • **JP Associates** 1.2 mtpa Gujarat plant to start	• **Lafarge's** 1.3 mtpa Sonadih plant to start • **Dalmia Cements** 2.3 mtpa Ariyalur plant to start • **Zuari Cements** 2.4 AP mtpa plant to start • **Ambuja Cement's** 1.5 mtpa Dadri plant to start • **ACC's** 1.2 mtpa Bargarh plant to start	• **JP Associates** 3.0 mtpa HP plant to start • **NCL Industries** 1.5 mtpa AP plant to start • **Raghuram Cement** AP 2 mtpa plant to start • **Andhra Cement** 1 mtpa AP plant to start • **Ambuja Cement** 1.5 mtpa Panipat plant to start • **Shree Cement** 1.0 mtpa plant to start • **ACC** 3 mtpa Wadi, Kar plant to start	
Infrastructure				• **BHEL** Capacity goes up from 10 GW to 15 GW	

Events

	Jan-Mar 09	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10
Metals	• **JSW:** Capacity expansion to 6.8mtpa (Feb-09)				
Oil & Gas	• Commercial production from **RIL** KG D-6 starts • Commercialisation of **RPL** refinery				
Pharma	• **Sun Pharma:** Israeli supreme court decision on acquisition of Taro shares • **Glaxo Pharma:** Launch of Allermist in the domestic market	• **Dr Reddy's:** Full impact of the AOK contracts in the German generic market • **Dr Reddy's:** ANDA filing for generic fondaparinux in US • **Jubilant:** Generic sestamibi approval by USFDA • **Glenmark:** Data from phase II study of melogliptin in diabetes mellitus • **Glaxo Pharma:** Launch of an in-licensed anti-fungal product in the domestic market		• **Max Healthcare:** Opening of 270 bed Max Balaji tertiary care centre, Pratapganj, New Delhi • **Ranbaxy:** Launch of generic Valaciclovir under exclusivity in US	
Real Estate	• **DLF** – Buy back of shares- upto Rs 11bn & cap price at Rs600/share • **DLF** – Capital raising by DAL • **Unitech** to raise funds via stake sale in hotel & office projects. Planning to raise money by diluting stake at parent level. • **Sobha** – Right issue upto Rs3.5bn • **Puravankara Projects** – Capital raising by its subsidiary Provident Housing & Infrastructure Ltd to fund its mass housing project				

Events

	Jan-Mar 09	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10
Telecom	• Final order for spectrum fee hike expected; if it doesn't come in 4Q, will present a definite upside. • **RCOM's** subscriber numbers in first 3 months of free-minutes backed GSM launch • GoM to decide on 3G auctions; reserve price and number of blocks in focus • **BSNL, MTNL** to launch 3G services • **Onmobile** to go live with AdRBT with Vodafone pan-India	• Licence fee reduction by 200bps for non-metro circles for operators with 95% coverage w.e.f 1/April 2009 • **Idea Spice** merger expected to receive court approval, and get completed • 3G auctions expected to be held • **RCOM** expected to explain retention plans for subscribers gained in 4QFY09	• **Indus Towers** expected to receive towers from Bharti, Vodafone and Idea and thus merger of tower subsidiaries into Indus completed		
Utilities	• **Lanco's** 300MW Amarkartak-I unit to start operations • **Tata Power's** 250MW unit at Trombay to begin operations • Bidding for 4000MW Tilaiya UMPP	• **NTPC**'s Kahalgaon-II Ph II Unit 7 (500MW) to commission	• **CESC** Budge Budge (250MW) unit operational • **Suzlon** to start production from new facilities	• **NTPC**'s Sipat-I Unit 1 (660MW) to commission	
Others	• **Arshiya International** – Capital raising to fund its FTWZ & Rail business • **EKC** cancels expansion plans in China (300,000 cylinders each in FY10 and FY11)	• 200,000 billet pierced industrial cylinders capacity at Gandhidham comes on stream • 5,000 Jumbo cylinder plant at Gandhidham to start operations		• **EKC's** Kandla SEZ plant to manufacture 300,000 steel plate cylinders for exports to Europe to start operations.	

Shares pledged by Promoters

- In all, more than 600 companies have reported the data, taking the total pledge amount at current market price to US$11.96bn.

Company Name	Mkt. Cap. (US$ m)	% of Paid-up Share Cap.	% of Promoter Hldg
Tata Consultancy Serv.	8,734	11.14	14.62
Reliance Communications	5,281	13.19	19.95
Sun Pharmaceutical	3,883	0.42	0.66
Jindal Steel & Power	2,993	1.65	2.81
Tata Power	2,654	14.59	43.87
GMR Infrastructure	2,395	14.21	19.18
Mundra Port	2,301	4.52	5.57
Tata Communications	2,233	10.53	13.81
Tata Steel	2,145	13.53	39.84
Reliance Infra	1,928	16.35	43.80
Mahindra & Mahindra	1,581	8.09	30.54
Jaiprakash Associates	1,500	2.15	4.75
Dabur India	1,492	9.24	13.06
Kotak Mahindra Bank	1,486	0.01	0.02
Essar Oil	1,450	36.47	41.16
Bajaj Auto	1,378	2.71	5.39
Asian Paints	1,330	14.98	29.97
Reliance Capital	1,330	4.03	7.53
Akruti City	1,277	56.08	60.34
Dr Reddys Laboratories	1,222	7.01	26.55
Tata Motors	1,185	13.42	32.12
Adani Enterprises	1,163	24.98	33.35
United Spirits	1,155	32.82	89.75
Sun Television	1,113	4.19	5.44
Suzlon Energy	1,005	25.85	39.27
Lupin	948	12.60	24.88
Crompton Greaves	832	6.22	15.79
Zee Entertainment	785	11.53	27.78
Unitech	775	49.48	73.35
UT Ltd.	775	1.81	2.68
Tata Teleservices Maha.	717	49.70	75.72
EIH	716	6.54	14.09
Sterling Biotech	706	13.32	36.20
Tata Tea	647	11.32	32.09
United Phosphorus	635	5.64	20.16

Company Name	Mkt. Cap. (US$ m)	% of Paid-up Share Cap.	% of Promoter Hldg
Godrej Consumer Products	625	7.58	10.92
Torrent Power	595	11.07	20.97
JSW Steel	589	31.87	70.20
India Cements Ltd	528	22.43	80.05
Indian Hotels Company	485	3.46	11.72
GVK Power & Infra.	482	4.37	7.17
Jain Irrigation Systems	482	5.13	15.83
Lanco Infratech	475	8.53	11.59
Religare Enterprises	466	0.58	1.07
CESC	463	5.74	10.94
Tata Chemicals	453	20.02	68.56
Max India Ltd.	434	24.95	72.13
Great Eastern Shipping	430	0.01	0.02
Apollo Hospitals	426	18.18	57.35
Bajaj Holdings & Inv.	417	3.82	12.12
Ashok Leyland	414	17.82	46.15
Dish TV India	413	7.17	12.37
Bajaj Finserv	413	4.41	8.02
Punj Lloyd	405	1.20	2.71
Shree Renuka Sugars	394	8.45	20.21
Gillette India	386	0.49	0.55
United Breweries Ltd.	382	9.97	13.30
Videocon Industries	372	36.41	53.74
Aventis Pharma	362	10.27	17.00
Pantaloon Retail	329	19.49	41.91
Century Textiles & Ind.	303	0.21	0.52
Fortis Healthcare	281	20.75	30.41
Chambal Fert. & Chem.	279	7.72	15.60
Madras Cements	272	2.11	5.02
Jubilant Organosys	256	13.66	27.10
Rei Agro	253	13.05	32.26
Bhushan Steel	249	17.18	25.98
Jaiprakash Hydro Power	234	60.08	94.85
Emami	229	27.89	31.75
India Infoline Ltd.	227	0.05	0.15

Shares pledged by Promoters

Company Name	Mkt. Cap. (US$ m)	% of Paid-up Share Cap.	% of Promoter Hldg
Coromandel Fertilisers	221	0.07	0.11
HCL Infosystems	221	0.77	1.41
Ispat Industries	220	29.98	72.89
EID Parry India	213	6.35	13.83
Essar Shipping Port	197	15.07	31.89
Sintex Industries	191	14.90	51.11
Era Infra Eng.	190	56.60	96.95
Nava Bharat Ventures	185	6.44	14.42
Nagarjuna Construction	172	9.23	37.87
Cambridge Solutions	169	49.20	98.22
Aban Offshore	169	8.14	13.38
Aurobindo Pharma	164	37.67	65.18
Tulip Telecom	159	22.57	32.73
Great Offshore	156	14.88	94.60
Ipca Laboratories	156	16.41	35.67
Apollo Tyres	153	10.62	26.99
Gujarat NRE Coke	153	14.71	32.29
Wockhardt	149	43.11	58.54
Carborundum Universal	149	1.53	3.55
Motilal Oswal Fin	149	12.38	17.59
Ballarpur Industries	148	3.38	8.67
Bombay Rayon	148	17.22	35.56
Kirloskar Oil Engines	146	4.55	7.48
MindTree	145	0.27	0.78
Phoenix Mills	144	0.35	0.53
Dishman Pharmaceuticals	140	6.44	10.60
Moser Baer India	138	1.56	9.58
Jindal Saw	137	7.32	16.73
Zee News	136	17.17	31.71
Omaxe	136	21.95	24.59
Rolta	133	2.58	6.41
Television Eighteen	130	34.60	67.83
Kingfisher Airlines	128	43.80	66.09
UTV Software	127	22.76	27.34
Hotel Leelaventure	122	21.13	41.03

Company Name	Mkt. Cap. (US$ m)	% of Paid-up Share Cap.	% of Promoter Hldg
Kalpataru Power Trans.	121	20.92	32.85
Shaw Wallace & Co.	121	62.50	83.33
Varun Shipping Co.	116	8.75	19.01
Radico Khaitan	113	14.86	30.53
Asahi India Glass	111	7.09	12.84
Parsvnath Developers	111	63.88	79.52
Nagarjuna Fertilizers	111	24.56	69.58
Sobha Developers	111	28.39	32.63
Jindal Drilling & Ind.	102	26.86	35.81
Simplex Infra	100	7.60	15.38
Shree Ashtavinayaka CV	100	11.24	23.01

Source: Bloomberg
Note: Sorted on the basis of market capitalization.
This is not an exhaustive list; companies with market cap of more than US$100mn are considered. Updated till 09 Mar 2009.

Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.
SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.
Reduce - Stock expected to return less than the hurdle rate, ie return of less than 10%.
