

PAIR STRATEGY: LONG RCOM - SHORT IDEA

Featured Pair: RCOM/ IDEA

Strategy:

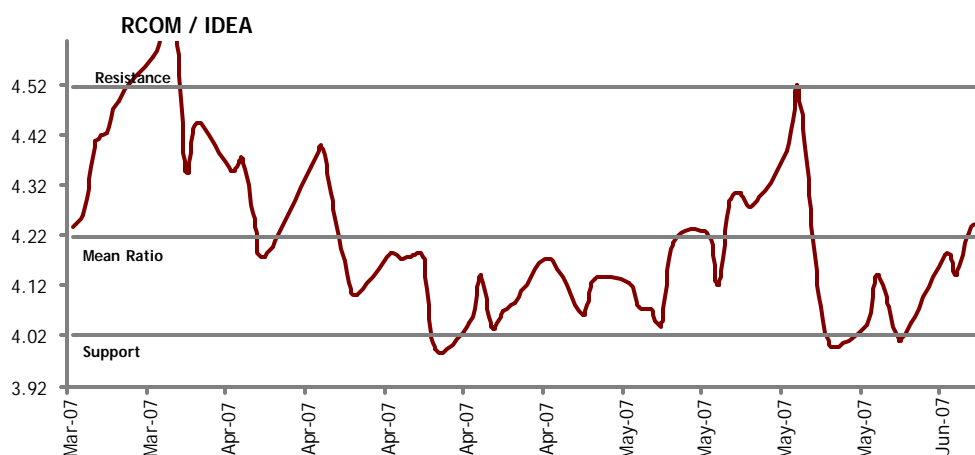
Buy RCOM and sell IDEA on a rupee-neutral basis in anticipation of out performance of RCOM over IDEA in the near term. RCOM is trading at a cheaper valuation than IDEA largely due to the recent rally in IDEA on the back of speculative buying in anticipation of the merger of Spice Telecom, Aircel and Idea. RCOM is currently trading at 13 times FY08 EV/EBIDTA against 15 times on IDEA. Even on a EV per subscriber basis, RCOM is trading at USD 545 against USD 590 for Idea (March '07 ending subscriber numbers).

Potential upside in RCOM can also come from

1. Expected clarity on Spectrum allocation towards July end
2. Upcoming Overseas FLAG IPO
3. Demerger of the tower business
4. Launch of consumer broad band and IPTV

RCOM has also been consolidating in the range of 505 - 520 from past few trading sessions. The stock has attracted significant trading volumes along with jump in delivery volumes in the recent past. We expect the trade to generate a potential return of 6% to 7% on GEP.

Chart I: Price ratio RCOM & IDEA



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Sunil Jain
 +91-22-2286 4308
 sunil.jain@edelcap.com

Yogesh Radke
 +91-22-2286 4328
 yogesh.radke@edelcap.com

RCOM

Bloomberg code	NRCOM
Price	519
30/90 day percentile	93%/97%
6 month beta*	1.42
Market cap	1,046,025
Avg. cash volume	2,554
Avg. futures volume	6,175
52 Week High/Low	523/377

IDEA

Bloomberg code	NGRASIM
Price	122
30/90 day percentile	76%/89%
6 month beta*	0.52
Market cap	324,940
Avg. cash volume	1,140
Avg. futures volume	2,182
52 Week High/Low	126/75

Mkt. Cap & Volume in INR mn

* beta relative to Nifty

Closed Trades

Start Date/ Closing Date	Strategy	Entry Price	Entry Ratio	Close Price	Close Ratio	Target Ratio	Return on GEP*	Return on AD#	Max Gain on GEP*	Max loss on GEP*	Sta
18-May-07	Long HDFC Bank	1,070		1,148							
31-May-07	Short Bank Nifty	6,291	0.170	6,325	0.181	1.790	6.7%	13.4%	6.7%	0.0%	Clo
8-May-07	Long REL	506		552							
21-May-07	Short Tata Power	593	0.852	598	0.923	0.921	8.3%	16.6%	8.3%	0.0%	Clo
16-Apr-07	Long Nifty	4,013		4,084							
27-Apr-07	Short CNXII	5,453	0.736	5,302	0.770	1.790	4.5%	9.0%	6.8%	0.0%	Clo
15-Mar-07	Long Infosys	2,079		2,087							
13-Apr-07	Short TCS	1,234	1.685	1,262	1.654	1.790	-1.9%	-3.8%	1.1%	-5.4%	Clo
24-Jan-07	Long Nifty	4,090		3,691							
4-Mar-07	Short Bank Nifty	6,056	0.675	4,995	0.739	0.729	7.7%	15.5%	7.7%	-0.4%	Clo
31-Jan-07	Long Satyam	472		433							
19-Mar-07	Short TCS	1,278	0.370	1,261	0.344	0.390	-7.0%	-14.0%	2.1%	-7.0%	Clo
14-Dec-06	Long ACC	1,029		1,014							
20-Feb-07	Short Gujamb	139	7.42	130	7.80	7.87	5.0%	10.1%	5.0%	-1.9%	Clo
6-Feb-07	HLL	209		200							
20-Feb-07	ITC	175	1.19	176	1.14	1.25	-5.0%	-10.0%	0.0%	-5.0%	Clo
7-Feb-07	Long Grasim	2,873		2,745							
13-Feb-07	Short Ultratech	1,126	2.55	991	2.77	2.70	7.6%	15.1%	7.6%	0.0%	Clo
8-Jan-07	Long Grasim	2,819		2,875							
25-Jan-07	Short Ultratech	1,092	2.58	1,033	2.78	2.76	7.4%	14.8%	7.6%	4.3%	Clo
9-Jan-07	Long Maruti	886		912							
19-Jan-07	Short Tata Motors	911	0.97	951	0.96	1.04	-1.4%	-2.9%	1.4%	3.4%	Clo
1-Dec-06	Long Realty Basket	511		517							
4-Jan-07	Short Parsvnath	511	1.00	456	1.13	1.06	11.8%	23.5%	11.8%	0.0%	Clo
6-Dec-06	Long GACL	140		137							
11-Dec-06	Short ACC	1,145	0.12	1,036	0.13	0.13	7.7%	15.4%	7.7%	0.0%	Clo
21-Nov-06	Long TCS	1,149		1,165							
29-Nov-06	Short Infosys	2,257	0.51	2,157	0.54	0.54	5.8%	11.6%	5.8%	0.0%	Clo
14-Nov-06	Long ACC	1,007		1,097							
17-Nov-06	Short Gujarat Ambuja	136	7.43	136	8.06	7.90	8.6%	17.1%	8.6%	-0.2%	Clo
8-Nov-06	Long Syndicate Bank	79		79							
10-Nov-06	Short Canara Bank	289	0.27	289	0.27	0.29	0.4%	0.8%	2.6%	0.0%	Clo
28-Aug-06	Long RCVL	300		348							
5-Oct-06	Short Bharti	417	0.72	459	0.76	0.76	5.8%	11.5%	6.7%	-2.1%	Clo
13-Jul-06	Long RCVL	269		300							
28-Aug-06	Short NIFTY	3,169	0.09	3,387	0.089	0.09	5.0%	10.0%	5.0%	-4.7%	Clo
5-Jan-04	Long HCLT	322		327							
13-Jan-04	Short NIT	277	1.16	252	1.30	1.22	11.0%	21.9%	13.3%	-	Clo

* Gross Equity Exposure # Amount Deployed

Note:

- Pair strategy recommends buying one security and short selling another in the same industry/sector (i.e. being sector neutral) with the expectation of out-performance of one security compared to another.
- It is a purely quantitative measure of relative value based on historical price movements of two securities. Fundamental analysis has not been used for this. The calls are based on the concept of reversion to the mean.
- Clients should exercise their own discretion in setting stop loss on the recommended strategy.
- The recommendation runs for a maximum time period of 30 trading days.

Edelweiss Securities

14th Floor, Express Towers,
Nariman Point, Mumbai – 400 021
Board: (91-22) 2286 4400
Email: research@edelcap.com



Naresh Kothari – 2286 4246

Head, Institutional Equities

Vikas Khemani – 2286 4206

Head, Institutional Equities

INDIA RESEARCH

SECTOR

INSTITUTIONAL SALES

Shriram Iyer - 2286 4256

Head – Research

Nischal Maheshwari - 2286 4205

Gautam Roy - 2286 4305

Airlines, Textile

Rajesh Makharia - 2286 4202

Ashutosh Goel - 2286 4287

Automobiles, Auto Components

Vikrant Oak - 4019 4712

Vishal Goyal, CFA - 2286 4370

Banking & Finance

Shabnam Kapur - 2286 4394

Revathi Myneni - 2286 4413

Cement

Abhijit Chakraborty - 4019 4823

Harish Sharma - 2286 4307

Infrastructure, Auto Components, Mid Caps

Balakumar V - (044) 4263 8283

Priyanko Panja - 2286 4300

Infrastructure, Engineering, Telecom

Ashish Agrawal - 2286 4301

Hitesh Zaveri - 2286 4424

Information Technology

Nikhil Garg - 2286 4282

Parul Inamdar - 2286 4355

Information Technology

Swati Khemani - 2286 4266

Priyank Singhal - 2286 4302

Media, Retail, FMCG

Neha Shahra - 2286 4276

Prakash Kapadia - 4097 9843

Mid Caps

Priya Ramchandran - 2286 4389

Niraj Mansingka - 2286 4304

Oil & Gas, Petrochemicals

Anubhav Kanodia - 2286 4361

Manika Premsingh - 4019 4847

Economist

Tushar Mahajan - 2286 4439

Sunil Jain - 2286 4308

Alternative & Quantitative

Harsh Biyani - 2286 4419

Yogesh Radke - 2286 4328

Alternative & Quantitative

Nirmal Ajmera - 2286 4258

Ankit Doshi - 2286 4671

Dipesh Shah - 2286 4434

Email addresses: firstname.lastname@edelcap.com

e.g. naresh.kothari@edelcap.com

unless otherwise specified

RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

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