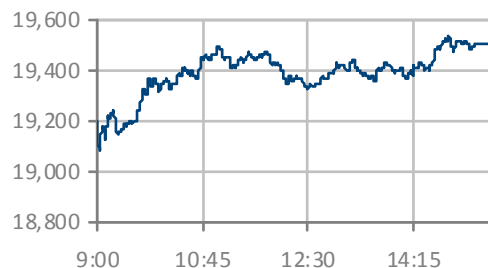


Market Front Page

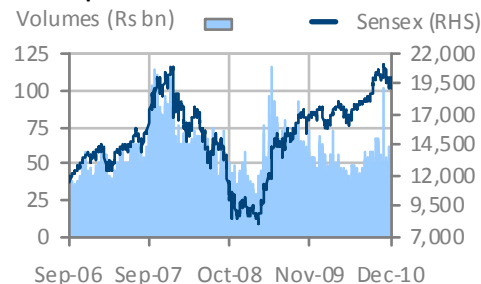
Index Movements	Closing	% Chg	% YTD	ADR/GDR (US\$)	Latest	% Chg	% Prem
Sensex	19,509	1.4	11.7	HDFC Bank	167.1	3.9	12.9
Nifty	5,857	1.6	12.6	Reliance	45.1	2.9	(0.9)
BSE Smallcap	8,951	2.4	7.1	Infosys	69.8	0.4	(0.0)
CNX Midcap	8,512	1.6	14.5	Satyam	2.8	0.4	4.3
Nasdaq	2,638	0.8	16.2	Wipro	14.6	0.4	46.3
DJIA	11,410	0.4	9.4	ICICI Bank	49.0	5.5	(1.2)
IBOV	68,342	0.7	(0.4)	SBI	120.9	1.3	(0.3)
FTSE	5,813	0.1	7.4	Sterlite	14.8	1.6	1.2
CAC	3,857	(0.0)	(2.0)	Tata Motors	28.4	1.9	2.6
Turnover	US\$m	% Chg		Commodities	Latest	% Chg	% YTD
BSE	906	(3.6)		Gold (US\$/ounce)	1,386	(0.1)	26.4
NSE	3,815	(0.8)		Crude (US\$/bl)	88	(0.7)	10.6
Derivatives (NSE)	27,628	(13.0)		Aluminium (US\$/MT)	2,308	(1.3)	3.5
FII F&O (US\$m)	Index	Stocks		Copper (US\$/MT)	8,990	0.4	21.9
Net buying	(43)	(21)		Forex Rates	Closing	% Chg	% YTD
Open interest	15,791	7,527		Rs/US\$	45.2	0.1	(3.1)
Chg in open int.	26	176		Rs/EUR	60.0	(0.1)	(10.6)
Equity Flows (US\$m)	Latest	MTD	YTD	Rs/GBP	71.4	(0.1)	(4.8)
FII (9/12)	(265)	(309)	28,683	Bond Markets	Closing	bps Chg	
DII (10/12)	183	28	(4,610)	10 yr bond		8.1	(2.0)
MF (9/12)	33	21	(6,391)	Interbank call		6.5	(2.0)

Chart Front Page

Sensex intraday



Sensex price volume trend



Top Research Stories

Idea Cellular (REDUCE); India – Economics; INCH Strategy; Events calendar

Corporate Front Page

- **Cipla** and **Ranbaxy** are among those pulled up by the drug price regulator, National Pharmaceuticals Pricing Authority for overcharging. (BS)
- **NTPC** to soon approach the government for reconsideration of the decision to scrap the power producer's 600MW Loharinag Pala hydro-power project in Uttarakhand. (BS)
- **Hindalco's** US subsidiary, Novelis plans to refinance its debt by raising US\$4bn. (BS)
- Nuclear Power Corporation is in talks with **Coal India** on plans to enter the atomic power sector through a joint venture. (BS)
- **HDFC Bank** hikes deposit and lending rates by up to 75 basis points. (ET)
- **Bank of Baroda** hikes deposit rates by 25-75 basis points across various maturities. (BL)
- **Karnataka Bank** hikes the rate of interest on different maturities of term deposits by 25 to 75 basis points with effect from December 13. (BL)
- **Andhra Bank** announces the increase of the base rate by 50 basis points. (BL)
- **Reliance Infrastructure** to have eight toll roads by March that will generate revenues of Rs10bn in fiscal 2012. (BL)
- **ITC** to resume cigarette manufacturing only after receiving a 'formal notification' from the Government on the pictorial warnings that need to be used on such products. (BL)
- **ONGC** expects to ship the first 363 MW turbine built by General Electric for the proposed 726 MW (2x363 MW) gas-based ONGC Tripura Power Company by February. (BL)
- **BHEL** is close to wrapping up a JV agreement with Japan's Toshiba Corporation for manufacturing high-end transmission and distribution equipment. (BL)

Market Front Page

Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
India Infoline Ltd	83	8.9	-35.3	Bajaj Auto Ltd	1491	-2.7	69.9
ACC Ltd	1075	8.6	23.2	JSW Steel Ltd	1041	-2.4	2.7
Shree Renuka Sugars Ltd	82	7.8	-25.9	Godrej Consumer Produc	390	-2.4	47.8
Videocon Industries Ltd	213	7.1	-11.1	Bharti Airtel Ltd	331	-2.2	0.4
Chambal Fertilizers & Cher	79	7.0	36.6	Tata Motors Ltd	1248	-2.1	57.6

Volume spurts

Company	CMP	M.Cap (US\$ m)	Vol. (in '000)	10DA.Vol (in '000)	% Chg
ACC Ltd	1,075.2	4,464	4,078	757	439
BEML Ltd	998.0	919	143	40	260
Federal Bank Ltd	407.1	1,539	2,673	743	260
Thermax Ltd	840.1	2,214	323	96	237
Oil India Ltd	1,384.9	7,364	259	79	226
PTC India Ltd	110.5	720	1,633	543	201
Cummins India Ltd	761.6	3,335	389	132	195
Mahanagar Telephone Nigam	51.2	713	3,998	1,474	171
India Infoline Ltd	83.4	537	8,132	3,033	168
Shriram Transport Finance Co Ltd	717.5	3,579	1,677	637	163

FII – FII trades

Scrip	9/12/2010			10/12/2010		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Maruti	186	1,431	2.5	88	1,415	2.0
Union bank	516	316	-	25	318	-
Bob	752	890	1.0	332	890	1.0
Pantaloon	448	423	20.0	47	410	18.0
Grasim	25	2454	4.2	69	2399	4.8
Pnb	343	1289	9.0	0.550	1285	8.0
Dena bank	450	112	1.3	34	110	1.0
Ing vysya bank	167	366	1.5	106	378	1.8

Corporate Front Page

- **Bharti Airtel** launches IMEWE cable system. (BL)
- **Mahindra Reva** plans to sell 1,200 cars in the country by the end of the current fiscal. (BL)
- **United Spirits** aims to double volumes of the 'Whyte & Mackay Special' variant in 5-6 years. (BL)
- Nissan Motor India and **Ashok Leyland** plans to exploit the mass people-mover segment dominated by Toyota, with two new vehicles scheduled for launch next year. (BS)
- **NMDC** inks pact with Russian steel and mining major Severstal to set up a 5mn ton per annum steel plant in Karnataka. (ET)
- **Spicejet** places order worth US\$446.6mn with Bombardier for 15 turboprop aircraft. (ET)
- **NTPC** is likely to achieve 13,020MW capacity addition during the 11th Plan. (BS)
- Political parties and the green lobby step up opposition to the 1,350MW thermal power project by **Indiabulls** in Amravati district. (BS)
- **Hindustan Copper** plans to develop a new mine with about 50mn tons of ore reserves in Jharkhand. (BS)
- **Ramsarup Industries** in talks with two PE firms to raise Rs7bn of fresh capital to restructure the company. (ET)
- Telecom regulator Trai recommended the government to cancel 38 telecom licences, including some held by **Telenor**, Sistema and Etisalat's Indian ventures. (ET)
- **Karuturi Global** is in talks with a group of banks to raise debt of around Rs8bn in the next one month. (BS)

Economy Front Page

- India's foreign exchange reserves rose to US\$296.39bn as on November 26 from US\$293.9bn in the previous week. (ET)
- DTH operators are set to charge a 25-30% premium over cable rates from advertisers starting early next year. (FE)
- Industrial output has registered a 10.8 per cent year-on-year rise in October. (BL)

Insider Trading

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)	Shares Transaction (%)	Holding after Transaction (%)
Ambuja Cements Ltd	B L Taparia	08/12/2010	Buy	125,000	138.0	17	0.0	0.0
Educomp Solutions Ltd	Gopal Jain	07/12/2010	Sell	15,000	570.0	9	0.0	0.1
Man Infra	Parag K Shah	09/12/2010	Buy	50,000	210.0	11	0.1	20.8
Man Infra	Manasi P Shah	09/12/2010	Buy	50,000	210.0	11	0.1	22.2
Nandan Exim Ltd	Vansh Agrawal	24/11/2010	Sell	3,350,000	2.5	8	0.7	1.4
Sigrun Holdings Ltd	Salya India Pvt Ltd	01/12/2010	Buy	21,848,183	6.0	131	4.1	7.8
Sigrun Holdings Ltd	Fatima Goga	01/12/2010	Sell	12,796,580	6.0	77	2.4	-
Sigrun Holdings Ltd	Inayat Munshi	01/12/2010	Sell	9,051,603	6.0	54	1.7	-
Spice Mobility Ltd	Spice Global Investments Pvt Ltd	13/11/2010	Buy	163,448,285	142.0	23,210	68.7	68.7
Spice Mobility Ltd	Mahesh Prasad & Pavan Kumar Vijay as trustee	13/11/2010	Buy	35,301,215	142.0	5,013	14.8	14.8
Spice Mobility Ltd	Mahesh Prasad & Pavan Kumar (Spice Empl Benefit Trst)	13/11/2010	Buy	11,904,314	142.0	1,690	5.0	5.0

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)
Abg Shipyard Limited	Abg International Pvt.Ltd	10/12/2010	Buy	255,000	360.2	92
Acc	Ambuja Cement India Private Limited	10/12/2010	Buy	2,213,605	1,074.5	2,379
Gitanjali Gems Limited	Credit Suisse First Boston (Singapore) Limited	10/12/2010	Buy	495,000	181.6	90
Hanung Toys And Textiles	Credit Suisse First Boston (Singapore) Limited	10/12/2010	Buy	159,000	199.2	32
India Infoline	Satpal Khattar	10/12/2010	Buy	4,500,000	76.5	344
India Infoline	Khattar Holdings Private Limited	10/12/2010	Sell	4,500,000	76.5	344

3G – Opportunity and Challenge

In our recent meeting with the management of Idea Cellular's management, we sensed that hopes are pinned on a regulatory turnaround and revenue from 3G. That said, the beginning will be a bit jerky, as the company will include full interest and spectrum cost from 4Q (run rate ~Rs3bn per quarter). On the regulatory front, we believe that eventually the government will impose some penalties on all companies, but Idea Cellular may face proportionately greater pain, on account of its smaller market cap (than Bharti), and having got 4.4MHz of start-up GSM spectrum in nine circles and not just top ups. We retain REDUCE with TP Rs62.

Expect voice traffic growth to revive in 3QFY11: Our assessment from field trips suggests that the stronger operators could produce wireless traffic growth of 5%+ QoQ, and hold RPMs more or less steady QoQ. Idea's net subscriber additions had also improved to 1.8m in October, and given that 89% of Idea's subscribers are active as per TRAI (compared to 75% for Vodafone), we think it is safe to assume that Idea will not miss out on a secular revival in traffic growth in 3Q.

Improving regulatory winds, but penalties are likely: We believe regulatory winds are now more favourable for Idea and Bharti. The policy environment looks headed for stability and the two companies have been fairly vocal in the media. Items like tariff simplification and elimination of roaming no longer seem to be threats as they seemed to be inadequately thought through, and the incumbent minister seems in no mood to brook such process weaknesses. However, pressure on the government to be seen as decisive could result in payments for spectrum for all telcos in the range of US\$300m-US\$800m, including Idea and Bharti.

Stiff challenge to raise revenues to accommodate full 3G costs in 4Q: Idea's full-cost run rate will be ~Rs3bn per quarter, inclusive of: 1) the Rs58bn payment for spectrum; 2) capex on 3G; and 3) the estimated Rs8bn deposit for 3G roaming arrangements with other GSM majors. This will cause a significant hit on PAT. We also feel that the case is not yet clear to build serious upsides on revenue from 3G. Finally, while we await Idea's 3G launch, the fact is that Tata has launched much earlier than the established GSM companies, though a bit hurriedly.

Company update

CMP	Rs70
12-mth TP (Rs)	62(-11%)
Market cap (US\$ m)	5,108
Bloomberg	IDEA IN
Sector	Telecom

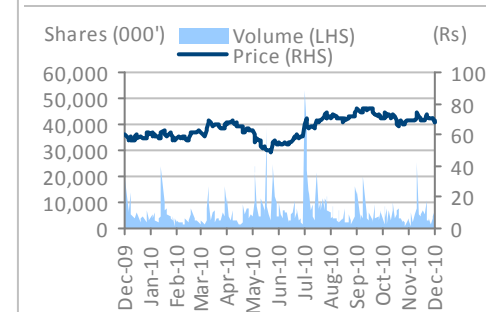
Shareholding pattern (%)

Aditya Birla Group	47.0
FII's	7.6
DII's	7.8
Others	37.6
52Wk High/Low (Rs)	80/49
Shares o/s (m)	3301
Daily volume (US\$ m)	9
Dividend yield FY11ii (%)	0.0
Free float (%)	53.0

Price performance (%)

	1M	3M	1Y
Idea Cellular	0.9	-9.1	15.6
Rel. to	7.4	-12.9	2.1
RCOM	-29.8	-23.0	-32.1
Bharti Airtel	1.2	-5.5	-3.3
MTNL	-22.9	-20.9	-32.3

Stock performance



Financial summary (Rs m)

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Revenues (Rs m)	101,312	124,469	148,861	165,700	182,870
EBITDA Margins (%)	27.8	27.4	24.9	25.9	25.7
Pre-Exceptional PAT (Rs m)	8,816	9,540	6,763	6,044	10,551
Reported PAT (Rs m)	8,816	9,540	6,763	6,044	10,551
EPS (Rs)	2.8	2.9	2.0	1.8	3.2
Growth (%)	-28.1	1.7	-29.1	-10.6	74.6
IIFL vs consensus (%)			0	-30	-14
PER (x)	24.6	24.2	34.2	38.2	21.9
ROE (%)	10.5	7.7	5.7	4.8	7.9
Debt/Equity (x)	0.3	0.4	0.9	0.8	0.7
EV/EBITDA (x)	12.0	9.9	9.1	7.9	7.2
Price/Book (x)	1.6	2.0	1.9	1.8	1.7

Source: Company, IIFL Research. Priced as on 10 December 2010

Roaming arrangement with GSM operators to be finalised: We expect Idea to finalise its arrangement with Bharti and Vodafone for 3G roaming to be able to create a pan-India network. Idea will make a deposit of Rs8bn for this. Management was emphatic that its network quality would be second to none. However, note that Tata DoCoMo has beaten all the three GSM majors to the 3G launch—by more than a month—and delays on the part of the GSM players may have to do with the complexity of roaming arrangements, as well as Indus Towers.

Can 3G really accelerate revenue growth? Management sounded upbeat on 3G. At this moment, however:

- ⇒ We estimate that ~5% of the installed handsets in the country are 3G smartphones.
- ⇒ We also understand that the figure for the major GSM operators is at 8% and this could be a bit higher in metros.

However, smartphones may be smart in a manner that telcos may not quite appreciate. Consider this: several of the advanced Android 3G phones as well as the iPhone can sense wi-fi networks, and effect a frictionless switchover to wi-fi. This feature will be introduced on an increasing number of cheaper smartphones. Users who frequent Youtube or download other heavy content will do it over wi-fi, so no per/MB revenue from such activity will accrue to the telco.

In a recent industry meet, consensus opinion was that the telcos will be able to leverage 3G to the extent of using their customer-profiling systems to better target their offerings. But the app store based off-deck threat is so powerful that generating sustained revenue growth acceleration from 3G may prove to be a challenge.

We, however, model 10–12% industry growth in revenues with stable market share for Idea, inclusive of 3G, over the next two years.

Figure 1: Spectrum map for 3G

Cat	Circles	3G Spectrum coverage							
		Bharti	Vod	Idea	RCOM	Tata	Aircel	STeL	B & M
M	Delhi	10%	10%	10%					4%
M	Mumbai	4%	11%	10%					3%
A	Kolkata		4%		4%		3%		2%
A	Maharashtra		8%	17%		10%			6%
A	Gujarat		11%	8%		4%			3%
A	Andhra Pradesh	10%		10%			2%		9%
A	Karnataka	11%				10%	2%		6%
M	Tamil Nadu	9%	9%				45%		9%
B	Kerala			10%		3%	2%		8%
B	Punjab			6%	2%	3%			6%
B	Haryana		3%	3%		3%			4%
B	Uttar Pradesh (E)		9%	5%			1%		10%
B	Uttar Pradesh (W)	2%		9%		4%			4%
B	Rajasthan	7%			3%	3%			5%
B	Madhya Pradesh			10%	8%	4%			3%
B	West Bengal	3%	5%		3%		4%		3%
C	Himachal Pradesh	1%		0%	1%				1%
C	Bihar	7%			7%		5%		4%
C	Orissa				3%		4%		4%
C	Assam	2%			3%		9%		2%
C	North East	1%			1%		6%		2%
C	Jammu and Kashmir	1%		0%	0%		7%		2%

Source: TRAI; DoT; IIFL Research. Figures in the boxes indicate the circle-wise revenue weightage for each telco.

Will competition ease off?

It is tempting to consider the recent statements from the telecom minister and the TRAI about cancellation of licence as proof that competition will ease. However, we feel that it is by no means certain that licences will be cancelled. Secondly, even if they are cancelled, as

per the TRAI statements, meaningful competition will not abate, unless telcos with significant presence feel the strain and collapse.

Fig 2: As per the CAG report, the following companies were ineligible on the date of their respective applications for grant of UAS licences:

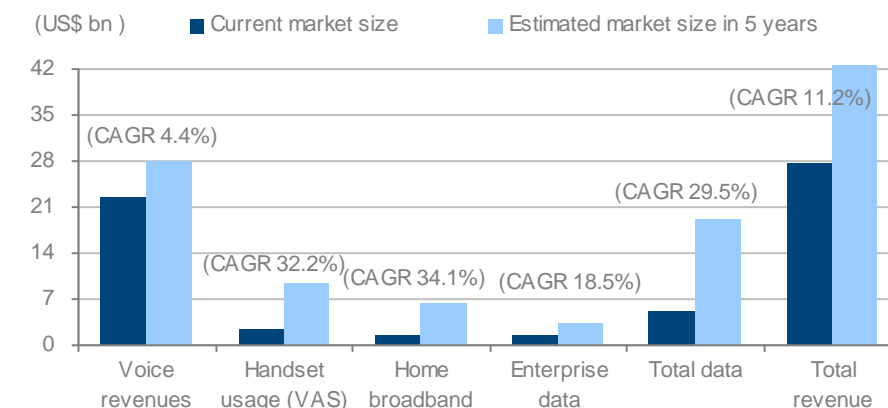
S. No.	Present Name of Company
1.	Etisalat DB Telecom Pvt. Ltd.
2.	Loop Telecom Ltd
3.	S Tel Pvt. Ltd.
4.	Unitech Wireless (Delhi) Pvt.Ltd.
5.	Unitech Wireless (East) Pvt. Ltd.
6.	Unitech Wireless (Kolkata) Pvt. Ltd.
7.	Unitech Wireless (Mumbai) Pvt. Ltd.
8.	Unitech Wireless (North) Pvt. Ltd.
9.	Unitech Wireless (South) Pvt. Ltd.
10.	Unitech Wireless (Tamil Nadu) Pvt. Ltd.
11.	Unitech Wireless (West) Pvt. Ltd.
12.	Videocon Telecommunications Ltd.
13.	Allianz Infratech (P) Ltd. (merged with Etisalat)

Source: TRAI; PIB;

Reliance Industries should launch by September 2011. Its launch may intensify competition, especially if it has bought a full-fledged operator by then.

For these reasons, we hesitate from projecting very optimistic revenue growth numbers, though progressive change in regulation may introduce some growth in the medium term.

Figure 3: 5-year aggregate revenue projections for India telecom



Source: Company, IIFL Research

Regulatory environment should stabilise

Currently, the new telecom minister is looking to investigate the history of telecom licensing in India right back to 2001, and while the outcome is a bit unpredictable, we are fairly sure that there will be no further irrational regulatory decisions.

We believe that no telco will be spared from making payments of US\$300m-800m, net of the upfront payment of US\$375m. We derive this figure based on the CAG report, which puts the cumulative "loss" to the government at US\$13bn based on the deal valuations of Unitech – Telenor, Etisalat–Swan and Bahrain Telecom–S Tel.

We view this possibility as a risk for Idea, as such a payment could be almost 5–10% of its market capitalization, exposing Idea to a greater risk than Bharti. We retain REDUCE on Idea with a TP of Rs62.

Financial summary

Income statement summary (Rs m)

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Revenue	101,312	124,469	148,861	165,700	182,870
EBITDA	28,133	34,069	37,021	42,930	47,029
EBIT	14,106	14,237	14,441	17,170	22,577
Interest income	1,821	1,834	2,000	2,187	2,370
Interest expense	-6,601	-6,398	-8,263	-11,716	-11,473
Exceptional items	-164	243	0	0	0
Others	230	839	100	100	100
Profit before tax	9,391	10,754	8,277	7,741	13,574
Taxes	-575	-1,214	-1,430	-1,494	-2,770
Minorities and other	0	0	-84	-203	-253
Net profit	8,816	9,540	6,763	6,044	10,551

Cash flow summary (Rs m)

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Profit Before Tax	9,391	10,754	8,277	7,741	13,574
Depr. & amortization	14,027	19,832	22,580	25,759	24,452
Tax Paid	-1,273	0	-383	-332	-572
Working capital Δ	1,043	-13,728	15,635	4,437	4,746
Operating cashflow	23,188	16,858	46,109	37,605	42,200
Capital expenditure	-60,726	-50,018	-106,466	-30,921	-38,826
Free cash flow	-37,538	-33,160	-60,357	6,683	3,374
Equity Raised	88,551	-29,415	-27,735	0	0
Investments	-16,482	-27,489	0	0	0
Debt financing/disposal	15,509	-16,376	43,303	-15,482	-15,482
Other items	-3,700	62,519	43,133	15,279	15,229
Net change in cash	46,340	-43,921	-1,656	6,481	3,121

Source: Company data, IIFL Research

Balance-sheet summary (Rs m)

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Cash & cash equivalents	51,316	7,395	5,739	12,220	15,341
Sundry debtors	3,618	6,283	7,742	8,739	9,603
Trade Inventories	521	467	579	643	710
Other current assets	1,861	1,244	1,542	1,711	1,891
Fixed assets	155,730	169,527	246,097	252,838	268,791
Intangible assets	33,590	0	8,036	6,457	4,878
Other assets	16,883	57,554	47,551	47,551	47,551
Total assets	263,518	242,469	317,286	330,160	348,765
Short-term debt	27,721	29,653	34,772	38,686	42,584
Sundry creditors	12,640	14,783	17,166	18,920	20,879
Other current liabilities	8,032	34,909	29,531	29,531	29,531
Long-term debt/Convertibles	81,090	45,837	110,000	110,000	110,000
Other long-term liabilities	1,097	2,102	3,150	4,311	6,509
Net worth	132,939	114,479	122,667	128,712	139,263
Total liabilities & equity	263,518	241,763	317,286	330,160	348,765

Ratio analysis

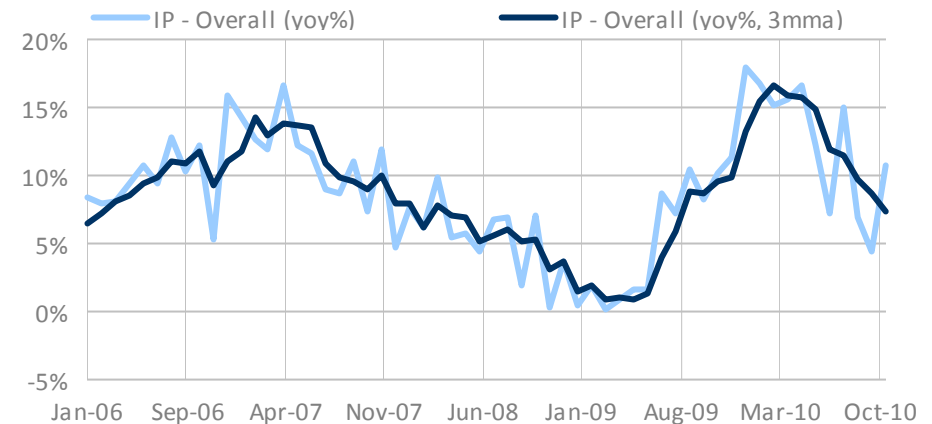
Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Revenue growth (%)	50.8	22.9	19.6	11.3	10.4
Op Ebitda growth (%)	24.9	21.1	8.7	16.0	9.5
Op Ebit growth (%)	2.6	0.9	1.4	18.9	31.5
Op Ebitda margin (%)	27.8	27.4	24.9	25.9	25.7
Op Ebit margin (%)	13.9	11.4	9.7	10.4	12.3
Net profit margin (%)	8.7	7.7	4.5	3.6	5.8
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Tax rate (%)	6.1	11.3	17.3	19.3	20.4
Net debt/equity (%)	28.4	40.0	86.6	77.5	69.4
Net debt/op Ebitda (x)	1.3	1.3	2.9	2.3	2.1
Return on equity (%)	10.5	7.7	5.7	4.8	7.9
ROCE (%)	7.9	5.6	4.3	4.3	5.4
Return on assets (%)	6.8	5.0	4.2	4.1	5.2

Source: Company data, IIFL Research

October IIP: Growth rebounds

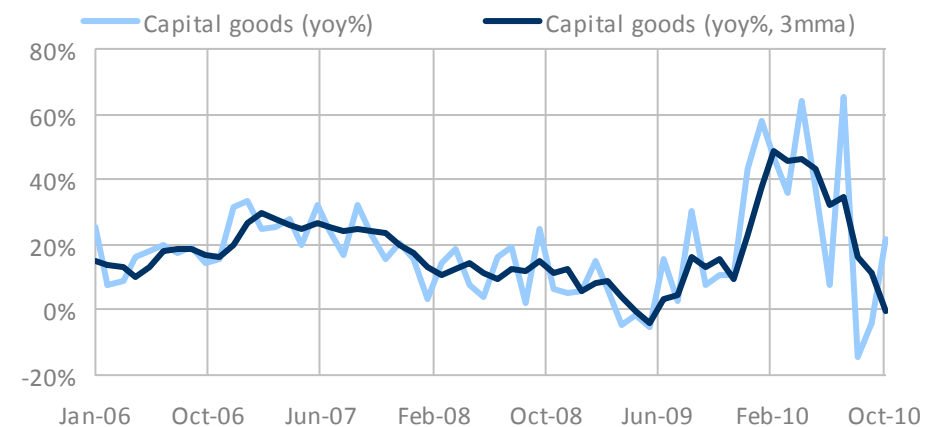
- India's October Industrial production growth of 10.8% in October was above our estimate of 8.3% and is a big jump from sub 7% IIP growth in the preceding two months.
- While acceleration in growth was expected due to seasonality (Festival season was later this year) and late withdrawal of monsoon which disrupted September output, the magnitude is a positive surprise.
- Sectorally, basic and capital goods drove the up tick in October. Basic goods output grew 7.7% YoY in October vs. 3.5% on average in the preceding two months while capital goods output grew 22% after two months of decline. Electricity output grew 8.8% in October after sub 2% growth in the two months prior.
- Other indicators of growth also suggest a pick up in October. While auto sales continue to remain robust, cement dispatches grew ~19% after an average sub 4% growth during monsoon season (in part due to inventory stocking before price hikes). Railway freight traffic growth also picked up growing 7% YoY after averaging sub 2% growth in 3-4 months prior.
- Given the recent volatility in IIP data, forecasting near-term trajectory has become tricky, however we expect IIP to average ~8.5-9% for the full year (FY11) implying a deceleration from the Ytd growth of 10.3%, largely due to base effect.
- With inflationary pressures rising due to the recent rise in commodity prices and still robust growth, we expect RBI to be on a 'temporary' pause in December and resume policy tightening from early next year.

Figure 1: Industrial production picked up in Oct after 2 months of disappointing growth

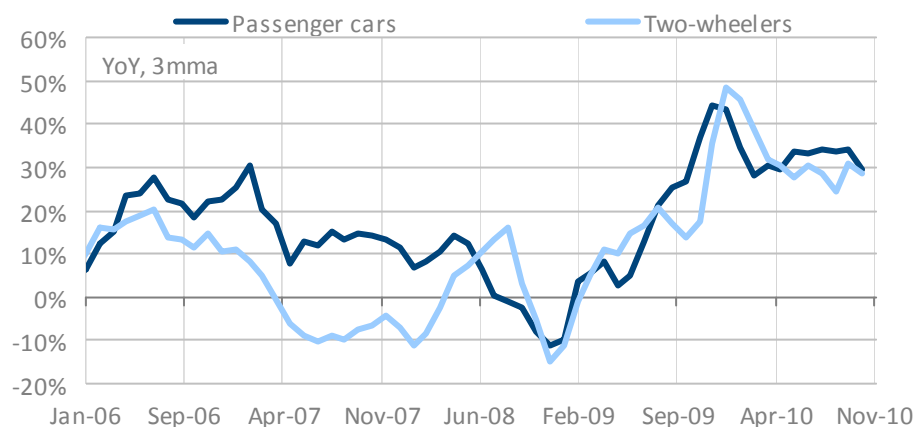


Source: CSO, IIFL Research

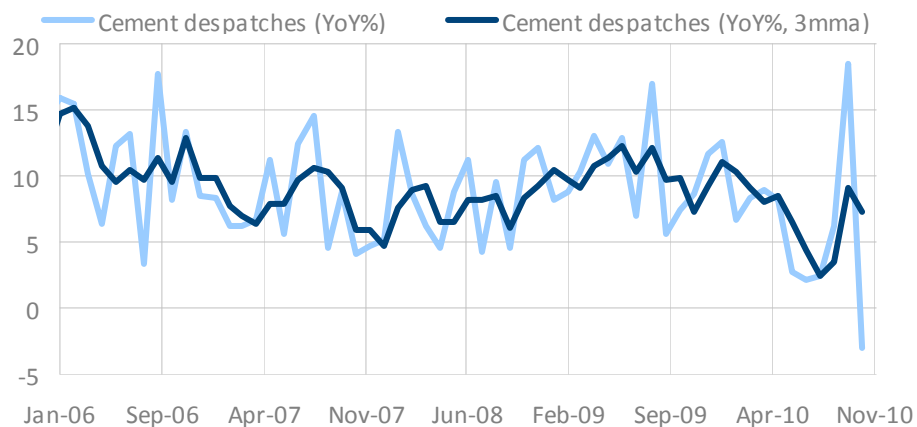
Figure 2: Capital goods output recovered strongly in October after declining for 2 consecutive months



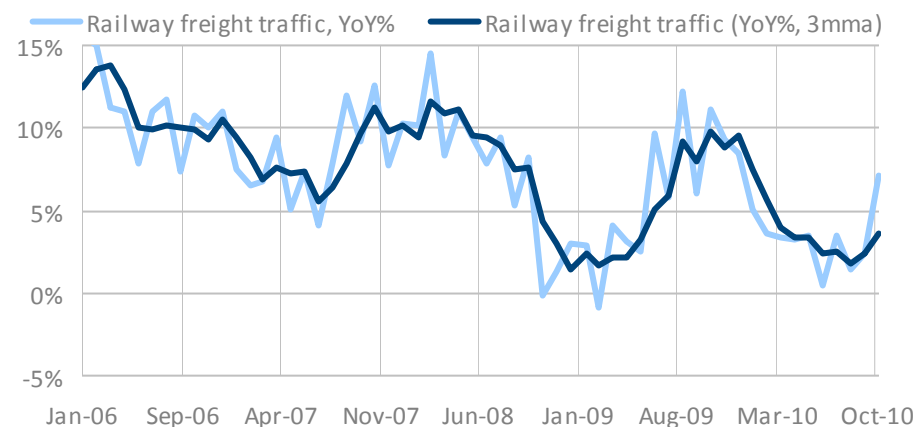
Source: CSO, IIFL Research

Figure 3: Domestic auto sales remain robust with over 20% growth


Source: CSO, IIFL Research

Figure 4: Cement dispatches picked sharply in October in part due to inventory stocking ahead of price increases – and hence demand was weak in November


Source: CSO, IIFL Research

Figure 5: In nominal terms GFCF continues to lag GDP growth


Source: CSO, IIFL Research

Figure 6: IIP Summary

YoY%	Weight	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	FY10
Industrial Production	100.0%	7.2%	15.0%	6.9%	4.4%	10.8%	10.5%
Sector classification							
Mining	10.5%	8.8%	9.5%	6.6%	4.9%	6.5%	9.9%
Manufacturing	79.4%	7.4%	16.6%	7.5%	4.6%	11.3%	11.0%
Electricity	10.2%	3.5%	3.7%	1.0%	1.7%	8.8%	6.0%
Use based classification							
Basic goods	35.6%	3.3%	5.2%	3.6%	3.4%	7.7%	7.2%
Intermediate goods	26.5%	9.7%	9.8%	11.1%	10.9%	9.5%	13.6%
Capital goods	9.3%	7.5%	65.0%	-14.6%	-4.1%	22.0%	22.6%
Consumer goods	28.7%	8.6%	7.3%	8.5%	4.8%	9.6%	6.2%
Durables	5.4%	26.5%	22.5%	27.1%	10.9%	31.0%	24.6%
Non-durables	23.3%	2.0%	1.1%	0.8%	1.9%	0.1%	0.4%

Source: CSO, IIFL Research

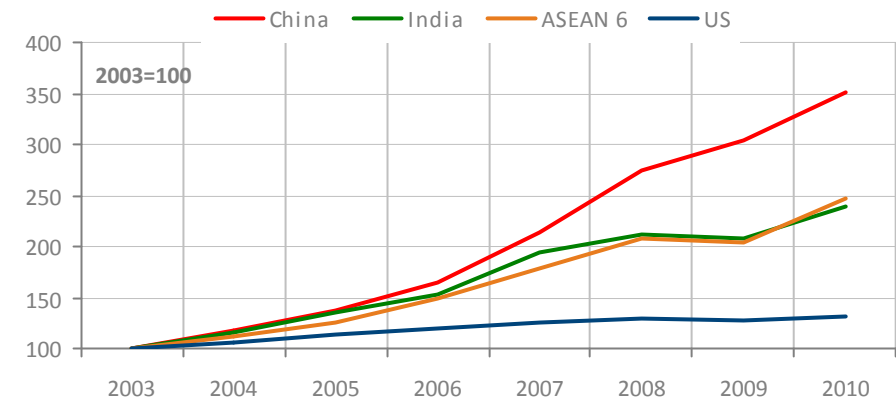
INCH market set to overtake US by 2020

- China's stock market has not moved in tandem with the pace of economic growth. Currently, China's market cap is only 64% of its GDP—about half the proportion at the peak reached in 2007, and lower than world average of 82%. The corresponding ratios for India, ASEAN 6 and the US are all back above 100%.
- Despite this lag, China's market cap as a proportion of the US market cap has grown from 4% in 2003 to 24% at present. In this period, the combined market cap of INCH (India and China) has grown from 6% of US market cap to 34%.
- By 2020, we expect China's market cap will reach US\$19.6 trillion (5.3x the current level) and India will reach US\$6.1 trillion (4.0x the current level). The US market, we reckon, would have risen only 1.4x, to US\$21.6 trillion. This means that by 2020, INCH market cap would be 20% higher than the US.

Compared to 2003, China's GDP in 2010 would be about 3.5x, while the ratio for India and ASEAN 6 (including Indonesia, Malaysia, Singapore, Philippines, Thailand and Vietnam) would be 2.4x and 2.5x, respectively—compared with 1.3x for the US (Figure 1).

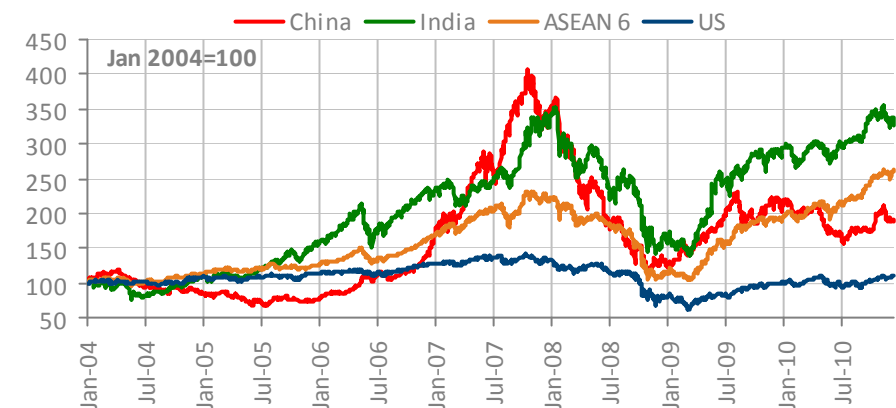
But China's stock market has underperformed compared to India and ASEAN 6. While India's and ASEAN 6's markets have risen by 225% and 163%, respectively, China's market is up only 88%—though that's significantly higher than the 11% increase in the US's (Figure 2). This disparity in growth rates is particularly clear from Figure 3.

Figure 1: INCH and ASEAN 6 GDP in US\$

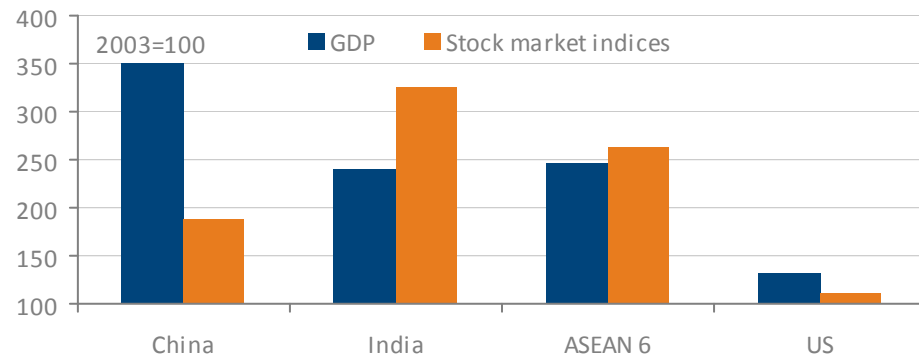


Source: Bloomberg, IIFL Research. The figure for 2010 is from IMF forecasts..

Figure 2: INCH and ASEAN 6 stock performance



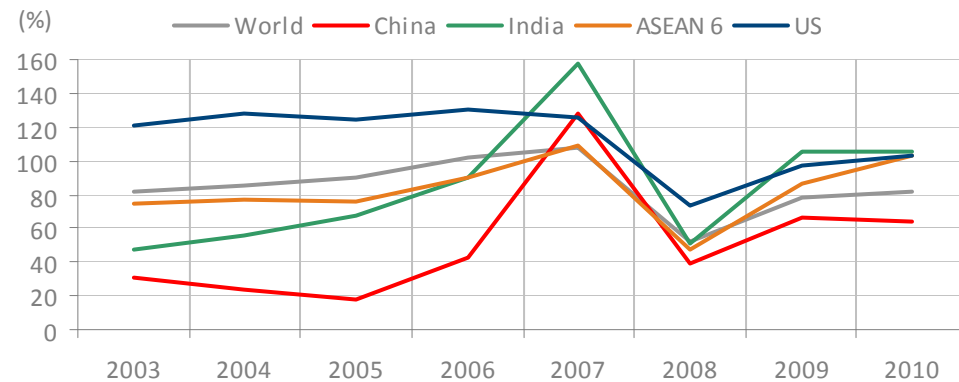
Source: Bloomberg, IIFL Research. Market performance of ASEAN 6 is market-cap-weighted.

Figure 3: Growth between 2003 and 2010 – in GDP and stock market indices


Source: Bloomberg, IIFL Research. Stock indices were rebased on 1 Jan 2004.

Currently, China's market cap is only 64% of its GDP—compared with about 130% at its peak in 2007, and lower than the current world average of 82% (Figure 4). Meanwhile India, ASEAN 6 and the US are all back above 100% (ASEAN 6 is pretty much back to the level reached in 2007).

Despite the lag, China's market cap as a proportion of the US market cap has grown from 4% in 2003 to 24% in 2010. In combination, the size of INCH markets as a proportion of US market cap has grown from 6% in 2003 to 34% at present.

Figure 4: Market cap as % of GDP


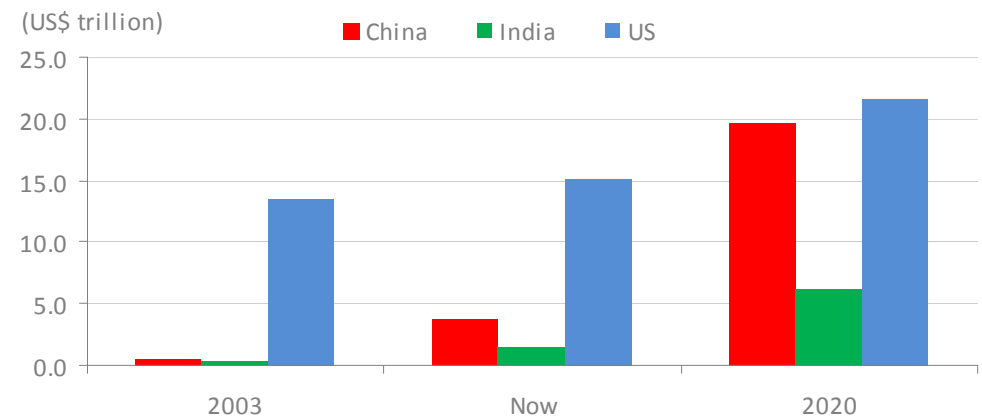
Source: Bloomberg, IIFL Research. 2010 market cap is as of 9 December 2010 and GDP is from IMF forecast.

From 2011 to 2020, we expect China's GDP to grow at an average rate of 7% (which implies that we expect China's growth to slow down to 5-6% by 2020) and with a 4% GDP deflator. As for India, we expect it will grow at 8.5%, with a 6% GDP deflator. Indeed, we assume RMB will appreciate by 20% against the US dollar, while INR appreciate by 10%.

As for the US, we assume 4% annual growth for nominal GDP. The US's nominal GDP growth from 1990 to 2010 has averaged about 4.8%, so the 4% assumption for a sub-trend growth stage is quite optimistic.

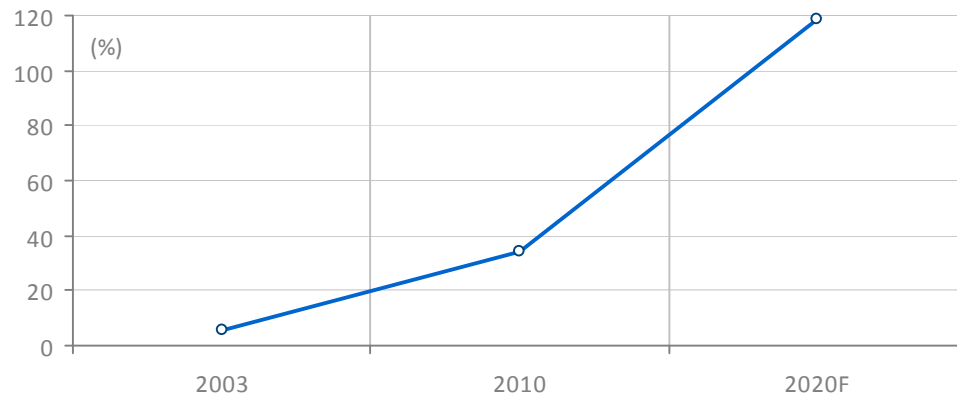
Indeed, with their sheer economic size and growth potential, both Shanghai and Mumbai are likely to evolve into world international centres. Not only will major companies stay listed domestically, but many foreign companies will also look to tap the huge liquidity in INCH. As such, a market-cap-to-GDP ratio of 100% seems reasonable for both China and India.

In the above scenario, INCH would have become the world's biggest markets by 2020, overtaking the US. By 2020, China's market cap would have reached US\$19.6 trillion (5.3x the current level) and India will reach US\$6.1 trillion (4.0x the current level), compared with the US's 1.4x increase to US\$21.6 trillion (Figure 5). So by 2020, INCH market cap would be 20% higher than the US's (Figure 6).

Figure 5: INCH market cap versus US market cap


Source: Bloomberg, IIFL Research

Figure 6: INCH market cap as % of the US's



Source: Bloomberg, IIFL Research. Figures for 2010 are as on 9 December 2010.

Events calendar



Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
D E C E M B E R – 2 0 1 0					
6	7	8	9	10	11
13	14	15	16	17	18
20	21	22	23	24	25
27	28	29	30	31	

Oct IIP- 10.80%

Nov WPI-

Nov CPI- AL/RL

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

	Oct-Dec 10	Jan-Mar 11	Apr-Jun 11
Economics Politics /	<ul style="list-style-type: none"> RBI's Monetary Policy meeting (16th Dec) 2QFY11 Quarterly GDP 	<ul style="list-style-type: none"> RBI's Monetary Policy meeting (25th Jan) 3QFY11 Quarterly GDP 	<ul style="list-style-type: none"> RBI's Monetary Policy meeting (end Apr) 4QFY11 Quarterly GDP
Cement	<ul style="list-style-type: none"> Bharathi Cement 2mtpa (2nd unit) in Cuddapah to start (Dec) Ambuja Cements 1.5mtpa unit in Bhatapara to start (Dec) ACC Wadi clinker unit to support 3mtpa cement to start (Oct) JP Associates 2nd phase addition in Gujarat to start (Nov) 	<ul style="list-style-type: none"> Chettinad Cement 2mtpa expansion at Karikali, TN (Mar) Jaiprakash Associate's 3.5mtpa expansion at Nalgonda, AP (Mar) Jaiprakash Associate's 3mtpa expansion at Dalla, UP (Mar) 	<ul style="list-style-type: none"> Madras Cements: 2.4mtpa plant in Tamilnadu to start
Metals	<ul style="list-style-type: none"> JSW's Chilean iron ore mine to commence shipments Sterlite: 100ktpa lead smelter is expected to commence operation 	<ul style="list-style-type: none"> Sterlite: 2nd phase of 2400MW will commence operation 	
Oil & Gas		<ul style="list-style-type: none"> Open offer for Cairn India by Sesa Goa FPO of IOC (Mar) FPO of ONGC (Mar) 	
Pharma	<ul style="list-style-type: none"> Dr Reddy's: Potential USFDA approval for fondaparinux Lupin: launch of Allernaze in US Dr Reddy's: US court decision on generic Allegra D24 Opto Circuits: Launch of Dior drug eluting balloon in Europe 	<ul style="list-style-type: none"> Ranbaxy: Launch of generic Aricept in US Sun Pharma: resolution of Caraco manufacturing quality issues in US Sun Pharma: Generic Taxotere launch in US 	

	Oct-Dec 10	Jan-Mar 11	Apr-Jun 11
Real Estate	<ul style="list-style-type: none"> Listing of Unitech Infrastructure on completion of restructuring of Unitech's non-core assets. 		
Telecom	<ul style="list-style-type: none"> Indus to complete court process for tower transfer TRAI to complete consultation process on tariff transparency EGOM may make final spectrum recommendations DoT may begin forcing implementation of MNP Telcos will finish ordering 3G equipment Bharti to implement re-branding in Africa Russia Govn. to infuse \$620m into Shyam Sistema 	<ul style="list-style-type: none"> Telcos to launch 3G / BWA services MNP likely to be fully implemented 	
Utilities	<ul style="list-style-type: none"> NTPC to commission 500MW at Korba Unit 7 in Chattisgarh JSW Energy to commission 300MW at Ratnagiri Unit 3 in Maharashtra 	<ul style="list-style-type: none"> NHPC to commission 330MW of Hydro projects in the state of Andhra Pradesh, Jammu & Kashmir and West Bengal NTPC to commission 500MW at Farakka Unit 6 in West Bengal NTPC to commission 500MW at Simhadri Unit 3 in Andhra Pradesh DVC to commission 525MW at Maithon Unit 1 in Jharkhand JSW Energy to commission 300MW at Ratnagiri Unit 4 in Maharashtra Lanco Infra to commission 600MW at Anpara Unit 1 in Uttar Pradesh 	

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%.

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