The Front Page

February 10, 2009

- What's Inside: IIFL Chartbook, Strategy (GDP surprises positively), Insurance (Declining Faster), Bharti Airtel (ADD), GMR Infra (REDUCE)

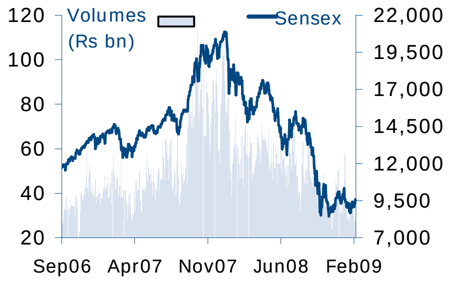
Market Front Page

Index Movements	Closing	% Chg	% YTD
Sensex	9,584	3.0	(0.7)
Nifty	2,920	2.7	(1.3)
BSE Smallcap	3,333	1.6	(9.5)
CNX Midcap	3,392	1.6	(9.2)
Nasdaq	1,592	(0.0)	0.9
DJIA	8,271	(0.1)	(5.8)
IBOV	42,100	(1.5)	12.1
FTSE	4,308	0.4	(2.9)
CAC	3,135	0.4	(2.6)
Turnover		**US$m**	**% Chg**
BSE		573	4.1
NSE		1,620	12.3
Derivatives (NSE)		7,416	20.3
FII F&O (US$m)		**Index**	**Stocks**
Net buying		11	44
Open interest		4,349	2,737
Chg in open int.		257	156
Equity Flows (US$m)	**Latest**	**MTD**	**YTD**
FII (6/2)	15	(21)	(1,075)
DII (9/2)	(9)	21	780
MF (6/2)	29	(123)	(300)

ADR/GDR (US$)	Latest	% Chg	% Prem
HDFC Bank	62.9	1.4	10.8
Reliance	58.2	4.1	1.7
Infosys	29.3	1.2	8.6
Satyam	1.8	(5.9)	(7.7)
Wipro	7.2	(1.5)	54.0
ICICI Bank	18.2	2.8	3.0
SBI	50.0	6.4	5.8
Sterlite	5.6	3.5	(2.3)
Tata Motors	4.1	1.3	38.9
Commodities	**Latest**	**%Chg**	**%YTD**
Gold (US$/ounce)	900	0.6	2.0
Crude (US$/bl)	40	(1.5)	(11.3)
Aluminium (US$/MT)	1,445	(1.6)	(6.2)
Copper (US$/MT)	3,580	1.1	16.6
Forex Rates	**Closing**	**% Chg**	**%YTD**
Rs/US$	48.6	(0.1)	0.3
Rs/EUR	62.6	0.4	(8.2)
Rs/GBP	71.5	0.3	2.2
Bond Markets		**Closing**	**bps Chg**
10 yr bond		5.8	0.0
Interbank call		4.1	(10.0)

Charts Front Page

Sensex price volume



Sensex intraday

Corporate Front Page

- Tatas pledged shares of 3 companies; **Tata Steel**, **Tata Power** and **Tata Teleservices Maharashtra**; to raise funds upto Rs65bn. (FE)
- **M&M** are in talks with Australian aerospace firms. (Mint)
- **Bajaj Auto** may hike its stake in KTM Power Sports, Europe, to 30% from 25% currently. (ET)
- **ONGC** achieved an all time high production of oil and gas of 2,028 tons of oil till December. (ET)
- **ONGC** issues bids to hire four rigs. (FE)
- **Jet Airways** plans to phase out most of its expatriate pilots and not fill the vacant positions in the coming months. (FE)
- **IDBI** and **Bank of Baroda** lend Rs6bn to **Satyam**. (FE)
- **Aditya Birla Retail Ltd** plans to renegotiate lease rentals and close unviable stores. (Mint)
- ICAI has found two members of Lovelock and Lewis guilty of professional misconduct in the **Global Trust Bank** case. (ET)
- **Chola DBS**, one of the largest NBFCs of the country, plans to utilize a part of its securities premium reserves to offset losses. (ET)
- **Opto Circuits** launches catheter to treat coronary artery disease. (ET)
- Government has allowed **GMR** to levy development to enable it to meet funding shortfall of Rs18bn. (FE)
- **BEML** eyes a slice of the global high speed train parts market. (FE)
- **RCF** lines up Rs40bn to restart Trombay plant. (ET)
- Petroleum ministry may ask **Essar Oil** to pay more royalty for Ratna oil. (ET)
- **Kingfisher Airlines** pilots plan to protest against pay cuts. (ET)
- **Subhiksha** may sell stake to raise funds. (ET)
- **United Spirits** chief, Vijay Mallya, plans to sell up to 49% stake in Whyte & Mackay. (BL)
- **SAIL** January output down 2%. (BL)
- **Sterlite Projects** to consider allotment of preference shares on February 11. (BL)

Market Front Page

Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
Nicholas Piramal	40	20.0	-19.9	HCL Tech	120	-4.6	3.9
Bhushan Steel	332	16.9	5.3	Indiabulls Finan	126	-2.8	-5.0
United Spirits	701	13.8	-20.8	Satyam Computer	46	-2.5	-72.9
Alstom Projects	276	13.4	14.8	Apollo Hospitals	400	-2.3	-11.6
Glenmark Pharma	144	11.1	-51.3	Rolta India	88	-2.3	-24.0

Volume spurts

Company	CMP	M.Cap	Vol. (in '000)	10D A.Vol (in '000)	% Chg
BEML	371	317	718	113	536
Nicholas Piramal	40	21	233	38	505
Alstom Projects	276	380	1,038	178	482
Colgate-Palmolive	419	1,173	658	132	400
Madras Cements	66	323	552	134	313
Amtek Auto	58	168	1,502	451	233
Mphasis	148	637	1,337	455	194
GMR Infra	83	3,091	14,707	5,387	173
United Breweries	81	399	32	13	154
CMC	297	92	11	5	139

FII - FII trades

Scrip	6/2/2009			9/2/2009		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Sbi	140	1,135	1.0	70	1,155	2.0
Union bank	176	148.5	0.5	728	149.5	-
Bank of barora	233	253	1.5	280	252	1.5
Pnb	554	407	2.0	-	-	-
Iob	33	59	0.3	42	59	0.4

Corporate Front Page

- **Nagarjuna Construction** bags Rs7bn orders.(BL)
- **GSPC** to relocate LNG terminal within Mundra port. (BL)
- **Infotech** eyes buys in aerospace sector. (BS)
- Rs121bn Hyderabad Metro Rail Project awarded to **Maytas Infrastructure** may be taken back if it is unable to achieve financial closure. (BS)
- **Coal India** shortlists 9 companies for developing underground mines. (BL)

Economy Front Page

- Central Statistical Organization pegs India's GDP growth at 7.1% for 2008-09. (FE)
- Combined fiscal deficit may be 10% of GDP. (Mint)
- Per capita income doubles to Rs38,084 in 7 years. (BL)
- SEBI is planning to make it compulsory to disclose the end use of funds raised through pledging of shares. (ET)
- TRAI said that the CDMA companies will have to match top GSM bids in 3G auction. (ET)
- Government may hike fund allocation to flagship programs by approximately 16% during the interim budget. (ET)
- Steel ministry recommends import duty upto 15%. (ET)
- Government may cut loan rates to NBFC's by 200bps. (ET)
- Bond yields rise as government borrowing increases. (FE)
- Vehicle sales decline by 7.4% in January. (FE)
- Agricultural sector to witness a growth of 2.6% in FY09. (FE)
- India's tea exports rise by 10%. (Mint)

Insider Trading

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)	Shares Transaction (%)	Holding after Transaction (%)
Dabur India Ltd	Acee Enterprises	30/01/2009	Sell	106,025,970	87.2	9,245	12.3	-
Dabur India Ltd	Milky Investment & Trading Co	30/01/2009	Buy	53,012,985	87.2	4,623	6.1	6.1
Dabur India Ltd	Burmans Finvest Pvt Ltd	30/01/2009	Buy	26,506,493	87.2	2,311	3.1	3.1
Dabur India Ltd	MB Finmart Pvt Ltd	30/01/2009	Buy	13,253,246	87.2	1,156	1.5	1.5
Dabur India Ltd	Windy Investments Pvt Ltd	30/01/2009	Buy	13,253,246	87.2	1,156	1.5	1.5
Gateway Distriparks Ltd	Shabbir Hassanbhai	02/02/2009	Buy	77,314	68.6	5	0.1	0.4
Glenmark Pharmaceuticals Ltd	Glen Saldanha	28/01/2009	Buy	32,000	141.4	5	0.0	0.3
Soma Textile & Industries Ltd	Krishnaa Glass Pvt Ltd	27/01/2009	Sell	698,090	21.0	15	2.1	25.5
Vardhman Textiles Ltd	Adinath Investment & Trading Company	04/11/2008 - 02/02/2009	Buy	1,156,732	58.2	67	2.0	20.7

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

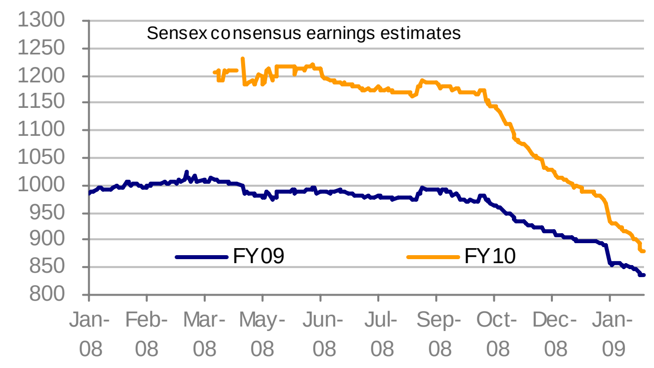
Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)
Educomp Solutions Ltd	Morgan Stanley Mauritius Company Ltd	9/2/2009	Buy	89,100	1,533.5	137
Educomp Solutions Ltd	Morgan Stanley Mauritius Company Ltd	9/2/2009	Sell	150	1,565.2	0
Vakrangee Softwares Ltd	Merrill Lynch Capital Markets Espana S.A. SVB	9/2/2009	Sell	204,639	22.9	5
Vakrangee Softwares Ltd	Merrill Lynch Capital Markets Espana S.A. S.V	9/2/2009	Sell	333,360	22.7	8

India Chartbook

Growing in a slowing world… **09 February 2009**

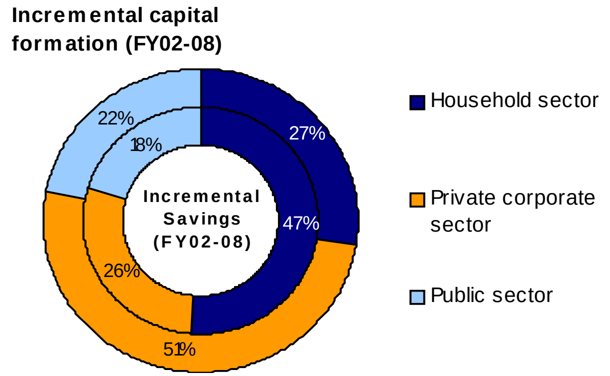
- In just about 4 months, FY10 consensus EPS for the sensex has seen a 25% downgrade from 1170 to 877. In our view, there are more earnings downgrades to come, but the pace of downgrades will decelerate, hereon. The earnings season for Oct-Dec 08 was one of the worst in recent memory, and while not entirely unexpected, the markets have held up well esp. in the context of the multiple CG scares.
- India's economy continues to slow and given the deceleration in external trade, credit growth, industrial production and services, the CSO's FY09 GDP forecast of 7.1% too seems to be at risk. Outstanding bank credit as at mid-January 2008 remains unchanged vs. the levels seen in Oct08, suggesting that an improved liquidity environment is not helping credit growth. Growth in India will further slowdown in FY10; from a market perspective however the growth outlook beyond FY10 will be more critical.
- WPI, the closely tracked wholesale price index, will most likely dip into negative territory in mid-09, if commodity prices stay put at current levels; this has never happened since the index was launched in 1994. Nonetheless, the lesser tracked consumer price indices will continue to remain at elevated levels for some time to come. While the current disinflation gives room for RBI to cut rates perhaps one more time, rising fiscal deficit bodes ill for long-term sustenance of low rates. In all probability, the combined FY09 fiscal deficit will touch almost 10% of GDP, back to FY04 levels, given the expected fall in tax collections.
- Between FY02-08, India's gross capital formation grew by 23% Cagr, domestic savings by 22% Cagr as compared to nominal GDP growth Cagr of 13%. 47% of the net savings growth came from households, while 51% of gross capital formation growth came from corporates. However, the growth in both savings and capital formation will sharply slowdown in FY09 itself and will possibly be a drag on FY10 GDP growth. Still, India along with China, will be among the fastest growing economies in 2009.

Consensus earnings continue to be downgraded



Source: Bloomberg

Households save; Corporates invest



Source: CSO, IIFL Research

Key charts

Figure 5:	Dec 2010 Crude oil futures are at almost 50% premium to spot
Figure 9:	Domestic steel prices are back to levels of January 2008
Figure 15:	Volatility in domestic equity markets has come down sharply
Figure 20:	Short term borrowing costs have come down; but spreads at the higher risk-end remains elevated
Figure 34:	Credit growth has decelerated sharply over past 12 weeks
Figure 37:	Current trajectory of WPI inflation will likely take it into negative zone by July09
Figure 42:	Gross tax collections declined in December quarter – first decline since June-03 quarter
Figure 50:	Consensus earnings downgrades continue – Sensex FY10 EPS estimate down 11% over past month
Figure 54:	Equities are the cheapest relative to bonds in at least ten years
Figure 75:	FII activity in cash market is picking up after a decline in December
Figure 78:	First year insurance inflows for pvt insurance companies have declined for three months in a row

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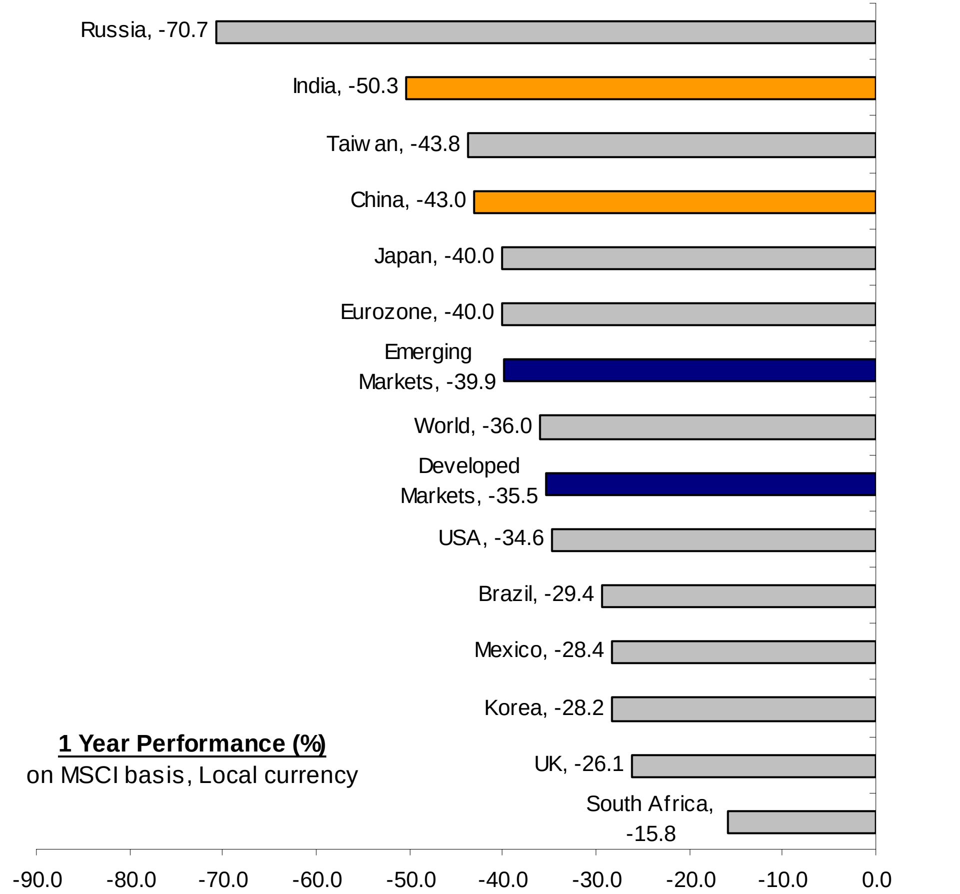
Global equities – the tumble

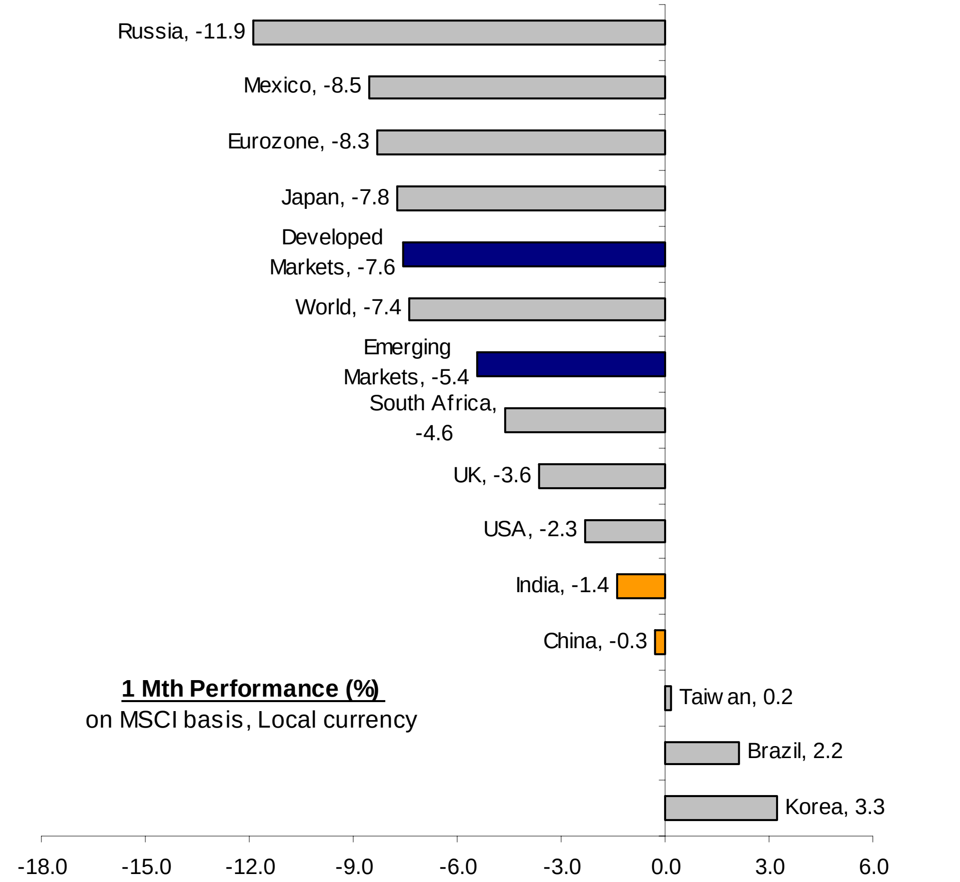
Figure 1: Emerging Markets have underperformed Developed Markets by 440bps over past 1yr



Source: Bloomberg, Updated as of CoB 6th Feb 2009

- Despite all the problems in OECD markets, emerging markets have underperformed over the past year, mainly due to Russia, China and India.
- Russia, with a host of political and financial troubles, is the worst performing major market

Figure 2: Over the past month though EMs have outperformed DMs

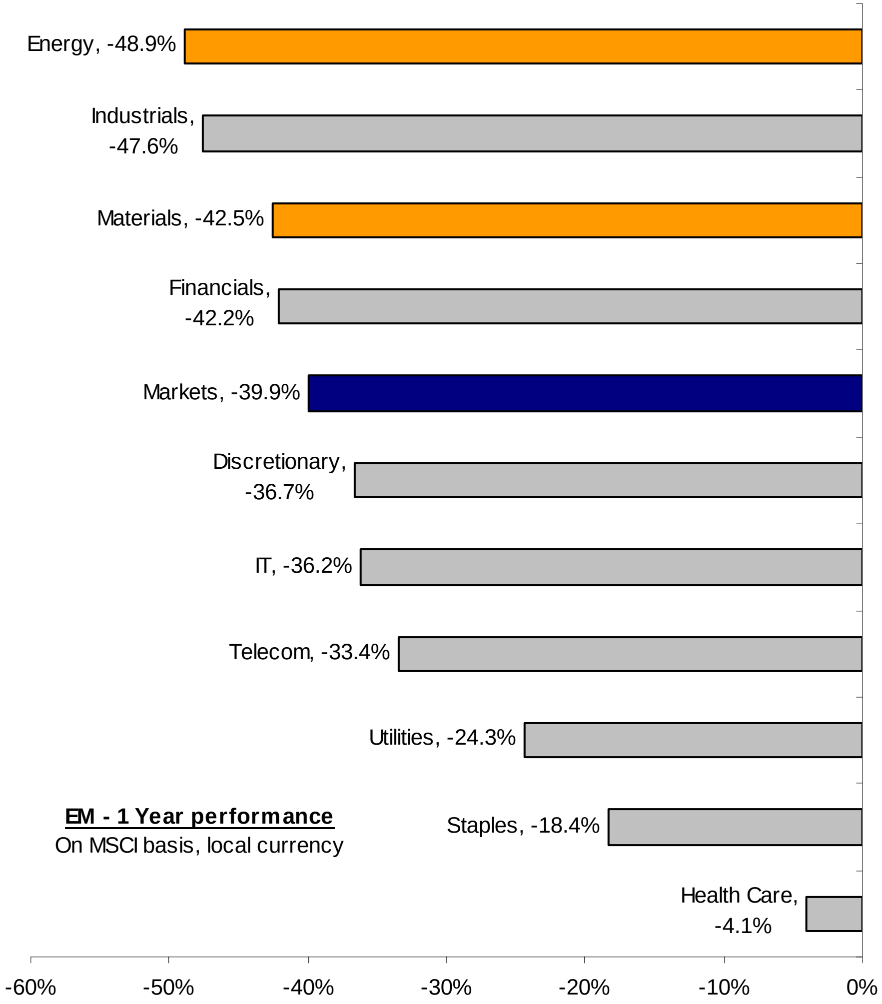


Source: Bloomberg, Updated as of CoB 6th Feb 2009

- However Russia with its political and financial troubles continues to be the laggard
- Interestingly, USA—the source of all current problems—has outperformed not only over the past month but over the past year as well

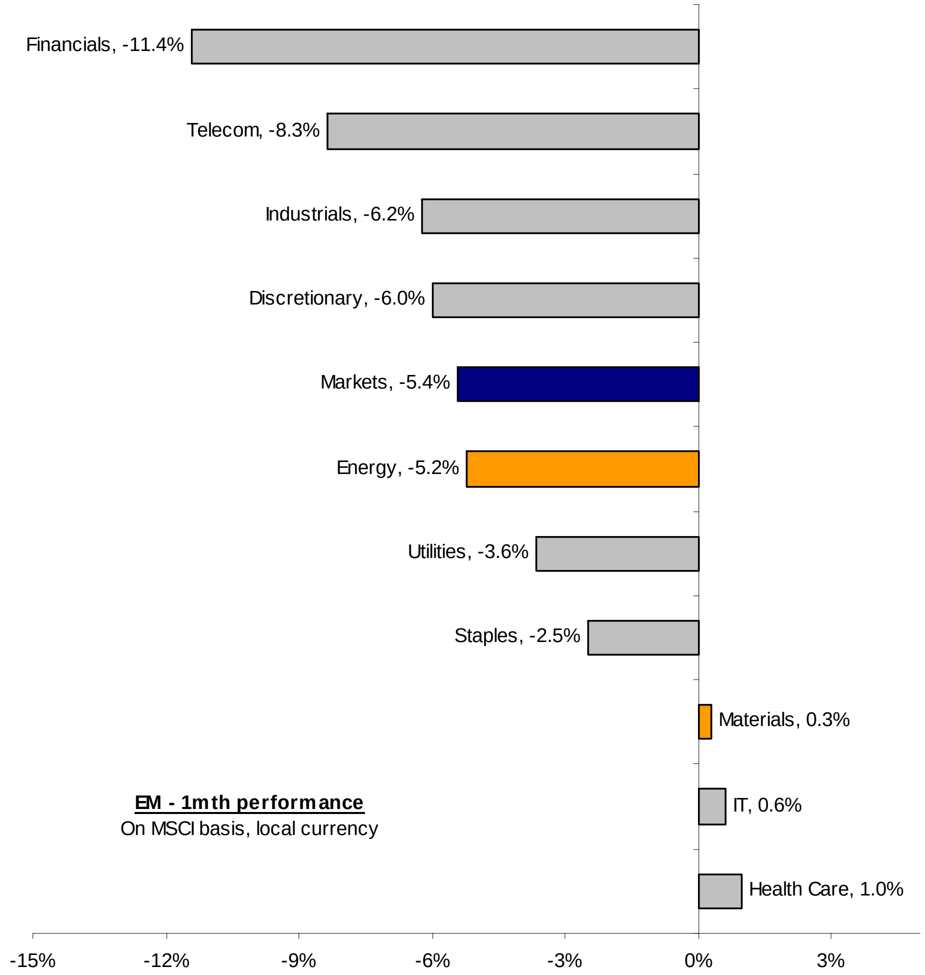
EM sector performance

Figure 3: Sliding commodity prices has dragged down Energy and Materials stocks



Source: Bloomberg, Updated as of CoB 6th Feb 2009

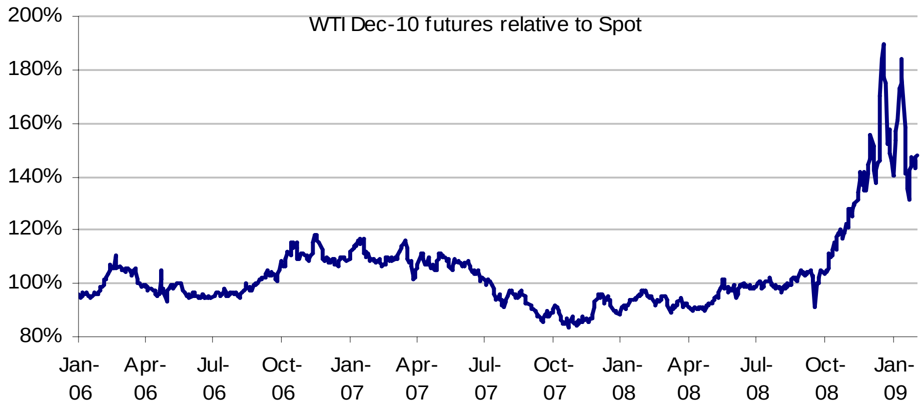
Figure 4: Over the past month though, cyclical sectors like Materials and IT have outperformed the market with positive returns



Source: Bloomberg, Updated as of CoB 6th Feb 2009

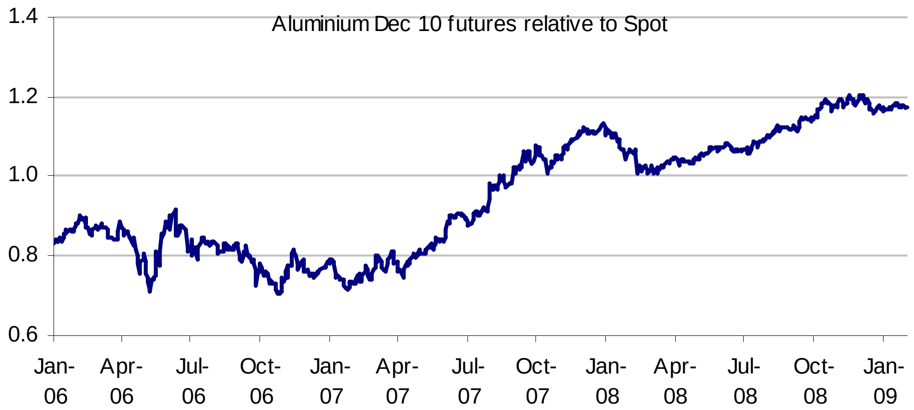
Global Commodities

Figure 5: Crude futures are trading at the widest premium to spot in over three yrs



Source: Bloomberg. Updated as of CoB 5th Feb 2009

Figure 6: Similarly, Aluminium futures are also in Contango from being in backwardation throughout 2006 and most part of 2007



Source: Bloomberg. Updated as of CoB 5th Feb 2009

- Similarly, copper is also in Contango. However, the presence of Contango has not prevented the sharp decline in commodity prices – but it does create interesting arbitrage opportunities

Figure 7: CRB Index is now up just 20% over the past decade—such has been the magnitude of fall in 2008

Source: Bloomberg. Updated as of 5th Feb 2009

Figure 8: Commodity price performance

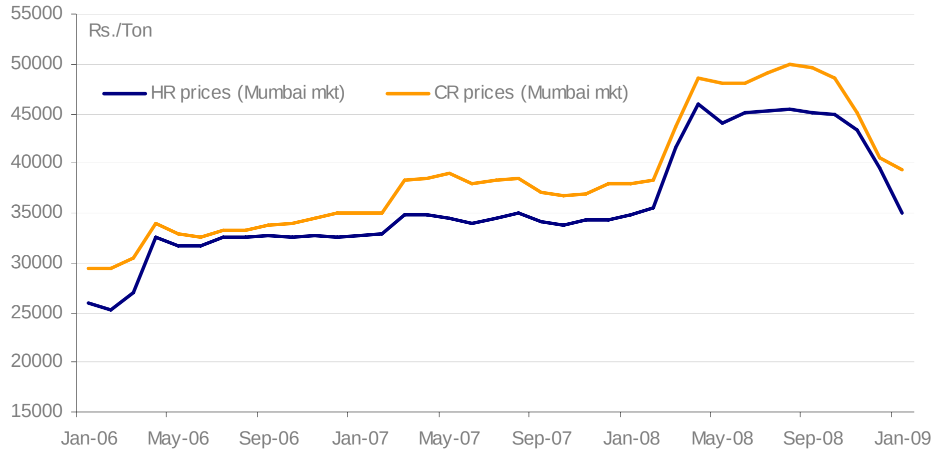
	Current price	1 mth chg	3 mth chg	6 mth chg	1 yr chg	Ytd chg
Aluminium (US$/tonne)	1,402	-8.9	-31.7	-50.5	-46.5	-7.0
Copper (US$/tonne)	3,382	5.7	-21.4	-56.3	-53.4	11.2
Lead (US$/tonne)	1,181	6.9	-23.1	-41.0	-57.9	16.7
Nickel (US$/tonne)	11,686	-10.9	-8.2	-34.7	-56.5	0.7
Zinc (US$/tonne)	1,158	-7.5	-4.2	-34.1	-52.8	-1.9
Gold (US$/t oz.)	920	7.1	24.3	5.3	3.6	4.3
Platinum (US$/t oz.)	979	3.1	12.3	-37.8	-44.8	4.7
Coal (US$/tonne)	82	2.5	-15.5	-50.2	-34.3	2.5
Crude Oil (US$/bbl)	40	-17.8	-38.6	-66.4	-54.6	-10.1
Natural Gas (US$/MMBtu)	5	-7.4	-26.4	-45.5	-33.9	-11.2
Coffee (US$/pound)	110	8.0	4.3	-15.2	-15.5	9.5
Corn (US$/bushel)	3.4	-11.2	-9.2	-30.2	-29.9	-9.6
Wheat US$/bushel (60lb)	4.3	-9.7	8.1	-30.7	-53.5	-10.0

Source: Bloomberg. Updated as of CoB 5th Feb 2009

- Gold continues to be the best performing commodity over past one, three, six and twelve months; however Ytd Copper and Lead have rallied over 10%

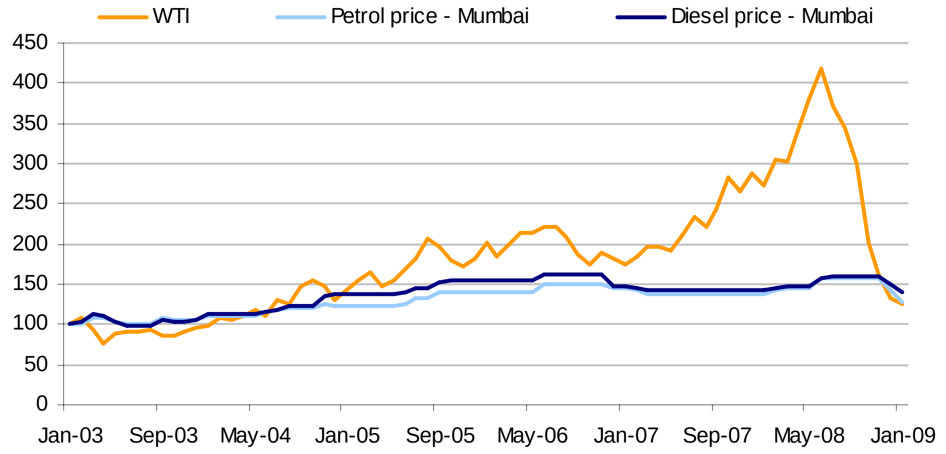
Domestic commodities

Figure 9: Domestic steel prices are back to levels of Jan-08



Source: CMIE

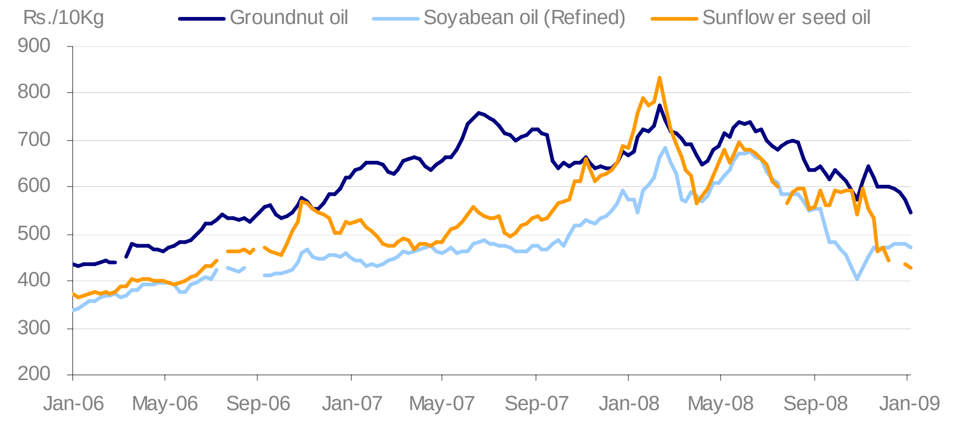
Figure 10: Retail fuel subsidies completely eliminated…



Source: CMIE, Bloomberg. All series indexed to 100 in January 2003

- Only subsidies on kerosene and domestic cooking gas remain

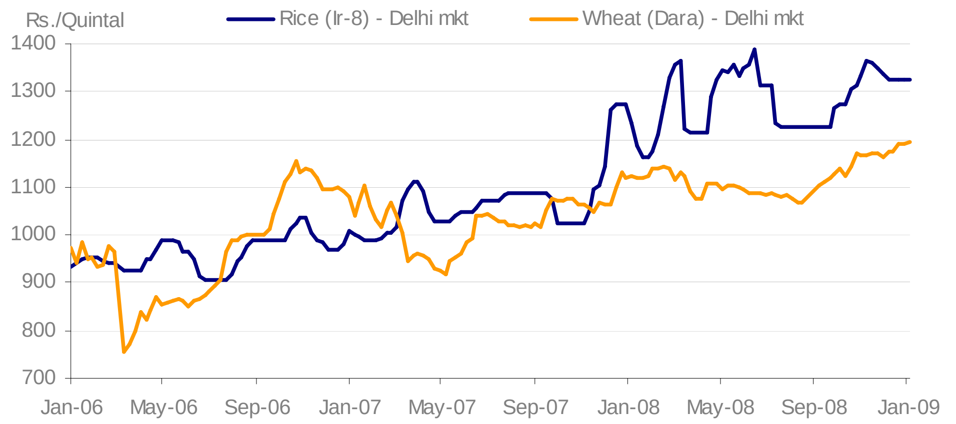
Figure 11: Prices of Sunflower and Soybean oil have corrected sharply in January



Source: CMIE, Prices pertains to Mumbai market

- Sunflower Oil has fallen by 50% from its March 2008 high. Edible oil has a 2.75% weight in WPI.

Figure 12: Food prices have been continuously rising in the domestic market



Source: CMIE

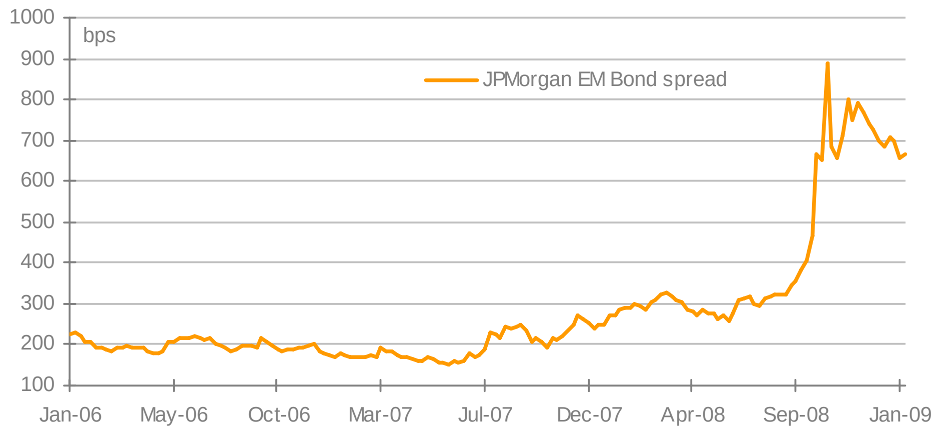
- The rise in domestic food prices is keeping CPI inflation elevated even as WPI inflation has collapsed

Risk aversion – coming off

Figure 13: VIX Index though still elevated has come off sharply

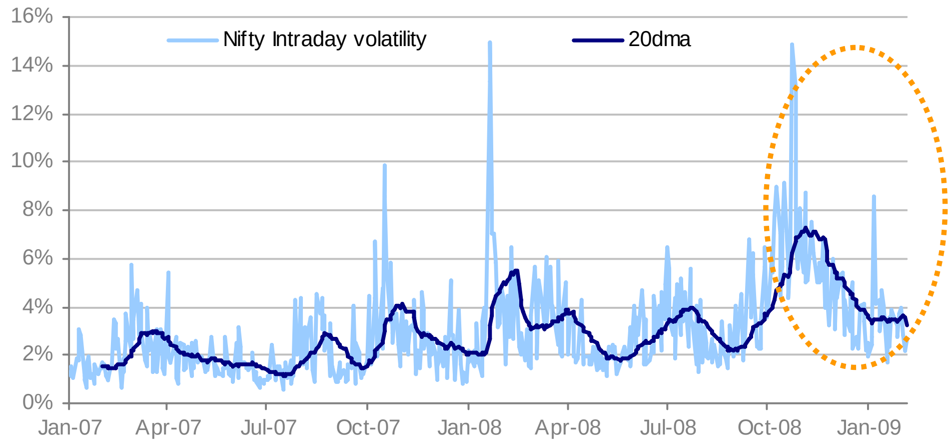
Source: Bloomberg. Updated till CoB 6th Feb 2009

Figure 14: Similarly, EM bond spreads are gradually coming off…



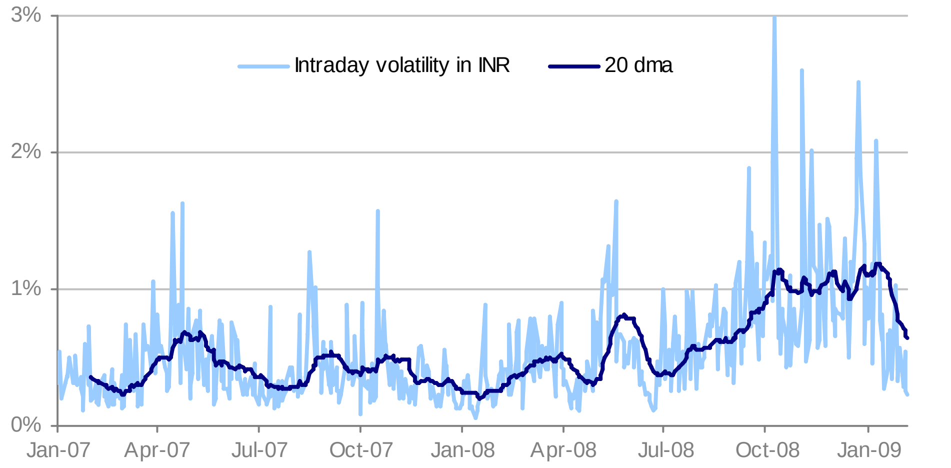
Source: Bloomberg. Updated till CoB 6th Feb 2009

Figure 15: Domestically, volatility in equities has come down…



Source: Bloomberg. Updated till CoB 6th Feb 2009. Calculated as daily range divided by average of open and close

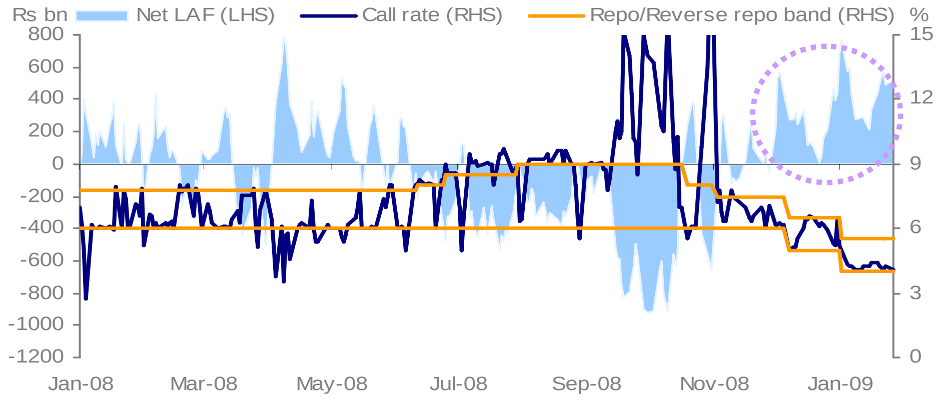
Figure 16: As has volatility in the currency market…



Source: Bloomberg, IIFL Research. Updated till CoB 6th Feb 2009

Money markets – liquidity easing

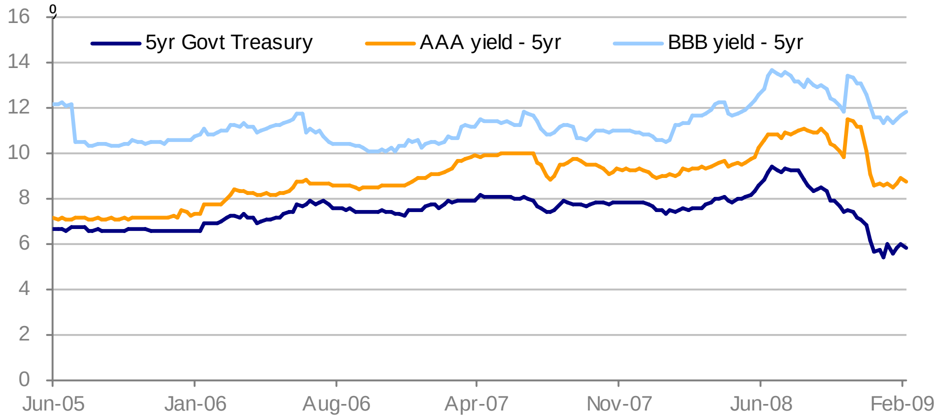
Figure 17: After drastic steps taken by RBI to ease liquidity call rates have come off



Source: Bloomberg

- Aggressive easing from the RBI has eased the stresses in money markets, call rates are within the repo/reverse repo corridor and liquidity is plentiful

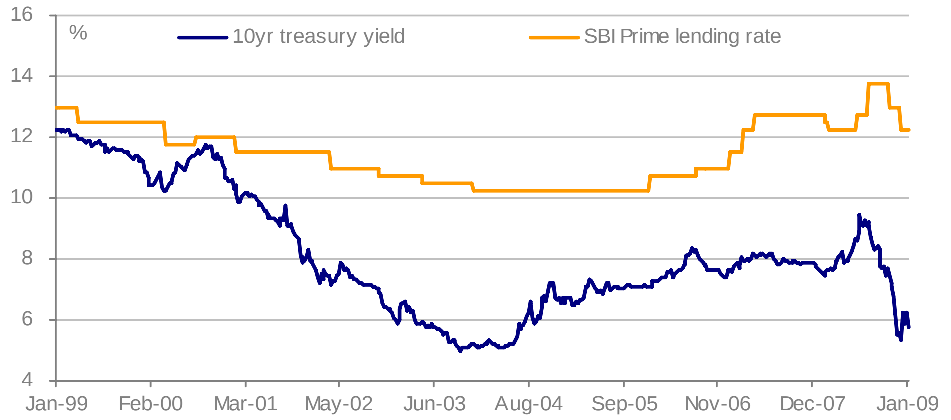
Figure 18: Bond yields have come off, lower decline in higher risk bonds



Source: Bloomberg

- Bond yields have come off from their recent highs, but magnitude of decline has been lower as we move higher up the credit risk spectrum

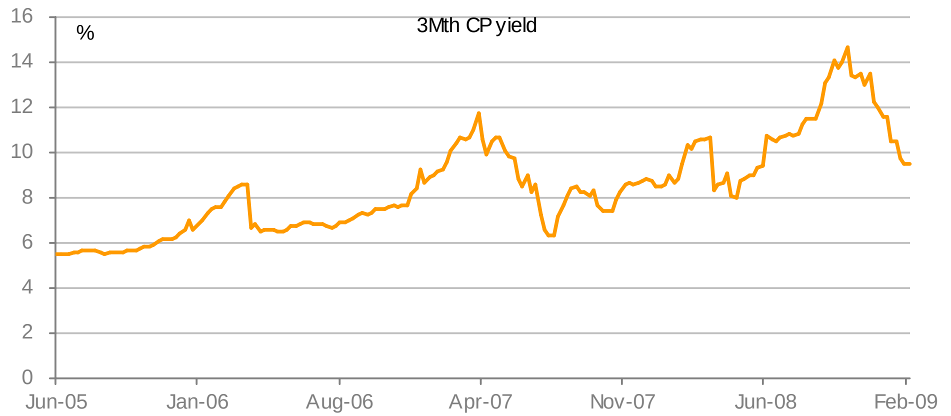
Figure 19: Lending rates have lagged the decline in bond yields



Source: Bloomberg

- Lending rates are coming down far slower than the decline in bond yields due to the stickiness of deposit rates. However we believe both lending and deposit rates have significant room to decline further

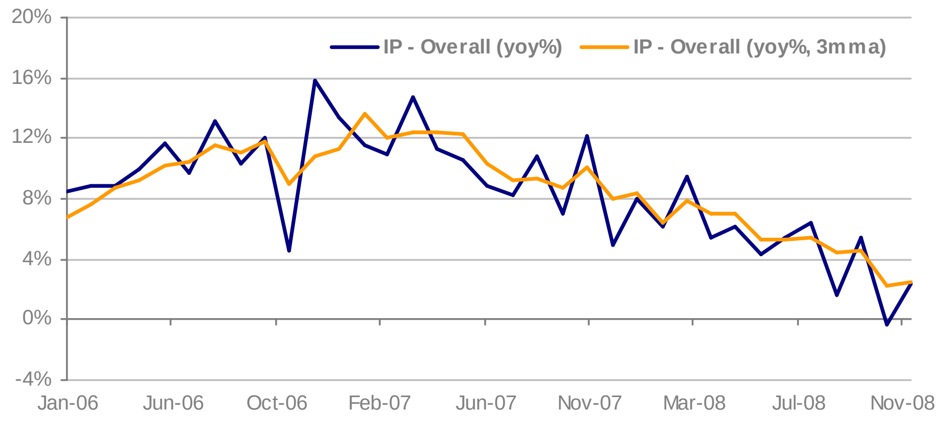
Figure 20: Short term borrowing costs have come down sharply reflecting the improved liquidity – but they still remain elevated relative to history



Source: Bloomberg

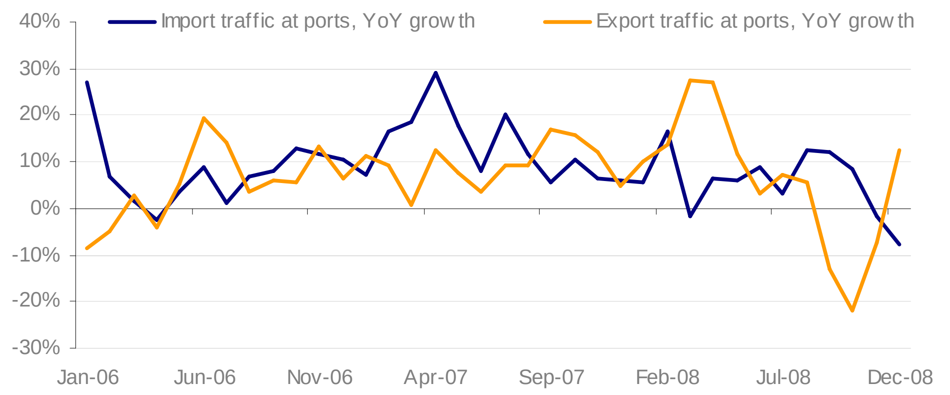
Industrial Activity – dramatic slowdown

Figure 21: IIP growth – Continued deceleration



Source: CMIE

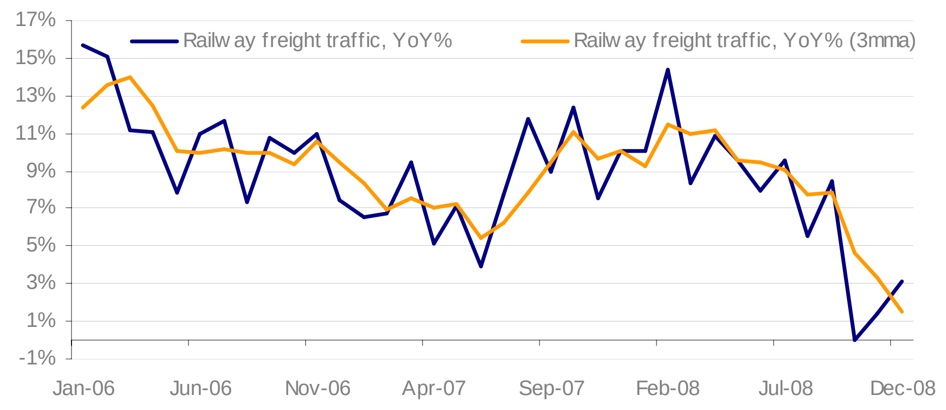
Figure 22: Imports traffic at major ports declined by c10% in Dec but export traffic growth rebounded—exports declined at just 1% in Dec from ~10% in Oct and Nov



Source: CMIE

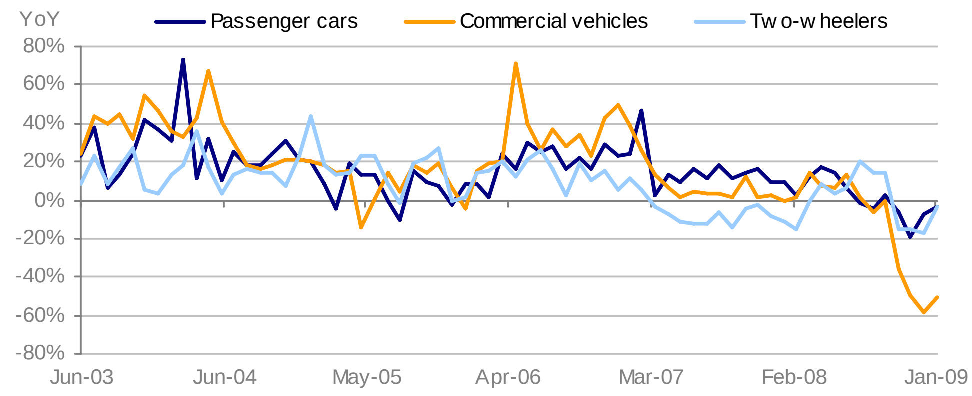
- However with press reports indicating 22% YoY decline in value of exports in January-09, volume growth would have also been negatively impacted.

Figure 23: Railway freight growth continues to remain lack lustre



Source: CMIE

Figure 24: Domestic CV sales have collapsed – down over 50% in December/ January

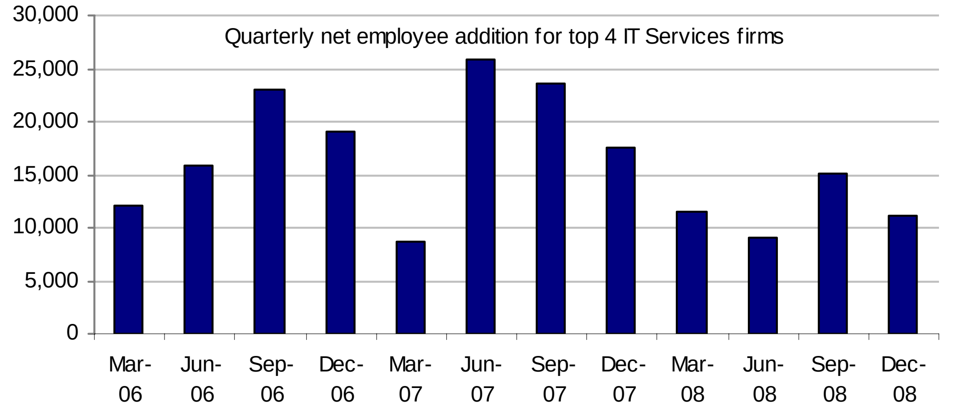


Source: Bloomberg

- Passenger car and Two-wheeler sales seem to be holding up relatively, as yet.

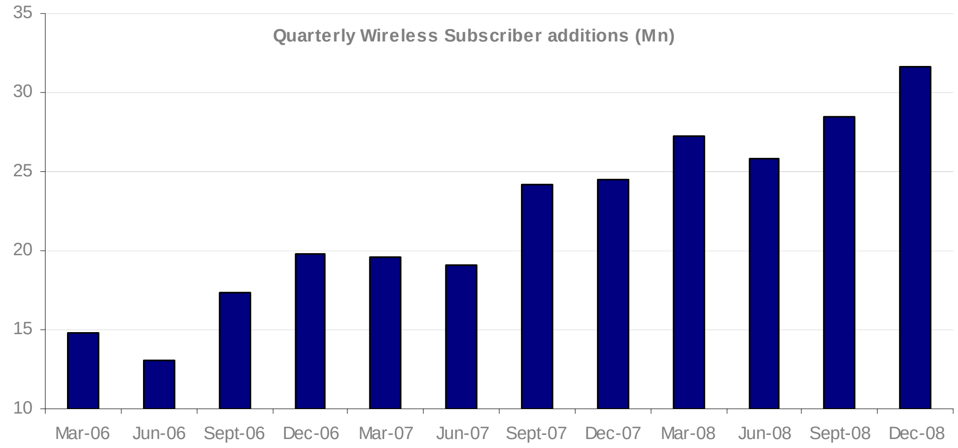
Services Activity Indicators – mixed signals

Figure 25: IT Sector employee addition is sharply down this year…



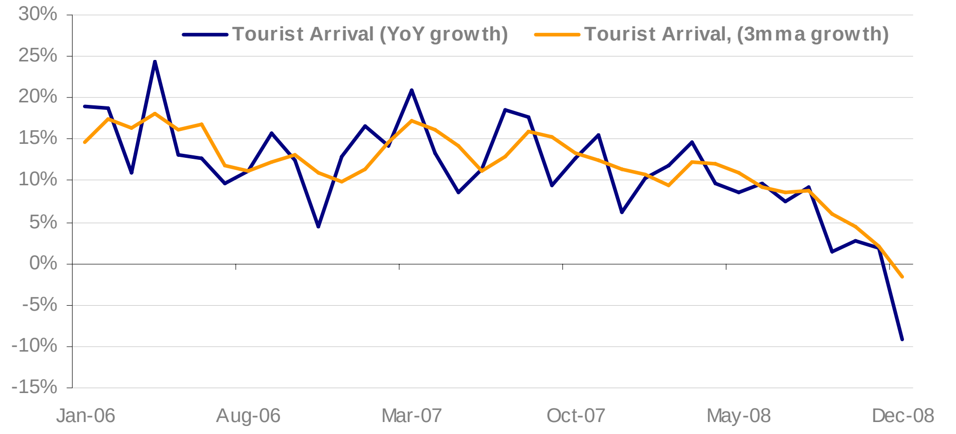
Source: Company data, IIFL Research
Note: Companies include Infosys, Wipro, TCS and HCL Tech

Figure 27: Mobile subscriber additions continues at robust pace



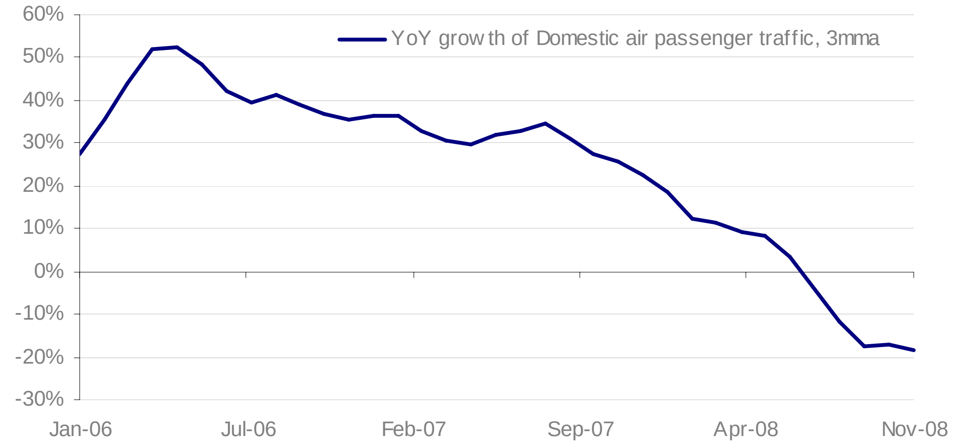
Source: TRAI

Figure 26: Foreign tourist arrivals declined in December – first YoY decline in over three years reflecting the aftermath of 26/11 terror attacks in Mumbai



Source: CMIE

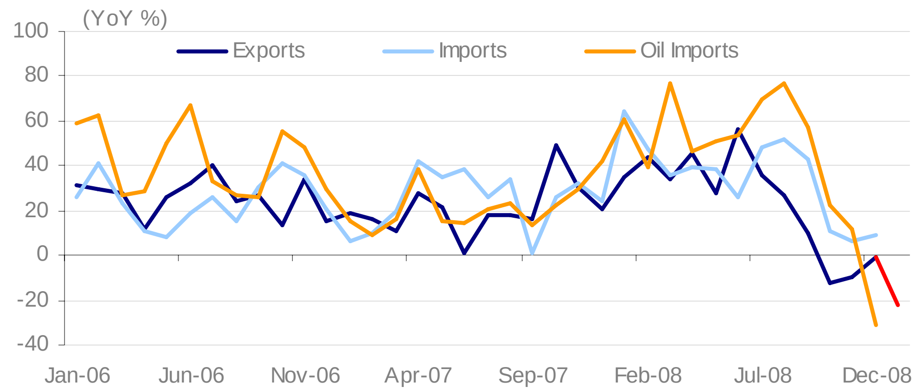
Figure 28: Air-passenger traffic growth – a cup full of woes



Source: Airports Authority of India, IIFL Research

External Sector – shrinking

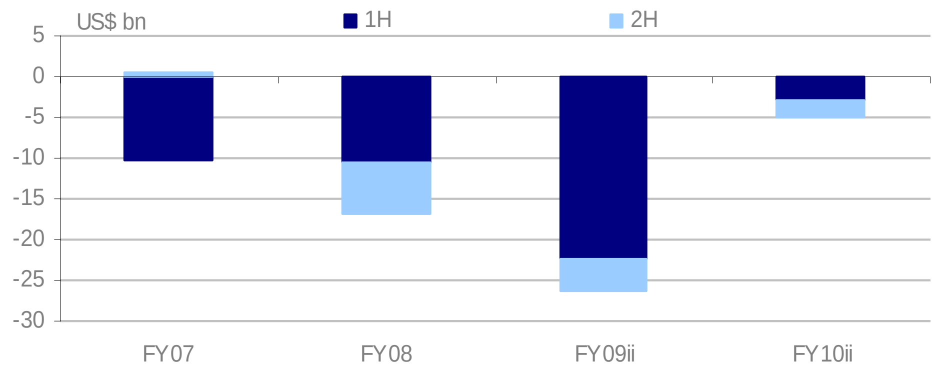
Figure 29: Value of both imports and exports continue to fall



Source: Bloomberg,

- In January, exports are reported to have declined by 22%, imports by ~16%. Value of external trade continues to shrink, partly reflecting the decline in commodity prices

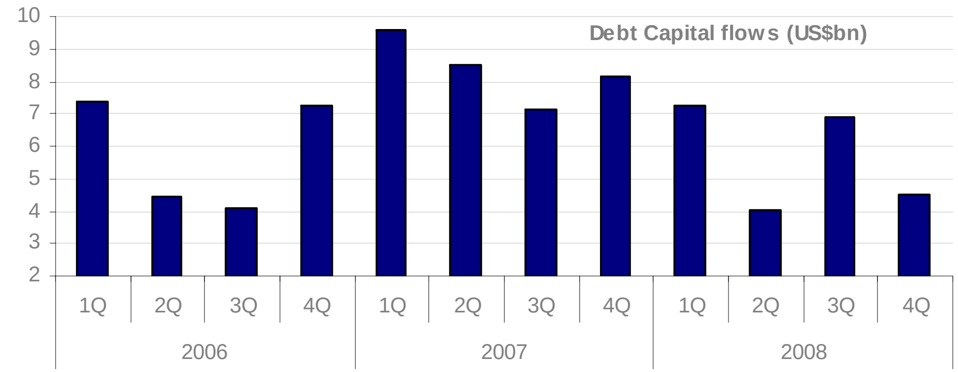
Figure 30: India's current account deficit would contract sharply in FY10 due to lower oil imports



Source: RBI, IIFL Research

- If overseas remittances were to hold up, India could even report a current account surplus in FY10

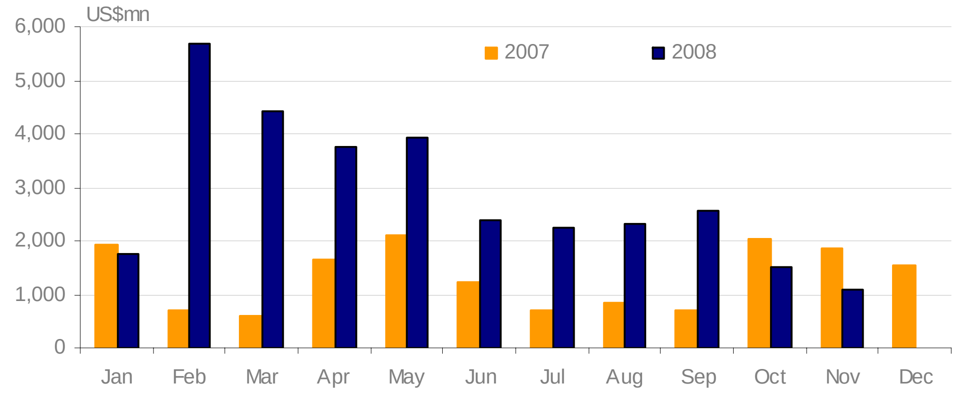
Figure 31: Debt capital flows (ECB + FCCB) slowed down in the last quarter of 2008



Source: RBI

- External capital markets remain hostile and notwithstanding the liberalisation in external borrowing regime, approvals declined sharply in 4QCY08.

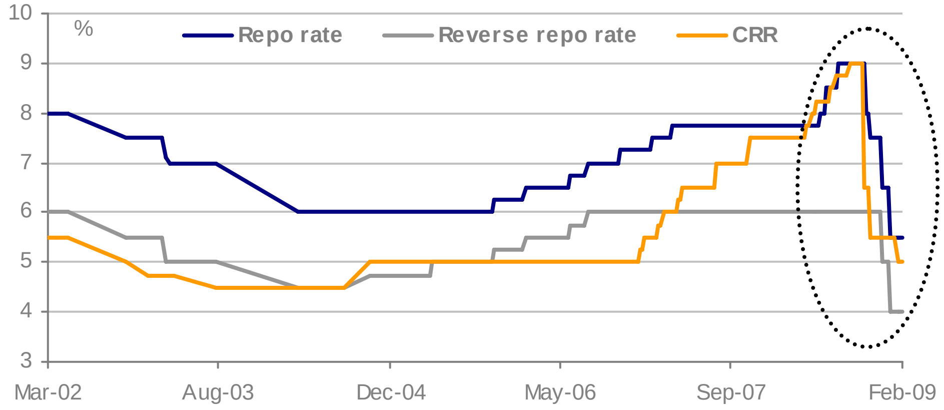
Figure 32: FDI inflows too is showing worrying signs with flows in the month of November at their lowest since September 2007



Source: CMIE, RBI

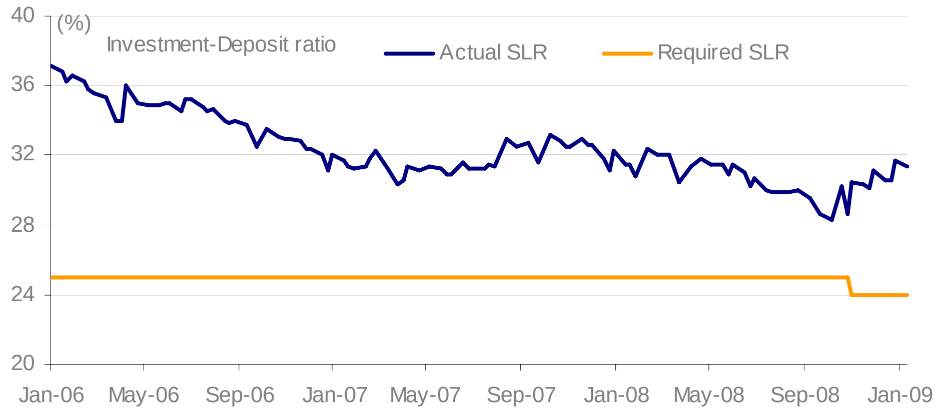
Monetary indicators: More rate cuts ahead

Figure 33: RBI has taken drastic steps to infuse liquidity into the system



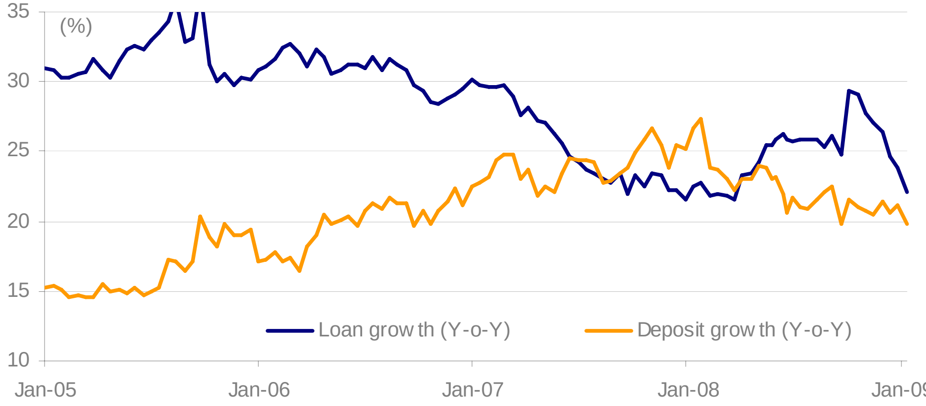
Source: Bloomberg

Figure 35: In spite of cut in SLR, bank investments have actually gone up



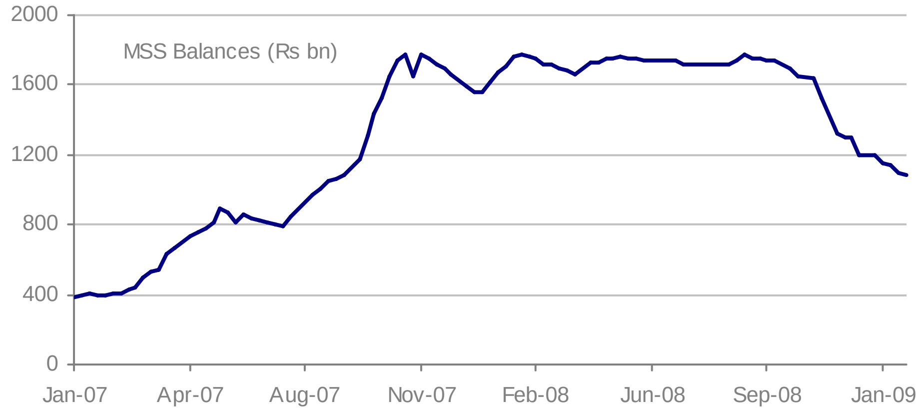
Source: Bloomberg.

Figure 34: Credit growth has fallen sharply over the past 10-12 weeks; Outstanding bank credit is virtually unchanged between end October to mid January



Source: RBI

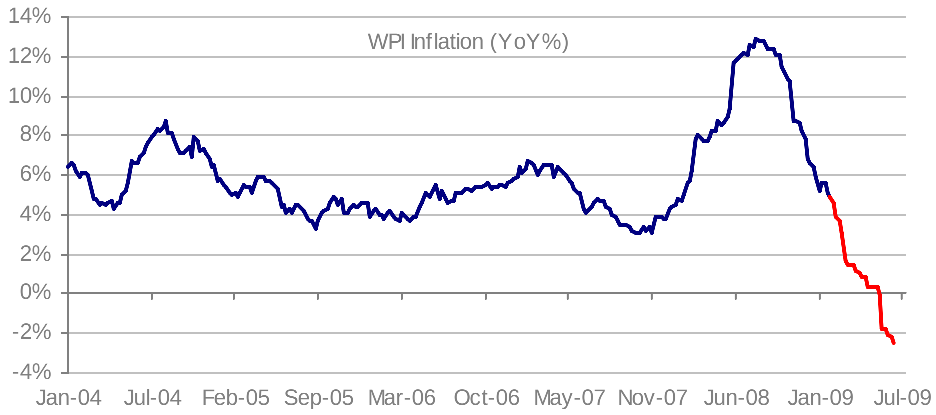
Figure 36: RBI has managed the surge in govt borrowings by buy-back of outstanding MSS bonds – US$22bn of MSS bonds still remain outstanding



Source: Bloomberg

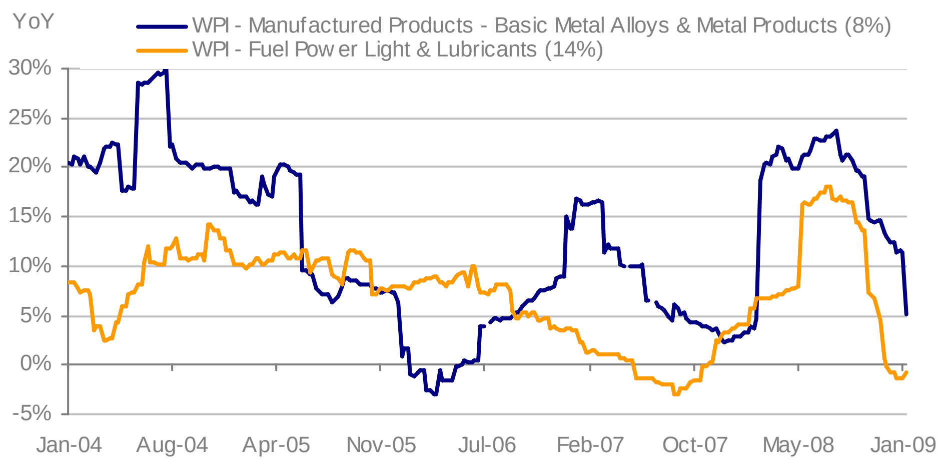
WPI down sharply, CPI remains an irritant

Figure 37: Current trajectory of WPI would almost certainly take it in negative territory come 2H 2009, though CPI will not come off at the same pace



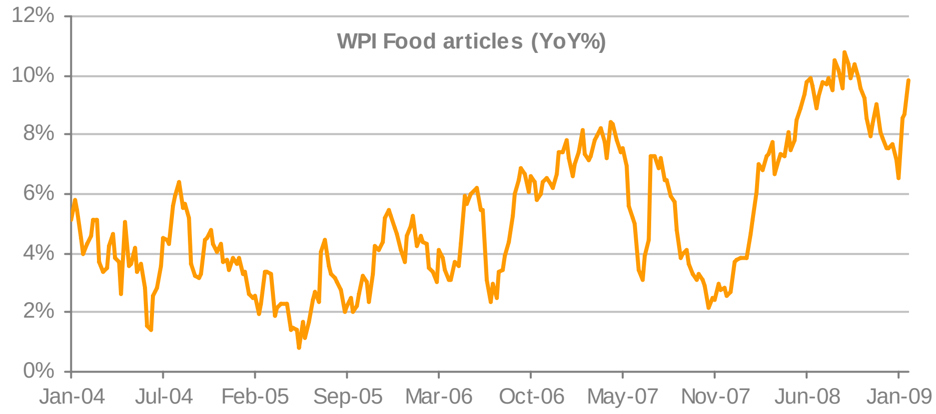
Source: Bloomberg. Red line indicates possible trajectory for WPI till July

Figure 38: Bulk of the decline in WPI inflation is driven by fall in commodities



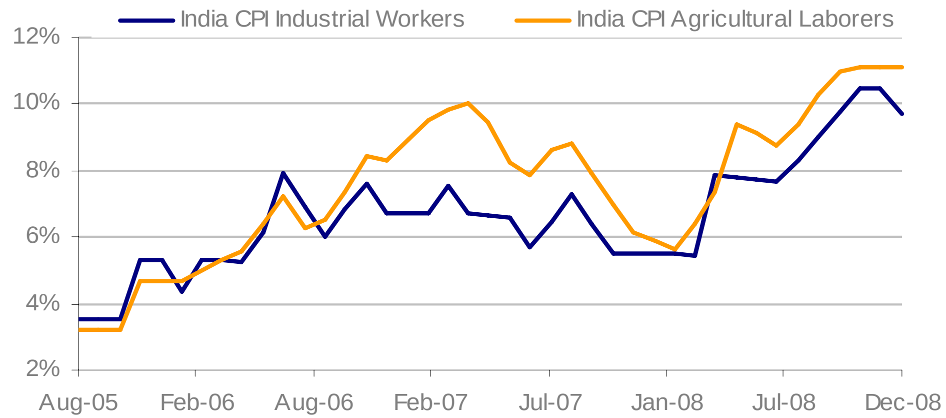
Source: Bloomberg

Figure 39: Food price inflation (primary and mfg) has continued



Source: Bloomberg

Figure 40: Consequently, CPI which has a higher weighting of food articles is still very elevated



Source: Bloomberg

Government finances

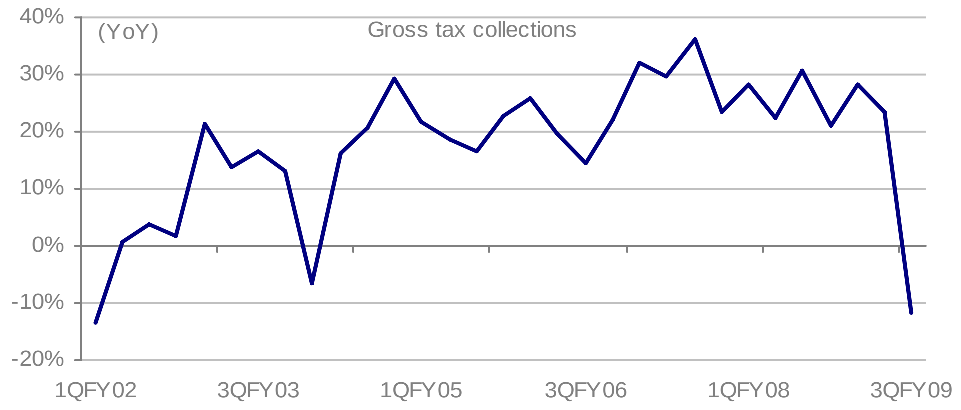
Figure 41: Summarised Central government finances (Apr-Dec)

	Apr-Dec		
Rs bn	FY08	FY09	YoY%
Net Tax revenue	2,960	3,099	5%
Non-Tax revenue	597	660	11%
Non-debt capital receipts *	67	30	-55%
Total receipts	3,624	3,790	5%
Total revenue expenditure	3,949	5,498	39%
Total capital expenditure *	439	474	8%
Total expenditure	4,387	5,972	36%
Revenue deficit	392	1,738	343%
Fiscal deficit	776	2,183	181%

Source: Controller general of accounts. (*) Excludes Rs355bn towards acquisition of stake in SBI from RBI which was fiscal deficit neutral

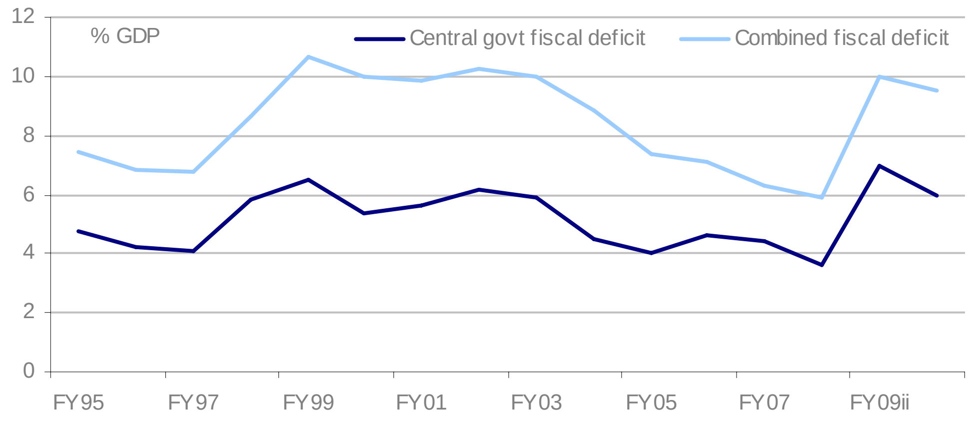
- Fiscal deficit has almost tripled ytd with revenue deficit more than quadrupling in part due to slower tax collections but largely due to sharp increase in subsidies and other revenue expenditure (under-provided in the budget).
- Tax collections have declined for the last three months (Oct-Dec) and the full year shortfall could touch 1% of GDP (~INR 500bn)
- Central government fiscal deficit has touched 4% of GDP till December and an additional 1% towards off-balance sheet items like Oil and Fertiliser bonds.
- Coupled with higher fiscal deficit of state governments, combined fiscal deficit would likely touch 10% of GDP as per the PM's Economic Advisory Council.
- The government will most likely make up for the shortfall partly through higher dividends from PSUs, and increase in excise/customs on oil products.

Figure 42: Gross tax collections – now declining YoY



Source: Controller general of Accounts

Figure 43: Combined fiscal deficit will reach double digits this year

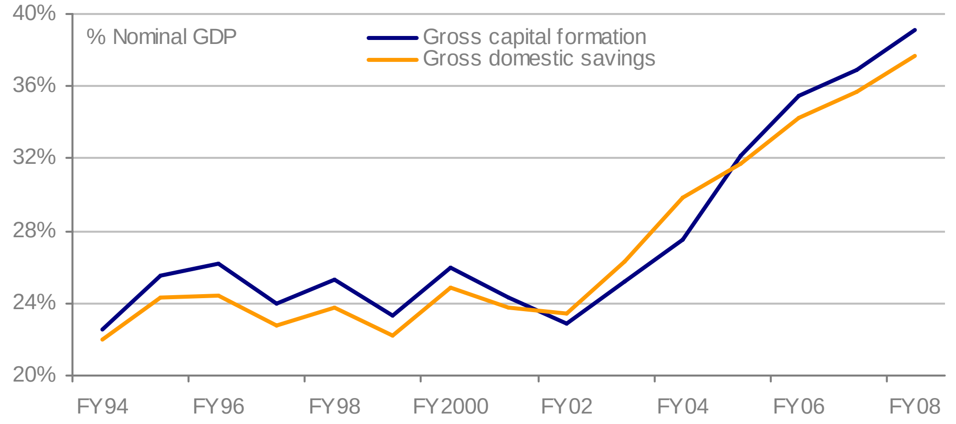


Source: IIFL Research

- Although fiscal deficit would improve next year largely due to absence/significant decline in Oil and fertiliser subsidies, the improvement would be modest and offset by expenditure towards fiscal stimulus and lower tax collections

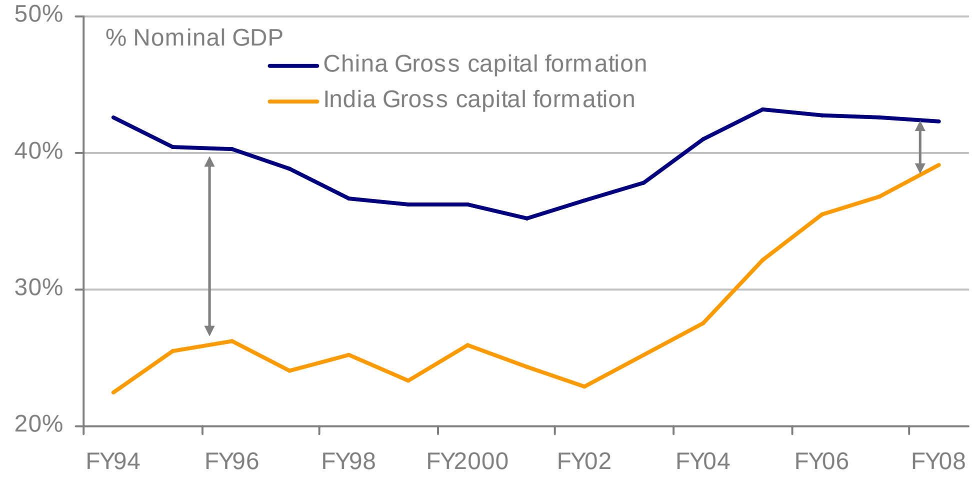
Savings and Investments – the focus area

Figure 44: India's Investment rate touched 39% in FY08 – probably the highest after China amongst the large economies, but is all set to decline in FY10



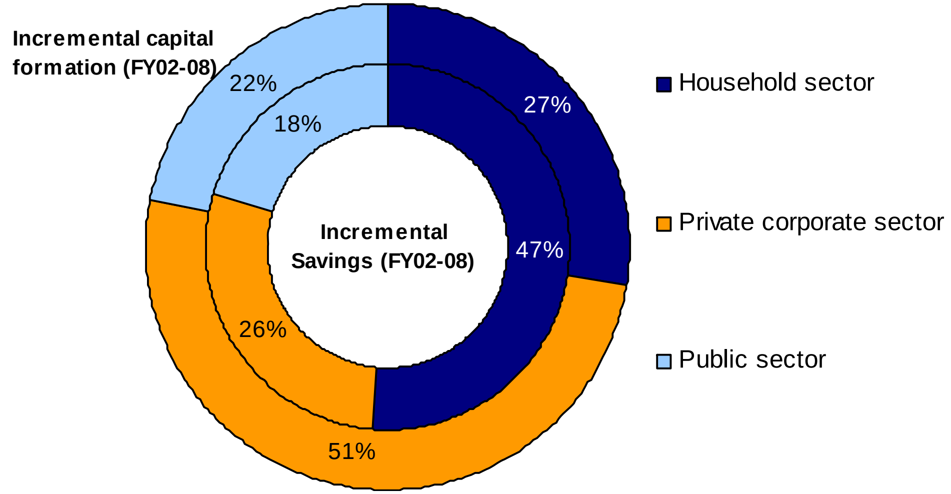
Source: CSO, IIFL Research

Figure 45: India's Investment rate – closing the gap with China



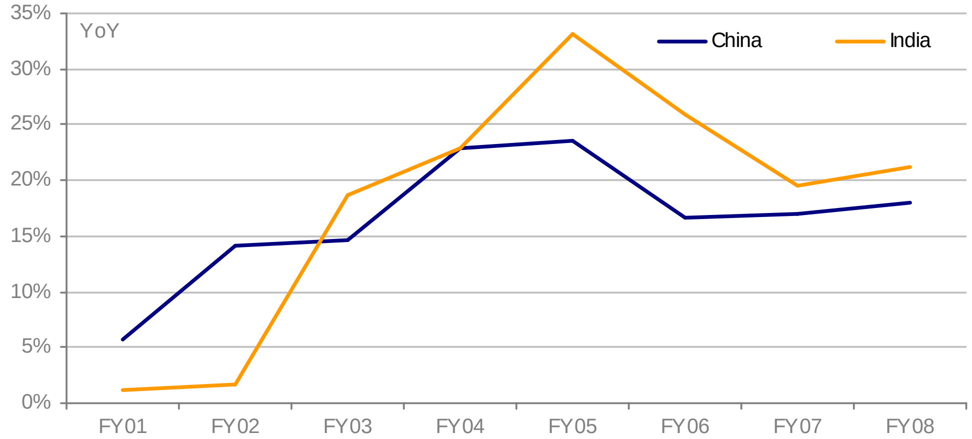
Source: CSO, Bloomberg, IIFL Research. Calendar years for China, so FY08 refers to 2007

Figure 46: Corporate sector has been the biggest driver of capex while household sector has provided bulk of the incremental savings



Source: CSO, IIFL Research

Figure 47: Capital formation in India has been growing at a faster rate than in China



Source: CSO, Bloomberg, IIFL Research

Earnings growth – downside risks remain

Figure 48: BSE 100 consensus sector earnings growth

	Profit growth	
	FY09	FY10
Consumer Discretionary	-13.7%	11.4%
Consumer Staples	-8.8%	15.0%
Energy	7.4%	28.0%
Financials	-0.1%	14.0%
Health Care	-2.7%	15.7%
Industrials	-6.5%	16.4%
Information Technology	13.4%	4.1%
Materials	-7.1%	-21.8%
Real Estate	-37.4%	-16.6%
Telecommunication Services	12.6%	8.6%
Utilities	14.0%	6.8%
Aggregate	-0.7%	7.7%

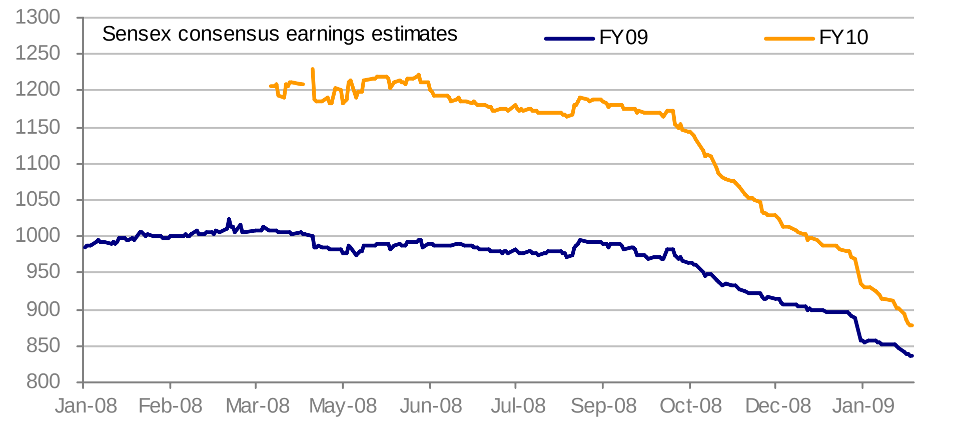
Source: Bloomberg
Note: For Reliance Industries and Tata Steel we have considered FY08 IIFL actual.

Figure 49: Consensus Index Earnings estimates

	SENSEX			NIFTY		
	FY08	FY09	FY10	FY08	FY09	FY10
Index EPS	821	835	876	255	256	271
Growth (%)		2%	5%		0%	6%
Index ex Oil and Gas EPS	669	666	678	198	193	195
Growth (%)		-1%	2%		-3%	1%
Index ex Financials EPS	647	671	688	219	222	225
Growth (%)		4%	3%		2%	1%
Index ex Oil & Financials EPS	496	501	490	162	159	157
Growth (%)		1%	-2%		-2%	-1%

Source: Bloomberg, IIFL Research
Note: All numbers are on consolidated basis except for Financials. For Reliance Industries and Tata Steel we have considered FY08 IIFL actual.

Figure 50: Downgrades to consensus earnings continue

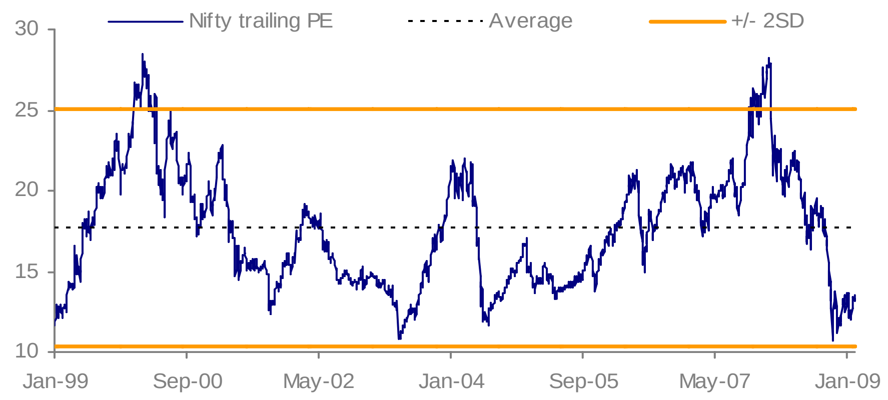


Source: Bloomberg, IIFL Research. Updated as of 6th February, 2009

- Over the past month or so, there has been a spate of earnings downgrades. Still, consensus estimates assume a 6% YoY growth in FY10 Nifty earnings.
- Since the start of the year consensus earnings estimate for Sensex has been downgraded by 7% and 11% for FY09 and FY10 respectively.
- The just concluded 3QFY09 earnings season was a disappointing one with profits declining over 10% - the next couple of quarters look likely to be equally bad and thus further earnings downgrades are likely
- As we have highlighted earlier, the stress case is now most likely to be the base case and it looks highly probable that aggregate FY10 net profits of Nifty will be lower than even FY08.

Market Valuations

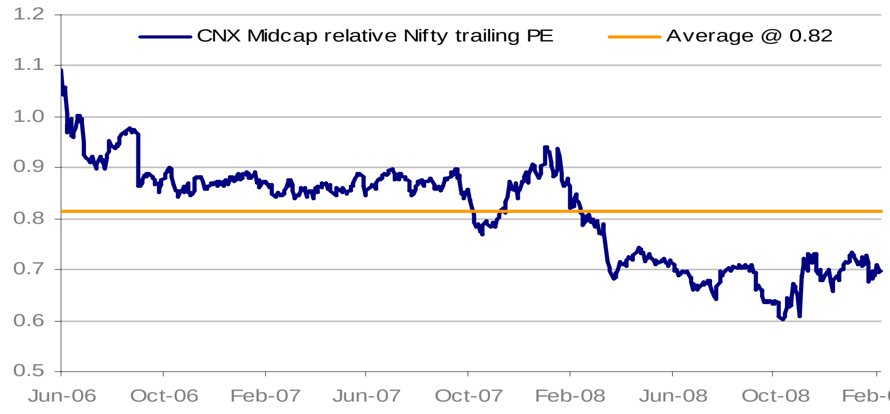
Figure 51: Poor visibility drives Nifty trailing PER to near all time lows



Source: Bloomberg. Updated as of CoB 6th February, 2009

- Though Nifty has de-rated ~2SD below its average, the multiple is based on peak earnings. With potentially earnings decline ahead for a couple of quarters, market multiple could rise even if markets remain range bound

Figure 52: Midcaps have re-rated 15% relative to large caps since October 08



Source: IIFL Research

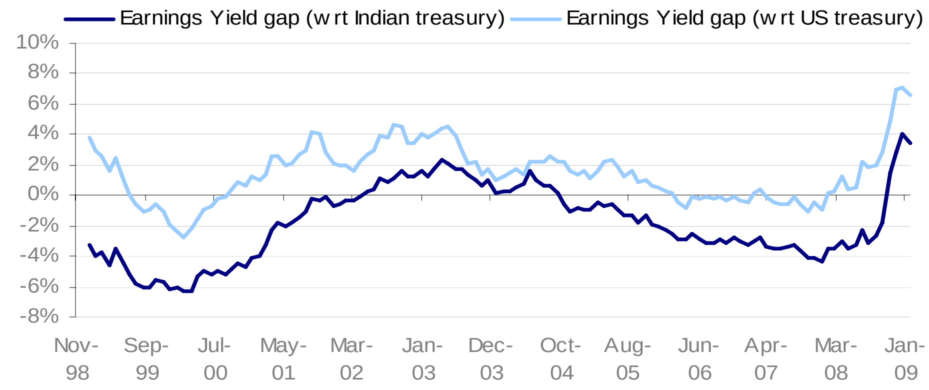
- From their lows in October, mid-caps have re-rated relative to large caps

Figure 53: Bottom-up Consensus Index Valuations -

Index	SENSEX			NIFTY		
	FY08	FY09	FY10	FY08	FY09	FY10
Index PE	11.7	11.5	10.9	11.5	11.4	10.8
Index ex Oil and Gas PE	11.4	11.5	11.2	11.0	11.3	11.2
Index ex Financials PE	11.6	11.2	10.9	11.7	11.5	11.0
Index ex Oil & Financials PE	11.2	11.1	11.3	11.2	11.4	11.6

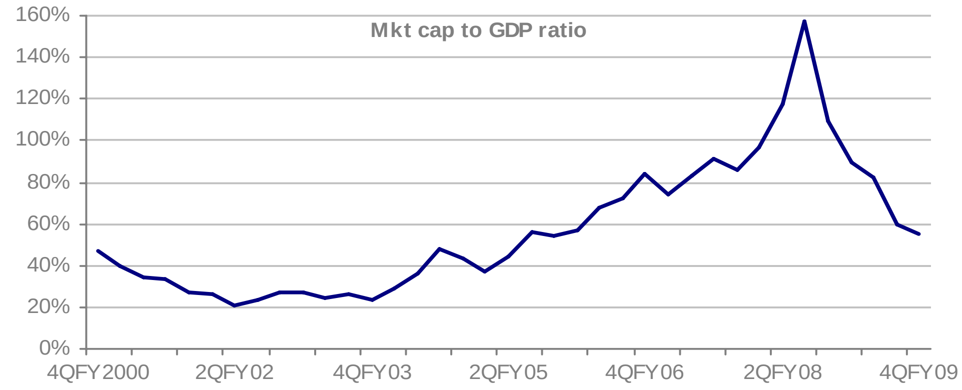
Source: Bloomberg. Updated as of CoB 9th February 2009

Figure 54: Equities are the cheapest relative to the bonds in at least a decade



Source: Bloomberg, MSCI. On trailing PE basis

Figure 55: India's Market Cap to nominal GDP ratio is now 55%



Source: Bloomberg, CMIE.

Sector Valuations

Figure 56: Consumer staples is the only sector trading at its historic average fwd PE – all other sectors are significantly cheap relative to their average

Fwd PE – MSCI Basis	Current (31 Jan)	Average*	Rel to avg
Energy	10.0	12.5	0.8
Materials	5.8	9.7	0.6
Industrials	12.8	17.5	0.7
Consumer Discretionary	8.6	14.1	0.6
Consumer Staples	19.2	19.8	1.0
Healthcare	11.8	20.2	0.6
Financials	11.0	15.4	0.7
Technology	9.3	19.9	0.5
Telecom	7.3	17.5	0.4
Utilities	12.1	13.2	0.9
Market	10.2	15.2	0.7

Source: Bloomberg, MSCI, IIFL Research. *Average since June 2003. Data as of 31 Jan

Figure 57: Utilities is the most expensive sector (relative to its avg) on trailing PE

Trailing PE – MSCI Basis	Current (31 Jan)	Average*	Rel to avg
Energy	11.7	11.6	1.0
Materials	3.4	11.6	0.3
Industrials	13.7	17.3	0.8
Consumer Discretionary	9.3	18.1	0.5
Consumer Staples	23.8	30.5	0.8
Healthcare	14.7	29.1	0.5
Financials	12.6	14.1	0.9
Technology	10.6	38.7	0.3
Telecom	7.2	12.7	0.6
Utilities	14.0	11.2	1.2
Market	10.4	16.7	0.6

Source: Bloomberg, MSCI, IIFL Research. *Average since January 1996. Data as of 31 Jan

Figure 58: All sectors except Utilities are trading below their historic average PB

Trailing PB – MSCI Basis	Current (31 Jan)	Average*	Rel to avg
Energy	2.1	2.5	0.8
Materials	1.1	2.2	0.5
Industrials	2.7	3.2	0.8
Consumer Discretionary	2.1	2.9	0.7
Consumer Staples	9.5	10.9	0.9
Healthcare	3.1	6.2	0.5
Financials	1.8	2.2	0.8
Technology	3.2	13.2	0.2
Telecom	1.6	2.5	0.7
Utilities	1.9	1.7	1.2
Market	2.2	3.1	0.7

Source: Bloomberg, MSCI, IIFL Research. *Average since January 1996. Data as of 31 Jan

Figure 59: Materials has the highest DY currently – but will dividends be sustained?

Trailing DY – MSCI Basis	Current (31 Jan)	Average*	Rel to avg
Energy	1.5	2.4	0.6
Materials	3.1	2.0	1.6
Industrials	1.7	2.1	0.8
Consumer Discretionary	2.4	1.7	1.4
Consumer Staples	2.1	1.8	1.1
Healthcare	1.3	0.9	1.4
Financials	1.7	2.3	0.8
Technology	1.9	0.7	2.6
Telecom	0.6	2.2	0.3
Utilities	2.0	2.4	0.8
Market	1.8	1.6	1.2

Source: Bloomberg, MSCI, IIFL Research. *Average since January 1996. Data as of 31 Jan

Regional Valuations

Figure 60: Sector-wise PE : Wide divergence in trailing multiples

Trailing PE on MSCI basis	India	China	EM Asia	EM	DM
Energy	11.7	8.2	8.2	5.4	6.2
Materials	3.4	8.8	5.7	6.3	6.6
Industrials	13.7	6.3	8.3	8.4	8.2
Consumer Discretionary	9.3	9.0	8.3	9.4	10.8
Consumer Staples	23.8	14.1	15.0	16.6	12.8
Healthcare	14.7	NA	15.2	17.3	14.4
Financials	12.6	9.7	10.1	8.6	10.9
Technology	10.6	17.5	8.3	8.5	12.0
Telecom	7.2	11.1	11.4	10.3	10.7
Utilities	14.0	19.2	21.1	12.9	13.7
Market	10.4	9.5	9.1	8.1	9.9

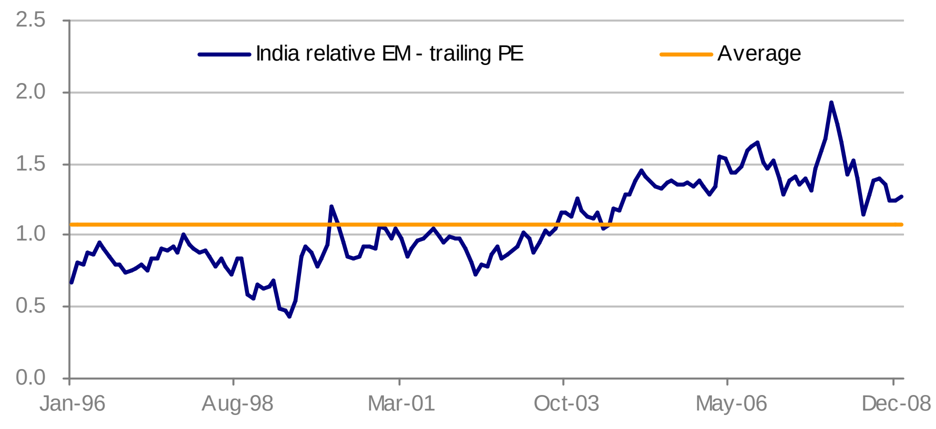
Source: Bloomberg, MSCI, IIFL Research

Figure 61: Consumer Staples in India is significantly expensive relative to regional or global peers, so is the ROE

Trailing PB on MSCI basis	India	China	EM Asia	EM	DM
Energy	2.1	1.4	1.5	1.1	1.5
Materials	1.1	1.4	1.1	1.2	1.2
Industrials	2.7	1.1	1.2	1.3	1.4
Consumer Discretionary	2.1	1.5	1.1	1.3	1.2
Consumer Staples	9.5	2.6	3.0	2.9	2.5
Healthcare	3.1	NA	2.9	2.4	2.5
Financials	1.8	1.8	1.3	1.3	0.7
Technology	3.2	4.3	1.3	1.3	2.0
Telecom	1.6	2.0	1.9	2.1	1.4
Utilities	1.9	1.6	1.1	1.0	1.5
Market	2.2	1.6	1.4	1.4	1.4

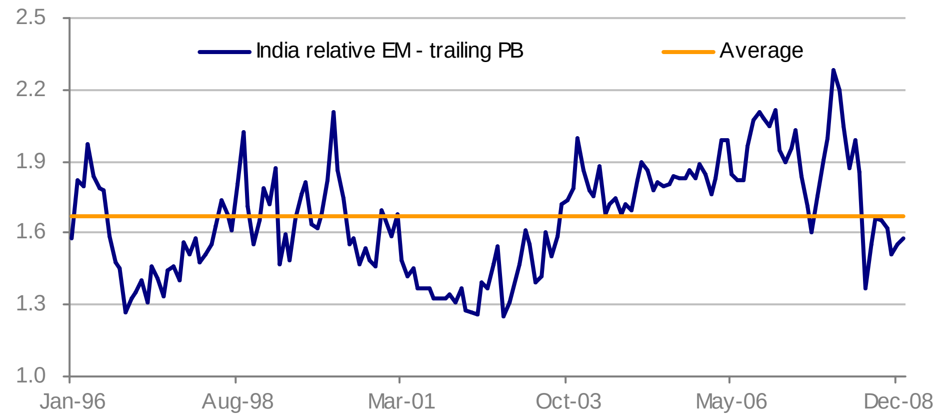
Source: Bloomberg, MSCI, IIFL Research

Figure 62: On trailing PE basis, India is trading close to its historic premium to EMs



Source: Bloomberg, MSCI, IIFL Research

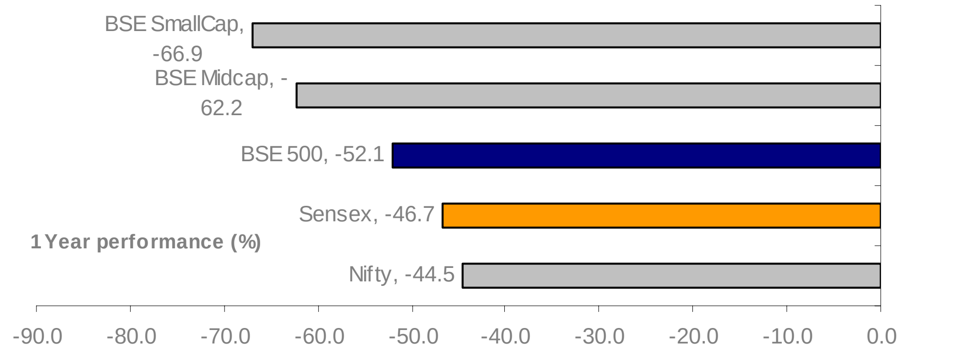
Figure 63: India's PB relative to EM is slightly lower relative to its average



Source: Bloomberg, MSCI, IIFL Research

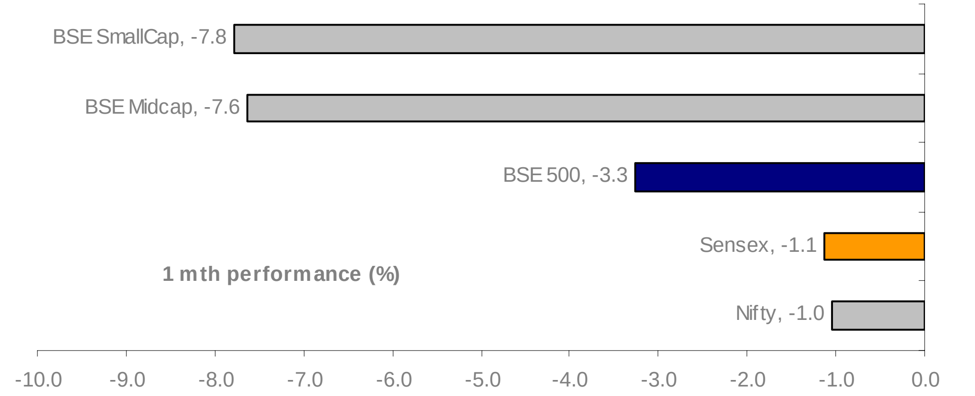
Market performance

Figure 64: Small caps and Mid caps have massively underperformed large caps



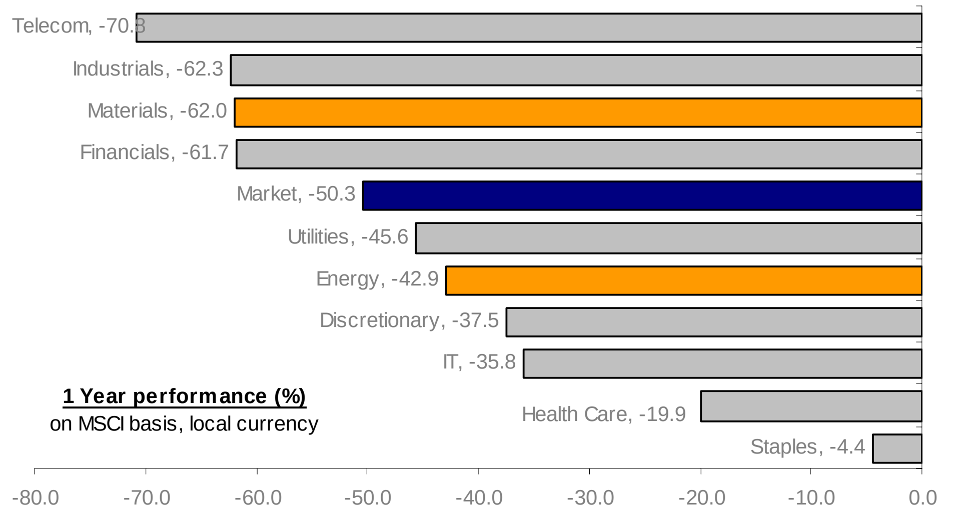
Source: Bloomberg, On MSCI basis, Updated as of CoB 6th February 2009

Figure 66: Large cap outperformance has continued over the past month as well



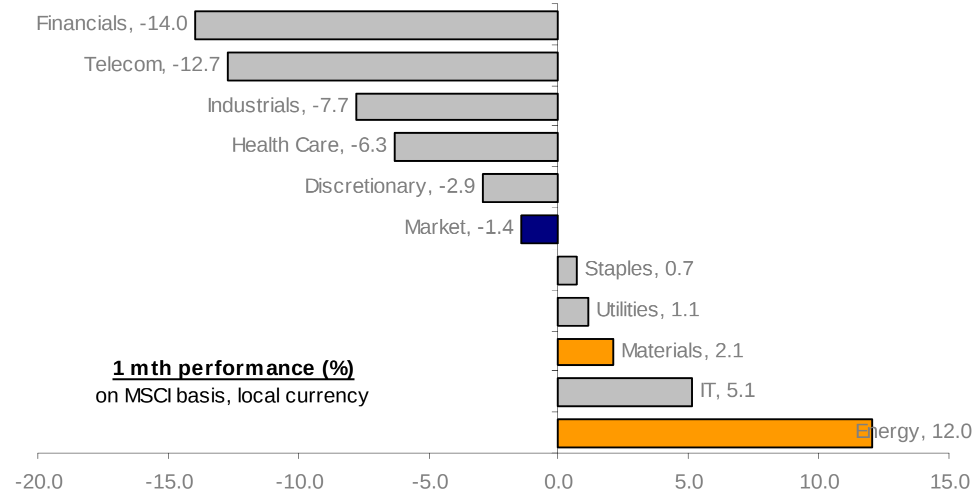
Source: Bloomberg, On MSCI basis, Updated as of CoB 6th February 2009

Figure 65: Expectedly, in a falling market, defensives have massively outperformed



Source: Bloomberg, Updated as of CoB 6th February 2009. MSCI India Telecom does not include Bharti

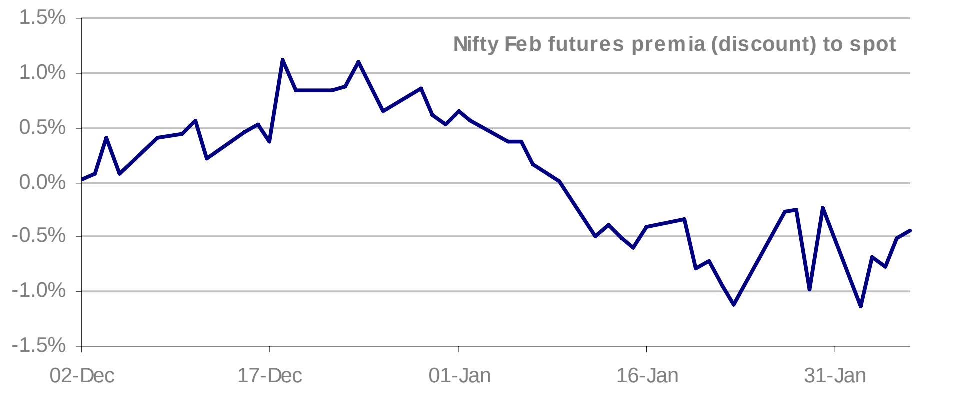
Figure 67: However, some cyclical sectors have outperformed over the past month in spite of a down market



Source: Bloomberg, Updated as of CoB 6th February 2009. MSCI India Telecom excludes Bharti

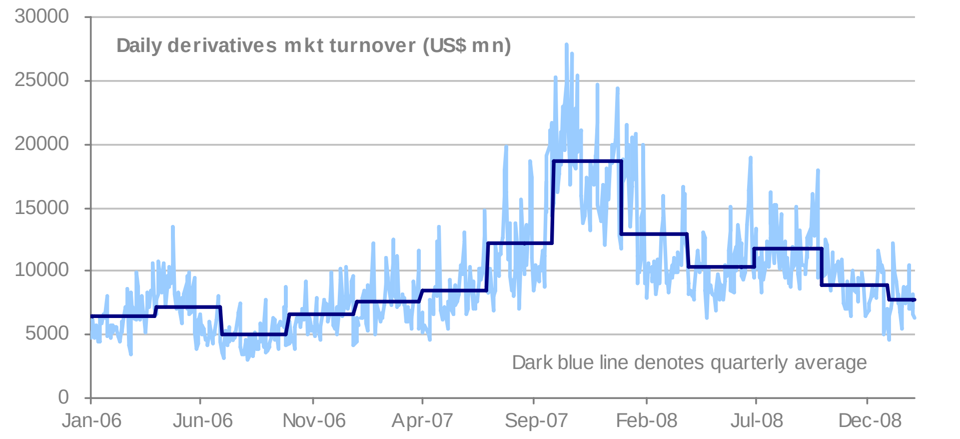
Derivatives markets

Figure 68: After having traded at premium throughout Dec, mid-month Nifty futures have slipped into discount



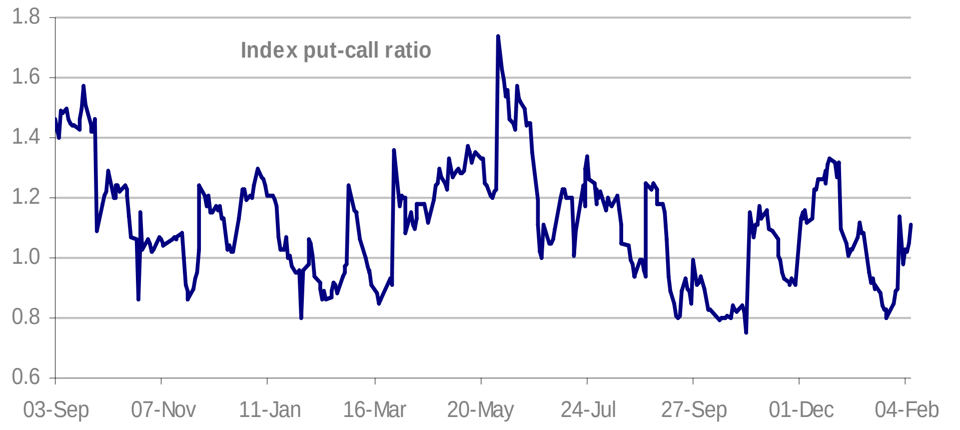
Source: Bloomberg. Updated as of CoB 6th February 2009

Figure 70: Derivative volumes have seen a steady decline



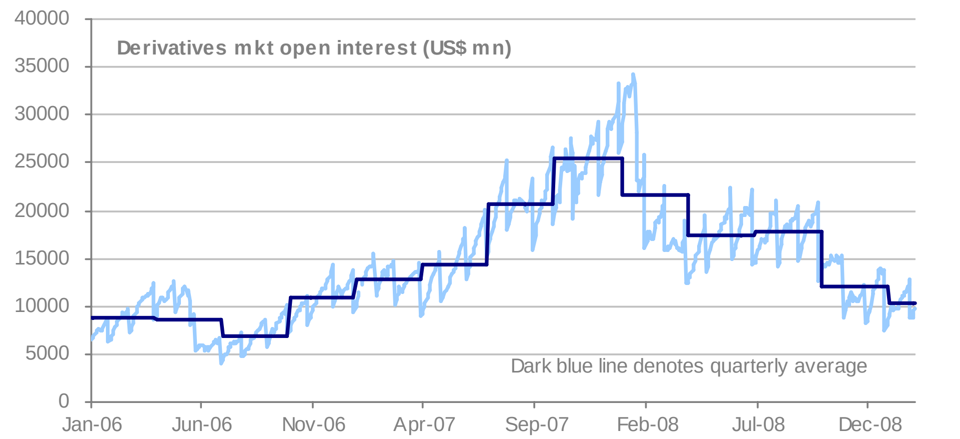
Source: Bloomberg. Updated as of CoB 6th February 2009

Figure 69: Put call ratio has picked up sharply to above 1 over the past week



Source: Bloomberg. Updated as of CoB 6th February 2009

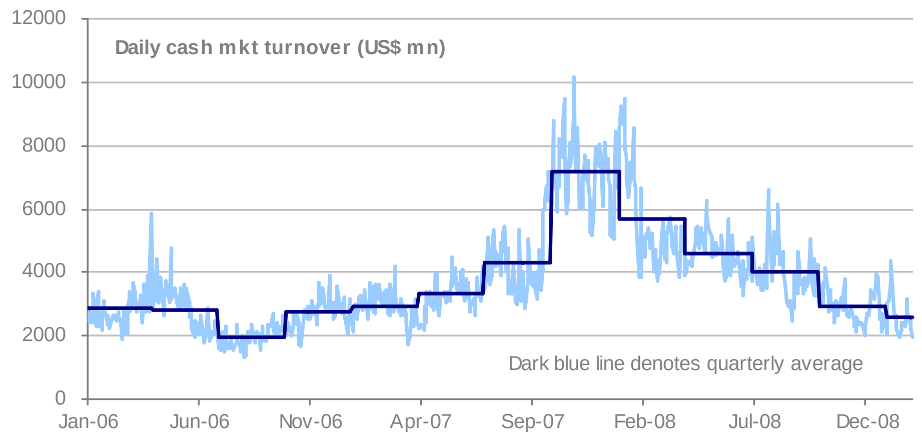
Figure 71: …as is the case with derivatives open interest



Source: Bloomberg. Updated as of CoB 6th February 2009

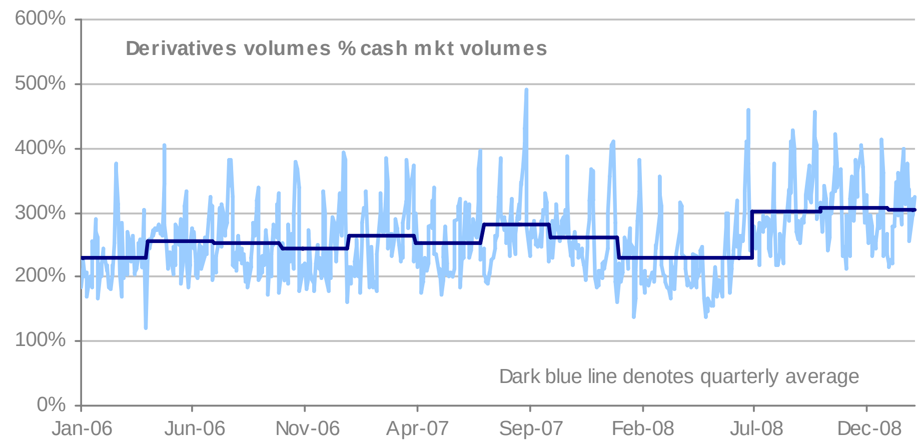
Cash Market activity decelerates further

Figure 72: Cash market volumes continue to steadily decline further – now back to levels of 2006



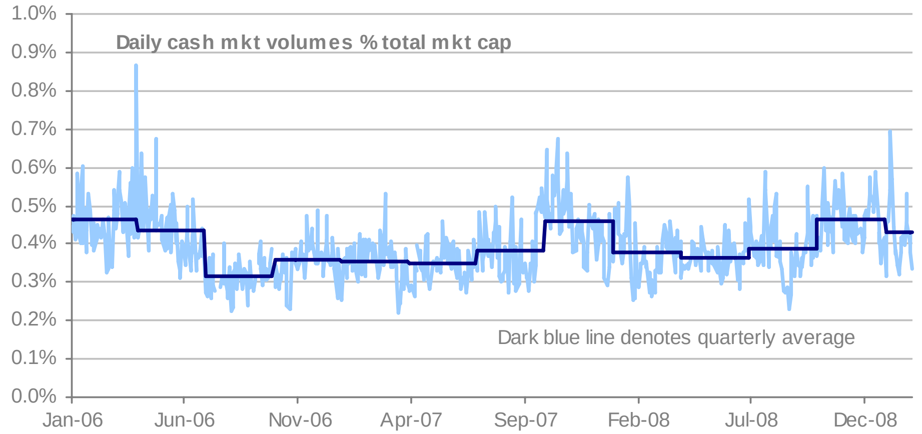
Source: Bloomberg

Figure 74: Delivery volumes however have picked up over past few months reflecting increased delivery based buying



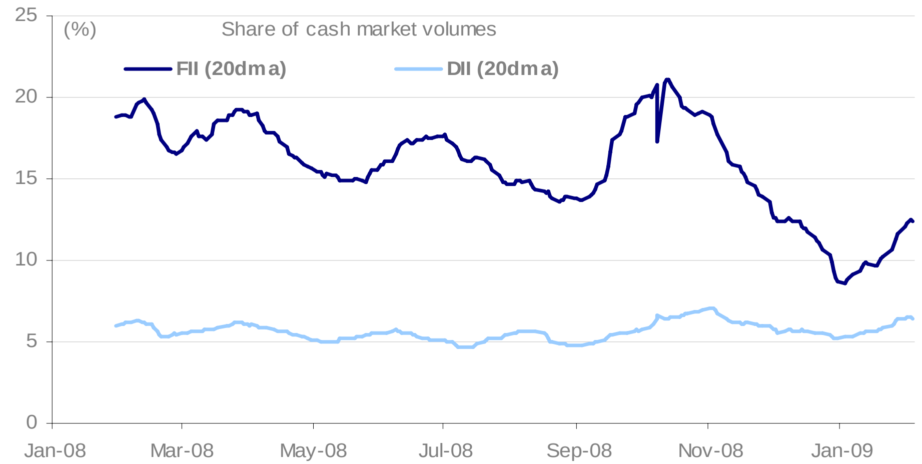
Source: Bloomberg

Figure 73: Decline in trading volumes reflects collapse in market cap rather than decline in trading 'activity'



Source: Bloomberg

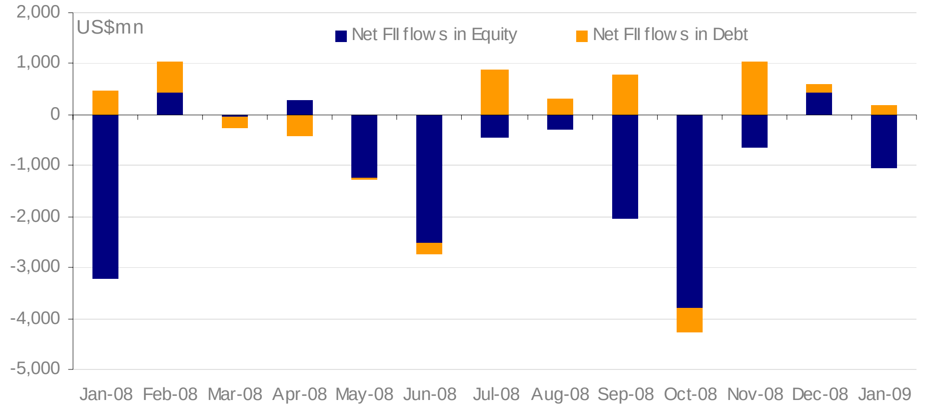
Figure 75: After declining sharply in November-December, FII activity has picked up again – but remains well below last year's levels



Source: Bloomberg. Based on provisional data from the exchanges

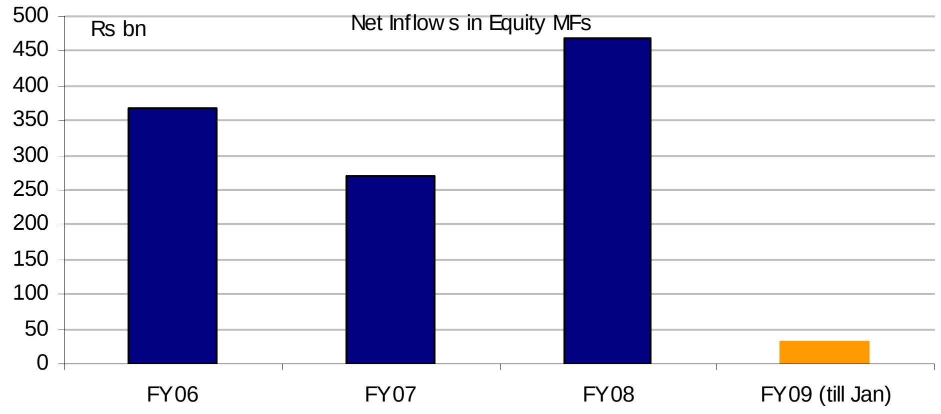
Liquidity/Fund flows

Figure 76: FIIs resumed their selling in January



Source: Bloomberg

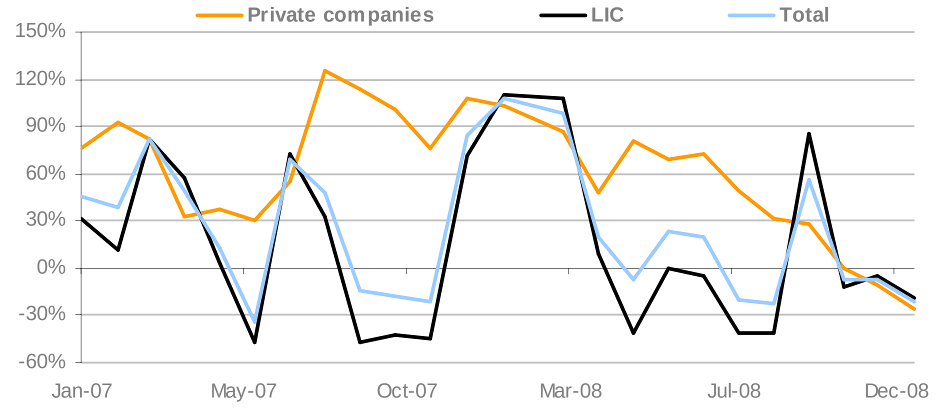
Figure 77: FY09 has seen hardly any inflows for domestic equity MFs



Source: AMFI

Note: Includes 'growth'/'equity' and 'ELSS' schemes of Mutual Funds

Figure 78: Inflows for Private Insurance companies have declined for 3 months in a row (Oct-Dec), % YoY



Source: IRDA

- FIIs have resumed their selling in January with net outflows of ~US$1bn in equities. Since start of 2008, FIIs have been net sellers in every single month barring three (3 out of 13 months)
- FII inflows in debt on the contrary have been positive in all but five out of preceding thirteen months (inflows of US$2.2bn so far in FY09 as against inflows of US$3.1bn in full year FY08). Increased limits and higher domestic interest rates relative to global benchmarks have been the key drivers for continued inflows
- For domestic MFs FY09 has been a lacklustre year.
- While domestic insurance companies are still seeing net inflows, their pace has come off sharply. Private insurance companies which consistently saw growth rates of above 50% in 1H last year saw inflows contract YoY in the each of past three months (Oct-Dec).
- LIC remains the single largest buyer in the market and will remain a net buyer of equities in 1Q2009 as well.

GDP surprises positively, thanks to govt

- The 7.1% growth for FY09 (9% in FY08) as per advance estimate of CSO is a positive surprise (we were expecting 6.8% growth, as was consensus). The positive surprise came from the services sector, which is expected to grow at a robust 9.6% (10.9% in FY08).
- The 250bps acceleration in community, social and personal services growth to 9.3% (largely due to government expenditure) would drive sustained growth in services. The industrial sector (including construction) is expected to decelerate sharply to 4.8% (lowest since FY02) from 8.1% in FY08, with manufacturing growth rate halving to 4.1%. Agricultural growth is expected to decelerate to 2.6%, largely reflecting the high base (5% CAGR during FY05-08).
- On the expenditure side, as expected, gross capital formation growth is likely to slow to single-digit rates (for the first time since FY03); however, it is still expected to grow faster than GDP in both real and nominal terms. However, the implicit 13% YoY nominal growth in 2HFY09 looks on the optimistic side to us. Private consumption is expected to slow to 6.8% from 8.5% in FY08, while government consumption growth would accelerate to 16.8% reflecting the surge in government expenditure. In nominal terms, govt consumption expenditure is estimated to rise 26%.
- The rise in government consumption alone (we don't get estimates for govt capex at this stage) is expected to contribute to 23% of incremental FY09 GDP (its share in FY08 GDP was less than 10%). This contribution by government consumption masks the sharp deterioration in private sector's economic activity. After many years, public sector's share in GDP would actually increase during FY09 (and also FY10).
- In our view, given the implicit 2HFY09 growth estimate of 6.4%, there is a modest downside risk to the 7.1% growth estimate for FY09, given the bleak economic data: 1) loan growth has collapsed; 2) industrial production as well as freight traffic growth is barely above zero; and 3) exports, imports and tax collections are all declining.

Figure 1: GDP growth breakdown

In real terms	% YoY growth		Contribution to GDP growth (%pts)	
	FY08	FY09	FY08	FY09
GDP at Factor cost	9.0	7.1	9.0	7.1
Agriculture and allied activities	4.9	2.6	0.9	0.5
Industry	8.1	4.8	2.2	1.3
Mining and quarrying	3.3	4.7	0.1	0.1
Manufacturing	8.2	4.1	1.3	0.6
Electricity, gas and water supply	5.3	4.3	0.1	0.1
Construction	10.1	6.5	0.7	0.5
Services	10.9	9.6	5.9	5.4
Trade, Hotels, transportation and communication	12.4	10.3	3.4	2.9
Financing, Insurance, Real estate and business services	11.7	8.6	1.7	1.3
Community, social and personal services	6.8	9.3	0.9	1.2
GDP (Expenditure side)	9.1	7.1	9.1	7.1
Private final consumption	8.5	6.8	4.9	3.9
Government final consumption	7.4	16.8	0.7	1.6
Gross fixed capital formation	12.9	8.9	4.0	2.8
Inventories & Valuables	32.1	24.1	1.2	1.0
Exports	2.1	20.8	0.5	4.2
Imports	6.9	27.9	-1.7	-6.9
Gross fixed capital formation % Real GDP	31.6	32.1		
Gross fixed capital formation % Nominal GDP	34.0	34.6		

Source: CSO

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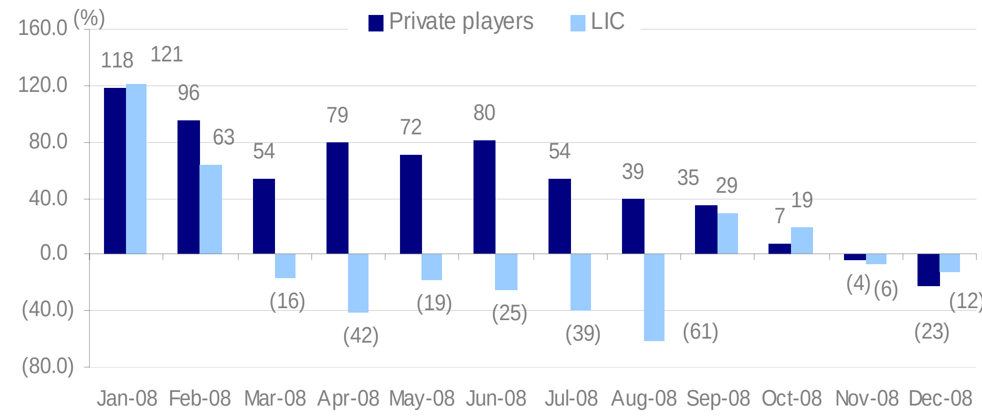
Declining at a faster pace

Premium income for private players and LIC declined YoY for the second consecutive month and at a faster rate in December 2008. The deceleration is expected to continue as we head into the last quarter of the fiscal year, owing to the high-base effect.

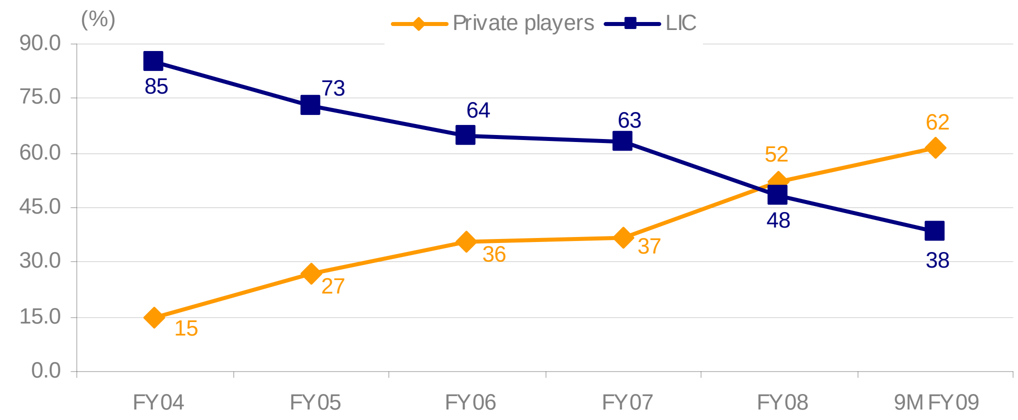
- Annual Premium Equivalent (APE – calculated as regular premium plus 10% of single premium) for private life insurers was down 23% YoY in December 2008 after falling 4% YoY in the previous month. This is a sharp deceleration from 118% YoY growth in January 2008 (figure 1).
- LIC's APE also dropped 12% YoY compared to the 6% YoY decline in the previous month. Premium income from Jeevan Aastha, a capital-guaranteed product, will be reflected in January 2009 numbers. LIC had targeted mopping up Rs250bn under the scheme.
- Reliance Life Insurance was the only leading private player to report YoY growth (26%). All the other leading private players reported a YoY decline, with Bajaj Allianz (down 53% YoY) and ICICI Prudential (down 52% YoY) declining the most. December 2008 was the fifth consecutive month of APE decline for Bajaj Allianz.
- Market leader ICICI Prudential has seen a significant slowdown in premium income, with three consecutive months of double-digit decline in APE. Consequently, its market share has declined by more than 450bps YTD to 21.7%.
- Sequentially, APE was up 21% MoM for LIC and 17% for private players. Most of the private players showed an MoM jump in December. SBI Life Insurance was the only major private player to report a monthly decline (down 34% MoM), primarily due to the high base of November 2008.
- LIC's market share has declined to 38% as at end-9MFY09, compared to 48% as at end-FY08 (figure 2).

Figure 1: YoY APE growth - sharp deceleration in growth rate



Source: IRDA, IIFL Research

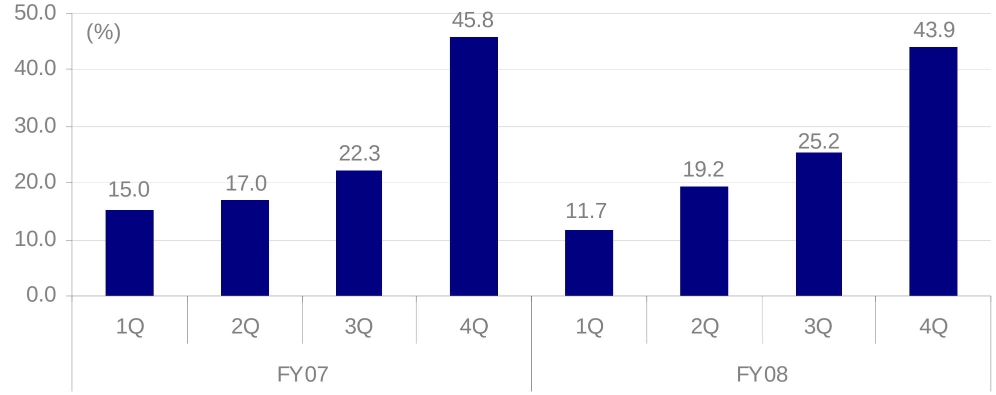
Figure 2: APE market share



Source: IRDA, IIFL Research

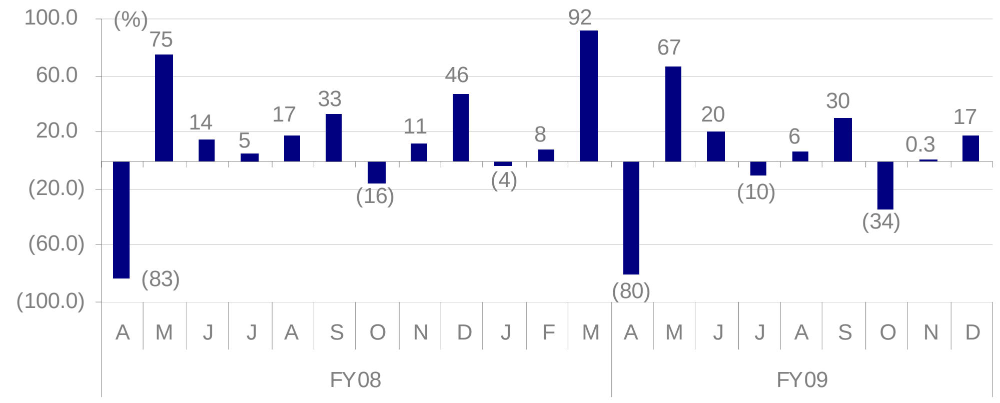
- LIC's APE premium for 9MFY09 declined by 26% YoY (versus our forecast of 30% YoY decline for full-year FY09). Private players' APE premium for 9MFY09 grew 26% YoY (versus our expectation of only 5% YoY growth for full-year FY09).
- Owing to the seasonality in the insurance business, the fourth quarter (January–March) usually accounts for almost half of the yearly premium collection (Fig 3). For private players, fourth quarter accounted for 44% of APE in FY08 and 46% in FY07.

Figure 3: Quarterly contribution to full-year APE for private players



Source: IRDA, IIFL Research

Figure 4: MoM APE growth trend for private players



Source: IRDA, IIFL Research

Figure 5: Top 10 private players by APE market share

APE market share (%)	9MFY09	FY08	YTD change (bps)
ICICI Prudential	21.7	26.3	(459)
SBI Life	15.5	11.9	365
Bajaj Allianz	13.5	19.9	(638)
Reliance Life	9.1	6.6	252
HDFC Standard	8.3	7.9	42
Birla Sun Life	8.2	6.6	161
Max New York	5.6	4.6	99
Kotak Mahindra Old Mutual	4.0	3.6	43
Met Life	3.2	2.6	56
Tata AIG	3.2	3.0	20

Source: IRDA, IIFL Research

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Bharti Airtel – ADD

BHARTI IN	Rs666	Telecom	10 Feb 2009	Company Update

Kaleidoscopic regulation

Indian telecom regulation has been like a kaleidoscope in the hands of a fidgety child—nothing seems constant, with 200bps spectrum fee hike (not implemented yet), 200bps licence fee reduction for rural rollout (certain w.e.f. 1 April 2009), mobile termination charge (MTC) cut and finally 3G and BWA auctions in various states of the regulatory process. But with elections around the corner, we sense torpor rather than activity on 3G, a setback for Bharti. Simultaneously, responses received by TRAI to its consultation on MTC reduction show that it is Bharti and Vodafone (arguing for maintaining or raising MTC) vs everyone else, with Idea Cellular silent. Also, through the credit crunch, international carriers have raised US$39bn of debt in the last six months, and reputed companies looking to enter India may not necessarily face this obstacle. We cut our FY10 EPS estimate by 5.6% (sharper competition, slowing mobile revenues especially from corporates) and reduce our target price to Rs735. MTC cut lurks in the background. We downgrade to ADD.

Regulation in state of torpor; 3G looks unlikely: With elections round the corner, we estimate that unless a bid document with the blessings of all stakeholders is brought out by DoT before March-end, 3G auctions cannot be held by this government. The GoM, which is now examining the matter referred to it by CCEA (to which, in turn, the baton was passed by DoT) is debating with the defence forces the release of additional 3G spectrum (the hike in reserve price to Rs35bn pan-India is virtually certain). If the auctions are not held in this government's tenure, the next government is unlikely to move forward swiftly without evaluating afresh all elements of the 3G auctions.

3G delay and MTC cut probability a setback for Bharti: Such a scenario would be a setback in relative terms to Bharti, for whom 3G auctions would have: 1) solved the spectrum shortage problem; 2) enabled an ARPU differential; 3) provided an opportunity to exert balance sheet pressure on competition; and 4) helped build a defence against MNP. International telcos trying to enter the country would like the 3G auction to happen post elections. Further, the momentum behind responses to the MTC cut consultation paper received by TRAI suggests a better-than-even likelihood that such a cut can happen. We estimate that a Rs0.1cut in MTC can impact Bharti's EBITDA margin by 250bps.

Debt raising by telcos since June 2008

Major Names	Amount (US$ m)
DEBT	
Verizon Wireless	9,751
Vodafone	8,372
NTT DOCOMO	1,048
Vimplecom	776
Others	19,049
Total	**39,060**

Source: Bloomberg; IIFL Research

Financial summary

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	185,196	270,250	371,190	450,937	533,304
EBITDA Margins (%)	40.1	42.1	40.7	39.1	39.1
Pre-Exceptional PAT (Rs m)	42,573	67,007	81,600	98,441	117,936
Reported PAT (Rs m)	42,573	67,007	81,600	98,441	117,936
EPS (Rs)	22.5	35.3	43.0	51.9	62.1
Growth (%)	88.5	57.2	21.8	20.6	19.8
PER (x)	29.7	18.9	15.5	12.8	10.7
ROE (%)	37.4	37.4	31.0	27.9	25.5
Debt/Equity (x)	0.6	0.2	0.3	0.1	-0.1
EV/EBITDA (x)	18.2	12.0	9.2	7.6	5.9
Price/Book (x)	9.3	5.7	4.2	3.1	2.4

Price as at close of business on 09 February 2008

12-mth Target price (Rs) 735 (10%)

Market cap (US$ m)	**26,013**
52Wk High/Low (Rs)	980/483
Diluted o/s shares (m)	1898
Daily volume (US$ m)	68.8
Dividend yield FY08ii (%)	0.0
Free float (%)	32.9

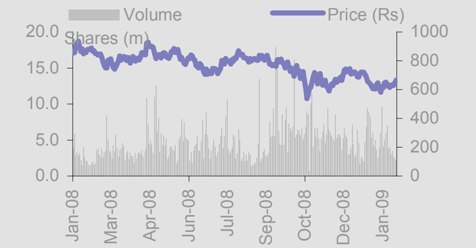
Shareholding pattern (%)

Promoters	67.2
FIIs	22.0
Domestic MFs/Insurance cos	6.5
Others	4.4

Price performance (%)

	1M	3M	1Y
Bharti	4.2	2.7	-24.6
Rel. to Sensex	2.3	6.5	20.5
RCOM	-11.0	-26.9	-74.2
IDEA	-2.8	-5.3	-61.0
MTNL	-9.0	-2.9	-44.9

Stock movement



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4Q margins will take a significant dip

Figure 1: We forecast a decline in net income in 4Q, even after removing impact of 200bps spectrum fee hike.

Item (Rs m)	2QFY09	3QFY09	4QFY09ii
Revenue	**90,203**	**96,334**	**99,820**
Total Costs	(53,210)	(56,884)	(59,999)
EBITDA	**36,993**	**39,450**	**39,822**
EBITDA Margin	41.0%	41.0%	39.9%
Depreciation	(11,549)	(12,702)	(14,626)
EBIT	**25,444**	**26,748**	**25,195**
EBIT Margin	28.2%	27.8%	25.2%
Interest Expense	(5,741)	(1,904)	(97)
Other Income	21	(215)	(76)
EBT	**19,724**	**24,629**	**25,023**
EBT Margin	21.9%	25.6%	25.1%
Tax	1,247	(2,558)	(4,726)
Minority Interest	(508)	(478)	(452)
PAT	**20,463**	**21,593**	**19,845**
PAT Margin	22.7%	22.4%	19.9%

Source: IIFL Research

From industry feedback, we estimate RCOM's current GSM capacity in incremental circles at ~13m subscribers, and if RCOM gets additional spectrum of 6.2MHz, this can go up by ~53%.

RCOM freebies can impact MOU by 1.5% in 4Q

We settle on a number of 15m subscribers for RCOM, on which free minutes of 300/month/subscriber would mean 6.75bn minutes. We estimate that Bharti has 28% of the share of minutes in the market, based on which the impact on Bharti can be up to 1.9bn minutes. This, when spread over 90m subscribers, yields a 1.5% impact on MOU for Bharti. However, the impact will be felt more through rate-per-minute changes (we forecast 4.6% reduction in 4Q).

Corporate belt tightening to impact Mobile more

In the last few weeks, we quizzed several Indian and multinational companies about the measures they are implementing to counter the economic slowdown.

Bharti generally the major vendor; 70% of the spend mobile; sharp cost cuts this year: Bharti dominates the enterprise market for mobile connections in India. Most of its post–paid subscriber base, we estimate, is from enterprises, and forms ~30% of revenues. ARPUs in the enterprise segment are 3x those in the pre-paid segment, and accordingly more profitable.

Measures to curb costs include pruning spending limits, reducing the number of employees receiving telephone reimbursements, negotiating a better tariff/minute, and extracting freebies. The cut in spending targeted is up to 30%, but this would include a reduction in the number of employees given reimbursement. We estimate in our sample that the revenue reduction from such companies for Bharti could be 15%.

Bharti more exposed than Idea, RCOM to this element: We feel that Idea has no non-mobile B2B revenues, and has lower corporate exposure in mobile. RCOM also does not prominently serve corporate segment through CDMA, and hence the exposure to this element of slowdown is maximum for Bharti.

Impact on earnings could be 3%: Mobile revenues account for 70% of Bharti's total revenues, and hence post-paid/enterprise accounts for 21% of the company's total revenue base. While currently this kind of pressure on telcos is only being exerted by private companies, with some time lag, we expect PSUs to follow suit. A 15% drop in this 21% pie is a 3% drop in overall revenue, which could hurt profitability by 4-5% (there will be some drop in costs also, including reduction in minutes).

Pain will continue through FY10

Our projections for the Enterprise (corporate) and Telemedia segments are as follows:

Figure 2: Revenue growth, especially in the Enterprise segment, will likely see a sharp slowdown in FY10, and may recover only by FY11

Item	FY07	FY08	FY09	FY10	FY11
Enterprise (Corporate)					
Revenue Growth (YoY)	26.0%	45.0%	28.0%	7.0%	15.0%
EBITDA%	45.8%	46.3%	43.2%	42.2%	41.9%
% of total revenue	4.3%	4.3%	4.0%	3.5%	3.4%
Telemedia					
Revenue Growth (YoY)	41.5%	35.0%	33.3%	29.9%	26.9%
EBITDA%	24.0%	40.1%	41.4%	39.0%	39.7%
Customers	1,871,387	2,282,010	2,719,461	2,919,461	3,027,578
ARPU (Rs)	1,155	1,143	1,143	1,059.8	1,091.6
% of total revenue	11.0%	9.3%	8.1%	6.9%	6.4%

Source: IIFL Research

Figure 3: ARPU will be under pressure in FY10

Mobile Segment	FY07	FY08	FY09ii	FY10ii	FY11ii
Subscribers	37,141,210	61,984,721	93,277,483	116,558,431	134,647,425
ARPU (Rs)	427	366	324	299	297
Revenue Growth	71.7%	54.0%	38.6%	24.6%	19.0%
EBITDA %	37.24%	39.25%	35.07%	33.54%	33.45%

Source: IIFL Research

Hence, the focus will be on wireless, and the two major considerations are regulation and competition.

Regulation – MTC the main threat

On regulation, the following are active in terms of news flow:

(a) Termination charge cut

(b) 2G and 3G spectrum

(c) Licence fee reduction for accomplishing target rural coverage

(d) Spectrum fee hike

(e) Calling cards and internet telephony

MTC (mobile termination charge) cut:

Firstly, we believe that the market is segmented into net gainers and net payers, with Bharti and Vodafone featuring among the former, and RCOM and Idea being relatively neutral. We have estimated in the past that a Rs0.1 cut in termination charges will reduce Bharti's EBITDA margin by 250bps.

The sum total of the response to the consultation paper on this topic floated by TRAI seems to be that the Bharti-Vodafone combine is isolated, with other operators, established and new, taking the view that MTC in particular should be sharply cut.

(a) **Swan Telecom,** one of the new entrants, **suggests for a reduction in termination charges to Rs0.1/min,** or introduction of asymmetric rates (they should be paid Rs0.37/min). It also suggests that carriage charges (at present, usually above Rs0.4/min) be reduced to Rs0.9-Rs0.11/min.

(b) **Bharti** has argued that the profitability of on-net and off-net calls are not different, that terminating an off-net call has a finite cost, and MTC (mobile termination charges) are not the reason for differential profitability between new and established operators. Further, that to access rural areas better and promote growth, cost-plus based termination charges (as at present) are necessary. It has argued for **raising the termination charges instead, affirming that it will facilitate rural telephony**. Further, it has pointed to the 3:1 incoming/outgoing ratio and the fact that today, it is a net payer of termination charges on ILD traffic, to argue the case for raising incoming ILD termination charges.

(c) **Idea Cellular has not submitted any response**, in line with our expectation that it is relatively neutral to the outcome.

(d) **BSNL has estimated MT cost @ Rs0.2/min**. It has argued for no MTC charges for fixed-line to mobile calls, besides lengthy arguments on why it is less profitable than its financials suggest.

(e) **Datacom** has pointed out to the **"near-doubling of carriage charges overnight" by some operators as a hurdle** in new entrants making headway. Recall that Bharti had sharply raised its carriage charges in 1Q, leading to a rise in its LD segment profitability (1190bps QoQ), besides an effective lowering of licence fee and spectrum charges through an implied increased in mobile interconnect charges.

(f) **Loop Telecom**, which has yet to originate any activity, has however weighed in with an opinion similar to Datacom and Swan and **argued for an MTC cut**.

(g) **Tata Teleservices Limited (TTL) has strongly argued for a reduction of Rs0.19/min from the current rate of Rs0.3/min.** A new twist in TTL's case is that new GSM entrants will be further handicapped by having only 1800MHz spectrum, and hence deserve especially lower termination charges.

(h) **Vodafone has argued on lines similar to Bharti,** with the additional point of view that new entrants do not want to enter rural areas, and hence would like lower rather than higher termination charges (they would have wanted higher termination charges only if they wanted to enter rural areas).

(i) **RCOM has predictably come out with an opinion diametrically opposed to Bharti.** RCOM claims that MTC is 40% of retail RPM. Further, that for a new operator, the MT cost is Rs0.22/min and that for an existing operator it is Rs0.08/min. Finally, RCOM has **strongly advocated for negative MTC**.

We feel that with such strong representation, only inertia on part of the DoT and elections stand in the way of (at least) the MTC cut.

3G proceeding at 1G speeds – setback for Bharti:

After hurriedly introducing the 3G policy late last year, the government has suddenly gone slow. We understand that DoT had obtained legal opinion about not needing to refer changes in the 3G policy to TRAI, and this seemed to carry suggestions of an acceleration in the process.

However, we note that DoT submitted the proposal to CCEA for changes, including:

- Number of blocks (3-4 to 8 per service area)
- Reserve price (Rs35bn instead of Rs20bn on a pan-India basis)

However, the CCEA meeting did not decide on this and passed the baton to the GoM, which seems to be now running into reluctance from defence. We understand that:

- There is varied opinion on whether the Army is ready to vacate and release spectrum before all three wings of the Armed Forces are given an alternate (optic fibre) network for military communication.
- The reserve price is not an issue of great significance, given that the 3G bids were expected to anyway clear Rs35bn.

Hence, for all practical purposes, if the increase of number of slots is not pursued insistently, the auction can still be held before the elections.

With early 3G auctions, Bharti would have gained on the following fronts:

(a) **The urgent need for spectrum** would have been solved immediately. Instead, in the absence of 3G spectrum, with competitors targeting poor network quality as one of Bharti's vulnerabilities, Bharti will need to spend more on capex.

(b) **ARPU differential opportunity:** Bharti would have been best-placed to drive an ARPU differential vis-à-vis 2G-only operators (we estimate that 3G products can fetch incrementally Rs75-Rs100/subscriber/month).

(c) **Defence against MNP:** MNP is another regulatory change lurking in the background, which new entrants will promote in a manner similar to MTC cut, and we count RCOM and Tata (read NTT) among new entrants.

(d) **Opportunity to exert balance-sheet pressure on competition:** Bharti's competition, including RCOM (with its industry-highest leverage) and Vodafone (facing a multi-billion-dollar tax bill) were less-than-adequately prepared to face early 3G auctions. This tactical advantage is now unlikely, if either 3G auctions are deferred beyond elections or number of slots is increased.

(e) International telcos trying to enter the country would like 3G auctions to happen post elections.

We view the delay in implementation of the 3G policy as a setback for Bharti for these reasons.

Spectrum and licence fee should cancel out:

(a) After lengthy back-and-forth debates between various stakeholders, the spectre of the spectrum fee hike seems to have died down, but in our view, it is a bit too early for operators to raise a toast. To recall, DoT had indicated in November 2008 that w.e.f. 1-Jan-2009, spectrum fee should be hiked by 200bps of AGR in service areas where the operator has >8MHz spectrum, and by 100bps in other areas (see figure 4). The matter was studied by the Telecom Commission, but since then seems to have been relegated to the back burner.

(b) Simultaneously, it was announced through a formal order by the DoT that the licence fee in non-Metro areas would be cut by 200bps in return for coverage of 95% of development blocks.

Figure 4: For Bharti, spectrum fee hike and 95% coverage gains offset each other

Item	Bharti
Licence fee relief (from 1 Apr 2009)	
Reduction in licence fee (bps)	200
Non-Metro mobile revenue (est.)	63.0%
Effective increase on total AGR (Adjusted Gross Revenue)	1.3%
Spectrum usage fee hike (from 1 Jan 2009)	
Increase in >8MHz of Spec fee	2.0%
Increase in <=8MHz of Spec fee	1.0%
Weighted avg	1.6%
Net benefit of above measures (% AGR)	-0.3%
AGR/GR (as per TRAI data of 3QFY09)	72.0%
Net benefit as % of Mobile Gross Revenues	-0.2%
Mobile / total revenues %	73.8%
Tax rate (est.)	15.0%
Net benefit (% of total revenues)	**-0.14%**

Source: Companies, TRAI, IIFL Research

Calling cards and Internet telephony of limited relevance: DoT is studying proposals by TRAI to introduce Internet telephony. In our view, unless ubiquitous coverage PLUS-handy IP phones are available to the common man, ISPs may benefit, but it will not make a dent of any relevance in the revenues of mobile operators.

As for calling cards, this regulation will not impact LD revenues for operators like Bharti because:

- Most operators have their own LD networks;
- for consumers, the convenience and user experience of mobile phones would be impeded by the clutter involved in choosing an LD carrier other than their own mobile operator.

Competition – credit crunch not absolute

Several international companies, among them Telenor, Etisalat and NTT DoCoMo have signalled their desire to enter the Indian market. It is a common view that the credit crunch will hinder their progress. However, a look at the recent accomplishments of international carriers in raising funds suggests something different—that for good-quality paper, there are still takers.

Figure 5: Fund-raising by international telcos – from June 2008 to date

Major Names	Amount (US$ m)	Product
DEBT		
Verizon Wireless (excl. Cellco partnership)	9,751	Debt
Vodafone	8,372	Debt
NTT DOCOMO	1,048	Debt
Vimplecom	776	Debt
Others (including China Telecom, Excelcomindo, etc.)	19,049	Debt
Total	**39,060**	
EQUITY		
Etisalat	533	Equity
Others	1,474	Equity
Total	**2,007**	

Source: Bloomberg, IIFL Research

Financial summary

Higher competition coupled with slower growth in mobile revenues primarily coming from corporate segment will hurt ARPU

We model US$/rupee at Rs48.7, which raises capex-to-sales ratio

Income statement summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenue	185,196	270,250	371,190	450,937	533,304
EBITDA	74,265	113,714	150,894	176,103	208,347
EBIT	**49,292**	**76,454**	**101,973**	**119,755**	**143,198**
Interest income	535	737	5,261	7,180	13,076
Interest expense	-3,833	-3,873	-5,292	-5,817	-5,549
Exceptional items					
Others	2,868	3,217	-9,363	200	200
Profit before tax	**48,862**	**76,535**	**92,578**	**121,319**	**150,925**
Taxes	-5,822	-8,378	-9,258	-20,624	-30,185
Minorities and other	-467	-1,150	-1,720	-2,254	-2,804
Net profit	**42,573**	**67,007**	**81,600**	**98,441**	**117,936**

Cashflow summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Profit Before Tax	48,862	76,535	92,578	121,319	150,925
Depr. & amortization	24,973	37,260	48,922	56,348	65,149
Tax Paid	-5,331	-8,378	-11,109	-15,771	-24,148
Working capital Δ	4,799	-2,917	8,695	7,874	6,452
Other operating items	-2,157	190	0	0	0
Operating cashflow	**71,146**	**102,690**	**139,085**	**169,770**	**198,378**
Capital expenditure	-90,789	-142,061	-155,143	-120,005	-91,359
Free cash flow	**-19,643**	**-39,371**	**-16,058**	**49,765**	**107,018**
Equity Raised	303	21,132	0	0	0
Investments	532	-45,509	18,085	-301	-304
Debt financing/disposal	24,646	64,535	28,625	-13,840	-11,036
Dividends paid	0	0	0	0	0
Other items	-1,023	-1,474	-5,387	-444	-449
Net change in cash	**4,815**	**-687**	**25,265**	**35,180**	**95,229**

Source: Company data, IIFL Research

Bharti's strong balance sheet will be a differentiating strength only if 3G auctions are held

Mobile termination charge cut is a downside risk to our EBITDA margin estimate

Balance sheet summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Cash & equivalents	9,467	54,863	62,042	97,522	193,053
Sundry debtors	17,982	28,062	33,348	40,513	47,912
Inventories - trade	912	1,142	1,569	1,906	2,254
Other current assets	16,481	29,715	48,351	54,921	61,702
Fixed assets	**210,603**	**313,407**	**419,628**	**483,284**	**509,495**
Intangible assets	37,800	40,247	40,247	40,247	40,247
Other term assets	4,643	5,207	10,256	10,359	10,462
Total assets	**297,888**	**472,643**	**615,440**	**728,750**	**865,125**
Short-term debt	10,925	19,348	60,000	60,600	61,206
Sundry creditors	16,877	18,749	26,386	32,918	38,922
Other current liabs	78,847	116,038	147,068	147,376	150,039
Long-term debt/CBs	41,536	77,715	60,000	60,600	61,206
Other long-term liabs	12,349	15,195	13,068	17,643	23,400
Minorities/other equity	1,801	3,013	4,733	6,987	9,791
Net worth	**135,553**	**222,585**	**304,185**	**402,626**	**520,562**
Total liabs & equity	**297,888**	**472,643**	**615,440**	**728,750**	**865,125**

Ratio analysis

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenue growth (%)	58.8	45.9	37.4	21.5	18.3
Op Ebitda growth (%)	72.3	53.1	32.7	16.7	18.3
Op Ebit growth (%)	79.3	55.1	33.4	17.4	19.6
Op Ebitda margin (%)	40.1	42.1	40.7	39.1	39.1
Op Ebit margin (%)	26.6	28.3	27.5	26.6	26.9
Net profit margin (%)	23.0	24.8	22.0	21.8	22.1
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Tax rate (%)	-11.9	-10.9	-10.0	-17.0	-20.0
Net debt/equity (%)	61.7	24.8	31.1	11.2	-11.9
Net debt/op Ebitda (x)	112.6	48.5	62.7	25.5	-29.7
Return on equity (%)	37.4	37.4	31.0	27.9	25.5
ROCE (%)	30.1%	30.1%	27.4%	25.3%	24.5%
Return on assets (%)	34.6	31.8	27.0	25.6	23.6

Source: Company data, IIFL Research

GMR Infrastructure - REDUCE

Infrastructure | **10 February 2009**

Increased execution visibility for Delhi airport

Government has approved application of Airport Development Fee (ADF) at Delhi airport on an ad-hoc basis for a period of 36 months. The ADF considerably eases the fund crunch faced by the Delhi airport and obviates the need for JV partners of Delhi International Airport Limited (DIAL) to bring in additional equity. This is a major relief. However, our sum-of-parts valuation of GMR's asset portfolio remains unchanged, as ADF replaces real estate monetisation assumed in our SOTP calculations. The continuity of the ADF is contingent on review of land deals after six months.

- The government has approved the ADF as other sources of funding (including real estate monetisation and debt proceeds) had dried up and the project could not be delayed as the airport expansion project is tied to the Commonwealth Games to be held in Delhi in October 2010.
- The charges (inclusive of taxes) applicable are Rs200 per outgoing domestic passenger and Rs1,300 per outgoing international passenger. These fees are in the nature of capital receipts. Hence, these receipts would likely not attract the usual 46% revenue share to AAI.
- As per our calculations, the NPV of the collected development fee including taxes totals to Rs18.1bn. The government has capped the maximum NPV exclusive of taxes at Rs18.27bn.

Figure 1: Total likely collection through ADF

	FY10ii	FY11ii	FY12ii
International outgoing passenger (m)	4.1	4.5	4.9
Domestic outgoing passenger (m)	7.9	8.6	9.5
ADF – International (Rs1300/pax)	5,312	5,843	6,427
ADF- Domestic (Rs200/pax)	1,571	1,729	1,902
Total collection from ADF (Rs m)	6,883	7,571	8,329
NPV @12% (Rs m)	**18,110**		

Source: IIFL Research

CMP	**Rs83**
12-mth Target price (Rs)	***67 (-19%)***
Market cap (US$ m)	**3,092**
Bloomberg	**GMRI IN**
52Wk High/Low (Rs)	187/46
Diluted o/s shares (m)	1821
Daily volume (US$ m)	11.7
Dividend yield FY08ii (%)	0.0
Free float (%)	25.9

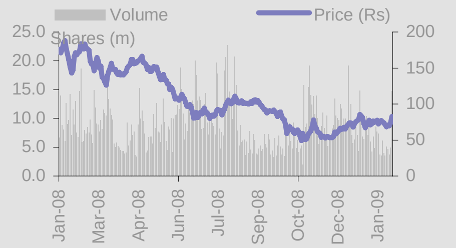
Shareholding pattern (%)

Promoters	74.1
FIIs	8.5
Domestic MFs/Insurance cos	8.5
Others	8.9

Price performance (%)

	1M	3M	1Y
GMR Infra	23.2	22.7	-48.9
Rel. to Sensex	21.3	26.5	-3.7
GVKPIL	7.1	16.0	-67.6
MPSEZ	14.1	13.0	-50.8

Stock movement



Financial summary

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	16,967	22,948	30,435	37,529	40,552
EBITDA margins (%)	32.0	26.1	41.4	43.0	45.1
Reported PAT (Rs m)	1,744	2,101	4,549	4,120	1,435
EPS (Rs)	1.0	1.2	2.5	2.3	0.8
Growth (%)	147.2	20.4	116.6	-9.4	-65.2
PER (x)	**86.1**	**71.5**	**33.0**	**36.5**	**104.7**
ROE (%)	8.8	3.4	6.9	5.9	2.0
Debt/Equity (x)	1.21	1.16	1.15	1.27	1.25
EV/EBITDA (x)	29.5	36.9	18.0	14.8	13.1
Price/Book (x)	**6.9**	**2.5**	**2.3**	**2.2**	**2.1**

Source: IIFL Research

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- This levy obviously removes the overhang on the development schedule of the Delhi airport. This should come as a major relief for GMR. Timely completion of Delhi airport would be a positive for Larsen & Toubro as well.
- **However, the levy does not provide a boost to GMR's SOTP**
  - The levy is for a limited period of three years and is subject to periodic review based on actual passenger traffic.
  - Its continuation is dependent on review of real-estate monetisation after six months. The total amount to be mobilised is capped. **Hence, in a way, ADF replaces real estate monetisation assumed in most SOTP calculations.**
- Also, at the time of tariff setting on cost recovery principles, the regulator would take cognisance of the reduced capital employed. To that extent, potential hikes in aero tariffs would be lower.
- This levy would reduce the pressure on DIAL to monetise the real estate. Given the current state of real estate demand in NCR region and the land use restrictions applicable, DIAL was finding to difficult to generate sufficient investor interest.

Figure 1: GMR Infra – sum-of-parts valuation

Assets	Value (Rs m)	Per share (Rs)
Delhi airport	17,268	9.5
Hyderabad airport	26,888	14.8
Operational Power portfolio	17,496	9.6
New power plants	14,412	7.9
Existing road portfolio	10,115	5.6
Total existing portfolio	**86,179**	**47.3**
Cash on parent FY08 B/S	35,788	19.7
Total	**121,967**	**67.0**
No of shares outstanding (m)	1,821	

Source: IIFL Research

Events calendar – February 2009

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
2	3	4	5	6	7
Dec Exports ↓ **1%** Dec Imports ↑ **9%**			ACC WPI for 24 Jan ↓ **5.07%**	Ambuja Cement	
9	10	11	12	13	14
			Patni December IIP WPI for 31 Jan		
16	17	18	19	20	21
			WPI for 7 Feb	ABB	
23	24	25	26	27	28
			WPI for 14 Feb		

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)	• India's national elections • State elections in Andhra Pradesh, Orissa, Sikkim • RBI's Monetary policy meeting (end April)	• 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 • **OCL's** 2.0 mtpa Orissa plant to start • **India Cements** 1.5 mtpa Malkapur, AP plant to start • **Deccan cements** 1.1 mtpa AP plant to start	• **ACC's** 1.2 mtpa Bargarh plant 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.	• **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 • **ACC** 3 mtpa Wadi, Kar plant to start • **Ambuja Cement's** 1.5 mtpa Dadri plant to start • **JK Lakshmi Cement** 0.5 mtpa 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	
Infrastructure				• **BHEL** Capacity goes up from 10 GW to 15 GW	

IIFL

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		• **CESC** Budge Budge (250MW) unit operational • **Suzlon** to start production from new facilities		
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.	

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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