

17 August 2010

India Morning Bell



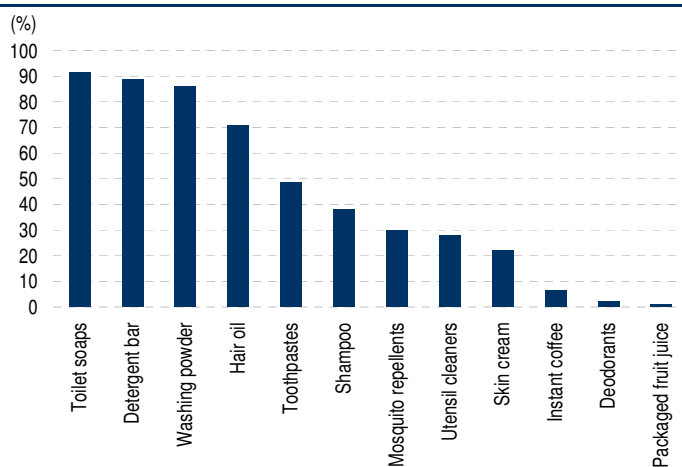
All the latest research and data

Sensex: 18051

Nifty: 5418

- India Economy – Inflation – In single-digit after five months.**
 WPI inflation is back to a single digit after five months, mainly owing to sharp drop in food inflation and is likely to continue softening.
- India Telecoms - Tele Scan Vol. 15/10.** Key themes. Security clearance for ZTE, MNP, 1QFY11 takeaways.
- Cairn India - Vedanta deal - Long-term crude price factored in.** The Vedanta Group will acquire 40-51% stake in Cairn India from Cairn Energy at Rs405/share (including Rs50/share as non-compete fee), which is at 22% premium to Cairn India's closing price on 11 Aug '10 (post which there was market buzz about the deal).
- Core Projects & Technologies – Order book, revenue growth strong; higher margin; Buy.** CPTL's 1Q revenue grew 17.5% yoy. It now has an order book of Rs6.5bn.
- Derivatives view.**

Penetration of consumer products



Source: Dabur presentation

Markets

	16 Aug 10	1 Day	YTD
Sensex	18051	-0.6%	3.4%
Nifty	5418	0.0%	4.2%
Dow Jones	10302	0.0%	-1.2%
S & P 500	1079	0.0%	-3.2%
FTSE	5276	0.0%	-2.5%
Nikkei*	9129	-0.7%	-13.4%
Hang Seng*	21074	-0.3%	-3.7%

Volumes (US\$m)

	16 Aug 10	1 Day	Avg '10
Cash BSE	1,201	-8.1%	1,013
Cash NSE	3,410	-3.9%	3,021
Derivatives (NSE)	21,862	7.9%	38,672

Flows (US\$m)

	16 Au 10**	MTD	YTD
FI - Cash			
Buy	588	6,217	89,412
Sell	503	5,096	77,929
Net	85	1,121	11,598
FI - Derivatives			
Buy	2,523	18,962	314,090
Sell	2,490	16,953	296,130
Net	32	2,009	17,782
DII - Cash			
Buy	250	1,431	21,237
Sell	342	1,632	24,061
Net	-93	-201	-2,838

Others

	16 Aug 10	1 Day	YTD
Oil Brent (US\$/bbl)*	75.7	0.1%	-8.3%
Gold (US\$/oz)*	1,223.9	-0.1%	11.6%
Steel (US\$/MT)	545.0	0.0%	7.9%
Rs/US\$	46.80	0.0%	-0.6%
US\$/Euro*	1.28	-0.1%	11.5%
Yen/US\$*	85.26	0.1%	9.1%
Call Rate	5.75%	65bps	240bps
10-year G-Secs	7.81%	-5bps	23bps
EMBI spreads	288bps	11bps	14bps

*@7:30am **Provisional Source: BSE, Bloomberg

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Market Data

Large Caps (>US\$1bn)

Price Performance

Top 5 Gainers

Company Name	CMP	1 W %	1 Mth%
PATNI COMPUTER	529	16.4	0.4
UCO BANK	108	10.1	27.9
FINANCIAL TECHNO	1,320	9.0	(1.5)
BAJAJ FINSERV LT	471	8.1	13.2
EIH LTD	135	6.5	10.4

Top 5 Losers

Company Name	CMP	1 W %	1 Mth%
ESSAR SHIPPING	104	(18.4)	22.7
EDUCOMP SOLUTION	579	(11.6)	(8.1)
KGN INDS LTD	216	(7.3)	(23.4)
HMT LTD	74	(7.0)	(2.1)
INDIABULLS POWER	26	(6.6)	(13.0)

Volume

Volume Spurts

Company Name	CMP	1 W Avg	1 / 4 W%
PATNI COMPUTER	529	6,945,477	214.6
RELIGARE ENTERPR	438	688,984	200.5
BAJAJ FINSERV LT	471	1,003,389	155.3
MARICO LTD	120	2,065,413	132.3
MAHINDRA & MAHIN	584	617,755	119.9

Technicals

Above 200 DMA

Company Name	CMP	200D Avg	%
UCO BANK	108	67	61.2
MAHINDRA & MAHIN	584	391	49.5
EMAMI LTD	462	316	45.9
BGR ENERGY SYS	820	578	41.8
JET AIRWAYS IND	715	519	37.6

Below 200 DMA

Company Name	CMP	200D Avg	%
RELIANCE NAT RES	38	61	(38.1)
KGN INDS LTD	216	293	(26.2)
EDUCOMP SOLUTION	579	672	(13.8)
KSK ENERGY VENTU	165	184	(10.2)
SHREE CEMENT	1,809	2,013	(10.2)

Source: Bloomberg

Mid Caps (US\$250m-1bn)

Price Performance

Top 5 Gainers

Company Name	CMP	1 W %	1 Mth%
RAYMOND LTD	396	40.1	74.6
ORISSA MINERALS	30,251	27.6	0.0
WOCKHARDT LTD	190	18.6	37.0
BOMBAY DYEING	674	18.0	33.0
UNITED BK OF IND	101	14.6	16.4

Top 5 Losers

Company Name	CMP	1 W %	1 Mth%
ABAN OFFSHORE	812	(11.0)	(5.7)
MAX INDIA LTD	152	(8.4)	(6.9)
IVRCL INFRASTRUC	161	(8.2)	(15.2)
GUJARAT MINERAL	122	(6.9)	(0.6)
DEN NETWORKS LTD	219	(6.8)	12.8

Volume

Volume Spurts

Company Name	CMP	1 W Avg	1 / 4 W%
TATA INV CORP	519	382,429	259.4
GKW LTD	601	8,351	234.6
RAYMOND LTD	396	9,988,166	220.7
ANANT RAJ INDUS	137	4,737,827	217.6
JAMMU & KASHMIR	875	474,413	188.8

Technicals

Above 200 DMA

Company Name	CMP	200D Avg	%
BANK RAJASTHAN	200	104	92.9
MONEY MATTERS FI	648	354	83.3
RAYMOND LTD	396	223	77.9
GITANJALI GEMS L	210	125	67.5
MANAPPURAM GEN	116	72	62.0

Below 200 DMA

Company Name	CMP	200D Avg	%
PUNJ LLOYD LTD	116	169	(31.3)
WNS HOLDINGS-ADR	426	599	(31.1)
REI AGRO LTD	22	31	(29.6)
ABAN OFFSHORE	812	1,092	(25.7)
BAJAJ HINDUSTHAN	123	157	(21.8)

Small Caps (US\$100m-250m)

Price Performance

Top 5 Gainers

Company Name	CMP	1 W %	1 Mth%
AJEMERA REALTY	224	26.9	36.3
EMPIRE INDS LTD	874	26.0	36.2
HFCL INFOTEL LTD	10	23.3	23.8
INDIA SECURITIES	40	17.4	2.7
JAMNA AUTO INDS	153	17.3	25.0

Top 5 Losers

Company Name	CMP	1 W %	1 Mth%
WELL PACK PAPERS	80	(22.5)	(17.1)
SANGHI INDUS LTD	26	(14.8)	11.6
HBL POWER SYSTEM	27	(13.8)	(16.5)
HANUNG TOYS & TE	247	(12.1)	(4.9)
SUJANA TOWERS LT	55	(12.0)	3.7

Volume

Volume Spurts

Company Name	CMP	1 W Avg	1 / 4 W%
MAN INDUSTRIES	88	1,341,105	247.1
SANGHI INDUS LTD	26	2,023,945	242.8
NESCO LTD	639	125,073	166.6
JINDAL DRILLING	490	116,958	158.9
INDO RAMA SYNTH	38	130,541	154.2

Technicals

Above 200 DMA

Company Name	CMP	200D Avg	%
IT PEOPLE INDIA	33	12	175.3
INDIA SECURITIES	40	18	117.1
DPSC LTD	1,482	708	109.5
VENKY'S (INDIA)	746	367	103.5
WELL PACK PAPERS	80	40	97.2

Below 200 DMA

Company Name	CMP	200D Avg	%
SIGRUN HOLDINGS	14	43	(67.2)
ASIAN HOTELS NOR	456	702	(35.1)
RUCHI INFRASTRUC	37	50	(26.3)
HBL POWER SYSTEM	27	36	(24.7)
SEAMEC LTD	148	193	(23.3)

16 August 2010

Economy – Inflation

In single-digit after five months

WPI inflation is back to a single digit after five months, mainly owing to sharp drop in food inflation and is likely to continue softening. This coupled with subdued real growth rates would keep the monetary policy tightening in cautious mode.

- **Single-digit inflation.** After remaining in double digits for five-months, WPI inflation softened to 9.97% in Jul '10. The softening was ahead of Consensus and our estimates. For May '10, the final inflation rate was revised upwards to 11.14% from 10.16%.
- **Food inflation at 19-month low.** Overall food inflation yoy (primary and manufactured) eased to 7.9% in Jul '10, slipping into single-digit for the first time in 15 months. Manufactured food prices have considerably softened over the past four months.
- **Key contributors to inflation softening.** Major softening has been noticed in Jute hemp & mesta, Textiles, Basic heavy organic chemical, Vegetables, Sugar, *khandsari* & *gur* and Cement in Jul '10. Prices for metallic minerals, certain chemicals and petroleum products have perked up the most last month. On yoy basis, 55% of the products and on 12-month average basis, 80% of the products are below the 10% inflation mark.
- **Manufactured products inflation stabilizing.** The index for manufactured products (~64% weight in WPI) has remained between 219.1 and 219.6 for the past four months, implying price stabilization in the category.
- **Inflation outlook.** WPI inflation has been in double digits for the past five months owing to: i) high food inflation ii) unfavorable base iii) hike in administered fuel prices and iv) the second-round impact of fuel price hike. Inflation is likely to significantly soften in the next 3-4 months due to: i) near-zero food inflation by end-FY11 on the back of a normal monsoon, ii) favorable base effect till Jan '11 and iii) pass-through of softer international prices for various trade commodities. The RBI's tightening stance since Oct '09 is also likely to rein-in inflation. We expect WPI inflation to ease to 6-7% by Dec '10e and further to 5-6% by Mar '11.
- **Policy rate outlook.** Industrial production growth is already down to 7% in Jun '10 from the peak of 17% in Apr '10. CPI inflation has cooled off a bit, to 14% in Jun '10 from 16% in Jan '10. WPI inflation is in single digit in Jul '10, after five months. All the aforementioned factors are likely to keep the RBI in the hold mode in Sep '10 and maintain cautious tightening thereafter.

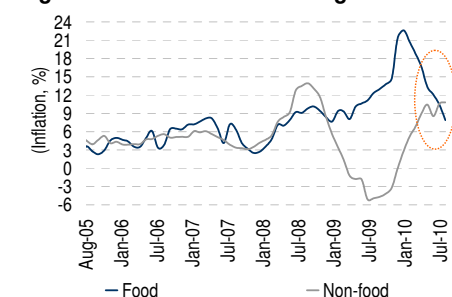
Inflation: 9.97%
G-Sec yield (10-Y): 7.81%
WPI Index: 262.5

Fig. 1 – WPI inflation softens

(%)	12 M avg	YTD avg	Jul-10
WPI	6.6	10.7	9.97
Primary	13.8	15.5	14.96
Fuel, etc	3.7	13.5	14.29
Manufactured	4.6	6.9	6.16
(%)	12 M avg	YTD avg	Jun-10
CPI - IW	13.5	13.7	13.73

Source: Government of India, Anand Rathi Research

Fig. 2 – Food inflation declining



Source: Government of India, Anand Rathi Research

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16 August 2010

India Telecom

TeleScan – Vol 15/10

Sensex: 18051

Nifty: 5418

- **Key themes.** Security clearance for ZTE, MNP, 1QFY11 takeaways.
- **ZTE gets ‘approval’ to supply equipment to RCOM** (*The Hindu Business Line*, 13th Aug). ZTE has agreed to comply with the govt’s new (more stringent) equipment import policy, which came into effect on July 27, post amendment of licenses by the government. Under the new policy, vendors are required to deposit Source Codes in escrow accounts; this was opposed by European and American vendors. Subsequently, the PM’s Office has written to DoT, saying that imports be permitted under both the old (self-certification by vendors on security compliance) and new regimes. We believe the flexible approach of Chinese vendors (ZTE, Huawei) is positive for RCOM, TTSL and Uninor, who rely heavily on them for most of their equipment needs.
- **MNP likely to be ushered in from Nov ‘10.** MNP has been delayed four times in the last one year, due to lack of readiness in the telcos, especially BSNL/MTNL. However, the DoT/Govt now appear committed to avoid further delays. The DoT has recently decided to permit launch of commercial service in the new circle to only MNP-compliant licensees. We do not expect MNP to be a game-changer, as: (1) postpaid voice tariffs have been declining since last year; (2) Postpaid subs are also sensitive to wireless coverage, customer service and branding; and (3) pre-paid subs already have high churn. Worst case outcome could be triggered by introduction of handset subsidies.
- **Investment views.** 1QFY11 results demonstrate that wireless business is back on a sustainable growth path, given deceleration in ARPM decline and robust minutes-growth. GSM incumbents continue to win back minutes and revenue market share. While ARPM decline (5-7% qoq) was higher than our expectations, better than expected traffic growth (10-13%) for incumbents led to a revenue surprise. Bharti remains our preferred pick; however, post the recent share price rally (since mid-June), we believe investors need to extend their investment horizons to 9-12 months for meaningful returns. We recommend investors should pick up Idea on meaningful share price weakness (>10%). We have a Sell rating on RCOM (Key risks: M&A, higher tower valuations in the de-merger deal) and Hold on Tulip Telecom.

Fig 1 – 1QFY11 wireless KPI snapshot

	Bharti	Vodafone	Idea	RCOM	TTML	Uninor
QoQ change (%)						
Revenues	4.7	6.2	5.0	1.5	0.1	77.8
Minutes	10.2	10.1	13.0	0.8	4.0	169.1
ARPM	(5.0)	(3.5)	(7.2)	0.7	(3.7)	(34.0)
ARPU	(2.1)	(2.7)	(4.5)	(6.6)	(9.1)	16.2
KPIs						
Subscribers (m)	136.6	109.1	68.9	110.8	13.3	3.9
ARPU (Rs)	215	191	185	130	99	91
MOU per sub (mins)	480	437	415	295	236	209
Total minutes (bn)	190	138	82	94	9.1	1.9

Source: Bloomberg, Anand Rathi Research.

Fig 2 – India Telecoms: Ratings and Valuations

	Share price (Rs) [a]	Rating	TP (Rs) Sep-11	FY11e multiples (x)	
				P/E	EV/EBITDA
Bharti	318	Buy	350 [b]	15.7	8.1
RCOM	164	Sell	160	22.8	9.5
Idea	72	Buy	76 [b]	32.0	9.4
Tulip	183	Hold	215	9.4	6.0
Avg (wireless)				18.0	8.5

Source: Anand Rathi Research. [a] 16 Aug '10. [b] Jun-11

Fig 3 – Absolute price performance (%) [a]

	1m	3m	6m	12m
Bharti	6.8	20.5	17.4	(22.0)
RCOM	(12.6)	13.3	(2.2)	(36.7)
Idea	11.0	26.3	22.6	(7.6)
Tulip	0.3	2.7	(5.0)	(8.3)
Sensex	0.5	6.2	11.2	17.1

Price performance relative to Sensex (%)

	1m	3m	6m	12m
Bharti	6.3	14.3	6.1	(39.1)
RCOM	(13.1)	7.1	(13.5)	(53.8)
Idea	10.5	20.1	11.4	(24.7)
Tulip	(0.2)	(3.5)	(16.2)	(25.4)

Source: Bloomberg

[a] Based on share prices as on 16th August '10

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17 August 2010

Cairn India

Vedanta deal – Long-term crude price factored in

- Vedanta to acquire majority stake in Cairn India.** The Vedanta Group will acquire 40-51% stake in Cairn India from Cairn Energy at Rs405/share (including Rs50/share as non-compete fee), which is at 22% premium to Cairn India's closing price on 11 Aug '10 (post which there was market buzz about the deal). Further, Vedanta would make an open offer of up to 20% stake in Cairn India at Rs355/share.
- Long-term crude price factored in.** Vedanta has valued Cairn India's 2P reserves at EV/2P multiple of US\$24/bbl, which is higher than the US\$14-17/bbl range at which most E&P companies trade. We believe Vedanta had factored-in a long-term crude price of US\$95/bbl for valuing Cairn India as against our crude assumption of US\$70/bbl and current crude price of US\$75/bbl.
- Open offer at a lower price.** The proposed open offer to minority shareholders would be at Rs355/share as against Rs405/share paid to promoters. Open offer price would not include the non-compete fee. The differential pricing has resulted in Cairn India stock reacting adversely (down 6%) post announcement of deal.
- Petronas unlikely to make counter bid.** Petronas, which holds 14.94% stake in Cairn India, sits on a lot of cash and could make a counter bid. However, we believe this is unlikely as Petronas would have been aware of Cairn Energy's intention to offload its stake in Cairn India, but did not make the first move. Further, any counter bid would come at a high price due to the significant premium offered by Vedanta. We believe that Petronas might decide to offload its stake in the open offer instead, as it may not be comfortable with a non-oil player controlling Cairn India.
- Valuations.** Our DCF-based valuation for Cairn India stands at Rs280/share at a long-term Brent price assumption of US\$70/bbl. Risks are higher-than-expected crude prices and higher reserves upside.

Rating: **Sell**
 Target Price: Rs280
 Share Price: Rs333

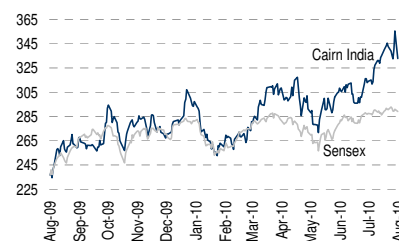
Key data	CAIR IN / CAIRN.BO
52-week high / low	Rs368 / Rs232
Sensex / Nifty	18051 / 5418
3-m average volume	US\$18.1m
Market cap	Rs632bn / US\$13.5bn
Shares outstanding	1,897m
Free float	37.6%
Promoters	62.4%
Foreign Institutions	10.6%
Domestic Institutions	7.3%
Public	19.7%

Key financials

Year-end 31 March	CY07	FY09	FY10e	FY11e	FY12e
Sales (Rsm)	10,123	14,327	16,230	63,796	105,032
Net profit (Rsm)	(245)	8,036	10,511	34,677	65,852
EPS (Rs)	NM	4.2	5.5	18.3	34.8
Growth (%)	NM	NM	30.9	226.7	89.9
PE (x)	NM	63.6	64.5	19.4	10.2
PBV (x)	1.9	1.7	2.1	1.9	1.6
EV/EBITDA (x)	120.5	66.0	79.0	14.7	8.1
RoE (%)	-0.1	2.6	3.2	9.7	16.2
RoCE (%)	0.7	1.4	1.9	10.0	16.0
Net gearing (%)	(3.5)	(6.6)	14.6	14.2	5.3

Source: Company, Anand Rathi Research

Relative price performance



Source: Bloomberg

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Core Projects & Technologies

Order book, revenue growth strong; higher margin; Buy

Rating: Buy

Target Price: ₹325

Share Price: ₹267

- Higher blended margins.** CPTL's 1Q revenue grew 17.5% yoy. It now has an order book of ₹6.5bn. Higher-than-expected product/ license revenue resulted in higher blended margin, which expanded 844bp yoy. We re-iterate our Buy rating and target price of ₹325.
- Key points from 1Q results.** CPTL's 1QFY11 revenue was ₹2,201m (+17.5% yoy; -8% qoq). Margins of 36.3% (+844bp yoy; -114bp qoq). Revenue in the Education business came at ₹1,694m (+25.1% yoy; -8.3% qoq). This was chiefly led by product / license sales of ₹610m (+49% yoy; -20.9% qoq). Consolidated net profit was ₹433m (+7.2% yoy; -21% qoq).
- Sturdy order book.** The order book was ~58% of FY11e sales. Total order book was ₹6.5bn (versus Rs5.85m in 4QFY10), including an order of US\$24m to be executed over five years from the Los Angeles Unified School District (LAUSD) to provide formative assessment programs in 375 schools to 70,000 students. Orders of ₹475m would be executed in FY11 (43% of FY11 sales).
- Valuation.** At our target price of ₹325, the stock would trade at 16x FY11e earnings. At this valuation, CPTL would trade at a ~20% discount to Educomp and the industry average.

Key data	CPTL IN /CPTL.BO
52-week high / low	₹283 / ₹148
Sensex / Nifty	18051 / 5418
3-m average volume	US\$5.9m
Market cap	₹27.4bn / US\$587.5m
Shares outstanding	102.6m
Free float	55.2%
Promoters	44.8%
Foreign Institutions	17.6%
Domestic Institutions	2.2%
Public	35.4%

Quarterly results

Year-end 31 Mar	1QFY10	1QFY11	% yoy	FY09	FY10	% yoy
Sales (₹m)	1,873	2,201	17.5	6,775	8,470	25.0
EBITDA (₹m)	521	798	53.1	2,123	2,751	29.6
EBITDA margin (%)	27.8	36.3	(844)bps	31.3	32.5	115bps
Interest (₹m)	60	154	157.1	216	382	76.8
Depreciation (₹m)	93	130	40.7	280	412	46.9
Other income (₹m)	117	8	(93.2)	27	150	448.6
PBT (₹m)	486	522	7.4	1,654	2,108	27.5
Tax (₹m)	82	89	8.9	221	377	70.1
Tax rate (%)	16.8	17.1	23bps	13.4	17.9	449bps
PAT (₹m)	404	433	7.2	1,432	1,731	20.9

Source: Company, Anand Rathi Research

Financials

Year-end 31 Mar	FY11e	FY12e
Sales (₹m)	11,240	13,074
Net profit (₹m)	2,356	2,767
EPS (₹)	19.5	22.9
Growth (%)	36.1	17.4
PE (x)	13.7	11.7
PBV (x)	2.5	2.1
RoE (%)	21.3	19.7
RoCE (%)	22.2	19.9
Dividend yield (%)	0.3	0.4
Net gearing (%)	9.8	2.3

Source: Anand Rathi Research

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Derivatives

- Index.** Spot collapsed in the post noon session; rendering a finish just above 5400 mark. Market breadth turned weak as selling was broad based. Participation picked up in the F&O segment to *Rs1023bn*.
- Nifty Futures.** Volumes (*22m shares/18.9m shares*) improved on once again on downtick. Futures saw addition of *+0.5m shares*. NMF slipped in to a marginal discount post the sell-off.
- Nifty Options.** Option activity was skewed towards call options additions with A-T-M option IV's up by *150-200bp*. Major additions were noted at the Aug A-T-M 5400CE added (*+1.3m shares*), 5500CE (*+0.5m shares*) and the 5600CE added (*+0.3m shares*). Sep 5300PE added (*+0.5m shares*) and 5400PE added (*+0.4m shares*). The PCROI is now at 1.44. Positions are high in the Aug 5500-5600CEs (*8.6m shares & 9.5m shares respectively*) and the 5300-5400PEs (*11.5m shares & 9m shares*).
- Institutional Activity.** FIIs were net buyers of *Rs4bn* and DFIs were net sellers of *Rs4.3bn* in the provisional cash segment. FII's index futures activity saw fresh longs *+0.2m shares* and short closure *+0.1m shares*.
- Index View.** Directional cues remain absent with spot consolidating within *5300-5500* since inception Expect writers to uphold the range till settlement.

Futures Open Interest

Rs726bn

Index Highlights

Nifty	16-Aug	13-Aug
Spot	5418.3	5452.1
Near Fut.	5417.5	5456.5
Mid Fut.	5423.6	5463.7
Near Basis	-0.9	+4.3
Mid Basis	+5.3	+11.6
Near OI (m sh)	33.6	33.5
Mid OI (m sh)	3.3	3.0

Sentiment Indicators

Particulars	16-Aug	13-Aug
PCR OI	1.4	1.5
PCR Vol.	1.1	1.1
Historical Volt.	13.5	13.5
IV Call	14.8	13.5
IV Put	17.4	16.4

Nifty Open Interest Gainers

Symbol	Price (%)	Fut OI (%)
Cairn	-6.4	31.3
Cipla	-3.5	20.2
Power Grid	3.3	10.1
Tata Steel	-1.8	8.5
Unitech	-2.1	7.8

Nifty Open Interest Losers

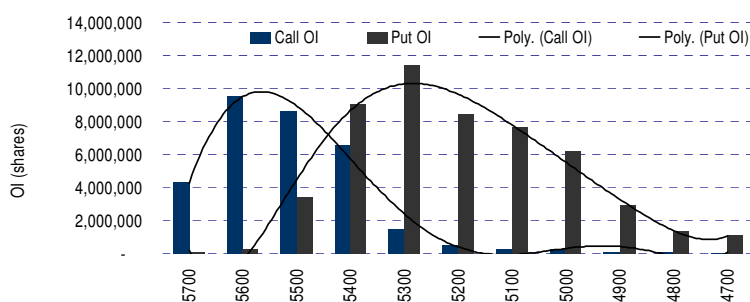
Symbol	Price (%)	Fut OI (%)
Jindal Steel	0.2	4.9
Hindalco	-0.8	4.3
Ranbaxy	0.9	4.0
Kotak Bank	0.1	3.9
HCL Tech	-2.4	2.9

FII F&O Net Activity (Rs bn)

Symbol	16-Aug	13-Aug
Ind. Futures	1.1	4.9
Ind. Options	6.4	8.3
Stk. Futures	-5.6	-0.8
Stk. Options	-0.4	-0.3
Net (Rs bn)	1.5	12.2

Source: NSE

Nifty Option O.I. Distribution



Source: NSE, BSE, Anand Rathi Research

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Appendix 1

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