

Investment Idea

June 15, 2012

Idea Cellular

BUY
CMP ₹77

Resilient FY12 performance in a tough environment

Idea managed an encouraging FY12 show with rise in EBIDTA margins, industry beating revenue growth and higher revenue market share. The performance comes amidst heightened regulatory uncertainty in the form of license cancellations, steep 1800MHz reserve pricing and 900MHz refarming. Revenues grew 26% yoy driven by 25% increase in traffic and Q4 rev/min higher by 3.9% over Q4 FY11 despite giving up some of its 9 month rise in Q4.

FY12 EBIDTA gains eaten away by 3G related costs

An impressive 35% yoy jump in FY12 EBIDTA did not translate into higher profit due to increased interest cost and amortization of fully operational 3G spectrum. Operating CF also declined due to rise in working capital (driven by higher loans and advances and lower payables). Return ratios posted a divergent performance with RoCE expanding ~190bps yoy on the back of improved EBIT margin.

Capex intensity on a downward slope

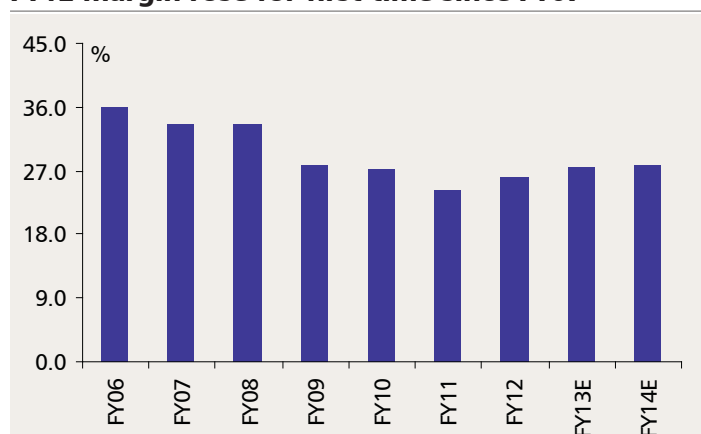
Idea incurred capex of ~₹45bn in FY12, implying capex/sales of 23% marginally lower than 24% of FY11 (excluding 3G license fee payments + interest thereon). Going ahead, the company has guided capex of ₹35bn ex-spectrum auction fees which translates into an even lower capex intensity of 15%.

Attractive valuations outweigh regulatory risks; BUY

Regulatory uncertainty continues to cast shadow on telcos as pricing of spectrum remains controversial. As far as operating metrics are concerned, we believe Idea is well placed to outperform the industry given a high quality sub-base and robust execution record. Margin expansion in FY12, a first since FY07 was a heartening sign and we expect uptrend to continue in the next 2 years.

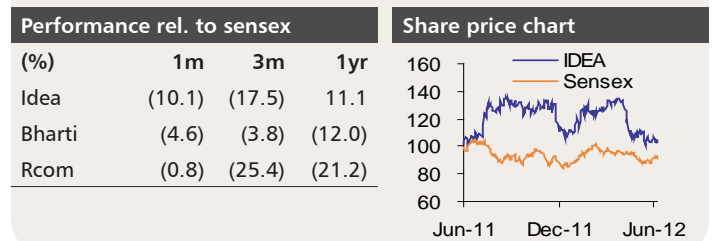
The stock is trading at the lower end of its historic 1-yr fwd EV/EBIDTA range and valuation at 5x FY14E EV/EBIDTA appears attractive. We remain cognizant of impact of regulatory risks on balance sheet but believe at current price, valuation driven upside outweighs any regulatory concerns. Recommend BUY.

FY12 margin rose for first time since FY07

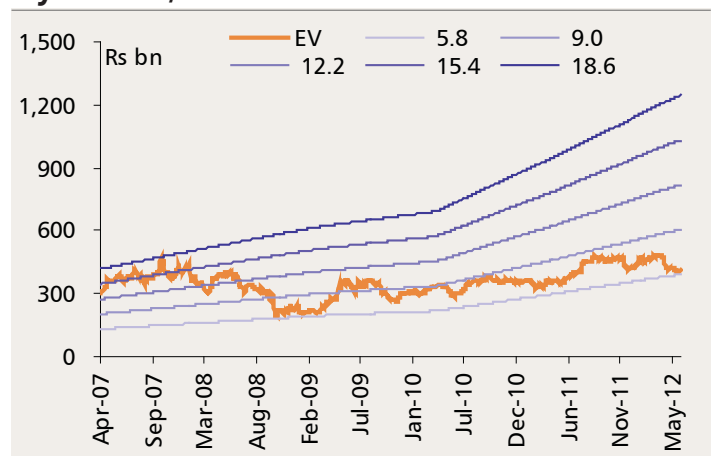


Source: Company, India Infoline Research

Sector: Telecom		Shareholding pattern	
BSE code:	532822	March' 12	(%)
NSE code:	IDEA	Promoters	46.0
52 Week h/l (₹):	104/66	Institutions	21.5
Market cap (₹cr):	25,384	Non promoter corp	0.5
FV (₹):	10	Public & others	32.0



1-yr fwd EV/EBIDTA bands



Source: Company, India Infoline Research

Financial highlights

Y/e 31 Mar (₹ m)	FY11	FY12	FY13E	FY14E
Revenues	154,384	194,887	236,208	275,676
yoy growth (%)	24.5	26.2	21.2	16.7
Operating profit	37,260	50,399	64,721	76,914
OPM (%)	24.1	25.9	27.4	27.9
Reported PAT	8,987	7,230	12,031	19,443
yoy growth (%)	(5.8)	(19.6)	66.4	61.6
EPS (₹)	2.7	2.2	3.6	5.9
P/E (x)	28.1	35.0	21.0	13.0
P/BV (x)	2.1	1.9	1.8	1.6
EV/EBIDTA (x)	10.0	7.7	6.3	5.0
Debt/Equity (x)	1.0	1.1	1.1	0.9
ROE (%)	6.5	5.5	8.8	12.8
ROCE (%)	6.0	7.9	10.0	12.4

Source: Company, India Infoline Research

India Infoline Weekly Wrap

Market Outlook

India's macro-economic picture has worsened further, with exports and imports both falling in May. Trade deficit is higher in May vs. April. The IIP data for April too was pretty bleak. Headline WPI inflation has inched up but the worry is sharp revision in March print. Core inflation seems to be under control for now. However, the sharp increase in MSP of Kharif crops is a cause for concern, so is the suppressed inflation in petroleum products.

Fiscal deficit also remains quite high and the Government continues to dither over measures like hiking urea and diesel prices. So, the RBI has a tough choice to make on June 18. In the near term, markets will swing to the beat of important events like Greek elections, RBI policy meet, FOMC meet and the G-20 Summit.

The progress of monsoon may also have a sentiment impact. Volatility is likely to be high next week. Therefore, one should take each day as it comes. Further upside looks capped unless the RBI springs a positive surprise and/or Greek election results are positive.

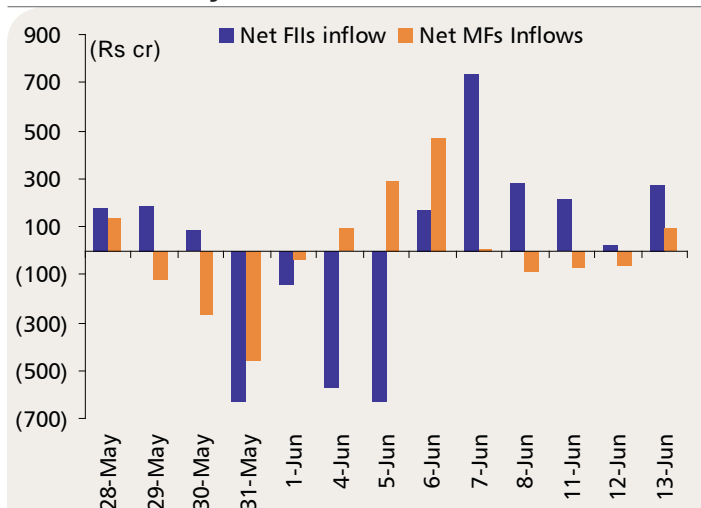
Technical View

Markets for weeks remained resilient to Euro zone crisis and managed to post gains for second consecutive week despite higher than expectations inflation numbers. Coming week the focus remains on Greek elections and RBI monetary policy which will be key decider for the make or break levels for the markets. Nifty has been trading in narrow band of 5000-5150 levels and breakout from this range would provide clear signals. Nifty has been holding above 200 DMA and two consecutive closes above same should confirm the long term uptrend.

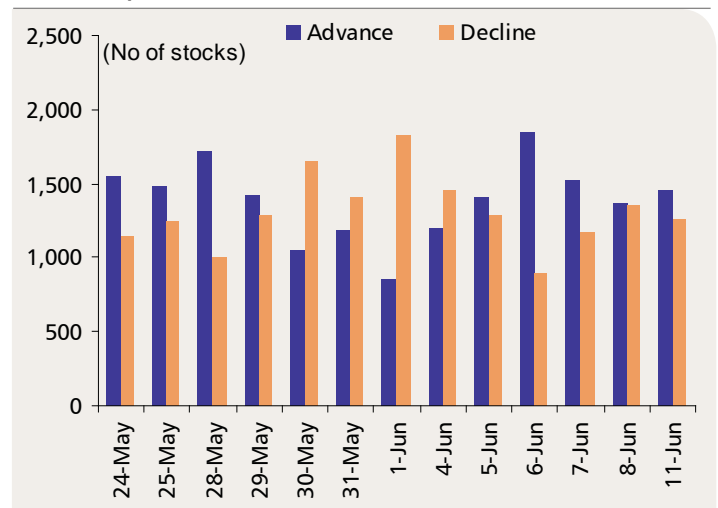
F&O View

FII's for the week were net buyers in both cash as well as Index Futures. Nifty total OI stood at 2.07mn shares. On option front, Highest OI for the call is at 5200 whereas for put is at 4800. Call writing was seen at 5200 strike while on the put side 4900 and 5000 strike also witnessed writing. Nifty PCR OI stood at 1.52, which suggests market participant has hedge their long position before key events. Range for the nifty might be 5300-5000.

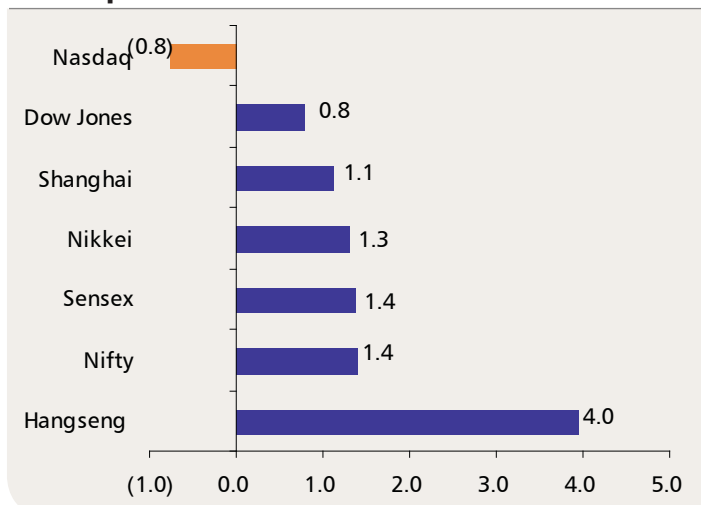
FII's/MF's activity



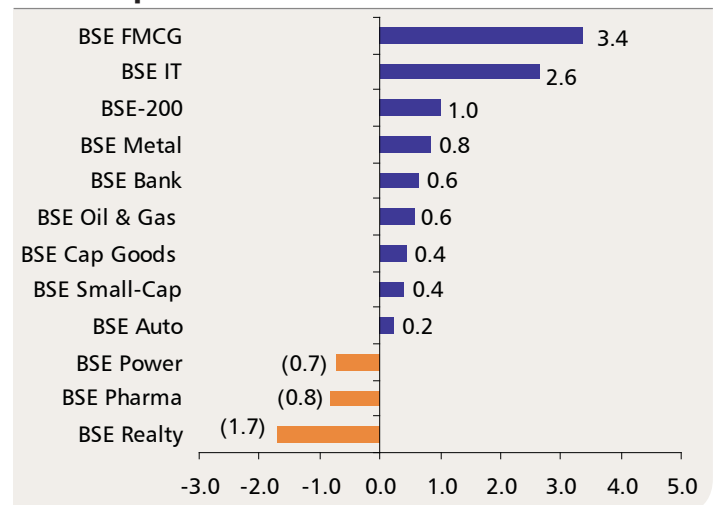
Advance/Decline



Global performance



Sectoral performance



India Infoline Weekly Wrap

Technical Check

Nifty 50 & CNX 500 top 10 gainers

NSE Nifty			CNX 500		
Company	CMP (₹)	% Chg	Company	CMP (₹)	% Chg
Ambuja Cements	170	11.2	NCC	37	18.9
Reliance Infra	521	10.6	Tinplate	47	18.0
Reliance Cap	346	10.0	DCHL	33	16.8
HUL	449	7.0	Pricol	20	16.4
Sterlite Ind	100	6.8	IVRCL Infra	48	15.5
Grasim Ind	2,486	6.6	Parsvnath	61	15.1
JP Associate	70	5.8	Orbit Corp	52	14.4
ACC	1,223	5.6	Kesoram Ind	129	14.2
HDFC Bank	548	5.5	HOEC	117	13.4
ITC	247	5.3	Allcargo Log.	126	12.9

Nifty 50 & CNX 500 top 10 Losers

NSE Nifty			CNX 500		
Company	CMP (₹)	% Chg	Company	CMP (₹)	% Chg
HCL Tech	486	(3.2)	Ind-Swift Lab	47	(29.0)
Ranbaxy Labs	478	(3.2)	Arss Infra	45	(20.3)
Power Grid	106	(3.1)	Sterling Biotech	6	(17.0)
Wipro	398	(3.1)	Cox & Kings	124	(12.3)
Dr Reddy'S Lab	1,579	(2.2)	FKONCO	92	(10.7)
SAIL	93	(2.2)	Kpit Cummins	112	(10.0)
NTPC	150	(1.7)	BEML	372	(9.3)
Bajaj Auto	1,527	(0.9)	Godrej Ind	231	(8.4)
HDFC	646	(0.7)	Adani Ports	115	(7.6)
Cipla	308	(0.2)	Mah. Seam	331	(7.2)

Technically strong

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
ONGC	266	259	1.9	1.6
UCO Bank	77	75	4.5	4.1
Tata Motors	240	233	33.4	26.1
Hero Motocorp	2,000	1,936	0.6	0.4
Engineers India	221	214	0.3	0.1

Technically weak

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Balrampur Chini	49	49	3.5	1.3
Unitech	22	22	22.4	20.8
Chambal Fert	73	74	3.4	3.4
Apollo Tyres	81	81	3.4	3.3
HDFC	646	650	1.3	0.6

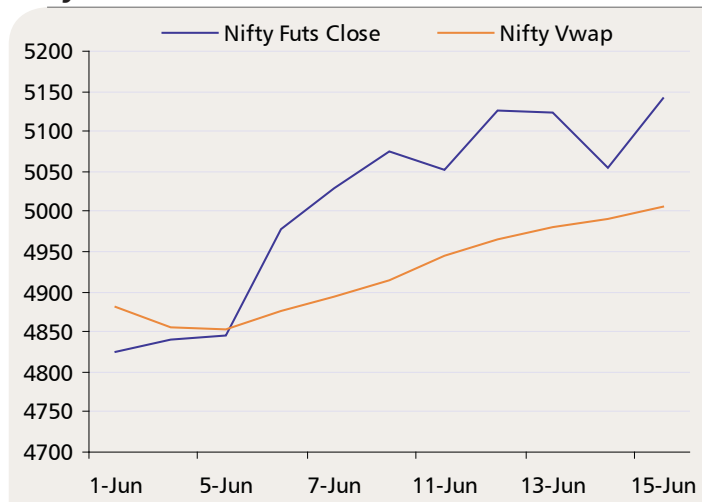
Bulk deals

Date	Institution	Script name	B/S	Qty (lacs)	Price
11-Jun	Reliance MF	Lakshmi Precision	S	2.5	40.0
12-Jun	Nippon Invest	Amar Remedies	B	1.4	143.0
13-Jun	IFCI Ltd	Arss Infra Proj	S	1.6	51.0
13-Jun	Credit Suisse	United Spirits	B	9.2	673.0
-	-	-	-	-	-

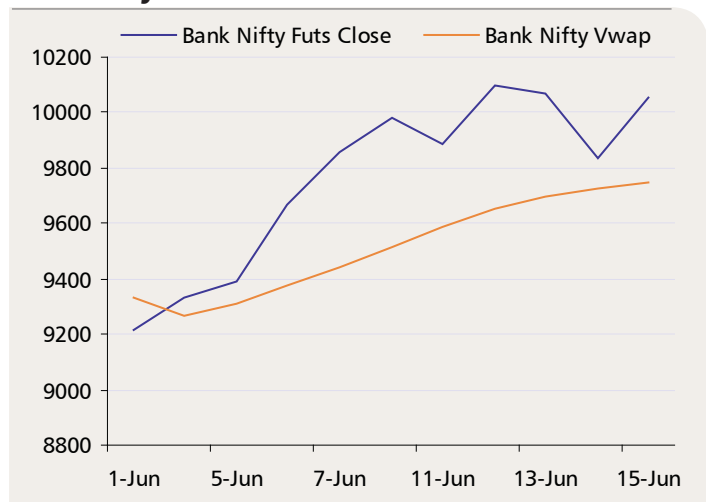
Book closure and record date

Company	Date	Purpose
CMC	19 Jun 2012	Dividend
NIIT	20 Jun 2012	Dividend
South Indian Bank	20 Jun 2012	Dividend
Bank of India	21 Jun 2012	Dividend
Oberoi Realty	21 Jun 2012	Dividend
Petronet LNG	21 Jun 2012	Dividend

Nifty Future VWAP



Bank Nifty Future VWAP



India Infoline Weekly Wrap

Commodity Corner

Base metals

LME base metals traded in a lacklustre fashion this week, as persistent economic and political uncertainty in Europe has constrained any substantial upside in the non-ferrous complex. Meanwhile, market focus is also accentuated on slowing Chinese economic activity and poor flow of macroeconomic numbers across the globe. Market participants remain uninspired by the mixed bag of economic numbers in China, with industrial output rising 9.6% in May from a year earlier, but still at near three-year lows. Similarly, fixed-asset investment rose 20.1% in the Jan-May period on a yoy basis, but growth rates are at 10-year lows.

Base metal prices may stabilise for a short spell in event of pro bailout Greek political party wining the elections during the weekend. Consequentially a recovery in euro could provide a measure of support to the entire commodity complex. However, broader apprehensions regarding global economic slowdown would continue to trouble the bulls and effectively dissuade the bulls from venturing into aggressive buy positions.

Precious metals

Gold prices moved higher this week, as persistent uncertainty regarding European debt crisis further augmented the safe haven appeal for the yellow metal. Deteriorating conditions are evident in the European debt market, where 10-year yields on Spanish paper have soared above 7%. The country is virtually isolated out of the debt market. Spike in bond yields is primarily due to the move by Moody's to downgrade Spanish sovereign debt to one level above junk. In addition to Spain, there are growing concerns about Italy's high sovereign borrowing costs, which can compel the nation to resort for a financial rescue. In US, subdued flow of economic numbers has effectively escalated expectations that U.S Federal Reserve may now contemplate at further monetary easing. Meanwhile, market participants are keeping an eye on the Greek elections scheduled on June 17, which could decide the fate of Greece's in the euro zone.

In regard with Greece elections this weekend, we infer that pro-bailout political entity could probably win, which would effectuate moderate upside in the complete commodity complex. Theoretically, gold prices should pare recent gains in such an event. Conversely, ensuing strong euro would restrict such downside; enabling gold prices to remain largely stable.

Note: This market commentary is written at 12:30 PM IST

LME prices

Base Metals (US\$/ton)	High	Low	LTP*	Chg(%)
Copper	7,519	7,233	7,500	2.8
Nickel	17,416	16,207	16,773	(0.9)
Zinc	1,907	1,866	1,895	1.4
Aluminium	2,002	1,954	1,956	(1.5)
Lead	1,935	1,890	1,929	1.4

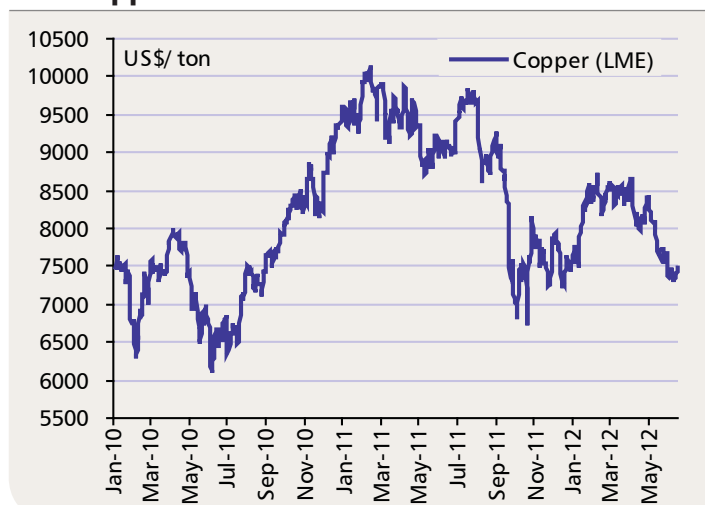
Precious Metals (US\$/ounce)	High	Low	LTP*	Chg(%)
Spot Gold	1,628	1,557	1,624	1.9
Spot Silver	29	28	29	0.7

* Last Traded Price

Weekly inventory update

	Tons	Abs Chg.	Chg (%)
Copper (LME)	249,450	19,775	8.6
Nickel (LME)	103,560	(1,758)	(1.7)
Zinc (LME)	948,775	6,750	0.7
Aluminium (LME)	4,847,550	(16,650)	(0.3)
Lead (LME)	344,750	(575)	(0.2)
Tin (LME)	12,180	25	0.2
Shanghai Copper	130,143	(2,278)	(1.7)
Shanghai Zinc	335,193	(463)	(0.1)
Shanghai Aluminium	314,901	(5,594)	(1.7)

LME Copper



COMEX Gold



India Infoline Weekly Wrap

Mutual Fund Round-up

India Infoline picks

Mutual Funds	Assets (₹ Cr)	NAV (₹)	Absolute return (%) as on June 07, 2012							
			1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200(G)	10,692	191.4	0.1	4.2	(8.0)	8.2	(8.2)	1.0	32.9	63.9
ICICI Pru Dynamic(G)	4,130	101.5	(0.3)	1.8	(5.5)	9.8	(5.0)	3.7	42.4	47.7
IDFC Sterling Equity(G)	1,061	17.9	(0.6)	0.8	(1.9)	14.3	(3.3)	6.4	56.6	-
Fidelity Tax Advt(G)	1,203	20.1	(0.3)	2.0	(6.5)	5.6	(7.6)	0.9	38.9	48.2
HDFC Prudence(G)	6,356	208.6	(0.4)	2.0	(4.6)	8.9	(2.9)	8.8	54.6	72.5
Reliance Equity Oppor-Ret(G)	3,193	35.8	(0.9)	1.8	(2.5)	15.2	(1.1)	11.6	72.4	60.1
IDFC Premier Equity-A(G)	2,345	32.2	(0.6)	1.0	(3.4)	8.1	(0.4)	12.3	65.3	105.7

Funds this week: HDFC Top 200 Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Prashant Jain	Equity	99.7
Latest NAV	₹191.4	Debt	0.0
NAV 52 high/low	₹218.7/168.1	Cash/call	0.2
Latest AUM (cr)	₹10,537	Top 5 holdings (%)	
Type	Open-ended	State Bank of India	6.7
Class	Equity - Diversified	Infosys Ltd.	6.5
Options	Growth & dividend	ITC Ltd.	5.3
Min investment	₹5,000	ICICI Bank Ltd.	5.2
Benchmark	BSE 200	Tata Consultancy Services Ltd.	4.4
No. of stocks	66	Top 3 sectors (%)	
No. of sectors	30	Banks	22.9
Expense ratio	1.8%	Software	11.9
Exit load	1% before 1 year	Consumer Non Durables	10.5

Reliance Equity Opportunity Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Shailesh Raj Bhan	Equity	95.3
Latest NAV	₹35.8	Debt	0.0
NAV 52 high/low	₹37.7/29.3	Cash/call	4.7
Latest AUM (cr)	₹3,159	Top 5 holdings (%)	
Type	Open-ended	Infosys Ltd.	6.6
Class	Equity - Diversified	Aventis Pharma Ltd.	5.8
Options	Growth, Dividend & Bonus	Divis Labs	5.8
Min investment	₹5,000	SBI	4.1
Benchmark	BSE 100	Trent	3.9
No. of stocks	34	Top 3 sectors (%)	
No. of sectors	21	I.T.	16.9
Expense ratio	1.85%	Healthcare	16.8
Exit load	1% before 1 year	Auto	10.4

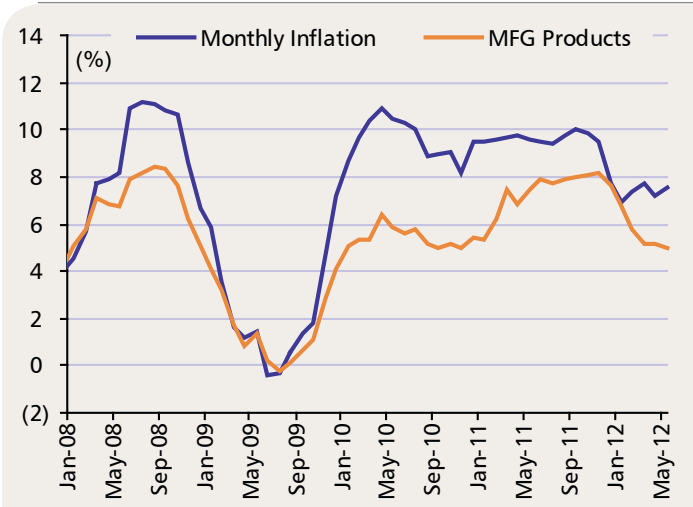
NFO update

Fund Name	Close	Type	Class
ICICI Pru CPO Fund II-Sr-X 36M (G)	20-Jun	CE	Debt & Equity
Baroda Bank & Financial Serv. (G)	15-Jun	OE	Equity
Canara Robeco Gold Savings (G)	18-Jun	OE	Gold

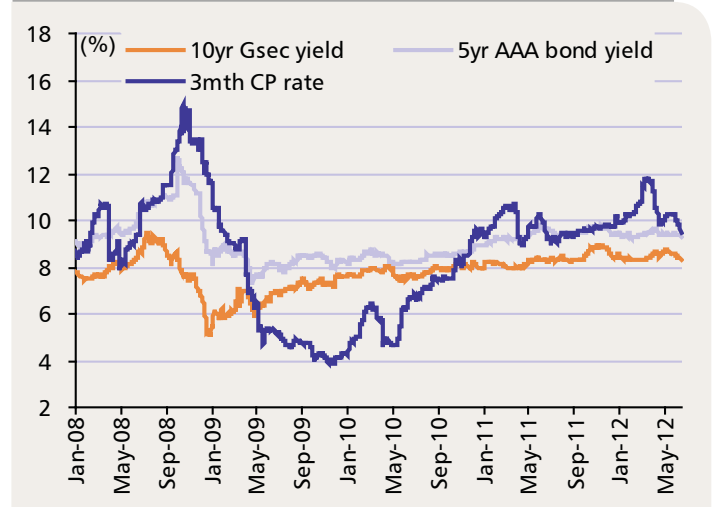
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Chartbook

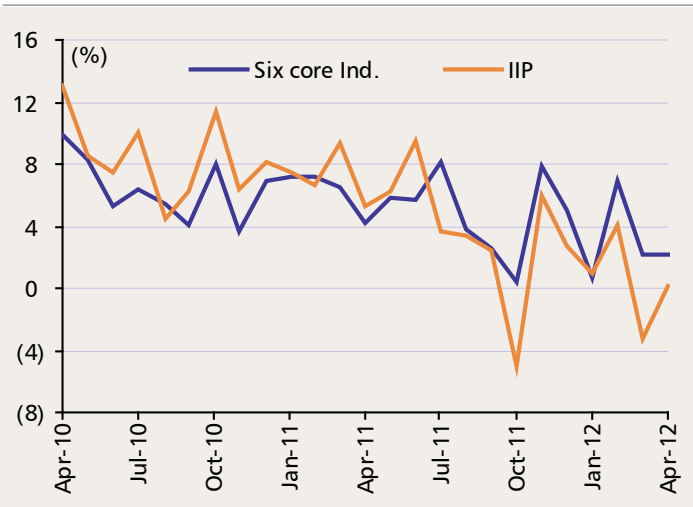
Inflation



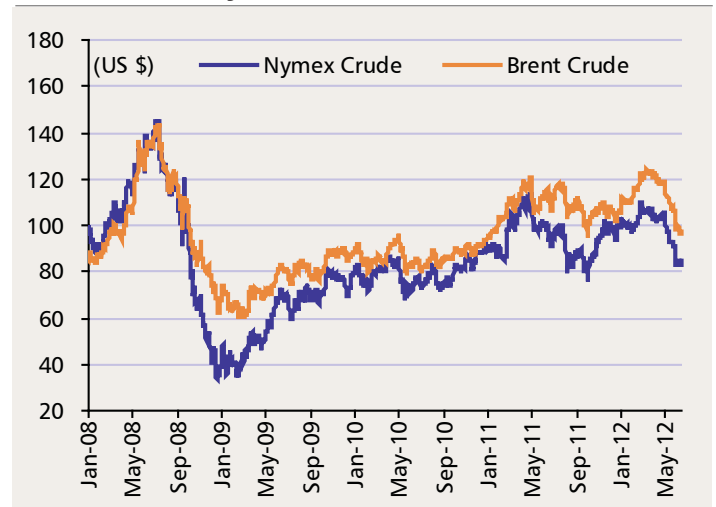
Interest Rate



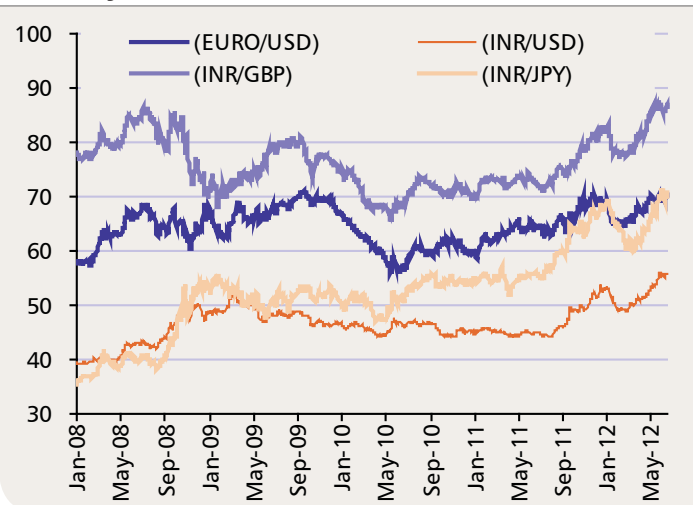
IIP and Six core Industries



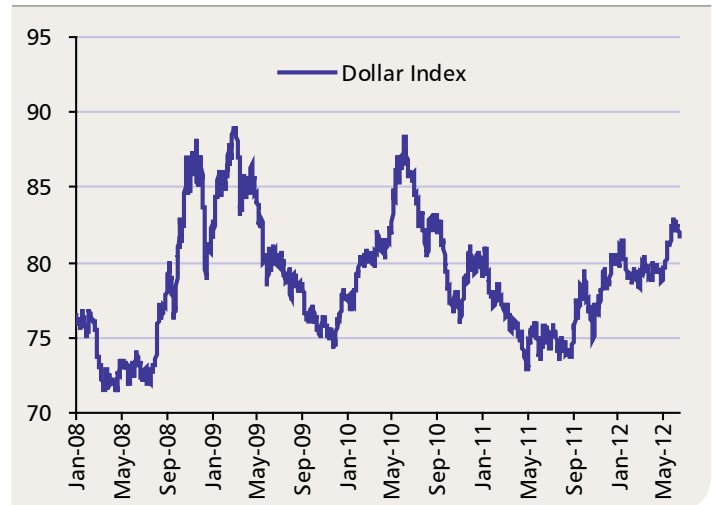
Crude (Brent/ Nymex)



Currency Movements



Dollar Index

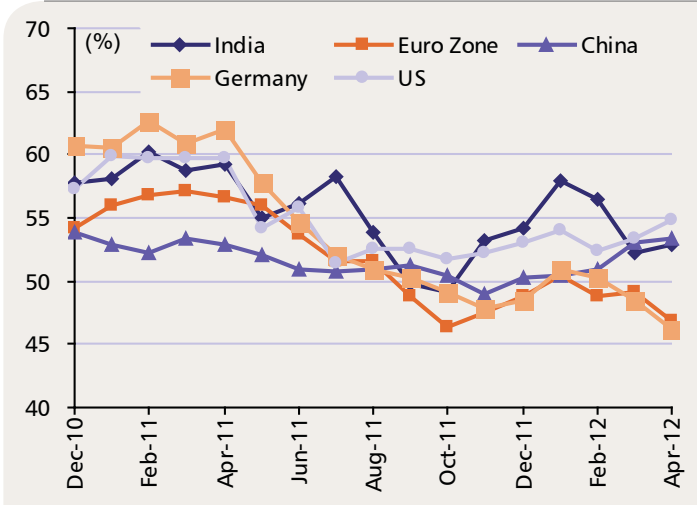


Source: Bloomberg

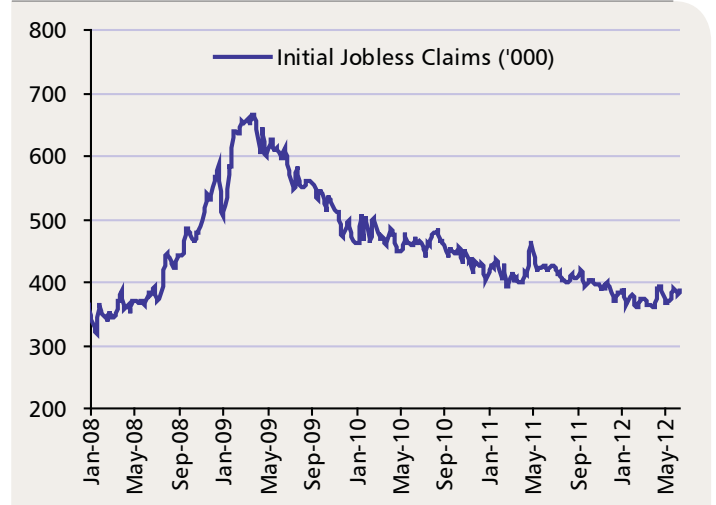
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Chartbook...

PMI



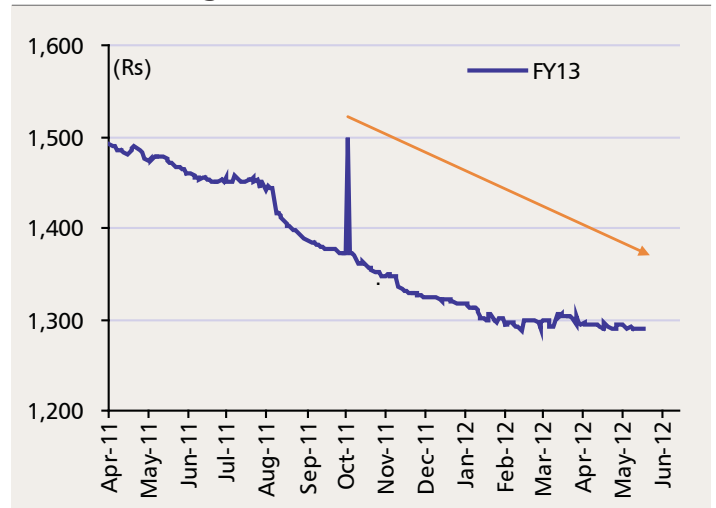
US Initial Jobless Claims



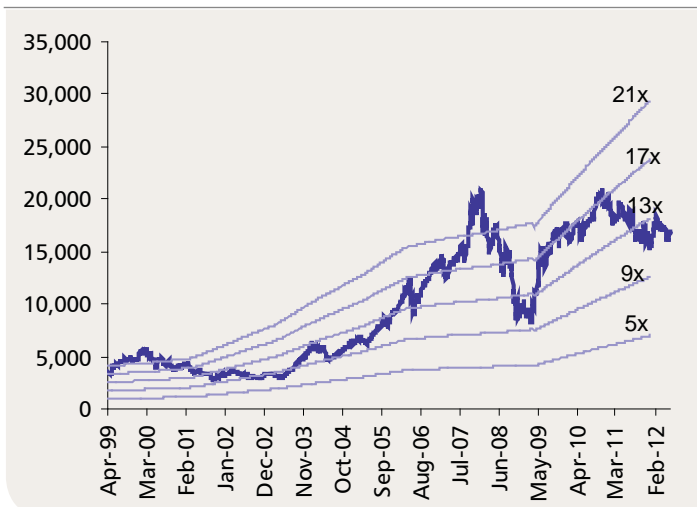
Volatility Index



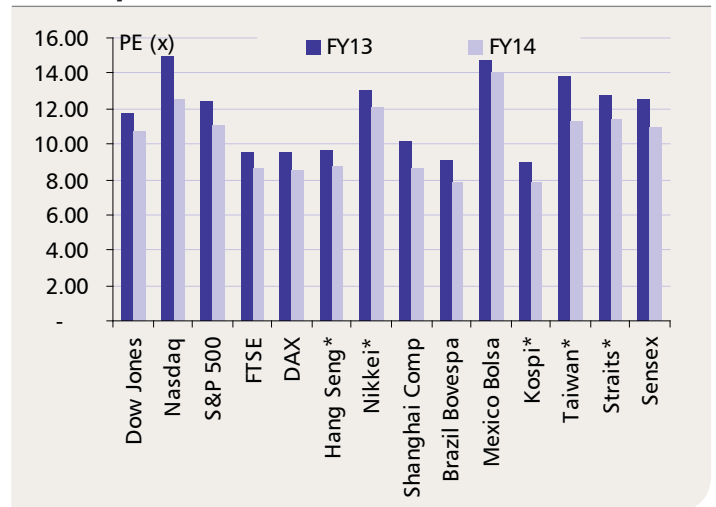
Sensex Earning Estimates



Sensex PE Band



PE Comparison



Source: Bloomberg

India Infoline Weekly Wrap

News Recap

India's industrial output stalled in April after a sharp drop in March as output of Mining and Capital Goods contracted while Consumer products' output remained positive. India's inflation rose to 7.55% in May from 7.23% in April but March's figure was revised sharply higher, causing some concern over the RBI stance.

The Finance Minister predicted a turnaround in FY13 and said WPI inflation will be between 6.5% and 7.5%. The RBI Governor, Dr. D. Subbarao said inflation can't be contained without sacrificing growth, possibly hinting at the central bank's helplessness in cutting rates aggressively.

The Indian economy will grow by 6.9% in FY13, the World Bank said but debt rating agency Standard & Poor's said India may lose investment-grade rating, partly due to policy inaction.

Indirect tax collections during May were up 16.1% YoY while net direct tax collections surged by 172.6% due to lower refunds. India and six other countries are the newest to join the list of exemptions from US's financial sanctions on Iranian oil imports, reports said.

Govt hiked MSP for Paddy and other Kharif crops by up to 50%, citing an increase in input costs for farmers. But, economists expressed concern about its impact on inflation going forward. Fertiliser companies hiked prices of non-urea products, citing depreciation in the rupee.

India's merchandise exports in May fell by ~4.2% while imports were down by ~7.4%. The trade gap for the month was higher vs. April. India's May car sales rose by just 2.8% yoy, the slowest in seven months.

Shares of BPCL and Videocon rose after Anadarko Petroleum announced another significant natural gas discovery within the Offshore Area 1 of the Rovuma Basin. Sterlite Industries gained after the company bought a stake in Raykal Aluminium, a company promoted by Larsen & Toubro. Maruti Suzuki Board cleared a merger with Suzuki Powertrain, which makes diesel engines for the company.

World's leading central bankers are poised to take measures to maintain liquidity in global credit markets should a crunch arise following Greek elections this weekend, media reports suggested, citing an official from the G-20. Spain's 10-year yield hit all-time high above 7% after Moody's cut Spain's rating to Baa3 and warned of more downgrades. Earlier, Eurozone agreed to lend €100bn to Spanish banks.

OPEC kept its output quota unchanged while the IEA said that global oil supply increased slightly in May. China's May trade data showed resilience in the world's second-biggest economy.

Event Calendar

Period : 18th – 22nd June

US

- May Housing Starts MOM% (19 Jun)
- May Building Permits MOM% (19 Jun)
- FOMC Rate Decision (20 Jun)
- May Existing Home Sales MoM (21 Jun)

India

- Food Articles WPI YoY (21 Jun)
- Primary Articles WPI YOY (21 Jun)
- Fuel Power Light WPI YoY (21 Jun)

China

- Actual FDI YoY (14-18 Jun)
- MNI June Flash Business Sentiment Survey (22 Jun)
- HSBC Flash China Manufacturing PMI (22-25 Jun)

Euro Zone

- June Euro-Zone Consumer Confidence (20-23 Jun)
- Jun PMI Manufacturing (21-24 Jun)

Period : 25th – 29th June

US

- New Home Sales (25 Jun)
- Consumer Confidence (26 Jun)
- MBA Mortgage Applications (27 Jun)
- Pending Home Sales MoM (27 Jun)

China

- HSBC Flash China Manufacturing PMI (22-25 Jun)
- MNI June Flash Business Condition Survey (29 Jun)
- HSBC Manufacturing PMI (29 Jun)

Euro Zone

- Business Climate Indicator (28 Jun)
- Eurozone Consumer Confidence (28 Jun)
- Eurozone CPI Estimate YoY – (29 Jun)

IIFL, IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel (W), Mumbai 400 013

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