July 7, 2009

ICICI Securities

India Update

Market data as on July 6, 2009

INDICES

		% chg (DoD)
BSE Sensex	14043	(5.83)
S&P CNX Nifty	4166	(5.84)
BSE 100	7351	(5.75)
BSE 200	1716	(5.69)

OVERSEAS MARKETS

		% chg (DoD)
Dow Jones	8325	0.53
Nasdaq Comp.	1787	(0.51)
S&P 500	899	0.26
Hang Seng	18139	0.89
Nikkei	9660	(0.22)

ADVANCES/DECLINES (BSE)

Group	A	B	S
Advances	5	273	75
Declines	195	1098	278
Unchanged	-	17	13

FII TURNOVER (BSE+NSE)* (Rs mn)

Bought	Sold	Net
21500	15810	5680

NEW HIGHS AND LOWS (BSE)

Group	A	B	S
High	10	25	5
Low	1	6	1

CURRENCY

US$1 = Rs48.22

* FII turnover (BSE + NSE) as on July 3, 2009

Contents

Highlights

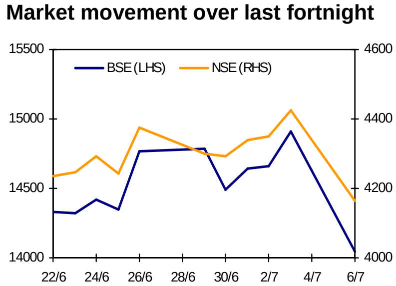
Sector/event	Impact
ECONOMY & STRATEGY – Union Budget 2009-10	Despite low investor expectations in the run-up to the Budget, the markets came off nearly 6% yesterday post the Budget announcements, largely on account of the burgeoning fiscal deficit, lack of clarity on medium-term measures to control it and the absence of headline measures on policy reforms. While we recognise the Government's lack of choices in the current economic environment and were heartened by its resistance to increase taxes, we continue to remain concerned on the markets in the short term. We believe some roadmap on improving medium-term finances and on reforms will be required over the next few months to sustain our 12-month constructive view on the market.

News Snippets

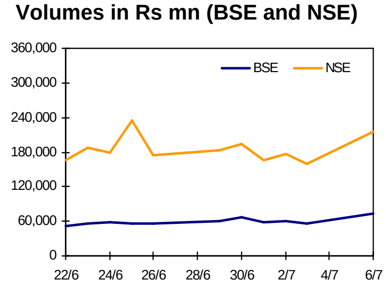
Sectoral

- South African telecom major MTN and Indian firm Bharti Airtel are in exclusive discussions till July 31 for a potential US$23bn deal, which would create a new telecom entity with ~200mn subscribers. (The Economic Times)
- The government will raise Rs150bn through securities instead of the Rs80bn planned earlier, as part of its overall borrowing plan of ~Rs4,000bn for the current fiscal. (The Economic Times)
- The IT industry hailed the government's decision to extend the tax holiday to the software export units by another year, and abolition of fringe benefit tax, giving much-needed relief to the slowdown-hit sector facing contracted orders and sharp earnings fall. (The Economic Times)
- The fertiliser industry has cautiously welcomed the Finance Minister's Budget proposal to move from a 'product-based' to a 'nutrient-based' subsidy regime along with disbursing the subsidy monies directly to the farmers. (The Economic Times)
- The Finance Secretary, at a post-Budget press conference, stated that state-owned Oil India and National Hydroelectric Power Corporation (NHPC) will tap the capital market with their initial public offerings in August/September this fiscal. (The Economic Times)
- Lack of industry status and silence on foreign direct investment has saddened retailers. (DNA)

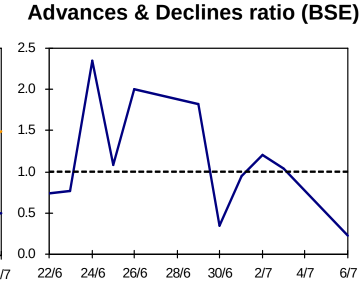
Market movement over last fortnight



Volumes in Rs mn (BSE and NSE)



Advances & Declines ratio (BSE)



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Union Budget 2009-10 ECONOMY / STRATEGY

Could have been packaged better

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Despite low investor expectations in the run-up to the Budget, the markets came off nearly 6% yesterday post the Budget announcements, largely on account of the burgeoning fiscal deficit, lack of clarity on medium-term measures to control it and the absence of headline measures on policy reforms. While we recognise the Government's lack of choices in the current economic environment and were heartened by its resistance to increase taxes, we continue to remain concerned on the markets in the short term. We believe some roadmap on improving medium-term finances and on reforms will be required over the next few months to sustain our 12-month constructive view on the market.

- **Lack of roadmap to control fiscal deficit concerns the markets, in our view.** We recognise that the Government had limited choices on the deficit front – given the current economic situation, clamping down on stimulus or raising taxes could have hurt growth. However, we believe that better 'packaging' of the Budget with some roadmap on fiscal control and policy reforms could have assuaged investors somewhat and helped mute the negative stock market reaction. On the positive side, the Government did not give in to the temptation to raise taxes, keeping them largely unchanged. It has also shown its intent of simplifying the tax structure and reiterated its plans to roll out Goods and Service Tax (GST) from April '10.

- **Key surprises.** The absence of excise duties on cigarettes is a key positive surprise. Depreciation benefit of 100% for gas transportation pipelines is a positive surprise for GAIL. Increase in MAT is a key negative surprise, especially for Reliance Industries (RIL) and some telecom companies. Fertiliser subsidy pay-out in cash is a positive surprise for fertiliser companies. Lack of sops for housing is a negative surprise for the real estate sector.

- **Key beneficiaries & losers.** Key sectors to benefit are FMCG, Technology, Fertilisers and media, and sectors that stand to lose are Infrastructure, Real estate and Telecom. Key stocks that benefit are GAIL, ITC, Gujarat State Petronet (GSPL), Tata Consultancy Services (TCS) and HCL Technologies and key stocks to lose are RIL, Reliance Communications (RCom), Sterlite Industries and Jindal Steel and Power (JSPL).

- **While yesterday's negative stock market reaction could have been exaggerated, we continue to remain concerned in the short term.** The key reasons for our concern are valuations, uncertainty on the global front and potential event risks such as poor monsoons. Also, the reaction of global rating agencies to the Budget needs to be watched closely. We remain constructive on the markets over the next 12 months with defined direction of reforms and earnings improvement being the key triggers.

Details to follow in our report '*Could have been packaged better*' dated July 7, '09

Quarterly results preview UTILITIES

Good show

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We expect the I-Sec Utilities universe to post ~17.6% YoY revenue growth and ~19.6% YoY PAT growth in Q1FY10E. Revenue growth will be led by: i) 2,000MW YoY capacity addition by NTPC at Sipat (1,000MW) and Kahalgaon (1,000MW), ii) ~24% rise in NTPC's fuel costs owing to increase in the price of domestic coal and use of imported coal and iii) ~430MW capacity addition by Tata Power (~190MW merchant, ~240MW regulated). We believe PAT will grow at a slightly higher rate of ~19.6% owing to: i) implementation of new central electricity regulatory commission (CERC) guidelines, which will boost NTPC's PAT 6% over and above 9% coming from capacity addition and ii) ~Rs876mn incremental merchant revenues, which will directly boost Tata Power's bottomline. We expect CESC's revenues to increase ~5% YoY to Rs8.2bn in Q1FY10E led by ~4% demand growth in Kolkata licence area. However, CESC's PAT may dip ~13% YoY as increasing capex for Budge-Budge expansion would lower other income.

- **NTPC's PAT to grow ~15% on 2,000MW capacity addition & new CERC guidelines.** We expect NTPC's Q1FY10E PAT to be ~Rs19.9bn (~Rs17.2bn in Q1FY09), led by ~24% revenue growth to ~Rs118bn (~Rs95bn in Q1FY09). We believe 9% of the PAT growth will come from 2,000MW capacity addition (1,000MW at Sipat, 1,000MW at Kahalgaon) in FY09, while 6% from implementation of new CERC guidelines. We expect NTPC to generate ~55bn KWhr in Q1FY10E (~51bn KWhr in Q1FY09, ~57bn KWhr in Q4FY09) as the company will start regular maintenance shutdown of its plants on a cyclical basis from June '09.
- **Merchant component to boost Tata Power's Q1FY10E PAT 71% YoY to Rs2.6bn.** Tata Power has added ~420MW in the past 12 months, of which ~190MW may supply merchant power. Given that merchant power rate is at ~Rs8/unit, we expect Tata Power's bottomline to be boosted ~Rs876mn owing to ~321mn merchant units generated from Trombay (100MW) and Haldia (90MW) plants. We believe higher realisation from merchant will boost Tata Power's Q1FY10E PAT ~71% YoY to Rs2.6bn even as revenues may decline ~6% YoY to Rs19.1bn on ~28% dip in fuel costs with phased closure of oil-based unit 4.
- **Capacity addition on track for NTPC and Reliance Power.** NTPC synchronised 500MW Unit 7 at Kahalgaon in June '09, while Reliance Power (RPower) has likely completed all formalities for the financial closure of 300MW Butibori project that is expected to come up in FY12.

Table 1: Quarterly summary

Company	Sales			EBITDA			PAT		
		% Chg			% Chg			% Chg	
(Rs mn)	AMJ-09*	(YoY)	(QoQ)	AMJ-09*	(YoY)	(QoQ)	AMJ-09*	(YoY)	(QoQ)
NTPC	117,524	23.6	2.7	28,007	15.6	26.2	19,893	15.2	(5.9)
CESC	8,232	5.1	11.1	1,324	8.5	(12.9)	817	(13.1)	(13.1)
Tata Power	19,104	(5.7)	29.6	5,069	66.3	72.8	2,599	71.4	185.6
Reliance Power	0	0	NA	(116)	NM	NM	989	66	172
Total	**144,860**	**17.6**	**6.1**	**34,284**	**21%**	**28.7**	**24,298**	**19.6**	**4.0**

*AMJ: April-June '09; Source: I-Sec Research

Details to follow in our report '*Good show*' dated July 7, '09.

Comment

OIL&GAS – Reliance Industries (Hold)

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Event: Contrary to our expectations, the Government has not provided seven-year tax holiday for gas production from NELP I-VII blocks. Notably, a court case is ongoing in the Allahabad High Court Tax Tribunal regarding the tax holiday; we believe the Government will respect the court's final decision

Impact: If the court decision goes against Reliance Industries (RIL), the company's effective tax will rise to 28-30% versus our expectations and management guidance of 11.33%, which will be a huge negative for RIL

Details: We expect RIL's KG-D6 to contribute 12-16% to FY10E-11E profit before tax (PBT). Moreover, Reliance Petroleum (RPL) is expected to contribute 11-15% to FY10E-11E PBT. If the tax relief was provided for both key KG-D6 and RPL, as per RIL's management, the company's effective tax rate would have been at minimum alternate tax (MAT) rate. However, with the tax holiday not provided for KG-D6, RIL's effective tax rate will rise to 28-30%, leading to 20-22% dip in FY10E-11E earnings

- **No comments on tax holiday for gas production.** Since the court case which will decide the fate of seven-year tax holiday for gas production is still ongoing, we maintain our current expectations that the tax holiday may eventually be given to RIL. This would imply that the company's earnings may not be hit materially. In such a case, RIL will have to pay an effective tax rate of 17% (including 10% surcharge and 3% educational cess).

- **Earnings to dip 20-22% under higher taxation** if the court case is unfavourable**.** In the worst case scenario, RIL's FY10E-11E earnings would dip 20-22% on account of higher effective taxation.

- **MAT rate not meaningful if tax holiday on gas production is not provided.** If the seven-year tax holiday is not provided on KG-D6 gas production, the effective tax rate for RIL will be significantly higher than the increased MAT tax rate at 17%, and hence the MAT rate would be meaningless.

- **Earnings impact material; NPV impact marginal.** Though the removal of tax holiday might significantly impact RIL's earnings due to profit sharing mechanism, the impact on the fair value would be lower at ~Rs30/share.

- **Fair value to reduce to Rs1,726/share.** At present, RIL's fair value is Rs1,756/share; our fair value would reduce to Rs1,726/share if the seven-year tax shield on gas production from the company's blocks is not provided. Moreover, higher effective tax rate could also lead to a de-rating. We believe the stock could see further correction and investors should consider entering at ~Rs1,550/share, which would offer ~10% upside to our fair value.

Recent reports/updates

Analyst	Company/Sector	Date
Amit Mishra / Gagan	Oil&Gas results preview: Muted performance	July 6
Sandeep / Krupal	Technology results preview: Muted quarter; sentiments improving	July 3
Sanjay / Sunil Teluja	ITC: Rewards higher than risk	July 3
Amit Mishra / Gagan	Oil & Gas: Policy announcement….	July 3
Rajesh Vora	Sun Pharma: FDA strictures nettle goliath	July 2
Sanjay / Sunil Teluja	Colgate-Palmolive: Stretched valuations….	July 2
Amit Mishra / Gagan	GSPL: Improved tariffs boost earnings	July 1
Abhijit Mitra	Tata Steel: Silver lining	June 30
Siddharth / Abhishek	Banking sector: Clement horizons	June 30
Prakash / Sanket	Reliance Power: Important but expensive	June 29
Anantha /Equity Research team	Market Strategy: Pre-budget buyside survey	June 29
Rajesh Vora	Glenmark Pharma: Clean up act	June 29
Vikash Mantri	Sun TV Network: Standing tall	June 26
Siddharth / Abhishek	HDFC Bank: Clearer skies	June 25
Sanjay / Sunil Teluja	Retail Counter: Driven by volume growth	June 25
Amit Mishra / Gagan	ONGC: Earnings blues	June 25
Amit Mishra/Gagan	Gujarat State Petronet: Geared to excel	June 23
Krupal / Sandeep	Allied Digital Services: Better poised	June 22
Sandeep / Krupal	TCS: Signs of revival	June 22
Prakash / Sanket	GSFC: Fairly valued	June 19
Vikash / Suchitra WL	TV Today Network: Interrupted transmission	June 19
Prakash / Sanket	Rashtriya Chemicals & Fertilizers: Assuming too much	June 18
Vikash / Suchitra WL	Jagran Prakashan: Cost control sustains profitability	June 17
Amit Mishra / Gagan	Reliance Industries: Gasping for air	June 16
Vikash / Suchitra WL	HT Media: On firm ground	June 15
Abhijit Mitra	Sesa Goa: Black swan	June 12
Vikash / Suchitra WL	Telecom sector: GSM net adds decline further; Aircel impresses	June 12
Siddharth / Abhishek	HDFC: Availing market buoyancy	June 10
Shilpa / Hemant	Speedometer (June '09): Two-wheelers move ahead	June 9
Siddharth / Abhishek	SBI: Negative surprise not material	June 9
Prakash / Sanket	Fertiliser sector: Policy expectations 2.0	June 8
Vikash / Suchitra WL	Zee Entertainment: Positives priced in	June 8
Amit Mishra / Gagan	Oil&Gas: Decoding subsidy policy – Method in the madness	June 5
Vikash / Suchitra WL	Media Monitor – June '09	June 5
Abhijit Mitra	National Aluminium Company: Valuations ungrounded	June 4
Prakash/Novonil/Sanket	CESC: Poised to perform	June 3
Shilpa / Hemant	Ashok Leyland: ALL set to grow	June 3
Shilpa / Hemant	Maruti Suzuki: Spiriting up	June 1
Sanjay / Sunil Teluja	Colgate Palmolive: Surging ahead	June 1
Sanjay / Sunil Teluja	Britannia Industries: Fairly valued	June 1
Abhijit Mitra	Steel Authority of India: Valuations cap upside	June 1
Vikash / Suchitra WL	Network18 Media & Investments: Wired to win	May 29
Prakash/Novonil/Sanket	Tata Power: Merchant boost	May 29
Pallav / Abhijit	Jindal Steel & Power: Set for overall growth	May 29
Amit Mishra / Gagan	Cairn India: Lower crude prices hurt earnings	May 28
Krupal / Sandeep	NIIT: No surprise	May 28
Amit Mishra / Gagan	Indraprastha Gas: Volumes robust, gas pricing hurt profits	May 28
Sandeep / Krupal Maniar	Technology Sector: Cautious optimism	May 27
Prakash/Novonil/Sanket	NTPC: To gain from stable policies	May 26
Siddharth / Abhishek	Banking sector: Poised to soar	May 26
Vikash / Suchitra WL	Bharti Airtel: Strategic fit despite dilution concerns	May 26
Rajesh Vora	Ranbaxy Lab: Change of guard	May 25
Gaurav / Sunil	HDIL: Concerns pacified	May 25

I-Sec investment ratings (all ratings relative to Sensex over next 12 months)
BUY: +10% outperformance; **HOLD**: -10% to +10% relative performance; **SELL**: +10% underperformance

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