

**Telecommunication**

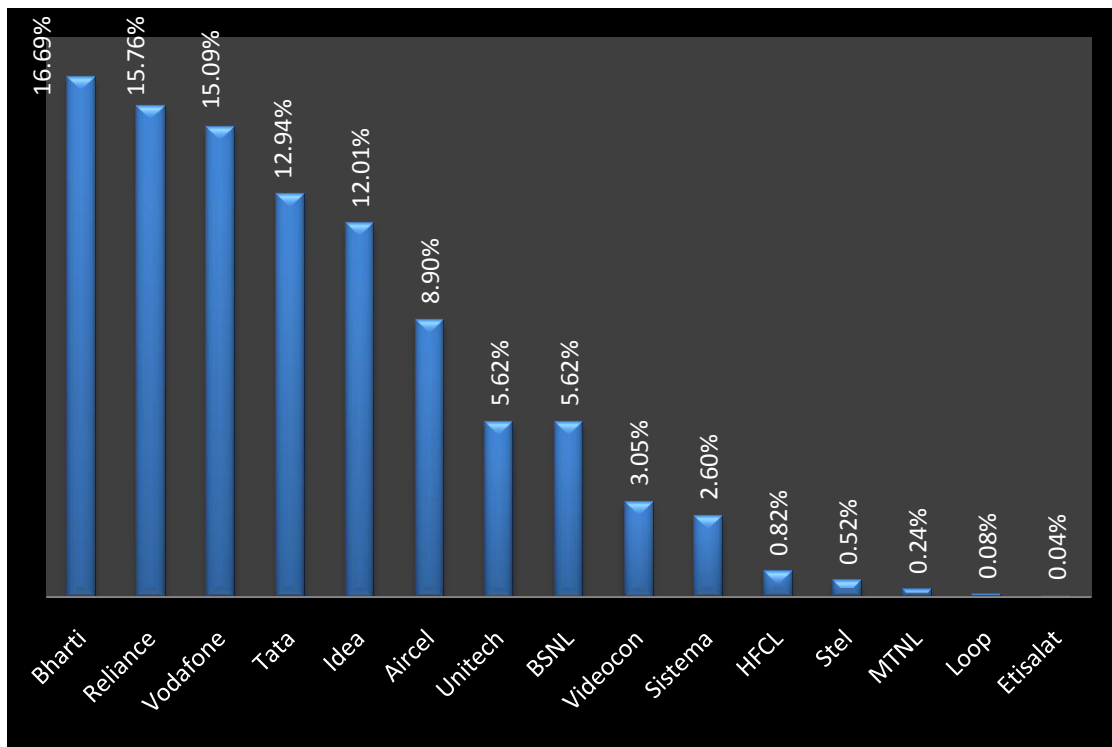
The Indian telecommunications industry is one of the fastest growing in the world. According to the Telecom Regulatory Authority of India (TRAI), the number of telephone subscriber base in the country reached 671.69 million as on June 2010, an increase of 2.72 per cent from 653.92 million in May 2010. With this the overall tele-density (telephones per 100 people) has touched 56.38. The wireless subscriber base has increased to 635.51 million at the end of June 2010 from 617.53 million in May 2010, registering a growth of 2.91 per cent.

- ❖ Total subscriber base reaches 671.69 million.
  - Wireless subscription reaches 635.51 million.
  - Wireline subscription declines to 36.18.
- ❖ 17.98 million new additions in wireless.
- ❖ Overall tele-density reaches 56.83 million.

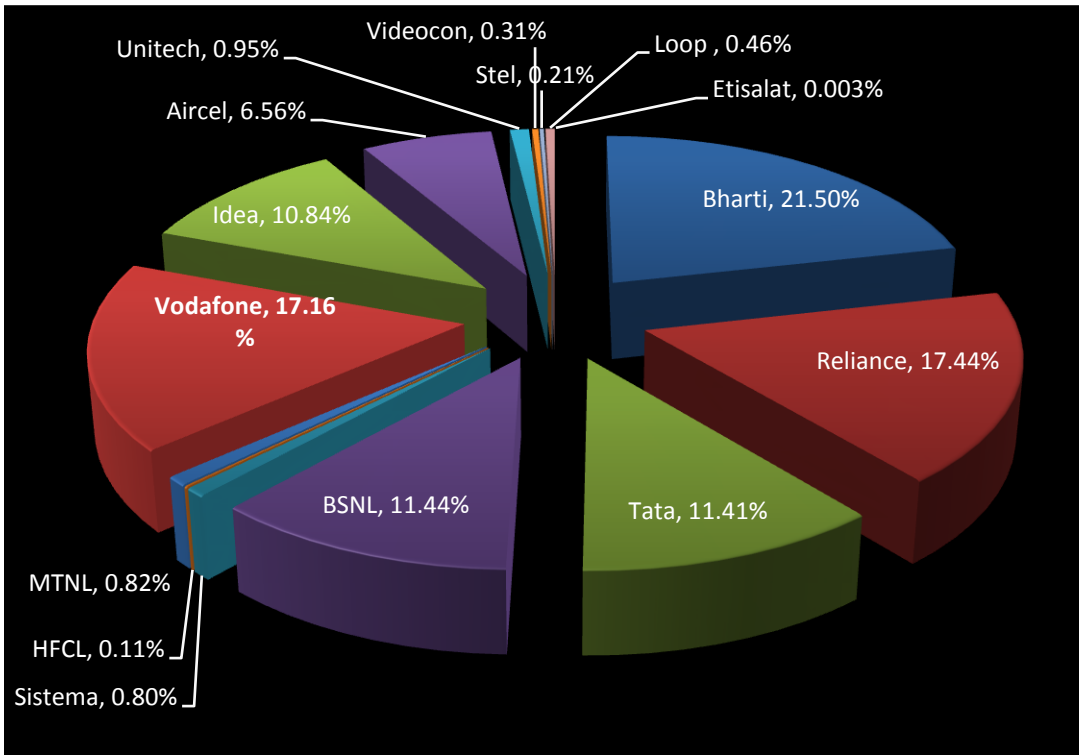
**Wireless segment (GSM, CDMA & FWP)**

Wireless subscriber base increased from 617.53 million in may 2010 to 635.51 million at the end of June 2010 registering a growth of 2.91%. Wireless tele density stands at 53.77. Detailed statistics is given below:

**Service providers share in net additions during the month of June-2010**



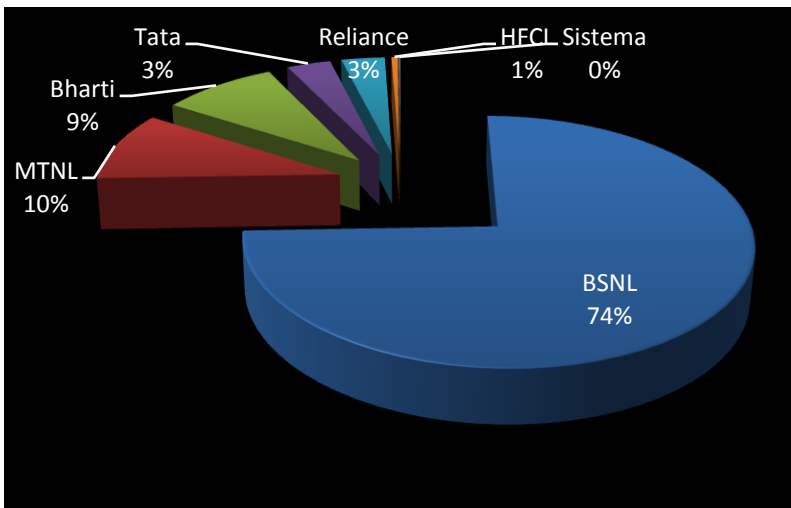
**Service provider wise Market Share as on June 2010**



**Wireline Subscriber**

Wireline subscriber base declined from 36.39 Million in may-2010 to 36.18 Million at the end of June-2010. BSNL/MTNL, two PSU operators hold 84.09% of the Wireline market share. Overall Wireline teledensity is 3.06. Detailed statistics is provided in the diagram.

**Service provider wise market share as on 30-6-2010**



**Broadband (≥ 256 Kbps download)**

Total Broadband subscriber base has increased from 9.24 million in May 2010 to 9.45 million in June 2010, thereby showing a growth of 2.27%.

**Growth in wireless Subscription by different Telecom Industries**

The table figured below shows the net addition of customers in May and June 2010. The wireless subscription reached to 635.51 million by the end of June 2010 with a net addition of 17.98 million.

Companies	Net Addition in		Net Addition During June
	May	June	
Bharti	133619705	136620401	3000696
Reliance	107972822	11080633	2833511
Vodafone	106347368	109060704	2713336
Tata	70208244	72534946	2326702
Idea	66727402	68886539	2159137
Aircel/Dish net	40079531	41679575	1600044
BSNL	71687210	72697331	1010121
MTNL	5166654	5210535	43881
Unitech	5012929	6023655	1010726
Sistema	4636046	5102876	466830
Loop	2911685	2926797	15112
Videocon	1394543	1942364	547821
Stel	1233247	1326506	93259
HFCL	520820	668325	147505
Etisalat/Allianz	10122	18196	8074

**Big Market Players Performance**

- **Bharti Airtel:** Indian operator Bharti Airtel reported revenues of INR 12231 crore for its fiscal first quarter, up 17.4% from a year earlier. The result was helped by the consolidation of the Zain Africa operations, which were acquired from 8 June. Revenues at the company's operations in South Asia rose 8.2% year-on-year.
- **Reliance communication:** It reported revenue of INR 5109 crore in its first quarter 2010. RCom and GTL Infra agreed on over a Rs. 50,000 crore deal to create the world's largest independent telecom infrastructure company, neither owned nor controlled by any telecom operator.

RCom acquired Digicable, India's No.1 cable TV service provider, in all stock deal of the new entity. The new entity named 'Reliance Digicom' is an integration of RCOM's DTH, IPTV and Retail Broadband operations, with Digicable. This will be India's/ Asia's largest, and the world's 5<sup>th</sup> largest company, to offer full-suit of triple play services- digital TV, ultra High speed Broadband and voice.

RCom signs strategic alliance with GetJar to create India's Largest and free mobile Apps Store.

- **Idea:** Idea opens the first Quarter of the new fiscal year with a 13% QoQ growth of minutes on network, on the back of similar percentage growth in the preceding two quarters, demonstrating the burgeoning size of the company's operations. Hyper-competitive market conditions caused a ~5.4% decline in the average realized rate to 44p per minute, inspite of which, revenue was up 11.8% QoQ. In an overcrowded sector, idea is among very few companies which have the capability to maintain and grow quality operations at a realized rate of 44p, and still turn in reasonable profits. This is a strong affirmation of ideas ability to ride out these testing times, and emerge competitively enhanced once this phase draws inevitably to a close.
- **Tata Teleservices':** Revenue stood at Rs. 563 crore an increase of 10% over the corresponding quarter of the previous year. Gross minutes of usage of wireless services increased by 44% over the corresponding quarter of the previous year. TTML in the only network across Mumbai and Maharashtra to be rated congestion free in seven consecutive report published by TRAI. Focus on wireless broadband services, Photon+with VAS and Data services increased data revenue to total 18.5% of total wireless revenues in Q1 of FY 10-11.
- **Mahanagar Telephone Nigam Ltd (MTNL) :**State-run MTNL reported a net loss widened to Rs 451 crore for the quarter ended June 30, 2010, weighed down by its excessive staff costs and outgo for 3G spectrum fee. The company had a net loss of Rs 42 crore for the April- June quarter last year. This (the loss) was due to increased staff cost, provision for retirement benefits and payment of spectrum on amortization of one time charges of 3G and BWA spectrum to the extent of Rs 157.6 crore during the quarter. Staff costs and other expenses added up to Rs 1,456 crore, which is much higher than its total revenue.

Company	Revenues(in crore)	PAT(in crore)	PE(x)	EBIDTA multiple(in crore)	ARPU(Rs./User/month)
Bharti Airtel	12231	1682	15	4414	215
Reliance Communication	5109	251	10.3	1632	210
Tata Tele Services	563	558	(N/A)	183	164
Idea	3654	201	27	888	185
MTNL	971	-451	26	485	549(Broadband)

### Automobiles

- During Q1 FY11, growth momentum in automobile volumes continued to remain strong across segments on the back of improving economic environment. Sequentially, the volumes have remained flat or have declined.
- Operating margins were under pressure on account of higher raw material costs for most manufacturers. While price hikes will absorb the impact partially for two-wheeler and CV manufacturers, passenger car players will continue to witness pressures as intense competition has restricted any price hikes.
- While CV volumes continued to remain strong on the back of robust industrial activity, two-wheeler and passenger car volumes were driven by increasing rural penetration.

(Rs m)	Revenues	YoY growth (%)	OPM (%)	YoY change (bps)	PAT	YoY growth (%)
Hero Honda	42,874	12.2	16.6	-41	5,888	17.7
Maruti	84,392	30	11.9	-36	7,065	21.1
M&M	50,425	18.9	14	-35	4,632	15.5
Tata Motors	103,899	62.2	10.1	-114	4,099	-20.2
Bajaj Auto	39,038	66.9	20.5	108	5,637	92.9
Ashok Leyland	24,374	167.1	10.7	935	5,637	92.9

### Cement

- Growth in cement consumption has tapered off with a ~6-7% YoY rise in Q1 compared to 10% in Q4 FY10
- Rising supplies have added to pricing pressure with declines of Rs5-30/bag in Q1 (prices further down by 5-10% at the fag end of quarter) across different parts of the country.
- Southern (down 35% from peak), Central and Western regions (~10-20% below peak) bore the brunt of price correction even as excess supplies from South have been diverted to the relatively stronger Northern and Eastern markets which has put pressure on regional realizations
- Ambuja posted a 23% YoY rise in PAT on the back of higher volumes (up 13% YoY) and improved EBIDTA margin YoY
- On the other hand, lower volumes (down 1% YoY) and realizations (-4% YoY) dragged down ACC topline by 5% YoY; Higher input costs lead to a 25% YoY profit decline

(Rs m)	Revenues	YoY(%) growth	OPM (%)	YoY Change (bps)	PAT	YoY (%) growth
Ambuja	20,562	8.9	30.6	3	3,972	22.4
ACC	20,068	-5.3	30.3	-6.1	3,599	-25.9

### FMCG

- FMCG sector witnessed double digit growth in Q1FY11. Ad spends remained high due to competition among peers.
- ITC reported robust revenue growth of 19% YoY in Q1FY11 driven by strong cigarettes and paper boards business. Further, launch of micro filter cigarettes fueled revenue growth as it is affordable for bidi smokers in the mass segment.
- During Q1FY11, ITC sustained healthy OPM of 31.9% on the back of improvement in occupancy rates in hotels and agri business
- HUL's OPM contracted by 280bps YoY due to price cuts and higher ad spends and revenues to increase by 7.5% YoY on the back of low base effect. Market share weakened further, as competition rises in home and personal categories
- New product launches by HUL across various categories (Knorr Soupy Noodles, Dove Anti Dandruff, Vaseline for men) drove volume growth in the long term.

(Rs m)	Revenues	YoY(%) growth	OPM (%)	YoY change (bps)	PAT	YoY (%) growth
HUL	48,114	7.5	12.6	-279	4,764	-12.3
ITC	48,600	19	31.9	-86	10,355	17.8

## Metals

- Topline for the ferrous space declined by 9.6% on a QoQ basis as a fall in sales volume negated the increase in realizations. Sales volume during the quarter declined as customers were more focused on liquidating their inventories. Q4 FY10 has been a seasonally strong quarter as consumers increased inventories in anticipation of a jump in steel prices. Realizations during the first quarter increased by Rs1,000-1,500/ton on a QoQ basis. Steel prices slid in May and June after a jump in April.
- For the non-ferrous space, topline declined to 5% QoQ led by a decline in LME prices. Volumes remained flat on a QoQ basis for most of the non-ferrous companies.
- Margin for the steel universe declined on a QoQ basis as the increase in raw material prices (coking coal and iron ore) were higher than the increase in realisations. Margins were also impacted by a drop in volume. OPM for the steel universe contracted by 283bps QoQ. For the non-ferrous space, a fall in LME prices lead to a 217bps QoQ contraction in operating margins.
- After registering an increase in earnings for five consecutive quarters, the metals sector reported a 27.4% QoQ decline in earnings. Earnings decline is higher for the ferrous space as both volumes and margins remain affected. In the non-ferrous space, the decline in PAT is steeper for Hindalco as previous quarter PAT was aided by tax write-back. Tata Steel PAT was impacted the most in the ferrous space due to lower other income and a sharp decline in sales volume.

(Rs m)	Revenues	YoY(%) growth	OPM (%)	YoY change (bps)	PAT	YoY (%) growth
JSPL*	20,513	30.2	35.8	33	4,116	37.2
JSW*	55,476	41.6	22.6	351	6,139	512.7
SAIL	104,916	14.6	24.3	376	17,086	28.8
TISCO*	64,532	14.9	33.9	287	11,419	44.6
<b>Steel</b>	<b>245,437</b>	<b>21.1</b>	<b>27.4</b>	<b>307</b>	<b>38,760</b>	<b>54</b>
Hindalco*	52,093	33.9	14.7	-110	4,128	22.3
HZL	23,393	53.2	57	572	10,591	47.3
NALCO	13,980	49.5	31.1	1,315	2,693	112.9
Sterlite	70,473	53.9	24.3	287	9,798	45.7
<b>Non-Ferrous</b>	<b>159,939</b>	<b>46.3</b>	<b>26.5</b>	<b>288</b>	<b>27,210</b>	<b>46.6</b>

## Oil and Gas

- Crude oil prices remained flat on a sequential basis, but were higher by 30% on YoY basis. This resulted in sharp rise in under recoveries to Rs180bn for Q1 FY11.
- Higher production from Rajasthan field lead to robust results for Cairn India and translated into higher total production for ONGC. APM gas price hike further improved ONGC's performance, which increased subsidy burden.

- For Reliance Industries, sharp increase in oil production from MA-1 field and higher KG-D6 gas production on YoY basis offset the impact of lower petrochemical margins.
- GAIL witnessed robust set of numbers on YoY basis as a result of higher transmission volumes, negated partially by increased subsidy burden.

(Rs m)	Revenues	YoY (%) growth	OPM (%)	YoY (%) Change	PAT	YoY (%) growth
Reliance Ind	580,645	81.1	16.3	-213	49,306	35.6
ONGC	160,551	7.4	60.2	-381	47,487	-2
GAIL	79,825	32.1	17.1	-83	8,865	35.2
BPCL	362,748	42.2	1.1	-192	1,392	-77.3
Cairn	9,950	385.5	71	654	5,300	153.4
HPCL	312,990	28.1	1.6	-381	1,362	-79

## Power

- Addition in installed generation capacity in the first two months of Q1 FY11 was 1,950MW. The total capacity addition in FY11 was ~30GW.
- Merchant power rates witnessed high fluctuation in the quarter ranging from a high of Rs7.9/unit in April to a low of Rs3.4/unit in June. Spot market prices for Q1 FY11 were up 30% QoQ at Rs5.3/unit, but lower 30% YoY. Spot prices will remain weak in Q2 FY11 owing to seasonal drop in demand.
- The generation companies showed improved top line aided by capacity addition and higher tariffs. The latter has been driven by rising input costs and this trend is expected to continue in the future.
- NTPC's generation has marginally risen in Q1 FY11 without any capacity addition indicating improvement in operational efficiency. Tata Power benefited by merchant sale from Trombay Unit 8 and Haldia plant.
- The CERC norm for utilities to source 6% of their mix from renewable energy spelled an increase in domestic orders for Suzlon. However, company's net profit remained under pressure due to high burden of interest cost.
- BHEL maintained its order execution run-rate, although order inflow remained flat. Profitability declined as a result of heightened competition in the sector. Demand for super critical boilers increased where BHEL does not hold its core competency.

(Rs m)	Revenues	YoY (%) growth	OPM (%)	YoY change (bps)	PAT	YoY (%) growth
BHEL	68,540	22.5	11.2	200	6,883	46.3
Suzlon	32,742	-21.5	2	170	-2,962	-34.6
Tata Power	18,220	2.2	26.6	410	2,066	-48
Power Grid	20,762	29.8	80	-170	4,905	-10.3
NTPC	120,781	0.6	26.4	-10	21,313	-2.6

## Banking

The banking sector moved further on the recovery path during the June quarter. This was mainly due to an increase in the credit off-take. Top five banks by market capitalisation, whose quarterly results are out, grew their loan book by an average of 35% in the June 2010 quarter on a year-on-year (y-o-y) basis.

BANK ON THEM								
Financials Of The Banking Sector								
	HDFC Bank		Axis Bank		Punjab National Bank		Bank of Baroda	
	June'10 Qtr(Rs.)	YoY Change (%)	June'10 Qtr(Rs.)	YoY Change (%)	June'10 Qtr(Rs.)	YoY Change (%)	June'10 Qtr(Rs.)	YoY Change (%)
Advances	147620	40.2	108609	39	196870	24.6	185595	30.7
Deposits	183033	25.6	147479	33.8	255335	16.6	254668	28.2
Net Profits	812	33.96	741.9	32	1068	28.4	859	25.4
NIM* (%)	4.2	Nil	3.7	37 bps	3.96	70 bps	3.4	86bps
Net NPA** (%)	0.3	(30)bps	0.4	(6)bps	0.7	(50)bps	0.4	12 bps

\*NIM= Net Interest Margin

\*\*NPA= Non-Performing Assets

(amt in crore)

This is commendable given that the increase in overall banking credit was only 19% during the same period. Typically, the first quarter sees a slower credit growth. However, this time around, the growth was driven by a rise in demand for funds for third generation (3G) spectrum and broadband wireless auction and advance tax payments.

Among the top five players, HDFC Bank and Axis Bank averaged a high growth rate of 40% in advances in the June 2010 quarter. Compared to the March 2010 quarter, the net interest margins (NIM) of most banks decreased by around 20-40 basis points (bps) y-o-y. NIMs are a measure of spread between the cost of borrowing and yield on loans.

This was mainly because banks moved to a system of calculating interest expense on savings accounts on a daily basis. Even after this decline, banking majors such as HDFC Bank, Axis Bank and Punjab National Bank (PNB) reported an average NIM of 4% in the June quarter. Given that banks strive hard to maintain NIMs in excess of 3%, their performance is laudable.

The asset quality remained intact during the quarter. This was because most banks increased their provisioning for bad loans so as to keep the impact minimal. Three of the top five banks reported better asset quality in the June 2010 quarter compared to the corresponding period last year.

While HDFC Bank, Axis Bank and Bank of Baroda averaged net non-performing assets (NPA) at just 0.4% of net advances, other majors such as PNB and Kotak Mahindra Bank reported much higher NPAs. However, both these banks have high provisions for bad loans with their loan provisioning exceeding the 70% benchmark stipulated by the banking regulator.



Sources: India Infoline Research, TRAI, IBEF, RBI, Economic Times, Website of the telecom industries

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