

Market Trends

Stock Indices			
SENSEX	16859.80		0.92%
NIFTY	5103.85		0.78%
NIKKEI	8655.87		0.75%
HANG SENG	19416.67		0.06%
STRAIT TIMES	2842.41		0.64%
Currencies			
US DOLLAR	55.97		0.05
EURO	70.61		0.10
Oil			
DUBAI CRUDE \$	93.58		2.86
Gold (₹ /10gm)			
GOLD SPOT: MUMBAI	30295		195
GOLD SPOT: DELHI	30600		335

Big Voices

ET brings you select voices from economists, policymakers, market experts et al on the unfolding events that move the world and markets

**Mervyn King**  
Governor, Bank of England

"I don't think we should be slaves to the ratings agencies."

**Paul Krugman**  
Nobel laureate economics professor at Princeton University

"You're kind of in an endless downward loop here, where you cut and the fiscal prospect looks worse, so to keep the rating agencies happy, you cut more."

**Wolfgang Franz**  
ZEW President

The financial market experts' expectations are a strong warning against a too-optimistic assessment of Germany's economic perspectives in the remainder of this year

**Chris Rupkey**  
Chief financial economist at Bank of Tokyo-Mitsubishi UFJ

"They're (ratings agencies) really doing the world a huge disservice by frightening financial markets."

# RCOM Sinks as Veritas Slams Co's Financial Health, Again

Telco cries foul, says research co's report 'lacks credibility and is mala fide in intent and approach'

**OUR BUREAU MUMBAI**

Almost a year after calling Reliance Communications the "poster child of everything that is wrong with corporate India," independent equity research firm Veritas has published another report slamming the financial state of India's second-largest telecom operator by subscribers.

"We value the core business at ₹15 per share, suggesting a 77% downside from current levels," the research report said. The report, which hit all major news sources on Tuesday morning, sent the Reliance Communications stock to a 52-week low of ₹59.45 a share in early trade. However, the stock recovered to close at ₹64, down 1.8%.

Anil Dhirubhai Ambani Group-owned Reliance Communications responded strongly in an e-mailed statement. "The Veritas report lacks any credibility and is mala fide in intent and approach... The report is full of factual inaccuracies, and baseless allegations masquerading as research."

The report, which is marked by the trenchant language that has become the signature of the Canada-based research house, said steps taken by Reliance Communications to tide over its financial problems were short-sighted. "In order to tide over

the cash crunch, we believe that RCom has been scaling back its capital expenditures ("capex") and has put assets on the block," it said. "Given the weak competitive position of the company in the Indian wireless sector, we believe that curtailed capex will be detrimental to the company's prospects, going forward."

For the year ended March 31, 2012, the company's capital work in progress, was down nearly 40% compared to the immediately preceding quarter. Capital expenditure in the Indian telecom industry has tapered off because of regulatory uncertainty. However, leading operators are spending on their 3G networks in some areas.

"To tide over its spectrum deficit the company needs to incur higher capex to maintain quality of service. RCOM has been disproportionately affected by the entry of new players in the market and its ARPU has suffered more than its peers," Veritas said.

The company has among the lowest average revenue per user (ARPU) at ₹99 in the quarter to March. It recently lost its third place in revenue market share to smaller com-

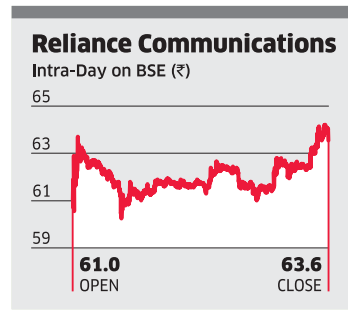
petitor Idea Cellular.

The Veritas report says that given the soft market conditions, Reliance Communications' attempt to hive off its only monetizable assets will leave very little value in the company.

"The management's admission of a soft market for tower assets substantiates our assertion that buyers for Indian telecom assets are scarce. We do not foresee any significant improvement in the tower market over the next 12-18 months," said Veritas.

Reliance Communications has been trying to sell its tower assets for nearly two years now. The company had planned a public listing for the business just before capital markets tumbled in wake of the global economic crisis of 2008. In its most recent attempt to raise funds Reliance Communications has got approval from the Singapore Stock Exchange to list its undersea cable assets in the form of a trust. Reliance Communications is hoping to raise over a billion dollars from the sale of undersea cables owned by its subsidiary Flag Telecom. It plans to use the proceeds to retire high-cost rupee debt.

"We are also skeptical of the company's ability to reduce its financial leverage meaningfully by undertaking an IPO of Flag Telecommunication ("FLAG"), given that equity of Reliance Globalcom Bermuda – whose only assets is FLAG as per Federal Communications Commis-



sion ("FCC") Filings – has been pledged by its holding company, Reliance Globalcom BV Netherlands, to secure debt of \$500 million," said the report. Veritas reasserted claims made in its first report in July 2011 that financial disclosures made by the company were unreliable.

"We believe that the company's accounting policies are whimsical and do not provide a clear picture of the underlying operating and business trends. We neither believe in the reported book equity of the company nor in its reported fixed asset base."

In response, Reliance Communications said, "RCOM is fully compliant with all applicable accounting policies and standards; adheres to all prescribed governance norms; and follows appropriate risk management policies consistent with the long-term maturities of up to 10 years for its foreign currency debt."

## Heard on the Street

### Bachchan Uses Weakness to Strengthen His Holdings

Like a contrarian, Bollywood actor Amitabh Bachchan has been adding to his portfolio of stocks that include Birla Pacific, Fineotex Chemical, M&B Switchgears and Neuland Laboratories even as these stocks, like most others, have been losing in value over the past few quarters. He increased his stake in Fineotex Chemicals from 3.90% as on December 31, 2011 to 3.97% as on March 31, 2012, during which time the share price had taken a knock of 14%. The actor has also bought additional shares of Birla Pacific taking his holdings to 1.49% from 1.43% on September 30, 2011. His other investments include M&B Switchgears (2.3%) and Neuland Labs (1.7%). Most of these stocks are currently quoting at a substantial discount to their IPO prices. Mr Bachchan did not respond to queries related to his portfolio and investment strategy, which were sent on last Thursday.

Contributed by **Vijay Gurav**

## Brokers' Call

### 'Power Back-up Cos to Shine'

Power back-up companies such as Cummins, Havells and Larsen & Toubro may see higher demand due to increase in power cuts, Citi analysts said in a note to clients. Scheduled notified power cuts to industrial consumers have reached historic highs of over 12 gigawatts in April 2012. Considering that power cuts could be higher, including unscheduled cuts, the analysts expect demand for power back-up to increase. Cummins, Havells and L&T are the top picks in this scenario. Kirloskar, Greaves Cotton and Honda Siel Power will also benefit from the higher power cuts, the analysts added.

### BNP Maintains Hold on Infy

BNP Paribas has retained its 'Hold' rating and a target price of ₹2,600 on Infosys, citing volatile demand environment facing the IT major. "Infosys sees demand status quo from Q4 FY12, though headline risks remain, a message similar to that from TCS," BNP Paribas said in a note to clients. Gains from the rupee's depreciation may be partly offset by cross-currency movements and after factoring for wage hikes and other investments, he said, cutting dollar revenue estimates for 2012-13 by 0.7%.

### SBI is BoFA-MI's Top Pick

In the aftermath of RBI's status quo stance on Monday, Bank of America Merrill Lynch prefers SBI and private sector banks. "We remain more worried over banks' asset quality versus their growth in current environment... While we expect fresh slippage rate to plateau, we still estimate a y-o-y growth (absolute) at ~16-17% in 2012-13 led by government banks," the analysts said in a note to clients.

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