

Market Trends M **Stock Indices** SENSEX **16859.80 1** 0.92% **5103.85 1** 0.78% **NIFTY 8655.87 U** 0.75% NIKKEI **19416.67 U** 0.06% HANG SENG **2842.41 1** 0.64% STRAIT TIMES Absolute **Currencies 55.97 U** 0.05 **US DOLLAR 70.61 1** 0.10 EURO **93.58 1** 2.86 **DUBAI CRUDE \$** Gold (₹ /10gm) 30295 195 GOLD SPOT: MUMBAI

Big Voices

GOLD SPOT: DELHI

economists, policymakers, market experts et al on the unfolding events that move the world and markets

30600

335



Mervyn King

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

Paul Krugman

Nobel laureate economics professor at

"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

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

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

lmost 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 Groupowned Reliance Communications responded strongly in an e-mailed statement. "The Veritas report lacks any credibility and is malafide 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

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 compa-

ny'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

RCOM's attempt to hive off its However, operators monetizable assets will leave very little value in the company,

only

savs the

some areas. "To tide over its spectrum deficit the company needs to incur higher capex to maintain quality

Indian telecom in-

dustry has tapered

off because of regu-

latory uncertainty.

spending on their

3G networks in

leading

are

of service. RCOM has been disproportionally 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 (AR-PU) at ₹99 in the quarter to March. It recently lost its third place in reveshort-sighted. "In order to tide over nue 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**Reliance Communications** Intra-Day on BSE (₹)

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.

63.6

61.0

"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 longterm maturities of up to 10 years for

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 gueries related to his portfolio and investment strategy, which were

Contributed by Vijay Gurav

Brokers' Call

sent on last Thursday.

'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-ML's Top Pick

In the aftermath of RBI's status guo 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

FIIs Square Bearish Bets, Go Long on Futures that they are over, there seems to be little downside

NIHAR GOKHALE

Foreign institutional investors squared their bearish bets and created long positions in Nifty fu-

tures on Tuesday as uncertainty over the two much-awaited events — elections in Greece on Sunday and Reserve Bank of India's rate-setting meeting onMonday—receded.

Nifty futures, which have been trading at a dis-

count to the underlying spot, closed at 5110.6, about 7 points above the underlying index on Tuesday. On Monday, the discount was over 5 points. Open interest in futures expiring in June reduced by 1.18 lakh units on Tuesday, after rising

nearly 9% in a week to 1.65 crore units on Monday. "FIIs have been heavily short on the markets for the last month as a hedge against the events. Now

risk and investors are covering shorts. They have also begun adding long positions, expecting markets to be, at the most, in a range," said Sandeep Singal, co-head institutional equity, Emkay Global. On hopes of a firmer market ahead, many cashstrapped FIIs have also started converting share portfolios into futures, adding to the long posiions in Nifty futures contracts, analysts said. These investors are selling their cash positions and creating leveraged bets in Nifty futures.

'Many FIIs who are hard on cash took advantage of the narrowing spreads between cash and futures segments. The last 2-3 days have also been favourable for selling shares," said TS Harihar, head institutional derivatives at ICICI Securities.

'They entered futures positions on margin and pocketed the balance cash. Holding futures also

seemed favourable because in the absence of any major events Nifty will fall to 4800 or 4900 in the worst case scenario," he said. Nifty closed at 5103 on Tuesday, recovering 40 points, or 0.8%, from its Monday close, after declining 1.4% on Monday.

Analysts said traders do not expect the Nifty to fall below 5000. "A temporary pullback is possible as the index was beaten down due to earlier events. We are expecting the index to hover in 5000-5200 levels," said Shubham Agarwal, AVP & senior technical analyst at Motilal Oswal Securities. We advised clients to buy long at 5020-5040 levels

with a stop loss of 4980... the risk-reward is the most favourable for such a trade in the absence of any large triggers and stable currency and commodity prices," he said.

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