MOTILAL OSWAL

September 2010

India Strategy

Euphoric times

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Contents

Note: All stock prices and indices for India Strategy as on 24 September 2010, unless otherwise stated

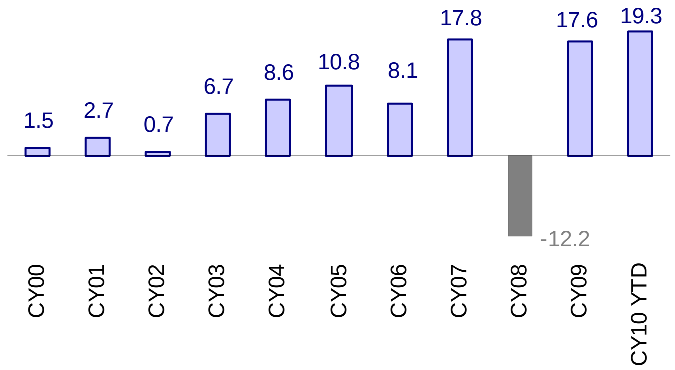
India Strategy

BSE Sensex: 20,045 | **S&P CNX:** 6,018 | **As on:** 24 September 2010

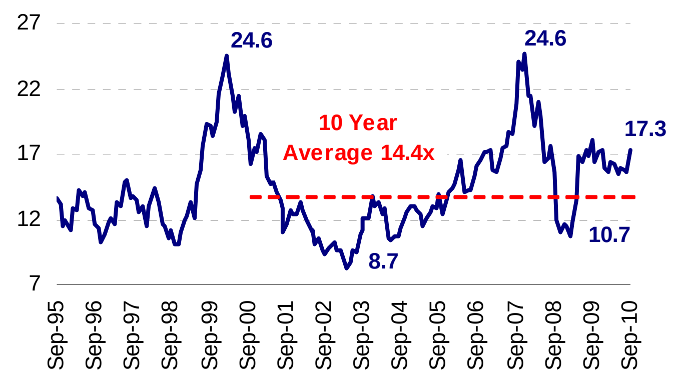
Euphoric times

Indian markets are in euphoric times. In September 2010, Nifty crossed the landmark 6,000 and Sensex breached 20,000, levels last seen 32 months ago in January 2008. The Indian markets are valued at 16x FY12E earnings, at a premium to other emerging markets. YTD CY10, FII inflow stands at over US$19b, the highest ever so far. The euphoria is also spreading to the primary markets. CY10 is likely to end up as the year of highest domestic fund-raising in the primary markets. Technical indicators such as traded volumes and open interest are significantly higher compared to last market peak of January 2008.

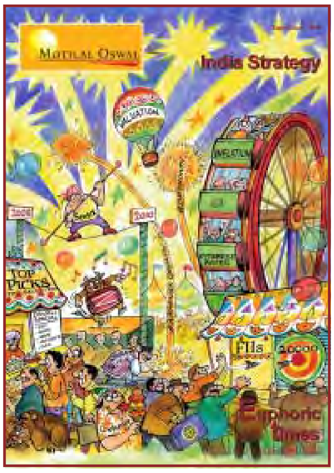
YEARLY TREND IN NET FII INVESTMENTS (US$ B)



SENSEX P/E: 20% PREMIUM TO LONG-PERIOD AVERAGE



Source: SEBI/MOSL



What should be the investment strategy in these euphoric times? We address this critical question by a multi-pronged approach to assess markets:

1. **Top-down analysis**, considering various macro factors such as economic growth, liquidity & interest rates, external sector, etc.
2. **Bottom-up analysis** of major sectors to identify theme(s) that will play out over the next few years, and the key investment opportunities therein
3. **Earnings analysis** of our coverage universe both for 2HFY11 and FY11-12, and
4. **Valuation analysis**, including premium/discount to market and to long-period averages.

Top-down analysis: growth back to the 9% potential level

Growth is back and the major drivers are in place. While official pronouncements of FY11 GDP growth are being revised upwards, we are optimistic of growth being close to the potential at 9%.

- A good monsoon has raised expectations of a bumper crop in FY11 and the broader agricultural growth is likely to turn up to 3.8%.
- Industry is riding on a capex boom to clock 10.3% growth (FY11E).

Navin Agarwal (Navin@MotilalOswal.com) / **Rajat Rajgarhia** (Rajat@MotilalOswal.com)

- The service sector is also likely to emerge from a slowdown to register a growth of 9.7%.

Our optimism stems from the fact that the investment cycle is still at play and the government has continued to support the economy. We have also seen private consumption recovering in 1QFY11. Besides, interest rates and policy environment would remain largely supportive; no major concern is likely to emanate from the inflationary situation and higher trade deficit.

Bottom-up analysis: opportunities across sectors

Despite rich valuations overall, specific large-cap stocks in high-growth sectors still hold the potential to deliver steady returns over the next two years. In Autos, we like M&M, Tata Motors and Maruti. We prefer SBI, PNB, BoB and Canara Bank among state-owned banks, and ICICI Bank among private sector banks. In the Engineering space, we like BHEL, L&T and Siemens. Infosys and HCL Tech are our key ideas in the IT sector. In Metals, we like JSW Steel and Sterlite. Among Utilities, we like NTPC and PowerGrid. In the Real Estate space, our top picks are DLF and Unitech. Read on, as we have listed the outlook on the various sectors and the growth drivers.

Earnings analysis: expect 20% growth in 2HFY11/FY12

In 2HFY11, we expect Sensex earnings growth of 22%, against 25% in 1HFY11. Moderation in 2HFY11 is due to a higher base (since recovery in corporate earnings commenced in 3QFY10). Sensex earnings growth would be 20% excluding the swing of Tata Motors and Tata Steel. In 1HFY11 it was 5%. For FY12, we estimate Sensex earnings growth at 18% and expect Sensex EPS of Rs1,259 (Rs1,068 in FY11E).

Valuation analysis: identifying relatively cheap sectors, re-rating possibilities

Sensex valuations in terms of P/E are at a 10% premium to the historical 10-year long-term average (LTA) at 15.8x FY12E EPS. In terms of P/BV, valuations are at a 15% premium at 2.9x FY12E BV, with RoE at 17.8% (lower than the LTA of 18.7%). While the valuations are not excessive, we believe that the data points matter – more so in the event of market extremes. Some sectors like State-owned (PSU) Banks, Private Sector Banks, FMCG, Metals, Telecom trade at meaningful premiums to the long-term average. Sectors like Auto, Cement, Engineering, Pharma, Utilities trade at similar levels to the long-term averages.

Our view

At the current levels of 20,000 Sensex and 6,000 Nifty, India is an interesting bottom-up market. Despite rich valuations overall, specific large cap stocks in high-growth sectors still hold the potential to deliver steady returns for the next 2-3 years. **Top Picks: SBI, BHEL, M&M, Infosys** and **GAIL**.

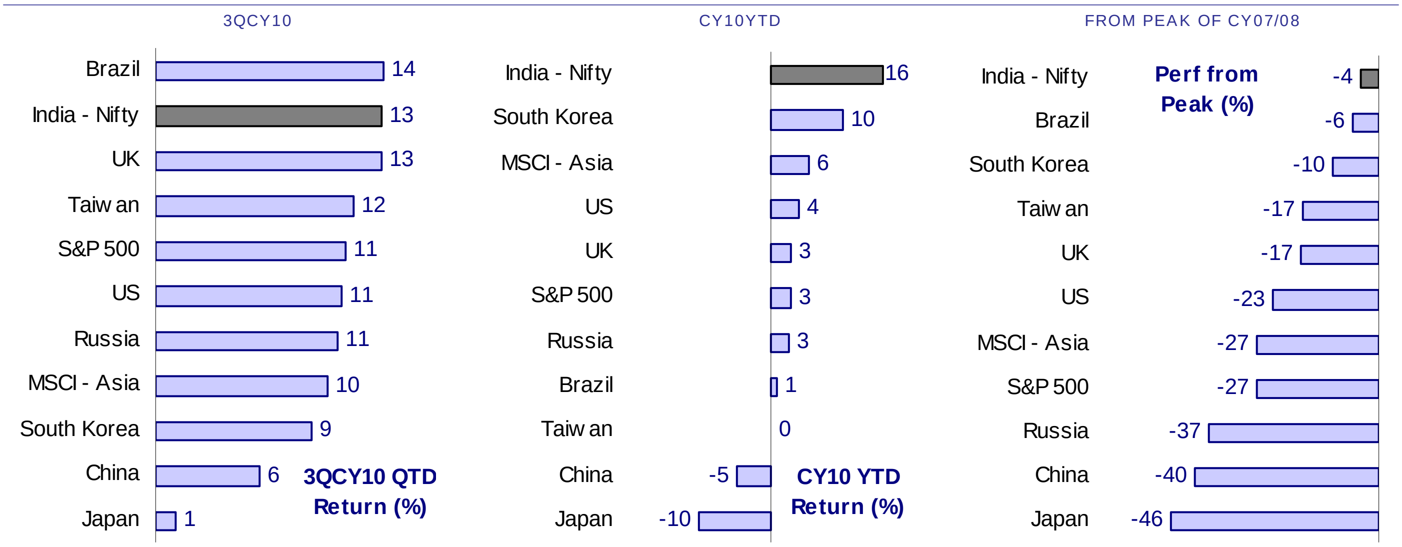
Euphoric times

Indian markets are in euphoric times. This is evident in the strong performance of benchmark indices, above average valuations, unprecedented FII flows, large IPO subscriptions, increased traded volumes, and so on. Based on a top-down and bottom-up analysis, our investment view is that at current levels of over 20,000 Sensex and 6,000 Nifty, India remains an interesting bottom-up market. Despite rich valuations overall, specific large-cap stocks in high-growth sectors still hold the potential to deliver steady returns over the next two years.

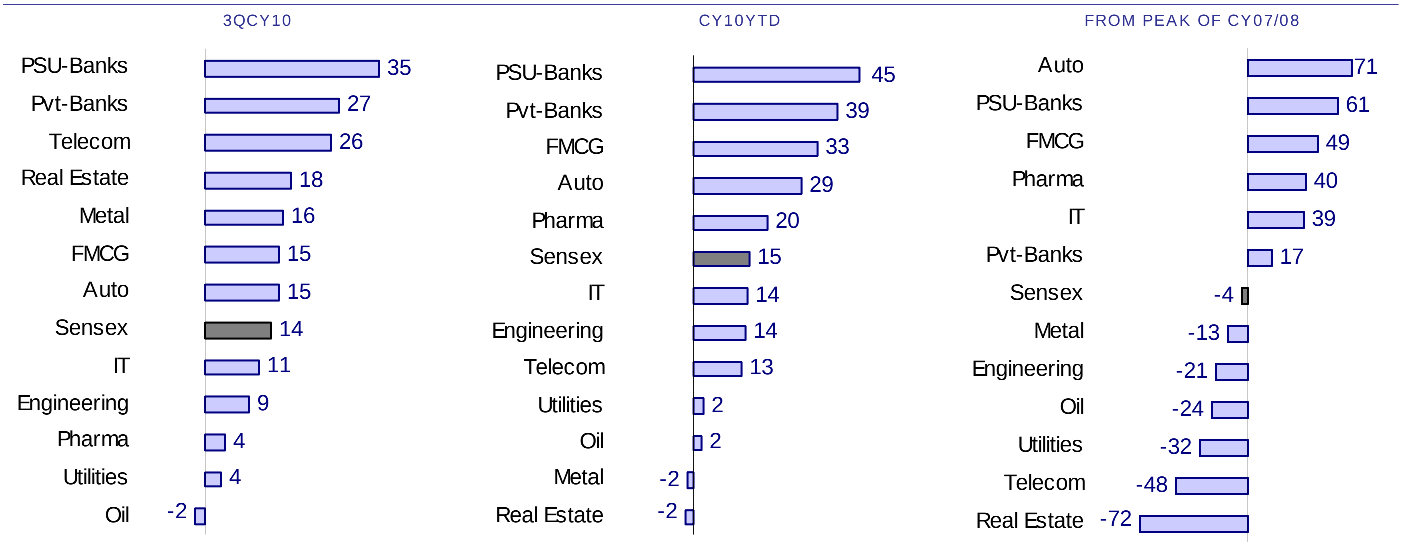
Indian markets close to creating new highs

Indian equity markets have delivered yet another quarter of solid performance, with benchmark indices rising 13-14% in 3QCY10. YTD CY10, India is one of the best performing markets globally, and is poised to be one of the earliest to scale its previous peak and create new highs. In September 2010, Nifty crossed the landmark 6,000 and Sensex breached 20,000, levels last seen 32 months ago in January 2008.

GLOBAL MARKETS: INDIA AMONG TOP PERFORMERS IN CY10

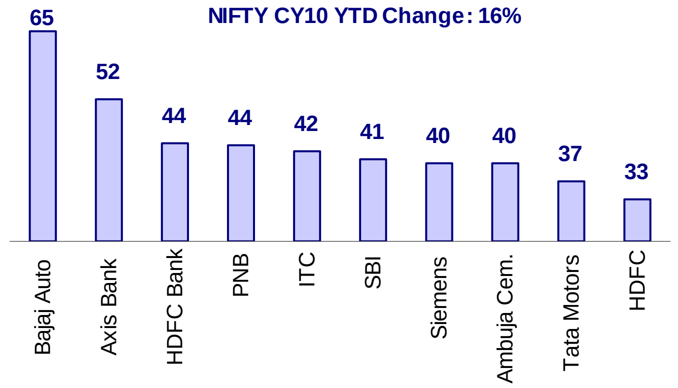


SECTOR PERFORMANCE

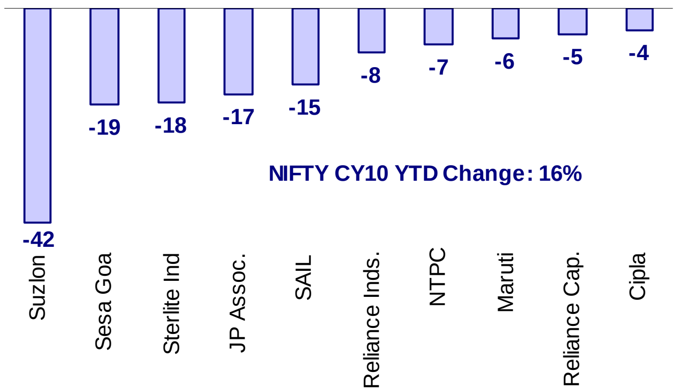


Source: Bloomberg/MOSL

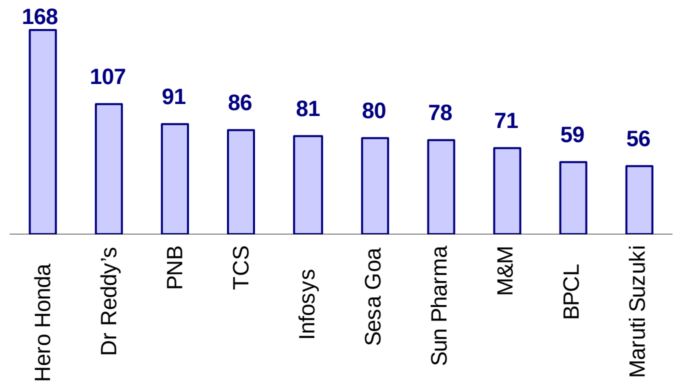
CY10 YTD: TOP PERFORMING STOCKS ...



... WORST PERFORMING STOCKS



20K (JAN-08) TO 20K (SEP-10): TOP PERFORMING STOCKS



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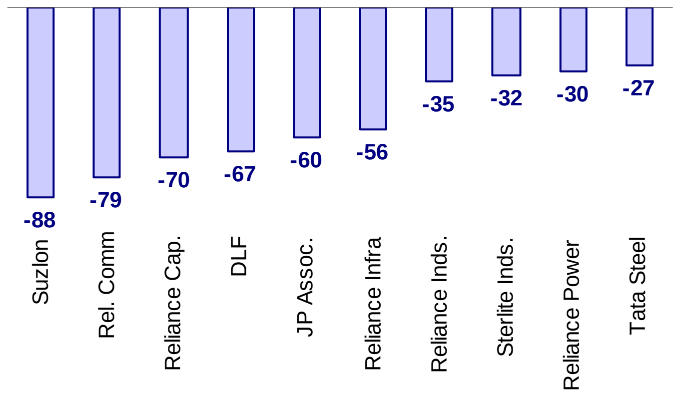


Source: MOSL

Indian markets: valuations at premium to other emerging markets

Indian markets are up 16% YTD CY10. Almost the whole of this upmove came in 3QCY10 alone. Given no major upgrades to corporate earnings, this run-up implies sharp rise in market valuations. Currently, the Indian market is valued at 16x FY12E earnings, the highest among emerging markets. The valuation premium is high even after considering the fact that both earnings growth and RoE for India are among the highest.

INDIAN MARKETS AT PREMIUM TO PEERS

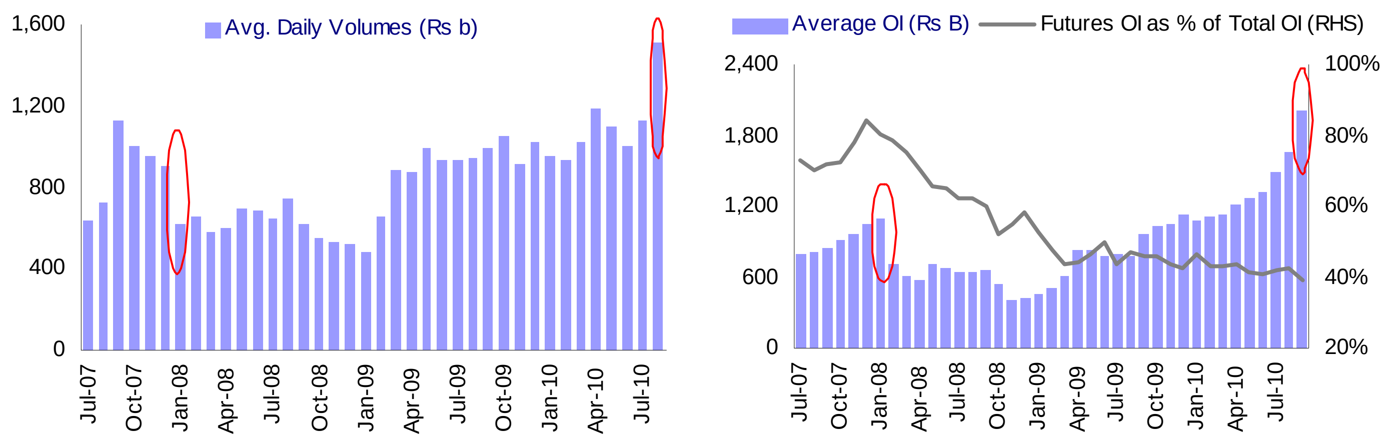
		EPS (RS)				PE (X)			PB (X)			ROE (%)		
	INDEX VALUE	CY10/ FY11	CY11/ FY12	CY12/ FY13	2-YR EPS CAGR (%)	CY10/ FY11	CY11/ FY12	CY12/ FY13	CY10/ FY11	CY11/ FY12	CY12 / FY13	CY10 / FY11	CY11 / FY12	CY12 / FY13
Brazil	69,228	5,270	6,792	7,990	23.1	13.1	10.2	8.7	1.8	1.6	1.4	13.4	15.6	16.7
India	20,105	1,068	1,259	1,493	18.3	18.8	16.0	13.5	3.4	2.9	2.5	17.9	18.3	18.7
Indonesia	3,473	206	245	287	18.1	16.8	14.2	12.1	3.3	3.0	2.6	19.9	21.2	21.3
China	2,611	171	204	236	17.7	15.3	12.8	11.1	2.2	1.9	1.7	14.2	14.8	15.0
Philippines	4,124	266	292	332	11.7	15.5	14.1	12.4	2.4	2.2	2.0	15.4	15.7	16.0
Malyasia	1,460	93	104	114	10.8	15.8	14.0	12.8	2.2	2.0	1.9	14.0	14.4	14.5
Korea	1,856	180	196	214	9.1	10.3	9.4	8.7	1.4	1.2	1.1	13.2	12.8	12.6
Russia	1,484	244	229	261	3.4	6.1	6.5	5.7	1.0	0.9	0.8	17.2	14.0	13.9

Source : Bloomberg / MOSL

Other pointers to market euphoria

In the run-up to 6,000 Nifty and 20,000 Sensex, technical indicators such as traded volumes and open interest are significantly higher compared to the last market peak of January 2008. While the average daily volumes have made a new peak in September 2010, it also marks a big rise MoM. Similarly, the average open interest in F&O are at a new high. The only difference in the F&O segment is a big drop in futures open interest as compared to the previous peak of January 2008.

TECHNICAL INDICATORS ALSO SUGGEST EUPHORIA

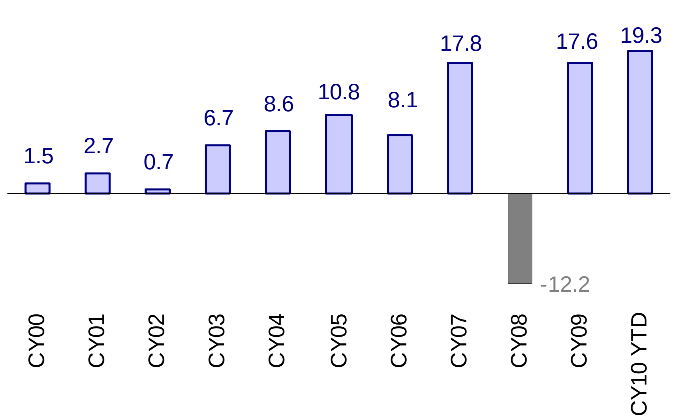


Source: BSE/NSE/MOSL

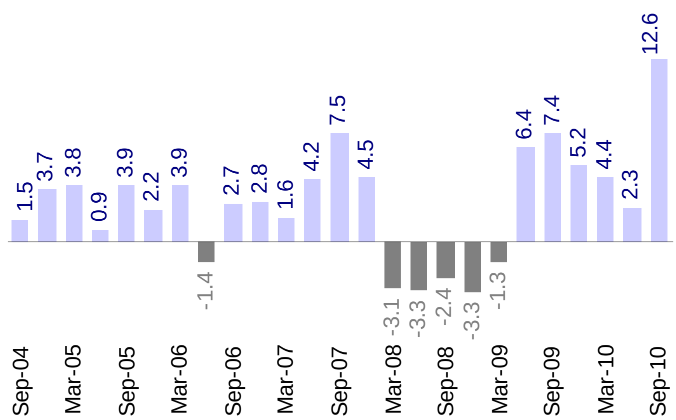
Highest ever foreign flows driving up markets

The key factor driving up the euphoria in Indian markets has been inflows from FIIs (foreign institutional investors). YTD CY10, FII inflow stands at over US$19b, the highest ever so far. Even more interestingly, of the US$19b, US$12.6b (65%) of FII inflow came in the September quarter alone. In fact, this quarterly figure is higher than the annual inflows of past several years (barring CY07 and CY09). Further, more than half of the quarter's inflows were in the month of September alone (*also see box on next page*).

YEARLY TREND IN NET FII INVESTMENTS (US$ B) ...



... QUARTERLY TREND IN NET FII INVESTMENTS (US$ B)



Source: SEBI/MOSL

FII flows - the September factor

For the last five years now, September has seen the highest FII activity, whether it be inflows or outflows. Also, more often than not, September has been a positive month over August for market benchmark indices, and even more often than not, December levels for the indices have been higher than September.

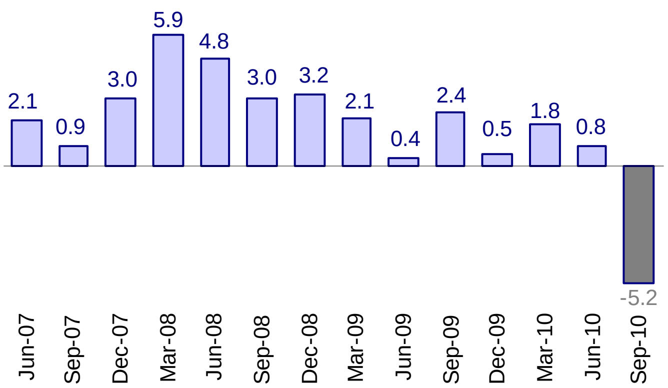
SEPTEMBER – A DECISIVE MONTH FOR FII FLOWS

	FII NET INVT (US$ B)		SEP INVT AS %	SENSEX CHANGE (%)	
	IN SEP	FOR THE CY	TO FULL YEAR	SEP OVER AUG	DEC OVER SEP
Sep-02	0.1	0.7	10	-6	13
Sep-03	0.9	6.7	13	5	31
Sep-04	0.6	8.6	7	9	18
Sep-05	1.0	10.8	9	11	9
Sep-06	1.4	8.1	17	6	11
Sep-07	4.7	17.8	27	13	17
Sep-08	-1.7	-12.2	14	-12	-25
Sep-09	4.1	17.6	23	-7	20
Sep-10	6.4	19.3	33	12	-

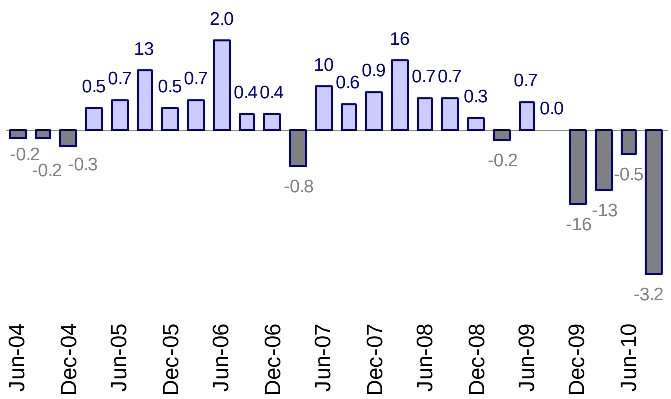
Source: SEBI/MOSL

In sharp contrast to FII activity, domestic institutional investors were virtually absent from the markets, and were actually net sellers to the tune of US$4.6b in the latest quarter.

QUARTERLY TREND IN NET DII INVESTMENTS (US$ B)



QUARTERLY TREND IN NET DOMESTIC MUTUAL FUND INVESTMENTS (US$ B)



Source: SEBI/NSE/MOSL

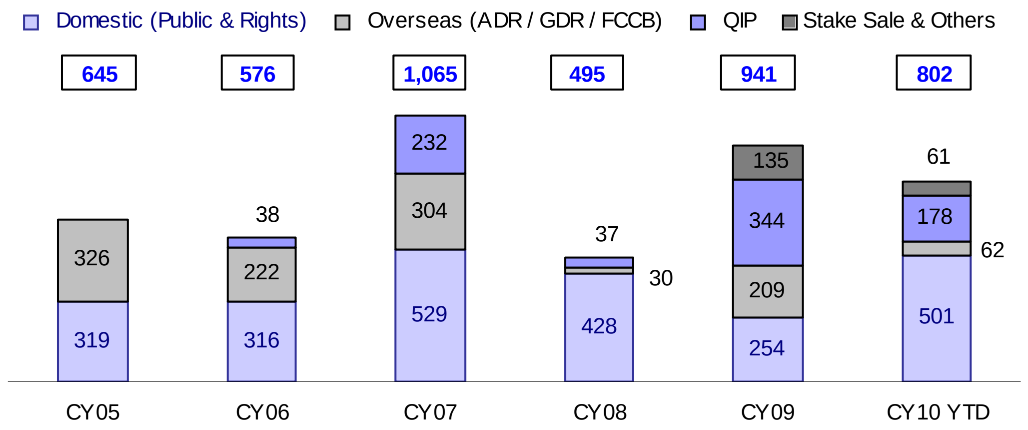
Euphoria spreading to primary markets: biggest ever capital raising

CY10 will be the year of highest domestic fund-raising in the form of IPO/ rights issue

With markets close to scaling their previous peaks, the euphoria is also spreading to the primary markets. CY10 is likely to end up as the year of highest domestic fund-raising in the form of IPOs/rights issues. YTD CY10, domestic issues at over Rs500b are close to the highest ever full year figure of Rs529b in CY07.

Given the pipeline of capital raising from both public and private sectors in 4QCY10, we expect CY10 total capital raising to significantly surpass the previous high of CY07.

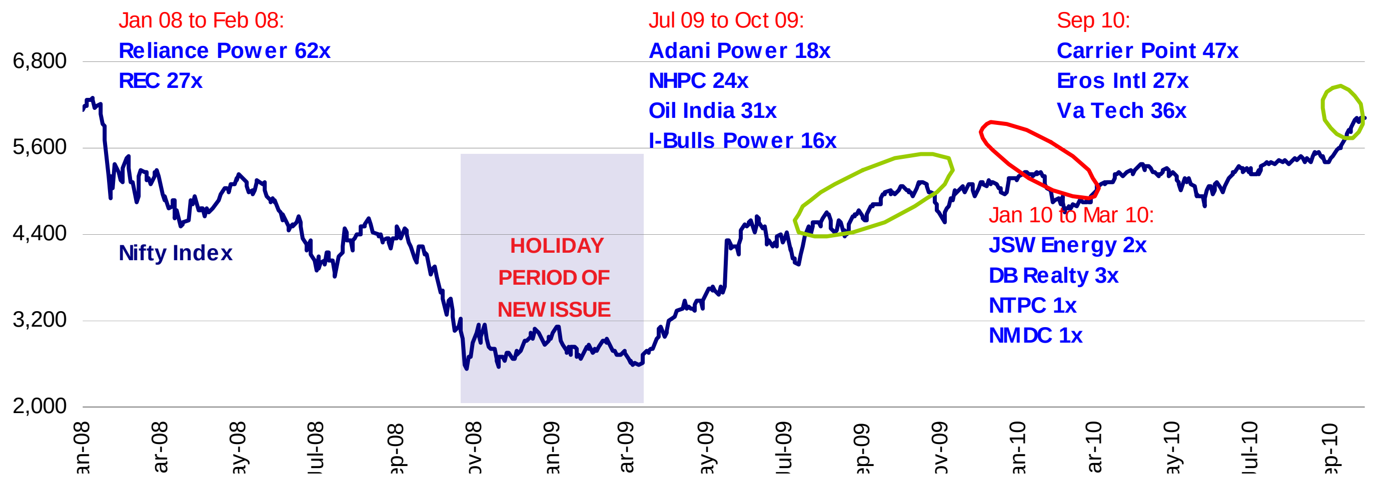
CAPITAL RAISING BY INDIAN COMPANIES (RS B): DOMESTIC ISSUES SET TO SCALE NEW HIGHS



Source: CMIE/MOSL

IPO subscription money is also an interesting indicator of level of investor participation and, in turn, level of euphoria. For instance, in September alone, average over-subscription was 11x i.e. investible amount of over Rs370b chased IPOs of Rs34b. The correlation between market levels and over-subscription times remains strong as ever.

IPO SUBSCRIPTION: BAROMETER OF EUPHORIA



An investible amount of over Rs370b chased IPOs of Rs34b in September 2010

11X OVERSUBSCRIPTION FOR IPOs IN SEPTEMBER 2010

COMPANY	ISSUE SIZE (RS M)	CLOSE DATE	SUBSCRIPTION TIMES (X)
Orient Green Power Company Ltd	9,000	24-Sep-10	1
Ramky Infrastructure Ltd	5,300	23-Sep-10	3
Indosolar Ltd	3,570	15-Sep-10	1
Eros International Media Ltd	3,500	21-Sep-10	27
Tecpro Systems Ltd	2,680	28-Sep-10	24
Electrosteel Steels Ltd	2,481	24-Sep-10	8
Ashoka Buildcon Ltd	2,250	28-Sep-10	16
Microsec Financial Services Ltd	1,475	21-Sep-10	12
Va Tech Wabag Ltd	1,250	27-Sep-10	36
Career Point Infosystems Ltd	1,150	21-Sep-10	47
Cantabil Retail India Ltd	1,050	27-Sep-10	2
Tirupati Inks Ltd	515	17-Sep-10	9
Total of above	**34,221**		**11**

Source: MOSL

Going forward, the issuance of fresh paper is likely to continue given the nearly US$10b disinvestment program of the government and huge equity raising by the private sector to fund growth capital (e.g. sectors such as Utilities, Real Estate, Infrastructure) or to deleverage (e.g. companies such as Tata Steel, Tata Motors).

What should be the investment strategy in these euphoric times?

We address this critical question by a multi-pronged approach to assess markets:

1. **Top-down analysis**, considering various macro factors such as economic growth, liquidity & interest rates, external sector, etc.
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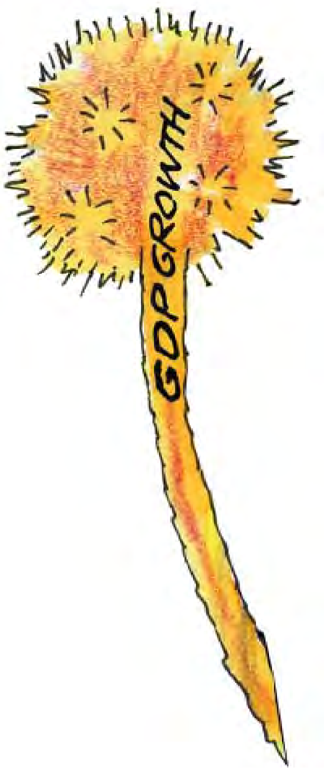
Top-down analysis

GDP growth back to the 9% potential level

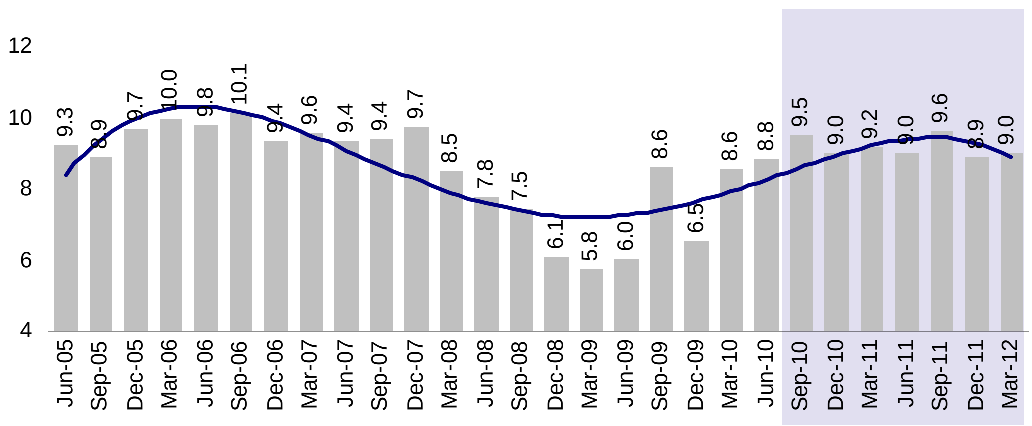
Growth is back and the major drivers are in place. While official pronouncements of FY11 growth are being revised upwards, we are optimistic of growth being close to the potential at 9.1%.



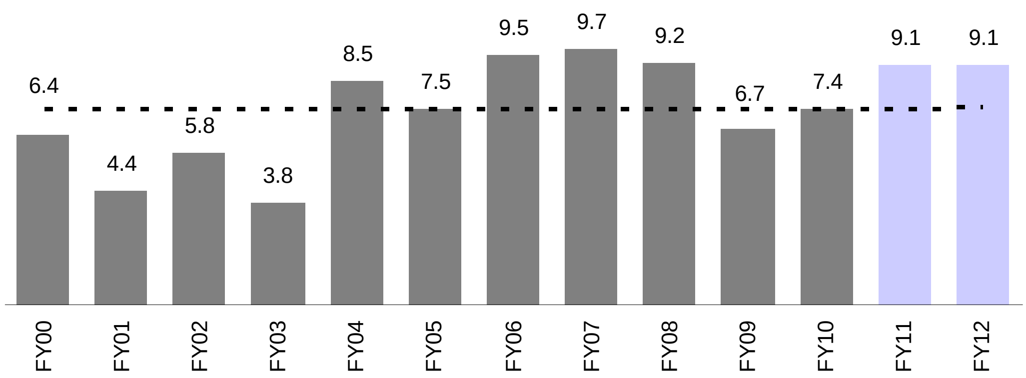
- A good monsoon has raised expectations of a bumper crop in FY11 and the broader agricultural growth is likely to turn up to 3.8%.
- Industry is riding on a capex boom to clock 10.3% growth (FY11E).
- The service sector is also likely to emerge from a slowdown to register a growth of 9.7%.

Our optimism stems from the fact that the investment cycle is still at play and the government has continued to support the economy. We have also seen private consumption recovering in 1QFY11. Besides, interest rates and policy environment would remain largely supportive; no major concern is likely to emanate from the inflationary situation and higher trade deficit.

GDP ON A CYCLICAL UPTURN (%)



EXPECTED GDP GROWTH CLOSER TO POTENTIAL 9%



Source: CSO/MOSL

A. DRIVERS

I. Agriculture – a source of comfort this time

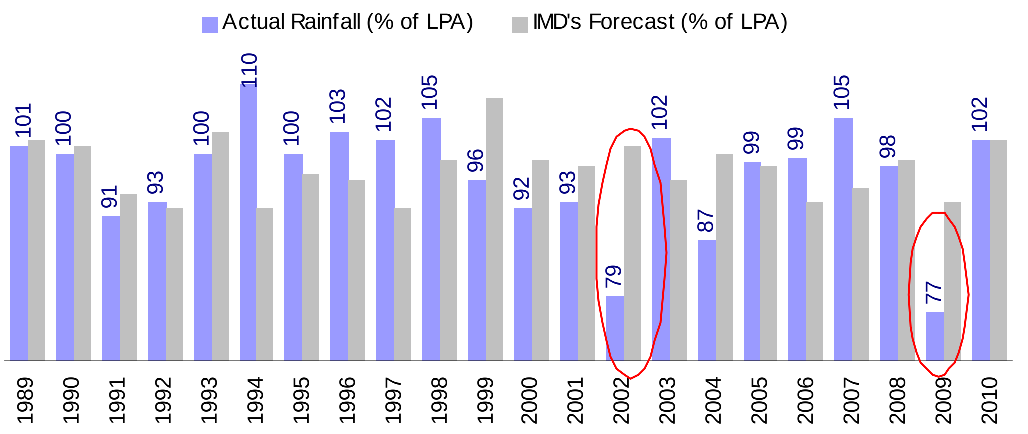
2010 is among the best years in terms of rainfall, with a total surplus of 2% (as predicted by the IMD). Initial deficit of June was made up subsequently due to the La Nina effect.

- Crucially, water reservoirs are now 11% higher than the 10-year average and Kharif sowing has advanced to cover 97.4% of normally sown area.
- First advance estimates place the FY11 Kharif foodgrain production at 115m tonnes, 11m tonnes (or 10%) higher than FY10. Rabi outlook too appears bright, with delayed La Nina effect and overall foodgrain production is estimated at 232m tonnes for FY11, close to the bumper crop of 234m tonnes in FY09.

Given the strong correlation between monsoon, food production and non-food production, we expect the entire agriculture sector to perform well, with an estimated growth of 3.8% in real terms. This would nudge up the overall GDP by 0.6% in FY11.

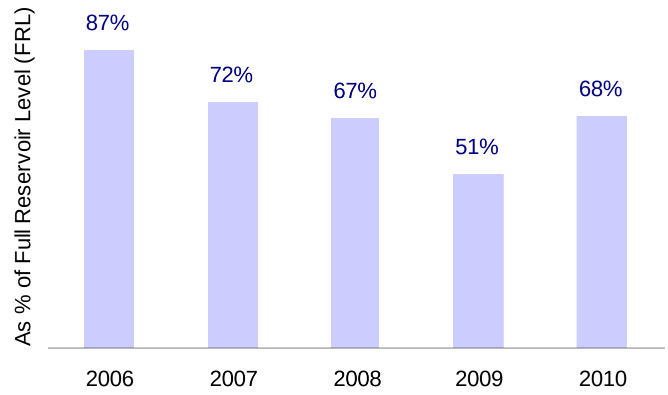
- Besides the direct impact on GDP, a good rainfall helps hydro-electricity generation. Higher foodgrain production lowers the fiscal burden for agricultural support and food management operations by the government.
- The outlook of softening food prices also augurs well for moderation of inflation in coming months.
- Higher support prices have resulted in improved terms of trade for agriculture, leading to higher income in the rural sector. This provides a boost to rural consumption and improves the credit quality of agricultural loans.

ONE OF THE BEST YEARS OF MONSOON PERFORMANCE AND PREDICTION TOO

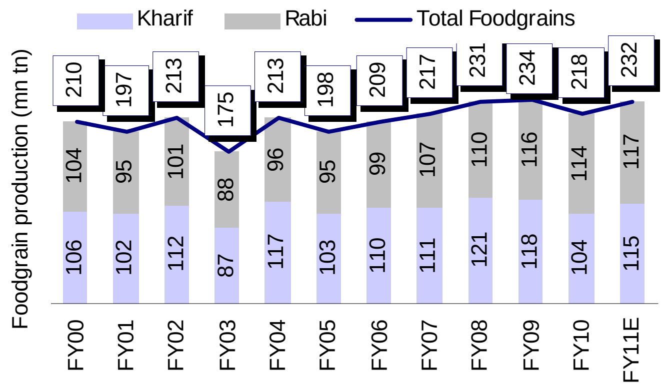


Source: IMD/MOSL

RESERVOIR LEVELS HAVE BEEN REPLENISHED FROM THE DIP OF 2009



FOODGRAIN OUTPUT EXPECTED TO BE CLOSER TO THE BUMPER YEAR OF FY09



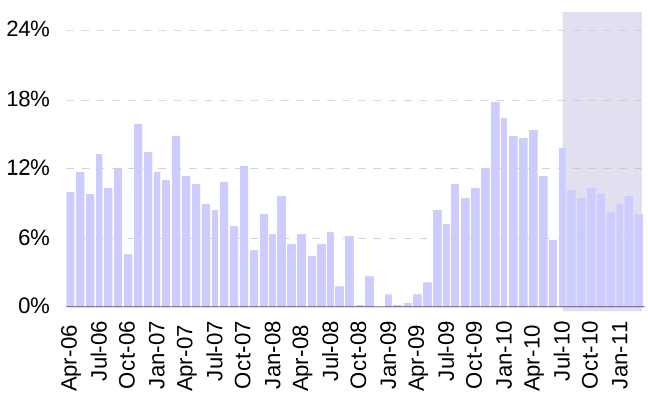
Source: Ministry of Agriculture/MOSL

II. Industry - recovery riding on the capex dhoom

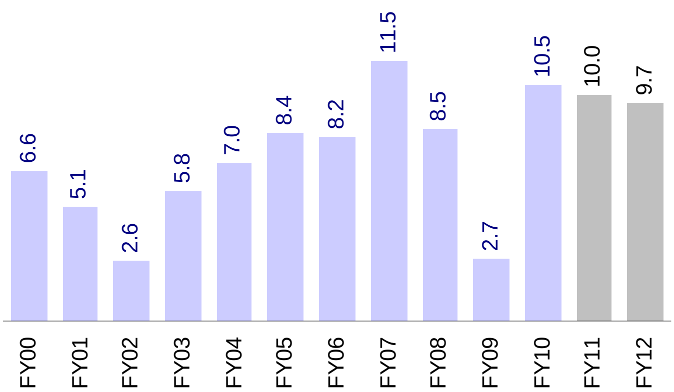
Enormous volumes of projects (exceeding US$2t) are in the pipeline

- The July 2010 IIP at 13.8% implied continued momentum, led by capex spending and strong showing of the manufacturing sector. Though some sub-sectors within IIP continued to demonstrate weakness (e.g., consumer non-durables), a sustainable course of industrial revival based on capacity creation is underway. However, since capex spend is usually lumpy in nature, large fluctuations around the trend path are likely.
- Corporate sector health is improving, with more rating upgrades in recent months compared with negative rating developments (including downgrades and companies placed on watch list or for which rating has been withdrawn/suspended).
- Enormous volumes of projects (exceeding US$2t) are in the pipeline. (However, there has been some setback in new projects in 2QFY11 due to heavy rains and concerns on few big ticket projects due to land and environmental issues).
- The improved outlook for agriculture and rural income is also likely to exert a positive demand linkage on the industry, particularly demand for consumer durables and non-durables in the later part of the year.
- We expect continued industrial momentum to drive 10% IIP growth in FY11.

INDUSTRIAL RECOVERY REMAINS STRONG; EXPECT IIP GROWTH TO STAY CLOSE TO DOUBLE-DIGIT LEVEL

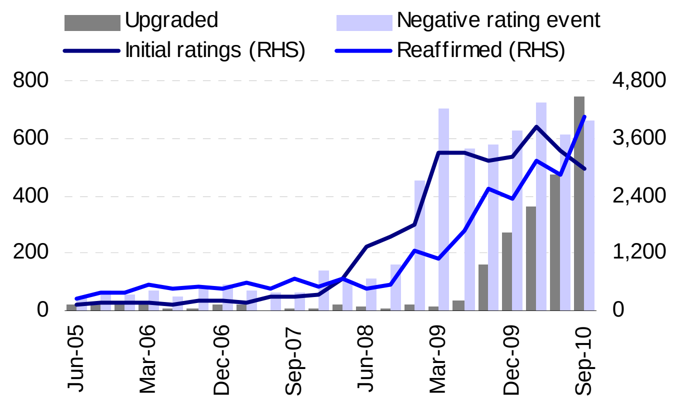


CAPEX TO LEAD TO A MORE SUSTAINABLE INDUSTRIAL RESURGENCE

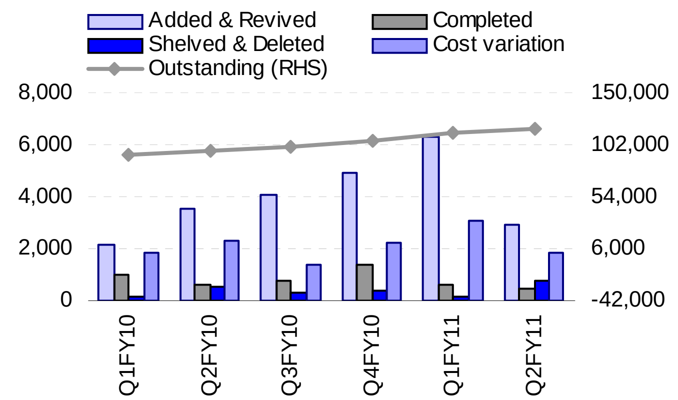


Source: Ministry of Commerce & Industry/MOSL

MORE UPGRADES THAN NEGATIVE RATING EVENTS (DOWNGRADES + RATINGS WATCH + WITHDRAWN + SUSPENDED)



SOME DECELERATION IN 2QFY11 NOTWITHSTANDING, THE OUTSTANDING PROJECTS IN THE PIPELINE ARE HUGE AND CONTINUE TO GROW



Source: CMIE/MOSL

B. ENABLERS

I. Liquidity – all aces with RBI

Deposit growth lagging behind government borrowing and credit demand will result in a funding gap in FY11. Factoring in total government borrowings of Rs5.9t, credit growth of 22% and deposit growth of 18%, we arrive at a funding gap of Rs1.2t in FY11. While this gives an upward push to interest rates, they are unlikely to move much in the credit market due to:

(1) Substitution of bank finance by non-bank and foreign sources,
(2) Increased competition within the banking system, and
(3) Pause in RBI's rate hike cycle.

It is plausible that the money market would continue to reflect the immediate liquidity situation and rates may rise intermittently. However, at the same time, G-sec yields may have a softening bias (expect 7.6% by end-March 2011) due to (1) moderation in inflation, (2) RBI's softening stance, and (3) the narrowing of premium over US yields.

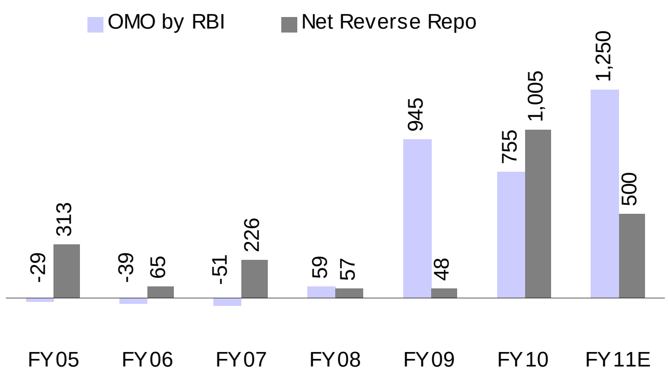
The role of RBI is critical in closing the funding gap. We expect RBI to change its stance to a more accommodative one. More specifically, we expect RBI to (1) limit its rate hike cycle to one more round of 25bp in its November-2 policy measure, (2) inject liquidity through open market operations (~Rs1t), (3) eventually intervene in the forex market suitably to stem the Rupee and improve monetary base. In this context, the recent hike in FII investment limit for debt instruments (by US$5b each in government securities and debt market) comes as a relief.

The funding gap that would remain after RBI's measures would need to be bridged through residual adjustments by banks: (1) support through repo window, (2) increased recourse to borrowing, and (3) liquidation of non-SLR portfolio. A higher deposit growth or a lower credit offtake would result in automatic closing of the funding gap.

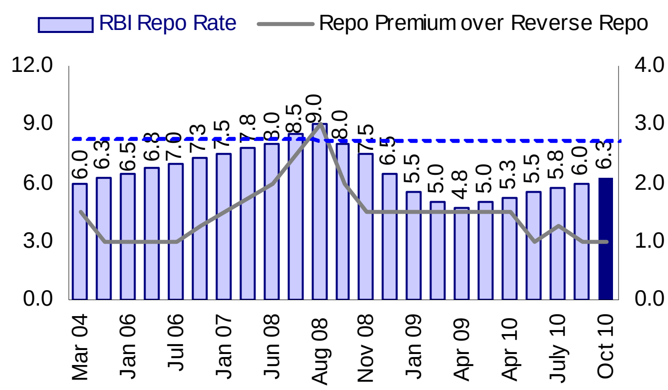
A FUNDING GAP OF RS 1T EXISTS, WITH PROJECTED DEPOSIT (@ 18%) AND CREDIT (@22%) GROWTH

		FY11	SEP-MAR FY11E EARLIER	SEP-MAR FY11E REVISED
Government Borrowing Program				
1	Central Govt. Borrowing (dated)	4,570	2,250	1,970
2	State Govt. Borrowing	1,321	920	920
3	**Total Mkt Borrowing (Centre+State)**	**5,891**	**3,170**	**2,890**
Redemption				
4	Central Govt.	1,143	286	286
5	State Govt.	156	60	60
6	**Net Government Borrowing**	**4,592**	**2,824**	**2,544**
Banking Sector (Incremental)				
7	Bank Deposit	7,920	6,147	6,147
8	Bank Credit	7,126	5,950	5,950
9	SLR Investment	2,309	1,412	1,272
10	**Banking Sector Balance (7-8-9)**	**-1,514**	**-1,216**	**-1,076**

RBI NEEDS TO RESORT TO OMO IN CASE FOREIGN INFLOWS ARE INADEQUATE TO FUEL M3 GROWTH

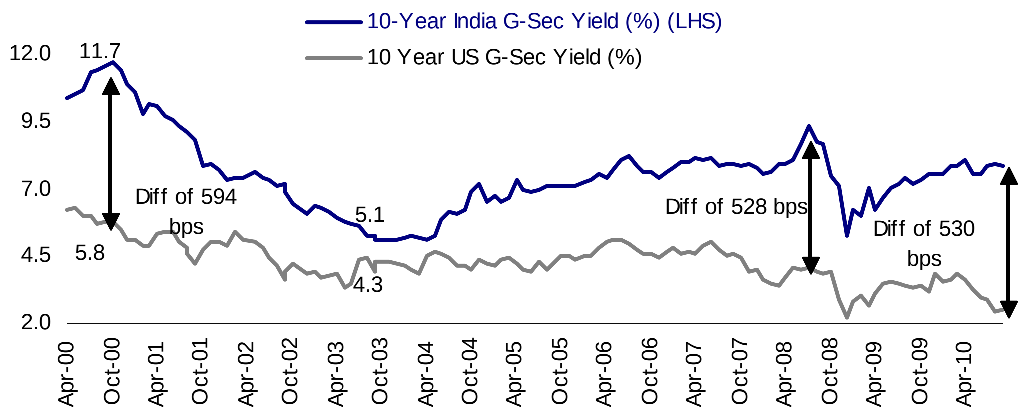


REPO RATE AND THE PREMIUM OVER REVERSE REPO - BOTH CLOSER TO THE LONG-TERM AVERAGE



Source: RBI/MOSL

YIELD DIFFERENTIAL BETWEEN INDIA AND US AT HISTORICAL HIGH; SHOULD DECLINE



Source: Bloomberg/MOSL

II. Economic reforms - two steps forward, one step back

The government has committed to take various initiatives for reform in areas ranging from decontrol of administered price regime, taxation, financial sector and foreign direct investments. However, many of these measures have hit roadblocks in the nature of political opposition or delays on account of differences. While in some cases (as in oil price decontrol), the government has walked halfway, the most ambitious tax reforms have either been diluted significantly (DTC) or have been surrounded in political deadlock (GST).

REFORM MEASURES – A SCORE CARD

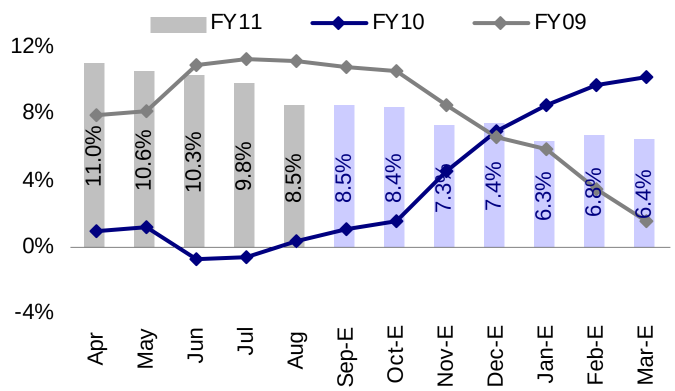
REFORM AREA	STATUS	COMMENT
i) Oil Price Decontrol	The Government deregulated the price of petrol and hiked in price of diesel, kerosene and LPG on June 25.	Roadmap for deregulation of diesel, kerosene and LPG not laid down, no clarity on under-recovery sharing formula, subsidy released after long delay.
ii) Direct Tax Code (DTC)	The bill introduced and deadline delayed by one year to April 1, 2012. Most of the provisions in the original DTC pertaining to MAT, SEZ, Capital Gains, Tax treatment of Long term savings, etc watered down meaningfully.	Broadly status quo with meaningful changes limited to the insurance sector, foreign entities and income from sources abroad. The objective of low rate, simplified tax structure and revenue neutrality looks an impossible trinity now.
iii) Goods and Services Tax (GST)	The deadline for GST extended to April 1, 2012. Major disagreement cropped up between centre and a few states over loss of State's autonomy to tax and the ambit of Centre's power.	With sharp political differences coming into the fore, GST has hit a roadblock. However, important progress regarding rates, central clearing and scope of the tax.
iv) Minimum Free Float	The Government prescribed a minimum 25% non-promoter holding norm for listed companies.	However, PSUs subsequently excluded from this. Disinvestment plans to continue separately.
v) Foreign Direct Investment (FDI)	The Government has floated discussion paper on five areas, viz., i) defense sector, ii) multi-brand retail iii) issue of shares for considerations other than cash, iv) approval of foreign/ technical collaborations in case of existing ventures/tie-ups in India, and v) limited liability partnerships.	The Government has adopted a consultative approach to some of these contentious areas of reform. However, no indication so far of raising the limit for insurance sector.
vi) Banking Licence	RBI issued a discussion paper specifying 1) new branch licences will be limited, and 2) new banks should promote financial inclusion and support inclusive economic growth.	Some issues highlighted are high entry norm, permitting corporate houses/NBFCs to open banks, cap on promoter holding and other shareholding, foreign ownership, etc.
vii) Fertiliser Subsidy	Nutrient Based Subsidy (NBS) regime announced in FY10 budget implemented in April 2010 by which prices of all non-urea fertilizers has been decontrolled.	Despite decontrol Government has continued and in fact increased subsidy of various non-urea fertilizers to keep a check on their prices. The government plans to issue smart cards to millions of farmers so that they can be given subsidy directly under the NBS regime.
viii) FII Debt Limit	Government announced an increase in the overall investment limit of FIIs by US$ 5b each for Government and corporate debt securities taking the overall ceiling at US$10b and US$20b respectively.	The move is expected to provide a fillip to the bond market, help infrastructure growth finance and improve capital flow. However, the move has been criticized in its impact on the currency.

C. MODERATORS

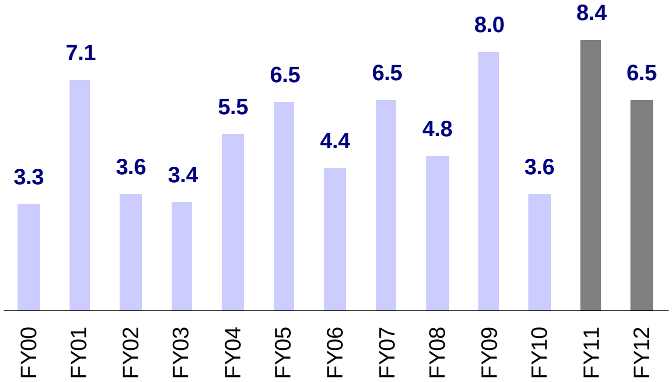
I. Inflation - likely to remain higher than comfort level

- The August 2010 WPI inflation at 8.5% (new series) reflected a moderation in headline inflation from the double-digit levels of 1QFY10. Moreover, all three major categories of the WPI basket, viz., Primary (at 15.8% in August from 18.9% in July), Energy (at 12.5% v/s 13.3% in July) and Manufacturing (at 4.8% from 5.4% in July) displayed moderation.
- Primary articles (mainly food) contributed the most (44.1%) to inflation while fuel contributed another 22.4% to overall inflation. Manufacturing inflation, on the other hand, has come down below the RBI's threshold level of 5% and contributed only 34% of overall inflation despite comprising ~65% of the reconstituted WPI basket.
- While a normal monsoon and satisfactory progress of Kharif sowing hold promise of further food price moderation, leading to 6.4% end-March inflation, the average for FY11 would be 8.4%.
- While domestic factors favor a moderation in inflation, international prices of food and fuel are likely to firm up. Global recovery has provided an upward thrust to commodity prices.

SOME RELIEF FROM DOUBLE-DIGIT INFLATION; EXPECT MODERATION GOING FORWARD

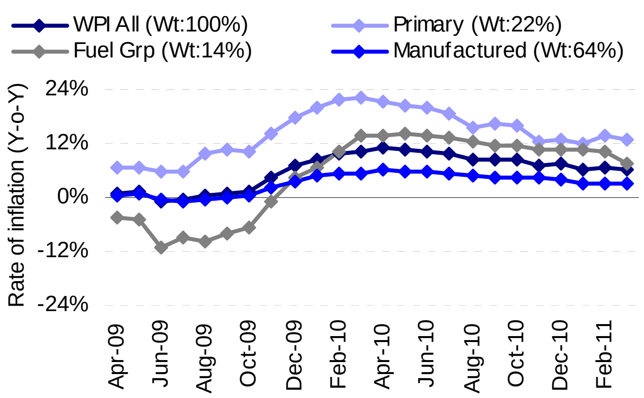


HOWEVER, INFLATION WOULD REMAIN A MEDIUM-TERM CHALLENGE (%)

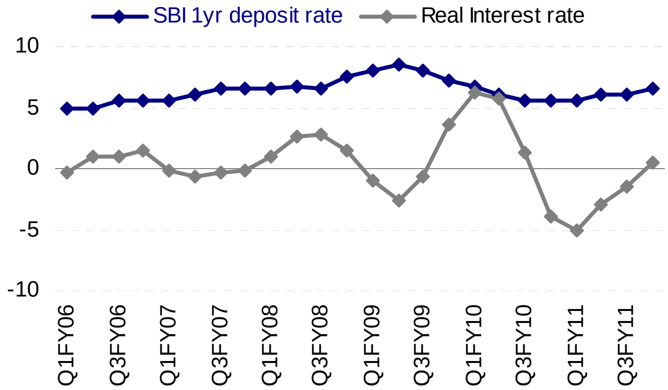


Source: RBI/MOSL

WHILE PRIMARY INFLATION MAY REMAIN ELEVATED, SOME SOFTENING OF THE MANUFACTURING INFLATION IS LIKELY



HIGH INFLATION IS KEEPING REAL INTEREST RATES NEGATIVE (%)

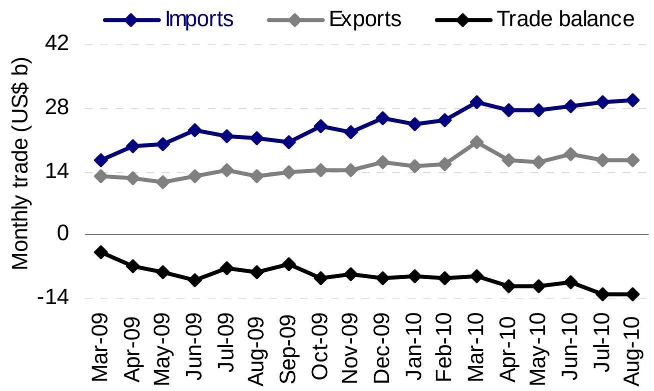


Source: RBI/MOSL

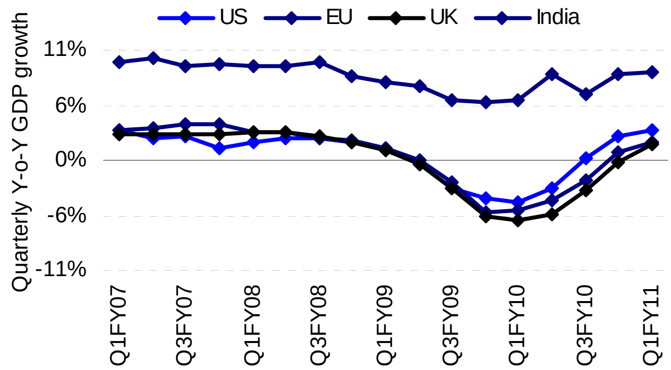
II. External sector - still time for the alarm bell to ring

- India's export growth revived during August to 22% (YoY) from a low of 13% in July. Imports grew at 32%. Trade deficit (US$13b) remained high, though lower than the pre-crisis high of US$16b (August 2008). The cumulative trade gap for April-August at US$57b is within our estimate of US$140b for FY11 at the current run rate and does not raise any cause for immediate concern.
- As a ratio of GDP, the trade deficit at 9.3% for FY11 is likely to be funded in large part by invisible surplus (US$101b, 6.7% of GDP), which is expected to revive in FY11 as displayed by the upturn in IT companies. This leaves a current account deficit of US$39b, or 2.6% of GDP for FY11. Even a very conservative estimate of net capital flow at US$50b in FY11 (v/s US$52b of FY10) leaves an overall balance of payments surplus of US$11b (0.7% of GDP).

HIGHER IMPORTS THAN EXPORTS WIDENED THE TRADE DEFICIT

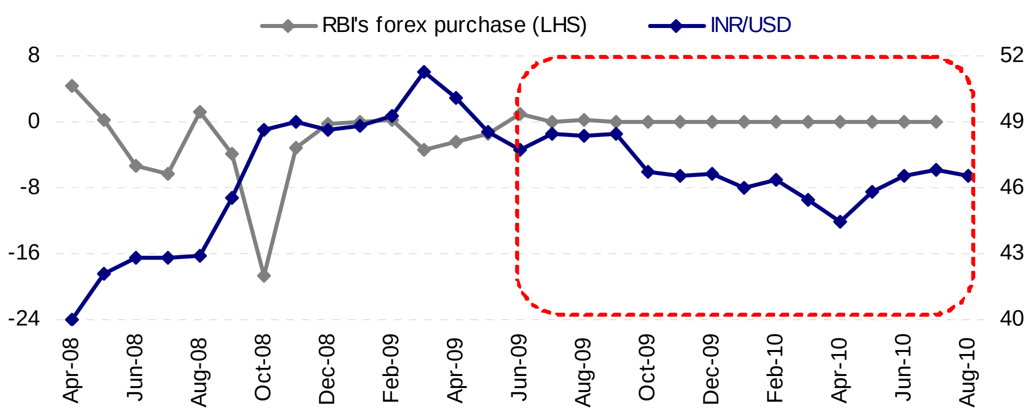


MULTI-SPEED WORLD RECOVERY AFFECTED INDIA'S EXPORTS WHILE IMPORTS REMAINED STRONG ON DOMESTIC GROWTH



Source: Ministry of Commerce & Industry/MOSL

NON INTERVENTION BY RBI HAS LED TO AN APPRECIATION OF THE RUPEE IN REAL TERMS



Source: RBI/MOSL

EXTERNAL BALANCE REMAINS EVENLY POISED DESPITE SETBACK ON CURRENT A/C

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	FY09	FY10	FY11E
In US$ B								
Exports	36	40	48	53	51	189	182	200
Imports	62	62	73	86	83	308	300	340
Trade Deficit	-26	-29	-31	-31	-34	-119	-117	-140
Invisible Surplus	21	20	19	18	21	90	79	101
Current A/c Deficit	-4	-9	-12	-13	-14	-30	-38	-39
Net Capital Flow	4	19	15	16	18	9	52	50
BoP Surplus	0	10	3	3	4	-20	13	11
As % of GDP								
Exports	13	14	14	15	14	15	14	14
Imports	23	22	23	25	24	25	22	23
Trade Deficit	-9.5	-10.3	-9.3	-8.9	-9.8	-9.7	-8.9	-9.3
Invisible Surplus	7.9	7.2	5.6	5.2	5.8	7.4	6.0	6.7
Current A/c Deficit	-1.7	-3.1	-3.6	-3.7	-3.9	-2.4	-2.9	-2.6
Net Capital Flow	1.5	6.7	4.4	4.6	5.2	0.5	4.1	3.2
BoP Surplus	-0.2	3.5	0.7	0.9	1.3	-1.8	1.2	0.6

Source: RBI/MOSL

Bottom-up analysis

Opportunities across sectors

Auto: 4-Wheelers – business momentum to remain strong

Volume growth outlook is positive

- Passenger car segment to witness volume growth acceleration, as we have crossed inflection point of US$1,000 per capita income (as witnessed in case of China), post which volumes are estimated to grow atleast 15-20% CAGR.

Above average monsoon augurs well for strong demand

- Commercial vehicles has witnessed beginning of new cycle, which is expected to stronger than previous cycle driven by structural improvement in economy as well as more balanced product mix (between LCV and M&HCV).
- Above average monsoon augurs well for strong demand for tractors and two wheelers. While tractor demand would be driven by shortage of manpower, two-wheeler demand would be driven by need for personal transportation aided by improving rural roads.

New launches, higher production capacity will aid volumes

- Maruti Suzuki has doubled it capacity addition plans from 0.25m to 0.5m (~40% of existing capacity), which is expected to be operational in phases from 3QFY12. Also, it is further expanding its reach to penetrate rural markets where demand is very buoyant.
- M&M is finalizing for a new tractor plant with capacity of 50,000 units (expandable to 0.1m units), which is ~30% of its existing tractor capacity. Further, it is expanding its tractor product portfolio with launch of 15HP tractor targeting small farmers (~82% of farmers) with <5 acres of farm size.
- In commercial vehicle segment, both Tata Motors and Ashok Leyland are launching their new generation trucks. Further, Tata Motors plans to launch passenger variant of Ace LCV targeting needs of public transportation in rural areas.

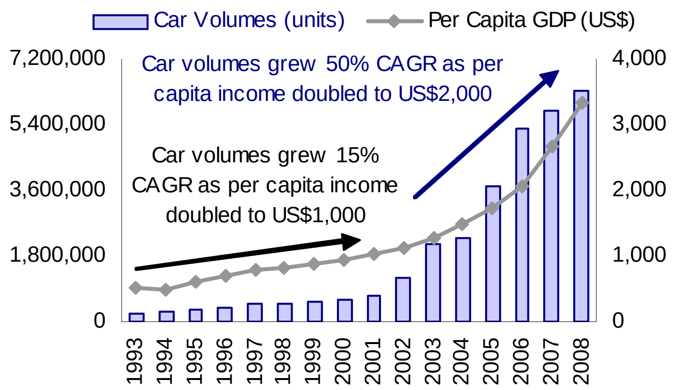
Top ideas

- **M&M:** M&M's volumes are expected to grow by ~18% CAGR over FY10-12, driven by a rural focus and robust growth in its UV and tractor portfolio, with upside risk from the launch of CVs by its JV. Margins are expected to be above 15% due to its dominant position in segments and low competition.

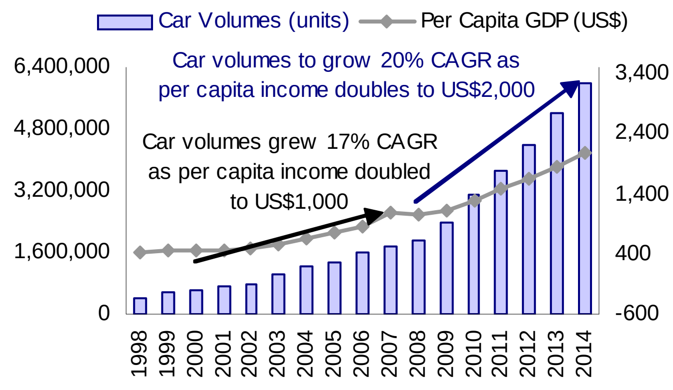
We like M&M, Tata Motors, and Maruti

- **Tata Motors:** Tata Motor's business is at the start of a new CV cycle (domestic) and JLR's business recovery will result in the company sustaining higher margins driven by operating leverage (domestic and JLR) and cost cuts at JLR. We estimate ~20% CAGR over FY10-12 in CV and JLR volumes translating into consolidated EBITDA margins being sustained above 13%.
- **Maruti:** Despite increased competition, Maruti is expected to post volumes of 18% CAGR over FY10-14 based on its competitive advantage in the form of a wide and relevant product portfolio, strong distribution network and the lowest cost of ownership across the lifecycle. Its ability to improve efficiencies (increasing throughput by 0.3m cars without capex) and reduce cost will enable it to compete effectively against competition.

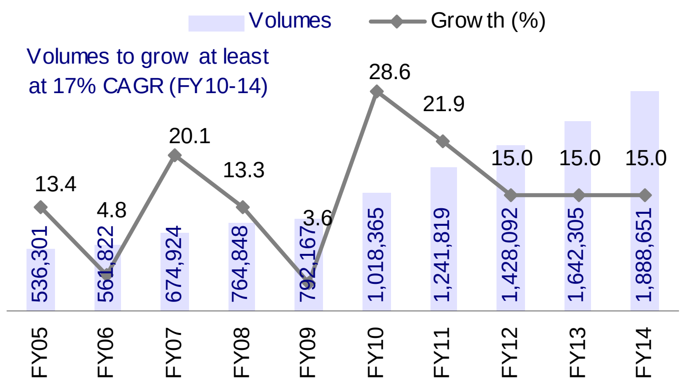
CHINA CAR VOLUMES V/S PER CAPITA INCOME



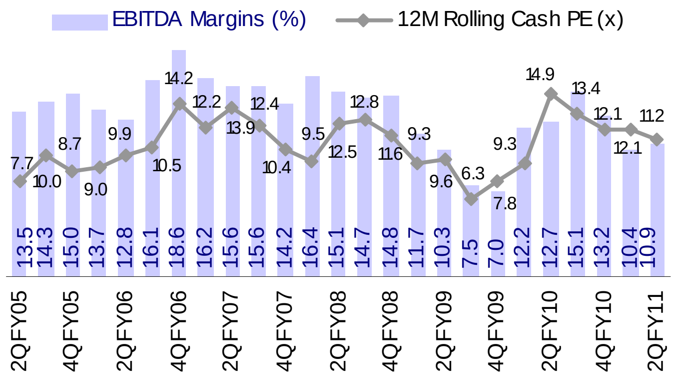
INDIA CAR VOLUMES V/S PER CAPITA INCOME



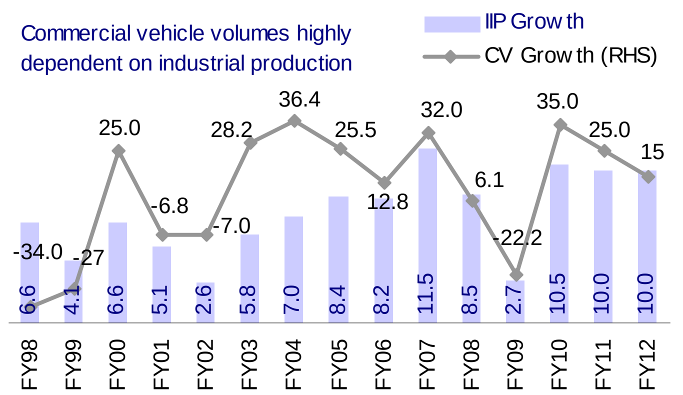
MARUTI'S VOLUMES



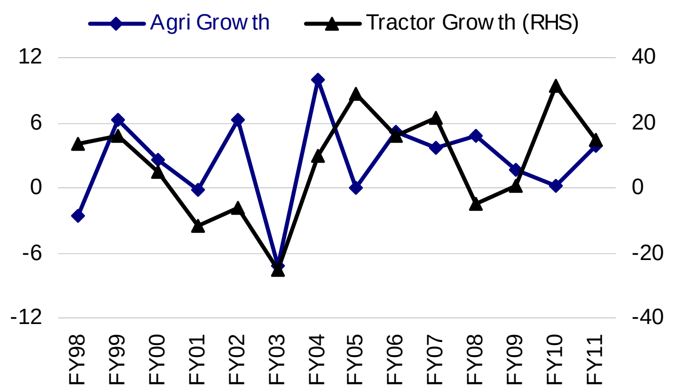
MARUTI'S PROFITABILITY A KEY DRIVER OF VALUATIONS



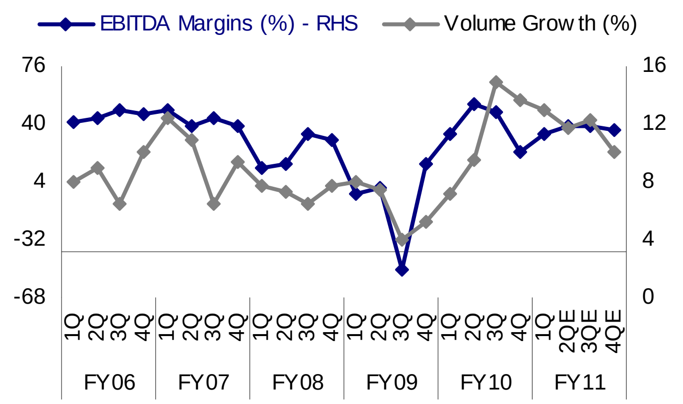
COMMERCIAL VEHICLE GROWTH V/S IIP GROWTH



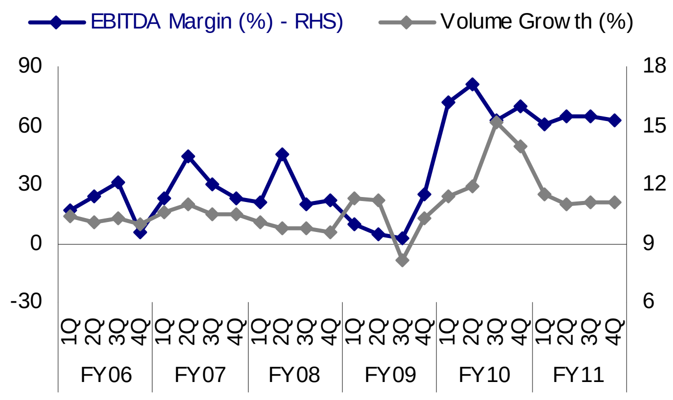
TRACTOR VOLUMES CORRELATED TO AGRICULTURE GROWTH



TATA MOTORS: EBITDA MARGINS CORRELATED TO VOLUME GROWTH



M&M: EBITDA MARGINS CORRELATED TO VOLUME GROWTH



Source: Company/MOSL

Banking: Positive outlook as loan growth accelerates

Credit growth recovery ahead

Credit growth in India shows strong relationship with GDP

- While systemic loan growth is strong at ~20% (on a lower base), a broad based pick-up is yet to be seen. With large industries running to near full capacity utilization, capex-related demand will increase and lead to broad-based growth.
- Strong IIP growth, strong order backlog of engineering companies, and rising consumption leading to demand for retail finance increases our confidence for strong loan growth ahead. Demand for funds for infrastructure will be a key driver.
- Credit growth in India shows strong relationship with GDP. Over the past five years, loan growth as a multiplier to real GDP has averaged 2.8x and for the past 10 years, the average is higher at 3.3x. While our base case scenario assumes loan growth of 20-22%, GDP growth of 8.5-9% could drive loan growth of over 25% in 2-3 years.

Current rate cycle to impact earnings positively

During an earlier rate hike cycle most PSU banks under-performed, due to MTM hits and higher NPA concerns. But this time, we expect performance to be better.

- BPLR hikes are in sync with deposit hikes this time against a four to six month lag (last time), thereby protecting margins. Besides, with systemic incremental CD ratio at ~100%, banks will gain better pricing power.
- Bank earnings are better hedged to rising G Sec yields with 70-75% G Secs in HTM and lower modified duration of the AFS portfolio. We do not foresee a spike in bond yields.

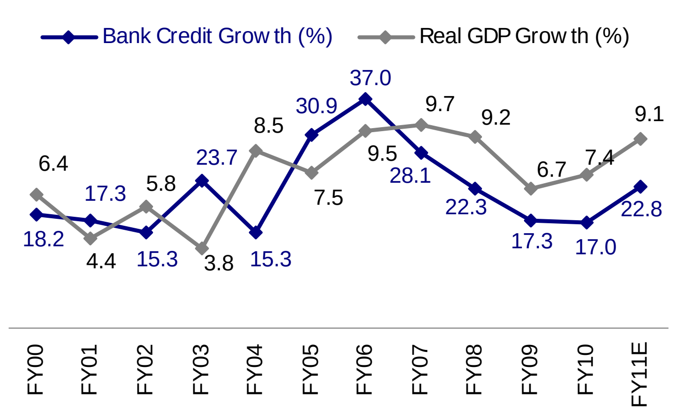
Operating leverage to drive ROA

We prefer banks with a strong liability franchise

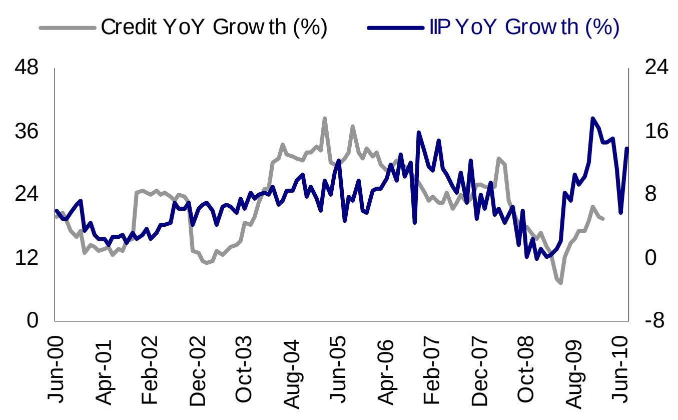
- Improvement in core income, higher efficiency and better use of technology will help to absorb rising cost pressure. We model cost to core income to gradually decline to ~48% by FY12 for our coverage universe.
- While we have built-in for higher credit costs, operating leverage will drive ROA.

In a rising deposit rate scenario we prefer banks with a strong liability franchise. We prefer banks like SBI, PNB, BoB and Canara Bank among state-owned banks. We like ICICI Bank and Yes Bank among private banks.

CREDIT GROWTH IN RELATION TO REAL GDP GROWTH

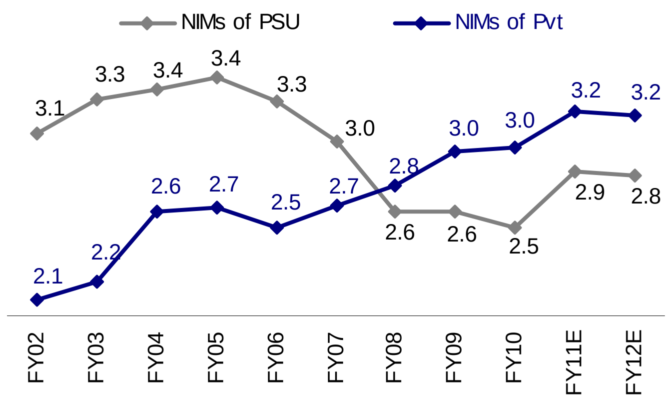


CREDIT GROWTH IN RELATION TO IIP GROWTH WITH A SIX-MONTH LAG

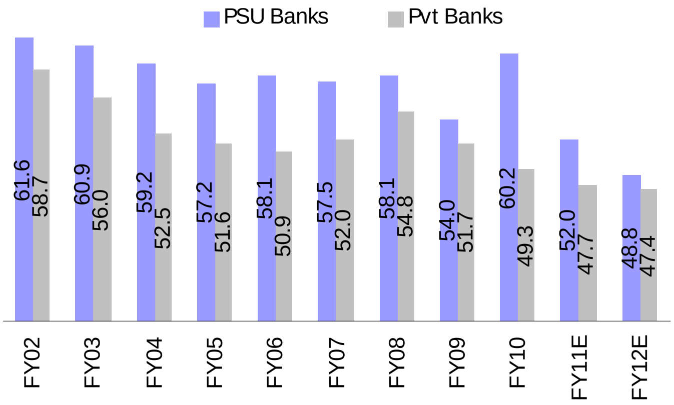


Source: Company/MOSL

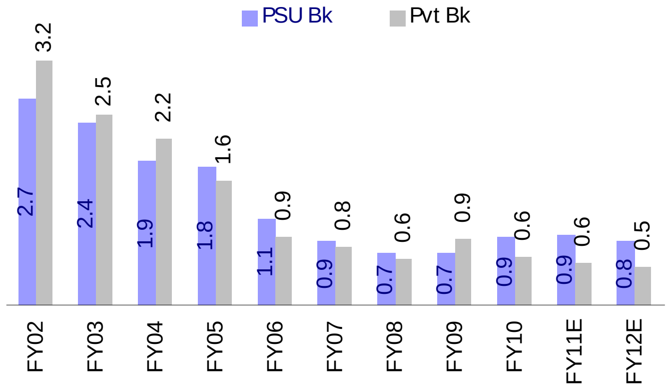
MOVEMENT IN NIMS OF PSU, PRIVATE BANKS (%)



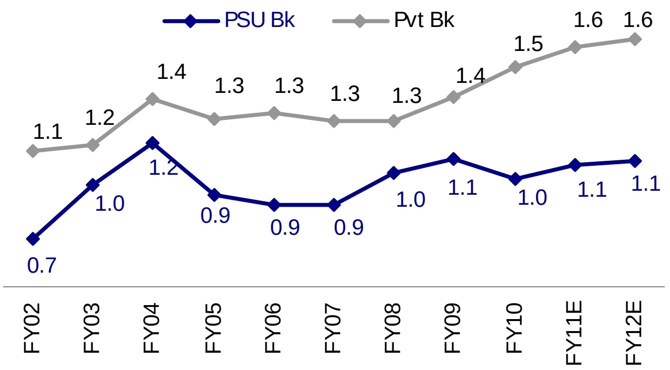
CORE CI RATIO FOR OUR COVERAGE UNIVERSE



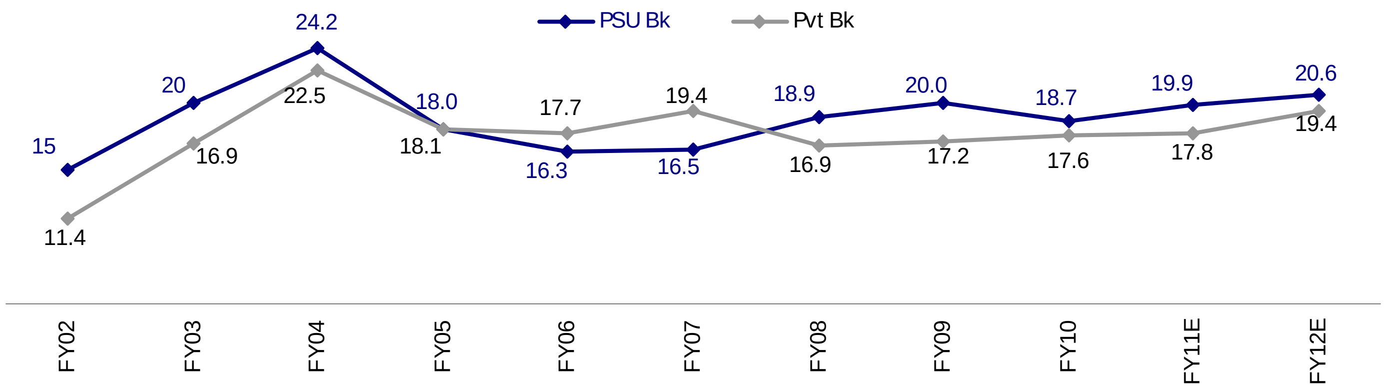
IMPROVEMENT IN ASSET QUALITY FOR OUR UNIVERSE (NET NPAS, %)



IMPROVEMENT IN ROA DRIVEN BY OPERATING LEVERAGE (%)



ROE FOR PSU BANKS BETTER DUE TO HIGHER LEVERAGE (%)



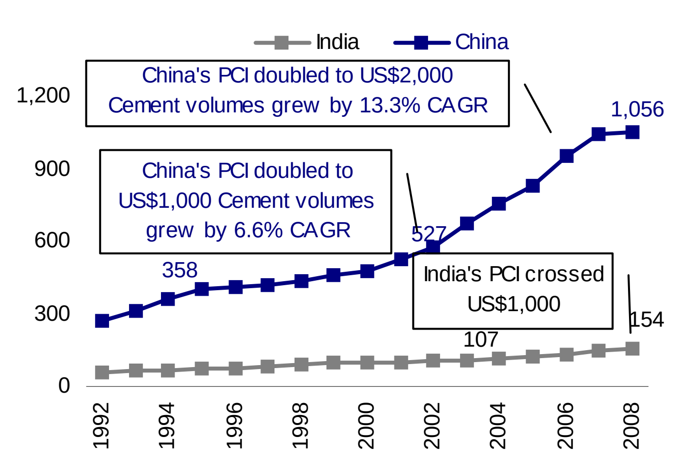
Data is average for top six PSU banks, three private banks (ex ICICI Bank)

Cement: capacity utilization to bottom in 2QFY11

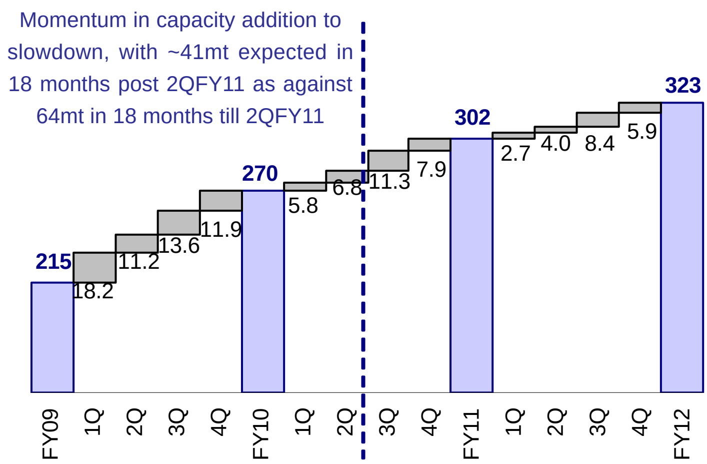
- Driven by a structural shift in demand drivers, the cement industry is at an inflection point as the growth trajectory is estimated to shift from a historical average of 8% to 10-12% over the next five years.
- ~120mt of capacity addition is planned in expectation of strong demand, which would result in an adverse demand-supply period until mid-FY12.
- We estimate capacity addition to slow with ~41mt of added capacity over 18 months from 3QFY11 against ~67mt addition over 18 months until 2QFY11 (from 1QFY10 to 2QFY11).

- 2QFY11 capacity utilization of ~71% is estimated to be bottom-of-the-cycle utilization and expected to improve gradually. We estimate the return of pricing power to the industry in 2HFY12.
- A higher level of consolidation (~56% of capacity is controlled by he top-five groups against ~48% in the previous down cycle in FY01) can provide a positive surprise in pricing discipline.

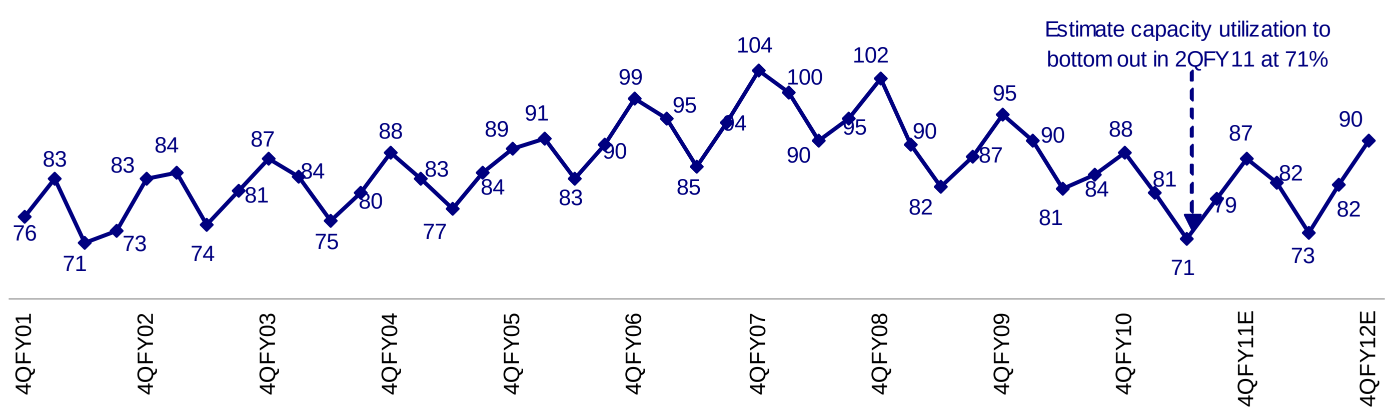
PER CAPITA CEMENT CONSUMPTION (KG)



CAPACITY ADDITION TO SLOW AFTER 2QFY11



CAPACITY UTILIZATION TO BOTTOM OUT IN 2QFY11



Source: Company/MOSL

DEMAND-SUPPLY EQUILIBRIUM TO TURN FAVORABLE BY 2HFY12

MILLION TONNES	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E	FY14E
Cement Capacity (Y/E)	110.2	119.2	134.4	139.6	146.2	153.8	157.6	165.7	189.0	215.2	272.5	304.2	325.2	341.4	357.7
Growth (%)	*5.2*	*8.2*	*12.8*	*3.8*	*4.7*	*5.3*	*2.4*	*5.2*	*14.0*	*13.9*	*26.6*	*11.6*	*6.9*	*5.0*	*4.8*
Clinker Exports	1.19	2.00	1.8	3.5	5.6	6.0	3.2	3.1	2.4	2.9	2.8	3.0	3.0	3.0	3.0
Cement Despatches	94	93.4	102.4	111.0	117.1	125.1	141.6	154.9	167.7	181.4	200.2	216.5	242.1	270.8	303.0
Growth (%)	*14.9*	*-0.6*	*9.6*	*8.5*	*5.5*	*6.8*	*13.2*	*9.4*	*8.2*	*8.2*	*10.4*	*8.1*	*11.8*	*11.9*	*11.9*
Domestic Consumption	92.1	90.3	99.1	107.6	113.8	121.1	135.6	149.4	164.0	178.2	197.7	213.5	239.1	267.8	300.0
Growth (%)	*15.4*	*-1.9*	*9.7*	*8.6*	*5.8*	*6.4*	*12.0*	*10.2*	*9.8*	*8.7*	*10.9*	*8.0*	*12.0*	*12.0*	*12.0*
Cement Exports	2.0	3.2	3.3	3.5	3.4	4.1	6.0	5.9	3.65	3.2	2.5	3.0	3.0	3.0	3.0
Growth (%)	*-5.3*	*61.5*	*5.4*	*3.9*	*-2.6*	*21.2*	*47.5*	*-2.3*	*-37.8*	*-12.3*	*-21.9*	*20.0*	*0.0*	*0.0*	*0.0*
Capacity Util (%)	*86.5*	*80.2*	*77.6*	*82.2*	*84.3*	*85.5*	*92.0*	*95.5*	*90.1*	*85.7*	*74.6*	*72.2*	*75.5*	*80.3*	*85.6*
Effective Cap. (Qly add-up)*	101.0	107.0	122.4	129.5	136.8	144.2	150.1	156.7	171.3	200.7	237.3	275.6	298.0	322.9	343.9
Effective Cap. Util. (%)	***94.3***	***89.3***	***85.2***	***88.6***	***90.1***	***91.3***	***96.6***	***101.0***	***99.4***	***91.9***	***85.6***	***79.7***	***82.3***	***84.9***	***89.0***

*^ based on Year ending capacity; *Effective cap is adj for non-operative cap & is quarterly add-up of cap additions* *Source: CMA/MOSL*

Engineering: capex dhoom

India is on the cusp of a meaningful capex boom

Capex *dhoom*: We believe India is on the cusp of a meaningful capex boom, driven by impending large investment in infrastructure and industrial activity. Rapid economic growth over the past decade has strained India's infrastructure. The investment ratio (defined as the percentage of GDP to the GDP growth rate) declined from 50 over 1988-1997 to 38 over 1998-2007. Under-investment in a time of high economic growth aggravated constraints. India, in our opinion, is among leading global destinations for infrastructure and investment spending over the next decade.

Chinese equipment suppliers—a dwindling force: Chinese equipment suppliers are executing 31GW of power projects in India, or 33% of projects under execution. With two Reliance UMPPs in its order-book, Shanghai Electric has the highest order-book in India. We believe stricter performance benchmarks and stress on a local manufacturing base will put Chinese suppliers at a disadvantage.

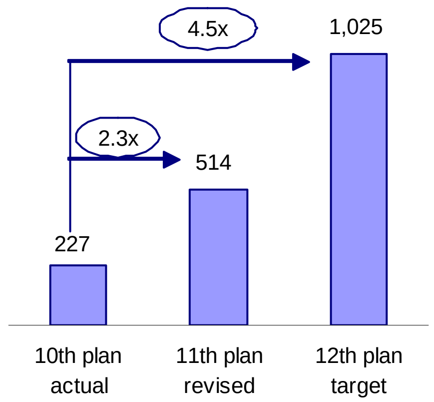
Key ideas

We like BHEL , L&T, and Siemens

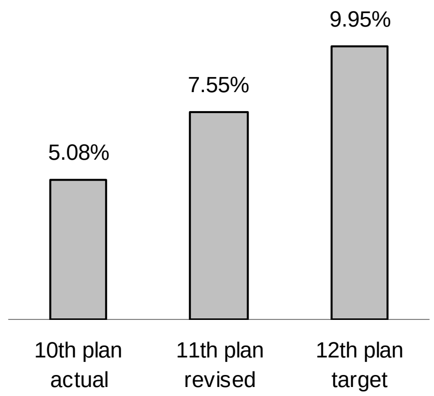
- **BHEL:** The biggest beneficiary of the US$25b annual power equipment opportunity, will maintain its dominant position in the industry.
- **L&T:** The best play on India's capex boom; will grow 25% over four years.
- **Siemens:** One of the biggest beneficiaries of accelerating T&D expenditure. It is also a key partner in Siemens AG's widening footprint in developing markets, creating a strong export opportunity.

TWELFTH PLAN TARGET FOR INFRASTRUCTURE SPENDING...

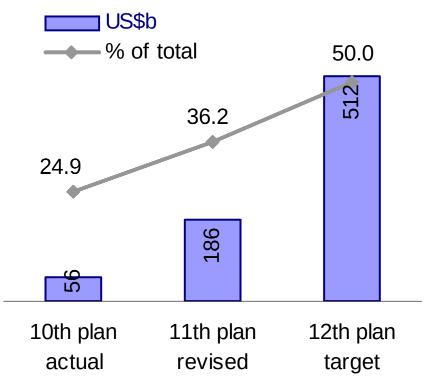
AT 4.5X OF TENTH PLAN



COMPRISES 10% OF GDP

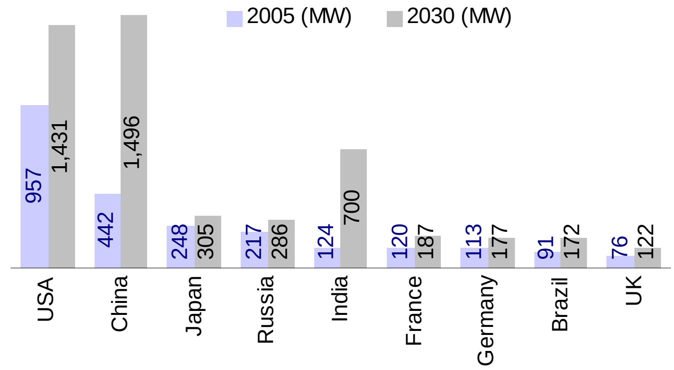


PRIVATE SECTOR SHARE TO GO UP FROM 25% IN TENTH PLAN TO 50% IN TWELFTH PLAN

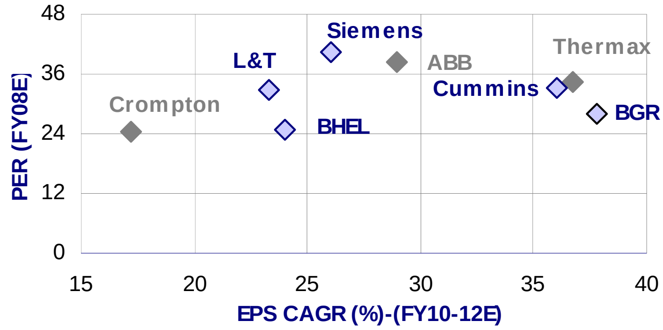


Source: IPA

INDIA TO BE AMONG THE BIGGEST MARKETS FOR POWER CAPACITY ADDITION (GW)



VALUATION: P/E-EPS GROWTH MATRIX



Source: Company/MOSL

Information Technology: volume growth revives; offshoring trends positive

- **Expanding geographical footprint:** Traditional dependence on the US for IT exports may wane, especially after Europe, Japan, Australia and New Zealand (ANZ) showed inclination to engage with offshore vendors during the downturn.
- **Discretionary spend a matter of time, IMS to drive growth:** Of the large addressable package implementation services market size of US$70b, combined market share of the top-four Indian IT players is ~5%. This is expected to increase as customers focus on greater cost efficiency.
- Infrastructure Management Services (IMS), where the market is 2.5x times the market size of ADM and the share of Indian IT companies is ~2%, will continue to grow faster than the industry, spelling scope for Indian companies.
- **Strong MNC offshoring trend:** About US$37b worth of contracts are due for renegotiation over the next few months, where incumbents are MNCs. They would have to necessarily offshore to save these contracts and offer clients better pricing.
- **Acquisitions seem imminent:** As industry players seek to garner a higher share of the huge IMS pie, develop expertise in services higher up the value chain and expand geographic reach, we expect firms to scout for acquisitions, driven by the need to fulfill gaps in these offerings. Given the highly fragmented nature of the industry, we expect smaller generic providers to be squeezed into niches and big players to grow bigger. This will be due to (1) a strong balance sheet, (2) greater scale efficiencies, (3) one-stop shops, and (4) global delivery capabilities. Hiving off of MNC captives to independent service providers may not be over just yet.

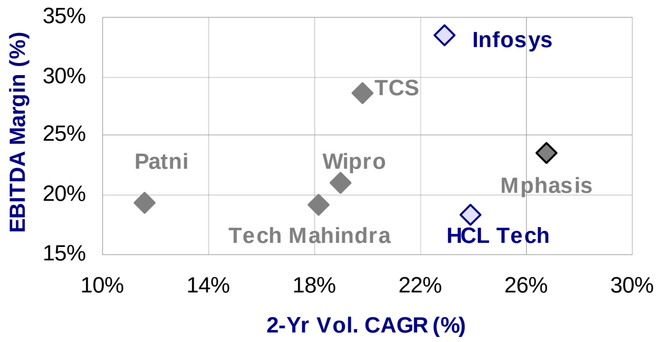
Key ideas

Among IT stocks, we like Infosys, HCL Tech, and Mphasis

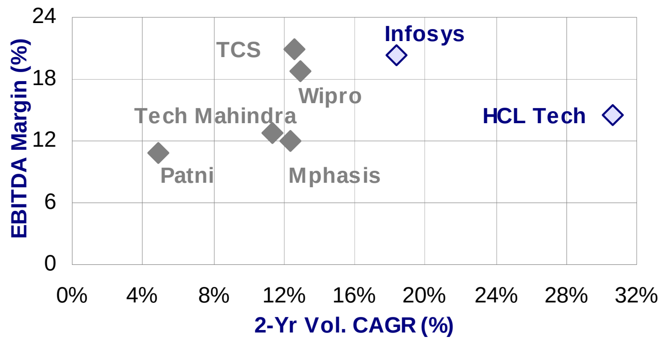
We have evaluated players on their (1) discretionary delta, (2) operating leverage, and (3) the ability to capitalize on MNC offshoring.

- **Buy** Infosys due to (1) greater discretionary delta (package implementation contributed 24.9% to its revenue in 1QFY11), (2) better operational scope.
- **Buy** HCL Tech due to (1) continued traction in IMS (22% of revenue), (2) pick-up in lagging segments like engineering services and enterprise application services (42% of revenue), (3) large deals prowess in a returning deals scenario and expected successes in impending contract renegotiations.
- Mphasis is a clear play on an aggressive MNC offshoring trend to save market share due to its (1) limited risk of pricing cut recurrence, (2) increasing volumes due to a strong MNC offshoring trend, substantiated by a 15% QoQ headcount addition in ITO in 3QFY10, and 2,700 open positions in ITO and applications.

EBITDA MARGINS - VOLUMES GROWTH MATRIX (2-YEAR FORWARD METRICS)



P/E-EPS GROWTH MATRIX (2-YEAR FORWARD METRICS)



Source: Company/MOSL

Metals: strong domestic demand, Buy JSW Steel, Sterlite

Strong domestic demand – buy volume growth

Strong domestic demand will enable Indian steel companies to grow faster than overseas peers

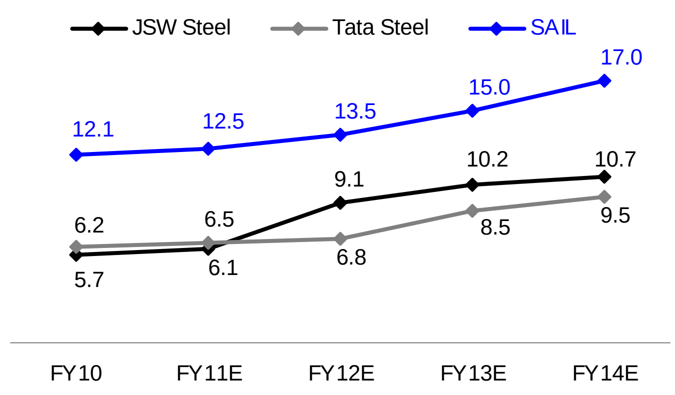
Indian steel demand is likely to grow by double digits though global steel demand growth will be modest. Over two to three years, Indian steel makers will grow faster, as global peers will struggle to grow due to slower demand growth. We believe steel prices will trend sideways due to lower global capacity utilization rates and modest growth in global demand. There will be less volatility in the prices of raw material iron ore and coking coal. We believe Indian steel companies with strong execution skills and key strategic advantages will emerge winners.

Aluminum producers have a key cost advantage due to the availability of high quality bauxite and coal in close proximity. But we expect the cost of production to rise gradually due to higher manpower costs, mining taxes, challenges in opening new bauxite mines and rising dependence on coal imports due to slower growth in coal production in India. Those who are able to manage the socio political environment, open new bauxite and coal mines, and have new capacities will merge winners.

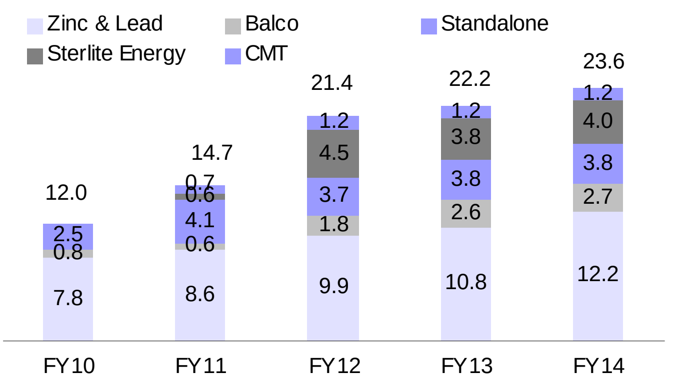
JSW Steel, Sterlite to complete expansions in 6-12 months

- JSW Steel will complete expansion of capacity by 3mtpa to 11mtpa by March 2011, leading to volume growth of nearly 40% in FY12. Over 2-3 years, capacity will rise by 5mtpa to 16mtpa through brown field and green field expansions.
- Tata Steel India will expand capacity by 3mtpa to 10mtpa towards the end of FY12. Overseas investments in mining assets will benefit the company in a small way from FY13.
- SAIL planned Rs700b capex to increase capacity by 10mtpa to 23mtpa, but execution is sluggish.
- Hindalco will complete a US$5b capex in 2HFY12, which will increase capacity 2.5x to 1.3mtpa. A bauxite mine for Utkal Alumina is expected to become operational by 2HFY12.
- Sterlite will commission a 3,600MW power plant, 325ktpa aluminum smelter, and 100ktpa lead smelter in 12 months. We expect FY12 EBITDA to be 80-90% higher than FY10 EBITDA.

STEEL SALES VOLUME FOR KEY PRODUCERS OVER FY10-14 (M TONNES)

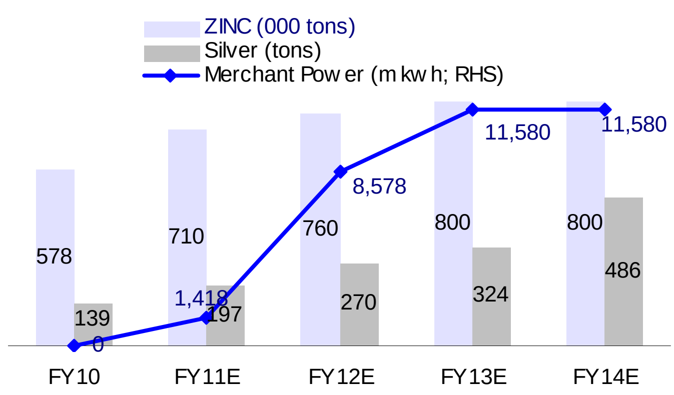


STERLITE INDSUTRIES: EPS GROWTH OVER FY10-12 (RS)

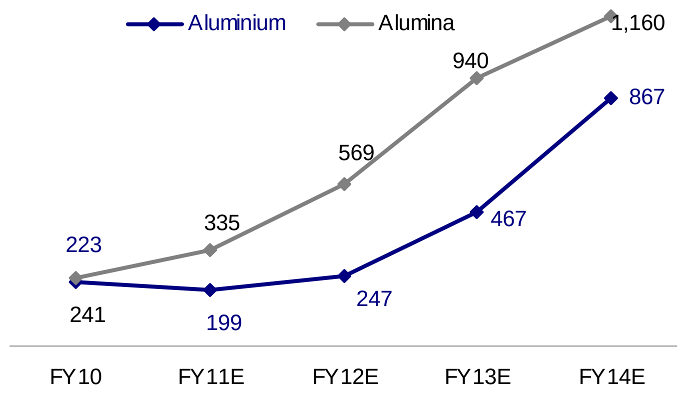


Source: Company/MOSL

STERLITE: METAL VOLUME GROWTH, MERCHANT POWER



HINDALCO (STANDALONE) VOLUME GROWTH OVER FY10-14 (%)



Source: Company/MOSL

Oil & Gas: favorable policy initiatives

Favorable policy initiatives have improved the outlook for Oil & Gas

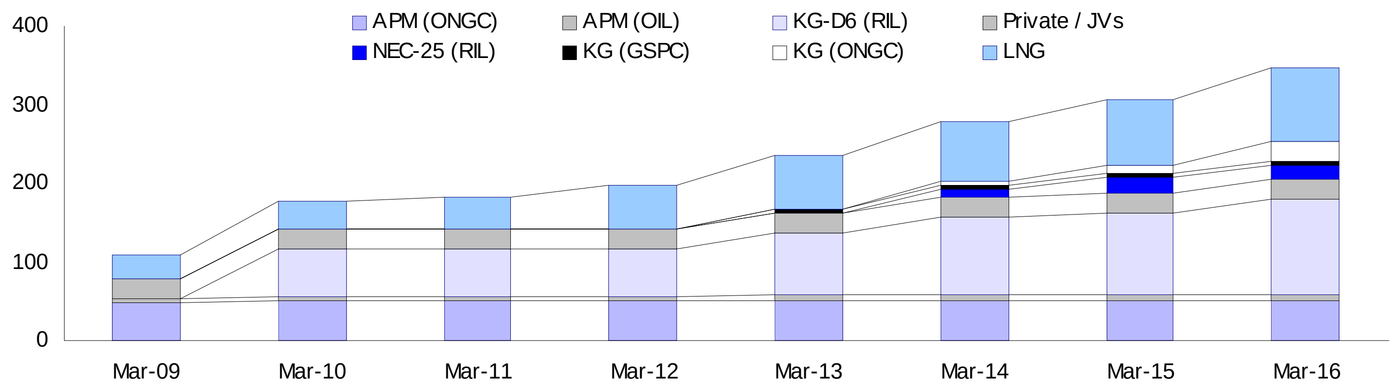
2010: a historic year for the Indian oil sector: 2010 has been a landmark year for the Indian oil sector and is expected to end with a bang. The government, on one hand doubled the APM gas price to US$4.2/mmbtu and on the other deregulated petrol prices and increased kerosene and cooking gas (LPG) prices. It has in-principle deregulated diesel prices and we expect clarity on the deregulation before FPO/divestments in IOC and ONGC.

Domestic gas prices likely to be hiked: After the raising of APM gas prices to RIL's KG-D6 price of US$4.2/mmbtu, the government indicated it would avoid a situation of market-distorting low prices of domestic gas. With higher prices for new ONGC C-Series fields at US$5.25/mmbtu, we believe the base price is set to increase.

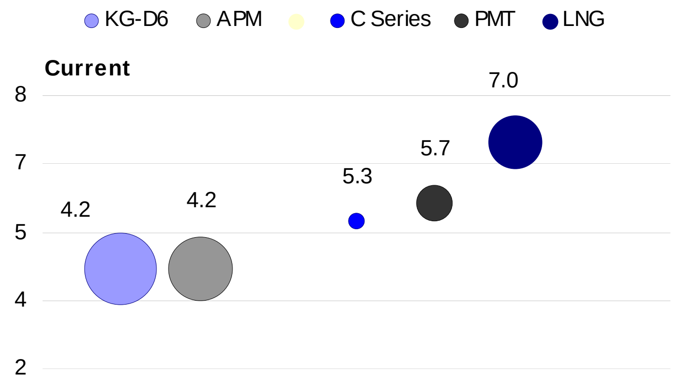
Investment to continue even though KG-D6 won't ramp up in near term: RIL's KG-D6 gas production (~60mmscmd) increased gas availability in India by 55% to ~170mmscmd. But demand is significantly higher than supply, led by the power and fertilizer sectors. RIL's indication that it will not ramp-up KG-D6 gas volumes is unlikely to negatively affect the sector and given an expected sharp rise in gas availability after FY13, we expect infrastructure investment (pipelines and CGD) to peak in 2-3 years.

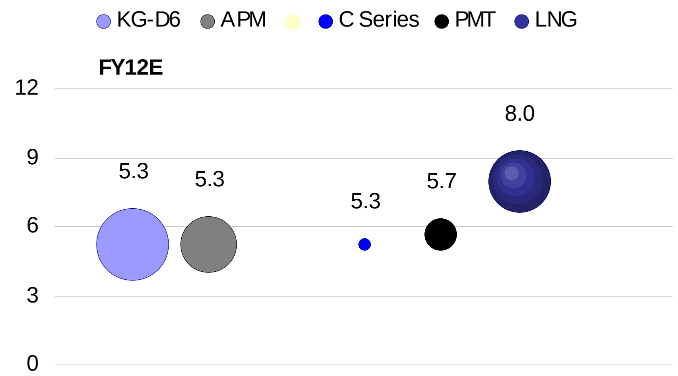
GAIL to invest ~Rs300b in pipeline network 2-3 years: GAIL is implementing pipeline projects that will double its network to 14,000km and capacity to 300mmscmd at a budgeted cost of ~Rs300b by FY13-14. Besides doubling its key HVJ-DVPL capacity, it will build three trunk pipelines: (1) Dabhol-Bangalore, (2) Kochi-Mangalore-Bangalore and (3) Jagdishpur-Haldia. GAIL also intends to boost its City Gas Distribution (CGD) network from 15 to over 50 cities in 3-5 years. This will entail a likely spend of ~Rs100b.

INCREASED GAS AVAILABILITY WILL BENEFIT GAIL



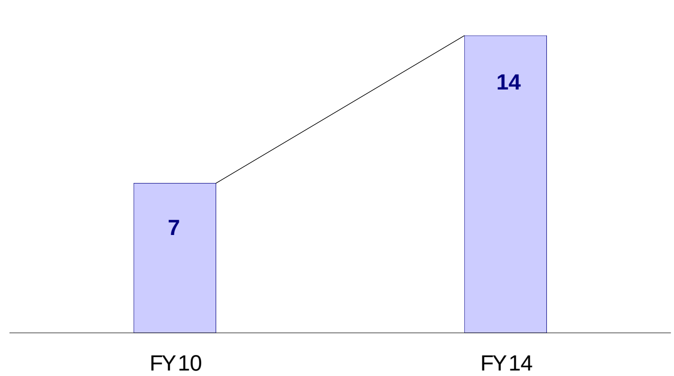
EXPECT DOMESTIC GAS PRICES TO RISE



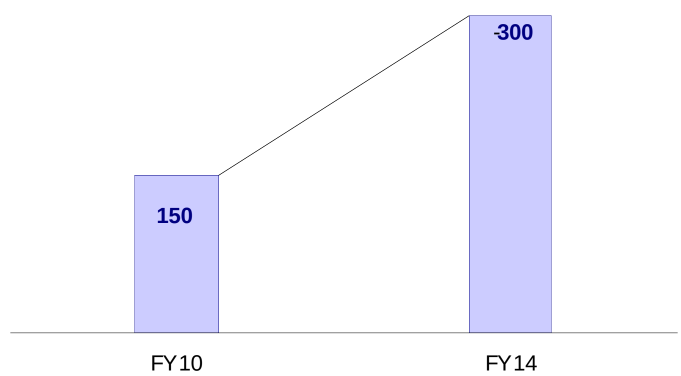


GAIL'S SIGNIFICANT CAPACITY ADDITION

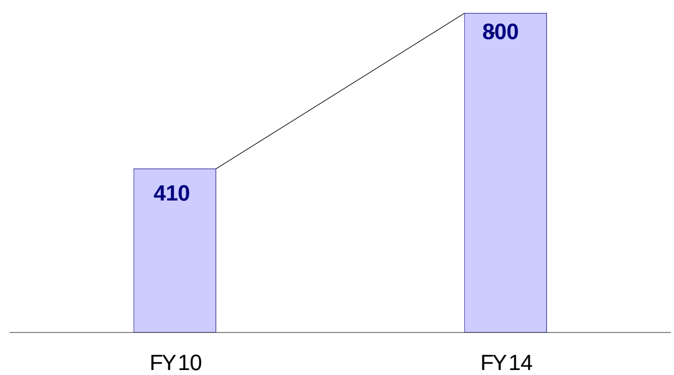
PIPELINE NETWORK (KM)



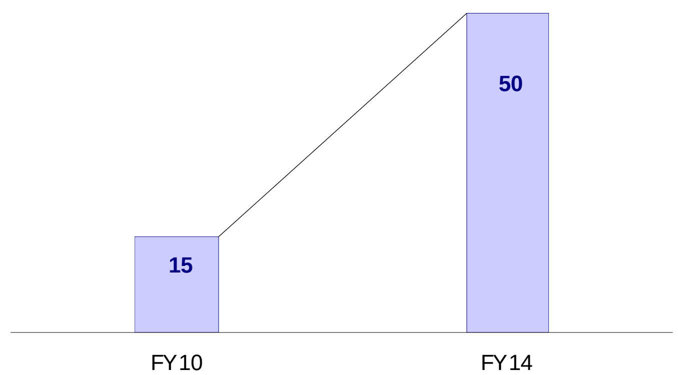
PIPELINE NETWORK (KM)



PETCHEM CAPACITY (KTA)



CGD NETWORK (NO.)



Source: Company/MOSL

Utilities: capacity addition to accelerate

- **Capacity addition to accelerate:** 118GW of projects are under construction and will be commissioned over four to five years. Over the past five years, however, the capacity addition was just 41GW and the current installed base is 165GW. The share of the private sector is 19% of installed capacity and will contribute 32% of capacity addition in the Eleventh Plan. About 45% of the capacity is under construction.

We are bullish about growth options for generation and transmission companies

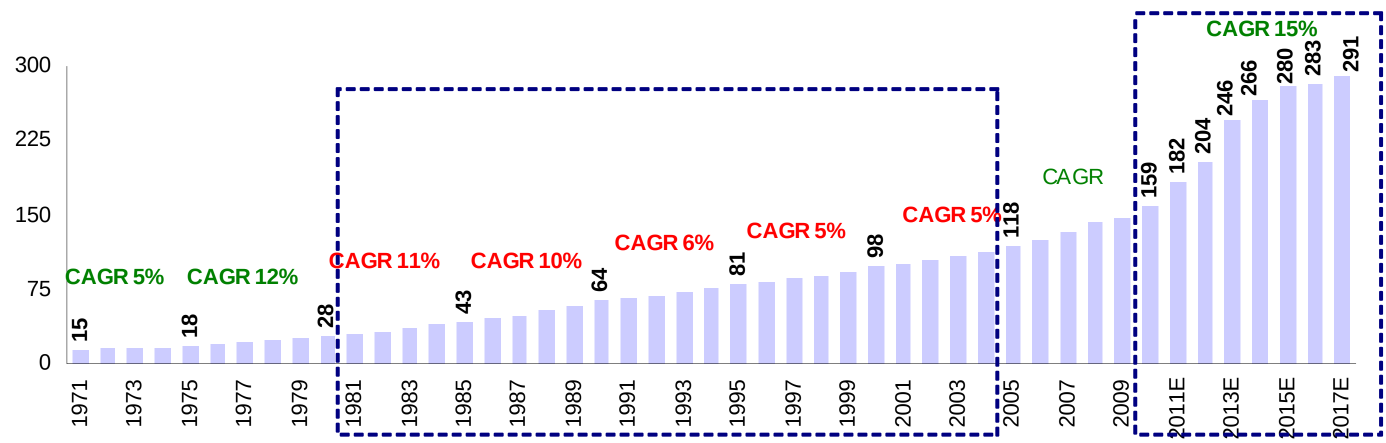
- **Demand growth moderate, availability constrained:** All-India demand has been 5.6% CAGR since 2001, which is substantially lower than real GDP growth. The base deficit in India has been over 10% since FY07 due to continued slippages in capacity addition in over the 8-10th plan period. CEA estimates the base deficit will be 3% by FY12 given substantial capacity addition over FY11-13. Per capita availability in India is expected to rise ~2x, from 623units in FY09 to 1,182units by FY17.
- **Merchant power drives capacity addition:** Short term trading accounts for 9% of all-India power availability (4% from UI mechanism). Development of a vibrant trading market is constrained by factors such as transmission corridor and grid congestion, challenges that being addressed. Merchant projects have improved project economics, which is driving investment in the chain, largely by the private sector.

Key catalysts

- **Capex/equity issues up significantly:** NTPC has budgeted for an FY11 capex of Rs224b (up 120%), making is one of the largest capex spenders in the economy. This is also a lead indicator of increased execution at ground level. PGCIL aims at FY11 capex of Rs129b, up 23%. Private sector/CPSUs raised Rs425b through the equity route over FY08-10 to fund projects under development. Fresh equity infusion has been highest at Rs318b.
- **Key players expected to add 52GW capacity:** Capacity addition by key players is expected to be 52GW over FY08-13 out of which ~10GW was commissioned until FY10. This indicates a high growth phase for some incumbents in the sector. Among leading players with sizable capacity addition over FY08-13, NTPC will add 14GW, Adani Power, 6.6GW, TPWR, 5.3GW, R Power, 4.5GW, Lanco Infratech, 3.8GW, JPL 3.4GW and Jaiprakash Power 1.5GW.

Positive on sector; Buy NTPC, PowerGrid: We are bullish about growth options for generation and transmission companies. Our top picks in the sector are **NTPC** and **Powergrid** among large caps and we like **CESC** and **PTC India** in the mid-caps space.

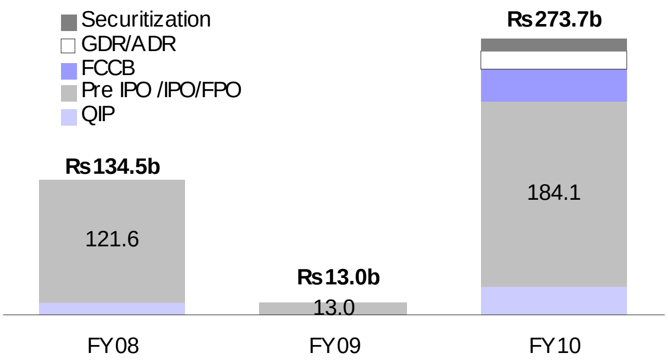
ALL-INDIA INSTALLED CAPACITY (MW)



CPSUS BOOST CAPEX BUDGET (RS B)

	FY09	FY10E	FY11E	CAGR (%)	FY11 % YoY
NTPC*	132	101	224	37	121
PGCIL	81	105	129	24	23
DVC	34	81	85	50	5
NHPC	37	39	49	24	26
SJVNL	6	5	5	36	0
THDC	6	6	9	4	50
NEEPCO	2	4	9	65	125
Total	**298**	**341**	**510**	**33**	
YoY (%)		*36.7*	*14.6*	*49.4*	

FUND RAISING (RS B)



50GW CAPACITY TO BE ADDED BY KEY LISTED PLAYERS OVER FY08-13 (MW)

	FY08	FY09	FY10	FY11E	FY12E	FY13E	TOTAL
CPSUs							
NTPC	1,740	750	1,240	2,490	3,000	4,690	13,910
NHPC	510	-	-	449	1,043	1,800	3,802
Established Utilities							
CESC	-	-	250	-	-	-	250
GVK	-	-	-	-	-	870	870
GMR	-	-	-	-	-	1,050	1,050
Lanco Infratech	-	-	833	1,818	600	500	3,751
Tata Power	-	250	-	525	1,325	3,200	5,300
New IPPs							
Adani Power	-	-	660	660	2,640	2,640	6,600
Essar Energy	-	-	-	-	1,200	-	1,200
Indiabulls Power	-	-	-	-	-	1,350	1,350
Jaiprakash Power	-	-	-	-	1,000	500	1,500
Jindal Power	750	250	-	-	-	2,400	3,400
JSW Energy	-	-	735	2,010	135	-	2,880
Reliance Power	-	-	300	300	1,320	2,580	4,500
Sterlite Energy	-	-	-	1,200	1,200	-	2,400
Total	**3,000**	**1,250**	**4,018**	**9,452**	**13,463**	**21,580**	**52,763**

Source: CEA

Real Estate: look for commercial recovery, execution ramp-up

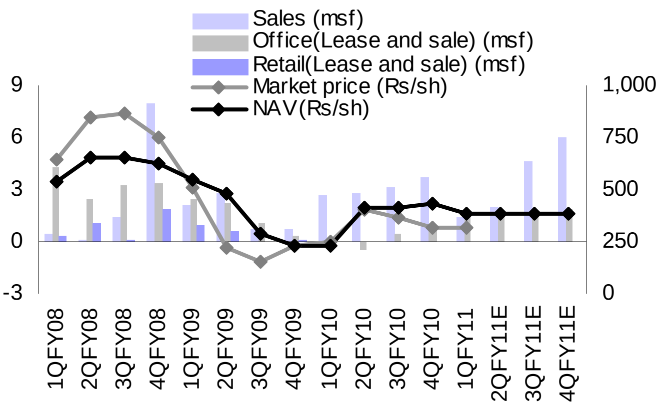
The big story

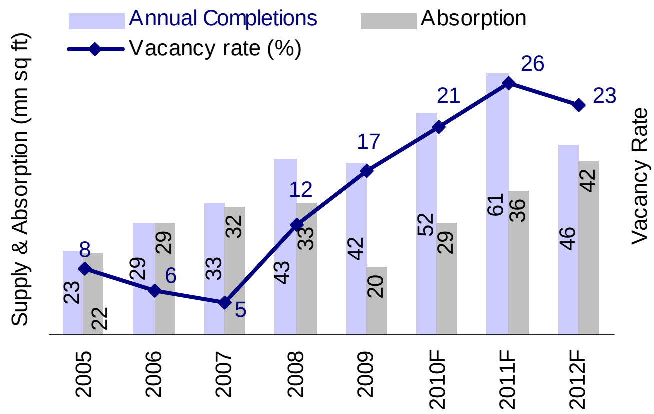
- **Commercial, retail recovery to gain momentum:** The real estate sector has been in recovery mode since June 2009. The residential vertical is in a strong growth phase and the commercial and retail verticals have been showing signs of recovery since 1QFY11. We expect commercial and retail verticals to enter into a growth phase over the next few months.
- **Companies poised for performance with strong execution ramp-up:** Though most domestic RE companies have a nascent history of about four years in equity markets, listed stocks have been through a major up and down cycle. While the RE valuation benchmarks are still evolving given their nascent equity market history, RE companies are set for a transformational ramp-up in delivery and execution. We expect key RE companies to deliver ~146msf of RE projects over FY11-13, which is almost equal to their cumulative deliveries since their inception.

REAL ESTATE COMPANIES TO WITNESS STRONG PERFORMANCE OVER FY11-13 (MSF)

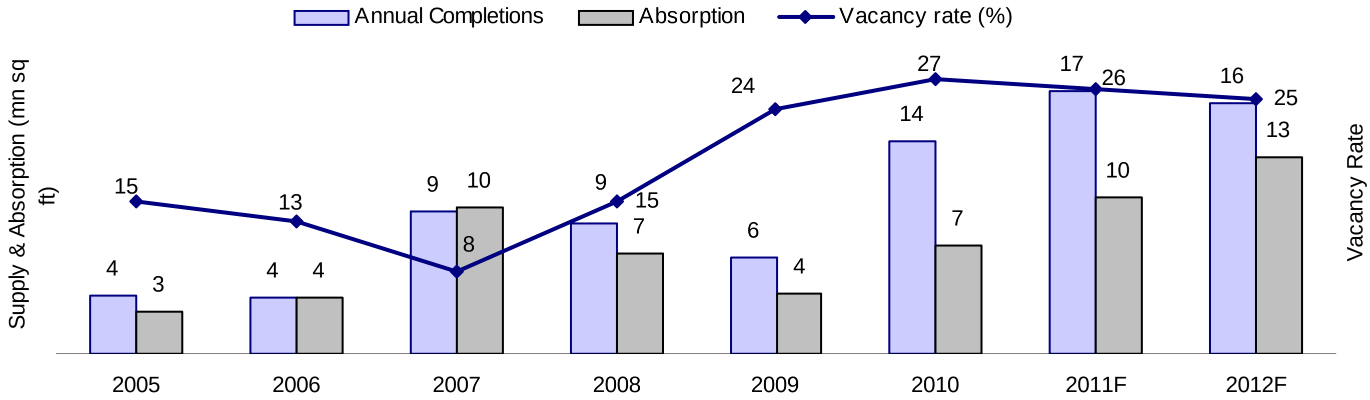
	UNDER CONST.	DELIVERY TILL DATE	DELIVERY (FY11-13)	AS (X) OF TOTAL DELIVERIES	FY10	FY11	FY12	FY13
DLF	55	45	30	0.7	2	3	13	14
Unitech	34	34	20	0.6	5	6	8	6
HDIL	10	11	9	0.8	0	1	2	6
IBREL	12	1	7	7.0	1	1	1	5
Purvankara	12	4	11	3.1	1	2	4	5
Sobha	9	14	13	0.9	2	3	4	5
Brigade	6	7	6	0.9	0	3	2	2
Mah. Life.	5	5	5	1.0	1	1	3	2
Jaypee Infra	24	0	19	-	0	1	3	15
GPL	42	8	9	1.2	4	2	3	4
Omaxe	45	13	17	1.3	0	5	7	5
Total	**253**	**141**	**146**	**1.0**	**15**	**27**	**49**	**69**
% of total deliveries between FY11-13						*19*	*33*	*47*

IMPROVED MOMENTUM VISIBLE IN PERFORMANCE (DLF)





PAN INDIAN ABSORPTION TREND IN RETAIL VERTICAL



Source: Jones Lang LaSalle Meghraj (JLLM)

- **Buy DLF:** It is best geared to leverage up-tick in the commercial vertical. Its improved cash flow will address concerns of debt and 22% earnings CAGR are expected until FY12.
- **Buy Unitech:** It has an impressive execution scale-up and strong sales momentum and the most comfortable balance sheet among large caps. 25% earnings CAGR are expected until FY12.

2QFY11 earnings preview

Another quarter of 25% Sensex earnings growth

We expect 2QFY11 earnings of the MOSL Universe (excluding RMs) to grow 21% YoY and 5% QoQ. EBITDA growth is higher at 23%. The Sensex will also deliver impressive earnings growth of 25% YoY and 8% QoQ. Here too, EBITDA growth is higher at 26%.

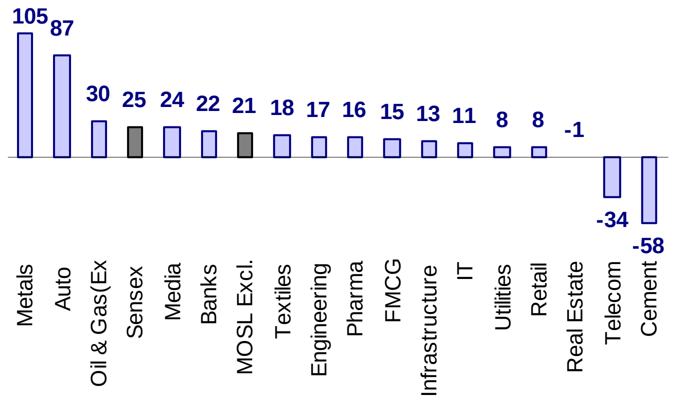
The Oil & Gas sector leads growth during the quarter, driven by Reliance and Cairn India. Banking continues to deliver steady 22% earnings growth. Metals (+105% YoY) and Auto (+87% YoY) growth rates are high, driven by Corus and JLR. Sectors in which earnings growth will be significantly down are Cement and Telecom; however, Telecom will be flat QoQ.

QUARTERLY EARNINGS PERFORMANCE, MOSL UNIVERSE (RS B)

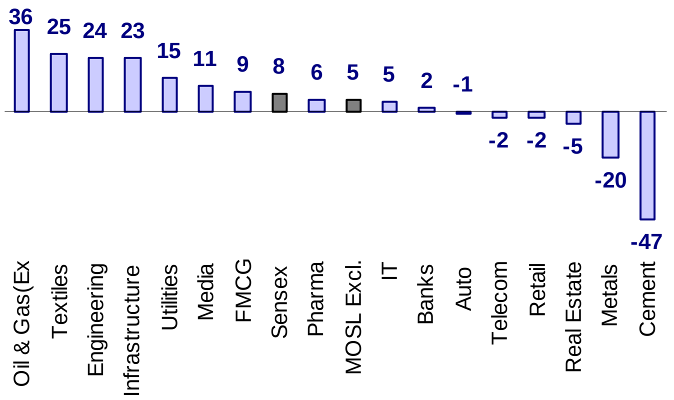
SECTOR	SALES			EBITDA			NET PROFIT		
(NO OF COMPANIES)	SEP-10	VAR % YOY	VAR % QOQ	SEP-10	VAR % YOY	VAR % QOQ	SEP-10	VAR % YOY	VAR % QOQ
Auto (5)	505	27.3	4.1	71	52.1	1.7	41	87.2	-0.8
Banks (22)	311	34.1	3.7	263	23.3	3.0	137	21.9	1.8
Cement (7)	98	-6.3	-13.7	18	-46.9	-38.6	9	-58.1	-47.3
Engineering (6)	232	13.5	15.0	32	18.0	25.1	22	17.3	23.8
FMCG (11)	197	18.4	4.9	43	16.9	9.8	29	15.2	8.8
IT (7)	304	16.7	7.6	75	10.7	6.2	57	11.0	4.6
Infrastructure (5)	68	12.6	-10.6	10	16.4	-7.1	3	12.6	23.5
Media (5)	21	23.8	4.4	9	34.0	9.2	5	24.3	11.4
Metals (8)	717	10.7	2.7	113	36.7	-18.4	60	105.3	-19.7
Oil Gas & Petchem (11)	2,537	29.4	10.4	364	98.4	161.0	224	116.7	681.1
Pharma (15)	136	5.0	-1.0	29	0.6	-14.0	20	15.9	5.6
Real Estate (6)	36	29.0	2.3	16	7.8	-1.4	9	-1.5	-4.6
Retail (2)	25	-13.2	-23.0	3	-10.9	-19.4	1	8.0	-2.4
Telecom (4)	248	26.7	15.0	81	11.0	13.8	22	-34.5	-2.0
Textiles (5)	37	23.6	15.9	8	25.7	13.7	2	18.3	25.4
Utilities (6)	231	13.9	1.4	64	14.0	15.6	37	8.0	15.3
Others (2)	23	23.6	-3.3	4	35.5	0.7	3	47.8	7.0
MOSL (127)*	**5,728**	**22.3**	**6.7**	**1,203**	**34.7**	**23.0**	**680**	**39.1**	**38.7**
MOSL Excl. RMs (124)	**4,254**	**19.4**	**5.9**	**1,093**	**22.9**	**5.4**	**591**	**20.8**	**5.4**
Sensex (29)	**2,811**	**18.6**	**4.9**	**698**	**26.1**	**7.7**	**367**	**24.6**	**7.8**

Source: MOSL

2QFY11 PAT YOY GROWTH ACROSS SECTORS

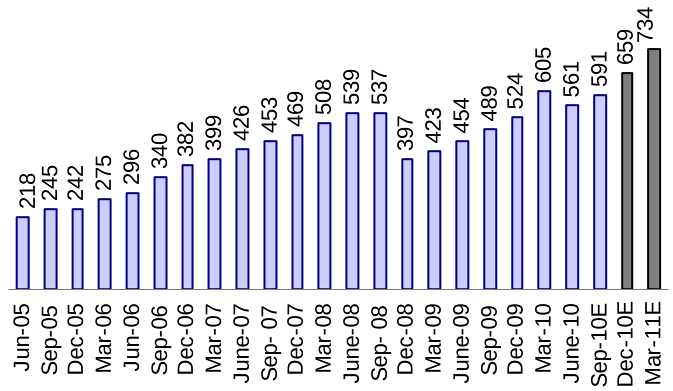


2QFY11 PAT QOQ GROWTH ACROSS SECTORS

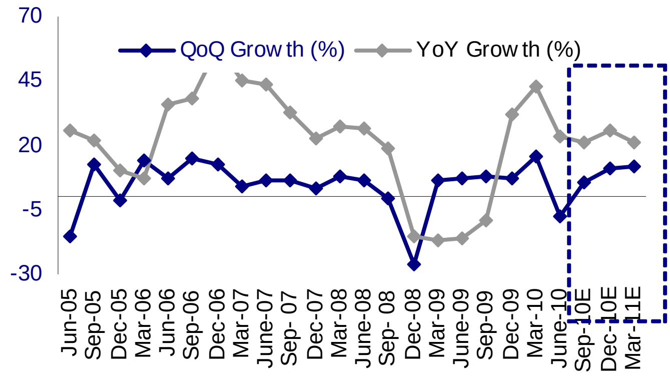


Source: MOSL

QUARTERLY PAT TREND MOSL UNIVERSE EX RMS (RS B)



PAT GROWTH MOSL UNIVERSE EXCL RMS



Source: MOSL

Sectors with consistent growth rates over the past six quarters include Banking, Engineering, FMCG, IT and Media (highlighted in table below). Most of these sectors also trade at premium valuations. Telecom will post its fifth consecutive quarter of earnings decline.

In 2HFY11, the earnings growth pattern across sectors will change with sectors like Cement, Engineering, Real Estate, Infrastructure, Utilities reporting significantly better earnings growth than they did in the preceding half. The Telecom sector will continue to post negative earnings growth in 2HFY11.

QUARTERLY PAT TREND (MOSL UNIVERSE - RS B)

SECTOR	SEP 2007	DEC 2007	MAR 2008	JUN 2008	SEP 2008	DEC 2008	MAR 2009	JUN 2009	SEP 2009	DEC 2009	MAR 2010	JUN 2010	SEP 2010E	DEC 2010E	MAR 2011E
Auto	15.2	16.9	17.1	22.2	13.6	-9.4	3.6	7.2	22.2	29.7	38.5	41.8	41.5	43.8	46.3
Banking	71.0	83.3	86.3	69.0	93.1	115.8	111.7	103.5	112.4	122.7	117.6	134.7	137.1	144.7	155.4
Cement	16.9	16.9	16.3	17.1	14.3	14.7	18.7	23.5	22.3	16.4	14.8	17.7	9.3	17.2	21.9
Engineering	14.5	16.5	23.7	13.8	16.5	19.7	31.8	14.5	18.4	22.3	40.8	17.4	21.5	27.4	53.7
FMCG	18.4	19.8	17.5	19.6	19.9	21.0	20.6	23.1	24.7	26.3	23.9	26.2	28.5	31.1	29.1
IT	37.8	39.9	40.2	39.1	45.6	48.1	46.4	48.2	51.2	53.9	55.5	54.4	56.9	63.0	66.3
Infrastructure	1.9	2.9	4.1	2.7	3.3	3.4	5.2	3.4	2.6	4.5	4.7	2.4	3.0	5.1	6.5
Media	3.1	3.8	2.4	3.6	3.0	2.5	2.5	3.9	4.3	4.3	3.8	4.8	5.3	5.3	4.2
Metals	69.6	64.7	99.1	102.3	110.7	35.1	16.2	17.2	29.2	63.6	99.3	74.7	60.0	85.8	104.0
Oil & Gas Ex RMs	101.2	94.7	80.1	138.0	105.2	51.0	77.6	101.5	103.3	88.2	99.6	98.5	134.1	136.6	141.7
Pharma	14.8	14.2	14.4	14.6	13.1	12.7	4.1	14.6	17.6	8.7	19.5	19.3	20.4	20.8	22.2
Real Estate	27.9	30.9	35.1	26.3	27.4	10.8	3.1	7.2	8.8	9.1	8.7	9.0	8.6	9.6	12.9
Retail	0.8	0.6	0.8	0.7	1.2	0.8	0.8	0.6	1.2	1.3	1.4	1.3	1.3	1.3	1.4
Telecom	32.0	34.1	37.6	39.7	39.2	39.1	39.8	45.8	33.6	36.2	35.3	22.5	22.0	24.3	20.6
Textiles	1.5	1.4	1.5	0.6	1.2	0.6	1.1	0.8	1.8	2.0	2.0	1.7	2.1	2.3	2.9
Utilities	24.6	27.7	28.6	27.9	28.0	29.6	36.7	36.6	33.9	32.9	35.9	31.8	36.6	37.9	41.5
Others	1.3	1.1	2.7	2.0	2.1	1.4	2.6	2.2	1.7	1.4	3.4	2.4	2.5	2.5	3.7
MOSL Univ (Excl RMs)	**453**	**469**	**508**	**539**	**537**	**397**	**423**	**454**	**489**	**524**	**605**	**561**	**591**	**659**	**734**

Source: MOSL

SECTOR WISE EARNINGS GROWTH OVER THE PAST SIX QUARTERS (% YOY)

	JUN-09	SEP-09	DEC-09	MAR-10	JUN-10	SEP-10E	DEC-10E	MAR-11E
Auto	-67.9	62.8	LP	984.8	484.8	87.2	47.7	20.1
Banking	**50.0**	**20.7**	**5.9**	**5.2**	**30.1**	**21.9**	**18.0**	**32.1**
Cement	37.2	55.6	11.6	-20.7	-24.7	-58.1	4.6	47.9
Engg	**5.0**	**11.6**	**13.4**	**28.1**	**20.0**	**17.3**	**22.4**	**31.8**
FMCG	**17.9**	**24.1**	**25.1**	**15.9**	**13.5**	**15.2**	**18.1**	**21.9**
IT	**23.4**	**12.4**	**12.1**	**19.5**	**12.7**	**11.0**	**16.8**	**19.5**
Infra.	27.6	-20.0	33.1	-9.8	-29.8	12.6	11.9	37.0
Media	**7.9**	**42.6**	**71.6**	**53.6**	**24.7**	**24.3**	**22.7**	**9.1**
Metals	-83.2	-73.6	81.1	512.1	334.0	105.3	34.8	4.6
Oil & Gas (Excl RMs)	-26.5	-1.8	72.8	28.4	-2.9	29.8	55.0	42.3
Pharma	-0.6	34.3	-31.3	371.1	32.8	15.9	138.6	13.8
Real Estate	-72.8	-68.0	-15.9	179.8	26.3	-1.5	5.1	47.2
Retail	-9.6	-1.5	70.5	77.0	127.4	8.0	-2.4	-1.4
Telecom	15.2	-14.2	-7.3	-11.3	-50.9	-34.5	-32.8	-41.7
Textiles	44.9	49.1	210.6	82.0	114.5	18.3	17.2	43.8
Utilities	31.2	20.9	11.1	-2.3	-13.3	8.0	15.1	15.7
Others	6.2	-16.5	0.8	31.1	9.4	47.8	79.9	10.5
MOSL Universe (Excl RMs)	**-15.9**	**-9.0**	**31.9**	**43.1**	**23.6**	**20.8**	**25.8**	**21.4**

Source: MOSL

How the companies fared

73% of companies in the MOSL universe to report positive growth in 2QFY11

- 2QFY11 earnings for the MOSL universe is more broad-based with 73% of companies (v/s 70% in June 2010) in a positive earnings growth trajectory and 27% (v/s 30% in June 2010) likely to post decline in earnings.
- We note a fall in proportion of fast-growing (>15% YoY) companies in MOSL universe from 60% in 1QFY11 to 48% in 2QFY11.
- There is a sharp increase in proportion of muted growth (0-15% YoY) companies to 26% from 11% in 1QFY11.
- Proportion of companies reporting earnings decline is 27%, marginally lower than 30% in 1QFY11.

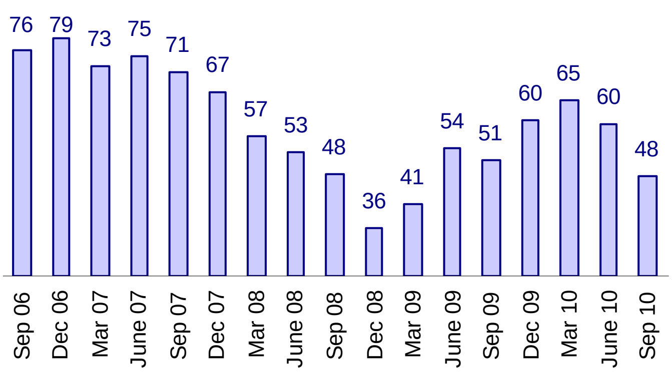
2QFY11 earnings growth distribution

DISTRIBUTION OF COMPANIES BASED ON EARNINGS GROWTH

RANGE	PAT YOY (%)	% OF COMPANIES WITH GROWTH OF >15%	>0-15%	<0%
Sep 08	19.7	48	26	26
Dec 08	-8.4	36	22	42
Mar 09	-15.5	41	18	41
Jun 09	-14.9	54	14	32
Sep 09	-11.3	51	14	35
Dec 09	22.7	60	9	31
Mar 10	43.4	65	8	27
Jun 10	23.5	60	11	30
Sep 10	20.8	48	26	27

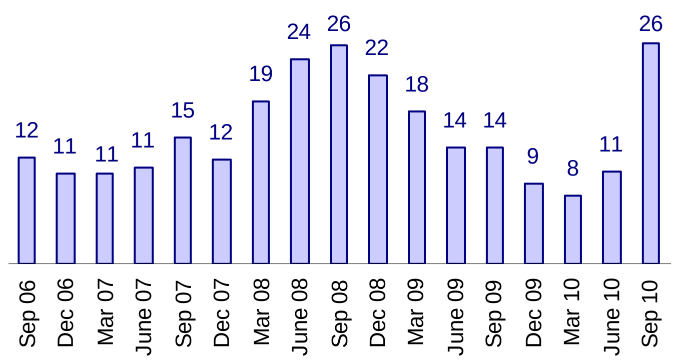
Source: CompanyMOSL

PROPORTION OF COMPANIES WITH EARNINGS GROWTH >15%

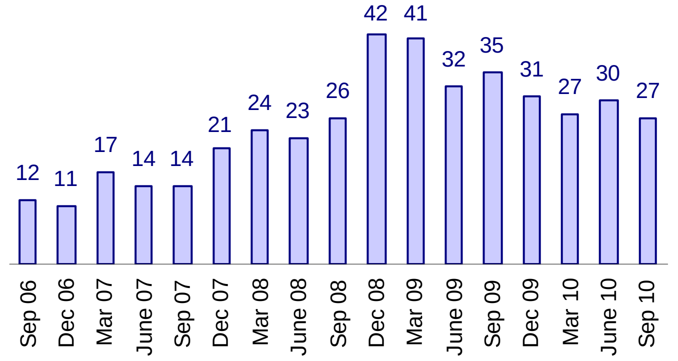


Source: MOSL

PROPORTION OF COMPANIES WITH EARNINGS GROWTH OF 0-15%



PROPORTION OF COMPANIES WITH EARNINGS GROWTH OF <0%



Source: MOSL

INTRA-SECTOR 2QFY11 EARNINGS DIVERGENCE

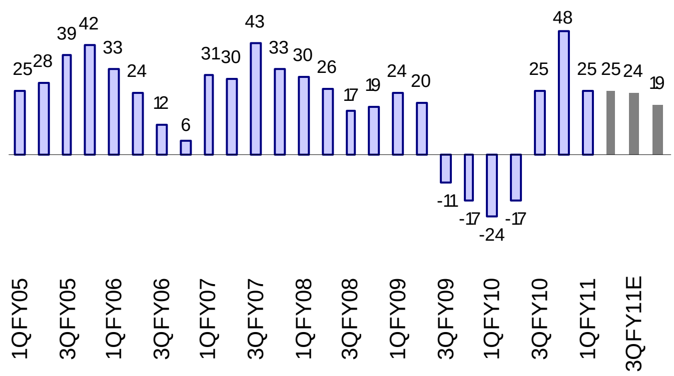
SECTORS	SECTOR GROWTH (%)	+25% GROWTH EXCESS OF 15%	15-25% GROWTH	0-15% GROWTH	-VE EARNINGS GROWTH	EARNINGS MOMENTUM
Autos	87	Bajaj Auto: 57%, Tata Motors: 7x	M&M: 19%	Maruti: 3%	Hero Honda: -6%	2 1 1 1
Banking	22	BOI: 115%,Yes Bank: 44%, Axis/HDFC Bk/BoB: 35%+, OBC / REC: 29%,	SBI / PNB/ HDFC: 19%	ICICI: 12%, Union: 7%	-	10 4 7 1
Cement	-58	-	-	-	Ultratech: -21%, Ambuja: -32%, ACC: -56%	0 0 0 7
Engineering	17	Siemens: 55%, Thermax: 36%	BHEL: 16%, L&T: 15%	Crompton Greaves: 12%	ABB: -29%	2 1 2 1
FMCG	15	Godrej Con: 54%, USL: 53%	Nestle: 19%, ITC: 18%, Marico 17%	Colgate & Dabur: 15%	HUL: -2%	2 5 2 2
IT	11	-	TCS: 21%	Wipro: 11%, Infosys: 9%	Mphasis: -6%, HCL Tech: -2%	0 1 2 4
Infra.	13	JPA: 38%	-	NCC: 8%, Simplex: 7%	HCC: -22%, IVRCL: -21%	1 0 2 2
Media	24	Sun: 29%, Zee: 37%	HT Media: 18%	Deccan & Jagaran: 12%	-	2 1 2 0
Metals	105	Hindalco & Sesa: 100%+, Tata Steel: LP	Sterlite: 19%	Hind. Zinc: 2%	JSW Steel: -21%, SAIL: -29%	4 1 1 2
Oil & Gas (Ex RMs)	30	Cairn 8x, GAIL: 27%, RIL: 30%	Indraprastha : 23%	ONGC: 10%	Guj State Petro: -6%	3 1 2 2
Pharma	16	Ranbaxy: 118%, Glenmark/ Divis: 26%	Lupin & Sun Pharma: 23%	Biocon: 15%	Dr. Reddy: -7%	4 3 5 3
Real Estate	-1	-	-	DLF/HDIL: 3%	Unitech: -7%, Anant Raj: -27%	0 0 3 3
Retail	8	Titan: 33%	-	-	-	1 0 0 0
Telecom	-34	Tulip: 49%	-	-	Rel Comm: -64%, Bharti Airtel: -27%, Idea: -23%	1 0 0 3
Textiles	18	Arvind / Bombay Rayon / Vardhman: 40%+	-	Alok Ind: 7%	-	3 0 1 1
Utilities	8	PGCIL / PTC: 23%	-	NTPC: 5%, CESC: 9%, R Infra: 2%	-	2 0 4 0
Others	48	Sintex: 62%, United Pho: 38%	-	-	-	2 0 0 0

2QFY11 Sensex earnings growth boosted by Tata Motors/Tata Steel

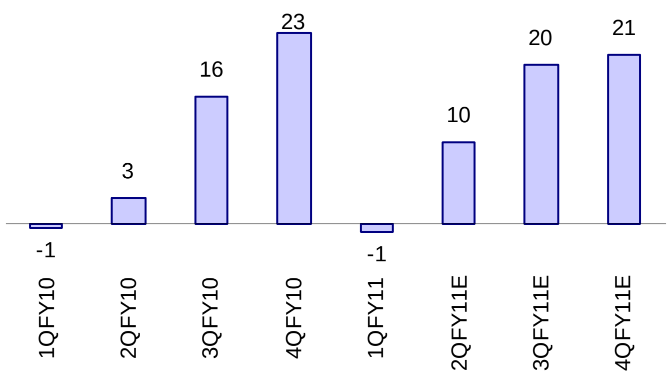
Adjusted earnings growth of 10% v/s reported earnings growth of 25%

We expect Sensex companies to post sales growth of 19%, EBITDA growth of 26% and PAT growth of 25%. This will be the third consecutive quarter of strong aggregate PAT growth, partly driven by low base.

SENSEX PAT GROWTH (YOY)



SENSEX PAT GROWTH (EX TATA MOTORS/TATA STEEL)



Source: Company/MOSL

- Commodity stocks are the biggest contributor to YoY earnings growth due to their low base/depressed earnings of 2QFY10. This is explained by loss to profit scenario for Tata Steel and 112% earnings growth in Hindalco.
- Tata Motors is a big swing factor because earnings are expected to multiply from Rs0.2b to Rs16.1b, due to JLR swinging from profit to loss and strong growth in domestic business.
- As Tata Motors and Tata Steel numbers result in significant volatility of aggregates, excluding them provides more clarity of growth in the rest of the Universe. In our estimate, excluding these two, Sensex earnings will grow 10% in 2QFY11.
- Reliance (contribution of 14%) is expected to post strong earnings growth of 30% YoY (on low base), and ONGC will post muted growth of 10% (contribution of 15%). The IT pack (contribution of 13%) will post 14% growth dragging down overall growth.
- Five Sensex stocks – ACC, Bharti, Hero Honda, Hindustan Unilever and RCom – are expected to post YoY decline in earnings.

2HFY11 growth broad-based

In 2HFY11 we expect Sensex earnings growth of 22%, against 25% in 1HFY11. Moderation in 2HFY11 is due to a higher base (since recovery in corporate earnings commenced in 3QFY10). Sensex earnings growth would be 20% excluding the swing of Tata Motors and Tata Steel. In 1HFY11 it was 5%.

Consider the following:

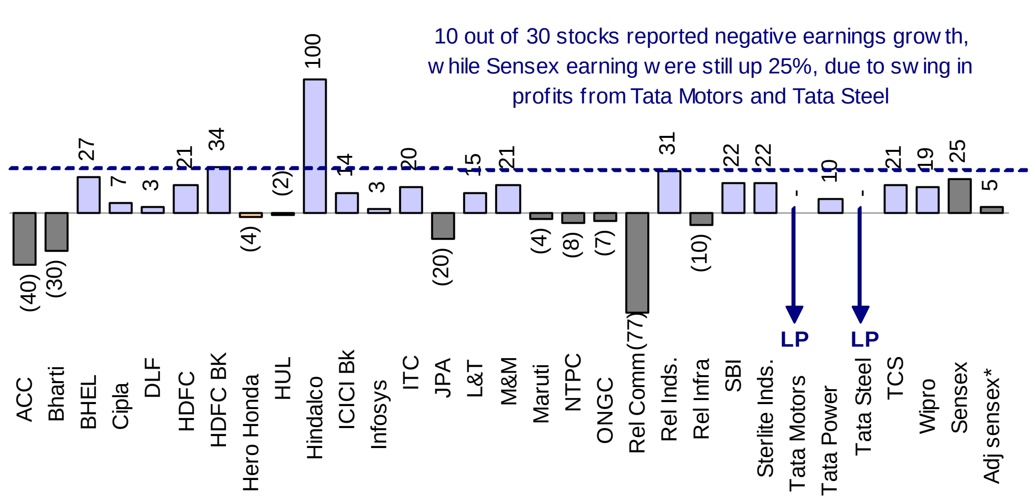
- In 1HFY11, 10 out of 29 stocks posted negative growth. In 2HFY11 three stocks will report negative earnings growth (Bharti, RCom and Maruti).
- 14 stocks will post over 20% earnings growth (as high as 67%) for 2HFY11, v/s eight stocks in 1HFY11.
- Key stocks in which earnings growth will be significantly higher in 2HFY11 than in 1HFY11 are: ACC, ICICI Bank, Infosys, L&T, SBI, Tata Motors and Tata Power.
- Key stocks in which earnings growth will be lower than in 1HFY11 are: Hindalco, TCS and Wipro.

2QFY11 EARNINGS COMPOSITION OF THE SENSEX (RS B)

COMPANY	SALES			EBITDA			PAT			CONTRIBUTION TO %	
	SEP-10	VAR % YOY	VAR % QOQ	SEP-10	VAR % YOY	VAR % QOQ	SEP-10	VAR % YOY	VAR % QOQ	PAT	PAT GROWTH
ONGC	176.7	17.1	29.3	111.3	28.3	38.6	55.8	9.7	52.4	15.2	6.8
Reliance Inds.	579.1	23.6	-0.5	97.6	35.2	4.4	49.9	29.6	2.9	13.6	15.7
State Bank	75.7	35.0	3.7	62.2	28.7	1.5	29.7	19.2	1.8	8.1	6.6
NTPC	121.3	12.5	-6.3	37.6	17.0	25.9	23.6	4.9	18.9	6.4	1.5
TCS	87.4	17.6	6.4	25.5	19.4	5.8	19.6	20.6	6.2	5.3	4.6
Infosys	67.0	20.0	8.2	22.1	14.2	12.5	16.7	8.7	12.5	4.6	1.8
Bharti Airtel	153.4	47.8	25.4	53.7	24.9	21.7	16.5	-26.9	-1.6	4.5	-8.4
Tata Motors	272.3	29.1	0.7	36.5	129.0	-7.8	16.1	6914.6	-20.6	4.4	21.9
Wipro	80.7	17.0	12.2	15.2	17.1	8.0	13.0	11.4	0.3	3.6	1.8
ITC	50.5	16.2	4.2	18.7	17.6	14.2	11.9	17.9	11.2	3.2	2.5
Sterlite Inds.	62.4	1.7	4.4	15.5	13.8	3.7	11.6	18.5	35.0	3.2	2.5
ICICI Bank	20.7	1.5	3.7	22.8	-6.4	4.2	11.6	11.6	13.1	3.2	1.7
BHEL	77.8	17.4	20.0	14.5	17.9	50.1	10.0	16.3	49.0	2.7	1.9
HDFC Bank	25.1	28.5	4.7	18.9	18.4	7.9	9.2	33.5	13.0	2.5	3.2
HDFC	9.8	24.8	4.7	11.1	19.6	12.9	7.9	18.6	13.3	2.1	1.7
Hindalco	169.4	11.6	-0.1	18.8	13.4	-8.7	7.8	111.7	19.0	2.1	5.6
Tata Steel	278.0	9.5	2.2	28.7	671.3	-35.3	7.6	LP	-59.6	2.1	35.3
Mahindra & Mahindra	54.7	22.6	6.8	8.6	12.1	11.0	7.1	19.1	25.4	1.9	1.6
Larsen & Toubro	88.2	12.1	12.5	9.0	14.6	-6.0	6.3	14.8	-4.7	1.7	1.1
Maruti Suzuki	89.6	24.4	8.9	9.7	6.2	13.4	5.9	3.5	15.1	1.6	0.3
Hero Honda	46.2	14.3	8.2	6.7	-7.3	17.7	5.6	-5.6	14.7	1.5	-0.5
Hind. Unilever	47.0	10.0	-3.7	6.4	-2.0	-6.2	4.9	-1.9	-5.9	1.3	-0.1
DLF	21.7	23.8	6.9	10.7	17.4	9.6	4.5	3.1	10.3	1.2	0.2
Reliance Infrastructure	31.3	18.0	40.3	3.1	-0.1	23.4	3.1	2.1	27.2	0.9	0.1
Reliance Comm	51.6	-9.4	1.1	16.5	-18.1	1.4	3.0	-63.5	0.4	0.8	-7.2
Cipla	15.7	8.8	5.9	4.0	6.8	8.8	2.9	7.4	14.2	0.8	0.3
ACC	16.8	-14.6	-16.7	3.3	-50.8	-40.6	1.9	-55.7	-46.3	0.5	-3.3
Tata Power	17.6	2.0	-2.6	4.0	-4.2	3.6	1.8	11.5	-19.3	0.5	0.3
Jaiprakash Associates	23.5	28.6	-26.1	5.5	21.8	-13.6	1.6	38.5	52.0	0.4	0.6
Sensex (29)	**2,811**	**18.6**	**4.9**	**698**	**26.1**	**7.7**	**367**	**24.6**	**7.8**		

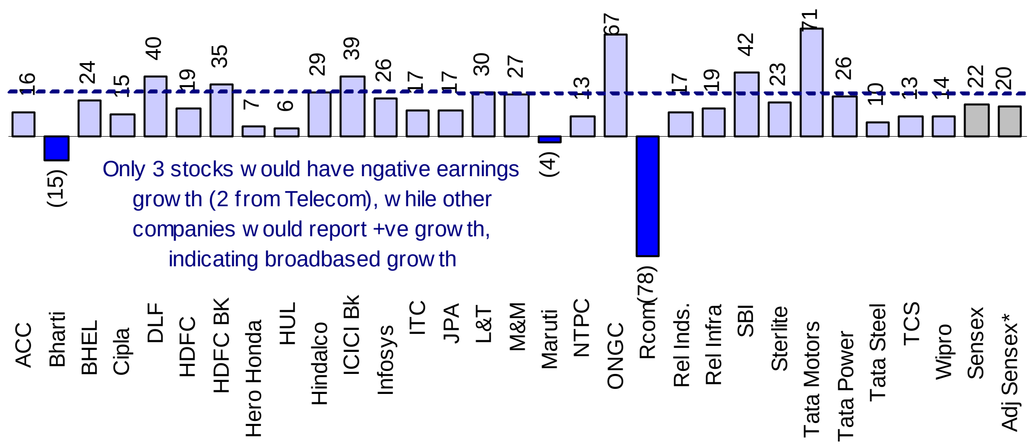
Note: Tata Steel, Hindalco, Tata Motors are Consolidated, excluding Jindal Steel & Power Source: MOSL

1HFY11 SENSEX EARNINGS DISPERSION (% GROWTH YOY)



*LP = Loss to profit; *Adjusted Sensex is excluding Tata Motors and Tata Steel* Source: MOSL

2HFY11 SENSEX EARNINGS DISPERSION (% GROWTH YOY)



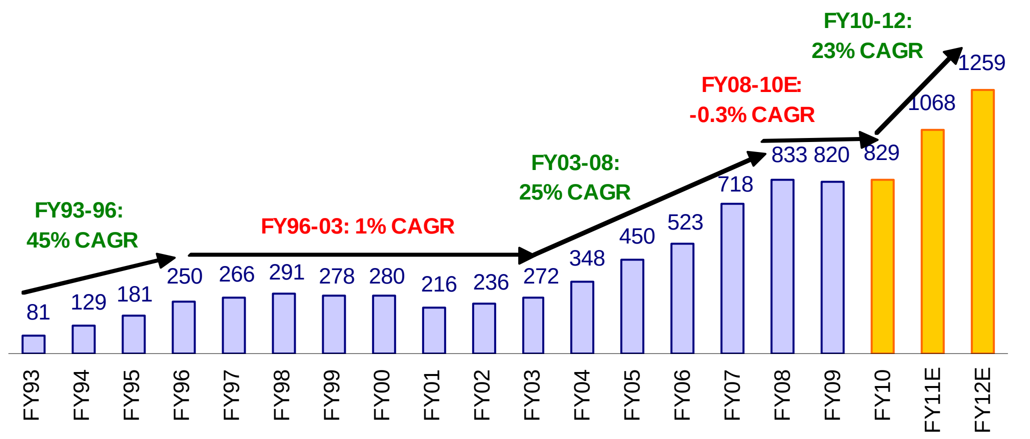
Source: MOSL

FY12: expect 20% earnings growth for Sensex/MOSL Universe

We estimate net profit growth for MOSL Universe (excluding RMs) of 19% in FY12 against 25% earnings growth in FY11. Moderation in earnings is largely attributable to a higher base effect and low contribution from the Autos, Infrastructure, Metals, Pharma and Utilities sectors. In FY12, the key change is positive contribution and earnings growth for the Telecom and Cement sectors. Banking, FMCG and IT will continue their steady performance.

For the Sensex, we estimate earnings growth in FY12 to be 18% and expect Sensex EPS of Rs1,259 (Rs1,068 in FY11E). Strong performance will be driven by over 20% earnings growth for 10 of 30 stocks and only one stock, Jaiprakash Associates, will have negative earnings growth.

TREND IN SENSEX EPS (RS)



Source: MOSL

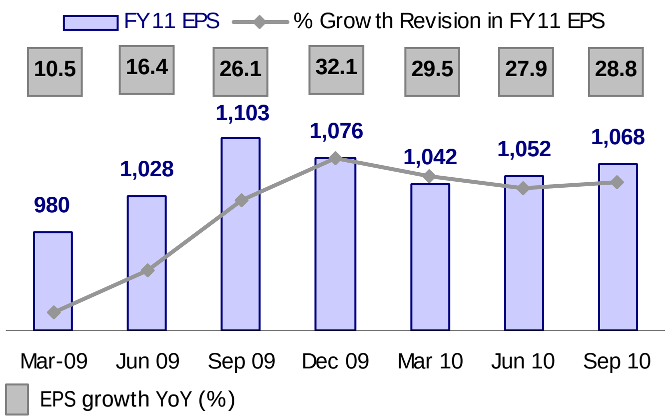
MOSL UNIVERSE AGGREGATE PERFORMANCE (RS B)

SECTOR	SALES					EBITDA					PAT				
Y/E MARCH	FY10	FY11E	FY12E	CH. (%)	*CH. (%)#	FY10	FY11E	FY12E	CH. (%)	*CH. (%)#	FY10	FY11E	FY12E	CH. (%)	*CH. (%)#
Auto (5)	1,819	2,240	2,596	23.1	15.9	234	325	371	38.6	14.3	106	184	214	73.1	16.2
Banks (23)	1,117	1,460	1,748	30.7	19.7	962	1,216	1,486	26.4	22.2	494	617	759	24.9	23.1
Cement (8)	563	669	787	18.9	17.6	159	148	175	-6.4	17.8	85	75	87	-11.5	15.8
Engineering (6)	942	1,116	1,401	18.5	25.6	135	178	227	32.3	27.1	104	128	160	23.2	25.0
FMCG (11)	696	815	947	17.0	16.2	149	174	208	17.1	19.4	98	114	138	16.7	21.0
IT (7)	1,053	1,242	1,438	17.9	15.8	280	323	369	15.4	14.1	210	247	280	17.7	13.1
Infrastructure (7)	312	411	507	31.4	23.6	59	88	113	49.4	27.8	13	28	29	117.7	1.7
Media (5)	68	83	95	21.6	14.7	27	35	41	28.4	17.7	16	20	24	21.1	23.4
Metals (9)	2,677	3,015	3,207	12.6	6.4	440	568	675	29.1	18.7	208	326	383	56.8	17.4
Oil Gas & Petchem (11)	8,621	10,106	9,353	17.2	-7.5	1,033	1,330	1,493	28.8	12.2	557	668	762	20.1	14.1
Pharma (15)	506	561	636	10.7	13.5	105	129	140	23.2	8.6	63	91	101	45.7	10.3
Real Estate (10)	144	187	262	29.8	39.8	62	84	109	34.5	30.2	38	49	65	26.1	34.1
Retail (2)	106	105	128	-0.8	21.9	10	11	14	10.0	28.3	4	5	7	35.6	36.1
Telecom (4)	785	984	1,162	25.4	18.1	286	326	406	13.9	24.6	151	89	115	-40.7	28.6
Textiles (5)	153	181	209	18.3	15.3	29	37	43	27.3	18.2	7	9	14	29.0	50.0
Utilities (9)	843	1,078	1,339	27.8	24.2	236	327	409	38.8	24.9	161	187	241	16.6	28.8
Others (2)	88	103	121	17.4	16.9	16	20	24	30.4	19.3	9	11	14	32.9	21.7
MOSL (139)	**20,495**	**24,355**	**25,936**	**18.8**	**6.5**	**4,220**	**5,319**	**6,301**	**26.1**	**18.5**	**2,323**	**2,850**	**3,393**	**22.7**	**19.1**
MOSL Excl RMs (136)	**15,664**	**19,013**	**21,201**	**21.4**	**11.5**	**4,035**	**5,084**	**6,027**	**26.0**	**18.5**	**2,186**	**2,732**	**3,259**	**25.0**	**19.3**
Sensex (30)	**5,474**	**6,556**	**7,166**	**19.8**	**9.3**	**1,239**	**1,565**	**1,811**	**26.2**	**15.8**	**634**	**838**	**989**	**32.2**	**17.9**
Nifty (50)	**6,420**	**7,398**	**8,070**	**15.2**	**9.1**	**1,394**	**1,715**	**2,005**	**23.0**	**16.9**	**716**	**926**	**1,099**	**29.3**	**18.7**

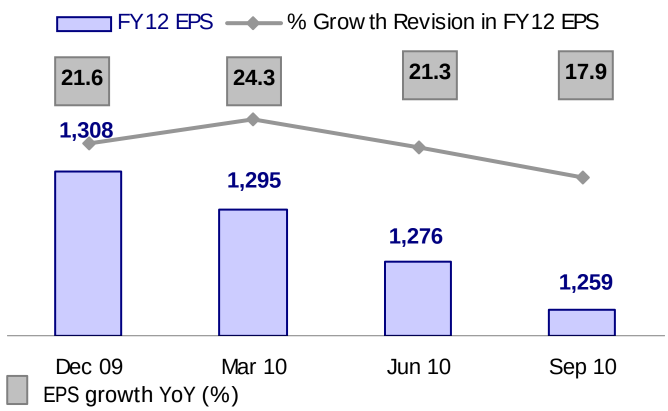
** Growth FY11 over FY10; # Growth FY12 over FY11. For Banks : Sales = Net Interest Income, EBIDTA = Operating Profits; Tata Steel Figures are consolidated including corusl; Note: Sensex & Nifty Numbers are Free Float*

There is a marginal downward revision in our estimate for FY12 Sensex EPS to Rs1,259, from Rs1,308 in 3QFY10 and Rs1,276 in 1QFY11. Our FY11 Sensex EPS has been upgraded since 1QFY11 to Rs1,068 from Rs1,052 in 1QFY11, an upgrade of 1.5%.

FY11 SENSEX EPS (RS)



FY12 SENSEX EPS (RS)



Source: MOSL

We examine the key upgrades/downgrade in key Sensex stocks over the quarter and benchmark them in the performance of stocks over 1QFY11 and 2QFY11. We note that the highest upgrade (and only double digit upgrade) in the FY12 estimate over the last quarter has been in Tata Motors. But our estimates for four stocks have been downgraded by over 10%. The stocks are: Reliance Industries (15%), Reliance Infra (15%), Jaiprakash Associates (14%) and Tata Power (12%). Most important, most Sensex stocks that underperformed had earnings downgrades during the quarter. Earnings upgrades drove best performers like Tata Motors, Hindalco, SBI and TCS.

FY12E EARNINGS REVISION FOR SENSEX CONSTITUENTS

	FY11E	FY12E	ABS. PERF (%)	REL. PERF (%)
Tata Motors	58.0	42.1	38.8	25.2
L&T	5.5	5.0	13.2	(0.4)
Hindalco	17.9	4.8	35.6	22.1
TCS	3.7	4.6	22.5	8.9
State Bank	4.5	4.0	38.6	25.0
ITC	1.5	2.7	16.8	3.2
HDFC Bk	2.3	2.4	27.7	14.1
Infosys	(0.7)	0.4	8.1	(5.5)
Rel Comm	(14.2)	0.2	(14.1)	(27.7)
HUL	1.3	(0.1)	14.4	0.9
Bharti	(13.1)	(0.7)	42.0	28.4
Wipro	0.1	(0.9)	14.8	1.2
HDFC	(1.0)	(1.0)	21.0	7.4
DLF	4.5	(1.0)	31.0	17.4
NTPC	1.4	(1.7)	10.0	(3.6)
Tata Steel	2.7	(1.8)	34.2	20.6
ICICI Bk	(0.4)	(1.8)	28.9	15.3
M&M	(1.0)	(3.3)	13.4	(0.2)
Cipla	(3.3)	(3.4)	(5.2)	(18.8)
BHEL	0.4	(5.6)	0.9	(12.7)
Sterlite Inds.	(13.6)	(5.8)	3.7	(9.8)
ACC	(8.2)	(5.9)	16.3	2.7
Hero Honda	(7.1)	(6.2)	(9.5)	(23.0)
Maruti	(7.0)	(6.2)	3.1	(10.5)
ONGC	(6.4)	(8.2)	10.4	(3.2)
Tata Power	(10.6)	(11.7)	3.1	(10.5)
JPA	44.5	(13.6)	(4.9)	(18.4)
Rel Infra	(21.5)	(14.8)	(7.7)	(21.2)
Rel Inds.	(1.7)	(14.9)	(8.4)	(22.0)
Sensex	1.5	(1.3)	13.6	-

Source: MOSL

Analysis of Nifty-50 on earnings growth, valuation metrics

In this section, we attempt to segregate high growth, high RoE companies on the FY12E valuations to gain a comparative perspective. We have classified stocks based on FY12E earnings growth and compared them on FY12 P/E and RoE

Key findings are:

- Four stocks on the Nifty 50 will have negative earnings growth, seven will have earnings growth of 0-10%. Most of the stocks trade at expensive valuations of 14-20x FY12E PE (as high as 48 and 149 for Ranbaxy and Suzlon, respectively) – **Avoidable set unless valuations cheap**.
- Six stocks will have 30%+ earnings growth and out of those, some will have RoE in the mid-to higher twenties and PE in the lower teens – **Selective focus set**.
- 17 stocks will post earnings growth of 20-30% and trade at relatively lower valuations, with superior RoEs – **High focus set**.
- Among the 10-20% earnings growth trajectory, auto stocks look attractive with superior RoE and low PE – **Watch set**.
- Stocks with muted earnings growth of 0-10% are not very attractive – **Avoidable set unless valuations cheap**.

EARNINGS GROWTH

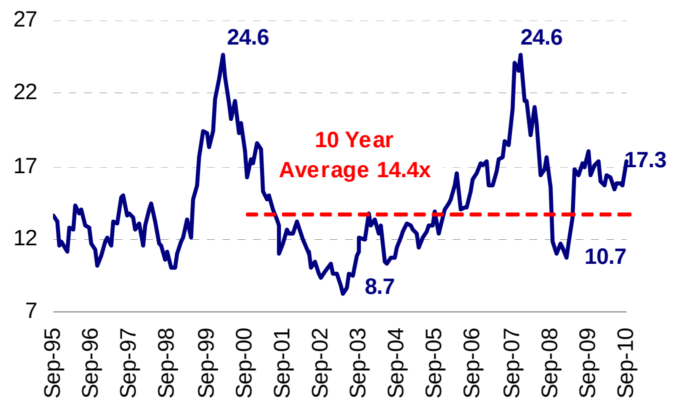
	FY12E		
	EARNINGS GR. (%)	P/E	ROE (%)
1) 30%+			
Cairn India	**60**	**7.8**	**18.7**
Sterlite Inds.	45	8.2	15.2
Reliance Comm	44	22.2	3.9
Tata Power	33	13.2	7.6
Reliance Power	33	27.9	8.8
HDFC Bank	**30**	**21.9**	**19.2**
2) 20-30%			
Reliance Infrastructure	29	19.3	8.8
DLF	27	23.9	8.9
Siemens	26	27.0	26.1
State Bank	**26**	**10.8**	**18.7**
Power Grid Corp.	25	14.8	14.2
ICICI Bank	25	19.4	13.6
Bharti Airtel	24	16.5	15.4
Larsen & Toubro	**24**	**21.8**	**20.3**
Axis Bank	**23**	**15.6**	**19.4**
Kotak Mahindra Bank	23	18.5	16.6
BHEL	**23**	**16.9**	**32.3**
Punjab National Bank	**23**	**7.6**	**24.7**
Infosys	23	20.0	27.7
Dr Reddy' s Labs	22	24.6	19.6
IDFC	22	18.3	13.6
Sun Pharma	21	26.4	16.0
Maruti Suzuki	20	13.3	17.8
3) 10-20%			
Cipla	19	19.1	17.4
HDFC	19	25.6	25.8
ITC	19	23.8	31.5
Hindalco	19	11.0	18.2
Hero Honda	**18**	**13.8**	**39.2**
Hind. Unilever	18	27.2	71.7
Mahindra & Mahindra	**17**	**10.5**	**22.1**
Tata Motors	**16**	**7.7**	**39.9**
HCL Technologies	16	14.2	21.9
NTPC	15	16.6	15.1
Reliance Capital	13	22.4	10.0
ONGC	13	11.2	22.4
ACC	13	13.1	19.0
GAIL	10	15.0	18.6
Wipro	10	18.4	21.4
4) 0-10%			
Bajaj Auto	9	14.7	48.6
TCS	9	20.6	27.8
Sesa Goa	8	4.9	31.0
Ambuja Cements	8	16.2	17.9
BPCL	5	13.0	13.4
Reliance Inds.	5	14.1	13.5
Tata Steel	1	9.8	29.8
5) Negative growth			
SAIL	(5)	14.7	13.5
Jaiprakash Associates	(39)	34.2	7.5
Ranbaxy Labs	(66)	48.7	7.3
Suzlon Energy	(109)	148.1	0.8

Source: MOSL

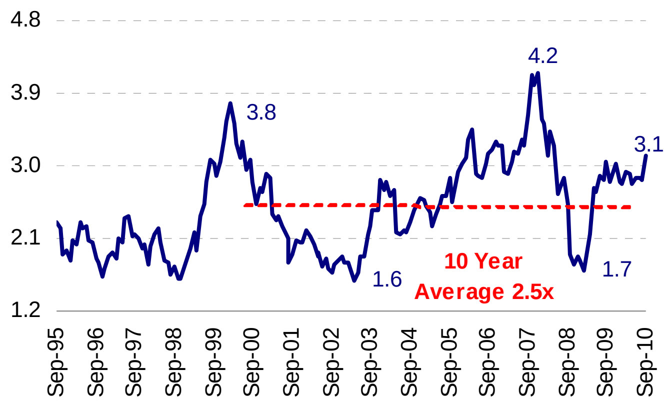
Valuations at crossroads

Sensex valuations in terms of P/E are at a 10% premium to the historical 10-year long-term average (LTA) at 15.8x FY12E EPS. In terms of P/BV, valuations are at a 15% premium at 2.9x FY12E BV, with RoE at 17.8% (lower than the LTA of 18.7%). While the valuations are not excessive, we believe that the data points matter - more so in the event of market extremes. Historical evidence across cycles suggests that a disproportionate part of the returns are made due to valuation changes. We had presented a Valuation Framework when the indices were quoting at significantly below the historical LTA. Given that the pendulum is now on its journey to the other extreme, we have tried to analyze sectors and companies on similar parameters.

SENSEX P/E: 20% PREMIUM TO LONG-PERIOD AVERAGE



SENSEX P/BV: 26% PREMIUM TO LONG-PERIOD AVERAGE

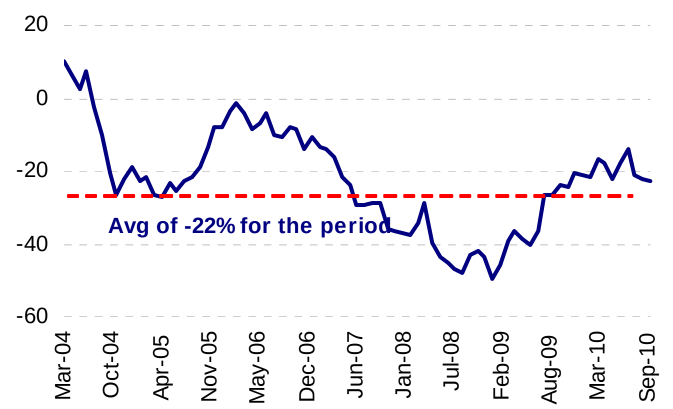


Source: MOSL

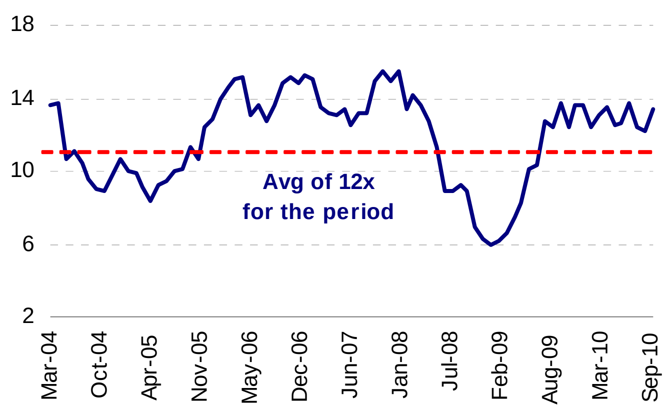
AUTO: Valuations at long-term average; possibilities for re-rating

- The Auto sector quotes at a discount of 23% to the Sensex P/E, similar to the LTA discount of 22%. In absolute terms, at 13.4x one-year forward earnings, P/E for the sector is at a 10% premium to the LTA of 12x.
- We expect earnings growth of 18.3% for the Auto sector in FY12, similar to the Sensex earnings growth. There exist possibilities for re-rating in the event of earnings acceleration.

AUTO P/E RELATIVE TO SENSEX P/E



AUTO SECTOR P/E (X)



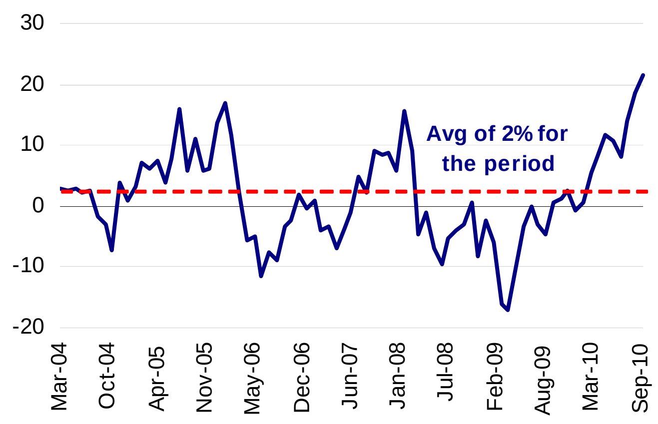
Excl Tata Motors

Source: MOSL

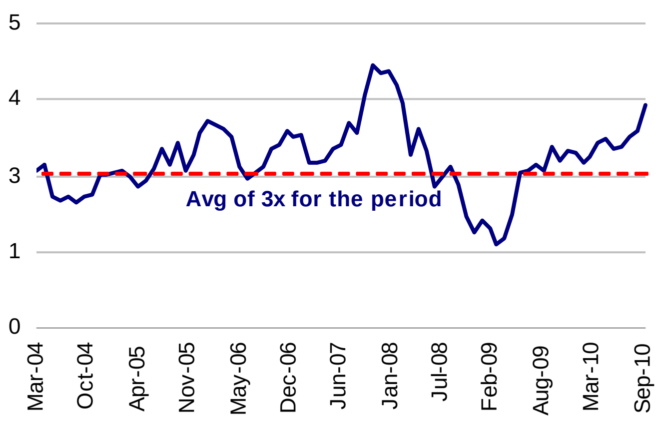
PRIVATE SECTOR BANKS: Valuation premium at new high, gap in earnings growth narrowing

- Private sector banks quote at >20% premium to Sensex P/B, much higher than the historical average of 2%. This is also the highest premium for the sector over the last few years.
- The expected earnings growth of 24% in FY12 remains higher than the expected growth of 18% in Sensex earnings. However, the earnings growth gap is likely to narrow considerably, as during FY08-10, the banking sector reported earnings CAGR of 26%, much higher than the Sensex earnings growth of -0.3%.
- We believe that a further re-rating appears challenging.

PRIVATE BANKS P/B RELATIVE TO SENSEX P/B



PRIVATE BANKS SECTOR P/B (X)

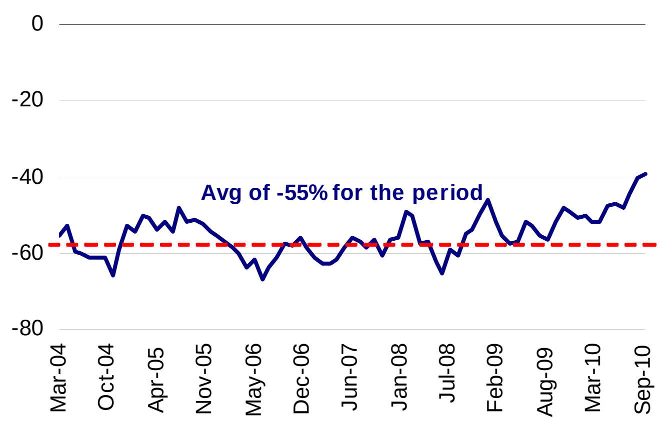


Source: MOSL

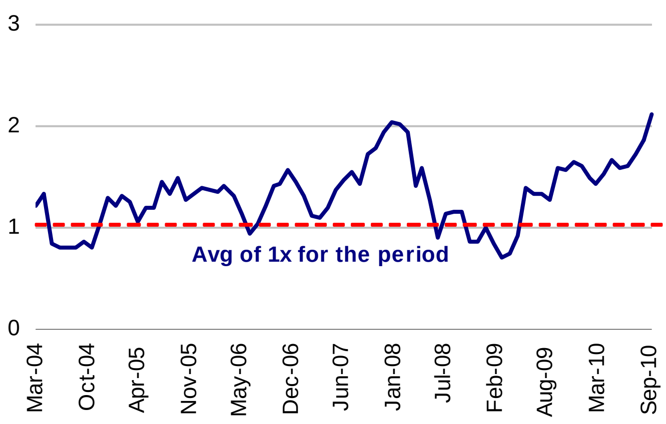
STATE-OWNED BANKS: Absolute P/B near historical peak; classic case of P/B re-rating

- State-owned banks quote at 40% discount to the Sensex P/B, vs their LTA discount of 55%. However, absolute P/b at 2.1x is just marginaly higher than the December 2007 peak of 2x.
- The expected earnings growth of 22% in FY12 remains superior to the expected growth of 18% in Sensex earnings. However, similar to private sector banks, the gap is expected to narrow considerably, as during FY08-10, the sector reported earnings CAGR of 24%, much higher than the Sensex earnings CAGR of -0.3%.

PSU BANKS P/B RELATIVE TO SENSEX P/B



PSU BANKS SECTOR P/B (X)

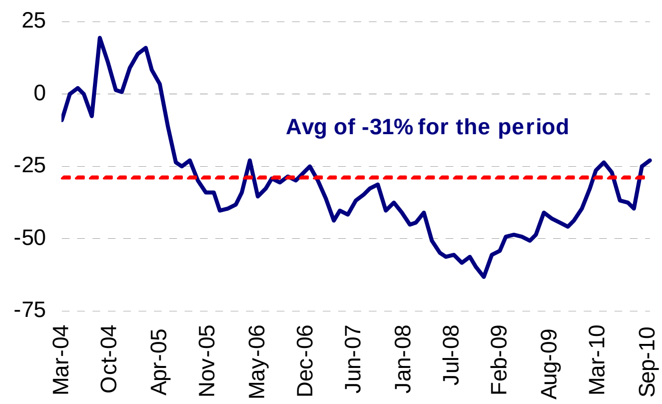


Source: MOSL

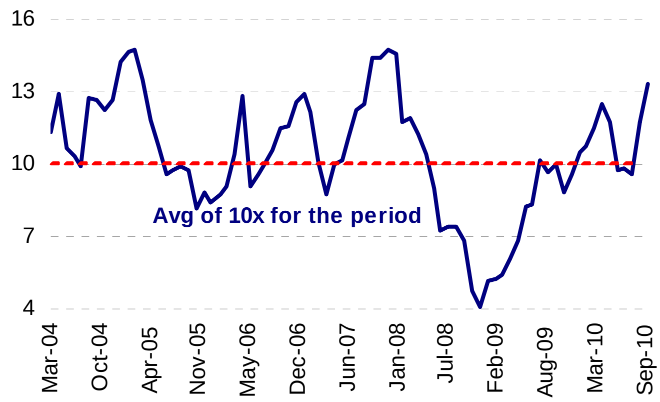
CEMENT: Absolute P/E near historical peak, despite near-term earnings concerns, FY12E earnings growth below Sensex earnings growth

- The cement sector quotes at 23% discount to the Sensex P/E as against the LTA discount of 31%. However, the absolute P/E for the sector is 13.3x, very near to the historical high of 14.8x in 2008.
- We expect earnings growth of 15.4% in FY12, which is lower than the expected growth of 18% in Sensex earnings.

CEMENT P/E RELATIVE TO SENSEX P/E



CEMENT SECTOR P/E (X)

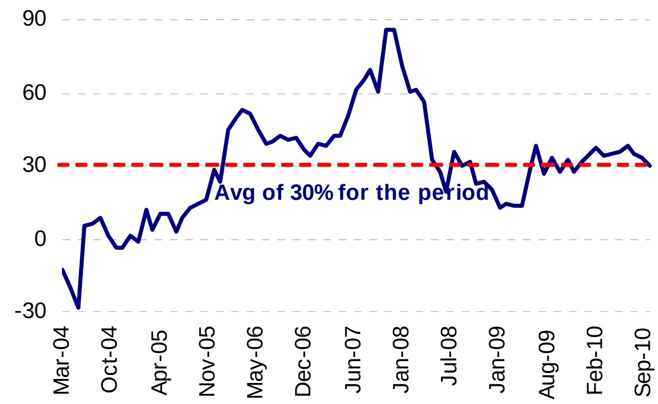


Source: MOSL

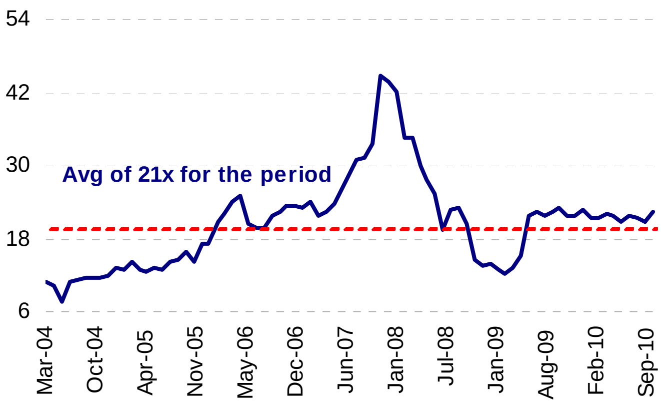
ENGINEERING: Valuations at historical average, but earnings growth accelerating

- The Engineering sector quotes at 30% premium to the Sensex P/E, in line with the historical average. Absolute P/E of 22.4x is at a very marginal premium to the LTA of 21x.
- We expect earnings growth to accelerate given the recovery in both industrial and infrastructure capex. We estimate earnings growth at 25% for FY12, which is superior to the 18% growth expected in Sensex earnings.
- While the parameters indicate that valuations are fair, we believe there exist possibilities for further re-rating in the event of a meaningful pick-up in industrial and infrastructure investments

ENGINEERING P/E RELATIVE TO SENSEX P/E



ENGINEERING SECTOR P/E (X)

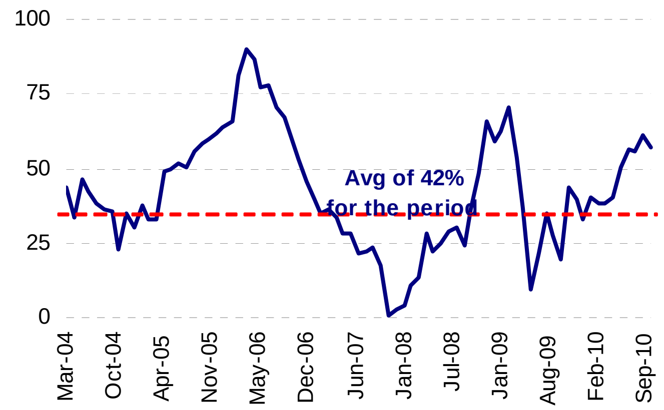


Source: MOSL

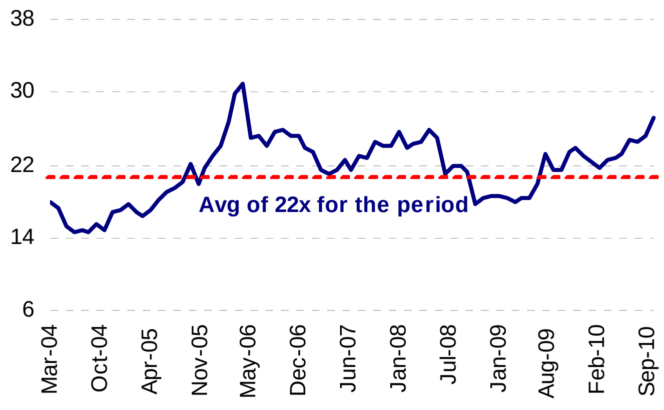
FMCG: Valuations at meaningful premium to historical averages

- The FMCG sector quotes at a 57% premium to the Sensex P/E as against the LTA premium of 42%. At 27x one-year forward earnings, the FMCG sector P/E is higher than the LTA of 22x and very near to the historical peak of 31x scaled in 2005.
- Given that the expected earnings growth is broadly in line with the Sensex, we believe that a further meaningful re-rating looks challenging.

FMCG P/E RELATIVE TO SENSEX P/E



FMCG SECTOR P/E (X)

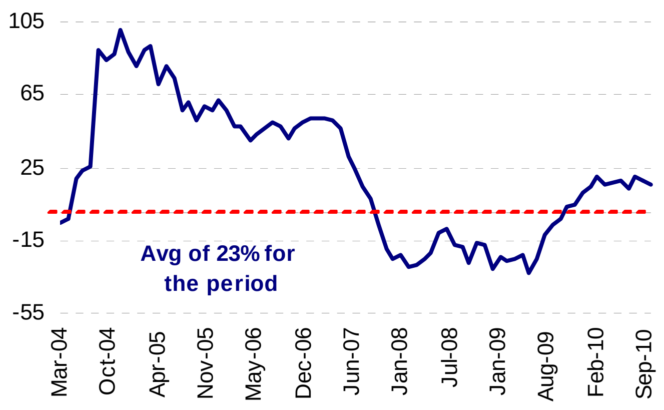


Source: MOSL

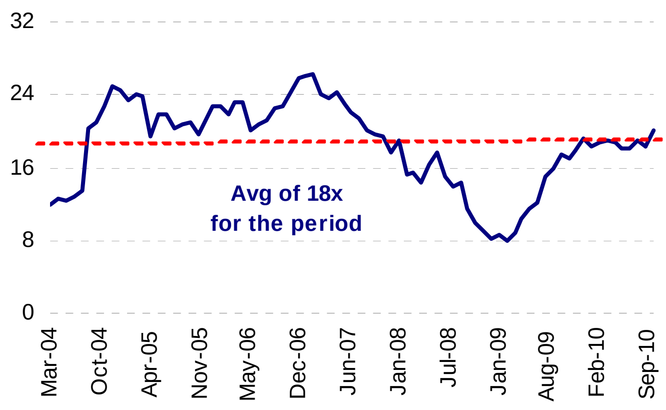
IT: Valuations not excessive, but vulnerable to earnings growth deceleration

- The IT sector quotes at a 16% premium to Sensex P/E, lower than the LTA premium of 23%. At 20x one-year forward earnings, the current P/E is higher than the LTA of 18x.
- A meaningful re-rating looks challenging given the likely deceleration in earnings CAGR from 38% over FY04-07 to 18% over FY07-10. We expect earnings growth to further decline to 13% in FY12.

IT P/E RELATIVE TO SENSEX P/E



IT SECTOR P/E (X)

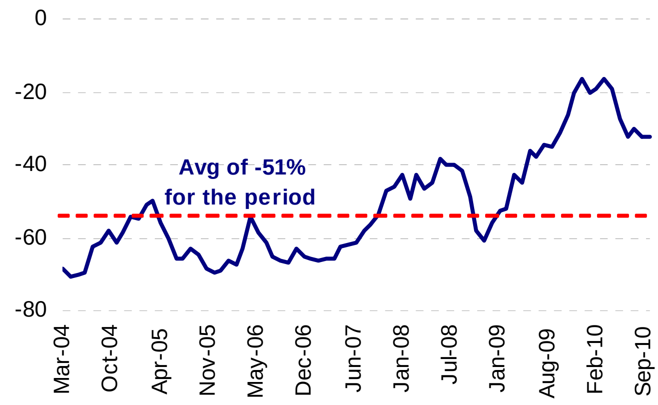


Source: MOSL

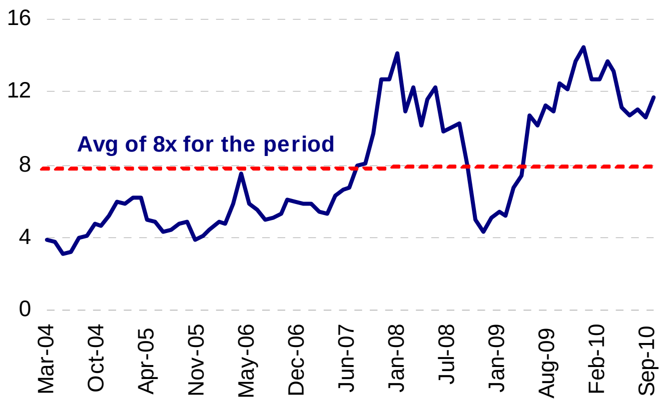
METALS: Valuations much higher than historical averages

- The Metals sector quotes at a discount of 32% to Sensex P/E as against the LTA discount of 51%. Current P/E of 11.7x is higher than the LTA of 8x.
- Expected earnings growth of 21% in FY12 is superior to the expected Sensex earnings growth of 18%. However, a meaningful re-rating looks challenging, given various headwinds in terms of environmental issues, mining laws, etc.

METALS P/E RELATIVE TO SENSEX P/E



METALS SECTOR P/E (X)

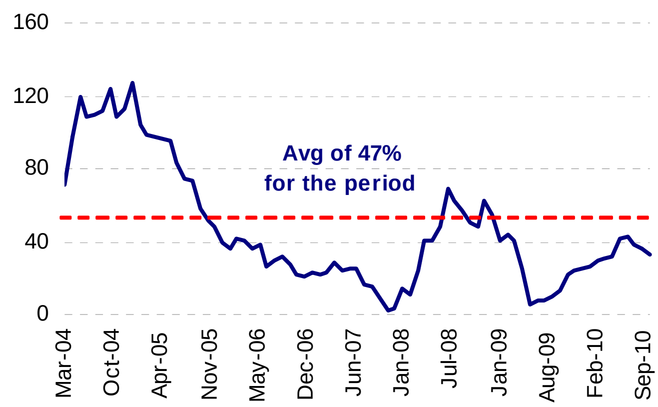


Source:MOSL

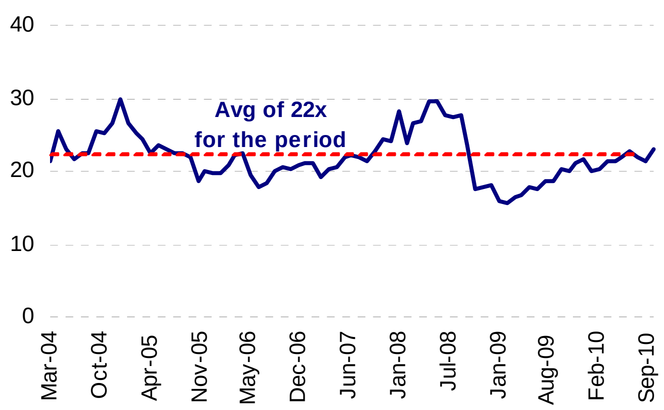
PHARMA: Valuations at meaningful discount to LTA, FY12E earnings growth lower

- The pharma sector quotes at 33% premium to Sensex P/E, which is much lower than the LTA premium of 47%. Absolute P/E of 23x is undemanding and is lower than the peak of 30x scaled in 2008.
- Expected earnings growth of 9.7% in FY12 is ~50% lower than the expected Sensex earnings growth.
- We believe that there exist possibilities for further re-rating in case earnings growth starts witnessing acceleration.

PHARMA P/E RELATIVE TO SENSEX P/E



PHARMA SECTOR P/E (X)

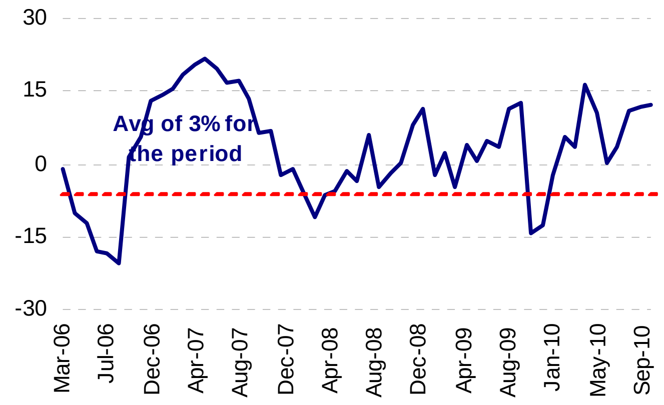


Source: MOSL

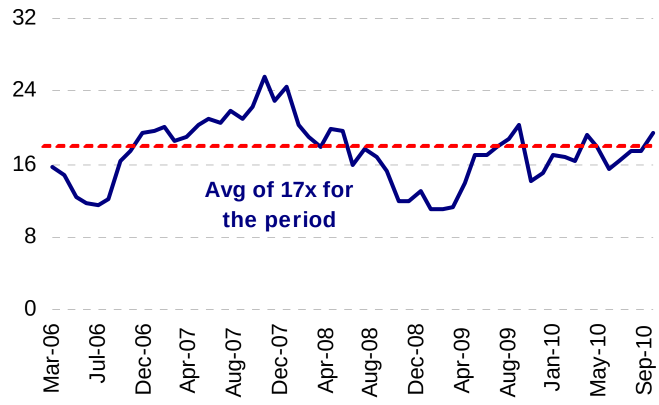
TELECOM: Valuations at marginal premium, but expect earnings growth acceleration

- Telecom quotes at 12% premium to Sensex P/E, higher than the historical average premium of 3%. The absolute P/E is 19x, marginally higher than the LTA of 17x.
- We expect earnings growth of 27% in FY12, higher than the expected Sensex earnings growth of 18%. We believe that there exist possibilities for further re-rating in the event of further acceleration in earnings growth.

TELECOM P/E RELATIVE TO SENSEX P/E



TELECOM SECTOR P/E (X)

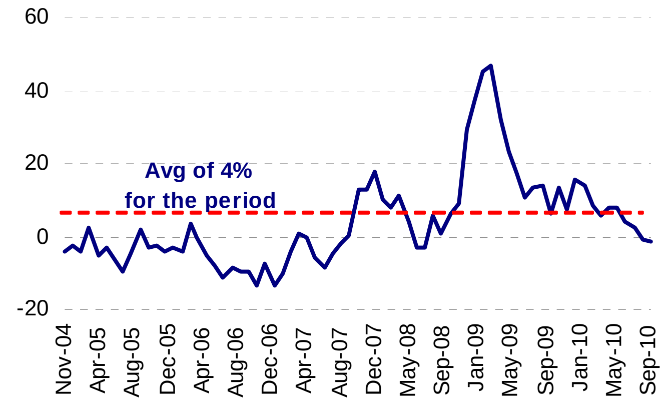


Source: MOSL

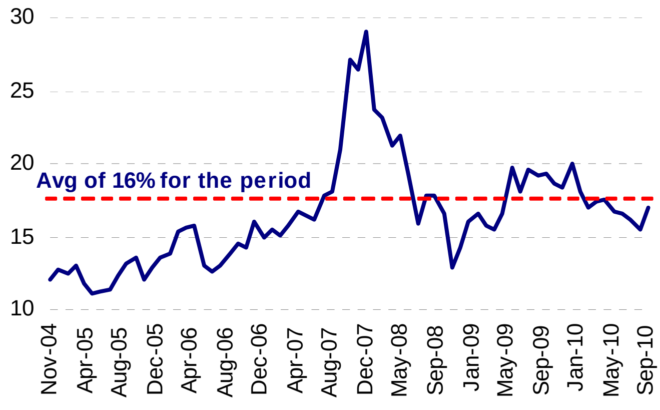
UTILITIES: Valuations at historical averages; expect further re-rating given earnings acceleration

- Utilities quote at a discount of 1% to Sensex P/E, as against the LTA premium of 4%. Also, the current P/E of 17x is near the LTA of 16x.
- Given the acceleration in earnings growth (expect 24% earnings growth in FY12) and undemanding valuations, we believe that there exist possibilities for further re-rating.

UTILITIES P/E RELATIVE TO SENSEX P/E



UTILITIES SECTOR P/E (X)



Source: MOSL

MOSL MODEL PORTFOLIO

SECTOR WEIGHT / PORTFOLIO PICKS	BSE-100	MOSL WEIGHT	WEIGHT RELATIVE TO BSE-100	EFFECTIVE SECTOR STANCE
Banks	**25.3**	**26.0**	**0.7**	**Overweight**
PSU	**6.9**	**14.0**	**7.1**	**Overweight**
SBI	4.0	7	3.0	Buy
PNB	0.8	4	3.2	Buy
Canara Bank	0.0	3	3.0	Buy
Private	**12.4**	**10.0**	**-2.4**	**Underweight**
ICICI Bank	5.7	7	1.3	Buy
HDFC Bank	4.1	3	-1.1	Neutral
NBFCs	**6.0**	**2**	**-4.0**	**Underweight**
Dewan Housing	0.0	2	2.0	Buy
Infrastructure & Related Sectors	**13.0**	**16.0**	**3.0**	**Overweight**
Larsen & Toubro	4.9	5	0.1	Buy
BHEL	1.9	4	2.1	Buy
DLF	0.7	3	2.3	Buy
Unitech	0.5	2	1.5	Buy
Siemens	0.5	2	1.5	Buy
Oil & Gas	**14.2**	**11.0**	**-3.2**	**Underweight**
Reliance Inds.	8.1	6	-2.1	Neutral
GAIL	1.1	3	1.9	Buy
Cairn India	0.7	2	1.3	Neutral
Information Technology	**10.8**	**11.0**	**0.2**	**Neutral**
Infosys Tech	6.6	6	-0.6	Buy
TCS	2.4	3	0.6	Neutral
HCL Tech	0.4	2	1.6	Buy
Auto	**6.1**	**7.0**	**0.9**	**Overweight**
Mahindra & Mahindra	1.3	3	1.7	Buy
Tata Motors	1.6	2	0.4	Buy
Maruti	1.0	2	1.0	Buy
Metals	**6.1**	**6.0**	**-0.1**	**Overweight**
Sterlite	1.2	2	0.8	Buy
Hindalco	1.1	2	0.9	Buy
JSW Steel	0.6	2	1.4	Buy
FMCG / Media	**8.2**	**5.0**	**-3.2**	**Underweight**
ITC	4.3	3.0	-1.3	Buy
Zee Ent	0.4	2.0	1.6	Buy
Telecom	**3.1**	**4.0**	**0.9**	**Overweight**
Bharti Airtel	2.2	4	1.8	Buy
Utilities	**6.0**	**4.0**	**-2.0**	**Underweight**
Power Grid Corp.	0.3	2	1.7	Buy
NTPC	1.5	2	0.5	Buy
Pharmaceuticals	**3.6**	**3.0**	**-0.6**	**Underweight**
Cipla	0.7	3	2.3	Buy
Others	**3.6**	**7.0**	**3.4**	**-**
BGR Energy	0.0	1	1.0	Buy
Cummins	0.0	1	1.0	Buy
Nagarjuna Const	0.0	1	1.0	Buy
Anant Raj Industries	0.0	1	1.0	Buy
PTC	0.0	1	1.0	Buy
Sesa Goa	0.6	1	0.4	Buy
Tulip Telecom	0.0	1	1.0	Buy
Cash	**0.0**	**0.0**	**0.0**	
Total	**100.0**	**100.0**		

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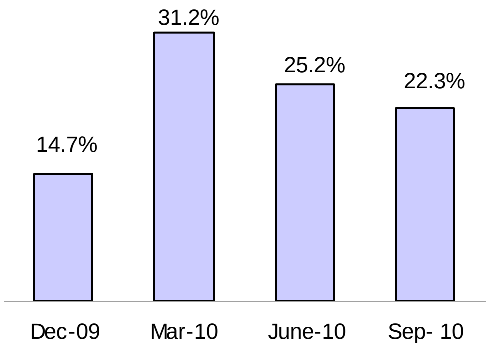
BSE Sensex: 20,045 **S&P CNX:** 6,018 **As on:** 24 September 2010

MOSL Universe: 2QFY11 Highlights & Ready Reckoner

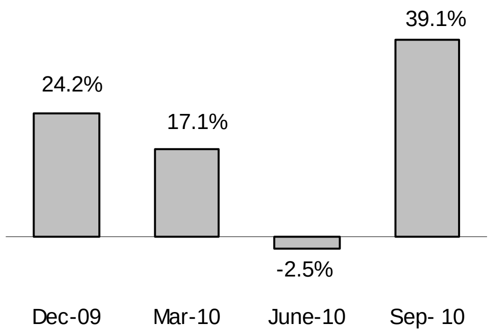
Note: In our quarterly performance tables, our four-quarter numbers may not always add up to the full-year numbers. This is because of differences in classification of account heads in the company's quarterly and annual results or because of differences in the way we classify account heads as opposed to the company. **All stock prices and indices as on 24 September 2010, unless otherwise stated.**

MOSL Universe: 2QFY11 aggregate performance highlights

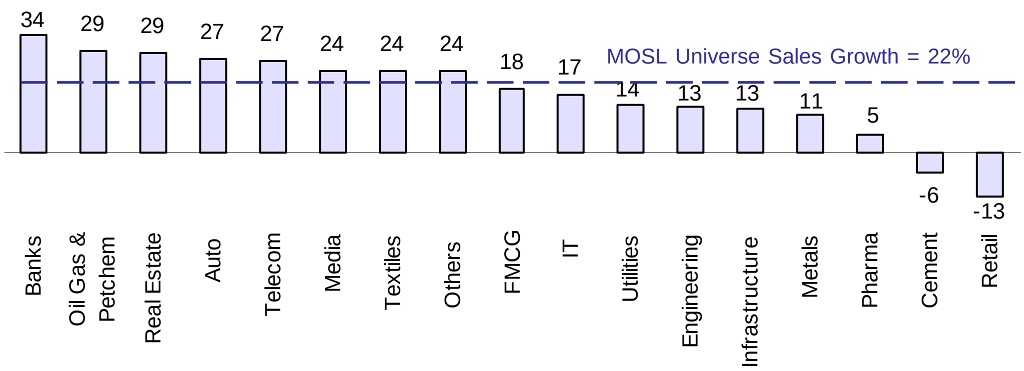
QUARTER-WISE SALES GROWTH (% YOY)



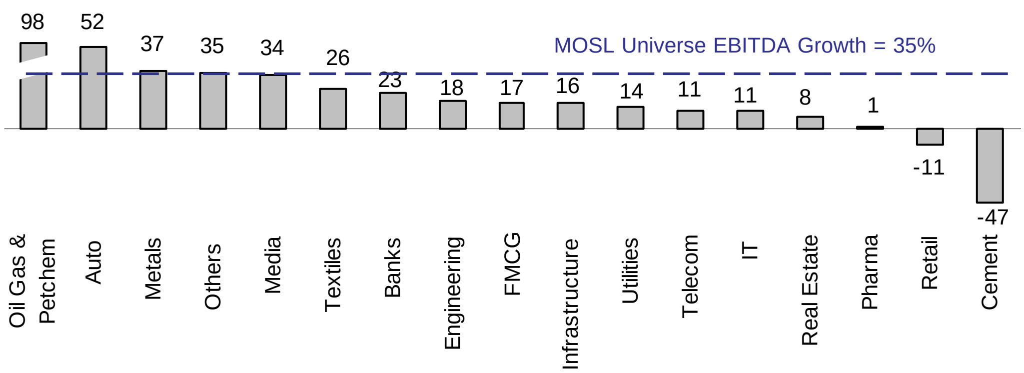
QUARTER-WISE NET PROFIT GROWTH (% YOY)



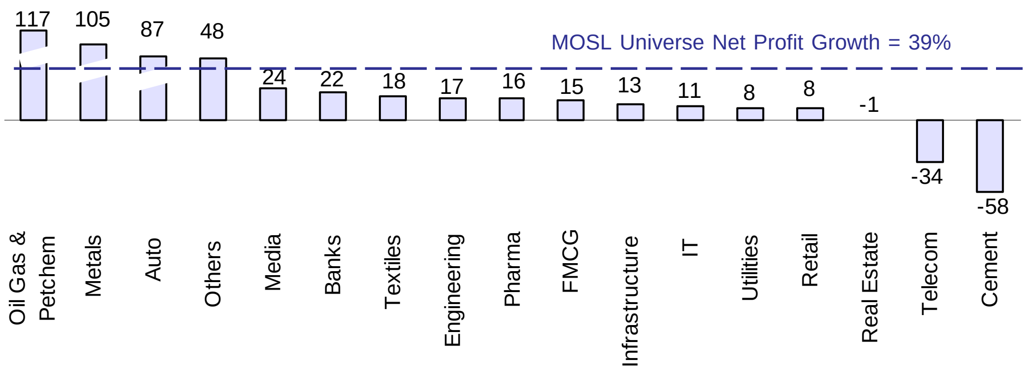
SECTORAL SALES GROWTH - QUARTER ENDED SEPTEMBER 2010 (%)



SECTORAL EBITDA GROWTH - QUARTER ENDED SEPTEMBER 2010 (%)



SECTORAL NET PROFIT GROWTH - QUARTER ENDED SEPTEMBER 2010 (%)

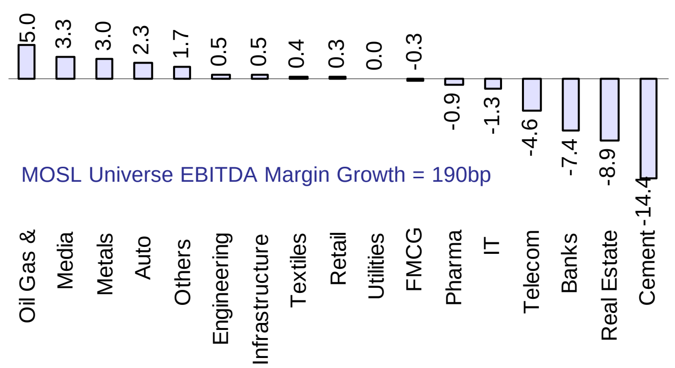


QUARTERLY PERFORMANCE - MOSL UNIVERSE

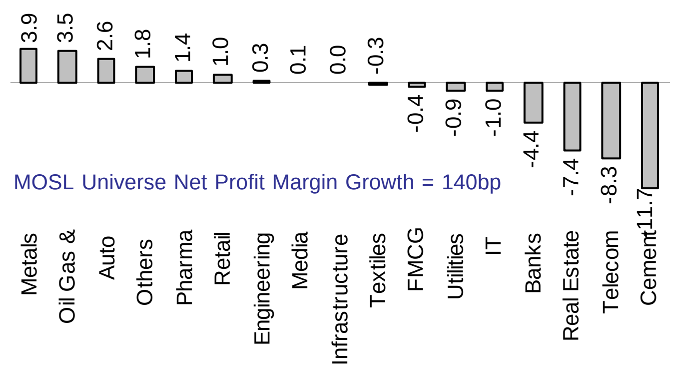
SECTOR (NO. OF COMPANIES)	EBITDA MARGIN (%)			NET PROFIT MARGIN (%)		
	SEP.09	SEP.10	CHG. (%)	SEP.09	SEP.10	CHG. (%)
Auto (5)	11.7	14.0	2.3	5.6	8.2	2.6
Banks (22)	91.9	84.5	-7.4	48.5	44.1	-4.4
Cement (7)	33.2	18.8	-14.4	21.2	9.5	-11.7
Engineering (6)	13.1	13.6	0.5	9.0	9.3	0.3
FMCG (11)	21.9	21.6	-0.3	14.8	14.4	-0.4
IT (7)	26.1	24.7	-1.3	19.7	18.7	-1.0
Infrastructure (5)	14.6	15.1	0.5	4.4	4.4	0.0
Media (5)	40.0	43.2	3.3	25.2	25.3	0.1
Metals (8)	12.7	15.7	3.0	4.5	8.4	3.9
Oil Gas & Petchem (11)	9.4	14.3	5.0	5.3	8.8	3.5
Pharma (15)	21.9	21.0	-0.9	13.6	15.0	1.4
Real Estate (6)	53.9	45.0	-8.9	31.4	23.9	-7.4
Retail (2)	10.2	10.5	0.3	4.2	5.2	1.0
Telecom (4)	37.1	32.5	-4.6	17.2	8.9	-8.3
Textiles (5)	21.7	22.0	0.4	6.0	5.7	-0.3
Utilities (6)	27.8	27.9	0.0	16.7	15.8	-0.9
Others (2)	17.6	19.3	1.7	9.2	11.0	1.8
MOSL (127)	**19.1**	**21.0**	**1.9**	**10.4**	**11.9**	**1.4**
MOSL Excl. RMs (124)	**25.0**	**25.7**	**0.7**	**13.7**	**13.9**	**0.2**
Sensex (29)	**23.4**	**24.8**	**1.5**	**12.4**	**13.1**	**0.6**

Source: MOSL

EBITDA MARGIN GROWTH - QUARTER ENDED SEPTEMBER 2010 (%)



NET PROFIT MARGIN GROWTH - QUARTER ENDED SEPTEMBER 2010 (%)



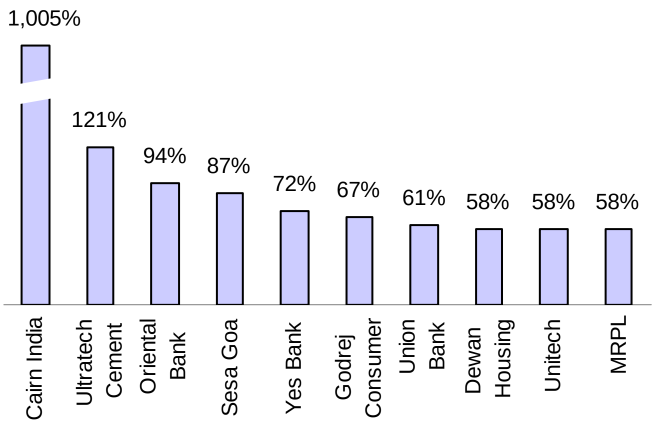
SECTORAL CONTRIBUTION TO GROWTH IN SALES, EBITDA AND NET PROFIT (%)

SECTOR	CONTRIBUTION TO SALES GR.	SECTOR	CONTRIBUTION TO EBITDA GR.	SECTOR	CONTRIBUTION TO NP GR.
Oil Gas & Petchem (11)	55.3	Oil Gas & Petchem (11)	58.2	Oil Gas & Petchem (11)	63.0
Auto (5)	10.4	Banks (22)	16.0	Metals (8)	16.1
Banks (22)	7.6	Metals (8)	9.8	Banks (22)	12.9
Metals (8)	6.6	Auto (5)	7.8	Auto (5)	10.1
Telecom (4)	5.0	Telecom (4)	2.6	IT (7)	2.9
IT (7)	4.2	Utilities (6)	2.5	FMCG (11)	2.0
FMCG (11)	2.9	IT (7)	2.3	Engineering (6)	1.7
Utilities (6)	2.7	FMCG (11)	2.0	Pharma (15)	1.5
Engineering (6)	2.6	Engineering (6)	1.6	Utilities (6)	1.4
Real Estate (6)	0.8	Media (5)	0.7	Media (5)	0.5
Infrastructure (5)	0.7	Textiles (5)	0.5	Others (2)	0.4
Textiles (5)	0.7	Infrastructure (5)	0.5	Infrastructure (5)	0.2
Pharma (15)	0.6	Others (2)	0.4	Textiles (5)	0.2
Others (2)	0.4	Real Estate (6)	0.4	Retail (2)	0.1
Media (5)	0.4	Pharma (15)	0.1	Real Estate (6)	-0.1
Retail (2)	-0.4	Retail (2)	-0.1	Telecom (4)	-6.1
Cement (7)	-0.6	Cement (7)	-5.3	Cement (7)	-6.8

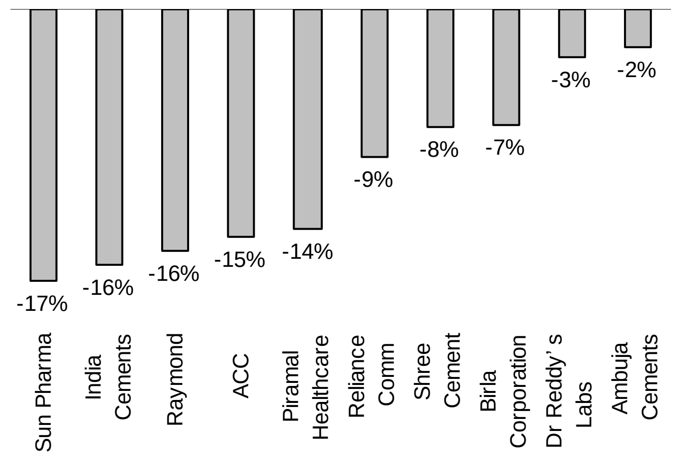
Source: MOSL

Scoreboard (quarter ended September 2010)

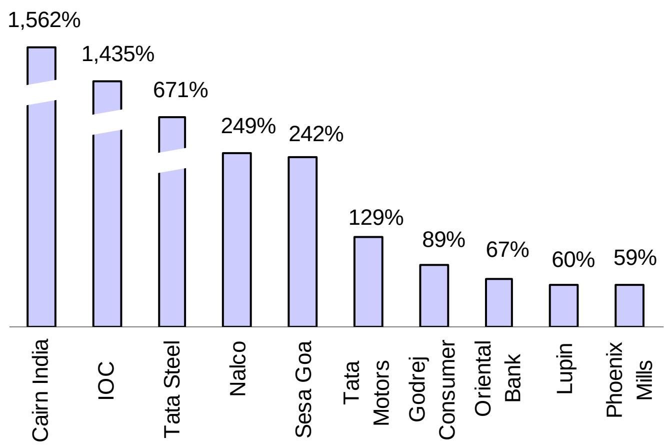
TOP 10 BY SALES GROWTH (%)



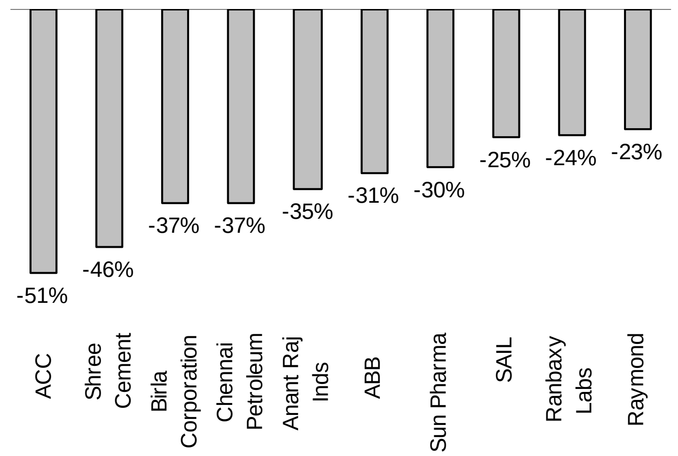
WORST 10 BY SALES GROWTH (%)



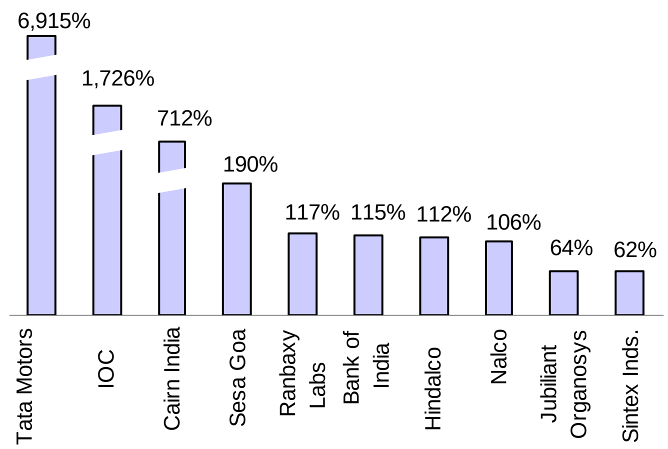
TOP 10 BY EBITDA GROWTH (%)



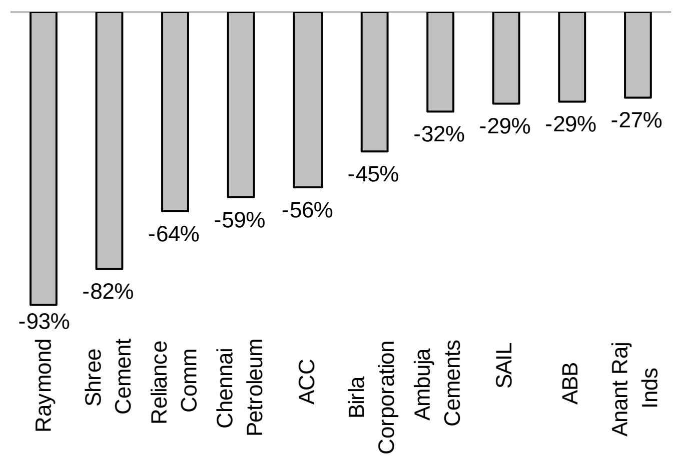
WORST 10 BY EBITDA GROWTH (%)



TOP 10 BY NET PROFIT GROWTH (%)



WORST 10 BY NET PROFIT GROWTH (%)



Source: MOSL

ANNUAL PERFORMANCE - MOSL UNIVERSE (RS BILLION)

	SALES					EBITDA					NET PROFIT				
	FY10	FY11E	FY12E	CHG * (%)	CHG # (%)	FY10	FY11E	FY12E	CHG * (%)	CHG # (%)	FY10	FY11E	FY12E	CHG * (%)	CHG # (%)
Auto (5)	1,819	2,240	2,596	23.1	15.9	234	325	371	38.6	14.3	106	184	214	73.1	16.2
Banks (23)	1,117	1,460	1,748	30.7	19.7	962	1,216	1,486	26.4	22.2	494	617	759	24.9	23.1
Cement (8)	563	669	787	18.9	17.6	159	148	175	-6.4	17.8	85	75	87	-11.5	15.8
Engineering (6)	942	1,116	1,401	18.5	25.6	135	178	227	32.3	27.1	104	128	160	23.2	25.0
FMCG (11)	696	815	947	17.0	16.2	149	174	208	17.1	19.4	98	114	138	16.7	21.0
IT (7)	1,053	1,242	1,438	17.9	15.8	280	323	369	15.4	14.1	210	247	280	17.7	13.1
Infrastructure (7)	312	411	507	31.4	23.6	59	88	113	49.4	27.8	13	28	29	117.7	1.7
Media (5)	68	83	95	21.6	14.7	27	35	41	28.4	17.7	16	20	24	21.1	23.4
Metals (9)	2,677	3,015	3,207	12.6	6.4	440	568	675	29.1	18.7	208	326	383	56.8	17.4
Oil Gas&Pet(11)	8,621	10,106	9,353	17.2	-7.5	1,033	1,330	1,493	28.8	12.2	557	668	762	20.1	14.1
Pharma (15)	506	561	636	10.7	13.5	105	129	140	23.2	8.6	63	91	101	45.7	10.3
Real Estate (10)	144	187	262	29.8	39.8	62	84	109	34.5	30.2	38	49	65	26.1	34.1
Retail (2)	106	105	128	-0.8	21.9	10	11	14	10.0	28.3	4	5	7	35.6	36.1
Telecom (4)	785	984	1,162	25.4	18.1	286	326	406	13.9	24.6	151	89	115	-40.7	28.6
Textiles (5)	153	181	209	18.3	15.3	29	37	43	27.3	18.2	7	9	14	29.0	50.0
Utilities (9)	843	1,078	1,339	27.8	24.2	236	327	409	38.8	24.9	161	187	241	16.6	28.8
Others (2)	88	103	121	17.4	16.9	16	20	24	30.4	19.3	9	11	14	32.9	21.7
MOSL (139)	**20,495**	**24,355**	**25,936**	**18.8**	**6.5**	**4,220**	**5,319**	**6,301**	**26.1**	**18.5**	**2,323**	**2,850**	**3,393**	**22.7**	**19.1**
Ex.RMs (136)	**15,664**	**19,013**	**21,201**	**21.4**	**11.5**	**4,035**	**5,084**	**6,027**	**26.0**	**18.5**	**2,186**	**2,732**	**3,259**	**25.0**	**19.3**
Sensex (30)	**5,474**	**6,556**	**7,166**	**19.8**	**9.3**	**1,239**	**1,565**	**1,811**	**26.2**	**15.8**	**634**	**838**	**989**	**32.2**	**17.9**
Nifty (50)	**6,420**	**7,398**	**8,070**	**15.2**	**9.1**	**1,394**	**1,715**	**2,005**	**23.0**	**16.9**	**716**	**926**	**1,099**	**29.3**	**18.7**

** Growth FY11 over FY10; # Growth FY12 over FY11. For Banks : Sales = Net Interest Income, EBITDA = Operating Profits; Note: Sensex & Nifty Numbers are Free Float*

VALUATIONS - MOSL UNIVERSE

SECTOR	P/E (X)			EV/EBITDA (X)			P/BV (X)			ROE (%)			DIV. YLD (%)	EPS CAGR
(NO. OF COMPANIES)	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY10-12
Auto (5)	21.5	12.4	10.7	9.9	6.9	5.8	6.7	4.7	3.5	31.0	37.6	32.8	1.9	41.8
Banks (23)	18.4	14.7	12.0	NM	NM	NM	3.3	2.8	2.4	18.1	19.0	20.0	1.1	24.0
Cement (8)	12.4	14.0	12.1	6.7	7.1	5.7	2.8	2.3	1.9	22.4	16.2	15.7	1.4	1.2
Engineering (6)	30.5	24.8	19.8	22.9	17.2	13.5	8.0	6.4	5.3	26.4	26.0	27.0	0.7	24.1
FMCG (11)	35.6	30.5	25.2	23.0	19.8	16.4	12.9	10.7	9.0	36.2	35.1	35.5	3.0	18.8
IT (7)	24.9	21.2	18.7	17.8	15.0	12.7	6.5	5.2	4.3	26.2	24.8	22.9	1.2	15.4
Infrastructure (7)	53.9	24.8	24.4	19.9	14.8	12.2	2.8	2.5	2.3	5.1	10.2	9.5	0.6	48.8
Media (5)	28.2	23.3	18.9	16.3	12.4	10.2	5.3	4.7	4.1	18.7	20.1	21.7	1.5	22.2
Metals (9)	17.8	11.4	9.7	9.4	7.1	5.7	2.3	1.9	1.6	12.8	16.5	16.4	1.0	35.7
Oil Gas & Petchem (11)	16.9	14.1	12.3	11.1	8.5	7.5	2.5	2.2	2.0	14.7	15.7	15.9	1.6	17.0
Pharma (15)	34.3	23.6	21.4	21.1	16.8	15.2	5.6	4.7	4.0	16.3	19.9	18.9	0.8	26.8
Real Estate (10)	30.4	24.1	18.0	23.8	16.8	12.4	1.7	1.7	1.6	5.7	6.9	8.8	0.3	30.1
Retail (2)	67.1	49.5	36.3	25.4	23.2	18.1	7.3	6.5	5.8	10.9	13.1	15.9	0.4	35.9
Telecom (4)	13.4	22.7	17.6	8.1	9.4	7.3	2.2	2.0	1.8	16.2	8.8	10.3	0.3	-12.7
Textiles (5)	13.4	10.4	6.9	8.3	6.4	5.4	1.0	0.9	0.8	7.7	8.8	11.9	0.6	39.1
Utilities (9)	23.3	20.0	15.5	18.5	14.4	12.9	2.8	2.4	2.2	11.9	12.1	14.2	1.2	22.5
Others (2)	15.3	11.5	9.4	9.6	7.3	5.8	2.7	2.3	1.9	17.6	19.7	19.6	0.8	27.2
MOSL (139)	**20.7**	**16.9**	**14.2**	**N.M**	**N.M**	**N.M**	**3.4**	**2.9**	**2.5**	**16.4**	**17.2**	**17.8**	**1.3**	**20.9**
MOSL Excl. RMs (136)	**21.3**	**17.1**	**14.3**	**N.M**	**N.M**	**N.M**	**3.5**	**3.0**	**2.6**	**16.3**	**17.4**	**18.0**	**1.2**	**22.1**
Sensex (30)	**24.2**	**18.8**	**15.9**	**N.M**	**N.M**	**N.M**	**3.8**	**3.4**	**2.9**	**15.9**	**17.9**	**18.3**	**1.5**	**24.9**
Nifty (50)	**24.7**	**18.9**	**15.9**	**N.M**	**N.M**	**N.M**	**3.8**	**3.3**	**2.8**	**15.4**	**17.3**	**17.8**	**1.4**	**23.9**

N.M. - Not Meaningful *Source: MOSL*

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Ready reckoner: quarterly performance

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
	24.09.10		SEP.10 RS M	VAR. % YOY	VAR. % QOQ	SEP.10 RS M	VAR. % YOY	VAR. % QOQ	SEP.10 RS M	VAR. % YOY	VAR. % QOQ
Automobiles											
Bajaj Auto	1,446	Neutral	42,537	47.3	9.3	9,038	42.0	16.3	6,824	57.0	15.6
Hero Honda	1,865	Buy	46,160	14.3	8.2	6,716	-7.3	17.7	5,638	-5.6	14.7
Mahindra & Mahindra	690	Buy	54,720	22.6	6.8	8,606	12.1	11.0	7,050	19.1	25.4
Maruti Suzuki	1,481	Buy	89,633	24.4	8.9	9,727	6.2	13.4	5,899	3.5	15.1
Tata Motors	1,070	Buy	272,319	29.1	0.7	36,455	129.0	-7.8	16,084	6,914.6	-20.6
Sector Aggregate			**505,369**	**27.3**	**4.1**	**70,542**	**52.1**	**1.7**	**41,495**	**87.2**	**-0.8**
Cement											
ACC	1,014	Buy	16,824	-14.6	-16.7	3,285	-50.8	-40.6	1,928	-55.7	-46.3
Ambuja Cements	146	Neutral	15,714	-2.5	-23.3	3,409	-20.7	-43.5	1,949	-31.7	-50.2
Birla Corporation	400	Buy	4,683	-7.4	-18.5	1,214	-37.2	-26.3	843	-44.5	-28.7
Grasim Industries	2,174	Buy	10,511	-	11.2	3,450	-	14.6	3,132	-	39.9
India Cements	117	Buy	8,265	-16.5	-6.2	-400	PL	PL	-1,044	PL	PL
Shree Cement	2,039	Buy	8,318	-7.5	-11.9	2,217	-45.7	-23.4	535	-81.7	-49.9
Ultratech Cement	1,026	Buy	34,085	121.2	-14.6	5,321	13.2	-46.8	1,978	-21.2	-64.5
Sector Aggregate			**98,400**	**-6.3**	**-13.7**	**18,497**	**-46.9**	**-38.6**	**9,322**	**-58.1**	**-47.3**
Engineering											
ABB	879	Neutral	15,265	5.0	5.5	840	-31.4	67.8	592	-28.7	54.6
BHEL	2,455	Buy	77,758	17.4	20.0	14,519	17.9	50.1	9,976	16.3	49.0
Crompton Greaves	320	Neutral	14,483	14.2	7.8	2,361	12.7	12.8	1,520	11.7	6.9
Larsen & Toubro	2,016	Neutral	88,160	12.1	12.5	8,992	14.6	-6.0	6,348	14.8	-4.7
Siemens	786	Buy	26,812	6.5	19.4	3,735	51.3	54.4	2,357	55.5	51.0
Thermax	787	Neutral	9,185	35.0	16.3	1,102	39.1	14.8	735	35.8	11.0
Sector Aggregate			**231,663**	**13.5**	**15.0**	**31,549**	**18.0**	**25.1**	**21,528**	**17.3**	**23.8**
FMCG											
Asian Paints	2,790	Neutral	20,515	19.0	12.1	3,693	14.4	6.4	2,423	17.8	9.1
Britannia	430	Buy	10,646	24.0	16.6	788	6.8	93.7	575	-13.0	133.8
Colgate	918	Neutral	5,511	13.1	4.2	1,371	24.0	-14.2	1,032	15.0	-15.3
Dabur	105	Neutral	10,092	19.0	10.1	2,079	18.5	52.0	1,595	14.6	49.4
Godrej Consumer	411	Neutral	9,600	66.8	49.3	2,112	88.7	77.3	1,435	54.3	70.7
GSK Consumer	2,012	Buy	5,891	19.0	9.6	884	12.5	-1.1	729	21.4	1.6
Hind. Unilever	315	Neutral	46,962	10.0	-3.7	6,387	-2.0	-6.2	4,901	-1.9	-5.9
ITC	179	Buy	50,500	16.2	4.2	18,700	17.6	14.2	11,907	17.9	11.2
Marico	129	Buy	8,168	18.0	3.4	1,062	11.8	0.7	728	16.7	-1.2
Nestle	3,291	Buy	15,497	19.0	5.7	3,037	14.9	3.3	2,114	18.5	4.9
United Spirits	1,597	Buy	14,040	30.0	-4.0	2,625	44.2	-6.6	1,065	53.0	-12.6
Sector Aggregate			**197,420**	**18.4**	**4.9**	**42,738**	**16.9**	**9.8**	**28,504**	**15.2**	**8.8**

PULL OUT

Ready reckoner: quarterly performance

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
	24.09.10		SEP.10	VAR.	VAR.	SEP.10	VAR.	VAR.	SEP.10	VAR.	VAR.
			RS M	% YOY	% QOQ	RS M	% YOY	% QOQ	RS M	% YOY	% QOQ
Information Technology											
HCL Technologies	421	Buy	34,958	15.3	2.1	5,515	-17.5	-10.2	2,963	-1.7	5.4
Infosys	3,041	Buy	67,038	20.0	8.2	22,068	14.2	12.5	16,735	8.7	12.5
MphasiS	650	Neutral	13,288	17.4	3.9	3,039	3.2	-3.8	2,298	-6.2	-15.3
Patni Computer	443	Neutral	8,060	0.2	3.6	1,520	-8.6	-3.1	1,159	-0.7	-21.3
TCS	931	Neutral	87,445	17.6	6.4	25,488	19.4	5.8	19,586	20.6	6.2
Tech Mahindra	773	Neutral	12,242	7.2	8.0	2,313	-20.9	8.7	1,099	-13.8	5.2
Wipro	446	Neutral	80,677	17.0	12.2	15,161	17.1	8.0	13,047	11.4	0.3
Sector Aggregate			**303,708**	**16.7**	**7.6**	**75,103**	**10.7**	**6.2**	**56,888**	**11.0**	**4.6**
Infrastructure											
Hindustan Construction	60	Buy	9,430	9.4	-6.5	1,160	31.7	-7.8	219	-21.7	-27.6
IVRCL Infra.	172	Neutral	12,345	1.4	11.6	1,173	2.5	16.6	384	-21.3	37.6
Jaiprakash Associates	121	Buy	23,462	28.6	-26.1	5,550	21.8	-13.6	1,608	38.5	52.0
Nagarjuna Construction	169	Buy	11,463	7.4	5.5	1,204	10.6	13.8	474	7.9	14.6
Simplex Infra.	474	Buy	10,836	5.7	-7.9	1,084	1.7	-9.7	297	6.5	-17.9
Sector Aggregate			**67,536**	**12.6**	**-10.6**	**10,169**	**16.4**	**-7.1**	**2,982**	**12.6**	**23.5**
Media											
Deccan Chronicle	133	Buy	2,671	6.5	15.2	1,541	11.1	28.5	1,122	12.4	23.0
HT Media	158	Neutral	4,103	17.9	1.5	815	24.1	2.0	416	17.5	0.6
Jagran Prakashan	126	Neutral	2,797	13.3	3.7	931	11.9	3.3	564	12.2	1.4
Sun TV	518	Neutral	4,467	39.4	1.4	3,629	49.0	0.8	1,688	29.3	-1.3
Zee Entertainment	305	Buy	7,087	31.1	4.7	2,218	47.2	18.6	1,559	36.6	28.7
Sector Aggregate			**21,125**	**23.8**	**4.4**	**9,134**	**34.0**	**9.2**	**5,349**	**24.3**	**11.4**
Metals											
Hindalco	191	Buy	169,430	11.6	-0.1	18,787	13.4	-8.7	7,764	111.7	19.0
Hindustan Zinc	1,084	Buy	21,211	16.7	7.5	11,154	3.7	9.2	9,529	1.9	7.0
JSW Steel	1,276	Buy	54,421	20.4	16.3	10,562	-4.6	2.1	3,518	-20.8	2.6
Nalco	404	Sell	14,438	22.4	10.4	4,942	248.7	25.5	3,280	105.7	15.5
Sesa Goa	334	Buy	10,048	86.5	-58.4	5,230	242.5	-66.3	4,821	189.6	-65.0
Sterlite Inds.	172	Buy	62,354	1.7	4.4	15,531	13.8	3.7	11,643	18.5	35.0
SAIL	206	Neutral	107,263	6.8	15.0	18,032	-24.5	-2.2	11,832	-28.9	0.6
Tata Steel	630	Neutral	278,046	9.5	2.2	28,677	671.3	-35.3	7,612	LP	-59.6
Sector Aggregate			**717,210**	**10.7**	**2.7**	**112,914**	**36.7**	**-18.4**	**59,998**	**105.3**	**-19.7**
Oil & Gas											
BPCL	788	Buy	373,963	38.1	9.2	23,893	LP	LP	20,447	LP	LP
Cairn India	329	Neutral	25,390	1005.0	202.0	22,150	1,561.9	242.3	15,207	712.1	440.4
Chennai Petroleum	251	Buy	79,960	14.3	25.7	2,023	-37.1	1020.7	638	-58.7	LP
GAIL	479	Buy	71,794	15.8	1.2	14,051	38.1	-2.1	9,066	27.1	2.2
Gujarat State Petronet	112	Buy	2,550	0.1	1.3	2,408	-1.4	1.1	1,032	-6.3	-1.8
HPCL	542	Buy	311,469	27.4	6.6	19,573	LP	LP	17,145	LP	LP
Indraprastha Gas	319	Neutral	4,176	52.9	24.6	1,281	28.1	20.1	697	22.7	21.9
IOC	437	Buy	788,197	29.8	10.0	66,209	1,434.8	LP	51,920	1,725.6	LP
MRPL	79	Sell	124,006	58.0	57.6	3,464	7.9	332.6	1,696	4.0	495.8
ONGC	1,437	Buy	176,663	17.1	29.3	111,347	28.3	38.6	55,812	9.7	52.4
Reliance Inds.	1,002	Neutral	579,099	23.6	-0.5	97,569	35.2	4.4	49,911	29.6	2.9
Sector Aggregate			**2,537,266**	**29.4**	**10.4**	**363,968**	**98.4**	**161.0**	**223,570**	**116.7**	**681.1**

PULL OUT

Ready reckoner: quarterly performance

	CMP (RS) 24.09.10	RECO	SALES SEP.10 RS M	SALES VAR. % YOY	SALES VAR. % QOQ	EBITDA SEP.10 RS M	EBITDA VAR. % YOY	EBITDA VAR. % QOQ	NET PROFIT SEP.10 RS M	NET PROFIT VAR. % YOY	NET PROFIT VAR. % QOQ
Pharmaceuticals											
Aventis Pharma	1,821	Neutral	2,838	9.8	4.5	424	7.1	-2.5	435	-0.7	2.6
Biocon	352	Buy	6,834	17.8	3.2	1,381	22.0	5.2	854	15.0	11.2
Cadila Health	642	Buy	10,690	13.0	-5.7	2,448	19.0	-17.7	1,531	14.1	-5.9
Cipla	317	Buy	15,676	8.8	5.9	3,966	6.8	8.8	2,940	7.4	14.2
Divis Labs	710	Buy	2,934	30.2	11.3	1,285	22.0	29.8	1,069	26.1	27.7
Dishman Pharma	188	Neutral	2,325	6.9	15.2	528	6.0	18.7	251	2.6	-7.7
Dr Reddy' s Labs	1,494	Buy	17,803	-3.1	5.8	2,581	-6.1	-5.3	2,018	-7.1	31.8
Glenmark Pharma	287	Neutral	6,917	17.2	16.8	1,700	8.7	-22.6	1,019	25.9	31.2
GSK Pharma	2,111	Buy	5,657	10.5	13.6	2,070	9.6	13.9	1,570	11.3	12.4
Jubiliant Organosys	339	Neutral	10,485	12.4	6.8	1,964	6.1	25.3	948	64.4	51.2
Lupin	401	Buy	13,703	22.9	4.4	2,629	60.2	0.3	1,971	22.9	0.4
Opto Circuits	308	Buy	3,233	26.4	10.7	1,007	11.0	3.7	827	19.8	-0.2
Piramal Healthcare	516	Neutral	8,594	-14.1	2.0	1,476	-16.8	14.5	883	-17.1	6.9
Ranbaxy Labs	570	Neutral	18,793	-0.3	-12.6	1,842	-24.1	-55.8	1,137	117.5	-25.0
Sun Pharma	1,921	Buy	9,790	-17.4	-30.1	3,364	-30.4	-45.4	2,952	23.2	-12.2
Sector Aggregate			**136,273**	**5.0**	**-1.0**	**28,664**	**0.6**	**-14.0**	**20,404**	**15.9**	**5.6**
Real Estate											
Anant Raj Inds	138	Buy	938	7.7	-9.3	523	-34.6	-8.2	518	-27.3	13.1
DLF	366	Buy	21,684	23.8	6.9	10,732	17.4	9.6	4,534	3.1	10.3
HDIL	266	Buy	4,138	17.0	-8.2	1,949	8.5	-27.1	1,535	3.3	-34.5
Mahindra Lifespace	450	Buy	783	23.2	15.2	235	59.4	44.4	217	7.2	50.0
Phoenix Mills	241	Buy	412	56.0	1.8	290	59.4	-1.2	163	-7.0	-10.7
Unitech	85	Buy	8,054	58.1	-2.8	2,481	-16.7	-15.6	1,653	-7.0	-8.2
Sector Aggregate			**36,008**	**29.0**	**2.3**	**16,209**	**7.8**	**-1.4**	**8,621**	**-1.5**	**-4.6**
Retailing											
Pantaloon Retail	500	Buy	10,250	-	-	1,190	-	-	283	-	-
Titan Industries	3,351	Neutral	15,138	32.0	20.8	1,468	35.8	32.0	1,029	32.5	26.5
Sector Aggregate			**25,388**	**-13.2**	**-23.0**	**2,658**	**-10.9**	**-19.4**	**1,312**	**8.0**	**-2.4**
Telecom											
Bharti Airtel	368	Buy	153,368	47.8	25.4	53,724	24.9	21.7	16,540	-26.9	-1.6
Idea Cellular	77	Buy	36,791	23.7	0.7	8,700	7.5	-2.1	1,698	-22.9	-15.7
Reliance Comm	170	Buy	51,650	-9.4	1.1	16,548	-18.1	1.4	3,005	-63.5	0.4
Tulip Telecom	172	Buy	5,767	17.5	9.8	1,585	25.0	11.8	768	48.5	19.8
Sector Aggregate			**247,575**	**26.7**	**15.0**	**80,557**	**11.0**	**13.8**	**22,012**	**-34.5**	**-2.0**
Textiles											
Alok Ind	21	Neutral	13,267	36.1	20.7	3,596	23.7	10.0	614	7.7	31.4
Arvind Mills	43	Neutral	6,584	10.2	14.0	930	14.0	-0.3	217	42.8	13.6
Bombay Rayon	267	Buy	5,630	45.7	12.0	1,436	56.3	12.2	600	46.3	15.1
Raymond	375	Buy	3,366	-15.5	37.8	441	-23.3	LP	12	-93.1	LP
Vardhman Textiles	305	Buy	8,646	28.1	6.6	1,853	37.2	3.5	706	40.0	-7.6
Sector Aggregate			**37,493**	**23.6**	**15.9**	**8,256**	**25.7**	**13.7**	**2,150**	**18.3**	**25.4**

PL: Profit to Loss; LP: Loss to Profit

PULL OUT

Ready reckoner: quarterly performance

	CMP (RS) 24.09.10	RECO	SALES SEP.10 RS M	SALES VAR. % YOY	SALES VAR. % QOQ	EBITDA SEP.10 RS M	EBITDA VAR. % YOY	EBITDA VAR. % QOQ	NET PROFIT SEP.10 RS M	NET PROFIT VAR. % YOY	NET PROFIT VAR. % QOQ
Utilities											
CESC	401	Buy	11,008	16.0	1.7	2,697	28.4	11.4	1,370	8.7	24.5
NTPC	209	Buy	121,306	12.5	-6.3	37,605	17.0	25.9	23,629	4.9	18.9
PTC India	122	Buy	30,407	23.7	10.3	365	22.9	35.6	379	22.5	33.4
Power Grid Corp.	106	Buy	19,846	13.5	-0.7	16,671	13.2	-0.8	6,337	23.0	8.2
Reliance Infrastructure	1,075	Buy	31,265	18.0	40.3	3,126	-0.1	23.4	3,133	2.1	27.2
Tata Power	1,328	Neutral	17,555	2.0	-2.6	3,994	-4.2	3.6	1,771	11.5	-19.3
Sector Aggregate			**231,388**	**13.9**	**1.4**	**64,458**	**14.0**	**15.6**	**36,617**	**8.0**	**15.3**
Others											
Sintex Inds.	363	Buy	10,233	43.0	12.4	1,893	45.0	37.8	1,125	61.9	18.7
United Phosphorous	188	Buy	12,950	11.5	-12.9	2,590	29.2	-15.9	1,413	38.1	-0.7
Sector Aggregate			**23,184**	**23.6**	**-3.3**	**4,484**	**35.5**	**0.7**	**2,539**	**47.8**	**7.0**

	CMP (RS) 24.09.10	RECO	NET INT INCOME SEP.10 RS M	NET INT INCOME VAR. % YOY	NET INT INCOME VAR. % QOQ	OPERATING PROFIT SEP.10 RS M	OPERATING PROFIT VAR. % YOY	OPERATING PROFIT VAR. % QOQ	NET PROFIT SEP.10 RS M	NET PROFIT VAR. % YOY	NET PROFIT VAR. % QOQ
Banks											
Andhra Bank	165	Buy	7,549	46.7	2.5	5,317	17.4	4.2	2,903	6.0	-9.4
Axis Bank	1,506	Buy	15,547	35.2	2.7	14,514	11.2	0.1	7,127	34.1	-3.9
Bank of Baroda	874	Buy	19,146	37.9	3.0	15,321	48.5	0.3	8,626	36.0	0.4
Bank of India	497	Buy	18,387	30.5	5.6	14,483	20.1	2.7	6,957	115.2	-4.1
Canara Bank	574	Buy	17,782	35.4	2.9	14,406	1.5	-2.9	9,198	1.0	-9.2
Corporation Bank	699	Buy	7,162	42.2	2.7	6,384	19.2	2.9	3,347	14.8	0.3
Dena Bank	108	Buy	3,763	56.5	4.4	2,386	47.7	0.0	1,284	3.1	-7.5
Dewan Housing	280	Buy	1,163	58.3	15.4	763	51.0	14.4	564	50.2	10.1
Federal Bank	389	Buy	4,361	32.2	5.5	3,685	21.5	9.9	1,386	37.1	5.1
HDFC	732	Neutral	9,793	24.8	4.7	11,083	19.6	12.9	7,872	18.6	13.3
HDFC Bank	2,491	Neutral	25,134	28.5	4.7	18,864	18.4	7.9	9,175	33.5	13.0
ICICI Bank	1,112	Buy	20,657	1.5	3.7	22,792	-6.4	4.2	11,607	11.6	13.1
Indian Bank	264	Buy	9,736	28.3	5.1	8,190	47.9	-2.2	3,730	0.3	1.3
LIC Housing Fin	1,356	Neutral	3,410	43.8	1.7	2,862	53.8	-4.1	2,044	19.4	-3.6
Oriental Bank	441	Buy	10,860	93.6	2.7	8,445	67.3	2.7	3,488	28.8	-4.0
Punjab National Bank	1,285	Buy	26,984	34.1	3.0	21,230	32.2	1.2	11,044	19.1	3.4
Rural Electric. Corp.	342	Buy	8,049	36.2	3.7	8,529	31.8	7.5	6,305	27.5	7.4
Shriram Transport Fin.	760	Buy	7,342	39.3	4.7	6,113	46.1	8.7	3,134	51.1	8.5
South Indian Bank	25	Buy	1,735	5.0	3.7	1,129	-15.7	8.1	606	-16.5	3.7
State Bank	3,144	Buy	75,712	35.0	3.7	62,249	28.7	1.5	29,681	19.2	1.8
Union Bank	385	Buy	13,901	61.0	3.1	11,125	37.3	6.6	5,418	7.2	-9.9
Yes Bank	336	Buy	2,745	71.6	4.7	2,782	45.0	11.7	1,609	44.0	2.9
Sector Aggregate			**310,918**	**34.1**	**3.7**	**262,653**	**23.3**	**3.0**	**137,106**	**21.9**	**1.8**

PULL OUT

Ready reckoner: valuations

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA (X)			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Automobiles														
Bajaj Auto	1,446	Neutral	62.8	90.3	98.6	23.0	16.0	14.7	15.1	10.7	9.4	78.8	67.4	48.6
Hero Honda	1,865	Buy	112.2	113.6	133.9	16.6	16.4	13.9	11.8	11.1	8.7	61.7	53.8	39.2
Mahindra & Mahindra	690	Buy	42.6	57.8	67.9	16.2	11.9	10.2	6.2	5.4	4.4	26.1	23.9	22.1
Maruti Suzuki	1,481	Buy	90.8	92.6	110.7	16.3	16.0	13.4	9.0	8.6	7.0	21.1	17.2	17.8
Tata Motors	1,070	Buy	24.1	120.5	140.3	44.4	8.9	7.6	10.6	5.5	4.9	18.3	51.8	39.9
Sector Aggregate						**21.5**	**12.4**	**10.7**	**9.9**	**6.9**	**5.8**	**31.0**	**37.6**	**32.8**
Cement														
ACC	1,014	Buy	86.7	69.3	78.0	11.7	14.6	13.0	7.0	8.4	6.7	29.8	20.3	19.0
Ambuja Cements	146	Neutral	7.8	8.4	9.0	18.8	17.5	16.2	11.2	10.5	8.7	19.6	18.6	17.9
Birla Corporation	400	Buy	72.4	60.3	63.2	5.5	6.6	6.3	3.3	3.0	3.3	31.1	21.1	18.6
Grasim Industries	2,174	Buy	298.2	249.9	275.0	7.3	8.7	7.9	3.2	3.6	3.0	22.7	15.9	15.3
India Cements	117	Buy	10.9	3.0	6.9	10.7	38.7	16.8	6.9	12.0	8.1	8.4	2.2	4.7
Kesoram Ind	320	Buy	49.7	43.1	55.2	6.4	7.4	5.8	6.0	5.6	5.4	15.8	12.1	13.9
Shree Cement	2,039	Buy	203.7	121.1	144.5	10.0	16.8	14.1	5.9	7.7	6.1	46.6	20.9	20.8
Ultratech Cement	1,026	Buy	87.8	52.7	67.9	11.7	19.5	15.1	14.2	10.0	7.3	26.6	18.6	15.8
Sector Aggregate						**12.4**	**14.0**	**12.1**	**6.7**	**7.1**	**5.7**	**22.4**	**16.2**	**15.7**
Engineering														
ABB	879	Neutral	16.7	14.1	25.4	52.5	62.5	34.6	34.2	40.7	21.8	15.6	11.7	18.4
BHEL	2,455	Buy	95.7	119.3	146.7	25.7	20.6	16.7	18.7	12.4	9.9	32.5	32.7	32.3
Crompton Greaves	320	Neutral	12.6	14.1	17.3	25.3	22.6	18.4	23.3	18.9	15.1	38.4	34.2	32.9
Larsen & Toubro	2,016	Neutral	61.6	75.8	93.7	32.7	26.6	21.5	26.5	21.9	17.5	19.8	19.4	20.3
Siemens	786	Buy	16.5	24.0	30.2	47.8	32.7	26.0	24.5	19.1	15.3	26.2	25.1	26.1
Thermax	787	Neutral	21.8	30.4	40.6	36.2	25.9	19.4	21.9	16.5	12.4	25.0	29.9	31.5
Sector Aggregate						**30.5**	**24.8**	**19.8**	**22.9**	**17.2**	**13.5**	**26.4**	**26.0**	**27.0**
FMCG														
Asian Paints	2,790	Neutral	80.5	94.9	115.2	34.7	29.4	24.2	21.4	18.3	15.2	45.1	41.6	40.3
Britannia	430	Buy	14.2	17.7	22.1	30.3	24.3	19.4	31.0	17.6	13.9	42.7	40.5	39.5
Colgate	918	Neutral	29.7	33.7	38.7	30.9	27.3	23.7	24.2	19.5	16.3	156.0	124.6	115.4
Dabur	105	Neutral	2.9	3.3	4.1	36.5	31.7	25.7	28.6	23.7	19.6	45.8	41.5	40.0
Godrej Consumer	411	Neutral	11.7	15.6	19.0	35.2	26.3	21.7	30.3	19.7	16.1	37.7	30.1	31.1
GSK Consumer	2,012	Buy	55.4	68.1	83.1	36.3	29.5	24.2	24.8	21.2	17.0	25.7	26.5	27.0
Hind. Unilever	315	Neutral	9.4	9.6	11.3	33.3	32.9	27.9	23.8	23.7	19.8	79.7	72.4	71.7
ITC	179	Buy	5.3	6.3	7.5	33.6	28.4	23.9	20.5	17.5	14.7	29.2	31.3	31.5
Marico	129	Buy	4.0	4.6	5.7	32.4	28.1	22.5	21.7	18.9	15.5	36.9	32.8	30.3
Nestle	3,291	Buy	72.4	83.8	106.9	45.5	39.3	30.8	30.3	26.4	20.8	120.0	108.9	115.0
United Spirits	1,597	Buy	25.8	43.5	61.4	61.9	36.7	26.0	22.6	18.4	14.8	8.0	12.0	14.8
Sector Aggregate						**35.6**	**30.5**	**25.2**	**23.0**	**19.8**	**16.4**	**36.2**	**35.1**	**35.5**

Ready reckoner: valuations

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA (X)			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Information Technology														
HCL Technologies	421	Buy	17.1	25.2	29.2	24.6	16.7	14.4	11.8	10.2	8.4	18.5	22.5	21.9
Infosys	3,041	Buy	107.4	122.8	150.5	28.3	24.8	20.2	20.3	16.9	13.8	29.7	27.4	27.7
MphasiS	650	Neutral	49.6	54.5	60.1	13.1	11.9	10.8	10.9	9.1	7.7	37.5	30.7	26.2
Patni Computer	443	Neutral	36.1	40.8	39.7	12.3	10.9	11.2	6.0	6.7	5.6	15.7	17.4	16.8
TCS	931	Neutral	35.1	41.0	44.5	26.6	22.7	20.9	20.6	16.7	14.7	37.3	32.8	27.8
Tech Mahindra	773	Neutral	45.0	55.6	60.6	17.2	13.9	12.8	7.3	8.1	7.0	31.6	27.1	22.9
Wipro	446	Neutral	18.6	21.9	23.9	23.9	20.4	18.6	17.6	14.8	12.7	26.6	24.1	21.4
Sector Aggregate						**24.9**	**21.2**	**18.7**	**17.8**	**15.0**	**12.7**	**26.2**	**24.8**	**22.9**
Infrastructure														
GMR Infrastructure	58	Neutral	0.4	1.2	1.4	134.5	50.4	42.8	26.1	14.3	13.0	2.4	6.0	6.7
GVK Power & Infra	48	Buy	1.0	2.1	3.3	47.2	23.6	14.8	22.0	15.8	10.9	4.9	9.5	13.4
Hindustan Construction	60	Buy	1.7	2.2	3.2	35.0	27.3	18.8	12.6	10.0	8.1	6.9	7.0	9.4
IVRCL Infra.	172	Neutral	7.8	8.2	11.2	22.0	20.8	15.4	11.0	10.2	8.2	11.5	11.5	14.1
Jaiprakash Associates	121	Buy	1.4	5.9	3.6	84.8	20.7	33.9	23.5	18.8	15.1	4.0	13.6	7.5
Nagarjuna Construction	169	Buy	9.2	11.7	14.3	18.3	14.5	11.8	10.7	9.1	7.6	9.8	10.4	12.1
Simplex Infra.	474	Buy	24.8	33.2	45.2	19.1	14.3	10.5	8.2	6.4	5.4	13.1	15.7	18.3
Sector Aggregate						**53.9**	**24.8**	**24.4**	**19.9**	**14.8**	**12.2**	**5.1**	**10.2**	**9.5**
Media														
Deccan Chronicle	133	Buy	10.8	12.9	15.5	12.3	10.3	8.6	6.0	4.9	3.9	20.9	22.4	24.0
HT Media	158	Neutral	6.7	7.8	9.0	23.7	20.3	17.4	13.8	11.6	10.2	14.5	15.1	15.6
Jagran Prakashan	126	Neutral	5.8	6.6	7.0	21.5	19.0	18.1	13.0	11.0	10.0	28.7	30.4	31.8
Sun TV	518	Neutral	14.4	17.7	22.3	36.0	29.2	23.2	18.0	13.1	10.8	28.2	27.9	28.0
Zee Entertainment	305	Buy	10.5	12.0	15.4	29.1	25.5	19.8	23.4	16.7	13.0	12.9	14.4	17.0
Sector Aggregate						**28.2**	**23.3**	**18.9**	**16.3**	**12.4**	**10.2**	**18.7**	**20.1**	**21.7**
Metals														
Hindalco	191	Buy	9.6	15.0	17.8	19.8	12.7	10.7	7.6	7.2	6.6	14.0	18.3	18.2
Hindustan Zinc	1,084	Buy	95.6	105.1	121.9	11.3	10.3	8.9	7.3	6.0	4.5	22.3	20.0	19.1
JSW Steel	1,276	Buy	59.4	67.4	122.4	21.5	18.9	10.4	11.9	9.7	4.7	12.4	9.6	14.6
Nalco	404	Sell	12.9	19.3	21.1	31.3	20.9	19.2	19.7	12.0	10.1	8.0	11.0	11.0
Prakash Inds	163	Buy	21.9	18.1	29.7	7.5	9.0	5.5	7.3	6.4	4.2	20.6	14.1	19.3
SAIL	206	Neutral	16.5	14.7	14.0	12.5	14.0	14.7	8.4	9.0	9.9	20.2	15.8	13.5
Sesa Goa	334	Buy	31.6	63.6	68.7	10.6	5.3	4.9	7.5	3.0	1.8	33.2	40.9	31.0
Sterlite Inds.	172	Buy	12.0	14.7	21.4	14.3	11.7	8.0	7.8	6.2	3.4	10.9	12.0	15.2
Tata Steel	630	Neutral	-9.3	65.4	66.3	-67.7	9.6	9.5	12.5	6.9	6.9	-9.7	39.8	29.8
Sector Aggregate						**17.8**	**11.4**	**9.7**	**9.4**	**7.1**	**5.7**	**12.8**	**16.5**	**16.4**
Oil & Gas														
BPCL	788	Buy	45.2	57.3	60.3	17.5	13.8	13.1	18.2	10.2	8.4	11.9	14.0	13.4
Cairn India	329	Neutral	5.5	26.6	42.8	59.5	12.4	7.7	66.6	8.4	5.2	14.1	19.8	18.7
Chennai Petroleum	251	Buy	32.7	18.9	26.7	7.7	13.3	9.4	9.8	8.9	7.6	18.5	8.1	11.0
GAIL	479	Buy	24.8	28.9	31.8	19.4	16.6	15.1	16.3	14.5	12.9	18.7	19.1	18.6
Gujarat State Petronet	112	Buy	7.4	7.7	6.5	15.3	14.7	17.3	7.7	7.1	7.4	29.4	24.4	17.5
HPCL	542	Buy	38.4	39.0	42.2	14.1	13.9	12.8	11.7	9.4	8.5	11.7	11.1	11.2
Indraprastha Gas	319	Neutral	15.4	18.6	21.2	20.7	17.1	15.1	11.6	8.9	7.6	28.6	28.8	27.2
IOC	437	Buy	44.1	34.4	40.1	9.9	12.7	10.9	17.2	13.2	11.1	21.9	15.2	16.2
MRPL	79	Sell	6.0	4.0	4.4	13.1	19.9	18.1	9.0	13.1	13.7	20.5	12.0	12.2
ONGC	1,437	Buy	90.7	114.6	129.6	15.8	12.5	11.1	6.4	5.4	4.9	20.2	22.7	22.4
Reliance Inds.	1,002	Neutral	54.8	67.9	71.0	18.3	14.8	14.1	12.4	9.6	8.7	13.4	14.6	13.5
Sector Aggregate						**16.9**	**14.1**	**12.3**	**11.1**	**8.5**	**7.5**	**14.7**	**15.7**	**15.9**

PULL OUT

Ready reckoner: valuations

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA (X)			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Pharmaceuticals														
Aventis Pharma	1,821	Neutral	68.4	69.2	82.3	26.6	26.3	22.1	24.4	22.8	18.2	17.1	15.8	17.1
Biocon	352	Buy	14.7	17.0	20.3	24.0	20.8	17.4	14.8	12.1	10.5	16.7	16.8	17.4
Cadila Health	642	Buy	24.9	29.1	37.5	25.8	22.1	17.1	17.2	13.5	11.6	36.2	31.9	31.8
Cipla	317	Buy	12.5	14.1	16.8	25.3	22.5	18.8	18.5	16.0	14.2	17.0	16.8	17.4
Divis Labs	710	Buy	25.8	30.6	38.1	27.6	23.2	18.7	23.2	19.3	15.0	22.4	22.3	23.1
Dishman Pharma	188	Neutral	14.2	14.6	17.7	13.2	12.8	10.6	11.1	9.7	7.9	15.3	14.0	14.9
Dr Reddy' s Labs	1,494	Buy	6.3	48.7	59.3	236.2	30.7	25.2	22.2	23.2	19.6	2.5	18.6	19.6
GSK Pharma	2,111	Buy	59.6	68.0	78.2	35.4	31.0	27.0	24.5	21.6	18.4	28.7	29.9	31.3
Glenmark Pharma	287	Neutral	11.6	15.5	19.2	24.6	18.5	14.9	15.9	11.7	11.1	14.1	15.4	16.2
Jubiliant Organosys	339	Neutral	28.6	25.7	28.8	11.9	13.2	11.8	10.7	9.9	8.7	29.5	21.0	19.3
Lupin	401	Buy	15.3	18.7	22.1	26.1	21.4	18.1	22.0	17.1	14.2	34.1	29.1	28.1
Opto Circuits	308	Buy	13.3	18.4	22.6	23.2	16.7	13.6	15.6	14.0	11.5	32.4	27.8	28.0
Piramal Healthcare	516	Neutral	23.4	10.7	-	22.1	48.0	-	17.7	32.1	-	32.5	13.1	-
Ranbaxy Labs	570	Neutral	3.6	34.5	11.6	158.1	16.5	49.3	45.1	13.3	25.3	3.5	24.2	7.3
Sun Pharma	1,921	Buy	65.2	61.8	74.7	29.4	31.1	25.7	26.6	20.6	19.9	12.2	15.2	16.0
Sector Aggregate						**34.3**	**23.6**	**21.4**	**21.1**	**16.8**	**15.2**	**16.3**	**19.9**	**18.9**
Real Estate														
Anant Raj Inds	138	Buy	8.1	7.9	14.6	17.1	17.6	9.4	14.4	13.7	8.3	6.6	6.1	10.3
Brigade Enterpr.	149	Buy	4.2	12.0	17.9	35.3	12.4	8.3	51.4	9.0	5.7	4.6	12.1	16.2
DLF	366	Buy	10.2	12.4	15.8	35.9	29.4	23.1	23.8	17.4	14.4	5.7	7.2	8.9
HDIL	266	Buy	15.8	16.9	20.8	16.8	15.8	12.8	18.0	13.8	10.2	8.1	7.9	9.2
Indiabulls Real Estate	174	Buy	-0.6	7.7	16.7	-280.5	22.6	10.4	-68.1	29.0	9.3	-0.2	2.0	4.1
Mahindra Lifespace	450	Buy	19.0	23.8	28.4	23.7	18.9	15.9	18.1	12.3	10.9	7.9	9.2	10.0
Peninsula Land	66	Neutral	11.6	11.9	13.2	5.7	5.5	5.0	5.1	4.0	3.7	27.1	24.0	22.9
Phoenix Mills	241	Buy	4.1	5.4	9.3	59.4	44.4	25.9	54.8	29.4	21.0	3.8	4.8	7.8
Puravankara Projects	125	Neutral	6.8	8.2	9.8	18.3	15.3	12.7	20.6	15.1	9.9	9.8	10.8	11.8
Unitech	85	Buy	2.8	3.2	4.3	30.8	26.5	19.8	24.5	20.3	13.3	6.5	7.0	8.6
Sector Aggregate						**30.4**	**24.1**	**18.0**	**23.8**	**16.8**	**12.4**	**5.7**	**6.9**	**8.8**
Retailing														
Pantaloon Retail	500	Buy	5.7	6.0	8.6	87.8	82.9	58.1	16.6	19.4	15.7	4.3	4.3	5.8
Titan Industries	3,351	Neutral	58.9	87.1	116.7	56.9	38.5	28.7	39.0	26.9	20.0	36.1	39.9	39.8
Sector Aggregate						**67.1**	**49.5**	**36.3**	**25.4**	**23.2**	**18.1**	**10.9**	**13.1**	**15.9**
Telecom														
Bharti Airtel	368	Buy	23.7	18.3	22.7	15.6	20.1	16.2	8.5	9.3	7.2	23.6	14.3	15.4
Idea Cellular	77	Buy	3.1	1.7	2.7	25.1	44.5	29.1	9.4	10.3	7.5	7.6	4.9	7.1
Reliance Comm	170	Buy	23.7	5.3	7.7	7.2	31.7	22.1	7.0	9.7	7.9	12.6	2.8	3.9
Tulip Telecom	172	Buy	17.0	20.2	27.6	10.1	8.5	6.2	6.3	5.2	3.8	34.6	30.9	31.6
Sector Aggregate						**13.4**	**22.7**	**17.6**	**8.1**	**9.4**	**7.3**	**16.2**	**8.8**	**10.3**
Textiles														
Alok Ind	21	Neutral	3.4	3.9	6.7	6.1	5.4	3.1	6.8	5.6	5.1	9.8	9.2	14.1
Arvind Mills	43	Neutral	2.4	3.0	4.0	17.8	14.3	10.8	6.6	5.4	4.7	2.7	3.3	4.2
Bombay Rayon	267	Buy	14.4	23.2	37.6	18.5	11.5	7.1	13.6	8.6	6.0	10.6	13.3	18.4
Raymond	375	Buy	1.3	5.6	15.7	282.2	67.1	23.9	35.9	11.9	8.8	-2.0	1.3	3.7
Vardhman Textiles	305	Buy	42.5	46.8	48.2	7.2	6.5	6.3	5.6	4.7	4.1	15.0	14.4	13.1
Sector Aggregate						**13.4**	**10.4**	**6.9**	**8.3**	**6.4**	**5.4**	**7.7**	**8.8**	**11.9**

PULL OUT

Ready reckoner: valuations

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA (X)			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Utilities														
Adani Power	136	Not Rated	0.8	2.6	8.5	174.3	51.4	16.0	160.2	47.2	13.9	2.9	9.6	26.3
CESC	401	Buy	34.5	37.0	38.8	11.6	10.8	10.3	9.0	6.3	6.7	13.8	13.0	12.2
JSW Energy	123	Not Rated	4.7	7.7	11.9	26.4	15.9	10.3	18.2	12.6	6.8	16.0	23.9	29.4
NTPC	209	Buy	11.2	11.5	13.2	18.7	18.2	15.9	15.0	10.5	11.0	15.4	14.4	15.1
Power Grid Corp.	106	Buy	5.5	5.7	7.2	19.3	18.4	14.7	13.6	11.9	10.8	15.1	13.9	14.2
PTC India	122	Buy	3.2	4.5	5.7	38.2	26.8	21.5	70.0	21.6	15.4	5.2	6.3	7.5
Reliance Infra.	1,075	Buy	43.1	44.5	57.4	24.9	24.1	18.7	29.3	27.1	20.3	9.1	7.7	8.8
Reliance Power	161	Not Rated	-	4.4	5.8	-	36.4	27.5	-	82.6	56.9	-	7.2	8.8
Tata Power	1,328	Neutral	62.4	76.8	102.3	21.3	17.3	13.0	19.2	19.5	18.5	7.9	7.7	7.6
Sector Aggregate						**23.3**	**20.0**	**15.5**	**18.5**	**14.4**	**12.9**	**11.9**	**12.1**	**14.2**
Others														
Sintex Inds.	363	Buy	22.8	30.6	39.0	15.9	11.8	9.3	11.9	8.1	6.4	18.0	18.8	20.5
United Phosphorous	188	Buy	12.0	15.8	18.7	15.7	11.9	10.0	8.4	6.9	5.4	18.8	20.9	20.3
Sector Aggregate						**15.3**	**11.5**	**9.4**	**9.6**	**7.3**	**5.8**	**17.6**	**19.7**	**19.6**

	CMP (RS)	RECO	EPS (RS)			P/E (X)			P/BV (X)			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Banks														
Andhra Bank	165	Buy	21.6	24.8	29.8	7.7	6.7	5.6	1.8	1.5	1.2	26.0	24.7	24.5
Axis Bank	1,506	Buy	62.1	78.4	96.7	24.3	19.2	15.6	3.8	3.3	2.8	19.2	18.3	19.4
Bank of Baroda	874	Buy	83.7	98.3	118.1	10.4	8.9	7.4	2.3	1.9	1.6	23.8	23.3	23.3
Bank of India	497	Buy	33.1	54.4	65.5	15.0	9.1	7.6	2.0	1.7	1.5	14.2	20.5	20.9
Canara Bank	574	Buy	73.7	86.7	100.3	7.8	6.6	5.7	1.9	1.5	1.3	26.8	25.4	24.0
Corporation Bank	699	Buy	81.6	98.9	114.7	8.6	7.1	6.1	1.7	1.5	1.2	21.9	22.5	22.0
Dena Bank	108	Buy	17.8	17.9	21.8	6.1	6.1	5.0	1.3	1.1	0.9	23.5	19.6	20.1
Dewan Housing	280	Buy	18.4	22.3	31.5	15.3	12.6	8.9	2.8	1.9	1.6	22.7	19.7	19.8
Federal Bank	389	Buy	27.2	35.6	43.2	14.3	10.9	9.0	1.4	1.3	1.2	10.3	12.3	13.5
HDFC	732	Neutral	19.7	23.4	27.8	37.2	31.3	26.3	6.9	6.0	5.3	25.3	25.5	25.8
HDFC Bank	2,491	Neutral	64.4	86.4	112.0	38.7	28.8	22.2	5.3	4.6	4.0	16.1	17.1	19.2
ICICI Bank	1,112	Buy	36.1	46.0	57.3	30.8	24.2	19.4	3.2	2.9	2.7	9.7	11.8	13.6
Indian Bank	264	Buy	36.2	34.4	42.4	7.3	7.7	6.2	1.7	1.5	1.3	25.0	20.1	21.2
Kotak Mahindra Bank	484	Neutral	17.8	21.4	26.3	27.2	22.7	18.4	4.3	3.2	2.8	17.9	17.0	16.6
LIC Housing Fin	1,356	Neutral	69.6	92.8	111.8	19.5	14.6	12.1	3.8	3.1	2.6	23.5	23.4	23.2
Oriental Bank	441	Buy	45.3	58.4	70.8	9.7	7.6	6.2	1.5	1.3	1.1	16.5	18.5	19.4
Punjab National Bank	1,285	Buy	123.9	139.4	171.1	10.4	9.2	7.5	2.5	2.1	1.7	26.6	24.4	24.7
Rural Electric. Corp.	342	Buy	20.3	25.6	32.1	16.9	13.3	10.6	3.0	2.7	2.3	22.0	21.3	23.2
Shriram Transport Fin.	760	Buy	38.7	58.5	70.3	19.6	13.0	10.8	4.5	3.5	2.8	28.6	30.2	28.5
State Bank	3,144	Buy	184.8	236.2	296.7	17.0	13.3	10.6	2.5	2.1	1.8	15.6	17.3	18.7
South Indian Bank	25	Buy	2.1	2.3	2.9	11.9	10.7	8.6	1.9	1.7	1.4	16.9	16.7	18.1
Union Bank	385	Buy	41.1	49.4	60.5	9.4	7.8	6.4	2.2	1.8	1.5	26.2	25.3	25.2
Yes Bank	336	Buy	14.1	19.2	25.1	23.9	17.5	13.4	3.7	3.1	2.6	20.3	19.3	21.1
Sector Aggregate						**18.4**	**14.7**	**12.0**	**3.3**	**2.8**	**2.4**	**18.1**	**19.0**	**20.0**

PULL OUT

BSE Sensex: 20,045 **S&P CNX:** 6,018 **As on:** 24 September 2010

Sectors & Companies

Note: In our quarterly performance tables, our four-quarter numbers may not always add up to the full-year numbers. This is because of differences in classification of account heads in the company's quarterly and annual results or because of differences in the way we classify account heads as opposed to the company. **All stock prices and indices as on 24 September 2010, unless otherwise stated.**

Automobiles

BSE Sensex: 20,045 | S&P CNX: 6,018 | 24 September 2010

COMPANY NAME

Bajaj Auto

Hero Honda

Mahindra & Mahindra

Maruti Suzuki India

Tata Motors

Strong momentum in volumes continues: Momentum in volumes continues to be strong, driven by strong economic recovery, availability of credit, new product launches and pre-buying due to BS-III norm implementation from October 2010. Growth remains strong for all the segments, with two-wheelers growing by 26.9% YoY (~6.3% QoQ), cars by 24.3% YoY (~10.1% QoQ), commercial vehicles by 32.7% YoY (~8.5% QoQ) and UVs by 31.1% YoY (~10.3% QoQ). Growth could have been higher but for shortage of components across segments.

EBITDA margins to moderate from peak due to raw material cost inflation: We expect EBITDA margins to expand 70bp QoQ (~180bp YoY decline) to 13.8%, aided by softening in commodity cost. In the medium term, increase in raw material cost would be partly offset by price increases as well as higher operating leverage.

Sector outlook remains positive despite headwinds: Volume outlook for the industry remains positive based on improvement in economic activity, above average monsoon, easy availability of finance and improved outlook for exports. This coupled with new product launches would aid volume growth. However, hardening of interest rate, strengthening of commodity prices and pricing action to mitigate raw material cost increases and compliance with BS emission norms would act as short term impediments in 2HCY10.

Valuation and view: Most auto stocks have outperformed the benchmark over the last one year on the back of recovery in volumes and margin expansion. Volume outlook remains positive. Operating margins are likely to moderate from peak levels of FY10 but would remain higher than the historical average. Valuations remain attractive. Our top picks are **M&M** and **Tata Motors**.

KEY OPERATING INDICATORS

	VOLUMES ('000 UNITS)					EBITDA MARGINS (%)				
	2QFY11E	2QFY10	YOY (%)	1QFY11	QOQ (%)	2QFY11E	2QFY10	YOY (BP)	1QFY11	QOQ (BP)
Bajaj Auto	999	687	45.4	928	7.6	21.2	22.0	-80	20.0	130
Hero Honda	1,322	1,183	11.8	1,234	7.2	14.6	17.9	-340	13.4	120
Maruti Suzuki	309	246	25.4	283	8.9	11.0	12.9	-190	10.6	40
M&M	134	109	22.8	127	5.4	15.6	17.1	-150	15.0	60
Tata Motors (S/A)	218	158	37.7	190	14.6	11.9	13.4	-160	11.3	50
Tata Motors (Cons)						13.4	7.5	580	14.6	-120
Aggregate *	**2,982**	**2,384**	**25.1**	**2,763**	**7.9**	**13.8**	**15.6**	**-180**	**13.1**	**70**

** Aggregate includes Tata Motor's standalone performance only*

Source: SIAM/ MOSL

EXPECTED QUARTERLY PERFORMANCE SUMMARY (RS MILLION)

	CMP (RS) 24.09.10	RECO	SALES SEP.10	VAR. % YOY	VAR. % QOQ	EBITDA SEP.10	VAR. % YOY	VAR. % QOQ	NET PROFIT SEP.10	VAR. % YOY	VAR. % QOQ
Automobiles											
Bajaj Auto	1,446	Neutral	42,537	47.3	9.3	9,038	42.0	16.3	6,824	57.0	15.6
Hero Honda	1,865	Buy	46,160	14.3	8.2	6,716	-7.3	17.7	5,638	-5.6	14.7
Mahindra & Mahindra	690	Buy	54,720	22.6	6.8	8,606	12.1	11.0	7,050	19.1	25.4
Maruti Suzuki	1,481	Buy	89,633	24.4	8.9	9,727	6.2	13.4	5,899	3.5	15.1
Tata Motors	1,070	Buy	272,319	29.1	0.7	36,455	129.0	-7.8	16,084	6914.6	-20.6
Sector Aggregate			**505,369**	**27.3**	**4.1**	**70,542**	**52.1**	**1.7**	**41,495**	**87.2**	**-0.8**

Jinesh Gandhi (Jinesh@MotilalOswal.com)/Sandeep Patil (Sandeep.Patil@MotilalOswal.com)

Strong momentum in volumes continues

Volume growth across segments continues to be robust, supported by overall improvement in economic activity, availability of credit and new product launches. Demand at retail level remains robust, resulting in sub-normal inventory in the system. However, capacity constraints at both OEM and vendor levels has restricted volume growth for the industry.

- We expect two-wheeler volumes to grow 26.9% YoY (~6.3% QoQ). Bajaj Auto would benefit the most, with 45.4% YoY (~7.6% QoQ) growth in two-wheeler volumes. Hero Honda's volumes would grow 11.8% YoY (~7.2% QoQ).
- Car volumes would grow 24.3% YoY (~10.1% QoQ), driven by growth in both domestic sales and exports. Maruti Suzuki's volumes would grow 25.4% YoY (~8.9% QoQ). Tata Motors' car volumes (ex-Fiat) would grow 62.6% YoY (~16.4% QoQ), driven by good response to Indigo Manza and Nano.
- The commercial vehicle (CV) segment has witnessed improvement in demand. We estimate 32.7% YoY (~8.5% QoQ) growth in CV volumes, driven by 39.4% YoY growth (~9.6% QoQ) in M&HCV volumes and 27.2% YoY growth (~7.5% QoQ) in LCV volumes. Tata Motors' CV volumes would grow 30.5% YoY (~13.9% QoQ), with M&HCV volumes growing 39.7% YoY (~14.6% QoQ) and LCV volumes growing 24.4% YoY (~13.3% QoQ).

VOLUME SNAPSHOT FOR 2QFY11 ('000 UNITS)

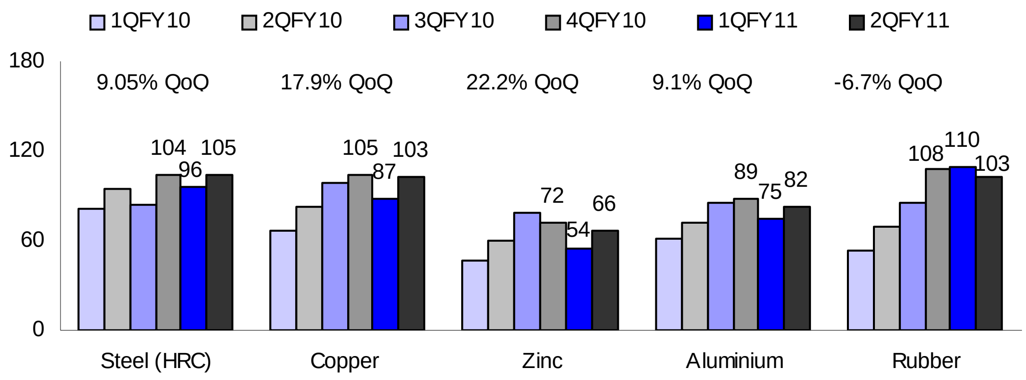
	2QFY11E	2QFY10	YOY (%)	1QFY11	QOQ (%)
Two Wheelers	3,315	2,613	26.9	3,118	6.3
Three Wheelers	212	156	36.1	173	22.7
Passenger Cars	595	478	24.3	541	10.1
UVs & MPVs	135	103	31.1	122	10.3
M&HCV	84	60	39.4	77	9.6
LCV	94	74	27.2	87	7.5
Total CVs	178	134	32.7	164	8.5
Total	**4,435**	**3,484**	**27.3**	**4,118**	**7.7**

Source: SIAM/ MOSL

Raw material prices hardening

While most commodity prices have hardened in spot markets, we expect raw material cost to be stable or post a marginal sequential decline in 2QFY11. Faced with shortage of components, auto companies were forced to allow price hikes (especially for rubber-based components). Our estimates now factor in ~220bp increase in raw material cost in FY11, the impact of which would be diluted by 1-3% increase in selling prices.

TREND IN COMMODITY PRICES (INDEXED)



Source: Bloomberg/MOSL

EBITDA margins to moderate from peak due to raw material cost inflation

We believe margins for the auto industry would decline from the peak levels of 2Q/3QFY10, driven by raw material cost push. However, the impact would be partly offset due to higher operating leverage and partial passing on of cost increases by the automakers. We expect EBITDA margins for our auto universe to expand 70bp QoQ (~180bp YoY decline) to 13.8% in 2QFY11, but decline ~120bp in FY11. While margins would come-off from peak levels of 3QFY10, we do not expect a reversion to the mean due to (1) strong volume growth, (2) relatively higher pricing power, (3) cost control, and (4) increasing contribution from plants enjoying fiscal incentives.

MARGINS TO MODERATE FROM PEAK

	2QFY11E	2QFY10	YOY (BP)	1QFY11	QOQ (BP)
Bajaj Auto	21.2	22.0	-80	20.0	130
Hero Honda	14.6	17.9	-340	13.4	120
Maruti Suzuki	11.0	12.9	-190	10.6	40
M&M	15.6	17.1	-150	15.0	60
Tata Motors (S/A)	11.9	13.4	-160	11.3	50
Tata Motors (Cons)	13.4	7.5	580	14.6	-120
Aggregate *	**13.8**	**15.6**	**-180**	**13.1**	**70**

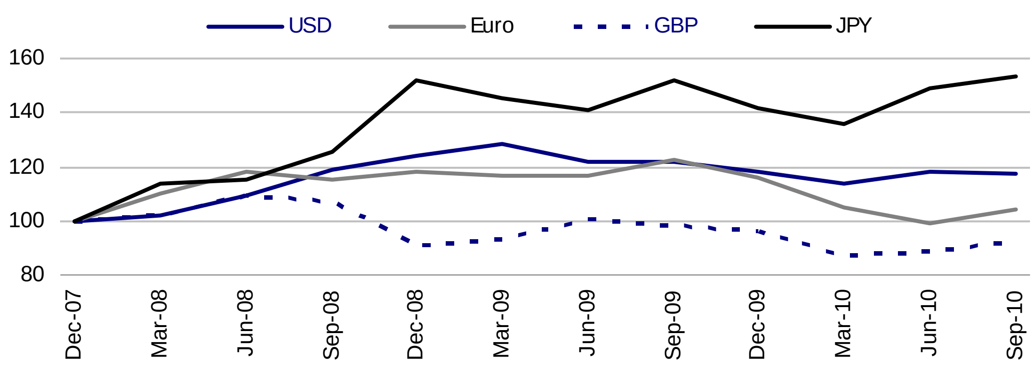
** Aggregate includes Tata Motors' standalone performance only* *Source: MOSL*

Forex fluctuation could have de-stabilizing effect

Exchange rate fluctuation has led to concerns over export revenue realization, cost of imported inputs, and the effectiveness of hedging practices being followed by companies. After appreciating against all the major currencies in 2HFY10, the rupee has shown a reversal in trend. It has depreciated by 3% QoQ against JPY, by 5.8% QoQ against EUR, by 4.1% QoQ against GBP, and has remained flat against USD. The impact of rupee depreciation would vary depending upon forex exposure and the hedging strategies deployed by respective companies.

	YOY	QOQ
USD	-3.6	-0.2
JPY	0.8	3.0
EUR	-14.6	5.8
GBP	-6.0	4.1

TREND IN RUPEE MOVEMENT (INDEX)



Source: Bloomberg

Sector outlook remains positive…

The auto sector has witnessed recovery in volumes, after seeing the impact of the financial crisis. While two-wheeler, passenger vehicle and LCV volumes have resumed their growth path after a brief pause, the M&HCV, tractor and three-wheeler segments have seen complete recovery from the downturn. We remain bullish on the auto sector for the following reasons:

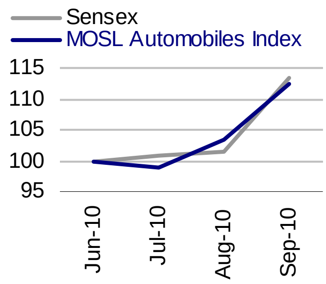
- Volume growth is likely to continue, driven by strong economic recovery, pent-up demand, better financing conditions, and new product launches. Further penetration in the rural market will add to the growth.
- Continued volume growth will enable pricing power for the industry and support high operating leverage. Moreover, the leading companies have successfully undertaken cost reduction and productivity improvement programs, which would dilute the impact of raw material cost inflation and support margins. Also, ramping up of operations in tax-free zones like Uttaranchal will also help counter cost pressures through lower tax burden.
- Recovery in global economies augurs well for export demand. The export market is yet to be fully tapped by Indian auto manufacturers; this segment may become a further volume growth driver for the industry. Companies like Bajaj Auto, Maruti, Tata Motors and M&M are in a position to further increase their exports by tapping newer destinations and increasing penetration in their existing markets.

…despite some hurdles in the short term

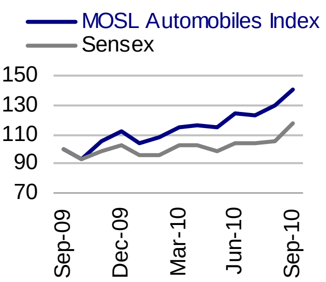
The auto industry is witnessing some headwinds, which are likely to have short-term impact on demand. Events to watch out for are:

- The change in emission norm to BS-IV in top-11 cities from April 2010 (BS-III in other parts of India from October 2010) requires modification in engines, thereby increasing cost for vehicles.
- Full roll-back in excise duty cut (after partial roll-back in Budget 2010), which was offered as a part of stimulus package in December 2008. Excise duty cut had been one of the key measures to boost volumes for the auto sector. Increase in excise duty would have short-term impact on demand, as it would be entirely passed on to the consumers.
- Expected increase in selling prices of vehicles to partly offset raw material cost inflation. This coupled with the above factors could result in a meaningful increase in cost of ownership of a vehicle.
- Expected hardening in monetary policy, as inflation rises, would result in interest rates for automobiles and further increase cost of owning/operating a vehicle. However, we expect availability of finance to improve further.

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



Valuation and view

While volume growth in the domestic market remains strong, exports are also on the rise with revival of key markets. Valuations remain attractive, especially considering the impending improvement in the macro environment for the auto industry coupled with high operating margins. We prefer **M&M** and **Tata Motors** due to relatively benign competitive environment for these and attractive valuations compared to peers.

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Automobiles														
Bajaj Auto	1,446	Neutral	62.8	90.3	98.6	23.0	16.0	14.7	15.1	10.7	9.4	78.8	67.4	48.6
Hero Honda	1,865	Buy	112.2	113.6	133.9	16.6	16.4	13.9	11.8	11.1	8.7	61.7	53.8	39.2
Mahindra & Mahindra	690	Buy	42.6	57.8	67.9	16.2	11.9	10.2	6.2	5.4	4.4	26.1	23.9	22.1
Maruti Suzuki	1,481	Buy	90.8	92.6	110.7	16.3	16.0	13.4	9.0	8.6	7.0	21.1	17.2	17.8
Tata Motors	1,070	Buy	24.1	120.5	140.3	44.4	8.9	7.6	10.6	5.5	4.9	18.3	51.8	39.9
Sector Aggregate						**21.5**	**12.4**	**10.7**	**9.9**	**6.9**	**5.8**	**31.0**	**37.6**	**32.8**

Bajaj Auto

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	BJAUT IN
	REUTERS CODE
S&P CNX: 6,018	BJAT.BO

Equity Shares (m)	289.4
52 Week Range (Rs)	1,525/684
1,6,12 Rel Perf (%)	-8/40/80
Mcap (Rs b)	418.3
Mcap (USD b)	9.2

24 September 2010

Neutral

Previous Recommendation: Buy

Rs1,446

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/CE (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA
3/09A	88,104	7,963	27.5	-3.4	52.5	45.2	12.4	48.6	31.5	17.2
3/10A	119,210	18,175	62.8	128.3	23.0	21.4	7.1	78.8	49.7	7.0
3/11E	167,859	26,132	90.3	43.8	16.0	15.2	8.7	67.4	51.1	10.7
3/12E	186,981	28,543	98.6	9.2	14.7	13.9	6.0	48.6	42.6	9.4

- Recovery in volumes continued in 2QFY11, driven by robust demand for recently launched products and three-wheelers. We expect Bajaj Auto's total volumes to increase 45.4% YoY (~7.6 QoQ) in 2QFY11 to 998,779 units. We estimate volume growth of 46.1% YoY for two-wheelers and 40.6% YoY for three-wheelers.
- We expect net sales to grow 47.3% YoY to Rs42.5b. Realizations should improve by 1.3% YoY (~1.6% QoQ), aided by an increase in the contribution of three-wheelers (~12% in 2QFY11 v/s 10.8% in 1QFY11) coupled with price increase of 1% taken in June 2010.
- Savings in raw material cost and higher operating leverage would aid EBITDA margin expansion of 120bp QoQ (contraction of ~80bp YoY) to 21.2%. We estimate EBITDA at Rs9.04b (~21.2% YoY growth) and adjusted PAT at Rs6.8b (~57% YoY growth).
- Supply side constraints, which impacted supplies of Pulsar and Discover 150, are likely to ease from October 2010, translating into monthly capacity of 300,000 motorcycles. The contribution from Pantnagar is expected to increase to 0.9m units in FY11 (v/s 0.6m units in FY10), which would boost product mix and profitability.
- The management has maintained its FY11 guidance - volume of 4m and EBITDA margin of 20%.
- We maintain our EPS estimates at Rs90.3 for FY11 and Rs98.6 for FY12. Our estimates factor in 38.2% growth in FY11 and 280bp increase in raw material cost, translating into 120bp decline in EBITDA margin to 20.5%. The stock trades at 16x FY11E and 14.7x FY12E EPS. Downgrade to **Neutral.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Volumes ('000 nos)	548	687	809	809	928	999	1,012	1,002	2,853	3,941
Change (%)	*-11.7*	*7.3*	*63.9*	*83.7*	*69.5*	*45.4*	*25.1*	*23.8*	*30*	*38.2*
Realization (Rs/Vehicle)	42,701	42,042	40,725	42,024	41,904	42,589	42,776	43,063	41,790	42,592
Change (%)	*13.2*	*6.8*	*-4.4*	*-1.8*	*-1.9*	*1.3*	*5.0*	*2.5*	*4.1*	*1.9*
Net Sales	**23,385**	**28,875**	**32,956**	**33,995**	**38,901**	**42,537**	**43,290**	**43,132**	**119,210**	**167,859**
Change (%)	*-0.1*	*14.6*	*56.7*	*80.5*	*66.4*	*47.3*	*31.4*	*26.9*	*35.3*	*40.8*
EBITDA	**4,554**	**6,365**	**7,235**	**7,771**	**7,769**	**9,038**	**8,856**	**8,752**	**25,926**	**34,415**
EBITDA Margins (%)	*19.5*	*22.0*	*22.0*	*22.9*	*20.0*	*21.2*	*20.5*	*20.3*	*21.7*	*20.5*
Other Income	231	217	351	425	817	800	830	901	1,225	3,348
Extraordinary Expenses	458	458	458	458	0	0	0	0	1,833	0
Extraordinary Income	218	0	0	0	0	0	0	0	218	0
Interest	60	0	0	0	6	20	20	32	60	78
Depreciation	331	336	357	341	318	340	360	372	1,365	1,390
PBT	**4,155**	**5,788**	**6,771**	**7,397**	**8,262**	**9,478**	**9,306**	**9,249**	**24,111**	**36,294**
Tax	1,220	1,760	2,020	2,075	2,360	2,654	2,606	2,543	7,075	10,162
Effective Tax Rate (%)	*29.4*	*30.4*	*29.8*	*28.1*	*28.6*	*28.0*	*28.0*	*27.5*	*29.3*	*28.0*
Rep. PAT	**2,935**	**4,028**	**4,751**	**5,322**	**5,902**	**6,824**	**6,700**	**6,706**	**17,036**	**26,132**
Change (%)	*43.6*	*117.9*	*185.9*	*308.7*	*101.1*	*69.4*	*41.0*	*26.0*	*160.3*	*53.4*
Adj. PAT	**3,105**	**4,347**	**5,073**	**5,651**	**5,902**	**6,824**	**6,700**	**6,706**	**18,177**	**26,132**
Change (%)	*51.9*	*91.2*	*143.6*	*201.8*	*90.1*	*57.0*	*32.1*	*18.7*	*128.3*	*43.8*

E: MOSL Estimates

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Hero Honda

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	HH IN
	REUTERS CODE
S&P CNX: 6,018	HROH.BO

Equity Shares (m)	199.7
52 Week Range (Rs)	2,094/1,452
1,6,12 Rel Perf (%)	-11/-22/-7
Mcap (Rs b)	372.5
Mcap (USD b)	8.2

24 September 2010

Buy

Previous Recommendation:Buy

Rs1,865

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/CE (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA
3/09A	123,191	13,008	65.1	34.4	28.6	25.1	9.8	38.3	48.1	20.0
3/10A	157,582	22,402	112.2	72.2	16.6	15.3	10.7	61.7	72.8	11.8
3/11E	184,016	22,690	113.6	1.3	16.4	15.0	7.5	53.8	63.0	11.1
3/12E	208,531	26,747	133.9	17.9	13.9	12.8	5.5	39.2	46.9	8.7

- We expect Hero Honda's volumes to grow 11.8% YoY (~7.2% QoQ) to 1.32m in 2QFY11. Realizations should improve by 2.2% YoY (~1% QoQ) on account of higher contribution from Haridwar (~32.5% of volumes in 2QFY11 v/s 29.1% in 2QFY10 and 26.3% in 1QFY11) and price increases taken during the quarter.
- Net sales are likely to grow 14.3% YoY to Rs46.1b. We estimate ~120bp QoQ expansion (~330bp YoY contraction) in operating margin, aided by lower raw material cost, higher operating leverage and higher contribution from Haridwar. We expect EBITDA to decline 7.3% YoY (increase ~17.7% QoQ), translating into 5.6% YoY decline (~14.7% QoQ growth) in PAT to Rs5.6b.
- Current retail demand is very strong, resulting in lower inventory levels. With de-bottlenecking at Haridwar likely to add ~0.3m capacity from October 2010, capacity would not be constraint to growth. However, managing the supply chain would be a challenge.
- Our estimates factor in volume growth of 15% in FY11 (to 5.29m units), higher contribution from Haridwar plant (34% in FY11 v/s 30% in FY10), and 220bp margin contraction to 14.7%. The stock trades at 16.4x FY11E EPS of Rs113.6 and 13.9x FY12E EPS of Rs133.9. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Volumes ('000 nos)	1,119	1,183	1,111	1,187	1,234	1,322	1,325	1,409	4,600	5,290
Change (%)	*25.1*	*21.7*	*29.6*	*18.9*	*10.3*	*11.8*	*19.2*	*18.7*	*23.6*	*15*
Net Realization (Rs/Vehicle)	34,058	34,145	34,322	34,492	34,558	34,909	34,909	34,750	34,256	34,785
Change (%)	*7.1*	*4.1*	*2.4*	*0.9*	*1.5*	*2.2*	*1.7*	*0.7*	*3.5*	*1.5*
Net Sales	**38,111**	**40,401**	**38,144**	**40,926**	**42,646**	**46,160**	**46,254**	**48,956**	**157,582**	**184,016**
Change (%)	*34.0*	*26.7*	*32.7*	*20.0*	*11.9*	*14.3*	*21.3*	*19.6*	*27.9*	*16.8*
RM Cost (% Sales)	68.0	68.4	68.5	67.6	71.7	71.0	70.3	70.3	68.1	70.8
Staff Cost (% Sales)	3.6%	3.4%	3.6%	3.6%	3.4%	3.3%	3.4%	3.3%	3.6%	3.3%
Other Exp (% Sales)	11.7	10.2	10.9	12.1	11.5	11.2	11.2	10.8	11.4	11.2
EBITDA	**6,387**	**7,248**	**6,483**	**6,820**	**5,705**	**6,716**	**6,957**	**7,633**	**26,646**	**27,012**
As % of Sales	*16.8*	*17.9*	*17.0*	*16.7*	*13.4*	*14.6*	*15.0*	*15.6*	*16.9*	*14.7*
Other Income	539	881	676	992	854	750	700	806	3,380	3,110
Interest	-55	-61	-46	-45	-27	-61	-46	-87	-206	-220
Depreciation	456	503	469	487	483	515	525	590	1,915	2,113
PBT	**6,525**	**7,686**	**6,736**	**7,370**	**6,103**	**7,012**	**7,178**	**7,935**	**28,317**	**28,229**
Tax	1,524	1,715	1,378	1,382	1,187	1,374	1,407	1,571	5,999	5,539
Effective Tax Rate (%)	*23.4*	*22.3*	*20.5*	*18.8*	*19.4*	*19.6*	*19.6*	*19.8*	*21.2*	*19.6*
PAT	**5,001**	**5,971**	**5,358**	**5,988**	**4,917**	**5,638**	**5,771**	**6,364**	**22,318**	**22,690**
Adj. PAT	**5,001**	**5,971**	**5,358**	**5,988**	**4,917**	**5,638**	**5,771**	**6,364**	**22,318**	**22,690**
Change (%)	*83.3*	*95.0*	*78.3*	*48.9*	*-1.7*	*-5.6*	*7.7*	*6.3*	*74.1*	*1.7*

E: MOSL Estimates

Jinesh Gandhi (Jinesh@MotilalOswal.com)/Sandeep Patil (Sandeep.Patil@MotilalOswal.com)

Mahindra & Mahindra

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	MM IN
	REUTERS CODE
S&P CNX: 6,018	MAHM.BO

Equity Shares (m)	573.5
52 Week Range (Rs)	745/422
1,6,12 Rel Perf (%)	2/17/41
Mcap (Rs b)	395.8
Mcap (USD b)	8.7

24 September 2010

Buy

Previous Recommendation: Buy

Rs690

YEAR END	NET SALES (RS M)	S/A PAT (RS M)	CON.PAT (RS M)	ADJ.EPS (RS)	CONS. EPS (RS)	CONS, P/E (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	130,937	9,297	15,047	16.2	26.2	26.3	17.7	12.9	2.7	31.4
3/10A	186,021	20,451	24,402	35.7	42.6	16.2	26.1	25.8	1.9	11.4
3/11E	227,956	25,384	33,151	44.3	57.8	11.9	23.9	24.5	1.5	9.6
3/12E	262,678	28,479	24,402	49.7	67.9	10.2	22.1	24.1	1.2	7.9

- We expect M&M to report overall volume growth of 22.8% YoY (~5.4% QoQ) in 2QFY11, driven by 16.3% YoY growth (~6.2% QoQ decline) in tractor volumes, 15.1% YoY growth (~15.2% QoQ) in UV volumes and 82.6% YoY growth (~6.6% QoQ decline) in three-wheeler volumes. Realizations should improve by 1.4% QoQ (flat YoY) due to increasing contribution from the UV segment.
- We expect net sales to grow 22.6% YoY to Rs54.7b. EBITDA margin should expand 60bp QoQ (shrink ~150bp YoY) to 15.6%, driven by operating leverage and savings on raw material cost. Recurring PAT is likely to be flat YoY (~5.6% QoQ growth) at Rs5.94b.
- Supply side constraints, which have been impacting volumes by ~5,000/month, are likely to ease off in the next 2-3 months. M&M has guided 12-14% growth in the auto and tractor industry, and 15% EBITDA margin in FY11.
- We maintain our consolidated EPS estimates at Rs57.8 for FY11 and at Rs67.9 for FY12, backed by strong volume growth in the Auto and Tractor divisions, and improvement in performance of subsidiaries. Our estimates factor in 21.3% volume growth in FY11 and 260bp increase in raw material cost, translating into 90bp decline in EBITDA margin to 15.3%. The stock trades at 11.9x FY11E and 10.2x FY12E consolidated EPS. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Volumes ('000 nos)	102	109	114	133	127	134	138	157	458	556
Change (%)	23.8	29.3	61	49.2	24.5	22.8	21.1	18.4	40.2	21.3
Net Realization (Rs/Vehicle)	414,797	410,394	396,187	399,987	405,353	410,929	413,457	409,976	404,295	410,008
Change (%)	*3.9*	*3.4*	*-3.1*	*-2.5*	*-2.3*	*0.1*	*4.4*	*2.5*	*0.9*	*1.4*
Net Sales	**42,295**	**44,650**	**44,787**	**52,789**	**51,242**	**54,720**	**56,450**	**63,894**	**183,795**	**226,306**
Change (%)	*28.7*	*35.1*	*56.3*	*45.8*	*21.2*	*22.6*	*26.0*	*21.0*	*41.5*	*23.1*
Operating Other Income	131	203	184	258	359	425	400	466	1,501	1,650
EBITDA	**6,869**	**7,680**	**6,855**	**8,492**	**7,756**	**8,606**	**8,766**	**9,716**	**29,962**	**34,844**
As % of Sales	*16.2*	*17.1*	*15.2*	*16.0*	*15.0*	*15.6*	*15.4*	*15.1*	*16.2*	*15.3*
Other income	236	1,333	244	181	205	1,500	200	303	1,994	2,208
Extraordinary Income	0	1,632	-	-	-	-	-	-	1,632	-
Extraordinary Expense	779	93	160	36	-	-	-	-	1,135	-
Interest	60	128	82	9	-227	-100	15	46	278	-266
Gross Profit	**6,266**	**10,425**	**6,857**	**8,628**	**8,188**	**10,206**	**8,951**	**9,973**	**32,175**	**37,318**
Depreciation	885	892	984	947	976	1,050	1,150	1,282	3,708	4,458
EO Expense	779	-1,539	160	36	-	-	-	-	-498	-
PBT	**5,381**	**9,533**	**5,873**	**7,681**	**7,211**	**9,156**	**7,801**	**8,691**	**28,468**	**32,859**
Tax	1,373	2,504	1,736	1,978	1,588	2,106	1,794	1,988	7,590	7,475
Effective Tax Rate (%)	*25.5*	*26.3*	*29.6*	*25.8*	*22.0*	*23.0*	*23.0*	*22.9*	*26.7*	*22.8*
Reported PAT	**4,009**	**7,029**	**4,137**	**5,703**	**5,624**	**7,050**	**6,007**	**6,703**	**20,878**	**25,384**
Change (%)	*158.1*	*185.0*	*NA*	*36.4*	*40.3*	*0.3*	*45.2*	*17.5*	*140.7*	*21.6*
Adj PAT	**4,580**	**5,917**	**4,243**	**5,726**	**5,624**	**7,050**	**6,007**	**6,703**	**20,451**	**25,384**
Change (%)	*109.5*	*98.2*	*159.2*	*104.9*	*22.8*	*19.1*	*41.6*	*17.0*	*121.9*	*24.1*

E: MOSL Estimates; Quarterly results don't add-up to full year results due to restatement

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Maruti Suzuki India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	MSIL IN
	REUTERS CODE
S&P CNX: 6,018	MRTI.BO

Equity Shares (m)	289.0
52 Week Range (Rs)	1,740/1,171
1,6,12 Rel Perf (%)	11/-6/-29
Mcap (Rs b)	428.0
Mcap (USD b)	9.5

24 September 2010 **Buy**

Previous Recommendation: Buy **Rs1,481**

YEAR END	TOTAL INC. (RS M)	PAT (RS M)	ADJ. EPS (RS)	EPS GROWTH (%)	P/E (X)	P/CE (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA
3/09A	209,074	13,334	46.1	-22.0	32.1	21.0	4.6	13.0	18.7	18.7
3/10A	296,231	25,062	86.7	87.9	17.1	12.8	3.6	21.1	28.4	9.2
3/11E	362,157	24,492	84.7	-2.3	17.5	12.3	3.1	17.2	23.7	8.9
3/12E	428,190	29,724	102.8	21.4	14.4	10.1	2.6	17.8	24.1	7.2

- We expect Maruti's volumes to grow 25.4% YoY (~8.9% QoQ) in 2QFY11 to 308,648 units, driven by 31% YoY (~13% QoQ) growth in domestic sales. Realizations should decline 0.7% YoY (increase ~0.1% QoQ), impacted by appreciation of the Rupee v/s the Euro.
- We estimate net revenue for the quarter at Rs89.6b. EBITDA margin should expand 50bp QoQ (shrink ~180bp YoY) to 10.9% due to operating leverage and marginal savings in raw material cost. EBITDA would grow 6.2% YoY (~13.4% QoQ) to Rs9.7b, translating into 3.5% YoY growth (~15.1% QoQ) in recurring PAT to Rs5.9b.
- Volume growth is likely to remain strong, driven by new product launches (Alto-K10, re-launch of Wagon-R and launch of CNG-fitted vehicles).
- The management is confident of meeting demand growth from current capacity of 1.2m, which would be scaled-up to 1.3m by October 2010 (with ability to scale up with third shift beyond 1.3m). Further, it is focusing on bringing forward the commissioning of brownfield expansion of 0.25m cars at Manesar to December 2011 from April 2012.
- We maintain our EPS estimates at Rs84.7 for FY11 and Rs102.8 for FY12. Our FY11 earnings estimate factors in 21.9% volume growth in FY11 and 140bp increase in raw material cost, translating into 210bp decline in EBITDA margin to 11.2%. The stock trades at 14.4x FY12E consolidated EPS and 10.1x FY12E cash EPS. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Volumes (nos)	227	246	258	287	283	309	322	328	1,018	1,242
Change (%)	*17.7*	*29.9*	*48.7*	*21.5*	*25.0*	*25.4*	*24.6*	*14.2*	*28.6*	*21.9*
Realizations (Rs/car)	279,640	286,349	284,226	286,508	284,151	284,378	286,095	286,347	284,363	285,291
Change (%)	*13.8*	*12.9*	*8.0*	*7.5*	*1.6*	*-0.7*	*0.7*	*-0.1*	*10.4*	*0.3*
Net Op. Revenues	**64,930**	**72,026**	**75,029**	**84,246**	**82,315**	**89,633**	**93,959**	**96,249**	**296,230**	**362,157**
Change (%)	*33.6*	*44.2*	*60.3*	*31.0*	*26.8*	*24.4*	*25.2*	*14.2*	*41.7*	*22.3*
RM Cost (% of Sales)	76.3	75.7	74.5	76.1	77.9	77.6	77.0	77.0	75.7	77.2
Staff Cost (% of Sales)	2.1	1.8	1.8	1.8	2.0	1.9	1.9	1.9	1.8	1.9
Other Exp. (% of Sales)	9.4	9.8	8.6	8.9	9.8	9.7	9.7	9.8	9.1	9.7
EBITDA	**7,932**	**9,161**	**11,339**	**11,111**	**8,577**	**9,727**	**10,747**	**10,883**	**39,543**	**40,482**
As % of Sales	*12.2*	*12.7*	*15.1*	*13.2*	*10.4*	*10.9*	*11.4*	*11.3*	*13.3*	*11.2*
Non-Operating Income	2,165	1,100	913	790	1,002	1,250	1,200	1,273	4,968	4,725
Extraordinary Expense	0	0	0	0	652	0	0	0	0	652
Interest	63	60	84	129	80	90	95	103	335	368
Depreciation	1,961	2,031	2,028	2,230	2,417	2,460	2,550	2,620	8,250	10,047
PBT	**8,073**	**8,171**	**10,140**	**9,542**	**6,430**	**8,427**	**9,302**	**9,433**	**35,925**	**34,140**
Tax	2,238	2,471	3,265	2,976	1,777	2,528	2,790	2,976	10,949	10,071
Effective Tax Rate (%)	*27.7*	*30.2*	*32.2*	*31.2*	*27.6*	*30.0*	*30.0*	*31.6*	*30.5*	*29.5*
PAT	**5,835**	**5,700**	**6,875**	**6,566**	**4,654**	**5,899**	**6,511**	**6,456**	**24,976**	**24,069**
Adjusted PAT	**5,835**	**5,700**	**6,875**	**6,566**	**5,125**	**5,899**	**6,511**	**6,456**	**24,976**	**24,528**
Change (%)	*25.3*	*92.5*	*221.6*	*170.0*	*-12.2*	*3.5*	*-5.3*	*-1.7*	*105.9*	*-1.8*

E: MOSL Estimates

Jinesh Gandhi (Jinesh@MotilalOswal.com)/Sandeep Patil (Sandeep.Patil@MotilalOswal.com)

Tata Motors

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	TTMT IN
	REUTERS CODE
S&P CNX: 6,018	TAMO.BO

Equity Shares (m)	624.1
52 Week Range (Rs)	1,089/520
1,6,12 Rel Perf (%)	-4/33/58
Mcap (Rs b)	668.0
Mcap (USD b)	14.8

24 September 2010

Buy

Previous Recommendation: Buy

Rs1,070

YEAR END	SALES (RS M)	ADJ/ PAT (RS M)	ADJ EPS (RS)	NORMAL EPS (RS)	CONS. P/E (X)	NORMAL P/E (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	708,810	-21,125	-33.8	-113.4	-31.6	-9.4	-35.6	1.2	1.2	38.5
3/10A	925,193	15,051	24.1	-22.8	44.4	-47.0	18.3	10.7	0.9	9.9
3/11E	1,172,630	75,215	120.5	64.6	8.9	16.6	51.8	23.1	0.7	5.2
3/12E	1,360,110	87,568	140.3	85.5	7.6	12.5	39.9	23.1	0.6	4.6

' Consolidated EPS; ^ Normalized for capitalized expenses*

- On a consolidated basis, we estimate net operating income to grow 29.0% YoY to Rs272.3b. EBITDA would grow 129% YoY (~8% QoQ) to Rs36.4b, translating into 590bp YoY increase (~120bp QoQ decline) in margins to 13.4%. This would boost recurring PAT to Rs16.1b.
- We expect Tata Motors' standalone volumes to grow 37.7% YoY (~14.6% QoQ) in 2QFY11, driven by 39.7% YoY growth in M&HCVs, 24.4% YoY growth in LCVs and 62.6% YoY growth in cars.
- On a standalone basis, we expect net sales to grow 42.3% YoY to Rs112.7b. Margins would expand 50bp QoQ (shrink ~160bp YoY) to 11.8%, driven by operating leverage and savings in raw material cost. EBITDA would grow 25.7% YoY (~14.1% QoQ) to Rs13.4b, translating into 20.2% YoY growth in recurring PAT to Rs5.3b.
- For JLR, we expect volume growth of 22% YoY (~8.5% QoQ decline) to 54,150 units. Realizations should remain flat QoQ (~19.2% YoY growth), resulting in revenue growth of 45.7% to GBP2.1b. We estimate EBITDA margin at 13.5% (~200bp QoQ decline) due to lower operating leverage and part reversal of positive forex impact of 1QFY11, translating into recurring PAT of GBP142m (v/s GBP222m in 1QFY11).
- Our estimates factor in higher CV demand (26.4% growth in FY11), ~56% YoY growth in cars in FY11, ~34.9% YoY growth in UVs, 170bp QoQ increase in raw material cost and further improvement in JLR performance (EBITDA margin of ~14% in FY11 and 13.8% in FY12). The stock trades at 7.6x FY12E consolidated EPS and 12.5x FY12E normalized EPS. Maintain **Buy.**

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Op Income	**163,970**	**211,002**	**260,443**	**289,778**	**270,556**	**272,319**	**302,376**	**327,379**	**925,193**	**1,172,630**
Growth (%)	*13.2*	*-8.2*	*47.1*	*84.6*	*65.0*	*29.1*	*16.10*	*12.98*	*30.5*	*26.7*
EBITDA	**5,959**	**15,916**	**30,575**	**33,691**	**39,533**	**36,455**	**40,981**	**43,886**	**86,142**	**160,855**
EBITDA Margins (%)	*3.63*	*7.54*	*11.74*	*11.63*	*14.61*	*13.39*	*13.55*	*13.41*	*9.31*	*13.72*
Depreciation	8,442	8,479	13,072	8,878	10,115	10,622	11,552	12,345	38,871	44,635
Product Dev. Exp	930	858	857	2,337	979	1,026	1,246	1,376	4,982	4,627
Other Income	22	348	47	-1	346	350	450	653	416	1,798
Interest Expenses	5,835	5,590	5,458	5,514	5,616	5,824	5,917	6,181	22,397	23,538
PBT before EO Exp	**-9,227**	**1,337**	**11,235**	**16,962**	**23,168**	**19,333**	**22,715**	**24,637**	**20,307**	**89,852**
EO Exp/(Inc)	-6,528	-1,536	2,342	-9,198	414	0	0	0	-14,919	414
PBT after EO Exp	**-2,699**	**2,873**	**8,893**	**26,159**	**22,754**	**19,333**	**22,715**	**24,637**	**35,226**	**89,439**
Tax	643	2,894	2,429	4,092	2,960	3,386	4,000	4,650	10,058	14,996
Tax Rate (%)	*-23.8*	*100.7*	*27.3*	*15.6*	*13.0*	*17.5*	*17.61*	*18.87*	*28.6*	*16.8*
PAT	**-3,341**	**-22**	**6,464**	**22,067**	**19,794**	**15,947**	**18,714**	**19,987**	**25,169**	**74,442**
Minority Interest	51	42	155	-552	-63	-113	-113	-220	-303	-508
Share in Profit of Associate	3	197	-194	839	156	250	250	281	845	937
Reported PAT	**-3,288**	**218**	**6,426**	**22,355**	**19,887**	**16,084**	**18,851**	**20,048**	**25,711**	**74,871**
Adj PAT	**-11,370**	**229**	**8,128**	**14,596**	**20,247**	**16,084**	**18,851**	**20,048**	**15,051**	**75,215**
Growth (%)	*-207.0*	*-90.2*	*-144.6*	*-292.8*	*-278.1*	*6914.6*	*131.93*	*37.35*	*NA*	*399.7*

E: MOSL Estimates

Jinesh Gandhi (Jinesh@MotilalOswal.com)/Sandeep Patil (Sandeep.Patil@MotilalOswal.com)

Banking

BSE Sensex: 20,045 S&P CNX: 6,018 24 September 2010

COMPANY NAME

Andhra Bank
Axis Bank
Bank of Baroda
Bank of India
Canara Bank
Corporation Bank
Dena Bank
Dewan Housing
HDFC
HDFC Bank
Federal Bank
ICICI Bank
Indian Bank
LIC Housing
Oriental Bank
Punjab National Bank
Rural Electrification
Shriram Transport
South Indian Bank
State Bank
Union Bank
Yes Bank

- **Positive stance:** We maintain a positive stance on the banking sector, backed by improving economic growth and IIP growth. On a YoY basis, we expect strong core operating performance to continue in 2QFY11, driven by higher loan growth and margin expansion and abating concerns about asset quality after a strong economic revival.
- **Strong operating performance to continue:** On a lower base we expect margins to expand meaningfully from 2QFY10 levels, leading to strong NII growth of ~34% for banks under our coverage. On a sequential basis, margins are expected to be flattish. Despite NII growth of ~34% YoY, we expect operating profit to grow ~23% YoY as (1) trading profits are expected to decline YoY, (2) fee income remains under pressure, and (3) operating expenses are expected to increase as PSU banks will account for pension provisions and gratuity shortfalls.
- **Buy selectively:** Despite strong outperformance, we maintain our positive stance on the sector. We view gradual monetary tightening positively as a sudden increase in policy rates and interest rates can derail economic growth. Loan growth is a key for strong core operating performance to continue in 2HFY11. We prefer selective buying and like banks with a strong core deposit franchise, higher tier-1 capital and high provision coverage ratio. **PNB, SBI, BoB, Union Bank** and **Indian Bank** are our top picks among state-owned banks. **ICICI Bank** and **Yes Bank** are our top picks among private banks.

EXPECTED QUARTERLY PERFORMANCE SUMMARY (RS MILLION)

	CMP (RS)	RECO	NET INT INCOME			OPERATING PROFIT			NET PROFIT		
	24.09.10		SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ
Banks											
Andhra Bank	165	Buy	7,549	46.7	2.5	5,317	17.4	4.2	2,903	6.0	-9.4
Axis Bank	1,506	Buy	15,547	35.2	2.7	14,514	11.2	0.1	7,127	34.1	-3.9
Bank of Baroda	874	Buy	19,146	37.9	3.0	15,321	48.5	0.3	8,626	36.0	0.4
Bank of India	497	Buy	18,387	30.5	5.6	14,483	20.1	2.7	6,957	115.2	-4.1
Canara Bank	574	Buy	17,782	35.4	2.9	14,406	1.5	-2.9	9,198	1.0	-9.2
Corporation Bank	699	Buy	7,162	42.2	2.7	6,384	19.2	2.9	3,347	14.8	0.3
Dena Bank	108	Buy	3,763	56.5	4.4	2,386	47.7	0.0	1,284	3.1	-7.5
Dewan Housing	280	Buy	1,163	58.3	15.4	763	51.0	14.4	564	50.2	10.1
Federal Bank	389	Buy	4,361	32.2	5.5	3,685	21.5	9.9	1,386	37.1	5.1
HDFC	732	Neutral	9,793	24.8	4.7	11,083	19.6	12.9	7,872	18.6	13.3
HDFC Bank	2,491	Neutral	25,134	28.5	4.7	18,864	18.4	7.9	9,175	33.5	13.0
ICICI Bank	1,112	Buy	20,657	1.5	3.7	22,792	-6.4	4.2	11,607	11.6	13.1
Indian Bank	264	Buy	9,736	28.3	5.1	8,190	47.9	-2.2	3,730	0.3	1.3
LIC Housing Fin	1,356	Neutral	3,410	43.8	1.7	2,862	53.8	-4.1	2,044	19.4	-3.6
Oriental Bank of Commerce	441	Buy	10,860	93.6	2.7	8,445	67.3	2.7	3,488	28.8	-4.0
Punjab National Bank	1,285	Buy	26,984	34.1	3.0	21,230	32.2	1.2	11,044	19.1	3.4
Rural Electric. Corp.	342	Buy	8,049	36.2	3.7	8,529	31.8	7.5	6,305	27.5	7.4
Shriram Transport Fin.	760	Buy	7,342	39.3	4.7	6,113	46.1	8.7	3,134	51.1	8.5
South Indian Bank	25	Buy	1,735	5.0	3.7	1,129	-15.7	8.1	606	-16.5	3.7
State Bank	3,144	Buy	75,712	35.0	3.7	62,249	28.7	1.5	29,681	19.2	1.8
Union Bank	385	Buy	13,901	61.0	3.1	11,125	37.3	6.6	5,418	7.2	-9.9
Yes Bank	336	Buy	2,745	71.6	4.7	2,782	45.0	11.7	1,609	44.0	2.9
Sector Aggregate			**310,918**	**34.1**	**3.7**	**262,653**	**23.3**	**3.0**	**137,106**	**21.9**	**1.8**

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@motilaloswal.com)

Economic growth strong, inflation expected to moderate

Strong IIP, auto numbers, increasing order backlog of engineering companies and an increase in housing sales indicate a speedy economic revival. With strong economic recovery the RBI focus has shifted to controlling inflation. In 2HFY11, our economist expects inflation to moderate (due to a good monsoon and a higher base) and a 25bp hike in the Repo rate and the Reverse Repo rate.

Tight liquidity leads to sharp rise in short term rates

In 2QFY11, despite muted loan growth, liquidity in the system was constrained as deposit mobilization failed to pick up; as a result interest rates especially on a shorter tenure increased faster than long-dated securities. Short term G-Sec rates, Commercial Paper rates and Certificates of Deposit rates have increased by 100-120bp in the quarter. The spread of CoD, AAA bond and CP over the one-year G Sec were relatively stable sequentially.

Interest to rise in 2HFY11

As loan growth continues to outpace deposit growth and liquidity remains tight, we expect a deposit rate hike in 2HFY11. With incremental CD ratio near 100%, we believe there is strong pricing power and banks will be able to pass on increased costs to borrowers. Consequently, lending rates are also expected to increase. Expected moderation in inflation, strong FII flows, increased FII limits in debt markets and a reduced government borrowing program in 2HFY11 will check upward movement in G-Sec yields. Our economist expects the 10-year G-Sec yield to fall to 7.6% by the end of FY11.

Reported loan growth strong, broad-based pick-up yet to be seen

Systemic loan growth has been hovering at about 20% YoY (on a lower base) but excluding money lent towards 3G and BWA (~Rs700b) growth is ~17.5%. YTD loans grew by ~4% (just 2% excluding 3G and BWA), which is a concern. Non-food credit in absolute terms as on 10 September 2010 was lower than at the end of 1QFY11. With the implementation of the base rate, commercial paper issuances have increased, which also led to lower loan growth (net increase of Rs275b from July to 15th August 2010 v/s loan decline of Rs387b in the same period, and YTD until 15 August 2010, net increase of Rs510b v/s loan increase of Rs1.2t).

Our interaction with bankers suggests loan growth is reviving and after the monsoons a pick-up in capex activity and an increased demand for working capital (the second half being a busy season and with current high inflation) would result in better loan growth. So far, retail (led by auto and home loans) and SME loan growth is very strong, but there is moderation in corporate loan growth which is expected to correct with start of busy season.

Expect loan growth of 20%+ over FY11-12

We expect a gradual recovery in loan growth because of (1) improved sales and higher inflation, which will lead to higher working capital requirements, (2) a drawdown of sanctions made to the infrastructure sector, and (3) improved business confidence, which will lead to higher capex and investment related loan growth. A lower statistical base, which started from 4QFY10, will also lead to better loan growth until December 2010. Broad-based pick-up in loan growth is crucial to margins in 2HFY11.

Moderate deposits growth a concern

With adequate liquidity on the balance sheet, banks retired high cost deposits and lowered rates as a result of deposit growth, which started moderating from 22% in 1QFY10 and was 14.8% as of 10 September 2010. YTD loan growth was 5% and QTD (till 10th September 2010) it is flat. With a rise in interest rates, a favorable base and CD ratio near optimal levels, we expect deposit growth to pick up. We expect deposit growth of 18% in FY11.

Margins to improve sharply YoY…

On a lower base in 2QFY11, we expect PSU bank margins to improve meaningfully YoY and will largely be stable for private banks under our coverage. In 2QFY10, PSU bank margins suffered from excess liquidity on the balance sheet, lower pricing power and increased cost of funds (due to a lag impact of high cost deposits contracted in 2HFY09). With a sharp improvement in margins, we expect aggregate NII growth of ~34% YoY (on a lower base) for banks under our coverage. We expect NII growth of ~39% for PSU banks and ~21% for Private banks (~33% excluding ICICI Bank). Union Bank, OBC and Yes Bank are expected to post 60%+ NII growth and ICICI Bank (due to flat loans and NIM YoY) and SIB will have single digit NII growth.

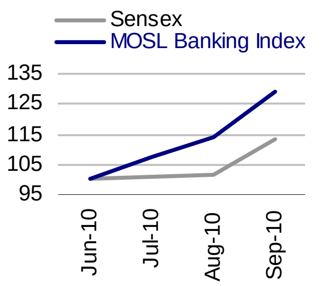
…and stay sequentially stable

In 1QFY11, banks had positively surprised us with sharp improvement in margins, despite higher savings deposit costs and CRR requirements, led by falling deposit costs. As bulk deposit rates increased 250bp YTD and retail deposits rates have gone up ~100bp across maturity, we expect the cost of funds to increase sequentially. The rise in cost of funds will be compensated for by an increasing yield on loans (due to strong pricing power as the incremental CD ratio is at 100%) and a rise in PLR (~50bp). Overall, we expect margins to be stable sequentially in 2QFY11. Sequentially, we expect NII growth of ~3% v/s 9% in 1QFY11 for banks under our coverage.

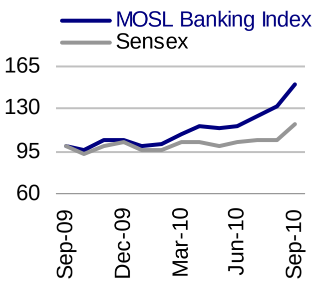
Trading profits expected to be muted

While the short term 10-years G Sec yields increased by ~32bp in the quarter, one year G Sec and two-year G Sec yields increased by 115bp and 85bp respectively. Consequently we expect trading profits will be muted but equity trading profits can provide positive surprises. We do not expect a large MTM hit as most of the banks are cushioned until yields rise to 7.7-7.8%.

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



Asset quality under pressure

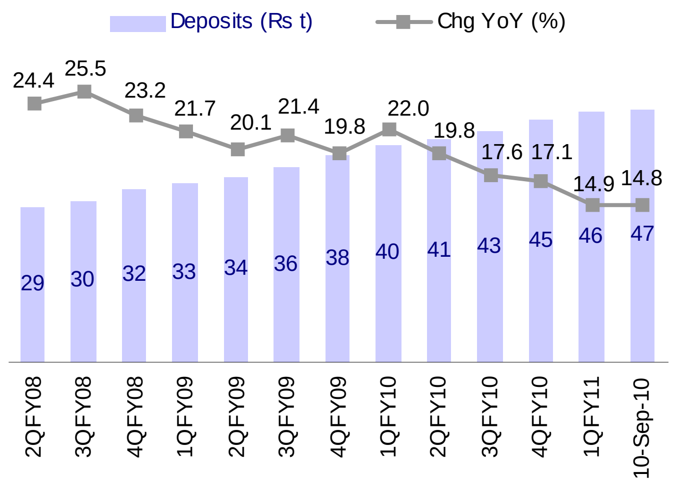
We expect PSU banks' slippages to increase on a sequential basis with recognition of loans under the Agri Debt Waiver as NPA and increased pressure from the restructured portfolio. While we expect higher slippages for PSU banks, private banks will be in a better position as we believe, slippages peaked in 4QFY10. While slippages for PSU banks are a concern, higher upgrades and cash recoveries can provide positive surprises. With strong core operating profits, PAT is unlikely to be impacted by higher NPA provisions. Among large banks, ICICI and SBI will have to make additional NPA provisions to comply with 70% PCR, according to RBI directives.

Buy selectively

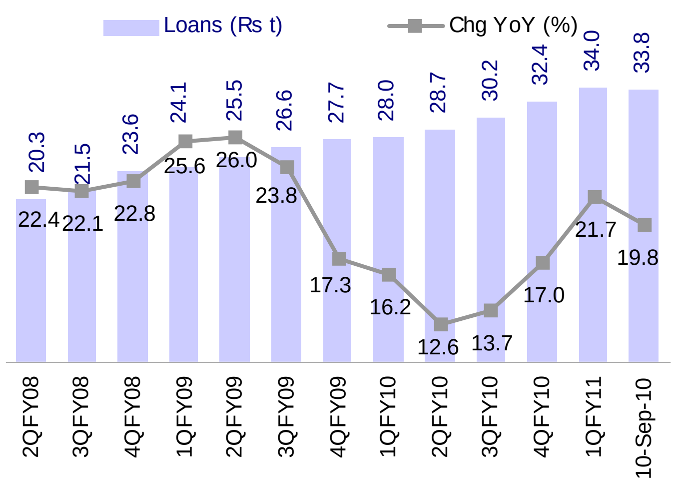
Despite strong outperformance, we maintain a positive stance on the sector. We view gradual monetary tightening positively as a sudden increase in policy rates and interest rates can derail economic growth. Loan growth is crucial for strong core operating performance to continue in 2HFY11. We prefer selective buying and like banks with a strong core deposit franchise, higher tier-1 capital and high provision coverage ratio. **PNB, SBI, BoB, Union Bank** and **Indian Bank** are our top picks among state-owned banks. **ICICI Bank** and **Yes Bank** are our top picks among private banks.

BANKS	CMP (RS)	RECO	EPS (RS)			P/E (X)			P/BV (X)			ROE (%)		
	24-09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Banks														
Andhra Bank	165	Buy	21.6	24.8	29.8	7.7	6.7	5.6	1.8	1.5	1.2	26.0	24.7	24.5
Axis Bank	1,506	Buy	62.1	78.4	96.7	24.3	19.2	15.6	3.8	3.3	2.8	19.2	18.3	19.4
Bank of Baroda	874	Buy	83.7	98.3	118.1	10.4	8.9	7.4	2.3	1.9	1.6	23.8	23.3	23.3
Bank of India	497	Buy	33.1	54.4	65.5	15.0	9.1	7.6	2.0	1.7	1.5	14.2	20.5	20.9
Canara Bank	574	Buy	73.7	86.7	100.3	7.8	6.6	5.7	1.9	1.5	1.3	26.8	25.4	24.0
Corporation Bank	699	Buy	81.6	98.9	114.7	8.6	7.1	6.1	1.7	1.5	1.2	21.9	22.5	22.0
Dena Bank	108	Buy	17.8	17.9	21.8	6.1	6.1	5.0	1.3	1.1	0.9	23.5	19.6	20.1
Dewan Housing	280	Buy	18.4	22.3	31.5	15.3	12.6	8.9	2.8	1.9	1.6	22.7	19.7	19.8
Federal Bank	389	Buy	27.2	35.6	43.2	14.3	10.9	9.0	1.4	1.3	1.2	10.3	12.3	13.5
HDFC	732	Neutral	19.7	23.4	27.8	29.8	24.2	19.4	7.4	6.1	5.0	25.3	25.5	25.8
HDFC Bank	2,491	Neutral	64.4	86.4	112.0	38.7	28.8	22.2	5.3	4.6	4.0	16.1	17.1	19.2
ICICI Bank	1,112	Buy	36.1	46.0	57.3	25.7	19.6	15.2	2.7	2.4	2.1	9.7	11.8	13.6
Indian Bank	264	Buy	36.2	34.4	42.4	7.3	7.7	6.2	1.7	1.5	1.3	25.0	20.1	21.2
Kotak Mahindra Bank	484	Neutral	17.8	21.4	26.3	27.2	22.7	18.4	4.3	3.2	2.8	17.9	17.0	16.6
LIC Housing Fin	1,356	Neutral	69.6	92.8	111.8	19.5	14.6	12.1	3.8	3.1	2.6	23.5	23.4	23.2
Oriental Bank	441	Buy	45.3	58.4	70.8	9.7	7.6	6.2	1.5	1.3	1.1	16.5	18.5	19.4
Punjab National Bank	1,285	Buy	123.9	139.4	171.1	10.4	9.2	7.5	2.5	2.1	1.7	26.6	24.4	24.7
Rural Electric. Corp.	342	Buy	20.3	25.6	32.1	16.9	13.3	10.6	3.0	2.7	2.3	22.0	21.3	23.2
Shriram Transport Fin.	760	Buy	38.7	58.5	70.3	19.6	13.0	10.8	4.5	3.5	2.8	28.6	30.2	28.5
State Bank	3,144	Buy	184.8	236.2	296.7	17.0	13.3	10.6	2.5	2.1	1.8	15.6	17.3	18.7
South Indian Bank	25	Buy	2.1	2.3	2.9	11.9	10.7	8.6	1.9	1.7	1.4	16.9	16.7	18.1
Union Bank	385	Buy	41.1	49.4	60.5	9.4	7.8	6.4	2.2	1.8	1.5	26.2	25.5	25.4
Yes Bank	336	Buy	14.1	19.2	25.1	23.9	17.5	13.4	3.7	3.1	2.6	20.3	19.3	21.1
Sector Aggregate						**18.4**	**14.7**	**12.0**	**3.3**	**2.8**	**2.4**	**18.1**	**19.0**	**20.0**

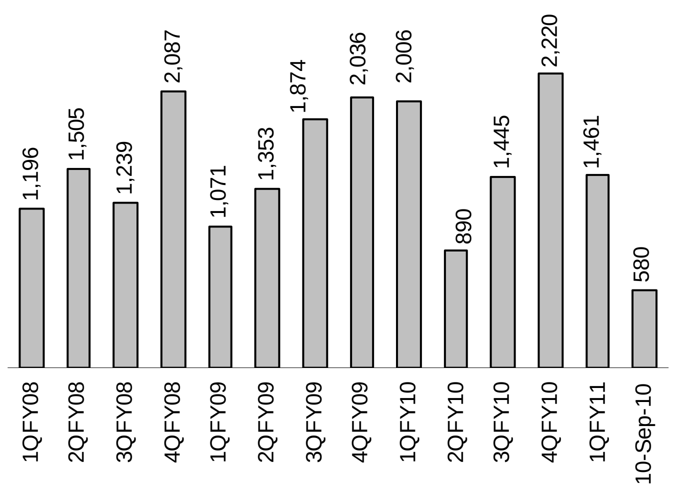
DEPOSIT GROWTH MODERATES



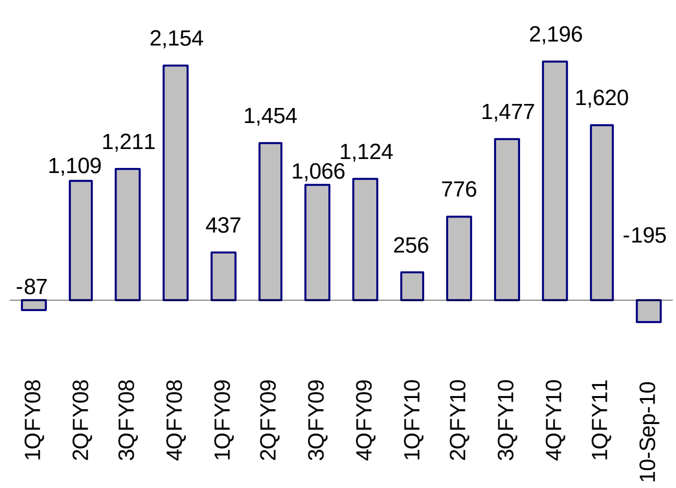
LOAN GROWTH AT 20% YOY (ON A LOWER BASE)



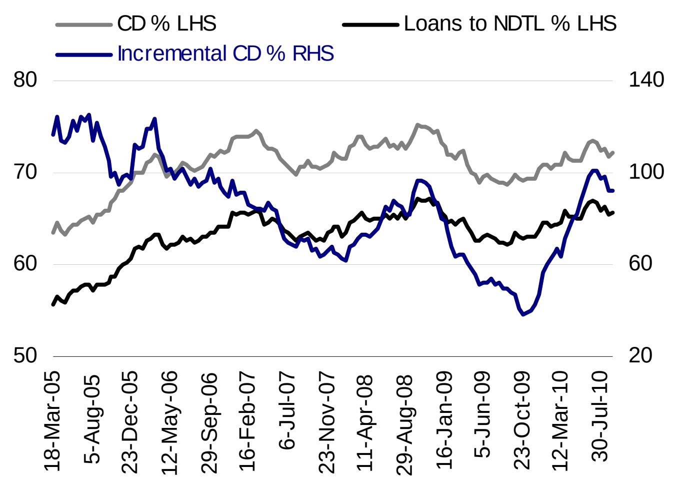
QUARTERLY DEPOSITS MOBILIZATION (RS B)



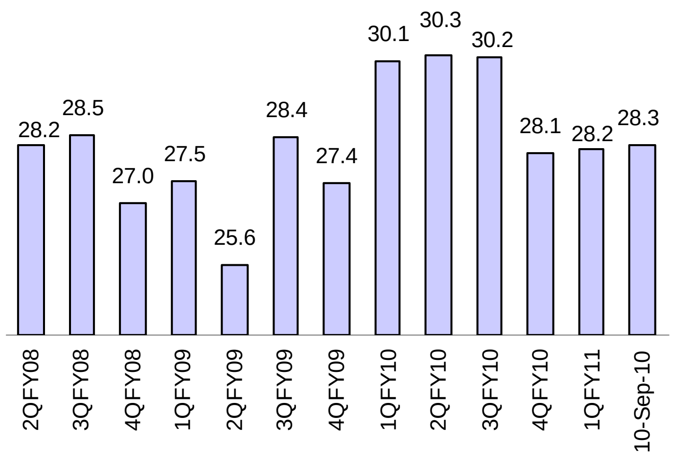
MODERATION IN LOAN GROWTH DURING THE QUARTER (RS B)



INCREMENTAL CD RATIO AT ~100%, PROVIDING PRICING POWER

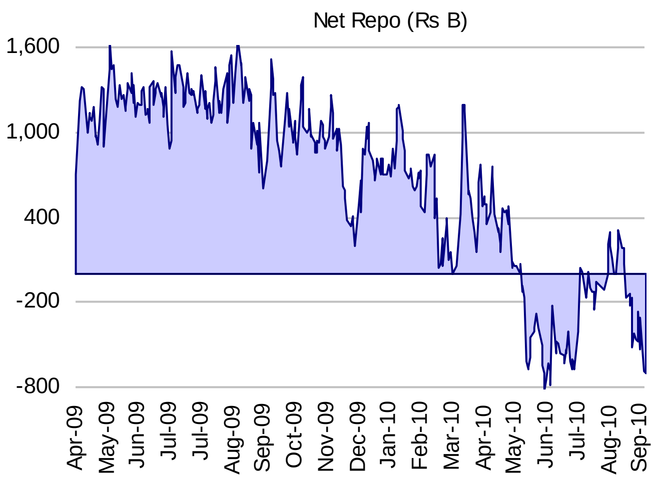


SLR RATIO (%)

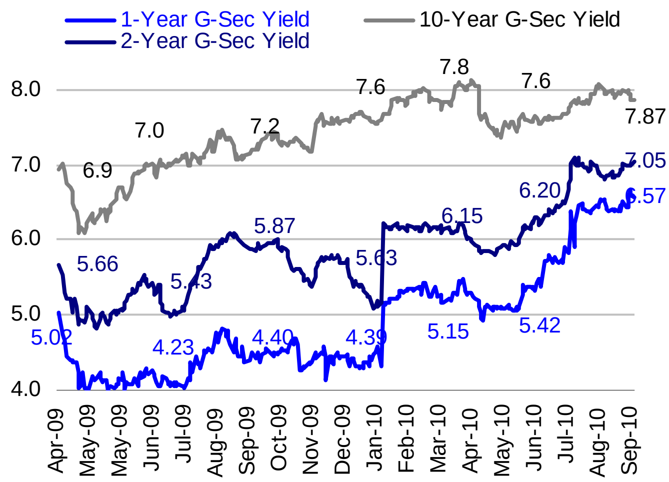


Source: Company/MOSL

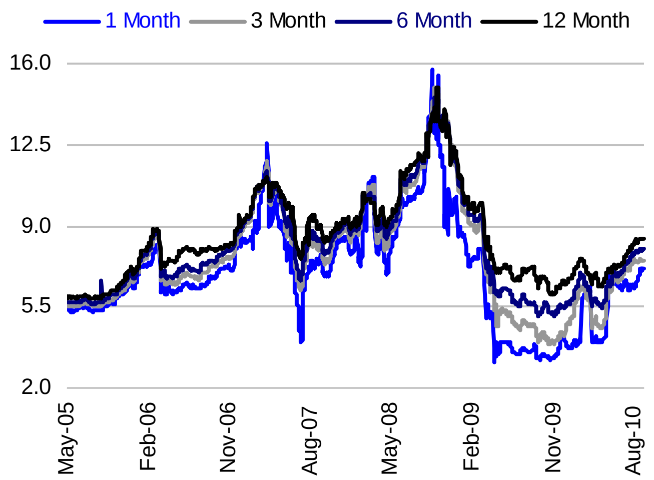
LIQUIDITY REMAINS TIGHT



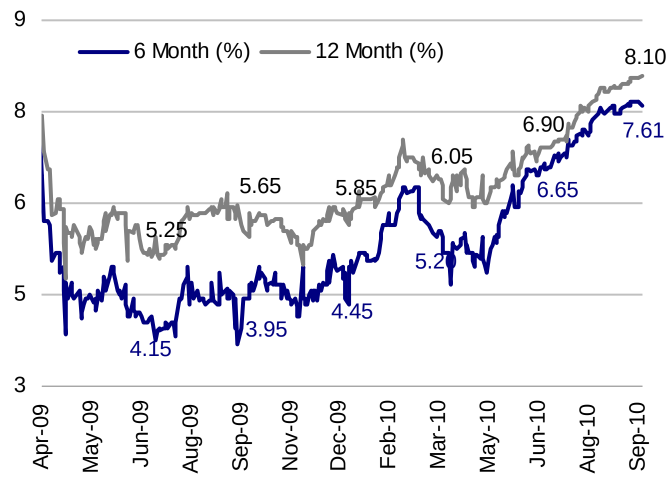
MOVEMENT IN G-SEC YIELD



CP RATES INCREASED BY 50-110BP IN 2QFY11 ACROSS MATURITY



RISING CD RATES



Source: Company/MOSL

Andhra Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	ANDB IN
	REUTERS CODE
S&P CNX: 6,018	ADBK.BO

Equity Shares (m)	485.0
52 Week Range (Rs)	170/95
1,6,12 Rel Perf (%)	-3/55/41
Mcap (Rs b)	80.1
Mcap (USD b)	1.8

24 September 2010

Buy

Previous Recommendation: Buy

Rs165

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	23,923	6,531	13.5	13.5	12.3	2.2	13.2	18.9	1.0	2.2
3/10A	31,594	10,459	21.6	60.2	7.7	1.8	13.9	26.0	1.3	1.8
3/11E	39,732	12,022	24.8	15.0	6.7	1.5	14.1	24.7	1.2	1.6
3/12E	46,813	14,433	29.8	20.1	5.6	1.2	13.0	24.5	1.2	1.3

- On a lower base, we expect net interest income (NII) to grow by 45% + YoY to Rs7.5b. Loan growth is expected to be in line with the industry trend, growing by 20%+. We expect deposit growth of 25%, outpacing loan growth.
- Non interest income (ex-treasury) is expected to grow by 20%+ YoY. Trading gains, which were strong at Rs950m, in 2QFY10 expected to moderate during 2QFY11.
- Operating expenses are expected to be sequentially flat as bank will continue to provide Rs300m towards gratuity expenses and Rs175m towards pension liability. Operating expenses are expected to be higher by 45% YoY.
- While we expect core income growth of over 60%, lower trading profit, higher expenses and NPA provisions will lead to muted PAT growth of 6%. The upside risk to our profitability could emanate from lower-than-expected provisions.
- The stock trades at 1.2x FY12E BV and 5.6x FY12E EPS. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	15,046	15,577	16,026	17,079	18,650	20,531	22,928	24,666	63,729	86,774
Interest Expense	10,633	10,431	10,200	10,518	11,288	12,981	15,188	16,497	41,781	55,954
Net Interest Income	**4,414**	**5,147**	**5,825**	**6,562**	**7,362**	**7,549**	**7,740**	**8,169**	**21,948**	**30,820**
% Change (Y-o-Y)	*27.5*	*18.7*	*28.9*	*66.0*	*66.8*	*46.7*	*32.9*	*24.5*	*34.9*	*40.4*
Other Income	2,381	2,332	2,242	2,691	2,082	2,050	2,350	2,430	9,646	8,912
Net Income	**6,794**	**7,479**	**8,068**	**9,253**	**9,444**	**9,599**	**10,090**	**10,599**	**31,594**	**39,732**
Operating Expenses	3,314	2,950	3,250	3,981	4,340	4,282	4,256	4,385	13,495	17,265
Operating Profit	**3,480**	**4,528**	**4,818**	**5,272**	**5,103**	**5,317**	**5,833**	**6,214**	**18,099**	**22,467**
% Change (Y-o-Y)	*69.5*	*62.6*	*29.3*	*22.1*	*46.6*	*17.4*	*21.1*	*17.9*	*40.5*	*24.1*
Other Provisions	-32	578	964	2,229	519	1,170	1,770	1,834	3,740	5,292
Profit before Tax	**3,512**	**3,950**	**3,854**	**3,043**	**4,584**	**4,147**	**4,063**	**4,380**	**14,359**	**17,175**
Tax Provisions	950	1,210	1,100	640	1,380	1,244	1,219	1,309	3,900	5,152
Net Profit	**2,562**	**2,740**	**2,754**	**2,403**	**3,204**	**2,903**	**2,844**	**3,071**	**10,459**	**12,022**
% Change (Y-o-Y)	*230.1*	*69.6*	*29.5*	*19.4*	*25.1*	*6.0*	*3.3*	*27.8*	*60.2*	*15.0*
Interest Exp/Interest Income (%)	*70.7*	*67.0*	*63.6*	*61.6*	*60.5*	*63.2*	*66.2*	*66.9*	*65.6*	*64.5*
Other Income/Net Income (%)	*35.0*	*31.2*	*27.8*	*29.1*	*22.0*	*21.4*	*23.3*	*22.9*	*30.5*	*22.4*
Cost/Income Ratio (%)	*48.8*	*39.5*	*40.3*	*43.0*	*46.0*	*44.6*	*42.2*	*41.4*	*42.7*	*43.5*
Provisions/Operating Profits (%)	*-0.9*	*12.8*	*20.0*	*42.3*	*10.2*	*22.0*	*30.3*	*29.5*	*20.7*	*23.6*
Tax Rate (%)	*27.0*	*30.6*	*28.5*	*21.0*	*30.1*	*30.0*	*30.0*	*29.9*	*27.2*	*30.0*

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@motilaloswal.com)

Axis Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	AXSB IN
	REUTERS CODE
S&P CNX: 6,018	AXBK.BO

Equity Shares (m)	405.2
52 Week Range (Rs)	1,580/889
1,6,12 Rel Perf (%)	0/16/45
Mcap (Rs b)	610.3
Mcap (USD b)	13.5

24 September 2010

Buy

Previous Recommendation: Buy

Rs1,506

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	65,831	18,154	50.6	68.9	29.8	5.3	13.7	19.1	1.4	5.4
3/10A	89,503	25,145	62.1	22.7	24.3	3.8	15.8	19.2	1.5	3.9
3/11E	109,113	31,749	78.4	26.3	19.2	3.3	14.4	18.3	1.6	3.3
3/12E	131,500	39,161	96.7	23.3	15.6	2.8	12.9	19.4	1.6	2.8

- We expect loans to be sequentially flat, but on a low base, loan growth is expected to 35%+ YoY. Strong loan growth in the past two quarters is expected to drive NII growth.
- Net interest margins are expected to decline sequentially due to a rise in the cost of wholesale deposits. We expect NII growth of ~35% YoY.
- An expected drop in trading profit and lower recoveries will lead to largely flat non-interest income.
- We model in higher credit cost as slippages are expected to be higher. Movement in the asset quality is the key thing to watch for.
- The stock trades at 2.8x FY12E BV and 15.6x FY12E EPS. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	29,056	28,604	28,837	29,885	33,256	36,021	40,738	45,526	116,380	155,541
Interest Expense	18,599	17,107	15,345	15,284	18,118	20,474	24,364	28,277	66,335	91,232
Net Interest Income	**10,456**	**11,497**	**13,491**	**14,601**	**15,138**	**15,547**	**16,375**	**17,249**	**50,045**	**64,308**
% Change (Y-o-Y)	*29.0*	*25.9*	*45.1*	*41.4*	*44.8*	*35.2*	*21.4*	*18.1*	*35.8*	*28.5*
Other Income	9,586	10,656	9,881	9,335	10,008	9,879	11,199	13,719	39,458	44,805
Net Income	**20,042**	**22,153**	**23,372**	**23,936**	**25,146**	**25,426**	**27,574**	**30,968**	**89,503**	**109,113**
Operating Expenses	8,278	9,095	9,626	10,098	10,645	10,911	11,680	13,165	37,097	46,400
Operating Profit	**11,764**	**13,058**	**13,746**	**13,838**	**14,501**	**14,514**	**15,894**	**17,804**	**52,406**	**62,713**
% Change (Y-o-Y)	*46.6*	*49.3*	*51.1*	*21.5*	*23.3*	*11.2*	*15.6*	*28.7*	*40.7*	*19.7*
Other Provisions	3,153	4,989	3,731	2,019	3,330	3,550	3,650	4,078	13,892	14,608
Profit before Tax	**8,611**	**8,069**	**10,015**	**11,819**	**11,171**	**10,964**	**12,244**	**13,726**	**38,514**	**48,105**
Tax Provisions	2,990	2,752	3,455	4,171	3,752	3,838	4,163	4,603	13,368	16,356
Net Profit	**5,620**	**5,316**	**6,560**	**7,649**	**7,419**	**7,127**	**8,081**	**9,122**	**25,145**	**31,749**
% Change (Y-o-Y)	*70.2*	*32.0*	*31.0*	*31.5*	*32.0*	*34.1*	*23.2*	*19.3*	*38.5*	*26.3*
Interest Exp/Interest Income (%)	*64.0*	*59.8*	*53.2*	*51.1*	*54.5*	*56.8*	*59.8*	*62.1*	*57.0*	*58.7*
Other Income/Net Income (%)	*47.8*	*48.1*	*42.3*	*39.0*	*39.8*	*38.9*	*40.6*	*44.3*	*44.1*	*41.1*
Cost/Income Ratio (%)	*41.3*	*41.1*	*41.2*	*42.2*	*42.3*	*42.9*	*42.4*	*42.5*	*41.4*	*42.5*
Provisions/Operating Profits (%)	*26.8*	*38.2*	*27.1*	*14.6*	*23.0*	*24.5*	*23.0*	*22.9*	*26.5*	*23.3*
Tax Rate (%)	34.7	34.1	34.5	35.3	33.6	35.0	34.0	33.5	34.7	34.0

E: MOSL Estimates

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Bank of Baroda

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	BOB IN
	REUTERS CODE
S&P CNX: 6,018	BOB.BO

Equity Shares (m)	365.5
52 Week Range (Rs)	905/461
1,6,12 Rel Perf (%)	-2/25/64
Mcap (Rs b)	319.6
Mcap (USD b)	7.1

24 September 2010

Buy

Previous Recommendation: Buy

Rs874

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	78,811	22,272	60.9	55.1	14.3	2.7	14.1	20.8	1.1	2.8
3/10A	87,458	30,583	83.7	37.3	10.4	2.3	14.4	23.8	1.2	2.3
3/11E	105,594	35,941	98.3	17.5	8.9	1.9	13.4	23.3	1.2	2.0
3/12E	125,290	43,171	118.1	20.1	7.4	1.6	12.5	23.3	1.2	1.6

- We expect business growth to be robust with loan growth of 28%+ YoY and deposit growth of 25%+.
- Healthy business growth and expected strong improvement in margins YoY (on a lower base), will drive NII growth of ~38% YoY.
- We expect other income to improve 10% YoY but excluding trading profits we expect non-interest income growth of over 15% YoY. Trading gains in 2QFY10 were Rs1.2b.
- With no negative suprises expected from asset quality, we estimate provisions to be sequentially flat.
- Improvement in core operations is expected to drive PAT growth of 36% YoY.
- The stock trades at 1.6x FY12E BV and 7.4x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	40,321	41,354	41,770	43,538	47,270	51,566	56,506	62,062	166,983	217,403
Interest Expense	28,274	27,468	25,757	26,089	28,690	32,419	36,796	41,603	107,589	139,508
Net Interest Income	**12,047**	**13,886**	**16,012**	**17,450**	**18,580**	**19,146**	**19,710**	**20,459**	**59,395**	**77,895**
% Change (Y-o-Y)	*14.0*	*22.5*	*9.5*	*18.6*	*54.2*	*37.9*	*23.1*	*17.2*	*15.9*	*31.1*
Other Income	7,030	5,953	6,597	8,483	6,172	6,531	7,170	7,825	28,064	27,699
Net Income	**19,077**	**19,839**	**22,609**	**25,933**	**24,752**	**25,678**	**26,880**	**28,284**	**87,458**	**105,594**
Operating Expenses	8,978	9,523	9,959	9,645	9,474	10,356	11,139	12,016	38,106	42,984
Operating Profit	**10,099**	**10,316**	**12,650**	**16,288**	**15,279**	**15,321**	**15,741**	**16,268**	**49,353**	**62,610**
% Change (Y-o-Y)	*17.4*	*22.0*	*-10.6*	*24.9*	*51.3*	*48.5*	*24.4*	*-0.1*	*14.6*	*26.9*
Other Provisions	-390	1,163	2,425	3,773	2,513	2,636	2,417	2,189	6,972	9,756
Profit before Tax	**10,489**	**9,153**	**10,225**	**12,515**	**12,765**	**12,686**	**13,324**	**14,079**	**42,381**	**52,854**
Tax Provisions	3,635	2,811	1,900	3,452	4,174	4,059	4,264	4,416	11,797	16,913
Net Profit	**6,854**	**6,342**	**8,325**	**9,063**	**8,592**	**8,626**	**9,061**	**9,662**	**30,583**	**35,941**
% Change (Y-o-Y)	*84.8*	*60.4*	*17.5*	*20.4*	*25.4*	*36.0*	*8.8*	*6.6*	*37.3*	*17.5*
Interest Exp/Interest Income (%)	*70.1*	*66.4*	*61.7*	*59.9*	*60.7*	*62.9*	*65.1*	*67.0*	*64.4*	*64.2*
Other Income/Net Income (%)	*36.9*	*30.0*	*29.2*	*32.7*	*24.9*	*25.4*	*26.7*	*27.7*	*32.1*	*26.2*
Cost/Income Ratio (%)	*47.1*	*48.0*	*44.1*	*37.2*	*38.3*	*40.3*	*41.4*	*42.5*	*43.6*	*40.7*
Provisions/Operating Profits (%)	*-3.9*	*11.3*	*19.2*	*23.2*	*16.4*	*17.2*	*15.4*	*13.5*	*14.1*	*15.6*
Tax Rate (%)	*34.7*	*30.7*	*18.6*	*27.6*	*32.7*	*32.0*	*32.0*	*31.4*	*27.8*	*32.0*

E: MOSL Estimates

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Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	BOI IN
	REUTERS CODE
S&P CNX: 6,018	BOI.BO

Equity Shares (m)	525.9
52 Week Range (Rs)	509/309
1,6,12 Rel Perf (%)	-2/44/5
Mcap (Rs b)	261.2
Mcap (USD b)	5.8

24 September 2010

Buy

Previous Recommendation: Under Review

Rs497

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	85,508	30,077	57.2	49.7	8.7	2.2	13.0	29.2	1.5	2.3
3/10A	83,726	17,411	33.1	-42.1	15.0	2.0	12.9	14.2	0.7	2.3
3/11E	99,520	28,604	54.4	64.3	9.1	1.7	11.7	20.5	0.9	1.9
3/12E	117,437	34,446	65.5	20.4	7.6	1.5	10.6	20.9	0.9	1.6

- We expect business growth of ~21% YoY. Sharp YoY improvement in margins and asset quality will lead to higher 2QFY11 NII growth of ~31% YoY.
- Other income is expected to decline 10% YoY due to expected lower trading gains and muted fee income growth, however we expect higher fee income growth QoQ let by improved loan growth.
- While we expect 20% YoY growth in operating profits, PAT is expected to grow by over 110%. A sharp drop in NPA provisions and the tax rate (modeled 33% v/s 47% in 2QFY10) will drive this growth.
- Receding concerns on asset quality, improving core operating performance (backed by higher upgrades) will drive over 60% growth in FY11 profits. An improved economic outlook and improving loan growth increases our confidence. The stock trades at 1.5x FY12E BV with RoE of 20%+. We change our recommendation from Under Review to **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	43,777	44,890	44,862	45,251	48,217	53,287	57,941	64,781	178,780	224,226
Interest Expense	30,771	30,801	29,915	29,734	30,813	34,900	38,812	45,516	121,220	150,040
Net Interest Income	**13,006**	**14,089**	**14,948**	**15,517**	**17,405**	**18,387**	**19,129**	**19,265**	**57,559**	**74,186**
% Change (Y-o-Y)	*10.1*	*3.4*	*-1.8*	*8.3*	*33.8*	*30.5*	*28.0*	*24.2*	*4.7*	*28.9*
Other Income	6,459	6,760	5,716	7,232	5,859	6,096	6,088	7,291	26,166	25,334
Net Income	**19,465**	**20,849**	**20,664**	**22,749**	**23,264**	**24,483**	**25,217**	**26,556**	**83,726**	**99,520**
Operating Expenses	8,529	8,789	9,366	9,997	9,158	10,000	10,250	10,408	36,678	39,816
Operating Profit	**10,936**	**12,060**	**11,298**	**12,752**	**14,106**	**14,483**	**14,967**	**16,148**	**47,048**	**59,704**
% Change (Y-o-Y)	*2.0*	*-0.7*	*-35.9*	*-9.4*	*29.0*	*20.1*	*32.5*	*26.6*	*-13.8*	*26.9*
Other Provisions	2,234	6,021	5,764	8,090	3,859	4,100	4,240	5,439	22,109	17,638
Profit before Tax	**8,702**	**6,038**	**5,534**	**4,662**	**10,247**	**10,383**	**10,727**	**10,709**	**24,938**	**42,065**
Tax Provisions	2,859	2,805	1,479	385	2,995	3,426	3,540	3,499	7,528	13,461
Net Profit	**5,843**	**3,233**	**4,055**	**4,277**	**7,251**	**6,957**	**7,187**	**7,209**	**17,411**	**28,604**
% Change (Y-o-Y)	*4.0*	*-57.6*	*-53.5*	*-47.2*	*24.1*	*115.2*	*77.2*	*68.6*	*-42.1*	*64.3*
Interest Exp/Interest Income (%)	*70.3*	*68.6*	*66.7*	*65.7*	*63.9*	*65.5*	*67.0*	*70.3*	*67.8*	*66.9*
Other Income/Net Income (%)	*33.2*	*32.4*	*27.7*	*31.8*	*25.2*	*24.9*	*24.1*	*27.5*	*31.3*	*25.5*
Cost/Income Ratio (%)	*43.8*	*42.2*	*45.3*	*43.9*	*39.4*	*40.8*	*40.6*	*39.2*	*43.8*	*40.0*
Provisions/Operating Profits (%)	*20.4*	*49.9*	*51.0*	*63.4*	*27.4*	*28.3*	*28.3*	*33.7*	*47.0*	*29.5*
Tax Rate (%)	*32.9*	*46.5*	*26.7*	*8.3*	*29.2*	*33.0*	*33.0*	*32.7*	*30.2*	*32.0*

E: MOSL Estimates

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Canara Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	CBK IN
	REUTERS CODE
S&P CNX: 6,018	CNBK.BO

Equity Shares (m)	410.0
52 Week Range (Rs)	595/303
1,6,12 Rel Perf (%)	3/27/66
Mcap (Rs b)	235.3
Mcap (USD b)	5.2

24 September 2010

Buy

Previous Recommendation: Buy

Rs574

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	70,290	20,724	50.5	32.4	11.4	2.3	14.1	22.6	1.0	2.6
3/10A	85,384	30,214	73.7	45.8	7.8	1.9	13.4	26.8	1.2	2.1
3/11E	102,170	35,564	86.7	17.7	6.6	1.5	12.9	25.4	1.2	1.7
3/12E	118,373	41,116	100.3	15.6	5.7	1.3	12.3	24.0	1.2	1.4

- We expect 2QFY11 loan growth to be healthy at 22-23% YoY and deposit growth of 20%+ YoY. Sequentially we expect business growth of ~4%.
- On a lower base, we expect a sharp improvement in margins, driving NII growth of over 35% YoY. Sequentially we expect margins to be flat or decline marginally.
- Other income is expected to decline ~25% YoY due to higher trading gains in 2QFY10. Reported 2QFY10 trading gains were Rs4.4b and Rs2.2b in 1QFY11.
- We expect PAT to be flat YoY on back of lower operating profits (due to a drop in trading gains) and expectation of higher tax rate of ~23% in 2QFY11 (against 18% in 2QFY10).
- The stock trades at 1.3x FY12E BV and 5.7x FY12E EPS. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	45,584	47,092	46,878	47,966	51,609	55,374	60,189	70,649	187,520	237,822
Interest Expense	32,669	33,955	32,100	31,990	34,331	37,592	41,727	51,191	130,714	164,840
Net Interest Income	**12,915**	**13,137**	**14,778**	**15,976**	**17,278**	**17,782**	**18,462**	**19,458**	**56,805**	**72,981**
% Change (Y-o-Y)	*26.7*	*14.3*	*18.8*	*22.4*	*33.8*	*35.4*	*24.9*	*21.8*	*20.4*	*28.5*
Other Income	4,736	8,929	7,813	7,101	7,340	6,699	7,067	8,083	28,579	29,189
Net Income	**17,651**	**22,066**	**22,591**	**23,077**	**24,618**	**24,482**	**25,529**	**27,542**	**85,384**	**102,170**
Operating Expenses	7,237	7,875	7,891	8,772	9,785	10,075	10,294	10,354	34,776	40,507
Operating Profit	**10,413**	**14,191**	**14,700**	**14,305**	**14,833**	**14,406**	**15,235**	**17,188**	**50,608**	**61,663**
% Change (Y-o-Y)	*48.0*	*83.5*	*21.1*	*12.4*	*42.4*	*1.5*	*3.6*	*20.2*	*27.7*	*21.8*
Other Provisions	3,360	3,086	1,674	7,274	2,200	2,500	3,750	7,619	12,394	16,068
Profit before Tax	**7,053**	**11,105**	**13,026**	**7,031**	**12,634**	**11,906**	**11,485**	**9,570**	**38,214**	**45,595**
Tax Provisions	1,500	2,000	2,500	2,000	2,500	2,709	2,613	2,209	8,000	10,031
Net Profit	**5,553**	**9,105**	**10,526**	**5,031**	**10,134**	**9,198**	**8,872**	**7,360**	**30,214**	**35,564**
% Change (Y-o-Y)	*352.7*	*72.0*	*50.0*	*-30.0*	*82.5*	*1.0*	*-15.7*	*46.3*	*45.8*	*17.7*
Interest Exp/Interest Income (%)	*71.7*	*72.1*	*68.5*	*66.7*	*66.5*	*67.9*	*69.3*	*72.5*	*69.7*	*69.3*
Other Income/Net Income (%)	*41.0*	*35.7*	*34.9*	*38.0*	*39.7*	*41.2*	*40.3*	*37.6*	*40.7*	*39.6*
Cost/Income Ratio (%)	*26.8*	*40.5*	*34.6*	*30.8*	*29.8*	*27.4*	*27.7*	*29.3*	*33.5*	*28.6*
Provisions/Operating Profits (%)	*32.3*	*21.7*	*11.4*	*50.8*	*14.8*	*17.4*	*24.6*	*44.3*	*24.5*	*26.1*
Tax Rate (%)	*21.3*	*18.0*	*19.2*	*28.4*	*19.8*	*22.8*	*22.8*	*23.1*	*20.9*	*22.0*

E: MOSL Estimates

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Corporation Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	CRPBK IN
	REUTERS CODE
S&P CNX: 6,018	CRBK.BO

Equity Shares (m)	143.4
52 Week Range (Rs)	724/385
1,6,12 Rel Perf (%)	5/39/55
Mcap (Rs b)	100.3
Mcap (USD b)	2.2

24 September 2010

Buy

Previous Recommendation: Buy

Rs699

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	27,982	8,928	62.2	21.5	11.2	2.0	13.6	19.6	1.2	2.1
3/10A	33,967	11,703	81.6	31.1	8.6	1.7	15.4	21.9	1.2	1.8
3/11E	42,323	14,188	98.9	21.2	7.1	1.5	15.3	22.5	1.2	1.5
3/12E	50,024	16,458	114.7	16.0	6.1	1.2	14.5	22.0	1.1	1.3

- Loan growth is expected to be significantly above industry growth at 30% YoY, whereas deposit growth is expected to be 16% YoY on a higher base.
- With strong loan growth and improved margins (YoY) we expect NII growth of over 40%. At the end of 1QFY11 the bank was carrying loans worth Rs120b, which were below base rate and is expected to be re-priced at a higher rate, however, a rise in the cost of funds could offset the positive impact of the re-pricing.
- Non-interest income ex-trading gains is expected to grow ~20% YoY. Recoveries in 1QFY11 were Rs593m and are expected to be strong in 2QFY11 as well.
- The stock trades at 1.2x FY12E BV and 6.1x FY12E EPS. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	17,422	17,695	18,606	19,222	20,278	21,860	24,337	27,142	72,946	93,616
Interest Expense	12,747	12,660	12,612	12,824	13,302	14,698	16,609	18,590	50,843	63,199
Net Interest Income	**4,675**	**5,035**	**5,994**	**6,398**	**6,976**	**7,162**	**7,728**	**8,552**	**22,103**	**30,417**
% Change (Y-o-Y)	*23.7*	*23.8*	*25.4*	*49.4*	*49.2*	*42.2*	*28.9*	*33.7*	*30.7*	*37.6*
Other Income	3,593	3,028	2,517	2,727	2,661	2,913	2,938	3,395	11,864	11,906
Net Income	**8,269**	**8,063**	**8,511**	**9,124**	**9,637**	**10,075**	**10,665**	**11,946**	**33,967**	**42,323**
Operating Expenses	2,556	2,707	2,995	3,674	3,433	3,691	3,934	4,172	12,600	15,230
Operating Profit	**5,712**	**5,356**	**5,516**	**5,450**	**6,204**	**6,384**	**6,731**	**7,774**	**21,367**	**27,093**
% Change (Y-o-Y)	*78.0*	*52.4*	*22.7*	*-19.2*	*8.6*	*19.2*	*22.0*	*42.6*	*22.0*	*26.8*
Other Provisions	1,550	940	1,271	1,651	1,266	1,425	1,475	1,908	4,744	6,074
Profit before Tax	**4,162**	**4,417**	**4,245**	**3,799**	**4,938**	**4,959**	**5,256**	**5,866**	**16,623**	**21,019**
Tax Provisions	1,550	1,500	1,195	676	1,600	1,612	1,656	1,964	4,921	6,831
Net Profit	**2,612**	**2,917**	**3,050**	**3,123**	**3,338**	**3,347**	**3,601**	**3,902**	**11,703**	**14,188**
% Change (Y-o-Y)	*41.8*	*52.3*	*18.9*	*19.9*	*27.8*	*14.8*	*18.1*	*24.9*	*31.1*	*21.2*
Interest Exp/Interest Income (%)	*73.2*	*71.5*	*67.8*	*66.7*	*65.6*	*67.2*	*68.2*	*68.5*	*69.7*	*67.5*
Other Income/Net Income (%)	*43.5*	*37.6*	*29.6*	*29.9*	*27.6*	*28.9*	*27.5*	*28.4*	*34.9*	*28.1*
Cost/Income Ratio (%)	*30.9*	*33.6*	*35.2*	*40.3*	*35.6*	*36.6*	*36.9*	*34.9*	*37.1*	*36.0*
Provisions/Operating Profits (%)	*27.1*	*17.5*	*23.0*	*30.3*	*20.4*	*22.3*	*21.9*	*24.5*	*22.2*	*22.4*
Tax Rate (%)	*37.2*	*34.0*	*28.2*	*17.8*	*32.4*	*32.5*	*31.5*	*33.5*	*29.6*	*32.5*

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@motilaloswal.com)

Dena Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	DBNK IN
	REUTERS CODE
S&P CNX: 6,018	DENA.BO

Equity Shares (m)	286.8
52 Week Range (Rs)	117/55
1,6,12 Rel Perf (%)	-8/26/42
Mcap (Rs b)	31.1
Mcap (USD b)	0.7

24 September 2010 — **Buy**

Previous Recommendation: Buy — Rs108

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	14,976	4,257	14.8	18.3	7.3	1.6	10.7	24.2	1.0	1.8
3/10A	16,887	5,112	17.8	20.1	6.1	1.3	13.3	23.5	1.0	1.5
3/11E	20,231	5,140	17.9	0.5	6.1	1.1	12.3	19.6	0.8	1.3
3/12E	23,051	6,260	21.8	21.8	5.0	0.9	11.8	20.1	0.8	1.1

- On a lower base, loans are expected to grow ~30% YoY and deposits are expected to grow ~23% YoY.
- In 2QFY10, excess liquidity and a rise in the cost of funds led to a sharp drop in margins to 2.3% (one of the lowest quarterly margins in FY10). On a lower base, we expect sharp improvement in margins.
- Strong loan growth and better margins will lead to NII growth of 55%+.
- Other income is expected to decline YoY largely due to lower trading profit. In 2QFY10 trading profits were Rs379m.
- Despite strong operating profit growth of over 45% YoY we expect PAT growth of 3% as provisions are expected to rise sharply. In 2QFY10 the bank reported lower provision of Rs15m due to MTM write-backs and low net slippages.
- The stock trades at P/BV of 0.9x of FY12E BV and P/E of 5x of FY12E EPS. RoEs are expected to be ~20%. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	9,685	9,628	10,159	10,632	11,147	12,108	13,113	14,211	40,104	50,579
Interest Expense	7,180	7,223	7,329	7,371	7,542	8,345	9,221	10,071	29,103	35,179
Net Interest Income	**2,505**	**2,405**	**2,830**	**3,261**	**3,605**	**3,763**	**3,892**	**4,140**	**11,000**	**15,400**
% Change (Y-o-Y)	*14.5*	*-5.4*	*-19.7*	*36.5*	*43.9*	*56.5*	*37.5*	*27.0*	*3.1*	*40.0*
Other Income	1,554	1,253	1,331	1,749	1,071	1,068	1,265	1,426	5,886	4,831
Net Income	**4,059**	**3,658**	**4,161**	**5,010**	**4,676**	**4,831**	**5,157**	**5,567**	**16,887**	**20,231**
Operating Expenses	2,045	2,043	2,185	2,208	2,290	2,446	2,527	2,573	8,481	9,836
Operating Profit	**2,013**	**1,615**	**1,977**	**2,801**	**2,386**	**2,386**	**2,630**	**2,993**	**8,406**	**10,395**
% Change (Y-o-Y)	*62.2*	*8.2*	*-25.5*	*49.2*	*18.5*	*47.7*	*33.0*	*6.9*	*15.2*	*23.7*
Other Provisions	406	15	293	824	428	650	950	1,127	1,538	3,155
Profit Before tax	**1,607**	**1,600**	**1,684**	**1,977**	**1,958**	**1,736**	**1,680**	**1,866**	**6,868**	**7,240**
Tax Provisions	457	354	339	606	570	451	437	642	1,755	2,099
Net Profit	**1,150**	**1,246**	**1,345**	**1,371**	**1,388**	**1,284**	**1,243**	**1,225**	**5,112**	**5,140**
% Change (Y-o-Y)	*68.4*	*21.2*	*-4.2*	*23.3*	*20.7*	*3.1*	*-7.6*	*-10.7*	*20.1*	*0.5*
Interest Expense/Interest Income (%)	*74.1*	*75.0*	*72.1*	*69.3*	*67.7*	*68.9*	*70.3*	*70.9*	*72.6*	*69.6*
Other Income/Net Income (%)	*38.3*	*34.3*	*32.0*	*34.9*	*22.9*	*22.1*	*24.5*	*25.6*	*34.9*	*23.9*
Cost to Income Ratio (%)	*50.4*	*55.9*	*52.5*	*44.1*	*49.0*	*50.6*	*49.0*	*46.2*	*50.2*	*48.6*
Provisions/Operating Profits (%)	*20.2*	*0.9*	*14.8*	*29.4*	*18.0*	*27.2*	*36.1*	*37.7*	*18.3*	*30.4*
Tax Payout (%)	*28.4*	*22.1*	*20.1*	*30.7*	*29.1*	*26.0*	*26.0*	*34.4*	*25.6*	*29.0*

E: MOSL Estimates

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Dewan Housing Finance

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	DEWH.IN
	REUTERS CODE
S&P CNX: 6,018	DWNH.BO

Equity Shares (m)	104.0
52 Week Range (Rs)	325/134
1,6,12 Rel Perf (%)	-4/22/80
Mcap (Rs b)	29.2
Mcap (USD b)	0.6

24 September 2010

Buy

Previous Recommendation: Buy

Rs280

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	1,996	863	14.3	28.3	18.8	3.5	20.1	1.6	3.9
3/10A	3,227	1,507	18.4	28.8	14.6	2.7	22.7	1.9	2.8
3/11E	4,757	2,317	22.3	21.3	12.1	1.9	19.7	2.0	2.0
3/12E	6,629	3,273	31.5	41.2	8.5	1.6	19.8	2.1	1.7

- Continued buoyancy in the housing finance segment will lead to strong disbursement and loan growth for the company. We expect loans to grow by 50%+ YoY.
- Utilization of money raised through equity issuance (Rs4.8b in June 2010) and strong loan growth will result in sequentially higher NII growth.
- DHFL is expected to maintain its momentum in fee income growth. It earned Rs111m in 1QFY11 through fee income initiatives.
- Asset quality is expected to be strong. Overall, we expect strong profit growth of over 50%, led by healthy operating parameters.
- The stock trades at PBV of 1.6x FY12E BV and PE of 8.5x FY12E EPS. Return ratios are expected to be strong with RoA of 2% and RoE of over 20% over FY10-12. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Operating Income	2,135	2,456	2,603	2,713	2,984	3,357	3,776	4,388	9,906	14,504
Other Income	4	6	4	6	5	5	5	6	20	22
Total income	**2,139**	**2,462**	**2,607**	**2,719**	**2,989**	**3,362**	**3,781**	**4,394**	**9,926**	**14,526**
Y-o-Y Growth (%)	*50.5*	*53.1*	*42.3*	*31.4*	*39.8*	*36.6*	*45.1*	*61.6*	*43.3*	*46.3*
Interest expenses	1,492	1,721	1,709	1,776	1,976	2,193	2,544	3,055	6,698	9,769
Net Income	**647**	**741**	**898**	**942**	**1,013**	**1,168**	**1,237**	**1,339**	**3,227**	**4,757**
Y-o-Y Growth (%)	*55.8*	*59.7*	*82.9*	*49.4*	*56.6*	*57.7*	*37.8*	*42.1*	*61.7*	*47.4*
Operating Expenses	219	236	373	377	347	406	426	447	1,205	1,625
Profit before Tax	**428**	**505**	**525**	**565**	**666**	**763**	**811**	**892**	**2,022**	**3,132**
Tax Provisions	115	129	123	148	154	198	211	251	515	814
Net Profit	**313**	**376**	**402**	**418**	**512**	**564**	**600**	**641**	**1,507**	**2,317**
Y-o-Y Growth (%)	*59.3*	*70.2*	*73.0*	*95.1*	*63.9*	*50.2*	*49.4*	*53.4*	*64.3*	*53.7*
Int Exp/ Int Earned (%)	*69.9*	*70.1*	*65.7*	*65.5*	*66.2*	*65.3*	*67.4*	*69.6*	*67.6*	*67.4*
Other Income / Net Income (%)	*0.6*	*0.8*	*0.4*	*0.7*	*0.5*	*0.4*	*0.4*	*0.5*	*0.6*	*0.5*
Cost to Income Ratio (%)	*33.9*	*31.8*	*41.6*	*40.0*	*34.2*	*34.7*	*34.4*	*33.4*	*37.3*	*34.2*
Tax Rate (%)	*26.9*	*25.6*	*23.4*	*26.1*	*23.1*	*26.0*	*26.0*	*28.2*	*25.5*	*26.0*

E: MOSL Estimates

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Federal Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	FB IN
	REUTERS CODE
S&P CNX: 6,018	FED.BO

Equity Shares (m)	171.0
52 Week Range (Rs)	390/218
1,6,12 Rel Perf (%)	1/40/38
Mcap (Rs b)	66.5
Mcap (USD b)	1.5

24 September 2010

Buy

Previous Recommendation: Buy

Rs389

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	18,312	5,005	29.3	36.0	13.3	1.5	20.1	12.1	1.4	1.6
3/10A	19,417	4,645	27.2	-7.2	14.3	1.4	17.6	10.3	1.1	1.5
3/11E	23,166	6,087	35.6	31.0	10.9	1.3	17.8	12.3	1.3	1.3
3/12E	26,573	7,382	43.2	21.3	9.0	1.2	16.5	13.5	1.3	1.2

- We expect sequential business growth to be in line with industry however, on a higher base, we expect single-digit business growth YoY.
- While loan growth is expected to be in single digit NII growth (on a lower base) is expected to be over 32% YoY as NIMs will be strong due to re-pricing of high cost deposits. Federal Bank is using higher inflow of retail deposits to repay bulk deposits.
- We expect other income to decline 12% YoY due to lower trading gains and muted fee income growth.
- Asset quality will be under pressure this quarter and we model in higher provisions at Rs1.4b. On a lower base, we expect PAT growth of about 35% YoY.
- The stock trades at 1.2x FY12E BV and 9x FY12E EPS with RoA of 1.3%. RoE is likely to stay low due to lower leverage. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	8,744	9,011	9,446	9,531	9,518	10,284	11,200	12,194	36,732	43,196
Interest Expense	5,843	5,711	5,635	5,435	5,385	5,923	6,634	7,315	22,624	25,257
Net Interest Income	**2,901**	**3,300**	**3,811**	**4,097**	**4,133**	**4,361**	**4,566**	**4,879**	**14,108**	**17,939**
% Change (Y-o-Y)	*4.3*	*-0.6*	*-0.9*	*27.7*	*42.5*	*32.2*	*19.8*	*19.1*	*7.3*	*27.2*
Other Income	1,474	1,364	1,165	1,306	1,099	1,226	1,363	1,539	5,309	5,226
Net Income	**4,375**	**4,664**	**4,976**	**5,403**	**5,232**	**5,587**	**5,929**	**6,418**	**19,417**	**23,166**
Operating Expenses	1,592	1,631	1,661	1,885	1,879	1,902	1,967	2,021	6,769	7,769
Operating Profit	**2,783**	**3,032**	**3,315**	**3,518**	**3,353**	**3,685**	**3,962**	**4,397**	**12,648**	**15,397**
% Change (Y-o-Y)	*9.8*	*0.1*	*-13.8*	*10.3*	*20.5*	*21.5*	*19.5*	*25.0*	*0.4*	*21.7*
Other Provisions	520	1,501	1,053	979	1,334	1,585	1,550	1,706	4,053	6,175
Profit before Tax	**2,263**	**1,531**	**2,262**	**2,539**	**2,020**	**2,100**	**2,412**	**2,691**	**8,595**	**9,222**
Tax Provisions	900	520	1,160	1,370	701	714	820	900	3,950	3,136
Net Profit	**1,364**	**1,011**	**1,103**	**1,169**	**1,319**	**1,386**	**1,592**	**1,790**	**4,645**	**6,087**
% Change (Y-o-Y)	*100.1*	*-11.6*	*-45.9*	*2.3*	*-3.3*	*37.1*	*44.4*	*53.2*	*-7.2*	*31.0*
Interest Exp/Interest Income (%)	*66.8*	*63.4*	*59.7*	*57.0*	*56.6*	*57.6*	*59.2*	*60.0*	*61.6*	*58.5*
Other Income/Net Income (%)	*33.7*	*29.3*	*23.4*	*24.2*	*21.0*	*21.9*	*23.0*	*24.0*	*27.3*	*22.6*
Cost/Income Ratio (%)	*36.4*	*35.0*	*33.4*	*34.9*	*35.9*	*34.0*	*33.2*	*31.5*	*34.9*	*33.5*
Provisions/Operating Profits (%)	*18.7*	*49.5*	*31.8*	*27.8*	*39.8*	*43.0*	*39.1*	*38.8*	*32.0*	*40.1*
Tax Rate (%)	*39.7*	*34.0*	*51.3*	*54.0*	*34.7*	*34.0*	*34.0*	*33.5*	*46.0*	*34.0*

E: MOSL Estimates

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HDFC

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	HDFC IN
	REUTERS CODE
S&P CNX: 6,018	HDFC.BO

Equity Shares (m)	1,449.7
52 Week Range (Rs)	780/460
1,6,12 Rel Perf (%)	8/27/14
Mcap (Rs b)	1,061.1
Mcap (USD b)	23.4

24 September 2010

Neutral

Previous Recommendation: Neutral

Rs732

YEAR END	NET INCOME (RS M)	PAT (RS M)	ADJ. EPS (RS)	EPS GROWTH (%)	AP/E* (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	AP/ABV* (X)
3/09A	35,852	22,825	16.0	17.5	39.5	7.9	15.1	23.3	2.6	9.3
3/10A	42,978	28,265	19.7	22.7	29.8	6.9	14.6	25.3	2.7	7.4
3/11E	51,127	33,875	23.4	18.7	24.2	6.0	14.1	25.5	2.8	6.1
3/12E	60,526	40,325	27.8	19.0	19.4	5.3	13.7	25.8	2.8	5.0

** Price is adjusted for value of key ventures. Book Value is adjusted by deducting investments in key ventures from net worth*

- We expect reported loan growth of ~17% YoY in 2QFY11 and ~4% QoQ led by continued buoyancy in disbursement growth.
- We expect spreads to be stable or decline marginally on a QoQ basis.
- We model in other operating income to decline however improve sequentially as we factor in higher dividend and capital gains (the bank did not book capital gain on investment in 1QFY11). In 2QFY10 HDFC accounted for HDFC Bank dividend.
- Overall we expect profit growth of ~19%, led by higher loan growth and stable spreads.
- The stock trades at 5x FY12E AP/ABV (price adjusted for value of other businesses and book value adjusted for investments made in those businesses) and AP/E at 19x. Maintain **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	26,894	26,209	25,994	27,307	26,549	29,568	34,375	41,972	106,404	132,465
Interest Expense	19,628	18,365	17,042	15,595	17,196	19,775	23,928	28,104	70,631	89,004
Net Interest Income	**7,266**	**7,844**	**8,952**	**11,712**	**9,353**	**9,793**	**10,447**	**13,867**	**35,773**	**43,461**
YoY Change (%)	*7.6*	*1.8*	*9.7*	*23.3*	*28.7*	*24.8*	*16.7*	*18.4*	*11.4*	*21.5*
Profit on Sale of Investments	513	613	514	454	0	1,000	500	994	2,094	2,494
Other operating income	1,035	1,627	1,061	1,162	1,422	1,150	1,000	1,351	4,885	4,923
Net Operating Income	**8,814**	**10,083**	**10,527**	**13,328**	**10,775**	**11,943**	**11,947**	**16,212**	**42,752**	**50,877**
YoY Change (%)	*18.3*	*17.5*	*20.1*	*23.1*	*22.3*	*18.4*	*13.5*	*21.6*	*20.0*	*19.0*
Other Income	49	54	53	70	48	60	70	72	226	250
Total Income	**8,863**	**10,137**	**10,580**	**13,398**	**10,824**	**12,003**	**12,017**	**16,284**	**42,978**	**51,127**
Operating Expenses	944	868	847	579	1,008	920	845	801	3,238	3,574
Pre Provisioning Profit	**7,919**	**9,269**	**9,733**	**12,819**	**9,816**	**11,083**	**11,172**	**15,483**	**39,740**	**47,554**
YoY Change (%)	*20.0*	*19.5*	*22.6*	*23.3*	*24.0*	*19.6*	*14.8*	*20.8*	*21.6*	*19.7*
Provisions	120	140	160	160	150	150	200	167	580	667
PBT	**7,799**	**9,129**	**9,573**	**12,659**	**9,666**	**10,933**	**10,972**	**15,316**	**39,160**	**46,887**
YoY Change (%)	*20.0*	*20.1*	*22.5*	*23.2*	*23.9*	*19.8*	*14.6*	*21.0*	*21.7*	*19.7*
Provision for Tax	2,150	2,490	2,860	3,395	2,720	3,061	3,017	4,212	10,895	13,011
PAT (Excl exceptional)	**5,649**	**6,639**	**6,713**	**9,264**	**6,946**	**7,872**	**7,955**	**11,103**	**28,265**	**33,875**
YoY Change (%)	*20.7*	*24.3*	*22.8*	*26.3*	*23.0*	*18.6*	*18.5*	*19.9*	*23.8*	*19.9*

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@motilaloswal.com)

HDFC Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	HDFCB IN
	REUTERS CODE
S&P CNX: 6,018	HDBK.BO

Equity Shares (m)	457.7
52 Week Range (Rs)	2,500/1,532
1,6,12 Rel Perf (%)	3/15/34
Mcap (Rs b)	1,140.4
Mcap (USD b)	25.2

24 September 2010

Neutral

Previous Recommendation: Neutral Rs2,491

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	107,118	22,449	52.8	27.7	47.2	7.0	15.8	15.6	1.3	7.2
3/10A	121,942	29,487	64.4	22.1	38.7	5.3	17.4	16.1	1.5	5.4
3/11E	150,850	39,565	86.4	34.2	28.8	4.6	15.8	17.1	1.6	4.7
3/12E	181,700	51,264	112.0	29.6	22.2	4.0	14.0	19.2	1.7	4.0

- We expect loan growth of 30%+ YoY backed by a lower base and strong up-tick in retail disbursements. Stable YoY margins and strong loan growth will drive NII growth of ~29% YoY.
- Other income is expected to be flat YoY due to a higher base of trading gains in 2QFY10 (Rs1.6b). Fee income is expected to improve YoY (on a lower base) with improved loan growth.
- We expect core operating profit growth of 28% YoY and overall operating profit growth of ~18% YoY.
- Provisions are expected to be flat sequentially.
- The stock trades at 4.6x FY11E BV and 4x FY12E BV**.** We are positive about the bank's business however, we believe valuations are rich. Maintain **Neutral.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	40,931	39,919	40,348	40,531	44,202	48,464	55,466	59,773	161,729	207,905
Interest Expense	22,375	20,361	18,109	17,018	20,190	23,331	26,733	29,426	77,863	99,679
Net Interest Income	**18,556**	**19,558**	**22,239**	**23,514**	**24,011**	**25,134**	**28,733**	**30,348**	**83,866**	**108,226**
% Change (Y-o-Y)	*7.7*	*4.8*	*12.4*	*27.0*	*29.4*	*28.5*	*29.2*	*29.1*	*13.0*	*29.0*
Other Income	10,437	10,074	8,530	9,036	9,399	10,449	11,023	11,753	38,076	42,624
Net Income	**28,992**	**29,632**	**30,769**	**32,549**	**33,410**	**35,583**	**39,756**	**42,101**	**121,942**	**150,850**
Operating Expenses	13,806	13,702	14,532	15,605	15,923	16,719	18,165	19,397	57,645	70,205
Operating Profit	**15,187**	**15,930**	**16,237**	**16,944**	**17,487**	**18,864**	**21,591**	**22,704**	**64,297**	**80,645**
% Change (Y-o-Y)	*47.8*	*41.9*	*11.4*	*7.9*	*15.1*	*18.4*	*33.0*	*34.0*	*24.2*	*25.4*
Other Provisions	6,588	5,941	4,477	4,399	5,550	5,567	5,481	5,864	21,400	22,462
Profit before Tax	**8,598**	**9,989**	**11,760**	**12,545**	**11,937**	**13,297**	**16,110**	**16,840**	**42,897**	**58,184**
Tax Provisions	2,537	3,114	3,575	4,178	3,820	4,122	5,155	5,522	13,410	18,619
Net Profit	**6,061**	**6,875**	**8,185**	**8,366**	**8,117**	**9,175**	**10,955**	**11,318**	**29,487**	**39,565**
% Change (Y-o-Y)	*30.5*	*30.2*	*31.6*	*32.6*	*33.9*	*33.5*	*33.8*	*35.3*	*31.3*	*34.2*
Interest Exp/Interest Income (%)	*54.7*	*51.0*	*44.9*	*42.0*	*45.7*	*48.1*	*48.2*	*49.2*	*48.1*	*47.9*
Other Income/Net Income (%)	*36.0*	*34.0*	*27.7*	*27.8*	*28.1*	*29.4*	*27.7*	*27.9*	*31.2*	*28.3*
Cost/Income Ratio (%)	*47.6*	*46.2*	*47.2*	*47.9*	*47.7*	*47.0*	*45.7*	*46.1*	*47.3*	*46.5*
Provisions/Operating Profits (%)	*43.4*	*37.3*	*27.6*	*26.0*	*31.7*	*29.5*	*25.4*	*25.8*	*33.3*	*27.9*
Tax Rate (%)	*29.5*	*31.2*	*30.4*	*33.3*	*32.0*	*31.0*	*32.0*	*32.8*	*31.3*	*32.0*

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@motilaloswal.com)

ICICI Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	ICICIBC IN
	REUTERS CODE
S&P CNX: 6,018	ICBK.BO

Equity Shares (m)	1,114.9
52 Week Range (Rs)	1,135/756
1,6,12 Rel Perf (%)	2/5/10
Mcap (Rs b)	1,240.0
Mcap (USD b)	27.4

24 September 2010

Buy

Previous Recommendation: Buy

Rs1,112

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	AP/E* (X)	AP/ABV* (X)	CAR (%)	CORE ROE (%)	ROAA (%)
3/09A	159,703	37,581	33.8	-9.7	32.9	28.5	2.9	15.5	9.3	1.0
3/10A	155,920	40,250	36.1	6.9	30.8	25.7	2.7	19.4	9.7	1.1
3/11E	159,923	51,230	46.0	27.3	24.2	19.6	2.4	18.9	11.8	1.4
3/12E	187,798	63,883	57.3	24.7	19.4	15.2	2.1	16.8	13.6	1.5

**Price is adjusted for value of key ventures; Book value adjusted for investment in subsidiaries*

- We expect loan growth to be flat YoY and to grow ~3% QoQ, driven by domestic corporate, auto and housing loans.
- After eight quarters of negative deposit growth, we expect it to grow ~4% YoY and ~3% QoQ as repayment of bulk deposits is largely complete.
- NII is expected to be flattish YoY due to muted loan growth and stable margins.
- Non-interest income is expected to decline marginally due to lower trading profits. We model in fee growth of 7% QoQ and 9.5% YoY (on a lower base).
- Operating expenses are expected to increase as branch expansion has been strong in the past two or three quarters.
- Due to improving asset quality we expect NPA provisions to fall sequentially. Despite a fall in operating profits, decline in credit costs will lead to over 10% YoY PAT growth.
- We have not factor in the merger with Bank of Rajasthan, which can lead to a 4-5% sequential increase in business growth and NPA.
- Excluding the subsidiaries, the stock trades at 2.1x FY12E ABV (BV adjusted for NPA and investment in subsidiaries) and 15.2x AP/AE FY12E EPS of Rs57. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	71,334	66,569	60,896	58,270	58,125	63,648	69,724	78,376	257,069	269,873
Interest Expense	51,482	46,209	40,315	37,920	38,215	42,992	47,721	54,768	175,926	183,696
Net Interest Income	**19,853**	**20,361**	**20,581**	**20,349**	**19,911**	**20,657**	**22,003**	**23,608**	**81,144**	**86,177**
% Change (Y-o-Y)	*-5.0*	*-5.2*	*3.4*	*-4.9*	*0.3*	*1.5*	*6.9*	*16.0*	*-3.0*	*6.2*
Other Income	20,899	18,238	16,731	18,908	16,805	17,540	19,054	20,346	74,777	73,745
Net Income	**40,751**	**38,599**	**37,312**	**39,258**	**36,716**	**38,196**	**41,057**	**43,954**	**155,920**	**159,923**
Operating Expenses	15,460	14,245	13,624	15,269	14,835	15,404	16,227	16,816	58,598	63,282
Operating Profit	**25,291**	**24,353**	**23,688**	**23,989**	**21,881**	**22,792**	**24,830**	**27,138**	**97,322**	**96,641**
% Change (Y-o-Y)	*47.5*	*6.6*	*-14.5*	*11.3*	*-13.5*	*-6.4*	*4.8*	*13.1*	*9.0*	*-0.7*
Other Provisions	13,237	10,713	10,022	9,898	7,978	7,000	6,500	5,462	43,869	26,940
Profit before Tax	**12,055**	**13,640**	**13,667**	**14,091**	**13,903**	**15,792**	**18,330**	**21,676**	**53,453**	**69,700**
Tax Provisions	3,273	3,239	2,656	4,036	3,643	4,185	4,857	5,786	13,203	18,471
Net Profit	**8,782**	**10,401**	**11,011**	**10,056**	**10,260**	**11,607**	**13,472**	**15,890**	**40,250**	**51,230**
% Change (Y-o-Y)	*20.6*	*2.6*	*-13.4*	*35.2*	*16.8*	*11.6*	*22.4*	*58.0*	*7.1*	*27.3*
Interest Exp/Interest Income (%)	*72.2*	*69.4*	*66.2*	*65.1*	*65.7*	*67.5*	*68.4*	*69.9*	*68.4*	*68.1*
Other Income/Net Income (%)	*51.3*	*47.3*	*44.8*	*48.2*	*45.8*	*45.9*	*46.4*	*46.3*	*48.0*	*46.1*
Cost/Income Ratio (%)	*37.9*	*36.9*	*36.5*	*38.9*	*40.4*	*40.3*	*39.5*	*38.3*	*37.6*	*39.6*
Provisions/Operating Profits (%)	*52.3*	*44.0*	*42.3*	*41.3*	*36.5*	*30.7*	*26.2*	*20.1*	*45.1*	*27.9*
Tax Rate (%)	*27.1*	*23.7*	*19.4*	*28.6*	*26.2*	*26.5*	*26.5*	*26.7*	*24.7*	*26.5*

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@motilaloswal.com)

Indian Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	INBK IN
	REUTERS CODE
S&P CNX: 6,018	INBA.BO

Equity Shares (m)	429.8
52 Week Range (Rs)	273/146
1,6,12 Rel Perf (%)	-5/48/45
Mcap (Rs b)	113.7
Mcap (USD b)	2.5

24 September 2010

Buy

Previous Recommendation: Buy Rs264

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	36,440	12,453	29.0	23.5	9.1	2.1	14.0	24.0	1.6	2.1
3/10A	44,776	15,550	36.2	24.9	7.3	1.7	12.7	24.9	1.7	1.7
3/11E	52,223	14,784	34.4	-4.9	7.7	1.5	11.4	20.0	1.3	1.5
3/12E	61,588	18,203	42.4	23.1	6.2	1.3	10.7	21.1	1.3	1.3

- We expect 2QFY11 loan growth of 30% YoY and deposit growth of ~18% YoY. We expect NII growth of ~28% YoY due to strong loan growth. Higher upgrades from a/c classified as technical NPAs can provide an upside to our NII estimates.
- Other income growth is expected to rise 27% YoY on a lower base. In 2QFY10 recoveries from written-off accounts and treasury gains were muted at Rs286m and Rs300m respectively.
- Asset quality is expected to be stable in 2QFY11 as the bank has moved to system-based recognition of NPAs from 1QFY11. We estimate provisioning expenses of ~Rs3b however, higher upgrades could provide an upside to profit estimates.
- The stock trades at 1.3x FY12E BV and 6.2x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	18,802	19,372	20,148	20,249	21,218	23,002	25,171	27,865	78,571	97,256
Interest Expense	11,426	11,780	11,418	10,908	11,951	13,266	14,792	17,077	45,532	57,086
Net Interest Income	**7,377**	**7,591**	**8,730**	**9,341**	**9,266**	**9,736**	**10,379**	**10,787**	**33,039**	**40,169**
% Change (Y-o-Y)	36.7	11.3	21.3	39.9	25.6	28.3	18.9	15.5	26.7	21.6
Other Income	3,502	2,372	2,935	2,929	3,555	3,004	2,900	2,595	11,737	12,054
Net Income	**10,878**	**9,963**	**11,665**	**12,270**	**12,821**	**12,740**	**13,280**	**13,382**	**44,776**	**52,223**
Operating Expenses	4,573	4,425	4,178	3,545	4,443	4,550	4,750	5,044	17,302	18,787
Operating Profit	**6,305**	**5,539**	**7,487**	**8,724**	**8,378**	**8,190**	**8,530**	**8,338**	**27,473**	**33,436**
% Change (Y-o-Y)	*44.4*	*4.0*	*20.0*	*37.2*	*32.9*	*47.9*	*13.9*	*-4.4*	*22.9*	*16.6*
Other Provisions	1,209	293	320	2,136	3,439	3,045	3,045	2,787	3,957	12,316
Profit before Tax	**5,096**	**5,246**	**7,166**	**6,589**	**4,939**	**5,145**	**5,484**	**5,551**	**23,516**	**21,119**
Tax Provisions	1,780	1,526	2,172	2,488	1,258	1,415	1,782	1,881	7,966	6,336
Net Profit	**3,317**	**3,720**	**4,994**	**4,101**	**3,681**	**3,730**	**3,702**	**3,670**	**15,550**	**14,784**
% Change (Y-o-Y)	*52.4*	*31.5*	*42.4*	*4.1*	*11.0*	*0.3*	*-25.9*	*-10.5*	*24.9*	*-4.9*
Interest Exp/Interest Income (%)	*60.8*	*60.8*	*56.7*	*53.9*	*56.3*	*57.7*	*58.8*	*61.3*	*58.0*	*58.7*
Other Income/Net Income (%)	*32.2*	*23.8*	*25.2*	*23.9*	*27.7*	*23.6*	*21.8*	*19.4*	*26.2*	*23.1*
Cost/Income Ratio (%)	*42.0*	*44.4*	*35.8*	*28.9*	*34.7*	*35.7*	*35.8*	*37.7*	*38.6*	*36.0*
Provisions/Operating Profits (%)	*19.2*	*5.3*	*4.3*	*24.5*	*41.0*	*37.2*	*35.7*	*33.4*	*14.4*	*36.8*
Tax Rate (%)	*34.9*	*29.1*	*30.3*	*37.8*	*25.5*	*27.5*	*32.5*	*33.9*	*33.9*	*30.0*

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@motilaloswal.com)

LIC Housing Finance

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	LICH IN
	REUTERS CODE
S&P CNX: 6,018	LICHF.BO

Equity Shares (m)	95.0
52 Week Range (Rs)	1,374/687
1,6,12 Rel Perf (%)	1/54/53
Mcap (Rs b)	128.8
Mcap (USD b)	2.8

24 September 2010

Neutral

Previous Recommendation: Buy

Rs1,356

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	8,867	5,324	62.6	37.5	21.6	5.2	26.2	2.0	5.2
3/10A	10,740	6,612	69.6	11.1	19.5	3.8	23.5	1.9	3.8
3/11E	14,752	8,820	92.8	33.4	14.6	3.1	23.4	1.9	3.1
3/12E	17,823	10,618	111.8	20.4	12.1	2.6	23.2	1.8	2.6

- We expect 2QFY11 loan book to grow 30%+ YoY, led by continued buoyancy in disbursement growth.
- We expect spreads to be under pressure due to a rising cost of funds and the company disbursing loans under the scheme Advantage-5 in which the lending rate is fixed at 9.25% for five years.
- Asset quality will improve sequentially (seasonal phenomenon); provision charge is likely to be negligible.
- The stock trades at 2.6x FY12E BV and 12.1x FY12E EPS. We believe valuations are fair; downgrade to **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Operating Income	7,802	8,349	8,782	9,629	10,125	11,198	12,382	13,750	34,563	47,454
Other Income	17	42	22	53	25	40	45	50	135	160
Total income	**7,819**	**8,391**	**8,805**	**9,683**	**10,149**	**11,238**	**12,427**	**13,800**	**34,697**	**47,614**
Y-o-Y Growth (%)	*25.5*	*18.6*	*14.8*	*20.1*	*29.8*	*33.9*	*41.1*	*42.5*	*19.5*	*37.2*
Interest expenses	5,709	5,979	6,057	6,214	6,772	7,788	8,645	9,657	23,957	32,862
Net Income	**2,110**	**2,413**	**2,748**	**3,469**	**3,377**	**3,450**	**3,782**	**4,143**	**10,740**	**14,752**
Operating Expenses	322	552	428	613	394	588	633	662	1,920	2,277
Operating Profit	**1,788**	**1,861**	**2,320**	**2,856**	**2,983**	**2,862**	**3,149**	**3,481**	**8,820**	**12,474**
Y-o-Y Growth (%)	*17.4*	*4.5*	*26.8*	*30.8*	*66.8*	*53.8*	*35.7*	*21.9*	*20.5*	*41.4*
Provisions and Cont.	100	-417	158	-126	89	50	60	151	-283	350
Profit before Tax	**1,688**	**2,278**	**2,162**	**2,982**	**2,893**	**2,812**	**3,089**	**3,330**	**9,103**	**12,124**
Tax Provisions	450	566	629	847	773	768	843	920	2,491	3,304
Net Profit	**1,238**	**1,712**	**1,533**	**2,135**	**2,120**	**2,044**	**2,246**	**2,410**	**6,612**	**8,820**
Y-o-Y Growth (%)	*18.3*	*26.8*	*14.1*	*35.5*	*71.2*	*19.4*	*46.5*	*12.9*	*24.4*	*33.4*
Int Exp/ Int Earned (%)	*73.2*	*71.6*	*69.0*	*64.5*	*66.9*	*69.6*	*69.8*	*70.2*	*69.3*	*69.3*
Other Income / Net Income (%)	*0.8*	*1.8*	*0.8*	*1.5*	*0.7*	*1.2*	*1.2*	*1.2*	*1.3*	*1.1*
Cost to Income Ratio (%)	*15.3*	*22.9*	*15.6*	*17.7*	*11.7*	*17.0*	*16.7*	*16.0*	*17.9*	*15.4*
Tax Rate (%)	*26.6*	*24.8*	*29.1*	*28.4*	*26.7*	*27.3*	*27.3*	*27.6*	*27.4*	*27.3*

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@motilaloswal.com)

Oriental Bank of Commerce

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	OBC IN
	REUTERS CODE
S&P CNX: 6,018	ORBC.BO

Equity Shares (m)	250.5
52 Week Range (Rs)	477/220
1,6,12 Rel Perf (%)	-5/30/75
Mcap (Rs b)	110.6
Mcap (USD b)	2.4

24 September 2010

Buy

Previous Recommendation: Buy

Rs441

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	30,678	9,054	36.1	7.7	12.2	1.7	13.0	14.8	0.9	1.8
3/10A	41,075	11,347	45.3	25.3	9.7	1.5	12.5	16.5	0.9	1.6
3/11E	53,505	14,625	58.4	28.9	7.6	1.3	12.2	18.5	1.0	1.4
3/12E	62,630	17,749	70.8	21.4	6.2	1.1	11.5	19.4	1.0	1.2

- On a sequential basis NII growth will be flat however, on a lower base it is expected to increase by 90%+ YoY.
- Sequentially we expect margins to decline marginally, as rising cost of funds would be partially offset by increase in BPLR.
- We expect business growth to be strong with loan growth of about 20%YoY and deposit growth of about 18%YoY.
- Fee income growth is expected to track loan growth but overall non-interest income is expected to decline YoY due to lower trading profit compared to last year.
- OBC will recognize Rs1.1b under the agriculture-debt relief scheme as NPAs, but the bank has provided for it. On a conservative side, we have built up provisioning expenses of Rs3.2b.
- The stock trades at P/BV of 1.1x FY12E and 6.2x of FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	24,042	24,958	26,716	26,855	28,308	30,104	32,669	35,819	102,571	126,901
Interest Expense	19,201	19,347	17,987	16,961	17,736	19,243	21,745	24,656	73,497	83,380
Net Interest Income	**4,842**	**5,611**	**8,729**	**9,894**	**10,572**	**10,860**	**10,924**	**11,163**	**29,074**	**43,520**
% Change (Y-o-Y)	*8.4*	*8.0*	*53.7*	*114.9*	*118.4*	*93.6*	*25.2*	*12.8*	*45.6*	*49.7*
Other Income	3,919	3,051	2,377	2,654	2,147	2,267	2,635	2,936	12,000	9,985
Net Income	**8,760**	**8,662**	**11,106**	**12,548**	**12,720**	**13,127**	**13,559**	**14,099**	**41,075**	**53,505**
Operating Expenses	3,591	3,612	4,878	4,779	4,497	4,682	5,083	5,240	16,860	19,501
Operating Profit	**5,169**	**5,049**	**6,228**	**7,769**	**8,223**	**8,445**	**8,477**	**8,860**	**24,215**	**34,005**
% Change (Y-o-Y)	*46.1*	*24.1*	*61.2*	*44.3*	*59.1*	*67.3*	*36.1*	*14.0*	*43.7*	*40.4*
Other Provisions	1,514	551	1,921	4,174	2,280	3,200	2,900	3,125	8,176	11,504
Profit before Tax	**3,656**	**4,498**	**4,307**	**3,595**	**5,943**	**5,245**	**5,577**	**5,735**	**16,039**	**22,500**
Tax Provisions	1,082	1,789	1,413	425	2,310	1,757	1,868	1,940	4,692	7,875
Net Profit	**2,574**	**2,709**	**2,894**	**3,170**	**3,633**	**3,488**	**3,708**	**3,796**	**11,347**	**14,625**
% Change (Y-o-Y)	*16.7*	*14.3*	*14.8*	*61.9*	*41.1*	*28.8*	*28.1*	*19.7*	*25.3*	*28.9*
Interest Exp/Interest Income (%)	*79.9*	*77.5*	*67.3*	*63.2*	*62.7*	*63.9*	*66.6*	*68.8*	*71.7*	*65.7*
Other Income/Net Income (%)	*44.7*	*35.2*	*21.4*	*21.2*	*16.9*	*17.3*	*19.4*	*20.8*	*29.2*	*18.7*
Cost/Income Ratio (%)	*41.0*	*41.7*	*43.9*	*38.1*	*35.4*	*35.7*	*37.5*	*37.2*	*41.0*	*36.4*
Provisions/Operating Profits (%)	*29.3*	*10.9*	*30.8*	*53.7*	*27.7*	*37.9*	*34.2*	*35.3*	*33.8*	*33.8*
Tax Rate (%)	*29.6*	*39.8*	*32.8*	*11.8*	*38.9*	*33.5*	*33.5*	*33.8*	*29.3*	*35.0*

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@motilaloswal.com)

Punjab National Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	PNB IN
	REUTERS CODE
S&P CNX: 6,018	PNB.BO

Equity Shares (m)	315.3
52 Week Range (Rs)	1,326/763
1,6,12 Rel Perf (%)	-1/14/43
Mcap (Rs b)	405.2
Mcap (USD b)	9.0

24 September 2010

Buy

Previous Recommendation: Buy Rs1,285

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	98,966	30,909	98.0	50.9	13.1	3.1	14.0	25.8	1.4	3.1
3/10A	120,882	39,054	123.9	26.4	10.4	2.5	14.2	26.6	1.4	2.6
3/11E	143,047	43,958	139.4	12.6	9.2	2.1	12.6	24.4	1.3	2.2
3/12E	167,364	53,953	171.1	22.7	7.5	1.7	11.5	24.7	1.3	1.8

- We expect PNB's loans in 2QFY11 to grow 4% QoQ and 25% YoY. Deposit growth is expected to pick up after growing relatively slower in 1QFY11. We expect deposits to grow over 17% YoY.
- We expect NII growth of 34% YoY and 3% QoQ due to strong loan growth and sharp margin improvement on a YoY basis.
- Non interest income is expected to grow 15% YoY as trading profits were relatively low in 2QFY10.
- We expect PNB to make higher NPA provisions on a conservative basis due to strong operating profit growth of 30%+.
- The stock trades at P/BV of 1.7x FY12E and 7.5x of FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	51,466	53,241	53,885	56,076	59,919	64,160	69,925	77,755	214,669	271,758
Interest Expense	33,456	33,123	31,764	31,097	33,733	37,176	42,547	50,340	129,440	163,796
Net Interest Income	**18,010**	**20,118**	**22,121**	**24,980**	**26,186**	**26,984**	**27,378**	**27,414**	**85,229**	**107,962**
% Change (Y-o-Y)	*24.7*	*17.5*	*12.4*	*31.0*	*45.4*	*34.1*	*23.8*	*9.7*	*24.8*	*26.7*
Other Income	10,309	7,518	8,480	9,346	8,715	8,661	8,878	8,831	35,653	35,085
Net Income	**28,320**	**27,636**	**30,601**	**34,326**	**34,901**	**35,646**	**36,255**	**36,245**	**120,882**	**143,047**
Operating Expenses	12,626	11,573	12,419	11,001	13,919	14,415	15,290	16,715	47,619	60,340
Operating Profit	**15,693**	**16,063**	**18,182**	**23,325**	**20,982**	**21,230**	**20,965**	**19,530**	**73,263**	**82,707**
% Change (Y-o-Y)	*59.7*	*17.4*	*0.7*	*46.9*	*33.7*	*32.2*	*15.3*	*-16.3*	*28.7*	*12.9*
Other Provisions	3,018	2,160	2,819	6,219	5,341	5,225	4,650	2,847	14,215	18,063
Profit before Tax	**12,676**	**13,903**	**15,363**	**17,106**	**15,640**	**16,005**	**16,315**	**16,683**	**59,048**	**64,644**
Tax Provisions	4,355	4,634	5,250	5,756	4,958	4,962	5,221	5,546	19,994	20,686
Net Profit	**8,321**	**9,270**	**10,113**	**11,350**	**10,683**	**11,044**	**11,094**	**11,137**	**39,054**	**43,958**
% Change (Y-o-Y)	*62.4*	*31.1*	*0.5*	*31.1*	*28.4*	*19.1*	*9.7*	*-1.9*	*26.4*	*12.6*
Interest Exp/Interest Income (%)	*65.0*	*62.2*	*58.9*	*55.5*	*56.3*	*57.9*	*60.8*	*64.7*	*60.3*	*60.3*
Other Income/Net Income (%)	*36.4*	*27.2*	*27.7*	*27.2*	*25.0*	*24.3*	*24.5*	*24.4*	*29.5*	*24.5*
Cost/Income Ratio (%)	*44.6*	*41.9*	*40.6*	*32.0*	*39.9*	*40.4*	*42.2*	*46.1*	*39.4*	*42.2*
Provisions/Operating Profits (%)	*19.2*	*13.4*	*15.5*	*26.7*	*25.5*	*24.6*	*22.2*	*14.6*	*19.4*	*21.8*
Tax Rate (%)	*34.4*	*33.3*	*34.2*	*33.6*	*31.7*	*31.0*	*32.0*	*33.2*	*33.9*	*32.0*

E: MOSL Estimates; FY10 quarterly reclassified for first three quarters

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Rural Electrification Corp

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	RECL IN
	REUTERS CODE
S&P CNX: 6,018	RURL.BO

Equity Shares (m)	858.7
52 Week Range (Rs)	361/188
1,6,12 Rel Perf (%)	-7/24/54
Mcap (Rs b)	293.5
Mcap (USD b)	6.5

24 September 2010

Buy

Previous Recommendation: Buy

Rs342

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	20,439	12,721	16.4	50.6	20.8	83	4.1	21.2	3.1
3/10A	28,113	20,012	20.3	23.3	16.9	112	3.0	22.0	3.4
3/11E	36,080	25,314	25.6	26.4	13.3	128	2.7	21.3	3.3
3/12E	44,969	31,736	32.1	25.4	10.6	149	2.3	23.2	3.3

Assuming dilution of 15% in FY10 at Rs203/share

- We expect strong loan growth of 25%+ YoY to continue in 2QFY11. As on 1QFY11, REC had outstanding sanctions of over Rs1.1t.
- Strong loan growth coupled with improved NIMs on a YoY basis will lead to NII growth of 35%+ YoY. On a sequential basis, we expect spreads to be stable or decline marginally due to higher borrowing costs.
- Asset quality is expected to be strong and we expect profit to grow ~27% YoY.
- Loan volume growth visibility 28%+ over next three years, would drive earnings growth of 25%+ over FY10-12 despite pressure on spreads. We expect EPS CAGR of ~26% over FY10-12. The stock trades at 10.6x FY12E EPS and 2.3x FY12E BV. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	14,494	15,324	16,532	17,959	18,771	20,272	21,793	23,308	64,309	84,144
Interest Expenses	8,735	9,413	10,279	10,685	11,012	12,224	13,446	14,609	38,961	51,291
Net Interest Income	**5,759**	**5,911**	**6,254**	**7,274**	**7,758**	**8,049**	**8,347**	**8,699**	**25,348**	**32,853**
YoY Gr %	41.8	36.0	40.2	51.0	34.7	36.2	33.5	19.6	42.6	29.6
Other Operational Income	115	512	185	377	225	400	375	410	1,189	1,410
Net Operational Income	**5,874**	**6,423**	**6,438**	**7,651**	**7,984**	**8,449**	**8,722**	**9,109**	**26,537**	**34,263**
YoY Gr %	*42.6*	*43.4*	*40.3*	*40.9*	*35.9*	*31.5*	*35.5*	*19.1*	*41.9*	*29.1*
Other Income	480	393	345	360	292	500	450	576	1,578	1,817
Total Net Income	**6,354**	**6,816**	**6,783**	**8,011**	**8,275**	**8,949**	**9,172**	**9,684**	**28,115**	**36,080**
YoY Gr %	*44.8*	*35.6*	*39.1*	*35.3*	*30.2*	*31.3*	*35.2*	*20.9*	*37.6*	*28.3*
Operating Expenses	**300**	**348**	**338**	**482**	**343**	**420**	**450**	**634**	**1,620**	**1,847**
YoY Gr %	*20.2*	*-11.5*	*20.7*	*131.9*	*14.3*	*20.8*	*33.1*	*31.6*	*34.1*	*14.0*
% to Income	*4.7*	*5.1*	*5.0*	*6.0*	*4.1*	*4.7*	*4.9*	*6.5*	*5.8*	*5.1*
Operating Profit	**6,054**	**6,469**	**6,445**	**7,529**	**7,933**	**8,529**	**8,722**	**9,050**	**26,495**	**34,233**
YoY Gr %	*46.3*	*39.6*	*40.2*	*31.8*	*31.0*	*31.8*	*35.3*	*20.2*	*37.8*	*29.2*
Provisions	1	1	0	0	0	8	8	9	2	25
PBT	**6,053**	**6,468**	**6,445**	**7,529**	**7,933**	**8,521**	**8,714**	**9,041**	**26,493**	**34,208**
YoY Gr %	*46.6*	*39.6*	*35.9*	*32.4*	*31.1*	*31.7*	*35.2*	*20.1*	*38.0*	*29.1*
Tax	**1,340**	**1,521**	**1,705**	**1,917**	**2,059**	**2,215**	**2,266**	**2,354**	**6,478**	**8,894**
Tax Rate %	*22.1*	*23.5*	*26.4*	*25.5*	*26.0*	*26.0*	*26.0*	*26.0*	*24.5*	*26.0*
PAT	**4,713**	**4,947**	**4,741**	**5,612**	**5,874**	**6,305**	**6,448**	**6,687**	**20,015**	**25,314**
YoY Gr %	*72.9*	*69.7*	*48.8*	*44.6*	*24.6*	*27.5*	*36.0*	*19.2*	*57.3*	*26.5*

E: MOSL Estimates

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Shriram Transport Finance

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	SHTF IN
	REUTERS CODE
S&P CNX: 6,018	SRTR.BO

Equity Shares (m)	225.5
52 Week Range (Rs)	809/362
1,6,12 Rel Perf (%)	-13/35/72
Mcap (Rs b)	171.4
Mcap (USD b)	3.8

24 September 2010

Buy

Previous Recommendation: Buy

Rs760

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	17,535	6,124	30.1	56.8	25.3	6.8	30.3	3.1	7.0
3/10A	22,528	8,731	38.7	28.7	19.6	4.5	28.6	3.9	4.5
3/11E	31,875	13,204	58.5	51.2	13.0	3.5	30.2	5.4	3.5
3/12E	38,669	15,851	70.3	20.0	10.8	2.8	28.5	5.4	2.8

- Net income including securitization income is expected to grow ~40% YoY led by robust growth in business and improved NIMs on AUM.
- Operating profit is expected to grow 46% YoY led by higher net income growth and a YoY fall in C/I ratio.
- We estimate 2QFY11 PAT growth of 51% YoY led by stable NPA provisions, on the back of improved outlook on asset quality and a comfortable provision coverage ratio of ~83%.
- The stock trades at 2.8x FY12E BV and 10.8x FY12E EPS with RoE of ~28%+ over FY10-12. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	9,038	9,476	10,264	8,742	8,740	9,745	11,012	12,653	37,520	42,149
Interest expenses	5,384	5,248	5,708	5,522	5,450	5,941	6,654	7,441	21,862	25,486
Net Interest Income	**3,654**	**4,227**	**4,557**	**3,221**	**3,289**	**3,804**	**4,358**	**5,212**	**15,658**	**16,663**
Y-o-Y Growth (%)	*13.2*	*14.8*	*34.7*	*-15.2*	*-10.0*	*-10.0*	*-4.4*	*61.8*	*11.1*	*6.4*
Securitisation income	1,037	1,044	1,208	3,242	3,725	3,539	3,450	3,228	6,531	13,942
Net Income (Incl. Securitisation)	**4,691**	**5,272**	**5,765**	**6,462**	**7,014**	**7,342**	**7,808**	**8,441**	**22,189**	**30,605**
Y-o-Y Growth (%)	*14.3*	*19.1*	*36.2*	*43.5*	*49.5*	*39.3*	*35.4*	*30.6*	*28.5*	*37.9*
Fees and Other Income	182	140	154	189	360	305	330	275	666	1,270
Net Operating Income	**4,873**	**5,412**	**5,919**	**6,651**	**7,374**	**7,647**	**8,138**	**8,716**	**22,855**	**31,875**
Y-o-Y Growth (%)	*16.6*	*20.0*	*37.2*	*42.2*	*51.3*	*41.3*	*37.5*	*31.0*	*29.3*	*39.5*
Operating Expenses	1,454	1,227	1,318	1,513	1,748	1,534	1,647	1,780	5,512	6,709
Operating Profit	**3,418**	**4,185**	**4,601**	**5,139**	**5,626**	**6,113**	**6,491**	**6,936**	**17,343**	**25,166**
Y-o-Y Growth (%)	*17.8*	*34.4*	*52.3*	*62.1*	*64.6*	*46.1*	*41.1*	*35.0*	*42.1*	*45.1*
Provisions	949	1,122	1,014	1,012	1,281	1,350	1,250	1,278	4,096	5,159
Profit before Tax	**2,469**	**3,063**	**3,588**	**4,127**	**4,345**	**4,763**	**5,241**	**5,657**	**13,247**	**20,006**
Tax Provisions	825	988	1,219	1,482	1,456	1,629	1,792	1,925	4,515	6,802
Net Profit	**1,644**	**2,075**	**2,369**	**2,645**	**2,889**	**3,134**	**3,448**	**3,732**	**8,732**	**13,204**
Y-o-Y Growth (%)	*14.5*	*25.3*	*58.6*	*71.9*	*75.7*	*51.1*	*45.6*	*41.1*	*42.6*	*51.2*
Int Exp/ Int Earned (%)	*59.6*	*55.4*	*55.6*	*63.2*	*62.4*	*61.0*	*60.4*	*58.8*	*58.3*	*60.5*
Securitisation Income / Net Income (%)	*21.3*	*19.3*	*20.4*	*48.7*	*50.5*	*46.3*	*42.4*	*37.0*	*28.6*	*43.7*
Cost to Income Ratio (%)	*29.8*	*22.7*	*22.3*	*22.7*	*23.7*	*20.1*	*20.2*	*20.4*	*24.1*	*21.0*
Tax Rate (%)	*33.4*	*32.3*	*34.0*	*35.9*	*33.5*	*34.2*	*34.2*	*34.0*	*34.1*	*34.0*

*E: MOSt Estimates; * Quaterly nos and full year nos will not tally due to different way of reporting financial nos*

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South Indian Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	SIB IN
	REUTERS CODE
S&P CNX: 6,018	SIBK.BO

Equity Shares (m)	1,130.1
52 Week Range (Rs)	25/12
1,6,12 Rel Perf (%)	11/42/87
Mcap (Rs b)	27.9
Mcap (USD b)	0.6

24 September 2010

Buy

Previous Recommendation: Buy Rs25

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	6,872	1,948	1.7	4.6	14.3	2.1	14.8	15.8	1.0	2.3
3/10A	7,768	2,338	2.1	20.0	11.9	1.9	15.4	16.8	1.0	1.9
3/11E	9,118	2,612	2.3	11.7	10.7	1.7	13.2	16.5	0.9	1.7
3/12E	10,834	3,234	2.9	23.8	8.6	1.4	11.2	17.9	0.9	1.5

- We expect strong business momentum lead by loan growth of 30%+ YoY and deposit growth of 25%+ YoY. Reported NII is expected to grow ~5% YoY. however adjusted for a technical error on interest expenses in 2QFY10 (interest expense was under-stated by Rs236m) NII is expected to grow ~22% YoY.
- We expect other income to fall during 2QFY11 due to lower trading gains. Fee income is expected to grow ~15% YoY.
- Asset quality is expected to remain strong, and NPA provisions are unlikely to be higher.
- While reported profits are expected to decline ~17% YoY, adjusted for the technical error in calculating interest expenses (Rs156m after tax) we expect PAT to grow ~6% YoY.
- The stock trades at 1.4x FY12E BV & 8.6x FY12E EPS with RoE 17-18%. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	4,653	4,689	4,878	5,138	5,401	5,873	6,505	7,320	19,357	25,099
Interest Expense	3,128	3,037	3,160	4,349	3,728	4,138	4,655	5,362	13,674	17,882
Net Interest Income	**1,524**	**1,652**	**1,718**	**789**	**1,674**	**1,735**	**1,850**	**1,958**	**5,683**	**7,217**
% Change (Y-o-Y)	*48.3*	*28.5*	*17.5*	*-46.7*	*9.8*	*5.0*	*7.7*	*148.3*	*8.7*	*27.0*
Other Income	560	655	431	439	417	464	490	530	2,085	1,901
Net Income	**2,084**	**2,307**	**2,149**	**1,227**	**2,090**	**2,199**	**2,340**	**2,488**	**7,768**	**9,118**
% Change (Y-o-Y)	*52.1*	*39.9*	*11.6*	*-36.2*	*0.3*	*-4.7*	*8.9*	*102.8*	*13.0*	*17.4*
Operating Expenses	1,015	968	967	711	1,046	1,070	1,103	1,020	3,662	4,239
Operating Profit	**1,069**	**1,339**	**1,182**	**516**	**1,044**	**1,129**	**1,238**	**1,469**	**4,106**	**4,879**
% Change (Y-o-Y)	*54.1*	*44.0*	*18.0*	*-46.4*	*-2.3*	*-15.7*	*4.7*	*184.7*	*14.5*	*18.8*
Other Provisions	104	165	195	-31	167	210	245	300	433	922
Profit Before Tax	**965**	**1,174**	**987**	**547**	**877**	**919**	**993**	**1,169**	**3,673**	**3,957**
Tax Provisions	364	448	363	161	293	312	337	403	1,336	1,345
Net Profit	**601**	**726**	**625**	**386**	**584**	**606**	**655**	**766**	**2,338**	**2,612**
% Change (Y-o-Y)	*55.6*	*40.3*	*15.2*	*-23.2*	*-2.8*	*-16.5*	*4.9*	*98.3*	*20.0*	*11.7*
Interest Expense/Interest Income (%)	*67.2*	*64.8*	*64.8*	*84.6*	*69.0*	*70.5*	*71.6*	*73.2*	*70.6*	*71.2*
Other Income/Net Income (%)	*26.9*	*28.4*	*20.1*	*35.7*	*19.9*	*21.1*	*20.9*	*21.3*	*26.8*	*20.8*
Cost to Income Ratio (%)	*48.7*	*42.0*	*45.0*	*58.0*	*50.1*	*48.7*	*47.1*	*41.0*	*47.1*	*46.5*
Provisions/Operating Profits (%)	*9.8*	*12.3*	*16.5*	*-6.0*	*16.0*	*18.6*	*19.8*	*20.4*	*10.5*	*18.9*
Tax Rate (%)	*37.7*	*38.2*	*36.7*	*29.4*	*33.4*	*34.0*	*34.0*	*34.5*	*36.4*	*34.0*

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@motilaloswal.com)

State Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	SBIN IN
	REUTERS CODE
S&P CNX: 6,018	SBI.BO

Equity Shares (m)	634.9
52 Week Range (Rs)	3,175/1,863
1,6,12 Rel Perf (%)	1/39/26
Mcap (Rs b)	1,996.3
Mcap (USD b)	44.1

24 September 2010

Buy

Previous Recommendation: Buy

Rs3,144

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	CON.EPS (RS)	CON. P/E (X)	CON. P/BV (X)	CON. P/ABV (X)	CAR (%)	ROAE (%)	ROAA (%)
3/09A	335,639	91,212	143.7	172.6	17.6	2.7	3.0	14.3	17.1	1.1
3/10A	386,396	91,661	144.4	184.8	16.4	2.4	2.7	13.4	14.8	0.9
3/11E	481,413	120,698	190.1	236.2	12.8	2.1	2.3	12.3	17.1	1.1
3/12E	573,343	151,168	238.1	296.7	10.1	1.8	1.9	11.6	18.6	1.1

** valuation multiples are adjusted for SBI Life*

- We expect loans to grow 3% QoQ translating into loan growth of 17%+ YoY. On a higher base deposit growth will be lower at ~10% YoY.
- We expect NII growth of 35%+ YoY due to a sharp improvement in margins. Continued benefit of deposit repricing, higher CASA mobilization and improving CD ratio can lead to sequential margin expansion and provide an upside to our 4% sequential increase in NII.
- Non-interest income is expected to grow by 6% YoY however fee income is expected to grow over 20% YoY. Trading profits are expected to be lower.
- With AFS portfolio of ~27% and duration of 3.6 years, there could be an MTM hit for SBI in 2QFY11. SBI will have to provide additional provisions for NPA to comply with 70% PCR by September 2011. We expect overall provisioning expenses to increase ~75% YoY.
- We have not factored in the State Bank of Indore merger in our earnings estimates, which will sequentially add 3-4% in business growth and NPA.
- The stock trades at 1.8x FY12E consolidated BV and 10x FY12E consolidates EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	174,728	177,759	177,797	179,656	184,521	195,825	214,660	235,971	709,939	830,977
Interest Expense	124,479	121,671	114,634	112,442	111,484	120,113	133,159	148,086	473,225	512,842
Net Interest Income	**50,249**	**56,088**	**63,163**	**67,214**	**73,037**	**75,712**	**81,501**	**87,884**	**236,714**	**318,134**
% Change (Y-o-Y)	*4.3*	*2.8*	*9.7*	*38.8*	*45.4*	*35.0*	*29.0*	*30.8*	*13.4*	*34.4*
Other Income	35,688	35,252	33,657	45,085	36,900	37,293	37,444	51,642	149,682	163,278
Net Income	**85,936**	**91,340**	**96,820**	**112,300**	**109,937**	**113,004**	**118,946**	**139,526**	**386,396**	**481,413**
Operating Expenses	49,198	42,990	50,639	60,361	48,593	50,755	56,189	71,939	203,187	227,476
Operating Profit	**36,739**	**48,350**	**46,181**	**51,939**	**61,344**	**62,249**	**62,756**	**67,587**	**183,209**	**253,937**
% Change (Y-o-Y)	*-7.3*	*15.3*	*3.0*	*-1.6*	*67.0*	*28.7*	*35.9*	*30.1*	*2.3*	*38.6*
Other Provisions	1,727	10,161	8,566	23,494	15,514	17,950	17,700	19,897	43,948	71,061
Profit before Tax	**35,011**	**38,190**	**37,615**	**28,445**	**45,830**	**44,299**	**45,056**	**47,690**	**139,261**	**182,876**
Tax Provisions	11,708	13,289	12,825	9,779	16,688	14,619	14,869	16,002	47,600	62,178
Net Profit	**23,304**	**24,900**	**24,791**	**18,666**	**29,142**	**29,681**	**30,188**	**31,688**	**91,661**	**120,698**
% Change (Y-o-Y)	*42.0*	*10.2*	*0.0*	*-31.9*	*25.1*	*19.2*	*21.8*	*69.8*	*0.5*	*31.7*
Interest Exp/Interest Income (%)	*71.2*	*68.4*	*64.5*	*62.6*	*60.4*	*61.3*	*62.0*	*62.8*	*66.7*	*61.7*
Other Income/Net Income (%)	*41.5*	*38.6*	*34.8*	*40.1*	*33.6*	*33.0*	*31.5*	*37.0*	*38.7*	*33.9*
Cost/Income Ratio (%)	*57.2*	*47.1*	*52.3*	*53.7*	*44.2*	*44.9*	*47.2*	*51.6*	*52.6*	*47.3*
Provisions/Operating Profits (%)	*4.7*	*21.0*	*18.5*	*45.2*	*25.3*	*28.8*	*28.2*	*29.4*	*24.0*	*28.0*
Tax Rate (%)	*33.4*	*34.8*	*34.1*	*34.4*	*36.4*	*33.0*	*33.0*	*33.6*	*34.2*	*34.0*

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@motilaloswal.com)

Union Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	UNBK IN
	REUTERS CODE
S&P CNX: 6,018	UNBK.BO

Equity Shares (m)	505.1
52 Week Range (Rs)	393/233
1,6,12 Rel Perf (%)	3/19/37
Mcap (Rs b)	194.5
Mcap (USD b)	4.3

24 September 2010

Buy

Previous Recommendation: Buy

Rs385

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	52,961	17,265	34.2	24.5	11.3	2.8	13.3	27.2	1.2	2.8
3/10A	61,672	20,749	41.1	20.2	9.4	2.2	12.5	26.2	1.2	2.4
3/11E	78,698	25,053	49.4	20.3	7.8	1.8	12.0	25.5	1.2	1.9
3/12E	93,233	30,643	60.5	22.4	6.4	1.5	11.1	25.4	1.2	1.6

- We expect business to grow sequentially in line with industry trend, however, on a lower base we expect loan growth of 28%+ YoY and deposit growth of 20%+ YoY.
- NII is expected to grow by 60%+ YoY (one of the best in the sector) led by margin expansion YoY, strong loan growth and improved CD ratio. We expect margins to be sequentially stable.
- We model in 2QFY11 core fee income growth of ~15% YoY however overall other income is expected to fall by 19%, led by lower trading profit.
- In 2QFY11, we expect significant pressure on asset quality and provisioning led by (1) recognition of ~Rs4b under the agricultural debt relief scheme as NPAs, and (2) slippages from restructured accounts, besides slippages in the normal course of business.
- Despite higher operating profit growth of 35%+ YoY, we expect PAT growth of ~7% due to higher credit cost.
- The stock trades at 1.5x FY12E BV and 6.4x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	31,908	32,056	32,936	35,617	36,857	40,124	44,194	49,322	133,027	170,496
Interest Expense	23,737	23,420	22,289	21,656	23,376	26,223	28,914	32,758	91,103	111,272
Net Interest Income	**8,172**	**8,636**	**10,647**	**13,961**	**13,480**	**13,901**	**15,279**	**16,564**	**41,924**	**59,224**
% Change (Y-o-Y)	*3.6*	*-11.2*	*-5.4*	*50.7*	*65.0*	*61.0*	*43.5*	*18.6*	*9.9*	*41.3*
Other Income	5,132	5,553	4,648	4,925	4,350	4,625	4,720	5,779	19,747	19,474
Net Income	**13,303**	**14,189**	**15,294**	**18,887**	**17,830**	**18,525**	**19,999**	**22,343**	**61,672**	**78,698**
Operating Expenses	5,429	6,086	6,152	7,411	7,393	7,400	7,900	8,248	25,078	30,941
Operating Profit	**7,875**	**8,103**	**9,142**	**11,475**	**10,437**	**11,125**	**12,099**	**14,095**	**36,593**	**47,757**
% Change (Y-o-Y)	*27.8*	*15.8*	*7.0*	*25.9*	*32.5*	*37.3*	*32.3*	*22.8*	*18.7*	*30.5*
Other Provisions	1,903	1,350	1,611	3,400	1,973	3,600	3,450	3,448	8,264	12,470
Profit before Tax	**5,972**	**6,753**	**7,531**	**8,075**	**8,464**	**7,525**	**8,649**	**10,647**	**28,329**	**35,286**
Tax Provisions	1,550	1,700	2,190	2,140	2,450	2,107	2,508	3,168	7,580	10,233
Net Profit	**4,422**	**5,053**	**5,341**	**5,935**	**6,014**	**5,418**	**6,141**	**7,480**	**20,749**	**25,053**
% Change (Y-o-Y)	*93.7*	*39.8*	*-20.5*	*27.6*	*36.0*	*7.2*	*15.0*	*26.0*	*20.2*	*20.7*
Interest Exp/Interest Income (%)	*74.4*	*73.1*	*67.7*	*60.8*	*63.4*	*65.4*	*65.4*	*66.4*	*68.5*	*65.3*
Other Income/Net Income (%)	*38.6*	*39.1*	*30.4*	*26.1*	*24.4*	*25.0*	*23.6*	*25.9*	*32.0*	*24.7*
Cost/Income Ratio (%)	*40.8*	*42.9*	*40.2*	*39.2*	*41.5*	*39.9*	*39.5*	*36.9*	*40.7*	*39.3*
Provisions/Operating Profits (%)	*24.2*	*16.7*	*17.6*	*29.6*	*18.9*	*32.4*	*28.5*	*24.5*	*22.6*	*26.1*
Tax Rate (%)	*26.0*	*25.2*	*29.1*	*26.5*	*28.9*	*28.0*	*29.0*	*29.8*	*26.8*	*29.0*

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@motilaloswal.com)

Yes Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	YES IN
	REUTERS CODE
S&P CNX: 6,018	YESB.BO

Equity Shares (m)	339.7
52 Week Range (Rs)	344/184
1,6,12 Rel Perf (%)	-7/25/55
Mcap (Rs b)	114.2
Mcap (USD b)	2.5

24 September 2010

Buy

Previous Recommendation: Buy

Rs336

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/09A	9,462	3,038	10.2	51.3	32.9	6.1	16.6	20.6	1.5	6.3
3/10A	13,635	4,777	14.1	37.5	23.9	3.7	20.6	20.3	1.6	3.7
3/11E	18,665	6,511	19.2	36.3	17.5	3.1	17.7	19.3	1.5	3.1
3/12E	24,744	8,515	25.1	30.8	13.4	2.6	15.3	21.1	1.4	2.6

- We expect loan and deposit growth of 70%+ YoY, NII growth of 72%+ YoY and sequential margin decline, in line with the rising cost of funds.
- Non-interest income is expected to grow 15% YoY on a higher base, driven by income from financial markets and advisory income. Strong improvement in capital markets and a pick up in economic activities augurs well for streams of fee income and the bank can surprise us positively.
- GNPA ratio of 23bp and provision coverage ratio of 81% are among the best in the industry. We do not expect higher NPA provisions.
- The stock trades at P/E of 13.4x FY12E and P/BV of 2.6x FY12E. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	5,358	5,269	6,264	6,646	7,392	8,709	10,596	12,884	23,697	39,581
Interest Expense	3,789	3,670	4,154	4,204	4,771	5,964	7,663	9,578	15,818	27,975
Net Interest Income	**1,568**	**1,600**	**2,109**	**2,442**	**2,621**	**2,745**	**2,933**	**3,307**	**7,880**	**11,605**
% Change (Y-o-Y)	*38.8*	*30.5*	*69.5*	*62.9*	*67.1*	*71.6*	*39.0*	*35.4*	*54.7*	*47.3*
Other Income	1,521	1,516	1,278	1,601	1,438	1,737	1,844	2,041	5,755	7,060
Net Income	**3,089**	**3,115**	**3,387**	**4,043**	**4,059**	**4,482**	**4,777**	**5,348**	**13,635**	**18,665**
Operating Expenses	1,111	1,197	1,226	1,467	1,570	1,700	1,815	1,909	5,002	6,994
Operating Profit	**1,978**	**1,918**	**2,162**	**2,576**	**2,490**	**2,782**	**2,962**	**3,439**	**8,633**	**11,672**
% Change (Y-o-Y)	*116.4*	*95.8*	*17.2*	*67.3*	*25.9*	*45.0*	*37.0*	*33.5*	*63.6*	*35.2*
Other Provisions	455	234	254	426	126	325	450	831	1,368	1,732
Profit before Tax	**1,523**	**1,684**	**1,908**	**2,150**	**2,364**	**2,457**	**2,512**	**2,608**	**7,265**	**9,940**
Tax Provisions	522	567	649	750	800	848	867	915	2,487	3,429
Net Profit	**1,001**	**1,117**	**1,259**	**1,400**	**1,564**	**1,609**	**1,645**	**1,693**	**4,777**	**6,511**
% Change (Y-o-Y)	*84.0*	*75.6*	*19.0*	*74.8*	*56.3*	*44.0*	*30.6*	*20.9*	*57.2*	*36.3*
Interest Expense/Interest Income (%)	*70.7*	*69.6*	*66.3*	*63.3*	*64.5*	*68.5*	*72.3*	*74.3*	*66.7*	*70.7*
Other Income/Net Income (%)	*49.2*	*48.7*	*37.7*	*39.6*	*35.4*	*38.7*	*38.6*	*38.2*	*42.2*	*37.8*
Cost to Income Ratio (%)	*36.0*	*38.4*	*36.2*	*36.3*	*38.7*	*37.9*	*38.0*	*35.7*	*36.7*	*37.5*
Provisions/Operating Profits (%)	*23.0*	*12.2*	*11.7*	*16.5*	*5.0*	*11.7*	*15.2*	*24.2*	*15.9*	*14.8*
Tax Rate (%)	*34.3*	*33.7*	*34.0*	*34.9*	*33.9*	*34.5*	*34.5*	*35.1*	*34.2*	*34.5*

E: MOSL Estimates

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Abhishek Agarwal (Abhishek.Agarwal@motilaloswal.com)

Cement

BSE Sensex: 20,045 | S&P CNX: 6,018 | 24 September 2010

COMPANY NAME

ACC

Ambuja Cements

Birla Corporation

Grasim Industries

India Cements

Shree Cement

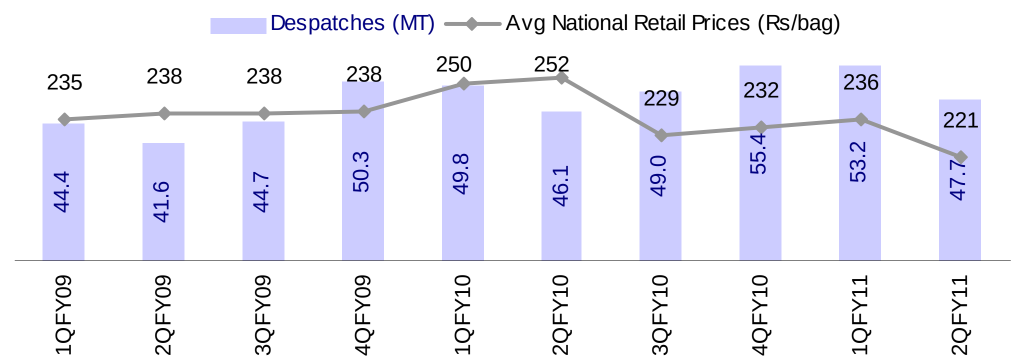
UltraTech Cement

Snapshot of 2QFY11 Cement Preview

- Slowdown in volume growth momentum – expect volumes to grow 3.3% YoY (decline 10.4% QoQ) in 2QFY11.
- Domestic prices declined sharply during the monsoon – estimate decline of 12.2% YoY and 6.3% QoQ in the quarterly average price. This is the first time cement prices have declined in a monsoon quarter since 2QFY06.
- Capacity utilization to decline to 71% (v/s 81% in 2QFY10 and 81% in 1QFY11), impacted by ~40m-tonnes capacity added in the last one year.
- Aggregate EBITDA margin for 2QFY11 to decline by 15.8pp YoY (~890bp QoQ).
- Cement prices in South, West and Central India have increased by Rs10-60/bag in September 2010, driven by the cement manufacturers' disciplined approach. Cement demand is expected to pick up from December 2010.
- We expect a decline in the pace of capacity addition, with ~40m-tonnes capacity addition over the 18 months from 3QFY11 v/s ~67m-tonnes addition over the 18 months till 2QFY11.
- We believe that we have already witnessed bottom-of-the-cycle utilization in 2QFY11. Presence of sustainable demand drivers and expected gradual recovery in utilization from 3QFY11 would make a foundation for the next upturn. Among large cap stocks, **ACC** and **UltraTech** remain our top picks. Among mid-caps, we prefer **India Cements**, **Birla Corp** and **Shree Cement**.

CHANGE (%)	DISPATCHES YOY	DISPATCHES QOQ	PRICES YOY	PRICES QOQ
2QFY11E	3.3	-10.5	-12.2	-6.3
FY11YTD	5.2		-8.9	
FY11E	8.1		-2.9	
FY10	10.4		1.7	

CEMENT INDUSTRY DYNAMICS: DEMAND AND PRICE TRENDS



Source: CMA/MOSL

EXPECTED QUARTERLY PERFORMANCE SUMMARY (RS MILLION)

	CMP (RS) 24.09.10	RECO	SALES SEP.10	SALES VAR. % YOY	SALES VAR. % QOQ	EBITDA SEP.10	EBITDA VAR. % YOY	EBITDA VAR. % QOQ	NET PROFIT SEP.10	NET PROFIT VAR. % YOY	NET PROFIT VAR. % QOQ
Cement											
ACC	1,014	Buy	16,824	-14.6	-16.7	3,285	-50.8	-40.6	1,928	-55.7	-46.3
Ambuja Cements	146	Neutral	15,714	-2.5	-23.3	3,409	-20.7	-43.5	1,949	-31.7	-50.2
Birla Corporation	400	Buy	4,683	-7.4	-18.5	1,214	-37.2	-26.3	843	-44.5	-28.7
Grasim Industries	2,174	Buy	10,511	-	11.2	3,450	-	14.6	3,132	-	39.9
India Cements	117	Buy	8,265	-16.5	-6.2	-400	PL	PL	-1,044	PL	PL
Shree Cement	2,039	Buy	8,318	-7.5	-11.9	2,217	-45.7	-23.4	535	-81.7	-49.9
Ultratech Cement	1,026	Buy	34,085	121.2	-14.6	5,321	13.2	-46.8	1,978	-21.2	-64.5
Sector Aggregate			**98,400**	**-6.3**	**-13.7**	**18,497**	**-46.9**	**-38.6**	**9,322**	**-58.1**	**-47.3**

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

MOSL CEMENT UNIVERSE: 2QFY11 PERFORMANCE AT A GLANCE

	VOL (M TON)	GROWTH (%)			REAL (RS/BAG)	CHANGE (%)		
	2QFY11E	YOY	YTD	FY11E	2QFY11E	YOY	QOQ	FY11E
ACC	4.8	-5.0	-3.8	0.0	192	-10.1	-7.8	-0.6
Ambuja Cement	4.3	4.9	8.0	6.9	191	-7.0	-4.7	-0.5
UltraTech	9.4	8.1	4.1	7.5	170	-12.0	-8.4	-1.2
Birla Corp	1.3	6.4	14.7	11.9	176	-13.2	-5.7	-5.7
India Cement	3.0	7.5	7.7	9.9	161	-23.3	-17.9	-5.4
Shree Cement	2.4	-5.0	-3.7	5.4	164	-11.2	-6.4	-6.8
Industry	**53.2**	**3.3**	**5.2**	**8.1**	**221**	**-12.2**	**-6.3**	**-2.9**

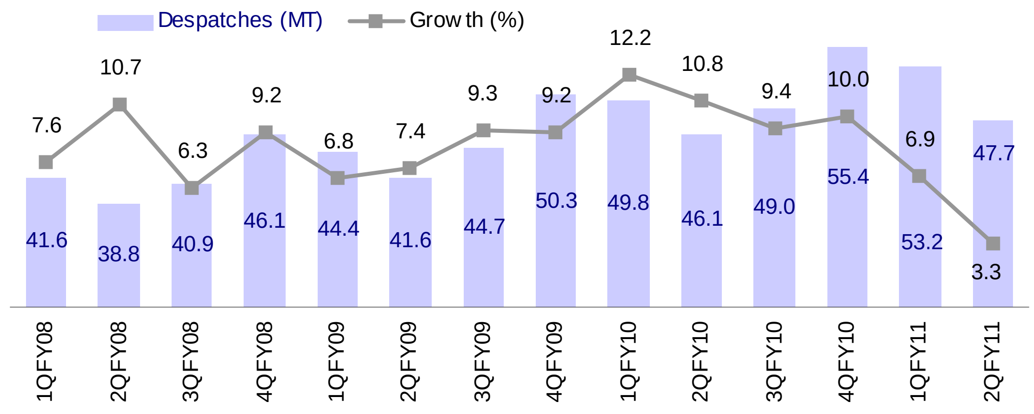
Source: CMA/MOSL

Expect volume growth to slow down to 3.3% in 2QFY11

Demand momentum has witnessed considerable slowdown in 2QFY11. We now estimate ~3.3% volume growth during the quarter as against our earlier expectation of 8-10% growth. Demand was impacted due to above average monsoon (and flooding), continuous slowdown in the South, especially Andhra Pradesh, and lack of meaningful pick-up from the organized real estate segment. The organized real estate segment is witnessing gradual recovery. Launch of new housing projects usually drives cement consumption with a lag of 6-9 months. With above-average monsoon, demand from rural markets would remain strong. Overall, we expect demand momentum to pick up from December.

PERIOD	MT	GROWTH (%)
FY10	200	10.4
2QFY11	47.7	3.3
FY11YTD	100.9	5.2
FY11E	216.5	8.1

VOLUME GROWTH MUTED AT 3.3% IN 2QFY11



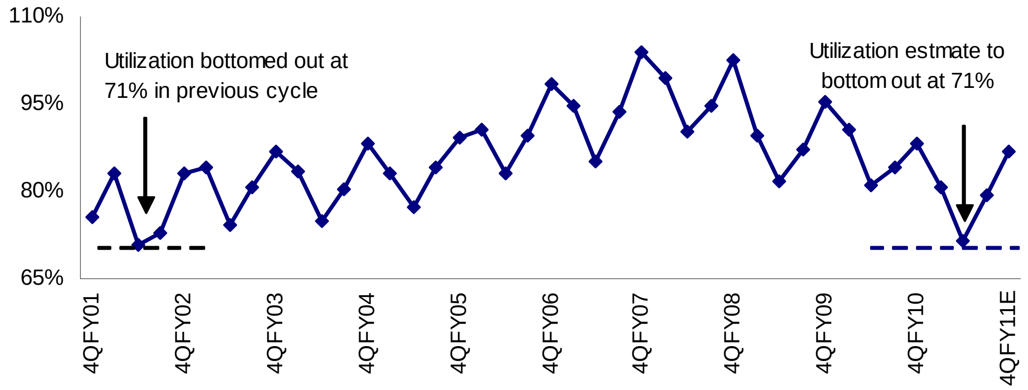
Source: CMA/MOSL

Seasonality, new capacity addition suppress capacity utilization to 71%

CAP UTILIZATION	%
FY09	92
FY10	86
2QFY11E	71
FY11YTD	76
FY11E	80

We estimate capacity utilization for 2QFY11 at 71% (v/s 81% in 1QFY11 and 81% in 2QFY10), impacted by new capacity additions (~40m tonnes TTM) and slowdown in demand momentum. We expect capacity utilization to ease from ~92% in FY09 to ~80% in FY11, on the back of further 40m-tonne capacity addition over the next two years. However, we believe 2QFY11 marks the bottom-of-the-cycle utilization and expect gradual improvement in utilization from 3QFY11. Pace of capacity addition is likely to decline, with ~40m-tonnes addition over the 18 months from 3QFY11 as against ~67m-tonnes addition over the 18 months till 2QFY11.

QUARTERLY CAPACITY UTILIZATION LOWEST SINCE 2QFY01

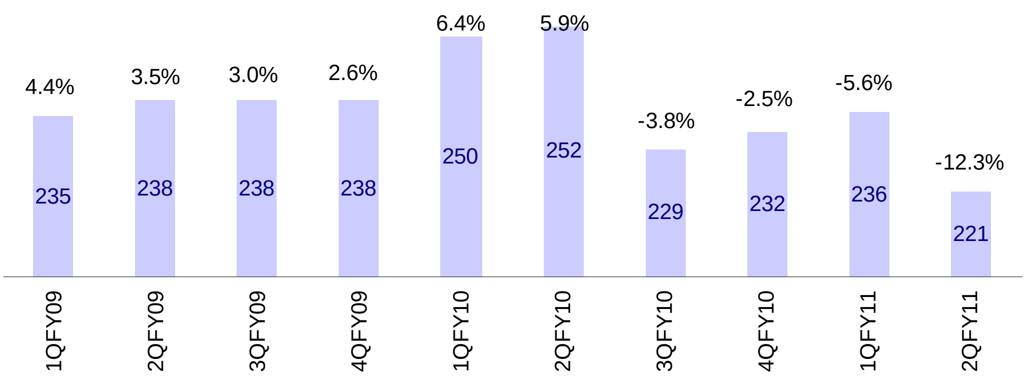


Source: CMA/MOSL

Prices under pressure in 2QFY11, but improving from September 2010

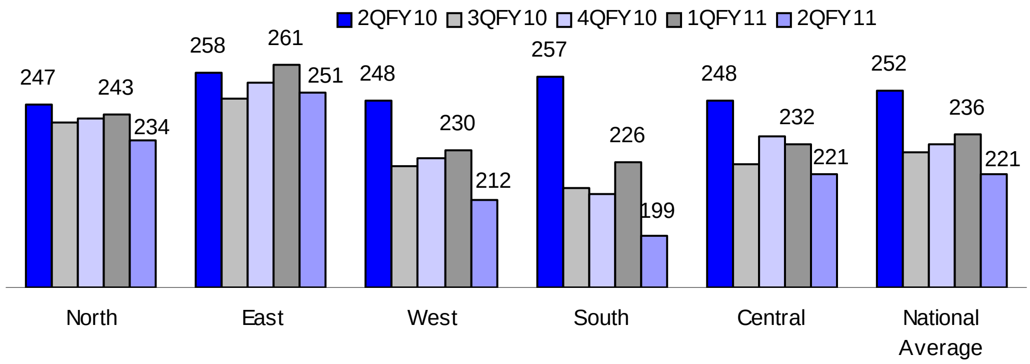
Domestic prices declined sharply during the monsoon. We estimate a decline of 12.2% YoY and 6.3% QoQ in the quarterly average price. This is the first time cement prices have declined in a monsoon quarter since 2QFY06. We believe cement prices will exhibit high volatility over the next three months, as demand improves gradually. We are factoring in Rs15/bag QoQ decline in 2QFY11, ~Rs8/bag QoQ recovery in 3QFY11 and Rs5/bag QoQ improvement in 4QFY11, translating into ~Rs7/bag decline in FY11. South India would witness a decline of ~Rs30/bag QoQ, West India a decline of ~Rs18/bag QoQ, and other regions ~Rs10/bag QoQ.

CEMENT PRICES UNDER PRESSURE SINCE MAY 2010



Figures on top indicate YoY change *Source: CMA/MOSL*

TREND IN REGIONAL PRICES (RS/BAG)



Source: CMA/MOSL

In the month of September, cement prices have increased by Rs10-60/bag across South, West and Central India, translating into ~Rs13/bag MoM increase in national average prices. The price increase is the result of disciplined approach in these markets, rather than any improvement in demand.

Lower realizations, negative operating leverage and increase in freight cost to impact EBITDA by Rs400/ton QoQ

We estimate ~Rs400/ton QoQ decline (~Rs700/ton YoY) in EBITDA to ~Rs575/ton, impacted by lower realizations, negative operating leverage and freight cost increase. A ~10.5% QoQ decline in volumes for the industry due to seasonality, coupled with higher fixed costs due to maintenance related shutdowns would result in higher fixed costs on QoQ basis. Also, ~6% increase diesel prices would drive similar increase in road freight, impacting variable cost. Overall, we estimate ~Rs310/ton QoQ decline in realizations and ~Rs90/ton QoQ increase in cost, translating into ~Rs400/ton QoQ decline in EBITDA.

TREND IN 2QFY11 KEY OPERATING PARAMETERS

	VOLUME (M TON)			REALIZATION (RS/TON)			EBITDA (RS/TON)		
	2QFY11	YOY (%)	QOQ (%)	2QFY11	YOY (RS/T)	QOQ (RS/T)	2QFY11	YOY (RS/T)	QOQ (RS/T)
ACC	4.8	-5.0	-9.7	3,534	-397	-300	690	-643	-359
Ambuja Cement	4.3	4.9	-19.5	3,654	-275	-180	793	-256	-337
UltraTech*	9.4	8.1	-8.1	3,121	-500	-286	556	-766	-406
Birla Corp	1.3	6.4	-12.8	3,310	-503	-200	904	-783	-270
India Cement	3.0	7.5	12.8	2,637	-801	-575	-133	-1,200	-510
Shree Cement	2.4	-5.0	-5.2	3,062	-385	-210	771	-745	-232
Sector Aggregate	**25.1**	**3.4**	**-8.6**	**3,237**	**-471**	**-309**	**578**	**-709**	**-392**

** like to like basis* *Source: CMA/MOSL*

TREND IN 2QFY11 KEY FINANCIAL PARAMETERS

	NET SALES (RS M)			EBITDA MARGIN (%)			NET PROFIT (RS M)		
	2QFY11	YOY (%)	QOQ (%)	2QFY11	YOY (BP)	QOQ (BP)	2QFY11	YOY (%)	QOQ (%)
ACC	16,824	-14.6	-16.7	19.5	-1,440	-780	1,928	-55.7	-46.3
Ambuja Cement	15,714	-2.5	-23.3	21.7	-500	-780	1,949	-31.7	-50.2
UltraTech*	34,085	-5.5	-14.6	15.6	-1,640	-940	1,978	-	-64.5
Birla Corp	4,683	-7.4	-18.5	25.9	-1,230	-270	843	-44.5	-28.7
India Cement	8,265	-16.5	-6.2	-4.8	-3,490	-1,620	-1,044	-175.8	-968.7
Shree Cement	8,318	-7.5	-11.9	26.7	-1,870	-400	535	-81.7	-49.9
Sector Aggregate	**87,889**	**-8.3**	**-16.0**	**17.1**	**-1,580**	**-880**	**6,190**	**-60.1**	**-59.9**

** like to like basis* *Source: CMA/MOSL*

Revising estimates

We are revising our estimates to factor in the current pricing environment. We assume ~Rs15/bag QoQ decline in 2QFY11, ~Rs8/bag QoQ increase in 3QFY11, Rs5/bag QoQ improvement in 4QFY11, and ~Rs4/bag increase in FY12 (over FY11 average). We are downgrading our FY12 estimates by up to 15%, with the highest downgrade for Shree Cement due to downgrade in merchant power estimates.

REVISING ESTIMATES (RS)

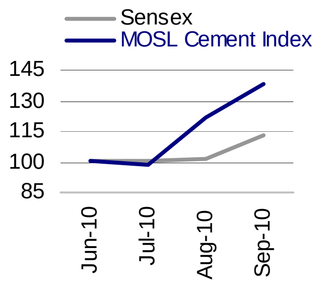
	FY11E			FY12E		
	REV	OLD	CHG (%)	REV	OLD	CHG (%)
ACC	69.3	73.0	-5.0	78.0	79.9	-2.3
Ambuja Cement	8.4	8.3	0.3	9.0	9.0	0.2
Grasim	249.9	243.7	2.5	275.0	268.3	2.5
UltraTech	52.7	59.3	-11.1	67.9	68.6	-1.0
Birla Corp	60.3	61.3	-1.7	63.2	63.3	-0.2
India Cement	3.0	3.3	-9.5	6.9	7.1	-2.6
Shree Cement	121.1	147.2	-17.7	144.5	169.6	-14.8

Source: MOSL

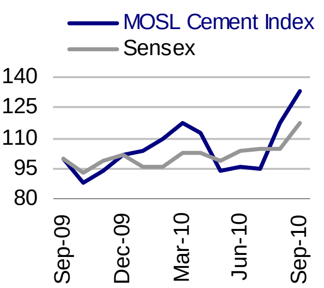
Valuation and view

We expect the cement companies under our coverage to witness severe pressure on profitability in 2QFY11, with average decline of Rs350-400/ton in EBITDA to Rs600-650/ton, impacted by drop in realizations and negative operating leverage. We believe that we have already witnessed bottom-of-the-cycle utilization, and it should gradually improve hereon. The presence of sustainable demand drivers and expected gradual recovery in utilization from 3QFY11 would make the foundations for the next upturn. Among large cap stocks, **ACC** and **UltraTech** remain our top picks. Among mid-caps, we prefer **India Cements**, **Birla Corp** and **Shree Cement**.

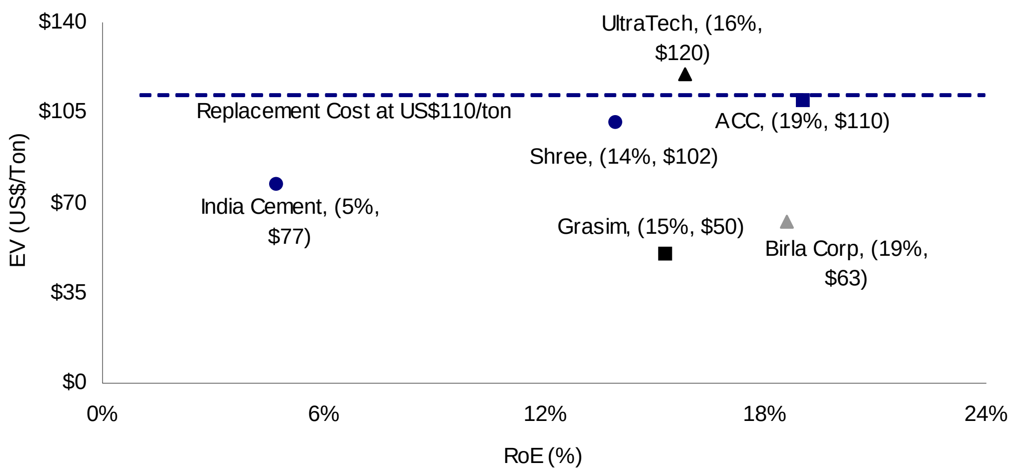
RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



VALUATIONS - ATTRACTIVE DESPITE RECENT RUN UP (FY12)



Source: MOSL

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Cement														
ACC	1,014	Buy	86.7	69.3	78.0	11.7	14.6	13.0	7.0	8.4	6.7	29.8	20.3	19.0
Ambuja Cements	146	Neutral	7.8	8.4	9.0	18.8	17.5	16.2	11.2	10.5	8.7	19.6	18.6	17.9
Birla Corporation	400	Buy	72.4	60.3	63.2	5.5	6.6	6.3	3.3	3.0	3.3	31.1	21.1	18.6
Grasim Industries	2,174	Buy	298.2	249.9	275.0	7.3	8.7	7.9	3.2	3.6	3.0	22.7	15.9	15.3
India Cements	117	Buy	10.9	3.0	6.9	10.7	38.7	16.8	6.9	12.0	8.1	8.4	2.2	4.7
Kesoram Ind	320	Buy	49.7	43.1	55.2	6.4	7.4	5.8	6.0	5.6	5.4	15.8	12.1	13.9
Shree Cement	2,039	Buy	203.7	121.1	144.5	10.0	16.8	14.1	5.9	7.7	6.1	46.6	20.9	20.8
Ultratech Cement	1,026	Buy	87.8	52.7	67.9	11.7	19.5	15.1	14.2	10.0	7.3	26.6	18.6	15.8
Sector Aggregate						**12.4**	**14.0**	**12.1**	**6.7**	**7.1**	**5.7**	**22.4**	**16.2**	**15.7**

ACC

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	ACC IN
	REUTERS CODE
S&P CNX: 6,018	ACC.BO

24 September 2010

Buy

Previous Recommendation: Buy

Rs1,014

Equity Shares (m)	187.9
52 Week Range (Rs)	1,029/686
1,6,12 Rel Perf (%)	8/-6/4
Mcap (Rs b)	190.5
Mcap (USD b)	4.2

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA	EV/TON (US$)
12/08A	72,829	11,787	62.7	-7.9	17.5	3.9	26.0	27.3	10.3	170
12/09A	80,272	16,292	86.7	38.2	12.1	3.2	29.8	33.7	7.0	147
12/10E	79,764	13,026	69.3	-20.0	15.0	2.8	20.3	22.2	8.4	124
12/11E	91,264	14,663	78.0	12.6	13.0	2.5	19.0	21.6	6.7	110

- We estimate 5% YoY (~9.7% QoQ) decline in ACC's cement dispatches in 3QCY10 to 4.76m tonnes, as it continues to face capacity constraints. We expect its average realization to decline 7.8% QoQ (~10% YoY) to Rs3,534/tonne.
- Net sales would de-grow 16.7% QoQ (~14.6% YoY) to Rs16.8b. EBITDA margin would shrink 790bp QoQ (~14.4pp YoY) to 19.5%, impacted by lower realizations, negative operating leverage and higher freight cost. EBITDA would decline 50% YoY (~40% QoQ) to Rs3.3b and PAT would decline by 56% YoY (~46% QoQ) to Rs1.9b.
- ACC's volume have continuously disappointed, despite commissioning of new capacities, as ramp-up has been slower than expectation. Our recent interaction with the management suggests that ramp-up should improve from 4QCY10.
- We are downgrading our earnings estimates by 5% for CY10 to Rs69.3 and by 2.3% for CY11 to Rs78. Valuations are attractive at 13x CY11E EPS and an EV of 6.7x CY11E EBITDA, considering bottom of the cycle earnings. Maintain **Buy.**

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Cement Sales (m ton)	5.73	5.42	5.01	5.36	5.58	5.27	4.76	5.91	21.5	21.5
YoY Change (%)	*6.1*	*2.4*	*3.1*	*-1.8*	*-2.6*	*-2.8*	*-5.0*	*10.3*	*2.4*	*0.0*
Cement Realization	3,587	3,840	3,931	3,585	3,767	3,834	3,534	3,674	3,730	3,707
YoY Change (%)	*7.9*	*13.8*	*10.1*	*2.4*	*5.0*	*-0.1*	*-10.1*	*2.5*	*7.6*	*-0.6*
QoQ Change (%)	*2.5*	*7.1*	*2.4*	*-8.8*	*5.1*	*1.8*	*-7.8*	*4.0*		
Net Sales	**20,551**	**20,813**	**19,694**	**19,215**	**21,018**	**20,207**	**16,824**	**21,715**	**80,272**	**79,764**
YoY Change (%)	*14.4*	*16.5*	*10.0*	*0.6*	*2.3*	*-2.9*	*-14.6*	*13.0*	*10.2*	*-0.6*
EBITDA	**6,474**	**7,344**	**6,679**	**4,300**	**6,222**	**5,530**	**3,285**	**5,455**	**24,797**	**20,492**
Margins (%)	*31.5*	*35.3*	*33.9*	*22.4*	*29.6*	*27.4*	*19.5*	*25.1*	*30.9*	*25.7*
Depreciation	789	784	796	1,052	935	962	1,100	1,198	3,421	4,194
Interest	368	159	135	-44	127	141	150	152	619	571
Other Income	508	563	509	831	609	597	700	844	2,411	2,750
PBT before EO Item	**5,825**	**6,963**	**6,257**	**4,123**	**5,769**	**5,024**	**2,735**	**4,949**	**23,168**	**18,477**
EO Income/(Expense)	0	0	0	0	0	0	0	0	0	0
PBT after EO Item	**5,825**	**6,963**	**6,257**	**4,123**	**5,769**	**5,024**	**2,735**	**4,949**	**23,168**	**18,477**
Tax	1,777	2,107	1,900	1,092	1,717	1,435	807	1,492	6,877	5,451
Rate (%)	*30.5*	*30.3*	*30.4*	*26.5*	*29.8*	*28.6*	*29.5*	*30.1*	*29.7*	*29.5*
Reported PAT	**4,048**	**4,856**	**4,356**	**3,031**	**4,051**	**3,589**	**1,928**	**3,457**	**16,292**	**13,026**
Adjusted PAT	**4,048**	**4,856**	**4,356**	**3,031**	**4,051**	**3,589**	**1,928**	**3,457**	**16,292**	**13,026**
Margins (%)	*19.7*	*23.3*	*22.1*	*15.8*	*19.3*	*17.8*	*11.5*	*15.9*	*20.3*	*16.3*
YoY Change (%)	*22.2*	*84.7*	*53.7*	*-9.4*	*0.1*	*-26.1*	*-55.7*	*14.1*	*38.2*	*-20.0*

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

Ambuja Cements

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	ACEM IN
	REUTERS CODE
S&P CNX: 6,018	GACM.BO

Equity Shares (m)	1,523.7
52 Week Range (Rs)	149/82
1,6,12 Rel Perf (%)	11/10/29
Mcap (Rs b)	222.6
Mcap (USD b)	4.9

24 September 2010

Neutral

Previous Recommendation: Neutral

Rs146

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA	EV/TON (US$)
12/08A	62,203	11,616	7.6	-11.2	19.1	3.9	22.6	31.5	12.1	251
12/09A	70,769	11,872	7.8	2.1	18.8	3.5	19.6	28.4	11.2	184
12/10E	75,265	12,737	8.4	7.3	17.5	3.1	18.6	26.0	10.5	169
12/11E	86,210	13,737	9.0	7.9	16.2	2.7	17.9	25.4	8.7	157

- We expect dispatches to grow 4.9% YoY (~19% QoQ decline) to 4.3m tonnes. Volume growth would have been better but for heavy rains and flooding in its key markets of North and West India. Average realization is likely to decline 4.7% QoQ (~7% YoY) to Rs3,654/tonne.
- Net sales would de-grow 2.5% YoY (~23% QoQ) to Rs15.7b. EBITDA margin would decline 780bp QoQ (~500bp YoY) to 21.7%, impacted by lower realizations, higher imported coal and freight, and negative operating leverage.
- EBITDA would decline 21% YoY (~43% QoQ) to Rs3.4b. Recurring PAT would de-grow 32% YoY (~50% QoQ) to Rs1.95b.
- We maintain our EPS estimates at Rs8.4 for CY10 and Rs9 for CY11. At 16.2x CY11E EPS, and an EV of 8.7x CY11E EBITDA and US$157/tonne, valuations are a fair reflection of business fundamentals. Maintain **Neutral.**

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales Volume (m ton)	5.10	4.83	4.10	4.77	5.27	5.34	4.30	5.19	18.80	20.10
YoY Change (%)	*6.3*	*10.3*	*4.6*	*1.5*	*3.3*	*10.6*	*4.9*	*8.7*	*5.6*	*6.9*
Realization (Rs/ton)	3,619	3,828	3,929	3,714	3,776	3,834	3,654	3,694	3,764	3,745
YoY Change (%)	*5.0*	*7.1*	*11.1*	*7.7*	*4.4*	*0.2*	*-7.0*	*-0.5*	*7.7*	*-0.5*
QoQ Change (%)	*5.0*	*5.8*	*2.6*	*-5.5*	*1.7*	*1.5*	*-4.7*	*1.1*		
Net Sales	**18,456**	**18,474**	**16,110**	**17,729**	**19,902**	**20,476**	**15,714**	**19,174**	**70,769**	**75,265**
YoY Change (%)	*11.5*	*18.2*	*16.2*	*9.3*	*7.8*	*10.8*	*-2.5*	*8.2*	*259.6*	*188.7*
EBITDA	**5,228**	**4,797**	**4,300**	**4,344**	**5,701**	**6,032**	**3,409**	**4,613**	**18,669**	**19,755**
Margins (%)	*28.3*	*26.0*	*26.7*	*24.5*	*28.6*	*29.5*	*21.7*	*24.1*	*26.4*	*26.2*
Depreciation	686	704	719	860	767	1,001	1,050	1,181	2,970	3,999
Interest	52	52	52	68	108	81	75	68	224	332
Other Income	416	692	433	556	546	667	500	637	2,097	2,350
PBT before EO Item	**4,905**	**4,732**	**3,962**	**3,972**	**5,372**	**5,618**	**2,784**	**4,001**	**17,571**	**17,774**
Extraordinary Inc/(Exp)	0	0	462	0	726	0	0	0	462	726
PBT after EO Exp/(Inc)	**4,905**	**4,732**	**4,423**	**3,972**	**6,098**	**5,618**	**2,784**	**4,001**	**18,033**	**18,501**
Tax	1,565	1,486	1,238	1,560	1,476	1,705	835	1,226	5,849	5,243
Rate (%)	*31.9*	*31.4*	*28.0*	*39.3*	*24.2*	*30.4*	*30.0*	*30.7*	*32.4*	*28.3*
Reported Profit	**3,341**	**3,247**	**3,185**	**2,412**	**4,622**	**3,912**	**1,949**	**2,774**	**12,184**	**13,257**
Adj PAT	**3,341**	**3,247**	**2,852**	**2,412**	**3,896**	**3,912**	**1,949**	**2,774**	**11,872**	**12,737**
YoY Change (%)	*1.2*	*6.7*	*21.3*	*-17.4*	*16.6*	*20.5*	*-31.7*	*15.0*	*2.2*	*7.3*

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

Birla Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	BJUT IN
	REUTERS CODE
S&P CNX: 6,018	BRLC.BO

Equity Shares (m)	77.0
52 Week Range (Rs)	422/275
1,6,12 Rel Perf (%)	0/-9/22
Mcap (Rs b)	30.8
Mcap (USD b)	0.7

24 September 2010 — **Buy**

Previous Recommendation: Buy — Rs400

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA	EV/TON (US$)
03/09A	17,907	3,235	42.0	-17.8	9.5	2.4	25.1	27.9	5.8	95
03/10A	21,570	5,572	72.4	72.2	5.5	1.7	31.1	30.5	3.3	68
03/11E	22,708	4,643	60.3	-16.7	6.6	1.4	21.1	24.7	3.0	57
03/12E	25,115	4,865	63.2	4.8	6.3	1.2	18.6	22.3	3.3	63

- We expect revenue to decline 7.4% to Rs4.7b in 2QFY11. While cement volumes would grow 6.4% YoY (~12.8% QoQ decline) to 1.3m tonnes, cement realization is likely to decline 5.7% QoQ (~13.2 YoY) to Rs3,310/tonne.
- Lower realization would translate into 270bp QoQ (~12.4pp YoY) decline in EBITDA margin to 25.9%. EBITDA would de-grow 37% YoY (~26% QoQ) to Rs1.21b. Higher depreciation and tax provisioning would further impact PAT, which would decline 44.5% YoY (~29% QoQ) to Rs843m.
- Volumes would be favorably impacted due to the company's recently commissioned brownfield expansion (~1.5mt) at Madhya Pradesh.
- We are downgrading our FY11 EPS estimate by 1.7% to Rs60.3, but maintain our FY12 EPS estimate at Rs63.2. The stock trades at 6.3x FY12E EPS, and an EV of 3.3x FY12E EBITDA and US$63/tonne. Valuations are at a discount to comparable peers, which we believe is not justified. Valuations, based on earnings as well as replacement cost, are compelling. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Cement Sales (m ton)	1.21	1.22	1.50	1.66	1.49	1.30	1.70	1.76	5.59	6.25
YoY Change (%)	*1.8*	*9.9*	*7.0*	*3.6*	*23.0*	*6.4*	*13.5*	*6.3*	*5.6*	*11.9*
Cement Realization	3,717	3,813	3,448	3,468	3,510	3,310	3,310	3,414	3,592	3,387
YoY Change (%)	*20.0*	*23.7*	*17.6*	*6.4*	*-5.6*	*-13.2*	*-4.0*	*-1.6*	*15.7*	*-5.7*
QoQ Change (%)	*14.0*	*2.6*	*-9.6*	*0.6*	*1.2*	*-5.7*	*0.0*	*3.1*		
Net Sales	**4,904**	**5,057**	**5,589**	**6,020**	**5,749**	**4,683**	**6,007**	**6,269**	**21,570**	**22,708**
YoY Change (%)	23.9	36.0	23.6	5.5	17.2	-7.4	7.5	4.1	20.5	5.3
Total Expenditure	3,148	3,122	3,964	4,284	4,102	3,469	4,346	4,320	14,519	16,236
EBITDA	**1,756**	**1,935**	**1,624**	**1,736**	**1,647**	**1,214**	**1,661**	**1,949**	**7,051**	**6,472**
Margins (%)	*35.8*	*38.3*	*29.1*	*28.8*	*28.6*	*25.9*	*27.7*	*31.1*	*32.7*	*28.5*
Depreciation	133	137	144	143	140	173	175	175	556	664
Interest	60	64	60	86	139	140	142	138	270	559
Other Income	519	249	215	400	285	270	225	420	1,383	1,200
Profit before Tax	**2,082**	**1,983**	**1,636**	**1,907**	**1,653**	**1,171**	**1,569**	**2,056**	**7,608**	**6,449**
Tax	528	463	513	532	470	328	439	569	2,036	1,806
Rate (%)	*25.4*	*23.3*	*31.4*	*27.9*	*28.4*	*28.0*	*28.0*	*27.7*	*26.8*	*28.0*
Adjusted PAT	**1,553**	**1,521**	**1,123**	**1,375**	**1,183**	**843**	**1,130**	**1,488**	**5,572**	**4,643**
Margins (%)	*31.7*	*30.1*	*20.1*	*22.8*	*20.6*	*18.0*	*18.8*	*23.7*	*25.8*	*20.4*
YoY Change (%)	*69.2*	*154.7*	*38.0*	*52.2*	*-23.9*	*-44.5*	*0.6*	*8.2*	*72.2*	*-16.7*

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

Grasim Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	GRASIM IN
	REUTERS CODE
S&P CNX: 6,018	GRAS.BO

Equity Shares (m)	91.7
52 Week Range (Rs)	2,952/1,740
1,6,12 Rel Perf (%)	-5/-38/-43
Mcap (Rs b)	199.4
Mcap (USD b)	4.4

24 September 2010

Buy

Previous Recommendation: Buy Rs2,174

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA	EV/TON (US$)
03/09A	182,966	21,867	238.5	-18.9	9.1	1.7	21.1	20.6	6.6	-
03/10A	199,334	27,342	298.2	25.0	7.3	1.6	22.7	23.9	3.6	-
03/11E*	221,987	22,913	249.9	-16.2	8.7	1.4	17.0	18.3	4.2	70
03/12E*	246,859	25,220	275.0	10.1	7.9	1.2	16.3	18.5	3.8	50

** Consolidated; Demerger of cement business assumed w.e.f 1 October 2010*

- Grasim's (standalone) results for 2QFY11 are not comparable on a YoY basis due to the de-merger of the cement business, but are comparable on a QoQ basis.
- We expect revenue to grow 11% QoQ to Rs10.5b, driven by recovery in VSF volumes. VSF business volumes are likely to grow 17.4% QoQ (~6.8% YoY) to 79,000 tonnes, aided by normalization in operations (1QFY11 operations were impacted due to water shortage at Nagda plant). VSF realization is likely to be Rs2/kg lower on a QoQ basis (~Rs10/kg higher YoY).
- EBITDA margin would improve 90bp QoQ to 32.8%, aided by higher operating leverage. EBITDA would grow 15% QoQ to Rs3.45b. Further, higher other income (dividend from subsidiaries and group companies) would boost PAT growth to 40% QoQ to Rs3.1b.
- The management has a cautious outlook on the VSF business due to inventory build-up in the value chain and expected slowdown in demand due to slower recovery in the EU zone. However, strong cotton prices and decline in pulp prices augur well for Grasim. There is upside risk to our standalone EBITDA margin estimates; we have assumed a decline in 2HFY11 realizations and margins in VSF.
- We are upgrading our consolidated EPS estimates by 2.5% each for FY11 (to Rs250) and FY12 (to Rs275). The stock trades at attractive valuations of 7.9x FY12E consolidated EPS, 1.2x FY12E BV and an EV of 3.8x FY12E EBITDA. The implied valuation of the cement business is US$50/tonne. Maintain **Buy.**

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11*				FY10	FY11E
	1Q	2Q	3Q	4Q*	1Q	2QE	3QE	4QE		
Net Sales	**30,453**	**29,838**	**30,519**	**11,037**	**9,449**	**10,511**	**11,127**	**11,293**	**81,721**	**42,381**
YoY Change (%)	*18.1*	*11.0*	*14.8*	*-61.9*	*-69.0*	*-64.8*	*-63.5*	*2.3*	*-24.5*	*-48.1*
EBITDA	**8,853**	**10,162**	**9,860**	**3,037**	**3,012**	**3,450**	**3,561**	**3,521**	**25,966**	**13,544**
Margins (%)	*29.1*	*34.1*	*32.3*	*27.5*	*31.9*	*32.8*	*32.0*	*31.2*	*31.8*	*32.0*
Depreciation	1,370	1,359	1,424	408	445	460	470	475	3,511	1,850
Interest	475	505	504	112	102	110	112	117	1,204	441
Other Income	620	1,432	888	925	593	1,500	900	1,107	3,758	4,100
PBT before EO Items	**7,628**	**9,729**	**8,820**	**3,443**	**3,058**	**4,380**	**3,879**	**4,035**	**25,008**	**15,353**
Extraordinary Inc/(Exp)	3,447	0	0	0	0	0	0	0	3,447	3,447
PBT after EO Items	**11,075**	**9,729**	**8,820**	**3,443**	**3,058**	**4,380**	**3,879**	**4,035**	**28,455**	**18,800**
Tax	2,322	2,986	2,861	549	820	1,248	1,106	1,202	9,339	4,376
Rate (%)	*21.0*	*30.7*	*32.4*	*15.9*	*26.8*	*28.5*	*28.5*	*29.8*	*32.8*	*23.3*
Reported PAT	**8,752**	**6,743**	**5,959**	**2,894**	**2,238**	**3,132**	**2,774**	**2,834**	**19,116**	**14,425**
Adj. PAT	**5,392**	**6,743**	**5,959**	**2,894**	**2,238**	**3,132**	**2,774**	**2,834**	**15,756**	**11,065**
YoY Change (%)	*4.9*	*60.7*	*80.8*	*-24.8*	*-58.5*	*-53.5*	*-53.5*	*-2.1*	*-4.4*	*-29.8*

*E: MOSL Estimates; * Not comparable due to demerger of cement business*

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

India Cements

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	ICEM IN
	REUTERS CODE
S&P CNX: 6,018	ICMN.BO

Equity Shares (m)	307.2
52 Week Range (Rs)	143/97
1,6,12 Rel Perf (%)	-2/-28/-33
Mcap (Rs b)	35.9
Mcap (USD b)	0.8

24 September 2010

Buy

Previous Recommendation: Buy | Rs117

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA	EV/TON (US$)
03/09A	34,268	4,851	17.7	-27.3	6.6	0.9	15.7	16.8	5.1	81
03/10A	37,711	3,253	10.9	-38.5	10.7	0.8	8.4	10.6	6.7	88
03/11E	39,414	899	3.0	-72.4	38.7	0.8	2.2	3.8	11.8	81
03/12E	47,472	1,990	6.9	129.9	16.8	0.8	4.7	6.4	7.7	77

- India Cements would be the worst impacted among the cement companies under our coverage in 2QFY11 due to concentration of market mix in South India. We expect its volumes to grow 7.5% YoY (~12.5% QoQ) to 3m tonnes, driven by exploration of newer markets. However, realization would decline 18% QoQ (~23% YoY) to Rs2,637/ tonne, as prices were under severe pressure in South India.
- Revenue for the quarter would decline 16.5% YoY (~6.2% QoQ) to Rs8.3b. We estimate revenue of Rs150m from IPL, which has upside risk subject to accounting for revenue share in central pool and the Champions League.
- We estimate EBITDA losses of Rs400m and EBITDA margin of -4.8% (v/s 11.4% in 1QFY11 and 30.1% in 2QFY10) for 2QFY11, translating into net loss of Rs1b.
- The operating environment for India Cements has improved from September 2010, driven by disciplined approach rather than improvement in demand, resulting in ~Rs60/bag increase in cement prices.
- **Chennai Super King**, its cricket in IPL, has won the recently concluded *Airtel Champions League T20* cricket tournament. Our estimates does not factor in for any prize money from the same.
- We are downgrading our EPS estimates by 9.5% for FY11 to Rs3 and by 2.6% for FY12 to Rs6.9. Valuations are attractive at 16.8x FY12E EPS, and an EV of 7.7x FY12E EBITDA and US$77/tonne. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales Dispatches (m ton)	2.46	2.79	2.76	2.95	2.66	3.00	3.05	3.35	10.96	12.05
YoY Change (%)	*3.9*	*15.0*	*38.1*	*26.9*	*8.0*	*7.5*	*10.5*	*13.3*	*20.2*	*9.9*
Realization (Rs/ton)	3,736	3,438	3,028	3,125	3,211	2,637	3,246	3,387	3,304	3,126
YoY Change (%)	*8.6*	*-4.1*	*-16.6*	*-16.1*	*-14.0*	*-23.3*	*7.2*	*8.4*	*-8.1*	*-5.4*
QoQ Change (%)	*0.2*	*-8.0*	*-11.9*	*3.2*	*2.8*	*-17.9*	*23.1*	*4.4*		
Net Sales	**9,535**	**9,894**	**8,641**	**9,643**	**8,807**	**8,265**	**10,454**	**11,887**	**37,713**	**39,414**
YoY Change (%)	*13.9*	*4.6*	*14.8*	*8.5*	*-7.6*	*-16.5*	*21.0*	*23.3*	*10.1*	*4.5*
EBITDA	**2,863**	**2,977**	**1,165**	**1,260**	**1,001**	**-400**	**1,759**	**2,452**	**8,266**	**4,812**
Margins (%)	*30.0*	*30.1*	*13.5*	*13.1*	*11.4*	*-4.8*	*16.8*	*20.6*	*21.9*	*12.2*
Depreciation	571	572	573	616	599	650	675	682	2,331	2,606
Interest	385	374	299	369	298	315	370	405	1,426	1,387
Other Income	68	55	119	129	27	60	110	108	370	305
PBT before EO expense	**1,976**	**2,086**	**412**	**404**	**132**	**-1,305**	**824**	**1,473**	**4,878**	**1,124**
Extra-Ord expense	-210	13	-117	-122	-142	0	0	0	-436	-142
PBT	**2,186**	**2,074**	**528**	**526**	**274**	**-1,305**	**824**	**1,473**	**5,313**	**1,266**
Tax	745	704	180	143	24	-261	165	325	1,770	253
Rate (%)	*34.1*	*34.0*	*34.1*	*27.1*	*8.8*	*20.0*	*20.0*	*22.1*	*33.3*	*20.0*
Reported PAT	**1,441**	**1,369**	**348**	**383**	**250**	**-1,044**	**659**	**1,148**	**3,543**	**1,013**
Adj PAT	**1,302**	**1,378**	**271**	**294**	**120**	**-1,044**	**659**	**1,148**	**3,253**	**899**
YoY Change (%)	*-16.7*	*-10.9*	*-61.3*	*-71.8*	*-90.8*	*-175.8*	*143.1*	*290.0*	*-32.9*	*-72.4*
Margins (%)	*13.7*	*13.9*	*3.1*	*3.1*	*1.4*	*-12.6*	*6.3*	*9.7*	*8.6*	*2.3*

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

Shree Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	SRCM IN
	REUTERS CODE
S&P CNX: 6,018	SHCM.BO

Equity Shares (m)	34.8
52 Week Range (Rs)	2,542/1,372
1,6,12 Rel Perf (%)	1/-24/5
Mcap (Rs b)	71.0
Mcap (USD b)	1.6

24 September 2010

Buy

Previous Recommendation: Buy

Rs2,039

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA	EV/TON (US$)
03/09A	27,106	5,983	171.7	107.8	11.9	5.9	63.6	35.0	7.7	178
03/10A	36,321	7,097	203.7	18.6	10.0	3.9	46.6	31.9	4.8	115
03/11E	40,498	4,219	121.1	-40.5	16.8	3.2	20.9	16.9	6.6	112
03/12E	50,883	5,034	144.5	19.3	14.1	2.7	20.8	18.0	5.2	102

- We expect cement volumes to decline 5% YoY (~5% QoQ) to 2.36m tonnes, and realization to decline 6.4% QoQ (~11% YoY) to Rs3,062/tonne. We estimate merchant power sales of 200m units (~212% YoY growth, but 6% QoQ decline) at ~Rs5.5/unit (v/s Rs6.1 in 1QFY11 and Rs6.9 in 2QFY10).
- Sales would decline 7.5% YoY (~12% QoQ) to Rs8.3b, impacted by 16% YoY decline (~11% QoQ) in cement revenue. Merchant power revenue would grow 150% YoY (decline ~16% QoQ).
- Decline in realizations, lower merchant power profitability and negative operating leverage would result in 390bp QoQ (~18.7pp YoY) decline in EBITDA margin to 26.7%. Cement business EBITDA/tonne would decline 49% YoY (~23% QoQ) to ~Rs770/tonne.
- Higher depreciation, interest and taxation would further impact PAT, which would decline 82% YoY (~50% QoQ) to Rs535m.
- We are downgrading our earnings estimates by 17.7% for FY11 to Rs121.1 and by 14.8% for FY12 to Rs144.5. The stock quotes at 14.1x FY12E EPS, and an EV of 5.2x FY12E EBITDA and US$102/tonne. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales Dispatches (m ton)	2.55	2.48	2.56	2.67	2.49	2.36	2.95	3.01	10.25	10.80
YoY Change (%)	*32.8*	*23.1*	*21.7*	*10.8*	*-2.4*	*-5.0*	*15.1*	*12.7*	*21.3*	*5.4*
Realization (Rs/ton)	3,479	3,447	3,205	3,355	3,272	3,062	3,062	3,180	3,373	3,143
YoY Change (%)	*8.7*	*13.0*	*5.2*	*6.2*	*-5.9*	*-11.2*	*-4.4*	*-5.2*	*8.4*	*-6.8*
QoQ Change (%)	*10.2*	*-0.9*	*-7.0*	*4.7*	*-2.5*	*-6.4*	*0.0*	*3.8*		
Net Sales	**9,224**	**8,996**	**8,660**	**9,440**	**9,445**	**8,318**	**10,874**	**11,861**	**36,321**	**40,498**
YoY Change (%)	*50.2*	*43.2*	*30.3*	*17.2*	*2.4*	*-7.5*	*25.6*	*25.6*	*34.0*	*11.5*
EBITDA	**4,258**	**4,082**	**3,353**	**3,255**	**2,895**	**2,217**	**2,957**	**3,444**	**15,025**	**11,513**
Margins (%)	*46.2*	*45.4*	*38.7*	*34.5*	*30.6*	*26.7*	*27.2*	*29.0*	*41.4*	*28.4*
Depreciation	973	998	947	2,786	1,509	1,500	1,500	1,544	5,704	6,053
Interest	160	155	115	662	420	415	420	426	1,291	1,681
Other Income	473	316	160	212	287	350	300	367	1,284	1,304
PBT before EO Exp	**3,599**	**3,245**	**2,451**	**20**	**1,253**	**652**	**1,337**	**1,841**	**9,313**	**5,083**
Extra-Ord Expense	42	29	14	549	9	15	15	31	634	70
PBT	**3,557**	**3,215**	**2,436**	**-529**	**1,244**	**637**	**1,322**	**1,810**	**8,679**	**5,013**
Tax	645	326	762	185	185	115	238	327	1,918	864
Rate (%)	*18.1*	*10.1*	*31.3*	*-34.9*	*14.9*	*18.0*	*18.0*	*18.0*	*22.1*	*17.2*
Reported PAT	**2,911**	**2,889**	**1,674**	**-714**	**1,059**	**523**	**1,084**	**1,483**	**6,761**	**4,149**
Adj PAT	**2,946**	**2,915**	**1,684**	**26**	**1,067**	**535**	**1,096**	**1,509**	**7,097**	**4,207**
YoY Change (%)	*153.0*	*153.2*	*31.8*	*-98.9*	*-63.8*	*-81.7*	*-34.9*	*5621.9*	*18.6*	*-40.7*
Margins (%)	*31.9*	*32.4*	*19.4*	*0.3*	*11.3*	*6.4*	*10.1*	*12.7*	*19.5*	*10.4*

E:MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

UltraTech Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	UTCEM IN
	REUTERS CODE
S&P CNX: 6,018	ULTC.BO

Equity Shares (m)	274.2
52 Week Range (Rs)	1,172/700
1,6,12 Rel Perf (%)	0/-19/16
Mcap (Rs b)	281.3
Mcap (USD b)	6.2

24 September 2010

Buy

Previous Recommendation: Buy

Rs1,026

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA	EV/TON (US$)
03/09A	63,831	9,770	78.5	-3.0	13.1	3.5	31.0	29.2	17.1	136
03/10A	70,497	10,932	87.8	11.9	11.7	2.8	26.6	28.5	14.2	118
03/11E *	139,860	14,456	52.7	-40.0	19.5	2.6	18.6	22.4	10.0	127
03/12E *	182,088	18,630	67.9	28.9	15.1	2.2	15.8	19.9	7.3	119

** Consolidated; Merger of cement business assumed w.e.f 1 July 2010*

- UltraTech's results for 2QFY11 are not comparable on a YoY basis due to the merger of Grasim's cement business, but are comparable on a QoQ basis.
- We expect cement volumes to decline 8% QoQ (~8% YoY growth on like-to-like basis). Realization would decline 8.4% QoQ (~12% YoY) to Rs3,121/tonne, impacted by severe pricing pressure in its key markets of South and West India. Net revenue would de-grow 15% QoQ to Rs34.1b.
- Decline in realizations coupled with higher freight cost and negative operating leverage would result in 950bp QoQ decline in EBITDA margin to 15.6%. We expect EBITDA to decline 47% QoQ to Rs5.3b and PAT to de-grow ~65% QoQ to Rs2b.
- It has announced further capacity addition of ~9m tonnes at Karnataka (~4m tonnes) and Chhattisgarh (~4.8m tonnes), which should commence operations by 4QFY13.
- We are downgrading our earnings estimates (post-merger) by 1% for FY12 to Rs67.9. The stock trades at 15.1x FY12E EPS, and an EV of 7.3x FY12E EBITDA and US$119/tonne. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11*				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales (m ton)	5.3	4.2	5.0	5.7	10.3	9.4	10.8	12.3	20.2	42.7
YoY Change (%)	*24.4*	*4.6*	*10.2*	*6.6*	*93.1*	*126.7*	*113.3*	*115.0*	*11.3*	*111.4*
Realization (Rs/ton)	3,534	3,548	3,107	3,174	3,407	3,121	3,283	3,383	3,329	3,287
YoY Change (%)	*6.3*	*5.9*	*-8.5*	*-4.8*	*-3.6*	*-12.0*	*5.7*	*6.6*	*-0.8*	*-1.2*
QoQ Change (%)	*6.0*	*0.4*	*-12.4*	*2.2*	*7.3*	*-8.4*	*5.2*	*3.0*		
Net Sales	**19,528**	**15,408**	**16,518**	**19,094**	**39,898**	**34,085**	**40,524**	**47,353**	**70,497**	**161,860**
YoY Change (%)	*30.5*	*10.4*	*1.3*	*2.6*	*104.3*	*121.2*	*145.3*	*148.0*	*10.4*	*129.6*
EBITDA	**7,168**	**4,700**	**3,836**	**4,027**	**9,997**	**5,321**	**8,456**	**10,885**	**19,711**	**34,659**
Margins (%)	*36.7*	*30.5*	*23.2*	*21.1*	*25.1*	*15.6*	*20.9*	*23.0*	*28.0*	*21.4*
Depreciation	936	967	985	993	2,132	2,200	1,060	2,334	3,881	8,915
Interest	330	299	262	285	787	800	800	811	1,175	3,199
Other Income	342	308	300	259	858	550	500	767	1,227	2,675
PBT after EO Expense	**6,244**	**3,743**	**2,888**	**3,007**	**7,936**	**2,871**	**7,096**	**8,507**	**15,882**	**25,219**
Tax	2,067	1,234	928	721	2,359	893	1,794	2,567	4,949	7,613
Rate (%)	*33.1*	*33.0*	*32.1*	*24.0*	*29.7*	*31.1*	*25.3*	*30.2*	*31.2*	*30.2*
Reported PAT	**4,178**	**2,509**	**1,960**	**2,286**	**5,577**	**1,978**	**5,301**	**5,940**	**10,932**	**17,606**
Adj PAT	**4,178**	**2,509**	**1,960**	**2,286**	**5,577**	**1,978**	**5,301**	**5,940**	**10,932**	**17,606**
YoY Change (%)	*57.6*	*52.8*	*-17.8*	*-26.1*	*33.5*	*-21.2*	*170.4*	*159.8*	*10.0*	*61.0*

*E: MOSL Estimates; * Including Samruddhi Cement*

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

Engineering

BSE Sensex: 20,045 | S&P CNX: 6,018 | 24 September 2010

COMPANY NAME
ABB
BHEL
Crompton Greaves
Larsen & Toubro
Siemens
Thermax

2QFY11: Revenue growth buoyant (14% YoY) margins remain stable

In 2QFY11 we expect engineering companies under our coverage to post revenue growth of 14% YoY, adjusted EBITDA growth of 18% YoY and adjusted net profit growth of 17% YoY. Key takeaways are:

- **Capital Goods Index, growth accelerates, base effect persists:** The index growth of 63% YoY in July 2010 is reflective of a pick-up in demand for industrial goods across sectors though the low base effect persists. A revival in industrial capex is also evident from order intake for our engineering universe, which was up 14% in 1QFY11. For FY10 it was up 17%. Demand traction for industrial goods from end-user segments is also evident in the uptrend of the IIP. From late August 2009 the IIP has averaged growth of 13% YTD and in FY10 it was 11%.
- **Execution momentum to continue in 2QFY11:** Revenue growth in 1QFY11 was 13% YoY for the engineering sector. For 2QFY11 we expect revenue growth of 14% YoY, given a pick up in execution in the power and infrastructure segments. Growth is being driven largely by BHEL, Crompton and Thermax. We expect them to post 2QFY11 revenue growth of 17%, 14% and 35% YoY respectively. Order intake growth in 1QFY11 was 14% YoY for our universe, resulting in aggregate BTB of 2.1x.
- **2QFY11 margins to improve by 60bp YoY, material prices up:** In 2QFY11 we expect EBITDA margins to be stable and expect margin improvement for Siemens (up 412bp YoY) and ABB's margins to slide (down 291bp YoY). Prices of steel and copper increased by more than 50% from their 1QFY10 levels. Incremental project bids and fixed-price contracts in the existing backlog (35-40% of L&T and BHEL's order backlog) will have an impact on margins with a 3-6 month lag.
- **Valuations attractive, Buy:** Our engineering sector universe trades at FY11E P/E of 22x and P/BV of 5.4x. We expect earnings and revenue CAGR of 26% and 24% respectively over FY10-12. Strong growth in the Capital Goods Index implies a thrust on investment by the manufacturing sector. As capacity utilizations across key sectors pick up, order-books of capital goods companies will rise sharply, resulting in accelerated revenue and profit growth. We are positive on the sector with **Buy** ratings for **BHEL**, **L&T** and **Siemens**.

EXPECTED QUARTERLY PERFORMANCE SUMMARY (RS MILLION)

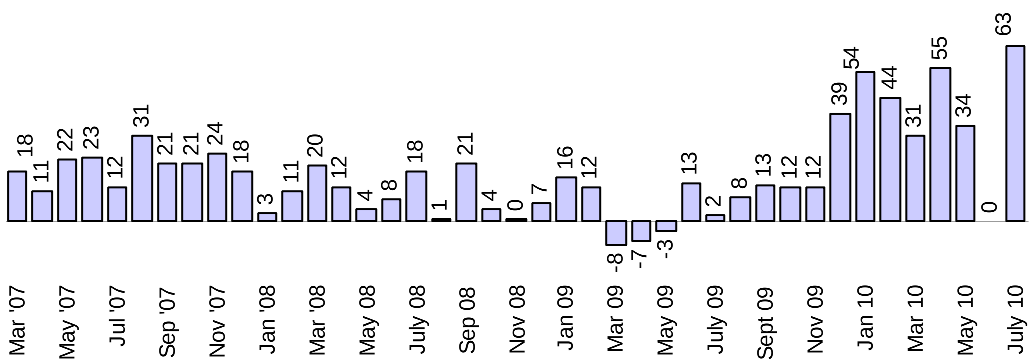
	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
	24.09.10		SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ
Engineering											
ABB	879	Neutral	15,265	5.0	5.5	840	-31.4	67.8	592	-28.7	54.6
BHEL	2,455	Buy	77,758	17.4	20.0	14,519	17.9	50.1	9,976	16.3	49.0
Crompton Greaves	320	Neutral	14,483	14.2	7.8	2,361	12.7	12.8	1,520	11.7	6.9
Larsen & Toubro	2,016	Buy	88,160	12.1	12.5	8,992	14.6	-6.0	6,348	14.8	-4.7
Siemens	786	Buy	26,812	6.5	19.4	3,735	51.3	54.4	2,357	55.5	51.0
Thermax	787	Neutral	9,185	35.0	16.3	1,102	39.1	14.8	735	35.8	11.0
Sector Aggregate			**231,663**	**13.5**	**15.0**	**31,549**	**18.0**	**25.1**	**21,528**	**17.3**	**23.8**

Dhirendra Tiwari (Dhirendra.Tiwari@MotilalOswal.com)/Navneet Iyengar (Navneet.Iyengar@MotilalOswal.com)

Capital Goods Index growth reflects signs of capex cycle pick up

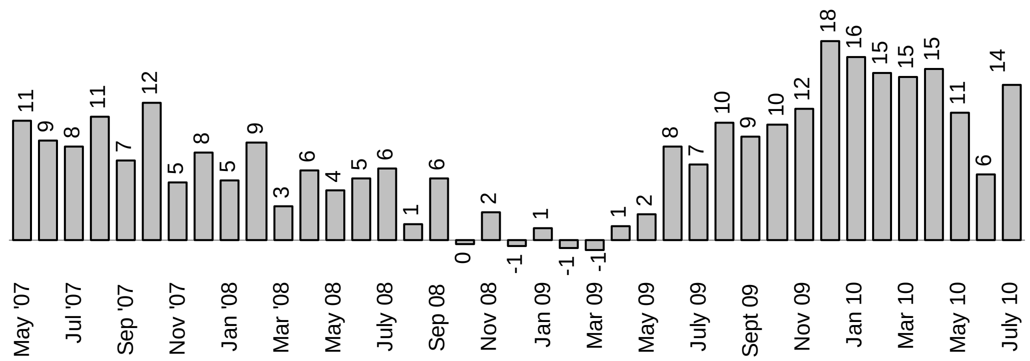
The index growth of 63% YoY is reflective of pick up in demand for industrial goods across sectors though a low base effect persists

CAPITAL GOOD INDEX (% YOY): GROWTH ACCELERATES, BASE EFFECT PERSISTS



From late August 2009 IIP growth rates have averaged 13% YTD and 11% in FY10, indicating revival in industrial capex, which is on a sound footing

IIP GROWTH (% YOY): IN RECOVERY MODE

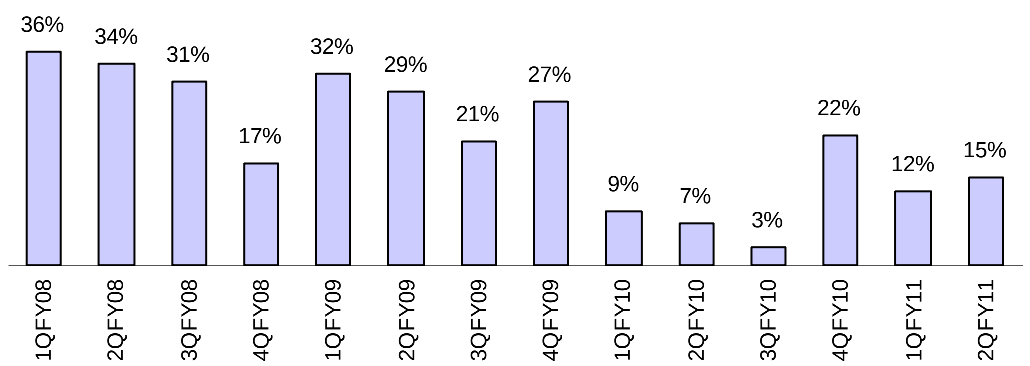


Source: Company/MOSL

Execution strong despite monsoons

In 2QFY11 we expect the industry's revenue to grow14% YoY. Project execution is consistent and steady despite it being a monsoon quarter

PACE OF PROJECT EXECUTION SOUND IN 1QFY11



Source: Company/MOSL

BHEL, Crompton and L&T will lend support to the industry's expected 14% YoY growth in 2QFY11. Considering that BTB ratios of most of the project companies in our coverage are 2x-4xTTM, speedy execution is a key challenge to superior earnings growth

CUMMINS LEADS THE REVENUE CHART, BHEL, L&T CONSISTENT (%)

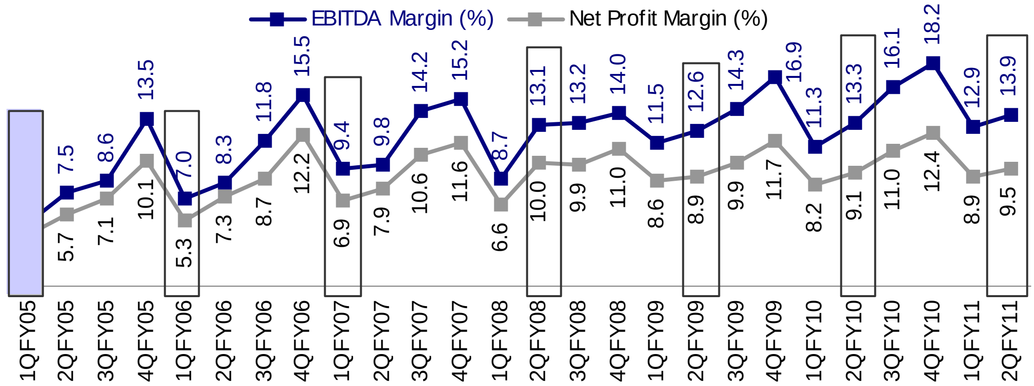
	2QFY10	2QFY11E	FY10
ABB	-4	5	-6
BHEL	24	17	25
Crompton	17	14	15
L&T	2	12	9
Siemens	4	6	3
Thermax	-15	35	-2
Industry	**7**	**14**	**11**

Source: Company/MOSL

2QFY11 EBITDA margins to rise 60bp YoY

In 2QFY11, we expect margin improvement for Siemens (up 412bp) and ABB's margins to continue to slide (down 291bp YoY) as project related escalations/write-offs weigh heavily on power systems margins

MARGIN IMPROVEMENT OF 60BP YOY (14%) IS EXPECTED IN 2QFY11

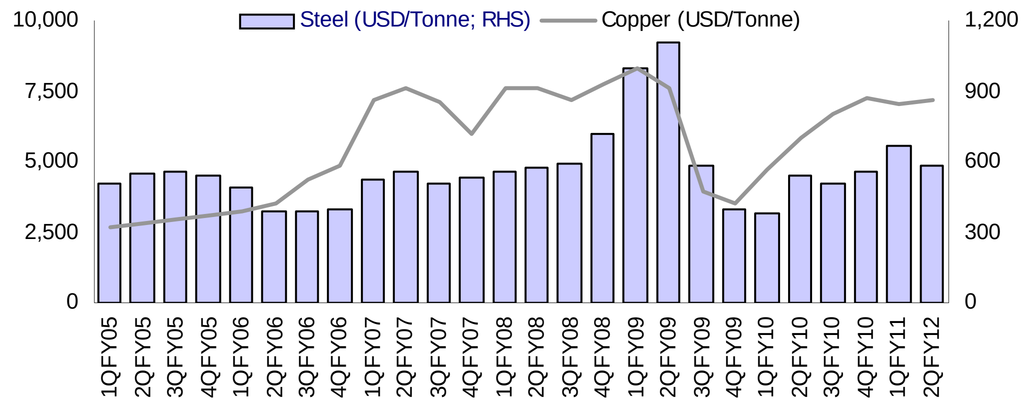


Source: Company/MOSL

Commodity prices more than double since lows of 4QFY09 (US$/ton)

Steel and copper prices have risen more than 50% from 1QFY10 levels. Although average steel prices were down 35% in FY10, copper prices grew by 5% in the period. Incremental project bids and fixed price contracts in the backlog (35% to 40% of L&T and BHEL's order backlog) will have a margin impact with a 3-6 month lag effect

STEEL, COPPER PRICES UP

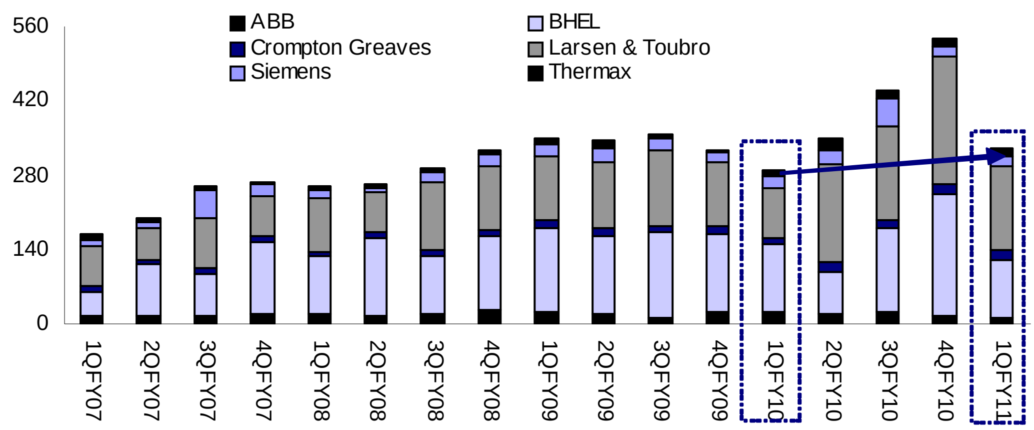


Source: Company/MOSL

Order intake in 1QFY11

In 4QFY10 order intake improved 62% YoY, toRs537b. For FY10 growth was 16%. In 1QFY11 intake growth was 14% YoY as Crompton and L&T posted the strongest intake growth of 58% and 63% YoY respectively. ABB is a laggard with a 41% YoY decline in inflows

1QFY11 ORDER INTAKE (RS B): BETTER BUSINESS ENVIRONMENT BOOSTS AWARDS



Source: Company/MOSL

BHEL offers the best earnings visibility in the universe (BTB of 4.2x) with revenue and PAT CAGR of 22% and 24% YoY respectively over FY10-12 coupled with EBITDA margin expansion of 250bp

ORDER BACKLOG (RS B) AND BTB (X)

COMPANY	ORDER BACKLOG JUNE 2010 (RS B)	BTB (X)
ABB	85.3	1.4
BHEL	1,480.0	4.2
BGR Energy	94.0	2.6
Crompton Greaves	68.0	0.7
Larsen & Toubro	1,078.2	2.9
Siemens	135.5	1.6
Thermax	69.8	2.0

Source: Company/MOSL

BHEL and L&T, due to the sheer strength in earnings visibility (BTB of 4.2x and 3x respectively) will be able to deliver better revenue CAGR of 22% and 33% respectively over FY10-12. In case of BHEL the full impact of capacity expansion to 15GW will kick in from 2HFY11

REVENUE (RS B), CAGR (%)

	REVENUES (RS B)								% CAGR	
	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E	FY05-FY09	FY10-FY12E
ABB*	23	30	43	59	62	66	78	96	29	21
BHEL	100	137	176	198	329	335	403	495	35	22
Crompton Greaves	20	25	34	39	53	63	76	91	28	20
L&T	133	149	179	252	367	441	562	785	29	33
Siemens**	18	27	45	77	90	120	153	182	50	23
Thermax	13	16	23	35	35	34	47	61	28	35

**December year ending(FY08=CY07) **September year ending (Sep'07= FY07)*

With revenue CAGR of 22% and margin expansion of 250bp over FY10-12 BHEL delivers consistent earnings growth. With new businesses like power equipment expected to contribute to earnings growth in the second half of FY12, L&T's long term growth is intact

PAT TREND (RS B) AND CAGR (%)

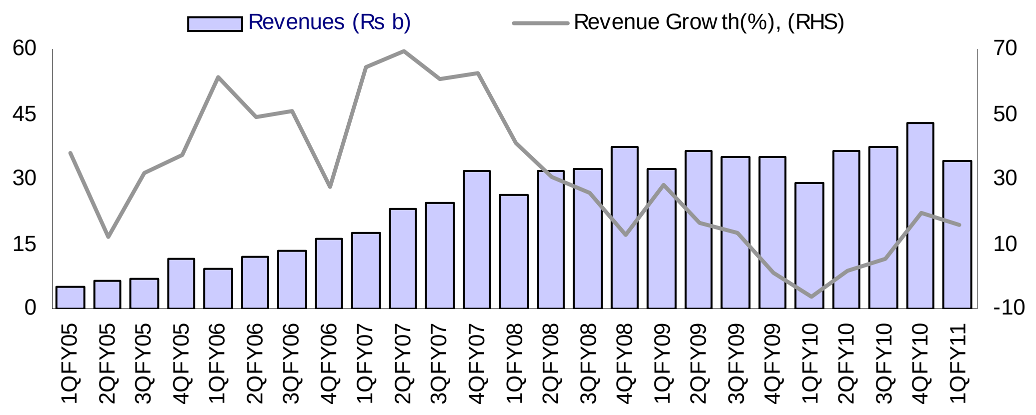
	NET PROFIT (RS B)								% CAGR	
	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E	FY05-FY09	FY09-FY12E
ABB*	1.5	2.2	3.4	4.9	5.3	3.5	3.0	5.4	37	0
BHEL	9.7	16.8	24.1	25.1	35.6	46.8	58.4	71.8	39	22
Crompton Greaves	1.4	1.9	1.8	2.8	4.0	5.8	6.9	8.6	30	29
L&T	5.8	7.8	13.6	20.7	27.0	30.4	38.2	45.9	47	19
Siemens**	2.5	3.6	4.7	6.3	6.5	8.1	10.2	13.1	28	26
Thermax	0.7	1.0	1.9	2.9	2.9	1.4	3.6	4.8	43	19

**December year ending(FY08=CY07) **September year ending (Sep'07= FY07)*

Industrial business: execution improves, order intake yet to pick-up

In 1QFY11, the industrial business rebounded, with revenue growth of 16% YoY against growth of just 5% in FY10 and de-growth of 7% in 1QFY10. With IIP growth averaging more than 10.5% in the first four months of FY11 growth in the segment is showing strong traction from user segments

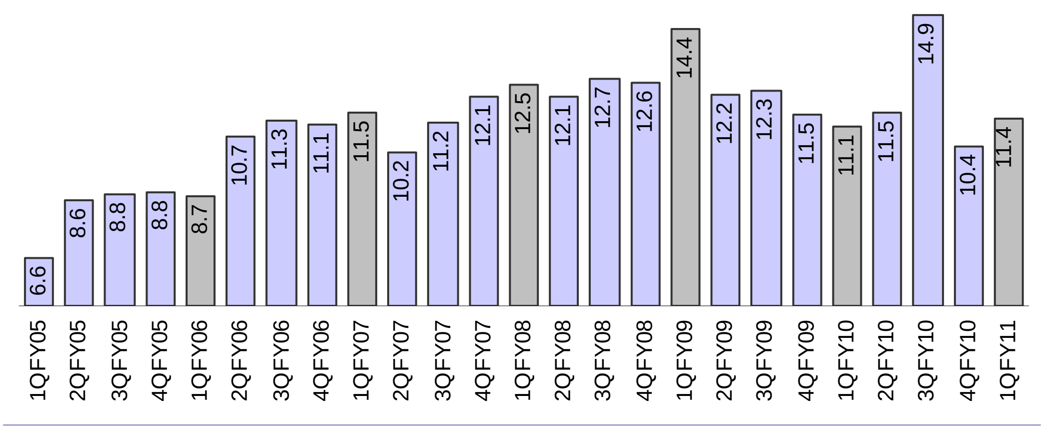
INDUSTRIAL SEGMENT SHOWS INITIAL SIGNS OF REVENUE TRACTION



Source: Company/MOSL

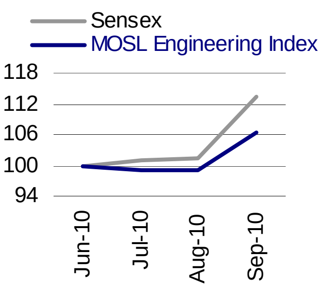
INDUSTRIAL EBIT MARGINS RISE IN APRIL-JUNE 2010, ABB MARGINS UP

1QFY11 EBIT margins expanded 32bpYoY to11.4% for the segment; ABB and Siemens expanded margins by 207bp and 43bpYoY respectively

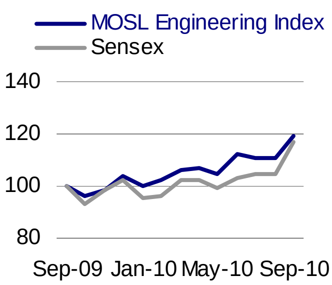


Source: Company/MOSL

RELATIVE PERFORMANCE - 3M (%)



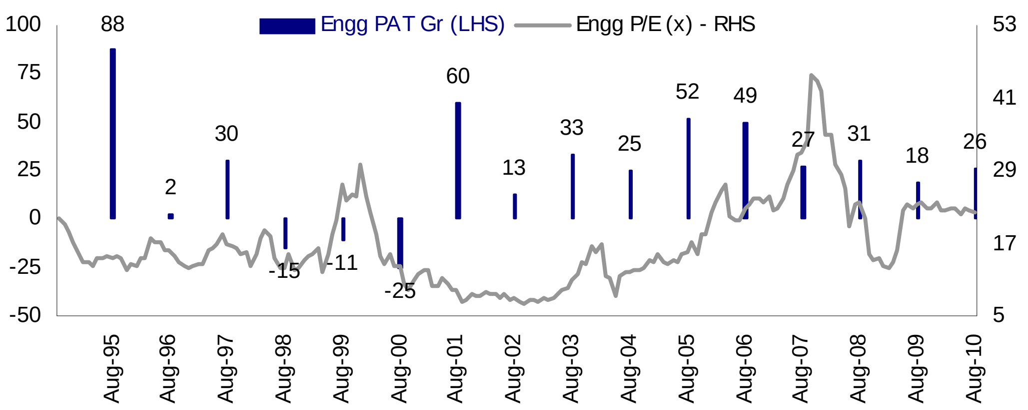
RELATIVE PERFORMANCE - 1YR (%)



Valuations attractive, Buy

Our engineering sector universe trades at FY11E P/E of 22x and P/BV of 5.4x. We expect earnings and revenue CAGR of 26% and 24% respectively over FY10-12. Strong growth in the Capital Goods Index implies a thrust on investment by the manufacturing sector. As capacity utilizations across key sectors pick up, order-books of capital goods companies will rise sharply, resulting in accelerated revenue and profit growth. We are positive on the sector with **Buy** ratings for BHEL, **L&T** and **Siemens**.

ENGINEERING SECTOR UNIVERSE TRADES AT FY11E P/E OF 23X



Source: Company/MOSL

COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Engineering														
ABB	879	Neutral	16.7	14.1	25.4	52.5	62.5	34.6	34.2	40.7	21.8	15.6	11.7	18.4
BHEL	2,455	Buy	95.7	119.3	146.7	25.7	20.6	16.7	18.7	12.4	9.9	32.5	32.7	32.3
Crompton Greaves	320	Neutral	12.6	14.1	17.3	25.3	22.6	18.4	23.3	18.9	15.1	38.4	34.2	32.9
Larsen & Toubro	2,016	Buy	61.6	75.8	93.7	32.7	26.6	21.5	26.5	21.9	17.5	19.8	19.4	20.3
Siemens	786	Buy	16.5	24.0	30.2	47.8	32.7	26.0	24.5	19.1	15.3	26.2	25.1	26.1
Thermax	787	Neutral	21.8	30.4	40.6	36.2	25.9	19.4	21.9	16.5	12.4	25.0	29.9	31.5
Sector Aggregate						**30.5**	**24.8**	**19.8**	**22.9**	**17.2**	**13.5**	**26.4**	**26.0**	**27.0**

ABB

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	ABB IN
	REUTERS CODE
S&P CNX: 6,018	ABB.BO

24 September 2010

Neutral

Previous Recommendation: Neutral — Rs879

Equity Shares (m)	211.9
52 Week Range (Rs)	887/669
1,6,12 Rel Perf (%)	5/-7/-9
Mcap (Rs b)	186.2
Mcap (USD b)	4.1

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/08A	68,370	5,325	25.1	8.3	34.1	8.6	28.4	46.2	2.6	23.1
12/09A	62,372	3,546	16.7	-33.4	38.5	5.6	15.6	24.3	2.1	24.8
12/10E	65,634	2,981	14.1	-15.9	62.5	6.9	11.7	18.7	2.7	40.7
12/11E	78,428	5,380	25.4	80.5	34.6	5.9	18.4	29.2	2.2	21.8

- Order backlog at the end of 2QCY10 was Rs85b, up 12% YoY, BTB ratio was 1.4x TTM revenue up from 0.9x in CY08. This was driven by an increased share of projects in the order book, which entail a comparatively higher execution period.
- For 3QCY10, no order announcements were made by the company. But ABB announces orders selectively and thus order announcements do not provide an indication of actual intake. Order intake in 2QCY10 was worth Rs12b, down 42% YoY. Order intake in 1HCY10 was Rs29b, down 34% YoY.
- 2QCY10 revenue growth was down 4% YoY and 1% QoQ. Sluggish growth in power systems (2QCY10 revenue down 10% YoY and down 25% YoY in CY09) impacted revenue growth through CY09. For 3QCY10 we expect revenue growth of 5% YoY. Poor order intake, project withdrawals and extended threshold levels of revenue and margin recognition led to flat revenue and PAT decline of 72% YoY in 1HCY10.
- 2QCY10 EBITDA margins were 3.5%, down 490bp YoY. The contraction was due to a decline in the power systems segment, where EBIT margins were -5.1% vs 3% in 3QCY09 and for the power products segment they were down 710bp YoY at 6.4%. Margins declined in the power group mainly due to cost escalations, project related write-offs and price-driven competition in the product business. In 3QCY10 we expect EBITDA margins of 5.5%, down 291bp YoY.
- In 2QCY10 PAT fell 54% YoY and in 1HCY10 it was down 72% YoY. For 3QCY10 we expect PAT to decline 29% YoY as profitability in the power systems (20% of revenue) continues to be a drag. In CY10 we expect PAT to decline 16% due to EBITDA margin contraction of 180bp to 7%. The revival of margins in the power systems group is crucial for ABB in order for it to get back to its normative margin levels of 10-12%.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	**13,931**	**15,050**	**14,538**	**18,852**	**14,559**	**14,466**	**15,265**	**21,344**	**62,372**	**65,634**
Change (%)	*(9.3)*	*(6.9)*	*(4.3)*	*(13.0)*	*4.5*	*(3.9)*	*5.0*	*13.2*	*-8.8*	*5.2*
EBITDA	**1,271**	**1,281**	**1,223**	**1,279**	**29**	**500**	**840**	**3,023**	**5,287**	**4,392**
Change (%)	*-26.4*	*-32.7*	*-9.3*	*-52.3*	*-97.7*	*-60.9*	*-31.4*	*136.3*	*-31.0*	*-16.9*
As % of Sales	*9.1*	*8.5*	*8.4*	*6.8*	*0.2*	*3.5*	*5.5*	*14.2*	*8.5*	*6.7*
Depreciation	109	125	127	125	120	122	132	145	485	519
Interest	103	80	44	26	38	43	50	120	254	250
Other Income	143	209	159	215	212	220	240	222	726	894
PBT	**1,202**	**1,284**	**1,212**	**1,343**	**83**	**555**	**898**	**2,981**	**5,274**	**4,517**
Tax	419	448	381	480	17	172	305	1,042	1,728	1,536
Effective Tax Rate (%)	*34.8*	*34.9*	*31.4*	*35.7*	*20.4*	*31.0*	*34.0*	*34.9*	*32.8*	*34.0*
Repoted PAT	**783**	**836**	**831**	**864**	**66**	**383**	**592**	**1,939**	**3,546**	**2,981**
Adj. PAT	**783**	**836**	**831**	**864**	**66**	**383**	**592**	**1,939**	**3,546**	**2,981**
Change (%)	*-33.4*	*-35.1*	*-10.4*	*-55.3*	*-91.5*	*-54.2*	*-28.7*	*124.5*	*-33.4*	*-15.9*

E: MOSL Estimates

Dhirendra Tiwari (Dhirendra.Tiwari@MotilalOswal.com)/Navneet Iyengar (Navneet.Iyengar@MotilalOswal.com)

BHEL

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	BHEL IN
	REUTERS CODE
S&P CNX: 6,018	BHEL.BO

Equity Shares (m)	489.5
52 Week Range (Rs)	2,585/2,105
1,6,12 Rel Perf (%)	-11/-11/-10
Mcap (Rs b)	1201.7
Mcap (USD b)	26.6

24 September 2010

Buy

Previous Recommendation: Buy

Rs2,455

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	267,879	35,670	72.9	42.1	20.7	5.7	30.1	46.9	2.4	15.1
03/10A	334,757	46,839	95.7	31.3	24.9	7.3	32.5	51.4	3.3	18.1
03/11E	402,601	58,407	119.3	24.7	20.6	6.1	32.7	54.8	2.7	12.4
03/12E	495,098	71,837	146.7	23.0	16.7	4.9	32.3	53.6	2.2	9.9

- In 2QFY11, we expect revenue of Rs77b, up 18% YoY. 1QFY11 order backlog was Rs1,480b up 19% YoY. We expect the FY11 backlog to be Rs1,643b, up 15% and revenue growth of 20%.
- In 2QFY11 adjusted EBITDA margins are expected to be 18.7%, flat YoY and PAT of Rs10b is expected to grow 16.3% YoY, taking 1HFY11 revenue and PAT growth to 17% and 27% YoY respectively.
- In 2QFY11, large order announcements totaled Rs78b. All the orders announced were from the private sector which include Dainik Bhaskar (2x600MW worth Rs26b), Abhijeet Infra (4x270MW worth Rs25b) and Visa Power (2x600MW worth Rs27b).
- BHEL is a front runner to receive a significant share of a bulk tendering order for 11 660MW sets, worth Rs250b for complete turnkey in FY11. Intake in 1QFY11 was Rs108b (down 15% YoY) and for 4QFY10 it was Rs226b. FY10 order intake was Rs590b, down marginally by 4%.
- Of the overall order book of Rs1,438b at the end of FY10, 80% were from the power sector, 13% from industry and the rest 7% from exports. BHEL received orders from its JVs with various SEBs for the supply of supercritical BTG. It received a Rs63b BTG order from the Karnataka Power Corporation in April 2010.
- We expect EPS and revenue CAGR of 24% and 22% respectively over FY10-12.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales (Net)	**55,957**	**66,252**	**71,003**	**135,591**	**64,797**	**77,758**	**86,599**	**172,233**	**328,803**	**394,593**
Change (%)	*29.3*	*24.0*	*17.9*	*28.6*	*15.8*	*17.4*	*22.0*	*27.0*	*25.3*	*20.0*
EBITDA	**5,920**	**12,318**	**15,617**	**28,728**	**9,670**	**14,519**	**18,939**	**43,826**	**62,583**	**86,954**
Change (%)	*28.8*	*51.6*	*36.1*	*43.2*	*63.4*	*17.9*	*21.3*	*52.6*	*41.4*	*38.9*
As a % Sales	*10.6*	*18.6*	*22.0*	*21.2*	*14.9*	*18.7*	*21.9*	*25.4*	*19.0*	*22.0*
Adjusted EBITDA	**5,920**	**12,318**	**15,617**	**35,074**	**9,670**	**14,519**	**18,939**	**43,826**	**68,929**	**86,954**
Change (%)	*9.3*	*35.6*	*24.5*	*47.3*	*63.4*	*17.9*	*21.3*	*25.0*	*35.5*	*26.2*
As a % Sales	*10.6*	*18.6*	*22.0*	*25.9*	*14.9*	*18.7*	*21.9*	*25.4*	*21.0*	*22.0*
Interest	43	45	69	178	38	96	144	203	335	482
Depreciation	961	934	1,038	1,647	1,269	1,400	1,602	1,852	4,580	6,123
Other Income	2,271	1,955	1,933	2,080	1,635	2,092	2,187	3,595	8,239	9,508
PBT	**7,187**	**13,294**	**16,443**	**28,983**	**9,998**	**15,115**	**19,379**	**45,367**	**65,907**	**89,857**
Tax	2,481	4,715	5,717	9,887	3,301	5,139	6,783	16,228	22,800	31,450
Effective Tax Rate (%)	*34.5*	*35.5*	*34.8*	*34.1*	*33.0*	*34.0*	*35.0*	*35.8*	*34.6*	*35.0*
Reported PAT	**4,706**	**8,579**	**10,726**	**19,096**	**6,697**	**9,976**	**12,596**	**29,139**	**43,106**	**58,407**
Change (%)	*22.4*	*39.3*	*35.7*	*41.7*	*42.3*	*16.3*	*17.4*	*52.6*	*37.4*	*35.5*
Adj. PAT	**4,533**	**8,579**	**11,096**	**22,633**	**6,697**	**9,976**	**12,596**	**29,139**	**46,839**	**58,407**
Change (%)	*3.5*	*26.6*	*29.0*	*42.2*	*47.7*	*16.3*	*13.5*	*28.7*	*31.3*	*24.7*

E: MOSL Estimates

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Crompton Greaves

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	CRG IN
	REUTERS CODE
S&P CNX: 6,018	CROM.BO

Equity Shares (m)	641.5
52 Week Range (Rs)	326/174
1,6,12 Rel Perf (%)	3/15/55
Mcap (Rs b)	205.0
Mcap (USD b)	4.5

24 September 2010

Neutral

Previous Recommendation: Neutral — Rs320

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	46,107	5,599	8.7	53.2	36.7	5.5	36.6	52.9	1.4	10.0
3/10A	52,840	8,098	12.6	44.6	25.4	7.2	38.4	55.0	2.3	14.2
3/11E	62,965	9,055	14.1	11.8	22.7	8.7	34.2	50.2	3.0	18.3
3/12E	75,644	11,126	17.3	22.9	18.5	6.8	32.9	49.0	2.4	14.5

** Consolidated; pre-exceptionals*

- We expect Crompton Greaves to post 2QFY11 standalone revenue of Rs14.5b, up 14% YoY and Rs62b for FY11, up 19%. We expect 2QFY11 PAT to be Rs1.5b, up 12% YoY and Rs7b for FY11 up 20%.
- The consolidated order backlog at the end 1QFY11 was Rs68b with a BTB of 0.7x and was up 8% YoY. The international business has a backlog of Rs30b and forms 45% of the consolidated backlog. The standalone order book at the end of 1QFY11 was Rs37b, up 36% YoY. The management has guided for FY11 standalone revenue growth of 13-15% and for international business, the guidance is for flattish growth. In FY10 Crompton emerged as the biggest player in the 765kV market with a 45% share in transformer and reactor orders from PGCIL.
- In 1QFY11 international business revenue declined 6% YoY and PAT growth was 7% YoY mainly due to a 200bp expansion in EBITDA margins to 9.2% while for FY10 as a whole, revenue declined 7.4% and PAT growth was 46% due to EBITDA margin expansion of 190bp to 10.9%. For FY11 we expect this business to post 7% revenue and a 9% PAT decline due to the lack of volume growth in the EU and the US, leading to limited operational leverage available to expand margins.
- In 1QFY11 EBITDA margins for the standalone business were 15.6% as they expanded 80bp due to a drop in other expenditure by 150bp YoY. In 2QFY11 we expect margins to be at 16.3%, flat YoY and for FY11 to be at 16.5%, up 30bp YoY.
- We expect Crompton to post FY11 consolidated earnings of Rs14.1 (up 12%) and in FY12 we expect them to be Rs17.3 (up 23%) with an EPS CAGR of 17% over FY10-12.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**11,735**	**12,686**	**12,238**	**16,182**	**13,429**	**14,483**	**15,128**	**19,925**	**52,840**	**62,965**
Change (%)	*8.4*	*16.8*	*13.3*	*18.8*	*14.4*	*14.2*	*23.6*	*23.1*	*14.6*	*19.2*
EBITDA	**1,740**	**2,094**	**2,036**	**2,707**	**2,094**	**2,361**	**2,458**	**3,445**	**8,578**	**10,358**
Change (%)	*26.1*	*46.7*	*46.9*	*24.9*	*20.3*	*12.7*	*20.7*	*27.3*	*34.8*	*20.8*
As of % Sales (Adj)	*14.8*	*16.5*	*16.6*	*16.7*	*15.6*	*16.3*	*16.3*	*17.3*	*16.2*	*16.5*
Depreciation	128	129	132	129	172	138	145	114	519	569
Interest	-6	0	11	38	-6	10	10	11	44	25
Other Income	84	99	167	337	148	125	224	398	688	895
PBT	**1,702**	**2,064**	**2,060**	**3,281**	**2,075**	**2,338**	**2,527**	**3,718**	**9,106**	**10,659**
Tax	555	703	705	970	654	818	885	1,374	2,933	3,731
Effective Tax Rate (%)	*32.6*	*34.1*	*34.2*	*29.6*	*31.5*	*35.0*	*35.0*	*37.0*	*32.2*	*35.0*
Reported PAT	**1,147**	**1,361**	**1,354**	**2,311**	**1,422**	**1,520**	**1,643**	**2,344**	**6,173**	**6,928**
Adj PAT	**1,147**	**1,361**	**1,354**	**1,907**	**1,422**	**1,520**	**1,643**	**2,344**	**5,770**	**6,928**
Change (%)	*29.1*	*47.1*	*59.8*	*45.7*	*23.9*	*11.7*	*21.3*	*22.9*	*46.0*	*20.1*

E: MOSL Estimates

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Larsen & Toubro

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	LT IN
	REUTERS CODE
S&P CNX: 6,018	LART.BO

Equity Shares (m)	602.2
52 Week Range (Rs)	2,075/1,371
1,6,12 Rel Perf (%)	-1/9/2
Mcap (Rs b)	1214.2
Mcap (USD b)	26.8

24 September 2010

Buy

Previous Recommendation: Buy Rs2,016

YEAR END	NET SALES (RS M)	PAT * (RS M)	EPS* (RS)	EPS GR. (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	339,385	30,046	51.5	31.1	40.4	9.7	24.5	26.2	3.7	32.3
3/10A	370,348	37,110	61.6	20.1	32.7	6.6	19.8	23.1	3.4	26.5
3/11E	443,970	45,675	75.8	23.1	26.6	5.8	19.4	22.1	2.9	21.9
3/12E	565,145	56,436	93.7	23.6	21.5	5.0	20.3	22.2	2.3	17.5

** Consolidated; EPS is fully diluted*

- In 2QFY11 order intake announced was Rs122b. 1QFY11 order intake was Rs156b up 63% YoY and in 4QFY10 it was Rs238b (up 97% YoY). Order backlog at the end of 1QFY11 was Rs1,078b (up 51% YoY) with a BTB ratio of 2.9x TTM revenue. We project FY11 backlog of Rs1,448b (up 45%) and intake to be Rs891b (up 28%).
- Major orders announced in 2QFY11 include (a) a BTG package for 3x600MW TPS for Jaiprakash Power ventures at Rs65b, (b) BoP/civil construction orders for 2x600 TPS for Visa Power for Rs16b, and (c) ONGC orders for process units at Hazira and Uran valued at Rs12b.
- In 2QFY11 we expect adjusted EBITDA margins of 10.2%, up 20bp YoY and for FY11 we expect it to be 12.5%, up 40bp YoY. Given the large power projects under execution and given the L&T margin recognition norm of 25% project completion (project execution of more than two years) we feel FY11 and FY12 will account for most of the costs being booked for most power sector orders.
- The EBG and MIP divisions in FY10 posted lackluster revenue growth of 7.2% and -7.3% respectively. In 1QFY11 they grew by 29% and 26% respectively. Demand for industrial automation is weak in developed markets including the Middle East.
- The management has guided for 20% revenue growth and 25% intake growth in FY11. We estimate revenue and PAT CAGR of 29% and 25% respectively over FY10-13.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**73,627**	**78,662**	**80,714**	**133,749**	**78,351**	**88,160**	**96,976**	**177,292**	**366,752**	**440,779**
Change (%)	*6.7*	*2.3*	*-6.1*	*27.8*	*6.4*	*12.1*	*20.1*	*32.6*	*9.0*	*20.2*
EBITDA	**7,863**	**7,846**	**9,561**	**18,406**	**9,568**	**8,992**	**11,637**	**24,884**	**44,559**	**55,082**
Margin (%)	*10.7*	*10.0*	*11.8*	*13.8*	*12.2*	*10.2*	*12.0*	*14.0*	*12.1*	*12.5*
Adjusted EBITDA	**7,863**	**7,846**	**9,561**	**18,406**	**9,568**	**8,992**	**11,637**	**24,884**	**44,559**	**55,082**
Adjusted Margin (%)	*10.7*	*10.0*	*11.8*	*13.8*	*12.2*	*10.2*	*12.0*	*14.0*	*12.1*	*12.5*
Depreciation	937	1,001	1,045	1,162	1,142	1,215	1,310	1,489	4,146	5,155
Interest	1,096	1,310	1,339	1,356	1,423	1,410	1,400	1,456	5,053	5,690
Other Income	2,683	2,702	2,844	5,401	2,770	2,900	2,700	3,204	12,699	11,574
Extraordinary Inc/(Exp)	10,199	120	626	961	0	0	0	0	10,748	0
Reported PBT	**18,712**	**8,357**	**10,646**	**22,249**	**9,773**	**9,267**	**11,627**	**25,143**	**58,807**	**55,811**
Tax	2,730	2,707	3,058	7,914	3,112	2,919	3,721	7,820	16,409	17,571
Effective Tax Rate (%)	*14.6*	*32.4*	*28.7*	*35.6*	*31.8*	*31.5*	*32.0*	*31.1*	*27.9*	*31.5*
Reported PAT	**15,982**	**5,650**	**7,589**	**14,335**	**6,662**	**6,348**	**7,906**	**17,323**	**42,398**	**38,239**
Adjusted PAT	**5,783**	**5,530**	**6,103**	**13,374**	**6,662**	**6,348**	**7,906**	**17,323**	**30,790**	**38,239**
Change (%)	*17.9*	*10.5*	*-4.7*	*25.6*	*15.2*	*14.8*	*29.6*	*29.5*	*14.2*	*24.2*

E: MOSL Estimates

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Siemens

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	SIEM IN
	REUTERS CODE
S&P CNX: 6,018	SIEM.BO

Equity Shares (m)	337.0
52 Week Range (Rs)	800/486
1,6,12 Rel Perf (%)	1/-10/21
Mcap (Rs b)	264.9
Mcap (USD b)	5.9

24 September 2010

Buy

Previous Recommendation: Buy

Rs786

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
9/09A	84,502	6,539	16.5	18.3	47.8	9.1	38.6	60.1	2.9	23.7
9/10E	90,202	8,095	24.0	46.0	32.8	7.5	38.7	40.8	2.7	19.2
9/11E	120,643	10,186	30.2	25.8	26.0	6.2	25.6	41.3	2.0	15.8
9/12E	153,522	13,071	38.8	28.3	20.3	5.1	26.2	43.5	1.6	12.3

**Consolidated*

- For 4QFY10 (September year ending), we expect Siemens to post revenue of Rs26b, up 6.5% YoY, EBITDA of Rs3.7b (up 51% YoY) and net profit of Rs2.3b (up 55% YoY). In 3QFY10 there was robust revenue growth in the energy segment of 23% YoY and revenue in the industry segment grew 11% YoY. PAT declined 10% as margins declined 264bp YoY to 10.8%
- The order book at the end of 3QFY10 was Rs132b (up 30% YoY and down 21% QoQ). In 3QFY10, order intake was Rs20b (down 14% YoY, down 8% QoQ). In 3QFY10 Siemens signed an agreement with Delhi Metro Rail to build coaches and signaling systems for line-2 of the metro. Order intake in 3QFY10 was Rs120b (up 40% YoY) and BTB ratio was 1.6x TTM revenue.
- In 3QFY10, EBIT margins for the industry segment improved 43bp YoY to 6.1% and the energy segment posted margins of 10.6%, down 624bp YoY. 3QFY10 material prices were flat and other expenditure rose 254bp YoY to 10.2% due to losses owing to forex transactions, totaling Rs1.83b for the nine months to June 2010.
- Siemens gained market share in the 765kV substation segment and it remains to be seen how the execution of these orders pans out in FY10 and FY11. Our data suggest PGCIL orders totaling Rs5.7b in FY10 in the 765kV substation space were awarded to Siemens.
- We expect Siemens to post consolidated FY10 EPS of Rs24 (up 46% YoY) and Rs30 (up 26% YoY) for FY11.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E SEPTEMBER	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Revenues	**16,399**	**23,830**	**19,177**	**25,180**	**18,666**	**22,261**	**22,464**	**26,812**	**84,585**	**90,202**
Change (%)	*-14.6*	*10.6*	*5.3*	*2.2*	*13.8*	*-6.6*	*17.1*	*6.5*	*1.2*	*6.6*
EBITDA	**1,702**	**3,489**	**2,571**	**2,469**	**3,633**	**2,861**	**2,420**	**3,735**	**10,231**	**12,649**
Change (%)	*10.0*	*2,192.9*	*-3.1*	*-28.2*	*113.4*	*-18.0*	*-5.9*	*51.3*	*31.3*	*23.6*
As % of Revenues	*10.4*	*14.6*	*13.4*	*9.8*	*19.5*	*12.9*	*10.8*	*13.9*	*12.1*	*14.0*
Depreciation	181	184	199	213	212	237	249	143	778	842
Interest Income	165	94	118	87	157	117	181	385	464	840
Other Income	2,233	30	125	-47	0	0	0	0	2,341	0
Extra-ordinary Items	0	0	2,059	0	0	0	0	0	2,059	0
PBT	**3,919**	**3,429**	**4,674**	**2,296**	**3,579**	**2,741**	**2,351**	**3,977**	**14,318**	**12,648**
Tax	613	1,174	1,304	780	1,214	930	790	1,620	3,870	4,553
Effective Tax Rate (%)	*15.6*	*34.2*	*27.9*	*34.0*	*33.9*	*33.9*	*33.6*	*40.7*	*27.0*	*36.0*
Reported PAT	**3,306**	**2,255**	**3,370**	**1,516**	**2,365**	**1,811**	**1,561**	**2,357**	**10,448**	**8,095**
Adjusted PAT	**1,193**	**2,255**	**1,725**	**1,516**	**2,365**	**1,811**	**1,561**	**2,357**	**5,912**	**8,809**
Change (%)	*9.5*	*13,428.5*	*1.8*	*-33*	*98.2*	*-19.7*	*-9.5*	*55*	*-5.8*	*49.0*

E: MOSL Estimates

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Thermax

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	TMX IN
	REUTERS CODE
S&P CNX: 6,018	THMX.BO

Equity Shares (m)	119.2
52 Week Range (Rs)	850/465
1,6,12 Rel Perf (%)	-7/4/23
Mcap (Rs b)	93.8
Mcap (USD b)	2.1

24 September 2010

Neutral

Previous Recommendation: Neutral Rs787

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR.* (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	34,580	2,876	24.1	-0.4	31.2	8.9	32.9	48.0	2.4	20.1
3/10A	33,703	2,592	21.8	-9.9	34.6	8.2	25.0	38.2	2.4	20.0
3/11E	46,535	3,622	30.4	39.8	24.8	6.6	29.9	45.2	1.8	15.1
3/12E	61,054	4,842	40.6	33.7	18.5	5.1	31.5	47.9	1.4	11.4

** Consolidated*

- We expect Thermax to post 2QFY11 revenue of Rs9.1b, up 35% YoY, EBITDA of Rs1.1b, up 39%, margins of 12% (up 40bp YoY) and net profit of Rs735m, up 36% YoY. For FY11 we expect revenue growth of 41% YoY with margins of 12.2% (up 10bp YoY) and PAT growth of 40% YoY.
- Consolidated order book for Thermax at the end of 1QFY11 was Rs69b (up 103% YoY, up 17% QoQ) with BTB ratio of 2x. The energy division contributed Rs55b (80%) and environment contributed Rs13b (20%) to the order backlog. The signing of the JV agreement with Babcox & Wilcox and the settlement with Purolite of Rs1.14b for patent infringement in the ion exchange business will pave the way for Thermax to grow these businesses exponentially. The JV with B&W (51:49) will have peak production capacity of 3GW to be set up over 18 months and employ about 500 people at a site yet to be finalized.
- Thermax's JVs with SPX Corp, US for air pollution control systems in power plants and other commercial establishments and its other JV with Lambion for conversion of waste to energy will propel growth of its environment division. Water and waste management solutions under the JNNURM schemes account for 25% of projects, representing an opportunity of Rs150b over two-three years.
- We expect Thermax to post revenue and PAT CAGR of 35% and 37% respectively over FY10-12. We expect consolidated PAT of Rs3.6b in FY11 (up 40%) and Rs4.8b in FY12 (up 34%).

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**5,441**	**6,804**	**7,483**	**12,193**	**7,898**	**9,185**	**10,101**	**17,695**	**31,855**	**44,879**
Change (%)	*-24.1*	*-15.4*	*-5.9*	*28.6*	*45.2*	*35.0*	*35.0*	*45.1*	*-2.3*	*40.9*
EBITDA	**689**	**792**	**894**	**1,466**	**960**	**1,102**	**1,232**	**2,181**	**3,841**	**5,475**
Change (%)	*-24.4*	*-15.0*	*-7.6*	*10.0*	*39.3*	*39.1*	*37.9*	*48.8*	*-7.3*	*42.5*
As of % Sales	*12.7*	*11.6*	*11.9*	*12.0*	*12.2*	*12.0*	*12.2*	*12.3*	*12.1*	*12.2*
Depreciation	95	104	104	101	106	106	106	171	404	489
Interest	5	1	6	3	6	6	6	3	15	20
Other Income	103	142	74	179	140	140	120	104	498	503
PBT	**692**	**829**	**858**	**392**	**988**	**1,131**	**1,241**	**2,110**	**3,919**	**5,470**
Tax	227	288	292	549	326	396	434	731	1,356	1,887
Effective Tax Rate (%)	*32.8*	*34.7*	*34.1*	*140.0*	*33.0*	*35.0*	*35.0*	*34.6*	*34.6*	*34.5*
Reported PAT	**465**	**541**	**565**	**-157**	**662**	**735**	**807**	**1,379**	**1,414**	**3,583**
Change (%)	*-27.0*	*-5.0*	*-21.8*	*-116.6*	*42.4*	*35.8*	*42.7*	*-979.8*	*-50.8*	*153.3*
Adj PAT	**465**	**541**	**565**	**992**	**662**	**735**	**807**	**1,379**	**2,563**	**3,583**
Change (%)	*(27.0)*	*(5.0)*	*(21.8)*	*6.7*	*42.4*	*35.8*	*42.7*	*39.1*	*(10.4)*	*39.8*

E: MOSL Estimates

Dhirendra Tiwari (Dhirendra.Tiwari@MotilalOswal.com)/Navneet Iyengar (Navneet.Iyengar@MotilalOswal.com)

FMCG

BSE Sensex: 20,045 S&P CNX: 6,018 24 September 2010

COMPANY NAME
Asian Paints
Britannia Industries
Colgate Palmolive
Dabur India
GSK Consumer
Godrej Consumer Products
Hindustan Unilever
ITC
Marico
Nestle India
United Spirits

FMCG coverage universe sales to grow 18.2%; PAT growth 15.3%

We estimate our FMCG coverage universe will post 2QFY11 sales growth of 18.2% YoY, higher than the 16.2% growth posted in 1QFY11. We estimate 16.9% growth in EBITDA v/s 13.8% in the previous quarter. EBITDA margins are expected to decline 20bp YoY v/s 40bp decline in 1QFY11 as selective price increases and lower prices of a few inputs will restrict margin contraction. We estimate PAT growth of 15.3% in 2QFY11 (13.5% in 1QFY11).

Normal monsoon, lower inflation boost pricing power

FMCG volume growth has been steady in most of the categories. A normal monsoon and receding inflation will help FMCG companies on account of benign agri-input prices and improved pricing power. Most FMCG companies raised prices 5-10% over the past 3-4 months, which will support margins.

Input prices mixed: sugar, ENA benign, PFAD, titanium dioxide up

Input costs are mixed. Agri-linked inputs like sugar declined 34% from their peak and ENA prices declined 9% YoY. Milk and edible oil prices are likely to soften after the festive season. Major crude linked input prices are up 5-50% YoY with palm fatty acid (up ~47% YoY) and titanium dioxide (up ~15% YoY). But prices of LAB (down ~3% YoY) and HDPE (down 5% YoY) are benign.

Volume growth can surprise; prefer ITC, Nestle

Most companies in our coverage universe trade at 10-25% premium to their historical multiples. We believe a buoyant rural economy will support higher volume growth in the coming quarters and margin pressure in agri commodities should ease. **ITC** and **Nestle** are our preferred bets in the space.

EXPECTED QUARTERLY PERFORMANCE SUMMARY (RS MILLION)

	CMP (RS) 24.09.10	RECO	SALES SEP.10	SALES VAR. % YOY	SALES VAR. % QOQ	EBITDA SEP.10	EBITDA VAR. % YOY	EBITDA VAR. % QOQ	NET PROFIT SEP.10	NET PROFIT VAR. % YOY	NET PROFIT VAR. % QOQ
FMCG											
Asian Paints	2,790	Neutral	20,515	19.0	12.1	3,693	14.4	6.4	2,423	17.8	9.1
Britannia	430	Buy	10,646	24.0	16.6	788	6.8	93.7	575	-13.0	133.8
Colgate	918	Neutral	5,511	13.1	4.2	1,371	24.0	-14.2	1,032	15.0	-15.3
Dabur	105	Neutral	10,092	19.0	10.1	2,079	18.5	52.0	1,595	14.6	49.4
Godrej Consumer	411	Neutral	9,600	66.8	49.3	2,112	88.7	77.3	1,435	54.3	70.7
GSK Consumer	2,012	Buy	5,891	19.0	9.6	884	12.5	-1.1	729	21.4	1.6
Hind. Unilever	315	Neutral	46,962	10.0	-3.7	6,387	-2.0	-6.2	4,901	-1.9	-5.9
ITC	179	Buy	50,500	16.2	4.2	18,700	17.6	14.2	11,907	17.9	11.2
Marico	129	Buy	8,168	18.0	3.4	1,062	11.8	0.7	728	16.7	-1.2
Nestle	3,291	Buy	15,497	19.0	5.7	3,037	14.9	3.3	2,114	18.5	4.9
United Spirits	1,597	Buy	14,040	30.0	-4.0	2,625	44.2	-6.6	1,065	53.0	-12.6
Sector Aggregate			**197,420**	**18.4**	**4.9**	**42,738**	**16.9**	**9.8**	**28,504**	**15.2**	**8.8**

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Nikhil Kumar N (Nikhil.N@MotilalOswal.com)

FMCG company sales to grow 18.2%, PAT growth 15.3%

We estimate the companies in our FMCG universe will post 2QFY11 sales growth of 18.2% YoY, higher than 16.2% growth posted in 1QFY11. We estimate 16.9% growth in EBITDA v/s 13.8% in a quarter earlier. EBITDA margins are expected to fall 20bp YoY (1QFY11 EBITDA margins had declined 40bp) as selective price increases and lower prices of a few inputs improve margins. We estimate PAT growth of 15.3%, 180bp higher than 13.5% PAT growth realized in 1QFY11.

We estimate 53% PAT growth for United Spirits led by 17% volume growth (1QFY11 volume growth was 6% due to de-stocking in Andhra Pradesh) and 6% lower ENA prices. Godrej Consumer Products' (GCPL) 2QFY11 PAT is expected to grow 54% YoY due to strong growth in Godrej Home Care and full consolidation of recent acquisitions. We expect ITC's PAT will grow 17.9% due to lower volume contraction in cigarettes and higher margins in the paper business. We estimate HUL's PAT to fall 1.9% YoY and Nestle's PAT is expected to grow 20.3% YoY.

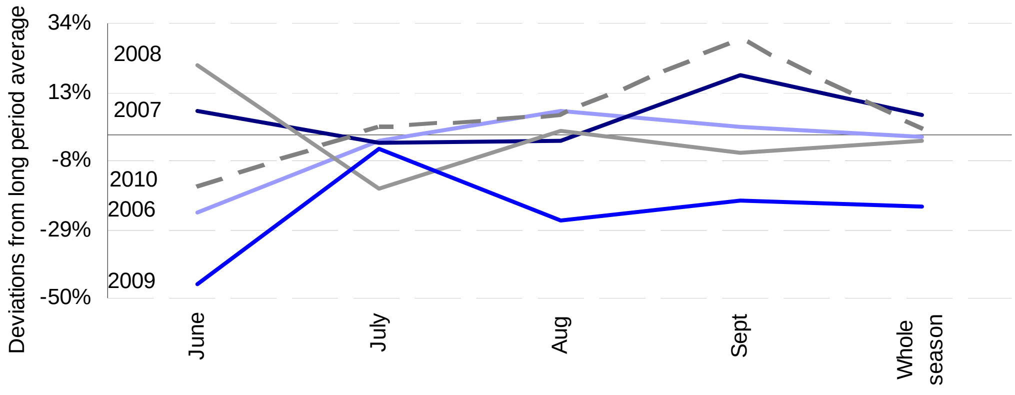
Normal monsoon, subsiding inflation positive for FMCG sector…

The monsoons have been normal, registering a 2% surplus as on 30th September, 2010. The area under cultivation increased 6.9% YoY and is equal to 95% of the long term average. This is likely to boost farm output and income. We expect that higher crop output will ease supply-side inflation and higher income will boost purchasing power.

Although rainfall has been deficient in parts of the north-east, we have had one of the best dispersions of rainfall in recent years. This is expected to boost farm productivity and ensure good a Rabi crop.

With a good crop outlook, supply-side inflation is likely to ease. We expect overall WPI inflation to fall to 6.4% by March, largely led by fall in prices of primary articles.

MONSOON PICKS UP AFTER JULY



Source: Company/MOSL

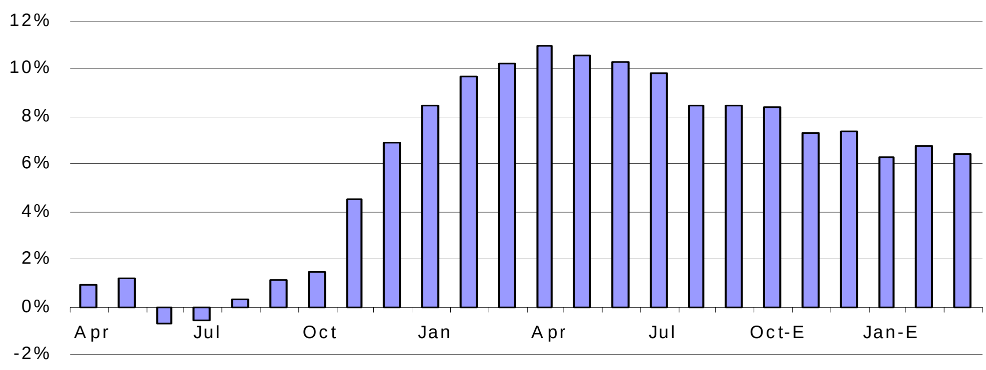
AREA SOWN INCREASES 7% YOY, COVERING 95% OF LONG TERM AVERAGE

ALL INDIA CROP SITUATION - KHARIF ON 9 SEPTEMBER 2010 (M HECTARES)

CROP	AREA SOWN REPORTED			CHANGE OVER LAST YEAR		
	NORMAL AREA	THIS YEAR	% OF NORMAL	LAST YEAR	ABSOLUTE	PERCENTAGE
Rice	395.1	347.6	88.0	324.3	23.3	7.2
Total Cereals	617.3	558.5	90.5	530.4	28.1	5.3
Pulses	107.9	110.4	102.4	90.7	19.7	21.7
Total Food Grains	**725.3**	**668.9**	**92.2**	**621.2**	**47.8**	**7.7**
Total Oilseed	175.7	173.1	98.5	172.3	0.9	0.5
Cotton	90.9	107.6	118.3	98.8	8.8	8.9
Sugarcane	45.0	49.1	109.1	41.8	7.3	17.4
Jute	7.9	7.6	96.6	6.9	0.7	9.5
All Crops	**1044.7**	**1006.2**	**96.3**	**940.9**	**65.3**	**6.9**

Source: Company/MOSL

INFLATION EXPECTED TO FALL TO 6.4% BY MARCH, LED BY SEDATE PRIMARY ARTICLES



Source: Company/MOSL

Volume growth steady, likely to increase

We expect companies in our universe to sustain their volume growth in 2QFY11 but there is a likelihood of lower growth in select categories like decorative paints (extended monsoon and Diwali in 3QFY11) and tea (steep increase in prices). We expect marginal deceleration in volume growth in HUL, while cigarette volume decline is likely to be lower than in 1QFY11. We estimate 17% volume growth for United Spirits due to inventory re-stocking after a setback of sales in AP due to a delay in renewal of liquor retail licenses.

STEADY VOLUME GROWTH IN 2QFY11 (%)

QUARTER ENDING	SEP-09	DEC-09	MAR-10	JUN-10	SEP-10E
Asian Paints	17.5	25.0	16.0	24.0	14.0
Colgate (toothpaste)	18.0	15.0	11.0	14.0	12.0
Dabur	13.0	14.5	12.0	17.0	14.0
Godrej Consumer					
Soaps	16.0	11.0	0.0	-9.0	0
Hair color	35.0	11.0	14.0	4.0	5.0
GSK Consumer	9.0	10.0	13.0	10.0	12.0
Hindustan Unilever	1.0	5.0	10.9	10.3	10.0
ITC (cigarette)	7.5	8.5	8.8	-3.5	-2.5
Marico					
Parachute	10.0	8.0	10.0	14.0	12.0
Hair oil	17.0	10.0	27.0	27.0	20.0
Saffola	22.0	18.0	13.0	17.5	15.0
United Spirits	11.1	12.3	16.0	6.0	17.0

Source: Company/MOSL

Selective price increases indicate stronger pricing power

FMCG margins have been under strain, particularly at the gross level, due to an increase in input costs and fewer price increases (intense competition and management caution in delaying a price increase in a high inflation environment). But now we see rising confidence in demand and pricing power as companies like Asian Paints, HUL, Nestle and Marico increase prices in 2QFY11 to pass on input cost inflation.

NEW LAUNCHES/RE-LAUNCHES IN THE PAST QUARTER

COMPANY	PRODUCT CATEGORY	PRICE INCREASE % (3 MONTHS)
Asian Paints	Decorative paints	5
Britannia	Biscuits	5-15
GCPL	Powder hair dye	9
	Toilet soap	5
Dabur	Weighted average	2
HUL	Toilet soap	5-10
	Detergent (mid market)	8
Nestle	Milk Products/confectionery	5-10
Marico	Pure coconut oil	5
	Premium edible oil	3

Source: Company/MOSL

Although the market has absorbed price increases well, we would keenly watch for the impact of price increases in categories like toilet soaps and detergents due to stiff competition. Price increases in these categories have resulted in brand switches and downtrading in the recent past.

Competition high; incumbents wary of new players

We expect competition in the consumer market to stiffen thanks to growing realization by global consumer companies of the long-term growth opportunity in India. We expect players to enter categories and explore opportunities to build franchises. New players recently entered categories such as biscuits, detergents, instant noodles, processed foods, confectionery, skin care and household care.

NEW LAUNCHES/RE-LAUNCHES IN THE PAST QUARTER

SEGMENTS	INCUMBENTS	NEW/LIKELY ENTRANTS
Biscuits	Britannia, ITC, Parle, GSK	United Biscuits, Kraft
Oral care	Colgate, HUL, Dabur	P&G, Glaxo
Instant noodles	Nestle, Top Raman	GSK, HUL, ITC
Chocolates and confectionery	Cadbury, Nestle	Kraft
Milk products	Amul, Nestle, Britannia	Danone, Kraft
Face wash, scrubbers	Zydus, Himalaya, HUL	J&J (Neutrogena)
Skin creams	HUL, Emami	ITC (Activ Fair), J&J (Neutrogena), P&G (Olay)
Ketchup	Maggi, Kissan, Heinz	Del Monte
Detergents	HUL, P&G, Ghari, Nirma	Tide Plus, Ujala Techno bright

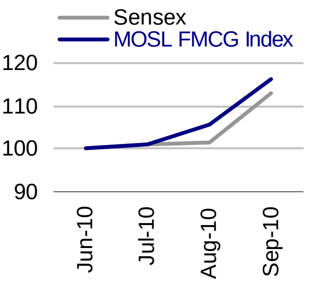
Source: Company/MOSL

IMPACT OF INPUT PRICE CHANGES

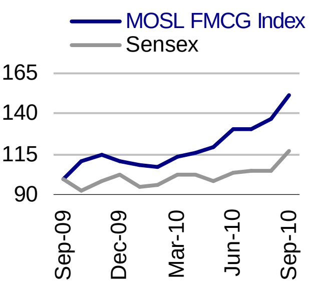
INPUT	PRICE TREND (YOY)	UNIT	52 WEEK H/L	CURRENT PRICE	IMPACT	COMPANIES
Palm Fatty Acid	Up	US$/MT	700/445	US$ 640/MT	Negative	HUL, Godrej Consumer
LAB	Up	Rs/Kg	90/84	Rs.86/Kg	Negative	HUL
HDPE	Down	USD/MT	1,405/1,100	USD 1,250/MT	Positive	All companies
Soda Ash	Up	Rs/75kg	837/885	Rs 885/75Kg	Negative	HUL
Sugar	Down	Rs/Qtl	4,105/2,525	Rs.2603/Qtl	Negative	Britannia, Nestle, GSK Cons
ENA	Down	Rs/Case	152/135	Rs135/Case	Positive	UNSP
Wheat	Down	Rs/Qtl	1,355/1,189	Rs1,270/Qtl	Positives	Nestle, ITC and Britannia
Milk	Up	Index	285/235	285 (Index)	Negative	Nestle, GSK Consumer
Copra	Up	Rs/Qtl	3,825/2,900	Rs3,400/Qtl	Positive	Marico

Source: MOSL

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



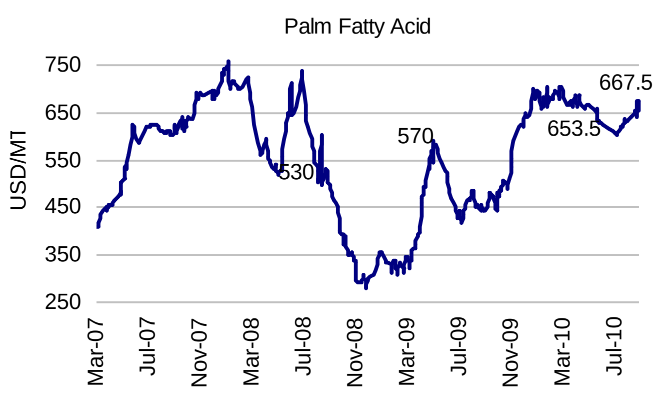
Input costs mixed, agriculture input prices likely to soften

Raw material price trend for our FMCG universe are mixed. Agricultural inputs are likely to stay benign due to normal monsoons, while crude-linked inputs will continue to be mixed.

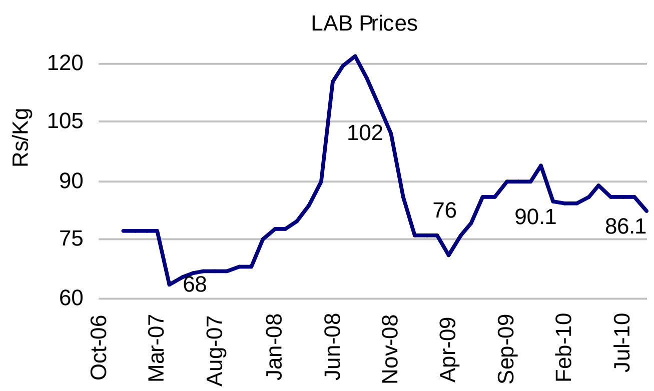
Prices of sugar fell 34% from their recent peak and are expected to stay benign in the coming season; ENA prices declined 9% YoY (expected decline of 12% in FY11). Milk and edible oil prices are likely to soften after the festive season. Copra prices are likely to stay firm until the new harvest in December. Wheat prices increased by 2-3% from their recent lows (amid news about a drought in Russia); but the prospects of a good Rabi crop will cap any major price increase from current levels.

Major crude-linked input prices are up 5-50% YoY. Palm Fatty Acid (up ~50% YoY) and titanium dioxide (up ~15% YoY) posted a major increase but LAB (down ~3% YoY) and HDPE (down 10% YoY) ruled soft. The LAB and HDPE link to crude weakened this year (5% increase in LAB and 2% decline in HDPE against a 22% increase in crude YTD).

PFA: UP 47% IN PAST SIX MONTHS

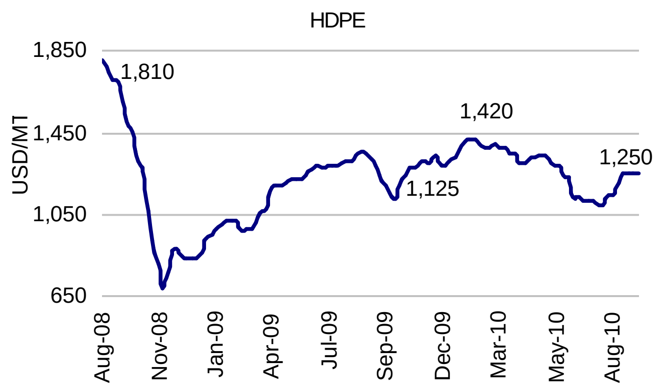


LAB: DOWN 3% IN PAST QUARTER

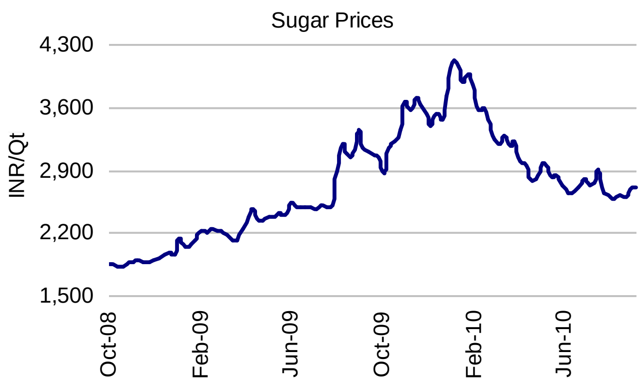


Source: Bloomberg/MOSL

HDPE: DOWN 4% YOY

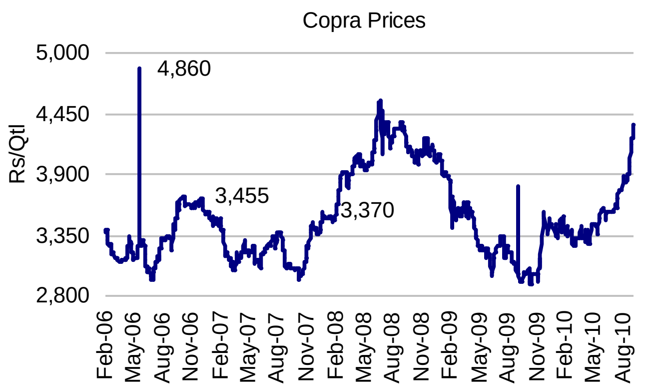


SUGAR: 35% OFF ITS PEAK

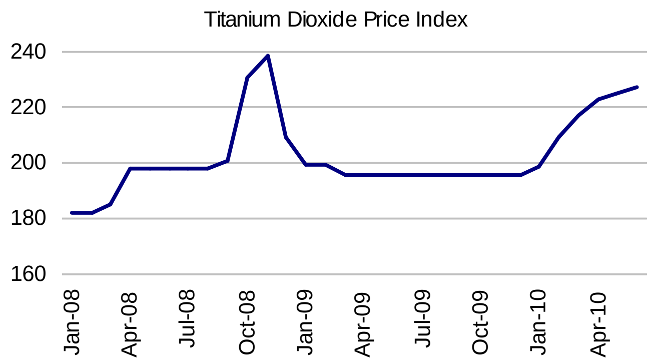


Source: Bloomberg/MOSL

COPRA: TO FIRM UNTIL DECEMBER



TITANIUM DIOXIDE: UP 30% IN SIX MONTHS



Source: Bloomberg/MOSL

Volume growth may surprise; prefer ITC, Nestle

Most of companies in our coverage universe are trading at a 10-25% premium to their historical multiples. We believe a buoyant rural economy will support higher volume growth and margin pressure in agricultural commodities should ease. **ITC** and **Nestle** are our preferred bets in the space.

COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
FMCG														
Asian Paints	2,790	Neutral	80.5	94.9	115.2	34.7	29.4	24.2	21.4	18.3	15.2	45.1	41.6	40.3
Britannia	430	Buy	14.2	17.7	22.1	30.3	24.3	19.4	31.0	17.6	13.9	42.7	40.5	39.5
Colgate	918	Neutral	29.7	33.7	38.7	30.9	27.3	23.7	24.2	19.5	16.3	156.0	124.6	115.4
Dabur	105	Neutral	2.9	3.3	4.1	36.5	31.7	25.7	28.6	23.7	19.6	45.8	41.5	40.0
Godrej Consumer	411	Neutral	11.7	15.6	19.0	35.2	26.3	21.7	30.3	19.7	16.1	37.7	30.1	31.1
GSK Consumer	2,012	Buy	55.4	68.1	83.1	36.3	29.5	24.2	24.8	21.2	17.0	25.7	26.5	27.0
Hind. Unilever	315	Neutral	9.4	9.6	11.3	33.3	32.9	27.9	23.8	23.7	19.8	79.7	72.4	71.7
ITC	179	Buy	5.3	6.3	7.5	33.6	28.4	23.9	20.5	17.5	14.7	29.2	31.3	31.5
Marico	129	Buy	4.0	4.6	5.7	32.4	28.1	22.5	21.7	18.9	15.5	36.9	32.8	30.3
Nestle	3,291	Buy	72.4	83.8	106.9	45.5	39.3	30.8	30.3	26.4	20.8	120.0	108.9	115.0
United Spirits	1,597	Buy	25.8	43.5	61.4	61.9	36.7	26.0	22.6	18.4	14.8	8.0	12.0	14.8
Sector Aggregate						**35.6**	**30.5**	**25.2**	**23.0**	**19.8**	**16.4**	**36.2**	**35.1**	**35.5**

Asian Paints

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	APNT IN
	REUTERS CODE
S&P CNX: 6,018	ASPN.BO

Equity Shares (m)	95.9
52 Week Range (Rs)	2,920/1,343
1,6,12 Rel Perf (%)	-9/28/85
Mcap (Rs b)	267.6
Mcap (USD b)	5.9

24 September 2010

Neutral

Previous Recommendation: Neutral Rs2,790

YEAR END	NET SALES (RS M)	ADJ. PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	54,639	4,014	41.8	-3.9	66.7	22.2	33.4	39.4	4.9	40.0
3/10A	66,809	7,720	80.5	92.4	34.7	15.6	45.1	58.5	3.9	21.4
3/11E	80,914	9,102	94.9	17.9	29.4	12.2	41.6	52.8	3.2	18.3
3/12E	97,129	11,049	115.2	21.4	24.2	9.8	40.3	52.5	2.6	15.2

- We expect Asian Paints to post 2QFY11 net sales of Rs20.5b, up 19% YoY. We expect 14% volume growth in the domestic decorative paints segment (v/s 24% in 1QFY11) due to extended rains and Diwali being in 3QFY11.
- The input cost index has increased significantly over the past three months, led by 30% increase in prices of titanium dioxide. Although it has taken a weighted average price increase of ~7%, margins are likely to stay under pressure.
- We expect competitive activity to increase as major players are launching new products and increasing media spends and brand building initiatives.
- We estimate a 60bp YoY decline in gross margins to 42.6% (42.7% in 1QFY11) and EBITDA margins are expected to fall 70bp to 18% (19% in 1QFY11).
- We estimate a 14.4% increase in EBITDA and 17.8% increase in PAT.
- The stock trades at 29.4x FY11E and 24.2x FY12E earnings. Maintain **Neutral.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Volume Growth % *	11.5	17.5	25.0	16.0	24.0	14.0	14.0	15.0	16.4	17.0
Net Sales	**14,602**	**17,239**	**16,200**	**18,768**	**18,302**	**20,515**	**19,764**	**22,333**	**66,809**	**80,914**
Change (%)	*17.6*	*16.9*	*22.6*	*31.7*	*25.3*	*19.0*	*22.0*	*19.0*	*22.3*	*21.1*
Raw Material/Packing Material	8,191	9,798	9,127	10,464	10,487	11,775	11,384	12,885	37,580	46,532
Gross Profit	**6,411**	**7,441**	**7,073**	**8,304**	**7,815**	**8,739**	**8,380**	**9,448**	**29,230**	**34,382**
Gross Margin (%)	*43.9*	*43.2*	*43.7*	*44.2*	*42.7*	*42.6*	*42.4*	*42.3*	*43.8*	*42.5*
Operating Expenses	3,653	4,213	3,892	5,195	4,344	5,047	4,822	6,016	16,954	20,229
% of Sales	*25.0*	*24.4*	*24.0*	*27.7*	*23.7*	*24.6*	*24.4*	*26.9*	*25.4*	*25.0*
EBITDA	**2,758**	**3,228**	**3,181**	**3,109**	**3,471**	**3,693**	**3,558**	**3,432**	**12,276**	**14,153**
Margin (%)	*18.9*	*18.7*	*19.6*	*16.6*	*19.0*	*18.0*	*18.0*	*15.4*	*18.4*	*17.5*
Interest	72	64	79	69	42	55	75	89	285	261
Depreciation	198	200	197	241	269	275	280	276	836	1,100
Other Income	156	247	167	208	184	320	300	313	778	1,118
PBT	**2,645**	**3,211**	**3,072**	**3,006**	**3,344**	**3,683**	**3,503**	**3,380**	**11,934**	**13,909**
Tax	844	1,065	955	868	1,013	1,134	1,075	1,089	3,731	4,312
Effective Tax Rate (%)	*31.9*	*33.2*	*31.1*	*28.9*	*30.3*	*30.8*	*30.7*	*32.2*	*31.3*	*31.0*
PAT before Minority	**1,801**	**2,146**	**2,117**	**2,138**	**2,331**	**2,548**	**2,427**	**2,290**	**8,203**	**9,597**
Minority Interest	40	89	133	221	109	125	130	131	483	495
Adjusted PAT	**1,761**	**2,057**	**1,985**	**1,917**	**2,222**	**2,423**	**2,297**	**2,160**	**7,720**	**9,102**
Change (%)	*64.9*	*55.4*	*232.8*	*86.8*	*26.2*	*17.8*	*15.7*	*12.7*	*92.4*	*17.9*

*E: MOSL Estimates; * 4QFY10 Numbers include 6months consolifation of International operations*

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Nikhil Kumar N (Nikhil.N@MotilalOswal.com)

Britannia Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	BRIT IN
	REUTERS CODE
S&P CNX: 6,018	BRIT.BO

Equity Shares (m)	119.5
52 Week Range (Rs)	535/299
1,6,12 Rel Perf (%)	-4/21/22
Mcap (Rs b)	51.4
Mcap (USD b)	1.1

24 September 2010

Buy

Previous Recommendation: Buy

Rs430

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	31,271	2,011	16.8	9.7	25.6	6.2	24.4	34.6	1.5	16.9
03/10A	34,014	1,634	14.2	-15.8	30.4	13.0	42.7	27.0	1.5	28.3
03/11E	41,301	2,114	17.7	24.8	24.3	9.9	40.5	35.6	1.2	15.9
03/12E	47,259	2,645	22.1	25.1	19.4	7.7	39.5	38.9	1.0	12.3

- We estimate Britannia will post 2QFY11 sales of Rs10.6b, up 24% YoY. Volume growth is likely to be in double digits, realizations will increase in low to mid single digits due to grammage cuts and price increases.
- We expect increased competition in the premium biscuits segment due to recent entrants like United Biscuits and the likely entry of Kraft. Existing players like Sunfeast and Horlicks are also launching variants to boost their presence.
- Sugar prices are down ~34%, off their recent peaks and milk and wheat prices are likely to be more sedate after a normal monsoon.
- We estimate EBITDA margin of 7.4% (up 290bp QoQ) as benefits of declining sugar and wheat prices will partially restore margins.
- We estimate EBITDA growth of 6.8% to Rs788m and PAT is expected to rise 13% to Rs575m due to the added burden of interest on bonus debentures.
- The stock trades at 24.3x FY11E EPS and 19.4x FY12E EPS. **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**7,312**	**8,585**	**8,814**	**9,303**	**9,128**	**10,646**	**10,400**	**11,127**	**34,014**	**41,301**
YoY Change (%)	*5.5*	*2.4*	*7.7*	*22.1*	*24.8*	*24.0*	*18.0*	*19.6*	*8.8*	*21.4*
Raw Material Cost	5,070	5,918	6,418	7,168	6,698	7,548	7,207	7,383	24,573	28,837
Gross Profit	**2,243**	**2,668**	**2,396**	**2,134**	**2,430**	**3,098**	**3,193**	**3,744**	**9,441**	**12,465**
Margins (%)	*30.7*	*31.1*	*27.2*	*22.9*	*26.6*	*29.1*	*30.7*	*33.6*	*27.8*	*30.2*
Other Exp	1,643	1,930	2,017	2,250	2,023	2,310	2,371	2,638	7,840	9,343
% of Sales	*22.5*	*22.5*	*22.9*	*24.2*	*22.2*	*21.7*	*22.8*	*23.7*	*23.0*	*22.6*
Total Exp	6,713	7,848	8,434	9,418	8,722	9,858	9,579	10,021	32,413	38,179
EBITDA	**599**	**737**	**380**	**-116**	**407**	**788**	**822**	**1,106**	**1,601**	**3,122**
Margins (%)	*8.2*	*8.6*	*4.3*	*-1.2*	*4.5*	*7.4*	*7.9*	*9.9*	*4.7*	*7.6*
YoY Growth (%)	*4.1*	*9.9*	*-42.1*	*-116.9*	*-32.1*	*6.8*	*116.3*	*-1,055.9*	*-47.0*	*60.6*
Depreciation	91	94	95	96	100	102	104	105	376	410
Interest	8	9	8	17	94	100	100	115	42	409
Other Income	153	126	113	161	106	115	125	-7	553	339
PBT	**653**	**762**	**390**	**-67**	**319**	**701**	**743**	**880**	**1,736**	**2,642**
Tax	109	101	29	-136	73	126	134	195	103	528
Rate (%)	*16.7*	*13.3*	*7.4*	*201.9*	*23.0*	*18.0*	*18.0*	*22.2*	*5.9*	*20.0*
Adjusted PAT	**544**	**660**	**361**	**69**	**246**	**575**	**609**	**684**	**1,634**	**2,114**
YoY Change (%)	*18.7*	*10.7*	*-31.4*	*-84.0*	*-62.8*	*-13.0*	*68.8*	*894.7*	*-18.7*	*29.4*
Extraordinary Expenses	70	70	70	259	-83	30	30	23	469	0
Reported PAT	**474**	**591**	**291**	**-190**	**329**	**545**	**579**	**661**	**1,165**	**2,114**

E: MOSL Estimates

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Colgate Palmolive

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	CLGT IN
	REUTERS CODE
S&P CNX: 6,018	COLG.BO

Equity Shares (m)	136.0
52 Week Range (Rs)	922/611
1,6,12 Rel Perf (%)	1/16/29
Mcap (Rs b)	124.9
Mcap (USD b)	2.8

24 September 2010

Neutral

Previous Recommendation: Neutral

Rs918

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	16,948	2,902	21.3	25.2	43.0	57.7	153.3	150.2	7.2	36.1
03/10A	19,625	4,038	29.7	39.1	30.9	38.3	156.0	154.0	6.2	24.2
03/11E	22,770	4,580	33.7	13.4	27.3	30.5	124.6	123.6	5.2	19.5
03/12E	26,609	5,269	38.7	15.0	23.7	24.8	115.4	114.7	4.4	16.3

- We expect sales to grow 13.1% YoY to Rs 5.5b, and volume growth of 12%.
- We estimate 390bp expansion in gross margins to 61.3%, mainly due to the impact of merged subsidiaries. EBITDA margins are estimated to increase 210bp to 24.1%.
- PBT is expected to increase by 22.3% YoY but a 480bp increase in the tax rate to 24.2% will cap PAT growth at 15%.
- We expect toothpaste demand to be robust due to good monsoons and low per capita use in rural India. We believe Colgate will be able to grow at above market average rates in oral care due to a strong brand and its presence across price segments.
- Competition is likely to increase significantly as P&G is expected to enter the fray in 2011. The overhang of P&G's launch is a key risk to near term earnings. The stock trades at 27.3x FY11E EPS and 23.7x FY12E EPS. Maintain **Neutral.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Toothpaste Volume Gr %	14.0	18.0	15.0	11.0	14.0	12.0	13.5	15.0	14.0	13.0
Net Sales	**4,680**	**4,873**	**4,906**	**5,166**	**5,288**	**5,511**	**5,667**	**6,305**	**19,625**	**22,770**
YoY Change (%)	*14.8*	*18.1*	*17.0*	*13.4*	*13.0*	*13.1*	*15.5*	*22.0*	*15.8*	*16.0*
COGS	2,050	2,076	2,100	1,543	1,967	2,133	2,193	2,455	7,768	8,748
Gross Profit	**2,630**	**2,797**	**2,806**	**3,623**	**3,321**	**3,378**	**3,474**	**3,849**	**11,856**	**14,022**
Gross Margin (%)	*56.2*	*57.4*	*57.2*	*70.1*	*62.8*	*61.3*	*61.3*	*61.1*	*60.4*	*61.6*
Other operating Expenses	1,579	1,847	1,798	2,376	1,932	2,177	2,125	2,433	7,599	8,667
Other operating Income	174	156	203	194	209	170	210	167	727	756
EBITDA	**1,226**	**1,106**	**1,212**	**1,441**	**1,598**	**1,371**	**1,559**	**1,583**	**4,985**	**6,111**
Margins (%)	*25.3*	*22.0*	*23.7*	*26.9*	*29.1*	*24.1*	*26.5*	*24.5*	*24.5*	*26.0*
Depreciation	56	58	56	206	79	85	90	100	376	354
Interest	5	1	5	4	3	5	6	6	15	20
Financial other Income	86	66	74	28	54	80	90	105	254	329
PBT	**1,251**	**1,113**	**1,225**	**1,259**	**1,569**	**1,361**	**1,553**	**1,583**	**4,848**	**6,066**
Tax	223	216	166	204	350	329	380	426	810	1,486
Rate (%)	*17.8*	*19.4*	*13.6*	*16.2*	*22.3*	*24.2*	*24.5*	*26.9*	*16.7*	*24.5*
PAT	**1,028**	**897**	**1,059**	**1,055**	**1,219**	**1,032**	**1,172**	**1,157**	**4,038**	**4,580**
YoY Change (%)	*42.9*	*41.3*	*36.2*	*36.9*	*18.6*	*15.0*	*10.7*	*9.7*	*39.1*	*13.4*

E: MOSL Estimates

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Dabur India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	DABUR IN
	REUTERS CODE
S&P CNX: 6,018	DABU.BO

Equity Shares (m)	1,730.0
52-Week Range	112/67
1,6,12 Rel. Perf. (%)	-10/17/34
M.Cap. (Rs b)	181.6
M.Cap. (US$ b)	4.0

24 September 2010

Neutral

Previous Recommendation: Neutral Rs105

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	28,054	3,912	2.3	17.1	46.4	11.1	47.7	44.5	3.1	18.7
03/10A	33,657	5,015	2.9	27.2	36.5	8.3	45.8	46.9	2.7	14.2
03/11E	39,851	5,735	3.3	15.3	31.7	13.1	41.5	47.8	4.5	23.7
03/12E	46,778	7,053	4.1	23.0	25.7	10.2	40.0	47.2	3.7	19.6

- We expect Dabur India to post net sales of Rs10b, up 19% YoY with 14% volume growth (17% in 1QFY11). Normal monsoon is a major boost to Dabur given that ~50% of its sales come from rural markets.
- Key SBUs likely to report strong growth include oral care, skin care, CHD, mosquito repellents and international business. We see some pick-up in sales in shampoos but growth is likely to be slower than the other businesses.
- To ward off the impact of input cost pressure, Dabur increased product prices by ~3%, benefits of which will be reflected in the margins.
- International business is likely to maintain 20-25% growth; margins are expected to stabilize at current levels.
- We expect Dabur to report 20.6% EBITDA margin (down 10bp); higher tax rate (360bp) would retard PAT growth at 14.6% to Rs1.6b.
- Dabur trades at peak valuations, leaving little comfort. Although we like the inherent growth story, we will await better entry points. The stock trades at 31.7x FY11E EPS and 25.7x FY12E EPS. Maintain **Neutral.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Volume Growth (%)	16.0	13.0	14.0	12.0	17.0	14.0	13.0	16.0	15.0	14.5
Net Sales	**7,683**	**8,480**	**9,262**	**8,488**	**9,165**	**10,092**	**10,836**	**9,758**	**33,657**	**39,851**
YoY Change (%)	*27.2*	*22.7*	*18.9*	*16.0*	*19.3*	*19.0*	*17.0*	*15.0*	*20.0*	*18.4*
Total Exp	6,523	6,726	7,489	6,868	7,798	8,013	8,756	7,786	27,327	32,352
EBITDA	**1,159**	**1,754**	**1,773**	**1,620**	**1,367**	**2,079**	**2,081**	**1,973**	**6,330**	**7,499**
Margins (%)	*15.1*	*20.7*	*19.1*	*19.1*	*14.9*	*20.6*	*19.2*	*20.2*	*18.8*	*18.8*
YoY Growth (%)	*33.0*	*40.6*	*37.5*	*25.0*	*18.0*	*18.5*	*17.3*	*21.8*	*34.5*	*18.5*
Depreciation	130	139	146	149	145	161	182	196	557	684
Interest	32	33	37	25	8	32	35	59	132	134
Other Income	80	107	59	143	122	127	80	151	387	480
PBT	**1,078**	**1,690**	**1,650**	**1,589**	**1,337**	**2,013**	**1,944**	**1,868**	**6,028**	**7,162**
Tax	189	286	271	258	263	413	365	356	1,006	1,397
Rate (%)	*17.6*	*16.9*	*16.4*	*16.2*	*19.7*	*20.5*	*18.8*	*19.1*	*16.7*	*19.5*
Minority Interest	-5	11	1	0	6	5	6	13	8	30
Adjusted PAT	**894**	**1,392**	**1,378**	**1,331**	**1,068**	**1,595**	**1,572**	**1,499**	**5,015**	**5,735**
YoY Change (%)	*26.5*	*29.1*	*27.0*	*27.6*	*19.5*	*14.6*	*14.1*	*12.7*	*27.5*	*15.7*

E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Nikhil Kumar N (Nikhil.N@MotilalOswal.com)

GlaxoSmithKline Consumer

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	SKB IN
	REUTERS CODE
S&P CNX: 6,018	GLSM.BO

Equity Shares (m)	42.1
52 Week Range (Rs)	2,025/1,113
1,6,12 Rel Perf (%)	0/20/56
Mcap (Rs b)	84.7
Mcap (USD b)	1.9

24 September 2010

Buy

Previous Recommendation: Buy Rs2,012

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/08A	15,431	1,883	44.8	16.3	44.9	11.1	24.8	38.4	5.2	33.6
12/09A	19,213	2,328	55.4	23.6	36.3	9.3	25.7	39.6	4.0	24.6
12/10E	22,680	2,865	68.1	23.1	29.5	7.8	26.5	40.3	3.4	21.2
12/11E	26,750	3,493	83.1	21.9	24.2	6.5	27.0	40.9	2.8	16.9

- We expect GSK consumer to post net sales of Rs5.9b, up 19% YoY.
- We estimate 12% volume growth due to a low base effect (6% volume growth in 3QCY09), led by increasing penetration and per capita consumption.
- We estimate a 90bp decline in EBITDA margins due to higher prices of milk (42% of raw material cost) and higher ad spends on new launches.
- We expect GSK consumer to post 21.4% PAT growth to Rs729m.
- GSK launched Foodles in North India this quarter and the response has been encouraging; the company has 5% share in East and South India.
- GSK has also launched new variants in biscuits and a new Horlicks umbrella brand campaign.
- The stock has been re-rated in the past year and future returns would be a function of growth in existing segments and the success of new launches.
- GSK is currently trading at 24.2x CY11E EPS. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
MFD Volume Growth (%)	14.0	12.0	6.0	16.0	12.5	10.0	12.0	9.5	10.0	11.0
Net Sales	**5,394**	**4,694**	**4,951**	**4,181**	**6,484**	**5,374**	**5,891**	**4,931**	**19,213**	**22,680**
YoY Change (%)	*31.3*	*24.7*	*17.2*	*25.4*	*20.2*	*14.5*	*19.0*	*17.9*	*24.5*	*18.0*
Total Exp	4,207	3,939	4,165	3,814	5,154	4,480	5,008	4,433	16,127	19,074
EBITDA	**1,187**	**755**	**786**	**368**	**1,331**	**894**	**884**	**499**	**3,086**	**3,607**
Margins (%)	*22.0*	*16.1*	*15.9*	*8.8*	*20.5*	*16.6*	*15.0*	*10.1*	*16.1*	*15.9*
YoY Change (%)	*46.7*	*38.2*	*24.6*	*-8.6*	*12.1*	*18.4*	*12.5*	*35.7*	*29.2*	*16.9*
Depreciation	106	105	105	104	96	93	94	104	420	387
Interest	13	11	10	9	6	6	12	21	43	45
Other Income	256	226	213	218	236	281	310	310	916	1,137
PBT	**1,324**	**865**	**884**	**473**	**1,465**	**1,076**	**1,088**	**684**	**3,539**	**4,312**
Tax	485	307	283	136	503	358	359	226	1,211	1,447
Rate (%)	*36.6*	*35.4*	*32.1*	*28.8*	*34.4*	*33.3*	*33.0*	*33.1*	*34.2*	*33.6*
PAT	**839**	**558**	**600**	**337**	**962**	**718**	**729**	**457**	**2,328**	**2,865**
YoY Change (%)	*48.4*	*21.0*	*13.2*	*3.4*	*14.6*	*28.5*	*21.4*	*35.7*	*23.6*	*23.1*

E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Nikhil Kumar N (Nikhil.N@MotilalOswal.com)

Godrej Consumer Products

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	GCPL IN
	REUTERS CODE
S&P CNX: 6,018	GOCP.BO

Equity Shares (m)	323.6
52 Week Range (Rs)	480/225
1,6,12 Rel Perf (%)	-1/41/48
Mcap (Rs b)	133.1
Mcap (USD b)	2.9

24 September 2010

Neutral

Previous Recommendation: Neutral Rs411

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	13,957	1,824	5.6	-20.1	73.0	18.7	30.4	27.2	7.5	51.4
03/10A	20,412	3,396	10.5	86.2	39.2	13.3	37.7	47.3	6.0	28.8
03/11E	34,445	5,063	15.6	49.1	26.3	7.9	30.1	25.9	4.2	19.7
03/12E	43,010	6,135	19.0	21.2	21.7	6.7	31.1	29.9	3.3	16.1

- Consolidated net sales are expected to be Rs9.6b, up 67% YoY. Sales include the benefits of full consolidation of recent acquisitions like Megasari, Godrej Home Care (earlier GSL), Issue Group and Argencos.
- The standalone business will get the benefit of price increases in hair dyes and soaps are expected to be under pressure.
- Godrej Home Care is likely to post high growth due to extended monsoons (a boost to mosquito repellants).
- We estimate a 240bp EBITDA margin expansion but higher interest burden (acquisitions) will cap PAT at Rs1.4b (up 54%).
- We believe GCPL is an emerging markets play with focus on personal wash, hair care and household care in Asia, Latin America and Africa. We believe integrating operations would be a key factor to watch for in the coming quarters.
- The stock trades at 21.2x FY12E EPS. Integration risk, interest rate, currency risk and slowdown in standalone business are key concerns. Maintain **Neutral.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**4,389**	**5,756**	**5,176**	**5,092**	**6,431**	**9600**	**9250**	**9164**	**20,412**	**34,445**
EBITDA	**864**	**1,119**	**1,014**	**1,075**	**1,191**	**2,112**	**2,081**	**1,927**	**4,073**	**7,312**
Margins (%)	*19.7*	*19.4*	*19.6*	*21.1*	*18.5*	*22.0*	*22.5*	*21.0*	*20.0*	*21.2*
Depreciation	52	68	56	61	84	108	117	141	236	450
Interest	38	26	20	27	105	186	208	108	111	607
Other Income	101	139	111	122	106	8	11	236	473	361
PBT	**876**	**1,164**	**1,049**	**1,110**	**1,108**	**1,826**	**1,767**	**1,914**	**4,199**	**6,616**
Tax	179	234	198	192	268	391	387	507	803	1,552
Rate (%)	*20.5*	*20.1*	*18.8*	*17.3*	*24.1*	*21.4*	*21.9*	*26.5*	*19.1*	*21.5*
PAT	**697**	**930**	**851**	**918**	**841**	**1,435**	**1,380**	**1,407**	**3,396**	**5,063**
YoY Change (%)	*78.2*	*112.3*	*112.4*	*54.5*	*20.7*	*54.3*	*62.2*	*53.4*	*86.2*	*49.1*
Extraordinaries	0	0	0	0	-323	0	0	0	0	-323
Reported PAT	**697**	**930**	**851**	**918**	**1,164**	**1,435**	**1,380**	**1,407**	**3,396**	**5,386**

E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Nikhil Kumar N (Nikhil.N@MotilalOswal.com)

Hindustan Unilever

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	HUVR IN
	REUTERS CODE
S&P CNX: 6,018	HLL.BO

Equity Shares (m)	2,177.5
52 Week Range (Rs)	317/218
1,6,12 Rel Perf (%)	7/22/2
Mcap (Rs b)	685.1
Mcap (USD b)	15.1

24 September 2010

Neutral

Previous Recommendation: Neutral

Rs315

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A*	167,617	20,636	9.5	18.5	33.2	33.3	119.0	122.8	3.3	22.0
03/10A	177,253	20,587	9.4	-0.4	33.3	26.6	79.7	105.1	3.7	23.8
03/11E	194,947	20,889	9.6	1.5	32.9	23.8	72.4	95.4	3.4	23.7
03/12E	218,191	24,564	11.3	17.6	27.9	20.0	71.7	95.4	3.0	19.8

** EPS for 12 months (April 2008-March 2009)*

- We expect HUL to post sales of Rs47b (up 10% YoY) led by 10% volume growth (1QFY11 volume growth of ~11%).
- Gross margins are likely to fall 60bp YoY to 49% led by higher input costs and a carry-over impact of price cuts in laundry, soaps and shampoos (product prices in few SKUs are lower on a YoY basis).
- We estimate a 170bp decline in EBITDA margins due to input cost pressures and higher ad-spends. EBITDA will likely decline 2% to Rs6.4b and adjusted PAT is expected to fall 1.9% to Rs4.9b
- HUL affected price increases (of 5-8%) in the highly competitive soaps and detergent segment to neutralize the impact of rising input costs. We will keenly watch for absorption of such price increases as the mass segment is prone to downtrading.
- We expect competitive intensity to increase due to likely entry of P&G in the toothpaste segment. P&G recently introduced Olay White in small packs (Rs15) to garner share in the high growth fairness creams market.
- Our interaction with the trade indicates that volume growth rates reached a plateau after the exit of several trade/ consumer promotions employed in Jan-Jun period.
- We have EPS estimates of Rs9.6 for FY11E and Rs11.3 for FY12E. The stock trades at 32.9x FY11E and 27.9x FY12E earnings. Maintain **Neutral.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Volume Growth (%)	2.0	1.0	5.0	11.0	11.0	10.0	10.0	8.0	4.8	10.0
Net Sales (incl service inc)	**45,026**	**42,692**	**45,732**	**43,802**	**48,762**	**46,962**	**50,306**	**48,917**	**177,253**	**194,947**
YoY Change (%)	*6.3*	*3.9*	*4.4*	*8.5*	*8.3*	*10.0*	*10.0*	*11.7*	*5.4*	*10.0*
COGS	23,117	21,512	22,111	22,175	24,466	23,950	24,901	25,462	88,779	98,780
Gross Profit	**21,910**	**21,181**	**23,622**	**21,627**	**24,296**	**23,011**	**25,404**	**23,455**	**88,474**	**96,167**
Margin (%)	*48.7*	*49.6*	*51.7*	*49.4*	*49.8*	*49.0*	*50.5*	*47.9*	*49.9*	*49.3*
Operating Exp	**14,760**	**14,661**	**15,747**	**15,672**	**17,487**	**16,624**	**17,406**	**17,082**	**60,975**	**68,598**
% to Sales	*32.8*	*34.3*	*34.4*	*35.8*	*35.9*	*35.4*	*34.6*	*34.9*	*34.4*	*35.2*
EBITDA	**7,150**	**6,520**	**7,875**	**5,955**	**6,809**	**6,387**	**7,999**	**6,374**	**27,500**	**27,568**
YoY Change (%)	*12.5*	*16.6*	*3.1*	*-0.1*	*-4.8*	*-2.0*	*1.6*	*7.0*	*7.6*	*0.2*
Margins (%)	*15.9*	*15.3*	*17.2*	*13.6*	*14.0*	*13.6*	*15.9*	*13.0*	*15.5*	*14.1*
Depreciation	425	462	450	503	535	540	545	550	1,840	2,170
Interest	52	15	2	1	1	5	10	4	70	20
Other Income	335	473	389	284	421	650	600	472	1,481	2,143
PBT	**7,009**	**6,515**	**7,812**	**5,735**	**6,695**	**6,492**	**8,044**	**6,291**	**27,071**	**27,521**
Tax	1,643	1,520	1,822	1,513	1,485	1,590	1,971	1,587	6,481	6,633
Rate (%)	*23.4*	*23.3*	*23.3*	*26.4*	*22.2*	*24.5*	*24.5*	*25.2*	*23.9*	*24.1*
Adjusted PAT	**5,367**	**4,995**	**5,990**	**4,221**	**5,210**	**4,901**	**6,073**	**4,705**	**20,590**	**20,889**
YoY Change (%)	*-0.6*	*9.4*	*-1.8*	*-7.6*	*-2.9*	*-1.9*	*1.4*	*11.4*	*0.7*	*1.5*

E: MOSL Estimates, PFAD - 1QFY08 as 100 with 3month lag

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Nikhil Kumar N (Nikhil.N@MotilalOswal.com)

ITC

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	ITC IN
	REUTERS CODE
S&P CNX: 6,018	ITC.BO

Equity Shares (m)	7,636.4
52 Week Range (Rs)	181/114
1,6,12 Rel Perf (%)	2/21/34
Mcap (Rs b)	1,365.4
Mcap (USD b)	30.2

24 September 2010

Buy

Previous Recommendation: Buy

Rs179

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	158,065	32,636	8.6	4.6	20.7	9.9	25.3	35.2	8.5	26.2
03/10A	183,810	40,610	10.6	24.4	16.8	9.7	29.2	40.9	7.1	20.5
03/11E	213,655	48,048	6.3	18.3	28.4	8.2	31.3	44.0	6.2	17.5
03/12E	245,666	57,139	7.5	18.9	23.9	6.9	31.5	44.9	5.3	14.7

- We expect ITC to post 16.2% YoY growth in revenue to Rs50.5b, led by 15% growth in cigarettes and 33% growth in New FMCG sales.
- EBITDA is expected to increase 17.6% YoY enabling a 40bp margin expansion. We expect ITC to post PAT of Rs11.9b (up 17.9% YoY).
- We expect the cigarette business to post a 2.5% volume decline in 2QFY11 (3.5% in 1QFY11), following a 16.5% increase in excise duty and a 15% price increase by ITC. We estimate a 17% increase in EBIT led by a 110bp margin expansion.
- We estimate a 32% increase in New FMCG sales and a 12% decline in EBIT loss. ITC is steadily reducing losses in its foods division (except Bingo other businesses are making money). Personal Care will remain in investment phase for another couple of years.
- Hotels are likely to grow steadily though the second quarter remains a traditionally weak quarter due to seasonality. We expect a significant impact of revival to be reflected in 2HFY11 (65% of annual revenue).
- The agri business is likely to post sedate EBIT growth due to a higher proportion of low margin soy sales. The paper business' EBIT is likely to grow steadily. A decline in pulp prices and steady paper prices will boost profitability.
- The stock trades at 23.9x FY12E EPS of Rs7.5. Maintain **Buy**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Cigarette Vol Gr (%)	5.5	7.5	8.5	8.8	-3.5	-2.5	2.5	4.5	8.3	0.0
Net Sales	**41,978**	**43,453**	**45,802**	**51,316**	**48,473**	**50,500**	**54,000**	**60,682**	**183,822**	**213,655**
YoY Change (%)	*6.7*	*12.5*	*18.7*	*28.7*	*15.5*	*16.2*	*17.9*	*18.3*	*16.3*	*16.2*
Total Exp	28,105	27,552	28,725	35,137	32,103	31,800	33,650	41,353	120,792	138,905
EBITDA	**13,873**	**15,901**	**17,076**	**16,180**	**16,371**	**18,700**	**20,350**	**19,329**	**63,031**	**74,750**
Growth (%)	*19.5*	*30.8*	*23.9*	*24.6*	*18.0*	*17.6*	*19.2*	*19.5*	*24.7*	*18.6*
Margins (%)	*33.0*	*36.6*	*37.3*	*31.5*	*33.8*	*37.0*	*37.7*	*31.9*	*34.3*	*35.0*
Depreciation	1,516	1,484	1,549	1,539	1,597	1,700	1,750	1,822	6,087	6,869
Interest	58	182	109	185	58	140	130	167	534	495
Other Income	876	684	1,591	592	985	650	1,250	387	3,743	3,271
PBT	**13,175**	**14,920**	**17,010**	**15,048**	**15,701**	**17,510**	**19,720**	**17,727**	**60,153**	**70,658**
Tax	4,388	4,821	5,569	4,766	4,998	5,603	6,310	5,699	19,543	22,611
Rate (%)	*33.3*	*32.3*	*32.7*	*31.7*	*31.8*	*32.0*	*32.0*	*32.1*	*32.5*	*32.0*
Reported PAT	**8,787**	**10,099**	**11,442**	**10,282**	**10,703**	**11,907**	**13,410**	**12,028**	**40,610**	**48,048**
YoY Change (%)	*17.4*	*25.8*	*26.7*	*27.1*	*21.8*	*17.9*	*17.2*	*17.0*	*24.4*	*18.3*

E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Nikhil Kumar N (Nikhil.N@MotilalOswal.com)

Marico

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	MRCO IN
	REUTERS CODE
S&P CNX: 6,018	MRCO.BO

Equity Shares (m)	609.0
52 Week Range (Rs)	136/85
1,6,12 Rel Perf (%)	-8/3/26
Mcap (Rs b)	78.7
Mcap (USD b)	1.7

24 September 2010

Buy

Previous Recommendation: Buy

Rs129

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	23,884	2,038	3.3	28.5	38.6	17.4	44.9	42.5	3.4	26.8
03/10A	26,608	2,454	4.0	20.4	32.1	12.0	36.9	40.8	3.1	21.7
03/11E	31,329	2,777	4.6	14.3	28.1	9.3	32.8	42.9	2.5	18.9
03/12E	37,396	3,467	5.7	24.8	22.5	6.9	30.3	41.9	2.1	15.6

- We expect Marico to post net sales of Rs8.1b, up 18% YoY. Volume growth is expected to be robust at 15%.
- Marico has taken price increases in select SKUs of Parachute (average ~5%) and Saffola (average ~3%). Prices of recruiter prices have not been tinkered with, to ensure smooth uptrading from loose oil.
- Copra prices have increased 23% since June and Marico is likely to face pressure on margins. We estimate 340bp contraction in gross margin to 49.5%.
- We expect Marico to contain costs (especially on advertising), stemming EBITDA margin contraction to 70bp; EBITDA is likely to grow at 11.8% to Rs1.06b.
- The international business continues to be strong with steady sales growth and margin expansion. Pressure on Kaya's domestic operation will continue.
- Price action in Parachute and the trend in copra prices in the coming flush season will be a key factor to watch for. Sustained higher prices will necessitate further price increases, which may impact volume growth.
- The stock trades at 28.1x FY11E and 22.5x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Volume Growth (%)	14.0	15.0	14.0	14.0	16.0	15.0	14.5	15.5	14.0	16.0
Net Sales	**6,967**	**6,922**	**6,696**	**6,023**	**7,901**	**8,168**	**8,001**	**7,258**	**26,608**	**31,329**
YoY Change (%)	*16.8*	*14.4*	*7.8*	*7.3*	*13.4*	*18.0*	*19.5*	*20.5*	*11.4*	*17.7*
COGS	3,501	3,262	3,167	2,646	4,033	4,125	4,041	3,412	12,577	15,611
Gross Profit	**3,466**	**3,660**	**3,528**	**3,377**	**3,868**	**4,043**	**3,961**	**3,846**	**14,031**	**15,718**
Gross margin (%)	*49.7*	*52.9*	*52.7*	*56.1*	*49.0*	*49.5*	*49.5*	*53.0*	*52.7*	*50.2*
Other Expenditure	2,501	2,711	2,540	2,527	2,813	2,981	2,920	2,798	10,240	11,513
% to Sales	*35.9*	*39.2*	*37.9*	*42.0*	*35.6*	*36.5*	*36.5*	*38.6*	*38.5*	*36.8*
EBITDA	**965**	**950**	**988**	**849**	**1,055**	**1,062**	**1,040**	**1,048**	**3,791**	**4,205**
Margins (%)	*13.8*	*13.7*	*14.8*	*14.1*	*13.3*	*13.0*	*13.0*	*14.4*	*14.2*	*13.4*
YoY Change (%)	*27.5*	*28.5*	*24.8*	*15.9*	*9.3*	*11.8*	*5.3*	*23.4*	*24.7*	*10.9*
Depreciation	99	179	166	157	120	128	142	159	601	549
Interest	86	56	64	50	70	80	90	115	257	355
Other Income	31	42	56	53	44	40	45	35	183	164
PBT	**811**	**757**	**814**	**695**	**909**	**894**	**853**	**809**	**3,116**	**3,465**
Tax	210	133	183	117	162	165	188	144	643	658
Rate (%)	*25.9*	*17.5*	*22.5*	*16.9*	*17.8*	*18.5*	*22.0*	*17.7*	*20.6*	*19.0*
Minority Interest	0	0	9	0	10	5	8	7	19	30
Adjusted PAT	**600**	**624**	**622**	**578**	**737**	**728**	**657**	**658**	**2,454**	**2,777**
YoY Change (%)	*29.6*	*32.4*	*22.2*	*-2.7*	*22.8*	*16.7*	*5.7*	*13.9*	*20.4*	*13.1*
Exceptional Items	-41	0	0	-57	0	-8	-5	-17	-117	-30
Reported PAT	**560**	**624**	**613**	**520**	**737**	**720**	**652**	**641**	**2,337**	**2,747**

E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Nikhil Kumar N (Nikhil.N@MotilalOswal.com)

Nestle India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	NEST IN
	REUTERS CODE
S&P CNX: 6,018	NEST.BO

Equity Shares (m)	96.4
52 Week Range (Rs)	3,325/2,195
1,6,12 Rel Perf (%)	2/11/28
Mcap (Rs b)	317.3
Mcap (USD b)	7.0

24 September 2010

Buy

Previous Recommendation: Buy

Rs3,291

YEAR END	NET SALES (RS M)	ADJ. PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/08A	43,242	5,650	58.6	31.0	56.2	67.0	119.4	169.9	7.3	36.5
12/09A	51,294	6,976	72.4	23.5	45.5	54.6	120.0	165.2	6.1	30.3
12/10E	61,099	8,080	83.8	15.8	39.3	42.8	108.9	148.4	5.2	26.4
12/11E	72,897	10,302	106.9	27.5	30.8	35.4	115.0	155.6	4.3	20.8

- Nestle is expected to post 3QCY10 net sales of Rs15.5b, up 19% YoY, and we expect it to sustain volume growth in the mid-teens. Sales growth will reflect the impact of a late Diwali this year.
- EBITDA is likely to increase 14.9% to Rs3b and margins are expected to fall 70bp. Higher costs of inputs like milk, price increases with a lag and higher ad spends will impact margins. We estimate 18.5% PAT growth to Rs2.1b.
- Nestle would benefit from lower input costs in the coming quarter as major agriculture-led inputs like milk, wheat and sugar are likely to be benign.
- We note increasing competition in the Instant Noodles segment (~60% of incremental volume growth) with the entry of GSK (Foodles) and HUL (Knorr). We expect Nestle to increase the pace of innovation and brand building initiatives.
- Nestle's chocolates grew sharply in 1HCY10 due to a low base and growing demand in tier-2 and tier-3 cities. The entry of Kraft can increase competition in the chocolates and confectionery market.
- The stock trades at 30.8x CY11E EPS. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**12,659**	**12,095**	**13,022**	**13,518**	**14,798**	**14,667**	**15,497**	**16,138**	**51,294**	**61,099**
YoY Change (%)	*16.0*	*16.8*	*17.6*	*24.0*	*16.9*	*21.3*	*19.0*	*19.4*	*18.6*	*19.1*
Total Exp	9,562	9,478	10,380	11,537	11,758	11,728	12,459	13,237	40,956	49,181
EBITDA	**3,097**	**2,618**	**2,642**	**1,981**	**3,040**	**2,940**	**3,037**	**2,901**	**10,338**	**11,918**
Margins (%)	*24.5*	*21.6*	*20.3*	*14.7*	*20.5*	*20.0*	*19.6*	*18.0*	*20.2*	*19.5*
YoY Growth (%)	*24.4*	*34.2*	*27.5*	*-6.7*	*-1.8*	*12.3*	*14.9*	*46.4*	*19.7*	*15.3*
Depreciation	256	264	286	307	310	304	322	379	1,113	1,315
Interest	2	6	2	5	6	4	2	3	14	14
Other income	103	88	88	106	91	101	105	106	385	404
PBT	**2,943**	**2,436**	**2,443**	**1,775**	**2,816**	**2,733**	**2,818**	**2,625**	**9,596**	**10,993**
Tax	864	654	659	442	845	718	705	645	2,620	2,913
Rate (%)	*29.4*	*26.9*	*27.0*	*24.9*	*30.0*	*26.3*	*25.0*	*24.6*	*27.3*	*26.5*
Adjusted PAT	**2,078**	**1,782**	**1,784**	**1,333**	**1,971**	**2,015**	**2,114**	**1,980**	**6,976**	**8,080**
YoY Change (%)	*22.2*	*43.5*	*34.6*	*-3.4*	*-5.2*	*13.1*	*18.5*	*48.6*	*23.5*	*15.8*
Extraordinary Inc/(Exp)	-105	-161	44	-204	48	-67	-120	-136	-426	-275
Reported PAT	**1,973**	**1,620**	**1,828**	**1,129**	**2,019**	**1,948**	**1,994**	**1,844**	**6,550**	**7,805**
YoY Change (%)	*23.2*	*33.8*	*38.8*	*-6.7*	*2.3*	*20.3*	*9.1*	*63.3*	*22.7*	*19.2*

E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Nikhil Kumar N (Nikhil.N@MotilalOswal.com)

United Spirits

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	UNSP IN
	REUTERS CODE
S&P CNX: 6,018	UNSP.BO

Equity Shares (m)	125.6
52 Week Range (Rs)	1,663/886
1,6,12 Rel Perf (%)	5/6/54
Mcap (Rs b)	200.6
Mcap (USD b)	4.4

24 September 2010

Buy

Previous Recommendation: Buy

Rs1,597

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	54,681	1,875	23.0	24.9	69.5	6.7	7.8	9.9	3.6	22.9
03/10A	63,623	3,026	25.8	12.3	61.9	5.1	8.0	11.5	3.4	22.2
03/11E	71,824	5,098	43.5	68.5	36.7	4.6	12.0	13.1	3.1	18.0
03/12E	84,949	7,202	61.4	41.3	26.0	3.9	14.8	15.6	2.6	14.3

- We expect Untied Spirits to post 2QFY11 topline growth of 30% YoY at Rs14.1b. EBITDA margins are likely to expand by 180bp to 18.7% due to 5% lower ENA prices and higher volumes.
- EBITDA will increase 44% to Rs2.2b (a low base effect as margins declined 290bp in 2QFY10). We estimate 53% PAT growth aided by 150bp lower tax despite a 33% increase in the interest burden.
- IMFL volumes are expected to increase by 20% due to restocking in Andhra Pradesh. De-stocking had resulted in volume growth falling to 6% in 1QFY11. The state accounts for 20% of volumes.
- ENA prices are estimated at Rs140/case (Rs150/case in 2QFY10) and the ruling prices are Rs137/38 per case. Prices are expected to soften after the arrival of the fresh sugarcane crop in mid-October. We expect a 12% fall in ENA prices in FY11 and 5% more in FY12.
- We expect 13.7% volume growth in FY11 and 14% in FY12. We estimate 310bp margin expansion in FY11 due to higher realizations and expected softening ENA prices. We believe United Spirits is the best bet in the liquor space in India. Successful branding strategy in W&M would be a key variable to watch for in the medium term. The stock trades at 36.7x FY11E EPS of Rs43.5 and 26x FY12E EPS of Rs61.4. Maintain **Buy.**

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Volume Growth (%)	17.0	10.0	12.3	16.0	6.0	17.0	15.5	15.0	13.5	13.8
ENA Price/Case	150	150	151	152	143	140	134	125	151	135
Net Sales	**12,417**	**10,801**	**13,468**	**12,521**	**14,630**	**14,040**	**16,825**	**15,480**	**49,207**	**60,974**
YoY Change (%)	*22.5*	*19.7*	*30.8*	*37.9*	*17.8*	*30.0*	*24.9*	*23.6*	*27.9*	*23.9*
Total Exp	10,198	8,980	11,256	10,708	11,818	11,415	13,544	12,754	52,500	49,531
EBITDA	**2,219**	**1,821**	**2,212**	**1,813**	**2,811**	**2,625**	**3,281**	**2,725**	**8,065**	**11,443**
Margins (%)	17.9	16.9	16.4	14.5	19.2	18.7	19.5	17.6	16.4	18.8
Depreciation	80	83	93	114	91	117	120	124	370	452
Interest	592	751	747	1,023	965	1,000	1,080	1,155	3,112	4,200
PBT from Operations	**1,547**	**987**	**1,372**	**677**	**1,755**	**1,508**	**2,081**	**1,447**	**4,583**	**6,791**
Other Income	63	109	85	146	77	130	150	264	422	621
PBT	**1,610**	**1,097**	**1,456**	**822**	**1,831**	**1,638**	**2,231**	**1,711**	**5,004**	**7,412**
Tax	553	401	488	254	613	573	758	605	1,695	2,550
Rate (%)	*34.4*	*36.5*	*33.5*	*30.9*	*33.4*	*35.0*	*34.0*	*35.4*	*33.9*	*34.4*
PAT	**1,057**	**696**	**968**	**569**	**1,219**	**1,065**	**1,472**	**1,106**	**3,309**	**4,862**
YoY Change (%)	*-9.8*	*-25.9*	*216.6*	*2.2*	*15.3*	*53.0*	*52.0*	*94.5*	*11.3*	*46.9*

E: MOSL Estimates

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Information Technology

BSE Sensex: 20,045 S&P CNX: 6,018 24 September 2010

COMPANY NAME
- HCL Technologies
- Infosys
- MphasiS
- Patni Computer
- TCS
- Tech Mahindra
- Wipro

Continued sequential revenue growth momentum for top three companies: We expect the top-tier IT companies to continue to grow in 2QFY11, posting 4.7-6.0% sequential growth, driven by broad-based demand. We expect Infosys to outperform its peers with 6.0% QoQ growth.

Promotions, wage inflation to curb margins, Infosys to rebound: The impact of promotions at Wipro (to ~20,000 people in the 3-7 year bracket) and TCS in 2QFY11 will curtail margins. We expect Infosys to rebound 120bp to 32.9% after a 230bp decline in 1QFY11, led by strong revenue growth and favorable currency movement. HCL Tech margins will be hit hardest due to the impact of salary hikes from 1 July 2010.

Expect Infosys revenue guidance to increase marginally: We expect Infosys to increase its US dollar revenue growth guidance by 1% to 20-22% from 19-21% guided earlier. But we expect EPS guidance to be largely unchanged due to the appreciation of the rupee towards the end of the quarter. We expect Wipro to guide for 4-6% QoQ sequential revenue growth in 3QFY11.

What to look for: Attrition outlook, discretionary traction, performance in European geography – 2QFY11 will be keen watched for: (1) outlook on attrition after continued pressures in the current quarter, (2) signs of discretionary traction after missing out in the last quarter, and (3) cues on improvement in Europe. Market share gains on impending large deal renegotiations where incumbents are MNC vendors will continue to be watched with interest.

Prefer Infosys, HCL Tech, Mphasis: We expect IT demand revival in FY11 with 19-25% volume growth and 2QFY11 results will reinforce this expectation. We prefer playing the sector through companies that gain from (1) pick-up in discretionary demand, (2) better operational scope, and (3) greater MNC offshoring. We like **Infosys**, **HCL Tech** and **Mphasis** on these parameters. Our order of preference among top-tier IT companies is Infosys, followed by **TCS** and **Wipro**.

EXPECTED QUARTERLY PERFORMANCE SUMMARY (RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
	24.09.10		SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ
Information Technology											
HCL Technologies	421	Buy	34,958	15.3	2.1	5,515	-17.5	-10.2	2,963	-1.7	5.4
Infosys	3,041	Buy	67,038	20.0	8.2	22,068	14.2	12.5	16,735	8.7	12.5
MphasiS	650	Neutral	13,288	17.4	3.9	3,039	3.2	-3.8	2,298	-6.2	-15.3
Patni Computer	443	Neutral	8,060	0.2	3.6	1,520	-8.6	-3.1	1,159	-0.7	-21.3
TCS	931	Neutral	87,445	17.6	6.4	25,488	19.4	5.8	19,586	20.6	6.2
Tech Mahindra	773	Neutral	12,242	7.2	8.0	2,313	-20.9	8.7	1,099	-13.8	5.2
Wipro	446	Neutral	80,677	17.0	12.2	15,161	17.1	8.0	13,047	11.4	0.3
Sector Aggregate			**303,708**	**16.7**	**7.6**	**75,103**	**10.7**	**6.2**	**56,888**	**11.0**	**4.6**

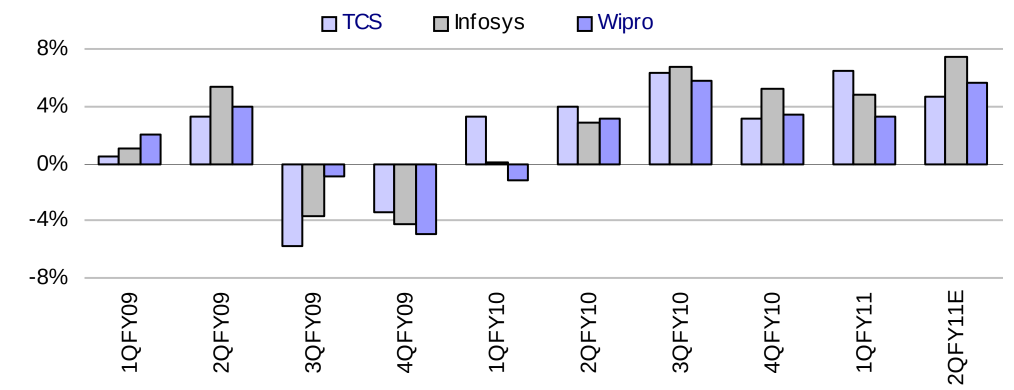
Ashish Chopra (Ashish.Chopra@MotilalOswal.com)

Marginal cross-currency impact on US dollar revenue: We expect the top four IT companies' US dollar revenue to be positively impacted by 0.3-0.7%, depending on their invoicing proportions. GBP improved 3.9%, euro 1.3% and AUD improved 2.2% sequentially against the US dollar. The rupee showed some volatility in the quarter. On average the rupee depreciated against the US dollar on a sequential basis, but on a closing rate basis, there is a sequential appreciation in the rupee.

Pricing up-ticks, deal renegotiation to drive upgrades: Upgrades after the 2QFY11 results will, be driven by: (1) the possibility of a pricing increase, led by [a] a growth skew towards discretionary service lines resulting in mix-based pricing increase, and [b] continued increased demand for IT services, leading to the return of pricing power to top-tier companies, and (2) market share gains in impending deal renegotiations v/s MNC incumbents.

Continued momentum in sequential revenue growth for top three; Infosys to lead: We expect revenue momentum of top tier IT companies to continue in 2QFY11 on sustained demand, with growth of 4.7-6% in the top-three companies. Infosys is expected to outperform its peers with 6% sequential growth after lower-than-expected 1QFY11 growth. We expect Wipro to follow with 5.6% QoQ revenue growth and TCS with 4.7% QoQ growth. We expect the average sequential depreciation in the rupee to positively impact INR top-line growth, which is estimated at 6-8.2%. Constant currency revenue growth above 6% will be taken positively. HCL Tech is expected to grow 4.2% QoQ on continued IMS traction (IMS grew 60.6% in FY10, adding 50% of the incremental revenue of the top-four IT companies over the past four quarters).

4.7-6% QOQ GROWTH FOR THE TOP-THREE (US DOLLAR REVENUE)



Source: Company/MOSL

Promotions to impact EBITDA margins at TCS, Wipro

Promotions at Wipro and TCS from July 2010 are expected to weigh on margins. But Infosys' margins are expected to rebound 120bp to 32.9% after a 230bp decline in 1QFY11 to 31.7%. We expect HCL Tech margins to deteriorate due to wage hikes from July.

Infosys: We expect Infosys to improve EBITDA margins by 120bp to 32.9% led mainly by: (1) sequential constant-currency revenue growth, and (2) favorable QoQ currency movements (improvement in the euro and pound against the US dollar and depreciation of the rupee against the US dollar on an average). Infosys maintained its guidance of a 150bp margin decline in FY11.

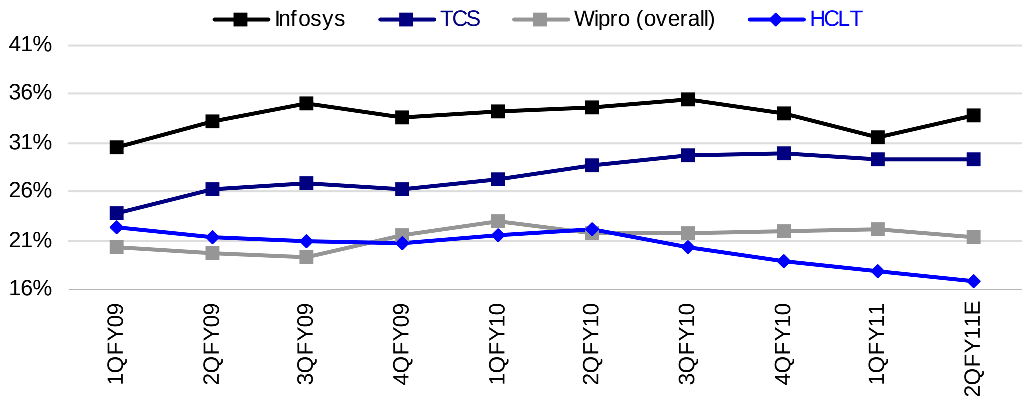
TCS: We expect TCS' margins to dip by 20bp QoQ to 29.1%. The impact of promotions, effective from 2QFY11, is expected to weigh on margins. (We assume a 3% impact on the offshore wage bill because of promotions announced). EBITDA margins are expected to decline only marginally on continued cost efficiencies. But further improvement in margins looks difficult due to limited scope left in SGA and utilization.

Wipro: We expect Wipro's IT services EBIT margin to decline by 90bp QoQ to 23.6% due to promotions and RSUs announced to tackle increased attrition (23% quarterly annualized in 1QFY11). Wipro announced promotions to ~20,000 employees in the 3-7 year bracket.

HCL Tech: Among the top four Indian IT companies, HCL Tech's margins are expected to be hit hardest mainly due to wage inflation. While the management guided a 300bp negative impact of wage hikes, we expect the overall decline in operating margins of 210bp (after ESOP charges) due to a slight up-tick in utilization (HCL Tech utilization dropped 330bp to 72.9% in 4QFY10 on increased hiring).

The impact on margins going forward will also be driven by the possibility of additional mid-year wage hikes in the case of unrelenting attrition and impact of significant currency volatility. We expect EBITDA margins of TCS and Wipro to hold firm in FY11 amid increased supply pressure and currency headwinds on continued cost control aggression. Infosys margins are expected to decline 120bp in FY11.

INFOSYS MARGINS REBOUND, HCL TECH, WIPRO MARGINS DECLINE



Source: Company/MOSL

Infosys' FY11 revenue, earnings, guidance

We expect Infosys' revenue to grow 6% QoQ, ahead of guided revenue growth of 4.1-5.1%. Our EPS expectation is Rs29.3 against guided EPS of Rs27.9 at the higher end. We expect Infosys to marginally increase its FY11 US dollar revenue guidance to 20-22% (from 19-21% earlier). But EPS guidance is expected to stay largely unchanged due to the appreciation of the rupee to ~45 levels towards the end of the quarter.

INFOSYS GUIDANCE V/S EXPECTATIONS

	2QFY11G	FY11G	FY11G (REVISED)	2QFY11E	FY11E	COMMENTS
INR revenue (b)	65.63-66.26	264.4-268.8	265-269.4	67.0	275.7	
Sequential growth (%)	5.9-6.9	16.3-18.2	16.5-18.5	8.2	21.2	Marginal upgrade in rupee growth guidance
EBITDA margins (%)	33.1	33.1	33.1	32.9	33.4	Expect FY11 EBITDA margins to decline by 120bp (v/s guidance of 150bp)
Increase/ decline	(150bp)	(150bp)	(150bp)	120bp	(120bp)	Mix-based pricing increases, higher utilization could provide margin cushion
INR EPS	27.42-27.94	112.2-116.7	112.2-116.7	29.3	122.8	Expect EPS guidance to remain unchanged
US dollar revenue	1413-1427m	5.72-5.81b	5.76-5.86b	1440m	5986m	
Sequential growth (%)	4.1-5.1	19-21	20-22	6.0	24.6	Expect increase of 1% in US dollar FY11 revenue growth guidance
US dollar EPS guidance	0.59-0.60	2.42-2.52	2.44-2.54	0.63	2.67	
INR/US$ rate	46.5	46.5	46.0	46.55	46.0	

Note: RG implies revised guidance after 1QFY11 *Source: Company/MOSL*

2QFY11 GUIDANCE EXCHANGE RATE ASSUMPTIONS

GUIDED AT	EUR	GBP	AUD	INR/US$
Infosys	1.23	1.5	0.86	46.45
Wipro	1.27	1.48	0.87	45.68
Actual (average)	1.29	1.55	0.9	46.55

Source: Company/MOSL

We expect Wipro to post 5.6% revenue growth QoQ, towards the higher end of its guidance of 4-6% and guide for 4-6% QoQ revenue growth in the next quarter.

Marginal impact of cross currency movements on US dollar revenue

Key impacts of currency movement are:

[1] The rupee showed some volatility during the quarter; depreciating on average v/s the US dollar on a sequential basis, on closing rate basis, whereas there was a sequential appreciation in the rupee.

[2] We expect a marginal positive cross-currency impact on US-dollar revenue (0.3-0.7%) among top-tier companies, depending on their invoicing proportions. The impact will be maximum on HCL Tech because nearly a quarter of its revenue is invoiced in euros and British pounds. The euro appreciated ~1.3%, the GBP appreciated ~3.9% and the AUD appreciated ~2.2% against the US dollar.

Wipro will benefit most from the impact of currency movements on Rupee revenues.

2QFY11 CURRENCY HIGHLIGHTS (RS)

	RATES (RS)				CHANGE (QOQ, %)			
	US$	EUR	GBP	AUD	US$	EUR	GBP	AUD
Average	46.6	59.9	72.1	42.0	2.0	3.4	5.9	4.3
Closing	45.5	60.7	71.3	43.2	-3.0	6.9	2.7	10.6

2QFY11 CURRENCY HIGHLIGHTS (US$)

	RATES (US$)			CHANGE (QOQ, %)		
	EUR	GBP	AUD	EUR	GBP	AUD
Average	1.29	1.55	0.90	1.3	3.9	2.2
Closing	1.35	1.58	0.96	10.1	5.9	14.1

Source: Company/MOSL

What will stocks react positively to?

NEAR TERM OUTPERFORMANCE OF IT STOCKS FALLS V/S SENSEX

	RELATIVE					ABSOLUTE				
COMPANY	1M	3M	6M	12M	YTD	1M	3M	6M	12M	YTD
Sensex	0	0	0	0	0	12	13	14	20	15
Infosys	(0)	(6)	(5)	14	1	11	7	9	35	16
TCS	(4)	7	(1)	38	9	7	20	13	59	24
Wipro	(0)	(1)	(11)	9	(7)	11	12	3	30	8
HCLT	(9)	1	(2)	3	(4)	3	14	12	23	12
Cognizant	(3)	8	11	45	26	9	21	25	65	41

Source: Company/MOSL

Top-tier IT stocks underperformed the Sensex over the past six months as business improvement was built into estimates, and valuations are 18.5-20x FY12E earnings. We assume current levels build in volume growth of 19.1-25.3% in FY11 and further absolute upsides would be driven by:

[1] **Pricing up-ticks:** Key determinants of pricing up-ticks will be: (a) skew of growth towards discretionary service lines like package implementation/products/consulting, and (b) continued increase in demand for IT services returning pricing power to top-tier IT companies.

[2] **Higher guidance suggesting shift in growth trajectory from 20-25% to 25-30%:** We believe an increase in Infosys guidance beyond 22% could be a significant indicator of growth trajectory, moving to 25-30% quickly.

[3] **Market share gains on impending deal renegotiations,** where incumbents are MNC vendors. US$37b worth of deals are expected to come up for renegotiation over the next months. With most of the deals being Infrastructure Management Services (IMS) focused, watchout for acceleration in deal wins or deal ramp-ups in this service line.

[4] **Improved demand scenario in Europe.**

[5] **Commentary alleviating possibilities of a negative impact** on the industry's long term prospects in the wake of ongoing political rhetoric.

What to look for: Attrition outlook, discretionary traction, performance in European geography

Key factors to watch for would be:

[1] Trend in attrition and commentary on the possibility of mid-year wage hikes as a measure to counter supply-side pressures;

[2] Infosys guidance for the full year and next quarter, Wipro's guidance for the next quarter and hiring outlook at TCS;

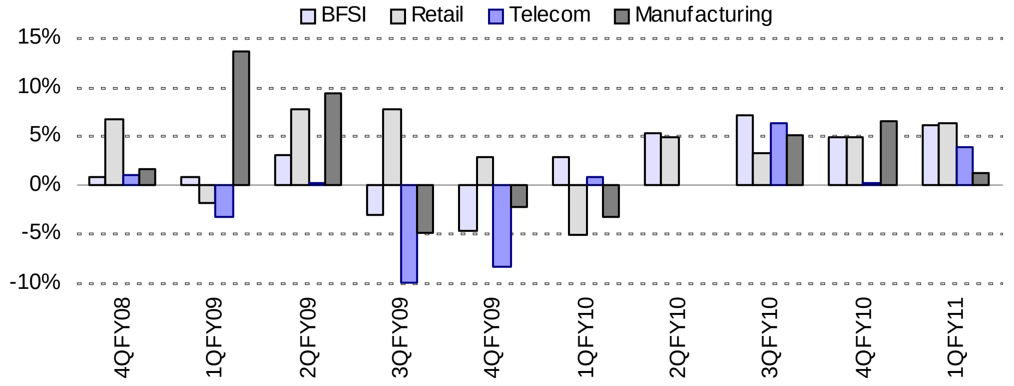
[3] Impact of promotions on TCS and Wipro margins and of wage hikes on HCL Tech's margins;

[4] Demand environment in Europe.

[5] Pickup in discretionary traction.

We are positive about the long term outlook for the IT industry with favorable business proposition, huge market potential with limited penetration and ability of Indian IT companies to scale up to take opportunities. Near term under-performance is possible because of (1) limited valuation cushion, (2) possible rupee appreciation and headwinds on margins due to attrition, and (3) big segments like discretionary demand/telecom/Europe yet to fire. We would be buyers into intermittent disappointments in the sector.

BFSI, MANUFACTURING, TELECOM GROWTH KEY TO SECTOR



Source: Company/MOSL

Sustenance of growth in BFSI, traction in manufacturing and continued recovery in telecom key to further upsides

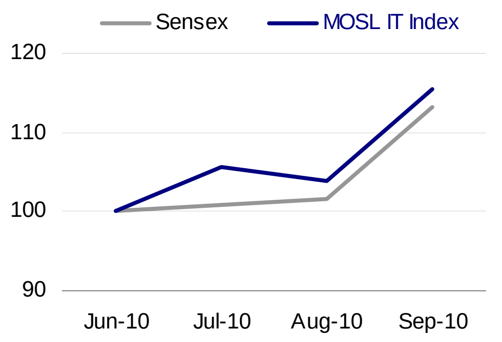
Prefer Infosys, HCL Tech, Mphasis

We expect IT demand revival in FY11 with 19-25% volume growth, against flattish FY10 revenue growth. We believe discretionary pick-up is a matter of time and prefer stocks with higher correlation to pick up in discretionary spending and greater operational scope. In that light, we prefer Infosys and HCL Tech among large caps. Aggressive MNC offshoring is a continuing trend to save market share against Indian offshorers, and we prefer Mphasis, among mid-cap IT companies as a clear play on this trend. We would be buyers into intermittent disappointments in the sector, as the long-term trend towards offshoring is positive.

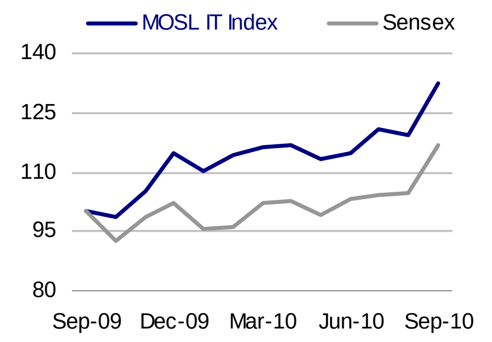
- Infosys is our preferred pick among top-tier IT companies because (1) of greater discretionary delta (package implementation and consulting contributed 24.9% of its revenue in 1QFY11); (2) it has the best operational scope across utilization, fixed bid, a skew towards higher margin discretionary segments, lowest European exposure and lowest tax increases, (3) earnings growth expectation of 18.4% CAGR over FY10-12 (v/s 12.6% at TCS and 13% at Wipro). Maintain Buy with a target price Rs3,160.
- Besides the top-three, we are positive about HCL Tech due to (1) continued traction in IMS (22% of revenue), (2) pick-up in lagging segments like engineering services (ERS), enterprise application services (EAS) (42% of revenue), (3) HCL Tech's large deal prowess in a returning deals scenario and expected successes in impending contract renegotiations, and (4) better-than-peer group EPS CAGR of 31% over FY10-12. Maintain Buy with a target price of Rs445.
- Mphasis is our preferred pick among mid-cap IT companies due to (1) limited risk of pricing cut recurrence going forward, (2) increasing volumes due to a strong MNC offshoring trend, substantiated by 15% QoQ headcount addition in ITO in 3QFY10 and 2,700 open positions in ITO and Applications, and (3) expected revenue CAGR of 25% over FY09-11, ahead of its large-cap peers. Maintain Neutral, target price of Rs700.

- Among large caps, we prefer TCS over Wipro due to (1) greater participation in a strengthening BFSI trend, (2) better operational scope, (3) wider geographical and services footprint, and (4) better client profile.
- The rupee's appreciation is the key risk to earnings and valuations.

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Information Technology														
HCL Technologies	421	Buy	17.1	25.2	29.2	24.6	16.7	14.4	11.8	10.2	8.4	18.5	22.5	21.9
Infosys	3,041	Buy	107.4	122.8	150.5	28.3	24.8	20.2	20.3	16.9	13.8	29.7	27.4	27.7
MphasiS	650	Neutral	49.6	54.5	60.1	13.1	11.9	10.8	10.9	9.1	7.7	37.5	30.7	26.2
Patni Computer	443	Neutral	36.1	40.8	39.7	12.3	10.9	11.2	6.0	6.7	5.6	15.7	17.4	16.8
TCS	931	Neutral	35.1	41.0	44.5	26.6	22.7	20.9	20.6	16.7	14.7	37.3	32.8	27.8
Tech Mahindra	773	Neutral	45.0	55.6	60.6	17.2	13.9	12.8	7.3	8.1	7.0	31.6	27.1	22.9
Wipro	446	Neutral	18.6	21.9	23.9	23.9	20.4	18.6	17.6	14.8	12.7	26.6	24.1	21.4
Sector Aggregate						**24.9**	**21.2**	**18.7**	**17.8**	**15.0**	**12.7**	**26.2**	**24.8**	**22.9**

** FY10 corresponds to CY09 and so on.*

HCL Technologies

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	HCLT IN
	REUTERS CODE
S&P CNX: 6,018	HCLT.BO

Equity Shares (m)	685.0
52 Week Range (Rs)	449/277
1,6,12 Rel Perf (%)	-6/-1/2
Mcap (Rs b)	288.3
Mcap (USD b)	6.4

24 September 2010 — **Buy**

Previous Recommendation: Buy — Rs421

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
6/09A	106,014	12,008	17.8	16.9	23.7	5.0	22.0	17.3	2.8	13.1
6/10A	125,650	11,766	17.1	-3.8	24.7	4.0	18.5	12.8	2.3	11.5
6/11E	152,324	17,474	25.2	47.2	16.8	3.4	22.5	18.9	1.8	10.0
6/12E	174,333	20,410	29.2	16.0	14.4	2.8	21.9	19.5	1.5	8.3

** After ESOP charges; # Axon consolidated in December 2008*

- We expect HCL Tech to post revenues of US$768m, growth of 4.2% QoQ
- In rupee terms, we expect HCL Tech revenue of Rs35b, up 2.1% QoQ, on on strong Rupee closing for the quarter.
- We expect EBITDA margins (after ESOP charges) to dip 210bp QoQ to 15.8%, mainly due to wage hikes becoming effective from 1 July 2010.
- HCL Tech had forward cover amounting to US$362m as on 30 June 2010. We expect the company to book forex losses of Rs686m in 1QFY11.
- HCL Tech is expected to post a net profit (including ESOP charge) of Rs3b against Rs2.81b in 4QFY10, up 5.4% QoQ.
- The stock trades at 16.8x FY11E and 14.4x FY12E earnings. Maintain **Buy** with a target price of Rs445.
- **What to look for:** The impact of wage inflation, large deal flows, continued traction in engineering services/enterprise application services.
- **Key rsks:** Slower ramp-up of large deals, deterioration in hi-tech manufacturing demand, currency volatility.

QUARTERLY PERFORMANCE (US GAAP) (RS MILLION)

Y/E JUNE	FY10				FY11E				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenues	**30,314**	**30,325**	**30,757**	**34,254**	**34,958**	**37,588**	**39,125**	**40,653**	**125,650**	**152,324**
Q-o-Q Change (%)	*4.2*	*0.0*	*1.4*	*11.4*	*2.1*	*7.5*	*4.1*	*3.9*	*18.5*	*21.2*
Direct Expenses	19,349	19,749	20,619	23,166	24,533	25,511	26,342	27,150	82,883	103,536
Sales, General & Admin. Expenses	4,279	4,432	4,304	4,950	4,910	5,190	5,396	5,575	17,965	21,071
Operating Profit	**6,686**	**6,144**	**5,834**	**6,138**	**5,515**	**6,887**	**7,387**	**7,928**	**24,802**	**27,717**
Margins (%)	*22.1*	*20.3*	*19.0*	*17.9*	*15.8*	*18.3*	*18.9*	*19.5*	*19.7*	*18.2*
Other Income	-63	-133	-141	-208	16	30	66	133	-545	1,757
Forex Gain / (Loss)	-1,504	-1,257	-626	-1,370	-686	128	-87	-55	-4,757	-700
Depreciation & Amort.	1,418	1,361	1,099	1,131	1,140	1,241	1,274	1,348	5,009	5,003
PBT bef. Extra-ordinary	**3,701**	**3,393**	**3,968**	**3,429**	**3,704**	**5,804**	**6,093**	**6,658**	**14,491**	**22,259**
Provision for Tax	687	665	754	618	741	1,161	1,219	1,664	2,724	4,785
Rate (%)	*18.6*	*19.6*	*19.0*	*18.0*	*20.0*	*20.0*	*20.0*	*25.0*	*18.8*	*21.5*
Minority Interest	1	0	0	0	0	0	0	0	19	21
PAT after ESOP chrg	**3,013**	**2,728**	**3,214**	**2,811**	**2,963**	**4,644**	**4,874**	**4,993**	**11,766**	**17,474**
Q-o-Q Change (%)	*-2.6*	*-9.5*	*17.8*	*-12.5*	*5.4*	*56.7*	*5.0*	*2.5*	*-2.0*	*48.5*
Reported PAT excl ESOP chrg	**3,199**	**2,956**	**3,438**	**3,418**	**3,218**	**4,839**	**5,070**	**5,118**	**13,011**	**18,245**
Q-o-Q Change (%)	*-3.3*	*-7.6*	*16.3*	*-0.6*	*-5.8*	*50.4*	*4.8*	*1.0*	*1.8*	*40.2*
US$ Revenues	**630**	**652**	**685**	**738**	**768**	**817**	**851**	**884**	**2,704**	**3,320**
Q-o-Q Change (%)	*3.8*	*3.4*	*5.1*	*7.7*	*4.2*	*6.4*	*4.1*	*3.9*	*23.6*	*22.8*

E: MOSL Estimates; Axon is consolidated since December 2008

Ashish Chopra (Ashish.Chopra@MotilalOswal.com)

Infosys

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	INFO IN
	REUTERS CODE
S&P CNX: 6,018	INFY.BO

Equity Shares (m)	571.3
52 Week Range (Rs)	3,066/2,127
1,6,12 Rel Perf (%)	0/-6/14
Mcap (Rs b)	1,737.1
Mcap (USD b)	38.4

24 September 2010

Buy

Previous Recommendation: Buy

Rs3,041

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	216,930	58,800	102.5	29.5	29.7	9.6	36.7	40.2	7.6	22.9
3/10A	227,420	61,340	107.4	4.7	28.4	7.6	29.7	33.7	7.0	20.4
3/11E	275,681	70,138	122.8	14.3	24.8	6.2	27.4	32.4	5.7	16.9
3/12E	324,700	86,005	150.5	22.6	20.3	5.1	27.7	31.9	4.6	13.8

- We expect Infosys to post revenue of US$1,440m, up 6% QoQ. Infosys had guided for 2QFY11 US dollar revenue growth of 4.1-5.1% QoQ. In rupee terms, revenues are expected to grow by 8.2% QoQ to Rs67b.
- Our revenue growth estimates factor in 5.8% QoQ volume growth and a flat pricing environment.
- We expect Infosys' EBITDA margins to rebound to 32.9%, up 120bp QoQ after a 230bp decline in 1QFY11. The management guided for a 150bp pricing decline in FY11.
- Infosys had outstanding hedges totalling US$697m as on 1QFY11. We expect Infosys to book other income of Rs2.6b in 2QFY11 v/s Rs2.4b in 1QFY11.
- Net profit is expected to rise to Rs16.7b, up 12.5% QoQ and EPS of Rs29.3. Infosys guided 2QFY11 EPS of Rs27.94 at the higher end. We expect Infosys' full year revenue guidance to increase by a percentage point to 20-22% (v/s 19-21% earlier), EPS guidance to remain largely unchanged; and 3QFY11 US dollar revenue growth guidance at 5-6% QoQ.
- The stock trades at 24.8x FY11E and 20.3x FY12E earning. Maintain **Buy.**
- **What to look for:** Up-tick in discretionary traction after missing out in the last quarter, commentary on possible pricing up-tick.
- **Key risks:** Delay in discretionary spends, increased attrition, currency volatility.

QUARTERLY PERFORMANCE (INDIAN GAAP) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenues	**54,720**	**55,850**	**57,410**	**59,440**	**61,980**	**67,038**	**71,534**	**75,129**	**227,420**	**275,681**
Q-o-Q Change (%)	*-2.9*	*2.1*	*2.8*	*3.5*	*4.3*	*8.2*	*6.7*	*5.0*	*4.8*	*21.2*
Direct Expenses	29,150	29,630	30,090	31,840	34,410	36,590	38,526	40,212	120,710	149,739
SG&A	6,890	6,890	6,940	7,380	7,950	8,380	8,584	9,015	28,100	33,929
Operating Profit	**18,680**	**19,330**	**20,380**	**20,220**	**19,620**	**22,068**	**24,423**	**25,901**	**78,610**	**92,013**
Margins (%)	*34.1*	*34.6*	*35.5*	*34.0*	*31.7*	*32.9*	*34.1*	*34.5*	*34.6*	*33.4*
Other Income	2,690	2,360	2,310	2,080	2,390	2,585	2,816	2,966	9,430	10,758
Depreciation	2,220	2,320	2,310	2,200	2,070	2,339	2,369	2,374	9,050	9,152
PBT bef. Extra-ordinary	**19,150**	**19,370**	**20,380**	**20,100**	**19,940**	**22,314**	**24,871**	**26,493**	**78,990**	**93,618**
Provision for Tax	3,880	3,970	4,550	5,250	5,060	5,578	6,218	6,623	17,650	23,479
Rate (%)	*20.3*	*20.5*	*22.3*	*26.1*	*25.4*	*25.0*	*25.0*	*25.0*	*22.3*	*25.1*
PAT before EO	**15,270**	**15,400**	**15,830**	**14,850**	**14,880**	**16,735**	**18,653**	**19,870**	**61,340**	**70,138**
Q-o-Q Change (%)	*-4.4*	*0.9*	*2.8*	*-6.2*	*0.2*	*12.5*	*11.5*	*6.5*	*4.3*	*14.3*
Extra-ordinary Items	0	0	0	1,320	0	0	0	0	1,320	0
PAT aft. Minority and EO	**15,270**	**15,400**	**15,830**	**16,170**	**14,880**	**16,735**	**18,653**	**19,870**	**62,660**	**70,138**
Q-o-Q Change (%)	*-5.3*	*0.9*	*2.8*	*2.1*	*-8.0*	*12.5*	*11.5*	*6.5*	*4.6*	*11.9*
Diluted EPS (Rs)	26.6	26.8	27.7	26.0	26.0	29.3	32.6	34.8	107.4	122.8
US$ Revenues	**1,122**	**1,154**	**1,232**	**1,296**	**1,358**	**1,440**	**1,555**	**1,633**	**4,804**	**5,986**

E: MOSL Estimates

Ashish Chopra (Ashish.Chopra@MotilalOswal.com)

Mphasis

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	MPHL IN
	REUTERS CODE
S&P CNX: 6,018	MBFL.BO

Equity Shares (m)	209.2
52 Week Range (Rs)	796/545
1,6,12 Rel Perf (%)	-2/-14/-18
Mcap (Rs b)	135.9
Mcap (USD b)	3.0

24 September 2010

Neutral

Previous Recommendation: Neutral

Rs650

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
10/08A*	19,065	2,954	14.1	98.4	27.1	9.5	39.1	37.9	4.2	20.4
10/09A	42,638	9,086	43.2	79.4	15.1	5.8	48.1	48.8	3.0	11.3
10/10E	50,200	10,476	49.6	14.8	13.1	4.2	37.5	38.8	2.5	9.9
10/11E	61,948	11,513	54.5	9.9	12.0	3.2	30.7	34.5	1.9	7.7

**Financial year end changed to YE Oct from March in FY08 (corresponds to 7month period)*

- We expect Mphasis to post 4QFY10 (year ending, October) revenue of US$289m, up 4.8% QoQ.
- Mphasis is expected to post rupee revenues of Rs13.3b, up 3.9% QoQ.
- We expect growth to be broad based, led by applications growth of 5.4% QoQ, BPO reversing its declining trend to register 4% QoQ growth and 3.4% sequential growth in ITO.
- EBITDA margins are expected to decline by 180bp QoQ to 22.9%, and we expect EBITDA to decline 3.8% to Rs3b.
- We expect net profit to decline 15.3% to Rs229.8m on higher taxation rate of 11% (v/s 7.4% in 3QFY10) and forex losses.
- The stock trades at 13.1x FY11E and 12x FY12E earnings. Maintain **Neutral** with a target price of Rs700.
- **What to look for:** Commentary on pricing negotiations after FY10, outlook on business from the HP channel and hiring guidance for FY11.
- **Key risks:** Adverse pricing renegotiations with HP, slower-than-expected ramp-up in HP offshoring and attrition.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E OCTOBER	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenues	**9,777**	**10,485**	**11,056**	**11,321**	**11,916**	**12,205**	**12,791**	**13,288**	**42,638**	**50,200**
Q-o-Q Change (%)	*NA*	*7.2*	*5.4*	*2.4*	*5.3*	*2.4*	*4.8*	*3.9*	*129.5*	*17.7*
Direct Expenses	6,118	6,555	6,986	7,242	7,794	8,077	8,598	9,089	26,901	33,450
Sales, General & Admin. Exp.	1,067	1,111	1,150	1,134	983	978	1,034	1,161	4,463	4,157
Operating Profit	**2,592**	**2,818**	**2,919**	**2,945**	**3,139**	**3,150**	**3,159**	**3,039**	**11,274**	**12,593**
Margins (%)	*26.5*	*26.9*	*26.4*	*26.0*	*26.3*	*25.8*	*24.7*	*22.9*	*26.4*	*25.1*
Other Income	64	153	32	226	330	275	174	-50	476	729
Depreciation	486	552	514	471	458	402	404	407	2,022	1,671
PBT bef. Extra-ordinary	**2,170**	**2,419**	**2,438**	**2,700**	**3,011**	**3,023**	**2,929**	**2,582**	**9,726**	**11,651**
Provision for Tax	70	174	145	251	325	350	217	284	641	1,176
Rate (%)	*3.2*	*7.2*	*6.0*	*9.3*	*10.8*	*11.6*	*7.4*	*11.0*	*6.6*	*10.1*
PAT bef. Extra-ordinary	**2,100**	**2,245**	**2,292**	**2,449**	**2,686**	**2,673**	**2,712**	**2,298**	**9,085**	**10,476**
Q-o-Q Change (%)	*NA*	*6.9*	*2.1*	*6.8*	*9.7*	*-0.5*	*1.5*	*-15.3*	*178.5*	*15.3*
US$ Revs	**199**	**212**	**232**	**232**	**257**	**271**	**276**	**289**	**875**	**1,092**
Q-o-Q Change (%)	*196.2*	*6.6*	*9.2*	*0.3*	*10.5*	*5.4*	*1.8*	*4.8*	*101.7*	*24.8*

E: MOSL Estimates

Ashish Chopra (Ashish.Chopra@MotilalOswal.com)

Patni Computer Systems

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	PATNI IN
	REUTERS CODE
S&P CNX: 6,018	PTNI.BO

Equity Shares (m)	128.4
52 Week Range (Rs)	624/391
1,6,12 Rel Perf (%)	-26/-37/-14
Mcap (Rs b)	56.9
Mcap (USD b)	1.3

24 September 2010

Neutral

Previous Recommendation: Neutral Rs443

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/08A	31,991	3,671	28.6	-11.9	15.5	2.2	13.0	12.6	1.4	8.3
12/09A	31,620	4,660	36.1	26.3	12.3	1.7	15.7	15.2	1.2	5.9
12/10E	32,206	5,466	40.8	13.2	10.5	2.0	17.4	16.9	1.4	6.7
12/11E	35,930	5,316	39.7	-2.7	10.8	1.7	16.8	16.3	1.1	5.6

** Reflects adjusted PAT*

- We expect Patni to post US dollar revenue of US$177m, up 5.7% QoQ, in line with its guidance of US$176m-177m.
- Rupee revenues are expected to be Rs8.1b, up 3.6% QoQ.
- EBITDA margins are expected to decline 130bp QoQ to 18.9%. We expect EBITDA to post a sequential decline of 3% to Rs1.5b.
- We expect other income to drop to Rs200m due to reduced cash and cash equivalents after a payout of special dividend of Rs63 per share (Rs9.9b including tax on dividend).
- We expect net profits to decline 21.3% sequentially to Rs1.16b due to reduced other income. In US dollar terms, net profit expectation of US$25.5m is higher than guided net profit of US$24m.
- The stock trades at 10.5x CY10E and 10.8x CY11E earnings. Maintain **Neutral**, with a target price of Rs477.
- **What to look for:** Ramp-up in Universal American deal, attrition trend and 4QCY10 guidance.
- **Key risks:** Persistent stake sale rumors could affect growth, client concentration, attrition, currency volatility and delays in project starts.

QUARTERLY PERFORMANCE (US GAAP) (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenues	**7,955**	**7,729**	**8,040**	**7,896**	**7,745**	**7,776**	**8,060**	**8,624**	**31,620**	**32,206**
Q-o-Q Change (%)	*-7.2*	*-2.8*	*4.0*	*-1.8*	*-1.9*	*0.4*	*3.6*	*7.0*	*-1.2*	*1.9*
Direct Expenses	5,143	4,851	4,922	4,697	4,596	4,855	5,126	5,444	19,612	20,020
Sales, General & Admin. Exp.	1,380	1,229	1,456	1,524	1,457	1,354	1,413	1,485	5,589	5,709
Operating Profit	**1,432**	**1,649**	**1,662**	**1,675**	**1,693**	**1,568**	**1,520**	**1,696**	**6,418**	**6,477**
Margins (%)	*18.0*	*21.3*	*20.7*	*21.2*	*21.9*	*20.2*	*18.9*	*19.7*	*20.3*	*20.1*
Other Income	-202	339	74	272	413	520	200	253	482	1,385
Depreciation	288	294	308	278	280	304	306	319	1,169	1,210
PBT bef. Extra-ordinary	**941**	**1,694**	**1,428**	**1,669**	**1,825**	**1,784**	**1,414**	**1,629**	**5,732**	**6,652**
Provision for Tax	180	326	260	305	328	310	255	293	1,072	1,186
Rate (%)	*19.1*	*19.2*	*18.2*	*18.3*	*18.0*	*17.4*	*18.0*	*18.0*	*18.7*	*17.8*
Net Income bef. Extra-ordinary	**761**	**1,368**	**1,168**	**1,363**	**1,497**	**1,473**	**1,159**	**1,336**	**4,660**	**5,466**
Q-o-Q Change (%)	*-2.5*	*79.9*	*-14.7*	*16.8*	*9.8*	*-1.6*	*-21.3*	*15.2*	*27.0*	*17.3*
Extra-ordinary Items	0	0	-548	-515	0	0	0	0	0	0
Net Income aft. Extra-ordinary	**761**	**1,368**	**1,716**	**1,879**	**1,497**	**1,473**	**1,159**	**1,336**	**4,660**	**5,466**
Q-o-Q Change (%)	*-2.5*	*79.9*	*25.4*	*9.5*	*-20.3*	*-1.6*	*-21.3*	*15.2*	*2.6*	*17.3*
US$ Revenues	**156**	**162**	**167**	**170**	**172**	**168**	**177**	**187**	**656**	**704**
% Chg (QoQ)	*-11.4*	*3.5*	*3.3*	*1.8*	*1.3*	*-2.8*	*5.7*	*5.8*	*-8.8*	*7.5*

E: MOSL Estimates

Ashish Chopra (Ashish.Chopra@MotilalOswal.com)

Tata Consultancy Services

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	TCS IN
	REUTERS CODE
S&P CNX: 6,018	TCS.BO

Equity Shares (m)	1,957.2
52 Week Range (Rs)	959/557
1,6,12 Rel Perf (%)	-2/-2/36
Mcap (Rs b)	1,823.1
Mcap (USD b)	40.3

24 September 2010

Neutral

Previous Recommendation: Neutral

Rs931

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	278,129	51,367	26.2	3.0	35.5	11.6	36.4	44.2	6.5	25.0
3/10A	300,289	68,647	35.1	33.6	26.6	8.7	37.3	40.9	5.9	20.6
3/11E	353,538	80,188	41.0	16.8	22.7	6.6	32.8	37.5	4.9	16.7
3/12E	405,422	87,166	44.5	8.7	20.9	5.2	27.8	32.9	4.2	14.7

- We expect TCS to post 2QFY11 revenue of US$1,879m, up 4.7% QoQ, driven by a 5.3% growth in volumes.
- In rupee terms, we expect revenues of Rs87.4b, 6.4% sequential growth.
- EBITDA margins are expected to decline marginally by 20bp QoQ to 29.1% on the impact of promotions.
- We expect EBITDA to post a 5.8% growth QoQ to Rs25.5b.
- TCS' effective hedges were US$1,171m. We expect TCS' other income to be Rs943m against Rs831m in 1QFY11.
- PAT is expected to grow 6.2% sequentially to Rs19.6b.
- The stock trades at 22.7x FY11E and 20.9x FY12E earnings. Maintain **Neutral**.
- **What to look for:** Impact of promotions on margins in 2QFY11, BFSI traction and a change to hiring guidance.
- **Key risks:** Slower growth in BFSI, sluggishness in manufacturing and currency volatility.

QUARTERLY PERFORMANCE (US GAAP) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenues	**72,070**	**74,351**	**76,503**	**77,365**	**82,173**	**87,445**	**90,406**	**93,513**	**300,289**	**353,538**
Q-o-Q Change (%)	*0.5*	*3.2*	*2.9*	*1.1*	*6.2*	*6.4*	*3.4*	*3.4*	*8.0*	*17.7*
Direct Expenses	38,208	39,215	39,841	39,897	43,978	46,913	48,354	50,154	157,243	189,400
Sales, General & Admin. Exp.	14,243	13,794	13,945	14,264	14,107	15,044	15,277	15,597	56,246	60,025
Operating Profit	**19,619**	**21,342**	**22,717**	**23,204**	**24,088**	**25,488**	**26,775**	**27,762**	**86,800**	**104,113**
Margins (%)	*27.2*	*28.7*	*29.7*	*30.0*	*29.3*	*29.1*	*29.6*	*29.7*	*28.9*	*29.4*
Other Income	194	-144	570	1,636	831	943	1,015	1,306	2,255	4,095
Depreciation	1,727	1,811	1,829	1,924	1,781	1,914	2,039	2,098	7,209	7,832
PBT bef. Extra-ordinary	**18,086**	**19,387**	**21,458**	**22,916**	**23,138**	**24,517**	**25,751**	**26,970**	**81,846**	**100,376**
Provision for Tax	2,655	2,909	3,241	3,284	4,423	4,658	4,893	5,124	12,088	19,098
Rate (%)	*14.7*	*15.0*	*15.1*	*14.3*	*19.1*	*19.0*	*19.0*	*19.0*	*14.8*	*19.0*
Minority Interest	228	239	242	320	272	272	272	272	1,029	1,089
Net Income after. EO	**15,203**	**16,239**	**17,975**	**19,312**	**18,442**	**19,586**	**20,586**	**21,573**	**68,729**	**80,188**
Q-o-Q Change (%)	*15.7*	*6.8*	*10.7*	*7.4*	*-4.5*	*6.2*	*5.1*	*4.8*	*33.8*	*16.7*
US$ Revenues	**1,480**	**1,538**	**1,635**	**1,686**	**1,794**	**1,879**	**1,965**	**2,033**	**1,555**	**1,574**
% Chg (QoQ)	*3.3*	*3.9*	*6.3*	*3.1*	*6.4*	*4.7*	*4.6*	*3.4*	*5.4*	*3.2*

E: MOSL Estimates

Ashish Chopra (Ashish.Chopra@MotilalOswal.com)

Tech Mahindra

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	TECHM IN
	REUTERS CODE
S&P CNX: 6,018	TEML.BO

Equity Shares (m)	130.7
52 Week Range (Rs)	1158/617
1,6,12 Rel Perf (%)	0/-28/-33
Mcap (Rs b)	101.0
Mcap (USD b)	2.2

24 September 2010

Neutral

Previous Recommendation: Neutral

Rs773

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	44,647	10,147	77.6	31.9	10.0	4.8	57.6	56.9	1.9	7.1
3/10A	46,254	7,546	45.0	-42.0	17.2	3.3	31.6	31.5	3.3	6.7
3/11E	48,621	8,924	55.6	23.5	13.9	2.6	27.1	22.1	2.6	7.6
3/12E	53,624	9,464	60.6	9.0	12.8	2.1	22.9	20.7	2.1	6.5

- Tech Mahindra is expected to post revenue at US$269m, up 7.1% QoQ on a cross currency fillip.
- Rupee revenue is expected to increase 8% QoQ to Rs12.2b, buoyed by ~3.9% sequential appreciation of the British pound against the US dollar.
- Reported EBITDA margins are expected to remain flatish at 18.9% despite the impact of wage inflation during the quarter. EBITDA is expected to increase 8.7% QoQ to Rs2.3b.
- Other income is expected to drop to Rs123m against Rs253m a quarter earlier.
- Expected PAT for the quarter is Rs1.5b, up 4% sequentially.
- The stock trades at 13.9x FY11E and 12.8x FY12E earnings including Satyam, excluding restructuring charges. Maintain **Neutral.**
- **What to look for:** BT revenues, growth in the non-BT portfolio and wage inflation. The hardware component on new telecom deals could lead to sequential revenue volatility.
- **Key risks:** Dependence on BT (45% of revenue), growth skew towards lower margin BPO and telco rollouts, Satyam financials and legal issues and currency volatility.

QUARTERLY PERFORMANCE (INDIAN GAAP) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenues	**11,130**	**11,418**	**11,873**	**11,833**	**11,337**	**12,242**	**12,336**	**12,706**	**46,254**	**48,621**
Q-o-Q Change (%)	*5.9*	*2.6*	*4.0*	*-0.3*	*-4.2*	*8.0*	*0.8*	*3.0*	*3.6*	*5.1*
Direct Cost	6,838	6,986	7,514	7,373	7,458	8,093	8,114	8,291	28,711	31,955
Other Operating Exps	1,487	1,507	1,552	1,672	1,752	1,836	1,789	1,779	6,218	7,156
Operating Profit	**2,805**	**2,925**	**2,807**	**2,788**	**2,127**	**2,313**	**2,434**	**2,637**	**11,325**	**9,510**
Margins (%)	*25.2*	*25.6*	*23.6*	*23.6*	*18.8*	*18.9*	*19.7*	*20.8*	*24.5*	*19.6*
Other Income	-261	270	6	739	253	123	293	145	754	814
Interest	571	843	459	311	264	252	241	230	2,184	987
Depreciation	296	312	331	399	354	367	370	381	1,338	1,473
PBT bef. Extra-ordinary	**1,677**	**2,040**	**2,023**	**2,817**	**1,762**	**1,816**	**2,115**	**2,171**	**8,557**	**7,865**
Provision for Tax	268	345	285	542	312	309	360	369	1,440	1,349
Rate (%)	*16.0*	*16.9*	*14.1*	*19.2*	*17.7*	*17.0*	*17.0*	*17.0*	*16.8*	*17.2*
Minority Interest	8	5	9	6	-6	-6	-6	-6	28	-24
Net Income bef. EO	**1,402**	**1,690**	**1,729**	**2,269**	**1,456**	**1,514**	**1,762**	**1,808**	**7,090**	**6,539**
Q-o-Q Change (%)	*-31.8*	*20.6*	*2.3*	*31.2*	*-35.8*	*4.0*	*16.4*	*2.6*	*-23.1*	*-7.8*
Extra-ordinary Items	-85	0	0	0	0	0	0	0	-85	0
Net Income aft. EO	**1,317**	**1,690**	**1,729**	**2,269**	**1,456**	**1,514**	**1,762**	**1,808**	**7,005**	**6,539**
Q-o-Q Change (%)	*-42.9*	*28.3*	*2.3*	*31.2*	*-35.8*	*4.0*	*16.4*	*2.6*	*-31.0*	*-6.6*
Effect of Restructuring Fees	420	415	430	404	411	415	415	415	1,669	1,656
Adjusted Net Income	**897**	**1,275**	**1,299**	**1,865**	**1,045**	**1,099**	**1,347**	**1,393**	**5,336**	**4,883**
Q-o-Q Change (%)	*-61.1*	*42.2*	*2.0*	*43.5*	*-44.0*	*5.2*	*22.6*	*3.4*	*-47.4*	*-8.5*
US$ Revenues	**228**	**237**	**254**	**259**	**251**	**269**	**268**	**276**	**977**	**1,065**
Q-o-Q Change (%)	*7.7*	*3.9*	*7.3*	*1.9*	*-2.9*	*7.1*	*-0.3*	*3.0*	*-0.9*	*9.0*

E: MOSL Estimates

Ashish Chopra (Ashish.Chopra@MotilalOswal.com)

Wipro

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	WPRO IN
	REUTERS CODE
S&P CNX: 6,018	WIPR.BO

Equity Shares (m)	2,443.3
52 Week Range (Rs)	452/321
1,6,12 Rel Perf (%)	0/-11/9
Mcap (Rs b)	1,089.9
Mcap (USD b)	24.1

24 September 2010

Neutral

Previous Recommendation: Neutral Rs446

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	256,891	38,677	15.9	22.1	28.2	7.4	28.0	23.2	4.2	20.7
3/10A	271,957	45,638	18.6	17.4	24.0	5.5	26.6	21.8	3.9	17.6
3/11E	317,409	53,534	21.9	17.3	20.5	4.4	24.1	20.7	3.2	14.8
3/12E	367,142	58,631	23.9	9.5	18.7	3.6	21.4	19.8	2.7	12.7

- Wipro's IT services revenue is expected to grow 5.6% QoQ to US$1,272m; at the higher end of its guidance of US$1,253m-1,277m revenue, driven by 6% sequential growth in volume.
- We expect consolidated revenue to be Rs80.7b, up 12.2% QoQ.
- Wipro is expected to give a guidance of 4-6% QoQ revenue growth in 3QFY11.
- Consolidated EBIT margin is expected to dip 70bp QoQ to 18.8%. We expect IT services EBIT margin to decline by 90bp QoQ to 23.6% due to ~20,000 promotions of staff in 3-7 year bracket.
- Expected IT services EBIT is Rs14b, up 3.4% QoQ.
- We expect Wipro's other income to fall to Rs737m from Rs1.4b a quarter earlier due to expected hedge losses during the quarter.
- Consolidated net profit is expected to be largely flat at Rs13b on reduced other income and a higher tax rate of 18.5% (against 16.4% a quarter earlier).
- At CMP the stock trades at 20.5x FY11E and 18.7x FY12E. Maintain **Neutral.**
- **What to look for:** Impact of promotions on IT Services margins, commentary on the possibility of a further wage hike in October, attrition and next quarter's guidance.
- **Key risks:** Fixed-price project overruns, delay in the recovery of the telecom sector, currency volatility.

CONSOLIDATED QUARTERLY PERFORMANCE (IFRS) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
IT Services and Products#	55,603	61,835	61,762	61,496	63,322	72,031	71,602	75,205	240,696	282,160
Other Businesses	8,265	7,102	7,618	8,276	8,584	8,646	8,946	9,073	31,261	35,249
Revenues	**63,868**	**68,937**	**69,380**	**69,772**	**71,906**	**80,677**	**80,548**	**84,278**	**271,957**	**317,409**
Q-o-Q Change (%)	*-2.2*	*7.9*	*0.6*	*0.6*	*3.1*	*12.2*	*-0.2*	*4.6*	*0.0*	*0.0*
Y-o-Y Change (%)	*5.7*	*5.6*	*5.3*	*6.9*	*12.6*	*17.0*	*16.1*	*20.8*	*5.9*	*16.7*
Direct Expenses	43,247	47,522	47,766	47,764	48,647.0	55,537	55,086	57,784	186,299	217,054
SG&A	7,791	8,466	8,472	8,701	9,225	9,979	10,139	10,494	33,430	39,837
EBIT	**12,830**	**12,949**	**13,142**	**13,307**	**14,034**	**15,161**	**15,322**	**16,000**	**52,228**	**60,518**
Margins (%)	*20.1*	*18.8*	*18.9*	*19.1*	*19.5*	*18.8*	*19.0*	*19.0*	*19.2*	*19.1*
Other Income	355	681	721	1,612	948	1,143	1,379	1,484	3,369	4,953
Forex Gain/(Loss)	-1,406	240	394	57	458	-406	-374	-310	-715	-632
Income from Equity Investees	114	112	128	176	157	157	157	157	530	628
PBT	**11,893**	**13,982**	**14,385**	**15,152**	**15,597**	**16,055**	**16,484**	**17,332**	**55,412**	**65,468**
Provision for Tax	1,740	2,217	2,321	3,015	2,527	2,941	3,020	3,177	9,293	11,666
Rate (%)	*14.6*	*15.9*	*16.1*	*19.9*	*16.2*	*18.3*	*18.3*	*18.3*	*16.8*	*17.8*
Minority Interest	49.0	58.0	31.0	46.0	67.0	67.0	67.0	67	184.0	268.0
Net Income	**10,104**	**11,707**	**12,033**	**12,091**	**13,003**	**13,047**	**13,396**	**14,087**	**45,935**	**53,534**
Q-o-Q Change (%)	*0.9*	*15.9*	*2.8*	*0.5*	*7.5*	*0.3*	*2.7*	*5.2*	*18.5*	*16.5*
US$ Revenues (IT Services)	**1,033**	**1,065**	**1,127**	**1,166**	**1,204**	**1,272**	**1,336**	**1,390**	**4,391**	**5,202**

E: MOSL Estimates

Ashish Chopra (Ashish.Chopra@MotilalOswal.com)

Infrastructure

BSE Sensex: 20,045 S&P CNX: 6,018 24 September 2010

COMPANY NAME

Hindustan Construction

IVRCL

Jaiprakash Associates

Nagarjuna Construction

Simplex Infrastructure

Order book, execution to pick up; funding, interest rates, commodity prices key concerns

Heavy monsoons, Andhra projects to impact 2QFY11 execution, NCC/IVRCL to post stable revenue growth

- We expect the construction sector's 2QFY11 revenue to grow 5.6% YoY against 9.6% YoY in 1QFY11. Execution in 2QFY11 was affected by heavy monsoons, slow execution in Andhra Pradesh (particularly irrigation and real estate projects), scarce labor and poor health of government finances.
- We expect HCC and Simplex revenue to grow 14% and 6% respectively in 2QFY11. HCC's revenue growth will be impacted by increased intake from hydro power projects (which have a high gestation period) and a slowdown in Andhra Pradesh's irrigation projects.

EBITDA margins to fall due to higher commodity prices

In 1QFY11, EBITDA margins of most construction companies improved (industry margins rose 41bp). But given (a) higher commodity prices, and (b) execution delays, we expect 2QFY11 EBITDA margins to drop 10-20bp YoY. We expect 2QFY11 profits to fall, driven by depreciation and interest expenses. PAT margins in 2QFY11 are expected to fall by 20-25bp YoY, given a 20-30bp increase in interest costs (as a percentage of revenue).

Book-to-bill ratio near recent highs but execution a concern

- For the construction sector, the book-to-bill ratio as at March 2010 was 3.5x, up from 3x in March 2009. But excluding irrigation projects in Andhra Pradesh, which are slow moving, the sector's BTB is 3x, similar to that in March 2009. Excluding in-house BOT projects awarded in FY10 (where execution is to some extent contingent on fund raising and is slow moving), BTB as at March 2010 was 2.5x. Thus we believe increased BTB ratio for the sector is unlikely to result in improved execution in 2QFY11.

EXPECTED QUARTERLY PERFORMANCE SUMMARY (RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
	24.09.10		SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ
Infrastructure											
Hindustan Construction	60	Buy	9,430	9.4	-6.5	1,160	31.7	-7.8	219	-21.7	-27.6
IVRCL Infra.	172	Neutral	12,345	1.4	11.6	1,173	2.5	16.6	384	-21.3	37.6
Jaiprakash Associates	121	Buy	23,462	28.6	-26.1	5,550	21.8	-13.6	1,608	38.5	52.0
Nagarjuna Construction	169	Buy	11,463	7.4	5.5	1,204	10.6	13.8	474	7.9	14.6
Simplex Infra.	474	Buy	10,836	5.7	-7.9	1,084	1.7	-9.7	297	6.5	-17.9
Sector Aggregate			**67,536**	**12.6**	**-10.6**	**10,169**	**16.4**	**-7.1**	**2,982**	**12.6**	**23.5**

Dhirendra Tiwari (Dhirendra.Tiwari@MotilalOswal.com)/Pooja Kachhawa (Pooja.Kachhawa@MotilalOswal.com)

ORDER BOOK (RS B)

	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	YOY (%)
HCC	96	91	102	102	108	122	164	154	155	157	188	193	25.5
IVRCL	96	110	127	124	138	143	145	139	150	173	212	233	67.4
NCC	90	98	114	122	124	124	122	139	143	148	154	161	15.5
Patel	54	55	60	60	60	71	72	74	70	63	85	110	49.7
Simplex	71	89	100	100	107	102	101	100	105	106	115	123	22.5
Aggregate	**407**	**442**	**502**	**507**	**537**	**562**	**604**	**606**	**623**	**648**	**753**	**819**	**35.3**
% Growth (QoQ)	**5.3**	**8.7**	**13.7**	**1.0**	**5.7**	**4.8**	**7.3**	**0.4**	**2.8**	**4.0**	**16.3**	**8.7**	

Source: Companies

REVENUE (RS B)

	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	YOY %
HCC	5	8	11	9	6	8	10	10	9	9	11	10	4.6
IVRCL	7	10	13	9	11	12	16	11	12	12	19	11	1.9
NCC	7	8	13	10	11	10	11	10	11	12	15	11	8.6
Patel	2	3	5	4	3	3	8	5	4	4	11	7	47.5
Simplex	6	7	8	10	10	13	14	11	10	11	13	12	6.0
Aggregate	**27**	**35**	**49**	**42**	**42**	**46**	**59**	**46**	**46**	**48**	**68**	**51**	**9.6**
IVRCL	7	10	13	9	11	12	16	11	12	12	19	11	1.9

Source: Companies

EBIDTA MARGINS (%)

	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	BP,YOY
HCC	11.0	12.9	12.6	10.2	12.0	12.1	14.7	13.0	12.5	12.2	11.3	12.5	-53
IVRCL	8.0	11.1	10.5	8.8	8.0	9.1	8.7	9.2	9.4	9.8	7.5	9.1	-8
NCC	12.6	11.1	8.7	9.4	10.3	8.8	7.6	10.3	10.2	9.9	10.0	9.7	-58
Patel	17.8	17.9	16.5	14.3	18.5	20.8	11.1	15.2	15.2	18.6	12.0	16.9	172
Simplex	10.0	10.0	8.5	10.8	9.8	9.1	8.1	10.1	10.4	9.1	10.3	10.2	13
Industry	**10.7**	**11.4**	**10.4**	**10.3**	**10.4**	**10.4**	**9.7**	**10.8**	**11.8**	**10.6**	**9.9**	**11.2**	**41**
L&T	10.7	11.7	13.3	9.6	9.6	11.0	13.1	10.7	10.0	11.8	13.8	13.6	72

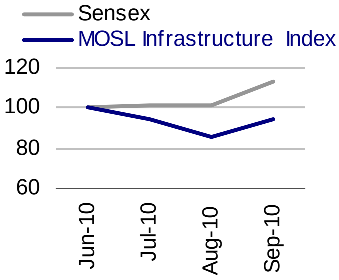
Source: Companies

QUARTERLY INTEREST COST (RS M, PERCENTAGE OF REVENUE)

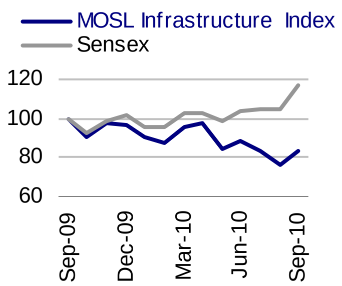
	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11
HCC	341.9	407.9	452.3	390.6	492.0	572.7	649.8	613.0	499.1	496.5	443.0	577.4
% Revenues	*6.2*	*5.5*	*4.4*	*4.4*	*7.1*	*6.5*	*6.3*	*6.4*	*5.8*	*5.3*	*4.1*	*5.7*
IVRCL	76.0	176.8	207.7	193.9	304.2	419.1	391.8	389.4	353.7	368.4	525.4	452.9
% Revenues	*1.1*	*1.8*	*1.6*	*2.1*	*2.7*	*3.5*	*2.4*	*3.6*	*2.9*	*3.1*	*2.8*	*4.1*
NCC	233.3	166.9	174.0	238.5	274.6	237.6	212.8	346.3	322.3	305.7	348.1	293.5
% Revenues	*3.4*	*2.1*	*1.4*	*2.5*	*2.6*	*2.3*	*1.9*	*3.5*	*3.0*	*2.6*	*2.3*	*2.7*
Patel Engg	27.5	29.5	131.9	145.0	162.5	195.0	150.0	241.5	252.9	210.2	390.1	324.9
% Revenues	*1.2*	*1.1*	*2.6*	*3.7*	*5.3*	*6.1*	*2.0*	*5.1*	*6.3*	*5.0*	*3.7*	*4.6*
Simplex Infra	251.0	295.6	213.7	274.5	324.2	435.8	392.3	347.6	288.6	262.1	29.7	281.1
% Revenues	*4.4*	*4.2*	*2.2*	*2.7*	*3.2*	*3.4*	*2.8*	*3.1*	*2.8*	*2.5*	*0.2*	*2.4*
Total	**930**	**1,077**	**1,180**	**1,242**	**1,557**	**1,860**	**1,797**	**1,938**	**1,717**	**1,643**	**1,736**	**1,930**
% Revenues	2.9	2.7	2.0	3.0	3.7	4.0	3.0	4.2	3.8	3.4	2.5	3.8

Source: Company/MOSL

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



- The macro environment is positive with strong order intake expected from sectors like roads, power, urban infrastructure, ports and irrigation. But due to the monsoons, order growth slowed in 2QFY11. We expect it will pick up in 2HFY11.

2HFY11 risks: high commodity prices, interest rates, funding constraints

- We believe the key risks for the construction sector are increased commodity prices, a possible increase in interest rates and funding constraints. While commodity prices have corrected from their recent peaks, average FY11 prices are expected to be higher than they were a year earlier.
- Interest costs as a percentage of revenue are 2.8% and compares with NPM of 3.4%. Thus earnings are highly sensitive to movements in interest rates.
- Most construction companies including HCC and IVRCL plan equity fund raising in FY11 as part of project SPVs/holding companies. The equity fund raising could be through PE investments, QIPs and structured transaction. Delays in fund raising could impact execution as in-house projects account for a meaningful part of the order book.

We are Neutral on the sector

We are Neutral on the construction sector due to (a) a drop in order intake in 1HFY11, (b) delay in execution due to a healthy monsoon and a stagnant Andhra Pradesh order book, and (c) increased commodity prices, possible increase in interest rates and funding constraints.

COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Infrastructure														
GMR Infrastructure	58	Neutral	0.4	1.2	1.4	134.5	50.4	42.8	26.1	14.3	13.0	2.4	6.0	6.7
GVK Power & Infra	48	Buy	1.0	2.1	3.3	47.2	23.6	14.8	22.0	15.8	10.9	4.9	9.5	13.4
Hindustan Construction	60	Buy	1.7	2.2	3.2	35.0	27.3	18.8	12.6	10.0	8.1	6.9	7.0	9.4
IVRCL Infra.	172	Neutral	7.8	8.2	11.2	22.0	20.8	15.4	11.0	10.2	8.2	11.5	11.5	14.1
Jaiprakash Associates	121	Buy	1.4	5.9	3.6	84.8	20.7	33.9	23.5	18.8	15.1	4.0	13.6	7.5
Nagarjuna Construction	169	Buy	9.2	11.7	14.3	18.3	14.5	11.8	10.7	9.1	7.6	9.8	10.4	12.1
Simplex Infra.	474	Buy	24.8	33.2	45.2	19.1	14.3	10.5	8.2	6.4	5.4	13.1	15.7	18.3
Sector Aggregate						**53.9**	**24.8**	**24.4**	**19.9**	**14.8**	**12.2**	**5.1**	**10.2**	**9.5**

Hindustan Construction

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	HCC IN
	REUTERS CODE
S&P CNX: 6,018	HCNS.BO

Equity Shares (m)	606.6
52 Week Range (Rs)	81/50
1,6,12 Rel Perf (%)	-15/-26/-29
Mcap (Rs b)	36.5
Mcap (USD b)	0.8

24 September 2010

Buy

Previous Recommendation: Buy

Rs60

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	33,137	843	1.4	19.0	19.4	1.6	8.4	12.0	1.1	8.6
3/10A	36,442	1,044	1.7	23.8	35.0	2.3	8.3	9.0	1.6	13.3
3/11E	42,476	1,336	2.2	28.0	27.3	1.0	7.8	9.2	1.0	8.1
3/12E	54,103	1,939	3.2	45.2	18.8	0.9	9.8	11.0	0.8	6.3

** Fully Diluted*

- In 2QFY11 we expect HCC to post revenue of Rs9.4b, (up 9.2% YoY), EBITDA of Rs1.1b (up 31.7%) and net profit of Rs219m (down 21.7%). Revenue growth was impacted by subdued order flows and execution delays due to the monsoons kicking off. Thus, we expect 2QFY11 revenue to post moderate growth, followed with a drop in PAT margins due to fixed expenses, interest and depreciation.
- Order book at the end 1QFY11 was Rs193b (up 25% YoY and up 2.8% QoQ), and book-to-bill ratio was 5x TTM revenue. We expect the current order book to drive revenue of 21.5% CAGR over FY10-12.
- Order announcements in 2QFY11 were Rs10.9b, which includes (1) the North Front Railway Project, Imphal (Rs1.8b), (2) a water reservoir, temporary roads, drains and steel fabrication at the Aditya Aluminium project in Sambalpur, Orissa (Rs2.4b), and (3) civil works from GMR (Badrinath) Hydro Power Generation (Rs6.6b).
- In 2QFY11, Lavasa Corp Ltd, a subsidiary of HCC, filed a DRHP with SEBI to float an initial public offer (IPO) to raise Rs20b.
- In 2QFY11 HCC allotted 1:1 bonus equity shares and the company's paid-up equity share capital is Rs606.5m, up from Rs303.2m.
- We expect consolidated EPS and revenue CAGR of 36.3% and 21.5% respectively, over FY10-12.
- The stock trades at a reported P/E of 27.3x FY11E and 18.8x FY12E earnings.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales (Excl JV)	**8,725**	**7,825**	**9,026**	**10,867**	**9,924**	**8,920**	**10,619**	**13,013**	**36,442**	**42,476**
Change (%)	*0.8*	*20.6*	*10.2*	*10.9*	*13.7*	*14.0*	*17.7*	*19.8*	*10.0*	*16.6*
Gross Sales	**9,641**	**8,622**	**9,450**	**10,917**	**10,082**	**9,430**	**11,219**	**14,161**	**38,630**	**44,892**
Change (%)	*7.7*	*23.6*	*7.9*	*6.0*	*4.6*	*9.4*	*18.7*	*29.7*	*10.4*	*16.2*
EBITDA	**1,151**	**881**	**1,017**	**1,230**	**1,258**	**1,160**	**1,359**	**1,652**	**4,279**	**5,399**
Change (%)	*26.3*	*5.0*	*-4.1*	*-22.7*	*9.3*	*31.7*	*33.7*	*34.3*	*-2.8*	*26.2*
As of % Sales	*13.0*	*12.5*	*12.2*	*11.3*	*12.5*	*12.3*	*12.1*	*11.7*	*12.2*	*13.0*
Depreciation	301	315	322	201	347	330	340	326	1,139	1,343
Interest	613	499	496	443	577	515	540	530	2,052	2,163
Other Income	19	28	41	42	31	12	10	47	130	100
PBT	**256**	**95**	**240**	**628**	**364**	**327**	**489**	**843**	**1,218**	**1,994**
Tax	74	40	92	198	81	108	161	278	404	658
Effective Tax Rate (%)	*28.8*	*42.0*	*38.5*	*31.6*	*22.3*	*33.0*	*33.0*	*33.0*	*33.2*	*33.0*
Reported PAT	**182**	**55**	**147**	**430**	**283**	**219**	**328**	**565**	**814**	**1,336**
Adj PAT	**268**	**280**	**218**	**342**	**302**	**219**	**328**	**565**	**1,108**	**1,414**
Change (%)	*37.2*	*NA*	*32.8*	*-42.9*	*12.7*	*-21.7*	*50.3*	*65.2*	*21.5*	*27.6*

E: MOSL Estimates

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IVRCL Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	IVRC IN
	REUTERS CODE
S&P CNX: 6,018	IVRC.BO

Equity Shares (m)	269.7
52 Week Range (Rs)	212/144
1,6,12 Rel Perf (%)	-2/-8/-29
Mcap (Rs b)	46.3
Mcap (USD b)	1.0

24 September 2010

Neutral

Previous Recommendation: Neutral

Rs172

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	48,819	2,290	8.5	10.5	12.1	1.5	13.4	13.7	0.8	9.7
3/10A	54,923	2,109	7.8	-7.9	20.8	2.4	11.5	13.8	1.1	11.5
3/11E	64,972	2,224	8.2	5.4	20.8	2.3	11.5	13.4	1.0	11.1
3/12E	82,165	3,016	11.2	35.6	15.4	2.0	14.1	15.8	0.8	8.8

- The 1QFY11 order book was Rs232b including L1 orders of Rs40b, representing a book-to-bill ratio of 4.3x TTM revenue. A large part of 1QFY11 intake (Rs37b) pertains to in-house road BOT projects and Andhra Pradesh irrigation projects, (generally slow moving).

- In 2QFY11 IVRCL announced (a) a project to improve Sion-Panvel special state highway (under BOT) from BARC junction to Kalamboli junction, (b) four laning and improvement of 6 and 7 Maharashtra state highways in Yavatmal and Chandrapur districts on DBOT.

- In 2QFY11, we expect IVRCL to post revenue of Rs12.3b, (up 1.4% YoY), EBITDA of Rs1.1b (up 2.5%) and net profit of Rs384m (down 21.3%). Revenue growth was impacted by poor order flows and execution delay, due to slow moving AP orders. We expect muted revenue growth in 2QFY11 and a 10-20bp YoY drop in EBITDA and PAT margins.

- In 1QFY11, margins expanded 10bp YoY due to increased execution of high margin building projects. Building projects account for 14% of IVRCL's order book.

- The stock trades at a P/E of 20.8x FY11E and 15.4x FY12E earnings.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**10,860**	**12,178**	**11,840**	**18,904**	**11,064**	**12,345**	**14,944**	**26,620**	**54,923**	**64,972**
Change (%)	*16.9*	*7.1*	*-0.5*	*16.2*	*1.9*	*1.4*	*26.2*	*40.8*	*12.5*	*18.3*
EBITDA	**996**	**1,145**	**1,156**	**1,982**	**1,006**	**1,173**	**1,420**	**2,438**	**5,313**	**6,036**
Change (%)	*20.7*	*25.4*	*6.5*	*36.7*	*1.0*	*2.5*	*22.8*	*23.0*	*24.3*	*13.6*
As of % Sales	*9.2*	*9.3*	*9.6*	*10.5*	*9.1*	*9.5*	*9.5*	*9.2*	*9.7*	*9.3*
Depreciation	129	133	139	141	157	160	152	190	543	660
Interest	389	354	368	525	453	480	530	648	1,639	2,111
Other Income	39	57	39	20	9	40	30	77	155	156
PBT	**516**	**715**	**688**	**1,335**	**404**	**573**	**768**	**1,677**	**3,287**	**3,421**
Tax	165	227	229	486	125	189	269	587	1,177	1,197
Effective Tax Rate (%)	*32.0*	*31.8*	*33.4*	*36.4*	*31.0*	*33.0*	*35.0*	*35.0*	*35.8*	*35.0*
Reported PAT	**351**	**488**	**458**	**850**	**279**	**384**	**499**	**1,090**	**2,109**	**2,224**
Adj PAT	**351**	**488**	**458**	**850**	**279**	**384**	**499**	**1,090**	**2,109**	**2,224**
Change (%)	*-19.4*	*-18.9*	*-1.5*	*6.4*	*-20.6*	*-21.3*	*8.9*	*28.3*	*-8.3*	*5.4*

E: MOSL Estimates

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Jaiprakash Associates

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	JPA IN
	REUTERS CODE
S&P CNX: 6,018	JAIA.BO

Equity Shares (m)	2,127.7
52 Week Range (Rs)	180/108
1,6,12 Rel Perf (%)	-7/-34/-43
Mcap (Rs b)	257.9
Mcap (USD b)	5.7

24 September 2010

Buy

Previous Recommendation: Buy

Rs121

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GR.* (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	57,642	8,970	4.2	47.1	28.7	2.1	15.9	10.3	6.2	21.4
3/10A	100,889	8,933	4.2	-0.4	28.8	3.0	11.8	14.4	3.9	17.2
3/11E	124,838	9,193	4.3	2.8	28.0	2.7	10.1	11.7	3.2	13.3
3/12E	158,173	14,564	6.8	58.4	17.7	2.4	14.3	12.1	2.6	10.7

** Not Fully Diluted; FCCB outstanding of Rs14b at conversion price of Rs166/sh (dilution of ~5%)*

- In 2QFY11, we expect Jaiprakash to post revenue of Rs23.5b (up 29% YoY), EBITDA of Rs5.6b (up 22% YoY), and net profit of Rs1.6b (up 39% YoY).
- 2QFY11 performance would be driven by higher volumes in cement division (factored at 3.6m tonnes v/s 2.1m tonnes). Contribution from EPC division is likely to be marginally better, given pick-up in execution from own projects.
- Jaiprakash has announced plans to further ramp up its cement capacity to 50m tonnes v/s 33m tones, earlier. Large part of the increase in capacity could be brownfield, entailing lower capex.
- Jaypee group comprising of Jaiprakash Associates, Jaypee Infratech, JPSK Sports, etc has crossed cumulative Real Estate (RE) bookings (pre-sales) of Rs126b as at June 2010 (35.8msf).
- The company plans to enter the fertilizer industry and intends to make an initial equity contribution of Rs2b towards the venture through its subsidiary, Jaypee Fertilizers & Industries.
- Jaypee Infratech (83% stake by Jaiprakash Associates) raised Rs22.5b through an IPO to part finance the equity funding requirement for the Yamuna Expressway project development. Project cost for development of the six-lane expressway connecting Greater Noida to Agra is Rs97b, which will be funded by debt (Rs67b), equity (Rs29b) and RE deposit (Rs1b).
- Jaiprakash Power Ventures (JPVL), an 76% subsidiary, raised US$200m through an FCCB issue to part fund its equity contribution towards power projects under construction in 4QFY10.
- We expect Jaiprakash to post standalone net profit of Rs9.2b in FY11 (up 3%) and Rs14.6b in FY12 (up 58%). The stock trades at 28x FY11E and 17.7x FY12E reported earnings. **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**20,671**	**18,243**	**28,524**	**33,452**	**31,742**	**23,462**	**32,959**	**36,675**	**100,889**	**124,838**
Change (%)	*79.9*	*54.3*	*115.8*	*60.5*	*53.6*	*28.6*	*15.5*	*9.6*	*74.7*	*23.7*
EBITDA	**5,417**	**4,558**	**7,739**	**8,535**	**6,421**	**5,550**	**8,374**	**9,808**	**26,248**	**30,153**
Change (%)	*73.5*	*31.1*	*213.0*	*21.1*	*18.5*	*21.8*	*8.2*	*14.9*	*62.8*	*14.9*
As of % Sales	*26.2*	*25.0*	*27.1*	*25.5*	*20.2*	*23.7*	*25.4*	*26.7*	*26.0*	*24.2*
Depreciation	1,017	1,100	1,109	1,334	1,503	1,600	1,700	1,771	4,561	6,574
Interest	2,219	2,588	2,762	2,989	3,279	2,850	3,150	3,659	10,558	12,938
Other Income	3,229	10,298	1,153	126	436	1,300	1,350	310	14,805	3,396
Extra-ordinary income	0	0	-2,110	-10	5,125	0	0	0	-2,119	5,125
PBT	**5,410**	**11,168**	**2,911**	**4,327**	**7,199**	**2,400**	**4,874**	**4,688**	**23,816**	**19,160**
Tax	498	2,466	1,879	1,890	2,039	792	1,608	1,426	6,733	5,865
Effective Tax Rate (%)	*9.2*	*22.1*	*64.6*	*43.7*	*28.3*	*33.0*	*33.0*	*30.4*	*28.3*	*30.6*
Reported PAT	**4,912**	**8,702**	**1,032**	**2,438**	**5,160**	**1,608**	**3,265**	**3,262**	**17,083**	**13,295**
Adj PAT	**2,181**	**1,161**	**3,141**	**2,447**	**1,058**	**1,608**	**3,265**	**3,262**	**8,931**	**9,193**
Change (%)	*71.4*	*-42.8*	*49.2*	*-22.4*	*-51.5*	*38.5*	*4.0*	*33.3*	*4.3*	*2.9*

E: MOSL Estimates

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Nagarjuna Construction

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	NJCC IN
	REUTERS CODE
S&P CNX: 6,018	NGCN.BO

Equity Shares (m)	256.6
52 Week Range (Rs)	197/132
1,6,12 Rel Perf (%)	-4/-6/-3
Mcap (Rs b)	43.5
Mcap (USD b)	1.0

24 September 2010

Buy

Previous Recommendation: Buy

Rs169

YEAR END	NET SALES* (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	47,002	1,788	7.0	-1.4	23.1	1.3	9.4	10.2	0.9	10.1
3/10A	57,120	2,370	9.2	32.5	17.4	1.6	9.8	12.7	1.1	11.2
3/11E	69,987	3,003	11.7	26.7	13.8	1.7	10.4	11.5	1.1	11.0
3/12E	86,667	3,678	14.3	22.5	11.2	1.5	12.1	12.8	1.0	9.2

** For construction segment (consolidated, including international business)*

- NCC's 1QFY11 order book was Rs160b (up 26% YoY, up 4.4% QoQ). The company announced an order worth Rs6.7b in 2QFY11, comprising mainly buildings, to be executed in 14-16 months.
- Orders bagged during the quarter include (a) construction of a hostel project from the government of Tripura, (b) construction and renovation at ISBT and Kashmere Gate from the NCR government, (c) civil, structural and piping work from Indian oil in Orissa, and (d) construction of hospital buildings Ahmedabad works project from the commissioner of Ahmedabad.
- We are expecting order execution to slow in 2QFY11 with revenue of Rs11.4b, up 7.4% YoY, since the second quarter is the worst quarter for construction sector due to the monsoons.
- We expect NCC to post 2QFY11 EBITDA of Rs1.2b (up 10.6%) and net profit of Rs474b (up 7.9%).
- The stock trades at a P/E of 13.8x FY11E and 11.2x FY12E earnings.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**10,004**	**10,670**	**11,870**	**15,227**	**10,865**	**11,463**	**15,284**	**21,173**	**47,778**	**58,785**
Change (%)	*3.0*	*1.1*	*15.6*	*38.7*	*8.6*	*7.4*	*28.8*	*39.0*	*15.1*	*23.0*
EBITDA	**1,032**	**1,089**	**1,181**	**1,527**	**1,058**	**1,204**	**1,590**	**2,189**	**4,834**	**6,040**
Change (%)	*12.7*	*0.4*	*31.4*	*82.3*	*2.5*	*10.6*	*34.6*	*43.3*	*29.4*	*24.9*
As of % Sales	*10.3*	*10.2*	*9.9*	*10.0*	*9.7*	*10.5*	*10.4*	*10.3*	*10.1*	*10.3*
Depreciation	127	129	133	136	156	160	160	192	525	669
Interest	346	322	306	348	293	350	500	670	1,322	1,814
Other Income	20	8	14	12	13	14	19	20	48	66
Extra-ordinary income	0	0	0	496	0	0	0	0	496	0
PBT	**579**	**646**	**756**	**1,551**	**621**	**708**	**949**	**1,347**	**3,530**	**3,624**
Tax	196	206	277	525	207	234	313	444	1,204	1,197
Effective Tax Rate (%)	*33.9*	*32.0*	*36.7*	*33.8*	*33.3*	*33.0*	*33.0*	*32.9*	*34.1*	*33.0*
Reported PAT	**382**	**439**	**479**	**1,026**	**414**	**474**	**636**	**903**	**2,326**	**2,427**
Adj PAT	**382**	**439**	**479**	**622**	**414**	**474**	**636**	**903**	**1,922**	**2,427**
Change (%)	*3.1*	*3.8*	*31.8*	*62.7*	*8.3*	*7.9*	*32.8*	*45.3*	*24.9*	*26.3*

E: MOSL Estimates

Dhirendra Tiwari (Dhirendra.Tiwari@MotilalOswal.com)/Pooja Kachhawa (Pooja.Kachhawa@MotilalOswal.com)

Simplex Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	SINF IN
	REUTERS CODE
S&P CNX: 6,018	SINF.BO

Equity Shares (m)	49.5
52 Week Range (Rs)	563/396
1,6,12 Rel Perf (%)	-12/-4/-23
Mcap (Rs b)	23.5
Mcap (USD b)	0.5

24 September 2010

Buy

Previous Recommendation: Buy

Rs474

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	46,627	1,318	26.6	29.1	11.2	1.6	15.9	16.7	0.6	6.6
3/10A	44,427	1,227	24.8	-6.9	17.9	2.3	13.1	13.3	0.8	7.9
3/11E	52,859	1,642	33.2	33.9	14.3	2.1	15.7	14.8	0.6	6.5
3/12E	66,734	2,236	45.2	36.2	10.5	1.8	18.3	16.7	0.5	5.5

- In 2QFY11, we expect Simplex to post revenue of Rs10.8b, up 5.7% YoY, net profit of Rs297m, up 6.5% YoY and EBITDA of Rs1b. The muted revenue growth was driven by subdued order flows and execution.
- The 1QFY11 order book was Rs122b (up 14.2% YoY and 6.7% QoQ), and the book-to-bill ratio was 2.7x TTM revenue. This quarter has been slow due to zero order intake and a delay in execution, which will impact overall revenue and profits. But the management has guided for FY11 revenue growth of 15-20%, sustained EBITDA margins, and 20-30bp improvement in net profit margins.
- Over FY10-12, we expect Simplex to post revenue of 21% CAGR and net profit of 35% CAGR.
- We estimate execution improvement after the monsoons.
- The stock trades at 14.3x FY11E and 10.5x FY12E earnings.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Income	**11,097**	**10,252**	**10,668**	**12,521**	**11,768**	**10,836**	**13,215**	**17,040**	**44,538**	**52,859**
Change %	*9.0*	*2.0*	*(16.0)*	*(9.8)*	*6.0*	*5.7*	*23.9*	*36.1*	*(5.0)*	*18.7*
Total Expenses	9,980	9,187	9,699	11,234	10,567	9,752	12,025	15,281	9,980	9,699
EBITDA	**1,118**	**1,065**	**969**	**1,287**	**1,201**	**1,084**	**1,189**	**1,759**	**4,440**	**5,233**
Change %	*0.2*	*7.8*	*(16.2)*	*14.6*	*7.4*	*1.7*	*22.7*	*36.7*	*3.8*	*17.8*
As % of sales	*10.2*	*10.7*	*9.5*	*10.5*	*10.3*	*10.3*	*9.4*	*10.8*	*10.2*	*10.2*
Other Income	14	30	44	30	9	30	55	73	116	167
Interest	348	289	262	214	281	280	320	410	1,112	1,291
Depreciation	381	383	391	379	390	390	415	426	1,534	1,621
Extraordinary Expenses	-	-	-	-	-	-	-	-	-	-
PBT	**404**	**423**	**359**	**724**	**539**	**444**	**509**	**996**	**1,911**	**2,488**
As % of sales	*3.6*	*4.1*	*3.4*	*5.8*	*4.6*	*4.1*	*3.9*	*5.8*	*4.3*	*4.7*
Change %	*(33.0)*	*9.8*	*10.7*	*107.7*	*25.8*	*(0.8)*	*14.4*	*1.1*	*13.4*	*9.7*
Tax	147	144	129	265	177	146	173	350	685	846
Tax / PBT	36.4	34.0	35.8	36.6	32.8	33.0	34.0	35.1	35.8	34.0
PAT	**257**	**279**	**231**	**459**	**362**	**297**	**336**	**646**	**1,226**	**1,642**
Adjusted PAT	**257**	**279**	**231**	**459**	**362**	**297**	**336**	**646**	**1,226**	**1,642**
As % of sales	*2.3*	*2.7*	*2.2*	*3.7*	*3.1*	*2.7*	*2.5*	*3.8*	*2.8*	*3.1*
Change %	*(39.0)*	*(7.7)*	*(23.7)*	*53.8*	*41.1*	*6.5*	*45.6*	*40.8*	*(7.4)*	*33.9*

E: MOSL Estimates

Dhirendra Tiwari (Dhirendra.Tiwari@MotilalOswal.com)/Pooja Kachhawa (Pooja.Kachhawa@MotilalOswal.com)

Media

BSE Sensex: 20,045 S&P CNX: 6,018 24 September 2010

COMPANY NAME

Deccan Chronicle

H T Media

Jagran Prakashan

Sun TV Network

Zee Entertainment

Expect strong earnings growth

We expect broadcasting companies (Sun TV and Zee) to post strong EPS growth of 22-29% YoY, driven by (1) 18-19% ad revenue growth, and (2) 350-500bp EBITDA margin expansion on higher subscription revenue and cost control. For print media companies, we expect earnings to grow at a lower rate (12-17%), as strong ad revenue growth would be offset by upward pressure on newsprint prices (up ~28% at ~US$650m from the bottom of ~US$500m reached in 2QFY10). We expect further pressure on earnings, as full impact of higher newsprint prices would be visible in 2HFY11.

Advertising growth to remain strong

We expect ad revenue growth of 19% for Zee (proforma growth including RGEC for comparable quarter last year) and 18% for Sun TV. Our industry interactions indicate that advertising market remains buoyant with new deals happening at higher rates. For print companies, we expect ad revenue growth of 16-18% for Jagran/HT Media and 7% for Deccan Chronicle.

Broadcasting space appears attractive

We expect advertising growth to remain strong, driven by higher volumes as well as price increases. We believe that print media companies have already seen best of their margins and could see growth rates coming down, as players enter new territories and cut cover prices. The broadcasting space looks attractive due to rising subscription revenues from DTH, digitization drive from cable companies and improving outlook on advertising. In our opinion, Zee Entertainment and Sun TV are the best stocks to play the broadcasting space.

EXPECTED QUARTERLY PERFORMANCE SUMMARY (RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
	24.09.10		SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ
Media											
Deccan Chronicle	133	Buy	2,671	6.5	15.2	1,541	11.1	28.5	1,122	12.4	23.0
HT Media	158	Neutral	4,103	17.9	1.5	815	24.1	2.0	416	17.5	0.6
Jagran Prakashan	126	Neutral	2,797	13.3	3.7	931	11.9	3.3	564	12.2	1.4
Sun TV	518	Neutral	4,467	39.4	1.4	3,629	49.0	0.8	1,688	29.3	-1.3
Zee Entertainment	305	Buy	7,087	31.1	4.7	2,218	47.2	18.6	1,559	36.6	28.7
Sector Aggregate			**21,125**	**23.8**	**4.4**	**9,134**	**34.0**	**9.2**	**5,349**	**24.3**	**11.4**

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)/Nirav Poddar (Nirav.Poddar@MotilalOswal.com)

Expect strong earnings growth

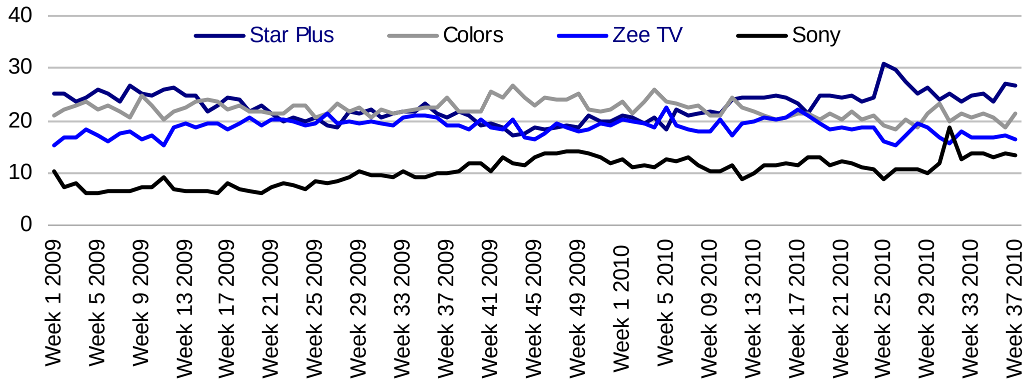
We expect broadcasting companies (Sun TV and Zee) to post strong EPS growth of 22-29% YoY, driven by (1) 18-19% ad revenue growth, and (2) 350-500bp EBITDA margin expansion on higher subscription revenue and cost control. For print media companies, we expect earnings to grow at a lower rate (12-17%), as strong ad revenue growth would be offset by upward pressure on newsprint prices (up ~28% at ~US$650m from the bottom of ~US$500m reached in 2QFY10). We expect further pressure on earnings, as full impact of higher newsprint prices would be visible in 2HFY11.

Star Plus maintains lead at 25%+; Zee TV channel share down to 17.2%

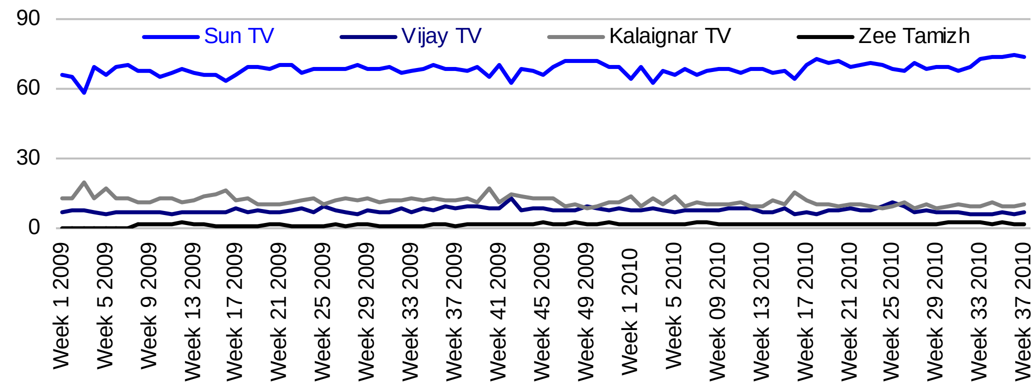
Star Plus has consolidated its leadership position in the Hindi GEC (general entertainment channel) space. In 2QFY11, Star Plus had 25%+ channel share in Hindi GEC space v/s 20.7% for Colors and 17.2% for Zee TV. During the week ended 18 September 2010, Star Plus clocked a GRP of 378 v/s 256 for Colors and 227 for Zee TV.

Relative channel share of Zee Entertainment's flagship channel Zee TV has stabilized post the decline in June 2010 which was led the by re-launch of Star Plus. Upcoming big reality shows on competitor channels like "Kaun Banega Crorepati" (Sony, starts 11 October 2010) and "Big Boss" (Colors, starts 2 October 2010) could cause some disruption, especially if they are able to attract viewership of fiction shows for these channels as well.

HINDI GEC CHANNEL SHARE (~30% OF VIEWERSHIP)

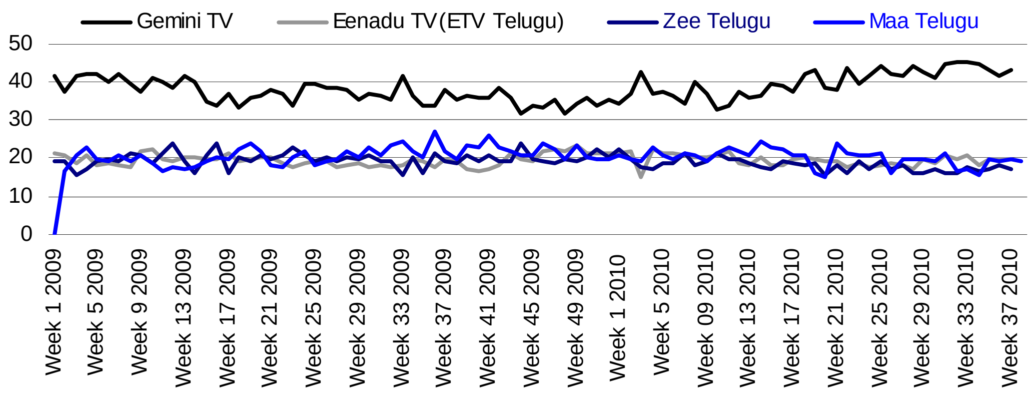


TAMIL GEC CHANNEL SHARE (~6% OF VIEWERSHIP)

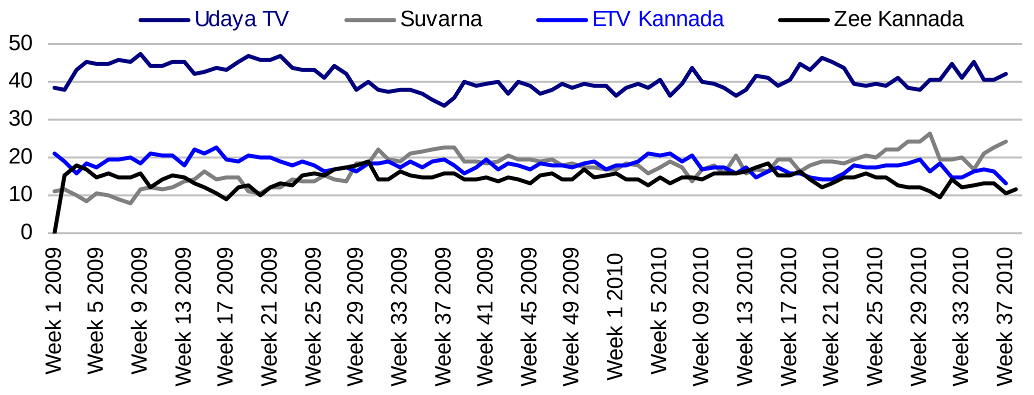


Source: Exchange4 Media/MOSL

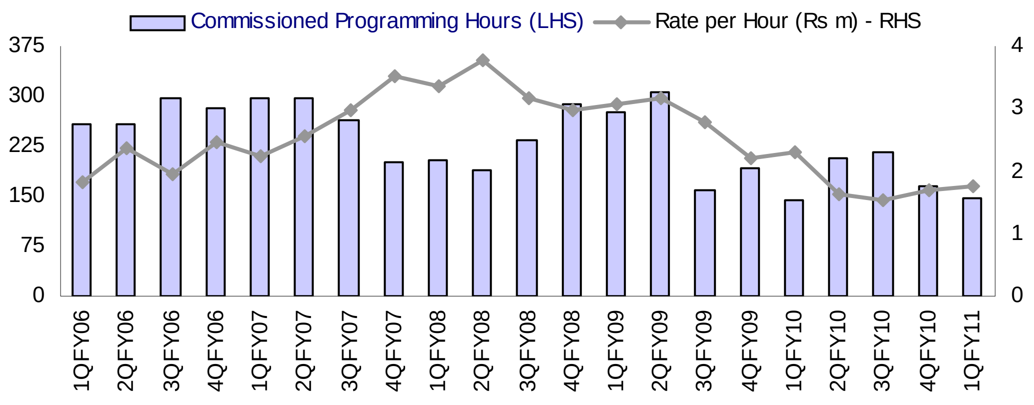
TELUGU GEC CHANNEL SHARE (~5% OF VIEWERSHIP)



KANNADA GEC CHANNEL SHARE (~3% OF VIEWERSHIP)



BALAJI TELEFILMS: TREND IN PROGRAMMING RATES



Source: Exchange4 Media/MOSL

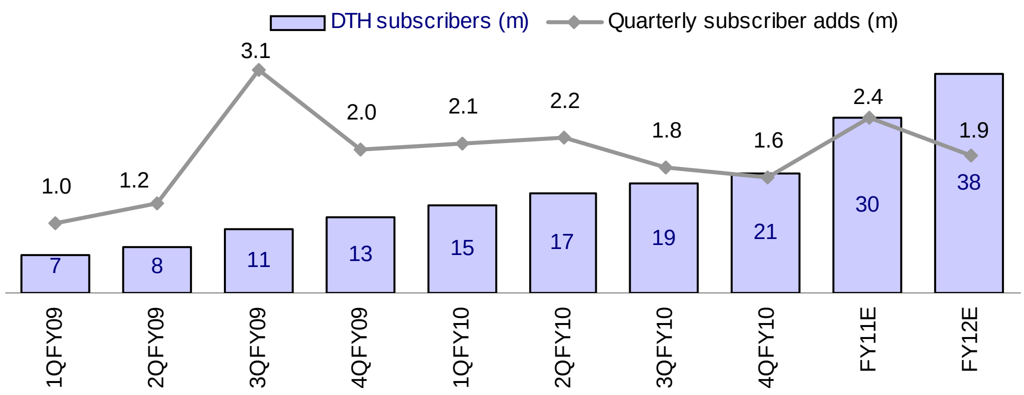
Advertising growth to remain strong

We expect ad revenue growth of 19% for Zee (proforma growth including RGEC for comparable quarter last year) and 18% for Sun TV. Our industry interactions indicate that advertising market remains buoyant with new deals happening at higher rates. For print companies, we expect ad revenue growth of 16-18% for Jagran/HT Media and 7% for Deccan Chronicle.

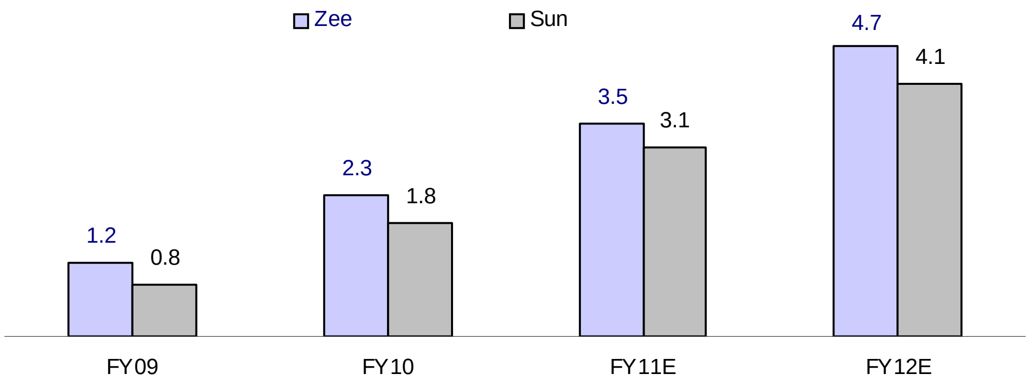
Regulatory uncertainty on DTH

Domestic subscription revenue growth continues to be driven by DTH. We expect 36% CAGR in DTH subscribers over FY10-12. However TRAI tariff order mandating a cap on channel prices to 35% of list price (v/s cap of 50% currently) for digital distribution (DTH, digital cable, IPTV, etc) is effective from 1 October 2010. While the broadcasters have appealed against the tariff order, implementation of the cap would be structurally negative for broadcasters given implied price control and reduction of cap. Pricing for majority of the deals is below 50% although some deals are at 50% and there could be a one-time revenue decline resulting from a lower price cap mandated by TRAI. TRAI tariff order would be applicable for all digital platforms (like digital cable which is estimated to have a subscriber base of 5m-6m) implying that revenue accretion from digital cable would offset negative impact on DTH revenue.

INDUSTRY DTH SUBSRIBER BASE, ADDITION TREND



DTH REVENUE TREND FOR ZEEL AND SUN TV (RSB)

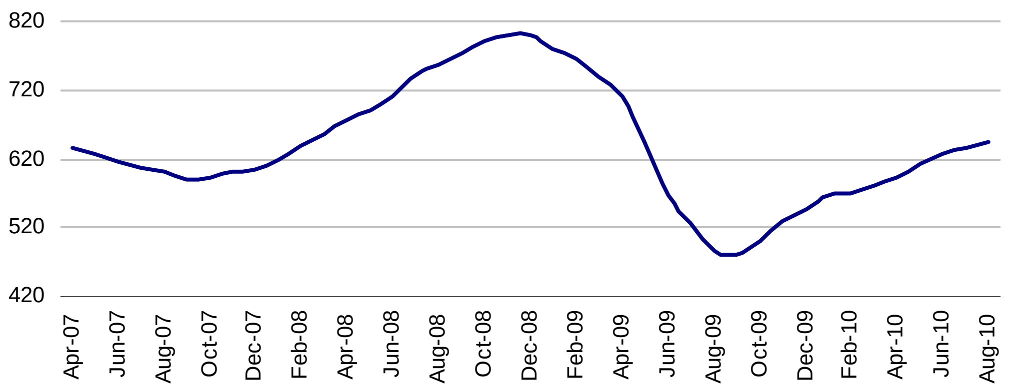


Source:www.Indiatimes.com

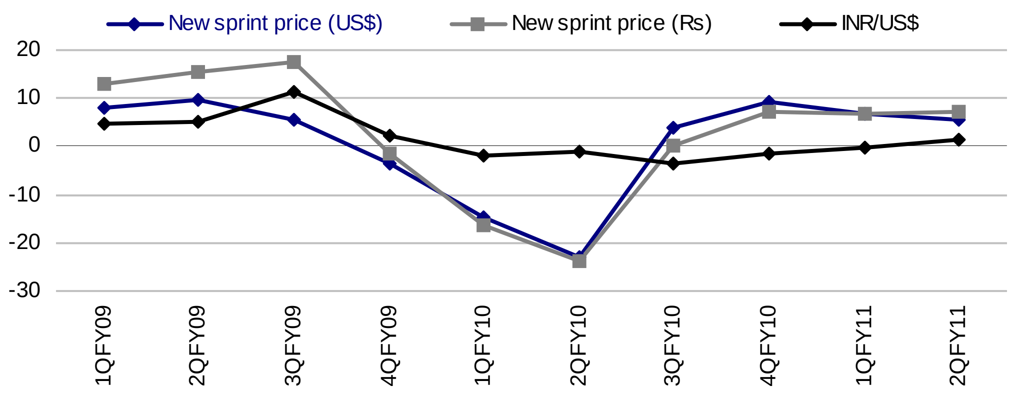
Print media: newsprint prices rising

Newsprint prices have firmed up by ~28% from the bottom in August 2009 and are currently quoting at ~US$650/tonne. Higher prices would impact earnings with a lag, given contracts/ inventory maintained by the print media companies. We believe that best margins of print media companies are behind, given increased competition and firming newsprint prices.

NEWSPRINT PRICES FIRMING UP (US$/MT)

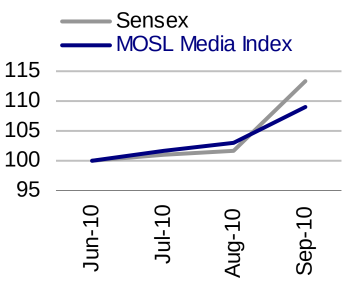


TREND IN QOQ GROWTH (%)

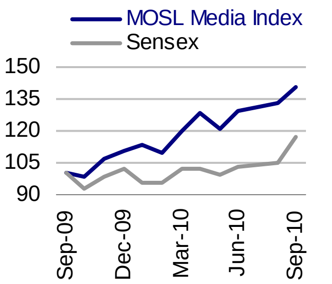


Source:Bloomberg

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



Sector outlook

We expect advertising growth to remain strong, driven by higher volumes as well as price increases. We believe that print media companies have already seen best of their margins and could see growth rates coming down, as players enter new territories and cut cover prices. The broadcasting space looks attractive due to rising subscription revenues from DTH, digitization drive from cable companies and improving outlook on advertising. In our opinion, **Zee Entertainment** and **Sun TV** are the best stocks to play the broadcasting space.

COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Media														
Deccan Chronicle	133	Buy	10.8	12.9	15.5	12.3	10.3	8.6	6.5	5.3	4.3	20.9	22.4	24.0
HT Media	158	Neutral	5.7	7.6	9.2	25.7	20.3	17.4	13.0	10.7	9.1	14.5	15.1	15.6
Jagran Prakashan	126	Neutral	5.8	6.6	7.0	21.5	19.0	18.1	12.6	10.7	10.2	28.7	30.4	31.8
Sun TV	518	Neutral	14.4	17.7	22.3	36.0	29.2	23.2	18.0	13.1	10.8	28.2	27.9	28.0
Zee Entertainment	305	Buy	10.5	12.0	15.4	29.1	25.5	19.8	23.4	16.8	13.0	12.9	14.4	17.0
Sector Aggregate						**28.2**	**23.3**	**18.9**	**16.3**	**12.4**	**10.2**	**18.7**	**20.1**	**21.7**

Deccan Chronicle

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	DECH IN
	REUTERS CODE
S&P CNX: 6,018	DCHL.BO

Equity Shares (m)	245.0
52 Week Range (Rs)	180/112
1,6,12 Rel Perf (%)	-13/-35/-7
Mcap (Rs b)	32.5
Mcap (USD b)	0.7

24 September 2010

Buy

Previous Recommendation: Buy

Rs133

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	8,149	1,401	5.7	-48.5	23.2	2.8	12.2	17.6	4.0	12.1
03/10A	8,925	2,608	10.8	88.3	12.3	2.6	20.9	26.7	3.3	6.5
03/11E	9,850	3,122	12.9	19.7	10.3	2.3	22.4	29.3	2.8	5.3
03/12E	10,944	3,742	15.5	19.9	8.6	2.1	24.0	32.6	2.4	4.3

- We expect Deccan Chronicle to post ~6.5% YoY growth in revenue to Rs2.7b. The growth will be primarily led by increase in ad revenues.
- We estimate an EBITDA of Rs1.5b and PAT of Rs1.1b. We assume 20% tax rate in 2QFY11, similar to 1QFY10.
- Deccan Chronicle continues to be a pure English print media play in the South Indian markets of Hyderabad, Chennai and Bangalore. We expect the ad markets in these cities to remain robust due to steady recovery in the IT industry.
- The stock trades at 10.3x FY11E and 8.6x FY12E EPS. **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**2,166**	**2,509**	**2,334**	**1,917**	**2,318**	**2,671**	**2,612**	**2,248**	**8,925**	**9,849**
Change (%)	*11.9*	*10.8*	*8.7*	*6.3*	*7.0*	*6.5*	*11.9*	*17.3*	*9.5*	*10.4*
EBITDA	**1,059**	**1,387**	**1,266**	**813**	**1,199**	**1,541**	**1,443**	**1,066**	**4,525**	**5,249**
Change (%)	*12.4*	*79.3*	*132.8*	*92.6*	*13.2*	*11.1*	*14.0*	*31.1*	*68.7*	*16.0*
As of % Sales	*48.9*	*55.3*	*54.3*	*42.4*	*51.7*	*57.7*	*55.3*	*47.4*	*50.7*	*53.3*
Depreciation	99	102	102	126	109	112	116	119	429	456
Interest	111	111	113	116	118	119	120	121	452	478
Other Income	71	75	75	73	90	93	97	101	292	382
PBT	**920**	**1,249**	**1,127**	**644**	**1,062**	**1,403**	**1,305**	**927**	**3,937**	**4,697**
Tax	150	250	350	579	150	281	391	751	1,329	1,573
Effective Tax Rate (%)	*16.3*	*20.0*	*31.1*	*89.9*	*14.1*	*20.0*	*30.0*	*81.0*	*33.8*	*33.5*
Reported PAT	**770**	**999**	**777**	**65**	**912**	**1,122**	**913**	**176**	**2,608**	**3,124**
Adj PAT	**770**	**999**	**777**	**65**	**912**	**1,122**	**913**	**176**	**2,608**	**3,124**
Change (%)	*26.3*	*120.7*	*202.6*	*-20.2*	*18.4*	*12.4*	*17.6*	*170.9*	*86.2*	*19.8*

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)/Nirav Poddar (Nirav.Poddar@MotilalOswal.com)

H T Media

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	HTML IN
	REUTERS CODE
S&P CNX: 6,018	HTML.BO

Equity Shares (m)	234.2
52 Week Range (Rs)	181/116
1,6,12 Rel Perf (%)	-16/0/2
Mcap (Rs b)	36.9
Mcap (USD b)	0.8

24 September 2010

Neutral

Previous Recommendation: Neutral

Rs158

YEAR END	NET SALES (RS M)	PAT (RS M)	CON. EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	13,591	200	0.9	-28.2	184.5	4.1	9.4	9.9	2.7	19.5
03/10A	14,379	1,435	5.7	50.3	25.7	3.9	14.5	16.3	2.6	13.0
03/11E	15,376	1,823	7.6	16.6	20.3	3.4	15.1	18.4	2.2	10.7
03/12E	17,036	2,123	9.2	16.5	17.4	3.0	15.6	19.3	1.9	9.1

- We expect HT Media to post revenue of Rs4.1b, up ~18% YoY. Strong traction in Hindi daily, Hindustan, will be the key driver of ad revenues.
- Cost rationalization will boost EBITDA to Rs815m (up 24% YoY) on a consolidated basis. We estimate adjusted PAT at Rs416m, up 17% YoY.
- Hindi daily, Hindustan continues to do well due to strong traction in regional advertising market. HT continues to get impacted due to strong competition in Mumbai and Delhi markets.
- We believe HT will get impacted due to reduced cover prices in Jharkhand and entry of DB Corp in Bihar and Jharkhand.
- The stock trades at 20.3x FY11E and 17.4x FY12E EPS. **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10*				FY11				FY10*	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**3,351**	**3,471**	**3,661**	**3,851**	**4,042**	**4,103**	**4,267**	**4,056**	**14,379**	**16,468**
Change (%)	*3.2*	*3.9*	*5.9*	*12.5*	*20.6*	*17.9*	*16.5*	*5.3*	*5.8*	*14.5*
EBITDA	**691**	**646**	**746**	**929**	**799**	**815**	**856**	**924**	**2,804**	**3,393**
Change (%)	*4.2*	*62.1*	*241.8*	*270.1*	*15.6*	*24.1*	*14.8*	*-0.6*	*179.6*	*21.0*
As of % Sales	*20.6*	*18.6*	*20.4*	*24.1*	*19.8*	*19.9*	*20.1*	*22.8*	*19.5*	*20.6*
Depreciation	163	175	165	180	194	189	190	194	707	767
Interest	78	75	72	71	64	65	66	64	295	259
Other Income	65	39	19	45	58	59	61	58	159	236
Extra-ordinary Expense	45	40	14	15	0	0	0	0	76	0
PBT	**470**	**396**	**514**	**708**	**599**	**620**	**661**	**724**	**1,885**	**2,604**
Tax	146	82	160	223	197	204	217	238	537	856
Effective Tax Rate (%)	*31.1*	*20.6*	*31.2*	*31.5*	*32.9*	*32.9*	*32.9*	*32.9*	*28.5*	*32.9*
PAT	**324**	**314**	**354**	**485**	**402**	**416**	**443**	**486**	**1,348**	**1,747**
Exceptional Items	45	40	14	15	0	0	0	0	76	0
Minority Interest	0	0	5	-5	-12	0	5	10	11	3
Reported PAT	**324**	**314**	**359**	**480**	**414**	**416**	**438**	**476**	**1,359**	**1,744**
Adj PAT	**369**	**354**	**373**	**495**	**414**	**416**	**438**	**476**	**1,435**	**1,744**
Change (%)	*-14.1*	*92.8*	*LP*	*531.6*	*12.2*	*17.5*	*17.7*	*-3.9*	*617.5*	*21.6*

*E: MOSL Estimates; * Consolidated Nos from 3QFY10*

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)/Nirav Poddar (Nirav.Poddar@MotilalOswal.com)

Jagran Prakashan

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	JAGP IN
	REUTERS CODE
S&P CNX: 6,018	JAGP.BO

Equity Shares (m)	301.2
52 Week Range (Rs)	144/102
1,6,12 Rel Perf (%)	-9/-8/-2
Mcap (Rs b)	37.8
Mcap (USD b)	0.8

24 September 2010

Neutral

Previous Recommendation: Neutral Rs126

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	8,234	916	3.0	-6.7	41.2	6.8	16.4	18.7	4.3	22.6
03/10A	9,419	1,759	5.8	92.0	21.5	6.2	28.7	33.4	3.8	12.6
03/11E	10,966	1,984	6.6	12.8	19.0	5.8	30.4	34.8	3.3	10.7
03/12E	12,709	2,198	7.0	5.5	18.1	5.8	31.8	35.8	2.9	10.2

- We expect Jagran Prakashan to post revenue of Rs2.8b, up ~13% YoY, driven by higher ad rates and volume growth.
- We estimate ~40bp YoY decline in EBITDA margin to 33.3%.
- We estimate ~12% increase in adjusted PAT to Rs564m.
- Circulation revenue is likely to remain under pressure in UP, the largest market for Jagran Prakashan. In addition, cover prices in Jharkhand have also been cut; entry of DB Corp in Bihar and Jharkhand can impact growth in the coming quarters.
- The stock trades at 19x FY11E and 18.1x FY12E EPS. **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue	**2,319**	**2,468**	**2,269**	**2,363**	**2,698**	**2,797**	**2,760**	**2,711**	**9,419**	**10,966**
Change (%)	*12.3*	*18.3*	*9.6*	*17.4*	*16.4*	*13.3*	*21.6*	*14.7*	*14.4*	*16.4*
EBITDA	**705**	**832**	**653**	**633**	**902**	**931**	**824**	**700**	**2,823**	**3,358**
Change (%)	*42.0*	*119.1*	*117.1*	*62.2*	*27.9*	*11.9*	*26.3*	*10.7*	*80.1*	*19.0*
As of % Sales	*30.4*	*33.7*	*28.8*	*26.8*	*33.4*	*33.3*	*29.9*	*25.8*	*30.0*	*30.6*
Depreciation	124	130	119	135	125	145	165	185	507	619
Interest	14	15	13	24	12	13	13	17	66	55
Other Income	157	50	70	66	57	60	63	69	343	250
PBT	**724**	**738**	**590**	**540**	**822**	**834**	**710**	**568**	**2,592**	**2,934**
Tax	229	235	193	176	266	270	230	184	833	949
Effective Tax Rate (%)	*31.7*	*31.9*	*32.7*	*32.6*	*32.4*	*32.4*	*32.4*	*32.4*	*32.1*	*32.4*
Adj PAT	**495**	**503**	**397**	**364**	**556**	**564**	**480**	**384**	**1,759**	**1,984**
Change (%)	*56.4*	*121.5*	*156.9*	*66.8*	*12.3*	*12.2*	*20.8*	*5.6*	*92.0*	*12.8*

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)/Nirav Poddar (Nirav.Poddar@MotilalOswal.com)

Sun TV Network

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	SUNTV IN
	REUTERS CODE
S&P CNX: 6,018	SUTV.BO

Equity Shares (m)	394.1
52 Week Range (Rs)	547/303
1,6,12 Rel Perf (%)	0/12/42
Mcap (Rs b)	204.0
Mcap (USD b)	4.5

24 September 2010

Neutral

Previous Recommendation: Neutral

Rs518

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	10,364	4,164	10.6	13.5	49.0	11.4	24.4	44.2	19.3	25.1
3/10A	13,950	5,674	14.4	36.3	36.0	10.1	28.2	52.8	14.3	18.0
3/11E	18,295	6,990	17.7	23.2	29.2	8.1	27.9	57.5	10.6	13.1
3/12E	21,348	8,795	22.3	25.8	23.2	6.5	28.0	55.1	8.8	10.8

- We expect Sun TV to post revenue of Rs4.5b (up ~39% YoY), EBITDA of Rs3.6b (up ~49% YoY) and PAT of Rs1.69b (up ~29% YoY).
- We expect advertising revenue to grow 18% YoY and remain flat sequentially at Rs2.7b.
- We expect DTH subscription revenue to increase 83% YoY and 7% QoQ to Rs730m.
- We believe that Sun TV continues to be one of the best broadcasting plays due to its strong presence in South India (part of faster growth regional advertising pie).
- The stock trades at 29.2x FY11E and 23.2x FY12E EPS. **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue	**2,877**	**3,204**	**3,951**	**3,919**	**4,404**	**4,467**	**4,821**	**4,603**	**13,950**	**18,295**
Change (%)	*28.7*	*34.7*	*45.9*	*42.0*	*53.1*	*39.4*	*22.0*	*17.5*	*38.4*	*31.1*
EBITDA	**2,236**	**2,436**	**3,125**	**3,308**	**3,599**	**3,629**	**3,945**	**3,681**	**11,105**	**14,854**
Change (%)	*32.9*	*38.1*	*55.3*	*46.6*	*60.9*	*49.0*	*26.2*	*11.3*	*43.9*	*33.8*
As of % Sales	*77.7*	*76.0*	*79.1*	*84.4*	*81.7*	*81.2*	*81.8*	*80.0*	*79.6*	*81.2*
Depreciation	550	571	885	848	1,147	1,170	1,194	1,195	2,854	4,706
Interest	6	2	2	2	1	3	3	3	12	10.0
Other Income	142	115	84	85	113	102	104	109	425	426.4
PBT	**1,822**	**1,978**	**2,322**	**2,542**	**2,563**	**2,557**	**2,852**	**2,592**	**8,664**	**10,564**
Tax	624	672	803	892	854	869	970	881	2,990	3,574
Effective Tax Rate (%)	*34.3*	*34.0*	*34.6*	*35.1*	*33.3*	*34.0*	*34.0*	*34.0*	*34.5*	*33.8*
Reported PAT	**1,198**	**1,306**	**1,519**	**1,651**	**1,710**	**1,688**	**1,882**	**1,711**	**5,674**	**6,990**
Adj PAT	**1,198**	**1,306**	**1,519**	**1,651**	**1,710**	**1,688**	**1,882**	**1,711**	**5,674**	**6,990**
Change (%)	*16.8*	*37.3*	*35.4*	*44.7*	*42.7*	*29.3*	*23.9*	*3.7*	*36.2*	*23.2*

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)/Nirav Poddar (Nirav.Poddar@MotilalOswal.com)

Zee Entertainment Enterprises

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	Z IN
	REUTERS CODE
S&P CNX: 6,018	ZEE.BO

Equity Shares (m)	484.1
52 Week Range (Rs)	326/215
1,6,12 Rel Perf (%)	-6/0/15
Mcap (Rs b)	147.6
Mcap (USD b)	3.3

24 September 2010

Buy

Previous Recommendation: Buy

Rs305

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	21,773	4,365	10.1	14.8	30.3	3.9	13.9	18.2	6.3	24.9
3/10A	21,966	4,686	10.5	4.3	29.1	3.9	12.9	17.8	6.5	23.4
3/11E	28,591	5,804	12.0	14.2	25.5	3.6	14.4	21.1	4.9	16.8
3/12E	33,219	7,474	15.4	28.8	19.8	3.3	17.0	24.6	4.2	13.0

- On a proforma basis, we expect advertising revenue growth of ~19% YoY and subscription growth of ~8% YoY. Reported numbers would be higher due to consolidation of regional GEC channels.
- DTH revenue would continue to drive the growth in subscription revenue. We expect share of subscription revenue at ~39% in 2QFY11. Higher growth in DTH revenue would be offset by ~3% decline in the international subscription revenue.
- We estimate 47% YoY increase in EBITDA due to 340bp expansion in margins. Adjusted PAT is estimated at Rs1.6b, up 37% YoY.
- Zee TV has clocked an average channel share of ~17.2% in Hindi GEC during 2QFY11, with a GRP of 227. However, Star Plus has maintained leadership in channel share and GRP since 1QFY11.
- The stock trades at 25.5x FY11E and 19.8x FY12E EPS. **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11E				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Advertsing Revenue	1,980	2,476	2,707	3,517	3,769	3,959	4,158	3,911	10,680	15,798
Subscription Revenue	2,410	2,435	2,467	2,513	2,614	2,737	2,869	3,003	9,824	11,223
Other Sales and Services	370	494	135	463	387	391	395	398	1,462	1,570
Net Sales	**4,759**	**5,405**	**5,309**	**6,493**	**6,770**	**7,087**	**7,422**	**7,312**	**21,966**	**28,591**
Change (%)	*-12.2*	*-5.5*	*-2.7*	*26.4*	*42.2*	*31.1*	*39.8*	*12.6*	*1.1*	*30.2*
Prog, Transmission & Direct Exp	2,392	2,229	2,306	2,609	3,050	2,983	3,252	3,294	9,536	12,579
Staff Cost	390	442	372	689	597	609	621	634	1,893	2,461
Selling and Other Exp	808	1,226	1,059	1,358	1,252	1,277	1,303	1,328	4,451	5,159
EBITDA	**1,170**	**1,508**	**1,573**	**1,836**	**1,870**	**2,218**	**2,247**	**2,057**	**6,087**	**8,393**
Change (%)	*-18.9*	*1.3*	*31.0*	*52.8*	*59.8*	*47.2*	*42.9*	*12.0*	*14.2*	*37.9*
As of % Sales	*24.6*	*27.9*	*29.6*	*28.3*	*27.6*	*31.3*	*30.3*	*28.1*	*27.7*	*29.4*
Depreciation	75	77	76	56	62	66	68	69	284	265
Interest	91	84	65	110	51	12	12	13	350	87
Other Income	325	291	323	291	126	134	142	143	1,230	546
Extraordinary items			313	-11	328				302	328
PBT	**1,329**	**1,638**	**2,067**	**1,950**	**2,211**	**2,275**	**2,309**	**2,119**	**6,985**	**8,914**
Tax	416	529	603	662	710	728	739	677	2,210	2,854
Effective Tax Rate (%)	*31.3*	*32.3*	*32.0*	*33.9*	*32.1*	*32.0*	*32.0*	*32.0*	*31.6*	*32.0*
PAT	**913**	**1,109**	**1,464**	**1,288**	**1,501**	**1,547**	**1,570**	**1,441**	**4,775**	**6,059**
Minority Interest	-105.8	-32	-100	25	-38	-11.4	-11.4	-11.4	-212.2	-72.2
Adj PAT after Minority Interest	**1,019**	**1,141**	**1,251**	**1,274**	**1,211**	**1,559**	**1,581**	**1,453**	**4,685**	**5,804**
Change (%)	*-17.8*	*-6.7*	*22.5*	*37.4*	*18.8*	*36.6*	*26.4*	*14.0*	*6.2*	*23.9*

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)/Nirav Poddar (Nirav.Poddar@MotilalOswal.com)

Metals

BSE Sensex: 20,045 S&P CNX: 6,018 24 September 2010

COMPANY NAME

Hindalco

Hindustan Zinc

JSW Steel

Nalco

Sesa Goa

SAIL

Sterlite Industries

Tata Steel

Steel, scrap weak, iron ore, coking coal stabilizing

Prices of hot-rolled coil (HRC) recovered in international trade by nearly US$80-100/ton after hitting lows in July 2010 due to restocking, recovery of apparent demand and declining exports from China after a reduction in VAT rebate in the middle of July. Forced closure of obsolete capacities in China in early September to meet targets of a lower carbon footprint improved market sentiment. But lower global crude steel production in recent months is still insufficient to balance subdued demand.

Indian steel prices recovered from their recent lows due to improved demand after the monsoons. After subdued volumes in the last quarter, steel companies are liquidating their accumulated inventories due to stable prices. We do not expect steel prices to rise significantly from here as global supply will increase. Besides, as buying activity slows during winter, we expect steel prices to trend sideways because weakening raw material prices will boost crude steel production. There has been a moderate decline in prices of key raw material such as iron ore and coking coal.

The December quarter contract for coking coal settled at US$209 (down 9% QoQ) and iron ore is expected to fall 13-15% in contract prices to US$125-130/ton. We expect raw material prices to stabilize over a few months. Thus the 2HFY11 scenario looks favorable for domestic steel producers when sequentially costs will fall and continued growth in key end user segments drive volumes.

EXPECTED QUARTERLY PERFORMANCE SUMMARY (RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
	24.09.10		SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ
Metals											
Hindalco	191	Buy	169,430	11.6	-0.1	18,787	13.4	-8.7	7,764	111.7	19.0
Hindustan Zinc	1,084	Buy	21,211	16.7	7.5	11,154	3.7	9.2	9,529	1.9	7.0
JSW Steel	1,276	Buy	54,421	20.4	16.3	10,562	-4.6	2.1	3,518	-20.8	2.6
Nalco	404	Sell	14,438	22.4	10.4	4,942	248.7	25.5	3,280	105.7	15.5
Sesa Goa	334	Buy	10,048	86.5	-58.4	5,230	242.5	-66.3	4,821	189.6	-65.0
Sterlite Inds.	172	Buy	62,354	1.7	4.4	15,531	13.8	3.7	11,643	18.5	35.0
SAIL	206	Neutral	107,263	6.8	15.0	18,032	-24.5	-2.2	11,832	-28.9	0.6
Tata Steel	630	Neutral	278,046	9.5	2.2	28,677	671.3	-35.3	7,612	LP	-59.6
Sector Aggregate			**717,210**	**10.7**	**2.7**	**112,914**	**36.7**	**-18.4**	**59,998**	**105.3**	**-19.7**

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

We expect steel volumes by key Indian producers to increase 6.3% YoY to 6.3mt (up 29% QoQ). Tata Steel improved sales volumes consistently since April and we expect it to post volumes of 1.63mt in 2QFY11. JSW Steel (1.2mt) and SAIL (2.3mt) suffered most in 1QFY11 due to subdued demand and higher imports. We expect 2QFY11 sales of 1.6mt (up 10% YoY) for JSW and 3.1mt (up 3% YoY) for SAIL. Price increases in early September are expected to minimize the QoQ fall in average realizations for these players.

SALEABLE STEEL ('000 TONS)

Y/E MARCH	FY10				FY11	
	1Q	2Q	3Q	4Q	1Q	2QE
Tata Steel India						
Production	1,542	1,519	1,688	1,732	1,590	1,595
Change (YoY %)	*30.0*	*14.2*	*36.7*	*6.7*	*3.1*	*5.0*
Sales	1,418	1,457	1,596	1,698	1,399	1,617
Change (YoY %)	*22.3*	*19.4*	*49.0*	*-5.2*	*-1.3*	*11.0*
SAIL						
Production	3,060	3,140	3,100	3,300	3,000	3,100
Change (YoY %)	*3.8*	*-1.3*	*3.3*	*1.3*	*-2.0*	*-1.3*
Sales	2,790	3,030	2,900	3,400	2,300	3,100
Change (YoY %)	*5.3*	*14.3*	*20.8*	*-5.6*	*-17.6*	*2.3*
JSW Steel						
Production	1,376	1,540	1,469	1,615	1,574	1,600
Change (YoY %)	*41.0*	*53.8*	*87.9*	*67.2*	*14.4*	*3.9*
Sales	1,321	1,454	1,425	1,520	1,190	1,600
Change (YoY %)	*61.7*	*73.7*	*100.4*	*63.8*	*-9.9*	*10.0*
3 Key Producers Total						
Production	**5,978**	**6,199**	**6,257**	**6,647**	**6,164**	**6,295**
Change (YoY %)	*17.0*	*12.5*	*24.7*	*13.7*	*3.1*	*1.5*
Sales	**5,529**	**5,941**	**5,921**	**6,618**	**4,889**	**6,317**
Change (YoY %)	*19.5*	*26.2*	*41.6*	*4.7*	*-11.6*	*6.3*

Source: WSA

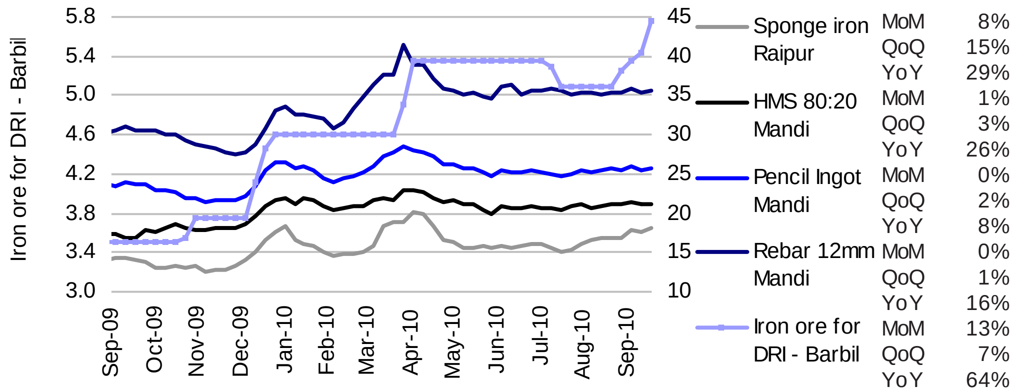
DRI prices up on tightening supply; steel mills raise prices, liquidate inventories

According to SteelPrices-India, prices of sponge iron in Raipur increased 8% MoM to Rs18,300/ton (in the week to 27 September 2010). Prices have risen due to tightening raw supply or iron ore, a raw material used to make steel. Prices of iron ore for DRI from Barbil were up 13% MoM at Rs5,750/ton. The hike in prices increased the cost of production of sponge iron to almost Rs17,000/ton.

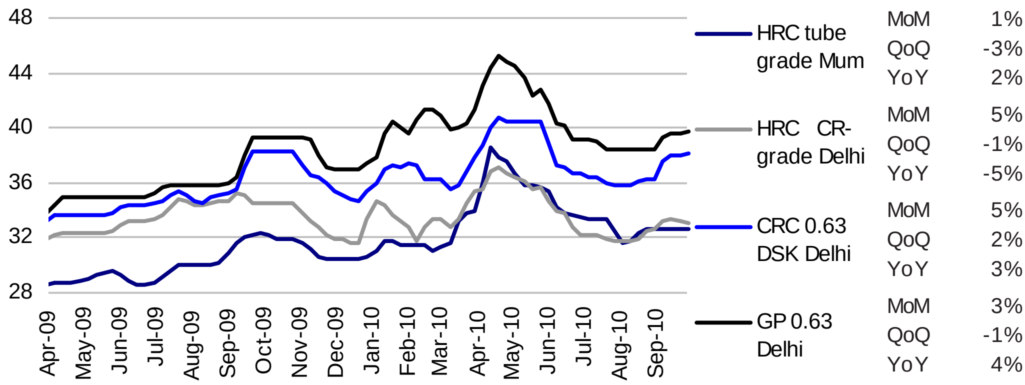
Major Indian steel makers increased prices by Rs1,000-1,500/ton in early September and might raise prices further if there is sustained demand.

China's crude steel production was flat MoM at 51.6mt (down 1.3% YoY) despite production and electricity cuts. On a YoY basis, China's monthly steel production declined for the first time in 15 months. YTD CY10, China produced 427mt (up 15% YoY).

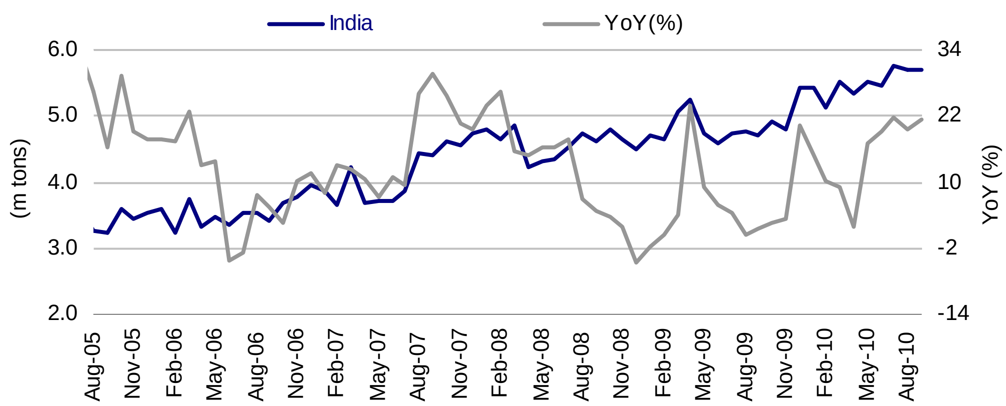
INDIAN STEEL PRICES (RS/KG): LONG PRODUCTS, INPUTS



INDIAN STEEL PRICES (RS/KG): FLAT PRODUCTS



INDIA: MONTHLY CRUDE STEEL PRODUCTION

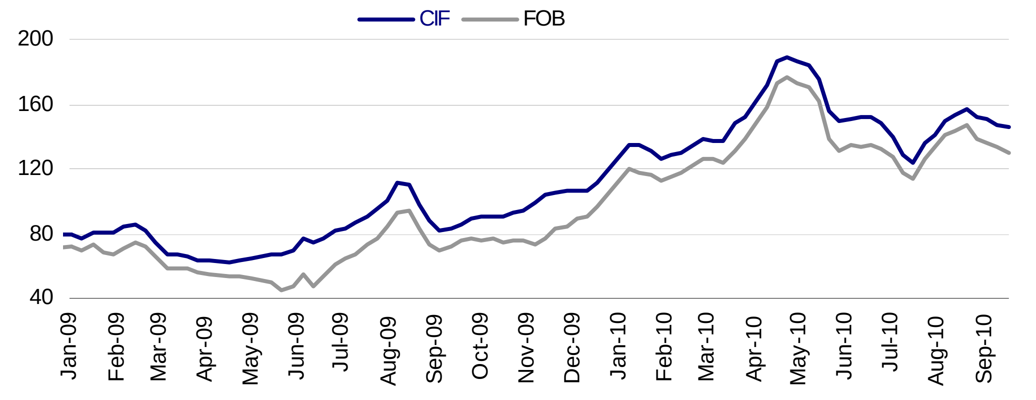


Source: WSA

Iron ore prices seen stabilising at US$135-140/Ton

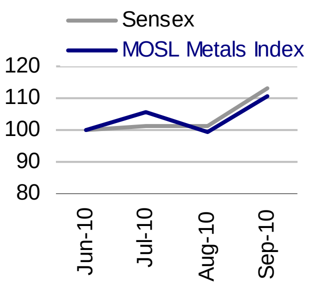
Spot iron ore prices recovered from their July lows of US$124/dmt (cfr China basis for 63.5% grade) and moved up to US$157/ton in mid-August. In the past few weeks, prices have started softening due to weaker global steel demand. But the fall in prices is not very sharp even though Chinese imports have been falling in the past four months. Chinese iron ore demand is expected to resume after the mid-autumn festival. Downstream demand is expected to improve and more steel capacities will be restarted. Many steel mills were forced to cut production or shut down in September as local authorities raced to help Beijing achieve its five-year energy savings and emissions targets by the end of December. China is overtly dependent on iron ore imports. It imported 405mt in YTD10 (flat YoY). Imports meet nearly two-thirds of China's annual iron ore requirements.

INDIAN IRON ORE (63% FE) PRICES FOR SHIPMENT TO CHINA (US$/TON)

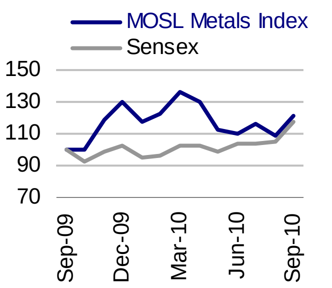


Source: WSA

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



Non-Ferrous volume growth to keep margins intact

Average 2QFY11 non-ferrous metal prices are largely sequentially flat and volume growth is expected to be positive. As a result, margins of non-ferrous companies will be mixed. Average lead and copper LME prices were up 3-4% QoQ at US$2,050/ton and US$7,232/ton respectively. Hindustan Zinc's margins will improve as benefits of expanded capacity are expected to flow in 2QFY11. Sterlite is expected to post lower copper cathode volumes due to planned maintenance shutdown.

In 2QFY11 average aluminum and zinc LME prices were sequentially flat at US$2,096/ton and US$2,032/ton respectively. Nalco will benefit from expanded alumina capacity from this quarter and volume growth is expected to be muted for Nalco and Hindalco in FY11.

QUARTERLY AVERAGE BASE METAL PRICES ON LME (USD/TON)

QUARTER	ZINC			ALUMINIUM			COPPER			LEAD			ALUMINA		
	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %
2QFY11	2,032	-1	14	2,096	-1	14	7,232	3	23	2,050	4	6	317	-5	18
1QFY11	2,052	-11	36	2,122	-3	39	7,042	-3	50	1,972	-12	30	335	3	61
4QFY10	2,307	3	91	2,199	8	57	7,274	9	108	2,235	-3	91	327	7	72
3QFY10	2,241	26	84	2,037	11	8	6,677	14	69	2,313	19	83	306	13	10
2QFY10	1,780	18	-1	1,836	20	-35	5,856	24	-23	1,942	28	1	270	29	-34
1QFY10	1,509	25	-30	1,530	9	-49	4,708	35	-43	1,520	30	-35	209	10	-49

Source: LME

COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Metals														
Hindalco	191	Buy	9.6	15.0	17.8	19.8	12.7	10.7	7.6	7.2	6.6	14.0	18.3	18.2
Hindustan Zinc	1,084	Buy	95.6	105.1	121.9	11.3	10.3	8.9	7.3	6.0	4.5	22.3	20.0	19.1
JSW Steel	1,276	Buy	59.4	67.4	122.4	21.5	18.9	10.4	11.9	9.7	4.7	12.4	9.6	14.6
Nalco	404	Sell	12.9	19.3	21.1	31.3	20.9	19.2	19.7	12.0	10.1	8.0	11.0	11.0
Prakash Inds	163	Buy	21.9	18.1	29.7	7.5	9.0	5.5	7.3	6.4	4.2	20.6	14.1	19.3
SAIL	206	Neutral	16.5	14.7	14.0	12.5	14.0	14.7	8.4	9.0	9.9	20.2	15.8	13.5
Sesa Goa	334	Buy	31.6	63.6	68.7	10.6	5.3	4.9	7.5	3.0	1.8	33.2	40.9	31.0
Sterlite Inds.	172	Buy	12.0	14.7	21.4	14.3	11.7	8.0	7.8	6.2	3.4	10.9	12.0	15.2
Tata Steel	630	Neutral	-9.3	65.4	66.3	-67.7	9.6	9.5	12.5	6.9	6.9	-9.7	39.8	29.8
Sector Aggregate						**17.8**	**11.4**	**9.7**	**9.4**	**7.1**	**5.7**	**12.8**	**16.5**	**16.4**

Tata Steel and Sterlite numbers are consolidated

Hindalco

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	HNDL IN
	REUTERS CODE
S&P CNX: 6,018	HALC.BO

Equity Shares (m)	1,984.4
52 Week Range (Rs)	195/107
1,6,12 Rel Perf (%)	4/-6/29
Mcap (Rs b)	378.8
Mcap (USD b)	8.4

24 September 2010

Buy

Previous Recommendation: Buy

Rs191

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	656,252	20,831	11.9	-28.8	16.0	4.4	27.4	4.8	0.8	10.3
3/10A	607,221	19,132	9.6	-19.0	19.8	2.8	14.0	8.3	0.9	7.6
3/11E	649,523	29,781	15.0	55.7	12.7	2.3	18.3	9.1	0.8	7.2
3/12E	634,131	35,336	17.8	18.7	10.7	1.9	18.2	9.4	0.9	6.6

Consolidated

- **Net sales to grow 17% YoY:** Net sales are expected to grow 17% YoY to Rs57.4b (up 11% QoQ) in 2QFY11 due to better copper performance and higher metal prices. Aluminum volumes are expected to fall 15% YoY to 118k tons and copper to grow 1% to 91k tons. Blended realizations of aluminum per ton are expected to improve 20% YoY to Rs142,673 and blended realizations of copper will be up 23% YoY at Rs447,570/ton.
- **EBITDA to post 30% growth YoY:** EBITDA is expected grow 30% YoY to Rs8.1b (down 3% QoQ) due to better aluminum performance, the rise of product premiums and an up-tick in by-product prices.
- Adjusted PAT to grow 46% YoY: Profit after tax will grow 46% YoY to Rs5.2b (down 3% QoQ) due to higher aluminum prices and sturdy copper business performance.
- **Visibility of greenfield projects improving; maintain Buy:** Hindalco's focus has shifted to high RoE greenfield projects as Novelis has become self sustaining. Novelis has renegotiated nearly 60-70% of its can contracts and the rest of the contracts will be re-priced over time. Aluminum production at the Indian operation is poised to increase 3x to 1.7mtpa over five years. The visibility of the Utkal refinery project is improving with its recent financial closure. We expect the stock to outperform on strong earnings over the next few years. It trades at EV/EBITDA of 7.2x FY11E and 6.6x FY12E. Maintain **Buy.**

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**38,905**	**49,124**	**54,743**	**54,434**	**51,783**	**57,402**	**52,758**	**46,819**	**197,206**	**208,760**
Change (YoY %)	*-16.3*	*-13.6*	*33.0*	*44.3*	*33.1*	*16.9*	*-3.6*	*-14.0*	*8.2*	*5.9*
Total Expenditure	32,757	42,912	46,697	45,790	43,458	49,299	44,460	39,030	168,156	176,247
EBITDA	**6,148**	**6,213**	**8,046**	**8,644**	**8,325**	**8,103**	**8,297**	**7,788**	**29,050**	**32,513**
Change (YoY %)	*-35.2*	*-37.5*	*3.3*	*175.1*	*35.4*	*30.4*	*3.1*	*-9.9*	*-4.3*	*11.9*
As % of Net Sales	*15.8*	*12.6*	*14.7*	*15.9*	*16.1*	*14.1*	*15.7*	*16.6*	*14.7*	*15.6*
Interest	682	663	729	705	593	703	707	708	2,780	2,711
Depreciation	1,653	1,659	1,676	1,684	1,691	1,642	1,659	1,667	6,672	6,660
Other Income	753	573	496	777	689	584	506	792	2,599	2,571
PBT (before EO item)	**4,566**	**4,464**	**6,136**	**7,031**	**6,730**	**6,342**	**6,437**	**6,205**	**22,197**	**25,714**
Extra-ordinary Income	1,430	-121	-570	-290					449	
PBT (after EO item)	**5,996**	**4,343**	**5,566**	**6,741**	**6,730**	**6,342**	**6,437**	**6,205**	**22,646**	**25,714**
Total Tax	1,190	903	1,295	102	1,386	1,142	1,159	1,117	3,489	4,803
% Tax	*26.1*	*20.2*	*21.1*	*1.4*	*20.6*	*18.0*	*18.0*	*18.0*	*15.4*	*18.7*
Reported PAT	**4,806**	**3,441**	**4,271**	**6,639**	**5,344**	**5,201**	**5,278**	**5,088**	**19,156**	**20,911**
Adjusted PAT	**3,376**	**3,562**	**4,841**	**6,929**	**5,344**	**5,201**	**5,278**	**5,088**	**18,707**	**20,911**
Change (YoY %)	*-51.6*	*-50.5*	*-11.1*	*157.8*	*58.3*	*46.0*	*9.0*	*-26.6*	*-16.1*	*11.8*
Consolidated Financials										
Net Sales	**120,330**	**151,793**	**158,845**	**176,254**	**169,597**	**169,430**	**152,867**	**157,628**	**607,221**	**649,523**
EBITDA	**16,503**	**16,567**	**18,400**	**18,998**	**20,587**	**18,787**	**18,472**	**18,981**	**70,468**	**76,827**
Adjusted PAT	**3,482**	**3,668**	**4,947**	**7,035**	**6,525**	**7,764**	**7,328**	**8,164**	**19,132**	**29,781**
Avg LME Aluminium (USD/T)	1,505	1,827	2,037	2,189	2,122	2,083	2,000	2,000	1,904	2,051

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

Hindustan Zinc

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	HZ IN
	REUTERS CODE
S&P CNX: 6,018	HZNC.BO

Equity Shares (m)	422.5
52 Week Range (Rs)	1,325/790
1,6,12 Rel Perf (%)	-9/-25/13
Mcap (Rs b)	458.1
Mcap (USD b)	10.1

24 September 2010

Buy

Previous Recommendation: Buy

Rs1,084

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	56,803	27,276	64.6	-38.0	16.8	3.2	19.0	16.4	6.4	13.2
3/10A	80,170	40,414	95.6	48.2	11.3	2.5	22.3	22.9	4.2	7.3
3/11E	91,925	44,413	105.1	9.9	10.3	2.1	20.0	20.7	3.3	6.0
3/12E	100,099	51,497	121.9	15.9	8.9	1.7	19.1	19.3	2.6	4.5

Consolidated

- **Volume growth to drive top line:** Net sales are expected to increase by 7.5% QoQ to Rs21.2b (up 17% YoY) due to 6% volume growth and LME prices are flat. Refined zinc and lead production is expected to be 6% higher QoQ to 190k tons (up 25% YoY). Average zinc prices fell 1.7% to US$2,017 (up 13% YoY) in 2QFY11 and LME lead increased 3% QoQ to US$2,034 (up 4.7% YoY).

- **EBITDA to grow 9% QoQ:** EBITDA is expected to grow 9% QoQ to Rs11.1b (up 4% YoY) and margins are expected to improve by 80bp QoQ due to higher volumes and better operating performance.

- **PAT to grow 16% YoY:** 2QFY11 adjusted PAT is expected to grow 7% QoQ to Rs9.5b (up 2% YoY). HZL's earnings are likely to be driven by volume growth going ahead. Zinc capacity has been expanded by 210ktpa to 879ktpa recently, which will drive the production of refined metal in FY11 and FY12. Another 100ktpa lead smelter is expected to be commissioned in FY11, which will take total zinc and lead capacity to 1.06mtpa. Maintain **Buy.**

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Zn & Pb ('000 tons)	155	152	167	169	179	190	200	215	643	783
Net Sales	**15,122**	**18,183**	**22,491**	**25,449**	**19,734**	**21,211**	**24,824**	**26,158**	**80,170**	**91,925**
Change (YoY %)	*-8.0*	*1.6*	*110.4*	*101.5*	*30.5*	*16.7*	*10.4*	*2.8*	*41.1*	*14.7*
EBITDA	**7,679**	**10,755**	**13,861**	**15,482**	**10,218**	**11,154**	**14,596**	**15,467**	**46,701**	**51,435**
As % of Net Sales	*50.8*	*59.1*	*61.6*	*60.8*	*51.8*	*52.6*	*58.8*	*59.1*	*58.3*	*56.0*
Interest	32	54	77	277	66	49	49	49	439	213
Depreciation	748	771	817	1,006	1,123	888	888	888	3,343	3,553
Other Income	1,946	1,537	1,319	1,345	1,584	1,694	1,876	2,111	7,222	7,266
PBT (after EO item)	**8,845**	**11,467**	**14,286**	**15,543**	**10,614**	**11,911**	**15,535**	**16,641**	**50,141**	**54,936**
Total Tax	1,657	2,118	2,799	3,153	1,705	2,382	3,107	3,328	9,727	10,522
% Tax	*18.7*	*18.5*	*19.6*	*20.3*	*16.1*	*20.0*	*20.0*	*20.0*	*19.4*	*19.2*
Reported PAT	**7,188**	**9,349**	**11,487**	**12,390**	**8,909**	**9,529**	**12,428**	**13,313**	**40,414**	**44,413**
Adjusted PAT	**7,188**	**9,349**	**11,487**	**12,390**	**8,909**	**9,529**	**12,428**	**13,313**	**40,414**	**44,413**
Change (YoY %)	*-15.2*	*-2.6*	*211.4*	*124.7*	*23.9*	*1.9*	*8.2*	*7.4*	*48.2*	*9.9*
Avg LME Zinc (USD/T)	1,509	1,780	2,241	2,311	2,052	2,017	2,200	2,200	1,960	2,117
Avg LME Lead (USD/T)	1,520	1,942	2,313	2,254	1,972	2,034	2,200	2,200	2,007	2,102

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

JSW Steel

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	JSTL IN
	REUTERS CODE
S&P CNX: 6,018	JSTL.BO

Equity Shares (m)	252.2
52 Week Range (Rs)	1,350/652
1,6,12 Rel Perf (%)	1/-14/32
Mcap (Rs b)	321.8
Mcap (USD b)	7.1

24 September 2010

Buy

Previous Recommendation: Buy Rs1,276

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	159,348	10,174	54.4	-31.8	23.5	3.2	13.5	7.7	2.5	13.5
3/10A	189,572	11,117	59.4	9.3	21.5	2.7	12.4	10.1	2.1	9.8
3/11E	231,920	15,047	67.4	13.5	18.9	1.8	9.6	8.5	1.9	8.9
3/12E	316,490	30,870	122.4	81.5	10.4	1.5	14.6	15.0	1.2	4.7

Consolidated

- **Expect 34% volume growth QoQ:** After a sharp fall in volumes in 1QFY11, we expect JSW to post 34% QoQ volume growth at 1.6mt (up 10% YoY) due to improved demand after the monsoons. But average steel price realization is expected to decline 14% QoQ to Rs34,013/ton (up 9% YoY) due to a sharp fall in steel prices at the start of the quarter. Steel prices recovered by US$70-100/ton from their lows in July due to restocking, recovery of apparent demand and declining exports from China after the reduction in VAT rebate. Standalone net sales are expected to grow 16% YoY to Rs54.4b (up 20% YoY).
- **EBITDA to grow 2% QoQ:** EBITDA is expected to grow 2% QoQ to Rs10.6b as JSW will get the benefit of an iron ore export ban in Karnataka despite higher coking coal costs. Margins are expected to fall sequentially by 260bp to 19.4% due to higher costs and a sharp fall in realizations.
- **Strong volume growth, improving balance sheet:** JSW has superior volume growth compared with its peers, rising raw material integration, the advantage of strategic location in the iron-ore belt and superior project execution skills. Ongoing expansion to 10mtpa capacity is on track to be completed by March 2011. Since capex will peak in FY11, the balance sheet will be de-leveraged sharply in FY12 due to the conversion of JFE debenture, promoters' warrants and FCCB. The stock trades at attractive EV/EBITDA of 4.7x FY12E. Reiterate **Buy.**

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Production ('000 tons)	1,376	1,540	1,469	1,615	1,574	1,600	1,600	1,750	6,000	6,400
Change (YoY %)	*41.0*	*53.8*	*87.9*	*67.2*	*14.4*	*3.9*	*8.9*	*8.4*	*61.1*	*6.7*
Sales ('000 tons)	1,321	1,454	1,425	1,520	1,190	1,600	1,600	1,750	5,720	6,140
Realization (Rs per ton)	29,650	31,080	32,372	34,243	39,329	34,013	34,000	34,324	31,912	35,129
Net Sales	**39,168**	**45,190**	**46,130**	**52,050**	**46,802**	**54,421**	**54,400**	**60,066**	**182,538**	**215,690**
Change (YoY %)	*6.7*	*5.9*	*65.6*	*56.4*	*19.5*	*20.4*	*17.9*	*15.4*	*29.9*	*18.2*
EBITDA	**7,467**	**11,070**	**11,180**	**13,308**	**10,345**	**10,562**	**11,901**	**13,651**	**43,024**	**46,459**
Change (YoY %)	*-13.1*	*1.5*	*185.6*	*227.7*	*38.5*	*-4.6*	*6.5*	*2.6*	*56.6*	*8.0*
As % of Net Sales	*19.1*	*24.5*	*24.2*	*25.6*	*22.1*	*19.4*	*21.9*	*22.7*	*23.6*	*21.5*
EBITDA (Rs per ton)	5,652	7,613	7,846	8,755	8,693	6,601	7,438	7,801	7,522	7,567
Interest	2,206	2,298	2,178	1,944	2,142	2,417	2,465	2,514	8,627	9,537
Depreciation	2,718	2,805	2,860	2,851	3,172	3,195	3,250	3,241	11,234	12,858
Other Income	54	615	16	0	31	179	210	109	685	530
PBT (after EO Item)	**4,957**	**6,582**	**7,183**	**9,475**	**5,062**	**5,129**	**6,396**	**8,006**	**28,197**	**24,593**
Total Tax	1,556	2,066	2,041	2,306	1,560	1,539	1,919	2,402	7,969	7,419
% Tax	*31.4*	*31.4*	*28.4*	*24.3*	*30.8*	*30.0*	*30.0*	*30.0*	*28.3*	*30.2*
Reported PAT	**3,400**	**4,515**	**5,142**	**7,169**	**3,503**	**3,590**	**4,477**	**5,604**	**20,227**	**17,175**
Preference Dividend	72	72	72	72	72	72	72	72	290	290
Adjusted PAT	**968**	**4,443**	**4,044**	**6,135**	**3,430**	**3,518**	**4,405**	**5,532**	**15,590**	**16,885**
Change (YoY %)	*-77.9*	*-23.2*	*861.0*	*2,443.1*	*254.5*	*-20.8*	*8.9*	*-9.8*	*43.9*	*8.3*

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

Nalco

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	NACL IN
	REUTERS CODE
S&P CNX: 6,018	NALU.BO

Equity Shares (m)	644.3
52 Week Range (Rs)	526/332
1,6,12 Rel Perf (%)	-9/-11/-2
Mcap (Rs b)	260.4
Mcap (USD b)	5.8

24 September 2010

Sell

Previous Recommendation: Sell

Rs404

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	50,945	12,610	19.6	-23.5	20.6	2.7	12.9	13.6	4.4	13.2
3/10A	51,580	8,326	12.9	-34.0	31.3	2.5	8.0	7.5	4.4	19.7
3/11E	56,775	12,457	19.3	49.6	20.9	2.3	11.0	12.2	3.9	12.0
3/12E	62,073	13,581	21.1	9.0	19.2	2.1	11.0	12.7	3.3	10.1

Consolidated

- **Revenue to grow 22% YoY:** Net sales are expected to grow 22% YoY to Rs14.4b due to higher metal volumes and better alumina and metal realizations. We expect metal sales volumes to increase by 6% YoY to 112,000 tons. LME aluminum prices are up 14% YoY (flat QoQ) at US$2,096 and alumina is up 18% at US$317.

- **EBITDA to grow 249% YoY:** EBITDA is expected to increase 249% YoY to Rs4.9b (25% QoQ) due to higher alumina and aluminum prices. Surplus alumina is sold in the ratio of 60:40 (contract to spot). FY11 contracted alumina realization is at 15% of the LME aluminum price. Margins in 2QFY11 are expected to improve sequentially by 400bp to 34% led by a higher premium over LME prices.

- **Refinery expansion benefits in 2HFY11, limited progress on greenfield projects:** The benefit of alumina expansion is likely to materialize in 2HFY11 and metal production is expected to improve by 4% to 50,000 tons in FY11. Nalco is working on several greenfield projects in India and abroad but it will take significant time for them to contribute to earnings. Maintain **Sell**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Alumina Production ('000 tons)	352	380	405	455	310	383	409	459	1,592	1,562
Aluminium Prod. ('000 tons)	105	103	111	113	111	112	113	114	431	450
Aluminium Sales ('000 tons)	93	106	118	119	109	112	113	114	436	448
Avg LME Aluminium (USD/ton)	1,505	1,827	2,037	2,189	2,150	2,083	2,000	2,000	1,890	2,058
Alumina Exports (USD/ton)	208	250	266	339	375	357	342	342	270	354
Net Sales	**9,353**	**11,791**	**14,176**	**16,260**	**13,081**	**14,438**	**14,195**	**15,061**	**51,580**	**56,775**
Change (YoY %)	*-36.3*	*-23.3*	*36.8*	*44.4*	*39.9*	*22.4*	*0.1*	*-7.4*	*-0.1*	*10.1*
Total Expenditure	7,679	10,374	11,215	10,849	9,143	9,497	9,748	10,146	40,118	38,533
EBITDA	**1,674**	**1,417**	**2,961**	**5,411**	**3,938**	**4,942**	**4,447**	**4,915**	**11,462**	**18,242**
Change (YoY %)	*-77.3*	*-77.9*	*11.5*	*466.2*	*135.2*	*248.7*	*50.2*	*-9.2*	*-34.1*	*59.1*
As % of Net Sales	*17.9*	*12.0*	*20.9*	*33.3*	*30.1*	*34.2*	*31.3*	*32.6*	*22.2*	*32.1*
Interest	11	8	1	1	0	0	0	0	22	0
Depreciation	756	764	789	878	916	914	932	950	3,188	3,712
Other Income	1,012	1,402	617	658	897	796	875	963	3,689	3,531
PBT (before EO Item)	**1,918**	**2,046**	**2,787**	**5,189**	**3,919**	**4,824**	**4,390**	**4,928**	**11,941**	**18,061**
Extra-ordinary Income	0	0	0	0	0	0	0	0	0	0
PBT (after EO Item)	**1,918**	**2,046**	**2,787**	**5,189**	**3,919**	**4,824**	**4,390**	**4,928**	**11,941**	**18,061**
Total Tax	654	451	1,236	1,275	1,079	1,544	1,405	1,577	3,615	5,604
% Tax	*34.1*	*22.1*	*44.3*	*24.6*	*27.5*	*32.0*	*32.0*	*32.0*	*30.3*	*31.0*
Reported PAT	**1,265**	**1,595**	**1,552**	**3,915**	**2,841**	**3,280**	**2,985**	**3,351**	**8,326**	**12,457**
Adjusted PAT	**1,265**	**1,595**	**1,552**	**3,915**	**2,841**	**3,280**	**2,985**	**3,351**	**8,326**	**12,457**
Change (YoY %)	*-75.9*	*-64.1*	*-29.3*	*371.5*	*124.6*	*105.7*	*92.4*	*-14.4*	*-34.9*	*49.6*

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

Sesa Goa

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	SESA IN
	REUTERS CODE
S&P CNX: 6,018	SESA.BO

Equity Shares (m)	831.0
52 Week Range (Rs)	494/256
1,6,12 Rel Perf (%)	-7/-40/3
Mcap (Rs b)	277.5
Mcap (USD b)	6.1

24 September 2010

Buy

Previous Recommendation: Buy

Rs334

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	49,591	19,880	25.3	29.0	13.2	5.6	42.2	51.6	4.7	9.2
3/10A	58,583	26,291	31.6	25.3	10.6	3.5	33.2	30.7	4.0	7.5
3/11E	101,472	52,858	63.6	101.0	5.3	2.1	40.9	40.7	1.8	3.0
3/12E	128,730	57,118	68.7	8.1	4.9	1.5	31.0	35.0	1.0	1.8

Consolidated

- **Realizations to grow 73% YoY:** Sesa Goa's realizations per ton are expected to increase 73% YoY to US$88/ton (a decline of 4% QoQ) due to higher iron-ore prices. Average 2QFY11 spot prices of iron ore in China CIF were ~US$144/ton. We expect sales volumes to grow 30% YoY to 2.1mt (down 61% QoQ due to the monsoon season). Thus, we expect net sales to grow 87% YoY (down 58% QoQ) to Rs10.1b in 2QFY11.

- **Robust EBITDA growth YoY:** EBITDA is expected to increase 242% YoY to Rs5.2b (down 66% QoQ) due to higher realizations and better volumes. Sesa Goa's export realization is expected to be higher due to lower sea freight and higher ore prices.

- **Strong growth in earnings due to higher volumes, prices:** We expect PAT to grow 190% YoY to Rs4.8b due to higher ore prices and volumes. Sesa's competitive cost structure and well planned volume growth will drive earnings further. We believe all the negatives are being factored in its current valuation. Spot iron ore prices (China CFR) are well above our estimate of US$120/ton and acquisition of Cairn's stake would be EPS accretive. Maintain **Buy.**

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**10,115**	**5,387**	**18,892**	**24,189**	**24,131**	**10,048**	**33,806**	**33,488**	**58,583**	**101,472**
Change (YoY %)	*-21.7*	*-37.6*	*38.9*	*67.6*	*138.6*	*86.5*	*78.9*	*38.4*	*18.1*	*73.2*
EBITDA	**4,531**	**1,527**	**10,360**	**15,030**	**15,507**	**5,230**	**20,429**	**20,558**	**31,448**	**61,724**
Change (YoY %)	*-44.5*	*-62.6*	*85.1*	*99.5*	*242.2*	*242.5*	*97.2*	*36.8*	*23.9*	*96.3*
As % of Net Sales	*44.8*	*28.3*	*54.8*	*62.1*	*64.3*	*52.1*	*60.4*	*61.4*	*53.7*	*60.8*
Interest	20	20	251	227	137	222	220	218	517	797
Depreciation	152	202	225	166	191	239	266	196	745	892
Other Income	752	893	1,325	1,291	1,609	1,292	1,305	1,318	4,260	5,525
PBT (before XO item)	**5,110**	**2,198**	**11,210**	**15,928**	**16,787**	**6,061**	**21,249**	**21,463**	**34,446**	**65,561**
EO					-911					-911
PBT (after XO item)	**5,110**	**2,198**	**11,210**	**15,928**	**15,877**	**6,061**	**21,249**	**21,463**	**34,446**	**64,650**
Total Tax	869	503	2,906	3,777	2,832	1,212	4,250	4,293	8,056	12,587
% Tax	*17.0*	*22.9*	*25.9*	*23.7*	*17.8*	*20.0*	*20.0*	*20.0*	*23.4*	*19.5*
Reported PAT before MI	**4,241**	**1,694**	**8,304**	**12,151**	**13,045**	**4,849**	**16,999**	**17,171**	**26,390**	**52,064**
Minority Interest	18	30	29	22	27	28	30	30	99	116
Adjusted PAT	**4,223**	**1,665**	**8,275**	**12,129**	**13,766**	**4,821**	**16,969**	**17,140**	**26,291**	**52,681**
Change (YoY %)	*-34.5*	*-48.7*	*75.8*	*121.5*	*226.0*	*189.6*	*105.1*	*41.3*	*32.2*	*100.4*

E: MOSt Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

Steel Authority of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	SAIL IN
	REUTERS CODE
S&P CNX: 6,018	SAIL.BO

Equity Shares (m)	4,130.4
52 Week Range (Rs)	259/155
1,6,12 Rel Perf (%)	-1/-29/-1
Mcap (Rs b)	849.4
Mcap (USD b)	18.8

24 September 2010

Neutral

Previous Recommendation: Neutral Rs206

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	437,545	62,369	15.1	-26.3	13.6	3.0	22.0	25.5	1.7	8.7
3/10A	405,726	68,153	16.5	9.3	12.5	2.5	20.2	20.3	2.0	8.4
3/11E	451,991	60,575	14.7	-11.1	14.0	2.2	15.8	16.7	1.8	9.0
3/12E	481,005	57,796	14.0	-4.6	14.7	2.0	13.5	15.2	1.9	9.9

Consolidated

- **Volumes to improve 35% QoQ:** Net sales are expected to increase 15% QoQ to Rs107.3b (up 7% YoY) due to higher sales volumes and lower sales realization. Volumes are expected to increase 35% QoQ to 3.1mt (up 2% YoY) and realization per ton is expected to decline 15% QoQ to Rs34,601 (up 4% YoY). We expect this volume growth due to a recovery in steel demand as construction activities start picking up after the monsoons. Realizations are expected to decline as steel prices fell towards the end of 1QFY11 due to subdued demand and higher imports.
- **Margins to come under pressure due to rising costs:** We expect EBITDA per ton to decline 26% YoY to Rs5,817 due to rising raw material prices. Although average realization for 2QFY11 per ton is expected to be 4% higher YoY, expenditure per ton is expected to increase 14% YoY due to higher input costs.
- **No volume growth in saleable steel capacity in FY11, maintain Neutral:** SAIL is one of the few virtually debt-free companies in the Indian metal space and has full integration of iron ore. But in the absence of significant near term volume growth, steel prices remain the sole trigger for earnings growth. Steel prices have improved by US$50-60 in recent few weeks and costs will come down moderately. Maintain **Neutral.**

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Production (m tons)	3.06	3.14	3.10	3.30	3.00	3.10	3.30	3.80	12.60	13.20
Change (YoY %)	*3.8*	*-1.3*	*3.3*	*1.3*	*-2.0*	*-1.3*	*6.5*	*15.2*	*1.7*	*4.8*
Sales (m tons)	2.79	3.03	2.90	3.40	2.30	3.10	3.30	3.80	12.12	12.50
Change (YoY %)	*5.3*	*14.3*	*20.8*	*-5.6*	*-17.6*	*2.3*	*13.8*	*11.8*	*7.3*	*3.1*
Realization (Rs per ton)	32,806	33,132	34,621	36,465	40,538	34,601	35,101	35,601	34,348	36,129
Change (YoY %)	*-21.2*	*-28.3*	*-6.9*	*8.9*	*23.6*	*4.4*	*1.4*	*-2.4*	*-12.3*	*5.2*
Net Sales	**91,528**	**100,391**	**100,400**	**123,983**	**93,238**	**107,263**	**115,833**	**135,283**	**416,301**	**451,616**
Change (%)	*-17.0*	*-18.0*	*12.5*	*2.8*	*1.9*	*6.8*	*15.4*	*9.1*	*-5.9*	*8.5*
EBITDA	**18,756**	**23,884**	**25,784**	**30,971**	**18,429**	**18,032**	**21,308**	**33,107**	**99,394**	**90,875**
As % of Net Sales	*20.5*	*23.8*	*25.7*	*25.0*	*19.8*	*16.8*	*18.4*	*24.5*	*23.9*	*20.1*
EBITDA per ton	6,723	7,882	8,891	9,109	8,012	5,817	6,457	8,712	8,201	7,270
Interest	828	735	1,101	1,347	1,296	1,325	1,356	1,326	4,011	5,303
Depreciation	3,269	3,322	3,390	3,384	3,505	3,438	3,579	3,789	13,366	14,311
Other Income	5,400	5,362	4,068	4,429	3,862	4,391	4,757	4,940	19,259	17,950
PBT	**20,059**	**25,189**	**25,361**	**30,668**	**17,489**	**17,659**	**21,130**	**32,932**	**101,277**	**89,211**
Total Tax	6,798	8,554	8,605	9,819	5,723	5,828	6,973	10,867	33,777	29,391
% Tax	*33.9*	*34.0*	*33.9*	*32.0*	*32.7*	*33.0*	*33.0*	*33.0*	*33.4*	*32.9*
Reported PAT	**13,261**	**16,635**	**16,756**	**20,849**	**11,767**	**11,832**	**14,157**	**22,064**	**67,500**	**59,820**
Adjusted PAT	**13,261**	**16,635**	**16,756**	**20,849**	**11,767**	**11,832**	**14,157**	**22,064**	**67,500**	**59,820**
Change (YoY %)	*-36.9*	*-18.9*	*99.3*	*37.2*	*-11.3*	*-28.9*	*-15.5*	*5.8*	*3.6*	*-11.4*

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

Sterlite Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	STLT IN
	REUTERS CODE
S&P CNX: 6,018	STRL.BO

Equity Shares (m)	3,361.6
52 Week Range (Rs)	232/149
1,6,12 Rel Perf (%)	4/-30/-29
Mcap (Rs b)	579.4
Mcap (USD b)	12.8

24 September 2010

Buy

Previous Recommendation: Buy

Rs172

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	211,442	34,847	12.3	-19.9	14.0	1.9	13.6	9.8	4.4	27.5
3/10A	244,103	40,407	12.0	-2.2	14.3	1.6	10.9	9.5	4.3	26.2
3/11E	272,776	49,540	14.7	22.6	11.7	1.4	12.0	9.5	1.8	9.6
3/12E	317,966	72,081	21.4	45.5	8.0	1.2	15.2	14.0	1.4	5.0

Consolidated

- **Higher volumes to drive top line:** Consolidated net sales are expected to grow 4% QoQ to Rs62.4b (up 2% YoY) due to higher volumes from the zinc and aluminum businesses. LME prices were sequentially flat. Copper cathode production is expected to fall 22% YoY to 70,000 tons due to a planned maintenance shutdown. Refined zinc production is expected to increase 24% YoY to 175,000 tons.
- **EBITDA to grow 4% QoQ:** EBITDA is expected to grow 4% QoQ to Rs15.5b (14% YoY) due to strong performance from the zinc and aluminum businesses. We expect the EBIT of the zinc business to grow 13% QoQ to Rs10.2b (up 3% YoY) and the aluminum (Balco) EBIT is expected to grow 59% QoQ to Rs790m (14% YoY).
- **Bottom line to grow 35% QoQ:** Adjusted PAT is expected to increase 35% QoQ to Rs11.6b (up 19% YoY) helped by better performance from zinc, VAL's aluminum and surplus power at Balco.
- **Awaiting triggers, outlook positive:** Sterlite's earnings are likely to be driven by volume growth in the metals and energy business. Balco will also have 800MW of surplus power from its CPP for merchant sale. Power is likely to boost its FY12 EPS in a big way. We value the stock at Rs216 based on SOTP valuation. The stock trades at 8x FY12E EPS and an EV of 5x FY12E EBITDA. Maintain **Buy.**

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	45,789	61,291	67,467	72,278	59,703	62,354	73,600	77,119	246,825	272,776
Change (YoY %)	*-20.6*	*-10.0*	*48.7*	*64.0*	*30.4*	*1.7*	*9.1*	*6.7*	*14.7*	*10.5*
Total Expenditure	35,580	47,637	49,746	50,423	44,729	46,823	53,810	55,743	183,386	201,104
EBITDA	**10,209**	**13,654**	**17,722**	**21,855**	**14,974**	**15,531**	**19,790**	**21,376**	**63,439**	**71,671**
As % of Net Sales	*22.3*	*22.3*	*26.3*	*30.2*	*25.1*	*24.9*	*26.9*	*27.7*	*25.7*	*26.3*
Interest	712	576	929	1,206	1,409	982	1,100	1,131	3,424	4,621
Depreciation	1,736	1,734	1,782	2,246	2,170	1,656	1,839	1,931	7,498	7,596
Other Income	3,783	3,887	3,715	5,486	5,455	5,594	6,299	5,628	16,872	22,975
PBT (before XO item)	**11,544**	**15,231**	**18,726**	**23,890**	**16,850**	**18,487**	**23,150**	**23,943**	**69,390**	**82,429**
Extra-ordinary Exp.	0	-234	-2,735	0	1,460	0	0	0	-2,970	1,460
PBT (after XO item)	**11,544**	**14,997**	**15,991**	**23,890**	**18,310**	**18,487**	**23,150**	**23,943**	**66,420**	**83,889**
Total Tax	2,305	2,593	2,903	4,528	3,685	3,622	4,349	5,065	12,330	16,720
% Tax	*20.0*	*17.3*	*18.2*	*19.0*	*20.1*	*19.6*	*18.8*	*21.2*	*18.6*	*19.9*
Reported PAT	**9,239**	**12,403**	**13,087**	**19,361**	**14,625**	**14,865**	**18,801**	**18,878**	**54,091**	**67,168**
Minority interest	3,219	3,677	4,803	5,541	3,756	3,842	4,777	5,241	17,241	17,617
Loss/(profit) of Associates	-707	-863	971	11	785	-620	-745	-869	-588	-1,449
Adjusted PAT	**6,727**	**9,823**	**10,049**	**13,809**	**8,624**	**11,643**	**14,768**	**14,505**	**40,407**	**49,540**
Change (YoY %)	*-41.6*	*-23.7*	*107.0*	*253.4*	*28.2*	*18.5*	*47.0*	*5.0*	*21.9*	*22.6*
Avg LME Aluminium (USD/T)	1,530	1,836	2,037	2,199	2,122	2,083	2,000	2,000	1,901	2,051
Avg LME Copper (USD/T)	4,640	5,856	6,637	7,274	7,042	7,180	7,075	7,075	6,102	7,093
Avg LME Zinc (USD/T)	1,509	1,780	2,241	2,307	2,052	2,017	2,200	2,200	1,959	2,117

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

Tata Steel

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	TATA IN
	REUTERS CODE
S&P CNX: 6,018	TISC.BO

Equity Shares (m)	887.4
52 Week Range (Rs)	737/434
1,6,12 Rel Perf (%)	13/-15/3
Mcap (Rs b)	558.6
Mcap (USD b)	12.3

24 September 2010

Neutral

Previous Recommendation: Neutral Rs630

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	1,473,293	90,454	101.9	16.9	6.2	4.7	76.7	15.3	0.7	5.9
3/10A	1,023,931	-8,255	-9.3	-n/a-	-67.7	6.6	-9.7	4.5	1.0	12.5
3/11E	1,139,920	59,062	65.4	-n/a-	9.6	3.8	39.8	12.1	0.9	6.9
3/12E	1,143,222	60,671	66.3	1.4	9.5	2.8	29.8	10.7	0.8	7.0

Consolidated

- **Standalone:** Net revenue is expected to increase 6% QoQ to Rs69.5b due to higher sales volumes and lower realizations. We expect sales to improve 16% QoQ to 1.62mt (11% YoY) in 2QFY11. Average steel price realization is expected to decline 7% QoQ to Rs39,853/ton in 2QFY11 due to a fall in steel prices since June. Both iron ore and coking coal costs will increase in 2QFY11 but in 3QFY11 raw material prices are expected to decline moderately. We expect EBITDA per ton of Rs14,504 (down 26% QoQ) in Indian operations. We expect EBITDA per ton to increase by Rs2,954 YoY to Rs15,089 (down Rs1,599/ton QoQ).
- **Corus:** For Corus and other foreign subsidiaries, we expect EBITDA per ton to decline from US$70/ton in 1QFY11 to US$20/ton in 2QFY11 as steel prices headed lower from their peak in May until August 2010 and raw material costs increased. We expect consolidated EBITDA to decline 35% QoQ to Rs28.7b and EBITDA per ton is expected to fall to Rs4,579.
- **Maintain Neutral:** The performance of the Indian operations is expected to be strong due to stabilized steel prices, strong domestic demand and higher integration. But we are concerned about the performance of Corus as raw material costs are not expected to decline significantly over the next two quarters and other operating costs will increase. Maintain **Neutral.**

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales ('000 tons)	1,418	1,457	1,596	1,698	1,399	1,617	1,676	1,782	6,169	6,475
Change (YoY %)	*22.3*	*19.4*	*49.0*	*-5.2*	*-1.3*	*11.0*	*5.0*	*5.0*	*17.7*	*5.0*
Avg Realization (Rs/tss)	36,717	35,652	36,534	39,649	42,871	39,853	40,353	40,853	37,225	40,909
Net Sales	**56,156**	**56,921**	**63,749**	**73,394**	**65,515**	**69,548**	**73,133**	**78,986**	**250,220**	**287,183**
Change (YoY %)	*-8.9*	*-16.9*	*32.8*	*12.9*	*16.7*	*22.2*	*14.7*	*7.6*	*2.9*	*14.8*
EBITDA	**17,422**	**19,222**	**23,106**	**29,770**	**29,165**	**24,443**	**25,347**	**29,536**	**89,521**	**108,491**
Change (YoY %)	*-42.4*	*-39.6*	*56.3*	*105.3*	*67.4*	*27.2*	*9.7*	*-0.8*	*-2.0*	*21.2*
(% of Net Sales)	*31.0*	*33.8*	*36.2*	*40.6*	*44.5*	*35.1*	*34.7*	*37.4*	*35.8*	*37.8*
EBITDA(Rs/tss)	**12,135**	**12,664**	**13,725**	**16,688**	**19,537**	**14,504**	**14,422**	**15,891**	**13,993**	**15,999**
Interest	3,422	3,920	4,157	3,585	3,277	3,443	3,374	3,307	15,084	13,401
Depreciation	2,532	2,564	2,622	3,115	2,802	2,886	2,973	3,062	10,832	11,723
Other Income	463	761	936	1,378	484	837	1,029	1,516	3,538	3,866
PBT (after EO Inc.)	**11,932**	**13,499**	**17,426**	**29,286**	**23,570**	**25,951**	**20,029**	**24,683**	**72,143**	**94,234**
Total Tax	4,034	4,470	5,508	7,663	7,776	6,790	5,241	6,459	21,675	26,266
Reported PAT	**7,898**	**9,029**	**11,918**	**21,623**	**15,794**	**19,160**	**14,788**	**18,224**	**50,468**	**67,967**
Adjusted PAT	**7,898**	**9,029**	**11,755**	**16,786**	**15,794**	**12,160**	**14,788**	**18,224**	**45,468**	**60,967**
Change (YoY %)	*-55.9*	*-57.7*	*98.2*	*145.5*	*100.0*	*34.7*	*25.8*	*8.6*	*-12.6*	*34.1*
Consolidated Financials										
Net Sales	**232,923**	**253,950**	**262,020**	**275,038**	**271,948**	**278,046**	**284,131**	**305,795**	**1,023,931**	**1,139,920**
EBITDA	**-299**	**3,718**	**31,043**	**45,964**	**44,326**	**28,677**	**30,511**	**39,807**	**80,427**	**143,322**
Reported PAT	**-22,385**	**-27,198**	**4,323**	**24,052**	**17,902**	**14,240**	**12,362**	**19,560**	**-21,208**	**64,063**
Adjusted PAT	**-19,899**	**-17,959**	**6,521**	**23,083**	**18,851**	**7,612**	**12,715**	**19,883**	**-8,255**	**59,062**

E: MOSL Estimates; tss=ton of steel sales

Sanjay Jain (SanjayJain@MotilalOswal.com)/Tushar Chaudhari (Tushar.Chaudhari@MotilalOswal.com)

Oil & Gas

BSE Sensex: 20,045 S&P CNX: 6,018 24 September 2010

COMPANY NAME

BPCL

Cairn India

Chennai Petroleum

GAIL

Gujarat State Petronet

HPCL

IOC

Indraprastha Gas

MRPL

ONGC

Reliance Industries

GRM fall in September 2010 but 2QFY11 average up YoY, QoQ: Although the regional benchmark Reuters Singapore GRMs are up 31% YoY and 14% QoQ, they declined towards the end of the quarter with US$3.5/bbl in September against US$4.6/bbl in July-Aug 2010. The US driving season failed to increase gasoline cracks due to large inventories. Unless there are major refinery closures and the global economy strengthens, we expect refining margins to be subdued.

Except PP, other key polymer margins fall sequentially: PP margins are up 3% sequentially but PE, PFY and PSF margins are down 3-6%. We believe most of the new capacities in the Middle East are commissioned (operating at less than 80% utilization) and are ramping up gradually. Going forward, with increased utilization, we expect low cost Middle East producers to dampen margins. Strong domestic demand growth and anti-dumping duties will provide RIL and GAIL with some respite.

KG-D6 ramp-up delayed, expect LNG to partially meet gas demand: RIL has delayed its KG-D6 gas volume ramp-up (~60mmscmd) by 6-12 months for reservoir studies. But given India's strong gas demand, we expect imported LNG to meet demand to some extent.

Hope for clarity on diesel deregulation, subsidy rationalization soon: FY11 has turned out to be a historic year for the Indian oil industry with the government's announcement of deregulation. It deregulated petrol and increased prices of diesel (Rs2/liter), kerosene (33%) and LPG (11%). The government plans to divest 10% in IOC and 5% in ONGC. We believe government will provide clarity on (1) diesel deregulation, and (2) the subsidy sharing mechanism to investors for divestment/FPO in ONGC and IOC.

Valuation and view: Subsidy sharing and timing of diesel deregulation is an overhang on OMCs and upstream companies. Our near-term view on the refining and petrochemical cycle is bearish and this could adversely impact margins of RIL and other refiners. Clarity on sale of Cairn Plc stake to Vedanta will determine the near-term movement of Cairn India. Maintain **Neutral** on RIL due to subdued outlook on core businesses. We expect clarity on the subsidy issue soon and are positive on **ONGC**, **GAIL** and **BPCL**.

EXPECTED QUARTERLY PERFORMANCE SUMMARY (RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
	24.09.10		SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ
Oil & Gas											
BPCL	788	Buy	373,963	38.1	9.2	23,893	LP	LP	20,447	LP	LP
Cairn India	329	Neutral	25,390	1005.0	202.0	22,150	1561.9	242.3	15,207	712.1	440.4
Chennai Petroleum	251	Buy	79,960	14.3	25.7	2,023	-37.1	1020.7	638	-58.7	LP
GAIL	479	Buy	71,794	15.8	1.2	14,051	38.1	-2.1	9,066	27.1	2.2
Gujarat State Petronet	112	Buy	2,550	0.1	1.3	2,408	-1.4	1.1	1,032	-6.3	-1.8
HPCL	542	Buy	311,469	27.4	6.6	19,573	LP	LP	17,145	LP	LP
Indraprastha Gas	319	Neutral	4,176	52.9	24.6	1,281	28.1	20.1	697	22.7	21.9
IOC	437	Buy	788,197	29.8	10.0	66,209	1434.8	LP	51,920	1,725.6	LP
MRPL	79	Sell	124,006	58.0	57.6	3,464	7.9	332.6	1,696	4.0	495.8
ONGC	1,437	Buy	176,663	17.1	29.3	111,347	28.3	38.6	55,812	9.7	52.4
Reliance Inds.	1,002	Neutral	579,099	23.6	-0.5	97,569	35.2	4.4	49,911	29.6	2.9
Sector Aggregate			**2,537,266**	**29.4**	**10.4**	**363,968**	**98.4**	**161.0**	**223,570**	**116.7**	**681.1**

Harshad Borawake (HarshadBorawake@MotilalOswal.com) / Milind Bafna (Milind.Bafna@MotilalOswal.com)

GRM to stay subdued led by gasoline, naphtha, fuel oil cracks

Singapore complex GRM at ~US$4.2/bbl; Petchem margins mixed; Oil averaged US76.2$/bbl down 3%QoQ;

YoY comparisons

- The average 2QFY11 Brent price was up 11.5% YoY at US$76.2/bbl from US$68.4/bbl. Dubai crude was up 8.5% at US$74/bbl from US$68.2/bbl a year earlier.
- The benchmark Singapore complex average 4QFY10 refining margins were up 31%, at US$4.2/bbl from US$3.2/bbl a year earlier.
- Except PE, other polymers and all grades of polyester prices were up and margins were mixed.

Polymer margins: PE down 7%; PP up 11%.
Polyester intermediates margins: PTA down 12.4%, MEG up 8%.
Integrated polyesters margins: POY down 1%, PSF up 6%.

QoQ comparison (v/s 1QFY11)

- Average 2QFY11 Brent was down 3.2% from US$78.8/bbl a quarter earlier and Dubai was down 5.3% from US$78.1/bbl.
- In 2QFY11 Singapore complex margins averaged US$4.2/bbl, up 14% from US$3.7/bbl in 1QFY11.
- Except PP, polymer and petchem margins were down sequentially.

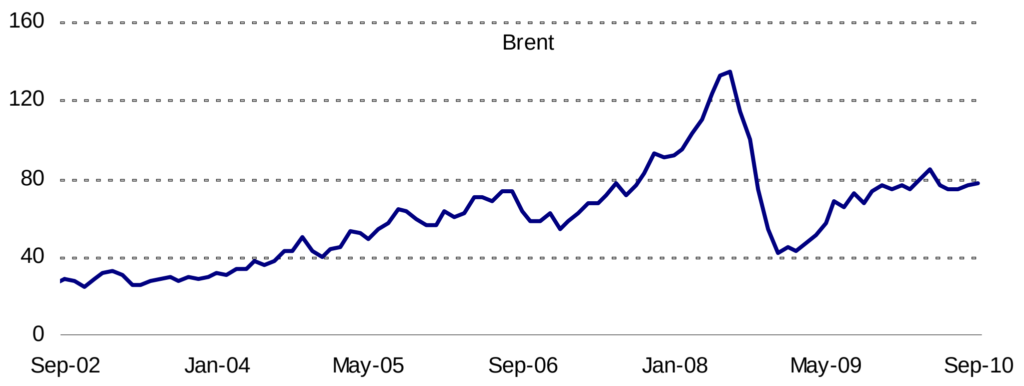
Polymer margins mixed: PE margins were down 6.1%, PP was up 3.1%.
Polyester intermediates down: PTA and MEG by 7.7% and 22.4% respectively.
Integrated polyesters down: POY and PSF were down by 5.9% and 3.3% respectively.

Oil at US$70-85/bbl, demand outlook positive, extent uncertain

During 2QFY11 and in the past 12 months Brent crude prices oscillated between US$70 and US$82/bbl. This was a far cry from previous years' volatile behavior. Oil demand outlook in 2011 by OPEC and IEA vary significantly enough to indicate the uncertainty over the extent of increase in demand. OPEC expects oil demand to grow by 1mmbbl/d in 2011 against IEA expectation of 1.9mmbbl/d.

The year 2010 marks the fiftieth anniversary for OPEC and the range of oil prices between US$70-80/bbl is in line with OPEC's price expectations (in the event of uncertainty in global economic recovery). We expect oil prices to continue at current levels due to uncertainty about the extent of economic recovery and high spare capacity with OPEC.

OIL PRICE LARGELY STABLE IN 2QFY11 (US$/BBL)

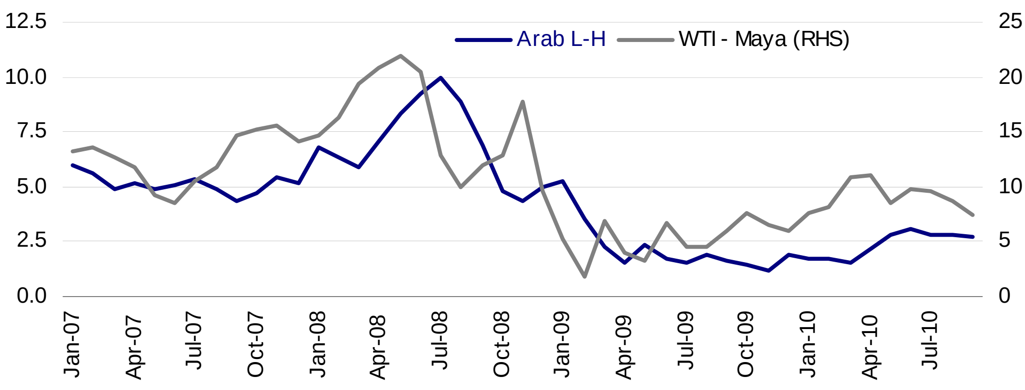


Source: Bloomberg; MOSL

Mixed trend in Light Heavy Crude differentials

Light Heavy crude differentials were largely flat in 2QFY11. The Arab Light Heavy differential increased ~5% and the WTI-Maya fell ~13% QoQ in 2QFY11. But the differentials are significantly up from January 2009 to February 2010. In 2QFY11, the Arab Light-Heavy differential averaged US$2.8/bbl (v/s US$2.7/bbl in 1QFY11 and US$1.7/bbl in 2QFY10) and the WTI-Maya differential was US$8.5/bbl (v/s US$9.8/bbl in 1QFY11 and US$5/bbl in 2QFY10). Improving light-heavy spreads augurs well for complex refiners like RIL.

ARAB LIGHT-HEAVY DIFFERENTIALS MARGINALLY UP QOQ



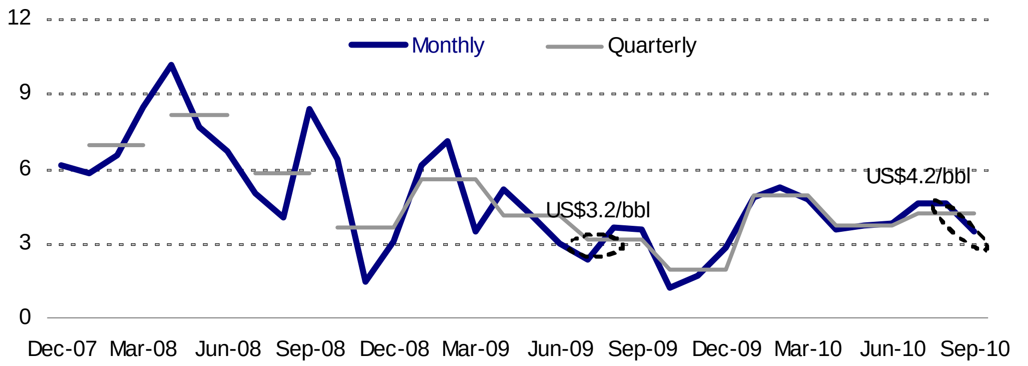
Source: Bloomberg; MOSL

Average GRMs up but decline in September

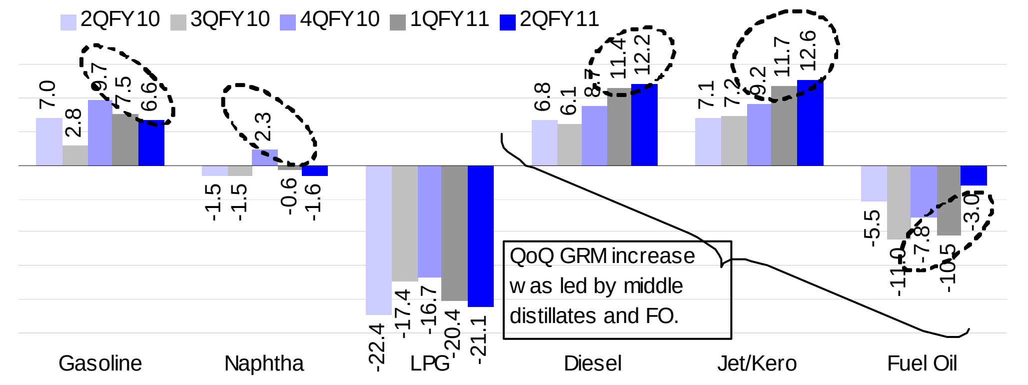
The regional benchmark Singapore GRM averaged US$4.2/bbl in 2QFY11 against US$3.7/bbl in 1QFY11 and US$3.2/bbl in 2QFY10. The GRM rebounded to US$4.6/bbl in August 2010 from US$5/bbl in 4QFY10 before falling to US$3.5/bbl in September 2010.

The refining business is facing overcapacity, led by large new capacity coming on line against slower-than-expected growth. Many uneconomical refiners have shut down over the past two years, but further closures are facing difficulties owing to political pressure and energy security issues in some countries. Unless there are major refinery closures and the global economy stays strong, we expect refining margins to be subdued.

2QFY11 SINGAPORE GRM AVERAGE US$4.2/BBL



MIDDLE DISTILLATES, FUEL OIL LEAD QOQ GRM INCREASE



Source: Reuters/Bloomberg/MOSL

Except PP, other key polymer margins down sequentially

PP margins were up 3% QoQ but PE, POY and PSF margins were down 6%, 6% and 3% respectively. Most of the capacities in the Middle East have been commissioned (currently operating at less than 80% utilization) and are ramping up gradually. But due to more than 25% demand growth in India and China, most of the capacities are being absorbed with very little impact on margins. Going forward, with increased, we expect low cost polymers from the Middle East and China to reduce margins of domestic players.

Petchem margins strong but oversupply may put pressure on margins: Polymer prices decreased 6% sequentially and polyester prices were flat-to-marginally positive. Petchem margins were under pressure vis-à-vis 4QFY10 owing to only 1% reduction in naphtha prices. Besides, with the start-up of new capacities in China and the Middle East, petchem markets are expected to be in oversupply by 2HFY11.

KEY PRODUCT SPREADS

	SIMPLE SPREADS					INTEGRATED SPREADS	
	PE	PP	PVC	PTA	MEG	POY	PSF
1QFY10	42.2	40.0	21.2	28.3	12.1	45.3	41.4
2QFY10	41.9	37.2	20.5	26.6	15.6	45.6	41.9
3QFY10	38.1	32.8	16.7	22.8	17.1	42.3	39.0
4QFY10	43.6	40.9	20.5	25.8	25.9	47.6	43.6
1QFY11	41.5	40.2	20.7	25.3	21.8	48.0	45.9
2QFY11	39.0	41.3	20.9	23.3	16.9	45.2	44.4
QoQ (%)	*-6.1*	*2.9*	*0.7*	*-7.7*	*-22.4*	*-5.9*	*-3.3*
YoY (%)	*-7.0*	*11.0*	*1.7*	*-12.4*	*7.9*	*-0.9*	*6.0*

Naphtha prices for 2QFY11 are till date *Source: Industry, Bloomberg; MOSL*

Under-recoveries halve QoQ

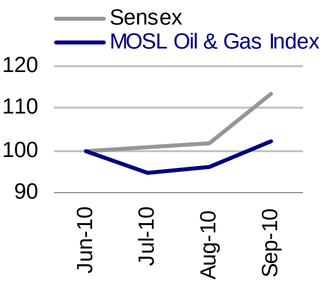
We estimate 2QFY11 under-recoveries will fall by half, led by petrol de-control and price hikes in diesel, kerosene and LPG. But clarity is yet to emerge on the subsidy sharing formula in FY11. We assume the upstream sector will share a third of under-recoveries and downstream companies will share 11% of it. The rest will be compensated by the government.

EXPECT 2QFY11 UNDER-RECOVERIES OF RS104B

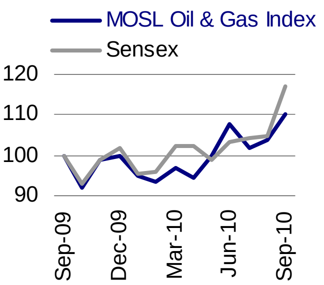
(RS B)	FY08	FY09	FY10	1QFY11	2QFY11E	FY11E
Fx rate (Rs/US$)	**40.3**	**46.0**	**47.5**	**45.7**	**46.6**	**46.0**
Brent (US$/bbl)	**82.3**	**84.8**	**69.6**	**78.5**	**76.1**	**75.7**
Auto fuels	426	575	144	101	24	131
Domestic fuels	347	458	316	106	81	361
Gross under-recoveries	**773**	**1,033**	**461**	**207**	**104**	**492**
Sharing (Rs b)						
Oil bonds/cash	353	713	260	0	112	276
Upstream	257	329	145	67	35	162
OMC sharing	163	(9)	56	140	(42)	54
Total	**773**	**1,033**	**461**	**207**	**104**	**492**
Sharing (%)						
Oil bonds	46	69	56	0	107	56
Upstream	33	32	31	32	33	33
OMC sharing	21	(1)	12	68	(40)	11
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: MOSL

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



Valuation and view

Subsidy sharing and timing of diesel deregulation remains an overhang on OMCs and upstream companies. But FY11 has turned out to be a historic year for Indian oil industry with the government's announcement of partial deregulation. Despite the subsidy concern, we are positive about **ONGC**, **GAIL** and **BPCL**. Our near-term view on the refining and petrochemical cycle is bearish and we believe this could adversely impact margins of RIL and other refiners.

Key assumptions

- Our crude price assumption for FY11 and onwards is US$75/bbl.
- We believe the benchmark Singapore Reuters GRM will be subdued. We model US$4/bbl in FY11 and US$4.5/bbl in FY12.

COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Oil & Gas														
BPCL	788	Buy	45.2	57.3	60.3	17.5	13.8	13.1	18.2	10.2	8.4	11.9	14.0	13.4
Cairn India	329	Neutral	5.5	26.6	42.8	59.5	12.4	7.7	66.6	8.4	5.2	14.1	19.8	18.7
Chennai Petroleum	251	Buy	32.7	18.9	26.7	7.7	13.3	9.4	9.8	8.9	7.6	18.5	8.1	11.0
GAIL	479	Buy	24.8	28.9	31.8	19.4	16.6	15.1	16.3	14.5	12.9	18.7	19.1	18.6
Gujarat State Petronet	112	Buy	7.4	7.7	6.5	15.3	14.7	17.3	7.7	7.1	7.4	29.4	24.4	17.5
HPCL	542	Buy	38.4	39.0	42.2	14.1	13.9	12.8	11.7	9.4	8.5	11.7	11.1	11.2
Indraprastha Gas	319	Neutral	15.4	18.6	21.2	20.7	17.1	15.1	11.6	8.9	7.6	28.6	28.8	27.2
IOC	437	Buy	44.1	34.4	40.1	9.9	12.7	10.9	17.2	13.2	11.1	21.9	15.2	16.2
MRPL	79	Sell	6.0	4.0	4.4	13.1	19.9	18.1	9.0	13.1	13.7	20.5	12.0	12.2
ONGC	1,437	Buy	90.7	114.6	129.6	15.8	12.5	11.1	6.4	5.4	4.9	20.2	22.7	22.4
Reliance Inds.	1,002	Neutral	54.8	67.9	71.0	18.3	14.8	14.1	12.4	9.6	8.7	13.4	14.6	13.5
Sector Aggregate						**16.9**	**14.1**	**12.3**	**11.1**	**8.5**	**7.5**	**14.7**	**15.7**	**15.9**

BPCL

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	BPCL IN
	REUTERS CODE
S&P CNX: 6,018	BPCL.BO

Equity Shares (m)	361.5
52 Week Range (Rs)	815/488
1,6,12 Rel Perf (%)	-6/42/18
Mcap (Rs b)	285.0
Mcap (USD b)	6.3

24 September 2010

Buy

Previous Recommendation: Buy

Rs788

YEAR END *	NET SALES (RS B)	ADJ. PAT (RS B)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	1,366	6.3	17.5	-58.1	45.0		4.8	5.9		
03/10A	1,238	16.3	45.2	157.6	17.5	2.0	11.9	3.9	0.4	18.2
03/11E	1,414	20.7	57.3	27.0	13.8	1.8	14.0	7.4	0.3	10.2
03/12E	1,322	21.8	60.3	5.1	13.1	1.7	13.4	9.0	0.3	8.4

** Consolidated*

- As in previous quarters, BPCL's profitability will depend more on subsidy sharing than business fundamentals. Government subsidy compensation typically comes with a delay and hence we factor 1QFY11 receivable of Rs27b in the current quarter.
- For the full year we factor in OMCs bearing 11% of total under-recoveries. We have built in a third of the under-recoveries to be borne by upstream sector and the companies will be compensated by the government for the rest of the losses.
- We estimate BPCL will report net profit of Rs20.5b against a loss of Rs1.6b in 2QFY10 and a loss of Rs17b in 1QFY11. EBITDA is estimated at Rs24b against a loss of Rs1.2b in 2QFY10 and loss of Rs14b in 1QFY11.
- The government deregulated petrol prices and increased prices of diesel, kerosene and LPG on 27 June 2010. But there is no clarity on sharing net under-recoveries among government and public sector companies. We expect the government to clarify on diesel deregulation and subsidy sharing in the next few months.
- BPCL trades at FY12E P/E of 13.1x and P/B of 1.7x. Although BPCL trades at its historically high valuations, we believe the E&P potential upside would be a key positive surprise in the stock. Maintain **Buy.**

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**254,928**	**270,710**	**321,612**	**375,513**	**342,338**	**373,963**	**345,888**	**339,461**	**1,222,763**	**1,401,650**
Change (%)	*-34.7*	*-28.4*	*0.9*	*41.7*	*34.3*	*38.1*	*7.5*	*-9.6*	*-9.6*	*14.6*
EBITDA	**7,454**	**-1,163**	**6,228**	**11,275**	**-14,265**	**23,893**	**10,474**	**18,566**	**23,794**	**38,668**
Change (%)	*nm*	*-94.6*	*-59.1*	*-72.9*	*nm*	*nm*	*68.2*	*64.7*	*-13.1*	*62.5*
% of Sales	*2.9*	*-0.4*	*1.9*	*3.0*	*-4.2*	*6.4*	*3.0*	*5.5*	*1.9*	*2.8*
Depreciation	2,311	3,088	3,816	3,208	4,007	3,325	3,600	3,614	12,423	14,547
Interest	2,866	2,673	2,513	2,059	2,324	2,306	2,250	2,120	10,110	9,000
Other Income	7,028	4,424	4,873	6,078	3,415	3,810	3,528	2,688	22,402	13,441
PBT	**9,306**	**-2,500**	**4,771**	**12,087**	**-17,181**	**22,072**	**8,153**	**15,520**	**23,664**	**28,563**
Tax	3,165	-912	980	5,052	0	1,625	2,708	5,155	8,284	9,488
Rate (%)	*34.0*	*36.5*	*20.5*	*41.8*	*0.0*	*7.4*	*33.2*	*33.2*	*35.0*	*33.2*
PAT	**6,141**	**-1,588**	**3,791**	**7,035**	**-17,181**	**20,447**	**5,445**	**10,365**	**15,379**	**19,075**
Change (%)	*nm*	*-94.0*	*-52.6*	*-80.6*	*nm*	*nm*	*43.6*	*47.3*	*118.6*	*24.0*
Adj. PAT	**6,141**	**-1,588**	**3,791**	**7,035**	**-17,181**	**20,447**	**5,445**	**10,365**	**15,379**	**19,075**
Key Assumption (Rs b)										
Gross under recovery	**11**	**22**	**30**	**38**	**46**	**23**	**20**	**19**	**101**	**109**
Upstream sharing	2	9	12	15	15	8	7	6	36	36
Oil Bonds	0	0	15	38	0	27	13	22	53	62
Net Under/(Over) recovery	9	14	3	-14	31	-11	1	-9	12	11
As a % of Gross	85.5	61.8	11.0	nm	66.5	nm	2.9	nm	12.2	11

E: MOSL Estimates

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Cairn India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	CAIR IN
	REUTERS CODE
S&P CNX: 6,018	CAIL.BO

Equity Shares (m)	1,894.4
52 Week Range (Rs)	368/248
1,6,12 Rel Perf (%)	-16/-4/8
Mcap (Rs b)	624.1
Mcap (USD b)	13.8

24 September 2010

Neutral

Previous Recommendation: Neutral Rs329

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	14,326	8,082	4.3	N.M.	77.3	1.9	2.6	2.5	42.5	65.5
03/10A	16,230	10,511	5.5	30.0	59.5	1.8	3.2	2.6	40.3	66.7
03/11E	90,192	50,552	26.6	380.9	12.4	1.7	14.1	16.7	7.2	8.4
03/12E	133,479	81,104	42.8	60.4	7.7	1.4	19.8	22.8	4.6	5.2

Consolidated

- We estimate Cairn India will report net sales of Rs25b (v/s Rs2.3b in 2QFY10), led by additional revenue from Rajasthan crude sales. We estimate EBITDA of Rs22b v/s Rs1.3b in 2QFY10. Rajasthan crude sales started from 3QFY10 and so YoY numbers are not comparable.
- We estimate net oil sales of 77kbpd from the Rajasthan field and net sales of 91kboepd (v/s 18.6kboepd in 2QFY10).
- We model a long term Brent crude price of US$75/bbl in our estimates and a discount of 12.5% (~US$9.4/bbl) for quality and customs duty on crude at 2.5%.
- Cairn's earnings will increase substantially over subsequent quarters as production from the Rajasthan block ramps up.
- Clarity is expected on the status of Vedanta's bid to buy Cairn Energy's 51-60% in Cairn India. The sale price that has been agreed to by Cairn Energy and Vedanta is Rs405/share, including Rs50/share as non-compete fees. So, shareholders will be paid Rs355/share and Cairn Energy will be paid Rs405/share
- The stock trades at 7.7x FY12E EPS of Rs42.8. Maintain **Neutral**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**2,050**	**2,298**	**4,955**	**6,928**	**8,406**	**25,390**	**27,525**	**28,872**	**16,230**	**90,192**
Change (%)	*-35.1*	*-43.1*	*54.5*	*228.6*	*-41.3*	*1,138.8*	*1,097.9*	*482.7*	*13.3*	*455.7*
EBITDA	**1,321**	**1,333**	**3,473**	**3,678**	**6,472**	**22,150**	**24,003**	**25,273**	**9,805**	**77,898**
% of Net Sales	*64.5*	*58.0*	*70.1*	*53.1*	*77.0*	*87.2*	*87.2*	*87.5*	*60.4*	*86.4*
D,D & A (inc. w/off)	722	508	740	1,601	1,981	3,050	3,170	4,373	3,570	12,574
Interest	7	9	260	19	493	726	919	1,131	295	3,269
Other Income (Net)	572	1,056	999	879	281	635	691	678	3,505	2,285
Forex Fluctuations	718	0	0	0	-413	0	0	0	718	-413
Exceptional items	-1,637	1,637			0	0			0	0
PBT	**244**	**3,510**	**3,472**	**2,938**	**3,866**	**19,009**	**20,605**	**20,447**	**10,164**	**63,928**
Tax	-210	-1,185	562	486	1,052	3,802	4,121	4,012	-348	12,987
Rate (%)*	*nm*	*-33.8*	*16.2*	*16.5*	*27.2*	*20.0*	*20.0*	*19.6*	*-3.4*	*20.3*
PAT	**454**	**4,695**	**2,910**	**2,452**	**2,814**	**15,207**	**16,484**	**16,435**	**10,511**	**50,941**
Adj. PAT	**2,092**	**1,873**	**2,910**	**2,452**	**2,814**	**15,207**	**16,484**	**16,435**	**10,511**	**50,941**
YoY Change (%)					*34.5*	*712.1*	*466.5*	*570.3*	*942.2*	
Key Assumptions										
Brent Price (US$/bbl)	59.1	68.4	75.0	76.4	78.5	76.1	74.0	74.0	69.7	75.7
Sales - Cairn's Share (kboepd)										
Ravva and Cambay	15.9	14.4	13.8	14.1	13.7	13.7	13.7	14.0	14.6	13.8
Rajasthan	0.0	4.2	10.8	12.3	26.0	77.2	87.5	94.5	6.8	71.3

*E: MOSL Estimates; * Excluding forex fluctuations*

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Chennai Petroleum Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	MRL IN
	REUTERS CODE
S&P CNX: 6,018	CHPC.BO

Equity Shares (m)	149.0
52 Week Range (Rs)	299/195
1,6,12 Rel Perf (%)	-12/-22/-18
Mcap (Rs b)	37.4
Mcap (USD b)	0.8

24 September 2010 **Buy**

Previous Recommendation: Buy Rs251

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	319,639	-431	-2.9	-104.0	-86.8	1.22	-12.2	-6.4	0.2	-34.2
03/10A	246,251	4,879	32.7	NM	7.7	1.08	18.5	12.5	0.3	9.8
03/11E	305,599	2,818	18.9	-42.2	13.3	1.06	8.1	7.8	0.3	8.9
03/12E	308,909	3,984	26.7	41.4	9.4	1.00	11.0	9.9	0.3	7.6

- We expect CPCL to post PAT of Rs638m (v/s adjusted PAT of Rs1.5b in 2QFY10 and net loss of Rs187m in 1QFY10).
- A significant YoY drop in EBITDA was led by lower expected GRM of US$3.7/bbl in 2QFY11 against US$4.2/bbl in 2QFY10. The regional benchmark Singapore GRM at US$4.2/bbl is up 31% YoY from US$3.2/bbl in 2QFY10.
- On the operational front, we expect refinery throughput at 2.8mmt (up 20% QoQ and up 4% YoY).
- We expect refining margins to be subdued in the short term as ~1mmbbls a year of new refining capacity is expected to come on line in 1-2 years. For CPCL we have built GRM of US$3.7/bbl for FY11 and US$4.6/bbl for FY12. The stock trades at 9.4x FY12E EPS of Rs26.7 and an EV of 7.6x FY12E EBITDA. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**56,604**	**69,971**	**68,498**	**54,653**	**63,604**	**79,960**	**80,195**	**81,024**	**249,726**	**304,783**
Change (%)	*-49.7*	*-32.0*	*21.9*	*13.6*	*12.4*	*14.3*	*17.1*	*48.3*	*-21.9*	*22.0*
EBITDA	**4,677**	**3,218**	**1,204**	**-568**	**181**	**2,023**	**3,168**	**3,200**	**8,532**	**8,572**
% of Sales	*8.3*	*4.6*	*1.8*	*-1.0*	*0.3*	*2.5*	*4.0*	*3.9*	*3.4*	*2.8*
% Change	*-60.0*	*-702.6*	*-106.7*	*-110.9*	*-96.1*	*-37.1*	*163.0*	*nm*	*-59.6*	*0.5*
Depreciation	665	679	683	644	741	742	745	746	2,671	2,974
Interest	279	316	354	425	348	500	650	620	1,374	2,118
Other Income	884	-115	891	690	80	175	200	285	2,351	740
PBT	**4,617**	**2,109**	**1,059**	**-947**	**-828**	**956**	**1,973**	**2,119**	**6,838**	**4,220**
Tax	1,570	717	-1,145	-336	-275	318	655	704	805	1,402
Rate (%)	*34.0*	*34.0*	*nm*	*35.5*	*nm*	*33.2*	*33.2*	*33.2*	*11.8*	*33.2*
PAT	**3,047**	**1,392**	**2,204**	**-611**	**-553**	**638**	**1,317**	**1,415**	**6,032**	**2,818**
Change (%)	*-56.7*	*nm*	*nm*	*-122.5*	*nm*	*-54.1*	*-40.2*	*nm*	*-46.3*	*-53.3*
Adj PAT*	**2,515**	**1,545**	**1,769**	**-951**	**-187**	**638**	**1,317**	**1,415**	**4,879**	**3,185**
GRM (US$/bbl)	**6.9**	**4.2**	**3.4**	**4.3**	**1.8**	**3.7**	**4.7**	**4.7**	**6.1**	**4.7**
Throughput (mmt)	**2.7**	**2.7**	**2.7**	**1.9**	**2.3**	**2.8**	**2.9**	**3.0**	**10.0**	**11.0**

E: MOSL Estimates;

Harshad Borawake (HarshadBorawake@MotilalOswal.com) / Milind Bafna (Milind.Bafna@MotilalOswal.com)

GAIL (India)

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	GAIL IN
	REUTERS CODE
S&P CNX: 6,018	GAIL.BO

Equity Shares (m)	1,268.5
52 Week Range (Rs)	517/331
1,6,12 Rel Perf (%)	-4/5/15
Mcap (Rs b)	608.2
Mcap (USD b)	13.4

24 September 2010

Buy

Previous Recommendation: Buy

Rs479

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	*EV/ SALES	EV/ EBITDA
03/09A	237,760	28,037	22.1	7.8	18.1	3.5	19.0	24.8	2.2	10.6
03/10A	249,337	31,398	24.8	12.0	16.1	3.0	18.7	23.6	2.0	9.5
03/11E	290,699	36,620	28.9	16.6	13.8	2.6	19.1	22.2	2.0	8.9
03/12E	340,363	40,337	31.8	10.2	12.6	2.3	18.6	19.1	1.5	8.2

**Adjustment for investments*

- We expect GAIL to report net profit of Rs9b (up 2% QoQ, up 27% YoY). The large YoY increase is led by higher LPG prices and a lower subsidy.
- GAIL's 2QFY11 transport volumes are expected to average 117mmscmd against 107mmscmd a year earlier and 116mmscmd in 1QFY11. Near term volume growth is expected from RLNG imports due to delay in the KG-D6 ramp-up.
- We have built-in subsidy sharing of Rs2.6b in 2QFY11 (v/s Rs4.6b each in 2QFY10 and 1QFY11).
- Adjusted for investments, the stock trades at 12.6x FY12E EPS of Rs31.8. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**60,214**	**62,022**	**61,880**	**65,221**	**70,960**	**71,794**	**72,912**	**75,034**	**249,337**	**290,699**
Change (%)	*5.1*	*1.2*	*6.5*	*6.8*	*17.8*	*15.8*	*17.8*	*15.0*	*4.9*	*16.6*
EBITDA	**10,655**	**10,173**	**12,696**	**13,168**	**14,348**	**14,051**	**14,326**	**17,110**	**46,691**	**59,835**
% of Net Sales	*17.7*	*16.4*	*20.5*	*20.2*	*20.2*	*19.6*	*19.6*	*22.8*	*18.7*	*20.6*
Change (%)	*-23.9*	*-28.9*	*377.3*	*37.5*	*34.7*	*38.1*	*12.8*	*29.9*	*15.2*	*28.1*
Depreciation	1,404	1,416	1,409	1,389	1,600	1,735	1,825	2,247	5,618	7,407
Interest	179	179	142	200	205	250	650	798	700	1,904
Other Income	798	1,689	1,438	1,486	676	1,509	1,409	655	5,411	4,249
PBT	**9,870**	**10,268**	**12,582**	**13,064**	**13,218**	**13,575**	**13,260**	**14,719**	**45,784**	**54,772**
Tax	3,312	3,135	3,983	3,956	4,349	4,509	4,405	4,889	14,386	18,152
Rate (%)	*33.6*	*30.5*	*31.7*	*30.3*	*32.9*	*33.2*	*33.2*	*33.2*	*126.0*	*33.1*
PAT	**6,558**	**7,132**	**8,599**	**9,108**	**8,869**	**9,066**	**8,855**	**9,830**	**31,398**	**36,620**
Change (%)	*-26.9*	*-30.3*	*239.3*	*44.6*	*35.2*	*27.1*	*3.0*	*7.9*	*12.0*	*16.6*
Segmental EBIT Breakup (Rs m)										
Transmission										
Natural Gas	5,222	6,157	5,954	5,061	6,406	6,388	6,569	6,768	22,394	26,131
LPG	682	589	639	872	734	729	729	729	2,782	2,920
Natural Gas Trading	1,063	1,105	1,179	385	1,579	1,467	1,405	1,390	3,732	5,841
Petrochemicals	2,643	2,753	3,414	4,468	2,846	2,628	2,429	2,902	13,279	10,805
LPG & Liq.HC (pre-subsidy)	2,247	3,854	5,803	7,451	6,788	5,232	5,111	5,949	19,355	23,080
Unallocated; GAILTEL	-1,181	-302	-149	-1,866	-138	-10	-20	-10	-3,497	-178
Total	**10,677**	**14,156**	**16,839**	**16,371**	**18,214**	**16,434**	**16,223**	**17,728**	**58,043**	**68,599**
Less: Subsidy	-747	-4,585	-4,551	-3,384	-4,551	-2,610	-2,312	-2,211	-13,267	-11,684
Total	**9,929**	**9,571**	**12,288**	**12,987**	**13,663**	**13,825**	**13,910**	**15,518**	**44,776**	**56,915**

E: MOSL Estimates

Harshad Borawake (HarshadBorawake@MotilalOswal.com) / Milind Bafna (Milind.Bafna@MotilalOswal.com)

Gujarat State Petronet

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	GUJS IN
	REUTERS CODE
S&P CNX: 6,018	GSPT.BO

Equity Shares (m)	562.0
52 Week Range (Rs)	124/76
1,6,12 Rel Perf (%)	-12/13/25
Mcap (Rs b)	63.1
Mcap (USD b)	1.4

24 September 2010

Buy

Previous Recommendation: Buy

Rs112

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	4,875	1,234	2.2	15.7	51.2	2.2	5.1	10.4	11.5	17.8
03/10E	9,920	4,138	7.4	235.5	15.3	7.4	4.0	29.4	25.6	7.7
03/11E	10,415	4,301	7.7	3.9	14.7	7.7	3.2	24.4	22.8	7.1
03/12E	10,472	3,645	6.5	-15.3	17.3	6.5	2.8	17.5	19.7	7.4

**Our EPS numbers consider No provision towards "Social Contribution Fund"*

- We expect GSPL to post net sales of Rs2.6b and PAT of Rs1b (flat QoQ, down 6% YoY).
- GSPL is expected to deliver gas volumes of 36mmscmd (flat QoQ, up 17% YoY). Although volumes are sequentially up YoY, EBITDA of Rs2.4b is almost flat as 2QFY10 staff costs were negative due to a reversal of Rs38m for adjustments towards salary arrears due to implementation of Sixth Pay Commission scales.
- PNGRB regulations require an application from GSPL for authorization, after which the board will approve tariff. We believe there could be a reduction in GSPL's network tariff by 10-20%.
- GSPL raised an EOI for four major cross-country pipelines. PNGRB is expected to open the bids in the next few weeks. If GSPL wins either of the bids, it will require additional fund raising measures, since each pipeline costs over Rs50b.
- We build gas transmission volumes of 37mmscmd in FY11 and 44mmscmd in FY12. We model average tariff at Rs763/mscm in FY11 and Rs650/mscm in FY12 in our estimates. GSPL trades at 17.3x FY12E EPS of Rs6.5. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**2,108**	**2,548**	**2,685**	**2,579**	**2,518**	**2,550**	**2,627**	**2,721**	**9,920**	**10,415**
Change (%)	*76.4*	*114.8*	*128.6*	*95.4*	*19.4*	*0.1*	*-2.2*	*5.5*	*103.5*	*5.0*
EBITDA	**1,948**	**2,443**	**2,531**	**2,371**	**2,381**	**2,408**	**2,481**	**2,567**	**9,293**	**9,837**
% of Net Sales	*92.4*	*95.9*	*94.3*	*91.9*	*94.6*	*94.5*	*94.5*	*94.3*	*93.7*	*94.4*
% Change	*81.1*	*138.5*	*149.0*	*110.1*	*22.2*	*-1.4*	*-2.0*	*8.3*	*118.9*	*5.9*
Depreciation	550	587	596	632	687	750	775	757	2,365	2,969
Interest	245	250	218	225	224	280	320	354	938	1,179
Other Income	68	59	33	121	57	100	140	176	280	473
PBT	**1,221**	**1,665**	**1,750**	**1,634**	**1,527**	**1,478**	**1,526**	**1,632**	**6,270**	**6,163**
Tax	415	564	597	555	476	447	461	479	2,131	1,862
Rate (%)	*34.0*	*33.9*	*34.1*	*34.0*	*31.2*	*30.2*	*30.2*	*29.3*	*34.0*	*30.2*
PAT	**806**	**1,101**	**1,154**	**1,079**	**1,051**	**1,032**	**1,065**	**1,153**	**4,138**	**4,301**
Change (%)	*146.8*	*287.8*	*317.4*	*210.9*	*30.4*	*-6.3*	*-7.7*	*6.9*	*235.5*	*3.9*

E: MOSL Estimates

Harshad Borawake (HarshadBorawake@MotilalOswal.com) / Milind Bafna (Milind.Bafna@MotilalOswal.com)

HPCL

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	HPCL IN
	REUTERS CODE
S&P CNX: 6,018	HPCL.BO

Equity Shares (m)	339.0
52 Week Range (Rs)	555/293
1,6,12 Rel Perf (%)	-5/62/17
Mcap (Rs b)	183.6
Mcap (USD b)	4.1

24 September 2010

Buy

Previous Recommendation: Buy

Rs542

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	1,246,943	4,355	12.8	-40.0	42.2	1.7	4.1	8.8	0.2	9.6
03/10A	1,092,084	13,014	38.4	198.8	14.1	1.6	11.7	8.7	0.3	11.7
03/11E	1,200,233	13,228	39.0	1.6	13.9	1.5	11.1	8.4	0.3	9.4
03/12E	1,146,293	14,307	42.2	8.2	12.8	1.4	11.2	9.3	0.3	8.5

- As in previous quarters, HPCL's profitability will depend more on subsidy sharing than business fundamentals. The government subsidy compensation typically comes with a delay and hence we factor in a 1QFY11 receivable of Rs24.5b in the current quarter.
- We factor-in OMCs to bear 11% of the under-recoveries in the full year. We have built in a third of the under-recoveries to be borne by the upstream sector while rest of the losses to be compensated by the government.
- We estimate HPCL will report net profit of Rs17b against a loss of Rs1.4b in 2QFY10 and a loss of Rs18.8b in 1QFY11. EBITDA is estimated at Rs19.6b v/s a loss of Rs4m in 2QFY10 and loss of Rs16b in 1QFY11.
- The government deregulated petrol prices and increased prices of diesel, kerosene and LPG on 25 June 2010. But there is no clarity on sharing net under-recoveries among government and public sector companies. We expect the government to clarify its stance on diesel deregulation and subsidy sharing in the next few months.
- HPCL trades at FY12E P/E of 12.8x and P/B of 1.4x. Though HPCL trades at its historical high valuation levels, we believe the likely clarity on the subsidy front will be positive for the stock. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**241,976**	**244,566**	**292,329**	**313,213**	**292,199**	**311,469**	**286,290**	**310,275**	**1,092,084**	**1,200,233**
Change (%)	*-30.3*	*-31.0*	*-0.5*	*24.5*	*20.8*	*27.4*	*-2.1*	*-0.9*	*-12.4*	*9.9*
EBITDA	**10,876**	**-4**	**1,421**	**13,139**	**-16,155**	**19,573**	**9,672**	**20,765**	**25,432**	**33,855**
% of Net Sales	*4.5*	*0.0*	*0.5*	*4.2*	*-5.5*	*6.3*	*3.4*	*6.7*	*2.3*	*2.8*
Change (%)	*-364.6*	*-100.0*	*-69.9*	*-75.8*	*-248.5*	*nm*	*580.5*	*58.0*	*-12.1*	*33.1*
Depreciation	2,629	2,833	3,007	3,175	3,174	3,250	3,500	3,607	11,644	13,531
Interest	2,702	2,493	2,202	1,640	1,968	1,999	1,950	1,920	9,038	7,837
OI (incl. Oper. other inc)	4,403	3,237	4,373	4,450	2,469	1,977	1,736	1,153	16,463	7,335
Exceptional Item	0	2	0	37	-14				38	-14
PBT	**9,948**	**-2,094**	**585**	**12,774**	**-18,843**	**16,301**	**5,958**	**16,391**	**21,213**	**19,808**
Tax	3,457	-727	271	5,236	0	-844	1,979	5,445	8,237	6,580
Rate (%)	*34.8*	*34.7*	*46.3*	*41.0*	*0.0*	*nm*	*33.2*	*33.2*	*38.8*	*33.2*
PAT	**6,491**	**-1,367**	**314**	**7,538**	**-18,843**	**17,145**	**3,979**	**10,946**	**12,977**	**13,228**
Change (%)	*nm*	*-95.8*	*nm*	*-85.2*	*nm*	*nm*	*1,165.8*	*45.2*	*126.0*	*1.9*
Key Assumptions (Rsb)										
Gross under recovery	**12**	**22**	**29**	**37**	**44**	**23**	**21**	**20**	**100**	**109**
Upstream sharing	2	8	10	14	15	8	7	7	33	36
Oil Bonds/Cash subsidy	0	0	19	37	0	25	13	23	56	61
Net Under recovery	**10**	**15**	**1**	**-13**	**29**	**-9**	**1**	**-10**	**12**	**12**
Net Sharing (%)	**85**	**66**	**3**	**nm**	**67**	**nm**	**5**	**-48**	**12**	**11**

E: MOSL Estimates

Harshad Borawake (HarshadBorawake@MotilalOswal.com) / Milind Bafna (Milind.Bafna@MotilalOswal.com)

Indian Oil Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	IOC IN
	REUTERS CODE
S&P CNX: 6,018	IOC.BO

Equity Shares (m)	2,428.0
52 Week Range (Rs)	459/272
1,6,12 Rel Perf (%)	-2/34/11
Mcap (Rs b)	1,060.3
Mcap (USD b)	23.4

24 September 2010 **Buy**

Previous Recommendation: Buy **Rs437**

YEAR END	NET SALES (RS B)	ADJ. PAT (RS B)	ADJ. EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	2,861	26.0	10.9	-67.1	40.1	2.3	5.8	8.2	0.5	20.6
03/10A	2,501	107.1	44.1	304.8	9.9	1.9	21.9	16.0	0.6	11.4
03/11E	2,727	83.5	34.4	-22.0	12.7	1.9	15.2	14.0	0.5	9.0
03/12E	2,266	97.4	40.1	16.6	10.9	1.7	16.2	16.8	0.6	7.2

**Consolidated*

- As in previous quarters, IOC's profitability will depend more on subsidy sharing than business fundamentals. The government subsidy compensation typically comes with a delay and hence we factor in 1QFY11 receivables of Rs61b in the current quarter.
- For the full year we factor in OMCs bearing 11% of the under-recoveries. We have built in a third of under-recoveries to be borne by the upstream sector and the rest of the losses will be compensated by the government.
- We estimate IOC will report net profit of Rs52b against a profit of Rs2.8b in 2QFY10 and loss of Rs33.9b in 1QFY10. EBITDA is estimated at Rs66b v/s Rs4b in 2QFY10 and loss of Rs29b in 1QFY11.
- The government deregulated petrol prices and increased prices of diesel, kerosene and LPG on 25 June 2010. But there is no clarity on sharing of net under-recoveries among government and public sector companies. We expect the government to clarify its position on diesel de-regulation and subsidy sharing in the next few months.
- IOC trades at FY12E P/E of 10.9x and P/B of 1.7x. Though IOC trades at its historical high valuation levels, we believe the likely clarity on the subsidy front will be positive for the stock. Maintain **Buy.**

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**621,966**	**607,461**	**740,595**	**821,571**	**716,726**	**788,197**	**735,804**	**753,365**	**2,791,594**	**2,994,093**
Change (%)	*-29.6*	*-29.6*	*5.2*	*37.9*	*15.2*	*29.8*	*-0.6*	*-8.3*	*-8.4*	*7.3*
EBITDA	**41,409**	**4,314**	**3,457**	**72,986**	**-29,175**	**66,209**	**41,692**	**66,366**	**122,165**	**145,092**
% of Net Sales	*6.7*	*0.7*	*0.5*	*8.9*	*-4.1*	*8.4*	*5.7*	*8.8*	*4.4*	*4.8*
% Change	*331.2*	*nm*	*-89.3*	*-15.3*	*-170.5*	*1,434.8*	*1,106.0*	*-9.1*	*195.0*	*18.8*
Depreciation	7,598	7,805	7,996	8,872	10,346	10,540	10,658	11,054	32,271	42,598
Interest	3,340	3,477	4,091	4,357	5,712	4,620	4,410	4,096	15,265	18,838
Other Income	23,625	10,306	13,798	18,703	11,349	9,835	9,712	7,525	66,432	38,420
PBT	**54,096**	**3,337**	**5,168**	**78,460**	**-33,884**	**60,884**	**36,336**	**58,741**	**141,061**	**122,076**
Tax	17,267	493	-1,798	22,893	0	8,964	12,070	19,517	38,855	40,551
Rate (%)	*31.9*	*14.8*	*-34.8*	*29.2*	*0.0*	*14.7*	*33.2*	*33.2*	*27.5*	*33.2*
PAT	**36,828**	**2,844**	**6,966**	**55,567**	**-33,884**	**51,920**	**24,266**	**39,224**	**102,206**	**81,526**
Change (%)	*787.2*	*nm*	*-76.5*	*-16.1*	*-192.0*	*1,725.6*	*248.3*	*-29.4*	*177.5*	*-20.2*
Key Assumptions (Rsb)										
Gross under recovery	**32**	**60**	**76**	**92**	**110**	**58**	**51**	**49**	**259**	**268**
Upstream sharing	2	18	23	32	37	19	17	16	75	89
Oil Bonds	0	0	45	107	0	61	32	55	152	149
Net Under recovery	**30**	**42**	**8**	**-48**	**73**	**-22**	**2**	**-23**	**32**	**30**
As a % of Gross	*93*	*70*	*11*	*nm*	*67*	*nm*	*4*	*-47*	*12*	*11*

E: MOSL Estimates

Harshad Borawake (HarshadBorawake@MotilalOswal.com) / Milind Bafna (Milind.Bafna@MotilalOswal.com)

Indraprastha Gas

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	IGL IN
	REUTERS CODE
S&P CNX: 6,018	IGAS.BO

Equity Shares (m)	140.0
52 Week Range (Rs)	374/152
1,6,12 Rel Perf (%)	-9/30/74
Mcap (Rs b)	44.7
Mcap (USD b)	1.0

24 September 2010

Neutral

Previous Recommendation: Neutral

Rs319

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	8,528	1,726	12.3	-1.1	25.9	6.5	27.4	38.7	5.1	14.5
03/10A	10,781	2,155	15.4	24.9	20.7	5.4	28.6	39.7	4.1	11.6
03/11E	16,365	2,607	18.6	21.0	17.1	4.5	28.8	38.5	2.7	8.9
03/12E	19,744	2,961	21.2	13.6	15.1	3.8	27.2	35.8	2.3	7.6

- IGL is expected to post volumes of 2.55mmscmd in 2QFY11, and PAT of Rs697m (v/s Rs568m in 2QFY10 and Rs571m in 1QFY11).
- IGL receives 0.24mmscmd of RLNG, 0.3mmscmd from KG-D6 and the rest from APM allocation.
- We expect 2QFY11 CNG volumes to grow by 13% YoY to 2.2mmscmd and PNG volumes to grow by 105% YoY to 0.4 mmscmd.
- A government approved a 100% APM gas price hike to US$4.2/mmbtu, which IGL passed on to customers by raising CNG prices by Rs5.6/kg. IGL has consistently passed gas price hikes to customers, protecting its EBITDA margins.
- IGL has 240 CNG stations, of which 200 are operational and the rest will become operational after it receives government permissions.
- We build total volumes of 2.6/3.1mmscmd in FY11 and FY12. The stock trades at 15.1x FY12E EPS of Rs21.2. Maintain **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**2,326**	**2,731**	**2,846**	**2,878**	**3,350**	**4,176**	**4,390**	**4,450**	**10,781**	**16,365**
Change (%)	*21.9*	*26.9*	*29.7*	*26.5*	*44.1*	*52.9*	*54.2*	*54.6*	*26.4*	*51.8*
Raw Material Consumed	1,041	1,242	1,283	1,382	1,667	2,142	2,274	2,337	4,949	8,420
Staff Cost	62	70	79	96	92	93	94	94	308	372
Other Exp (incl Stock Adj)	373	419	450	475	524	660	685	676	1,717	2,545
EBITDA	**849**	**1,000**	**1,034**	**925**	**1,067**	**1,281**	**1,337**	**1,342**	**3,808**	**5,028**
% of Net Sales	*36.5*	*36.6*	*36.3*	*32.1*	*31.9*	*30.7*	*30.5*	*30.2*	*35.3*	*30.7*
% Change	*12.4*	*17.5*	*52.6*	*28.9*	*25.7*	*28.1*	*29.3*	*45.2*	*26.9*	*32.0*
Depreciation	186	194	197	198	231	260	310	412	775	1,213
Interest	0	0	0	0	0	0	0	0	0	0
Other Income	64	50	53	45	19	22	28	20	211	89
PBT	**727**	**856**	**890**	**771**	**855**	**1,043**	**1,055**	**950**	**3,244**	**3,903**
Tax	244	288	301	256	283	347	351	316	1,089	1,296
Rate (%)	*33.6*	*33.7*	*33.8*	*33.2*	*33.2*	*33.2*	*33.2*	*33.2*	*33.6*	*33.2*
PAT	**483**	**568**	**589**	**515**	**571**	**697**	**705**	**634**	**2,155**	**2,607**
Change (%)	*10.5*	*13.1*	*53.9*	*27.6*	*18.4*	*22.7*	*19.6*	*23.2*	*24.9*	*21.0*
Gas Volumes (mmscmd)										
CNG	1.74	1.91	1.94	1.98	2.04	2.16	2.29	2.37	1.89	2.22
PNG	0.19	0.18	0.18	0.21	0.39	0.39	0.39	0.41	0.19	0.39
Total	**1.93**	**2.10**	**2.12**	**2.18**	**2.43**	**2.55**	**2.68**	**2.78**	**2.08**	**2.61**

E: MOSL Estimates

Harshad Borawake (HarshadBorawake@MotilalOswal.com) / Milind Bafna (Milind.Bafna@MotilalOswal.com)

MRPL

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	MRPL IN
	REUTERS CODE
S&P CNX: 6,018	MRPL.BO

Equity Shares (m)	1,752.6
52 Week Range (Rs)	94/64
1,6,12 Rel Perf (%)	-10/-8/-27
Mcap (Rs b)	139.2
Mcap (USD b)	3.1

24 September 2010

Sell

Previous Recommendation: Sell

Rs79

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	382,438	11,926	8.3	23.2	9.6	2.9	28.0	25.3	0.4	6.7
03/10A	315,210	10,585	6.0	-27.3	13.1	2.5	20.5	14.2	0.4	9.0
03/11E	464,511	6,986	4.0	-34.0	19.9	2.3	12.0	8.4	0.4	13.1
03/12E	359,381	7,708	4.4	10.3	18.1	2.1	12.2	6.5	0.6	13.7

- We expect MRPL to post net profit of Rs1.7m (against adjusted net profit of Rs1.6b in 2QFY10 and profit of Rs285m in 1QFY11).
- We expect MRPL to post GRM of US$3.4/bbl v/s reported GRM of US$3.6/bbl in 2QFY10 and US$1.9/bbl in 1QFY11.
- On the operations front, we expect refinery throughput of 3mmtpa (up 43% QoQ, down 6% YoY). MRPL has upgraded its facilities to make Euro IV compliant fuels and plans to revamp capacity to 15mmtpa in FY12.
- For MRPL we have built GRM of US$3.5/bbl for FY11 and US$5/bbl for FY12. The stock trades at 18.1x FY12E EPS and 13.7x FY12E EV/EBITDA. Maintain **Sell**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**59,114**	**78,495**	**90,605**	**86,996**	**78,685**	**124,006**	**130,746**	**131,074**	**315,210**	**464,511**
Change (%)	*-45*	*-42*	*20*	*33*	*33*	*58*	*44*	*51*	*-17.6*	*47.4*
EBITDA	**5,955**	**3,210**	**2,834**	**2,705**	**801**	**3,464**	**4,357**	**4,622**	**14,704**	**13,244**
% of Net Sales	*10.1*	*4.1*	*3.1*	*3.1*	*1.0*	*2.8*	*3.3*	*3.5*	*4.7*	*2.9*
% Change	*-57*	*128*	*nm*	*-71*	*-87*	*8*	*54*	*71*	*-30.4*	*-9.9*
Depreciation	963	975	990	966	990	975	1,050	1,098	3,893	4,114
Interest	302	302	289	262	252	490	510	750	1,155	2,002
Exceptional items					30					
Other Income	1,291	737	2,293	2,402	541	540	580	1,642	6,723	3,303
PBT	**5,981**	**2,671**	**3,848**	**3,880**	**129**	**2,539**	**3,377**	**4,417**	**16,380**	**10,432**
Tax	2,095	1,033	1,308	1,350	-156	843	1,122	1,666	5,786	3,475
Prior year tax adjustment	0	9	0	0	0	0	0	0	9	0
Rate (%)	*35.0*	*38.7*	*34.0*	*34.8*	*-120.6*	*33.2*	*33.2*	*37.7*	*35.3*	*33.3*
PAT	**3,885**	**1,630**	**2,539**	**2,531**	**285**	**1,696**	**2,255**	**2,751**	**10,585**	**6,957**
Change (%)	*-54.0*	*553.7*	*nm*	*-58.4*	*-92.7*	*4.0*	*-11.2*	*8.7*	*-11.2*	*-34.3*
EPS	**1.9**	**0.9**	**0.7**	**0.7**	**0.2**	**1.0**	**1.3**	**1.6**	**4.3**	**4.0**
GRM (US$/bbl)	8.0	3.6	4.5	5.3	1.9	3.4	4.1	4.4	5.3	3.5
Throughut (mmt)	2.85	3.19	3.40	3.06	2.10	3.00	3.25	3.25	12.5	11.6

E: MOSL Estimates

Harshad Borawake (HarshadBorawake@MotilalOswal.com) / Milind Bafna (Milind.Bafna@MotilalOswal.com)

ONGC

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	ONGC IN
	REUTERS CODE
S&P CNX: 6,018	ONGC.BO

Equity Shares (m)	2,138.9
52 Week Range (Rs)	1,452/997
1,6,12 Rel Perf (%)	3/21/6
Mcap (Rs b)	3,074.3
Mcap (USD b)	67.9

24 September 2010

Buy

Previous Recommendation: Buy

Rs1,437

YEAR END	NET SALES (RS B)	PAT (RS B)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	1,046	198	92.5	-0.4	15.5	3.4	23.4	22.7	2.8	6.7
03/10A	1,018	194	90.7	-2.0	15.8	3.1	20.2	19.4	2.8	6.4
03/11E	1,283	241	112.6	24.1	12.8	2.7	22.3	21.5	2.2	5.4
03/12E	1,249	277	129.6	15.2	11.1	2.3	22.5	21.8	2.2	4.9

Consolidated

- We expect ONGC to post net profit of Rs56b (v/s adjusted net profit of Rs51b in 2QFY10 and Rs37b in 1QFY11). We estimate EBITDA of Rs111b (up 39% QoQ, up 28% YoY).
- We estimate gross realization of US$78bbl v/s US$71/bbl in 2QFY10 and US$81/bbl in 1QFY11 and net realization of US$62/bbl (the highest in the past eight quarters) against US$56/bbl in 2QFY10 and US$48/bbl in 1QFY11.
- We build upstream sharing at a third of the gross under-recoveries and expect ONGC to share 80% of it. We build ONGC to share Rs28b (US$15.5/bbl) in 2QFY11.
- The government increased the APM gas price from US$1.9/mmbtu to US$4.2/mmbtu from June 2010. This will be the first quarter in which the full impact of the gas price hike will kick in.
- Our Brent price assumption is US$75.7/bbl in FY11. The stock trades at 11.1x FY12E consolidated EPS of Rs129.6. **Buy.**

QUARTERLY PERFORMANCE (STANDALONE) (RS BILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**148.8**	**150.8**	**153.1**	**147.1**	**136.7**	**176.7**	**181.7**	**181.8**	**599.9**	**676.8**
Change (%)	*-25.8*	*-13.4*	*23.1*	*7.4*	*-8.2*	*17.1*	*18.6*	*23.6*	*-5.7*	*12.8*
EBITDA	**95.0**	**86.8**	**91.3**	**81.8**	**80.4**	**111.3**	**113.9**	**115.9**	**355.0**	**421.5**
% of Net Sales	*63.9*	*57.6*	*59.6*	*55.6*	*58.8*	*63.0*	*62.7*	*63.7*	*59.2*	*62.3*
Change (%)	*-19.2*	*3.2*	*82.7*	*41.6*	*-15.4*	*28.3*	*24.7*	*41.6*	*14.7*	*18.7*
PBT	**73.6**	**75.7**	**46.2**	**54.4**	**54.8**	**83.6**	**82.7**	**87.7**	**249.9**	**308.8**
Tax	25.1	25.2	15.7	16.1	18.2	27.8	27.5	29.1	82.2	102.5
Rate (%)	*34.1*	*33.3*	*34.0*	*29.6*	*33.2*	*33.2*	*33.2*	*33.1*	*32.9*	*33.2*
Adjusted PAT	**48.5**	**50.9**	**30.5**	**37.8**	**36.6**	**55.8**	**55.2**	**58.7**	**161.3**	**206.3**
Change (%)	*-26.9*	*5.8*	*23.4*	*71.1*	*-24.5*	*9.7*	*80.9*	*55.3*	*0.0*	*27.9*
Key Assumptions (US$/bbl)										
Fx rate (Rs/US$)	48.8	48.5	46.6	46.0	45.7	46.7	46.0	46.0	47.5	46.1
Gross Oil Realization	60.6	70.5	76.7	79.2	80.8	77.8	76.2	75.8	71.7	77.6
Subsidy	2.3	14.1	19.0	27.7	32.8	15.5	13.4	12.6	15.8	18.6
Net Oil Realization	58.3	56.4	57.7	51.4	48.1	62.3	62.8	63.1	55.9	59.1
Subsidy (Rs b)	**4.3**	**26.3**	**35.0**	**50.0**	**55.2**	**27.8**	**24.7**	**23.6**	**115.6**	**131.2**

E: MOSL Estimates

Harshad Borawake (HarshadBorawake@MotilalOswal.com) / Milind Bafna (Milind.Bafna@MotilalOswal.com)

Reliance Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	RIL IN
	REUTERS CODE
S&P CNX: 6,018	RELI.BO

Equity Shares (m)	3,286.2
52 Week Range (Rs)	1,185/841
1,6,12 Rel Perf (%)	-6/-22/-24
Mcap (Rs b)	3,291.7
Mcap (USD b)	72.7

24 September 2010

Neutral

Previous Recommendation: Neutral Rs1,002

YEAR END	NET SALES (RS B)	PAT (RS B)	EPS (RS)	P/E (X)	ADJ. EPS (RS)	ADJ.P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA
03/09A	1,418	153	52.6	19.0	57.6	17.4	2.1	15.7	12.5	15.0
03/10A	1,925	162	49.6	20.2	54.8	18.3	2.2	13.4	11.3	12.3
03/11E	2,298	202	61.5	16.3	67.9	14.8	1.9	14.6	13.0	9.5
03/12E	2,197	212	64.3	15.6	71.0	14.1	1.9	13.5	12.6	8.7

All adjusted per share info and valuation ratios are adjusted for treasury shares held by company

- 2QFY11 is expected to be a subdued quarter for RIL on a QoQ basis due to weakness in petchem margins and lower E&P segment contribution due to lower volumes at PMT and flat gas volumes at KG-D6.
- We expect RIL to post net profit of Rs49.9b (v/s Rs38.5b in 2QFY10 and Rs48.5b in 1QFY11). The strong performance is led by (1) a ramp-up of KG-D6 volumes, (2) higher GRM and additional throughput, led by a ramp-up of the new RPL refinery.
- KG-D6 volumes are steady at ~60mmscmd since December 2009. The company indicated that due to capacity constraints in GAIL's pipeline, and reservoir studies for analyzing dropping pressure, it will continue to maintain the current level of production.
- We build GRM of US$7.8/bbl for FY11 and US$8.5/bbl for FY12. We expect polymer and fiber spreads (over naphtha) to be subdued in 2HFY11 as new capacities in the Middle East and China are commissioned.
- RIL trades at 14.1x FY12E adjusted EPS of Rs71. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE) (RS BILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**312**	**468**	**569**	**576**	**582**	**579**	**567**	**570**	**1,924.6**	**2,298.0**
Change (%)	*-25.0*	*4.6*	*80.1*	*103.0*	*86.7*	*23.6*	*-0.3*	*-1.0*	*31.6*	*19.4*
EBITDA	**63.8**	**72.2**	**78.4**	**91.4**	**93.4**	**97.6**	**98.8**	**99.1**	**305.8**	**388.9**
% of Net Sales	*20.5*	*15.4*	*13.8*	*15.9*	*16.0*	*16.8*	*17.4*	*17.4*	*15.9*	*16.9*
Change (%)	*4.3*	*11.5*	*46.3*	*68.0*	*46.3*	*35.2*	*26.0*	*8.5*	*30.7*	*27.2*
Depreciation	18.8	24.3	28.0	33.9	34.9	35.2	36.0	36.6	105.0	142.6
Interest	4.6	4.6	5.5	5.3	5.4	5.8	6.0	5.9	20.0	23.1
Other Income	7.1	6.3	5.1	6.2	7.2	6.1	6.8	7.3	24.6	27.5
PBT	**47.6**	**49.5**	**50.1**	**58.3**	**60.4**	**62.6**	**63.7**	**64.0**	**205.5**	**250.7**
Tax	10.9	11.0	10.0	11.2	11.9	12.7	12.9	13.1	43.1	50.6
Rate (%)	*22.9*	*22.2*	*20.0*	*19.3*	*19.7*	*20.3*	*20.3*	*20.5*	*21.0*	*20.2*
Adj. PAT	**36.7**	**38.5**	**40.1**	**47.1**	**48.5**	**49.9**	**50.7**	**50.9**	**162.4**	**200.0**
Change (%)	*-10.8*	*-6.6*	*14.5*	*20.3*	*32.3*	*29.6*	*26.6*	*8.0*	*3.8*	*23.2*
Reported PAT	**36.7**	**38.5**	**40.1**	**47.1**	**48.5**	**49.9**	**50.7**	**50.9**	**162.4**	**200.0**
EPS (Rs)	**12.3**	**12.9**	**13.5**	**15.8**	**16.3**	**16.8**	**17.0**	**17.1**	**54.5**	**67.2**
Key Assumptions (US$/bbl)										
Fx Rate (Rs/US$)	48.8	48.5	46.5	46.5	45.7	46.7	46.0	45.7	47.6	46.0
GRM	7.5	6.0	5.9	7.5	7.3	7.9	7.9	7.9	6.7	7.8
Singapore GRM	4.1	3.2	1.9	5.0	3.7	4.2	4.1	4.1	3.6	4.0
Premium/(disc) to Singapore	3.4	2.8	4.0	2.5	3.6	3.7	3.8	3.8	3.2	3.7
KG-D6 Gas Prodn (mmscmd)	19.3	32.0	48.0	59.8	59.1	59.0	60.0	61.9	39.8	60.0
Segmental EBIT Breakup (Rs b)										
Refining	13.0	13.5	13.8	19.9	20.4	23.5	23.0	22.8	60.1	89.7
Petrochemicals	21.1	22.0	20.6	22.2	20.5	19.7	19.8	19.7	85.8	79.6
E&P, others	10.2	12.4	14.9	17.1	19.3	19.2	20.1	20.0	54.6	78.6
Total	**44.3**	**47.8**	**49.2**	**59.2**	**60.2**	**62.3**	**62.9**	**62.5**	**200.5**	**247.9**

E: MOSL Estimates

Harshad Borawake (HarshadBorawake@MotilalOswal.com) / Milind Bafna (Milind.Bafna@MotilalOswal.com)

Pharmaceuticals

BSE Sensex: 20,045 S&P CNX: 6,018 24 September 2010

COMPANY NAME

Aventis Pharma

Biocon

Cadila Healthcare

Cipla

Dishman Pharma

Divi's Laboratories

Dr Reddy's Labs.

GSK Pharma

Glenmark Pharma

Jubilant Organosys

Lupin

Opto Circuits

Piramal Healthcare

Ranbaxy Labs.

Sun Pharmaceuticals

Topline to grow by 7%, EBITDA by 9% led by Sun Pharma, Divis Lab, Cadila, Biocon and Lupin

For 2QFY11, we expect topline to grow 7% YoY for our pharmaceuticals universe (excluding one-offs). EBITDA would grow 9% YoY, mainly led by strong performance by Sun Pharma, Divis Lab, Cadila, Biocon and Lupin. Among large cap companies, Dr Reddy's and Ranbaxy are likely to report lower core EBITDA primarily due to lower revenues from regulated markets and various regulatory issues. We expect adjusted PAT to grow 15.8% YoY. Excluding Ranbaxy and Jubilant, adjusted PAT growth would be just 10.7%.

2QFY11 AGGREGATES (EXCLUDING ONE-OFFS)

PHARMA UNIVERSE	YOY GROWTH (%)				EBITDA MARGIN (%)		
AGGREGATES	SALES	EBITDA	REP PAT	ADJ PAT	SEP'10	SEP'09	CHG (BP)
MNC Pharma	10.3	9.2	8.5	8.5	29.3	30.5	-125
Big 4 Generics	2.5	1.9	-2.1	15.6	24.9	15.3	959
CRAMS	2.4	1.5	15.7	15.2	18.7	20.3	-161
Second Tier generics	18.1	27.6	23.4	19.5	22.7	20.5	224
Sector Aggregate	**7.0**	**9.0**	**7.2**	**15.8**	**23.5**	**18.6**	**495**

Note: Above numbers exclude one-offs to facilitate comparison of core operations

2QFY11 AGGREGATES (INCLUDING ONE-OFFS)

PHARMA UNIVERSE	YOY GROWTH (%)				EBITDA MARGIN (%)		
AGGREGATES	SALES	EBITDA	REP PAT	ADJ PAT	SEP'10	SEP'09	CHG (BP)
MNC Pharma	10.3	9.2	8.5	8.5	29.3	30.5	-125
Big 4 Generics	0.9	-6.7	-2.1	-1.9	28.0	17.6	1042
CRAMS	2.4	1.5	15.7	15.2	18.7	20.3	-161
Second Tier generics	19.0	31.3	23.4	23.7	24.6	20.5	411
Sector Aggregate	**6.3**	**4.9**	**7.2**	**7.6**	**25.7**	**19.6**	**607**

EXPECTED QUARTERLY PERFORMANCE SUMMARY (RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
	24.09.10		SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ
Pharmaceuticals											
Aventis Pharma	1,821	Neutral	2,838	9.8	4.5	424	7.1	-2.5	435	-0.7	2.6
Biocon	352	Buy	6,834	17.8	3.2	1,381	22.0	5.2	854	15.0	11.2
Cadila Health	642	Buy	10,690	13.0	-5.7	2,448	19.0	-17.7	1,531	14.1	-5.9
Cipla	317	Buy	15,676	8.8	5.9	3,966	6.8	8.8	2,940	7.4	14.2
Divis Labs	710	Buy	2,934	30.2	11.3	1,285	22.0	29.8	1,069	26.1	27.7
Dishman Pharma	188	Neutral	2,325	6.9	15.2	528	6.0	18.7	251	2.6	-7.7
Dr Reddy' s Labs	1,494	Buy	17,803	-3.1	5.8	2,581	-6.1	-5.3	2,018	-7.1	31.8
Glenmark Pharma	287	Neutral	6,917	17.2	16.8	1,700	8.7	-22.6	1,019	25.9	31.2
GSK Pharma	2,111	Buy	5,657	10.5	13.6	2,070	9.6	13.9	1,570	11.3	12.4
Jubiliant Organosys	339	Neutral	10,485	12.4	6.8	1,964	6.1	25.3	948	64.4	51.2
Lupin	401	Buy	13,703	22.9	4.4	2,629	60.2	0.3	1,971	22.9	0.4
Opto Circuits	308	Buy	3,233	26.4	10.7	1,007	11.0	3.7	827	19.8	-0.2
Piramal Healthcare	516	Neutral	8,594	-14.1	2.0	1,476	-16.8	14.5	883	-17.1	6.9
Ranbaxy Labs	570	Neutral	18,793	-0.3	-12.6	1,842	-24.1	-55.8	1,137	117.5	-25.0
Sun Pharma	1,921	Buy	9,790	-17.4	-30.1	3,364	-30.4	-45.4	2,952	23.2	-12.2
Sector Aggregate			**136,273**	**5.0**	**-1.0**	**28,664**	**0.6**	**-14.0**	**20,404**	**15.9**	**5.6**

Note: Historic numbers include one-offs and hence YoY comparison may not give the correct picture

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Key highlights of core 2QFY11 performance

- Lackluster performance by large companies: Performance of large companies like Cipla, Dr Reddy's and Ranbaxy would be lackluster owing to muted revenue growth, rupee appreciation, and USFDA issues for Ranbaxy.
- CRAMS and mid-cap pharma to run the show: CRAMS companies like Divi's Lab and Jubilant will report good numbers, albeit on a low base. Growth would be led by recovery in the outsourcing business post the significant inventory reduction by CRAMS customers in FY10. Generics players like Lupin, Cadila, Glenmark and Biocon are likely to report good growth in adjusted PAT, led by topline growth, better product mix and low base. Piramal Healthcare is likely to report decline in revenue, EBITDA and adjusted PAT, primarily due to sell-off of domestic formulations business to Abbott with effect from 9 September 2010.

CORE BUSINESS PERFORMANCE (RS M)

SECTOR	SALES			EBITDA			NET PROFIT		
COMPANIES	SEP- 09	SEP- 10	VAR %	SEP- 09	SEP- 10	% VAR	SEP- 09	SEP- 10	% VAR
Aventis Pharma	2,585	2,838	9.8	396	424	7.1	438	435	-0.7
Biocon	5,800	6,834	17.8	1,132	1,381	22.0	742	854	15.0
Cadila Health	9,458	10,690	13.0	2,056.5	2,448.1	19.0	1,342	1,531	14.1
Cipla	14,408	15,676	8.8	3,713	3,966	6.8	2,737	2,940	7.4
Dishman Pharma	2,174	2,325	6.9	498	528	6.0	244	251	2.6
Divis Labs	2,253	2,934	30.2	1,053	1,285	22.0	848	1,069	26.1
Dr Reddy' s Labs	18,368	17,803	-3.1	2,749	2,581	-6.1	2,173	2,018	-7.1
Glenmark Pharma	5,903	6,917	17.2	1,563	1,700	8.7	809	1,019	25.9
GSK Pharma	5,118	5,657	10.5	1,888	2,070	9.6	1,411	1,570	11.3
Jubiliant Organosys	9,331	10,485	12.4	1,851	1,964	6.1	577	948	64.4
Lupin	11,147	13,703	22.9	1,641	2,629	60.2	1,604	1,971	22.9
Piramal Healthcare	10,000	8,594	-14.1	1,774	1,476	-16.8	1,066	883	-17.1
Ranbaxy Labs	18,858	18,793	-0.3	2,427	1,842	-24.1	523	1,137	117.5
Sun Pharma	8,931	9,790	9.6	2,642	3,364	27.3	2,395	2,952	23.2
Pharma Aggregate	**124,335**	**133,040**	**7.0**	**25,383**	**27,656**	**9.0**	**16,908**	**19,577**	**15.8**
Opto Circuits	2,557	3,233	26.4	908	1,007	11.0	690	827	19.8

Source: Company/MOSL

Sell-offs/demergers/acquisitions keep the sector buzzing

Sun Pharma acquires Taro post favorable verdict from Israeli Supreme Court

- The Israeli Supreme Court recently ruled in favor of Sun Pharma, resulting in transfer of Taro promoters' shares in favor of Sun Pharma and taking its stake in Taro to 48.7%, with 65% voting power. Including warrants, Sun's stake can go up to ~52%, with 67-68% voting power.
- Sun has already invested US$105m in acquiring Taro shares till date. Back-of-the-envelope calculations indicate that the acquisition of Taro promoters' shares will cost Sun an additional US$38m-40m and warrants will entail another US$22m. Overall, Sun will have to spend an additional US$60m-62m to take its stake up to 52%, with 67-68% voting power. Sun's total cost of acquiring this stake will be US$165m-167m. Including net debt of US$25m, the acquisition will cost Sun US$190m-200m.
- Taro has reported US$187m revenues for 1HCY10 (up 3%), EBITDA of US$36.9m (up 6%) and adjusted PAT of US$28.6m (up 7.4%). For CY09, Taro had reported revenues of US$360m, EBITDA of US$66.4m and adjusted PAT of US$51.9m. It has a net debt of US$25m.

Ranbaxy transfers NCE research to Daiichi; will save ~20% of R&D cost annually

- Ranbaxy transferred its NCE research operations to Daiichi including all its NCE assets along with ~150 employees. In return, it has received some upfront consideration (not quantified) from Daiichi.
- The transfer of NCE research to Daiichi will result in cost savings for Ranbaxy besides the upfront cash inflow. We estimate that Ranbaxy spends ~20% of its annual R&D expenditure on NCE research, which would now get transferred to Daiichi, leading to cost savings. We estimate pre-tax savings of about US$20m per year. However, this is likely to marginally increase Ranbaxy's tax outgo, as the R&D expenditure was eligible for 200% weighted deduction under the Income Tax Act.

Jubilant Organosys announces demerger of non-pharma (APP) business; resultant focus on pharma business a long-term positive

- Jubilant Organosys (JOL) announced the much-awaited details regarding the proposed demerger of the Agri & Performance Polymer (APP) business.
- JOL's APP business will be demerged into a separate company to be known as Jubilant Industries (JIL), which will be listed separately (expected by January 2011). Existing shareholders of JOL will receive 1 share of JIL (face value - Rs10/share) for every 20 shares of JOL (face value - Re1/share).
- Post demerger, JOL will be renamed Jubilant Life Sciences, which will continue with the existing business related to Pharma & Life Science (PLSPS) including the CRAMS, Generics and other businesses. For FY10, the APP business recorded revenues of Rs4.19b (11% of JOL's overall revenues) with EBITDA of Rs165m (2% of JOL's overall EBITDA).

Piramal Healthcare sells diagnostics business to Super Religare Labs for Rs6.6b; concludes deal with Abbott

- Piramal Healthcare (PIHC) signed a definitive agreement with Super Religare Labs (SRL) for the sale of its diagnostics business. The debt-free deal was valued at Rs6.6b.
- PIHC would receive Rs3b upfront and the remaining Rs3b would accrue over the next three years. Assuming a WACC of 15%, the PV of the deal is ~Rs5.7b. The Rs3b deferred payment (spread over next three years) has been structured as a combination of non-convertible debentures (NCDs) and equity stake.
- The diagnostics business generated revenues of ~Rs2b for FY10, with 18-19% EBITDA margin and net loss of ~Rs40m; it has debt of Rs2.2b on books. The deal values PIHC's diagnostics business at 2.8x FY10 sales and an EV of 15.3x FY10 EBITDA.
- Further, PIHC concluded its recent deal with Abbott to sell its domestic formulations business. PIHC has received an initial consideration of Rs10.3b. PIHC has sold its domestic formulations business (excluding the OTC & Ophthalmic portfolio) to Abbott for a total consideration of US$3.72b. The deal is widely considered to be expensive.
- For FY10, this business generated revenues of Rs18.2b. We estimate EBITDA of this business at Rs5b. The deal valued PIHC's domestic formulations business at ~8x FY10 sales and an EV of ~29x FY10 EBITDA.

Opto Circuits acquires Unetixs Vascular Inc in US; forays into non-invasive equipment for diagnosis of vascular disease

- Opto Circuits acquired Unetixs Vascular Inc, a US-based company engaged in manufacturing and marketing of non-invasive equipment for diagnosis of vascular disease. The all-cash deal valued Unetixs at US$9.7m/Rs450m and was funded through internal accruals. Unetixs revenues are at ~US$10m and it is profit-making. The deal valued Unetix at 1x sales.
- Acquisition of Unetixs will help expand Opto's product portfolio in the non-invasive business segment, which is essential to get access to large distributors. Further, Unetixs has access to large hospitals in the US through its distributors. Opto can leverage this access to market non-invasive products (vital sign monitors, anesthetic gas monitors, etc) of Criticare (another US subsidiary acquired in 2008).

Sun Pharma, Glenmark witness news flows on patent litigation, regulatory compliance and low competition products

US district court rules against Sun for generic Protonix; risks for damages increase, Federal Circuit Court ruling will be the key

- The US District Court denied Sun's motion for judgment seeking to reverse the earlier jury verdict in the patent litigation over generic Protonix. In April 2010, a jury had determined that Nycomed's US Patent No 4758579 for Protonix (Wyeth/Nycomed's US$2.5b anti-ulcer brand) is valid.
- The court decision implies that Sun has lost out on Protonix litigation in the US lower court. While Sun is likely to appeal in the Federal Circuit Court, as of now, the verdict is a negative development for Sun as it raises the possibility of potential patent infringement damages.
- We expect a lengthy litigation process ahead since the Federal Circuit Court will take 6-8 months to give its verdict. A separate trial for estimating damages will have to be held if the Federal Circuit Court rules against Sun. An outcome of this trial could take ~2 years.

SUN PHARMA - PROTONIX COURT RULINGS TIMELINE

EVENT	DECISION TIME-LINE	REMARKS
District Court - Jury decision	Verdict against Sun	Jury has ruled that Nycomed's patent is not invalid. District court to rule on double-patenting
District Court - Judge decision	Verdict against Sun	Sun likely to appeal at Federal Circuit Court
Federal Circuit Court decision	6-8 months post District Court ruling	Ruling in Nycomed's favour will make Sun liable for damages. Separate court trial for estimating damages
Trial for damages	At least 2 years post Federal Circuit ruling	We estimate Sun's damages at US$190-200m. Will not be liable for triple damages

Source: Company/MOSL

Sun Pharma gets USFDA approval for Effexor XR; unlikely to be a big opportunity

- Sun Pharma recently received the much-delayed USFDA approval to market Effexor XR tablets. Apart from innovator, Pfizer (earlier Wyeth), Osmotica and Teva were the other two companies selling generic Effexor XR in the US. Osmotica had launched Effexor XR in the tablet form (v/s the innovator's capsule version) in October 2008 in the US.
- Four more generics companies are slated to launch the generic versions from 1 June 2011 as per the settlement with Wyeth. Sun Pharma has got approval for Effexor XR tablets, a non-AB rated version (used Osmotica's NDA as a Reference Listed Drug) that cannot be directly substituted for the innovator's product at pharmacy level due to different dosage form. However, it can be substituted for Osmotica's product. We believe that Sun will primarily target the generics market for Osmotica's non-AB rated product, since in the larger AB-rated generics market, a strong player like Teva is already present.
- We expect Sun to earn one-time revenue of Rs1.7b (Rs1.3b in FY11 and Rs383m in FY12) and PAT of Rs690m (Rs537m for FY11 and Rs153m for FY12) from this opportunity over the next nine months.

Sun Pharma receives warning letter for its Cranbury facility in US

- Sun Pharma received a warning letter from USFDA for its manufacturing facility at Cranbury, New Jersey, US. This letter was issued by USFDA as a follow-up to the inspection undertaken at this facility in February 2010. USFDA had identified violation of current Good Manufacturing Practices (cGMP).
- Revenue from the products manufactured at this facility is not significant. So, this development will not have any significant adverse financial impact on Sun. However, this development may delay the approval process of the products which are filed from this facility and are pending USFDA approval. USFDA may not approve these products until all the issues pointed out in the warning letter are resolved.
- While there are no major financial implications of this development on Sun, such developments continue to highlight the problems that most pharmaceutical companies are facing in terms of cGMP compliance.

Glenmark enters into out-of-court settlement for generic Lunesta; launch scheduled for FY14/15; no major upsides

- Glenmark entered into an out-of-court settlement with Sepracor regarding the generic version of Lunesta (Eszopiclone tablets useful for insomnia) for the US market. Sepracor currently generates about US$741m of revenues from Lunesta in US. As per the terms of the agreement, Glenmark will be allowed to launch its generic version post 30 November 2013 or post 30 May 2014 (if Sepracor is granted pediatric exclusivity).
- Since Glenmark is not the sole FTF on the product, the upside from this settlement is unlikely to be very large. Other Para-IV filers are Teva, Dr Reddy's, Cobalt, Orchid, Lupin, Roxane, Wockhardt and Sun Pharma. Also, post the expiry of 2.5 months, all generics players (including generics which have not filed patent challenges) will also enter the market. As of now, 12 generics companies have filed DMFs with the USFDA. Hence, the upside will be one-time in nature and not sustainable.

Glenmark undertakes "at-risk" launch of Tarka in US

- Glenmark undertook an "at-risk" launch of generic Tarka (Abbott/Sanofis' US$64m anti-hypertensive brand) in the US.
- Glenmark had challenged the innovator's patent on Tarka expiring in 2015 through its Para-IV FTF filing. The potential damages (if Glenmark loses the patent litigation) will not be very high since the size of the product is small.
- As of now, Glenmark is the only generics company marketing the product in US and is eligible for 180-day exclusivity. The management has indicated that the company would get revenues of US$5m-7m per quarter from this product.

CRAMS companies guide strong FY11 performance, as customers commence inventory re-stocking

Over the last 4-5 quarters, the performance of the global CRAMS industry has suffered due to:

- A severe round of inventory de-stocking undertaken by large innovator companies, leading to lower contract manufacturing revenues for CRAMS companies.
- Post the credit crises of 2008, the mid-sized and small-sized research companies faced a liquidity crunch, resulting in a cut-down in many of the research projects undertaken by them. This has partly impacted custom synthesis contracts for CRAMS players.

In line with the global industry trend, the CRAMS business of Indian companies was also adversely impacted. We believe that this is likely to reverse in FY11 due to the following:

1. **Pharmaceuticals demand continues to grow:** The overall end-consumer demand for pharmaceutical products continues to grow steadily. Hence, inventory de-stocking will ultimately get aligned with demand, post which the innovators will have to commence outsourcing again. We believe that this reversal is likely to be visible partly in FY11 and fully by FY12.
2. **Credit situation is gradually improving:** While the mid and small-sized research companies continue to face funding issues, we note that over the past few quarters the global credit situation is improving gradually. This will eventually open up the funding channels for these companies. While the custom synthesis business from such companies is currently under pressure, we expect a gradual improvement over the next two years.

Companies guide for strong topline growth in FY11

All the major CRAMS companies have guided strong double-digit growth in revenues for FY11 albeit on a low base of FY10.

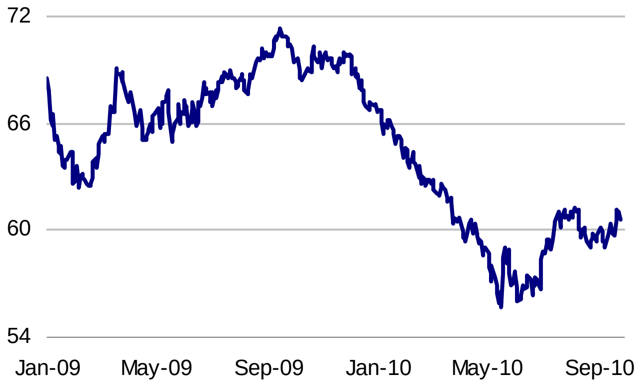
FY11 REVENUE GUIDANCE

COMPANY	FY10 REVENUES (RS M)	FY11 REVENUE GROWTH GUIDANCE (%)
Divi's Lab	9,416	25-30
Piramal Healthcare	8,850	10-15
Dishman Pharma	9,154	20
Jubilant Organosys	21,320	-

Source: Company/MOSL

INR V/S US$ (RS/US$)

INR V/S EURO (RS/EURO)



Source: Bloomberg

Rupee appreciation to partly temper topline growth for the sector

The rupee has appreciated by ~3.8% YoY v/s the US dollar and ~13% YoY v/s the Euro. This is likely to temper topline growth for the larger Indian players that have higher exposure to these currencies. Among the larger Indian companies, Dr Reddy's (hedges of US$414m) and Cipla (hedges of over US$200m) are inadequately hedged, given their significant net US$ exposure. Ranbaxy (with US$1b of hedges) is adequately hedged though some of the hedges are at unfavorable rates. Sun Pharma's net US dollar exposure is not very high.

Sun Pharma, Lupin, Divi's and Biocon to record strong operational improvement

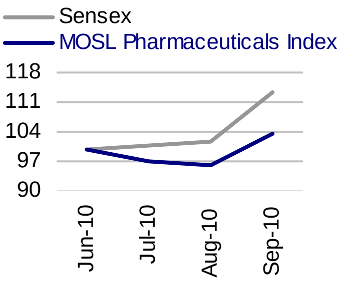
From our coverage universe, we expect Sun Pharma, Divi's Lab, Lupin and Biocon to record strong EBITDA growth for 2QFY11. Ranbaxy and Dr Reddy's are likely to report decline in core EBITDA (excluding Para-IV/low competition products). We attribute the following company-specific reasons for this performance:

- **Cipla:** We expect muted operational performance due lower export growth, higher staff cost and appreciation of the rupee v/s the US dollar.
- **Sun Pharma:** We expect strong growth in EBITDA due to favorable product mix.
- Lupin: Higher topline growth, better product-mix and low base would lead to higher EBITDA.
- **Glenmark:** Higher staff and other expenses would lead to muted EBITDA growth.
- Divi's Labs: We expect strong operational performance, led by topline growth, reflecting an end to the inventory de-stocking, improved product mix and higher operating leverage.
- **Dr Reddy's:** De-growth in generics business in regulated markets and rupee appreciation (v/s Euro and US dollar) would adversely impact revenue and EBITDA.
- **Ranbaxy:** Core EBITDA would continue to be under pressure due to the severe impact of the USFDA action on the company's US business.

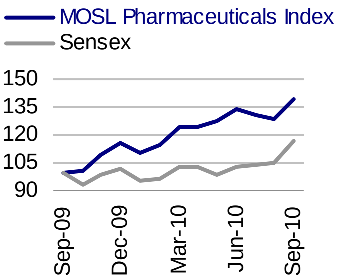
MNC Pharma - GSK to maintain double-digit topline growth

We expect our MNC pharma universe (Aventis and GSK) to record 10.3% YoY topline growth for the quarter, mainly led by 10.5% YoY growth for GSK Pharmaceuticals. While GSK's EBITDA is likely to grow in line with topline growth, we estimate adjusted PAT growth at 11.3%.

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



Sector view

Generics

- Emerging markets to help improve profitability gradually from 2010 onwards
- New launches imperative for driving growth in core US business
- Differentiation becoming imperative - low competition/patent challenge products, brands, NCE research will be key differentiators
- Increasing MNC interest in generics space - may lead to large acquisitions/supply arrangements with Indian companies
- **Top picks:** Cipla, Lupin

CRAMS (Contract Research & Manufacturing Services)

- Favorable macro trends - India on the threshold of significant opportunity, contract manufacturing opportunity to grow ~3.7x over 2007-2012
- Inventory de-stocking impacted performance over the last 4-5 quarters; expect recovery from FY11 onwards
- **Top picks:** Divi's Labs

MNC Pharma

- Portfolio realignment in favour of lifestyle products to drive growth in short-to-medium term
- Branded generics, patented products and in-licensing to drive long-term growth
- Parent's commitment to listed entity is imperative
- **Top pick:** GSK Pharma

COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Pharmaceuticals														
Aventis Pharma	1,821	Neutral	68.4	69.2	82.3	26.6	26.3	22.1	24.4	22.8	18.2	17.1	15.8	17.1
Biocon	352	Buy	14.7	17.0	20.3	24.0	20.8	17.4	14.8	12.1	10.5	16.7	16.8	17.4
Cadila Health	642	Buy	24.9	29.1	37.5	25.8	22.1	17.1	17.2	13.5	11.6	36.2	31.9	31.8
Cipla	317	Buy	12.5	14.1	16.8	25.3	22.5	18.8	18.5	16.0	14.2	17.0	16.8	17.4
Divis Labs	710	Buy	25.8	30.6	38.1	27.6	23.2	18.7	23.2	19.3	15.0	22.4	22.3	23.1
Dishman Pharma	188	Neutral	14.2	14.6	17.7	13.2	12.8	10.6	11.1	9.7	7.9	15.3	14.0	14.9
Dr Reddy' s Labs	1,494	Buy	6.3	48.7	59.3	236.2	30.7	25.2	22.2	23.2	19.6	2.5	18.6	19.6
GSK Pharma	2,111	Buy	59.6	68.0	78.2	35.4	31.0	27.0	24.5	21.6	18.4	28.7	29.9	31.3
Glenmark Pharma	287	Neutral	11.6	15.5	19.2	24.6	18.5	14.9	15.9	11.7	11.1	14.1	15.4	16.2
Jubiliant Organosys	339	Neutral	28.6	25.7	28.8	11.9	13.2	11.8	10.7	9.9	8.7	29.5	21.0	19.3
Lupin	401	Buy	15.3	18.7	22.1	26.1	21.4	18.1	22.0	17.1	14.2	34.1	29.1	28.1
Opto Circuits	308	Buy	13.3	18.4	22.6	23.2	16.7	13.6	15.6	14.0	11.5	32.4	27.8	28.0
Piramal Healthcare	516	Neutral	23.4	10.7	-	22.1	48.0	-	17.7	32.1	-	32.5	13.1	-
Ranbaxy Labs	570	Neutral	3.6	34.5	11.6	158.1	16.5	49.3	45.1	13.3	25.3	3.5	24.2	7.3
Sun Pharma	1,921	Buy	65.2	61.8	74.7	29.4	31.1	25.7	26.6	20.6	19.9	12.2	15.2	16.0
Sector Aggregate						**34.3**	**23.6**	**21.4**	**21.1**	**16.8**	**15.2**	**16.3**	**19.9**	**18.9**

Aventis Pharma

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	HOEC IN
	REUTERS CODE
S&P CNX: 6,018	HOEC.BO

Equity Shares (m)	23.0
52 Week Range (Rs)	2,059/1,440
1,6,12 Rel Perf (%)	-10/-12/6
Mcap (Rs b)	41.9
Mcap (USD b)	0.9

24 September 2010

Neutral

Previous Recommendation: Neutral

Rs1,821

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/08A	9,833	1,662	72.2	15.1	25.2	5.1	20.4	31.9	3.8	19.9
12/09A	9,744	1,574	68.4	-5.3	26.6	4.6	17.1	26.3	3.7	24.4
12/10E	10,673	1,593	69.2	1.2	26.3	4.2	15.8	23.7	3.3	22.8
12/11E	11,910	1,896	82.3	19.0	22.1	3.8	17.1	25.7	2.9	18.2

- We expect APL's 3QCY10 topline to grow 9.8% YoY to Rs2.8b, led by 13.3% YoY growth in domestic formulations. Exports are likely to decline by 3%YoY to Rs.544m.
- EBITDA is likely to grow 7.1% YoY to Rs424m; EBITDA margin would contract 40bp YoY, mainly due to change in product mix.
- We expect PAT to remain almost flat YoY at Rs435m due to muted growth in topline and pressure on operating margins.

We believe APL will be a key beneficiary of the patent regime. The parent has a strong R&D pipeline, with a total of 49 products undergoing clinical trials, of which 17 are in phase-III or pending approvals. Some of these may be launched in India. Focus on growing strategic brands and strong support from the parent augurs well for the company. Further, rural initiatives and entry into OTC Segment are long term positives. However, APL's profitability has declined significantly in last three years, with EBITDA margin declining from 25% for CY06 to 15.2% for CY09. We estimate EPS of Rs69.2 (up 1.2%) for CY10 and Rs82.3 (up 19% YoY) for CY11. The stock currently trades at 26.3x CY10E and 22.1x CY11E EPS. We believe stock price performance is likely to remain muted in the short-term until clarity emerges on growth drivers for exports. We maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**2,289**	**2,499**	**2,585**	**2,371**	**2,514**	**2,715**	**2,838**	**2,606**	**9,744**	**10,673**
YoY Change (%)	*5.5*	*0.5*	*4.3*	*-12.2*	*9.8*	*8.6*	*9.8*	*9.9*	*-0.9*	*9.5*
Total Expenditure	1,899	1,970	2,189	2,209	2,150	2,280	2,414	2,274	8,267	9,119
EBITDA	**390**	**529**	**396**	**162**	**364**	**435**	**424**	**332**	**1,477**	**1,554**
Margins (%)	*17.0*	*21.2*	*15.3*	*6.9*	*14.5*	*16.0*	*14.9*	*12.7*	*15.2*	*14.6*
Depreciation	42	43	44	44	43	47	50	58	173	198
Interest	0	0	0	1	0	0	0	0	1	0
Other Income	320	249	289	253	226	253	278	272	1,111	1,029
PBT before EO Items	**668**	**735**	**641**	**371**	**547**	**641**	**651**	**546**	**2,415**	**2,385**
Extra-Ord Expense	0	0	0	0	0	0	0	0	0	0
PBT after EO Items	**668**	**735**	**641**	**371**	**547**	**641**	**651**	**546**	**2,415**	**2,385**
Tax	263	264	203	103	186	217	216	173	833	792
Effective tax Rate (%)	*39.4*	*35.9*	*31.7*	*27.8*	*34.0*	*33.9*	*33.2*	*31.7*	*34.5*	*33.2*
Reported PAT	**405**	**471**	**438**	**268**	**361**	**424**	**435**	**373**	**1,582**	**1,593**
Adj PAT	**405**	**471**	**438**	**268**	**361**	**424**	**435**	**373**	**1,582**	**1,593**
YoY Change (%)	*17.4*	*12.7*	*-1.8*	*-37.7*	*-10.9*	*-10.0*	*-0.7*	*39.4*	*-3.3*	*0.7*
Margins (%)	*17.7*	*18.8*	*16.9*	*11.3*	*14.4*	*15.6*	*15.3*	*14.3*	*16.2*	*14.9*

E: MOSL Estimates

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Biocon

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	BIOS IN
	REUTERS CODE
S&P CNX: 6,018	BION.BO

Equity Shares (m)	200.0
52 Week Range (Rs)	359/230
1,6,12 Rel Perf (%)	-8/5/27
Mcap (Rs b)	70.4
Mcap (USD b)	1.6

24 September 2010

Buy

Previous Recommendation: Buy

Rs352

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	16,087	930	4.7	-79.3	75.7	4.2	6.2	6.2	4.5	22.2
03/10A	23,678	2,932	14.7	215.2	24.0	3.6	16.7	15.6	2.9	14.8
03/11E	28,476	3,393	17.0	15.7	20.8	3.1	16.8	17.0	2.4	12.1
03/12E	32,728	4,055	20.3	19.5	17.4	3.0	17.4	17.5	2.0	10.5

- We expect Biocon's 2QFY11 topline to grow 17.8% YoY to Rs6.8b, led by the Biopharma division and AxiCorp (German subsidiary). AxiCorp's revenues are likely to grow 28% YoY to Rs2.7b due to strong base business and supply of Metformin under AOK contract. Biopharma revenues are likely to grow 15.1% YoY, led by domestic formulations, statins, insulin and immunosuppressants. Contract research revenues are likely to remain flat at Rs728m.
- EBITDA would increase 22% YoY, led by strong revenue growth; EBITDA margin would expand by 70bp YoY on the back of better product mix.
- We expect adjusted PAT to grow 15% YoY to Rs854m despite good growth in operating profit due to higher tax rate and depreciation charges.

Key growth drivers for FY11 will be: (1) traction in the company's insulin initiative, (2) ramp-up in contract research business, and (3) incremental contribution from immunosuppressant API supplies. However, higher R&D costs, increased depreciation and higher expenses linked to the scale-up of the domestic formulations business will continue to temper earnings growth. Option values for the future include the separate listing of Syngene and a potential out-licensing of the oral insulin NCE. We estimate EPS of Rs17 for FY11 (up 15.7%) and Rs20.3 for FY12 (up 19.5%) leading to 18% earnings CAGR over FY10-12. The stock is valued at 20.8x FY11E and 17.4x FY12E earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**4,959**	**5,800**	**6,351**	**6,568**	**6,623**	**6,834**	**7,374**	**7,646**	**23,678**	**28,476**
YoY Change (%)	*87.9*	*31.0*	*45.6*	*40.9*	*33.6*	*17.8*	*16.1*	*16.4*	*47.2*	*20.3*
Total Expenditure	3,946	4,668	5,084	5,265	5,310	5,454	5,896	6,176	18,963	22,836
EBITDA	**1,013**	**1,132**	**1,267**	**1,303**	**1,313**	**1,381**	**1,477**	**1,470**	**4,715**	**5,640**
Margins (%)	*20.4*	*19.5*	*19.9*	*19.8*	*19.8*	*20.2*	*20.0*	*19.2*	*19.9*	*19.8*
Depreciation	324	351	360	366	375	413	422	477	1,401	1,688
Interest	56	52	27	34	70	70	72	75	169	287
Other Income	94	124	64	88	95	119	92	92	370	398
PBT	**727**	**853**	**944**	**991**	**963**	**1,016**	**1,075**	**1,010**	**3,515**	**4,063**
Tax	142	94	107	144	164	163	183	161	487	670
Rate (%)	*19.5*	*11.0*	*11.3*	*14.5*	*17.0*	*16.0*	*17.0*	*16.0*	*13.8*	*16.5*
Minority Interest	14	17	24	41	31	0	0	0	96	0
PAT	**571**	**742**	**813**	**806**	**767**	**854**	**892**	**849**	**2,932**	**3,393**
YoY Change (%)	*283.5*	*194.4*	*191.3*	*219.0*	*34.3*	*15.0*	*9.7*	*5.3*	*215.1*	*15.7*
Margins (%)	*11.5*	*12.8*	*12.8*	*12.3*	*11.6*	*12.5*	*12.1*	*11.1*	*12.4*	*11.9*

E: MOSL Estimates

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Cadila Healthcare

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	CDH IN
	REUTERS CODE
S&P CNX: 6,018	CADI.BO

24 September 2010

Buy

Previous Recommendation: Buy

Rs642

Equity Shares (m)	204.7
52 Week Range (Rs)	681/318
1,6,12 Rel Perf (%)	-6/-37/77
Mcap (Rs b)	131.5
Mcap (USD b)	2.9

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	29,275	3,229	15.8	12.9	40.7	11.0	26.9	23.6	4.8	23.3
03/10A	36,868	5,092	24.9	57.7	25.8	8.1	36.0	26.7	3.8	17.3
03/11E	43,374	5,952	29.1	16.9	22.1	6.2	33.8	29.3	3.2	13.6
03/12E	50,137	7,669	37.5	28.9	17.1	4.8	31.8	29.8	2.7	11.7

- Cadila's 2QFY11 topline is likely to grow 13% YoY to Rs10.7b, led by 14.5% YoY growth in domestic sales (contributing 53.7% of revenues). The company's consumer business in India would record 21.4% YoY growth while domestic formulation revenues would grow 13% YoY to Rs4.4b. We expect exports to rise by 11.8% YoY.
- EBITDA is expected to grow 19% YoY to Rs2.4b, while EBITDA margins are likely to expand by 120bp YoY to 22.9% due to favorable revenue mix, with higher contribution from domestic businesses.
- We expect PAT to grow 14.1% YoY to Rs1.5b, led by healthy topline growth and improvement in operating margins.

Cadila's future growth will be led by increased traction in its international businesses, ramp-up in supplies to Hospira and recovery in domestic formulations business. This coupled with a de-risked business model should ensure good long-term potential. We estimate 17% revenue and 23% earnings CAGR for FY10-12, led by 18.6% CAGR for the US operations and 26% CAGR in the domestic consumer revenues coupled with ramp-up in supplies to Hospira. We expect RoE of more than 30% over the next two years. We forecast EPS of Rs29.1 for FY11 (up 17%) and Rs37.5 for FY12 (up 29%), leading to 23% EPS CAGR over FY10-12. Cadila is currently valued at 22.1x FY11E and 17.1x FY12E consolidated earnings. Our estimates do not include any upsides from the supply agreement with Abbott. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Revenues	**9,036**	**9,458**	**9,910**	**8,465**	**11,338**	**10,690**	**11,367**	**9,979**	**36,868**	**43,374**
YoY Change (%)	*29.4*	*25.0*	*32.3*	*17.0*	*25.5*	*13.0*	*14.7*	*17.9*	*25.9*	*17.6*
Total Expenditure	6,998	7,401	7,810	6,572	8,364	8,242	8,782	7,596	28,782	33,155
EBITDA	**2,037**	**2,057**	**2,100**	**1,893**	**2,974**	**2,448**	**2,584**	**2,382**	**8,087**	**10,219**
Margins (%)	*22.5*	*21.7*	*21.2*	*22.4*	*26.2*	*22.9*	*22.7*	*23.9*	*21.9*	*23.6*
Depreciation	296	311	334	398	314	368	416	503	1,339	1,601
Interest	229	206	217	170	224	218	214	217	821	874
Other Income	28	16	63	52	-63	27	32	39	159	36
PBT before EO Income	**1,540**	**1,556**	**1,612**	**1,378**	**2,373**	**1,888**	**1,986**	**1,702**	**6,085**	**7,780**
EO Exp/(Inc)	9	26	11	0	0	0	0	0	46	0
PBT after EO Income	**1,531**	**1,530**	**1,601**	**1,378**	**2,373**	**1,888**	**1,986**	**1,702**	**6,039**	**7,780**
Tax	242	176	255	68	338	283	298	248	741	1,167
Rate (%)	*15.8*	*11.5*	*15.9*	*4.9*	*14.2*	*15.0*	*15.0*	*14.6*	*12.3*	*15.0*
Minority Int/Adj on Consol	40	35	49	123	43	74	74	105	247	296
Reported PAT	**1,248**	**1,319**	**1,297**	**1,187**	**1,992**	**1,531**	**1,614**	**1,349**	**5,051**	**6,317**
Adj PAT	**1,256**	**1,342**	**1,307**	**1,187**	**1,627**	**1,531**	**1,614**	**1,349**	**5,092**	**5,952**
YoY Change (%)	*40.0*	*39.0*	*115.8*	*18.5*	*29.6*	*14.1*	*23.5*	*13.6*	*57.7*	*16.9*
Margins (%)	*13.9*	*14.2*	*13.2*	*14.0*	*14.3*	*14.3*	*14.2*	*13.5*	*13.8*	*13.7*

E: MOSL Estimates; Quarterly numbers don't add up to full year numbers due to restatement

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Cipla

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	CIPLA IN
	REUTERS CODE
S&P CNX: 6,018	CIPL.BO

24 September 2010

Buy

Previous Recommendation: Buy

Rs317

Equity Shares (m)	802.9
52 Week Range (Rs)	363/255
1,6,12 Rel Perf (%)	-10/-23/3
Mcap (Rs b)	254.4
Mcap (USD b)	5.6

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	52,343	7,768	10.0	10.6	31.7	5.7	17.9	17.1	5.0	21.5
03/10A	56,057	10,050	12.5	25.0	25.3	4.3	17.0	20.6	4.5	18.5
03/11E	62,044	11,321	14.1	12.5	22.5	3.8	16.8	20.4	4.1	16.0
03/12E	70,510	13,523	16.8	19.3	18.8	3.3	17.4	19.5	3.5	14.2

- We expect Cipla's 2QFY11 topline to grow 8.8% YoY to Rs15.7b, led by 12.1% YoY growth in domestic formulations business. Exports are likely to grow 9.4% YoY due to conscious reduction in low margin ARV business. A ~4% YoY appreciation of the INR v/s the USD will partly temper topline growth.
- EBITDA is expected to report muted growth of 6.8% YoY to Rs4b primarily due to higher staff cost and rupee appreciation. EBITDA margins are likely to contract by 50bp YoY.
- While EBITDA is likely to grow 6.8% YoY, PAT is likely to record 7.4% YoY growth to Rs2.9b on the back of topline growth and lower interest cost.

We believe that Cipla has one of the strongest generics pipelines among Indian companies. After a long delay, we believe Cipla's CFC-free inhaler pipeline will gradually get commercialized in Europe and upsides from high-margin opportunities like Seretide could come through over the next two years (our estimates do not include these upsides). Its large manufacturing infrastructure, strong chemistry skills and huge inhaler capacity make it a partner of choice for global MNCs that are ramping up their generics and emerging market presence. This coupled with its low-risk strategy and one of the strongest capex in the company's history should ensure good long-term potential. Temporary slowdown in overall growth and increasing working capital requirements remain our key concerns. We expect Cipla to record EPS of Rs14.1 for FY11 and Rs16.8 for FY12, translating into 16% CAGR for FY10-12. The stock trades at 22.5x FY11E and 18.8x FY12E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Revenues	**13,760**	**14,408**	**14,385**	**13,504**	**14,798**	**15,676**	**15,883**	**15,687**	**56,057**	**62,044**
YoY Change (%)	*14.0*	*6.4*	*7.2*	*1.5*	*7.5*	*8.8*	*10.4*	*16.2*	*7.1*	*10.7*
Total Expenditure	10,075	10,695	10,346	11,198	11,152	11,710	11,548	11,913	42,315	46,324
EBITDA	**3,685**	**3,713**	**4,039**	**2,305**	**3,646**	**3,966**	**4,335**	**3,774**	**13,742**	**15,720**
Margins (%)	*26.8*	*25.8*	*28.1*	*17.1*	*24.6*	*25.3*	*27.3*	*24.1*	*24.5*	*25.3*
Depreciation	458	478	457	278	548	582	627	481	1,671	2,238
Interest	105	84	44	-3	1.1	0.3	0.3	0.4	230	2
Other Income	-150	203	-62	478	28	201	215	227	469	671
Profit before Tax	**2,972**	**3,354**	**3,477**	**2,508**	**3,124**	**3,585**	**3,923**	**3,519**	**12,311**	**14,151**
Extra-Ord expense				-950					-950	0
PBT after EO expense	**2,972**	**3,354**	**3,477**	**3,458**	**3,124**	**3,585**	**3,923**	**3,519**	**13,261**	**14,151**
Tax	555	618	587	676	550	645	785	850	2,435	2,830
Rate (%)	*18.7*	*18.4*	*16.9*	*27.0*	*17.6*	*18.0*	*20.0*	*24.2*	*19.8*	*20.0*
Reported PAT	**2,417**	**2,737**	**2,890**	**2,782**	**2,574**	**2,940**	**3,138**	**2,669**	**10,826**	**11,321**
Adj PAT	**2,417**	**2,737**	**2,890**	**2,155**	**2,574**	**2,940**	**3,138**	**2,669**	**10,199**	**11,321**
YoY Change (%)	*72.6*	*80.7*	*29.4*	*-17.7*	*6.5*	*7.4*	*8.6*	*23.8*	*31.3*	*11.0*
Margins (%)	*17.6*	*19.0*	*20.1*	*16.0*	*17.4*	*18.8*	*19.8*	*17.0*	*18.2*	*18.2*

E: MOSL Estimates

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Dishman Pharma

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	DISH IN
	REUTERS CODE
S&P CNX: 6,018	DISH.BO

Equity Shares (m)	81.3
52 Week Range (Rs)	275/175
1,6,12 Rel Perf (%)	-17/-29/-24
Mcap (Rs b)	15.3
Mcap (USD b)	0.3

24 September 2010

Neutral

Previous Recommendation: Neutral

Rs188

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	10,624	1,463	18.0	20.4	10.4	2.1	22.7	15.2	2.1	8.4
03/10A	9,154	1,157	14.2	-21.0	13.2	1.9	15.3	11.4	2.5	11.1
03/11E	9,970	1,190	14.6	2.9	12.8	1.7	14.0	11.0	2.2	9.7
03/12E	12,052	1,441	17.7	21.1	10.6	1.5	14.9	12.5	1.9	7.9

- We expect muted topline growth of 6.9% YoY in 2QFY11 to Rs2.3b due to decline in the revenues of Carbogen AMCIS, pricing pressure in QUATs segment and ~13% appreciation of the INR v/s the EUR. CRAMS business from Indian facilities is likely to report strong growth of 20% YoY to Rs839m on a low base while Carbogen AMCIS revenues are likely to decline 5% YoY to Rs876m due to reduced early phase R&D activity by customers. MM business would grow 9% YoY to Rs610m due to ongoing pricing pressure in QUATs segment.
- EBITDA is likely to grow 6% YoY to Rs528m due to reduction in high margin contract research business at Carbogen AMCIS and rupee appreciation. EBITDA margins are likely to decline by 20bp YoY to 22.7%.
- We expect the bottomline to grow 2.6% YoY to Rs251m, reflecting the muted growth in topline, contraction in EBITDA margins and lower other income.

The macro environment for the CRAMS business remains favorable, given India's inherent cost advantages and chemistry skills. We believe that Dishman will benefit from increased outsourcing from India, given its strengthening MNC relations. However, the adverse business environment for Carbogen AMICS and Euro depreciation will continue to impact earnings growth in FY11. We expect Dishman to record a CAGR of 15% in revenues, 18% in EBITDA and 11.6% in EPS over FY10-12, led mainly by its Indian CRAMS operations. The stock currently trades at 12.8x FY11E and 10.6x FY12E earnings. RoE will continue to be at 15% till new facilities and CRAMS contracts ramp up. We maintain our **Neutral** rating, with a price target of Rs213 (12x FY12E earnings).

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**2,277**	**2,174**	**2,223**	**2,479**	**2,019**	**2,325**	**2,588**	**3,038**	**9,154**	**9,970**
YoY Change (%)	*-3.5*	*-13.7*	*-21.2*	*-15.2*	*-11.3*	*6.9*	*16.4*	*22.5*	*-13.8*	*8.9*
Total Expenditure	1,745	1,677	1,710	1,984	1,574	1,797	1,978	2,288	7,116	7,700
EBITDA	**532**	**498**	**513**	**495**	**445**	**528**	**610**	**750**	**2,038**	**2,270**
Margins (%)	*23.4*	*22.9*	*23.1*	*20.0*	*22.0*	*22.7*	*23.6*	*24.7*	*22.3*	*22.8*
Depreciation	145	174	141	135	161	165	179	183	594	688
Interest	104	99	85	100	82	98	98	113	388	390
Other Income	155	59	32	25	104	23	23	26	270	175
PBT after EO Income	**438**	**284**	**319**	**285**	**305**	**288**	**356**	**480**	**1,326**	**1,367**
Tax	9	25	30	-10	17	37	46	77	54	178
Deferred Tax	37	14	-32	96	17	0	0	-17	115	0
Rate (%)	*10.5*	*14.0*	*-0.6*	*29.9*	*11.2*	*13.0*	*13.0*	*12.5*	*12.8*	*13.0*
Prior Period Adjustment	1	5	-10	-12	-1	0	0	0	-17	0
Reported PAT	**391**	**240**	**331**	**212**	**272**	**251**	**310**	**420**	**1,174**	**1,190**
Adj PAT	**392**	**244**	**321**	**200**	**271**	**251**	**310**	**420**	**1,157**	**1,190**
YoY Change (%)	*41.5*	*725.7*	*-19.3*	*-73.7*	*-30.8*	*2.6*	*-3.4*	*110.4*	*-21.0*	*2.9*
Margins (%)	*17.2*	*11.2*	*14.4*	*8.0*	*13.4*	*10.8*	*12.0*	*13.8*	*12.6*	*11.9*

E: MOSL Estimates

Nimish Desai (NimishDesai@MotilalOswal.com) / Amit Shah (Amit.Shah@MotilalOswal.com)

Divi's Laboratories

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	DIVI IN
	REUTERS CODE
S&P CNX: 6,018	DIVI.BO

Equity Shares (m)	132.1
52 Week Range (Rs)	798/518
1,6,12 Rel Perf (%)	-14/-9/13
Mcap (Rs b)	93.9
Mcap (USD b)	2.1

24 September 2010 **Buy**

Previous Recommendation: Buy **Rs710**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	11,803	4,166	32.2	19.5	22.1	7.4	39.6	40.6	8.0	18.2
03/10A	9,416	3,403	25.8	-19.9	27.6	6.2	24.7	27.3	10.0	23.2
03/11E	11,736	4,041	30.6	18.7	23.2	5.2	24.2	27.2	8.0	19.2
03/12E	14,599	5,032	38.1	24.5	18.7	4.3	25.2	29.7	6.4	14.9

- We expect revenue growth of 30.2% YoY to Rs2.9b on a low base, which was impacted by inventory de-stocking undertaken by customers and lack of funding to small and biotech companies. We are expecting a strong recovery in CRAMS and API revenues in FY11. The company commissioned its carotenoids facility in June 2009 and we expect a gradual scale-up in revenues from this initiative over the next two years.
- While EBITDA is likely to grow 22%YoY to Rs1.3b, EBITDA margins are likely to contract by 290bp on a high base.
- Adjusted PAT is likely to grow 26.1% YoY to Rs1.1b, reflecting the strong revenue growth and reduction in interest cost.

Divi's will be a key beneficiary of increased outsourcing from India, leading to 20% earnings CAGR for FY10-12. We estimate RoCE and RoE of 20%+ for the next few years, led by traction in the high-margin CRAMS business and incremental contribution from the carotenoids business. We expect the company to report EPS of Rs30.6 in FY11 and Rs38.1 in FY12. The stock trades at 23.2x FY11E and 18.7x FY12E earnings. We reiterate **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Op Revenue	**2,058**	**2,253**	**1,963**	**3,141**	**2,635**	**2,934**	**2,758**	**3,409**	**9,416**	**11,736**
YoY Change (%)	*-22.6*	*-31.8*	*-25.9*	*-1.5*	*28.0*	*30.2*	*40.5*	*8.5*	*-20.2*	*24.6*
Total Expenditure	1,392	1,200	1,304	1,628	1,645	1,649	1,609	1,797	5,364	6,862
EBITDA	**667**	**1,053**	**659**	**1,513**	**990**	**1,285**	**1,149**	**1,613**	**4,052**	**4,875**
Margins (%)	*32.4*	*46.7*	*33.6*	*48.2*	*37.6*	*43.8*	*41.7*	*47.3*	*43.0*	*41.5*
Depreciation	129	131	133	123	131	156	162	187	515	637
Interest	8	30	18	7	6	7	7	8	28	27
Other Income	143	55	262	43	59	93	97	132	343	382
PBT before EO Income	**673**	**947**	**771**	**1,427**	**912**	**1,215**	**1,077**	**1,549**	**3,853**	**4,592**
EO Income	-540	0	0	540	0	0	0	0	0	0
PBT after EO Income	**132**	**947**	**771**	**1,967**	**912**	**1,215**	**1,077**	**1,549**	**3,853**	**4,592**
Tax	87	83	104	135	71	146	129	205	408	551
Deferred Tax	2	17	-11	34	3	0	0	-3	42	0
Rate (%)	*67.5*	*10.5*	*12.0*	*8.5*	*8.2*	*12.0*	*12.0*	*13.0*	*11.7*	*12.0*
Reported PAT	**43**	**848**	**678**	**1,799**	**837**	**1,069**	**948**	**1,348**	**3,403**	**4,041**
Adj PAT	**594**	**848**	**678**	**1,305**	**837**	**1,069**	**948**	**1,348**	**3,403**	**4,041**
YoY Change (%)	*-38.4*	*-37.8*	*-14.7*	*25.2*	*40.9*	*26.1*	*39.7*	*3.3*	*-18.3*	*18.7*
Margins (%)	*28.9*	*37.6*	*34.6*	*41.5*	*31.8*	*36.4*	*34.4*	*39.5*	*36.1*	*34.4*

E: MOSL Estimates

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Dr Reddy's Laboratories

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	DR IN
	REUTERS CODE
S&P CNX: 6,018	REDY.BO

Equity Shares (m)	168.4
52 Week Range (Rs)	1,558/848
1,6,12 Rel Perf (%)	3/0/48
Mcap (Rs b)	251.6
Mcap (USD b)	5.6

24 September 2010

Buy

Previous Recommendation: Buy

Rs1,494

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	ADJ. P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	68,179	334	2.0		728.4	5.9	2.5	2.6	3.6	22.2
03/11E	72,567	8,217	48.7		29.6	5.7	18.6	16.5	3.6	23.2
03/11E*	77,259	10,379	61.6		23.8					
03/12E	82,571	10,010	59.3	21.8	24.3	4.9	19.6	19.4	3.1	19.6
03/12E*	88,512	12,231	72.6	17.8	20.2					

** Includes one-off upsides. Adj P/E for core estimate is adjusted for DCF value of FTFs & bonus debentures*

- We expect DRL's core (excluding low competition/Para IV) topline to de-grow 3.1% YoY to Rs17.8b in 2QFY11 due to 24.5% YoY de-growth in regulated market generics business (led by US and Germany). However, branded formulations business (including India) is likely to report strong growth of 21.8% YoY while PSAI business is likely to decline by 2.3% YoY.
- EBITDA is likely to decline 6% YoY; EBITDA margins are expected to contract by 50bp YoY to 14.5% partially due to appreciation of INR v/s USD.
- Adjusted PAT would decline 7% YoY to Rs2b due to lower revenue and operating margins. Including contribution from low competition products, PAT is likely to grow 12% YoY to Rs2.4b.

Traction in branded formulations and US businesses, and focus on improving profitability will be key growth drivers for DRL over the next two years. We estimate core EPS at Rs48.7 for FY11 and Rs59.3 for FY12, adjusting for the impact of proposed bonus debentures. We expect core EPS CAGR of 21% over FY08-12 (FY09 and FY10 EPS suffered due to Betapharm write-offs). Including upsides from Para-IV/low-competition opportunities, we expect EPS of Rs61.6 for FY11 and Rs72.6 for FY12. Our core estimates exclude the upsides from patent challenges/low-competition opportunities in the US (current DCF value of Rs26/share for visible opportunities). The stock trades at 29.6x FY11E and 24.3x FY12E core earnings. Maintain **Buy**.

GLOBAL QUARTERLY PERFORMANCE (US GAAP) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Gross Sales	**18,189**	**18,368**	**17,296**	**16,424**	**16,831**	**17,803**	**19,223**	**18,710**	**70,277**	**72,567**
YoY Change (%)	*21.0*	*13.7*	*-6.0*	*-17.3*	*-7.5*	*-3.1*	*11.1*	*13.9*	*1.2*	*3.3*
EBITDA	**3,767**	**2,749**	**2,860**	**2,145**	**2,727**	**2,581**	**2,883**	**3,056**	**11,521**	**11,248**
Margins (%)	*20.7*	*15.0*	*16.5*	*13.1*	*16.2*	*14.5*	*15.0*	*16.3*	*16.4*	*15.5*
Depreciation & Amortization	507	329	8,977	269	288	270	275	268	10,082	1,100
Other Income	-89	348	123	232	14	62	60	-122	614	14
Profit before Tax	**3,171**	**2,768**	**-5,994**	**2,108**	**2,453**	**2,374**	**2,668**	**2,666**	**2,052**	**10,161**
Tax	726	595	-777	441	357	356	400	411	985	1,524
Rate (%)	*22.9*	*21.5*	*13.0*	*20.9*	*14.6*	*15.0*	*15.0*	*15.4*	*48.0*	*15.0*
Reported PAT	**2,445**	**2,173**	**-5,217**	**1,667**	**2,096**	**2,018**	**2,268**	**2,256**	**1,067**	**8,636**
Minority Interest	0	0	0	0	0	0	0	0	0	0
Net Profit	**2,445**	**2,173**	**-5,217**	**1,667**	**2,096**	**2,430**	**2,770**	**2,938**	**1,067**	**10,378**
One Time & EO (Exp)/Inc	734	0	0	0	564	412	502	683	734	2,161
Adjusted PAT	**1,711**	**2,173**	**-5,217**	**1,667**	**1,532**	**2,018**	**2,268**	**2,256**	**333**	**8,216**
YoY Change (%)	*26.9*	*79.1*	*-681.6*	*-115.1*	*-10.5*	*-7.1*		*35.3*	*-104.5*	*2,369.6*
Margins (%)	*9.4*	*11.8*	*-30.2*	*10.1*	*9.1*	*11.3*	*11.8*	*12.1*	*0.5*	*11.3*

E: MOSL Estimates; Note-DRL commcenced IFRS reporting wef 2QFY09. Past financials are as per US GAAP. Estimates do not include one-off upsides.

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GlaxoSmithKline Pharmaceuticals

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	GLXO IN
	REUTERS CODE
S&P CNX: 6,018	GLAX.BO

Equity Shares (m)	84.7
52 Week Range (Rs)	2,271/1,425
1,6,12 Rel Perf (%)	-1/7/23
Mcap (Rs b)	178.8
Mcap (USD b)	4.0

24 September 2010

Buy

Previous Recommendation: Buy

Rs2,111

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/08A	16,604	4,484	52.9	12.2	39.9	11.6	29.1	44.0	9.8	28.1
12/09A	18,708	5,049	59.6	12.6	35.4	10.2	28.7	43.0	8.6	24.5
12/10E	20,953	5,763	68.0	14.2	31.0	9.3	29.9	44.1	7.6	21.6
12/11E	23,886	6,628	78.2	15.0	27.0	8.4	31.3	46.3	6.6	18.4

- We expect GSK Pharma's 3QCY10 topline to grow 10.5% YoY to Rs5.65b, led by double-digit growth in Priority Products (60-70% of sales). DPCO products (~27% of sales) are likely to record single-digit revenue growth.
- EBITDA is likely to grow 9.6% YoY to Rs2.1b due to higher staff costs; EBITDA margins are likely to contract 30bp YoY to 36.6%.
- We expect PAT to grow 11.3% YoY, led by topline growth and higher other income.

We believe GSK Pharma is one of the best plays on IPR regime in India, with plans to launch nine patented/low-competition products during CY08-10, of which seven have already been launched. The parent is fully committed to the listed entity, which is evident from the fact that it is proposing to launch most of the patented products through the listed entity. We expect GSK to report topline growth of 13-14% per annum for the next two years. We believe that the growth trajectory will improve further post CY13 - it is likely to outperform the average industry growth of 12-13%. Given the high profitability of operations, we expect sustainable double-digit earnings growth and RoE of ~30%. Growth would be funded by miniscule capex (Rs400m/year). GSK deserves premium valuations due to strong parentage (giving access to large product pipeline), brand-building ability and likely positioning in post patent era. We expect GSK to record CY10 EPS of Rs68 (up 14.2%) and CY11 EPS of Rs78.2 (up 15%). The stock is currently valued at 31x CY10E and 27x CY11E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**4,572**	**4,574**	**5,118**	**4,444**	**5,411**	**4,979**	**5,657**	**4,905**	**18,708**	**20,953**
YoY Change (%)	*8.5*	*9.9*	*11.8*	*21.9*	*18.4*	*8.9*	*10.5*	*10.4*	*12.7*	*12.0*
Total Expenditure	2,926	2,945	3,230	3,060	3,410	3,163	3,588	3,431	12,162	13,591
EBITDA	**1,645**	**1,629**	**1,888**	**1,384**	**2,001**	**1,817**	**2,070**	**1,474**	**6,546**	**7,362**
Margins (%)	*36.0*	*35.6*	*36.9*	*31.1*	*37.0*	*36.5*	*36.6*	*30.0*	*35.0*	*35.1*
Depreciation	37	40	40	48	38	41	48	56	164	182
Other Income	300	419	233	253	438	298	301	313	1,206	1,350
PBT before EO Expense	**1,908**	**2,009**	**2,081**	**1,587**	**2,402**	**2,074**	**2,323**	**1,731**	**7,585**	**8,530**
Tax	644	696	684	737	790	678	753	545	2,762	2,766
Deferred Tax	11	-4	-14	-219	0	0	0	0	-226	0
Rate (%)	*34.3*	*34.5*	*32.2*	*32.7*	*32.9*	*32.7*	*32.4*	*31.5*	*33.4*	*32.4*
Adjusted PAT	**1,253**	**1,317**	**1,411**	**1,068**	**1,612**	**1,396**	**1,570**	**1,186**	**5,049**	**5,763**
YoY Change (%)	*3.5*	*14.8*	*6.9*	*19.4*	*28.6*	*6.0*	*11.3*	*11.0*	*12.6*	*14.2*
Margins (%)	*27.4*	*28.8*	*27.6*	*24.0*	*29.8*	*28.0*	*27.7*	*24.2*	*27.0*	*27.5*
Extra-Ord Expense	-178	73	0	31	0	106	0	0	-74	106
Reported PAT	**1,432**	**1,243**	**1,411**	**1,037**	**1,612**	**1,290**	**1,570**	**1,186**	**5,123**	**5,657**

E: MOSL Estimates

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Glenmark Pharmaceuticals

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	GNP IN
	REUTERS CODE
S&P CNX: 6,018	GLEN.BO

Equity Shares (m)	269.8
52 Week Range (Rs)	304/210
1,6,12 Rel Perf (%)	-11/4/11
Mcap (Rs b)	77.4
Mcap (USD b)	1.7

24 September 2010

Neutral

Previous Recommendation: Neutral

Rs287

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	20,865	1,125	4.2	-64.3	67.7	4.5	7.0	8.0	4.7	28.9
03/10A	24,616	3,310	11.6	174.9	24.6	3.3	14.1	12.7	3.9	15.9
03/11E	29,549	4,411	15.5	33.3	18.5	2.7	15.4	13.9	3.1	11.7
03/12E	33,594	5,460	19.2	23.8	14.9	2.3	16.2	15.3	2.7	11.1

- We expect core revenue (excluding Para-IV products) to grow 17.2% YoY, primarily led by US & Europe generics and semi-regulated market formulations. During the quarter, Glenmark has undertaken "at-risk" launch of generic Tarka, which is likely to contribute revenue of ~Rs300m for the quarter. Including this, we estimate topline growth of 22% YoY.
- Core EBITDA is likely to grow 8.7% YoY to Rs1.7b due to high base and rupee appreciation; EBITDA margin would contract by 190bp to 24.6%.
- Glenmark is likely to report adjusted PAT of Rs1b, a growth of 25.9% YoY despite EBITDA margin contraction, due to sharp 40% drop in interest cost. Including the profit contribution from "at risk" launch of generic Tarka, we estimate PAT at Rs1.2b, a growth of 49% YoY.

Glenmark has differentiated itself among Indian pharmaceuticals companies through its significant success in NCE research (resulting in licensing income of US$137m till date). Glenmark has been aggressive in adding new NCEs to its pipeline. This will put pressure on its operations in the short-to-medium term, as it will have to fund the R&D expenses for these NCEs on its own. We expect core EPS of Rs15.5 for FY11 (up 33%) and Rs19.2 for FY12 (up 23.8%). The stock currently trades at 18.5x FY11E and 14.9x FY12E earnings, with 14-16% RoE. We maintain **Neutral**, with a target price of Rs307 (16x FY12E EPS).

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Revenues (Core)	**5,437**	**5,903**	**6,184**	**7,091**	**5,924**	**6,917**	**7,253**	**8,561**	**24,616**	**28,654**
YoY Change (%)	*18.0*	*5.2*	*6.4*	*51.3*	*9.0*	*17.2*	*17.3*	*20.7*	*19.3*	*16.4*
Net Revenues (incl one-offs)	**5,437**	**5,903**	**6,184**	**7,091**	**6,819**	**7,228**	**7,564**	**8,873**	**24,616**	**30,483**
EBITDA	**1,214**	**1,563**	**1,404**	**1,783**	**2,195**	**1,700**	**1,853**	**2,204**	**5,963**	**7,951**
Margins (%)	*22.3*	*26.5*	*22.7*	*25.1*	*37.1*	*24.6*	*25.5*	*25.7*	*24.2*	*27.7*
Depreciation	312	362	363	169	327	366	381	419	1,206	1,492
Interest	438	456	368	378	277	278	278	279	1,640	1,114
Other Income	76	262	312	72	260	157	173	196	722	786
PBT before EO Expense	**540**	**1,007**	**985**	**1,308**	**1,851**	**1,213**	**1,366**	**1,701**	**3,839**	**6,131**
Tax	85	198	44	202	296	194	205	225	529	920
Deferred Tax	-80	0	0	80	0	0	0	0	0	0
Rate (%)	*0.9*	*19.6*	*4.5*	*21.5*	*16.0*	*16.0*	*15.0*	*13.2*	*13.8*	*15.0*
Reported PAT (incl one-offs)	**535**	**809**	**941**	**1,026**	**1,555**	**1,206**	**1,348**	**1,663**	**3,310**	**5,772**
Adj PAT (excl one-offs)	**535**	**809**	**941**	**1,026**	**777**	**1,019**	**1,162**	**1,476**	**3,310**	**4,411**
YoY Change (%)	*-42.1*	*-14.2*	*61.2*		*45.3*	*25.9*	*23.5*	*43.8*	*194.3*	*33.3*
Margins (%)	*9.8*	*13.7*	*15.2*	*14.5*	*13.1*	*14.7*	*16.0*	*17.2*	*13.4*	*15.4*

E: MOSL Estimates; Adj PAT excludes one-off upsides. Financials for 4Q will not tally with reported nos due to re-statement of pre. quarters

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Jubilant Organosys

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	JOL IN
	REUTERS CODE
S&P CNX: 6,018	JUBO.BO

Equity Shares (m)	158.8
52 Week Range (Rs)	413/210
1,6,12 Rel Perf (%)	-11/-18/32
Mcap (Rs b)	53.9
Mcap (USD b)	1.2

24 September 2010

Neutral

Previous Recommendation: Neutral Rs339

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	35,180	2,832	19.2	-29.3	17.7	4.0	22.5	8.2	2.5	13.1
03/10A	37,813	4,215	28.6	48.8	11.9	3.2	29.5	13.6	2.2	10.7
03/11E	42,126	4,086	25.7	-9.9	13.2	2.3	21.0	11.5	1.9	9.9
03/12E	47,943	4,578	28.8	12.1	11.8	2.2	19.3	12.8	1.7	8.7

- We expect Jubilant's 2QFY11 topline to grow 12.4% YoY, led by contract manufacturing of sterile injectables and generics. However, growth would be partly tempered due to muted growth of 6% YoY in proprietary products and exclusive synthesis segment on account of falling end-product prices.
- EBITDA is likely to grow 6% YoY to Rs2b due to benign end-product prices and rising input cost; EBITDA margin would contract by 110bp YoY to 18.7%.
- We expect PAT to grow 64.4% YoY to Rs948m on a very low base impacted by MTM forex losses related to outstanding hedges and FCCBs.

We believe that the proposed de-merger of the APP business is a positive step, as it reflects the management's intention to have a focused approach for the PLSPS business. The de-merger will also lead to better RoCE, as the APP business accounted for only 2% of FY10 EBITDA but 6% of capital employed. We believe Jubilant is well positioned to exploit the expected increase in outsourcing from India. Customer inventory de-stocking for CRAMS companies is coming to an end and we expect growth to rebound as customers commence re-stocking. Over the past few years, Jubilant has made two large acquisitions in North America, which has strengthened its presence in the sterile segment but has also resulted in a highly leveraged balance sheet. We also believe that some of the past acquisitions (like Draxis) have been made at expensive valuations, resulting in extended payback periods. High debt, large FCCB redemption (US$202m in May-2011 including YTM) and low RoCE (11-13%) remain an overhang. The stock is valued at 13.2x FY11E EPS and 11.8x FY12E EPS. Maintain **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**8,964**	**9,331**	**9,615**	**9,903**	**9,815**	**10,485**	**10,864**	**10,961**	**37,813**	**42,126**
YoY Change (%)	*8.4*	*-0.8*	*5.7*	*17.7*	*9.5*	*12.4*	*13.0*	*10.7*	*7.5*	*11.4*
Total Expenditure	7,342	7,480	7,364	7,740	8,249	8,521	8,633	8,618	29,926	34,021
EBITDA	**1,622**	**1,851**	**2,251**	**2,163**	**1,567**	**1,964**	**2,231**	**2,343**	**7,887**	**8,105**
Margins (%)	*18.1*	*19.8*	*23.4*	*21.8*	*16.0*	*18.7*	*20.5*	*21.4*	*20.9*	*19.2*
Depreciation	308	308	313	318	496	517	538	559	1,247	2,108
Interest	407	363	390	345	198	269	342	413	1,505	1,222
Other Income	562	-362	-280	125	-147	44	55	93	44	44
PBT before EO Expense	**1,469**	**818**	**1,268**	**1,624**	**726**	**1,222**	**1,406**	**1,464**	**5,179**	**4,819**
Extra-Ord Expense	0	0	0	0	0	0	0	0	0	0
PBT after EO Expense	**1,469**	**818**	**1,268**	**1,624**	**726**	**1,222**	**1,406**	**1,464**	**5,179**	**4,819**
Tax	223	240	225	271	109	269	211	134	959	723
Rate (%)	*15.2*	*29.3*	*17.8*	*16.7*	*15.1*	*22.0*	*15.0*	*9.1*	*18.5*	*15.0*
PAT	**1,245**	**578**	**1,043**	**1,353**	**617**	**953**	**1,195**	**1,331**	**4,220**	**4,096**
Minority Interest	-13	1	35	-19	-11	5	8	8	5	10
Adjusted PAT	**1,258**	**577**	**1,008**	**1,372**	**627**	**948**	**1,188**	**1,322**	**4,215**	**4,086**
YoY Change (%)	*886.1*			*-61.1*	*-50.1*	*64.4*	*17.8*	*-3.6*	*79.6*	*-3.1*
Margins (%)	*14.0*	*6.2*	*10.5*	*13.8*	*6.4*	*9.0*	*10.9*	*12.1*	*11.1*	*9.7*

E: MOSL Estimates; Numbers for 4QFY09 & full-year FY09 will be different from reported nos due to re-statement.

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Lupin

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	LPC IN
	REUTERS CODE
S&P CNX: 6,018	LUPN.BO

Equity Shares (m)	444.7
52 Week Range (Rs)	408/208
1,6,12 Rel Perf (%)	-4/8/59
Mcap (Rs b)	178.2
Mcap (USD b)	3.9

24 September 2010

Buy

Previous Recommendation: Buy

Rs401

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	37,759	5,015	11.4	50.5	35.2	11.6	37.1	25.6	5.0	29.2
03/10A	47,405	6,816	15.3	34.8	26.1	6.9	34.1	27.5	4.0	22.0
03/11E	55,992	8,336	18.7	22.3	21.4	5.6	29.1	25.8	3.3	17.1
03/12E	63,544	9,834	22.1	18.0	18.1	4.6	28.1	26.1	2.8	14.2

- We expect Lupin's topline for 2QFY11 to grow 22.9% YoY, driven primarily by 52% YoY growth in formulation revenues from advanced markets (excluding Japan) to Rs5.4b and 18% YoY growth in domestic formulations.
- EBITDA is likely to grow 37% YoY due to low base and better product mix. EBITDA margin would expand by 450bp YoY.
- We expect PAT to grow 22.9% YoY to Rs2b, reflecting the robust growth in topline and EBITDA margin expansion.

Lupin's underlying fundamentals are likely to improve gradually, led by an expanding US generics pipeline, niche/Para-IV opportunities in the US, strong performance from Suprax, ramp-up in Antara revenues (branded products in US) and traction in formulation revenues from its European initiative. We expect Lupin's core operations (excluding one-off upsides) to post 16% revenue CAGR over FY10-12, led by 17% CAGR for the US business and 19% CAGR for the domestic formulations business. We believe Lupin is gaining critical mass in the US, and its European revenues should gradually ramp up from FY11. It has 85 ANDAs pending approval in the US, including filings for low-competition products in the oral contraceptives segment. The stock trades at 21.4x FY11E and 18.1x FY12E EPS, with a sustained 30%+ RoE. We maintain **Buy**. Our estimates do not include one-time upsides for the company's FTF pipeline in the US.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**10,856**	**11,147**	**12,554**	**12,848**	**13,121**	**13,703**	**14,307**	**14,861**	**47,405**	**55,992**
YoY Change (%)	*25.9*	*22.7*	*30.5*	*23.1*	*20.9*	*22.9*	*14.0*	*15.7*	*25.5*	*18.1*
Total Expenditure	8,914	9,506	10,090	10,359	10,499	11,074	11,705	12,018	38,869	45,297
EBITDA	**1,942**	**1,641**	**2,464**	**2,490**	**2,622**	**2,629**	**2,602**	**2,843**	**8,536**	**10,696**
Margins (%)	*17.9*	*14.7*	*19.6*	*19.4*	*20.0*	*19.2*	*18.2*	*19.1*	*18.0*	*19.1*
Depreciation	231	242	358	408	401	405	413	434	1,239	1,653
Interest	107	91	109	78	82	94	90	95	385	361
Other Income	211	541	155	539	230	260	299	512	1,445	1,302
PBT	**1,815**	**1,848**	**2,152**	**2,542**	**2,370**	**2,390**	**2,398**	**2,825**	**8,357**	**9,983**
Tax	364	200	504	293	350	406	384	458	1,360	1,597
Rate (%)	*20.0*	*10.8*	*23.4*	*11.5*	*14.7*	*17.0*	*16.0*	*16.2*	*16.3*	*16.0*
Reported PAT	**1,451**	**1,647**	**1,648**	**2,250**	**2,020**	**1,984**	**2,014**	**2,367**	**6,997**	**8,386**
Extra-Ordinary Exp/(Inc)	0	0	0	0	0	0	0	0	0	0
Minority Interest	50	43	42	45	57	13	13	-32	180	50
Recurring PAT	**1,401**	**1,604**	**1,606**	**2,205**	**1,963**	**1,971**	**2,002**	**2,400**	**6,816**	**8,336**
YoY Change (%)	*25.0*	*38.8*	*37.9*	*40.1*	*40.1*	*22.9*	*24.7*	*8.8*	*35.9*	*22.3*
Margins (%)	*12.9*	*14.4*	*12.8*	*17.2*	*15.0*	*14.4*	*14.0*	*16.1*	*14.4*	*14.9*

E: MOSL Estimates

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Opto Circuits

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	OPTC IN
	REUTERS CODE
S&P CNX: 6,018	OPTO.BO

Equity Shares (m)	182.9
52 Week Range (Rs)	328/181
1,6,12 Rel Perf (%)	2/25/37
Mcap (Rs b)	56.3
Mcap (USD b)	1.2

24 September 2010 — **Buy**

Previous Recommendation: Buy — Rs308

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	8,185	1,582	8.7	24.4	35.6	9.6	51.7	37.4	6.6	20.9
03/10A	10,776	2,426	13.3	53.3	23.2	5.2	32.4	28.1	4.7	13.8
03/11E	13,500	3,368	18.4	38.8	16.7	4.2	27.8	27.0	3.8	12.4
03/12E	16,361	4,130	22.6	22.6	13.6	3.5	28.0	27.2	3.1	10.2

- We expect Opto's 2QFY11 revenue to grow 26.4% YoY to Rs3.2b, led by strong 53% YoY growth in the invasive segment on a low base and new product launches. The non-invasive segment is likely to grow 18% YoY to Rs2.4b.
- EBITDA would grow 11% YoY to Rs1b due to high base and increasing marketing spend and other expenses. EBITDA margin would contract 430bp.
- We expect net profit to grow 19.8% YoY to Rs827m despite large contraction in operating margins due to 50% YoY reduction in interest cost.

Opto has delivered strong revenue and earnings growth over the last few years. Also, it has consistently maintained its high return ratios. Further, despite rapid growth, the company remains a marginal player in the global medical devices industry, which gives Opto the opportunity to sustain its high revenue growth rate for the next couple of years. We believe that Opto is likely to see strong growth in both its businesses on the back of large market opportunity, expanding distribution network and geographical spread, new product launches and low base. Strong earnings growth and improving cash flows, will favorably impact valuations. We expect revenue CAGR of 23% over FY10-12, led by both non-invasive and invasive business segments. We estimate FY11 EPS at Rs18.4 (up 38.8%) and FY12 EPS at Rs22.6 (up 22.6%), leading to EPS CAGR of 30% over FY10-12. The stock trades at 16.7x FY11E and 13.6x FY12E earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Revenues	**2,304**	**2,557**	**2,570**	**3,345**	**2,920**	**3,233**	**3,452**	**3,895**	**10,776**	**13,500**
YoY Change (%)	*29.9*	*17.8*	*21.8*	*56.9*	*26.7*	*26.4*	*34.3*	*16.4*	*31.6*	*25.3*
Total Expenditure	1,533	1,650	1,689	2,235	1,949	2,226	2,413	2,752	7,107	9,339
EBITDA	**770**	**908**	**881**	**1,109**	**971**	**1,007**	**1,040**	**1,143**	**3,669**	**4,161**
Margins (%)	*33.4*	*35.5*	*34.3*	*33.2*	*33.2*	*31.2*	*30.1*	*29.3*	*34.0*	*30.8*
Depreciation	44	69	65	99	91	97	105	112	278	405
Interest	135	104	72	71	52	51	47	46	382	196
Other Income	4	3	-61	-23	94	2	2	2	-76	100
PBT before EO Income	**596**	**737**	**683**	**917**	**922**	**861**	**889**	**987**	**2,933**	**3,659**
EO Exp/(Inc)	0	0	0	0	-4	0	0	0	0	-4
PBT after EO Income	**596**	**737**	**683**	**917**	**926**	**861**	**889**	**988**	**2,933**	**3,663**
Tax	3	47	25	253	92	34	53	109	328	289
Rate (%)	*0.5*	*6.4*	*3.7*	*27.6*	*10.0*	*4.0*	*6.0*	*11.1*	*11.2*	*7.9*
Minority Int/Adj on Consol	0	0	-1	0	3	0	0	-3	1	3
Reported PAT	**593**	**690**	**658**	**665**	**831**	**827**	**836**	**881**	**2,603**	**3,371**
Adj PAT	**593**	**690**	**659**	**664**	**828**	**827**	**836**	**880**	**2,603**	**3,368**
YoY Change (%)	*30.7*	*21.5*	*25.1*	*14.7*	*39.7*	*19.8*	*26.9*	*32.5*	*22.7*	*29.4*
Margins (%)	*25.7*	*27.0*	*25.6*	*19.9*	*28.3*	*25.6*	*24.2*	*22.6*	*24.2*	*24.9*

E: MOSL Estimates

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Piramal Healthcare

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	PIHC IN
	REUTERS CODE
S&P CNX: 6,018	NICH.BO

Equity Shares (m)	209.0
52 Week Range (Rs)	600/331
1,6,12 Rel Perf (%)	-11/5/21
Mcap (Rs b)	107.8
Mcap (USD b)	2.4

24 September 2010

Neutral

Previous Recommendation: Neutral

Rs516

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	32,811	3,580	17.1	-1.7	30.1	8.2	29.7	21.0	3.7	18.1
03/10A	36,245	4,886	23.4	36.5	22.1	6.4	32.5	21.2	3.3	17.7
03/11E	27,300	2,246	10.7	-54.0	48.0	6.2	13.1	10.0	4.4	32.1
03/12E	43,970	6,045	28.9	169.1	17.8	5.0	31.0	25.2	2.7	12.1

- We expect PIHC's topline for 2QFY11 to decline 14.1% YoY to Rs8.6b, primarily due to sell-off of domestic formulations business to Abbott with effect from 9 September 2010. The domestic formulations business is likely to report 23% YoY decline to Rs4b while CRAMS business is likely to report a decline of 11% YoY. However, Minrad is likely to report strong growth of 21% YoY.
- EBITDA is likely to decline 14% YoY to Rs1.5b; EBITDA margin would contract by 50bp YoY, reflecting unfavorable revenue mix due to lower domestic formulation revenues.
- PAT would decline 17% YoY to Rs883m, reflecting the decline in topline and contraction of operating margins due to adverse product mix.

PIHC will be a key beneficiary of increased outsourcing from India, given the company's strong MNC ties and its improving profitability in the CRAMS business. We note that it is imperative for PIHC to improve EBITDA margins for its GCC business to improve profitability in future. We expect PIHC's stock price to quote at a discount to its fair value (refer table below) in the short-term due to: (1) Payment of dividend distribution tax on a one-time dividend (to be announced), and (2) Uncertainty on deployment of surplus funds - we expect more clarity on this in the near-term. Our fair value estimate for PIHC stands at Rs582/share. Management has, in the past, indicated that part of the cash flow from Abbott deal may be utilized for exploring new emerging opportunities. This raises uncertainties on cash deployment, since as of now we are unclear on the nature of these opportunities as well as the potential success in such ventures.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**8,215**	**10,000**	**9,077**	**9,418**	**8,424**	**8,594**	**5,046**	**5,235**	**36,711**	**27,300**
YoY Change (%)	*16.0*	*12.5*	*9.6*	*10.7*	*2.5*	*-14.1*	*-44.4*	*-44.4*	*11.9*	*-25.6*
Total Expenditure	6,658	8,226	7,303	7,255	7,134	7,118	4,578	4,690	29,443	23,520
EBITDA	**1,557**	**1,774**	**1,774**	**2,163**	**1,290**	**1,476**	**468**	**545**	**7,268**	**3,780**
Margins (%)	*19.0*	*17.7*	*19.5*	*23.0*	*15.3*	*17.2*	*9.3*	*10.4*	*19.8*	*13.8*
Depreciation	385	375	434	233	381	310	420	447	1,427	1,557
Interest	254	254	217	192	145	196	0	0	916	341
Other Income	45	15	33	515	89	0	350	372	608	811
PBT before EO Expense	**963**	**1,160**	**1,157**	**2,253**	**853**	**971**	**398**	**471**	**5,533**	**2,693**
Extra-Ord Expense	0	4	0	66	19	0	0	0	69	19
PBT after EO Expense	**963**	**1,157**	**1,157**	**2,187**	**834**	**971**	**398**	**472**	**5,464**	**2,674**
Tax	113	94	-204	336	27	87	160	170	338	444
Deferred Tax	0	0	0	-158	0	0	0	0	-158	0
Rate (%)	*11.7*	*8.1*	*-17.7*	*8.1*	*3.2*	*9.0*	*40.2*	*36.0*	*3.3*	*16.6*
PAT	**851**	**1,063**	**1,361**	**2,009**	**807**	**883**	**238**	**302**	**5,283**	**2,230**
Less: Minority Interest	0	0	-1	0	0	0	0	0	-2	0
Reported PAT	**851**	**1,063**	**1,362**	**2,009**	**807**	**883**	**238**	**301**	**5,285**	**2,230**
Adj PAT	**851**	**1,066**	**1,362**	**2,069**	**826**	**883**	**238**	**301**	**5,352**	**2,246**
YoY Change (%)	*18.7*	*30.6*	*127.5*	*92.1*	*-2.9*	*-17.1*	*-82.5*	*-85.4*	*49.5*	*-58.0*

E: MOSL Estimates; Quarterly numbers don't add up to full year numbers due to restatement

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Ranbaxy Laboratories

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	RBXY IN
	REUTERS CODE
S&P CNX: 6,018	RANB.BO

Equity Shares (m)	420.4
52 Week Range (Rs)	576/362
1,6,12 Rel Perf (%)	6/7/25
Mcap (Rs b)	239.8
Mcap (USD b)	5.3

24 September 2010

Neutral

Previous Recommendation: Neutral

Rs570

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/09A	74,688	1,517	3.6	-50.9	133.1	4.7	3.5	8.1	3.5	45.1
12/10E	87,520	14,508	34.5	856.5	13.9	3.4	24.2	19.1	2.8	13.3
12/11E	83,429	4,862	11.6	-66.5	41.5	3.0	7.3	8.0	2.9	25.3
12/12E	92,580	6,838	16.3	40.7	29.5	2.7	9.3	10.3	2.6	19.7

** All valuation ratios adjusted for Rs123/sh DCF value of FTFs*

- Ranbaxy's 3QCY10 topline is likely to remain flat YoY at Rs18.8b. We anticipate 33.3% YoY growth in the US generics business to US$81m on a low base. The domestic formulations business would grow 15.3% YoY. However, overall growth would be tempered due to 13% YoY decline in branded formulations markets like Asia Pacific and Middle East.
- We estimate EBITDA margin at 9.8%, reflecting the positive impact of the company's ongoing restructuring and cost cutting measures over the past few quarters, but tempered by increased manpower cost and appreciating rupee.
- Adjusted PAT is likely to more than double to Rs1.13b on a very low base impacted by ongoing US-FDA related issues.

Given their potential recurrence every year for the next 2-3 years, Ranbaxy's Para-IV upsides are attracting P/E based valuations. We believe that these are one-off upsides and continue to value them on DCF basis. Our current DCF value of all potential Para-IV upsides is Rs90/share. We expect core EPS of Rs11.6 for CY11 (assuming some normalization of the core US business) and Rs16.3 for CY12 (assuming full recovery in the US). Our estimates exclude MTM forex gains and one-off upsides from Para-IV opportunities. The stock is currently valued at 41.5x CY11E core EPS and 29.5x CY12E core EPS. We believe that current valuations are discounting the best-case scenario for both the core business as well as for the Para-IV upsides. Maintain **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E DECEMBER	CY09				CY10				CY09	CY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Income	**14,926**	**18,958**	**18,858**	**21,946**	**26,993**	**21,505**	**18,793**	**20,230**	**74,688**	**87,520**
YoY Change (%)	*-12.1*	*-1.7*	*1.8*	*13.9*	*80.8*	*13.4*	*-0.3*	*-7.8*	*0.8*	*17.2*
EBITDA	**-822**	**1,215**	**2,427**	**3,022**	**9,839**	**4,168**	**1,842**	**2,367**	**5,842**	**18,217**
Margins (%)	*-5.5*	*6.4*	*12.9*	*13.8*	*36.5*	*19.4*	*9.8*	*11.7*	*7.8*	*20.8*
Depreciation	639	644	654	739	1,005	695	736	765	2,676	3,202
Interest	246	197	121	146	248	111	112	91	710	562
Other Income	-816	2,308	-51	2,988	1,697	114	749	317	4,429	2,877
PBT before EO Expense	**-2,523**	**2,682**	**1,601**	**5,124**	**10,283**	**3,477**	**1,743**	**1,827**	**6,884**	**17,330**
Extra-Ord Expense	9,188	-8,137	0	-4,265	-3,872	159	-800	200	-3,214	-4,313
PBT after EO Expense	**-11,711**	**10,819**	**1,601**	**9,389**	**14,155**	**3,318**	**2,543**	**1,627**	**10,098**	**21,643**
Tax	-4,101	3,888	435	6,769	4,524	-2	381	231	6,991	5,134
Rate (%)	*35.0*	*35.9*	*27.2*	*72.1*	*32.0*	*-0.1*	*15.0*	*14.2*	*69.2*	*23.7*
Reported PAT	**-7,610**	**6,931**	**1,166**	**2,620**	**9,631**	**3,320**	**2,161**	**1,396**	**3,107**	**16,509**
Minority Interest	0	38	35	68	26	63	45	47	142	180
Reported PAT after Minority	**-7,610**	**6,893**	**1,131**	**2,552**	**9,606**	**3,257**	**2,116**	**1,350**	**2,965**	**16,329**
Adj PAT	**-385**	**200**	**523**	**-1,545**	**533**	**1,516**	**1,137**	**1,604**	**-1,207**	**4,790**
YoY Change (%)	*-137.8*	*-85.6*	*235.6*	*-390.0*	*-238.7*	*658.4*	*117.5*	*-203.8*	*-139.0*	*-497.0*
Margins (%)	*-2.6*	*1.1*	*2.8*	*-7.0*	*2.0*	*7.0*	*6.1*	*7.9*	*-1.6*	*5.5*
Adj PAT incl one-offs	**-385**	**200**	**523**	**1,178**	**6,822**	**3,414**	**1,137**	**3,134**	**1,517**	**14,508**

E: MOSL Estimates

Nimish Desai (NimishDesai@MotilalOswal.com) / Amit Shah (Amit.Shah@MotilalOswal.com)

Sun Pharmaceuticals Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	SUNP IN
	REUTERS CODE
S&P CNX: 6,018	SUN.BO

Equity Shares (m)	207.1
52 Week Range (Rs)	1,985/1,187
1,6,12 Rel Perf (%)	-2/-4/37
Mcap (Rs b)	397.8
Mcap (USD b)	8.8

24 September 2010

Buy

Previous Recommendation: Buy

Rs1,921

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A*	41,028	13,511	65.2	-25.7	29.4	5.1	12.8	18.7	8.8	26.6
03/10A	34,344	9,501	45.9							
03/11E	44,836	12,798	61.8	34.7	31.1	4.4	15.2	19.0	7.8	20.6
03/11E*	50,063	16,435	79.3	21.6						
03/12E	49,187	15,469	74.7	20.9	25.7	3.9	16.0	17.3	6.9	19.9

** Includes Para-IV upsides*

- Sun Pharma's 2QFY11 topline is likely to decline 17% YoY to Rs9.8b, primarily due to lower revenues from exclusivity/ low competition products. Excluding the revenues from Low competition products, we expect topline to grow 10% YoY. Domestic formulations business is likely to grow 17% YoY while formulation exports (other than to US) are likely to report a decline of 19% YoY.
- Core EBITDA (ex-Para IV/low competition products) would grow 27% YoY to Rs3.4b on account of better product mix, with higher share of domestic formulations; core EBITDA margin would expand 500bp to 34.4%.
- Adjusted PAT is likely to grow by 23%YoY to Rs2.95b, primarily due to strong margin expansion. Including the contribution from low competition products, reported PAT is likely to decline 28% YoY to Rs3.3b.

An expanding generics portfolio and a change in product mix in favor of high-margin exports are likely to bring in long-term benefits for Sun Pharma. Key drivers for the future include: (1) a ramp-up in the US business and resolution of cGMP issues, (2) monetization of the Para-IV pipeline in the US, and (3) launch of controlled substances in the US. We estimate core EPS at Rs61.8 (up 34.7%) for FY11 and Rs74.7 (up 20.9%) for FY12. Including Para-IV upsides, we estimate FY11 EPS at Rs79.3. The stock is valued at 34.7x FY11E and 20.9x FY12E earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Revenues	**7,876**	**11,852**	**10,209**	**11,092**	**13,997**	**9,790**	**10,247**	**10,802**	**41,028**	**44,836**
YoY Change (%)	*-23.1*	*0.6*	*11.2*	*4.3*	*77.7*	*-17.4*	*0.4*	*-2.6*	*-1.9*	*9.3*
EBITDA	**1,684**	**4,833**	**3,684**	**3,432**	**6,160**	**3,364**	**3,493**	**3,952**	**13,633**	**16,968**
Margins (%)	*21.4*	*40.8*	*36.1*	*30.9*	*44.0*	*34.4*	*34.1*	*36.6*	*33.2*	*37.8*
Depreciation	376	379	359	419	402	413	430	441	1,533	1,686
Net Other Income	190	613	325	921	116	298	331	246	2,049	991
PBT	**1,499**	**5,067**	**3,650**	**3,933**	**5,873**	**3,249**	**3,394**	**3,757**	**14,149**	**16,273**
Tax	31	400	261	843	97	357	373	417	679	1,245
Rate (%)	*2.1*	*7.9*	*7.1*	*21.4*	*1.7*	*11.0*	*11.0*	*11.1*	*4.8*	*7.7*
Profit after Tax	**1,468**	**4,668**	**3,389**	**3,090**	**5,776**	**2,891**	**3,021**	**3,340**	**13,471**	**15,028**
Share of Minority Partner	-156	145	0	-28	133	-61	-61	-62	-40	-51
Reported PAT	**1,624**	**4,523**	**3,390**	**3,119**	**5,643**	**3,257**	**3,567**	**3,968**	**13,511**	**16,435**
One-off Upsides	638	2,128	814	821	2,280	305	485	566	4,401	3,636
Adj Net Profit	**986**	**2,395**	**2,575**	**2,298**	**3,363**	**2,952**	**3,081**	**3,402**	**9,110**	**12,798**
YoY Change (%)	*-70.2*	*-19.9*	*-26.3*	*-26.5*	*241.2*	*23.2*	*19.6*	*48.0*	*-29.5*	*40.5*
Margins (%)	*12.5*	*20.2*	*25.2*	*20.7*	*24.0*	*30.2*	*30.1*	*31.5*	*22.2*	*28.5*

E: MOSL Estimates; Reported PAT includes one-off upsides

Nimish Desai (NimishDesai@MotilalOswal.com) / Amit Shah (Amit.Shah@MotilalOswal.com)

Real Estate

BSE Sensex: 20,045 | S&P CNX: 6,018 | 24 September 2010

COMPANY NAME

Anant Raj Industries

DLF

HDIL

Mahindra Lifespaces

Phoenix Mills

Unitech

Steady strengthening of RE sector continues

The real estate market continued to gain momentum in 2QFY11. While residential sales are healthy across key markets, sharp price increases in Mumbai and NCR have moderated demand growth. The impact of a heavy monsoon on construction activity could have an adverse affect on revenue booking in 2QFY11, as most companies follow a percentage of completion method of revenue booking. Nonetheless, there has been some recovery in leasing activity in the commercial offices and retail verticals. During 2QFY11, we expect our RE universe to post revenue growth of ~29% YoY , EBITDA growth of ~8% YoY and net profit to remain flat YoY.

Increasing momentum in commercial/retail vertical to improve outlook

Since October 2009, signs of recovery have been visible in the commercial and retail verticals, with rentals in the commercial vertical stabilizing and leasing picking up in key cities. In 1QFY11, leasing activity picked up across markets such as the NCR, Bangalore, Chennai and Mumbai, particularly in the office segment. Industry experts expect the commercial and retail verticals to gain further momentum in 2HFY11. This should be a key positive for players like DLF, Phoenix and Anant Raj that have significant presence in these segments.

Valuation discount offers attractive entry point

The RE stock index has under-performed the benchmark indices by ~32% since October 2009. We continue to value RE stocks on premium/discount to NAV basis. Key RE stocks are available at significant discount to NAV. While the average discount to NAV for our universe of RE stocks is ~25%, large cap companies such as DLF, Unitech and HDIL are available at 5%, 11% and 25% discount to NAV, respectively. Though limited, the history of trading data on RE stocks indicates periods of high discount to NAV as good entry points for investors looking for long term gains. Our top picks in the RE sector are **Unitech** and **DLF** among large cap stocks and **Anant Raj** among mid-cap stocks.

EXPECTED QUARTERLY PERFORMANCE SUMMARY (RS MILLION)

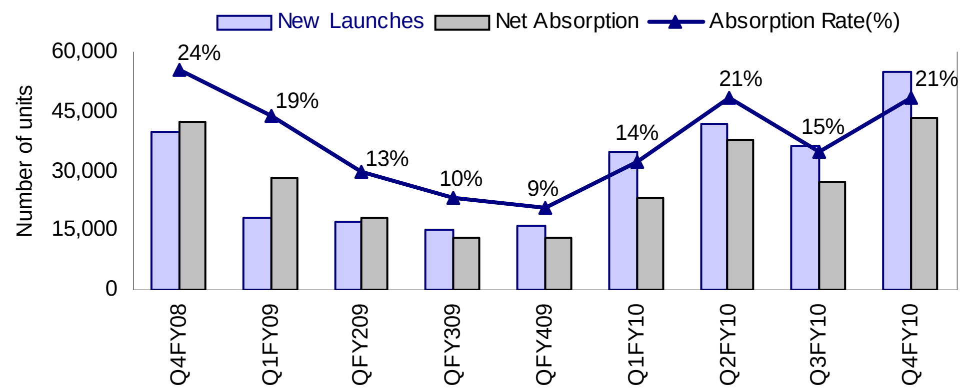
	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
	24.09.10		SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ
Real Estate											
Anant Raj Inds	138	Buy	938	7.7	-9.3	523	-34.6	-8.2	518	-27.3	13.1
DLF	366	Buy	21,684	23.8	6.9	10,732	17.4	9.6	4,534	3.1	10.3
HDIL	266	Buy	4,138	17.0	-8.2	1,949	8.5	-27.1	1,535	3.3	-34.5
Mahindra Lifespace	450	Buy	783	23.2	15.2	235	59.4	44.4	217	7.2	50.0
Phoenix Mills	241	Buy	412	56.0	1.8	290	59.4	-1.2	163	-7.0	-10.7
Unitech	85	Buy	8,054	58.1	-2.8	2,481	-16.7	-15.6	1,653	-7.0	-8.2
Sector Aggregate			**36,008**	**29.0**	**2.3**	**16,209**	**7.8**	**-1.4**	**8,621**	**-1.5**	**-4.6**

Siddharth Bothra (SBothra@MotilalOswal.com)/Sandipan Pal (Sandipan.Pal@MotilalOswal.com)

RE recovery now encompasses all verticals

While the recovery in the RE sector started with secular demand in the mid-income/ affordable housing segment, recovery in the premium housing segment has been much quicker than anticipated. The sharp recovery in the residential vertical implies that consumers are fast regaining confidence to make big ticket purchases. With most of the micro-markets witnessing steady decline in inventory levels and improved buyer sentiment, the fundamental outlook for the residential vertical remains strong.

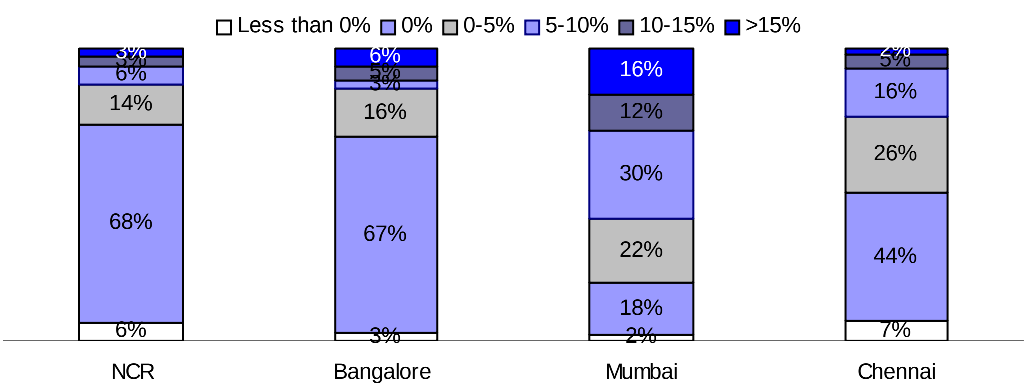
PAN INDIA DEMAND SUPPLY IN RESIDENTIAL VERTICAL



Source: Company/MOSL

However, significant price appreciation in some specific micro-markets of Mumbai and Delhi has resulted in stagnancy in demand growth in the last couple of quarters. Concern over oversupply and affordability issues have impacted sales momentum in the central Mumbai market, where the capital values of some projects have already crossed their previous peaks.

INCREASE IN CAPITAL VALUES FOR EXISTING STOCKS (16% OF MUMBAI'S EXISTING STOCKS WITNESSED >15% PRICE APPRECIATION)



Source: Company/MOSL

City-wise trends and outlook on RE prices (highlights from our conference call with RE agents in August 2010)

Mumbai: volumes remain weak; investors account for two-third of demand in key Central Mumbai projects; outlook range-bound

- Outlook on the residential vertical in the Mumbai RE market is range-bound to cautious. Multiple price increases by developers since June 2009 have impacted RE demand, leading to weak volumes.
- While supply pressure is already apparent in the Central Mumbai market due to the host of recent launches, the potential supply pipeline from upcoming projects at Century Mills, Madhusudan Mills, DLF NTC Mills, Jupiter Mills, Bombay Dyeing, etc is likely to exert further pressure.
- Almost two-third of the sales in key Central Mumbai projects is to investors, which could exert pressure on these projects, going forward. Probability of near-term price correction appears low, as key developers have comfortable liquidity and access to easy institutional funding.
- Despite the supply pressures and affordability issues, a few key micro-markets and specific projects continue to witness steady and strong demand, due to uniqueness of product or some other distinctive factor.

Bangalore: sales volume momentum remains strong; prices up 12-13%; outlook positive

- RE sales in Bangalore continue to be robust, as prices remain affordable. With limited options in the CBD, projects in new growth corridors such as Yelahanka, Sadashivnagar, RT Nagar are attracting buyers. Recently launched villa projects by few key developers have also witnessed strong response.
- High inventory levels in Bangalore and availability of abundant developable land bank, unlike Mumbai or NCR, has kept RE prices in check.
- However, the luxury segment has witnessed marginal price increase, due to cost push.
- While large pan India players like DLF and Unitech are yet to make mark in Bangalore, Mumbai-based Raheja has managed to make a mark in the Bangalore market.

Chennai: strong momentum of new launches and sales maintained; prices up ~10%; outlook positive

- Chennai continued to witness robust momentum of new launches, with ~40 projects launched in the last six months. Sales volumes have also been encouraging at most of these recent launches.
- Since developers have shifted their focus from speculative development and started targeting end-users instead of investors, demand growth has primarily been driven by the affordable housing segment, where end-users account for ~60% of recent sales.
- Among the non-local developers that have recently forayed into Chennai, DLF and Hiranandani have achieved good response. The Mantri Group and Puravankara (high end projects) are yet to make a mark. However, Puravankara's affordable category projects, launched under the *Provident* brand, have witnessed strong response.

Commercial/Retail vertical: volumes recovering but rentals remain under pressure

- Most RE agents mentioned that the commercial vertical is witnessing increase in enquiries and de-freezing of transactions. However, though the volumes are recovering, rentals continue to be under pressure.
- Commercial offices in Chennai have also witnessed an increase in leasing transactions, with rentals in the CBD area at Rs60-65/sf/month and vacancy rate at 7-8% (down from 15-20%). IT projects in the suburban area are doing well. In the Retail vertical, the recently operational malls are seeing pick-up in leasing momentum.
- The occupancy level for newly-launched office spaces in Bangalore stood at 15-20%. While the prevailing rentals for commercial projects in the CBD are Rs40-50/sf/month (for warm cell) and Rs60-70/sf/month (for fit-outs), transactions are happening at the suburban locations at ~Rs30/sf/month (warm cell) and Rs45-40/sf/month (fit-outs).

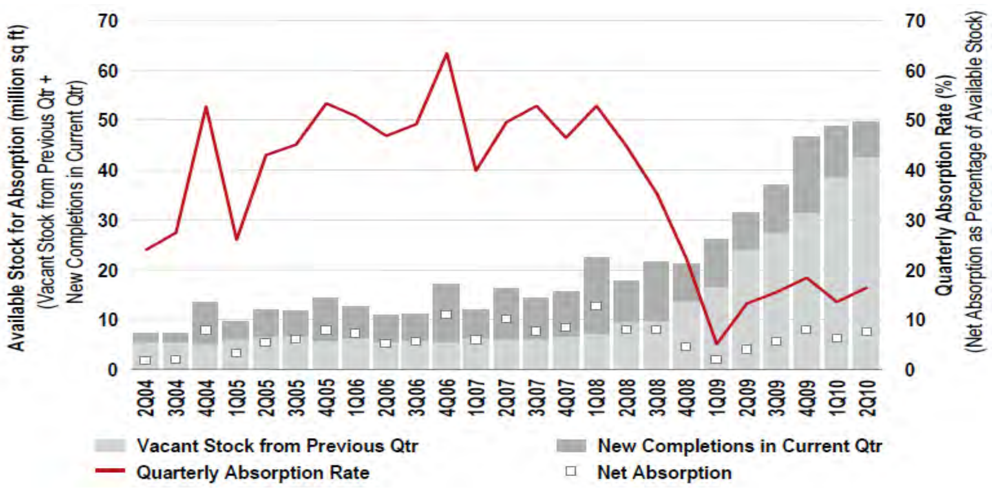
Increasing momentum in commercial/retail vertical to improve outlook

Since October 2009, signs of recovery have been visible in the commercial and retail verticals, with rentals in the commercial vertical stabilizing and leasing picking up in key cities. In 1QFY11, leasing activity picked up across markets such as the NCR, Bangalore, Chennai and Mumbai, particularly in the office segment. Industry experts expect the commercial and retail verticals to gain further momentum in 2HFY11. This should be a key positive for players like DLF, Phoenix and Anant Raj that have significant presence in these segments.

Signs of revival in commercial market are already visible

Absorption rate strengthened to 16% in 1QFY11 on account of strong absorption in key micro-markets. Almost 7.3msf of office space was absorbed in 1QFY11 compared to ~6.3msf in 4QFY10. Among the key cities, Mumbai led with ~2.8msf absorption.

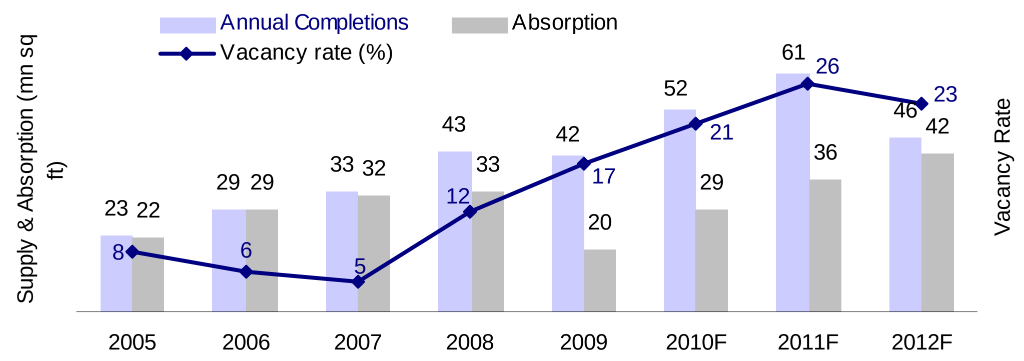
STEADY IMPROVEMENT IN ABSORPTION RATE IS VISIBLE IN COMMERCIAL VERTICAL



Source: Jones Lang LaSalle Meghraj (JLLM)

Signs of revival in the commercial market are already visible in the rental assets of key RE players. DLF has guided commercial office leases of 3-4msf in FY11 v/s 0.7msf in FY10. It has already leased/sold ~1.5msf in 1QFY11. Several other key commercial players such as Ishaan, UCP, etc have reported sharp pick-up in commercial leasing. Industry experts expect the commercial vertical to gain further momentum in 2HFY11. Vacancy levels are likely to drop from ~24% currently to ~20% in CY11 due to the sharp supply curtailment. While the IT sector has led transaction volumes, with steady hiring momentum, there has been substantial contribution from sectors like Telecom, Banking and Pharmaceuticals as well.

PAN INDIAN ABSORPTION TREND IN COMMERCIAL MARKET

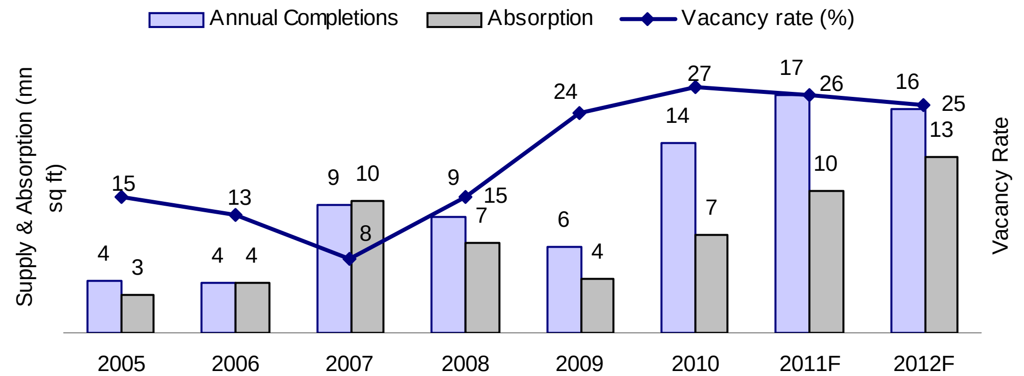


Source: Jones Lang LaSalle Meghraj (JLLM)

Retail vertical to benefit from supply curtailment

The sharp recovery in the residential vertical implies that consumers are fast regaining confidence to make big ticket purchases. This bodes well for RE verticals such as retail, which is highly dependent on consumer spending and consumer confidence. In 1QFY11, key retail players witnessed significant improvement in lease transactions. While Phoenix Mills has seen encouraging response from several reputed domestic and overseas brands for its recently operational Palladium Mall (Mumbai) and key Market City projects, Anantraj Industries has guided ~50% pre-leasing for its Kirti Nagar Mall in Delhi. According to JLLM, retail supply of ~12.6msf is likely to be delivered in CY09, of which Delhi and Mumbai would account for ~70% or ~8.9msf. As several developers have altered their retail development plans to residential or mixed-use development, the concern over demand-supply mismatch is likely to get mitigated faster than expected. We expect the vacancy rate to decline to 22% across key cities in CY11.

PAN INDIAN ABSORPTION TREND IN RETAIL VERTICAL

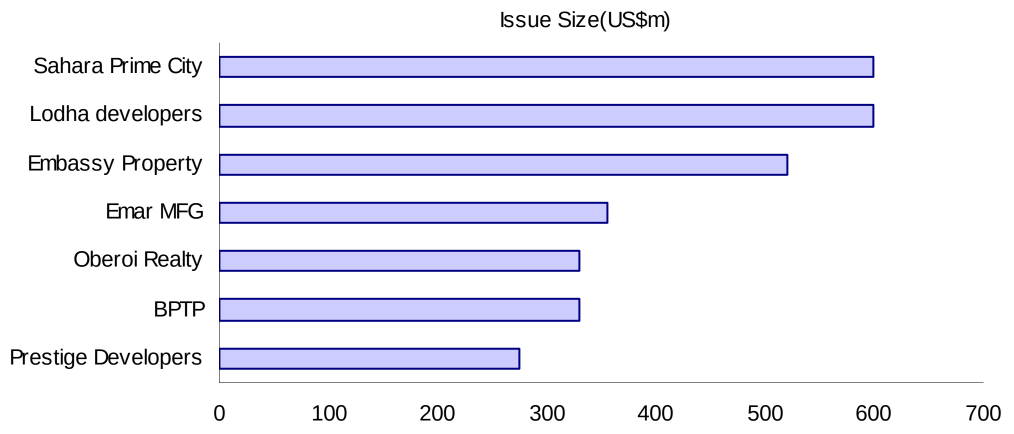


Source: Jones Lang LaSalle Meghraj (JLLM)

Large pipeline of realty IPOs could result in muted stock performance

Improved sector outlook has brought back fresh interest in IPOs. At least 12 developers have held off their IPOs despite final approval on account of poor investor response. A large pipeline of ~US$6b fund raising activities are likely from realty players like Emaar MGF, Lodha, Oberoi, Prestige, Embassy, Sahara, etc. Such fund raising coupled with the potential dilution from existing players to bring down promoters' stake below 75% for regulatory compliance could put pressure on stock performance.

REAL ESTATE IPO PIPELINE

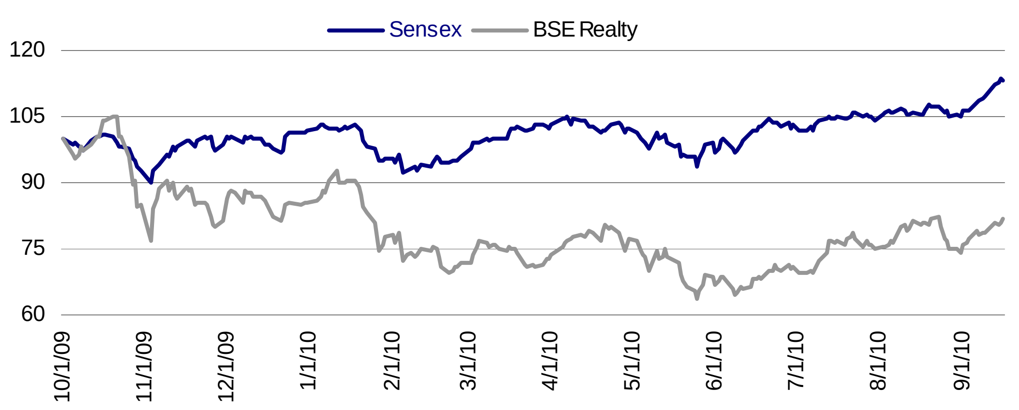


Source: Company/MOSL

Valuation discount offers attractive entry point

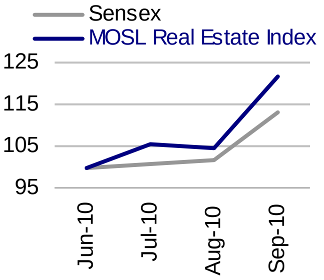
The RE stock index has under-performed the benchmark indices by ~32% since October 2009. We continue to value RE stocks on premium/discount to NAV basis. Key RE stocks are available at significant discount to NAV. While the average discount to NAV for our universe of RE stocks is ~25%, large cap companies such as DLF, Unitech and HDIL are available at 5%, 11% and 25% discount to NAV, respectively. Though limited, the history of trading data on RE stocks indicates periods of high discount to NAV as good entry points for investors looking for long term gains. Our top picks in the RE sector are Unitech and DLF among large cap stocks and Anant Raj among mid-cap stocks.

REALTY INDEX HAS UNDERPERFORMED THE SENSEX BY ~32% SINCE OCTOBER 2009

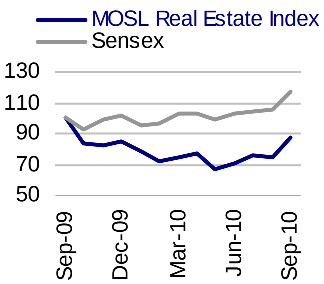


Source: Company/MOSL

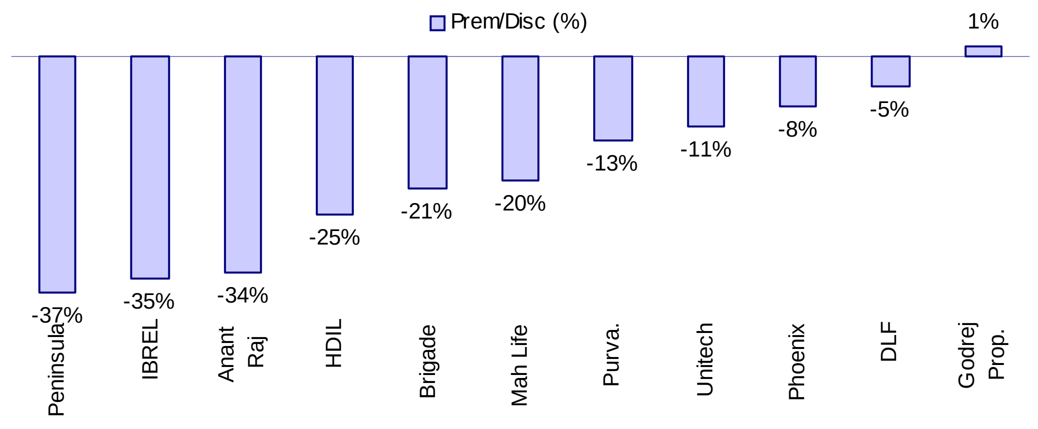
RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



NAV DISCOUNT/ PREMIUM FOR KEY RE STOCKS



Source: Company/MOSL

COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Real Estate														
Anant Raj Inds	138	Buy	8.1	7.9	14.6	17.1	17.6	9.4	14.4	13.7	8.3	6.6	6.1	10.3
Brigade Enterpr.	149	Buy	4.2	12.0	17.9	35.3	12.4	8.3	51.4	9.0	5.7	4.6	12.1	16.2
DLF	366	Buy	10.2	12.4	15.8	35.9	29.4	23.1	23.8	17.4	14.4	5.7	7.2	8.9
HDIL	266	Buy	15.8	16.9	20.8	16.8	15.8	12.8	18.0	13.8	10.2	8.1	7.9	9.2
Indiabulls Real Estate	174	Buy	-0.6	7.7	16.7	-280.5	22.6	10.4	-68.1	29.0	9.3	-0.2	2.0	4.1
Mahindra Lifespace	450	Buy	19.0	23.8	28.4	23.7	18.9	15.9	18.1	12.3	10.9	7.9	9.2	10.0
Peninsula Land	66	Neutral	11.6	11.9	13.2	5.7	5.5	5.0	5.1	4.0	3.7	27.1	24.0	22.9
Phoenix Mills	241	Buy	4.1	5.4	9.3	59.4	44.4	25.9	54.8	29.4	21.0	3.8	4.8	7.8
Puravankara Projects	125	Neutral	6.8	8.2	9.8	18.3	15.3	12.7	20.6	15.1	9.9	9.8	10.8	11.8
Unitech	85	Buy	2.8	3.2	4.3	30.8	26.5	19.8	24.5	20.3	13.3	6.5	7.0	8.6
Sector Aggregate						**30.4**	**24.1**	**18.0**	**23.8**	**16.8**	**12.4**	**5.7**	**6.9**	**8.8**

Anant Raj Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	ARCP IN
	REUTERS CODE
S&P CNX: 6,018	ANRA.BO

24 September 2010

Buy

Previous Recommendation: Buy

Rs138

Equity Shares (m)	294.6
52 Week Range (Rs)	164/99
1,6,12 Rel Perf (%)	-9/-14/-22
Mcap (Rs b)	40.7
Mcap (USD b)	0.9

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	2,508	2,073	7.0	-52.5	19.6	1.2	6.2	8.6	14.6	16.6
3/10A	3,111	2,383	8.1	15.0	17.1	1.1	6.6	8.1	12.0	14.4
3/11E	4,393	2,321	7.9	-2.6	17.6	1.1	6.1	7.8	7.5	13.7
3/12E	8,918	4,317	14.6	86.0	9.4	1.0	10.3	13.3	3.7	6.5

- We expect ARIL's revenue to grow 8% YoY to Rs941m, EBITDA to decline ~34% YoY to Rs525m and net profit to drop 27% YoY to Rs518m.
- The launch of its key premium residential project at Hauz Khas, which was planned in 1QFY11, has been delayed due to legal issues. The management now expects to launch in 2HFY11.
- ARIL has witnessed a pick-up in its operational activity. In 1QFY11, the company launched two key residential projects in Kapasera (~0.22msf) and Manesar (~0.25msf), which have received good response. The Kapasera project (~88 units) has been completely sold at an average realization of ~Rs5,000/sf, while ~35% of the Manesar project has been sold at an average realization of ~Rs2,300/sf. ARIL has booked ~60% of revenue from Kapasera project in 1QFY11. We expect the company to book incremental revenue from these two projects in 2QFY11.
- We expect the rental income from its leased out properties to remain flat QoQ in 2QFY11 on account of minor delay in Kirti Nagar Mall. Rental income would be boosted in 2HFY11, with this mall becoming operational and leasing activity in Manesar IT Park improving.
- ARIL has a robust business model, with multiple revenue streams and high monetization visibility. We expect revenue to increase at 70% CAGR over FY10-12 and net profit to increase at 35% CAGR over FY10-12. The stock trades at ~1x FY12E BV of Rs142/share and ~35% discount to its FY12E NAV of Rs210, which is very attractive compared to industry peers. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales - Ceramic	20	26	13	19	18	46	50	79	79	194
Rental Income	92	113	135	150	181	183	196	255	490	815
RE Sales/Investments (Net)	938	732	678	298	836	711	812	1,026	2,542	3,385
Total Sales	**1,050**	**871**	**826**	**341**	**1,034**	**941**	**1,058**	**1,360**	**3,111**	**4,393**
Change (%)	*901.7*	*-44.4*	*17.0*	*52.4*	*-1.5*	*8.0*	*28.1*	*299.1*	*16.6*	*41.2*
Total Expenditure	289	73	62	79	465	416	475	624	525	1,980
EBITDA	**760**	**799**	**764**	**262**	**569**	**525**	**583**	**736**	**2,586**	**2,413**
Change (%)	*-*	*-46.6*	*17.1*	*83.4*	*-25*	*-34.3*	*-23.7*	*180.8*	*9*	*-7*
As of % Sales	*72*	*92*	*92*	*77*	*55*	*56*	*55*	*54*	*83*	*55*
Depreciation	35	45	43	-16	36	41	49	70	107	195
Interest	0	0	0	48	15	9	11	10	49	44
Other Income	155	137	117	126	94	168	201	376	535	839
PBT	**880**	**890**	**837**	**369**	**612**	**643**	**725**	**1,033**	**2,965**	**3,014**
Tax	180	176	166	59	154	125	146	269	581	693
Effective Tax Rate (%)	*20*	*20*	*20*	*16*	*25*	*19*	*20*	*26*	*20*	*23*
Reported PAT	**700**	**714**	**671**	**309**	**459**	**518**	**580**	**764**	**2,384**	**2,321**
Change (%)	*777.9*	*-43.9*	*1.3*	*92.5*	*-35*	*-27.5*	*-13.6*	*146.9*	*6*	*-3*
Adj PAT	**689**	**713**	**671**	**297**	**458**	**518**	**580**	**764**	**2,383**	**2,321**
Change (%)	*788.3*	*-44.0*	*1.4*	*95.3*	*-34*	*-27.3*	*-13.6*	*156.9*	*7*	*-3*

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)/Sandipan Pal (Sandipan.Pal@MotilalOswal.com)

DLF

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	DLFU IN
	REUTERS CODE
S&P CNX: 6,018	DLF.BO

Equity Shares (m)	1,714.4
52 Week Range (Rs)	491/252
1,6,12 Rel Perf (%)	4/8/-33
Mcap (Rs b)	626.9
Mcap (USD b)	13.9

24 September 2010

Buy

Previous Recommendation: Buy

Rs366

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	100,448	44,696	26.3	-42.5	13.9	2.8	18.5	15.6	7.7	13.8
3/10A	74,209	17,300	10.2	-61.3	35.9	2.1	5.7	7.7	11.2	23.7
3/11E	93,465	19,788	11.7	14.4	31.4	2.2	6.8	8.3	8.5	17.4
3/12E	119,851	26,763	15.8	35.3	23.2	2.2	8.9	10.4	6.4	14.4

- We expect revenue to grow 24% YoY to Rs21.7b, EBITDA to increase 17% YoY to Rs10.7b and net profit to increase ~3% to Rs4.5b mainly on account of higher residential sales volumes.
- In 1QFY11, DLF had booked sales of 1.4msf in the residential vertical. We expect the company to book moderate incremental revenues from its residential projects in NCR, Chennai and Bangalore.
- However, the management has guided optimistic sales volume in 2HFY11 on account of a slew of new launches and increased traction on plotted development.
- Management has issued strong operational guidance for sales and leases across verticals for FY11. It hopes to achieve residential sales of ~15msf and lease 3-4msf of commercial offices in FY11. We expect DLF to moderately improve on its quarterly run rate in residential sales on QoQ basis (1.4msf in 1QFY11) and achieve ~1.5msf commercial leases (v/s ~1msf in 1QFY11).
- The management has also guided Rs3b-4b non-core asset sales in 2QFY11 (v/s Rs2.9b in 1QFY11).
- DLF is likely to repay CCPs worth Rs11b in 2QFY11 due to its promoters and partially to DE Shaw and Symphony Capital, post which we expect its net DER to peak at ~0.9x.
- DLF is well placed to benefit from the ongoing recovery in the commercial and retail verticals. Our FY12E NAV is Rs384/share. The stock currently trades at ~2.1x FY12E adjusted BV of Rs169/share and at a 6% discount to its NAV. On account of improved outlook on commercial market and quick monetization strategy through plotted development, we are revising our earnings estimate for FY11 to Rs21b from Rs19.8b. **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**16,499**	**17,509**	**20,258**	**19,944**	**20,285**	**21,684**	**24,301**	**27,195**	**74,210**	**93,465**
Change (%)	*-56.7*	*-53.2*	*48.2*	*77.7*	*22.9*	*23.8*	*20.0*	*36.4*	*-26.1*	*25.9*
Total Expenditure	9,058	8,371	11,825	9,944	10,490	10,952	12,857	13,319	39,198	47,617
EBITDA	**7,441**	**9,138**	**8,433**	**10,000**	**9,796**	**10,732**	**11,444**	**13,876**	**35,012**	**45,848**
Change (%)	*-68.3*	*-58.8*	*9.2*	*546.9*	*31.6*	*17.4*	*35.7*	*38.8*	*-37.5*	*30.9*
As % of Sales	*45.1*	*52.2*	*41.6*	*50.1*	*48.3*	*49.5*	*47.1*	*51.0*	*47.2*	*49.1*
Depreciation	734	766	800	947	1,498	1,494	1,506	1,527	3,246	6,026
Interest	2,874	2,486	2,568	3,147	3,884	3,665	3,593	3,230	11,075	14,373
Other Income	961	594	1,260	1,518	1,321	874	833	1,136	4,334	4,164
PBT	**4,794**	**6,481**	**6,325**	**7,424**	**5,734**	**6,447**	**7,177**	**10,254**	**25,024**	**29,612**
Tax	993	1,918	1,684	2,362	1,679	1,912	2,049	2,898	6,957	8,538
Effective Tax Rate (%)	*20.7*	*17.5*	*26.6*	*31.8*	*29.3*	*29.7*	*28.5*	*28.3*	*27.8*	*28.8*
Reported PAT	**3,801**	**4,563**	**4,641**	**5,062**	**4,056**	**4,534**	**5,128**	**7,357**	**18,067**	**21,075**
Change (%)	*-79.9*	*-76.4*	*(31.9)*	*198.3*	*6.7*	*-0.6*	*10.5*	*45.3*	*-60.0*	*16.6*
P/L of Associat./ Minority Int.	-159	166	-38	798	-55	0	0	0	767	0
Adj. PAT	**3,960**	**4,397**	**4,679**	**4,264**	**4,110**	**4,534**	**5,128**	**7,357**	**17,300**	**21,075**
Change (%)	*(78.8)*	*(77.3)*	*(30.2)*	*168.1*	*3.8*	*3.1*	*9.6*	*72.5*	*-61.3*	*21.8*

E: MOSL Estimates

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HDIL

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	HDIL IN
	REUTERS CODE
S&P CNX: 6,018	HDIL.BO

Equity Shares (m)	410.1
52 Week Range (Rs)	411/202
1,6,12 Rel Perf (%)	-16/-22/-38
Mcap (Rs b)	109.0
Mcap (USD b)	2.4

24 September 2010

Buy

Previous Recommendation: Buy

Rs266

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	17,284	7,871	28.6	-62.6	9.3	1.7	15.3	8.6	5.6	12.5
3/10A	15,021	5,666	15.8	-35.8	16.8	1.4	8.1	5.5	6.0	11.4
3/11E	18,239	6,922	16.9	6.9	15.8	1.2	7.9	5.9	4.0	8.0
3/12E	29,402	8,527	20.8	23.2	12.8	1.2	9.2	7.1	2.3	5.7

- We expect revenue to grow 17% YoY to Rs4.1b, EBITDA to increase 9% YoY to Rs2b and net profit to grow 3.3% YoY to Rs1.5b. EBITDA margin would decline to 47% v/s 59% in 1QFY11.
- In 1QFY11, HDIL launched its 1.2msf residential project christened Meadows in Goregaon, Mumbai. The project elicited good response, with almost ~80% of the project being sold.
- HDIL is the largest TDR player in Mumbai, with a potential inventory of ~35msf from its MIAL project. Possible ordinance from the state government to empower BMC to allow developers to purchase 0.33x of floor space index (FSI) directly from the sate government in Mumbai's suburbs would have a negative impact on HDIL's topline. Post the announcement of such a possibility, TDR prices have corrected from the peak of Rs3,300/sf to Rs2,400/sf and are likely to be range-bound in the near to medium term.
- During the quarter, the company has sold ~1.1msf TDRs and ~1.9msf FSI. We expect the TDR/FSI volume to be flat or lower in 2QFY11, due to slower construction during monsoon.
- In 2QFY11, HDIL raised US$250m (Rs11.6b) through a QIP. Following this QIP, the promoters' stake fell by 4.46% to 37.80%. The management has indicated that the lion's share of the QIP proceeds will be utilized to fund phase-II of the MIAL project.
- HDIL is well placed to benefit from the strong recovery in the Mumbai real estate market (87% of HDIL's land bank is in MMR). Due to its focus on affordable housing, HDIL has so far been relatively less impacted even in the slowing Mumbai real estate market. Post its QIP, we have revised our FY12 NAV estimate for HDIL to Rs354/share. The stock trades at 1.2x FY12E adjusted BV of Rs222.4 and at 25% discount to its FY12E NAV. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10*	FY11E
	1Q	2Q	3Q	4QE	1Q	2QE	3QE	4QE		
Sales	**2,954**	**3,537**	**4,089**	**4,341**	**4,509**	**4,138**	**4,630**	**4,962**	**15,021**	**18,239**
Change (%)	*-48.2*	*-38.0*	*30.3*	*21.3*	*52.7*	*17.0*	*13.2*	*14.3*	*-13.1*	*21.4*
Total Expenditure	1,792	1,740	2,201	2,070	1,835	2,188	2,522	2,735	7,129	9,217
EBITDA	**1,161**	**1,797**	**1,888**	**2,271**	**2,674**	**1,949**	**2,109**	**2,227**	**7,893**	**9,022**
Change (%)	*-75.1*	*-33.6*	*98.7*	*135.3*	*130.3*	*8.5*	*11.7*	*-1.9*	*1.4*	*14.3*
As % of Sales	*39.3*	*50.8*	*46.2*	*52.3*	*59.3*	*47.1*	*45.5*	*44.9*	*52.5*	*49.5*
Depreciation	9	9	12	22	19	30	25	36	724	111
Interest	169	185	190	245	215	196	200	224	462	835
Other Income	233	274	266	304	342	246	123	110	345	822
PBT	**1,217**	**1,876**	**1,952**	**2,309**	**2,782**	**1,970**	**2,006**	**2,077**	**7,052**	**8,898**
Tax	142	390	324	474	439	435	553	549	1,386	1,976
Effective Tax Rate (%)	*11.6*	*20.8*	*16.6*	*20.5*	*16*	*22*	*28*	*26*	*20*	*22*
Reported PAT	**1,075**	**1,486**	**1,628**	**1,835**	**2,343**	**1,535**	**1,453**	**1,528**	**5,666**	**6,922**
Change (%)	*-66.2*	*-53.3*	*115.1*	*196.3*	*118.0*	*3.3*	*-10.7*	*-16.7*	*-16.4*	*22.2*
Adjusted PAT	**1,075**	**1,486**	**1,628**	**1,778**	**2,343**	**1,535**	**1,453**	**1,528**	**5,666**	**6,922**
Change (%)	*-66.2*	*-53.3*	*-12.0*	*187.2*	*118.0*	*3.3*	*-10.7*	*-14.1*	*-28.0*	*22.2*

*E: MOSL Estimates; * Consolidated Results*

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Mahindra Lifespaces

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	MLIFE IN
	REUTERS CODE
S&P CNX: 6,018	MALD.BO

24 September 2010

Buy

Previous Recommendation: Buy

Rs450

Equity Shares (m)	40.8
52 Week Range (Rs)	550/312
1,6,12 Rel Perf (%)	-16/3/3
Mcap (Rs b)	18.4
Mcap (USD b)	0.4

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	3,418	641	15.4	-3.5	28.7	2.0	6.9	7.8	5.9	27.9
3/10A	4,179	785	19.0	22.7	23.4	1.9	7.9	8.9	5.1	18.1
3/11E	5,107	982	23.8	24.9	18.7	1.7	9.2	10.6	4.2	12.3
3/12E	7,362	1,168	28.4	19.0	15.7	1.6	10.0	12.5	2.9	10.9

- We expect standalone revenue to increase 23% YoY to Rs783m, EBITDA to grow 60% YoY to Rs235m and net profit to increase 7% YoY to Rs217m, led by robust sales volumes. We estimate EBITDA margin of 30% in 2QFY11.
- MLL has developed residential projects covering 4.9msf. It is currently developing 2.1msf and projects covering ~6msf are in the planning stage. In 4QFY10, MLL had launched phase-II of its residential project at Bhandup, Mahindra Splendor, at Rs6,500/sf. Its projects - Eminente at Goregaon and Spendour at Bhandup in Mumbai, Rayale in Pune and Chloris in Faridabad - are progressing as per schedule. We expect the company to recognize incremental sales from its ongoing projects.
- MLL has two key ongoing SEZ projects in Chennai and Jaipur. The Chennai SEZ is in the late monetization stage, with focus now on monetizing the residential and institutional areas, and the Jaipur SEZ is in early monetization phase, with sale of the processing area underway.
- MLL has a sound business model, a healthy balance sheet and no land outstandings. Our SOTP value for MLL is Rs560/share: (1) Chennai SEZ at Rs195/share, (2) Jaipur SEZ at Rs180/share, (3) residential vertical at Rs127/share, and (4) other rental assets at Rs60/share. Our valuations do not include: (1) a 52-acre project in Thane, (2) a 50-acre commercial plot at Chennai SEZ, (3) two planned SEZs/industrial parks - one in Chennai and the other on the Mumbai-Pune Expressway (for which an advance of ~Rs1.3b has been paid), and (4) recent MOU for 1.8msf in Pune and JDA for 1msf in Hyderabad. The stock trades at ~1.6x FY12E adjusted book value of Rs283/share and at ~17% discount to its SOTP value. **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**473**	**635**	**1,089**	**1,010**	**679**	**783**	**1,096**	**1,356**	**3,207**	**3,914**
Change (%)	*-2.0*	*109.5*	*95.7*	*223.4*	*43.7*	*23.2*	*0.6*	*34.3*	*-6.2*	*22.1*
Total Expenditure	369	488	784	713	517	548	767	908	2,398	2,741
EBITDA	**104**	**147**	**305**	**296**	**163**	**235**	**329**	**448**	**808**	**1,173**
As % of Sales	*22.0*	*23.2*	*28.0*	*29.4*	*23.9*	*30.0*	*30.0*	*33.0*	*25.2*	*30.0*
Depreciation	6	5	5	7	6	7	10	13	23	35
Interest	0	0	0	0	0	1	2	4	0	7
Other Income	43	131	66	51	49	32	45	35	290	161
PBT	**140**	**229**	**366**	**340**	**206**	**258**	**362**	**466**	**1,075**	**1,292**
Tax	36	56	86	103	61	70	98	122	281	352
Effective Tax Rate (%)	*25.8*	*24.2*	*23.5*	*30.3*	*29.6*	*27.2*	*27.2*	*26.2*	*26.2*	*27.2*
Adj. PAT	**104**	**203**	**280**	**237**	**145**	**217**	**263**	**344**	**794**	**940**
Change (%)	*6.9*	*81.3*	*147.7*	*74.6*	*39.0*	*7.2*	*-5.9*	*45.2*	*23.9*	*18.4*

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)/Sandipan Pal (Sandipan.Pal@MotilalOswal.com)

Phoenix Mills

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	PHNX IN
	REUTERS CODE
S&P CNX: 6,018	PHOE.BO

Equity Shares (m)	144.8
52 Week Range (Rs)	269/144
1,6,12 Rel Perf (%)	-13/13/17
Mcap (Rs b)	34.9
Mcap (USD b)	0.8

24 September 2010

Buy

Previous Recommendation: Buy

Rs241

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	996	768	5.3	68.1	45.4	2.3	5.1	5.1	38.6	63.8
3/10A	1,158	588	4.1	-23.4	59.4	2.2	3.8	3.4	35.3	54.8
3/11E	1,961	786	5.4	33.7	44.4	2.1	4.8	4.9	21.1	29.4
3/12E	3,235	1,348	9.3	71.5	25.9	2.0	7.8	6.5	14.1	21.0

- We expect revenue to grow 56% YoY to Rs412m, EBITDA to increase 59% YoY to Rs290m and net profit to decline by 7% YoY to Rs163m due to higher expected interest expenses.
- Palladium at High Street Phoenix (HSP) in Lower Parel, Mumbai is now fully operational and ~95% has been leased out. The last lease transactions at Palladium have been concluded at rentals of Rs280-300/sf/month (minimum guarantee). We expect marginal increase in HSP's contribution in 2QFY11, since a few small stores have begun operations.
- The company has witnessed significant lease transactions in its Market City projects. While ~60% pre-leasing happened in the Kurla and Chennai projects, the Pune and Bangalore projects witnessed more than 75% leasing.
- However, start of operations of the 400-room Shangri-La Hotel is likely to be delayed till 1QFY12.
- PML has also decided to monetize a part of its commercial projects at Market City, Kurla and Pune. The company has sold ~0.14msf commercial space at Pune at an average realization of Rs6,200/sf and 10-15% of Kurla project (out of 0.25msf planned) at an average realization of Rs8,200/sf.However, revenue from such sales is likely to get recognized in 4QFY11.
- We believe PML is a unique play on the booming domestic consumption story, without retail-specific risks. The stock trades at 1.7x FY12E adjusted book value of Rs120.1/share and at 16.7% discount to our FY12E NAV of Rs262/ share. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	CONSOL	CONSOL
Sales	**248**	**264**	**302**	**345**	**404**	**412**	**538**	**607**	**1,158**	**1,961**
Change (%)	*19.7*	*12.6*	*36.7*	*61.0*	*63.1*	*56.0*	*78.3*	*76.1*	*16.3*	*69.3*
Total Expenditure	59	82	125	147	111	122	138	182	412	553
EBITDA	**189**	**182**	**177**	**198**	**294**	**290**	**400**	**425**	**746**	**1,408**
% Change	*21.3*	*1.5*	*14.2*	*51.7*	*55.5*	*59.4*	*125.8*	*114.4*	*23.9*	*88.8*
As % of Sales	*76.2*	*68.9*	*58.7*	*57.4*	*72.6*	*70.4*	*74.3*	*70.0*	*64.4*	*71.8*
Depreciation	24	27	53	59	69	70	74	73	163	286
Interest	10	10	31	35	35	52	63	68	86	218
Other Income	53	83	47	58	44	50	46	38	240	179
PBT	**208**	**228**	**140**	**162**	**234**	**218**	**309**	**322**	**738**	**1,083**
Tax	55	53	39	4	52	55	75	78	150	260
Effective Tax Rate (%)	*26.3*	*17.5*	*19.5*	*2.8*	*22.0*	*25.1*	*24.4*	*24.3*	*20.4*	*24.0*
Reported PAT	**153**	**175**	**102**	**157**	**183**	**163**	**234**	**244**	**588**	**823**
Change (%)	*38.9*	*-54.6*	*(30.9)*	*11.8*	*19.1*	*-7.0*	*129.2*	*55.3*	*-23.4*	*40.1*
Adj. PAT	**153**	**175**	**102**	**157**	**183**	**163**	**234**	**244**	**588**	**823**
Change (%)	38.9	(54.6)	(30.9)	11.8	19.1	(7.0)	129.2	55.3	-23.4	40.1

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)/Sandipan Pal (Sandipan.Pal@MotilalOswal.com)

Unitech

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	UT IN
	REUTERS CODE
S&P CNX: 6,018	UNTE.BO

Equity Shares (m)	2,438.8
52 Week Range (Rs)	114/65
1,6,12 Rel Perf (%)	-7/4/-41
Mcap (Rs b)	208.2
Mcap (USD b)	4.6

24 September 2010

Buy

Previous Recommendation: Buy

Rs85

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	28,945	9,689	6.0	-41.7	14.3	3.5	18.7	13.2	10.3	18.7
3/10A	29,313	6,751	2.8	-53.6	30.8	2.3	6.5	6.4	9.1	24.9
3/11E	37,393	8,065	3.2	16.6	26.4	2.1	7.0	6.7	6.7	21.3
3/12E	50,971	10,757	4.3	33.4	19.8	2.0	8.6	9.4	4.7	13.6

- We expect revenue to increase 58% YoY to Rs8.1b, EBITDA to drop 16.7% YoY to Rs2.5b and net profit to decline 7% YoY to Rs1.65b. EBITDA margin is likely to contract to 31%, due to cost revision for old projects.
- The management has indicated relatively muted construction progress across the sector due to bountiful rainfall in the NCR during 2QFY11. However, it has mentioned that the fundamental responses among the buyers remain strong. During the quarter, it has launched a few residential projects in the NCR such as Unihome-3, UGCC in Noida, Harmony in Nirvana Country, Gurgaon, etc.
- We expect the incremental revenue booking from its ongoing projects to remain lower on QoQ basis due to negative impact of monsoon. We expect the company to start booking its prior period charge of Rs2b on account of cost over-run from older projects. We have modeled only ~20% of this to be accounted in 2QFY11 due slower construction pace and the remaining 80% in the next three quarters.
- In 1QFY11, Unitech constituted a committee to evaluate the potential acquisition of UCP at an offer price of GBP0.31/ share. If it manages to elicit encouraging response to the offer, it would be positive for Unitech. It would not only allow it to buy key assets at a steep discount to NAV, but also allow it to leverage on the recovery underway in the commercial offices vertical.
- The stock is attractively valued at ~8% discount to its FY12E NAV of Rs96/share. It is available at 19.8x FY12E EPS of Rs4.3 and 2x FY12E BV of Rs43.8. It has one of the most comfortable balance sheets among large cap real estate companies, with a low leverage of ~0.5x and strong earnings visibility of 37% CAGR over FY10-12. **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**5,149**	**5,095**	**7,745**	**11,325**	**8,286**	**8,054**	**9,368**	**11,686**	**29,313**	**37,393**
Change (%)	*-50.1*	*-48.2*	*58.3*	*190.2*	*60.9*	*58.1*	*21.0*	*3.2*	*1.3*	*27.6*
Total Expenditure	1,998	2,117	5,888	8,598	5,348	5,573	6,539	7,822	18,601	25,283
EBITDA	**3,151**	**2,978**	**1,857**	**2,727**	**2,938**	**2,481**	**2,829**	**3,863**	**10,712**	**12,111**
Change (%)	*-48.2*	*-51.1*	*-24.0*	*107.2*	*-6.8*	*-16.7*	*52.3*	*41.7*	*-32.8*	*13.1*
As of % Sales	*48.5*	*58.4*	*24.0*	*24.1*	*35.5*	*30.8*	*30.2*	*33.1*	*36.5*	*32.4*
Depreciation	42	114	79	106	88	125	132	175	341	519
Interest	926	603	148	323	340	340	368	368	2,000	1,417
Other Income	333	172	139	196	150	245	265	320	840	980
PBT	**2,516**	**2,432**	**1,769**	**2,494**	**2,660**	**2,261**	**2,593**	**3,641**	**9,189**	**11,154**
Tax	539	654	373	835	834	608	667	1,008	2,402	3,116
Effective Tax Rate (%)	*21.4*	*18.5*	*21.1*	*33.5*	*31.4*	*26.9*	*25.7*	*27.7*	*26.1*	*27.9*
Reported PAT	**1,578**	**1,779**	**1,395**	**2,036**	**1,826**	**1,653**	**1,926**	**2,633**	**6,788**	**8,038**
Change (%)	*-62.7*	*-50.5*	*1.1*	*-26.1*	*15.7*	*-7.1*	*38.0*	*29.3*	*-43.3*	*18.4*
Adj PAT	**1,178**	**1,777**	**1,760**	**2,011**	**1,800**	**1,653**	**1,926**	**2,633**	**6,751**	**8,012**
Change (%)	*-72.2*	*-50.5*	*29.4*	*313.3*	*52.8*	*-7.0*	*9.4*	*30.9*	*-30.3*	*18.7*

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)/Sandipan Pal (Sandipan.Pal@MotilalOswal.com)

Retailing

BSE Sensex: 20,045 | S&P CNX: 6,018 | 24 September 2010

COMPANY NAME

Pantaloon Retail

Titan Industries

We expect our Retail Universe to post 13% YoY decline in sales, 11% YoY decline in EBITDA and 8% YoY increase in PAT. The numbers are not strictly comparable due to the demerger of Value Retailing and merger of Home Retailing in Pantaloon Retail.

Response to the sale season has been encouraging

The quarter ending September 2010 marked monsoon season sale, with all major retailers cashing in on the sustained pick-up in consumption sentiment. Our interactions with the industry highlight that the response was exuberant, with most players expecting 20-30% growth YoY. Notably, the trend of up-trading was clearly evident, with strong response to premium apparel, high-end consumer durables (including furniture) and home improvement products. Industry players expect the momentum to sustain ahead of the festive season.

Gold prices remain firm; low base, cyclical up-tick boost volume growth

The steady increase in gold prices during the quarter (up 23% YoY and 4% QoQ) has had little impact on volume growth for jewelry retailers on account of low base and cyclical up-tick. We highlight the increasing trend of jewelers focusing on studded jewelry (Tanishq launched its studded range at Rs999) to popularize studded jewelry at lower price points.

Consumption upturn positive; wary of structural impediments, though

We believe that the sales momentum is likely to remain strong for major retailers through FY11 on account of low base, cyclical upturn in consumption sentiment and pent-up demand. We remain positive on the likely same-store sales (SSS) growth for the sector in general and Home Retailing and Lifestyle Retailing in particular (discretionary spend). Nevertheless, we believe Indian Retail continues to grapple with structural concerns like high rentals, low asset turns and funding constraints. We believe Pantaloon Retail will emerge stronger after group restructuring, with increased focus on its core business. We retain **Pantaloon** as the best theme play.

EXPECTED QUARTERLY PERFORMANCE SUMMARY (RS MILLION)

	CMP (RS) 24.09.10	RECO	SALES SEP.10	SALES VAR. % YOY	SALES VAR. % QOQ	EBITDA SEP.10	EBITDA VAR. % YOY	EBITDA VAR. % QOQ	NET PROFIT SEP.10	NET PROFIT VAR. % YOY	NET PROFIT VAR. % QOQ
Retailing											
Pantaloon Retail	500	Buy	10,250	-	-	1,190	-	-	283	-	-
Titan Industries	3,351	Neutral	15,138	32.0	20.8	1,468	35.8	32.0	1,029	32.5	26.5
Sector Aggregate			**25,388**	**-13.2**	**-23.0**	**2,658**	**-10.9**	**-19.4**	**1,312**	**8.0**	**-2.4**

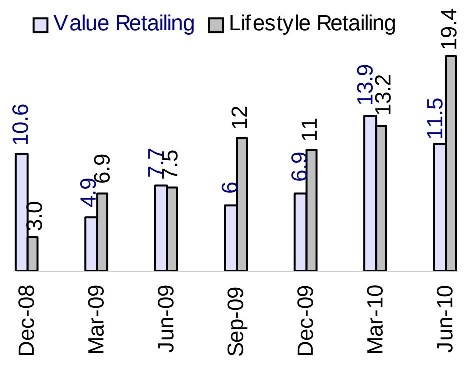
Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com)/Nikhil Kumar(Nikhil.N@MotilalOswal.com)

We expect our Retail Universe to post 13% YoY decline in sales, 11% YoY decline in EBITDA and 8% YoY increase in PAT. The numbers are not strictly comparable due to the demerger of Value Retailing and merger of Home Retailing in Pantaloon Retail. We estimate Pantaloon Retail's core retailing business sales at Rs27b and EBITDA at Rs2.3b. For Titan Industries, we expect sales growth, with 30bp margin expansion.

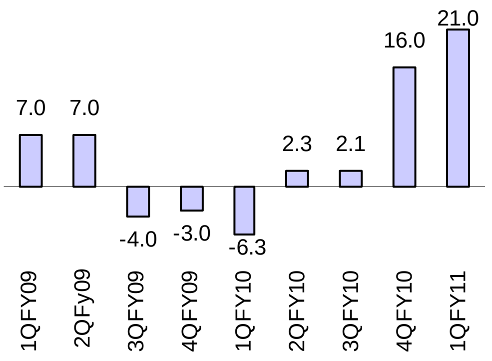
Response to the sale season has been encouraging

The quarter ending September 2010 marked monsoon season sale, with all major retailers cashing in on the sustained pick-up in consumption sentiment. Our interactions with the industry highlight that the response was exuberant, with most players expecting 20-30% growth YoY. Notably, the trend of up-trading was clearly evident, with strong response to premium apparel, high-end consumer durables (including furniture) and home improvement products. We expect double-digit growth in same-store sales (SSS) during 2QFY10. Industry players expect the momentum to sustain ahead of the festive season.

PANTALOON SSS GROWTH



SHOPPERS' STOP LTL SALES GROWTH (%)



Source: Company/MOSL

Economic stability, greater income visibility boost demand…

We highlight that the revival of the Retail sector in the last 8-12 months is linked to economic revival and overall consumption sentiment. Given the discretionary/quasi-discretionary nature of spends, the positive rub-off on retail has been resounding. We highlight that salary levels/income visibility of the employed middle class (in sectors like IT/BFSI etc) has strengthened over the past six months, resulting in sustained increase in discretionary spend.

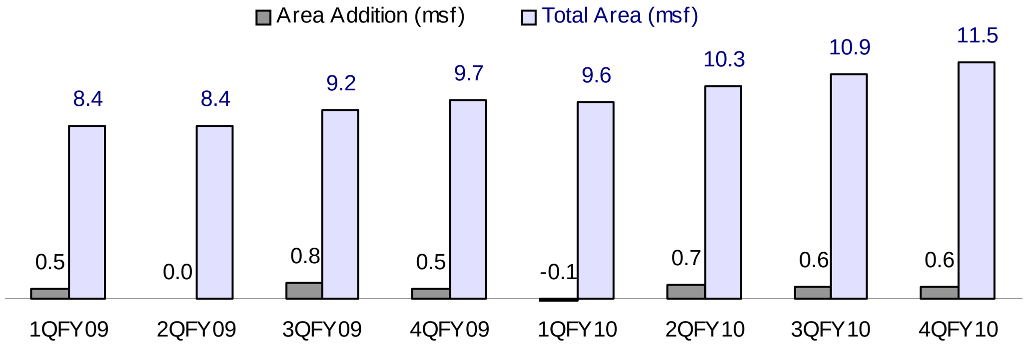
…leading to faster, bigger store openings

Strong same-store sales growth and lower lease rentals have instilled confidence of faster breakeven, resulting in faster store rollouts and bigger sized stores. Titan has plans to add 40 World of Titan and more than 50 Titan Eye+ stores. Pantaloon is likely to add more than 2m square feet of retail space in the coming year.

Shoppers' Stop is optimistic about faster store launches over the next two years, in the department store format (management guidance of 18 stores in 30 months) and hypermarts (five stores over FY10-12). Unlisted players like Lifestyle, Globus and Fab India also have aggressive store launch plans to ride the demand revival. Specialty stores like World of

Titan, Tanishq, Bata and Jubilant Foodworks (*Dominos*) continue to look at tier-II and tier-III cities, as they explore new growth avenues.

PANTALOON RETAIL'S STORE RAMP-UP TO INCH UP



** excludes Home Retailing formats* *Source: Company/MOSL*

STORE EXPANSION PLANS

STORE FORMAT/GROUP	STORES OPENING	CURRENT STORES	PERIOD
Big Bazaar	50	132	24 months
Shoppers Stop	18	30	30 months
Hypercity	5	7	12 months
Globus	6	21	12 months
Dominos	~60	~300	12 months
World of Titan	40	290	12 months
Tanishq	10	115	12 months

Source: Media Reports/Company

Gold prices remain firm; low base, cyclical up-tick boost volume growth

The steady increase in gold prices during the quarter (up 23% YoY and 4% QoQ) has had little impact on volume growth for jewelry retailers on account of low base and cyclical up-tick. Though gold prices have gone up, the volatility in gold prices is relatively lower. Lower volatility and positive consumer sentiment is preventing any postponement of purchase decisions, in turn boosting jewelry sales. Leading jewelry chains are focusing on propagating increased usage of studded jewelry, the prices of which have a lower correlation with gold prices and which yield higher margins. We note that Tanishq has launched its studded range at Rs999 to popularize studded jewelry among youngsters. Other national players are also providing increased ad support to their studded jewelry brands, which will expand the market in the coming years.

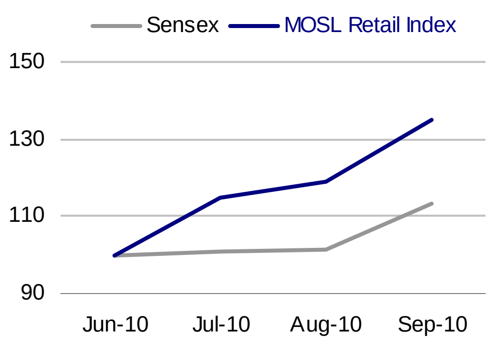
GOLD PRICES CONTINUE TO SURGE (RS/10G)

Source: Company/MOSL

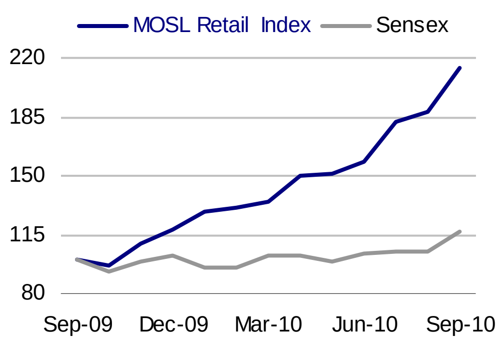
Consumption upturn positive; wary of structural impediments, though

We believe that the sales momentum is likely to remain strong for major retailers through FY11 on account of low base, cyclical upturn in consumption sentiment and pent-up demand. We remain positive on the likely same-store sales (SSS) growth for the sector in general and Home Retailing and Lifestyle Retailing in particular (discretionary spend). Nevertheless, we believe Indian Retail continues to grapple with structural concerns like high rentals, low asset turns and funding constraints. We continue to prefer **Pantaloon Retail** for its scale, first mover advantage and established formats.

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE 1 YR (%)



COMPARATIVE VALUATION

	CMP (RS) 24.09.10	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Retailing														
Pantaloon Retail	500	Buy	5.7	6.0	8.6	87.8	82.9	58.1	16.6	19.4	15.7	4.3	4.3	5.8
Titan Industries	3,351	Neutral	58.9	87.1	116.7	56.9	38.5	28.7	39.0	26.9	20.0	36.1	39.9	39.8
Sector Aggregate						**67.1**	**49.5**	**36.3**	**25.4**	**23.2**	**18.1**	**10.9**	**13.1**	**15.9**

Pantaloon Retail

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	PF IN
	REUTERS CODE
S&P CNX: 6,018	PART.BO

Equity Shares (m)	211.1
52 Week Range (Rs)	531/278
1,6,12 Rel Perf (%)	-4/10/26
Mcap (Rs b)	105.5
Mcap (USD b)	2.3

24 September 2010 — **Buy**

Previous Recommendation: Buy — Rs500

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
06/09A	63,417	1,406	7.4	-6.6	67.7	3.9	6.1	15.4	1.8	17.5
06/10E	77,911	2,035	5.7	-22.9	87.8	3.5	4.3	18.1	1.5	15.5
06/11E	44,783	1,273	6.0	5.9	82.9	3.4	4.3	14.0	2.1	18.1
06/12E	53,379	1,817	8.6	42.7	58.1	3.2	5.8	16.3	1.8	14.7

- We expect standalone sales to decline 42.3% YoY to Rs10.25b. We estimate EBITDA of Rs1.2b and adjusted PAT of Rs283m. The numbers are not strictly comparable due to the merger of the Home Retailing and demerger of the Value Retailing business.
- We expect the core retailing business to report sales of Rs27b and EBITDA of Rs2.3b.
- While the Lifestyle business would be the key driver, the Home Retailing business would continue to drag performance. We expect high double-digit sales growth in the Home Retailing business due to low base effect.
- We expect the company to have added 0.5msf in 1QFY11 across both Lifestyle and Value formats.
- Pantaloon is likely to complete its restructuring exercise (including the Financial Services business) in the current year. We believe this will unlock value for shareholders.
- The stock trades at 82.9x FY11E EPS and 58.1x FY12E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E JUNE	FY10				FY11E				FY10E	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	**17,770**	**19,128**	**20,576**	**20,436**	**10,250**	**10,800**	**11,500**	**12,233**	**77,911**	**44,783**
YoY Change (%)	*17.6*	*25.4*	*25.3*	*22.9*	*-42.3*	*-43.5*	*-44.1*	*-40.1*	*22.9*	*-42.5*
Total Exp	15,869	17,094	18,420	18,248	9,060	9,600	10,150	10,801	69,632	39,611
EBITDA	**1,901**	**2,034**	**2,156**	**2,187**	**1,190**	**1,200**	**1,350**	**1,432**	**8,279**	**5,172**
Growth %	*22.8*	*29.3*	*24.6*	*19.4*	*-37.4*	*-41.0*	*-37.4*	*-34.5*	*23.9*	*-12.6*
Margins (%)	*10.7*	*10.6*	*10.5*	*10.7*	*11.6*	*11.1*	*11.7*	*11.7*	*10.6*	*11.5*
Depreciation	433	452	465	480	330	335	340	351	1,829	1,356
Interest	869	835	859	862	465	490	510	531	3,425	1,996
Other Income	47	20	14	25	25	30	30	29	106	114
PBT	**647**	**768**	**847**	**869**	**420**	**405**	**530**	**579**	**3,131**	**1,934**
Tax	209	261	288	338	137	154	178	193	1,096	662
Rate (%)	*32.3*	*34.0*	*34.0*	*38.9*	*32.6*	*38.0*	*33.6*	*33.2*	*35.0*	*34.2*
Adjusted PAT	**438**	**507**	**559**	**531**	**283**	**251**	**352**	**387**	**2,035**	**1,273**
YoY Change (%)	*21.2*	*51.1*	*62.7*	*45.5*	*-35.4*	*-50.5*	*-37.1*	*-27.2*	*44.8*	*-37.5*
Exceptional Income	0	0	0	622	0	0	0	0	622	0
Repoorted PAT	**438**	**507**	**559**	**1,153**	**283**	**251**	**352**	**387**	**2,657**	**1,273**

E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com)/Nikhil Kumar(Nikhil.N@MotilalOswal.com)

Titan Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	TTAN IN
	REUTERS CODE
S&P CNX: 6,018	TITN.BO

Equity Shares (m)	44.4
52 Week Range (Rs)	3,370/1,214
1,6,12 Rel Perf (%)	1/74/149
Mcap (Rs b)	148.8
Mcap (USD b)	3.3

24 September 2010

Neutral

Previous Recommendation: Neutral Rs3,351

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	38,034	2,097	47.2	29.4	70.9	25.4	38.0	50.0	3.7	43.4
03/10A	46,744	2,615	58.9	24.7	56.9	19.4	36.1	53.6	3.0	36.8
03/11E	60,460	3,867	87.1	47.9	38.5	14.5	39.9	57.4	2.3	25.3
03/12E	74,927	5,181	116.7	34.0	28.7	10.8	39.8	59.7	1.9	18.9

- We expect Titan to post sales of Rs15.1b, up 32% YoY, led by strong growth in both Watches and Jewelry. We estimate 36% YoY increase in EBITDA enabled by 30bp margin expansion. PAT should increase 32.5% YoY to Rs1.03b.
- We expect the Watch division to post 20% sales growth (2.6% decline in 2QFY10). Sales growth would have been stronger, but for Diwali being in 3Q this year. Margins are likely to contract by 70bp to 19%, as premium watches sell more in Diwali season.
- The Jewelry division is likely to post strong volume growth (~20%) and flat margin on the back of low base effect. We estimate Jewelry EBIT at Rs818m, up 287% YoY.
- Titan Eye+ has started gaining traction due to successful ad campaign and growing affinity with consumers. The company plans to add more than 50 stores in the current year.
- We expect 50% sales growth in others - Eyewear and Precision Engineering due to low base effect. We estimate a small profit due to sunglass business and lower losses in Eyewear.
- We estimate PAT CAGR of 40.9% over FY10-12. We believe Titan is one of the best plays on urban consumption and the specialty retail segment. However, valuations at 28.7x FY12E EPS are expensive. **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Jewelry Volume Gr %	-15	-7	5	49	28	18	21	15	8.0	21
Gold Price chg YoY %	20	22	31	14	23	24	14	12	22	18
Net Sales	**8,828**	**11,468**	**13,336**	**13,112**	**12,528**	**15,138**	**16,803**	**15,992**	**46,744**	**60,460**
YoY Change (%)	*8.9*	*5.4*	*30.3*	*48.9*	*42.5*	*32.0*	*26.0*	*22.0*	*22.9*	*29.3*
Total Exp	8,336	10,387	12,264	11,943	11,415	13,669	15,341	14,500	42,929	54,926
EBITDA	**493**	**1,081**	**1,073**	**1,169**	**1,113**	**1,468**	**1,462**	**1,492**	**3,815**	**5,534**
Margins (%)	*5.6*	*9.4*	*8.0*	*8.9*	*7.1*	*9.7*	*8.7*	*9.3*	*8.2*	*9.2*
Depreciation	90	89	91	91	82	100	102	100	360	384
Interest	76	50	29	99	26	35	43	46	254	150
Other Income	10	32	30	47	82	20	10	10	119	122
PBT	**337**	**974**	**983**	**1,026**	**1,086**	**1,353**	**1,327**	**1,355**	**3,319**	**5,122**
Tax	111	198	199	196	274	325	318	338	704	1,255
Rate (%)	*32.9*	*20.3*	*20.3*	*19.2*	*28.0*	*24.0*	*24.0*	*24.9*	*21.2*	*24.5*
Adjusted PAT	**226**	**776**	**784**	**829**	**813**	**1,029**	**1,008**	**1,017**	**2,615**	**3,867**
YoY Change (%)	*-31.2*	*-11.0*	*86.0*	*88.2*	*259.4*	*32.5*	*28.7*	*22.7*	*-96.5*	*47.9*
Extraordinary Income	234	0	-29	-317	0	0	0	0	-112	0
Reported PAT	**460**	**776**	**754**	**512**	**813**	**1,029**	**1,008**	**1,017**	**2,503**	**3,867**

E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com)/Nikhil Kumar(Nikhil.N@MotilalOswal.com)

Telecom

BSE Sensex: 20,045 S&P CNX: 6,018 24 September 2010

COMPANY NAME

Bharti Airtel

Idea Cellular

Reliance Communication

Tulip Telecom

Seasonal weakness: We expect 2QFY11 to be a flattish quarter due to the negative impact on MOU during the monsoon season. While major operators have shown pricing discipline, new entrants like Uninor, MTS and Videocon offer significant discounts, causing some disruption in the market. We would watch out for (1) the RPM trend, (2) wireless margins, and (3) subscriber churn as key indicators of competition in the wireless market. In 2HFY11, 3G launch and MNP implementation would be the major events. Potential positive regulatory news (exit route for new entrants, more accommodating M&A rules) could drive re-rating in the sector.

No significant tariff cuts, traffic growth to moderate: We expect a blended RPM decline of 2-2.5% QoQ against ~5% QoQ decline for GSM incumbents in 1QFY11 and an average decline of 8-9% QoQ in the preceding two quarters. We expect Bharti (ex-African operations) to post revenue growth of 2% QoQ, driven by 4.5% mobile traffic growth. On a consolidated basis (including full quarter performance of Africa operations v/s 23 days in 1QFY11), we expect 25% QoQ revenue growth. For Idea and RCom we expect QoQ revenue growth of 1%.

Margin pressure from flat top-line performance, higher diesel prices : We expect EBITDA margin pressure led by (1) flat revenue, and (2) higher diesel prices. Bharti and Idea are likely to post an EBITDA margin decline of 70-100bp QoQ. For RCom we expect flat margins due to likely better margins in the non-wireless business.

Stable QoQ PAT for Bharti/RCom; decline for Idea: We expect QoQ PAT to be flat for Bharti (lower forex loss offset by higher loss from full quarter consolidation for Africa) and RCom (lower forex loss offset by a lack of tax write-backs). We expect Idea's PAT to decline 16% QoQ due to pronounced seasonality of MOU. We expect Bharti and Idea's PAT to decline 28-29% YoY and RCom's PAT to decline 64% YoY.

Subscriber additions steady but most incumbents face slowdown : Industry subscriber additions in Jul & Aug 2010 averaged 17.6m/month against 17.1m in 1QFY11. The increase was driven by Uninor, BSNL, Idea and Videocon while subscriber additions declined for Bharti, RCom and Vodafone. New entrant Uninor posted a significant ramp-up in subscriber additions driven largely by high discounting vs tariffs of competitors.

EXPECTED QUARTERLY PERFORMANCE SUMMARY (RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
	24.09.10		SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ
Telecom											
Bharti Airtel	368	Buy	153,368	47.8	25.4	53,724	24.9	21.7	16,540	-26.9	-1.6
Idea Cellular	77	Buy	36,791	23.7	0.7	8,700	7.5	-2.1	1,698	-22.9	-15.7
Reliance Comm	170	Buy	51,650	-9.4	1.1	16,548	-18.1	1.4	3,005	-63.5	0.4
Tulip Telecom	172	Buy	5,767	17.5	9.8	1,585	25.0	11.8	768	48.5	19.8
Sector Aggregate			**247,575**	**26.7**	**15.0**	**80,557**	**11.0**	**13.8**	**22,012**	**-34.5**	**-2.0**

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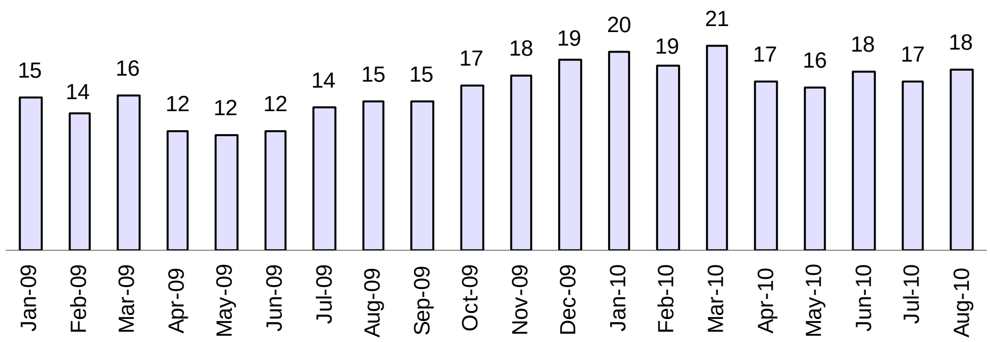
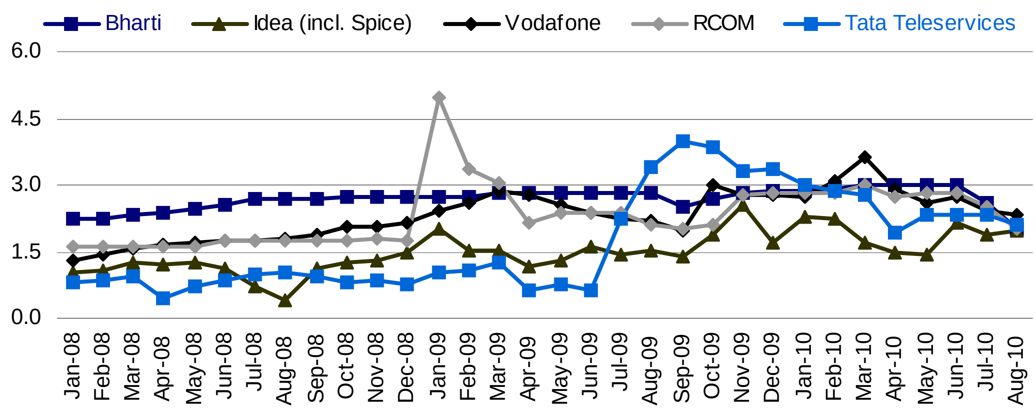
MNP, adverse 2G spectrum policy, higher leverage remain overhangs: Mobile Number Portability (MNP) implementation is expected in 3QFY11 and is likely to put pressure on post-paid RPM and subscriber retention costs. In the GSM market, post-paid subscribers constitute ~4% of total subscribers and account for 17% of revenue. Adverse TRAI recommendations will also drag (for most operators), pending the government's final policy decision. We believe TRAI recommendations are unlikely to be implemented in their current form. We estimate FY11 net debt/EBITDA of 2.8x for Bharti (including Zain), 3.3x for Idea and 4.5x for RCom. However net debt/equity will remain reasonable at 1.2x for Bharti (inclding Zain), 1x for Idea, and 0.8x for RCom. High leverage levels could also drive better pricing discipline.

Growth outlook improving; regulatory/competitive environment challenging; valuations attractive: While strong voice traffic growth, incremental 3G revenue opportunities and potential stabilization in tariffs will drive sector revenue growth, the potential increase in competitive intensity (given aggression from new entrants and MNP implementation) and adverse regulatory developments are key risks. While Bharti and Idea trade at 7.3-7.4x FY12E EV/EBITDA, RCom trades at ~10% premium likely on expectations of corporate action (tower business value-unlocking; stake sale to strategic/ financial investors).

WIRELESS SUBSCRIBER NET ADDITIONS (M)

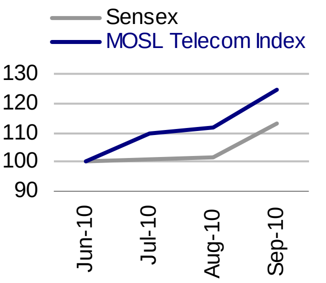


MONTHLY SUBSCRIBER ADDITIONS FOR MAJOR OPERATORS (M)

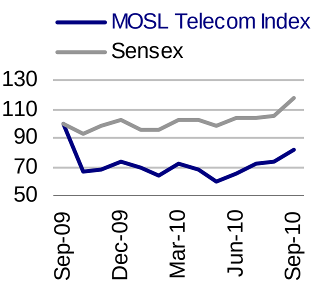


Source: Company/MOSL

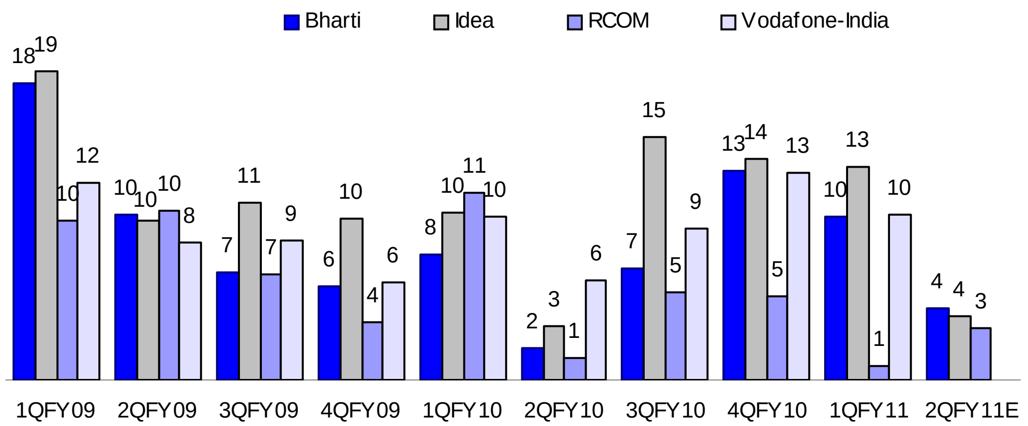
RELATIVE PERFORMANCE - 3M (%)



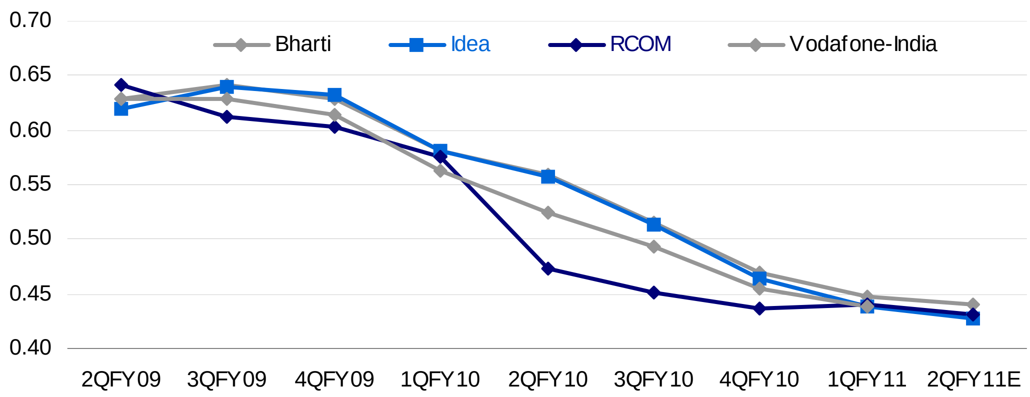
RELATIVE PERFORMANCE - 1YR (%)



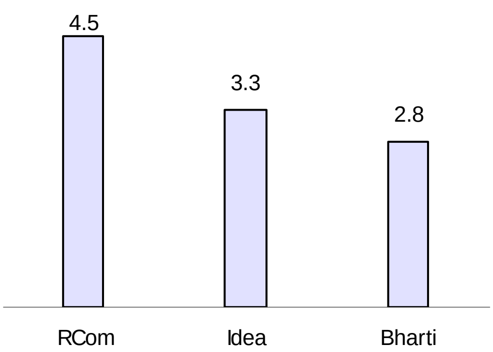
QOQ WIRELESS TRAFFIC GROWTH (%)



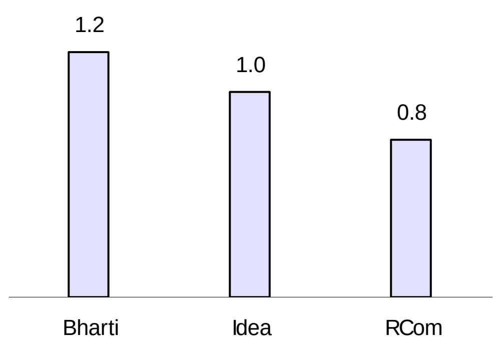
WIRELESS RPM (RS)



NET DEBT/EBITDA (FY11)



NET DEBT/EQUITY (FY11)



Source: Company/MOSL

COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Telecommunication														
Bharti Airtel	368	Buy	23.7	18.3	22.7	15.6	20.1	16.2	8.5	9.3	7.2	23.6	14.3	15.4
Idea Cellular	77	Buy	3.1	1.7	2.7	25.1	44.5	29.1	8.9	10.3	7.5	7.6	4.9	7.1
Reliance Comm	170	Buy	23.7	5.3	7.7	7.2	31.7	22.1	7.0	9.7	7.9	12.6	2.8	3.9
Tulip Telecom	172	Buy	17.0	20.2	27.6	10.1	8.5	6.2	6.3	5.0	3.6	34.6	30.9	31.6
Sector Aggregate						**13.4**	**22.7**	**17.6**	**8.1**	**9.4**	**7.3**	**16.2**	**8.8**	**10.3**

2QFY11: Summary expectations

WIRELESS KPIS (CONSOLIDATED)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11E	YOY (%)	QOQ (%)
EOP Wireless Subs (m)												
Bharti (India)	69	77	86	94	102	111	119	128	137	145	31	6.0
Idea*	27	30	34	39	43	47	52	64	69	74	59	7.6
RCOM	51	56	61	73	80	86	94	102	111	118	37	6.8
Avg. Wireless Subs (m)												
Bharti (India)	66	73	82	90	98	106	115	123	132	141	32	6.5
Idea*	26	29	32	37	41	45	50	58	66	72	60	7.8
RCOM	48	53	59	67	76	83	90	98	107	115	38	7.4
ARPU (Rs/Month)												
Bharti (India)	350	331	324	305	278	252	230	220	215	207	-18	-3.8
Idea*	278	261	266	254	232	209	200	185	182	170	-19	-6.5
RCOM	282	271	251	224	210	161	149	139	130	122	-24	-5.9
MOU per Sub												
Bharti (India)	534	526	505	485	478	450	446	468	480	471	5	-1.9
Idea*	431	421	416	402	399	375	389	398	415	398	6	-4.0
RCOM	424	423	410	372	365	340	330	318	295	283	-17	-4.0
Revenue per Min. (Rs)												
Bharti (India)	0.66	0.63	0.64	0.63	0.58	0.56	0.52	0.47	0.45	0.44	-22	-1.9
Idea*	0.65	0.62	0.64	0.63	0.58	0.56	0.51	0.46	0.44	0.43	-23	-2.6
RCOM	0.67	0.64	0.61	0.60	0.58	0.47	0.45	0.44	0.44	0.43	-9	-2.0
Wireless Traffic (b min)												
Bharti (India)	105	116	124	131	141	144	153	173	190	199	38	4.4
Idea*	33	36	40	44	49	50	58	68	82.3	85	70	3.9
RCOM	61	68	72	75	83	85	89	94	94	97	15	3.2

** Idea 4QFY10 numbers include one month consolidation with Spice; full merger for 1QFY11*

QUARTERLY FINANCIALS (CONSOLIDATED)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11E	YOY (%)	QOQ (%)
Revenue (Rs b)												
Bharti	84.8	90.2	96.3	98.2	104	98	98	107	122	153	56	25
Idea*	21.8	23.0	27.3	29.4	30	30	32	33	37	37	24	1
RCOM	53.2	56.4	58.5	61.2	61	57	53	51	51	52	-9	1
EBITDA (Rs b)												
Bharti	35.2	37.0	39.5	40.0	43	41	39	42	44	54	30	22
Idea*	7.2	6.0	6.9	8.1	9	8	8	9	9	9	7	-2
RCOM	22.5	23.0	23.5	23.8	25	20	18	16	16	17	-18	1
EBITDA Margin (%)												
Bharti	41.5	41.0	41.0	40.7	41.3	42.1	40.0	38.9	36.1	35.0	-704bp	-106bp
Idea*	32.9	26.2	25.5	27.6	28.9	27.2	25.8	27.6	24.3	23.6	-357bp	-67bp
RCOM	42.3	40.8	40.2	38.9	39.9	35.4	34.1	31.5	31.9	32.0	-338bp	10bp
PAT (Rs b)												
Bharti	20.3	20.5	21.6	22.4	24.7	23.2	22.1	20.4	16.8	16.5	-29	-2
Idea*	2.6	1.4	2.2	2.7	3.0	2.2	1.7	2.7	2.0	1.7	-23	-16
RCOM	16.4	16.8	14.8	13.6	17.3	8.2	11.9	11.4	3.0	3.0	-64	0
EPS (Rs)												
Bharti	5.3	5.4	5.7	5.9	6.5	6.1	5.8	5.4	4.4	4.4	-29	-2
Idea	1.0	0.5	0.7	0.9	1.0	0.7	0.5	0.9	0.6	0.5	-28	-16
RCOM	7.9	8.1	7.2	6.6	8.4	4.0	5.8	5.5	1.5	1.5	-64	0
Capex (Rs b)												
Bharti	40.7	31.9	38.8	28.9	27.1	22.8	16.9	15.1	18.4	35.9	58	96
Idea	19.8	12.0	13.5	13.7	9.1	9.6	9.0	5.3	3.6	14.3	49	296
RCOM	69.7	47.7	43.6	33.1	9.8	9.8	13.3	8.8	7.9	13.1	33	65

** Idea 4QFY10 numbers include one month consolidation with Spice; full merger for 1QFY11*

Source: Company/MOSL

Bharti Airtel

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	BHARTI IN
	REUTERS CODE
S&P CNX: 6,018	BRTI.BO

Equity Shares (m)	3,793.9
52 Week Range (Rs)	467/230
1,6,12 Rel Perf (%)	5/3/-32
Mcap (Rs b)	1,396.1
Mcap (USD b)	30.9

24 September 2010

Buy

Previous Recommendation: Buy Rs368

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	369,615	84,699	22.3	26.4	16.5	4.4	31.4	26.6	4.0	9.7
3/10A	418,472	89,767	23.7	5.9	15.6	3.1	23.6	18.9	3.4	8.5
3/11E	599,197	69,381	18.3	-22.7	20.1	2.7	14.3	10.0	3.3	9.3
3/12E	713,968	85,942	22.7	23.9	16.2	2.3	15.4	8.9	2.7	7.2

- We expect consolidated revenue to increase by 48% YoY and 25% QoQ to Rs153.4b, driven by 2% QoQ (11% YoY) growth in India and South Asia revenues and full quarter consolidation of the Africa business. We expect India and South Asia revenue of ~Rs115b and the revenue from the Africa business to be ~Rs38.4b (US$824m).
- Consolidated EBITDA margin is expected to decline by ~700bp YoY and ~100bp QoQ to 35%. The decline would be driven mainly by lower margins in the Africa business (~27%). India and SA EBITDA margin expected at ~37.8%.
- India and SA mobile revenue is expected to grow ~8% YoY and 1.4% QoQ to Rs89.5b, driven by 4.4% QoQ traffic growth, partially offset by ~2% RPM decline. We expect mobile ARPU to decline 18% YoY and 4% QoQ to Rs207. EBITDA margin for the mobile business is expected to be ~36%, and QoQ flat.
- We model flat revenue and EBITDA on a QoQ run-rate basis for the Africa business. We estimate an ARPU of US$7.35 and subscriber base of 38.4m.
- Consolidated net profit is expected to decline ~27% YoY and 1.6% QoQ to Rs16.5b. PAT for India and SA is expected to decline ~9% YoY but grow ~9% QoQ to Rs20.7b. We have not factored-in a forex loss v/s a Rs1.4b loss in 1QFY11 in the India and SA segment.
- Bharti trades at an EV/EBITDA (proportionate) of 9.3x FY11E and 7.2x FY12E. Maintain **Buy**.

QUARTERLY PERFORMANCE - (EX-ZAIN, CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue	**104,143**	**103,785**	**103,053**	**107,491**	**122,308**	**153,368**	**158,392**	**165,130**	**418,472**	**599,197**
YoY Growth (%)	*22.8*	*15.1*	*7.0*	*9.4*	*17.4*	*47.8*	*53.7*	*53.6*	*13.2*	*43.2*
QoQ Growth (%)	*6.0*	*-0.3*	*-0.7*	*4.3*	*13.8*	*25.4*	*3.3*	*4.3*		
Total Operating Expenses	61,169	60,778	62,231	66,662	78,168	99,643	101,805	104,998	250,839	384,615
EBITDA	**42,974**	**43,007**	**40,823**	**40,829**	**44,140**	**53,724**	**56,587**	**60,131**	**167,633**	**214,583**
YoY Growth (%)	*22.0*	*16.3*	*3.5*	*2.0*	*2.7*	*24.9*	*38.6*	*47.3*	*10.5*	*28.0*
QoQ Growth (%)	*7.4*	*0.1*	*-5.1*	*0.0*	*8.1*	*21.7*	*5.3*	*6.3*		
Margin (%)	*41.3*	*41.4*	*39.6*	*38.0*	*36.1*	*35.0*	*35.7*	*36.4*	*40.1*	*35.8*
Net Finance Costs	-1,284	2,084	-266	-356	4,198	7,467	7,437	8,871	178	27,973
Non-Operating Income	-21	181	128	179	244	263	268	274	467	1,049
Depreciation & Amortization	14,753	15,246	15,883	16,953	19,467	25,913	26,782	29,636	62,832	101,798
Profit before Tax	**29,484**	**25,858**	**25,334**	**24,412**	**20,719**	**20,607**	**22,637**	**21,899**	**105,091**	**85,861**
Income Tax Expense / (Income)	4,305	2,753	2,980	3,415	3,750	4,246	4,508	4,334	13,453	16,837
Profit after Tax	**25,179**	**23,105**	**22,354**	**20,997**	**16,969**	**16,361**	**18,129**	**17,565**	**91,638**	**69,024**
P/(L) to Minority Shareholders	-433	-477	-407	-553	-153	179	159	172	-1,870	358
Reported Net Profit / (Loss)	**24,746**	**22,628**	**21,947**	**20,444**	**16,816**	**16,540**	**18,288**	**17,737**	**89,768**	**69,381**
YoY Growth (%)	*22.2*	*10.6*	*1.6*	*-8.7*	*-32.0*	*-26.9*	*-16.7*	*-13.2*	*6.0*	*-22.7*
QoQ Growth (%)	*10.5*	*-8.6*	*-3.0*	*-6.8*	*-17.7*	*-1.6*	*10.6*	*-3.0*		
India - Mobile ARPU (Rs/month)	**278**	**252**	**230**	**220**	**215**	**207**	**205**	**204**	**243**	**208**
QoQ Growth (%)	*-8.8*	*-9.4*	*-8.6*	*-4.6*	*-2.0*	*-4.0*	*-1.1*	*0.0*		
India - Mobile MOU/sub/month	**478**	**450**	**446**	**468**	**480**	**471**	**485**	**490**	**459**	**484**
QoQ Growth (%)	*-1.5*	*-5.9*	*-0.9*	*4.9*	*2.7*	*-2.0*	*3.0*	*1.0*		

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)/Nirav Poddar (Nirav.Poddar@MotilalOswal.com)

Idea Cellular

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	IDEA IN
	REUTERS CODE
S&P CNX: 6,018	IDEA.BO

Equity Shares (m)	3,299.8
52 Week Range (Rs)	80/47
1,6,12 Rel Perf (%)	4/2/-19
Mcap (Rs b)	255.2
Mcap (USD b)	5.6

24 September 2010

Buy

Previous Recommendation: Buy

Rs77

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	101,485	9,008	3.0	-23.7	25.6	1.7	10.4	7.4	2.7	9.8
3/10A	124,476	9,540	3.1	2.0	25.1	2.1	7.6	5.5	2.4	8.9
3/11E	151,888	5,738	1.7	-43.5	44.5	2.1	4.9	4.5	2.5	10.3
3/12E	179,756	8,763	2.7	52.7	29.1	2.0	7.1	6.0	2.0	7.5

- Idea is expected to post 0.7% consolidated QoQ revenue growth to Rs36.8b. We expect Idea to post mobile traffic growth of ~4% and RPM decline of ~3%.
- ARPU is expected to decline by 6.5% QoQ to Rs170, impacted by RPM and MOU declines.
- Consolidated EBITDA margins are expected to decline by ~70bp QoQ to 23.6% mainly due to flat revenue and an increase in network costs and spectrum charges. We expect margins in established circles of 29% (down 100bp QoQ). EBITDA loss in new circles is estimated to remain at ~Rs1.4b.
- Net profit is expected to decline ~23% YoY and 16% QoQ to Rs1.7b.
- Idea trades at an EV/EBITDA of 10.3x FY11E and 7.5x FY12E. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Gross Revenue	**29,759**	**29,739**	**31,501**	**33,477**	**36,537**	**36,791**	**38,412**	**40,147**	**124,476**	**151,888**
YoY Growth (%)	*36.6*	*29.1*	*15.3*	*14.0*	*22.8*	*23.7*	*21.9*	*19.9*	*22.7*	*22.0*
QoQ Growth (%)	*1.4*	*-0.1*	*5.9*	*6.3*	*9.1*	*0.7*	*4.4*	*4.5*		
EBITDA	**8,599**	**8,095**	**8,141**	**9,235**	**8,884**	**8,700**	**9,338**	**9,849**	**34,070**	**36,771**
YoY Growth (%)	*19.4*	*33.4*	*16.7*	*13.9*	*3.3*	*7.5*	*14.7*	*6.7*	*20.2*	*7.9*
QoQ Growth (%)	*6.1*	*-5.9*	*0.6*	*13.4*	*-3.8*	*-2.1*	*7.3*	*5.5*		
Margin (%)	*28.9*	*27.2*	*25.8*	*27.6*	*24.3*	*23.6*	*24.3*	*24.5*	*27.4*	*24.2*
Net Finance Costs	869	740	938	621	1,142	1,262	1,368	2,855	3,168	6,600
Depreciation & Amortization	4,555	4,796	5,130	5,667	5,656	5,669	5,963	6,919	20,148	24,207
Profit before Tax	**3,175**	**2,559**	**2,073**	**2,947**	**2,086**	**1,769**	**2,006**	**75**	**10,754**	**5,964**
Income Tax Expense / (Income)	204	357	372	281	72	71	80	3	1,214	226
Net Profit / (Loss)	**2,971**	**2,202**	**1,701**	**2,666**	**2,014**	**1,698**	**1,926**	**72**	**9,540**	**5,738**
YoY Growth (%)	*12.9*	*52.8*	*-22.5*	*-2.8*	*-32.2*	*-22.9*	*13.2*	*-97.3*	*5.9*	*-39.9*
QoQ Growth (%)	*8.3*	*-25.9*	*-22.8*	*56.7*	*-24.5*	*-15.7*	*13.4*	*-96.3*		
Margin (%)	*10.0*	*7.4*	*5.4*	*8.0*	*5.5*	*4.6*	*5.0*	*0.2*	*7.7*	*3.8*
Mobile ARPU (Rs/month)	**232**	**209**	**200**	**185**	**182**	**170**	**166**	**161**	**207**	**163**
QoQ Growth (%)	*-8.7*	*-9.9*	*-4.3*	*-7.5*	*-1.6*	*-6.5*	*-2.7*	*-2.5*		
Mobile MOU/sub/month	**399**	**375**	**389**	**398**	**415**	**398**	**414**	**418**	**388**	**395**
QoQ Growth (%)	*-0.7*	*-6.0*	*3.7*	*2.3*	*-0.4*	*-4.0*	*4.0*	*1.0*		

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)/Nirav Poddar (Nirav.Poddar@MotilalOswal.com)

Reliance Communication

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	RCOM IN
	REUTERS CODE
S&P CNX: 6,018	RLCM.BO

Equity Shares (m)	2,063.0
52 Week Range (Rs)	320/132
1,6,12 Rel Perf (%)	-7/-14/-64
Mcap (Rs b)	349.9
Mcap (USD b)	7.7

24 September 2010

Buy

Previous Recommendation: Buy

Rs170

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	229,410	61,552	29.8	11.7	5.7	0.9	18.7	8.9	2.5	6.2
3/10A	222,457	48,812	23.7	-20.7	7.2	0.9	12.6	5.8	2.5	7.0
3/11E	209,335	11,022	5.3	-77.4	31.7	0.9	2.8	2.8	3.1	9.7
3/12E	239,028	15,823	7.7	43.6	22.1	0.8	3.9	3.2	2.6	7.9

- We expect revenue to decline 9% YoY but grow 1% QoQ to Rs51.7b.
- We expect wireless ARPU to decline by ~6% QoQ to Rs122. We expect RPM to decline by 2% QoQ to Rs0.43 and MOU to decline by 4% QoQ to 283.
- EBITDA margin is expected to remain stable QoQ at 32% led by margin recovery in global and broadband segments.
- Pre-minority interest net profit is expected to decline by 64% YoY but stay flat QoQ at Rs3b.
- RCom trades at an EV/EBITDA of 9.7x FY11E and 7.9x FY12E. **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Gross Revenue	**61,452**	**57,026**	**53,052**	**50,928**	**51,092**	**51,650**	**52,807**	**53,734**	**222,457**	**209,335**
YoY Growth (%)	*15.5*	*1.0*	*-9.3*	*-16.8*	*-16.9*	*-9.4*	*-0.5*	*5.5*	*-3.0*	*-5.9*
QoQ Growth (%)	*0.4*	*-7.2*	*-7.0*	*-4.0*	*0.3*	*1.1*	*2.2*	*1.8*		
EBITDA	**24,525**	**20,199**	**18,126**	**16,020**	**16,320**	**16,548**	**17,205**	**17,507**	**78,869**	**67,579**
YoY Growth (%)	*9.0*	*-12.2*	*-22.9*	*-32.8*	*-33.5*	*-18.1*	*-5.1*	*9.3*	*-15.1*	*-14.3*
QoQ Growth (%)	*2.9*	*-17.6*	*-10.3*	*-11.6*	*1.9*	*1.4*	*4.0*	*1.8*		
Margin (%)	*39.9*	*35.4*	*34.2*	*31.5*	*31.9*	*32.0*	*32.6*	*32.6*	*35.5*	*32.3*
Net Finance Costs	-6,205	6,551	-4,075	-8,134	4,396	3,116	3,227	4,632	-11,863	15,371
Depreciation & Amortization	11,144	7,144	8,331	10,847	9,648	9,937	10,216	10,797	37,466	40,598
Profit before Tax	**19,586**	**6,504**	**13,870**	**13,307**	**2,276**	**3,495**	**3,762**	**2,077**	**53,266**	**11,610**
Income Tax Expense / (Income)	2,267	-1,739	2,003	1,923	-719	489	527	291	4,454	588
Adjusted Net Profit / (Loss)	**17,319**	**8,243**	**11,867**	**11,384**	**2,995**	**3,005**	**3,236**	**1,786**	**48,812**	**11,022**
YoY Growth (%)	*5.6*	*-50.8*	*-19.8*	*-16.3*	*-82.7*	*-63.5*	*-72.7*	*-84.3*	*-20.7*	*-77.4*
QoQ Growth (%)	*27.4*	*-52.4*	*44.0*	*-4.1*	*-73.7*	*0.4*	*7.7*	*-44.8*		
Margin (%)	*28.2*	*14.5*	*22.4*	*22.4*	*5.9*	*5.8*	*6.1*	*3.3*	*21.9*	*5.3*
Extraordinary Exp/Minority Interest	953	840	790	-811	486	310	329	348	1,772	1,472
Reported Net Profit / (Loss)	**16,366**	**7,403**	**11,077**	**12,195**	**2,509**	**2,696**	**2,907**	**1,438**	**47,040**	**9,550**
Wireless ARPU (Rs/month)	**210**	**161**	**149**	**139**	**130**	**122**	**117**	**112**	**161**	**120**
QoQ Growth (%)	*-6.3*	*-23.3*	*-7.5*	*-6.7*	*-6.5*	*-5.9*	*-4.0*	*-4.9*		
Wireless MOU/sub/month	**365**	**340**	**330**	**318**	**295**	**283**	**283**	**278**	**334**	**285**
QoQ Growth (%)	*-1.9*	*-6.8*	*-2.9*	*-3.6*	*-7.2*	*-4.0*	*0.0*	*-2.0*		

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)/Nirav Poddar (Nirav.Poddar@MotilalOswal.com)

Tulip Telecom

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	TTSL IN
	REUTERS CODE
S&P CNX: 6,018	TULP.BO

Equity Shares (m)	145.0
52 Week Range (Rs)	214/158
1,6,12 Rel Perf (%)	-13/-12/-28
Mcap (Rs b)	24.9
Mcap (USD b)	0.6

24 September 2010

Buy

Previous Recommendation: Buy

Rs172

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	16,144	2,505	14.7	35.3	11.6	4.3	44.5	17.8	2.0	9.7
3/10A	19,664	2,755	17.0	15.0	10.1	3.1	34.6	16.4	1.7	6.3
3/11E	23,850	3,278	20.2	19.0	8.5	2.3	30.9	17.0	1.4	5.0
3/12E	29,611	4,479	27.6	36.7	6.2	1.7	31.6	19.8	1.1	3.6

- We expect consolidated revenue to grow 17.5% YoY and 9.8% QoQ to Rs5.77b. Sequential growth will be strong as 1QFY11 is a seasonally weak quarter for Tulip due to a change in contracted rates and lower momentum in connect additions.

- We expect EBITDA margins to expand ~50bp QoQ to 27.5%. EBITDA is expected to grow 25% YoY and 11.8% QoQ to Rs1.59b.

- Reported PAT is expected to grow 48.5% YoY and 19.8% QoQ to Rs768m. Tulip had incurred certain one-off losses related to derivatives in 1QFY11, which would not be present in 2QFY11.

- Tulip trades at an EV/EBITDA of 5x FY11E and 3.6x FY12E. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Gross Revenue	**4,429**	**4,910**	**5,009**	**5,307**	**5,252**	**5,767**	**6,165**	**6,665**	**19,664**	**23,850**
YoY Growth (%)	*33.2*	*27.7*	*15.0*	*15.0*	*18.6*	*17.5*	*23.1*	*25.6*	*21.8*	*21.3*
QoQ Growth (%)	*-4.0*	*10.9*	*2.0*	*5.9*	*-1.0*	*9.8*	*6.9*	*8.1*		
Total Operating Expenses	3,343	3,642	3,659	3,762	3,834	4,182	4,410	4,732	14,409	17,158
EBITDA	**1,086**	**1,268**	**1,350**	**1,545**	**1,417**	**1,585**	**1,755**	**1,934**	**5,255**	**6,691**
YoY Growth (%)	*66.0*	*56.5*	*48.0*	*56.0*	*30.5*	*25.0*	*30.0*	*25.2*	*56.1*	*27.3*
QoQ Growth (%)	*9.6*	*16.8*	*6.5*	*14.4*	*-8.3*	*11.8*	*10.7*	*10.2*		
Margin (%)	*24.5*	*25.8*	*27.0*	*29.1*	*27.0*	*27.5*	*28.5*	*29.0*	*26.7*	*28.1*
Net Finance Costs	158	187	186	185	185	215	218	221	716	838
Non-Operating Income	271	37	104	57	-13	39	42	44	468	112
Depreciation & Amortisation	353	436	409	155	375	398	424	455	1,353	1,652
Profit before Tax	**846**	**682**	**858**	**1,262**	**844**	**1,011**	**1,155**	**1,302**	**3,654**	**4,313**
Income Tax Expense / (Income)	96	164	172	467	203	243	277	312	899	1,035
Reported Net Profit / (Loss)	**750**	**518**	**686**	**795**	**642**	**768**	**878**	**990**	**2,755**	**3,278**
YoY Growth (%)	*63.2*	*3.2*	*41.0*	*-24.8*	*-14.5*	*48.5*	*27.9*	*24.5*	*10.0*	*19.0*
QoQ Growth (%)	*-29.0*	*-31.0*	*32.6*	*15.9*	*-19.3*	*19.8*	*14.2*	*12.8*		
Margin (%)	*16.9*	*10.5*	*13.7*	*15.0*	*12.2*	*13.3*	*14.2*	*14.9*	*14.0*	*13.7*

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)/Nirav Poddar (Nirav.Poddar@MotilalOswal.com)

Textiles

BSE Sensex: 20,045 | S&P CNX: 6,018 | 24 September 2010

COMPANY NAME

Alok Industries

Arvind Mills

Bombay Rayon

Raymond

Vardhman Textiles

Cotton prices at record levels: Since 1QFY11, cotton prices have increased by ~20% to over US$1/pound, primarily due to floods in Pakistan damaging the cotton crop and delay in harvesting of the new crop in India, China and Pakistan. As cotton prices continue rising, export prices of cotton yarns in India have gone up by 40-60 cents in the last one month.

Cotton spinners continue to enjoy record profitability: During 2QFY11, profitability for domestic cotton spinners continued to be at record highs. This is largely due to advantageous raw material scenario. Though domestic cotton prices have increased, yarn prices have increased more sharply across categories, thereby improving spreads for most cotton yarn spinners.

For fabric players, margins remain under stress: Downstream players such as fabric manufacturers continued to witness a squeeze in margins, as they were unable to pass on the sharp increase in yarn prices entirely. Typically, it takes around six months for fabric manufacturers to pass on the price increases to end users entirely, and it takes another 3-4 months for garment manufacturers to pass on the raw material cost pressure.

Indian exporters favorably placed: Recent events in China, with regard to labor cost inflation and appreciation in Yuan are key positives for Indian exports. Increasingly, Chinese dominance of the global textile industry is declining. We believe Indian textile and garment exporters are well placed to increase their market share.

Valuation and view: Key Indian textile companies undertook major capacity expansion over FY06-09, allowing them to achieve critical scale. Most of these capacities are slated to reach full utilization from FY11 onwards and key Indian textile companies are now in a sweet spot, as they do not have any major capital expenditure plans in the near term. They are likely to enjoy significant free cash flows over the next few years. Our top pick is **Vardhman Textiles**.

EXPECTED QUARTERLY PERFORMANCE SUMMARY (RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
	24.09.10		SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ	SEP.10	VAR. % YOY	VAR. % QOQ
Textiles											
Alok Ind	21	Neutral	13,267	36.1	20.7	3,596	23.7	10.0	614	7.7	31.4
Arvind Mills	43	Neutral	6,584	10.2	14.0	930	14.0	-0.3	217	42.8	13.6
Bombay Rayon	267	Buy	5,630	45.7	12.0	1,436	56.3	12.2	600	46.3	15.1
Raymond	375	Buy	3,366	-15.5	37.8	441	-23.3	LP	12	-93.1	LP
Vardhman Textiles	305	Buy	8,646	28.1	6.6	1,853	37.2	3.5	706	40.0	-7.6
Sector Aggregate			**37,493**	**23.6**	**15.9**	**8,256**	**25.7**	**13.7**	**2,150**	**18.3**	**25.4**

Siddharth Bothra (SBothra@MotilalOswal.com)

Spinning companies enjoying record spreads

FY09 was one of the worst years for the Indian textile industry. It got impacted by a multitude of negative factors such as: (1) appreciating rupee, (2) demand slowdown in the export market, (3) inventory de-stocking by domestic retailers, and (4) higher depreciation and interest cost. Most of these factors reversed in FY10. We expect the industry's fortunes to improve further in FY11.

While the textile industry is still in recovery phase, domestic cotton spinners are enjoying record high profitability. This is largely due to advantageous raw material scenario. Though domestic cotton prices have increased ~30% across varieties, yarn prices have increased more sharply across categories, thereby improving spreads for most cotton yarn spinners.

The profitability of select cotton spinners that have been carrying low cotton inventory has improved even more sharply. We believe Vardhman Textiles, the largest cotton spinning company in India, is the best proxy to play this trend.

INDIA'S COMPETITIVE ADVANTAGE IN THE YARN SEGMENT IS LIKELY TO SUSTAIN IN THE MEDIUM TERM

	2009-10	2010-11	% CHG.
Producers			
China	6.85	6.95	1.46
India	5.01	5.52	10.17
United States	2.65	4.07	53.39
Pakistan	2.03	1.92	-5.51
Brazil	1.15	1.45	26.09
Uzbekistan	0.85	1.05	23.53
African Franc Zone	0.50	0.58	21.09
Turkey	0.38	0.52	38.16
Australia	0.36	0.77	112.67
Others	2.09	2.31	10.57
World Production	**21.87**	**25.14**	**15.05**
Consumers			
China	10.15	10.48	3.33
Indian Subcontinent	7.67	8.00	4.24
Turkey	1.25	1.30	4.00
Brazil	0.97	1.00	2.56
United States	0.74	0.78	5.95
Others	4.15	4.26	2.65
World Consumption	**24.93**	**25.83**	**3.63**

Source: Cotton Outlook

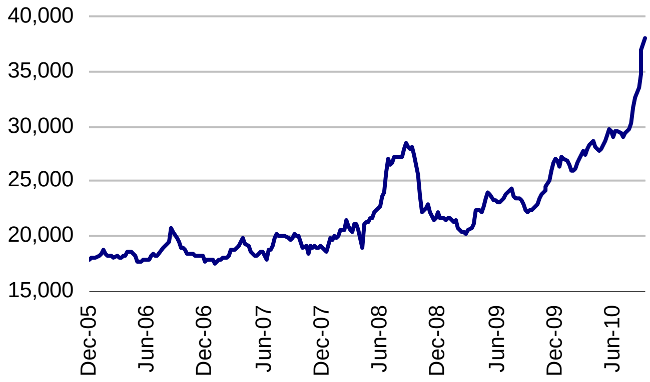
COTTON DEMAND/ SUPPLY OUTLOOK (ICAC: WORLD COTTON SUPPLY AND DISTRIBUTION SEASONS 2008-09 TO 2010-11 (AUGUST-JULY) AUGUST 2010 FORECAST)

MILLION TONS	2009-2010	2010-2011 10-AUG. FORECAST	2010-2011 ANNUAL CHG. (%)
Production	21.9	25.2	15.1
Consumption	24.5	24.9	1.6
Exports	7.7	8.0	3.9
Ending Stocks	9.4	9.8	4.26
Stock-to-use (%)	38.4	39.4	2.6
Cotlook A	78.0	85.0	9.0

Source: Cotton Outlook

COTLOOK A COTTON (US CENTS/ POUND)

INDIAN COTTON PRICES SHANKAR - 6 (RS/CANDY)



Source: Cotton Outlook

For fabric players, margins remain under stress

Downstream players such as fabric manufacturers continued to witness a squeeze in margins, as they were unable to pass on the sharp increase in yarn prices entirely. Typically, it takes around six months for fabric manufacturers to pass on the price increases to end users entirely, and it takes another 3-4 months for garment manufacturers to pass on the raw material cost pressure.

Indian exporters favorably placed

Recent events in China, with regard to labor cost inflation and appreciation in Yuan are key positives for Indian exports. Increasingly, Chinese dominance of the global textile industry is declining. We believe Indian exporters are well placed to increase their market share.

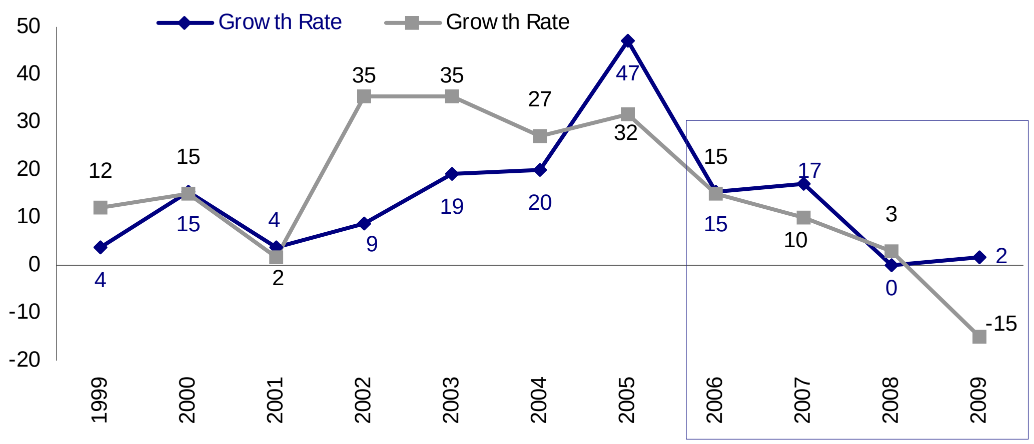
- Recent studies on the Chinese textile industry indicate that China's comparative advantage is declining.
- China's share of the global market jumped from 38.8% in 2001 to 47.1% in 2005 but has not increased further since then. This is because China's share of textile and clothing markets other than US and EU did not rise. In fact, it declined from 71.3% in 2006 to 66.8% in 2008.
- Threats of renewed sanctions on Chinese textile exports to US have resurfaced after an introduction of statistical monitoring of Chinese shipments into the so-called "Appropriations Bill", which was passed by the US Congress. While imposing textile quotas is now against WTO rules, the agreement upon China's accession to the WTO includes a "product specific safeguard" which allows taking sanctions on imports from China until 11 December 2013. The related US legislation is known as "Section 421".
- Any shift of global textile trade away from China is likely to benefit its key competitors such as India, Bangladesh and Sri Lanka.

CHINA'S MARKET SHARE OF GLOBAL TEXTILE & APPAREL MARKET (%)

YEAR	WORLD	US + EU	OTHERS
1999	36.3	18.1	67.0
2000	38.6	19.2	68.9
2001	38.8	19.5	69.4
2002	39.7	21.2	70.0
2003	40.9	23.1	70.7
2004	42.4	25.3	70.4
2005	**47.1**	32.3	**70.9**
2006	**48.2**	34.1	**71.3**
2007	**49.5**	37.1	**69.7**
2008	**47.4**	39.5	**66.8**

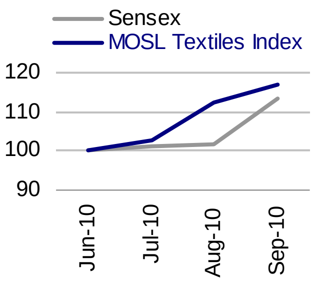
Source: Company/MOSL

CHINA'S TEXTILE AND APPAREL GROWTH RATE TO THE US (%)

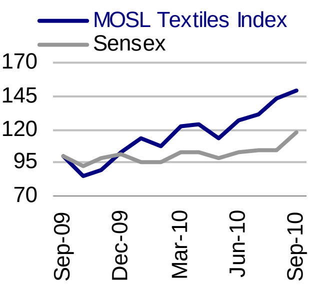


Source: Company/MOSL

RELATIVE PERFORMANCE - 3M (%)



RELATIVE PERFORMANCE - 1YR (%)



Valuation and view

FY09 was one of the worst years for the Indian textile industry. It got impacted by a multitude of negative factors such as: (1) appreciating rupee, (2) demand slowdown in the export market, (3) inventory de-stocking by domestic retailers, and (4) higher depreciation and interest cost. Most of these factors reversed in FY10. We expect the industry's fortunes to improve further in FY11.

Key Indian textile companies undertook major capacity expansion over FY06-09, allowing them to achieve critical scale. Most of these capacities are slated to reach full utilization from FY11 and key Indian textile companies are now in a sweet spot, as they do not have any major capital expenditure plans in the near term. They are likely to enjoy significant free cash flows over the next few years. Also, emerging trends of consolidation are good for the industry.

Our top pick is **Vardhman Textiles**.

COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Textiles														
Alok Ind	21	Neutral	3.4	3.9	6.7	6.1	5.4	3.1	6.8	5.6	5.1	9.8	9.2	14.1
Arvind Mills	43	Neutral	2.4	3.0	4.0	17.8	14.3	10.8	6.6	5.4	4.7	2.7	3.3	4.2
Bombay Rayon	267	Buy	14.4	23.2	37.6	18.5	11.5	7.1	13.6	8.6	6.0	10.6	13.3	18.4
Raymond	375	Buy	1.3	5.6	15.7	282.2	67.1	23.9	35.9	11.9	8.8	-2.0	1.3	3.7
Vardhman Textiles	305	Buy	42.5	46.8	48.2	7.2	6.5	6.3	5.6	4.7	4.1	15.0	14.4	13.1
Sector Aggregate						**13.4**	**10.4**	**6.9**	**8.3**	**6.4**	**5.4**	**7.7**	**8.8**	**11.9**

Alok Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	ALOK IN
	REUTERS CODE
S&P CNX: 6,018	ALOK.BO

Equity Shares (m)	705.8
52 Week Range (Rs)	28/18
1,6,12 Rel Perf (%)	-6/-22/-28
Mcap (Rs b)	14.8
Mcap (USD b)	0.3

24 September 2010

Neutral

Previous Recommendation: Neutral Rs21

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	29,664	1,879	2.7	-25.4	7.9	0.3	10.3	6.0	2.3	8.9
3/10A	43,147	2,425	3.4	29.0	6.1	0.6	9.8	8.2	2.0	6.8
3/11E	54,149	2,764	3.9	14.0	5.4	0.5	9.2	9.0	1.5	5.6
3/12E	62,813	4,738	6.7	71.4	3.1	0.4	14.1	10.3	1.4	5.1

*Fully Diluted EPS

- We expect revenues to grow 36.1% YoY to Rs13.2b, aided by higher capacities across textile segments. EBITDA margins are likely to drop 273bp to 27.1% from 29.8% in 2QFY10. High yarn prices are likely to negatively impact fabric business margins.
- The management has drawn up restructuring plans, which include creating dedicated verticals for the textile and retail businesses. It has been working on early monetization of its real estate portfolio, which could be a key positive for the stock.
- The company has ambitious expansion plans for its domestic retail business, which entail introducing international brands in India and opening 500 H&A retail outlets over three years. After restructuring, we expect Alok to emerge as a large retail play.
- The stock trades at 5.4x FY11E EPS of Rs3.9 and 3.1x FY12E EPS of Rs6.7. **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**7,863**	**9,748**	**10,825**	**14,711**	**10,990**	**13,267**	**14,079**	**15,813**	**43,147**	**54,149**
Change (%)	*44.7*	*39.6*	*32.6*	*61.9*	*39.8*	*36.1*	*30.1*	*7.5*	*45.5*	*25.5*
Total Expenditure	5,713	6,840	7,596	10,430	7,722	9,671	10,260	11,659	30,579	39,312
EBITDA	**2,150**	**2,908**	**3,228**	**4,281**	**3,268**	**3,596**	**3,818**	**4,154.6**	**12,568**	**14,837**
Change (%)	*61.3*	*69.3*	*50.6*	*78.0*	*52.0*	*23.7*	*18*	*-3.0*	*65.4*	*18.0*
As % of Sales	*27.3*	*29.8*	*29.8*	*29.1*	*29.7*	*27.1*	*27.1*	*26.3*	*29.1*	*27.4*
Depreciation	784	846	904	1,028	993	1,105	1,127	1,195	3,562	4,421
Interest	886	1,222	1,455	1,816	1,571	1,622	1,590	1,578	5,379	6,362
Other Income	3	10	16	17	1	17	18	36	45	71
PBT	**483**	**851**	**885**	**1,454**	**705**	**887**	**1,118**	**1,416**	**3,673**	**4,126**
Tax	164	280	304	501	239	272	374	476	1,248	1,361
Effective Tax Rate (%)	*33.1*	*33.2*	*34.3*	*34.4*	*33.9*	*30.7*	*33.5*	*33.6*	*34.0*	*33.0*
Repoted PAT	**319**	**571**	**581**	**953**	**466**	**615**	**744**	**940**	**2,425**	**2,764**
Change (%)	*6.9*	*35.5*	*22.8*	*33.9*	*46.1*	*7.7*	*28.0*	*-1.4*	*29.0*	*14.0*
Adj. PAT	**320**	**570**	**581**	**953**	**467**	**614**	**744**	**940**	**2,425**	**2,764**
Change (%)	*7.3*	*25.9*	*16.6*	*36.0*	*45.9*	*7.7*	*28.0*	*-1.4*	*23.6*	*14.0*

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)

Arvind Mills

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	ARVND IN
	REUTERS CODE
S&P CNX: 6,018	ARMI.BO

Equity Shares (m)	218.9
52 Week Range (Rs)	47/30
1,6,12 Rel Perf (%)	-9/16/-7
Mcap (Rs b)	9.4
Mcap (USD b)	0.2

24 September 2010

Neutral

Previous Recommendation: Neutral Rs43

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	27,211	-994	-4.5	-463.2	-9.5	0.5	-5.0	4.7	1.0	9.6
3/10A	32,795	531	2.4	-153.4	17.7	0.5	2.7	6.8	0.8	6.5
3/11E	34,107	658	3.0	23.9	14.3	0.5	3.3	7.9	0.7	5.3
3/12E	38,200	872	4.0	32.6	10.8	0.4	4.2	8.3	0.6	4.6

- We expect revenues to increase 10.1% YoY to Rs6.5b.
- EBITDA margins are likely to decline 159bp YoY to 12.1%, due to ~50% increase in cotton yarn prices.
- We expect the company to report net profit of Rs80m in 2QFY11 v/s Rs152m in 2QFY10.
- During 2QFY11 Arvind started to move forward on monetization of its surplus land bank in Ahmedabad, where it has about ~800 acres of surplus land.
- Arvind has restructuring plans, which could involve relocating part of its commodity grade denim capacity to other countries and sharpening focus on branded apparel and garment manufacturing.
- The stock trades at 0.5x FY11E book value. We maintain **Neutral**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**6,768**	**5,977**	**5,439**	**5,757**	**5,777**	**6,584**	**7,096**	**7,836**	**23,942**	**27,294**
Change (%)	*24.1*	*2.9*	*-9.3*	*-1.9*	*-14.6*	*10.2*	*30.5*	*36.1*	*3.2*	*14.0*
Total Expenditure	5,888	5,162	4,881	5,094	4,844	5,654	6,074	6,791	21,024	23,363
EBITDA	**880**	**816**	**559**	**663**	**933**	**930**	**1,022**	**1,045**	**2,917**	**3,930**
Change (%)	*60.2*	*75.5*	*-31.6*	*17.8*	*6.1*	*14.0*	*82.9*	*57.6*	*13.6*	*34.7*
As % of Sales	*13.0*	*13.6*	*10.3*	*11.5*	*16.2*	*14.1*	*14.4*	*13.3*	*12.2*	*14.4*
Depreciation	326	283	292	272	300	329	335	325	1,172	1,289
Interest	473	463	381	267	536	437	493	466	1,584	1,932
Other Income	5	82	237	28	94	75	79	51	352	299
PBT	**86**	**152**	**123**	**154**	**191**	**239**	**273**	**305**	**514**	**1,009**
Tax	0	0	0	0	0	22	23	44	0	90
Effective Tax Rate (%)	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*9.2*	*8.5*	*14.6*	*0.0*	*8.9*
Reported PAT	**86**	**152**	**123**	**154**	**191**	**217**	**250**	**261**	**514**	**919**
Change (%)	*107.5*	*826.8*	*-136.9*	*-175.3*	*-84.0*	*153.3*	*64.5*	*112.8*	*-207.4*	*78.7*
Adj. PAT	**86**	**152**	**123**	**154**	**191**	**217**	**250**	**261**	**514**	**919**
Change (%)	*3,328.0*	*310.8*	*-139.8*	*-202.8*	*122.9*	*42.8*	*104.1*	*69.4*	*-188.0*	*78.7*

*E: MOSt Estimates, * Restated Quarterly Numbers*

Siddharth Bothra (SBothra@MotilalOswal.com)

Bombay Rayon

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	BRFL IN
	REUTERS CODE
S&P CNX: 6,018	BRFL.BO

Equity Shares (m)	111.9
52 Week Range (Rs)	278/176
1,6,12 Rel Perf (%)	-6/10/3
Mcap (Rs b)	29.9
Mcap (USD b)	0.7

24 September 2010

Buy

Previous Recommendation: Buy

Rs267

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	15,145	1,367	19.8	3.8			15.2	11.8		
03/10A	18,015	1,616	14.4	-27.0	18.5	1.6	10.6	7.9	2.8	13.6
03/11E	26,745	2,691	23.2	60.5	11.5	1.4	13.3	10.4	2.1	8.8
03/12E	36,977	4,360	37.6	62.0	7.1	1.2	18.4	14.4	1.5	6.2

Consolidated

- **Steady QoQ growth to continue; YoY growth to be robust due to base effect:** FY11 revenue and profit numbers for Bombay Rayon are beginning to reflect ramp-up of its mega capacity expansion at Maharashtra, both for garments (30m per annum or 0.1m per day) and fabric (~180m meters per annum). Thus, there will be steady QoQ growth through FY11. YoY growth will be robust as the Maharashtra expansion was commissioned in a phased manner beginning 2HFY10. For 2QFY11, we estimate revenue of Rs5.6b and PAT of Rs600m, both up 46% YoY.

- **Further fund raising plans a negative surprise:** During the quarter, Bombay Rayon has obtained shareholder approval to raise funds up to Rs5b by way of GDR, private placement, etc. It has also obtained approval to issue up to 10m share warrants to promoters at a price of Rs263 per share. The management states that the proceeds will be used to fund fresh weaving and yarn dyeing capacity at Tarapur (Maharashtra), and for working capital. This is a negative surprise and will mostly likely dilute our EPS growth for FY11 and FY12, even as PAT growth is maintained.

- **Valuation reasonable; maintain Buy:** We expect FY10-12E PAT CAGR of 64% on the back of robust sales growth and margin expansion due to incremental revenue coming from low-cost Maharashtra facility. Though EPS and EPS CAGR is subject to the proposed fund raising, valuations based on current EPS estimates are reasonable at 11.5x FY11E and 7.1x FY12E. We maintain a positive view on the stock.

QUARTERLY PERFORMANCE - STANDALONE (INCLUDING ERSTWHILE LEELA LACE FROM 3QFY09) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	CONS.	CONS.
Net Sales	**3,363**	**3,864**	**4,179**	**4,740**	**5,027**	**5,630**	**6,306**	**7,832**	**18,015**	**26,745**
Change (%)	*N.A.*	*N.A.*	*21.2*	*42.3*	*49.5*	*45.7*	*50.9*	*65.2*	*18.9*	*48.5*
Total Expenses	2,567	2,946	3,163	3,596	3,747	4,195	4,635	5,772	14,294	20,396
EBITDA	**796**	**919**	**1,016**	**1,145**	**1,280**	**1,436**	**1,671**	**2,061**	**3,720**	**6,349**
Change (%)	*N.A.*	*N.A.*	*20.5*	*37.1*	*60.7*	*56.3*	*64.5*	*80.0*	*16.6*	*70.7*
EBITDA Margin (%)	*23.7*	*23.8*	*24.3*	*24.1*	*25.5*	*25.5*	*26.5*	*26.3*	*20.7*	*23.7*
Depreciation	147	149	165	220	290	320	350	446	823	1,566
Interest	210	225	230	270	310	320	320	324	950	1,303
Other Income	51	16	13	77	22	25	30	41	196	168
PBT	**490**	**561**	**633**	**731**	**702**	**821**	**1,031**	**1,333**	**2,143**	**3,649**
Tax	117	151	161	227	180	220	277	366	519	949
Tax/PBT (%)	*23.9*	*26.9*	*25.4*	*31.1*	*25.7*	*26.9*	*26.9*	*27.5*	*24.2*	*26.0*
PAT	**373**	**410**	**472**	**504**	**522**	**600**	**754**	**966**	**1,625**	**2,700**
Adj PAT after Min. Int.	**373**	**410**	**472**	**504**	**522**	**600**	**754**	**966**	**1,616**	**2,691**
Change (%)	*N.A.*	*N.A.*	*13.3*	*100.7*	*39.9*	*46.3*	*59.7*	*91.9*	*12.3*	*66.5*
PAT Margin (%)	*11.1*	*10.6*	*11.3*	*10.6*	*10.4*	*10.7*	*12.0*	*12.3*	*9.0*	*10.1*

E: MOSL Estimates; Note: The company has included Leela Lace numbers from 3QFY09, though the merger is with retrospective effect from 1QFY09. So, 1Q and 2Q are not strictly comparable. Consolidated figures include operations of GURU.

Shrinath Mithanthaya (ShrinathM@MotilalOswal.com)

Raymond

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	RW IN
	REUTERS CODE
S&P CNX: 6,018	RYMD.BO

Equity Shares (m)	61.4
52 Week Range (Rs)	425/175
1,6,12 Rel Perf (%)	-7/45/53
Mcap (Rs b)	23.0
Mcap (USD b)	0.5

24 September 2010

Buy

Previous Recommendation: Buy

Rs375

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	25,980	-1,274	-20.7	1,135.3	-18.1	1.9	-8.6	-3.9	1.5	-45.6
3/10A	25,288	82	1.3	-106.4	282.1	1.9	-2.0	2.9	1.5	38.0
3/11E	29,795	343	5.6	320.4	67.1	1.9	1.3	5.6	1.2	12.6
3/12E	32,775	965	15.7	181.3	23.9	1.8	3.7	8.3	1.1	9.3

* Consolidated

- We expect standalone revenues of Rs3.4b in 2QY11, as against Rs3.9b in 2QFY10.
- EBITDA is likely to be Rs441m as against Rs575m in 2QFY10; we estimate EBITDA margin at 13.1%. The management says Raymond is incurring excess operating costs of ~Rs400m due to non-closure of Thane plant.
- The company plans to focus only on the cost competitive Romanian and Indian denim operations.
- Raymond's decision to close down its loss-making denim operations in the US and Belgium will lower its denim business losses. Besides, with the commissioning of its new 7m-meter worsted fabric plant at Vapi, chances of faster monetization of its real estate (120 acres in Thane) have increased significantly.
- The stock trades at 1.9x FY11E book value. We value Raymond's Thane land at a minimum of Rs107/share. **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4QE	1Q	2QE	3QE	4QE		
Net Sales	**2,348**	**3,985**	**3,723**	**3,365**	**2,443**	**3,366**	**3,901**	**5,589**	**13,421**	**15,300**
Change (%)	*-0.4*	*-8.1*	*3.7*	*-7.3*	*-81.6*	*-73.8*	*66.2*	*40.2*	*-2.7*	*14.0*
Total Expenditure	2,413	3,411	3,184	2,917	2,452	2,925	3,324	4,595	11,926	13,295
EBITDA	**-66**	**575**	**539**	**447**	**-9**	**441**	**578**	**995**	**1,495**	**2,004**
Change (%)	*-83.2*	*14.4*	*101.5*	*174.7*	*-100.5*	*-74.1*	*-980.4*	*73.1*	*404.5*	*34.0*
As % of Sales	*-2.8*	*14.4*	*14.0*	*13.3*	*-0.4*	*13.1*	*14.8*	*17.8*	*11.1*	*13.1*
Depreciation	270	281	281	282	254	310	323	354	1,113	1,241
Interest	232	228	211	174	210	217	222	238	844	886
Other Income	215	155	164	104	113	125	133	130	637	501
Extra-ordinary Items	50	152	-169	-44	19	45	45	71	-12	180
PBT	**-401**	**69**	**380**	**140**	**-379**	**-6**	**121**	**462**	**187**	**198**
Tax	-85	-6	-45	73	-131	13	14	157	-63	52
Effective Tax Rate (%)	*21.2*	*-8.5*	*-11.9*	*52.3*	*34.6*	*-214.4*	*11.5*	*33.9*	*25.5*	*26.5*
Reported PAT	**-316**	**74**	**426**	**67**	**-248**	**-19**	**107**	**305**	**251**	**146**
Adj. PAT after MI	**-266**	**181**	**307**	**36**	**-229**	**12**	**139**	**355**	**257**	**326**
Change (%)	*87.6*	*6.0*	*316.5*	*-97.3*	*-14.0*	*-93.1*	*152.1*	*893.9*	*-178.6*	*26.5*

E: MOSL Estimates; Consolidated

Siddharth Bothra (SBothra@MotilalOswal.com)

Vardhman Textiles

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	VTEX IN
	REUTERS CODE
S&P CNX: 6,018	MHSP.BO

Equity Shares (m)	56.6
52 Week Range (Rs)	346/149
1,6,12 Rel Perf (%)	-19/18/58
Mcap (Rs b)	17.3
Mcap (USD b)	0.4

24 September 2010

Buy

Previous Recommendation: Buy

Rs305

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	29,654	919	16.2	-32.0	18.8	1.2	6.6	5.0	1.3	8.6
3/10A	33,777	2,407	42.5	52.7	7.2	1.1	15.0	10.5	1.2	5.6
3/11E	36,633	2,653	46.8	10.2	6.5	0.9	14.4	12.1	1.0	4.7
3/12E	38,386	2,730	48.2	2.9	6.3	0.8	13.1	12.3	0.9	4.1

Consolidated

- Vardhman is likely to post revenue growth of 39.4% YoY in 2QFY11 to Rs8.6b. We expect EBITDA margins to increase 140bp YoY to 21.4%. Adjusted PAT is likely increase 145% YoY to Rs706m, boosted by high cotton yarn margins.
- Despite a higher domestic cotton crop, cotton yarn margins continue to be strong due to strong demand for yarn, particularly from China.
- Vardhman's Rs26b capex plans were largely completed in FY09, while utilization improved only towards the end of FY10. We expect FY11 to be the first year of full capacity utilization.
- After capacity expansion, Vardhman's spinning capacity has increased from 0.5m to 0.75m spindles and its processing fabric plant capacity has increased from 40m meters to 80m meters.
- The stock trades at 6.5x FY11E EPS of Rs46.8 and 6.3x FY12E EPS of Rs48.2. **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**6,201**	**6,752**	**6,992**	**7,565**	**8,091**	**8,361**	**8,765**	**8,496**	**27,510**	**33,713**
Change (%)	*-4.7*	*3.8*	*8.4*	*27.8*	*30.5*	*34.8*	*29.8*	*21.5*	*12.1*	*22.5*
Total Expenditure	5,105	5,401	5,612	5,875	6,340	6,647	7,053	6,881	21,992	26,921
EBITDA	**1,096**	**1,351**	**1,380**	**1,690**	**1,751**	**1,714**	**1,712**	**1,615**	**5,517**	**6,792**
Change (%)	*27.7*	*21.6*	*48.0*	*102.2*	*59.8*	*56.4*	*26.7*	*17.0*	*47.6*	*23.1*
As % of Sales	*17.7*	*20.0*	*19.7*	*22.3*	*21.6*	*20.5*	*19.5*	*19.0*	*20.1*	*20.1*
Depreciation	539	538	554	577	622	627	679	685	2,209	2,613
Interest	220	182	223	242	290	268	274	285	867	1,117
Other Income	156	3	62	0	35	42	45	46	221	168
Extra-ordinary Items	112	0	0	208	0	0	0	0	320	0
PBT	**492**	**634**	**665**	**871**	**874**	**861**	**803**	**691**	**2,662**	**3,230**
Tax	93	130	188	323	255	252	243	213	733	963
Effective Tax Rate (%)	*18.8*	*20.5*	*28.2*	*37.0*	*29.2*	*29.3*	*30.2*	*30.8*	*27.5*	*29.8*
Reported PAT	**399**	**504**	**478**	**549**	**619**	**608**	**561**	**479**	**1,930**	**2,267**
Adj. PAT	**287**	**504**	**478**	**403**	**619**	**608**	**561**	**479**	**1,610**	**2,267**
Change (%)	*-8.5*	*290.9*	*187.5*	*161.7*	*115.6*	*111.9*	*11.2*	*0.1*	*154.5*	*40.8*

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)

Utilities

BSE Sensex: 20,045 S&P CNX: 6,018 24 September 2010

COMPANY NAME

CESC

NTPC

Power Grid

PTC India

Reliance Infrastructure

Tata Power

For 2QFY11, we expect the utilities companies in our universe to post revenue growth of 1.4% YoY, EBITDA growth of 16% YoY and net profit growth of 15% YoY.

ST spot prices down, ST forward rate in backwardation: Good monsoon season and higher hydropower generation has improved the availability of ST power (reflected in higher sales bids v/s purchase bids), leading to significant decline in spot prices on IEX. CERC, in its analysis of bilateral rates, pointed out a trend of backwardation for 1-3 months forward rate, entailing possible impact on 3QFY11 realizations of merchant power projects.

FY11 capacity addition has been slow till date (19% achievement): For FY11, CEA has set a capacity addition target of 21.5GW and as per its recent review (August 2010), 19% of the target is realized. This could mean further bunching up of capacity addition towards the latter half of the year. India has added 19.3GW of capacity during FY08-10 and any significant underachievement for FY11 could mean slippages from the revised target of 62GW. For FY10, CEA had initially set target of 18GW, which was scaled down to 10.6GW and it finally achieved 9.5GW, implying achievement of ~90% of the revised estimate and ~50% of the initial target. Achievement of planned capacity addition in FY11 would therefore be crucial to determine: (1) Economics (returns) of merchant power projects, and (2) Demand-supply scenario on domestic coal.

July-August 2010 generation up 2.9% YoY: During July-August 2010, all-India generation from thermal projects grew ~2.9% YoY to 103.4BU, driven largely by coal-based projects (gas-based generation muted at 16BU). Hydropower project generation was down ~1.2% YoY at 23BU. However, revival in hydro generation was seen in September; in the first fortnight of September, hydro generation was 7.1BU. On an All-India level, base deficit was 10.4% (10.7% in August 2009) and peak deficit was 13.8% (14.2% in August 2009) owing to good monsoon.

Valuation and view: We remain Positive on the sector given the expected accelerated pace of capacity additions and reasonable valuations. Our top picks in the sector are **Power Grid**, **NTPC**, **CESC** and **PTC**.

EXPECTED QUARTERLY PERFORMANCE SUMMARY (RS MILLION)

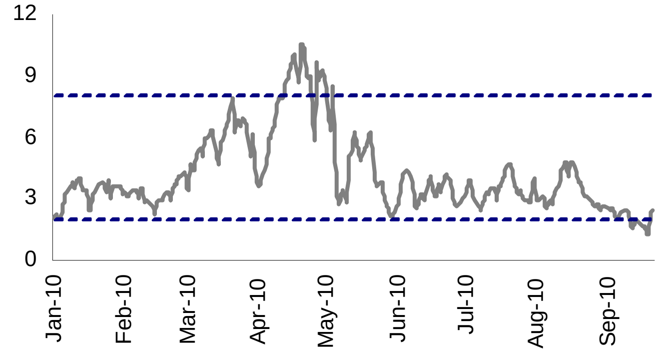
	CMP (RS) 24.09.10	RECO	SALES SEP.10	SALES VAR. % YOY	SALES VAR. % QOQ	EBITDA SEP.10	EBITDA VAR. % YOY	EBITDA VAR. % QOQ	NET PROFIT SEP.10	NET PROFIT VAR. % YOY	NET PROFIT VAR. % QOQ
Utilities											
CESC	401	Buy	11,008	16.0	1.7	2,697	28.4	11.4	1,370	8.7	24.5
NTPC	209	Buy	121,306	12.5	-6.3	37,605	17.0	25.9	23,629	4.9	18.9
PTC India	122	Buy	30,407	23.7	10.3	365	22.9	35.6	379	22.5	33.4
Power Grid Corp.	106	Buy	19,846	13.5	-0.7	16,671	13.2	-0.8	6,337	23.0	8.2
Reliance Infrastructure	1,075	Buy	31,265	18.0	40.3	3,126	-0.1	23.4	3,133	2.1	27.2
Tata Power	1,328	Neutral	17,555	2.0	-2.6	3,994	-4.2	3.6	1,771	11.5	-19.3
Sector Aggregate			**231,388**	**13.9**	**1.4**	**64,458**	**14.0**	**15.6**	**36,617**	**8.0**	**15.3**

Satyam Agarwal (AgarwalS@MotilalOswal.com)/Nalin Bhatt (NalinBhatt@MotilalOswal.com)/Vishal Periwal (Vishal.Periwal@MotilalOswal.com)

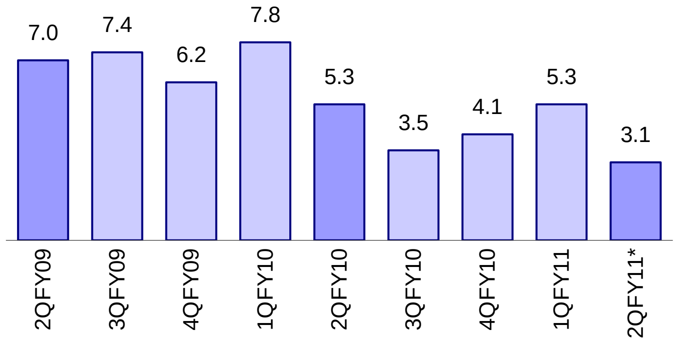
ST prices touch all-time lows

Good monsoon season and higher hydropower generation has improved the availability of ST power (reflected in higher sales bids v/s purchase bids), leading to significant decline in spot prices on IEX. ST prices touched the lowest level of Rs1.51/unit since January 2010. For 2QFY11, the spot rates at the exchanges averaged at Rs3.1/unit, down ~50% from 2QFY09 levels and ~35% from 2QFY10 levels.

ST PRICES AT ALL-TIME LOWS (RS/UNIT)



TREND IN QUARTERLY PRICES AT IEX (RS/UNIT)

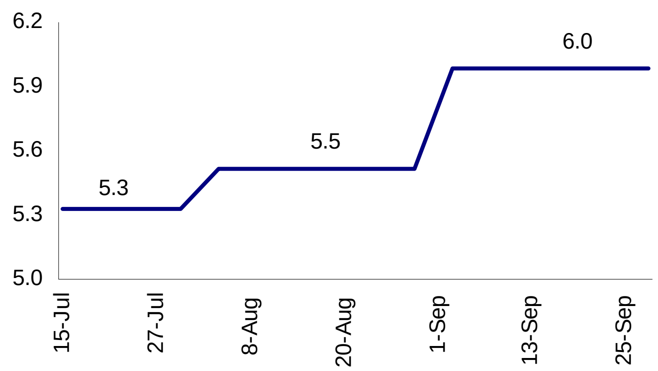


** Till 21 September* *Source: IEX*

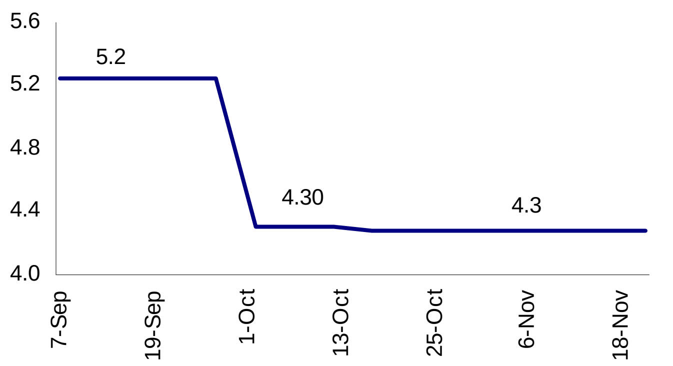
Forward bilateral rates in backwardation

CERC, in its analysis of bilateral rates, pointed out a declining trend of ST prices for delivery up to November 2010. The report indicates deviation in forward rates of contract for power supply, as prevalent in July 2010 v/s September 2010. Bilateral rates are down from an average Rs5.5/unit to below Rs4.3/unit. This trend in forward bilateral prices could impact 3QFY11 realizations for merchant power projects.

FORWARD CURVE IN JUNE OTC MARKET: CONTANGO (RS/UNIT)



FORWARD CURVE IN AUGUST OTC MARKET: BACKWARDATION (RS/UNIT)

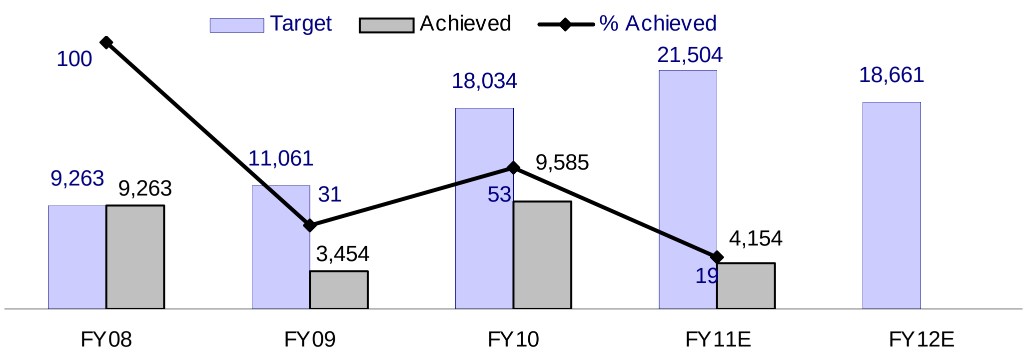


Source: CERC

FY11 capacity addition has been slow till date (19% achievement)

For FY11, CEA has set a capacity addition target of 21.5GW and as per its recent review (August 2010), 19% of the target is realized. This could mean further bunching up of capacity addition towards the latter half of the year. India has added 19.3GW of capacity during FY08-10 and any significant underachievement for FY11 could mean slippages from the revised target of 62GW. For FY10, CEA had initially set target of 18GW, which was scaled down to 10.6GW and it finally achieved 9.5GW, implying achievement of ~90% of the revised estimate and ~50% of the initial target. Achievement of planned capacity addition in FY11 would therefore be crucial to determine: (1) Economics (returns) of merchant power projects, and (2) Demand-supply scenario on domestic coal.

ALL-INDIA YEAR-WISE CAPACITY ADDITION TARGET (AUGUST 2010 REVIEW)

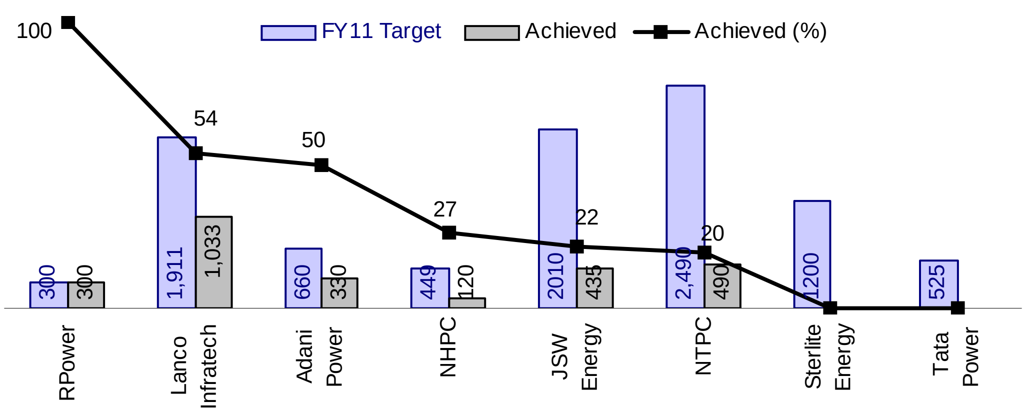


Source: CEA

Capacity addition by key players in FY11

Our status check on capacity addition target as set by CEA suggests that Lanco Infratech has commissioned the highest capacity till 1HFY11 by achieving 54% of its target. NTPC, which has set the highest target of commissioning 2490MW in FY11, has achieved 20% of its target (commissioned 490MW Dadri). Adani and JSW have added 330MW and 435MW to their existing portfolio of 660MW and 995MW, respectively.

PLAYER-WISE CAPACITY ADDITION IN FY11 (MW)



Source: CEA

July-August 2010 generation up 2.9% YoY

During July-August 2010, all-India generation from thermal projects grew ~2.9% YoY to 103.4BU, driven largely by coal-based projects (gas-based generation muted at 16BU). Hydropower project generation was down ~1.2% YoY at 23BU. However, revival in hydro generation was seen in September; in the first fortnight of September, hydro generation was 7.1BU. It is important to note that generation growth in India is due to capacity addition and PLF of the plants has declined. For the month of August 2010, thermal plant PLF (coal & lignite) was 68.5% (down 340bp), thermal plant PLF (gas) was 61.7% (down 955bp), and hydropower plant PLF was 43.9% (down 1bp).

Generation growth on account of capacity addition; PLF showing declining trend

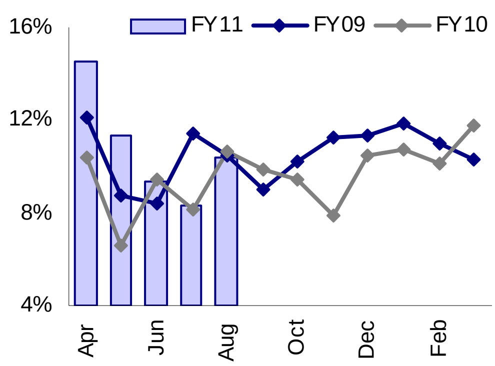
GENERATION (BU) UP ~2.6% YOY IN JULY-AUGUST 2010

	AUG-10		AUG-09		JULY-AUG, 10	JULY-AUG, 09	CHG
ALL INDIA	GENERATION	PLF (%)	GENERATION	PLF (%)	GENERATION	GENERATION	(%)
Thermal-Coal & Lignite	43.3	68.6	42.5	72.0	87.4	84.5	3.5
Thermal-Gas	7.9	61.7	8.5	71.2	16.0	16.1	-0.3
Nuclear	1.9	56.5	1.6	50.7	3.6	3.0	19.9
Hydro	12.2	43.9	12.2	43.9	23.0	23.3	-1.2
Bhutan IMP	1.0	NA	1.0	NA	2.0	1.9	6.0
Total*	**65.4**	**61.0**	**64.8**	**63.6**	**130.1**	**126.8**	**2.6**

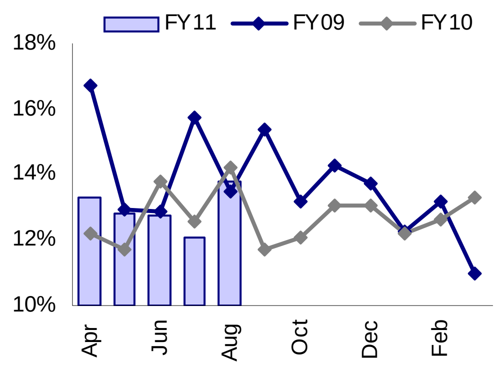
Source: CEA

Good monsoon helps lower All-India deficit - base deficit and peak deficit declined 30bp to 10.4% and 45bp to 13.8%, respectively in August 2010

ALL INDIA BASE DEFICIT IN AUGUST: DOWN 30BP (%)



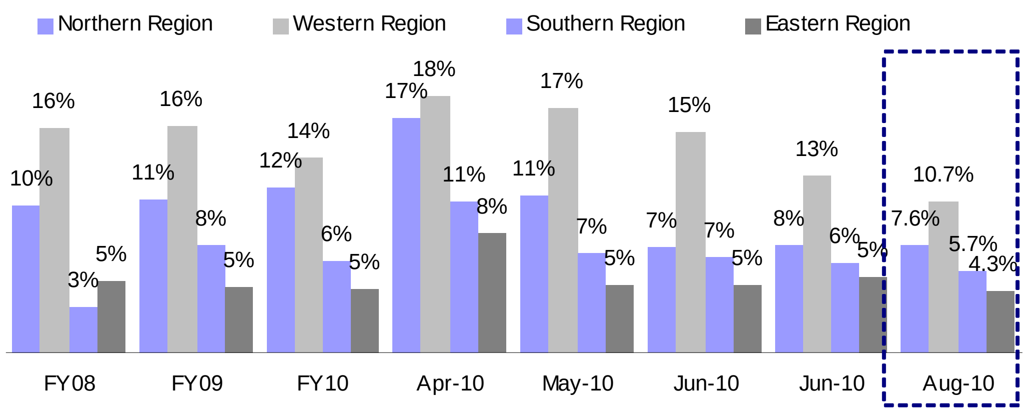
ALL INDIA PEAK DEFICIT IN AUGUST: DOWN 45BP (%)



Source: CEA

Deficit in all the regions has declined post good monsoon; biggest fall seen in the northern region - 7.6% in August 2010 v/s 13.6% in August 2009

REGION-WISE BASE DEFICIT: WESTERN REGION DEFICIT HIGHEST AT 10.7% IN AUGUST 2010

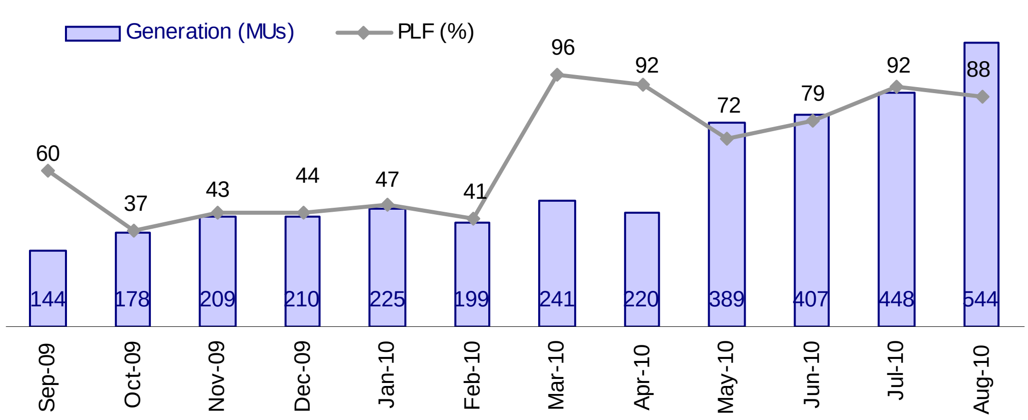


Source: CEA

Adani Power: blended PLF lower due to stabilization of Unit-III

For August 2010, Adani Power reported generation of 558MU (544MU by CEA) for 990MW Mundra Phase-I. For YTD it has generated 2,144MU. Blended PLF for Adani Power works out to 76%, dragged down due to stabilization phase of Unit-III (CoD August 2010) where PLF was 55%. However Unit-I & Unit-II reported PLF of 88% and 84%, respectively. (CEA reported PLF of 88%).

ADANI POWER: PLANT STABILIZED, PLF 88% IN AUGUST 2010

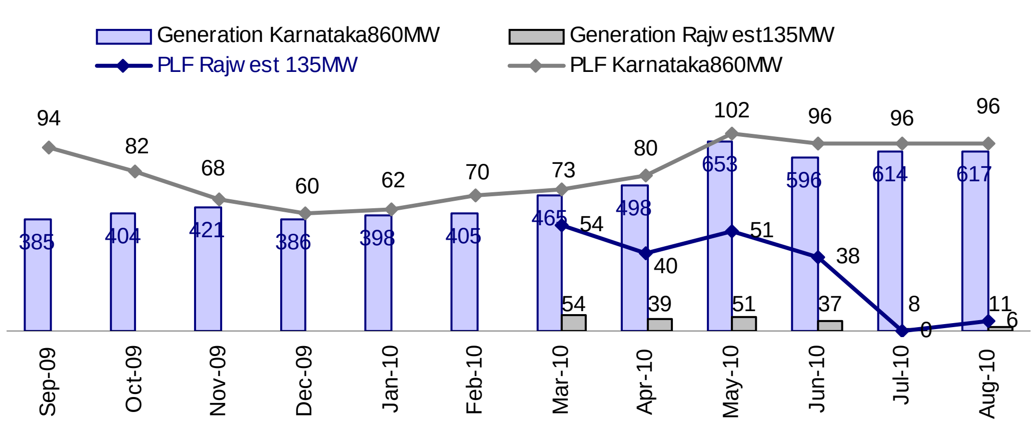


** PLF for the month of March onwards is as reported by CEA; for the remaining months, PLF is calculated based on reported generation* *Source: CEA*

JSW Energy: 96% PLF for 860MW Karnataka; 135MW Raj West shut for maintenance

JSW Energy's 860MW Karnataka Power Project posted generation of 617MU, at a PLF of 96%. However, its Raj West Power 135MW (unit-1) was shut after teething problems caused by improper plant operation due to lack of water. The management indicated it planned to hand over the O&M of the project to DongFang for the next one year to equip its operating team to better manage the plant.

JSW ENERGY: 860MW PLANT REPORTED PLF OF 96%, 135MW RAJ WEST SHUT IN AUGUST



Source: CEA

GENERATION FOR KEY PLAYERS: GENERATION GROWTH FROM CAPACITY ADDITION

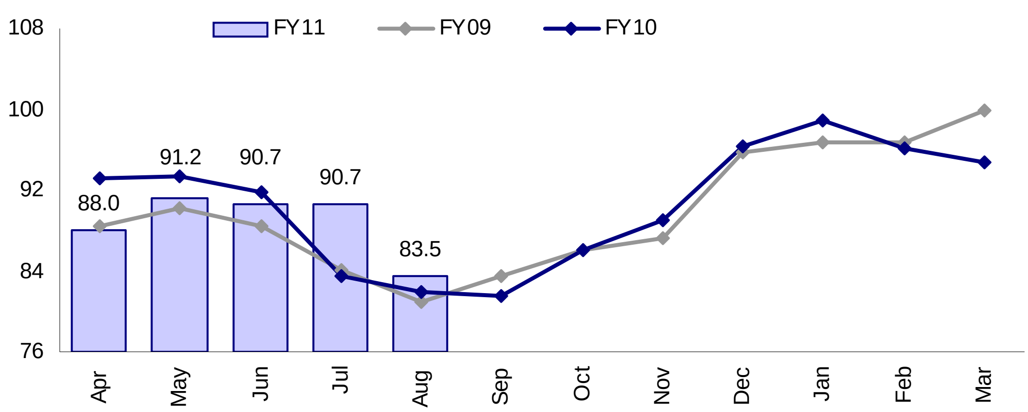
	CAPACITY	AUG-10		AUG-09		GENERATION		CHG
	(MW)*	GENERATION	PLF (%)	GENERATION	PLF (%)	JULY-AUG,09	JULY-AUG,10	(%)
Adani Power								
- Mundra Phase 1	990.0	544.2	87.6	0.0	0.0	0.0	991.8	NA
GVK								
- JP 1 & 2	455.4	272.9	82.1	299.6	90.1	551.5	503.3	-8.7
- Gautami	464.0	314.0	92.7	312.8	92.3	632.9	608.3	-3.9
GMR								
- Barge Mounted	220.0	0.0	0.0	53.0	33.0	71.2	1.6	
- Chennai	200.0	58.8	40.3	116.1	79.5	245.9	119.4	-51.4
- Vemagiri	370.0	255.2	94.5	270.3	100.1	543.8	525.0	-3.4
JPL								
- Chattisgarh	1,000.0	719.0	96.5	528.0	75.5	1,098.0	1,351.6	23.1
Rel Infra								
- Dahanu	500.0	390.0	104.9	386.2	103.8	757.4	766.0	1.1
Rel Power								
- Samalkot (AP)	220.0	141.5	88.1	139.9	87.1	284.4	292.7	2.9
- Goa	48.0	26.0	74.2	27.5	78.5	58.0	53.4	-8.0
- Kochi	174.0	0.0	0.0	139.9	110.2	210.0	0.0	NA
- Rosa	600.0	221.2	50.5	0.0	0.0	0.0	391.9	NA
Tata Power								
- Trombay	1,580.0	719.4	57.1	923.3	81.8	1,747.6	1,536.7	-12.1
- TISCO (Jamshedpur)	441.3	237.5	79.1	188.2	71.6	398.9	473.0	18.6
Torrent Power								
- Existing	500.0	358.0	95.3	367.2	101.9	731.9	714.0	-2.4
- Sugen	1,147.5	707.7	84.5	691.4	82.5	1,118.1	1,442.7	29.0
JSW Energy								
- Rajwest Unit-I	135.0	10.9	5.5	0.0	0.0	0.0	19.3	NA
-Karnataka	860.0	617.0	96.4	242.8	65.1	464.8	1,230.8	164.8
CESC	1,225.0	786.7	82.3	675.0	87.8	1,370.0	1,587.6	15.9
Lanco Infratech								
- Kondappalli	716.0	383.3	73.3	251.0	98.2	504.0	770.5	52.9
- Amarkantak	600.0	261.7	59.8	151.0	68.9	151.0	620.4	310.8

Source: CEA

NTPC: generation up 3.4% YoY; thermal projects PLF at 83.5%

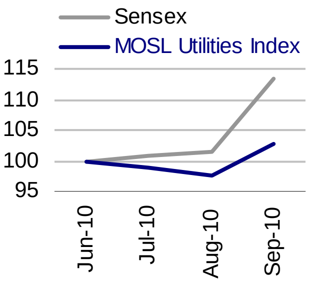
NTPC's net generation rose 3.4% YoY to 17.7BU in August 2010 (17.1BU in August 2009). PLF for its thermal projects rose 144bp to 83.5%. For YTD, NTPC has generated 92BU (up 2.2% YoY).

NTPC: AUGUST PLF UP 144BP YOY (%)

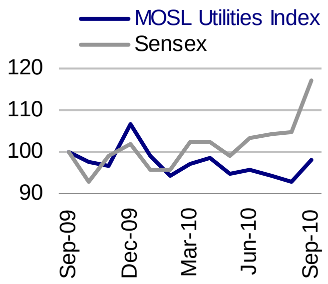


Source: CEA

RELATIVE PERFORMANCE - 3M (%)



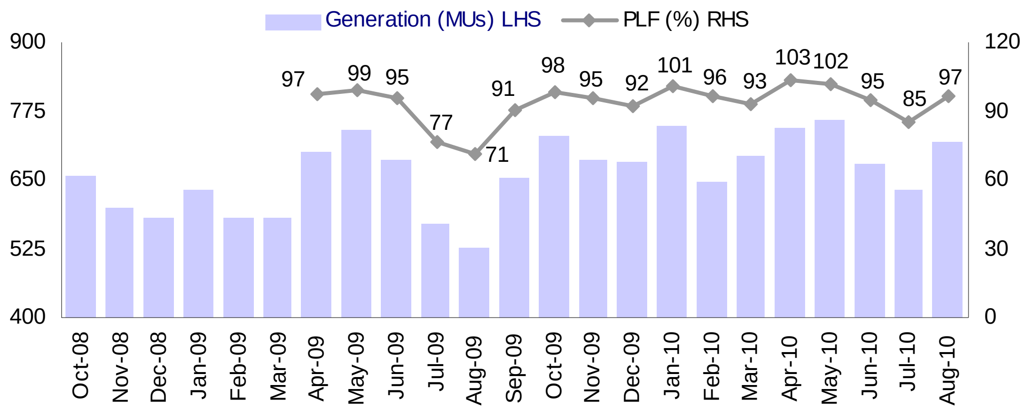
RELATIVE PERFORMANCE - 1YR (%)



Jindal Power: generation up 36% YoY; PLF at 96.5%

In August 2010, Jindal Power's generation was up 36% YoY at 719MU (528MU in August 2009). PLF was 96.5% against 70.9% a year earlier.

JINDAL POWER: AUGUST GENERATION UP 36%, PLF AT 96.5%



Source: CEA

COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
	24.09.10		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Utilities														
Adani Power	136	Not Rated	0.8	2.6	8.5	174.3	51.4	16.0	160.2	47.2	13.9	2.9	9.6	26.3
CESC	401	Buy	34.5	37.0	38.8	11.6	10.8	10.3	9.0	6.3	6.7	13.8	13.0	12.2
JSW Energy	123	Not Rated	4.7	7.7	11.9	26.4	15.9	10.3	18.2	12.6	6.8	16.0	23.9	29.4
NTPC	209	Buy	11.2	11.5	13.2	18.7	18.2	15.9	15.0	10.5	11.0	15.4	14.4	15.1
Power Grid Corp.	106	Buy	5.5	5.7	7.2	19.3	18.4	14.7	13.6	11.9	10.8	15.1	13.9	14.2
PTC India	122	Buy	3.2	4.5	5.7	38.2	26.8	21.5	70.0	21.6	15.4	5.2	6.3	7.5
Reliance Infra.	1,075	Buy	43.1	44.5	57.4	24.9	24.1	18.7	29.3	27.1	20.3	9.1	7.7	8.8
Reliance Power	161	Not Rated	-	4.4	5.8	-	36.4	27.5	-	82.6	56.9	-	7.2	8.8
Tata Power	1,328	Neutral	62.4	76.8	102.3	21.3	17.3	13.0	19.2	19.5	18.5	7.9	7.7	7.6
Sector Aggregate						**23.3**	**20.0**	**15.5**	**18.5**	**14.4**	**12.9**	**11.9**	**12.1**	**14.2**

CESC

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	CESC IN
	REUTERS CODE
S&P CNX: 6,018	CESC.BO

Equity Shares (m)	125.6
52 Week Range (Rs)	452/345
1,6,12 Rel Perf (%)	-8/-10/-16
Mcap (Rs b)	50.4
Mcap (USD b)	1.1

24 September 2010 — **Buy**

Previous Recommendation: Neutral — Rs401

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS* GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	30,313	3,682	29.3	23.9	13.7	1.9	13.0	11.0	2.0	10.1
03/10A	32,928	4,333	34.5	17.7	11.7	1.7	13.8	10.8	2.0	9.0
03/11E	39,365	4,645	37.0	7.2	11.3	1.5	13.0	12.5	1.6	6.5
03/12E	41,335	4,875	38.8	4.9	10.8	1.4	12.2	11.8	1.6	6.9

** Excl Spencers; fully diluted*

- For 2QFY11, we expect CESC to post revenue of Rs11b (up 16% YoY) and net profit of Rs1.4b (up 9% YoY).
- CESC has bought 10% stake in an Australian company, Resource Generation Limited (RGL), for Rs450m. It has signed an agreement to purchase 1mtpa of coal for three years and 2mtpa for a further 17 years from RGL's mine in South Africa (expected to start in early 2013) to meet the coal requirement for its Haldia project.
- The 600MW Haldia project has achieved financial closure. The Terms of Reference for the 1,320MW expansion at Haldia have been received, enabling it to proceed with EIA/EMP studies.
- Of the planned 1200MW of capacity addition at Haldia and Chadrapur, CESC plans to keep 450MW on merchant basis. The Chandrapur project is likely to be commissioned by FY13 and the Haldia project by FY14.
- Spencers has been implementing its strategy to close its unprofitable stores and increase sales from existing stores, which is reflected in its 1QFY11 financials. Total area under operations has declined to 0.87msf and sales have increased to Rs906/sf, helping it to achieve EBITDA breakeven at store level.
- We expect CESC to post standalone net profit of Rs4.7b in FY11 (up 7.2%) and Rs4.9b in FY12 (up 4.9%), excluding Spencers. The stock trades at 11.3x FY11E and 10.8x FY12E reported earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**8,090**	**9,490**	**7,970**	**7,540**	**10,820**	**11,008**	**9,086**	**8,451**	**32,910**	**39,365**
Change (%)	*3.3*	*25.7*	*6.0*	*1.8*	*33.7*	*16.0*	*14.0*	*12.1*	*8.6*	*19.6*
EBITDA	**1,900**	**2,100**	**1,880**	**1,840**	**2,420**	**2,697**	**2,317**	**2,366**	**7,540**	**9,800**
Change (%)	*55.7*	*12.3*	*24.5*	*21.1*	*27.4*	*28.4*	*23.2*	*28.6*	*23.2*	*30.0*
As of % Sales	*23.5*	*22.1*	*23.6*	*24.4*	*22.4*	*24.5*	*25.5*	*28.0*	*22.9*	*24.9*
Depreciation	480	490	490	520	670	675	680	741	1,980	2,766
Interest	430	460	420	470	670	660	650	712	1,780	2,692
Other Income	280	360	260	360	290	350	390	363	1,440	1,393
PBT	**1,270**	**1,510**	**1,230**	**1,210**	**1,370**	**1,712**	**1,377**	**1,276**	**5,220**	**5,735**
Tax	220	250	210	210	270	342	258	219	890	1,090
Effective Tax Rate (%)	*17.3*	*16.6*	*17.1*	*17.4*	*19.7*	*20.0*	*18.8*	*17.2*	*17.0*	*19.0*
Reported PAT	**1,050**	**1,260**	**1,020**	**1,000**	**1,100**	**1,370**	**1,119**	**1,057**	**4,330**	**4,645**
Adjusted PAT	**1,050**	**1,260**	**1,020**	**1,000**	**1,100**	**1,370**	**1,119**	**1,057**	**4,330**	**4,645**
Change (%)	*27.3*	*34.0*	*4.1*	*6.4*	*4.8*	*8.7*	*9.7*	*5.7*	*17.5*	*7.3*

E: MOSL Estimates, Standalone Numbers (excl Spencers Retail)

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National Thermal Power Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	NTPC IN
	REUTERS CODE
S&P CNX: 6,018	NTPC.BO

Equity Shares (m)	8,245.5
52 Week Range (Rs)	242/190
1,6,12 Rel Perf (%)	-1/-10/-21
Mcap (Rs b)	1,725.4
Mcap (USD b)	38.1

24 September 2010

Buy

Previous Recommendation: Neutral

Rs209

YEAR END*	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	419,238	80,720	9.8	8.9	21.4	3.0	14.8	14.8	0.5	18.3
03/10A	463,226	92,493	11.2	14.6	18.7	2.8	15.4	15.4	0.5	15.9
03/11E	593,141	94,854	11.5	2.6	18.2	2.5	14.4	14.4	0.4	11.0
03/12E	663,231	108,732	13.2	14.6	15.9	2.3	15.1	15.1	0.6	11.4

** Pre Exceptional Earnings*

- For 2QFY11, we expect NTPC to post revenue of Rs121.3b (up 13% YoY) and net profit of Rs23.6b (up 5% YoY).
- 11th Plan capacity addition target is revised downwards from 17.7GW to 13.7GW. NTPC has commissioned 4.8GW of capacity till date and plans to add another 8.9GW over FY11/12. It has, however, reiterated its target of achieving 75GW of capacity by FY17.
- NTPC has signed PPA for under-construction projects of 17GW and projects under equipment tendering process of 5GW. It plans sign PPA for additional 25GW of capacity before January 2011 (deadline for CPSUs to start bidding for projects on CBT mechanism).
- It has invited re-tender for 11 sets of supercritical boilers after the disqualification of one bidder. This re-tender is likely to be completed by 4QFY11.
- It plans to float a global tender to acquire equity stake in coal assets abroad. It is in the process of inviting offers from foreign miners that may be on the lookout for strategic investors.
- We expect NTPC to post net profit of Rs94.8b in FY11 (up 3%) and Rs108.7b in FY12 (up 14.6%). The stock trades at 18.2x FY11E and 15.9x FY12E reported earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**120,027**	**107,828**	**111,837**	**123,534**	**129,445**	**121,306**	**125,817**	**216,573**	**463,226**	**593,141**
Change (%)	*25.8*	*11.6*	*-0.8*	*7.9*	*7.8*	*12.5*	*12.5*	*75.3*	*10.5*	*28.0*
EBITDA	**31,757**	**32,137**	**33,653**	**26,657**	**29,867**	**37,605**	**39,947**	**71,441**	**124,204**	**178,860**
Change (%)	*31.1*	*26.1*	*4.9*	*20.1*	*-5.9*	*17.0*	*18.7*	*168.0*	*19.5*	*44.0*
As of % Sales	*26.5*	*29.8*	*30.1*	*21.6*	*23.1*	*31.0*	*31.8*	*33.0*	*26.8*	*30.2*
Depreciation	6,128	6,438	6,614	7,322	6,827	7,150	7,250	7,391	26,501	28,618
Interest	4,447	5,407	3,418	4,818	5,358	6,100	6,500	6,646	18,089	24,604
Other Income	7,763	7,410	7,791	6,277	5,849	7,150	7,500	8,207	29,241	28,706
PBT	**28,945**	**27,703**	**31,412**	**20,794**	**23,532**	**31,505**	**33,697**	**65,611**	**108,855**	**154,344**
Tax	7,009	6,183	8,862	618	5,113	7,876	8,845	17,655	21,573	39,490
Effective Tax Rate (%)	*24.2*	*22.3*	*28.2*	*3.0*	*21.7*	*25.0*	*26.3*	*26.9*	*19.8*	*25.6*
Reported PAT	**21,936**	**21,520**	**22,550**	**20,177**	**18,419**	**23,629**	**24,851**	**47,955**	**87,282**	**114,855**
Adj. PAT (Pre Exceptional)	**24,619**	**22,519**	**22,580**	**22,772**	**19,865**	**23,629**	**24,851**	**26,509**	**92,493**	**94,854**
Change (%)	*34.1*	*23.2*	*13.3*	*-5.2*	*-19.3*	*4.9*	*10.1*	*16.4*	*14.6*	*2.6*

E: MOSL Estimates

Satyam Agarwal (AgarwalS@MotilalOswal.com)/Nalin Bhatt (NalinBhatt@MotilalOswal.com)/Vishal Periwal (Vishal.Periwal@MotilalOswal.com)

Power Grid Corporation of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	PWGR IN
	REUTERS CODE
S&P CNX: 6,018	PGRD.BO

Equity Shares (m)	4,629.7
52 Week Range (Rs)	121/95
1,6,12 Rel Perf (%)	-7/-15/-25
Mcap (Rs b)	488.7
Mcap (USD b)	10.8

24 September 2010 **Buy**

Previous Recommendation: Buy Rs106

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	65,798	19,418	4.6	23.3	22.9	3.0	13.8	11.6	10.7	12.8
3/10A	71,275	23,031	5.5	18.6	19.3	2.8	15.1	8.6	10.6	12.8
3/11E*	84,902	26,587	5.7	4.9	18.4	2.2	13.9	9.0	10.0	11.9
3/12E*	103,577	33,344	7.2	25.4	14.7	2.0	14.2	9.2	9.1	10.8

** Assumed 10% equity dilution for PGCIL in FY11 at Rs105/share*

- For 2QFY11, we expect PGCIL to post revenue of Rs19.9b (up 14% YoY) and net profit of Rs6.3b (up 23% YoY).
- For FY10, the PGCIL Board had accorded investment approval of Rs133b of projects. For FY11, it plans capex of Rs129b (up 29% over FY10 revised estimates).
- PGCIL Board has granted investment approval for projects with total cost of Rs41b during the quarter (2QFY11), which includes Rs20b transmission system for phase-I for generation project in Orissa Part-A. Till 1HFY11, it has approved projects worth Rs87.1b (v/s Rs17b in 1HFY10).
- During the quarter, the Finance Ministry has taken out provision of transmission service from the purview of service tax (liability of Rs20b+).
- The Cabinet and PGCIL Board have approved PGCIL's proposed FPO. It plans to raise Rs35b-40b and the issue is likely to be concluded by 3QFY11.
- PGCIL is considering plans to convert its existing transmission towers to telecom towers and has appointed KPMG to study the business model of the same.
- We expect PGCIL to post net profit of Rs26.6b in FY11 (up 15.4%) and Rs33.2b in FY12 (up 25.4%). The stock trades at 18.4x FY11E and 14.7x FY12E reported earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**16,230**	**17,486**	**15,254**	**22,305**	**19,991**	**19,846**	**20,593**	**24,472**	**71,275**	**84,902**
Change (%)	*19.3*	*10.1*	*3.2*	*-0.9*	*23.2*	*13.5*	*35.0*	*9.7*	*6.8*	*19.1*
EBITDA	**13,299**	**14,723**	**12,467**	**18,205**	**16,811**	**16,671**	**17,350**	**20,496**	**58,694**	**71,327**
Change (%)	*17.2*	*8.5*	*2.0*	*-2.1*	*26.4*	*13.2*	*39.2*	*12.6*	*5.3*	*21.5*
As of % Sales	*81.9*	*84.2*	*81.7*	*81.6*	*84.1*	*84.0*	*84.3*	*83.8*	*82.3*	*84.0*
Depreciation	4,670	5,819	5,360	3,949	5,024	5,300	5,800	6,653	19,797	22,777
Interest	3,834	4,162	4,119	3,318	4,049	4,300	5,000	5,760	15,432	19,109
Other Income	1,993	751	2,246	-1,229	1,506	850	1,500	1,688	3,761	5,543
Extraordinary Income/(Expense)	-14	8	-4	973	-12				963	-11
PBT	**6,802**	**5,485**	**5,239**	**8,737**	**9,256**	**7,921**	**8,050**	**9,770**	**26,263**	**34,984**
Tax	1,336	885	361	3,271	2,224	1,584	1,529	1,882	5,854	7,219
Effective Tax Rate (%)	*19.6*	*16.1*	*6.9*	*37.4*	*24.0*	*20.0*	*19.0*	*19.3*	*22.3*	*20.6*
Reported PAT	**5,466**	**4,600**	**4,877**	**5,466**	**7,032**	**6,337**	**6,520**	**7,889**	**20,409**	**27,765**
Adjusted PAT (Pre Exceptional)	**5,403**	**5,151**	**5,026**	**7,244**	**5,854**	**6,337**	**6,520**	**7,889**	**23,031**	**26,587**
Change (%)	*40.9*	*17.2*	*19.5*	*3.3*	*8.3*	*23.0*	*29.7*	*8.9*	*18.6*	*15.4*

E: MOSL Estimates

Satyam Agarwal (AgarwalS@MotilalOswal.com)/Nalin Bhatt (NalinBhatt@MotilalOswal.com)/Vishal Periwal (Vishal.Periwal@MotilalOswal.com)

PTC India

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	PWTC IN
	REUTERS CODE
S&P CNX: 6,018	PTCI.BO

Equity Shares (m)	294.5
52 Week Range (Rs)	130/83
1,6,12 Rel Perf (%)	-11/-2/20
Mcap (Rs b)	35.9
Mcap (USD b)	0.8

24 September 2010

Buy

Previous Recommendation: Buy

Rs122

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	64,396	910	4.0		30.5	1.8	6.0	7.4	0.4	106.6
03/10A	76,490	941	3.2	-20.2	38.2	1.7	5.2	7.2	0.4	43.9
03/11E	102,811	1,340	4.5	42.4	25.6	1.6	6.3	8.9	0.2	20.4
03/12E	142,318	1,670	5.7	24.6	20.5	1.5	7.5	10.5	0.2	14.1

- For 2QFY11, we expect PTC to post revenue of Rs30.4b (up 24% YoY) and net profit of Rs379m (up 22.5% YoY).
- PTC is likely to add 0.5GW (300MW Lanco Amarkantak, 100MW Torrent Sugen and 70MW Lanco Himachal) and 4GW (1.2GW Teesta, 0.7GW Karcham Wangtoo (under litigation), 0.5GW IndBharath Utkal, 0.3GW GMR Kamalanga, 0.7GW RKM and 0.6GW Tolling projects) to its LT portfolio in FY11 and FY12, respectively. In FY11, we expect PTC to sell 40% of volume on long term PPA, leading to lower volatility in earnings.
- PTC in JV with Ashmore launched US$750m Energy Infra Fund, to provide equity funding for generation, transmission, distribution, fuel extraction and fuel transport infrastructure assets in India. Its first tranche of US$300m-400m is likely to close by 3QFY11.
- PFS (77% PTC stake) has been accorded the status of Infrastructural Finance Company (IFC) by RBI, enabling it to reduce its debt cost by allowing it to issue tax-free infrastructure bonds, raise ECBs up to 50% of its net worth, lesser risk weightage on lending to infra finance companies, etc.
- With funding sanctions of Rs33b (up from Rs22b in FY10), PFS plans to raise Rs6b-7b from IPO, for which it has received the required approval from its board.
- We expect PTC to post net profit of Rs1.3b in FY11 (up 42.4%) and Rs1.7b in FY12 (up 24.6%). The stock trades at 25.6x FY11E and 20.5x FY12E reported earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Power Traded (MUs)	4,204	6,388	4,444	3,202	5,747	7,155	4,888	4,609	18,236	22,399
Sales	**23,717**	**24,582**	**16,975**	**12,430**	**27,576**	**30,407**	**21,998**	**22,831**	**76,490**	**102,811**
Change (%)	97.1	21.0	-19.8	5.5	16.3	23.7	29.6	83.7	17.2	34.4
EBITDA	**147**	**297**	**103**	**90**	**269**	**365**	**253**	**293**	**371**	**1,180**
Change (%)	*151.0*	*111.0*	*280.0*	*285.2*	*82.7*	*22.9*	*144.6*	*224.6*	*48.5*	*218.0*
As of % Sales	*0.6*	*1.2*	*0.6*	*0.7*	*1.0*	*1.2*	*1.2*	*1.3*	*0.5*	*1.1*
Depreciation	14	14	16	14	12	12	12	11	55	47
Interest	1	0	2	1	1	0	6	-7	0	0
Other Income	280	175	142	136	147	180	220	234	742	781
PBT	**413**	**459**	**229**	**216**	**403**	**533**	**455**	**523**	**1,057**	**1,914**
Tax	79	149	72	77	125	155	137	158	377	574
Effective Tax Rate (%)	*19.1*	*32.5*	*31.3*	*35.7*	*31.0*	*29.0*	*30.0*	*30.3*	*35.6*	*30.0*
Reported PAT	**334**	**310**	**158**	**139**	**278**	**379**	**319**	**364**	**681**	**1,340**
Adjusted PAT	**364**	**309**	**158**	**155**	**284**	**379**	**319**	**364**	**941**	**1,340**
Change (%)	*92.7*	*-7.4*	*-42.7*	*-10.6*	*-22.0*	*22.5*	*102.3*	*134.6*	*3.4*	*42.4*

E: MOSL Estimates

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Reliance Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	RELE IN
	REUTERS CODE
S&P CNX: 6,018	RLEN.BO

Equity Shares (m)	267.2
52 Week Range (Rs)	1,404/951
1,6,12 Rel Perf (%)	-4/-9/-31
Mcap (Rs b)	287.2
Mcap (USD b)	6.3

24 September 2010

Buy

Previous Recommendation: Buy

Rs1,075

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	96,965	9,081	34.0	22.0	31.6	2.1	10.2	9.0	3.2	36.5
3/10A	100,273	11,517	43.1	26.8	24.9	1.9	9.1	8.6	3.0	27.2
3/11E	105,601	11,895	44.5	3.3	24.2	1.7	7.7	8.8	2.9	27.3
3/12E	130,938	15,330	57.4	28.9	18.7	1.6	8.8	9.9	2.3	20.5

** Fully Diluted*

- For 2QFY11, we expect RELI to post revenue of Rs31.3b (up 18% YoY) and net profit of Rs3.1b (up 2% YoY).
- RELI has been allowed a tariff hike of 3% by the Maharashtra Electricity Regulatory Commission (MERC) in its Mumbai license area towards under-recoveries, post clean shit from ASCI (an independent agency) under the audit carried out by the agency.
- Judgment is cash flow positive and will facilitate in recovery of Rs16b (as on FY10).
- RELI is in the process of tying-up debt funding for its US$1.5b second stage Mumbai Metro project.
- RELI has infrastructure assets (under development stage at Rs400b) in Roads, Metro, Transmission Line, Sea Link and Airport). Its EPC order book stands at Rs185b as on 1QFY11. The company has targeted EPC revenues of Rs45b in FY11 (up 33%).
- We expect RELI to post net profit of Rs11.9b in FY11 (up 3.3%) and Rs15.3b in FY12 (up 28.9%). The stock trades at 24.2x FY11E and 18.7x FY12E reported earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**24,463**	**26,496**	**22,875**	**26,439**	**22,280**	**31,265**	**27,450**	**24,606**	**100,273**	**105,601**
Change (%)	*6.8*	*7.1*	*-15.8*	*10.7*	*-8.9*	*18.0*	*20.0*	*-6.9*	*1.6*	*5.3*
EBITDA	**2,995**	**3,129**	**2,354**	**2,614**	**2,534**	**3,126**	**3,074**	**2,540**	**11,182**	**11,275**
Change (%)	*4.8*	*12.9*	*-24.6*	*67.6*	*-15.4*	*-0.1*	*30.6*	*-2.8*	*8.5*	*0.8*
As of % Sales	*12.2*	*11.8*	*10.3*	*9.9*	*11.4*	*10.0*	*11.2*	*10.3*	*11.2*	*10.7*
Depreciation	722	740	830	807	769	790	800	812	3,188	3,170
Interest	1,037	740	565	581	613	850	1,000	1,102	2,922	3,565
Other Income	2,442	1,633	2,156	1,668	1,804	2,300	2,500	3,187	7,898	9,791
PBT	**3,678**	**3,283**	**3,114**	**2,895**	**2,957**	**3,786**	**3,774**	**3,813**	**12,969**	**14,331**
Tax (incl contingencies)	513	214	333	384	494	653	651	638	1,453	2,436
Effective Tax Rate (%)	*13.9*	*6.5*	*10.7*	*13.3*	*16.7*	*17.3*	*17.3*	*16.7*	*11.2*	*17.0*
Reported PAT	**3,166**	**3,069**	**2,781**	**2,511**	**2,463**	**3,133**	**3,123**	**3,175**	**11,517**	**11,895**
PAT (Pre Exceptionals)	**3,166**	**3,069**	**2,781**	**2,511**	**2,463**	**3,133**	**3,123**	**3,175**	**11,517**	**11,895**
Change (%)	*26.5*	*44.6*	*-1.5*	*-33.0*	*-22.2*	*2.1*	*12.3*	*26.5*	*10.7*	*3.3*

E: MOSL Estimates; Quarterly nos. are on standalone basis

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Tata Power

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	TPWR IN
	REUTERS CODE
S&P CNX: 6,018	TTPW.BO

Equity Shares (m)	237.3
52 Week Range (Rs)	1519/1193
1,6,12 Rel Perf (%)	-6/-16/-18
Mcap (Rs b)	315.1
Mcap (USD b)	7.0

24 September 2010

Neutral

Previous Recommendation: Neutral Rs1,328

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	72,362	11,667	52.4	52.4	25.3	3.6	6.6	6.5	4.6	29.3
03/10A	70,983	14,799	62.4	18.9	20.9	3.2	7.9	9.2	5.1	19.4
03/11E	72,077	18,987	76.8	23.1	17.0	2.7	7.7	7.5	5.2	19.6
03/12E	73,339	25,295	102.3	33.2	12.8	2.6	7.6	7.5	5.3	18.4

** Consolidated including share of profit from Bumi Resources, Pre Exceptionals, Fully Diluted*

- For 2QFY11, we expect Tata Power to post revenue of Rs17.6b (up 2% YoY) and net profit of Rs1.8b (up 11% YoY).
- Earnings for the quarter are likely to be impacted by disruption in operations owing to unavailability of imported coal at its Trombay project, due to the collision of two vessels near JNPT. Performance of the project was impacted in August and generation/PLF reported was down 22% YoY/2470bp.
- The upside from merchant earnings for capacity available from regulated business out of its fallout with RELI is still sub-judice and was further limited in 2QFY11.
- Under its Mumbai distribution circle, Tata Power increased its customer base from 56k in March 2010 to 75k in June 2010, which includes switchover of 28.7K customers from RELI.
- Tata Power sold 15% stake in coal SPV (which owns 30% stake in KPC/Arutmin mines in Indonesia) for US$300m to Olympus and is planning to utilize the proceeds for further acquisition of coal assets or to repay existing debt.
- Tata Power received state approval for land acquisition and MoEF's environment clearance for 1600MW Coastal Maharashtra Project.
- 1,050MW Maithon Project is likely to be commissioned in FY11; 82% of project work is completed.
- We expect Tata Power to post net profit of Rs18.9b in FY11 (up 23.1%) and Rs25.3b in FY12 (up 33.2%). The stock trades at 17x FY11E and 12.8x FY12E reported earnings. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Operating Income	**20,156**	**17,211**	**15,665**	**17,951**	**18,025**	**17,555**	**16,840**	**19,658**	**70,983**	**72,077**
Change (%)	*-0.5*	*-12.1*	*-11.8*	*21.8*	*-10.6*	*2.0*	*7.5*	*9.5*	*-1.9*	*1.5*
EBITDA	**6,323**	**4,168**	**3,641**	**4,491**	**3,854**	**3,994**	**5,136**	**6,037**	**18,623**	**19,021**
Change (%)	*107.4*	*57.5*	*42.2*	*53.1*	*-39.0*	*-4.2*	*41.1*	*34.4*	*66.4*	*2.1*
As of % Sales	*31.4*	*24.2*	*23.2*	*25.0*	*21.4*	*22.8*	*30.5*	*30.7*	*26.2*	*26.4*
Depreciation	1,118	1,184	1,208	1,270	1,267	1,325	1,450	1,569	4,779	5,611
Interest	1,177	1,018	922	950	796	1,025	1,225	1,319	4,066	4,364
Other Income	1,076	755	452	533	1,930	850	300	340	2,816	3,420
PBT	**5,104**	**2,721**	**1,963**	**2,805**	**3,722**	**2,494**	**2,761**	**3,490**	**12,593**	**12,466**
Tax	1,333	889	484	499	1,032	723	794	991	3,205	3,540
Effective Tax Rate (%)	*26.1*	*32.7*	*24.6*	*17.8*	*27.7*	*29.0*	*28.8*	*28.4*	*25.5*	*28.4*
Reported PAT	**3,771**	**1,832**	**1,479**	**2,306**	**2,690**	**1,771**	**1,967**	**2,499**	**9,388**	**8,926**
Adjusted PAT	**2,020**	**1,589**	**1,357**	**2,183**	**2,195**	**1,771**	**1,967**	**2,499**	**7,148**	**8,431**
Change (%)	*27.5*	*-19.3*	*38.7*	*131.8*	*8.6*	*11.5*	*45.0*	*14.5*	*30.6*	*18.0*

E: MOSL Estimates

Satyam Agarwal (AgarwalS@MotilalOswal.com)/Nalin Bhatt (NalinBhatt@MotilalOswal.com)/Vishal Periwal (Vishal.Periwal@MotilalOswal.com)

Sintex Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	BVML IN
	REUTERS CODE
S&P CNX: 6,018	SNTX.BO

Equity Shares (m)	135.5
52 Week Range (Rs)	397/204
1,6,12 Rel Perf (%)	-9/16/28
Mcap (Rs b)	49.1
Mcap (USD b)	1.1

24 September 2010

Buy

Previous Recommendation: Buy

Rs363

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	31,332	3,096	22.9	40.7			20.3	11.5		
03/10A	33,192	3,092	22.8	-0.2	14.9	2.5	18.0	10.7	1.9	11.9
03/11E	40,934	4,152	30.6	34.3	12.2	2.1	18.8	13.7	1.4	8.1
03/12E	49,435	5,283	39.0	27.3	9.3	1.7	20.5	12.2	1.2	6.4

Consolidated

- **Low base impact to continue in 2Q:** As in 1QFY11, the low base effect for Sintex continues into 2Q as well (in 2QFY10, Sintex's sales were down 2.5% YoY and PAT down 17% YoY). Thus, for the quarter, we expect a robust 43% YoY growth in revenue and 62% YoY growth in PAT.
- **Robust growth continues in most standalone business segments …:** We expect robust growth in almost all of Sintex's major business segments – monolithic is expected to do well on the back of order backlog of Rs23b, 3x FY10 revenue. The company has bid for large monolithic business from government bodies such as BSF (Border Security Force) and CISF (Central Industrial Security Force). Pre-fabricated structures business is reviving with BTS (base telecom station) shelter segment having bottomed out in FY10. Custom molding segment is seeing healthy growth on the back of recovery in power and auto sectors.
- **… subsidiaries are also performing better:** Among subsidiaries, Indian subsidiary, Bright Autoplast is a beneficiary of (1) revival in auto sector, and (2) its own capacity expansion in FY10, both in auto and electric parts. Nief France and Wausaukee USA are seeing improvement in margins due to procurement of semi-finished products from India and other integration benefits.
- **Reasonable valuation, maintain Buy:** On a muted base of FY10, our estimates indicate EPS CAGR of 30% through FY12. The stock currently trades at reasonable P/E of 12.2x FY11E and 9.3x FY12E. We value Sintex at 12x FY12E EPS of Rs39 to arrive at a target price of Rs468, 29% upside from current levels. We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Operating Income	**6,624**	**7,154**	**8,478**	**10,936**	**9,106**	**10,233**	**10,643**	**10,951**	**33,192**	**40,934**
YoY Growth (%)	*-9.1*	*-2.5*	*3.4*	*28.6*	*37.5*	*43.0*	*25.5*	*0.1*	*5.9*	*23.3*
EBITDA	**874**	**1,305**	**1,269**	**1,932**	**1,374**	**1,893**	**1,862**	**2,123**	**5,381**	**7,253**
EBITDA Margin (%)	*13.2*	*18.2*	*15.0*	*17.7*	*15.1*	*18.5*	*17.5*	*19.4*	*16.2*	*17.7*
YoY Growth (%)	*-5.3*	*-2.6*	*-0.3*	*16.6*	*57.2*	*45.0*	*46.8*	*9.9*	*3.6*	*34.8*
Depreciation	366	372	355	351	363	400	430	455	1,445	1,648
Interest	142	157	175	257	249	220	220	218	731	907
Other Income	159	103	249	122	362	150	150	93	633	595
Extraordinary Items	200	-123	0	168	-160	0	0	0	245	0
Profit before Tax	**725**	**757**	**988**	**1,613**	**964**	**1,423**	**1,362**	**1,543**	**4,083**	**5,293**
Tax Provisions	114	174	260	224	174	290	277	337	772	1,078
Tax / PBT	*15.7*	*23.0*	*26.3*	*13.9*	*18.0*	*20.4*	*20.4*	*21.8*	*18.9*	*20.4*
PAT before MI	**611**	**583**	**728**	**1,390**	**791**	**1,133**	**1,085**	**1,206**	**3,311**	**4,215**
Minority Interest	5	10	3	2	2	8	10	10	21	30
Consolidated PAT	**606**	**572**	**724**	**1,387**	**788**	**1,125**	**1,075**	**1,196**	**3,290**	**4,185**
Adj. Consolidated PAT	**406**	**695**	**724**	**1,220**	**948**	**1,125**	**1,075**	**1,196**	**3,045**	**4,185**
YoY Growth (%)	*-28.1*	*-17.1*	*2.3*	*23.8*	*133.7*	*61.9*	*48.4*	*-1.9*	*-1.7*	*37.4*

E: MOSL Estimates

Shrinath Mithanthaya (ShrinathM@MotilalOswal.com)

United Phosphorus

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,045	UNTP IN
	REUTERS CODE
S&P CNX: 6,018	UNPO.BO

Equity Shares (m)	439.6
52 Week Range (Rs)	200/133
1,6,12 Rel Perf (%)	-13/10/0
Mcap (Rs b)	82.5
Mcap (USD b)	1.8

24 September 2010 **Buy**

Previous Recommendation: Buy Rs188

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	50,678	5,865	12.7	48.3	14.8	3.1	23.9	20.6	1.8	9.1
03/10A	54,945	5,527	12.0	-5.8	15.7	2.6	18.8	15.8	1.6	8.9
03/11E	62,558	7,301	15.8	32.1	11.9	2.2	20.9	18.9	1.5	7.2
03/12E	71,587	8,652	18.7	18.5	10.0	1.8	20.3	19.5	1.2	5.7

- We expect United Phosphorus (UPL) to report 11.5% YoY growth in consolidated revenue to Rs13b, driven by low base effect of last year, which had witnessed the onset of price correction. We estimate 12% growth in domestic revenue and 11% growth in international revenue. Revenue growth would be aided by the acquisition of non-mixture Mancozeb business from DuPont (with effect from 3 June 2010).
- EBITDA margin would expand 270bp YoY to 20%, aided by lower raw material cost, last leg of Cerexagri restructuring and Mancozeb acquisition. Higher tax provisioning would restrict PAT growth to 38% YoY to Rs1.4b.
- While the operating environment in developed markets is slowly improving, United Phosphorus' financial performance would be impacted by Rupee appreciation against Euro (~28% of revenue from Europe).
- We maintain our EPS estimates at Rs15.8 for FY11 and Rs18.7 for FY12. Valuations at 10x FY12E EPS (fully diluted) and EV of 5.7x FY12E EBITDA do not reflect the growth potential (both organic and inorganic) for the company. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Gross Revenues	**16,442**	**11,610**	**11,580**	**15,314**	**14,872**	**12,950**	**14,775**	**19,391**	**54,946**	**62,558**
YoY Change (%)	*25.1*	*-0.3*	*5.8*	*9.4*	*-9.5*	*11.5*	*27.6*	*26.6*	*10.5*	*13.9*
Total Expenditure	13,306	9,606	9,545	12,155	11,794	10,360	11,859	15,304	44,612	49,317
EBITDA	**3,135**	**2,005**	**2,035**	**3,159**	**3,078**	**2,590**	**2,916**	**4,086**	**10,334**	**13,241**
Margins (%)	*19.1*	*17.3*	*17.6*	*20.6*	*20.7*	*20.0*	*19.7*	*21.1*	*18.8*	*21.2*
Depreciation	501	547	541	558	472	550	575	576	2,147	2,173
Interest	578	405	596	360	1,004	530	545	575	1,938	2,653
PBT before EO Expense	**2,056**	**1,053**	**898**	**2,241**	**1,603**	**1,510**	**1,796**	**2,935**	**6,249**	**8,414**
Extra-Ord Expense	0	0	0	0	0	0	0	0	267	0
PBT after EO Expense	**2,056**	**1,053**	**898**	**2,241**	**1,603**	**1,510**	**1,796**	**2,935**	**5,982**	**8,414**
Tax	268	165	247	134	156	272	539	295	814	1,262
Deferred Tax	0	0	0	0	0	0	0	168	0	168
Rate (%)	*13.0*	*15.7*	*27.5*	*6.0*	*9.8*	*18.0*	*30.0*	*15.8*	*13.6*	*17.0*
Reported PAT	**1,789**	**888**	**651**	**2,107**	**1,447**	**1,238**	**1,257**	**2,472**	**5,168**	**6,984**
Income from Associate Co	-26	135	-10	30	-23	175	125	41	188	334
Adjusted PAT	**1,762**	**1,023**	**641**	**2,137**	**1,424**	**1,413**	**1,382**	**2,512**	**5,586**	**7,318**
YoY Change (%)	*19.3*	*-16.2*	*-0.8*	*32.4*	*-19.2*	*38.1*	*115.6*	*17.6*	*12.9*	*31.0*
Margins (%)	*10.7*	*8.8*	*5.5*	*14.0*	*9.6*	*10.9*	*9.4*	*13.0*	*10.2*	*11.7*

E: MOSL Estimates

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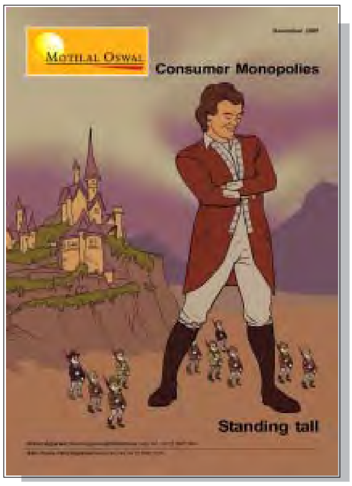
Disclosure of Interest Statement

The MOSt group and its Directors own shares in the following companies covered in this report: Bharti Airtel, Birla Corporation, GSK Pharma, Hero Honda, IOC, Marico, Nestle India, Oriental Bank, Siemens, South Indian Bank, State Bank, Tata Steel

MOSt has broking relationships with a few of the companies covered in this report.

MOSt is engaged in providing investment-banking services in the following companies covered in this report: Alok Industries, Sintex Industries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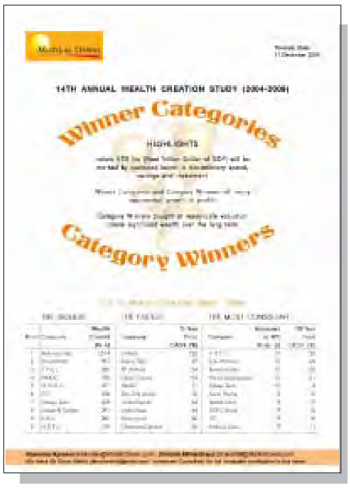
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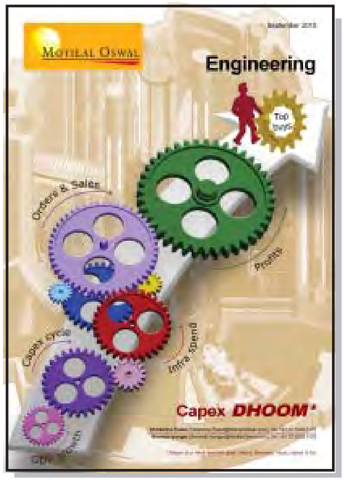
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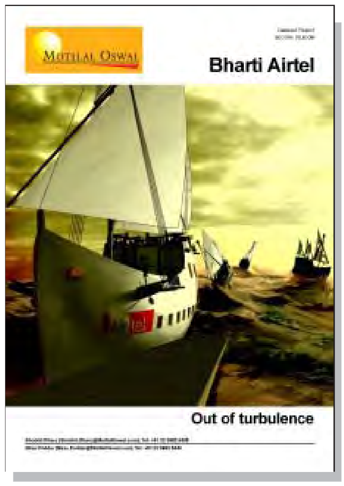
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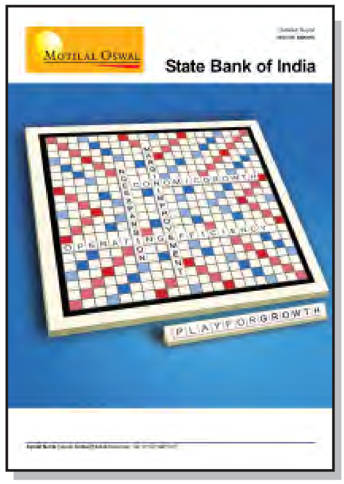
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