Macquarie Research
Equities

MACQUARIE

INDIA

India earnings preview

3 July 2009

Sector earnings growth 1Q FY3/10E

Sectors	YoY PAT growth	QoQ PAT growth
Banks (16)	34%	-13%
Pharma (4)	19%	188%
Infrastructure (13)	17%	-46%
Consumer, Retail and Textile (11)	10%	35%
Telecom (9)	4%	8%
Oil & Gas (9)	-1%	-53%
Auto (5)	-3%	13%
Cement (5)	-5%	10%
Metals (9)	-42%	-12%
Properties (4)	-82%	-9%
Macquarie's universe	**-6%**	**-26%**
Macquarie's universe (excl Oil & Gas)	**-8%**	**-2%**

Source: Macquarie Research, July 2009

Top picks

Company	Ticker	Rec.	Price (Rs)	TP (Rs)	Upside
Axis Bank	AXSB	OP	846	903	7%
BHEL	BHEL	OP	2,144	2,312	8%
Tata Steel	TATA	OP	418	584	40%
Reliance Industries	RIL	OP	2,003	2,405	20%
Unitech	UT	OP	82	95	16%

Price as of 2 July 2009.

Source: Bloomberg, Macquarie Research, July 2009

Least-preferred

Company	Ticker	Rec.	Price (Rs)	TP (Rs)	Upside
GMR Infra	GMR	UP	137	104	-24%
Idea	Idea	UP	74	45	-39%
Zee Ent.	Zee	UP	182	90	-51%

Price as of 2 July 2009.

Source: Macquarie Research, July 2009

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Decreasing earnings stress

Event

- We preview 1Q FY3/10E earnings for our coverage universe. Although earnings growth remains negative, we expect profits for the firms in our coverage, ex the oil and gas companies, to contract by 8% YoY vs -20% YoY in 4Q FY3/09; we see some signs of improvement in individual sectors.

Impact

- **Domestic cyclicals: not great, but looking better.** The domestic cyclicals' earnings, while not great, are starting to look better. Auto sales volumes have increased sequentially, with better financing from state-owned banks and higher rural sales the key drivers. Infrastructure should also see continued moderate growth due to the robust order backlog, with stable margins.
- **Banks to show robust growth.** We expect banks to be the standout performers this quarter, with aggregate earnings forecast to increase by 34% YoY, after 24% growth in 4Q09. This is partly due to the lower base in 1Q FY09, with earnings in that quarter hit by large one-off bond provisions. However, even on a pre-provision level, growth is expected to be a healthy 25% YoY.
- **Operating margins to improve sequentially.** We expect aggregate operating margins to improve sequentially by more than 150bp as the lower costs kick in. The key sectors here would be auto – based on lower input costs – and cement and metals – due to a combination of lower costs and higher prices.
- **Commodities still under pressure.** Commodities remain under pressure, primarily from the high base effect. We expect this to continue in the next quarter as well. Metal earnings are expected to contract. However, the sector should benefit from higher prices and aggressive cost cutting by the companies. The oil and gas sector's earnings continue to fluctuate subject to the government's subsidy policy, and we have therefore excluded them from our analysis.

Outlook

- We believe that the recovery in the economy is still in its early stages and that it may be too early for a significant pass through to corporate earnings. However, the foundation for the recovery has been set, both by the policy measures carried out in late-2008 and by the further reforms expected to be carried out by the new government.
- We continue to be positive on the Indian market and advise investors to stick with quality growth names and/or stocks with strong prospects for earnings upgrades, particularly in commodities and properties. We are replacing JSW Steel as one of our top picks with Tata Steel, in line with the views of our sector analyst Rakesh Arora. Our remaining top picks are Axis Bank, BHEL, Reliance and Unitech. Our key Underperforms are GMR Infra, Zee Entertainment and Idea Cellular.

Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

Fig 1 1Q FY3/10 estimates for Macquarie's universe, by sector

	Net sales (Rs m)			EBIDTA (Rs m)			PAT (Rs m)			
Sector	**Q1FY3/10E**	**% change (YoY)**	**% change (QoQ)**	**Q1FY3/10E**	**% change (YoY)**	**% change (QoQ)**	**Q1FY3/10E**	**% change (YoY)**	**% change (QoQ)**	**Key sector drivers**
Automobiles	194,626	4%	0%	21,424	5%	13%	12,559	-3%	13%	Sales volumes improve for major players on QoQ basis. Higher financing from PSU banks and higher rural sales are the key drivers. EBITDA margins improve as companies benefit from lower material costs.
Banks	309,528	21%	-6%	172,881	25%	-11%	86,601	34%	-13%	Net profit growth should be robust YoY, although QoQ growth may be affected due to lack of strong bond profits in 4Q FY09. Loan growth should remain moderate, while margins remain under pressure on reducing loan yields even as cost of funds takes time to catch up. Restructurings done in the quarter (left over from 4Q09) should be another key data point.
Cement	93,742	12%	-3%	28,222	20%	8%	16,664	-5%	10%	Companies are benefiting from both rising cement prices and declining costs. Also, sales volume has been good. We expect a decline in volumes and prices in the coming quarter as monsoon season sets in.
Infrastructure	289,765	19%	-24%	36,675	25%	-37%	20,614	17%	-46%	Moderate growth could continue due to robust order backlog. Margins could remain stable as there have been no enhanced competitive pressures leading to a margin decline. Order inflows to remain soft in 1Q FY10 due to elections, and that could be the key driver going forward in FY10.
Consumer, Retail and Textiles	153,388	12%	10%	27,772	21%	11%	17,240	10%	35%	Stable growth in core businesses in line with full-year estimates, driven by decent volume growth. Inorganic growth in certain companies to boost results. Margins to ease due to fall in crude-based input costs. Growth in retail sector to be driven by store additions. Standalone sales not able to fully capture the growth of subsidiaries; accounting changes may affect results. For textiles sector, sales growth is primarily driven by domestic market.
Metals	308,574	-16%	-10%	67,433	-44%	13%	42,024	-42%	-12%	Most metals prices have improved on QoQ basis. This, coupled with aggressive cost cutting by most companies, is expected to improve margins on QoQ basis.
Petroleum	1,784,315	-26%	9%	204,945	3%	-35%	102,805	-1%	-53%	We expect PSU oil marketing companies to report small profits if they are not compensated with oil bonds. Upstream companies' share of subsidy burden should be lower than last year. ONGC and Cairn may be affected by the low oil prices; however, net realisations may be positively affected by weaker currency. Reliance's earnings should be boosted by KG-D6 gas sales, partially offset by weaker refining margins. Petrochemical margins have improved from last quarter.
Properties	19,250	-61%	21%	6,803	-77%	38%	4,071	-82%	-9%	Sales expected to drop significantly YoY due to a slowdown in the physical property market. Margins likely to come under pressure due to change in product mix. Since accounting is done on a "percentage of completion" method for most of the firms, recognition of revenues and profit tends to be lumpy.
Telecom & Media	245,235	21%	4%	83,155	18%	8%	41,759	4%	8%	1Q FY3/10 results should reinforce our positive investment thesis on Bharti, although in the near term, Bharti's stock-price movement could be a function of the outcome of the MTN deal. Profitability squeeze at Idea and MTNL, expected to play out in the next two quarters, is the key reason for our negative outlook on the two stocks. In the media sector, we continue to favour exposure to regional TV broadcasters. We believe that regional players are better placed than Hindi GECs to take advantage of the domestic growth story. As such, we advocate a switch from Zee Entertainment to Zee News.
Pharma	60,105	8%	-1%	12,097	-9%	6%	9,627	19%	188%	Emerging markets to continue growing faster than mature markets. Sales for exclusivity products should give a boost to reported US sales this quarter. (Amifostine in the case of Sun, Imitrex sales for Dr. Reddy). Tamiflu sales could add volatility to Cipla sales.
Macquarie's total universe	**3,458,527**	**-14%**	**1%**	**661,406**	**-1%**	**-16%**	**353,964**	**-6%**	**-26%**	
Macquarie's total universe (excl Oil & Gas)	**1,674,212**	**6%**	**-7%**	**456,462**	**-3%**	**-4%**	**251,159**	**-8%**	**-2%**	

Source: Macquarie Research, July 2009

Fig 2 1Q FY3/10 estimates for Macquarie's universe, by company

Company name	Net sales (Rs m) Q1 FY3/10E	% chg (YoY)	% chg (QoQ)	EBIDTA (Rs m) Q1 FY3/10E	% chg (YoY)	% chg (QoQ)	PAT (Rs m) Q1 FY3/10E	% chg (YoY)	% chg (QoQ)	Key drivers
Automobiles										
Hero Honda	38,072	34%	12%	6,073	78%	14%	4,499	65%	12%	Volume growth higher than industry; margins to improve due to lower material costs and better realisations. PAT should also benefit from tax breaks for the new plant.
Maruti Suzuki India Ltd	61,444	30%	-3%	6,139	29%	30%	4,403	-5%	21%	Quarter numbers to benefit from strong volume growth of ~18% by the company; lower material costs and higher operational scale. Thus, margins should improve on QoQ basis.
Ashok Leyland	10,068	-47%	-17%	604	-87%	-47%	(176)	-133%	-149%	Significantly lower volumes could have negative effect on the quarter's results, while lower raw material costs should be a benefit. Higher interest costs to further affect the bottom line.
Bajaj Auto	22,254	-4%	18%	3,586	34%	18%	2,332	33%	17%	Volumes affected by decline in exports. Margins to benefit from lower raw material prices and higher export realisation.
Tata Motors	62,788	-9%	-7%	5,023	5%	6%	1,500	-54%	34%	Improvement in volumes and lower raw material costs to have positive effect on margins. Higher interest costs to affect PAT.
Total	**194,626**	**4%**	**0%**	**21,424**	**5%**	**13%**	**12,559**	**-3%**	**13%**	
Banks**										
ICICI Bank	39,386	9%	3%	22,551	32%	5%	8,624	18%	16%	Loan portfolio should grow from the lows of 4Q09. Provisioning should remain elevated.
HDFC Bank	30,548	28%	3%	14,639	32%	-7%	6,304	36%	0%	Lending growth should slow. Margins should be more resilient.
SBI	85,693	19%	-10%	43,386	9%	-18%	20,501	25%	-25%	Loan growth should be steady. Margins remain under pressure from falling loan yields.
Axis Bank	19,730	37%	5%	10,869	35%	-5%	5,234	58%	-10%	Fees to continue to be strong. Loan growth should be resilient.
Syndicate Bank	7,834	21%	-15%	3,458	18%	-28%	1,603	82%	-22%	NII should be under pressure from falling margins. Trading gains may boost results.
Union Bank	12,272	19%	-17%	6,790	10%	-26%	2,908	27%	-37%	Margin pressure should continue. Loan growth should remain steady at last quarter's levels.
Vijaya Bank	5,132	56%	-12%	2,875	86%	-9%	893	217%	-14%	NIMs under pressure. Lack of bond provisions in 1Q09 should mean robust YoY growth in profits.
Punjab National Bank	26,332	39%	-5%	14,207	45%	-11%	7,492	46%	-13%	Loan growth should remain strong at c30%. Margins under pressure as the bank has been one of the most aggressive in cutting loan rates.
HDFC	8,608	15%	-22%	7,554	16%	-26%	5,439	16%	-26%	Lending growth should remain moderate even as the company should be able to maintain margins.
Bank of Baroda	20,768	32%	-11%	12,256	42%	-6%	6,509	75%	-14%	Revival in fee growth should continue. NIMs remain under pressure as the bank cuts loan rates and deposit rates take time to catch up.
Bank of India	20,534	18%	-7%	12,843	20%	-9%	6,690	19%	-17%	Margins under pressure. Provisioning to remain high as asset quality deteriorates.
Kotak Mahindra Bank	9,320	-9%	4%	4,253	55%	0%	2,030	35%	19%	Improved outlook for capital market businesses. Loan growth at the banking business should remain anaemic, however.
IDFC	4,139	8%	0%	3,125	3%	11%	2,232	2%	92%	Infrastructure opportunities remain strong, boosting NII, while capital market businesses should see earnings revive.
IDBI	7,714	87%	-19%	4,536	125%	-6%	2,949	85%	-6%	Margin and asset quality pressures should remain. The bank has had one of the highest percentages of restructured and pending restructuring loans; thus, restructuring done in the quarter would be a key data point.
Reliance Capital Ltd	5,006	-9%	-4%	3,256	-10%	-12%	2,987	-9%	-10%	Revival in capital markets means improved earnings outlook for all the businesses, although insurance will take some time to revive, in our view.
Power Finance Corp	6,511	26%	5%	6,282	24%	6%	4,209	42%	8%	Loan growth should remain steady at c25%. Rupee appreciation in the quarter should mean no forex losses.
Total	**309,528**	**21%**	**-6%**	**172,881**	**25%**	**-11%**	**86,601**	**34%**	**-13%**	
Cement										
ACC	21,067	10%	-3%	6,863	71%	6%	4,252	67%	6%	Realization increase of 7% YoY. Volume increase of ~1%. Margins to benefit from increased realisation and reduction in coal and other costs
Gujarat Ambuja	17,141	9%	-7%	5,738	21%	6%	3,521	-39%	5%	Volume increase of ~3% YoY. Improvement of ~6% in realizations and cost reduction leading to margin increase.
Grasim Industries	27,641	7%	-4%	7,579	1%	11%	4,508	-12%	17%	~11% decline in VSF realisations to affect margins of VSF business on YoY basis; however, margins should improve on QoQ basis. Cement division to mitigate the VSF decline to some extent.
Ultratech Cements	18,426	23%	-1%	5,543	24%	4%	3,235	22%	5%	Volume to increase by 25% YoY, while realisations to remain flat YoY.
India Cements	9,467	16%	7%	2,500	-9%	11%	1,148	-19%	22%	3% volume growth. Decline in coal prices and improved realisations to benefit margins on QoQ basis.
Total	**93,742**	**12%**	**-3%**	**28,222**	**20%**	**8%**	**16,664**	**-5%**	**10%**	
Infrastructure										
Larsen & Toubro	80,747	17%	-24%	7,671	17%	-52%	4,872	21%	-57%	Sale of stake in Ultratech Cement for Rs10.36bn to boost reported PAT. Key figure to watch for is order inflows as management has guided for 30–35% order inflow growth in FY10.
BHEL	54,094	25%	-49%	6,774	81%	-60%	5,386	40%	-60%	Margin expansion story will start coming into play as staff costs decline significantly on YoY basis.
GMR Infra	11,370	28%	-14%	2,501	5%	-13%	253	-65%	-52%	Strong power segment revenues could contribute to healthy growth in top line. However, PAT could suffer from higher interest and depreciation costs.
Punj Lloyd	31,785	20%	-1%	2,702	28%	86%	1,154	18%	436%	With SABIC provisioning out of the way, growth should return to normal levels. However, margins in international subsidiary have to be closely watched along with any other provisioning in new orders.

Fig 2 1Q FY3/10 estimates for Macquarie's universe, by company

	Net sales (Rs m)			EBIDTA (Rs m)			PAT (Rs m)			
Company name	**Q1 FY3/10E**	**% chg (YoY)**	**% chg (QoQ)**	**Q1 FY3/10E**	**% chg (YoY)**	**% chg (QoQ)**	**Q1 FY3/10E**	**% chg (YoY)**	**% chg (QoQ)**	**Key drivers**
IVRCL Infra & Projects	12,000	29%	-26%	1,080	32%	-24%	458	5%	-43%	We expect top line and margins to be fairly robust, per management's guidance earlier for a robust FY10. PAT could continue to suffer, however, due to high debt levels translating into higher interest costs.
Nagarjuna Construction	10,874	12%	-1%	979	7%	17%	421	14%	10%	Execution worries have plagued the company for the last few quarters. Thus top line would be a key figure to watch.
ABB India	16,163	0%	16%	1,849	-3%	32%	1,146	-13%	16%	Management's commentary has not been too enthusiastic for CY09. We expect margins to remain under pressure. Incremental order inflows from PGCIL are key to sustaining growth in double digits going forward.
ICSA Ltd	3,019	25%	6%	634	2%	1%	353	-14%	4%	Top line will remain robust; however, margins on YoY basis should decline sharply given change in mix in order book towards projects from products business.
Crompton Greaves India	23,603	16%	-4%	2,408	16%	-27%	1,388	13%	-28%	We expect fairly stable growth overall, with international subsidiaries continuing to drive growth. Margin improvement needs to be watched.
Jaiprakash Associates	16,179	41%	-22%	4,702	51%	-33%	2,012	58%	-48%	With the cement story kicking in, volumes should be high, thus contributing to robust top-line growth, which should trickle down to earnings, in our view.
Siemens India	19,907	10%	-16%	2,488	-2%	-26%	1,761	4%	-22%	With profitable IT subsidiaries sold off to parent, growth and margins could remain under pressure. A stagnant order book from last seven quarters could be key figure to watch for.
Patel Engineering	6,980	25%	-28%	982	25%	-34%	294	-16%	-57%	Execution has positively surprised the market in the recent past. Bottom line may suffer from high depreciation costs in US, which could last for another 5–8 quarters. Order mix could move further towards irrigation segment orders from hydropower segment.
Mundra Port & SEZ	3,045	20%	7%	1,905	8%	15%	1,117	15%	-26%	Mundra surprised all by registering high volume growth in FY09 in a benign export environment. Volume growth should be closely watched, with the long-term contracts with Adani and Maruti coming into play.
Total	**289,765**	**19%**	**-24%**	**36,675**	**25%**	**-37%**	**20,614**	**17%**	**-46%**	
Consumer, Retail and Textile										
ITC	42,897	10%	10%	13,083	16%	4%	8,374	12%	4%	We assume 3% YoY growth in cigarette volumes as the base becomes comparable (non-filter not present in base quarter). Expect margins in cigarette business to remain firm due to improved mix and effect of price hikes. Loss in the other-FMCG segments to decline due to pickup in sales and fall in operating costs.
Hindustan Unilever	47,216	12%	18%	7,082	24%	29%	6,186	11%	30%	Sales growth to be driven by sequential improvement in volumes, market share and YoY price increases.
Dabur	6,946	15%	-5%	1,053	21%	-19%	775	10%	-26%	Strong growth driven by growth in hair care, international business and stable performance in foods. Margins likely to improve YoY on account of decline in key input costs.
Marico	6,911	15%	23%	907	20%	24%	571	23%	-4%	Strong growth driven by growth in hair care, edible oils and international ventures with stable performance in 'Parachute'. Margins likely to improve due to 15% and 20% declines in key input raw coconut oil prices and edible oils, respectively. Offset by investments in overseas businesses and pressure in retail.
United Spirites	11,654	15%	26%	2,028	-6%	27%	804	-31%	44%	Sales growth to be driven by strong volume growth (despite the economic slowdown). Margins to show sequential improvement as input costs have declined by 10–15% from the peak in 3Q FY09.
Raymond	2711	15%	-26%	217	-156%	33%	-94	-77%	-96%	Sales growth driven by worsted fabric, offset by some pressure on domestic retail. Losses (at consolidated level) likely to be limited by exit from the denim business.
Arvind Mills	5,891	8%	0%	825	50%	38%	50	-9%	-125%	Denim division weakness to continue, but base is lower now. Pressure on margins due to lower capacity utilisation. Company may return to profitability due to a fall in power cost.
Titan	8,913	10%	1%	553	-1%	-1%	236	-27%	130%	Sales growth to be driven by a strong increase in gold prices and stable growth in watches. Margins to fall due to higher contribution of jewellery.
Pantaloon Retail	16,162	17%	-2%	1,746	24%	1%	329	1%	-4%	Growth driven by store additions and a sequential pickup in same store sales growth. Margin improvement trajectory may slow due to high contribution of discount sales.
Shopper's Stop	3,022	10%	-2%	151	-2692%	98%	(67)	-56%	-61%	Sales growth to be driven by store additions, offset by a YoY slowdown in same store sales growth. Results affected as promotion spending and interest and depreciation related to new stores kick in ahead of sales.
Provogue	1,066	57%	18%	128	22%	-15%	76	26%	-8%	Sales growth to be driven by store additions and some sequential pickup in same store sales growth. Results affected as promotion spending and interest and depreciation related to new stores kick in ahead of sales. Standalone results do not capture the growth of Prozone, the real estate subsidiary (this contributes ~80% of our target price for Provogue).
Total	**153,388**	**12%**	**10%**	**27,772**	**21%**	**11%**	**17,240**	**10%**	**35%**	
Metals										
Hindalco	15,790	-66%	-57%	4,670	-51%	102%	3,003	-57%	12%	Improved realisations and better cost controls to improve margins on QoQ basis.
NALCO	14,904	2%	32%	1,704	-77%	78%	1,313	-75%	58%	EBITDA margins to improve by ~250bp QoQ, mainly on account of improved realisations.
Tata Steel	52,877	-14%	-17%	15,374	-49%	16%	7,252	-51%	-50%	30% increase in sales volumes expected on YoY basis, realisations to improve by ~4% on QoQ basis. Reported PAT affected by exceptionals in the last quarter.

Fig 2 1Q FY3/10 estimates for Macquarie's universe, by company

	Net sales (Rs m)			EBIDTA (Rs m)			PAT (Rs m)			
Company name	**Q1 FY3/10E**	**% chg (YoY)**	**% chg (QoQ)**	**Q1 FY3/10E**	**% chg (YoY)**	**% chg (QoQ)**	**Q1 FY3/10E**	**% chg (YoY)**	**% chg (QoQ)**	**Key drivers**
SAIL	96,802	-12%	-20%	12,629	-54%	-40%	9,500	-48%	-36%	Realizations improve nearly 3% QoQ. Staff costs may increase.
Hindustan Zinc	15,260	-7%	21%	8,285	-15%	49%	7,588	-10%	38%	Zinc realisations improve ~23% QoQ, margins to improve further on better cost reduction.
Sterlite Industries	48,346	-16%	10%	8,869	-51%	6%	6,100	-47%	2%	Increase in aluminium and zinc prices on QoQ basis to help margins. Volumes expected to decline marginally on QoQ basis. Overall margins to decline marginally on QoQ basis.
JSW Steel (Standalone)	42,947	17%	31%	8,522	-14%	144%	2,932	34%	530%	Realizations expected to improve by a little over 3%, and volumes expected to increase by 27% on QoQ basis. Better cost controls to help margins further.
Gujarat NRE Coke Ltd.	2,804	-26%	31%	599	-53%	133%	263	-71%	-125%	Improved realisations and better operational efficiency to improve profitability on QoQ basis.
Jindal Steel & Power	18,845	-1%	7%	6,781	-4%	57%	4,073	1%	13%	Steel business to benefit from cost control and power business to experience seasonal effect. Exceptionals in last quarter to affect reported EBITDA margins.
Total	**308,574**	**-16%**	**-10%**	**67,433**	**-44%**	**13%**	**42,024**	**-42%**	**-12%**	
Petroleum										
ONGC	192,222	-36%	32%	91,700	-22%	59%	44,178	-33%	128%	We expect ONGC to pay Rs10bn as subsidy in 1Q10. ONGC's earnings will be affected by lower crude oil production and lower realisations YoY due to fall in crude prices.
BPCL	270,351	-31%	2%	8,834	215%	-79%	1,286	112%	-96%	Marketing margins on petrol and diesel averaged negative in the quarter. Profits will depend on oil bonds issuance and subsidies paid.
HPCL	256,573	-26%	2%	6,663	262%	-88%	1,172	NM	-98%	Marketing margins on petrol and diesel averaged negative in the quarter. Profits will depend on oil bonds issuance and subsidies paid.
IOCL	629,346	-29%	5%	17,591	83%	-80%	5,381	NM	-92%	Marketing margins on petrol and diesel averaged negative in the quarter. Profits will depend on oil bonds issuance and subsidies paid.
Reliance Industries	328,529	-21%	16%	59,723	-2%	10%	40,011	-3%	3%	Earnings may be higher than in the previous quarter due to contributions from KG-D6 gas sales. Refining margins were significantly lower, while petrochemical margins gained in the last quarter.
GAIL	66,343	16%	9%	12,601	-10%	32%	7,934	-12%	26%	Gas transmission volumes and petrochemicals margins were higher YoY. Subsidies are the unknown variable.
Petronet LNG	30,531	86%	15%	2,542	33%	-26%	1,474	40%	-28%	Earnings should be boosted by higher volumes from spot cargoes.
Aban Offshore - standalone	7,818	5%	1%	4,242	6%	-2%	728	-34%	25%	We do not think any new contract started in the last quarter. Earnings could decline on an increase in interest expense.
Cairn India Limited	2,600	-36%	43%	1,048	-64%	335%	640	-54%	146%	Lower oil prices, partially offset by weaker currency, could drive down the top line. Volumes are expected to remain flat.
Total	**1,784,315**	**-26%**	**9%**	**204,945**	**3%**	**-35%**	**102,805**	**-1%**	**-53%**	
Properties										
Unitech	4,098	-60%	5%	1,434	-76%	9%	1,927	-54%	-31%	Sales expected to drop significantly YoY due to a slowdown in the physical property market. The successful launches in mid-income housing category in the previous quarter may not show up in results. Margins likely to come under pressure due to change in product mix, notably the higher contribution from mid-income housing projects. Small sequential drop in interest expense due to proceeds from secondary offering and asset sales. Accounting is done on percentage of completion method, an indicator of construction cycle. This usually is not directly correlated to underlying cash sales and off-take and hence this is not an accurate representative of underlying supply-demand dynamics. In fact, this is why quarterly results are not the primary driver of stock prices.
Indiabulls Real Estate	634	38%	50%	(63)	33%	70%	327	150%	1208%	Sales may show minor improvement due to some inflow on account of rentals from the Mumbai commercial properties. Other income may show an improvement on account of treasury gains (interest income on proceeds from secondary offering). Revenue and earnings are very difficult to predict as the only operating asset (commercial property in Mumbai) has just become operational. Management fee and operating costs related to the project are difficult to accurately forecast.
Mahindra Lifespace	328	-32%	5%	39	-44%	1224%	103	6%	-27%	Sales expected to drop significantly YoY due to slowdowns in the physical property market and in demand for its major SEZ projects. Accounting is done on a percentage of completion method, an indicator of the construction cycle. This usually is not directly correlated to underlying cash sales and off-take and hence this is not an accurate representative of underlying supply-demand dynamics.
DLF Ltd	14,190	-63%	26%	5,392	-77%	41%	1,713	-91%	8%	Sales expected to drop significantly YoY due to a slowdown in the physical property market and a lower contribution of sales to DAL (DLF assets). The successful launches in the mid-income housing category in the previous quarter may not show up in results. Margins likely to come under pressure due to higher contribution of mid-income housing projects and lower contribution of high-margin commercial assets to DAL. Since accounting is done on a "percentage of completion" method, recognition of revenues and profit tends to be lumpy.
Total	**19,250**	**-61%**	**21%**	**6,803**	**-77%**	**38%**	**4,071**	**-82%**	**-9%**	

Fig 2 1Q FY3/10 estimates for Macquarie's universe, by company

Company name	Net sales (Rs m) Q1 FY3/10E	% chg (YoY)	% chg (QoQ)	EBIDTA (Rs m) Q1 FY3/10E	% chg (YoY)	% chg (QoQ)	PAT (Rs m) Q1 FY3/10E	% chg (YoY)	% chg (QoQ)	Key drivers
Telecom & Media										
Bharti Airtel	103,676	22%	6%	42,591	21%	6%	24,949	23%	11%	Strong growth in wireless business; subscriber base in June 2009 expected to be 102.2m; ARPU to fall 15.5% YoY and 3.1% QoQ to Rs296. We note that the negative effect due to RCOM GSM launch has been factored into the 6% QoQ decline in gross ARPU seen in the last quarter. We have factored in flat QoQ MoUs at 486 for the April–June quarter. We expect the overall EBITDA margin to be 41.1%, up 40bp QoQ and down 40bp YoY.
Reliance Communications	63,684	20%	4%	24,818	10%	4%	13,095	-17%	-10%	We expect RCOM's subscriber base to reach 79.9m this quarter. Of the total 7.2m net adds in the quarter, 3m will likely be added from new GSM launched in January 2009 in 14 circles. Overall EBITDA margin expected to be 39% (up 10bp QoQ and down 330bp YoY). We expect ARPU to fall to Rs209 in 1Q FY10E from Rs224 in 4Q FY09. After a sharp fall of 9.3% QoQ in monthly MoUs, we expect MoUs to decline sequentially by 1.5% to 366 minutes.
OnMobile	1,275	64%	11%	402	92%	11%	172	13%	-29%	We forecast robust 64% YoY top-line growth for OnMobile. 1Q FY3/10 EBITDA margins may have dipped by 200bp to 31.5%, and we expect admin costs to increase to make up 18.5% of revenues, after declining in 4Q FY3/09. We expect management to outline the revenue opportunity from Vodafone deal in the earnings conference call.
Idea Cellular	30,846	42%	6%	8,768	22%	6%	3,008	12%	10%	Our financial forecasts are factoring in 41% consolidation of Spice Communications and 16% of Indus Towers. Our standalone operating metrics for Idea are a subscriber base that we think reached 42.5m in June 2009, ARPU that likely fell by 11.3% YoY to Rs247 and MoUs that we think remained flat at 403.
MTNL	10,448	-7%	-1%	752	-56%	-1%	259	-77%	120%	MTNL reported an EBITDA loss for the first time in 4Q FY3/09. This was largely due to increased staff costs that followed a merger of 50% of DA with basic pay. Although we expect MTNL to post a 7.2% EBITDA margin for the quarter, deteriorating business fundamentals keep us cautious.
Tata Communications	25,939	14%	0%	4,191	51%	0%	84	-77%	171%	On a consolidated basis, we forecast TCOM to deliver 14% YoY growth in total revenues for 1Q FY3/10. TCOM's consolidated EBITDA margins should decline by 50bp QoQ to 15.9%, as we expect higher network costs to hurt profitability.
Dish TV	2,249	37%	9%	35	NM	NM	(898)	NM	NM	We expect Dish TV to add only 0.45m subscribers this quarter. This is 18% of our full-year subscriber addition target of 2.5m for Dish in FY3/10. We forecast subscription ARPU to grow by 3% QoQ to Rs140. As a result, we expect total consolidated revenues to grow by 9% QoQ (sequentially) to Rs2.2bn in 1Q FY3/09. We note that Dish cut its content costs to 40% of subscription revenues in 4Q FY3/09; we expect that to remain at 39.3% in 1Q FY3/10.
Zee Entertainment	5,785	7%	13%	1,393	-3%	16%	1,009	-3%	31%	We expect ZEEL to report muted 1% YoY growth in advertising revenues in 1Q FY3/10. We expect EBITDA margins to expand by 70bp sequentially, due to rationalisation of high S&D costs incurred in 4Q FY3/09. We highlight risks to subscription revenues for ZEEL since the company has entered fixed-price contracts with promoter group DTH company-Dish TV.
Zee News	1,332	18%	-4%	206	18%	0%	81	-15%	-8%	We expect ZEEN to deliver 18% YoY revenue growth in 1Q FY3/10. Our assumption is based on projected 12% YoY growth in advertising revenues and 9% YoY growth in subscription revenues. We expect ZEEN's EBITDA margins to improve by 60bp to 15.5% in 1Q from 14.9% in 4Q FY3/09. We note that programming costs jumped to 43.8% of revenues in 4Q FY3/09, and we expect that to be scaled back to the 43% level in the quarter.
Total	**245,235**	**21%**	**4%**	**83,155**	**18%**	**8%**	**41,759**	**4%**	**8%**	
Pharma										
Ranbaxy	17,869	-2%	15%	1,509	-54%	284%	465	103%	106%	US FDA ban on 30 products could continue to affect this quarter's earnings. Reported profits could get a boost due to forex-related write backs stemming from sequential currency appreciation,
Sun Pharma	10,032	-4%	-12%	4,180	-22%	12%	4,220	-16%	7%	Higher Protonix sales can add volatility to reported numbers. Potential for one-time inventory write-off due to ongoing FDA issues at Caraco.
Dr. Reddy	18,206	21%	-8%	2,998	49%	-38%	2,333	58%	124%	Reported numbers are affected due to contribution of one-time sales of Imitrex under exclusivity. DRRD had launched Imitrex as an authorized generic in late-November 2008.
Cipla	13,999	16%	2%	3,411	26%	-5%	2,610	86%	3%	Rupee depreciation (YoY) should continue to benefit Cipla, resulting in higher sales. Tamiflu-driven one-time sales could make reported earnings a bit volatile.
Total	**60,105**	**8%**	**-1%**	**12,097**	**-9%**	**6%**	**9,627**	**19%**	**188%**	
Macquarie's total universe	**3,458,527**	**-14%**	**1%**	**661,406**	**-1%**	**-16%**	**353,964**	**-6%**	**-26%**	
Macquarie's total universe (excl Oil & Gas)	**1,674,212**	**6%**	**-7%**	**456,462**	**-3%**	**-4%**	**251,159**	**-8%**	**-2%**	

**for banks, Net sales = net interest income+ non-interest income; EBITDA = pre-prov profit

Source: Macquarie Research, July 2009

Fig 3 Overview of the coverage universe

Sector (Analyst)	Bberg Ticker	Current Price (Rs)	Target Price (Rs)	Upside/ Down-side	Mkt cap (US$m)	6 mths avg turnover (US$m)	PER (x) FY10E	PER (x) FY11E	P/BV (x) FY10E	P/BV (x) FY11E	ROE (FY10E) %	2 Yr EPS CAGR %	Rec	Investment outlook
Banks (Seshadri Sen/Mudit Painuly)														
ICICI Bank	ICICIBC IN	734	436	-41%	17,239	166.53	20.5	17.2	1.6	1.5	7.9	12	UP	▪ We do not think that the bank can exploit a fast economic recovery because it may be constrained by deposits. ▪ The majority of asset quality problems are in retail, where there is no cushion from the economic cycle. ▪ The ROE could remain in single digits in the near-to-medium term, and we think 1.6x P/BV is too high .
HDFC Bank	HDFCB IN	1,501	1,500	0%	13,384	46.58	20.5	15.3	3.8	3.1	19.9	35	N	▪ The bank's cost of funds advantage allows it to focus on high-quality assets while conserving margins. ▪ The CBOP integration remains on track. ▪ We expect asset quality to deteriorate, but credit costs to remain under control. ▪ Looks a bit expensive right now, but attractive for the long term.
SBI	SBIN IN	1,759	900	-49%	23,380	104.48	14.5	14.9	1.8	1.6	12.9	-9	UP	▪ We expect NIM pressures as asset yields fall faster than deposit costs. ▪ We expect teaser rates to push loan growth; however, asset quality pitfalls may lie ahead. ▪ Rapid branch and manpower expansion is likely to hit cost efficiency further.
Axis Bank	AXSB IN	854	903	6%	6,500	55.43	13.3	11.0	2.5	2.1	20.8	24	OP	▪ The bank has strong fee revenues due to diversity of product base. ▪ Its high-quality liability base makes it resilient in the current environment. ▪ We expect asset quality to deteriorate, but the shift to quality book should help partially mitigate the risk.
Syndicate Bank	SNDB IN	73	41	-44%	801	1.11	7.9	10.1	0.8	0.7	10.3	-33	UP	▪ The bank's margins are facing severe pressure as the cost of funds continues to rise in a tight liquidity environment. ▪ Capital situation precarious – may get government help. ▪ Return ratios remain poor for the bank, with sub 0.5% ROAs and low NIMs.
Union Bank	UNBK IN	246	231	-6%	2,632	5.68	7.3	6.1	1.4	1.2	23.3	8	OP	▪ We see a pullback on loan growth as a positive for the bank. ▪ UNBK's solid cushion on provision coverage (93%) should ensure that it is able to significantly limit the effect of incremental NPLs on the P&L. ▪ Dilution a risk, but valuations capture this.
Vijaya Bank	VJYBK IN	45	21	-53%	416	2.35	9.9	9.5	0.8	0.8	8.5	-12	UP	▪ Earnings should continue to face headwinds on poor NIMs and asset quality pressures. ▪ Non-interest income to take a hit due to lower fee growth and lower trading profits. ▪ Government capital injection is likely to boost growth.
Punjab National Bank	PNB IN	668	362	-46%	4,450	17.98	9.7	9.4	1.4	1.3	15.6	-10	UP	▪ We expect margin compression at the bank on aggressive lending-rates cut. ▪ Delinquencies should catch up with strong loan growth. ▪ Non-interest income is likely to take a hit on lower fee growth and lower trading profits.
HDFC	HDFC IN	2,405	2,731	14%	14,239	64.47	22.3	16.9	4.4	3.8	21.3	33	OP	▪ Loan growth has shown remarkable resilience in face of stiff competition. ▪ The worst is over for cost of funds, should benefit from easy liquidity. ▪ Asset quality for the company remains immaculate.
Bank of Baroda	BOB IN	432	515	19%	3,318	9.03	5.8	4.8	1.2	1.0	22.2	23	OP	▪ The bank is improving operations under new management. ▪ We believe that the structural margin decline has been arrested via a realignment in its cost of funds. ▪ Management is addressing the weakness of the fees business, where we see much potential. ▪ The growing credit cost could be well-cushioned by the high provision coverage of the bank.
Bank of India	BOI IN	347	405	17%	3,808	13.92	5.2	4.3	1.2	1.0	26.5	19	OP	▪ Potential for strong growth remains as deposit base remains strong. ▪ Resilient fees should be a strong revenue driver for the bank. ▪ NPLs remain a major issue, and we expect it to play over time.
IDBI	IDBI IN	110	39	-65%	1,718	10.66	10.9	9.9	1.0	0.9	9.4	0	UP	▪ IDBI's NIM is among the lowest in the state-owned bank space. The figure is low because IDBI is weighed down by legacy issues, with a large book of bad loans, as manifested in the SASF bonds and high-cost borrowings. ▪ The upside from unrealised gains on its equity investments historically has been a major driver for the stock. On that score, IDBI faces strong headwinds in the current market downturn. ▪ IDBI is strictly a stock for the good times, in our view, as its key underlying drivers relate to strength in markets. We see strong headwinds for the business and retain our Underperform rating on the stock.

Fig 3 Overview of the coverage universe

Sector (Analyst)	Bberg Ticker	Current Price (Rs)	Target Price (Rs)	Upside/ Down-side	Mkt cap (US$m)	6 mths avg turnover (US$m)	PER (x) FY10E	PER (x) FY11E	P/BV (x) FY10E	P/BV (x) FY11E	ROE (FY10E) %	2 Yr EPS CAGR %	Rec	Investment outlook
Kotak Mahindra Bank	KMB IN	646	587	-9%	4,703	21.43	26.5	20.7	3.0	2.7	12.0	29	UP	▪ Outlook for the capital market businesses has improved. ▪ The banking business is seeing slower loan growth and asset quality slippage. ▪ Although earning outlook has improved, valuations have run ahead of fundamentals.
IDFC	IDFC IN	136	141	4%	3,739	27.33	15.7	13.8	2.4	2.1	16.7	31	OP	▪ Asset opportunity improving, especially from power sector; the company should remain a key beneficiary of any push to the infra sector. ▪ Funding issue not a problem in the immediate future; may convert to bank in the long term. ▪ Capital market buoyancy means improved outlook for non-interest income as well as capital market businesses.
Reliance Capital	RCFT IN	933	934	0%	4,890	124.82	31.1	29.4	3.3	3.1	10.8	-7	N	▪ Life insurance remains a robust franchise, recovering after the 4Q08 shock. ▪ The AMC business has been resilient and is increasing its market share. ▪ For the retail broking business, the superstructure is in place. However, we do not expect it to perform until the market recovers. ▪ Valuations appear to be rich, but may shoot on the upside.
Power Finance Corp	POWF IN	208	200	-4%	4,829	4.21	13.6	11.9	2.0	1.8	15.7	22	N	▪ PFC has high visibility of growth. This is because underlying demand in the power sector, which drives demand at PFC, is almost 'risk free', in our view. ▪ PFC's unique combination of being a consultant and lender gives it a strong competitive advantage. PFC has been appointed the nodal agency for most government power schemes, which is another advantage. ▪ However, although the earnings outlook remains sanguine, we think that the current valuations price it in.
Cement (Rakesh Arora/ Sanjay Doshi)														
ACC	ACC IN	763	652	-14%	3,003	10.77	12.9	12.1	2.1	1.9	17.3	-7	N	▪ ACC has lesser scope for cost reduction as it already generates all its power requirements through captive coal-based thermal power units and it is reaching saturation in blending. ▪ ACC is adding one new unit every calendar year. The company plans to add 3mtpa at Wadi by end-2009 and another 3mtpa plant at Chanda by end-2010. However, these are likely to be delayed and hence may result in company growth being lower than that of the industry. ▪ In terms of valuation, ACC is one of the most expensive cement stocks, trading at around 11x 2010E PER.
Ambuja Cements (formerly Gujarat Ambuja Cement)	ACEM IN	89	96	7%	2,844	4.55	12.7	15.4	1.9	1.8	15.8	-16	OP	▪ We expect margins to improve for Ambuja cements due to higher realisations and lower cost of coal and clinker. ▪ The company has secured a jetty at Cochin to service the South India market; this should help the company to shift from the low-priced export market and to improve realisations. ▪ We continue to like Ambuja Cements as it is one of the most efficient cement producers, with a cash-rich balance sheet.
Grasim Industries	GRASIM IN	2,402	2,599	8%	4,447	9.97	9.6	10.6	1.7	1.5	19.3	-1	OP	▪ Grasim's cement division has been the fastest-growing among the cement majors. ▪ Grasim has exited its non-core sponge iron business, which was cornered due to its non-integrated nature, non-availability of natural gas and the rising cost of alternative fuels. ▪ The company is undertaking the transfer of all its brands to the Ultratech brand name to streamline marketing efforts, which we believe will improve margins.
Ultratech Cements	UTCEM IN	680	708	4%	1,791	3.38	9.7	11.6	1.9	1.7	22.0	-14	OP	▪ We rate Ultratech an Outperform mainly due to the following. ▪ Our belief that Ultratech has the highest growth potential among its peers. ▪ Significant savings in operating costs after the commissioning of its 92MW captive power plant. ▪ The addition of 2mtpa of grinding capacity in Gujarat, which would enable Ultratech to divert clinker sales to improve realisations and cut costs. ▪ The company's predominant presence in the South and West is proving to be beneficial as these regions are experiencing a robust price environment due to demand growth and the least overcapacity.

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India Cements	ICEM IN	135	156	16%	795	5.99	8.5	10.0	0.9	0.9	11.5	-14	N	▪ We rate India Cements Neutral for the following reasons. ▪ It is a regional player with lone exposure to South India, where signs of overcapacity are already visible (lowest price increase across all regions) and maximum overcapacity is likely. ▪ India Cements had surprised with low costs, but the trend was reversed in the last quarterly results, even when coal costs fell. ▪ Company's margins are likely to come under further pressure as it will have to use costly grid power for its new capacity.
Construction (Inderjeetsingh Bhatia / Somesh Agarwal)														
BHEL	BHEL IN	2,154	2,312	7%	22,387	55.68	19.9	16.6	6.2	4.9	35.0	36	OP	▪ We believe the Street is underestimating margin expansion in FY10 for BHEL. We expect BHEL's EBITDA margin to expand by 560bp in FY10, driven by lower staff cost and improvement in input prices. We expect the earnings upgrade cycle to play out over the next 6–12 months. ▪ The bulk of its order backlog of Rs1.2tr is from government-controlled entities, where ROEs are guaranteed and interest costs are passed through. Revenue visibility is strong, at 4x sales. ▪ Balance sheet strength is unparalleled in the space, with BHEL having a huge net cash position of Rs80bn at the end of 2009. ▪ Execution concerns are being addressed, with capacity additions ahead of schedule. BHEL is in line to increase capacity from 10GW in December 2007 to 15GW in December 2009. Entire new capacity is in thermal plants.
Nagarjuna Construction	NJCC IN	138	121	-12%	595	5.29	15.6	14.0	1.8	1.6	11.9	10	UP	▪ Execution has dropped significantly, with FY09 revenues well-below guidance, hurt by order cancellations. ▪ Margins are under pressure from cost overruns in a few road projects. Margins may remain around 9.0% for the next two years. ▪ Management has guided for Rs65bn of order inflow in FY10, implying 21% YoY growth. Revenue growth may remain weak at 10–15% in FY10. ▪ NJCC may resort to stake sale in infrastructure subs or raise QIP to fund shortage for its working capital needs and investment in subsidiaries.
Patel Engineering	PEC IN	428	249	-42%	537	1.39	18.8	17.8	2.2	2.2	12.9	10	OP	▪ The bulk of the order book (50%) comes from the water segment. The strong order book position provides sufficient growth visibility. ▪ Management has talked about doubling the order book in FY10, which provides significant upside to our estimates. ▪ The balance sheet is currently leveraged at 1x, which could limit growth as equity funding becomes scarce.
Larsen & Toubro	LT IN	1,567	1,487	-5%	19,307	83.71	25.5	20.3	5.8	4.7	25.2	24	OP	▪ Strong order position provides earnings visibility for a minimum of two years. Order inflow guidance extremely robust at 25–35% for FY10, contingent on government orders coming through. ▪ Management has guided for maintaining high margins in the range of 11.5–12.0%, which is positive, in our view. ▪ Revenue guidance for FY10 is moderate at 15–20%. However, strong order inflows in FY10 indicate that revenue growth could be much stronger in FY11. ▪ In the case of a delay in the award of infrastructure projects expected in 2H FY10, there could be risk to our earnings estimates and target multiples.
IVRCL Infrastructures & Projects	IVRC IN	348	369	6%	1,006	16.91	14.4	12.3	1.5	1.4	11.3	23	OP	▪ Remains a key play on investments in water and irrigation. Order book is extremely healthy at Rs145bn at the end of FY09. No risk in order book as 95% of orders are from the government. ▪ Guidance for FY10 is extremely robust, with order inflows at 30–50%, revenue growth at 30–35% and margins likely to return to FY08 levels of 10%. ▪ Pressure on balance sheet has subsided in the past six months given increasing availability of funding and declining interest rates. IVRCL also has no commitment towards BOT/real estate projects.

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Punj Lloyd	PUNJ IN	217	142	-35%	1,392	28.85	18.3	17.6	2.3	2.1	13.4	nmf	UP	▪ Bit the bullet on the SABIC dispute in FY09, writing off Rs4.3bn. Margins also under pressure in FY09 due to undisclosed cost overruns in the Heera platform development project for ONGC. ▪ We expect sustainable margins to remain below peer group for PUNJ given that huge growth in order book has been possible only due to extremely competitive pricing. Moreover, export margins are structurally lower than margins in India in similar projects due to greater competition. ▪ We believe earnings growth could remain under pressure, with order book flat on YoY basis, which implies top-line growth would be in low teens and margins would be under pressure.
GMR Infrastructure	GMRI IN	139	104	-25%	5,328	25.67	92.7	59.2	3.8	3.5	4.1	24	UP	▪ We believe the current market price factors in the positives from improvement in footfalls in airports and improving sentiment on real estate. Stock is trading at expensive 3–4x forward P/BV at 50% unjustified premium to GVK. ▪ There could be value unlocking in the land bank as ministry of civil aviation has relaxed the types of commercial activities that can be carried out on Delhi airport land. ▪ We believe that the market is building-in much-higher valuations for GMR's power assets. We continue to desist from valuing any of the projects that are still in very early stages of development.
J.P. Associates	JPA IN	208	153	-27%	6,214	72.92	18.7	12.7	3.7	2.9	21.5	60	OP	▪ The cement story is unfolding at JPA with capacity additions on track to rise to 31m tons from current 14m tons in next three years. Cement volumes and prices have also shown signs of picking up in central India, where JPA's current distribution is predominant. We expect cement realisations to pick up on lower input costs and better pricing. ▪ Other segments are also recording robust growth, with the E&C business moving increasingly towards captive business and the company guiding for Rs10bn of revenues from real estate in FY10 from Rs4.5bn in FY09. ▪ The company has guided for total revenues of Rs110bn (+90% YoY) in FY10, with expectations of 100%-plus growth in cement and the real estate division and 60% growth in the construction segment. However, we believe that the guidance is a bit aggressive.
ABB India	ABB IN	768	402	-48%	3,419	6.92	27.0	24.5	5.1	4.2	20.7	13	UP	▪ With 94% of its revenue coming from India, ABB is leveraged to the domestic capex cycle. ABB also has huge exposure to the corporate capex cycle, with around 38% of revenue coming from industrial systems. ▪ Growth decelerated sharply in CY08 and 1Q CY09, and we expect the company to deliver 10–15% top-line growth in the next couple of years, contingent on orders coming through from PGCIL. However, the industrial capex segment should remain under pressure. ▪ The stock is trading at rich valuations: at 30x FY10E earnings and a premium to BHEL, which we believe is not completely justified given its much-lower growth trajectory than BHEL's (30–35% CAGR over the next 2–3 years).
Siemens India	SIEM IN	485	161	-67%	3,446	6.77	29.0	26.6	5.2	4.5	19.3	9	UP	▪ Order inflows have declined significantly and the order book has been stagnant for seven quarters now. Its large exposure to the Middle East is further pressuring growth. ▪ The sale of IT subsidiaries to the parent company leads to corporate governance issues, and we believe this would be detrimental to the company's growth and margins. We expect Siemens to deliver weak revenue growth in the next couple of years, combined with lower margins. ▪ The stock remains our least-preferred in the T&D space. Weak corporate governance standards, pressure on the power segment, which contributes 50% to revenues, and a weak order book are the key reasons. Also, the stock is quite expensive, trading at par with ABB at 30x FY10E earnings and a huge 50% premium to Crompton, which we believe is unjustified.

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Crompton Greaves India	CRG IN	300	310	3%	2,266	5.06	16.6	13.4	4.8	3.7	32.5	21	OP	▪ Crompton continues to surprise on the growth front, delivering better numbers than ABB and Siemens. Exports have also done very well in a slackening environment, driven by market share gains. ▪ CRG has lagged its peers in profitability and growth for the past five years, a gap that should narrow significantly in FY08–10. We also expect CRG to turn free cashflow positive and bring leverage to more-manageable levels. ▪ Multiple discount to sector leaders could narrow: Our 12-month target price is based on 12x FY10E earnings, a significant 50% discount to ABB. However, the stock is currently trading at 17x FY10E earnings, at more than a 50% discount to Siemens, which we think is unjustified.
ICSA Ltd	AURFI IN	170	260	53%	169	3.77	4.0	2.7	1.1	0.8	33.0	37	OP	▪ Significant beneficiary of APDRP-II: The government plans to implement the APDRP-II to address key shortcomings in the earlier scheme, specifically, the lack of energy auditing and monitoring. The plan for the first phase of APDRP-II is to invest Rs100bn, which would be earmarked for energy-auditing systems. We believe ICSA, with its patented products, will fit nicely into the requirements. ▪ Growth trajectory to be significantly above sector on low base. The company has an order backlog of around Rs21bn, which provides revenue visibility for the next 12–18 months. Growth should be higher than that of its peers as investment in energy auditing is front-ended and ICSA is growing from a very low base. ▪ We believe valuations are extremely attractive: The stock is currently trading at 4x FY10E earnings.
Mundra Port and SEZ	MSEZ IN	589	617	5%	5,016	8.03	41.5	33.8	7.0	6.0	18.2	23	OP	▪ Location and infrastructure of the port make it best-placed among competitors: MPSEZ has the deepest draft among the competing ports on the west coast of India. The port also has effective rail and road connectivity. MPSEZ is one of the closest ports servicing the key consuming markets of north and northwest India. ▪ Assured long-term contracts are already coming into play with volumes story kicking in. Volumes grew by 24% YoY in FY09 at a time when overall exports for India declined significantly. Adani power commissioning is ahead of schedule, while Maruti's car exports have already started . ▪ Interest is picking up in SEZ, with queries having increased after signs of recovery in economy. Improving connectivity, commissioning of power plants in vicinity and network effect from new units at SEZ could hasten the leasing-out period. ▪ We maintain that MSEZ remains an attractive play for long-term investors, given strong expansion in capacity possible at the port site and monetisation of SEZ assets
Media (Shubham Majumder/Nitin Mohta)														
Dish TV	DITV IN	38	12	-70%	772	8.85	NA	NA	NA	NA	69.0	24	N	Dish is a turnaround story. However, we continue to wait for the catalysts.
Zee Entertainment	Z IN	182	90	-50%	1,667	7.19	19.4	14.8	2.2	2.0	11.9	22	UP	▪ We maintain our Underperform rating on ZEEL and recommend that investors switch to Zee News. ▪ We continue to favour exposure to regional TV broadcasters. In the current environment, we believe that regional players are better-placed than Hindi GECs. ▪ We forecast 5% YoY ad revenue growth for FY3/10E and do not believe that moderate FY3/10E earnings-growth outlook of 13% justifies current valuations. ▪ Subscription revenues may have downside. We note that the upside from DTH subscription revs may be tempered because of the fixed-price contracts ZEEL has entered into with group company, Dish TV.
Zee News	ZEEN IN	42	42	0%	211	0.94	16.1	13.0	3.5	2.8	23.6	32	OP	▪ The composition of ZEEN's ad revenue is well-balanced between the two key genres of regional entertainment and news; regional genre contributes ~60% and news channels contribute ~40% to ad revenues. We expect growth in the regional entertainment and news genre to be steady, even in a slowdown. ▪ A proven business model, a robust earnings CAGR of 29% over the next two years and an experienced management team demand a premium valuation multiple, in our view. At our DCF-derived target price of Rs42, ZEEN trades at a 16.4x FY3/10E PER. ▪ Upcoming catalysts: coverage of India general elections due in mid-2009 and aggressive ramp-up of digital pay TV subs.

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Metals (Rakesh Arora/ / Sanjay Doshi)														
Hindalco	HNDL IN	85	45	-47%	2,991	16.93	NA	40.9	1.1	1.1	-2.9	14	UP	▪ Hindalco is being affected as aluminium prices fall and because demand in North America and Europe has nosedived. We expect Novelis to remain unprofitable in the next fiscal year as well. ▪ Hindalco has allotted bauxite and coal mines for all expansion projects and is on schedule to expand its capacity to 1.5mtpa. However, a few capacities might be delayed due to problems in the allotment of bauxite and land acquisition issues. ▪ However, we believe the company is set to emerge as a major aluminium player backed by the excellent quality of raw material reserves.
NALCO	NACL IN	301	120	-60%	4,172	2.99	46.8	39.0	2.0	2.0	4.3	-36	UP	▪ The company is under tremendous pressure due to a sharp drop in aluminium prices, which seem unlikely to revive significantly in coming months. ▪ Because the company is totally dependent on aluminium prices, we expect a sharp downturn in profitability over the next few quarters. ▪ The company is also in the process of expanding capacity by 30%. This expansion is occurring at a time when aluminium prices have fallen sharply and production is being cut aggressively. This development, which otherwise would have been positive, has turned out to be detrimental. ▪ The company's next round of expansion is at a steep premium to its peers.
Tata Steel	TATA IN	420	584	39%	6,235	88.98	12.0	5.1	0.9	0.8	6.6	-11	OP	▪ Tata Steel's stock has come under pressure in the past few months due to demand concerns in its key market of Europe amid the ongoing credit crunch. The company has already declared production cuts to fight the slump in steel prices. We think Tata Steel has reached the bottom of its earnings cycle, and we expect a sharp recovery in 2Q FY10. ▪ A recovery in steel prices and the purchase of raw materials at lower contract prices would help Corus to return to profitability by 2Q FY10, in our view. With several initiatives on the raw material security front, its margins are likely to rise over the next couple of years. ▪ Tata Steel's coking coal initiatives in Mozambique and its iron ore initiatives in Canada are likely to start yielding production by the end of 2010. This, along with its 3mt brownfield expansion in India, should boost operating margins significantly
SAIL	SAIL IN	160	120	-25%	13,498	38.56	18.0	10.6	2.2	1.9	12.5	1	UP	▪ SAIL is India's largest integrated steel company, with capacity of 15m tonnes. The company is aggressively exceeding its expansion plans and is likely to spend US$11bn against net cash of US$3bn in the next three years, which could push it to net debt of US$5bn. ▪ SAIL has the worst cost structure due to high employee costs, and this is further accentuated by the sixth pay commission, which could squeeze margins in times of falling steel prices. ▪ The company has also benefited from high-priced government orders for rail and plates, but these are likely to be lowered from April, thus adding further pressure on margins
Hindustan Zinc	HZ IN	609	781	28%	5,435	2.03	9.4	7.9	1.5	1.3	17.6	9	OP	▪ Hindustan Zinc is a veritable cash machine with no debt and cash on the books constituting nearly 50% of its market cap. Even after US$990m capex over the next three years, we expect the company to add nearly US$1.5bn cash to the already US$1.5bn cash on the books right now. ▪ Even with zinc prices coming down by half in the past year, the company is making more than a 40% EBITDA margin due to its high-quality zinc deposits, economies of scale and low-cost production. ▪ The company is the world's lowest-cost zinc producer, and we believe it is set to become the world's largest integrated zinc producer in the next three years.

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Sterlite Industries	STLT IN	635	862	36%	9,447	37.95	14.3	9.0	1.6	1.5	12.0	19	OP	▪ Sterlite is a Vedanta group company with interests in the world's lowest-cost zinc producer, Hindustan Zinc (65%), aluminium major Balco (51%) and fast-growing Vedanta Aluminium (30%), besides its original business of copper conversion. Recently, it has also entered commercial power generation through Sterlite Energy (100% stake), which is executing 4,400MW projects. ▪ The company is one of the lowest-cost producers of each of the metals it is present in. In zinc, it is the lowest-cost producer; in copper, its cash cost of production is again the lowest in the world; and with the start of high-quality bauxite coming from its own mines from the middle of next year, the company could become one of the lowest-cost producers in aluminium too. ▪ Although the company's expansion plans are ambitious (capex of nearly US$1.5bn over the next three years), the required funds can be easily met through operating cashflows. Over and above that, the company has about US$2bn in net cash.
JSW Steel	JSTL IN	617	826	34%	2,437	29.33	9.4	6.2	1.5	1.3	16.5	57	OP	▪ We rate JSW Steel an Outperform for the following reasons. ▪ We believe the company's earnings will expand due to its strong volume-growth prospects for the next three years. It plans to open 200 retail outlets across the country to capture retail market share, and it targets to reduce exports to less than 15% from 30%. ▪ Company's US facility has recently received orders, and it has thus reversed its decision to stop this mill for three months. Also, the increase in steel prices in recent months should help to improve company's margins as it has one of the best cost structures. ▪ The company is close to obtaining a waiver of debt covenants until 2011. It is focused on reducing leverage from 1.8x to 1.5x in the next two years, which should be a further positive for the company.
Gujarat NRE Coke	GNC IN	43	87	102%	440	5.39	7.8	6.1	0.9	0.8	12.2	23	OP	▪ Gujarat NRE Coke is India's largest private metallurgical grade coke manufacturer, with capacity of 1mtpa In recent years, it has tried to reduce risk in its business by buying three 'prime hard' coking coal mines in Australia. This move has changed the company from a mere processor into a fully integrated coke manufacturer. ▪ With aggressive expansion plans in place (expects to increase coal production sevenfold in the next 3–4 years), the company aims to become a major supplier of coking coal not only to its facilities in India, but also to outside parties.
Jindal Steel & Power	JSP IN	2,605	2,823	8%	8,399	29.98	13.5	11.9	4.1	3.1	35.9	6	OP	▪ Jindal Steel & Power (JSPL) is one of the largest steel companies in India, and its unique steel-making technology also makes it the lowest-cost steel producer. It has achieved the highest operating margins in its peer group for the past six years. ▪ Recently, it has entered into the merchant power business with its 1,000MW power plant. JSPL was the first major player in the industry, and this business has been a huge money-maker for the company. With an IRR of more than 100%, this business should return invested capital many times over before the entry of more players reduces profitability to normal levels. ▪ JSPL's cost competitiveness stems from its captive coal mines, which it has received from the government. It has captive coal resources of more than 1bn tonnes, enough for more than 30 years for its current operations. This coal is used for both steel making and power generation.
Oil & Gas (Jal Irani/Amit Mishra)														
Oil & Natural Gas Corp.	ONGC IN	1,127	756	-33%	51,015	43.30	12.8	11.4	2.8	2.7	22.8	5	UP	▪ Earnings upside for ONGC is capped as higher subsidy burden offsets gains from higher crude oil prices. ▪ We expect ONGC to report a decline in earnings for the second consecutive year in FY10. ▪ ONGC trades at a 10.0x FY10E PER, which is higher than its historical average PER.
Bharat Petroleum	BPCL IN	454	523	15%	3,467	8.21	10.0	9.9	1.2	1.1	12.0	62	OP	▪ We believe BPCL represents deep value along with multiple growth triggers. ▪ On recurring profits, BPCL's PER would drop to an undemanding 4.3x FY09E EPS. ▪ A 12.5% stake in Brazil's Wahoo basin block is a further potential kicker. ▪ Profits should get a further kicker from the highly complex (9.1) new 6mtpa refinery at Bina.

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Hindustan Petroleum	HPCL IN	320	417	30%	2,305	10.38	7.1	7.0	0.8	0.8	12.6	43	OP	▪ Compelling valuations. We believe HPCL represents deep value at a valuation of 0.8x FY3/10E P/BV and 6.8x FY3/10E PER. ▪ We expect the government to allow free pricing for petrol and diesel if the crude oil price stays low, which would be a positive catalyst for OMC stocks.
Reliance Industries	RIL IN	2,011	2,405	20%	67,780	219.03	14.2	11.7	2.5	2.1	17.9	35	OP	▪ Strong volume driven growth. We forecast 50% growth in profits for FY10, purely from volume growth, despite an assumed cyclical downturn. ▪ We believe RIL is best-positioned to benefit from India's untapped oil and gas potential. We see sizable upside potential to upstream valuations and earnings. ▪ RIL is one of the lowest-cost producers of petrochemicals products in the region. It continues to focus on significant capacity expansions to drive volume growth and improve economies of scale.
Reliance Petroleum	RPET IN	126	73	-42%	12,018	25.90	7.6	9.6	2.8	2.3	42.4	115	UP	▪ We expect refinery margins to remain under pressure in the near term. The heavy-light spread is set to decline with lower prices. ▪ RPET's stock price implies a base-case, long-term GRM of US$10.5/bbl, which compares with an average GRM of US$9/bbl for RIL in the past five years.
GAIL	GAIL IN	310	382	23%	8,578	11.98	10.9	10.0	2.3	2.0	22.1	19	OP	▪ GAIL is trading at a modest PER of 9.4x FY3/11E EPS, despite an expected 17% CAGR in earnings for the next three years. ▪ We believe there is lower risk to GAIL's cyclical businesses because its feedstock cost is significantly lower than that of its international peers.
Petronet LNG	PLNG IN	70	35	-50%	1,131	4.94	11.8	10.5	2.0	1.7	19.3	-2	UP	▪ Petronet's recent strong growth was driven by high-margin spot cargoes. We believe spot cargoes will decline as it will be uncompetitive vis-à-vis liquid fuels on subdued crude prices over the next two years. ▪ PLNG is currently trading at 2.0x FY3/10E P/BV, which is on a par with the other listed utility companies. ▪ Dahej expansion on schedule, but has no supplies.
Cairn India	CAIR IN	234	175	-25%	9,424	25.50	32.1	9.0	1.3	1.2	4.2	173	UP	▪ We derive a sum-of-parts value (DCF valuations for Rajasthan and Ravva fields and relative valuation for other fields) of Rs175/sh, or US$12/boe. We have assigned a premium of Rs20/sh (~11% of equity value) to Cairn's strong track record in striking oil. ▪ Concerns surrounding crude pricing and cess payment continue.
Aban Offshore	ABAN IN	867	315	-64%	703	47.15	4.2	3.8	1.6	1.1	44.9	26	UP	▪ We believe the key demand driver – the crude oil price – will remain under severe pressure in the medium term. ▪ Rigs likely to remain idle for long. Five of Aban's 20 rigs are currently idle; four of the 20 are jack-ups and two are floaters. ▪ Idle rigs and incrementally lower day rates will put added pressure on Aban's cashflows to meet the debt obligations.
Indian Oil Corp	IOCL IN	550	685	25%	14,066	5.69	9.6	8.8	1.2	1.1	13.7	69	OP	▪ Oil-sector reforms rank high on the agenda for the first 100 days of the new government. We believe this will benefit the public-sector oil companies. ▪ We expect the government to allow free pricing for petrol and diesel if the crude oil price stays low, which would be a positive catalyst for OMC stocks. ▪ When prices were temporarily decontrolled in early-2002, stock prices of public-sector oil companies had nearly doubled.
Pharmaceuticals (Abhishek Singhal/Gautam Duggad)														
Ranbaxy	RBXY IN	242	140	-42%	2,238	15.07	11.0	8.7	1.7	1.5	9.1	1195	UP	▪ We see near-term pressure continuing on the stock due to FDA invocation of AIP and outstanding FDA manufacturing issues, including the congressional probe. ▪ The timeline on resolving these issues may stretch past this year and affect potential sales in 2010 as well. Ranbaxy would also need to significantly raise R&D expenses near term to get the ANDA pipeline on track. ▪ We value the base business at 7x one-year forward base earnings (Rs94), a 50% discount to its large-cap peer average and the 180-day FTF-exclusivity upside at Rs52/sh, based on a probability-weighted DCF for the known one-time profits. After the implementation of AIP at its Ponta Sahib facility, we believe the risk to its FTF pipeline has substantially increased.

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Sun Pharma	SUNP IN	1,146	1,410	23%	5,055	10.29	14.2	13.0	3.0	2.5	18.5	18	OP	▪ The key driver on the domestic front (~ 54% of base business-mix) is leadership being maintained by SUN in key chronic therapies, backed by strong relations with specialists that provide steep entry barriers to competition. On the export front, a large ANDA pipeline (96 pending approvals) should power the US business, while we think selective forays into profitable emerging markets will drive global expansion with margins intact. ▪ A successful Taro acquisition would be a catalyst, as the niche derma portfolio should strengthen the US franchise. Given SUN's leadership in chronic therapies, execution track record (~ 28% five-year EPS CAGR), strong balance sheet (~US$750m in cash), earnings momentum (~ 23% CAGR FY3/09–11E) and the stock's defensive characteristics, the valuation premium is well deserved, in our view. We value the base business at Rs1,477 based on 17x 12-month rolling EPS, and add another Rs33 for exclusivity opportunities.
Dr. Reddys Labs	DRRD IN	787	800	2%	2,820	5.72	15.6	11.6	2.8	2.3	14.8	29	OP	▪ In our view, this is among the best proxies to play the growth opportunities in the global generics space, driven by increasing demand for generics globally. ▪ Returns would be back ended because price erosion in Germany (~ 16% of total revenue) could slow the margin-recovery process. Even so, the supply chain realignment, transfer of manufacturing to India and volume growth should offset part of the burden. ▪ Visibility of two key opportunities – Fondaparinux and Omeprazole mg – has increased tremendously. These could provide substantial upside to our earnings estimates for FY10/11 as we have yet to factor these into in our earnings model.
Cipla	CIPLA IN	248	200	-19%	4,028	8.02	18.3	16.5	3.8	3.2	22.2	24	UP	▪ Partnership-based myopic business model for exports, without any investment in the front-end. This could limit profit expansion in the long term and expose Cipla to the risk of partners getting acquired due to ongoing consolidation. Also, partners have substantial bargaining power given the competition. ▪ Product mix to be affected by growing contribution of low-margined HIV products. Technology income is volatile and contributed ~300bp to EBITDA margin in FY09. We believe it is unlikely to be sustained at these levels.
Properties (Unmesh Sharma/Gautam Duggad)														
Unitech	UT IN	83	95	15%	3,541	105.10	9.2	8.2	1.7	1.4	26.2	6	OP	▪ Unitech has among the largest land banks among the listed real estate developers in India. ▪ Unitech is trading at a discount to NAV and adjusted book value. We think valuations have overcompensated for the risks. ▪ It is a player that we believe should survive the liquidity crunch through bank refinancing, asset sales and fresh fund raising. Some examples include the recent QIP, sale of a hotel property and a stake sale in its telecom subsidiary.
DLF	DLFU IN	337	322	-4%	11,624	119.77	11.0	10.3	1.9	1.6	18.7	-1	N	▪ DLF is the largest real estate player in India, with strong execution capabilities. It is a proxy play on the Indian property sector due to its scale, history and role in the market index. ▪ DLF has now come out of 'the boy who cried wolf' phase with its capital raising in May 2009 and partial resolution of the DLF/DAL structure. The deleveraging story is clearly underway. From an asset sales and operating cashflow perspective, initial signs are encouraging. ▪ Our NAV calculation continues to incorporate the value of assets for sale, including wind power assets, convention centre, etc. It also reflects rental revenues that can be securitised and lower outstanding land payments, due to strategic exits from mega-projects.
Mahindra Lifespace	MLIFE IN	271	209	-23%	230	0.81	14.9	9.8	1.2	1.1	8.2	51	UP	▪ MLIFE is a play on a recovery in export markets and GDP growth. ▪ Nearly half of MLIFE's NAV is contributed by SEZs. This exposure makes MLIFE a play on a recovery in export markets and GDP growth. In the near term, the largest driver of NAV upgrades would be the Jaipur SEZ project (in northwest India). ▪ Its net cash balance sheet provides comfort regarding funding issues. However, the product mix remains unfavourable.

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Ansal Properties	APIL IN	56	38	-32%	132	1.23	(3.8)	NA	0.6	1.4	-14.9	nmf	UP	▪ Concentrated land bank limits its ability to focus elsewhere if this market experiences a slowdown. ▪ Ansal Properties' (APIL) stretched balance sheet and the general scenario of tight liquidity are our primary concerns. ▪ APIL's leverage ratios are very stretched. Our primary concerns are off-balance sheet financing, lack of assets for sale or major projects that would generate material operating cashflow.
Indiabulls Real Estate	IBREL IN	213	246	15%	1,777	48.01	21.3	15.0	1.1	1.1	6.4	65	OP	▪ Potential for upside. We have left out the company's projects in Nashik, Panvel, Ahmedabad, Vadodara and Madurai from our NAV calculation due to lack of visibility in the near term. ▪ The balance sheet appears well-funded. Some investors had raised concerns regarding disclosures in the annual report. Documentary evidence produced by management in its various analyst meetings and earnings releases has allayed some of these concerns.
Akruti City	AKCL IN	512	364	-29%	735	31.19	4.0	3.9	1.7	1.2	53.7	52	UP	▪ Akruti's residential-heavy model and leverage are our primary concerns. ▪ Solvency ratios are extremely stretched. The company requires capital for its aggressive development and debt schedule. This raises concerns regarding risk of dilution at unattractive valuations. ▪ Key issues are off-balance-sheet financing, the lack of saleable assets or major projects that would generate material operating cashflow.
Consumer (Unmesh Sharma/ Gautam Duggad)														
Pantaloon Retail	PF IN	310	270	-13%	1,044	3.50	64.7	26.4	3.9	3.5	6.2	232	OP	▪ Pantaloon plans to expand retail space aggressively over the next 3–5 years. ▪ Slowing GDP growth had affected same-stores sales (SSS). However, SSS growth has shown a mild recovery in past two months. ▪ Falling rentals and scale advantages are a relief, but company would still require external funding for growth. Based on our estimates, Pantaloon's operations can support growth of around 1–2m sqf per year with limited external funding. ▪ We expect Pantaloon to be able to ride out this tough period given its high exposure to value retail and its planned capital raising by equity dilution or preferential-share allotment.
Shopper's Stop	SHOP IN	153	65	-58%	116	0.13	NA	NA	2.7	2.7	-15.3	nmf	UP	▪ We believe Shopper's Stop has not been able to capitalise on its loyal customer base and first-mover advantage in the department store space in India. ▪ We expect Shopper's Stop to continue to burn cash on the operational level. Given the volatility in equity markets, we do not expect the pending rights issue to resurface for at least the next 3–4 quarters. ▪ Profitability parameters are likely to remain under pressure as operating costs, interest and depreciation related to new stores kick in ahead of sales.
Provogue	PROV IN	46	45	-2%	100	0.38	13.8	11.5	0.9	0.8	6.5	19	UP	▪ Provogue is a strong domestic apparel brand in India. ▪ However, its retail real estate subsidiary Prozone (JV with Liberty, UK) contributes 80% of value. Prozone is developing mixed-use developments across India. ▪ Retail space absorption is under pressure due to a slowdown in India's GDP growth. However, Provogue's net cash position (due to its recent capital raising) and execution of its JV (with Liberty) reduce operational risk, in our view. ▪ Although there is value in retail real estate projects, we believe that positive stock-price triggers due to the centres becoming operational are at least 2–3 quarters away.
ITC	ITC IN	192	225	17%	15,109	25.45	18.5	15.6	4.5	3.9	26.0	18	OP	▪ We believe ITC is the best play on domestic economic growth and rising rural incomes because of its bi-directional linkages to rural India. ▪ ITC has a near-monopoly in the cigarette market, which provides it with pricing power. Although taxes are likely to rise when India's union budget is announced in July 2009, we believe ITC will be able to pass these on (as it has every year for the past decade). ▪ Its unique local sourcing model (e-choupals), limited media and low raw material costs help support margins and limit exposure to global commodity prices. ▪ ITC is investing its strong cigarette cashflow in other FMCG products. Its distribution strength has ensured a strong ramp-up in new ventures. We expect losses in other FMCG segments to decline because of a pickup in sales and a drop in input costs.

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Hindustan Unilever	HUVR IN	270	245	-9%	12,351	22.12	24.3	21.1	30.4	27.2	131.3	15	N	▪ We believe that the fall in crude-oil-linked raw material costs and advertising rates (and potential earnings upgrades by the Street) are already priced-into the HUVR stock price. ▪ We expect limited absolute positive stock-price performance unless oil prices fall materially or if the economic scenario turns much worse than is currently expected, leading to a collapse in advertising rates. We currently expect neither. ▪ For the long term, HUVR remains in a Catch-22 situation. It can avoid losing market share to aggressive competitors, but only at the cost of further margin erosion from increased promotional spending.
Dabur	DABUR IN	130	105	-19%	2,277	1.96	24.9	21.0	10.6	8.3	48.1	18	N	▪ Dabur has consistently delivered 20−30% earnings growth over the past three years. Importantly, earnings outpaced revenues in every one of those years. ▪ We expect multiple growth drivers to help Dabur remain one of the fastest-growing, fast-moving consumer-goods (FMCG) players in India. ▪ We believe Dabur's initial success in foods is just the start. We also look at Dabur's overseas foray as an avenue for growth and expect these ventures to help drive a 17% revenue CAGR over the next three years. ▪ We are confident about Dabur's inorganic strategy given its successful turnaround of 'Balsara' within one year of acquisition.
Marico Industries	MRCO IN	75	85	14%	945	0.85	19.2	15.4	9.6	7.4	56.6	25	OP	▪ We have an Outperform rating on Marico given the robust pricing power of its flagship brand, Parachute, stemming from its brand equity in coconut oil. ▪ New product launches, brand extensions/renovations and inorganic overseas expansion have resulted in the increased resilience of top-line and margin expansion. ▪ The Kaya skin services venture (now extended to weight control) ramp-up may provide upside, and we expect growth from Kaya in India and the Middle East. Despite the current slowdown, we expect cash burn to be limited as the older stores turn profitable. ▪ A focus on these ventures is likely to result in a 23% earnings CAGR in next three years, the highest growth among its domestic consumer-sector peers.
Titan Industries	TTAN IN	1,186	1,150	-3%	1,090	3.05	20.7	16.9	6.8	5.3	37.4	22	OP	▪ We expect exciting growth to be driven by Indian consumers' insatiable appetite for gold and by innovative launches in the watch space. ▪ An attractive volume growth story emerging in watches: It is aggressively and effectively launching new collections to maintain volume growth and to counter emerging competition in this segment. ▪ ROE supported by inventory turnover and product mix: We expect the new mass-market watches to exert margin pressure. Inventory turnover, however, is likely to shield the ROE. ▪ Leverage does not appear to be a major risk, which we believe justifies Titan's premium PER vs other retailers. Importantly, we expect leverage to fall from 40% in FY3/08 to net cash by FY3/10.
United Spirits	UNSP IN	863	800	-7%	1,851	42.68	20.6	15.7	3.4	2.8	18.0	36	OP	▪ Strong growth in the US$13bn Indian spirits industry is protected by entry barriers due to controls over promotion and local regulation. ▪ Leverage is a concern, but strong operating cashflow and a potential stake sale of treasury stock provide comfort regarding funding at the company and group levels. ▪ We believe the worst-case scenario on input costs is behind us given the decline in demand for molasses as a corn substitute/cattle feed and raw alcohol for mixing with motor fuel. ▪ UNSP is trading at a discount to its average multiples for the past 3–5 years and to its industry peers, despite earnings growth prospects of over 30%.

Fig 3 Overview of the coverage universe

Sector (Analyst)	Bberg Ticker	Current Price (Rs)	Target Price (Rs)	Upside/ Down-side	Mkt cap (US$m)	6 mths avg turnover (US$m)	PER (x) FY10E	PER (x) FY11E	P/BV (x) FY10E	P/BV (x) FY11E	ROE (FY10E) %	2 Yr EPS CAGR %	Rec	Investment outlook
Telecom (Shubham Majumder/ Nitin Mohta)														
Bharti Airtel	BHARTI IN	803	975	21%	32,407	81.10	13.6	11.8	3.8	3.0	31.5	23	OP	▪ The Indian wireless sector is highly defensive, and, in our view, the best way to play the consumption theme, especially in rural India. ▪ Bharti is by far the No. 1 player in the India wireless industry on both a revenue and subs market share basis. ▪ We expect polarisation of industry profitability to move in favour of the top-three players in the wireless market over the next two years, and we expect Bharti to be a key beneficiary. ▪ India is the third-largest overweight in our MacqTel Asia Pacific telecoms portfolio and Bharti is one of the top two picks in our MacqTel Asia Pacific telecoms portfolio. ▪ The outcome of deal talk with MTN is key to stock-price performance over the next month.
Reliance Communications	RCOM IN	293	275	-6%	12,801	67.56	11.3	9.9	1.6	1.4	15.5	4	OP	▪ We maintain our Outperform rating on RCOM. ▪ We reaffirm Bharti as our top pick in the sector due to enhanced earnings visibility and a superior growth profile. We recommend that investors switch out of Idea and into Bharti/RCOM to play the high-growth India telecom story. ▪ We believe that the current CDMA business has a weak earnings outlook on a standalone basis and RCOM has to really get the GSM business right for its long-term fundamentals to turn up. Near-term earnings growth will likely be weak, but should improve going forward as the GSM launch starts having a material effect on earnings.
Idea Cellular	IDEA IN	74	45	-39%	4,865	14.15	43.5	26.8	1.7	1.6	3.8	0	UP	▪ We reaffirm our Underperform and recommend that investors switch to Bharti. The bleak operating outlook we forecast results in a negative EPS CAGR for the next three years. ▪ We forecast EBITDA margins to decline to 28.9% in FY3/10 from 33.5% in FY3/08 due to costs associated with Idea's launches into eight new circles. ▪ We note that ROEs for Idea are expected to decline from 36% last year to 7% in March 2010 and to stay in single digits through FY13. For the long term, we expect ROEs for Idea to be capped at 14% and do not think it deserves the current premium multiple of 16x March 2010E PER.
OnMobile Global	ONMB IN	435	325	-25%	545	1.28	26.4	20.9	3.3	2.9	13.1	21	OP	▪ We have a positive view on the Indian mobile VAS market and expect VAS players to benefit from secular growth in wireless. OnMobile is our preferred telco pick in the mid-cap space. ▪ OnMobile's proven track record, high disclosure standards, robust growth, attractive valuations and fully-funded status make it stand out vs the Indian mid-cap stocks. ▪ Strategic deal with Vodafone to provide caller ringback tone (CRBT) applications in Vodafone's global emerging market operations is a significant and durable positive for the company; would likely re-rate the company in the global VAS space.
MTNL	MTNL IN	107	51	-52%	1,404	2.75	117.5	(24.1)	0.6	0.6	0.5	nmf	UP	▪ MTNL looks like the 'classic value trap' with optically low valuations, but it is actually very expensive on forward multiples, by our estimates. ▪ We think margins will fall sharply in FY3/09, with rising staff costs due to the new Pay Commission recommendations, even as revenues continue to dip every year for the next four years. ▪ Upcoming negative catalysts: 3G spectrum auctions and margin squeeze due to revised staff costs – both are likely to play out in the next 3–6 months.

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Tata Communications	TCOM IN	480	315	-34%	2,934	5.66	NA	151.9	2.7	2.8	1.9	4	UP	▪ Media speculation on sale of submarine cable assets incorrect. A series of media reports in past month speculated that TCOM is looking for potential suitors to sell its submarine cable assets. TCOM management categorically denied this speculation and reiterated that there is no plan for any asset sale now or for the next two years. ▪ TCOM's valuations on standalone financials are optically lower than on a consolidated basis, due to huge losses in all the overseas subsidiaries. On a consolidated basis, the company has significantly lower profitability and profit than is visible in standalone EPS. Most brokers forecast only standalone financials. ▪ TCOM would need to raise US$0.67bn to meet its capex plans of US$1.5bn over the next three years. We highlight that significant government holdings (India government holds a 26% stake in TCOM) would act as a hindrance for the company to raise fresh equity. ▪ Investor interest in TCOM in the past 18 months had been driven by the potential value unlocking from its land assets. We expect no near-term action to realise the value from surplus land assets
Textiles (Unmesh Sharma/ Gautam Duggad)														
Raymond	RW IN	181	165	-9%	235	0.35	16.8	15.3	0.8	0.8	4.3	42	OP	▪ Raymond could be a potential turnaround story. It aims to leverage strong domestic brands to drive exciting growth in fabric and garment retail. ▪ We believe the shift of operations to Vapi from existing facilities could unlock land value, but the timing of these triggers remains uncertain at this time. Losses (at the consolidated level) are likely to be limited by an exit from the denim business.
Arvind Mills	ARVND IN	27	12	-56%	125	2.26	15.8	11.6	0.3	0.3	2.0	70	UP	▪ Weakness in denim is likely to last for at least 6–9 months, and we may not see a solid turnaround for at least 12–15 months. ▪ Company may return to profitability due to a fall in power costs. ▪ Greater focus on garment exports and branded retail should lead to long-term margin expansion and could help reduce overexposure to denim. Until then, we expect the denim business to drive profits and share-price performance.
Autos (Abhishek Singhal / Sanjay Doshi)														
Bajaj Auto	BJAUT IN	975	800	-18%	2,973	3.17	14.8	14.0	5.8	4.8	45.8	13	UP	▪ The company's two-wheeler business remains weak, with new products not meeting expected success. The company has recently launched a couple of new products and will be launching an all new bike in the coming months. The success of these products will be key for the company's future growth. ▪ The high-margin three-wheeler business is likely to be under pressure from a general economic slowdown, while its exports have also come under pressure due to the global credit crisis. ▪ Company's operating margins should benefit from better export realisations and falling commodity prices; however, Bajaj Auto stock has had a stellar run in the past few months and, at over 16x one year forward earnings, we believe the stock is expensive
Hero Honda	HH IN	1,382	650	-53%	5,838	14.73	21.8	20.7	6.6	5.8	32.6	7	UP	▪ Our view is that Hero Honda will be affected by a negative shift in the product mix, with the share of Splendor declining. ▪ As a market leader, we believe the company is the most prone to market-share losses and is likely to be affected by HMSI. ▪ Our earnings estimates are below consensus, reflecting our bearish view on EBITDA margins.
Tata Motors	TTMT IN	294	120	-59%	3,418	28.31	10.1	9.7	1.2	1.1	12.3	24	UP	▪ We believe that with the acquisition of the Jaguar and Land Rover brands, Tata Motors is looking at transitioning towards being a global player over a long-term horizon, which could lead to turbulence in the near to medium term. ▪ With respect to the domestic business, we believe that the sales in the commercial vehicle segment will take some time to recover. ▪ Lower sales volumes and profitability at JLR remains a concern. Furthermore, Tata Motors may have to infuse more funds in JLR for its R&D and working capital requirements if volumes do not pick up. ▪ Also, high leverage and losses at JLR would mean that the company may have to raise funds through equity/quasi equity routes.

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Ashok Leyland	AL IN	30	12	-60%	864	2.32	13.3	10.5	1.7	1.6	13.3	36.5	UP	▪ We believe Ashok Leyland will be hampered by its small scale and could have its market share affected by the entry of new players and by better products being launched by competitors. ▪ Although M&HCV passenger sales should improve due to government initiatives, the goods segment that is more directly linked to economic growth will take some time to recover. Thus, lower volumes would limit the benefits from lower raw material prices. ▪ The company's capex plan, increased working capital requirements and investments required in JVs will keep cashflows under strain.
Maruti Suzuki	MSIL IN	1,052	680	-35%	6,383	22.23	19.3	16.0	2.8	2.4	15.5	20.0	UP	▪ We see competition increasing in Maruti's key compact segment, with new players entering the market and new products being introduced by existing players. ▪ Although margins should be positively affected by falling raw material prices, we believe that they will be negatively affected by new products and increasing exports. PAT may be affected by higher depreciation costs due to changes in accounting policy. ▪ The stock has had a stellar run in the past few months and, at ~19x one year forward earnings, the stock is expensive, in our view.

Source: Macquarie Research, June 2009

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of benchmark return (Russell 3000)
Neutral (Hold) – return within 5% of benchmark return (Russell 3000)
Underperform (Sell)– return >5% below benchmark return (Russell 3000)

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2009

	AU/NZ	Asia	RSA	USA	CA	EUR
Outperform	40.38%	48.53%	40.00%	44.02%	57.42%	40.20%
Neutral	39.25%	17.08%	45.00%	37.45%	32.90%	39.21%
Underperform	20.38%	34.40%	15.00%	18.53%	9.68%	20.59%

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Ramakrishna Maruvada (Philippines, Singapore, Thailand)	(65) 6231 2842

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Eunsook Kwak (Korea)	(822) 3705 8644
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Max Layton	(4420) 3037 4273
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Paul Cavey (China)	(852) 3922 3570
Richard Jerram (Japan)	(813) 3512 7855

Quantitative

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Viking Kwok (Asia)	(852) 3922 4735
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Tsumugi Akiba (Japan)	(813) 3512 7560

Strategy/Country

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Desh Peramunetilleke (Asia)	(852)3922 3564
Mahesh Kedia (Asia)	(852) 3922 3576
Michael Kurtz (China)	(8621) 2412 9002
Seshadri Sen (India)	(9122) 6653 3053
Ferry Wong (Indonesia)	(6221) 515 7335
David Gibson (Japan)	(813) 3512 7880
Peter Eadon-Clarke (Japan)	(813) 3512 7850
Chris Hunt (Korea)	(822) 3705 4970
Prem Jearajasingam (Malaysia)	(603) 2059 8989
Edward Ong (Malaysia)	(603) 2059 8982
Alex Pomento (Philippines)	(632) 857 0899
Tuck Yin Soong (ASEAN, Singapore)	(65) 6231 2838
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Alastair Macdonald (Thailand)	(662) 694 7741

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Sales

Regional Heads of Sales

Giles Heyring (ASEAN)	(65) 6231 2888
Peter Slater (Boston)	(1 617) 598 2502
Thomas Renz (Geneva)	(41) 22 818 7712
Ajay Bhatia (India)	(9122) 6653 3200
Andrew Mouat (India)	(9122) 6653 3200
Verdi Budiman (Indonesia)	(6221) 2598 8310
Jason Lee (Malaysia)	(603) 2059 8888
Gino C Rojas (Philippines)	(632) 857 0761
Greg Norton-Kidd (New York)	(1 212) 231 2527
Luke Sullivan (New York)	(1 212) 231 2507
Scot Mackie (New York)	(1 212) 231 2848
Sheila Schroeder (San Francisco)	(1 415) 835 1235
John Sim (Singapore)	(65) 6231 2888

Regional Heads of Sales cont'd

Angus Kent (Thailand)	(662) 694 7601
Michael Newman (Tokyo)	(813) 3512 7920
Charles Nelson (UK/Europe)	(44) 20 3037 4832
Rob Fabbro (UK/Europe)	(44) 20 3037 4865
Nick Ainsworth (Generalist)	(852) 3922 2010

Sales Trading

Adam Zaki (Asia)	(852) 3922 2002
Mike Keen (Europe)	(44) 20 3037 4905
Mona Lee (Hong Kong)	(852) 3922 2085
Brendan Rake (India)	(9122) 6653 3204
Stanley Dunda (Indonesia)	(6221) 515 1555
Mario Argyrides (Korea)	(822) 3705 8610

Sales Trading cont'd

Edward Robinson (London)	(44) 20 3037 4902
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Matthew Ryan (Singapore)	(65) 6231 2888
Isaac Huang (Taiwan)	(8862) 2734 7582
Jon Omori (Tokyo)	(813) 3512 7838

Alternative Strategies

Convertibles - Roland Sharman	(852) 3922 2095
Depository Receipts - Robert Ansell	(852)3922 2094
Derivatives - Wayne Edelist	(852) 3922 2134
Futures - Tim Smith	(852) 3922 2113
Structured Products - Andrew Terlich	(852) 3922 2013