

# India Insights

Time to be optimistic about FY10

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**Vivek Ranjan Misra\***

Equity Strategist  
HSBC Bank plc

+91 80 3001 3699      vivekmisra@hsbc.co.in

**Garry O Evans\***

Pan-Asian Equity Strategist  
The Hongkong and Shanghai Banking Corporation Limited  
+852 2996 6916      garryevans@hsbc.com.hk

**Sanjeev Kaushik\***

Head of Research  
HSBC Securities and Capital Markets (India) Private Ltd  
+91 22 2268 1271      sanjeevkaushik@hsbc.co.in

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## Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

- ▶ **We are much more optimistic than consensus on FY10e earnings**
- ▶ **Recovery to start in 2H FY10 on lower interest rates, commodity prices**
- ▶ **We are overweight India in our Asia-Pacific portfolio**

We believe India's economy will start to recover in the second half of the year and that consensus is too pessimistic about FY10e earnings.

We forecast earnings growth of 5-10% for FY10 while consensus is discounting 10% for the year from current levels. While we think earnings will remain under pressure for at least another two quarters, we expect to see signs of a recovery in 3Q FY10. Our forecast is based on the lagging effect of falling interest rates, lower commodity prices, and increased oil and gas output.

The market has already priced in a significant decline in FY10e earnings, in our view, and we expect further consensus downgrades. Based on our earnings estimates – EPS of INR842 in FY09e and INR915 in FY10e – we believe the market is about 15% undervalued.

Our positive outlook is supported by HSBC's economists, who expect the economy to reach a cyclical trough in 1Q FY10e at 5.7% real GDP growth y-o-y, an above-consensus view.

Along with the interest rate cuts, which we think will take at least a year to work, collapsing commodity prices, buoyant FDI, the government's fiscal action (worth 2.0-2.5% of GDP) and higher oil and gas output will collectively help growth to pick up, in our view.

The general election, which must be held by May, could be a major catalyst, especially if the winning coalition is business friendly and can step up economic reforms.

Our end-2009 targets are 11,000 for the Sensex and 3,600 for the Nifty. We are positive on industrials and telecom. Our key underweight is financials.

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# Market view

- ▶ Markets undervalued; no triggers for recovery in sight until 2H FY10e
- ▶ Risk appetite improving slowly, but earnings downgrades and political developments may cap upside
- ▶ Election outcome and earnings likely triggers for recovery

## Risk appetite

Risk aversion peaked in early October and, while it has eased slightly, investors are still jittery. We expect improvement will be slow for two reasons: (1) the risk another financial institution may have to be rescued and (2) the need for the financial sector to de-leverage.

Helped by RBI monetary policy, interest rates have softened – the 3-month commercial paper yields are down from 14.8% to 9.2%. By historical standards this is still high, but the 5.6% decline from the peak is a good sign. At the same time, equities face a number of headwinds.

## Earnings

Earnings have been under pressure for four quarters. The difference this time, however, is that the top line is under pressure too. Earnings are likely to remain depressed for another two to three quarters, with a modest recovery expected only in 3Q FY10. An analysis of the financial numbers for 3Q FY09 is in the next section.

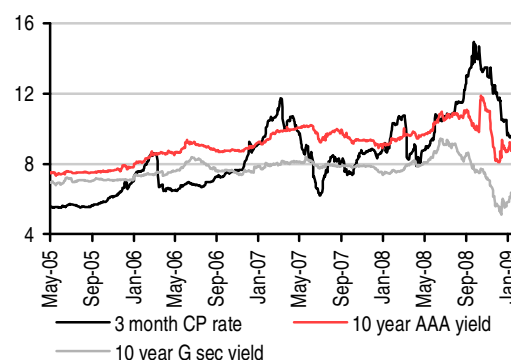
Until March 2008, consensus was optimistic about growth – the FY10 EPS forecast for the Sensex was INR1,200. This has been revised to INR876. The earlier figure implied a FY08-10 CAGR of 19.3%, while the revised forecast is for only 2%.

1.1 HSBC Financial Clog Index



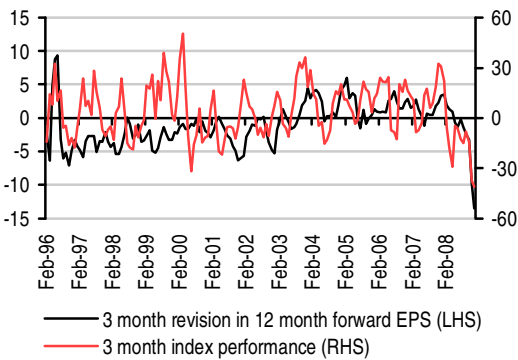
Source: HSBC, Bloomberg

1.2 Corporate yields (India)



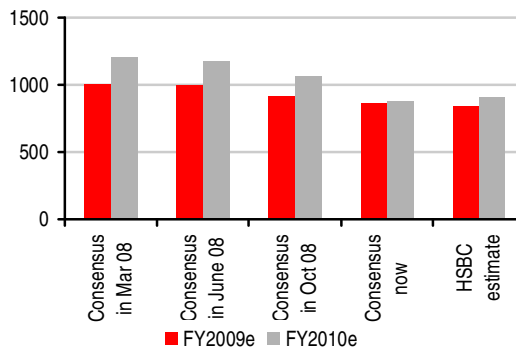
Source: HSBC, Bloomberg

1.3 Three-month revision in 12-month forward EPS estimates (MSCI India)



Source: HSBC, Thomson Financial, IBES

1.4 Sensex EPS estimate for FY09 and FY10



Source: HSBC, Thomson Financial, IBES

In addition, the downward EPS revisions for MSCI India Index-listed stocks have reached record levels, most coming in the last three months.

We are now entering the annual earnings season and believe companies may take an upfront earnings hit to set themselves up for a better FY10. They may also issue more cautious guidance for the year ahead. This means that earnings may be below street estimates, which may lead to further downgrades in EPS estimates.

The market has already priced in a significant decline in the FY10 earnings (more on this in the next section). The likely downgrades are already priced in, but further downgrades and cautious guidance are likely to cap any upside.

We expect that the economy will hit its cyclical trough by the end of 1Q FY10e, after which we expect a mild recovery in 2H FY10.

We also expect earnings to start to recover after 3Q FY09 helped by the lagging impact of monetary accommodation by RBI, which will feed through the economy in 12-24 months, boosting consumer demand and reducing interest expenses. Declining commodity prices, additional oil & gas output, and the government's fiscal will help boost earnings, and the base effects for comparison become more favourable.

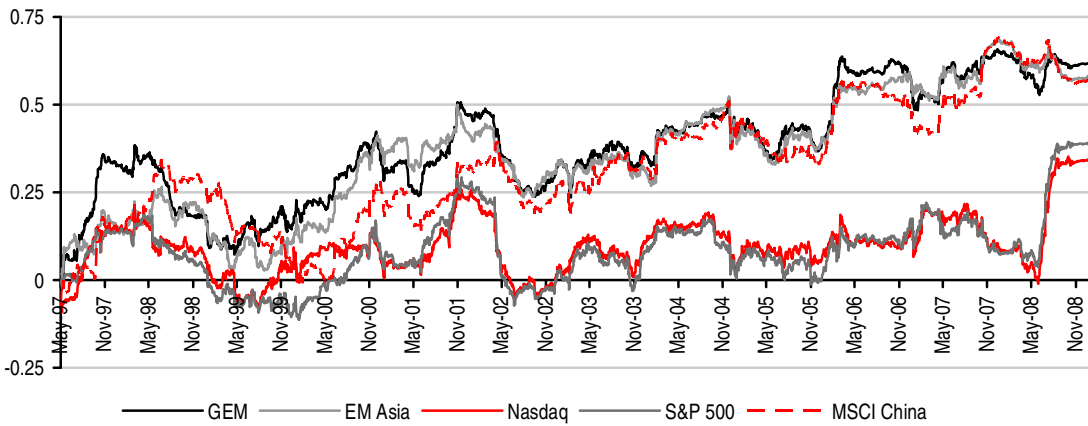
Our earnings forecast for FY09e is 0% and 5-10% for FY10e. However, an excessively bearish consensus forecast following the annual earnings season, setting the market up for positive surprises in 2H FY10, will not surprise us.

### 1.5 Likely election outcomes and effects on the markets

	Congress-led alliance	BJP-led alliance	Congress-led alliance including the Left	Third front	Hung parliament
Probability	High	High	Moderate	Low	Moderate
Reform agenda	Positive	Positive	Neutral	Negative	Negative
Market reaction	Rally	Rally	Mild negative	Strong negative	Strong negative
Note	May include powerful regional parties, such as the BSP	May include powerful regional parties, such as the BSP	May include powerful regional parties, such as the BSP; coalition likely to be unstable	Unstable coalition, may not last full term	May lead to realignment of initial coalitions; no party would prefer to have elections again

Source: HSBC

1.6 Correlation of India with global markets



Note: For global emerging markets and emerging markets, we have used market returns ex-India, which prevents spurious co-relation  
Source: HSBC, Thomson Financial

### Election fever

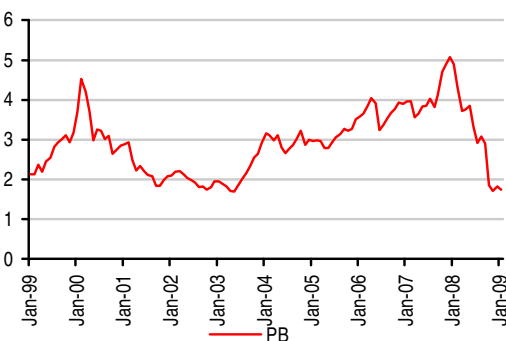
Another issue on investors' minds is the upcoming general elections. Table 1.5 summarises the likely outcomes and their effect on the market.

Although it is difficult to predict the outcome, we believe one of the two major parties, Congress and BJP, will lead a coalition government. The chances of a third front winning are slim, as different regional parties may not agree on a power sharing pact. If a coalition government is formed, regional parties are likely to have a strong influence.

### Global markets

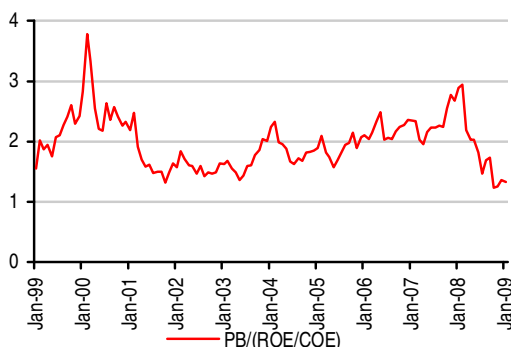
The correlation of Indian markets with other global markets has increased dramatically (see Chart 1.6). Correlation with the US is usually low, but increases during periods of high market volatility. It increased during the 1998 crisis and in 2000-03 following the tech bubble burst. However, the spike in correlation is significantly higher this time. As per HSBC's global economics team, volatility, and thus correlation with global markets, is likely to remain high.

1.7 Sensex PB ratio

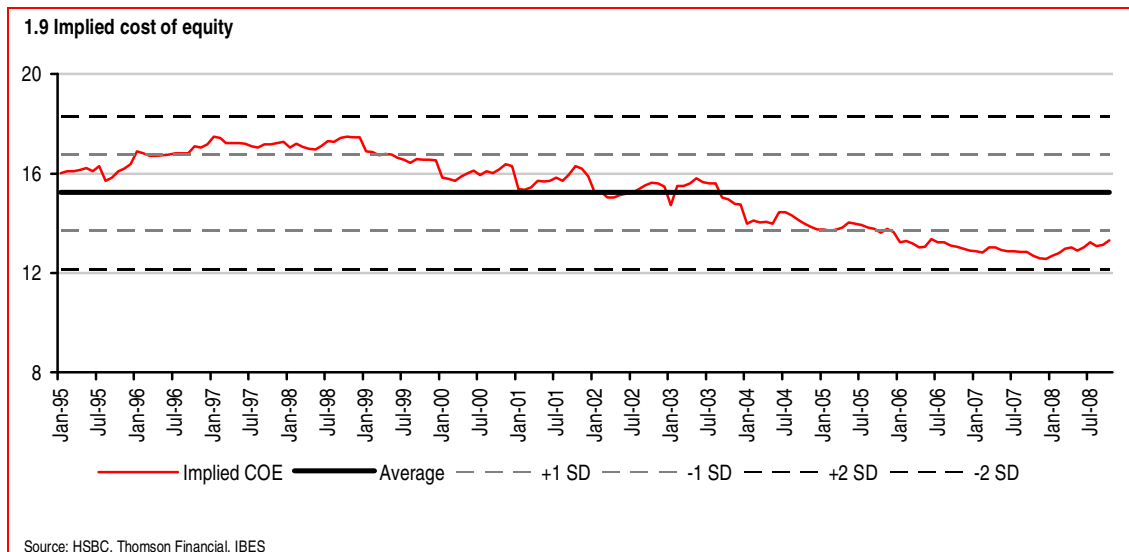


Source: HSBC, Thomson Financial, IBES

1.8 Sensex PB/(ROE/COE) ratio



Source: HSBC, Thomson Financial, IBES



In our view, the markets will struggle to progress and will remain range-bound, at least until some strong drivers appear in 2H FY10. The outcome of the election and a turnaround in earnings are the likely drivers for recovery.

## Cheap markets

As a result of consensus earnings downgrades, markets in India have started looking more expensive on a PE basis. We believe that the PB ratio is more applicable in these times than the PE ratio – on the basis of the PB and PB/(ROE/COE) ratios, the market remains at record low levels.

We have revisited our DCF valuation for the Sensex based on various growth assumptions in FY10 in order to calculate the extent to which the market is over/undervalued.

We use a three-stage model. In the first stage, we use explicit forecasts to arrive at the index EPS and DPS for the next two years, ie FY09 and FY10. We then use our EPS growth rate assumption for the next 13 years – this gives us a total of 15 years in a high growth phase. Since 1990, the Sensex EPS has shown a growth trend of 13.4%, while the real EPS trend growth rate has been 6.7%, a little higher than the GDP growth rate of 6.1%.

Our economics team estimates that the current trend GDP growth is about 7-8%. The current rate of inflation is 5-5.5%. Hence, we use an EPS growth rate estimate of 12.5% in the second stage. In the third stage, we use a terminal rate of 1.5% in real terms, hence a nominal rate of 7%.

We have run the model using the current consensus estimate for FY09 and for various assumption of EPS growth in FY10e. We use our estimate of cost of equity, which is 13.5%.

### 1.10 Fair value of Sensex

	FY10e EPS	674	716	758	800	842	884	926	968	1,010
<b>Cost of equity</b>	<b>FY10e EPS growth</b>	<b>-20%</b>	<b>-15%</b>	<b>-10%</b>	<b>-5%</b>	<b>0%</b>	<b>5%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>
	11.5	13,576	14,284	14,992	15,700	16,408	17,116	17,824	18,532	19,240
	12.5	10,600	11,153	11,706	12,258	12,811	13,364	13,917	14,470	15,023
	13.5	8,569	9,016	9,463	9,909	10,356	10,803	11,250	11,697	12,144
	14.5	7,105	7,475	7,846	8,216	8,587	8,957	9,328	9,698	10,069
	15.5	6,007	6,320	6,634	6,947	7,260	7,573	7,887	8,200	8,513

Source: HSBC, Thomson Financial, IBES

We believe the market is fairly valued if earnings were to decline 9% in FY10. Table 1.10 lists the fair value of the Sensex for different combinations of EPS growth and cost of equity.

Using values we consider central to be our case, ie EPS of INR842 in FY09e and INR915 in FY10, we believe that the market is about 15% undervalued.

# Quarterly earnings

- ▶ Sensex earnings declined 8.2% in 3Q FY09, while ex financials earnings fell 19.5%
- ▶ Ranbaxy and ONGC accounted for the bulk of the decline; barring these, earnings grew a modest 1.8%
- ▶ Sensex earnings surprised negatively by 0.3%, the least in three quarters

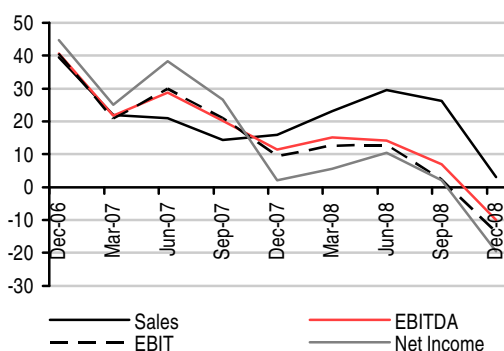
## Help from financials

Sensex earnings performed poorly in 3Q FY09, declining on average 8.2% (19.5% ex financials). The decline was distorted by Ranbaxy Laboratories and ONGC; leaving aside these two companies, Sensex earnings grew 1.8%. Ex-financials, EBITDA fell 10%, EBIT 13% and interest expenses rose 47%.

Earnings grew 2.6% y-o-y in the first three quarters but we expect 0% growth in FY09, which implies negative growth of 7.5% for 4Q.

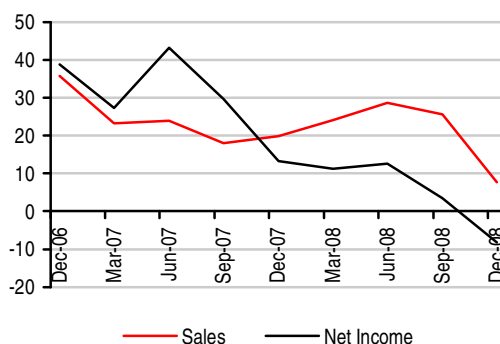
In the wider market – the BSE 200 Index – earnings fell 19.5% largely on account of ONGC, Ranbaxy, HPCL, Chennai Petroleum, Suzlon and Tata Motors and Essar Oil. Barring these, earnings grew 1.5%. It is evident that the state-owned oil & gas sector players continue to be a drag on earnings. Table 2.3 gives the breakdown of earnings by sector.

2.1 Sensex growth, ex financials (y-o-y)



Source: HSBC, Thomson Financial, Prowess

2.2 Sensex growth (y-o-y)



Source: HSBC, Thomson Financial, Prowess



## Earnings surprise

### 2.3 Y-o-y growth for BSE 200 companies

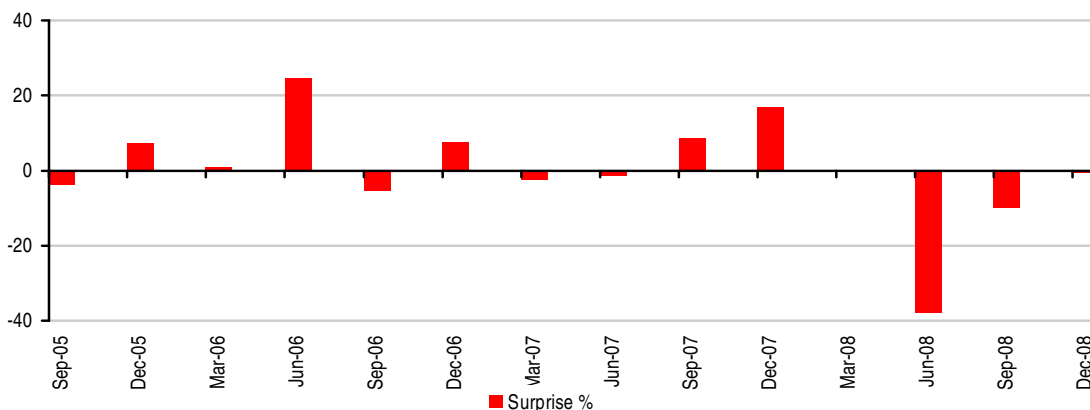
Sector	Sales	EBITDA	EBIT	Net Income
Automobiles & Components	-7.3	-38.6	-45.2	-44.4
Food Beverage & Tobacco	12.7	4.9	6.0	-1.5
Household & Personal Products	15.5	-10.2	-11.1	-12.3
Energy	4.7	-18.4	-30.0	-39.7
Banks	34.0			36.2
Diversified Financials	-6.5			-44.2
Real Estate	-57.6			-79.9
Health Care Equipment & Services	29.0	8.6	39.6	7.6
Pharmaceuticals, Biotechnology	5.2	-73.8	-83.6	-65.7
Capital Goods	15.2	-2.4	1.6	19.7
Transportation	14.9	13.7	17.9	16.4
Software & Services	25.1	7.5	6.8	-6.5
Materials	5.1	-29.0	-32.6	-31.8
Telecommunications	22.3	26.0	37.5	57.6
Utilities	29.1	5.8	-13.9	2.5
<b>BSE 200</b>	<b>12.33</b>	<b>-12.468</b>	<b>-15</b>	<b>-19.5</b>

Source: HSBC, Thomson Financial, Prowess

For the Sensex in aggregate, the earnings forecast for 3Q09 was 0.3%, the lowest in three quarters. 1Q and 2Q FY09 had aggregate negative surprise of 38% and 14%, respectively, based on consensus polls of brokerages before the announcement of earnings.

In the last 14 quarters, surprises were largely positive, driving the bull run. But the recent negative surprises have been a drag on markets and analysts have been downgrading their numbers. We wouldn't be surprised if surprises turn positive towards the second half of FY10e.

### 2.4 EPS surprises (%) for Sensex companies



Source: HSBC, Thomson Financial Datastream, Bloomberg

# Sector view and top picks

- ▶ Key overweight: industrials, telecoms
- ▶ Key underweight: financials

## Sector view

The sector and stock picks discussed in this section are relative to the India markets, specifically the BSE 200 Index. These weights differ from those relative to the MSCI Asia Pacific Index, covered in our Pan-Asia Strategy Quarterly, although our general preferences are the same.

## What we like

### Telecoms

We rate this sector overweight.

Downside risk of earnings growth in this sector is among the lowest. This sector combines both secular growth and defensive characteristics. It trades at a 12-month forward PE of 11.7x, at a premium to the market, but earnings are expected to grow c13% over two years, significantly higher than other sectors. We expect subscriber additions to remain robust in the medium term. Increase in rural coverage will also be a positive.

Auction of 3G spectrum will be a major event as it can potentially release 25Mhz of spectrum in a spectrum starved market. However, if the existing players are deprived of additional spectrum, this will be a negative. However, the regulatory environment is uncertain and elections may lead to delays. The credit crunch poses the biggest risk and the government may be unable to raise the amount it is looking for from the auction.

Major risks for the sector are delays in the 3G auction, regulatory risks and delays in capex due to difficulty in raising funds and lower spending by subscribers due to economic slowdown.

### Industrials

We continue to rate the sector overweight.

It is likely to be the key beneficiary of limited fiscal stimulus the government may provide in the next year. We expect the government and government-owned firms will step up their investment programmes after the general elections in May 2009. These projects will come largely from power utilities and infrastructure companies.

The decline in commodity prices will also help stabilise margins and leverage in the sector has also declined. Financial strength is based on a reduction in gearing and strong cash positions on balance sheets.

The sector has de-rated significantly – from a 12-month forward PE of 31.5x to 10.9x. EPS estimates have been revised, with the FY10e estimates down 18.1% in the last six months alone, so many risks are already priced in.

### Energy

We continue to rate the sector overweight.

In the last quarter, India's energy sector underperformed both the domestic market and the global energy sector.

The sector trades at a discount to the rest of the market. Risks are refining or petrochemical margins declining to levels lower than we anticipate, and crude oil prices being materially different than our assumptions. Any change in the government policy with respect to pricing of refined products also poses risk.

## What we don't like

### Financials

**Real estate.** Headline valuations for the sector are extremely cheap. It is the second cheapest sector, trading at a 12-month forward PE of 6.6x.

However, this may be a value trap, as earnings in this sector are at a significant risk. The sector has been hit by tight funding and most developers have limited flexibility to manage balance sheets as construction projects need both cash and demand. Demand has been soft and most developers seem unwilling to recognise the slowdown, as that will mean lowering prices.

Financial institutions are reluctant to lend or roll over existing debt. This has created an uncomfortable situation that is unlikely to be resolved in a hurry and raises the risk that some companies may have to resort to selling assets at distressed prices to raise funds. We remain underweight.

**Banks.** State-owned banks account for the bulk of banking activity in India. In the listed space, state-owned banks (including State Bank of India) constitute about 40% of the free float weight of banks on the BSE 200 Index. We are **overweight on state-owned banks** and **underweight on private sector banks**.

India's banking sector is well capitalised, with the CAR of most banks in the range of 12-14%, giving them adequate cushion in case of write-downs.

However, the sector as a whole faces considerable headwinds. NPLs will rise as the business cycle deteriorates, hurting net income growth; internal

capital generation will slow and if return on assets also drops as a result of profitability pressures, tier I capital levels may fall close to the regulatory norms.

Banks will be the major source of funding for companies, as they may be unwilling to issue fresh equity and foreign funding will be difficult, so loan growth is likely to remain high.

**State-owned banks.** We like state-owned banks as they fare better on valuation metrics, trading at a significant discount to private banks; the PB ratio (trailing) for state-owned banks is 0.97x, compared with 1.63x for private banks. Overall, banks trade at a PB ratio of 1.33x. Also, they have lower asset liability mismatch and better diversified portfolios. The government will also be injecting additional capital, removing a growth constraint.

**Private sector banks.** We are less positive on private sector banks; they face headwinds which are not priced in as they trade at 1.63x PB ratio. We are also cautious on account of higher asset liability mismatch, lesser portfolio diversification and higher NPL generation.

### Materials

Valuations are inexpensive at 6.1x 12-month forward PE, making it the cheapest sector in the Indian market. The sector trades at close to book value (trailing PB ratio is close to 1x). However, valuation may mask significant risks to the earnings outlook on account of the recent correction in commodity prices.

There is a risk of significant decline in earnings and we rate the sector underweight.

### Consumer Discretionary

**Autos:** In our view, the decline in car sales will be steeper in 2009 than in 2008. The weak income outlook is likely to adversely affect sentiment as consumers cut down on big-ticket consumer discretionary items. Sales of two wheelers may

remain robust on account of healthy rural growth. We think consensus is still too optimistic about revival of demand in the near term and the street is likely to be disappointed. We remain underweight.

**Retail:** The high cost of debt has thrown the expansion plans of retailers out of gear and cuts in discretionary consumer spending mean earnings will remain under pressure for the next three to four quarters. However, stock prices have corrected significantly, reflecting the risks. We rate the sector neutral.

We are underweight on the consumer discretionary sector as a whole.

## Healthcare

Consensus earnings estimates are for a CAGR of 10.5% for FY09-10. Valuation has declined significantly to 10.7x 12-month forward PE, but remains at a premium to the market. The sector earnings are at risk as Indian companies face a strong competitive landscape. We rate the sector underweight.

## Neutral

### Consumer Staples

Historically, this sector's earnings have been the least volatile, making it defensive in nature. A slowdown in the economy might bring down earnings on account of declining growth in volumes and erosion in pricing power. However, these will be neutralised by falling commodity prices. Also, earnings will be more resilient than other sectors.

While the sector premium has increased in recent weeks, trading at a 12-month forward PE of 19.0x against 9.8x for the index, its defensive nature will retain its appeal.

### Utilities

Access to fuel and funds will be the key differentiating factor for India's utilities. We

expect that, given the current credit crunch, availability of funds will take precedence over fuel for new capacity.

Demand supply balance will improve, but the mismatch will not close. We expect the peak deficit to decrease from c17% in 2007-08 to 12% in 2012e and 8% in 2017e.

Overall, risks and rewards are balanced and we rate the sector neutral.

## Information Technology

The sector is currently trading at a significant discount to the market, whereas it traded at a significant premium in the last 10 years. As the sector has matured, growth rates are trending lower – we expect earnings CAGR of 5-10% over the next two years.

The sector has many positives – financial strength, extremely competitive globally, lower dependence on discretionary spending than in past cycles and the sector is still growing, albeit at a much lower rate.

It is easy to point out the negatives – tough demand environment, greatest exposure to the global economy, high levels of exposure to the troubled financial sector and credit risk, protectionism, price wars and losses due to FX hedging. All will lead to pressure on bottom lines. We think that consensus estimates will be revised downwards post the disappointing results for 3Q FY09, which may cause near-term volatility in the sector.

The sector is attractively priced, with the downside risk priced in. However, the Satyam episode may be a drag.

*Note: We have omitted the model portfolio for this month only. The model portfolio will return in the next and in all future editions.*

# Appendix

## Earnings growth

### Consensus forecasts

#### BSE 200 Index

Sector	Industry group	Index weight	12M	Sales (%)		EBITDA (%)		Net income (%)	
				FY 09e	FY 10e	FY 09e	FY 10e	FY 09e	FY 10e
Consumer Discretionary	Automobiles & Components	3.1	8.6	6.6	6.9	-15.5	15.4	-0.1	10.6
	Consumer Durables & Apparel	0.4	8.7	27.8	19.3	21.9	11.9	64.6	10.1
	Consumer Services	0.6	11.1	-0.8	19.5	-7.8	26.0	0.0	22.3
	Media	0.6	27.4	27.8	22.6	-29.7	50.3	96.4	-0.3
	Retailing	0.1	14.3	39.3	18.2	82.7	37.3	368.8	72.3
Consumer Staples	Food Beverage & Tobacco	5.8	16.3	15.0	14.3	-12.6	17.6	-0.1	17.9
	Household & Personal Products	3.1	23.7	13.3	15.3	3.9	8.2	13.7	10.7
Energy	Energy	17.2	9.7	28.6	-1.1	-12.6	28.5	-0.1	30.3
Financials	Banks	18.4	8.5					15.6	10.7
	Diversified Financials	3.0	8.3	-4.9	9.9	-13.4	16.0	-0.1	-0.1
	Real Estate	0.4	7.1	-16.1	7.4	-36.9	-16.2	-0.4	-0.2
Healthcare	Health Care Equipment & Services	0.2	9.4	41.0	27.3	41.7	31.5	40.8	33.6
	Pharmaceuticals, Biotechnology	4.1	13.3	21.2	12.9	2.0	11.1	5.1	13.5
Industrials	Capital Goods	11.1	11.0	20.2	18.1	-4.2	23.4	3.5	22.3
	Transportation	0.7	15.0	8.9	8.8	9.8	11.0	25.6	4.4
Information Technology	Software & Services	8.9	10.2	27.7	9.8	18.2	2.9	19.8	4.4
	Technology Hardware & Equipment	0.0	18.8	27.9	13.0	-6.7	55.9	23.2	156.2
Materials	Materials	9.0	6.0	12.9	-11.1	-16.4	-12.9	-0.2	-0.2
Telecoms	Telecommunications	6.3	11.8	31.1	21.7	5.0	19.9	18.2	6.7
Utilities	Utilities	6.9	11.7	19.3	12.3	-3.9	12.5	16.7	8.3
<b>BSE 200 Index</b>		<b>100.0</b>	<b>9.8</b>	<b>19.7</b>	<b>2.9</b>	<b>-0.1</b>	<b>10.2</b>	<b>-0.1</b>	<b>7.2</b>

Source: HSBC, Thomson Financial Datastream, IBES

#### MSCI India Index

Sector	12M forward PE	10-yr EPS	5-yr EPS	EBITDA (%)		Net income (%)	
				FY 09e	FY 10e	FY 09e	FY 10e
Consumer Discretionary	9.8	26.3	8.3	-15.4	17.0	-6.7	12.6
Consumer Staples	21.9	10.9	14.0	0.2	12.1	11.4	14.4
Energy	12.6	40.1	19.7	-10.8	27.3	-1.2	28.3
Financials	12.2	12.5	23.7			8.9	8.4
Healthcare	14.6	16.1	20.7	-0.5	7.9	-5.1	19.1
Industrials	15.8	41.2	17.0	-13.9	24.6	-7.9	29.1
Information Technology	9.7	33.1	40.8	17.9	1.4	20.4	4.3
Materials	5.2	38.1	22.3	-18.9	-15.7	-18.1	-25.9
Telecoms	7.6	-2.7		-13.9	20.8	11.7	-11.0
Utilities	12.4	18.2	12.8	-8.1	9.8	12.7	6.0
<b>MSCI</b>	<b>11.1</b>	<b>23.6</b>	<b>14.1</b>	<b>-10.0</b>	<b>9.0</b>	<b>0.5</b>	<b>6.9</b>

Source: HSBC, Thomson Financial Datastream, IBES, MSCI

## EPS revisions

### Consensus forecasts

#### BSE 200 Index

Sector	Industry group	Industry Index weight	Index	12m forward PE	FY 09e revision (%)			FY 10e revision (%)		
					1 Month	3 Month	6 Month	1 Month	3 Month	6 Month
Consumer Discretionary	Automobiles & Components	3.1	8.6	8.6	-4.8	-11.8	-9.6	-6.1	-11.8	-11.3
	Consumer Durables & Apparel	0.4	8.7	8.7	4.7	7.7	5.7	-0.9	0.9	-1.9
	Consumer Services	0.6	11.1	11.1	-6.3	-13.4	-15.5	-11.8	-20.7	-24.8
	Media	0.6	27.4	27.4	-19.9	-21.0	-23.2	-0.1	-16.5	-7.6
	Retailing	0.1	14.3	14.3	0.1	-7.8	-11.8	-11.4	-34.0	-36.1
Consumer Staples	Food Beverage & Tobacco	5.8	16.3	16.3	0.6	-2.7	-5.2	-2.3	-6.1	-8.2
	Household & Personal Products	3.1	23.7	23.7	-2.0	-2.7	-2.9	0.4	0.1	-1.1
Energy	Energy	17.2	9.7	9.7	-9.4	-26.2	-30.3	-9.6	-31.6	-33.6
Financials	Banks	18.4	8.5	8.5	-0.2	-1.8	-7.4	-2.8	-6.7	-11.9
	Diversified Financials	3.0	8.3	8.3	-2.1	-12.2	-19.5	-4.9	-18.3	-27.5
	Real Estate	0.4	7.1	7.1	-3.3	-32.2	-47.0	-1.1	-22.4	-63.5
Health Care	Health Care Equipment & Services	0.2	9.4	9.4	-3.3	1.6	-1.4	-4.4	-1.0	-2.1
	Pharmaceuticals, Biotechnology	4.1	13.3	13.3	-1.5	-5.3	-6.4	-2.3	-3.5	-3.8
Industrials	Capital Goods	11.1	11.0	11.0	-3.6	-22.8	-16.0	-3.0	-14.8	-17.9
	Transportation	0.7	15.0	15.0	-0.7	-1.1	-5.0	-1.5	-9.8	-17.5
Information Technology	Software & Services	8.9	10.2	10.2	-0.2	-1.0	-0.7	-4.8	-7.9	-10.7
	Technology Hardware & Equipment	0.0	18.8	18.8	1620.4	1085.2	-1014.3	-15.5	-24.8	-67.1
Materials	Materials	9.0	6.0	6.0	-3.6	-13.3	-11.9	-7.3	-28.6	-30.5
Telecom	Telecommunications	6.3	11.8	11.8	-0.6	-3.6	1.4	17.0	-12.5	-15.1
Utilities	Utilities	6.9	11.7	11.7	1.6	0.2	1.9	-1.4	-3.3	-4.1
<b>BSE 200 Index</b>		<b>100.0</b>	<b>9.8</b>	<b>9.8</b>	<b>-2.1</b>	<b>-9.9</b>	<b>-11.8</b>	<b>-3.1</b>	<b>-14.4</b>	<b>-17.6</b>

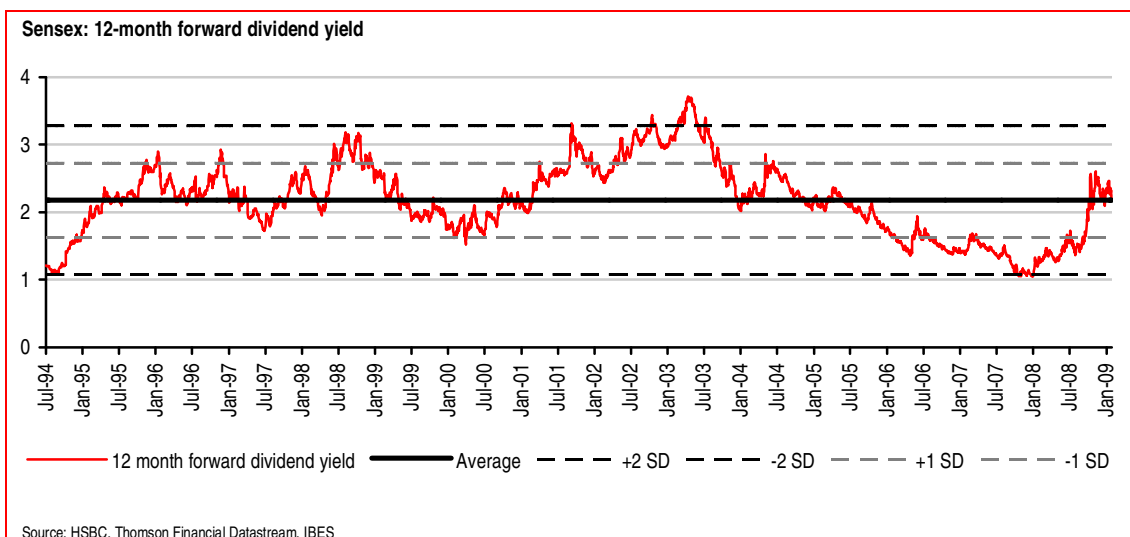
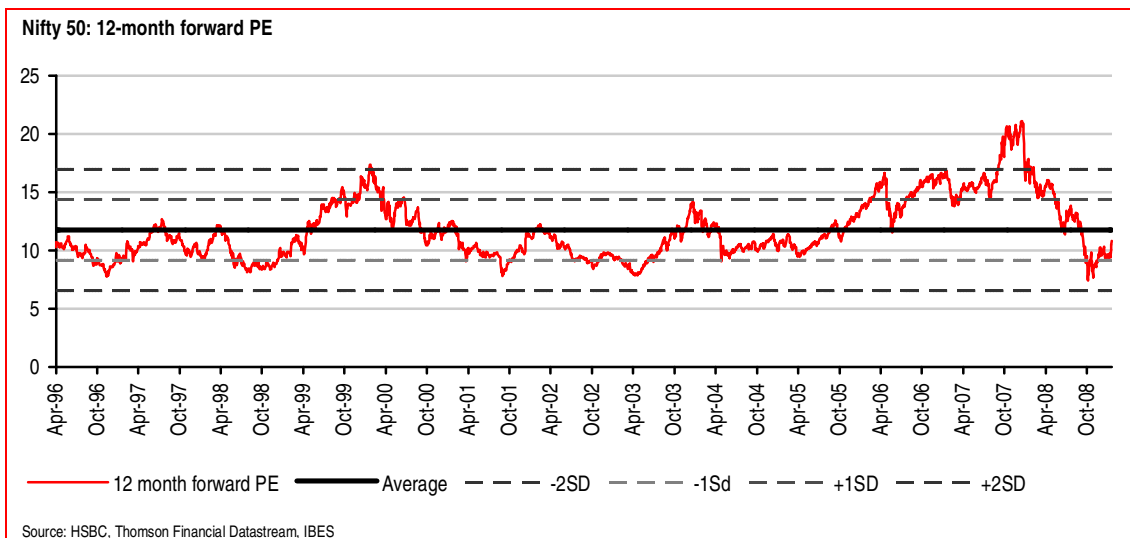
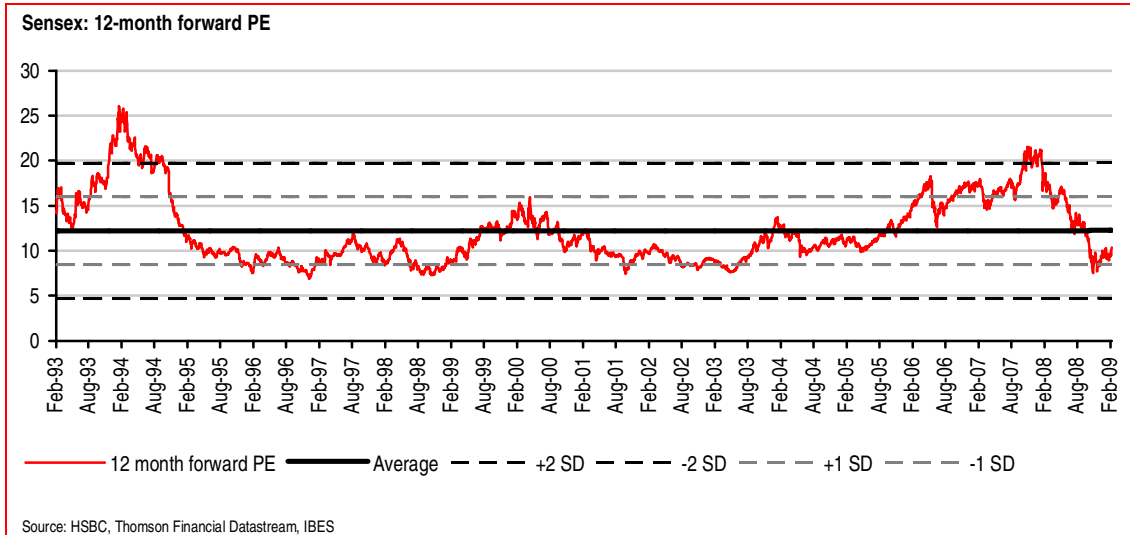
Source: HSBC, Thomson Financial Datastream, IBES

#### MSCI India Index

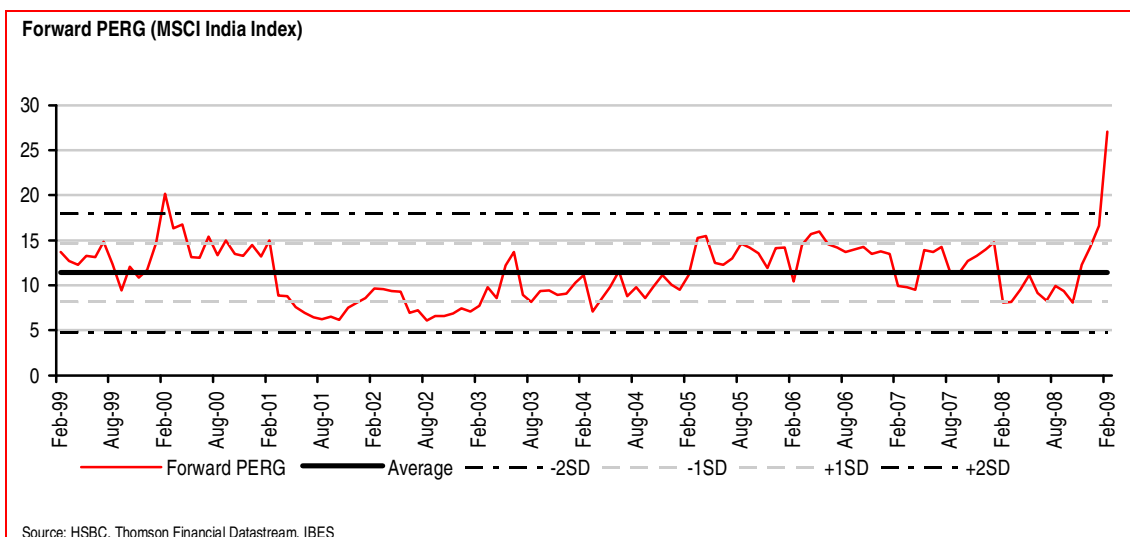
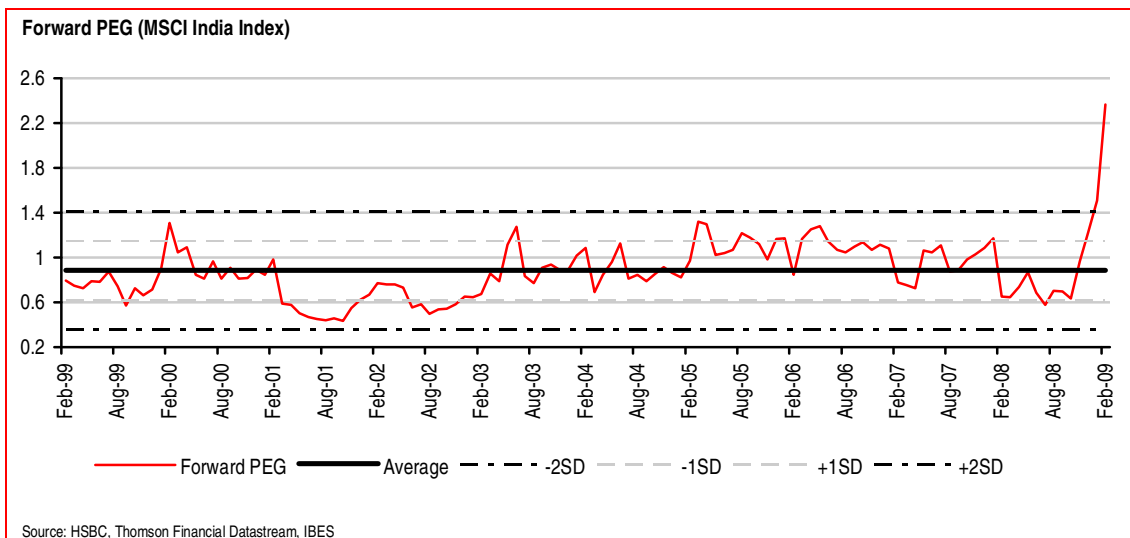
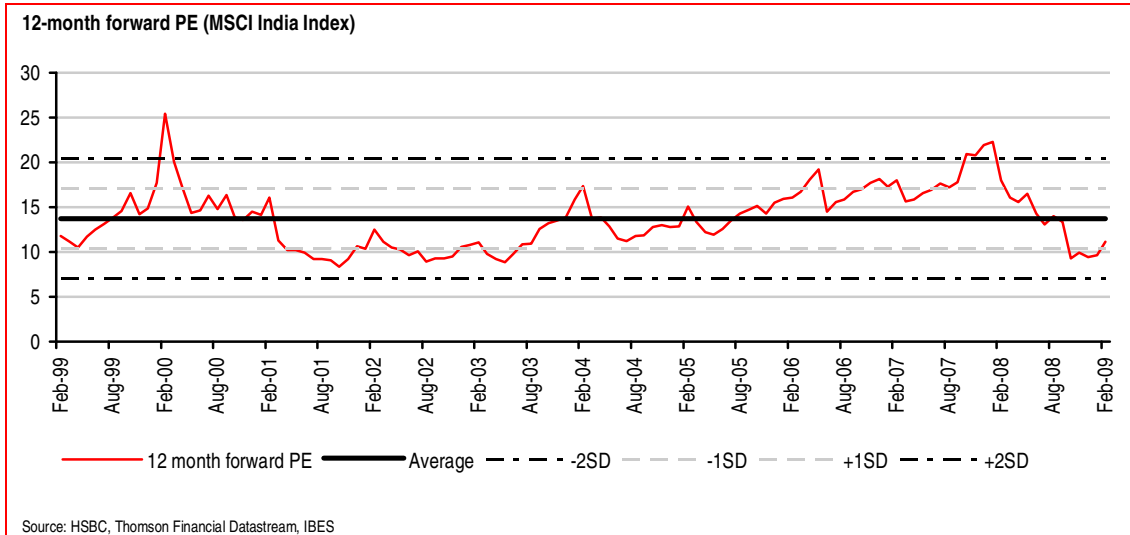
Sector	CY 2008e (%)			CY 2009e (%)		
	1 Month	3 Month	6 Month	1 Month	3 Month	6 Month
Consumer Discretionary	-4.5	-13.7	-15.0	-6.8	-17.3	-17.6
Consumer Staples	-0.1	-0.5	-2.8	-3.5	-3.1	-6.1
Energy	-1.9	-11.0	-21.9	-10.9	-24.0	-32.2
Financials	0.9	-5.4	-12.9	-2.6	-11.7	-21.8
Health Care	-6.8	-9.9	-8.2	-11.9	-16.5	-14.7
Industrials	-2.9	-10.8	-21.1	-2.3	-13.9	-20.4
Information Technology	-1.3	-1.2	-1.4	-4.8	-7.2	-11.3
Materials	-3.4	-7.1	-16.0	-3.0	-23.8	-43.1
Telecom	-0.1	-3.7	-8.3	-10.0	-17.8	-25.8
<b>Utilities</b>	<b>-1.6</b>	<b>-2.6</b>	<b>-5.9</b>	<b>-1.9</b>	<b>-9.4</b>	<b>-13.6</b>

Source: HSBC, Thomson Financial Datastream, IBES, MSCI

## Valuation charts 1



## Valuation charts 2





## Performance tables

### BSE indices and Nifty 50

Index	Price index level	1 week (%)	1 month (%)	3 month (%)	1 year (%)	MTD (%)	QTD (%)	YTD (%)
Sensex	9,647	5.4	2.6	-8.4	-44.8	2.4	0.0	0.0
Dollex 30	1,626	5.7	2.5	-11.0	-55.1	3.0	-0.3	-0.3
BSE 100	4,889	5.3	0.9	-9.1	-47.4	2.1	-2.0	-2.0
BSE 200	1,129	5.1	0.4	-9.5	-48.6	2.0	-2.4	-2.4
BSE 500	3,490	4.8	-0.1	-10.0	-50.5	1.9	-3.0	-3.0
BSE Mid cap	2,954	2.8	-5.3	-15.0	-61.3	0.4	-8.7	-8.7
BSE Small cap	3,343	2.1	-6.0	-16.2	-66.3	0.1	-9.3	-9.3
Nifty 50	2,935	5.4	2.1	-6.8	-42.7	2.1	-0.8	-0.8

Source: HSBC, Thomson Financial Datastream

### BSE sector indices

Sector	Price index level	1 week (%)	1 month (%)	3 month (%)	1 year (%)	MTD (%)	QTD (%)	YTD (%)
Auto	2,511	2.0	-0.5	-7.9	-47.0	0.4	2.7	2.7
Bankex	4,973	6.4	-7.6	-14.0	-51.1	1.5	-8.8	-8.8
Capital goods	6,484	6.3	-2.9	-20.1	-59.1	3.6	-6.2	-6.2
Consumer durables	1,675	1.2	-7.4	-22.3	-64.6	-5.8	-12.5	-12.5
FMCG	2,043	0.2	2.5	3.5	-6.1	0.5	2.8	2.8
Health Care	2,756	3.6	-4.1	-10.0	-24.1	1.6	-7.1	-7.1
IT	2,240	2.1	5.1	-20.4	-41.7	0.2	0.6	0.6
Metal	5,251	9.4	0.9	-8.1	-65.3	3.0	0.7	0.7
Oil & Gas	6,585	7.2	14.0	3.2	-38.1	5.3	8.8	8.8
Teck (TMT)	1,847	4.1	2.6	-16.5	-45.1	1.5	-5.2	-5.2
Realty	1,536	11.1	-17.6	-37.6	-84.3	-7.9	-32.5	-32.5
Power	1,816	5.2	2.0	-5.3	-51.4	1.3	-0.7	-0.7
PSU	5,226	4.8	0.8	-0.4	-36.9	2.2	-1.0	-1.0

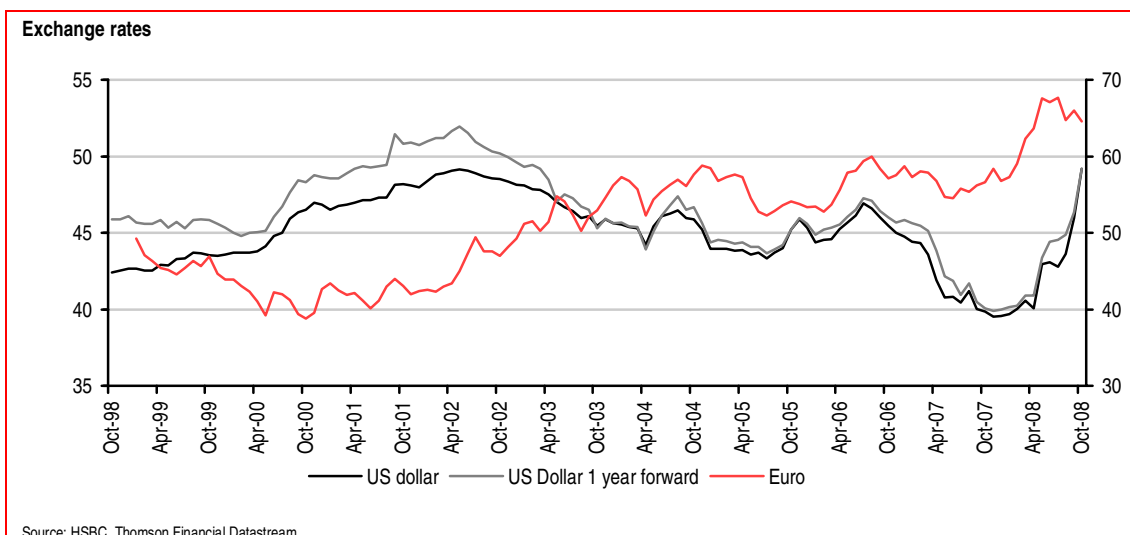
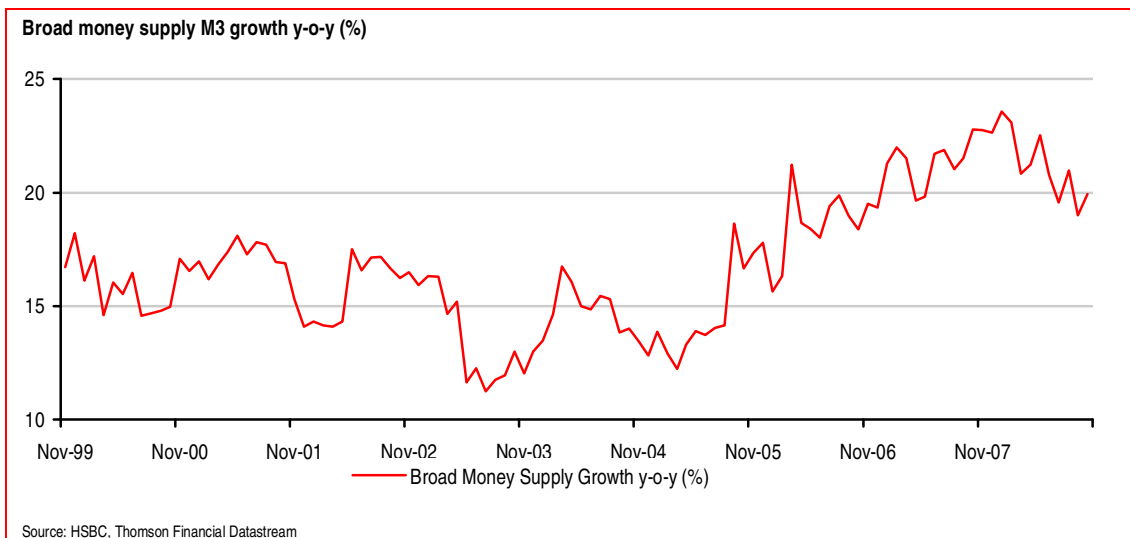
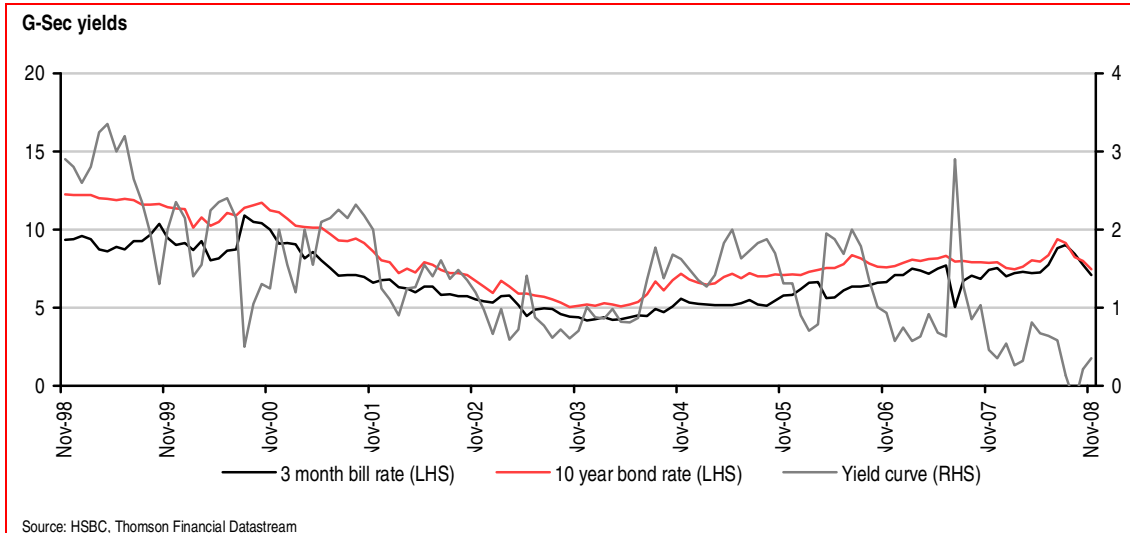
Source: HSBC, Thomson Financial Datastream

### MSCI India index

Index	Price index level	Total return index level	1 week (%)	1 month (%)	3 month (%)	1 year (%)	MTD (%)	QTD (%)	YTD (%)
MSCI India	371	481	5.6	2.3	-8.8	-48.5	2.2	0.4	0.4
Consumer Discretionary	164	200	5.0	1.7	-4.6	-34.5	2.7	5.7	5.7
Consumer Staples	185	233	0.2	1.0	2.2	-4.2	0.9	1.9	1.9
Energy	853	1,155	7.4	16.6	3.7	-40.6	5.9	10.6	10.6
Financials	2,127	2,710	6.9	-8.8	-18.5	-59.4	0.2	-8.1	-8.1
Health Care	383	423	5.8	-2.7	-9.6	-16.9	3.6	-5.1	-5.1
Industrials	597	724	7.1	-1.7	-16.3	-59.8	3.0	-4.8	-4.8
Information Technology	277	303	1.6	6.6	-16.5	-35.0	-0.3	4.5	4.5
Materials	330	399	9.4	4.2	2.5	-61.2	5.5	7.0	7.0
Telecom	58	74	6.9	-8.0	-23.8	-69.2	0.7	-22.0	-22.0
Utilities	523	691	4.4	3.7	0.6	-44.2	-0.7	-0.3	-0.3
<b>MSCI India Value</b>	<b>279</b>	<b>372</b>	<b>5.4</b>	<b>2.8</b>	<b>-6.3</b>	<b>-43.8</b>	<b>2.4</b>	<b>-0.7</b>	<b>-0.7</b>
<b>MSCI India Growth</b>	<b>330</b>	<b>377</b>	<b>5.7</b>	<b>1.7</b>	<b>-11.9</b>	<b>-53.5</b>	<b>1.9</b>	<b>1.5</b>	<b>1.5</b>

Source: HSBC, Thomson Financial Datastream, MSCI

## Interest & exchange rates



# Disclosure appendix

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Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

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**Issuer of report**

**HSBC Bank plc**

8 Canada Square

London, E14 5HQ, United Kingdom

Telephone: +44 20 7991 8888

Fax: +44 20 7992 4880

Website: [www.research.hsbc.com](http://www.research.hsbc.com)

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# Indian Research Team

## India

### IT Services, Strategy

**Sanjeev Kaushik**  
*Head of Research, India*  
 +91 22 2268 1271    sanjeevkaushik@hsbc.co.in

### Aerospace and Defence

**Mahesh Bendre**  
*Analyst*  
 +91 22 2268 5444    maheshbendre@hsbc.co.in

### Automobiles

**Sachin Gupta**  
*Analyst*  
 +91 22 2268 1079    sachin1gupta@hsbc.co.in

### Banks

**Saumya Agarwal**  
*Associate*  
 +91 22 2268 1235    saumyaagarwal@hsbc.co.in

### Construction Materials, Metals & Mining

**Jatin Kotian**  
*Analyst*  
 +91 22 2268 1638    jatinkotian@hsbc.co.in

### Consumer & Retail

**Percy Panthaki**  
*Analyst*  
 +91 22 2268 1240    percypanthaki@hsbc.co.in

### Electric Utilities, Machinery, Transport Infrastructure

**Sumeet Agrawal**  
*Analyst*  
 +91 22 2268 1243    sumeetagrawal@hsbc.co.in

### Infrastructure, Real Estate

**Ashutosh Narkar**  
*Analyst*  
 +91 22 2268 1474    ashutoshnarkar@hsbc.co.in

### IT Services

**Yogesh Aggarwal**  
*Analyst*  
 +91 22 2268 1246    yogeshaggarwal@hsbc.co.in

### Oil & Gas

**Kirtan Mehta**  
*Analyst*  
 +91 80 3001 3779    kirtanmehta@hsbc.co.in

### Small & Mid-cap

**Sandeep Somani**  
*Analyst*  
 +91 22 2268 1245    sandeepsomani@hsbc.co.in

### Telecom

**Rajiv Sharma**  
*Analyst*  
 +91 22 2268 1239    rajivsharma@hsbc.co.in

### Economics

**Manas Paul**  
*Economist*  
 +91 80 3001 3667    manaspaul@hsbc.co.in

### Strategy

**Vivek R Misra**  
*Strategist*  
 +91 80 3001 3699    vivekmisra@hsbc.co.in

## Singapore

### Economics

**Robert Prior-Wandesforde**  
*Economist*  
 +65 6239 0840    robert.prior-wandesforde@hsbc.com.sg

## Hong Kong

### Strategy

**Garry Evans**  
*Head of Pan-Asian Equity Strategy*  
 +852 2996 6916    garryevans@hsbc.com.hk

### Airlines

**Mark Webb**  
*Analyst*  
 +852 2996 6574    markwebb@hsbc.com.hk

### Banks

**Todd Dunivant**  
*Analyst*  
 +852 2996 6599    tdunivant@hsbc.com.hk

### Telecom

**Tucker Grinnan**  
*Analyst*  
 +852 2822 4686    tuckergrinnan@hsbc.com.hk