

30 September 2009



**MOTILAL OSWAL**

# India Strategy

Engineering

FMCG

Oil & Gas

**0%  
Off**

IT

Metals

Utilities

## Festive season, no discounts!

Prices as of Friday, 25 September 2009

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## India Strategy

BSE Sensex: 16,693

S&amp;P CNX: 4,959

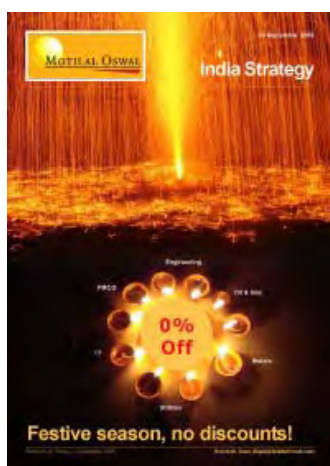
25 September 2009

### Festive season, no discounts

After declining 52% in CY08 - their worst performance in three decades, Indian markets have delivered a return of 73% in CY09 YTD - the third best performance in any calendar year. As valuations moved from a P/E of 11x in March 2009 to current valuations of 17x, the cycle of earnings upgrades and strong FII inflows resumed. While the Indian markets seem to be headed for over-valuations, we try and identify few bricks in the wall of worry that will have to be climbed to move higher.

### Markets facing concerns, but there are mitigants as well

CONCERN	MITIGANT
<ul style="list-style-type: none"> <li>■ Indian markets have risen too fast too soon</li> </ul>	<ul style="list-style-type: none"> <li>➤ Indian markets have broadly performed in line with other emerging markets, if one were to ignore the single-day rise of 17% post the UPA's re-election.</li> </ul>
<ul style="list-style-type: none"> <li>■ Economic growth will be slow, specially given the drought</li> </ul>	<ul style="list-style-type: none"> <li>➤ Higher crop prices and outlays on employment guarantee schemes have ensured that rural income is not impacted in FY10. Based on history, FY11 could see a bounce-back, typical of the year following a drought.</li> </ul>
<ul style="list-style-type: none"> <li>■ Inflation is showing signs of picking up</li> </ul>	<ul style="list-style-type: none"> <li>➤ The RBI is consciously giving growth a priority over inflation. Once credit growth fully revives, the RBI can gradually tighten money supply.</li> </ul>
<ul style="list-style-type: none"> <li>■ The government's fiscal position is weak</li> </ul>	<ul style="list-style-type: none"> <li>➤ We expect fiscal deficit to peak out in FY10 and start contracting going forward, led by: (1) Improved economic growth, (2) Gradual withdrawal of fiscal stimulus starting FY11, (3) Traction in government divestment program, etc.</li> </ul>
<ul style="list-style-type: none"> <li>■ Large issuances of corporate paper will suck out market liquidity</li> </ul>	<ul style="list-style-type: none"> <li>➤ We believe there is sufficient latent liquidity in the form of domestic institutional investment flows to support the market at lower levels.</li> </ul>
<ul style="list-style-type: none"> <li>■ Market valuations are no longer compelling.</li> </ul>	<ul style="list-style-type: none"> <li>➤ There are several sectoral and bottom-up opportunities. We recommend selective buying in Financials, Autos, Cement, Telecom and Pharma.</li> </ul>



### 2QFY10: Recovery across sectors reflected in sequential earnings growth

In 2QFY10, We expect the MOSL Universe of 117 companies (excluding oil refining and marketing companies) are expected to report sales growth of -3.5% YoY, flat EBITDA and PAT decline of 12% YoY. Excluding Metals, PAT would be flat YoY.



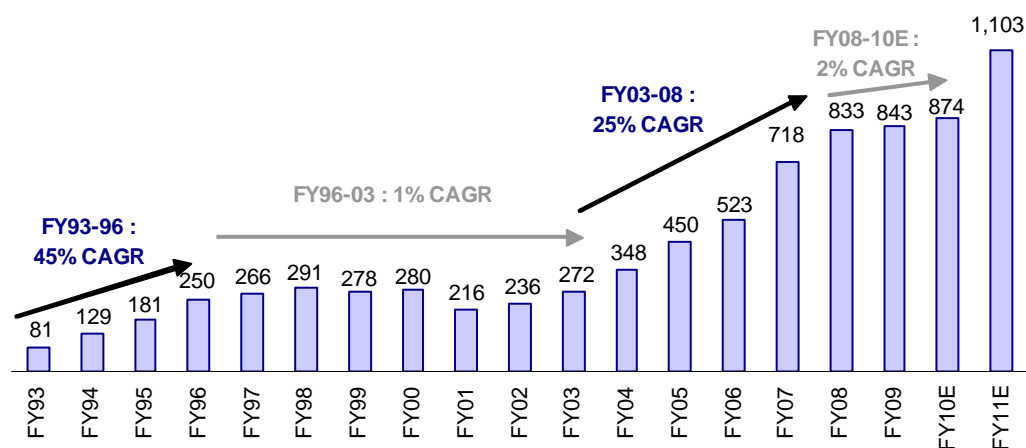
Autos should be the best performer, with 73% YoY PAT growth, followed by Cement with 46%. The worst performing sectors would be Real Estate (-73% YoY) and Metals (-61% YoY). While on a YoY basis, earnings growth would continue to decline, on a QoQ basis, the MOSL Universe ex RMCs would witness 5% growth. While this recovery would be led by Autos, Metals, Pharmaceuticals and Real Estate, we also expect core earnings to be stronger on a QoQ basis for Banks.

### 7.5% upgrade in FY11E Sensex EPS to Rs1,103, growth of 26%

Our FY11 Sensex EPS estimate stands upgraded from Rs980 in March 2009 to Rs1,103 currently. The pace of upgrade is also increasing - in June 2009, we saw a 5% upgrade whereas in the current quarter the upgrade is ~7.5%. We now expect Sensex EPS to grow 26% in FY11. The major drivers of earnings upgrade are:

- **Oil and Gas:** Higher earnings from Reliance's gas business
- **Banking:** Up-tick in loan growth and lower NPA provisions
- **Metals:** Revival in global commodity prices
- **IT:** Improved demand outlook
- **Autos:** Sustained volume growth and economies of scale
- **Real Estate:** Strong revival, specially in the housing segment

TREND IN SENSEX EPS (RS) OVER FY93-11E



Source: MOSL

### Overweight on Financials, Infrastructure, Autos and Telecom

We are cautiously optimistic about the performance of Indian equities from current levels. We believe lack of earnings visibility affects only globally dependent sectors such as Metals, Oil & Gas and IT. We recommend going underweight in these sectors. On the other hand, there are several sectors and stocks which are pure domestic plays, and which will positively benefit from the ongoing economic recovery. We are overweight on Financials (SBI, BoB, ICICI Bank), Infrastructure-related sectors (Grasim, DLF), Auto (Hero Honda, M&M) and Telecom (Bharti, RCom). We also like Pharma (Cipla, Lupin, Piramal Healthcare), and select mid-caps such as GVK Power, Nagarjuna Construction, Anantraj Industries, Dewan Housing, and Deccan Chronicle.

## Are markets heading for over-valuations?

After declining 52% in CY08 - their worst performance in three decades, Indian markets have delivered a return of 73% in CY09 YTD - the third best performance in any calendar year. As valuations moved from a P/E of 11x in March 2009 to current valuations of 15x, the cycle of earnings upgrades and strong FII inflows resumed. While the Indian markets seem to be headed for over-valuations, we try and identify few loose bricks in the wall of worry that will have to hold for the markets to move higher.

CLASSIFICATION OF SENSEX ANNUAL RETURN (%) SINCE FY80

Positive Years: 22 (73%)

Negative Years: 8 (27%)

2008 and 2009 represent two extremes in terms of Sensex returns

				2004	13				
				2002	4				
				1997	19				
		2001	-18	1994	17	2007	47		
		2000	-21	1993	29	2006	47		
		1998	-16	1989	17	2005	42	2009YTD	73
		1996	-1	1984	7	1992	37	2003	73
		1995	-21	1983	7	1990	35	1999	64
		1987	-16	1982	4	1988	51	1991	82
		2008	-52	1986	-1	1980	25	1981	54
								1985	94
Year	Return	Year	Return	Year	Return	Year	Return	Year	Return
	-30 to -60		-30 to 0		0 to 30		30 to 60		>60
Percentage Total Return Range									

Note: Returns for calendar years

Source: Bloomberg/MOSL

### The loose bricks and the footholds

There are quite a few loose bricks in the current wall of worry that the Indian markets face:

1. Indian markets have risen too fast too soon
2. Economic growth will be slow, specially given the drought
3. Inflation is showing signs of picking up
4. The government's fiscal position is weak
5. Large issuances of corporate paper will suck out market liquidity
6. Market valuations are no longer compelling.

Along with these loose bricks, we believe the wall of worry also has footholds which mitigate the risk of a major fall in the Indian markets.

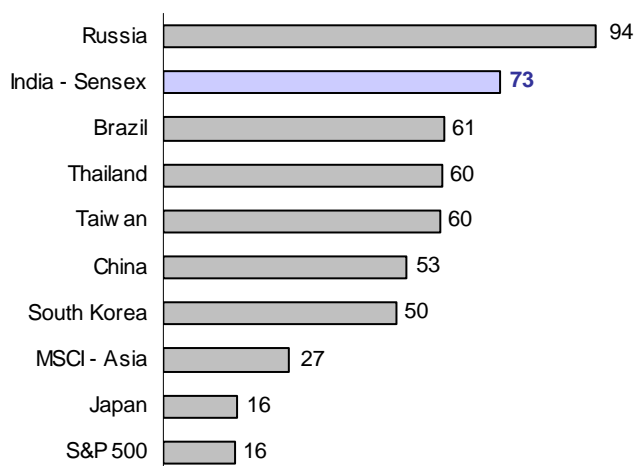
### Loose Brick #1: Indian markets have risen too fast too soon

*In YTD 2009, Indian markets are up 73%, the second fastest growth across the globe*

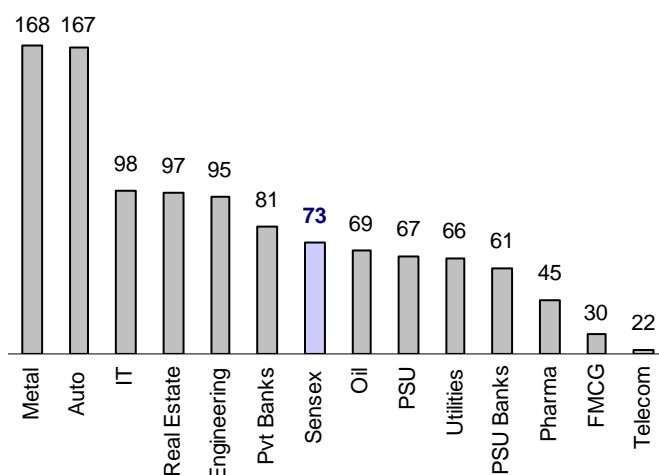
In YTD 2009, Indian markets are up 73%, the second fastest growth across the globe. Most sectors have delivered healthy positive returns, the lowest being Telecom with 22%. This may seem to suggest that the Indian market has risen too fast too soon.

Even in terms of valuations, Indian is no longer cheap compared to peer markets, even if we consider healthy earnings growth coupled with superior return ratios.

INDIA AMONG TOP WORLD MARKETS - YTD 2009



DESPITE DIVERGENCE, MOST SECTORS DELIVER HEALTHY RETURNS



Source: Bloomberg/MOSL

COMPARATIVE VALUATIONS

INDEX	INDEX VALUE	EPS (RS)		EPS GROWTH (%)	P/E (X)		P/BV (X)		ROE (%)	
		CY09 / FY10	CY10 / FY11		CY09 / FY10	CY10 / FY11	CY09 / FY10	CY10 / FY11	CY09 / FY10	CY10 / FY11
Russia	1,225	125	150	20.2	9.8	8.1	1.0	0.9	9.9	11.0
Korea	1,691	114	156	36.9	14.8	10.8	1.4	1.3	9.6	11.9
Brazil	60,356	4,036	5,059	25.3	15.0	11.9	1.9	1.8	13.0	15.0
US - S&P 500	1,044	60	75	25.7	17.4	13.8	2.1	1.9	12.1	14.1
Hong Kong	21,024	1,240	1,454	17.2	17.0	14.5	2.0	1.8	11.6	12.6
<b>India - Sensex</b>	<b>16,693</b>	<b>874</b>	<b>1,103</b>	<b>26.1</b>	<b>19.1</b>	<b>15.1</b>	<b>3.3</b>	<b>2.9</b>	<b>16.9</b>	<b>18.4</b>
China	2,839	134	164	21.9	21.1	17.3	2.7	2.5	13.0	14.2
Nikkei	10,266	232	454	95.4	44.2	22.6	1.3	1.3	3.0	5.7

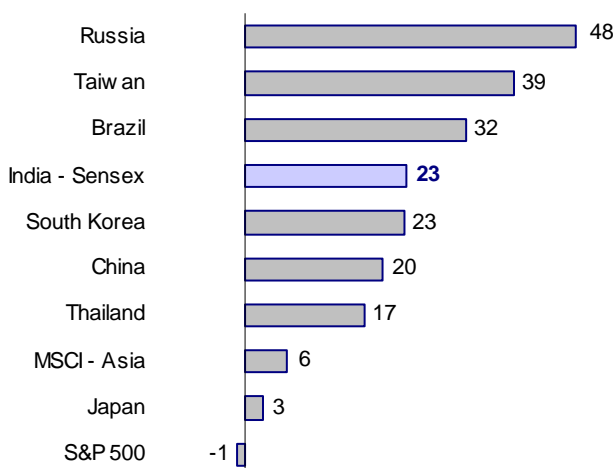
Source: Bloomberg/MOSL

**Foothold #1: Indian markets in line adjusted for election results**

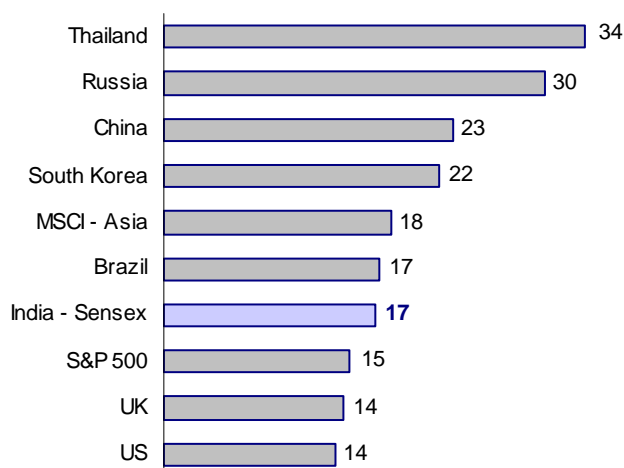
*Adjusted for the UPA re-election, Indian markets have performed in line with other emerging markets*

Here, a key India-specific event was the May 2009 election wherein the Congress-led UPA (United Progressive Alliance) returned to office with a clear public mandate. That caused the markets to rise 17% in a single session on 18 May. Adjusted for this, the Indian markets have performed broadly in line with the other emerging markets.

INDIAN MARKET RETURNS PRE-ELECTIONS (JAN-MAY 15)



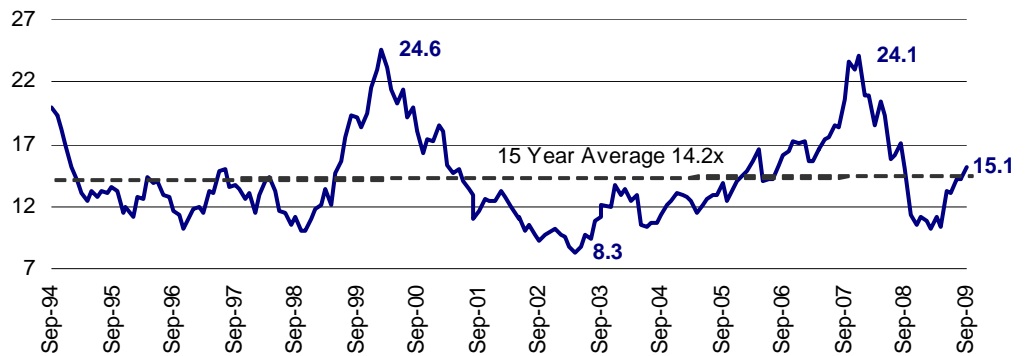
INDIAN MARKET RETURNS POST-ELECTIONS (MAY 18 TO DATE)



Source: Bloomberg/MOSL

In terms of valuations, at 15x FY11E earnings, Indian markets are only marginally higher than their long-term average of 14x.

SENSEX P/E (X)



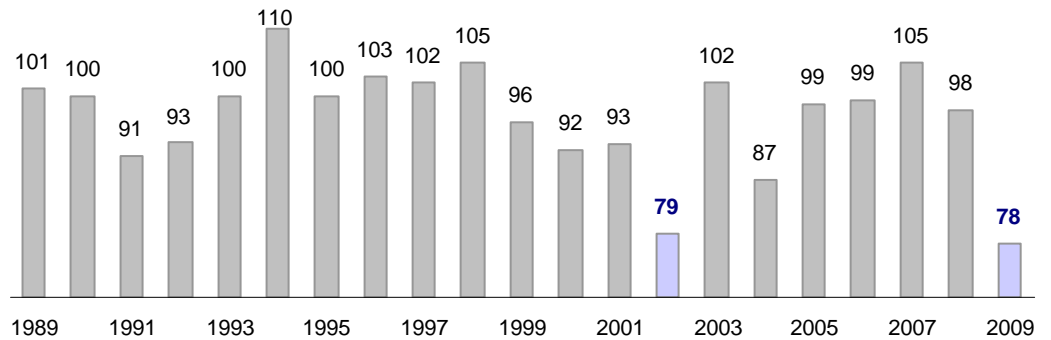
Source: MOSL

**Loose Brick #2: Economic growth will be slow, impacted by drought**

*Economic growth in the next few quarters will be impacted by poor monsoons*

The Union Budget for FY10 had assumed real GDP growth of 6.5%. India is faced with a 22% deficit in rainfall, which should lead to agricultural GDP growth of -6.7% and shave off 70-100bp from the overall GDP growth rate. While the last few quarters of declining GDP growth were led by global economic slowdown and its impact on the Indian economy also (exports have been falling over the last several months), the next few quarters will be impacted due to poor monsoons.

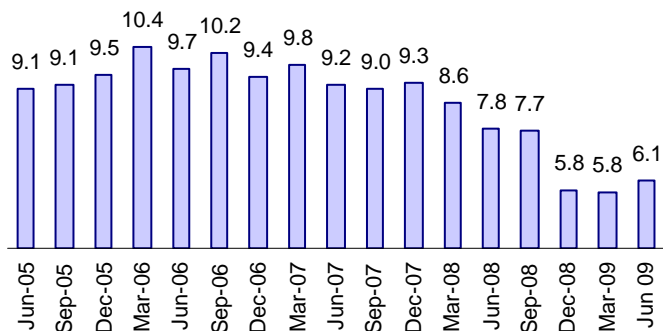
MONSOON 2009: THE LOWEST IN THE LAST THREE DECADES



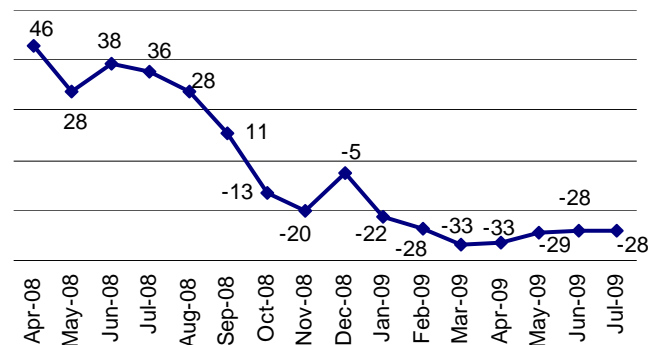
\* LPA - Long period average

Source: IMD/MOSL

QUARTERLY REAL GDP GROWTH (%)



EXPORTS GROWTH YOY (%)



Source: Bloomberg/MOSL

FY10 AGRICULTURAL GDP GROWTH ESTIMATE (%)

CROP	CONTRIBUTION	GROWTH	GROWTH	REAL GR.	INCREASE	NOMINAL GR.
	TO AGRI GDP	IN KHARIF	IN RABI	AGRI GDP	IN MSP	AGRI GDP
Food Grains (Sub-total)	62.9	-15	-4	-10	9	-2
Rice	29.7	-20	2	-17	12	-7
Wheat	14.5	0	-6	-6	5	-1
Coarse cereals	10.8	-5	2	-3	0	-3
Pulses	7.9	-5	5	1	15	16
Non-Food Grains	37.1	-5	3.5	-3	10	7
<b>Grand Total</b>	<b>100.0</b>	<b>-12</b>	<b>-0.3</b>	<b>-6.7</b>	<b>9</b>	<b>2</b>

Source: MOSL

**Foothold #2: FY10 damage under control; FY11 may be strong**

*Damage to rural income in FY10 has been checked by way of higher MSPs and NREGS*

We believe the damage to rural income in FY10 has been checked by way of higher crop MSP (minimum support prices) and NREGS (National Rural Employment Guarantee Scheme, through projects such as rural roads, rural electrification, etc). Thus, against real agricultural GDP growth of -6.7%, we expect nominal GDP growth of 2%. The government also has enough stock of rice and wheat to avert any food crisis.

Further, our analysis of past drought years suggests a strong economic and stock market recovery in the year immediately succeeding the drought year. In FY11, we already expect earnings growth of 26% (see page 22). All these are pointer to a good year for the markets as well.

KEY INDICATORS OF MAJOR DROUGHT YEARS POST 1970

	1979-80	1987-88	2002-03	* 2009-10
Rainfall Deficiency (%)	19	19	21	21
Regions with Deficient/Scanty Rainfall	16	21	21	21
Agri GDP (% of Total GDP)	36	32	24	<b>18</b>
Agri GDP growth (%)	-12.8	-1.6	-7.2	<b>-6.7</b>
Previous Year	2.3	-0.4	6.3	1.6
<b>Next Year</b>	<b>12.9</b>	<b>15.9</b>	<b>10.0</b>	<b>?</b>
GDP Growth (%)	-5.2	3.5	3.8	<b>5.5-6</b>
Previous Year	5.5	4.3	5.8	6.7
<b>Next Year</b>	<b>7.2</b>	<b>10.2</b>	<b>8.5</b>	<b>?</b>
Stock Market Growth (%)	29	-22	-12	74
Previous Year	N.A.	-11	-4	-39
<b>Next Year</b>	<b>35</b>	<b>79</b>	<b>83</b>	<b>?</b>

\* estimates in bold italic

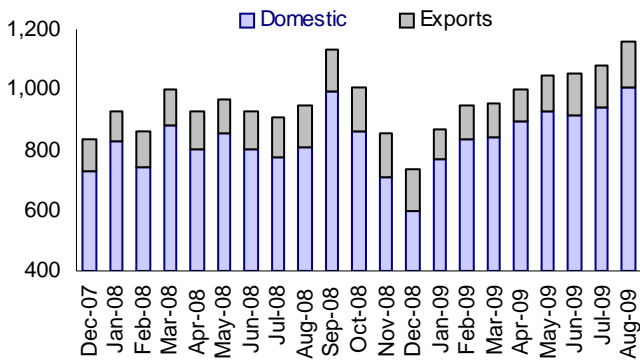
Source: MOSL

A drought year is usually followed by strong economic and stock market recovery

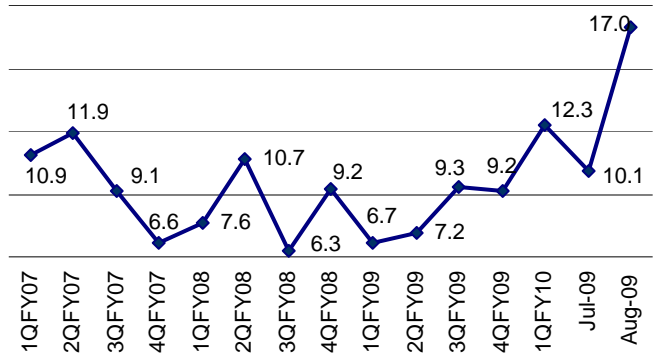
Apart from agriculture, lead indicators from the industrial sector also point to a fairly steady economy. Auto volumes, cement dispatches, wireless subscribers and IIP growth remain strong.



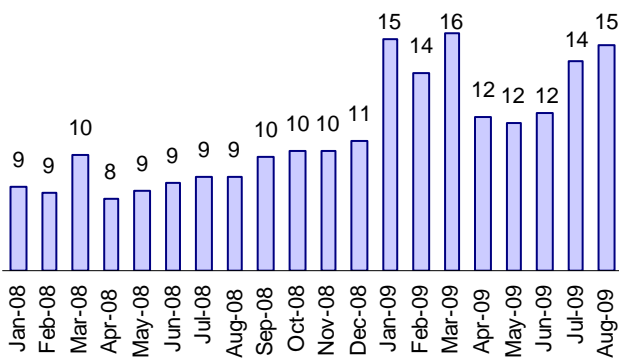
AUTO VOLUMES ('000)



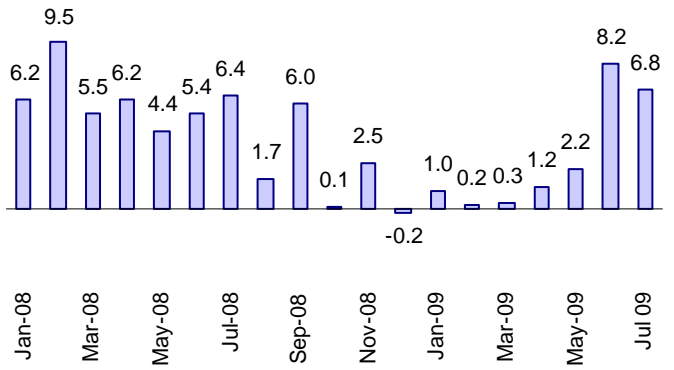
CEMENT DISPATCHES GROWTH YOY (%)



WIRELESS NET SUBSCRIBER ADDS (M)



MONTHLY IIP GROWTH (%)



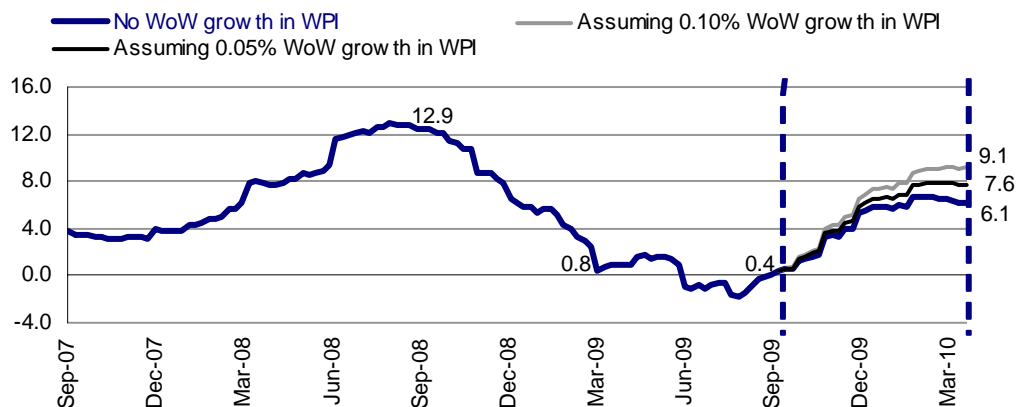
Source: Industry/MOSL

### Loose Brick #3: Inflation is showing signs of picking up

*Rising inflation could negatively impact stock prices*

All through India's stock market recovery YTD2009, the rate of inflation has been extremely benign – 4% in January 2008, falling to as low as -1.6% in July 2009 due to the high base effect. Since then, inflation is showing signs of picking up. Our analysis of past four inflation trough-peaks suggests that in three of those occasions, markets have peaked on low inflation levels and corrected when inflation rose. We are currently placed in a similar situation.

INFLATION HITTING 9% COULD BE BAD NEWS FOR THE MARKETS



WoW: Week on week

Source: Bloomberg/MOSL

RISING INFLATION TYPICALLY BRINGS DOWN MARKETS

DATE	INFLATION (%)	G-SEC YIELD	SENSEX (RHS)	RS / DOLLAR	CREDIT GR. YOY (%)	M3 GR. YOY (%)	SENSEX CHG (%)
Feb-00	3.3	10.4	5,447	43.6	20.1	16.0	
Dec-00	8.7	10.9	3,972	46.7	20.0	18.7	-27.1
Mar-02	1.6	7.4	3,469	48.8	15.3	14.1	
Apr-03	6.7	5.9	2,960	47.3	22.5	14.8	-14.7
Aug-03	3.9	5.3	4,245	45.8	11.2	11.9	
Aug-04	8.7	6.1	5,124	46.4	24.4	15.5	20.7
Dec-07	3.8	7.8	20,287	39.4	21.4	22.8	
Jul-08	12.5	9.3	14,356	42.5	25.7	20.1	-29.2

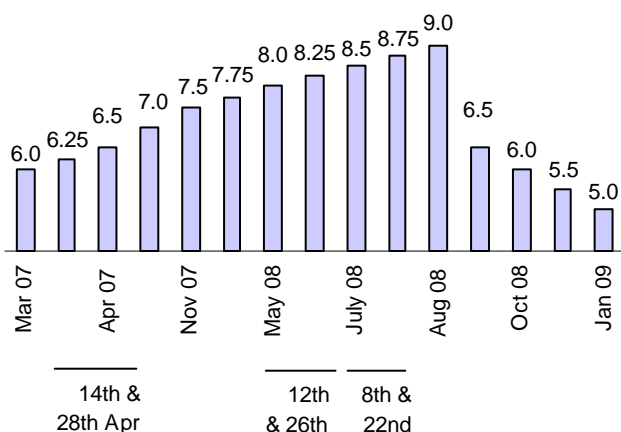
Source: Bloomberg/RBI/MOSL

**Foothold #3: Expect inflation to be sub-6% till March 2010**

*However, we expect inflation to be sub-6% till March 2010*

Stock market corrections have occurred when inflation levels have significantly exceeded 6%. Going by government / RBI announcements, we expect all policy-making to target sub-6% inflation. This is despite the government's high borrowing program, as the liquidity position in the system is currently comfortable. Our recent interactions with RBI suggest that growth will be a top priority over inflation management in the near term. Moreover, as credit growth is yet to pick up, we expect liquidity to remain comfortable for the large government borrowings. As a result, interest rates are likely to remain stable (we estimate 10-year at ~7.5% over the next two quarters). However, we expect bank lending rates to move higher in FY11 as credit growth revives and RBI begins a gradual tightening on the monetary front.

RBI HAS INFLATION CONTROL LEVERS: CRR (%)



10-YEAR G-SEC YIELD TREND (%)



Source: Bloomberg/RBI/MOSL

**Loose Brick #4: The government's fiscal position is weak**

For FY09, the government ended up with fiscal deficit of 6.2% of GDP against the budgeted 2.7%. It claims that the entire difference of 3.5% is explained by the outlay on three stimulus packages amounting to Rs1,860b.

**Highlights of Stimulus Package 1 (announced on 7-Dec-08)**

- Plan, non-plan expenditure accelerated to Rs3,000b in four months
- Parliament approval for Rs200b more toward plan expenditure in FY10, mainly for critical rural, infrastructure and social security schemes such as Pradhan Mantri Gram Sadak Yojana (PMGSY), Jawaharlal Nehru National Urban Renewal Mission (JNNURM), National Rural Employment Guarantee Scheme (NREGS), Indira Awas Yojana (housing), etc
- Across-the-board cut of 4% in the ad valorem central value-added tax
- Interest subvention of 2% on export credit for labor intensive sectors
- Incentives for loans on housing for up to Rs500,000, and up to Rs2m
- India Infrastructure Finance Co allowed to raise Rs100b through tax-free bonds
- Import duty on naphtha for use by the power sector reduced to zero
- Export duty on iron ore fines eliminated
- Export duty on lumps for steel industry reduced to 5%

- NBFCs, dealing exclusively with infrastructure financing, permitted to access ECB from multilateral or bilateral financial institutions
- Leading public sector banks to provide a line of credit to NBFCs specifically for purchase of commercial vehicles
- States allowed to raise additional market borrowings of 0.5% of their FY10 Gross State Domestic Product (GSDP) for capital expenditure (aggregate of Rs300b)
- EXIM Bank obtained a line of credit of Rs50b from RBI for pre and post-shipment credit, in rupees or dollars, to Indian exporters at competitive rates
- Accelerated depreciation of 50% allowed for commercial vehicles purchased on or after 1 January 2009 up to 31 March 2009

**Highlights of Stimulus Package 3 (announced on 25-Feb-09)**

- Excise duty on all products which attracted 10% lowered to 8%
- Service tax cut 2% across the board to 10%
- Customs duty exemption on naphtha imports for power generation extended beyond 31 March 2010
- The total impact of the above measures works out to ~Rs300b

**Highlights of Stimulus Package 2 (announced on 2-Jan-09)**

- FII investment limit in rupee-denominated corporate bonds in India increased from US\$6b to US\$15b

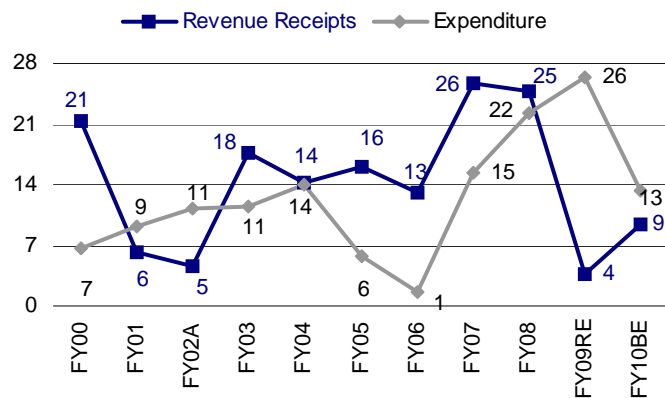
*While the government's budgeted fiscal deficit for FY10 is the highest in 12 years...*

For FY10, the government's budgeted fiscal deficit is at 6.8% of GDP, the highest in the last 12 years. The major reasons are:

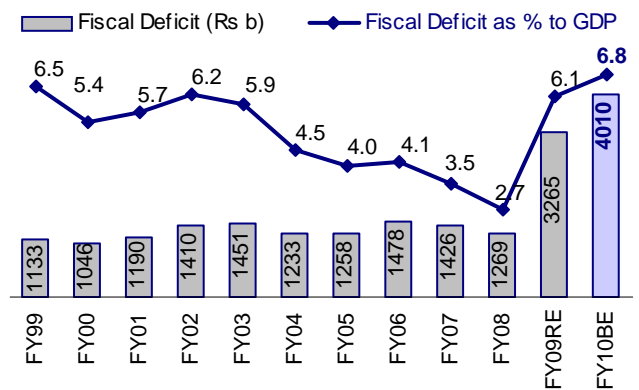
- Low 2% growth in budgeted tax revenue to factor in domestic and global slowdown
- High non-plan expenditure due to Sixth Pay Commission dues, higher subsidies and higher interest payments.

With state fiscal deficit of 3.5-4%, the combined fiscal deficit works out to 10-11% of GDP.

GROWTH TREND IN REVENUE RECEIPTS AND TOTAL EXPENDITURE



INDIAN CENTRAL GOVERNMENT'S FISCAL DEFICIT AT 12-YEAR HIGH



Source: Budget Documents/MOSL

**Foothold #4: Fiscal deficit may peak out in FY10**

*...Government intends to roll back the fisc to 5.5% of GDP in FY11 and further down to 4% in FY12*

It is encouraging to note that the government, in its published Medium-Term Fiscal Policy Statement has made its intention clear to roll back the fisc to 5.5% of GDP in FY11 and further down to 4% in FY12. We expect fiscal deficit to peak out in FY10 and start contracting going forward led by: (1) Improved economic growth, (2) Gradual withdrawal of fiscal stimulus starting FY11, (3) Traction in government divestment program, and (4) Revenues from scaling up of the government's profit share in various projects (eg KG-D6 gas, Cairn India oil fields in Rajasthan, etc).

**PSU disinvestment could be a major shot in the arm:** The FY10 Union Budget accounts for disinvestment proceeds of only Rs11.2b (Rs25.6b in FY09), the second lowest figure in the last 10 years after Rs5.4b in FY07. However, in the three months since the budget, the government has sold its holdings in NHPC and Oil India, already raising ~Rs42b. Further, it has reportedly lined up stake sale in companies such as NMDC, State Trading Corporation and Manganese Ore India.

TOP 20 PSUS (EXCLUDING BANKS) WITH GOVERNMENT STAKE OVER 65% (US\$ B)

	GOVT STAKE (%)	MKT CAP	NET SALES	PAT
O N G C	74.1	53	13	3
NTPC	89.5	36	9	2
MMTC	99.3	35	8	0
NMDC	98.4	29	2	1
B H E L	67.7	23	5	1
I O C L	78.9	17	63	1
S A I L	85.8	14	9	1
Power Grid Corp	86.4	10	1	0
NHPC	86.4	9	1	0
Power Finance Corp	89.8	5	1	0
Natl. Aluminium	87.2	5	1	0
Neyveli Lignite	93.6	5	1	0
Hind. Copper	99.6	4	0	0
Rural Elec. Corp.	81.8	4	1	0
Container Corp.	63.1	3	1	0
Bharat Electronics	75.9	2	1	0
Engineers India	90.4	1	0	0
S C I	80.1	1	1	0
HMT	98.9	1	0	0
R C F	92.5	1	2	0
<b>Total</b>		<b>260</b>	<b>120</b>	<b>11</b>

Source: MOSL

The market capitalization of the top 20 listed PSUs (excluding banks) with current government holding greater than 65% is ~US\$260b (Rs12.5t). Thus, if the government divests just 10% in these PSUs, it could garner US\$26b (Rs1.25t), bringing down fiscal deficit to GDP. The divestment program can be sustained for 3-4 years to include large, unlisted PSUs like Coal India.

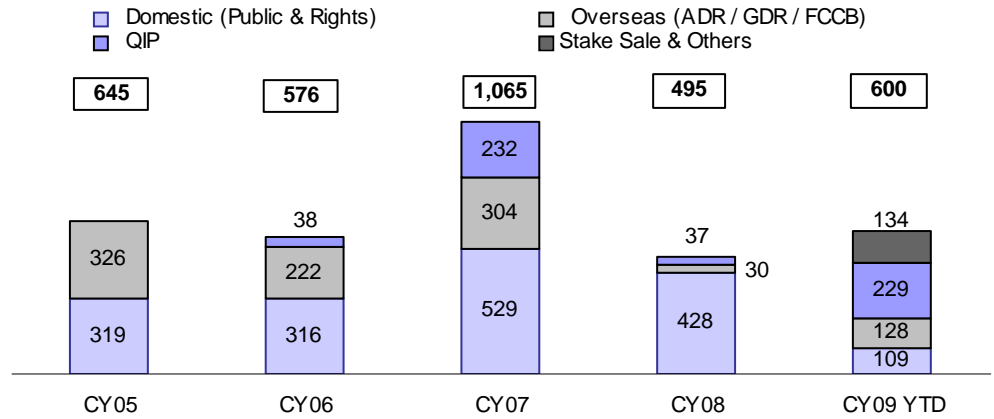
**Loose Brick #5: Large corporate issuances will suck out liquidity**

*The market rally is accompanied by a sharp rise in the fund-raising programs of Indian companies*

The sharp recovery in markets has led to an equally sharp rise in the fund-raising programs of Indian companies, especially via private placements and overseas issuances (ADRs / GDRs / FCCBs). The IPO market, which has been rather lackluster in 1HFY09, should also pick up in 2HFY10. For instance, several real estate companies including Emaar

MGF, Lodha Developers, BPTP and Sahara Prime are likely to raise Rs140b over the next few months. Large-scale corporate issuances could suck out liquidity from the markets, leading to price corrections.

INDIAN CORPORATE FUND-RAISING TREND (RS B)



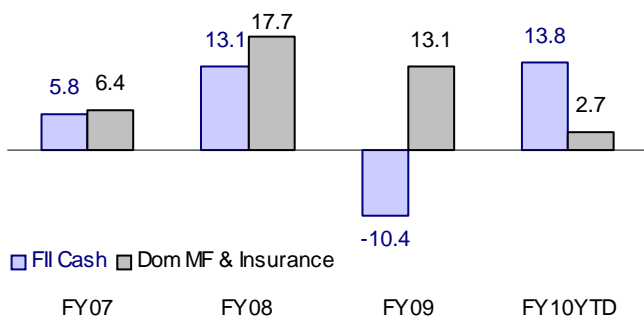
Source: CMIE/Bloomberg/MOSL

**Foothold #5: Full impact of DII yet to be felt**

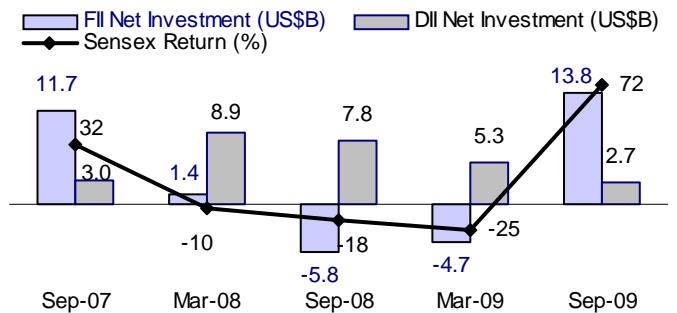
*We believe that there is enough latent liquidity to sustain the markets*

Past trends suggest that DII (domestic institutional investment) has significantly lagged FII (foreign institutional investment) during market upmoves. On the contrary, DII has come in more during market downturns offering support at lower levels. This has once again played out in the six months to September 2009 when DII is much lower than FII figures, and also its own levels in the previous three six-monthly periods. Thus, we believe, there is enough latent liquidity to sustain the markets at lower levels.

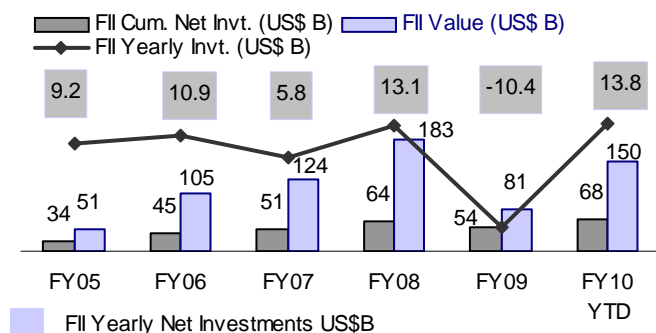
YEARLY TREND IN INVESTMENTS (USDB)



FULL IMPACT OF DII YET TO BE FELT IN CURRENT MARKET (RS B)



FII INVESTMENT TREND



BSE 500 SECTOR WISE HOLDING (AS ON JUNE 2009)

SECTOR	FII VALUE		WT. (%) IN BSE 500	% TO TOTAL	
	USDB	DII VALUE USDB		FII	DII
Automobiles	5.9	4.5	4.7	4.0	4.7
Banking & Finance	42.8	18.4	20.5	29.0	19.2
Cement	2.9	2.8	2.7	2.0	2.9
Engg & Infra	13.5	15.5	11.5	9.1	16.3
FMCG	6.4	9.5	7.4	4.3	10.0
IT	16.8	4.1	8.9	11.4	4.3
Metals	7.7	5.5	6.5	5.2	5.8
Oil & Gas	21.7	13.9	13.9	14.7	14.6
Pharma	4.3	3.7	3.6	2.9	3.9
Real Estate	4.0	0.5	2.6	2.7	0.5
Telecom	8.4	4.7	4.8	5.7	4.9
Utilities	4.2	5.8	4.8	2.8	6.1
Others	9.0	6.6	8.2	6.1	6.9
<b>BSE 500</b>	<b>148</b>	<b>96</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: SEBINSE/MOSL

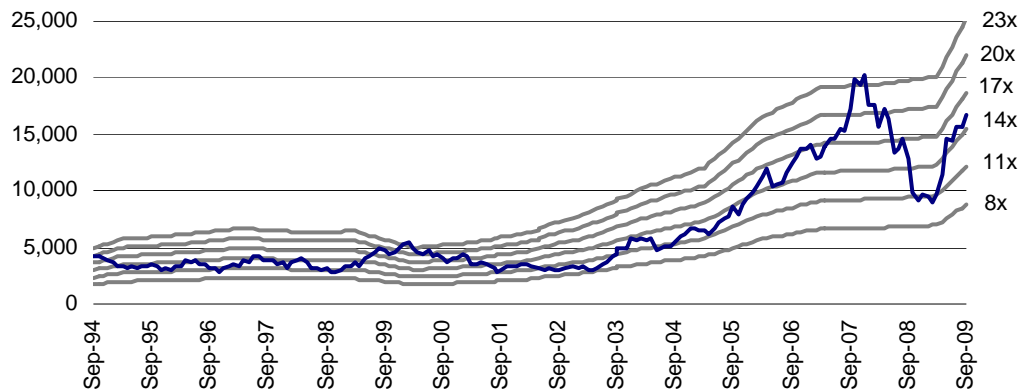


**Loose Brick #6: Market valuations are no longer compelling**

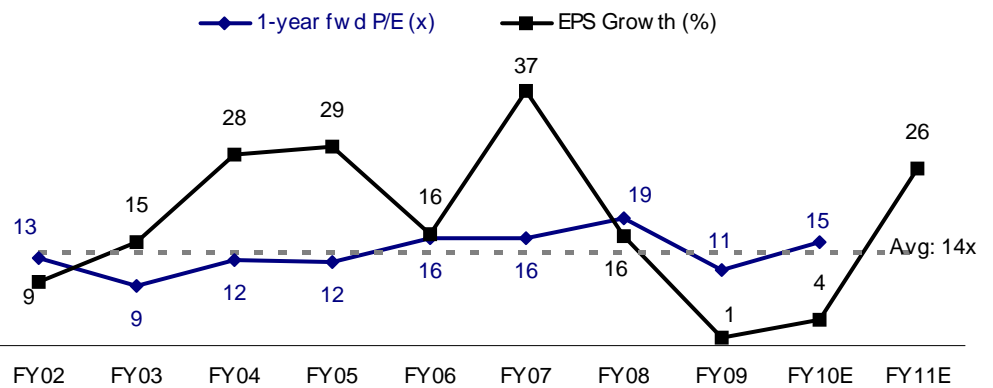
*Though market valuations may no longer be compelling...*

In January 2009, the Sensex was trading at a one-year forward P/E of 11x. Since then to date, there has been a 36% P/E re-rating to the current levels of 15x. This is in line with the long-term average multiple of 14x, and valuations are no longer compelling. With earnings growth in FY10 expected to be flat, the re-rating in Sensex valuations clearly reflects market expectations of strong earnings growth in FY11 and beyond. Our numbers show a healthy 26% earnings growth in FY11, given the low base effect. The key question is whether the Sensex can sustain at least 15% earnings growth beyond FY11.

SENSEX P/E BANDS: 60% RE-RATING DURING YTD 2009



WILL FY11E EARNINGS GROWTH SUSTAIN?



Source: MOSL

**Foothold #6: Several sectoral and bottom-up opportunities available**

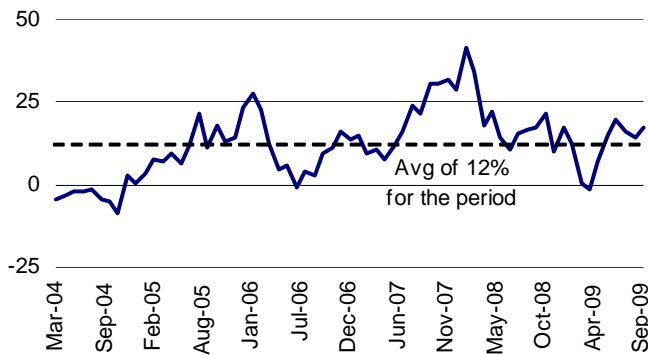
*...there are several sectoral and bottom-up opportunities available*

We are cautiously optimistic about the performance of Indian equities from current levels. We believe lack of earnings visibility affects only globally dependent sectors such as Metals, Oil & Gas and IT. On the other hand, there are several sectors and stocks which are pure domestic plays, and will positively benefit from the ongoing economic recovery.

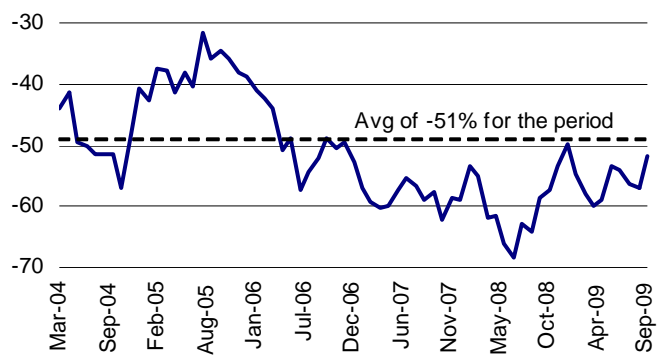
- **Financials:** We expect financials to significantly outperform the broader markets. **SBI** and **ICICI Bank** are our top bets here; we would underweight the **HDFC group**.
- **Autos:** Autos has been among the best performing sectors YTD. We continue to be overweight due to sustained volume growth driven by higher per capita income and greater availability of finance. We prefer 2-wheelers over 4-wheelers with **Hero Honda** as our top pick. Among 4-wheelers, we like **M&M**.

- **Cement:** Cement is a play on the expected boom in infrastructure and housing. We recommending buying into the skepticism of near-term overcapacity, as valuation levels provide adequate cushion against earnings decline, if any. We like **Grasim/Ultratech** which trades at over 50% discount to the Sensex.
- **Telecom:** Telecom has significantly underperformed in CY09 led by renewed fears of competitive intensity and company specific news flow. We believe that the valuation gap of the sector with the markets have widened significantly and factors the near term earnings pressure. We see current underperformance as an opportunity to build overweight position in the sector. We maintain buy on **Bharti** and **RCom**.
- **Pharma:** While growth rates are expected to remain strong, we see the valuations of the sector attractive relative to the market. **Lupin, Cipla** and **Piramal Healthcare** are our preferred picks.

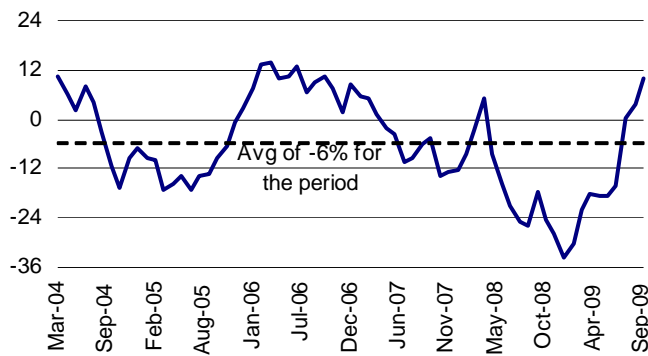
PRIVATE BANKS: SECTOR P/E RELATIVE TO SENSEX



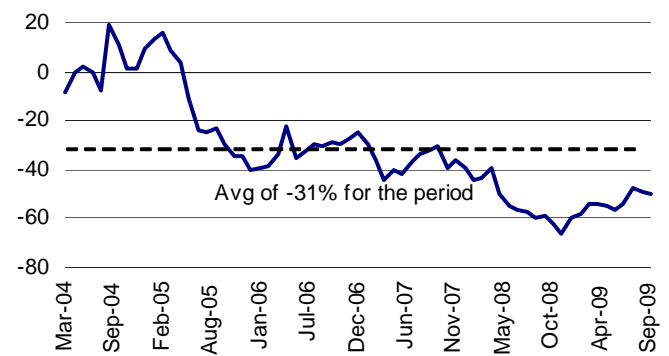
PSU BANKS: SECTOR P/E RELATIVE TO SENSEX



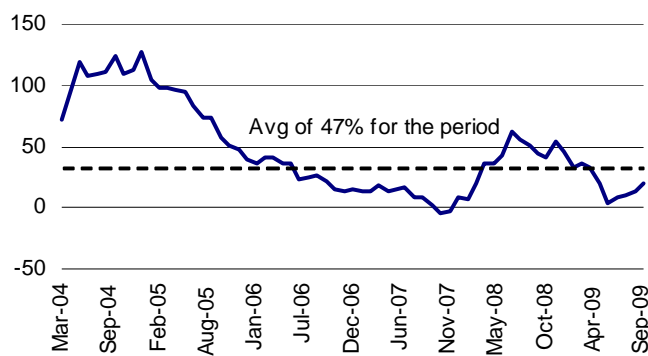
AUTO: SECTOR P/E RELATIVE TO SENSEX



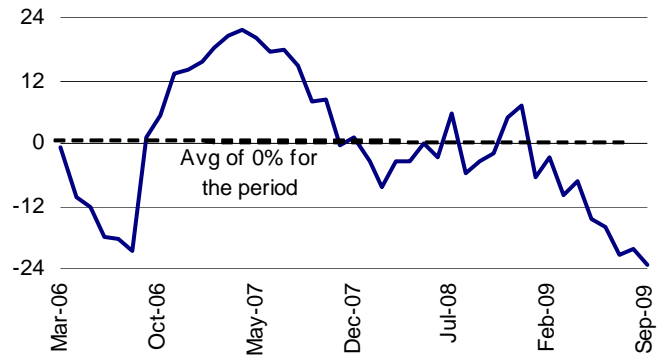
CEMENT: SECTOR P/E RELATIVE TO SENSEX



PHARMA: SECTOR P/E RELATIVE TO SENSEX



TELECOM: SECTOR P/E RELATIVE TO SENSEX



## 2QFY10: Recovery across sectors reflected in sequential earnings growth

We expect MOSL Universe (comprising 117 companies) excluding oil refining & marketing companies (RMCs) to report 3.5% YoY decline in sales, 1.3% YoY decline in EBITDA and 12.4% YoY decline in net profit in 2QFY10. Decline in earnings is a continued trend led by the high base of 2QFY09; on a QoQ basis, earnings would grow 5%. Sectors that would post negative earnings growth are Real Estate (down 73% YoY), Metals (down 61% YoY), Engineering (down 16.7% YoY), Retail (down 13% YoY), Textiles (down 7.6% YoY), Oil & Gas (down 6.5% YoY), and Telecom (down 4.7%).

*Autos would report the highest profit growth, followed by Cement and FMCG*

We expect Autos to report the highest profit growth at 73%, followed by Cement at 46%, FMCG at 18%, Media at 15%, IT at 12.7%, Infrastructure at 12.2%, Pharma at 10.5%, and Banks at 8.3%. Most of the secular sectors would report healthy growth in earnings. The decline in aggregate earnings growth would be largely due to sharply lower earnings from Metals.

### QUARTERLY PERFORMANCE - MOSL UNIVERSE (RS B)

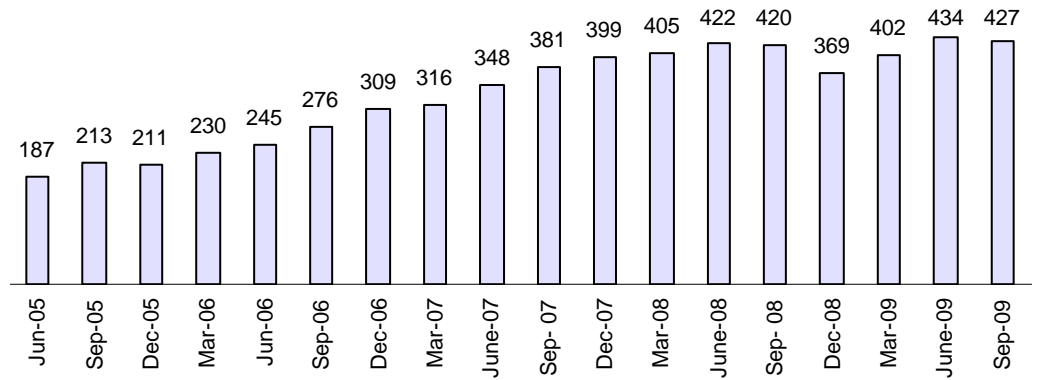
	SALES			EBITDA			NET PROFIT		
	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
		% YOY	% QOQ		% YOY	% QOQ		% YOY	% QOQ
Auto (5)	262.4	25.8	13.0	38.6	79.4	19.6	24.1	73.4	20.9
Banks (18)	220.9	4.6	6.2	189.3	10.4	1.8	99.5	8.3	-0.2
Cement (7)	106.1	14.9	-6.0	34.3	51.0	-7.3	21.1	46.2	-9.9
Engineering (8)	237.0	-0.6	17.6	26.0	-7.8	41.5	16.0	-16.7	41.0
FMCG (12)	180.4	12.9	3.9	35.8	21.5	0.3	24.2	18.0	1.3
IT (7)	256.1	6.7	2.9	66.2	14.3	3.4	48.9	12.7	-0.8
Infrastructure (5)	63.6	25.3	2.1	10.0	37.3	3.2	3.7	12.2	7.7
Media (6)	16.7	1.7	3.4	6.0	22.2	-0.6	3.6	15.0	-11.5
Metals (8)	558.2	-29.1	14.2	95.5	-48.0	72.9	46.8	-61.1	206.9
Oil Gas & Petchem (10)	2,145.8	-14.9	18.4	260.8	343.9	7.6	142.9	LP	-5.2
Pharma (13)	121.3	4.9	5.1	23.7	-7.4	7.3	16.2	10.5	11.2
Real Estate (2)	23.0	-51.3	6.4	11.2	-60.4	5.7	6.2	-72.9	12.4
Retail (2)	29.3	12.8	15.2	2.8	1.2	22.3	1.1	-13.1	76.9
Telecom (3)	197.2	16.2	3.4	77.1	16.7	3.3	36.9	-4.7	-18.9
Textiles (5)	30.2	14.1	13.9	5.7	27.3	17.5	1.1	-7.6	40.8
Utilities (5)	193.0	14.3	-1.8	36.5	10.9	-15.4	23.3	-1.4	-18.5
Others (4)	30.9	11.8	3.1	5.1	0.8	3.0	2.9	-2.8	11.0
<b>MOSL (120)*</b>	<b>4,672</b>	<b>-8.5</b>	<b>12.2</b>	<b>925</b>	<b>23.1</b>	<b>8.9</b>	<b>518</b>	<b>26.0</b>	<b>3.9</b>
<b>Excl. Banks (102)</b>	<b>4,451</b>	<b>-9.1</b>	<b>12.6</b>	<b>735</b>	<b>26.8</b>	<b>10.9</b>	<b>419</b>	<b>31.0</b>	<b>4.9</b>
<b>Excl. Metals (112)</b>	<b>4,114</b>	<b>-4.8</b>	<b>12.0</b>	<b>829</b>	<b>46.1</b>	<b>4.4</b>	<b>472</b>	<b>62.0</b>	<b>-2.5</b>
<b>Excl. RMs (117)</b>	<b>3,388</b>	<b>-3.5</b>	<b>10.0</b>	<b>849</b>	<b>-1.3</b>	<b>7.5</b>	<b>474</b>	<b>-12.4</b>	<b>5.3</b>
<b>Excl. Metals &amp; RMs (109)</b>	<b>2,830</b>	<b>3.9</b>	<b>9.2</b>	<b>753</b>	<b>11.4</b>	<b>2.6</b>	<b>427</b>	<b>1.6</b>	<b>-1.8</b>
<b>Excl Oil &amp; Metals (102)</b>	<b>1,968</b>	<b>9.4</b>	<b>5.7</b>	<b>569</b>	<b>11.7</b>	<b>3.0</b>	<b>329</b>	<b>4.3</b>	<b>-1.4</b>
<b>Sensex (30)</b>	<b>2,196</b>	<b>-3.1</b>	<b>10.0</b>	<b>550</b>	<b>-4.1</b>	<b>7.9</b>	<b>307</b>	<b>-16.5</b>	<b>5.9</b>
<b>Sensex Excl. Metals (27)</b>	<b>1,832</b>	<b>7.8</b>	<b>9.1</b>	<b>513</b>	<b>10.8</b>	<b>3.9</b>	<b>298</b>	<b>0.5</b>	<b>-0.6</b>

\* Tata Steel Consolidated; LP = Loss to Profit

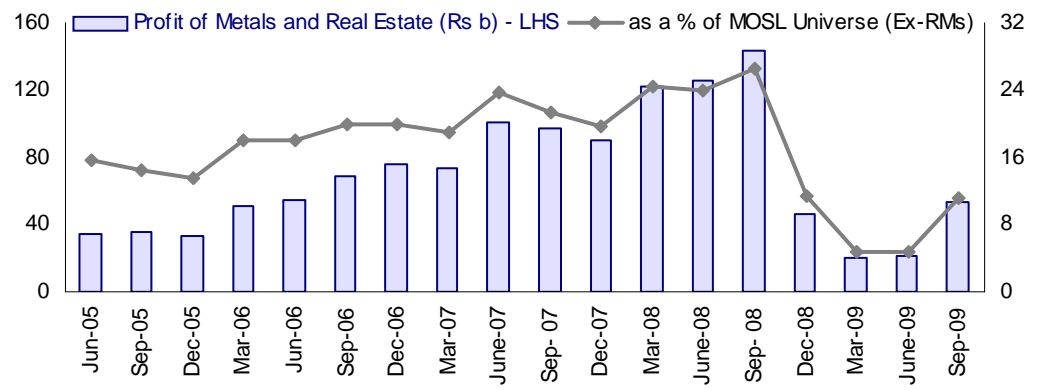
Source: MOSL

Net profit for MOSL Universe (ex Metals and RMCs) has grown consistently over the last several quarters, with a peak in 1QFY10. While 3QFY09 saw a decline in absolute profits due to an extremely unfavorable environment, net profit has started improving from those levels.

CONSISTENT GROWTH IN NET PROFIT SINCE JUNE 2005 (RS B)\*



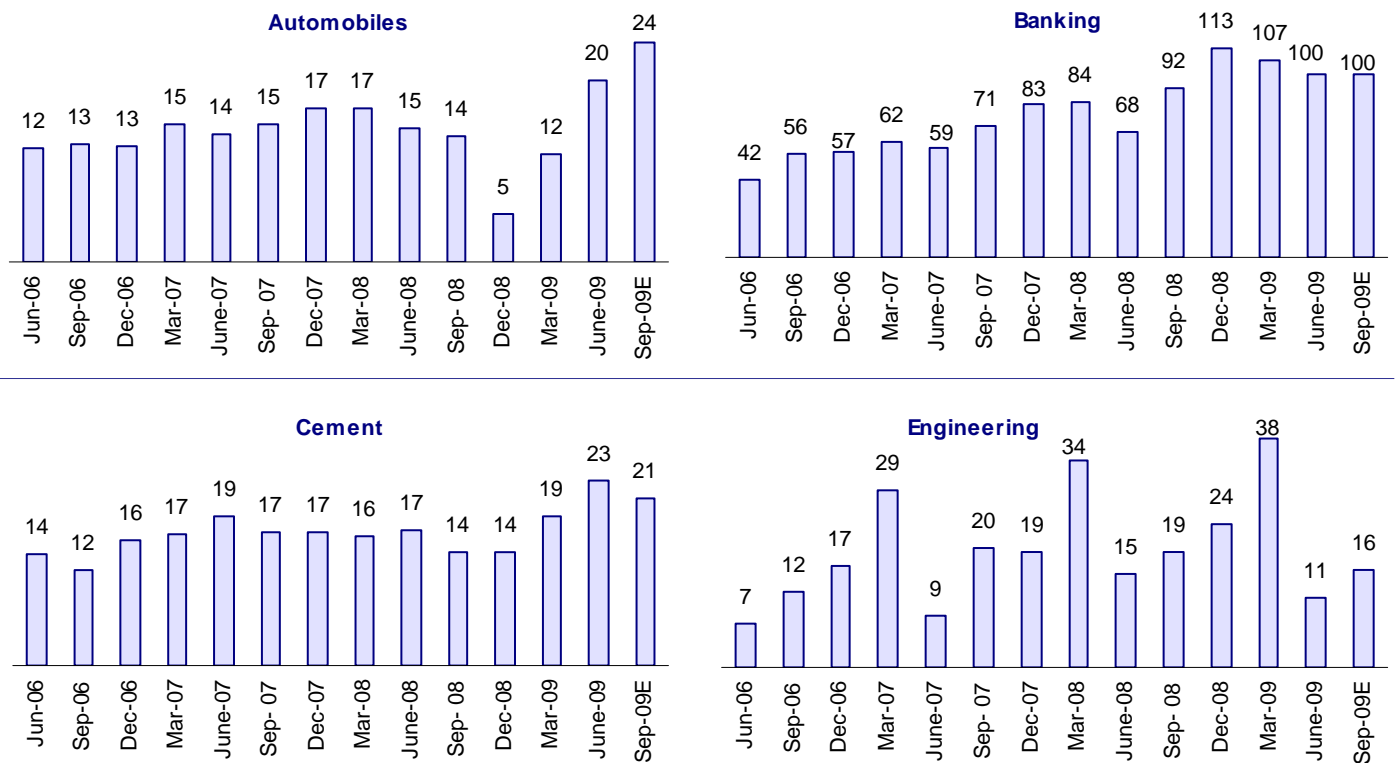
CONTRIBUTION OF METALS & REAL ESTATE TO MOSL UNIVERSE PAT (EXCL RMCS) IS DECLINING



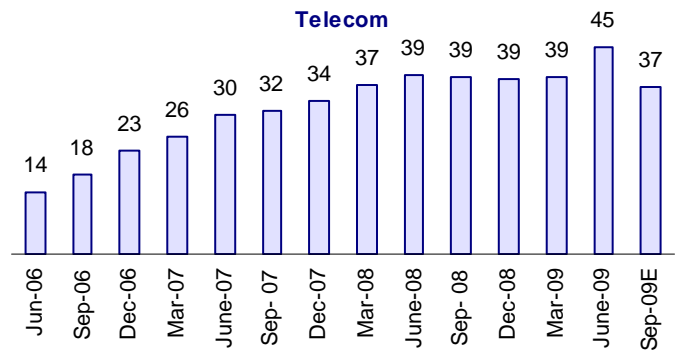
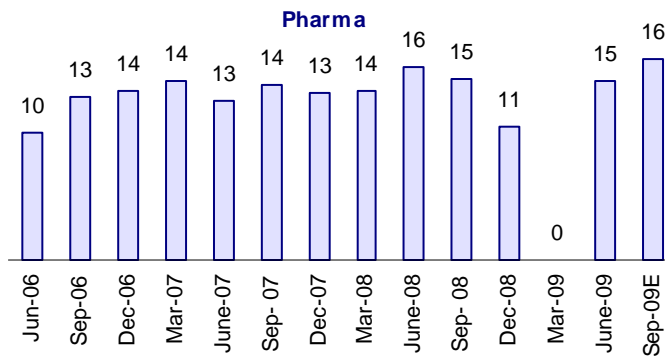
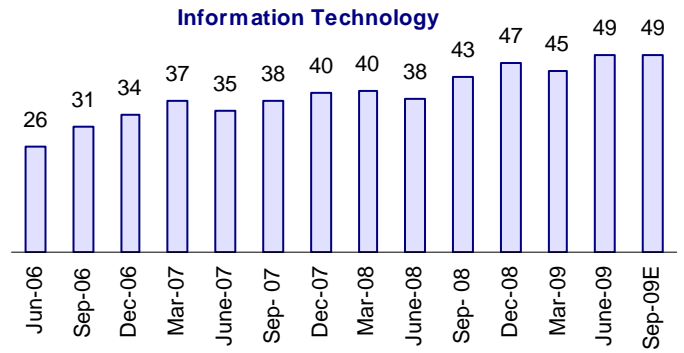
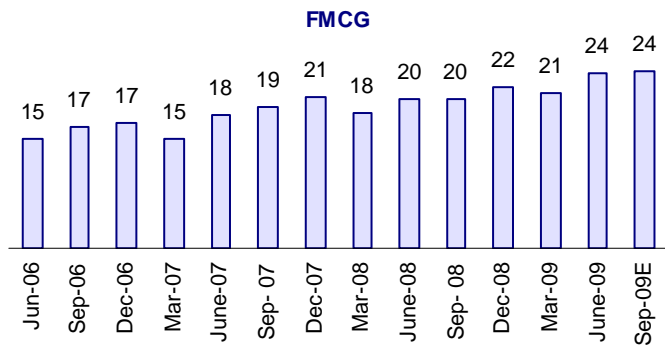
\*For MOSL Universe, excluding RMs, Metals

Source: MOSL

QUARTERLY SECTOR-WISE PAT TREND MOSL UNIVERSE (RS B)



QUARTERLY SECTOR-WISE PAT TREND MOSL UNIVERSE (RS B) (CONTD...)



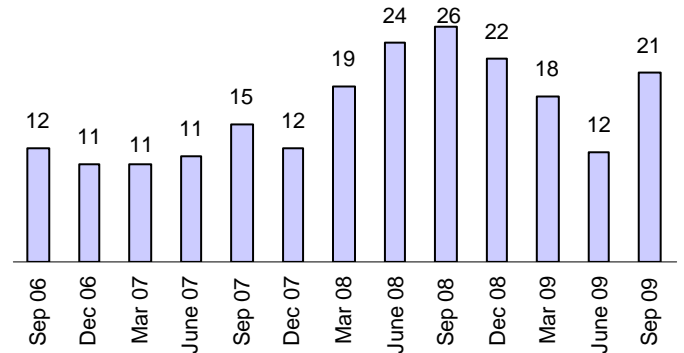
Source: MOSL

2QFY10 earnings growth distribution

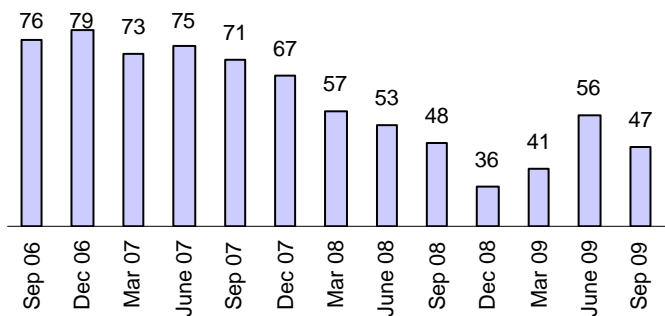
DISTRIBUTION OF COMPANIES BASED ON EARNINGS GROWTH

RANGE	PAT GR. (%)	PROPORTION OF COMPANIES WITH PAT GR.		
		>15%	>0-15%	<0%
Dec 07	15.4	67	12	21
Mar 08	24.3	57	19	24
Jun 08	25.6	53	24	23
Sep 08	19.7	48	26	26
Dec 08	-8.4	36	22	42
Mar 09	-16.2	41	18	41
Jun 09	-14.5	56	12	32
<b>Sep 09</b>	<b>-12.4</b>	<b>47</b>	<b>21</b>	<b>32</b>

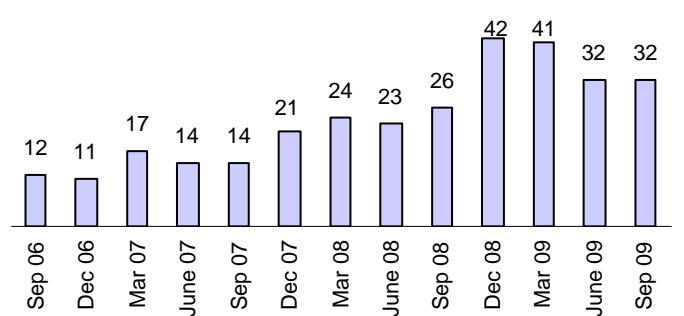
PROPORTION OF COMPANIES WITH EARNINGS GROWTH OF 0-15%



PROPORTION OF COMPANIES WITH EARNINGS GROWTH >15%



PROPORTION OF COMPANIES WITH EARNINGS GROWTH <0%



Source: MOSL



### Intra-sector performance divergence coincides with earnings slowdown

We note that there would be significant intra-sector divergences in 2QFY10 performance. Consider the following:

- Maruti Suzuki and Hero Honda are likely to report earnings growth of 111% YoY and 79% YoY, respectively - better than sector earnings growth of 73% YoY.
- We expect ICICI Bank to report earnings de-growth of 17.4% YoY v/s sector earnings growth of 8.3% YoY. Key outperformers would be: Bank of Baroda (up 29.3% YoY), HDFC Bank (up 26.6% YoY) and Axis Bank (up 25.9% YoY).
- Ultratech Cement is likely to report superior earnings growth amongst large cap cement stocks. We expect Ultratech to report earnings growth of 97% YoY v/s sector earnings growth of 46% YoY. Shree Cement would report the highest earnings growth at 120% YoY.
- BHEL, Crompton Greaves and L&T would report earnings growth YoY v/s Engineering sector de-growth of 16.7% YoY due to expected earnings de-growth in Siemens and Thermax, and loss by Suzlon Energy. BEL would report the highest earnings growth of 23% YoY, followed by L&T (16.8% YoY) and Crompton Greaves (13% YoY).
- Godrej Consumer is likely to report the highest earnings growth at 74% YoY v/s sector earnings growth of 18% YoY. Nestle, Colgate and Asian Paints would report 30%+ earnings growth, while Marico, Dabur and GSK Consumer would report earnings growth of over 20% YoY.
- Mphasis, Wipro and TCS would report strong double-digit earnings growth, while HCL Tech is likely to report negative earnings growth of 19.7%. IT sector earnings would grow 12.7% YoY.
- Idea Cellular would report earnings growth of 37.5% YoY, while Bharti Airtel would report earnings growth of 23.2% YoY v/s sector earnings de-growth of 4.5% YoY. Reliance Communication's earnings would decline 42% YoY.

*Godrej Consumer is likely to report 74% YoY growth in earnings, as compared to FMCG sector earnings growth of 18% YoY*

### Key earnings divergence for Sensex stocks in 2QFY10

- Bharti Airtel (23.2% YoY growth) and Maruti Suzuki (111% YoY) would be the biggest contributors to Sensex earnings growth for 2QFY10.
- Hero Honda (79% YoY), TCS (23.5% YoY), and Wipro (26% YoY) would also contribute positively to Sensex earnings growth in 2QFY10.
- 20 of the 30 Sensex stocks would report positive earnings growth.
- Among the stocks making the highest negative contributions to Sensex earnings growth for 2QFY10 would be Tata Steel (-95%), followed by DLF (-24.5%), and Reliance Communication (-12%).

*20 of the 30 Sensex stocks would report positive earnings growth*

INTRA-SECTOR 2QFY10 EARNINGS DIVERGENCE

SECTORS	2QFY10 PAT GROWTH (%)	EARNINGS GROWTH IN EXCESS OF 15%	EARNINGS GROWTH IN 0-15%	NEGATIVE EARNINGS GROWTH	EARNINGS MOMENTUM
Auto	73.4	Maruti Suzuki, Hero Honda, Bajaj Auto, Tata Motors, Mahindra & Mahindra			
Banks	8.3	BoB, HDFC, Union Bank, HDFC Bank	PNB, Canara Bank, State Bank, BoI	ICICI Bank	
Cement	46.2	ACC, Grasim, Ultratech, Ambuja Cements		India Cements	
Engineering	-16.7	Larsen & Toubro	Crompton Greaves, BHEL, ABB	Siemens, Thermax, Suzlon Energy	
FMCG	18.0	Dabur, ITC, Nestle, Colgate, Asian Paints	Hind. Unilever, United Spirits	Tata Tea	
Infrastructure	12.2	Hindustan Construction, Simplex Infra.	Nagarjuna Construction, Jaiprakash Associates	IVRCL Infra.	
IT	12.7	Mphasis, Wipro, TCS	Infosys, Patni Computer	Tech Mahindra, HCL Technologies	
Media	15.0	Deccan Chronicle, Sun TV,		Zee Entertainment	
Metals	-61.1			JSW Steel, Sterlite, SAIL, Hindalco, JSP, Tata Steel	
Oil Gas & Petchem	-6.5	Chennai Petroleum	ONGC	Reliance Inds, GAIL, Cairn India	
Pharma	10.5	Cipla, Dr Reddy's, Piramal Healthcare, Lupin, Ranbaxy Labs	GSK Pharma	Glenmark, Sun Pharma, Divis Labs	
Real Estate	-72.9			DLF, Unitech	
Retail	-13.1			Titan Industries, Pantaloon Retail	
Telecom	-4.5	Bharti Airtel, Idea Cellular		Reliance Comm.	
Textiles	-7.6	Arvind Mills, Vardhman Textiles	Bombay Rayon	Alok Ind, Raymond	
Utilities	-1.4	Reliance Infrastructure	PTC India	NTPC, Tata Power	
Others	-2.8	Blue Star, United Phosphorous		Sintex Inds, Everest Kanto	

Note: Earnings momentum represents number of companies in every sector in the MOSL Universe in each of the 3 buckets of earnings growth

## 2QFY10 EARNINGS DECOMPOSITION OF SENSEX STOCKS (RS B)

COMPANY NAME	SALES			EBITDA			PAT			PAT CONTRIBUTION	
	SEP-09	VAR.	VAR.	SEP-09	VAR.	VAR.	SEP-09	VAR.	VAR.	CONTRIBUTION	
		% YOY	% QOQ		% YOY	% QOQ		% YOY	% QOQ	%	GR. %
ACC	20.1	11.2	-3.6	6.3	44.5	-13.7	4.1	43.5	-16.3	1.32	2.0
Bharti Airtel	103.0	14.2	3.6	43.1	16.4	3.7	25.2	23.2	0.2	8.20	7.8
BHEL	66.2	24.0	18.3	9.6	19.7	86.9	7.6	11.5	60.6	2.46	1.3
DLF	16.3	-56.6	-1.4	8.1	-63.4	9.1	4.4	-77.0	12.2	1.45	-24.5
Grasim Industries	29.3	9.2	-3.7	8.8	51.6	-0.8	5.5	31.0	1.9	1.79	2.1
HDFC	8.6	11.8	18.6	9.1	16.7	14.4	6.4	19.7	13.2	2.08	1.7
HDFC Bank	20.8	11.2	11.9	16.2	44.5	6.9	6.7	26.6	10.3	2.17	2.3
Hero Honda	41.3	29.6	8.5	7.1	67.6	10.9	5.5	78.9	9.6	1.78	4.0
Hind. Unilever	44.2	7.5	-1.9	6.5	16.9	-8.5	4.9	12.9	-7.9	1.61	0.9
Hindalco	51.2	-9.9	31.7	7.7	-22.4	25.4	5.1	-29.4	50.5	1.65	-3.5
ICICI Bank	20.3	-5.3	2.4	21.5	-6.0	-15.1	8.4	-17.4	-4.6	2.73	-2.9
Infosys	56.3	3.9	2.9	19.2	7.0	2.7	15.2	6.3	-0.3	4.95	1.5
ITC	42.5	9.9	2.7	14.5	19.1	4.3	9.4	17.1	7.0	3.06	2.3
Jaiprakash Associates	17.1	44.5	-17.3	5.3	53.1	-1.7	2.2	9.2	1.7	0.72	0.3
Larsen & Toubro	86.0	11.8	16.7	8.3	11.4	4.9	5.8	16.8	1.0	1.90	1.4
Mahindra & Mahindra	41.5	34.2	-1.9	5.9	99.9	-3.9	4.1	47.5	3.2	1.35	2.2
Maruti Suzuki	72.1	44.5	11.1	9.8	89.8	23.4	6.3	111.4	7.3	2.04	5.4
NTPC	110.1	14.0	-8.2	28.6	12.4	-9.8	18.1	-0.8	-17.5	5.89	-0.2
ONGC	156.5	-10.1	5.2	90.8	7.9	-4.4	49.7	3.4	2.6	16.18	2.7
Reliance Comm	64.0	13.4	4.2	25.9	12.3	5.4	9.7	-42.3	-44.2	3.14	-11.7
Reliance Inds.	487.8	8.9	22.9	76.0	17.4	19.0	38.0	-7.7	1.7	12.37	-5.2
Reliance Infrastructure	27.9	13.0	14.2	2.5	-9.3	-16.0	2.7	25.8	-15.7	0.87	0.9
State Bank	52.7	-3.3	4.9	40.0	-4.7	8.8	23.3	3.2	0.1	7.59	1.2
Sterlite Inds.	55.8	-18.1	21.9	14.6	-21.2	43.0	10.7	-16.7	59.4	3.49	-3.5
Sun Pharma	9.1	-23.0	15.1	3.1	-42.8	139.4	3.3	-36.2	98.7	1.06	-3.0
Tata Motors	78.4	11.5	23.4	10.0	73.5	37.1	4.3	55.9	121.6	1.40	2.5
Tata Power	20.0	2.0	-0.9	3.6	35.9	-43.1	1.3	-34.8	-37.5	0.42	-1.1
Tata Steel	257.0	-41.9	10.3	14.8	-82.0	LP	-6.5	PL	-	-2.11	-95.3
TCS	73.4	5.5	1.8	20.3	11.7	3.6	15.6	23.5	2.5	5.07	4.9
Wipro	66.1	3.1	4.6	12.7	22.4	4.4	10.3	25.7	-3.2	3.36	3.5
<b>Sensex (30)</b>	<b>2,196</b>	<b>-3.1</b>	<b>10.0</b>	<b>550</b>	<b>-4.1</b>	<b>7.9</b>	<b>307</b>	<b>-16.5</b>	<b>5.9</b>		
<b>Sensex Excl Metals (27)</b>	<b>1,832</b>	<b>7.8</b>	<b>9.1</b>	<b>513</b>	<b>10.8</b>	<b>3.9</b>	<b>298</b>	<b>0.5</b>	<b>-0.6</b>		
<b>Sensex Ex. Metals &amp; RE (26)</b>	<b>1,815</b>	<b>9.3</b>	<b>9.2</b>	<b>505</b>	<b>14.6</b>	<b>3.8</b>	<b>294</b>	<b>5.9</b>	<b>-0.8</b>		

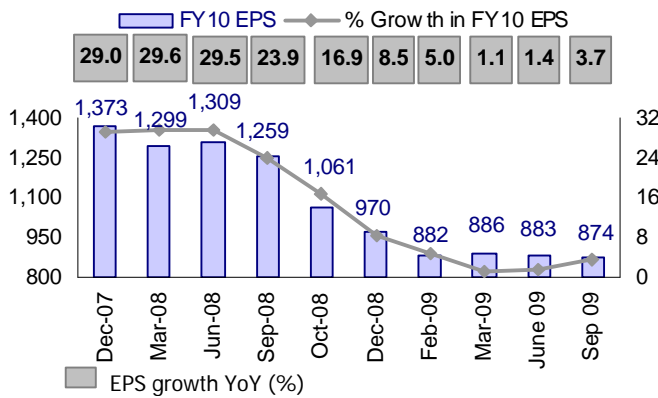
Note: Tata Steel Consolidated

Source: MOSL

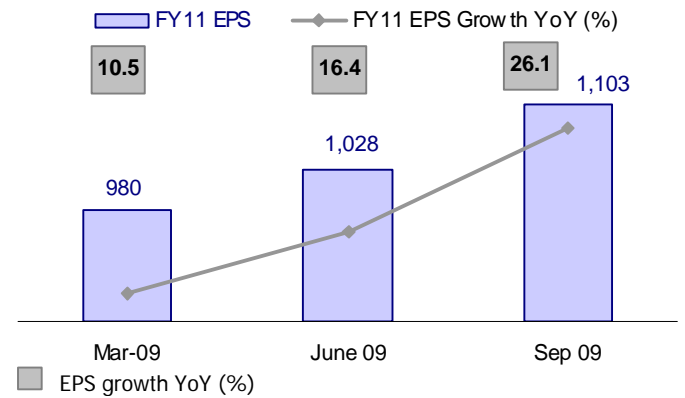
## 7.5% upgrade in FY11E Sensex EPS to Rs1,103

During YTD FY10, the Sensex has risen a handsome 72%. However, this is not accompanied by any upgrade in our FY10 earnings estimates for the Sensex. On the contrary, there is a marginal downgrade in Sensex EPS from Rs886 in March 2009 to Rs874 currently. This implies that the rise in the markets is attributable to expectations of healthy earnings growth in FY11. This is reflected in our own Sensex EPS estimate, which is upgraded 12.5% from Rs980 in March 2009 to Rs1,103 currently. The pace of upgrade is also increasing – in June 2009, we saw a 5% upgrade whereas the current upgrade is 7.5%.

TREND IN FY10E SENSEX EPS REVISION



TREND IN FY11E SENSEX EPS REVISION



Source: MOSL

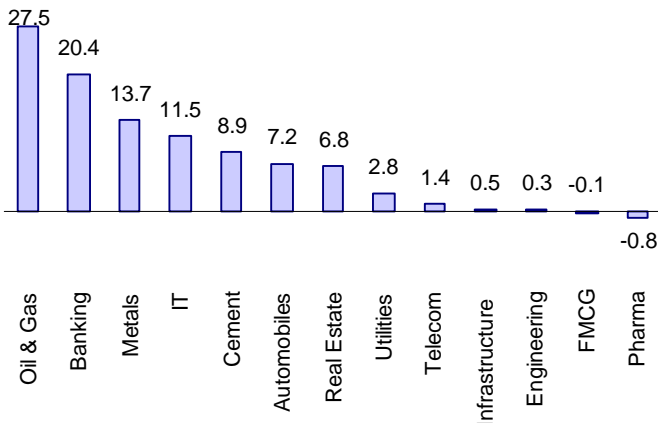
### Earnings upgrade is well spread across sectors

*The upgrade in FY11 earnings is well spread across sectors*

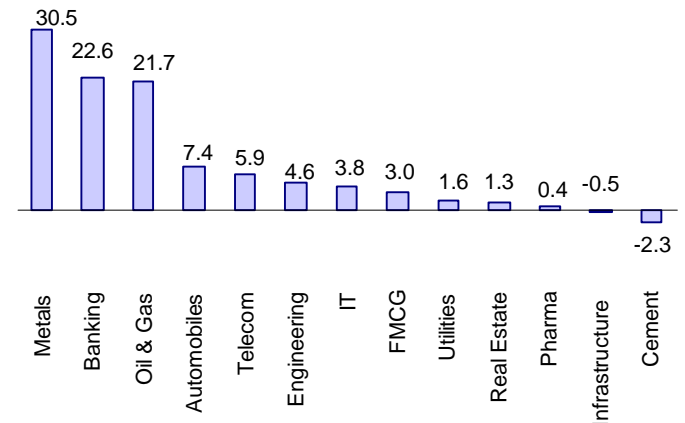
The chart below suggests that the earnings upgrade is well spread across sectors. The major drivers of earnings upgrade are:

- ✘ **Oil and Gas:** Higher earnings from Reliance’s gas business
- ✘ **Banking:** Up-tick in loan growth and lower NPA provisions
- ✘ **Metals:** Revival in global commodity prices
- ✘ **IT:** Improved demand outlook
- ✘ **Cement:** Deferment of capacities, implying lower pricing pressure; lower coal prices
- ✘ **Autos:** Sustained volume growth and economies of scale
- ✘ **Real Estate:** Strong revival, specially in the housing segment.

SECTORAL CONTRIBUTION TO FY11 EARNINGS UPGRADE DURING 1HFY10



SECTORAL CONTRIBUTION TO FY11 EARNINGS GROWTH



Source: MOSL

**Expect Sensex earnings growth of 26% in FY11**

Our current FY11 Sensex EPS estimate of Rs1,103 implies a growth of 26% over our FY10 Sensex EPS estimate. Of this, the contribution to earnings growth by Metals and Oil & Gas would be 52%; Banking is the only other sector that would make a double-digit contribution of 22.6% to earnings growth.

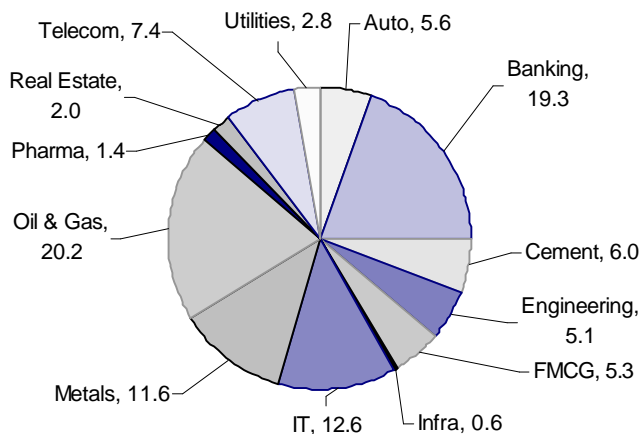
**Sensex earnings FY11 v/s FY08: Higher share of pure domestic plays**

We compared the Sensex earnings composition for FY11 with that of FY08, the year of premium valuations for the market. Our major observations are:

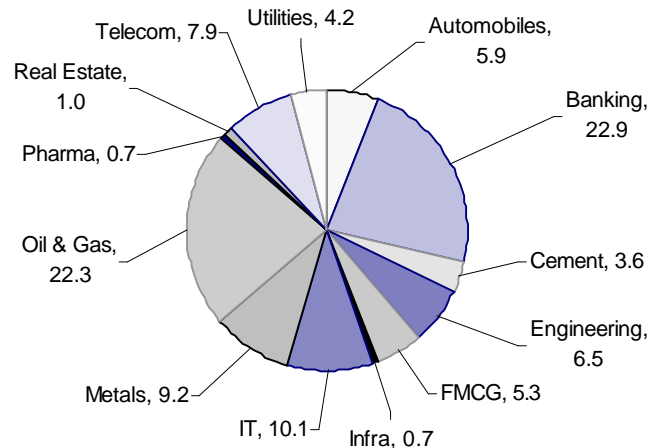
- ✦ The share of pure domestic plays has increased from 54% in FY08 to 58% in FY11.
- ✦ Even in the case of the biggest global play, Oil & Gas, the increase in share from 20% in FY08 to 22% in FY11 is due to Reliance’s profits from its gas business, which is also a domestic play.
- ✦ The share of IT profits is down from 12.6% to 10.1%. There are early signs of recovery here, as indicated by renewed hiring by the IT companies.

Higher share of profits based on domestic businesses is a positive as it implies lower vulnerability to adverse global developments.

SECTORAL COMPOSITION OF SENSEX EARNINGS FY08 (%)



SECTORAL COMPOSITION OF SENSEX EARNINGS FY11 (%)



Source: MOSL

**Tata Steel and Reliance contribute 41% to Sensex earnings growth**

For FY11, 90% of the earnings growth would be covered by 14 stocks, of which 41% contribution would be from just two stocks – Tata Steel (21.7%) and Reliance (19.6%). For 10 of the top 14 stocks, the earnings estimate confidence is high, in turn implying high confidence in the Sensex earnings estimate.



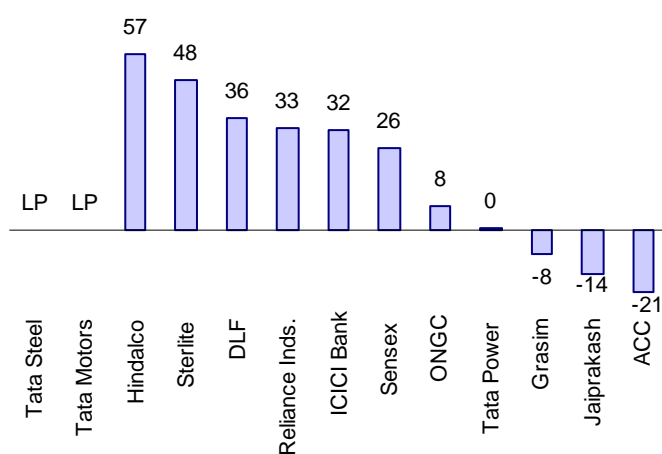
SENSEX STOCKS EARNINGS ESTIMATES AND CONTRIBUTION TO SENSEX EPS GROWTH

COMPANY NAME	EPS (RS)			EPS GR. (%)			CONTRIBUTION (%)			CONT. TO GR (%)	CONT. TO FY11E
	FY09	FY10E	FY11E	FY09E	FY10E	FY11E	FY09E	FY10E	FY11E	FY11E	EPS (RS)
Tata Steel	101.9	-9.8	49.3	16.9	PL	LP	10.2	-0.9	3.8	21.7	49.6
Reliance Inds.	117.7	133.1	177.1	-3.3	13.1	33.0	12.5	15.1	16.0	19.6	44.7
State Bank	178.4	213.5	265.0	25.7	19.7	24.1	8.2	9.4	9.3	8.7	19.9
ICICI Bank	33.8	34.8	45.9	-9.7	3.0	31.8	6.0	6.0	6.3	7.3	16.7
Sterlite Inds.	46.8	51.8	76.8	-24.0	10.8	48.1	2.4	3.0	3.5	5.5	12.5
Tata Motors	-34.4	-6.3	20.2	PL	-	LP	-1.6	-0.3	0.7	4.6	10.5
HDFC Bank	52.8	62.8	81.9	27.7	19.1	30.3	3.1	3.7	3.9	4.3	9.9
Hindalco	16.8	8.6	13.5	9.9	-48.8	56.9	3.1	1.5	1.9	3.3	7.5
Bharti Airtel	22.3	27.8	31.6	26.4	24.6	13.5	4.8	5.7	5.1	3.0	6.7
Reliance Comm	29.8	24.0	30.8	11.7	-19.7	28.5	3.5	2.7	2.7	2.9	6.7
BHEL	72.7	85.5	111.5	41.8	17.6	30.3	2.0	2.3	2.3	2.6	6.0
Infosys	102.5	106.7	115.4	29.5	4.0	8.2	8.0	8.0	6.9	2.5	5.8
HDFC	80.2	94.6	109.4	17.5	17.9	15.7	3.3	3.8	3.5	2.3	5.2
ITC	8.6	10.2	11.6	4.4	17.5	13.8	3.7	4.2	3.7	2.2	5.0
ONGC	92.5	110.7	119.1	-0.4	19.6	7.6	6.3	7.3	6.2	2.1	4.9
Larsen & Toubro	51.5	58.1	64.4	31.1	12.9	10.9	4.3	4.7	4.2	2.0	4.5
Mahindra & Mahindra	53.0	77.1	88.5	-2.7	45.4	14.8	1.8	2.5	2.3	1.4	3.3
DLF	26.9	13.9	18.9	-41.3	-48.4	35.9	1.9	0.9	1.0	1.3	2.9
NTPC	9.9	10.4	11.7	9.9	4.9	12.5	2.0	2.0	1.8	0.9	2.2
Hind. Unilever	9.4	10.2	11.4	17.3	8.8	11.9	1.6	1.7	1.5	0.8	1.8
TCS	26.2	31.7	34.4	3.0	20.7	8.5	2.1	2.4	2.1	0.8	1.8
Maruti Suzuki	46.1	73.5	82.5	-22.0	59.3	12.3	1.1	1.6	1.5	0.8	1.8
Reliance Infrastructure	40.5	54.8	62.5	22.0	35.5	14.1	0.9	1.2	1.1	0.7	1.5
Hero Honda	64.2	100.1	110.2	32.4	55.9	10.1	1.0	1.5	1.3	0.6	1.4
Wipro	23.6	29.0	32.2	6.7	22.8	10.9	1.1	1.3	1.2	0.5	1.3
Sun Pharma	87.8	57.7	66.4	22.3	-34.2	15.0	1.2	0.7	0.7	0.4	1.0
Tata Power	53.7	62.5	62.7	55.9	16.5	0.2	1.3	1.6	1.3	0.0	0.0
Jaiprakash Associates	7.6	9.9	8.4	45.6	30.0	-14.5	0.7	1.0	0.7	-0.5	-1.2
Grasim Industries	238.5	337.4	311.1	-18.9	41.5	-7.8	2.6	3.6	2.6	-1.1	-2.4
ACC	57.9	94.4	75.0	-15.0	63.2	-20.6	1.0	1.6	1.0	-1.2	-2.8
<b>Sensex</b>	<b>843</b>	<b>874</b>	<b>1,103</b>	<b>1.2</b>	<b>3.7</b>	<b>26.1</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>229</b>

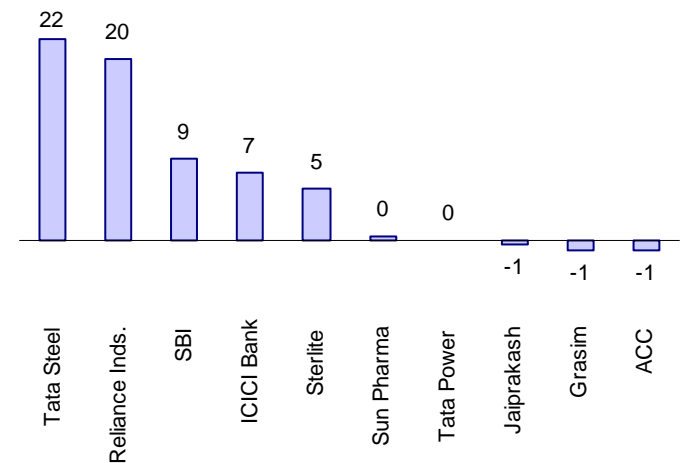
PL: Profit to Loss; LP: Loss to Profit

Source: MOSL

BEST AND WORST EARNINGS GROWTH (%)



HIGHEST AND LOWEST CONTRIBUTION TO EARNINGS GROWTH (%)



Note: Tata Steel & Tata Motors are from Loss to Profit

Source: MOSL

### Upside bias to our estimates

We did a bottom-up assessment of the various earnings assumptions for all the major sectors. Based on this, we believe there is an upside bias to our FY11 Sensex earnings estimates.

#### BOTTOM-UP ANALYSIS SUGGESTS UPWARD EARNINGS BIAS

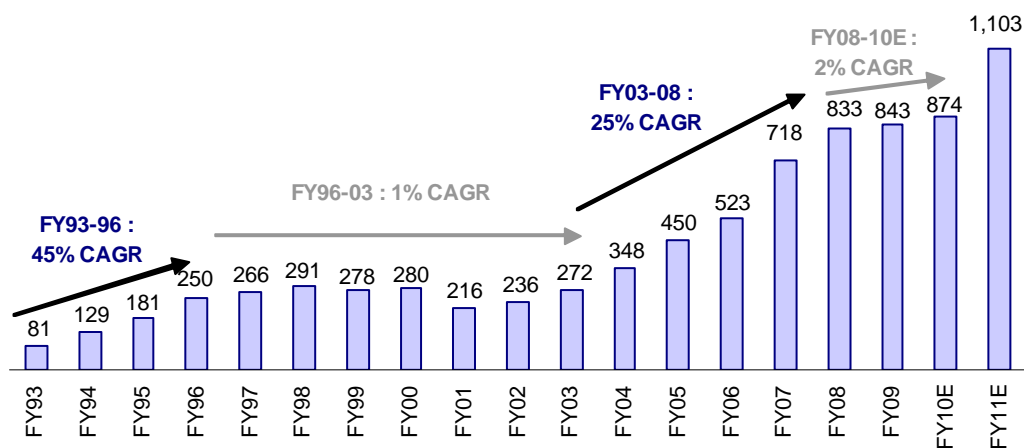
SECTOR	KEY ASSUMPTIONS FOR FY11	EARNINGS BIAS / (PROBABILITY)	REMARKS
<b>Auto – 2-wheelers</b>	<ul style="list-style-type: none"> <li>12.5% volume growth in FY11 on the back of 15% volume growth in FY10</li> </ul>	Neutral	-
<b>Auto – 4-wheelers</b>	<ul style="list-style-type: none"> <li>15% volume growth in cars (14% in FY10)</li> <li>8% volume growth in UVs (12.5% in FY10)</li> </ul>	Downgrade (Low)	Pre-buying in 4QFY10 due to change in emission norms w.e.f. 1 April 2010; withdrawal of scrappage incentives in Europe
<b>Banks</b>	<ul style="list-style-type: none"> <li>Loan growth of 18% over FY10-11E</li> <li>G-Sec yield at ~8% for FY10 and FY11</li> </ul>	Upgrade (Medium)	Loan growth may be higher than expected; credit cost lower
<b>Cement</b>	<ul style="list-style-type: none"> <li>Volume growth of 10% in FY11E (v/s 12% in FY10E)</li> <li>FY11E realization to decline by Rs10/bag over FY10 average (v/s Rs11/bag increase in FY10E)</li> </ul>	Downgrade (Medium)	Higher than expected pricing pressure due to excess capacity
<b>FMCG</b>	<ul style="list-style-type: none"> <li>Volume growth to be either flat or higher than FY10 levels</li> <li>Margin expansion to be muted for the sector as a whole</li> </ul>	Upgrade (High)	Year following drought year typically sees surge in consumption demand
<b>IT</b>	<ul style="list-style-type: none"> <li>12-14% volume growth in FY11 (vs flattish growth in FY10)</li> <li>Flat pricing, improved utilization and rupee appreciation of 2.7% in our assumptions</li> </ul>	Upgrade (Medium)	Greater contribution from discretionary demand and newer business channels
<b>Metals</b>	<ul style="list-style-type: none"> <li>Indian steel demand to grow 6-8% during FY11</li> <li>Metal prices are expected to avg US\$500/ton for HRC, US\$2,000/ton for Aluminium, Lead and Zinc and US\$6,000/ton for copper</li> </ul>	Neutral	-
<b>Oil &amp; Gas</b>	<ul style="list-style-type: none"> <li>Brent Oil Price – US\$65/bbl for FY10 and FY11</li> <li>Singapore refining margin – US\$3.6/bbl in FY10 and US\$4/bbl in FY11</li> <li>Subsidy Sharing – 90% of auto fuel subsidy to be borne by upstream; 10% of auto fuel to be borne by downstream and govt to share 100% of domestic fuel subsidy</li> </ul>	Reliance: Neutral Downstream: Downgrade (Medium) Upstream: Upgrade (Medium)	- Subsidy share could be higher than our estimate of 10% of auto fuel Subsidy share could be lower than our estimate of 90% of auto fuel
<b>Pharma</b>	<ul style="list-style-type: none"> <li>Revenues from emerging markets and the US to grow in double-digits (Same for FY10E)</li> <li>Domestic formulations industry to record 12% growth for next two years (Same for FY10E)</li> <li>FY11 double digit growth (FY10 CRAMS revenue growth to suffer in 1HFY10 due to inventory reductions by customers; gradual recovery from 2HFY10)</li> </ul>	Upgrade (Medium)	Upside from differentiated / low-competition product pipeline
<b>Real Estate</b>	<ul style="list-style-type: none"> <li>Significant recovery in volumes. Average realization increase of 8-10% in FY11 vs drop of 12-15% in FY10</li> </ul>	Upgrade (Medium)	Upside in terms of higher realizations
<b>Telecom</b>	<ul style="list-style-type: none"> <li>Industry wireless subs net addition run-rate of 12m per month in FY11E (vs 13.6m in FY10E).</li> <li>Average wireless subscriber growth of 33% in FY11E (vs 45% in FY10E)</li> <li>Wireless ARPU decline of 5-8% in FY11E vs 17-19% in FY10E</li> </ul>	Neutral	-

Source: Company/MOSL

**We are cautiously optimistic about Sensex earnings growth beyond FY11**

The key question facing India investors is this: Will earnings resume at least 15% growth beyond FY11? In the past, we have seen a 6-year earnings growth holiday from FY96 to FY02, followed by a 6-year phase of 23% earnings CAGR. It is possible that FY08-10 marks the period of consolidation for Indian corporate earnings. The 26% earnings growth in FY11 reflects early signs of recovery in the domestic economy and green shoots in the global economy. Going forward, if this is accompanied by a more stable global environment, we could see a revival of the India earnings growth story. We are cautiously optimistic that this will be the case.

TREND IN SENSEX EPS (RS) OVER FY93-11E



Source: MOSL

## Sector views, top picks, model portfolio

With two quarters of strong returns, the BSE Sensex now trades at 15x FY11E EPS, in line with historical averages. As earnings growth seems to have resumed (26% earnings growth in FY11E) and liquidity is abundant (FII inflows of US\$9b+, domestic institutions yet to deploy cash in 2HFY10), markets in the near-term seem to be headed for overvaluations rather than correcting from fair valuations. We see two important factors driving the markets higher—certainty of 25%+ earnings growth in FY11 and continuation of more than 15% earnings growth in FY12.

*Our model portfolio has allocations for reasonably valued stocks offering multi-year growth opportunities*

Given the near-term fair/rich valuations that several sectors/stocks command, absolute returns are possible only with a 12-18-month perspective. Our model portfolio has allocations for reasonably valued stocks but offer multi-year growth opportunities. Overweights are the ones over which we still argue for absolute returns to be made over the next 12-18 months. Our sector allocations are similar to BSE-100 benchmarks in most cases, but we have used differentiation through stock selection across sectors to reflect our preferences.

### Few characteristics of our model portfolio

- Focus on PSU stocks as a theme—they still offer value in this market (weightage of 23% across sectors in the portfolio).
- Companies with least capital-raising plans (over 70% of our portfolio comprises companies with no capital-raising plans over the next 12-18 months in our view).
- Earnings upgrade cycle to continue (over 65% of stocks in the portfolio have higher probability of earnings upgrades).
- Expected earnings growth for our model portfolio is 21% in FY10 and 17% in FY11 (against 3.7% and 26%, respectively for the Sensex).
- Our model portfolio quotes at 13.7x FY11E EPS against 15x FY11E EPS for the Sensex.

Some risks that could affect the performance of our model portfolio are:

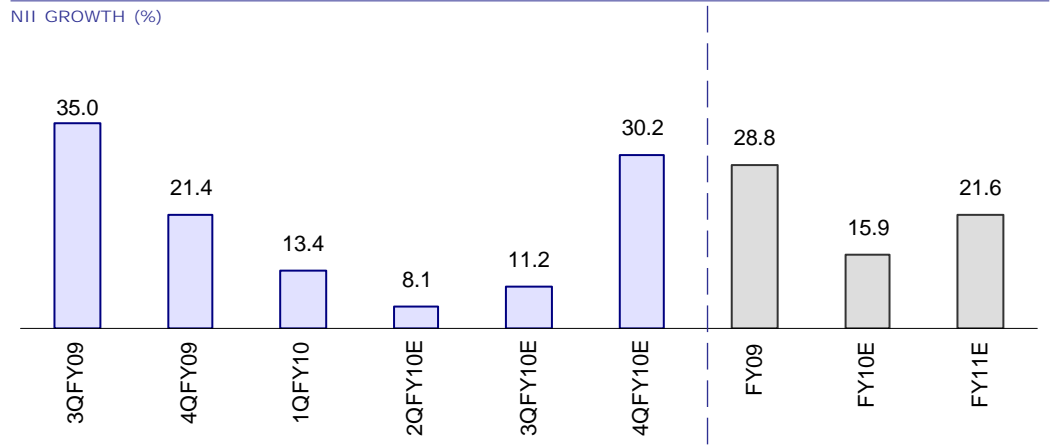
- Aggressive monetary tightening could impact domestic liquidity, interest rates and valuations.
- Our portfolio is less weighted on sectors, such as IT and commodities, which may benefit from strong global recovery.

### Financials—positive view; allocation favoring state-owned banks

- We expect loan growth to pick up gradually though the statistical base would mean “low teens” growth to continue in FY10 for the industry. Our estimates factor-in loan CAGR of 18% over FY09-11.
- We expect margins to expand from 2QFY10 driven by deposit re-pricing. Loan yields are likely to pick up in FY11 as loan demand firms up and the liquidity overhang falls.
- We believe our NPA assumptions are conservative and can lead to earnings upgrades if the conviction on economic recovery strengthens.
- We do not foresee a run-up in G-Sec yields like in 1QFY09 and expect yields to remain ~7.5% by March 2010.

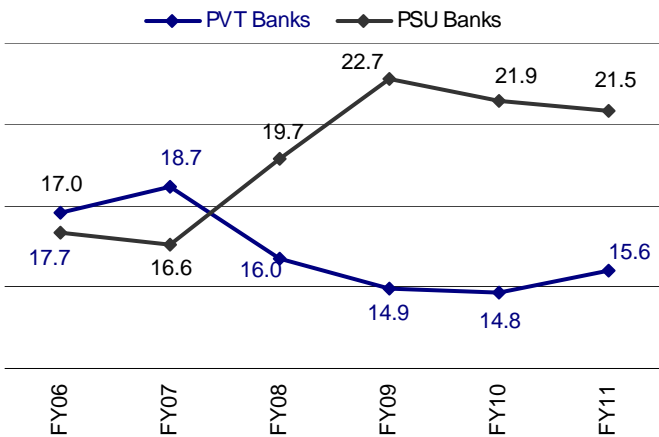
*We prefer state-owned banks over private financials*

- We prefer state-owned banks over private financials. SBI remains our top bet in the sector as it can spring the largest positive surprise in earnings, led by economic revival. Our other two bets are BoB and Union Bank.
- We have increased our allocation to ICICI Bank. We expect the bank to improve across operating parameters over the next three quarters and focus on growth in FY11. Strong capital adequacy and a big drop in provisioning requirements will drive earnings after two years of consolidation. A rising market also has the potential to enhance subsidiary valuations.
- We are significantly underweight on the HDFC group as both the stocks trade at a huge premium in a period when the RoE differential is narrowing significantly.
- We have removed IDFC from our model portfolio after our recent downgrade.

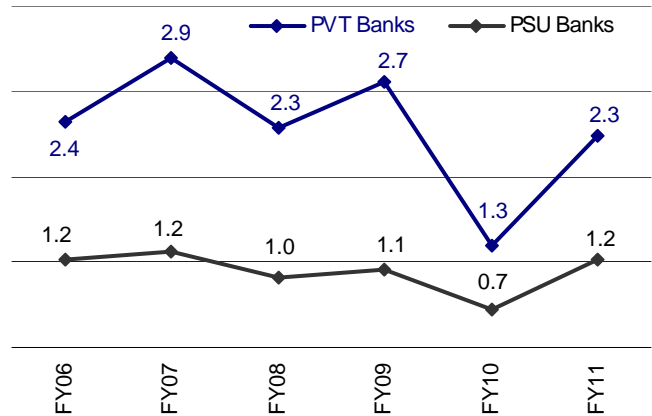


Source: MOSL

TREND IN ROE (%)



TREND IN P/B (X)



Source: MOSL

**Infrastructure-related (engineering, construction, real estate, cement)—expensive with little choice**

*We are underweight on the Engineering sector*

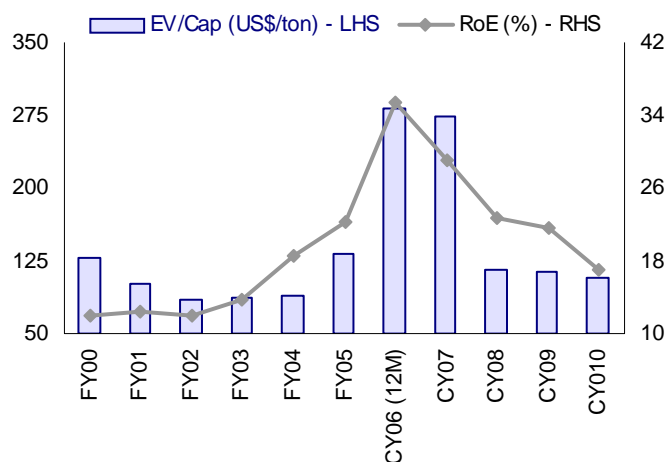
- We are positive on the opportunities offered by the increased thrust on infrastructure by the government and private sector.
- We are underweight on the Engineering sector. Given the recent surge in stocks’ valuations, we believe most of the stocks are pricing-in growth offered for FY10-11. The sector is trading at P/E of 22x FY11E. We will seek more clarity over the next few quarters on order-book growth and the companies’ earnings upgrades for a change in allocations.
- We continue to be positive on Infrastructure via Cement and Real Estate.

**Cement: Buy Grasim/Ultratech**

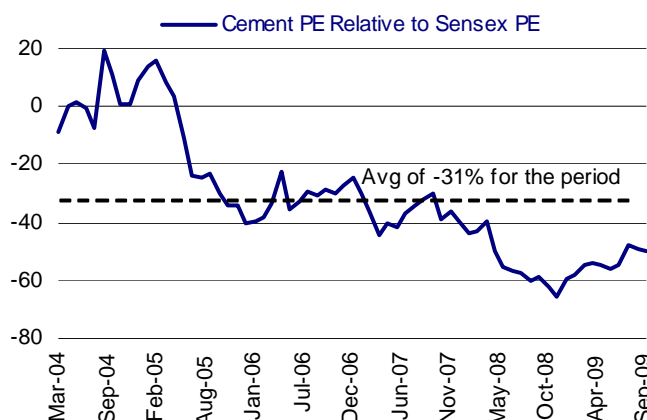
*Among cement stocks, our top pick is Grasim*

- Short-term outlook clouded due to bunching-up of capacities (incremental demand of 64m tons through FY12, much lower than capacity addition of 92m tons).
- Cement prices have corrected in the past two months due to pressure from new capacities.
- However the long-term outlook is positive based on strong rural housing demand, urban housing recovery and renewed focus on infrastructure. We estimate the cement cycle to bottom out in 2HFY11.
- Cement stocks have underperformed the Sensex in the past three months. Significant valuation discounts to the benchmark offer a cushion against short-term earnings decline, if any.
- We prefer Grasim (including UltraTech) for its timely capacity addition, cost-saving triggers and strong free cash-flow generation over the next two years. The stock is attractively valued at 9.1x FY11E consolidated EPS and 3.4x EV/EBITDA. Jaiprakash is our other top bet in the sector.

AMBUJA CEMENT: EV/TON AND ROE



CEMENT SECTOR: RELATIVE P/E TO SENSEX



Source: Company/MOSL

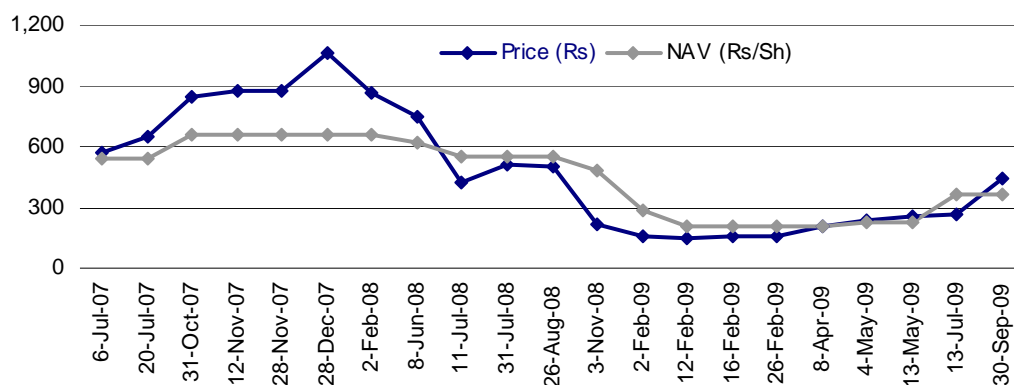


*DLF is best-positioned to ride the ongoing real estate recovery*

### Real Estate: Buy DLF

- During 2QFY10 the recovery in the housing sector gained momentum. Average real estate prices increased 10-15% across key metros such as Delhi and Mumbai. Developers expect this momentum to continue during the festive period (October–January) and prices to firm-up by 8-10%.
- There are early signs of recovery in the commercial vertical with enquiries increasing sharply and lease transactions re-starting. We expect the recovery to gain momentum in 3QFY10.
- We believe DLF is best positioned to ride the ongoing real-estate recovery due to its high quality land bank and diversified business model across verticals.

DLF: TREND IN NAV AND PRICE



As the real estate cycle turns up, NAV upgrades will follow

Source: Company/MOSL

*We recommend adding Reliance Industries on declines*

### Oil & Gas—ONGC, OMCs top bets, would add more RIL on declines

- Stable oil prices (US\$60-70/bbl), expectation of policy reforms and attractive valuations keep us positive on the oil & gas sector.
- If policy changes bring in subsidy rationalization we expect all the PSU oil companies to benefit.
- OMC debts have already fallen significantly from their peak in FY09, resulting in a stronger balance sheet. Besides, the government has indicated it will bear 100% of under-recoveries in domestic fuel (LPG and SKO). We prefer IOC and BPCL among OMCs.
- We remain positive on ONGC because of: 1) a likely APM gas price hike in the near term and 2) likely subsidy rationalization. Further long-term growth for ONGC is expected from its large E&P acreage. Given its significant capex plans (up over 50% in the Eleventh Plan) and better deepwater rig availability, we believe ONGC will announce many more discoveries in the future.
- We will build more weight on **Reliance Industries (RIL)** below Rs2,000. Of late, the stock performance has been largely influenced by the news-flow/updates on (1) RIL v/s RNRL and RIL v/s NTPC court cases and (2) the KG-D6 volume ramp-up. Clarity on these issues is expected before the end of FY10. As its two flagship projects KG-D6 and RPL stabilize we believe RIL can announce the next leg of its investment plan, given the increasing cash on its balance sheet and comfortable gearing ratios. RIL holds long-term potential owing to its possible upside from E&P acreage.

RIL - GRM SENSITIVITY

		BASE CASE		
GRM (US\$/bbl)	6.0	8.0	10.0	12.0
FY11 EPS	158.1	177.1	196.1	215.1

Source: Company/MOSL

OMC'S: FY11 VALUATIONS

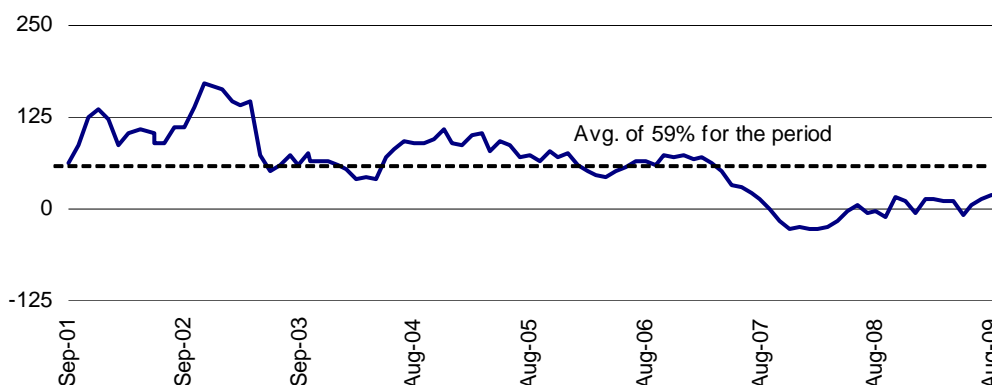
	EPS	ROE	P/B
HPCL	46.0	11.8	1.0
BPCL	54.3	12.3	1.2
IOC	60.3	13.2	1.4

Source: Company/MOSL

**IT—remains a market weight, changing stock preferences**

- We believe our expectations of a growth revival in FY11 are priced-in after the run-up in top-tier IT stocks. We will wait for corrections before increasing positions in the sector, given valuations of 18x-20x for the top-tier counters.
- **TCS** and **Infosys** remain our preferred bets as they are better geared for growth given: (1) Higher contribution from BFSI, which is improving, (2) greater correlation to discretionary demand up-tick on higher enterprise solutions exposure, (3) low current utilization levels, (4) a significant bench to counter wage inflation.
- **Patni** is a new stock in the portfolio after our recent rating upgrade on the stock (trades at 10x FY11E EPS).
- Faster-than-anticipated pick-up in discretionary demand and greater contribution from new business channels could provide upside to our estimates.

INFOSYS: P/E PREMIUM DISCOUNT TO SENSEX



Source: Company/MOSL

Infosys once again trades at a premium to market; however, its EPS growth would lag Sensex EPS growth

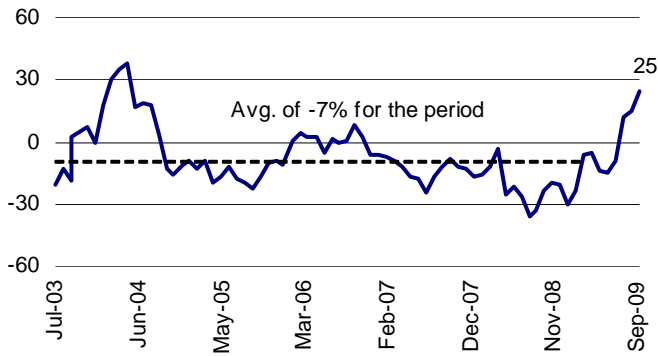
**Automobiles—overweight despite huge out-performance**

*Our top pick among autos are Hero Honda, Bajaj Auto and M&M*

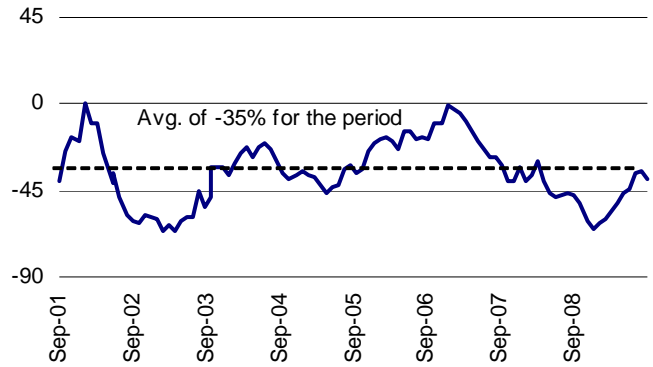
- Despite being among the best performing sectors in CY09, we are overweight on automobiles. Our top picks are **Hero Honda**, **Bajaj Auto** and **M&M**.
- With improvement in the external environment, higher availability of finance and with inventory under control, outlook for volumes is improving. This, coupled with new product launches, change in emission norms and continued momentum in volumes will aid volume growth in 2HFY10. But hardening commodity prices will check profitability.
- **Hero Honda**, valued at 15x FY11E EPS, will benefit from strong retail sales momentum, leaving an upside risk to our EPS estimates.

- **Bajaj Auto**, valued at 14.1x FY11E EPS, is in a happy position with recovery in volumes, benign costs and higher margins.
- **M&M** trades at a significant discount to its peers at 9.6x FY11E EPS, despite its dominance in the core business of UVs and tractors in which competitive dynamics are benign.

MARUTI SUZUKI: P/E PREMIUM DISCOUNT TO SENSEX



M&M: P/E PREMIUM DISCOUNT TO SENSEX



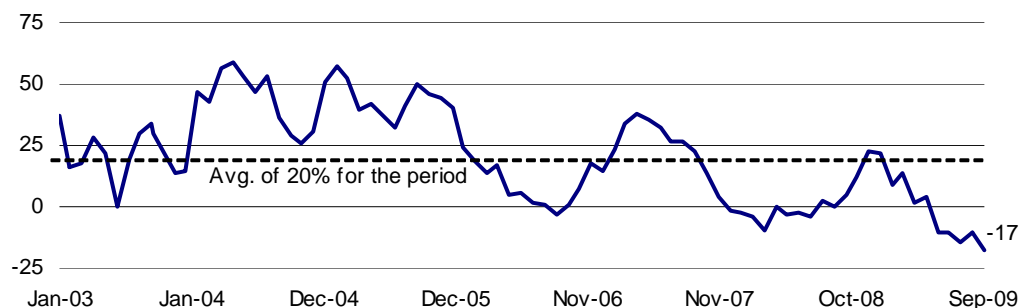
Source: Company/MOSL

*We see the current underperformance of Telecom as an opportunity to build an overweight position in the sector*

**Telecom—overweight; near-term concerns drive underperformance**

- Telecom has significantly underperformed in CY09 led by renewed fears of competitive intensity and company-specific news flow. We believe the valuation gap of the sector with the markets have widened significantly and factors-in near-term earnings pressure. We see current underperformance as an opportunity to build an overweight position in the sector.
- **Bharti Airtel:** It has the lowest earnings sensitivity towards likely RPM/MOU pressure from increased competition and is best placed for the upcoming 3G auctions given its strong balance sheet and high captive ARPU subscriber base. Bharti's recent underperformance (~25% since entering into exclusive talks with MTN) is likely to correct; valuations at 7.7x EV/EBITDA and 13.5x P/E on FY11E basis are attractive given 15% EBITDA CAGR and 18% earnings CAGR over FY09-11E.
- **RCom:** Our positive outlook on RCOM is based on GSM expansion-driven operational turnaround, reduced capex and growth opportunity/value unlocking prospects in the passive infrastructure business. Valuations at 5.7x FY11E EV/EBITDA are attractive given a strong 22% EBITDA CAGR over FY09-11E. With peak capex behind and multiple options for equity infusion, leverage concerns are receding.

BHARTI AIRTEL: P/E PREMIUM DISCOUNT TO SENSEX



Bharti is trading at the steepest discount to Sensex since its listing

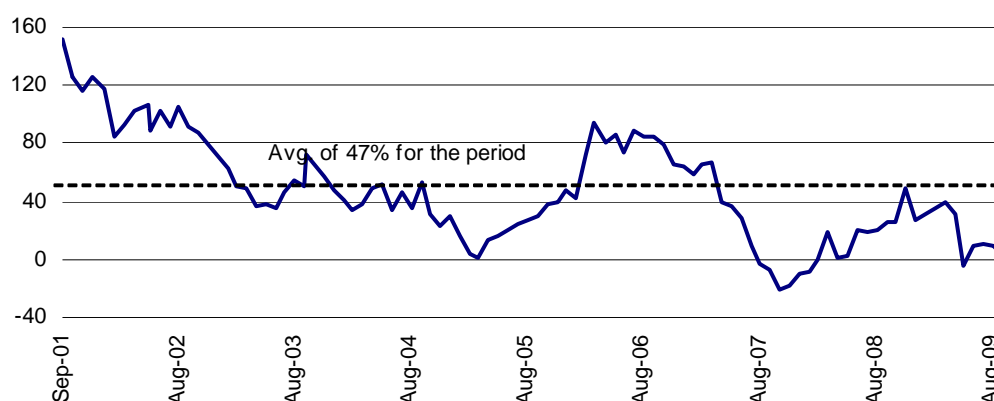
Source: Company/MOSL

*We are increasing our allocation to Pharma*

### Pharma—positive: individual stocks have triggers for outperformance

- We are increasing our allocation to the pharmaceuticals sector. Growth rates are expected to remain strong and we see attractive valuations relative to the market.
- **Cipla:** Represents one of the strongest generic pipelines from India. Low-risk strategy coupled with strong capex should ensure 29% earnings CAGR (on a low base) and 20%+ RoE for the next two years. Inhaler opportunity in Europe represents “option value”. Stock valued at 16.7x FY11E EPS.
- **Lupin:** We expect 17% sales and earnings CAGR for FY09-11E led by traction in regulated markets, strong growth in domestic formulations and incremental savings from tax-exempt zones. Potential ramp-up in US branded business can be a key differentiator. The stock is valued at 16.6x FY10E and 14.5x FY11E EPS.
- **Piramal Healthcare:** Its strong MNC relations will ensure traction in the CRAMS business in the medium-term. Steady double-digit growth in the domestic formulations business with improving profitability and potential debt reduction should augur well for the company over the next two years. We expect 30% earnings CAGR over FY09-11E (on a low base) and 30%+ RoE in FY10E and FY11E. The stock is valued at 16.6x FY10E and 13x FY11E EPS.

CIPLA: P/E PREMIUM DISCOUNT TO SENSEX



Source: Company/MOSL

Cipla has significantly underperformed the Sensex despite the possibility of 29% earnings CAGR and 20%+ RoE

### Utilities—neutral, JSPL, NTPC preferred bets

- We are neutral on the sector given the incumbents’ rich valuations.
- Delays in execution have led to bunching-up of capacity addition in FY12-13, leading to muted medium-term earnings growth. Besides, growth could be equity dilutive for most of the private-sector companies.
- We prefer JSPL and NTPC in the sector.

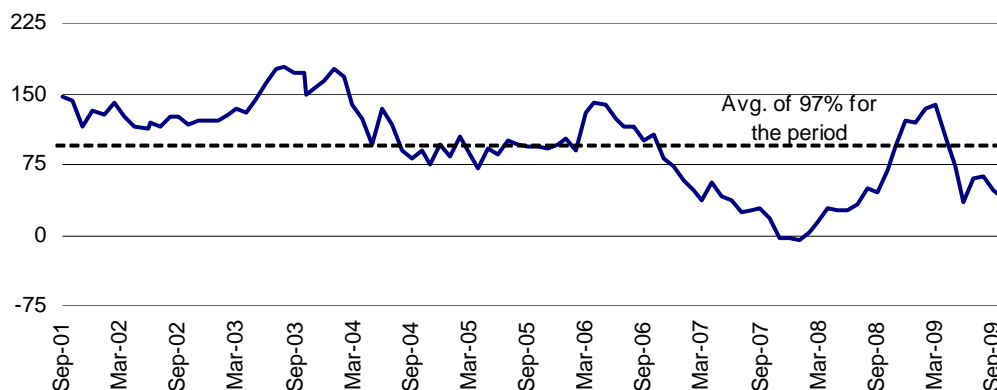
### FMCG—underweight; no immediate catalysts except defensive nature of stocks

*We remain Underweight on FMCG*

- Our weightage on the FMCG sector is unchanged. We believe the FMCG sector will report long-term growth acceleration due to rising discretionary spends and buying power. But we foresee near-term pressure because of: 1) lower volume growth due to poor monsoons and high food inflation and 2) lower profit margins in a scenario of rising input prices. Our top picks are ITC, Nestle and United Spirits.

- **ITC:** Likely cigarette volume growth of 5% for 1HFY10 indicates strong growth momentum despite increased VAT in four states and imposition of pictorial warnings on cigarettes. Sustenance of this growth rate will result in upgrades in our volume estimates, which are 4% for FY10 and FY11. Expect 17% PAT CAGR; current SOTP value Rs237/share.
- **Nestle India:** The best play in India's processed-foods sector. Low penetration of processed foods in rural India, and Nestle's focus on small packs will ensure growth rates are sustained for many years. The stock has seen earnings upgrades twice in the past three quarters. PAT CAGR over CY08-10 is 26%. The stock trades at 24x CY10E EPS of Rs92.7.
- **United Spirits:** Expected to report 14% volume CAGR in IMFL for coming three to five years. The worst seems to be behind on the input costs front (molasses and ENA); increased prices of bulk Scotch in new contracts for Whyte & Mackay, and lower debt could be positive triggers in the near term. The stock trades at 14.5x FY11E EPS of Rs63.

HINDUSTAN UNILEVER: P/E PREMIUM DISCOUNT TO SENSEX



HUL no longer offers earnings growth superior to the Sensex; the valuation premium that it enjoys could shrink further

Source: Company/MOSL

### Commodities—underweight after a super performance

*We have reduced our weightage on Commodities*

- We have reduced our weightage on commodities after their super performance over the last quarter. Globally steel prices are expected to come under pressure in the near term due to overproduction in China. Indian metals stocks have run up 3-6x from their bottom in past year. Consequently valuations have been significantly re-rated and the stocks are trading at historical high EV/EBITDA multiples of 7-8x FY11E. Therefore, we expect metals stocks to underperform for some time.
- There is more certainty of global steel production growth led by China than global steel demand growth. Hence, the price outlook for raw material like iron ore is stronger.
- Sesa Goa is our top pick in the ferrous space because of high volume growth, stronger outlook on iron ore prices, higher consolidation of the industry, a strong balance sheet and valuation comfort.
- Sterlite is our top pick in the non-ferrous space because of diversified volume growth in high return businesses of zinc, lead, silver, aluminum and power. Besides, it has a strong balance sheet.

## Mid caps—new stocks in the portfolio

*We have added new mid-cap stocks to our portfolio*

**Anant Raj:** Anant Raj is a Delhi/NCR focused real-estate company. While it historically focused on capital intensive verticals such as commercial and retail, it plans to expand its focus area to the residential vertical. We expect Anant Raj to generate cash flows of ~Rs16b from three key residential projects alone over FY10-12 and its rental income to increase from Rs150m in FY09 to ~Rs1.7b by FY11. The stock trades at ~1.2x FY11E BV of Rs127 and 24% discount to its FY11E NAV of Rs194. We maintain Buy with a target price of Rs194.

**GVK Power:** Consolidated net profit CAGR of 73% over FY09-11E, from Rs1.1b in FY09 to Rs3.2b in FY11E driven by commissioning of projects under construction and merchant profit. The stock trades at PE of 23x FY11E. Near term triggers include monetization of RE at Mumbai airport by the end of FY10/1QFY11. Equity commitment towards projects of Rs15b is expected to be met through cash of Rs10.2b and internal accruals of Rs13b over FY11-12E.

**Nagarjuna Construction:** Earnings CAGR of 25% over FY09-11E, quotes at a reported P/E of 14.5x. Order book position at Rs139b in June 2009 is ~2.9x FY10E revenue of Rs48.6. EBITDA margin expansion possible (factored-in 70bp over FY09-11E). In 1QFY10, NCC reported EBITDA margin expansion of 90bp to 10.3% beating our assumptions of 9.7% for FY10 and FY11. Value unlocking is possible in BOT projects (excluding real estate), in which it invested Rs3.8b.

**Deccan Chronicle:** DCHL has consolidated its position as leader in English dailies in south India with circulation exceeding 1.3m. DCHL is best placed to gain from a 40% decline in newsprint prices in FY10 due to 100% import content. DCHL has addressed some investor concerns regarding high debtor days (down from 201 days in FY07 to 87 in FY09), increase in dividend payout (from 17% in FY07 to 40% in FY09), lower transfer of ad revenues to Sieger Solutions and intent to cancel the CCPS allotted to promoters of Sieger Solutions. PAT CAGR of 51%, rising probability of increased ad revenue growth, likely value unlocking from Deccan Chargers stake sale make the stock attractive at 10x FY11E EPS of Rs12.6.

**Dewan Housing Finance:** DHFL has been one of the fastest growing housing finance companies in the past five years. Its loan book and disbursements posted CAGR of 39% and 37% respectively over FY04-09. We expect disbursements and loan book to register a CAGR of 30%+ over the next two years. DHFL offers a combination of value and growth. We expect earnings CAGR of 26% over FY09-11. We expect RoA to improve to 2% by FY11 and RoE to remain at 21% during FY09-11. Adjusting for the value of key investments at a 20% discount (Rs19/share), the stock trades at an attractive valuation of 1x FY11E BV and 5.2x FY11E EPS.

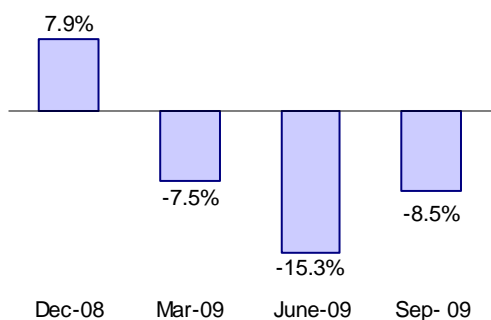


## MOSL MODEL PORTFOLIO

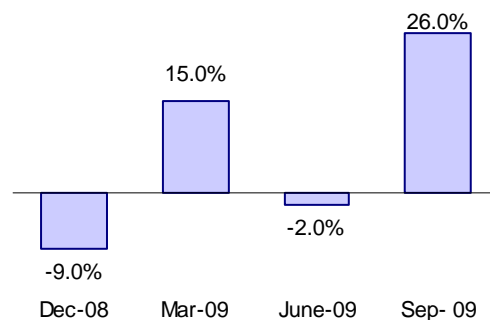
SECTOR WEIGHT / PORTFOLIO PICKS	BSE-100	MOST WEIGHT	WEIGHT RELATIVE TO BSE-100	EFFECTIVE SECTOR STANCE
<b>Banks</b>	<b>21.7</b>	<b>22.0</b>	<b>0.3</b>	<b>Overweight</b>
SBI	3.5	6.0	2.5	Buy
ICICI Bank	5.3	6.0	0.7	Buy
Bank of Baroda	0.5	3.0	2.5	Buy
HDFC Bank	3.3	3.0	-0.3	Neutral
Union Bank	0.3	2.0	1.7	Buy
Axis Bank	1.1	2.0	0.9	Buy
<b>Infrastructure &amp; Surrogate</b>	<b>15.5</b>	<b>16.0</b>	<b>0.5</b>	<b>Overweight</b>
Grasim (Including Ultratech)	1.1	4.0	2.9	Buy
DLF	1.0	3.0	2.0	Buy
BHEL	2.2	3.0	0.8	Neutral
Jaiprakash Associates	1.0	3.0	2.0	Buy
Larsen & Toubro	5.0	3.0	-2.0	Neutral
<b>Oil &amp; Gas</b>	<b>15.8</b>	<b>14.0</b>	<b>-1.8</b>	<b>Neutral</b>
Reliance Inds.	9.6	7.0	-2.6	Buy
ONGC	2.8	3.0	0.2	Neutral
IOC	0.5	2.0	1.5	Buy
BPCL	0.5	2.0	1.5	Buy
<b>Information Technology</b>	<b>9.7</b>	<b>9.0</b>	<b>-0.7</b>	<b>Neutral</b>
Infosys Tech	6.3	4.0	-2.3	Neutral
TCS	1.6	3.0	1.4	Buy
Patni Computers	0.0	2.0	2.0	Buy
<b>Auto</b>	<b>5.1</b>	<b>7.0</b>	<b>1.9</b>	<b>Overweight</b>
Hero Honda	0.9	3.0	2.1	Buy
Mahindra & Mahindra	1.0	2.0	1.0	Buy
Bajaj Auto	0.6	2.0	1.4	Buy
<b>Telecom</b>	<b>5.1</b>	<b>7.0</b>	<b>1.9</b>	<b>Overweight</b>
Bharti Airtel	3.2	5.0	1.8	Buy
Reliance Comm	1.2	2.0	0.8	Buy
<b>Pharmaceuticals</b>	<b>3.3</b>	<b>6.0</b>	<b>2.7</b>	<b>Overweight</b>
Cipla	0.7	2.0	1.3	Buy
Piramal Healthcare	0.0	2.0	2.0	Buy
Lupin	0.0	2.0	2.0	Buy
<b>Utilities</b>	<b>6.8</b>	<b>5.0</b>	<b>-1.8</b>	<b>Underweight</b>
NTPC	1.5	2.0	0.5	Neutral
Jindal Steel & Power	1.4	3.0	1.6	Buy
<b>FMCG</b>	<b>6.6</b>	<b>5.0</b>	<b>-1.6</b>	<b>Underweight</b>
ITC	3.6	3.0	-0.6	Buy
United Spirits	0.3	2.0	1.7	Buy
<b>Metals</b>	<b>6.1</b>	<b>4.0</b>	<b>-2.1</b>	<b>Underweight</b>
Sesa Goa	0.6	2.0	1.4	Buy
Sterlite	1.6	2.0	0.4	Buy
<b>Others</b>	<b>4.3</b>	<b>5.0</b>	<b>0.7</b>	<b>-</b>
GVK Power	0.0	1.0	1.0	Buy
Dewan Housing	0.0	1.0	1.0	Buy
Deccan Chronicle	0.0	1.0	1.0	Buy
Nagarjuna Construction	0.0	1.0	1.0	Buy
Anant Raj Industries	0.0	1.0	1.0	Buy
<b>Cash</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	
<b>Total</b>	<b>100.0</b>	<b>100.0</b>		

### MOSL Universe: 2QFY10 aggregate performance highlights

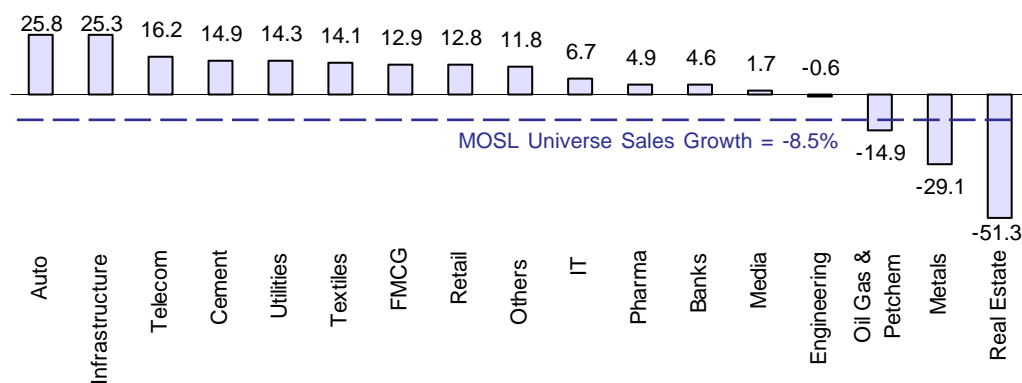
QUARTER-WISE SALES GROWTH (% YOY)



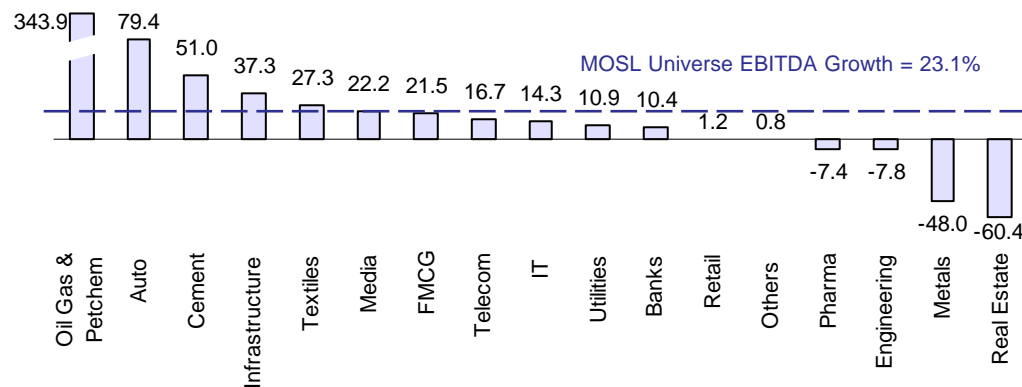
QUARTER-WISE NET PROFIT GROWTH (% YOY)



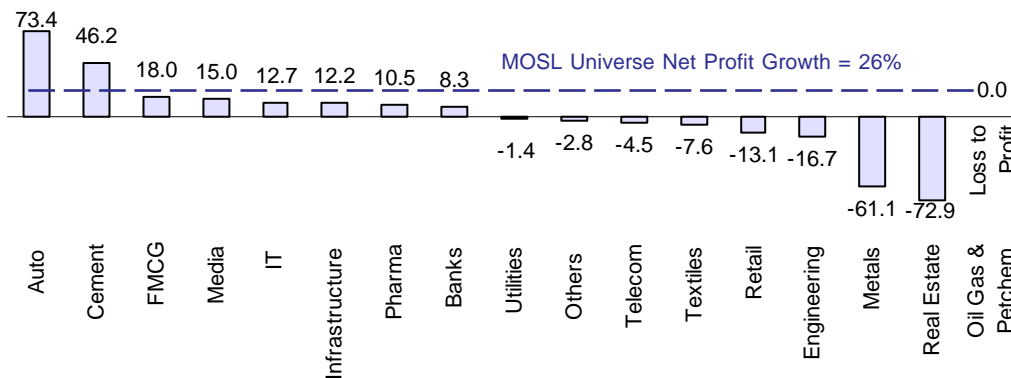
SECTORAL SALES GROWTH - QUARTER ENDED SEPTEMBER 2009 (%)



SECTORAL EBITDA GROWTH - QUARTER ENDED SEPTEMBER 2009 (%)



SECTORAL NET PROFIT GROWTH - QUARTER ENDED SEPTEMBER 2009 (%)



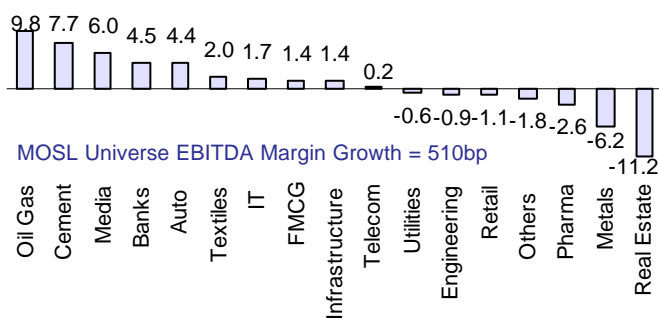
QUARTERLY PERFORMANCE - MOSL UNIVERSE

SECTOR (NO. OF COMPANIES)	EBITDA MARGIN (%)			NET PROFIT MARGIN (%)		
	SEP.08	SEP.09	CHG. (%)	SEP.08	SEP.09	CHG. (%)
Auto (5)	10.3	14.7	4.4	6.7	9.2	2.5
Banks (18)	81.2	85.7	4.5	43.5	45.1	1.5
Cement (7)	24.6	32.4	7.7	15.7	19.9	4.3
Engineering (8)	11.8	11.0	-0.9	8.0	6.7	-1.3
FMCG (12)	18.5	19.9	1.4	12.8	13.4	0.6
IT (7)	24.2	25.9	1.7	18.1	19.1	1.0
Infrastructure (5)	14.4	15.8	1.4	6.5	5.8	-0.7
Media (6)	29.9	36.0	6.0	18.8	21.2	2.5
Metals (8)	23.3	17.1	-6.2	15.3	8.4	-6.9
Oil Gas & Petchem (10)	2.3	12.2	9.8	-0.9	6.7	7.6
Pharma (13)	22.2	19.6	-2.6	12.6	13.3	0.7
Real Estate (2)	59.8	48.6	-11.2	48.5	27.0	-21.5
Retail (2)	10.8	9.7	-1.1	4.7	3.7	-1.1
Telecom (3)	38.9	39.1	0.2	22.8	18.7	-4.1
Textiles (5)	16.9	18.9	2.0	4.6	3.7	-0.9
Utilities (5)	19.5	18.9	-0.6	14.0	12.1	-1.9
Others (4)	18.4	16.6	-1.8	10.9	9.5	-1.4
<b>MOSL (120)*</b>	<b>14.7</b>	<b>19.8</b>	<b>5.1</b>	<b>8.1</b>	<b>11.1</b>	<b>3.0</b>
<b>MOSL Excl. Banks (102)</b>	<b>11.8</b>	<b>16.5</b>	<b>4.7</b>	<b>6.5</b>	<b>9.4</b>	<b>2.9</b>
<b>MOSL Excl. Metals (112)</b>	<b>13.1</b>	<b>20.2</b>	<b>7.0</b>	<b>6.7</b>	<b>11.5</b>	<b>4.7</b>
<b>MOSL Excl. RMs (117)</b>	<b>24.5</b>	<b>25.1</b>	<b>0.6</b>	<b>15.4</b>	<b>14.0</b>	<b>-1.4</b>
<b>MOSL Excl. Metals &amp; RMs (109)</b>	<b>24.8</b>	<b>26.6</b>	<b>1.8</b>	<b>15.4</b>	<b>15.1</b>	<b>-0.3</b>
<b>MOSL Excl Oil &amp; Metals (102)</b>	<b>28.3</b>	<b>28.9</b>	<b>0.6</b>	<b>17.5</b>	<b>16.7</b>	<b>-0.8</b>
<b>Sensex (30)</b>	<b>25.3</b>	<b>25.0</b>	<b>-0.3</b>	<b>16.3</b>	<b>14.0</b>	<b>-2.3</b>
<b>Sensex Excl. Metals (27)</b>	<b>27.2</b>	<b>28.0</b>	<b>0.8</b>	<b>17.5</b>	<b>16.3</b>	<b>-1.2</b>

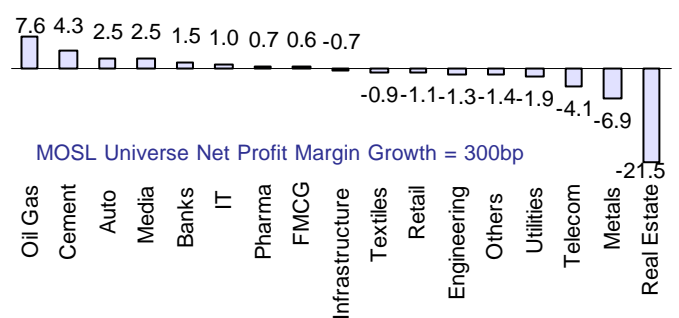
\*Tata Steel Consolidated

Source: MOSL

EBITDA MARGIN GROWTH - QUARTER ENDED SEPTEMBER 2009 (%)



NET PROFIT MARGIN GROWTH - QUARTER ENDED SEPTEMBER 2009 (%)



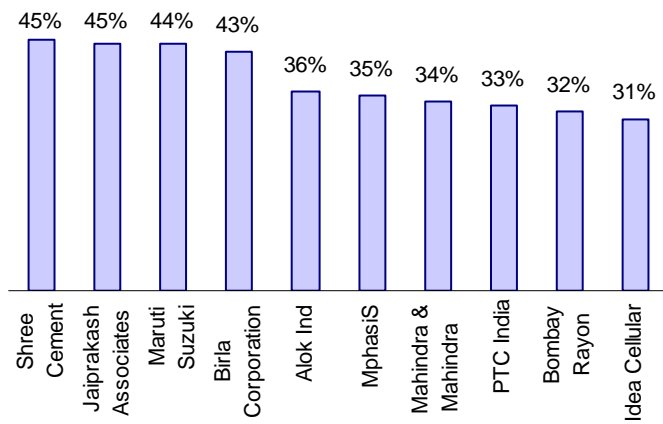
SECTORAL CONTRIBUTION TO GROWTH IN SALES, EBITDA AND NET PROFIT (%)

SECTOR	CONTRIBUTION TO SALES GR.	SECTOR	CONTRIBUTION TO EBITDA GR.	SECTOR	CONTRIBUTION TO NP GR.
Auto (5)	12.4	Oil Gas & Petchem (10)	116.5	Oil Gas & Petchem (10)	156.1
Telecom (3)	6.3	Banks (18)	10.3	Auto (5)	9.5
Utilities (5)	5.6	Auto (5)	9.8	Banks (18)	7.1
FMCG (12)	4.7	Cement (7)	6.7	Cement (7)	6.3
IT (7)	3.7	Telecom (3)	6.4	IT (7)	5.1
Cement (7)	3.2	IT (7)	4.8	FMCG (12)	3.5
Infrastructure (5)	2.9	FMCG (12)	3.7	Pharma (13)	1.4
Banks (18)	2.2	Utilities (5)	2.1	Media (6)	0.4
Pharma (13)	1.3	Infrastructure (5)	1.6	Infrastructure (5)	0.4
Textiles (5)	0.9	Textiles (5)	0.7	Others (4)	-0.1
Retail (2)	0.8	Media (6)	0.6	Textiles (5)	-0.1
Others (4)	0.7	Others (4)	0.0	Retail (2)	-0.2
Media (6)	0.1	Retail (2)	0.0	Utilities (5)	-0.3
Engineering (8)	-0.4	Pharma (13)	-1.1	Telecom (3)	-1.7
Real Estate (2)	-5.6	Engineering (8)	-1.3	Engineering (8)	-3.0
Metals (8)	-52.7	Real Estate (2)	-9.8	Real Estate (2)	-15.6
Oil Gas & Petchem (10)	-86.2	Metals (8)	-50.8	Metals (8)	-68.9

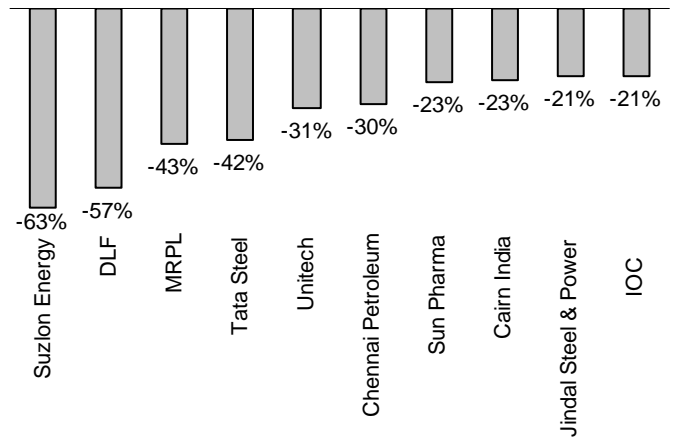
Source: MOSL

## Scoreboard (quarter ended September 2009)

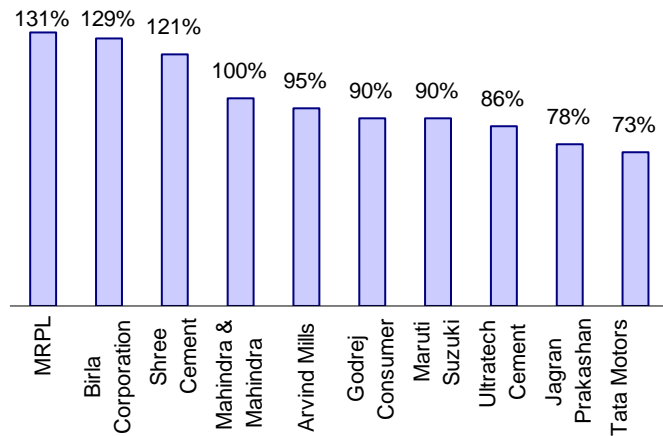
TOP 10 BY SALES GROWTH (%)



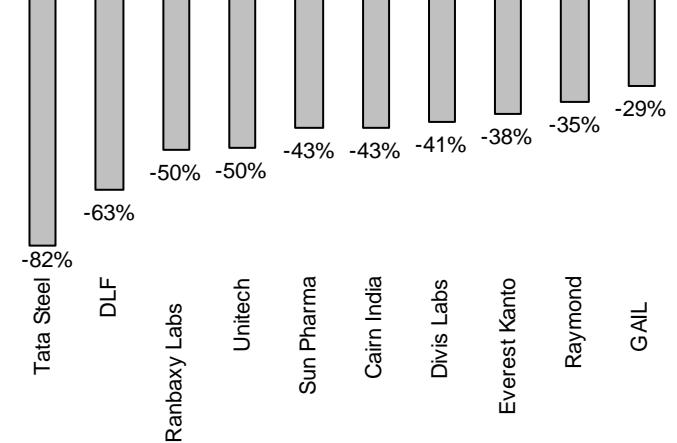
WORST 10 BY SALES GROWTH (%)



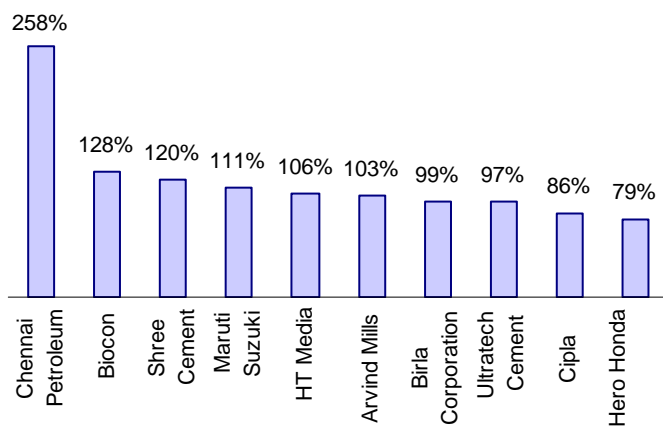
TOP 10 BY EBITDA GROWTH (%)



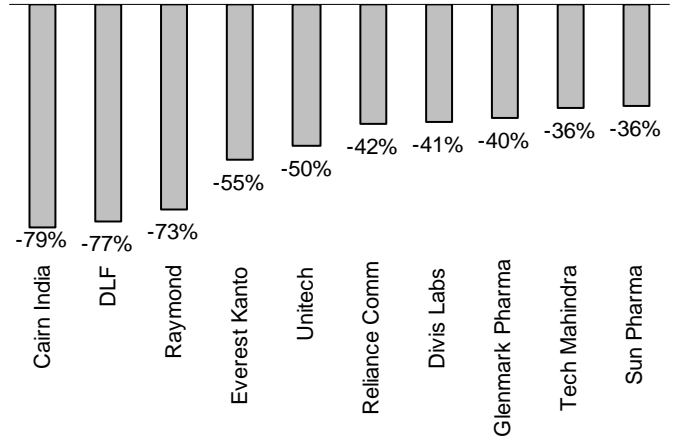
WORST 10 BY EBITDA GROWTH (%)



TOP 10 BY NET PROFIT GROWTH (%)



WORST 10 BY NET PROFIT GROWTH (%)



Source: MOSL

## ANNUAL PERFORMANCE - MOSL UNIVERSE

(RS BILLION)

	SALES					EBITDA					NET PROFIT				
	FY09	FY10E	FY11E	CHG. (%)*	CHG. (%)#	FY09	FY10E	FY11E	CHG. (%)*	CHG. (%)#	FY09	FY10E	FY11E	CHG. (%)*	CHG. (%)#
Auto (5)	807	988	1,122	22.4	13.5	80	136	147	70.2	8.5	48	84	89	72.7	7.1
Banks (18)	836	951	1,156	13.7	21.5	654	748	946	14.3	26.5	380	431	513	13.4	18.8
Cement (7)	463	533	564	15.3	5.7	119	173	156	45.1	-10.0	69	97	86	40.4	-12.0
Engineering (8)	1,148	1,276	1,483	11.1	16.2	144	170	208	18.2	22.1	103	109	130	6.3	19.3
FMCG (12)	693	739	846	6.6	14.6	131	151	173	15.7	14.4	83	98	115	18.6	16.3
IT (7)	951	1,030	1,130	8.3	9.7	238	273	295	14.6	8.4	172	199	222	15.3	11.5
Infrastructure (5)	228	299	349	31.2	16.8	33	46	52	38.5	13.3	15	20	20	35.7	1.2
Media (6)	64	70	79	8.5	12.6	20	26	31	28.0	19.7	12	15	18	24.4	20.3
Metals (8)	3,173	2,690	2,884	-15.2	7.2	518	453	590	-12.5	30.3	302	209	312	-30.6	48.9
Oil Gas (10)	8,944	8,522	8,706	-4.7	2.2	863	1,146	1,320	32.8	15.2	441	612	716	38.8	17.0
Pharma (13)	446	484	548	8.5	13.1	93	95	111	2.0	16.9	48	66	78	36.6	18.3
Real Estate (2)	129	108	127	-16.7	17.5	71	56	64	-20.8	14.6	56	35	42	-38.0	22.4
Retail (2)	101	118	138	16.0	17.4	10	11	12	8.4	15.3	3	4	5	7.2	29.2
Telecom (3)	701	940	958	34.2	2.0	273	320	384	17.3	19.8	155	165	194	6.0	17.9
Textiles (5)	122	142	165	16.3	16.3	18	25	30	37.4	19.4	1	4	8	604.9	87.0
Utilities (5)	684	811	915	18.6	12.7	130	183	208	40.8	13.7	107	117	130	9.5	11.1
Others (4)	115	130	150	12.5	15.5	21	22	28	9.3	24.1	11	13	17	12.6	30.1
<b>MOSL (120)</b>	<b>19,607</b>	<b>19,832</b>	<b>21,319</b>	<b>1.1</b>	<b>7.5</b>	<b>3,415</b>	<b>4,033</b>	<b>4,755</b>	<b>18.1</b>	<b>17.9</b>	<b>2,008</b>	<b>2,279</b>	<b>2,695</b>	<b>13.5</b>	<b>18.3</b>
<b>Ex. Banks</b>	<b>18,770</b>	<b>18,881</b>	<b>20,163</b>	<b>0.6</b>	<b>6.8</b>	<b>2,761</b>	<b>3,286</b>	<b>3,809</b>	<b>19.0</b>	<b>15.9</b>	<b>1,628</b>	<b>1,848</b>	<b>2,182</b>	<b>13.5</b>	<b>18.1</b>
<b>Ex. Metals</b>	<b>16,434</b>	<b>17,141</b>	<b>18,435</b>	<b>4.3</b>	<b>7.5</b>	<b>2,898</b>	<b>3,581</b>	<b>4,165</b>	<b>23.6</b>	<b>16.3</b>	<b>1,706</b>	<b>2,070</b>	<b>2,383</b>	<b>21.3</b>	<b>15.2</b>
<b>Ex. RMs</b>	<b>14,133</b>	<b>15,222</b>	<b>16,732</b>	<b>7.7</b>	<b>9.9</b>	<b>3,290</b>	<b>3,821</b>	<b>4,540</b>	<b>16.1</b>	<b>18.8</b>	<b>1,971</b>	<b>2,156</b>	<b>2,586</b>	<b>9.4</b>	<b>19.9</b>
<b>Ex. Met.&amp;RMs</b>	<b>10,960</b>	<b>12,531</b>	<b>13,848</b>	<b>14.3</b>	<b>10.5</b>	<b>2,773</b>	<b>3,368</b>	<b>3,950</b>	<b>21.5</b>	<b>17.3</b>	<b>1,670</b>	<b>1,947</b>	<b>2,275</b>	<b>16.6</b>	<b>16.8</b>
<b>Sensex (30)</b>	<b>9,540</b>	<b>10,353</b>	<b>10,960</b>	<b>8.5</b>	<b>5.9</b>	<b>2,235</b>	<b>2,565</b>	<b>3,011</b>	<b>14.8</b>	<b>17.4</b>	<b>1,345</b>	<b>1,439</b>	<b>1,767</b>	<b>6.9</b>	<b>22.8</b>
<b>Sensex Ex.Met.</b>	<b>7,645</b>	<b>8,852</b>	<b>9,324</b>	<b>15.8</b>	<b>5.3</b>	<b>1,973</b>	<b>2,396</b>	<b>2,745</b>	<b>21.5</b>	<b>14.6</b>	<b>1,201</b>	<b>1,382</b>	<b>1,634</b>	<b>15.0</b>	<b>18.3</b>

\* Growth FY10 over FY09; # Growth FY11 over FY10. For Banks : Sales = Net Interest Income, EBITDA = Operating Profits; Tata Steel Figures are consolidated including corus

## VALUATIONS - MOSL UNIVERSE

SECTOR	P/E			EV/EBITDA			P/BV			ROE			DIV. YLD (%)	EARN. CAGR
	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(%)	(%)			
(NO. OF COMPANIES)	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09 (FY11-09)	
Auto (5)	32.5	18.8	17.6	19.0	11.2	9.9	5.6	4.6	3.8	17.2	24.3	21.7	0.9	36.0
Banks (18)	14.6	12.9	10.9	2.6	2.3	2.0	2.6	2.3	2.0	17.9	17.5	18.0	1.5	16.1
Cement (7)	11.2	8.0	9.0	6.8	4.1	4.1	2.6	2.0	1.7	23.0	25.1	18.6	1.5	11.2
Engineering (8)	27.8	26.2	22.0	19.9	17.0	14.0	7.0	5.7	4.8	25.1	21.7	22.1	0.7	12.6
FMCG (12)	28.4	23.9	20.6	18.0	15.4	13.3	8.6	7.6	6.5	30.3	31.6	31.7	2.2	17.5
IT (7)	22.0	19.1	17.1	15.4	13.1	11.6	6.2	4.9	4.0	28.4	25.8	23.5	0.9	13.4
Infrastructure (5)	30.4	22.4	22.2	18.7	13.4	12.0	3.7	2.9	2.6	12.3	13.0	11.8	0.5	17.2
Media (6)	26.9	21.6	18.0	16.2	12.3	9.9	4.0	3.7	3.3	15.0	16.9	18.1	1.0	22.3
Metals (8)	10.8	15.6	10.5	7.6	9.1	7.0	2.4	2.0	1.7	22.0	12.9	16.6	1.2	1.6
Oil Gas & Petchem (10)	18.5	13.3	11.4	10.4	7.9	6.8	2.6	2.2	1.9	14.2	16.4	16.4	1.4	27.4
Pharma (13)	29.9	21.9	18.5	16.3	15.8	13.2	4.8	4.1	3.5	16.0	18.6	19.0	1.0	27.1
Real Estate (2)	17.7	28.6	23.4	17.3	20.1	17.1	3.3	2.6	2.4	18.7	9.1	10.1	0.3	-12.9
Retail (2)	33.7	31.4	24.3	13.5	12.4	10.7	4.6	3.8	3.3	13.8	12.0	13.4	0.6	17.7
Telecom (3)	15.6	14.8	12.5	10.1	8.6	7.0	3.0	2.6	2.1	19.1	17.8	17.1	0.4	11.8
Textiles (5)	97.6	13.8	7.4	9.3	7.2	5.9	0.8	0.7	0.7	0.8	5.4	9.4	0.9	263.1
Utilities (5)	22.4	20.5	18.4	18.7	13.7	12.7	2.9	2.6	2.4	12.9	12.7	13.0	1.5	10.3
Others (4)	13.8	12.3	9.4	8.4	7.3	5.6	3.0	2.5	2.1	21.4	20.3	22.0	1.0	21.0
<b>MOSL (120)</b>	<b>18.3</b>	<b>16.1</b>	<b>13.6</b>	<b>N.M</b>	<b>N.M</b>	<b>N.M</b>	<b>3.3</b>	<b>2.8</b>	<b>2.4</b>	<b>18.1</b>	<b>17.3</b>	<b>17.6</b>	<b>1.2</b>	<b>15.8</b>
<b>Excl. Banks</b>	<b>19.1</b>	<b>16.9</b>	<b>14.3</b>	<b>12.1</b>	<b>10.2</b>	<b>8.7</b>	<b>3.5</b>	<b>2.9</b>	<b>2.5</b>	<b>18.2</b>	<b>17.3</b>	<b>17.5</b>	<b>1.2</b>	<b>15.8</b>
<b>Excl. Metals</b>	<b>19.6</b>	<b>16.2</b>	<b>14.0</b>	<b>N.M</b>	<b>N.M</b>	<b>N.M</b>	<b>3.4</b>	<b>2.9</b>	<b>2.5</b>	<b>17.6</b>	<b>18.0</b>	<b>17.7</b>	<b>1.2</b>	<b>18.2</b>
<b>Excl. RMs</b>	<b>18.0</b>	<b>16.5</b>	<b>13.7</b>	<b>N.M</b>	<b>N.M</b>	<b>N.M</b>	<b>3.4</b>	<b>2.9</b>	<b>2.5</b>	<b>19.0</b>	<b>17.5</b>	<b>17.9</b>	<b>1.2</b>	<b>14.5</b>
<b>Excl. Metals&amp;RMs</b>	<b>19.3</b>	<b>16.6</b>	<b>14.2</b>	<b>N.M</b>	<b>N.M</b>	<b>N.M</b>	<b>3.6</b>	<b>3.0</b>	<b>2.6</b>	<b>18.5</b>	<b>18.2</b>	<b>18.1</b>	<b>1.2</b>	<b>16.7</b>
<b>Sensex (30)</b>	<b>19.8</b>	<b>19.1</b>	<b>15.2</b>	<b>N.M</b>	<b>N.M</b>	<b>N.M</b>	<b>3.8</b>	<b>3.2</b>	<b>2.8</b>	<b>19.3</b>	<b>17.0</b>	<b>18.4</b>	<b>1.1</b>	<b>14.6</b>
<b>Sensex Excl. Metals</b>	<b>21.4</b>	<b>18.4</b>	<b>15.4</b>	<b>N.M</b>	<b>N.M</b>	<b>N.M</b>	<b>3.9</b>	<b>3.3</b>	<b>2.8</b>	<b>18.4</b>	<b>18.0</b>	<b>18.4</b>	<b>1.0</b>	<b>16.6</b>

N.M. - Not Meaningful

Source: MOSL

## Ready reckoner: quarterly performance

	CMP (RS) 25.9.09	RECO	SALES			EBITDA			NET PROFIT		
			SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
			RS M	% YOY	% QOQ	RS M	% YOY	% QOQ	RS M	% YOY	% QOQ
<b>Automobiles</b>											
Bajaj Auto	1,447	Buy	29,033	13.9	24.2	5,866	70.6	28.8	3,861	69.8	24.4
Hero Honda	1,651	Buy	41,336	29.6	8.5	7,082	67.6	10.9	5,481	78.9	9.6
Mahindra & Mahindra	849	Buy	41,506	34.2	-1.9	5,854	99.9	-3.9	4,136	47.5	3.2
Maruti Suzuki	1,641	Buy	72,148	44.5	11.1	9,790	89.8	23.4	6,260	111.4	7.3
Tata Motors	593	Neutral	78,392	11.5	23.4	9,982	73.5	37.1	4,319	55.9	121.6
<b>Sector Aggregate</b>			<b>262,414</b>	<b>25.8</b>	<b>13.0</b>	<b>38,574</b>	<b>79.4</b>	<b>19.6</b>	<b>24,057</b>	<b>73.4</b>	<b>20.9</b>
<b>Cement</b>											
ACC	817	Neutral	20,072	11.2	-3.6	6,332	44.5	-13.7	4,067	43.5	-16.3
Ambuja Cements	98	Neutral	16,642	18.7	-9.9	4,874	19.1	1.6	3,189	27.5	-1.8
Birla Corporation	286	Buy	5,316	43.0	8.4	1,779	128.9	1.3	1,187	98.8	-23.6
Grasim Industries	2,834	Buy	29,322	9.2	-3.7	8,781	51.6	-0.8	5,496	31.0	1.9
India Cements	134	Buy	9,630	1.8	1.0	2,997	3.3	4.7	1,440	-6.9	10.6
Shree Cement	1,638	Buy	9,136	45.2	-1.0	4,031	120.5	-5.2	2,532	119.9	-14.0
Ultratech Cement	751	Buy	15,982	14.5	-18.2	5,532	86.4	-22.8	3,238	97.2	-22.5
<b>Sector Aggregate</b>			<b>106,100</b>	<b>14.9</b>	<b>-6.0</b>	<b>34,326</b>	<b>51.0</b>	<b>-7.3</b>	<b>21,148</b>	<b>46.2</b>	<b>-9.9</b>
<b>Engineering</b>											
ABB	782	Neutral	16,741	10.2	11.2	1,590	17.9	24.2	1,011	9.1	20.9
Bharat Electronics	1,415	Neutral	9,460	21.2	5.0	1,946	19.7	137.1	1,522	23.0	109.3
BHEL	2,246	Neutral	66,222	24.0	18.3	9,646	19.7	86.9	7,556	11.5	60.6
Crompton Greaves	316	Neutral	12,272	13.0	4.6	1,669	16.3	-4.1	1,045	13.0	-8.9
Larsen & Toubro	1,646	Neutral	85,956	11.8	16.7	8,252	11.4	4.9	5,843	16.8	1.0
Siemens	558	Neutral	24,423	-0.9	27.4	2,829	-17.7	10.0	1,915	-14.9	14.1
Suzlon Energy	92	Neutral	15,558	-62.8	33.7	-623	PL	-	-3,410	PL	-
Thermax	554	Neutral	6,354	-19.6	18.2	716	-10.4	3.9	474	-16.8	1.9
<b>Sector Aggregate</b>			<b>236,986</b>	<b>-0.6</b>	<b>17.6</b>	<b>26,025</b>	<b>-7.8</b>	<b>41.5</b>	<b>15,957</b>	<b>-16.7</b>	<b>41.0</b>
<b>FMCG</b>											
Asian Paints	1,378	Neutral	17,114	16.0	17.2	2,807	34.4	1.8	1,733	30.9	-1.6
Britannia	1,528	Buy	9,476	13.0	29.6	753	12.3	25.7	617	3.5	13.6
Colgate	619	Buy	4,781	15.9	2.2	956	39.0	-22.0	836	31.7	-18.6
Dabur	142	Buy	8,450	22.3	13.8	1,655	32.6	40.0	1,295	20.1	41.7
Godrej Consumer	245	Buy	4,106	18.5	-6.4	755	90.4	-12.6	603	73.5	-13.5
GSK Consumer	1,167	Buy	5,350	26.6	14.1	830	31.6	11.3	655	23.5	18.7
Hind. Unilever	259	Neutral	44,192	7.5	-1.9	6,540	16.9	-8.5	4,944	12.9	-7.9
ITC	235	Buy	42,450	9.9	2.7	14,475	19.1	4.3	9,400	17.1	7.0
Marico	92	Buy	7,091	17.5	1.8	943	27.6	-2.2	602	27.7	0.3
Nestle	2,236	Buy	13,218	19.3	9.3	2,710	30.8	3.5	1,786	34.8	0.3
Tata Tea	912	Neutral	12,783	6.5	0.3	1,406	-2.0	-9.2	732	-11.0	-6.0
United Spirits	912	Buy	11,366	26.0	-8.5	2,012	12.4	-9.3	961	2.4	-9.0
<b>Sector Aggregate</b>			<b>180,377</b>	<b>12.9</b>	<b>3.9</b>	<b>35,843</b>	<b>21.5</b>	<b>0.3</b>	<b>24,165</b>	<b>18.0</b>	<b>1.3</b>





## Ready reckoner: quarterly performance

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT			
			25.9.09	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
			RS M	% YOY	% QOQ	RS M	% YOY	% QOQ	RS M	% YOY	% QOQ	
<b>Information Technology</b>												
HCL Technologies	336	Buy	29,669	25.6	2.0	6,309	25.2	1.0	2,710	-19.7	-12.4	
Infosys	2,245	Neutral	56,311	3.9	2.9	19,187	7.0	2.7	15,223	6.3	-0.3	
Mphasis	633	Buy	11,306	35.2	2.3	3,030	71.3	3.8	2,443	73.2	6.6	
Patni Computer	424	Buy	8,077	-5.2	4.5	1,729	23.6	4.8	1,140	1.0	-16.7	
TCS	587	Buy	73,359	5.5	1.8	20,322	11.7	3.6	15,578	23.5	2.5	
Tech Mahindra	936	Neutral	11,309	-2.9	1.6	2,965	-9.1	5.7	1,499	-36.3	6.9	
Wipro	567	Neutral	66,072	3.1	4.6	12,699	22.4	4.4	10,337	25.7	-3.2	
<b>Sector Aggregate</b>			<b>256,104</b>	<b>6.7</b>	<b>2.9</b>	<b>66,240</b>	<b>14.3</b>	<b>3.4</b>	<b>48,931</b>	<b>12.7</b>	<b>-0.8</b>	
<b>Infrastructure</b>												
Hindustan Construction	133	Neutral	8,996	28.9	-6.7	1,047	24.8	-9.0	132	LP	-52.4	
IVRCL Infra.	383	Buy	13,901	22.3	28.0	1,293	41.6	29.8	537	-10.7	52.9	
Jaiprakash Associates	237	Buy	17,092	44.5	-17.3	5,325	53.1	-1.7	2,218	9.2	1.7	
Nagarjuna Construction	146	Buy	11,635	10.2	16.3	1,164	7.3	12.8	477	12.8	24.8	
Simplex Infra.	486	Buy	11,980	19.2	8.0	1,199	21.3	7.3	352	16.4	37.3	
<b>Sector Aggregate</b>			<b>63,604</b>	<b>25.3</b>	<b>2.1</b>	<b>10,027</b>	<b>37.3</b>	<b>3.2</b>	<b>3,715</b>	<b>12.2</b>	<b>7.7</b>	
<b>Media</b>												
Deccan Chronicle	123	Buy	2,225	-1.7	2.7	1,057	36.7	-0.2	655	44.7	-14.9	
HT Media	126	Neutral	3,375	1.0	0.7	648	62.5	-6.2	335	105.8	-9.2	
Jagran Prakashan	106	Neutral	2,250	7.8	-3.0	675	77.7	-4.3	401	76.5	-19.1	
Sun TV	328	Neutral	2,930	23.2	1.9	2,227	26.3	-0.4	1,171	23.1	-2.3	
TV Today	95	Buy	610	-8.8	-14.1	116	-4.8	-40.6	93	22.9	-44.3	
Zee Entertainment	236	Neutral	5,345	-6.5	12.3	1,295	-13.0	10.7	901	-26.4	-11.6	
<b>Sector Aggregate</b>			<b>16,735</b>	<b>1.7</b>	<b>3.4</b>	<b>6,018</b>	<b>22.2</b>	<b>-0.6</b>	<b>3,555</b>	<b>15.0</b>	<b>-11.5</b>	
<b>Metals</b>												
Hindalco	127	Sell	51,227	-9.9	31.7	7,707	-22.4	25.4	5,081	-29.4	50.5	
Hindustan Zinc	820	Buy	16,116	-10.0	6.6	8,310	-15.4	8.2	8,130	-15.3	13.1	
Jindal Steel & Power	597	Buy	17,438	-21.3	10.6	6,231	-27.1	11.5	3,541	-33.6	18.0	
JSW Steel	810	Buy	39,075	-8.5	-0.2	11,156	2.3	49.4	4,226	-13.9	149.1	
Nalco	346	Sell	13,275	-13.6	41.9	5,087	-20.6	203.9	3,740	-15.9	195.8	
Sterlite Inds.	750	Buy	55,808	-18.1	21.9	14,595	-21.2	43.0	10,722	-16.7	59.4	
SAIL	169	Sell	108,259	-11.5	18.3	27,524	-25.6	64.3	17,884	-27.5	50.2	
Tata Steel	499	Neutral	256,964	-41.9	10.3	14,846	-82.0	LP	-6,482	PL	-	
<b>Sector Aggregate</b>			<b>558,162</b>	<b>-29.1</b>	<b>14.2</b>	<b>95,456</b>	<b>-48.0</b>	<b>72.9</b>	<b>46,842</b>	<b>-61.1</b>	<b>206.9</b>	
<b>Oil &amp; Gas</b>												
BPCL	580	Buy	307,930	-18.6	20.8	15,607	LP	109.4	9,067	LP	47.6	
Cairn India	261	Buy	2,477	-22.8	20.8	1,423	-42.7	7.7	664	-78.8	-68.2	
Chennai Petroleum	247	Buy	72,049	-29.9	27.3	2,455	LP	-47.5	946	257.8	-62.4	
GAIL	354	Buy	63,596	3.8	5.6	10,109	-29.4	-5.1	6,629	-35.2	1.1	
HPCL	403	Buy	296,027	-16.5	22.3	16,001	LP	47.1	8,889	LP	36.9	
Indraprastha Gas	165	Neutral	2,578	19.8	10.9	917	7.8	8.1	503	0.2	4.3	
IOC	684	Buy	679,942	-21.2	16.0	44,208	LP	6.8	26,796	LP	-27.2	
MRPL	86	Sell	76,908	-42.7	24.7	3,258	131.0	-48.0	1,600	4.8	-56.5	
ONGC	1,157	Neutral	156,511	-10.1	5.2	90,798	7.9	-4.4	49,741	3.4	2.6	
Reliance Inds.	2,130	Buy	487,762	8.9	22.9	75,989	17.4	19.0	38,031	-7.7	1.7	
<b>Sector Aggregate</b>			<b>2,145,779</b>	<b>-14.9</b>	<b>18.4</b>	<b>260,764</b>	<b>343.9</b>	<b>7.6</b>	<b>142,868</b>	<b>LP</b>	<b>-5.2</b>	

Tata Steel and Sterlite numbers are consolidated



## Ready reckoner: quarterly performance

	CMP (RS) 25.9.09	RECO	SALES			EBITDA			NET PROFIT		
			SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
			RS M	% YOY	% QOQ	RS M	% YOY	% QOQ	RS M	% YOY	% QOQ
<b>Pharmaceuticals</b>											
Aventis Pharma	1,522	Buy	2,525	1.9	1.1	500	4.4	-5.5	460	3.0	-2.4
Biocon	258	Buy	5,266	19.0	6.2	1,024	23.4	1.0	575	128.3	0.7
Cadila Health	519	Buy	9,274	22.6	2.6	2,138	27.2	5.0	1,213	25.7	-3.4
Cipla	267	Neutral	15,752	16.3	14.5	3,943	25.0	7.0	2,823	86.4	16.8
Divis Labs	569	Buy	2,673	-19.1	29.9	964	-40.8	44.5	800	-41.4	35.1
Dr Reddy' s Labs	986	Buy	16,640	3.0	-8.5	2,746	18.0	-27.1	1,797	48.2	5.1
Glenmark Pharma	227	Neutral	5,787	3.2	6.4	1,413	-16.6	16.4	564	-40.2	5.5
GSK Pharma	1,578	Buy	5,114	11.7	11.8	1,775	9.0	9.0	1,415	7.3	7.5
Jubilant Organosys	223	Buy	9,800	4.2	9.3	1,650	-6.9	4.5	548	LP	-56.5
Lupin	1,135	Buy	11,055	18.3	1.8	1,917	7.2	-1.3	1,439	24.5	2.7
Piramal Healthcare	383	Buy	9,670	8.7	17.7	1,873	2.6	20.3	1,075	31.7	26.3
Ranbaxy Labs	410	Neutral	18,673	0.8	-1.5	715	-50.3	-41.1	193	24.0	-62.2
Sun Pharma	1,311	Buy	9,066	-23.0	15.1	3,078	-42.8	139.4	3,255	-36.2	98.7
<b>Sector Aggregate</b>			<b>121,297</b>	<b>4.9</b>	<b>5.1</b>	<b>23,736</b>	<b>-7.4</b>	<b>7.3</b>	<b>16,158</b>	<b>10.5</b>	<b>11.2</b>
<b>Real Estate</b>											
DLF	427	Buy	16,268	-56.6	-1.4	8,118	-63.4	9.1	4,444	-77.0	12.2
Unitech	109	Neutral	6,760	-31.2	31.3	3,076	-49.5	-2.4	1,783	-50.3	13.0
<b>Sector Aggregate</b>			<b>23,028</b>	<b>-51.3</b>	<b>6.4</b>	<b>11,194</b>	<b>-60.4</b>	<b>5.7</b>	<b>6,227</b>	<b>-72.9</b>	<b>12.4</b>
<b>Retailing</b>											
Pantaloon Retail	338	Buy	16,926	12.0	1.8	1,591	2.7	-13.2	301	-16.7	-17.4
Titan Industries	1,236	Neutral	12,410	14.0	40.5	1,252	-0.7	154.2	770	-11.7	219.9
<b>Sector Aggregate</b>			<b>29,336</b>	<b>12.8</b>	<b>15.2</b>	<b>2,843</b>	<b>1.2</b>	<b>22.3</b>	<b>1,071</b>	<b>-13.1</b>	<b>76.9</b>
<b>Telecom</b>											
Bharti Airtel	414	Buy	103,011	14.2	3.6	43,055	16.4	3.7	25,212	23.2	0.2
Idea Cellular	76	Neutral	30,157	30.9	1.3	8,227	35.6	-4.3	1,982	37.5	-33.3
Reliance Comm	302	Buy	64,029	13.4	4.2	25,854	12.3	5.4	9,662	-42.3	-44.2
<b>Sector Aggregate</b>			<b>197,197</b>	<b>16.2</b>	<b>3.4</b>	<b>77,136</b>	<b>16.7</b>	<b>3.3</b>	<b>36,856</b>	<b>-4.7</b>	<b>-18.9</b>
<b>Textiles</b>											
Alok Ind	23	Buy	9,493	36.0	20.7	2,582	50.3	20.1	374	-17.4	16.8
Arvind Mills	38	Neutral	6,872	18.3	1.5	907	95.2	3.1	75	103.3	-12.2
Bombay Rayon	221	Buy	3,800	32.4	13.0	912	32.8	14.6	402	9.5	7.8
Raymond	215	Buy	3,489	-19.5	48.6	328	-34.7	LP	64	-72.5	LP
Vardhman Textiles	171	Buy	6,580	1.1	6.1	977	-12.1	-10.8	211	63.3	-26.6
<b>Sector Aggregate</b>			<b>30,233</b>	<b>14.1</b>	<b>13.9</b>	<b>5,706</b>	<b>27.3</b>	<b>17.5</b>	<b>1,126</b>	<b>-7.6</b>	<b>40.8</b>
<b>Utilities</b>											
CESC	388	Neutral	7,852	4.0	-2.9	1,570	-16.0	-17.3	880	-6.4	-16.2
NTPC	213	Neutral	110,140	14.0	-8.2	28,636	12.4	-9.8	18,121	-0.8	-17.5
PTC India	88	Buy	27,085	33.3	14.2	164	16.9	11.7	351	5.0	-3.7
Reliance Infrastructure	1,207	Buy	27,947	13.0	14.2	2,515	-9.3	-16.0	2,669	25.8	-15.7
Tata Power	1,284	Neutral	19,981	2.0	-0.9	3,597	35.9	-43.1	1,283	-34.8	-37.5
<b>Sector Aggregate</b>			<b>193,005</b>	<b>14.3</b>	<b>-1.8</b>	<b>36,483</b>	<b>10.9</b>	<b>-15.4</b>	<b>23,303</b>	<b>-1.4</b>	<b>-18.5</b>



## Ready reckoner: quarterly performance

	CMP (RS) 25.9.09	RECO	SALES			EBITDA			NET PROFIT		
			SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
			RS M	% YOY	% QOQ	RS M	% YOY	% QOQ	RS M	% YOY	% QOQ
<b>Others</b>											
Blue Star	356	Neutral	7,112	10.0	31.7	795	15.3	27.2	528	17.5	28.3
Everest Kanto	203	Neutral	1,989	-10.0	30.0	497	-38.5	47.3	235	-54.7	233.4
Sintex Inds.	248	Buy	7,918	7.9	19.5	1,307	-2.5	49.5	746	-11.0	83.8
United Phosphorous	165	Buy	13,897	19.3	-15.5	2,524	12.6	-19.5	1,433	17.4	-18.7
<b>Sector Aggregate</b>			<b>30,916</b>	<b>11.8</b>	<b>3.1</b>	<b>5,122</b>	<b>0.8</b>	<b>3.0</b>	<b>2,943</b>	<b>-2.8</b>	<b>11.0</b>

PL: Profit to Loss; LP: Loss to Profit; UR=Under Review

	CMP (RS) 25.9.09	RECO	NET INT INCOME			OPERATING PROFIT			NET PROFIT		
			SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
			RS M	% YOY	% QOQ	RS M	% YOY	% QOQ	RS M	% YOY	% QOQ
<b>Banks</b>											
Andhra Bank	104	Buy	4,753	9.7	7.7	3,978	43.0	14.3	1,976	22.5	-22.9
Axis Bank	914	Buy	11,446	25.3	9.5	11,105	27.0	-5.6	5,073	25.9	-9.7
Bank of Baroda	476	Buy	12,898	13.8	7.1	10,085	19.3	-0.1	5,111	29.3	-25.4
Bank of India	401	Neutral	13,894	1.9	6.8	14,033	15.5	28.3	7,836	2.7	34.1
Canara Bank	306	Buy	13,351	16.2	3.4	10,578	36.8	1.6	5,793	9.4	4.3
Corporation Bank	403	Buy	4,900	20.5	4.8	4,835	37.5	-15.4	2,627	37.2	0.5
Federal Bank	250	Buy	3,078	-7.2	6.1	2,782	-8.2	0.0	1,183	3.5	-13.3
HDFC	2,751	Neutral	8,615	11.8	18.6	9,059	16.7	14.4	6,396	19.7	13.2
HDFC Bank	1,609	Neutral	20,761	11.2	11.9	16,228	44.5	6.9	6,685	26.6	10.3
ICICI Bank	839	Buy	20,329	-5.3	2.4	21,479	-6.0	-15.1	8,380	-17.4	-4.6
IDFC	144	Neutral	2,500	25.1	1.0	3,729	12.4	2.1	2,648	14.0	-2.8
Indian Bank	160	Buy	7,046	3.3	-4.5	6,119	14.8	-3.0	3,421	20.9	3.1
Indian Overseas Bank	120	Sell	7,891	0.5	2.7	5,621	-6.5	31.2	2,826	-21.3	-6.3
J&K Bank	581	Buy	2,811	7.6	5.7	2,249	19.9	-12.3	1,099	-5.2	-6.1
Oriental Bank of Commerce	225	Buy	5,266	0.9	8.8	4,191	3.0	-18.9	2,545	7.5	-1.1
Punjab National Bank	786	Buy	19,493	13.8	4.7	14,929	9.1	-4.9	8,052	13.9	-3.2
State Bank	2,139	Buy	52,727	-3.3	4.9	39,982	-4.7	8.8	23,323	3.2	0.1
Union Bank	244	Buy	9,094	-6.8	13.4	8,288	18.4	5.2	4,536	25.5	2.6
<b>Sector Aggregate</b>			<b>220,853</b>	<b>4.6</b>	<b>6.2</b>	<b>189,272</b>	<b>10.4</b>	<b>1.8</b>	<b>99,511</b>	<b>8.3</b>	<b>-0.2</b>



## Ready reckoner: valuations

	CMP (RS) 25.9.09	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
<b>Automobiles</b>														
Bajaj Auto	1,447	Buy	55.0	92.1	102.9	26.3	15.7	14.1	17.2	10.0	8.8	47.2	50.5	40.2
Hero Honda	1,651	Buy	64.2	100.1	110.2	25.7	16.5	15.0	17.2	11.3	9.7	37.8	44.3	36.7
Mahindra & Mahindra	849	Buy	53.0	77.1	88.5	16.0	11.0	9.6	15.6	9.5	8.8	17.7	22.8	21.0
Maruti Suzuki	1,641	Buy	46.1	73.5	82.5	35.6	22.3	19.9	21.0	13.1	11.4	13.0	18.9	17.8
Tata Motors	593	Neutral	-34.4	-6.3	20.2	-17.3	-94.4	29.4	22.1	11.0	9.8	6.1	16.4	13.3
<b>Sector Aggregate</b>						<b>32.5</b>	<b>18.8</b>	<b>17.6</b>	<b>19.0</b>	<b>11.2</b>	<b>9.9</b>	<b>17.2</b>	<b>24.3</b>	<b>21.7</b>
<b>Cement</b>														
ACC	817	Neutral	57.9	94.4	75.0	14.1	8.7	10.9	8.2	4.7	5.6	26.0	32.5	21.1
Ambuja Cements	98	Neutral	7.4	8.7	7.8	13.2	11.3	12.6	7.9	6.5	6.7	22.1	21.7	17.0
Birla Corporation	286	Buy	42.0	70.9	60.2	6.8	4.0	4.8	3.8	1.9	1.4	25.1	30.5	21.0
Grasim Industries	2,834	Buy	238.5	337.4	311.1	11.9	8.4	9.1	6.5	3.7	3.4	21.1	23.6	16.6
India Cements	134	Buy	17.7	17.6	13.6	7.6	7.6	9.8	5.7	4.7	5.1	15.7	12.6	8.9
Shree Cement	1,638	Buy	177.5	242.5	246.2	9.2	6.8	6.7	7.0	3.7	3.4	65.7	52.6	35.7
Ultratech Cement	751	Buy	79.8	128.2	110.1	9.4	5.9	6.8	6.1	3.2	3.2	31.6	36.8	24.1
<b>Sector Aggregate</b>						<b>11.2</b>	<b>8.0</b>	<b>9.0</b>	<b>6.8</b>	<b>4.1</b>	<b>4.1</b>	<b>23.0</b>	<b>25.1</b>	<b>18.6</b>
<b>Engineering</b>														
ABB	782	Neutral	25.1	22.3	27.3	31.1	35.1	28.6	21.0	21.9	18.3	28.4	20.3	20.7
Bharat Electronics	1,415	Neutral	101.1	109.6	118.7	14.0	12.9	11.9	7.6	6.4	5.0	23.7	21.6	19.8
BHEL	2,246	Neutral	72.7	85.5	111.5	30.9	26.3	20.1	23.6	16.8	12.4	30.0	29.2	31.0
Crompton Greaves	316	Neutral	15.3	16.9	18.7	20.7	18.8	16.9	17.5	15.9	13.9	36.6	32.1	28.1
Larsen & Toubro	1,646	Neutral	51.5	58.1	64.4	32.0	28.3	25.5	26.4	23.0	20.3	24.5	20.4	18.6
Siemens	558	Neutral	15.5	19.5	17.7	36.1	28.6	31.5	23.0	15.9	17.1	28.5	24.1	16.4
Suzlon Energy	92	Neutral	6.5	2.5	4.3	14.2	36.2	21.2	9.9	11.3	9.0	11.6	4.7	7.4
Thermax	554	Neutral	24.8	22.6	20.8	22.4	24.5	26.6	15.5	16.5	17.6	35.3	27.9	23.5
<b>Sector Aggregate</b>						<b>27.8</b>	<b>26.2</b>	<b>22.0</b>	<b>19.9</b>	<b>17.0</b>	<b>14.0</b>	<b>25.1</b>	<b>21.7</b>	<b>22.1</b>
<b>FMCG</b>														
Asian Paints	1,378	Neutral	41.8	58.9	66.6	32.9	23.4	20.7	19.8	14.0	12.2	33.4	37.6	34.7
Britannia	1,528	Buy	84.2	92.3	114.1	18.2	16.5	13.4	13.9	13.8	10.7	24.4	51.5	50.6
Colgate	619	Buy	21.3	25.1	27.9	29.0	24.6	22.2	24.1	20.1	16.7	153.3	144.1	134.7
Dabur	142	Buy	4.5	5.4	6.4	31.4	26.3	22.2	25.5	20.3	16.9	47.8	43.4	40.1
Godrej Consumer	245	Buy	6.7	9.6	11.3	36.5	25.6	21.6	30.4	19.8	16.6	30.4	37.5	38.1
GSK Consumer	1,167	Buy	44.8	60.2	72.2	26.1	19.4	16.2	18.6	13.5	11.1	24.8	27.7	27.8
Hind. Unilever	259	Neutral	9.4	10.2	11.4	27.6	25.4	22.7	18.0	18.5	16.4	121.3	93.5	92.1
ITC	235	Buy	8.6	10.2	11.6	27.1	23.1	20.3	16.8	13.9	12.2	23.8	24.4	24.2
Marico	92	Buy	3.3	3.9	4.8	27.4	23.3	18.9	19.3	15.2	12.4	44.9	37.3	33.1
Nestle	2,236	Buy	58.6	77.3	92.7	38.2	28.9	24.1	24.7	19.0	16.1	119.4	128.1	126.3
Tata Tea	912	Neutral	47.4	48.0	55.0	19.2	19.0	16.6	7.5	7.7	6.8	7.5	7.1	7.8
United Spirits	912	Buy	32.1	41.1	63.1	28.4	22.2	14.5	15.8	12.6	10.1	12.0	14.7	18.4
<b>Sector Aggregate</b>						<b>28.4</b>	<b>23.9</b>	<b>20.6</b>	<b>18.0</b>	<b>15.4</b>	<b>13.3</b>	<b>30.3</b>	<b>31.6</b>	<b>31.7</b>

## Ready reckoner: valuations

	CMP (RS) 25.9.09	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
<b>Information Technology</b>														
HCL Technologies	336	Buy	17.8	17.1	24.7	18.9	19.6	13.6	10.6	9.2	8.2	22.0	19.0	23.4
Infosys	2,245	Neutral	102.5	106.7	115.4	21.9	21.0	19.5	16.6	15.1	13.3	36.7	30.0	26.6
MphasiS	633	Buy	14.1	43.2	46.7	45.0	14.6	13.5	33.9	11.1	9.2	22.8	49.3	36.4
Patni Computer	424	Buy	28.6	34.0	41.1	14.8	12.5	10.3	7.7	5.5	4.3	13.4	14.6	15.5
TCS	587	Buy	26.2	31.7	34.4	22.4	18.5	17.1	15.6	13.4	12.1	36.4	33.8	28.7
Tech Mahindra	936	Neutral	70.6	63.0	70.2	13.3	14.9	13.3	9.5	11.7	11.9	57.6	35.5	29.5
Wipro	567	Neutral	23.6	29.0	32.2	24.0	19.6	17.6	16.1	13.1	11.5	24.6	24.9	22.4
<b>Sector Aggregate</b>						<b>22.0</b>	<b>19.1</b>	<b>17.1</b>	<b>15.4</b>	<b>13.1</b>	<b>11.6</b>	<b>28.4</b>	<b>25.8</b>	<b>23.5</b>
<b>Infrastructure</b>														
Hindustan Construction	133	Neutral	3.0	4.7	6.4	44.8	28.5	20.7	14.4	11.7	10.2	7.6	9.0	11.3
IVRCL Infra.	383	Buy	17.0	19.0	22.4	22.5	20.2	17.1	15.3	11.6	9.8	13.4	13.8	14.3
Jaiprakash Associates	237	Buy	7.6	9.9	8.4	31.3	24.1	28.2	24.0	16.2	15.0	15.9	16.1	11.6
Nagarjuna Construction	146	Buy	6.7	8.1	10.6	21.8	17.9	13.8	14.2	10.8	9.1	9.4	10.6	11.4
Simplex Infra.	486	Buy	26.6	34.4	42.8	18.2	14.1	11.4	8.9	6.6	5.8	15.9	17.4	18.3
<b>Sector Aggregate</b>						<b>30.4</b>	<b>22.4</b>	<b>22.2</b>	<b>18.7</b>	<b>13.4</b>	<b>12.0</b>	<b>12.3</b>	<b>13.0</b>	<b>11.8</b>
<b>Media</b>														
Deccan Chronicle	123	Buy	5.7	10.3	12.6	21.5	11.9	9.8	10.4	5.7	4.6	12.2	20.2	22.2
HT Media	126	Neutral	4.4	6.8	8.3	28.5	18.4	15.3	16.7	10.3	8.6	9.4	15.0	16.2
Jagran Prakashan	106	Neutral	3.0	4.8	5.6	34.9	22.0	19.1	19.8	12.4	10.5	16.4	24.3	26.0
Sun TV	328	Neutral	10.6	13.2	15.4	31.0	24.9	21.3	15.7	12.4	9.8	24.4	23.9	23.0
TV Today	95	Buy	5.8	8.6	10.4	16.4	11.1	9.1	7.9	5.4	3.8	10.5	13.8	14.7
Zee Entertainment	236	Neutral	10.1	9.0	11.2	23.5	26.3	21.0	19.4	19.1	14.9	13.9	11.0	12.9
<b>Sector Aggregate</b>						<b>26.9</b>	<b>21.6</b>	<b>18.0</b>	<b>16.2</b>	<b>12.3</b>	<b>9.9</b>	<b>15.0</b>	<b>16.9</b>	<b>18.1</b>
<b>Metals</b>														
Hindalco	127	Sell	16.8	8.6	13.5	7.6	14.8	9.4	8.2	7.4	6.4	27.5	12.4	16.5
Hindustan Zinc	820	Buy	64.6	85.6	108.9	12.7	9.6	7.5	9.2	6.1	4.1	19.0	20.3	20.7
Jindal Steel & Power	597	Buy	33.1	41.8	46.8	18.0	14.3	12.8	11.7	10.5	9.7	45.1	36.7	29.3
JSW Steel	810	Buy	52.0	65.1	67.1	15.6	12.4	12.1	9.3	7.3	7.4	12.0	14.8	13.4
Nalco	346	Sell	19.7	22.2	26.3	17.5	15.6	13.2	11.4	9.5	7.8	13.0	13.3	14.0
SAIL	169	Sell	16.6	14.0	14.9	10.2	12.1	11.4	5.8	7.2	7.2	24.0	17.3	16.0
Sterlite Inds.	750	Buy	46.8	51.8	76.8	16.0	14.5	9.8	11.5	8.0	4.8	13.0	11.7	14.9
Tata Steel	499	Neutral	101.9	-9.8	49.3	4.9	-51.0	10.1	5.2	14.9	8.4	76.7	-13.3	58.8
<b>Sector Aggregate</b>						<b>10.8</b>	<b>15.6</b>	<b>10.5</b>	<b>7.6</b>	<b>9.1</b>	<b>7.0</b>	<b>22.0</b>	<b>12.9</b>	<b>16.6</b>
<b>Oil &amp; Gas</b>														
BPCL	580	Buy	17.5	60.0	54.3	33.1	9.7	10.7	13.5	9.0	8.8	4.8	15.2	12.3
Cairn India	261	Buy	4.3	5.9	23.8	61.3	44.6	11.0	55.9	26.1	7.0	3.3	12.6	16.8
Chennai Petroleum	247	Buy	-2.9	39.6	29.7	-85.6	6.2	8.3	-33.4	4.2	4.6	-12.2	19.5	12.3
GAIL	354	Buy	22.5	22.2	25.6	15.7	16.0	13.8	10.5	10.4	9.0	19.0	16.8	17.1
HPCL	403	Buy	12.8	56.2	46.0	31.3	7.2	8.8	8.0	4.6	5.0	4.1	16.4	11.8
Indraprastha Gas	165	Neutral	11.9	14.4	13.3	13.8	11.5	12.4	7.1	5.6	5.6	26.7	27.1	21.7
IOC	684	Buy	21.8	67.3	60.3	31.4	10.2	11.3	17.2	7.5	7.0	5.8	16.7	13.2
MRPL	86	Sell	8.3	5.1	4.3	10.4	16.8	20.0	7.4	10.4	12.7	28.0	17.8	13.3
ONGC	1,157	Neutral	92.5	110.7	119.1	12.5	10.5	9.7	5.7	5.0	4.7	23.4	23.8	22.0
Reliance Inds.	2,130	Buy	117.7	133.1	177.1	18.1	16.0	12.0	15.4	10.9	8.6	16.1	15.3	17.5
<b>Sector Aggregate</b>						<b>18.5</b>	<b>13.3</b>	<b>11.4</b>	<b>10.4</b>	<b>7.9</b>	<b>6.8</b>	<b>14.2</b>	<b>16.4</b>	<b>16.4</b>



## Ready reckoner: valuations

	CMP (RS) 25.9.09	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
<b>Pharmaceuticals</b>														
Aventis Pharma	1,522	Buy	72.2	76.9	87.1	21.1	19.8	17.5	15.7	15.2	12.9	21.7	20.5	20.4
Biocon	258	Buy	4.7	12.8	15.3	55.1	20.1	16.9	16.4	11.5	10.0	6.2	15.0	15.7
Cadila Health	519	Buy	22.2	31.0	36.7	23.3	16.7	14.1	12.4	9.9	8.5	28.7	31.2	29.4
Cipla	267	Neutral	10.0	14.2	16.8	26.7	18.8	15.9	17.7	14.0	12.0	17.9	21.2	21.0
Divis Labs	569	Buy	32.2	28.6	36.6	17.7	19.9	15.6	14.3	15.9	11.9	39.6	27.0	28.0
Dr Reddy' s Labs	986	Buy	-30.7	49.6	52.7	-32.1	19.9	18.7	14.1	14.4	13.7	-12.3	17.4	16.3
GSK Pharma	1,578	Buy	52.9	60.0	70.2	29.8	26.3	22.5	21.5	18.7	16.1	29.1	29.7	31.1
Glenmark Pharma	227	Neutral	4.2	9.7	13.8	53.7	23.5	16.4	24.1	12.6	10.7	7.0	12.2	15.0
Jubilant Organosys	223	Buy	15.9	24.5	18.6	14.0	9.1	12.0	9.7	9.7	8.2	18.6	27.2	16.7
Lupin	1,135	Buy	56.9	68.4	78.5	20.0	16.6	14.5	16.3	13.4	11.6	37.1	36.6	32.7
Piramal Healthcare	383	Buy	17.1	23.0	29.5	22.3	16.6	13.0	14.7	11.3	9.0	29.7	32.0	32.0
Ranbaxy Labs	410	Neutral	2.5	0.3	4.6	166.2	1225.7	90.0	38.5	93.7	40.5	2.4	0.3	4.3
Sun Pharma	1,311	Buy	87.8	57.7	66.4	14.9	22.7	19.7	12.8	20.6	16.9	30.2	15.9	16.0
<b>Sector Aggregate</b>						<b>29.9</b>	<b>21.9</b>	<b>18.5</b>	<b>16.3</b>	<b>15.8</b>	<b>13.2</b>	<b>16.0</b>	<b>18.6</b>	<b>19.0</b>
<b>Real Estate</b>														
DLF	427	Buy	26.9	13.9	18.9	15.9	30.7	22.6	16.1	21.2	16.0	18.7	8.8	10.8
Unitech	109	Neutral	6.0	4.5	4.2	18.3	24.2	26.1	21.6	17.6	20.7	18.7	9.9	8.4
<b>Sector Aggregate</b>						<b>17.7</b>	<b>28.6</b>	<b>23.4</b>	<b>17.3</b>	<b>20.1</b>	<b>17.1</b>	<b>18.7</b>	<b>9.1</b>	<b>10.1</b>
<b>Retailing</b>														
Pantaloon Retail	338	Buy	7.4	9.0	11.5	45.8	37.8	29.6	11.7	10.8	9.7	7.2	7.2	8.4
Titan Industries	1,236	Neutral	46.3	45.2	57.6	26.7	27.4	21.5	17.2	15.5	12.6	37.5	27.8	28.1
<b>Sector Aggregate</b>						<b>33.7</b>	<b>31.4</b>	<b>24.3</b>	<b>13.5</b>	<b>12.4</b>	<b>10.7</b>	<b>13.8</b>	<b>12.0</b>	<b>13.4</b>
<b>Telecom</b>														
Bharti Airtel	414	Buy	22.3	27.8	31.5	18.6	14.9	13.1	10.8	9.0	7.7	31.4	30.2	27.4
Idea Cellular	76	Neutral	3.0	3.1	3.2	25.1	24.6	23.4	9.6	8.4	7.1	10.4	6.7	6.3
Reliance Comm	302	Buy	29.8	24.0	30.8	10.1	12.6	9.8	9.1	7.9	5.9	18.7	12.5	14.3
<b>Sector Aggregate</b>						<b>15.6</b>	<b>14.8</b>	<b>12.5</b>	<b>10.1</b>	<b>8.6</b>	<b>7.0</b>	<b>19.1</b>	<b>17.8</b>	<b>17.1</b>
<b>Textiles</b>														
Alok Ind	23	Buy	3.6	2.3	4.4	6.4	9.8	5.2	8.9	7.9	7.4	10.3	6.2	11.0
Arvind Mills	38	Neutral	-4.5	1.7	1.6	-8.3	22.6	24.2	9.1	7.0	6.6	-5.0	1.9	1.7
Bombay Rayon	221	Buy	19.8	24.7	36.0	11.2	8.9	6.1	10.0	7.0	5.1	18.8	19.3	20.7
Raymond	215	Buy	-37.2	-7.0	9.0	-5.8	-30.8	24.1	40.4	13.7	9.4	-8.7	-1.9	2.2
Vardhman Textiles	171	Buy	21.4	16.0	27.5	8.0	10.7	6.2	8.4	8.4	6.0	10.1	7.1	11.2
<b>Sector Aggregate</b>						<b>97.6</b>	<b>13.8</b>	<b>7.4</b>	<b>9.3</b>	<b>7.2</b>	<b>5.9</b>	<b>0.8</b>	<b>5.4</b>	<b>9.4</b>
<b>Utilities</b>														
CESC	388	Neutral	29.5	28.9	31.6	13.1	13.4	12.3	9.9	9.5	8.5	12.9	11.3	11.2
NTPC	213	Neutral	9.9	10.4	11.7	21.5	20.5	18.2	16.9	12.3	11.7	14.8	14.3	14.7
PTC India	88	Buy	4.3	3.9	4.6	20.6	22.6	19.0	86.9	40.1	32.4	6.4	6.3	6.4
Reliance Infra.	1,207	Buy	40.5	54.8	62.5	29.8	22.0	19.3	28.4	22.5	18.4	10.2	10.4	10.9
Tata Power	1,284	Neutral	53.7	62.5	62.7	23.9	20.5	20.5	31.8	20.2	18.2	7.0	8.3	8.9
<b>Sector Aggregate</b>						<b>22.4</b>	<b>20.5</b>	<b>18.4</b>	<b>18.7</b>	<b>13.7</b>	<b>12.7</b>	<b>12.9</b>	<b>12.7</b>	<b>13.0</b>





## Ready reckoner: valuations

	CMP (RS) 25.9.09	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
<b>Others</b>														
Blue Star	356	Neutral	20.0	23.8	27.0	17.7	15.0	13.2	11.7	9.9	8.6	57.2	49.8	43.1
Everest Kanto	203	Neutral	14.1	11.6	16.1	14.4	17.5	12.6	8.2	8.9	6.7	24.4	15.2	18.0
Sintex Inds.	248	Buy	24.0	23.3	31.2	10.3	10.7	8.0	6.5	6.1	5.0	19.8	17.3	18.6
United Phosphorous	165	Buy	10.6	13.8	18.3	15.5	11.9	9.0	8.5	6.9	4.9	20.0	21.9	24.1
<b>Sector Aggregate</b>						<b>13.8</b>	<b>12.3</b>	<b>9.4</b>	<b>8.4</b>	<b>7.3</b>	<b>5.6</b>	<b>21.4</b>	<b>20.3</b>	<b>22.0</b>

	CMP (RS) 25.9.09	RECO	EPS (RS)			P/E (X)			P/BV (X)			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
<b>Banks</b>														
Andhra Bank	104	Buy	13.5	17.5	18.4	7.7	5.9	5.6	1.4	1.2	1.1	18.9	21.7	19.9
Axis Bank	914	Buy	50.6	59.2	75.1	18.1	15.4	12.2	3.2	2.3	2.0	19.1	18.2	17.7
Bank of Baroda	476	Buy	60.9	66.8	78.4	7.8	7.1	6.1	1.5	1.3	1.1	20.9	19.5	19.7
Bank of India	401	Neutral	57.2	59.2	69.4	7.0	6.8	5.8	1.8	1.5	1.2	29.2	23.9	23.0
Canara Bank	306	Buy	50.5	62.6	70.4	6.0	4.9	4.3	1.2	1.0	0.9	22.6	23.2	21.7
Corporation Bank	403	Buy	62.2	73.9	76.8	6.5	5.5	5.3	1.2	1.0	0.9	19.6	20.0	18.0
Federal Bank	250	Buy	29.3	33.1	37.0	8.5	7.5	6.8	1.0	0.9	0.8	12.1	12.5	12.7
HDFC	2,751	Neutral	80.2	94.6	109.4	34.3	29.1	25.1	6.0	5.2	4.7	23.7	24.6	24.1
HDFC Bank	1,609	Neutral	52.8	62.8	81.9	30.5	25.6	19.6	4.5	3.5	3.1	15.6	15.8	16.6
ICICI Bank	839	Buy	33.8	34.8	45.9	24.8	24.1	18.3	1.9	1.8	1.7	10.1	10.2	12.6
IDFC	144	Neutral	5.8	7.3	8.5	24.9	19.8	17.0	3.0	2.7	2.4	12.7	14.4	15.0
Indian Bank	160	Buy	29.0	34.6	38.5	5.5	4.6	4.2	1.3	1.0	0.9	24.8	24.5	22.7
Indian Overseas Bank	120	Sell	24.3	22.4	23.7	4.9	5.4	5.1	1.1	1.0	0.8	24.8	19.0	17.5
J&K Bank	581	Buy	84.5	102.7	118.0	6.9	5.7	4.9	1.1	0.9	0.8	16.6	17.7	17.8
Oriental Bank	225	Buy	36.1	41.3	42.2	6.2	5.5	5.3	0.9	0.8	0.7	14.8	15.1	13.8
Punjab National Bank	786	Buy	98.0	108.7	123.2	8.0	7.2	6.4	1.9	1.6	1.3	25.8	23.8	22.7
State Bank	2,139	Buy	143.7	159.2	193.5	14.9	13.4	11.1	2.3	2.1	1.8	17.1	16.4	17.4
Union Bank	244	Buy	34.2	39.9	48.0	7.1	6.1	5.1	1.7	1.4	1.2	27.2	25.6	25.1
<b>Sector Aggregate</b>						<b>14.6</b>	<b>12.9</b>	<b>10.9</b>	<b>2.6</b>	<b>2.3</b>	<b>2.0</b>	<b>17.9</b>	<b>17.5</b>	<b>18.0</b>





# Sectors & Companies

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

## Automobiles

BSE Sensex: 16,693

S&amp;P CNX: 4,959

25 September 2009

## COMPANY NAME

Bajaj Auto

Hero Honda

Mahindra &amp; Mahindra

Maruti Suzuki India

Tata Motors

**Recovery continues:** Recovery in volumes, initially seen in 4QFY09, continued in 2QFY10, supported by overall improved sentiment, credit availability and product launches. Besides, inventory build-up for the festive season also helped volumes. Two wheelers (growth of 17% YoY, 12% QoQ) and cars (growth of 28% YoY, 16% QoQ) continued to grow in 2QFY10, and commercial vehicles (growth of 8% YoY, 32% QoQ) and UVs (growth of 11% YoY, 8% QoQ) registered YoY growth. Recovery in CVs is driven not just by September 30, 2009 deadline for availing higher rate of depreciation, but also by overall recovery in the economy activity.

**Margins to peak in 2QFY10:** We estimate peak margins for the auto industry in 2QFY10 driven by higher realizations, low raw material costs and high operating leverage. Our estimates suggest margins will moderate in 2HFY10 due to hardening of commodity prices and lower operating leverage. Our estimates factor in 100-120bp increase in raw material costs in 2HFY10.

**Sector outlook positive:** The outlook for volumes is improving given better external environment, easier availability of finance and inventories under control. Besides, product launches and emission norm changes will boost volume growth in 2HFY10. But a below-average monsoon and hardening of interest rates might impact demand.

**Valuation and view:** Domestic volume growth is reviving. Despite recent outperformance, valuations in the sector are attractive, especially considering impending improvement in the macro environment for the automobile industry coupled with high operating margins. Our top picks are **Hero Honda, Bajaj Auto** and **M&M**.

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	CMP (RS) 25.9.09	RECO	SALES			EBITDA			NET PROFIT		
			SEP.09	VAR. % YOY	VAR. % QOQ	SEP.09	VAR. % YOY	VAR. % QOQ	SEP.09	VAR. % YOY	VAR. % QOQ
<b>Automobiles</b>											
Bajaj Auto	1,447	Buy	29,033	13.9	24.2	5,866	70.6	28.8	3,861	69.8	24.4
Hero Honda	1,651	Buy	41,336	29.6	8.5	7,082	67.6	10.9	5,481	78.9	9.6
Mahindra & Mahindra	849	Buy	41,506	34.2	-1.9	5,854	99.9	-3.9	4,136	47.5	3.2
Maruti Suzuki	1,641	Buy	72,148	44.5	11.1	9,790	89.8	23.4	6,260	111.4	7.3
Tata Motors	593	Neutral	78,392	11.5	23.4	9,982	73.5	37.1	4,319	55.9	121.6
<b>Sector Aggregate</b>			<b>262,414</b>	<b>25.8</b>	<b>13.0</b>	<b>38,574</b>	<b>79.4</b>	<b>19.6</b>	<b>24,057</b>	<b>73.4</b>	<b>20.9</b>

## 2QFY10: The recovery continues

Volumes, which initially showed signs of recovery in 4QFY09, continued to recover in 2QFY10, supported by overall improved sentiment, credit availability and product launches. Besides, inventory build-up for the festive season helped. Two wheelers (growth of 17% YoY, 12% QoQ) and cars (growth of 28% YoY, 16% QoQ) continued expansion and commercial vehicles (growth of 8% YoY, 32% QoQ) and UVs (growth of 11% YoY, 8% QoQ) also gained ground.

- Two-wheeler volumes are estimated to have grown 17% YoY (12% QoQ). Hero Honda benefited most with 25% YoY (9% QoQ) growth in volumes and Bajaj Auto's two-wheeler volumes grew 7% YoY (24% QoQ growth).
- Car volumes grew 28% YoY (16% QoQ), driven by growth in domestic sales and exports. Maruti Suzuki's volumes grew 33% YoY (11% QoQ de-growth) and Tata Motors' volumes grew 21% YoY (26% QoQ).
- The commercial vehicles segment grew 8% YoY (32% QoQ), led by LCV volumes, which grew 16% YoY (25% QoQ). M&HCV volumes, which are estimated to recover to 2QFY09 levels, posted 42% QoQ growth. Tata Motor's CV volumes grew 13.6% YoY (25% QoQ). Its M&HCV volumes grew 7% YoY (33% QoQ) and its LCV volumes grew 18% YoY (21% QoQ).

AUTO VOLUMES SNAPSHOT FOR 2QFY10 ('000 UNITS)

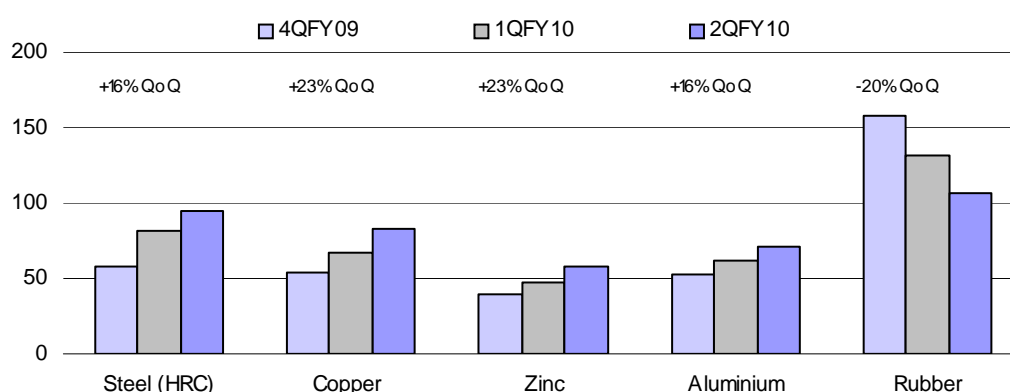
	2QFY10E	2QFY09	YOY (%)	1QFY10	QOQ (%)
Two wheelers	2,651	2,266	17	2,371	11.8
Three wheelers	156	140	11.5	118	31.6
Passenger cars	525	410	28	453	15.8
UVs	65.8	59.3	11	61	7.7
M&HCV	60.4	60.4	0	42	42.3
LCV	76.5	66	16	61	24.7
<b>Total CVs</b>	<b>136.9</b>	<b>126.4</b>	<b>8.4</b>	<b>103.8</b>	<b>31.9</b>
<b>Total</b>	<b>3,534</b>	<b>3,001</b>	<b>17.8</b>	<b>3,107</b>	<b>13.8</b>

Source: SIAM/ MOSL

## Commodity prices start revving up

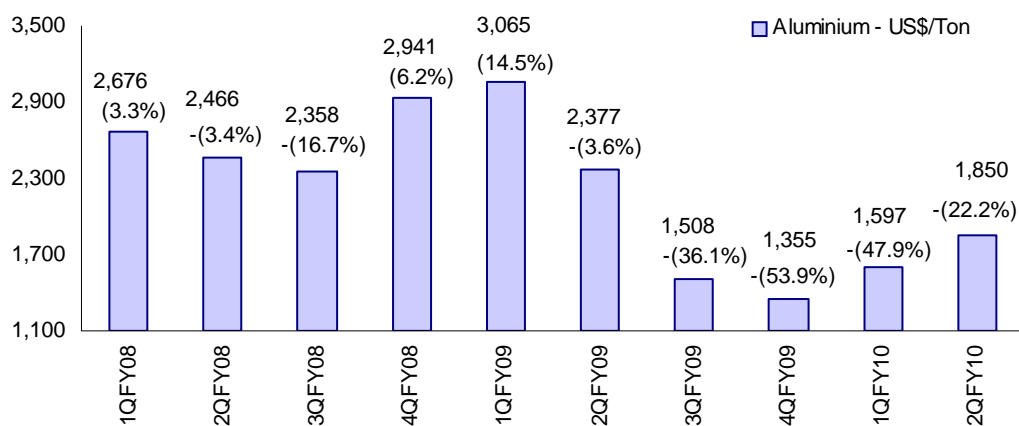
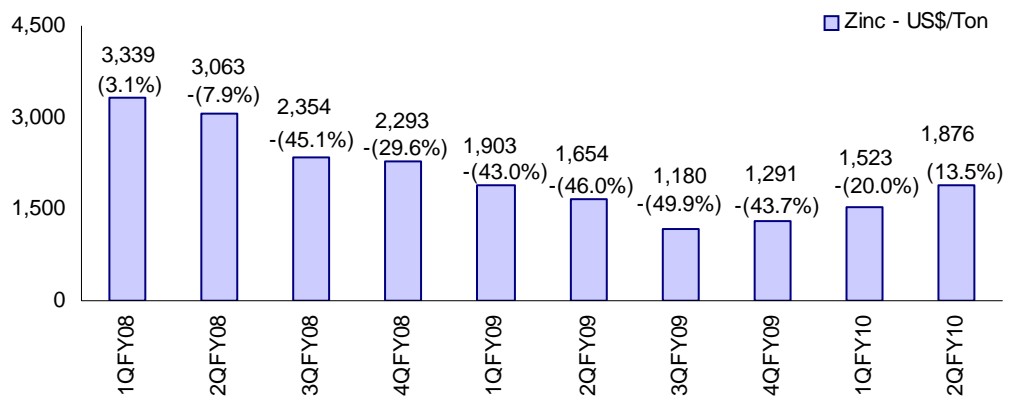
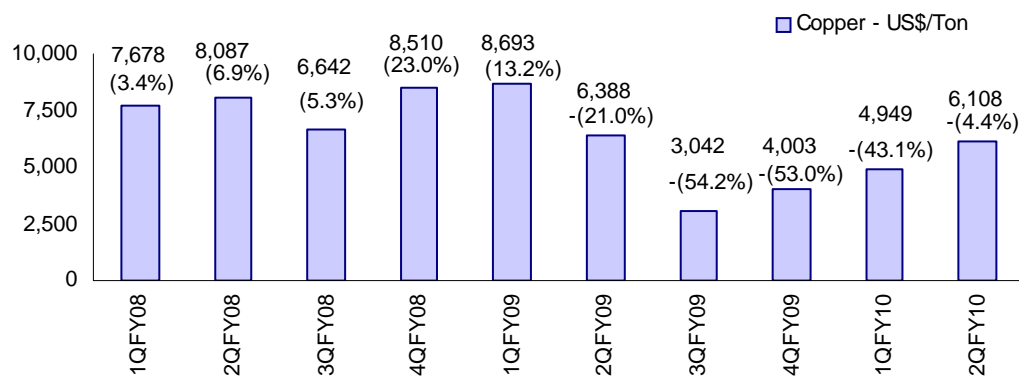
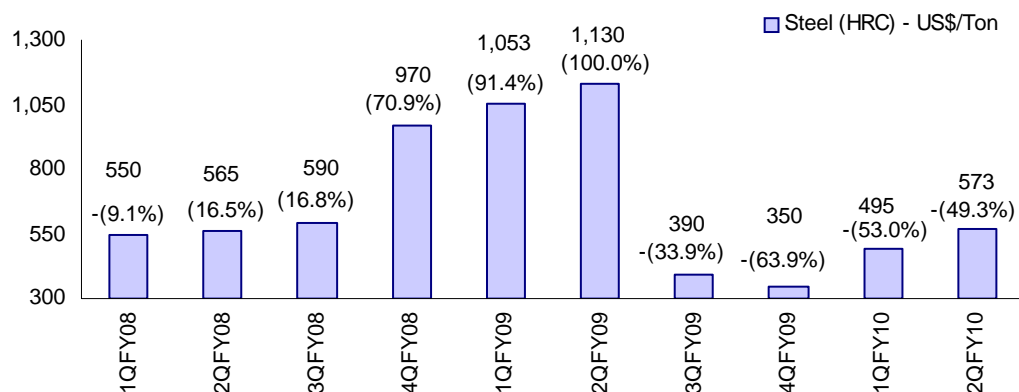
Full benefits of the softening of prices of key raw material such as steel, aluminum and rubber, will be realized in 2QFY10. But commodity prices have begun to harden after bottoming out in 2HFY09. Our estimates factor in a 100-120bp increase in raw material costs in 2HFY10, thereby impacting margins.

COMMODITY PRICES IN 1HFY10 (INDEXED)



Source: Bloomberg/Industry

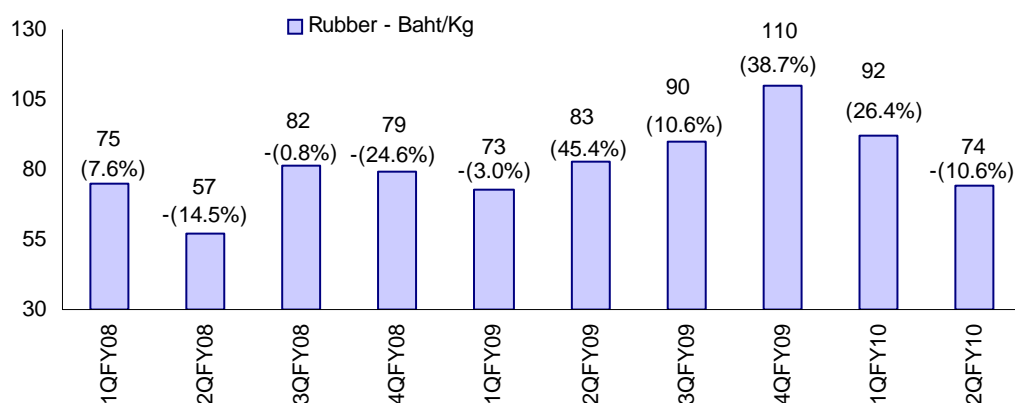
TREND IN COMMODITY PRICES\*



\* Figures in brackets indicates YoY change

Source: Bloomberg/Industry

## TREND IN COMMODITY PRICES



Source: Bloomberg/Industry

**Margins to peak in 2QFY10**

We estimate peak margins for the automobile industry in 2QFY10 driven by higher realizations, low raw material costs and high operating leverage. Our estimates suggest margins will moderate in 2HFY10 due to hardening of commodity prices and lower operating leverage. Our estimates now factor in a 100-120bp increase in raw material costs in 2HFY10. We estimate margins for the MOSL universe will improve by 440bp YoY (up 80bp QoQ) to 14.7% with the biggest beneficiaries being Maruti (up 140bp QoQ) and Tata Motors (up 130bp QoQ).

## MARGINS TO PEAK IN 2QFY10

	2QFY10E	2QFY09	YOY	1QFY10	QOQ
Bajaj Auto	20.2	13.5	670	19.5	70
Hero Honda	17.1	13.2	390	16.8	40
Maruti Suzuki	13.6	10.3	320	12.2	140
Mahindra & Mahindra	14.1	9.3	480	14.4	-20
Tata Motors	12.6	8.1	450	11.4	130
<b>Auto Sector Aggregate</b>	<b>14.7</b>	<b>10.3</b>	<b>440</b>	<b>13.8</b>	<b>80</b>

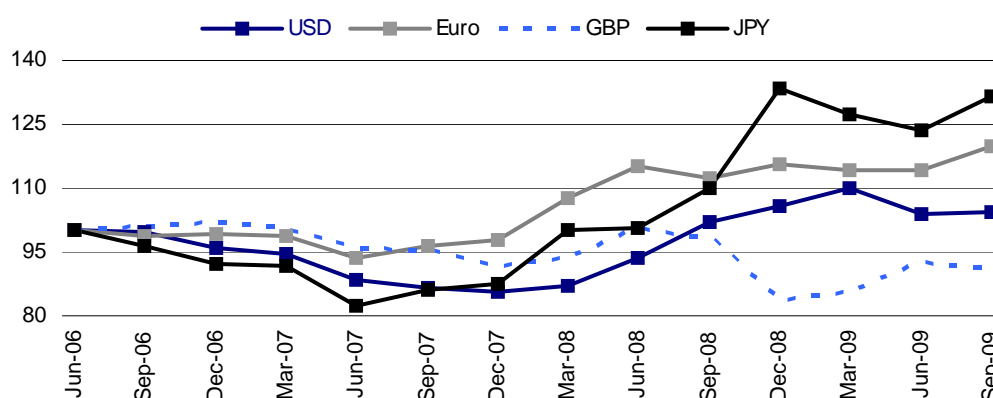
Source: MOSL

**Forex fluctuation to have a destabilizing effect**

The foreign exchange fluctuation has led to concerns over export-revenue realization, the cost of imported inputs and the effectiveness of companies' hedging practices. While the rupee has remained stable against the US dollar, it has depreciated considerably against the yen and the euro. Its impact will vary depending on the hedging strategies of various companies.

	YOY	QOQ
USD	2.3	0.3
JPY	19.7	6.6
EUR	6.7	5.1
GBP	-7.9	-2.3

TREND IN RUPEE MOVEMENT (INDEX)



Source: Bloomberg

### Positive outlook for the industry

The automobile sector put forth a mixed performance in FY09. While M&HCV, tractors and three-wheeler volumes were lower, two-wheelers, passenger vehicles and LCVs posted robust growth. With the easing of concerns over higher input costs, volatility in foreign exchange rates and higher interest rates, we are bullish on the automobile sector for the following reasons:

- The government's stimulus package will continue to boost demand in the medium term. The industry will benefit from the recent announcements on fiscal (Cenvat rate cut), monetary (rate reduction) and fuel-price cuts.
- A revival in automobile volumes will trigger economies of scale for most companies. Moreover, the leading companies have undertaken cost cut and productivity enhancement programs, which coupled with lower commodity prices, will boost margins.
- Ramping up operations in tax-free zones like Uttaranchal will help to counter cost pressures through a lower tax burden. Companies such as Tata Motors, Bajaj Auto, TVS Motor, Hero Honda and Ashok Leyland have set up plants in Uttaranchal. All the companies have begun operations at these plants. As volumes are ramped up at such tax-exempt locations, companies will be better placed to take advantage of the tax benefits offered and thus counter cost pressures. The recent excise duty cut by 4% will help to boost demand.
- The exports market is yet to be fully tapped by Indian automobile makers. This segment might become a volume-growth driver. Companies such as Maruti, Tata Motors, M&M and Bajaj Auto are in a position to increase their exports by tapping new destinations and increasing penetration in existing markets.

### Valuation and view

Domestic volume is growing. Despite automobile stocks' outperformance, valuations in the sector are attractive, especially considering impending improvement in the macroeconomic environment, coupled with high operating margins. Our top picks are **Hero Honda, Bajaj Auto and M&M**.

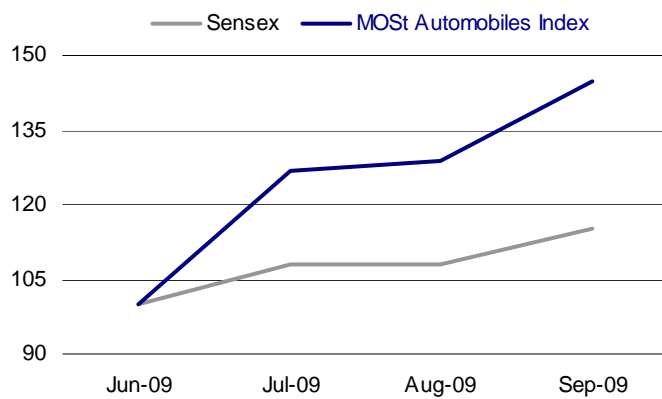


## Stock performance and valuations

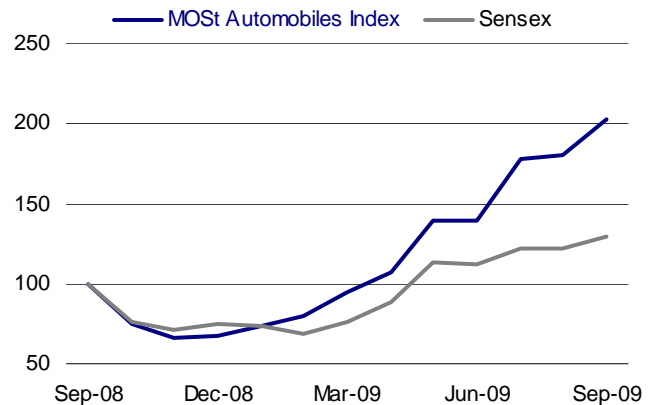
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Automobiles</b>						
Bajaj Auto	49	143	33	120	6	48
Hero Honda	17	91	1	68	-26	-4
Mahindra & Mahindra	21	52	5	29	-22	-43
Maruti Suzuki	60	133	43	110	17	38
Tata Motors	76	54	59	31	33	-41

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
	25.9.09													
<b>Automobiles</b>														
Bajaj Auto	1,447	Buy	55.0	92.1	102.9	26.3	15.7	14.1	17.2	10.0	8.8	47.2	50.5	40.2
Hero Honda	1,651	Buy	64.2	100.1	110.2	25.7	16.5	15.0	17.2	11.3	9.7	37.8	44.3	36.7
Mahindra & Mahindra	849	Buy	53.0	77.1	88.5	16.0	11.0	9.6	15.6	9.5	8.8	17.7	22.8	21.0
Maruti Suzuki	1,641	Buy	46.1	73.5	82.5	35.6	22.3	19.9	21.0	13.1	11.4	13.0	18.9	17.8
Tata Motors	593	Neutral	-34.4	-6.3	20.2	-17.3	-94.4	29.4	22.1	11.0	9.8	6.1	16.4	13.3
<b>Sector Aggregate</b>						<b>32.5</b>	<b>18.8</b>	<b>17.6</b>	<b>19.0</b>	<b>11.2</b>	<b>9.9</b>	<b>17.2</b>	<b>24.3</b>	<b>21.7</b>

## Bajaj Auto

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	BJAUT IN
	REUTERS CODE
S&P CNX: 4,959	BJAT.BO

25 September 2009

Buy

Rs1,447

Previous Recommendation: Buy

Equity Shares (m)	144.7
52-Week Range (Rs)	1,535/295
1,6,12 Rel.Perf.(%)	21/63/120
M.Cap. (Rs b)	209.3
M.Cap. (US\$ b)	4.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/08A	90,462	8,241	57.0		25.4	13.2	51.9	42.4	2.2	15.7
3/09A	88,104	7,963	55.0	-3.4	26.3	12.4	47.2	36.3	2.3	17.2
3/10E	104,576	13,322	92.1	67.3	15.7	7.9	50.5	47.0	1.9	10.0
3/11E	117,462	14,887	102.9	11.7	14.1	5.7	40.2	41.8	1.6	8.8

- Volumes are expected to decrease by 7.2% YoY (up 25% QoQ) in 2QFY10. The recovery follows significant declines in 2HFY09. Two-wheeler volumes are estimated to improve 7% YoY and three-wheeler volumes are expected to improve 11% YoY.
- We estimate net sales of Rs29b, a growth of 14% YoY. Realizations are estimated to rise 6% YoY, reflecting improvement in the product mix and higher export realizations (as new hedges are at a higher rupee rate). EBITDA margin is expected to improve by 670bp YOY (70bp QoQ) to 20.2%, benefiting from higher realizations and lower raw material costs. We estimate EBITDA at Rs5.9b (up 70% YoY) and adjusted PAT at Rs3.86b (up 70% YoY).
- The recently launched Discover 100 has been very well received and booked sales of 100,000 units in the first 50 days since its launch.
- Our FY10 earnings estimate factors in 12% growth in volume with domestic volume growth of 15% and export growth of 6% as well as 120bp higher raw material costs in 2H. The stock trades at 15.7x FY10E and 14.1x FY11E EPS. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Volumes (nos)	620,095	640,040	493,748	440,269	547,662	685,907	639,550	600,738	2,194,154	2,457,587
Change (%)	8.5	4.2	-30.8	-20.3	-11.7	7.2	29.5	36.4	(10.5)	12.0
Realization	37,265	39,817	42,595	42,779	42,699	42,327	42,019	42,090	40,154	42,552
Change (%)	1.0	3.5	21.4	14.0	14.6	6.3	-1.4	-1.6	8.8	6.0
<b>Net Sales</b>	<b>23,108</b>	<b>25,484</b>	<b>21,031</b>	<b>18,834</b>	<b>23,385</b>	<b>29,033</b>	<b>26,874</b>	<b>25,285</b>	<b>88,104</b>	<b>104,576</b>
Change (%)	9.6	7.9	-15.9	-9.2	1.2	13.9	27.8	34.3	-2.6	18.7
<b>EBITDA</b>	<b>2,668</b>	<b>3,439</b>	<b>3,058</b>	<b>2,858</b>	<b>4,554</b>	<b>5,866</b>	<b>5,145</b>	<b>4,533</b>	<b>12,023</b>	<b>20,098</b>
EBITDA Margins (%)	11.5	13.5	14.5	15.2	19.5	20.2	19.1	17.9	13.6	19.2
Other Income	288	221	379	229	231	225	325	209	1,117	990
Extraordinary Expenses	0	611	611	829	458	458	458	458	2,071	1,833
Interest	9	59	90	52	60	57	60	59	210	236
Depreciation	335	331	319	313	331	335	355	383	1,298	1,404
<b>PBT</b>	<b>2,611</b>	<b>2,659</b>	<b>2,417</b>	<b>1,893</b>	<b>4,155</b>	<b>5,240</b>	<b>4,597</b>	<b>3,841</b>	<b>9,561</b>	<b>17,834</b>
Tax	860	810	755	591	1,220	1,690	1,483	1,225	3,016	5,618
Effective Tax Rate (%)	32.9	30.5	31.2	31.2	29.4	32.3	32.3	31.9	31.5	31.5
<b>Rep. PAT</b>	<b>1,751</b>	<b>1,849</b>	<b>1,662</b>	<b>1,302</b>	<b>2,935</b>	<b>3,550</b>	<b>3,115</b>	<b>2,616</b>	<b>6,545</b>	<b>12,216</b>
Change (%)	-4.3	(22.5)	(22.2)	7.8	67.6	92.0	87.4	100.9	-13.4	86.6
<b>Adj. PAT</b>	<b>1,751</b>	<b>2,274</b>	<b>2,082</b>	<b>1,873</b>	<b>3,105</b>	<b>3,861</b>	<b>3,425</b>	<b>2,928</b>	<b>7,963</b>	<b>13,322</b>
Change (%)	-4.3	(6.7)	(16.2)	21.9	77.3	69.8	64.5	56.4	-4.6	67.3

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

## Hero Honda

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	HHIN
	REUTERS CODE
S&P CNX: 4,959	HROH.BO

25 September 2009

Buy

Rs1,651

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	199.7										
52-Week Range (Rs)	1,780/663										
1,6,12 Rel. Perf. (%)	3/-9/68										
M.Cap. (Rs b)	329.6										
M.Cap. (US\$ b)	6.9										
	3/08A	103,318	9,679	48.5	12.8	34.1	11.0	35.5	45.7	2.9	22.5
	3/09A	123,191	12,818	64.2	32.4	25.7	8.7	37.8	48.1	2.4	17.2
	3/10E	149,946	19,985	100.1	55.9	16.5	6.3	44.3	54.0	1.9	11.3
	3/11E	166,289	22,008	110.2	10.1	15.0	4.9	36.7	45.1	1.6	9.7

- Hero Honda's volumes are estimated to grow 25.2% YoY (8.8% QoQ) in 2QFY10. Besides, realizations are expected to rise 3.5% YoY due to price increase in 1HFY09 and higher sales from Haridwar (26.7% of volumes v/s 11.8% in 2QFY09). Our estimates factor-in about 325,000 units from Haridwar in 2QFY10.
- Net sales are estimated to rise 29.6% YoY to Rs41.3b while operating margins are likely to improve 390bp YoY to 17.1% (up 30bp QoQ), driven by a ramp-up at the Haridwar plant and benefit from softening commodity prices. This, coupled with lower taxes (due to its ramp-up at Haridwar) will boost PAT growth by 79% to Rs5.48b.
- We maintain our EPS estimates for FY10 at Rs100 and FY11 at Rs110. Our volume estimate for FY10 is 4.4m units (18% growth) and for FY11 is 4.8m (10% growth). We now factor-in a 100bp increase in raw material costs in 2HFY10.
- While we maintain our earnings estimates, strong momentum in retail sales offers upside potential to our volume assumption. Based on our estimate of 435k volumes in September 2009, our residual run-rate for volumes in 2HFY10 is 343k/month (11% residual growth). The stock trades at 16.5x FY10E EPS and 15x FY11E EPS. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Volumes (nos)	894,244	972,095	857,806	997,855	1,118,987	1,216,945	980,000	1,083,679	3,722,000	4,399,611
Change (%)	11.4	28.5	-4.0	12.9	25.1	25.2	14.2	8.6	11.5	18.2
<b>Net Sales</b>	<b>28,435</b>	<b>31,897</b>	<b>28,740</b>	<b>34,118</b>	<b>38,111</b>	<b>41,336</b>	<b>33,445</b>	<b>37,055</b>	<b>123,191</b>	<b>149,946</b>
Change (%)	16.2	35.6	4.8	22.3	34.0	29.6	16.4	8.6	19.2	21.7
Total Cost	25,025	27,672	24,643	28,734	31,723	34,255	28,104	31,113	106,074	125,195
<b>EBITDA</b>	<b>3,410</b>	<b>4,226</b>	<b>4,098</b>	<b>5,384</b>	<b>6,387</b>	<b>7,082</b>	<b>5,341</b>	<b>5,942</b>	<b>17,118</b>	<b>24,752</b>
As % of Sales	12.0	13.2	14.3	15.8	16.8	17.1	16.0	16.0	13.9	16.5
Other Income	467	662	508	549	539	600	750	906	2,187	2,795
Interest	-50	-83	-87	-96	-55	-65	-75	-80	-317	-275
Depreciation	422	466	475	444	456	475	500	517	1,807	1,948
<b>PBT</b>	<b>3,505</b>	<b>4,505</b>	<b>4,219</b>	<b>5,586</b>	<b>6,525</b>	<b>7,272</b>	<b>5,666</b>	<b>6,412</b>	<b>17,815</b>	<b>25,874</b>
Tax	777	1,442	1,214	1,564	1,524	1,791	1,272	1,302	4,997	5,889
Effective Tax Rate (%)	22.2	32.0	28.8	28.0	23.4	24.6	22.5	20.3	28.1	22.8
<b>PAT</b>	<b>2,729</b>	<b>3,063</b>	<b>3,004</b>	<b>4,022</b>	<b>5,001</b>	<b>5,481</b>	<b>4,393</b>	<b>5,110</b>	<b>12,818</b>	<b>19,985</b>
<b>Adj. PAT</b>	<b>2,729</b>	<b>3,063</b>	<b>3,004</b>	<b>4,022</b>	<b>5,001</b>	<b>5,481</b>	<b>4,393</b>	<b>5,110</b>	<b>12,818</b>	<b>19,985</b>
Change (%)	43.7	49.9	9.2	34.7	83.3	78.9	46.2	27.0	32.4	55.9

E: MOSL Estimates

## Mahindra &amp; Mahindra

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	MM IN
	REUTERS CODE
S&P CNX: 4,959	MAHM.BO

25 September 2009

Buy

Rs849

Previous Recommendation: Buy

	YEAR	NET SALES	S/A PAT	ADJ.EPS	CONS.	P/E	CONS.	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	EPS (RS)	(X)	P/E (X)	(%)	(%)	SALES	EBITDA
Diluted Eq. Shares (m)	283.8										
52-Week Range (Rs)	943/236										
1,6,12 Rel.Perf.(%)	-1/51/29										
M.Cap. (Rs b)	241.1										
M.Cap. (US\$ b)	5.0										
	3/08A	114,106	10,332	36.4	54.5	23.3	15.6	23.8	16.8	1.6	14.6
	3/09A	130,937	9,297	32.8	53.0	25.9	16.0	17.7	13.2	1.5	14.9
	3/10E	160,767	14,226	50.1	77.1	16.9	11.0	22.8	19.0	1.2	9.0
	3/11E	173,912	15,534	54.7	88.5	15.5	9.6	21.0	18.3	1.1	8.4

- M&M is expected to report overall volume growth of 22.8% YoY (down 2% QoQ) in 2QFY10, driven by the PTL merger and 26.7% growth in UV volumes. As a result of the PTL merger, the contribution of tractors would rise to 35.8% from 31.8% in 2QFY09. Realizations are estimated to rise 7.7% YoY (flat QoQ) driven by improvement in the product mix.
- Net sales are estimated to grow 34% YoY to Rs41.5b. Higher realizations and savings in raw material costs will drive a 480bp YoY (down 30bp QoQ) improvement in EBITDA margin to 14.1%. But higher tax provisioning will restrict PAT growth to 47.5% or Rs4.13b.
- M&M's margins in the quarter are lower sequentially due to the decline in contribution of tractor sales to 35.8% of volumes from 42.4% in 1QFY10.
- We maintain our consolidated EPS estimate for FY10 and FY11 at Rs77.1 and Rs88.5 respectively. Our estimates factor-in volume growth of 17.8% (including PTL) in FY10 and 7.3% in FY11 as well as a 120bp rise in raw material costs in 2HFY10. On a consolidated basis, the stock trades at 11x FY10E EPS and 9.6x FY11E EPS. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Volumes (nos)	82,625	81,722	61,130	88,860	102,280	100,380	92,000	90,361	326,890	385,021
Change (%)	22.9	17.7	-20.7	12.4	23.8	22.8	50.5	1.7	11.3	17.8
Net Realization	399,687	383,979	412,114	411,259	414,802	413,485	424,479	418,141	400,553	417,554
Change (%)	2.3	-5.2	7.7	2.9	3.8	7.7	3.0	1.7	2.0	4.2
<b>Net Sales</b>	<b>32,873</b>	<b>30,930</b>	<b>25,063</b>	<b>36,192</b>	<b>42,295</b>	<b>41,506</b>	<b>39,052</b>	<b>37,915</b>	<b>129,853</b>	<b>160,767</b>
Change (%)	25.8	14.4	-14.6	15.2	28.7	34.2	55.8	4.8	14.0	23.8
Total Cost	30,466	28,451	24,345	32,337	36,336	35,651	33,958	33,031	117,639	138,976
<b>EBITDA</b>	<b>2,559</b>	<b>2,929</b>	<b>847</b>	<b>4,208</b>	<b>6,090</b>	<b>5,854</b>	<b>5,094</b>	<b>4,753</b>	<b>13,298</b>	<b>21,791</b>
As % of Sales	7.7	9.3	3.4	11.5	14.4	14.1	13.0	12.6	10.2	13.6
Other income	294	1,143	436	51	236	750	420	383	1,871	1,789
Interest	97	153	141	209	60	165	175	210	453	609
<b>PBT</b>	<b>2,134</b>	<b>2,616</b>	<b>29</b>	<b>5,086</b>	<b>5,381</b>	<b>5,514</b>	<b>4,334</b>	<b>3,776</b>	<b>10,365</b>	<b>19,006</b>
Tax	541	348	17	905	1,373	1,379	1,084	945	1,997	4,780
Effective Tax Rate (%)	25.4	13.3	58.9	17.8	25.5	25.0	25.0	25.0	19.3	25.2
<b>Reported PAT</b>	<b>1,593</b>	<b>2,268</b>	<b>12</b>	<b>4,181</b>	<b>4,009</b>	<b>4,136</b>	<b>3,251</b>	<b>2,831</b>	<b>8,368</b>	<b>14,226</b>
Change (%)	-21.9	-20.7	-99.7	89.1	151.6	82.4	NA	-32.3	-24.2	70.0
<b>Adj PAT</b>	<b>1,593</b>	<b>2,804</b>	<b>384</b>	<b>2,795</b>	<b>4,009</b>	<b>4,136</b>	<b>3,251</b>	<b>2,831</b>	<b>9,297</b>	<b>14,226</b>
Change (%)	-22.4	1.1	-85.8	33.8	151.6	47.5	746.9	1.3	-4.5	53.0

E: MOSL Estimates

## Maruti Suzuki India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	MSIL IN
	REUTERS CODE
S&P CNX: 4,959	MRTI.BO

25 September 2009

Buy

Rs1,641

Previous Recommendation: Buy

Diluted Equity Shares (m)	289.0
52-Week Range (Rs)	1,686/428
1,6,12 Rel.Perf.(%)	9/51/110
M.Cap. (Rs b)	474.2
M.Cap. (US\$ b)	9.9

YEAR END	TOTAL INC. (RS M)	PAT (RS M)	ADJ. EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	183,454	17,100	59.2	9.1	27.7	5.6	20.6	26.7	2.4	16.0
3/09A	209,075	13,334	46.1	-22.0	35.6	5.1	13.0	18.7	2.1	21.0
3/10E	270,926	21,236	73.5	59.3	22.3	4.2	18.9	25.0	1.6	13.1
3/11E	311,420	23,840	82.5	12.3	19.9	3.5	17.8	23.7	1.4	11.4

- Maruti's volumes are expected to grow 33% YoY in 2QFY10, benefiting from improved consumer sentiment, the launch of *Ritz* and exports of *A-Star*. Realization is expected to rise 10.7% YoY (up 0.5% QoQ), reflecting an improved product mix and higher export realizations (due to fresh hedges at higher rates).
- Net sales are estimated to grow 44.5% to Rs72.1b. EBITDA margins are estimated to expand 330bp YoY (up 140bp QoQ) to 13.6%, benefiting from lower raw material costs and a better product mix. But higher depreciation will restrict recurring PAT growth to 111% or Rs6.26b.
- Demand for the company's products is recovering in urban markets. Besides there is robust demand from rural and export markets and buying prior to a change in emission norms. All this will help to sustain volumes in 2HFY10.
- We maintain our EPS estimates for FY10 at Rs73.5 and FY11 at Rs82.5. Our FY10 earnings estimate factors-in 19.9% volume growth with 13.5% growth in domestic volumes and 85.7% growth in export volumes and 110bp increase in raw material costs in 2HFY10. The stock trades at 22.3x FY10E and 19.9x FY11E earnings. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Volumes (nos)	192,584	189,451	173,494	236,638	226,729	251,882	227,500	243,522	792,167	949,633
Change (%)	13.5	-1.0	-14.0	17.0	17.7	33.0	31.1	2.9	3.6	19.9
Realizations (Rs/car)	245,661	253,695	263,274	266,582	279,640	280,958	278,837	278,315	257,689	279,458
Change (%)	6.5	7.2	14.1	11.9	13.8	10.7	5.9	4.4	10.0	8.4
<b>Net Op. Revenues</b>	<b>48,588</b>	<b>49,936</b>	<b>46,808</b>	<b>64,329</b>	<b>64,930</b>	<b>72,148</b>	<b>64,621</b>	<b>69,227</b>	<b>209,075</b>	<b>270,926</b>
Change (%)	21.0	6.7	-1.7	28.7	33.6	44.5	38.1	7.6	13.4	29.6
Total Cost	42,899	44,779	43,290	59,836	56,998	62,359	57,229	61,288	190,205	237,874
<b>EBITDA</b>	<b>5,689</b>	<b>5,157</b>	<b>3,518</b>	<b>4,493</b>	<b>7,932</b>	<b>9,790</b>	<b>7,392</b>	<b>7,939</b>	<b>18,871</b>	<b>33,052</b>
As % of Sales	11.7	10.3	7.5	7.0	12.2	13.6	11.4	11.5	9.0	12.2
Change (%)	-13.6	-27.1	-49.6	-39.4	39.4	89.8	110.1	76.7	-33.5	75.2
Non-Operating Income	2,236	960	1,209	1,054	2,165	1,000	800	985	5,386	4,950
Extraordinary Expense	0	0	-77	0	0	0	0	0	-77	0
Interest	168	208	45	89	63	95	100	114	510	372
<b>Gross Profit</b>	<b>7,756</b>	<b>5,910</b>	<b>4,758</b>	<b>5,459</b>	<b>10,034</b>	<b>10,695</b>	<b>8,092</b>	<b>8,810</b>	<b>23,824</b>	<b>37,630</b>
Less: Depreciation	1,661	1,658	1,775	1,971	1,961	2,000	2,050	2,125	7,065	8,136
<b>PBT</b>	<b>6,096</b>	<b>4,252</b>	<b>2,983</b>	<b>3,487</b>	<b>8,073</b>	<b>8,695</b>	<b>6,042</b>	<b>6,685</b>	<b>16,759</b>	<b>29,494</b>
Tax	1,437	1,290	789	1,056	2,238	2,434	1,692	1,895	4,571	8,258
Effective Tax Rate (%)	23.6	30.3	26.4	30.3	27.7	28.0	28.0	28.3	27.3	28.0
<b>PAT</b>	<b>4,659</b>	<b>2,961</b>	<b>2,194</b>	<b>2,431</b>	<b>5,835</b>	<b>6,260</b>	<b>4,350</b>	<b>4,790</b>	<b>12,187</b>	<b>21,236</b>
<b>Adjusted PAT</b>	<b>4,659</b>	<b>2,961</b>	<b>2,138</b>	<b>2,431</b>	<b>5,835</b>	<b>6,260</b>	<b>4,350</b>	<b>4,790</b>	<b>12,131</b>	<b>21,236</b>
Change (%)	-6.8	-36.5	-54.2	-49.4	25.3	111.4	103.5	97.0	-32.7	75.0

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

## Tata Motors

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	TTMT IN
	REUTERS CODE
S&P CNX: 4,959	TAMO.BO

25 September 2009

Neutral

Rs593

Previous Recommendation: Neutral

Diluted Eq.Shares (m)	535.7
52-Week Range (Rs)	621/122
1,6,12 Rel. Perf. (%)	15/198/31
M.Cap. (Rs b)	317.7
M.Cap. (US\$ b)	6.60

YEAR END	SALES (RS M)	S/A PAT (RS M)	ADJ EPS (RS)	CONS. EPS (RS)	P/E RATIO	CONS. P/E (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	287,394	16,154	30.2	36.2	19.7	16.4	20.6	17.3	0.8	7.4
3/09A	256,101	4,953	9.2	-34.4	64.1	-17.3	6.1	6.4	1.4	21.4
3/10E	302,058	14,769	27.6	-6.3	21.5	-94.5	16.4	11.1	1.3	10.6
3/11E	352,658	13,210	24.7	20.2	24.0	29.4	13.3	11.3	1.0	9.5

\* Excl JLR

- Tata Motors is estimated to post 13.6% YoY (up 20% QoQ) growth in volumes in 2QFY10 – marking a return to YoY volume growth since 1QFY09. M&HCVs will grow 7.4% YoY, LCVs will grow 18% and cars will grow 21.4% in volume. UV volumes will de-grow 7% YoY. Realizations are estimated to be lower by 1.8% YoY (but an improved 2.5% QoQ) due to lower contribution from M&HCVs and commencement of Nano sales.
- Net sales are estimated to grow 11.5% YoY to Rs78.4b. Margins are estimated to improve 450bp YoY (up 120bp QoQ) to 12.6% as the company benefits from lower raw material costs and cost-cutting initiatives. However decline in other income, increase in interest, depreciation and tax will restrict recurring PAT growth to 56% or Rs4.3b.
- As part of de-leveraging plans, the company in 2QFY10 sold 5m shares of Tata Steel for Rs2.36b and would have gained Rs1.74b. After this sale it owns 5.4m shares in Tata Steel.
- We are upgrading our standalone EPS estimates for FY10 by 52% to Rs27.6 and FY11 by 31% to Rs24.7 to factor-in improvement in CV demand and cost-cutting initiatives. Consolidated earnings estimates are subsequently upgraded for FY10 by 25% to –Rs6.3 and FY11 by 31% to Rs20.2. The stock trades at 29.4x FY11E consolidated EPS. **Maintain Neutral.**

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Volumes (nos)	133,079	135,037	98,760	139,545	127,340	153,364	146,250	162,899	506,421	589,853
Change (%)	3.9	(1.1)	(31.7)	(20.5)	(4.3)	13.6	48.1	16.7	(13.5)	16.5
<b>Net Sales</b>	<b>69,284</b>	<b>70,293</b>	<b>47,136</b>	<b>66,319</b>	<b>63,502</b>	<b>78,392</b>	<b>75,316</b>	<b>82,394</b>	<b>253,033</b>	<b>299,604</b>
Change (%)	14.4	9.9	-34.6	-25.3	(8.3)	11.5	59.8	24.2	-11.3	18.4
<b>EBITDA</b>	<b>4,932</b>	<b>5,754</b>	<b>917</b>	<b>5,415</b>	<b>7,280</b>	<b>9,982</b>	<b>9,192</b>	<b>9,731</b>	<b>17,017</b>	<b>36,185</b>
EBITDA Margins (%)	7.1	8.1	1.9	7.9	11.4	12.6	12.1	11.7	6.6	12.0
Non-Operating Income	2,020	705	517	815	5	400	200	312	4,057	917
Forex Gain / (Loss)	-1,999	-2,850	-2,265	6,462	-55				-653	-55
Extraordinary Income	1,136	3,588	478	508	3,189	1,738			5,710	4,927
Interest	1,123	1,483	1,684	2,447	2,535	2,600	2,620	2,615	6,737	10,370
<b>Gross Profit</b>	<b>4,966</b>	<b>5,714</b>	<b>-2,038</b>	<b>10,753</b>	<b>7,884</b>	<b>9,521</b>	<b>6,772</b>	<b>7,428</b>	<b>19,395</b>	<b>31,604</b>
Depreciation & Amort.	1,808	2,029	2,017	2,892	2,291	2,400	2,550	2,647	8,745	9,888
Product Dev. Expenses	79	105	137	190	112	115	130	143	512	500
<b>PBT</b>	<b>3,078</b>	<b>3,580</b>	<b>-4,192</b>	<b>7,671</b>	<b>5,480</b>	<b>7,006</b>	<b>4,092</b>	<b>4,638</b>	<b>10,138</b>	<b>21,216</b>
Tax	190	110	-1,559	1,384	343	1,261	737	842	125	3,182
Effective Tax Rate (%)	6.2	3.1	37.2	18.0	6.3	18.0	18.0	18.2	1.2	15.0
<b>PAT</b>	<b>2,888</b>	<b>3,470</b>	<b>-2,633</b>	<b>6,287</b>	<b>5,138</b>	<b>5,745</b>	<b>3,355</b>	<b>3,796</b>	<b>10,013</b>	<b>18,033</b>
Change (%)	-38.1	-34.1	-152.8	17.2	77.9	65.6	(227.4)	(39.6)	-50.7	80.1
<b>Adj PAT</b>	<b>3,842</b>	<b>2,771</b>	<b>-2,344</b>	<b>684</b>	<b>1,949</b>	<b>4,319</b>	<b>3,355</b>	<b>3,796</b>	<b>4,953</b>	<b>13,153</b>
Change (%)	17.3	-15.2	-156.4	-87.5	(49.3)	55.9	(243.1)	455.1	-69.3	165.6

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)



## Banking

BSE Sensex: 16,693

S&amp;P CNX: 4,959

25 September 2009

## COMPANY NAME

Andhra Bank  
Axis Bank  
Bank of Baroda  
Bank of India  
Canara Bank  
Corporation Bank  
HDFC  
HDFC Bank  
Federal Bank  
ICICI Bank  
IDFC  
Indian Bank  
Indian Overseas Bank  
J&K Bank  
Oriental Bank  
Punjab National Bank  
State Bank  
Union Bank

**Outlook improves but loan growth will be back ended**

Stimulus measures by the government and the Reserve Bank of India are helping to speed up economic revival and have improved business confidence. While incremental data such as IIP, and automobile numbers indicate encouraging demand for loans, this has yet to materialize. New capex is delayed because companies are using their capacity to meet latent demand. But better economic conditions and business sentiment is translating into receding concerns over banks' asset quality.

As business plans get aligned and finalized in line with evolving economic growth expectations after 1HFY10, we expect gradual acceleration in loan disbursements. Our interactions with bankers suggest that while there is no dearth of loan proposals, disbursements are lower, as entrepreneurs are still firming up revised business plans. Industry loan growth might be in the lower teens until October 2009 from the current 13.4%. Thereafter we expect gradual recovery.

The large banks (excluding ICICI Bank) are targeting loan growth of 20% in FY10 but our estimate is 17% for our coverage (highest for Axis and HDFC Bank at 22%). We expect the sector to grow 15-16% and PSU banks to gain market share. The RBI and the government would endeavor to maintain strong liquidity in the system and avoid spikes in interest rates.

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	CMP (RS)	RECO	NET INT INCOME			OPERATING PROFIT			NET PROFIT		
			SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
				% YOY	% QOQ		% YOY	% QOQ		% YOY	% QOQ
	25.9.09										
<b>Banks</b>											
Andhra Bank	104	Buy	4,753	9.7	7.7	3,978	43.0	14.3	1,976	22.5	-22.9
Axis Bank	914	Buy	11,446	25.3	9.5	11,105	27.0	-5.6	5,073	25.9	-9.7
Bank of Baroda	476	Buy	12,898	13.8	7.1	10,085	19.3	-0.1	5,111	29.3	-25.4
Bank of India	401	Neutral	13,894	1.9	6.8	14,033	15.5	28.3	7,836	2.7	34.1
Canara Bank	306	Buy	13,351	16.2	3.4	10,578	36.8	1.6	5,793	9.4	4.3
Corporation Bank	403	Buy	4,900	20.5	4.8	4,835	37.5	-15.4	2,627	37.2	0.5
Federal Bank	250	Buy	3,078	-7.2	6.1	2,782	-8.2	0.0	1,183	3.5	-13.3
HDFC	2,751	Neutral	8,615	11.8	18.6	9,059	16.7	14.4	6,396	19.7	13.2
HDFC Bank	1,609	Neutral	20,761	11.2	11.9	16,228	44.5	6.9	6,685	26.6	10.3
ICICI Bank	839	Buy	20,329	-5.3	2.4	21,479	-6.0	-15.1	8,380	-17.4	-4.6
IDFC	144	Neutral	2,500	25.1	1.0	3,729	12.4	2.1	2,648	14.0	-2.8
Indian Bank	160	Buy	7,046	3.3	-4.5	6,119	14.8	-3.0	3,421	20.9	3.1
Indian Overseas Bank	120	Sell	7,891	0.5	2.7	5,621	-6.5	31.2	2,826	-21.3	-6.3
J&K Bank	581	Buy	2,811	7.6	5.7	2,249	19.9	-12.3	1,099	-5.2	-6.1
Oriental Bank of Commerce	225	Buy	5,266	0.9	8.8	4,191	3.0	-18.9	2,545	7.5	-1.1
Punjab National Bank	786	Buy	19,493	13.8	4.7	14,929	9.1	-4.9	8,052	13.9	-3.2
State Bank	2,139	Buy	52,727	-3.3	4.9	39,982	-4.7	8.8	23,323	3.2	0.1
Union Bank	244	Buy	9,094	-6.8	13.4	8,288	18.4	5.2	4,536	25.5	2.6
<b>Sector Aggregate</b>			<b>220,853</b>	<b>4.6</b>	<b>6.2</b>	<b>189,272</b>	<b>10.4</b>	<b>1.8</b>	<b>99,511</b>	<b>8.3</b>	<b>-0.2</b>

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In 2QFY10 we expect better QoQ margins for banks under our coverage (due to falling cost of funds), strong fee-income growth and lower credit costs. Trading profits will stay generally healthy YoY. Banks will use their higher trading profits to accelerate wage-revision provisions and boost provision-coverage ratio.

### **Loan growth moderation to continue in near term**

Loan growth for the sector moderated to 13.4% on 11 September 2009. 1HFY09 was an exceptional period of high loan growth—from September 12 to October 10 loans grew Rs1,118b (28%)—this high base affects YoY numbers. Consequently reported loan growth will continue to be in the low teens in the next two fortnights.

### **Improvement in loan growth to be back ended in FY10**

Our interaction with bankers suggests significant disbursement is expected in 2HFY10. Housing loans and vehicle loans growth has picked-up meaningfully. We have modeled loan growth of 17% in FY10 for banks under our coverage.

### **Deposit growth moderates to 20% from 22% in 1QFY10**

Deposit mobilization rose strongly in the past five quarters but slowed in 2QFY10. From July 2009 to 11 September 2009, deposits rose by Rs611b against a quarterly average of Rs1.8t in the past four quarters. We believe banks have repaid some of the high cost deposits coming up for repricing due to excess liquidity on their balance sheets. SBI and other PSU banks reduced their peak and short-term deposit rates by 300-350bp from January 2009 to cut the incremental cost of deposits, which helped to slow deposits as other investment avenues became attractive.

### **Surplus liquidity finds its way to reverse repo and G-Secs**

Banks parked Rs1.3t a day on average in 2QFY10 with the RBI under the reverse repo window. Banks have been aggressively buying G-Secs in 2QFY10 as loan offtake has not picked up. The actual SLR ratio is 30% against 27.4% at the end of FY09. In 2QFY10 (until September 11), banks increased their SLR book by Rs1.9t against deposit growth of Rs2.6t.

### **Margins to improve QoQ; to be lower YoY**

We expect margins to improve by 5-10bp QoQ for most banks due to downward repricing of the cost of deposits. We expect NII growth to sequentially outpace loan growth. During 2QFY09 banks had reported strong NII growth due to significant margin expansion because of the prevalent pricing power. Thus margins are expected to remain lower YoY. The high base impact of 2QFY09 means NII growth stays muted for few large banks such as SBI, ICICI Bank (likely to be negative) and HDFC Bank.

We believe margins will improve in 2HFY10 because of (1) the benefit of lower deposit rates (2) the impact of bulk-deposit reduction and (3) loan-growth revival and improving CD ratio.

### Loan restructuring largely complete

PSU banks have completed a large part of their loan restructuring and significant negative surprises are not expected. But private banks such as Axis and ICICI Bank have guided that they will report additions to the restructured loans pool in 2QFY10 as well. In 1QFY10 restructured loans ranged from 2.5-5% of the total loans of large state-owned banks and 4-8% for mid-sized state-owned banks. Private sector restructured 1-3% of customer assets. Restructuring will lead to under-statement of NPAs in FY10.

Besides the normal slippage expected of 1-2%, we have modeled 10% of the restructured loans to turn NPAs in FY10 and 20% of restructured loans to turn NPAs in FY11. We believe the slippage assumptions are conservative and can provide upside to our earning estimates.

### G-sec yields up 5-50bp across maturities but MTM hit unlikely

In 2QFY10 (as of September 29 2009), one-year yields rose by 20bp, two-year yields rose 50bp and 10-year yields rose 10bp. The yield curve has become steep with the difference between one- and 10-year yields at 2.5%, the highest in the past eight years. Our interaction with bankers suggest they are unlikely to have meaningful MTM hits because most of them have been cushioned by 10-year G-Secs rising to 7.25-7.5%. An MTM hit is likely to be negated by the write-back of MTM provisions/trading profits on equity portfolios.

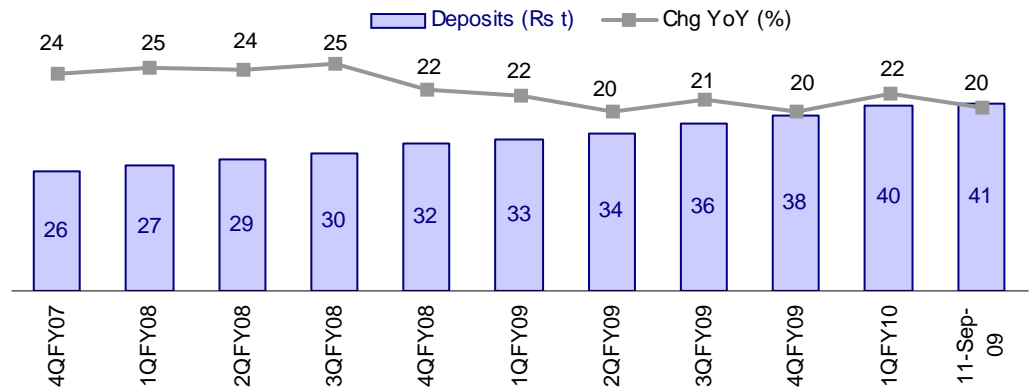
### Trading profit, lower provisions to drive earnings growth

We expect banks to report higher trading gains in 2QFY10 YoY due to higher volatility in G-Secs and strong equity markets. Besides, in 2QFY09 several banks had large MTM losses due to hardening spreads on international investments. During 2QFY09 banks also made higher NPA provisions due to strong core operating profitability. Thus, higher trading profits and lower provisions YoY will help banks to report higher YoY profits despite pressure on NII.

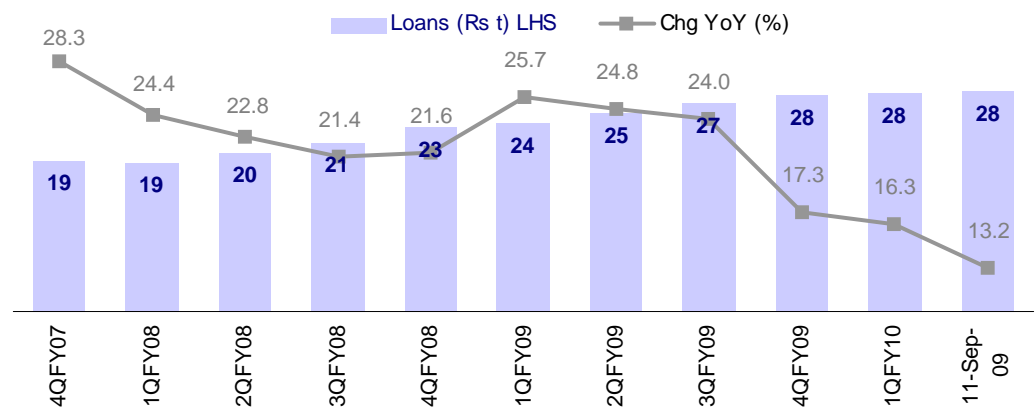
### Valuation and view

State-owned banks trade at 0.9-1.5x FY11E BV, with RoE in the range of 15-25%. We prefer selective buying and like banks with strong core deposit franchise, higher tier-I capital and high provision coverage ratio. **SBI, BoB, Union Bank and Canara Bank** are our top picks among state-owned banks. Among the mid-cap PSU banks we like **Indian Bank**. We like **Axis Bank** and **ICICI Bank** among private banks.

DEPOSIT GROWTH MODERATES

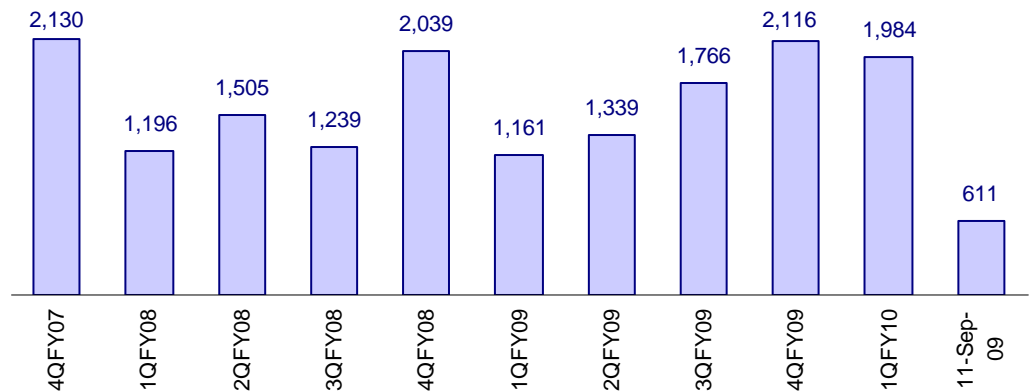


LOAN GROWTH MODERATES ON A HIGHER BASE



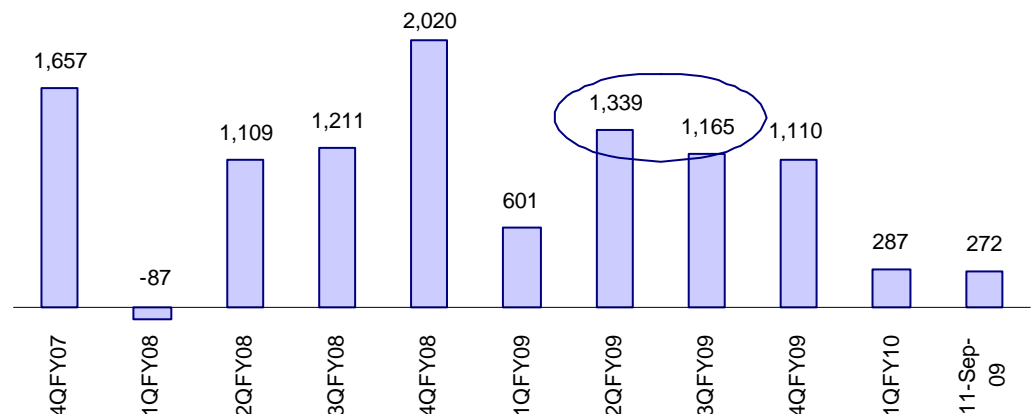
DEPOSIT ADDITION (RS B)

*Lowest deposit addition in last several quarters*



LOAN ADDITION (RS B)

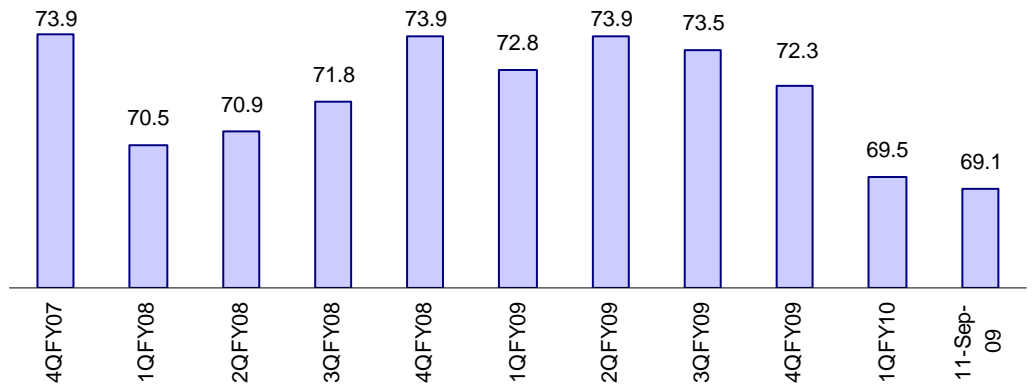
*Loan pick up dismal*



Source: Company/MOSL

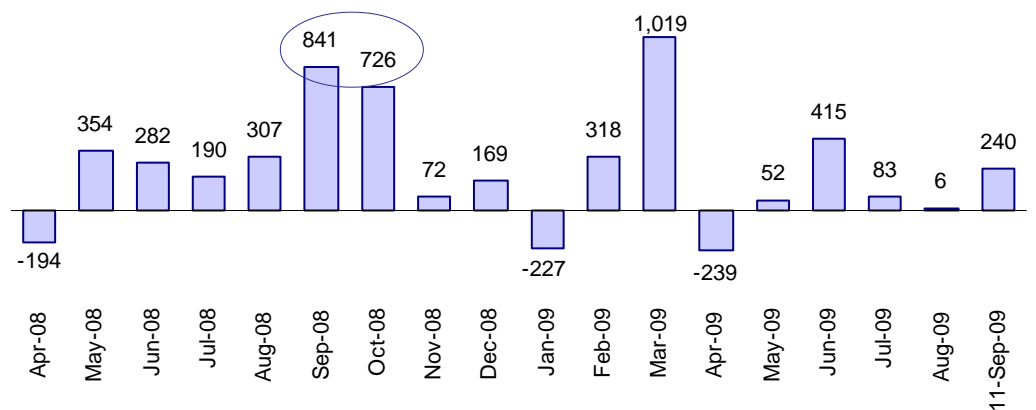
CREDIT TO DEPOSITS RATIO (%)

*In our view, C-D ratio would expand in 2HFY10*

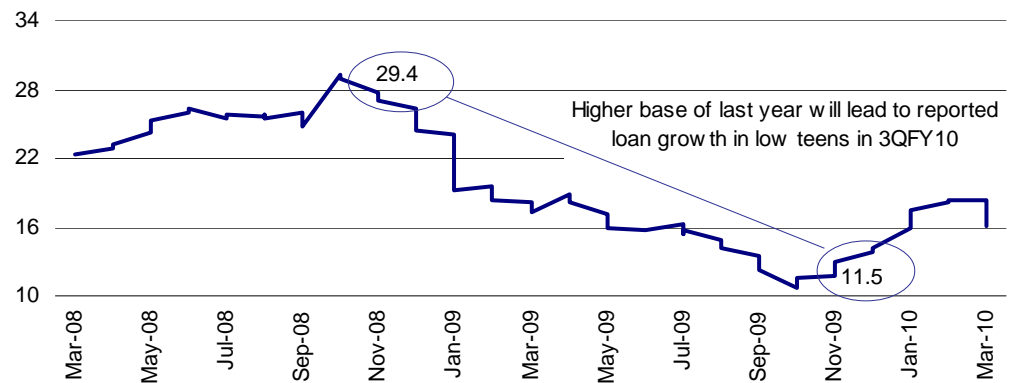


MOM LOAN ADDITION (RS B)

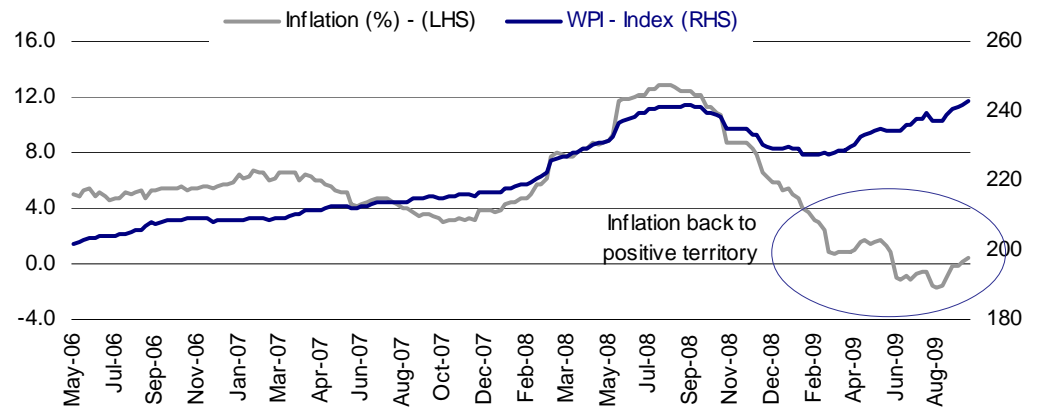
*Higher base to keep loan growth moderate in 3QFY10*



LOAN GROWTH OF 11-12% IN NOVEMBER 2009 - POSSIBLE (YOY LOAN GROWTH %)

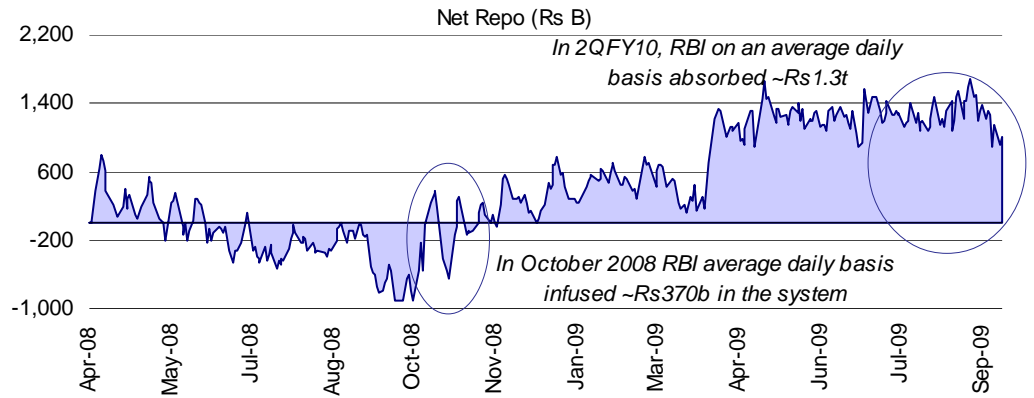


INFLATION TURNS POSITIVE



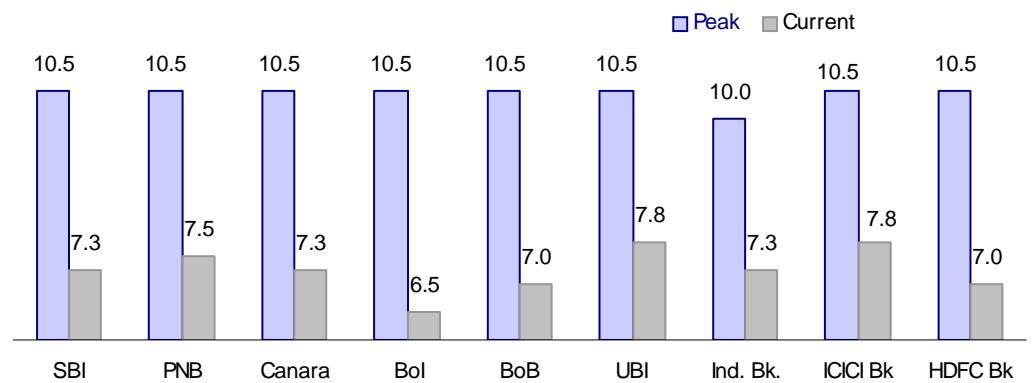
Source: Company/MOSL

STRONG LIQUIDITY IN THE SYSTEM



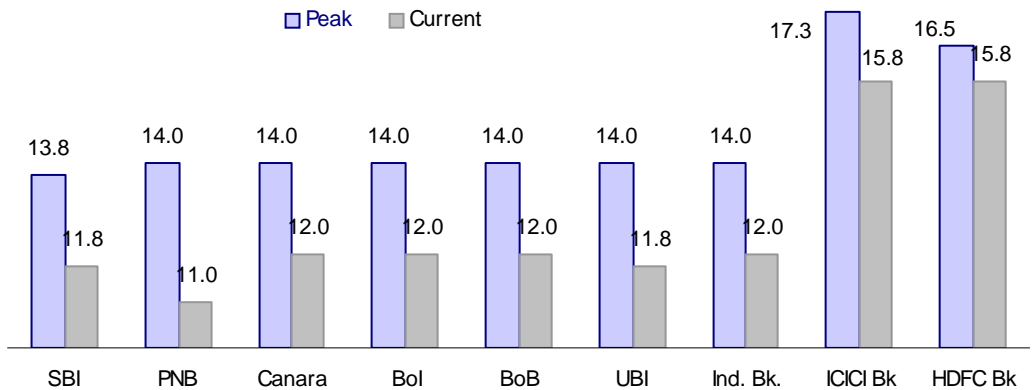
DEPOSIT RATES FALL SIGNIFICANTLY (%)

*Deposit rates are down by 300-350bp from peak*



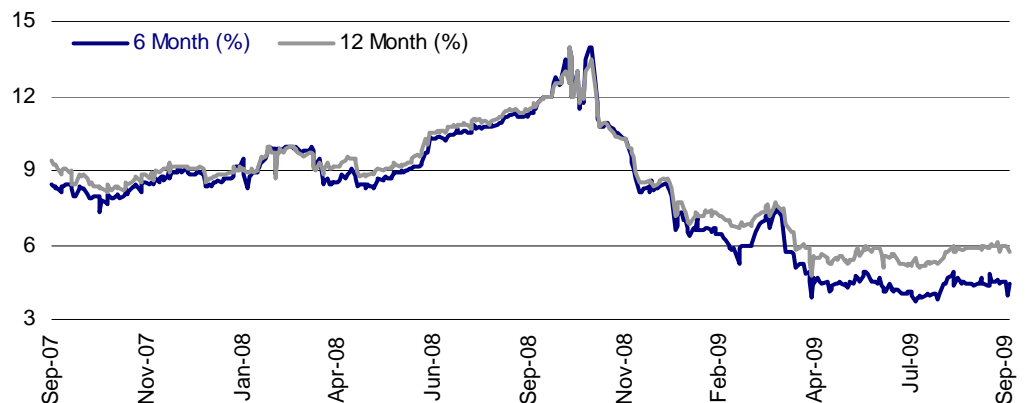
PLR DOWN (%)

*PLR decrease by 200-300bp from the peak*



COD RATES (%)

*Bulk deposit repricing to help margins*



Source: Company/MOSL

CP RATES (%)

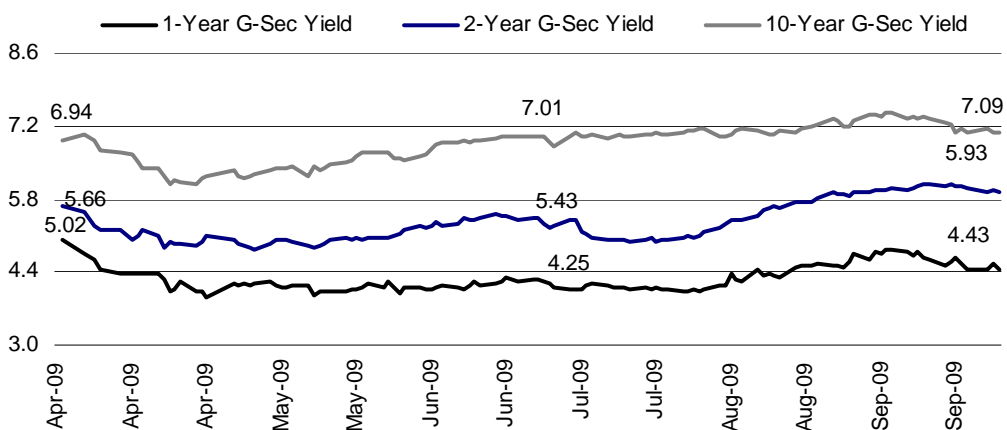
12-MONTH COMMERCIAL PAPER RATES

*CP rates at 4-year low*



YIELDS RISE ACROSS MATURITIES

*Do not expect 10-year G-sec to cross 8% by March 2010*



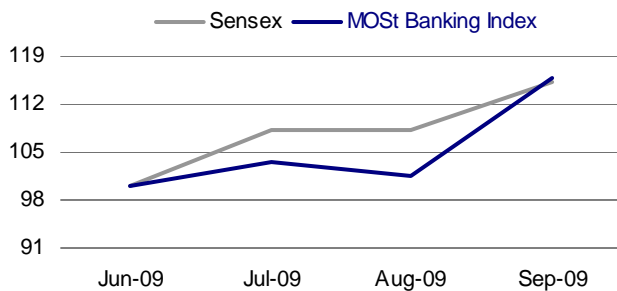
Source: Company/MOSL

## Stock performance and valuations

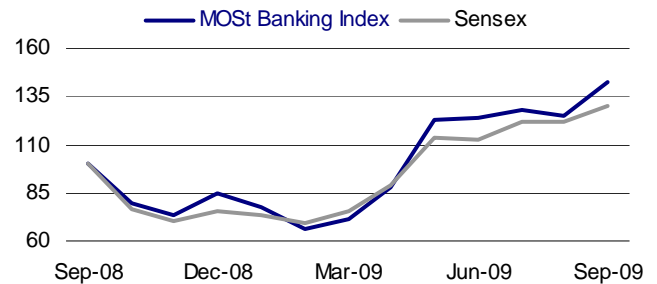
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Banking</b>						
Andhra Bank	26	79	10	56	8	41
Axis Bank	18	27	1	4	-1	-12
Bank of Baroda	10	57	-6	34	-8	18
Bank of India	17	42	0	19	-2	3
Canara Bank	18	54	2	30	0	15
Corporation Bank	21	49	4	25	2	10
Federal Bank	3	19	-13	-5	-15	-20
HDFC	16	27	-1	4	-3	-12
HDFC Bank	10	24	-7	1	-9	-15
ICICI Bank	20	41	4	17	2	2
IDFC	10	88	-6	65	-8	49
Indian Bank	16	25	0	1	-2	-14
Indian Overseas Bank	42	13	26	-10	24	-26
J&K Bank	22	26	6	3	4	-13
Oriental Bank of Commerce	25	37	8	14	6	-1
Punjab National Bank	25	60	9	37	7	21
State Bank	26	43	9	20	7	5
Union Bank	6	68	-10	45	-12	29

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



	CMP (RS)	RECO	EPS (RS)			P/E (X)			P/BV (X)			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
	25.9.09													
<b>Banks</b>														
Andhra Bank	104	Buy	13.5	17.5	18.4	7.7	5.9	5.6	1.4	1.2	1.1	18.9	21.7	19.9
Axis Bank	914	Buy	50.6	59.2	75.1	18.1	15.4	12.2	3.2	2.3	2.0	19.1	18.2	17.7
Bank of Baroda	476	Buy	60.9	66.8	78.4	7.8	7.1	6.1	1.5	1.3	1.1	20.9	19.5	19.7
Bank of India	401	Neutral	57.2	59.2	69.4	7.0	6.8	5.8	1.8	1.5	1.2	29.2	23.9	23.0
Canara Bank	306	Buy	50.5	62.6	70.4	6.0	4.9	4.3	1.2	1.0	0.9	22.6	23.2	21.7
Corporation Bank	403	Buy	62.2	73.9	76.8	6.5	5.5	5.3	1.2	1.0	0.9	19.6	20.0	18.0
Federal Bank	250	Buy	29.3	33.1	37.0	8.5	7.5	6.8	1.0	0.9	0.8	12.1	12.5	12.7
HDFC	2,751	Neutral	80.2	94.6	109.4	34.3	29.1	25.1	6.0	5.2	4.7	23.7	24.6	24.1
HDFC Bank	1,609	Neutral	52.8	62.8	81.9	30.5	25.6	19.6	4.5	3.5	3.1	15.6	15.8	16.6
ICICI Bank	839	Buy	33.8	34.8	45.9	24.8	24.1	18.3	1.9	1.8	1.7	10.1	10.2	12.6
IDFC	144	Neutral	5.8	7.3	8.5	24.9	19.8	17.0	3.0	2.7	2.4	12.7	14.4	15.0
Indian Bank	160	Buy	29.0	34.6	38.5	5.5	4.6	4.2	1.3	1.0	0.9	24.8	24.5	22.7
Indian Overseas Bank	120	Sell	24.3	22.4	23.7	4.9	5.4	5.1	1.1	1.0	0.8	24.8	19.0	17.5
J&K Bank	581	Buy	84.5	102.7	118.0	6.9	5.7	4.9	1.1	0.9	0.8	16.6	17.7	17.8
Oriental Bank	225	Buy	36.1	41.3	42.2	6.2	5.5	5.3	0.9	0.8	0.7	14.8	15.1	13.8
Punjab National Bank	786	Buy	98.0	108.7	123.2	8.0	7.2	6.4	1.9	1.6	1.3	25.8	23.8	22.7
State Bank	2,139	Buy	143.7	159.2	193.5	14.9	13.4	11.1	2.3	2.1	1.8	17.1	16.4	17.4
Union Bank	244	Buy	34.2	39.9	48.0	7.1	6.1	5.1	1.7	1.4	1.2	27.2	25.6	25.1
<b>Sector Aggregate</b>						<b>14.6</b>	<b>12.9</b>	<b>10.9</b>	<b>2.6</b>	<b>2.3</b>	<b>2.0</b>	<b>17.9</b>	<b>17.5</b>	<b>18.0</b>



## Andhra Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	ANDB IN
	REUTERS CODE
S&P CNX: 4,959	ADBK.BO

25 September 2009

Buy

Rs104

Previous Recommendation: Buy

Equity Shares (m)	485
52-Week Range (Rs)	106/35
1,6,12 Rel.Perf.(%)	10/59/56
M.Cap. (Rs b)	50.2
M.Cap. (US\$ b)	1.0

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/08A	19,660	5,756	11.9	7.0	8.7	1.5	11.6	18.0	1.1	1.6
3/09A	23,923	6,530	13.5	13.5	7.7	1.4	13.2	18.9	1.0	1.4
3/10E	27,339	8,510	17.5	30.3	5.9	1.2	12.2	21.7	1.1	1.2
3/11E	29,893	8,910	18.4	4.7	5.6	1.1	11.3	19.9	1.0	1.1

- We expect net interest income (NII) to grow 9.7% YoY (~7.6% QoQ) to Rs4.8b due to pressure on margins. On a low base, loan growth would look strong 25%+.
- We expect a strong other income growth due to trading gains in 2QFY10 vs. a loss in 2QFY09. We believe fees growth would remain dismal considering the high base.
- Provision was negative in Q1FY10 due to depreciation write back of Rs515mn on investments. We have modeled higher provisions conservatively during 2QFY10.
- The stock is trading at 1.2x FY10E BV and 1.1x FY11E BV. The stock also offers an attractive dividend yield of ~5.4%. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	11,574	13,281	13,824	15,067	15,046	15,606	16,362	17,153	53,746	64,167
Interest Expense	8,111	8,948	9,305	11,114	10,633	10,853	11,262	11,716	37,477	44,463
<b>Net Interest Income</b>	<b>3,463</b>	<b>4,333</b>	<b>4,519</b>	<b>3,953</b>	<b>4,414</b>	<b>4,753</b>	<b>5,100</b>	<b>5,438</b>	<b>16,269</b>	<b>19,704</b>
% Change (Y-o-Y)	0.9	25.7	29.2	22.6	27.5	9.7	12.9	37.6	21.4	21.1
Other Income	1,187	1,354	2,165	3,204	2,381	1,875	1,800	1,579	7,654	7,635
<b>Net Income</b>	<b>4,649</b>	<b>5,687</b>	<b>6,684</b>	<b>7,157</b>	<b>6,794</b>	<b>6,628</b>	<b>6,900</b>	<b>7,017</b>	<b>23,923</b>	<b>27,339</b>
Operating Expenses	2,597	2,905	2,958	2,839	3,314	2,650	2,775	2,901	11,043	11,640
<b>Operating Profit</b>	<b>2,053</b>	<b>2,782</b>	<b>3,725</b>	<b>4,318</b>	<b>3,480</b>	<b>3,978</b>	<b>4,125</b>	<b>4,116</b>	<b>12,880</b>	<b>15,699</b>
% Change (Y-o-Y)	-8.1	19.8	29.2	37.9	69.5	43.0	10.7	-4.7	21.9	21.9
Other Provisions	1,227	569	249	1,856	-32	1,195	1,310	1,240	3,900	3,713
<b>Profit before Tax</b>	<b>826</b>	<b>2,213</b>	<b>3,477</b>	<b>2,462</b>	<b>3,512</b>	<b>2,783</b>	<b>2,815</b>	<b>2,876</b>	<b>8,980</b>	<b>11,986</b>
Tax Provisions	50	600	1,350	450	950	807	816	903	2,450	3,476
<b>Net Profit</b>	<b>776</b>	<b>1,613</b>	<b>2,127</b>	<b>2,012</b>	<b>2,562</b>	<b>1,976</b>	<b>1,999</b>	<b>1,974</b>	<b>6,530</b>	<b>8,510</b>
% Change (Y-o-Y)	-45.0	6.7	33.8	62.0	230.1	22.5	-6.0	-1.9	13.5	30.3
Interest Exp/Interest Income (%)	70.1	67.4	67.3	73.8	70.7	69.5	68.8	68.3	69.7	69.3
Other Income/Net Income (%)	25.5	23.8	32.4	44.8	35.0	28.3	26.1	22.5	32.0	27.9
Cost/Income Ratio (%)	55.8	51.1	44.3	39.7	48.8	40.0	40.2	41.3	46.2	42.6
Provisions/Operating Profits (%)	59.8	20.4	6.7	43.0	-0.9	30.0	31.8	30.1	30.3	23.6
Tax Rate (%)	6.1	27.1	38.8	18.3	27.0	29.0	29.0	31.4	27.3	29.0

E: MOSL Estimates

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) /

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/Parag Jariwala (Parag.Jariwala@MotilalOswal.com)

## Axis Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	AXSB IN
	REUTERS CODE
S&P CNX: 4,959	AXBK.BO

25 September 2009

Buy

Rs914

Previous Recommendation: Buy

Equity Shares (m)	401.1
52-Week Range (Rs)	969/279
1,6,12 Rel.Perf.(%)	-7/57/4
M.Cap. (Rs b)	366.7
M.Cap. (US\$ b)	7.6

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/08A	43,808	10,710	29.9	28.0	30.5	3.7	13.7	17.6	1.2	3.8
3/09A	65,831	18,154	50.6	68.9	18.1	3.2	13.7	19.1	1.4	3.3
3/10E	85,233	23,762	59.2	17.2	15.4	2.3	15.5	18.2	1.4	2.4
3/11E	104,495	30,137	75.1	26.8	12.2	2.0	14.1	17.7	1.5	2.1

- We expect NII growth of ~25% YoY in 2QFY10 on the back of QoQ improvement in margins due to falling cost of funds.
- Loan growth would improve QoQ. On a YoY basis, loan growth would be <20% due to higher base (in 2QFY09, loans had grown 13% QoQ).
- Fee income growth would slow down to <10%, with expected decline in capital market fees. Excluding capital market fees, we expect fee income to grow ~15% in 2QFY10.
- We have factored in higher NPA provisions during 2QFY10 (1.6% on annualized basis). We expect aggressive write-offs to continue on the back of strong profitability. Further additions to restructured loans would be a key aspect to watch out for.
- The stock trades at 2.3x FY10E BV and 2x FY11E BV. Axis Bank remains our preferred pick among private sector banks.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	22,664	25,450	29,848	30,392	29,056	30,152	32,062	35,333	108,355	126,603
Interest Expense	14,560	16,316	20,551	20,066	18,599	18,706	19,149	20,615	71,493	77,070
<b>Net Interest Income</b>	<b>8,105</b>	<b>9,134</b>	<b>9,297</b>	<b>10,326</b>	<b>10,456</b>	<b>11,446</b>	<b>12,913</b>	<b>14,719</b>	<b>36,862</b>	<b>49,534</b>
% Change (Y-o-Y)	92.5	55.2	24.4	24.6	29.0	25.3	38.9	42.5	42.6	34.4
Other Income	6,248	6,944	7,322	8,455	9,586	8,204	8,334	9,576	28,969	35,699
<b>Net Income</b>	<b>14,353</b>	<b>16,078</b>	<b>16,619</b>	<b>18,781</b>	<b>20,042</b>	<b>19,650</b>	<b>21,247</b>	<b>24,294</b>	<b>65,831</b>	<b>85,233</b>
Operating Expenses	6,329	7,334	7,522	7,396	8,278	8,544	8,917	9,150	28,582	34,889
<b>Operating Profit</b>	<b>8,023</b>	<b>8,744</b>	<b>9,096</b>	<b>11,385</b>	<b>11,764</b>	<b>11,105</b>	<b>12,330</b>	<b>15,145</b>	<b>37,249</b>	<b>50,344</b>
% Change (Y-o-Y)	118.1	88.9	35.3	57.5	46.6	27.0	35.5	33.0	67.3	35.2
Other Provisions	2,967	2,558	1,320	2,552	3,153	3,300	3,000	4,333	9,397	13,786
<b>Profit before Tax</b>	<b>5,056</b>	<b>6,186</b>	<b>7,777</b>	<b>8,833</b>	<b>8,611</b>	<b>7,805</b>	<b>9,330</b>	<b>10,812</b>	<b>27,852</b>	<b>36,558</b>
Tax Provisions	1,754	2,157	2,768	3,019	2,990	2,732	3,265	3,808	9,698	12,795
<b>Net Profit</b>	<b>3,302</b>	<b>4,029</b>	<b>5,009</b>	<b>5,815</b>	<b>5,620</b>	<b>5,073</b>	<b>6,064</b>	<b>7,004</b>	<b>18,154</b>	<b>23,762</b>
% Change (Y-o-Y)	88.7	76.8	63.2	60.9	70.2	25.9	21.1	20.5	69.5	30.9
Interest Exp/Interest Income (%)	64.2	64.1	68.9	66.0	64.0	62.0	59.7	58.3	66.0	60.9
Other Income/Net Income (%)	43.5	43.2	44.1	45.0	47.8	41.7	39.2	39.4	44.0	41.9
Cost/Income Ratio (%)	44.1	45.6	45.3	39.4	41.3	43.5	42.0	37.7	43.4	40.9
Provisions/Operating Profits (%)	37.0	29.3	14.5	22.4	26.8	29.7	24.3	28.6	25.2	27.4
Tax Rate (%)	34.7	34.9	35.6	34.2	34.7	35.0	35.0	35.2	34.8	35.0

E: MOSL Estimates

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## Bank of Baroda

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	BOB IN
	REUTERS CODE
S&P CNX: 4,959	BOB.BO

25 September 2009

Buy

Rs476

Previous Recommendation: Buy

Equity Shares (m)	365.5
52-Week Range (Rs)	496/181
1,6,12 Rel.Perf.(%)	5/39/34
M.Cap. (Rs b)	174.1
M.Cap. (US\$ b)	3.6

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/08A	59,628	14,355	39.3	39.8	12.1	1.8	12.9	15.8	0.9	1.8
3/09A	78,811	22,272	60.9	55.1	7.8	1.5	14.1	20.9	1.1	1.5
3/10E	81,391	24,411	66.8	9.6	7.1	1.3	13.6	19.5	1.0	1.3
3/11E	93,756	28,661	78.4	17.4	6.1	1.1	13.0	19.7	1.0	1.1

- We expect NII to grow 7% QoQ on the back of improvement in margins. We expect loan growth to be muted at ~3% QoQ. However, on a YoY basis, growth would appear strong at 23% due to lower base. We expect margins to expand 5-7bp during 2QFY10.
- We expect fee income growth of ~25% (base is lower) and higher trading gains YoY to drive other income growth of 40%+.
- We believe the bank will make higher NPA provisions on the back of strong operating profitability during the quarter. On a YoY basis, we believe overall provisions would remain flat, as 2QFY09 had a large MTM provision (Rs1.2b) on the investment book.
- The stock trades at 1.3x FY10E BV and 1.1x FY11E BV. BoB is among our top pick in the state-owned banks.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	32,938	35,510	41,080	41,388	40,321	41,604	43,244	46,688	150,916	171,857
Interest Expense	22,368	24,172	26,462	26,680	28,274	28,706	29,389	30,892	99,682	117,261
<b>Net Interest Income</b>	<b>10,570</b>	<b>11,338</b>	<b>14,618</b>	<b>14,708</b>	<b>12,047</b>	<b>12,898</b>	<b>13,855</b>	<b>15,796</b>	<b>51,234</b>	<b>54,595</b>
% Change (Y-o-Y)	16.9	15.5	46.6	43.0	14.0	13.8	-5.2	7.4	31.0	6.6
Other Income	5,126	4,759	9,156	8,536	7,030	6,888	6,468	6,409	27,577	26,795
<b>Net Income</b>	<b>15,696</b>	<b>16,097</b>	<b>23,774</b>	<b>23,244</b>	<b>19,077</b>	<b>19,785</b>	<b>20,323</b>	<b>22,205</b>	<b>78,811</b>	<b>81,391</b>
Operating Expenses	7,094	7,641	9,627	10,199	8,978	9,700	9,850	10,068	35,761	38,596
<b>Operating Profit</b>	<b>8,602</b>	<b>8,456</b>	<b>14,147</b>	<b>13,045</b>	<b>10,099</b>	<b>10,085</b>	<b>10,473</b>	<b>12,137</b>	<b>43,050</b>	<b>42,795</b>
% Change (Y-o-Y)	33.5	32.7	51.7	60.2	17.4	19.3	-26.0	-7.0	47.0	-0.6
Other Provisions	2,803	2,419	3,501	2,097	-390	2,400	1,800	2,276	9,621	6,087
<b>Profit before Tax</b>	<b>5,799</b>	<b>6,037</b>	<b>10,646</b>	<b>10,947</b>	<b>10,489</b>	<b>7,685</b>	<b>8,673</b>	<b>9,860</b>	<b>33,429</b>	<b>36,708</b>
Tax Provisions	2,090	2,084	3,562	3,421	3,635	2,575	2,906	3,182	11,157	12,297
<b>Net Profit</b>	<b>3,709</b>	<b>3,953</b>	<b>7,084</b>	<b>7,527</b>	<b>6,854</b>	<b>5,111</b>	<b>5,768</b>	<b>6,678</b>	<b>22,272</b>	<b>24,411</b>
% Change (Y-o-Y)	12.1	20.8	41.4	172.3	84.8	29.3	-18.6	-11.3	55.1	9.6
Interest Exp/Interest Income (%)	67.9	68.1	64.4	64.5	70.1	69.0	68.0	66.2	66.1	68.2
Other Income/Net Income (%)	32.7	29.6	38.5	36.7	36.9	34.8	31.8	28.9	35.0	32.9
Cost/Income Ratio (%)	45.2	47.5	40.5	43.9	47.1	49.0	48.5	45.3	45.4	47.4
Provisions/Operating Profits (%)	32.6	28.6	24.7	16.1	-3.9	23.8	17.2	18.8	22.3	14.2
Tax Rate (%)	36.0	34.5	33.5	31.2	34.7	33.5	33.5	32.3	33.4	33.5

E: MOSL Estimates

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## Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	BOI IN
	REUTERS CODE
S&P CNX: 4,959	BOI.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs401

Equity Shares (m)	525.9
52-Week Range (Rs)	411/180
1,6,12 Rel.Perf.(%)	23/19/19
M.Cap. (Rs b)	211.0
M.Cap. (US\$ b)	4.4

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/08A	63,461	20,094	38.2	66.0	10.5	2.4	12.0	27.6	1.3	2.5
3/09A	85,508	30,077	57.2	49.7	7.0	1.8	13.0	29.2	1.5	1.9
3/10E	87,344	31,122	59.2	3.5	6.8	1.5	12.7	23.9	1.3	1.6
3/11E	102,193	36,502	69.4	17.3	5.8	1.2	12.7	23.0	1.3	1.3

- We expect loan growth to moderate further to ~18% YoY from 26% YoY in 4QFY09 and 20% YoY in 1QFY10. Higher base impact is leading to moderation in loan growth for BoI.
- While margins would improve QoQ, they would remain under pressure on a YoY basis. In 2QFY09, NIM increased by 31bp QoQ to 3.2%. However, in 1QFY10, it declined by 56bp QoQ to 2.4%. We expect NII growth to be muted at 2% YoY, as base is higher.
- We expect fee income to be flattish on a higher base. However, YoY growth in trading profits would be strong, driving other income growth of ~17% YoY.
- We believe the bank will make higher NPA provisions on the back of strong operating profitability during the quarter. On a YoY basis, we expect overall provisions to grow just 10%, as a large MTM provision on the investment book was made in 2QFY09.
- We expect FY10 earnings growth to be flattish for BoI due to decline in margins, lower trading gains (in FY09 14% of operating profit was derived from trading gains) and higher NPA provisions. The stock is trading at 1.5x FY10E BV and 1.2x FY11E BV. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	35,483	39,628	43,432	44,931	43,777	45,098	46,972	49,739	163,474	185,587
Interest Expense	23,676	25,996	28,215	30,598	30,771	31,205	31,941	32,892	108,485	126,809
<b>Net Interest Income</b>	<b>11,808</b>	<b>13,631</b>	<b>15,217</b>	<b>14,334</b>	<b>13,006</b>	<b>13,894</b>	<b>15,031</b>	<b>16,847</b>	<b>54,989</b>	<b>58,779</b>
% Change (Y-o-Y)	24.7	38.3	41.0	17.8	10.1	1.9	-1.2	17.5	30.0	6.9
Other Income	5,664	6,495	10,506	7,854	6,459	7,589	6,960	7,557	30,519	28,566
<b>Net Income</b>	<b>17,472</b>	<b>20,126</b>	<b>25,722</b>	<b>22,187</b>	<b>19,465</b>	<b>21,483</b>	<b>21,991</b>	<b>24,405</b>	<b>85,508</b>	<b>87,344</b>
Operating Expenses	6,748	7,979	8,107	8,107	8,529	7,450	7,250	7,855	30,940	31,084
<b>Operating Profit</b>	<b>10,724</b>	<b>12,147</b>	<b>17,616</b>	<b>14,081</b>	<b>10,936</b>	<b>14,033</b>	<b>14,741</b>	<b>16,549</b>	<b>54,568</b>	<b>56,260</b>
% Change (Y-o-Y)	58.2	44.6	81.4	16.2	2.0	15.5	-16.3	17.5	47.4	3.1
Other Provisions	3,490	2,868	2,720	3,846	2,234	3,150	3,400	3,642	12,920	12,426
<b>Profit before Tax</b>	<b>7,234</b>	<b>9,280</b>	<b>14,896</b>	<b>10,234</b>	<b>8,702</b>	<b>10,883</b>	<b>11,341</b>	<b>12,907</b>	<b>41,648</b>	<b>43,834</b>
Tax Provisions	1,615	1,651	6,174	2,131	2,859	3,047	3,176	3,630	11,571	12,712
<b>Net Profit</b>	<b>5,620</b>	<b>7,629</b>	<b>8,722</b>	<b>8,104</b>	<b>5,843</b>	<b>7,836</b>	<b>8,166</b>	<b>9,277</b>	<b>30,077</b>	<b>31,122</b>
% Change (Y-o-Y)	78.3	79.4	70.4	7.1	4.0	2.7	-6.4	14.5	49.7	3.5
Interest Exp/Interest Income (%)	66.7	65.6	65.0	68.1	70.3	69.2	68.0	66.1	66.4	68.3
Other Income/Net Income (%)	32.4	32.3	40.8	35.4	33.2	35.3	31.6	31.0	35.7	32.7
Cost/Income Ratio (%)	38.6	39.6	31.5	36.5	43.8	34.7	33.0	32.2	36.2	35.6
Provisions/Operating Profits (%)	32.5	23.6	15.4	27.3	20.4	22.4	23.1	22.0	23.7	22.1
Tax Rate (%)	22.3	17.8	41.4	20.8	32.9	28.0	28.0	28.1	27.8	29.0

E: MOSL Estimates

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## Canara Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	CBK IN
	REUTERS CODE
S&P CNX: 4,959	CNBK.BO

25 September 2009

Buy

Rs306

Previous Recommendation: Buy

Equity Shares (m)	410.0
52-Week Range (Rs)	329/135
1,6, 12 Rel.Perf.(%)	9/26/30
M.Cap. (Rs b)	125.3
M.Cap. (US\$ b)	2.6

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/08A	57,507	15,650	38.2	10.1	8.0	1.5	13.3	19.1	0.9	1.6
3/09A	70,290	20,724	50.5	32.4	6.0	1.2	14.1	22.6	1.0	1.4
3/10E	80,133	25,668	62.6	23.9	4.9	1.0	13.2	23.2	1.1	1.2
3/11E	92,866	28,866	70.4	12.5	4.3	0.9	12.9	21.7	1.0	1.0

- We expect loan growth to remain healthy at 20% in 2QFY10. Loan growth was strong in 1QFY10 at 28% due to low base effect.
- We expect NII to grow at 16% YoY. We believe that pressure on margins will be lower than peers, as Canara Bank re-priced its bulk deposits in 1QFY10.
- We expect operating profit to grow 37% in 2QFY10 due to stronger trading gains. In 1QFY09, Canara Bank had reported a trading gain of Rs35m.
- The stock is trading at 1.0x FY10E BV and 0.9x FY11E BV. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	37,305	41,092	46,254	46,539	45,584	46,849	49,024	52,692	171,191	194,149
Interest Expense	27,114	29,602	33,811	33,486	32,669	33,498	34,076	35,274	124,012	135,517
<b>Net Interest Income</b>	<b>10,192</b>	<b>11,490</b>	<b>12,443</b>	<b>13,053</b>	<b>12,915</b>	<b>13,351</b>	<b>14,948</b>	<b>17,418</b>	<b>47,178</b>	<b>58,632</b>
% Change (Y-o-Y)	14.0	46.0	33.2	41.5	26.7	16.2	20.1	33.4	33.4	24.3
Other Income	3,685	3,388	7,575	8,465	4,736	5,377	5,613	5,775	23,112	21,501
<b>Net Income</b>	<b>13,877</b>	<b>14,877</b>	<b>20,018</b>	<b>21,518</b>	<b>17,651</b>	<b>18,728</b>	<b>20,560</b>	<b>23,194</b>	<b>70,290</b>	<b>80,133</b>
Operating Expenses	6,841	7,142	7,877	8,792	7,237	8,150	8,350	8,455	30,652	32,193
<b>Operating Profit</b>	<b>7,036</b>	<b>7,735</b>	<b>12,141</b>	<b>12,726</b>	<b>10,413</b>	<b>10,578</b>	<b>12,210</b>	<b>14,738</b>	<b>39,638</b>	<b>47,940</b>
% Change (Y-o-Y)	15.0	18.9	60.2	35.5	48.0	36.8	0.6	15.8	33.9	20.9
Other Provisions	5,409	1,441	3,526	3,538	3,360	2,750	3,250	4,356	13,914	13,716
<b>Profit before Tax</b>	<b>1,627</b>	<b>6,294</b>	<b>8,615</b>	<b>9,188</b>	<b>7,053</b>	<b>7,828</b>	<b>8,960</b>	<b>10,383</b>	<b>25,724</b>	<b>34,224</b>
Tax Provisions	400	1,000	1,600	2,000	1,500	2,035	2,330	2,691	5,000	8,556
<b>Net Profit</b>	<b>1,227</b>	<b>5,294</b>	<b>7,015</b>	<b>7,188</b>	<b>5,553</b>	<b>5,793</b>	<b>6,631</b>	<b>7,691</b>	<b>20,724</b>	<b>25,668</b>
% Change (Y-o-Y)	-49.0	31.8	52.9	54.9	352.7	9.4	-5.5	7.0	32.4	23.9
Interest Exp/Interest Income (%)	72.7	72.0	73.1	72.0	71.7	71.5	69.5	66.9	72.4	69.8
Other Income/Net Income (%)	49.3	48.0	39.4	40.9	41.0	43.5	40.6	36.5	43.6	40.2
Cost/Income Ratio (%)	26.6	22.8	37.8	39.3	26.8	28.7	27.3	24.9	32.9	26.8
Provisions/Operating Profits (%)	76.9	18.6	29.0	27.8	32.3	26.0	26.6	29.6	35.1	28.6
Tax Rate (%)	24.6	15.9	18.6	21.8	21.3	26.0	26.0	25.9	19.4	25.0

E: MOSL Estimates

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## Corporation Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	CRPBK IN
	REUTERS CODE
S&P CNX: 4,959	CRBK.BO

25 September 2009

Buy

Rs403

Previous Recommendation: Buy

Equity Shares (m)	143.4
52-Week Range (Rs)	416/155
1,6,12 Rel.Perf.(%)	-1/66/25
M.Cap. (Rs b)	57.9
M.Cap. (US\$ b)	1.2

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/08A	21,431	7,350	51.2	37.1	7.9	1.4	12.1	18.4	1.2	1.4
3/09A	27,982	8,928	62.2	21.5	6.5	1.2	13.6	19.6	1.2	1.2
3/10E	31,654	10,601	73.9	18.7	5.5	1.0	12.9	20.0	1.1	1.0
3/11E	34,837	11,015	76.8	3.9	5.3	0.9	12.3	18.0	1.0	0.9

- We expect loans to grow at a moderate rate of 13% YoY (3% QoQ). However deposits growth is expected to remain strong at 24% YoY. We expect better margins as compared to 1QFY10 due to repricing of bulk deposits and increased loan off take.
- Operating profit is expected to grow by 38% YoY on the back of 21% NII growth and strong trading gains. On a lower base, fee income is expected to grow at a healthy rate of 20%+.
- Asset quality remains robust with net NPAs at 0.3%. We do not expect any material weakening of the asset portfolio of the bank.
- The stock is trading at P/BV of 1x of FY10E BV and P/BV of 0.9x of FY11E BV. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	12,887	14,488	16,235	17,064	17,422	17,468	18,092	19,493	60,674	72,475
Interest Expense	9,107	10,421	11,455	12,781	12,747	12,568	12,849	13,637	43,764	51,801
<b>Net Interest Income</b>	<b>3,780</b>	<b>4,067</b>	<b>4,780</b>	<b>4,283</b>	<b>4,675</b>	<b>4,900</b>	<b>5,243</b>	<b>5,856</b>	<b>16,910</b>	<b>20,674</b>
% Change (Y-o-Y)	7.2	10.3	37.3	14.6	23.7	20.5	9.7	36.7	17.2	22.3
Other Income	1,576	1,744	2,820	4,933	3,593	2,660	2,325	2,402	11,072	10,980
<b>Net Income</b>	<b>5,356</b>	<b>5,810</b>	<b>7,600</b>	<b>9,216</b>	<b>8,269</b>	<b>7,560</b>	<b>7,568</b>	<b>8,258</b>	<b>27,982</b>	<b>31,654</b>
Operating Expenses	2,146	2,295	3,106	2,468	2,556	2,725	2,875	2,975	10,016	11,131
<b>Operating Profit</b>	<b>3,210</b>	<b>3,515</b>	<b>4,494</b>	<b>6,747</b>	<b>5,712</b>	<b>4,835</b>	<b>4,693</b>	<b>5,283</b>	<b>17,966</b>	<b>20,523</b>
% Change (Y-o-Y)	16.5	19.3	61.9	67.2	78.0	37.5	4.4	-21.7	43.6	14.2
Other Provisions	1,008	558	185	2,107	1,550	855	820	1,236	4,104	4,461
<b>Profit before Tax</b>	<b>2,201</b>	<b>2,957</b>	<b>4,309</b>	<b>4,640</b>	<b>4,162</b>	<b>3,980</b>	<b>3,873</b>	<b>4,046</b>	<b>13,862</b>	<b>16,062</b>
Tax Provisions	358	1,042	1,744	2,035	1,550	1,353	1,239	1,318	4,935	5,461
<b>Net Profit</b>	<b>1,843</b>	<b>1,915</b>	<b>2,565</b>	<b>2,605</b>	<b>2,612</b>	<b>2,627</b>	<b>2,634</b>	<b>2,728</b>	<b>8,928</b>	<b>10,601</b>
% Change (Y-o-Y)	4.1	18.7	34.3	26.7	41.8	37.2	2.7	4.7	21.5	18.7
Interest Exp/Interest Income (%)	70.7	71.9	70.6	74.9	73.2	71.9	71.0	70.0	72.1	71.5
Other Income/Net Income (%)	29.4	30.0	37.1	53.5	43.5	35.2	30.7	29.1	39.6	34.7
Cost/Income Ratio (%)	40.1	39.5	40.9	26.8	30.9	36.0	38.0	36.0	35.8	35.2
Provisions/Operating Profits (%)	31.4	15.9	4.1	31.2	27.1	17.7	17.5	23.4	22.8	21.7
Tax Rate (%)	16.3	35.2	40.5	43.9	37.2	34.0	32.0	32.6	35.6	34.0

E: MOSL Estimates

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## Federal Bank

STOCK INFO. BLOOMBERG  
BSE Sensex: 16,693 FB IN  
REUTERS CODE  
S&P CNX: 4,959 FED.BO

25 September 2009

Buy

Rs250

Previous Recommendation: Buy

Equity Shares (m)	171.0
52-Week Range (Rs)	269/111
1,6,12 Rel.Perf.(%)	8/16/-5
M.Cap. (Rs b)	42.8
M.Cap. (US\$ b)	0.9

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/08A	12,627	3,680	21.5	-37.1	11.6	1.1	22.5	13.6	1.3	1.1
3/09A	18,312	5,005	29.3	36.0	8.5	1.0	20.1	12.1	1.4	1.0
3/10E	19,564	5,667	33.1	13.2	7.5	0.9	18.7	12.5	1.4	0.9
3/11E	22,350	6,333	37.0	11.8	6.8	0.8	17.7	12.7	1.3	0.8

- We expect NII to decline ~7% YoY on the back of higher base due to (a) large capital raising of Rs21b in 4QFY08, and (b) strong loan growth during 1HFY09.
- Sequentially, loan growth would be strong at 4-5%, but on a YoY basis, loan growth may appear to be weak at <15% due to high base impact.
- We expect NPAs provisions to be lower YoY and QoQ due to strong provision coverage of ~90%. In 1QFY10, the bank had a large write-back of Rs708m (30% of PBT) on investments. Absence of this would make provisions higher QoQ.
- Federal Bank is a value pick. The stock trades at 0.9x FY10E BV and 0.8x FY11E BV, with RoA of 1.3%+ (RoE is likely to be lower due to low leverage). Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	7,451	8,281	8,764	8,657	8,744	8,837	9,153	10,079	33,154	36,813
Interest Expense	4,669	4,963	4,918	5,448	5,843	5,759	5,599	5,621	19,999	22,822
<b>Net Interest Income</b>	<b>2,782</b>	<b>3,318</b>	<b>3,846</b>	<b>3,209</b>	<b>2,901</b>	<b>3,078</b>	<b>3,554</b>	<b>4,458</b>	<b>13,155</b>	<b>13,991</b>
% Change (Y-o-Y)	47.3	63.9	88.8	17.5	4.3	-7.2	-7.6	38.9	51.5	6.4
Other Income	962	1,042	1,648	1,505	1,474	1,354	1,328	1,418	5,158	5,574
<b>Net Income</b>	<b>3,744</b>	<b>4,360</b>	<b>5,494</b>	<b>4,714</b>	<b>4,375</b>	<b>4,432</b>	<b>4,881</b>	<b>5,876</b>	<b>18,312</b>	<b>19,564</b>
Operating Expenses	1,209	1,331	1,650	1,525	1,592	1,650	1,660	1,655	5,715	6,557
<b>Operating Profit</b>	<b>2,535</b>	<b>3,029</b>	<b>3,844</b>	<b>3,189</b>	<b>2,783</b>	<b>2,782</b>	<b>3,221</b>	<b>4,221</b>	<b>12,598</b>	<b>13,007</b>
% Change (Y-o-Y)	34.5	71.5	129.3	22.0	9.8	-8.2	-16.2	32.4	58.6	3.3
Other Provisions	1,724	1,569	500	875	520	990	1,100	1,811	4,668	4,420
<b>Profit before Tax</b>	<b>811</b>	<b>1,461</b>	<b>3,344</b>	<b>2,314</b>	<b>2,263</b>	<b>1,792</b>	<b>2,121</b>	<b>2,410</b>	<b>7,930</b>	<b>8,587</b>
Tax Provisions	130	318	1,306	1,172	900	609	721	690	2,925	2,920
<b>Net Profit</b>	<b>682</b>	<b>1,143</b>	<b>2,039</b>	<b>1,142</b>	<b>1,364</b>	<b>1,183</b>	<b>1,400</b>	<b>1,721</b>	<b>5,005</b>	<b>5,667</b>
% Change (Y-o-Y)	1.8	19.9	98.1	11.0	100.1	3.5	-31.3	50.7	36.0	13.2
Interest Exp/Interest Income (%)	62.7	59.9	56.1	62.9	66.8	65.2	61.2	55.8	60.3	62.0
Other Income/Net Income (%)	25.7	23.9	30.0	31.9	33.7	30.6	27.2	24.1	28.2	28.5
Cost/Income Ratio (%)	32.3	30.5	30.0	32.4	36.4	37.2	34.0	28.2	31.2	33.5
Provisions/Operating Profits (%)	68.0	51.8	13.0	27.4	18.7	35.6	34.1	42.9	37.1	34.0
Tax Rate (%)	16.0	21.8	39.0	50.7	39.7	34.0	34.0	28.6	36.9	34.0

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HDFC

Neutral

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	HDFC IN
	REUTERS CODE
S&P CNX: 4,959	HDFC.BO

25 September 2009

Rs2,751

Previous Recommendation: Neutral

Equity Shares (m)	287.1
52-Week Range (Rs)	2,756/1,116
1,6,12 Rel.Perf.(%)	3/0/4
M.Cap. (Rs b)	789.9
M.Cap. (US\$ b)	16.5

YEAR	NET INCOME	PAT	ADJ. EPS	EPS	AP/E*	P/BV	CAR	ROAE	ROAA	AP/ABV*
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/08A	30,532	19,400	68.3	11.9	33.9	6.5	16.5	22.2	2.6	7.4
3/09A	35,852	22,825	80.2	17.5	29.4	6.0	15.1	18.2	2.5	7.1
3/10E	41,920	27,156	94.6	17.9	22.4	5.2	14.0	19.1	2.4	5.3
3/11E	48,397	31,416	109.4	15.7	18.9	4.7	13.9	19.5	2.4	4.6

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

- We expect loan growth of ~13% YoY in 2QFY10, as we expect HDFC Bank to continue buying out home loans from HDFC, hampering its loan growth.
- Despite lending rate cuts, we expect HDFC's spread to improve marginally due to significant reduction in wholesale borrowing costs during 1HFY10.
- Fee income growth would be strong on lower base; buoyant capital markets would keep trading profits strong. In 1QFY10, HDFC earned trading profits of Rs515m. Dividend on HDFC Bank shares would be accounted in 2QFY10 v/s 1QFY09 in the previous year.
- The stock trades at AP/ABV of 5.3x FY11E and 4.6x FY11E (price adjusted for value of other businesses and book value adjusted for investments made in those businesses). Further BV multiple re-rating is unlikely in the near future, given the limited scope for RoE expansion. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	22,435	25,279	28,587	30,141	26,894	27,404	29,110	31,573	106,442	114,981
Interest Expense	15,684	17,573	20,427	20,641	19,628	18,788	19,390	20,254	74,324	78,060
<b>Net Interest Income</b>	<b>6,751</b>	<b>7,707</b>	<b>8,160</b>	<b>9,500</b>	<b>7,266</b>	<b>8,615</b>	<b>9,721</b>	<b>11,318</b>	<b>32,118</b>	<b>36,920</b>
YoY Change (%)	34.2	20.8	14.9	5.3	7.6	11.8	19.1	19.1	16.7	15.0
Profit on Sale of Investments	0	226	15	12	513	300	225	212	252	1,250
Other Operating Income	700	646	590	1,317	1,035	974	700	781	3,254	3,490
<b>Net Operating Income</b>	<b>7,451</b>	<b>8,578</b>	<b>8,766</b>	<b>10,828</b>	<b>8,814</b>	<b>9,889</b>	<b>10,646</b>	<b>12,311</b>	<b>35,623</b>	<b>41,660</b>
YoY Change (%)	28.1	29.0	5.1	13.8	18.3	15.3	21.4	13.7	17.4	16.9
Other Income	51	55	56	66	49	60	75	76	229	260
<b>Total Income</b>	<b>7,503</b>	<b>8,633</b>	<b>8,821</b>	<b>10,894</b>	<b>8,863</b>	<b>9,949</b>	<b>10,721</b>	<b>12,387</b>	<b>35,852</b>	<b>41,920</b>
Operating Expenses	904	874	886	498	944	890	890	830	3,162	3,553
<b>Pre Provisioning Profit</b>	<b>6,599</b>	<b>7,760</b>	<b>7,936</b>	<b>10,396</b>	<b>7,919</b>	<b>9,059</b>	<b>9,831</b>	<b>11,558</b>	<b>32,690</b>	<b>38,367</b>
YoY Change (%)	28.7	30.5	3.6	16.2	20.0	16.7	23.9	11.2	18.0	17.4
Provisions	100	160	120	120	120	176	177	177	500	650
<b>PBT</b>	<b>6,499</b>	<b>7,600</b>	<b>7,816</b>	<b>10,276</b>	<b>7,799</b>	<b>8,883</b>	<b>9,654</b>	<b>11,381</b>	<b>32,190</b>	<b>37,717</b>
YoY Change (%)	28.7	-15.2	-11.3	-5.8	20.0	16.9	23.5	10.7	-4.6	17.2
Provision for Tax	1,818	2,258	2,348	2,943	2,150	2,487	2,703	3,220	9,365	10,561
<b>PAT (Excl exceptional)</b>	<b>4,681</b>	<b>5,342</b>	<b>5,468</b>	<b>7,334</b>	<b>5,649</b>	<b>6,396</b>	<b>6,951</b>	<b>8,160</b>	<b>22,825</b>	<b>27,156</b>
YoY Change (%)	25.6	32.8	-1.4	20.3	20.7	19.7	27.1	11.3	17.7	19.0

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## HDFC Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	HDFCB IN
	REUTERS CODE
S&P CNX: 4,959	HDBK.BO

25 September 2009

Neutral

Previous Recommendation: Buy

Rs1,609

Equity Shares (m)	425.4
52-Week Range (Rs)	2,770/774
1,6,12 Rel.Perf.(%)	2/-8/1
M.Cap. (Rs b)	684.3
M.Cap. (US\$ b)	14.3

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/08A*	88,403	17,530	41.3	22.1	38.9	4.9	13.6	16.2	1.3	5.1
3/09A	107,118	22,449	52.8	27.7	30.5	4.5	15.7	15.6	1.3	4.7
3/10E	129,032	28,379	62.8	19.1	25.6	3.5	15.2	15.8	1.4	3.6
3/11E	156,364	36,990	81.9	30.3	19.6	3.1	14.0	16.6	1.6	3.1

\* Includes pro forma merged figures for HDFC Bank and CBoP

- On a YoY basis, loan growth might be in single digit due to a high base.
- Slower loan growth would imply subdued NII growth on a YoY basis. However, we expect higher CASA funds and deposit re-pricing to help keep margins intact.
- We expect strong other income growth of 50%+ in 2QFY10 due to traction in fees and expectation of trading gains in 2QFY10 v/s a trading loss in 2QFY09.
- We expect the bank to continue making accelerated NPA provisions to maintain its superior asset quality.
- We estimate PAT CAGR of ~29% over FY09-FY11, with RoE increasing to ~17% by FY11 (assuming conversion of warrants by HDFC). The stock trades at 3.5x FY11E BV and 3.1x FY11E BV. **Neutral.**

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	36,217	39,912	44,685	42,508	40,931	43,608	46,695	48,938	163,323	180,173
Interest Expense	18,983	21,248	24,893	23,988	22,375	22,847	23,459	23,340	89,111	92,021
<b>Net Interest Income</b>	<b>17,234</b>	<b>18,665</b>	<b>19,793</b>	<b>18,520</b>	<b>18,556</b>	<b>20,761</b>	<b>23,237</b>	<b>25,598</b>	<b>74,212</b>	<b>88,152</b>
% Change (Y-o-Y)	74.9	60.5	37.7	12.8	7.7	11.2	17.4	38.2	42.0	18.8
Other Income	5,934	6,431	9,394	11,147	10,437	10,217	10,314	9,913	32,906	40,880
<b>Net Income</b>	<b>23,169</b>	<b>25,096</b>	<b>29,186</b>	<b>29,667</b>	<b>28,992</b>	<b>30,978</b>	<b>33,550</b>	<b>35,511</b>	<b>107,118</b>	<b>129,032</b>
Operating Expenses	12,894	13,867	14,606	13,962	13,806	14,750	16,000	17,773	55,328	62,328
<b>Operating Profit</b>	<b>10,275</b>	<b>11,229</b>	<b>14,581</b>	<b>15,705</b>	<b>15,187</b>	<b>16,228</b>	<b>17,550</b>	<b>17,739</b>	<b>51,790</b>	<b>66,704</b>
% Change (Y-o-Y)	31.1	35.8	36.7	44.3	47.8	44.5	20.4	12.9	37.6	28.8
Other Provisions	3,445	3,460	5,318	6,574	6,588	6,250	6,000	6,131	18,791	24,969
<b>Profit before Tax</b>	<b>6,830</b>	<b>7,768</b>	<b>9,263</b>	<b>9,131</b>	<b>8,598</b>	<b>9,978</b>	<b>11,550</b>	<b>11,608</b>	<b>32,999</b>	<b>41,734</b>
Tax Provisions	2,187	2,488	3,046	2,822	2,537	3,293	3,812	3,713	10,549	13,355
<b>Net Profit</b>	<b>4,643</b>	<b>5,280</b>	<b>6,217</b>	<b>6,309</b>	<b>6,061</b>	<b>6,685</b>	<b>7,739</b>	<b>7,894</b>	<b>22,449</b>	<b>28,379</b>
% Change (Y-o-Y)	44.5	43.3	44.8	33.9	30.5	26.6	24.5	25.1	41.2	26.4
Interest Exp/Interest Income (%)	52.4	53.2	55.7	56.4	54.7	52.4	50.2	47.7	54.6	51.1
Other Income/Net Income (%)	25.6	25.6	32.2	37.6	36.0	33.0	30.7	27.9	30.7	31.7
Cost/Income Ratio (%)	55.7	55.3	50.0	47.1	47.6	47.6	47.7	50.0	51.7	48.3
Provisions/Operating Profits (%)	33.5	30.8	36.5	41.9	43.4	38.5	34.2	34.6	36.3	37.4
Tax Rate (%)	32.0	32.0	32.9	30.9	29.5	33.0	33.0	32.0	32.0	32.0

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## ICICI Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	ICICIB IN
	REUTERS CODE
S&P CNX: 4,959	ICBK.BO

25 September 2009

Buy

Rs839

Previous Recommendation: Buy

Equity Shares (m)	1113.3
52-Week Range (Rs)	890/253
1,6,12 Rel.Perf.(%)	4/57/17
M.Cap. (Rs b)	948.5
M.Cap. (US\$ b)	19.8

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	AP/E* (X)	P/BV (X)	AP/ABV* (X)	CAR (%)	ROE (%)
3/08A	161,149	41,577	37.4	8.0	22.8	19.5	2.0	2.3	14.0	14.3
3/09A	159,704	37,582	33.8	-9.7	25.2	21.6	1.9	2.4	16.0	10.0
3/10E	162,179	38,728	34.8	3.0	24.5	19.2	1.8	2.1	15.7	10.2
3/11E	175,489	51,051	45.9	31.8	18.6	14.1	1.7	1.8	15.7	12.6

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

- We expect loans to decline ~9% YoY and grow 2% QoQ, as retail loan growth has slowed down significantly. We expect deposits to decline ~7% YoY due to net repayment of bulk deposits and moderation in loan book growth.
- Large part of the incremental deposits is expected to come from CASA funds and repricing of bulk deposits would lower the cost of funds. Lower cost of funds could lead to higher margin expansion. From 3QFY08 (except 3QFY09), interest expenses have declined QoQ in absolute terms for ICICI Bank and we expect the trend to continue in 2QFY10 as well.
- On a high base of 2QFY09, we expect fees to decline ~25% YoY. We have assumed trading profits of Rs2.5b v/s a trading loss (including MTM provisions) of Rs1.5b in 2QFY09, which would lead to flattish other income growth.
- With continued deterioration in unsecured retail loan book, we expect NPA provisions to remain high in 2QFY10, as well.
- Excluding subsidiaries, the stock trades at 1.8x FY11E ABV and 1.7x FY11E ABV (BV adjusted for NPA and investment in subsidiaries). We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	78,918	78,350	78,361	75,297	71,334	69,915	71,822	71,398	310,926	284,469
Interest Expense	58,021	56,874	58,457	53,909	51,482	49,586	49,367	48,092	227,259	198,527
<b>Net Interest Income</b>	<b>20,898</b>	<b>21,476</b>	<b>19,904</b>	<b>21,388</b>	<b>19,853</b>	<b>20,329</b>	<b>22,455</b>	<b>23,305</b>	<b>83,666</b>	<b>85,943</b>
% Change (Y-o-Y)	41.3	20.2	1.6	2.9	-5.0	-5.3	12.8	9.0	14.5	2.7
Other Income	15,382	18,773	25,145	16,737	20,899	17,500	17,750	20,087	76,038	76,236
<b>Net Income</b>	<b>36,279</b>	<b>40,250</b>	<b>45,050</b>	<b>38,125</b>	<b>40,751</b>	<b>37,829</b>	<b>40,205</b>	<b>43,393</b>	<b>159,704</b>	<b>162,179</b>
Operating Expenses	19,136	17,400	17,341	16,571	15,460	16,350	19,000	21,002	70,451	71,812
<b>Operating Profit</b>	<b>17,144</b>	<b>22,849</b>	<b>27,708</b>	<b>21,555</b>	<b>25,291</b>	<b>21,479</b>	<b>21,205</b>	<b>22,391</b>	<b>89,253</b>	<b>90,367</b>
% Change (Y-o-Y)	12.5	21.1	22.7	-5.9	47.5	-6.0	-23.5	3.9	12.1	1.2
Other Provisions	7,925	9,235	10,077	10,845	13,237	10,000	8,000	6,079	38,083	37,315
<b>Profit before Tax</b>	<b>9,219</b>	<b>13,614</b>	<b>17,631</b>	<b>10,709</b>	<b>12,055</b>	<b>11,479</b>	<b>13,205</b>	<b>16,312</b>	<b>51,171</b>	<b>53,051</b>
Tax Provisions	1,935	3,472	4,910	3,272	3,273	3,099	3,565	4,386	13,588	14,324
<b>Net Profit</b>	<b>7,283</b>	<b>10,142</b>	<b>12,722</b>	<b>7,438</b>	<b>8,782</b>	<b>8,380</b>	<b>9,640</b>	<b>11,925</b>	<b>37,582</b>	<b>38,728</b>
% Change (Y-o-Y)	-6.0	1.2	3.4	-35.3	20.6	-17.4	-24.2	60.3	-9.6	3.0
Interest Exp/Interest Income (%)	73.5	72.6	74.6	71.6	72.2	70.9	68.7	67.4	73.1	69.8
Other Income/Net Income (%)	42.4	46.6	55.8	43.9	51.3	46.3	44.1	46.3	47.6	47.0
Cost/Income Ratio (%)	52.7	43.2	38.5	43.5	37.9	43.2	47.3	48.4	44.1	44.3
Provisions/Operating Profits (%)	46.2	40.4	36.4	50.3	52.3	46.6	37.7	27.1	42.7	41.3
Tax Rate (%)	21.0	25.5	27.8	30.5	27.1	27.0	27.0	26.9	26.6	27.0

E: MOSL Estimates

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IDFC

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	IDFC IN
	REUTERS CODE
S&P CNX: 4,959	IDFC.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs144

Equity Shares (m)	1,295.3
52-Week Range (Rs)	150/44
1,6,12 Rel.Perf.(%)	4/86/65
M.Cap. (Rs b)	186.7
M.Cap. (US\$ b)	3.9

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROA (%)
3/08A	13,236	7,422	5.7	28.1	25.1	3.3	17.4	3.2
3/09A	15,556	7,498	5.8	1.0	24.9	3.0	12.7	2.6
3/10E	17,372	9,421	7.3	25.6	19.8	2.7	14.4	3.0
3/11E	20,043	10,985	8.5	16.6	17.0	2.4	15.0	3.0

- Overall NII growth would be driven by infrastructure loans. We estimate NII growth of 25% YoY. We expect margins to improve QoQ as the excess liquidity will be used to grow loans.
- On back of strong capital markets we expect IDFC to book higher trading profits of Rs750m vs Rs680m in 1QFY10. However on a YoY basis, capital gains may look lower as base is high.
- We expect investment banking fees and brokerage income to rise QoQ on back of strong capital markets.
- Excluding subsidiaries, the stock trades at 2.7x FY10E ABV and 2.4x FY11E ABV (BV adjusted for NPA and investment in subsidiaries). We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10		FY09
	1Q	2Q	3Q	4Q	1Q	2QE	
<b>NII</b>	<b>2,160</b>	<b>1,998</b>	<b>2,583</b>	<b>2,591</b>	<b>2,475</b>	<b>2,500</b>	<b>9,332</b>
% Change (Y-o-Y)	61	2	51	34	15	25	34
Infra Loans	1,770	1,790	2,070	1,950	2,190	2,300	7,580
Treasury	390	208	513	641	285	200	1,752
<b>Fees</b>	<b>1,020</b>	<b>1,290</b>	<b>720</b>	<b>1,250</b>	<b>1,500</b>	<b>1,405</b>	<b>4,280</b>
Asset management	180	590	480	780	720	720	2,030
SSKI	370	370	130	280	350	385	1,150
Loan related/others	470	330	110	190	430	300	1,100
Principal investments	640	890	10	300	680	750	1,840
Other Income	19	68	33	(16)	23	0	104
<b>Net Income</b>	<b>3,839</b>	<b>4,246</b>	<b>3,346</b>	<b>4,125</b>	<b>4,679</b>	<b>4,655</b>	<b>15,452</b>
% Change (Y-o-Y)	29	30	(10)	26	22	10	17
Operating Expenses	769	929	663	1,305	1,026	926	3,665
<b>Operating Profit</b>	<b>3,070</b>	<b>3,317</b>	<b>2,684</b>	<b>2,821</b>	<b>3,653</b>	<b>3,729</b>	<b>11,786</b>
% Change (Y-o-Y)	23	20	(12)	18	19	12	10
Provisions	199	148	34	1,151	(66)	150	1,532
<b>PBT</b>	<b>2,871</b>	<b>3,169</b>	<b>2,650</b>	<b>1,669</b>	<b>3,718</b>	<b>3,579</b>	<b>10,359</b>
Tax	685	833	810	454	973	931	2,782
<b>PAT</b>	<b>2,186</b>	<b>2,336</b>	<b>1,840</b>	<b>1,216</b>	<b>2,745</b>	<b>2,648</b>	<b>7,577</b>
Consol Adjustments	19	13	(6)	53	20	0	79
<b>Consol PAT</b>	<b>2,167</b>	<b>2,323</b>	<b>1,846</b>	<b>1,162</b>	<b>2,724</b>	<b>2,648</b>	<b>7,498</b>
% Change (Y-o-Y)	20	19	(15)	(24)	26	14	1

E: MOSL Estimates

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## Indian Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	INBK IN
	REUTERS CODE
S&P CNX: 4,959	INBA.BO

25 September 2009

Buy

Rs160

Previous Recommendation: Buy

Equity Shares (m)	429.8
52-Week Range (Rs)	170/64
1,6,12 Rel.Perf.(%)	17/24/1
M.Cap. (Rs b)	68.8
M.Cap. (US\$ b)	1.4

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/08A	30,596	10,087	23.5	32.8	6.8	1.5	12.7	26.0	1.6	1.5
3/09A	36,440	12,453	29.0	23.5	5.5	1.3	14.0	24.8	1.6	1.3
3/10E	43,081	14,879	34.6	19.5	4.6	1.0	13.7	24.5	1.6	1.0
3/11E	48,203	16,532	38.5	11.1	4.2	0.9	13.5	22.7	1.6	0.9

- We expect loan growth of <15% YoY on a higher base. Deposit growth of ~24% YoY would outpace loan growth.
- Unlike other banks, Indian Bank could see a QoQ decline in NII, as unaccounted interest income on written-off assets constituted 8% of NII reported in 1QFY10. Considering the liquidity in the balance sheet and possibility of lower recoveries, reported margins could decline QoQ.
- We estimate other income growth of 40%+ on the back of robust trading gains. In 2QFY09, trading gains were merely Rs30m.
- We expect QoQ fall in operating cost, as the bank had made an ad-hoc provision of Rs450m towards wage revision in 1QFY10.
- We continue to build in higher NPA provisions in our numbers considering the high restructured loans (8%+). Positive surprises are possible, as reported gross and net NPA ratio of 0.9% and 0.2%, respectively, remain the best in the industry.
- The stock is trading at 1x FY10E BV and 0.9x FY11E BV. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	15,018	16,882	17,840	18,564	18,802	18,881	20,101	21,389	68,303	79,174
Interest Expense	9,623	10,063	10,644	11,888	11,426	11,835	12,390	12,531	42,218	48,182
<b>Net Interest Income</b>	<b>5,395</b>	<b>6,818</b>	<b>7,196</b>	<b>6,676</b>	<b>7,377</b>	<b>7,046</b>	<b>7,711</b>	<b>8,858</b>	<b>26,085</b>	<b>30,991</b>
% Change (Y-o-Y)	11.7	44.7	24.6	27.7	36.7	3.3	7.2	32.7	27.0	18.8
Other Income	2,432	2,128	2,873	2,921	3,502	3,073	2,780	2,736	10,354	12,090
<b>Net Income</b>	<b>7,827</b>	<b>8,946</b>	<b>10,069</b>	<b>9,597</b>	<b>10,878</b>	<b>10,119</b>	<b>10,491</b>	<b>11,593</b>	<b>36,440</b>	<b>43,081</b>
Operating Expenses	3,461	3,618	3,833	3,239	4,573	4,000	4,050	4,082	14,151	16,706
<b>Operating Profit</b>	<b>4,366</b>	<b>5,328</b>	<b>6,237</b>	<b>6,357</b>	<b>6,305</b>	<b>6,119</b>	<b>6,441</b>	<b>7,511</b>	<b>22,288</b>	<b>26,375</b>
% Change (Y-o-Y)	32.4	55.1	34.6	21.6	44.4	14.8	3.3	18.1	19.1	18.2
Other Provisions	1,690	1,089	1,410	243	1,209	1,400	1,290	1,221	4,427	5,120
<b>Profit before Tax</b>	<b>2,676</b>	<b>4,239</b>	<b>4,827</b>	<b>6,114</b>	<b>5,096</b>	<b>4,719</b>	<b>5,151</b>	<b>6,290</b>	<b>17,861</b>	<b>21,256</b>
Tax Provisions	500	1,409	1,320	2,173	1,780	1,298	1,417	1,883	5,408	6,377
<b>Net Profit</b>	<b>2,176</b>	<b>2,829</b>	<b>3,507</b>	<b>3,941</b>	<b>3,317</b>	<b>3,421</b>	<b>3,734</b>	<b>4,407</b>	<b>12,453</b>	<b>14,879</b>
% Change (Y-o-Y)	2.6	14.3	14.0	63.1	52.4	20.9	6.5	11.8	23.5	19.5
Interest Exp/Interest Income (%)	64.1	59.6	59.7	64.0	60.8	62.7	61.6	58.6	61.8	60.9
Other Income/Net Income (%)	31.1	23.8	28.5	30.4	32.2	30.4	26.5	23.6	28.4	28.1
Cost/Income Ratio (%)	44.2	40.4	38.1	33.8	42.0	39.5	38.6	35.2	38.8	38.8
Provisions/Operating Profits (%)	38.7	20.4	22.6	3.8	19.2	22.9	20.0	16.3	19.9	19.4
Tax Rate (%)	18.7	33.3	27.3	35.5	34.9	27.5	27.5	29.9	30.3	30.0

E: MOSL Estimates

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## Indian Overseas Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	IOB IN
	REUTERS CODE
S&P CNX: 4,959	IOBK.BO

25 September 2009

Sell

Rs120

Previous Recommendation: Sell

Equity Shares (m)	544.8
52-Week Range (Rs)	124/38
1,6,12 Rel.Perf.(%)	43/90/-10
M.Cap. (Rs b)	65.3
M.Cap. (US\$ b)	1.4

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/08A	34,871	11,973	22.0	18.7	5.5	1.4	11.1	27.8	1.3	1.4
3/09E	44,654	13,258	24.3	10.7	4.9	1.1	13.2	24.8	1.2	1.2
3/10E	44,954	12,196	22.4	-8.0	5.4	1.0	11.5	19.0	0.9	1.1
3/11E	49,883	12,937	23.7	6.1	5.1	0.8	11.5	17.5	0.9	1.0

- We expect NII to be flat YoY (growth of 3% QoQ) owing to a high base effect. We expect loan and deposit growth to slow down to 15% YoY and 17% YoY in 2QFY10, as compared to 21% and 19% in 1QFY10.
- Growth in non-interest income would be marginal, on a YoY basis. In 2QFY09, the bank had recoveries of Rs400m. We expect trading profits to be strong during the quarter. Operating profit is likely to decline ~7% YoY.
- Provisions are likely to decline YoY due to higher provision for NPAs, last year. However, they would increase QoQ, as there was a write-back of Rs1.5b in 1QFY10.
- PAT is likely to decline ~21% YoY and ~6% QoQ due to slower NII and other income growth. In 2QFY09, effective tax rate was ~15%. We have assumed 32% in 2QFY10. This would hamper earnings growth.
- There could be a Rs400m exceptional provision towards amortization of accumulated losses of the Suvarna Sahakari Bank, which was acquired by IoB. We have built this in our estimates.
- We remain concerned about the bank's asset quality. The stock is trading at 1x FY10E and 0.8x FY11E BV. We maintain **Sell**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	21,605	24,270	26,541	25,115	25,779	26,232	27,196	28,432	96,414	107,638
Interest Expense	14,909	16,420	18,315	18,074	18,094	18,340	18,851	19,675	67,718	74,961
<b>Net Interest Income</b>	<b>6,696</b>	<b>7,850</b>	<b>8,227</b>	<b>7,041</b>	<b>7,684</b>	<b>7,891</b>	<b>8,345</b>	<b>8,756</b>	<b>28,696</b>	<b>32,678</b>
% Change (Y-o-Y)	-5.6	24.2	25.4	13.0	14.8	0.5	1.4	24.4	17.1	13.9
Other Income	263	2,835	5,508	6,227	2,307	2,930	3,140	3,900	15,958	12,276
<b>Net Income</b>	<b>6,959</b>	<b>10,684</b>	<b>13,734</b>	<b>13,268</b>	<b>9,991</b>	<b>10,821</b>	<b>11,485</b>	<b>12,656</b>	<b>44,654</b>	<b>44,954</b>
Operating Expenses	4,547	4,670	5,057	5,142	5,705	5,200	5,295	5,332	19,417	21,532
<b>Operating Profit</b>	<b>2,412</b>	<b>6,014</b>	<b>8,677</b>	<b>8,126</b>	<b>4,286</b>	<b>5,621</b>	<b>6,190</b>	<b>7,324</b>	<b>25,237</b>	<b>23,422</b>
% Change (Y-o-Y)	-41.1	31.3	76.0	26.7	77.7	-6.5	-28.7	-9.9	26.1	-7.2
Other Provisions	-605	1,790	1,731	2,770	-167	1,465	1,765	2,424	5,694	5,487
<b>Profit before Tax</b>	<b>3,017</b>	<b>4,224</b>	<b>6,946</b>	<b>5,356</b>	<b>4,454</b>	<b>4,156</b>	<b>4,425</b>	<b>4,900</b>	<b>19,543</b>	<b>17,935</b>
Tax Provisions	457	633	3,062	2,132	1,436	1,330	1,416	1,557	6,285	5,739
<b>Net Profit</b>	<b>2,560</b>	<b>3,590</b>	<b>3,884</b>	<b>3,224</b>	<b>3,018</b>	<b>2,826</b>	<b>3,009</b>	<b>3,342</b>	<b>13,258</b>	<b>12,196</b>
% Change (Y-o-Y)	-4.7	12.3	26.0	5.4	17.9	-21.3	-22.5	3.7	10.7	-8.0
Interest Exp/Interest Income (%)	69.0	67.7	69.0	72.0	70.2	69.9	69.3	69.2	70.2	69.6
Other Income/Net Income (%)	3.8	26.5	40.1	46.9	23.1	27.1	27.3	30.8	35.7	27.3
Cost/Income Ratio (%)	65.3	43.7	36.8	38.8	57.1	48.1	46.1	42.1	43.5	47.9
Provisions/Operating Profits (%)	-25.1	29.8	20.0	34.1	-3.9	26.1	28.5	33.1	22.6	23.4
Tax Rate (%)	15.2	15.0	44.1	39.8	32.2	32.0	32.0	31.8	32.2	32.0

E: MOSL Estimates

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## Jammu &amp; Kashmir Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	JKBK IN
	REUTERS CODE
S&P CNX: 4,959	JKBK.BO

25 September 2009

Buy

Rs581

Previous Recommendation: Buy

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
Equity Shares (m)	48.5										
52-Week Range (Rs)	638/210										
1,6,12 Rel.Perf.(%)	-4/69/3										
M.Cap. (Rs b)	30.0										
M.Cap. (US\$ b)	0.6										
	3/08A	10,555	3,600	74.2	31.2	8.3	1.3	12.8	16.7	1.2	1.4
	3/09A	12,453	4,098	84.5	13.8	7.3	1.1	14.5	16.6	1.2	1.2
	3/10E	14,681	4,982	102.7	21.6	6.0	1.0	14.8	17.7	1.2	1.0
	3/11E	16,154	5,724	118.0	14.9	5.2	0.9	14.5	17.8	1.2	0.9

- NII is expected to grow 7% to Rs2.8b in 2QFY10 on the back of flat loan book (3% growth QoQ) due to higher base. We expect the margins to come under pressure in 2QFY10 vs 2QFY09 due to significantly higher liquidity in the balance sheet.
- We expect operating profit to grow at 20% YoY. We estimate 70%+ surge in other income driven by strong trading profit.
- PAT is expected to decline 5% YoY and ~8% QoQ due to higher provision as compared to 2QFY09 (Rs645m as compared to Rs243m)
- The stock trades at P/BV of 1x FY10E and 0.9x FY11E BV. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	6,514	7,478	8,000	7,889	7,754	7,917	8,417	9,035	29,881	33,123
Interest Expense	4,252	4,865	5,379	5,383	5,094	5,106	5,412	5,833	19,879	21,445
<b>Net Interest Income</b>	<b>2,263</b>	<b>2,613</b>	<b>2,621</b>	<b>2,506</b>	<b>2,660</b>	<b>2,811</b>	<b>3,005</b>	<b>3,202</b>	<b>10,003</b>	<b>11,679</b>
% Change (Y-o-Y)	19.3	33.9	30.2	11.7	17.6	7.6	14.7	27.8	23.4	16.8
Other Income	649	411	394	997	1,157	713	603	530	2,451	3,002
<b>Net Income</b>	<b>2,911</b>	<b>3,024</b>	<b>3,015</b>	<b>3,503</b>	<b>3,817</b>	<b>3,524</b>	<b>3,608</b>	<b>3,732</b>	<b>12,453</b>	<b>14,681</b>
Operating Expenses	1,096	1,148	1,145	1,320	1,252	1,275	1,290	1,326	4,709	5,142
<b>Operating Profit</b>	<b>1,815</b>	<b>1,876</b>	<b>1,870</b>	<b>2,184</b>	<b>2,565</b>	<b>2,249</b>	<b>2,318</b>	<b>2,406</b>	<b>7,745</b>	<b>9,538</b>
% Change (Y-o-Y)	38.4	25.2	11.4	7.6	41.3	19.9	23.9	10.2	18.8	23.2
Other Provisions	414	243	120	646	803	645	440	377	1,424	2,265
<b>Profit before Tax</b>	<b>1,401</b>	<b>1,633</b>	<b>1,750</b>	<b>1,538</b>	<b>1,762</b>	<b>1,604</b>	<b>1,878</b>	<b>2,029</b>	<b>6,321</b>	<b>7,273</b>
Tax Provisions	455	474	543	751	592	505	592	602	2,223	2,291
<b>Net Profit</b>	<b>946</b>	<b>1,159</b>	<b>1,207</b>	<b>787</b>	<b>1,171</b>	<b>1,099</b>	<b>1,286</b>	<b>1,427</b>	<b>4,098</b>	<b>4,982</b>
% Change (Y-o-Y)	13.6	7.5	10.6	31.6	23.8	-5.2	6.6	81.3	13.8	21.6
Interest Exp/Interest Income (%)	65.3	65.1	67.2	68.2	65.7	64.5	64.3	64.6	66.5	64.7
Other Income/Net Income (%)	22.3	13.6	13.1	28.5	30.3	20.2	16.7	14.2	19.7	20.4
Cost/Income Ratio (%)	37.7	38.0	38.0	37.7	32.8	36.2	35.8	35.5	37.8	35.0
Provisions/Operating Profits (%)	22.8	12.9	6.4	29.6	31.3	28.7	19.0	15.7	18.4	23.7
Tax Rate (%)	32.5	29.0	31.0	48.8	33.6	31.5	31.5	29.7	35.2	31.5

E: MOSL Estimates

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## Oriental Bank of Commerce

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	OBC IN
	REUTERS CODE
S&P CNX: 4,959	ORBC.BO

25 September 2009

Buy

Rs225

Previous Recommendation: Buy

Equity Shares (m)	250.5
52-Week Range (Rs)	242/95
1,6,12 Rel. Perf.(%)	24/34/14
M.Cap. (Rs b)	56.3
M.Cap. (US\$ b)	1.2

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
3/08A	22,987	8,409	33.6	1.7	6.7	1.0	12.1	14.8	1.0	1.0
3/09A	30,678	9,054	36.1	7.7	6.2	0.9	13.0	14.8	0.9	0.9
3/10E	33,757	10,335	41.3	14.1	5.5	0.8	12.0	15.1	0.8	0.8
3/11E	38,308	10,572	42.2	2.3	5.3	0.7	11.3	13.8	0.8	0.7

- We expect the NII to be flat at Rs5.3b YoY and grow by 9% QoQ. Due to benefit of repricing of bulk deposits, margins are expected to expand on QoQ.
- Deposit and loans growth is expected to remain healthy at 21% YoY and 3% QoQ for 2QFY10.
- Non-interest income is expected to grow 21% YoY due to higher fee income growth. Other income could decline QoQ due to strong treasury gains in 1QFY10.
- In 2QFY09 OBC had a negative tax provision due to accounting practice change on investment book. We have assumed an effective tax rate of 28% in 2QFY10. Thus despite a strong PBT growth of 60%, we expect PAT growth to be <10%.
- The stock is trading at 0.8x FY10E and 0.7x of FY11E BV. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	19,512	21,518	24,028	23,481	24,042	24,940	26,049	27,404	88,565	102,435
Interest Expense	15,070	16,302	18,350	18,878	19,201	19,674	19,978	20,414	68,600	79,267
<b>Net Interest Income</b>	<b>4,442</b>	<b>5,217</b>	<b>5,678</b>	<b>4,603</b>	<b>4,842</b>	<b>5,266</b>	<b>6,070</b>	<b>6,990</b>	<b>19,965</b>	<b>23,168</b>
% Change (Y-o-Y)	0.2	30.6	41.1	5.3	9.0	0.9	6.9	51.9	19.5	16.0
Other Income	2,080	2,092	3,154	3,413	3,919	2,525	2,120	2,025	10,713	10,589
<b>Net Income</b>	<b>6,522</b>	<b>7,308</b>	<b>8,832</b>	<b>8,016</b>	<b>8,760</b>	<b>7,791</b>	<b>8,190</b>	<b>9,015</b>	<b>30,678</b>	<b>33,757</b>
Operating Expenses	2,985	3,241	4,970	2,633	3,591	3,600	3,850	3,960	13,828	15,002
<b>Operating Profit</b>	<b>3,537</b>	<b>4,067</b>	<b>3,862</b>	<b>5,383</b>	<b>5,169</b>	<b>4,191</b>	<b>4,340</b>	<b>5,054</b>	<b>16,850</b>	<b>18,755</b>
% Change (Y-o-Y)	8.8	49.4	30.2	65.6	46.1	3.0	12.4	-6.1	38.2	11.3
Other Provisions	2,071	1,875	519	783	1,514	680	780	1,526	5,255	4,500
<b>Profit before Tax</b>	<b>1,466</b>	<b>2,192</b>	<b>3,343</b>	<b>4,600</b>	<b>3,656</b>	<b>3,511</b>	<b>3,560</b>	<b>3,528</b>	<b>11,595</b>	<b>14,255</b>
Tax Provisions	-739	-177	821	2,642	1,082	966	979	894	2,540	3,920
<b>Net Profit</b>	<b>2,206</b>	<b>2,369</b>	<b>2,522</b>	<b>1,958</b>	<b>2,574</b>	<b>2,545</b>	<b>2,581</b>	<b>2,634</b>	<b>9,054</b>	<b>10,335</b>
% Change (Y-o-Y)	10.0	0.3	26.3	-4.3	16.7	7.5	2.4	34.5	7.7	14.1
Interest Exp/Interest Income (%)	77.2	75.8	76.4	80.4	79.9	78.9	76.7	74.5	77.5	77.4
Other Income/Net Income (%)	31.9	28.6	35.7	42.6	44.7	32.4	25.9	22.5	34.9	31.4
Cost/Income Ratio (%)	45.8	44.3	56.3	32.8	41.0	46.2	47.0	43.9	45.1	44.4
Provisions/Operating Profits (%)	58.5	46.1	13.4	14.5	29.3	16.2	18.0	30.2	31.2	24.0
Tax Rate (%)	-50.4	-8.1	24.6	57.4	29.6	27.5	27.5	25.3	21.9	27.5

E: MOSL Estimates

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## Punjab National Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	PNB IN
	REUTERS CODE
S&P CNX: 4,959	PNB.BO

25 September 2009

Buy

Rs786

Previous Recommendation: Buy

Equity Shares (m)	315.3
52-Week Range (Rs)	801/286
1,6,12 Rel.Perf.(%)	10/26/37
M.Cap. (Rs b)	247.9
M.Cap. (US\$ b)	5.2

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/08A	75,317	20,488	65.0	33.0	12.1	2.3	13.5	19.6	1.1	2.4
3/09A	99,506	30,909	98.0	50.9	8.0	1.9	14.0	25.8	1.4	1.9
3/10E	113,920	34,272	108.7	10.9	7.2	1.6	13.0	23.8	1.3	1.6
3/11E	127,843	38,835	123.2	13.3	6.4	1.3	11.9	22.7	1.3	1.4

- On higher base of 2QFY09, we expect reported loan growth to decline to 23% YoY from 38% YoY in 1QFY10. In 2QFY09, loans had grown by 14% QoQ. We expect loan growth of ~2% QoQ in 2QFY10.
- We expect deposit growth to moderate to 22% YoY v/s 27% YoY in 1QFY10. In 2QFY09, deposits grew by 8% QoQ. We expect deposits to grow by ~3% QoQ in 2QFY10.
- We have modeled 25% YoY growth in fee income. We expect 50%+ sequential decline in trading profits. Strong trading profits could provide upside to our earnings estimates.
- Reported gross NPA and net NPA ratios remain comfortable at 1.8% and 0.2%, respectively, with provision coverage ratio of 90% as on June 2009. We have modelled NPA provisions conservatively. Upgrades are likely.
- The stock is trading at 1.6x FY10E BV and 1.3x FY11E BV. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	41,385	46,504	52,947	52,426	52,074	53,747	56,117	59,931	193,262	221,869
Interest Expense	26,937	29,382	33,274	33,360	33,456	34,254	35,107	36,301	122,953	139,118
<b>Net Interest Income</b>	<b>14,448</b>	<b>17,122</b>	<b>19,674</b>	<b>19,065</b>	<b>18,618</b>	<b>19,493</b>	<b>21,010</b>	<b>23,630</b>	<b>70,309</b>	<b>82,751</b>
% Change (Y-o-Y)	11.0	32.6	38.1	25.7	28.9	13.8	6.8	23.9	27.0	17.7
Other Income	4,561	6,628	9,452	8,556	9,702	7,186	7,004	7,276	29,197	31,168
<b>Net Income</b>	<b>19,009</b>	<b>23,750</b>	<b>29,126</b>	<b>27,621</b>	<b>28,320</b>	<b>26,679</b>	<b>28,015</b>	<b>30,907</b>	<b>99,506</b>	<b>113,920</b>
Operating Expenses	9,185	10,072	11,066	11,740	12,626	11,750	11,800	11,907	42,062	48,083
<b>Operating Profit</b>	<b>9,824</b>	<b>13,678</b>	<b>18,059</b>	<b>15,882</b>	<b>15,693</b>	<b>14,929</b>	<b>16,215</b>	<b>19,000</b>	<b>57,443</b>	<b>65,837</b>
% Change (Y-o-Y)	5.3	60.0	82.2	29.5	59.7	9.1	-10.2	19.6	43.4	14.6
Other Provisions	2,105	3,177	1,813	2,678	3,018	3,000	3,750	4,917	9,774	14,685
<b>Profit before Tax</b>	<b>7,719</b>	<b>10,501</b>	<b>16,246</b>	<b>13,203</b>	<b>12,676</b>	<b>11,929</b>	<b>12,465</b>	<b>14,083</b>	<b>47,669</b>	<b>51,152</b>
Tax Provisions	2,595	3,430	6,188	4,548	4,355	3,877	4,051	4,597	16,760	16,880
<b>Net Profit</b>	<b>5,124</b>	<b>7,071</b>	<b>10,058</b>	<b>8,656</b>	<b>8,321</b>	<b>8,052</b>	<b>8,414</b>	<b>9,486</b>	<b>30,909</b>	<b>34,272</b>
% Change (Y-o-Y)	20.5	31.3	85.8	59.2	62.4	13.9	-16.3	9.6	50.9	10.9
Interest Exp/Interest Income (%)	65.1	63.2	62.8	63.6	64.2	63.7	62.6	60.6	63.6	62.7
Other Income/Net Income (%)	24.0	27.9	32.5	31.0	34.3	26.9	25.0	23.5	29.3	27.4
Cost/Income Ratio (%)	48.3	42.4	38.0	42.5	44.6	44.0	42.1	38.5	42.3	42.2
Provisions/Operating Profits (%)	21.4	23.2	10.0	16.9	19.2	20.1	23.1	25.9	17.0	22.3
Tax Rate (%)	33.6	32.7	38.1	34.4	34.4	32.5	32.5	32.6	35.2	33.0

E: MOSL Estimates; Quarterly and Annual numbers may not tally due to reclassification

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## State Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	SBIN IN
	REUTERS CODE
S&P CNX: 4,959	SBI.BO

25 September 2009

Buy

Rs2,139

Previous Recommendation: Buy

Equity Shares (m)	634.9
52-Week Range (Rs)	2,195/894
1,6,12 Rel.Perf.(%)	16/31/20
M.Cap. (Rs b)	1,358.1
M.Cap. (US\$ b)	28.3

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	CON.EPS (RS)	CON.P/E (X)	P/BV (X)	CON. P/ABV (X)	CAR (%)	ROAE (%)	ROAA (%)
3/08A	257,162	67,291	106.6	141.9	14.4	2.8	2.3	13.0	16.8	1.0
3/09A	335,648	91,221	143.7	178.4	11.4	2.3	2.0	14.3	17.1	1.1
3/10E	372,873	101,101	159.2	213.5	9.6	2.1	1.7	12.4	16.4	1.0
3/11E	464,713	122,843	193.5	265.0	7.7	1.8	1.4	12.2	17.4	1.0

- In 2QFY09, State Bank of Saurashtra had merged into SBI, leading to higher base for loans and deposits. In 2QFY09, loans and deposits grew 11% QoQ and 10% QoQ, respectively. In 2QFY10, we expect loans and deposits to grow ~3% QoQ. We expect loan growth of 14% YoY (on a higher base) and deposit growth of 25%+ YoY v/s 23% YoY and 36% YoY, respectively in 1QFY10.
- We expect margins to increase 5-7bp QoQ from 2.3% in 1QFY10 due to improved yields on overall funds and continued benefit of deposit re-pricing. However, on a YoY basis, margins would decline significantly. We expect NII to decline ~3% YoY.
- We expect strong traction in fee income to continue in 2QFY10. In 1QFY10, fee income grew 45% YoY. Trading profits to remain strong in 2QFY10, but lower than 1QFY10. Overall, we expect non-interest income growth of ~30% YoY. Like the previous three quarters, SBI would have to depend on trading gains to boost its overall earnings.
- On the back of strong profitability in 2QFY09 and 1QFY10, SBI had increased NPA provisions. It would have to lower its provisions charge in 2QFY10 to report strong earnings.
- The stock is trading at 1.7x FY10E and 1.4x FY11E consolidated ABV. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	137,992	155,665	180,303	173,424	174,728	180,446	191,759	207,828	637,884	754,760
Interest Expense	89,815	101,112	122,722	125,005	124,479	127,719	131,413	138,099	429,144	521,709
<b>Net Interest Income</b>	<b>48,177</b>	<b>54,554</b>	<b>57,582</b>	<b>48,419</b>	<b>50,249</b>	<b>52,727</b>	<b>60,347</b>	<b>69,729</b>	<b>208,740</b>	<b>233,051</b>
% Change (Y-o-Y)	14.7	45.0	35.3	0.9	4.3	-3.3	4.8	44.0	22.6	11.6
Other Income	24,039	23,431	32,256	47,182	35,688	30,271	31,401	42,463	126,908	139,822
<b>Net Income</b>	<b>72,215</b>	<b>77,985</b>	<b>89,838</b>	<b>95,602</b>	<b>85,936</b>	<b>82,998</b>	<b>91,748</b>	<b>112,192</b>	<b>335,648</b>	<b>372,873</b>
Operating Expenses	32,592	36,053	45,011	42,831	49,198	43,015	45,203	46,641	156,487	184,057
<b>Operating Profit</b>	<b>39,623</b>	<b>41,932</b>	<b>44,826</b>	<b>52,771</b>	<b>36,739</b>	<b>39,982</b>	<b>46,544</b>	<b>65,551</b>	<b>179,161</b>	<b>188,816</b>
% Change (Y-o-Y)	67.8	54.5	22.5	20.7	-7.3	-4.7	3.8	24.2	36.7	5.4
Other Provisions	15,495	6,106	1,968	13,777	1,727	4,100	8,150	19,299	37,346	33,276
<b>Profit before Tax</b>	<b>24,129</b>	<b>35,826</b>	<b>42,858</b>	<b>38,994</b>	<b>35,011</b>	<b>35,882</b>	<b>38,394</b>	<b>46,252</b>	<b>141,815</b>	<b>155,540</b>
Tax Provisions	7,721	13,229	18,074	11,571	11,708	12,559	13,054	17,119	50,594	54,439
<b>Net Profit</b>	<b>16,408</b>	<b>22,597</b>	<b>24,784</b>	<b>27,423</b>	<b>23,304</b>	<b>23,323</b>	<b>25,340</b>	<b>29,134</b>	<b>91,221</b>	<b>101,101</b>
% Change (Y-o-Y)	15.1	40.2	37.0	45.6	42.0	3.2	2.2	6.2	35.6	10.8
Interest Exp/Interest Income (%)	65.1	65.0	68.1	72.1	71.2	70.8	68.5	66.4	67.3	69.1
Other Income/Net Income (%)	33.3	30.0	35.9	49.4	41.5	36.5	34.2	37.8	37.8	37.5
Cost/Income Ratio (%)	45.1	46.2	50.1	44.8	57.2	51.8	49.3	41.6	46.6	49.4
Provisions/Operating Profits (%)	39.1	14.6	4.4	26.1	4.7	10.3	17.5	29.4	20.8	17.6
Tax Rate (%)	32.0	36.9	42.2	29.7	33.4	35.0	34.0	37.0	35.7	35.0

E: MOSL Estimates

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## Union Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	UNBK IN
	REUTERS CODE
S&P CNX: 4,959	UNBK.BO

25 September 2009

Buy

Rs244

Previous Recommendation: Buy

Equity Shares (m)	505.1
52-Week Range (Rs)	265/113
1,6,12 Rel.Perf.(%)	8/1/45
M.Cap. (Rs b)	123.1
M.Cap. (US\$ b)	2.6

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/08A	41,733	13,870	27.5	64.1	8.9	2.2	12.5	26.8	1.2	2.2
3/09A	52,961	17,266	34.2	24.5	7.1	1.7	13.3	27.2	1.2	1.8
3/10E	59,562	20,169	39.9	16.8	6.1	1.4	12.6	25.6	1.2	1.5
3/11E	71,282	24,249	48.0	20.2	5.1	1.2	12.1	25.1	1.2	1.2

- We expect loan growth and deposit growth of ~15% YoY and ~28% YoY on a higher base, v/s 27% YoY and 34% YoY, respectively in 1QFY10. On a QoQ basis, we expect loans and deposits to grow 2-3% in 2QFY10.
- In 2QFY09, the bank's pricing power enabled a 53bp QoQ margin expansion to 3.38%. However, due to excess liquidity in 1QFY10, margins declined 48bp QoQ to 2.21%. Despite expected increase in margins QoQ, we expect NII to decline 7% YoY.
- Core fee income is likely to grow strongly at ~30% YoY, on the back of the bank's increased thrust on scaling up traditional non-fund based revenue. Trading profits are also likely to be strong v/s a loss of Rs380m in 2QFY09. Strong other income growth would boost profitability.
- Considering UBI's provision coverage ratio of 90%+, NPA provisions could surprise positively, as continue to be conservative in our estimates.
- The stock is trading at 1.4x FY10E and 1.2x FY11E BV. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	25,123	28,313	32,617	32,897	31,753	33,549	35,477	38,405	118,894	139,184
Interest Expense	17,232	18,560	21,333	23,633	23,737	24,455	24,859	25,126	80,758	98,176
<b>Net Interest Income</b>	<b>7,891</b>	<b>9,753</b>	<b>11,284</b>	<b>9,264</b>	<b>8,016</b>	<b>9,094</b>	<b>10,619</b>	<b>13,279</b>	<b>38,136</b>	<b>41,007</b>
% Change (Y-o-Y)	7.5	48.6	63.1	20.1	1.6	-6.8	-5.9	43.3	33.6	7.5
Other Income	2,426	2,833	3,921	5,590	5,287	4,944	4,589	3,734	14,826	18,555
<b>Net Income</b>	<b>10,317</b>	<b>12,586</b>	<b>15,205</b>	<b>14,854</b>	<b>13,303</b>	<b>14,038</b>	<b>15,208</b>	<b>17,013</b>	<b>52,961</b>	<b>59,562</b>
Operating Expenses	4,157	5,589	6,656	5,740	5,429	5,750	5,850	6,300	22,141	23,328
<b>Operating Profit</b>	<b>6,160</b>	<b>6,997</b>	<b>8,548</b>	<b>9,115</b>	<b>7,875</b>	<b>8,288</b>	<b>9,358</b>	<b>10,713</b>	<b>30,820</b>	<b>36,234</b>
% Change (Y-o-Y)	17.3	32.4	34.4	2.3	27.8	18.4	9.5	17.5	19.4	17.6
Other Provisions	2,957	2,033	-449	2,834	1,903	1,900	1,925	2,493	7,375	8,221
<b>Profit before Tax</b>	<b>3,203</b>	<b>4,965</b>	<b>8,997</b>	<b>6,281</b>	<b>5,972</b>	<b>6,388</b>	<b>7,433</b>	<b>8,220</b>	<b>23,446</b>	<b>28,013</b>
Tax Provisions	920	1,350	2,280	1,630	1,550	1,853	2,155	2,286	6,180	7,844
<b>Net Profit</b>	<b>2,283</b>	<b>3,615</b>	<b>6,717</b>	<b>4,651</b>	<b>4,422</b>	<b>4,536</b>	<b>5,277</b>	<b>5,935</b>	<b>17,266</b>	<b>20,169</b>
% Change (Y-o-Y)	1.6	31.1	83.8	-10.8	93.7	25.5	-21.4	27.6	24.5	16.8
Interest Exp/Interest Income (%)	68.6	65.6	65.4	71.8	74.8	72.9	70.1	65.4	67.9	70.5
Other Income/Net Income (%)	23.5	22.5	25.8	37.6	39.7	35.2	30.2	21.9	28.0	31.2
Cost/Income Ratio (%)	40.3	44.4	43.8	38.6	40.8	41.0	38.5	37.0	41.8	39.2
Provisions/Operating Profits (%)	48.0	29.0	-5.3	31.1	24.2	22.9	20.6	23.3	23.9	22.7
Tax Rate (%)	28.7	27.2	25.3	26.0	26.0	29.0	29.0	27.8	26.4	28.0

E: MOSL Estimates

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## Cement

BSE Sensex: 16,693

S&amp;P CNX: 4,959

25 September 2009

## COMPANY NAME

ACC

Ambuja Cements

Birla Corporation

Grasim Industries

India Cements

Shree Cement

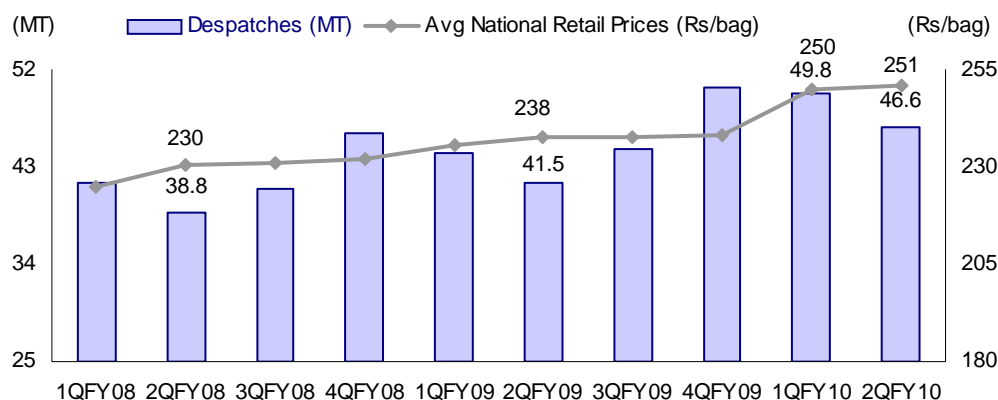
UltraTech Cement

## Snapshot of 2QFY10

- Expect volumes to be up 12.2% YoY
- Domestic prices to be up 5.6% YoY (flat QoQ), despite pressure since mid-August
- Capacity utilization at 82% (v/s 82% in 2QFY09), as 16MT capacity added since 1QFY09
- Cost inflation in the form of increase in limestone royalty and expected increase in domestic coal prices to impact margins
- Aggregate EBITDA margins to decline 130bp QoQ (expand ~800bp YoY); margins to come under pressure due to decline in realizations and cost push
- Short-term outlook negative, as new capacities get absorbed in the system. However, given strong demand outlook, we expect the cement cycle to bottom out in 2HFY11.
- Valuations attractive; we prefer companies that are ahead of the curve in adding capacity, and offer strong cost saving possibilities. **Buy Grasim, UltraTech, Birla Corp and Shree Cement.**

## CEMENT INDUSTRY DYNAMICS: DEMAND AND PRICE TRENDS

CHANGE (%)	DISPATCHES		PRICES	
	YOY	QOQ	YOY	QOQ
2QFY10	12.2	-6.4	5.6	0.4
1HFY10	12.2		5.9	
FY09	8.2		12.7	
FY10E	12.0		4.6	



Source: CMA/MOSL

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	CMP (RS)	RECO	SALES		EBITDA			NET PROFIT			
			SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
				% YOY	% QOQ	% YOY	% QOQ	% YOY	% QOQ		
	25.9.09										
<b>Cement</b>											
ACC	817	Neutral	20,072	11.2	-3.6	6,332	44.5	-13.7	4,067	43.5	-16.3
Ambuja Cements	98	Neutral	16,642	18.7	-9.9	4,874	19.1	1.6	3,189	27.5	-1.8
Birla Corporation	286	Buy	5,316	43.0	8.4	1,779	128.9	1.3	1,187	98.8	-23.6
Grasim Industries	2,834	Buy	29,322	9.2	-3.7	8,781	51.6	-0.8	5,496	31.0	1.9
India Cements	134	Buy	9,630	1.8	1.0	2,997	3.3	4.7	1,440	-6.9	10.6
Shree Cement	1,638	Buy	9,136	45.2	-1.0	4,031	120.5	-5.2	2,532	119.9	-14.0
Ultratech Cement	751	Buy	15,982	14.5	-18.2	5,532	86.4	-22.8	3,238	97.2	-22.5
<b>Sector Aggregate</b>			<b>106,100</b>	<b>14.9</b>	<b>-6.0</b>	<b>34,326</b>	<b>51.0</b>	<b>-7.3</b>	<b>21,148</b>	<b>46.2</b>	<b>-9.9</b>

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

25 September 2009

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**Pricing: Cement prices dip in September 2009**

**2QFY10 Highlights**

- **YoY Comparative:** higher by 5.6%
- **QoQ Comparative:** higher by 0.4%

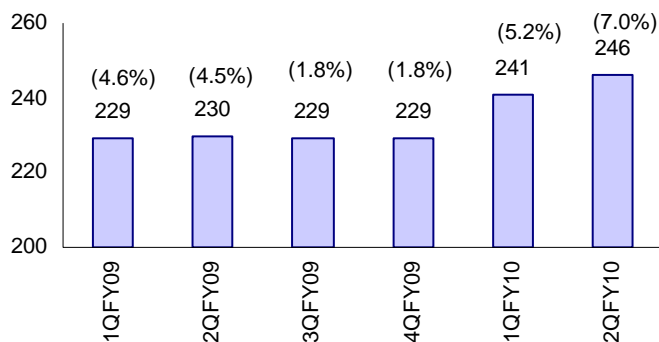
2QFY10: SUMMARY PRICING TREND

	PRICE CHANGE (%) *	
	YOY	QOQ
North	7.1	2.1
East	9.8	4.0
West	1.4	-0.2
South	0.4	-2.4
Central	15.3	0.2
<b>National</b>	<b>5.6</b>	<b>0.4</b>

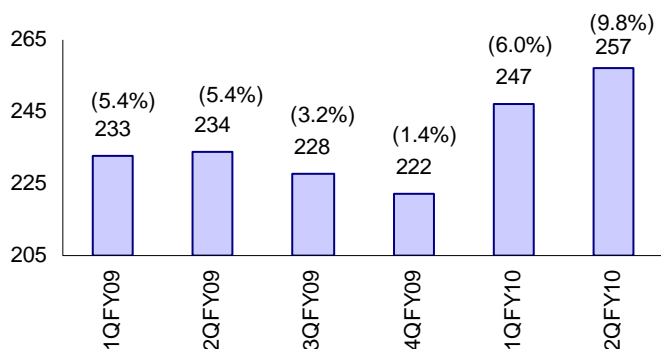
\* adjusted for changes in prices for excise duty

Source: Industry/Motilal Oswal Securities

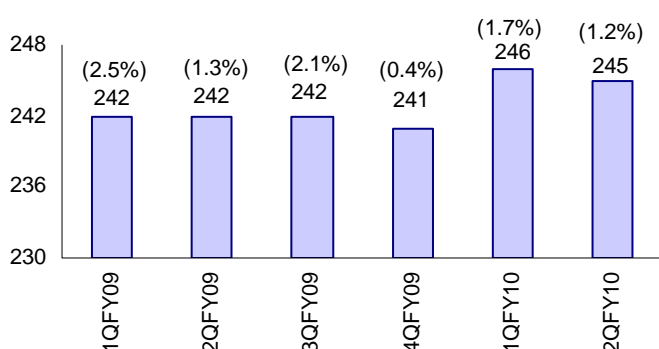
PRICE TREND - NORTH (RS/BAG)



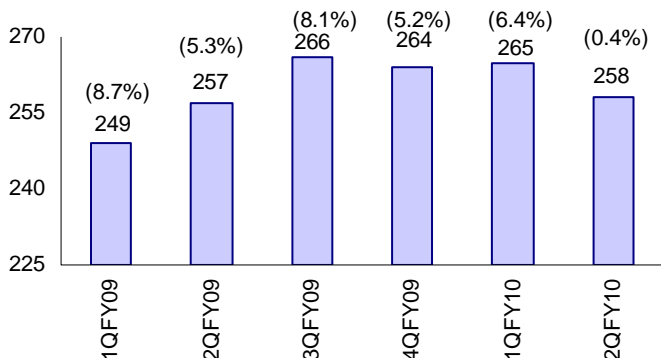
PRICE TREND - EAST (RS/BAG)



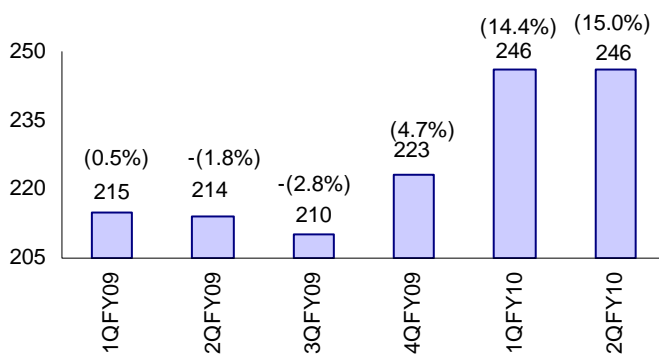
PRICE TREND - WEST (RS/BAG)



PRICE TREND - SOUTH (RS/BAG)



PRICE TREND - CENTRAL (RS/BAG)



\* Figure in bracket indicates YoY Change

Source: CMA/MOSL

## MOSL CEMENT UNIVERSE: 2QFY10 PERFORMANCE AT A GLANCE

	VOL (M TON)	GROWTH (%)			REAL (RS/BAG)	CHANGE (%)		
	2QFY10	YOY	YTD	FY10E	2QFY10	YOY	QOQ	FY10E
ACC	5.2	7.0	5.1	6.0	193	7.2	0.5	8.0
Ambuja Cement	4.3	10.3	8.8	7.7	181	7.6	0.5	6.1
Grasim	4.7	27.0	24.9	19.5	184	6.9	0.5	6.2
UltraTech	4.4	9.9	17.4	17.1	183	4.2	-0.5	5.2
Birla Corp	1.3	19.6	10.4	2.8	188	21.8	1.1	19.0
India Cement	2.5	4.2	4.1	11.4	179	-0.2	-2.7	-1.2
Shree Cement	2.5	23.9	28.3	20.7	175	14.5	0.6	10.4
Industry	49.8	12.2	12.2	12.0	251	5.6	0.4	4.6

\* Adjusted for change in excise

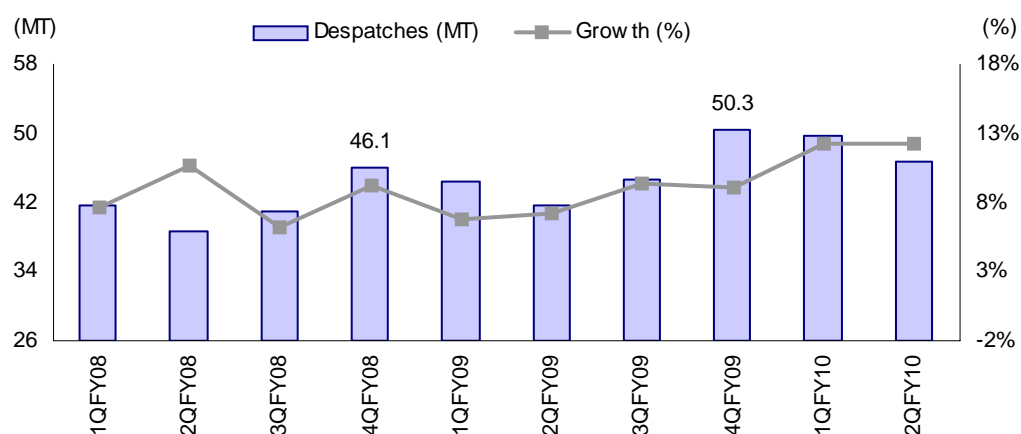
Source: CMA/MOSL

**Demand momentum continues; expect 12.2% growth in 2QFY10**

We expect domestic cement demand to grow 12.2% in 2QFY10, as against 8.2% in FY09. Cement demand over the last six months has been driven by individual housing in rural/semi-urban areas and investments in infrastructure. Further, there have been initial signs of recovery in the organized real estate sector.

## DEMAND GROWTH IMPROVES TO 12.2% IN 1HFY10

PERIOD	MT	GROWTH (%)
FY09	181	8.2
2QFY10	46.6	12.2
1HFY10	96.4	12.2
FY10E	203.1	12.0



Source: CMA/MOSL

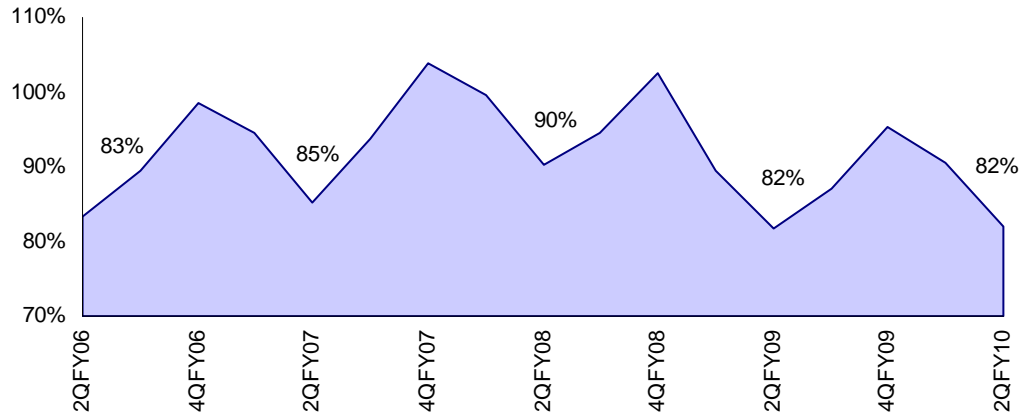
**New capacity addition, seasonality suppress capacity utilization to 82%**

Capacity utilization for 2QFY10 is estimated to be 82% (v/s 82% in 2QFY09 and 90% in 1QFY10), impacted by new capacity additions (~16MT in 1HFY10) and seasonality in demand. We expect capacity utilization for the industry to ease from ~90% in FY09 to ~86% in FY10 and ~82% in FY11, following ~75MT capacity addition over the next two years.



CAPACITY UTILIZATION: NEW CAPACITIES EASING THE PRESSURE

CAP UTILIZATION	%
FY08	98
FY09E	90
FY10E	86
2QFY10E	82
1HFY10	86



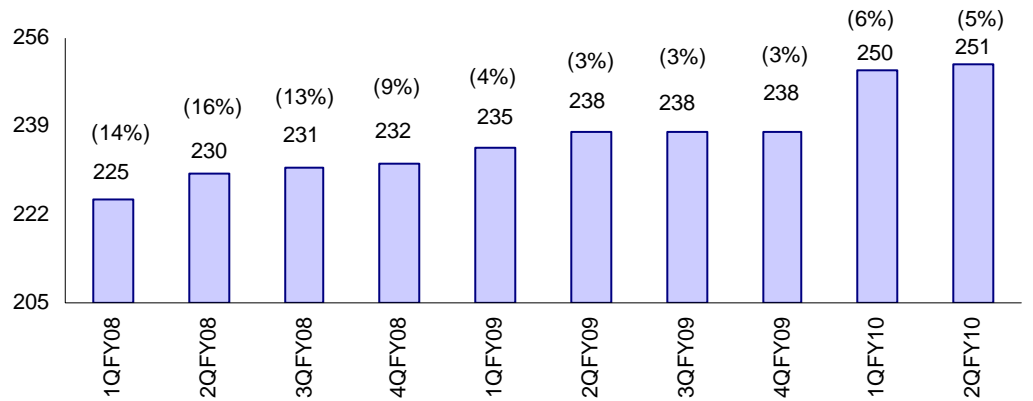
Source: CMA/MOSL

**New capacity addition, seasonality leads to softening in cement prices**

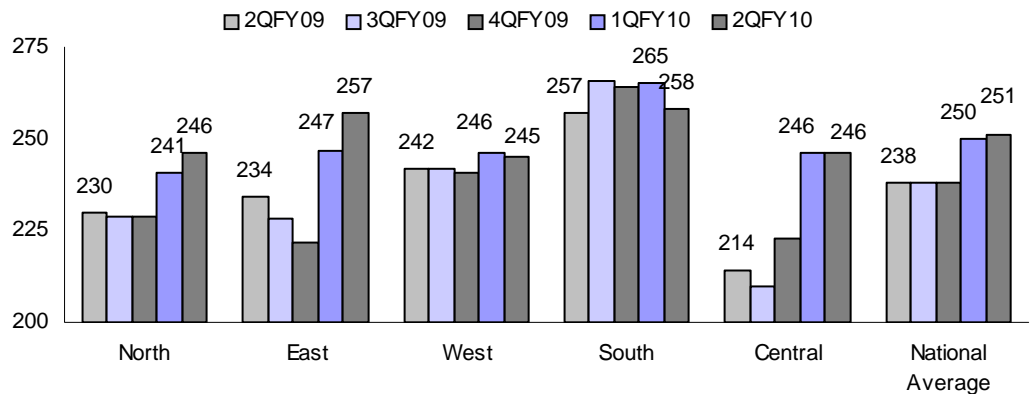
We had expected cement prices to remain stable in 2QFY10. However, they have been softening from mid-August. Cement prices have declined across all key markets by an average Rs4-5/bag (Rs10-20/bag in select markets), impacted by monsoon, weak demand and new capacities. Prices have declined in South India (by Rs5-15/bag), Central India (by Rs10-15/bag), North India (by Rs2-3/bag) and Maharashtra (by Rs5-20/bag, higher decline in Pune). Price decline varies from brand to brand in each region.

PRESSURE ON PRICES AFTER SEEING SIGNIFICANT RECOVERY IN 1QFY10 (RS/BAG)

*Cement prices have declined by Rs9/bag from peak levels of July 2009*



PRICING PRESSURE HIGHEST IN SOUTH AND CENTRAL INDIA



\* Figure in bracket indicates YoY Change

Source: CMA/MOSL

## Revenue growth to be driven by higher volumes

We expect our cement universe to report 13% volume growth, driven by commissioning of new capacities of Grasim and UltraTech. However, stable realizations (flat QoQ, but Rs12/bag YoY increase), coupled with increase in fixed costs due to maintenance related expenditure would impact EBITDA by Rs2.5/bag QoQ (~Rs17.5/bag YoY increase) to Rs63/bag. Increase in limestone royalty and expected increase in domestic coal prices coupled with softening of cement prices would put pressure on margins 3QFY10 onwards.

### TREND IN 2QFY10 KEY OPERATING PARAMETERS

	VOLUME (M TON)			REALIZATION (RS/BAG)			EBITDA (RS/BAG)		
	2QFY10	YOY	QOQ	2QFY10	YOY	QOQ	2QFY10	YOY	QOQ
		(%)	(%)		(RS)	(RS)		(RS)	(RS)
ACC	5.2	7.0	-4.1	193	13.0	1.0	61	21.5	-6.8
Ambuja Cement	4.3	10.3	-10.4	192	13.6	1.0	56	4.2	6.7
Grasim	4.7	27.0	-3.7	184	11.9	1.0	67	17.6	-6.7
UltraTech	4.4	9.9	-17.8	183	7.4	-0.9	63	26.0	-4.1
Birla Corp	1.3	19.6	9.8	188	33.7	2.0	67	27.7	-2.0
India Cement	2.5	4.2	2.8	179	-0.4	-5.0	59	-0.5	1.1
Shree Cement	2.5	23.9	-1.9	175	22.1	1.0	74	31.0	-3.6
<b>Sector Aggregate</b>	<b>25.0</b>	<b>13.4</b>	<b>-6.4</b>	<b>186</b>	<b>12.1</b>	<b>0.1</b>	<b>63</b>	<b>17.6</b>	<b>-2.5</b>

Source: CMA/MOSL

Overall, we expect our cement universe revenues to grow 20% YoY, with EBITDA margin shrinking 130bp QoQ (~800bp YoY expansion) to 32.9%, translating into 13.4% QoQ decline (~52.4% YoY improvement) in PAT (excluding Grasim).

### TREND IN 2QFY10 KEY FINANCIAL PARAMETERS

	NET SALES (RS M)			EBITDA MARGIN (%)			NET PROFIT (RS M)		
	2QFY10	YOY	QOQ	2QFY10	YOY	QOQ	2QFY10	YOY	QOQ
		(%)	(%)		(BP)	(BP)		(%)	(%)
ACC	20,072	11.2	-3.6	31.5	970	-370	4,067	43.5	-16.3
Ambuja Cement	16,642	18.7	-9.9	29.3	10	330	3,189	27.5	-1.8
Grasim*	20,622	29.6	-3.9	31.5	770	-300	5,496	31.0	1.9
UltraTech	15,982	14.5	-18.2	34.6	1,340	-210	3,238	97.2	-22.5
Birla Corp	5,316	43.0	8.4	33.5	1,260	-230	1,187	98.8	-23.6
India Cement	9,630	1.8	1.0	31.1	40	110	1,440	-6.9	10.6
Shree Cement	9,136	45.2	-1.0	44.1	1,510	-200	2,532	119.9	-14.0
<b>Sector Aggregate*</b>	<b>97,400</b>	<b>19.7</b>	<b>-6.3</b>	<b>32.9</b>	<b>800</b>	<b>-130</b>	<b>15,653</b>	<b>52.4</b>	<b>-13.4</b>

\* Grasim's sales and EBITDA margin for cement business only; Sector PAT excl Grasim

Source: CMA/MOSL

## Revising estimates

We are revising our FY11 estimates for all cement companies under our coverage, to factor in decline in prices during 2QFY10, increase in limestone royalty and increase in coal prices of Singareni mines. Our estimates factor in Rs5/bag decline in 3QFY10, stable prices in 4QFY10 and Rs10/bag decline in FY11 (from FY10 average). Our estimates for Grasim (~8% upgrade) and Shree Cement (~8.7% upgrade) have been upgraded to factor in improving dynamics in their non-cement businesses.

## REVISING ESTIMATES

	FY10E			FY11E		
	REV	OLD	CHG (%)	REV	OLD	CHG (%)
ACC	97.4	96.5	0.9	77.3	76.4	1.2
Ambuja Cement	8.7	9.1	-4.4	7.8	7.7	1.2
Grasim	337.4	314.6	7.3	311.1	288.7	7.8
UltraTech	128.2	129.5	-1.0	110.1	109.4	0.7
Birla Corp	70.9	70.3	0.9	60.2	59.9	0.5
India Cement	17.6	20.8	-15.6	13.6	15.4	-11.6
Shree Cement	242.5	236.5	2.5	246.2	226.5	8.7

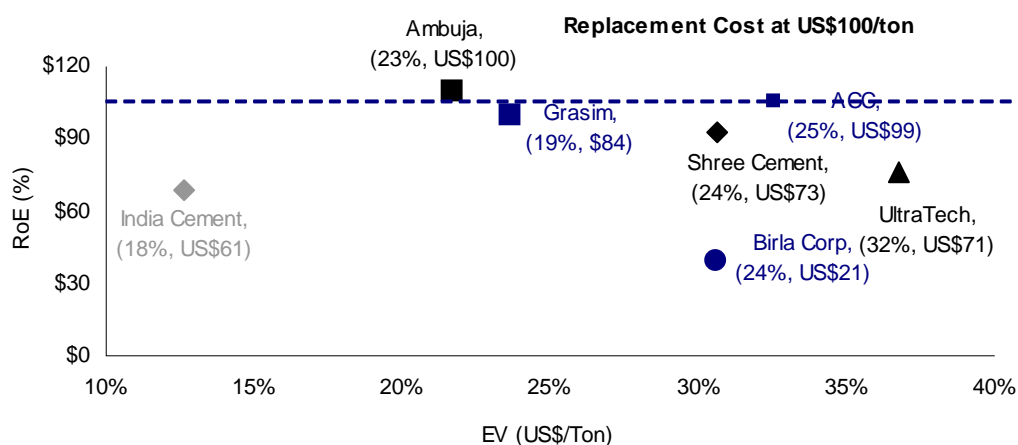
Source: MOSL

## Valuation and view

Short-term outlook is negative - sub-normal monsoon would impact rural demand, demand from urban housing remains muted, new capacities would put pressure on prices, and energy cost inflation would result in higher costs. However, given strong demand outlook, we expect the cement cycle to bottom out in 2HFY11.

Cement stocks have under-performed the Sensex in the last three months, impacted by concerns about over-capacity and pricing pressure. Cement stocks are quoting below replacement cost of US\$100/ton and at a significant discount to benchmark valuations. We prefer companies that are ahead of the curve in adding capacity and offer strong cost saving possibilities. Among large cap stocks, **Grasim** and **UltraTech** remain our top picks, while we prefer **Birla Corp** and **Shree Cement** among mid-caps.

## VALUATIONS - ATTRACTIVE DESPITE RECENT RUN UP



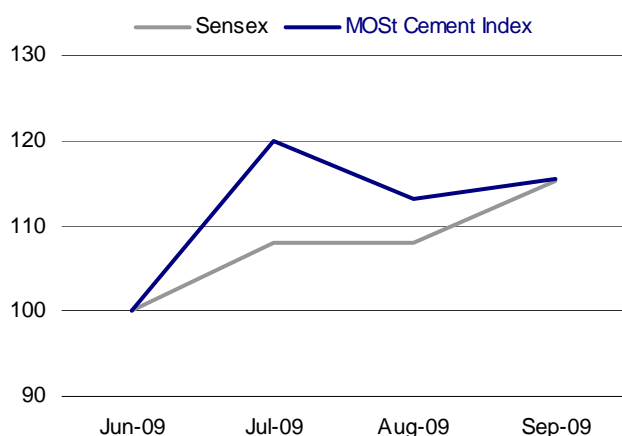
Source: MOSL

## Stock performance and valuations

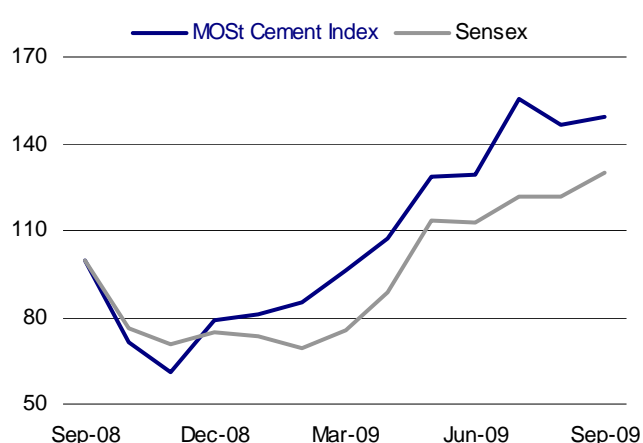
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Cement</b>						
ACC	5	34	-12	10	-9	-7
Birla Corporation	51	119	34	95	37	78
Grasim Industries	21	52	4	29	7	11
Ambuja Cement	12	16	-4	-7	-2	-24
India Cement	-5	-2	-21	-25	-19	-42
Shree Cement	40	208	24	184	27	167
Ultratech Cement	6	36	-11	13	-8	-4

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



	CMP (RS) 25.9.09	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
<b>Cement</b>														
ACC	817	Neutral	57.9	94.4	75.0	14.1	8.7	10.9	8.2	4.7	5.6	26.0	32.5	21.1
Ambuja Cements	98	Neutral	7.4	8.7	7.8	13.2	11.3	12.6	7.9	6.5	6.7	22.1	21.7	17.0
Birla Corporation	286	Buy	42.0	70.9	60.2	6.8	4.0	4.8	3.8	1.9	1.4	25.1	30.5	21.0
Grasim Industries	2,834	Buy	238.5	337.4	311.1	11.9	8.4	9.1	6.5	3.7	3.4	21.1	23.6	16.6
India Cements	134	Buy	17.7	17.6	13.6	7.6	7.6	9.8	5.7	4.7	5.1	15.7	12.6	8.9
Shree Cement	1,638	Buy	177.5	242.5	246.2	9.2	6.8	6.7	7.0	3.7	3.4	65.7	52.6	35.7
Ultratech Cement	751	Buy	79.8	128.2	110.1	9.4	5.9	6.8	6.1	3.2	3.2	31.6	36.8	24.1
<b>Sector Aggregate</b>						<b>11.2</b>	<b>8.0</b>	<b>9.0</b>	<b>6.8</b>	<b>4.1</b>	<b>4.1</b>	<b>23.0</b>	<b>25.1</b>	<b>18.6</b>

ACC

STOCK INFO. BLOOMBERG  
BSE Sensex: 16,693 ACC IN  
REUTERS CODE  
S&P CNX: 4,959 ACC.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs817

Equity Shares (m)	187.9
52-Week Range (Rs)	928/369
1,6,12 Rel. Perf. (%)	-3/-27/10
M.Cap. (Rs b)	153.5
M.Cap. (US\$ b)	3.2

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/07A	68,807	12,798	68.1	15.3	12.0	3.7	35.1	35.2	2.0	7.3
12/08A	73,086	11,787	62.7	-7.9	14.1	3.1	26.0	27.3	1.9	8.2
12/09E	83,696	18,293	97.4	55.2	8.7	2.4	32.5	37.6	1.6	4.7
12/10E	85,582	14,523	77.3	-20.6	10.9	2.1	21.1	24.6	1.5	5.6

- We expect dispatches to grow 7% YoY to 5.2MT in 3QCY09, as the company continues to face capacity constraints. Average realizations should improve by 7.2% YoY (~0.5% QoQ) to Rs3,860/ton.
- Net sales would grow 11.2% YoY to Rs20b. We expect cement business EBITDA margin to expand 720bp YoY (contract ~380bp QoQ) to 31.5%, driven by higher realizations and lower fixed cost. As a result, EBITDA should increase 44% YoY to Rs6.3b and PAT would grow 43.5% YoY to Rs4.07b.
- Commissioning of 1.2MT capacity in Orissa by 4QCY09 and 3MT capacity in Karnataka (phase-wise from 4QCY09) would drive ACC's volume growth from 4QCY09.
- We are upgrading our EPS estimates by 1% to Rs97.4 for CY09 and by 1% to Rs77.3 for CY10. Valuations at 8.7x CY09E EPS and an EV of 4.7x CY09E EBITDA appear rich. We maintain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E DECEMBER	CY08				CY09				CY08	CY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Cement Sales (m ton)	5.40	5.29	4.86	5.46	5.73	5.42	5.20	5.92	21.0	22.3
YoY Change (%)	9.5	-0.9	3.8	8.8	6.1	2.4	7.0	8.4	5.2	6.0
Cement Realization	3,325	3,375	3,599	3,522	3,587	3,840	3,860	3,760	3,479	3,758
YoY Change (%)	5.5	3.4	5.9	8.8	7.9	13.8	7.2	6.8	6.7	8.0
QoQ Change (%)	2.7	1.5	6.6	-2.2	1.8	7.1	0.5	-2.6		
<b>Net Sales</b>	<b>17,958</b>	<b>17,857</b>	<b>18,046</b>	<b>19,226</b>	<b>20,551</b>	<b>20,813</b>	<b>20,072</b>	<b>22,261</b>	<b>73,086</b>	<b>83,696</b>
YoY Change (%)	9.8	-3.1	7.5	11.5	14.4	16.5	11.2	15.8	6.2	14.5
<b>EBITDA</b>	<b>4,700</b>	<b>4,136</b>	<b>4,382</b>	<b>4,455</b>	<b>6,474</b>	<b>7,337</b>	<b>6,332</b>	<b>7,594</b>	<b>17,332</b>	<b>27,737</b>
Margins (%)	26.2	23.2	24.3	23.2	31.5	35.3	31.5	34.1	23.7	33.1
Depreciation	714	724	736	768	789	784	825	985	2,942	3,384
Interest	56	108	116	120	144	159	155	156	400	614
Other Income	661	472	661	1,093	508	570	500	872	2,887	2,450
<b>PBT before EO Item</b>	<b>4,592</b>	<b>3,776</b>	<b>4,190</b>	<b>4,660</b>	<b>6,049</b>	<b>6,963</b>	<b>5,852</b>	<b>7,325</b>	<b>16,877</b>	<b>26,189</b>
EO Income/(Expense)	366	123	0	0	-224	0	0	0	489	0
<b>PBT after EO Item</b>	<b>4,958</b>	<b>3,899</b>	<b>4,190</b>	<b>4,660</b>	<b>5,825</b>	<b>6,963</b>	<b>5,852</b>	<b>7,325</b>	<b>17,366</b>	<b>26,189</b>
Tax	1,383	1,185	1,356	1,315	1,777	2,107	1,785	2,210	5,238	7,896
Rate (%)	27.9	30.4	32.4	28.2	30.5	30.3	30.5	30.2	30.2	30.2
<b>Reported PAT</b>	<b>3,575</b>	<b>2,714</b>	<b>2,834</b>	<b>3,345</b>	<b>4,048</b>	<b>4,856</b>	<b>4,067</b>	<b>5,115</b>	<b>12,128</b>	<b>18,293</b>
<b>Adjusted PAT</b>	<b>3,312</b>	<b>2,629</b>	<b>2,834</b>	<b>3,345</b>	<b>4,203</b>	<b>4,856</b>	<b>4,067</b>	<b>5,115</b>	<b>11,787</b>	<b>18,293</b>
Margins (%)	18.4	14.7	15.7	17.4	20.5	23.3	20.3	23.0	16.1	21.9
YoY Change (%)	-5.9	-24.4	0.9	8.5	26.9	84.7	43.5	52.9	-7.9	55.2

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

## Ambuja Cements

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	ACEM IN
	REUTERS CODE
S&P CNX: 4,959	GACM.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs98

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	1,522.6										
52-Week Range (Rs)	112/43										
1,6,12 Rel. Perf. (%)	-6/-32/-7										
M.Cap. (Rs b)	149.7										
M.Cap. (US\$ b)	3.1										
	12/07A	56,314	13,078	8.6	-6.4	11.4	3.2	32.2	43.0	2.3	6.4
	12/08A	62,347	11,335	7.4	-13.3	13.2	2.7	22.1	31.1	2.3	7.9
	12/09E	71,234	13,254	8.7	16.9	11.3	2.3	21.7	30.4	1.9	6.5
	12/10E	75,535	11,855	7.8	-10.6	12.6	2.0	17.0	24.0	1.7	6.7

- We expect dispatches to grow 10.3% YoY to 4.33MT, while average realizations would be 7.6% higher (up ~0.5% QoQ) to Rs3,848/ton. Volume growth would be driven by purchased clinker, as Ambuja continues to face clinker capacity constraint. Also, realization growth could have been higher, but for a decline in export realizations.
- Net sales would grow 18.7% YoY to Rs16.6b. We expect EBITDA margin to expand 10bp YoY (~330bp QoQ) to 29.3%, driven by higher realizations, lower reliance in purchased clinker and savings on imported coal cost. Recurring PAT would grow 27.5% YoY to Rs3.19b.
- Ambuja would benefit from commissioning of new capacities in Chattisgarh (~2.2MT in 4QCY09) and Himachal Pradesh (~2.2MT in 1QCY09), which would not only drive volume growth but also profitability (due to lower reliance on purchased clinker).
- We are downgrading our EPS estimate for CY09 by 4.4% to Rs8.7 but are upgrading our EPS estimate for CY10 by 1.2% to Rs7.8, to factor in delay in capacity addition and cost savings in CY10. Valuations at 11.3x CY09E earnings and an EV of 6.5x CY09E EBITDA are a fair reflection of business fundamentals. We maintain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E DECEMBER	CY08				CY09				CY08	CY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales Volume (m ton)	4.80	4.38	3.92	4.50	5.10	4.83	4.33	4.71	17.60	18.96
YoY Change (%)	10.6	-0.3	4.0	5.7	6.3	10.3	10.3	4.5	5.0	7.7
Realization (Rs/ton)	3,448	3,573	3,576	3,584	3,623	3,828	3,848	3,748	3,542	3,757
YoY Change (%)	5.4	8.1	4.3	4.0	5.1	7.1	7.6	4.6	5.4	6.1
QoQ Change (%)	0.0	3.6	0.1	0.2	1.1	5.7	0.5	-2.6		
<b>Net Sales</b>	<b>16,549</b>	<b>15,635</b>	<b>14,019</b>	<b>16,143</b>	<b>18,476</b>	<b>18,474</b>	<b>16,642</b>	<b>17,642</b>	<b>62,347</b>	<b>71,234</b>
YoY Change (%)	16.6	7.8	8.5	9.9	11.6	18.2	18.7	9.3	259.3	262.0
<b>EBITDA</b>	<b>5,146</b>	<b>4,622</b>	<b>4,091</b>	<b>3,920</b>	<b>5,247</b>	<b>4,797</b>	<b>4,874</b>	<b>5,312</b>	<b>17,779</b>	<b>20,230</b>
Margins (%)	31.1	29.6	29.2	24.3	28.4	26.0	29.3	30.1	28.5	28.4
Depreciation	618	616	654	709	686	704	725	862	2,598	2,978
Interest	57	57	59	148	65	52	78	99	321	294
Other Income	420	470	333	531	409	692	550	599	1,754	2,250
<b>PBT before EO Item</b>	<b>4,890</b>	<b>4,420</b>	<b>3,711</b>	<b>3,594</b>	<b>4,905</b>	<b>4,732</b>	<b>4,621</b>	<b>4,949</b>	<b>16,615</b>	<b>19,208</b>
Extraordinary Inc/(Exp)	-59	3,142	0	0	0	0	0	0	3,083	0
<b>PBT after EO Exp/(Inc)</b>	<b>4,832</b>	<b>7,562</b>	<b>3,711</b>	<b>3,594</b>	<b>4,905</b>	<b>4,732</b>	<b>4,621</b>	<b>4,949</b>	<b>19,698</b>	<b>19,208</b>
Tax	1,570	1,791	1,210	1,105	1,565	1,486	1,433	1,471	5,676	5,954
Rate (%)	32.5	23.7	32.6	30.7	31.9	31.4	31.0	29.7	28.8	31.0
<b>Reported Profit</b>	<b>3,262</b>	<b>5,770</b>	<b>2,501</b>	<b>2,490</b>	<b>3,341</b>	<b>3,247</b>	<b>3,189</b>	<b>3,478</b>	<b>14,023</b>	<b>13,254</b>
<b>Adj PAT</b>	<b>3,302</b>	<b>3,043</b>	<b>2,501</b>	<b>2,490</b>	<b>3,341</b>	<b>3,247</b>	<b>3,189</b>	<b>3,478</b>	<b>11,335</b>	<b>13,254</b>
YoY Change (%)	-7.8	-20.1	-14.0	-11.0	1.2	6.7	27.5	39.7	-13.3	16.9

E: MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

## Birla Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	BJUT IN
	REUTERS CODE
S&P CNX: 4,959	BRLC.BO

25 September 2009

Buy

Previous Recommendation: Buy

Rs286

Equity Shares (m)	77.0
52-Week Range (Rs)	330/71
1,6,12 Rel. Perf. (%)	-8/-6/95
M.Cap. (Rs b)	22.0
M.Cap. (US\$ b)	0.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	17,248	3,936	51.1	20.6	5.6	2.2	39.2	42.6	1.0	3.1
03/09A	17,907	3,235	42.0	-17.8	6.8	1.7	25.1	27.9	0.9	3.8
03/10E	21,583	5,462	70.9	68.8	4.0	1.2	30.5	37.5	0.7	1.9
03/11E	22,765	4,635	60.2	-15.1	4.8	1.0	21.0	27.5	0.4	1.4

- We expect revenues to grow 43% YoY to Rs5.3b. Cement realizations would increase 21.8% YoY (~1.1% QoQ) to Rs3,757/ton, while volumes would grow 19.6% YoY to 1.33MT. Higher realizations are a reflection of significant price increase in the company's key markets of North, East and Central India.
- Higher realizations would translate into 12.6pp YoY expansion (~230bp QoQ decline) in EBITDA margins to 33.5%. Also, the company would benefit from decline in pet coke and domestic open market coal prices. However, higher depreciation and higher tax provisioning would restrict PAT growth at 99% to Rs1.19b.
- The company's volume growth would remain muted as its brownfield expansion (~1.75MT) in Madhya Pradesh and Rajasthan has got delayed to December 2009.
- We maintain our EPS estimates at Rs70.9 for FY10 and at Rs60.2 for FY11. The stock trades at 4x FY10E EPS and 4.8x FY11E EPS - at a discount to comparable peers. We believe the discount is not justified and valuations, based on earnings as well as replacement cost, are compelling. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Cement Sales (m ton)	1.19	1.11	1.40	1.60	1.21	1.33	1.40	1.51	5.29	5.45
YoY Change (%)	-7.1	-7.2	5.3	8.2	1.8	19.6	0.0	-5.5	0.1	3.1
Cement Realization	3,096	3,083	2,931	3,259	3,717	3,757	3,657	3,657	3,105	3,694
YoY Change (%)	4.2	0.6	-2.8	10.0	20.0	21.8	24.8	12.2	3.5	19.0
QoQ Change (%)	4.5	-0.4	-4.9	11.2	14.0	1.1	-2.7	0.0		
<b>Net Sales</b>	<b>3,959</b>	<b>3,718</b>	<b>4,521</b>	<b>5,708</b>	<b>4,904</b>	<b>5,316</b>	<b>5,509</b>	<b>5,854</b>	<b>17,907</b>	<b>21,583</b>
YoY Change (%)	-3.3	-5.6	4.5	16.8	23.9	43.0	21.9	2.5	3.8	20.5
Total Expenditure	2,816	2,941	3,503	4,389	3,148	3,537	3,637	3,708	13,649	14,030
<b>EBITDA</b>	<b>1,143</b>	<b>777</b>	<b>1,019</b>	<b>1,319</b>	<b>1,756</b>	<b>1,779</b>	<b>1,873</b>	<b>2,146</b>	<b>4,258</b>	<b>7,554</b>
Margins (%)	28.9	20.9	22.5	23.1	35.8	33.5	34.0	36.7	23.8	35.0
Depreciation	98	100	110	126	133	132	135	148	434	548
Interest	50	37	56	78	60	67	75	83	221	284
Other Income	235	121	191	215	519	120	135	151	761	925
<b>Profit before Tax</b>	<b>1,230</b>	<b>760</b>	<b>1,044</b>	<b>1,331</b>	<b>2,082</b>	<b>1,700</b>	<b>1,798</b>	<b>2,067</b>	<b>4,365</b>	<b>7,647</b>
Tax	311	163	230	425	528	514	540	602	1,130	2,185
Rate (%)	25.3	21.5	22.1	31.9	25.4	30.2	30.1	29.1	25.9	28.6
<b>Adjusted PAT</b>	<b>918</b>	<b>597</b>	<b>814</b>	<b>906</b>	<b>1,553</b>	<b>1,187</b>	<b>1,257</b>	<b>1,465</b>	<b>3,235</b>	<b>5,462</b>
Margins (%)	23.2	16.1	18.0	15.9	31.7	22.3	22.8	25.0	18.1	25.3
YoY Change (%)	-5.8	-42.1	-23.6	4.7	69.2	98.8	54.5	61.7	-17.8	68.8

E: MOSL Estimates

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## Grasim Industries

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	GRASIM IN
	REUTERS CODE
S&P CNX: 4,959	GRAS.BO

25 September 2009

Buy

Previous Recommendation: Buy

Rs2,834

Equity Shares (m)	91.7
52-Week Range (Rs)	2,938/831
1,6,12 Rel. Perf. (%)	0/10/29
M.Cap. (Rs b)	259.9
M.Cap. (US\$ b)	5.4

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	169,739	26,951	293.9	37.0	9.6	2.8	34.3	31.1	2.0	6.7
03/09A	184,039	21,867	238.5	-18.9	11.9	2.2	21.1	20.7	1.8	7.6
03/10E	205,901	30,939	337.4	41.5	8.4	1.8	23.6	26.0	1.4	4.4
03/11E	216,486	28,528	311.1	-7.8	9.1	1.5	16.6	25.1	1.2	4.2

\* Consolidated

- Grasim (standalone) would post sales growth of 9% YoY to Rs29b in 2QFY10, despite hive-off of sponge iron business with effect from 22 May 2009. However, higher volumes, realizations and cost savings in both cement and VSF business would drive margin expansion of 830bp YoY (~80bp QoQ) to 29.9%. Higher depreciation, interest cost and higher tax provisioning would restrict PAT growth at 31% to Rs5.5b.
- Cement volumes would be aided by the commencement of the new 4.5MT capacity in Rajasthan, driving 27% YoY growth in volumes to 4.7MT. Realizations would improve by 6.9% YoY (flat QoQ) to Rs3,684/ton. The cement division's operating margins would expand 770bp YoY (~300bp QoQ decline) to 31.5%, aided by higher realizations and lower energy cost.
- Improvement in VSF business continued in 2QFY10 - we expect volume growth of 11.9% YoY and estimate 3.2% YoY (~7.6% QoQ) increase in realizations to Rs105/kg. VSF operating margins would expand 11.5pp YoY (~520bp QoQ) to 32.9%.
- We are upgrading our earnings estimates by 7.3% to Rs337.4 for FY10 and by 7.8% to Rs311.1 for FY11, to factor in higher VSF volumes and realizations. Valuations at 8.4x FY10E EPS and an EV of 4.4x FY10E EBITDA (consolidated) appear reasonable. We maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>25,782</b>	<b>26,853</b>	<b>26,536</b>	<b>28,870</b>	<b>30,453</b>	<b>29,322</b>	<b>29,712</b>	<b>31,105</b>	<b>108,040</b>	<b>120,593</b>
YoY Change (%)	5.5	8.4	2.3	5.9	18.1	9.2	12.0	7.7	5.8	11.6
<b>EBITDA</b>	<b>7,376</b>	<b>5,792</b>	<b>4,995</b>	<b>6,800</b>	<b>8,853</b>	<b>8,781</b>	<b>9,086</b>	<b>9,797</b>	<b>24,965</b>	<b>36,609</b>
Margins (%)	28.6	21.6	18.8	23.6	29.1	29.9	30.6	31.5	23.1	30.4
Depreciation	1,050	1,069	1,198	1,253	1,370	1,450	1,515	1,552	4,570	5,887
Interest	302	288	444	385	475	480	560	564	1,421	2,079
Other Income	964	997	806	738	620	1,000	750	630	3,504	3,000
<b>PBT before EO Items</b>	<b>6,988</b>	<b>5,431</b>	<b>4,159</b>	<b>5,900</b>	<b>7,628</b>	<b>7,851</b>	<b>7,761</b>	<b>8,311</b>	<b>22,478</b>	<b>31,643</b>
Extraordinary Inc/(Exp)	0	0	0	0	3,447	0	0	0	0	3,447
<b>PBT after EO Items</b>	<b>6,988</b>	<b>5,431</b>	<b>4,159</b>	<b>5,900</b>	<b>11,075</b>	<b>7,851</b>	<b>7,761</b>	<b>8,311</b>	<b>22,478</b>	<b>35,090</b>
Tax	1,846	1,236	864	2,053	2,322	2,355	2,328	2,487	5,999	9,493
Rate (%)	26.4	22.8	20.8	34.8	21.0	30.0	30.0	29.9	26.7	27.1
<b>Reported PAT</b>	<b>5,142</b>	<b>4,195</b>	<b>3,296</b>	<b>3,847</b>	<b>8,752</b>	<b>5,496</b>	<b>5,432</b>	<b>5,824</b>	<b>16,480</b>	<b>25,597</b>
<b>Adj. PAT</b>	<b>5,142</b>	<b>4,195</b>	<b>3,296</b>	<b>3,847</b>	<b>5,392</b>	<b>5,496</b>	<b>5,432</b>	<b>5,824</b>	<b>16,480</b>	<b>22,237</b>
YoY Change (%)	0.5	-16.1	-40.0	-7.1	4.9	31.0	64.8	51.4	-16.6	34.9

E: MOSL Estimates; Quarterly results do not add-up to full year results due to restatement

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## India Cements

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	ICEM IN
	REUTERS CODE
S&P CNX: 4,959	ICMN.BO

25 September 2009

Buy

Previous Recommendation: Buy

Rs134

Equity Shares (m)	282.4
52-Week Range (Rs)	180/69
1,6,12 Rel. Perf. (%)	-2/-43/-25
M.Cap. (Rs b)	37.8
M.Cap. (US\$ b)	0.8

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	30,442	6,739	24.7	29.7	5.4	1.5	34.0	25.6	1.6	4.5
03/09A	34,268	4,851	17.7	-28.2	7.6	1.0	15.7	16.8	1.6	5.4
03/10E	37,575	4,814	17.6	-0.8	7.6	0.9	12.6	15.0	1.2	4.4
03/11E	43,533	3,725	13.6	-22.6	9.8	0.9	8.9	11.6	1.0	4.8

- We expect India Cements to report sales growth of 1.8% YoY to Rs9.6b. While realizations should be flat YoY (~2.7% QoQ decline) at Rs3,577/ton, volumes would grow 4.2% YoY to 2.53MT. We estimate revenues of Rs400m from IPL.
- Impact of decline in realizations would be offset by lower other expenditure and higher EBITDA from IPL. EBITDA margins would expand 40bp YoY (~110bp QoQ) to 31.1%. Higher depreciation and interest cost would result in 7% YoY decline in PAT to Rs1.44b.
- Going forward, India Cements would benefit from commissioning of brownfield units and split grinding units, augmenting capacity to 14MT, and aiding volume growth from 3QFY10 onwards.
- We are downgrading our EPS estimates by 15.6% to Rs17.6 for FY10 and by 11.6% to Rs13.6 for FY11 to factor in significant price decline in South India. Valuations at 7.6x FY10E EPS and an EV of 4.4x FY10E EBITDA are attractive. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales Dispatches (m ton)	2.37	2.43	2.00	2.32	2.46	2.53	2.25	2.92	9.12	10.16
YoY Change (%)	2.7	6.9	-8.3	-5.5	3.9	4.2	12.5	25.7	-1.1	11.4
Realization (Rs/ton)	3,440	3,585	3,629	3,733	3,677	3,577	3,477	3,477	3,594	3,550
YoY Change (%)	13.4	7.4	6.9	10.7	6.9	-0.2	-4.2	-6.9	9.6	-1.2
QoQ Change (%)	2.0	4.2	1.2	2.9	-1.5	-2.7	-2.8	0.0		
<b>Net Sales</b>	<b>8,375</b>	<b>9,455</b>	<b>7,529</b>	<b>8,885</b>	<b>9,535</b>	<b>9,630</b>	<b>8,048</b>	<b>10,363</b>	<b>34,268</b>	<b>37,575</b>
YoY Change (%)	19.4	24.2	2.0	5.3	13.9	1.8	6.9	16.6	12.6	9.7
<b>EBITDA</b>	<b>2,981</b>	<b>2,901</b>	<b>1,801</b>	<b>2,255</b>	<b>2,863</b>	<b>2,997</b>	<b>2,121</b>	<b>2,541</b>	<b>9,962</b>	<b>10,522</b>
Margins (%)	35.6	30.7	23.9	25.4	30.0	31.1	26.3	24.5	29.1	28.0
Depreciation	490	498	513	533	571	590	615	617	2,033	2,393
Interest	230	248	293	350	385	390	385	387	1,122	1,546
Other Income	132	91	141	131	68	100	150	312	470	630
<b>PBT before EO Expense</b>	<b>2,392</b>	<b>2,246</b>	<b>1,136</b>	<b>1,503</b>	<b>1,976</b>	<b>2,117</b>	<b>1,271</b>	<b>1,849</b>	<b>7,277</b>	<b>7,212</b>
Extra-Ord Expense	218	296	132	149	-210	0	0	0	794	0
<b>PBT</b>	<b>2,175</b>	<b>1,950</b>	<b>1,004</b>	<b>1,354</b>	<b>2,186</b>	<b>2,117</b>	<b>1,271</b>	<b>1,849</b>	<b>6,483</b>	<b>7,212</b>
Tax	754	608	385	415	745	678	407	569	2,161	2,398
Rate (%)	34.6	31.2	38.3	30.7	34.1	32.0	32.0	30.8	33.3	33.3
<b>Reported PAT</b>	<b>1,421</b>	<b>1,343</b>	<b>619</b>	<b>939</b>	<b>1,441</b>	<b>1,440</b>	<b>864</b>	<b>1,280</b>	<b>4,322</b>	<b>4,814</b>
<b>Adj PAT</b>	<b>1,564</b>	<b>1,546</b>	<b>700</b>	<b>1,042</b>	<b>1,302</b>	<b>1,440</b>	<b>864</b>	<b>1,280</b>	<b>4,851</b>	<b>4,814</b>
YoY Change (%)	-15.3	-29.2	-44.9	-26.0	-16.7	-6.9	23.3	22.8	-28.0	-0.8
Margins (%)	18.7	16.4	9.3	11.7	13.7	15.0	10.7	12.3	14.2	12.8

E: MOSL Estimates; \*Excluding Visaka merger

## Shree Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	SRCM IN
	REUTERS CODE
S&P CNX: 4,959	SHCM.BO

25 September 2009

Buy

Rs1,638

Previous Recommendation: Buy

Equity Shares (m)	34.8
52-Week Range (Rs)	1,779/330
1,6,12 Rel. Perf. (%)	-2/95/184
M.Cap. (Rs b)	57.1
M.Cap. (US\$ b)	1.2

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	20,659	2,879	82.6	83.2	19.8	8.5	51.1	27.0	3.2	6.9
03/09E	27,150	6,185	177.5	114.9	9.2	4.7	65.7	35.6	2.5	6.1
03/10E	36,600	8,448	242.5	36.6	6.8	2.9	52.6	37.0	1.6	3.5
03/11E	39,670	8,579	246.2	1.5	6.7	2.0	35.7	34.0	1.2	3.1

- We expect sales to grow by 45% YoY to Rs9.1b, driven by volume growth of 24% YoY to 2.5MT and 14.5% YoY (flat QoQ) increase in realizations to Rs3,497/ton. We estimate surplus power sale of 57 units, yielding Rs393m.
- Higher realizations and lower energy cost would drive margin expansion of 15.1bp YoY (~200bp QoQ decline) to 44.1% and EBITDA growth of 121% to Rs4b. The QoQ decline in margins would be due to 10-15% QoQ increase in pet coke prices.
- Depreciation would increase to ~Rs1.1b, following the recently capitalized unit-VII. Recurring PAT would grow 120% YoY to Rs2.53b.
- We are upgrading our EPS estimates by 2.5% to Rs242.5 for FY10 and by 8.7% to Rs246.2 for FY11 to factor in better pricing in merchant power and higher cement volumes. The stock quotes at attractive valuations of 6.8x FY10E EPS and an EV of 3.5x FY10E EBITDA. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales Dispatches (m ton)	1.92	2.02	2.11	2.41	2.55	2.50	2.55	2.60	8.45	10.20
YoY Change (%)	33.7	35.1	30.2	17.2	32.8	23.9	21.1	8.0	28.0	20.7
Realization (Rs/ton)	3,201	3,055	3,049	3,163	3,477	3,497	3,397	3,397	3,118	3,442
YoY Change (%)	4.2	-4.2	-6.9	-1.8	8.6	14.5	11.4	7.4	-2.4	10.4
QoQ Change (%)	-0.7	-4.6	-0.2	3.7	9.9	0.6	-2.9	0.0		
<b>Net Sales</b>	<b>6,143</b>	<b>6,292</b>	<b>6,653</b>	<b>8,062</b>	<b>9,224</b>	<b>9,136</b>	<b>9,031</b>	<b>9,209</b>	<b>27,150</b>	<b>36,600</b>
YoY Change (%)	39.3	32.2	25.6	21.7	50.2	45.2	35.7	14.2	28.7	34.8
<b>EBITDA</b>	<b>2,106</b>	<b>1,828</b>	<b>2,269</b>	<b>3,306</b>	<b>4,250</b>	<b>4,031</b>	<b>3,634</b>	<b>3,387</b>	<b>9,508</b>	<b>15,293</b>
Margins (%)	34.3	29.0	34.1	41.0	46.1	44.1	40.2	36.8	35.0	41.8
Depreciation	461	537	509	547	973	1,080	1,700	1,659	2,054	5,412
Interest	171	167	166	218	152	150	180	192	744	674
Other Income	118	336	183	169	473	250	195	132	829	1,050
<b>PBT before EO Exp</b>	<b>1,592</b>	<b>1,460</b>	<b>1,776</b>	<b>2,710</b>	<b>3,599</b>	<b>3,051</b>	<b>1,949</b>	<b>1,667</b>	<b>7,538</b>	<b>10,257</b>
Extra-Ord Expense	76	97	53	83	42	55	55	58	309	210
<b>PBT</b>	<b>1,516</b>	<b>1,363</b>	<b>1,723</b>	<b>2,627</b>	<b>3,557</b>	<b>2,996</b>	<b>1,894</b>	<b>1,609</b>	<b>7,229</b>	<b>10,047</b>
Tax	407	288	484	271	645	509	350	303	1,449	1,808
Rate (%)	26.9	21.1	28.1	10.3	18.1	17.0	18.5	18.9	20.0	18.0
<b>Reported PAT</b>	<b>1,109</b>	<b>1,075</b>	<b>1,239</b>	<b>2,356</b>	<b>2,911</b>	<b>2,486</b>	<b>1,543</b>	<b>1,306</b>	<b>5,780</b>	<b>8,238</b>
<b>Adj PAT</b>	<b>1,164</b>	<b>1,151</b>	<b>1,278</b>	<b>2,431</b>	<b>2,946</b>	<b>2,532</b>	<b>1,588</b>	<b>1,353</b>	<b>6,027</b>	<b>8,410</b>
YoY Change (%)	-0.4	8.4	264.7	480.6	153.0	119.9	24.3	-44.4	106.7	39.5
Margins (%)	19.0	18.3	19.2	30.2	31.9	27.7	17.6	14.7	22.2	23.0

E:MOSL Estimates

Jinesh K Gandhi (Jinesh@MotilalOswal.com)

## UltraTech Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	UTCEM IN
	REUTERS CODE
S&P CNX: 4,959	ULTC.BO

25 September 2009

Buy

Previous Recommendation: Buy

Rs751

Equity Shares (m)	124.5
52-Week Range (Rs)	850/250
1,6,12 Rel. Perf. (%)	-5/-26/13
M.Cap. (Rs b)	93.4
M.Cap. (US\$ b)	1.9

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	55,092	10,076	80.9	28.8	9.3	3.5	45.2	40.7	2.0	6.3
03/09A	63,831	9,940	79.8	-1.4	9.4	2.6	31.6	29.2	1.6	6.1
03/10E	76,707	15,957	128.2	60.5	5.9	1.8	36.8	37.9	1.1	3.2
03/11E	80,346	13,706	110.1	-14.1	6.8	1.5	24.1	28.6	0.9	3.2

- We expect net sales to grow 14.5% YoY to Rs16b, driven by 9.9% YoY growth in volumes to 4.37MT and 4% YoY improvement (~1.4% QoQ decline) in realizations to Rs3,485/ton. RMC sales would grow 19% YoY to Rs754m (~4.7% of sales).
- Cost savings in the form of energy and freight cost would result in 13.3pp YoY improvement (~210bp QoQ decline) in EBITDA margin to 34.6% and 86% YoY growth in EBITDA to Rs5.5b. However, higher depreciation and higher tax would curtail PAT growth at 97% to Rs3.24b.
- UltraTech would benefit from increase in blending and higher share of captive power plant (CPP), diluting the impact of any decline in cement prices.
- We maintain our EPS estimates at Rs128.2 for FY10 and at Rs110.1 for FY11. At 5.9x FY10E EPS and an EV of 3.2x FY09E EBITDA, valuations do not fully reflect the improving operating performance and organic growth visibility at low cost of expansion. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q*	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales (m ton)	4.27	3.98	4.58	5.35	5.31	4.37	5.50	6.09	18.48	21.28
YoY Change (%)	-4.2	12.7	6.1	11.2	24.4	9.9	20.2	13.9	8.0	15.1
Realization (Rs/ton)	3,324	3,351	3,394	3,335	3,534	3,485	3,314	3,535	3,295	3,467
YoY Change (%)	12.6	4.9	10.1	4.3	6.3	4.0	-2.4	6.0	6.1	5.2
QoQ Change (%)	3.9	0.8	1.3	-1.7	6.0	-1.4	-4.9	6.7		
<b>Net Sales</b>	<b>14,960</b>	<b>13,962</b>	<b>16,308</b>	<b>18,601</b>	<b>19,528</b>	<b>15,982</b>	<b>18,949</b>	<b>22,248</b>	<b>63,831</b>	<b>76,707</b>
YoY Change (%)	10.0	19.6	18.2	16.2	30.5	14.5	16.2	19.6	15.9	20.2
<b>EBITDA</b>	<b>4,458</b>	<b>2,967</b>	<b>4,308</b>	<b>5,331</b>	<b>7,168</b>	<b>5,532</b>	<b>6,066</b>	<b>7,996</b>	<b>17,064</b>	<b>26,762</b>
Margins (%)	29.8	21.3	26.4	28.7	36.7	34.6	32.0	35.9	26.7	34.9
Depreciation	711	808	805	906	936	1,000	1,025	1,094	3,230	4,055
Interest	247	309	359	340	330	350	355	347	1,255	1,382
Other Income	266	278	204	287	342	285	220	303	1,036	1,150
<b>PBT after EO Expense</b>	<b>3,766</b>	<b>2,129</b>	<b>3,348</b>	<b>4,372</b>	<b>6,244</b>	<b>4,467</b>	<b>4,906</b>	<b>6,858</b>	<b>13,615</b>	<b>22,475</b>
Tax	1,116	487	964	1,277	2,067	1,228	1,349	1,874	3,675	6,518
Rate (%)	29.6	22.9	28.8	29.2	33.1	27.5	27.5	27.3	27.0	29.0
<b>Reported PAT</b>	<b>2,650</b>	<b>1,642</b>	<b>2,384</b>	<b>3,095</b>	<b>4,178</b>	<b>3,238</b>	<b>3,557</b>	<b>4,984</b>	<b>9,940</b>	<b>15,957</b>
<b>Adj PAT</b>	<b>2,650</b>	<b>1,642</b>	<b>2,384</b>	<b>3,095</b>	<b>4,178</b>	<b>3,238</b>	<b>3,557</b>	<b>4,984</b>	<b>9,940</b>	<b>15,957</b>
YoY Change (%)	2.2	-11.7	-14.7	9.4	57.6	97.2	49.2	61.1	-1.4	60.5

E: MOSL Estimates

## Engineering

BSE Sensex: 16,693

S&amp;P CNX: 4,959

25 September 2009

## COMPANY NAME

ABB

Bharat Electronics

BHEL

Crompton Greaves

Larsen &amp; Toubro

Siemens

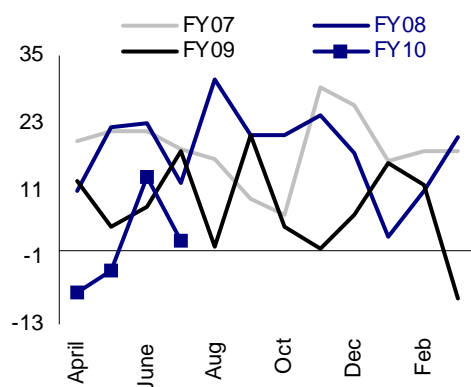
Suzlon Energy

Thermax

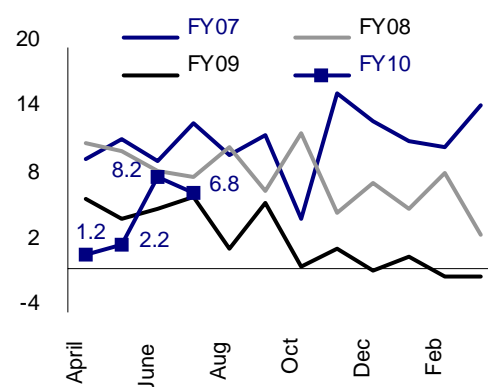
**Signs of improvement in IIP/capital goods index; base effect to help in 2HFY10**

Recent IIP/capital goods index numbers indicate improvement in industrial activity. The IIP Index for June 2009 witnessed growth of 8.2% YoY and for July 2009, growth of 6.8% YoY. This was after an eight-month average growth of 0.6% YoY. In FY10 the IIP registered cumulative growth of 4.6% (until July) against 2.4% in FY09. The capital goods index also indicated improvement, rising 13.3% YoY in June and 2% in July 2009. The capital goods index for FY10 (YTD) rose 2% against 7% in FY09 and 18% in FY08. Past data suggest the indices will reflect the base effect benefits during 2HFY10.

CAPITAL GOODS INDEX (% YOY)



IIP INDEX (% YOY)



Source: Ministry of Statistics

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
			SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
<b>Engineering</b>											
ABB	782	Neutral	16,741	10.2	11.2	1,590	17.9	24.2	1,011	9.1	20.9
Bharat Electronics	1,415	Neutral	9,460	21.2	5.0	1,946	19.7	137.1	1,522	23.0	109.3
BHEL	2,246	Neutral	66,222	24.0	18.3	9,646	19.7	86.9	7,556	11.5	60.6
Crompton Greaves	316	Neutral	12,272	13.0	4.6	1,669	16.3	-4.1	1,045	13.0	-8.9
Larsen & Toubro	1,646	Neutral	85,956	11.8	16.7	8,252	11.4	4.9	5,843	16.8	1.0
Siemens	558	Neutral	24,423	-0.9	27.4	2,829	-17.7	10.0	1,915	-14.9	14.1
Suzlon Energy	92	Neutral	15,558	-62.8	33.7	-623	PL	-	-3,410	PL	-
Thermax	554	Neutral	6,354	-19.6	18.2	716	-10.4	3.9	474	-16.8	1.9
<b>Sector Aggregate</b>			<b>236,986</b>	<b>-0.6</b>	<b>17.6</b>	<b>26,025</b>	<b>-7.8</b>	<b>41.5</b>	<b>15,957</b>	<b>-16.7</b>	<b>41.0</b>

## 2QFY10: Expect modest operating performance

In 2QFY10 we expect the capital goods space to deliver moderate revenue growth of 12.6% YoY (excluding Suzlon) and -0.6% YoY (including Suzlon); EBITDA growth will be 10.5% YoY (excluding Suzlon) and net profit will grow 9.5% YoY (-16.7% YoY including Suzlon). Suzlon will drag down the reported numbers due to YoY revenue decline and net loss (Rs3.4b) in 2QFY10E. We expect better QoQ execution in 2QFY10 from power T&D players given a pick-up in execution in power systems. In 1QFY10 most companies except BHEL had slower execution due to lower revenue from their power divisions and slower industrial product sales. EBITDA margins in 2QFY10 are likely to be stable YoY. However, lower commodity price benefits could surprise positively at the EBITDA margin level particularly for BHEL and CG.

## No clear revival signs in private capex despite green shoots; public capex healthy

During the past 12 months the order book for BHEL, L&T and ABB has stayed healthy, driven by project ordering in power equipment and investment in completing existing projects from the hydrocarbons and process industries. While the order intake has been good on the power side (driven by public and private utilities) there are no signs of industrial capex revival in terms of actual order awards. However the lower cost of capital, easy credit availability, buoyant equity markets and increased consumption is expected to translate into capacity build-up in the next six to nine months for most industries. Besides, projects kept on hold due to lack of funds could be revived as demand improvement becomes visible.

Siemens' order book has stagnated over the past 9-12 months due to lack of mega order intake and Suzlon's order book declined significantly due to issues related to blade cracks in the US, global slowdown and a credit-market freeze in FY09. Equipment order award activity in the power segment improved, driven by supportive equity markets for private-sector projects. These are expected to increase with the (1) remaining 765KV substations' orders (2) bulk BTG awarding from NTPC/mandatory localization clause for UMPP BTGs and (3) increased focus on T&D spend (including schemes like APDRP, RGGVY and new grid development).

### ORDER INTAKE (RS B)

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	% YOY
ABB	20	17	20	27	22	19	13	23	21	-4.4
BHEL	110	146	109	137	159	148	160	146	128	-19.7
Crompton	19	19	16	20	29	28	20	21	21	-27.6
L&T	99	75	130	120	122	125	146	121	96	-21.8
Siemens	18	13	19	23	21	24	20	19	24	12.5
Suzlon	60	65	40	61	9	27	3	32	16	NA

Source: Company

### ORDER BACKLOG (RS B AND % YOY)

	ORDER BOOK (JUNE 09)	REVENUE (TTM)	BOOK TO BILL (X)
ABB	76	66	1.2
BHEL	1,240	275	4.5
Crompton Greaves	63	89	0.7
Larsen & Toubro	717	341	2.1
Siemens	101	83	1.2
Suzlon Energy	83	150	0.6

Source: Company/MOSL

*BHEL provides the best revenue visibility in the capital goods space*



ABB/SIEMENS/L&T HAVE HIGHEST EXPOSURE TO INDUSTRIAL CAPEX (% OF ORDER BOOK)

	GOVERNMENT	INDUSTRIAL	INFRASTRUCTURE	CONSUMERS
ABB	62	38	0	0
BHEL	79	19	2	0
Crompton Greaves**	70	15	0	15
Larsen & Toubro	20	42	38	0
Siemens	48	37	8	7
Suzlon	62	38	0	0

\*\* Based on the consolidated numbers

Source: Company/MOSL

*Process and hydrocarbons contribute most of the industrial capex. L&T/ABB/Siemens have most of the industrial exposure to these two segments*

INDUSTRIAL INVESTMENTS - MAJOR CONTRIBUTION FROM HYDROCARBONS AND METALS (% OF ORDER BOOK)

	PROCESS	HYDROCARBONS	OTHERS	TOTAL
ABB	10	15	13	38
BHEL	6	5	14	25
Crompton Greaves*	11	2	2	16
Larsen and Toubro	14	23	5	42
Siemens	20	10	8	38

\* For consolidated

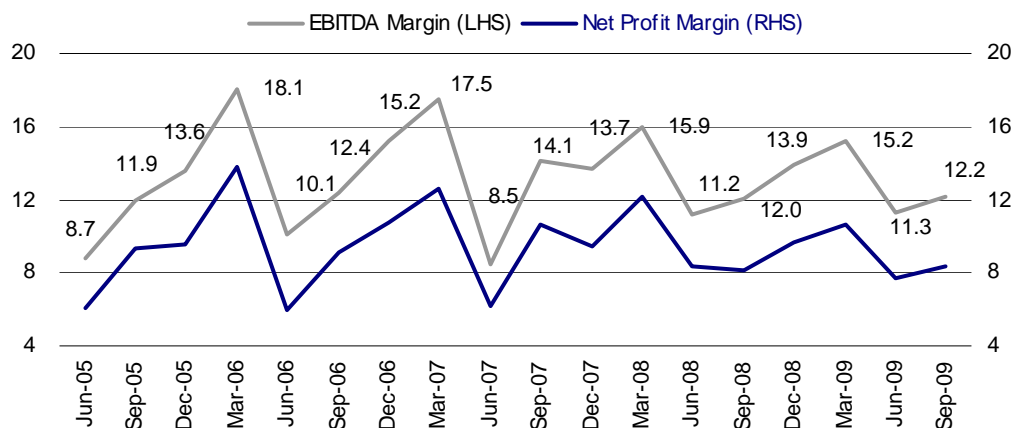
Source: Company/MOSL

**Expect stable EBITDA margins, pressure on industrial businesses to recede**

In 2QFY10 we expect aggregate EBITDA margins to stay stable at 12.2% (+20bp YoY).

- After the margin pressure of the past two to three quarters the profitability of industrials and consumer businesses of L&T, ABB, CG and others is expected improve. Besides volumes could improve marginally given increased demand.
- Declining commodity prices will boost EBITDA margins for players like BHEL, CG and ABB.

STABLE YOY EBITDA MARGINS AT 12.2%



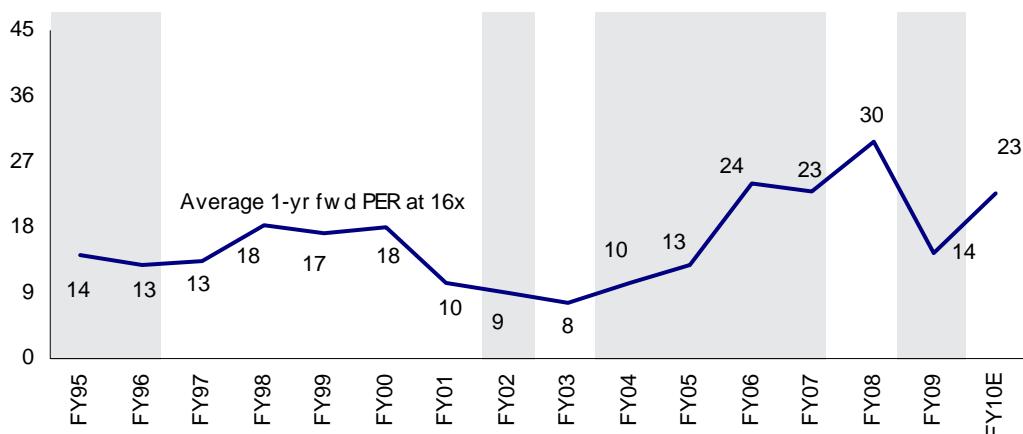
Source: MOSL



**Limited room for further outperformance, valuations run ahead of earnings**

The recent outperformance was driven by comfortable valuations (at 14x FY10E earnings in March 2009) and expectations of a positive impact on the business environment with a stable government. After the recent outperformance, 1-yr forward sector PER stands at 23x FY11E and is above average of 21x during FY05-09. This period was one of the best for power and industrial capex, resulting in earnings CAGR of 38%. In FY09-11, we expect earnings CAGR of 17% and the current PER of 23x leaves limited room for further outperformance, until visibility improves on order intake and therefore earnings. We maintain Neutral on the sector.

SECTOR PER (1 YR FORWARD) AT 23X FY11E AND EXPECTED EARNINGS CAGR AT 17% IN FY09-11



Note: Shaded area indicates earnings growth in excess of 20% YoY

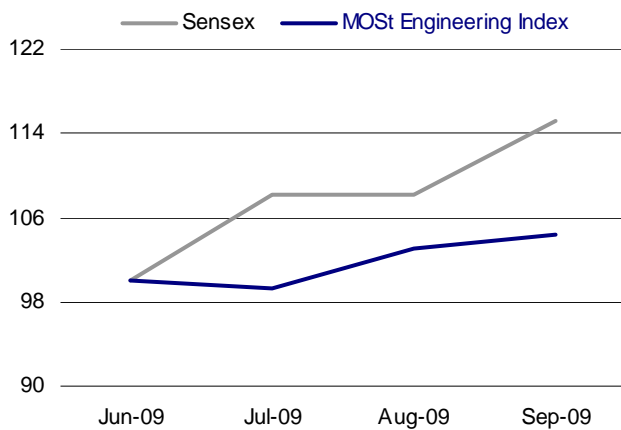
Source: Company/MOSL

## Stock performance and valuations

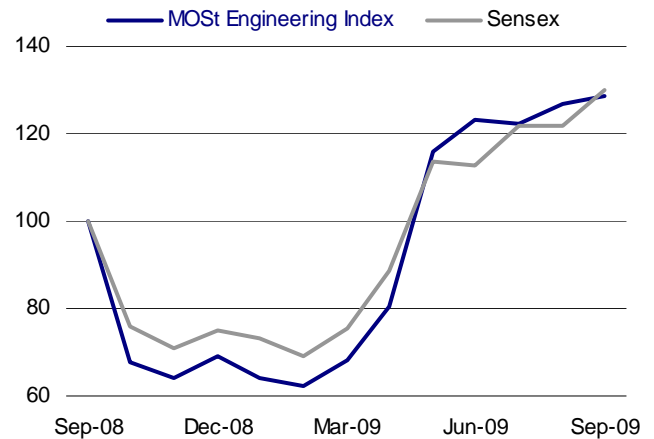
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Engineering</b>						
ABB	3	-7	-14	-30	-3	-28
Bharat Electron	6	59	-10	36	1	39
BHEL	5	38	-11	14	-1	17
Crompton Greaves	8	26	-8	3	2	5
Larsen & Toubro	8	28	-9	5	2	8
Siemens	16	22	0	-1	11	2
Suzlon Energy	-22	-49	-38	-73	-28	-70
Thermax	40	30	24	7	34	10

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
	25.9.09													
<b>Engineering</b>														
ABB	782	Neutral	25.1	22.3	27.3	31.1	35.1	28.6	21.0	21.9	18.3	28.4	20.3	20.7
Bharat Electronics	1,415	Neutral	101.1	109.6	118.7	14.0	12.9	11.9	7.6	6.4	5.0	23.7	21.6	19.8
BHEL	2,246	Neutral	72.7	85.5	111.5	30.9	26.3	20.1	23.6	16.8	12.4	30.0	29.2	31.0
Crompton Greaves	316	Neutral	15.3	16.9	18.7	20.7	18.8	16.9	17.5	15.9	13.9	36.6	32.1	28.1
Larsen & Toubro	1,646	Neutral	51.5	58.1	64.4	32.0	28.3	25.5	26.4	23.0	20.3	24.5	20.4	18.6
Siemens	558	Neutral	15.5	19.5	17.7	36.1	28.6	31.5	23.0	15.9	17.1	28.5	24.1	16.4
Suzlon Energy	92	Neutral	6.5	2.5	4.3	14.2	36.2	21.2	9.9	11.3	9.0	11.6	4.7	7.4
Thermax	554	Neutral	24.8	22.6	20.8	22.4	24.5	26.6	15.5	16.5	17.6	35.3	27.9	23.5
<b>Sector Aggregate</b>						<b>27.8</b>	<b>26.2</b>	<b>22.0</b>	<b>19.9</b>	<b>17.0</b>	<b>14.0</b>	<b>25.1</b>	<b>21.7</b>	<b>22.1</b>

ABB

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	ABB IN
	REUTERS CODE
S&P CNX: 4,959	ABB.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs782

	YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA	
Equity Shares (m)	211.9											
52-Week Range (Rs)	857/344	12/08A	68,370	5,325	25.1	8.3	31.1	7.8	28.4	46.1	2.4	20.9
1,6,12 Rel. Perf. (%)	1/27/-30	12/09E	71,002	4,717	22.3	-11.4	35.1	6.5	20.3	32.4	2.3	21.9
M.Cap. (Rs b)	165.7	12/10E	79,411	5,789	27.3	22.7	28.6	5.4	20.7	32.5	2.0	18.3
M.Cap. (US\$ b)	3.5	12/11E	92,727	7,264	34.3	25.5	22.8	4.5	21.6	33.7	1.6	13.7

- Order backlog at the end of 2QCY09 was Rs76.2b (up 12.5% YoY), book-to-bill ratio of 1.2x TTM revenue. Order intake in 2QCY09 was Rs21b (down 4.4% YoY, down 8.3% QoQ). During 3QCY09 order announcements (through media communications) have been subdued at Rs4.4b against Rs8.3b in 2QCY09.
- Execution in 2QCY09 was affected mainly by slower revenue growth in the power systems division. Revenue of this division, which contributes 30% to total revenue, slipped 12.8% YoY during the quarter. After weak execution in the past two to three quarters we expect better execution in 2HCY09.
- EBITDA margin in 2QCY09 for ABB fell 330bp YoY to 8.5%. The EBITDA contraction was driven by margin pressure in automation products (EBIT decline of 920bp YoY to 5.5%) and the power systems divisions (EBIT decline of 360bp YoY to 2.9%). These margins point to either cost escalations or one-offs. We expect YoY margin expansion in 3QCY09 along with improved revenue growth.
- ABB's capital employed increased 35% YoY to Rs25.3b in 2QCY09 against Rs18.8b a year earlier. The increased capital employed in the automation business can be partially attributed to increased capacities and higher capex in the power business implies increased working capital.
- The stock trades at 35.1x CY09E and 28.6x CY10E earnings. We estimate EPS of Rs22.3 for CY09 and Rs27.3 for CY10. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY08				CY09				CY08	CY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
<b>Sales</b>	<b>15,353</b>	<b>16,163</b>	<b>15,191</b>	<b>21,663</b>	<b>13,931</b>	<b>15,050</b>	<b>16,741</b>	<b>25,280</b>	<b>68,370</b>	<b>71,002</b>
Change (%)	17.0	15.4	10.3	17.8	(9.3)	(6.9)	10.2	16.7	15.3	3.8
<b>EBITDA</b>	<b>1,728</b>	<b>1,902</b>	<b>1,348</b>	<b>2,680</b>	<b>1,271</b>	<b>1,281</b>	<b>1,590</b>	<b>3,246</b>	<b>7,658</b>	<b>7,388</b>
Change (%)	34.8	16.1	-21.8	3.0	-26.4	-32.7	17.9	21.1	5.7	-3.5
As % of Sales	11.3	11.8	8.9	12.4	9.1	8.5	9.5	12.8	11.2	10.4
Depreciation	83	88	92	103	109	125	125	126	367	484
Interest	28	8	67	159	103	80	80	83	262	347
Other Income	185	184	399	507	143	209	167	125	1,275	643
<b>PBT</b>	<b>1,801</b>	<b>1,990</b>	<b>1,589</b>	<b>2,925</b>	<b>1,202</b>	<b>1,284</b>	<b>1,552</b>	<b>3,163</b>	<b>8,304</b>	<b>7,201</b>
Tax	624	701	540	993	419	448	541	1,077	2,858	2,484
Effective Tax Rate (%)	34.6	35.2	34.0	34.0	34.8	34.9	34.8	34.0	34.4	34.5
<b>Reputed PAT</b>	<b>1,177</b>	<b>1,289</b>	<b>1,048</b>	<b>1,931</b>	<b>783</b>	<b>836</b>	<b>1,011</b>	<b>2,086</b>	<b>5,474</b>	<b>4,717</b>
<b>Adj. PAT</b>	<b>1,177</b>	<b>1,289</b>	<b>927</b>	<b>1,931</b>	<b>783</b>	<b>836</b>	<b>1,011</b>	<b>2,086</b>	<b>5,325</b>	<b>4,717</b>
Change (%)	35.9	19.5	-20.8	6.8	-33.4	-35.1	9.1	8.0	8.3	-11.4

E: MOSL Estimates

Satyam Agarwal (Agarwals@MotilalOswal.com) / Shridatta Bhandwaldar (Shridatta.Bhandwaldar@MotilalOswal.com)

## Bharat Electronics

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	BHE IN
	REUTERS CODE
S&P CNX: 4,959	BAJE.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs1,415

Equity Shares (m)	80.0
52-Week Range (Rs)	1,571/545
1,6,12 Rel. Perf. (%)	-7/-1/36
M.Cap. (Rs b)	113.2
M.Cap. (US\$ b)	2.4

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	40,603	8,272	103.4	15.2	13.7	3.5	29.4	29.4	2.1	8.7
3/09E	45,707	8,085	101.1	-2.3	14.0	2.9	23.7	23.9	1.8	7.6
3/10E	51,443	8,772	109.6	8.5	12.9	2.5	21.6	21.6	1.5	6.4
3/11E	56,587	9,498	118.7	8.3	11.9	2.1	19.8	19.8	1.2	5.0

- In 2QFY10, we expect Bharat Electronics to report revenue of Rs9.5b (up 21.2% YoY) EBITDA of Rs1.9b (up 19.7% YoY) and net profit of Rs1.5b (up 23% YoY).
- Management has guided revenue of Rs100b for FY12, which implies CAGR of 29.5% over FY09 revenues of Rs45.7b.
- Order book position at the end of 1QFY10 was more than Rs100b, book-to-bill ratio of 2.2x FY09 revenue.
- Every year BEL signs an MoU with the Ministry of Defense stating its target for the year. During FY09 (give for FY10), BEL has to post turnover of Rs46.5b to achieve an excellent rating from the government.
- During FY09 BEL signed MoUs with (1) Astra Microwave Products to make microwave components and assemblies and the products will fulfill the requirements of the Indian defense forces and Government establishments. (2) Selex Galileo to explore opportunities in the field of electronic warfare for India and for exports (3) Boeing to open a center to support the modernization of India's defense forces. BEL has been selected by Northrop Grumman Corporation to make the components of its F-16 fire-control radar.
- The stock trades at a P/E of 12.9x FY10E and 11.9x FY11E. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>3,839</b>	<b>7,807</b>	<b>6,709</b>	<b>27,352</b>	<b>9,010</b>	<b>9,460</b>	<b>8,231</b>	<b>24,742</b>	<b>45,707</b>	<b>51,443</b>
Change (%)	-5.1	10.1	1.3	19.2	134.7	21.2	22.7	-9.5	12.3	12.5
<b>EBITDA</b>	<b>-326</b>	<b>1,626</b>	<b>1,606</b>	<b>8,068</b>	<b>821</b>	<b>1,946</b>	<b>1,443</b>	<b>6,964</b>	<b>10,974</b>	<b>11,174</b>
Change (%)	-606.4	6.0	26.6	15.5	-352.0	19.7	-10.2	-13.7	12.7	1.8
As of % Sales	-8.5	20.8	23.9	29.5	9.1	20.6	17.5	28.1	24.0	21.7
Depreciation	240	256	270	277	280	285	295	297	1,043	1,157
Interest	0	71	0	36	1	0	0	1	108	2
Other Income	612	532	456	478	533	577	808	967	2,079	2,885
<b>PBT</b>	<b>46</b>	<b>1,831</b>	<b>1,793</b>	<b>8,233</b>	<b>1,073</b>	<b>2,238</b>	<b>1,955</b>	<b>7,633</b>	<b>11,903</b>	<b>12,899</b>
Tax	20	594	565	2,639	346	716	626	2,440	3,818	4,128
Effective Tax Rate (%)	44.8	32.4	31.5	32.1	32.2	32.0	32.0	32.0	32.1	32.0
<b>Reported PAT</b>	<b>25</b>	<b>1,237</b>	<b>1,228</b>	<b>5,594</b>	<b>727</b>	<b>1,522</b>	<b>1,330</b>	<b>5,193</b>	<b>8,085</b>	<b>8,772</b>
Change (%)	-90.4	0.7	8.7	10.8	2,786.3	23.0	8.3	-7.2	5.4	2,786.3
<b>Adj PAT</b>	<b>25</b>	<b>1,237</b>	<b>1,228</b>	<b>5,594</b>	<b>727</b>	<b>1,522</b>	<b>1,330</b>	<b>5,193</b>	<b>8,085</b>	<b>8,772</b>

E: MOSL Estimates

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BHEL

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	BHEL IN
	REUTERS CODE
S&P CNX: 4,959	BHEL.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs2,246

Equity Shares (m)	489.5
52-Week Range (Rs)	2,405/984
1,6,12 Rel. Perf. (%)	-9/-21/14
M.Cap. (Rs b)	1,099.3
M.Cap. (US\$ b)	22.9

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	197,652	25,095	51.3	3.9	43.8	10.2	25.7	51.1	5.3	27.2
03/09A	267,880	35,594	72.7	41.8	30.9	8.5	30.0	46.9	3.8	23.6
03/10E	324,474	41,876	85.5	17.6	26.3	7.0	29.2	51.3	3.2	16.8
03/11E	404,700	54,573	111.5	30.3	20.1	5.7	31.0	53.2	2.6	12.4

- In 2QFY10 we expect revenue of Rs66b (up 24% YoY) and EBITDA margin compression of 50bp YoY driven by higher cost inventory and increased outsourcing.
- BHEL's order book in June 2009 was Rs1,240b (up 31% YoY, up 6% QoQ) and order intake was Rs128b (down 20% YoY, down 13% QoQ). In 2QFY10 BHEL announced order intake of Rs70.5b against Rs128b in 1QFY10.
- Key orders in 2QFY10 include: (1) a 270MW thermal power project from Adhunik Metals (Rs6.4b) (2) two 600MW thermal-power plants in Orissa from Jindal Power (Rs26b) and (3) two 525MW power plants from Monnet (Rs26.3b).
- Against order intake of Rs597b in FY09 we expect FY10 order intake of Rs545b. Management had indicated the industrial division would contribute Rs100b and exports, Rs50b. Thus, the power division's order intake is expected to be Rs350b (down 24.2% YoY) against Rs462b in FY09. This does not include possible order intake from bulk ordering of super-critical projects, which could be a meaningful addition.
- Until July 2009, India's power-generation sector ordered 43 BTG units based on super-critical technology. Most of the units have been secured by foreign players, led by Chinese players who secured orders for 26 BTG packages. Indian companies, including BHEL and L&T have been able to secure only 4 BTG packages each.
- The stock trades at a P/E of 26.3x FY10E and 20.1x FY11E. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>43,292</b>	<b>53,426</b>	<b>60,223</b>	<b>105,401</b>	<b>55,957</b>	<b>66,222</b>	<b>74,431</b>	<b>121,975</b>	<b>262,342</b>	<b>318,585</b>
Change (%)	33.9	34.7	21.3	46.4	29.3	24.0	23.6	15.7	35.5	21.4
<b>EBITDA</b>	<b>3,737</b>	<b>7,107</b>	<b>10,207</b>	<b>16,963</b>	<b>5,162</b>	<b>9,646</b>	<b>14,307</b>	<b>26,723</b>	<b>38,014</b>	<b>55,838</b>
Change (%)	20.3	2.2	2.3	24.4	38.1	35.7	40.2	57.5	12.9	46.9
As a % Sales	8.6	13.3	16.9	16.1	9.2	14.6	19.2	21.9	14.5	17.5
<b>Adjusted EBITDA</b>	<b>4,560</b>	<b>8,061</b>	<b>11,280</b>	<b>20,711</b>	<b>5,162</b>	<b>9,646</b>	<b>14,307</b>	<b>26,723</b>	<b>44,612</b>	<b>55,838</b>
Change (%)	119.2	36.0	26.0	43.4	13.2	19.7	26.8	29.0	33.6	25.2
As a % Sales	10.5	15.1	18.7	19.6	9.2	14.6	19.2	21.9	17.0	17.5
Interest	26	22	179	81	43	115	123	268	307	549
Depreciation	726	744	865	1,009	961	1,009	1,060	1,135	3,343	4,164
Other Income	2,917	3,072	3,063	5,072	3,029	3,103	3,094	4,075	14,124	13,300
<b>PBT</b>	<b>5,903</b>	<b>9,414</b>	<b>12,226</b>	<b>20,945</b>	<b>7,187</b>	<b>11,625</b>	<b>16,218</b>	<b>29,395</b>	<b>48,488</b>	<b>64,425</b>
Tax	2,059	3,256	4,321	7,470	2,481	4,069	5,676	10,323	17,106	22,549
Effective Tax Rate (%)	34.9	34.6	35.3	35.7	34.5	35.0	35.0	35.1	35.3	35.0
<b>Reported PAT</b>	<b>3,844</b>	<b>6,158</b>	<b>7,906</b>	<b>13,475</b>	<b>4,706</b>	<b>7,556</b>	<b>10,541</b>	<b>19,072</b>	<b>31,382</b>	<b>41,876</b>
Change (%)	33.0	-10.5	2.4	21.3	22.4	22.7	33.3	41.5	9.8	33.4
<b>Adj. PAT</b>	<b>4,379</b>	<b>6,777</b>	<b>8,603</b>	<b>15,911</b>	<b>4,706</b>	<b>7,556</b>	<b>10,541</b>	<b>19,072</b>	<b>35,671</b>	<b>41,876</b>
Change (%)	97.1	9.1	22.0	36.7	7.5	11.5	22.5	19.9	31.5	17.4

E: MOSL Estimates

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## Crompton Greaves

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	CRG IN
	REUTERS CODE
S&P CNX: 4,959	CROM.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs316

Equity Shares (m)	366.6
52-Week Range (Rs)	335/100
1,6,12 Rel. Perf. (%)	-3/126/3
M.Cap. (Rs b)	115.9
M.Cap. (US\$ b)	2.4

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	38,758	3,654	10.0	60.0	31.7	12.5	34.3	50.0	3.0	23.8
3/09A	46,107	5,599	15.3	53.2	20.7	9.3	36.6	52.9	2.4	17.5
3/10E	52,400	6,179	16.9	10.4	18.8	7.3	32.1	47.2	2.2	15.9
3/11E	61,022	6,849	18.7	10.8	16.9	5.9	28.1	42.0	1.8	13.9

\* Consolidated; pre-exceptionals

- Crompton is expected to deliver healthy performance in 2QFY10. We expect Crompton to report standalone revenue of Rs12.3b, (up 13% YoY), EBITDA of Rs1.7b, (up 16.3% YoY), and net profit of Rs1b (up 13% YoY).
- Crompton's consolidated order book is Rs63.2b (largely power), translating into book-to-bill of 1x TTM revenue of its power business. The standalone and international order book at the end of 1QFY10 was Rs27.5b (up 13.4% YoY) and Rs35.7b (down 5.3% YoY). Crompton continues to be bullish about order intake from Powergrid, SEBs and foreign clients.
- During 1QFY10, Pauwels and Ganz had weak order flow of Rs8b (up 29% QoQ, down 51% YoY). With an improving macro environment the order inflow could improve for the international business.
- In 2QFY10, Crompton's management lowered standalone revenue growth guidance to 12-14% YoY from initial 20% previously due to pressure on industrial volumes. The revenue growth guidance for the international subsidiary is 4-5% against 10-12% previously.
- For 2QFY10 we expect stable EBITDA margin of 13.6% YoY due to the continued benefits of lower commodity prices on fixed-price contracts. For FY10 the management expects stable EBITDA margins driven by (1) the benefit of lower commodity prices due to lower variable-price based contracts (2) continued focus on power products unlike peers that have significant exposure to lower margin projects (3) sourcing from India (8-9% for Pauwels/ Ganz), and (4) improvement in design and manufacturing efficiencies.
- The stock trades at a P/E of 18.8x FY10E and 16.9x FY11E. Maintain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>10,829</b>	<b>10,862</b>	<b>10,797</b>	<b>13,618</b>	<b>11,735</b>	<b>12,272</b>	<b>12,583</b>	<b>15,810</b>	<b>46,107</b>	<b>52,400</b>
Change (%)	20.8	20.0	18.0	17.4	8.4	13.0	16.5	16.1	19.0	13.6
<b>EBITDA</b>	<b>1,381</b>	<b>1,435</b>	<b>1,386</b>	<b>2,167</b>	<b>1,740</b>	<b>1,669</b>	<b>1,573</b>	<b>2,256</b>	<b>6,381</b>	<b>7,238</b>
Change (%)	32.2	34.4	19.5	38.4	26.0	16.3	13.5	4.1	31.9	13.4
As of % Sales (Adj)	12.8	13.2	12.8	15.9	14.8	13.6	12.5	14.3	13.8	13.8
Depreciation	108	120	94	130	128	131	132	137	452	529
Interest	22	39	47	38	-6	20	35	81	146	130
Other Income	81	102	85	104	84	90	104	113	361	391
<b>PBT</b>	<b>1,332</b>	<b>1,379</b>	<b>1,330</b>	<b>2,102</b>	<b>1,702</b>	<b>1,608</b>	<b>1,510</b>	<b>2,151</b>	<b>6,143</b>	<b>6,971</b>
Tax	443	453	483	793	555	563	543	778	2,172	2,440
Effective Tax Rate (%)	33.3	32.9	36.3	37.7	32.6	35.0	36.0	36.2	35.4	35.0
<b>Reported PAT</b>	<b>889</b>	<b>925</b>	<b>847</b>	<b>1,309</b>	<b>1,147</b>	<b>1,045</b>	<b>966</b>	<b>1,372</b>	<b>3,971</b>	<b>4,531</b>
Change (%)	65.3	44.3	34.7	38.6	29.1	13.0	14.0	4.9	44.3	14.1

E: MOSL Estimates

Satyam Agarwal (Agarwals@MotilalOswal.com) / Shridatta Bhandwadar (Shridatta.Bhandwadar@MotilalOswal.com)

## Larsen &amp; Toubro

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	LT IN
	REUTERS CODE
S&P CNX: 4,959	LART.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs1,646

Equity Shares (m)	585.7
52-Week Range (Rs)	1,800/557
1,6,12 Rel. Perf. (%)	-2/91/5
M.Cap. (Rs b)	964.0
M.Cap. (US\$ b)	20.1

YEAR	NET SALES	PAT *	EPS*	EPS GR.	P/E*	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/08A	249,387	22,910	39.3	25.1	41.9	10.1	27.0	29.5	3.9	33.9
3/09A	339,264	30,046	51.5	31.1	32.0	7.7	24.5	26.0	2.9	26.4
3/10E	392,760	33,910	58.1	12.9	28.3	6.2	20.4	22.0	2.6	23.0
3/11E	450,256	37,611	64.4	10.9	25.5	5.4	18.6	20.2	2.3	20.3

\* Consolidated; EPS is fully diluted

- 1QFY10 order book was Rs717b (up 23.1% YoY), book-to-bill ratio of 2.1x TTM revenue and order intake of Rs95.7b (down 21.8% YoY, down 20.7% QoQ). The order intake included an Rs8.4b in-house shipyard order, thus taking the contribution from in-house development projects to 13% of the order book from 2% in 1QFY09.
- During 2QFY10 L&T announced orders including (1) a Rs40b BTG order from Jaiprakash for two units of 660MW projects in MP (2) a Rs53b Mumbai High platform and gas compressor module (3) a Rs20b LSTK power plant order from GMR (4) an Rs8.5b coal handling plant and (5) a Rs7.4b power T&D order for a substation from Qatar.
- During 2QFY10 we expect flat YoY margins. In 1QFY10 there was higher revenue contribution (29% against 12% in 1QFY09) from the hydrocarbon and process industries, which are higher margin businesses, and resulted in a 110bp YoY rise in EBITDA margins.
- With an improving macro environment, there is possibility of a reduction in volume pressure in Machinery and Industrial Production (MIP) and Electrical and Electronics Business Group (EBG). During 1QFY10 MIP/EBG to witness pressure due to the overall slowdown in the end markets. Management indicated that while there were some signs of recovery in the EBG business end markets like agriculture and OEMs there is weak demand in the main drivers to MIP-construction, mining and valves.
- The stock trades at a P/E of 28.3x FY10E and 25.5x FY11E. Maintain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>69,014</b>	<b>76,864</b>	<b>85,940</b>	<b>104,648</b>	<b>73,627</b>	<b>85,956</b>	<b>100,420</b>	<b>128,621</b>	<b>336,465</b>	<b>388,624</b>
Change (%)	53.2	39.8	34.6	23.6	6.7	11.8	16.8	22.9	35.4	15.5
<b>EBITDA</b>	<b>6,609</b>	<b>6,809</b>	<b>7,799</b>	<b>14,845</b>	<b>7,863</b>	<b>8,252</b>	<b>9,841</b>	<b>14,201</b>	<b>36,061</b>	<b>40,157</b>
Change (%)	55.9	15.8	12.1	31.3	19.0	21.2	26.2	-4.3	27.1	11.4
Margin (%)	9.6	8.9	9.1	14.2	10.7	9.6	9.8	11.0	10.7	10.3
<b>Adjusted EBITDA</b>	<b>6,609</b>	<b>7,409</b>	<b>9,429</b>	<b>13,685</b>	<b>7,863</b>	<b>8,252</b>	<b>9,841</b>	<b>14,201</b>	<b>37,131</b>	<b>40,157</b>
Adjusted Margin (%)	9.6	9.6	11.0	13.1	10.7	9.6	9.8	11.0	11.0	10.3
Depreciation	659	731	781	889	937	984	1,033	1,039	3,060	3,994
Interest	382	690	975	1,455	1,096	1,260	1,449	1,508	3,503	5,314
Other Income	1,983	1,518	3,072	3,331	2,683	2,461	2,543	3,201	9,903	10,888
Extraordinary Inc/(Exp)	0	0	9,163	-1,439	10,199	0	0	0	7,725	10,199
<b>Reported PBT</b>	<b>7,551</b>	<b>6,906</b>	<b>18,277</b>	<b>14,393</b>	<b>18,712</b>	<b>8,468</b>	<b>9,902</b>	<b>14,855</b>	<b>47,127</b>	<b>51,936</b>
Tax	2,526	2,304	3,073	4,409	2,730	2,625	3,218	4,578	12,312	13,152
Effective Tax Rate (%)	33.5	33.4	16.8	30.6	14.6	31.0	32.5	30.8	26.1	25.3
<b>Reported PAT</b>	<b>5,025</b>	<b>4,602</b>	<b>15,204</b>	<b>9,984</b>	<b>15,982</b>	<b>5,843</b>	<b>6,684</b>	<b>10,277</b>	<b>34,814</b>	<b>38,785</b>
<b>Adjusted PAT</b>	<b>4,906</b>	<b>5,004</b>	<b>6,406</b>	<b>10,646</b>	<b>5,783</b>	<b>5,843</b>	<b>6,684</b>	<b>10,277</b>	<b>26,968</b>	<b>28,586</b>
Change (%)	67.8	30.4	24.4	17.0	17.9	16.8	4.3	-3.5	28.4	6.0

E: MOSL Estimates; All quarterly numbers are for standalone entity

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Siemens

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	SIEM IN
	REUTERS CODE
S&P CNX: 4,959	SIEM.BO

25 September 2009

Neutral

Rs558

Previous Recommendation: Neutral

Equity Shares (m)	337.2
52-Week Range (Rs)	574/186
1,6,12 Rel. Perf. (%)	9/60/-1
M.Cap. (Rs b)	188.2
M.Cap. (US\$ b)	3.9

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
9/07A	77,660	5,369	15.9	35.1	35.1	11.8	40.1	69.1	2.4	24.8
9/08A	83,577	5,214	15.5	-2.9	36.1	9.1	28.5	46.2	2.1	23.0
9/09E	83,828	6,586	19.5	26.3	28.6	5.6	24.1	54.9	2.0	15.9
9/10E	89,634	5,975	17.7	-9.3	31.5	4.8	16.4	25.4	1.8	17.1

\*Consolidated

- For 4QFY09 (year ending September), we expect Siemens to report revenue of Rs24.4b, (down 0.9% YoY), EBITDA of Rs2.8b (down 17.7% YoY) and net profit of Rs1.9b (down 14.9% YoY). During 9mFY09, industrial segment margins have been under pressure, which is likely to continue.
- Order book at the end of 3QFY09 was Rs102b (up 3% YoY, up 4.5% QoQ). In 3QFY10 order intake was Rs23.4b (up 13% YoY, up 26% QoQ). While the order book has been largely stagnant over the past 6-7 quarters order intake in 3QFY09 improved marginally. We understand that the improved QoQ order intake was driven by better order flows in transmission and mobility (mainly railways) segments, which is likely to continue.
- During 4FY10, the order intake is likely to be weak given that Siemens has announced only one order of Rs1.1b to construct a 400KV substation from PGCIL, indicating the absence of large value orders.
- During 3QFY09 the power division's EBIT was 16.9%, far higher than peer margins for the segment. Besides for 9mFY09 the EBIT margin for the power division was 16.3% (up 11.60bp YoY). These higher margins are largely driven by power transmission, in which margins were 22.1% (up 760bp YoY) in 3QFY09. EBIT margins for industrials continued to be under pressure. 3QFY09 EBIT for the industry division was 5.7% (down 480bp YoY). Besides during 9mFY09, EBIT was just 5.4% (down 220bp YoY). We expect moderation of power division margins as the reversal of loss booking will have been completed in 9mFY09.
- The stock trades at a P/E of 28.6x FY09E and 31.5x FY10E. We maintain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E SEPTEMBER	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Total Revenues</b>	<b>19,195</b>	<b>21,546</b>	<b>18,204</b>	<b>24,636</b>	<b>16,399</b>	<b>23,830</b>	<b>19,177</b>	<b>24,423</b>	<b>83,582</b>	<b>83,828</b>
Change (%)	17.5	0.9	1.7	11.7	-14.6	10.6	5.3	-0.9	7.6	0.3
<b>EBITDA</b>	<b>1,548</b>	<b>152</b>	<b>2,654</b>	<b>3,437</b>	<b>1,702</b>	<b>3,489</b>	<b>2,571</b>	<b>2,829</b>	<b>7,791</b>	<b>10,591</b>
Change (%)	25.4	-90.9	191.7	-3.9	10.0	2,192.9	-3.1	-17.7	5.1	35.9
As % of Revenues	8.1	0.7	14.6	13.9	10.4	14.6	13.4	11.6	9.3	12.6
Depreciation	151	149	161	178	181	184	199	200	639	765
Interest Income	131	54	111	157	165	94	118	199	451	576
Other Income	16	15	16	21	2,233	30	2,184	0	67	4,447
<b>PBT</b>	<b>2,789</b>	<b>71</b>	<b>2,620</b>	<b>3,436</b>	<b>3,919</b>	<b>3,429</b>	<b>4,674</b>	<b>2,827</b>	<b>8,916</b>	<b>14,850</b>
Tax	819	55	926	1,186	613	1,174	1,304	912	2,984	4,003
Effective Tax Rate (%)	29.4	76.6	35.3	34.5	15.6	34.2	27.9	32.3	33.5	27.0
<b>Reported PAT</b>	<b>1,970</b>	<b>17</b>	<b>1,694</b>	<b>2,250</b>	<b>3,306</b>	<b>2,255</b>	<b>3,370</b>	<b>1,915</b>	<b>5,931</b>	<b>10,847</b>
<b>Adjusted PAT</b>	<b>1,090</b>	<b>17</b>	<b>1,694</b>	<b>2,250</b>	<b>1,073</b>	<b>2,255</b>	<b>1,679</b>	<b>1,915</b>	<b>5,051</b>	<b>6,816</b>
Change (%)	10.8	-98.5	164.0	14.8	-1.6	13,428	-0.9	-14.9	8.1	34.9

E: MOSL Estimates; Nos are for standalone entity

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## Suzlon Energy

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	SUEL IN
	REUTERS CODE
S&P CNX: 4,959	SUZL.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs92

Equity Shares (m)	1,556.7
52-Week Range (Rs)	201/33
1,6,12 Rel. Perf. (%)	-6/32/-73
M.Cap. (Rs b)	143.4
M.Cap. (US\$ b)	3.0

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR.* (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	136,794	12,607	8.0	33.2	11.5	1.7	21.7	15.3	1.2	8.1
3/09A	260,817	9,728	6.2	-22.8	14.9	1.6	11.6	12.1	1.0	9.7
3/10E	263,745	4,284	2.5	-58.8	36.2	1.5	4.7	7.4	1.0	11.3
3/11E	302,467	7,312	4.3	70.7	21.2	1.4	7.4	9.2	0.9	9.0

\* Consolidated

- In 2QFY10 we expect the WTG business to generate revenue of Rs15.6b (down 62.8% YoY), an EBITDA loss of Rs623m and net loss of Rs3.4b.
- Suzlon's order book in 1QFY10 was 1,500MW, down from 3,039MW in 1QFY09. During the past six months Suzlon secured orders of 450MW including (1) a 113MW order from Australia for 54 units of 2.1MW WTGs, (2) a 100MW order from China to supply 80 units of 1.25MW turbine during FY10-11 (3) a 132MW order from AGL, Australia to supply 63 units of 2.1MW WTGs and (4) a 42MW repeat order from Duke Energy, US for 20 units of 2.1MW.
- Management indicated possible order inflow of 1GW in the near future. Out of this Suzlon secured orders of 450MW in 4QFY09 and 1QFY10 from China, Australia and the US. However, there has been no order since July 2009.
- Suzlon raised US\$202m through a combination of GDRs (US\$108m) and FCCB (US\$94m) issues in 2QFY10. This along with an earlier FCCB (restructured) will result in equity dilution of 12.5% (7.2% dilution based on current GDR and FCCB issues). Besides, the promoters raised Rs6.9b through the sale of 70m shares (4.5% stake) in 2QFY10. We believe Suzlon will need more fund infusion to reduce its leverage (net DER of 1.2x in FY10).
- The stock trades at a P/E of 36.2x FY10E and 21.2x FY10E consolidated earnings. We maintain **Neutral**.

## QUARTERLY PERFORMANCE (WTG BUSINESS)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>20,866</b>	<b>41,818</b>	<b>39,320</b>	<b>57,030</b>	<b>11,640</b>	<b>15,558</b>	<b>31,696</b>	<b>69,568</b>	<b>158,970</b>	<b>128,462</b>
Change (%)	38.9	33.3	49.3	36.0	-44.2	-62.8	-19.4	22.0	38.6	-19.2
<b>EBITDA</b>	<b>3,022</b>	<b>4,126</b>	<b>5,063</b>	<b>3,080</b>	<b>-1,740</b>	<b>-623</b>	<b>2,026</b>	<b>11,032</b>	<b>15,730</b>	<b>10,696</b>
Change (%)	137.0	-23.6	53.5	-57.0	-157.6	-115.1	-60.0	258.2	-8.2	-32.0
As of % Sales	14.5	9.9	12.9	5.4	-14.9	-4.0	6.4	15.9	9.9	8.3
Depreciation	486	625	752	830	620	806	1,008	1,184	2,600	3,618
Interest	945	1,885	2,188	2,560	1,940	2,231	2,343	2,474	7,781	8,987
Other Income	429	159	534	1,790	150	250	250	557	2,610	1,207
Exceptional items (reported)	2,298	2,778	4,489	-600					8,965	180
<b>PBT</b>	<b>-278</b>	<b>-1,003</b>	<b>-1,832</b>	<b>2,080</b>	<b>-4,330</b>	<b>-3,410</b>	<b>-1,074</b>	<b>7,932</b>	<b>-1,006</b>	<b>-702</b>
Tax	351	302	-258	-360	-110	0	0	0	30	0
Effective Tax Rate (%)	(126.5)	(30.1)	14.1	(17.3)	2.5	0.0	0.0	0.0	(3.0)	0.0
<b>Reported PAT</b>	<b>-629</b>	<b>-1,305</b>	<b>-1,575</b>	<b>2,440</b>	<b>-4,220</b>	<b>-3,410</b>	<b>-1,074</b>	<b>7,932</b>	<b>-1,036</b>	<b>-702</b>
Change (%)	-149.4	-140.1	-223.7	-25.1	570.8	161.3	-31.8	225.1	-112.3	-32.2
<b>Adj. PAT</b>	<b>1,669</b>	<b>1,473</b>	<b>2,914</b>	<b>190</b>	<b>-4,030</b>	<b>-3,410</b>	<b>-1,074</b>	<b>7,932</b>	<b>6,329</b>	<b>-702</b>
Change (%)	24.0	-74.0	116.4	-96.6	-341.5	-331.6	-136.9	4,074.7	-44.0	-111.1

E: MOSL Estimates

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## Thermax

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	TMX IN
	REUTERS CODE
S&P CNX: 4,959	THMX.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs554

Equity Shares (m)	119.2
52-Week Range (Rs)	570/151
1,6,12 Rel. Perf. (%)	24/166/7
M.Cap. (Rs b)	66.0
M.Cap. (US\$ b)	1.4

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR.* (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	32,042	2,876	24.1	45.5	23.0	9.0	42.4	64.1	2.1	16.1
03/09A	32,644	2,950	24.8	2.6	22.4	7.5	35.3	51.0	2.0	15.5
03/10E	31,770	2,697	22.6	-8.6	24.5	6.8	27.9	41.9	2.0	16.5
03/11E	33,912	2,483	20.8	-8.0	26.6	6.3	23.5	35.6	1.9	17.6

\* Consolidated

- For 2QFY10 we expect revenue of Rs6.4b, (down 19.6% YoY), EBITDA of Rs716m, (down 10.4%) and net profit of Rs474m (down 16.8% YoY).
- Consolidated order book at the end of 1QFY10 was Rs34.3b (up 22% YoY, up 11.3% QoQ), including Rs6.5b of export orders. The energy division contributed Rs27.7b and environment contributed Rs6.5b. In 1QFY10 order flows improved marginally with intake at Rs10b (up 73% QoQ, up 10% YoY) against management expectation of Rs6b. In 2QFY10 Thermax expects about the same order intake QoQ. Management indicated order intake growth of 15% YoY in FY10.
- Order intake in FY10 will be mainly driven by utility/IPP orders. Sub-critical IPPs/utilities and captive power plants will be growth drivers in the energy segment. Thermax is negotiating for three 150MW and two 135MW orders. In the quarter Thermax bagged its first IPP of two 135MW units worth Rs10b.
- Thermax is targeting a 300MW order in FY11 and intends to move to super-critical projects after that. It is bidding for up to 150MW of utility orders. Thermax's capacity can deliver 2,000MW of boilers a year.
- In FY09 Thermax signed a technical-transfer license with Babcock & Wilcox Power Generation Group Inc. (B&W PGG), which grants it the right to engineer, manufacture and sell sub-critical B&W radiant utility boilers up to 800MW in India for the next 15 years.
- The stock trades at a P/E of 24.5x FY10E and 26.6x FY11E. Maintain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>7,170</b>	<b>7,907</b>	<b>7,951</b>	<b>9,483</b>	<b>5,376</b>	<b>6,354</b>	<b>9,213</b>	<b>10,827</b>	<b>32,510</b>	<b>31,770</b>
Change (%)	9.0	2.7	-6.0	2.8	-25.0	-19.6	15.9	14.2	1.5	-2.3
<b>EBITDA</b>	<b>911</b>	<b>799</b>	<b>968</b>	<b>1,333</b>	<b>689</b>	<b>716</b>	<b>1,068</b>	<b>1,377</b>	<b>4,011</b>	<b>3,850</b>
Change (%)	33.9	-20.9	-7.8	4.9	-24.4	-10.4	10.3	3.3	-2.1	-4.0
As of % Sales	12.7	10.1	12.2	14.1	12.8	11.3	11.6	12.7	12.3	12.1
Depreciation	70	67	84	100	95	90	95	92	321	373
Interest	3	8	6	17	5	10	8	17	33	40
Other Income	102	213	88	119	103	97	140	144	521	483
<b>PBT</b>	<b>940</b>	<b>937</b>	<b>966</b>	<b>1,348</b>	<b>692</b>	<b>713</b>	<b>1,105</b>	<b>1,411</b>	<b>4,192</b>	<b>3,921</b>
Tax	303	368	243	405	227	239	365	499	1,319	1,329
Effective Tax Rate (%)	32.3	39.2	25.2	30.0	32.8	33.5	33.0	35.3	31.5	33.9
<b>Reported PAT</b>	<b>637</b>	<b>570</b>	<b>723</b>	<b>943</b>	<b>465</b>	<b>474</b>	<b>740</b>	<b>912</b>	<b>2,873</b>	<b>2,591</b>
Change (%)	13.7	-17.7	-3.7	17.1	-27.0	-16.8	2.4	-3.3	2.3	-9.8
<b>Adj PAT</b>	<b>637</b>	<b>570</b>	<b>723</b>	<b>930</b>	<b>465</b>	<b>474</b>	<b>740</b>	<b>912</b>	<b>2,859</b>	<b>2,591</b>
Change (%)	37.8	(17.7)	(3.7)	18.5	(27.0)	(16.8)	2.4	(1.9)	2.6	(9.4)

E: MOSL Estimates

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BSE Sensex: 16,693

S&amp;P CNX: 4,959

25 September 2009

## COMPANY NAME

Asian Paints

Britannia Industries

Colgate Palmolive

Dabur India

GSK Consumer

Godrej Consumer Products

Hindustan Unilever

ITC

Marico

Nestle India

Tata Tea

United Spirits

**Income erosion for small farmers:** A 22% deficiency until week 16 in the south-west monsoons could bring about a 10-15% decline in the Kharif crop and we expect small and marginal farmers (85% of the farming community) to suffer due to lack of adequate irrigation. But a double-digit increase in crop prices and Rs100b higher outlay on NREGS (National Rural Employment Guarantee Scheme) will provide a cushion to rural income.

**Food inflation to hit urban poor hardest:** The Consumer Price Index (Rural Labor and Industrial Workers) has reached the mid-teens. We expect this inflation to dent buying power of the urban poor, for whom food and groceries constitute 60-65% of the monthly spend. Pressure on consumer wallets is likely to lead to down-trading.

**Value-for-money brands to benefit from down-trading:** Although FMCG demand has been intact so far, down-trading is visible in select categories like toilet soaps, detergents, biscuits and edible oil. We do not expect national brands to increase prices much and cuts in discretionary spends on non-essential FMCG products are likely in rural areas.

**Mixed trend in input prices; palm oil, LAB, sugar, HDPE on an uptrend:** Crude-based inputs (palm oil, LAB and HDPE) have increased by 30-50% from the bottom and agricultural inputs have maintained their uptrend. Prices of commodities like milk and sugar have risen sharply over the past few months. Consequently sustaining margin expansion could be a challenge in the coming quarters.

**Prefer players with high growth visibility:** The long-term outlook continues to be bullish as we are on the cusp of unfolding a structural growth story. We prefer companies with strong growth visibility and a dominant position in high growth segments. **ITC** and **Nestle** are our preferred bets among large caps and **Marico** and **Glaxo Consumer** are our top picks among mid caps.

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT			
			25.9.09	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
				% YOY	% QOQ	% YOY	% QOQ	% YOY	% QOQ			
<b>FMCG</b>												
Asian Paints	1,378	Neutral	17,114	16.0	17.2	2,807	34.4	1.8	1,733	30.9	-1.6	
Britannia	1,528	Buy	9,476	13.0	29.6	753	12.3	25.7	617	3.5	13.6	
Colgate	619	Buy	4,781	15.9	2.2	956	39.0	-22.0	836	31.7	-18.6	
Dabur	142	Buy	8,450	22.3	13.8	1,655	32.6	40.0	1,295	20.1	41.7	
Godrej Consumer	245	Buy	4,106	18.5	-6.4	755	90.4	-12.6	603	73.5	-13.5	
GSK Consumer	1,167	Buy	5,350	26.6	14.1	830	31.6	11.3	655	23.5	18.7	
Hind. Unilever	259	Neutral	44,192	7.5	-1.9	6,540	16.9	-8.5	4,944	12.9	-7.9	
ITC	235	Buy	42,450	9.9	2.7	14,475	19.1	4.3	9,400	17.1	7.0	
Marico	92	Buy	7,091	17.5	1.8	943	27.6	-2.2	602	27.7	0.3	
Nestle	2,236	Buy	13,218	19.3	9.3	2,710	30.8	3.5	1,786	34.8	0.3	
Tata Tea	912	Neutral	12,783	6.5	0.3	1,406	-2.0	-9.2	732	-11.0	-6.0	
United Spirits	912	Buy	11,366	26.0	-8.5	2,012	12.4	-9.3	961	2.4	-9.0	
<b>Sector Aggregate</b>			<b>180,377</b>	<b>12.9</b>	<b>3.9</b>	<b>35,843</b>	<b>21.5</b>	<b>0.3</b>	<b>24,165</b>	<b>18.0</b>	<b>1.3</b>	

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### Income erosion for small farmers

Deficient rainfall in the current fiscal has led to a decline in the Kharif acreage by 7% and the impact on yields is expected to be 5%. However, four consecutive weeks (week 11-14) of normal/above-normal rainfall came as a relief to farmers. The Kharif crop output is now estimated to decline by just 10-15%.

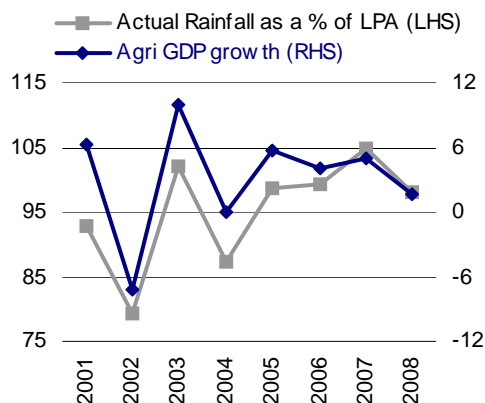
**The late rains helped on two fronts:** (1) improving soil moisture and (2) increasing water storage in reservoirs, both of which augur well for the Rabi season. Government initiatives to start Rabi sowing early and switch from high water-consuming crops like paddy to others could arrest the decline in overall crop output.

ALL INDIA CROP SITUATION - KHARIF (2009-10) AS ON 11-09-2009 (M HECTARES)

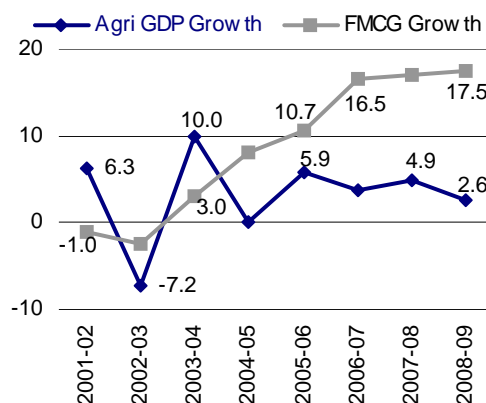
CROP	NORMAL AREA	AREA SOWN REPORTED			CHANGE OVER LAST YEAR	
		THIS YEAR	% OF NORMAL	LAST YEAR	ABSOLUTE	PERCENTAGE
Rice	39.2	30.9	78.8	37.1	-6.2	-16.8
Total Cereals	62.2	49.5	79.6	56.2	-6.7	-11.9
Pulses	11.2	9.6	86.1	9.2	0.4	4.6
Total Food Grains	73.3	59.1	80.6	65.4	-6.3	-9.6
Total Oilseed	16.9	16.6	98.1	17.8	-1.2	-6.6
Cotton	8.7	9.6	110.3	8.5	1.1	13.4
Sugarcane	4.4	4.3	96.5	4.4	-0.1	-2.9
Jute	0.8	0.7	86.7	0.7	0.0	-2.0
<b>All Crops</b>	<b>104.2</b>	<b>90.3</b>	<b>86.6</b>	<b>96.7</b>	<b>-6.5</b>	<b>-6.7</b>

Source: Company/MOSL

MONSOON AND AGRI-GDP GROWTH



AGRI-GDP GROWTH AND FMCG GROWTH (%)



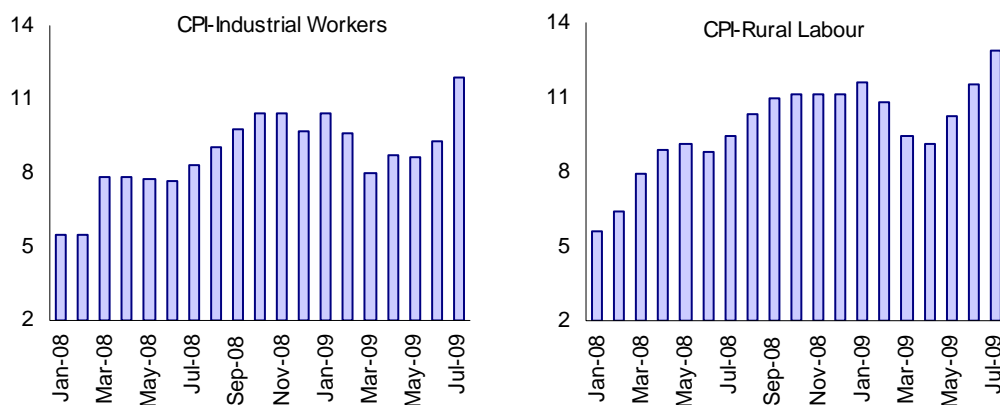
Source: Company/MOSL

We believe the impact of deficient rainfall will be felt by marginal farmers as they cannot afford to invest in irrigation and advanced fertilizer. Higher MSPs (minimum support prices), NREGS and an increase in non-agricultural income sources will benefit marginal farmers. But in a few pockets incomes of small and marginal farmers will be significantly dented. Our channel check and company interactions indicate little impact so far though most expect growth rates to subside in the coming quarters. We believe the deficient monsoon will impact consumption sentiment more than actual buying power and the impact on consumption will probably come in 3QFY10.

**Food inflation to hit urban poor hardest**

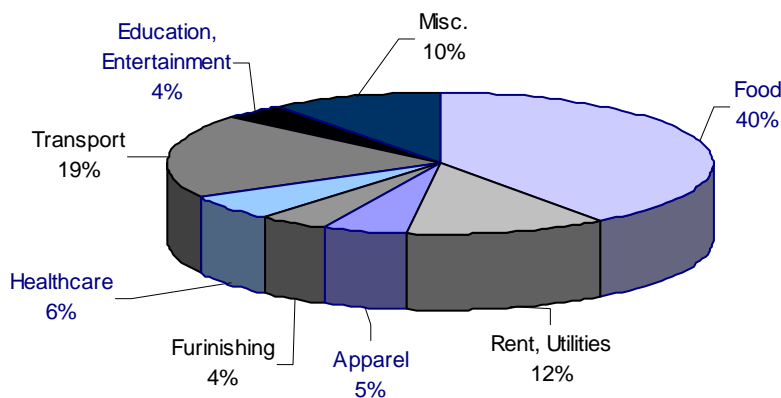
We believe the urban poor will face the most pressure in the near term. Even though the Wholesale Price Index has just come out of negative territory the Consumer Price Index, which includes rural labor and industrial workers, has reached the mid-teens. Besides, spends on food and groceries comprises 60-65% of the urban poor's monthly outgo. With pressure on consumer wallets from food expenditure likely to increase, this section of society will be hit hardest. We expect down-trading and also do not rule out some reshuffling in the share of wallet among these segments.

CPI (RURAL AND INDUSTRIAL WORKERS)



Source: Company/MOSL

SHARE OF WALLET OF AN INDIAN CONSUMER



Source: NSSO

**Down-trading to intensify, value-for-money brands to benefit**

We expect pressure on consumer wallets to intensify down-trading in the subsequent quarters. In this changing consumption environment we see value-for-money brands and regional/unorganized brands benefiting, especially in categories like toilet soaps, detergents, biscuits and edible oil. AC Nielsen's data on detergent consumption in July 2009 shows that, for all India (urban + rural), volume de-grew 4.8% while regional powders grew 40.7%. FMCG company, HUL, is sharpening focus on regional/value-for-money brands like Rexona, Hamam and Breeze toilet soaps and enhancing discounts/freebies in detergents and laundry products, which highlights the importance of increasing product relevance for entry-level consumers.



## PRICE REDUCTION AND DISCOUNTS/FREEBIES TO CUT MARKET SHARE LOSS

COMPANY	BRAND	SKU	FREEBIE/PRICE CUT
HUL	Wheel Detergent Powder	Rs30/kg	Wheel Bar (Rs5)
	Rin Detergent Powder	Rs135/2 kg	2 Pears soaps
	Wheel Bar		
	Rin Bar	200gm	Price cut of 14%
	Surf Excel Bar	120/240gm	Price cut of 13-16%
	Surf Excel Blue	750gm	75gm Liril 2000
Britannia	Lipton Yellow	450gm	Kissan Tomoto 500gm
	GoodDay Cashew	Rs12/90gm	Little hearts (Rs3)
	GoodDay Butter	Rs10/90gm	50-50
ITC	Sunfeast Special Cashew	Rs6/54gm	20% extra
	Sunfeast Special Butter	Rs5/54gm	20% extra
Asian Paints	Weighted average	NA	2.25%
Marico	Parachute Advanced	500ml	50ml free
	Saffola	1liter	20% extra
	Sweekar	1 liter	20% extra

Source: Company/MOSL

Companies are sharpening focus on low-priced SKUs at critical price points of Rs5 and Rs10. We expect more brands in small packs priced at Rs2, Rs3, Rs5 and Rs10.

## NEW LAUNCHES/RE-LAUNCHES IN THE PAST QUARTER

COMPANY	CATEGORY	BRAND/SKU
HUL	Household Care	Cif cream
	Oral Care	Pepsodent Rs5/10 SKU
	Tea	Yellow Label Green Tea
Nestle	Tea	Nestea (Rs5/10 SKU)
Asian Paints	Paints	Royale Teflon Technology
Dabur	Skin Care	Uveda

Source: Company/MOSL

## VOLUME GROWTH

	JUN-08	SEP-08	DEC-08	MAR-09	JUN-09
Hindustan Unilever	8.3	6.8	2.3	-4.2	2.0
ITC (cigarette)	-3.0	-2.0	-3.5	-3.0	5.0
Asian Paints	20.0	19.0	2.0	13.0	11.5
United Spirits	19.0	15.0	19.0	24.0	17.0
Colgate	11.5	11.1	14.0	15.2	14.0
GSK Consumer	13.0	16.0	13.0	20.0	12.0
Marico					
Parachute	8.0	12.0	9.0	N.A	14.0
Hair Oil	26.0	14.0	14.0	N.A	9.0
Saffola	28.0	9.0	3.0	N.A	13.0
Godrej Consumer					
Soaps	NA	14.0	19.0	34.0	15.0
Hair Color	19.0	-4.0	7.0	13.0	14.0
Dabur	11.0	13.0	14.0	13.0	16.0

Source: Company/MOSL

**Mixed trend in input prices: palm oil, LAB, sugar, HDPE on an uptrend**

Prices of crude-based inputs (palm oil, LAB and HDPE) have increased by 30-50% from the bottom while agricultural inputs have maintained their uptrend. Prices of commodities like sugar and milk have risen sharply over the past few months. We expect agricultural input prices to stay steady in the medium term and crude-based input prices are unlikely to slip. Consequently sustaining margin expansion could be a challenge.

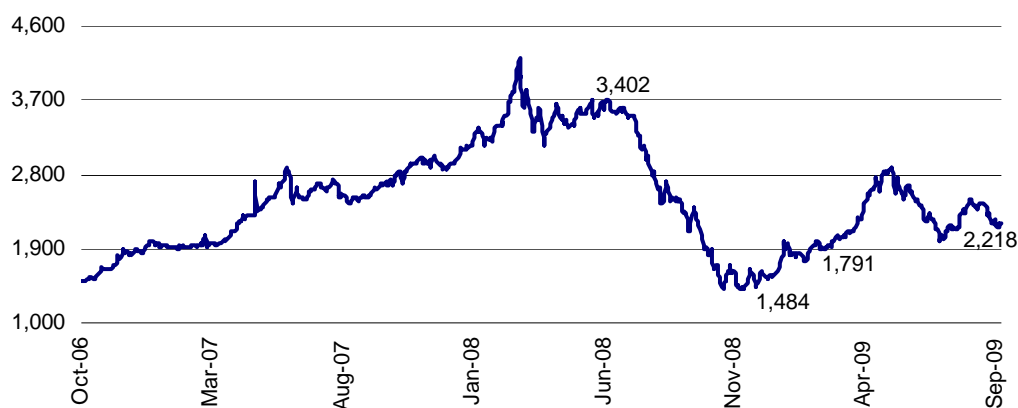


IMPACT OF INPUT PRICE CHANGES

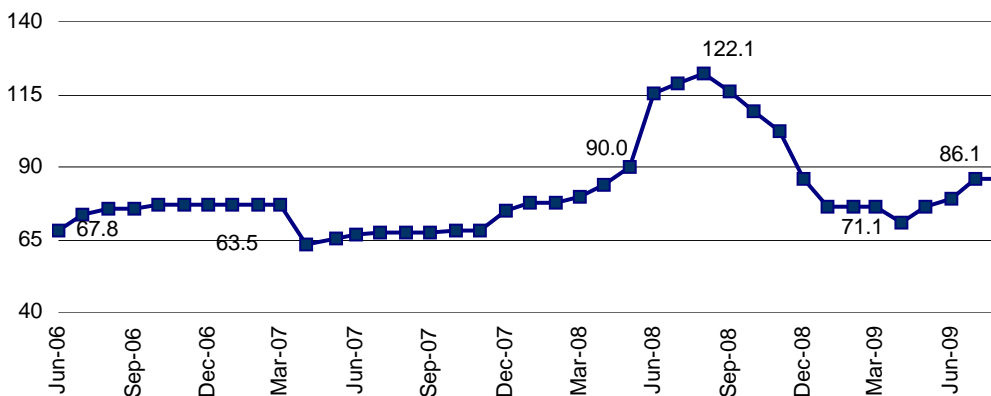
INPUT	PRICE TREND	UNIT	52 WEEK H/L	CURRENT PRICE	IMPACT	COMPANIES
LAB	Up	Rs/kg	122/71	Rs86/kg	Negative	HUL
Soda Ash	Up	Rs/tonne	12,904/11,659	Rs12,300/tonne	Negative	HUL
Palm Oil	Up	MYR/tonne	2,851/1,425	MYR2203/tonne	Negative	HUL, Godrej Consumer
Sugar	Up	Rs/qtl	3,016/1,851	Rs2,984/qtl	Negative	Nestle, GSK Consumer, ITC, USL, Britannia
Wheat	Up	Rs/qtl	1,197/1,100	Rs1,189/qtl	Negative	Nestle, ITC, Britannia
Milk	Up	Index	248/226	248 (Index)	Negative	Nestle, GSK Consumer
Copra	Down	Rs/qtl	4,375/3,000	Rs3,000/qtl	Positive	Marico

Source: Company/MOSL

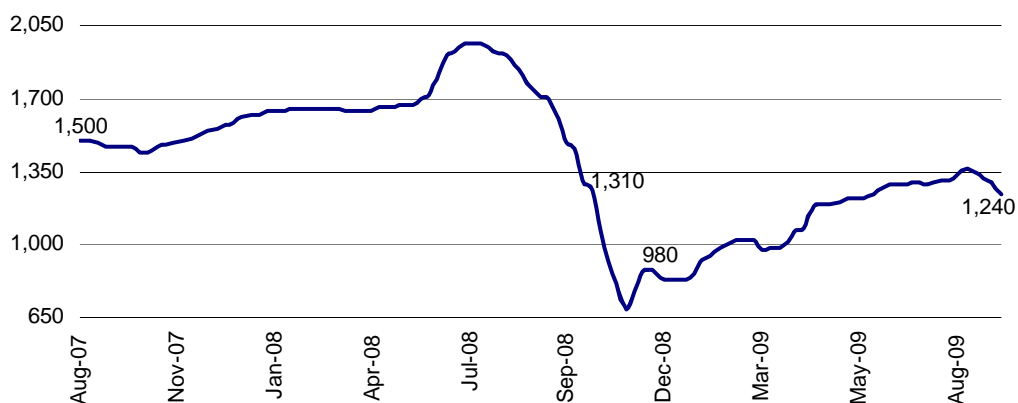
PALM OIL (MALAYSIAN RINGGIT/MT)



LAB (RS/KG)

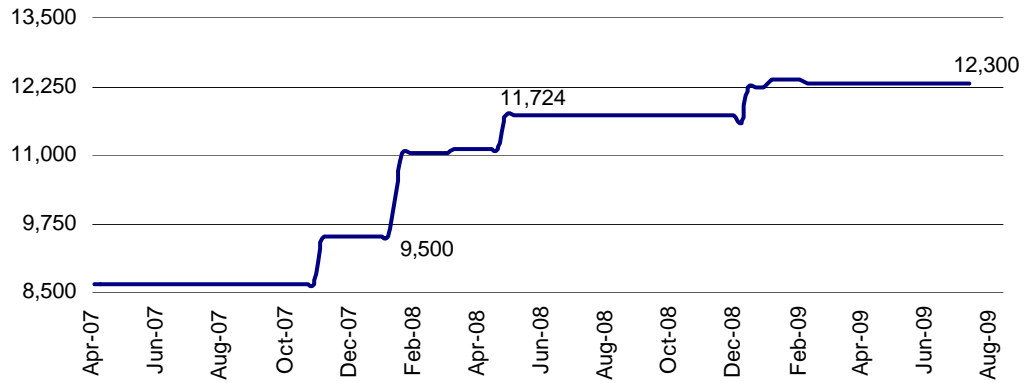


HDPE (US\$/MT)

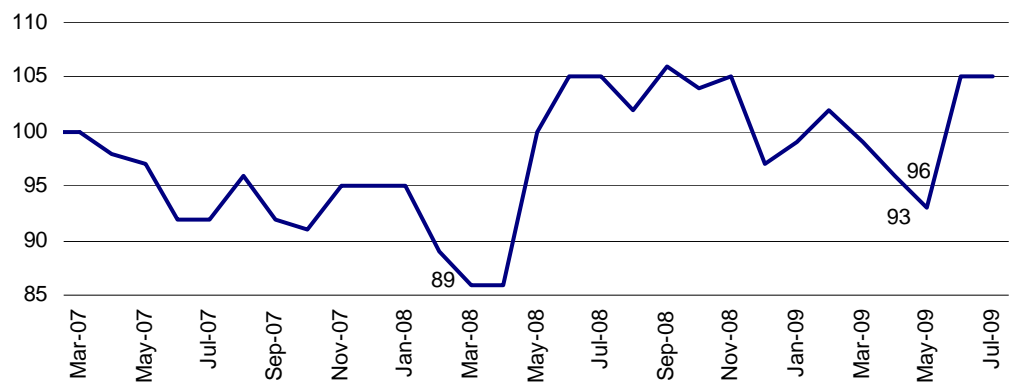


Source: Company/MOSL

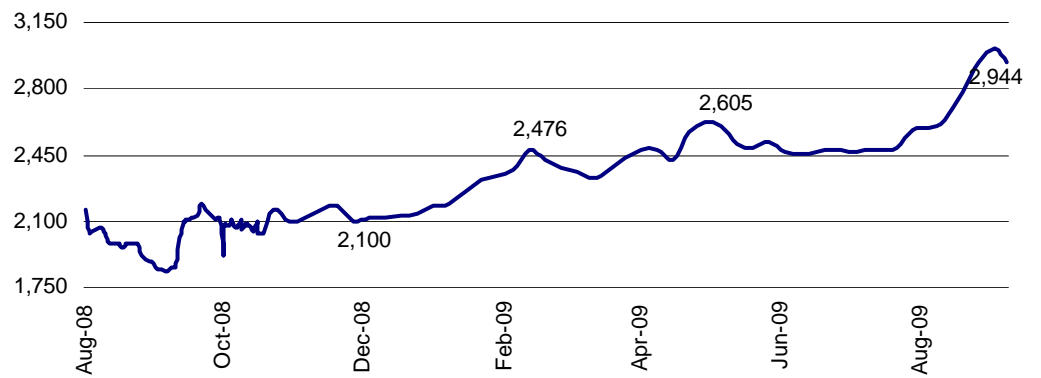
SODA ASH (RS/TON)



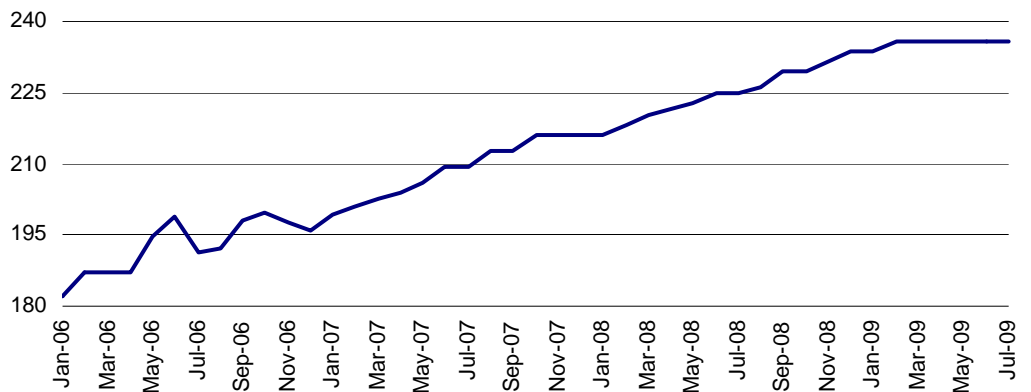
CALCIUM CARBONITE (US\$/TON)



SUGAR (RS/OTL)



MILK PRICE INDEX



Source: Company/MOSL



Source: Company/MOSL

### Prefer players with high volume-growth visibility

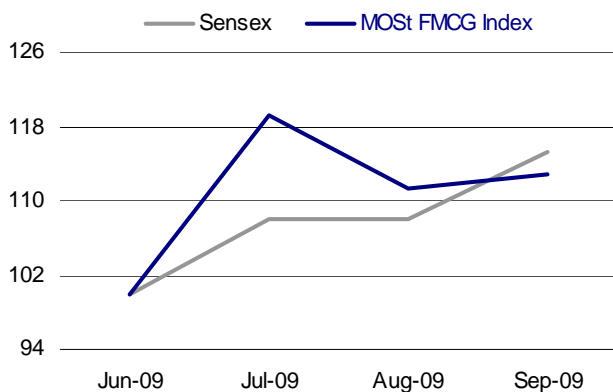
FMCG stocks have risen sharply in the past few months due to robust volume growth and margin expansion. The long-term outlook continues to be bullish as we are on the cusp of unfolding a structural growth story. However we prefer companies with strong growth visibility and a dominant position in high growth segments with high entry barriers. **ITC** and **Nestle** are our preferred bets among large caps, **Marico** and **Glaxo Consumer** are our top picks among mid caps.

## Stock performance and valuations

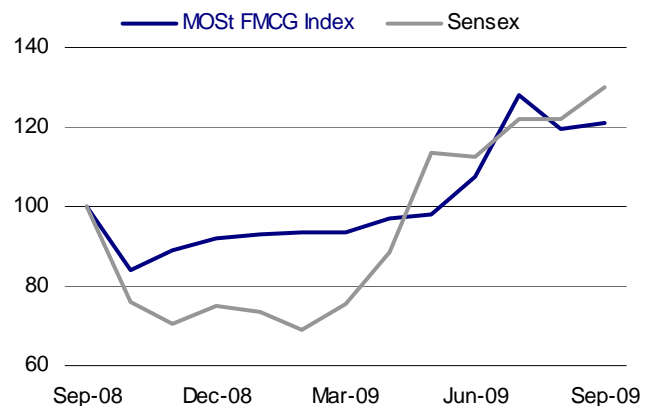
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>FMCG</b>						
Asian Paints	22	15	6	-8	8	-6
Britannia	-2	14	-18	-9	-17	-6
Colgate	10	56	-7	33	-5	36
Dabur	18	63	1	40	3	42
Godrej Consumer	41	105	25	81	26	84
GSK	29	91	13	67	14	70
Hind. Unilever	0	4	-16	-19	-15	-17
ITC	21	25	5	1	6	4
Marico Industries	26	56	10	32	11	35
Nestle	25	35	8	12	10	14
Tata Tea	28	31	12	8	14	10
United Spirits	-1	-32	-17	-55	-15	-52

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
	25.9.09													
<b>FMCG</b>														
Asian Paints	1,378	Neutral	41.8	58.9	66.6	32.9	23.4	20.7	19.8	14.0	12.2	33.4	37.6	34.7
Britannia	1,528	Buy	84.2	92.3	114.1	18.2	16.5	13.4	13.9	13.8	10.7	24.4	51.5	50.6
Colgate	619	Buy	21.3	25.1	27.9	29.0	24.6	22.2	24.1	20.1	16.7	153.3	144.1	134.7
Dabur	142	Buy	4.5	5.4	6.4	31.4	26.3	22.2	25.5	20.3	16.9	47.8	43.4	40.1
Godrej Consumer	245	Buy	6.7	9.6	11.3	36.5	25.6	21.6	30.4	19.8	16.6	30.4	37.5	38.1
GSK Consumer	1,167	Buy	44.8	60.2	72.2	26.1	19.4	16.2	18.6	13.5	11.1	24.8	27.7	27.8
Hind. Unilever	259	Neutral	9.4	10.2	11.4	27.6	25.4	22.7	18.0	18.5	16.4	121.3	93.5	92.1
ITC	235	Buy	8.6	10.2	11.6	27.1	23.1	20.3	16.8	13.9	12.2	23.8	24.4	24.2
Marico	92	Buy	3.3	3.9	4.8	27.4	23.3	18.9	19.3	15.2	12.4	44.9	37.3	33.1
Nestle	2,236	Buy	58.6	77.3	92.7	38.2	28.9	24.1	24.7	19.0	16.1	119.4	128.1	126.3
Tata Tea	912	Neutral	47.4	48.0	55.0	19.2	19.0	16.6	7.5	7.7	6.8	7.5	7.1	7.8
United Spirits	912	Buy	32.1	41.1	63.1	28.4	22.2	14.5	15.8	12.6	10.1	12.0	14.7	18.4
<b>Sector Aggregate</b>						<b>28.4</b>	<b>23.9</b>	<b>20.6</b>	<b>18.0</b>	<b>15.4</b>	<b>13.3</b>	<b>30.3</b>	<b>31.6</b>	<b>31.7</b>

## Asian Paints

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	APNT IN
	REUTERS CODE
S&P CNX: 4,959	ASPN.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs1,378

Equity Shares (m)	95.9
52-Week Range (Rs)	1,448/681
1,6,12 Rel. Perf. (%)	-5/8/-8
M.Cap. (Rs b)	132.1
M.Cap. (US\$ b)	2.8

YEAR	NET SALES	ADJ. PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/08A	44,072	4,176	43.5	45.7	31.6	13.7	42.5	57.6	3.0	20.2
3/09A	54,632	4,014	41.8	-3.9	32.9	11.2	33.4	48.5	2.5	20.1
3/10E	61,708	5,652	58.9	40.8	23.4	8.9	37.6	52.2	2.2	14.3
3/11E	72,010	6,389	66.6	13.0	20.7	7.3	34.7	51.5	1.8	12.4

- We expect Asian Paints to post 2QFY10 net sales of Rs17.1b, a growth of 16% YoY. We expect 17% volume growth in domestic decorative paints. Improving consumer sentiment and Diwali (FY09 sales impact was in 3Q) will be key drivers.
- Raw material prices are stable QoQ, though EBITDA margin expansion in 2QFY10 will be lower than the preceding quarter due to (1) a 2.25% average price cut effected in July (2) higher ad-spend in the current quarter due to the launch of Royal Teflon.
- We expect EBITDA margin of 16.4% in 2QFY10, up 220bp YoY. EBITDA is likely to grow by 34.4% YoY to Rs2.8b and adjusted PAT will grow 31% YoY to Rs1.7b.
- International business growth will tend to be lower due to pressure in the Middle East and the Caribbean. The company has divested its units in Malaysia, China and Hong Kong, which incurred losses of Rs80m in FY09. The transaction will be complete in November and benefits will accrue from 3QFY10.
- The stock is trading at 23.4x FY10E and 20.7x FY11E earnings. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Volume Growth (%)	20.0	19.0	0.0	13.0	11.5	17.0	11.5	12.0		
<b>Net Sales</b>	<b>12,420</b>	<b>14,753</b>	<b>13,210</b>	<b>14,249</b>	<b>14,602</b>	<b>17,114</b>	<b>14,003</b>	<b>15,989</b>	<b>54,632</b>	<b>61,708</b>
Change (%)	29.3	30.2	12.2	25.8	17.6	16.0	6.0	12.2	24.0	13.0
Raw Material/Packing Material	7,518	9,013	8,437	8,739	8,191	10,114	8,570	9,799	33,706	36,674
<b>Gross Profit</b>	<b>4,902</b>	<b>5,740</b>	<b>4,773</b>	<b>5,511</b>	<b>6,411</b>	<b>6,999</b>	<b>5,433</b>	<b>6,190</b>	<b>20,926</b>	<b>25,034</b>
Gross Margin (%)	39.5	38.9	36.1	38.7	43.9	40.9	38.8	38.7	38.3	40.6
<b>Operating Expenses</b>	<b>3,180</b>	<b>3,651</b>	<b>3,680</b>	<b>3,720</b>	<b>3,653</b>	<b>4,193</b>	<b>3,711</b>	<b>4,079</b>	<b>14,232</b>	<b>15,636</b>
% of Sales	25.6	24.8	27.9	26.1	25.0	24.5	26.5	25.5	26.1	25.3
<b>EBITDA</b>	<b>1,722</b>	<b>2,088</b>	<b>1,093</b>	<b>1,791</b>	<b>2,758</b>	<b>2,807</b>	<b>1,722</b>	<b>2,111</b>	<b>6,694</b>	<b>9,399</b>
Margin (%)	13.9	14.2	8.3	12.6	18.9	16.4	12.3	13.2	12.3	15.2
Change (%)	27.2	15.0	-35.3	25.3	36.2	34.4	57.5	17.9	1.3	40.4
Interest	55	68	66	75	72	75	80	103	263	329
Depreciation	154	186	202	201	198	211	215	219	744	843
Other Income	103	179	122	114	156	75	60	35	517	326
<b>PBT</b>	<b>1,616</b>	<b>2,014</b>	<b>946</b>	<b>1,629</b>	<b>2,645</b>	<b>2,596</b>	<b>1,487</b>	<b>1,824</b>	<b>6,204</b>	<b>8,552</b>
Tax	519	634	291	530	844	805	469	551	1,974	2,668
Effective Tax Rate (%)	32.1	31.5	30.7	32.5	31.9	31.0	31.5	30.2	31.8	31.2
<b>PAT before Minority</b>	<b>1,096</b>	<b>1,379</b>	<b>656</b>	<b>1,099</b>	<b>1,801</b>	<b>1,791</b>	<b>1,019</b>	<b>1,273</b>	<b>4,230</b>	<b>5,884</b>
Minority Interest	29	55	60	73	40	58	65	69	216	231
<b>Adjusted PAT</b>	<b>1,068</b>	<b>1,324</b>	<b>596</b>	<b>1,026</b>	<b>1,761</b>	<b>1,733</b>	<b>954</b>	<b>1,205</b>	<b>4,014</b>	<b>5,652</b>
Change (%)	27.4	9.4	-42.3	21.1	64.9	30.9	60.0	17.4	-3.9	40.8
<b>Reported PAT</b>	<b>1,062</b>	<b>1,315</b>	<b>590</b>	<b>1,041</b>	<b>1,760</b>	<b>1,733</b>	<b>954</b>	<b>1,205</b>	<b>3,978</b>	<b>5,651</b>

E: MOSL Estimates

Amnisha Aggarwal (AmnishaAggarwal@MotilalOswal.com)/Amit Purohit (AmitPurohit@MotilalOswal.com)/Nikhil Kumar N (Nikhil.N@MotilalOswal.com)

## Britannia Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	BRIT IN
	REUTERS CODE
S&P CNX: 4,959	BRIT.BO

25 September 2009

Buy

Rs1,528

Previous Recommendation: Buy

Equity Shares (m)	23.9
52-Week Range (Rs)	1,890/991
1,6,12 Rel. Perf. (%)	-16/-55/-9
M.Cap. (Rs b)	36.5
M.Cap. (US\$ b)	0.8

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	25,841	1,833	76.7	61.0	19.9	4.8	24.2	27.2	1.3	14.2
03/09A	31,122	2,011	84.2	9.7	18.2	4.4	24.4	31.7	1.0	12.1
03/10E	35,658	2,206	92.3	9.7	16.5	8.4	51.5	34.1	1.0	12.3
03/11E	40,220	2,725	114.1	23.6	13.4	6.7	50.6	38.3	0.9	9.4

- We expect Britannia to post net sales growth of 13% YoY to Rs9.5b. EBIDTA is expected to rise 12.2% and margins remain flat YoY. An increase in the tax rate by 280bp will trim PAT growth to 3.5% YoY.
- We expect gross margin erosion by 20bp as prices of key inputs like wheat flour, milk stay firm while sugar prices rise 40-60% YoY.
- The company has launched a consumer offer (Little Hearts worth Rs3 free with Good Day biscuits (90gm SKU) to retain consumers in an environment of increasing inflationary pressure. We like Britannia's strategy of improving realization by driving increasing use of value-added biscuits (with high margins) instead of raising prices.
- We note positive changes in Britannia after the change in management. These include the buying of the balance stake in a dairy venture, increase in dividend payout and the issue of bonus debentures.
- The stock trades at 16.5x FY10E EPS and 13.4x FY11E EPS. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>6,933</b>	<b>8,385</b>	<b>8,183</b>	<b>7,621</b>	<b>7,312</b>	<b>9,476</b>	<b>9,574</b>	<b>9,296</b>	<b>31,122</b>	<b>35,658</b>
YoY Change (%)	20.2	27.3	24.7	10.0	5.5	13.0	17.0	22.0	20.4	14.6
Raw Material Cost	4,846	5,953	5,784	5,184	5,070	6,751	6,817	6,539	21,766	25,177
<b>Gross Profit</b>	<b>2,087</b>	<b>2,433</b>	<b>2,399</b>	<b>2,437</b>	<b>2,243</b>	<b>2,724</b>	<b>2,757</b>	<b>2,757</b>	<b>9,356</b>	<b>10,481</b>
Margins (%)	30.1	29.0	29.3	32.0	30.7	28.8	28.8	29.7	30.1	29.4
Other Exp	1,511	1,762	1,743	1,751	1,643	1,971	2,011	1,935	6,728	7,560
% of Sales	21.8	21.0	21.3	23.0	22.5	20.8	21.0	20.8	21.6	21.2
<b>EBITDA</b>	<b>576</b>	<b>671</b>	<b>656</b>	<b>686</b>	<b>599</b>	<b>753</b>	<b>747</b>	<b>822</b>	<b>2,627</b>	<b>2,922</b>
Margins (%)	8.3	8.0	8.0	9.0	8.2	8.0	7.8	8.8	8.4	8.2
Depreciation	79	82	86	88	91	91	92	96	335	370
Interest	35	44	30	8	8	20	110	112	160	250
Other Income	79	167	73	75	153	120	60	55	399	388
<b>PBT</b>	<b>541</b>	<b>712</b>	<b>614</b>	<b>665</b>	<b>653</b>	<b>762</b>	<b>605</b>	<b>670</b>	<b>2,532</b>	<b>2,690</b>
Tax	83	116	88	235	109	145	105	125	521	484
Rate (%)	15.3	16.2	14.3	35.3	16.7	19.0	17.4	18.7	20.6	18.0
<b>Adjusted PAT</b>	<b>458</b>	<b>597</b>	<b>526</b>	<b>430</b>	<b>544</b>	<b>617</b>	<b>500</b>	<b>545</b>	<b>2,011</b>	<b>2,206</b>
YoY Change (%)	16.8	15.6	7.7	-17.8	18.7	3.5	-5.0	26.8	9.7	9.7
Extraordinary Expenses	55	64	64	23	70	37	37	123	206	266
<b>Reported PAT</b>	<b>403</b>	<b>533</b>	<b>462</b>	<b>407</b>	<b>474</b>	<b>580</b>	<b>463</b>	<b>422</b>	<b>1,804</b>	<b>1,939</b>

E: MOSL Estimates

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## Colgate Palmolive

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	CLGT IN
	REUTERS CODE
S&P CNX: 4,959	COLG.BO

25 September 2009

Buy

Rs619

Previous Recommendation: Buy

Equity Shares (m)	136.0
52-Week Range (Rs)	686/341
1,6,12 Rel. Perf. (%)	-6/-36/33
M.Cap. (Rs b)	84.2
M.Cap. (US\$ B)	1.8

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	14,734	2,317	17.0	44.7	36.3	50.8	104.6	103.2	5.4	27.8
03/09A	16,948	2,902	21.3	25.2	28.4	38.1	153.3	150.2	4.7	23.7
03/10E	19,582	3,419	25.1	17.8	24.1	31.9	144.1	142.3	4.0	20.1
03/11E	22,305	3,792	27.9	10.9	21.7	27.1	134.7	133.7	3.5	16.7

- We expect Colgate to post net sales of Rs4.8b, reflecting a YoY growth of 15.9% in 2QFY10. We expect a 400bp increase in EBITDA margins because of a low base effect (20.6% ad-spend in 2QFY09).
- Volume growth momentum is likely to be sustained at 14% with Cibaca reporting strong growth in rural India. Besides the Rs5 SKU is doing well. Colgate launched a campaign Learn And Earn to spread oral hygiene awareness among children.
- The Colgate Oral Health Month began in September and will continue through October. The expenses incurred will be reflected in 3QFY10.
- Management has hinted that its tax rate is expected to increase to 24% in FY11 from 18% estimated in FY10 as its Baddi unit moves to a 30% tax-exemption region from 100% tax-exemption location. We are downgrading FY10 EPS estimates by 2% and FY11 EPS estimates by 5%. We expect FY10 EPS to be Rs25.1 (Rs25.6 previously) and FY11 EPS to be Rs27.9 (Rs29.3 previously).
- The stock trades at 24.1x FY10E EPS of Rs25.1 and 21.7x FY11E EPS of Rs27.9. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Volume Growth (%)	10.9	11.1	14.0	15.2	14.0	14.0	12.5	12.5		
<b>Net Sales</b>	<b>4,076</b>	<b>4,125</b>	<b>4,192</b>	<b>4,555</b>	<b>4,680</b>	<b>4,781</b>	<b>4,855</b>	<b>5,266</b>	<b>16,948</b>	<b>19,582</b>
YoY Change (%)	16.2	13.4	14.1	16.4	14.8	15.9	15.8	15.6	15.0	15.5
COGS	1,752	1,807	1,849	2,005	2,050	2,099	2,126	2,306	7,413	8,581
<b>Gross Profit</b>	<b>2,324</b>	<b>2,319</b>	<b>2,343</b>	<b>2,549</b>	<b>2,630</b>	<b>2,682</b>	<b>2,728</b>	<b>2,960</b>	<b>9,535</b>	<b>11,001</b>
Gross Margin (%)	57.0	56.2	55.9	56.0	56.2	56.1	56.2	56.2	56.3	56.2
Other Operating Expenses	1,636	1,807	1,597	1,789	1,579	1,881	2,126	2,050	6,919	7,636
% to Sales	40.1	43.8	38.1	39.3	33.7	39.3	43.8	38.9	40.8	38.994
Other Operating Income	253	176	163	167	174	155	145	139	760	613
<b>EBITDA</b>	<b>942</b>	<b>688</b>	<b>909</b>	<b>928</b>	<b>1,226</b>	<b>956</b>	<b>748</b>	<b>1,049</b>	<b>3,376</b>	<b>3,979</b>
Margins (%)	21.8	16.0	20.9	19.7	25.3	20.0	15.4	19.9	19.1	20.3
Depreciation	55	56	55	64	56	59	62	63	229	241
Interest	4	5	1	1	5	5	6	5	11	20
Financial Other Income	31	93	65	38	86	130	100	136	318	452
<b>PBT</b>	<b>913</b>	<b>721</b>	<b>918</b>	<b>901</b>	<b>1,251</b>	<b>1,022</b>	<b>780</b>	<b>1,117.6</b>	<b>3,453</b>	<b>4,170</b>
Tax	194	86	140	131	223	186	140	201	551	751
Rate (%)	21.3	11.9	15.3	14.5	17.8	18.2	18.0	18.0	16.0	18.0
<b>Adjusted PAT</b>	<b>719</b>	<b>635</b>	<b>777</b>	<b>771</b>	<b>1,028</b>	<b>836</b>	<b>639</b>	<b>916</b>	<b>2,902</b>	<b>3,419</b>
YoY Change (%)	16.2	16.0	28.3	38.6	42.9	31.7	-17.8	18.9	25.2	17.8

E: MOSL Estimates

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## Dabur India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	DABUR IN
	REUTERS CODE
S&P CNX: 4,959	DABU.BO

25 September 2009

Buy

Rs142

Previous Recommendation: Neutral

Equity Shares (m)	864.0
52-Week Range (Rs)	144/60
1,6,12 Rel. Perf. (%)	6/-19/40
M.Cap. (Rs b)	122.7
M.Cap. (US\$ b)	2.6

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	23,610	3,337	3.9	17.7	36.8	19.6	54.0	55.6	5.0	29.1
03/09A	28,054	3,912	4.5	17.1	31.4	14.8	47.8	44.6	4.2	25.2
03/10E	34,074	4,657	5.4	19.2	26.3	11.2	43.4	44.6	3.5	20.0
03/11E	39,761	5,528	6.4	18.7	22.2	8.7	40.1	45.3	3.0	16.6

- Dabur India is expected to report net sales of Rs7.4b up 22.3% YoY. We expect 150bp expansion in EBITDA margins due to sedate raw material prices (except honey), lower losses in its retail business and the contribution of the high-margin Fem Care business. Adjusted PAT is likely to grow 20.1% YoY to Rs1.3b.
- Demand is strong in major segments such as hair care, packed juices and oral care. However, home care sales are a concern due to increasing competition from private labels in organized retail.
- The recent launch, Uveda, has been well-received and fem-care brands are gaining due to Dabur's distribution reach. Sales growth of the consumer healthcare division is likely to be affected by transitory issues in raw material.
- International sales are likely to grow 25-30% (53% YoY in 1QFY10), largely led by volumes. The impact of currency translation gains is likely to be minimal. Dabur's NewU rollout has been on hold and the expansion during the year will be cut to four or five stores.
- The stock trades at 26.3x FY10E EPS of Rs5.4 and 22.2x FY11E EPS of Rs6.4. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>6,040</b>	<b>6,912</b>	<b>7,787</b>	<b>7,317</b>	<b>7,427</b>	<b>8,450</b>	<b>9,475</b>	<b>8,723</b>	<b>28,054</b>	<b>34,074</b>
YoY Change (%)	16.0	18.3	19.9	20.6	23.0	22.3	21.7	19.2	18.8	21.5
Total Exp	5,168	5,664	6,497	6,021	6,244	6,795	7,815	7,192	23,350	28,046
<b>EBITDA</b>	<b>871</b>	<b>1,248</b>	<b>1,290</b>	<b>1,296</b>	<b>1,182</b>	<b>1,655</b>	<b>1,660</b>	<b>1,531</b>	<b>4,705</b>	<b>6,028</b>
Margins (%)	14.4	18.1	16.6	17.7	15.9	19.6	17.5	17.6	16.8	17.7
Depreciation	117	123	109	144	123	140	147	150	492	561
Interest	40	40	69	44	37	55	85	88	232	265
Other Income	120	145	114	49	78	100	100	121	468	399
<b>PBT</b>	<b>834</b>	<b>1,230</b>	<b>1,226</b>	<b>1,158</b>	<b>1,101</b>	<b>1,560</b>	<b>1,528</b>	<b>1,414</b>	<b>4,448</b>	<b>5,602</b>
Tax	127	156	152	106	190	262	250	229	540	931
Rate (%)	15.2	12.7	12.4	9.1	17.3	16.8	16.4	16.2	12.1	16.6
Minority Interest	1	-4	-11	10	4	3	5	3	-4	14
<b>Adjusted PAT</b>	<b>707</b>	<b>1,078</b>	<b>1,085</b>	<b>1,042</b>	<b>914</b>	<b>1,295</b>	<b>1,273</b>	<b>1,182</b>	<b>3,912</b>	<b>4,657</b>
YoY Change (%)	13.5	11.6	14.8	29.7	29.4	20.1	17.4	13.4	17.2	19.5
<b>Reported PAT</b>	<b>707</b>	<b>1,078</b>	<b>1,085</b>	<b>1,042</b>	<b>914</b>	<b>1,295</b>	<b>1,273</b>	<b>1,182</b>	<b>3,912</b>	<b>4,657</b>

E: MOSL Estimates

## GlaxoSmithKline Consumer

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	SKB IN
	REUTERS CODE
S&P CNX: 4,959	GLSM.BO

25 September 2009

Buy

Rs1,167

Previous Recommendation: Buy

Equity Shares (m)	42.1
52-Week Range (Rs)	1,200/480
1,6,12 Rel. Perf. (%)	6/14/67
M.Cap. (Rs b)	49.1
M.Cap. (US\$ b)	1.0

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/07A	12,778	1,620	38.5	27.6	30.3	6.9	25.1	38.5	3.2	18.3
12/08A	15,431	1,883	44.8	16.3	26.1	5.9	24.8	38.4	2.6	16.9
12/09E	19,700	2,534	60.2	34.5	19.4	4.9	27.7	42.3	2.0	12.2
12/10E	22,793	3,037	72.2	19.8	16.2	4.1	27.8	41.7	1.7	10.1

- We expect GSK consumer to report net sales of Rs5.35b, a YoY growth of 26.6%.
- We expect volume growth of 14% for CY09 (17% in 1HCY09), helped by increased exports (geographical expansion). Domestic volume growth is led by increasing penetration of Horlicks and new launches like Chill Dhood, Nutribar and Acti Base.
- Despite raw material pressure we believe a 5% price increase in January and the excise benefit will help to expand EBITDA margins by 60bp. Adjusted PAT is likely rise 23.5% to Rs.655m.
- A dominant position in the category, widening product portfolio and 20% PAT CAGR in the coming few years make the stock attractive. Increase in the payout ratio and success of new launches can further re-rate the stock.
- GSK trades at 19.4x CY09 EPS of Rs60.2 and 16.2x CY10 EPS of Rs72.2. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY08				CY09				CY08	CY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
<b>Net Sales</b>	<b>4,109</b>	<b>3,764</b>	<b>4,225</b>	<b>3,334</b>	<b>5,394</b>	<b>4,687</b>	<b>5,350</b>	<b>4,269</b>	<b>15,431</b>	<b>19,700</b>
YoY Change (%)	25.8	19.3	20.2	17.3	31.3	24.5	26.6	28.1	20.8	27.7
Total Exp	3,300	3,218	3,594	2,932	4,207	3,941	4,520	3,781	13,043	16,450
<b>EBITDA</b>	<b>809</b>	<b>546</b>	<b>631</b>	<b>402</b>	<b>1,187</b>	<b>746</b>	<b>830</b>	<b>487</b>	<b>2,388</b>	<b>3,250</b>
Margins (%)	19.7	14.5	14.9	12.1	22.0	15.9	15.5	11.4	15.5	16.5
Depreciation	106	102	104	107	106	105	110	113	419	434
Interest	25	13	14	30	13	11	15	27	82	65
Other Income	186	262	265	242	256	228	270	292	955	1,047
<b>PBT</b>	<b>864</b>	<b>692</b>	<b>778</b>	<b>507</b>	<b>1,324</b>	<b>858</b>	<b>975</b>	<b>640</b>	<b>2,841</b>	<b>3,797</b>
Tax	298	231	247	181	485	307	320	152	957	1,264
Rate (%)	34.0	33.3	33.0	35.8	36.6	35.7	32.8	23.8	33.7	33.3
<b>PAT</b>	<b>566</b>	<b>462</b>	<b>530</b>	<b>326</b>	<b>839</b>	<b>552</b>	<b>655</b>	<b>488</b>	<b>1,883</b>	<b>2,534</b>
YoY Change (%)	33.7	9.1	5.0	18.5	48.4	19.6	23.5	49.7	16.3	34.5

E: MOSL Estimates

## Godrej Consumer Products

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	GCPL IN
	REUTERS CODE
S&P CNX: 4,959	GOCP.BO

25 September 2009

Buy

Rs245

Previous Recommendation: Buy

Equity Shares (m)	257.0
52-Week Range (Rs)	266/94
1,6,12 Rel. Perf. (%)	5/31/81
M.Cap. (Rs b)	63.0
M.Cap. (US\$ b)	1.3

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	11,026	1,592	7.1	18.6	34.7	33.8	92.8	64.4	4.8	24.5
03/09A	13,930	1,733	6.7	-4.4	36.3	10.2	30.4	27.2	4.1	28.0
03/10E	16,393	2,455	9.6	41.7	25.6	8.9	37.5	36.6	3.5	18.2
03/11E	18,914	2,914	11.3	18.7	21.6	7.6	38.1	37.7	2.9	15.2

\* Equity capital for EPS calculation in FY09-10E is Rs258m (Post rights)

- We expect GCPL to report net sales of Rs4.1b, a growth of 18.5% YoY, led by strong traction in Godrej No1 and Godrej Expert hair dye, and adjusted PAT is expected to grow 73.5% YoY to Rs603m.
- In toilet soaps GCPL is benefiting from value-for-money positioning and increasing distribution reach. Godrej No1 has attained leadership in key north Indian markets and in hair color Godrej Expert rides the penetration drive through small packs.
- GCPL is likely to expand gross margins by 660bp due to a high base effect and a sharp fall in palm-oil prices after 2QFY09. EBITDA growth is likely to be 90% YoY.
- Keyline is likely to report sales growth in the mid-teens, considering increasing pressure from organized retailers in Britain. Sales growth in Britain will be driven by demand for hand sanitizers due to the swine flue scare. After the integration we expect Kinky will report better numbers.
- The stock trades at 25.6x FY10E EPS and 21.6x FY11E EPS. Our estimates do not factor in gains from 49% stake acquisition in Godrej Sara Lee. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>3,616</b>	<b>3,465</b>	<b>3,421</b>	<b>3,427</b>	<b>4,389</b>	<b>4,106</b>	<b>3,955</b>	<b>3,944</b>	<b>13,930</b>	<b>16,393</b>
YoY Change (%)	26.3	26.4	25.4	26.1	21.4	18.5	15.6	15.1	26.3	17.7
Cost of Goods Sold	1,979	1,975	1,998	1,743	2,022	2,069	1,962	2,043	7,695	8,096
<b>Gross Profit</b>	<b>1,637</b>	<b>1,489</b>	<b>1,423</b>	<b>1,684</b>	<b>2,367</b>	<b>2,036</b>	<b>1,993</b>	<b>1,900</b>	<b>6,234</b>	<b>8,297</b>
Margin (%)	45.3	43.0	41.6	49.1	53.9	49.6	50.4	48.2	44.8	49.4
Other Operating Exp.	1,142	1,093	940	1,023	1,502	1,281	1,222	1,181	4,197	5,187
<b>EBITDA</b>	<b>496</b>	<b>397</b>	<b>483</b>	<b>661</b>	<b>864</b>	<b>755</b>	<b>771</b>	<b>719</b>	<b>2,037</b>	<b>3,110</b>
Margins (%)	13.7	11.5	14.1	19.3	19.7	18.4	19.5	18.2	14.6	19.0
Depreciation	55	46	51	40	52	48	60	55	193	215
Interest	-12	-47	-42	-60	-56	-25	-28	31	-160	-78
Other Income	35	31	15	7	8	20	15	65	87	108
<b>PBT</b>	<b>487</b>	<b>428</b>	<b>489</b>	<b>688</b>	<b>876</b>	<b>752</b>	<b>754</b>	<b>699</b>	<b>2,092</b>	<b>3,081</b>
Tax	96	81	88	94	179	150	159	138	360	626
Rate (%)	19.7	18.9	18.1	13.7	20.5	19.9	21.1	19.7	17.2	20.3
<b>PAT</b>	<b>391</b>	<b>347</b>	<b>401</b>	<b>594</b>	<b>697</b>	<b>603</b>	<b>595</b>	<b>561</b>	<b>1,733</b>	<b>2,455</b>
YoY Change (%)	1.2	-6.3	-6.9	45.4	78.2	73.5	48.5	-5.5	8.9	41.7

E: MOSL Estimates

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## Hindustan Unilever

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	HUVR IN
	REUTERS CODE
S&P CNX: 4,959	HLL.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs259

Equity Shares (m)	2,177.5
52-Week Range (Rs)	306/185
1,6,12 Rel. Perf. (%)	-10/-62/-19
M.Cap. (Rs b)	564.8
M.Cap. (US\$ b)	11.8

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/07A	138,691	17,432	8.0	14.7	32.4	40.2	121.1	160.3	4.1	27.1
03/09E*	167,617	20,449	9.4	17.3	27.6	28.1	121.3	138.6	2.8	18.5
03/10E	182,598	22,271	10.2	8.8	25.4	24.3	93.5	127.8	3.1	19.0
03/11E	205,701	24,928	11.4	11.9	22.7	21.4	92.1	128.0	2.7	16.8

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

- We expect HUL to report 7.5% YoY increase in sales to Rs44.1b with volume growth of about 5%.
- Gross margins are likely to expand 130bp YoY to 48.7% led by lower input costs; but EBITDA margin expansion will be limited to 70bp (14.8%) due to higher ad-spends. EBITDA growth of 16.9% to Rs6.5b is expected.
- Operational other income will slip due to high base effect (147% increase led by Rs218m forex gains). A tax rate increase by 200bp will trim PAT growth to 12.9%.
- Volumes are expected to rise 5% due to 1) grammage increase in segments like detergents and toilet soaps and 2) impact of price reduction in some HPC brands 3) increased trade margins in shampoo sachets and Breeze toilet soap.
- HUL has sharpened focused on toilet soaps and detergents to regain its market share. It has re-launched brands like Hamam, Rexona and Liril; Lifebuoy took a 7-8% price cut and Lux has been offering 20% extra/Rs9 off on its combo pack (now withdrawn). HUL has also been matching prices with key regional competitors like Ghari and Fena in the mass-market detergents segment. But market share gains have eluded HUL.
- The stock trades at 25.4x FY10E EPS of Rs10.2 and 22.7x FY11E EPS of Rs11.4 earnings. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Volume Growth (%)	8.3	6.8	2.3	-4.2	2.0	5.0	5.0	6.4		
<b>Net Sales (incl service inc)</b>	<b>42,367</b>	<b>41,109</b>	<b>43,787</b>	<b>40,354</b>	<b>45,026</b>	<b>44,192</b>	<b>47,728</b>	<b>45,651</b>	<b>168,245</b>	<b>182,598</b>
YoY Change (%)	20.8	21.0	15.6	5.1	6.3	7.5	9.0	13.1	15.8	8.5
COGS	22,044	21,827	23,201	20,856	23,198	22,671	24,102	23,968	88,556	93,940
<b>Gross Profit</b>	<b>20,323</b>	<b>19,282</b>	<b>20,586</b>	<b>19,497</b>	<b>21,828</b>	<b>21,522</b>	<b>23,625</b>	<b>21,683</b>	<b>79,689</b>	<b>88,658</b>
Margin (%)	48.0	46.9	47.0	48.3	48.5	48.7	49.5	47.5	47.4	48.6
Operating Exp	13,970	13,689	12,946	13,534	14,678	14,981	14,891	14,779	54,138	59,329
<b>EBITDA</b>	<b>6,354</b>	<b>5,594</b>	<b>7,640</b>	<b>5,963</b>	<b>7,150</b>	<b>6,540</b>	<b>8,734</b>	<b>6,904</b>	<b>25,551</b>	<b>29,328</b>
YoY Change (%)	20.3	16.5	14.9	22.9	12.5	16.9	14.3	15.8	18.4	14.8
Margins (%)	15.0	13.6	17.4	14.8	15.9	14.8	18.3	15.1	15.2	16.1
Depreciation	379	393	406	413	425	435	440	454	1,590	1,754
Interest	87	65	44	22	52	50	55	60	218	217
Other Income	808	474	335	203	335	450	500	469	1,820	1,755
<b>PBT</b>	<b>6,695</b>	<b>5,610</b>	<b>7,526</b>	<b>5,731</b>	<b>7,009</b>	<b>6,505</b>	<b>8,739</b>	<b>6,859</b>	<b>25,562</b>	<b>29,113</b>
Tax	1,294	1,231	1,425	1,164	1,643	1,561	2,054	1,584	5,113	6,841
Rate (%)	19.3	21.9	18.9	20.3	23.4	24.0	23.5	23.1	20.0	23.5
<b>Adjusted PAT</b>	<b>5,401</b>	<b>4,379</b>	<b>6,101</b>	<b>4,568</b>	<b>5,367</b>	<b>4,944</b>	<b>6,685</b>	<b>5,275</b>	<b>20,449</b>	<b>22,271</b>
YoY Change (%)	19.6	6.9	13.0	20.7	-0.6	12.9	9.6	15.5	15.2	8.9
Extraordinary Inc/(Exp)	180	1,087	56	-618	65	0	0	0	706	65
<b>Reported Profit</b>	<b>5,582</b>	<b>5,466</b>	<b>6,157</b>	<b>3,950</b>	<b>5,432</b>	<b>4,944</b>	<b>6,685</b>	<b>5,275</b>	<b>21,155</b>	<b>22,336</b>
YoY Change (%)	13.2	34.0	-3.3	3.7	-2.7	-9.5	8.6	33.5	10.6	5.6

E: MOSL Estimates

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ITC

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	ITC IN
	REUTERS CODE
S&P CNX: 4,959	ITC.BO

25 September 2009

Buy

Rs235

Previous Recommendation: Buy

Equity Shares (m)	3,774.4
52-Week Range (Rs)	252/132
1,6,12 Rel. Perf. (%)	-9/-40/1
M.Cap. (Rs b)	886.0
M.Cap. (US\$ b)	18.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	141,820	31,201	8.3	16.4	28.4	7.8	25.9	35.9	6.5	19.4
03/09A	155,827	32,636	8.6	4.6	27.1	6.8	23.8	32.8	5.8	17.8
03/10E	175,033	38,350	10.2	17.5	23.1	6.0	24.4	34.7	5.1	14.7
03/11E	202,354	43,650	11.6	13.8	20.3	5.2	24.2	34.7	4.3	13.0

- We expect ITC to post 9.9% YoY growth in revenue in 2QFY10 to Rs42.5b. EBITDA is expected to rise 19.1% due to 260bp margin expansion. A 14% decline in other income will limit PAT increase to 17% at Rs9.4b.
- Cigarettes will report their second consecutive quarter of 5% volume growth. Sustaining volume growth despite 1) increase in VAT in a few states 2) imposition of pictorial warnings and 3) increase in prices in key brands indicates strong growth momentum. Our current estimates factor-in 4% volume growth in cigarettes in FY10.
- Paper and pulp mill expansion will start paying off because both its units have stabilized operations. Pulp and paper prices are steady. We expect 15-20% PBIT growth in this SBU in 2QFY10.
- ITC is on track to cut new FMCG losses by 20% in FY10. PBIT losses in 1QFY10 were lower by 18.6%. The agricultural business will report another strong quarter due to strong leaf-tobacco prices in international markets and the benefits of portfolio rationalization.
- Recovery in ITC's hotels business has been slower than expected. Foreign tourist inflow has been affected by the swine flu scare and negative travel advisories. Occupancy is currently 55-57% and ARR (average revenue per room) is down 10-15% YOY. We expect yet another quarter of PBIT declines after the -64% posted in 1QFY10.
- The stock trades at 23.1x FY10 earnings of Rs10.2 and 20.3x FY11E EPS of Rs11.6. We maintain **Buy** with SOTP-based target price of Rs237.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>39,340</b>	<b>38,627</b>	<b>38,587</b>	<b>39,274</b>	<b>41,329</b>	<b>42,450</b>	<b>44,000</b>	<b>47,253</b>	<b>155,827</b>	<b>175,033</b>
YoY Change (%)	18.7	16.3	9.8	-2.8	5.1	9.9	14.0	20.3	9.9	12.3
Total Exp	27,726	26,473	24,806	26,291	27,456	27,975	27,632	31,795	105,296	114,857
<b>EBITDA</b>	<b>11,614</b>	<b>12,154</b>	<b>13,780</b>	<b>12,983</b>	<b>13,873</b>	<b>14,475</b>	<b>16,368</b>	<b>15,459</b>	<b>50,532</b>	<b>60,175</b>
Margins (%)	29.5	31.5	35.7	33.1	33.6	34.1	37.2	32.7	32.4	34.4
Depreciation	1,261	1,340	1,442	1,451	1,516	1,525	1,565	1,578	5,494	6,184
Interest	14	28	5	137	58	15	15	2	183	90
Other Income	801	1,105	976	523	876	950	900	441	3,403	3,166
<b>PBT</b>	<b>11,140</b>	<b>11,890</b>	<b>13,310</b>	<b>11,918</b>	<b>13,175</b>	<b>13,885</b>	<b>15,688</b>	<b>14,320</b>	<b>48,257</b>	<b>57,068</b>
Tax	3,653	3,864	4,277	3,828	4,388	4,485	5,052	4,794	15,622	18,718
Rate (%)	32.8	32.5	32.1	32.1	33.3	32.3	32.2	33.5	32.4	32.8
<b>Reported PAT</b>	<b>7,487</b>	<b>8,027</b>	<b>9,032</b>	<b>8,090</b>	<b>8,787</b>	<b>9,400</b>	<b>10,636</b>	<b>9,526</b>	<b>32,636</b>	<b>38,350</b>
YoY Change (%)	-4.4	4.1	8.7	10.0	17.4	17.1	17.8	17.7	4.6	17.5
<b>Adjusted PAT</b>	<b>7,487</b>	<b>8,027</b>	<b>9,032</b>	<b>8,090</b>	<b>8,787</b>	<b>9,400</b>	<b>10,636</b>	<b>9,526</b>	<b>32,636</b>	<b>38,350</b>
YoY Change (%)	-4.4	4.1	8.7	10.0	17.4	17.1	17.8	17.7	4.6	17.5

E: MOSL Estimates

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## Marico

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	MRCO IN
	REUTERS CODE
S&P CNX: 4,959	MRCO.BO

25 September 2009

Buy

Rs92

Previous Recommendation: Buy

Equity Shares (m)	609.0
52-Week Range (Rs)	95/47
1,6,12 Rel. Perf. (%)	-3/-15/32
M.Cap. (Rs b)	55.9
M.Cap. (US\$ b)	1.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	19,050	1,586	2.6	62.3	35.2	16.6	50.4	42.6	2.9	22.3
03/09A	23,884	2,037	3.3	28.5	27.4	11.5	44.9	42.5	2.3	18.0
03/10E	27,467	2,393	3.9	17.5	23.3	8.1	37.3	47.4	1.9	14.2
03/11E	32,945	2,950	4.8	23.3	18.9	5.9	33.1	47.9	1.5	11.5

- Marico is expected to post net sales of Rs7b, a growth of 17.5% YoY, backed by 15% volume growth.
- Strong pricing power in Parachute and continued traction in Saffola volumes are likely to boost volume growth (its 20%-free offer and Diwali promotion could boost Saffola's 2QFY10 volumes). We expect strong double-digit sales growth in its hair oils portfolio.
- Benign input cost environment (copra and safflower) is likely to improve gross margins by 250bp. But EBITDA margin expansion is likely to be curbed to 110bp because of increased spending on advertising and sales promotions.
- Sales growth in its international business is strong. Haircode, Fiancée and Marico Bangladesh are likely to improve performance. Kaya Skincare sales are expected to increase but losses are likely to continue.
- The stock is trading at 23.3x FY10E EPS of Rs3.9 and 18.9x FY11E EPS of Rs4.8. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Volume Growth (%)	15.0	11.0	7.0	15.4	14.0	15.0	13.0	10.0		
<b>Net Sales</b>	<b>5,966</b>	<b>6,035</b>	<b>6,228</b>	<b>5,612</b>	<b>6,967</b>	<b>7,091</b>	<b>7,069</b>	<b>6,339</b>	<b>23,884</b>	<b>27,467</b>
YoY Change (%)	27.2	30.1	23.0	20.5	16.8	17.5	13.5	13.0	25.3	15.0
COGS	3,230	3,275	3,423	2,851	3,501	3,673	3,782	3,473	13,105	14,429
<b>Gross Profit</b>	<b>2,736</b>	<b>2,760</b>	<b>2,806</b>	<b>2,760</b>	<b>3,466</b>	<b>3,418</b>	<b>3,287</b>	<b>2,867</b>	<b>10,780</b>	<b>13,037</b>
Gross Margin (%)	45.9	45.7	45.0	49.2	49.7	48.2	46.5	45.2	45.1	47.5
Other Expenditure	1,980	2,021	2,014	2,028	2,501	2,475	2,333	1,989	7,740	9,297
% to Sales	33.2	33.5	32.3	36.1	35.9	34.9	33.0	31.4	32.4	33.8
<b>EBITDA</b>	<b>757</b>	<b>739</b>	<b>791</b>	<b>733</b>	<b>965</b>	<b>943</b>	<b>954</b>	<b>878</b>	<b>3,040</b>	<b>3,740</b>
Margins (%)	12.7	12.2	12.7	13.1	13.8	13.3	13.5	13.8	12.7	13.6
Depreciation	75	82	98	104	99	105	112	116	358	432
Interest	96	87	68	113	86	85	65	89	357	326
Other Income	26	12	31	80	31	15	35	44	122	126
<b>PBT</b>	<b>612</b>	<b>583</b>	<b>657</b>	<b>595</b>	<b>811</b>	<b>768</b>	<b>812</b>	<b>717</b>	<b>2,447</b>	<b>3,108</b>
Tax	149	111	148	1	210	166	179	160	409	715
Rate (%)	24.4	19.1	22.5	0.2	25.9	21.6	22.0	22.3	16.7	23.0
<b>Adjusted PAT</b>	<b>463</b>	<b>471</b>	<b>509</b>	<b>594</b>	<b>600</b>	<b>602</b>	<b>634</b>	<b>557</b>	<b>2,037</b>	<b>2,393</b>
YoY Change (%)	15.1	11.6	19.0	96.9	29.6	27.7	24.5	-6.2	28.5	17.5
Exceptional Items	0	0	0	-150	-41	0	0	0	-150	-41
<b>Reported PAT</b>	<b>463</b>	<b>471</b>	<b>509</b>	<b>444</b>	<b>560</b>	<b>602</b>	<b>634</b>	<b>557</b>	<b>1,887</b>	<b>2,352</b>

E: MOSL Estimates

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## Nestle India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	NEST IN
	REUTERS CODE
S&P CNX: 4,959	NEST.BO

25 September 2009

Buy

Rs2,236

Previous Recommendation: Buy

Equity Shares (m)	96.4
52-Week Range (Rs)	2,264/1,220
1,6,12 Rel. Perf. (%)	-5/-25/12
M.Cap. (Rs b)	215.6
M.Cap. (US\$ b)	4.5

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/07A	35,044	4,313	44.7	30.7	50.0	50.9	103.1	153.6	6.0	30.4
12/08A	43,242	5,649	58.6	31.0	38.2	45.0	119.4	169.9	4.9	24.4
12/09E	50,777	7,457	77.3	32.0	28.9	36.6	128.1	180.4	4.1	18.8
12/10E	60,052	8,936	92.7	19.8	24.1	30.1	126.3	176.0	3.5	15.9

\* Excluding extraordinary items and provisions

- In 3QCY09 Nestle is expected to post net sales of Rs13.2b, a growth of 17.3% YoY.
- Improved realizations and scale benefits due to sustained volume growth are likely to help expand EBITDA margins by 180bp to 20.5%. EBITDA is likely to grow 30.8% YoY to Rs2.7b.
- We expect milk and infant nutrition, prepared dishes and culinary products to drive volume growth and growth in the chocolate and confectionary sectors will be evenly distributed between volume and price.
- Nestle launched small three-rupee packs of Kit Kat and Nestea packs of Rs5/10, reveals its intention to enhance consumer value and expand the market. Its launch of Nestea ice tea in small packs holds good potential in a relatively nascent category.
- We believe Nestle will be less affected by inflationary pressure in the economy because its target consumers are less price elastic and it is more urban centric.
- The stock is trading at 28.9x CY09E EPS of Rs77.3 and 24.1x CY10E EPS of Rs92.7 Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY08				CY09				CY08	CY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
<b>Net Sales</b>	<b>10,909</b>	<b>10,356</b>	<b>11,076</b>	<b>10,901</b>	<b>12,659</b>	<b>12,095</b>	<b>13,218</b>	<b>12,805</b>	<b>43,242</b>	<b>50,777</b>
YoY Change (%)	26.4	23.5	22.2	21.7	16.0	16.8	17.3	15.6	23.4	17.4
Total Exp	8,419	8,406	9,004	8,778	9,562	9,478	10,509	10,071	34,607	39,618
<b>EBITDA</b>	<b>2,490</b>	<b>1,950</b>	<b>2,072</b>	<b>2,123</b>	<b>3,097</b>	<b>2,618</b>	<b>2,710</b>	<b>2,735</b>	<b>8,635</b>	<b>11,159</b>
Margins (%)	22.8	18.8	18.7	19.5	24.5	21.6	20.5	21.4	20.0	22.0
Depreciation	211	224	233	257	256	264	270	274	924	1,064
Interest	1	14	1	2	2	6	1	8	17	16
Other Income	63	67	82	129	103	88	95	138	341	424
<b>PBT</b>	<b>2,341</b>	<b>1,780</b>	<b>1,921</b>	<b>1,994</b>	<b>2,943</b>	<b>2,436</b>	<b>2,534</b>	<b>2,591</b>	<b>8,035</b>	<b>10,503</b>
Tax	640	538	596	614	864	654	747	780	2,387	3,046
Rate (%)	27.3	30.2	31.0	30.8	29.4	26.9	29.5	30.1	29.7	29.0
<b>Adjusted PAT</b>	<b>1,701</b>	<b>1,242</b>	<b>1,325</b>	<b>1,380</b>	<b>2,078</b>	<b>1,782</b>	<b>1,786</b>	<b>1,811</b>	<b>5,648</b>	<b>7,457</b>
YoY Change (%)	52.7	25.6	9.3	40.3	22.2	43.5	34.8	31.2	30.9	32.0
Extraordinary Inc/(Exp)	-100	-31	-14	-169	-105	-102	-50	-81	-308	-339
<b>Reported PAT</b>	<b>1,601</b>	<b>1,211</b>	<b>1,311</b>	<b>1,211</b>	<b>1,973</b>	<b>1,680</b>	<b>1,736</b>	<b>1,730</b>	<b>5,340</b>	<b>7,118</b>
YoY Change (%)	47.6	26.5	13.0	29.4	23.2	38.7	32.4	42.8	29.0	33.3

E: MOSL Estimates



## Tata Tea

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	TT IN
	REUTERS CODE
S&P CNX: 4,959	TTTE.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs912

Equity Shares (m)	61.8
52-Week Range (Rs)	1,017/430
1,6,12 Rel. Perf. (%)	-11/-5/8
M.Cap. (Rs b)	56.4
M.Cap. (US\$ b)	1.2

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	43,923	2,898	46.9	7.0	19.4	1.4	8.1	11.5	1.0	6.3
3/09E	48,479	2,930	47.4	1.1	19.2	1.3	7.5	10.6	0.8	6.5
3/10E	51,469	2,967	48.0	1.3	19.0	1.2	7.3	9.8	0.8	6.6
3/11E	55,998	3,402	55.0	14.7	16.6	1.2	8.0	10.7	0.7	5.8

- We expect Tata Tea to post net sales of Rs12.8b, a 6.7% YoY growth. Volume Domestic volume growth continues to be strong but fluctuations in the value of the rupee against the British pound will affect Tetley's growth.
- Raw material pressures on branded tea makers pushed up tea prices in the quarter by more than 25% YoY. On the other hand, pressure from organized retailers in Britain and down-trading in India limited price increases.
- We estimate 100bp EBITDA margin contraction due to high tea prices, partly offset by cost containment in ad-spends and other expenditure.
- Tata Tea is keen to diversify beyond low-growth black tea segments but its recent forays into markets for mineral water, non-carbonated drinks and value-added tea will take a long time to contribute meaningfully.
- Tata Tea is likely to book an exceptional gain of Rs2.47b from its sale of stake in Rallis India to Tata Chemicals during the quarter. The stock trades at 19x FY10E and 16.6x FY11E. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q*	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>11,133</b>	<b>12,003</b>	<b>13,009</b>	<b>12,162</b>	<b>12,751</b>	<b>12,783</b>	<b>13,490</b>	<b>12,445</b>	<b>48,479</b>	<b>51,469</b>
YoY Change (%)	10.1	13.8	9.8	6.5	14.5	6.5	3.7	2.3	10.4	6.2
Total Exp	9,715	10,568	11,286	10,572	11,202	11,377	11,939	11,031	42,236	45,549
<b>EBITDA</b>	<b>1,418</b>	<b>1,435</b>	<b>1,722</b>	<b>1,589</b>	<b>1,549</b>	<b>1,406</b>	<b>1,551</b>	<b>1,414</b>	<b>6,243</b>	<b>5,920</b>
Margins (%)	12.7	12.0	13.2	13.1	12.1	11.0	11.5	11.4	12.9	11.5
Depreciation	222	221	241	303	245	250	260	311	987	1,065
Interest	109	154	155	125	53	51	65	60	542	229
Other Income	115	281	91	106	251	75	87	-94	594	319
<b>PBT</b>	<b>1,202</b>	<b>1,341</b>	<b>1,418</b>	<b>1,268</b>	<b>1,503</b>	<b>1,180</b>	<b>1,313</b>	<b>949</b>	<b>5,308</b>	<b>4,945</b>
Tax	440	402	485	466	511	384	415	322	1,793	1,632
Rate (%)	36.6	30.0	34.2	36.7	34.0	32.5	31.6	34.0	33.8	33.0
<b>PAT</b>	<b>762</b>	<b>939</b>	<b>934</b>	<b>802</b>	<b>992</b>	<b>797</b>	<b>898</b>	<b>627</b>	<b>3,515</b>	<b>3,313</b>
YoY Change (%)	88.8	31.4	1.0	1.3	30.2	-15.2	-3.8	-21.9	24.0	-5.7
Minority Int./ Share of Associate	-97	-117	-113	-258	-214	-65	-60	-8	-585	-347
<b>Adjusted PAT</b>	<b>665</b>	<b>822</b>	<b>821</b>	<b>544</b>	<b>778</b>	<b>732</b>	<b>838</b>	<b>619</b>	<b>2,930</b>	<b>2,967</b>
YoY Change (%)	88.2	-2.9	-0.1	-37.9	17.0	-11.0	2.2	13.7	1.1	1.3
Extraordinary Gains	92	1,356	3,141	-434	-973	2,477	0	0	4,076	1,504
<b>Reported PAT</b>	<b>757</b>	<b>2,178</b>	<b>3,961</b>	<b>110</b>	<b>-195</b>	<b>3,209</b>	<b>838</b>	<b>619</b>	<b>7,005</b>	<b>4,471</b>
YoY Change (%)	72.4	167.7	-69.7	-90.3	-125.8	47.3	-78.8	463.5	-54.6	-36.2

E: MOSL Estimates

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

## United Spirits

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	UNSP IN
	REUTERS CODE
S&P CNX: 4,959	UNSP.BO

25 September 2009

Buy

Rs912

Previous Recommendation: Buy

Equity Shares (m)	100.2
52-Week Range (Rs)	1,351/426
1,6,12 Rel. Perf. (%)	-8/-40/-55
M.Cap. (Rs b)	91.4
M.Cap. (US\$ b)	1.9

YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	46,275	2,831	31.7	-10.0	28.8	3.7	12.4	12.1	2.9	12.5
03/09A	55,277	2,844	32.1	1.4	28.4	3.6	12.0	10.6	2.5	15.4
03/10E	64,262	4,085	41.1	27.9	22.2	3.4	14.7	12.8	2.3	13.1
03/11E	73,245	6,280	63.1	53.7	14.5	2.8	18.4	15.1	2.0	10.5

\* Excluding extraordinary items and provisions

- In 2QFY10 we expect United Spirits to post topline growth of 26% YoY to Rs11.4b. EBITDA margins are likely to decline by 210bp to 17.7% and interest burden is likely to rise 62% to Rs640m. We expect adjusted PAT to rise 2.4% to Rs961m. However, the 2QFY09 numbers do not include the benefits of the Shaw Wallace merger.
- IMFL volumes are expected to increase by 15-16% in 2QFY10 due to strong growth across segments and price points. Prices of molasses and ENA have not risen in 2QFY10 despite a lean season. We expect ENA prices of Rs150-155 per case in 2QFY10.
- Sugar production in FY10 is expected to increase marginally and low demand from industrial alcohol makers is likely to keep in check prices of molasses and ENA. This is likely to boost profit margins from 3QFY10.
- United Spirits disposed of 10.2m treasury shares to retire debt of Rs9b, the benefits of which will be reflected in consolidated numbers. Whyte and Mackay is likely to negotiate the bulk Scotch contract this season. Bulk Scotch accounts for 80% of its volumes and 60% of its sales. Scotch prices are ruling 30-40% higher than those in the last contract, which can provide upside to our estimates.
- We expect long-term volume growth will be sustained at 12-13% due to favorable regulatory changes and demographics. We believe United Spirits continues to be the best bet in the liquor space in India due to its broad portfolio and dominant market share. The stock is trading at 22.2x FY10E EPS of Rs41.1 and 14.5x FY11E EPS of Rs63.1. **Buy.**

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>10,671</b>	<b>9,020</b>	<b>10,293</b>	<b>9,078</b>	<b>12,417</b>	<b>11,366</b>	<b>13,175</b>	<b>11,475</b>	<b>40,895</b>	<b>48,432</b>
YoY Change (%)		19.9	15.8	19.6	16.4	26.0	28.0	26.4		18.4
Total Exp	8,590	7,230	9,229	7,626	10,198	9,354	10,988	9,758	34,619	40,298
<b>EBITDA</b>	<b>2,081</b>	<b>1,790</b>	<b>1,063</b>	<b>1,452</b>	<b>2,219</b>	<b>2,012</b>	<b>2,187</b>	<b>1,716</b>	<b>6,277</b>	<b>8,134</b>
Margins (%)	19.5	19.8	10.3	16.0	17.9	17.7	16.6	15.0	15.3	16.8
Depreciation	90	87	87	98	80	95	115	120	362	410
Interest	377	395	529	565	592	640	650	611	1,958	2,493
<b>PBT from Operations</b>	<b>1,614</b>	<b>1,308</b>	<b>447</b>	<b>789</b>	<b>1,547</b>	<b>1,277</b>	<b>1,422</b>	<b>985</b>	<b>3,957</b>	<b>5,231</b>
Other Income	201	125	60	109	63	180	120	191	634	554
<b>PBT</b>	<b>1,815</b>	<b>1,433</b>	<b>507</b>	<b>898</b>	<b>1,610</b>	<b>1,457</b>	<b>1,542</b>	<b>1,176</b>	<b>4,591</b>	<b>5,785</b>
Tax	657	494	201	342	553	495	571	400	1,625	2,019
Rate (%)	36.2	34.5	39.7	38.0	34.4	34.0	37.0	34.0	35.4	34.9
<b>PAT</b>	<b>1,158</b>	<b>939</b>	<b>306</b>	<b>556</b>	<b>1,057</b>	<b>961</b>	<b>971</b>	<b>776</b>	<b>2,966</b>	<b>3,766</b>
YoY Change (%)	29.3	17.0	-65.3	-14.6	-8.7	2.4	217.6	39.5	-4.7	27.0
Extraordinary Inc/(Exp)	0	0	0	0	700	0	0	0	0	700
<b>Reported PAT</b>	<b>1,158</b>	<b>939</b>	<b>306</b>	<b>556</b>	<b>1,757</b>	<b>961</b>	<b>971</b>	<b>776</b>	<b>2,966</b>	<b>4,466</b>

E: MOSL Estimates

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

## Information Technology

BSE Sensex: 16,693

S&amp;P CNX: 4,959

25 September 2009

## COMPANY NAME

HCL Technologies

Infosys

Mphasis

Patni Computer

TCS

Tech Mahindra

Wipro

**Return to secular QoQ revenue growth across top three companies:** We expect a return to QoQ growth across the top-3 IT companies with growth of 2.2-3.5% QoQ. Volume growth of 1-2% QoQ is expected with 1-1.5% contribution from cross-currency benefits to reported US\$ revenues. We expect Infosys to post the highest growth at 3.5% QoQ after a flat 1QFY10. We see the possibility of Infosys' revenue beating our expectations and believe the market will take growth of more than 4% QoQ positively.

**EBITDA margin improvements seen at TCS, margin sustenance seen at others:** We expect EBITDA margin improvement of 50bp at TCS and at Infosys and Wipro we expect margins to be sustained at 1QFY10 levels. Volume based utilization improvement, cross currency benefits and SG&A improvements (at TCS) to aid margins. Overall, we believe margins will remain resilient at top-tier IT companies with YoY improvements of 50-210bp in FY10. Headcount curtailments and hiring postponements could provide upsides to our expectations.

**FY10 revenue, earnings guidance upgrades at Infosys:** We expect Infosys to post revenue growth of 3.5% QoQ in 2QFY10, ahead of its guidance of 1.1% to 0.7% growth. Infosys is expected to upgrade its FY10 US-dollar revenue decline guidance of 3.1-4.6% to flat revenue YoY. We also expect Infosys to raise its FY10 EPS guidance to Rs102, due to expected out-performance of its 2QFY10 EPS. Our expectations build a basic EPS of Rs26.6 in 2QFY10 against guidance of Rs.24.1 at the higher end.

**Buy TCS, HCL Tech, Mphasis, Patni; Neutral on Infosys, Wipro, Tech Mahindra:** We expect 2QFY10 results to reinforce our expectation of client decision making turning orderly, improvement across verticals (especially BFSI and Telecom) and continuation of recovery signs like volume based utilization improvements, stable pricing and abatement of leakages at key clients. We believe pick-up in discretionary demand, faster rebound in BFSI and Telecom and contribution from new business channels could lead to upgrades. We prefer TCS and HCL Tech with large caps and Mphasis and Patni within mid-caps.

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

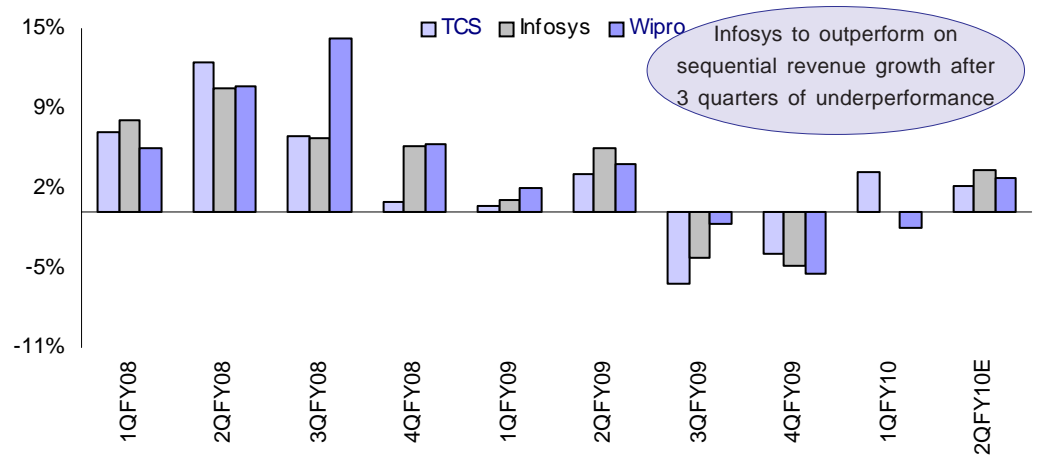
	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
			SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
				% YOY	% QOQ		% YOY	% QOQ		% YOY	% QOQ
<b>Information Technology</b>											
HCL Technologies	336	Buy	29,669	25.6	2.0	6,309	25.2	1.0	2,710	-19.7	-12.4
Infosys	2,245	Neutral	56,311	3.9	2.9	19,187	7.0	2.7	15,223	6.3	-0.3
Mphasis	633	Buy	11,306	35.2	2.3	3,030	71.3	3.8	2,443	73.2	6.6
Patni Computer	424	Buy	8,077	-5.2	4.5	1,729	23.6	4.8	1,140	1.0	-16.7
TCS	587	Buy	73,359	5.5	1.8	20,322	11.7	3.6	15,578	23.5	2.5
Tech Mahindra	936	Neutral	11,309	-2.9	1.6	2,965	-9.1	5.7	1,499	-36.3	6.9
Wipro	567	Neutral	66,072	3.1	4.6	12,699	22.4	4.4	10,337	25.7	-3.2
<b>Sector Aggregate</b>			<b>256,104</b>	<b>6.7</b>	<b>2.9</b>	<b>66,240</b>	<b>14.3</b>	<b>3.4</b>	<b>48,931</b>	<b>12.7</b>	<b>-0.8</b>

Ashwin Mehta (Ashwin.Mehta@MotilalOswal.com) / Vihang Naik (Vihang.Naik@MotilalOswal.com)

**Return to secular QoQ revenue growth across top three companies**

We expect a return to sequential growth at the top three IT companies of 2.2-3.5% QoQ. We expect volume growth of 1-2% QoQ, with 1%-1.5% contribution from cross-currency benefits to US-dollar reported revenue. We expect Infosys to post the highest sequential growth at 3.5% QoQ after a flat 1QFY10. At TCS we are modeling a 2.2% QoQ growth because we expect non-recurrence of high revenue contributions in 1QFY10 from lumpy components like equipment, product and project-based India business. We see the possibility of Infosys' revenue beating our expectations and believe the market will take positively growth of over 4% QoQ.

RETURN TO QOQ US-DOLLAR REVENUE GROWTH - INFOSYS TO OUTPERFORM



Source: Company/ MOSL

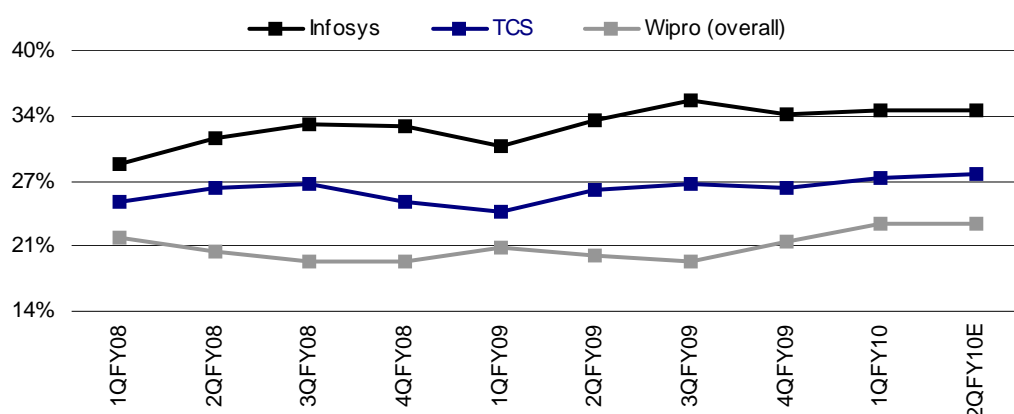
**EBITDA margin improvements at TCS, margin sustenance at others**

We expect EBITDA margin improvement of 50bp at TCS and flat margins at Infosys and Wipro. Individual company expectations:

- **TCS:** Expected headcount decline on attrition, muted hiring expectation of 1,500 freshers and SGA leverage to help boost margins. But wage inflation due to promotions could put pressure on margins.
- **Infosys:** Induction of freshers, hiring of sales staff (more than 50) and overseas headcount addition to put pressure on margins. This is expected to be countered by volume-based utilization improvement and cross currency led benefits.
- **Wipro:** Hiring of freshers and non-recurrence of raw material-related gains (60bp in 1QFY10) on the consumer-care business is expected to put pressure on margins. But higher volume growth and cross-currency benefits will offset the increased cost.

Overall we continue to believe margins will remain resilient at top tier IT companies with YoY improvements of 50-210bp at top-tier companies. Headcount cuts and hiring postponement could provide upsides to our margin expectations.

## EBITDA MARGIN PROGRESSION - TCS TO SHOW IMPROVEMENT



Source: Company/ MOSL

### FY10 revenue, earnings guidance upgrades at Infosys

We expect Infosys to post revenue growth of 3.5% QoQ in 2QFY10, ahead of its guidance of -1.1% to 0.7% growth. We expect the company to upgrade its FY10 US-dollar revenue decline guidance of 3.1%-4.6% to flat revenue YoY.

We expect Infosys to raise its FY10 EPS guidance to Rs102, on expected out-performance of its 2QFY10 EPS guidance. Our expectations build a basic EPS of Rs.26.6 in 2QFY10 v/s guidance of Rs.24.1 at the higher end.

#### INFOSYS GUIDANCE AND OUR EXPECTATIONS

	GUIDED	EXPECTED
2QFY10 revenue growth (QoQ)	-1.1% to 0.7%	3.5%
FY10 US\$ revenue growth (YoY)	-4.6% to -3.1%	0%
FY10 EPS	Rs94.6-Rs96	Rs102
3QFY10 revenue growth		2%

Source: Company/ MOSL

Infosys' 2QFY10 guidance built in a 1.3% cross-currency benefit with cross-currency rates expected to be in ranges as guided, we see revenue out-performance in 2QFY10 to be largely driven by better volumes and abatement of pricing pressure.

We also expect Wipro's revenue growth at 2.8% QoQ to beat its guided growth of 0-2.1% QoQ. This is near its top-end of guidance, adjusting for positive cross-currency impacts.

#### 2QFY10 GUIDANCE EXCHANGE RATE ASSUMPTIONS

GUIDED	EUR	GBP	AUD	INR/US\$
Infosys	1.41	1.66	0.81	47.91
Wipro	1.35	1.57		48.23
Actual (average)	1.43	1.64	0.83	48.46

Source: Company/ MOSL

Infosys' implied growth in 4QFY10 based on guidance will be seen as an indicator of a timely budgeting cycle, while muted growth could imply a possible delay in the CY10 budgeting.

In addition to guidance upgrades, we see demand commentary turning increasingly positive across service lines and verticals, especially BFSI and Telecom. Commentary on discretionary demand pick-up will be watched closely.

### Cross-currency benefits of 1-1.5% across companies

We expect the effects of forex fluctuations to be less accentuated than in 1QFY10 when there was significant currency volatility. **The key impacts being:**

- US dollar/rupee realizations comparable to last quarter, with both average and closing US\$/INR rates in line with 1QFY10 rates
- Cross-currency benefits would be 1-1.5% across companies based on their invoicing proportions. This was 2-3.7% across the top four IT companies.

#### 2QFY10 CURRENCY HIGHLIGHTS (IN INR)

	RATES (INR)				CHANGE (QOQ, %)			
	US\$	EUR	GBP	AUD	US\$	EUR	GBP	AUD
Average	48.4	69.2	79.7	40.2	-0.8	4.0	5.2	8.4
Closing	47.9	70.9	78.5	42.0	0.0	5.5	-0.4	8.7

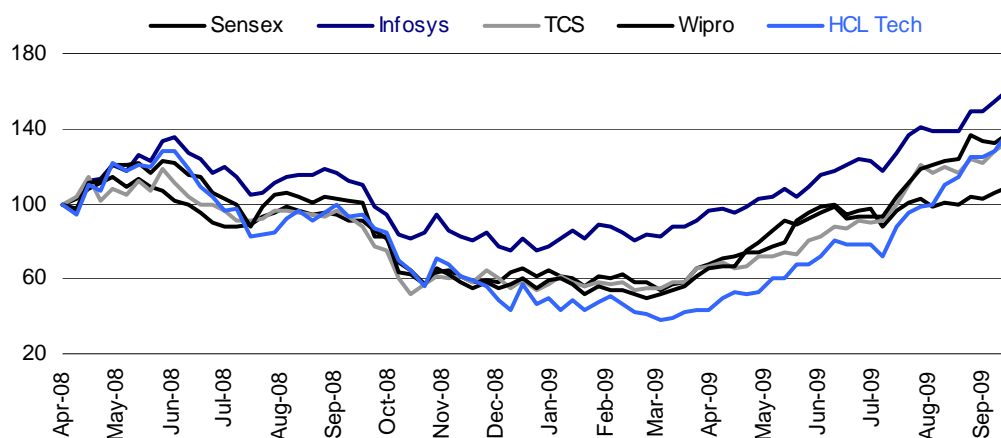
#### 2QFY10 CURRENCY HIGHLIGHTS (IN US\$)

	RATES (US\$)			CHANGE (QOQ, %)		
	EUR	GBP	AUD	EUR	GBP	AUD
Average	1.43	1.64	0.83	4.7	5.9	9.2
Closing	1.48	1.64	0.88	5.5	-0.4	8.7

Source: Company/ MOSL

### What would stocks react positively to?

#### IT STOCKS OUTPERFORM THE SENSEX



Source: Company/ MOSL

Top four IT stocks have outperformed the Sensex in the range of 29% to 118% YTD. This was driven by

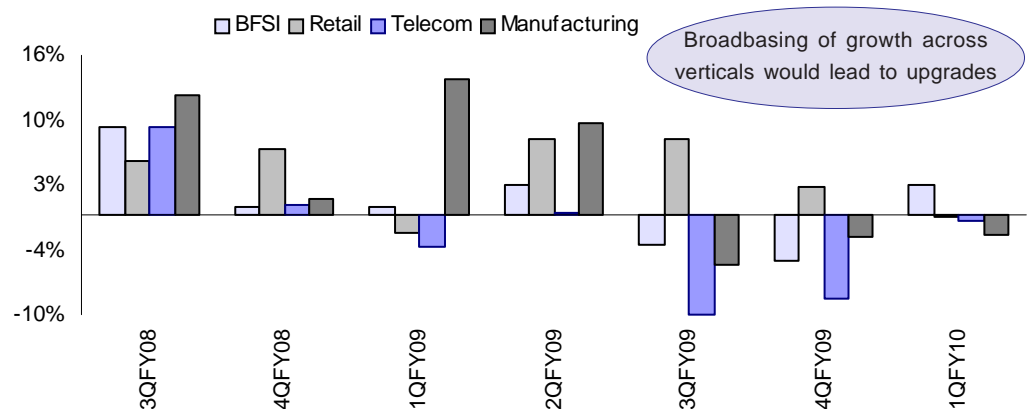
- [1] Improved economic conditions in key developed markets
- [2] Stability in demand in the face of expectations of significant declines
- [3] Companies posting near 12-quarter high EBITDA margins v/s expectations of a decline
- [4] Cheap valuations and 1QFY10 out-performance

We believe the valuation gap has largely played out and further up-ticks will be driven by earnings upgrades on:

- [1] Volume growth in excess of 3-4% QoQ henceforth
- [2] Signs of discretionary demand pick-up and new business channel contribution
- [3] Post budget clarity on FY11 demand
- [4] Maintenance of margin trajectory

We believe mid-year wage inflation, increased SGA spends, package implementation growth and broad-basing of growth across verticals/service lines will be early indicators of a faster than anticipated volume growth rebound of 12-14% for top-tier players in FY11.

AGGREGATE VERTICAL GROWTH QOQ



Source: Company/MOSL

### Buy TCS, HCL Tech, Mphasis, Patni; Neutral on Infosys, Wipro and Tech Mahindra

We expect IT demand to revive in FY11 with 12-14% volume growth, compared with flattish volumes in FY10. We see the following precursors to a revival [1] improvement in client decision making from ad hoc to orderly [2] improvement across verticals and service lines (especially BFSI and Telecom) and [3] visible signs of recovery such as abatement of leakages at key clients, pricing stability and volume based utilization improvements.

We expect 2QFY10 results to reinforce this expectation. We believe pick-up in discretionary demand, faster rebound in BFSI/Telecom and contribution from new business channels could add to growth. 2QFY10 results will be watched for ascertaining this slope of the recovery.

- Among large caps, we prefer **TCS** on expected benefits due to trend strengthening in BFSI, greater scope and aggression towards cost management, higher-than-peer-group earnings growth and valuation discount of 17% to Infosys. We maintain **Buy**.
- We like **HCL Tech** for its positive correlation to demand stability given high LTM deal signings (75% of its FY09 revenue), strong IMS growth and subsiding of forex loss concerns after FY10 (78% of forex losses expected in FY10). We expect narrowing of valuation discounts as it gets increasingly valued on operations v/s forex concerns. We maintain **Buy**.
- Among mid caps we prefer **Mphasis** for its highest demand visibility, continuation of ITO growth, significant untapped market within HP, sustainability of margins at 26% and highest delta in case of discretionary demand pick-up (application development is 29% of revenue). We maintain **Buy**.

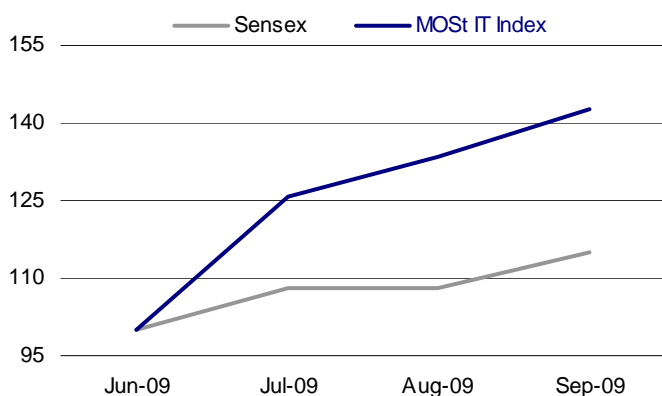


## Stock performance and valuations

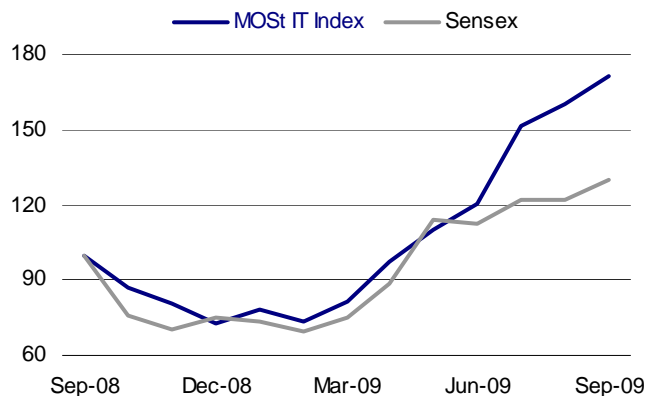
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Information Technology</b>						
HCL Technologies	80	50	64	27	36	-12
Infosys	28	49	11	26	-16	-12
MphasiS	62	227	46	204	18	166
Patni Computer	62	112	46	89	18	51
TCS	54	70	38	47	10	9
Tech Mahindra	26	46	9	23	-18	-15
Wipro	51	61	35	37	7	-1

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS) 25.9.09	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
<b>Information Technology</b>														
HCL Technologies	336	Buy	17.8	17.1	24.7	18.9	19.6	13.6	10.6	9.2	8.2	22.0	19.0	23.4
Infosys	2,245	Neutral	102.5	106.7	115.4	21.9	21.0	19.5	16.6	15.1	13.3	36.7	30.0	26.6
MphasiS	633	Buy	14.1	43.2	46.7	45.0	14.6	13.5	33.9	11.1	9.2	22.8	49.3	36.4
Patni Computer	424	Buy	28.6	34.0	41.1	14.8	12.5	10.3	7.7	5.5	4.3	13.4	14.6	15.5
TCS	587	Buy	26.2	31.7	34.4	22.4	18.5	17.1	15.6	13.4	12.1	36.4	33.8	28.7
Tech Mahindra	936	Neutral	70.6	63.0	70.2	13.3	14.9	13.3	9.5	11.7	11.9	57.6	35.5	29.5
Wipro	567	Neutral	23.6	29.0	32.2	24.0	19.6	17.6	16.1	13.1	11.5	24.6	24.9	22.4
<b>Sector Aggregate</b>						<b>22.0</b>	<b>19.1</b>	<b>17.1</b>	<b>15.4</b>	<b>13.1</b>	<b>11.6</b>	<b>28.4</b>	<b>25.8</b>	<b>23.5</b>

## HCL Technologies

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	HCLT IN
	REUTERS CODE
S&P CNX: 4,959	HCLT.BO

25 September 2009

Buy

Rs336

Previous Recommendation: Buy

Equity Shares (m)	674.6
52-Week Range (Rs)	351/89
1,6,12 Rel. Perf. (%)	3/151/27
M.Cap. (Rs b)	226.9
M.Cap. (US\$ b)	4.7

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
6/08A	76,394	10,363	15.2	-18.8	20.3	3.9	20.3	20.2	2.4	11.3
6/09E#	106,014	12,008	17.8	16.9	18.9	4.0	22.0	17.3	2.2	10.5
6/10E	121,432	11,620	17.1	-3.6	18.0	3.2	19.0	14.8	1.8	8.4
6/11E	133,306	16,950	24.7	44.4	12.5	2.6	23.4	18.9	1.6	7.6

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

- HCL Tech is expected to report US-dollar revenue growth of 2% QoQ at US\$619m.
- Muted growth expectation for 1QFY10 at 2% QoQ against 7.6% QoQ growth in 4QFY09 is due to non-recurrence of US\$5.1m (0.9% QoQ impact in 4QFY09) benefit because of higher billing days and lesser cross-currency impacts (3.7% QoQ impact in 4QFY09).
- HCL Tech is expected to report revenue of Rs29.7b, up 2.0% QoQ and 25.5% YoY.
- EBITDA margin is expected to be flat QoQ at 21.3% due to stable pricing and utilization.
- HCL Tech has forward covers of US\$813m as of June 2009 and the company is expected to book forex losses of Rs1.6b (US\$32m) in 1QFY10.
- The effective tax rate is expected to decline to 18% from 23.6% in 4QFY09 due to one-off provisions (US\$6.6m) in 4QFY09.
- We expect the company to report net profit of Rs2.7b against Rs3.1b in 4QFY09, a QoQ de-growth of 12.4%, largely on higher forex losses.
- The stock trades at 18x FY10E and 12.5x FY11E earnings (after ESOP charges). Maintain **Buy**.
- **Key risks:** Slower ramp-up in large deals, deterioration in hi-tech manufacturing demand, currency volatility, delay in decision making.

## QUARTERLY PERFORMANCE (US GAAP)

(RS MILLION)

Y/E JUNE	FY09				FY10E				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Revenues</b>	<b>23,623</b>	<b>24,691</b>	<b>28,615</b>	<b>29,085</b>	<b>29,669</b>	<b>30,269</b>	<b>30,824</b>	<b>30,670</b>	<b>106,014</b>	<b>121,432</b>
Q-o-Q Change (%)	8.9	4.5	15.9	1.6	2.0	2.0	1.8	-0.5	38.8	14.5
Direct Expenses	14,567	15,178	18,207	18,328	18,712	19,034	19,374	19,620	66,280	76,740
Sales, General & Admin. Exp.	4,019	4,332	4,503	4,508	4,649	4,739	4,822	4,857	17,362	19,067
<b>Operating Profit</b>	<b>5,037</b>	<b>5,181</b>	<b>5,905</b>	<b>6,249</b>	<b>6,309</b>	<b>6,496</b>	<b>6,628</b>	<b>6,192</b>	<b>22,372</b>	<b>25,625</b>
Margins (%)	21.3	21.0	20.6	21.5	21.3	21.5	21.5	20.2	21.1	21.1
Other Income	558	1,206	-24	-116	-88	-89	-81	-50	1,624	-308
Forex Gain / (Loss)	-904	-1,205	-2,016	-886	-1,569	-1,716	-1,569	-805	-5,011	-5,659
Depreciation & Amort.	908	971	1,417	1,197	1,347	1,370	1,391	1,380	4,493	5,487
<b>PBT bef. Extra-ordinary</b>	<b>3,783</b>	<b>4,211</b>	<b>2,448</b>	<b>4,050</b>	<b>3,305</b>	<b>3,321</b>	<b>3,588</b>	<b>3,957</b>	<b>14,492</b>	<b>14,171</b>
Provision for Tax	422	667	470	955	595	598	646	712	2,514	2,551
Rate (%)	11.2	15.8	19.2	23.6	18.0	18.0	18.0	18.0	17.3	18.0
Minority Interest	-14	1	-17	0	0	0	0	0	-30	0
<b>PAT after ESOP Chrg.</b>	<b>3,375</b>	<b>3,543</b>	<b>1,995</b>	<b>3,095</b>	<b>2,710</b>	<b>2,723</b>	<b>2,942</b>	<b>3,245</b>	<b>12,008</b>	<b>11,620</b>
Q-o-Q Change (%)	264.9	5.0	-43.7	55.1	-12.4	0.5	8.0	10.3	15.9	-3.2

E: MOSL Estimates; Axon is consolidated since December 2008

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Infosys

Neutral

Rs2,245

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	INFO IN
	REUTERS CODE
S&P CNX: 4,959	INFY.BO

25 September 2009

Previous Recommendation: Neutral

Equity Shares (m)	573.7
52-Week Range (Rs)	2,415/1,040
1,6,12 Rel. Perf. (%)	1/-5/26
M.Cap. (Rs b)	1,288.0
M.Cap. (US\$ b)	26.8

YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/08A	166,920	45,380	79.2	19.8	28.4	9.3	36.2	37.0	7.3	23.2
3/09A	216,930	58,800	102.5	29.5	21.9	7.0	36.7	40.2	5.5	16.5
3/10E	226,205	61,197	106.7	4.0	21.0	5.7	30.0	33.1	5.1	15.0
3/11E	249,737	66,205	115.4	8.2	19.5	4.7	26.6	30.3	4.4	13.2

- We expect Infosys' consolidated revenue to grow 3.5% QoQ in terms to US\$1,161m. Infosys had guided 1QFY10 US-dollar revenue growth of -1.1 to 0.7% QoQ. In rupee terms, revenues are expected to grow by 2.9% QoQ.
- Our revenue growth estimates factor-in 2% QoQ volume growth and cross-currency benefit of 1.5% QoQ.
- During 2QFY10, the British pound and the euro appreciated on average by 5.9% & 4.7% respectively against the US dollar. Infosys bills about 25% of its invoices in non-dollar currencies and is expected to benefit by 1.5% due to cross-currency movements.
- EBITDA margin is expected to be flat QoQ at 34.1%. We expect higher SGA and overseas hiring to be countered by utilization improvement due to on higher volume growth and cross-currency benefits.
- EBITDA is expected to grow by 2.7% QoQ and 7% YoY to Rs19.2b.
- Infosys held hedges worth US\$600m as of June 2009. We expect Infosys to book other income of Rs2.1b in 1QFY10 against Rs2.7b in 1QFY10 due to lower expected yield on cash and the absence of forex gains (Rs310m in 1QFY10)
- Net profit is expected to decline by 0.3% QoQ to Rs15.2b but much ahead of its higher end basic EPS guidance of Rs24.09. We expect Infosys to upgrade its full-year US-dollar revenue growth guidance to flat against a 3.1-4.6% decline and its full-year EPS guidance to Rs102 from Rs93-96 earlier.
- The stock trades at 21x FY10E and 19.5x FY11E earnings. Maintain **Neutral**.
- **Key risks:** Continued decline in BT, currency volatility, delay in decision making.

## QUARTERLY PERFORMANCE (INDIAN GAAP)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Revenues</b>	<b>48,540</b>	<b>54,180</b>	<b>57,860</b>	<b>56,350</b>	<b>54,720</b>	<b>56,311</b>	<b>57,159</b>	<b>58,015</b>	<b>216,930</b>	<b>226,205</b>
Q-o-Q Change (%)	6.9	11.6	6.8	-2.6	-2.9	2.9	1.5	1.5	30.0	4.3
Direct Expenses	27,540	28,910	30,750	30,450	29,150	29,748	30,392	30,644	117,650	119,934
SG&A	6,210	7,330	6,800	6,990	6,890	7,377	7,716	7,948	27,330	29,931
<b>Operating Profit</b>	<b>14,790</b>	<b>17,940</b>	<b>20,310</b>	<b>18,910</b>	<b>18,680</b>	<b>19,187</b>	<b>19,050</b>	<b>19,423</b>	<b>71,950</b>	<b>76,340</b>
Margins (%)	30.5	33.1	35.1	33.6	34.1	34.1	33.3	33.5	33.2	33.7
Other Income	1,170	660	400	2,520	2,690	2,060	2,060	2,193	4,730	9,002
Depreciation	1,690	1,770	1,870	2,280	2,220	2,217	2,187	2,159	7,610	8,784
<b>PBT bef. Extra-ordinary</b>	<b>14,270</b>	<b>16,830</b>	<b>18,840</b>	<b>19,150</b>	<b>19,150</b>	<b>19,029</b>	<b>18,922</b>	<b>19,456</b>	<b>69,070</b>	<b>76,558</b>
Provision for Tax	1,560	2,510	3,030	3,170	3,880	3,806	3,784	3,891	10,270	15,362
Rate (%)	10.9	14.9	16.1	16.6	20.3	20.0	20.0	20.0	14.9	20.1
<b>PAT before EO</b>	<b>12,710</b>	<b>14,320</b>	<b>15,810</b>	<b>15,980</b>	<b>15,270</b>	<b>15,223</b>	<b>15,138</b>	<b>15,565</b>	<b>58,800</b>	<b>61,197</b>
Q-o-Q Change (%)	3.4	12.7	10.4	1.1	-4.4	-0.3	-0.6	2.8	29.6	4.1
Extra-ordinary Items	310	0	620	150	0	0	0	0	1,080	0
<b>PAT aft. Minority and EO</b>	<b>13,020</b>	<b>14,320</b>	<b>16,430</b>	<b>16,130</b>	<b>15,270</b>	<b>15,223</b>	<b>15,138</b>	<b>15,565</b>	<b>59,880</b>	<b>61,197</b>
Q-o-Q Change (%)	4.2	10.0	14.7	-1.8	-5.3	-0.3	-0.6	2.8	28.5	2.2

E: MOSL Estimates

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## Mphasis

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	MPHL IN
	REUTERS CODE
S&P CNX: 4,959	MBFL.BO

25 September 2009

Buy

Rs633

Previous Recommendation: Buy

Equity Shares (m)	209.0
52-Week Range (Rs)	664/119
1,6,12 Rel. Perf. (%)	0/160/204
M.Cap. (Rs b)	132
M.Cap. (US\$ b)	2.8

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	24,231	2,553	12.1	41.0	52.1	11.4	23.6	25.7	5.4	31.3
10/08A*	19,065	2,954	14.1	15.7	45.0	9.2	22.8	22.1	6.9	33.9
10/09E	42,623	9,081	43.2	79.3	14.6	5.9	49.3	50.3	3.0	11.2
10/10E	50,000	9,816	46.7	8.1	13.5	4.2	36.4	39.8	2.4	9.2

\* Financial year ending has been changed to year ending October from March earlier

- We expect Mphasis to report 4QFY09 revenue of US\$233m, a growth of 0.7% QoQ. In rupee terms we expect Mphasis to report revenue of Rs11.3b, a growth of 2.3% QoQ.
- We expect ITO (IT outsourcing) to continue to lead growth.
- EBITDA margin is expected to improve by 40bp QoQ to 26.8% due to assumed cross-currency benefits of 1.1%.
- EBITDA is expected to grow 3.8% QoQ to Rs3b and net profit is expected to grow 6.6% QoQ to Rs2.4b.
- We believe Mphasis stands out in the mid-cap IT space due to strong revenue visibility given its HP-EDS parentage.
- Clarity on price renegotiations with HP and pick-up in headcount addition in ITO and the applications business after significant utilization improvements will be monitored for future growth.
- The stock is trading at 14.6x FY09E and 13.5x FY10E earnings. Maintain **Buy**.
- **Key risks:** Adverse pricing renegotiations with HP, reduced focus on BPO, currency volatility.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E OCTOBER	PE OCT.08			FY09				PEOCT.08	FY09E
	1Q	2Q	1MOCT.08	1Q	2Q	3Q	4QE		
<b>Revenues</b>	<b>7,422</b>	<b>8,361</b>	<b>3,282</b>	<b>9,777</b>	<b>10,485</b>	<b>11,056</b>	<b>11,306</b>	<b>19,065</b>	<b>42,623</b>
Q-o-Q Change (%)	12.9	12.6	NA	NA	7.2	5.4	2.3	NA	129.4
Direct Expenses	5,472	5,755	2,089	6,118	6,555	6,986	7,032	13,316	26,691
Sales, General & Admin. Exp.	704	837	325	1,067	1,111	1,150	1,244	1,865	4,573
<b>Operating Profit</b>	<b>1,247</b>	<b>1,769</b>	<b>868</b>	<b>2,592</b>	<b>2,818</b>	<b>2,919</b>	<b>3,030</b>	<b>3,884</b>	<b>11,359</b>
Margins (%)	16.8	21.2	26.4	26.5	26.9	26.4	26.8	20.4	26.7
Other Income	17	164	37	64	153	32	118	218	368
Depreciation	412	446	147	486	552	514	520	1,005	2,072
<b>PBT bef. Extra-ordinary</b>	<b>852</b>	<b>1,487</b>	<b>757</b>	<b>2,170</b>	<b>2,419</b>	<b>2,438</b>	<b>2,627</b>	<b>3,096</b>	<b>9,654</b>
Provision for Tax	62	77	4	70	174	145	184	143	574
Rate (%)	7.3	5.2	0.5	3.2	7.2	6.0	7.0	4.6	5.9
<b>PAT bef. Extra-ordinary</b>	<b>790</b>	<b>1,411</b>	<b>753</b>	<b>2,100</b>	<b>2,245</b>	<b>2,292</b>	<b>2,443</b>	<b>2,953</b>	<b>9,080</b>
Q-o-Q Change (%)	10.6	78.6	NA	NA	6.9	2.1	6.6	NA	178.3

E: MOSL Estimates; Financial year ending has been changed to year ending October from March earlier.

## Patni Computer Systems

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	PATNI IN
	REUTERS CODE
S&P CNX: 4,959	PTNI.BO

25 September 2009

Buy

Rs424

Previous Recommendation: Buy

Equity Shares (m)	128.4
52-Week Range (Rs)	488/94
1,6,12 Rel. Perf. (%)	-12/170/89
M.Cap. (Rs b)	54.4
M.Cap. (US\$ m)	1,133.6

YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/07A	26,950	4,643	32.4	30.0	13.1	2.2	18.9	18.9	1.7	9.2
12/08A	31,991	3,671	28.6	-11.9	14.8	1.9	13.4	13.4	1.3	7.7
12/09E	31,915	4,396	34.0	19.2	12.5	1.7	14.6	14.5	1.1	5.5
12/10E	34,851	5,308	41.1	20.7	10.3	1.5	15.5	15.5	0.8	4.3

\* Reflects adjusted PAT

- We expect Patni's revenue of US\$167m ahead of its guidance of US\$163-165m.
- Rupee revenue is expected to grow 4.5% QoQ to Rs8.1b in 3QCY09.
- EBITDA margin is expected to be flat at 21.4% against 21.3% in 2QCY09. We expect full impact of staff curtailments in 2QCY09 to cushion staff cost increases on recent high level recruitments.
- EBITDA is expected to grow 4.9% QoQ and 23% YoY to Rs1.73b.
- We expect a non-operating loss of Rs14m in 3QCY09 due to lower other income and a forex loss at Rs194m. In 2QCY09 other income was higher due to income from maturing FMPs, which is not expected to accrue in 3QCY09.
- We expect net profit to de-grow 16.7% QoQ to Rs1.14b mainly because of lower other income.
- The stock trades at 12.5x CY09E and 10.3x CY10E earnings. We remain **Buy**.
- **Key risks:** Economic shocks, currency volatility, delay in decision making and high client concentration.

## QUARTERLY PERFORMANCE (US GAAP)

(RS MILLION)

Y/E DECEMBER	CY08				CY09				CY08	CY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
<b>Revenues</b>	<b>7,061</b>	<b>7,837</b>	<b>8,523</b>	<b>8,570</b>	<b>7,955</b>	<b>7,729</b>	<b>8,077</b>	<b>8,154</b>	<b>31,991</b>	<b>31,915</b>
Q-o-Q Change (%)	2.9	11.0	8.7	0.6	-7.2	-2.8	4.5	0.9	18.7	-0.2
Direct Expenses	4,843	5,267	5,594	5,455	5,143	4,851	5,037	5,106	21,158	20,137
Sales, General & Admin. Exp.	1,157	1,365	1,530	1,496	1,380	1,229	1,311	1,340	5,549	5,261
<b>Operating Profit</b>	<b>1,061</b>	<b>1,205</b>	<b>1,399</b>	<b>1,619</b>	<b>1,432</b>	<b>1,649</b>	<b>1,729</b>	<b>1,708</b>	<b>5,284</b>	<b>6,517</b>
Margins (%)	15.0	15.4	16.4	18.9	18.0	21.3	21.4	20.9	16.5	20.4
Other Income	59	285	197	-435	-202	339	-14	-7	106	115
Depreciation	279	283	300	286	288	294	307	310	1,147	1,199
<b>PBT bef. Extra-ordinary</b>	<b>842</b>	<b>1,207</b>	<b>1,296</b>	<b>898</b>	<b>941</b>	<b>1,694</b>	<b>1,408</b>	<b>1,391</b>	<b>4,243</b>	<b>5,434</b>
Provision for Tax	117	170	168	117	180	326	267	264	572	1,038
Rate (%)	13.9	14.1	12.9	13.1	19.1	19.2	19.0	19.0	13.5	19.1
<b>Net Income bef. EO</b>	<b>725</b>	<b>1,037</b>	<b>1,129</b>	<b>780</b>	<b>761</b>	<b>1,368</b>	<b>1,140</b>	<b>1,127</b>	<b>3,671</b>	<b>4,396</b>
Q-o-Q Change (%)	-27.3	43.1	8.8	-30.9	-2.5	79.9	-16.7	-1.2	-20.9	19.8
Extra-ordinary Items	0	0	-873	0	0	0	0	0	-873	0
<b>Net Income after EO</b>	<b>725</b>	<b>1,037</b>	<b>2,002</b>	<b>780</b>	<b>761</b>	<b>1,368</b>	<b>1,140</b>	<b>1,127</b>	<b>4,544</b>	<b>4,396</b>
Q-o-Q Change (%)	-27.3	43.1	93.0	-61.0	-2.5	79.9	-16.7	-1.2	-2.1	-3.3

E: MOSL Estimates

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## Tata Consultancy Services

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	TCS IN
	REUTERS CODE
S&P CNX: 4,959	TCS.BO

25 September 2009

Buy

Rs587

Previous Recommendation: Buy

Equity Shares (m)	1,957.2
52-Week Range (Rs)	612/209
1,6,12 Rel. Perf. (%)	5/51/47
M.Cap. (Rs b)	1,149.0
M.Cap. (US\$ b)	23.9

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	228,614	50,191	25.5	20.8	21.7	8.7	46.5	46.2	4.6	17.7
3/09A	278,129	51,369	26.2	3.0	22.4	7.3	36.4	44.2	4.0	15.6
3/10E	295,487	61,991	31.7	20.7	17.5	5.2	33.8	38.7	3.5	12.6
3/11E	321,897	67,267	34.4	8.5	16.1	4.2	28.7	32.7	3.1	11.4

\*EPS cum-bonus of 1:1

- TCS is expected to report revenue of US\$1,513m, a growth of 2.2% QoQ. In rupee terms, we expect revenue of Rs73.4b, a growth of 1.8% QoQ and 5.5% YoY.
- Our expectation of lower revenue growth at 2.2% QoQ against 3.3% QoQ in 1QFY10 is assuming non-recurrence of one-off revenue items like higher product and equipment revenue in 1QFY10. 1QFY10 also had a component of push-through spending from 4QFY09.
- EBITDA margin is expected to be 27.7%, up 50bp QoQ. Better utilization, muted hiring (1500 freshers) and lower SGA expenses are expected to boost margins. Promotion- related wage inflation in 2QFY10 could put higher-than-expected pressure on margins.
- We expect other income of Rs504m against Rs194m in 1QFY10 due to lower forex losses. Net hedges of \$112m are expected to expire in 2QFY10.
- Net profit is expected to grow to Rs15.6b, a growth of 2.5% QoQ and 23.5% YoY.
- The stock trades at 17.5x FY10E and 16.1x FY11E earnings. Maintain **Buy**.
- **Key risks:** Slower growth in BFSI, continued decline in Manufacturing, currency volatility, delays in decision making.

## QUARTERLY PERFORMANCE (US GAAP)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E*
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Revenues</b>	<b>64,107</b>	<b>69,534</b>	<b>72,770</b>	<b>71,717</b>	<b>72,070</b>	<b>73,359</b>	<b>73,843</b>	<b>76,215</b>	<b>278,129</b>	<b>295,487</b>
Q-o-Q Change (%)	6.0	8.5	4.7	-1.4	0.5	1.8	0.7	3.2	21.7	6.2
Direct Expenses	36,427	36,879	39,348	38,120	38,208	38,796	39,299	40,509	150,774	156,812
Sales, General & Admin. Exp.	12,366	14,458	13,948	14,802	14,243	14,241	14,264	14,612	55,574	57,359
<b>Operating Profit</b>	<b>15,314</b>	<b>18,197</b>	<b>19,474</b>	<b>18,795</b>	<b>19,619</b>	<b>20,322</b>	<b>20,281</b>	<b>21,094</b>	<b>71,781</b>	<b>81,315</b>
Margins (%)	23.9	26.2	26.8	26.2	27.2	27.7	27.5	27.7	25.8	27.5
Other Income	332	-1,784	-1,847	-1,374	194	504	126	299	-4,673	1,123
Depreciation	1,167	1,349	1,454	1,796	1,727	1,781	1,794	1,854	5,766	7,156
<b>PBT bef. Extra-ordinary</b>	<b>14,479</b>	<b>15,064</b>	<b>16,173</b>	<b>15,625</b>	<b>18,086</b>	<b>19,044</b>	<b>18,612</b>	<b>19,539</b>	<b>61,342</b>	<b>75,282</b>
Provision for Tax	2,297	2,291	2,481	2,293	2,655	3,237	3,164	3,322	9,362	12,378
Rate (%)	15.9	15.2	15.3	14.7	14.7	17.0	17.0	17.0	15.3	16.4
Minority Interest	96	158	168	190	228	228	228	228	611	912
<b>Net Income after EO</b>	<b>12,086</b>	<b>12,615</b>	<b>13,525</b>	<b>13,143</b>	<b>15,203</b>	<b>15,578</b>	<b>15,220</b>	<b>15,990</b>	<b>51,369</b>	<b>61,991</b>
Q-o-Q Change (%)	-3.8	4.4	7.2	-2.8	15.7	2.5	-2.3	5.1	3.0	20.7

E: MOSL Estimates

Ashwin Mehta (Ashwin.Mehta@MotilalOswal.com) / Vihang Naik (Vihang.Naik@MotilalOswal.com)



## Tech Mahindra

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	TECHM IN
	REUTERS CODE
S&P CNX: 4,959	TEML.BO

25 September 2009

Neutral

Rs936

Previous Recommendation: Neutral

Equity Shares (m)	130.7
52-Week Range (Rs)	1,008/204
1,6,12 Rel. Perf. (%)	-1/173/23
M.Cap. (Rs b)	122.3
M.Cap. (US\$ b)	2.5

YEAR	NET SALES	PAT	EPS*	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/08A	37,661	7,693	58.9	26.8	15.9	9.0	70.7	69.2	3.0	13.6
3/09A	44,647	9,224	70.6	19.9	13.3	5.9	57.6	56.9	2.3	8.8
3/10E*	44,769	8,231	63.0	-10.8	14.9	4.2	35.5	31.6	4.2	11.0
3/11E*	46,256	9,169	70.2	11.4	13.3	3.2	29.5	22.6	3.2	11.1

\* Includes profits from Satyam

- Tech Mahindra's US-dollar revenue is expected to grow by 2.4% QoQ to US\$233m helped by the appreciation of the British pound by 6%, on average, against the US dollar. Tech Mahindra derives almost 60% of its revenue from Europe.
- We expect Tech Mahindra to report 2QFY10 rupee-revenue growth of 1.6% QoQ to Rs11.3b.
- EBITDA margin is expected to expand by 100bp QoQ to 26.2% due to cost curtailments and cross-currency benefits brought on by the appreciation of the British pound and the euro against the US dollar.
- Interest costs are expected to be higher at Rs655m on a full-quarter impact against a 2.5 months impact in 1QFY10.
- The tax rate is expected to be flat at about 16%.
- We expect net profit to grow by 13.8% QoQ to Rs1.5b.
- The stock trades at 14.9x FY10E and 13.3x FY11E consolidated (diluted) earnings. Maintain **Neutral**.
- Clarity on pricing and scope renegotiation with BT on its contracts (BT contributes 52% of Tech Mahindra revenue) will be keenly watched.
- **Key risks:** Adverse pricing and volume impact from renegotiations at BT and Satyam financials and legal issues, currency volatility and delay in decision making.

## QUARTERLY PERFORMANCE (INDIAN GAAP)

(RS MILLION)

Y/E MARCH	FY09				FY10E				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Revenues</b>	<b>11,164</b>	<b>11,648</b>	<b>11,322</b>	<b>10,513</b>	<b>11,130</b>	<b>11,309</b>	<b>11,191</b>	<b>11,138</b>	<b>44,647</b>	<b>44,769</b>
Q-o-Q Change (%)	9.3	4.3	-2.8	-7.1	5.9	1.6	-1.0	-0.5	18.5	0.3
Direct Cost	6,825	6,867	6,572	6,364	6,838	6,817	6,794	6,768	26,628	27,217
Other Operating Exps	1,470	1,520	1,570	1,557	1,487	1,527	1,567	1,559	6,117	6,140
<b>Operating Profit</b>	<b>2,869</b>	<b>3,261</b>	<b>3,180</b>	<b>2,592</b>	<b>2,805</b>	<b>2,965</b>	<b>2,830</b>	<b>2,811</b>	<b>11,902</b>	<b>11,412</b>
Margins (%)	25.7	28.0	28.1	24.7	25.2	26.2	25.3	25.2	26.7	25.5
Other Income	261	-320	-397	78	-261	-200	-200	-36	-378	-697
Interest	2	0	0	23	571	655	630	604	25	2,459
Depreciation	258	267	286	286	296	317	313	312	1,097	1,238
<b>PBT bef. Extra-ordinary</b>	<b>2,870</b>	<b>2,674</b>	<b>2,497</b>	<b>2,361</b>	<b>1,677</b>	<b>1,793</b>	<b>1,688</b>	<b>1,859</b>	<b>10,402</b>	<b>7,018</b>
Provision for Tax	282	321	269	306	268	287	270	298	1,178	1,122
Rate (%)	9.8	12.0	10.8	13.0	16.0	16.0	16.0	16.0	11.3	16.0
Minority Interest	2	-1	-1	0	8	8	8	8	0	32
<b>Net Income bef. EO</b>	<b>2,586</b>	<b>2,354</b>	<b>2,229</b>	<b>2,055</b>	<b>1,402</b>	<b>1,499</b>	<b>1,410</b>	<b>1,554</b>	<b>9,224</b>	<b>5,864</b>
Q-o-Q Change (%)	18.1	-9.0	-5.3	-7.8	-31.8	6.9	-5.9	10.2	19.9	-36.4
Extra-ordinary Items	0	673	0	250	-85	0	0	0	923	0
<b>Net Income after EO</b>	<b>2,586</b>	<b>3,027</b>	<b>2,229</b>	<b>2,305</b>	<b>1,317</b>	<b>1,499</b>	<b>1,410</b>	<b>1,554</b>	<b>10,147</b>	<b>5,864</b>
Q-o-Q Change (%)	-217.0	17.0	-26.4	3.4	-42.9	13.8	-5.9	10.2	208.0	-42.2

E: MOSL Estimates

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Wipro

Neutral

Rs567

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	WPRO IN
	REUTERS CODE
S&P CNX: 4,959	WIPR.BO

25 September 2009

Previous Recommendation: Neutral

Equity Shares (m)	1,459.1
52-Week Range (Rs)	584/182
1,6,12 Rel.Perf.(%)	-2/61/37
M.Cap. (Rs b)	827.5
M.Cap. (US\$ b)	17.2

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	197,428	32,240	22.2	9.8	26.0	6.5	27.9	23.1	4.2	12.2
3/09A	254,564	34,415	23.6	6.7	24.0	5.5	24.6	21.6	3.2	16.0
3/10E	267,690	42,322	29.0	22.8	19.9	4.4	24.9	22.2	3.0	13.3
3/11E	293,935	46,950	32.2	10.9	17.9	3.7	22.4	21.2	2.6	11.7

\* Reflects adjusted PAT; \* Citi Technology Services is fully consolidated in FY10

- We expect Wipro's IT Services to report a US-dollar revenue growth of 2.8% QoQ at US\$1,062m, above its guided revenue of US\$1,035m-1,053m.
- Wipro is expected to report consolidated revenue growth of 4.6% QoQ and 3% YoY at Rs66.1b. The growth will be helped by the IT-products segment, for which the second and fourth quarters are stronger than others.
- Global IT Services volumes are expected to grow at 1% QoQ. We expect India/ME IT to lead growth compared to BPO and global IT services.
- Consolidated EBIT margin is expected to remain flat at 19.2%. We expect pricing to stay stable and cross-currency to benefit revenue by 1% in 2QFY10.
- EBIT is expected to grow by 4.4% QoQ and 22.4% YoY to Rs12.7b.
- We expect consolidated net profit to de-grow by 3.2% QoQ to Rs10.4b in 1QFY10. This is due to translation gains of Rs935m on external commercial borrowings (ECBs) in 1QFY10, which are not expected to recur.
- At CMP the stock trades at 19.9x FY10E and 17.9x FY11E. Maintain **Neutral**.
- **Key risks:** Global economic shocks, delay in Telecom recovery, currency volatility.

CONSOLIDATED QUARTERLY PERFORMANCE (US GAAP)

(RS MILLION)

Y/E MARCH	FY09				FY10E*				FY09*	FY10E*
	1Q	2Q	3Q*	4Q*	1Q	2QE	3QE	4QE		
IT Services and Products#	51,573	56,779	58,572	59,230	56,503	59,150	59,848	63,427	226,154	238,928
Other Businesses	8,049	7,316	6,815	6,230	6,685	6,922	7,306	7,849	28,410	28,762
<b>Revenues</b>	<b>59,622</b>	<b>64,095</b>	<b>65,387</b>	<b>65,460</b>	<b>63,188</b>	<b>66,072</b>	<b>67,154</b>	<b>71,276</b>	<b>254,564</b>	<b>267,690</b>
Q-o-Q Change (%)	6.6	7.5	2.0	0.1	-3.5	4.6	1.6	6.1	0.0	0.0
Y-o-Y Change (%)	42.5	35.6	24.9	17.0	6.0	3.1	2.7	8.9	28.9	5.2
Direct Expenses	41,400	45,223	45,953	45,600	42,726	44,758	45,686	48,764	178,176	181,934
SG&A	7,687	8,004	8,754	8,013	7,857	8,172	8,483	8,881	32,458	33,393
<b>EBIT</b>	<b>10,308</b>	<b>10,373</b>	<b>10,318</b>	<b>11,443</b>	<b>12,162</b>	<b>12,699</b>	<b>12,542</b>	<b>13,188</b>	<b>42,442</b>	<b>50,592</b>
Margins (%)	17.3	16.2	15.8	17.5	19.2	19.2	18.7	18.5	16.7	18.9
Other Income	-140	-671	-223	-238	1,479	609	533	703	-1,272	3,323
Forex Gain/(Loss)	-689	-321	150	-736	-1,403	-1,100	-895	-902	-1,596	-4,300
Income from Equity Investees	107	106	114	35	114	70	70	70	362	324
<b>PBT</b>	<b>9,586</b>	<b>9,487</b>	<b>10,359</b>	<b>10,504</b>	<b>12,352</b>	<b>12,278</b>	<b>12,250</b>	<b>13,059</b>	<b>39,936</b>	<b>49,939</b>
Provision for Tax	1,436	1,240	1,364	1,382	1,627	1,892	1,888	2,013	5,422	7,420
Rate (%)	15.0	13.1	13.2	13.2	13.2	15.4	15.4	15.4	13.6	14.9
Minority Interest	12.0	22.0	16.0	49.0	49.0	49.0	49.0	49.0	99	196.0
<b>Net Income</b>	<b>8,138</b>	<b>8,225</b>	<b>8,979</b>	<b>9,073</b>	<b>10,676</b>	<b>10,337</b>	<b>10,313</b>	<b>10,997</b>	<b>34,415</b>	<b>42,322</b>
Q-o-Q Change (%)	-7.0	1.1	9.2	1.0	17.7	-3.2	-0.2	6.6	6.7	23.0

E: MOSL Estimates; \* includes Infocrossing. # reclassified in FY09

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## Infrastructure

BSE Sensex: 16,693

S&amp;P CNX: 4,959

25 September 2009

## COMPANY NAME

Hindustan Construction

IVRCL

Jaiprakash Associates

Nagarjuna Construction

Simplex Infrastructure

**Execution to improve, interest-cost benefits visible**

We expect revenue growth of 21.8% YoY (excluding Jaiprakash Associates) against 9.1% YoY (excluding JPA) during 1QFY10. 1QFY10 was affected by intentionally slow execution by companies in a few states as well as labor unavailability during the election period. The focus on execution has improved after the elections and the installation of the new government.

- During 1QFY10 EBITDA margins of most of the players improved. We expect sustained profitability at higher levels driven by lower commodity prices. We expect EBITDA margin of 10.1% (up 30bp YoY) in 2QFY09 against 10.3% in 1QFY10.
- PAT during 2QFY10 is expected to grow 20.7% YoY against a decline of 10.9% YoY in 1QFY10 (mainly due to low execution and higher costs of borrowing). We expect interest-cost benefits to kick-in from this quarter resulting in substantial net profit growth YoY.

**Improved order-intake visibility to counter moderation of book-to-bill ratio:**

Book-to-bill ratio for our construction coverage universe declined (based on TTM revenue) from 3.9x in FY05-06 to 2.9x in FY09. This moderation impacted near-term revenue visibility and was caused mainly by delays in order intake given central/state elections and a challenging credit environment, which stalled private capex.

We believe that after the installation of a stable government the macro environment has begun to show signs of improvement with strong order intake expected from sectors like roads, power (thermal and hydro), urban infrastructure, ports and irrigation. Order intake from roads, power and urban infrastructure have already picked up. Order intake in FY09 was Rs303b (down 8% YoY). We expect order intake to improve to Rs401b in FY10 (up 32.3% YoY) and to Rs516b in FY11 (up 28.7% YoY).

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
			SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
				% YOY	% QOQ		% YOY	% QOQ		% YOY	% QOQ
	25.9.09										
<b>Infrastructure</b>											
Hindustan Construction	133	Neutral	8,996	28.9	-6.7	1,047	24.8	-9.0	132	LP	-52.4
IVRCL Infra.	383	Buy	13,901	22.3	28.0	1,293	41.6	29.8	537	-10.7	52.9
Jaiprakash Associates	237	Buy	17,092	44.5	-17.3	5,325	53.1	-1.7	2,218	9.2	1.7
Nagarjuna Construction	146	Buy	11,635	10.2	16.3	1,164	7.3	12.8	477	12.8	24.8
Simplex Infra.	486	Buy	11,980	19.2	8.0	1,199	21.3	7.3	352	16.4	37.3
<b>Sector Aggregate</b>			<b>63,604</b>	<b>25.3</b>	<b>2.1</b>	<b>10,027</b>	<b>37.3</b>	<b>3.2</b>	<b>3,715</b>	<b>12.2</b>	<b>7.7</b>

Satyam Agarwal (AgarwalS@MotilalOswal.com) / Shridatta Bhandwadar (Shridatta.Bhandwadar@MotilalOswal.com)

**Expect operating performance to stabilize; EBITDA margins to expand 50bp**

**YoY:** Earnings of our coverage universe have been volatile in FY09 driven by commodity prices and increased borrowing costs. These factors have stabilized/moderated and we expect companies to benefit from lower/stable commodity prices and borrowing costs to decline in FY10. Key beneficiaries will be companies with higher leverage (HCC, Simplex) and higher fixed-proportion of price contracts (NCC, Gammon).

**We expect two key operating parameters to improve**

- Execution will improve from 2QFY10 after the elections and the supply chain (mainly labor availability) has already improved. We expect revenue CAGR of 19% in FY09-11 despite a disappointing 1QFY10.
- Operating margins will increase due to lower and stable commodity prices. Companies like NCC and Gammon have 20-25% of fixed-price order books in which margins were affected in FY09. We expect EBITDA margin expansion of 59bp YoY in FY10 for our coverage universe given lower commodity prices.

**Earnings to benefit from lower interest cost, working capital moderation:**

During FY09-11 we expect our construction coverage universe to post earnings CAGR of 27.9% (adjusted for 80IA tax benefits withdrawal), on revenue CAGR of 18.9%. The higher earnings growth is largely because of a fall in borrowing costs driven by improved working capital requirements and lower capex in FY10. In FY09 interest costs as a percentage of revenue were 3.3%, up 150bp since FY07, which hit earnings growth. Besides, net working capital in FY09 was 129 days (excluding advances to subsidiary companies), up from 118 days in FY07. Until FY11 we expect a 50bp fall in interest costs (as a percentage of revenue) and 13 days' improvement in the net working cycle.

## TREND IN ORDER BOOK (RS B)

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	YOY (%)
HCC	94	96	91	102	102	108	122	164	154	51
IVRCL	95	96	110	127	124	138	143	145	139	13
NCC	78	90	98	114	122	124	124	122	139	14
Patel	50	54	55	60	60	60	71	72	74	23
Simplex	70	71	89	100	100	107	102	101	100	0
Aggregate	467	487	516	582	597	625	643	684	686	15

Source: Companies

## TREND IN REVENUE (RS B)

	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10E	YOY (%)
HCC	11	9	6	8	10	9	8	23
IVRCL	13	9	11	12	16	11	14	22
NCC	13	10	11	10	11	10	12	10
Patel	5	4	3	3	8	5	3	13
Simplex Infra	10	10	10	13	14	11	12	19
<b>Aggregate (Excl L&amp;T)</b>	<b>52</b>	<b>42</b>	<b>41</b>	<b>46</b>	<b>59</b>	<b>46</b>	<b>49</b>	<b>20</b>

Source: Companies

## Working capital, borrowing cost moderation ahead

### QUARTERLY INTEREST COST, % REVENUES

	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10E	% YOY
HCC	4.4	4.3	6.8	6.6	6.3	6.3	5.9	53
IVRCL	1.6	2.1	2.4	3.5	2.4	3.6	2.8	91
NCC	1.4	2.5	2.6	2.3	1.9	3.5	2.8	6
Patel Engg	2.6	3.7	5.3	6.1	3.9	5.1	6.8	44
Simplex Infra	2.2	2.7	3.2	3.4	2.9	3.1	2.9	29
<b>Aggregate</b>	<b>2.2</b>	<b>2.8</b>	<b>3.5</b>	<b>3.8</b>	<b>3.2</b>	<b>4.0</b>	<b>3.6</b>	<b>45</b>

Source: Company/MOSL

### ANNUAL INTEREST COST, % REVENUES

	FY06	FY07	FY08	FY09	FY10E	FY11E
HCC	2.1	2.6	4.9	6.4	5.3	4.1
IVRCL	1.7	1.3	1.3	2.7	2.5	2.5
NCC	1.2	1.8	2.1	2.3	2.1	1.8
Patel Engg	2.5	0.6	1.6	4.6	4.4	3.9
Simplex Infra	3.0	3.7	3.6	3.1	2.8	2.5
<b>Aggregate</b>	<b>2.1</b>	<b>1.8</b>	<b>2.5</b>	<b>3.3</b>	<b>3.0</b>	<b>2.7</b>

Source: Company/MOSL

### NET DER (TAKING MOBILIZATION ADVANCE AS PART OF DEBT), X

	FY06	FY07	FY08	FY09	FY10E	FY11E
HCC**	0.4	1.7	1.8	2.5	2.5	1.5
IVRCL	1.2	0.4	0.7	0.9	0.9	1.1
NCC	0.2	0.9	0.7	1.0	1.3	0.9
Patel Engg	2.0	0.5	0.8	1.0	1.3	1.6
Simplex Infra	2.2	3.5	1.6	2.1	2.2	2.2

\*\*Includes FCCB of Rs5b as debt

Source: Company/MOSL

### NWC (ADJUSTED FOR ADVANCES TO SUBSIDIARIES), DAYS

	FY06	FY07	FY08	FY09E	FY10E	FY11E
Inventory	97	102	104	104	98	98
Debtors	68	79	78	82	84	82
Loans & advances	57	80	63	58	55	54
Other CA	20	21	26	26	26	26
Current liabilities	140	164	147	145	144	145
<b>NWC</b>	<b>102</b>	<b>118</b>	<b>124</b>	<b>126</b>	<b>119</b>	<b>114</b>

Source: Company/MOSL

## We remain positive on the sector

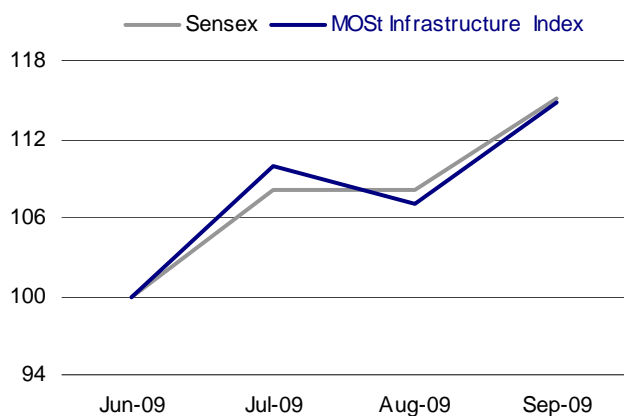
We remain positive on the construction sector, given the strong revenue visibility (3x TTM book-to-bill), receding concerns over borrowing costs and commodity prices, growth opportunity in target markets. The sector is likely to outperform the market due to superior earnings CAGR of 24% in FY09-11. **Simplex, NCC** and **IVRCL** are our top picks.

## Stock performance and valuations

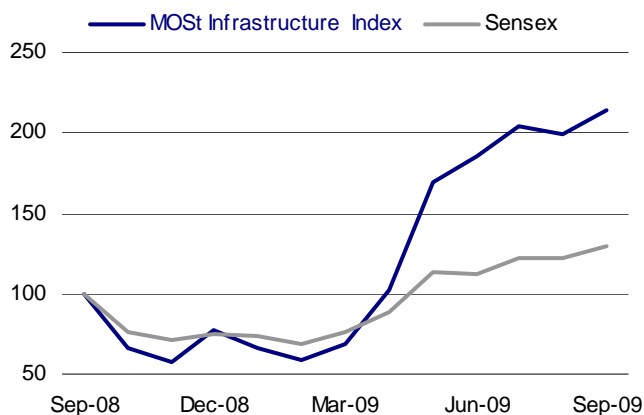
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Infrastructure</b>						
Hindustan Construction	31	59	15	36	17	-37
IVRCL	11	51	-6	27	-4	-46
Jaiprakash Associates	9	92	-7	69	-5	-4
Nagarjuna Construction	13	29	-3	6	-1	-67
Simplex Infra.	28	14	12	-10	14	-83

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS) 25.9.09	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
<b>Infrastructure</b>														
Hindustan Construction	133	Neutral	3.0	4.7	6.4	44.8	28.5	20.7	14.4	11.7	10.2	7.6	9.0	11.3
IVRCL Infra.	383	Buy	17.0	19.0	22.4	22.5	20.2	17.1	15.3	11.6	9.8	13.4	13.8	14.3
Jaiprakash Associates	237	Buy	7.6	9.9	8.4	31.3	24.1	28.2	24.0	16.2	15.0	15.9	16.1	11.6
Nagarjuna Construction	146	Buy	6.7	8.1	10.6	21.8	17.9	13.8	14.2	10.8	9.1	9.4	10.6	11.4
Simplex Infra.	486	Buy	26.6	34.4	42.8	18.2	14.1	11.4	8.9	6.6	5.8	15.9	17.4	18.3
<b>Sector Aggregate</b>						<b>30.4</b>	<b>22.4</b>	<b>22.2</b>	<b>18.7</b>	<b>13.4</b>	<b>12.0</b>	<b>12.3</b>	<b>13.0</b>	<b>11.8</b>

## Hindustan Construction

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	HCC IN
	REUTERS CODE
S&P CNX: 4,959	HCNS.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs133

Equity Shares (m)	303.3
52-Week Range (Rs)	137/29
1,6,12 Rel. Perf. (%)	15/177/36
M.Cap. (Rs b)	40.6
M.Cap. (US\$ b)	0.8

YEAR	NET SALES	PAT	EPS	EPS GR.	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/08A	30,828	708	2.8	39.7	48.0	3.4	7.4	11.2	1.6	13.6
3/09A	33,137	760	3.0	7.3	44.8	3.4	7.6	11.7	1.7	12.9
3/10E	39,278	1,414	4.7	57.3	28.5	2.5	10.9	10.5	1.4	10.4
3/11E	49,762	1,946	6.4	37.6	20.7	2.3	11.8	11.9	1.1	9.2

\* Fully Diluted

- For 2QFY10 we expect HCC to report revenue of Rs8b, up 23.1% YoY, EBITDA of Rs1b and net profit of Rs132m.
- Order book was Rs154b (up 51% YoY, down 6% QoQ), book-to-bill ratio was 4.3x TTM revenue. We believe the current order book should drive revenue CAGR of 23% over FY09-11.
- The company made order announcements of Rs8.9b including (1) Dagacchu Hydro Power Project, Bhutan (Rs3.9b), (2) EPC for Gosikhurd Power project (Rs2.3b) (3) a hydroelectric project in Arunachal Pradesh (Rs2.8b).
- Subdued revenue growth in 1QFY10 was mainly because of (1) a delayed project execution due to elections and (2) delayed execution in J&K projects due to difficulty in obtaining supplies. Management indicated the execution would improve in the rest of the year and the company would be able to meet its annual revenue guidance of Rs45b in FY10.
- During the quarter HCC raised Rs4.8b through a QIP issue of 47m shares, which resulted in an 18.3% equity dilution.
- HCC's better-than-estimated performance was driven mainly by higher EBITDA margins of 13% (up 280bp YoY), largely due to a higher proportion of hydropower in its revenue mix at 29% against 23% in 1QFY09. During 2QFY10 we estimate 40bp lower EBITDA margins YoY to 11.6%.
- At the CMP, the stock trades at reported P/E of 28.5x FY10E and 20.7x FY11E. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q*	4Q	1Q	2QE	3QE	4QE		
<b>Sales (Excl JV)</b>	<b>8,659</b>	<b>6,489</b>	<b>8,194</b>	<b>9,795</b>	<b>8,725</b>	<b>7,988</b>	<b>10,120</b>	<b>12,446</b>	<b>33,137</b>	<b>39,278</b>
Change (%)	18.8	18.3	9.3	-7.2	0.8	23.1	23.5	27.1	7.5	18.5
<b>Gross Sales</b>	<b>8,949</b>	<b>6,977</b>	<b>8,759</b>	<b>10,295</b>	<b>9,641</b>	<b>8,996</b>	<b>11,228</b>	<b>13,963</b>	<b>34,979</b>	<b>43,828</b>
Change (%)	23.0	27.1	17.2	-0.8	7.7	28.9	28.2	35.6	150.5	25.3
<b>EBITDA</b>	<b>911</b>	<b>839</b>	<b>1,061</b>	<b>1,508</b>	<b>1,151</b>	<b>1,047</b>	<b>1,244</b>	<b>1,794</b>	<b>4,318</b>	<b>5,237</b>
Change (%)	15.2	39.5	9.5	15.5	26.3	24.8	17.3	19.0	17.8	21.3
As of % Sales	10.2	12.0	12.1	14.7	13.0	11.6	11.1	12.8	12.3	11.9
Depreciation	253	296	299	304	301	330	335	360	1,152	1,326
Interest	391	492	573	650	613	546	465	448	2,105	2,071
Other Income	124	268	-46	242	19	25	22	16	588	82
Extraordinary Items	0	0	0	0	0	0	0	-95	3	-95
<b>PBT</b>	<b>392</b>	<b>319</b>	<b>143</b>	<b>796</b>	<b>256</b>	<b>197</b>	<b>466</b>	<b>907</b>	<b>1,649</b>	<b>1,827</b>
Tax	84	117	-90	281	74	65	154	310	392	603
Effective Tax Rate (%)	21.3	36.8	-62.7	35.3	28.8	33.0	33.0	34.2	23.8	33.0
<b>Reported PAT</b>	<b>308</b>	<b>202</b>	<b>232</b>	<b>515</b>	<b>182</b>	<b>132</b>	<b>312</b>	<b>597</b>	<b>1,257</b>	<b>1,224</b>
<b>Adj PAT</b>	<b>195</b>	<b>-47</b>	<b>300</b>	<b>515</b>	<b>277</b>	<b>132</b>	<b>312</b>	<b>692</b>	<b>964</b>	<b>1,414</b>
Change (%)	37.4	-	52.7	43.6	41.9	NA	4.1	34.3	36.2	46.7

E: MOSL Estimates; 1QFY10 adjustments of Rs50m towards political donation and Rs53m towards Bandra Worli Sealink Inauguration

Satyam Agarwal (AgarwalS@MotilalOswal.com) / Shridatta Bhandwaladar (Shridatta.Bhandwaladar@MotilalOswal.com)

## IVRCL Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	IVRC IN
	REUTERS CODE
S&P CNX: 4,959	IVRC.BO

25 September 2009

Buy

Rs383

Previous Recommendation: Buy

Equity Shares (m)	134.8
52-Week Range (Rs)	392/57
1,6,12 Rel. Perf. (%)	-2/137/27
M.Cap. (Rs b)	51.60
M.Cap. (US\$ b)	1.1

YEAR	NET SALES	PAT	EPS	EPS GR.	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/08A	36,606	2,052	15.4	40.9	24.9	3.2	14.0	14.6	1.7	16.7
3/09A	48,819	2,290	17.0	10.5	22.5	2.8	13.4	13.7	1.3	15.3
3/10E	60,700	2,559	19.0	11.7	20.2	2.7	13.8	15.6	1.1	11.6
3/11E	71,440	3,025	22.4	18.2	17.1	2.2	14.3	16.1	0.9	9.8

- Order book in 1QFY10 was Rs139b representing a book-to-bill ratio of 2.8x TTM revenue. During 2QFY10, IVRCL announced projects worth Rs19b including (1) a four-lane road BOT in Maharashtra (Rs5.6b) (2) laying pipelines from Tansa to Tarali (Rs4.2b) and (3) constructing mechanized lining of the Dhom Balkawdi Canal (Rs1.6b).
- We estimate improvement in execution in 2QFY10 as the elections impacted 1QFY10 revenue growth. 1QFY10 revenue was Rs10.9b (up 17% YoY) but lower than estimates mainly due to central elections and state elections in Andhra Pradesh, which contributes 30% to its order book. During the elections IVRCL reduced the pace of its execution to avoid delays in payments with a possible change in government. Management indicated that this impacted revenues by Rs2.5b in 1QFY10.
- Margin expansion in 1QFY10 was driven by lower contribution (13%) of the roads segment to revenue against 17.9% a year earlier. As these projects are largely fixed-price contracts, a cut in the cost of commodities including bitumen helped margin expansion. We expect margins to remain stable in 2QFY10 vis-à-vis the preceding quarter.
- Management guided revenue of Rs63-65b in FY10 (up 29-33% YoY) and EBITDA margin of 9.5-10% (against earlier guidance of 9.8-10.3% in FY09). Net debt for IVRCL rose to Rs17b in 1QFY10 against Rs14b in FY09, largely due to deterioration in working capital.
- At CMP the stock trades at 20.2x FY10E and 17.1x FY11E earnings. We recommend **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>9,285</b>	<b>11,366</b>	<b>11,896</b>	<b>16,272</b>	<b>10,860</b>	<b>13,901</b>	<b>15,286</b>	<b>20,653</b>	<b>48,819</b>	<b>60,700</b>
Change (%)	37.1	65.1	22.0	23.1	17.0	22.3	28.5	26.9	33.4	24.3
<b>EBITDA</b>	<b>820</b>	<b>913</b>	<b>1,085</b>	<b>1,450</b>	<b>996</b>	<b>1,293</b>	<b>1,467</b>	<b>2,036</b>	<b>4,268</b>	<b>5,792</b>
Change (%)	36.6	65.0	0.1	4.5	21.5	41.6	35.3	40.4	18.1	35.7
As of % Sales	8.8	8.0	9.1	8.9	9.2	9.3	9.6	9.9	8.7	9.5
Depreciation	102	113	123	134	129	135	148	157	473	570
Interest	194	304	419	392	389	372	402	355	1,309	1,519
Other Income	26	172	14	87	39	15	20	42	298	116
<b>PBT</b>	<b>550</b>	<b>667</b>	<b>556</b>	<b>979</b>	<b>516</b>	<b>801</b>	<b>937</b>	<b>1,565</b>	<b>2,753</b>	<b>3,819</b>
Tax	115	96	91	181	165	264	309	522	483	1,260
Effective Tax Rate (%)	20.9	14.4	16.3	18.5	32.0	33.0	33.0	33.3	17.6	33.0
<b>Reported PAT</b>	<b>435</b>	<b>571</b>	<b>465</b>	<b>798</b>	<b>351</b>	<b>537</b>	<b>628</b>	<b>1,043</b>	<b>2,269</b>	<b>2,559</b>
<b>Adj PAT</b>	<b>435</b>	<b>601</b>	<b>465</b>	<b>799</b>	<b>351</b>	<b>537</b>	<b>628</b>	<b>1,043</b>	<b>2,300</b>	<b>2,559</b>
Change (%)	14.6	70.5	-16.6	9.0	-19.3	-10.7	35.0	30.6	11.6	11.7

E: MOSL Estimates

Satyam Agarwal (AgarwalS@MotilalOswal.com) / Shridatta Bhandwaladar (Shridatta.Bhandwaladar@MotilalOswal.com)



## Jaiprakash Associates

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	JPA IN
	REUTERS CODE
S&P CNX: 4,959	JAIA.BO

25 September 2009

Buy

Rs237

Previous Recommendation: Buy

Equity Shares (m)	1,262.1
52-Week Range (Rs)	259/47
1,6,12 Rel. Perf. (%)	1/108/69
M.Cap. (Rs b)	299.6
M.Cap. (US\$ b)	6.2

YEAR	NET SALES	PAT	EPS*	EPS GR.*	P/E*	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/08A	39,670	6,097	5.2	31.8	45.6	6.0	16.3	10.6	8.6	33.8
3/09A	57,642	8,970	7.6	45.6	31.3	4.2	15.9	10.3	6.6	22.8
3/10E	95,642	12,433	9.9	30.0	24.1	3.4	16.1	16.3	4.2	16.2
3/11E	106,250	10,634	8.4	-14.5	28.2	3.1	11.6	10.4	3.8	15.0

\* Fully Diluted

- We expect Jaiprakash to report revenue of Rs17.1b, up 45% YoY, EBIDTA of Rs5.3b (up 53% YoY) and adjusted net profit of Rs2.2b, up 9.2% YoY.
- Jaiprakash Associates (JPA) has raised Rs16.8b by selling 74m shares of its treasury stock. We expect the monetization of the entire treasury stock will reduce the standalone DER 1.16x in FY10, vs 1.52x in FY09.
- Progress on projects under development: 1) Land in possession for real-estate development in Noida is 1,175 acres (v/s 914 acres in March 2008); spent over Rs46b towards expressway construction, represents half the project cost. Real-estate bookings of 5.8msf in April-August 09 (2.7msf in FY09) 2) cement capacity addition of 5.7m tons in the past 18 months, aims to add 7.5m tons by the end of FY10 3) in the power segment, BTG contracts for 1.8GW of projects awarded and contracts for 3.3GW expected to be awarded in 2HFY10.
- JPA requires Rs27b of investment for the cement business and Rs6b for the EPC business over FY10-11E. We understand the Yamuna Expressway project requires additional equity infusion of Rs10b and the power business will need Rs32b over FY10-11E.
- We expect JPA to report standalone net profit of Rs12.4b in FY10 (up 30% YoY) and Rs10.6b in FY11 (down 15% YoY). **Buy.**

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>11,487</b>	<b>11,825</b>	<b>13,217</b>	<b>20,846</b>	<b>20,671</b>	<b>17,092</b>	<b>20,287</b>	<b>37,565</b>	<b>57,750</b>	<b>95,642</b>
Change (%)	23.9	37.2	46.9	63.1	79.9	44.5	53.5	80.2	45.6	65.6
<b>EBITDA</b>	<b>3,123</b>	<b>3,477</b>	<b>2,473</b>	<b>7,050</b>	<b>5,417</b>	<b>5,325</b>	<b>5,345</b>	<b>8,584</b>	<b>16,123</b>	<b>24,698</b>
Change (%)	30.6	57.3	10.9	78.2	73.5	53.1	116.2	21.8	49.5	53.2
As of % Sales	27.2	29.4	18.7	33.8	26.2	31.2	26.3	22.9	27.9	25.8
Depreciation	622	667	646	1,023	1,017	1,200	1,350	2,168	2,958	5,736
Interest	984	1,008	992	1,682	2,219	1,865	1,983	1,046	5,024	7,113
Other Income	394	1,040	1,254	1,100	3,229	8,650	1,850	2,382	4,147	16,111
<b>PBT</b>	<b>1,911</b>	<b>2,843</b>	<b>2,089</b>	<b>5,445</b>	<b>5,410</b>	<b>10,910</b>	<b>3,862</b>	<b>7,752</b>	<b>12,289</b>	<b>27,960</b>
Tax	639	812	434	1,591	498	1,092	1,274	2,332	3,477	5,196
Effective Tax Rate (%)	33.4	28.6	20.8	29.2	9.2	10.0	33.0	30.1	28.3	18.6
<b>Reported PAT</b>	<b>1,273</b>	<b>2,030</b>	<b>1,655</b>	<b>3,853</b>	<b>4,912</b>	<b>9,818</b>	<b>2,587</b>	<b>5,420</b>	<b>8,812</b>	<b>22,764</b>
<b>Adj PAT</b>	<b>1,273</b>	<b>2,030</b>	<b>2,105</b>	<b>3,153</b>	<b>2,181</b>	<b>2,218</b>	<b>2,587</b>	<b>5,420</b>	<b>8,561</b>	<b>12,433</b>
Change (%)	-9.1	95.2	34.9	50.3	71.4	9.2	22.9	71.9	40.4	45.2

E: MOSL Estimates; excluding Real Estate

## Nagarjuna Construction

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	NJCC IN
	REUTERS CODE
S&P CNX: 4,959	NGCN.BO

25 September 2009

Buy

Rs146

Previous Recommendation: Buy

Equity Shares (m)	256.6
52-Week Range (Rs)	159/34
1,6,12 Rel. Perf. (%)	0/103/6
M.Cap. (Rs b)	37.422
M.Cap. (US\$ b)	0.8

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/08A	34,730	1,623	7.1	10.4	20.6	2.1	12.4	12.3	1.3	12.5
3/09A	41,514	1,549	6.7	-5.5	21.8	2.0	9.4	10.2	1.2	13.1
3/10E	48,611	2,089	8.1	21.9	17.9	1.7	10.6	13.1	1.1	10.8
3/11E	58,382	2,712	10.6	29.8	13.8	1.5	11.4	12.9	0.9	9.1

- NCC's order book in 1QFY10 was Rs139b (up 14% YoY). In 1QFY10 order intake was Rs28.7b and in 2QFY10 it announced orders worth Rs15.7b. Orders bagged in the quarter include a Rs4.5b project to restore a canal system in Bihar and a Rs6b project to build a medical college at Mandi in Himachal Pradesh.
- We estimate execution will pick up in 2QFY10 (revenue of Rs11.6b, up 10.2% YoY). In 1QFY10 execution was affected by the general elections and subdued order intake during FY09 (Rs46b v/s Rs76b in FY08).
- We estimate lower interest cost QoQ at Rs312m, driven by reduced borrowing costs. In 1QFY10, NCC's interest cost increased to Rs346m (up 45% YoY, up 63% QoQ) due to increased debt of Rs14.2b (up 1.7b QoQ) and other financial costs. Besides we understand that non-fund based costs such as bank guarantees have increased and should return to normative levels in 2QFY10.
- In the quarter NCC raised Rs3.7b through a QIP issue of 27.7m shares, resulting in a 12.1% equity dilution. The money will be used to retire high cost debt and for business purposes.
- In 1QFY10 NCC maintained its revenue guidance of Rs48b (up 16% YoY) and Rs55b (up 15% YoY) for a standalone and consolidated entity respectively. Order intake in FY10 is expected to be worth Rs65b. In 1QFY10 NCC achieved 43% of the targeted order intake.
- At the CMP, the stock trades at a P/E of 17.9x FY10E and 13.8x FY11E. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>9,709</b>	<b>10,558</b>	<b>10,266</b>	<b>10,981</b>	<b>10,004</b>	<b>11,635</b>	<b>12,453</b>	<b>14,520</b>	<b>41,514</b>	<b>48,611</b>
Change (%)	27.4	55.9	31.7	-12.4	3.0	10.2	21.3	32.2	19.5	17.1
<b>EBITDA</b>	<b>916</b>	<b>1,085</b>	<b>899</b>	<b>838</b>	<b>1,032</b>	<b>1,164</b>	<b>1,183</b>	<b>1,333</b>	<b>3,737</b>	<b>4,711</b>
Change (%)	15.9	27.4	4.2	-23.4	12.7	7.3	31.6	59.2	3.9	26.1
As of % Sales	9.4	10.3	8.8	7.6	10.3	10.0	9.5	9.2	9.0	9.7
Depreciation	142	149	119	123	127	137	144	142	533	550
Interest	239	275	238	213	346	312	220	222	964	1,100
Other Income	9	10	8	15	20	8	10	508	42	547
<b>PBT</b>	<b>544</b>	<b>671</b>	<b>551</b>	<b>517</b>	<b>579</b>	<b>723</b>	<b>829</b>	<b>1,478</b>	<b>2,282</b>	<b>3,608</b>
Tax	173	248	188	135	196	246	282	305	743	1,029
Effective Tax Rate (%)	31.8	36.9	34.1	26.1	33.9	34.0	34.0	20.6	32.6	28.5
<b>Reported PAT</b>	<b>371</b>	<b>423</b>	<b>363</b>	<b>382</b>	<b>382</b>	<b>477</b>	<b>547</b>	<b>1,172</b>	<b>1,539</b>	<b>2,579</b>
<b>Adj PAT</b>	<b>371</b>	<b>423</b>	<b>363</b>	<b>382</b>	<b>382</b>	<b>477</b>	<b>547</b>	<b>682</b>	<b>1,539</b>	<b>2,089</b>
Change (%)	3.9	24.5	-8.4	-27.4	3.1	12.8	50.7	78.6	-5.0	35.7

E: MOSL Estimates

Satyam Agarwal (AgarwalS@MotilalOswal.com) / Shridatta Bhandwadar (Shridatta.Bhandwadar@MotilalOswal.com)

## Simplex Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	SINF IN
	REUTERS CODE
S&P CNX: 4,959	SINF.BO

25 September 2009

Buy

Rs486

Previous Recommendation: Buy

Equity Shares (m)	49.5
52-Week Range (Rs)	529/102
1,6,12 Rel. Perf. (%)	9/172/-10
M.Cap. (Rs b)	24.1
M.Cap. (US\$ b)	0.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/08A	28,121	1,021	20.6	65.6	23.5	3.2	19.8	18.1	1.1	11.3
3/09A	46,627	1,318	26.6	29.1	18.2	2.7	15.9	16.7	0.8	8.9
3/10E	54,620	1,701	34.4	29.1	14.1	2.3	17.4	17.3	0.6	6.6
3/11E	63,181	2,116	42.8	24.4	11.4	1.9	18.3	18.7	0.6	5.8

- In 2QFY10 we expect Simplex to report revenue of Rs12b, (up 19.2% YoY), and net profit of Rs352m (up 16.4% YoY).
- Order book was Rs100b (flat YoY, down 0.5% QoQ) in 1QFY10 and order intake was Rs10.8b (down 6% QoQ, down 47.4% YoY). In July 2009 order intake was Rs4.6b indicating an improved business environment compared with the preceding two or three quarters. Shifting focus from private to public orders is visible as the order book has 50% private orders compared with 70-75% at the start of FY09.
- We estimate execution improvement in 2QFY10. Below-estimated revenue in 1QFY10 was mainly due to lower execution of Rs2.5b due to 20 days' work loss during the election period when labor was unavailable. Besides two Mumbai projects-the Lalbaug flyover and Mumbai Metro-were slower than expected due to the impact of the monsoon.
- We expect 2QFY10 EBITDA margins to be sustained in the subsequent quarter at 10.3% (up 10bp YoY). We estimate interest costs of Rs320m (down 7.9% QoQ) in 2QFY10, driven mainly by lower average borrowing costs.
- The stock trades at 14.1x FY10E and 11.4x FY11E earnings. We maintain **Buy**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Income</b>	<b>10,181</b>	<b>10,050</b>	<b>12,703</b>	<b>13,876</b>	<b>11,097</b>	<b>11,980</b>	<b>15,104</b>	<b>16,440</b>	<b>46,888</b>	<b>54,620</b>
Change (%)	75.0	76.0	80.4	45.3	9.0	19.2	18.9	18.5	66.7	16.5
<b>EBITDA</b>	<b>1,115</b>	<b>988</b>	<b>1,156</b>	<b>1,123</b>	<b>1,118</b>	<b>1,199</b>	<b>1,445</b>	<b>1,618</b>	<b>4,277</b>	<b>5,380</b>
Change (%)	91.6	72.8	63.9	37.7	0.2	21.3	25.0	44.1	59.9	25.8
As % of Sales	11.0	10.2	9.4	8.3	10.2	10.3	9.9	10.2	9.5	10.1
Other Income	4	39	37	30	14	35	50	53	186	153
Interest	275	324	436	392	348	320	395	382	1,418	1,444
Depreciation	255	302	370	374	381	388	392	425	1,299	1,586
<b>PBT</b>	<b>552</b>	<b>378</b>	<b>387</b>	<b>386</b>	<b>404</b>	<b>526</b>	<b>708</b>	<b>864</b>	<b>1,685</b>	<b>2,502</b>
Tax	169	98	134	88	147	173	210	270	477	801
Tax / PBT	30.6	25.9	34.7	22.7	36.4	33.0	29.7	31.2	28.3	32.0
<b>PAT</b>	<b>383</b>	<b>280</b>	<b>253</b>	<b>299</b>	<b>257</b>	<b>352</b>	<b>498</b>	<b>594</b>	<b>1,208</b>	<b>1,701</b>
<b>Adjusted PAT</b>	<b>421</b>	<b>303</b>	<b>303</b>	<b>299</b>	<b>257</b>	<b>352</b>	<b>498</b>	<b>594</b>	<b>1,324</b>	<b>1,701</b>
As % of Sales	4.1	3.0	2.4	2.2	2.3	2.9	3.3	3.6	2.8	3.1
Change (%)	114.7	59.2	37.3	(28.0)	(39.0)	16.4	64.7	99.0	29.7	28.5

E: MOSL Estimates

## Media

BSE Sensex: 16,693

S&amp;P CNX: 4,959

25 September 2009

## COMPANY NAME

Deccan Chronicle

H T Media

Jagran Prakashan

Sun TV Network

TV Today

Zee Entertainment

**Media companies announce 10-20% hike in ad rates:** 2QFY10 marks a trend reversal in the advertising industry. Signs of economic revival coupled with the beginning of the festive season have resulted in an improvement in inventory utilization. Media companies have started increasing ad rates - the first time in the last 12 months. Zee Entertainment and Deccan Chronicle have announced a 20% increase in ad rates effective October 2009. The actual rate hike is likely to be much lower than the card rate hike announced. The rate hike will impact only medium and small advertisers, as large advertisers usually have long-term contracts.

**Hindi GECs focusing on reality shows to boost GRPs:** Hindi general entertainment channels (GECs) have shifted their focus from movies to reality shows. Some of the recently launched reality programs are *Khatron Ke Khiladi* (Colors), *Perfect Bride* (Star Plus), *Is Jungle Se Mujhe Bachao* (Sony) and *Sa Re Ga Ma Lil Champs* (Zee TV). Colors continues to dominate the genre. Zee TV's strategy of focusing on content has played out well and the channel has been successful in catching up with the top players. For week 37, Colors' GRP was 325, Star Plus' was 273, and Zee TV's was 254.

**Digitization drives subscription revenues:** Changing structure of distribution (analog to digitization) network continues to remain the biggest play in the broadcasting space. DTH has emerged as a key competitor for the cable industry (which enjoyed monopoly) and has triggered consolidated and digitization in the cable network. Cable distribution companies are gearing up to face competition from DTH and are drawing up expansion plans. We believe this augur well for broadcasting companies.

**Valuation and view:** Media stocks have run up significantly on the back of improving advertising outlook. We expect print media companies to post strong profit growth on the back of improving advertising outlook and lower newsprint prices. We believe that the broadcasting space continues to offer a sustained longer term investment opportunity, given (1) improving advertising outlook, and (2) changing distribution structure of television.

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
			SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
			% YOY	% QOQ	% YOY	% QOQ	% YOY	% QOQ			
<b>Media</b>											
Deccan Chronicle	123	Buy	2,225	-1.7	2.7	1,057	36.7	-0.2	655	44.7	-14.9
HT Media	126	Neutral	3,375	1.0	0.7	648	62.5	-6.2	335	105.8	-9.2
Jagran Prakashan	106	Neutral	2,250	7.8	-3.0	675	77.7	-4.3	401	76.5	-19.1
Sun TV	328	Neutral	2,930	23.2	1.9	2,227	26.3	-0.4	1,171	23.1	-2.3
TV Today	95	Buy	610	-8.8	-14.1	116	-4.8	-40.6	93	22.9	-44.3
Zee Entertainment	236	Neutral	5,345	-6.5	12.3	1,295	-13.0	10.7	901	-26.4	-11.6
<b>Sector Aggregate</b>			<b>16,735</b>	<b>1.7</b>	<b>3.4</b>	<b>6,018</b>	<b>22.2</b>	<b>-0.6</b>	<b>3,555</b>	<b>15.0</b>	<b>-11.5</b>

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Amit Purohit (AmitPurohit@MotilalOswal.com)

### Media companies announce 10-20% hike in ad rates

The advertising market has started showing early signs of pick-up post the sharp decline during the period November 2008 to March 2009. This follows steady increase in inventory utilization across verticals in the last few months. Economic revival and the beginning of the festive season have resulted in higher ad spends by badly battered segments like autos, financial services and real estate. Though ad inventory at the industry level is not fully utilized, few properties/companies have been able to fully utilize their inventory.

Media companies have started increasing ad rates - the first time in the last 12 months. Zee Entertainment and Deccan Chronicle have announced a 20% increase in ad rates effective October 2009.

- **Zee Entertainment:** *Indiantelevision.com* quoted Chief Revenue Officer, Joy Chakraborty, "The overall advertising sentiment has improved. Our ratings have gone up and our inventory is going full. So even from a demand-supply ratio, we should be asking for higher rates on fresh deals September onwards. We will see rate hikes in the range of 10-12 per cent for matured channels like Zee TV and Zee Cinema. Smaller revenue base channels will see a hike up to 20 per cent."
- **Deccan Chronicle:** *The company has informed BSE that effective 1 October 2009, its advertisement tariff across all editions of Deccan Chronicle will be higher by 20%.*

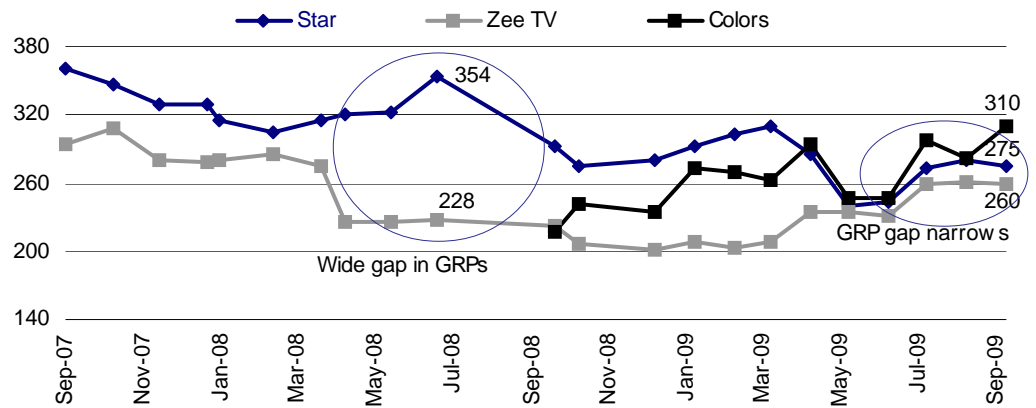
While the actual rate hike is likely to be much lower than the card rate hike announced, media agencies indicate that the strategy is to improve their benchmark ad rate, which had been impacted due to lower inventory utilization. The rate hike will impact only medium and small advertisers, as large advertisers usually have long-term contracts.

### Hindi GECs focusing on reality shows to boost GRPs

Hindi general entertainment channels (GECs) have shifted their focus from movies to reality shows. Some of the recently launched reality programs are *Saach Ka Saamna* (Star Plus), *Khatron Ke Khiladi* (Colors), *Perfect Bride* (Star Plus), *Is Jungle Se Mujhe Bachao* (Sony) and *Sa Re Ga Ma Lil Champs* (Zee TV). Most of the new reality shows have been successful as the average TRP has been ~3.

Colors continues to dominate the genre. Zee TV's strategy of focusing on content has played out well and the channel has been successful in catching up with the top players. For week 37, Colors' GRP was 325, Star Plus' was 273, and Zee TV's was 254. After a close run among the three top contenders, Colors has been able to establish a clear lead of 50 points.

EXHIBIT: GRP GAP NARROWS



Source:www.Indiatimes.com

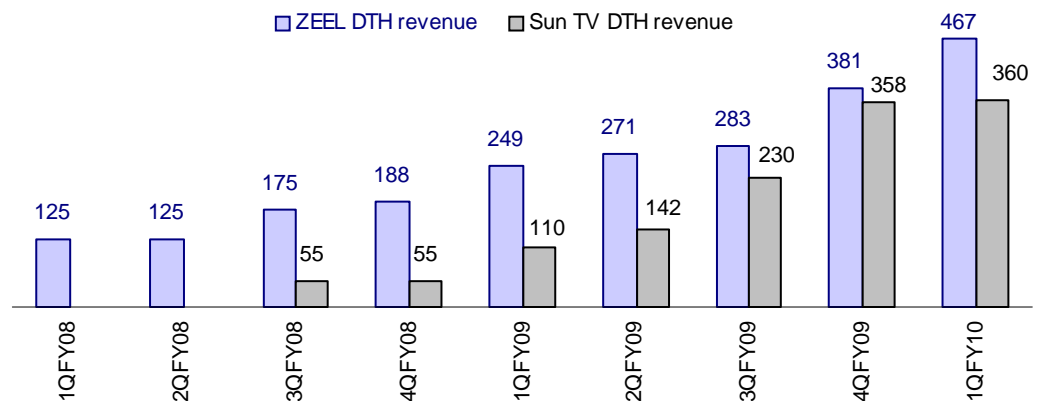
**Digitization drives subscription revenues**

Changing structure of distribution (analog to digitization) network continues to remain the biggest play in the broadcasting space. DTH has emerged as a key competitor for the cable industry (which enjoyed monopoly) and has triggered consolidated and digitization in the cable network. Cable distribution companies are gearing up to face competition from DTH and are drawing up expansion plans.

- Hathway Cable and Datacom (largest MSO) plans IPO to raise Rs2.5b
- DEN Networks plans IPO to raise Rs3b

We believe this augurs well for large incumbent players, as infusion of funds will expedite the digitization process. We believe that the digitization story has moved from building up of hope to reality.

EXHIBIT: STRONG TRACTION IN DTH REVENUE OF LARGE INCUMBENT PLAYERS (RS M)



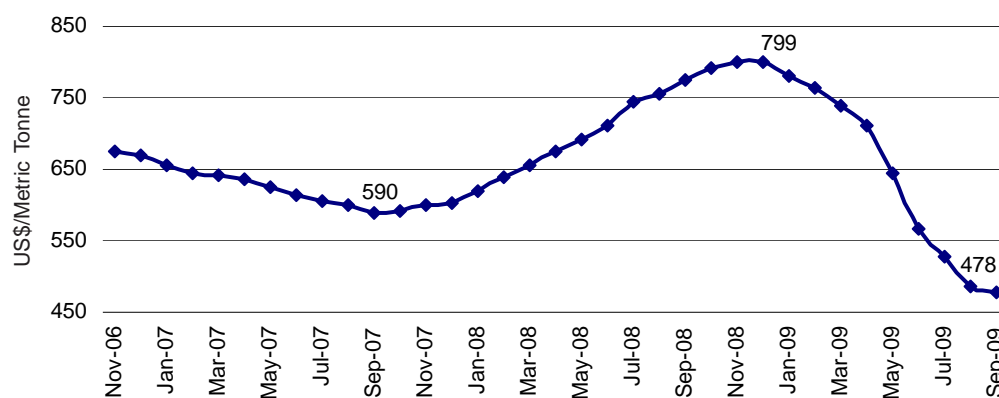
Source:www.Indiatimes.com

**Newsprint prices have stabilized**

Newsprint prices, which have been declining since December 2008, have now stabilized. The prices are down 40% from the peak of September 2008. Further, appreciation in the rupee will also lower the cost of imported newsprint for both HT Media (80% import

content) and Deccan Chronicle (100% import content). Though some bounce back in newsprint prices cannot be ruled out, they are unlikely to spiral to previous highs.

EXHIBIT: NEWSPRINT PRICES HAVE STABILIZED



Source: Bloomberg

FY10 EPS SENSITIVITY

		NEWSPRINT COST RS/TON				
		+10%	+5%	30,720	-5%	+10%
<b>Deccan Chronicle</b>						
Advertising Revenue Growth	5.0%	9.0	9.4	9.8	10.2	10.6
	6.0%	9.2	9.6	10.0	10.4	10.8
	8.0%	9.5	9.9	10.3	10.7	11.1
	9.0%	9.7	10.1	10.5	10.9	11.3
	10.0%	9.9	10.3	10.7	11.1	11.5
<b>Jagran Prakashan</b>						
Advertising Revenue Growth	8.0%	3.8	4.1	4.4	4.7	5.0
	10.0%	4.0	4.3	4.6	4.9	5.2
	12.0%	4.2	4.5	4.8	5.1	5.4
	14.0%	4.5	4.7	5.0	5.3	5.6
	16.0%	4.7	5.0	5.2	5.5	5.8
<b>HT Media</b>						
Advertising Revenue Growth	6.7%	6.9	7.1	7.4	7.7	7.9
	5.7%	6.6	6.9	7.1	7.4	7.7
	4.7%	6.3	6.6	6.8	7.1	7.4
	3.7%	6.0	6.3	6.6	6.8	7.1
	2.7%	5.8	6.0	6.3	6.6	6.8

Source: Company/MOSL

### Valuation and view

Media stocks have run up significantly on the back of improving advertising outlook. We expect print media companies to post strong profit growth on the back of improving advertising outlook and lower newsprint prices. We believe that the broadcasting space continues to offer a sustained longer term investment opportunity, given (1) improving advertising outlook, and (2) changing distribution structure of television.

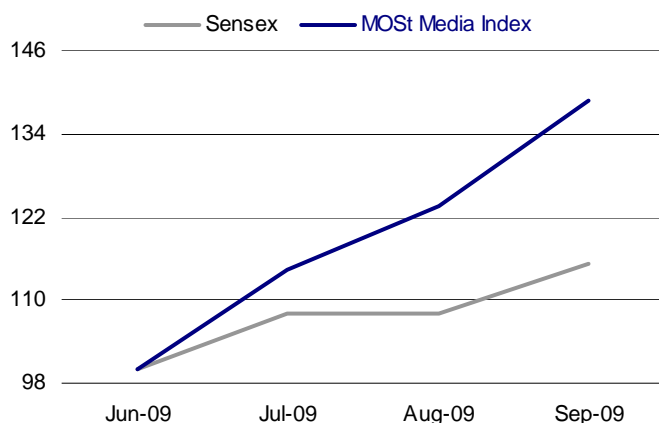


## Stock performance and valuations

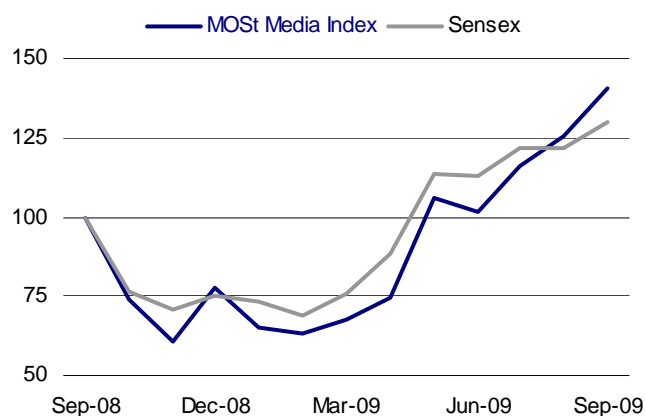
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Media</b>						
Deccan Chronicle	54	26	38	3	15	-7
HT Media	33	12	17	-12	-7	-22
Jagran Prakashan	39	53	23	30	-1	20
Sun TV	40	58	23	34	0	24
T V Today	5	19	-12	-4	-35	-14
Zee Entertainment	41	16	25	-8	1	-18

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS) 25.9.09	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
<b>Media</b>														
Deccan Chronicle	123	Buy	5.7	10.3	12.6	21.5	11.9	9.8	10.4	5.7	4.6	12.2	20.2	22.2
HT Media	126	Neutral	4.4	6.8	8.3	28.5	18.4	15.3	16.7	10.3	8.6	9.4	15.0	16.2
Jagran Prakashan	106	Neutral	3.0	4.8	5.6	34.9	22.0	19.1	19.8	12.4	10.5	16.4	24.3	26.0
Sun TV	328	Neutral	10.6	13.2	15.4	31.0	24.9	21.3	15.7	12.4	9.8	24.4	23.9	23.0
TV Today	95	Buy	5.8	8.6	10.4	16.4	11.1	9.1	7.9	5.4	3.8	10.5	13.8	14.7
Zee Entertainment	236	Neutral	10.1	9.0	11.2	23.5	26.3	21.0	19.4	19.1	14.9	13.9	11.0	12.9
<b>Sector Aggregate</b>						<b>26.9</b>	<b>21.6</b>	<b>18.0</b>	<b>16.2</b>	<b>12.3</b>	<b>9.9</b>	<b>15.0</b>	<b>16.9</b>	<b>18.1</b>

## Deccan Chronicle

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	DECH IN
	REUTERS CODE
S&P CNX: 4,959	DCHL.BO

25 September 2009

Buy

Rs123

Previous Recommendation: Buy

Equity Shares (m)	245.0
52-Week Range (Rs)	124/26
1,6,12 Rel. Perf. (%)	14/138/3
M.Cap. (Rs b)	30.1
M.Cap. (US\$ b)	0.6

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	7,824	2,719	11.1	64.5	11.1	2.8	25.5	27.6	3.7	5.9
03/09A	8,149	1,401	5.7	-48.5	21.5	2.6	12.2	17.6	3.7	11.3
03/10E	8,941	2,558	10.3	80.7	11.9	2.4	20.2	25.7	3.1	6.4
03/11E	9,829	3,125	12.6	22.2	9.7	2.2	22.2	28.4	2.6	5.2

- We expect Deccan Chronicle to post 1.7% YoY decline in revenue due to higher base of last year. Advertising revenue is expected grow sequentially by 2%.
- Decline in newsprint price will benefit the company. We estimate 36.7% EBITDA growth as margins expand to 47.8% from 34.2% a year earlier.
- DCHL intends to sell part or all its stake in its IPL venture, The Deccan Charger Sporting Venture. The team's recent win in the IPL2 will enable the company to get better valuation.
- We estimate PAT growth of 44.7% YoY to Rs655m in 2QFY10.
- The stock trades at 11.9x FY10E and 9.7x FY11E earnings. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>1,935</b>	<b>2,264</b>	<b>2,147</b>	<b>1,803</b>	<b>2,166</b>	<b>2,225</b>	<b>2,450</b>	<b>2,100</b>	<b>8,149</b>	<b>8,941</b>
Change (%)	11.6	20.6	-0.7	-12.1	11.9	-1.7	14.1	16.5	4.2	9.7
<b>EBITDA</b>	<b>943</b>	<b>773</b>	<b>544</b>	<b>422</b>	<b>1,059</b>	<b>1,057</b>	<b>1,176</b>	<b>1,001</b>	<b>2,682</b>	<b>4,294</b>
Change (%)	-9.1	-34.3	-61.5	-65.7	12.4	36.7	116.2	137.2	-44.8	60.1
As of % Sales	48.7	34.2	25.3	23.4	48.9	47.5	48.0	47.7	32.9	48.0
Depreciation	73	75	78	95	99	85	80	115	321	380
Interest	198	198	191	123	111	111	110	110	709	442
Other Income	59	155	136	77	71	75	85	117	427	348
<b>PBT</b>	<b>732</b>	<b>655</b>	<b>411</b>	<b>282</b>	<b>920</b>	<b>936</b>	<b>1,071</b>	<b>893</b>	<b>2,079</b>	<b>3,820</b>
Tax	122	202	154	200	150	281	321	508	679	1,261
Effective Tax Rate (%)	16.7	30.9	32.0	71.1	25.0	30.0	30.0	57.0	32.6	33.0
<b>Reported PAT</b>	<b>610</b>	<b>453</b>	<b>257</b>	<b>82</b>	<b>770</b>	<b>655</b>	<b>750</b>	<b>384</b>	<b>1,401</b>	<b>2,559</b>
<b>Adj PAT</b>	<b>610</b>	<b>453</b>	<b>257</b>	<b>82</b>	<b>770</b>	<b>655</b>	<b>750</b>	<b>384</b>	<b>1,401</b>	<b>2,559</b>
Change (%)	-27.2	-45.2	-75.1	207.5	26.3	44.7	192.1	371.5	-48.5	82.7

E: MOSL Estimates

## H T Media

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	HTML IN
	REUTERS CODE
S&P CNX: 4,959	HTML.BO

25 September 2009

Neutral

Previous Recommendation: Buy

Rs126

Equity Shares (m)	234.2
52-Week Range (Rs)	144/36
1,6,12 Rel. Perf. (%)	6/109/-12
M.Cap. (Rs b)	29.5
M.Cap. (US\$ b)	0.6

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	11,862	1,445	6.2	25.3	20.4	3.2	15.8	15.2	2.2	11.8
03/09E	13,231	1,040	4.4	-28.2	28.5	3.3	9.4	9.9	2.2	15.5
03/10E	14,169	1,609	6.8	54.7	18.4	3.1	15.0	17.3	2.0	9.6
03/11E	15,379	1,946	8.3	20.9	15.2	2.7	16.2	19.4	1.8	7.9

- We expect HT Media to post revenue of Rs3.4b up 1% YoY.
- Lower newsprint prices will bring the company significant benefit from 2QFY10. Cost rationalization and some benefit of lower newsprint prices will boost EBIDTA by Rs648m or 62.5% YoY.
- Its Hindi daily *Hindustan* continues to do well while the national daily has been affected by the economic downturn. But with the economy showing signs of recovery we expect advertising revenue growth to rebound in 2HFY10.
- We estimate PAT of Rs335m, up 105% YoY.
- The stock trades at 18.4x FY10E and 15.2x FY11E earnings. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>3,247</b>	<b>3,342</b>	<b>3,338</b>	<b>3,338</b>	<b>3,351</b>	<b>3,375</b>	<b>3,720</b>	<b>3,723</b>	<b>13,230</b>	<b>14,169</b>
Change (%)	18.8	16.1	4.5	6.5	3.2	1.0	11.4	11.5	11.5	7.1
<b>EBITDA</b>	<b>663</b>	<b>399</b>	<b>424</b>	<b>402</b>	<b>691</b>	<b>648</b>	<b>800</b>	<b>833</b>	<b>1,853</b>	<b>2,972</b>
Change (%)	19.3	-28.3	-23.9	-33.2	4.2	62.5	88.6	107.4	-16.9	60.4
As of % Sales	20.0	11.9	12.7	12.0	20.6	19.2	21.5	22.4	14.0	21.0
Depreciation	129	128	138	155	163	165	175	183	550	686
Interest	51	74	101	91	78	85	85	87	317	335
Other Income	82	52	79	101	65	65	70	96	347	296
Extra-ordinary income	0	0	128	60	45	50	40	53	188	188
<b>PBT</b>	<b>565</b>	<b>248</b>	<b>135</b>	<b>196</b>	<b>470</b>	<b>413</b>	<b>570</b>	<b>607</b>	<b>1,145</b>	<b>2,060</b>
Tax	188	86	57	-38	146	128	177	188	293	639
Effective Tax Rate (%)	33.3	34.5	42.2	(19.4)	31.1	31.0	31.0	31.0	25.6	31.0
<b>Reported PAT</b>	<b>377</b>	<b>163</b>	<b>78</b>	<b>234</b>	<b>324</b>	<b>285</b>	<b>393</b>	<b>419</b>	<b>852</b>	<b>1,421</b>
Exceptional Items	0	0	128	60	45	50	40	53	188	188
<b>Adj PAT</b>	<b>377</b>	<b>163</b>	<b>206</b>	<b>295</b>	<b>369</b>	<b>335</b>	<b>433</b>	<b>472</b>	<b>1,041</b>	<b>1,609</b>
Change (%)	10.4	-52.3	-36.5	-29.2	-2.2	105.8	110.2	60.3	-28.0	54.7

E: MOSL Estimates

## Jagran Prakashan

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	JAGP IN
	REUTERS CODE
S&P CNX: 4,959	JAGP.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs106

Equity Shares (m)	301.2
52-Week Range (Rs)	118/41
1,6,12 Rel. Perf. (%)	-2/23/30
M.Cap. (Rs b)	31.9
M.Cap. (US\$ b)	0.7

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	7,497	982	3.3	28.8	32.5	5.9	18.2	22.6	4.0	18.1
03/09A	8,234	916	3.0	-6.7	34.8	5.7	16.4	18.7	3.6	18.8
03/10E	9,120	1,455	4.8	58.8	21.9	5.3	24.3	28.8	3.2	12.0
03/11E	10,117	1,678	5.6	15.3	19.0	5.0	26.0	30.3	2.9	10.1

- Jagran Prakashan is expected to post revenue of Rs2.25b up 7.8% YoY. We expect advertisers in the auto and real estate industries to increase their adspends.
- Being a regional player Jagran Prakashan will be able to withstand a decline in advertising revenue growth.
- Lower newsprint price is expected to boost operating profit. We expect EBITDA to grow 78% to Rs675m and PAT to rise 76.5% YoY to Rs401m.
- The stock trades at 21.9x FY10E and 19x FY11E earnings. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Revenue</b>	<b>2,065</b>	<b>2,086</b>	<b>2,070</b>	<b>2,013</b>	<b>2,319</b>	<b>2,250</b>	<b>2,310</b>	<b>2,242</b>	<b>8,234</b>	<b>9,120</b>
Change (%)	12.6	17.8	4.0	5.9	12.3	7.8	11.6	11.4	9.8	10.8
<b>EBITDA</b>	<b>496</b>	<b>380</b>	<b>301</b>	<b>390</b>	<b>705</b>	<b>675</b>	<b>554</b>	<b>521</b>	<b>1,567</b>	<b>2,455</b>
Change (%)	-3.6	-2.6	-30.4	29.9	42.0	77.7	84.4	33.5	-4.3	56.7
As of % Sales	24.0	18.2	14.5	19.4	30.4	30.0	24.0	23.2	19.0	26.9
Depreciation	84	89	98	113	124	126	128	129	383	506
Interest	10	12	18	20	14	10	10	62	59	96
Other Income	63	55	45	64	157	50	40	46	227	293
<b>PBT</b>	<b>466</b>	<b>334</b>	<b>229</b>	<b>322</b>	<b>724</b>	<b>589</b>	<b>456</b>	<b>377</b>	<b>1,352</b>	<b>2,146</b>
Tax	150	108	75	104	229	188	146	128	436	692
Effective Tax Rate (%)	32.1	32.1	32.0	32.3	31.7	32.0	32.0	34.0	32.2	32.2
<b>Reported PAT</b>	<b>316</b>	<b>227</b>	<b>155</b>	<b>218</b>	<b>495</b>	<b>401</b>	<b>310</b>	<b>249</b>	<b>916</b>	<b>1,455</b>
<b>Adj PAT</b>	<b>316</b>	<b>227</b>	<b>155</b>	<b>218</b>	<b>495</b>	<b>401</b>	<b>310</b>	<b>249</b>	<b>916</b>	<b>1,455</b>
Change (%)	-8.8	3.2	-40.1	41.4	56.4	76.5	100.7	14.0	-6.5	58.8

E: MOSL Estimates

## Sun TV Network

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	SUNTV IN
	REUTERS CODE
S&P CNX: 4,959	SUTV.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs328

Equity Shares (m)	394
52-Week Range (Rs)	334/125
1,6,12 Rel. Perf. (%)	16/16/34
M.Cap. (Rs b)	129.3
M.Cap. (US\$ b)	2.7

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	8,697	3,670	9.3	36.5	35.2	8.8	25.0	44.3	14.4	19.8
3/09A	10,364	4,164	10.6	13.5	31.0	7.2	24.4	44.2	12.1	15.7
3/10E	12,758	5,196	13.2	24.8	24.9	5.9	23.9	45.0	9.7	12.4
3/11E	15,270	6,067	15.4	16.8	21.3	4.9	23.0	45.7	7.7	9.8

Standalone numbers excluding radio Business

- We expect the company to post revenue of Rs2.9b, up 23% YoY, EBITDA of Rs2.2b, up 26.3% YoY and PAT of Rs1.17b, up 23% YoY.
- We estimate low single-digit growth in advertising revenue during the quarter. Revenue from DTH and the film business will drive growth.
- Sun TV continues to remain an undisputed leader in south India with a presence in all four southern states. The regional market has not been significantly affected by the economic downturn.
- During the quarter Astro increased its stake in South Asia FM Ltd (SAFL) with infusion of Rs790m for 13% stake. After this transaction, Astro holds 20% in the company. Infusion of funds will improve the overall outlook for the radio business as performance of SAFL has been a key factor impacting the profitability of overall radio business.
- The stock trades at 24.9x FY10E and 21.3x FY11E earnings. We maintain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Revenue</b>	<b>2,236</b>	<b>2,379</b>	<b>2,708</b>	<b>2,759</b>	<b>2,877</b>	<b>2,930</b>	<b>3,350</b>	<b>3,517</b>	<b>10,082</b>	<b>12,674</b>
Change (%)	10.5	22.3	24.4	11.9	28.7	23.2	23.7	27.5	17.1	25.7
<b>EBITDA</b>	<b>1,683</b>	<b>1,763</b>	<b>2,013</b>	<b>2,257</b>	<b>2,236</b>	<b>2,227</b>	<b>2,613</b>	<b>2,744</b>	<b>7,716</b>	<b>9,820</b>
Change (%)	10.0	26.1	17.7	42.8	32.9	26.3	29.8	21.6	24.1	27.3
As of % Sales	75.0	74.1	74.3	81.8	77.7	76.0	78.0	78.0	76.5	77.5
Depreciation	278	464	446	662	550	595	680	752	1,849	2,577
Interest	0	21	8	10	6	10	15	9	39	40
Other Income	164	165	144	154	142	160	150	254	627	706
Extraordinary Item		207							207	0
<b>PBT</b>	<b>1,568</b>	<b>1,650</b>	<b>1,703</b>	<b>1,740</b>	<b>1,822</b>	<b>1,782</b>	<b>2,068</b>	<b>2,237</b>	<b>6,661</b>	<b>7,909</b>
Tax	543	567	581	599	624	611	709	768	2,290	2,713
Effective Tax Rate (%)	34.6	36.0	34.1	34.7	34.3	34.3	34.3	34.3	34.4	34.3
<b>Reported PAT</b>	<b>1,026</b>	<b>1,083</b>	<b>1,122</b>	<b>1,141</b>	<b>1,198</b>	<b>1,171</b>	<b>1,359</b>	<b>1,469</b>	<b>4,371</b>	<b>5,196</b>
<b>Adj PAT</b>	<b>1,026</b>	<b>951</b>	<b>1,122</b>	<b>1,141</b>	<b>1,198</b>	<b>1,171</b>	<b>1,359</b>	<b>1,469</b>	<b>4,165</b>	<b>5,196</b>
Change (%)	10.2	18.6	9.7	24.7	16.8	23.1	21.1	28.8	13.5	24.8

E: MOSL Estimates

## TV Today

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	TVTN IN
	REUTERS CODE
S&P CNX: 4,959	TVTO.BO

25 September 2009

Buy

Rs95

Previous Recommendation: Buy

Equity Shares (m)	58.0
52-Week Range (Rs)	120/47
1,6,12 Rel. Perf. (%)	-8/-31/-4
M.Cap. (Rs b)	5.5
M.Cap. (US\$ b)	0.1

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	2,311	436	7.5	40.1	12.6	1.9	15.0	22.8	1.6	6.0
03/09A	2,499	336	5.8	-23.1	16.4	1.7	10.5	15.2	1.4	7.9
03/10E	2,749	497	8.6	48.0	11.1	1.5	13.8	20.5	1.2	5.4
03/11E	3,107	604	10.4	21.5	9.1	1.3	14.7	21.8	0.9	3.8

\* Excluding extraordinary items and provisions

- We expect the company to post revenue of Rs610m, a decline of 8.8% YoY. Advertising revenue will slip sequentially because during 1QFY10 election advertising added to its revenue.
- EBITDA margins are expected to expand 80bps to 19%. We estimate EBITDA will decline 4.8% to Rs116m.
- Aaj Tak leads in the Hindi news genre. The channel is expected to be the key beneficiary of political advertising as it had a highest viewership during the elections.
- We estimate a PAT of Rs93m up 23% due to higher other income.
- The stock trades at 11.1x FY10E and 9.1x FY11E earnings. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>641</b>	<b>669</b>	<b>652</b>	<b>537</b>	<b>710</b>	<b>610</b>	<b>735</b>	<b>694</b>	<b>2,499</b>	<b>2,749</b>
Change (%)	24.5	44.1	-6.0	-15.8	10.8	-8.8	12.7	29.2	8.2	10.0
<b>EBITDA</b>	<b>131</b>	<b>122</b>	<b>138</b>	<b>51</b>	<b>195</b>	<b>116</b>	<b>169</b>	<b>148</b>	<b>442</b>	<b>628</b>
Change (%)	9.9	55.2	-43.4	-72.1	49.3	-4.8	22.4	188.2	-29.4	0.4
As of % Sales	21.5	18.2	21.2	9.6	28.0	19.0	23.0	21.4	17.7	22.8
Depreciation	41	42	65	46	46	55	50	52	194	203
Interest	0	0	0	1	0	0	0	1	1	1
Other Income	45	38	70	89	92	80	80	66	242	318
<b>PBT</b>	<b>135</b>	<b>118</b>	<b>143</b>	<b>93</b>	<b>240</b>	<b>141</b>	<b>199</b>	<b>161</b>	<b>488</b>	<b>742</b>
Tax	43	42	56	12	73	48	68	56	153	245
Effective Tax Rate (%)	31.8	35.7	35.0	12.7	30.6	34.0	34.0	34.5	31.2	33.0
<b>Reported PAT</b>	<b>92</b>	<b>76</b>	<b>87</b>	<b>82</b>	<b>167</b>	<b>93</b>	<b>131</b>	<b>106</b>	<b>336</b>	<b>497</b>
<b>Adj PAT</b>	<b>92</b>	<b>76</b>	<b>87</b>	<b>82</b>	<b>167</b>	<b>93</b>	<b>131</b>	<b>106</b>	<b>336</b>	<b>497</b>
Change (%)	14.9	41.0	-48.0	-39.6	81.9	22.9	51.5	29.3	-22.9	48.0

E: MOSL Estimates

## Zee Entertainment Enterprises

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	Z IN
	REUTERS CODE
S&P CNX: 4,959	ZEE.BO

25 September 2009

Under Review

Previous Recommendation: Neutral

Rs236

Equity Shares (m)	433.6	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range (Rs)	237/88	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	8/54/-8	3/08A	18,354	3,799	8.8	49.4	26.9	3.6	14.1	20.6	5.7	19.3
M.Cap. (Rs b)	102.3	3/09A	21,773	4,365	10.1	14.8	23.5	3.1	13.9	18.2	4.9	19.4
M.Cap. (US\$ b)	2.1	3/10E	21,971	3,890	9.0	-10.8	26.3	2.8	11.0	15.7	4.7	19.1
		3/11E	24,816	4,870	11.2	25.2	21.0	2.6	12.9	18.7	4.0	14.9

- We expect Zee Entertainment Enterprise (ZEEL) to report a 6.5% YoY decline in revenue due to a 17% fall in advertising revenue. Subscription revenue is expected to rise 10% while PAT declines 26% YoY to Rs901m.
- While advertising revenue will continue to fall YoY, it is expected to rise 20% QoQ.
- DTH revenue will drive growth in subscription revenue. We expect subscription revenue to comprise 46% of total revenue in 2QFY10.
- Zee TV's strategy of focusing on content has paid out and the channel has consistently improved its GRPs. Zee TV's GRP in 2QFY10 improved to 260 against an average of 232 in 1QFY10. Hindi GEC space continues to be fragmented with no clear leader.
- The stock trades at 26.3x FY10E EPS of Rs9 and 21x FY11E EPS of Rs11.2. **Neutral.**

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Advertising Revenue	2,798	2,851	2,684	2,284	1,980	2,375	2,750	2,655	10,618	9,760
Subscription Revenue	2,150	2,244	2,274	2,345	2,410	2,470	2,550	2,671	9,014	10,101
Other Sales and Services	471	621	497	508	370	500	450	791	2,098	2,110
<b>Net Sales</b>	<b>5,420</b>	<b>5,717</b>	<b>5,456</b>	<b>5,137</b>	<b>4,759</b>	<b>5,345</b>	<b>5,750</b>	<b>6,117</b>	<b>21,730</b>	<b>21,971</b>
Change (%)	38.4	43.4	5.3	-2.3	-12.2	-6.5	5.4	19.1	18.4	1.1
Prog, Transmission & Direct Exp	2,366	2,613	2,684	2,241	2,392	2,450	2,575	2,879	9,904	10,296
Staff Cost	690	513	382	439	390	450	495	533	2,025	1,868
Selling and Other Exp	921	1,102	1,189	1,255	808	1,150	1,200	1,272	4,468	4,429
<b>EBITDA</b>	<b>1,443</b>	<b>1,488</b>	<b>1,201</b>	<b>1,202</b>	<b>1,170</b>	<b>1,295</b>	<b>1,480</b>	<b>1,433</b>	<b>5,332</b>	<b>5,378</b>
Change (%)	20.5	12.6	-23.5	-7.8	-18.9	-13.0	23.3	19.2	-1.7	0.9
As of % Sales	26.6	26.0	22.0	23.4	24.6	24.2	25.7	23.4	24.5	24.5
Depreciation	55	65	84	99	75	80	90	81	304	326
Interest	214	223	386	509	91	150	175	201	1,331	617
Other Income	278	280	401	444	325	250	250	436	1,403	1,261
Extraordinary Items	574	792	26	260					1,651	
<b>PBT</b>	<b>2,025</b>	<b>2,271</b>	<b>1,158</b>	<b>1,298</b>	<b>1,329</b>	<b>1,315</b>	<b>1,465</b>	<b>1,587</b>	<b>6,751</b>	<b>5,696</b>
Tax	417	489	318	330	416	395	440	459	1,552	1,709
Effective Tax Rate (%)	20.6	21.5	27.5	25.4	31.3	30.0	30.0	28.9	23.0	30.0
<b>Reported PAT</b>	<b>1,608</b>	<b>1,782</b>	<b>840</b>	<b>968</b>	<b>913</b>	<b>921</b>	<b>1,026</b>	<b>1,128</b>	<b>5,198</b>	<b>3,987</b>
Minority Interest	16	-11.0	14.7	3.4	-105.8	20	20	-32	23.0	-97.5
<b>Adj PAT after Minority Int.</b>	<b>1,240</b>	<b>1,223</b>	<b>1,022</b>	<b>927</b>	<b>1,019</b>	<b>901</b>	<b>1,006</b>	<b>1,160</b>	<b>4,413</b>	<b>4,085</b>
Change (%)	60.8	32.2	-6.8	0.3	-17.8	-26.4	-1.6	25.1	15.4	-7.4

E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) / Amit Purohit (AmitPurohit@MotilalOswal.com)



## Metals

BSE Sensex: 16,693

S&amp;P CNX: 4,959

25 September 2009

COMPANY NAME

## Iron and steel

Hindalco

## Steel production recovers

Global crude steel production is recovering fast led by sharp production growth in China. In August 2009 global crude steel production fell by just 5.5% YoY (v/s de-growth of 25.8% in December 2008) to 106.5m tons and Chinese crude steel production grew 22.9% YoY to 52.3m tons. Chinese crude steel production has caught up with its 7-8 year-old growth trajectory.

Hindustan Zinc

Jindal Steel

JSW Steel

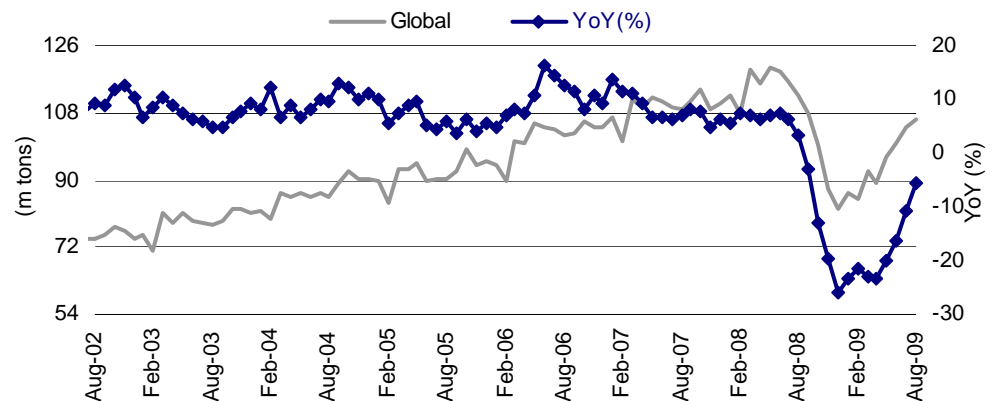
Nalco

Sterlite Industries

SAIL

Tata Steel

GLOBAL: MONTHLY CRUDE STEEL PRODUCTION



Source: WSA

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

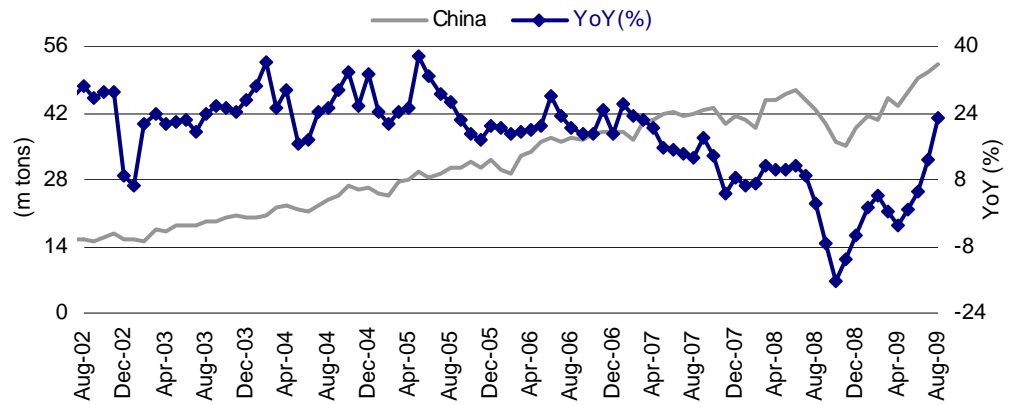
	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
			SEP.09	VAR. % YOY	VAR. % QOQ	SEP.09	VAR. % YOY	VAR. % QOQ	SEP.09	VAR. % YOY	VAR. % QOQ
<b>Metals</b>	25.9.09										
Hindalco	127	Sell	51,227	-9.9	31.7	7,707	-22.4	25.4	5,081	-29.4	50.5
Hindustan Zinc	820	Buy	16,116	-10.0	6.6	8,310	-15.4	8.2	8,130	-15.3	13.1
Jindal Steel & Power	597	Buy	17,438	-21.3	10.6	6,231	-27.1	11.5	3,541	-33.6	18.0
JSW Steel	810	Buy	39,075	-8.5	-0.2	11,156	2.3	49.4	4,226	-13.9	149.1
Nalco	346	Sell	13,275	-13.6	41.9	5,087	-20.6	203.9	3,740	-15.9	195.8
Sterlite Inds.	750	Buy	55,808	-18.1	21.9	14,595	-21.2	43.0	10,722	-16.7	59.4
SAIL	169	Sell	108,259	-11.5	18.3	27,524	-25.6	64.3	17,884	-27.5	50.2
Tata Steel	499	Neutral	256,964	-41.9	10.3	14,846	-82.0	LP	-6,482	PL	-
<b>Sector Aggregate</b>			<b>558,162</b>	<b>-29.1</b>	<b>14.2</b>	<b>95,456</b>	<b>-48.0</b>	<b>72.9</b>	<b>46,842</b>	<b>-61.1</b>	<b>206.9</b>

Sanjay Jain (SanjayJain@MotilalOswal.com)

25 September 2009

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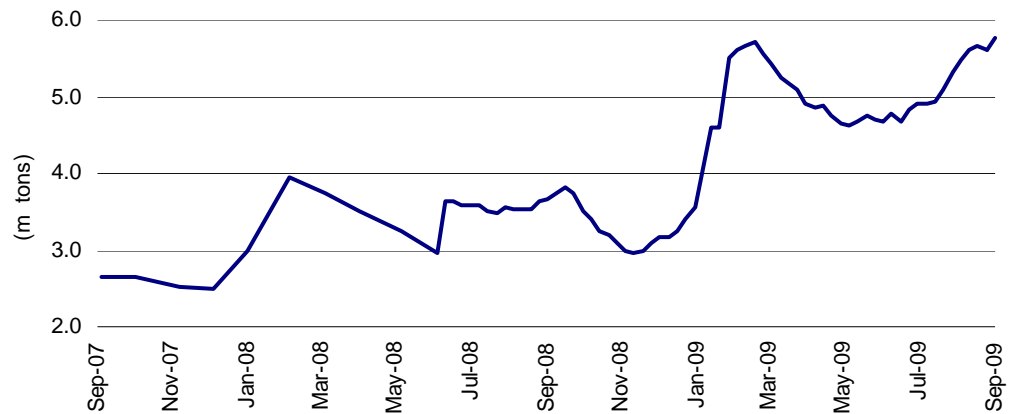
CHINA: MONTHLY CRUDE STEEL PRODUCTION



Source: WSA

The sharp recovery in Chinese production was driven by unprecedented credit growth in 1H09, which led demand growth and resulted in de-stocking of inventories in March-June 2008. But inventories are piling up again and prices have corrected 20-25% from their peak.

CHINA: INVENTORIES RISE DUE TO OVERSUPPLY

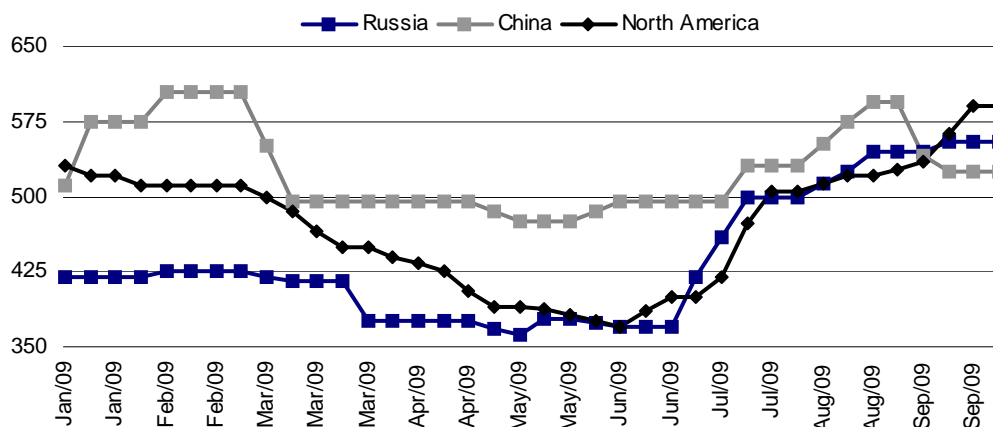


Source: Bloomberg

**Prices under pressure**

Re-stocking and a slight recovery in global demand, driven by economic stimuli by governments boosted steel prices from their bottom over May-June 2009. Steel prices recovered fast by nearly 50% from their bottom in America and the CIS. In countries such as India and China, whose economies have been less affected by the economic downturn, volatility has been much less. China's dependence on iron-ore imports and India's dependence on coking coal imports did not allow production costs to fall significantly thereby supporting steel prices in local markets and rendering them non-competitive in international markets.

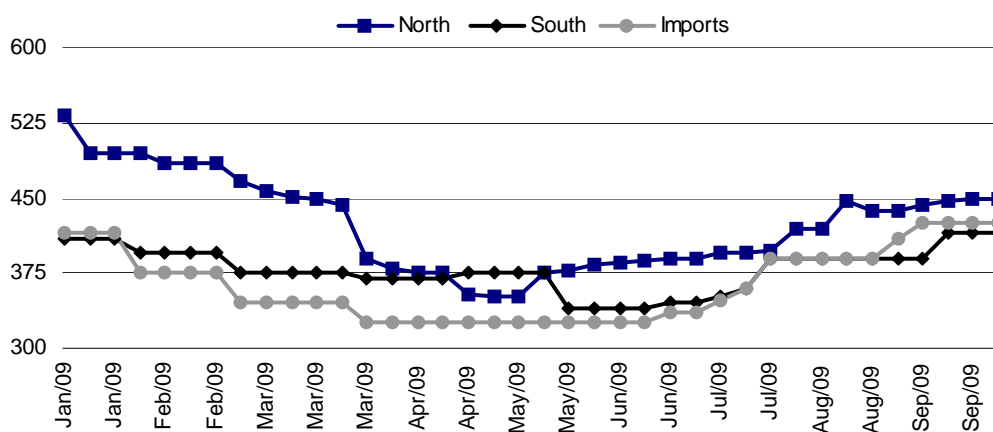
HOT ROLLED COIL EXPORT PRICES (USD/TON)



Source: SBB

Steel prices have recovered by 50% from their bottom on the international market and China and India have become competitive again. The Chinese, particularly, have begun to flood the European and other markets with lower offers. Consumers still prefer to buy local steel instead of imports, because suppliers offer them a few months' credit and shorter delivery periods. Nevertheless, this is putting pressure on prices in global. European mills have made several price hike announcements. We understand from media reports that only few of them have been successful because mills are ramping-up production to recover fixed costs. Several furnaces have restarted in Europe. Production rates recovered from a low of 55% in April to 68% in August 2009. We believe supply growth will cap the upside on steel prices.

HOT ROLLED COIL PRICES IN EUROPE (EURO/TON)



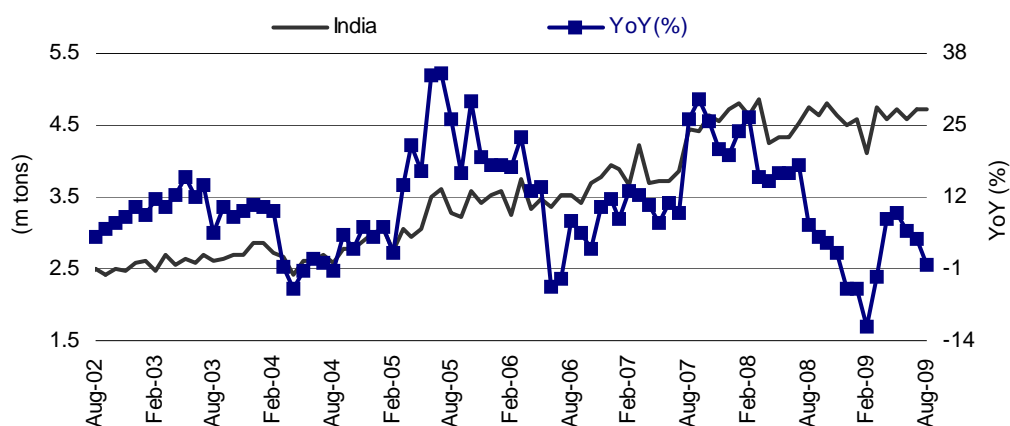
Source: SBB

The market for semi-finished steel and scrap has risen sharply. Steel scrap prices nearly doubled from their bottom. The steel slab market too moved nearly 50% from its bottom. Indian steel makers like JSW Steel, which has about 1mtpa of surplus slab capacity, stand to benefit.



During April-June 2009 India's steel consumption rose 5.2% YoY to 12.83m tons. In August 2009 steel consumption grew 4% YoY to 4.59m tons. Demand peaked in August 2008 and consumption growth this fiscal indicates things are looking up for the sector. Indian demand is expected to grow 6-8% YoY in FY10. Rising infrastructure investment, demand growth of the automobile sector, large investment in power generation and coal mining and rising industry capex will fuel subsequent demand growth. The bias is towards the upside and we expect Indian demand growth to reach double digits in FY11.

INDIA: MONTHLY CRUDE STEEL PRODUCTION



Source: WSA

QUARTERLY SALEABLE STEEL PRODUCTION AND SALES ('000 TONS)

Y/E MARCH	FY08				FY09				FY10			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE
<b>Tata Steel India</b>												
Production	1,065	1,280	1,246	1,268	1,187	1,330	1,235	1,624	1,542	1,542	1,750	1,882
Change (YoY %)	-3.9	1.7	-3.4	-0.3	11.5	3.9	-0.9	28.1	30.0	16.0	41.7	15.9
Sales	1,041	1,218	1,244	1,279	1,159	1,220	1,072	1,791	1,418	1,512	1,750	1,882
Change (YoY %)	-6.6	2.9	0.7	1.5	11.4	0.1	-13.8	40.0	22.3	23.9	63.3	5.1
<b>SAIL</b>												
Production	2,990	3,250	3,360	3,440	2,947	3,180	3,000	3,258	3,060	3,200	3,200	3,400
Change (YoY %)	-3.5	11.7	1.3	5.8	-1.4	-2.2	-10.7	-5.3	3.8	0.6	6.7	4.4
Sales	2,530	3,000	3,010	3,800	2,650	2,650	2,400	3,600	2,790	3,300	3,000	3,200
Change (YoY %)	2.4	1.8	-0.1	10.1	4.7	-11.7	-20.3	-5.3	5.3	24.5	25.0	-11.1
<b>JSW Steel</b>												
Production	802	876	956	993	976	1,001	782	966	1,376	1,400	1,500	1,600
Change (YoY %)	43.2	35.0	31.0	39.0	21.7	14.3	-18.2	-2.7	41.0	39.9	91.8	65.6
Sales	722	807	867	1,009	817	837	711	1,062	1,321	1,400	1,500	1,600
Change (YoY %)	33.0	23.0	26.0	28.8	13.2	3.7	-18.0	5.2	61.7	67.3	111.0	50.7
<b>3 key producers total</b>												
Production	4,857	5,406	5,562	5,701	5,110	5,511	5,017	5,848	5,978	6,142	6,450	6,882
Change (YoY %)	1.9	12.2	4.2	8.9	5.2	1.9	-9.8	2.6	17.0	11.5	28.6	17.7
Sales	4,293	5,025	5,121	6,089	4,626	4,707	4,183	6,453	5,529	6,212	6,250	6,682
Change (YoY %)	4.0	5.0	3.7	10.8	7.8	-6.3	-18.3	6.0	19.5	32.0	49.4	3.6

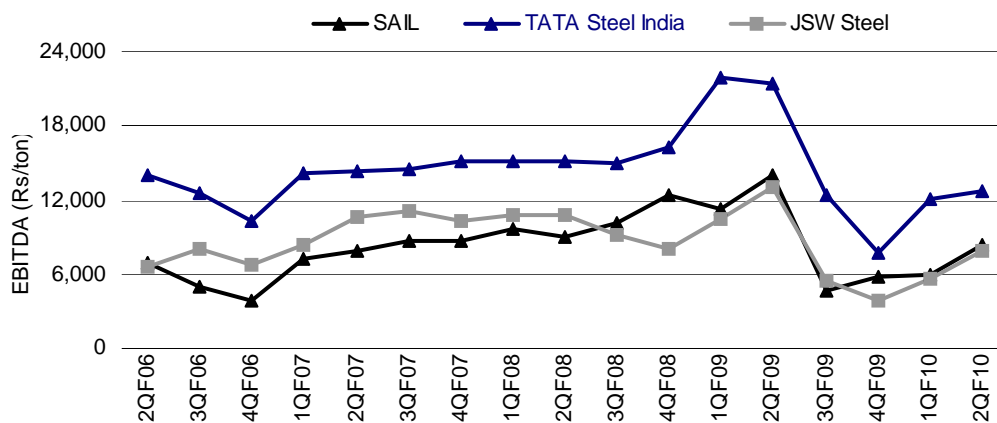
Source: Company/MOSL

### Margin improvement, volume growth to drive earnings

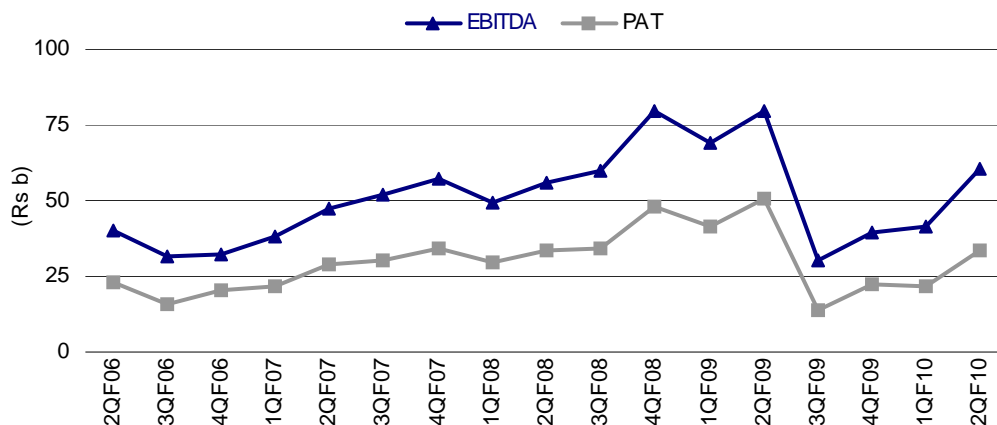
We believe the key steel makers will deliver 12% saleable production growth and sales growth will be 32% stronger in 2QFY10. Margins are expected to improve QoQ for them. SAIL will end the quarter with considerable de-stocking because its sales growth is likely

to be 25% and production stays flat. Margin improvement QoQ is likely to be higher for SAIL because of operating leverage and for JSW Steel because of better HRC and slab prices. Raw material cost cuts are likely to be marginal for the big steel producers.

EBITDA PER TON OF KEY PRODUCERS



PROFIT OF KEY PRODUCERS

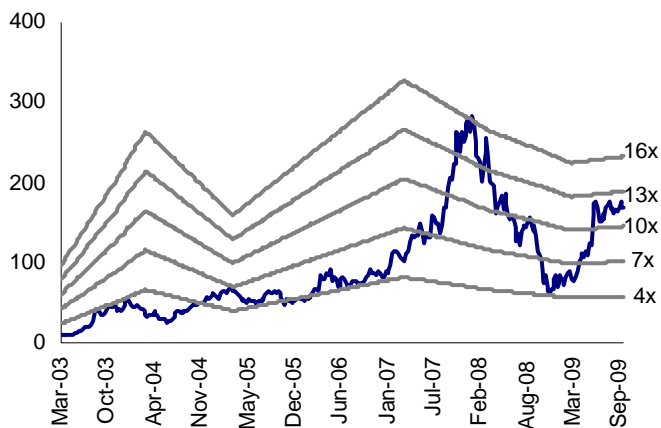


Source: MOSL

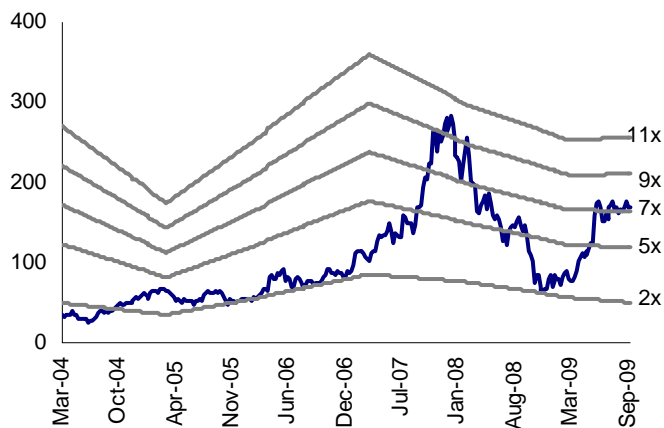
### Steel stocks significantly re-rated; Sesa our top pick

The valuations of Indian steel players have been significantly re-rated. Though there is over supply in the global market due to over-production in China, we expect Indian consumption growth to rise by double digits in the next couple of years driven by construction, automobile and capex in the metal, power and mining sectors. We believe Chinese over-production will drive demand for raw material and there will be pressure on steel prices. We prefer **Sesa Goa** to steel producers **JSW Steel**, **SAIL** and **Tata Steel** due to cheaper valuations and stronger demand outlook for iron ore.

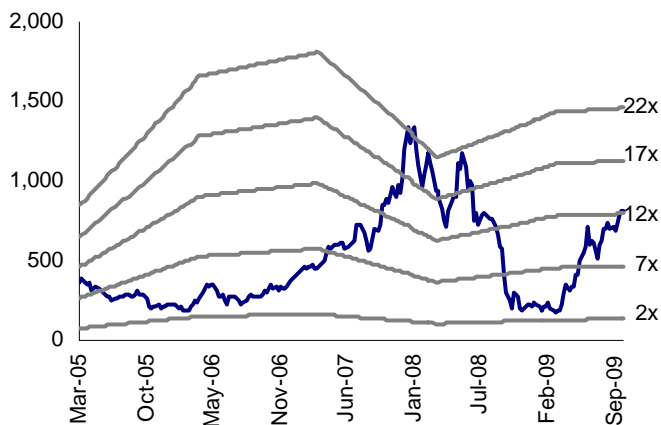
SAIL: P/E BANDS



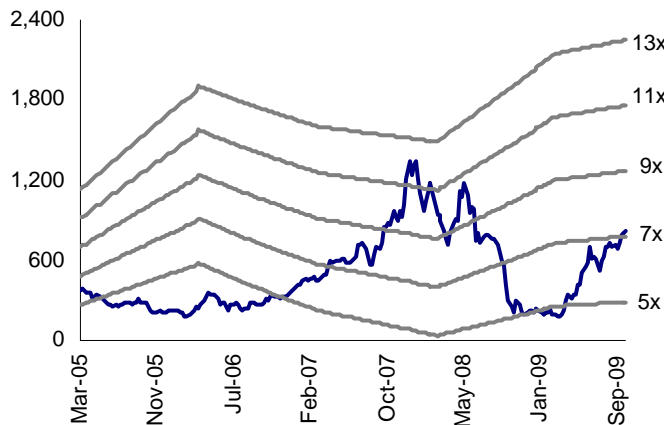
SAIL: EV/EBITDA BANDS



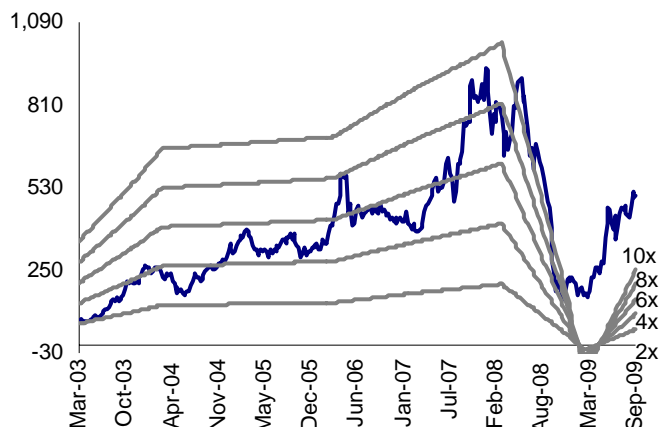
JSW STEEL: P/E BANDS



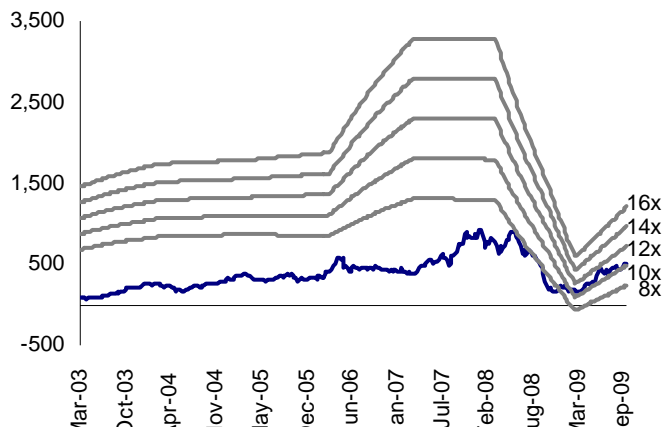
JSW STEEL: EV/EBITDA BANDS



TATA STEEL: P/E BANDS



TATA STEEL: EV/EBITDA BANDS



Source: MOSL



### Non-Ferrous: Metal prices to drive earnings growth

Metal prices have recovered strongly in 2QFY10 driven by apparent demand and high liquidity of from investment on LME contracts. Average zinc and aluminum prices have risen 18-20% QoQ on the LME in 2QFY10. Copper, lead and alumina prices have risen by 24-28% QoQ. Sterlite, Hindustan Zinc, Hindalco and Nalco are key beneficiaries from the rise in metal prices. Indian aluminum production has grown strongly, benefiting Vedanta Aluminium, Nalco and Hindalco.

#### QUARTERLY AVERAGE METAL PRICES ON LME (USD/TON)

QUARTER	ZINC			ALUMINIUM			COPPER			LEAD			ALUMINA		
	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %
2QFY10	1,776	18	-1	1,835	20	-35	5,850	24	-23	1,932	27	1	268	28	-34
1QFY10	1,509	25	-30	1,530	9	-49	4,708	35	-43	1,520	30	-35	209	10	-49
4QFY09	1,208	-1	-51	1,401	-26	-50	3,494	-11	-55	1,173	-7	-60	190	-32	-51
3QFY09	1,219	-32	-54	1,885	-34	-25	3,948	-48	-46	1,265	-34	-61	279	-32	-19
2QFY09	1,798	-16	-44	2,839	-5	9	7,571	-9	-1	1,915	-18	-38	408	-1	17
1QFY09	2,150	-13	-42	2,995	8	7	8,323	8	10	2,330	-20	7	411	5	14

Source: LME

### Earnings upgraded after metal-price assumptions change

We have raised our LME metal-price assumption for 2HFY10 and FY11. Aluminum, zinc and lead prices will have risen to US\$2,000/ton each from US\$1,500/ton earlier. Copper price assumption has also been increased to US\$6,000 from US\$5,000/ton. Consequently our estimates have changed with an earnings upgrade (40-164%) per the following table. Sterlite is our top pick due to its diversified business model and strong growth in the power, zinc and aluminum businesses.

#### EPS REVISION

	OLD EPS (RS)		REVISED EPS (RS)		CHANGE (%)	
	FY10	FY11	FY10	FY11	FY10	FY11
Sterlite Inds.	36.8	54.6	51.8	76.8	40.9	40.6
Hindustan Zinc	63.0	68.1	85.6	108.9	35.9	59.9
Hindalco	3.7	5.1	8.6	13.5	131.9	164.0
Nalco	13.4	14.3	22.2	26.3	65.9	83.6

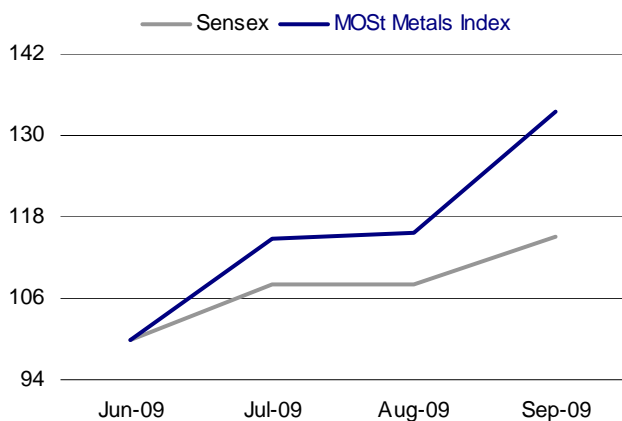
Source: MOSL

## Stock performance and valuations

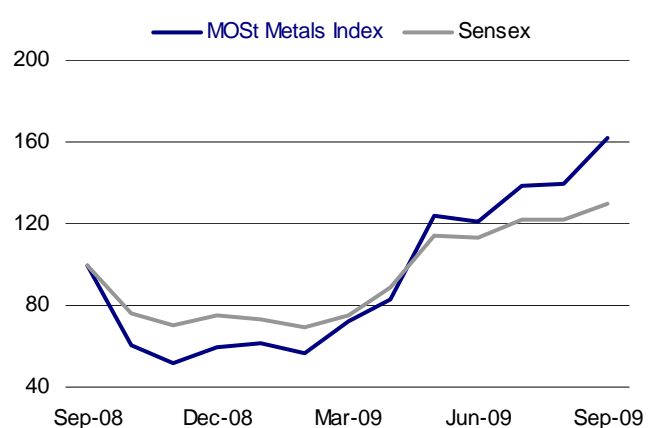
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Metals</b>						
Hindalco	50	21	33	-2	12	-24
Hindustan Zinc	40	70	23	47	2	25
Jindal Steel & Power	55	154	39	130	17	109
JSW Steel	36	40	20	17	-1	-5
Nalco	14	-13	-3	-36	-24	-58
SAIL	14	19	-2	-4	-23	-26
Sterlite Inds.	30	57	14	34	-8	12
Tata Steel	25	3	9	-20	-12	-42

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS) 25.9.09	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
<b>Metals</b>														
Hindalco	127	Sell	16.8	8.6	13.5	7.6	14.8	9.4	8.2	7.4	6.4	27.5	12.4	16.5
Hindustan Zinc	820	Buy	64.6	85.6	108.9	12.7	9.6	7.5	9.2	6.1	4.1	19.0	20.3	20.7
Jindal Steel & Power	597	Buy	33.1	41.8	46.8	18.0	14.3	12.8	11.7	10.5	9.7	45.1	36.7	29.3
JSW Steel	810	Buy	52.0	65.1	67.1	15.6	12.4	12.1	9.3	7.3	7.4	12.0	14.8	13.4
Nalco	346	Sell	19.7	22.2	26.3	17.5	15.6	13.2	11.4	9.5	7.8	13.0	13.3	14.0
SAIL	169	Sell	16.6	14.0	14.9	10.2	12.1	11.4	5.8	7.2	7.2	24.0	17.3	16.0
Sterlite Inds.	750	Buy	46.8	51.8	76.8	16.0	14.5	9.8	11.5	8.0	4.8	13.0	11.7	14.9
Tata Steel	499	Neutral	101.9	-9.8	49.3	4.9	-51.0	10.1	5.2	14.9	8.4	76.7	-13.3	58.8
<b>Sector Aggregate</b>						<b>10.8</b>	<b>15.6</b>	<b>10.5</b>	<b>7.6</b>	<b>9.1</b>	<b>7.0</b>	<b>22.0</b>	<b>12.9</b>	<b>16.6</b>

## Hindalco

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	HNDL IN
	REUTERS CODE
S&P CNX: 4,959	HALC.BO

25 September 2009

Sell

Rs127

Previous Recommendation: Sell

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	1,752.1										
52-Week Range (Rs)	140/37										
1,6,12 Rel. Perf. (%)	11/81/-2										
M.Cap. (Rs b)	222.5										
M.Cap. (US\$ b)	4.6										
	3/08A	600,128	18,709	15.3	-37.4	8.3	2.9	34.6	7.4	0.6	5.5
	3/09A	656,252	29,370	16.8	9.9	7.6	2.1	27.5	5.2	0.7	8.2
	3/10E	558,190	15,032	8.6	-48.8	14.8	1.8	12.4	6.6	0.8	7.4
	3/11E	569,821	23,590	13.5	56.9	9.4	1.6	16.5	8.5	0.8	6.4

Consolidated

- **Net sales to decline 10%:** Net sales are expected to decline 10% YoY to Rs51.2b due to lower metal and by-product prices. Production of copper and aluminum is expected to increase by 8-9% YoY.
- **EBITDA to decline 22%:** EBITDA is expected to decline 22% due to lower metal & by-product prices and lower TcRc margins in copper smelting.
- **Other income to decline due to funding of Novelis acquisition:** Hindalco has used the proceeds of the rights issue and its liquidated mutual fund investments to fund a bridge loan for the acquisition of Novelis. Consequently, interest income will decline.
- **Bottom line to decline 30%:** Profit after tax will decline 30% to Rs5b due to lower EBITDA and interest income.
- **Metal prices assumption increased:** Prices have been increased to US\$2,000/ton (earlier US\$1,500/ton) for aluminum and US\$6,000/ton (earlier US\$5,000/ton) for copper for 2HFY10 and FY11 respectively. Consequently FY10E & FY11E EPS are revised upwards.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>46,475</b>	<b>56,832</b>	<b>41,172</b>	<b>37,718</b>	<b>38,905</b>	<b>51,227</b>	<b>51,961</b>	<b>55,937</b>	<b>182,197</b>	<b>198,030</b>
Change (YoY %)	-0.6	14.6	-9.1	-24.7	-16.3	-9.9	26.2	48.3	-5.0	8.7
Total Expenditure	36,985	46,898	33,380	34,575	32,757	43,520	42,696	46,491	151,838	165,464
<b>EBITDA</b>	<b>9,490</b>	<b>9,934</b>	<b>7,792</b>	<b>3,142</b>	<b>6,148</b>	<b>7,707</b>	<b>9,266</b>	<b>9,446</b>	<b>30,359</b>	<b>32,566</b>
Change (YoY %)	7.3	7.8	-2.7	-60.6	-35.2	-22.4	18.9	200.6	-10.8	7.3
As % of Net Sales	20.4	17.5	18.9	8.3	15.8	15.0	17.8	16.9	16.7	16.4
Interest	761	855	932	821	682	696	710	724	3,369	2,812
Depreciation	1,568	1,592	1,611	1,682	1,653	1,576	1,627	1,665	6,453	6,521
Other Income	2,147	1,768	1,505	947	753	687	618	618	6,367	2,675
<b>PBT (before EO Item)</b>	<b>9,308</b>	<b>9,255</b>	<b>6,754</b>	<b>1,587</b>	<b>4,566</b>	<b>6,122</b>	<b>7,547</b>	<b>7,674</b>	<b>26,903</b>	<b>25,908</b>
Extra-ordinary Income	-	-	-	-	1,430	-	-	-	-	1,430
<b>PBT (after EO Item)</b>	<b>9,308</b>	<b>9,255</b>	<b>6,754</b>	<b>1,587</b>	<b>5,996</b>	<b>6,122</b>	<b>7,547</b>	<b>7,674</b>	<b>26,903</b>	<b>27,338</b>
Total Tax	2,340	2,056	1,306	-1,101	1,190	1,041	1,283	1,305	4,601	4,818
% Tax	25.1	22.2	19.3	-69.4	26.1	17.0	17.0	17.0	17.1	17.6
<b>Reported PAT</b>	<b>6,968</b>	<b>7,200</b>	<b>5,448</b>	<b>2,688</b>	<b>4,806</b>	<b>5,081</b>	<b>6,264</b>	<b>6,370</b>	<b>22,303</b>	<b>22,520</b>
<b>Adjusted PAT</b>	<b>6,968</b>	<b>7,200</b>	<b>5,448</b>	<b>2,688</b>	<b>3,376</b>	<b>5,081</b>	<b>6,264</b>	<b>6,370</b>	<b>22,303</b>	<b>21,342</b>
Change (YoY %)	15.6	12.0	0.4	-49.9	-51.6	-29.4	15.0	137.0	-8.3	-4.3

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)

25 September 2009

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## Hindustan Zinc

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	HZ IN
	REUTERS CODE
S&P CNX: 4,959	HZNC.BO

25 September 2009

Buy

Rs820

Previous Recommendation: Buy

Equity Shares (m)	422.5
52-Week Range (Rs)	858/215
1,6,12 Rel. Perf. (%)	4/26/47
M.Cap. (Rs b)	346.5
M.Cap. (US\$ b)	7.2

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	78,778	43,961	104.0	-1.0	7.9	2.9	37.1	41.9	3.4	5.0
3/09A	56,803	27,276	64.6	-38.0	12.7	2.4	19.0	16.4	4.4	9.1
3/10E	69,305	36,170	85.6	32.6	9.6	1.9	20.3	18.7	3.3	6.1
3/11E	83,810	46,010	108.9	27.2	7.5	1.6	20.7	18.7	2.3	4.1

Consolidated

- **Top line expected to fall 10% YoY:** Net sales are expected to decline 10% YoY to Rs16.1b. Refined zinc production is expected to be ~20% higher. However, revenue from by-products will suffer leading to top line decline. Average zinc prices are 3-4% lower YoY on the LME. However Indian prices will still be higher due to depreciation of the rupee against the US dollar.
- **EBITDA to contract 15%:** Absence of concentrate sales and decline of by-product prices will drag down margins 320bps YoY though higher metal prices will expand margins 80bps sequentially.
- **Other income to cushion PAT fall of 15%:** Other income is expected to increase due to higher accumulation of cash and equivalents, which will cushion the decline of the bottom line.
- **Metal prices assumptions up:** Zinc and lead prices have been increased to US\$2,000/ton (earlier US\$1,500/ton) for 2HFY10 and FY11. As a result, FY10E & FY11E EPS are revised upwards.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>16,437</b>	<b>17,905</b>	<b>10,692</b>	<b>12,627</b>	<b>15,122</b>	<b>16,116</b>	<b>19,033</b>	<b>19,034</b>	<b>56,803</b>	<b>69,305</b>
Change (YoY %)	-16.6	-9.8	-35.5	-44.3	-8.0	-10.0	78.0	50.7	-27.9	22.0
Total Expenditure	6,660	8,084	7,641	7,076	7,443	7,807	8,292	8,292	29,461	31,834
<b>EBITDA</b>	<b>9,777</b>	<b>9,821</b>	<b>3,051</b>	<b>5,551</b>	<b>7,679</b>	<b>8,310</b>	<b>10,741</b>	<b>10,741</b>	<b>27,342</b>	<b>37,470</b>
Change (YoY %)	-31.9	-30.8	-70.8	-62.5	-21.5	-15.4	252.1	93.5	-49.2	37.0
As % of Net Sales	59.5	54.8	28.5	44.0	50.8	51.6	56.4	56.4	48.1	54.1
Interest	69	71	44	49	32	45	53	49	219	179
Depreciation	686	704	712	750	748	778	718	748	2,853	2,992
Other Income	2,094	1,807	2,363	2,205	1,946	2,550	2,775	3,054	9,312	10,325
<b>PBT (before EO Item)</b>	<b>11,116</b>	<b>10,853</b>	<b>4,658</b>	<b>6,956</b>	<b>8,845</b>	<b>10,037</b>	<b>12,745</b>	<b>12,999</b>	<b>33,582</b>	<b>44,625</b>
<b>PBT (after EO Item)</b>	<b>11,116</b>	<b>10,853</b>	<b>4,658</b>	<b>6,956</b>	<b>8,845</b>	<b>10,037</b>	<b>12,745</b>	<b>12,999</b>	<b>33,582</b>	<b>44,625</b>
Total Tax	2,638	1,257	969	1,442	1,657	1,907	2,421	2,470	6,306	8,455
% Tax	23.7	11.6	20.8	20.7	18.7	19.0	19.0	19.0	18.8	18.9
<b>Reported PAT</b>	<b>8,478</b>	<b>9,595</b>	<b>3,688</b>	<b>5,515</b>	<b>7,188</b>	<b>8,130</b>	<b>10,323</b>	<b>10,529</b>	<b>27,276</b>	<b>36,170</b>
<b>Adjusted PAT</b>	<b>8,478</b>	<b>9,595</b>	<b>3,688</b>	<b>5,515</b>	<b>7,188</b>	<b>8,130</b>	<b>10,323</b>	<b>10,529</b>	<b>27,276</b>	<b>36,170</b>
Change (YoY %)	-28.5	-16.4	-53.0	-56.8	-15.2	-15.3	179.9	90.9	-38.0	32.6

E: MOSL Estimates

## Jindal Steel &amp; Power

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	JSP IN
	REUTERS CODE
S&P CNX: 4,959	JNSP.BO

25 September 2009

Buy

Previous Recommendation: Buy

Rs597

Equity Shares (m)	924.0
52-Week Range (Rs)	667/86
1,6,12 Rel. Perf. (%)	3/123/130
M.Cap. (Rs b)	551.6
M.Cap. (US\$ b)	11.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	54,890	13,634	14.8	97.0	40.5	14.3	35.4	16.6	11.2	26.0
3/09A	108,443	30,572	33.1	124.2	18.0	8.1	45.1	27.9	5.6	11.7
3/10E	115,990	38,661	41.8	26.5	14.3	5.2	36.7	22.8	5.6	10.5
3/11E	132,237	43,254	46.8	11.9	12.8	3.7	29.3	17.9	5.2	9.7

Consolidated

- **Net sales, PAT seen lower:** Net sales are expected to fall 21% YoY to Rs17.4b but we expect slight sequential growth due to better steel prices. EBITDA is expected to slip 27% YoY to Rs6.2b though there will be QoQ growth. Therefore PAT is expected to be 34% lower at Rs3.5b.
- **Jindal Power profit seen lower QoQ:** Power generation in July and August was lower at 1,098mkwh due to planned maintenance shut downs. Power rates too softened for some time during the quarter. Therefore we expect Jindal Power's profit to decline QoQ.
- **Earnings upgrades:** Consolidated earnings are expected to remain flat YoY at Rs8.4b. We have revised our estimates upward after factoring in higher power rates of Rs5/kwh (earlier Rs4) for 2HFY10 and FY11. As a result EPS estimates have been revised upwards.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY09				FY10E				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>18,953</b>	<b>22,161</b>	<b>17,811</b>	<b>17,607</b>	<b>15,761</b>	<b>17,438</b>	<b>20,081</b>	<b>21,988</b>	<b>76,532</b>	<b>75,268</b>
Change (YoY %)	55.0	74.6	27.6	15.6	-16.8	-21.3	12.7	24.9	41.4	-1.7
Total Expenditure	11,128	13,610	10,965	13,300	10,174	11,207	12,950	13,684	49,503	48,015
<b>EBITDA</b>	<b>7,825</b>	<b>8,551</b>	<b>6,846</b>	<b>4,307</b>	<b>5,587</b>	<b>6,231</b>	<b>7,131</b>	<b>8,304</b>	<b>27,029</b>	<b>27,254</b>
Change (YoY %)	63.3	58.2	28.6	-36.6	-28.6	-27.1	4.2	92.8	18.7	0.8
As % of Net Sales	41.3	38.6	38.4	24.5	35.4	35.7	35.5	37.8	35.3	36.2
Interest	475	563	743	759	328	571	449	510	2,040	1,858
Depreciation	1,057	1,077	1,109	1,087	1,229	1,239	1,102	1,102	4,330	4,671
Other Income	74	150	104	1,135	165	177	145	164	1,462	651
<b>PBT (before EO Item)</b>	<b>6,368</b>	<b>7,061</b>	<b>5,097</b>	<b>3,596</b>	<b>4,196</b>	<b>4,598</b>	<b>5,725</b>	<b>6,857</b>	<b>22,121</b>	<b>21,376</b>
Extra-ordinary Income	-770	-1,106	-726	500	0	0	0	0	-2,102	0
<b>PBT (after EO Item)</b>	<b>5,598</b>	<b>5,955</b>	<b>4,371</b>	<b>4,096</b>	<b>4,196</b>	<b>4,598</b>	<b>5,725</b>	<b>6,857</b>	<b>20,019</b>	<b>21,376</b>
Total Tax	1,575	1,455	1,120	505	1,195	1,058	1,317	1,577	4,654	5,147
% Tax	28.1	24.4	25.6	12.3	28.5	23.0	23.0	23.0	23.2	24.1
<b>Reported PAT</b>	<b>4,023</b>	<b>4,500</b>	<b>3,252</b>	<b>3,591</b>	<b>3,001</b>	<b>3,541</b>	<b>4,408</b>	<b>5,280</b>	<b>15,365</b>	<b>16,229</b>
<b>Adjusted PAT</b>	<b>4,576</b>	<b>5,336</b>	<b>3,792</b>	<b>3,153</b>	<b>3,001</b>	<b>3,541</b>	<b>4,408</b>	<b>5,280</b>	<b>16,978</b>	<b>16,229</b>
Change (YoY %)	97.5	92.3	18.8	-34.2	-34.4	-33.6	16.3	67.5	23.7	-4.4
<b>Consolidated PAT</b>	<b>4,989</b>	<b>8,483</b>	<b>9,538</b>	<b>8,798</b>	<b>9,885</b>	<b>8,381</b>	<b>9,571</b>	<b>10,508</b>	<b>30,572</b>	<b>38,661</b>
Change (YoY %)	115.3	205.7	198.9	83.6	98.1	-1.2	0.4	19.4	144.3	26.5

E: MOST Estimates

## JSW Steel

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	JSTL IN
	REUTERS CODE
S&P CNX: 4,959	JSTL.BO

25 September 2009

Buy

Rs810

Previous Recommendation: Buy

Equity Shares (m)	187.1
52-Week Range (Rs)	852/161
1,6,12 Rel. Perf. (%)	7/244/17
M.Cap. (Rs b)	151.6
M.Cap. (US\$ b)	3.2

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	123,455	15,367	82.2	9.2	9.9	2.0	20.2	11.5	2.2	8.4
3/09A	164,558	9,729	52.0	-36.7	15.6	1.9	12.0	8.9	1.9	9.3
3/10E	167,901	12,169	65.1	25.1	12.5	1.8	14.8	10.8	1.9	7.3
3/11E	191,526	12,559	67.1	3.2	12.1	1.6	13.4	10.0	1.9	7.4

Consolidated

- **Volume growth of 65-70%:** Net sales are expected to slip 8.5% YoY to Rs39b due to a 45% cut in realization because of lower steel prices and a higher share of semis in the product mix. Sales volumes are expected to grow 67% YoY to 1.4m tons.
- **EBITDA driven by volume:** Margins are expected to expand sequentially due to further reduction in coking coal costs and improvement in flat-product prices. Strong volume growth will drive EBITDA growth YoY despite lower specific margins.
- **US operations:** We expect the operating performance of the US plate and pipe mill to rise because losses pertaining to inventory are now behind the company. However, the losses are likely to be a drag on the company's bottom line.
- **Product mix improvement, cost cuts ahead:** A new hot strip mill, expected to be complete by March 2010, will improve the product mix. The market for HRC is far more developed than slabs, affording better margins. An ore beneficiation plant will reduce overall iron ore costs because low grade ore is available at lower prices in the Bellary-Hospet region, close to the plant's location.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales ('000 tons)	817	837	711	1,062	1,321	1,400	1,500	1,600	3,427	5,821
Change (YoY %)	13.2	3.7	-18.0	5.2	61.7	67.3	111.0	50.7	0.6	69.9
Realization (Rs per ton)	44,938	51,006	39,178	31,345	29,650	27,911	27,883	28,266	41,012	28,396
Change (YoY %)	36.0	52.8	21.2	-11.3	-34.0	-45.3	-28.8	-9.8	22.0	-30.8
<b>Net Sales</b>	<b>36,714</b>	<b>42,692</b>	<b>27,855</b>	<b>33,288</b>	<b>39,168</b>	<b>39,075</b>	<b>41,825</b>	<b>45,225</b>	<b>140,549</b>	<b>165,293</b>
Change (YoY %)	53.9	58.5	-0.6	-6.7	6.7	-8.5	50.2	35.9	22.7	17.6
<b>EBITDA</b>	<b>8,593</b>	<b>10,904</b>	<b>3,915</b>	<b>4,061</b>	<b>7,467</b>	<b>11,156</b>	<b>11,774</b>	<b>13,416</b>	<b>27,472</b>	<b>43,813</b>
Change (YoY %)	11.0	25.8	-50.8	-49.9	-13.1	2.3	200.8	230.4	-15.4	59.5
As % of Net Sales	23.4	25.5	14.1	12.2	19.1	28.6	28.2	29.7	19.5	26.5
EBITDA (Rs per ton)	10,518	13,027	5,506	3,824	5,652	7,969	7,850	8,385	8,016	7,527
Interest	1,531	1,960	2,333	2,149	2,206	2,317	2,548	2,803	7,973	9,875
Depreciation	1,852	1,975	2,141	2,309	2,718	2,854	2,997	3,146	8,277	11,715
Other Income	273	426	420	973	54	325	375	275	2,092	1,029
<b>PBT (before EO Item)</b>	<b>5,483</b>	<b>7,394</b>	<b>-139</b>	<b>577</b>	<b>2,597</b>	<b>6,311</b>	<b>6,604</b>	<b>7,741</b>	<b>13,315</b>	<b>23,253</b>
<b>PBT (after EO Item)</b>	<b>3,217</b>	<b>4,711</b>	<b>-1,907</b>	<b>755</b>	<b>4,957</b>	<b>6,311</b>	<b>6,604</b>	<b>7,741</b>	<b>6,775</b>	<b>25,613</b>
Total Tax	1,024	1,536	-632	263	1,556	2,019	2,113	2,477	2,191	8,166
% Tax	31.8	32.6	33.1	34.9	31.0	32.0	32.0	32.0	32.3	31.9
<b>Reported PAT</b>	<b>2,193</b>	<b>3,175</b>	<b>-1,275</b>	<b>492</b>	<b>3,400</b>	<b>4,291</b>	<b>4,491</b>	<b>5,264</b>	<b>4,584</b>	<b>17,446</b>
Preference Dividend	72	72	72	72	72	72	72	72	289	289
<b>Adjusted PAT</b>	<b>3,665</b>	<b>4,911</b>	<b>-165</b>	<b>304</b>	<b>1,696</b>	<b>4,226</b>	<b>4,426</b>	<b>5,201</b>	<b>8,720</b>	<b>15,550</b>
Change (YoY %)	-4.0	3.6	-104.9	-92.6	-53.7	-13.9	N.A	1,613.0	-45.6	78.3

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)

25 September 2009

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## Nalco

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	NACL IN
	REUTERS CODE
S&P CNX: 4,959	NALU.BO

25 September 2009

Sell

Rs346

Previous Recommendation: Sell

Equity Shares (m)	644.3
52-Week Range (Rs)	425/108
1,6,12 Rel. Perf. (%)	-3/-23/-36
M.Cap. (Rs b)	222.9
M.Cap. (US\$ b)	4.6

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	49,888	16,483	25.6	-31.1	13.5	2.5	18.6	20.4	3.8	8.5
3/09A	51,655	12,723	19.7	-22.8	17.5	2.3	13.0	14.1	3.8	11.4
3/10E	53,345	14,323	22.2	12.6	15.6	2.1	13.3	14.3	3.6	9.5
3/11E	59,292	16,916	26.3	18.1	13.2	1.8	14.0	15.4	3.1	7.8

Standalone

- **Volume growth of 14%:** Net sales are expected to fall 14% YoY to Rs13.2b due to lower metal prices. Metal production is expected to increase 14% YoY to 104,000 tons.
- **EBITDA to decline 31%:** EBITDA is expected to decline 31% YoY to Rs5b due to lower aluminum prices and an even sharper decline of alumina prices.
- **Interest income to grow:** Increase in cash surpluses will drive interest income. Hence the bottom line will contract only 16% to Rs3.7b.
- **Growth plans aplenty, but visibility poor:** Nalco is working on several greenfield projects in India and abroad. Recently, Nalco was awarded a bauxite mine in Andhra Pradesh for a greenfield smelter project. Nalco announced its foray into nuclear power through a joint-venture partner.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>14,675</b>	<b>15,364</b>	<b>10,360</b>	<b>11,257</b>	<b>9,353</b>	<b>13,275</b>	<b>14,785</b>	<b>15,932</b>	<b>51,655</b>	<b>53,345</b>
Change (YoY %)	25.9	17.4	-6.6	-19.9	-36.3	-13.6	42.7	41.5	3.6	3.3
Total Expenditure	7,307	8,957	7,704	10,301	7,679	8,188	8,288	8,837	34,268	32,992
<b>EBITDA</b>	<b>7,368</b>	<b>6,408</b>	<b>2,655</b>	<b>956</b>	<b>1,674</b>	<b>5,087</b>	<b>6,497</b>	<b>7,095</b>	<b>17,387</b>	<b>20,353</b>
Change (YoY %)	19.5	12.7	-39.7	-84.1	-77.3	-31.0	1.4	167.2	-22.0	17.1
As % of Net Sales	50.2	41.7	25.6	8.5	17.9	38.3	43.9	44.5	33.7	38.2
Interest	4	1	6	29	11	0	0	0	40	11
Depreciation	679	696	642	713	756	1,023	1,105	1,208	2,730	4,093
Other Income	1,262	1,181	1,133	1,078	1,012	1,603	1,336	1,393	4,654	5,345
<b>PBT (before EO Item)</b>	<b>7,948</b>	<b>6,892</b>	<b>3,140</b>	<b>1,292</b>	<b>1,918</b>	<b>5,667</b>	<b>6,728</b>	<b>7,280</b>	<b>19,272</b>	<b>21,593</b>
<b>PBT (after EO Item)</b>	<b>7,948</b>	<b>6,892</b>	<b>3,140</b>	<b>1,292</b>	<b>1,918</b>	<b>5,667</b>	<b>6,728</b>	<b>7,280</b>	<b>19,272</b>	<b>21,593</b>
Total Tax	2,694	2,447	946	462	654	1,927	2,288	2,402	6,549	7,271
% Tax	33.9	35.5	30.1	35.7	34.1	34.0	34.0	33.0	34.0	33.7
<b>Reported PAT</b>	<b>5,253</b>	<b>4,445</b>	<b>2,195</b>	<b>830</b>	<b>1,265</b>	<b>3,740</b>	<b>4,440</b>	<b>4,878</b>	<b>12,723</b>	<b>14,323</b>
<b>Adjusted PAT</b>	<b>5,253</b>	<b>4,445</b>	<b>2,195</b>	<b>830</b>	<b>1,265</b>	<b>3,740</b>	<b>4,440</b>	<b>4,878</b>	<b>12,723</b>	<b>14,323</b>
Change (YoY %)	17.6	1.1	-33.4	-80.8	-75.9	-15.9	102.3	487.5	-23.0	12.6

E: MOSL Estimates



## Sterlite Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	STLT IN
	REUTERS CODE
S&P CNX: 4,959	STRL.BO

25 September 2009

Buy

Rs750

Previous Recommendation: Buy

Equity Shares (m)	840.2
52-Week Range (Rs)	790/165
1,6,12 Rel. Perf. (%)	8/43/34
M.Cap. (Rs b)	630.1
M.Cap. (US\$ b)	13.1

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	247,243	43,581	61.5	-23.4	12.2	2.4	19.5	21.2	1.8	8.5
3/09A	215,233	33,141	46.8	-24.0	16.0	2.1	13.0	10.1	2.3	13.7
3/10E	220,172	43,557	51.8	10.8	14.5	1.7	11.7	9.3	2.4	11.8
3/11E	280,528	64,083	76.8	48.1	9.8	1.5	14.9	12.3	1.8	6.6

Consolidated

- **Lower metal prices to drag top line:** Net sales are expected to fall 18% YoY to Rs55.8b due to lower metal and by-product prices. Aluminum production too will be lower due to the shut-down of an older smelter at Balco. Production of refined zinc is expected to increase due to ramp-up of capacity.
- **EBITDA to decline 21% YoY:** EBITDA is expected to decline 21% YoY due to lower by-product prices and the absence of zinc and lead concentrate sales. Lower aluminum production due to shutting of Balco's old smelter will be offset by earnings from the sale of power.
- **Interest income to rise:** Interest income will rise due to the rise of cash surpluses at Hindustan Zinc and raising of US\$1.5b through the issue of fresh equity..
- **Bottom line to decline only 17%:** Profit after tax is expected to decline 17% because higher other income will cushion the decline of EBITDA.
- **Outlook remains positive:** We expect earnings to grow significantly in 2HFY10 due to stronger metal prices and start of Sterlite Energy's first 600MW unit in October-December 2009.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>57,701</b>	<b>68,110</b>	<b>45,362</b>	<b>44,060</b>	<b>45,789</b>	<b>55,808</b>	<b>59,251</b>	<b>59,325</b>	<b>215,233</b>	<b>220,172</b>
Change (YoY %)	-6.0	3.0	-14.2	-35.5	-20.6	-18.1	30.6	34.6	-13.5	2.3
Total Expenditure	39,435	49,588	39,709	35,669	35,580	41,213	41,748	40,105	164,401	158,646
<b>EBITDA</b>	<b>18,266</b>	<b>18,522</b>	<b>5,653</b>	<b>8,392</b>	<b>10,209</b>	<b>14,595</b>	<b>17,502</b>	<b>19,220</b>	<b>50,832</b>	<b>61,527</b>
Change (YoY %)	-15.3	-7.9	-65.2	-62.6	-44.1	-21.2	209.6	129.0	-36.7	21.0
As % of Net Sales	31.7	27.2	12.5	19.0	22.3	26.2	29.5	32.4	23.6	27.9
Interest	874	581	1,220	1,312	712	1,200	1,250	1,588	3,986	4,751
Depreciation	1,655	1,667	1,654	2,032	1,736	1,950	2,000	2,580	7,007	8,266
Other Income	4,024	3,948	5,852	3,940	3,783	4,801	5,456	6,547	17,764	20,586
<b>PBT (before XO Item)</b>	<b>19,761</b>	<b>20,224</b>	<b>8,632</b>	<b>8,988</b>	<b>11,544</b>	<b>16,246</b>	<b>19,708</b>	<b>21,599</b>	<b>57,604</b>	<b>69,096</b>
Extra-ordinary Exp.	0	-100	283	2,076	0	0	0	0	2,258	0
<b>PBT (after XO Item)</b>	<b>19,761</b>	<b>20,124</b>	<b>8,914</b>	<b>11,063</b>	<b>11,544</b>	<b>16,246</b>	<b>19,708</b>	<b>21,599</b>	<b>59,862</b>	<b>69,096</b>
Total Tax	3,808	2,916	1,591	1,941	2,305	3,087	3,745	5,688	10,255	14,824
% Tax	19.3	14.5	17.8	17.5	20.0	19.0	19.0	26.3	17.1	21.5
<b>Reported PAT</b>	<b>15,953</b>	<b>17,208</b>	<b>7,323</b>	<b>9,122</b>	<b>9,239</b>	<b>13,159</b>	<b>15,963</b>	<b>15,911</b>	<b>49,607</b>	<b>54,273</b>
Minority interest	4,470	4,425	1,720	2,057	3,219	2,886	3,665	3,738	12,671	13,508
Loss/(profit) of Associates	-27	14	466	1,082	-707	-449	-382	-333	1,536	-1,871
<b>Adjusted PAT</b>	<b>11,510</b>	<b>12,869</b>	<b>4,855</b>	<b>3,907</b>	<b>6,727</b>	<b>10,722</b>	<b>12,681</b>	<b>12,506</b>	<b>33,141</b>	<b>42,636</b>
Change (YoY %)	0.7	18.9	-43.2	-71.5	-41.6	-16.7	161.2	220.1	-24.0	28.6

E: MOSL Estimates

## Steel Authority of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	SAIL IN
	REUTERS CODE
S&P CNX: 4,959	SAIL.BO

25 September 2009

Sell

Rs169

Previous Recommendation: Sell

Equity Shares (m)	4,130.4
52-Week Range (Rs)	186/55
1,6,12 Rel. Perf. (%)	-2/7/-4
M.Cap. (Rs b)	698.0
M.Cap. (US\$ b)	14.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	400,581	84,603	20.5	34.8	8.3	3.0	36.4	45.8	1.5	4.8
3/09A	446,369	68,420	16.6	-19.1	10.2	2.5	24.0	31.3	1.3	5.8
3/10E	407,087	57,987	14.0	-15.2	12.1	2.1	17.3	23.3	1.6	7.2
3/11E	416,325	61,366	14.9	5.8	11.4	1.8	16.0	22.3	1.7	7.2

Consolidated

- **Strong sales tonnage in 2Q:** Net sales are expected to fall 12% YoY to Rs108b due to lower prices. Sales volumes are expected to increase 25% YoY to 3.3m tons. The growth figure is exaggerated in the face of sales contraction a year earlier, which will not sustain for the full year. Consequently, inventories will decline.
- **Margins to improve in 2Q due to operating leverage:** Strong sales during the quarter will drive margins improvement in the quarter. The benefit of lower coking coal will be slight because SAIL has already changed its annual contract cycle from July-June to April-March and carry over tonnage is spread over two to three years.
- **Employee cost, still uncertain:** We have factored in staff costs of Rs18.9b in 2Q against Rs10.7b in 1Q. Since the wage hike is still pending, there could be some volatility if the assumptions are changed again.
- **Valuations are demanding:** Production is likely to suffer due to a shut down of furnaces at Bokaro Steel Plant for capital repairs. Other plants are likely to cover for the losses, which will return whole year sales to FY08 level implying growth of 9% in FY10. High cost carry-over tonnage of coking coal (end of FY10), depletion of cash due to rising capex, will drag earnings in FY11. The stock trades at premium valuations of 7.2x FY11E EV/EBITDA. **Sell.**

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales (m tons)	2.65	2.65	2.40	3.60	2.79	3.30	3.00	3.20	11.30	12.29
Change (YoY %)	4.7	-11.7	-20.3	-5.3	5.3	24.5	25.0	-11.1	-8.4	8.8
Realization (Rs per ton)	41,621	46,183	37,169	33,494	32,806	32,806	32,806	32,806	39,156	32,806
Change (YoY %)	31.0	51.2	17.4	-5.6	-21.2	-29.0	-11.7	-2.1	20.2	-16.2
<b>Net Sales</b>	<b>110,294</b>	<b>122,386</b>	<b>89,206</b>	<b>120,578</b>	<b>91,528</b>	<b>108,259</b>	<b>98,417</b>	<b>104,978</b>	<b>442,465</b>	<b>403,182</b>
Change (%)	37.2	33.6	-6.4	-10.5	-17.0	-11.5	10.3	-12.9	10.0	-8.9
<b>EBITDA</b>	<b>30,086</b>	<b>37,015</b>	<b>11,287</b>	<b>21,097</b>	<b>16,757</b>	<b>27,524</b>	<b>23,038</b>	<b>21,527</b>	<b>99,485</b>	<b>88,636</b>
Change (YoY %)	22.1	36.6	-63.2	-55.4	-44.3	-25.6	104.1	2.0	-23.3	-10.9
As % of Net Sales	27.3	30.2	12.7	17.5	18.3	25.4	23.4	20.5	22.5	22.0
EBITDA per ton	11,353	13,968	4,703	5,860	6,006	8,341	7,679	6,727	8,804	7,212
Interest	568	475	1,078	412	828	729	729	753	2,532	3,039
Depreciation	3,165	3,194	3,194	3,298	3,269	3,508	3,239	3,478	12,851	13,494
Other Income	3,926	4,224	5,550	5,323	5,400	3,833	3,066	2,453	19,023	14,751
<b>PBT (after EO Inc.)</b>	<b>27,928</b>	<b>30,670</b>	<b>12,566</b>	<b>22,870</b>	<b>20,059</b>	<b>27,119</b>	<b>22,136</b>	<b>19,749</b>	<b>94,034</b>	<b>88,853</b>
Total Tax	9,577	10,574	4,132	8,004	6,798	9,221	7,526	6,715	32,286	30,260
% Tax	34.3	34.5	32.9	35.0	33.9	34.0	34.0	34.0	34.3	34.1
<b>Reported PAT</b>	<b>18,352</b>	<b>20,096</b>	<b>8,433</b>	<b>14,867</b>	<b>13,261</b>	<b>17,899</b>	<b>14,610</b>	<b>13,035</b>	<b>61,748</b>	<b>58,594</b>
<b>Adjusted PAT</b>	<b>19,882</b>	<b>24,670</b>	<b>8,251</b>	<b>14,913</b>	<b>11,909</b>	<b>17,884</b>	<b>14,597</b>	<b>13,024</b>	<b>67,717</b>	<b>57,275</b>
Change (YoY %)	26.6	41.5	-58.2	-52.1	-40.1	-27.5	76.9	-12.7	-19.4	-15.4

E: MOSL Estimates

Sanjay Jain (SanjayJain@MotilalOswal.com)

## Tata Steel

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	TATA IN
	REUTERS CODE
S&P CNX: 4,959	TISC.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs499

Equity Shares (m)	887.4
52-Week Range (Rs)	545/146
1,6,12 Rel. Perf. (%)	2/83/-20
M.Cap. (Rs b)	442.8
M.Cap. (US\$ b)	9.2

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	1,315,359	77,404	87.2	24.2	5.7	2.8	48.4	15.1	0.6	4.7
3/09A	1,473,293	90,454	101.9	16.9	4.9	3.8	76.7	15.3	0.6	4.8
3/10E	1,098,467	-8,670	-9.8	-109.6	-51.1	6.8	-13.3	3.1	1.0	14.9
3/11E	1,150,295	43,747	49.3	-604.6	10.1	6.0	58.8	9.3	0.9	8.4

Consolidated

- **Sales to slip:** Despite 24% volume growth, net sales are expected to fall 12% YoY to Rs60.5b due to lower prices. Sales in July and August have been sluggish, accounting for 970,000 tons; sales are expected to pick up in September. We expect slight reduction in raw material costs because of lower coking prices, which will expand margins.
- **Corus:** Corus margins are expected to improve sequentially due to improved steel demand and slight improvement in crude steel production from 2.8m tons in 1QFY10 to 3m tons in 2QFY10. However, running of the Teesside plant in the absence of external sales contracts will drag earnings. Costs related to restructuring will be another drag. However, we expect EBITDA loss to shrink from Rs18.5b in 1Q to Rs9b in 2Q.
- **Maintain Neutral:** Tata Steel's Indian operations will deliver strong earnings growth. Despite factoring US\$800m EBITDA for Corus and other subsidiaries, FY11E valuations appear stretched. Maintain **Neutral**.

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
Standalone Financials	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales ('000 tons)	1,159	1,220	1,072	1,791	1,418	1,512	1,750	1,882	5,242	6,562
Change (YoY %)	11.4	0.1	-13.8	40.0	22.3	23.9	63.3	5.1	9.6	25.2
Realization (Rs per ton)	45,737	48,286	41,666	33,537	36,717	36,231	34,929	34,839	40,688	35,465
Change (YoY %)	24.7	36.9	18.4	-14.4	-19.7	-25.0	-16.2	3.9	11.2	-12.8
<b>Net Sales</b>	<b>61,650</b>	<b>68,507</b>	<b>48,021</b>	<b>65,004</b>	<b>56,156</b>	<b>60,514</b>	<b>66,875</b>	<b>71,322</b>	<b>243,183</b>	<b>254,867</b>
Change (YoY %)	46.9	43.2	-3.5	13.3	-8.9	-11.7	39.3	9.7	23.5	4.8
<b>EBITDA</b>	<b>30,246</b>	<b>31,830</b>	<b>14,780</b>	<b>14,504</b>	<b>17,422</b>	<b>21,909</b>	<b>23,448</b>	<b>23,915</b>	<b>91,359</b>	<b>86,694</b>
Change (YoY %)	78.0	57.1	-29.5	-39.6	-42.4	-31.2	58.6	64.9	11.1	-5.1
(% of Net Sales)	49.1	46.5	30.8	22.3	31.0	36.2	35.1	33.5	37.6	34.0
EBITDA(Rs/tss)	21,918	21,482	12,401	7,757	12,135	12,654	11,653	11,083	15,107	11,888
Interest	2,417	2,548	3,482	3,079	3,422	3,137	3,089	2,822	11,527	12,469
Depreciation	2,168	2,488	2,513	2,565	2,532	2,625	2,596	2,513	9,734	10,265
Other Income	122	2,384	85	467	463	756	756	756	3,058	2,732
<b>PBT (after EO Inc.)</b>	<b>22,749</b>	<b>25,723</b>	<b>7,601</b>	<b>17,084</b>	<b>11,932</b>	<b>16,903</b>	<b>18,519</b>	<b>19,337</b>	<b>73,156</b>	<b>66,692</b>
Total Tax	7,865	7,845	2,939	2,491	4,034	5,680	6,222	6,497	21,139	22,433
% Tax	34.6	30.5	38.7	14.6	33.8	33.6	33.6	33.6	28.9	33.6
<b>Reported PAT</b>	<b>14,884</b>	<b>17,878</b>	<b>4,662</b>	<b>14,593</b>	<b>7,898</b>	<b>11,224</b>	<b>12,297</b>	<b>12,840</b>	<b>52,017</b>	<b>44,259</b>
<b>Adjusted PAT</b>	<b>17,918</b>	<b>21,332</b>	<b>5,930</b>	<b>6,836</b>	<b>7,898</b>	<b>11,224</b>	<b>12,297</b>	<b>12,840</b>	<b>52,017</b>	<b>44,259</b>
Change (YoY %)	79.5	82.7	-45.1	-47.4	-55.9	-47.4	107.4	87.8	16.5	-14.9
<b>Consolidated Financials</b>										
<b>Net Sales</b>	<b>435,083</b>	<b>441,990</b>	<b>331,910</b>	<b>264,147</b>	<b>232,923</b>	<b>256,964</b>	<b>290,048</b>	<b>318,531</b>	<b>1,473,293</b>	<b>1,098,467</b>
<b>EBITDA</b>	<b>69,876</b>	<b>82,497</b>	<b>28,574</b>	<b>385</b>	<b>-299</b>	<b>14,846</b>	<b>25,451</b>	<b>33,455</b>	<b>181,277</b>	<b>73,453</b>
<b>Adjusted PAT</b>	<b>42,633</b>	<b>51,452</b>	<b>9,782</b>	<b>-13,258</b>	<b>-19,899</b>	<b>-6,482</b>	<b>4,184</b>	<b>11,963</b>	<b>90,454</b>	<b>-8,670</b>

E: MOSL Estimates; tss=ton of steel sales

Sanjay Jain (SanjayJain@MotilalOswal.com)

## Oil &amp; Gas

BSE Sensex: 16,693

S&amp;P CNX: 4,959

25 September 2009

## COMPANY NAME

**2QFY10 oil price volatility lowest in recent years:** Brent crude oil price averaged US\$69/bbl during 2QFY10 (v/s US\$59/bbl in 1QFY10), buoyed by hopes of economic recovery, OPEC supply cuts and a weak dollar. Oil demand forecasts have been witnessing increases over the last few months. Oil price movements in the short term will depend on the timing and pace of global economic recovery.

Chennai Petroleum

**Refining margins down; mixed petchem performance:** Benchmark Singapore complex refining margin weakened to US\$3.3/bbl (-20% QoQ; -44% YoY) led by weaker middle distillate cracks. Domestic petchem margins remain higher than international margins; we expect margins to be lower than 1QFY10.

GAIL

HPCL

IOC

**Subsidy sharing to determine profitability of state-owned entities; rationalization expected soon:** In 1QFY10, auto fuel subsidy was borne by upstream companies (ONGC, GAIL and OIL) and as the government did not compensate for domestic fuel subsidy, oil marketing companies (OMCs) had to bear the burden. In 2QFY10, we expect the government to compensate OMCs for 2Q and 1Q as well. We build in 100% auto fuel subsidy sharing by upstream. The government has set up an Expert Group to recommend a viable strategy for the sector. Its report is expected in three months and we believe that the implementation of its recommendations would bring about some rationalization in subsidy sharing.

Indraprastha Gas

MRPL

ONGC

Reliance Industries

**Increasing long-term Brent oil price assumption to US\$70/bbl:** With improvement in the global economy reflecting in IMF forecasts, demand for oil will improve. However, oil supplies are unlikely to corresponding by increase, given curtailed upstream investments

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
			SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
			% YOY	% QOQ	% YOY	% QOQ	% YOY	% QOQ			
<b>Oil &amp; Gas</b>											
BPCL	580	Buy	307,930	-18.6	20.8	15,607	LP	109.4	9,067	LP	47.6
Cairn India	261	Buy	2,477	-22.8	20.8	1,423	-42.7	7.7	664	-78.8	-68.2
Chennai Petroleum	247	Buy	72,049	-29.9	27.3	2,455	LP	-47.5	946	257.8	-62.4
GAIL	354	Buy	63,596	3.8	5.6	10,109	-29.4	-5.1	6,629	-35.2	1.1
HPCL	403	Buy	296,027	-16.5	22.3	16,001	LP	47.1	8,889	LP	36.9
Indraprastha Gas	165	Neutral	2,578	19.8	10.9	917	7.8	8.1	503	0.2	4.3
IOC	684	Buy	679,942	-21.2	16.0	44,208	LP	6.8	26,796	LP	-27.2
MRPL	86	Sell	76,908	-42.7	24.7	3,258	131.0	-48.0	1,600	4.8	-56.5
ONGC	1,157	Neutral	156,511	-10.1	5.2	90,798	7.9	-4.4	49,741	3.4	2.6
Reliance Inds.	2,130	Buy	487,762	8.9	22.9	75,989	17.4	19.0	38,031	-7.7	1.7
<b>Sector Aggregate</b>			<b>2,145,779</b>	<b>-14.9</b>	<b>18.4</b>	<b>260,764</b>	<b>343.9</b>	<b>7.6</b>	<b>142,868</b>	<b>LP</b>	<b>-5.2</b>

due to recent low oil prices. We are revising our Brent price (US\$/bbl) assumption for FY10/FY11/long-term from 60/65/65 to 65/65/70.

**Valuation and view:** The key factor to watch for state-owned oil companies would be the actual subsidy sharing during the quarter. Though there remains some uncertainty on actual subsidy sharing in FY10, we expect OMCs to share marginal subsidy in FY10 (v/s nil in FY09). We remain positive on ONGC on two counts: (1) expected APM gas price hike in near term and (2) likely subsidy rationalization.

### Oil averaged US\$68/bbl, highest in last four quarters; Singapore complex GRM slides further to US\$3.3/bbl

#### YoY comparative (v/s 2QFY09)

- Average 2QFY10 Brent price down 41% at ~US\$68/bbl v/s US\$116/bbl; Dubai crude down 40% at US\$68/bbl v/s US\$113/bbl
- Benchmark Singapore complex average 2QFY10 refining margins down 44% to ~US\$3.3/bbl v/s US\$5.8/bbl in 2QFY09
- Mixed margin trend - polymers down; polyesters up  
**Polymers:** PE down 3%; PP down 22%  
**Polyester intermediates:** PTA up 10%; MEG down up 19%  
**Integrated polyesters:** POY up 6% and PSF up 8%

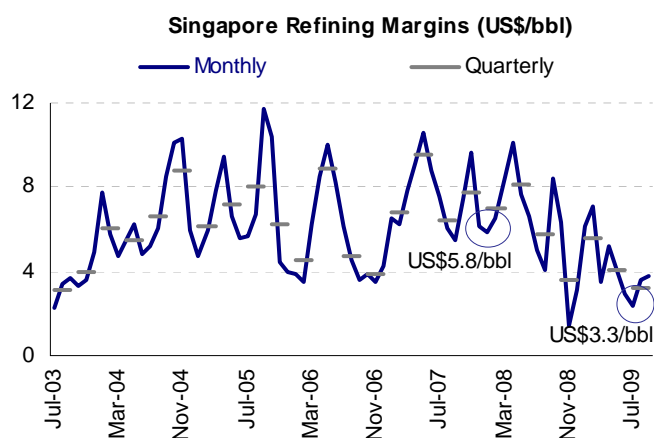
#### QoQ comparative (v/s 1QFY10)

- Average 2QFY10 Brent and Dubai up 16% from US\$59/bbl
- Singapore complex margins down 20% from US\$4.1/bbl in 1QFY10
- Mixed trend in polymer and polyester spreads  
**Polymers:** PE largely flat; PP down 7%  
**Polyester intermediates:** PTA down 6%; MEG up 28%  
**Integrated polyesters:** POY and PSF up 1%

OIL SHOWED LEAST VOLATILITY IN RECENT TIMES



SINGAPORE GRM AT LOWEST IN LAST 6 YEARS



Source: Bloomberg, Reuters/MOSL

## 2QFY10 oil price volatility lowest in recent years

- Average 2QFY10 Brent price down 41% YoY at US\$68/bbl (v/s US\$116/bbl in 2QFY09)
- Average 2QFY10 Brent price up 16% QoQ (v/s US\$59/bbl in 1QFY10)

Brent crude oil price averaged US\$68/bbl during 2QFY10 (v/s US\$59/bbl in 1QFY10), buoyed hopes of economic recovery, OPEC supply cuts and a weak dollar. Oil demand forecasts have been witnessing increases over the last few months. We believe that the oil price movements in the short term will depend on the timing and pace of global economic recovery.

As OPEC oil accounts for 40% of the world production, and as OPEC also holds substantial spare capacity, its production volume change significantly impacts oil prices. To influence oil prices, OPEC has cut production allocation 11 times and increased it 13 times since 2000. In its December 2008 meeting, OPEC had announced total production cut of 4.2mmbbl/d from the actual September 2008 production level. Oil price increase from the lows in December 2008 (from US\$34/bbl in December 2008 to current US\$38/bbl) can be attributed to OPEC countries' compliance with production cuts alongwith the weak dollar.

### Impact of speculation likely to reduce in future; volatility expected to reduce

Oil price increased to over US\$140/bbl in July 2008 and later fell to a low of US\$34/bbl in December 2008 - this is largely being attributed to speculative paper trading. To curb this and improve transparency, Commodity Futures Trading Commission (CFTC) of the US is seeking to (1) impose limits on trading and positions consistently across all markets and participants, including index traders and managers of Exchange Traded Funds, and (2) introduce in the weekly Commitments of Traders (COT) report further disaggregated into swap dealers (under commercial positions) and hedge funds (under non-commercial positions). If these rules are implemented, oil price volatility would reduce. However, this could also result in movement of hedging trades to exchanges outside the US.

### IEA now forecasts 2009 oil demand at 84.4mmbbl/d (v/s 86.3mmbbl/d in 2008)

In September 2009, International Energy Agency (IEA) has increased its 2009 and 2010 oil demand forecast by 0.5mmbbl/d to 84.4mmbbl/d and 85.7mmbbl/d, respectively. For the rest of 2009, IEA expects the demand increase to come from China and expects OECD demand to remain weak. Despite its 0.5mmbbl/d increase in 2009, IEA forecasts 2009 oil demand to be 2.2% lower than 2008 actual demand of 86.3mmbbl/d.

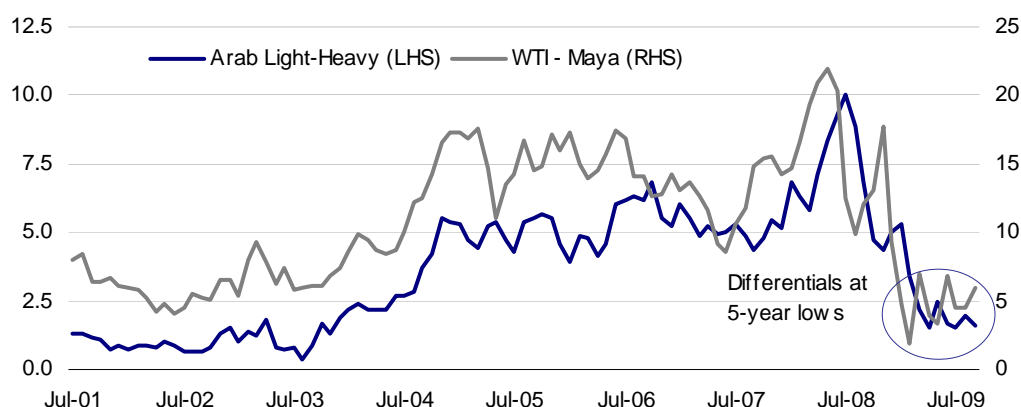
In our estimates, we have built in an average Brent price of US\$65/bbl for FY10 and FY11, and US\$70/bbl for the long-term.

### Light-heavy crude oil differentials at 5-year lows

Arab light-heavy differential at US\$1.7/bbl was down 11% QoQ and 80% YoY. WTI-Maya differential was up 7% QoQ and down 56% YoY. Lower light/heavy and sweet/sour differentials would result in lower premiums for complex refiners over simple refiners.



## CRUDE DIFFERENTIALS AT 5-YEAR LOWS



Source: Bloomberg/MOSL

**Refining margins down; mixed petchem performance**

Benchmark Singapore complex refining margins at US\$3.3/bbl were:

- down 44% YoY (v/s US\$5.8/bbl in 2QFY09)
- down 20% QoQ (v/s US\$4.1/bbl in 1QFY10)

Benchmark Singapore complex refining margin weakened to US\$3.3/bbl (-20% QoQ; -44% YoY) led by weaker middle distillate cracks. Domestic petchem margins remain above the international margin trend. However, this is led by higher naphtha price rise in

## PRODUCT CRACK SUMMARY (US\$/BBL)

MONTH	LIGHT DISTILLATES			MIDDLE DISTILLATES		HEAVIES	GRM	REMARKS
	GASOLINE	NAPHTHA	LPG	DIESEL	JET/KERO	FUEL OIL	SINGAPORE	
Nov-08	(3.9)	(20.4)	(20.6)	17.1	23.6	(13.0)	1.4	Negative gasoline cracks prompted refiners to prepone maintenance and reduce gasoline production.
Dec-08	(2.1)	(10.2)	(10.9)	17.0	18.0	(8.7)	3.1	
Jan-09	4.4	(3.3)	(5.2)	13.3	15.0	(12.1)	6.1	Resulted in lower supply of gasoline and positive cracks, however, diesel and Jet/Kero cracks weakened.
Feb-09	12.4	2.5	(6.2)	6.3	9.8	(9.5)	7.1	Feb-09 GRMs boosted by strong gasoline cracks and reversal in Naphtha cracks due to restocking by downstream converters.
Mar-09	7.5	0.0	(14.2)	6.4	7.6	(10.0)	3.5	With refineries coming back from maintenance, & no respite on demand front, gasoline cracks declined; Diesel/Kero further declined.
Apr-09	8.0	(1.4)	(17.1)	7.8	8.8	(11.5)	5.2	Middle distillate cracks continue to remain in the single digit; Naphtha back to negative zone.
May-09	8.0	(3.0)	(22.7)	6.7	6.8	(10.9)	4.1	LPG cracks decline significantly leading to further drop in GRM.
Jun-09	5.6	(3.8)	(26.5)	7.1	7.1	(12.4)	3.0	Barring a marginal uptick in middle distillates; cracks across the products declined in June-09.
Jul-09	6.0	(2.3)	(23.8)	6.1	7.3	(5.3)	2.4	Despite improved FO cracks, margins impacted by diesel.
Aug-09	8.9	(1.1)	(24.0)	7.7	7.3	(5.6)	3.6	GRM increased by improved petrol/diesel margins (partly due to driving season) and Naphtha margins (improved petchem demand supported by car scrappage schemes in US and Europe).
Sep-09	6.9	(0.7)	(19.7)	7.0	6.4	(5.2)	3.8	Auto fuel cracks declined as driving season ended; while LPG improved

Product cracks are for Singapore product prices over Dubai crude

Source: Bloomberg/MOSL



international markets and not higher product price rise domestically. We expect domestic petchem margins to be lower than 1QFY10.

### Short-term refining margin outlook weak

Refining margin outlook remains weak in the short term, as supplies from newly commissioned refineries are hitting the markets when product inventory is high, particularly in middle distillates (proxy to industrial activity). Over the longer term, margin outlook will be largely driven by the pace of economic recovery. In our estimates, we have built Singapore GRM of US\$3.6/bbl in FY10 and US\$4/bbl in FY11.

### QoQ petchem margins down on higher price rise in naphtha than in products

Sequentially, petchem prices in rupee terms increased 3-8% in key polymers and 6-7% in polyesters. However, naphtha price in rupee terms increased 18% QoQ, led by oil price recovery, and higher demand, particularly in China.

Petchem margins for GAIL should improve QoQ, as it has a gas-based petchem production facility and gas price is fixed. We expect margins for RIL to decline; however, the decline would be moderate, as RIL also has gas-based petchem production capacity.

### Petchem margin pressure, though inevitable, delayed by 1-2 quarters

Pressure on petchem margins, though imminent due to new capacities in the Middle East and China, would be delayed by 3-6 months due to some delay in commissioning of these capacities. However, as these projects are in the final stages of commissioning, they will eventually put pressure on global petchem margins.

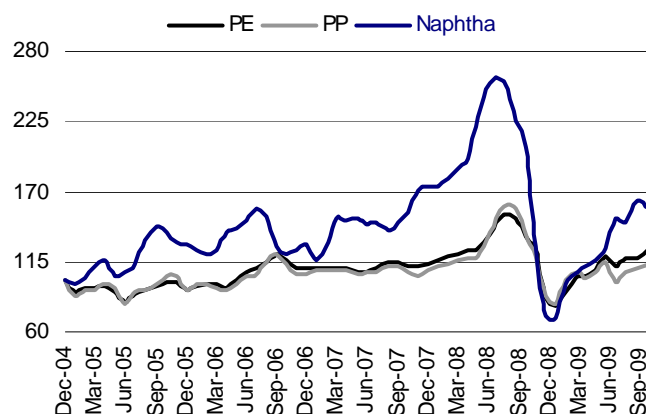
KEY PRODUCT SPREADS (RS/KG)

	2QFY10	1QFY10	QOQ CH (%)	2QFY09	YOY CH (%)
PE	43.2	43.4	-0.6	44.7	-3.4
PP	38.5	41.2	-6.6	49.7	-22.5
PTA	27.5	29.1	-5.6	25.0	9.7
MEG	16.5	12.9	28.1	20.3	-18.7
POY integrated	46.7	46.3	0.8	43.9	6.2
PSF integrated	42.9	42.4	1.3	39.6	8.4

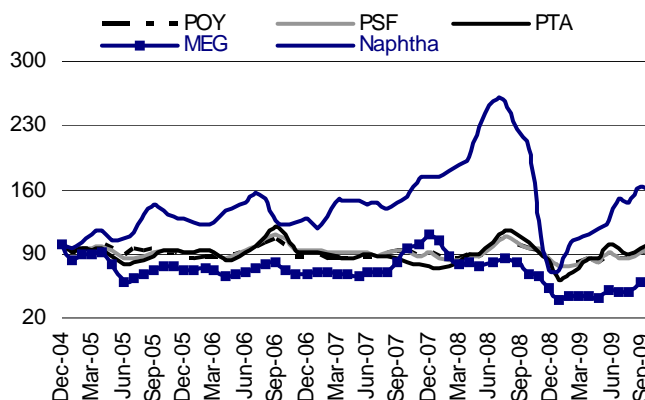
\* PE,PP,PTA and MEG spreads over naphtha, POY & PSF spreads over PTA-MEG adjusted for consumption norms

Source: Company/MOSL

RELATIVE PRICES - NAPHTHA V/S POLYMERS

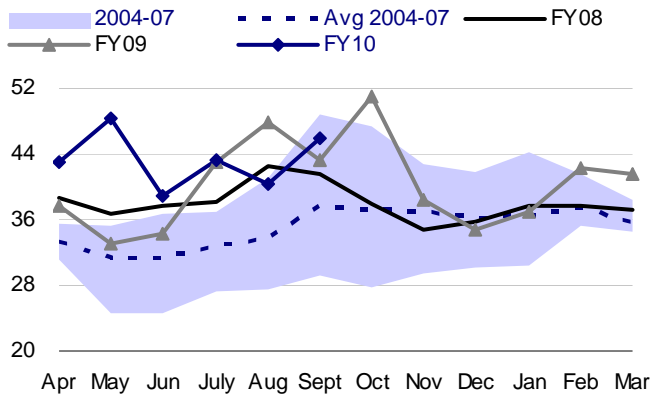


RELATIVE PERFORMANCE - NAPHTHA V/S POLYESTER CHAIN

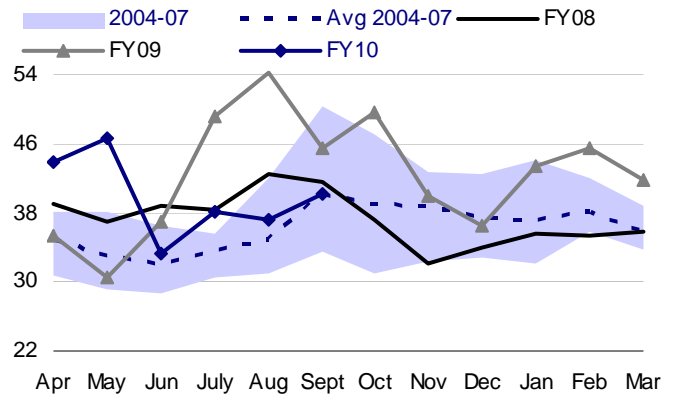


Source: Company/MOSL

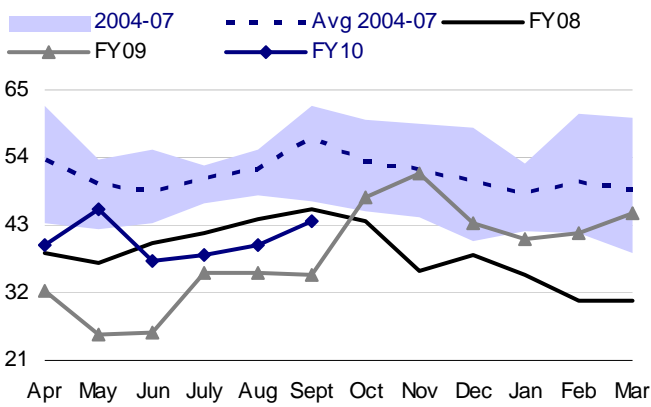
PE SPREAD OVER NAPHTHA (RS/KG)



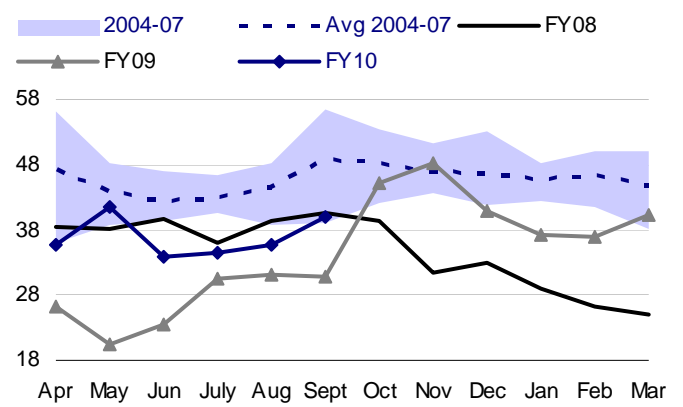
PP SPREAD OVER NAPHTHA (RS/KG)



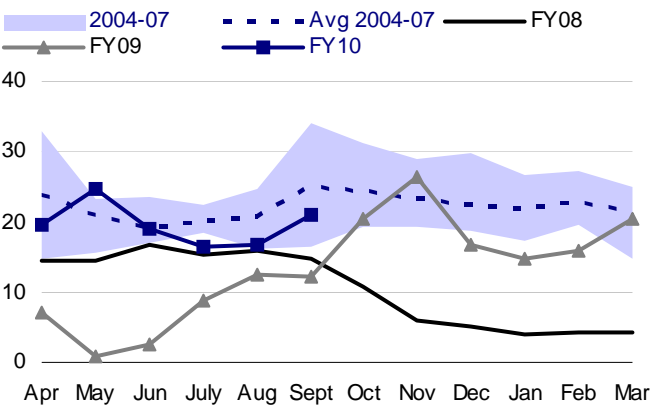
POY SPREAD OVER NAPHTHA (RS/KG)



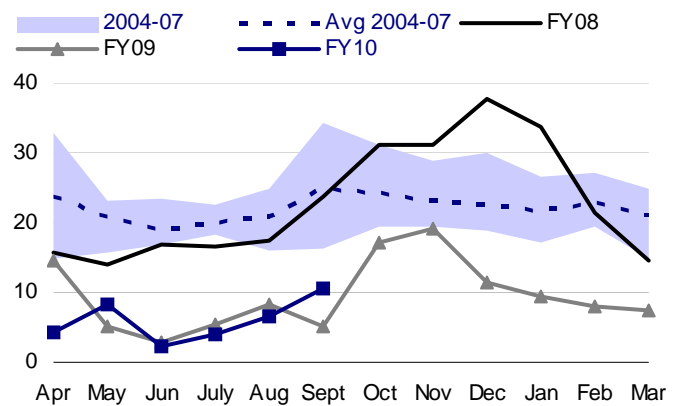
PSF SPREAD OVER NAPHTHA (RS/KG)



PTA SPREAD OVER NAPHTHA (RS/KG)



MEG SPREAD OVER NAPHTHA (RS/KG)



Source: Company/MOSL

### Valuation and view

**Refining outlook:** Refining margin outlook remains weak in the short term, as supplies from newly commissioned refineries are hitting the markets when product inventory is high, particularly in middle distillates (proxy to industrial activity). Over the longer term, margin outlook will be largely driven by the pace of economic recovery. In our estimates, we have built Singapore GRM of US\$3.6/bbl in FY10 and US\$4/bbl in FY11.

**Petchem outlook:** Pressure on petchem margins, though imminent due to new capacities in the Middle East and China, would be delayed by 3-6 months due to some delay in commissioning of these capacities. However, as these projects are in the final stages of commissioning, they will eventually put pressure on global petchem margins.

**FY10 under-recovery now estimated at Rs337b v/s Rs1,033b in FY09:** We estimate FY10 under-recovery to decline by 67% to Rs337b in FY10. Our estimates factor in Brent crude price of US\$65/bbl and exchange rate of Rs48.3/US\$. We assume upstream to share 90% of the auto fuel subsidy (MS and HSD) and downstream to share 10%. As announced by the government, we assume it will share 100% towards the domestic fuel subsidy (LPG and SKO). However, if exchange rate or product cracks were to remain lower than estimated then the under-recovery could be lower than our estimates.

WE ASSUME GOI WOULD SHARE 100% OF DOMESTIC FUEL SUBSIDY

	FY05	FY06	FY07	FY08	FY09	1QFY10	2QFY10E	FY10E
Exchange Rate (Rs/US\$)	44.9	44.3	45.2	40.3	46.0	48.8	48.5	48.3
Avg Brent Price (US\$/bbl)	42.2	58.0	64.4	82.3	84.8	59.2	68.2	65.0
<b>Product Prices (US\$/bbl)</b>								
Petrol	49	65	73	91	87	62	74	70
Diesel	47	65	74	93	106	65	75	72
PDS Kerosene	50	69	77	94	108	61	73	71
Domestic LPG (US\$/MT)	369	481	500	687	718	420	489	496
<b>Gross Under recoveries (Rs b)</b>								
Auto Fuels	23	154	208	426	575	6	34	79
Domestic Fuels	178	246	286	347	458	49	64	257
<b>Total</b>	<b>201</b>	<b>400</b>	<b>494</b>	<b>773</b>	<b>1,033</b>	<b>54</b>	<b>98</b>	<b>337</b>
<b>Sharing (Rs b)</b>								
Oil Bonds	-	115	241	353	713	-	113	257
Upstream	59	140	205	257	329	6	34	71
OMC's Sharing	142	138	48	163	(9)	49	(49)	8
<b>Total</b>	<b>201</b>	<b>393</b>	<b>494</b>	<b>773</b>	<b>1,033</b>	<b>54</b>	<b>98</b>	<b>337</b>
<b>Sharing (%)</b>								
Oil Bonds	-	29	49	46	69	-	115	76
Upstream	30	36	42	33	32	10	35	21
OMC's sharing	70	35	10	21	(1)	90	(50)	2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Company/MOSL

**High hopes on policy front; subsidy rationalization to benefit state-owned oil companies:** As announced by the finance minister in his latest budget speech, GoI has set up a committee to recommend a viable strategy for the sector. Historically, the government has addressed the under-recoveries situation in a static manner. However, given the fast changing dynamics of the sector, it has asked the new expert group to recommend a "viable and sustainable pricing policy", which we believe will lead to better predictability of earnings even at different oil prices. The committee's report is expected in three months.

If policy changes bring in subsidy rationalization, we expect all state-owned oil companies to benefit. OMCs' debt levels have already come down significantly from their peak in FY09, resulting in balance sheet strengthening. We believe the current government has higher flexibility in terms of altering retail fuel prices on a timely basis. Further, GoI has indicated that it will share 100% under-recovery towards domestic fuels (LPG and SKO). Though, clarity is yet to emerge in terms of subsidy sharing by OMCs, we believe it will be negligible if any till the oil price remains at current levels.

OMCs are implementing several upgradation projects, which will enable them to: (1) produce a higher share of middle distillates, (2) produce Euro-III/IV compliant fuels, and (3) process a larger share of sour/heavy crudes. Completion of these projects, in time and within schedule, would be margin-accretive, effective FY11. We maintain **Buy** on **HPCL**, **BPCL** and **IOC**.

As gas production from KG-D6 reaches initial peak levels of 80mmscmd by end-FY09/early-FY10, RIL would become the largest gas producer in India and E&P would become the key contributor to its bottomline. For FY10, we factor in average KG-D6 gas production volume of 41mmscmd and model well-head gas price of US\$4.2/mmbtu in our estimates.

Apart from its core business, we believe that the stock performance would continue to be influenced by newsflow/updates on (1) further course in RIL-RNRL and RIL-NTPC court cases; (2) ramp-up of KG-D6 gas volumes, and (3) updates on its E&P business. We remain positive on RIL, primarily due to large potential upsides from E&P. Maintain **Buy** on **RIL**.

We believe a significant portion of RIL's new gas will flow through GAIL's network as a majority of priority consumers (as per the Gas Utilization Policy) such as fertilizers, LPG, power and city gas distribution are linked to GAIL's pipelines. Maintain **Buy** on **GAIL**.

We remain positive on ONGC on two counts (1) likely APM gas price hike in near term, and (2) likely subsidy rationalization. Further, long-term growth for ONGC would come from its large E&P acreage. ONGC holds 45% of the total allotted NELP acreage and 52% of the deepwater NELP acreage, with presence in all the basins. We believe that given its significant capex plan (up >50% in XIth plan), easing of deepwater rig availability, ONGC will announce many more discoveries in the future. We maintain **Neutral** on **ONGC**.

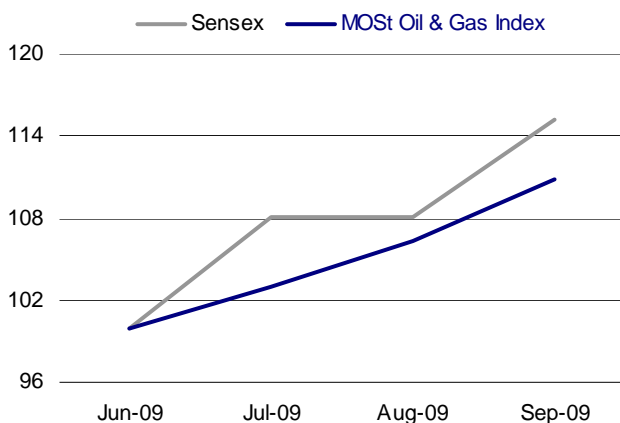
Cairn commenced crude oil production from its flagship Rajasthan block in 2QFY10 and is likely to book the first sale in the next month. Further, it has also indicated an increase in the nameplate capacity at Rajasthan to 205kbd (as against peak production guidance of 175kbd). We believe this is a precursor to higher production from the field. We model long-term Brent oil price of US\$70/bbl in our estimates. We maintain **Buy** on **Cairn**.

## Stock performance and valuations

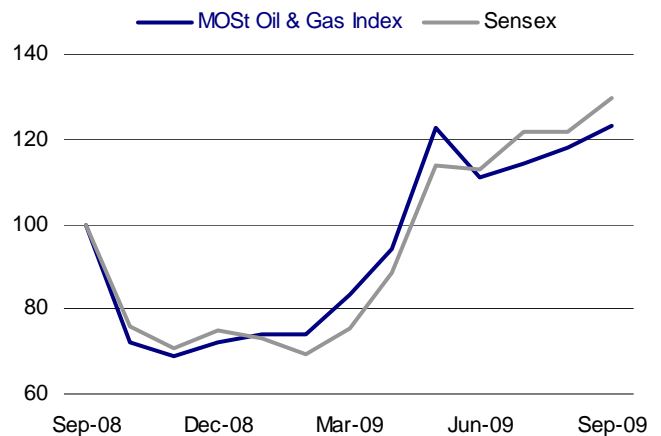
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Oil &amp; Gas</b>						
BPCL	40	70	23	47	26	50
Cairn India	16	17	0	-6	2	-3
Chennai Petroleum	40	6	24	-17	26	-14
GAIL	27	32	10	9	12	12
HPCL	36	74	20	50	22	54
Indraprastha Gas	23	39	6	16	9	19
IOC	28	74	12	51	14	55
MRPL	1	62	-15	39	-13	42
ONGC	13	8	-3	-15	-1	-12
Reliance	9	5	-8	-18	-5	-15

### RELATIVE PERFORMANCE - 3 MONTHS (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
	25.9.09													
<b>Oil &amp; Gas</b>														
BPCL	580	Buy	17.5	60.0	54.3	33.1	9.7	10.7	13.5	9.0	8.8	4.8	15.2	12.3
Cairn India	261	Buy	4.3	5.9	23.8	61.3	44.6	11.0	55.9	26.1	7.0	3.3	12.6	16.8
Chennai Petroleum	247	Buy	-2.9	39.6	29.7	-85.6	6.2	8.3	-33.4	4.2	4.6	-12.2	19.5	12.3
GAIL	354	Buy	22.5	22.2	25.6	15.7	16.0	13.8	10.5	10.4	9.0	19.0	16.8	17.1
HPCL	403	Buy	12.8	56.2	46.0	31.3	7.2	8.8	8.0	4.6	5.0	4.1	16.4	11.8
Indraprastha Gas	165	Neutral	11.9	14.4	13.3	13.8	11.5	12.4	7.1	5.6	5.6	26.7	27.1	21.7
IOC	684	Buy	21.8	67.3	60.3	31.4	10.2	11.3	17.2	7.5	7.0	5.8	16.7	13.2
MRPL	86	Sell	8.3	5.1	4.3	10.4	16.8	20.0	7.4	10.4	12.7	28.0	17.8	13.3
ONGC	1,157	Neutral	92.5	110.7	119.1	12.5	10.5	9.7	5.7	5.0	4.7	23.4	23.8	22.0
Reliance Inds.	2,130	Buy	117.7	133.1	177.1	18.1	16.0	12.0	15.4	10.9	8.6	16.1	15.3	17.5
<b>Sector Aggregate</b>						<b>18.5</b>	<b>13.3</b>	<b>11.4</b>	<b>10.4</b>	<b>7.9</b>	<b>6.8</b>	<b>14.2</b>	<b>16.4</b>	<b>16.4</b>

BPCL

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	BPCL IN
	REUTERS CODE
S&P CNX: 4,959	BPCL.BO

25 September 2009

Buy

Rs580

Previous Recommendation: Buy

Equity Shares (m)	361.5
52-Week Range (Rs)	600/227
1,6,12 Rel. Perf. (%)	9/-7/47
M.Cap. (Rs b)	209.8
M.Cap. (US\$ b)	4.4

YEAR	NET SALES	ADJ. PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END *	(RS B)	(RS B)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	1,112	15.1	41.9	-28.3	13.9	1.6	12.5	8.5	0.3	9.8
03/09A	1,366	6.3	17.5	-58.1	33.1	1.6	4.8	5.9	0.3	13.2
03/10E	1,175	21.7	60.0	242.1	9.7	1.4	15.2	7.8	0.3	8.8
03/11E	1,203	19.6	46.9	-21.7	12.4	1.2	12.3	8.4	0.3	8.5

\* Consolidated

- Actual subsidy sharing, than business fundamental will continue to determine profitability. We expect BPCL to be compensated fully through upstream sharing and oil bonds. Further, we expect BPCL to get additional oil bonds of 1QFY10, as the government did not issue any in 1QFY10. We have built a net over-recovery of Rs9b in 2QFY10.
- We estimate BPCL to report net profit of Rs9b v/s loss of Rs26.3b in 2QFY09. Loss in 2QFY09 was primarily due to large net under-recoveries (Rs21b) borne by the company.
- On the operational front, we expect throughput at 5.2mmt (up 25% QoQ and down 2% YoY). 1QFY10 throughput was affected by 15 days shutdown.
- As announced in the budget speech, the government has set up an 'Expert Group' to recommend "viable and sustainable pricing policy" for four controlled products – petrol (MS), diesel (HSD), LPG and kerosene (SKO). The group is expected to submit its report in November 2009.
- For FY10, we build marginal sharing of 2.5% by OMCs. However, in FY11, we conservatively build 10% sharing in auto-fuel under-recoveries, given the uncertainty in policy changes. We have built GRM of US\$3.3/bbl in FY10 and US\$4/bbl in FY11.
- The stock is trading at 9.7x FY10E consolidated EPS of Rs60 and 1.4x FY10E BV. **Buy.**

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>390,220</b>	<b>378,262</b>	<b>318,845</b>	<b>265,050</b>	<b>254,928</b>	<b>307,930</b>	<b>296,194</b>	<b>300,816</b>	<b>1,352,377</b>	<b>1,159,868</b>
Change (%)	63.5	50.3	10.2	-18.6	-34.7	-18.6	-7.1	13.5	22.4	-14.2
<b>EBITDA</b>	<b>-7,693</b>	<b>-21,674</b>	<b>15,209</b>	<b>41,531</b>	<b>7,454</b>	<b>15,607</b>	<b>5,944</b>	<b>6,067</b>	<b>27,373</b>	<b>35,072</b>
Change (%)	nm	nm	247.9	382.9	nm	nm	-60.9	-85.4	-10.8	28.1
Depreciation	2,691	2,419	3,014	2,631	2,311	2,750	3,150	3,610	10,756	11,821
Interest	3,016	5,338	7,161	6,149	2,866	3,006	3,023	3,003	21,664	11,897
Other Income	2,757	3,225	3,002	6,104	7,028	3,885	3,551	3,479	15,087	17,944
<b>PBT</b>	<b>-10,643</b>	<b>-26,207</b>	<b>8,036</b>	<b>38,854</b>	<b>9,306</b>	<b>13,736</b>	<b>3,323</b>	<b>2,933</b>	<b>10,041</b>	<b>29,298</b>
Tax	24	46	38	2,574	3,165	4,669	1,130	997	2,682	9,960
Rate (%)	-0.2	-0.2	0.5	6.6	34.0	34.0	34.0	34.0	26.7	34.0
<b>PAT</b>	<b>-10,667</b>	<b>-26,253</b>	<b>7,998</b>	<b>36,280</b>	<b>6,141</b>	<b>9,067</b>	<b>2,194</b>	<b>1,936</b>	<b>7,359</b>	<b>19,338</b>
Change (%)	nm	nm	174.5	nm	nm	nm	-72.6	-94.7	-53.4	162.8
<b>Adj. PAT</b>	<b>-10,667</b>	<b>-26,253</b>	<b>7,998</b>	<b>36,280</b>	<b>6,141</b>	<b>9,067</b>	<b>2,194</b>	<b>1,936</b>	<b>7,359</b>	<b>19,338</b>
<b>Key Assumption (Rs b)</b>										
Gross Under Recovery	115	103	28	-8	11	23	19	21	238	73
Upstream Sharing	27	34	12	2	2	7	3	4	76	16
Oil Bonds	58	48	36	21	0	25	15	16	162	55
Net Under/(Over) Recovery	31	21	-21	-31	9	-9	1	1	0	2
As a % of Gross	26.8	20.4	nm	nm	85.5	nm	nm	nm	0.0	2.4

E: MOSL Estimates

Harshad Borawake (HarshadBorawake@MotilalOswal.com)

## Cairn India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	CAIR IN
	REUTERS CODE
S&P CNX: 4,959	CAIL.BO

25 September 2009

Buy

Rs261

Previous Recommendation: Buy

Equity Shares (m)	1,894.4
52-Week Range (Rs)	275/88
1,6,12 Rel. Perf. (%)	-5/-35/-6
M.Cap. (Rs b)	494.9
M.Cap. (US\$ b)	10.3

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/07A	10,123	-245	-0.1	-		1.6	-0.1	1.1	45.4	68.8
03/09E	14,326	8,082	4.3	N.M.	61.3	1.5	2.6	2.5	36.3	56.0
03/10E	26,862	12,743	5.9	37.4	44.6	1.5	3.3	4.1	19.2	26.2
03/11E	85,572	45,088	23.8	306.0	11.0	1.3	12.6	14.5	5.8	7.0

Consolidated

- Though Cairn has commenced production from its flagship Rajasthan block, we do not build any sales booking in 2QFY10 in our estimates. We expect Cairn to report net sales of Rs2.5b (v/s Rs3.2b in the quarter ended September 2008), primarily due to decline in oil prices.
- We estimate PAT at Rs664m v/s adjusted PAT of Rs3.1b in 3QFY09.
- We estimate gross oil & gas production at 60kboepd (up 1% QoQ and down 8% YoY). Net working interest production for Cairn is estimated at 16kboepd (up 1% QoQ and down 6% YoY).
- Average realization for the quarter is estimated at US\$58/boe (v/s US\$87/boe in 3QFY09 and US\$52/boe in 1QFY10).
- We have built average gross oil production from Rajasthan field at 10.5mmbbl in FY10, of which Cairn's share is 7mmbbl.
- We assume Brent price of US\$65/bbl for FY10 and FY11, and US\$70/bbl for the long-term. The stock currently trades at 11x FY11E earnings. **Buy.**

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY09 (15M PERIOD)					FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	5Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>3,158</b>	<b>4,036</b>	<b>3,206</b>	<b>2,108</b>	<b>1,818</b>	<b>2,050</b>	<b>2,477</b>	<b>6,189</b>	<b>16,147</b>	<b>14,326</b>	<b>26,862</b>
Change (%)	33.6	65.9	20.6	-21.0	-42.5	-35.1	-38.6	93.0	665.9	41.5	87.5
<b>EBITDA</b>	<b>2,280</b>	<b>2,721</b>	<b>2,483</b>	<b>950</b>	<b>867</b>	<b>1,321</b>	<b>1,423</b>	<b>4,333</b>	<b>12,624</b>	<b>9,301</b>	<b>19,702</b>
% of Net Sales	72.2	67.4	77.4	45.1	47.7	64.5	57.5	70.0	78.2	64.9	73.3
D,D & A (inc. w/off)	807	1,075	729	701	1,070	722	1,215	2,269	3,449	4,382	7,656
Interest	3	29	5	6	21	7	57	345	558	64	967
Other Income (Net)	218	324	1,182	884	862	572	650	780	1,344	3,470	3,346
Forex Fluctuations	-19	254	873	567	-74	718	51	0	0	1,602	769
Exceptional Items	156		-204			-1,637				-48	-1,637
<b>PBT</b>	<b>1,824</b>	<b>2,196</b>	<b>3,600</b>	<b>1,694</b>	<b>565</b>	<b>244</b>	<b>852</b>	<b>2,499</b>	<b>9,962</b>	<b>9,878</b>	<b>13,557</b>
Tax	659	810	667	-671	378	-210	187	550	1,924	1,844	2,452
Rate* (%)	35.8	41.7	24.5	nm	59.2	nm	23.4	22.0	19.3	18.7	18.1
<b>PAT</b>	<b>1,164</b>	<b>1,385</b>	<b>2,933</b>	<b>2,364</b>	<b>187</b>	<b>454</b>	<b>664</b>	<b>1,950</b>	<b>8,037</b>	<b>8,034</b>	<b>11,106</b>
<b>Adj. PAT</b>	<b>1,009</b>	<b>1,385</b>	<b>3,137</b>	<b>2,364</b>	<b>187</b>	<b>2,092</b>	<b>664</b>	<b>1,950</b>	<b>8,037</b>	<b>8,082</b>	<b>12,743</b>
<b>Sales - Cairn's Share (kboepd)</b>											
Ravva and Cambay	18.0	18.8	17.1	16.6	15.8	15.9	16.1	16.1	16.1	17.3	16.0
Rajasthan						0.0	0.0	12.8	46.7	-	14.9

E: MOSL Estimates; \* Excluding forex fluctuations; \*2007 - Dec year end, 2009 - 15 month period



## Chennai Petroleum Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	MRL IN
	REUTERS CODE
S&P CNX: 4,959	CHPC.BO

25 September 2009

Buy

Rs247

Previous Recommendation: Buy

Equity Shares (m)	149.0
52-Week Range (Rs)	254/78
1,6,12 Rel. Perf. (%)	23/101/-17
M.Cap. (Rs b)	36.8
M.Cap. (US\$ b)	0.8

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	280,186	10,891	73.1	92.7	3.4	1.1	37.2	33.3	0.2	3.2
03/09A	318,734	-431	-2.9	-104.0	-85.6	1.2	-12.2	-6.0	0.2	-33.4
03/10E	285,194	5,903	39.6	NM	6.2	1.0	19.5	19.7	0.2	4.2
03/11E	279,658	4,429	29.7	-25.0	8.3	1.0	12.3	15.4	0.2	4.6

- We expect CPCL to report net profit of Rs946m (v/s adjusted net profit of Rs264m in 2QFY09 and Rs2.5b in 1QFY10).
- Large YoY increase in profit is due to depressed 2QFY09 reported numbers, led by inventory losses, forex losses (Rs1.9b) and employee pay provisions (Rs89m).
- We expect CPCL to report GRM of US\$3.6/bbl v/s reported GRM of US\$1.7/bbl in 2QFY09 and US\$6.9/bbl in 1QFY10. 1QFY10 GRM was boosted by inventory gains on account of crude price increase from US\$48/bbl to ~US\$70/bbl.
- On the operational front, we expect refinery throughput at 2.7mmt (flat QoQ and up 17% YoY).
- We expect refining margin to remain subdued in the short term, as 1.2-1.6mmbbls new refining capacity is expected to come online in the next few months. For CPCL, we have built GRM of US\$4.6/bbl for FY10 and US\$4.5/bbl for FY11. The stock trades at 6.2x FY10E EPS of Rs39.6 and an EV of 4.2x FY10E EBITDA. **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>112,532</b>	<b>102,833</b>	<b>56,175</b>	<b>48,100</b>	<b>56,604</b>	<b>72,049</b>	<b>72,886</b>	<b>77,158</b>	<b>319,639</b>	<b>278,698</b>
Change (%)	80.9	62.3	-20.4	-42.7	-49.7	-29.9	29.7	60.4	14.1	-12.8
Raw Materials (incl Stock Adj)	95,838	99,794	71,749	42,896	50,195	67,662	67,851	71,001	310,277	256,709
Employee Costs	857	568	366	139	450	473	497	1,008	1,929	2,428
Other Exp	4,148	3,006	2,072	-132	1,282	1,459	1,576	2,003	9,094	6,321
<b>EBITDA</b>	<b>11,689</b>	<b>-534</b>	<b>-18,013</b>	<b>5,196</b>	<b>4,677</b>	<b>2,455</b>	<b>2,962</b>	<b>3,146</b>	<b>-1,662</b>	<b>13,240</b>
% of Sales	10.4	-0.5	-32.1	10.8	8.3	3.4	4.1	4.1	-0.5	4.8
Change (%)	97.6	-112.5	-538.1	-23.6	-60.0	-559.7	-116.4	-39.5	-107.9	nm
Depreciation	639	637	638	659	665	679	685	713	2,572	2,742
Interest	380	607	834	419	279	540	702	709	2,239	2,230
Other Income	101	158	221	60	884	175	180	166	541	1,405
<b>PBT</b>	<b>10,771</b>	<b>-1,619</b>	<b>-19,263</b>	<b>4,179</b>	<b>4,617</b>	<b>1,412</b>	<b>1,755</b>	<b>1,890</b>	<b>-5,931</b>	<b>9,673</b>
Tax	3,739	-592	-6,564	1,460	1,570	466	579	624	-1,958	3,238
Rate (%)	34.7	nm	nm	34.9	34.0	33.0	33.0	33.0	33.0	33.5
<b>PAT</b>	<b>7,033</b>	<b>-1,027</b>	<b>-12,699</b>	<b>2,720</b>	<b>3,047</b>	<b>946</b>	<b>1,176</b>	<b>1,266</b>	<b>-3,973</b>	<b>6,435</b>
Change (%)	117.6	nm	nm	-20.9	-56.7	nm	nm	-53.4	-135.4	-8.5
<b>Adj PAT*</b>	<b>8,340</b>	<b>264</b>	<b>-12,068</b>	<b>3,034</b>	<b>2,515</b>	<b>946</b>	<b>1,176</b>	<b>1,266</b>	<b>-431</b>	<b>5,903</b>
GRM (US\$/bbl)	15.9	1.7	-18.0	6.6	6.9	3.6	4.0	4.0	6.1	4.6

E: MOSL Estimates; \* Adjusted for forex gain/loss

## GAIL (India)

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	GAIL IN
	REUTERS CODE
S&P CNX: 4,959	GAIL.BO

25 September 2009

Buy

Rs354

Previous Recommendation: Buy

Equity Shares (m)	1,268.5
52-Week Range (Rs)	371/165
1,6,12 Rel. Perf. (%)	-1/-21/9
M.Cap. (Rs b)	448.5
M.Cap. (US\$ b)	9.3

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	180,082	25,442	20.1	24.3	17.6	3.4	20.0	25.2	2.3	10.5
03/09A	237,760	28,511	22.5	12.1	15.7	3.0	19.0	24.8	1.8	10.5
03/10E	254,641	28,109	22.2	-1.4	16.0	2.7	16.8	21.7	1.8	10.4
03/11E	304,773	32,477	25.6	15.5	13.8	2.4	17.1	20.3	1.6	9.0

- We expect GAIL to report net profit of Rs6.6b (up 1% QoQ and down 35% YoY).
- Subsidy sharing skews GAIL's quarterly reported numbers. In 1QFY10, upstream shared 100% towards auto fuel under-recoveries. We expect similar subsidy sharing to continue in 2QFY10 and have built GAIL's sharing at Rs3.4b (v/s Rs747m in 1QFY10).
- We expect GAIL to report EBIT (pre-subsidy) of Rs13.7b, up 28% QoQ due to higher petchem prices in 2QFY10 and significant E&P write-offs in 1QFY10. Also petchem volumes would be higher sequentially due to a 10-day shutdown in 1QFY10.
- The stock trades at 16x FY10E EPS of Rs22.2. Adjusted for investments, stock trades at 12.8x FY10E EPS. **Buy.**

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>57,307</b>	<b>61,293</b>	<b>58,117</b>	<b>61,043</b>	<b>60,214</b>	<b>63,596</b>	<b>65,830</b>	<b>65,001</b>	<b>237,760</b>	<b>254,641</b>
Change (%)	35.0	35.3	35.2	23.7	5.1	3.8	13.3	6.5	32.0	7.1
<b>EBITDA</b>	<b>13,995</b>	<b>14,314</b>	<b>2,660</b>	<b>9,575</b>	<b>10,655</b>	<b>10,109</b>	<b>11,889</b>	<b>11,678</b>	<b>40,544</b>	<b>44,331</b>
% of Net Sales	24.4	23.4	4.6	15.7	17.7	15.9	18.1	18.0	17.1	17.4
Depreciation	1,430	1,386	1,374	1,410	1,404	1,480	1,570	1,622	5,599	6,076
Interest	190	189	185	306	179	270	305	319	870	1,073
Other Income	1,148	2,289	2,352	2,178	798	1,580	1,620	1,000	7,966	4,998
<b>PBT</b>	<b>13,522</b>	<b>15,029</b>	<b>3,453</b>	<b>10,037</b>	<b>9,870</b>	<b>9,939</b>	<b>11,634</b>	<b>10,737</b>	<b>42,041</b>	<b>42,180</b>
Tax	4,554	4,794	919	3,737	3,312	3,310	3,874	3,575	14,003	14,071
Rate (%)	33.7	31.9	26.6	37.2	33.6	33.3	33.3	33.3	33.3	33.4
<b>PAT</b>	<b>8,969</b>	<b>10,234</b>	<b>2,534</b>	<b>6,300</b>	<b>6,558</b>	<b>6,629</b>	<b>7,760</b>	<b>7,161</b>	<b>28,037</b>	<b>28,109</b>
Change (%)	30.9	78.8	-59.2	-12.8	-26.9	-35.2	206.2	13.7	7.8	0.3
<b>Adj PAT</b>	<b>9,442</b>	<b>10,234</b>	<b>2,534</b>	<b>6,300</b>	<b>6,558</b>	<b>6,629</b>	<b>7,760</b>	<b>7,161</b>	<b>28,511</b>	<b>28,109</b>
<b>Key Assumptions</b>										
Gas Trans.Volume (mmsmd)	84	82	84	83	97	100	112	119	83	107
Petchem Sales ('000MT)	104	75	130	114	92	110	108	108	423	418
<b>Segmental EBIT Breakup (Rs m)</b>										
Gas Transmission	4,669	4,492	4,206	4,982	5,904	5,935	6,302	6,160	18,349	24,301
Natural Gas Trading	944	1,113	823	592	1,063	1,051	1,065	1,056	3,472	4,235
Petrochemicals	4,328	3,288	1,297	3,275	2,643	3,681	3,002	2,474	12,187	11,800
LPG & Liq.HC (pre-subsidy)	7,882	9,759	6,577	2,240	2,247	2,971	3,024	2,987	26,458	11,229
Unallocated; GAILTEL	(300)	573	(215)	(1,667)	(1,181)	19	19	19	(1,609)	(1,124)
<b>Total</b>	<b>17,523</b>	<b>19,226</b>	<b>12,687</b>	<b>9,421</b>	<b>10,677</b>	<b>13,657</b>	<b>13,412</b>	<b>12,696</b>	<b>58,858</b>	<b>50,441</b>
Less: Subsidy	(4,754)	(4,008)	(9,050)	0	(747)	(3,448)	(1,473)	(1,640)	(17,812)	(7,308)
<b>Total</b>	<b>12,769</b>	<b>15,218</b>	<b>3,638</b>	<b>9,421</b>	<b>9,929</b>	<b>10,209</b>	<b>11,939</b>	<b>11,056</b>	<b>41,046</b>	<b>43,133</b>

E: MOSL Estimates; Adjusted for subsidy in 1QFY09

Harshad Borawake (HarshadBorawake@MotilalOswal.com)

## HPCL

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	HPCL IN
	REUTERS CODE
S&P CNX: 4,959	HPCL.BO

25 September 2009

Buy

Rs403

Previous Recommendation: Buy

Equity Shares (m)	339.0
52-Week Range (Rs)	425/164
1,6,12 Rel. Perf. (%)	9/-13/50
M.Cap. (Rs b)	136.5
M.Cap. (US\$ b)	2.8

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	1,047,038	7,263	21.4	-49.6	18.8	1.3	7.2	7.6	0.2	15.5
03/09A	1,246,943	4,355	12.8	-40.0	31.3	1.3	4.1	8.8	0.2	7.9
03/10E	1,093,536	19,050	56.2	337.5	7.2	1.1	16.4	12.3	0.2	4.4
03/11E	1,119,508	15,591	46.0	-18.2	8.8	1.0	11.8	10.7	0.2	5.0

- Actual subsidy sharing, than business fundamentals will continue to determine profitability. We expect HPCL to be compensated fully through upstream sharing and oil bonds. We expect HPCL to get additional oil bonds of 1QFY10, as the government did not issue any in 1QFY10. We expect HPCL to have net over-recovery of Rs10b in 2QFY10.
- We expect HPCL to report net profit of Rs8.9b v/s loss of Rs32.2b in 2QFY09. Loss in 2QFY09 was primarily due to large net under-recoveries (Rs18b) borne by the company.
- On the operational front, we expect throughput at 4mmt (down 2% QoQ and down 5% YoY).
- As announced in the budget speech, the government has set up an 'Expert Group' to recommend "viable and sustainable pricing policy" for four controlled products – petrol (MS), diesel (HSD), LPG and kerosene (SKO). The group is expected to submit its report in November 2009.
- For FY10, we build marginal sharing of 2.5% by OMCs. However, in FY11, we conservatively build 10% sharing in auto-fuel under-recoveries, given the uncertainty in policy changes. We have built GRM of US\$3.9/bbl in FY10 and US\$4/bbl in FY11.
- The stock is trading at 7.2x FY10E consolidated EPS of Rs56.2 and 1.1x FY10E BV. **Buy.**

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>346,920</b>	<b>354,622</b>	<b>293,858</b>	<b>251,542</b>	<b>241,976</b>	<b>296,027</b>	<b>280,108</b>	<b>280,567</b>	<b>1,246,943</b>	<b>1,093,536</b>
Change (%)	59	46	8	-20	-30.3	-16.5	-4.7	11.5	19.1	-12.3
<b>EBITDA</b>	<b>-4,110</b>	<b>-26,036</b>	<b>4,715</b>	<b>54,374</b>	<b>10,876</b>	<b>16,001</b>	<b>5,854</b>	<b>4,918</b>	<b>28,943</b>	<b>37,649</b>
% of Net Sales	-1.2	-7.3	1.6	21.6	4.5	5.4	2.1	1.8	2.3	3.4
Change (%)	nm	nm	218	2,407	-365	nm	24.2	-91.0	86.2	30
Depreciation	2,367	2,420	2,482	2,545	2,629	2,786	2,800	2,553	9,813	10,768
Interest	4,064	5,269	7,961	3,779	2,702	2,966	3,169	3,390	21,073	12,227
OI (incl. Oper. other inc)	1,679	1,577	1,539	4,263	4,403	3,218	3,316	3,747	9,057	14,443
<b>PBT</b>	<b>-8,861</b>	<b>-32,149</b>	<b>-4,189</b>	<b>52,313</b>	<b>9,948</b>	<b>13,466</b>	<b>3,201</b>	<b>2,722</b>	<b>7,114</b>	<b>29,097</b>
Tax	20	40	40	1,273	3,457	4,577	1,088	925	1,373	10,048
Rate (%)	nm	nm	nm	2	35	34	34	34	19.3	35
<b>PAT</b>	<b>-8,881</b>	<b>-32,189</b>	<b>-4,229</b>	<b>51,040</b>	<b>6,491</b>	<b>8,889</b>	<b>2,113</b>	<b>1,797</b>	<b>5,741</b>	<b>19,050</b>
Change (%)	nm	nm	nm	nm	nm	nm	nm	-96.5	-49.4	231.8
<b>Adj. PAT</b>	<b>-8,881</b>	<b>-32,189</b>	<b>-4,229</b>	<b>51,040</b>	<b>6,491</b>	<b>8,889</b>	<b>2,113</b>	<b>1,797</b>	<b>5,741</b>	<b>19,050</b>
<b>Key Assumptions (Rs b)</b>										
Gross Under Recovery	102	91	27	-7	12	22	19	21	213	74
Upstream Sharing	24	30	12	6	2	7	3	4	72	16
Oil Bonds	51	42	33	20	0	25	15	16	147	56
Net Under Recovery	28	18	-18	-33	10	-10	1	1	-6	2
Net Sharing (%)	27	20	-67	nm	85	-45	3	5	-3	2

E: MOSL Estimates; PAT adjusted for extraordinary and MAT

Harshad Borawake (HarshadBorawake@MotilalOswal.com)

## Indian Oil Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	IOC IN
	REUTERS CODE
S&P CNX: 4,959	IOC.BO

25 September 2009

Buy

Rs684

Previous Recommendation: Buy

Equity Shares (m)	1,214.0
52-Week Range (Rs)	688/299
1,6,12 Rel. Perf. (%)	13/2/51
M.Cap. (Rs b)	830.1
M.Cap. (US\$ b)	17.3

YEAR END	NET SALES (RS B)	PAT (RS B)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	2,279	79.1	66.4	34.5	10.3	1.9	19.7	17.4	0.5	9.6
03/09A	2,861	26.0	21.8	-67.1	31.4	1.8	5.8	8.2	0.4	16.9
03/10E	2,342	81.6	67.3	208.5	10.2	1.5	16.7	15.2	0.5	7.5
03/11E	2,265	73.3	60.3	-10.3	11.3	1.4	13.2	14.5	0.5	7.0

\*Consolidated

- Actual subsidy sharing, than business fundamentals will continue to determine profitability. We expect IOC to be compensated fully through upstream sharing and oil bonds. We expect IOC to get additional oil bonds of 1QFY10, as the government did not issue any in 1QFY10. We expect IOC to have net over-recovery of Rs30b in 2QFY10.
- We expect HPCL to report net profit of Rs26.8b v/s loss of Rs70.5b in 2QFY09. Loss in 2QFY09 was primarily due to large net under-recoveries (Rs50b) borne by the company.
- On the operational front, we expect throughput at 12.3mmt, marginally affected by partial shutdown at two of its refineries (down 1% QoQ and up 2% YoY).
- As announced in the budget speech, the government has set up an 'Expert Group' to recommend "viable and sustainable pricing policy" for four controlled products – petrol (MS), diesel (HSD), LPG and kerosene (SKO). The group is expected to submit its report in November 2009.
- For FY10, we build marginal sharing of 2.5% by OMCs. However, in FY11, we conservatively build 10% sharing in auto-fuel under-recoveries, given the uncertainty in policy changes. We have built GRM of US\$4.4/bbl in FY10 and US\$4.5/bbl in FY11.
- The stock is trading at 10.2x FY10E consolidated EPS of Rs67.3 and 1.5x FY10E BV. **Buy.**

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>883,996</b>	<b>862,612</b>	<b>703,687</b>	<b>595,967</b>	<b>586,252</b>	<b>679,942</b>	<b>639,824</b>	<b>647,817</b>	<b>3,046,261</b>	<b>2,553,835</b>
Change (%)	67.2	60.6	9.9	-17.1	-33.7	-21.2	-9.1	8.7	25.6	-16.2
<b>EBITDA</b>	<b>9,602</b>	<b>-60,941</b>	<b>32,177</b>	<b>86,171</b>	<b>41,409</b>	<b>44,208</b>	<b>15,751</b>	<b>16,378</b>	<b>67,010</b>	<b>117,746</b>
Change (%)	-32.3	nm	8.4	1,285.4	331.2	nm	-51.0	-81.0	-33.8	75.7
Depreciation	6,726	6,775	7,275	8,041	7,598	8,100	8,262	8,626	28,817	32,586
Interest	6,142	9,928	15,054	8,397	3,340	5,580	6,000	6,251	39,521	21,171
Other Income	7,490	7,263	19,831	10,031	23,625	10,697	10,465	8,065	44,615	52,853
<b>PBT</b>	<b>4,224</b>	<b>-70,381</b>	<b>29,679</b>	<b>79,765</b>	<b>54,096</b>	<b>41,225</b>	<b>11,954</b>	<b>9,566</b>	<b>43,286</b>	<b>116,842</b>
Tax	72	90	93	13,535	17,267	14,429	4,184	3,348	13,790	39,229
Rate (%)	1.7	-0.1	0.3	17.0	31.9	35.0	35.0	35.0	31.9	33.6
<b>PAT</b>	<b>4,151</b>	<b>-70,471</b>	<b>29,586</b>	<b>66,230</b>	<b>36,828</b>	<b>26,796</b>	<b>7,770</b>	<b>6,218</b>	<b>29,495</b>	<b>77,613</b>
Change (%)	-71.7	-284.6	41.5	nm	787.2	nm	-73.7	-90.6	-57.6	163.1
<b>Adj. PAT</b>	<b>4,151</b>	<b>-70,471</b>	<b>29,586</b>	<b>66,230</b>	<b>36,828</b>	<b>26,796</b>	<b>7,770</b>	<b>6,218</b>	<b>29,495</b>	<b>77,613</b>
<b>Key Assumptions (Rs b)</b>										
Gross Under Recovery	271	247	79	-12	32	54	50	54	586	190
Upstream Sharing	62	82	36	2	2	19	8	10	182	40
Oil Bonds	135	116	91	62	0	64	40	42	404	146
Net Under Recovery	73	50	-47	-75	30	-30	2	2	0	4
As a % of Gross	27	20	-60	nm	93	-55	4	4	0	2

E: MOSL Estimates

Harshad Borawake (HarshadBorawake@MotilalOswal.com)

## Indraprastha Gas

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	IGL IN
	REUTERS CODE
S&P CNX: 4,959	IGAS.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs165

Equity Shares (m)	140.0
52-Week Range (Rs)	182/92
1,6,12 Rel. Perf. (%)	-4/-17/16
M.Cap. (Rs b)	23.1
M.Cap. (US\$ b)	0.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	7,060	1,745	12.5	26.4	13.2	4.0	33.4	47.0	3.1	7.2
03/09A	8,528	2,011	11.9	-4.1	13.8	3.4	26.7	38.5	2.5	7.1
03/10E	10,388	2,011	14.4	20.2	11.5	2.9	27.1	39.2	2.0	5.6
03/11E	11,735	1,859	13.3	-7.5	12.4	2.5	21.7	31.5	1.7	5.6

- We expect IGL to report PAT of Rs503m (v/s Rs502m in 2QFY09 and Rs403m in 1QFY10).
- We expect CNG volumes to grow by 13% YoY to 174mmscm and PNG volumes to grow by 30% YoY to 17mmscm.
- IGL currently operates 182 CNG stations and plans to add 15-18 new stations over the next few quarters.
- Concerns over likely implications of Petroleum and Natural Gas Regulatory Board (PNGRB) regulations on the company remain. IGL has reported high EBITDA margin (~40%) and high RoCE (38-45%) over the last three years.
- The new PNGRB regulation would limit both the network tariff including compression charges (14% post-tax or 21.2% pre-tax RoCE). Though we do not expect any large cuts in selling prices in the near term, we believe IGL's ability to pass on the impending gas price hikes would be limited.
- The stock is trading at 11.4x FY10E EPS of Rs14.4. **Neutral.**

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>1,907</b>	<b>2,152</b>	<b>2,194</b>	<b>2,274</b>	<b>2,326</b>	<b>2,578</b>	<b>2,706</b>	<b>2,779</b>	<b>8,528</b>	<b>10,388</b>
Change (%)	17.9	23.6	20.1	21.4	-67.1	35.2	25.8	26.6	20.8	21.8
Raw Material Consumed	844	959	1,148	1,157	1,041	1,210	1,271	1,377	4,107	4,899
Staff Cost	54	54	63	65	62	64	65	66	235	257
Other Exp (incl Stock Adj)	254	288	305	336	373	387	406	375	1,184	1,541
<b>EBITDA</b>	<b>755</b>	<b>851</b>	<b>678</b>	<b>717</b>	<b>849</b>	<b>917</b>	<b>964</b>	<b>960</b>	<b>3,001</b>	<b>3,691</b>
% of Net Sales	39.6	39.6	30.9	31.5	36.5	35.6	35.6	34.6	35.2	35.5
Change (%)	9.9	13.5	-13.1	-8.4	-71.7	21.5	13.3	41.7	0.0	23.0
Depreciation	164	169	166	176	186	220	260	272	674	938
Other Income	63	69	66	65	64	65	70	90	262	289
<b>PBT</b>	<b>654</b>	<b>752</b>	<b>578</b>	<b>605</b>	<b>727</b>	<b>762</b>	<b>774</b>	<b>778</b>	<b>2,589</b>	<b>3,041</b>
Tax	218	249	195	202	244	259	263	264	864	1,031
Rate (%)	33.2	33.2	33.7	33.4	33.6	34.0	34.0	34.0	33.4	33.9
<b>PAT</b>	<b>437</b>	<b>502</b>	<b>383</b>	<b>403</b>	<b>483</b>	<b>503</b>	<b>511</b>	<b>514</b>	<b>1,725</b>	<b>2,011</b>
Change (%)	13.7	17.2	-14.9	-16.3	-72.3	15.2	1.8	34.1	-1.1	16.5

E: MOSL Estimates

## MRPL

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	MRPL IN
	REUTERS CODE
S&P CNX: 4,959	MRPL.BO

25 September 2009

Sell

Rs86

Previous Recommendation: Sell

Equity Shares (m)	1,752.6
52-Week Range (Rs)	102/30
1,6,12 Rel. Perf. (%)	-3/37/39
M.Cap. (Rs b)	151.2
M.Cap. (US\$ b)	3.1

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	327,179	10,979	6.7	124.8	12.8	4.0	38.9	27.6	0.5	8.2
03/09A	382,438	11,926	8.3	23.2	10.4	3.2	28.0	24.4	0.4	7.4
03/10E	298,760	8,998	5.1	-38.2	16.8	2.8	17.8	14.5	0.6	10.4
03/11E	288,283	7,541	4.3	-16.2	20.0	2.6	13.3	10.8	0.7	12.7

- We expect MRPL to report net profit of Rs1.6b (v/s net profit of Rs249m in 2QFY09 and Rs4.2b in 1QFY10).
- We expect MRPL to report GRM of US\$3.6/bbl v/s reported GRM of US\$2.3/bbl in 2QFY09 and US\$8/bbl in 1QFY10. 1QFY10 GRM was boosted by inventory gains on account of crude price increase from US\$48/bbl to ~US\$70/bbl.
- On the operational front, we expect refinery throughput at 3.2mmt (up 12% QoQ and down 3% YoY). Large QoQ increase is primarily due to shutdown in 1QFY10.
- For MRPL, we have built GRM of US\$4.8/bbl for FY10 and US\$4.6/bbl for FY11. The stock trades at 16.1x FY10E EPS of Rs5.1 and an EV of 10x FY10E EBITDA. **Sell.**

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>107,466</b>	<b>134,280</b>	<b>75,340</b>	<b>65,352</b>	<b>61,699</b>	<b>76,908</b>	<b>79,417</b>	<b>80,735</b>	<b>382,438</b>	<b>298,760</b>
Change (%)	44	76	-7	-31	-43	-43	5	24	16.9	-21.9
Raw Material (incl. inv chg)	89,394	130,544	77,583	53,854	54,413	71,376	73,689	74,840	351,375	274,319
Staff Cost	442	217	184	287	287	293	298	365	1,130	1,243
Other Expenditure	3,776	2,108	1,116	1,803	728	1,981	2,072	2,432	8,802	7,213
<b>EBITDA</b>	<b>13,855</b>	<b>1,410</b>	<b>-3,543</b>	<b>9,407</b>	<b>6,271</b>	<b>3,258</b>	<b>3,358</b>	<b>3,098</b>	<b>21,130</b>	<b>15,985</b>
% of Net Sales	12.9	1.1	-4.7	14.4	10.2	4.2	4.2	3.8	5.5	5.4
Change (%)	124	-69	-165	118	-55	131	nm	-67	3.2	-24.4
Depreciation	952	962	962	947	963	973	983	1,182	3,823	4,101
Interest	364	379	363	329	302	317	333	369	1,435	1,322
Other Income	648	369	520	708	1,291	420	580	603	2,244	2,893
<b>PBT</b>	<b>13,187</b>	<b>439</b>	<b>-4,349</b>	<b>8,839</b>	<b>6,296</b>	<b>2,388</b>	<b>2,623</b>	<b>2,149</b>	<b>18,117</b>	<b>13,456</b>
Tax	4,489	-185	-1,495	2,904	2,095	788	865	709	5,713	4,458
Prior Year Tax Adjustment	244	375	0	-140	0	0	0	0	479	
Rate (%)	35.9	-42.2	34.4	32.8	33.3	33.0	33.0	33.0	31.5	33.1
<b>PAT</b>	<b>8,454</b>	<b>249</b>	<b>-2,854</b>	<b>6,076</b>	<b>4,201</b>	<b>1,600</b>	<b>1,757</b>	<b>1,440</b>	<b>11,926</b>	<b>8,998</b>
Change (%)	129.4	-92.5	-196.9	169.6	-50.3	541.7	nm	-76.3	-2.3	-24.6
<b>Adjusted PAT</b>	<b>9,293</b>	<b>1,526</b>	<b>-2,334</b>	<b>6,076</b>	<b>3,680</b>	<b>1,600</b>	<b>1,757</b>	<b>1,440</b>	<b>14,561</b>	<b>8,477</b>
GRM (US\$/bbl)	18.0	2.3	-2.8	7.5	8.0	3.6	3.8	3.8	6.3	19.0

E: MOSL Estimates; \* Adjusted for MAT credit and forex gain/(loss)



ONGC

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	ONGC IN
	REUTERS CODE
S&P CNX: 4,959	ONGC.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs1,157

Equity Shares (m)	2,138.9
52-Week Range (Rs)	1,230/538
1,6,12 Rel. Perf. (%)	-9/-21/-15
M.Cap. (Rs b)	2,475.3
M.Cap. (US\$ b)	51.6

YEAR END	NET SALES (RS B)	PAT (RS B)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	968	199	92.9	11.8	12.5	3.2	27.7	27.5	2.3	5.3
03/09A	1,046	198	92.5	-0.4	12.5	2.7	23.4	22.7	2.2	5.3
03/10E	1,057	237	110.7	19.6	10.5	2.3	23.8	23.9	2.2	5.0
03/11E	1,104	255	119.1	7.6	9.7	2.0	22.0	22.2	2.0	4.6

Consolidated

- We expect ONGC to report net profit of Rs50b (v/s Rs48b in 2QFY09 and Rs48.5b in 1QFY10). We estimate EBITDA at Rs91b (v/s Rs84b in 2QFY09 and Rs95b in 1QFY10).
- We estimate gross realization at US\$71/bbl v/s US\$119/bbl in 2QFY09 and US\$61/bbl in 1QFY10.
- In 1QFY10, upstream (ONGC, GAIL and OIL) shared 100% subsidy towards auto fuel under-recoveries. We build similar sharing in 2QFY10 and assume ONGC's share at Rs25.4b (US\$13/bbl). We estimate net realization at US\$58/bbl (v/s US\$47/bbl in 2QFY09 and US\$58/bbl in 1QFY10).
- Decision on APM gas price hike is expected soon. We have built a moderate gas price hike of 5% in FY10 and 25% in FY11 in our estimates v/s expected hike of 25-30% as per media reports. The price hike is unlikely to be retrospective.
- Our Brent price assumption is US\$65/bbl for FY10 and FY11, and US\$70/bbl over the long term. We build upstream sharing at 90% of auto-fuel subsidies in our estimates. The stock trades at 10.5x FY10E consolidated EPS of Rs110.7. **Neutral.**

QUARTERLY PERFORMANCE (STANDALONE)

(RS BILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>200.5</b>	<b>174.1</b>	<b>124.4</b>	<b>137.0</b>	<b>148.8</b>	<b>156.5</b>	<b>176.5</b>	<b>182.4</b>	<b>636.0</b>	<b>664.2</b>
Change (%)	46.5	12.9	-17.8	-12.3	-25.8	-10.1	41.9	33.1	6.3	4.4
<b>EBITDA</b>	<b>117.6</b>	<b>84.1</b>	<b>50.0</b>	<b>57.8</b>	<b>95.0</b>	<b>90.8</b>	<b>109.5</b>	<b>115.3</b>	<b>309.5</b>	<b>410.6</b>
% of Net Sales	58.6	48.3	40.2	42.2	63.9	58.0	62.1	63.2	48.7	61.8
Change (%)	48.4	0.0	-37.7	0.1	-19.2	7.9	119.0	99.6	2.7	32.7
D,D & A	28.0	21.8	28.6	42.4	31.8	27.7	29.7	34.8	120.8	124.1
Other Income	10.5	14.9	12.2	14.1	10.4	12.5	13.8	12.3	51.7	49.1
<b>PBT</b>	<b>100.0</b>	<b>76.2</b>	<b>33.6</b>	<b>29.3</b>	<b>73.6</b>	<b>75.4</b>	<b>93.3</b>	<b>92.5</b>	<b>239.1</b>	<b>334.8</b>
Tax	34.1	28.1	11.7	7.2	25.1	25.6	31.7	30.7	81.2	113.2
Rate (%)	34.1	36.9	34.8	24.7	34.1	34.0	34.0	33.2	33.9	33.8
<b>PAT</b>	<b>65.9</b>	<b>48.1</b>	<b>21.9</b>	<b>22.1</b>	<b>48.5</b>	<b>49.7</b>	<b>61.6</b>	<b>61.8</b>	<b>158.0</b>	<b>221.7</b>
Change (%)	43.0	-5.7	-49.8	-16.0	-26.5	3.4	181.3	180.1	-5.4	40.3
Extraordinary Items	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0
<b>Adjusted PAT</b>	<b>66.4</b>	<b>48.1</b>	<b>24.7</b>	<b>22.1</b>	<b>48.5</b>	<b>49.7</b>	<b>61.6</b>	<b>61.8</b>	<b>161.3</b>	<b>221.7</b>
<b>Key Assumptions (US\$/bbl)</b>										
Gross Oil Realization	125.8	119.4	59.0	47.9	60.6	71.5	69.5	71.6	88.0	68.3
Subsidy	56.7	72.7	25.0	4.5	2.3	13.3	5.6	4.7	39.7	6.5
Net Oil Realization	69.1	46.7	34.0	43.4	58.3	58.1	63.9	66.8	48.3	61.8
<b>Subsidy (Rs b)</b>	<b>98.1</b>	<b>126.6</b>	<b>49.0</b>	<b>8.5</b>	<b>4.3</b>	<b>25.4</b>	<b>11.2</b>	<b>9.5</b>	<b>282.3</b>	<b>50.4</b>

E: MOSL Estimates

Harshad Borawake (HarshadBorawake@MotilalOswal.com)



## Reliance Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	RIL IN
	REUTERS CODE
S&P CNX: 4,959	RELI.BO

25 September 2009

Buy

Previous Recommendation: Buy

Rs2,130

Equity Shares (m)	1,573.4
52-Week Range (Rs)	2,490/930
1,6,12 Rel. Perf. (%)	-1/-34/-18
M.Cap. (Rs b)	3,350.9
M.Cap. (US\$ b)	69.8

YEAR	NET SALES	PAT	EPS	ADJ. EPS	P/E	ADJ. P/E	P/BV	ROE	ROCE	EV/
END	(RS B)	(RS B)	(RS)	(RS)	(X)	(X)	(X)	(%)	(%)	EBITDA
03/08A	1,334	153	105.0		20.3		3.8	21.5	17.5	14.7
03/09A	1,463	156	103.1	117.7	20.7	18.1	2.9	16.1	13.7	14.9
03/10E	1,979	195	118.3	133.1	18.0	16.0	2.4	15.3	14.5	10.1
03/11E	2,055	262	157.5	177.1	13.5	12.0	2.1	17.5	17.3	8.0

\* FY10E onwards includes RPET financials; Adj. EPS excludes treasury shares

- RPL's merger with RIL has been approved by the high court, with the appointed date being 1 April 2009. Hence, we have built RPL numbers in our quarterly estimates for FY10.
- For 2QFY10, we expect RIL to report net profit of Rs38b (v/s Rs41.2b in 2QFY09 and Rs37.4b in 1QFY10).
- In rupee terms, polymer prices were up 3-8% QoQ and down 18-27% YoY, while polyester prices were up ~7% QoQ and down 11% YoY, however, naphtha was up 19% QoQ and would marginally impact margins in 2QFY10.
- We have built average gas sales from KG-D6 at 32mmscmd in 2QFY10; expect profitability to be higher than 1Q.
- Key events to watch for in the near term would be (1) resolution of its court cases (v/s RNRL and NTPC); and (2) ramp-up of KG-D6 gas production.
- We continue to be positive, primarily due to large potential upsides from E&P. RIL currently trades at 16x FY10E adjusted EPS of Rs133.1 and 12x FY11E adjusted EPS of Rs177.1 (including RPL). **Buy.**

## QUARTERLY PERFORMANCE (STANDALONE)

(RS BILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>415.8</b>	<b>447.9</b>	<b>315.6</b>	<b>283.6</b>	<b>396.9</b>	<b>487.8</b>	<b>524.6</b>	<b>534.2</b>	<b>1,462.9</b>	<b>1,943.5</b>
Change (%)	40.8	39.8	-8.8	-23.9	-4.5	8.9	66.2	88.3	9.6	32.8
<b>EBITDA</b>	<b>61.2</b>	<b>64.7</b>	<b>53.6</b>	<b>54.4</b>	<b>63.8</b>	<b>76.0</b>	<b>97.0</b>	<b>109.3</b>	<b>234.0</b>	<b>346.1</b>
% of Net Sales	14.7	14.5	17.0	19.2	16.1	15.6	18.5	20.5	16.0	17.8
Change (%)	7.9	12.0	-8.1	-9.7	4.3	17.4	80.8	101.0	0.4	47.9
Depreciation	11.5	12.6	13.2	13.3	18.8	22.5	24.0	24.1	50.6	89.4
Interest	2.9	4.4	4.8	4.8	4.6	11.4	12.2	13.9	16.9	42.1
Other Income	2.3	1.5	6.6	9.9	7.1	6.6	8.2	10.5	20.3	32.4
<b>PBT</b>	<b>49.0</b>	<b>49.2</b>	<b>42.3</b>	<b>46.3</b>	<b>47.5</b>	<b>48.7</b>	<b>69.0</b>	<b>81.8</b>	<b>186.8</b>	<b>247.0</b>
Tax	7.9	8.0	7.2	7.1	10.1	10.7	14.3	16.6	30.3	51.7
Rate (%)	16.2	16.3	17.1	15.3	21.3	21.9	20.7	20.3	16.2	20.9
<b>Adj. PAT</b>	<b>41.1</b>	<b>41.2</b>	<b>35.0</b>	<b>39.2</b>	<b>37.4</b>	<b>38.0</b>	<b>54.7</b>	<b>65.2</b>	<b>156.5</b>	<b>195.3</b>
Change (%)	13.2	7.4	-9.8	0.1	-9.0	-7.7	56.3	66.4	2.5	24.8
<b>Reported PAT</b>	<b>41.1</b>	<b>41.2</b>	<b>35.0</b>	<b>39.2</b>	<b>37.4</b>	<b>38.0</b>	<b>54.7</b>	<b>65.2</b>	<b>156.5</b>	<b>195.3</b>
<b>PAT (excl. RPL)</b>	<b>41.1</b>	<b>41.2</b>	<b>35.0</b>	<b>39.2</b>	<b>36.4</b>	<b>36.3</b>	<b>46.5</b>	<b>55.3</b>	<b>156.5</b>	<b>174.5</b>
<b>Key Assumptions (US\$/bbl)</b>										
GRM	15.7	13.4	10.0	9.9	7.5	6.0	6.9	7.0	12.3	6.8
Singapore GRM	8.1	5.8	3.6	5.5	4.1	3.3	3.5	3.5	5.8	3.6
Premium/(disc) to Singapore	7.6	7.6	6.4	4.4	3.4	2.7	3.4	3.5	6.5	3.2
KG-D6 Gas Prodn (mmscmd)	-	-	-	-	19.3	32.0	48.0	64.7	0.0	41.0
<b>Segmental EBIT Breakup (Rs b)</b>										
Refining - RIL	30.4	27.7	18.8	19.5	11.2	8.3	10.3	10.4	96.5	40.1
Refining - RPL					2.1	7.2	12.4	13.6	0.0	35.4
Petrochemicals	15.8	19.0	16.6	17.2	20.8	19.5	17.9	18.0	68.6	76.2
E&P, others	5.1	6.5	6.1	4.9	10.2	18.5	32.4	43.2	22.6	104.2
<b>Total</b>	<b>51.3</b>	<b>53.3</b>	<b>41.5</b>	<b>41.6</b>	<b>44.3</b>	<b>53.5</b>	<b>73.0</b>	<b>85.2</b>	<b>187.7</b>	<b>255.9</b>

E: MOSL Estimates; \*RPL numbers are included in FY10

Harshad Borawake (HarshadBorawake@motilaloswal.com)

## Pharmaceuticals

BSE Sensex: 16,693

S&amp;P CNX: 4,959

25 September 2009

## COMPANY NAME

Aventis Pharma  
 Biocon  
 Cadila Healthcare  
 Cipla  
 Divi's Laboratories  
 Dr Reddy's Labs.  
 GSK Pharma  
 Glenmark Pharma  
 Jubilant Organosys  
 Lupin  
 Piramal Healthcare  
 Ranbaxy Labs.  
 Sun Pharmaceuticals

## Increasing MNC interest in India

Over the past few quarters, global MNC pharmaceutical companies have increased their engagement with India. Given the growth challenges in the developed world, most of these MNCs are targeting emerging economies as the future growth drivers. India features prominently in this strategy both, as an attractive market (growing at double-digits) and as a global sourcing base. This interest in India gained further strength in 2QFY10 with Sanofi acquiring majority stake in Shantha Biotech and strong rumours of large MNCs interested in acquiring equity stakes in some of the leading Indian companies.

## INDIA: INCREASING MNC INTEREST

COMPANY	INDIA PRESENCE	INCREASING SALES FORCE	OUTSOURCING FROM INDIA	HAS ENGAGEMENT IN INDIA INCREASED RECENTLY
Pfizer	Yes	Yes	Yes	Yes - made an open offer to minority shareholders
GSK	Yes	Yes – planning to add 150-200 MRs annually	Yes	Yes - looking for inorganic growth opportunities
Novartis	Yes		Yes	Yes - made an open offer to minority shareholders
Sanofi-Aventis	Yes	Yes	Yes	Acquired majority stake in Shantha Biotech valuing it at US\$780m
Merck (USA)	Yes-recent entry	Yes-Rapid addition to MR strength in last 2 years	Yes	Yes - Has very aggressive ramp-up plans for India
Eli Lilly	Yes		Yes	
Daichi	Strong presence through Ranbaxy		May explore through Ranbaxy	Acquired majority stake in Ranbaxy in 2008 valuing it at US\$8b
AstraZeneca	Yes	Yes – planning to double MR strength by CY10	Yes	Yes - significant addition to sales force

Source: Companies/MOSL

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
			SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
				% YOY	% QOQ		% YOY	% QOQ		% YOY	% QOQ
25.9.09											
<b>Pharmaceuticals</b>											
Aventis Pharma	1,522	Buy	2,525	1.9	1.1	500	4.4	-5.5	460	3.0	-2.4
Biocon	258	Buy	5,266	19.0	6.2	1,024	23.4	1.0	575	128.3	0.7
Cadila Health	519	Buy	9,274	22.6	2.6	2,138	27.2	5.0	1,213	25.7	-3.4
Cipla	267	Neutral	15,752	16.3	14.5	3,943	25.0	7.0	2,823	86.4	16.8
Divis Labs	569	Buy	2,673	-19.1	29.9	964	-40.8	44.5	800	-41.4	35.1
Dr Reddy's Labs	986	Buy	16,640	3.0	-8.5	2,746	18.0	-27.1	1,797	48.2	5.1
Glenmark Pharma	227	Neutral	5,787	3.2	6.4	1,413	-16.6	16.4	564	-40.2	5.5
GSK Pharma	1,578	Buy	5,114	11.7	11.8	1,775	9.0	9.0	1,415	7.3	7.5
Jubilant Organosys	223	Buy	9,800	4.2	9.3	1,650	-6.9	4.5	548	LP	-56.5
Lupin	1,135	Buy	11,055	18.3	1.8	1,917	7.2	-1.3	1,439	24.5	2.7
Piramal Healthcare	383	Buy	9,670	8.7	17.7	1,873	2.6	20.3	1,075	31.7	26.3
Ranbaxy Labs	410	Neutral	18,673	0.8	-1.5	715	-50.3	-41.1	193	24.0	-62.2
Sun Pharma	1,311	Buy	9,066	-23.0	15.1	3,078	-42.8	139.4	3,255	-36.2	98.7
<b>Sector Aggregate</b>			<b>121,297</b>	<b>4.9</b>	<b>5.1</b>	<b>23,736</b>	<b>-7.4</b>	<b>7.3</b>	<b>16,158</b>	<b>10.5</b>	<b>11.2</b>

Nimish Desai (NimishDesai@MotilalOswal.com)

### **Emerging markets and US to be key growth drivers**

We expect most of the generic companies to report higher sales in emerging markets and the US (excluding upsides from patent challenges). The trade channels in emerging economies have commenced re-stocking inventory while the local currencies have stabilized vs the US\$. These two factors are likely to augur well for growth in emerging markets for 2QFY10. The growth in the US will be driven mainly by increased pace of new product launches. This is especially true for the tier-2 generic companies, for which, past product filings with the US FDA are now coming up for approvals leading to increased pace of new launches. The exceptions to this trend will be Ranbaxy which will witness a 30-40% decline in US revenues due to the ongoing US FDA ban and Sun Pharma due to high base of last year and on-going US FDA issues at Caraco.

### **Stringent US FDA leads to cGMP problems at many leading companies...**

Over the past few quarters, many leading Indian pharmaceutical companies like Sun Pharma, Lupin and Cipla, have received 483s/warning letters from the US FDA related to cGMP non-compliance. Ranbaxy continues to be impacted by the part-ban imposed by the US FDA in Sep-2008. We believe that this has to partly do with the US FDA becoming more stringent in its approval process post the adverse experience with some of the Chinese facilities. Opening up of local offices in India by the US FDA will result in more frequent audits for Indian players. This implies that Indian companies will have to be ready for audits at short notices.

### **...Next few months will determine ability of Indian companies to satisfy US FDA**

We believe that the next few months will be crucial for some of the Indian generic players for determining their ability to satisfy cGMP norms of US FDA. Leading companies like Ranbaxy and Lupin are expecting a re-inspection of their facilities which have suffered from non-compliance of cGMP norms.

Of late, we have witnessed a significant improvement in management confidence at both Ranbaxy and Lupin for resolving the on-going US FDA issues. For Ranbaxy, this confidence stems from the fact that the company is now taking corrective actions in consultation with the US FDA. It has requested the US FDA for a re-inspection of Dewas facility (expected shortly) and is currently implementing an action plan to resolve the cGMP issues at its Paonta Sahib facility. Lupin, which had received a warning letter from the US FDA in 2008, is confident of resolving them and has indicated to the US FDA that it is ready for re-inspection of its Mandideep facility. The re-inspection is likely in the next few months.

Hence, the next few months are crucial for these companies for clearance of US FDA issues. Any failure on this front will erode investor sentiments and market capitalization, especially for Ranbaxy whose stock price has gone up in anticipation of favorable news flow on US FDA front.

### **Semi-regulated markets continue to be attractive...**

The size of the semi-regulated markets is expected to increase from US\$52b in 2008 to US\$92b by 2013. The opportunity spans more than 150 markets through Latin America, Asia, Eastern Europe and Australia. The current market share of Indian companies is merely about 6%, implying that there is substantial room for growth. Secondly, most of these markets are branded generic markets, thus, resulting in better margins compared with the US generic market (GPM of about 60-70% compared with about 40-50% for the US). Indian generic companies have already established a reasonable presence in some of these markets (like Russia, Latam) while they are in the process of strengthening their presence in some of the other markets (like China, Australia, New Zealand). We expect most of the Indian generic companies to report strong double-digit growth in RoW markets.

### **...easing liquidity/credit and recovery in currencies likely to result in double-digit growth**

In the past two quarters, global liquidity conditions have started easing partly. We believe that this is likely to enable the trade channels in emerging markets to re-stock inventories, which is likely to lead to double-digit growth for these markets. We also note that many emerging market currencies have partly recovered (against the US\$) which will also contribute to the positive growth momentum. Some of the key factors to watch out for over the next few quarters will be:

1. Improvement in working capital cycles in emerging markets – Ranbaxy, Glenmark and DRL are most exposed to these markets.
2. Extent of inventory correction undertaken by the global MNC pharmaceutical companies – Most Indian CRAMS companies will be impacted by this. We believe that this inventory correction can last till 1HFY10. A gradual re-stocking of inventory is expected in 2HFY10 which is likely to improve the performance of Indian CRAMS players in 2HFY10.

### **Low forex volatility to shift investor focus back to core operations**

The INR has not shown any significant movement vs the US\$ sequentially. This implies that forex volatility is likely to be lower in 2QFY10 as compared to the past few quarters. We believe that investor focus will now shift back to evaluating the core performance. Significant currency swings in the past few quarters had resulted in high earnings volatility for many Indian pharmaceutical companies, thus masking the core performance.

### **.. Adoption of revised AS-11 will also lead to lower forex volatility**

Given the relaxation on booking MTM forex losses (revised AS-11); some companies have adopted the new policy from 1QFY10. These companies will now be recording MTM forex gains/losses on long-term liabilities in B/S (as compared to previous practice

of recording it in the P&L). The following table gives a list of companies which have adopted the revised AS-11 and companies which are still following the previous AS-11:

REVISED AS-11	PREVIOUS AS-11	OTHERS
Biocon	Cipla	DRL – Follows IFRS
Jubilant Organosys	Divi's Labs	
Piramal Healthcare	Lupin	
Glenmark	Ranbaxy	
	Sun Pharma	

Source: Company/MOSL

### **Cipla, DRL to record operational improvement**

Of the larger generic companies, both Cipla and DRL are expected to record operational improvement for 2QFY10 while Ranbaxy and Sun Pharma will continue to suffer from US FDA issues. This is despite a stable forex environment due to following company-specific reasons:

1. Ranbaxy – muted core operational performance due to the on-going US FDA issues.
2. Cipla – improved operational performance due better product-mix and YoY depreciation of INR vs the US\$.
3. Sun Pharma – muted core operational performance due to on-going US FDA issues at Caraco
4. DRL – will show improved core operational performance due to improving profitability and strong growth in the US.

### **CRAMS players to reflect impact of inventory correction by customers**

Most Indian CRAMS companies will be impacted by the on-going inventory reduction undertaken by CRAMS customers. We believe that this inventory correction can last till 1HFY10. A gradual re-stocking of inventory is expected in 2HFY10 which is likely to improve the performance of Indian CRAMS players in 2HFY10.

### **MNC performance continues to be lackluster**

We expect our MNC pharmaceutical universe (Aventis and GSK) to record 7% topline growth for the quarter, mainly due to lower sales of Rabipur for Aventis. GSK's topline is expected to record 12% growth. However, EBITDA margins for both GSK Pharma and Aventis are likely to remain flat for the quarter.

## **Outlook**

### **Generics**

We believe that the worst is over for Indian generic companies and expect gradual improvement in their performance over the next two years. Emerging markets and the US are likely to be key revenue drivers in the short-to-medium term. Japan will be the next frontier of growth for generics in the long-term.

Geographically diversified operations, a pragmatic mix of IPR driven low-competition and normal products, vertically integrated operations and a differentiated business model are the key prerequisites for success in the generics space. Our top picks in the generic space are **Dr Reddy's, Sun Pharma** and **Lupin**.

### CRAMS

Despite the short-term adverse impact of inventory corrections, we believe that the Indian contract-manufacturing segment will see strong double-digit secular growth (given India's advantages) with the financial impact visible from 2HFY10. **Divi's Labs** and **Piramal Healthcare** remain our top picks among the CRAMS players.

### MNC pharma

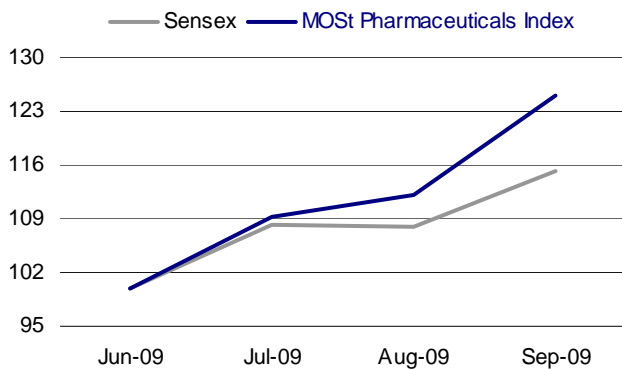
We remain favorably inclined towards MNC Pharma stocks in the long term. In our view, the current risk-reward equation is stacked in favor of MNC stocks. Leading Pharma MNCs are geared to gain from the opportunities arising in the stronger patent regime. We remain bullish on the long-term prospects of these companies. The potential upside from product patents would create 'option value' in these stocks over the longer term. It should be noted that some of the patented products may be launched by the parent through the 100% subsidiary route. However, we believe that most of the mass-market products (which need a large field force for promotion) are likely to be launched through the listed entities. **GSK Pharma** remains our top pick among the MNCs.

## Stock performance and valuations

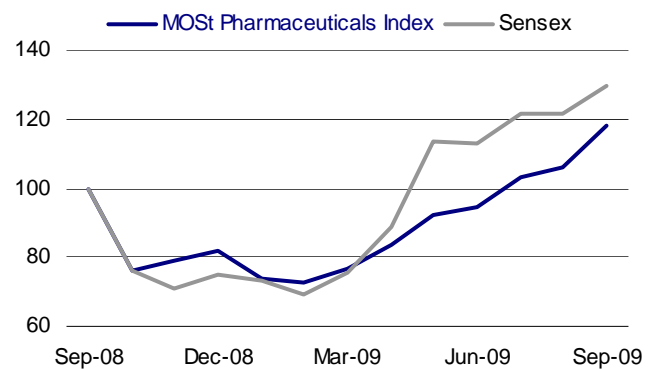
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Pharmaceuticals</b>						
Aventis Pharma	34	90	18	67	16	77
Biocon	13	39	-3	16	-5	26
Cadila Health	40	58	24	35	21	45
Cipla	4	17	-12	-6	-15	4
Divis Labs	2	-19	-15	-42	-17	-32
Dr Reddy' s Labs	30	89	14	66	12	76
GSK Pharma	29	32	13	9	11	19
Jubilant Organosys	33	-28	17	-51	15	-41
Lupin	27	59	11	36	8	45
Piramal Healthcare	27	15	10	-8	8	1
Glenmark Pharma	-1	-59	-18	-83	-20	-73
Ranbaxy Labs	53	38	37	15	35	25
Sun Pharma	1	-11	-15	-34	-18	-24

### RELATIVE PERFORMANCE - 3 MONTHS (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
	25.9	09												
<b>Pharmaceuticals</b>														
Aventis Pharma	1,522	Buy	72.2	76.9	87.1	21.1	19.8	17.5	15.7	15.2	12.9	21.7	20.5	20.4
Biocon	258	Buy	4.7	12.8	15.3	55.1	20.1	16.9	16.4	11.5	10.0	6.2	15.0	15.7
Cadila Health	519	Buy	22.2	31.0	36.7	23.3	16.7	14.1	12.4	9.9	8.5	28.7	31.2	29.4
Cipla	267	Neutral	10.0	14.2	16.8	26.7	18.8	15.9	17.7	14.0	12.0	17.9	21.2	21.0
Divis Labs	569	Buy	32.2	28.6	36.6	17.7	19.9	15.6	14.3	15.9	11.9	39.6	27.0	28.0
Dr Reddy' s Labs	986	Buy	-30.7	49.6	52.7	-32.1	19.9	18.7	14.1	14.4	13.7	-12.3	17.4	16.3
GSK Pharma	1,578	Buy	52.9	60.0	70.2	29.8	26.3	22.5	21.5	18.7	16.1	29.1	29.7	31.1
Glenmark Pharma	227	Neutral	4.2	9.7	13.8	53.7	23.5	16.4	24.1	12.6	10.7	7.0	12.2	15.0
Jubilant Organosys	223	Buy	15.9	24.5	18.6	14.0	9.1	12.0	9.7	9.7	8.2	18.6	27.2	16.7
Lupin	1,135	Buy	56.9	68.4	78.5	20.0	16.6	14.5	16.3	13.4	11.6	37.1	36.6	32.7
Piramal Healthcare	383	Buy	17.1	23.0	29.5	22.3	16.6	13.0	14.7	11.3	9.0	29.7	32.0	32.0
Ranbaxy Labs	410	Neutral	2.5	0.3	4.6	166.2	1225.7	90.0	38.5	93.7	40.5	2.4	0.3	4.3
Sun Pharma	1,311	Buy	87.8	57.7	66.4	14.9	22.7	19.7	12.8	20.6	16.9	30.2	15.9	16.0
<b>Sector Aggregate</b>						<b>29.9</b>	<b>21.9</b>	<b>18.5</b>	<b>16.3</b>	<b>15.8</b>	<b>13.2</b>	<b>16.0</b>	<b>18.6</b>	<b>19.0</b>



## Aventis Pharma

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	HOEC IN
	REUTERS CODE
S&P CNX: 4,959	HOEC.BO

25 September 2009

Buy

Rs1,522

Previous Recommendation: Buy

Equity Shares (m)	23.0
52-Week Range (Rs)	1,600/662
1,6,12 Rel. Perf. (%)	2/9/67
M.Cap. (Rs b)	35.1
M.Cap. (US\$ b)	0.7

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/ SALES	EVI/ EBITDA
12/07A	8,735	1,444	62.7	-14.7	24.3	5.2	21.5	33.1	3.5	18.1
12/08A	9,833	1,662	72.2	15.1	21.1	4.6	21.7	33.9	3.0	15.7
12/09E	9,814	1,771	76.9	6.5	19.8	4.1	20.5	31.1	2.9	15.2
12/10E	11,071	2,007	87.1	13.3	17.5	3.6	20.4	30.9	2.4	12.9

\* Standalone results

- APL's 3QCY09 topline is expected to grow by 2% to Rs2.5b due to a 4.5% de-growth in the domestic formulations business, given the discontinuation of Rabipur sales. Export revenues at Rs657m are expected to record 26% on a low base.
- EBITDA margins are expected to improve only marginally by 50bp mainly due to absence of Rabipur sales (a high margin product contributing about 12% of revenue).
- We estimate PAT growth of 3% for the quarter at Rs460m due to loss of Rabipur revenues.

We believe that APL will be one of the key beneficiaries of the patent regime in the long-term. The parent has a strong R&D pipeline with a total of 81 products undergoing clinical trials, of which 42 are in Phase-III, some of which are likely to be launched in India. Topline growth continues to be elusive and is thus impacting margins and earnings for APL. We expect the company to record EPS of Rs76.9 for CY09E (6.5% YoY growth despite absence of Rabipur) and Rs87.1 for CY10E (up 13.3%). It is currently valued at 19.8x CY09E and 17.5x CY10E EPS. We believe that the stock price performance is likely to remain muted in the short-term till clarity emerges on growth drivers in absence of Rabipur revenues. **Maintain Buy.**

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E DECEMBER	CY08				CY09				CY08	CY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
<b>Net Sales</b>	<b>2,169</b>	<b>2,486</b>	<b>2,479</b>	<b>2,699</b>	<b>2,289</b>	<b>2,499</b>	<b>2,525</b>	<b>2,501</b>	<b>9,833</b>	<b>9,814</b>
YoY Change (%)	1.9	8.0	9.5	32.3	5.5	0.5	1.9	-7.3	12.6	-0.2
Total Expenditure	1,764	1,982	2,000	2,232	1,899	1,970	2,025	2,062	7,978	7,956
<b>EBITDA</b>	<b>405</b>	<b>504</b>	<b>479</b>	<b>467</b>	<b>390</b>	<b>529</b>	<b>500</b>	<b>439</b>	<b>1,855</b>	<b>1,858</b>
Margins (%)	18.7	20.3	19.3	17.3	17.0	21.2	19.8	17.6	18.9	18.9
Depreciation	51	44	43	44	42	43	47	57	182	189
Interest	0	0	0	0	0	0	0	0	3	0
Other Income	189	196	253	288	320	249	243	201	926	1,013
<b>PBT</b>	<b>543</b>	<b>656</b>	<b>689</b>	<b>711</b>	<b>668</b>	<b>735</b>	<b>696</b>	<b>584</b>	<b>2,596</b>	<b>2,683</b>
Tax	198	238	243	255	263	264	237	148	934	912
Effective Tax Rate (%)	36.5	36.3	35.3	35.9	39.4	35.9	34.0	25.4	36.0	34.0
<b>Reported PAT</b>	<b>345</b>	<b>418</b>	<b>446</b>	<b>456</b>	<b>405</b>	<b>471</b>	<b>460</b>	<b>435</b>	<b>1,662</b>	<b>1,771</b>
<b>Adj PAT</b>	<b>345</b>	<b>418</b>	<b>446</b>	<b>456</b>	<b>405</b>	<b>471</b>	<b>460</b>	<b>435</b>	<b>1,662</b>	<b>1,771</b>
YoY Change (%)	-20.3	12.1	21.2	68.9	17.4	12.7	3.0	-4.6	15.1	6.5
Margins (%)	15.9	16.8	18.0	16.9	17.7	18.8	18.2	17.4	16.9	18.0

E: MOSL Estimates

## Biocon

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	BIOS IN
	REUTERS CODE
S&P CNX: 4,959	BION.BO

25 September 2009

Buy

Rs258

Previous Recommendation: Buy

Equity Shares (m)	200.0
52-Week Range (Rs)	260/87
1,6,12 Rel. Perf. (%)	6/16/16
M.Cap. (Rs b)	51.5
M.Cap. (US\$ b)	1.1

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/ SALES	EVI/ EBITDA
03/08A	10,542	2,250	22.5	12.4	11.4	1.7	15.2	13.6	4.7	16.5
03/09A	16,091	935	4.7	-79.2	55.1	3.4	6.2	6.2	3.3	16.4
03/10E	21,385	2,566	12.8	174.5	20.1	3.0	15.0	15.7	2.4	11.5
03/11E	23,920	3,054	15.3	19.0	16.9	2.7	15.7	16.2	2.1	10.0

- Biocon's 2QFY10 topline is expected to grow by 19% mainly due to a 32% increase in contract research revenues due to favourable currency and gradual scale-up of the BMS contract as well as higher growth in AxiCorp operations (Germany) due to supply of Metformin under AOK contract.
- EBITDA margins are expected to expand by 70bp due to favourable currency and incremental contribution from supply of MMF to the US market.
- Biocon has converted all its forex hedges into cash-flow hedges (making them "effective hedges") on which no MTM provision for forex losses is to be made. The company has also adopted the revised AS-11 guidelines, although the impact due to this change is negligible. This implies that the impact of forex losses/gains on the P&L will be limited only to the extent of actual losses/gains. This will result in negligible forex volatility for 2QFY10 as compared to Rs255m of forex losses for 2QFY09 thus boosting PAT by 128% to Rs575m.

Traction in the company's Insulin and contract research initiative, coupled with incremental contribution from immunosuppressants should augur well for Biocon's FY10E performance. However, higher R&D costs, higher depreciation and expenses linked to the scale-up of the domestic formulations business will continue to temper down earnings growth. We expect FY10 EPS of Rs12.8 (up 174% due to low-base) and FY11 EPS of Rs15.3 (up 19%). Biocon is currently valued at 20.1x FY10E and 16.9x FY11E earnings. Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>2,639</b>	<b>4,427</b>	<b>4,362</b>	<b>4,663</b>	<b>4,959</b>	<b>5,266</b>	<b>5,456</b>	<b>5,717</b>	<b>16,488</b>	<b>21,397</b>
YoY Change (%)	-2.6	58.7	84.1	58.6	87.9	19.0	25.1	22.6	52.5	29.8
Total Expenditure	2,063	3,598	3,420	3,765	3,946	4,243	4,297	4,419	12,853	16,905
<b>EBITDA</b>	<b>576</b>	<b>830</b>	<b>943</b>	<b>898</b>	<b>1,013</b>	<b>1,024</b>	<b>1,159</b>	<b>1,298</b>	<b>3,635</b>	<b>4,493</b>
Margins (%)	21.8	18.7	21.6	19.2	20.4	19.4	21.2	22.7	22.0	21.0
Depreciation	253.0	290.4	270.9	306.2	324.0	340.0	360.0	369.5	1,102.5	1,393.5
Interest	37.0	42.2	36.3	61.3	56.0	55.0	60.0	72.7	176.6	243.7
Other Income	-129.0	-190.2	-296.0	-211.3	94.0	100.0	120.0	54.4	-827.4	368.4
<b>PBT</b>	<b>157</b>	<b>307</b>	<b>339</b>	<b>319</b>	<b>727</b>	<b>729</b>	<b>859</b>	<b>910</b>	<b>1,528</b>	<b>3,224</b>
Tax	18	61	60	-20	142	128	151	125	118	546
Rate (%)	11.5	19.9	17.7	-6.2	19.5	17.6	17.6	13.8	7.7	16.9
Minority Interest	-10	-6	0	86	14	25	25	36	71	100
<b>PAT</b>	<b>149</b>	<b>252</b>	<b>279</b>	<b>253</b>	<b>571</b>	<b>575</b>	<b>683</b>	<b>748</b>	<b>1,339</b>	<b>2,578</b>
YoY Change (%)	-71.9	-53.3	-47.4	-72.4	283.5	128.3	144.5	196.1	-46.8	92.5
Margins (%)	5.6	5.7	6.4	5.4	11.5	10.9	12.5	13.1	8.1	12.0

E: MOSL Estimates

Nimish Desai (NimishDesai@MotilalOswal.com)

## Cadila Healthcare

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	CDH IN
	REUTERS CODE
S&P CNX: 4,959	CADI.BO

25 September 2009

Buy

Rs519

Previous Recommendation: Buy

Equity Shares (m)	125.6
52-Week Range (Rs)	528/222
1,6,12 Rel. Perf. (%)	9/30/35
M.Cap. (Rs b)	65.1
M.Cap. (US\$ b)	1.4

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/ SALES	EVI/ EBITDA
03/08A	23,229	2,632	20.5	9.9	25.3	6.1	26.7	23.1	3.1	15.8
03/09A	29,275	3,228	22.2	8.4	23.3	5.9	26.9	23.6	2.6	12.4
03/10E	35,724	4,224	31.0	39.4	16.7	4.7	31.2	22.9	2.2	10.2
03/11E	41,173	5,011	36.7	18.6	14.1	3.7	29.4	21.8	1.9	8.8

- Cadila's 2Q topline is likely to record 22.6% growth led by a 36% growth in exports (contributing 45% of revenues). The company's US revenues will show increased traction due to favourable YoY currency movement and incremental contribution from new launches. Domestic revenues are expected to grow by 11.6% for the quarter.
- EBITDA margins are likely to expand by 90bp to 23.1% led by favourable product and geographical mix and reduced other expenses.
- PAT is likely to record 25.7% growth to Rs1.2b for the quarter due to above reasons and partly boosted by low base of 2QFY09 (due to forex losses).

Traction in international business, commencement of Hospira supplies coupled with a de-risked business model should ensure good long-term potential for the company. We expect Cadila to record 18% top-line CAGR for FY09-11 led mainly by its international business. We expect the company to maintain RoE of more than 25% over the next two years. We expect Cadila to record EPS of Rs31 for FY10E (up 39.4% on low base) and Rs36.7 for FY11E (up 18.6%). Cadila is currently valued at 16.7x FY10E and 14.1x FY11E consolidated earnings. Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Revenues</b>	<b>6,985</b>	<b>7,566</b>	<b>7,491</b>	<b>7,233</b>	<b>9,036</b>	<b>9,274</b>	<b>8,884</b>	<b>8,530</b>	<b>29,275</b>	<b>35,724</b>
YoY Change (%)	22.1	24.2	29.3	28.7	29.4	22.6	18.6	17.9	26.0	22.0
Total Expenditure	5,524	5,884	6,067	5,743	6,998	7,136	7,203	6,769	23,217	28,106
<b>EBITDA</b>	<b>1,461</b>	<b>1,681</b>	<b>1,425</b>	<b>1,491</b>	<b>2,037</b>	<b>2,138</b>	<b>1,681</b>	<b>1,762</b>	<b>6,057</b>	<b>7,618</b>
Margins (%)	20.9	22.2	19.0	20.6	22.5	23.1	18.9	20.7	20.7	21.3
Depreciation	246	259	299	314	296	320	320	338	1,118	1,274
Interest	148	99	233	440	229	240	260	293	1,205	1,023
Other Income	27	-269	-11	172	28	35	40	48	204	151
<b>PBT before EO Income</b>	<b>1,094</b>	<b>1,054</b>	<b>881</b>	<b>909</b>	<b>1,540</b>	<b>1,613</b>	<b>1,141</b>	<b>1,179</b>	<b>3,938</b>	<b>5,472</b>
EO Exp/(Inc)	0	18	0	223	9	0	0	-9	241	0
<b>PBT after EO Income</b>	<b>1,094</b>	<b>1,036</b>	<b>881</b>	<b>686</b>	<b>1,531</b>	<b>1,613</b>	<b>1,141</b>	<b>1,188</b>	<b>3,697</b>	<b>5,472</b>
Tax	123	101	284	158	242	360	300	258	666	1,160
Rate (%)	11.3	9.7	32.2	23.0	15.8	22.3	26.3	21.7	18.0	21.2
Minority Int/Adj on Consol	74	-14	-8	-51	40	40	22	-15	1	88
<b>Reported PAT</b>	<b>897</b>	<b>949</b>	<b>605</b>	<b>579</b>	<b>1,248</b>	<b>1,213</b>	<b>819</b>	<b>945</b>	<b>3,031</b>	<b>4,224</b>
<b>Adj PAT</b>	<b>897</b>	<b>965</b>	<b>606</b>	<b>796</b>	<b>1,256</b>	<b>1,213</b>	<b>819</b>	<b>937</b>	<b>3,228</b>	<b>4,224</b>
YoY Change (%)	21.4	17.4	10.3	53.2	40.0	25.7	35.2	17.7	22.7	30.9
Margins (%)	12.8	12.8	8.1	11.0	13.9	13.1	9.2	11.0	11.0	11.8

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

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Cipla

Neutral

Rs267

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	CIPLA IN
	REUTERS CODE
S&P CNX: 4,959	CIPL.BO

25 September 2009

Previous Recommendation: Neutral

Equity Shares (m)	777.3
52-Week Range (Rs)	295/146
1,6,12 Rel. Perf. (%)	-4/-41/-6
M.Cap. (Rs b)	207.7
M.Cap. (US\$ b)	4.3

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	42,033	7,014	9.0	3.6	29.6	5.5	18.7	19.1	5.1	25.5
03/09A	52,343	7,768	10.0	10.6	26.7	4.8	17.9	17.1	4.1	17.7
03/10E	61,727	11,052	14.2	41.8	18.8	4.0	21.2	22.0	3.5	14.0
03/11E	71,353	13,041	16.8	17.8	15.9	3.4	21.0	22.3	3.0	12.0

- Cipla's 2QFY10 topline is likely to grow by 16.3% led mainly by a 28% increase in other operating income and 19.5% growth in formulation export revenues. Domestic business growth is likely to be about 13%. Other operating income (including technology licensing income) is likely to aid topline growth with a 28% increase to Rs668m.
- EBITDA margins are likely to expand by 170bp YoY due to improving product-mix, favourable YoY currency movement and the significant increase in other operating income (which adds directly to EBITDA).
- Lower forex volatility of the INR v/s the US\$ coupled with reduced forex hedges (US\$134m) is likely to result in negligible forex impact. The company has not adopted the revised AS-11 and hence the MTM forex gains/losses continue to reflect in the P&L.
- PAT is likely to record 86% growth to Rs2.82b led by better operational performance and partly boosted by low base.

We believe that Cipla has one of the strongest generic pipelines amongst Indian companies. It has tie-ups with 21 US-based generic companies for supply of generic products. This coupled with its low-risk strategy and strong capex should ensure good long-term potential. US FDA compliance and increasing working capital requirements remain our key concerns for the company. We expect Cipla to record EPS of Rs14.2 for FY10E (up 41.5% on a low base) and Rs16.8 for FY11E (up 17.8%) resulting in 29% EPS CAGR for FY09-11 on a low base (due to forex losses). Cipla is currently valued at 18.8x FY10E and 15.9x FY11E earnings. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>12,071</b>	<b>13,547</b>	<b>13,420</b>	<b>13,305</b>	<b>13,760</b>	<b>15,752</b>	<b>15,866</b>	<b>16,349</b>	<b>52,343</b>	<b>61,727</b>
YoY Change (%)	33.9	23.3	21.5	21.1	14.0	16.3	18.2	22.9	24.5	17.9
Total Expenditure	9,371	10,392	10,035	10,326	10,075	11,809	12,130	12,221	40,124	46,235
<b>EBITDA</b>	<b>2,701</b>	<b>3,155</b>	<b>3,385</b>	<b>2,978</b>	<b>3,685</b>	<b>3,943</b>	<b>3,737</b>	<b>4,128</b>	<b>12,219</b>	<b>15,492</b>
Margins (%)	22.4	23.3	25.2	22.4	26.8	25.0	23.6	25.3	23.3	25.1
Depreciation	382	406	412	318	458	550	570	622	1,518	2,200
Interest	37	56	110	127	105	110	100	220	329	534
Other Income	-576	-876	-241	335	-150	160	250	460	-1,359	720
<b>Profit before Tax</b>	<b>1,705</b>	<b>1,817</b>	<b>2,622</b>	<b>2,869</b>	<b>2,972</b>	<b>3,443</b>	<b>3,317</b>	<b>3,746</b>	<b>9,013</b>	<b>13,478</b>
Tax	305	303	388	250	555	620	597	654	1,245	2,426
Rate (%)	17.9	16.6	14.8	8.7	18.7	18.0	18.0	17.5	13.8	18.0
<b>Reported PAT</b>	<b>1,400</b>	<b>1,514</b>	<b>2,234</b>	<b>2,619</b>	<b>2,417</b>	<b>2,823</b>	<b>2,720</b>	<b>3,092</b>	<b>7,768</b>	<b>11,052</b>
YoY Change (%)	16.9	-20.6	6.1	85.1	72.6	86.4	21.7	18.1	17.3	42.3
Margins (%)	11.6	11.2	16.6	19.7	17.6	17.9	17.1	18.9	14.8	17.9

E: MOSL Estimates

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## Divi's Laboratories

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	DIVI.N
	REUTERS CODE
S&P CNX: 4,959	DIVI.BO

25 September 2009

Buy

Rs569

Previous Recommendation: Buy

Equity Shares (m)	129.5
52-Week Range (Rs)	720/383
1,6,12 Rel. Perf. (%)	11/-44/-42
M.Cap. (Rs b)	73.7
M.Cap. (US\$ b)	1.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	10,328	3,476	26.9	81.1	21.1	8.5	49.5	47.2	7.2	17.7
03/09A	11,803	4,166	32.2	19.5	17.7	5.9	39.6	40.6	6.3	14.3
03/10E	11,622	3,705	28.6	-11.1	19.9	4.9	27.0	29.9	6.0	15.9
03/11E	13,941	4,735	36.6	27.8	15.6	3.9	28.0	31.2	4.8	11.9

- Divi's 2QFY10 topline is expected to de-grow by 19% to Rs2.6b reflecting the adverse impact of the on-going inventory corrections undertaken by CRAMS customers. We believe that this impact will last till 1HFY10 and expect a recovery in CRAMS revenues beginning 2HFY10 onwards. The company commissioned its Carotenoids facility in June 2009 and we expect a gradual scale-up in revenues from this initiative over the next two years.
- EBITDA margins are likely to decline by 13.2% points to 36.1% reflecting the above impact as well as the high base effect of 2QFY09 which included supplies of a high-margin product.
- Bottomline is expected de-grow by 41% for the quarter reflecting the slowdown in CRAMS business and the reduction in EBITDA margins.

We expect Divi's to be a key beneficiary of the increased pharmaceutical outsourcing from India given its strong relationships with global innovator pharmaceutical companies. We expect that Divi's is likely to face a challenging 1HFY10 given the high base of last year, coupled with inventory correction by customers. We note that near-term earnings visibility is contingent on innovator companies re-starting sourcing from CRAMS companies. Divi's is currently valued at 19.9x FY10E and 15.6x FY11E EPS. We continue to be positive about Divi's long-term prospects. **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Op Revenue</b>	<b>2,661</b>	<b>3,305</b>	<b>2,648</b>	<b>3,191</b>	<b>2,058</b>	<b>2,673</b>	<b>3,150</b>	<b>3,741</b>	<b>11,803</b>	<b>11,622</b>
YoY Change (%)	16.7	36.3	-6.9	14.8	-22.6	-19.1	19.0	17.2	14.3	-1.5
Total Expenditure	1,473	1,676	1,565	1,912	1,392	1,709	1,937	2,220	6,625	7,258
<b>EBITDA</b>	<b>1,188</b>	<b>1,629</b>	<b>1,083</b>	<b>1,279</b>	<b>667</b>	<b>964</b>	<b>1,213</b>	<b>1,520</b>	<b>5,178</b>	<b>4,364</b>
Margins (%)	44.6	49.3	40.9	40.1	32.4	36.1	38.5	40.6	43.9	37.5
Depreciation	107	119	123	129	129	133	135	139	479	536
Interest	20	18	16	18	8	12	12	17	72	50
Other Income	-38	0	-63	-44	143	90	100	99	-145	432
<b>PBT before EO Income</b>	<b>1,023</b>	<b>1,491</b>	<b>880</b>	<b>1,088</b>	<b>673</b>	<b>909</b>	<b>1,166</b>	<b>1,463</b>	<b>4,482</b>	<b>4,210</b>
EO Income	0	0	0	0	-540	0	0	0	0	-540
<b>PBT after EO Income</b>	<b>1,023</b>	<b>1,491</b>	<b>880</b>	<b>1,088</b>	<b>132</b>	<b>909</b>	<b>1,166</b>	<b>1,463</b>	<b>4,482</b>	<b>3,669</b>
Tax	42	101	59	64	87	109	140	104	266	440
Deferred Tax	16	26	26	-18	2	0	0	-2	50	0
Rate (%)	5.7	8.5	9.6	4.2	67.5	12.0	12.0	7.0	7.0	12.0
<b>Reported PAT</b>	<b>965</b>	<b>1,364</b>	<b>795</b>	<b>1,042</b>	<b>43</b>	<b>800</b>	<b>1,026</b>	<b>1,361</b>	<b>4,166</b>	<b>3,229</b>
<b>Adj PAT</b>	<b>965</b>	<b>1,364</b>	<b>795</b>	<b>1,042</b>	<b>592</b>	<b>800</b>	<b>1,026</b>	<b>1,361</b>	<b>4,166</b>	<b>3,705</b>
YoY Change (%)	43.4	49.5	-21.0	20.8	-38.7	-41.4	29.0	30.5	20.6	-11.1
Margins (%)	36.3	41.3	30.0	32.7	28.8	29.9	32.6	36.4	35.3	31.9

E: MOSL Estimates

Nimish Desai (NimishDesai@MotilalOswal.com)

## Dr Reddy's Laboratories

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	DR IN
	REUTERS CODE
S&P CNX: 4,959	REDY.BO

25 September 2009

Buy

Previous Recommendation: Buy

Rs986

Equity Shares (m)	168.4
52-Week Range (Rs)	1,001/357
1,6,12 Rel. Perf. (%)	16/58/66
M.Cap. (Rs b)	166.0
M.Cap. (US\$ b)	3.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A*	69,441	-5,169	-30.7	-210.6	-31.2	3.8	-12.3	-3.3	2.5	13.8
03/10E*	71,417	8,348	49.6							
03/10E	69,319	7,614	45.2		21.2	3.4	17.4	14.5	2.4	14.1
03/11E	77,039	8,878	52.7	16.6	18.2	3.0	16.3	14.3	2.2	13.3
03/11E*	80,564	10,476	62.2	37.6						

\* - includes patent challenge/low competition upsides

- We expect DRL's topline to grow by only 3% to Rs16.64b impacted by YoY lower growth for the branded formulations business (both exports and domestic sales) and a 34% de-growth in European generic sales. A strong 25% revenue growth in the US is expected to partly compensate for this adverse impact.
- However, EBITDA margins are expected to improve by almost 190bp to 16.5% due to strong growth in the US (partly boosted by the positive impact of currency depreciation YoY) and improving profitability of the business.
- We expect a PAT growth of 48% to Rs1.8b for the quarter. We do not expect any significant contribution from generic Imitrex due to the pre-existing inventory with trade channels.

Traction in the emerging markets and US businesses, and focus on improving profitability will be the key growth drivers for DRL over next two years. We expect EPS of Rs45.2 for FY10 (vs net loss for FY09) and Rs52.7 for FY11 (up 16.6%), leading to 23% EPS CAGR for FY08-11. Our estimates exclude the upsides from patent challenges / low-competition opportunities in the US. DRL is currently valued at 21.2x FY10E and 18.2x FY11E core earnings. Our DCF value of generic Arixtra, Prilosec OTC and Sumatriptan (the visible opportunities of the Para-IV/low-competition pipeline) is Rs26/sh. Maintain **Buy**.

## GLOBAL QUARTERLY PERFORMANCE (US GAAP)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Gross Sales</b>	<b>15,038</b>	<b>16,152</b>	<b>18,401</b>	<b>19,850</b>	<b>18,189</b>	<b>16,640</b>	<b>17,940</b>	<b>18,648</b>	<b>69,441</b>	<b>71,417</b>
YoY Change (%)	25.1	27.5	49.3	52.7	21.0	3.0	-2.5	-6.1	38.9	2.8
<b>EBITDA</b>	<b>1,815</b>	<b>2,326</b>	<b>4,202</b>	<b>4,614</b>	<b>3,767</b>	<b>2,746</b>	<b>2,870</b>	<b>2,929</b>	<b>12,946</b>	<b>12,312</b>
Margins (%)	12.1	14.4	22.8	23.2	20.7	16.5	16.0	15.7	18.6	17.2
Depreciation & Amortization	391	472	339	14,339	507	505	505	511	15,526	2,028
Other Income	166	-338	-1,540	158	-89	-75	-75	12	-1,416	-227
<b>Profit before Tax</b>	<b>1,590</b>	<b>1,516</b>	<b>2,323</b>	<b>-9,567</b>	<b>3,171</b>	<b>2,166</b>	<b>2,290</b>	<b>2,431</b>	<b>-3,996</b>	<b>10,057</b>
Tax	242	303	399	240	726	368	389	226	1,173	1,710
Rate (%)	15.2	20.0	17.2	-2.5	22.9	17.0	17.0	9.3	-29.4	17.0
<b>Reported PAT</b>	<b>1,348</b>	<b>1,213</b>	<b>1,924</b>	<b>-9,807</b>	<b>2,445</b>	<b>1,797</b>	<b>1,901</b>	<b>2,204</b>	<b>-5,169</b>	<b>8,347</b>
One Time & EO (Exp)/Inc	0	0	1,027	1,243	734	0	0	0	2,270	734
<b>Adjusted PAT</b>	<b>1,348</b>	<b>1,213</b>	<b>897</b>	<b>-11,049</b>	<b>1,711</b>	<b>1,797</b>	<b>1,901</b>	<b>2,204</b>	<b>-7,438</b>	<b>7,613</b>
YoY Change (%)	-26.3	0.3	-	-1,170.3	26.9	48.2	111.9	-120.0	-259.0	-202.3
Margins (%)	9.0	7.5	4.9	-55.7	9.4	10.8	10.6	11.8	-10.7	10.7

E: MOSL Estimates; DRL commenced IFRS reporting wef 2QFY09. Past financials are as per US GAAP. Estimates do not include one-off upsides



## GlaxoSmithKline Pharmaceuticals

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	GLXO IN
	REUTERS CODE
S&P CNX: 4,959	GLAX.BO

25 September 2009

Buy

Rs1,578

Previous Recommendation: Buy

Equity Shares (m)	84.7
52-Week Range (Rs)	1,602/930
1,6,12 Rel. Perf. (%)	6/-23/9
M.Cap. (Rs b)	133.7
M.Cap. (US\$ b)	2.8

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/07A	15,703	3,997	47.2	10.5	33.4	9.8	29.4	44.8	7.6	23.9
12/08A	16,604	4,484	52.9	12.2	29.8	8.7	29.1	44.0	7.1	21.5
12/09E	18,265	5,080	60.0	13.3	26.3	7.8	29.7	44.2	6.4	18.7
12/10E	20,456	5,942	70.2	17.0	22.5	7.0	31.1	46.4	5.6	16.1

- We expect GSK's topline to grow by 11.7% to Rs5.1b led by double-digit growth in Priority Products (60-70% of sales). DPCO products (~26% of sales) are likely to record single-digit revenue growth.
- EBITDA margins are likely to decline marginally by 90bp to 34.7% due to high base.
- PAT is expected to grow by 7.3% for the quarter due to high base effect.

We believe GSK's topline growth is gradually improving with the company expected to record ~10-12% growth for the next two years. We believe that this growth trajectory will improve further in the long-term and post CY13; it is likely to outperform the average industry growth of 12%. Given the high profitability of operations, we expect this growth to lead to sustainable double-digit earnings growth and RoE of ~30%. This growth is likely to be funded through miniscule capex (Rs250-300m/year) and negative net working capital. We believe GSK is one of the best plays on IPR regime in India with plans to launch 9 patented/low-competition products for CY08-10, of which 5 have already been launched. These launches are expected to bring-in long-term benefits. GSK's parent is fully committed to the listed entity, which is evident from the fact that it is proposing to launch most of the patented products through the listed entity. GSK deserves premium valuations due to strong parentage (giving access to large product pipeline), brand-building ability and likely positioning in post patent era. We expect GSK to record CY09 EPS of Rs60 (up 13.3%) and CY10 EPS of Rs70.2 (up 17%). The stock is currently valued at 26.3x CY09E and 22.5x CY10E earnings. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY08				CY09				CY08	CY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
<b>Net Sales</b>	<b>4,215</b>	<b>4,163</b>	<b>4,579</b>	<b>3,647</b>	<b>4,572</b>	<b>4,574</b>	<b>5,114</b>	<b>4,005</b>	<b>16,604</b>	<b>18,265</b>
YoY Change (%)	0.3	6.3	9.2	7.5	8.5	9.9	11.7	9.8	5.7	10.0
Total Expenditure	2,780	2,734	2,950	2,628	2,926	2,945	3,339	2,794	11,161	12,023
<b>EBITDA</b>	<b>1,435</b>	<b>1,429</b>	<b>1,629</b>	<b>1,018</b>	<b>1,645</b>	<b>1,629</b>	<b>1,775</b>	<b>1,211</b>	<b>5,443</b>	<b>6,241</b>
Margins (%)	34.1	34.3	35.6	27.9	36.0	35.6	34.7	30.2	32.8	34.2
Depreciation	37	39	40	47	37	40	40	47	163	164
Other Income	428	341	389	367	300	419	379	417	1,525	1,515
<b>PBT before EO Expense</b>	<b>1,824</b>	<b>1,730</b>	<b>1,977</b>	<b>1,336</b>	<b>1,908</b>	<b>2,009</b>	<b>2,114</b>	<b>1,577</b>	<b>6,799</b>	<b>7,588</b>
Tax	622	585	668	442	644	696	699	469	2,315	2,508
Deferred Tax	-9	-2	-10	0	11	-4	0	-7	0	0
Rate (%)	33.6	33.7	33.3	33.1	34.3	34.5	33.1	29.3	34.1	33.1
<b>Adjusted PAT</b>	<b>1,211</b>	<b>1,147</b>	<b>1,319</b>	<b>895</b>	<b>1,253</b>	<b>1,317</b>	<b>1,415</b>	<b>1,114</b>	<b>4,484</b>	<b>5,080</b>
YoY Change (%)	-14.6	19.0	20.9	8.0	3.4	14.8	7.3	24.6	12.2	13.3
Margins (%)	28.7	27.6	28.8	24.5	27.4	28.8	27.7	27.8	27.0	27.8
Extra-Ord Expense	0	0	0	-1,193	-178	73	0	0	-1,282	-105
<b>Reported PAT</b>	<b>1,211</b>	<b>1,147</b>	<b>1,319</b>	<b>2,088</b>	<b>1,431</b>	<b>1,243</b>	<b>1,415</b>	<b>1,114</b>	<b>5,766</b>	<b>5,185</b>

E: MOSL Estimates

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## Glenmark Pharmaceuticals

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	GNP IN
	REUTERS CODE
S&P CNX: 4,959	GLEN.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs227

Equity Shares (m)	269.2
52-Week Range (Rs)	609/119
1,6,12 Rel. Perf. (%)	-1/-21/-83
M.Cap. (Rs b)	61.2
M.Cap. (US\$ b)	1.3

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	19,757	3,154	11.9	166.1	19.1	3.7	20.8	15.8	3.5	8.7
03/09A	20,865	1,125	4.2	-64.3	53.7	3.6	7.0	8.0	3.9	24.1
03/10E	25,652	2,756	9.7	128.8	23.5	2.7	12.2	12.3	3.0	12.6
03/11E	30,098	3,933	13.8	42.7	16.4	2.3	15.0	13.7	2.5	10.7

- Glenmark's 2Q topline is expected to record only 3% growth due to single-digit growth in emerging markets and the US and de-growth in Europe and Latam. We believe that India will be the only market for Glenmark to growth in double-digits (15% YoY growth).
- EBITDA margin are estimated to decline by almost 600bp due to lower revenue growth and 28% increase in SG&A expenses.
- Margin pressure, higher interest costs and depreciation coupled with absence of forex gains (Rs420m net gain for 2QFY09) is likely to result in a 40% de-growth in adjusted PAT.

We believe that Glenmark's near-term performance will be adversely impacted due to inability to strike NCE out-licensing deals at acceptable valuations (leading to higher R&D spend), delays in receiving US FDA approvals for its US business, delayed ramp-up in Latam and higher interest costs. Glenmark has differentiated itself among Indian pharmaceutical companies through its significant success in NCE research. It has emerged as the most successful NCE research company by out-licensing 3 molecules and receiving US\$117m in up-front and milestone payments till date. Given this success, Glenmark has been aggressive in adding new NCEs to its pipeline, which will put pressure on its operations in the short-term as the company will have to fund the R&D expenses for these NCEs on its own. We estimate EPS of Rs9.7 for FY10E (up 129% on low base) and Rs13.8 for FY11E (up 42.7%). The stock trades at 23.5x FY10E and 16.4x FY11E EPS excluding any upsides from NCE research. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Income</b>	<b>4,608</b>	<b>5,609</b>	<b>5,814</b>	<b>4,688</b>	<b>5,437</b>	<b>5,787</b>	<b>6,806</b>	<b>7,622</b>	<b>20,635</b>	<b>25,652</b>
YoY Change (%)	31.2	49.6	-14.4	-18.1	18.0	3.2	17.1	62.6	4.3	24.3
<b>EBITDA</b>	<b>1,410</b>	<b>1,694</b>	<b>1,891</b>	<b>-1,824</b>	<b>1,214</b>	<b>1,413</b>	<b>1,607</b>	<b>1,872</b>	<b>3,085</b>	<b>6,106</b>
Margins (%)	30.6	30.2	32.5	-38.9	22.3	24.4	23.6	24.6	14.9	23.8
Depreciation	215	225	291	296	312	350	350	388	1,027	1,399
Interest	155	187	343	719	438	382	311	284	1,405	1,415
Other Income	109	433	92	1,106	76	15	15	5	1,740	111
<b>PBT before EO Expense</b>	<b>1,148</b>	<b>1,715</b>	<b>1,349</b>	<b>-1,734</b>	<b>540</b>	<b>696</b>	<b>961</b>	<b>1,206</b>	<b>2,393</b>	<b>3,402</b>
Tax	678	319	452	-695	85	132	183	246	754	646
Deferred Tax	-684	222	83	379	-80	0	0	80	0	0
Rate (%)	-0.5	31.6	39.6	18.2	0.9	19.0	19.0	27.1	31.5	19.0
<b>Reported PAT</b>	<b>1,154</b>	<b>1,174</b>	<b>814</b>	<b>-1,417</b>	<b>535</b>	<b>564</b>	<b>779</b>	<b>879</b>	<b>1,639</b>	<b>2,756</b>
<b>Adj PAT</b>	<b>923</b>	<b>943</b>	<b>584</b>	<b>-1,648</b>	<b>535</b>	<b>564</b>	<b>779</b>	<b>879</b>	<b>1,125</b>	<b>2,756</b>
YoY Change (%)	61.5	25.5	-52.9	-199.3	-42.1	-40.2	33.4	-153.3	-82.2	145.0
Margins (%)	20.0	16.8	10.0	-35.1	9.8	9.7	11.4	11.5	5.5	10.7

E: MOSL Estimates; Adj PAT includes capitalized R&amp;D exp &amp; excludes NCE upsides

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## Jubilant Organosys

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	JOL IN
	REUTERS CODE
S&P CNX: 4,959	JUBO.BO

25 September 2009

Buy

Rs223

Previous Recommendation: Buy

Equity Shares (m)	147.5
52-Week Range (Rs)	322/85
1,6,12 Rel. Perf. (%)	-16/76/-51
M.Cap. (Rs b)	32.9
M.Cap. (US\$ b)	0.7

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/ SALES	EVI/ EBITDA
03/08A	24,889	3,988	27.1	71.2	8.2	2.6	37.0	16.6	2.0	10.8
03/09A	35,180	2,346	15.9	-41.4	14.0	2.6	18.6	8.2	1.9	9.7
03/10E	39,673	3,607	24.5	53.7	9.1	2.4	27.2	12.5	1.8	9.7
03/11E	44,174	2,744	18.6	-23.9	12.0	1.7	16.7	10.6	1.5	8.2

- Jubilant's 2QFY10 topline is expected to record only 4% growth due to ongoing slowdown in CRAMS business, declining realizations and de-growth in chemicals business. The PLSP business (69% of revenues) is likely to grow by 16% while the chemicals business is likely to record 15% de-growth.
- EBITDA margins are expected to decline by 200bp despite favorable currency movement due to 17% increase in staff costs linked to acquired companies.
- Despite significant increase in interest costs, we expect PAT of Rs548m v/s net loss of Rs627m YoY as reported PAT for 2QFY09 was adversely impacted due to Rs1.7b of forex losses.

Slowdown in some of the CRAMS products, declining realizations and product rationalization (for the chemicals business) continues to impact Jubilant's top-line growth. We expect an improvement in the CRAMS business post 1HFY10. We believe that the guidance for 15% top-line growth for FY10E will be tough to achieve and hence forecast 12% top-line growth. We expect EPS of Rs24.5 (up 53.7% on low base) for FY10E and Rs18.6 (down 24%). We believe that earnings growth for FY11E could be adversely impacted (24% de-growth over FY10E) if the company were to re-finance FCCB redemption through debt. The stock currently quotes at 9.1x FY10E and 12x FY11E EPS. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>8,266</b>	<b>9,405</b>	<b>9,096</b>	<b>8,412</b>	<b>8,964</b>	<b>9,800</b>	<b>10,300</b>	<b>10,609</b>	<b>35,180</b>	<b>39,673</b>
YoY Change (%)	53.1	52.1	41.8	22.1	8.4	4.2	13.2	26.1	41.3	12.8
Total Expenditure	6,608	7,632	7,686	6,488	7,385	8,150	8,380	8,453	28,414	32,368
<b>EBITDA</b>	<b>1,658</b>	<b>1,773</b>	<b>1,411</b>	<b>1,924</b>	<b>1,579</b>	<b>1,650</b>	<b>1,920</b>	<b>2,156</b>	<b>6,766</b>	<b>7,305</b>
Margins (%)	20.1	18.8	15.5	22.9	17.6	16.8	18.6	20.3	19.2	18.4
Depreciation	337	411	434	451	308	400	500	513	1,632	1,721
Interest	138	221	324	388	407	450	550	622	1,070	2,029
Other Income	-1,002	-1,671	-1,161	-1,881	605	-104	112	297	-1,631	910
<b>PBT before EO Expense</b>	<b>182</b>	<b>-530</b>	<b>-508</b>	<b>-796</b>	<b>1,469</b>	<b>696</b>	<b>982</b>	<b>1,318</b>	<b>2,432</b>	<b>4,465</b>
Extra-Ord Expense	0	0	110	-644	0	0	0	0	-534	0
<b>PBT after EO Expense</b>	<b>182</b>	<b>-530</b>	<b>-618</b>	<b>-152</b>	<b>1,469</b>	<b>696</b>	<b>982</b>	<b>1,318</b>	<b>2,966</b>	<b>4,465</b>
Tax	61	166	283	-243	223	146	206	273	267	848
Rate (%)	33.6	-31.3	-45.7	159.7	15.2	21.0	21.0	20.7	9.0	19.0
<b>PAT</b>	<b>121</b>	<b>-696</b>	<b>-901</b>	<b>91</b>	<b>1,245</b>	<b>550</b>	<b>776</b>	<b>1,046</b>	<b>2,699</b>	<b>3,617</b>
Minority Interest	-7	-69	-25	-33	-13	2	2	19	-133	10
<b>Adjusted PAT</b>	<b>128</b>	<b>-627</b>	<b>-715</b>	<b>508</b>	<b>1,258</b>	<b>548</b>	<b>774</b>	<b>1,027</b>	<b>2,346</b>	<b>3,607</b>
YoY Change (%)	-91.1	-157.0	-178.5	-9.4	886.1			102.0	-41.2	53.7
Margins (%)	1.5	-6.7	-7.9	6.0	14.0	5.6	7.5	9.7	6.7	9.1

E: MOSL Estimates; Quarterly numbers for FY09 do not add up to full-year numbers due to change in forex accounting policy (AS-11)

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Lupin

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	LPC IN
	REUTERS CODE
S&P CNX: 4,959	LUPN.BO

25 September 2009

Buy

Rs1,135

Previous Recommendation: Buy

Equity Shares (m)	82.8
52-Week Range (Rs)	1,190/518
1,6,12 Rel. Perf. (%)	3/10/36
M.Cap. (Rs b)	94.0
M.Cap. (US\$ b)	2.0

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	27,064	3,334	37.8	43.3	30.0	7.3	31.0	22.0	3.8	23.7
03/09A	37,759	5,015	56.9	50.4	20.0	6.6	37.1	25.6	2.8	16.3
03/10E	45,196	6,031	68.4	20.2	16.6	5.0	36.6	26.9	2.4	13.4
03/11E	52,305	6,923	78.5	14.8	14.5	4.0	32.7	25.8	2.0	11.6

- Lupin's 2QFY10 topline is expected to record 18% growth driven by mainly by ramp-up of regulated formulation revenues (up 38%) and a 21% increase in formulation revenues in emerging markets (including India).
- However, EBITDA margins are likely to decline by 180bp mainly due to adverse product-mix and partly due to lower margins at acquired companies.
- PAT is expected to grow by 24.5% partly boosted by higher other income and reduction in tax rate for the quarter.

We expect Lupin's core operations (excluding one-off upsides) to record 17% sales and earnings CAGR for FY09-11 led by traction in regulated markets, strong growth in domestic formulations and incremental savings from tax-exempt zones. The growth will be led by 27% CAGR for the regulated dosage form business and 17% CAGR for the domestic formulations business. We expect the company to record EPS of Rs68.4 for FY10E (up 20.2%) and Rs78.5 for FY11E (up 14.8%) on a high base. We believe valuations at 16.6x FY10E and 14.5x FY11E EPS do not fully reflect the sustained earnings growth and 30%+ RoE. Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>8,624</b>	<b>9,343</b>	<b>9,618</b>	<b>10,174</b>	<b>10,856</b>	<b>11,055</b>	<b>11,627</b>	<b>11,658</b>	<b>37,759</b>	<b>45,196</b>
YoY Change (%)	49.8	41.8	33.3	35.6	25.9	18.3	20.9	14.6	39.5	19.7
Total Expenditure	7,097	7,555	8,079	8,544	8,914	9,139	9,581	9,555	31,274	37,188
<b>EBITDA</b>	<b>1,527</b>	<b>1,788</b>	<b>1,540</b>	<b>1,630</b>	<b>1,942</b>	<b>1,917</b>	<b>2,046</b>	<b>2,103</b>	<b>6,485</b>	<b>8,008</b>
Margins (%)	17.7	19.1	16.0	16.0	17.9	17.3	17.6	18.0	17.2	17.7
Depreciation	193	201	219	266	231	250	270	306	880	1,056
Interest	102	127	146	124	107	130	160	182	499	579
Other Income	202	13	221	517	211	200	250	242	954	903
<b>PBT</b>	<b>1,433</b>	<b>1,474</b>	<b>1,396</b>	<b>1,757</b>	<b>1,815</b>	<b>1,737</b>	<b>1,866</b>	<b>1,858</b>	<b>6,060</b>	<b>7,276</b>
Tax	313	312	219	139	364	285	306	240	983	1,195
Rate (%)	21.8	21.2	15.7	7.9	20.0	16.4	16.4	12.9	16.2	16.4
<b>Reported PAT</b>	<b>1,120</b>	<b>1,162</b>	<b>1,178</b>	<b>1,618</b>	<b>1,451</b>	<b>1,451</b>	<b>1,560</b>	<b>1,619</b>	<b>5,077</b>	<b>6,081</b>
Minority Interest	-1	5	13	44	50	12	14	-26	62	50
<b>Recurring PAT</b>	<b>1,121</b>	<b>1,156</b>	<b>1,165</b>	<b>1,574</b>	<b>1,401</b>	<b>1,439</b>	<b>1,546</b>	<b>1,645</b>	<b>5,015</b>	<b>6,031</b>
YoY Change (%)	100.6	52.9	9.9	64.2	25.0	24.5	32.7	4.5	50.4	20.2
Margins (%)	13.0	12.4	12.1	15.5	12.9	13.0	13.3	14.1	13.3	13.3

E: MOSL Estimates

## Piramal Healthcare

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	PIHC IN
	REUTERS CODE
S&P CNX: 4,959	NICH.BO

25 September 2009

Buy

Rs383

Previous Recommendation: Buy

Equity Shares (m)	209.0
52-Week Range (Rs)	386/164
1,6,12 Rel. Perf. (%)	12/42/-8
M.Cap. (Rs b)	80.0
M.Cap. (US\$ b)	1.7

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	28,728	3,643	17.4	58.9	21.9	7.3	34.0	25.6	3.0	16.0
03/09A	32,448	3,580	17.1	-1.7	22.3	6.1	29.7	21.0	2.8	14.7
03/10E	37,850	4,811	23.0	34.4	16.6	4.7	32.0	24.3	2.4	11.3
03/11E	43,670	6,158	29.5	28.0	13.0	3.7	32.0	26.9	2.0	9.0

- PHL's 2QFY10 topline is expected to grow by only 8.7% to Rs9.6b reflecting the ongoing slowdown in its CRAMS business and the closure of the Huddersfield facility in UK. Domestic formulations business is likely to grow by 14% while CRAMS business is expected to decline by 20% for the quarter.
- While EBITDA is likely to be flat at Rs1.8b, EBITDA margins are expected to decline by 90bp as cost savings from the closure of the Huddersfield facility will be negated by higher costs at the Minrad operations in the US.
- As the company has adopted the revised AS-11; there will be miniscule impact of forex gains/losses.
- PAT is expected to grow by 31.7% led mainly by absence of forex losses (Rs400m for 2QFY09).

While we expect 1HFY10 to be challenging for PHL given the inventory correction undertaken by CRAMS customers, we believe that PHL's strong MNC relations will ensure traction in CRAMS business in the medium-term. A steady double-digit growth for the domestic formulations business with improving profitability and potential debt reduction should also augur well over the next two years. We expect EPS of Rs23 for FY10 (up 34%) and Rs29.5 for FY11 (up 28%), leading to 30% earnings CAGR over FY09-11E (albeit on a low base) and 30%+ RoE in FY10E and FY11E. Valuations at 16.6x FY10E and 13x FY11E EPS do not fully reflect these positives. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>7,083</b>	<b>8,893</b>	<b>8,283</b>	<b>8,189</b>	<b>8,215</b>	<b>9,670</b>	<b>9,902</b>	<b>10,063</b>	<b>32,448</b>	<b>37,850</b>
YoY Change (%)	16.5	17.5	13.1	5.5	16.0	8.7	19.5	22.9	12.9	16.6
Total Expenditure	5,680	7,066	6,728	6,702	6,658	7,796	7,820	7,611	26,176	29,886
<b>EBITDA</b>	<b>1,403</b>	<b>1,827</b>	<b>1,555</b>	<b>1,487</b>	<b>1,557</b>	<b>1,873</b>	<b>2,082</b>	<b>2,452</b>	<b>6,272</b>	<b>7,964</b>
Margins (%)	19.8	20.5	18.8	18.2	19.0	19.4	21.0	24.4	19.3	21.0
Depreciation	270	288	295	343	385	400	425	433	1,196	1,643
Interest	120	170	261	286	254	250	210	165	838	879
Other Income	-207	-408	-309	540	45	35	55	45	-384	180
<b>PBT before EO Expense</b>	<b>806</b>	<b>960</b>	<b>691</b>	<b>1,397</b>	<b>963</b>	<b>1,258</b>	<b>1,502</b>	<b>1,898</b>	<b>3,854</b>	<b>5,622</b>
Extra-Ord Expense	41	96	0	310	0	0	0	0	446	0
<b>PBT after EO Expense</b>	<b>766</b>	<b>864</b>	<b>691</b>	<b>1,087</b>	<b>963</b>	<b>1,258</b>	<b>1,502</b>	<b>1,898</b>	<b>3,408</b>	<b>5,622</b>
Tax	87	114	72	118	113	151	180	231	391	675
Deferred Tax	0	0	0	-171	0	13	15	29	-171	56
Rate (%)	11.3	13.2	10.4	-4.9	11.7	13.0	13.0	13.7	6.4	13.0
<b>PAT</b>	<b>679</b>	<b>750</b>	<b>619</b>	<b>1,140</b>	<b>851</b>	<b>1,095</b>	<b>1,306</b>	<b>1,639</b>	<b>3,188</b>	<b>4,891</b>
Less: Minority Interest	-2	17	20	-10	0	20	20	40	26	80
<b>Reported PAT</b>	<b>681</b>	<b>733</b>	<b>599</b>	<b>1,150</b>	<b>851</b>	<b>1,075</b>	<b>1,286</b>	<b>1,598</b>	<b>3,163</b>	<b>4,811</b>
<b>Adj PAT</b>	<b>717</b>	<b>816</b>	<b>599</b>	<b>1,078</b>	<b>851</b>	<b>1,075</b>	<b>1,286</b>	<b>1,598</b>	<b>3,580</b>	<b>4,811</b>
YoY Change (%)	19.8	-21.0	-36.3	13.8	18.7	31.7	114.9	48.3	-1.7	34.4

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

Nimish Desai (NimishDesai@MotilalOswal.com)

## Ranbaxy Laboratories

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	RBXY IN
	REUTERS CODE
S&P CNX: 4,959	RANB.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs410

Equity Shares (m)	422.8
52-Week Range (Rs)	415/133
1,6,12 Rel. Perf. (%)	13/79/15
M.Cap. (Rs b)	173.3
M.Cap. (US\$ b)	3.6

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/07A	69,756	5,325	13.3	4.2	21.6	3.8	19.1	11.7	2.3	17.3
12/08A	70,852	1,042	2.5	-81.5	116.4	2.8	2.4	5.4	2.0	28.1
12/09E	71,775	141	0.3		858.6	2.8	0.3	1.8	1.9	67.8
12/10E	79,746	1,924	4.6		63.1	2.7	4.3	4.7	1.7	29.2

\* All valuation ratios adjusted for Rs123/sh DCF value of FTFs

- Ranbaxy's 3Q topline is expected to grow by only 0.8% despite a favourable currency due to the ongoing US FDA ban on some products as well as significant forward covers taken in the past. A slow-down in some of the emerging markets is also likely to adversely impact topline growth.
- We expect the company to report EBITDA margins of only 4% due to the issues mentioned above as well as absence of large operational forex gains.
- Earnings volatility due to forex is expected to reduce significantly as compared to the past few quarters due to a fairly stable INR vs the US\$ and reduced forex hedges. Excluding the MTM forex losses on foreign currency loans and hedges, we expect the company to record a net profit of Rs193m.

Resolution of the US FDA issues remains the key determinant of near-term valuations for Ranbaxy. We also believe that the company needs to clearly demonstrate that the generic Valtrex opportunity (DCF value of Rs18/share) is not at risk due to the US FDA problems. Exploitation of synergies between Daiichi and Ranbaxy will be a key driver of long-term prospects of the stock. Ranbaxy is currently valued at 63x CY10 core earnings adjusted for the value of its Para-IV pipeline. Given the significant impact of US FDA issues, PE valuations are not relevant as of now. Ranbaxy's BV for CY08 was Rs101/sh (estimated BV for CY09 is Rs103/sh). We estimate the DCF value of all Para-IV opportunities at Rs123/sh (assuming that the US FDA issues will not drastically impact any of these opportunities). Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY08				CY09				CY08	CY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
<b>Net Income</b>	<b>16,986</b>	<b>19,286</b>	<b>18,532</b>	<b>16,370</b>	<b>14,926</b>	<b>18,958</b>	<b>18,673</b>	<b>19,218</b>	<b>71,174</b>	<b>71,775</b>
YoY Change (%)	7.4	14.4	4.4	-13.9	-12.1	-1.7	0.8	17.4	2.5	0.8
<b>EBITDA</b>	<b>2,552</b>	<b>3,261</b>	<b>1,440</b>	<b>-1,085</b>	<b>-822</b>	<b>1,215</b>	<b>715</b>	<b>897</b>	<b>6,168</b>	<b>2,005</b>
Margins (%)	15.0	16.9	7.8	-6.6	-5.5	6.4	3.8	4.7	8.7	2.8
Depreciation	621	672	643	720	639	644	650	699	2,656	2,632
Interest	384	465	595	442	246	197	226	236	1,886	905
Other Income	-713	-1,832	-3,069	-1,374	-816	2,308	322	138	-6,988	1,952
<b>PBT before EO Expense</b>	<b>834</b>	<b>292</b>	<b>-2,867</b>	<b>-3,621</b>	<b>-2,523</b>	<b>2,682</b>	<b>161</b>	<b>101</b>	<b>-5,362</b>	<b>421</b>
Extra-Ord Expense	-895	0	2,441	7,843	9,188	-8,137	-360	-240	9,389	451
<b>PBT after EO Expense</b>	<b>1,729</b>	<b>292</b>	<b>-5,308</b>	<b>-11,464</b>	<b>-11,711</b>	<b>10,819</b>	<b>521</b>	<b>341</b>	<b>-14,751</b>	<b>-30</b>
Tax	361	63	-1,363	-4,666	-4,101	3,888	177	26	-5,605	-10
Rate (%)	20.9	21.6	25.7	40.7	35.0	35.9	34.0	7.5	38.0	34.0
<b>Reported PAT</b>	<b>1,368</b>	<b>229</b>	<b>-3,945</b>	<b>-6,798</b>	<b>-7,610</b>	<b>6,931</b>	<b>344</b>	<b>315</b>	<b>-9,146</b>	<b>-20</b>
<b>Adj PAT after Minority Int.</b>	<b>1,017</b>	<b>1,386</b>	<b>156</b>	<b>-1,060</b>	<b>-825</b>	<b>511</b>	<b>193</b>	<b>262</b>	<b>1,491</b>	<b>141</b>
YoY Change (%)	20.8	30.1	-89.6	-162.0	-181.1	-63.1	24.0	-124.7	-70.8	-90.5
Margins (%)	6.0	7.2	0.8	-6.5	-5.5	2.7	1.0	1.4	2.1	0.2

E: MOSL Estimates

Nimish Desai (NimishDesai@MotilalOswal.com)



## Sun Pharmaceuticals Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	SUNP IN
	REUTERS CODE
S&P CNX: 4,959	SUN.BO

25 September 2009

Buy

Previous Recommendation: Buy

Rs1,311

Equity Shares (m)	207.1
52-Week Range (Rs)	1,600/953
1,6,12 Rel. Perf. (%)	4/-49/-34
M.Cap. (Rs b)	271.5
M.Cap. (US\$ b)	5.7

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A*	41,833	18,178	87.8	22.3	14.7	3.8	30.2	31.6	5.6	12.6
03/10E	35,523	11,955	57.7	-34.2	22.4	3.3	15.9	15.6	6.5	20.2
03/10E*	41,802	16,036	77.4	-11.8						
03/11E	40,518	13,754	66.4	15.0	19.4	2.9	16.0	16.0	5.5	16.6

\* Includes Para-IV upsides

- Sun Pharma's 2QFY10 topline is expected to de-grow by 23% to Rs9b due to absence of exclusivity based Pantoprazole supplies and the impact of the US FDA issues on Caraco. Excluding patent challenge upsides, topline is expected to grow by 3.6% to Rs9b mainly impacted by Caraco's US FDA problems.
- We expect the company to record negligible Pantoprazole revenues as it is unlikely to lower prices (for recording higher volumes) given that it is a "launch-at-risk" product.
- EBITDA Margins are expected to record 11.7% point drop to 34% due to absence of Pantoprazole revenues. Excluding this one-time impact we expect a minor decline in EBITDA Margins.
- While reported PAT is likely to de-grow by 36% due to absence of one-off upsides of Pantoprazole, we believe that excluding these one-offs, bottomline is expected to grow by 9% for the quarter.

An expanding generic portfolio coupled with a changed product mix in favor of high-margin exports is likely to bring in long-term benefits for Sun. Key drivers for the future include a ramp-up in the US (from Indian facilities), expected value unlocking by leveraging acquired companies (Able Labs & Valeant) and monetization the Para-IV pipeline along with sustained growth momentum for domestic formulations and non-US exports. Given the severity of the recent US FDA action on Caraco, we believe Sun Pharma's stock price will remain muted until US FDA issues are resolved. Sun is valued at 22.4x FY10E and 19.4x FY11E earnings (excluding Para-IV upsides which have a DCF value of Rs20/share). **Maintain Buy.**

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Revenues</b>	<b>10,239</b>	<b>11,778</b>	<b>9,183</b>	<b>10,634</b>	<b>7,876</b>	<b>9,066</b>	<b>9,416</b>	<b>9,165</b>	<b>41,833</b>	<b>35,523</b>
YoY Change (%)	66.4	82.2	16.2	-14.2	-23.1	-23.0	2.5	-13.8	27.1	-15.1
<b>EBITDA</b>	<b>5,379</b>	<b>5,379</b>	<b>4,134</b>	<b>3,747</b>	<b>1,286</b>	<b>3,078</b>	<b>3,364</b>	<b>3,603</b>	<b>18,640</b>	<b>11,332</b>
Margins (%)	52.5	45.7	45.0	35.2	16.3	34.0	35.7	39.3	44.6	31.9
Depreciation	277	287	311	359	376	376	376	377	1,233	1,505
Net Other Income	451	524	443	669	603	531	553	480	2,086	2,167
<b>PBT</b>	<b>5,554</b>	<b>5,616</b>	<b>4,266</b>	<b>4,056</b>	<b>1,513</b>	<b>3,233</b>	<b>3,540</b>	<b>3,707</b>	<b>19,492</b>	<b>11,994</b>
Tax	299	288	170	-45	31	78	85	94	712	288
Rate (%)	5.4	5.1	4.0	-1.1	2.1	2.4	2.4	2.5	3.7	2.4
<b>Profit after Tax</b>	<b>5,255</b>	<b>5,329</b>	<b>4,097</b>	<b>4,101</b>	<b>1,482</b>	<b>3,155</b>	<b>3,455</b>	<b>3,613</b>	<b>18,781</b>	<b>11,706</b>
Share of Minority Partner	261	223	10	109	-156	-100	-5	12	603	-249
<b>Adj Net Profit</b>	<b>4,994</b>	<b>5,106</b>	<b>4,086</b>	<b>3,992</b>	<b>1,638</b>	<b>3,255</b>	<b>3,460</b>	<b>3,600</b>	<b>18,178</b>	<b>11,955</b>
YoY Change (%)	119.8	133.6	28.4	-44.8	-67.2	-36.2	-15.3	-9.8	22.3	-34.2
Margins (%)	48.8	43.4	44.5	37.5	20.8	35.9	36.8	39.3	43.5	33.7

E: MOSL Estimates; \* Quaterly results have been recasted and hence do not tally with full year results  
Nimish Desai (NimishDesai@MotilalOswal.com)

## Real Estate

BSE Sensex: 16,693

S&amp;P CNX: 4,959

25 September 2009

COMPANY NAME

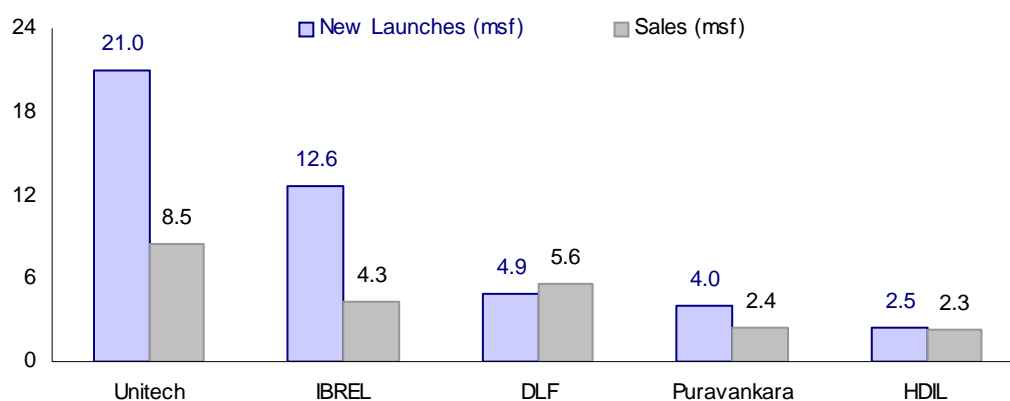
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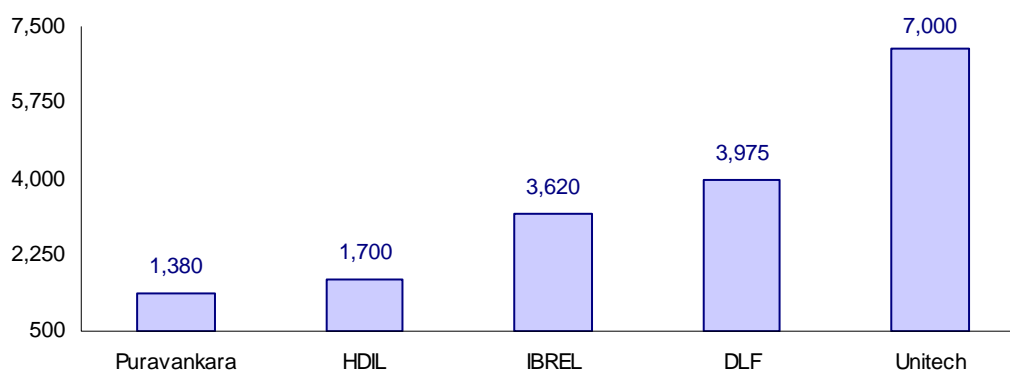
**Recovery in the residential vertical gains momentum**

During 2QFY10, the recovery in the residential vertical picked up further momentum. Most of the launches by key developers continued to receive encouraging response.

NEW LAUNCHES BY KEY DEVELOPERS WITNESSED ENCOURAGING RESPONSE



KEY DEVELOPERS HAVE SOLD ~17,700 APARTMENTS SINCE MARCH 2009



Source: Company/MOSL

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
			SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
<b>Real Estate</b>											
DLF	427	Buy	16,268	-56.6	-1.4	8,118	-63.4	9.1	4,444	-77.0	12.2
Unitech	109	Neutral	6,760	-31.2	31.3	3,076	-49.5	-2.4	1,783	-50.3	13.0
<b>Sector Aggregate</b>			<b>23,028</b>	<b>-51.3</b>	<b>6.4</b>	<b>11,194</b>	<b>-60.4</b>	<b>5.7</b>	<b>6,227</b>	<b>-72.9</b>	<b>12.4</b>



### Strong demand has prompted developers to increase prices

Strong demand in the residential vertical has prompted developers to increase prices. On an average, residential prices have increased by 10-15% in Mumbai and Delhi. While the increase in real estate prices is NAV accretive for RE companies, sharp price increases could adversely impact affordability and result in lower volumes.

#### KEY DEVELOPERS HAVE ALREADY STARTED INCREASING RATES

	LOCATION	REVISED RATE (RS/SF)	BASE RATE (RS/SF)	CHG. (%)	TYPE	AREA (SF)	UNIT RATE (RS M)
<b>DLF</b>							
Capital Greens	Shivaji Marg, Delhi	7,900	5,800	36	2bhk	1,210	9.6
					3bhk	1,420-1,545	11.2 to 12.2
					4bhk	2,570-2,630	20.3 to 20.8
<b>Unitech</b>							
The Residences Uniworld Resorts	Sector 33, Gurgaon	3,395	3,295	3	1bhk	825	2.7
					2bhk	1,060	3.5
					3bhk	1,535	5.1
Unihomes	Sec 117, Noida	2,995	2,930	2	1bhk	580	1.7
					2bhk	766	2.3
					3bhk	951-990	2.8 to 2.9
<b>IBREL</b>							
Sky	Lower Parel, Mumbai	24,000	22,000	9	3bhk	2900-3600	69.8-86.4
					4bhk	5,200	124.8
					5bhk	5,900	141.6
					6bhk	8,800	211.2
<b>HDIL</b>							
Premier Residences	Kurla (W), Mumbai	6,151	5,251	17	1bhk	670	3.5
					2bhk	925-965	5.4 to 5.2
Metropolis Residences	Andheri, Mumbai	10,500	7,651	37	2bhk	1,140	8.7
					3bhk	1,385-1,650	10.1 to 13.1
					4bhk	2,120	16.2
Galaxy Apartments	Kurla (E), Mumbai	4,951	4,251	16	1bhk	650	2.8
					2bhk	950	4.0
<b>Jaypee Greens</b>							
Wish Town Klassic	Sector 129 and 134, Noida	3,429	3,300	4	1bhk	620-670	2.1 to 2.3
					2bhk	1,120	3.8
					3bhk	1,420	4.8
<b>Lodha</b>							
Casa Ultima	Pokhran road no2, Thane, Mumbai	4,392	3,942	11	1bhk	594	2.6
		4,364	3,978	10	2bhk	792	3.5
Casa Royale	Balhum road, Thane, Mumbai	3,996	3,627	10	1bhk	585	2.3
		3,996	3,537	13	2bhk	792	3.2
Casa Univis	Ghodbunder road, Thane launched in Rs2,997/sf in Dec09	3,294	3,024	9	2bhk	1,026	3.4
		3,492	3,240	8	3bhk	1,170	4.1
		4,005	3,195	25	3bhk	1,368	5.5
		3,897	3,501	11	3bhk	1,557	6.2

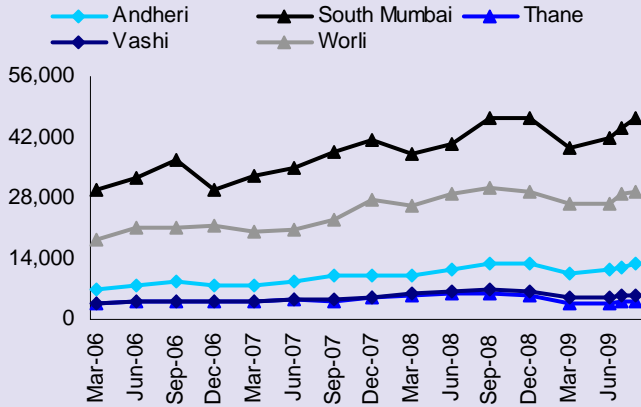
Source: Company/MOSL

### Signs of revival in the commercial sector visible

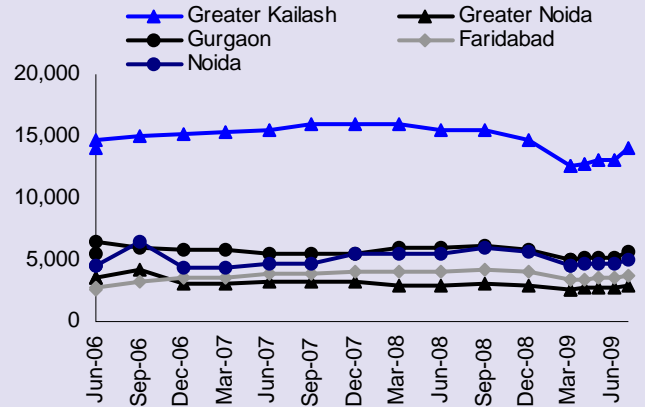
While the recovery in the residential vertical has been very strong, recovery in other real estate verticals such as commercial and retail has been lagging. However, subtle signs of recovery are now visible in the commercial vertical. Key projects in Delhi and Mumbai have witnessed a revival in enquiries over the past few months, largely from non-IT companies and for projects with a completion schedule of less than one year. Again, vacancy rates and rentals are no longer declining and seem to be bottoming out.

City-wise key trends

MUMBAI RESIDENTIAL PROPERTY PRICES (RS/SF)



NCR RESIDENTIAL PROPERTY PRICES (RS/SF)



Source: Bloomberg/MOSL

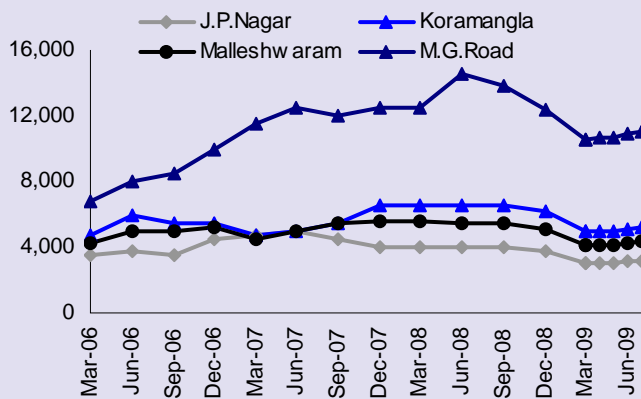
Mumbai

- Residential prices have increased by 5-15% in key projects across Mumbai since July 2009. This is due to sustained recovery in residential sales over the past 2-3 months.
- While sales momentum has slowed down to some extent in August 2009, compared to May-July 2009, overall buyer enquiries and interest remain strong.
- The slowdown in sales in August 2009 is primarily due to (1) increase in prices by key developers, and (2) seasonal factors.
- Sales volumes are likely to regain momentum around October 2009 (festive period).

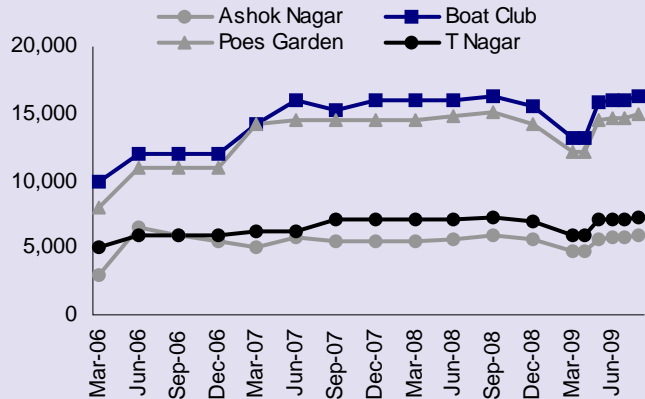
Delhi/NCR

- Sales in the NCR region in general and particularly in South Delhi had actually picked up momentum since July 2009.
- RE prices are likely to further increase by 5-10% in the next few months, which would result in prices in select areas re-testing their recent highs. One of the key reasons for this sharp recovery is overseas (NRI) investor demand (INR/USD arbitrage).
- Attractively priced new launches continue to garner a good response (eg, Emaar MGF's recent project at Golf Course Extension Road @Rs3,200/sf was completely sold in less than a month).
- The NCR region (Noida/Greater Noida) is likely to witness an oversupply of affordable housing projects, considering the sharp increase in number of launches by major developers.

BANGALORE RESIDENTIAL PROPERTY PRICES (RS/SF)



CHENNAI RESIDENTIAL PROPERTY PRICES (RS/SF)



Source: Bloomberg/MOSL

Bangalore

- There has been an increase in transaction volumes post the elections, largely representing end user demand. However, there has been no increase in prices, as excess inventory is still being absorbed.
- DLF has recently increased the prices of its project 'DLF New Town' at Bannerghatta Road, which has now got all necessary government approvals, from Rs1,850/sf to Rs2,100/sf.
- Also, the response to recently launched affordable housing in the range of Rs1m-1.5m has evoked very positive response (eg, Puravankara's project 'Provident Welworth City' in North Bangalore priced at Rs1,750/sf).

Chennai

- There has been an upward trend in volumes across the affordable housing as well as attractively-priced city-centric projects.
- Most developers have altered their development plans in order to develop affordable housing projects (lowering total area and reconfiguring flats to 1/2 BHK).
- Affordable housing projects in suburbs such as OMR and GSRT Road continue to witness robust transaction volumes. For instance, Dugar Constructions sold ~350 units within three days of project launch. North Chennai has witnessed momentum with the launch of Unitech's first project there, which has been fully sold out (~1,300 units).

The key signals to identify recovery in the commercial and retail verticals are: (1) commencement or pick-up in construction of stalled or ongoing projects by developers, (2) decline in vacancy rates, and (3) indication of fresh expansion plans by key retailers. We note that during 1QFY10, DLF has commenced construction work on its stalled projects of ~6msf in the commercial and retail verticals.

DETAILS OF RECENT KEY LEASE TRANSACTIONS

PROJECT	TENANT	LOCATION	AREA (SF)	TYPE
<b>Mumbai/MMR</b>				
Raheja Iris	J P Morgan	Kalina	150,000	Lease
Gigaplex	Capita	Navi Mumbai	40,000	Lease
Solaris	INX Media	Andheri	15,000	Lease
Delphi	Kellogg India	Powai	14,100	Lease
Platina	VISA	BKC	4,500	Lease
Platina	Wyeth Pharma	BKC	40,000	Lease
Lodha Excelus	KPMG	Lower Parel	125,000	Lease
Nirlon Knowledge Park	LRN Technology	Malad	24,675	Lease
Nirlon Knowledge Park	Morgan Stanley	CBD	5,000	Lease
<b>Total</b>			<b>418,275</b>	
<b>Delhi</b>				
Copla	Miele	Jasola	25,000	Lease
Individual Building	Educomp	Pusa Road	24,000	Lease
DLF Centre	Phillip Morris	Connaught Place	15,000	Lease
DLF Jasola	LIC	Jasola	4,500	Lease
<b>Total</b>			<b>68,500</b>	
<b>Gurgaon</b>				
Building No 28	Encore	Sec 44	60,000	Lease
Unitech Business Park	Quintiles	South City I	10,000	Lease
9 B	Tyco	DLF Cyber City	10,000	Lease
DLF Corporate Park	Corning	DLF City	9,000	Lease
9 B	JP Capital	DLF Cyber City	7,000	Lease
Masterpiece	Unitech Wireless	Gurgaon	48,000	Lease
Vatika Business Park	Xerox	Gurgaon	34,500	Lease
<b>Total</b>			<b>178,500</b>	
<b>Noida</b>				
Windsor IT Park	Emerson	Sector 125	31,000	Lease
Green Bouelvard	United Power	Sector 62	25,000	Lease
<b>Total</b>			<b>56,000</b>	
<b>Bangalore</b>				
Vrindavan Tech Village	Sony	Outer Ring Road	70,000	Lease
EGL	Unitech	Inner Ring Road	55,000	Lease
Maruthi Infotech	Capita	Inner Ring Road	38,000	Lease
Diamond District	Swan	Old Airport Road	16,000	Lease
EGL	Sasken	Inner Ring Road	14,000	Lease
Prestige Libra	Serco	Lalbagh Road	60,000	Lease
Embassy Golf Links	Mu Sigma	Inner Ring Road	60,000	Lease
Global Village	Keane	Mysore Road	57,500	Lease
<b>Total</b>			<b>370,500</b>	
<b>Chennai</b>				
Indialand - Chennai Tech Park	Swan Telecom	Ambattur	48,000	Lease
RMZ	Datacom	OMR	40,000	Lease
RMZ Mllenia	ACS Systems	Perungundi	20,000	Lease
Insight	TN Q Books and Journals	Taramani	40,000	Lease
Tamarai Tech Park	Erricson	Guindy	33,000	Lease
Individual Building	Macmillan	Perungudi	25,000	Lease
Tech Meadows 3	First Source	Sholinganallur	100,000	Lease

DETAILS OF RECENT KEY LEASE TRANSACTIONS (CONTD.)

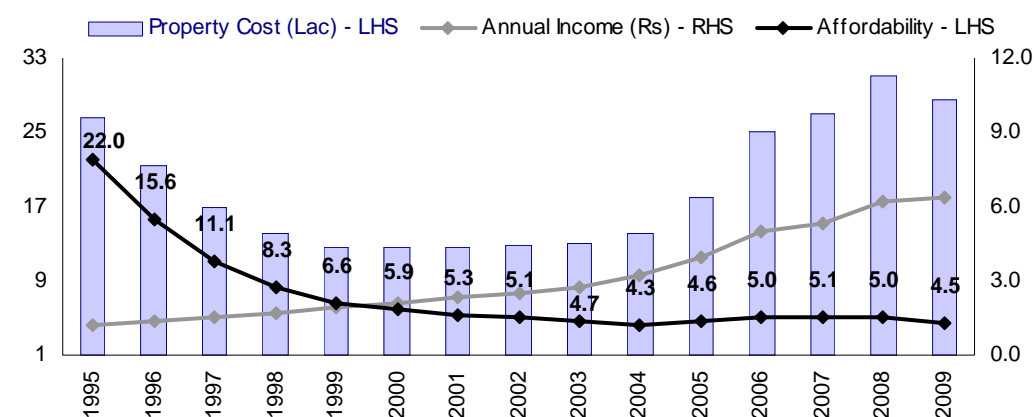
PROJECT	TENANT	LOCATION	AREA (SF)	TYPE
DLF IT Park	IBM	Manapakkam	92,000	Lease
DLF IT Park	Lyka BPO	Manapakkam	20,000	Lease
<b>Total</b>			<b>418,000</b>	
<b>Pune</b>				
Panchshil Tech Park	Nvidia	University Road	90,000	Lease
EON SEZ (Cluster D)	Tieto Enator	Kharadi	65,000	Lease
Magarpatta S3 Tower	Clarion Technologies	Hadapsar	27,000	Sale
EON SEZ	Fortify Infrastructure	Kharadi	10,000	Lease
Symphony Building	Buy Sell Tips Fin.Research	Range Hill	5,000	Sale
Cybercity	Dar Group	Magarpatta	60,000	Lease
Commerzone B4	Aegis	Yerwada	50,000	Lease
<b>Total</b>			<b>307,000</b>	
<b>Kolkata</b>				
RMZ Ecospace	Bharat Macnally	New Town	150,000	Lease
Green Park	AMRI Hospital	Narendrapur	50,000	Lease
DLF IT Park	Tech Mahindra	New Town	30,000	Lease
DLF IT Park	HP	New Town	9,000	Lease
RMZ Ecospace	BXL Technology	New Town	10,000	Lease
R N Mukherjee	Auto Security	Dalhousie	2,900	Lease
<b>Total</b>			<b>251,900</b>	
<b>Hyderabad</b>				
Midspace IT Park, Bldg No.10	Tie To Enator	Madhapur	30,000	Lease
JST	Perot Systems	Madhapur	26,000	Lease
Midspace IT Park, Bldg No.14	Zen QA	Madhapur	10,000	Lease
<b>Total</b>			<b>66,000</b>	
<b>Grand Total</b>			<b>2,134,675</b>	

Source: IPC Reports

**Improvement in IT sector outlook positive for RE companies**

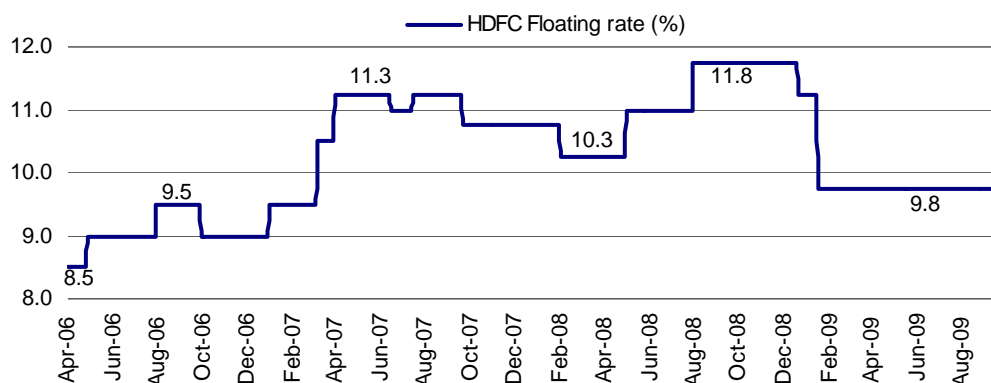
Improvement in the IT sector outlook is positive for the real estate (RE) sector. Leading IT companies including Infosys have recently announced salary hikes and promotions. This should result in improvement in sentiment and boost real estate demand. Historically, IT companies have accounted for ~80% of total commercial demand and have also been a significant driver of residential demand. IT hubs such as Bangalore, Chennai and Hyderabad should witness renewed momentum in RE demand.

IMPROVED AFFORDABILITY TO AID SALES



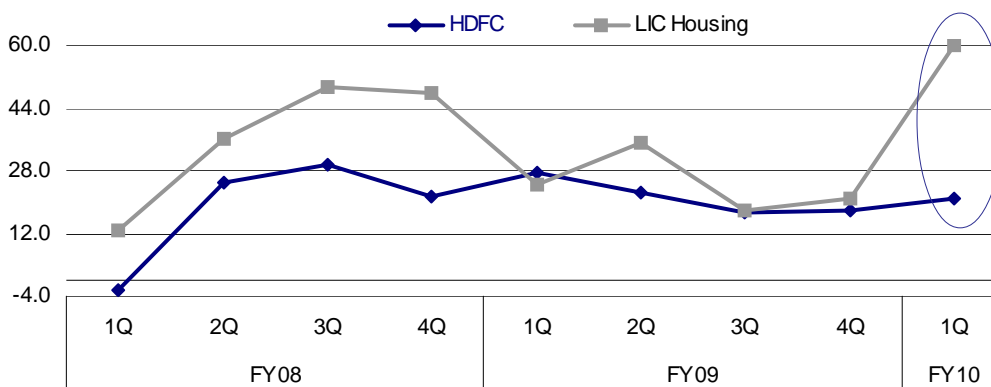
Source: Bloomberg

TREND IN FLOATING MORTGAGE RATES (%)



Source: Bloomberg

SHARP JUMP IN MORTGAGE DISBURSEMENTS (GROWTH %)



Source: Company

### Renewed appetite for land acquisitions

During 2QFY10, key land transactions worth ~Rs52b were announced. Successful recapitalization of balance sheets by key RE companies has improved their financial condition. The encouraging response to their recent project launches would further augment their cash flows. Developers are once again considering land acquisitions and recent land auctions have evoked positive response. As most of these auctions have been for mixed use/commercial projects, the positive response also signals a likely recovery in the commercial vertical.

DETAILS OF LAND TRANSACTIONS ANNOUNCED DURING 2QFY10

DEVELOPER	DATE	LAND AREA (ACRES)	DEAL SIZE (RS B)	RATE @ FSI OF 2.5X (RS/SF)	RESERVE PRICE (RS M)	BID PRICE (RS M)	PRE-MIUM (%)	LOCATION
Dynamix Balwas Group	11-Sep-09	7	6.0	7,871	6,000	NA	-	Crown Mill, Prabhadevi, Mumbai
IBREL	21-Aug-09	4	13.8	31,589	13,760	10,950	-20.4	Nariman Point, Mumbai
DLF	19-Aug-09	350	17.5	459	17,500	17,000	-2.9	Sec42, 53 and 53, Gurgaon, NCR
Hiranandani	18-Jul-09	135	8.0	544	NA	NA	-	Bangalore (80acres), Chennai (35acres), Hyderabad (20acres)
Lodha	17-Jul-09	10	7.1	6,520	7,100	7,080	-0.3	Finlay Mill, Lower Parel, Mumbai
Anant Raj	1-Jul-09	39	1.7	407	NA	NA	-	Noida (1.8msf), Manesar (1.4msf) and Gurgaon (0.2msf)
<b>Total</b>		<b>506</b>	<b>52.4</b>	<b>950.2</b>	-	-	-	

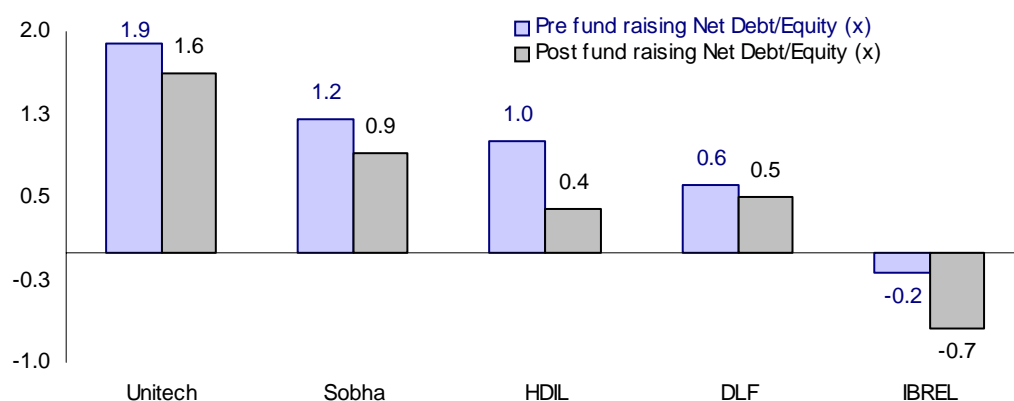
Note: Rate/sf is calculated considering FSI of 2.5x

Source: Company/MOSL

### Better financial position helps developers to focus on core RE business

Over the last few months, RE companies have addressed solvency risk through (1) debt restructuring, (2) fresh equity infusion, and (3) asset sale. Key RE companies have raised ~US\$2.7b through equity sale, while several others are in the process of raising further capital. The average debt/equity of key RE companies has declined significantly from ~1x to ~0.4x, while the industry solvency risk has declined significantly with debt/EV improving from ~0.7x in March 2009 to ~0.2x September 2009. This will allow RE companies to shift their focus from solvency issues to project execution and pursue NAV enhancement strategies.

KEY RE COMPANIES' LEVERAGE HAS REDUCED POST FUND RAISING



Source: Company/MOSL

### 2QFY10 financial performance to remain sluggish

We expect most real estate (RE) companies to report sluggish financial performance during 2QFY10, as historically the first half is slower compared to the second half; the performance is likely to be flat on a QoQ basis. Recovery in the residential vertical continued to be strong and gained momentum in a few cities. The pace of new launches has been maintained, with most companies launching affordable housing projects across key cities. Mumbai and NCR in particular have witnessed higher number of launches compared to cities in South India. Key RE companies continued to witness good sales momentum across their new launches and few companies have also been successful in increasing prices of their newly launched projects.

While the residential RE recovery in 1QFY10 was confined to the affordable housing segment, the premium housing segment has also started witnessing some revival during 2QFY10, mainly in the Mumbai and NCR markets. The recovery is largely confined to the residential segment and RE companies will need contributions from other verticals such as commercial office and retail projects, as well. If recovery in these verticals is slow or absent in FY10-11, the cash flows of RE companies would remain strained.

### Valuation and view

The RE sector seems firmly entrenched on the path to recovery, following the successful balance sheet recapitalization by key RE companies and the pick-up in RE activity. We believe key RE companies that have successfully completed their recapitalization exercise are well placed to capitalize on the growth phase ahead, as they can now shift focus to project execution and also pursue NAV enhancement strategies. Our top picks in the RE sector are DLF, HDIL, Anant Raj and Mahindra Lifespaces.

#### VALUATION SUMMARY

COMPANY	RATING	CMP 25.9.09	MKT CAP (RS B)	NAV (RS/SH)	PREM/DISC TO NAV (%)	EPS (RS/SH)		P/E (X)		BV (RS/SH)		P/B (X)		ROE (%)	
						FY10	FY11	FY10	FY11	FY10	FY11	FY10	FY11	FY10	FY11
DLF	Buy	427	732	360	18.5	13.9	18.9	30.7	22.6	136	154	3.1	2.8	8.8	10.8
Unitech	Neutral	109	261	83	31.8	4.5	4.2	24.2	26.1	41	45	2.7	2.4	9.9	8.4
IBREL	Neutral	271	109	182	48.8	4.5	12.5	60.0	21.7	182	189	1.5	1.4	1.5	4.0
HDIL	Buy	324	112	325	-0.3	11.9	15.2	27.1	21.3	189	204	1.7	1.6	6.3	7.5
Anant Raj	Buy	144	43	194	-25.9	5.7	9.9	25.4	14.6	118	127	1.2	1.1	4.8	7.8
MLL	Buy	387	16	518	-25.3	22.0	36.9	17.6	10.5	245	285	1.6	1.4	9.0	13.0
Puravankara	Neutral	119	25	124	-4.4	3.2	3.0	37.6	39.1	66	68	1.8	1.8	4.8	4.5

Source: MOSL

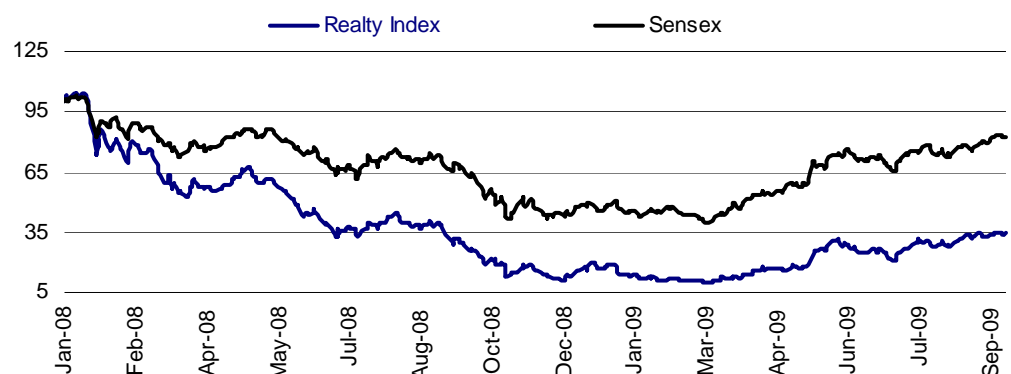
#### RE NAVS ACROSS COMPANIES (RS/SHARE)

PARTICULARS	DLF	UNITECH	IBREL	HDIL	ANANT RAJ	MAH LIFESPACES	PURAVAN- KARA
Apartments	180	60	41	106	98	171	244
Villas	22	47	0	0	0	0	0
Plots/Inst Plots	49	13	0	0	0	0	0
Commercial	119	39	79	139	64	0	9
Hotels	28	6	0	0	41	0	0
Retail	135	18	34	190	54	0	0
Others	0	2	11	580	4	270	0
<b>Total</b>	<b>504</b>	<b>187</b>	<b>165</b>	<b>1,016</b>	<b>259</b>	<b>441</b>	<b>253</b>
Add: Misc	63	12	0	0	0	0	0
<b>Gross Asset Value</b>	<b>567</b>	<b>199</b>	<b>165</b>	<b>1,016</b>	<b>259</b>	<b>441</b>	<b>253</b>
Less: Tax	106	45	33	62	57	0	56
Add: Cash	7	13	93	120	21	90	1
Less: Debt	66	30	0	17	0	0	38
Less: Land Cost	1	8	29	52	5	0	13
Less: Oper. Exp & Others	45	47	14	-318	23	0	23
<b>Net Asset Value</b>	<b>360</b>	<b>83</b>	<b>182</b>	<b>325</b>	<b>194</b>	<b>518</b>	<b>124</b>
CMP (Rs/sh)	427	109	271	324	144	387	119
% Prem/Disc	19	32	49	0	-26	-25	-4

Prices as of 25 September 2009

Source: MOSL

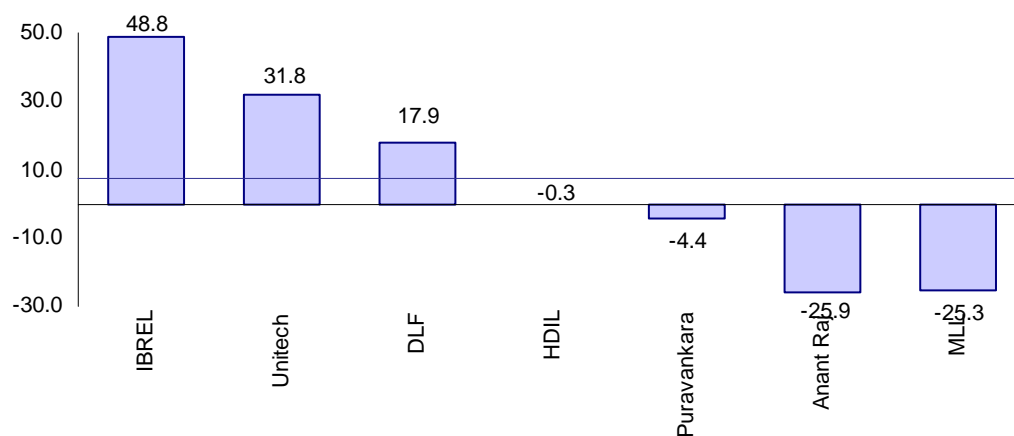
#### RE SECTOR HAS OUTPERFORMED SENSEX SINCE APRIL 2009



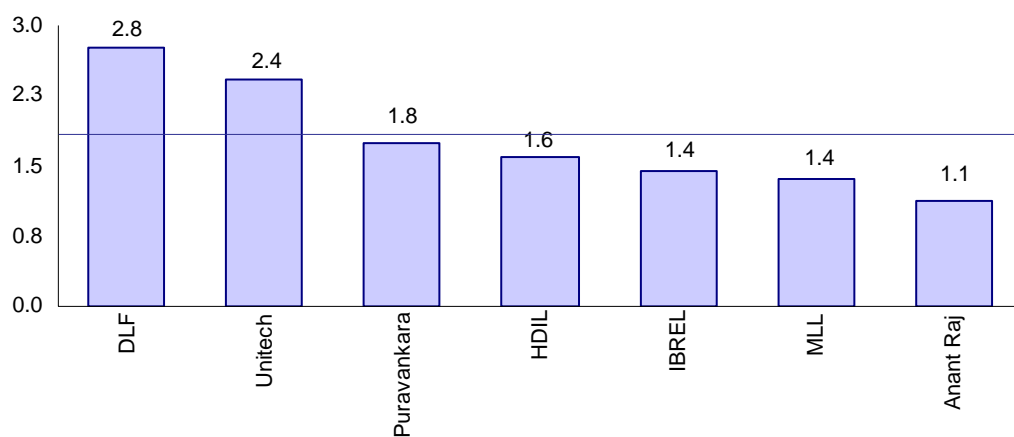
Source: Company/MOSL



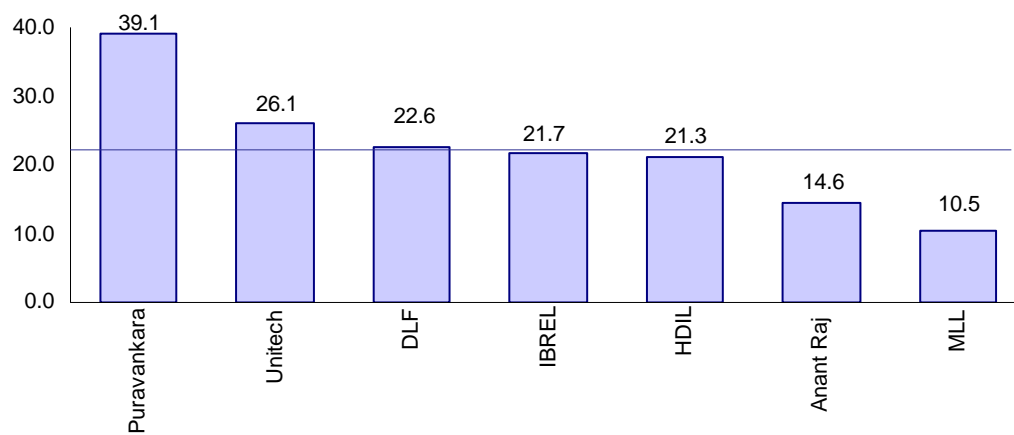
RE STOCKS IN OUR COVERAGE UNIVERSE TRADE AT -6% PREMIUM TO NAV



RE STOCKS IN OUR COVERAGE UNIVERSE TRADE AT -1.8 X FY11 BV



RE STOCKS IN OUR COVERAGE UNIVERSE TRADE AT -22X FY11 EPS



Prices as on 25 September 2009

Source: Company/MOSL

## COMPARATIVE FINANCIALS

	Y/E END	CMP	SALES		EBITDA		NP		NPM (%)
		(RS/SH) 25.9.09	SALES (RS B)	GR. (%)	EBITDA (RS B)	GR. (%)	NP (RS B)	GR. (%)	
DLF	Mar-08	427	144.3	447.2	97.1	551.7	78.1	304.4	54.1
	Mar-09		100.4	-30.4	54.9	-43.5	46.3	-40.7	46.1
	Mar-10		73.9	-26.4	38.9	-29.0	23.9	-48.4	32.3
	Mar-11		96.3	30.3	50.1	28.5	32.5	35.9	33.7
Unitech	Mar-08	109	41.2	25.1	22.0	20.5	16.7	27.2	40.5
	Mar-09		28.9	-29.7	15.9	-27.7	9.7	-42.0	33.4
	Mar-10		33.8	16.8	17.1	7.5	10.8	11.5	31.9
	Mar-11		30.2	-10.6	14.2	-17.1	10.0	-7.5	33.0
IBREL	Mar-08	271	1.4	910.8	0.0	-1.4	4.0	-	284.6
	Mar-09		1.3	-6.7	-0.3	-21.6	0.9	-78.2	66.4
	Mar-10		1.8	38.1	-0.3	-16.1	1.2	33.9	64.3
	Mar-11		7.7	324.4	3.0	38.8	3.2	176.7	42.0
HDIL	Mar-08	324	23.8	97.7	16.9	0.0	14.1	157.4	59.2
	Mar-09		17.3	-27.4	7.8	0.0	7.9	-44.2	45.5
	Mar-10		16.1	-7.1	6.4	0.0	4.1	-47.5	25.7
	Mar-11		20.5	27.4	8.5	0.0	5.3	27.3	25.7
Mahindra Lifespaces	Mar-08	387	2.3	6.8	0.7	112.1	0.4	271.2	19.4
	Mar-09		3.4	47.9	0.7	10.9	0.6	-3.5	18.7
	Mar-10		3.9	13.2	1.5	99.9	0.9	39.9	23.1
	Mar-11		5.5	40.9	2.5	69.1	1.5	68.1	27.6
Puravankara	Mar-08	119	5.7	35.7	2.1	55.3	2.4	85.9	42.4
	Mar-09		4.4	-21.4	1.3	-36.8	1.4	-39.8	32.5
	Mar-10		2.7	-40.4	0.7	-48.5	0.7	-53.2	25.5
	Mar-11		2.6	-3.4	0.7	5.1	0.6	-4.0	25.3

## COMPARATIVE VALUATION

	Y/E END	CMP	EV/			DIV.		ROE		BV		P/BV (X)
		(RS/SH) 25.9.09	EV (RS B)	EPS (RS/SH)	P/E (X)	EBITDA (X)	DPS (RS/SH)	YIELD (%)	ROE (%)	ROCE (%)	BV (RS/SH)	
DLF	Mar-08	427	828.9	45.8	9.3	8.5	4.0	0.9	39.7	43.0	103.2	4.1
	Mar-09		879.1	26.9	15.9	16.0	1.4	0.3	18.7	15.5	131.3	3.3
	Mar-10		819.9	13.9	30.7	21.1	0.7	0.2	8.8	9.5	144.4	3.0
	Mar-11		799.0	18.9	22.6	16.0	0.9	0.2	10.8	12.3	162.2	2.6
Unitech	Mar-08	109	332.2	10.2	10.7	15.1	0.3	0.2	46.1	21.5	22.2	4.9
	Mar-09		344.9	6.0	18.3	21.6	0.1	0.1	18.7	13.2	31.8	3.4
	Mar-10		301.7	4.5	24.2	17.6	0.0	0.0	9.9	10.4	45.7	2.4
	Mar-11		294.5	4.2	26.1	20.7	0.0	0.0	8.4	7.8	49.9	2.2
IBREL	Mar-08	271	52.5	15.5	17.5	-	13.5	5.0	8.9	10.3	170.6	1.6
	Mar-09		-13.5	3.4	80.3	47.6	7.0	2.6	1.8	2.5	177.1	1.5
	Mar-10		75.7	4.5	60.0	-259.1	3.0	1.1	1.5	3.0	182.1	1.5
	Mar-11		78.0	12.5	21.7	26.2	5.0	1.8	4.0	5.7	189.0	1.4
HDIL	Mar-08	324	97.1	65.8	4.9	5.7	5.0	1.5	38.8	23.0	169.7	1.9
	Mar-09		110.0	24.6	13.2	14.1	2.0	0.6	15.3	8.6	160.5	2.0
	Mar-10		92.9	11.9	27.1	14.4	1.2	0.4	6.3	5.9	188.6	1.7
	Mar-11		87.6	15.2	21.3	10.4	1.5	0.5	7.5	6.9	203.8	1.6
Mahindra Lifespaces	Mar-08	387	18.2	16.0	24.2	27.8	2.5	0.6	7.8	8.0	207.2	1.9
	Mar-09		17.7	15.7	24.7	24.3	3.5	0.9	6.9	7.8	226.7	1.7
	Mar-10		14.9	22.0	17.6	10.3	3.0	0.8	9.0	12.0	245.2	1.6
	Mar-11		14.1	36.9	10.5	5.7	3.0	0.8	13.0	16.0	284.9	1.4
Puravankara	Mar-08	119	15.7	11.2	10.6	7.6	2.0	1.7	19.8	15.0	56.8	2.1
	Mar-09		17.4	6.8	17.6	13.3	0.7	0.6	10.6	6.5	63.9	1.9
	Mar-10		16.3	3.2	37.6	24.1	0.3	0.2	4.8	3.2	66.1	1.8
	Mar-11		14.9	3.0	39.1	21.1	0.3	0.2	4.5	3.5	68.0	1.8

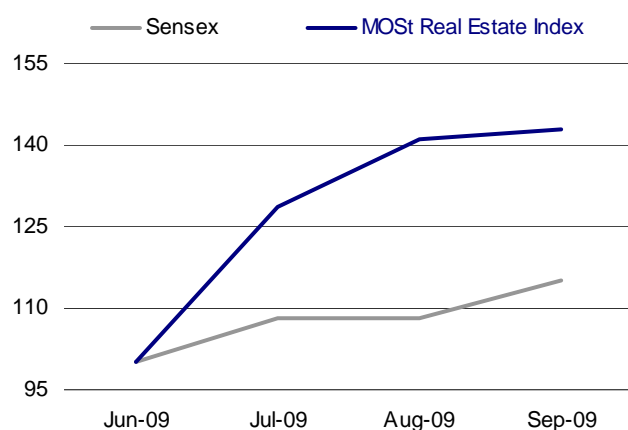
Source:MOSL

## Stock performance and valuations

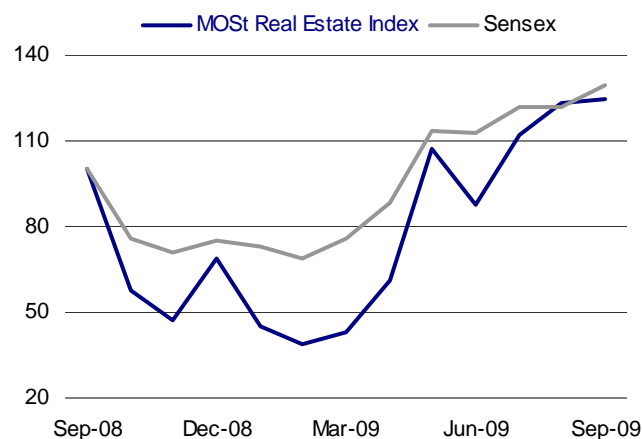
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Real Estate</b>						
DLF	34	10	18	-14	-5	-393
Unitech	33	-9	17	-33	-6	-412

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
	25.9.09													
<b>Real Estate</b>														
DLF	427	Buy	26.9	13.9	18.9	15.9	30.7	22.6	16.1	21.2	16.0	18.7	8.8	10.8
Unitech	109	Neutral	6.0	4.5	4.2	18.3	24.2	26.1	21.6	17.6	20.7	18.7	9.9	8.4
<b>Sector Aggregate</b>						<b>17.7</b>	<b>28.6</b>	<b>23.4</b>	<b>17.3</b>	<b>20.1</b>	<b>17.1</b>	<b>18.7</b>	<b>9.1</b>	<b>10.1</b>

DLF

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	DLFU IN
	REUTERS CODE
S&P CNX: 4,959	DLF.BO

25 September 2009

Buy

Rs427

Previous Recommendation: Buy

	YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
Equity Shares (m)	1,714.4										
52-Week Range (Rs)	447/124										
1,6,12 Rel. Perf. (%)	2/69/-14										
M.Cap. (Rs b)	731.6										
M.Cap. (US\$ b)	15.2										
	3/08A	144,329	78,120	45.8	262.8	9.3	4.1	39.7	43.0	5.7	8.5
	3/09A	100,440	46,292	26.9	-41.3	15.9	3.3	18.7	15.5	8.8	16.0
	3/10E	73,948	23,903	13.9	-48.4	30.7	3.0	8.8	9.5	11.1	21.1
	3/11E	96,333	32,487	18.9	35.9	22.6	2.6	10.8	12.3	8.3	16.0

- We expect revenue to decline 57% YoY to Rs16.3b and net profit to decline 77% YoY to Rs4.4b. We estimate 930bp contraction in EBITDA margin to 50% owing to increased contribution from the mid-income housing segment and lower contribution from the commercial and retail segments.
- During 2QFY10, DLF launched phase-II of its residential project in West Delhi, DLF Capital Greens. It has already sold 1,292 flats aggregating ~2.1msf in phase-II at an average rate of Rs7,900/sf, ~36% higher than phase-I (Rs5,800/sf). DLF is likely to commence construction on its SBM Delhi project during 3QFY10.
- DLF has guided that its net debt is likely to be reduced to Rs75b-80b by the end of FY10 from Rs140b as at the end of 1QFY10, mainly aided by sale of non-strategic assets. The company is hopeful of achieving its target of Rs55b of asset sales in FY10 and it is in advanced stages of negotiation for assets worth Rs25b-30b.
- DLF is not only well placed to benefit from the recovery in the residential vertical, but also best positioned to benefit from the future recovery in the commercial and retail verticals over the next 3-4 quarters. Our NAV estimate for DLF is Rs360/share. The stock currently trades at 2.9x adjusted FY11E BV of Rs146 and at 18% premium to its NAV of Rs360/share. **Maintain Buy.**

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>38,106</b>	<b>37,444</b>	<b>13,667</b>	<b>11,223</b>	<b>16,499</b>	<b>16,268</b>	<b>18,487</b>	<b>22,693</b>	<b>100,440</b>	<b>73,948</b>
Change (%)	24.0	15.2	(62.0)	(73.9)	-56.7	-56.6	35.3	102.2	-30.4	-26.4
Total Expenditure	14,661	15,274	5,947	9,677	9,058	8,150	8,332	9,464	45,559	35,005
Cost of Land/Construction	12,060	12,862	2,830	5,777	5,583	5,101	5,101	6,392	33,328	22,177
Staff Cost	1,024	582	1,210	1,375	1,132	1,240	1,265	1,323	4,592	4,959
Others	1,577	1,829	1,907	2,526	2,343	1,810	1,967	1,749	7,640	7,869
<b>EBITDA</b>	<b>23,445</b>	<b>22,170</b>	<b>7,720</b>	<b>1,546</b>	<b>7,441</b>	<b>8,118</b>	<b>10,154</b>	<b>13,229</b>	<b>54,881</b>	<b>38,943</b>
Change (%)	6.4	-2.1	-69.1	-94.4	-68.3	-63.4	31.5	755.8	-43.5	-29.0
As % of Sales	61.5	59.2	56.5	13.8	45.1	49.9	54.9	58.3	54.6	52.7
Depreciation	546	505	788	516	734	739	754	789	2,355	3,016
Interest	541	469	938	1,625	2,874	2,485	1,822	1,102	3,574	8,282
Other Income	357	958	1,361	2,291	961	492	559	224	4,967	2,235
<b>PBT</b>	<b>22,715</b>	<b>22,154</b>	<b>7,356</b>	<b>1,695</b>	<b>4,794</b>	<b>5,386</b>	<b>8,137</b>	<b>11,562</b>	<b>53,919</b>	<b>29,879</b>
Tax	3,766	2,813	537	-2	993	943	1,587	2,454	7,115	5,976
Effective Tax Rate (%)	16.6	12.7	7.3	-0.1	20.7	17.5	19.5	21.2	13.2	20.0
<b>Reported PAT</b>	<b>18,949</b>	<b>19,341</b>	<b>6,818</b>	<b>1,697</b>	<b>3,801</b>	<b>4,444</b>	<b>6,550</b>	<b>9,108</b>	<b>46,804</b>	<b>23,903</b>
Change (%)	-14.1	-4.2	(68.1)	(92.3)	23.0	27.3	35.4	40.1	-40.2	-48.9
P/L of Associat./ Minority Int.	308	12	-110	-106	-159	0	0	0	-513	-159
<b>Adj. PAT</b>	<b>18,640</b>	<b>19,354</b>	<b>6,708</b>	<b>1,591</b>	<b>3,960</b>	<b>4,444</b>	<b>6,550</b>	<b>9,108</b>	<b>46,292</b>	<b>24,062</b>
Change (%)	(14.4)	(4.1)	(68.7)	(92.7)	(78.8)	(77.0)	(2.4)	472.7	(40.7)	-48.0

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com) / Mansi Trivedi (Mansi.Trivedi@MotilalOswal.com)

Unitech

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	UT IN
	REUTERS CODE
S&P CNX: 4,959	UNTE.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs109

Equity Shares (m)	2,385.6	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range (Rs)	129/22	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	14/150/-33	3/08A	41,152	16,692	10.2	-36.4	10.7	4.9	46.1	21.5	8.1	15.1
M.Cap. (Rs b)	260.7	3/09A	28,945	11,968	6.0	-41.7	18.3	3.4	18.7	13.2	11.9	21.6
M.Cap. (US\$ b)	5.4	3/10E	33,799	10,794	4.5	-24.2	24.2	2.4	9.9	10.4	8.9	17.6
		3/11E	30,224	9,986	4.2	-7.5	26.1	2.2	8.4	7.8	9.7	20.7

- We expect revenue to decline 31% YoY to Rs7b and net profit to decline 50% YoY to Rs1.8b. We estimate 1,647bp fall in EBITDA margin to 45.5% from 62% in 2QFY09, to higher contribution from mid-income housing projects.
- During 2QFY10, Unitech raised ~US\$575m (~Rs27.7b) by issuing 342m equity shares at Rs81/share. Its solvency risk has been lowered significantly post its two QIP issues and asset sales of ~Rs10b. Unitech's net debt has reduced to Rs70b as at the end of 1QFY10 while net debt stands at Rs50b; net debt equity is comfortable at 0.5x.
- During the quarter, Unitech has launched nine residential projects - three in Gurgaon, four in Noida and Greater Noida, and one each in Chennai and Bhopal. Unitech has received encouraging response for these projects, with most of the projects being 40-50% sold out.
- Unitech has soft launched its residential project in Worli, Mumbai at Rs12,800-13,800/sf, ~33% discount to the average rate of Rs20,000/sf in the vicinity. The caveat is that buyers have to pay ~75% of the total consideration within one month. This should boost Unitech's cash flows.
- In the last few months, Unitech has managed to successfully recapitalize its balance sheet by: (1) raising US\$900m equity through two QIP issues, and (2) asset sale of ~Rs10b. This has significantly lowered the solvency risk for the company and improved financial outlook. The stock trades at 2.4x FY11E adjusted BV of Rs45/share and at 32% premium to FY11E NAV of Rs83/share. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>10,317</b>	<b>9,831</b>	<b>4,894</b>	<b>3,903</b>	<b>5,149</b>	<b>6,760</b>	<b>9,802</b>	<b>12,089</b>	<b>28,945</b>	<b>33,799</b>
Change (%)	19.2	-3.0	-57.1	-66.4	-50.1	-31.2	100.3	209.7	-29.7	16.8
Total Expenditure	4,233	3,739	2,451	2,587	1,998	3,684	5,019	5,970	13,010	16,670
<b>EBITDA</b>	<b>6,084</b>	<b>6,092</b>	<b>2,443</b>	<b>1,316</b>	<b>3,151</b>	<b>3,076</b>	<b>4,783</b>	<b>6,119</b>	<b>15,935</b>	<b>17,129</b>
Change (%)	21.5	20.2	-66.7	-72.7	-48.2	-49.5	95.8	364.9	-27.7	7.5
As of % Sales	59.0	62.0	49.9	33.7	48.5	45.5	48.8	50.6	55.1	50.7
Depreciation	68	38	53	50	42	54	61	88	209	244
Interest	1,079	1,341	967	2,158	926	1,237	1,366	1,625	5,546	5,153
Other Income	227	184	176	240	333	403	476	619	4,212	1,831
Extra-ordinary Income	-4	7	-20	3,385	0	0	0	0	3,369	0
<b>PBT</b>	<b>5,160</b>	<b>4,896</b>	<b>1,579</b>	<b>2,733</b>	<b>2,516</b>	<b>2,188</b>	<b>3,833</b>	<b>5,025</b>	<b>14,392</b>	<b>13,562</b>
Tax	927	1,300	219	-21	539	405	777	1,047	2,424	2,768
Effective Tax Rate (%)	18.0	26.5	13.9	-0.8	21.4	18.5	20.3	20.8	16.8	20.4
<b>Reported PAT</b>	<b>4,233</b>	<b>3,597</b>	<b>1,361</b>	<b>2,754</b>	<b>1,578</b>	<b>1,783</b>	<b>3,056</b>	<b>3,978</b>	<b>11,968</b>	<b>10,794</b>
Change (%)	15.3	-12.3	-74.0	-25.4	-62.7	-50.4	124.6	44.4	-29.6	-9.8
Minority		7	0	2	399	0	0	0	9	0
<b>Adj PAT</b>	<b>4,233</b>	<b>3,589</b>	<b>1,380</b>	<b>486</b>	<b>1,578</b>	<b>1,783</b>	<b>3,056</b>	<b>3,978</b>	<b>9,689</b>	<b>10,794</b>
Change (%)	15.3	-12.5	-73.6	-86.5	-62.7	-50.3	121.4	717.8	-42.7	11.4

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com) / Mansi Trivedi (Mansi.Trivedi@MotilalOswal.com)

## Retailing

BSE Sensex: 16,693

S&amp;P CNX: 4,959

25 September 2009

## COMPANY NAME

Pantaloon Retail

Titan Industries

**Swine flu to affect sales growth**

We expect retailers to post lower sales growth in the September quarter due to the recent outbreak of swine flu in several parts of India. Our channel check suggests 10-15% lower-than-targeted sales in large formats like Big Bazaar during its five-day *Maha Bachat* offer, with greater impact in Mumbai and Pune.

**Consumption sentiment improving; home durables recovery to lag**

Notwithstanding short-term concern about H1N1 flu, consumption sentiment has improved significantly over the past two to three months. Economic recovery and improvement on the employment front have precipitated higher footfalls in retail hubs such as Bangalore, Mumbai, Pune and the NCR. However, home and specialty retailing (especially jewelry) continue to disappoint as consumers defer big-ticket spending. But rising sales of affordable housing are expected to translate into higher sales of furniture, electronics and white goods with a three-to-six month lag.

**Global retailers optimistic but cautious**

Media reports indicate increasing interest of global retailers like Wal-Mart, Carrefour, Metro and Tesco to enter the Indian market. But an uncertain business environment has restrained entry in the cash-and-carry segment and the government's proscription of FDI in multi-brand stores prevents tie-ups with domestic retailers. We see no solution to the FDI issue in the near term.

**First-mover advantage to help Pantaloon**

We believe Pantaloon Retail will be able to capitalize on the expected surge in demand after the economic recovery. Lower overheads and benefits of fund raising should enable the company to increase subsequent growth. We retain **Pantaloon Retail** as our top pick in the segment.

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

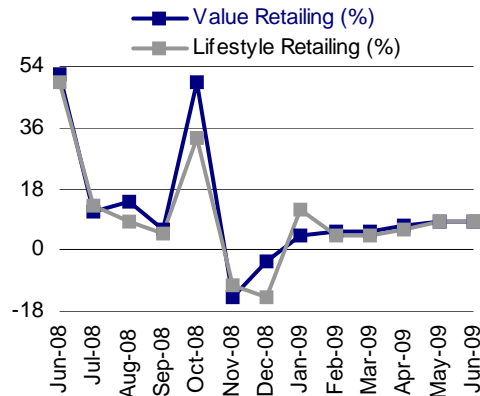
	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
			SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
				% YOY	% QOQ		% YOY	% QOQ		% YOY	% QOQ
<b>Retailing</b>											
Pantaloon Retail	338	Buy	16,926	12.0	1.8	1,591	2.7	-13.2	301	-16.7	-17.4
Titan Industries	1,236	Neutral	12,410	14.0	40.5	1,252	-0.7	154.2	770	-11.7	219.9
<b>Sector Aggregate</b>			<b>29,336</b>	<b>12.8</b>	<b>15.2</b>	<b>2,843</b>	<b>1.2</b>	<b>22.3</b>	<b>1,071</b>	<b>-13.1</b>	<b>76.9</b>

Amnisha Aggarwal (AmnishaAggarwal@MotilalOswal.com)/Nikhil Kumar(Nikhil.N@MotilalOswal.com)

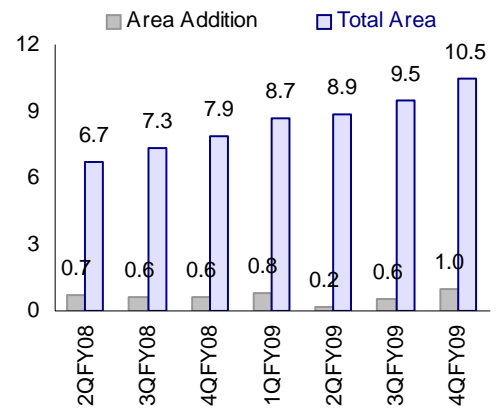
**Swine flu to hurt sales growth**

We expect sales growth for retailers, especially lifestyle and specialty retailers, to be muted due to the fallout of swine flu in the crucial month of August. Our channel check suggests 10-15% lower-than-targeted sales in large formats like Big Bazaar during its five-day *Maha Bachat* offer, with greater impact in the western cities of Mumbai and Pune. Retail companies have tried to overcome the lower sales by extending their periods of discounts and offers. This is expected to impact realizations and depress margins.

PANTALOON'S SAME-STORE SALES GROWTH



PANTALOON: AREA ADDITION (M SQ FT)



Source: Company/MOSL

**Consumption sentiment improves; value retailing benefits first**

Notwithstanding the short term concern over swine flu, consumption sentiment has improved significantly over the past two to three months. Economic recovery and its implications on stability of employment opportunities have precipitated the return of consumers to retail outlets especially in hubs like Bangalore, Mumbai, Pune and the NCR. Value retailing has started picking up with segments like general merchandise, food and beverages growing in high single digits to low double digits.

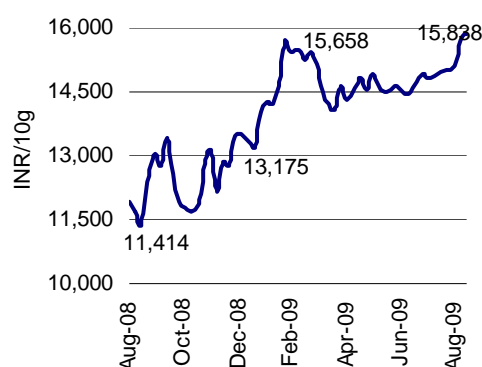
**Home durables, specialty retailing demand slated for late recovery**

Home and specialty retailing, especially jewelry, disappoints because consumers defer big-ticket spending. In home solutions, same-store sales continue to shrink 20-25% and jewelry volumes show a YoY decline. Retailers hope to reverse the declining trend in home retailing as sales of affordable housing are showing signs of improvement. This is expected to subsequently increase sales of furniture and furnishings, white goods and electronic products.

Jewelry sales have suffered due to high gold prices (Rs16,000/10gm). But with improving sentiment and stable prices consumers are gradually returning to the stores. The festive season in September and October and the wedding season in November are expected to prop-up jewelry sales.



GOLD PRICES HIT A NEW HIGH



LEASE CHARGES STEADY AT 3-3.25%



Source: Company/MOSL

### Retailers pin hopes on Diwali sales; same-store sales likely to rise in 3QFY10

Retailers hope for robust sales momentum during the festive season in 3QFY10 (Id, Dusshera and Diwali). The season accounts for 30-40% of annual sales in segments such as lifestyle, home and specialty retailing. Industry sources indicate that same-store sales growth is likely to be higher in 3QFY10 due to likely pent-up demand and the marriage season between November 15 and December 15.

### Hiring picking up, lower rentals improve business viability

Media reports indicate retailers are hiring again after the restructuring in the sector over the past 12 to 18 months. We expect retail space addition to pick-up in the coming quarters as sales growth visibility improves. However retailers are expected to be cautious about store openings. Lease rentals are lower by 10-15% YoY and we don't expect them to pick up soon. Retailers are increasing the proportion of private labels in their product mix and controlling overheads to turn around operations. We believe leading retailers will emerge stronger after sales pick up and the benefits of lower overheads and restructuring flow in.

### Global retailers optimistic but cautious

Media reports indicate increasing interest to enter the Indian retail market among global retailers like Wal-Mart, Carrefour, Metro and Tesco. But an uncertain business environment has restrained entry in the cash-and-carry category and the government's proscription of FDI in multi-brand stores prevents tie-ups with domestic retailers. The government is unlikely to alter FDI guidelines in the near term. Consequently Indian retailers will continue to depend on domestic sources of finance.

### First mover advantage to help Pantaloon

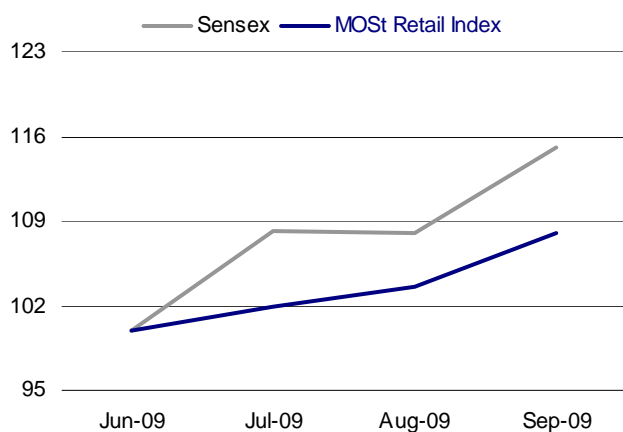
We believe Pantaloon Retail is best placed among the listed retailers to capitalize on the growth opportunity due to its first-mover advantage, established formats and scale of operations. We retain **Pantaloon Retail** as our top pick in this segment.

## Stock performance and valuations

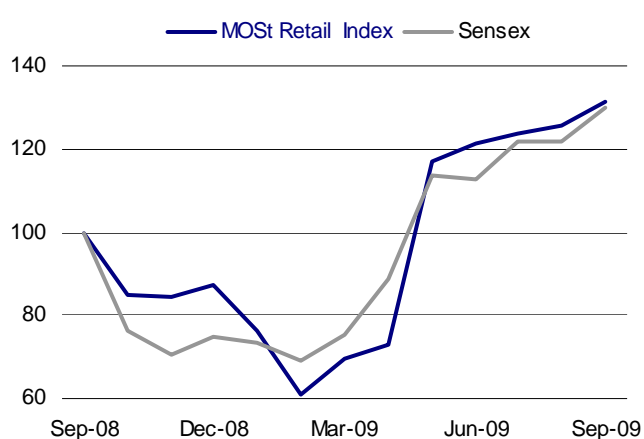
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Retailing</b>						
Pantaloon Retail	8	36	-8	13	-1	8
Titan Industries	11	10	-6	-13	1	-17

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10	FY11E
	25.9.09													
<b>Retailing</b>														
Pantaloon Retail	338	Buy	7.4	9.0	11.5	45.8	37.8	29.6	11.7	10.8	9.7	7.2	7.2	8.4
Titan Industries	1,236	Neutral	46.3	45.2	57.6	26.7	27.4	21.5	17.2	15.5	12.6	37.5	27.8	28.1
<b>Sector Aggregate</b>						<b>33.7</b>	<b>31.4</b>	<b>24.3</b>	<b>13.5</b>	<b>12.4</b>	<b>10.7</b>	<b>13.8</b>	<b>12.0</b>	<b>13.4</b>

## Pantaloon Retail

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	PF IN
	REUTERS CODE
S&P CNX: 4,959	PART.BO

25 September 2009

Buy

Rs338

Previous Recommendation: Buy

Equity Shares (m)	175.2
52-Week Range (Rs)	360/105
1,6,12 Rel. Perf. (%)	5/47/13
M.Cap. (Rs b)	59.3
M.Cap. (US\$ b)	1.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
06/08A	50,489	1,259	7.9	90.0	42.8	2.8	6.8	9.3	1.4	15.7
06/09A	63,845	1,362	7.8	-1.6	43.5	2.9	6.9	11.4	1.1	10.9
06/10E	74,154	1,705	9.0	15.2	37.8	2.6	7.2	11.2	1.0	9.9
06/11E	87,242	2,236	11.5	27.8	29.6	2.4	8.4	11.3	0.8	8.9

- We expect Pantaloon's revenue to grow 12% YoY to Rs17b with value retailing driving growth in the quarter. Sales growth for the quarter will be muted due to the swine flue fallout in the first half of August.
- Same-store sales growth continues to be in high single digits in value and lifestyle retailing, though home retailing will shrink at 20-25% YoY.
- EBITDA margins are expected to decline 80bp to 9.4% due to lower footfalls in the first fortnight of August (swine flu) which will limit EBITDA growth to 2.7%.
- During the quarter the company added a mere 0.25msqft (including Sobo Central and two Big Bazaars).
- Private label brands are posting strong growth and their increasing proportion to overall sales is helping to provide a cushion to EBITDA margins.
- We expect a 16.7% decline in adjusted PAT despite a QoQ decline in the company's interest burden.
- The stock is trading at 37.8x FY10E EPS of Rs9 and 29.6x FY11E EPS of Rs11.5. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E JUNE	FY09				FY10E				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Net Sales</b>	<b>15,112</b>	<b>15,257</b>	<b>16,421</b>	<b>17,055</b>	<b>16,926</b>	<b>18,003</b>	<b>19,377</b>	<b>19,849</b>	<b>63,845</b>	<b>74,154</b>
YoY Change (%)	39.1	24.4	21.2	23.5	12.0	18.0	18.0	16.4	26.5	16.1
Total Exp	13,563	13,684	14,691	15,347	15,335	16,239	17,420	17,971	57,285	66,964
<b>EBITDA</b>	<b>1,549</b>	<b>1,573</b>	<b>1,730</b>	<b>1,708</b>	<b>1,591</b>	<b>1,764</b>	<b>1,957</b>	<b>1,879</b>	<b>6,560</b>	<b>7,191</b>
Growth (%)	62	44	51.6	21.0	2.7	12.2	13.1	10.0	42.4	9.6
Margins (%)	10.2	10.3	10.5	10.0	9.4	9.8	10.1	9.5	10.3	9.7
Depreciation	319	325	369	374	395	415	420	446	1,387	1,676
Interest	684	742	847	859	750	742	737	723	3,132	2,952
Other Income	12	15	16	12	12	16	18	15	55	61
<b>PBT</b>	<b>557</b>	<b>522</b>	<b>530</b>	<b>486</b>	<b>458</b>	<b>623</b>	<b>818</b>	<b>723</b>	<b>2,096</b>	<b>2,623</b>
Tax	196	187	186	165	157	218	285	258	734	918
Rate (%)	33.5	35.8	35.0	33.9	34.2	35.0	34.8	35.7	35.0	35.0
<b>Adjusted PAT</b>	<b>362</b>	<b>335</b>	<b>344</b>	<b>322</b>	<b>301</b>	<b>405</b>	<b>533</b>	<b>465</b>	<b>1,362</b>	<b>1,705</b>
YoY Change (%)	21.8	6.0	7.1	-1.2	-16.7	20.8	55.1	44.6	8.2	25.1
<b>Reported PAT</b>	<b>362</b>	<b>335</b>	<b>344</b>	<b>322</b>	<b>301</b>	<b>405</b>	<b>533</b>	<b>465</b>	<b>1,362</b>	<b>1,705</b>

E: MOSL Estimates

## Titan Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	TTAN IN
	REUTERS CODE
S&P CNX: 4,959	TITN.BO

25 September 2009

Neutral

Rs1,236

Previous Recommendation: Neutral

Equity Shares (m)	42.3
52-Week Range (Rs)	1,375/668
1,6,12 Rel. Perf. (%)	-5/-5/-13
M.Cap. (Rs b)	52.3
M.Cap. (US\$ b)	1.1

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	29,937	1,483	33.4	25.5	37.0	11.7	34.0	30.7	1.8	21.0
03/09A	38,034	2,056	46.3	38.6	26.7	9.3	37.5	34.2	1.4	16.8
03/10E	43,553	2,005	45.2	-2.5	27.4	7.1	27.8	32.3	1.2	15.1
03/11E	50,904	2,556	57.6	27.5	21.5	5.6	28.1	33.9	1.0	12.2

- We expect Titan to post 2QFY10 revenue of Rs12.4b, up 14% YoY. EBITDA margins are expected to fall 150bp due to a mid single digit decline in jewelry volumes despite an increasing number of stores and higher losses in eyewear.
- We expect mid single digit sales and PBIT growth in watches. Fastrack will report higher growth than Sonata and Titan brands.
- Jewelry sales volumes continue to decline though the monthly rate of deceleration has been reduced. High gold prices have kept demand at bay and a run-up in other asset classes has affected investment demand. PBIT margins will decline due to higher overheads on new stores.
- Jewelry demand is expected to pick up and volume expected to turn positive from 3QFY10 due to festive demand and the marriage season.
- In Titan Eye+, the management is restructuring three to five stores in terms of their location format and product offerings. Losses from this division are expected to continue to increase QoQ due to the ramp up in stores; sales growth is encouraging.
- Steady gold lease charge of 3-3.25% will result in a PAT decline of 11.7% YoY to Rs770m. Long-term prospects are encouraging but valuations at 27.4x FY10E EPS of Rs45.2 and 21.5x FY11E EPS of Rs57.6 are expensive. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>8,103</b>	<b>10,886</b>	<b>10,238</b>	<b>8,807</b>	<b>8,830</b>	<b>12,410</b>	<b>11,700</b>	<b>10,613</b>	<b>38,034</b>	<b>43,553</b>
YoY Change (%)	23.2	53.0	27.6	7.1	9.0	14.0	14.3	20.5	27.0	14.5
Total Exp	7,543	9,624	9,519	8,185	8,338	11,158	10,850	9,735	34,869	40,081
<b>EBITDA</b>	<b>561</b>	<b>1,261</b>	<b>719</b>	<b>622</b>	<b>493</b>	<b>1,252</b>	<b>850</b>	<b>878</b>	<b>3,165</b>	<b>3,473</b>
Margins (%)	6.9	11.6	7.0	7.1	5.6	10.1	7.3	8.3	8.3	8.0
Depreciation	77	79	79	93	90	92	94	99	327	375
Interest	46	62	56	55	76	105	95	94	228	370
Other Income	8	12	12	20	7	10	5	6	53	28
<b>PBT</b>	<b>446</b>	<b>1,133</b>	<b>596</b>	<b>494</b>	<b>334</b>	<b>1,065</b>	<b>666</b>	<b>690</b>	<b>2,662</b>	<b>2,755</b>
Tax	117	261	175	53	93	295	190	173	607	751
Rate (%)	26.3	23.1	29.3	10.8	27.9	27.7	28.5	25.0	22.8	27.3
<b>Adjusted PAT</b>	<b>329</b>	<b>872</b>	<b>421</b>	<b>441</b>	<b>241</b>	<b>770</b>	<b>476</b>	<b>518</b>	<b>2,056</b>	<b>2,005</b>
YoY Change (%)	82.8	78.0	36.6	-12.7	-26.8	-11.7	13.0	17.5	38.6	-2.5
Extraordinary Income	0	0	-176	-290	216	0	1	0	-466	216
<b>Reported PAT</b>	<b>329</b>	<b>872</b>	<b>245</b>	<b>150</b>	<b>457</b>	<b>770</b>	<b>477</b>	<b>518</b>	<b>1,590</b>	<b>2,221</b>

E: MOSL Estimates

## Telecom

BSE Sensex: 16,693

S&amp;P CNX: 4,959

25 September 2009

## COMPANY NAME

Bharti Airtel

Idea Cellular

Reliance Communication

**Seasonal weakness, stiffer competition likely to make 2QFY10 a muted quarter:**

2QFY10 is likely to be a muted quarter for the Indian wireless sector. Subscriber growth remains buoyant with net additions of 14-15m a month but metrics like ARPU and MOU are likely to stay under pressure due to subscriber duplication. Bharti, Idea and RCom are expected to report average QoQ subscriber growth of 9-10%. There has been pricing pressure due to stiffer competition from Tata DOCOMO (Tata Teleservices' GSM offering) and other launches. We expect a 2-6% QoQ decline in MOU resulting in QoQ wireless traffic growth of 4-7% for listed majors.

**MOU weakness/tariff cuts to drag down reported revenue growth:** Accelerating competition, especially from Tata DOCOMO and Airtel, is likely to drive pressure on tariffs. We expect a blended RPM decline of 2-3% QoQ, resulting in revenue growth of 1-4% QoQ. For Bharti/RCom revenue growth is expected to be 13-14% YoY and for Idea, 31%.

**QoQ margin to remain largely stable:** We expect Bharti's EBITDA margins to remain flat QoQ but RCom's margins to expand about 50bp due to a better segment mix and lower DTH/handset subsidy losses. Idea is expected to post an EBITDA margin decline of about 160bp due to higher EBITDA loss from the full-quarter impact of its Tamil Nadu launch and flat revenue. Bharti/RCom's EBITDA is expected to grow 4/5% QoQ but Idea's is expected to fall 4%.

**Absence of forex gains to impact QoQ PAT growth:** QoQ PAT comparison is skewed because of significant forex gains in 1QFY10 due to the INR's appreciation, whereas forex fluctuations were virtually absent in 2QFY10. Bharti's profit is likely to remain flat QoQ, while Idea/RCom are expected to report QoQ earnings decline of by 33/44%. Although RCom's earnings are likely to be impacted by increased depreciation charges, treasury gains might continue to surprise on the upside resulting in a more stable earnings performance.

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
			SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
				% YOY	% QOQ		% YOY	% QOQ		% YOY	% QOQ
<b>Telecom</b>											
Bharti Airtel	414	Buy	103,011	14.2	3.6	43,055	16.4	3.7	25,212	23.2	0.2
Idea Cellular	76	Neutral	30,157	30.9	1.3	8,227	35.6	-4.3	1,982	37.5	-33.3
Reliance Comm	302	Buy	64,029	13.4	4.2	25,854	12.3	5.4	9,662	-42.3	-44.2
<b>Sector Aggregate</b>			<b>197,197</b>	<b>16.2</b>	<b>3.4</b>	<b>77,136</b>	<b>16.7</b>	<b>3.3</b>	<b>36,856</b>	<b>-4.7</b>	<b>-18.9</b>

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)

**Estimates downgraded for Idea/RCom, largely unchanged for Bharti:** We are downgrading our FY10-11 EBITDA estimates for RCom by 2-3% and for Idea by 1-4% to factor-in more cautious traffic growth assumptions given a likely muted 2QFY10. Our revised PAT estimates are lower by about 5% for RCom and 9-13% for Idea.

**3G auctions due in December 2009:** The government has marked the auction of spectrum for 3G services as a priority area and the auction is due to be held in December 2009. A reserve price of Rs35b for pan-India 3G spectrum has been finalized and BSNL and MTNL have already rolled out their 3G networks.

We arrive at 3G spectrum valuation of Rs39b based on IRR expectation of 15%, subscriber penetration of 25% and incremental ARPU of Rs100/month on a terminal basis, incremental 3G rollout capex of Rs30b, terminal 3G EBITDA margin of 40% and FCF/EBITDA ratio of 60%.

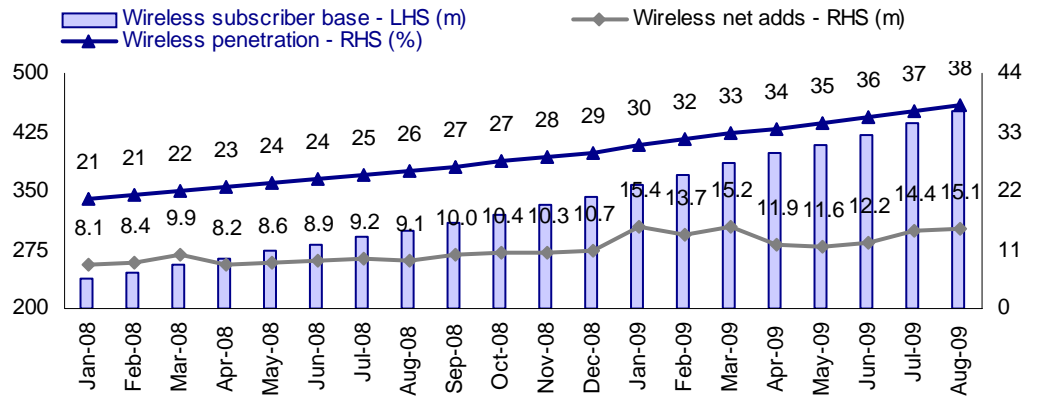
The rollout of 3G services will take at least six months after the spectrum allocation. Assuming outlay (spectrum plus initial capex and pre-operating costs) of Rs70b on a pan-India 3G rollout and nil EBITDA, it will result in additional interest/depreciation/amortization costs of Rs12.5b per operator.

**Tata DOCOMO GSM launch disruptive; expect guarded competitive response:** Tata DOCOMO launched its GSM service in June-July 2009 in four southern circles and Orissa. Its tariff plans with low rates, offering per-second billing (local calls @ 1 paisa; NLD @ 2 paise/1 paisa under promotional schemes) have been well received. It is estimated that minute-based billing results in granularity benefit of 15-20% for operators, which Tata DOCOMO is passing on. We expect a guarded defensive pricing response though blanket replication by incumbents is unlikely. Tata DOCOMO has reported the highest share of subscriber additions (19.2% v/s Bharti's 19.1%) in July-Aug 2009.

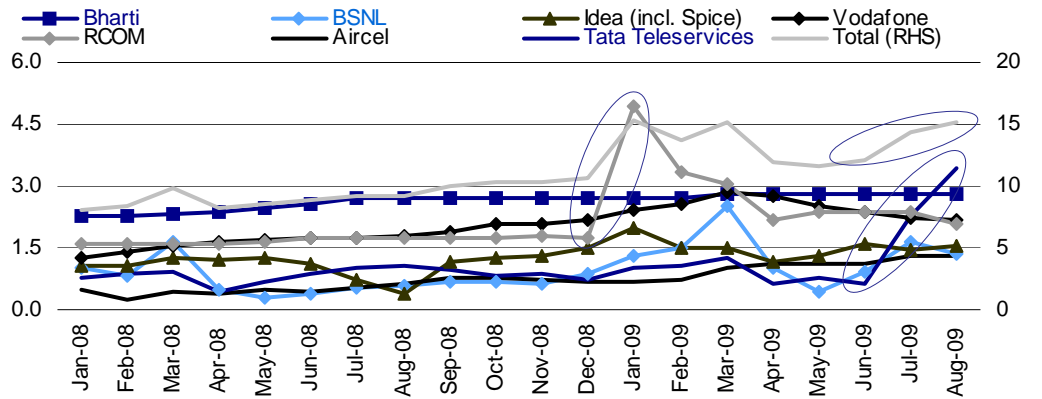
**Pricing stability v/s market share aspirations/visibility; cautious capex outlook:** EBITDA break-even timelines for new entrants continue to stretch because of tariff pressures. Relative tariff stability is critical for new operators to achieve break-even but pricing innovations targeted at increasing visibility are likely to continue. Competitive pressure and prospects of spectrum sharing/in-circle roaming could make new entrants reduce capex outlays. Unitech Wireless recently cut its CY09 capex guidance by 33% to Rs25b-32b from Rs39b-46b previously.

**Valuations attractive; Buy Bharti, RCom:** Sector valuations at 6-8x FY11 EV/EBITDA are attractive given strong 16-26% EBITDA CAGR. We maintain Buy on Bharti due to its strong incumbency advantage. Our Buy on RCom is based on GSM expansion-driven operational turnaround, reduced capex, growth opportunity/value unlocking prospects in the passive infrastructure business and cheap valuations. We are Neutral on Idea due to lower visibility on new circle losses/NPV and full valuations-any potential M&A is an upside risk.

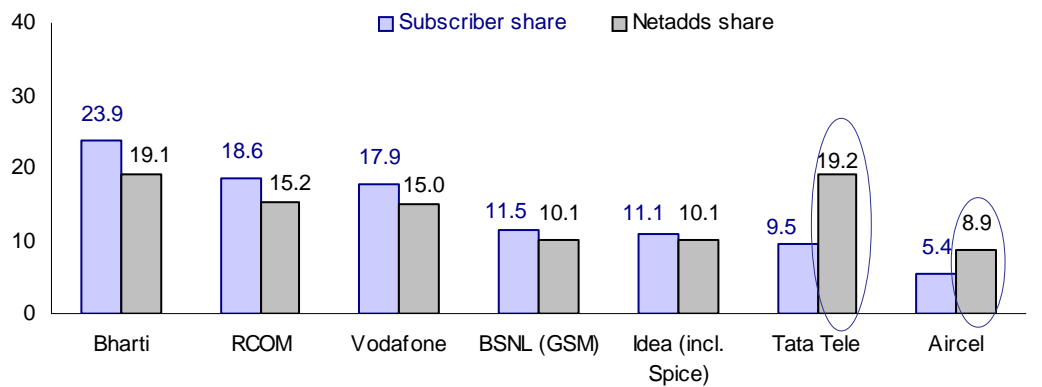
WIRELESS SUBSCRIBER BASE AND NET ADDITIONS (M)



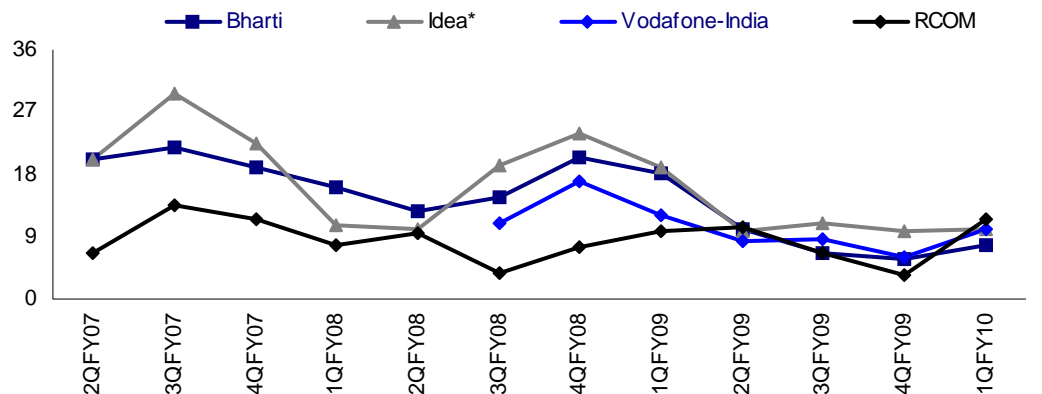
COMPANY WISE WIRELESS SUBSCRIBER NET ADDITIONS (M)



WIRELESS SUBSCRIBER SHARE AND NET ADDS SHARE DURING JUL-AUG 09 (%)



TREND IN OOO TRAFFIC GROWTH OF MAJOR WIRELESS OPERATORS (%)



Source: TRAI/MOSL



## 2QFY10: Summary expectations

## WIRELESS KPIS

	FY08				FY09				FY10		YOY (%)	QOQ (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2QE		
<b>EOP Wireless Subs (m)</b>												
Bharti	43	49	55	62	69	77	86	94	102	111	43	8
Idea*	16	19	21	24	27	30	34	39	43	47	54	10
RCOM	32	36	41	46	51	56	61	73	80	87	55	9
<b>Avg. Wireless Subs (m)</b>												
Bharti	40	46	52	59	66	73	82	90	98	107	45	9
Idea*	15	17	20	23	26	29	32	37	41	45	56	10
RCOM	30	34	39	43	48	53	59	67	76	83	56	9
<b>ARPU (Rs/Month)</b>												
Bharti	390	366	358	357	350	331	324	305	278	262	-21	-6
Idea*	320	288	279	287	278	261	266	254	232	214	-18	-8
RCOM	375	361	339	317	282	271	251	224	210	202	-26	-4
<b>MOU per Sub</b>												
Bharti	478	469	474	507	534	526	505	485	478	461	-12	-4
Idea*	381	360	377	411	431	421	416	402	399	375	-11	-6
RCOM	510	490	449	430	424	423	410	372	365	358	-15	-2
<b>Revenue per Min. (Rs)</b>												
Bharti	0.82	0.78	0.76	0.70	0.66	0.63	0.64	0.63	0.58	0.57	-10	-3
Idea*	0.84	0.80	0.74	0.70	0.65	0.62	0.64	0.63	0.58	0.57	-8	-2
RCOM	0.74	0.74	0.75	0.74	0.67	0.64	0.61	0.60	0.58	0.56	-12	-2
<b>Wireless Traffic (B min)</b>												
Bharti	57	64	74	89	105	116	124	131	141	147	27	5
Idea*	17	19	22	28	33	36	40	44	49	50	39	4
RCOM	46	50	52	56	61	68	72	75	83	89	32	7

\* All operational numbers for Idea are on ex-Spice basis

## QUARTERLY FINANCIALS (CONSOLIDATED)

	FY08				FY09				FY10		YOY (%)	QOQ (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2QE		
<b>Revenue (Rs b)</b>												
Bharti	59.0	63.4	69.6	78.2	84.8	90.2	96.3	98.2	99.4	103.0	14	4
Idea	14.8	15.6	17.1	19.9	21.8	23.0	27.3	29.4	29.8	30.2	31	1
RCOM	43.0	45.8	48.7	53.1	53.2	56.4	58.5	61.2	61.5	64.0	13	4
<b>EBITDA (Rs b)</b>												
Bharti	24.5	27.1	29.6	32.5	35.2	37.0	39.5	40.0	41.5	43.1	16	4
Idea	5.1	5.1	5.7	6.6	7.2	6.0	6.9	8.1	8.6	8.2	37	-4
RCOM	18.1	19.6	21.1	23.2	22.5	23.0	23.5	23.8	24.5	25.9	12	5
<b>EBITDA Margin (%)</b>												
Bharti	41.4	42.8	42.6	41.6	41.5	41.0	41.0	40.7	41.8	41.8	79bp	3bp
Idea	34.7	32.7	33.2	33.5	32.9	26.2	25.5	27.6	28.9	27.3	108bp	-161bp
RCOM	42.2	42.8	43.2	43.6	42.3	40.8	40.2	38.9	39.9	40.4	-39bp	47bp
<b>PAT (Rs m)</b>												
Bharti	15.1	16.1	17.2	18.5	20.3	20.5	21.6	22.4	25.2	25.2	23	0
Idea	3.1	2.2	2.4	2.8	2.6	1.4	2.2	2.7	3.0	2.0	38	-33
RCOM	12.2	13.3	14.0	15.7	16.4	16.8	14.8	13.6	17.3	9.7	-42	-44
<b>EPS (Rs)</b>												
Bharti	4.0	4.3	4.5	4.9	5.3	5.4	5.7	5.9	6.6	6.6	23	0
Idea	1.2	0.8	0.9	1.0	1.0	0.5	0.7	0.9	1.0	0.6	38	-33
RCOM	6.0	6.5	6.8	7.6	7.9	8.1	7.2	6.6	8.4	4.7	-42	-44

Source: Company/MOSL

## ESTIMATE CHANGE SUMMARY

	BHARTI		RCOM		IDEA	
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
<b>Wireless Subs (m)</b>						
Old	125	149	102	126	55	69
New	127	156	101	125	56	69
Change (%)	1.9	4.8	-0.9	-0.7	1.1	0.9
<b>Wireless ARPU (Rs/Month)</b>						
Old	263	240	203	192	220	204
New	260	234	199	189	215	202
Change (%)	-1.3	-2.4	-1.8	-1.8	-2.4	-0.8
<b>Revenue (Rs b)</b>						
Old	420	469	267	327	127	164
New	419	473	263	321	126	165
Change (%)	-0.2	0.9	-1.6	-1.8	-1.4	0.6
<b>EBITDA (Rs b)</b>						
Old	179	201	110	139	37	46
New	177	203	107	135	36	45
Change (%)	-0.9	0.8	-2.5	-2.7	-3.6	-1.2
<b>Net Profit (Rs b)</b>						
Old	104	118	52	67	11	12
New	103	118	49	64	10	11
Change (%)	-1.8	0.3	-5.1	-5.3	-12.6	-9.2
<b>EPS (Rs)</b>						
Old	27.5	31.1	25.3	32.5	3.5	3.6
New	27.0	31.1	24.0	30.8	3.1	3.2
Change (%)	-1.8	0.3	-5.1	-5.3	-12.6	-9.2
<b>Net Finance Cost (Rs b)</b>						
Old	-4	-3	0	10	5.1	7.7
New	-4	-2	1	10	5.2	8.1
Change (%)	-10.0	-13.4	12.0	2.6	0.8	5.4
<b>Tax Rate (%)</b>						
Old	14	18	7	7	7	8
New	14	18	7	7	7	8
Change (bp)	0bp	0bp	12bp	0bp	-2bp	0bp

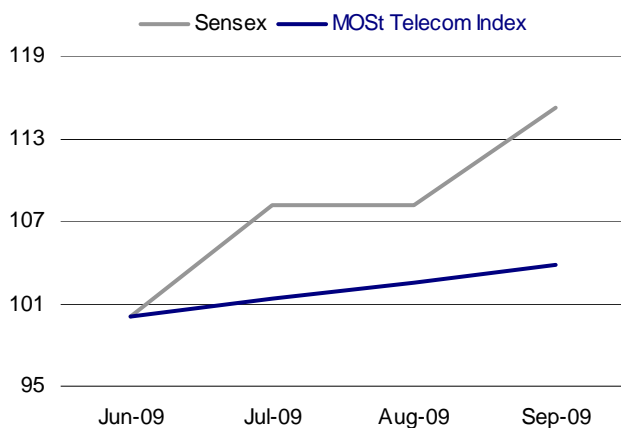
Source: MOSL

## Stock performance and valuations

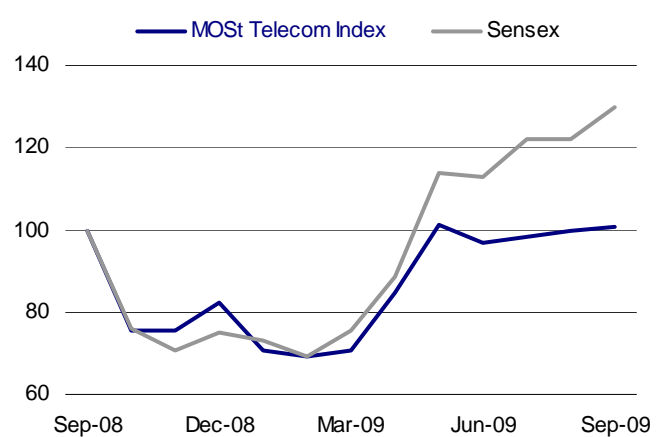
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Telecom</b>						
Bharti Airtel	4	5	-13	-18	2	8
Idea Cellular	-5	-5	-21	-28	-7	-2
Reliance Communication	0	-17	-16	-41	-2	-15

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
	25.9.09													
<b>Telecommunication</b>														
Bharti Airtel	414	Buy	22.3	27.8	31.5	18.6	14.9	13.1	10.8	9.0	7.7	31.4	30.2	27.4
Idea Cellular	76	Neutral	3.0	3.1	3.2	25.1	24.6	23.4	9.6	8.4	7.1	10.4	6.7	6.3
Reliance Comm	302	Buy	29.8	24.0	30.8	10.1	12.6	9.8	9.1	7.9	5.9	18.7	12.5	14.3
<b>Sector Aggregate</b>						<b>15.6</b>	<b>14.8</b>	<b>12.5</b>	<b>10.1</b>	<b>8.6</b>	<b>7.0</b>	<b>19.1</b>	<b>17.8</b>	<b>17.1</b>

## Bharti Airtel

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	BHARTI IN
	REUTERS CODE
S&P CNX: 4,959	BRTI.BO

25 September 2009

Buy

Rs414

Previous Recommendation: Buy

Equity Shares (m)	3,795.2
52-Week Range (Rs)	495/242
1,6,12 Rel. Perf. (%)	-5/-32/-18
M.Cap. (Rs b)	1,571.2
M.Cap. (US\$ b)	32.7

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/08A	270,250	67,008	17.7	57.4	23.4	7.0	36.9	25.8	6.0	14.2
3/09A	369,615	84,699	22.3	26.4	18.6	5.0	31.4	23.8	4.4	10.8
3/10E	420,688	105,289	27.8	24.3	14.9	4.1	30.2	21.6	3.8	9.0
3/11E	472,609	119,565	31.5	13.6	13.1	3.2	27.4	21.4	3.3	7.7

- We expect revenue to grow 14% YoY and 3.6% QoQ to Rs103b. Average subscriber growth remains strong at 9% but reported revenue will be dragged down by seasonal MOU weakness and increased competition.
- EBITDA margin is expected to remain stable at 41.8%.
- Mobility revenue is expected to grow 2.2% QoQ, implying an ARPU of Rs262 (decline of 5.9% QoQ). EBITDA margin for the mobile business is expected at 33%, flat QoQ.
- Net profit is expected to grow 23% YoY remain flat QoQ at Rs25.2b. We do not expect forex gains in 2QFY10 against a Rs2.5b gain in 1QFY10 which was driven by the INR appreciation.
- Bharti is well-positioned with a strong incumbency advantage and a healthy balance sheet. Valuations at 7.7x EV/EBITDA and 13.1x P/E FY11E are well supported by 16-19% EBITDA and earnings CAGR over FY09-11E. Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Gross Revenue</b>	<b>84,833</b>	<b>90,203</b>	<b>96,334</b>	<b>98,245</b>	<b>99,416</b>	<b>103,011</b>	<b>107,326</b>	<b>110,935</b>	<b>369,615</b>	<b>420,688</b>
YoY Growth (%)	43.7	42.3	38.3	25.6	17.2	14.2	11.4	12.9	36.8	13.8
QoQ Growth (%)	8.5	6.3	6.8	2.0	1.2	3.6	4.2	3.4		
Total Operating Expenses	49,612	53,210	56,884	58,231	57,898	59,956	61,898	63,354	217,937	243,107
<b>EBITDA</b>	<b>35,221</b>	<b>36,993</b>	<b>39,450</b>	<b>40,014</b>	<b>41,518</b>	<b>43,055</b>	<b>45,427</b>	<b>47,581</b>	<b>151,678</b>	<b>177,582</b>
YoY Growth (%)	44.0	36.5	33.1	23.1	17.9	16.4	15.2	18.9	33.4	17.1
QoQ Growth (%)	8.3	5.0	6.6	1.4	3.8	3.7	5.5	4.7		
Margin (%)	41.5	41.0	41.0	40.7	41.8	41.8	42.3	42.9	41.0	42.2
Net Finance Costs	1,832	5,741	1,904	2,136	-2,605	-25	-529	-645	11,613	-3,804
Non-Operating Income	470	21	-215	313	295	445	445	495	588	1,678
Depreciation & Amortization	10,045	11,549	12,702	13,285	14,330	14,819	15,451	16,079	47,581	60,679
<b>Profit before Tax</b>	<b>23,815</b>	<b>19,724</b>	<b>24,628</b>	<b>24,906</b>	<b>30,088</b>	<b>28,706</b>	<b>30,950</b>	<b>32,642</b>	<b>93,073</b>	<b>122,385</b>
Income Tax Expense / (Income)	3,282	-1,247	2,558	2,022	4,442	3,014	3,714	3,917	6,615	15,087
Profit / (Loss) to Min. Shareholders	282	508	478	491	479	480	509	537	1,759	2,004
<b>Reported Net Profit / (Loss)</b>	<b>20,251</b>	<b>20,463</b>	<b>21,592</b>	<b>22,393</b>	<b>25,167</b>	<b>25,212</b>	<b>26,727</b>	<b>28,188</b>	<b>84,699</b>	<b>105,294</b>
YoY Growth (%)	34.0	26.8	25.4	20.9	24.3	23.2	23.8	25.9	26.4	24.3
QoQ Growth (%)	9.3	1.0	5.5	3.7	12.4	0.2	6.0	5.5	26.4	24.3
<b>Mobile ARPU (Rs/month)</b>	<b>350</b>	<b>331</b>	<b>324</b>	<b>305</b>	<b>278</b>	<b>262</b>	<b>252</b>	<b>244</b>	<b>325</b>	<b>260</b>
QoQ Growth (%)	-2.0	-5.4	-2.1	-5.9	-8.9	-5.9	-3.5	-3.5		
<b>Mobile MOU/sub/month</b>	<b>534</b>	<b>526</b>	<b>505</b>	<b>485</b>	<b>478</b>	<b>461</b>	<b>457</b>	<b>452</b>	<b>508</b>	<b>462</b>
QoQ Growth (%)	5.3	-1.5	-4.0	-4.0	-1.4	-3.5	-1.0	-1.0		

E: MOSL Estimates; Financials as per US GAAP

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)

## Idea Cellular

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	IDEA IN
	REUTERS CODE
S&P CNX: 4,959	IDEA.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs76

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	3,100.1										
52-Week Range (Rs)	92/34										
1,6,12 Rel. Perf. (%)	-12/-17/-28										
M.Cap. (Rs b)	235.6										
M.Cap. (US\$ b)	4.9										
	3/08A	67,374	10,424	4.0	84.4	19.2	5.7	36.4	14.7	3.8	11.2
	3/09A	101,485	9,008	3.0	-23.7	25.2	1.6	10.4	7.4	2.7	9.6
	3/10E	125,691	9,558	3.1	2.2	24.7	1.6	6.7	5.5	2.4	8.5
	3/11E	164,780	10,666	3.2	4.8	23.5	1.3	6.3	5.8	2.0	7.4

- We expect consolidated revenue to grow 31% YoY and 1% QoQ to Rs30.2b. ARPU (ex-Spice) is expected to decline by 7.8% QoQ, impacted by seasonal MOU weakness, low rural usage and increased competition in urban markets.
- EBITDA margin is likely to decline 160bp QoQ to 27.3%. We expect margins in established circles to remain stable QoQ at 30.4%; EBITDA loss in new circles is estimated to rise to Rs1,035m in 2QFY10 from Rs644m in 1QFY10, driven by the full-quarter impact of its Tamil Nadu launch.
- Net profit is expected to grow 38% YoY but fall 33% QoQ to Rs1.98b.
- Idea trades at 23.5x FY11E EPS and 7.4x FY11E EV/EBITDA. We are **Neutral** on Idea due to lower visibility on new circle losses/NPV and full valuations-any potential M&A is an upside risk.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Gross Revenue</b>	<b>21,781</b>	<b>23,037</b>	<b>27,311</b>	<b>29,356</b>	<b>29,759</b>	<b>30,157</b>	<b>32,023</b>	<b>33,751</b>	<b>101,485</b>	<b>125,691</b>
YoY Growth (%)	47.4	47.3	59.7	47.9	36.6	30.9	17.3	15.0	50.6	23.9
QoQ Growth (%)	9.7	5.8	18.6	7.5	1.4	1.3	6.2	5.4		
<b>EBITDA</b>	<b>7,203</b>	<b>6,068</b>	<b>6,974</b>	<b>8,108</b>	<b>8,599</b>	<b>8,227</b>	<b>9,089</b>	<b>9,655</b>	<b>28,353</b>	<b>35,571</b>
YoY Growth (%)	40.2	18.3	22.5	20.4	19.4	35.6	30.3	19.1	24.9	25.5
QoQ Growth (%)	6.9	-15.8	14.9	16.3	6.1	-4.3	10.5	6.2		
Margin (%)	33.1	26.3	25.5	27.6	28.9	27.3	28.4	28.6	27.9	28.3
Net Finance Costs	1,526	1,497	874	1,046	869	1,225	1,451	1,614	4,943	5,159
Depreciation & Amortization	2,749	3,032	3,937	4,321	4,555	4,872	5,211	5,516	14,039	20,154
<b>Profit before Tax</b>	<b>2,928</b>	<b>1,540</b>	<b>2,163</b>	<b>2,741</b>	<b>3,175</b>	<b>2,131</b>	<b>2,427</b>	<b>2,526</b>	<b>9,371</b>	<b>10,258</b>
Income Tax Expense / (Income)	297	99	-31	-2	204	149	170	177	363	700
<b>Adjusted Net Profit / (Loss)</b>	<b>2,631</b>	<b>1,441</b>	<b>2,194</b>	<b>2,743</b>	<b>2,971</b>	<b>1,982</b>	<b>2,257</b>	<b>2,349</b>	<b>9,008</b>	<b>9,558</b>
YoY Growth (%)	-14.7	-34.6	-7.3	-0.9	12.9	37.5	2.8	-14.4	-13.6	6.1
QoQ Growth (%)	-4.9	-45.2	52.3	25.0	8.3	-33.3	13.9	4.1		
Margin (%)	12.1	6.3	8.0	9.3	10.0	6.6	7.0	7.0	8.9	7.6
<b>Mobile ARPU (Rs/month)</b>	<b>278</b>	<b>261</b>	<b>266</b>	<b>254</b>	<b>232</b>	<b>214</b>	<b>207</b>	<b>201</b>	<b>264</b>	<b>215</b>
QoQ Growth (%)	-3.1	-6.1	1.9	-4.5	-8.7	-7.8	-3.1	-3.2		
<b>Mobile MOU/sub/month</b>	<b>431</b>	<b>421</b>	<b>416</b>	<b>402</b>	<b>399</b>	<b>375</b>	<b>369</b>	<b>364</b>	<b>418</b>	<b>374</b>
QoQ Growth (%)	4.9	-2.3	-1.2	-3.4	-0.7	-6.0	-1.5	-1.5		

E: MOSL Estimates

## Reliance Communication

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	RCOM IN
	REUTERS CODE
S&P CNX: 4,959	RLCM.BO

25 September 2009

Buy

Previous Recommendation: Buy

Rs302

Equity Shares (m)	2,063.0
52-Week Range (Rs)	375/131
1,6,12 Rel. Perf. (%)	9/7/-41
M.Cap. (Rs b)	623.0
M.Cap. (US\$ b)	13.0

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/08A	190,679	55,095	26.7	71.0	11.3	2.2	22.7	12.0	3.76	8.7
3/09A	229,410	61,552	29.8	11.7	10.1	1.6	18.7	8.9	3.68	9.1
3/10E	263,020	49,443	24.0	-19.7	12.6	1.5	12.5	6.4	3.2	7.9
3/11E	321,075	63,540	30.8	28.5	9.8	1.3	14.3	9.3	2.5	5.9

- We expect revenue to grow 13% YoY and 4% QoQ to Rs64b. Growth will be driven by sustained wireless additions (average subscribers up 9% QoQ) and increased-use traction in the GSM business.
- We expect wireless ARPU to decline 4% QoQ to Rs202 and RPM and MOU to slip 2% QoQ.
- EBITDA margin is expected to expand 50bp QoQ but decline 40bp YoY to 40.4%. QoQ improvement in margins is likely to be driven by a better segment mix and lower DTH/handset subsidy losses.
- Pre-minority interest net profit is expected to decline 42-44% YoY and QoQ, mainly due to assumed net finance cost of Rs2.2b against net finance income in comparable quarters, and 21% QoQ increase in depreciation costs. RCom could continue to surprise positively on net finance costs, driven by treasury income.
- Given the GSM expansion-driven operational turnaround, reduced capex, growth opportunity/value unlocking prospects in the passive infrastructure business and cheap valuations (5.9x FY11E EV/EBITDA), we maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Gross Revenue</b>	<b>53,223</b>	<b>56,449</b>	<b>58,502</b>	<b>61,237</b>	<b>61,452</b>	<b>64,029</b>	<b>67,131</b>	<b>70,408</b>	<b>229,411</b>	<b>263,020</b>
YoY Growth (%)	23.7	23.3	20.0	15.3	15.5	13.4	14.8	15.0	20.3	14.7
QoQ Growth (%)	0.2	6.1	3.6	4.7	0.4	4.2	4.8	4.9		
<b>EBITDA</b>	<b>22,501</b>	<b>23,016</b>	<b>23,525</b>	<b>23,832</b>	<b>24,525</b>	<b>25,854</b>	<b>27,453</b>	<b>29,265</b>	<b>92,875</b>	<b>107,098</b>
YoY Growth (%)	24.0	17.3	11.7	2.9	9.0	12.3	16.7	22.8	13.3	15.3
QoQ Growth (%)	-2.9	2.3	2.2	1.3	2.9	5.4	6.2	6.6		
Margin (%)	42.3	40.8	40.2	38.9	39.9	40.4	40.9	41.6	40.5	40.7
Net Finance Costs	-2,340	-2,353	-1,496	-1,678	-6,205	2,230	2,248	2,249	-7,867	522
Depreciation & Amortization	8,638	9,180	10,069	11,426	11,144	13,453	14,009	14,569	39,313	53,175
<b>Profit before Tax</b>	<b>16,203</b>	<b>16,189</b>	<b>14,952</b>	<b>14,084</b>	<b>19,586</b>	<b>10,171</b>	<b>11,196</b>	<b>12,448</b>	<b>61,429</b>	<b>53,401</b>
Income Tax Expense / (Income)	-194	-567	153	485	2,267	509	560	622	-123	3,958
<b>Adjusted Net Profit / (Loss)</b>	<b>16,397</b>	<b>16,756</b>	<b>14,799</b>	<b>13,599</b>	<b>17,319</b>	<b>9,662</b>	<b>10,636</b>	<b>11,825</b>	<b>61,552</b>	<b>49,443</b>
YoY Growth (%)	34.5	26.1	6.1	-13.2	5.6	-42.3	-28.1	-13.0	11.7	-19.7
QoQ Growth (%)	4.7	2.2	-11.7	-8.1	27.4	-44.2	10.1	11.2		
Margin (%)	30.8	29.7	25.3	22.2	28.2	15.1	15.8	16.8	26.8	18.8
Extraordinary Exp/Minority Interest	1,275	1,447	697	-945	953	953	802	814	2,474	3,522
<b>Reported Net Profit / (Loss)</b>	<b>15,122</b>	<b>15,308</b>	<b>14,102</b>	<b>14,544</b>	<b>16,366</b>	<b>8,708</b>	<b>9,835</b>	<b>11,011</b>	<b>59,078</b>	<b>45,921</b>
<b>Wireless ARPU (Rs/month)</b>	<b>282</b>	<b>271</b>	<b>251</b>	<b>224</b>	<b>210</b>	<b>202</b>	<b>197</b>	<b>192</b>	<b>244</b>	<b>199</b>
QoQ Growth (%)	-11.0	-3.9	-7.4	-10.8	-6.3	-4.0	-2.5	-2.5		
<b>Wireless MOU/sub/month</b>	<b>424</b>	<b>423</b>	<b>410</b>	<b>372</b>	<b>365</b>	<b>358</b>	<b>354</b>	<b>351</b>	<b>389</b>	<b>356</b>
QoQ Growth (%)	-1.4	-0.2	-3.1	-9.3	-1.9	-2.0	-1.0	-1.0		

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com)

## Textiles

BSE Sensex: 16,693

S&amp;P CNX: 4,959

25 September 2009

## COMPANY NAME

Alok Industries

Arvind Mills

Bombay Rayon

Raymond

Vardhman Textiles

**Record cotton crop expected**

The agro-climatic conditions across the cotton belt reportedly favor a good crop. The Cotton Advisory Board estimates 96 lakh hectares will be under cotton cultivation in the cotton year (CY10) against 94 lakh hectares a year earlier. Increased acreage and greater use of Bt seeds, are expected to boost cotton production by 5% YoY in CY10. Consequently cotton prices are expected to stay competitive, which is a key positive for cotton-textile companies.

## COTTON CROP

STATE	CROP ESTIMATE	
	2008-09	2009-10
Punjab	16	17
Haryana	13.5	15
Rajasthan		
Upper Rajasthan	5.75	8
Lower Rajasthan	3	3
<b>Total North Zone</b>	<b>38.25</b>	<b>43</b>
Gujarat	90	101
Maharashtra	64	70
Madhya Pradesh	17.75	18
<b>Total Central Zone</b>	<b>171.75</b>	<b>189</b>
Andhra Pradesh	55	51
Karnataka	9.75	11.5
Tamil Nadu	4.5	4.25
<b>Total South Zone</b>	<b>69.25</b>	<b>66.75</b>
Orissa	1	1
Others	0.5	0.5
<b>Total</b>	<b>280.75</b>	<b>300.25</b>
Loose Production (Survey)	12	12
<b>All India</b>	<b>292.75</b>	<b>312.25</b>

Source: CAB

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
			SEP.09	VAR. % YOY	VAR. % QOQ	SEP.09	VAR. % YOY	VAR. % QOQ	SEP.09	VAR. % YOY	VAR. % QOQ
<b>Textiles</b>											
Alok Ind	23	Buy	9,493	36.0	20.7	2,582	50.3	20.1	374	-17.4	16.8
Arvind Mills	38	Neutral	6,872	18.3	1.5	907	95.2	3.1	75	103.3	-12.2
Bombay Rayon	221	Buy	3,800	32.4	13.0	912	32.8	14.6	402	9.5	7.8
Raymond	215	Buy	3,489	-19.5	48.6	328	-34.7	LP	64	-72.5	LP
Vardhman Textiles	171	Buy	6,580	1.1	6.1	977	-12.1	-10.8	211	63.3	-26.6
<b>Sector Aggregate</b>			<b>30,233</b>	<b>14.1</b>	<b>13.9</b>	<b>5,706</b>	<b>27.3</b>	<b>17.5</b>	<b>1,126</b>	<b>-7.6</b>	<b>40.8</b>

Siddharth Bothra (SBothra@MotilalOswal.com)



## COTTON BALANCE SHEET (2008-09 &amp; 2009-10)

(IN LAKH BALES OF 170 KG)	2008-09	2009-10
<b>Supply</b>		
Opening Stock	35.5	67.25
Crop	292.75	312.25
Imports	10	7
<b>Total Supply</b>	<b>338.25</b>	<b>386.5</b>
<b>Demand</b>		
Mill Consumption	200	210
Small Scale Unit Consumption	20	21
Non-mill Consumption	19	19
Exports	32	65
<b>Total Offtake</b>	<b>271</b>	<b>315</b>
<b>Carry-over Stock</b>	<b>67.25</b>	<b>71</b>

Source: CAB

**International cotton situation for 2009-10**

A recent ICAC release says world cotton acreage in cotton year 2009-10 is expected to decline by 1% to 30.32m hectares against 30.72m hectares in 2008-09. The world average yield in 2009-10 is estimated at 767kg/hectare against 767kg/hectare a year earlier.

World cotton production in cotton year 2009-10 is expected to decrease slightly to 23.25m tons against 23.36m tons a year earlier. Increases in India, the US, Pakistan and Australia are expected to be offset by declines in China, Brazil, Turkey and Mexico.

World cotton-mill use declined due to a fall in demand for textile products caused by the global economic crisis. Global cotton-mill use is forecast to grow by 2% in 2009-10 to 23.6m tons against 23.09m tons in 2008-09, driven mainly by a rebound in Asia, particularly in China, India and Pakistan. World cotton stocks during cotton year 2009-10 are expected to decrease by 3% to 12.03m tons against 12.37m tons a year earlier.

## INTERNATIONAL COTTON SITUATION

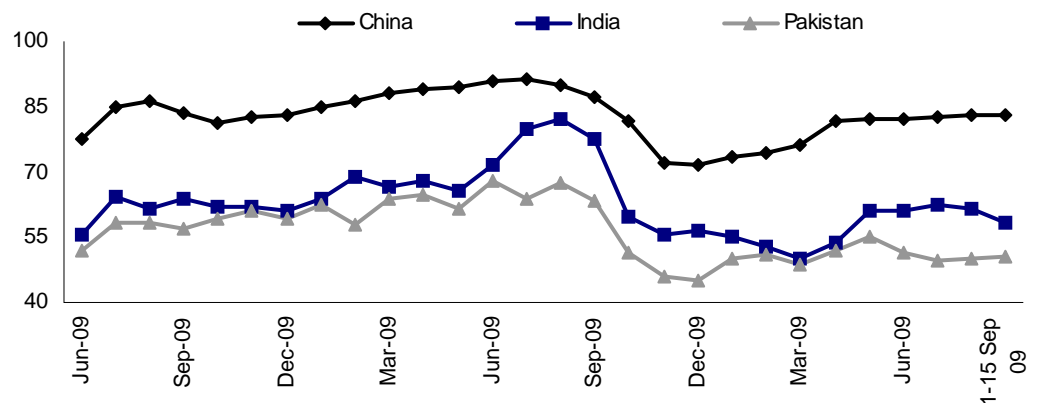
YEAR BEGINNING AUGUST 1	03-04	04-05	05-06	06-07	07-08	08-09*
World Beginning Stock	10.48	8.71	11.62	12.31	12.71	12.13
World Cotton Production	20.96	27.00	25.64	26.72	26.04	23.37
World Cotton Consumption	21.74	23.58	24.95	26.36	26.39	23.09
World Cotton Exports	7.24	7.75	9.74	8.10	8.36	6.50
World Ending Stocks	8.71	11.62	12.31	12.71	12.13	12.37

As per latest ICAC release dated 1st September 2009

**Indian spinners at an advantage**

The situation is improving for Indian spinners on the Asian market, compared with Pakistani and more importantly with Chinese yarn makers. Cotton prices began to fall recently in India, but they rose in China from a low in December last year. Compared with August 2008 cotton prices fell 4% in China, 19% in India and 17% in Pakistan, in local currency terms. In US-dollar terms, cotton prices fell 29% in India and 25% in Pakistan from August 2008.

COTTON PRICES IN CHINA, INDIA AND PAKISTAN (US CENTS/POUND)



Source: Bloomberg/MOSL

### China's export growth rate to US declining

Recent studies indicate China's comparative advantage in the textile industry is declining. China's share of the global market jumped from 38.8% in 2001 to 47.1% in 2005 but did not increase since then. This is because China's share in the US and European textile and clothing markets did not rise, but declined to 66.8% in 2008 from 71.3% in 2006. A shift of global textile trade away from China is likely to benefit its key competitors such as India, Bangladesh and Sri Lanka.

CHINA'S SHARE OF US TEXTILE AND GARMENT MARKET (%)

	TEXTILES SHARE	CLOTHING SHARE	CLOTHING GROWTH RATE	TEXTILES GROWTH RATE
1999	12	13	4	12
2000	12	13	15	15
2001	13	14	4	2
2002	16	15	9	35
2003	20	17	19	35
2004	22	19	20	27
2005	27	26	47	32
2006	30	29	15	15
2007	32	34	17	10
2008	34	35	0	3
2009	36	39	2	-15

Source: Company/MOSL

### Threat of sanctions on China

Threats of renewed sanctions on Chinese textile exports to the US have resurfaced after an introduction of statistical monitoring of Chinese shipments in the "appropriations bill", passed by the US Congress. While imposing textile quotas is now against WTO rules, the agreement on China's accession to the WTO includes a "product-specific safeguard" that allows taking sanctions on imports from China until December 11, 2013. Although US apparel imports are now declining in line with the economic recession, shipments from China have been surging from January 2009 in categories where limits have been removed. Hence, action against Chinese exports will be positive for the Indian textile industry.

### Textile players shift focus to the domestic market from exports

A clear trend seems to be emerging in India's textile industry, wherein players are shifting focus to the domestic market from exports. This shift has been driven by two key factors: (1) the export market has become less attractive due to raw material and labor cost-push and the relative competitive advantage enjoyed by neighboring countries and (2) the domestic market has become extremely attractive due to rising per capita income and the emergence of organized retail. Consequently companies such as Arvind, Raymond and Alok are aiming at forward integration by branding and retailing.

### Domestic RMG market to emerge as a big opportunity

CRISIL estimates the ready-made garment (RMG) market will post a CAGR of 14.4% to US\$50.4b in FY11 from US\$25.8b in FY06. It estimates the domestic RMG market will post a CAGR of 12.6% to US\$32b in FY11 from US\$17.7b in FY06. This growth will be led mainly by increasing incomes and a shift in consumption patterns from tailored to ready-made garments. We believe that with the consolidation of the retail industry in India the domestic RMG market will present a big opportunity for Indian garment manufacturers.

### Outlook and view

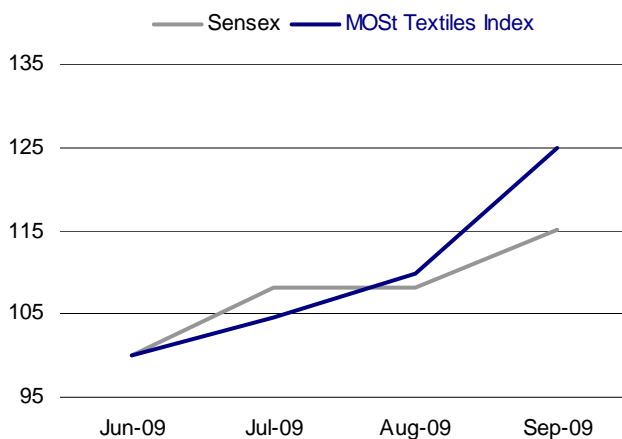
Most of the textile companies have expanded and modernized capacities to achieve critical size. Consequently, due to their modern plants and global capacities, they have also managed to attract large international institutional buyers with whom they have established strategic relationships. This has allowed them to move their business from a transitional-based model to a strategic vendor-based relationship model. While the slowdown in developed economies will affect export demand in the near term, we expect domestic demand growth to compensate. Besides, the depreciation of the rupee against the US dollar could boost Indian textile exports in the near term. We are **Neutral** on **Arvind** and we are bullish on **Vardhman Textiles** and **Raymonds**.

## Stock performance and valuations

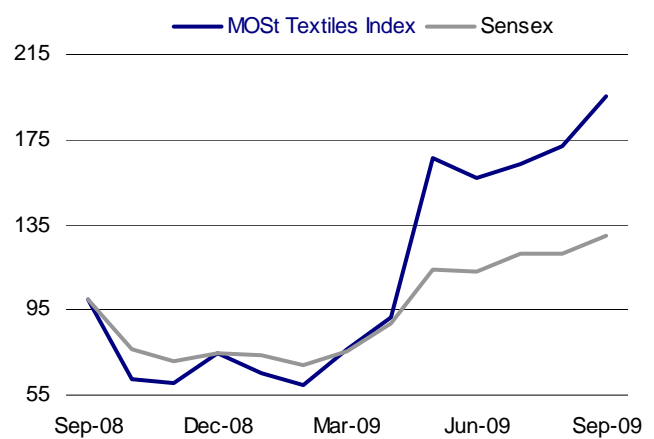
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Textiles</b>						
Alok Ind	6	-18	-11	-42	-23	-97
Arvind	42	43	25	20	13	-35
Bombay Rayon	19	-37	2	-61	7	-32
Raymond	39	41	23	18	11	-37
Vardhman Textiles	41	127	25	104	13	49

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
<b>Textiles</b>														
Alok Ind	23	Buy	3.6	2.3	4.4	6.4	9.8	5.2	10.0	8.0	7.5	10.3	6.2	11.0
Arvind Mills	38	Neutral	-4.5	1.7	1.6	-8.3	22.6	24.2	9.1	7.0	6.6	-5.0	1.9	1.7
Bombay Rayon	221	Buy	19.8	24.7	36.0	11.2	8.9	6.1	10.0	7.0	5.1	18.8	19.3	20.7
Raymond	215	Buy	-37.2	-7.0	9.0	-5.8	-30.8	24.1	33.9	12.7	8.7	-8.7	-1.9	2.2
Vardhman Textiles	171	Buy	21.4	16.0	27.5	8.0	10.7	6.2	2.6	2.7	1.8	10.1	7.1	11.2
<b>Sector Aggregate</b>						<b>97.6</b>	<b>13.8</b>	<b>7.4</b>	<b>9.3</b>	<b>7.2</b>	<b>5.9</b>	<b>0.8</b>	<b>5.4</b>	<b>9.4</b>

## Alok Industries

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	ALOK IN
	REUTERS CODE
S&P CNX: 4,959	ALOK.BO

25 September 2009

Buy

Rs23

Previous Recommendation: Neutral

Equity Shares (m)	523.7
52-Week Range (Rs)	30/11
1,6,12 Rel.Per. (%)	7/23/-42
M.Cap (Rs. b)	10.5
M.Cap (US\$ b)	0.2

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	21,593	2,519	4.8	77.5	4.2	0.3	18.5	4.4	2.6	10.8
3/09A	29,664	1,879	3.6	-25.4	5.6	0.2	10.3	6.0	2.3	8.9
3/10E	37,970	1,225	2.3	-34.8	8.5	0.5	6.2	7.0	2.1	7.9
3/11E	42,527	2,315	4.4	88.9	4.5	0.5	11.0	7.3	1.9	7.4

\*Fully Diluted EPS

- We expect revenue to grow 36% YoY to Rs9.4b in 2QFY10 helped by higher capacities in all textile segments.
- EBITDA margin is likely to expand 260bp to 27.2% from 24.6% in 2QFY09.
- During 1QFY10 Alok raised Rs4b through a rights issue, which will improve its debt-equity ratio.
- The management has drawn up restructuring plans, which include creating dedicated verticals for the textile and retail businesses.
- It has ambitious expansion plans for its domestic retail business, which entails introducing international brands in India and opening 500 H&A retail outlets over the next three years. After restructuring we expect Alok to emerge as a large retail play.
- The stock trades at 8.5x FY10E EPS of Rs2.3 and 4.5x FY11E EPS of Rs4.4. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>5,434</b>	<b>6,981</b>	<b>8,164</b>	<b>9,084</b>	<b>7,863</b>	<b>9,493</b>	<b>9,872</b>	<b>10,743</b>	<b>29,664</b>	<b>37,970</b>
Change (%)	29.7	50.2	48.2	25.3	44.7	36.0	20.9	18.3	37.4	28.0
Total Expenditure	4,102	5,264	6,020	6,678	5,713	6,911	7,305	7,981	22,063	27,909
<b>EBITDA</b>	<b>1,333</b>	<b>1,718</b>	<b>2,144</b>	<b>2,406</b>	<b>2,150</b>	<b>2,582</b>	<b>2,567</b>	<b>2,762</b>	<b>7,601</b>	<b>10,061</b>
Change (%)	31.2	58.2	59.1	33.4	61.3	50.3	19.7	14.8	44.7	32.4
As % of Sales	23.8	24.6	26.3	26.5	27.3	27.2	26.0	25.7	25.6	26.5
Depreciation	488	531	704	754	784	859	931	1,006	2,476	3,579
Interest	413	515	702	824	886	1,192	1,264	1,427	2,454	4,768
Other Income	10	4	5	164	3	29	31	57	182	120
Extra-ordinary	0	-31	-25	11	-1	0	0	0	-82	0
<b>PBT</b>	<b>442</b>	<b>677</b>	<b>743</b>	<b>991</b>	<b>483</b>	<b>560</b>	<b>404</b>	<b>387</b>	<b>2,853</b>	<b>1,834</b>
Tax	143	224	245	279	164	186	135	124	892	609
Effective Tax Rate (%)	32.5	33.9	33.0	28.2	33.1	33.2	33.3	32.0	31.3	33.2
<b>Reputed PAT</b>	<b>298</b>	<b>422</b>	<b>473</b>	<b>712</b>	<b>319</b>	<b>374</b>	<b>269</b>	<b>263</b>	<b>1,879</b>	<b>1,225</b>
Change (%)	-45.8	-1.9	-3.0	32.5	6.9	-11.3	-43.1	-63.1	-34.1	-34.8
<b>Adj. PAT</b>	<b>298</b>	<b>453</b>	<b>498</b>	<b>701</b>	<b>320</b>	<b>374</b>	<b>269</b>	<b>263</b>	<b>1,961</b>	<b>1,225</b>
Change (%)	4.6	5.3	2.1	8.5	7.3	-17.4	-45.9	-62.5	-22.1	-37.5

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)

## Arvind Mills

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	ARVND IN
	REUTERS CODE
S&P CNX: 4,959	ARMLBO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs38

Equity Shares (m)	218.9
52-Week Range (Rs)	40/11
1,6,12 Rel.Per. (%)	24/128/20
M.Cap (Rs b)	8.3
M.Cap (US\$ b)	0.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/08A	22,713	274	1.3	55.6	28.9	0.4	1.5	4.4	1.2	9.1
3/09A	27,211	-994	-4.5	-463.2	-8.3	0.4	-5.0	4.6	0.9	9.0
3/10E	27,710	366	1.7	-136.8	22.6	0.4	1.9	6.5	0.9	6.9
3/11E	29,095	341	1.6	6.8	24.2	0.4	1.7	7.0	0.9	6.6

- We expect Arvind Mills to post revenue growth of 18.3% YoY to Rs6.8b in 2QFY10 driven mainly by increased denim realizations and volumes. Denim realizations for 2QFY10 are likely to be Rs124/meter against Rs108/meter in 2QFY10. Arvind's capacity utilization for its denim vertical was almost 100% in 2QFY10.
- EBITDA margin is likely to expand by 520bp YoY to 13.2%.
- We expect the company to report net profit of Rs75m in 2QFY10 against Rs16m a year earlier.
- During 2QFY10 Arvind initiated partial monetization of its surplus land bank at Ahmedabad. Arvind has about 700 acres of surplus land in Ahmedabad.
- Arvind is working on restructuring plans, which could include relocating part of its commodity grade denim capacity to other countries and sharpening focus on branded apparel and garment manufacturing.
- The stock trades at 0.4x FY10E book value of Rs89.7/share. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>5,454</b>	<b>5,809</b>	<b>5,995</b>	<b>5,867</b>	<b>6,768</b>	<b>6,872</b>	<b>6,927</b>	<b>7,142</b>	<b>23,189</b>	<b>27,710</b>
Change (%)	6.9	3.0	17.7	-5.2	24.1	18.3	15.6	21.7	-10.1	19.5
Total Expenditure	4,905	5,345	5,178	5,304	5,888	5,965	6,006	6,110	20,732	23,969
<b>EBITDA</b>	<b>549</b>	<b>465</b>	<b>817</b>	<b>563</b>	<b>880</b>	<b>907</b>	<b>921</b>	<b>1,032</b>	<b>2,568</b>	<b>3,740</b>
Change (%)	-23.9	-40.7	122.7	104.8	60.2	95.2	12.8	83.2	1.6	45.6
As % of Sales	10.1	8.0	13.6	9.6	13.0	13.2	13.3	14.4	11.1	13.5
Depreciation	294	293	308	330	326	343	350	354	1,221	1,373
Interest	322	663	772	455	473	519	530	556	2,221	2,078
Other Income	73	535	-40	76	5	47	45	59	519	155
Non Recurring Expense	39	-21	-24	-55	0	0	0	0	106	0
<b>PBT</b>	<b>44</b>	<b>22</b>	<b>-327</b>	<b>-199</b>	<b>86</b>	<b>91</b>	<b>86</b>	<b>181</b>	<b>-460</b>	<b>444</b>
Tax	3	6	5	5	0	16	16	47	19	78
Effective Tax Rate (%)	5.9	26.1	-1.6	-2.5	0.0	17.1	18.0	26.0	-4.0	17.5
<b>Reported PAT</b>	<b>41</b>	<b>16</b>	<b>-332</b>	<b>-204</b>	<b>86</b>	<b>75</b>	<b>71</b>	<b>134</b>	<b>-479</b>	<b>366</b>
Change (%)	-29.0	-84.4	-685.0	-480.4	107.5	358.6	-121.3	-165.6	-356.8	-176.5
<b>Adj. PAT</b>	<b>2</b>	<b>37</b>	<b>-308</b>	<b>-150</b>	<b>86</b>	<b>75</b>	<b>71</b>	<b>134</b>	<b>-585</b>	<b>366</b>
Change (%)	-110.2	-64.8	-574.4	-204.0	3,328.0	103.3	-122.9	-189.5	-780.4	-162.7

E: MOSL Estimates, \* Restated Quarterly Numbers

Siddharth Bothra (SBothra@MotilalOswal.com)

## Bombay Rayon

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	BRFL IN
	REUTERS CODE
S&P CNX: 4,959	BRFL.BO

25 September 2009

Buy

Rs221

Previous Recommendation: Buy

Equity shares (m)	69.1
52-Week Range (Rs)	359/80
1, 6, 12 Rel. Perf. (%)	10/-21/-61
M. Cap. (Rs b)	15.3
M. Cap. (US\$ b)	0.3

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	10,891	1,201	19.1	120.7			22.7	16.8		
03/09A	15,145	1,367	19.8	3.8	11.2	1.8	18.8	13.0	2.1	10.0
03/10E	21,433	2,156	24.7	25.1	8.9	1.4	19.3	13.2	1.8	7.9
03/11E	28,776	3,138	36.0	45.6	6.1	1.2	20.7	15.6	1.3	5.7

- **2QFY10 results to be broadly in line with 1Q:** Bombay Rayon continues to operate at near optimum capacity utilization levels in both its garments and fabrics businesses. With very little incremental capacity in 2QFY10, we expect results to be broadly in line with that of 1Q. We have factored in marginally higher sales to reflect impact of better capacity utilization in its garmenting units at Osmanabad and Ichalkaranji, commissioned in 2QFY09.
- **Tarapur fabric processing unit under trial runs:** As part of its Rs11b Maharashtra project, Bombay Rayon is setting up fabric processing capacity of 180m meters at Tarapur. This project is currently under trial runs, and is expected to be commissioned in Sep-Oct 2009. Once commissioned, this will have two impacts for Bombay Rayon: (1) Significantly lower dependence on outsourced fabric, and (2) Increase availability of fabric for sale.
- **Further fund raising likely:** Bombay Rayon has obtained Board approval for a fresh round of fund-raising of Rs5b plus issue of up to one billion warrants to promoters. This comes on top of the Rs3.33b recently raised by issue of shares to Bestseller group. We don't see the fresh issue too favorably as it is likely to dilute EPS and RoE.
- **Attractive valuation, maintain Buy:** The stock is trading at a P/E of 6.1x FY11E EPS of Rs36. This compares well with FY09-11E EPS CAGR of 35% and RoE of 19-20%. We maintain **Buy** with a target price of Rs360 (10x FY11E EPS).

QUARTERLY PERFORMANCE - STANDALONE (INCLUDING ERSTWHILE LEELE LACE FROM 3QFY09)

(RS MILLION)

Y/E MARCH	FY09				FY10E				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	CONS.	CONS.
<b>Net Sales</b>	<b>2,751</b>	<b>2,870</b>	<b>3,449</b>	<b>3,332</b>	<b>3,363</b>	<b>3,800</b>	<b>5,700</b>	<b>6,294</b>	<b>15,145</b>	<b>21,433</b>
Change (%)	36.7	23.5	41.5	31.1	N.A.	N.A.	65.3	88.9	62.6	41.5
Total Expenses	2,116	2,184	2,606	2,497	2,567	2,888	4,275	4,638	12,027	16,125
<b>EBITDA</b>	<b>635</b>	<b>687</b>	<b>843</b>	<b>835</b>	<b>796</b>	<b>912</b>	<b>1,425</b>	<b>1,656</b>	<b>3,118</b>	<b>4,789</b>
Change (%)	60.4	20.4	45.6	33.5	N.A.	N.A.	69.0	98.4	43.7	53.6
EBITDA Margin (%)	23.1	23.9	24.4	25.1	23.7	24.0	25.0	26.3	20.6	22.3
Depreciation	93	96	110	123	147	160	275	356	513	1,008
Interest	74	108	165	227	210	190	210	162	686	802
Other Income	13	16	10	11	51	12	12	5	65	100
<b>PBT</b>	<b>481</b>	<b>498</b>	<b>578</b>	<b>495</b>	<b>490</b>	<b>574</b>	<b>952</b>	<b>1,143</b>	<b>1,985</b>	<b>3,079</b>
Tax	132	131	162	244	117	172	286	373	611	924
Tax/PBT (%)	27.4	26.3	27.9	49.3	23.9	30.0	30.0	32.6	30.8	30.0
PAT	349	367	417	251	373	402	666	770	1,374	2,156
<b>Adjusted PAT</b>	<b>349</b>	<b>367</b>	<b>417</b>	<b>251</b>	<b>373</b>	<b>402</b>	<b>666</b>	<b>770</b>	<b>1,374</b>	<b>2,156</b>
Change (%)	80.0	19.6	20.6	-25.9	N.A.	N.A.	59.9	207.1	16.0	56.9
PAT Margin (%)	12.7	12.8	12.1	7.5	11.1	10.6	11.7	12.2	9.1	10.1

E: MOSL Estimates; Note: The company has included Leela Lace numbers from 3QFY09, though the merger is with retrospective effect from 1QFY09. So, 1Q and 2Q are not strictly comparable. Consolidated figures include operations of GURU.



## Raymond

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	RW IN
	REUTERS CODE
S&P CNX: 4,959	RYMD.BO

25 September 2009

Buy

Rs215

Previous Recommendation: Neutral

Equity Shares (m)	61.4
52-Week Range (Rs)	234/68
1,6,12 Rel.Per. (%)	19/113/18
M.Cap (Rs. b)	13.2
M.Cap (US\$ b)	0.3

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	23,962	211	3.4	-84.9	62.8	0.9	0.4	3.0	1.0	14.6
3/09A	25,595	-2,283	-37.2	-1,183.9	-5.8	1.1	-8.7	-0.9	1.1	40.4
3/10E	28,037	-430	-7.0	-81.2	-30.8	1.1	-1.9	2.5	1.0	13.7
3/11E	29,795	550	9.0	-227.9	24.1	1.1	2.2	5.7	0.9	9.4

\* Consolidated

- We expect Raymond to report standalone revenue of Rs3.5b in 2QY10 against Rs4.3b a year earlier.
- EBITDA for 2QFY10 is likely to be Rs328m against Rs502m a year earlier. EBITDA margin is expected to be 9.4% in 2QFY10. The management says Raymond is incurring excess operating costs of Rs500m as it is operating on excess capacity in its worsted fabric segment, as the Thane plant is being closed down.
- During 4QFY09 Raymond closed its loss-making denim operations in the US and Belgium, for which it took a Rs2.3b of one-time loss. The management plans to focus only on the cost competitive Romanian and Indian operations.
- Raymond's decision to close down its loss-making denim operations in the US and Belgium will lower the losses it was incurring in its denim operations. Besides, with the commissioning of Raymond's new 7m meters worsted fabric plant at Vapi, the chances of faster monetization of its real estate (120-acre property in Thane) have increased significantly.
- The stock trades at 1.1x FY10 book value of Rs188/share. We value Raymond's Thane land at a minimum of Rs107/share. Maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>2,357</b>	<b>4,337</b>	<b>3,589</b>	<b>3,629</b>	<b>2,348</b>	<b>3,489</b>	<b>3,780</b>	<b>4,921</b>	<b>13,792</b>	<b>14,537</b>
Change (%)	12.7	25.5	8.1	-16.7	-0.4	-19.5	5.3	35.6	4.3	5.4
Total Expenditure	2,747	3,834	3,321	3,467	2,413	3,161	3,345	4,237	13,496	13,156
<b>EBITDA</b>	<b>-390</b>	<b>502</b>	<b>268</b>	<b>163</b>	<b>-66</b>	<b>328</b>	<b>435</b>	<b>684</b>	<b>296</b>	<b>1,381</b>
Change (%)	865.3	86.0	39.0	-60.7	-83.2	-34.7	62.5	320.1	-64.6	365.9
As % of Sales	-16.5	11.6	7.5	4.5	-2.8	9.4	11.5	13.9	4.6	9.5
Depreciation	203	206	217	262	270	279	285	283	888	1,116
Interest	91	166	191	133	232	191	199	159	631	781
Other Income	274	137	26	98	215	226	146	23	628	610
Extra-ordinary Items	-4	10	11	2,561	50	0	0	0	2,388	50
<b>PBT</b>	<b>-409</b>	<b>257</b>	<b>-125</b>	<b>-2,695</b>	<b>-401</b>	<b>83</b>	<b>97</b>	<b>265</b>	<b>-2,982</b>	<b>144</b>
Tax	7	14	17	-304	-85	19	29	97	-267	60
Effective Tax Rate (%)	-1.7	5.3	-13.6	11.3	21.2	23.0	29.6	36.6	25.5	25.5
<b>Reported PAT</b>	<b>-416</b>	<b>243</b>	<b>-153</b>	<b>-2,391</b>	<b>-316</b>	<b>64</b>	<b>69</b>	<b>168</b>	<b>-2,715</b>	<b>84</b>
<b>Adj. PAT after MI</b>	<b>-412</b>	<b>234</b>	<b>-142</b>	<b>170</b>	<b>-266</b>	<b>64</b>	<b>69</b>	<b>168</b>	<b>-327</b>	<b>34</b>
Change (%)	-632.6	-25.4	-243.9	-38.6	87.6	-62.3	#DIV/0!	-87.2	-142.7	-110.5

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)

## Vardhman Textiles

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	VTEX IN
	REUTERS CODE
S&P CNX: 4,959	MHSP.BO

25 September 2009

Buy

Previous Recommendation: Buy

Rs171

Equity Shares (m)	57.8
52-Week Range (Rs)	181/43
1,6,12 Rel.Per. (%)	18/198/104
M.Cap (Rs. b)	9.9
M.Cap (US\$ b)	0.2

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	22,947	1,225	21.2	-28.6	8.1	0.8	10.8	6.2	1.4	9.4
3/09A	24,536	633	21.4	1.0	8.0	0.8	10.1	4.4	1.3	8.4
3/10E	27,416	924	16.0	-25.4	10.7	0.7	7.1	4.2	1.3	8.4
3/11E	35,500	1,586	27.5	71.7	6.2	0.7	11.2	6.6	0.9	6.0

- Vardhman is likely to report revenue growth of 2% YoY to Rs6.6b. We expect EBITDA margin to slip 220bp YoY to 14.9%.
- Adjusted PAT is likely to post a 63% YoY increase to Rs211m, boosted by lower raw material costs.
- Vardhman's Rs26b capex plans have been largely completed in FY09, full utilization will start towards the end of FY10.
- After the capacity expansion Vardhman's spinning capacity has increased from 0.5m spindles to 0.75m spindles and its processing fabric plant capacity increased from 40m meters to 80m meters.
- The stock trades at 10.7x FY10E EPS of Rs16 and 6.2x FY11E EPS of Rs27.5. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>5,662</b>	<b>6,507</b>	<b>6,451</b>	<b>5,917</b>	<b>6,201</b>	<b>6,580</b>	<b>7,128</b>	<b>7,507</b>	<b>24,537</b>	<b>27,416</b>
Change (%)	7.3	14.9	4.7	2.1	-4.7	2.0	20.5	-60.3	6.9	11.7
Total Expenditure	4,804	5,395	5,518	5,082	5,105	5,603	6,080	6,417	20,799	23,204
<b>EBITDA</b>	<b>858</b>	<b>1,111</b>	<b>933</b>	<b>836</b>	<b>1,096</b>	<b>977</b>	<b>1,048</b>	<b>1,091</b>	<b>3,738</b>	<b>4,211</b>
Change (%)	-4.3	25.9	-0.9	8.6	27.7	-12.1	12.3	30.6	5.4	12.7
As % of Sales	12.2	17.1	14.5	14.1	17.7	14.9	14.7	14.5	15.2	15.4
Depreciation	504	525	546	498	539	603	628	742	2,073	2,513
Interest	285	315	248	190	220	268	302	328	1,023	1,118
Other Income	36	100	111	103	156	176	143	177	335	651
Extra-ordinary items	1044	65	-74	130	112	0	0	0	775	112
<b>PBT</b>	<b>105</b>	<b>307</b>	<b>175</b>	<b>250</b>	<b>492</b>	<b>282</b>	<b>261</b>	<b>198</b>	<b>1,751</b>	<b>1,344</b>
Tax	53	113	83	96	93	71	74	71	344	308
Effective Tax Rate (%)	49.9	36.7	47.3	38.4	18.8	25.2	28.3	35.9	19.6	22.9
<b>Reported PAT</b>	<b>1,097</b>	<b>194</b>	<b>92</b>	<b>25</b>	<b>399</b>	<b>211</b>	<b>187</b>	<b>127</b>	<b>1,408</b>	<b>1,036</b>
<b>Adj. PAT</b>	<b>314</b>	<b>129</b>	<b>166</b>	<b>154</b>	<b>287</b>	<b>211</b>	<b>187</b>	<b>127</b>	<b>633</b>	<b>924</b>
Change (%)	4.2	-65.5	-58.6	9.8	-8.5	63.3	12.6	-17.5	-48.4	46.0

E: MOSL Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)

## Utilities

BSE Sensex: 16,693

S&amp;P CNX: 4,959

25 September 2009

## COMPANY NAME

CESC In 2QFY10 we expect companies in the utilities segment to post revenue growth of 14.3% YoY, EBITDA growth of 10.9% YoY and net profit to de-grow by 1.4% YoY. Revenue growth will be driven by higher tariffs due to higher fuel costs and EBIDTA/net profit growth will be restricted due to delays in capacity addition.

NTPC

PTC India

Reliance Infrastructure

Tata Power

**FY10 capacity addition of 10.8GW likely against target of 14.5GW:** A review by the Power Project Monitoring Panel (PPMP) of the Ministry of Power (MoP) shows FY10 capacity addition is estimated at 10.8GW against targeted 14.5GW. Capacity of 5.2GW has been commissioned until mid-September 2009. The review also states that 4GW of projects are due to be commissioned in 4QFY10 and capacity addition in 3QFY10 is expected only at 1.6GW. Recent review by PPMP states that central-sector companies will be able to achieve 50% of the targeted capacity addition for the Eleventh Plan.

**July-August 2009 thermal generation up 12% led by gas-based power projects:**

During July-August 2009 generation from thermal projects grew 12% YoY to 100.1BUs, driven largely by gas based projects (generation up 47% YoY). Players like GVK, GMR, Torrent Power (Sugen) are key beneficiaries of higher gas-based generation. Jindal Steel and Power's generation for July-August 2009 grew 18% YoY to 1.1BUs (v/s 929MUs). NTPC reported 8.5% growth in generation of 34.3Bus against 31.6BUs a year earlier. Generation for Tata Power was up 7.5% YoY (2.2BUs), Reliance Infrastructure up 24% YoY (1.3BUs), CESC was down 0.2% YoY (1.4BUs).

**CERC caps short-term price for 45 days from 11 September 2009:** The Central Electricity Regulatory Commission (CERC), in its order dated 11 September 2009, capped short-term power trading prices at Rs8/unit (lower range at Rs0.8/unit). The cap is applicable for 45 days. The move to initiate this regulatory intervention was based on a steep increase in short-term power prices and increased volatility, given the delayed monsoon that impacted hydro-power generation. In June-August 2009, hydro power generation fell 11% YoY to 33.1Bus against 37.3BUs a year earlier.

**Valuations and view:** We remain neutral on the sector given the rich valuations. Top pick in the sector is **Reliance Infrastructure**.

## EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT			
			25.9.09	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.	SEP.09	VAR.	VAR.
				% YOY	% QOQ	% YOY	% QOQ	% YOY	% QOQ			
<b>Utilities</b>												
CESC	388	Neutral	7,852	4.0	-2.9	1,570	-16.0	-17.3	880	-6.4	-16.2	
NTPC	213	Neutral	110,140	14.0	-8.2	28,636	12.4	-9.8	18,121	-0.8	-17.5	
PTC India	88	Buy	27,085	33.3	14.2	164	16.9	11.7	351	5.0	-3.7	
Reliance Infrastructure	1,207	Buy	27,947	13.0	14.2	2,515	-9.3	-16.0	2,669	25.8	-15.7	
Tata Power	1,284	Neutral	19,981	2.0	-0.9	3,597	35.9	-43.1	1,283	-34.8	-37.5	
<b>Sector Aggregate</b>			<b>193,005</b>	<b>14.3</b>	<b>-1.8</b>	<b>36,483</b>	<b>10.9</b>	<b>-15.4</b>	<b>23,303</b>	<b>-1.4</b>	<b>-18.5</b>	

Satyam Agarwal (AgarwalS@MotilalOswal.com) / Nalin Bhatt (NalinBhatt@MotilalOswal.com)

### All India: July-August 2009 generation up 7% YoY

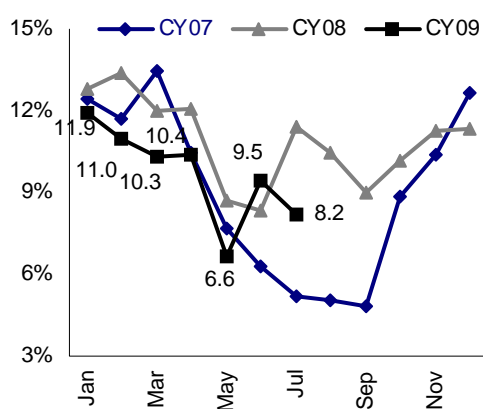
In July-August 2009 electricity generation increased by 7% YoY to 126BUs against 118BUs a year earlier. Coal-based generation rose by 7.6% YoY to 84.8BUs from 78.8BUs a year earlier and gas-based power generation increased 47.7% YoY to 15.4BUs against 10.4BUs a year earlier. Hydro power generation declined 12% YoY to 23.4BUs from 26.7Bus in the previous year and the import from Bhutan declined 9% YoY to 1.9BUs from 2.1BUs a year earlier. For August 2009 the generation from coal-based projects was 42.8BUs, up 11% YoY, and PLF improved by 370bps to 71.7%. Gas-based generation rose 54% YoY, where PLF rose 22.4% to 71.2%. Despite the higher generation from gas-based projects, short-term prices inched up due to lower generation from hydro-power projects, a key source of peaking power.

GENERATION (BU) UP 4.7% YOY IN APRIL-MAY 2009; PLF FLAT AT 63.4%

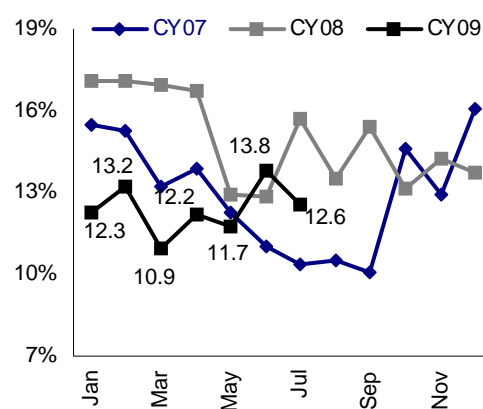
ALL INDIA PLF	AUG 09		AUG 08		JULY-AUG 09	JULY-AUG 08	CHG. (%)
	GENERATION	PLF (%)	GENERATION	PLF (%)	GENERATION	GENERATION	
Thermal-Coal & Lignite	42.8	71.7	38.6	68.0	84.8	78.8	7.6
Thermal-Gas	7.8	71.2	5.1	48.8	15.4	10.4	47.7
Nuclear	1.6	50.6	1.2	37.9	3.0	2.6	14.9
Hydro	12.4	44.4	13.9	51.0	23.4	26.7	-12.3
Bhutan IMP	0.1	NA	0.1	NA	1.9	2.1	-9.3
<b>Total</b>	<b>64.5</b>	<b>63.6</b>	<b>58.7</b>	<b>60.3</b>	<b>126.6</b>	<b>118.5</b>	<b>6.8</b>

Source: CEA

ALL INDIA BASE DEFICIT (%)



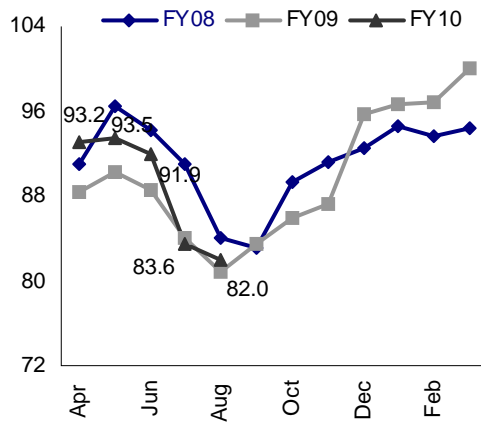
ALL INDIA PEAK DEFICIT (%)



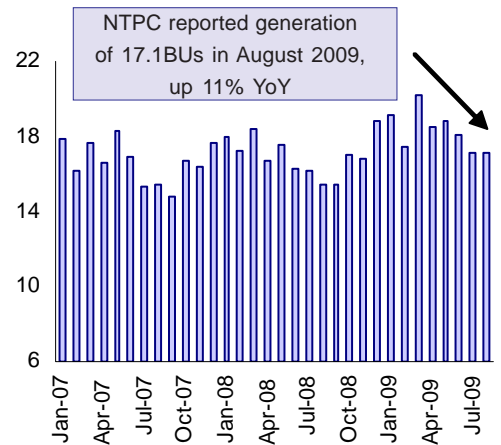
Source: CEA

During July-August 2009 NTPC reported 8.5% growth in generation to 34.3BUs against 31.6BUs a year earlier. In August NTPC's net generation rose 11% YoY to 17.1BU from 15.5BUs a year earlier and PLF for coal-based projects improved by 108bp to 82% from 81% in August 2008.

NTPC AUGUST 2009 PLF UP BY 108BP TO 82%



AUGUST 2009 GENERATION UP 11% YOY (BUS)

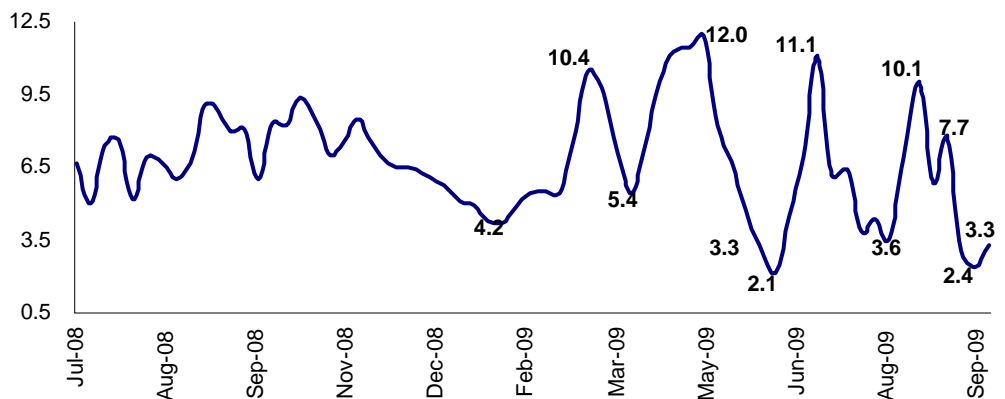


Source: CEA

**Short term power trading prices dip**

In June-August 2009 hydro-power generation declined 11% YoY to 33.1BUS from 37.3BUS in June-August 2008. The contribution of hydro power to total generation declined by 370bps to 17.5% from 21.2% leading to increased peak deficit. Consequently, short-term prices escalated to Rs14-15/unit intra-day and daily average prices increased to Rs11/unit in early July 2009. The partial revival of the monsoons later in the season and CERC's cap on short-term power trading prices (draft notification issued on 29th August 2009) led to a moderation in short-term prices. For the week to September 20, 2009, ST power prices were Rs3.3/unit against Rs10/unit for the week to August 16, 2009.

SHORT TERM PRICES (RS/UNIT)



Source: IEX

**FY10 capacity addition of 10.8GW, target of 14.5GW**

A review by the Power Project Monitoring Panel (PPMP) of the Ministry of Power (MoP) envisages FY10 capacity addition of 10.8GW, lower than the targeted 14.5GW. Of the capacity 5.2GW were commissioned by mid-September. The review says 4GW of projects are expected to be commissioned in 4QFY10 and 1.6GW capacity addition is expected in 3QFY10. The review indicates a capacity addition shortfall of 25% in FY10. Although it is a significant deviation from the planned capacity addition for FY10 it will be one of the highest capacity additions in a year.

## FY10 CAPACITY ADDITION AT 10.8GW (MW)

SECTOR	ORIGINAL	TILL	TILL DEC-09		BY MARCH-10		TOTAL FY10		SLIP-
	TARGET	SEP-09*	INTERNAL	EXTERNAL	INTERNAL	EXTERNAL	INTERNAL	EXTERNAL	PAGES
Central	3,402	750	740	0	245**	865	1,735	1,615	1,787
State	4,980	934	2,390	1,298	806**	1,398	4,130	3,630	1,350
Private	6,125	2,739+(783)*	630	330	1,468**	1,660	5,620	5,512	613
<b>Total</b>	<b>14,507</b>	<b>4,423+(783)*</b>	<b>3,760</b>	<b>1,628</b>	<b>2,519**</b>	<b>3,923</b>	<b>11,485</b>	<b>10,757</b>	<b>3,750</b>

\*Upto September 12, 2009; additional capacity of 783MW expected by the private sector to be commissioned ; \*\*The internal targets pertain only to the current year capacity, additional projects targeted for the subsequent quarter will get added to the Internal target by the end of FY10.

### Half central-sector capacity addition targets in Eleventh Plan at critical/slippage level

A recent PPMP review states that central sector companies will be able to achieve 50% of the targeted capacity addition for the XIth Plan (FY08-12) and the other half of the projects are at critical/slippage levels. Of the targeted capacity addition of 30.2GW by the central sector for the XIth Plan, 4.5GW of projects have been commissioned by September 2009 and projects expected to be commissioned by March 2012 are 10.4GW. Projects with a capacity of 5.6GW are in the critical phase of construction and 9.7GW are likely to slip into the XIIth Plan. The review has classified borderline projects as critical projects.

## CEA'S REVIEW OF CENTRAL-SECTOR CAPACITY ADDITION (MW)

	TARGET	ACHIEVED	FIRM	CRITICAL	SLIPPING
<b>Thermal</b>					
DVC	6,500	250	3,050	1,500	1,700
NLC	750	0	750	-	-
NTPC	13,520	3,240	4,730	2,730	2,820
ONGC	726	-	-	-	726
<b>Total</b>	<b>21,496</b>	<b>3,490</b>	<b>8,530</b>	<b>4,230</b>	<b>5,246</b>
<b>Hydro</b>					
NHPC	5,322	1,030	1,492	-	2,800
THDC	400	0	400	-	-
SJVNL	412	-	-	-	412
NTPC	1,920	-	-	1,320	600
NEEPCO	600	-	-	-	600
<b>Total</b>	<b>8,654</b>	<b>1,030</b>	<b>1,892</b>	<b>1,320</b>	<b>4,412</b>
<b>Overall Central</b>	<b>30,150</b>	<b>4,520</b>	<b>10,422</b>	<b>5,550</b>	<b>9,658</b>

Source: PPMP

### CEA expects NTPC to add 1.2GW in FY10

CEA expects NTPC to add three projects with cumulative capacity of 1.25GW including a 250MW Bhilai joint venture unit, which has been commissioned. The net capacity addition expected is 1GW. CEA expects the 500MW Kahalgaon and 490MW of Dadri project to be commissioned in FY10. This compares with management guidance of 500MW Kahalgaon, 980MW of Dadri, 1,320MW of Sipat and 500MW Kora TPP. We have assumed NTPC will commission the 500MW Kahalgaon and 500MW Korba project in FY10.

## NTPC: EXPECTED CAPACITY ADDITION IN FY10

PROJECT	CAP AS PER CEA	CAP AS PER COMPANY
Sipat Stage-I		1,320
Kahalgaon Stage -II	500	500
Korba Stage -III		500
NCTPP Stage -II	490	980
Bhilai TPP (NTPC-SAIL JV)	250	
<b>Total</b>	<b>1,240</b>	<b>3,300</b>

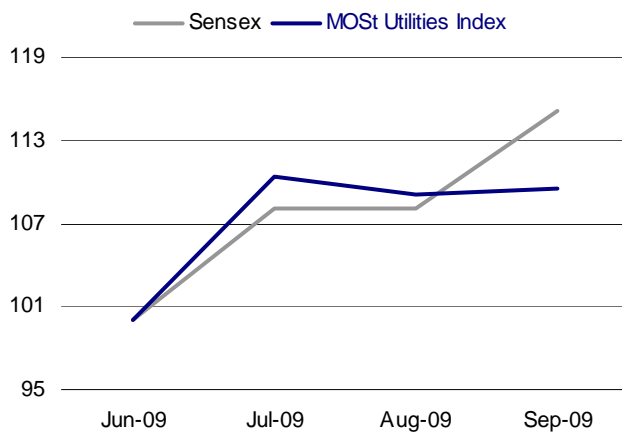
Source: CEA

## Stock performance and valuations

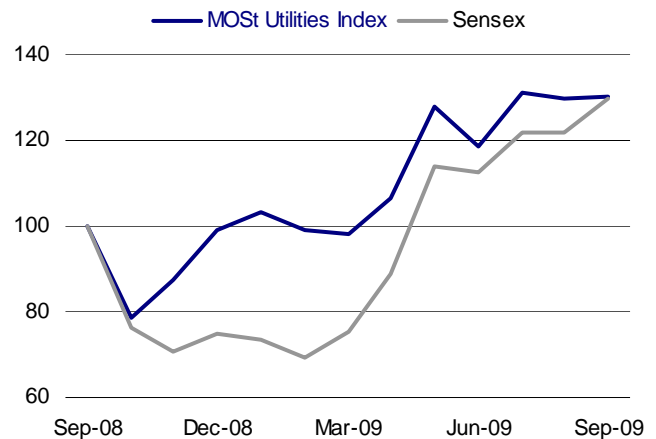
### STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
<b>Utilities</b>						
CESC	35	33	18	10	25	10
NTPC	9	19	-7	-5	0	-4
PTC India	-7	29	-23	6	-16	6
Reliance Infrastructure	-3	38	-19	14	-12	15
Tata Power	11	28	-5	5	2	6

### RELATIVE PERFORMANCE - 3 MONTH (%)



### RELATIVE PERFORMANCE - 1 YEAR (%)



### COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
	25.9.09													
<b>Utilities</b>														
CESC	388	Neutral	29.5	28.9	31.6	13.1	13.4	12.3	9.9	9.5	8.5	12.9	11.3	11.2
NTPC	213	Neutral	9.9	10.4	11.7	21.5	20.5	18.2	16.9	12.3	11.7	14.8	14.3	14.7
PTC India	88	Buy	4.3	3.9	4.6	20.6	22.6	19.0	63.5	40.1	32.4	6.4	6.3	6.4
Reliance Infrs.	1,207	Buy	40.5	54.8	62.5	29.8	22.0	19.3	28.4	22.5	18.4	10.2	10.4	10.9
Tata Power	1,284	Neutral	53.7	62.5	62.7	23.9	20.5	20.5	31.8	20.2	18.2	7.0	8.3	8.9
<b>Sector Aggregate</b>						<b>22.4</b>	<b>20.5</b>	<b>18.4</b>	<b>18.7</b>	<b>13.7</b>	<b>12.7</b>	<b>12.9</b>	<b>12.7</b>	<b>13.0</b>



CESC

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,693	CESC IN
	REUTERS CODE
S&P CNX: 4,959	CESC.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs388

Equity Shares (m)	124.9
52-Week Range (Rs)	401/165
1,6,12 Rel. Perf.(%)	1/18/10
M.Cap. (Rs b)	48.4
M.Cap. (US\$ b)	1.0

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS* GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	27,749	3,297	26.4	-6.4	14.7	2.0	13.0	11.8	2.0	9.9
03/09A	30,310	3,685	29.5	11.8	13.1	1.8	12.9	11.8	2.0	9.9
03/10E	32,629	3,611	28.9	-2.0	13.4	1.6	11.3	10.2	2.0	9.5
03/11E	36,280	3,949	31.6	9.4	12.3	1.4	11.2	9.8	1.9	8.5

\* Excl Spencers; fully diluted

- For 2QFY10 we expect CESC to post revenue of Rs7.9b (up 4% YoY) and net profit of Rs880m, down 6.4% YoY.
- CESC has acquired controlling stake in Dhariwal Infrastructure, which is setting up a 600MW thermal-power generating station at Chandrapur in Maharashtra for Rs2b. Land for the project is in possession of an SPV and coal linkages have been approved by SECL. Water clearance for the project has been received and MoEF clearance is in the advanced stages. Company expects financial closure of the project to be achieved by December 2009.
- 250MW Budge-Budge Expansion is likely to be commissioned by September 2009 and the company expects financial closure for 600MW Haldia project to be achieved by 3QFY10. The management expects benefit in EPC project award for combined Chandrapur and Haldia project.
- Spencer Retail reported reported income of Rs10.7b (up 32% YoY) in FY09 and net loss before exceptional items of Rs3.7b against Rs1.5b a year earlier. Going forward, the management has guided reduction in monthly cash losses for Spencer by Rs100m in FY10 and to attain breakeven at the store level by the end of FY10.
- We expect CESC to report standalone net profit of Rs3.6b in FY10 (down 2% YoY) and Rs4b in FY11 (up 9% YoY), excluding Spencer. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>7,830</b>	<b>7,550</b>	<b>7,520</b>	<b>7,410</b>	<b>8,090</b>	<b>7,852</b>	<b>8,197</b>	<b>8,490</b>	<b>30,310</b>	<b>32,629</b>
Change (%)	9.2	3.4	11.2	16.1	3.3	4.0	9.0	14.6	9.2	7.6
<b>EBITDA</b>	<b>1,220</b>	<b>1,870</b>	<b>1,510</b>	<b>1,520</b>	<b>1,900</b>	<b>1,570</b>	<b>1,639</b>	<b>1,691</b>	<b>6,120</b>	<b>6,801</b>
Change (%)	-6.2	32.6	-2.6	20.6	55.7	-16.0	8.6	11.3	10.7	11.1
As of % Sales	15.6	24.8	20.1	20.5	23.5	20.0	20.0	19.9	20.2	20.8
Depreciation	420	430	430	420	480	430	560	557	1,700	2,027
Interest	320	350	360	370	430	380	470	412	1,400	1,692
Other Income	590	310	390	340	280	275	290	320	1,515	1,165
<b>PBT</b>	<b>1,070</b>	<b>1,400</b>	<b>1,110</b>	<b>1,070</b>	<b>1,270</b>	<b>1,035</b>	<b>899</b>	<b>1,043</b>	<b>4,650</b>	<b>4,248</b>
Tax	130	160	130	130	220	155	126	136	550	637
Effective Tax Rate (%)	12.1	11.4	11.7	12.1	17.3	15.0	14.0	13.0	11.8	15.0
<b>Reported PAT</b>	<b>940</b>	<b>1,240</b>	<b>980</b>	<b>940</b>	<b>1,050</b>	<b>880</b>	<b>773</b>	<b>907</b>	<b>4,100</b>	<b>3,611</b>
<b>Adjusted PAT</b>	<b>825</b>	<b>940</b>	<b>980</b>	<b>940</b>	<b>1,050</b>	<b>880</b>	<b>773</b>	<b>907</b>	<b>3,685</b>	<b>3,611</b>
Change (%)	21.3	16.0	5.4	9.3	27.3	-6.4	-21.1	-3.5	11.8	-2.0

E: MOSL Estimates, Standalone Numbers (excl Spencers Retail)

## National Thermal Power Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	NTPC IN
	REUTERS CODE
S&P CNX: 4,959	NTPC.BO
Equity Shares (m)	8,245.5
52-Week Range (Rs)	233/113
1,6,12 Rel. Perf. (%)	-5/-53/-5
M.Cap. (Rs b)	1,752.6
M.Cap. (US\$ b)	36.5

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs213

YEAR END*	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	370,910	75,688	9.0	8.0	23.6	3.3	15.0	15.5	4.6	14.9
03/09A	419,237	81,507	9.9	9.9	21.5	3.1	14.8	13.4	4.2	16.9
03/10E	494,810	85,519	10.4	4.9	20.5	2.8	14.3	15.8	3.7	12.3
03/11E	560,374	96,216	11.7	12.5	18.2	2.6	14.7	15.0	3.2	11.7

\* Pre Exceptional Earnings

- We expect NTPC to report revenue of Rs110.1b (up 14% YoY) and net profit of Rs18.1b.
- During FY10, CEA expects capacity addition of 1.2GW against the company's target of 3.3GW, the key difference is the Sipat project with a capacity of 1.3GW and 500MW Korba power project. Until August 2009 NTPC had commissioned only the 500MW Kahalgaon unit.
- It has signed a MoU with the Government of Chhattisgarh to establish a 4GW coal-based thermal power project comprising five 800MW units at Lara in Raigarh district. The company has been allotted the Talaipalli coal block in Chattisgarh with mine able reserves of 600m tons. Based on a recent review by CEA, the mining plan for the block has not yet been approved.
- For the Eleventh Plan NTPC commissioned 3.2GW capacity and 17.9GW is under construction (including eight super-critical units of 660MW each). Projects with 3GW of capacity are yet to be awarded.
- We expect NTPC to report net profit of Rs85.5b (up 5% YoY) in FY10 and Rs96.2b (up 12.5% YoY) in FY11. The stock trades at a reported PER of 20.5x FY10E and 18.2x FY11E. **Neutral.**

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>95,395</b>	<b>96,614</b>	<b>112,771</b>	<b>114,458</b>	<b>120,027</b>	<b>110,140</b>	<b>129,122</b>	<b>135,520</b>	<b>419,237</b>	<b>494,810</b>
Change (%)	6.4	20.5	20.9	6.5	25.8	14.0	14.5	18.4	8.5	18.0
<b>EBITDA</b>	<b>24,218</b>	<b>25,476</b>	<b>32,086</b>	<b>22,199</b>	<b>31,757</b>	<b>28,636</b>	<b>48,396</b>	<b>38,491</b>	<b>103,978</b>	<b>147,280</b>
Change (%)	-10.1	-7.3	8.1	-21.3	31.1	12.4	50.8	73.4	-8.9	41.6
As of % Sales	28.0	26.4	28.5	19.4	26.5	26.0	37.5	28.4	24.8	29.8
Depreciation	5,524	5,267	5,590	7,264	6,128	6,200	6,400	6,610	23,645	25,338
Interest	4,219	5,264	5,076	5,671	4,447	5,500	6,100	6,961	20,229	23,008
Other Income	7,172	7,448	8,513	10,357	7,763	7,224	6,810	6,707	33,490	28,505
<b>PBT</b>	<b>21,646</b>	<b>22,394</b>	<b>29,933</b>	<b>19,621</b>	<b>28,945</b>	<b>24,161</b>	<b>42,706</b>	<b>31,627</b>	<b>93,595</b>	<b>127,439</b>
Tax	4,381	1,289	7,424	-1,512	7,009	6,040	8,156	8,215	11,582	29,420
Effective Tax Rate (%)	20.2	5.8	24.8	-7.7	24.2	25.0	19.1	26.0	12.4	23.1
<b>Reported PAT</b>	<b>17,265</b>	<b>21,105</b>	<b>22,509</b>	<b>21,134</b>	<b>21,936</b>	<b>18,121</b>	<b>34,551</b>	<b>23,411</b>	<b>82,013</b>	<b>98,019</b>
<b>Adj. PAT (Pre Exceptional)</b>	<b>18,973</b>	<b>18,272</b>	<b>20,378</b>	<b>23,885</b>	<b>21,961</b>	<b>18,121</b>	<b>22,051</b>	<b>23,411</b>	<b>81,507</b>	<b>85,519</b>
Change (%)	7.5	12.3	2.4	9.7	15.7	-0.8	8.2	-2.0	7.7	4.9

E: MOSL Estimates

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## PTC India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	PWTC IN
	REUTERS CODE
S&P CNX: 4,959	PTCI.BO
Equity Shares (m)	294.1
52-Week Range (Rs)	100/43
1,6,12 Rel. Perf.(%)	-9/-33/6
M.Cap. (Rs b)	25.8
M.Cap. (US\$ b)	0.5

25 September 2009

Buy

Previous Recommendation: Buy

Rs88

	YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
	03/08A	38,515	489	2.3	-1.2	38.0	1.3	5.6	6.5	0.5	110.8
	03/09A	65,289	972	4.3	84.9	20.6	1.3	6.4	7.1	0.2	63.5
	03/10E	85,970	1,145	3.9	-8.8	22.6	1.2	6.3	7.6	0.2	40.1
	03/11E	104,908	1,358	4.6	18.5	19.0	1.2	6.4	7.8	0.2	32.4

\* Pre-exceptional

- We expect PTC to report revenue of Rs27.1b, up 33.3% YoY, EBITDA of Rs164m and net profit of Rs351m, up 5% YoY.
- We expect long- and medium-term power-trading volumes (including international projects) to account for 80% of the trading, leading to lower volatility in core earnings. We estimate PTC to add 1.3GW of new projects to its long-term portfolio in FY10.
- PTC India is moving towards being an "integrated utility" from a "trading company" given its plans to launch an Energy Sector fund, which will invest equity in projects in which feasibility study is done. It has signed PPAs for projects with 10GW capacity.
- It plans to launch the fund with a corpus of Rs20b and the recent fund raising of Rs5b will enable it to make an initial contribution to the fund. This will provide an additional revenue stream from the fund management (2:20 structure) and will complement its trading portfolio.
- Cash and cash equivalent were Rs20b (Rs68/sh) and equity commitment towards the projects' SPVs is Rs6.5b, to be invested by FY10. As at March, 2009, the company has invested Rs3.3b in various power IPPs and PTC Financial services.
- We expect PTC to report net profit of Rs1.2b in FY10 (down 9% YoY) and Rs1.4b in FY11 (up 19% YoY). **Buy.**

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Power Traded (MUs)	2,687	5,159	3,497	2,182	4,204	6,449	4,546	3,523	13,525	18,722
<b>Sales</b>	<b>12,031</b>	<b>20,313</b>	<b>21,168</b>	<b>11,777</b>	<b>23,717</b>	<b>27,085</b>	<b>20,457</b>	<b>14,711</b>	<b>65,289</b>	<b>85,970</b>
Change (%)	3.8	38.4	188.5	115.5	97.1	33.3	-3.4	24.9	67.1	31.7
<b>EBITDA</b>	<b>59</b>	<b>141</b>	<b>27</b>	<b>23</b>	<b>147</b>	<b>164</b>	<b>114</b>	<b>53</b>	<b>250</b>	<b>479</b>
Change (%)	1.1	36.1	67.0	-15.4	151.0	16.9	317.6	127.0	21.8	91.5
As of % Sales	0.5	0.7	0.1	0.2	0.6	0.6	0.6	0.4	0.4	0.6
Depreciation	15	16	16	15	14	17	18	20	62	69
Interest	9	8	7	2	1	5	7	50	25	63
Other Income	176	281	312	193	280	270	255	281	960	1,085
Extraordinary Income/(Expense)	1	0	0	-12	0	0	0	0	-12	0
<b>PBT</b>	<b>211</b>	<b>398</b>	<b>316</b>	<b>211</b>	<b>413</b>	<b>412</b>	<b>344</b>	<b>263</b>	<b>1,135</b>	<b>1,432</b>
Tax	22	59	79	55	79	62	52	34	226	226
Effective Tax Rate (%)	10.3	14.9	25.1	26.2	19.1	14.5	15.0	12.8	19.9	15.8
<b>Reported PAT</b>	<b>190</b>	<b>338</b>	<b>237</b>	<b>155</b>	<b>334</b>	<b>351</b>	<b>292</b>	<b>229</b>	<b>909</b>	<b>1,206</b>
<b>Adjusted PAT</b>	<b>189</b>	<b>334</b>	<b>275</b>	<b>174</b>	<b>364</b>	<b>351</b>	<b>292</b>	<b>229</b>	<b>972</b>	<b>1,145</b>
Change (%)	58.7	189.6	344.3	-9.7	92.7	5.0	6.2	32.0	98.9	17.9

E: MOSL Estimates

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## Reliance Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	RELE IN
	REUTERS CODE
S&P CNX: 4,959	RLEN.BO

25 September 2009

Buy

Rs1,207

Previous Recommendation: Buy

Equity Shares (m)	224.3
52-Week Range (Rs)	1,374/354
1,6,12 Rel. Perf. (%)	-1/52/14
M.Cap. (Rs b)	270.8
M.Cap. (US\$ b)	5.6

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	63,642	7,442	33.2	-7.2	36.4	2.8	11.0	9.7	3.4	39.9
3/09A	96,965	9,081	40.5	22.0	29.8	2.6	10.2	9.0	2.4	27.3
3/10E	116,816	12,301	54.8	35.5	22.0	2.4	10.4	10.4	2.0	23.0
3/11E	129,002	14,032	62.5	14.1	19.3	2.1	10.9	10.8	2.4	18.5

\* Fully Diluted

- We expect Reliance Energy to report revenue of Rs28b, up 13% YoY, and net profit of Rs2.7b, up 25.8% YoY.
- RELI has portfolio of 11 infrastructure projects under development, valued at Rs135b, and it is the sole/L1 bidder for projects valued at Rs200b. The company recently signed a concession agreement for the Gurgaon-Faridabad road project (Rs8b), and financial closure is expected in 2QFY10. The company also emerged as an L1 bidder for the Jaipur-Reengus road project (52km) and five regional airports in Maharashtra.
- To maximize shareholder value and simplify business structures, RELI has announced a scheme of de-merger of 1) Dahanu TPS into Reliance Energy Ltd 2) Goa and Samalkot power stations into Reliance Goa and Samalkot Power Ltd. 3) the power transmission business into Reliance Power Transmission Ltd. 4) power distribution business into Reliance Energy Ltd 5) the toll road business into Reliance InfraVentures Ltd and 6) the real estate division into Reliance Property Developers Ltd. All the resulting entities will be wholly owned subsidiaries of the company.
- In 1QFY10 Reliance Power Ltd (a 45% subsidiary of RELI) achieved financial closure for three power projects (costing Rs244b, DE 75:25) constituting total capacity of 5.5GW. This provides strong visibility on the EPC division of the company.
- We expect Reliance Infrastructure Ltd to report net profit of Rs12.3b in FY10 (up 36% YoY) and Rs14b in FY11 (up 14% YoY). **Buy.**

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Sales</b>	<b>22,903</b>	<b>24,732</b>	<b>27,176</b>	<b>23,875</b>	<b>24,463</b>	<b>27,947</b>	<b>32,068</b>	<b>32,337</b>	<b>98,686</b>	<b>116,816</b>
Change (%)	39.8	58.2	77.5	39.2	6.8	13.0	18.0	35.4	53.0	18.4
<b>EBITDA</b>	<b>2,858</b>	<b>2,772</b>	<b>3,120</b>	<b>1,559</b>	<b>2,995</b>	<b>2,515</b>	<b>2,565</b>	<b>2,283</b>	<b>10,309</b>	<b>10,359</b>
Change (%)	80.3	19.2	211.6	-22.9	4.8	-9.3	-17.8	46.4	51.0	0.5
As of % Sales	12.5	11.2	11.5	6.5	12.2	9.0	8.0	7.1	10.4	8.9
Depreciation	612	620	589	627	722	650	710	742	2,449	2,824
Interest	774	653	865	1,013	1,037	1,200	1,325	1,382	3,305	4,944
Other Income	1,103	2,016	1,436	2,824	2,442	2,550	3,300	3,937	7,379	12,229
<b>PBT</b>	<b>2,575</b>	<b>3,515</b>	<b>3,101</b>	<b>2,743</b>	<b>3,678</b>	<b>3,215</b>	<b>3,830</b>	<b>4,096</b>	<b>11,934</b>	<b>14,820</b>
Tax (incl contingencies)	49	626	589	-719	513	547	651	809	546	2,519
Effective Tax Rate (%)	1.9	17.8	19.0	-26.2	13.9	17.0	17.0	19.8	4.6	17.0
<b>Reported PAT</b>	<b>2,525</b>	<b>2,890</b>	<b>2,512</b>	<b>3,462</b>	<b>3,166</b>	<b>2,669</b>	<b>3,179</b>	<b>3,287</b>	<b>11,389</b>	<b>12,301</b>
<b>PAT (Pre Exceptionals)</b>	<b>2,502</b>	<b>2,122</b>	<b>2,823</b>	<b>2,958</b>	<b>3,166</b>	<b>2,669</b>	<b>3,179</b>	<b>3,287</b>	<b>10,405</b>	<b>12,301</b>
Change (%)	12.9	-5.2	100.4	-19.1	26.5	25.8	12.6	11.1	39.8	18.2

E: MOSL Estimates; Quarterly nos. are on standalone basis

## Tata Power

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	TPWR IN
	REUTERS CODE
S&P CNX: 4,959	TTPW.BO

25 September 2009

Neutral

Previous Recommendation: Neutral

Rs1,284

Equity Shares (m)	237.3
52-Week Range (Rs)	1,457/532
1,6,12 Rel. Perf.(%)	-9/1/5
M.Cap. (Rs b)	304.7
M.Cap. (US\$ b)	6.3

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
03/08A	59,159	7,315	34.4	32.1	37.3	3.8	7.7	6.2	5.2	33.1
03/09A	72,362	11,936	53.7	55.9	23.9	3.5	7.0	6.3	4.5	29.0
03/10E	81,250	14,836	62.5	16.5	20.5	3.0	8.3	8.8	4.3	19.1
03/11E	84,021	14,870	62.7	0.2	20.5	2.8	8.9	8.8	4.3	19.1

\* Consolidated including share of profit from Bumi Resources, Pre Exceptionals, Fully Diluted

- We expect Tata Power to report revenue of Rs20b (up 2% YoY), EBITDA of Rs3.6b (up 36% YoY) and net profit of Rs1.3b (down 35% YoY).
- Tata Power raised US\$335m (Rs16.2b) through a 14.84m GDR issue to be convertible into equity shares of equivalent number, representing a dilution of 6.6%. The issue has been priced at US\$22.6, equivalent to Rs1,090/share.
- Equity commitment towards various projects under construction (including capex for regulatory business) is Rs63.3b. Of this it has invested Rs13.2b (Rs8.2b in Mundra UMPP and Rs2.6b in Maithon TPP). It needs an additional Rs17.6b by FY10 and Rs32.5b beyond FY10.
- TPWR is expected to commission capacity of 2,500MW by FY12 including the first unit of the Mundra UMPP (800MW) in September 2011 and additional units within a gap of four months. Capacity addition in FY09 has been 340MW (250MW Trombay and 90MW Hadlia), while it plans to commission another 150MW (30MW of Haldia and 120MW Tata Steel CPP at Jojbera) in FY10.
- We expect Bumi to report net profit of US\$656m in CY09 and US\$538m in CY10. Thus, we expect share of profit from KPC and Arutmin Mines for Tata Power at Rs4.7b in FY10 and Rs3.5b in FY11. We believe these cash-flows will be largely sufficient for Tata Power to meet its debt service obligations (including debt repayment) towards acquisition debt for KPC/Arutmin mines (US\$764m as of March 2009).
- We expect Tata Power to report consolidated net profit of Rs14.8b (up 24% YoY) for FY10 and Rs14.9b (flat YoY) in FY11 (including share of profit from Bumi Resources). **Neutral.**

## QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Total Operating Income</b>	<b>20,261</b>	<b>19,589</b>	<b>17,769</b>	<b>14,744</b>	<b>20,156</b>	<b>19,981</b>	<b>20,434</b>	<b>20,679</b>	<b>72,362</b>	<b>81,250</b>
Change (%)	34.0	45.0	25.2	-9.8	-59.2	2.0	15.0	40.3	22.3	12.3
<b>EBITDA</b>	<b>3,049</b>	<b>2,647</b>	<b>2,560</b>	<b>2,934</b>	<b>6,323</b>	<b>3,597</b>	<b>3,882</b>	<b>4,478</b>	<b>11,190</b>	<b>18,280</b>
Change (%)	5.0	1.3	-4.5	105.7	107.4	35.9	51.6	52.6	16.3	63.4
As of % Sales	15.0	13.5	14.4	19.9	31.4	18.0	19.0	21.7	15.5	22.5
Depreciation	731	763	809	986	1,118	1,150	1,200	1,157	3,289	4,626
Interest	522	681	952	904	1,177	1,100	1,400	1,636	3,058	5,313
Other Income	872	1,884	460	3,108	1,076	460	500	371	6,324	2,407
<b>PBT</b>	<b>2,668</b>	<b>3,087</b>	<b>1,260</b>	<b>4,152</b>	<b>5,104</b>	<b>1,807</b>	<b>1,782</b>	<b>2,055</b>	<b>11,167</b>	<b>10,749</b>
Tax	763	468	109	605	1,333	524	535	683	1,945	3,075
Effective Tax Rate (%)	28.6	15.2	8.7	14.6	26.1	29.0	30.0	33.2	17.4	28.6
<b>Reported PAT</b>	<b>1,906</b>	<b>2,619</b>	<b>1,151</b>	<b>3,547</b>	<b>3,771</b>	<b>1,283</b>	<b>1,248</b>	<b>1,373</b>	<b>9,222</b>	<b>7,674</b>
<b>Adjusted PAT</b>	<b>1,584</b>	<b>1,969</b>	<b>978</b>	<b>941</b>	<b>2,051</b>	<b>1,283</b>	<b>1,248</b>	<b>1,373</b>	<b>5,472</b>	<b>7,674</b>
Change (%)	-13.5	20.5	-34.6	N.A.	-55.9	-34.8	27.6	45.8	10.8	40.2

E: MOSL Estimates

Satyam Agarwal (AgarwalS@MotilalOswal.com) / Nalin Bhatt (NalinBhatt@MotilalOswal.com)

## Blue Star

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	BLSTR IN
	REUTERS CODE
S&P CNX: 4,959	BLUS.BO
Equity shares (m)	89.9
52-Week Range (Rs)	400/122
1, 6, 12 Rel. Perf. (%)	-3/70/-9
M. Cap. (Rs b)	32.0
M. Cap. (US\$ b)	0.7

25 September 2009

Neutral

Previous Recommendation: Buy

Rs356

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	22,330	1,468	16.3	106.2			73.1	58.5		
03/09A	25,690	1,803	20.0	22.8	17.8	8.7	57.2	73.2	1.3	11.7
03/10E	28,257	2,139	23.8	18.6	15.0	6.5	49.8	65.7	1.1	9.9
03/11E	32,400	2,431	27.0	13.7	13.2	5.0	43.1	59.8	1.0	8.6

- **Opening order book of Rs17b, up 22% YoY:** Blue Star opens 2QFY10 with an order backlog of Rs17b, up 22% YoY. However, the key thing to watch out for is 2QFY10 order inflow, which has been negative YoY for the last two quarters, indicating slowdown.
- **Focus on value engineering and cost control:** Amidst slowing topline growth, Blue Star is focusing on value engineering and cost control, improvement in margins and protecting bottomline growth. For instance, in 1QFY10, sales de-grew 14% YoY but PAT growth was 13% YoY.
- **2QFY10 sales growth of 10% YoY, PAT growth of 17.5% YoY:** For 2QFY10, we expect sales of Rs7.1b, up 10% YoY. We expect 50bp YoY improvement in margins to 11.2% on the back of softer metal prices and the company's value engineering efforts. Depreciation, interest and tax should be in line with 1QFY10. This translates into PAT of Rs528m, up 17.5% YoY.
- **Target price of Rs324 (12x FY11E); maintain Neutral:** We expect FY09-11E EPS CAGR of 16% which is considerably lower than FY06-FY09 CAGR of 54%. We value Blue Star at 12x FY11E EPS of Rs27 to arrive at a target price of Rs324, 10% below current levels. We maintain **Neutral**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY09				FY10E				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Operating Income</b>	<b>6,309</b>	<b>6,465</b>	<b>5,667</b>	<b>7,249</b>	<b>5,398</b>	<b>7,112</b>	<b>6,234</b>	<b>9,514</b>	<b>25,690</b>	<b>28,257</b>
Change (%)	36.5	18.0	10.1	2.4	-14.4	10.0	10.0	31.2	15.0	10.0
Total Expenses	5,739	5,776	5,146	6,275	4,773	6,317	5,587	8,360	22,935	25,037
<b>EBITDA</b>	<b>570</b>	<b>690</b>	<b>522</b>	<b>973</b>	<b>625</b>	<b>795</b>	<b>646</b>	<b>1,154</b>	<b>2,755</b>	<b>3,220</b>
Change (%)	50.4	0.8	-6.4	34.3	9.6	15.3	23.9	18.6	17.5	16.9
EBITDA Margin (%)	9.0	10.7	9.2	13.4	11.6	11.2	10.4	12.1	10.7	11.4
Depreciation	57	61	70	71	82	84	86	88	259	340
Interest	20	44	53	19	4	3	3	5	136	15
Other Income	17	12	1	19	4	6	6	9	48	25
<b>PBT</b>	<b>510</b>	<b>596</b>	<b>400</b>	<b>902</b>	<b>543</b>	<b>714</b>	<b>563</b>	<b>1,070</b>	<b>2,409</b>	<b>2,890</b>
Tax	146	147	78	214	131	186	147	288	579	751
Tax/PBT (%)	28.6	24.6	19.6	23.7	24.2	26.0	26.0	26.9	24.0	26.0
<b>Reported PAT</b>	<b>364</b>	<b>449</b>	<b>322</b>	<b>688</b>	<b>412</b>	<b>528</b>	<b>417</b>	<b>782</b>	<b>1,830</b>	<b>2,139</b>
<b>Adjusted PAT</b>	<b>364</b>	<b>449</b>	<b>322</b>	<b>688</b>	<b>412</b>	<b>528</b>	<b>417</b>	<b>782</b>	<b>1,830</b>	<b>2,139</b>
Change (%)	63.1	-2.2	-9.2	59.8	13.1	17.5	29.5	13.7	24.7	16.9
PAT Margin (%)	5.8	7.0	5.7	9.5	7.6	7.4	6.7	8.2	7.1	7.6

E: MOSL Estimates



## Everest Kanto Cylinders

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	EKCL IN
	REUTERS CODE
S&P CNX: 4,959	EKCL.BO

25 September 2009

Neutral

Previous Recommendation: Buy

Rs203

Equity Shares (m)	101.2
52-Week Range (Rs)	281/84
1, 6, 12 Rel. Perf. (%)	2/8/-48
M. Cap. (Rs b)	20.5
M. Cap. (US\$ b)	0.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	5,287	1,029	10.2	38.4			26.3	24.1		
03/09A	8,564	1,503	14.1	39.1	14.4	2.9	24.4	21.9	2.9	9.6
03/10E	8,853	1,230	11.6	-18.2	17.5	2.5	15.2	14.1	2.7	10.1
03/11E	11,168	1,710	16.1	39.0	12.6	2.1	18.0	18.0	2.2	7.9

- **India operations to recover over 1QFY10; other regions to remain muted:** Everest Kanto's India operations in 2QFY10 are expected to recover significantly compared to 1Q, led by sharp improvement in demand for medium- and heavy commercial vehicles. However, operations in Dubai are expected to remain muted, mainly due to pile-up of inventory following non-receipt of LCs (letters of credit) from major market Iran. Likewise, operations in China and US are also affected by the slowdown, and are likely to report small losses as in 1QFY10.
- **Expansion plans to commence in 2HFY10:** Everest Kanto plans to commission its billet-pierced industrial cylinder plant at Gandhidham, Gujarat (200,000 capacity) by Oct-Nov 2009. The plate-based cylinders facility at Kandla SEZ (300,000 capacity) is expected to be commissioned by end-FY10.
- **2QFY10 sales down 10% YoY, PAT down 55% YoY:** For 2QFY10, we expect sales of Rs1.99b, down 10% YoY. EBITDA margin should be sharply lower due to diseconomies of scale at Dubai, China and US. As a result, we expect PAT to be down 55% YoY at Rs235m.
- **Maintain Neutral due to earnings uncertainty:** 2QFY10 will be the third consecutive quarter of negative earnings growth. Though the situation is expected to improve from 3QFY10, the degree of uncertainty is high, meriting muted valuation multiples. Further, our estimates do not factor in potential initial losses in its gas distribution venture. We value Everest Kanto at 12x FY11E EPS of Rs16.1 to arrive at a target price of Rs193. We maintain **Neutral**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY09				FY10E				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Net Income</b>	<b>1,892</b>	<b>2,210</b>	<b>2,503</b>	<b>1,961</b>	<b>1,530</b>	<b>1,989</b>	<b>2,753</b>	<b>2,581</b>	<b>8,566</b>	<b>8,853</b>
Change (%)	69.9	73.0	99.4	19.5	-19.1	-10.0	10.0	31.6	62.0	3.4
Total Expenses	1,255	1,420	1,701	1,529	1,198	1,492	2,032	1,817	5,904	6,532
<b>EBITDA</b>	<b>646</b>	<b>808</b>	<b>811</b>	<b>440</b>	<b>338</b>	<b>497</b>	<b>722</b>	<b>764</b>	<b>2,705</b>	<b>2,320</b>
Change (%)	105.8	96.7	76.5	20.2	-47.7	-38.5	-11.0	73.6	74.5	-14.2
EBITDA Margin (%)	34.1	36.6	32.4	22.4	22.1	25.0	26.2	29.6	31.6	26.2
Depreciation	121	156	212	205	186	185	188	184	693	743
Interest	100	47	71	54	37	50	50	34	272	171
Other Income	23	12	8	-62	4	15	15	26	-20	60
Extraordinary items (net) *	-27	-88	-86	12	95	0	0	0	-189	95
<b>PBT</b>	<b>421</b>	<b>528</b>	<b>451</b>	<b>131</b>	<b>214</b>	<b>277</b>	<b>499</b>	<b>571</b>	<b>1,531</b>	<b>1,561</b>
Tax	71	96	69	-81	48	42	75	71	156	235
Tax/PBT (%)	16.9	18.2	15.3	-61.6	22.3	15.1	15.1	12.4	10.2	15.1
PAT	350	432	382	212	166	235	423	500	1,375	1,325
<b>Adjusted PAT</b>	<b>377</b>	<b>520</b>	<b>468</b>	<b>141</b>	<b>71</b>	<b>235</b>	<b>423</b>	<b>501</b>	<b>1,505</b>	<b>1,230</b>
Change (%)	69.6	91.2	60.4	-49.4	-81.3	-54.7	-9.5	255.7	46.3	-18.3
PAT Margin (%)	19.9	23.5	18.7	7.2	4.6	11.8	15.4	19.4	17.6	13.9

E: MOSL Estimates; \* Extraordinary items include non-cash forex impact (net)

Shrinath Mithanatha (ShrinathM@MotilalOswal.com)



## Sintex Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	BVML IN
	REUTERS CODE
S&P CNX: 4,959	SNTX.BO

25 September 2009

Buy

Rs248

Previous Recommendation: Buy

Equity Shares (m)	135.5
52-Week Range (Rs)	303/70
1, 6, 12 Rel. Perf. (%)	7/95/-37
M. Cap. (Rs b)	33.6
M. Cap. (US\$ b)	0.7

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	22,978	2,170	16.0	35.5			21.5	14.7		
03/09A	31,356	3,251	24.0	49.9	10.3	1.9	19.8	12.3	1.3	7.6
03/10E	33,278	3,152	23.3	-3.1	10.0	1.6	17.3	14.0	1.1	6.9
03/11E	39,257	4,224	31.2	34.0	8.0	1.4	18.6	15.8	0.9	5.3

- **2QFY10 performance to be boosted by spillover from 1Q:** We expect Sintex's 2QFY10 performance to be significantly better than 1QFY10. Sales will be higher due to spillover of certain monolithic sales from 1Q into 2Q. EBITDA margin will be higher than 1Q due to near exhaustion of high cost raw material stocks in earlier quarters.
- **2QFY10 sales up 8% YoY, PAT down 11% YoY:** We expect Sintex's 2QFY10 EBITDA margin to be down 180bp YoY on the back of higher losses in its subsidiaries and lower margins in its textiles business. As a result, on a sales growth of 8% YoY to Rs7.9b, we expect PAT to be down 11% YoY at Rs746m.
- **Subsidiaries - a mixed bag:** Sintex's US subsidiary, Wausaukee, and French subsidiary Nief Plastics should continue to be affected by the global slowdown. However, performance of Indian subsidiaries is expected to gradually improve. Zeppelin is a beneficiary of recovery in base telecom shelter business, while Bright has added new clients and also commissioned a new Rs210m unit for 'under the hood' components. By end-2009, it also plans to commission a unit to supply electrical components to Schneider, Germany.
- **Reasonable valuation, maintain Buy:** We see FY10 as a year of consolidation for Sintex. The stock currently trades at a P/E of 8x FY11E. This is reasonable considering FY09-11E EPS CAGR of 14% and RoE of 17-18%. We value Sintex at 10x FY11E EPS of Rs31.2 to arrive at a target price of Rs312, an upside of 27%. We maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY09				FY10E				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Operating Income</b>	<b>7,286</b>	<b>7,340</b>	<b>8,202</b>	<b>8,528</b>	<b>6,624</b>	<b>7,918</b>	<b>8,785</b>	<b>9,951</b>	<b>31,356</b>	<b>33,278</b>
YoY Growth (%)	109.4	87.8	33.3	-9.6	-9.1	7.9	7.1	16.7	36.5	6.1
<b>EBITDA</b>	<b>923</b>	<b>1,340</b>	<b>1,273</b>	<b>1,681</b>	<b>874</b>	<b>1,307</b>	<b>1,449</b>	<b>1,906</b>	<b>5,217</b>	<b>5,535</b>
EBITDA Margin (%)	12.7	18.3	15.5	19.7	13.2	16.5	16.5	19.1	16.6	16.6
YoY Growth (%)	47.7	67.9	22.3	5.1	-5.3	-2.5	13.9	13.4	28.4	6.1
Depreciation	304	314	315	211	366	340	345	347	1,144	1,398
Interest	175	187	255	202	142	122	122	102	820	488
Other Income	242	221	252	131	159	120	120	81	846	480
Extraordinary items	0	0	0	0	200	0	0	0	0	200
<b>Profit before Tax</b>	<b>686</b>	<b>1,060</b>	<b>954</b>	<b>1,399</b>	<b>725</b>	<b>964</b>	<b>1,102</b>	<b>1,537</b>	<b>4,100</b>	<b>4,329</b>
Tax Provisions	119	222	237	248	114	212	243	384	826	952
Tax / PBT	17.4	20.9	24.8	17.7	15.7	22.0	22.0	25.0	20.1	22.0
<b>PAT before MI</b>	<b>567</b>	<b>838</b>	<b>717</b>	<b>1,151</b>	<b>611</b>	<b>752</b>	<b>860</b>	<b>1,153</b>	<b>3,274</b>	<b>3,377</b>
Minority Interest	3	1	9	11	5	6	6	7	23	25
Consolidated PAT	565	838	708	1,140	606	746	854	1,146	3,251	3,352
<b>Adj. Consolidated PAT</b>	<b>565</b>	<b>838</b>	<b>708</b>	<b>1,140</b>	<b>406</b>	<b>746</b>	<b>854</b>	<b>1,146</b>	<b>3,251</b>	<b>3,152</b>
YoY Growth (%)	71.4	89.2	21.1	40.4	-28.1	-11.0	20.5	0.5	49.9	-3.1

E: MOSL Estimates

## United Phosphorus

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,693	UNTP IN
	REUTERS CODE
S&P CNX: 4,959	UNPO.BO

25 September 2009

Buy

Rs165

Previous Recommendation: Buy

Equity Shares (m)	439.6
52-Week Range (Rs)	186/65
1,6,12 Rel. Perf. (%)	-5/0/-19
M.Cap. (Rs b)	72.4
M.Cap. (US\$ b)	1.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	37,616	3,954	8.6	18.7	19.3	1.6	21.2	15.8	2.0	11.3
03/09A	49,735	4,921	10.6	24.4	15.5	2.7	20.0	18.4	1.7	8.9
03/10E	59,373	6,400	13.8	30.1	11.9	2.3	21.9	17.5	1.3	7.3
03/11E	67,017	8,451	18.3	32.0	9.0	1.9	24.1	19.6	1.1	5.3

- We expect United Phosphorus (UPL) to report 19.3% YoY growth in consolidated revenues to Rs13.9b, driven by robust volume growth across markets. Our estimates factor in 21.6% growth in domestic business and 17.7% growth in international business.
- EBITDA margin would decline 100bp YoY to 18.2%, impacted by high cost inventory and lower realizations. However, higher depreciation coupled with higher tax provisioning would restrict PAT growth to 17% YoY to Rs1.43b.
- UPL's volume growth would be vulnerable to adverse climatic patterns in Europe, Australia and Latin-America, and delayed in monsoon in India. This coupled with delays in purchases by the consumers would result in volatile quarterly revenues.
- Financial performance would improve, driven by synergies of integration with Cerexagri and new launches in existing markets. While short-term outlook is challenging due to adverse climatic pattern and volatile quarterly performance, long-term outlook remains positive. Valuations at 17.5x FY09E EPS (fully diluted) and an EV of 7.5x EBITDA do not adequately reflect the company's growth potential (both organic and inorganic). We maintain **Buy**.

## QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

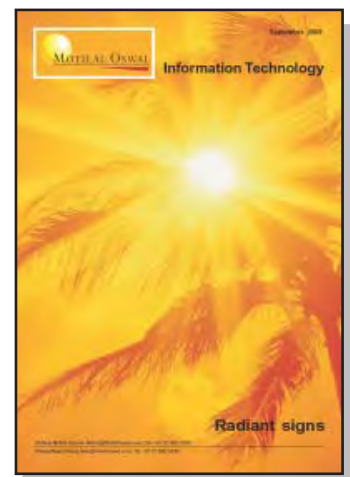
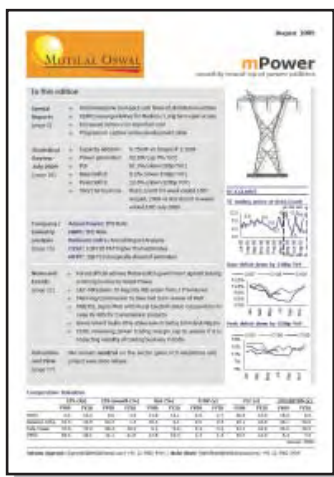
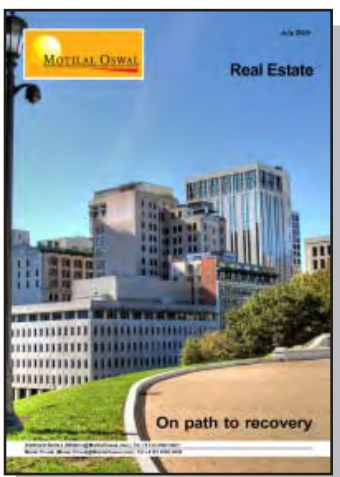
Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Gross Revenues</b>	<b>13,141</b>	<b>11,648</b>	<b>10,944</b>	<b>14,002</b>	<b>16,442</b>	<b>13,897</b>	<b>12,684</b>	<b>16,063</b>	<b>49,735</b>	<b>59,373</b>
YoY Change (%)	55.5	31.4	35.2	14.7	25.1	19.3	15.9	14.7	32.2	19.4
Total Expenditure	10,484	9,407	8,990	10,987	13,306	11,373	10,401	12,911	39,868	47,991
<b>EBITDA</b>	<b>2,657</b>	<b>2,242</b>	<b>1,954</b>	<b>3,015</b>	<b>3,135</b>	<b>2,524</b>	<b>2,283</b>	<b>3,152</b>	<b>9,867</b>	<b>11,382</b>
Margins (%)	20.2	19.2	17.9	21.5	19.1	18.2	18.0	19.6	19.8	19.2
Depreciation	378	455	457	638	501	525	550	575	1,927	2,151
Interest	634	600	810	875	578	500	490	490	2,919	2,058
<b>PBT before EO Expense</b>	<b>1,645</b>	<b>1,187</b>	<b>687</b>	<b>1,502</b>	<b>2,056</b>	<b>1,499</b>	<b>1,243</b>	<b>2,087</b>	<b>5,021</b>	<b>7,173</b>
Extra-Ord Expense	0	0	0	101	0	0	0	0	101	0
<b>PBT after EO Expense</b>	<b>1,645</b>	<b>1,187</b>	<b>687</b>	<b>1,401</b>	<b>2,056</b>	<b>1,499</b>	<b>1,243</b>	<b>2,087</b>	<b>4,921</b>	<b>7,173</b>
Tax	99	59	54	77	268	180	373	256	289	1,076
Deferred Tax	92	21	23	-160	0	0	0	108	-19	108
Rate (%)	11.6	6.7	11.1	-5.9	13.0	12.0	30.0	17.4	5.5	16.5
<b>Reported PAT</b>	<b>1,454</b>	<b>1,108</b>	<b>611</b>	<b>1,484</b>	<b>1,789</b>	<b>1,319</b>	<b>870</b>	<b>1,724</b>	<b>4,651</b>	<b>5,990</b>
Income from Associate Co	22	113	36	29	-26	114	125	197	200	411
<b>Adjusted PAT</b>	<b>1,477</b>	<b>1,220</b>	<b>646</b>	<b>1,620</b>	<b>1,763</b>	<b>1,433</b>	<b>995</b>	<b>1,922</b>	<b>4,946</b>	<b>6,400</b>
YoY Change (%)	100.1	38.3	33.1	-15.1	19.4	17.4	54.1	18.6	25.1	29.4
Margins (%)	11.2	10.5	5.9	11.6	10.7	10.3	7.8	12.0	9.9	10.8

E: MOSL Estimates

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MOST has broking relationships with a few of the companies covered in this report.

MOST is engaged in providing investment-banking services in the following companies covered in this report: None

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