INDIA

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Recent and Past Reports

Can’t See ‘I’ to ‘I’

Focus on Four ‘I’s

Govt is selling, but is it worth buying?

Play the Second Derivative

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Macquarie Capital Securities India (Pvt) Ltd

India Strategy

‘I’s don’t lie

Macro headwinds to remain challenging

Indian markets have corrected 8% since we last wrote a month back. We still retain our negative stance on Indian markets, and believe that macro headwinds will continue for some more time. Inflation is unlikely to fall till September as Indian markets digest possible diesel price hikes. Interest rates have another 50bp to go in our view, as the RBI rightly focuses on sacrificing short term growth for longer term health. Consumption seems to be slowing down a bit and the investment cycle is yet to pick up, reflected in very low demand growth in cement and steel over the last few months. The exports outlook has also deteriorated to some extent, given the slowing pace of recovery in the developed world. In our view, the market needs to consolidate at the current levels before it can move up, but another 7-8% dip can’t be ruled out.

Earnings downgrades – more to come

As highlighted in our last note *“Can’t see I to I”*, earnings estimates looked extremely high and we had estimated 12-15% growth for FY12 based on our top-down model for the Sensex. We note that consensus earnings have indeed seen downward revision by 2% but are still projecting 17.5% growth. Since lots of cost increases are being reflected from 1Q FY12, we expect the earnings downgrade trend to continue. We think the reduction due to the lower demand scenario may take a bit longer to get built into the estimates, as most companies are still guiding reasonable numbers.

Valuations – reasonable but not a deep discount

Indian markets are now trading close to the long term average of 14.5x PER; while this is reasonable historically, we have seen the market hit a bottom of 12-13x. The premium to emerging markets still remains at 35% against the 10-yr average of 26%. This premium had expanded as India’s strong domestic demand differentiated it from other economies during the Lehman crisis. However, the current concerns on a possible slowdown in consumption may lead to marginal reduction here. Among sectors which are above long-term averages are Consumer Staples, Energy, Financials and Utilities while the ones below are Materials, IT, Healthcare and Consumer Discretionary.

Top-10 Focus List and Model Portfolio – avoiding risk

We have made several changes to our top 10 stocks and model portfolio. Largely the changes are made to reduce risks and also increase weight into stocks with higher earnings certainty.

- Glenmark to DRRD – move to large cap from a mid cap.
- TTMT to MM – shift to India-centric play
- GAIL to BPCL – shift to a subsidy receiver from a subsidy giver
- TATA to JSW – move to non-integrated, given slowdown.

In our model portfolio, we have retained our overweight on IT, Materials, Energy and Pharma. We are neutral in Consumer Goods and underweight on the rest.

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‘I’s don’t lie

The Battle between Inflation/Interest Rates vs Investment/Growth

- **Market Correction inline with expectation:** Our outlook on the equity market in FY12, led by the impact of the four ‘I’s - inflation, interest rates, investment and inflows – has so far played out as predicted. Inflation has persisted at high levels, and the RBI has tightened the noose on the economy with aggressive rate hikes, which has had an impact on the other two ‘I’s – Investment and (fund) Inflows. We believe the current weakness may persist till the end of Q2FY12 and the market would likely remain in a narrow trading band. At 14.5x, the 12-month forward PE seems reasonable and is in-line with its long term average. However, on a relative basis India continues to trade a 35% premium to other emerging markets, partly because other markets have also fallen in tandem.
- **EPS estimates cut; further downgrades likely:** In our April 13 strategy note, *Can’t See ‘I’ to ‘I’,* we had highlighted the over-optimism of consensus estimates for FY12 earnings and expected earnings downgrades to follow, given input cost pressures and lower operating margins. Since then FY12 estimates are down 2% already and we believe there are more downgrades to follow. As highlighted in that note, our top-down earnings growth estimate of 15% translates to Sensex EPS of 1225. Our near-term call on the market has also turned out as expected, with the market down nearly 12% year-to-date and 8% since we last wrote.
- **Interest rates maintain upward trajectory:** Earlier this month the RBI made its first real aggressive move since last year and raised benchmark rates by 50bp against expectations of 25bp. The most important point to note from its annual policy statement was its willingness to trade some of the high growth for lower inflation in the near term in order to make way for a more sustained growth trajectory going forward. We believe there may be at least another 50bp rate hike over the next couple of quarters.
- **Inflation continues to dominate:** Inflation has surprised negatively for the past few months and continues to pose a challenge on the policy front. According to RBI’s revised estimates, WPI inflation will likely remain around 9% till September before tapering off. We believe the real trajectory of inflation will be determined by the pass-through effects of petrol and diesel price hikes (1.1% and 4.7% weight in WPI, respectively) on the broader economy. The key risk here is inflation touching double digits and leading to further aggressive rate hikes.
- **Oil prices likely to rebound:** Although crude prices have come off their recent peaks, our global commodity team’s outlook on crude through the course of FY12 remains bullish, along with other commodities. We believe this will continue to push up input costs for companies and exert pressure on margins, particularly if demand also softens in the near future.
- **Investment activity sending out mixed signals:** The investment cycle, though alive, remains weak and is not showing signs of a pick-up yet – the concerns are more on private capex than on government spending on projects. Our infrastructure/capital goods analyst Inderjeet Bhatia, in his recent note *Investment activity showing signs of life,* argues that the main slowdown has been on larger projects and that *“order inflow outlook is not as grim as perceived by the Street”*. According to him, *“order inflow remains strong in short cycle projects, but is delayed for larger projects due to delays on several fronts*”. On the margins front, he remains confident that with commodities cooling off significantly from their highs, margins are likely to hold steady or pick up in coming quarters.
- **Government’s discal deficit target still under cloud:** Ballooning petroleum and fertiliser subsidies since the beginning of the year have already dented the government’s fiscal position. Our Oil & Gas analyst, Jal Irani, estimates that the government’s share in total oil under-recoveries in FY12 could be as high as US$18.5bn, after adjusting for a Rs3/lt hike in diesel prices. At that level, the fiscal deficit turns out at 5.3% of GDP, much higher than government’s 4.6% estimate. Additionally, the government’s divestment plans are already getting postponed, given subsidy issues and market conditions. In this scenario the upside will have to come from 3G-like one-off revenues. In this regard, the finance ministry has already asked the Department of Telecommunications to expedite the process of spectrum auctions.

Weak Margins and Earnings Outlook Necessitate Focussing on Stock Selection than Timing the Market

In its monthly bulletin earlier this year, the RBI, in its assessment of the private corporate sector, noted that in 1HFY11 operating margins were down 140bp compared to 1HFY10 despite strong top-line growth, mainly due to higher input costs. We note that input prices and interest costs have continued to increase in 2HFY11 as well and given the current trajectory of inflation, we believe margins will remain subdued for a few more quarters.

In our April 13 note titled *Can't See 'I' to 'I'*, we had highlighted the impact of structural changes in the economy on margins of large companies over the past decade. We have analysed and provided further insights on these aspects on page 14. Our analysis is even more relevant in the current environment where crude and other commodity prices are on a structural upswing, and also because in the past decade, higher raw material prices have been the main contributor to rising costs. Given Macquarie's global commodity team's bullish stance on commodities in FY12 and possible diesel price hikes in the near term, we believe margins will continue to be under pressure, unless supported by higher demand, which itself is under threat from high inflation and interest rates.

Our view on the macro situation and its effect on company earnings have called for changes to our top 10 Focus List and Model Portfolio.

Changes to Top-10 Focus Stocks and Model Portfolio

We have made several changes to our **Top 10 Focus List** and model portfolio. Largely, the changes are made to reduce risks and also increase weight into stocks with higher earnings certainty.

- Glenmark to DRRD – move to large cap from a mid cap.
- TTMT to MM – shift to India-centric play
- GAIL to BPCL – shift to a subsidy receiver from a subsidy giver
- TATA to JSW – move to non-integrated, given slowdown.

In our **Model Portfolio**, we have retained our overweight on IT, Materials, Energy and Pharma. We are neutral on Capital Goods and underweight on the rest.

At the stock level, we have made the following replacements:

- **Removing Cairn India and adding BPCL** - **Preference for OMCs:** BPCL's Bina refinery will likely augment its earnings and also lower the uncertainty on earnings due to the ad-hoc nature of subsidy sharing.
- **Removing Kotak Mahindra Bank and adding SBI** – **Huge sell-off and attractive valuations:** Incrementally, things will likely start looking better for SBI from Q2FY12, both on asset quality and net interest margin.
- **Removing Adani Enterprises and adding Crompton Greaves** – **Strong outlook**: Uptick in order inflow for Crompton in Q4FY11 and likely improvement in margins for the company going forward.

Portfolio Changes – Treading Cautiously

Top 10 Focus List – Positioned for Further Outperformance

We believe macro headwinds have not abated and will likely keep the uncertainty factor lurking in the market. While the market looks fairly priced at the moment, the uncertain macro environment, due to high inflation and interest rates, indicates that risks are to the downside. While the market may continue to remain in a narrow band over the next few months, investors should consider focusing on accumulating good quality names that have strong balance sheets and visibility in earnings. Our Top-10 Focus List has outperformed the MSCI India by 500bp and the Sensex by 320bp since August 2010.

We are making the following changes to our Top 10 Focus Stocks

- **Switching from GAIL to BPCL**

  RIL's KGD6 gas volume decline and constraint on LNG imports due to near-full utilization of Petronet capacity have lowered near-term volume growth expectations for GAIL's transmission business. At the same time, a higher subsidy share for upstream firms in FY11 has resulted in a mild increase in subsidy for GAIL. On the other hand for BPCL, commissioning of the Bina refinery could provide it with subsidy-free income growth. With under-recovery expected to reduce in the short term on diesel/LPG price hikes, and the government's intended structural shift to cash subsidies, BPCL working capital requirements and earnings risk due to ad-hoc subsidy sharing could reduce significantly. While GAIL performed well initially, uncertainty around KGD6 volumes and ad-hoc oil subsidy sharing became a major drag on the stock. We are booking a loss of 6.4% on this stock, which was part of our initial list of top 10 picks.

- **Switching from Tata Motors to M&M**

  M&M was part of our initial Top-10 list last year and gave us 17% absolute return over three months. We are re-introducing M&M to our Top-10 list as we believe M&M is more resilient in a benign economic environment due to large exposure to rural economy which is yet to witness a demand slowdown. M&M also has limited exposure to the commercial vehicle segment (M&HCV), which faces maximum risk in a rising interest rate environment. In Tata Motors, despite strong performance of the JLR business, domestic growth is likely to be slow in FY12E due to slowing M&HCV sales growth, change in product mix in passenger cars (higher Nano) and raw material cost pressure. We are booking a loss of 9% on Tata Motors.

- **Switching from Tata Steel to JSW Steel**

  We are booking profits of 10% in Tata Steel, which has been part of our Top-10 list since August last year. In terms of pure steel plays, we think JSW steel may perform better than Tata Steel going forward. We believe the high debt levels for Tata Steel are increasing its leverage on the steel cycle. We like JSW Steel, where Macquarie's earnings estimates are well above consensus, due to increasing volume from recently commissioned capacity that could help augment earnings.

- **Switching from Glenmark to Dr. Reddy's**

  We are replacing Glenmark with Dr. Reddy's, which was part of our initial Top-10 list and in which we had booked a 35% absolute return back in November 2010. Although we like Glenmark and believe the stock has great potential, we would derive greater comfort from being in a large-cap name such as DRRD, which has come off from its peak and looks attractive at current levels. We have, however, retained Glenmark in our model portfolio with a slightly higher weight since the stock remains attractive from a long-term perspective. We are booking a loss of 19% on this stock since its inclusion six months ago.

Fig 1 Top-10 Focus List

Company	Market Cap (US$M)	% Return since Added	% Return (1 week)	% Return (1 month)	% Return (3 months)	FY12 PE (Macq est)	FY12 Price/Book (Macq est)	Macquarie FY12 EPS Growth %	Expected FY12 ROE
Bharat Petroleum	5,021	NA	17.5	17.5	26.5	10.8	1.4	28.7	13.2
Dr. Reddy's Laboratories	5,918	NA	-5.0	-10.6	-6.0	17.4	4.0	43.6	25.9
ICICI Bank	27,380	7.6	7.0	-3.3	5.0	17.5	2.0	28.3	11.7
Infosys Technologies	35,343	-7.2	-2.0	-4.3	-9.8	19.4	4.7	20.0	26.8
ITC	32,142	17.4	-1.4	-2.5	8.1	22.6	8.0	26.1	37.4
Jindal Steel and Power	13,152	-9.0	1.5	-3.0	-5.4	10.8	3.1	46.0	32.8
JSW Steel	4,733	NA	6.7	1.2	1.6	7.8	0.9	59.1	13.1
Larsen & Toubro	21,982	-12.3	1.1	2.2	1.2	19.0	3.4	25.5	19.6
Mahindra & Mahindra	9,035	NA	-3.5	-12.3	-0.2	13.0	3.1	12.2	25.5
Reliance Industries	68,110	-8.9	3.2	-4.6	-5.1	11.3	1.6	22.7	15.3
Top-10 Focus List Aggregate*	**222,816**	**2.8**	**1.2**	**-4.5**	**-2.1**	**15.0**	**3.2**	**31.2**	**22.1**
MSCI India	**829,056**	**-2.2**	**1.9**	**-4.2**	**-0.6**				
Sensex	**619,455**	**-0.4**	**1.3**	**-4.7**	**-1.2**				
Nifty	**770,136**	**-0.6**	**1.6**	**-4.8**	**-0.9**				

* Since August 24, 2010

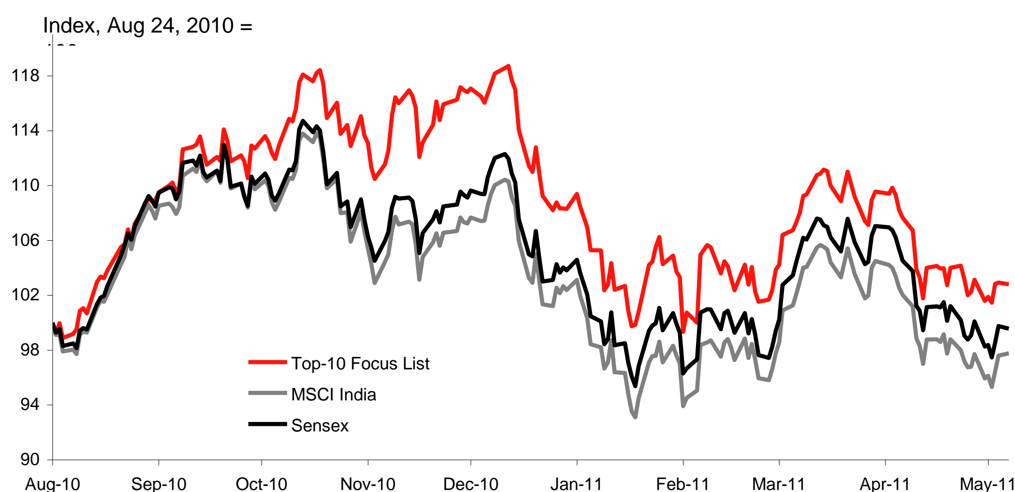
Source: Bloomberg, Macquarie Research, May 2011; Prices as of May 30, 2011

Fig 2 Past Changes to the Top-10 List

Date	Stocks Replaced	Profit Booked (%)	Stocks Added
12/11/2010	Mahindra & Mahindra Ltd	25.5	Tata Motors
12/11/2010	Tata Power Co Ltd	7.5	Power Finance Corp
12/11/2010	TCS	21.3	Infosys
26/11/2010	Dr. Reddy's	35.0	Glenmark
12/01/2011	Power Finance	-11.0	Reliance Ind.
30/05/2011	GAIL	-2.7	BPCL
30/05/2011	Glenmark	-16.8	Dr. Reddy's
30/05/2011	Tata Motors	-13.6	Mahindra & Mahindra Ltd
30/05/2011	Tata Steel	12.8	JSW Steel

Source: Bloomberg, Macquarie Research, May 2011; Prices as of May 30, 2011

Fig 3 Performance of Top-10 Focus List



Source: Bloomberg, Macquarie Research, May 2011; Prices as of May 30, 2011

Model Portfolio

- **Healthcare:** We retain our overweight position on Healthcare on the sector's prospects in a growing market like India and also as a good defensive exposure in our portfolio. The sector has outperformed the broader MSCI index by 1.3% since the beginning of the calendar year.

  Changes: There are no significant changes, but we have slightly increased our weight on Dr. Reddy's and Glenmark Pharma, as we feel these stocks have corrected significantly, are attractively priced and present a good upside from current levels over the next 6-12 months.

- **Materials:** Within the Materials sector, we are overweight on metals and mining and retain our underweight stance on cement. Amongst metal companies, we prefer exposure to coking coal and iron ore while remaining cautious on steel due to additional capacity and slower demand in FY12. We retain our underweight stance on cement, as demand continues to be muted and, with the monsoon season around the corner, will likely remain so for another couple of quarters. Overall, we are overweight on the Materials sector, which has underperformed the market by around 4% YTD. However, given Macquarie's commodity team's bullish outlook, we think the sector has the potential to outperform in the next few months.

  Changes: We are replacing Tata Steel with JSW Steel in our model portfolio. We believe high debt levels for Tata Steel are increasing its leverage on the steel cycle. JSW Steel, on the other hand, could potentially increase volumes from capacity commissioned recently that would help earnings.

- **Energy:** We continue to overweight the Energy sector and particularly like oil marketing companies (OMCs) that are recipients of subsidies and would also benefit from increase in fuel prices. We are also positive on refiners on the back of cyclically high refining margins. We remain neutral on the upstream space, due to higher subsidy burden offsetting any benefit from global crude prices. The sector has outperformed the MSCI index by 2.4% YTD; however, we believe the sector could have potentially outperformed the market by more had subsidy issues not plagued it. At the same time, Reliance has also dragged the sector performance down due to uncertainty around its KG D6 production levels and investor concern on the company's diversification strategy.

  Changes: Given our preference for OMCs, we are replacing Cairn India with BPCL. We believe commissioning of BPCL's Bina refinery will augment its earnings and also lower the uncertainty on earnings due to the ad-hoc nature of subsidy sharing. We are also reducing our weight on ONGC and increasing our allocation to Coal India.

- **Information technology (IT):** We are overweight on the IT sector, which will likely continue to benefit from recovering developed markets and act as a defensive sector in our portfolio in this environment. Although guidance from Infosys and Wipro did not find favour with the market, the growth profile of the sector continues to be strong, and the recent sell-off has made the sector attractive from an earnings growth and valuation perspective.

  Changes: No changes; we continue to retain Infosys and TCS in our model portfolio.

- **Financials:** Within Financials, we continue to retain our neutral stance on banks, as we believe that the outlook for net interest margins and asset quality remains uncertain at least for another quarter. We are still underweight on real estate, as there has not been any incremental positive news coming out of the sector, which remains the most underperforming sector this year.

  Changes: We are replacing Kotak Mahindra Bank with SBI. We think Q4FY11 was the worst quarter for SBI, and while Q1FY12 could also bring out some more pain, this is probably already factored in the price. Looking ahead, incrementally, things should likely start looking better from Q2FY12, both on asset quality and net interest margin.

- **Industrials:** We retain our neutral (market weight) exposure to the Industrial (capital goods and infrastructure) sector. Although there has been a higher than expected pick up in order inflow for many blue-chip capital goods companies in 4QFY11, we are yet to see a meaningful pick-up in private capex. At the same time, big infrastructure projects have also not shown any signs of a rebound. We are also concerned about the potential impact that higher interest rates and softening demand may have on the successful execution of these projects, especially in the infrastructure space. Our infrastructure/capital goods analyst Inderjeet Bhatia believes that the main slowdown has been on larger projects, which may take a while to revive. However, order inflow remains strong in short cycle projects and could benefit capital goods companies. Keeping in mind his view, we have retained a neutral stance on the Industrial space, with a slight overweight on capital goods names and a slight underweight on infrastructure companies.

  Changes: We are replacing Adani Enterprises with Crompton Greaves, which has reported an uptick in order inflow in Q4FY11 both in the power and industrials segment. Margins for the company are also likely to improve going forward.

- **Consumer Staples and Discretionary:** We continue to be underweight on Consumer Staples on rising competition and high raw material prices impacting margins. We are also underweight on Consumer Discretionary due to rising interest rates and concerns around inflation slowing down discretionary spending amongst consumers.

  Changes: No changes in consumer staples; we continue to retain our exposure in ITC which is an excellent defensive stock in the current inflationary environment. In consumer discretionary, we are reducing our exposure in Maruti, as margins will likely remain under pressure on account of high raw material cost and increasing competition. We are increasing weight on Bajaj Auto since we believe two-wheelers could outperform four-wheelers in this high interest rate and rising fuel price environment, as they are least impacted by these macro headwinds.

Fig 4 Sector Recommendation

	Weight in Macquarie Portfolio	Benchmark Weight in MSCI India*	Deviation from Benchmark (bps)
Consumer Staples	4.5	6.3	-178
Consumer Discretionary	3.6	4.8	-122
Energy	17.6	13.5	413
Finance	22.2	26.4	-423
Healthcare	5.8	4.4	139
Industrials	9.9	9.9	3
Information Technology	20.2	17.9	225
Materials	12.0	10.8	124
Telecom	0.5	0.3	15
Utilities	3.7	5.7	-197
Total	100.0	100.0	

* Note: Benchmark weights of sectors and stocks are due for change from May 31, 2011 due to addition of 6 stocks. Since the data is available with a one day lag, we have presented the currently available weights.

Source: Bloomberg, MSCI, Macquarie Research, May 2011

Fig 5 Model Portfolio

Sector/Company	Ticker	Weight in Macquarie Portfolio	Weight in MSCI Index*	Deviation from Benchmark (bp)	Analyst Recommendation	Current Price	Price Target
Consumer Staples	**MXIN0CS Index**						
ITC Ltd	ITC IN Equity	4.5	3.4	108	Outperform	188	225
Others		0.0	2.9	-286			
Total		**4.5**	**6.3**	**-178**			
Consumer Discretionary	**MXIN0CD Index**						
Bajaj Auto Ltd	BJAUT IN Equity	1.2	0.9	27	Outperform	1328	1650
Mahindra & Mahindra Ltd	MM IN Equity	2.0	1.5	49	Outperform	665	820
Maruti Suzuki India Ltd	MSIL IN Equity	0.4	0.7	-28	Underperform	1209	1080
Others		0.0	1.7	-169			
Total		**3.6**	**4.8**	**-122**			
Energy	**MXIN0EN Index**						
Coal India Ltd	COAL IN Equity	1.5	1.5	-3	Neutral	395	382
Oil & Natural Gas Corp Ltd	ONGC IN Equity	2.0	1.7	32	Neutral	278	296
Reliance Industries Ltd	RIL IN Equity	12.5	9.8	268	Outperform	940	1239
BPCL	BPCL IN Equity	1.6	0.4	116	Outperform	627	786
Others		0.0	0.0	0			
Total		**17.6**	**13.5**	**413**			
Financials	**MXIN0FN Index**						
DLF Ltd	DLFU IN Equity	1.2	0.7	47	Outperform	231	314
HDFC Bank Ltd	HDFCB IN Equity	5.5	5.1	37	Outperform	2308	2570
Housing Development Finance Corp	HDFC IN Equity	5.8	5.8	0	Outperform	669	775
ICICI Bank Ltd	ICICIBC IN Equity	7.5	6.7	79	Outperform	1073	1400
SBI	SBIN IN Equity	2.2	1.2	104	Neutral	2236	2450
Others		0.0	6.9	-690			
Total		**22.2**	**26.4**	**-423**			
Health Care	**MXIN0HC Index**						
Dr Reddy's Laboratories Ltd	DRRD IN Equity	2.6	1.3	130	Outperform	1580	1840
Sun Pharmaceutical Industries Ltd	SUNP IN Equity	2.0	1.1	91	Outperform	465	500
Glenmark Pharma	GNP IN Equity	1.2		120	Outperform	295	465
Others		0.0	2.0	-202			
Total		**5.8**	**4.4**	**139**			
Industrials	**MXIN0IN Index**						
Crompton	CRG IN Equity	1.4	0.0	140	Outperform	254	347
Bharat Heavy Electricals Ltd	BHEL IN Equity	1.5	1.9	-37	Neutral	1932	2100
Larsen & Toubro Ltd	LT IN Equity	4.0	2.8	122	Outperform	1631	2093
Tata Motors Ltd	TTMT IN Equity	3.0	2.4	60	Outperform	1078	1465
Others		0.0	2.8	-282			
Total		**9.9**	**9.9**	**3**			
Information Technology	**MXIN0IT Index**						
Infosys Technologies Ltd	INFO IN Equity	14.0	10.7	330	Outperform	2780	3650
Tata Consultancy Services Ltd	TCS IN Equity	6.2	4.4	177	Outperform	1153	1360
Others		0.0	2.8	-282			
Total		**20.2**	**17.9**	**225**			
Materials	**MXIN0MT Index**						
Hindalco Industries Ltd	HNDL IN Equity	3.0	1.7	130	Outperform	193	270
Jindal Steel & Power Ltd	JSP IN Equity	4.5	1.9	258	Outperform	636	938
JSW Steel	JSTL IN Equity	2.5	0.7	185	Outperform	958	1229
Ultratech Cement Ltd	UTCEM IN Equity	2.0	0.6	142	Underperform	1020	870
Others		0.0	5.9	-591			
Total		**12.0**	**10.8**	**124**			
Telecom. Services	**MXIN0TC Index**						
Bharti Airtel	BHARTI IN Equity	0.5	0.0	50	Outperform	372	388
Others		0.0	0.3	-35			
Total		**0.5**	**0.3**	**15**			
Utilities	**MXIN0UT Index**						
GAIL India Ltd	GAIL IN Equity	1.3	1.3	0	Outperform	443	554
NTPC Ltd	NATP IN Equity	1.0	1.2	-24	Outperform	168	248
Tata Power Co Ltd	TPWR IN Equity	1.4	1.0	43	Outperform	1209	1553
Others		0.0	2.2	-217			
Total		**3.7**	**5.7**	**-197**			
Total		**100.0**	**100.0**				

* Note: Benchmark weights of sectors and stocks are due for change from May 31, 2011 due to addition of 6 stocks. Since the data is available with a one day lag, we have presented the currently available weights.

Source: Macquarie Research, May 2011; Prices as of May 30, 2011

Fig 6 Top-10 Sell Ideas

Company	Rating	FY12 PE	FY12 P/B	Price	Price target	Comments
ABB India	Underperform	38.7	5.6	858	488	▪ Revenue growth of 12% in CY11 hinges on huge order inflows, which remain weak. It does not benefit much from the recent Powergrid order, as most of it is ordered to ABB Sweden. Trades at high multiple of 44x CY11 EPS, unlike Siemens and CRG which are at 22x and 15x FY12 EPS with better earnings profile. ▪ EPS estimates build in sharp improvement in margins to ~10% in CY11-12. Execution of legacy loss-making rural electrification orders could spoil the party.
Ambuja Cements	Underperform	14.1	2.3	134	129	▪ Ambuja Cement is one of the most expensive cement stocks in the coverage. Though historically, its expensive valuations have been justified by its sales tax exemptions in some of its facilities, these will also be expiring soon ▪ We expect Ambuja's production to increase by 7% in CY11, however, we expect earnings to grow by only 3% in CY11. We believe will not be able to reap much benefits due to pressure on prices
Hindustan Unilever	Underperform	23.6	16.9	303	265	▪ HUVR's margins are likely compress since 62% of its raw material costs are linked to crude derivatives and high competition results in lower pricing power. ▪ HUVR's personal products' margin has declined over 1,000bp in the last seven years and can decline further as competition led by multi-national firms intensifies.
IDBI	Underperform	6.6	0.8	132	130	▪ IDBI's NIM is among the lowest in the state-owned bank space. Due to legacy issues, bad loans, as manifested in the SASF bonds and high-cost borrowings. ▪ IDBI is strictly a stock for the good times, in our view, as its key underlying drivers relate to strength in markets. We see strong headwinds for the business ahead.
Idea Cellular	Underperform	26.6	1.7	68	49	▪ Stretched balance sheet and lack of clarity on payment for 'excess' spectrum, renewal and re-farming are the key concerns. ▪ Stock is trading at a premium to peers on expectations of M&A; we think this is unlikely to occur in the next two quarters (if at all).
Indiabulls Real Estate	Underperform	23.1	0.5	115	101	▪ Negative view on core market – We believe record high residential prices in Mumbai premium segment are not sustainable. ▪ Cancellation of parking FSI can limit the profitability from recent land purchases.
Maruti Suzuki India	Underperform	12.9	2.1	1209	1080	▪ Maruti's profitability may suffer due to its limited ability to pass through raw material cost inflation on rising competition and higher advertising and selling expenses. ▪ With higher proportion of new models and appreciating yen, royalty as % of sales is bound to increase from the current level of 5.3%.
Mphasis	Underperform	12.2	2.1	470	380	▪ We believe the company would have to sacrifice margins to pursue top-line opportunities. Mgmt has successively revised down its margin guidance by 500bp now standing at 15-18%. ▪ Mphasis derives 72% of its revenues from the parent company HP (61% stake). The services contract between the two comes up for negotiation every six months and pricing uncertainty associated with same is expected to continue.
Reliance Communications	Underperform	10.8	0.5	88	88	▪ Hard to get excited: Weak revenue growth outlook, regulatory overhang and uncertainty about tower sharing deal with Etisalat. ▪ Valuations are cheap, but RCOM faces an overhang from the outcome of the investigation of 2G licenses awarded in 2008. ▪ Key risk: a stretched balance sheet: Could get worse if a heavy additional payment for 2G licenses is imposed.
Reliance Power	Underperform	17.9	1.2	117	103	▪ Project execution capabilities, considering early stage of the execution cycle for some of its key projects and hence higher risk profile. ▪ UMPPs present margin risks given their inability to pass through costs; while coal production will have to ramp up significantly to create material value. ▪ An enviable captive coal position, but on our numbers, much of this value is already captured in the price.

Source: Macquarie Research, May 2011; Prices as of May 30, 2011

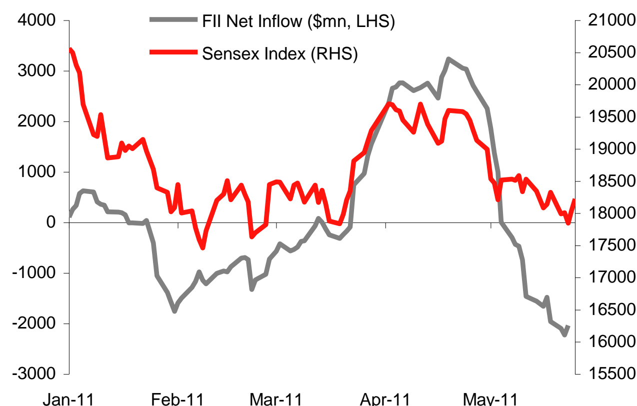
Volatile Markets; Reasonable Valuations

Our negative stance on the market is playing out as expected; the Sensex has corrected around 7.5% in the past one month and 11% year-to-date. Worries around inflation and rising interest rates have dominated market sentiment this year and particularly in the past few weeks after the RBI tightened rates more aggressively than anticipated. Given fair valuations and lack of any incremental positive outcome on the macro front, we believe markets will continue to trade in a narrow range over the next couple of months.

Recent Correction and Fair Valuation indicate Limited Downside from Current Levels

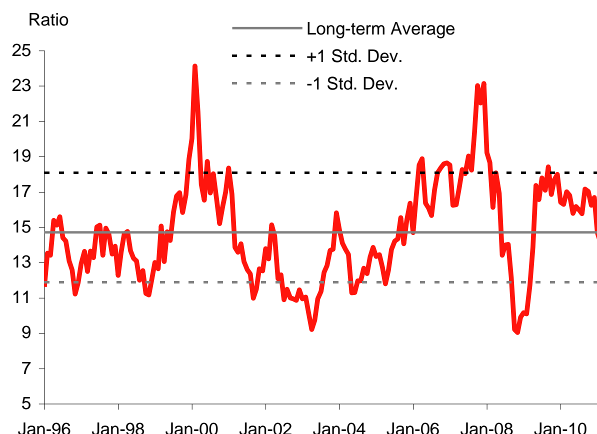
At 14.5x, the market looks fairly valued in relation to its long-term average. This de-rating has brought about a 15% change in the 12-month forward PE, down from around 17x six months ago. The obvious triggers have been persistent high inflation and rising interest rates, which have also led to downgrades in GDP growth estimates that have come off by as much as one percentage point in the past 6-8 months. The RBI's own estimate has toned down to 8% from an earlier estimated range of 8.5-9%.

Fig 7 FII Funds Outflow Pulls Market Down



Source: Bloomberg, Macquarie Research, May 2011

Fig 8 Valuations (PER) around Long-term Average

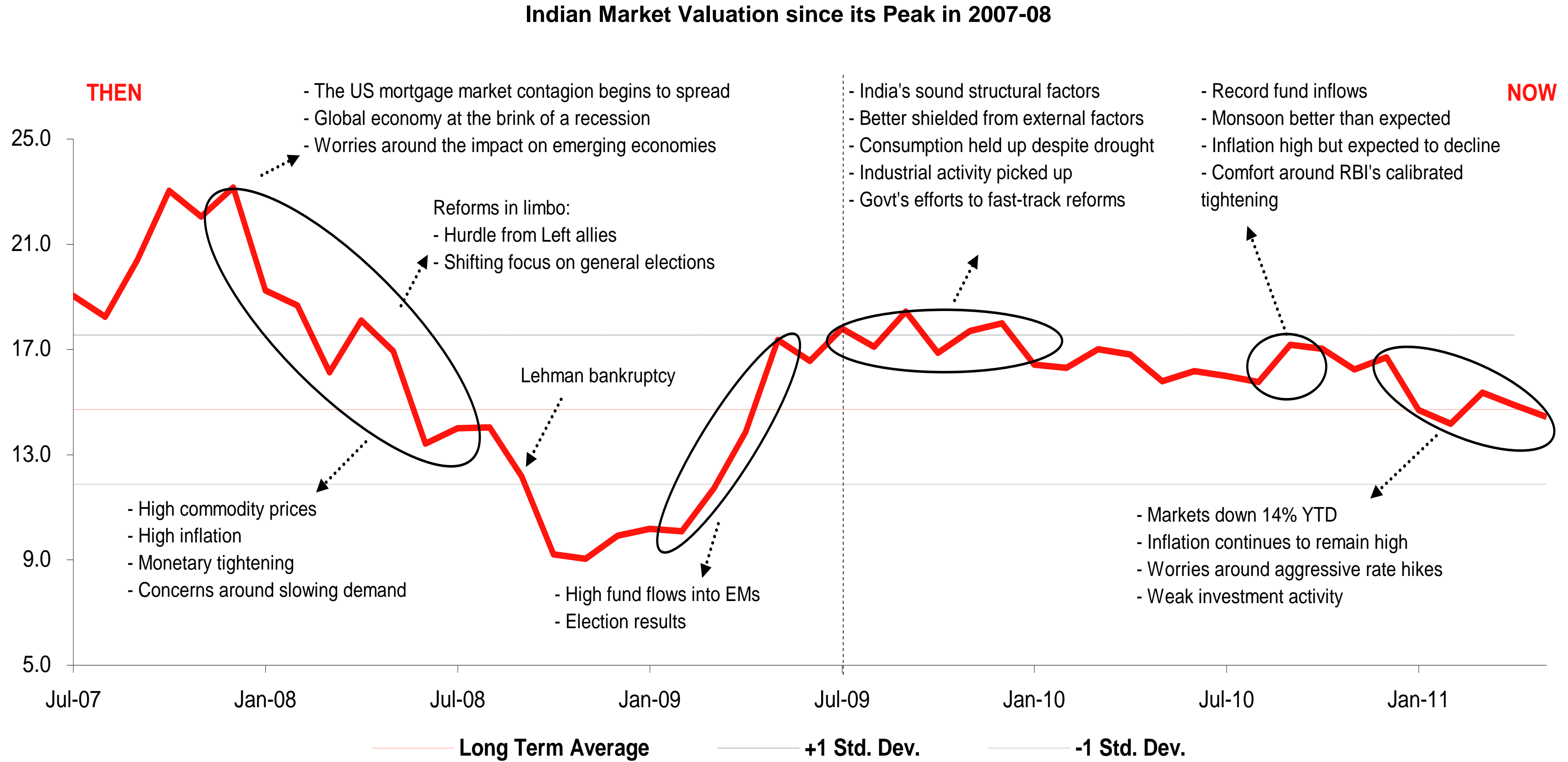


Source: Bloomberg, Macquarie Research, May 2011

Although markets may continue to be volatile in the absence of positive macro triggers, at current valuation the downside to the market appears limited, in our view. Over the past 15 years the market has traded at 12x on average at the lower end of its trading band, with the bottom at 9x, which was around the two major recessions in the past decade.

Considering the current macro situation is nowhere close to what it was during earlier recessions -- with decent growth prospects for India and gradual recovery in developed economies -- valuations may continue to hover at 14-15x, which is around the long term average. It also remains to be seen how FY12 earnings estimates shape up from here on as that would also have a bearing on valuations. Downgrades have continued during the 4Q earnings season and we think a better picture will emerge after the earnings season is over.

Fig 9 MSCI India 12-Month Forward PE Ratio



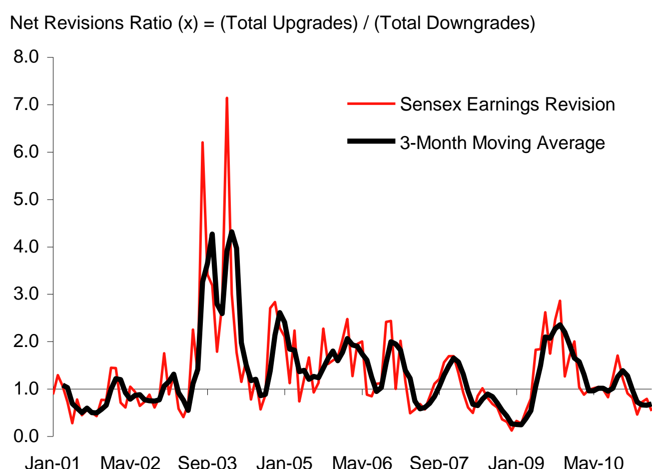
Source: Bloomberg, Macquarie Research, May 2011

Earnings Revision Ratio still in Negative Territory

FY12 earnings estimates have continued to be revised downwards since Nov 2010, when they reached their peak. While the earnings revisions ratio reversed slightly in March and April it was still in the negative zone. In May however, the ratio turned weaker again in response to a muted earnings season. Amongst sectors, IT has seen the maximum proportion of downgrades in the past one month on the back of less than anticipated guidance from Infosys and Wipro, while the energy sector has seen the lowest proportion of downgrades so far.

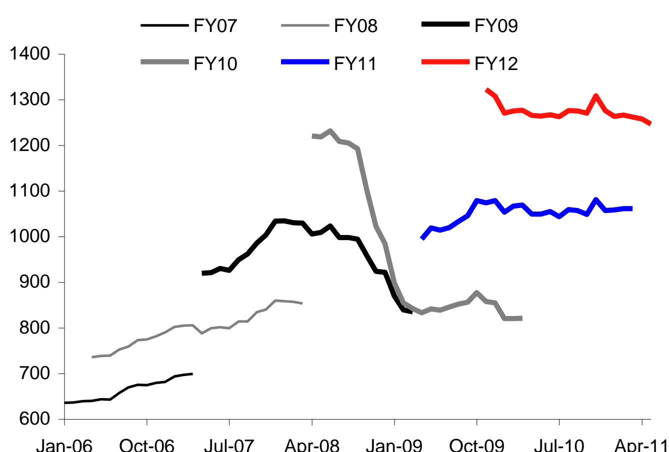
Our Sensex EPS estimate is at 1225 vs consensus estimate of 1246, which is down 1.5% since the time we wrote last month. Consensus estimate for Sensex FY12 EPS has now been downgraded by 5% since Nov 2010, mainly on the back of rising input costs and muted margin outlook. We believe expectations around EPS growth will hinge on whether higher volumes are able to offset rising costs. This effectively puts the onus on continued strength in underlying demand, which is at risk of a slowdown owing to rising rates and fuel prices. If, however, demand does hold up and the impact on margins is less than anticipated, we could see the earnings revision cycle turn up again. The trend in earnings revisions correlates well with market returns on a 6- and a 12-month basis. Therefore, a bottoming of the revisions ratio normally signals a good opportunity to enter the market.

Fig 10 Sensex Earnings Revision Ratio



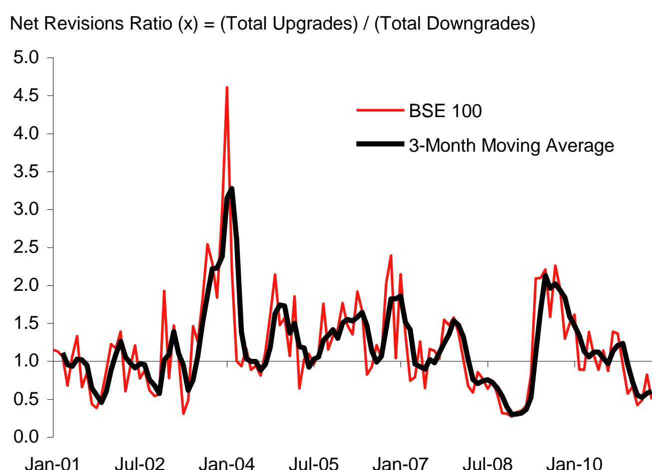
Source: Capital IQ, Macquarie Research, May 2011

Fig 11 Sensex Consensus Earnings Estimates Profile



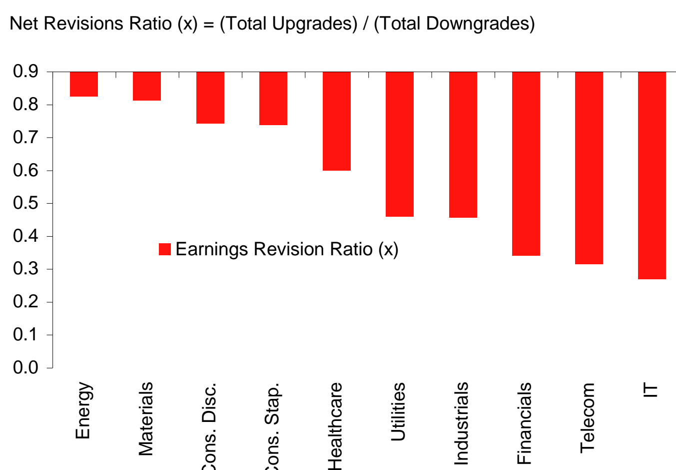
Source: Bloomberg, Macquarie Research, May 2011

Fig 12 BSE-100 Earnings Revision Ratio



Source: Capital IQ, Macquarie Research, May 2011

Fig 13 Latest Reading of Revisions Ratio by Sector

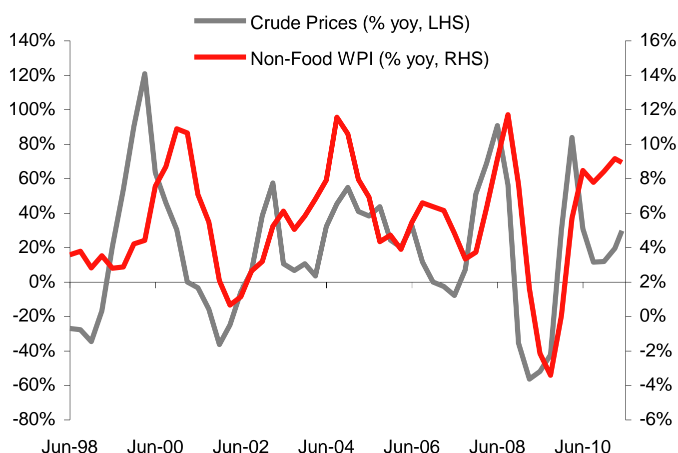


Source: Capital IQ, Macquarie Research, May 2011

Inflation and Rising Rates at the Centre Stage of Macro Concerns

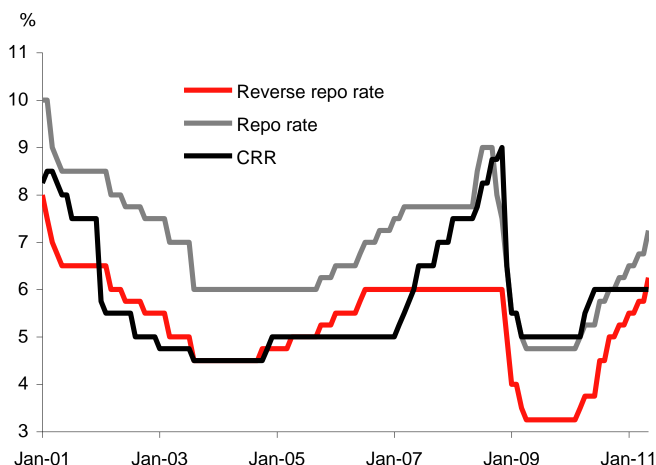
Inflation has remained elevated and recent data shows WPI continues to be above 8% and has consistently beaten consensus expectations over the past few months. Higher than expected inflation over the past couple of months, particularly in light of the rise in prices of non-food manufactured goods, also prompted the RBI to raise interest rates aggressively by 50bp, which was more than anticipated. As expected, the main focus of the policy announcement was inflation, which the RBI expects will remain around 9% up to September before easing to 6% by Mar-2012. The main focus now will be on the inflationary impact of higher petrol and diesel prices on the broader economy. The RBI has made it amply clear that it is willing to give up some level of growth in order to pursue its anti-inflationary stance.

Fig 14 Crude Prices and Non-Food WPI



Source: CMIE Business Beacon, Macquarie Research, May 2011

Fig 15 Key Policy Rates



Source: Bloomberg, Macquarie Research, May 2011

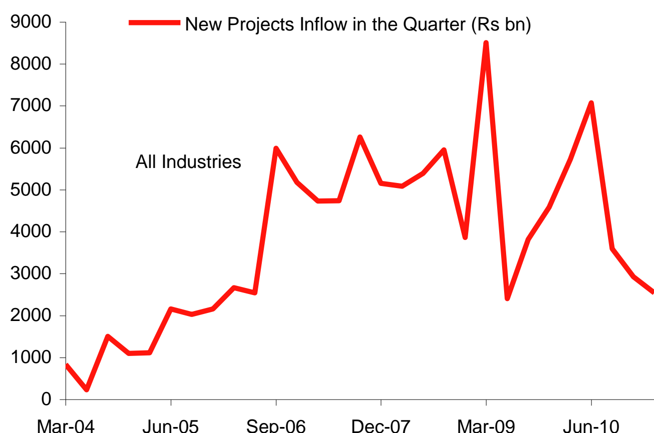
One of the key features in inflation data in recent months has been the level of fuel and power inflation, which has been sustained around the 11% mark for the past six months, especially after the deregulation of petrol prices. At the same time the latest reading also shows the impact of coal prices which were increased last month by Coal India.

Our calculation of core inflation (ex-food, fuel and electricity) shows evidence of primary goods inflation feeding into prices of manufactured goods. Core inflation, which had remained sticky at the 7% level, has now increased to around 8% over the past two months. We believe this trend will continue to be the important factor going forward since inflation, which had been largely limited to primary articles, is now beginning to look more broad-based. We believe rising commodity prices threaten to keep inflation high for a prolonged period by feeding into a wider range of goods and services. This may become accentuated later in the year if the government decides to deregulate diesel prices.

Investments - alive but not kicking

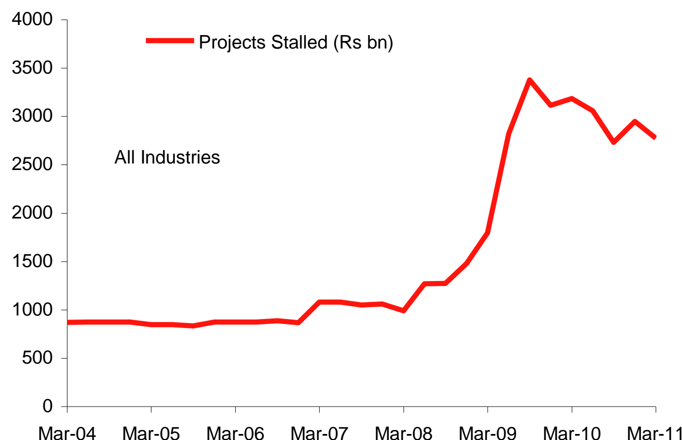
Since the beginning of the year, when we first wrote about the slowdown in the investment cycle (See *Focus on Four 'I's* dated January 14. 2011 and *Can't See 'I' to 'I'* dated April 13, 2011), things have become marginally better in terms of environmental clearances and awards of road projects, but activity is yet to show signs of life. According to the government's Infrastructure and Project Monitoring Division, as of Dec 2010, over 53% of central infrastructure projects are running behind schedule due to time and cost overruns. At the same time, we have not yet seen a meaningful recovery in private capex. The silver lining, however, is order inflow, which has turned out better than expected in 4QFY11 for most of the big capital goods companies. As per our expectation at the beginning of the year, we may see investment activity pick up in 2HFY12, contingent on inflation and rates stabilising.

Fig 16 Quarterly Project Inflows



Source: CMIE Capex, Macquarie Research, May 2011

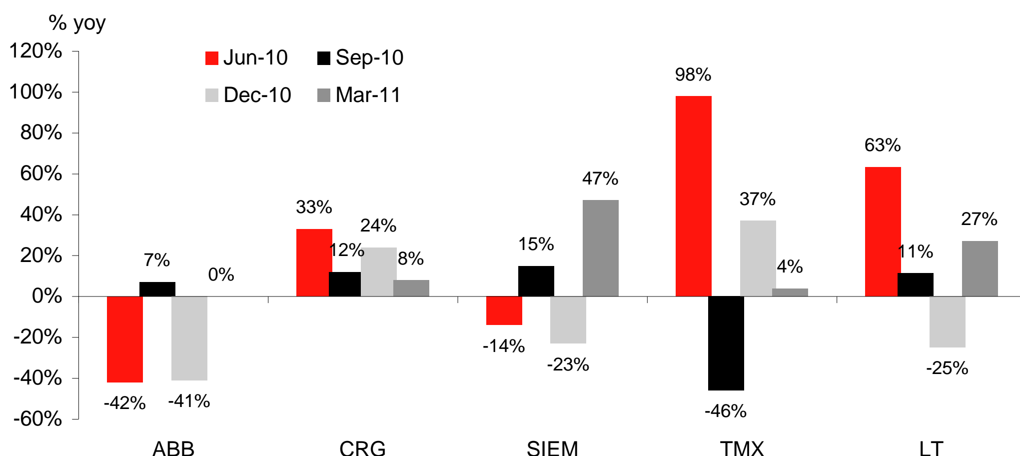
Fig 17 Outstanding Projects that are currently Stalled



Source: CMIE Capex, Macquarie Research, May 2011

Our capital goods and infrastructure analyst, Inderjeet Bhatia, wrote in a recent note (*Investment activity showing signs of life* dated May 16, 2011) – *"Order inflow remains strong in short cycle projects, but is delayed for larger projects due to delays on several fronts…Companies have been unanimous in indicating deferrals in bigger size projects due to organisations' delay in decision making, environmental issues, etc. Most expect the larger capex cycle to pick up in 2H CY11"*.

Fig 18 Quarterly Order Inflow Growth in Large Capital Goods Companies



Source: Company Data, Macquarie Research, May 2011

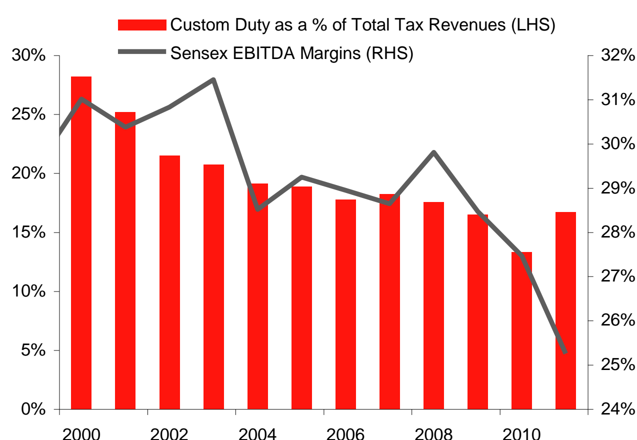
Revisiting Margins - More on where that came from

RBI, in its assessment of 2576 non-financial private sector companies in 1HFY11, noted that compared to 1HFY10, operating margins were down 140bp despite strong top-line growth, mainly due to higher raw material and employee costs. At the same time, net margins were also down 120bp due to higher interest expense. We note that input prices and interest costs have continued to increase in 2HFY11, and given Macquarie's bullish outlook on commodity prices through the course of 2011, we believe margins will remain subdued for a few more quarters. A related concern on margins is around demand growth, which has remained strong throughout last year but may be at risk of softening on the back of rising rates and fuel prices.

Operating Margins in a Historical context

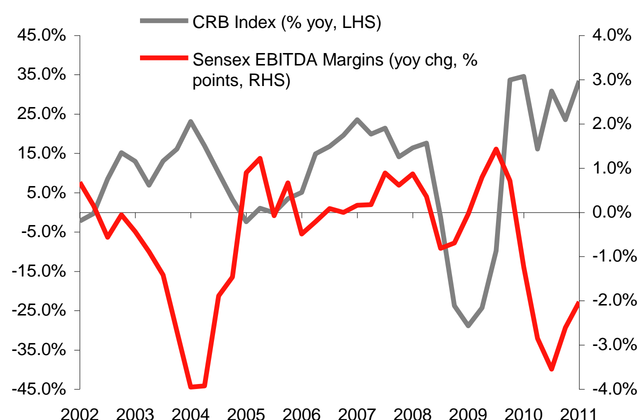
From a macro perspective, Indian industry has been protected for many years, cushioned by subsidised fuel and import taxes. However, a reduction in import tariffs driven by WTO agreements has enabled cheaper imports and may also be a major reason why operating margins have declined over the last few years. India's customs tariff rates have been declining since 1991. The peak rate of custom duty came down from 150% in 1991-2 to 30% in 2002-3 and currently stands at 10%. This is also reflected in the contribution of custom duty to the total tax revenues of the government, which has come down from around 28% in FY99-00 down to around 17% in FY10-11. During the same period, margins for Sensex companies have also shown a sustained decline, indicating the impact of increased competition from imported goods.

Fig 19 Falling import duties impacted margins..



Source: Capitaline, Macquarie Research, May 2011

Fig 20 ..and so did rising commodity prices



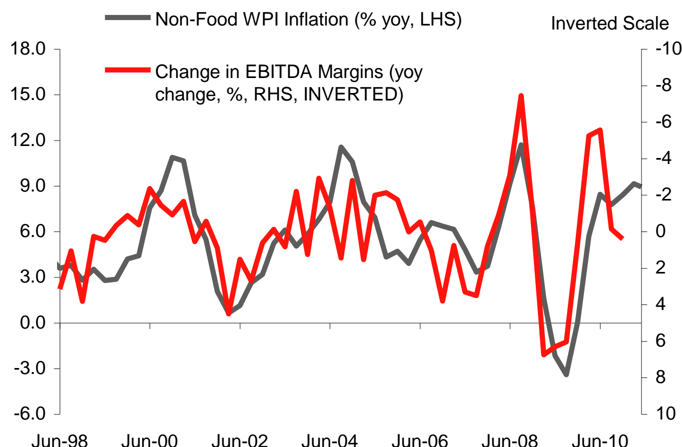
Source: Bloomberg, Macquarie Research, May 2011

Rising Commodity Prices have also been a Significant Factor

Another important reason behind margins coming off their peaks in the past decade is the significant rise in commodity prices. Raw material costs comprise around 40-50% of total costs of Sensex companies and around 60-70% of BSE100 companies. The annual % change in commodity prices in the past decade shows close negative correlation with annual change in EBITDA margins, except in the 2006-08 period when rising costs were offset by high volume growth and pricing power. Using non-food WPI inflation as a proxy for input prices, we find a close, albeit lagged, relationship with change in crude prices which suggests that rising crude prices take around 3-6 months to show up in domestic inflation numbers. In turn, non-food WPI inflation also shows a close negative correlation (-65%) with change in margins (note that the change in margins is on an inverted scale in Fig 20 below).

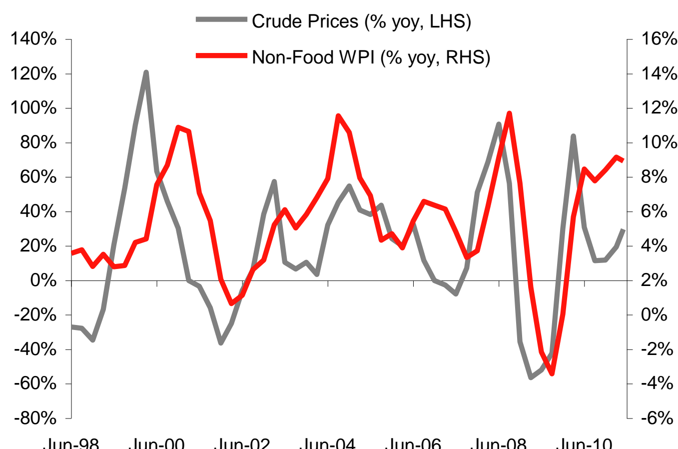
As inflation becomes more broad-based and starts seeping through to prices of non-food manufactured goods, as evidenced in recent WPI data, it will aid in moderating demand as more people would likely defer their discretionary spending decisions. This, along with high competition, may not allow companies to fully pass on the impact of high input prices, something they have been able to do in the recent quarters.

Fig 21 Close correlation between WPI and yoy Change in Margins



Source: CMIE Business Beacon, Macquarie Research, May 2011

Fig 22 Crude Prices Reflect in Non-food WPI typically with a lag of 3-4 months



Source: CMIE Business Beacon, Macquarie Research, May 2011

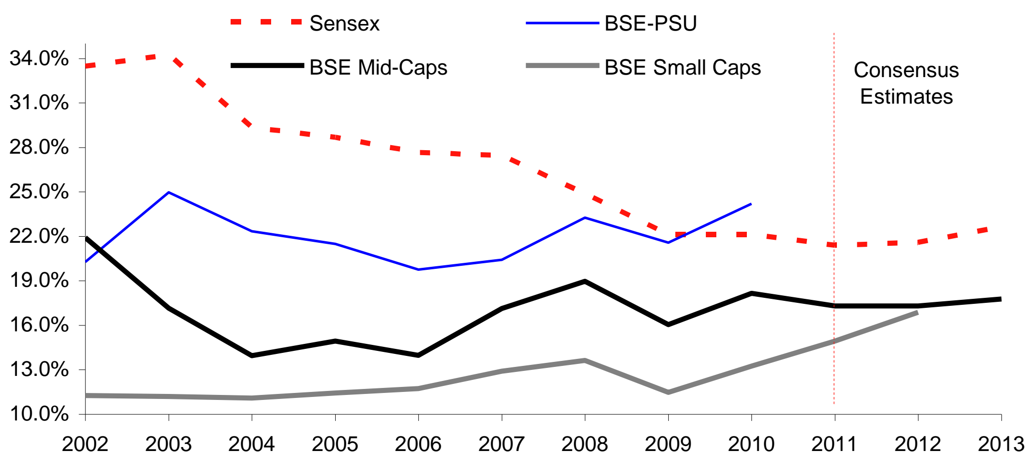
Margin Convergence in Large and Medium Companies

A comparison between large- and medium-sized companies, using aggregate data for the Sensex and BSE Mid Cap universe as proxy, shows a similar trend for the first half of the last decade but slightly diverging trend in the second half of the decade. While operating margins for both Sensex and BSE-100 companies have been declining since the beginning of the decade, the degree of decline in the broader index is less than in the large cap index. The BSE Mid-Cap universe shows a declining trend in the first half of the decade beginning 2000 and expanding margins in the last five years.

The trend amongst the larger companies probably reflects the diminishing premium that they enjoyed at the peak of the rapidly rising consumption story in India. But as the economy opened up, competition increased, imports became cheaper and the erstwhile small and medium companies captured market share, the operating margins of Sensex companies began to shrink and have now slowly started to converge with the BSE-100 universe.

Since 2003, operating margins for the Sensex, which represents some of the largest companies in the Indian corporate sector, have come off by around 10 percentage points (on a consolidated basis) compared to around 300bp for the broader BSE-100 index. In Mid-Caps, while aggregate operating margins declined by 300bp in the first half of the decade, it recovered in the second half by 400bp by end of FY10.

Fig 23 Trend in Margins across Companies of Different Sizes

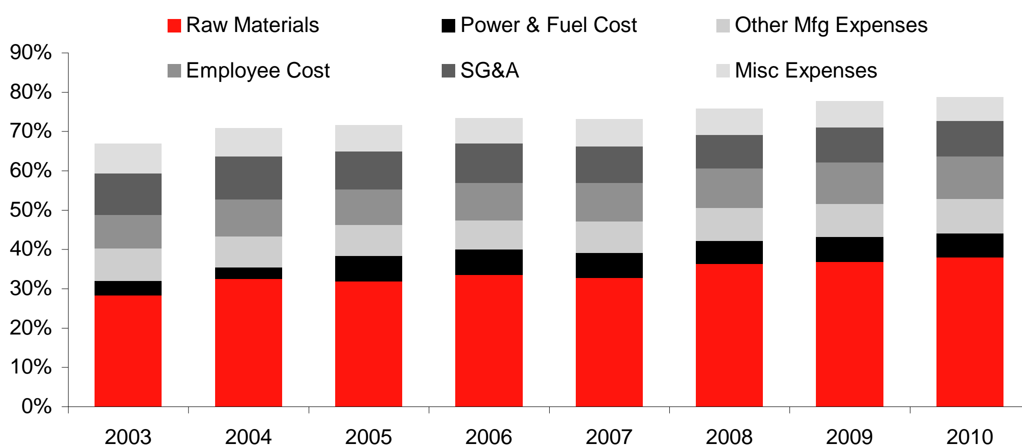


Source: Capitaline, Macquarie Research, May 2011

Composition of Costs has shown a Significant Change

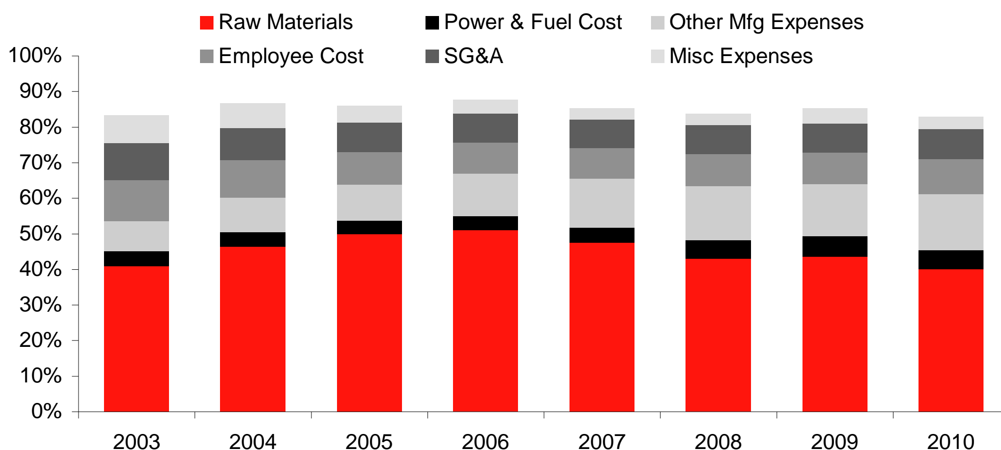
The last decade has also seen a dramatic shift in the composition of cost (as a % of sales). For the large-cap companies, higher raw material and employee costs figure as the most prominent contributors to overall cost over the years. Raw material cost (as a % of sales) for the Sensex companies has risen from 28% of sales in FY03 to 38% in FY10. At the same time, employee cost has increased from 8.5% to 11% of sales, and power & fuel cost has increased from 3.7% to 6% in the same period. For the broader BSE-100 universe, the trend is similar on employee and fuel & power costs, though raw material cost has shown a decline from around 52% to 48% during FY03 - FY10. For the mid-cap universe, the trend is different compared to the large companies, expect for employee and power & fuel, where costs have risen as a proportion of sales. While raw material costs reached a peak of 51% of sales in 2006, they have since come down to 40% of sales in 2010, a level similar to those seen in the early part of the decade. One area where costs have risen significantly is other manufacturing expenses, which have increased from 8.5% in FY03 to 15.6% in FY10.

Fig 24 Cost Composition (% of Sales) for Sensex Companies



Source: Capitaline, Macquarie Research, May 2011

Fig 25 Cost Composition (% of Sales) for BSE Mid-Cap Universe



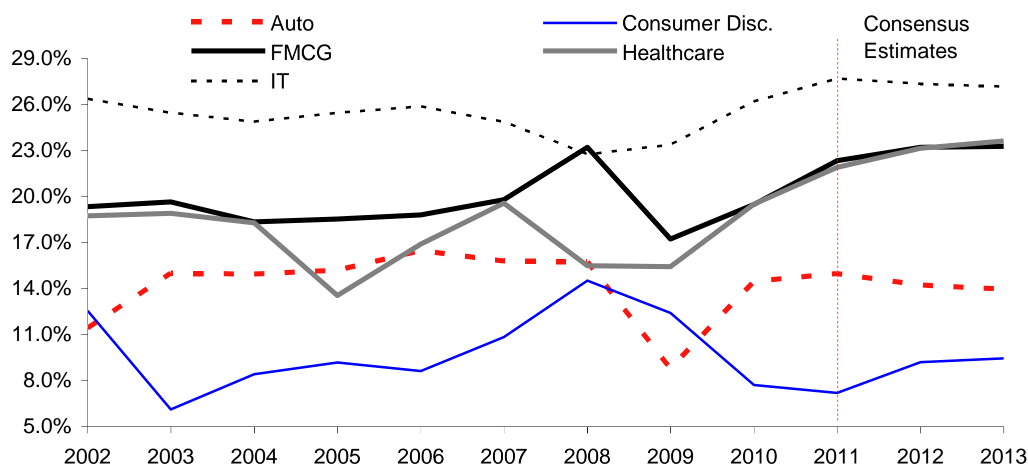
Source: Capitaline, Macquarie Research, May 2011

Sector Trends

The impact on Sensex operating margins during the first half of the decade was mainly from consumer discretionary, oil and gas, FMCG and partly from the capital goods and healthcare sectors. Ones that positively contributed to aggregate margins were metals, autos and power. In the second half of the decade, however, metals contributed negatively, along with oil& gas, power and banks. In fact, till FY08 even the IT sector contributed to the structural decline before moving back up to the levels seen in the early 2000s. Most of the above-mentioned sectors showed increase in at least one of raw material, SG&A and employee expenses as a proportion of sales over the entire decade.

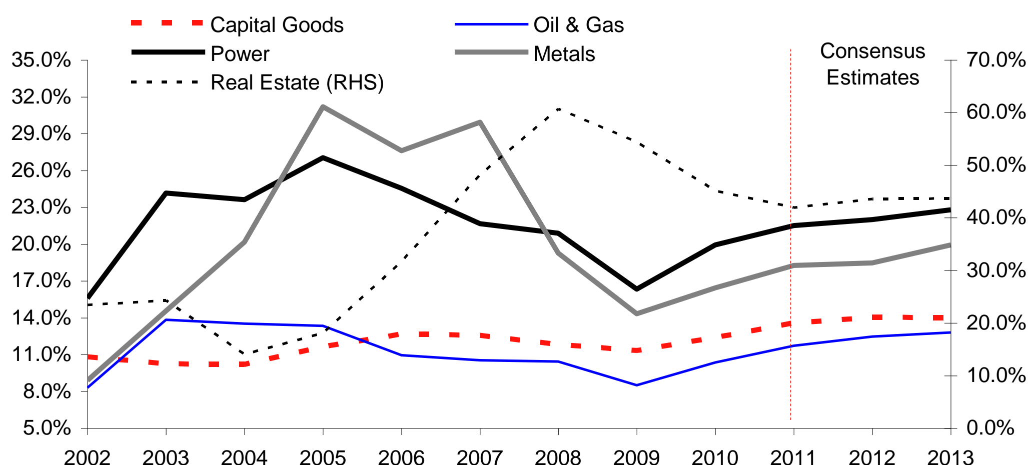
Consensus forecasts for the next two years show expanding margins in FMCG, healthcare, and consumer discretionary and stable margins across most other sectors, with the exception of autos, which show a slight decline. We think FY12 will likely remain muted for most sectors as far as pricing power is concerned, unless demand proves to be as strong as it has been in the past two years. The obvious risks are continued high inflation, impending rise in fuel prices and rising cost of borrowing.

Fig 26 Operating Margin Trend across Sectors (BSE Indices)



Source: Macquarie Research, May 2011

Fig 27 Operating Margin Trend across Sectors (BSE Indices) – contd.



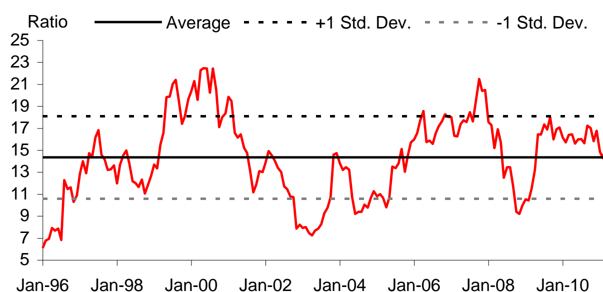
Source: Macquarie Research, May 2011

Appendix 1 – Market Performance and Valuation

Fig 28 Sensex Daily Performance

Source: Bloomberg, Macquarie Research, May 2011

Fig 29 Sensex 12 Month Forward PER

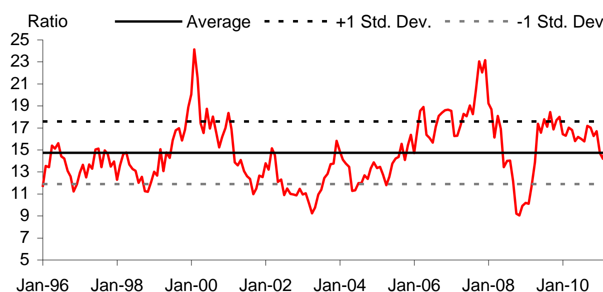


Source: Bloomberg, Macquarie Research, May 2011

Fig 30 MSCI India Daily Performance

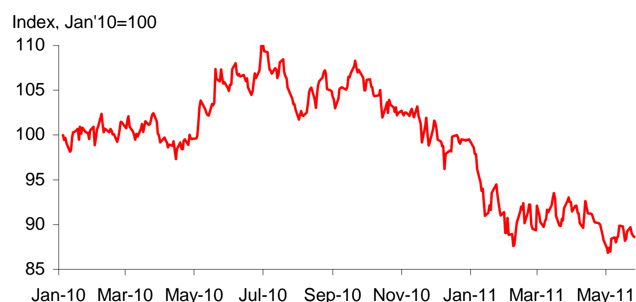
Source: Bloomberg, Macquarie Research, May 2011

Fig 31 MSCI India 12 Month Forward PER



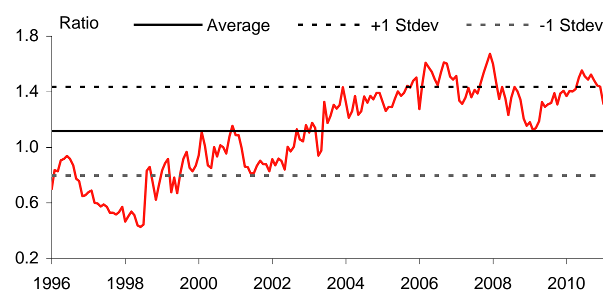
Source: Bloomberg, Macquarie Research, May 2011

Fig 32 MSCI India Relative to MSCI Emerging Mkts.



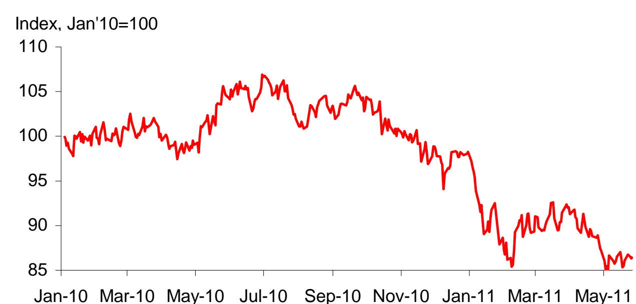
Source: Bloomberg, Macquarie Research, May 2011

Fig 33 MSCI India 12M Fwd PER Relative to MSCI EM



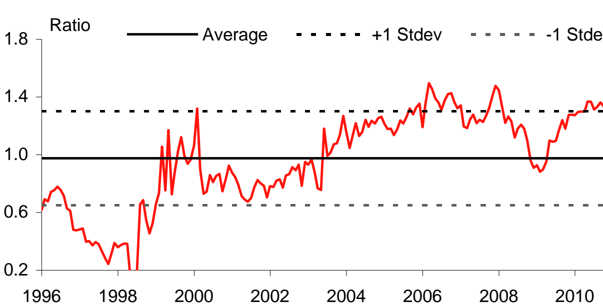
Source: Bloomberg, Macquarie Research, May 2011

Fig 34 MSCI India Relative to MSCI Asia ex-Japan



Source: Bloomberg, Macquarie Research, May 2011

Fig 35 MSCI India 12M Fwd PER Rel. to Asia ex-Japan



Source: Bloomberg, Macquarie Research, May 2011

Fig 36 Global Markets Performance (%)

	1M	3M	6M	1Y	YTD
MSCI India	-4.2	2.9	-6.9	4.4	-11.1
MSCI China	-2.0	4.3	1.4	13.9	2.0
MSCI EM	-4.6	3.6	6.7	23.9	-0.3
MSCI Asia EM	-3.6	7.0	7.5	25.5	1.2
MSCI Asia ex-Japan	-3.4	6.2	6.5	25.9	0.9
MSCI World	-3.6	-1.0	12.1	23.9	4.5
S&P 500	-2.4	0.3	12.8	22.2	5.8
FTSE 100	-2.2	-0.9	7.4	14.5	0.7
Nikkei 225	-2.0	-9.2	-2.9	-1.2	-5.7

Source: Bloomberg, Macquarie Research, May 2011; Prices as of May 30, 2011

Fig 37 Global Markets Valuation

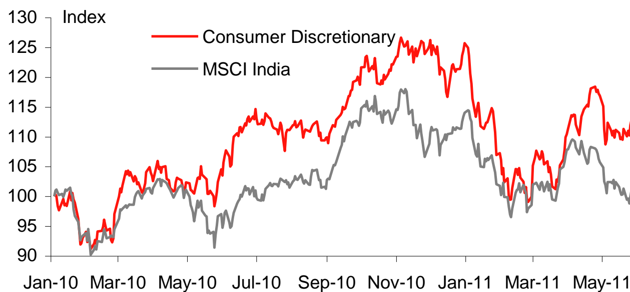
	12M Fwd PE	Price-to-Book	EV/EBITDA	Div Yield	ROE
MSCI India	14.9	3.3	11.7	1.1	16.7
MSCI China	11.2	2.2	5.4	2.2	16.2
MSCI EM	11.1	2.0	7.2	2.2	14.7
MSCI Asia EM	11.9	2.1	7.2	2.0	14.7
MSCI Asia ex-Japan	12.3	2.1	7.8	2.1	13.8
MSCI World	12.6	1.9	11.1	2.4	12.1
S&P 500	13.4	2.2	10.3	1.9	NA
FTSE 100	10.6	1.9	10.1	3.5	NA
Nikkei 225	15.9	1.2	7.6	1.9	NA

Source: Bloomberg, Macquarie Research, May 2011

Appendix 2 – Sector Metrics

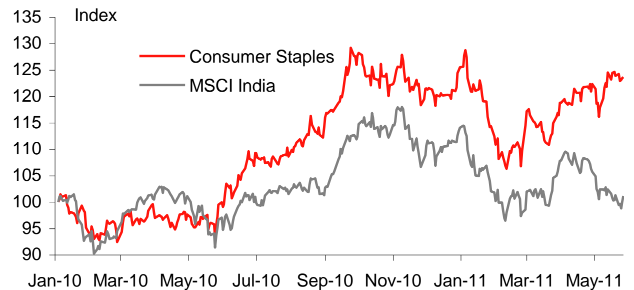
MSCI India Sector Performance

Fig 38 Consumer Discretionary



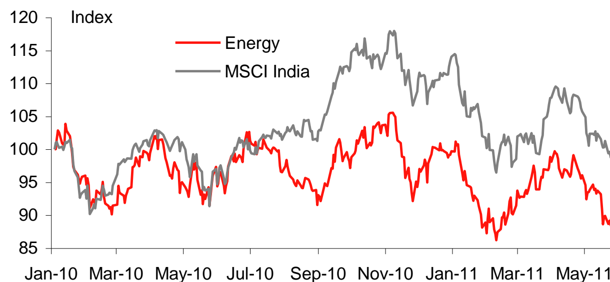
Source: Bloomberg, Macquarie Research, May 2011

Fig 39 Consumer Staples



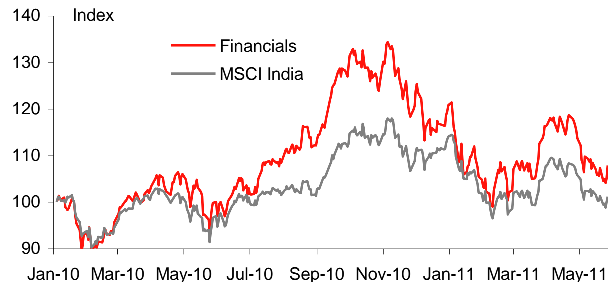
Source: Bloomberg, Macquarie Research, May 2011

Fig 40 Energy



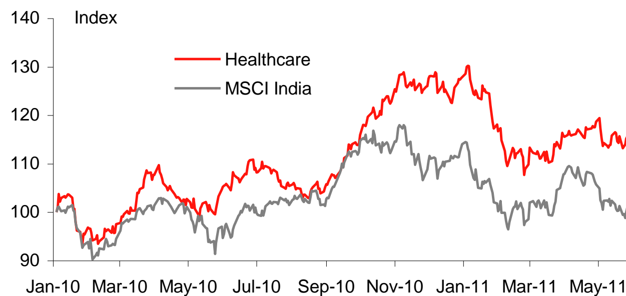
Source: Bloomberg, Macquarie Research, May 2011

Fig 41 Financials



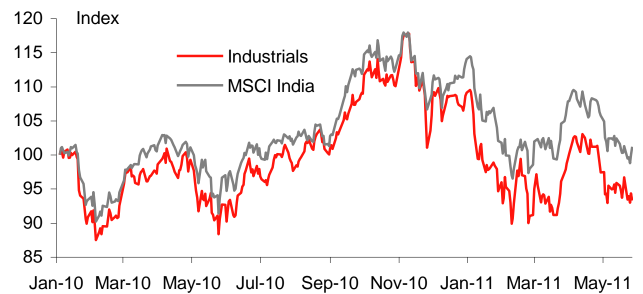
Source: Bloomberg, Macquarie Research, May 2011

Fig 42 Healthcare



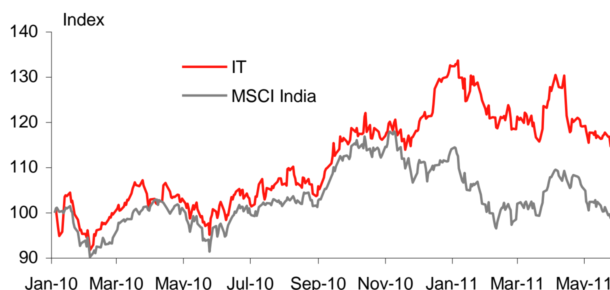
Source: Bloomberg, Macquarie Research, May 2011

Fig 43 Industrials



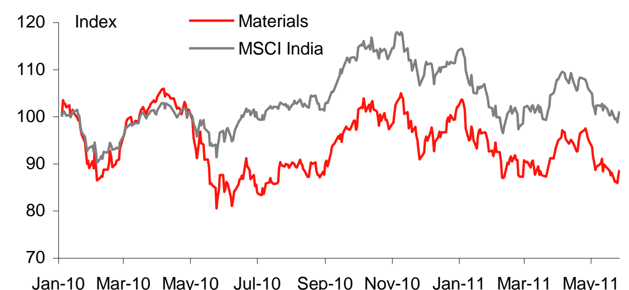
Source: Bloomberg, Macquarie Research, May 2011

Fig 44 Information Technology



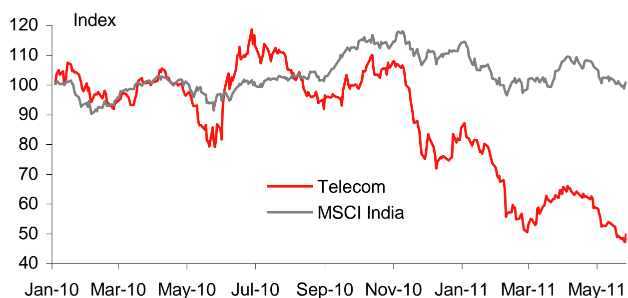
Source: Bloomberg, Macquarie Research, May 2011

Fig 45 Materials



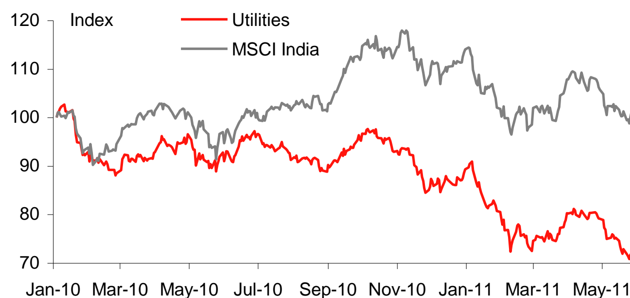
Source: Bloomberg, Macquarie Research, May 2011

Fig 46 Telecom



Source: Bloomberg, Macquarie Research, May 2011

Fig 47 Utilities



Source: Bloomberg, Macquarie Research, May 2011

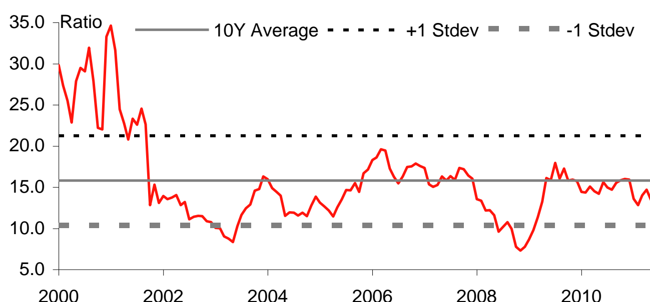
Fig 48 Sector Performance

	1M	3M	6M	1Y	YTD
Consumer Discretionary	-5.6	10.5	-11.9	5.6	-12.2
Consumer Staples	0.9	7.8	1.6	23.5	-1.7
Energy	-4.2	0.6	-2.4	-5.5	-7.7
Financials	-4.0	6.4	-9.6	9.1	-9.7
Healthcare	0.2	8.2	-5.7	13.5	-7.1
Industrials	-4.4	2.2	-12.0	0.5	-14.7
Information Technology	-3.0	-2.5	-2.2	15.2	-12.8
Materials	-7.3	0.8	-4.8	0.4	-13.9
Telecom	-12.4	2.1	-33.6	-39.6	-39.8
Utilities	-8.3	0.1	-15.4	-21.8	-18.8
MSCI India	-4.2	2.9	-6.9	4.4	-11.1

Source: Macquarie Research, May 2011; Prices as of May 30, 2011

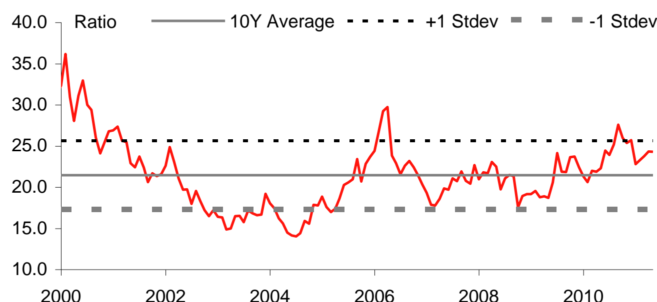
MSCI India Sector Valuations – 12M Forward PER

Fig 49 Consumer Discretionary



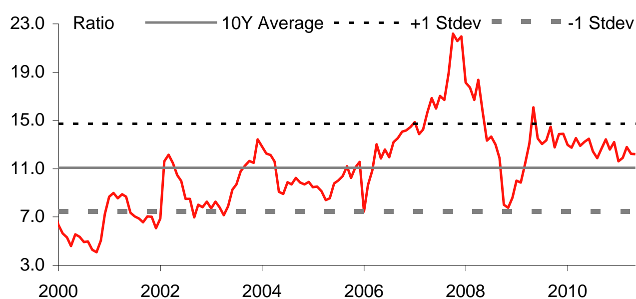
Source: Bloomberg, Macquarie Research, May 2011

Fig 50 Consumer Staples



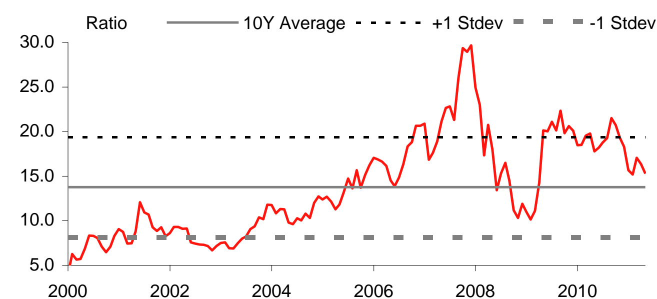
Source: Bloomberg, Macquarie Research, May 2011

Fig 51 Energy



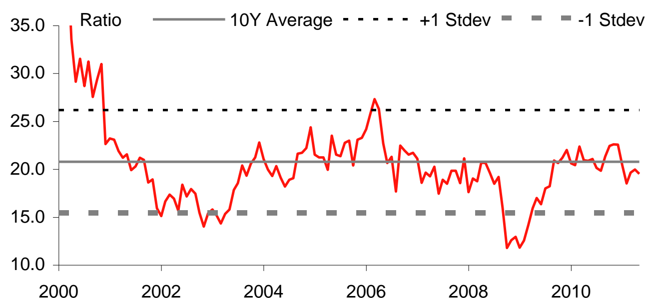
Source: Bloomberg, Macquarie Research, May 2011

Fig 52 Financials



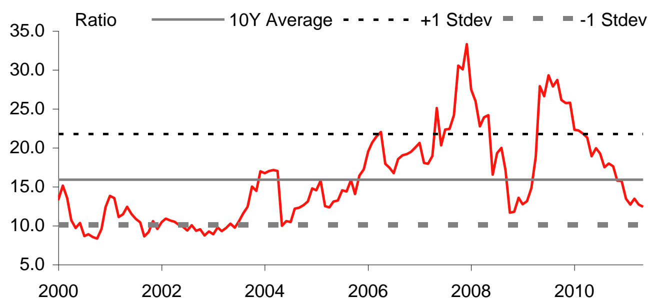
Source: Bloomberg, Macquarie Research, May 2011

Fig 53 Healthcare



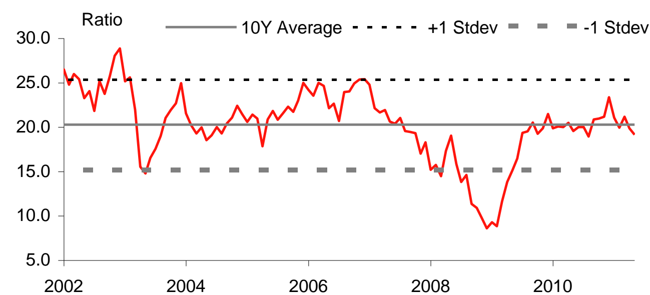
Source: Bloomberg, Macquarie Research, May 2011

Fig 54 Industrials



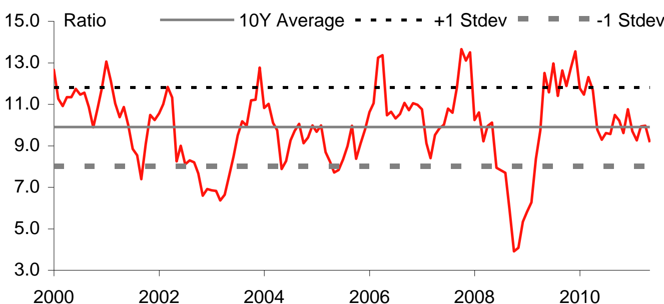
Source: Bloomberg, Macquarie Research, May 2011

Fig 55 Information Technology



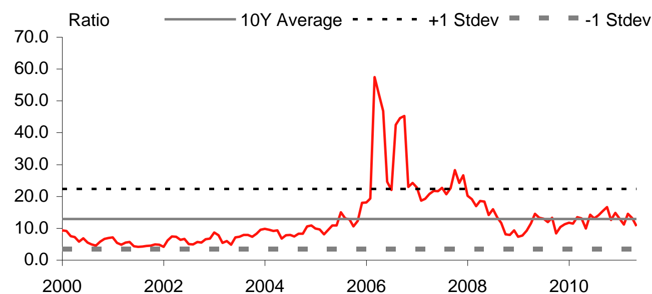
Source: Bloomberg, Macquarie Research, May 2011

Fig 56 Materials



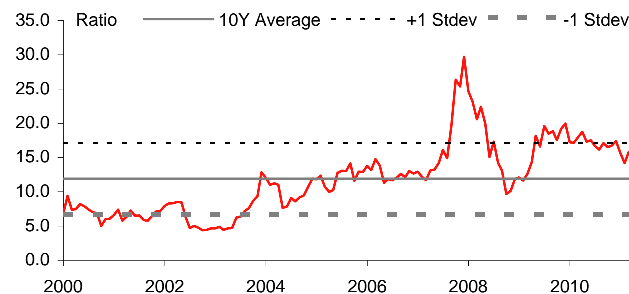
Source: Bloomberg, Macquarie Research, May 2011

Fig 57 Telecom



Source: Bloomberg, Macquarie Research, May 2011

Fig 58 Utilities



Source: Bloomberg, Macquarie Research, May 2011

Fig 59 Sector Valuations

	12M Fwd PE	Price-to-Book	EV/EBITDA	Div Yield	ROE
Consumer Discretionary	14.7	5.2	12.5	2.1	31.0
Consumer Staples	24.3	9.9	19.5	1.4	33.0
Energy	12.2	2.6	9.3	1.2	15.9
Financials	16.3	2.7	NA	0.9	12.8
Healthcare	20.0	5.7	19.7	0.7	23.1
Industrials	12.7	4.4	10.4	0.9	24.4
Information Technology	19.9	6.8	16.7	1.0	26.6
Materials	10.0	2.4	7.3	0.9	16.2
Telecom	13.2	0.5	7.3	0.9	5.2
Utilities	15.5	2.1	11.8	1.3	12.3
Market	14.9	3.3	11.7	1.1	16.7

Source: Bloomberg, Macquarie Research, May 2011

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Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

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

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

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

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

Volatility index definition*

This is calculated from the volatility of historical price movements.

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

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

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

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

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

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

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

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

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

Recommendation proportions – For quarter ending 31 March 2011

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	45.65%	65.72%	59.70%	43.02%	68.91%	51.16%	(for US coverage by MCUSA, 14.36% of stocks covered are investment banking clients)
Neutral	39.49%	19.00%	29.85%	53.09%	26.43%	35.73%	(for US coverage by MCUSA, 17.55% of stocks covered are investment banking clients)
Underperform	14.86%	15.28%	10.45%	3.89%	4.66%	13.11%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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Derivatives – Mark Holland	(852) 3922 2081
Futures - Tim Smith	(852) 3922 2113
Structured Products - Andrew Terlich	(852) 3922 2013