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INDIA

Jul-Sep'09 Earnings Preview

Earnings getting better, as expected

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Contents

(Prices as on October 5, 2009)

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Earnings getting better, as expected

Getting better: As has been widely expected corporate earnings are getting steadily better. Compared to fall of 9.0% YoY in Q1FY10 Nifty companies are expected to report revenue decline of 7.5% YoY in Q2FY10. On the earnings front the same set is expected to report growth of 4.6% YoY in Q2 compared to decline on 0.9% YoY in Q1FY10. This will be the third consecutive quarter of improving numbers for Nifty companies. The earnings growth in H1FY10 is expected to be 1.8% YoY. Overall we believe the trend will get even stronger in Q3 and Q4 given the low base effect. We expect Nifty earnings to grow at about 12-14% in H2FY10.

Revenue and earnings of our universe of companies is expected to decline by 3.4% YoY and grow 14.9% YoY respectively. This is compared to -12.1% and -5.3% in the previous quarter.

OMCs, Autos, NBFCs, Sugar and Media to report strong numbers: More sectors are expected to report improving performance this quarter compared to previously. Except for Metals, Aviation and Agri-related companies most other sectors are likely to report neutral to better performance during the quarter. We expect particularly strong earnings performance from Oil Marketing Companies (due to base effect of record oil prices last year), Auto and ancillaries (improving sales numbers), NBFCs (better markets and lower borrowing costs), Sugar (better realizations) and Media (lower costs).

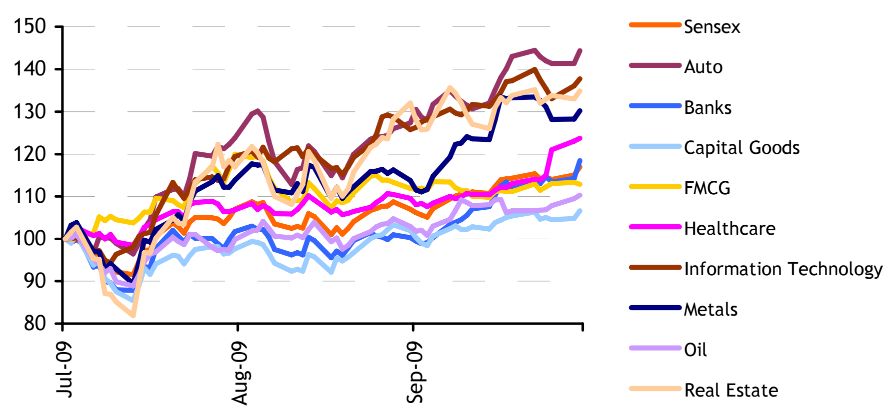
But prices already account for much of this improvement: However, given the 17% rise in Nifty over the past three months, we believe a fair bit of the expected earnings improvement is in the price. At 18.7x FY10 and 15.2x FY11 earnings Nifty is trading only slightly above its historical averages and given the strong liquidity inflow it may rise to well above the average. But clearly the risk-reward is getting steadily unfavorable unless we witness a return to high growth not yet reflected in the earnings outlook. Our 12-month forward Nifty target remains unchanged at 5600, implying 11.9% return from current levels.

Barbell portfolio strategy recommended: Given our view of the market, we have been recommending a Barbell portfolio strategy, i.e. fully invested but with a defensive tilt. Even with a risk of some underperformance if markets continue to surge we believe this strategy offers the best risk-adjusted returns.

Top Picks

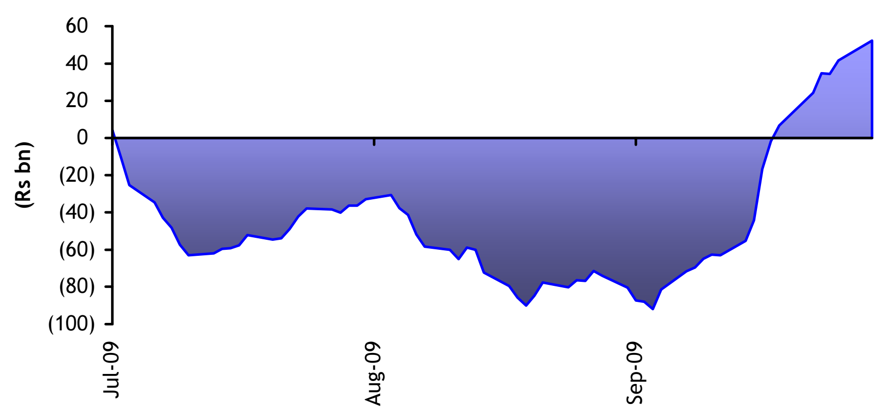
- Reliance Infrastructure
- Bajaj Auto
- Larsen & Toubro
- Ambuja Cement
- GAIL
- NTPC
- BHEL
- Mahindra & Mahindra
- Bank of Baroda
- Marico
- TCS
- HPCL
- ITC
- Mphasis
- Jyoti Structures

Sectoral indices in Q2FY10



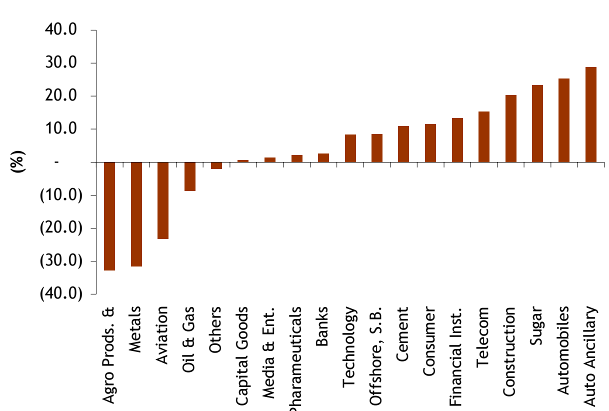
Source: Bloomberg, PL Research

Cumulative FII inflows in Q2FY10



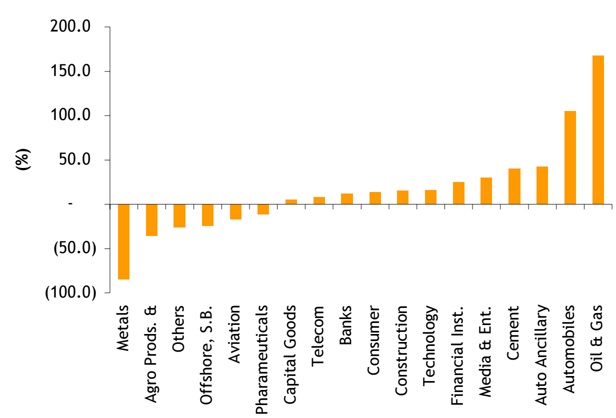
Source: SEBI, PL Research

Q2FY10 revenue growth estimate (YoY)



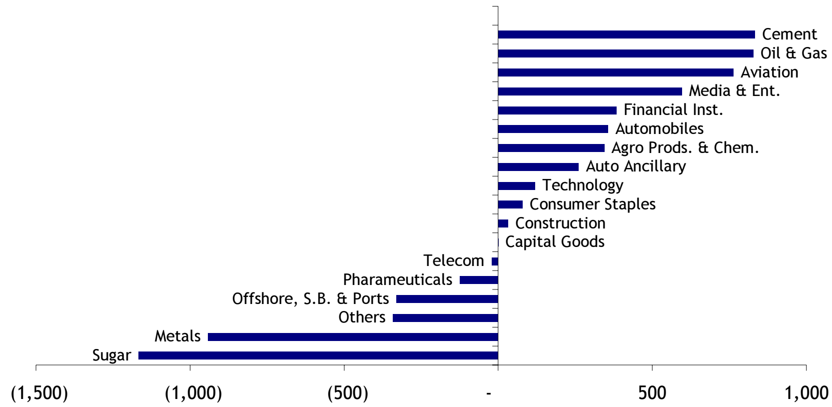
Source: PL Research

Q2FY10 profit growth estimate (YoY)



Source: PL Research

EBITDAM YoY change in Q2FY10 (bps)



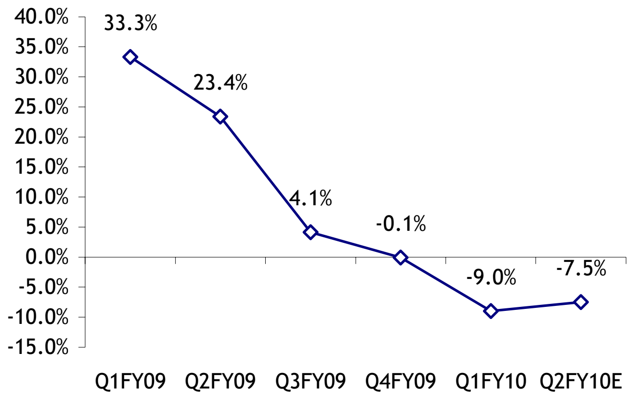
Source: PL Research

Sectorwise growth and margin expectations (YoY) - Q2FY10 PL estimates

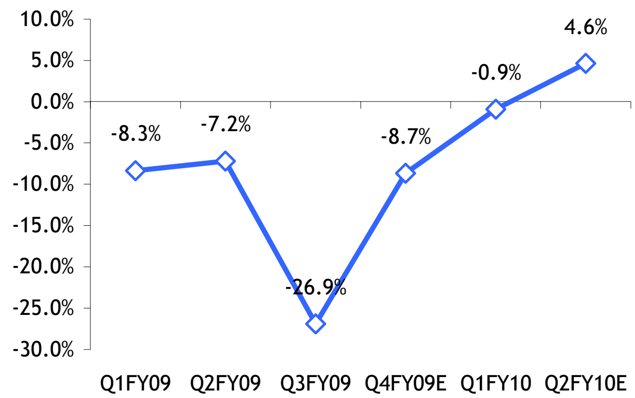
	Revenue growth (%)	PAT growth (%)	EBITDAM change (bps)
Automobiles	25.4	105.4	356
Auto Ancillary	28.8	42.7	261
Agro Prods. & Chem.	(32.8)	(35.6)	344
Aviation	(23.2)	(17.3)	764
Banks	2.6	11.9	
Capital Goods	0.6	5.6	0
Cement	11.0	40.5	833
Construction	20.3	15.5	32
Consumer Staples	11.6	13.8	78
Financial Inst.	13.3	25.4	383
Media & Ent.	1.4	30.3	596
Metals	(31.7)	(85.0)	(942)
Offshore, S.B. & Ports	8.6	(24.5)	(330)
Oil & Gas	(8.8)	167.7	828
Pharameuticals	2.1	(11.4)	(125)
Sugar	23.4	1,473.0	(1,166)
Technology	8.3	16.0	119
Telecom	15.3	8.1	(21)
Others	(2.0)	(26.3)	(342)
PL Universe	**(3.4)**	**14.6**	**295**

Source: PL Research

Nifty Revenue Growth (YoY)



Nifty PAT Growth (YoY)



Source: Company Data, PL Research

Nifty Valuation

	Weightage (%)	FY09	FY10E	FY11E		Weightage (%)	FY09	FY10E	FY11E
Banking and Financials	**23.4%**				**Metals**	**7.5%**			
PER *(x)*		20.1	17.6	14.4	PER *(x)*		13.2	20.8	13.0
PAT Growth (%)		*25.3*	*14.5*	*22.2*	*PAT Growth (%)*		*6.2*	*(36.3)*	*60.2*
Oil & Gas	**16.3%**				**Auto**	**4.9%**			
PER (x)		18.0	15.0	11.7	PER *(x)*		30.1	17.7	15.0
PAT Growth (%)		*(2.1)*	*20.6*	*27.6*	*PAT Growth (%)*		*(34.7)*	*69.8*	*18.4*
Eng. & Power	**16.3%**				**Cement**	**2.5%**			
PER *(x)*		27.5	24.0	20.7	PER *(x)*		24.3	18.1	20.1
PAT Growth (%)		*12.7*	*14.7*	*16.3*	*PAT Growth (%)*		*(12.8)*	*34.4*	*(10.1)*
Tech.	**12.0%**				**Real Estate**	**2.3%**			
PER *(x)*		23.0	20.8	19.1	PER *(x)*		19.4	39.5	29.5
PAT Growth (%)		*13.0*	*10.6*	*8.8*	*PAT Growth (%)*		*(38.5)*	*(50.8)*	*34.0*
Telecom	**6.4%**				**Pharma**	**2.2%**			
PER *(x)*		15.8	15.0	13.3	PER *(x)*		19.5	27.0	15.5
PAT Growth (%)		*17.2*	*5.5*	*12.1*	*PAT Growth (%)*		*29.3*	*(27.7)*	*74.0*
					Nifty as on Oct 5	**5,003**			
FMCG	**6.4%**				NIFTY EPS		251.3	267.3	329.8
PER *(x)*		25.5	24.0	20.8	PER (x)		19.9	18.7	15.2
PAT Growth (%)		*14.9*	*6.1*	*15.2*	*PAT Growth (%)*		*4.5*	*6.3*	*23.4*

Source: PL Research

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Automobiles

Sales performance of the auto companies was exceptional during Q2FY10. The onset of festive season, lower interest rate and sentiments improving at the ground level compared to corresponding period of last year led to a marked improvement in volume numbers across the segments.

On one hand, passenger car sales is estimated to have grown at a robust 26.0% YoY and 13.2% QoQ growth on the other, the M&HCV segment continued its decline at 5.2% YoY. However, on a sequential basis, the improvement in M&HCV sales was exceptional with volumes growing by 32.5% compared to Q1FY10. Two-wheeler sector growth is estimated at 13.9% YoY for the quarter and 6.6% on a QoQ basis.

Strong rural growth remains a key driver for two-wheeler sector:

Strong growth of the two-wheeler sector is primarily based on three factors - strong rural growth, less dependence on financing and down-trading by customers.

Quarterly trend in two-wheeler segment sales

Particulars	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10E
Two-Wheelers	1,865,767	1,998,246	1,707,049	1,866,608	2,135,869	2,276,445
QoQ Growth (%)		*7.1*	*(14.6)*	*9.3*	*14.4*	*6.6*

Source: SIAM, PL Research

Two-wheeler sales are showing consistent improvement in volume numbers for the past couple of quarters on the back of improvement in macro economic conditions, new launches by the players and less reliance on financing. In Q2FY10E, Hero Honda continued its outperformance in the two-wheeler space by reporting a growth of 21.8% YoY, compared to a 5.0% growth reported by Bajaj Auto in the domestic market. However, in the month of September 2009, Bajaj Auto reported ~13% growth in domestic volumes compared to 4% growth reported by Hero Honda, thereby taking away some market share from Hero Honda.

New launches, coupled with onset of festive season led to 26% growth in the passenger car segment

New launches, coupled with improvement in the availability of finance and higher dispatches on account of the festive season led to a robust demand for cars in July - September 2009.

Quarterly trend in passenger car segment sales

Particulars	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10E
Passenger Cars	309,238	291,147	264,064	355,024	323,920	366,736
QoQ Growth (%)		*(5.9)*	*(9.3)*	*34.4*	*(8.8)*	*13.2*

Source: SIAM, PL Research

Maruti Suzuki reported a 23.1% YoY growth in the domestic volumes for the quarter mainly led by a growth of 28.8% YoY in A2 segment (on account of the newly launched 'Ritz' and 'A-Star').

Commercial Vehicles (CV) sales improving month-on-month:

CV sector has witnessed a consistent MoM improvement in the volume numbers on account of improvement in the availability of freight and a pick up in the movement of commodities like steel and iron ore and road / highway development activities gaining momentum.

Quarterly trend in M&HCV segment sales

Particulars	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10E
M&HCVs	61,147	54,284	27,025	41,085	38,863	51,478
QoQ Growth (%)		*(11.2)*	*(50.2)*	*52.0*	*(5.4)*	*32.5*

Source: SIAM, PL Research

With an improvement in the movement of goods and construction activities gaining momentum, the M&HCV segment has been consistently reporting a positive growth in the last few months on a sequential basis

Tata Motors is expected to report a 5.6% YoY decline in M&HCV volumes, whereas Ashok Leyland is likely to report a 15.2% YoY decline in the M&HCV volumes for Q2FY10.

Quarterly trend in LCV segment sales

Particulars	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10E
LCVs	49,989	56,136	39,559	54,897	57,972	72,765
QoQ Growth (%)		*12.3*	*(29.5)*	*38.8*	*5.6*	*25.5*

Source: SIAM, PL Research

Hub and Spoke model continues to gain momentum, with LCV segment posting a 29.6% YoY growth in volumes for the quarter led by the market leader Tata Motors, which also posted a strong growth 32.6% YoY in LCV segment volumes.

Our universe - Volume numbers

Company	Q2FY10	*YoY gr (%)*	*QoQ gr (%)*
Ashok Leyland	14,301	*(16.9)*	*85.9*
Bajaj Auto	686,823	*7.3*	*25.4*
Hero Honda	1,183,795	*21.8*	*5.8*
Maruti Suzuki	246,188	*29.9*	*8.6*
M&M	111,500	*27.6*	*6.4*
Tata Motors	150,377	*12.3*	*22.1*

Source: Company Data, PL Research

Auto companies under our coverage have reported a spectacular set of volumes in Q2FY10. Two-wheeler sector is expected to report better operating level profitability on account of the robust topline and benefits of lower raw material cost, thereby leading to highest ever EBITDA margins. In the four-wheeler space, both Maruti Suzuki and Mahindra & Mahindra are expected to report a 88.1% YoY growth and 61.3% YoY growth in profitability, respectively. Auto companies are expected to post 25.4% growth in their topline and a 105.4% YoY increase in PAT in Q2FY10.

Outlook

The current signs of revival in the economy are pointing to an improvement in the movement of freight which augurs well especially for the M&HCV goods space. While the core story of lowering interest rates, improving financing conditions and bottoming-out of demand is intact, we believe that at least in the near-term the prices have run ahead of fundamentals.

Top picks: Bajaj Auto, Hero Honda, M&M

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09	FY10E	FY11E
Net Sales	864,808	1,068,098	1,224,683
Growth (%)	*1.6*	*23.5*	*14.7*
EBITDA	80,715	142,332	160,779
Margin (%)	*9.3*	*13.3*	*13.1*
PAT	46,216	87,879	101,170
Growth (%)	*(28.4)*	*90.1*	*15.1*
PE (x)	34.7	18.2	15.8

Quarterly Table (Rs m)

	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	*QoQ gr. (%)*
Net Sales	285,920	228,004	*25.4*	242,136	*18.1*
EBITDA	38,717	22,754	*70.2*	32,479	*19.2*
Margin (%)	*13.5*	*10.0*	*3.6*	*13.4*	*0.1*
PAT (Excl. Ex Items)	23,528	11,457	*105.4*	19,715	*19.3*

Note: The Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

Maruti Suzuki

Rating	Accumulate
Price	Rs1,599
Target Price	Rs1,612
Market Cap. (Rs bn)	461.8
Shares o/s (m)	288.9

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	207,322	268,631	300,754
EBITDA	17,855	31,155	35,065
Margin (%)	*8.6*	*11.6*	*11.7*
PAT	12,187	21,112	23,285
EPS (Rs)	41.8	73.1	80.6
RoE (%)	*13.7*	*20.5*	*18.8*
PE (x)	38.3	21.9	19.8
P / BV (x)	4.5	3.8	3.2
EV / E (x)	25.2	14.8	13.2

MSIL reported a growth of 21.8% YoY in domestic sales and 29.9% YoY growth in overall sales, including exports which more than doubled to 37,105 units mainly led by a robust demand for 'A-Star' in Europe. We expect MSIL to report a higher average realizations/vehicle on account of better product mix skewed towards the A3 segment and better realizations from exports on account of 'A-Star'. As a result, we expect MSIL to report a robust 45.4% YoY growth in the net sales at Rs72.6bn. Due to robust topline growth, the operating leverage will help MSIL to post a 68.7% YoY increase in EBITDA and a 88.1% increase in the net profit at Rs5.6bn.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	72,618	49,936	*45.4*	64,930	137,548	98,538	*39.6*
EBITDA	8,698	5,157	*68.7*	7,932	16,630	10,860	*53.1*
Margin (%)	*12.0*	*10.3*	*1.7*	*12.2*	*12.1*	*11.0*	*1.1*
Reported PAT	5,571	2,962	*88.1*	5,835	11,406	7,620	*49.7*
PAT (Excl. Ex Items)	5,571	2,962	*88.1*	5,835	11,406	7,620	*49.7*
Operating Metrics							
Volumes	246,188	189,451	*29.9*	226,729	472,917	382,035	*23.8*
Avg. Realization / veh.	294,968	263,584	*11.9*	286,377	290,850	257,930	*12.8*
EBITDA / vehicle	35,332	27,222	*29.8*	34,983	35,165	28,426	*23.7*
Net profit / vehicle	22,627	15,632	*44.7*	25,736	24,118	19,946	*20.9*

Hero Honda

Rating	Accumulate
Price	Rs1,639
Target Price	Rs1,762
Market Cap. (Rs bn)	327.1
Shares o/s (m)	199.5

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	123,569	151,163	167,029
EBITDA	17,495	25,305	27,573
Margin (%)	*14.2*	*16.7*	*16.5*
PAT	12,818	20,168	21,988
EPS (Rs)	64.2	101.0	110.1
RoE (%)	*37.1*	*42.4*	*33.8*
PE (x)	25.5	16.2	14.9
EV / E (x)	18.6	12.4	11.0
P / BV (x)	8.3	5.9	4.4

HH continues to outperform the two-wheeler industry and has reported a 21.8% YoY growth in volumes in Q2FY10. This was mainly on account of higher sales due to the onset of festive season and good demand from the rural markets for its products. As a result, we expect HH to report a 28.2% topline growth to Rs41.0bn. EBITDA margins are expected to expand by 390bps at 17.5% on account of lower raw material cost on a YoY basis. Led by 65% YoY growth in absolute EBITDA and lower tax rate, we expect the company to post a growth of 79.2% YoY in PAT at Rs5.5bn.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	41,045	32,021	*28.2*	38,224	79,269	60,456	*31.1*
EBITDA	7,188	4,349	*65.3*	6,501	13,689	7,759	*76.4*
Margin (%)	*17.5*	*13.6*	*3.9*	*17.0*	*17.3*	*12.8*	*4.4*
Reported PAT	5,489	3,063	*79.2*	5,001	10,490	5,791	*81.1*
PAT (Excl. Ex Items)	5,489	3,063	*79.2*	5,001	10,490	5,791	*81.1*
Operating Metrics							
Volumes	1,183,795	972,095	*21.8*	1,118,987	2,302,782	1,866,339	*23.4*
Avg. Realization / veh.	34,672	32,940	*5.3*	34,160	34,423	32,393	*6.3*
EBITDA / vehicle	6,072	4,474	*35.7*	5,810	5,945	4,157	*43.0*
Net profit / vehicle	4,637	3,151	*47.2*	4,469	4,556	3,103	*46.8*

Mahindra & Mahindra

Rating	Accumulate
Price	Rs896
Target Price	Rs1,009
Market Cap. (Rs bn)	254.6
Shares o/s (m)	284.0

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	130,937	169,216	191,237
EBITDA	12,849	22,658	25,074
Margin (%)	*9.8*	*13.4*	*13.1*
PAT	9,216	14,944	16,309
EPS (Rs)	31.9	51.7	56.5
RoE (%)	*19.2*	*25.5*	*23.1*
PE (x) *	20.3	12.5	11.4
P / BV (x)	4.8	3.9	3.3
EV / E (x)	21.7	12.3	11.1

** Adj. for Subs. Val.*

We expect M&M to report a growth of 44.7% in its topline to Rs45.0bn on account of 27.6% increase in overall volumes during the quarter. Average realization/vehicle will improve by 13.4% YoY on account of better product mix skewed towards tractors. Due to robust topline growth and stable raw material cost the operating margins are likely to expand by 470 bps. As a result, reported PAT is expected to grow by 106.5% YoY at Rs.3.8bn. Adjusted for exceptional items in Q2FY09 (including octroi refund of Rs270mn), PAT is likely to grow by 61.3% YoY.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	45,014	31,110	*44.7*	42,426	87,440	64,134	*36.3*
EBITDA	5,943	2,659	*123.5*	6,090	12,033	5,218	*130.6*
Margin (%)	*13.2*	*8.5*	*4.7*	*14.4*	*13.8*	*8.1*	*5.6*
Reported PAT	3,835	1,857	*106.5*	4,009	7,843	3,450	*127.3*
PAT (Excl. Ex Items)	3,835	2,378	*61.3*	4,009	7,843	3,970	*97.5*
Operating Metrics							
Automotive Segment	71,237	58,423	*21.9*	61,390	132,627	113,882	*16.5*
Farm Equipment Segment	40,263	28,937	*39.1*	43,383	83,646	59,043	*41.7*
Total volumes	111,500	87,360	*27.6*	104,773	216,273	172,925	*25.1*
Avg. Realization / veh.	403,717	356,113	*13.4*	404,932	404,305	370,879	*9.0*
EBITDA / vehicle	53,300	30,440	*75.1*	58,123	55,636	30,174	*84.4*
Net profit / vehicle	34,391	27,215	*26.4*	38,259	36,265	22,960	*57.9*

Tata Motors

Rating	Accumulate
Price	Rs561
Target Price	Rs626
Market Cap. (Rs bn)	290.9
Shares o/s (m)	518.6

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	254,712	302,391	364,657
EBITDA	15,628	35,984	44,111
Margin (%)	*6.1*	*11.9*	*12.1*
PAT	3,567	15,312	20,587
EPS (Rs)	6.9	29.4	39.6
RoE (%)	*3.6*	*11.7*	*13.9*
PE (x)*	69.6	16.2	12.0
P / BV (x)	2.4	2.1	1.9
EV / E (x)	26.4	11.9	9.7

** Adj. for Subs. Val.*

Volumes in the M&HCV segment grew by 5.6%, whereas the LCV segment grew by 32.8%, resulting in a 20.7% YoY growth for the CV segment in domestic market for Q2FY10. We expect the company to post a 13.8% growth in its topline to Rs80.6bn. EBITDA margins are expected to improve to 11.7% on account of the impact of lower raw material cost. The reported PAT is expected to grow by 70.1% helped by a gain of Rs1.7bn on account of sale of investments in Tata Steel during the quarter. Adjusting for exceptional items in both the quarters, profit is expected at Rs4.2bn compared to Rs620m.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	80,577	70,789	*13.8*	64,046	144,623	140,073	*3.2*
EBITDA	9,440	5,754	*64.1*	7,280	16,721	10,685	*56.5*
Margin (%)	*11.7*	*8.1*	*3.6*	*11.4*	*11.6*	*7.6*	*3.9*
Reported PAT	5,902	3,470	*70.1*	5,139	11,041	6,731	*64.0*
PAT (Excl. Ex Items)	4,167	620	*572.0*	2,000	6,167	2,744	*124.8*
Operating Metrics							
CV Segment	95,908	83,987	*14.2*	75,794	171,702	163,153	*5.2*
Passenger Vehicle seg.	54,469	49,965	*9.0*	47,319	101,788	102,532	*(0.7)*
Total volumes	150,377	133,952	*12.3*	123,113	273,490	265,685	*2.9*
Avg. Realization / veh.	535,830	528,462	*1.4*	520,224	528,805	527,214	*0.3*
EBITDA / vehicle	62,778	42,953	*46.2*	59,137	61,139	40,218	*52.0*
Net profit / vehicle	27,712	4,629	*498.6*	16,244	22,550	10,327	*118.4*

Bajaj Auto

Rating	Accumulate
Price	Rs1,476
Target Price	Rs1,666
Market Cap. (Rs bn)	138.2
Shares o/s (m)	144.6

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	88,457	113,885	127,227
EBITDA	12,193	21,722	21,854
Margin (%)	*13.8*	*19.1*	*17.2*
PAT	6,544	14,096	16,072
EPS (Rs)	45.2	97.4	111.1
RoE (%)	*39.4*	*58.1*	*44.5*
PE (x)	32.6	15.2	13.3
P / BV (x)	11.4	7.3	5.0
EV / E (x)	18.7	10.0	9.6

BJA reported 6.5% growth in motorcycle sales and a 13.7% growth in the three-wheeler segment for the quarter resulting in an overall volume growth of 7.3% for the quarter, including exports. We expect BJA to report 16.2% topline on a YoY basis to Rs29.6bn. The average realization/vehicle is expected to improve on account of better product mix in favour of three-wheelers and higher realizations on the export front. The benefits of lower raw material cost will continue in Q2FY10E, thereby leading to a 77.9% YoY growth in operating profit. As a result, the company is expected to post highest ever PAT at Rs3.9bn, a growth of 111% YoY.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	29,620	25,484	*16.2*	23,385	53,005	48,592	*9.1*
EBITDA	6,116	3,439	*77.9*	4,554	10,670	6,106	*74.7*
Margin (%)	*20.6*	*13.5*	*7.2*	*19.5*	*20.1*	*12.6*	*7.6*
Reported PAT	3,910	1,849	*111.4*	2,935	6,845	4,211	*62.5*
PAT (Excl. Ex Items)	3,910	1,849	*111.4*	2,782	6,692	3,600	*85.9*
Operating Metrics							
Volumes	686,823	640,042	*7.3*	547,662	1,234,485	1,260,137	*(2.0)*
Avg. Realization / veh.	43,126	39,817	*8.3*	42,699	42,937	38,561	*11.3*
EBITDA / vehicle	8,904	5,372	*65.7*	8,316	8,643	4,846	*78.4*
Net profit / vehicle	5,692	2,889	*97.0*	5,080	5,421	2,857	*89.7*

Ashok Leyland

Rating	Reduce
Price	Rs41
Target Price	Rs33
Market Cap. (Rs bn)	54.0
Shares o/s (m)	1,330.0

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	59,811	62,813	73,779
EBITDA	4,695	5,509	7,102
Margin (%)	*7.8*	*8.8*	*9.6*
PAT	1,884	2,245	2,930
EPS (Rs)	1.4	1.7	2.2
RoE (%)	*6.8*	*6.4*	*8.1*
PE (x)	28.7	24.1	18.4
P / BV (x)	1.6	1.5	1.5
EV / E (x)	15.5	12.9	10.6

AL is expected to post a decline of 16.9% YoY in the volumes on account of a 37.6% YoY decline in the M&HCV passenger space. The average realization/vehicle is expected to be stable compared to Q1FY10 as there have been no price hikes during the quarter. However, on a YoY basis, there will be an increase of 9.9% in the average realization/vehicle. The company is expected to post 8.7% YoY decline in the revenues at Rs17.0bn. We expect AL to report a flattish EBITDA at Rs1.3bn on account of 90bps decline in raw material cost/sales ratio. Adjusted PAT for the quarter is expected to decline by 5.1% at Rs556m.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	17,047	18,664	*(8.7)*	9,125	26,171	37,544	*(30.3)*
EBITDA	1,332	1,396	*(4.6)*	122	1,453	2,615	*(44.4)*
Margin (%)	*7.8*	*7.5*	*0.3*	*1.3*	*5.6*	*7.0*	*(1.4)*
Reported PAT	556	672	*(17.3)*	78	634	1,176	*(46.1)*
PAT (Excl. Ex Items)	556	586	*(5.1)*	88	644	1,122	*(42.6)*
Operating Metrics							
Volumes	14,301	17,207	*(16.9)*	7,693	21,994	35,632	*(38.3)*
Avg. Realization / veh.	1,192,009	1,084,677	*9.9*	1,186,078	1,189,934	1,053,656	*12.9*
EBITDA / vehicle	93,120	81,125	*14.8*	15,814	66,080	73,388	*(10.0)*
Net profit / vehicle	38,898	34,059	*14.2*	11,426	29,289	31,494	*(7.0)*

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Auto Ancillary

Aided by a 7 per cent growth in the OEM segment and an 8.5 per cent rise in exports and after-market segment, it is expected that auto ancillary production would grow by 8.2 per cent in 2009-10, according to a report by the Centre for Monitoring Indian Economy (CMIE). As per an Automotive Component Manufacturers Association of India (ACMA) report, the turnover of the auto component industry is estimated to touch US$ 40 billion by 2015-16. Investments in the auto component industry were estimated at US$ 7.2 billion in 2007-08 and are likely to touch US$ 20.9 billion by 2015-16.

Though global recession had affected the Indian auto components industry, it is now slowly coming back on track. Recently there has been an increase in production schedules at auto component firms post March quarter following the two government stimulus packages and substantial improvement in the volumes of auto companies.

Many of the auto ancillary companies have restructured their balance sheet and their cost structures which bodes well for these companies as these operational efficiencies positions them extremely well for the recovery in the domestic market as well as on the export side. We expect good times ahead for the auto component manufacturers after next couple of quarters. With better utilization in FY11E and recovery expected in both the domestic and export market, economies of scale will help these companies to post robust operating level performance.

Ancillary companies under our coverage are expected to post a growth of 28.8% in their topline, mainly attributed to the acquisition done by Motherson Sumi and improvement in replacement demand for the tyre manufacturers. Their margins are expected to expand on account of lower raw material cost on a YoY basis and an uptick in demand especially on the domestic market front. Both the Tyre companies under our coverage are expected to report manifold jump in profitability on account of topline growth and lower raw material cost. Hence, PAT for these companies is expected to grow by 42.7% in the quarter.

Top Picks: CEAT

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09	FY10E	FY11E
Net Sales	149,116	200,221	233,588
Growth (%)	*8.6*	*34.3*	*16.7*
EBITDA	13,465	17,700	25,223
Margin (%)	*9.0*	*8.8*	*10.8*
PAT	5,361	6,663	10,530
Growth (%)	*(40.9)*	*24.3*	*58.0*
PE (x)	23.3	18.7	11.8

Quarterly Table (Rs m)

	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	*QoQ gr. (%)*
Net Sales	37,962	29,474	*28.8*	36,169	*5.0*
EBITDA	4,259	2,536	*67.9*	4,210	*1.2*
Margin (%)	*11.2*	*8.6*	*2.6*	*11.6*	*(0.4)*
PAT (Excl. Ex Items)	1,955	1,370	*42.7*	1,974	*(1.0)*

Note: The Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

Bharat Forge

Rating	Accumulate
Price	Rs265
Target Price	Rs315
Market Cap. (Rs bn)	59.0
Shares o/s (m)	222.6

We expect the pain to continue for the company and expect it to post a 34.6% decline in topline growth to Rs4.4bn on a standalone basis. However, on a QoQ basis, we expect the topline to post a growth of 23.2% mainly led by recovery in the domestic CV market and improvement in the export market. EBITDA margins are expected to decline by 180bps YoY and absolute EBITDA is expected to decline by 39.7% yoy. Higher interest costs would further put pressure on the operational PBT which is expected to decline by 66.8%. As a result, the Adj.PAT will decline by 77.3% yoy at Rs 224 mn.

Key Figures (Consolidated) (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	47,740	38,902	48,850
EBITDA	5,565	4,225	8,015
Margin (%)	*11.7*	*10.9*	*16.4*
PAT	1,918	657	3,110
EPS (Rs)	8.0	2.7	13.0
RoE (%)	*11.6*	*3.9*	*16.9*
PE (x)	33.2	96.9	20.5
P / BV (x)	3.6	3.5	3.0
EV / E (x)	13.7	18.5	9.8

Quarterly Table (Standalone) (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	4,418	6,756	(34.6)	3,586	8,004	13,129	(39.0)
EBITDA	951	1,577	(39.7)	749	1,700	3,137	(45.8)
Margin (%)	*21.5*	*23.3*	*(1.8)*	*20.9*	*21.2*	*23.9*	*(2.7)*
Reported PAT	224	113	99.3	10	234	378	(38.1)
PAT (Excl. Ex Items)	224	988	(77.3)	158	383	1,947	(80.3)
Operating Metrics							
Raw material as % of sales	*45.4*	*47.5*	(2.1)	*45.3*	*45.4*	*47.0*	(1.7)

Motherson Sumi

Rating	Accumulate
Price	Rs110
Target Price	Rs131
Market Cap. (Rs bn)	39.1
Shares o/s (m)	355.5

According to the company, there are clear indications of demand pick-up in both the domestic as well as the export market. MSSL is expected to post a 137.3% YoY growth in its topline to Rs14.7bn mainly due to consolidation of SMR (Visiocorp), which is likely to contribute Rs8.5 bn to the topline. Margins would continue to remain under pressure and is expected to be at 5.0% on account of the acquisition, a 730 bps decline in margins. However, on account of higher other income the PAT is expected to grow by 16.1% at Rs437 mn.

Key Figures (Consolidated) (Rs m)

Y/e March	FY09E	FY10E	FY11E
Net Sales	26,397	57,452	63,697
EBITDA	3,278	2,666	5,509
Margin (%)	*12.4*	*4.6*	*8.6*
PAT	2,212	1,339	2,607
EPS (Rs)	6.2	3.8	7.3
RoE (%)	*33.5*	*16.9*	*31.1*
PE (x)	17.7	29.2	15.0
P / BV (x)	5.0	4.9	4.5
EV / E (x)	14.1	17.9	8.7

Quarterly Table (Consolidated) (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	14,732	6,208	137.3	14,040	28,772	12,226	135.3
EBITDA	737	762	(3.3)	481	1,218	1,496	(18.6)
Margin (%)	*5.0*	*12.3*	*(7.3)*	*3.4*	*4.2*	*12.2*	*(8.0)*
Reported PAT	278	425	(34.6)	109	386	741	(47.9)
PAT (Excl. Ex Items)	437	376	16.1	268	705	942	(25.2)
Operating Metrics							
Sales within India	4,732	3,795	24.7	4,115	8,847	7,337	20.6
Sales outside India	10,000	2,414	314.3	9,926	19,926	4,889	307.6

Apollo Tyres

Rating	Accumulate
Price	Rs44
Target Price	Rs53
Market Cap. (Rs bn)	22.0
Shares o/s (m)	504.0

Key Figures (Consolidated) (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	49,841	76,139	88,489
EBITDA	4,161	7,916	8,832
Margin (%)	*8.3*	*10.4*	*10.0*
PAT	1,391	3,035	3,335
EPS (Rs)	2.8	6.0	6.6
RoE (%)	*10.6*	*45.2*	*41.1*
PE (x)	15.3	7.2	6.6
P / BV (x)	0.8	0.6	0.4
EV / E (x)	6.6	4.7	4.0

We expect the company to post a 20% volume growth on account of lower base of last year and improvement in replacement demand. As a result, we expect the company to post a 20.3% growth in topline for the quarter. Major key input prices are down by 15-20% yoy and we expect this to translate into a healthy EBITDA margin of 14.2% for the company thereby leading to doubling of EBITDA at Rs1,673mn. As a result of robust operating performance, the company is likely to report a PAT of Rs758 mn compared to Rs78mn in Q2FY09.

Quarterly Table (Standalone) (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	11,803	9,808	*20.3*	11,803	23,605	20,567	*14.8*
EBITDA	1,673	497	*236.2*	1,943	3,615	1,595	*126.6*
Margin (%)	*14.2*	*5.1*	*9.1*	*16.5*	*15.3*	*7.8*	*7.6*
Reported PAT	758	78	*868.7*	947	1,705	565	*201.7*
PAT (Excl. Ex Items)	758	78	*868.7*	947	1,705	565	*201.7*
Operating Metrics							
Raw material as % of sales	*64.4*	*74.7*	*(10.3)*	*58.8*	*61.6*	*72.1*	*(10.6)*
Sales (Tonnage)	80,000	66,201	*20.8*	79,000	159,000	143,701	*10.6*
Average Realization / kg	148	148	*(0.4)*	149	148	143	*3.7*
Recipe cost / kg	95	111	*(14.1)*	88	91	103	*(11.4)*

CEAT

Rating	Accumulate
Price	Rs157
Target Price	Rs210
Market Cap. (Rs bn)	5.4
Shares o/s (m)	34.2

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	25,137	27,728	32,552
EBITDA	461	2,893	2,867
Margin (%)	*1.8*	*10.4*	*8.8*
PAT	(161)	1,633	1,479
EPS (Rs)	6.1	47.7	43.2
RoE (%)	*4.2*	*28.6*	*20.4*
PE (x)	25.6	3.3	3.6
P / BV (x)	1.1	0.8	0.7
EV / E (x)	21.3	3.7	4.1

Ceat is expected to post a growth of 4.6% in its topline at Rs7.0bn. mainly on account of replacement demand which has been quite strong. Major key input prices are down by 15- 20% yoy, though sequentially there has been an increase of ~10%. This will result in robust operating performance with EBITDA margins at 12.8% compared to a loss on the EBITDA front in the corresponding period of last year. We expect the company to report a profit of Rs535 mn for the quarter compared to an adjusted loss of Rs72 mn in Q2FY09.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	7,009	6,702	*4.6*	6,740	13,749	13,275	*3.6*
EBITDA	899	(300)	*LTP*	1,038	1,937	(300)	*LTP*
Margin (%)	*12.8*	*(4.5)*	*17.3*	*15.4*	*14.1*	*(2.3)*	*16.3*
Reported PAT	535	(288)	*LTP*	602	1,137	(395)	*LTP*
PAT (Excl. Ex Items)	535	(72)	*LTP*	602	1,137	(179)	*LTP*
Operating Metrics							
Raw material as % of sales	*60.7*	*74.2*	*(13.5)*	*58.1*	*59.4*	*73.5*	*(14.2)*
Sales (Tonnage)	45,000	45,000	*0.0*	43,240	88,240	91,000	*(3.0)*
Average Realization / kg	155.8	148.9	*4.6*	155.9	155.8	145.9	*6.8*
Recipe cost / kg	95	110	*(14.4)*	90	93	107	*(13.8)*

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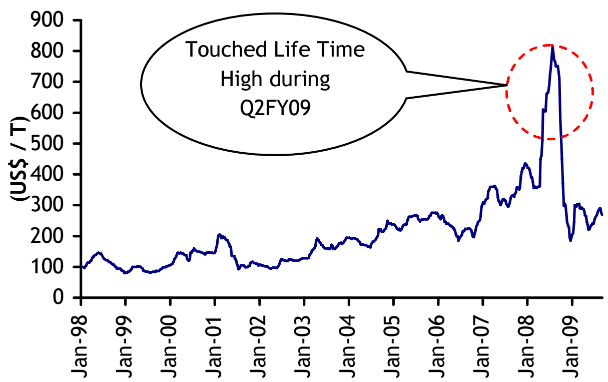
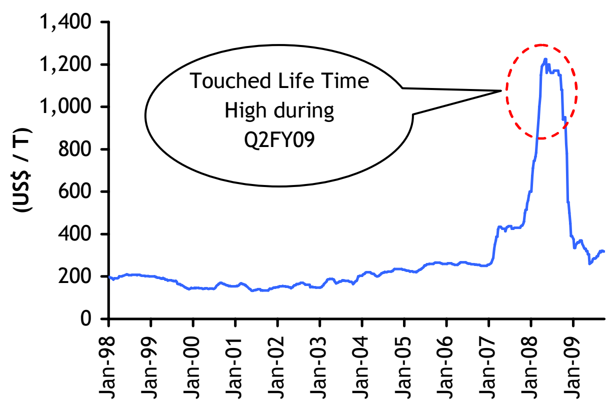
Agri Products & Chemicals

Q2FY09 was the best ever quarter for the fertiliser companies till date on the back of life time high prices for fertilisers. Examples di-ammonium phosphate (DAP) touched US$1225 per tonne during Q2FY09 as against US$325 per tonne at present and urea touched US$815 per tonne during Q2FY09 v/s US$270 per tonne currently. Fertiliser companies had shown best ever profitability during Q2FY09 (companies had made almost 40-50% of annual profit in Q2FY09). Now, prices are at their normal level and we expect companies to log in normal profit in Q2FY10 and expected to show de-growth on YoY basis.

Urea Prices



DAP Prices



Source: Bloomberg, PL Research

Deficient rainfall...minimal effect on the players

Deficient rainfall: After an acute shortfall till mid-August 2009, the monsoon has slowly revived. The cumulative rainfall deficit has fallen to 23% at present from 54% (as on June 24, 2009) than normal. Due to this shortfall, the kharif crop (i.e. ~52% of India's food grain output) acreage was down by ~8%, while paddy crop, which is the worst hit since its acreage, is down by ~20%. Impact on the rabi crop would depend upon water level at -key reservoirs (currently ~11% departure from last 10 year's average level). We have analysed the data of kharif and rabi crop for the previous seven drought years and observed that the kharif crop's area, output and yield were negatively impacted and the rabi crop has shown mixed results. However, in the subsequent years, it has had a positive impact on the crop's area, output and yield. Hence there is a likelihood of a positive impact on the crops in FY11.

High dependence on imports...shield for fertiliser players: During the drought in FY03, the fertiliser consumption fell by ~7%. At present, India is importing ~25% of its fertiliser consumption. We have analysed that the drought-hit districts constitute ~40% of the annual fertiliser consumption. Assuming that consumption in these districts would decline by 50%, it is unlikely that production and sales of fertiliser players would be impacted. It would reduce India's fertiliser consumption and ultimately, imports and subsidy bill of the government.

Agrochemicals - lower paddy acreage is a concern: Paddy accounts for ~35% of the domestic pesticide consumption, followed by cotton, which accounts for ~24%. We believe that lower paddy acreage could affect the demand of domestic pesticide market, while increased cotton acreage (~12%) could partially set off the gap.

Impact on Agri Products and Chemicals coverage universe: Deficient rains would not affect the fertiliser players due to high dependence on imports. With regards to agro-chemicals, Rallis India is likely to be adversely affected due to higher dependence on the domestic pesticide market. Assuming that Rallis' domestic sales will de-grow by 10% YoY (as against base case of 15% growth), it is believed to change the EPS by ~6%. We are positive on the Agri sector and we believe that the deficient rainfall is not likely to change our view and ratings of any companies under coverage.

Top Picks: United Phosphorus

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09	FY10E	FY11E
Net Sales	282,118	241,412	267,842
Growth (%)	*63.6*	*(14.4)*	*10.9*
EBITDA	46,721	48,530	54,439
Margin (%)	*16.6*	*20.1*	*20.3*
PAT	21,933	20,909	25,503
Growth (%)	*63.1*	*(4.7)*	*22.0*
PE (x)	11.5	12.1	9.9

Quarterly Table (Rs m)

	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	*QoQ gr. (%)*
Net Sales	58,644	87,264	*(32.8)*	56,566	*3.7*
EBITDA	11,669	14,360	*(18.7)*	11,750	*(0.7)*
Margin (%)	*19.9*	*16.5*	*3.4*	*20.8*	*(0.9)*
PAT (Excl. Ex Items)	4,897	7,608	*(35.6)*	4,565	*7.3*

Note: The Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

United Phosphorus

Rating	BUY
Price	Rs169
Target Price	Rs241
Market Cap. (Rs bn)	78.4
Shares o/s (m)	464.7

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	49,735	57,484	65,681
EBITDA	9,867	11,760	13,569
Margin (%)	*19.8*	*20.5*	*20.7*
PAT	4,927	6,880	8,615
EPS (Rs)	9.6	14.8	18.5
RoE (%)	*20.1*	*23.5*	*23.5*
PE (x)	17.6	11.4	9.1
P/BV (x)	2.2	1.8	1.7
EV / E (x)	9.5	7.6	6.1

We believe that Uphos's sales would grow by ~16% YoY mainly contributed by all the geographies except India. Company had incurred forex losses of Rs230m in Q2FY09. We have considered higher tax rate of 18% in Q2FY10 (v/s ~7% in Q2FY09) because the management has guided for 17%-20% tax rate for FY10E. Adjusted PAT is expected to grow by ~22% to Rs1.5bn.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Consolidated Net Sales	13,559	11,648	16.4	15,672	29,231	24,789	17.9
EBITDA	2,739	2,242	22.2	3,135	5,874	4,898	19.9
Margin (%)	*20.2*	*19.2*	*1.0*	*20.0*	*20.1*	*19.8*	*0.3*
Reported PAT	1,491	1,220	22.2	1,763	3,254	2,697	20.6
PAT (Excl. Ex Items)	1,491	1,220	22.2	1,763	3,254	2,697	20.6
Operating Metrics							
Consolidated Net Sales							
North America	3,811	3,230	18.0	4,380	8,191	6,770	21.0
India	3,240	3,000	8.0	2,910	6,150	5,860	4.9
Europe	3,283	2,830	16.0	4,850	8,133	7,010	16.0
Rest of the World	3,225	2,580	25.0	3,532	6,757	5,140	31.5

Tata Chemicals

Rating	Reduce
Price	Rs278
Target Price	Rs240
Market Cap. (Rs bn)	67.8
Shares o/s (m)	243.5

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	123,852	82,430	86,006
EBITDA	19,668	17,413	18,643
Margin (%)	*15.9*	*21.1*	*21.7*
PAT	10,518	6,510	7,308
EPS (Rs)	43.2	26.7	30.0
RoE (%)	*26.8*	*15.1*	*15.4*
PE (x)	6.4	10.4	9.3
P/BV (x)	1.6	1.5	1.4
EV / E (x)	5.5	5.6	4.1

Di-ammonium phosphate and complex fertiliser prices have plunged sharply during H2FY09. This has resulted in de-growth in fertiliser sales and EBIT during Q2FY10 on a YoY basis. During the quarter, plants across the geographies operated at normal capacity. We have considered profit on sale of stake in Titan Industries for Rs870m as extraordinary items.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Consolidated Net Sales	23,079	46,756	(50.6)	23,008	46,087	68,977	(33.2)
EBITDA	4,500	7,912	(43.1)	4,850	9,350	13,263	(29.5)
Margin (%)	*19.5*	*16.9*	*2.6*	*21.1*	*20.3*	*19.2*	*1.1*
Reported PAT	2,452	2,777	(11.7)	425	2,877	3,847	(25.2)
PAT (Excl. Ex Items)	1,573	4,568	(65.6)	1,528	3,100	6,927	(55.2)
Operating Metrics							
Consolidated Net Sales							
Inorganic Chemicals	12,966	14,597	(11.2)	12,765	25,731	27,306	(5.8)
Fertilisers	10,113	32,205	(68.6)	10,123	20,236	41,525	(51.3)
EBITM (%)							
Inorganic Chemicals	19.5	20.4		19.8	19.7	18.7	
Fertilisers	9.6	14.6		5.4	7.5	15.8	

Jain Irrigation

Rating	Accumulate
Price	Rs772
Target Price	Rs986
Market Cap. (Rs bn)	48.9
Shares o/s (m)	75.4

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	28,743	36,534	44,268
EBITDA	5,121	6,525	8,271
Margin (%)	*17.8*	*17.9*	*18.7*
PAT	1,896	2,600	3,738
EPS (Rs)	26.2	34.5	49.3
RoE (%)	*21.4*	*24.9*	*27.1*
PE (x)	29.5	22.4	15.6
P/BV (x)	6.3	4.9	3.7
EV / E (x)	14.7	11.9	9.3

Quarterly nos. are standalone and full year nos. are conolidated

We believe that Micro irrigation (MIS) would show robust growth despite having deficient rainfall that resulted in ~32% growth in the net sales. We believe that the EBITDA margin could expand by 95bps due to higher contribution by MIS in overall EBITDA. PAT would grow merely by ~20% due to higher tax rate (i.e.33% v/s 1.3% in Q3FY09).

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	6,271	4,760	*31.8*	5,731	12,003	9,521	*26.1*
EBITDA	1,322	959	*38.0*	1,262	2,584	1,901	*36.0*
Margin (%)	*21.1*	*20.1*	*0.9*	*22.0*	*21.5*	*20.0*	*1.6*
Reported PAT	555	245	*126.6*	556	1,111	541	*105.5*
PAT (Excl. Ex Items)	555	465	*19.5*	351	906	981	*(7.6)*
Operating Metrics							
Irrigation Revenues	2,657	1,898	*40.0*	2,599	5,256	3,856	*36.3*
Piping Revenues	1,958	1,621	*20.8*	2,036	3,994	3,423	*16.7*
Agro Processing Revenues	1,167	898	*30.0*	728	1,895	1,631	*16.2*
Irrigation EBITDAM (%)	*30.0*	*27.1*		*32.4*	*31.2*	*26.5*	
Piping EBITDAM (%)	*10.5*	*10.9*		*9.6*	*10.1*	*10.0*	
Agro Processing EBITDAM (%)	*22.4*	*22.0*		*25.0*	*23.4*	*26.1*	

Chambal Fertilisers

Rating	Accumulate
Price	Rs53
Target Price	Rs72
Market Cap. (Rs bn)	22.2
Shares o/s (m)	416.2

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	56,490	40,750	43,811
EBITDA	7,540	8,249	8,687
Margin (%)	*13.3*	*20.2*	*19.8*
PAT	2,455	2,850	3,345
EPS (Rs)	5.9	6.8	8.0
RoE (%)	*20.0*	*20.6*	*20.9*
PE (x)	9.0	7.8	6.6
P/BV (x)	1.7	1.5	1.3
EV / E (x)	5.7	5.1	4.2

Quarterly nos. are standalone and full year nos. are conolidated

We expect that lower trading sales due to lower fertiliser prices in Q2FY10 would result in ~46% YoY de-growth in the net sales. Company had incurred approx. Rs51m of forex losses on trading creditors in Q2FY09 that resulted in ~29% YoY growth in adjusted PAT.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	9,497	17,451	*(45.6)*	7,903	17,401	25,889	*(32.8)*
EBITDA	1,780	1,653	*7.7*	1,565	3,345	3,447	*(3.0)*
Margin (%)	*18.7*	*9.5*	*9.3*	*19.8*	*19.2*	*13.3*	*5.9*
Reported PAT	615	476	*29.3*	553	1,168	714	*63.7*
PAT (Excl. Ex Items)	615	476	*29.3*	509	1,125	1,197	*(6.1)*
Operating Metrics							
Fertiliser Revenues	6,045	7,363	*(17.9)*	4,356	10,401	12,360	*(15.8)*
Traded goods Revenues	2,000	8,230	*(75.7)*	2,003	4,003	10,078	*(60.3)*
Shipping Revenues	656	1,052	*(37.6)*	656	1,312	1,618	*(18.9)*
Fertiliser EBITM (%)	*15.0*	*14.5*		*13.5*	*14.4*	*16.1*	
Traded goods EBITM (%)	*3.5*	*(2.9)*		*3.1*	*3.3*	*(1.9)*	
Shipping EBITM (%)	*25.0*	*24.9*		*25.2*	*25.1*	*24.9*	

Rallis India

Rating	Accumulate
Price	Rs916
Target Price	Rs969
Market Cap. (Rs bn)	11.9
Shares o/s (m)	13.0

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	8,549	9,674	11,097
EBITDA	1,336	1,507	1,703
Margin (%)	*15.6*	*15.6*	*15.3*
PAT	643	795	966
EPS (Rs)	53.6	61.3	74.5
RoE (%)	*19.6*	*23.8*	*27.3*
PE (x)	17.1	14.9	12.3
P/BV (x)	3.2	3.8	3.1
EV / E (x)	9.4	8.3	7.0

Quarterly nos. are standalone and full year nos. are conolidated

We expect that lower domestic sales growth due to deficient rainfall would be set off by the higher export sales. Higher agrochemical price has resulted in higher EBITDA margin in Q2FY09. However, we believe that company would have lower EBITDA margin on YoY basis in Q2FY10.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	3,271	2,851	*14.7*	1,676	4,947	4,611	*7.3*
EBITDA	598	710	*(15.8)*	207	805	888	*(9.3)*
Margin (%)	*18.3*	*24.9*	*(6.6)*	*12.4*	*16.3*	*19.3*	*(3.0)*
Reported PAT	360	416	*(13.3)*	94	455	458	*(0.8)*
PAT (Excl. Ex Items)	360	445	*(19.0)*	114	475	547	*(13.3)*
Operating Metrics							
Net Sales as % of annual sales	33.8	33.3		17.3	51.1	53.9	
Tax Rate (%)	33.0	32.7		32.6	32.9	30.7	

Deepak Fertilisers

Rating	Accumulate
Price	Rs92
Target Price	Rs122
Market Cap. (Rs bn)	8.1
Shares o/s (m)	88.2

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	14,749	14,539	16,980
EBITDA	3,188	3,075	3,566
Margin (%)	*21.6*	*21.1*	*21.0*
PAT	1,494	1,274	1,530
EPS (Rs)	16.9	14.4	17.4
RoE (%)	*17.9*	*14.9*	*16.1*
PE (x)	5.4	6.4	5.3
P/BV (x)	1.0	0.9	0.8
EV / E (x)	4.0	4.5	4.5

Quarterly nos. are standalone and full year nos. are conolidated

Company's nitric acid plant was shutdown for approx. 50 days during the quarter that resulted in lower nitric acid and ammonium nitrate sales. We expect that sales would de-grow by ~22% mainly on the back of a sharp fall in the industrial chemical and fertiliser prices on YoY basis.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	2,966	3,798	*(21.9)*	2,576	5,542	7,335	*(24.4)*
EBITDA	730	885	*(17.5)*	730	1,460	1,782	*(18.1)*
Margin (%)	*24.6*	*23.3*	*1.3*	*28.3*	*26.3*	*24.3*	*2.0*
Reported PAT	302	418	*(27.8)*	389	691	867	*(20.3)*
PAT (Excl. Ex Items)	302	434	*(30.5)*	301	603	897	*(32.8)*
Operating Metrics							
Net Sales							
Industrial Chemicals	2,037	2,539	*(19.8)*	1,751	3,788	4,851	*(21.9)*
Fertilisers	850	1,212	*(29.9)*	643	1,493	2,200	*(32.1)*
EBITDAM %							
Industrial Chemicals	*31.0*	*29.5*		*32.0*	*31.4*	*32.0*	
Fertilisers	*7.9*	*7.8*		*8.0*	*8.0*	*6.1*	

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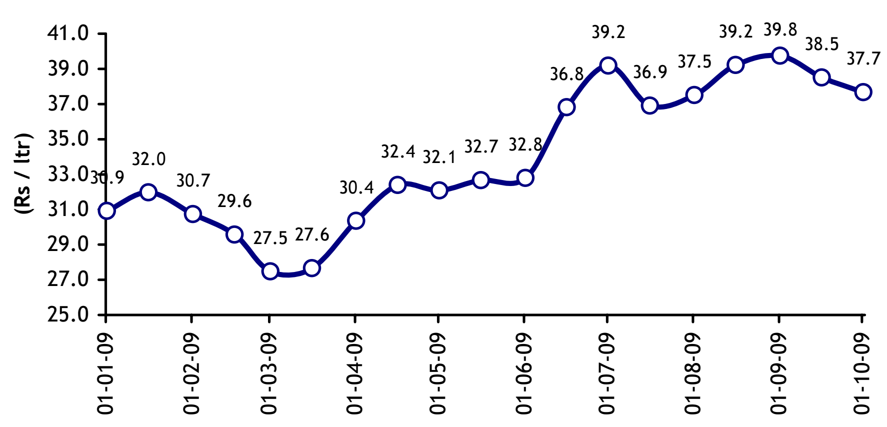
Aviation

The sector has witnessed a spate of unfortunate and untimely events like the global outbreak of swine flu, the five day pilot strike by Jet Airways employees, followed by a protest by 7000 employees of Air India, where the national carrier had to withdraw from undertaking salary cuts (25 to 50% cuts on productivity-linked incentives).

During the quarter, the issue of labor unrest came to the fore. This can actually have long-term implications, especially for full service carriers which are keen on rationalizing operational cost in-line with reduction in fleet capacity.

Over the period, passenger traffic has improved as full service carriers increasingly convert their models in-line with low cost carriers. Though this has helped them to improve utilizations, a steady rise in jet fuel prices have not allowed most of these carriers to operate above breakeven load factors. Domestic ATF prices (average of Mumbai and Delhi) have gradually spiraled upwards from a low of Rs27.5 per litre in the month of March this year to Rs37.7 per litre currently.

Mumbai and Delhi Avergae ATF Prices



Source:

With plans to raise money via FDI route now in the backburner and revival in domestic corporate fund raising environment, airline companies during the quarter have announced their plans to raise capital via various other routes - private equity, QIP / rights issue. Private carriers Jet Airways and Kingfisher have been mulling to raise close to US$400m and US$175m, respectively. National carrier, Air India, has been seeking close to Rs50bn as fund infusion from the government. However, none of them have yet been successful in raising capital.

Top Picks: None

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THE ECONOMIC TIMES

Jet seeks nod to approach overseas investors for funds

24 Sep 2009, 0004 hrs IST, Arun Kumar, ET Bureau

NEW DELHI: Jet Airways, which recently suffered the worst pilot strike, has sought the government's permission to sell shares to overseas investors to avoid loan defaults and violation of debt covenants, as they may not be able to raise entire funds through equity route from domestic investors.

"The company cannot afford to have a financial crisis impacting its operations, which may have negative cascading effect in terms of sustenance of 13,000 employees, besides defaulting on payment obligations and violating the covenants prescribed by the various lenders," the company said in a letter to the Foreign Investment Promotion Board (FIPB).

A Jet Airways spokesman was not available for comment. Jet, like most of its rivals such as Kingfisher Airlines and SpiceJet, is suffering from high debt and spiralling costs. Although distressed investors, such as Wilbur Ross, have bought stakes in budget carriers, most investors shun airline stocks due to high operational costs and poor profitability outlook.

After many months of planning to raise funds, Jet, in August, passed an enabling resolution to raise $400 million through QIP, GDR, FCCB, follow-on public offer, rights issue or fully-convertible debentures. However, the company decided to opt for QIP, as it is the quickest way to raise money. Investment bankers advising the company believe that they may not be able to help it raise funds from domestic investors alone and hence, qualified FIIs should be allowed to participate in the proposed QIP.

"As the appetite for domestic investment in the aviation industry in India is not strong, the company has been advised by its merchant bankers that a QIP to only domestic investors will not enable it to raise the requisite funds and hence, the company should seek participation in such QIP, from qualified FIIs in addition to domestic financial institutions and mutual funds," the company said in the letter.

Jet, where foreigners hold 4.55% stake, has said the share sale may be done at Rs 253 per share that may lead to selling nearly eight crore shares. That would result in dilution of the promoter stake to 42% from 80%. If the entire offer is bought by foreigners, their holdings may rise to close to as high as 49%.

The company's share price on Wednesday was Rs 312. At this price, the company has the market capitalisation of Rs 2,700 crore.

However, in the first tranche, the company is contemplating to raise up to $200 from eligible domestic and foreign institutional investors.

Jet Airways

Rating	**Reduce**
Price	Rs378
Target Price	Rs315
Market Cap. (Rs bn)	32.6
Shares o/s (m)	86.3

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	130,779	118,060	130,891
EBITDAR	1,842	18,395	23,625
Margin (%)	*1.4*	*15.6*	*18.0*
PAT	(9,614)	(8,495)	(4,591)
EPS (Rs)	(111.4)	(98.4)	(53.2)
RoE (%)	*(30.3)*	*(47.9)*	*(41.1)*
PE (x)	(3.4)	(3.8)	(7.1)
P / BV (x)	1.5	2.4	3.7
EV / E (x)	103.6	10.4	8.1

Realisations are expected to remain discounted as transition to low-cost model (Jet Konnect) continues. Jet currently operates 50% of its capacity under Jet Konnect. The same has also resulted in increase in ASKMs due to an increase in the number of seats for Jet Konnect. Utilisations for the month of July and August 2009 have remained healthy at 62.1% and 62.6%, respectively. However, the month of September is expected to see a fall in passenger traffic due to the five-day protest between the company management and pilots. Revenue losses during this period are expected at Rs800m. However, this to some extent will get compensated from a temporary spike in occupancy when Air India was undergoing a similar crisis. For the quarter, we expect Jet to report a net loss of Rs3.2bn for the quarter.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	23,976	31,213	*(23.2)*	23,712	47,688	59,885	*(20.4)*
EBITDAR	3,278	(1,884)	*(274.0)*	3,910	7,187	(4,330)	*(266.0)*
Margin (%)	*13.7*	*(6.0)*	*19.7*	*16.5*	*15.1*	*(7.2)*	*22.3*
Reported PAT	(3,181)	(3,845)	*(17.3)*	(2,253)	(5,434)	(11,570)	*(53.0)*
PAT (Excl. Ex Items)	(3,181)	(3,845)	*(17.3)*	(2,253)	(5,434)	(11,570)	*(53.0)*
Operating Metrics							
RPKMs (M)	5,311	5,579	*(12.0)*	4,909	10,220	11,077	*(7.7)*
Block hours	74,003	81,324	*(11.7)*	71,781	145,784	162,553	*(10.3)*
Revenue per RPKM	3.3	4.7	*(23.6)*	3.6	3.5	4.5	*(23.8)*

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Banks

Expectations for the quarter: RBI left the repo rate and the CRR unchanged during the quarter at 4.75% and 5%. Margins are expected to remain stable or have a downward bias; treasury is unlikely to repeat last quarter's bumper numbers as bond yields hardened with a short period of volatility. Total provisions will remain elevated as NPL provisions will remain high coupled with some investment depreciation. The Bankex was up by 119%, while the Sensex was up 75% YTD.

Result snapshot

For major banks under our coverage, we expect the net interest income (NII) to grow by 2.6% YoY and 5.3% QoQ (excluding ICICI Bank, NII is expected to grow by 4.5% YoY and 7.6% QoQ). Operating profit is likely to go up by 12.8% YoY and 4.5% QoQ (excluding ICICI Bank, growth expected is 16.5% YoY and 9.0% QoQ). Core operating profit (excluding treasury) is likely to decline by 1.1% YoY but improve 17.2% QoQ (excluding ICICI Bank, growth expected is 4.6% YoY and 20.5% QoQ). Net profit is likely to increase by 11.9% YoY and 2.1% QoQ (excluding ICICI Bank, growth expected is 16.7% YoY and 2.6% QoQ).

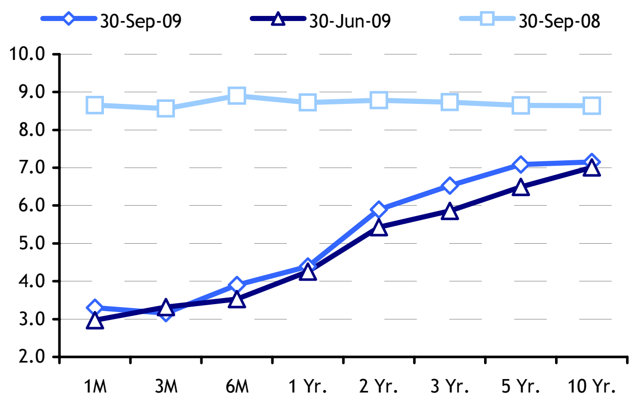
Outlook

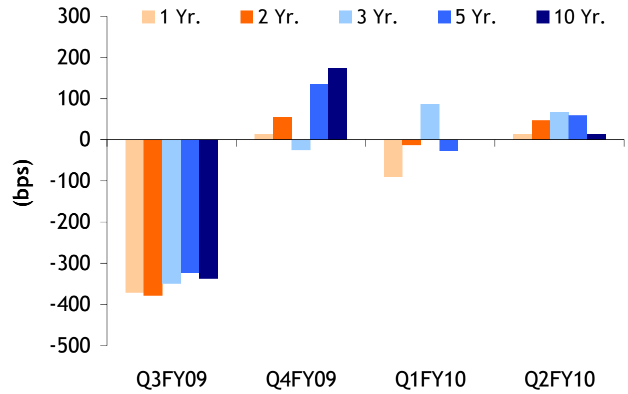
The banking sector has outperformed the market for the entire CY2009 however the sector is a high beta sector and always outperforms the markets during a recovery but also underperforms in a declining scenario. Global liquidity continues to remain comfortable and the positive momentum could sustain unless RBI starts tightening domestic liquidity where the markets will take a breather led by domestic factors. The improved liquidity scenario and investment sentiment reflects mainly in expansion of valuation multiples and thus we have revised our price targets upwards for most banks but maintain our stock ratings and Neutral stance on the sector as the risk return is not conducive to be Overweight at current valuations based on past trends. After the recent run-up, we remain selectively positive, with our top picks being YES Bank and Bank of Baroda.

Revision in price targets

	Ratings	New PT	Old PT	% Change
Axis Bank	Acc	1,042	881	18.2
Bank of Baroda	BUY	596	567	5.2
Bank of India	Acc	455	390	16.7
HDFC Bank	Acc	1,709	1,595	7.1
ICICI Bank	Acc	971	821	18.3
Punjab National Bank	Acc	883	883	—
State Bank of India	Reduce	2,002	1,813	10.4
Union Bank of India	Acc	282	282	—
Yes Bank	BUY	230	200	15.2

Trend in GSec Yields

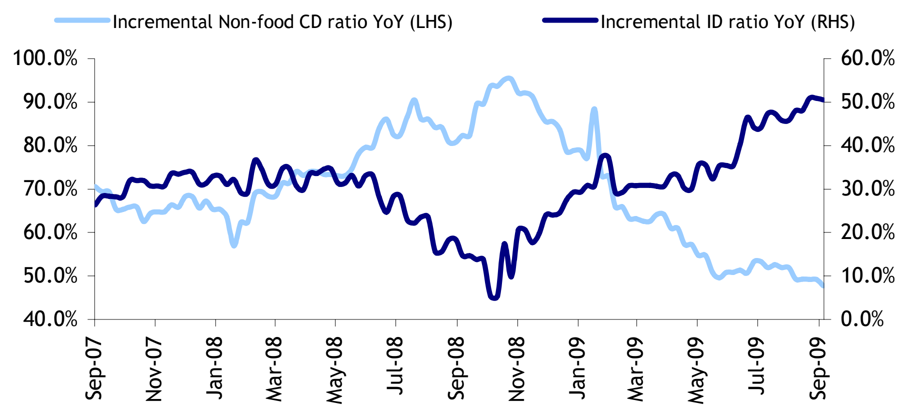




Source: Bloomberg, PL Research

Yield curve movement: The 10-year benchmark yield has inched 16bps upwards to 7.16% over the quarter after hitting a high of 7.46% during the quarter. The yield curve has remained steep. However, there has been an upward shift in the 2-5yr maturity by around 50bps led by the aggressive supply of government paper in this category. The volatility during the quarter has remained low, with 10-year yields hitting quarterly low of 6.8% and high of 7.46%. This will lead to muted treasury gains on the bond portfolio. However, due to strong momentum in the equity markets, banks may deliver a positive surprise.

Trend in incremental CD and ID Ratio



Source: Bloomberg, RBI, PL Research

Trend in key banking parameters

	Q2FY10	Q1FY10	Q4FY09	Q3FY09	Q2FY09	Q1FY09
Key indicators as on	11-Sep-09	03-Jul-09	10-Apr-09	09-Jan-09	10-Oct-08	11-Jul-08
Deposits (Rs trn)	4,090	4,029	3,830	3,619	3,442	3,304
Deposit Growth YoY	20.2%	21.9%	19.8%	21.2%	19.8%	21.5%
Non-food credit (Rs trn)	2,778	2,741	2,724	2,604	2,497	2,355
Non-food Credit Growth YoY	13.4%	16.4%	17.5%	23.7%	25.6%	25.8%
Investments (Rs trn)	1,348	1,335	1,166	1,148	987	1,015
Investments Growth YoY	34.6%	31.5%	20.0%	19.2%	8.6%	19.5%
CD ratio	67.9%	68.0%	71.1%	72.0%	72.6%	71.3%
Incremental CD ratio	47.7%	53.3%	64.1%	78.9%	89.5%	82.5%
ID ratio	33.0%	33.1%	30.4%	31.7%	28.7%	30.7%
Incremental ID ratio	50.5%	44.1%	30.6%	29.3%	13.7%	28.3%

Source: RBI, Bloomberg, PL Research

Loan growth: Loan growth has dipped significantly to 13.4% YoY as of September 19, 2009 from 17.5% as on March 2009, on account of the higher base effect (last year on account of Oil marketing company borrowing) and the current slowdown. This is, however, improving led by an improvement in housing and auto demand. The manufacturing and industrial activity is further likely to pick up as monsoons end. The deposit growth has come down from 22.0% as of June end to 20.5% due to an increase in alternative investment opportunities such as equities and insurance on increased risk appetite. Incremental CD and ID ratio is currently ruling at 47.7% and 50.5% respectively.

Margins: We expect margins to stabilise with some downward bias due to lower incremental CD ratio and most deposits being parked in liquid mutual funds. However, the re-pricing in bulk deposit rates may help few banks to stem the decline in margins. With excess liquidity in the system, bulk deposit rates have come down substantially. This will enable most banks to reduce their cost of funds which will eventually get translated to lower interest rates and improved margins, going forward.

Fee income: The growth is likely to be muted on YoY basis on account of a slowdown in the advances-linked fees and despite a surge in equity markets commission income from distribution of third party products will remain restricted due to cap on such fees imposed by respective regulators.

Restructuring: Most banks have restructured (4-5% of advances), with PSU banks having completed a large part of their restructuring. Private Banks like Axis and ICICI Bank are likely to restructure additional corporate loans. However, no major surprises are expected on restructuring.

Provisions: Provisions are likely to remain elevated, driven primarily by NPL provisions and as bond yields have hardened, there may be a moderate charge on P&L instead of a write-back in investment depreciation witnessed during Q1FY10. However, equity investments may continue to provide some respite.

Outlook: The banking sector has outperformed the market for the entire CY2009 however the sector is a high beta sector and always outperforms the markets during a recovery but also underperforms in a declining scenario. Global liquidity continues to remain comfortable and the positive momentum could sustain unless RBI starts tightening domestic liquidity where the markets will take a breather led by domestic factors. The improved liquidity scenario and investment sentiment reflects mainly in expansion of valuation multiples and thus we have revised our price targets upwards for most banks but maintain our stock ratings and Neutral stance on the sector as the risk return is not conducive to be Overweight at current valuations based on past trends. After the recent run-up, we remain selectively positive, with our top picks being YES Bank and Bank of Baroda.

Top picks - YES Bank and Bank of Baroda.

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09	FY10E	FY11E
NII	646,905	739,953	920,914
Growth (%)	*26.2*	*14.4*	*24.5*
PPP	560,428	662,408	823,062
Growth (%)	*30.7*	*18.2*	*24.3*
PAT	278,529	319,372	393,224
Growth (%)	*27.7*	*14.7*	*23.1*
PE	13.5	11.7	9.5

Quarterly Table (Rs m)

	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	*QoQ gr. (%)*
NII	164,805	160,555	*2.6*	156,532	*5.3*
PPP	144,696	128,295	*12.8*	138,409	*4.5*
PAT	74,328	66,416	*11.9*	72,785	*2.1*

Note: The NII, PPP and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

State Bank of India

Rating	Reduce
Price	Rs2,132
Target Price	Rs2,002
Market Cap. (Rs bn)	1,353.5
Shares o/s (m)	634.9

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
NII	208,731	240,881	317,271
PPP	179,152	207,129	281,433
NII Margin (%)	*2.5*	*2.3*	*2.4*
PAT	91,212	103,327	123,364
EPS (Rs)	143.7	162.8	194.3
PE (x)	14.8	13.1	11.0
P / ABV (x)	2.9	2.5	2.2

We expect State Bank of India to report growth rates of 13.4% (advances) and 26.9% (deposits), respectively on YoY basis. The margins are likely to improve by 10-15bps QoQ as the bank's incremental CD ratio should be much better than peers; fee income growth on a YoY basis is likely to remain robust. Treasury gains should continue to remain strong for the bank as it has taken good opportunity of the rally in equity markets. The bank is likely to deliver robust PAT growth of 19.7% YoY.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
NII	54,484	54,554	*(0.1)*	50,249	104,733	102,730	*1.9*
PPP	48,135	41,936	*14.8*	36,739	84,873	81,560	*4.1*
NIM Reported (%)	–	3.2	–	2.3	–	3.2	–
NIM Calculated (%)	2.2	2.8	(0.6)	2.1	2.1	2.6	(0.5)
PAT	27,054	22,601	*19.7*	23,304	50,358	39,009	*29.1*
Operating Metrics							
Deposits	7,864.7	6,197.2	*26.9*	7,635.6	7,864.7	6,197.2	*26.9*
Advances	5,662.9	4,993.5	*13.4*	5,497.9	5,662.9	4,993.5	*13.4*
CASA	3,082.7	2,378.6	*29.6*	2,935.9	3,082.7	2,378.6	*29.6*
Gross NPA	166.5	125.5	*32.6*	153.2	166.5	125.5	*32.6*
Net NPA	89.7	66.2	*35.5*	84.0	89.7	66.2	*35.5*

For SBI Rs 92 per share reduced for investment in subsidiaries from Book Value & Rs 398 per share reduced from the CMP for value of subsidiary

HDFC Bank

Rating	Accumulate
Price	Rs1,632
Target Price	Rs1,709
Market Cap. (Rs bn)	694.3
Shares o/s (m)	425.4

Key Figures (Rs m)

Y/e March	FY09E	FY10E	FY11E
NII	74,212	84,225	105,210
PPP	51,790	66,561	77,548
NII Margin (%)	*4.3*	*4.2*	*4.4*
PAT	22,450	29,258	38,118
EPS (Rs)	52.8	64.8	84.4
PE (x)	30.9	25.2	19.3
P / ABV (x)	5.0	3.8	3.2

We expect HDFC Bank to grow its advances and deposits by 6.6% and 13.3%, respectively on YoY basis. Despite a lower YoY growth in advances, bank's annualised numbers for FY10 remains healthy at 18.4%, based on QoQ growth. The margins are likely to remain stable; core fee income growth is likely to remain steady. Slippages and provisioning is likely to show some moderation.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
NII	19,471	18,665	*4.3*	18,556	38,026	35,900	*5.9*
PPP	15,398	11,229	*37.1*	15,187	30,585	21,504	*42.2*
NIM Reported (%)	–	4.2	–	4.1	–	4.2	–
NIM Calculated (%)	4.1	4.4	(0.3)	4.0	4.0	4.3	(0.3)
PAT	6,719	5,280	*27.3*	6,061	12,780	9,914	*28.9*
Operating Metrics							
Deposits	1,515.6	1,337.8	*13.3*	1,457.3	1,515.6	1,337.8	*13.3*
Advances	1,089.7	1,022.2	*6.6*	1,037.9	1,089.7	1,022.2	*6.6*
CASA	681.4	589.2	*15.6*	655.2	681.4	589.2	*15.6*
Gross NPA	24.5	16.8	*46.3*	21.6	24.5	16.8	*46.3*
Net NPA	6.9	5.8	*19.0*	6.6	6.9	5.8	*19.0*

ICICI Bank

Rating	Accumulate
Price	Rs911
Target Price	Rs971
Market Cap. (Rs bn)	1,013.4
Shares o/s (m)	1,112.7

We expect ICICI Bank to report a contraction in its advances and deposits by 13.4% and 7.8%, respectively on YoY basis. Margins are likely to remain stable. Absolute level of fee income is likely to remain steady on a QoQ basis, but decline by 29.2% YoY. Provisioning numbers are likely to decline. We expect earnings to contract by 14.8% YoY and 2% QoQ. However, core operating profit (excluding treasury is expected to grow at 1% QoQ and decline 24.8% YoY). We expect the bank to start growing its balance sheet from Q3FY10 onwards and provisioning requirements to steadily decline which should help earnings to bounce back sharply during H2FY10.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
NII	83,666	92,050	109,136
PPP	89,252	99,429	112,103
NII Margin (%)	*2.1*	*2.4*	*2.6*
PAT	37,581	38,514	49,242
EPS (Rs)	33.8	34.6	44.3
PE (x)	26.3	20.6	15.2
P / ABV (x)	1.9	1.8	1.6

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
NII	19,483	21,476	*(9.3)*	19,853	39,336	42,374	*(7.2)*
PPP	21,830	22,849	*(4.5)*	25,291	47,122	39,987	*17.8*
NIM Reported (%)	*–*	*2.4*	*–*	*2.4*	*–*	*2.4*	*–*
NIM Calculated (%)	*2.1*	*2.2*	*(0.1)*	*2.1*	*2.1*	*2.2*	*(0.0)*
PAT	8,646	10,142	*(14.8)*	8,782	17,428	17,420	*0.0*
Operating Metrics							
Deposits	2,060	2,234	*(7.8)*	2,102.4	2,060.3	2,234.0	*(7.8)*
Advances	1,922	2,220	*(13.4)*	1,981.0	1,921.6	2,219.9	*(13.4)*
CASA	649	669	*(3.1)*	639.1	648.7	669.2	*(3.1)*
Gross NPA	95	103	*(7.9)*	97.0	94.6	102.7	*(7.9)*
Net NPA	44	43	*1.6*	46.7	43.7	43.0	*1.6*

For ICICI Rs 69 per share reduced for investment in subsidiaries from Book Value & Rs 177 per share reduced from the CMP for value of subsidiary

Axis Bank

Rating	Accumulate
Price	Rs969
Target Price	Rs1,042
Market Cap. (Rs bn)	348.0
Shares o/s (m)	359.0

We expect Axis Bank to grow its advances and deposits by 18.0% and 11.5%, respectively on YoY basis. The margins are likely to remain stable QoQ. Fee income progression should remain steady. Some fresh restructuring is expected. Provisioning levels are expected to remain elevated on account of higher NPA-related provisions. Rate of PAT growth is likely to decelerate on a higher statistical base of Q2FY09 and lower growth opportunities.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
NII	36,862	47,305	60,747
PPP	37,249	47,327	58,429
NIM Margin (%)	*2.9*	*2.9*	*3.1*
PAT	18,154	22,994	28,935
EPS (Rs)	50.6	57.3	72.1
PE (x)	19.2	16.9	13.4
P / ABV (x)	3.4	2.5	2.2

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
NII	10,466	9,135	*14.6*	10,456	20,922	17,239	*21.4*
PPP	10,956	8,745	*25.3*	11,764	22,720	16,768	*35.5*
NIM Margin Reported (%)	*–*	*3.5*	*–*	*3.3*	*0.0*	*3.4*	*–*
NIM Calculated (%)	*2.9*	*3.0*	*(0.1)*	*2.9*	*2.8*	*2.9*	*(0.1)*
PAT	5,120	4,029	*27.1*	5,620	10,740	7,330	*46.5*
Operating Metrics							
Deposits	1,146.7	1,028.9	*11.5*	1,102.6	1,146.7	1,028.9	*11.5*
Advances	812.3	688.5	*18.0*	781.1	812.3	688.5	*18.0*
CASA	463.8	414.4	*11.9*	441.8	463.8	414.4	*11.9*
Gross NPA	10.9	7.1	*53.9*	9.2	10.9	7.1	*53.9*
Net NPA	4.2	3.4	*25.4*	3.7	4.2	3.4	*25.4*

Punjab National Bank

Rating	Accumulate
Price	Rs806
Target Price	Rs883
Market Cap. (Rs bn)	254.2
Shares o/s (m)	315.3

We expect Punjab National Bank to grow its advances and deposits by 22.9% and 21.0%, respectively on YoY basis. The margins are likely to slightly improve on a QoQ basis. Fee income is likely to remain steady, while treasury gains will be lower than Q1FY10 but remain strong for the bank.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
NII	70,309	82,933	97,130
PPP	57,444	70,177	82,304
NII Margin (%)	*3.1*	*3.1*	*3.0*
PAT	30,909	35,476	40,924
EPS (Rs)	98.0	112.5	129.8
PE (x)	8.2	7.2	6.2
P / ABV (x)	2.0	1.7	1.4

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
NII	19,573	17,122	*14.3*	18,618	38,191	31,570	*21.0*
PPP	14,739	13,678	*7.8*	15,693	30,433	23,504	*29.5*
NIM Reported (%)	*–*	*3.8*	*–*	*3.4*	*–*	*3.5*	*–*
NIM Calculated (%)	*3.0*	*3.2*	*(0.2)*	*2.9*	*3.0*	*3.0*	*(0.0)*
PAT	8,415	7,071	*19.0*	8,321	16,736	12,196	*37.2*
Operating Metrics							
Deposits	2,255.3	1,863.2	*21.0*	2,189.6	2,255.3	1,863.2	*21.0*
Advances	1,603.5	1,304.3	*22.9*	1,579.8	1,603.5	1,304.3	*22.9*
CASA	868.3	722.9	*20.1*	843.0	868.3	722.9	*20.1*
Gross NPA	31.3	31.2	*0.1*	28.6	31.3	31.2	*0.1*
Net NPA	3.6	5.4	*(34.7)*	3.0	3.6	5.4	*(34.7)*

Bank of India

Rating	Accumulate
Price	Rs395
Target Price	Rs455
Market Cap. (Rs bn)	207.7
Shares o/s (m)	525.9

We expect Bank of India to grow its advances and deposits by 16.0% and 22.3%, respectively on YoY basis. The margins are likely to remain stable on QoQ basis. Asset quality pressure will remain with NPL provisions remaining elevated. Some investment depreciation is also expected during the current quarter.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
NII	54,989	61,985	71,109
PPP	54,568	56,734	67,836
NII Margin (%)	*2.8*	*2.6*	*2.6*
PAT	30,074	28,050	33,167
EPS (Rs)	57.2	53.3	63.1
PE (x)	6.9	7.4	6.3
P / ABV (x)	2.0	1.8	1.4

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
NII	14,065	13,631	*3.2*	13,006	27,071	25,439	*6.4*
PPP	11,821	12,147	*(2.7)*	10,938	22,758	22,872	*(0.5)*
NIM Reported (%)	*–*	*3.2*	*–*	*2.4*	*–*	*3.1*	*–*
NIM Calculated (%)	*2.4*	*2.8*	*(0.4)*	*2.3*	*2.4*	*2.7*	*(0.4)*
PAT	5,568	7,629	*(27.0)*	5,844	11,412	13,249	*(13.9)*
Operating Metrics							
Deposits	2,008.7	1,642.5	*22.3*	1,950.2	2,008.7	1,642.5	*22.3*
Advances	1,500.3	1,293.1	*16.0*	1,478.1	1,500.3	1,293.1	*16.0*
CASA	528.7	444.5	*18.9*	513.3	528.7	444.5	*18.9*
Gross NPA	29.9	19.8	*50.9*	27.9	29.9	19.8	*50.9*
Net NPA	12.9	6.1	*112.4*	12.3	12.9	6.1	*112.4*

Kotak Mahindra Bank

Rating	Not Rated
Price	Rs742
Target Price	NA
Market Cap. (Rs bn)	256.4
Shares o/s (m)	345.7

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
NII	23,655	21,780	24,923
PPP	12,439	24,234	33,243
NII Margin (%)	*5.9*	*4.9*	*4.6*
PAT	6,524	14,079	22,685
EPS (Rs)	18.9	40.7	65.6
PE (x)	39.2	18.2	11.3
P / ABV (x)	4.3	3.7	2.9

We expect Kotak Mahindra Bank to grow its consolidated deposits by 12.6%, but report a decline in consolidated advances by 0.2% on YoY basis but up 3% QoQ. The margins may still show some improvement. Absolute levels of provisioning will start declining steadily which will help the bank deliver better earnings momentum. International subsidiaries are likely to witness a QoQ decline in PAT as a large portion of the subsidiary's earnings were realised due to write back in marked to market provisions which are unlikely in the current quarter.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
NII - standalone	4,315	3,655	*18.0*	4,090	8,404	7,180	*17.1*
PPP - standalone	2,602	1,125	*131.3*	2,843	5,445	2,361	*130.6*
NIM Calculated (%)	*2.6*	*1.9*	*0.7*	*6.3*	*6.4*	*5.5*	*0.8*
PAT - standalone	1,008	479	*110.5*	903	1,911	1,024	*86.6*
PAT - consolidated	2,563	1,610	*59.2*	2,573	5,578	3,108	*79.5*
Operating Metrics - consolidated (Rs bn)							
Deposits	162.7	144.5	*12.6*	156.5	162.7	144.5	*12.6*
Advances	239.7	240.3	*(0.2)*	232.7	239.7	240.3	*(0.2)*
Investments	128.5	101.7	*26.4*	122.4	128.5	101.7	*26.4*
Gross NPA	11.6	6.8	*69.2*	10.8	11.6	6.8	*69.2*
Net NPA	6.8	4.2	*63.1*	6.7	6.8	4.2	*63.1*

Bank of Baroda

Rating	BUY
Price	Rs468
Target Price	Rs596
Market Cap. (Rs bn)	171.0
Shares o/s (m)	365.5

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
NII	51,234	59,255	73,897
PPP	42,100	47,778	57,571
NII Margin (%)	*2.5*	*2.4*	*2.4*
PAT	21,322	25,295	30,139
EPS (Rs)	58.3	69.2	82.5
PE (x)	8.0	6.8	5.7
P / ABV (x)	1.8	1.5	1.2

We expect Bank of Baroda to grow its advances and deposits by 21.2% and 27.6%, respectively on YoY basis. The margins are likely to remain stable; core fee income growth is likely to remain steady. Treasury gains should continue to remain strong for the bank. Asset quality levels are likely to hold on a QoQ basis and relatively outperform most of its peer group banks.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
NII	12,333	11,338	*8.8*	12,051	24,385	21,908	*11.3*
PPP	9,739	8,456	*15.2*	10,102	19,841	17,058	*16.3*
NIM Reported (%)	*–*	*2.8*	*–*	*2.4*	*–*	*2.8*	*–*
NIM Calculated (%)	*2.1*	*2.4*	*(0.3)*	*2.1*	*2.1*	*2.4*	*(0.3)*
PAT	4,931	3,953	*24.7*	6,858	11,788	8,262	*42.7*
Operating Metrics							
Deposits	2,056	1,611	*27.6*	1,986.1	2,055.6	1,610.7	*27.6*
Advances	1,448	1,195	*21.2*	1,426.7	1,448.1	1,194.8	*21.2*
CASA	605	470	*28.9*	584.8	605.3	469.7	*28.9*
Gross NPA	22.3	19.5	*14.1*	20.7	22.3	19.5	*14.1*
Net NPA	3.9	5.1	*(24.2)*	3.8	3.9	5.1	*(24.2)*

Union Bank of India

Rating	Accumulate
Price	Rs237
Target Price	Rs282
Market Cap. (Rs bn)	85.1
Shares o/s (m)	359.0

We expect Union Bank of India to grow its advances and deposits by 12.6% and 27.8%, respectively on YoY basis. The margins are likely to slightly improve on a QoQ basis. Fee income growth is likely to moderate, while treasury contribution will remain lower than Q1FY10. The rise in bond yields could result in some investment depreciation for the bank as it runs a higher duration on its AFS book compared to its peer group.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
NII	38,136	42,152	51,605
PPP	30,820	35,199	42,196
NII Margin (%)	*2.7*	*2.4*	*2.4*
PAT	17,266	18,338	21,213
EPS (Rs)	34.2	36.3	42.0
PE (x)	6.9	6.5	5.6
P / ABV (x)	1.8	1.6	1.3

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
NII	8,887	9,753	*(8.9)*	8,016	16,903	17,644	*(4.2)*
PPP	7,726	6,995	*10.5*	7,875	15,601	13,155	*18.6*
NIM Reported (%)	*–*	*3.0*	*–*	*2.3*	*–*	*2.8*	*–*
NIM Calculated (%)	*2.1*	*2.9*	*(0.8)*	*2.0*	*2.0*	*2.7*	*(0.7)*
PAT	4,373	3,612	*21.1*	4,422	8,795	5,895	*49.2*
Operating Metrics							
Deposits	1,482.1	1,159.4	*27.8*	1,438.9	1,482.1	1,159.4	*27.8*
Advances	974.7	865.5	*12.6*	960.3	974.7	865.5	*12.6*
CASA	450.5	383.7	*17.4*	437.4	450.5	383.7	*17.4*
Gross NPA	20.5	16.7	*22.2*	18.7	20.5	16.7	*22.2*
Net NPA	7.2	1.2	*518.7*	6.8	7.2	1.2	*518.7*

Yes Bank

Rating	BUY
Price	Rs191
Target Price	Rs230
Market Cap. (Rs bn)	56.8
Shares o/s (m)	297.0

We expect Yes Bank to grow its advances and deposits by 18.8% and 12.4%, respectively on YoY basis. The margins are likely to improve by 10-15bps QoQ as benefits from liabilities getting reprised at a faster and lower rate continue to positively benefit margins. Non-capital market related fees likely to slowdown, but maintain a healthy growth rate of 15-20%. Treasury gains should continue to remain strong for the bank to help maintain profitability and a healthy asset quality.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
NII	5,112	7,387	9,886
PPP	5,615	7,841	10,398
NIM Margin (%)	*2.6*	*3.0*	*3.2*
PAT	3,038	4,041	5,436
EPS (Rs)	10.2	13.6	18.3
PE (x)	18.7	14.1	10.4
P / ABV (x)	3.6	2.9	2.3

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
NII	1,727	1,226	*40.9*	1,637	3,365	2,356	*42.8*
PPP	1,750	1,135	*54.2*	1,978	3,728	2,273	*64.1*
NIM Margin Reported (%)	*–*	*2.8*	*–*	*3.1*	*–*	*2.8*	*–*
NIM Calculated (%)	*3.1*	*2.7*	*0.4*	*2.9*	*3.0*	*2.7*	*0.3*
PAT	940	491	*91.6*	1,001	1,941	1,034	*87.7*
Operating Metrics							
Deposits	161.1	143.4	*12.4*	153.4	161.1	143.4	*12.4*
Advances	136.8	115.1	*18.8*	126.7	136.8	115.1	*18.8*
CASA	14.9	12.9	*15.7*	14.5	14.9	12.9	*15.7*
Gross NPA	0.9	0.2	*314.5*	0.6	0.9	0.2	*314.5*
Net NPA	0.4	0.2	*163.3*	0.3	0.4	0.2	*163.3*

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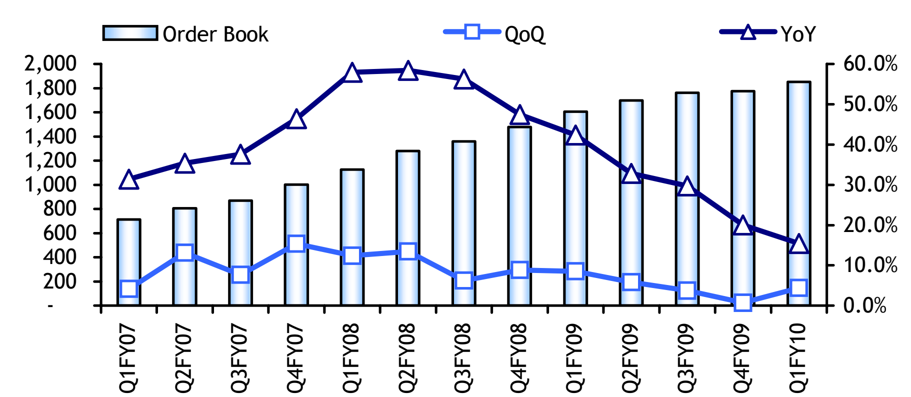
Capital Goods

The power sector continues to be the flavour of the season with various large business houses announcing mega power forays coupled with the government targeting capacity addition of 100Gw for the 12th plan. We expect the power capacity addition for the 12th plan to be upwards of 85Gw as some of the large private players cumulatively itself have announced capacity addition of close to 100Gw during the 12th plan. This will mean that the entire chain in the power EPC business right from the BTG manufacturers, to civil contractors, to MHE manufacturers, to BOP players, to transmission contractors, to transmission and distribution equipment manufacturers will continue to see large quantum of business come their way and players catering to this sector are expected to continue their onward march.

On the flipside, there are no signs of industrial capex picking up as yet. Although some sort of improved volumes for the manufacturing sector is expected in H2FY10, this may not directly translate into increased industrial capex, as there will be a time lag between companies picking up volumes to come closer to attaining optimal production volumes and only then will the industrial capex cycle start and truly revive.

Order Book



Source: Company Data, PL Research

Order inflow for capital good companies that are reliant on the power sector is expected to be much better than companies that are reliant on industrial capex for the next 12 months at least. Order inflow for power transmission is expected to considerably increase in H2FY10 due to orders being tendered out by PGCIL.

We expect the revenues of our coverage universe in this sector to be flat YoY in Q2FY10. EBITDA margin is expected to be stable at 11.6% for the coverage universe and PAT is expected to increase by 5.5% YoY.

Since Suzlon is expected to execute a considerably lower (decrease of 52% YoY) volume during the quarter, excluding Suzlon, We expect the revenues of our coverage universe in the sector to grow by 14% YoY in Q2FY10. EBITDA margin is expected to increase by 47bps on the back of lower raw material cost and improved execution. PAT is expected to increase by 14% YoY.

Top picks: BHEL and Jyoti Structures

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09	FY10E	FY11E
Net Sales	1,012,614	1,062,882	1,261,624
Growth (%)	*35.8*	*5.0*	*18.7*
EBITDA	124,988	134,673	171,600
Margin (%)	*12.3*	*12.7*	*13.6*
PAT	77,971	81,099	107,908
Growth (%)	*6.7*	*4.0*	*33.1*
PE (x)	26.9	25.9	19.5

Quarterly Table (Rs m)

	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	*QoQ gr. (%)*
Net Sales	209,917	208,663	*0.6*	164,830	*27.4*
EBITDA	24,449	24,294	*0.6*	15,494	*57.8*
Margin (%)	*11.6*	*11.6*	*0.0*	*9.4*	*2.2*
PAT (Excl. Ex Items)	14,286	13,530	*5.6*	7,068	*102.1*

Note: The Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

BHEL

Rating	Accumulate
Price	Rs2,339
Target Price	Rs2,666
Market Cap. (Rs bn)	1,145.1
Shares o/s (m)	489.5

Bharat Heavy Electricals' Limited (BHEL) management expects to win orders worth Rs550bn during FY10. Most of the order inflows for BHEL in the recent past have been from private players. The bulk tenders from NTPC and DVC are expected to be tendered out in October 09, and final contract is expected to be awarded around Q1FY11. We expect revenues to grow by 25.5% for Q2FY10. EBITDA margin is expected to improve to 15.0% (13.3% in Q2FY09) on the back of lower cost inventory being used. We expect revenue to increase by 25.4% in FY10 and EBITDA margin to increase by 260bps to 18.5% due to stable employment cost and lower raw material cost.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	267,554	335,225	413,034
EBITDA	42,596	62,135	78,648
Margin (%)	*15.9*	*18.5*	*19.0*
PAT	31,388	44,154	54,382
EPS (Rs)	64.1	90.2	111.1
RoE (%)	*26.5*	*30.4*	*30.2*
PE (x)	36.5	25.9	21.1
P/BV (x)	8.9	7.1	5.8
EV / E (x)	24.5	16.5	12.8

Quarterly Table (Rs m)

Y/e March	Q1 FY10E	Q1 FY09	*YoY gr. (%)*	Q4 FY09	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	66,710	53,426	*24.9*	44,150	123,424	97,576	*26.5*
EBITDA	10,006	7,107	*40.8*	4,595	15,926	11,702	*36.1*
Margin (%)	*15.0*	*13.3*	*1.7*	*10.4*	*12.9*	*12.0*	*0.9*
Reported PAT	7,456	6,157	*21.1*	3,843	12,162	10,000	*21.6*
PAT (Excl. Ex Items)	7,456	6,157	*21.1*	3,843	12,162	10,000	*21.6*
Operating Metrics							
% of Full year sales	*19.9*	*20.0*	*(0.1)*	*16.9*	*36.8*	*36.5*	*0.3*
RM as a % of sales	*59.0*	*59.5*	*(0.5)*	*62.5*	*60.6*	*58.6*	*2.1*
Employee expenses	11,341	8,898	*27.5*	11,137	22,477	17,851	*25.9*
Tax rate (%)	*34.5*	*34.6*	*(0.1)*	*34.5*	*34.5*	*34.7*	*(0.2)*

Siemens

Rating	**Reduce**
Price	Rs558
Target Price	Rs418
Market Cap. (Rs bn)	188.1
Shares o/s (m)	337.2

Siemens revenue is expected to be flat at Rs25bn during Q4FY09. Muted order inflow from industries is expected to continue, going ahead. EBITDA margins are expected to decrease considerably by 332bps YoY to 10.7%. Pat is expected to decrease by 6% YoY for the quarter to Rs2.3bn.

Key Figures (Rs m)

Y/e Sept	FY08	FY09E	FY10E
Net Sales	97,296	93,404	103,679
EBITDA	9,103	9,434	10,575
Margin (%)	*9.4*	*10.1*	*10.2*
PAT	5,995	5,460	6,128
EPS (Rs)	14.1	16.2	18.2
RoE (%)	*26.3*	*22.4*	*23.0*
PE (x)	39.5	34.5	30.7
P/BV (x)	8.3	7.7	7.1
EV / E (x)	19.0	18.4	16.5

Quarterly Table (Rs m)

Y/e Sept	Q4 FY09E	Q4 FY08	YoY gr. (%)	Q3 FY09	12M FY09E	12M FY08	YoY gr. (%)
Net Sales	25,426	24,636	*3.2*	19,177	84,831	83,582	*1.5*
EBITDA	2,729	3,437	*(20.6)*	2,571	10,491	7,790	*34.7*
Margin (%)	*10.7*	*13.9*	*(3.2)*	*13.4*	*12.4*	*9.3*	*3.0*
Reported PAT	2,111	2,250	*(6.2)*	3,370	11,043	5,931	*86.2*
PAT (Excl. Ex Items)	2,111	2,250	*(6.2)*	1,264	6,704	4,685	*43.1*
Operating Metrics							
% of Full year sales	30.0	29.5	*0.5*	22.6	-	-	-
RM as a % of sales	84.9	73.0	*12.0*	71.5	77.5	79.9	*(2.4)*
Tax rate (%)	22.1	34.5	*(12.4)*	50.8	35.5	38.9	*(3.4)*

ABB

Rating	**Reduce**
Price	Rs790
Target Price	Rs666
Market Cap. (Rs bn)	167.4
Shares o/s (m)	212.0

Order inflow for ABB in the recent past has been dominated by orders from the power sector. Given that there have been no signs of revival of industrial capex and ABB has won large orders in the power sector, contribution from the power sector (was ~60% of revenue in CY08) is expected to increase considerably, going forward. Increased contribution from the power sector and slowdown in the industrial segment will adversely affect the EBITDA margins in the future, as automation margins are much higher (13-14%) than the power segment margins (10-12%). For CY09, we expect the revenue growth to be flat, with lower EBITDA margin of 10.2% (11.3% in CY08).

Key Figures (Rs m)

Y/e Dec	CY08	CY09E	CY10E
Net Sales	68,370	68,528	77,357
EBITDA	7,742	6,991	8,687
Margin (%)	*11.3*	*10.2*	*11.2*
PAT	5,474	4,721	5,881
EPS (Rs)	25.8	22.3	27.8
RoE (%)	*29.2*	*20.3*	*20.9*
PE (x)	30.6	35.4	28.4
P/BV (x)	8.0	6.6	5.5
EV / E (x)	21.2	23.4	18.7

Quarterly Table (Rs m)

Y/e Dec	Q3 CY09E	Q3 CY08	YoY gr. (%)	Q2 CY09	9M CY09E	9M CY08	YoY gr. (%)
Net Sales	16,447	15,191	*8.3*	15,050	45,428	46,707	*(2.7)*
EBITDA	1,760	1,348	*30.5*	1,281	4,312	5,041	*(14.5)*
Margin (%)	*10.7*	*8.9*	*1.8*	*8.5*	*9.5*	*10.8*	*(1.3)*
Reported PAT	1,156	1,048	*10.4*	836	2,776	3,543	*(21.6)*
PAT (Excl. Ex Items)	1,156	1,048	*10.4*	836	2,776	3,543	*(21.6)*
Operating Metrics							
% of Full year sales	24.0	22.2	*1.8*	22.0	-	-	-
RM as a % of sales	70.3	73.1	*(2.8)*	70.8	70.4	72.1	*(1.7)*
Tax rate (%)	33.3	34.0	*(0.7)*	34.9	34.2	34.5	*(0.3)*

Suzlon Energy

Rating	Accumulate
Price	Rs87
Target Price	Rs97
Market Cap. (Rs bn)	134.9
Shares o/s (m)	1,549.0

Key Figures (Rs m)

Y/e March	FY09E	FY10E	FY11E
Net Sales	262,588	211,915	259,086
EBITDA	29,687	15,941	26,854
Margin (%)	*11.3*	*7.5*	*10.4*
PAT	13,253	2,760	12,907
EPS (Rs)	7.3	1.4	7.5
RoE (%)	*15.9*	*3.2*	*13.9*
PE (x)	11.9	60.3	11.5
P/BV (x)	1.6	1.6	1.5
EV / E (x)	8.5	14.3	8.5

The past 2-3 quarters have been action packed for Suzlon Energy (Suzlon) as it undertook its FCCB and acquisition loan restructuring programme, paid Martifer to raise its Repower stake to 91%, had a dismal Q1FY10 and is in talks with various interested parties to sell its stake in Hansen. On the operational side, we expect Suzlon to deliver a considerably lower volume in Q2FY10 which would result in a loss during the quarter.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	20,077	41,818	*(52.0)*	11,650	31,727	62,684	*(49.4)*
EBITDA	602	4,126	*(85.4)*	(1,730)	(1,128)	7,148	*(115.8)*
Margin (%)	*3.0*	*9.9*	*(6.9)*	*(14.8)*	*(3.6)*	*11.4*	*(15.0)*
Reported PAT	(1,858)	(3,402)	*(45.4)*	(4,400)	(6,258)	(6,357)	*(1.6)*
PAT (Excl. Ex Items)	(1,858)	(624)	*198.0*	(4,220)	(6,078)	(1,281)	*374.6*
Operating Metrics							
Volume (MW)	400	727	*(45.0)*	123	523	1,065	*(50.9)*
Realisation	50	58	*(12.7)*	95	61	59	*3.1*
RM as a % of sales	73.0	68.7	*4.3*	71.2	72.4	67.8	*4.6*
Tax rate (%)	3.0	(94.1)	*97.1*	2.5	2.7	(104.2)	*106.9*

Crompton Greaves

Rating	Reduce
Price	Rs314
Target Price	Rs296
Market Cap. (Rs bn)	115.2
Shares o/s (m)	366.6

Key Figures (Consolidated) (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	87,373	94,710	104,566
EBITDA	9,956	10,513	11,675
Margin (%)	*11.4*	*11.1*	*11.2*
PAT	5,599	6,046	6,773
EPS (Rs)	15.3	16.5	18.5
RoE (%)	*30.6*	*25.6*	*22.9*
PE (x)	20.5	19.0	17.0
P/BV (x)	6.3	4.9	3.9
EV / E (x)	11.7	10.9	9.6

Order inflow from the domestic market is expected to be much better than that in the international markets, due to an overall slowdown in demand globally (especially for distribution transformers). The management believes that demand for the industrial segment should pick up going forward. We expect growth (8% YoY) to continue during the quarter, mainly from the power segment (domestic). We expect industrial segment to witness considerable pressure both in terms of volumes and pricing.

Quarterly Table (Consolidated) (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	22,966	20,984	*9.5*	21,975	44,942	41,447	*8.4*
EBITDA	2,600	2,374	*9.5*	2,476	5,076	4,573	*11.0*
Margin (%)	*11.3*	*11.3*	*0.0*	*11.3*	*11.3*	*11.0*	*0.3*
Reported PAT	1,476	1,209	*22.1*	1,605	3,081	2,436	*26.4*
PAT (Excl. Ex Items)	1,476	1,201	*22.9*	1,604	3,080	2,427	*26.9*
Operating Metrics							
% of Full year sales	24.2	24.0	*0.2*	23.2	-	-	-
Power seg. rev gr (YoY)	8.0	35.0	*(27.0)*	8.5	8.3	33.6	*(25.4)*
Industry seg. rev gr (YoY)	(10.0)	26.7	*(36.7)*	(2.9)	(6.8)	19.5	*(26.3)*
Cons. prd seg. rev gr (YoY)	7.0	24.1	*(17.1)*	13.7	10.6	22.1	*(11.5)*

Areva T&D

Rating	Reduce
Price	Rs317
Target Price	Rs287
Market Cap. (Rs bn)	75.7
Shares o/s (m)	239.1

After the parent's decision of selling Areva T&D (global) there has been a lot of interest from various international players like Alstom, Schneider, Siemens, etc. The exact impact of this sale can only be measured once there is more clarity on which company buys it and how much is it ready to pay. We expect Areva's revenue to grow by 27% YoY in Q3CY09 with an EBITDA margin of 13.6%.

Key Figures (Rs m)

Y/e Dec	CY08	CY09E	CY10E
Net Sales	26,513	35,455	40,795
EBITDA	4,352	4,786	5,466
Margin (%)	*16.4*	*13.5*	*13.4*
PAT	2,263	2,552	3,114
EPS (Rs)	10.6	10.7	13.0
RoE (%)	*39.9*	*30.9*	*29.6*
PE (x)	29.8	29.7	24.3
P/BV (x)	10.4	8.1	6.4
EV / E (x)	18.4	17.4	15.0

Quarterly Table (Rs m)

Y/e Dec	Q3 FY09E	Q3 FY08	YoY gr. (%)	Q2 FY09	9M FY09E	9M FY08	YoY gr. (%)
Net Sales	7,446	5,865	*27.0*	7,883	23,778	17,163	*38.5*
EBITDA	1,013	953	*6.3*	1,071	3,172	2,966	*6.9*
Margin (%)	*13.6*	*16.3*	*(2.7)*	*13.6*	*13.3*	*17.3*	*(3.9)*
Reported PAT	498	523	*(4.9)*	501	1,513	1,692	*(10.6)*
PAT (Excl. Ex Items)	498	504	*(1.3)*	501	1,513	1,711	*(11.6)*
Operating Metrics							
% of Full year sales	21.0	22.1	*(1.1)*	22.2	-	-	-
RM as a % of sales	64.9	61.7	*3.2*	64.8	67.4	60.9	*6.5*
Tax rate (%)	33.0	33.2	*(0.2)*	33.9	34.3	34.2	*0.1*

Cummins India

Rating	Not Rated
Price	Rs349
Target Price	NA
Market Cap. (Rs bn)	69.1
Shares o/s (m)	198.0

We expect Cummins' revenue to de-grow by 11% in Q2FY10 on the back of lower export volumes and the overall slowdown in the industrial capex in India as well. Despite lower volumes EBITDA margin is expected to be 14.8% (13.3% in Q2FY09) on the back of lower raw material cost. On a consolidated basis, we expect Cummins topline to de-grow by 12% in FY10.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	35,285	30,975	35,357
EBITDA	5,295	4,695	5,570
Margin (%)	*15.0*	*15.2*	*15.8*
PAT	4,629	4,123	4,821
EPS (Rs)	23.4	20.8	24.4
RoE (%)	*32.7*	*24.5*	*24.4*
PE (x)	14.9	16.8	14.3
P/BV (x)	4.7	3.9	3.3
EV / E (x)	13.0	14.5	12.3

Quarterly Table (Rs m)

Y/e March	Q1 FY10E	Q1 FY09	YoY gr. (%)	Q4 FY09	12M FY09E	12M FY08	YoY gr. (%)
Net Sales	7,029	7,898	*(11.0)*	6,256	13,286	14,969	*(11.2)*
EBITDA	1,040	1,047	*(0.6)*	1,037	2,077	1,984	*4.7*
Margin (%)	*14.8*	*13.2*	*1.6*	*16.6*	*15.6*	*13.3*	*2.4*
Reported PAT	901	939	*(4.1)*	897	1,798	1,822	*(1.3)*
PAT (Excl. Ex Items)	901	939	*(4.1)*	897	1,798	1,822	*(1.3)*
Operating Metrics							
% of full years sales	22.7	24.1	*(1.4)*	20.2	-	-	-
RM as a % of sales	69.6	70.6	*(1.0)*	67.0	68.4	70.4	*(2.0)*
Tax rate (%)	28.5	27.2	*1.3*	28.1	28.3	27.1	*1.2*

Thermax

Rating	Not Rated
Price	Rs537
Target Price	NA
Market Cap. (Rs bn)	64.0
Shares o/s (m)	119.2

Thermax recently won its first utility level boiler order (Rs10bn) from a Hyderabad based company. This marks its entry into the highly lucrative utility space where plenty of action is expected from both state owned and private players. But for the current quarter, we expect execution to be slow, as the company is currently keeping a very close vigil on the working capital movement and trying to ensure that they avoid any inventory built-up or blockage of funds. We expect revenue to de - grow by 5% to Rs7.5bn with EBITDA margins of 12.6%.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	34,603	32,220	36,017
EBITDA	4,219	3,841	4,350
Margin (%)	*12.2*	*11.9*	*12.1*
PAT	2,890	2,683	3,017
EPS (Rs)	24.3	22.5	25.3
RoE (%)	*33.0*	*24.7*	*23.4*
PE (x)	22.2	23.9	21.2
P/BV (x)	8.4	6.5	5.4
EV / E (x)	14.3	15.9	14.4

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY09E	H1 FY08	YoY gr. (%)
Net Sales	7,590	8,041	*(5.6)*	5,376	12,966	15,210	*(14.8)*
EBITDA	956	932	*2.6*	689	1,646	1,843	*(10.7)*
Margin (%)	*12.6*	*11.6*	*1.0*	*12.8*	*12.7*	*12.1*	*0.6*
Reported PAT	634	570	*11.3*	465	1,099	1,207	*(8.9)*
PAT (Excl. Ex Items)	634	570	*11.3*	465	1,099	1,207	*(8.9)*
Operating Metrics							
% of Full year sales	25.0	24.6	*0.4*	17.7	-	-	-
RM as a % of sales	63.0	63.2	*(0.2)*	62.0	62.6	62.8	*(0.2)*
Tax rate (%)	33.3	39.2	*(5.9)*	32.8	33.1	35.7	*(2.6)*

Voltas

Rating	Accumulate
Price	Rs147
Target Price	Rs160
Market Cap. (Rs bn)	48.7
Shares o/s (m)	330.7

We expect timely execution in the MEP division and expect it to grow by 35% YoY in Q2FY10. The engineering segment is expected to de-grow due to slackening demand for material handling and construction equipment and de-growth in the textile machinery business (20% of the division). The unitary segment is expected to grow by 7% with EBIT margin of 6.8%

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	43,259	51,155	60,043
EBITDA	2,831	3,922	4,631
Margin (%)	*6.5*	*7.7*	*7.7*
PAT	2,514	2,757	3,233
EPS (Rs)	6.9	8.5	10.0
RoE (%)	*33.4*	*31.4*	*29.3*
PE (x)	21.3	17.4	14.8
P/BV (x)	6.2	4.9	3.9
EV / E (x)	16.2	11.6	9.5

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY09E	H1 FY08	YoY gr. (%)
Net Sales	10,965	9,285	*18.1*	11,789	22,754	19,448	*17.0*
EBITDA	939	808	*16.2*	1,007	1,946	1,680	*15.8*
Margin (%)	*8.6*	*8.7*	*(0.1)*	*8.5*	*8.6*	*8.6*	*(0.1)*
Reported PAT	678	622	*9.0*	737	1,415	1,473	*(3.9)*
PAT (Excl. Ex Items)	678	601	*12.7*	709	1,387	1,221	*13.6*
Operating Metrics							
MEP Rev. Gr. (YoY)	34.0	39.6	*(5.6)*	35.4	34.6	32.2	*2.4*
Eng. Rev. Gr. (YoY)	(15.0)	20.6	*(35.6)*	(16.5)	(15.7)	21.5	*(37.2)*
Unit. cooling rev. gr. (YoY)	7.0	7.4	*(0.4)*	7.2	7.1	16.2	*(9.1)*

KEC International

Rating	Accumulate
Price	Rs524
Target Price	Rs632
Market Cap. (Rs bn)	25.9
Shares o/s (m)	49.3

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	34,274	40,124	46,716
EBITDA	3,003	4,293	4,999
Margin (%)	*8.8*	*10.7*	*10.7*
PAT	1,163	1,971	2,400
EPS (Rs)	23.6	39.9	48.6
RoE (%)	*22.1*	*31.1*	*29.9*
PE (x)	22.2	13.1	10.8
P/BV (x)	4.6	3.6	2.9
EV / E (x)	10.2	7.4	6.3

KEC International has continued its order winning streak during Q2FY10 in the domestic market. At the end of Q1FY10, the company had an order book of Rs52bn, which is 1.3x FY10E revenue. The current order book would secure KECs topline growth for the next 12-18 months. EBITDA margin were hit in FY09 due to higher raw material cost and forex translation loss, given a stable currency EBITDA margin is expected to be higher around 10.7% in FY10.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY09E	H1 FY08	YoY gr. (%)
Net Sales	9,389	8,065	*16.4*	7,264	16,653	14,065	*18.4*
EBITDA	984	566	*73.9*	855	1,839	1,180	*55.8*
Margin (%)	*10.5*	*7.0*	*3.5*	*11.8*	*11.0*	*8.4*	*2.7*
Reported PAT	424	178	*138.0*	382	806	433	*86.1*
PAT (Excl. Ex Items)	424	178	*138.0*	382	806	433	*86.1*
Operating Metrics							
% of Full year sales	23.4	23.5	*(0.1)*	18.1	41.5	41.0	*0.5*
RM as a % of sales	75.6	75.7	*(0.1)*	75.3	75.5	72.9	*2.6*
Interest cost (% of sales)	275.0	232.8	*42.2*	217.9	492.9	413.1	*79.8*
Tax rate (%)	34.0	35.0	*(1.0)*	34.0	34.0	34.7	*(0.7)*

Kalpataru Power

Rating	Accumulate
Price	Rs836
Target Price	Rs1,025
Market Cap. (Rs bn)	39.2
Shares o/s (m)	46.9

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	18,825	23,707	29,362
EBITDA	2,025	2,937	3,742
Margin (%)	*10.8*	*12.4*	*12.7*
PAT	944	1,471	2,122
EPS (Rs)	35.6	55.5	80.1
RoE (%)	*12.4*	*17.0*	*20.8*
PE (x)	23.5	15.1	10.4
P/BV (x)	2.6	2.3	1.9
EV / E (x)	22.4	15.1	11.8

Kalpataru Power (KPTL) currently has an order book of close to Rs60bn which is 2.3 x FY10E stand alone revenue. Like KEC, KPTL as well has won several large sized orders in the domestic (MSETCL) market during the quarter as well. We expect KPTLs revenue to grow by 29% YoY (driven by both, transmission and infrastructure segment) with an EBITDA margin of 11.7%. Pat is expected to increase 28% to Rs286m.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY09E	H1 FY08	YoY gr. (%)
Net Sales	5,316	4,326	*22.9*	4,873	10,189	9,084	*12.2*
EBITDA	616	523	*17.7*	584	1,200	1,091	*10.0*
Margin (%)	*11.6*	*12.1*	*(0.5)*	*12.0*	*11.8*	*12.0*	*(0.2)*
Reported PAT	275	223	*23.3*	321	596	513	*16.1*
PAT (Excl. Ex Items)	275	223	*23.3*	321	596	513	*16.1*
Operating Metrics							
% of Full year sales	22.4	23.0	*(0.6)*	20.6	43.0	48.3	*(10.9)*
RM as a % of sales	72.0	73.2	*(1.2)*	70.6	71.4	73.2	*(2.5)*
Interest cost (% of sales)	240.0	227.1	*12.9*	140.0	380.0	385.0	*(1.3)*
Tax rate (%)	25.0	26.1	*(1.1)*	24.8	24.9	27.0	*(7.7)*

Jyoti Structures

Rating	BUY
Price	Rs151
Target Price	Rs207
Market Cap. (Rs bn)	12.4
Shares o/s (m)	81.7

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	17,171	21,342	26,401
EBITDA	1,959	2,390	2,957
Margin (%)	*11.4*	*11.2*	*11.2*
PAT	797	990	1,301
EPS (Rs)	9.8	12.1	15.9
RoE (%)	*21.0*	*21.5*	*23.2*
PE (x)	15.5	12.5	9.5
P/BV (x)	3.0	2.5	2.0
EV / E (x)	7.9	6.8	5.7

Jyoti Structures (JSL) had an order book of Rs3.9bn in Q1FY10, which is 1.9 x FY10E sales. Although in the recent past JSL has not announced any large order wins, we believe that this is just a temporary state and expect JSL to receive orders in the near term, especially in the domestic market. We expect PGCIL tenders to pick up pace in H2FY10 and expect JSLs revenue to grow by 24.3% with EBITDA margin of 11.2% in Q2FY10.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY09E	H1 FY08	YoY gr. (%)
Net Sales	5,122	4,208	*21.7*	4,847	9,969	8,224	*21.2*
EBITDA	574	501	*14.5*	529	1,102	981	*12.3*
Margin (%)	*11.2*	*11.9*	*(0.7)*	*10.9*	*11.1*	*11.9*	*(0.9)*
Reported PAT	228	201	*13.4*	224	452	407	*11.2*
PAT (Excl. Ex Items)	228	201	*13.4*	224	452	407	*11.2*
Operating Metrics							
% of Full year sales	24.0	24.5	*(0.5)*	22.7	46.7	47.9	*(1.2)*
RM (% of sales)	78.9	77.5	*1.4*	79.1	79.0	77.9	*1.1*
Int. cost (% of sales)	200.0	174.3	*25.7*	177.6	377.6	307.9	*69.7*
Tax rate (%)	34.0	35.6	*(1.6)*	34.0	34.0	37.0	*(3.0)*

EMCO

Rating	Accumulate
Price	Rs94
Target Price	Rs104
Market Cap. (Rs bn)	6.1
Shares o/s (m)	65.1

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	9,963	11,805	13,946
EBITDA	1,383	1,519	1,776
Margin (%)	*13.9*	*12.9*	*12.7*
PAT	532	619	754
EPS (Rs)	9.0	9.5	11.6
RoE (%)	*12.7*	*13.5*	*14.3*
PE (x)	10.3	9.8	8.1
P/BV (x)	1.3	1.3	1.1
EV / E (x)	6.0	5.5	4.8

The order book of Rs15.1bn which consists of more than 66% of project orders, on one hand provide a clear outlook on revenue growth but on the order will reduce the overall EBITDA margin (as projects division works on margins of 10-11%) in the future. The profit from EMCO energy sale is expected to be recorded in this quarter. More clarity on the coal trading venture could be a positive trigger, going forward. We expect EMCO's revenue to grow by 20% to Rs2.8bn, with EBITDA margin of 12.9% and a PAT of Rs125m (excluding profit from Emco energy sale) in Q2FY10.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY09E	H1 FY08	YoY gr. (%)
Net Sales	2,656	2,306	*15.2*	1,926	4,582	4,140	*10.7*
EBITDA	343	307	*11.7*	252	595	546	*9.0*
Margin (%)	*12.9*	*13.3*	*(0.4)*	*13.1*	*13.0*	*13.2*	*(0.2)*
Reported PAT	777	113	*587.3*	81	206	214	*(3.4)*
PAT (Excl. Ex Items)	125	113	*10.7*	81	206	214	*(3.4)*
Operating Metrics							
% of Full year sales	22.5	23.2	*(0.7)*	16.3	-	-	-
RM as a % of sales	74.5	73.5	*1.0*	74.6	74.5	74.0	*0.5*
Tax rate (%)	33.3	30.8	*2.5*	33.7	33.4	31.0	*2.5*

Hindustan Dorr Oliver

Rating	Accumulate
Price	Rs131
Target Price	Rs171
Market Cap. (Rs bn)	5.1
Shares o/s (m)	38.9

Hindustan Dorr Oliver (HDO) has an order book of more than Rs15bn, with large order wins from HPCL-Mittal in Q1FY10. This order book is executable over the next 15-18 months and is close 2xFY10E revenue. We expect the growth momentum to continue in Q2FY10, with revenue expected to grow by 61% with EBITDA margin of 11.9% (YoY decrease of 30 bps).

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	5,133	8,351	10,439
EBITDA	511	985	1,221
Margin (%)	*10.0*	*11.8*	*11.7*
PAT	302	585	739
EPS (Rs)	7.8	15.0	19.0
RoE (%)	*21.5*	*30.8*	*31.2*
PE (x)	16.9	8.7	6.9
P/BV (x)	2.9	2.2	1.7
EV / E (x)	11.2	6.2	5.0

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY09E	H1 FY08	YoY gr. (%)
Net Sales	1,879	1,164	*61.4*	1,804	3,683	2,010	*83.3*
EBITDA	224	135	*65.9*	223	447	236	*89.0*
Margin (%)	*11.9*	*11.6*	*0.3*	*12.4*	*12.1*	*11.8*	*0.4*
Reported PAT	127	80	*59.3*	128	255	141	*81.0*
PAT (Excl. Ex Items)	127	80	*59.3*	128	255	141	*81.0*
Operating Metrics							
% of Full year sales	22.5	22.7	*(0.2)*	21.6	-	-	-
RM as a % of sales	80.9	80.0	*0.9*	80.6	80.7	78.1	*2.6*
Tax rate (%)	33.3	31.8	*1.5*	32.5	32.9	32.3	*0.6*

Action Const. Equip.

Rating	Accumulate
Price	Rs34
Target Price	Rs37
Market Cap. (Rs bn)	3.3
Shares o/s (m)	89.9

Although funding from NBFC is expected to improve, this might not result in immediate improvement in Action Construction Equipment's (ACE's) volumes. Volumes are expected to gradually improve as the overall demand for infrastructure-related equipment picks up. We expect ACE to show a considerable decline (38% YoY) in its revenue in Q2FY10. EBITDA margin is expected to be in the range of 7%.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	4,407	3,966	4,827
EBITDA	327	291	448
Margin (%)	*7.4*	*7.3*	*9.3*
PAT	227	206	335
EPS (Rs)	2.5	2.3	3.7
RoE (%)	*19.3*	*15.9*	*21.0*
PE (x)	14.5	16.0	9.8
EV / E (x)	10.7	11.1	7.1
P/BV (x)	2.1	1.9	1.6

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY09E	H1 FY08	YoY gr. (%)
Net Sales	899	1,451	*(38.0)*	809	1,708	2,867	*(40.4)*
EBITDA	63	130	*(51.6)*	54	117	293	*(59.9)*
Margin (%)	*7.0*	*9.0*	*(2.0)*	*6.7*	*6.9*	*10.2*	*(3.3)*
Reported PAT	54	88	*(38.9)*	34	88	212	*(58.5)*
PAT (Excl. Ex Items)	54	88	*(38.9)*	34	88	212	*(58.5)*
Operating Metrics							
% of Full year sales	22.7	32.9	*(10.2)*	20.4	-	-	-
RM as a % of sales	77.0	83.2	*(6.2)*	76.7	76.8	80.2	*(3.3)*
O.I. (Rs m, incl. serv. inc.)	21.0	9.2	*11.8*	10.5	31.5	16.4	*15.1*

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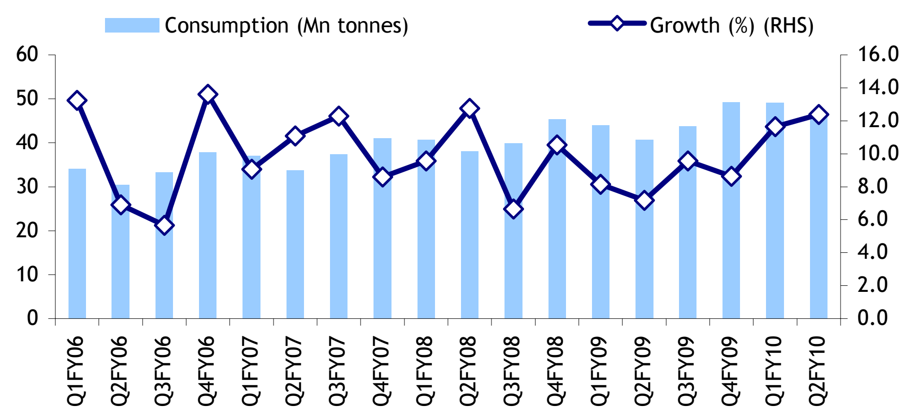
Cement

Driven by a strong growth in Northern (including Central) and Eastern region, all-India consumption grew by 14.6% between July-August 2009 based on data released by CMA. In September 2009, growth is expected to come down to 8% due to higher base and slight weakness in the demand across the regions. Lower growth in this month would bring down the overall growth for the quarter to 12.4%.

While analyzing the performance region-wise, demand remains strong across the regions except South and West. Consumption in the Central and Northern region grew by 33% and 17%, respectively during July-August 2009. Growth in these regions was primarily driven by lower base since consumption in both these regions de-grew in the previous year. Southern region, the best performer of the previous year, managed to secure a consumption growth of 5.5%. The poor show was mainly on account of flat consumption level in AP and Karnataka. Eastern region's consumption grew by 26% during the period on the back of strong demand from Bihar and Orissa.

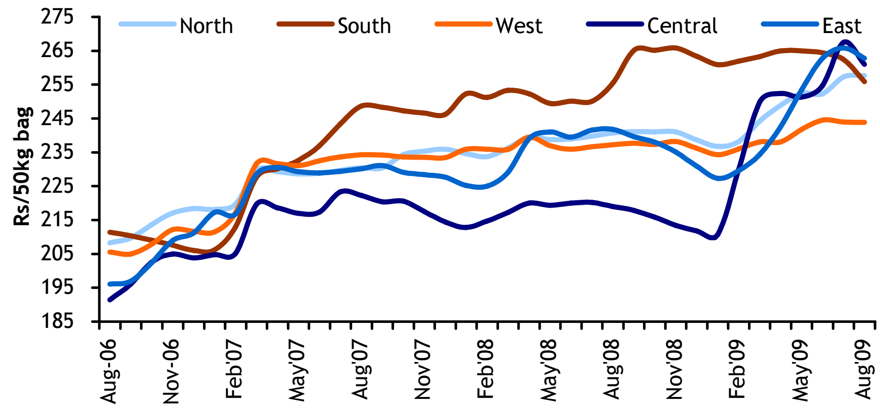
All India Consumption and Growth



Source: CMA, PL Research

Prices in southern region declined by almost Rs20-30 per bag during the quarter, while severity in AP market is at an extreme since prices fell by ~Rs45-50 per bag owing to complete wash-out of demand and increased supply. Prices in the UP market (primarily Central UP- Lucknow and Kanpur) after sporadic rise corrected by ~Rs50 per bag to Rs240-250 from the peak of Rs300 due to lackluster demand, coupled with massive crop failure, unreasonable price levels and down-sizing of one-off demand elements. Prices in Northern and Eastern region remained stable on the back of better demand and low inventory built-up as compared to other regions.

Region-wise Cement Prices



Source: CMA, PL Research

We maintain our Underweight rating on the sector, primarily on account of massive addition across the regions. We remain cautious on the quality of demand and its sustainability in the Central region which has been the fulcrum behind revival of the Northern region in terms of prices. Also, there is an immense downside risk to the prices in the Southern region, with sharp cuts in the utilisation rates from ~95% in FY09 to 85% and 77% in FY10 and FY11, respectively. Sluggishness in the Southern region would spread to the Western region (only Maharasthra) in the form of higher supplies.

Top picks: Ambuja Cement

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09	FY10E	FY11E
Net Sales	448,843	486,266	491,547
Growth (%)	*16.4*	*8.3*	*1.1*
EBITDA	114,410	148,810	130,998
Margin (%)	*25.5*	*30.6*	*26.7*
PAT	64,901	79,545	69,285
Growth (%)	*0.6*	*22.6*	*(12.9)*
PE (x)	11.2	9.2	10.5

Quarterly Table (Rs m)

	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	*QoQ gr. (%)*
Net Sales	99,458	89,572	*11.0*	109,097	*(8.8)*
EBITDA	32,334	21,661	*49.3*	35,196	*(8.1)*
Margin (%)	*32.5*	*24.2*	*8.3*	*32.3*	*0.2*
PAT (Excl. Ex Items)	19,163	13,635	*40.5*	21,689	*(11.6)*

Note: The Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

Grasim Industries

Rating	Accumulate
Price	Rs2,509
Target Price	Rs3,096
Market Cap. (Rs bn)	230.0
Shares o/s (m)	91.7

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	184,039	188,745	190,846
EBITDA	43,296	55,611	49,494
Margin (%)	*23.5*	*29.5*	*25.9*
PAT	21,867	26,263	24,157
EPS (Rs)	238.5	286.4	263.5
RoE (%)	*21.1*	*20.7*	*16.0*
PE (x)	10.5	8.8	9.5
P / BV (x)	2.0	1.6	1.4
EV / E (x)	6.6	4.7	5.0

Cement business's EBITDA is expected to grow by 82% on the back of a 24% volume growth and 48% rise in EBITDA per tonne. Riding on the strong demand offtake and better realisations along with bottomed-out cost of production, VSF's EBITDA is expected to grow by 69%. Continued operation's (excluding Sponge iron) EBITDA would grow by 70%, while on reported basis, EBITDA would grow by 61%. PAT would grow by 34% to Rs5.6bn due to higher depreciation and interest on account of capitalization of various expansion projects and higher tax rate.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	27,462	26,853	*2.3*	30,453	57,915	52,635	*10.0*
EBITDA	9,332	5,792	*61.1*	8,853	18,185	13,168	*38.1*
Margin (%)	*34.0*	*21.6*	*57.6*	*29.1*	*31.4*	*25.0*	*25.5*
Reported PAT	5,632	4,195	*34.2*	8,666	14,297	9,337	*53.1*
PAT (Excl. Ex Items)	5,632	4,195	*34.2*	5,305	10,937	9,337	*17.1*
Operating Metrics							
Cement							
Sales (Mn tonnes)	4.6	3.7	*23.6*	4.9	9.5	7.7	*23.3*
Net realisation/Tonne	3,702	3,446	*7.4*	3,664	3,682	3,405	*8.2*
EBITDA (Rs m)	6,919	3,795	*82.3*	7,401	7,168	1,831	*291.5*
EBITDA/Tonne	1,477	997	*48.1*	1,484	1,481	1,102	*34.4*
VSF							
Sales (tonnes)	70,197	62,536	*12.3*	67,418	137,615	119,296	*15.4*
Net realisation/Tonne	103,000	101,768	*1.2*	97,543	100,327	101,835	*(1.5)*
EBITDA (Rs m)	2,494	1,477	*68.9*	1,981	4,475	3,430	*30.5*

Quarterly nos. are Standalone, Full year nos. are Consolidated

Ambuja Cement

Rating	Accumulate
Price	Rs101
Target Price	Rs120
Market Cap. (Rs bn)	153.7
Shares o/s (m)	1,525.3

Key Figures (Rs m)

Y/e Dec	CY08	CY09E	CY10E
Net Sales	62,347	71,244	69,913
EBITDA	17,779	20,346	22,570
Margin (%)	*28.5*	*28.6*	*32.3*
PAT	11,346	12,901	13,975
EPS (Rs)	7.4	8.5	9.2
RoE (%)	*27.1*	*21.2*	*20.1*
PE (x)	13.5	11.9	11.0
P / BV (x)	2.7	2.4	2.1
EV / E (x)	8.0	7.2	6.1

Net revenue is expected to grow by 18% on the back of 9% volume growth and 9% realisation growth. EBITDA would grow by 25% due to an increase in the proportion of cheaper imported coal and higher realizations. EBITDA per tonne would expand by 15% YoY to Rs1,163, while QoQ, it would rise by 17% due to lower clinker purchase from outside. Adjusted PAT would grow by 25% to Rs3.1bn.

Quarterly Table (Rs m)

Y/e Dec	Q3 CY09E	Q3 CY08	YoY gr. (%)	Q2 CY09	9M CY09E	9M CY08	YoY gr. (%)
Net Sales	16,381	13,873	*18.1*	18,474	53,331	46,057	*15.8*
EBITDA	4,929	3,945	*24.9*	4,797	14,912	13,757	*8.4*
Margin (%)	*30.1*	*28.4*	*5.8*	*26.0*	*28.0*	*29.9*	*(1.9)*
Reported PAT	3,130	2,501	*25.1*	3,247	9,717	11,505	*(15.5)*
PAT (Excl. Ex Items)	3,130	2,501	*25.1*	3,247	9,675	8,882	*8.9*
Operating Metrics							
Sales (Mn tonnes)	4.2	3.9	*8.6*	4.8	14.2	13.1	*8.3*
Net realisation/Tonne	3,867	3,557	*8.7*	3,829	3,766	3,522	*6.9*
EBITDA/Tonne	1,163	1,011	*15.0*	994	1,053	1,052	*0.1*

ACC

Rating	Sell
Price	Rs814
Target Price	Rs674
Market Cap. (Rs bn)	152.9
Shares o/s (m)	187.8

ACC's earnings would be entirely driven by strong realizations and lower other expenses. Sales volume would rise by 5% to 5.1m tonnes, while its realisation is expected to go up by 5% to Rs3,898 per tonne. Driven by higher realizations and decline of 17% in other expenses, EBITDA is expected to grow by 61% to Rs6.8bn. While on a per tonne basis, EBITDA is expected to rise by 108% YoY and to Rs1,333.

Key Figures (Rs m)

Y/e Dec	CY08	CY09E	CY10E
Net Sales	77,197	86,637	91,032
EBITDA	16,624	26,827	21,807
Margin (%)	*21.5*	*31.0*	*24.0*
PAT	10,708	16,731	12,649
EPS (Rs)	57.0	89.1	67.4
RoE (%)	*23.8*	*31.2*	*20.0*
PE (x)	14.3	9.1	12.1
P / BV (x)	3.2	2.6	2.3
EV / E (x)	8.3	5.3	6.6

Quarterly Table (Rs m)

Y/e Dec	Q3 CY09E	Q3 CY08	YoY gr. (%)	Q2 CY09	9M CY09E	9M CY08	YoY gr. (%)
Net Sales	21,001	19,138	*9.7*	21,882	64,523	57,165	*12.9*
EBITDA	6,803	4,229	*60.9*	7,265	20,321	12,856	*58.1*
Margin (%)	*32.4*	*22.1*	*46.6*	*33.2*	*31.5*	*22.5*	*9.0*
Reported PAT	4,260	2,600	*63.9*	4,709	12,963	8,392	*54.5*
PAT (Excl. Ex Items)	4,260	2,600	*63.9*	4,710	12,983	8,097	*60.3*
Operating Metrics							
Sales (Mn tonnes)	5.1	4.9	*5.0*	5.4	16.3	15.6	*4.5*
Net realisation/Tonne	3,898	3,713	*5.0*	3,840	3,769	3,487	*8.1*
EBITDA/Tonne	1,333	870	*53.2*	1,340	1,250	827	*51.2*

UltraTech Cement

Rating	Reduce
Price	Rs805
Target Price	Rs730
Market Cap. (Rs bn)	100.2
Shares o/s (m)	124.5

Net sales would grow by 10% on the back of a 5% growth in volume and rise of 5% in blended realisation. High realisation in the domestic market (Up 5% YoY) averted the impact of a sharp fall of ~20% in realisations of clinker which constitutes ~13% of total volume. EBITDA would grow by 55% on the back of massive savings in power and fuel cost which would fall by 28% YoY on per tonne basis to 715. Accordingly, EBITDA per tonne is expected to grow by 48% to Rs1,078.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	63,831	69,844	67,110
EBITDA	17,185	21,578	15,307
Margin (%)	*26.9*	*30.9*	*22.8*
PAT	9,781	11,695	7,089
EPS (Rs)	78.6	93.9	56.9
RoE (%)	*31.0*	*28.1*	*14.1*
PE (x)	10.2	8.6	14.1
P / BV (x)	2.8	2.1	1.9
EV / E (x)	6.4	4.8	6.8

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	15,332	13,962	*9.8*	19,528	34,860	28,922	*20.5*
EBITDA	4,604	2,967	*55.2*	7,168	11,772	7,426	*58.5*
Margin (%)	*30.0*	*21.3*	*41.3*	*36.7*	*33.8*	*25.7*	*8.1*
Reported PAT	2,416	1,642	*47.1*	4,178	6,594	4,292	*53.6*
PAT (Excl. Ex Items)	2,416	1,642	*47.1*	4,178	6,594	4,292	*53.6*
Operating Metrics							
Sales (Mn tonnes)	4.3	4.1	*4.7*	5.3	9.6	8.4	*13.8*
Net realisation/Tonne	3,590	3,422	*4.9*	3,678	3,639	3,434	*6.0*
EBITDA/Tonne	1,078	727	*48.2*	1,350	1,229	882	*39.4*

India Cement

Rating	Reduce
Price	Rs131
Target Price	Rs111
Market Cap. (Rs bn)	37.1
Shares o/s (m)	282.6

India Cement is expected to present the worst performance among the stocks under our coverage. Sharp fall of 7% in realisation would dilute the benefit of strong volume growth of 17% and incremental income of Rs190m from IPL. Accordingly, net sales would grow by 9%. EBITDA (including EBITDA of Rs140m related to IPL against nil in the Q2FY09) would decline by 5% due to higher freight and selling expenses. PAT would decline by 21% due to higher depreciation and interest cost and increased tax rate.

Key Figures (Rs m)

Y/e March	FY09E	FY10E	FY11E
Net Sales	34,279	36,210	37,329
EBITDA	9,961	10,398	9,060
Margin (%)	*29.1*	*28.7*	*24.3*
PAT	5,115	4,477	3,535
EPS (Rs)	18.1	15.8	12.5
RoE (%)	*18.5*	*14.2*	*10.1*
PE (x)	7.2	8.3	10.5
EV / E (x)	5.6	5.5	6.3
P / BV (x)	1.3	1.1	1.0

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	10,303	9,455	*9.0*	9,535	19,837	18,111	*9.5*
EBITDA	2,756	2,901	*(5.0)*	2,863	5,620	5,907	*(4.9)*
Margin (%)	*26.8*	*30.7*	*(12.8)*	*30.0*	*28.3*	*32.6*	*(4.3)*
Reported PAT	1,210	1,343	*(9.9)*	1,443	2,653	2,764	*(4.0)*
PAT (Excl. Ex Items)	1,220	1,546	*(21.1)*	1,304	2,525	3,110	*(18.8)*
Operating Metrics							
Sales (Mn tonnes)	2.8	2.4	*16.8*	2.5	5.3	4.8	*10.5*
Net realisation/Tonne	3,345	3,591	*(6.8)*	3,677	3,499	3,519	*(0.6)*
EBITDA/Tonne	923	1,254	*(26.4)*	1,223	1,062	1,267	*(16.2)*

Shree Cement

Rating	Accumulate
Price	Rs1,607
Target Price	Rs1,807
Market Cap. (Rs bn)	56.0
Shares o/s (m)	34.8

Fuelled by a strong volume growth of 19% and 17% rise in realisation, net sales is expected to grow by 43%. EBITDA is expected to grow by 114% on the back of strong topline growth and huge savings in power and fuel cost. Power and fuel cost per tonne would decline by 29% to Rs567 due to sharp fall in price of pet coke. Accordingly, EBITDA per tonne would grow by 80% to Rs1629, while marginally down by 2% QoQ.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	27,150	33,585	35,318
EBITDA	9,564	14,049	12,760
Margin (%)	*35.2*	*41.8*	*36.1*
PAT	6,084	7,478	7,879
EPS (Rs)	174.6	214.6	226.2
RoE (%)	*62.0*	*46.8*	*34.7*
PE (x)	9.2	7.5	7.1
P / BV (x)	4.6	3.0	2.1
EV / E (x)	6.0	3.9	3.7

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	8,978	6,292	*42.7*	9,224	18,203	12,422	*46.5*
EBITDA	3,909	1,828	*113.9*	4,250	8,159	3,933	*107.5*
Margin (%)	*43.5*	*29.0*	*49.9*	*46.1*	*44.8*	*31.7*	*13.2*
Reported PAT	2,505	1,075	*133.1*	2,911	5,417	2,184	*148.0*
PAT (Excl. Ex Items)	2,505	1,151	*117.6*	2,946	5,451	2,316	*135.4*
Operating Metrics							
Sales (Mn tonnes)	2.4	2.0	*19.0*	2.5	4.9	3.9	*25.7*
Net realisation/Tonne	3,583	3,055	*17.3*	3,477	3,679	3,123	*17.8*
EBITDA/Tonne	1,629	906	*79.8*	1,668	1,649	999	*65.0*

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Construction

The second quarter was lacklustre in terms of order tendering despite UPA government's promise for a major push to the infrastructure sector. Delayed and lower rains may result in an increase in turnover which is normally muted on account of monsoons in the second quarter (July-August being major monsoon periods). Action from NHAI was also absent despite the major publicity given to the 20kms per day road construction agenda. Orders from water and buildings segment continued for the construction companies but the ticket sizes were lower. For engineering companies long awaited orders did come from refineries along with strong orders from power sector.

Nagarjuna Constructions and Larsen & Toubro experienced a robust order inflow in the second quarter. Some of the major orders bagged in the construction and engineering space are listed as follows:

Major order inflows in Q2FY10

Company	Order size (Rs bn)	Sector/Scope
IVRCL	7.0	Water
IVRCL	5.5	Water & Buildings
Larsen & Toubro	53.0	O&G
Larsen & Toubro	20.0	Power, GMR
Punj Lloyd	59.0	Buildings, Libya

Source: Company Data

Though lower than expected rains may turn beneficial to construction companies, deferred execution by clients may keep the turnover growth lower.

We expect our Construction & Engineering (C&E) universe to register a YoY growth of 21% in its topline, while the EBITDA margins are expected to improve by 30bps and PAT is expected to grow YoY by 15.5 % on account of lower interest cost.

Top Picks: Larsen & Toubro and IVRCL

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09	FY10E	FY11E
Net Sales	644,588	775,347	950,457
Growth (%)	*37.2*	*20.3*	*22.6*
EBITDA	66,440	90,730	114,146
Margin (%)	*10.3*	*11.7*	*12.0*
PAT	40,228	46,067	53,078
Growth (%)	*18.8*	*14.5*	*15.2*
PE (x)	36.2	31.6	27.4

Quarterly Table (Rs m)

	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	*QoQ gr. (%)*
Net Sales	177,628	147,652	*20.3*	150,954	*17.7*
EBITDA	19,525	15,759	*23.9*	18,173	*7.4*
Margin (%)	*11.0*	*10.7*	*0.3*	*12.0*	*(1.0)*
PAT (Excl. Ex Items)	9,076	7,856	*15.5*	8,558	*6.1*

Note: The Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

Larsen & Toubro

Rating	Accumulate
Price	Rs1,655
Target Price	Rs1,690
Market Cap. (Rs bn)	967.6
Shares o/s (m)	584.7

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	336,466	411,655	513,420
EBITDA	35,770	44,843	58,405
Margin (%)	*10.6*	*10.9*	*11.4*
PAT	27,092	32,108	37,476
EPS (Rs)	46.3	54.9	64.1
RoE (%)	*24.6*	*23.8*	*23.6*
PE (x)	35.7	30.1	25.8
P/BV	7.8	6.6	5.6
EV / E (x)	28.7	23.4	18.4

L&T's order inflow was robust at Rs91bn in Q2FY10. The company won much awaited order from ONGC and strengthened its order inflow in power sector. We expect the company to continue posting a good revenue run rate, with a 74.4bps improvement in EBITDA margins. Interest cost and depreciation are expected to show a rise on account of lower base effect and higher funding of capex.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	93,523	76,822	*21.7*	73,627	167,150	145,836	*14.6*
EBITDA	8,885	6,727	*32.1*	7,863	16,748	13,301	*25.9*
Margin (%)	*9.5*	*8.8*	*0.7*	*10.7*	*10.0*	*9.1*	*0.9*
Reported PAT	5,720	4,602	*24.3*	15,982	21,702	9,627	*125.4*
PAT (Excl. Ex Items)	5,720	4,602	*24.3*	5,783	11,503	9,627	*19.5*
Operating Metrics							
Interest as a % to sales	*1.1*	*0.9*	0.2	*1.5*	*1.3*	*0.7*	0.5
Order Book (Rs bn)	807.0	629.5	*28.2*	716.0	807.0	629.0	*28.3*
Revenue Break -Up (Rs bn)							
E&C	80.4	61.5	*30.9*	63.9	144.3	116.0	*24.3*
E&E	7.0	7.0	*0.2*	5.3	12.3	12.2	*0.4*
Others	6.1	8.4	*(27.3)*	4.5	10.6	17.6	*(39.8)*

GMR Infrastructure

Rating	Reduce
Price	Rs70
Target Price	Rs64
Market Cap. (Rs bn)	253.3
Shares o/s (m)	3,641.3

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	40,192	47,259	56,833
EBITDA	10,670	13,062	15,596
Margin (%)	*26.5*	*27.6*	*27.4*
PAT	2,795	1,869	1,767
EPS (Rs)	0.8	0.5	0.5
RoE (%)	*1.1*	*0.7*	*0.7*
PE (x)	90.6	135.5	143.3
EV / E (x)	32.7	32.2	29.7
P/BV	3.9	3.8	3.7

GMR Energy acquired 100% ownership in EMCO Energy, (subsidiary of EMCO), which is developing 600MW coal based power plant in two phases in Maharashtra. The company's sixth highway project, Tindivanam-Ulundurpet, also commissioned and revenues are also expected to flow from the Mangalore plant. However, on account of capitalisation of assets PAT is expected to decline by 15% YoY.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	11,523	8,468	*36.1*	11,775	23,299	17,323	*34.5*
EBITDA	3,121	2,471	*26.3*	3,213	6,333	4,859	*30.3*
Margin (%)	*27.1*	*29.2*	*(2.1)*	*27.3*	*27.2*	*28.1*	*(0.9)*
Reported PAT	393	466	*(15.7)*	225	617	1,215	*(49.2)*
PAT (Excl. Ex Items)	393	466	*(15.7)*	225	617	1,215	*(49.2)*
Operating Metrics							
Interest as a % to sales	*12.1*	*8.4*	3.8	*13.6*	*12.9*	*8.1*	4.8
Revenue Break -Up (Rs bn)							
Airport	3.2	3.3	*(1.5)*	3.2	6.4	6.0	*6.0*
Power	6.1	4.3	*42.6*	6.3	12.4	9.4	*32.5*
Roads	0.8	0.3	*133.5*	0.8	1.6	0.7	*127.3*
Others	1.4	0.6	*145.6*	1.6	3.0	1.2	*143.2*

Punj Lloyd

Rating	Accumulate
Price	Rs261
Target Price	Rs278
Market Cap. (Rs bn)	79.1
Shares o/s (m)	303.4

Punj Lloyd enjoyed a good quarter with robust order intake of Rs66bn and successful completion of QIP, raising Rs6.7bn at Rs240 per share. Punj would continue to post a YoY growth in sales on account of faster execution of projects.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	119,861	135,054	159,258
EBITDA	3,834	12,874	15,331
Margin (%)	*3.2*	*9.5*	*9.6*
PAT	4,189	5,040	5,577
EPS (Rs)	(7.4)	15.7	17.4
RoE (%)	*(8.6)*	*18.1*	*16.8*
PE (x)	(35.1)	16.6	15.0
P/BV	3.2	2.7	2.3
EV / E (x)	27.8	9.4	8.5

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	33,523	29,530	*13.5*	29,551	63,074	56,017	*12.6*
EBITDA	3,051	2,994	*1.9*	2,916	5,967	5,110	*16.8*
Margin (%)	*9.1*	*10.1*	*(1.0)*	*9.9*	*9.5*	*9.1*	*0.3*
Reported PAT	1,409	1,441	*(2.2)*	1,272	2,680	2,560	*4.7*
PAT (Excl. Ex Items)	1,409	1,441	*(2.2)*	1,272	2,680	2,560	*4.7*
Operating Metrics							
Interest as a % to sales	*1.6*	*1.6*	*(0.0)*	*2.5*	*2.0*	*1.5*	*0.5*
Order Book (Rs bn)	345.0	217.0	*59.0*	279.0	345.0	217.0	*59.0*
Revenue Break -Up (Rs bn)							
Infrastructure	9.7	11.5	*(15.6)*	6.2	15.9	18.7	*(14.7)*
Others	23.8	18.0	*32.1*	23.3	47.1	37.3	*26.2*

IVRCL

Rating	Accumulate
Price	Rs380
Target Price	Rs409
Market Cap. (Rs bn)	51.2
Shares o/s (m)	134.7

IVRCL has won orders to the tune of Rs17.4bn in the areas of roads, water power and buildings in Q2FY10. We expect the company's revenues to grow robustly. EBITDA margins are expected to improve to 9.5% (143bps improvement YoY). However, increasing interest cost is expected to arrest PAT growth at 6.7% YoY.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	48,819	63,622	77,881
EBITDA	4,218	5,993	7,377
Margin (%)	*8.6*	*9.4*	*9.5*
PAT	2,260	2,636	3,158
EPS (Rs)	16.9	19.6	23.5
RoE (%)	*13.2*	*14.2*	*15.5*
PE (x)	22.5	19.4	16.2
P/BV	2.8	2.7	2.4
EV / E (x)	15.2	11.8	10.3

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	14,406	11,366	*26.7*	10,807	25,213	20,651	*22.1*
EBITDA	1,363	913	*49.3*	942	2,305	1,733	*33.0*
Margin (%)	*9.5*	*8.0*	*1.4*	*8.7*	*9.1*	*8.4*	*0.8*
Reported PAT	609	571	*6.7*	351	960	1,006	*(4.6)*
PAT (Excl. Ex Items)	609	571	*6.7*	351	960	1,006	*(4.6)*
Operating Metrics							
Interest as a % to sales	*2.9*	*2.7*	*0.2*	*3.6*	*3.2*	*2.4*	*0.8*
Order Book (Rs bn)	165.0	140.0	*17.9*	139.0	165.0	140.0	*17.9*
Revenue Break -Up (Rs bn)							
Transport	2.2	1.7	*26.7*	1.6	3.8	3.7	*3.5*
Water	8.4	5.9	*41.4*	6.2	14.5	9.8	*48.0*
Others	3.9	3.8	*3.7*	3.0	6.9	7.2	*(3.8)*

Nagarjuna Construction

Rating	Reduce
Price	Rs150
Target Price	Rs135
Market Cap. (Rs bn)	38.6
Shares o/s (m)	256.6

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	41,514	47,945	56,326
EBITDA	3,737	4,522	5,405
Margin (%)	*9.0*	*9.4*	*9.6*
PAT	1,535	1,818	2,044
EPS (Rs)	6.7	7.1	8.0
RoE (%)	*9.4*	*9.6*	*9.3*
PE (x)	22.4	21.2	18.9
P/BV	2.0	1.8	1.7
EV / E (x)	13.3	11.1	9.8

NCC experienced the maximum order inflow amongst its peers in Q2FY10 to the tune of Rs24bn. We expect NCC's turnover to pick up in the current quarter and the PAT is expected to grow 21% YoY on account of better EBITDA margins and lower interest cost.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	11,800	10,558	*11.8*	10,004	21,804	20,119	*8.4*
EBITDA	1,230	1,085	*13.4*	1,032	2,262	1,852	*22.1*
Margin (%)	*10.4*	*10.3*	*0.2*	*10.3*	*10.4*	*9.2*	*1.2*
Reported PAT	511	423	*20.9*	383	894	794	*12.6*
PAT (Excl. Ex Items)	511	423	*20.9*	383	894	794	*12.6*
Operating Metrics							
Interest as a % to sales	*2.6*	*2.6*	0.0	*3.5*	*3.0*	*2.6*	0.5
Order Book (Rs bn)	159.0	124.2	*28.0*	139.0	159.0	124.0	*28.2*
Revenue Break -Up (Rs bn)							
Transport	2.7	1.9	*42.8*	2.1	4.8	3.9	*23.2*
Water	2.6	2.1	*22.9*	2.1	4.7	4.7	*0.1*
Others	6.5	6.5	*(0.9)*	5.0	12.3	11.5	*6.7*

Hindustan Construction

Rating	Reduce
Price	Rs125
Target Price	Rs104
Market Cap. (Rs bn)	32.1
Shares o/s (m)	256.3

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	33,138	40,276	50,041
EBITDA	4,314	4,971	6,278
Margin (%)	*13.0*	*12.3*	*12.5*
PAT	758	1,024	1,249
EPS (Rs)	4.9	3.4	4.1
RoE (%)	*12.5*	*8.2*	*8.3*
PE (x)	25.6	37.1	30.5
P/BV	3.2	2.5	2.5
EV / E (x)	12.5	10.7	9.6

HCC bagged all the orders from the power sector, aggregating to Rs8.9bn this quarter. We expect a YoY improvement in the EBITDA margins on account of a growing share of hydro power projects. Interest cost is expected to decrease on account of debt repayment from the QIP funds. The company raised Rs4.8bn at Rs102.15 through QIP.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	7,352	6,489	*13.3*	8,760	16,112	15,144	*6.4*
EBITDA	956	834	*14.5*	1,151	2,107	1,741	*21.0*
Margin (%)	*13.0*	*12.9*	*0.1*	*13.1*	*13.1*	*11.5*	*1.6*
Reported PAT	181	199	*(8.8)*	182	363	507	*(28.4)*
PAT (Excl. Ex Items)	181	(47)	*LTP*	182	363	148	*145.4*
Operating Metrics							
Interest as a % to sales	*4.9*	*7.5*	(2.6)	*6.4*	*6.0*	*5.8*	0.2
Order Book (Rs bn)	165.0	128.2	*28.7*	154.0	165.0	128.0	*28.9*
Revenue Break -Up (Rs bn)							
Transport	2.4	1.8	*29.5*	3.3	5.7	4.9	*15.2*
Power	2.9	3.0	*(1.5)*	2.5	5.5	6.2	*(11.4)*
Others	2.1	1.7	*22.0*	2.9	4.9	4.0	*23.0*

Patel Engineering

Rating	Reduce
Price	Rs476
Target Price	Rs474
Market Cap. (Rs bn)	28.4
Shares o/s (m)	59.6

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	24,598	29,536	36,698
EBITDA	3,897	4,465	5,754
Margin (%)	*15.8*	*15.1*	*15.7*
PAT	1,600	1,572	1,807
EPS (Rs)	31.4	25.7	29.6
RoE (%)	*20.8*	*14.0*	*13.7*
PE (x)	15.2	18.5	16.1
P/BV	2.8	2.3	2.0
EV / E (x)	10.3	8.6	7.7

Patel Engineering is expected to report a robust growth in topline on account of delayed monsoons. EBITDA margins are expected to expand marginally. However, higher interest and depreciation will lead to a YoY PAT de-growth.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	5,500	4,418	*24.5*	6,430	11,930	10,002	*19.3*
EBITDA	920	735	*25.2*	1,057	1,977	1,521	*30.0*
Margin (%)	*16.7*	*16.6*	*0.1*	*16.4*	*16.6*	*15.2*	*1.4*
Reported PAT	253	400	*(36.8)*	363	616	750	*(17.9)*
PAT (Excl. Ex Items)	253	400	*(36.8)*	363	616	750	*(17.9)*
Operating Metrics							
Interest as a % to sales	*4.5*	*4.3*	0.2	*4.4*	*4.5*	*3.7*	0.8
Order Book (Rs bn)	73.5	60.0	*22.5*	73.5	73.5	60.0	*22.5*
Revenue Break -Up (Rs bn)							
Power	2.8	2.5	*11.2*	2.9	5.6	5.7	*(1.2)*
Water	1.3	1.2	*6.7*	1.6	2.9	2.8	*4.5*
Roads	1.4	0.7	*102.3*	1.9	3.4	1.5	*125.6*

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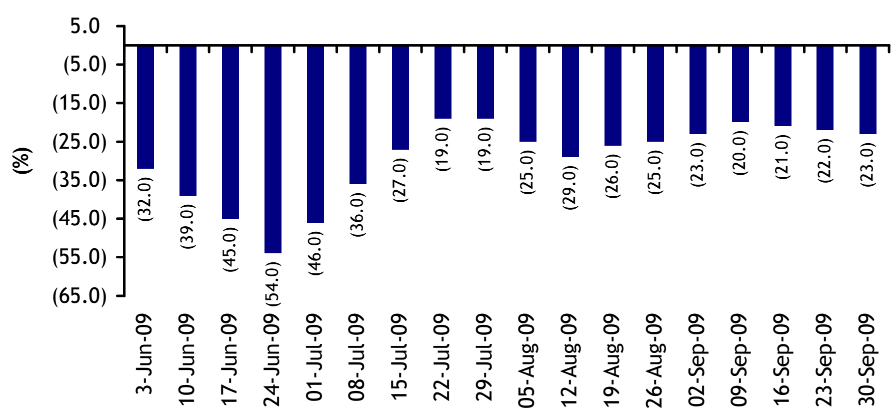
Consumer Staples

The June-September quarter for the FMCG sector in India was characterized by deficient monsoon (23% below LPA), sequential up-tick in input costs led by agri commodity inflation, continued brand investments by most of the FMCG players on account of savings in gross margins and new product launches/re-launches.

Fiscal-2009-10 budget was announced in July. Budget was positive for the sector as union government announced several measures to boost consumption in rural India viz. increased allocation to National Rural Employment Guarantee Scheme (NREGS), extension of farm loan waiver and various infrastructure spending programmes. Continuation of excise duty cuts which were announced in December 2008 and February 2009, and abolishment of Fringe Benefit Tax (FBT) are the other sector specific positives. After two successive years of harsh taxation (VAT implementation, unprecedented hikes in excise duty for non-filter cigarettes) excise duty for Cigarettes was kept unchanged, providing major relief to ITC and investors.

We expect top-line growth ranging between 10-21%, primarily led by volumes for mid-cap players and pricing for HUVR. International business should continue to drive top-line growth for Dabur and Marico. Most of the managements we interacted with acknowledged deficient monsoon as a concern for rural consumption and hence, revenue growth. Nonetheless, impact of the same is not visible as yet. Impact of monsoon, if any, will be visible with a 1-2 quarter lag, in our view. Various government spending programmes like NREGS, farm loan waiver, 6th Pay commission, higher MSP's of agro commodities in the recent past , elevated income levels of rural consumer differentiates the current drought from 2002-03. This will provide sufficient cushion in the event of rural consumption slowdown in our view.

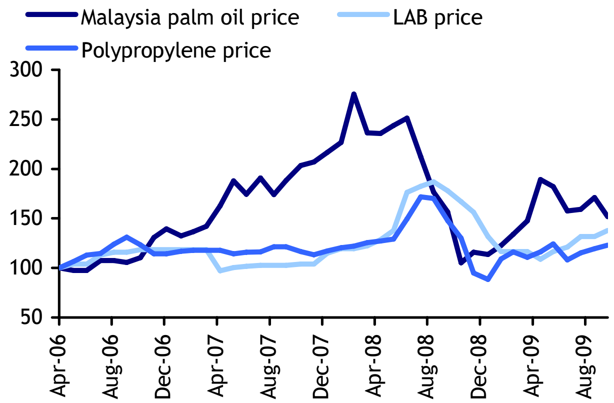
Cumulative rainfall deficit for June-September 2009

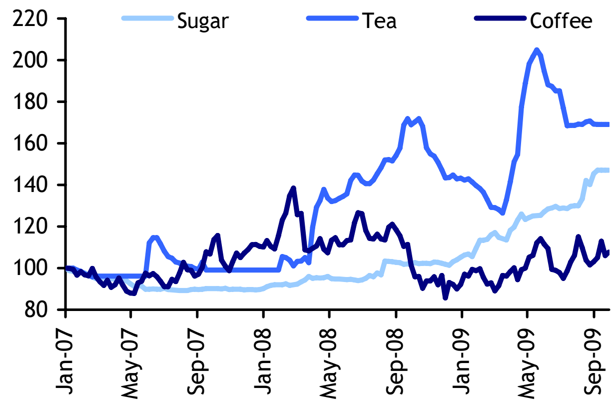


Source: IMD, PL Research

We expect stable to rising EBITDA margins on account of YoY decline in key input prices e.g. Palm oil, LAB, Soda-ash, Copra etc. Part of the savings from gross margin expansion will be deployed in brand investments as FMCG players look to drive volume growth.

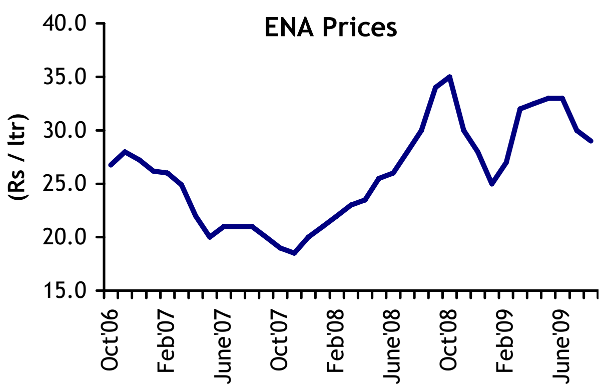
Key RM prices rebased to 100

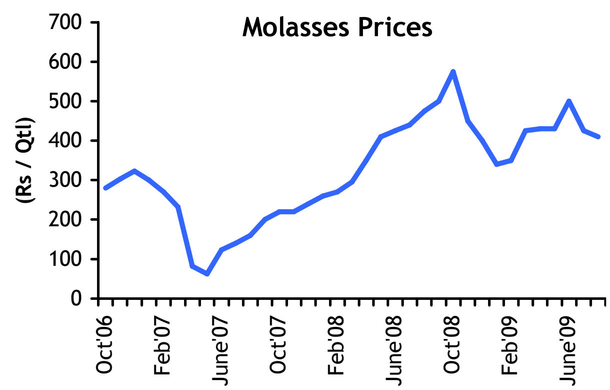




Source: Bloomberg, PL Research

Key RM prices for IMFL





Source: Industry, PL Research

Top Picks: ITC, Marico and United Spirits

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09	FY10E	FY11E
Net Sales	468,403	487,131	546,935
Growth (%)	*26.9*	*4.0*	*12.3*
EBITDA	95,952	107,633	123,023
Margin (%)	*20.5*	*22.1*	*22.5*
PAT	67,852	73,559	85,098
Growth (%)	*16.2*	*8.4*	*15.7*
PE (x)	25.6	23.6	20.4

Quarterly Table (Rs m)

	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	QoQ gr. (%)
Net Sales	113,652	101,877	*11.6*	112,774	*0.8*
EBITDA	25,098	21,699	*15.7*	24,997	*0.4*
Margin (%)	*22.1*	*21.3*	*0.8*	*22.2*	*(0.1)*
PAT (Excl. Ex Items)	16,948	14,895	*13.8*	16,703	*1.5*

Note: The Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

ITC

Rating	BUY
Price	Rs239
Target Price	Rs275
Market Cap. (Rs bn)	900.2
Shares o/s (m)	3,774.2

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	163,323	185,541	206,618
EBITDA	50,723	59,829	67,626
Margin (%)	*31.1*	*32.2*	*32.7*
PAT	33,185	39,315	44,529
EPS (Rs)	8.8	10.4	11.8
RoE (%)	*25.2*	*0.3*	*0.3*
PE (x)	27.1	22.9	20.2
P / BV (x)	6.4	5.6	5.0
EV / E (x)	17.0	14.3	12.5

Continued resilience in cigarette volumes (expect 5-6% volume growth) and decline in non-cigarettes FMCG losses should mark the quarter. In the union budget announced in July 2009, ITC received major relief as no excise duty hike was announced. This came as a welcome relief given two successive years of penal taxation. Mix improvement, rationalization of loss making stores, re-negotiation of rents in Lifestyle Retailing should lead to improved profitability in other FMCG business. We expect Hotels to show sequential improvement. However, full fledged recovery will come only by FY11.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	42,721	38,627	*10.6*	40,827	83,548	77,624	*7.6*
EBITDA	14,098	12,154	*16.0*	13,371	27,469	23,425	*17.3*
Margin (%)	*33.0*	*31.5*	*4.9*	*32.8*	*32.9*	*30.2*	*2.7*
Reported PAT	9,327	8,027	*16.2*	8,787	18,114	15,514	*16.8*
PAT (Excl. Ex Items)	9,327	8,027	*16.2*	8,787	18,114	15,514	*16.8*
Segment revenues							
Cigarettes	40,999	36,282	*13.0*	41,606	82,604	72,643	*13.7*
Other FMCG	8,656	7,593	*14.0*	7,594	16,250	14,529	*11.8*
Hotels	2,116	2,490	*(15.0)*	1,857	3,974	5,084	*(21.8)*
Agri business	6,740	8,641	*(22.0)*	9,406	16,146	26,986	*(40.2)*
Paper and packaging	8,587	7,533	*14.0*	7,306	15,893	14,050	*13.1*

Hindustan Unilever

Rating	Accumulate
Price	Rs267
Target Price	Rs285
Market Cap. (Rs bn)	581.7
Shares o/s (m)	2,179.9

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	203,992	179,803	200,944
EBITDA	27,029	25,723	29,283
Margin (%)	*13.3*	*14.3*	*14.6*
PAT	25,045	22,738	25,906
EPS (Rs)	11.4	10.4	11.9
RoE (%)	*136.6*	*102.9*	*109.6*
PE (x)	23.4	25.6	22.5
P / BV (x)	27.2	25.5	23.8
EV / E (x)	20.8	21.7	18.9

We expect HUVR to report 4-5% volume growth for the quarter. Price reductions in Wheel, Pepsodent, grammage increase in Lux, Wheel, heavy spending on advertising and promotion items, several brand re-launches/renovation (Clear, Lux, Pepsodent etc), should drive the volumes in our view.Lower input cost, savings from excise duty and higher brand investments should lead to 90bps margin improvement at operating level. However, lower other income and higher tax rate should result in muted 6% growth in recurring profits. HUVR derives 45% of its revenues from rural India.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	45,014	41,109	*9.5*	45,026	90,041	83,476	*7.9*
EBITDA	6,527	5,594	*16.7*	7,150	13,677	11,947	*14.5*
Margin (%)	14.5	13.6	6.6	15.9	15.2	14.3	0.9
Reported PAT	4,980	5,466	*(8.9)*	5,432	10,412	11,048	*(5.8)*
PAT (Excl. Ex Items)	4,980	4,379	*13.7*	5,367	10,346	9,780	*5.8*
Segment revenues							
Soaps and Detergents	22,246	19,863	*12.0*	22,115	44,361	40,067	*10.7*
Personal Products	12,071	10,496	*15.0*	12,255	24,326	21,176	*14.9*
Beverages	5,041	4,422	*14.0*	4,996	10,037	8,636	*16.2*
Processed Foods	2,000	1,739	*15.0*	1,721	3,721	3,239	*14.9*
Ice Creams	489	466	*5.0*	886	1,375	1,186	*16.0*

Dabur India

Rating	Reduce
Price	Rs142
Target Price	Rs145
Market Cap. (Rs bn)	122.8
Shares o/s (m)	865.1

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	28,054	33,164	38,501
EBITDA	4,661	5,933	6,996
Margin (%)	*16.6*	*17.9*	*18.2*
PAT	3,905	4,666	5,558
EPS (Rs)	4.5	5.4	6.4
RoE (%)	*55.2*	*49.9*	*46.1*
PE (x)	31.4	26.3	22.1
P / BV (x)	15.2	11.6	9.1
EV / E (x)	25.8	20.1	16.9

Continued strength in Hair care, Health Supplements, robust double digit volume growth, Fem integration, new launches in Skin care and strong traction in Foods and International business should drive the topline. Operating margins are likely to improve by ~100bps YoY on account of decline in key input costs. We expect Dabur to invest aggressively behind Fem and other new launches. However, higher tax rates (17% guidance for full FY10E and FY11E) and lower other income will result in 18% profit growth, in our view.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	8,252	6,993	*18.0*	7,473	15,725	13,104	*20.0*
EBITDA	1,667	1,329	*25.4*	1,229	2,896	2,272	*27.5*
Margin (%)	*20.2*	*19.0*	*6.3*	*16.4*	*18.4*	*17.3*	*1.1*
Reported PAT	1,270	1,078	*17.8*	914	2,184	1,785	*22.4*
PAT (Excl. Ex Items)	1,270	1,078	*17.8*	914	2,184	1,785	*22.4*
Segment revenues							
Consumer care business	6,441	5,459	*18.0*	5,640	12,081	9,984	*21.0*
Consumer health business	557	485	*15.0*	627	1,184	1,054	*12.4*
Foods business	1,038	851	*22.0*	1,065	2,102	1,689	*24.5*
Retail business	23	16	*50.0*	17	40	26	*54.2*
Others	167	175	*(5.0)*	132	298	355	*(16.0)*

United Spirits

Rating	BUY
Price	Rs913
Target Price	Rs1,160
Market Cap. (Rs bn)	94.0
Shares o/s (m)	103.0

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	50,541	61,367	69,703
EBITDA	10,499	12,340	14,691
Margin (%)	*20.8*	*20.1*	*21.1*
PAT	3,830	4,430	6,210
EPS (Rs)	37.2	43.0	60.3
RoE (%)	*16.7*	*16.8*	*17.3*
PE (x)	24.5	21.2	15.1
P / BV (x)	4.2	2.6	2.2
EV / E (x)	15.5	12.3	10.1

UNSP's 15-17% volume growth in IMFL segment will result in 19% revenue growth for the quarter. Molasses and ENA, the key RM for spirits, remained flat sequentially. However, on YoY basis, prices continue to remain firm and hence, would lead to 300bps decline in operating margins. After having raised US$180m in June 2009, post the treasury sale transaction, UNSP continues to look for deleveraging of balance sheet. Consolidated debt at the end of 2QFY10E should stand at ~Rs65bn. W&M, which derives 75% of its business from bulk scotch contracts, will provide upside going forward as the contracts come for renegotiation.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	10,845	9,114	*19.0*	12,481	23,326	19,248	*21.2*
EBITDA	1,920	1,884	*1.9*	2,283	4,202	4,036	*4.1*
Margin (%)	*17.7*	*20.7*	*(14.4)*	*18.3*	*36*	*42*	*(5.9)*
Reported PAT	802	939	*(14.6)*	1,776	2,578	2,110	*22.2*
PAT (Excl. Ex Items)	802	939	*(14.6)*	1,076	1,878	2,110	*(11.0)*
Operating Metrics							
RM as % of sales	*35.0%*	*33.1%*		*36.4%*	*35.7%*	*31.1%*	
Volume growth	*16.0%*	*18.0%*		*17.0%*	*17.0%*	*19.0%*	

Marico

Rating	BUY
Price	Rs88
Target Price	Rs106
Market Cap. (Rs bn)	53.8
Shares o/s (m)	609.0

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	22,493	27,256	31,169
EBITDA	3,040	3,809	4,426
Margin (%)	*13.5*	*14.0*	*14.2*
PAT	1,887	2,411	2,895
EPS (Rs)	3.3	4.0	4.8
RoE (%)	*53.1*	*44.7*	*39.7*
PE (x)	26.4	22.3	18.6
P / BV (x)	11.9	8.6	6.4
EV / E (x)	18.9	14.9	12.7

Marico's steady 7% and 10-12% volume growth in Parachute and Saffola, respectively, coupled with continued traction in International business will drive the expected 13% revenue growth. Value added hair oils should continue to post ~12-13% volume growth. Management had earlier guided for moderation in topline growth on account of price deflation in some of the brands. Copra and Safflower costs are down ~20% YoY and we expect Marico to pass on some of the input cost savings to consumer via price cuts in next quarter. Flat same clinic sales for Kaya in India and overhang of excise provision for coconut oil remain a concern.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	6,820	6,035	*13.0*	6,967	13,787	12,044	*14.5*
EBITDA	887	739	*20.0*	965	1,851	1,496	*23.8*
Margin (%)	*13.0*	*12.2*	*6.2*	*13.8*	*13.4*	*12.4*	*1.0*
Reported PAT	569	471	*20.7*	560	1,129	934	*20.8*
PAT (Excl. Ex Items)	569	471	*20.7*	560	1,129	934	*20.8*
Volume growth of key brands and category							
Parachute	10%	12%		14%	12%	10%	
Saffola	8%	9%		13%	11%	19%	
Value Added Hair oils	13%	14%		9%	11%	20%	

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Financial Services

Q2FY10 was a quarter of continuing improvement for the financial services companies. Among the major highlights for the quarter was the sharp decline in borrowing costs, revival of the Primary Capital Markets and the regulatory changes in Mutual Fund & Insurance distribution.

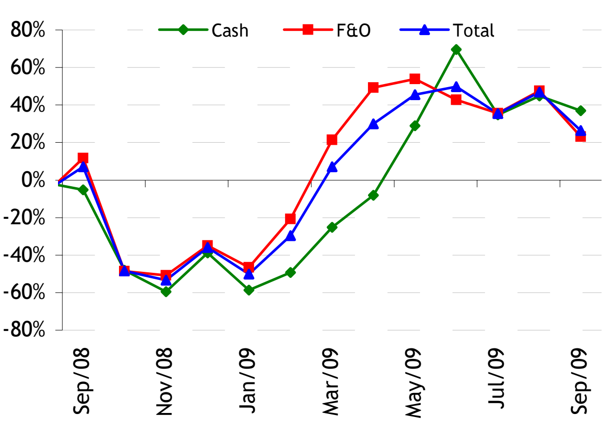
Equity market volumes during the quarter grew by about 11% QoQ and 35% YoY. Much of the QoQ growth was led by F&O volumes (up 14% QoQ) while cash volumes remained muted (up 3% QoQ). AUMs of the domestic mutual fund industry also improved with overall AUMs in August growing by 39% YoY (Equity up 11% YoY and Debt up 53% YoY). The insurance market has been on an improvement path with the pace of decline reducing considerably. Compared to a YoY decline of 34% in March '09 for private sector FYPs, the decline reduced to 11% YoY in August '09.

The NBFC sector has been benefiting from lower short-term borrowing costs. We expect the full impact of the same to get reflected in Q2FY10 financials as high cost borrowings slowly get replaced. Over the past six months short-term borrowings costs for most NBFCs has reduced from about 10-12% to below 6% due to abundant systemic liquidity and increasing risk appetite.

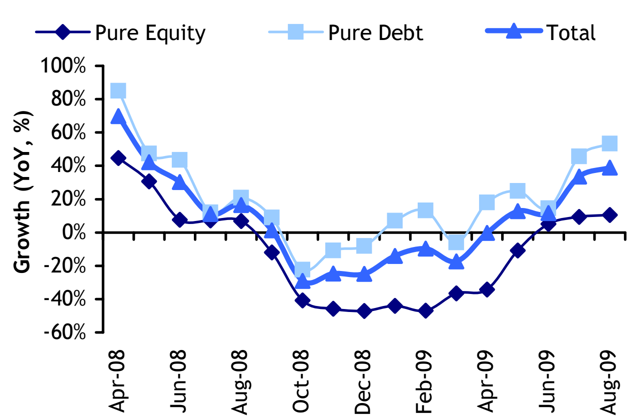
The impact of regulatory changes in distribution of mutual funds and insurance may not be immediately reflected in the quarter's financials, though in the longer term it could result in lowering of commissions and increasing consolidation in this sub-segment.

We remain bullish on the NBFC space due to high growth opportunity, increasing margins and reasonable valuations.

Market Volume Growth (YoY)

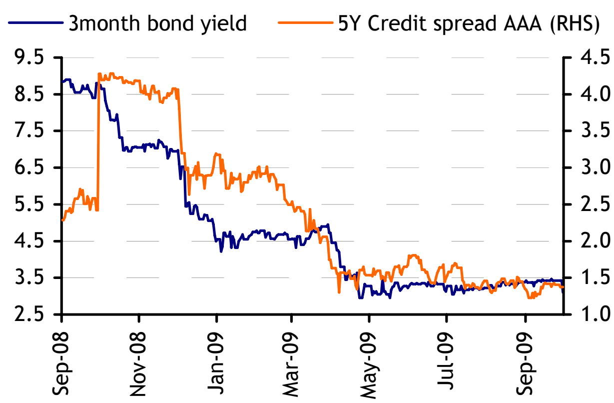


Mutual Fund (AUMs)

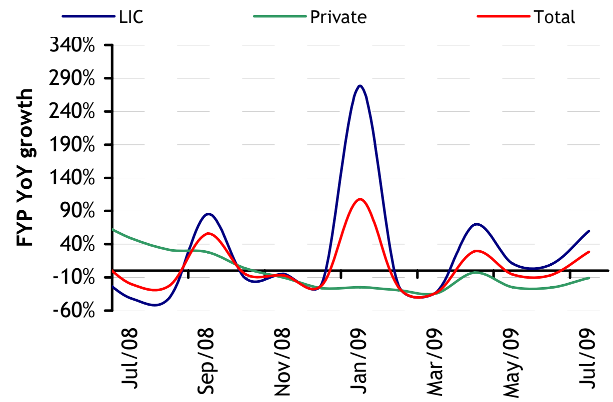


Source: BSE, NSE

3M Bond Yield and Credit Spread



Insurance FYP growth



Source: Bloomberg, AMFI

Top Picks: Edelweiss Capital and Shriram Transport

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09	FY10E	FY11E
Net Sales / Net Op. Inc.	175,303	202,798	237,400
Growth (%)	*16.1*	*15.7*	*17.1*
EBITDA / PPP	108,968	127,540	151,934
Margins (%)	*62.2*	*62.9*	*64.0*
PAT	66,009	82,993	98,672
Growth (%)	*13.8*	*25.7*	*18.9*
PE (x)	24.7	19.6	16.5

Quarterly Table (Rs m)

	Q1 FY10E	Q1 FY09	*YoY gr. (%)*	Q4 FY09	*QoQ gr. (%)*
Net Sales / Net Op. Inc.	48,327	42,638	*13.3*	46,439	*4.1*
EBITDA / PPP	32,285	26,851	*20.2*	30,302	*6.5*
EBITDA / PPP Margin (%)	*66.8*	*63.0*	*3.8*	*65.3*	*1.6*
PAT (Excl. Ex Items)	20,304	16,190	*25.4*	18,555	*9.4*

Note: The Net Sales / Net Op. Inc., EBITDA / PPP and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

HDFC

Rating	Accumulate
Price	Rs2,698
Target Price	Rs2,818
Market Cap. (Rs bn)	768.8
Shares o/s (m)	284.2

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Op. Inc.	36,448	41,873	50,435
NII	31,134	36,077	42,967
PPP	33,287	38,340	46,228
PAT	22,825	27,340	32,647
EPS (Rs)	79.4	95.1	113.6
Spread (%)	*2.6*	*2.4*	*2.7*
RoE (%)	*17.9*	*18.9*	*19.7*
PE (x)	34.0	28.4	23.8
P/BV (x)	5.7	5.0	4.4

The current quarter has been much better for housing finance companies in terms of overall business activity. Due to a higher base in Q2FY09 we expect its approvals and disbursements to decline YoY by 8% and 5.1%, respectively. However, QoQ growth in approvals and disbursements are expected at 6% and 16% respectively. The bank is likely to improve its spreads based on higher disbursements and lower liquid investments. The bank's dividend income component will increase as dividend from its banking subsidiary is likely to be received in the current quarter.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Operating Inc.	10,265	8,818	*16.4*	8,982	19,970	16,431	*21.5*
NII	8,575	7,645	*12.2*	6,805	17,530	14,272	*22.8*
Non Interest Inc.	1,640	1,117	*46.8*	2,177	2,340	2,053	*14.0*
PPP	8,701	7,342	*18.5*	7,640	17,190	13,653	*25.9*
PAT	6,355	5,342	*19.0*	5,649	12,647	10,023	*26.2*
Operating Metrics (Rs bn)							
Disbursements	100	106	*(5.1)*	87	187	178	*5.3*
Approvals	130	142	*(8.0)*	123	253	242	*4.7*
Investments	110	70	*56.9*	105	110	70	*56.9*
Loans	936	812	*15.2*	870	936	812	*15.2*

Reliance Capital

Rating	Accumulate
Price	Rs898
Target Price	Rs1,039
Market Cap. (Rs bn)	220.9
Shares o/s (m)	246.2

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	59,933	62,189	69,704
EBITDA	24,986	25,351	30,228
Margin (%)	*41.7*	*40.8*	*43.4*
PAT	10,156	10,185	13,120
EPS (Rs)	41.3	41.4	53.3
RoE (%)	*14.5*	*13.0*	*15.0*
PE (x)	21.8	21.7	16.8
P/BV (x)	3.0	2.7	2.4
EV / E (x)	13.5	13.7	11.9

After reporting weak Investment Gains in Q1FY10, we expect Reliance Capital (RCFT) to report better numbers in Q2 given the nearly 15-20% rise in the equity markets during the quarter. General Insurance will report modest 4.0% YoY growth given its focus on profitability. Assets under management for the company have grown over 20% QoQ. Reliance Life remained the fastest growing Life Insurance company in India in Q2 and we expect to hear more details about its disinvestment plans by the company.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	14,085	13,225	*6.5*	14,693	28,777	28,731	*0.2*
EBITDA	6,230	5,927	*5.1*	5,458	11,688	12,401	*(5.7)*
Margin (%)	*44.2*	*44.8*	*(0.6)*	*37.1*	*40.6*	*43.2*	*(2.5)*
Reported PAT	2,607	2,294	*13.6*	1,510	4,117	6,141	*(33.0)*
PAT (Excl. Ex Items)	2,632	2,315	*13.7*	1,533	4,117	6,098	*(32.5)*
Operating Metrics							
Prop. Investments	4,000	3,690	*8.4*	3,469	7,469	9,208	*(18.9)*
Asset Management	1,350	1,078	*25.3*	1,222	2,572	2,241	*14.8*
General Insurance	4,935	4,745	*4.0*	6,226	11,161	10,948	*1.9*
Consumer Finance	2,950	3,186	*(7.4)*	2,882	5,832	5,808	*0.4*
Broking & Other Income	850	527	*NA*	894	1,744	527	*NA*

Power Finance Corp.

Rating	Accumulate
Price	Rs226
Target Price	Rs250
Market Cap. (Rs bn)	259.1
Shares o/s (m)	1,147.8

We expect 17.8% YoY growth in the advances book with net spreads at 2.71% improving 72bps on YoY basis but declining marginally by 5bps QoQ. Due to long maturity of both assets and liabilities (5 years) the decline in decline in interest rates will not have substantial impact margins, but the spreads will come down to 2.4% levels going forward. INR has remained flat QoQ against USD and no significant MTM adjustment is expected.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
NII	18,461	23,083	29,054
PPOP	17,971	22,174	28,077
Adjusted PAT	12,068	15,309	21,252
EPS (Rs)	10.5	13.3	18.5
NIM (%)	*3.8*	*3.9*	*4.0*
RoE (%)	*13.5*	*14.7*	*17.3*
RoAA (%)	*2.5*	*2.6*	*2.9*
P / BV (x)	2.3	2.0	1.7
PE (x)	16.9	12.2	10.7

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net interest income	7,177	5,420	32.4	7,039	14,216	10,559	34.6
PBT	6,854	4,578	49.7	7,505	14,359	8,988	59.7
PAT	5,072	3,300	53.7	5,549	10,621	6,263	69.6
Adjusted PAT	5,072	3,411	48.7	5,527	10,599	6,482	63.5
Net spread (%)	*4.0*	*3.6*	0.4	*4.0*	*4.0*	*3.3*	0.8
Operating Metrics							
Borrowings	566,507	458,660	23.5	555,399	566,507	458,660	23.5
Advances	681,912	578,770	17.8	662,050	681,912	578,770	17.8
Assets	727,312	611,460	18.9	713,051	727,312	611,460	18.9

IDFC

Rating	Accumulate
Price	Rs150
Target Price	Rs170
Market Cap. (Rs bn)	194.0
Shares o/s (m)	1,294.3

IDFC's advances book is expected to grow by about 5% QoQ. We expect the company's gross spreads to widen to nearly 250 bps in H1FY10 due to the decline in average borrowing costs. Non-Interest income is expected to grow about 11.8% QoQ led mainly by growth in principal investment and asset management. With a marginal decline in Cost-Income-Ratio PAT is expected to grow by 22.4% YoY.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Op. Inc.	15,233	19,492	21,386
NII	9,111	10,382	11,118
PPP	11,768	15,575	17,324
PAT	7,377	10,406	11,765
EPS (Rs)	5.7	8.0	9.1
NIM (%)	*3.3*	*3.4*	*2.9*
RoE (%)	*12.6*	*16.0*	*16.1*
PE (x)	26.3	18.6	16.5
P/BV (x)	3.3	3.0	2.6

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Operating Inc.	4,964	4,180	18.7	4,610	9,574	7,940	20.6
NII	2,539	1,980	28.2	2,440	4,979	4,120	20.8
Non Interest Inc.	2,425	2,200	10.2	2,170	4,595	3,820	20.3
PPP	3,929	3,251	20.8	3,614	7,543	6,227	21.1
PAT	2,862	2,341	22.3	2,739	5,600	4,535	23.5
Operating Metrics							
Loan Book (Rs.bn)	222	217	2.3	211	222	217	2.3
IB & Broking (Rs. m)	400	370	8.1	350	750	730	2.7
Loan fee income (Rs. m)	450	330	36.4	430	880	790	11.4
Prop. Investment (Rs. m)	775	890	(12.9)	680	1,455	1,530	(4.9)
Asset Mgmt Income (Rs. m)	800	600	33.3	720	1,520	770	97.4

Shriram Transport Fin.

Rating	BUY
Price	Rs375
Target Price	Rs415
Market Cap. (Rs bn)	79.3
Shares o/s (m)	211.5

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Op. Inc.	17,451	22,310	27,176
PPP	12,181	15,945	19,415
Adjusted PAT	6,124	7,655	9,341
EPS (Rs)	30.1	36.2	44.2
NIM (%)	*8.1*	*8.5*	*8.6*
RoE (%)	*29.6*	*27.9*	*26.3*
ROAA (%)	*3.1*	*3.2*	*3.2*
PE (x)	12.5	10.4	8.5
P/BV (x)	3.3	2.5	2.0

We are factoring in an 13% YoY and 4.8% QoQ AUM growth led by both pre-owned and new vehicle segment and 30bps QoQ improvement in margins due to lower average cash balance as compared to the last quarter of around Rs50bn. Re-pricing of liabilities will continue to provide cushion on the margins. NPA cycle seems most likely to have peaked and provisioning will be stable QoQ at 1.5% of assets.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net operating Income	5,162	4,369	*18.1*	4,852	10,013	8,482	*18.1*
PPP	3,631	3,055	*18.9*	3,358	6,989	5,890	*18.7*
Net interest Margin (%)	*8.1*	*8.9*	(0.8)	*7.8*	*7.9*	*8.7*	(0.8)
NPA prov as % of avg assets	*1.5*	*1.4*	0.1	*1.5*	*1.5*	*1.3*	0.2
PAT	1,822	1,656	*10.0*	1,644	3,466	3,092	*12.1*
Operating Metrics							
AUM	254,337	225,501	*12.8*	242,749	254,337	225,501	*12.8*
Advances	200,913	180,379	*11.4*	193,346	200,913	180,379	*11.4*
Borrowing	211,285	162,947	*29.7*	201,659	211,285	162,947	*29.7*
Gross NPAs	4,561	3,139	*45.3*	4,292	4,561	3,139	*45.3*
Net NPAs	1,618	1,641	*(1.4)*	1,566	1,618	1,641	*(1.4)*

India Infoline

Rating	Accumulate
Price	Rs141
Target Price	Rs151
Market Cap. (Rs bn)	45.9
Shares o/s (m)	325.5

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	9,606	11,988	14,709
EBITDA	2,898	4,106	5,295
Margin (%)	*30.2*	*34.3*	*36.0*
PAT	1,448	2,225	2,774
EPS (Rs)	4.9	7.1	8.2
RoE (%)	*8.4*	*11.2*	*12.1*
PE (x)	28.8	20.0	17.2
P/BV (x)	2.3	2.2	2.1
EV / E (x)	15.6	10.6	8.3

India Infoline (IIFL) is expected to report equity broking volume growth of about 4% QoQ with a marginal decline in average broking yields due to higher proportion of F&O transactions. We also expect increase in Interest income for the company due to estimated 10% QoQ growth in its core lending book and opportunistic lending for IPOs. For the quarter we expect no major trend change in its distribution revenues despite the regulatory changes effected recently. Overall margins are expected to increase as most of the costs remain well under control. Interest cost will increase due to opportunistic borrowing for IPO lending.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	2,785	2,760	*0.9*	2,563	5,347	5,444	*(1.8)*
EBITDA	1,085	873	*24.3*	958	2,043	1,864	*9.6*
Margin (%)	*39.0*	*31.6*	*7.3*	*37.4*	*38.2*	*34.2*	*4.0*
Reported PAT	560	402	*39.2*	517	1,077	897	*20.0*
PAT (Excl. Ex Items)	560	402	*39.2*	517	1,077	897	*20.0*
Operating Metrics							
Equity Broking	1,830	1,483	*23.4*	1,768	3,598	3,068	*17.3*
Insurance Broking	100	159	*(37.0)*	84	184	314	*(41.6)*
Financing Income	600	809	*(25.8)*	489	1,089	1,458	*(25.3)*
Other Operating	255	310	*(17.8)*	222	477	604	*(21.0)*
Employee Costs	660	758	*(13.0)*	643	1,303	1,385	*(5.9)*

Edelweiss Capital

Rating	Accumulate
Price	Rs500
Target Price	Rs600
Market Cap. (Rs bn)	37.5
Shares o/s (m)	74.9

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	8,965	9,586	11,583
EBITDA	4,764	5,061	6,283
Margin (%)	*53.1*	*52.8*	*54.2*
PAT	1,844	2,448	3,006
EPS (Rs)	24.6	32.6	40.0
RoE (%)	*7.6*	*11.5*	*12.4*
PE (x)	20.3	15.3	12.5
P/BV (x)	1.8	1.6	1.4
EV / E (x)	5.9	8.7	7.8

Edelweiss' (EDEL) broking volumes are expected to grow by about 10% QoQ, led mainly by higher F&O volumes. We also expect an uptick in IB revenues resulting in overall Fee & Commissions growing by 8.5% QoQ. Arbitrage Yields during the quarter remained high (above 18%) for the company and it had deployed an average of about Rs12-15bn in arbitrage operations. EDEL's lending book is expected to grow to over Rs6bn (from Rs4.5 bn in Q1) due to higher promoter and IPO funding opportunities.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	2,263	2,490	*(9.1)*	2,226	4,490	5,179	*(13.3)*
EBITDA	1,193	1,285	*(7.1)*	1,183	2,377	2,819	*(15.7)*
Margin (%)	*52.7*	*51.6*	*1.1*	*53.2*	*52.9*	*54.4*	*(1.5)*
Reported PAT	606	436	*39.0*	583	1,189	1,074	*10.7*
PAT (Excl. Ex Items)	606	436	*39.0*	583	1,189	1,074	*10.7*
Operating Metrics							
Commision & Fees	727	678	*7.4*	671	1,398	1,564	*(10.6)*
Interest Income	700	844	*(17.1)*	683	1,383	1,607	*(14.0)*
Trading & Arbitrage	751	853	*(12.0)*	790	1,541	1,556	*(0.9)*
Div. / Invst. Income	85	115	*(25.8)*	83	168	452	*(62.8)*
Employee Costs	410	482	*(14.9)*	392	802	979	*(18.1)*

Motilal Oswal

Rating	Accumulate
Price	Rs169
Target Price	Rs175
Market Cap. (Rs bn)	24.0
Shares o/s (m)	142.0

Key Figures (Rs m)

Y/e March	FY09E	FY10E	FY11E
Net Sales	4,583	6,306	7,823
EBITDA	1,719	2,541	3,178
Margin (%)	*37.5*	*40.3*	*40.6*
PAT	925	1,481	1,813
EPS (Rs)	6.5	10.4	12.8
RoE (%)	*12.3*	*17.2*	*18.0*
PE (x)	26.0	16.2	13.2
P/BV (x)	3.0	2.6	2.2
EV / E (x)	10.8	8.7	6.9

We expect Motilal Oswal (MOFS) to report broking volume growth of about 7.5% QoQ with a marginal decline in broking yields due to higher proportion of F&O transactions. Investment Banking revenue are likely to improve due to the generally buoyant capital raising activity in the market. IPO financing and 10-12% increase in margin funding is also expected to result in higher Fund-based income for the company.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	1,627	1,376	*18.2*	1,475	3,102	2,749	*12.8*
EBITDA	662	541	*22.4*	587	1,249	1,023	*22.1*
Margin (%)	*40.7*	*39.3*	*1.4*	*39.8*	*40.3*	*37.2*	*3.1*
Reported PAT	386	271	*42.4*	340	726	533	*36.1*
PAT (Excl. Ex Items)	396	287	*38.1*	363	726	533	*36.1*
Operating Metrics							
Equity Broking	1,212	959	*26.4*	1,157	2,369	1,963	*20.7*
Investment Banking	135	165	*(18.2)*	96	231	347	*(33.4)*
Interest Income	225	201	*11.9*	175	400	331	*20.8*
Asset Management	55	51	*7.8*	47	102	108	*(5.6)*
Employee Costs	355	363	*(2.3)*	319	674	778	*(13.4)*

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Media & Entertainment

After seeing through one of the toughest quarter (Q1FY10) in recent times, our channel checks suggest early signs of recovery in Q2FY10. As reflective from better inventory offtake, upward revision of ad revenue guidance, announcement of potential ad rate hikes (rake rates) and availability of finance with access to primary markets and low cost interest rates.

Entertainment companies were back in business after having resolved the revenue sharing issue. Movie releases during the quarter saw impressive box office collections compared to past two quarters, however we expect some pressure on operating margins for multiplexes under the new revenue sharing terms.

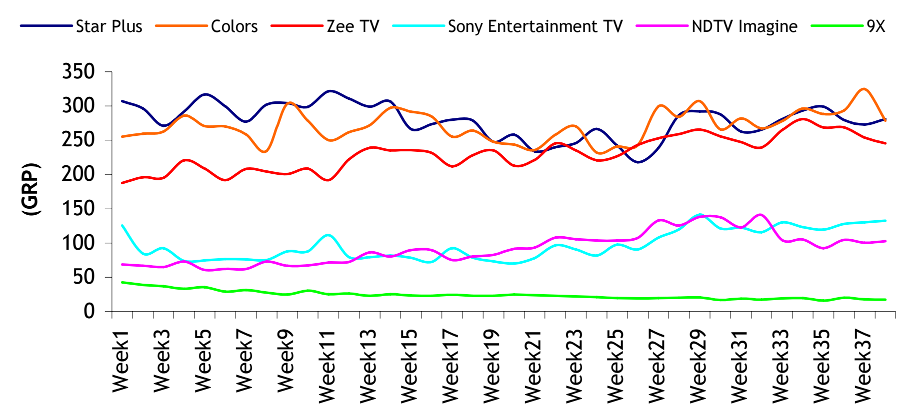
For Q2FY10E, our universe of media and entertainment stocks are expected to post 1.4% growth in revenue where as cost rationalization measures across the industry will enable the companies to report an impressive earnings growth of 30.3% YoY. For the period under review, stock prices of our universe of media stocks appreciated on an average by 25.0% vis-à-vis the benchmark index (Sensex), which appreciated by 16.9% during the quarter.

Television

Hindi GECs: Traditionally Q2 is regarded to be a seasonally weak quarter for broadcasting companies. However the genre has bounced back strongly compared to previous quarter where significant ad budgets were allocated towards the sports and news genre due to two important cricketing events and elections. The segment saw average weekly rating of 1320 GRPs during the quarter as against 1188 GRPs in Q1FY10. Further the ad market during the quarter has shown early signs of recovery, inventory off take have already improved and most players are well poised to command better ad realizations on fresh ad deals from hereon.

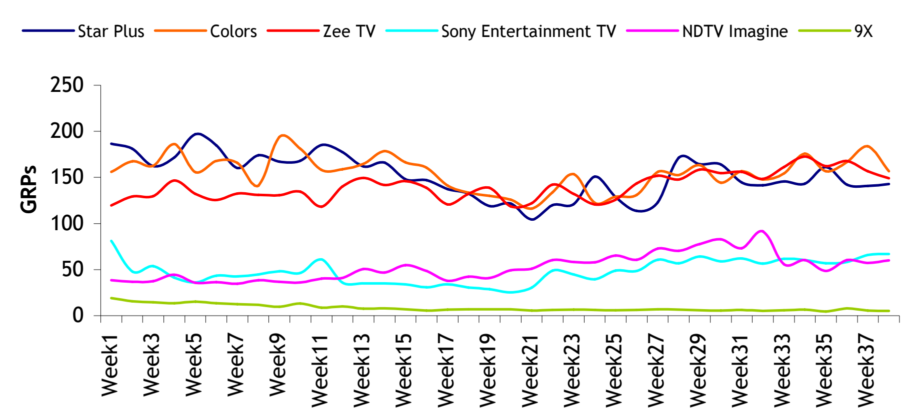
The Hindi GEC genre continues to be a three horse race with the top three players accounting for 63% of the total viewership. On all day GRPs, Colors stood No.1 with an average rating of 288. However, on prime time band the competition has been quite stiff between Colors and Zee with an average of 160 and 158 GRP respectively.

Q2FY10 Hindi GEC All Day GRPs



Source: TAM, Market:HSM, TG:CS 4+ years

Q2FY10 Hindi GEC Prime Time GRPs



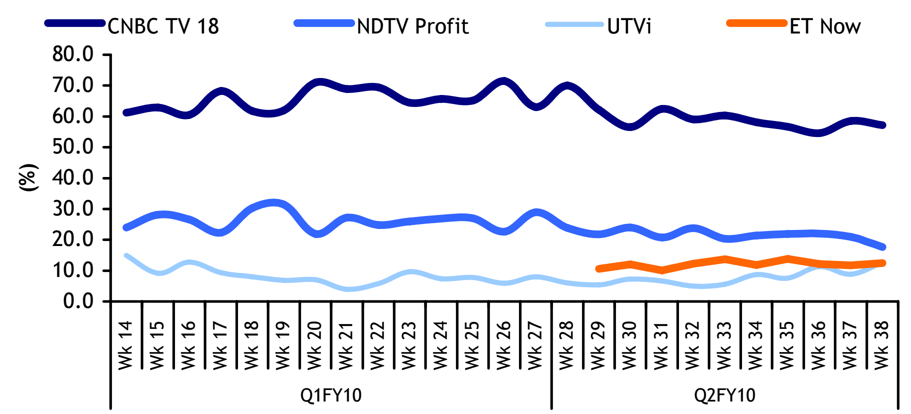
Source: TAM, Market:HSM, TG:CS 4+ years *Time Band: 19:00 - 23:30*

Spending from two important category advertisers for the Hindi GEC genre - FMCG and Telecom will see an uptick.

For instance, Hindustan Unilever blocked entire inventory available on 17th and 24th September 2009 on the Zee and Star networks at a premium. The category spending will only intensify as the festive season begins in early October this year. Implementation of mobile number protiblity by end of 2009 will result in increased spending by telecom service providers. Zee's flagship channels Zee TV and Zee Cinema saw telecom services ads contributing 8.3% and 8.6% respectively for the month of August 2009. Colors had an inventory contribution of 4.6% from this category for the similar period. We expect ad contribution by telecom services providers to increase from latter half of Q3FY10.

Business news genre: Q2FY10 saw competition intensifying in the English business news genre as ET Now gains viewership with a channel share of 12.1%. The channel is also gaining reach and is now available on DTH platforms Airtel Digital, BIG TV and Dish TV. Also, UTVi recently entered into a content sharing agreement with Bloomberg. Despite competition intensifying, the ad market for the players has improved for the better. For instance for the month of August, IPO and mutual fund advertisements accounted for 9.6% and 7.1% of the total BFSI ad volumes for CNBC TV18 and CNBC Awaaz respectively.

Rising competition in business news genre



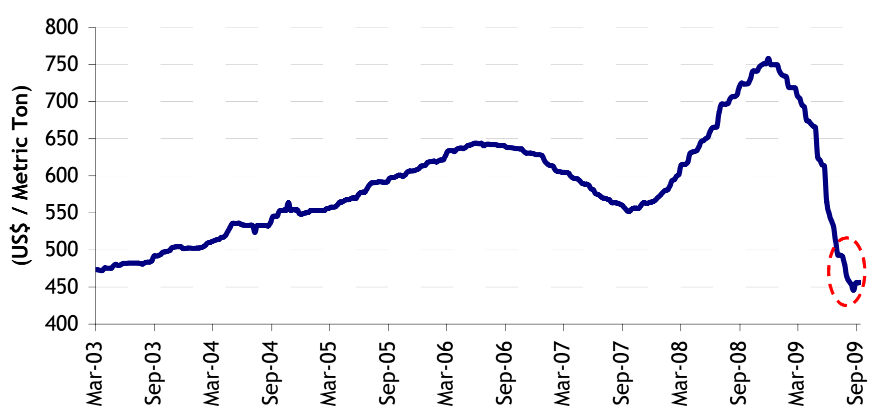
Source: Telepedia

Print

Ad revenues for regional players remain strong viz., Jagran Prakashan has upped its ad revenue growth guidance for the year to 15% from 10% earlier. However, even as the ad market shows early signs of revival print major Bennett, Coleman & Company Ltd (BCCL) has announced an average 13% drop in ad tariffs across some of its key publications (Source: exchange4media.com). This will further intensify the competition for national print players like HT Media.

Newsprint prices now seem to have bottomed out currently hovering at USD450 per ton. Benefit of lower newsprint prices coupled with fresh newsprint imports attracting zero customs duty will further help in reducing newsprint costs. This however is subject to the level of raw material inventories maintained by the companies. For the quarter, we expect Jagran Prakashan to benefit largely due to lower newsprint cost over HT Media.

Trend in US newsprint prices



Source: Bloomberg

Films

Plethora of new movies were lined up for release as soon as the standoff between the film producers and the multiplex got resolved. With fresh supply of content coming in theatres, occupancies for the quarter have been relatively healthy. Although the box office collections for some of the new movie releases during the quarter were quite impressive, the shelf life of movies has actually reduced with an average of three new movie releases every week. Thus the inch up in percentage of film hire cost for the multiplexes will be the key monitorable for the quarter.

Top Picks: Zee Entertainment and Jagran Prakashan

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09	FY10E	FY11E
Net Sales	80,335	90,585	105,720
Growth (%)	*18.7*	*12.8*	*16.7*
EBITDA	14,871	22,376	29,211
Margin (%)	*18.5*	*24.7*	*27.6*
PAT	6,540	11,737	16,291
Growth (%)	*(37.5)*	*79.5*	*38.8*
PE (x)	53.1	29.6	21.3

Quarterly Table (Rs m)

	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	*QoQ gr. (%)*
Net Sales	20,661	20,368	*1.4*	18,835	*9.7*
EBITDA	5,717	4,422	*29.3*	4,751	*20.3*
Margin (%)	*27.7*	*21.7*	*6.0*	*25.2*	*(19.3)*
PAT (Excl. Ex Items)	2,819	2,163	*30.3*	2,271	*24.1*

Note: The Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

Sun TV

Rating	Accumulate
Price	Rs318
Target Price	Rs321
Market Cap. (Rs bn)	125.4
Shares o/s (m)	394.4

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	10,394	12,665	15,143
EBITDA	7,368	9,007	10,765
Margin (%)	*70.9*	*71.1*	*71.1*
PAT	3,683	4,695	5,555
EPS (Rs)	9.3	11.9	14.1
RoE (%)	*23.4*	*24.6*	*24.8*
PE (x)	34.0	26.7	22.6
P/BV	7.4	5.9	5.3
EV / E (x)	16.6	13.4	11.1

We expect growth momentum for the core broadcasting business to continue as new channel launches see better inventory offtake. During the quarter the company reduced its stake in its radio subsidiary South Asia FM from 65% to 60% as Astro increased its stake to 20% by infusing Rs792m. Subsequently the company re-branded 38 FM stations including 23 stations of South Asia FM, 14 stations of Kal Radio and one station of Udaya FM under the Red FM brand. Sun Pictures saw two Tamil movie releases during the quarter. Overall operating margins will see a sharp 324 bps improvement yoy. Earnings for the quarter are expected to grow by 15.4% YoY to Rs1.25bn.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	2,961	2,379	*24.5*	2,877	5,837	4,615	*26.5*
Total operational expenses	670	616	*8.9*	640	1,310	1,168	*12.2*
EBITDA	2,291	1,763	*29.9*	2,236	2,236	3,446	*(35.1)*
Margin (%)	*77.4*	*74.1*	*3.2*	*77.7*	*77.7*	*74.7*	*3.1*
Other Income	150	372	*(59.6)*	142	292	535	*(45.4)*
Interest	6	21	*(71.0)*	6	12	21	*(41.4)*
Depreciation & Amortisation	550	464	*18.6*	550	1,100	742	*48.2*
PBT	1,885	1,650	*14.2*	1,822	3,707	3,219	*15.2*
Tax	635	567	*12.0*	624	1,259	1,110	*13.5*
Reported PAT	1,250	1,083	*15.4*	1,198	2,448	2,109	*16.1*
PAT (Excl. Ex Items)	1,250	1,083	*15.4*	1,198	2,448	2,109	*16.1*

Zee Entertainment

Rating	Accumulate
Price	Rs248
Target Price	Rs251
Market Cap. (Rs bn)	107.4
Shares o/s (m)	433.6

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	21,773	22,161	25,120
EBITDA	5,480	5,624	6,990
Margin (%)	*25.2*	*25.4*	*27.8*
PAT	3,504	4,165	5,191
EPS (Rs)	8.1	9.6	12.0
RoE (%)	*20.3*	*20.5*	*21.8*
PE (x)	30.7	25.8	20.7
P/BV	5.7	4.9	4.2
EV / E (x)	20.3	19.3	15.5

We expect Zee's ad revenue to see an impressive sequential growth partly due to recovery in Indian ad market coupled with sustained improvement in ratings during the year. However, on a YoY basis, advertisement revenues are expected to decline by 23.6% to Rs2,178m. Subscription revenues are expected to grow by 10.3% YoY due to robust growth in domestic DTH subscribers. However, the international subscription growth continues to remain under pressure and has been facing some competition from Star India which is making aggressive inroads in some of the important international markets.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	5,053	5,717	*(11.6)*	4,759	9,813	11,136	*(11.9)*
EBITDA	1,222	1,488	*(17.8)*	1,170	2,393	2,930	*(18.3)*
Margin (%)	*24.2*	*26.0*	*(1.8)*	*24.6*	*24.4*	*26.3*	*(1.9)*
Reported PAT	950	1,783	*(46.7)*	1,019	1,969	3,384	*(41.8)*
PAT (Excl. Ex Items)	950	991	*(4.1)*	1,019	1,969	2,018	*(2.4)*
Operating Metrics							
Advertising revenues	2,178	2,851	*(23.6)*	1,980	4,157	5,650	*(26.4)*
Subscription revenues	2,476	2,244	*10.3*	2,410	4,886	4,394	*11.2*
Other sales and services	400	621	*(35.6)*	370	770	1,092	*(29.5)*

Jagran Prakashan

Rating	BUY
Price	Rs102
Target Price	Rs128
Market Cap. (Rs bn)	30.8
Shares o/s (m)	301.2

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	8,234	9,510	10,823
EBITDA	1,567	2,697	3,213
Margin (%)	*19.0*	*28.4*	*29.7*
PAT	916	1,652	1,923
EPS (Rs)	3.0	5.5	6.4
RoE (%)	*16.7*	*27.6*	*28.3*
PE (x)	33.7	18.7	16.0
P/BV	5.5	4.8	4.3
EV / E (x)	20.1	11.8	9.8

Advertisement growth outlook for regional print players has remained robust. This springs from the fact that the management during the quarter has revised upward its ad revenue growth guidance to 15% YoY growth from 10% earlier. We have built in for a 10.5% YoY revenue growth from Rs2.09bn to Rs2.31bn. Average newsprint cost of ~Rs25.5 per kg for the quarter will help the company to see margin improvement from 18.2% last year to 29.4% in Q2FY10. Accordingly earnings for the quarter are expected to grow by 77.8% YoY to Rs403m.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	2,306	2,086	10.5	2,319	4,625	4,151	11.4
Total operational expenses	1,629	1,706	(4.5)	1,614	3,242	3,275	(1.0)
EBITDA	678	380	78.3	705	1,383	876	57.8
Margin (%)	*29.4*	*18.2*	*11.2*	*30.4*	*29.9*	*21.1*	*8.8*
Other Income	70	55	27.8	157	227	118	92.5
Interest	14	12	21.7	14	28	21	29.7
Depreciation	125	89	40.9	124	249	172	44.3
PBT	609	334	81.9	724	1,333	800	66.5
Tax	205	108	90.8	229	434	257	69.0
Reported PAT	403	227	77.8	495	899	543	65.3
PAT (Excl. Ex Items)	403	227	77.8	495	899	543	65.3

HT Media

Rating	Reduce
Price	Rs122
Target Price	Rs114
Market Cap. (Rs bn)	28.5
Shares o/s (m)	234.3

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	13,466	14,423	15,532
EBITDA	803	2,301	2,851
Margin (%)	*6.0*	*16.0*	*18.4*
PAT	9	1,083	1,485
EPS (Rs)	–	4.6	6.3
RoE (%)	*0.1*	*12.1*	*14.6*
PE (x)	–	26.4	19.2
P/BV	3.4	3.0	2.6
EV / E (x)	39.3	13.1	10.0

After the launch of Mint's Kolkatta edition in May 2009, the company further expanded the footprint of the Mint brand with its Chennai edition in July this quarter. Also during the quarter the company had undergone a design makeover for its English newspaper Hindustan Times. We expect revenue growth for the quarter to remain flat at Rs3,366m. Sequentially, operating margins might come under pressure as sales promotion expenses should inch up with the launch of new edition and re-branding. HT Media should see only a partial benefit of lower newsprint prices during the quarter.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	3,366	3,342	*0.7*	3,351	6,717	6,614	*1.6*
Total operational expenses	2,695	2,943	*(8.4)*	2,660	5,355	5,527	*(3.1)*
EBITDA	671	399	*68.4*	691	691	1,087	*(36.4)*
Margin (%)	*19.9*	*11.9*	*8.0*	*20.6*	*20.6*	*16.4*	*4.2*
Other Income	20	52	*(61.2)*	20	40	109	*(63.2)*
Interest	70	74	*(4.9)*	78	148	125	*18.8*
Depreciation	175	128	*36.5*	163	338	257	*31.4*
PBT	446	249	*79.7*	470	916	814	*12.7*
Tax	138	86	*61.5*	146	284	274	*3.9*
Reported PAT	308	163	*89.2*	324	632	540	*17.1*
PAT (Excl. Ex Items)	308	163	*89.2*	324	632	540	*17.1*

UTV Software

Rating	Reduce
Price	Rs432
Target Price	Rs328
Market Cap. (Rs bn)	14.8
Shares o/s (m)	34.2

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	6,066	8,502	11,758
EBITDA	(829)	288	1,154
Margin (%)	*(13.7)*	*3.4*	*9.8*
PAT	(175)	108	683
EPS (Rs)	(5.0)	2.8	17.4
RoE (%)	*(1.7)*	*0.6*	*3.6*
PE (x)	(85.8)	156.6	24.8
P/BV	1.0	0.9	0.9
EV / E (x)	(22.4)	55.3	13.4

The movie segment had four new releases during the quarter viz., *Agyaat, Aag Se Right, Kaminey* and *Whats Your Rashee?* Further during the quarter the company has decided to merge its motion picture subsidiary thereby increasing its stake from 76.8% currently to 100%. Also, UTVi has entered into a content sharing alliance with Bloomberg, soon to re-brand the channel as Bloomberg-UTV. Two new games were published from the house of Ignition. For the quarter we expect the company to clock in revenues of Rs1840m, growth of 7.7% yoy. Overall earnings for the quarter are pegged at Rs44m.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	1,840	1,709	*7.7*	1,154	2,994	3,079	*(2.8)*
EBITDA	139	(78)	*(276.7)*	(341)	(202)	100	*(302.6)*
Margin (%)	*7.5*	*(4.6)*	*12.1*	*(29.5)*	*(6.7)*	*3.2*	*(10.0)*
Reported PAT	44	251	*(82.5)*	(233)	(189)	450	*(142.0)*
PAT (Excl. Ex Items)	44	(87)	*(150.7)*	(341)	(297)	100	*(397.7)*
Operating Metrics							
Television	300	400	*(25.0)*	282	582	656	*(11.4)*
Movies	800	634	*26.2*	265	1,065	1,566	*(32.0)*
Games Content (Interactive)	350	216	*62.4*	117	467	361	*29.4*
New media	30	63	*(52.1)*	28	58	89	*(34.8)*
Broadcasting	210	248	*(15.2)*	177	387	248	*56.2*

Television Eighteen

Rating	Reduce
Price	Rs92
Target Price	Rs115
Market Cap. (Rs bn)	11.1
Shares o/s (m)	119.6

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	4,898	6,123	7,378
EBITDA	(1,176)	119	717
Margin (%)	*(24.0)*	*1.9*	*9.7*
PAT	(1,664)	(758)	(51)
EPS (Rs)	(13.9)	(6.3)	(0.4)
RoE (%)	*(37.3)*	*(23.3)*	*(1.8)*
PE (x)	(6.6)	(14.6)	(218.0)
P/BV	3.0	3.8	3.9
EV / E (x)	(14.4)	158.6	27.8

We expect a sharp improvement in TV18's Q2FY10 results as the core business would gain from the Union Budget held in July. We expect the web 18 and newswire 18 to just about breakeven during the quarter. However, this is not enough to offset the huge interest cost burden of the company. Accordingly we expect the company to report a net loss of Rs258m for the quarter. During the quarter the company announced to raise Rs5bn via rights issue which might result in 50% dilution of company's current equity base.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	1,320	1,303	*1.3*	1,073	2,393	2,233	*7.2*
EBITDA	190	48	*293.4*	1	191	215	*(11.5)*
Margin (%)	*14.4*	*3.7*	*10.7*	*0.0*	*8.0*	*9.6*	*(1.7)*
Reported PAT	(258)	(246)	*5.0*	(407)	(665)	(271)	*145.3*
PAT (Excl. Ex Items)	(258)	(280)	*(7.7)*	(406)	(664)	(370)	*79.8*
Operating Metrics							
News operations	750	808	*(7.2)*	569	1,319	1,562	*(15.6)*
Web18	190	153	*24.4*	142	332	284	*16.8*
Newswire 18	80	51.2	*56.3*	74	154	96	*60.6*
Infomedia	300	290	*3.3*	288	588	290	*102.5*

Zee News

Rating	Accumulate
Price	Rs46
Target Price	Rs46
Market Cap. (Rs bn)	10.9
Shares o/s (m)	239.8

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	5,221	6,170	7,118
EBITDA	836	1,003	1,183
Margin (%)	*16.0*	*16.3*	*16.6*
PAT	446	506	614
EPS (Rs)	1.9	2.1	2.6
RoE (%)	*19.9*	*19.5*	*20.5*
PE (x)	24.4	21.6	17.8
P/BV	4.5	3.9	3.4
EV / E (x)	14.8	12.9	11.0

Zee News had an impressive June quarter largely backed by robust growth in advertisement revenues for its news properties due to elections. However the same would not be the case this quarter. The company however will get some support from improvement in ad spends towards its regional GECs. For the quarter, revenues are expected to grow by 6.6% yoy from Rs1,277m to Rs1,361m. Operating expenses are expected to maintain a similar runrate as compared to previous quarter, resulting in 114 bps QoQ compression in operating profit margins to 16.9%. Net profit for the quarter is expected at Rs108m.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	1,361	1,277	*6.6*	1,374	2,736	2,404	*13.8*
EBITDA	230	211	*8.8*	248	560	384	*45.8*
Margin (%)	*16.9*	*16.6*	*0.3*	*18.0*	*18.0*	*16.0*	*2.1*
Reported PAT	108	115	*(5.7)*	119	344	208	*65.7*
PAT (Excl. Ex Items)	108	115	*(5.7)*	119	344	208	*65.7*
Operating Metrics							
Advertising revenues	1,063	1,013	*5.0*	1,091	2,154	1,902	*13.3*
Subscription revenues	280	234	*19.6*	265	545	446	*22.2*
Other sales and services	18	30	*(39.8)*	18	36	56	*(36.0)*

ENIL

Rating	Reduce
Price	Rs198
Target Price	Rs195
Market Cap. (Rs bn)	9.4
Shares o/s (m)	47.7

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	4,262	4,423	4,541
EBITDA	(92)	192	678
Margin (%)	*(2.2)*	*4.3*	*14.9*
PAT	(603)	(286)	104
EPS (Rs)	(12.6)	(6.0)	2.2
RoE (%)	*(14.7)*	*(7.9)*	*3.0*
PE (x)	(15.6)	(32.9)	90.4
P/BV	2.4	2.7	2.7
EV / E (x)	(117.0)	57.6	16.3

All three segments - radio, out of home and events are expected to see a YoY decline in revenues. However, sequentially the performance across segment is expected to see an improvement in revenue terms and with operating cost assumed to remain flat in absolute terms. As a result, consolidated operating loss for the quarter is expected to decline to Rs17m. Consolidated net losses for the quarter are expected at Rs148m.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	939	1,099	*(14.6)*	873	1,812	2,170	*(16.5)*
EBITDA	(17)	(60)	*(71.8)*	(64)	(81)	(29)	*177.2*
Margin (%)	*(1.8)*	*(5.4)*	*3.6*	*(7.4)*	*(4.5)*	*(1.4)*	*(3.1)*
Reported PAT	(148)	(182)	*(18.7)*	(194)	(342)	(262)	*30.6*
PAT (Excl. Ex Items)	(148)	(182)	*(18.7)*	(194)	(342)	(262)	*30.6*
Operating Metrics							
Radio	541	616	*(12.1)*	502	1,043	1,184	*(11.9)*
Out-Of-Home	322	387	*(16.7)*	309	631	787	*(19.8)*
Events	85	107	*(20.2)*	67	152	214	*(28.9)*
Intersegmental	(9)	(10)	*(7.0)*	(5)	(15)	(15)	*1.2*

TV Today

Rating	Reduce
Price	Rs95
Target Price	Rs98
Market Cap. (Rs bn)	5.5
Shares o/s (m)	58.0

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	2,500	2,802	3,055
EBITDA	441	706	829
Margin (%)	*17.6*	*25.2*	*27.2*
PAT	336	484	566
EPS (Rs)	5.8	8.3	9.8
RoE (%)	*10.9*	*14.1*	*14.6*
PE (x)	16.4	11.4	9.7
P/BV	1.7	1.5	1.3
EV / E (x)	10.5	7.0	5.7

Inventory offtake and realizations on spot rates are not expected to be as impressive as seen in the Q1FY10 (due to election), though the same has recovered well since Q4FY09. Revenues accordingly are expected to decline by 11.2% QoQ and also 5.7% YoY to Rs631m. Though we expect operating profit margins to expand by 97 bps from 18.1% in Q2FY09 to 19.1% in Q2FY10, as over the period the company has managed to reduce its quarterly cost run-rate. Consequently we expect an 8.8% increase in earnings to Rs82m.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	631	669	*(5.7)*	710	1,341	1,310	*2.4*
Total operational expenses	510	548	*(6.8)*	516	1,026	1,059	*(3.1)*
EBITDA	120.4	121.2	*(0.6)*	194.5	314.9	251.5	*25.2*
Margin (%)	*19.1*	*18.1*	*1.0*	*27.4*	*23.5*	*19.2*	*4.3*
Other Income	45	38	*18.2*	92	137	83	*64.2*
Interest	0.0	0.3	*(100.0)*	0.3	0.3	0.5	*(43.0)*
Depreciation	46	42	*10.4*	46	92	83	*11.2*
PBT	119	117	*1.8*	240	359	252	*42.8*
Tax	37	42	*(10.9)*	73	111	84	*31.4*
Reported PAT	82	76	*8.8*	166	249	168	*48.5*
PAT (Excl. Ex Items)	82	76	*8.8*	166	249	168	*48.5*

PVR

Rating	**Reduce**
Price	Rs141
Target Price	Rs115
Market Cap. (Rs bn)	3.2
Shares o/s (m)	23.0

After a lull in Q1FY10, multiplexes including PVR have seen a sharp spike in footfalls. We expect healthy realizations (largely due to increase in ATPs) and volumes for the quarter. However, the new revenue sharing arrangement with producers should inch up the film hire cost by 250 bps. Nonetheless, we expect margins to expand by 284bps to 21.8%. We expect the company to report an adjusted net profit of Rs79m as against Rs58m in Q2FY09.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	3,521	3,806	5,253
EBITDA	472	439	832
Margin (%)	*13.4*	*11.5*	*15.8*
PAT	87	89	219
EPS (Rs)	3.8	3.9	9.5
RoE (%)	*3.3*	*2.7*	*6.3*
PE (x)	37.1	36.2	14.7
P/BV	1.0	1.0	0.9
EV / E (x)	9.7	11.9	7.1

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	883	788	*12.0*	345	1,228	1,401	*(12.4)*
EBITDA	193	150	*28.7*	(89)	104	257	*(59.6)*
Margin (%)	*21.8*	*19.0*	*2.8*	*(25.8)*	*8.5*	*18.3*	*(9.9)*
Reported PAT	79	79	*(0.8)*	(109)	(31)	118	*(125.8)*
PAT (Excl. Ex Items)	79	58	*36.4*	(109)	(31)	97	*(131.6)*
Operating Metrics							
Average ticket price (Rs)	145	140	*3.6*	132	139	139	*(0.4)*
Spend per head (Rs)	38	39	*(2.6)*	38	38	39	*(1.4)*
Footfalls (m)	5.0	4.89	*2.6*	2.3	7.3	8.6	*(15.0)*

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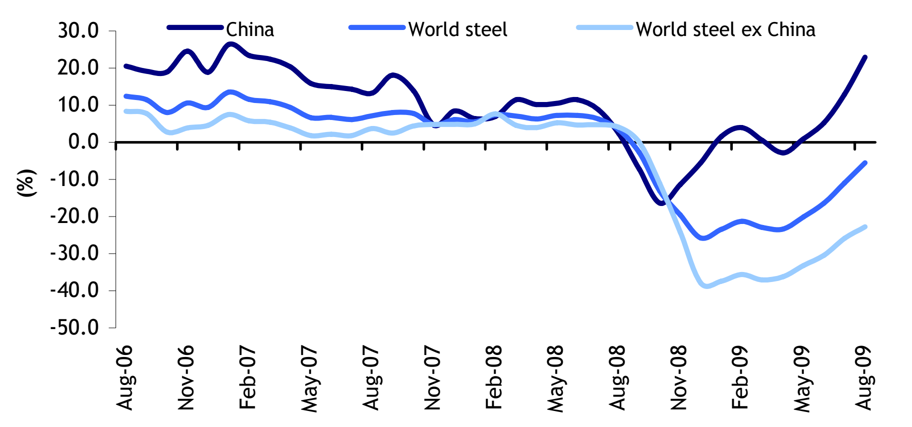
Metals

Robust expansion in the China's crude steel production enabled the world crude steel production to restrict the contraction in activity to 8% against decline of 24% in the world excluding China during the July-August 2009. China's crude steel production grew by 18% to 103m tonnes during the July-August 2009 with share of 49% in the world crude steel production against 38% in the corresponding period of previous year. Activity continued to remain weak in the developed economies. Crude steel production in EU and North America was down by 34% and 39%, respectively during July-August 2009 which aggregated to 20.5m tonnes (~100% of the fall in the world steel production).

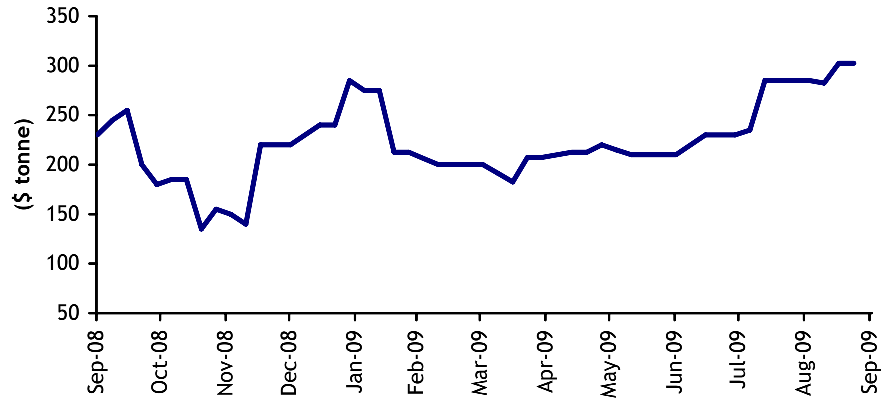
Movement in crude steel production in China and World



Source: IISI

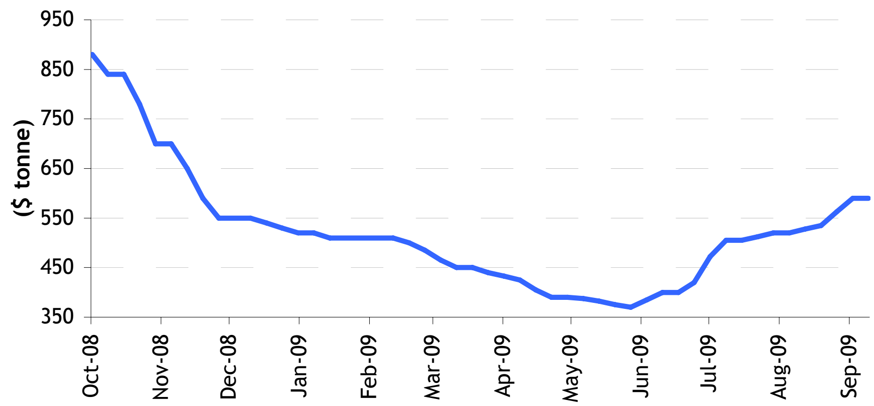
North American market witnessed sharp rise in flat steel prices with prices surging by ~46% to US$583 per short ton during the quarter primarily on account of demand arising from 'Cash for clunkers' program and depreciation of US$. Contrary to American market, prices in the Northern Europe market surged marginally by •43 to •434 given the continued depressed demand from user sectors. While, Chinese domestic steel prices remain very volatile with prices touching the peak of US$605 by mid of August and now back to US$488, still a decline of 9% over level of US$534 at the end of June 2009.

Rotterdam Scrap Prices



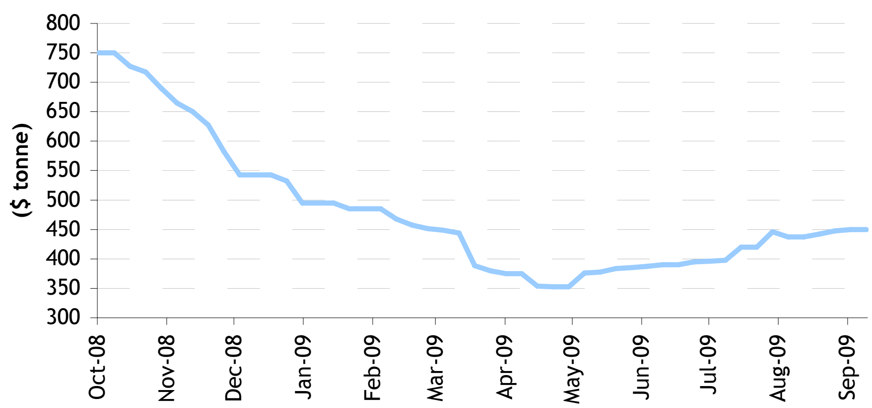
Source: SBB

North American Steel Price



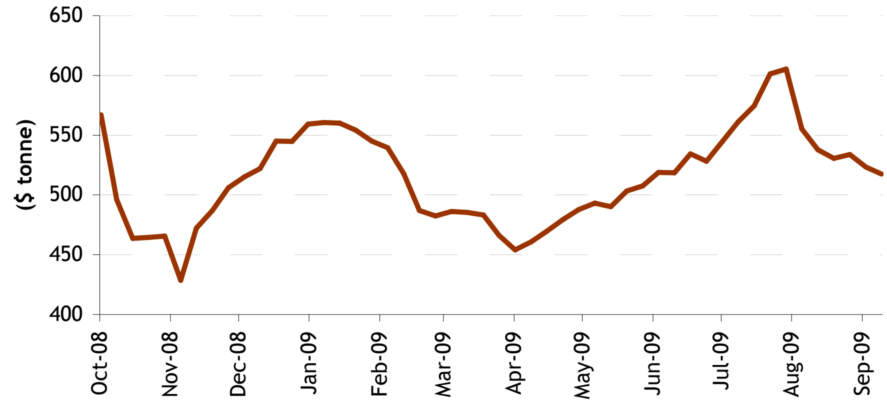
Source: SBB

Europe Steel Price



Source: SBB

China Steel Price



Source:

Driven by strong demand from Asian markets, Rotterdam based scrap price surged by ~44% to US$303 while Scrap prices at one of the biggest steel scrap market rose by 48% to US$377. Firm scrap prices signifies the firm and stable steel prices.

We maintain our Neutral outlook on the sector on the back of improved sentiments, bottomed out steel prices and sharp cut in input prices. We have positive bias to the stocks focussed on domestic market and carrying least exposure to the developed markets.

Top picks: None

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09	FY10E	FY11E
Net Sales	1,967,595	1,500,367	1,853,800
Growth (%)	*7.5*	*(23.7)*	*23.6*
EBITDA	289,199	239,888	341,341
Margin (%)	*14.7*	*16.0*	*18.4*
PAT	173,930	115,928	211,064
Growth (%)	*(12.4)*	*(33.3)*	*82.1*
PE (x)	11.8	17.8	9.7

Quarterly Table (Rs m)

	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	*QoQ gr. (%)*
Net Sales	394,143	576,778	*(31.7)*	336,551	*17.1*
EBITDA	44,425	119,341	*(62.8)*	23,389	*89.9*
Margin (%)	*11.3*	*20.7*	*(9.4)*	*6.9*	*4.3*
PAT (Excl. Ex Items)	12,120	80,752	*(85.0)*	(6,570)	*(284.5)*

Note: The Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

Sterlite Industries

Rating	Accumulate
Price	Rs750
Target Price	Rs750
Market Cap. (Rs bn)	531.7
Shares o/s (m)	708.5

Strong performance of the zinc business and revenue from sale of excess power at BALCO would restrict the fall in revenue to 12% in spite of sharp fall in revenue of aluminium and copper business. We expect EBITDA to grow by 3% to 16.9bn on the back of increased EBITDA from Zinc business and incremental EBITDA from the excess power sale. Net profit would decline by 2% due to higher other income in previous year associated with extraordinary gains at subsidiary, CMT.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	211,442	196,044	274,569
EBITDA	47,041	52,365	109,342
Margin (%)	*22.2*	*26.7*	*39.8*
PAT	34,610	31,034	67,161
EPS (Rs)	48.8	36.9	79.9
RoE (%)	*14.4*	*10.1*	*17.1*
PE (x)	13.0	17.2	7.9
P / BV (x)	1.8	1.5	1.3
EV / E (x)	10.2	8.0	3.7

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	57,727	65,938	*(12.5)*	45,371	103,099	123,639	*(16.6)*
EBITDA	16,859	16,350	*3.1*	9,791	26,650	34,616	*(23.0)*
Margin (%)	*29.2*	*24.8*	*4.4*	*21.6*	*25.8*	*28.0*	*(2.1)*
Reported PAT	15,181	17,208	*(11.8)*	9,239	24,420	33,162	*(26.4)*
PAT (Excl. Ex Items)	13,904	17,294	*(19.6)*	7,962	21,866	33,247	*(34.2)*
Operating Metrics							
Aluminium	1,806	2,839	*(36.4)*	1,488	1,647	2,917	*(43.5)*
Aluminium volume	64,800	89,020	*(27.2)*	71,521	136,321	180,868	*(24.6)*

Jindal Steel & Power

Rating	Redyce
Price	Rs596
Target Price	Rs470
Market Cap. (Rs bn)	569.6
Shares o/s (m)	955.7

We expect Jindal Steel and Power's (JPL's) net sales to decline by 26% due to sharp fall of 29% in the realisation. EBITDA would decline by 26% YoY to Rs6.3bn due to higher raw material cost and reduced realisations. JPL is expected to report PAT of Rs5.1bn, with an average realised rate of Rs6.3 per unit. Consolidated PAT for the quarter would stand at Rs8.6bn.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	108,510	111,028	135,251
EBITDA	53,126	59,129	77,970
Margin (%)	*49.0*	*53.3*	*57.6*
PAT	30,072	36,438	49,157
EPS (Rs)	32.2	38.5	51.7
RoE (%)	*58.0*	*41.5*	*37.7*
PE (x)	18.5	15.5	11.5
P / BV (x)	7.8	5.2	3.6
EV / E (x)	12.1	11.0	8.5

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	16,497	22,161	*(25.6)*	15,757	32,254	41,114	*(21.6)*
EBITDA	6,304	8,551	*(26.3)*	5,583	11,886	16,376	*(27.4)*
Margin (%)	38.2	38.6	(0.4)	35.4	36.9	39.8	(3.0)
Reported PAT	3,531	4,500	*(21.5)*	3,001	6,532	8,523	*(23.4)*
PAT (Excl. Ex Items)	3,531	5,336	*(33.8)*	3,001	6,532	9,912	*(34.1)*
Operating Metrics							
Sales volume (Tonnes)	550,743	549,347	*0.3*	574,934	1,125,677	1,008,882	*11.6*
Realisation	27,708	39,166	*(29.3)*	26,208	26,942	39,525	*(31.8)*
JPL-Power sales (Mn Kwh)	1,507	1,300	*15.9*	1,928	3,435	2,040	*68.4*
Rate per Kwh	6.3	5.0	*25.1*	6.3	6.3	4.6	*35.5*
JPL-PAT	5,078	3,147	*61.4*	7,003	12,081	3,560	*239.3*

Tata Steel

Rating	Reduce
Price	Rs497
Target Price	Rs412
Market Cap. (Rs bn)	441.0
Shares o/s (m)	886.5

Key Figures (Consolidated) (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	1,473,293	1,001,839	1,202,207
EBITDA	181,277	92,670	149,074
Margin (%)	*12.3*	*9.3*	*12.4*
PAT	90,454	18,914	52,233
EPS (Rs)	102.0	20.7	58.9
RoE (%)	*18.9*	*6.9*	*15.7*
PE (x)	4.9	24.0	8.4
P / BV (x)	5.3	2.8	2.2
EV / E (x)	5.3	10.4	6.2

Tata Steel is expected to report a decline of 30% in standalone EBITDA. EBITDA would be impacted primarily by a sharp fall in realizations and profit of Ferro alloys division. Adjusted PAT would fall by 44% due to presence of one-time gain of Rs1.4bn on transfer of subsidiary in corresponding quarter of previous year.

On a consolidated basis, the company is expected to make a loss of Rs10.2b on account of Corus's continued dismal performance.

Quarterly Table (Standalone) (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	61,127	68,507	*(10.8)*	55,540	116,668	129,379	*(9.8)*
EBITDA	22,265	31,830	*(30.0)*	16,807	39,072	61,419	*(36.4)*
Margin (%)	*36.4*	*46.5*	*(10.0)*	*30.3*	*33.5*	*47.5*	*(14.0)*
Reported PAT	11,397	17,878	*(36.2)*	7,898	19,296	32,762	*(41.1)*
PAT (Excl. Ex Items)	11,397	20,279	*(43.8)*	7,898	19,296	37,148	*(48.1)*
Operating Metrics							
Volume (Mn tonnes)	1.5	1.3	*10.5*	1.4	2.9	2.4	*21.3*
Realisation per tonne	38,217	48,286	*(20.9)*	36,717	37,480	47,037	*(20.3)*
EBITDA per tonne	15,154	26,089	*(41.9)*	11,854	13,534	25,811	*(47.6)*

Tata Steel

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Shares o/s (m)	886.5

Key Figures (Consolidated) (Rs m)

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On a consolidated basis, the company is expected to make a loss of Rs10.2b on account of Corus's continued dismal performance.

Quarterly Table (Consolidated) (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	271,839	441,990	*(38.5)*	232,923	502,527	875,735	*(42.6)*
EBITDA	9,624	82,497	*(88.3)*	(299)	9,325	155,852	*(94.0)*
Margin (%)	*3.5*	*18.7*	*(15.1)*	*(0.1)*	*1.9*	*17.8*	*(15.9)*
Reported PAT	(10,301)	47,036	*(121.9)*	(22,385)	(32,687)	86,183	*(137.9)*
PAT (Excl. Ex Items)	(10,215)	52,519	*(119.4)*	(19,899)	(30,114)	99,252	*(130.3)*
Operating Metrics							
Sales volume at Corus	3.6	5.6	*(35.2)*	3.3	6.9	11.9	*(41.8)*
Real. per tonne-Corus	1,003	1,203	*(16.6)*	963	984	1,144	*(14.0)*

Hindustan Zinc

Rating	Accumulate
Price	Rs807
Target Price	Rs900
Market Cap. (Rs bn)	341.0
Shares o/s (m)	422.5

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	56,803	60,685	70,206
EBITDA	36,654	40,463	47,809
Margin (%)	*64.5*	*66.7*	*68.1*
PAT	27,276	30,195	35,341
EPS (Rs)	64.6	71.5	83.6
RoE (%)	*20.8*	*19.1*	*18.8*
PE (x)	12.5	11.3	9.6
P / BV (x)	2.4	2.0	1.7
EV / E (x)	6.7	5.8	4.1

Continued Improvement in the LME prices during the quarter brought Zinc and Lead LME average for the quarter at levels identical to corresponding quarter of previous year. Apart from the rise in LME prices, domestic realizations were supported by 11% appreciation in Rs and 5% import duty against zero in Q2FY09. However, revenue would remain flat YoY due to complete depletion of revenue from by-product sale. EBITDA would grow by 11% on the better domestic realizations and reduction in cost. PAT would decline by 2% due to lower other income and higher tax rate.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	17,575	17,438	*0.8*	15,122	32,697	33,875	*(3.5)*
EBITDA	10,362	9,354	*10.8*	7,679	18,041	19,131	*(5.7)*
Margin (%)	*59.0*	*53.6*	*5.3*	*50.8*	*55.2*	*56.5*	*(1.3)*
Reported PAT	9,374	9,595	*(2.3)*	7,188	16,562	18,073	*(8.4)*
PAT (Excl. Ex Items)	9,374	9,595	*(2.3)*	7,188	16,562	18,073	*(8.4)*
Operating Metrics							
Zinc (US$)	1,755	1,798	*(2.4)*	1,481	1,618	1,974	*(18.0)*
Lead (US$)	1,921	1,915	*0.3*	1,509	1,715	2,123	*(19.2)*
Zinc volume	158,310	167,000	*(5.2)*	162,241	320,551	305,278	*5.0*
Lead volume	27,782	21,048	*32.0*	20,601	48,383	40,632	*19.1*
EBITDA per tonne (Rs.)	55,684	49,744	*11.9*	41,997	48,901	55,307	*(11.6)*

JSW Steel

Rating	Accumulate
Price	Rs836
Target Price	Rs895
Market Cap. (Rs bn)	156.4
Shares o/s (m)	187.0

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	158,863	177,709	226,141
EBITDA	29,333	42,869	61,476
Margin (%)	*18.5*	*24.1*	*27.2*
PAT	2,427	12,785	23,990
EPS (Rs)	43.2	70.0	129.6
RoE (%)	*3.2*	*15.8*	*24.7*
PE (x)	19.4	11.9	6.4
P / BV (x)	2.3	2.0	1.5
EV / E (x)	10.9	7.7	6.0

JSW Steel's net revenue is expected to grow by 4% on the back of strong volume growth of 73%, negating the impact of 40% fall in realisation. Decline in EBITDA would be restricted to 5% on the back of full period benefit of cheaper coking coal. EBITDA per tonne would fall by 45% YoY to Rs7137 per tonne while on QoQ, it would be up by 30%. Adjusted net profit is expected to decline by 18% to Rs4.1bn on account of higher depreciation and interest cost associated with capitalisation of capex of Rs60bn.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	44,481	42,692	*4.2*	38,939	83,420	79,407	*5.1*
EBITDA	10,349	10,904	*(5.1)*	7,237	17,586	20,859	*(15.7)*
Margin (%)	*23.3*	*25.5*	*(2.3)*	*18.6*	*21.1*	*26.3*	*(19.7)*
Reported PAT	4,102	3,175	*29.2*	3,400	7,502	5,368	*39.8*
PAT (Excl. Ex Items)	4,102	4,983	*(17.7)*	1,754	5,856	9,650	*(39.3)*
Operating Metrics							
Sales volume (Mn Tonnes)	1.45	0.84	*73.2*	1.32	2.77	2	*67.6*
Realisation per tonne	30,677	51,006	*(39.9)*	29,477	30,105	48,038	*(37.3)*
EBITDA per tonne	7,137	13,027	*(45.2)*	5,479	6,347	12,619	*(49.7)*

Monnet Ispat

Rating	Accumulate
Price	Rs370
Target Price	Rs284
Market Cap. (Rs bn)	18.2
Shares o/s (m)	49.2

Benefited by higher excess power sales volume, Monnet Ispat's (Monnet's) EBITDA would grow 24% to Rs1.3b, despite a sharp decline in sponge iron realizations. PAT is expected to grow by 29% on the back of higher EBITDA and other income.

Key Figures (Consolidated) (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	15,487	13,747	15,632
EBITDA	3,672	4,756	5,013
Margin (%)	*23.7*	*34.6*	*32.1*
PAT	2,160	2,799	3,061
EPS (Rs)	43.9	56.8	62.2
RoE (%)	*17.4*	*18.5*	*17.2*
PE (x)	8.4	6.5	5.9
P / BV (x)	1.3	1.1	1.0
EV / E (x)	6.6	4.5	3.6

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	3,598	3,997	*(10.0)*	3,562	7,160	7,785	*(8.0)*
EBITDA	1,290	1,039	*24.1*	1,076	2,366	2,087	*13.4*
Margin (%)	*35.8*	*26.0*	*9.8*	*30.2*	*33.0*	*26.8*	*6.2*
Reported PAT	797	620	*28.6*	612	1,410	1,323	*6.5*
PAT (Excl. Ex Items)	797	620	*28.6*	612	1,410	1,323	*6.5*
Operating Metrics							
Sponge iron sales volume	112,470	97,800	*15.0*	126,095	238,565	211,338	*12.9*
Realisation per tonne	13,051	22,641	*(42.4)*	12,301	12,655	21,097	*(40.0)*
Power sales (Mn Kwh)	217	74	*192.2*	196	414	112	*269.2*
Rate per Kwh	5.5	4.6	*20.7*	5.8	5.6	3.8	*49.3*

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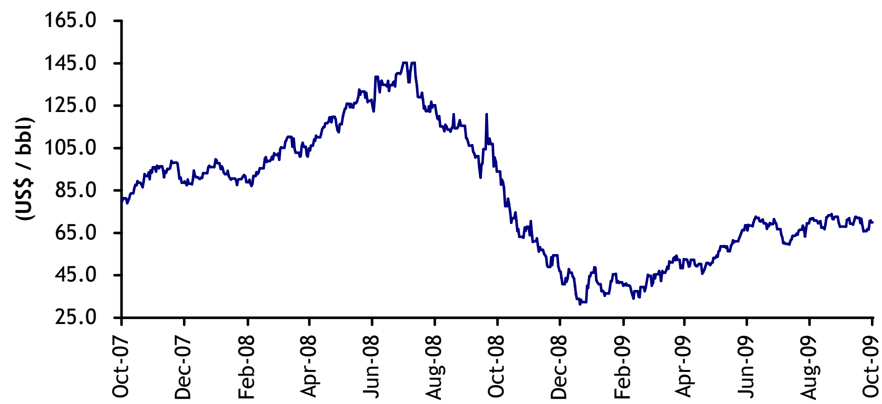
Offshore, Ports & Shipbuilding

Offshore

Despite oil staying in the US$60-70/barrel range, the pickup in offshore activities has not been significant. Day rates for offshore assets have continued to remain under pressure other than a few odd contracts like the one Aban Offshore (Aban) bagged for three jackup rigs at attractive day rates. However, this is also specific to the Middle East, where supply is relatively constrained. The other contract that Aban bagged was at a significantly low rate.

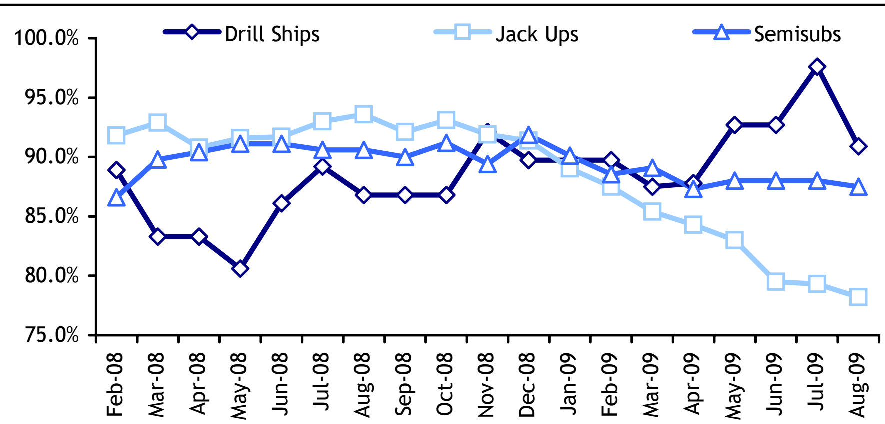
Crude price movement



Source: Bloomberg

Rig utilizations, especially for jackups have witnessed a decline over the last few months. The utilization rate for jackups currently stands at 78.2%, while that for drill ships and semi-subs stands at 90.9% and 87.5%, respectively. Also, in terms of new order bookings, the activity on the rig as well as offshore vessel side has been insignificant. In case of rigs, the addition to the world fleet is likely to be pretty significant. Four drill ships, 17 semi-subs and 25 jackups are likely to join the fleet in 2009 itself. Another 103 rigs are expected to join the fleet up to 2013.

Rig Utilizations



Source: Rigzone

Rig Deliveries

	Current			Building for Delivery in						
	Pre 2009	2009	Total	2009	2010	2011	2012	2013	Total	Total
Drill Ships	41	5	46	4	14	14	7	0	39	85
Semi-Submersibles	178	8	186	17	10	8	8	0	43	229
Jack-Ups	434	17	451	25	26	5	4	7	67	518
Total	**653**	**30**	**683**	**46**	**50**	**27**	**19**	**7**	**149**	**832**

Sources: Operators' and Builders' SEC Filings and Web Sites, RigZone.com and others

Ports

The months of June and July 2009 have been lackluster in terms of port volumes, mainly on account of it being the monsoon period. June 2009 witnessed a monthly decline of 0.7% in volumes, while the volume decline stood at 4.2% for the month of July 2009.

For the period April-July 2009, seven of the 12 major ports witnessed a YoY decline in volumes, while five witnessed an increase. Kolkata, Ennore and Cochin were the main losers, while Paradip and Marmagoa were the main gainers.

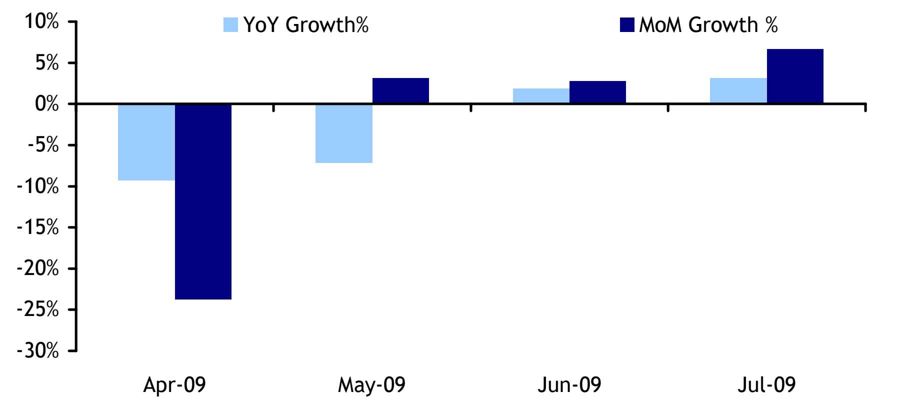
A positive sign for ports has been the pick up in container volumes. Container volumes for the months of June and July 2009 have started to show YoY and MoM growth.

Major Port Volumes

	Volumes (m Tonnes)			MoM Growth (%)		YoY Growth (%)	
	May-09	June-09	July-09	June-09	July-09	June-09	July-09
KOLKATA							
Kolkata Dock System	0.93	1.03	1.03	10.2	0.8	28.7	22.7
Haldia Dock Complex	2.76	2.65	2.40	(3.9)	(9.5)	(28.6)	(37.5)
TOTAL: KOLKATA	**3.69**	**3.68**	**3.43**	**(0.4)**	**(6.6)**	**(18.5)**	**(26.7)**
PARADIP	4.16	5.00	4.04	20.2	(19.2)	36.1	12.5
VISAKHAPATNAM	6.02	5.64	5.42	(6.3)	(3.9)	0.3	(4.3)
ENNORE	1.00	0.82	0.76	-	-	(15.0)	(23.4)
CHENNAI	4.35	5.07	5.48	16.5	8.2	4.4	6.2
TUTICORIN	1.87	1.94	2.20	3.9	13.4	5.7	40.3
COCHIN	1.19	1.38	1.04	16.4	(24.7)	11.6	(21.9)
NEW MANGALORE	2.92	3.11	3.30	6.8	5.9	12.8	(8.5)
MORMUGAO	5.02	1.98	1.29	(60.7)	(35.0)	48.1	(5.8)
MUMBAI	4.34	4.51	4.54	4.0	0.7	4.3	4.1
JNPT	5.21	4.88	5.03	(6.3)	3.0	1.9	(1.3)
KANDLA	6.00	7.42	6.99	23.8	(5.8)	25.0	6.7
TOTAL:	**45.76**	**45.42**	**43.51**	**(0.7)**	**(4.2)**	**8.6**	**(1.0)**

Source: IPA

Container Volume Growth at Major Ports



Source: IPA

Shipbuilding

The story on the shipbuilding front continues to remain in the realm of a status quo. In case of cargo vessels, there is absolutely no demand and is yet going to be a while before we see any sort of a revival. The offshore market is not contributing to the shipbuilders' order book as oil exploration companies are not yet in capex mode. The overall situation as far as order book accretion is concerned continues to remain dismal for shipbuilders.

Indian shipbuilding companies are participating in tenders for defence vessels which could prove to be a huge opportunity. However, the tendering process in case of defence orders normally is quite long and may be a while before anything substantial materializes.

The grand open offer saga for taking control over Great Offshore between ABG and Bharati Shipyard continues. The last offer has been made by Bharati Shipyard at Rs560/share. Bharati has acquired 22.5% of GOFF's equity, while ABG Shipyard has acquired 8.3%.

Top Picks: Bharati Shipyard, Mundra Ports & SEZ

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09	FY10E	FY11E
Net Sales	82,442	99,930	133,615
Growth (%)	*49.6*	*21.2*	*33.7*
EBITDA	36,487	41,757	62,619
Margin (%)	*44.3*	*41.8*	*46.9*
PAT	15,817	16,125	30,446
Growth (%)	*91.3*	*1.9*	*88.8*
PE (x)	20.5	20.1	10.6

Quarterly Table (Rs m)

	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	QoQ gr. (%)
Net Sales	20,300	18,690	8.6	20,983	(3.3)
EBITDA	9,011	8,914	1.1	9,786	(7.9)
Margin (%)	*44.4*	*47.7*	*(3.3)*	*46.6*	*(2.2)*
PAT (Excl. Ex Items)	3,757	4,974	(24.5)	4,408	(14.8)

Note: The Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

Aban Offshore

Rating	Reduce
Price	Rs1,621
Target Price	Rs1,156
Market Cap. (Rs bn)	61.3
Shares o/s (m)	37.8

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	30,501	33,077	47,304
EBITDA	17,327	16,535	29,570
Margin (%)	*56.8*	*50.0*	*62.5*
PAT	5,407	3,991	12,297
EPS (Rs)	134.6	97.2	241.7
RoE (%)	*32.1*	*19.3*	*29.2*
PE (x)	12.0	16.7	6.7
P / BV (x)	3.4	2.8	1.5
EV / E (x)	12.8	13.0	6.1

The quarter has been very fruitful for the company as it has managed to deploy four of its seven idle assets on long-term charters. Three of them have been deployed in the Middle East at an extremely attractive day rate of US$165,000 for a period of three years, while the fourth asset has been deployed in Latin America at a day rate of US$120,000 for 25.5 months. Aban has also completed its debt restructuring, where the repayment of debt to the tune of US$2bn will be made over a 10-year period after a two year moratorium. Although this involves a higher interest cost, the impact for Aban will be marginal on account of the decline in Libor.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	7,453	8,243	*(9.6)*	7,935	15,387	15,737	*(2.2)*
EBITDA	4,099	4,605	*(11.0)*	4,689	8,788	8,620	*1.9*
Margin (%)	*55.0*	*55.9*	*(0.9)*	*59.1*	*57.1*	*54.8*	*2.3*
Reported PAT	854	2,678	*(68.1)*	1,109	1,962	3,915	*(49.9)*
PAT (Excl. Ex Items)	854	2,678	*(68.1)*	1,109	1,962	3,915	*(49.9)*
Operating Metrics							
Fleet Size	20	14		20	20	14	
Uncontracted Rigs	4	0		7	4	0	
Number of vessels under dry-docking/refurbishment	2	3		2	2	3	

Quarterly Nos. are Standalone, Full Year are Consolidated

Great Offshore

Rating	Accumulate
Price	Rs558
Target Price	Rs625
Market Cap. (Rs bn)	20.7
Shares o/s (m)	37.1

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	10,811	13,044	13,987
EBITDA	4,830	5,881	5,753
Margin (%)	*44.7*	*45.1*	*41.1*
PAT	2,751	2,684	2,599
EPS (Rs)	74.1	67.1	70.0
RoE (%)	*37.2*	*31.7*	*25.0*
PE (x)	7.5	8.3	8.0
P / BV (x)	2.8	2.2	1.8
EV / E (x)	8.0	5.5	5.6

The company acquired three vessels this quarter; one harbour tug, one construction barge and one Anchor Handling Tug (AHT). This takes their vessel count up to 62 (including subsidiaries). The harbour tug has commenced operations, while the others are undergoing refurbishment. In terms of financial performance, the quarter is likely to be dry on account of monsoons due to which we expect the construction barge to remain idle. Utilizations of other vessels are also likely to be lower.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	1,834	1,593	*15.1*	2,293	4,127	3,620	*14.0*
EBITDA	807	476	*69.4*	986	1,793	1,319	*35.9*
Margin (%)	*44.0*	*29.9*	*14.1*	*43.0*	*43.4*	*36.4*	*7.0*
Reported PAT	228	169	*35.2*	222	450	820	*(45.1)*
PAT (Excl. Ex Items)	228	169	*35.2*	413	641	820	*(21.9)*
Operating Metrics							
Fleet Suze	64	41		61	64	41	
Utilization							
Drilling Rigs	100%	100%		100%			
Harbour Tugs	90%	100%		91%			
OSV	70%	81%		72%			
Gal Constructor				91%			

Quarterly Nos. are Standalone, Full Year are Consolidated

Garware Offshore

Rating	Accumulate
Price	Rs164
Target Price	Rs195
Market Cap. (Rs bn)	3.9
Shares o/s (m)	23.8

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	1,783	2,205	2,716
EBITDA	869	1,168	1,430
Margin (%)	*48.7*	*53.0*	*52.7*
PAT	425	493	566
EPS (Rs)	17.9	20.7	23.8
RoE (%)	*19.8*	*19.5*	*19.0*
PE (x)	9.2	7.9	6.9
P / BV (x)	1.7	1.4	1.2
EV / E (x)	10.5	7.9	7.0

The quarter is likely to be dull as one of the company's contracts for a PSV ran into rough weather and therefore had to be deployed in the North Sea in the spot market at a significantly lower rate. On the positive front, the company took delivery of a work barge and an anchor handling tug cum supply vessel (AHTSV), both of which have been placed on medium-term contracts at decent rates.

The company margins are likely to be lower as it has incurred expenditure to mobilize both the new vessels as well as to deploy the PSV in the North Sea.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	460	488	*(5.8)*	571	1,030	782	*31.7*
EBITDA	248	270	*(8.2)*	319	567	437	*29.7*
Margin (%)	*54.0*	*55.4*	*(1.4)*	*56.0*	*110*	*112*	*(2.3)*
Reported PAT	101	149	*(32.3)*	154	255	249	*2.6*
PAT (Excl. Ex Items)	101	149	*(32.3)*	154	255	249	*2.6*
Operating Metrics							
Fleet Size	13	8		11	13	8	
Number of vessels under dry-docking	1	0		0	1	0	

Mundra Port & SEZ

Rating	Accumulate
Price	Rs516
Target Price	Rs637
Market Cap. (Rs bn)	206.9
Shares o/s (m)	400.7

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	11,949	14,919	22,483
EBITDA	7,557	10,520	16,248
Margin (%)	*63.2*	*70.5*	*72.3*
PAT	4,325	6,227	11,225
EPS (Rs)	10.8	15.5	28.0
RoE (%)	*14.5*	*18.3*	*27.2*
PE (x)	47.8	33.2	18.4
P / BV (x)	6.5	5.7	4.5
EV / E (x)	30.4	21.5	13.9

Volume growth is not expected to be exuberant this quarter due to the monsoons which results in lackluster activity at the port. Volumes are expected to grow by 10% YoY and 3% QoQ to 10.2m tonnes. Car exports are likely to be a strong contributor to volumes.

On the SEZ front, we expect a pickup in volumes this quarter. We are factoring in sales of approximately 100 acres of land.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	3,237	2,960	*9.4*	3,068	6,305	5,497	*14.7*
EBITDA	2,262	2,056	*10.0*	2,201	4,463	3,827	*16.6*
Margin (%)	*69.9*	*69.5*	*0.4*	*71.7*	*70.8*	*69.6*	*1.2*
Reported PAT	1,635	1,123	*45.6*	1,707	3,342	2,091	*59.9*
PAT (Excl. Ex Items)	1,635	1,123	*45.6*	1,707	3,342	2,091	*59.9*
Operating Metrics							
Port Volumes (Million Tonnes)	10.2	9.3	*10.3*	9.9	20.1	17.2	*16.6*
Avg. Rev./Tonne	285	292	*(2.4)*	280	282	282	*0.2*
SEZ sales (Acres)	100	78	*28.2*	5	105	166	*(36.7)*

Gateway Distriparks

Rating	Accumulate
Price	Rs118
Target Price	Rs140
Market Cap. (Rs bn)	12.7
Shares o/s (m)	107.7

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	4,510	4,673	5,564
EBITDA	1461	1527	1836
Margin (%)	*32.4*	*32.7*	*33.0*
PAT	796	769	971
EPS (Rs)	7.4	7.1	9.0
RoE (%)	*11.1*	*10.6*	*12.6*
PE (x)	15.9	16.5	13.0
P / BV (x)	1.8	1.7	1.6
EV / E (x)	9.7	9.8	8.2

The current quarter earnings are likely to be lackluster due to lower port activity on account of monsoons. We expect volumes to decline by 5% as against Q1FY10. Besides on a YoY basis too, earnings are expected to be weak as Q2 of the previous year witnessed the highest volumes. Volumes on a YoY basis are likely to decline 22%, while realizations are likely to reduce by 16%.

Monsoons are also likely to impact rail volumes on a sequential basis. However, on YoY basis, growth is likely to be strong. Gateway Distriparks operates 15 owned rakes.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	366.15	554.06	*(33.9)*	391.22	757	1028	*(26.3)*
EBITDA	183	321	*(43.0)*	198	381	584	*(34.6)*
Margin (%)	*50.0*	*57.9*	*(7.9)*	*50.7*	*50.4*	*56.8*	*(6.4)*
Reported PAT	156	262	*(40.6)*	173	329	468	*(29.7)*
PAT (Excl. Ex Items)	156	262	*(40.6)*	173	329	468	*(29.7)*
Operating Metrics							
CFS Volumes (TEU's)	70,135	89,771	*(21.9)*	73,826	143,961	176,992	*(18.7)*
Revenue/TEU Rs.	6,142	7,326	*(16.2)*	6,465	6,308	6,794	*(7.2)*

ABG Shipyard

Rating	Accumulate
Price	Rs231
Target Price	Rs263
Market Cap. (Rs bn)	12.7
Shares o/s (m)	54.9

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	13,539	19,499	24,499
EBITDA	2,725	3,861	4,728
Margin (%)	*20.1*	*19.8*	*19.3*
PAT	1,307	1,104	1,606
EPS (Rs)	23.8	20.1	29.2
RoE (%)	*26.8*	*18.6*	*22.7*
PE (x)	9.7	11.5	7.9
P / BV (x)	2.3	2.0	1.6
EV / E (x)	11.0	8.4	7.3

Expansion in capacities is likely to result in strong YoY growth at the topline level. However, on a sequential basis, we are expecting growth to be muted as shipbuilding activities normally slow down in the monsoon quarter.

Margins on a YoY comparison are likely to be weak as the company, which had earlier been accounting for the difference between raw material cost as assumed on the date of book closure and the actual raw material cost under the financial expenses head, instead of the raw material head, has corrected the same. We expect strong subsidy booking during the quarter, resulting in strong YoY PAT growth.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	3,865	2,744	*40.9*	3,681	7,546	5,399	*39.8*
EBITDA	850	783	*8.6*	830	1,680	1,441	*16.6*
Margin (%)	*22.0*	*28.5*	*(6.5)*	*22.5*	*22.3*	*26.7*	*(4.4)*
Reported PAT	487	261	*86.6*	479	966	731	*32.2*
PAT (Excl. Ex Items)	487	261	*86.6*	479	966	731	*32.2*
Operating Metrics							
Order Book	123,000	116,454	5.6	116,454	123,000	116,454	5.6
Unexecuted Order Book	88,880	85,350	*4.1*	85,350	88,880	85,350	*4.1*
Subsidy Booked	280	250	*12.0*	250	530	126	*320.6*

Bharati Shipyard

Rating	BUY
Price	Rs195
Target Price	Rs257
Market Cap. (Rs bn)	5.4
Shares o/s (m)	27.6

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	9,349	12,513	17,063
EBITDA	1,718	2,265	3,054
Margin (%)	*18.4*	*18.1*	*17.9*
PAT	806	858	1,182
EPS (Rs)	29.2	31.1	42.9
RoE (%)	*17.2*	*15.8*	*18.7*
PE (x)	6.7	6.3	4.5
P / BV (x)	1.1	1.0	0.9
EV / E (x)	7.6	5.6	5.0

The company's focus has been on completing work on the jackup rig as well as meeting its other deliveries. Order book remained stagnant during the quarter as uncertainties on the offshore side persist and the cargo segment continues to look weak. Majority of the Swan Hunter equipment along with the ship lift facility has been installed at the Dabhol yard.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	3,085	2,108	*46.4*	3,045	6,130	4,140	*48.1*
EBITDA	561	402	*39.7*	563	1,124	789	*42.4*
Margin (%)	*18.2*	*19.1*	*(0.9)*	*18.5*	*18.3*	*19.1*	*(0.7)*
Reported PAT	296	332	*(10.6)*	372	669	628	*6.4*
PAT (Excl. Ex Items)	296	332	*(10.6)*	372	669	628	*6.4*
Operating Metrics							
Order Book	50,600	48,300	*4.8*	50,600	50,600	48,300	*4.8*
Unexecuted Order Book	27,915	34,500	*(19.1)*	31,000	24,870	34,500	*(27.9)*
Subsidy Booked	195	216	*(9.9)*	249	444	386	*15.1*

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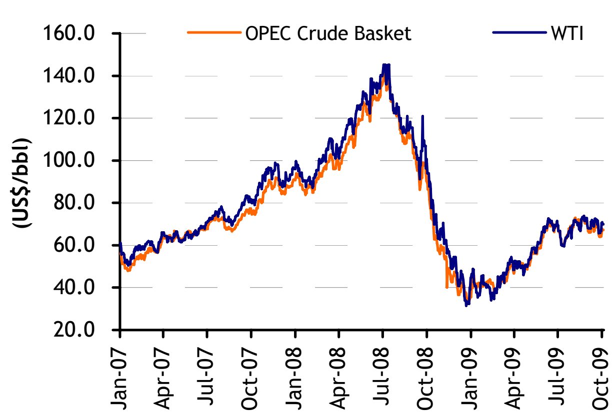
Oil, Gas & Petrochemicals

After a stupendous performance during Q1FY10, crude hovered near US$70/bbl levels in Q2FY10. There were bouts of sudden highs and lows during the quarter; however, prices traded in a smaller range. Economic data across the globe in general and US in particular remained neutral to slightly positive which helped maintain the crude prices. Refining environment didn't show any signs of recovery and remained depressing. Hereon, only the petroleum products demand revival can help an uptick in the refining margins. Petchem, on the other hand, remained strong during Q2FY10 as the demand from Asian region remained healthy, aiding the petchem prices.

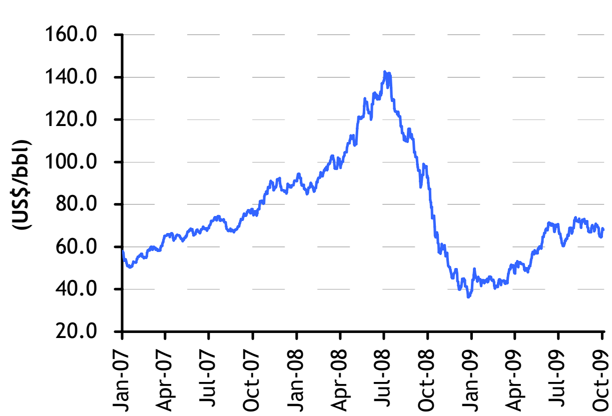
Crude - averaged at US$68/bbl during Q2FY10

Crude prices averaged at about US$64/bbl during July 2009. However, positive news of economic recovery across the globe lifted sentiments surging crude prices which averaged at about US$71/bbl in August 2009. For Q2FY10, the WTI crude prices averaged at US$68.1/bbl. Whenever crude prices were expected to cross the coveted US$75/bbl mark, some negative cues from the global market kept them in check. Organisation of Petroleum-Exporting countries (OPEC) faltered on its compliance as the average crude production from the member countries increased to 28.4 million barrels per day (mbpd) in Q2FY10 from 28.1mbpd in Q1FY10. Oil prices being at a comfortable level of about US$70/bbl, OPEC members maintained status quo during their meeting in early September 2009. We expect oil prices to move broadly in tandem with global demand in the future.

Crude price - WTI, OPEC

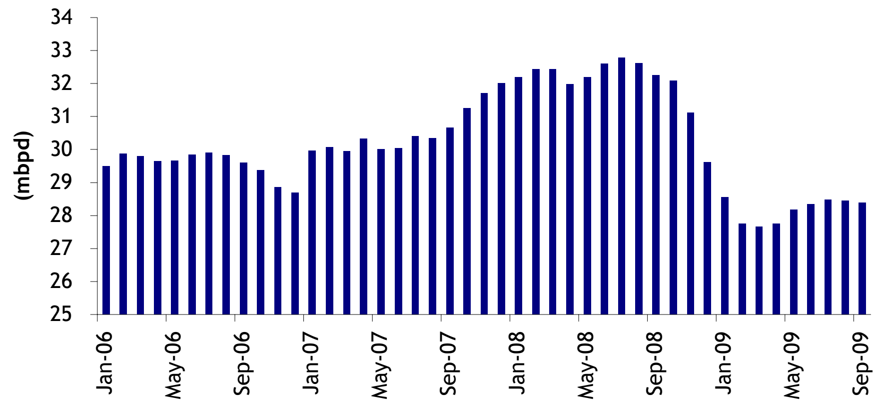


Indian crude basket



Source: Bloomberg, PNGRB, PL Research

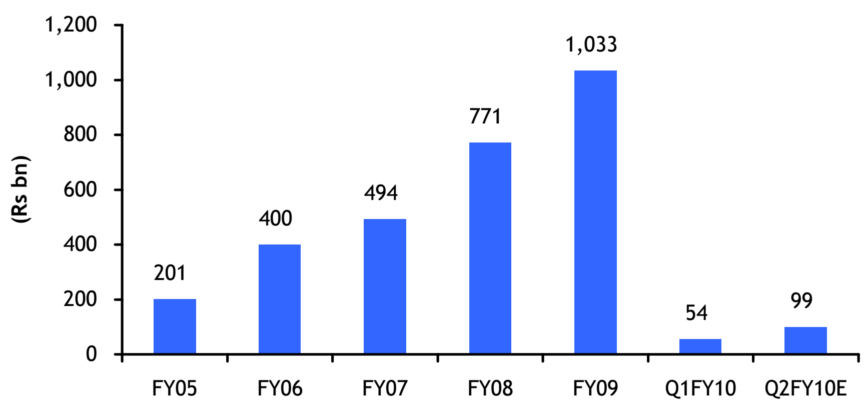
OPEC monthly crude oil production



Source: Bloomberg, PL Research

Indian crude prices during Q2FY10 averaged at US$68.3/bbl (Q1FY10 - US$59.3/bbl). OMCs benefitted from inventory gains during Q1FY10, thus reporting good numbers. However, in Q2FY10, the OMCs are expected to get negatively impacted on the back of under-recoveries on regulated products. Conversely, these companies are not yet compensated by the government for the losses they incurred during Q1FY10 on the sale of the regulated fuels. We expect the government to issue oil bonds to the OMCs during this quarter for Q1FY10 and Q2FY10. This government support will help these companies to report positive bottomline for Q2FY10.

Under-recoveries

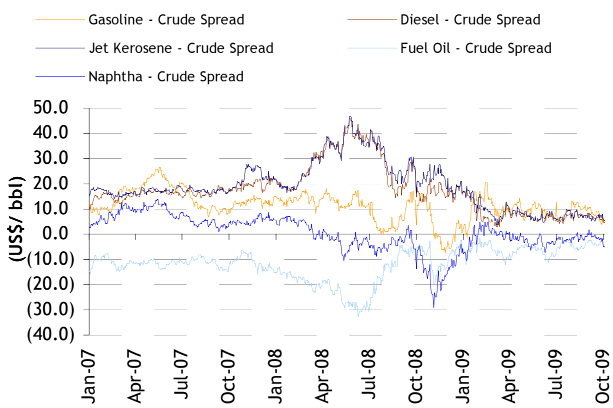


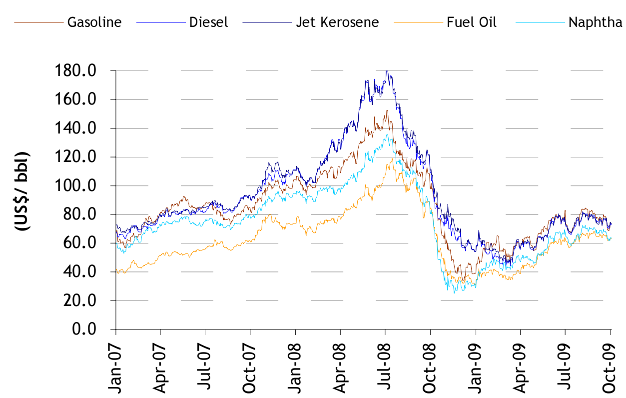
Source: PPAC, PL Research

Petroleum product prices - still weak

Petroleum product demand remained weak during Q2FY10, thus impacting prices. Product spreads deteriorated further during Q2FY10, which is expected to take a toll on the refining margins. Gasoline-Crude spreads averaged at US$9.0/bbl during Q2FY10 (Q1FY10 - US$9.0/bbl), while the Diesel-Crude spreads remained dismal at US$6.9/bbl (Q1FY10 - US$7.1/bbl). However, uptick in naphtha demand aided the Crude-Naphtha spreads to improve from US$(2.9)/bbl to US$(1.5)/bbl. Crude-Fuel Oil spreads improved from US$(6.8)/bbl to US$(4.2)/bbl, thus impacting the advantage of complex refiners whose product slate comprises of very little amount of fuel oil.

Petroleum product prices and spreads



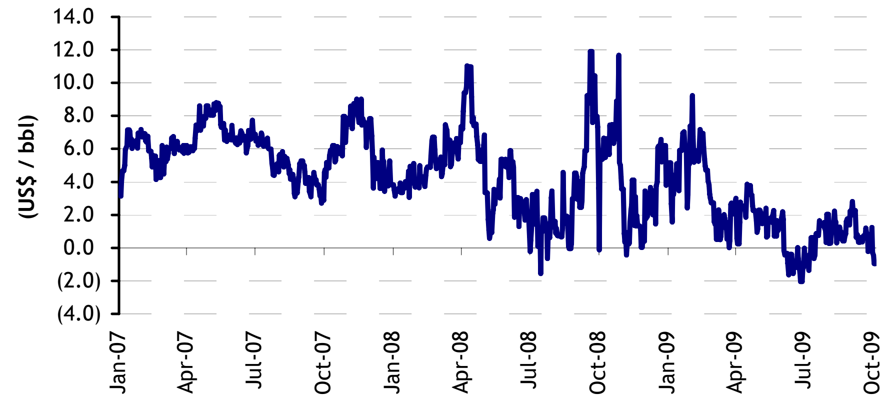


Source: Bloomberg, PL Research

GRMs - weakness continues

Pressure on GRMs continued from Q1FY10 to Q2FY10. Singapore complex GRMs remained subdued throughout the quarter and averaged at US$0.8/bbl which was marginally lower than US$1.0/bbl recorded in Q1FY10. Petroleum product demand is still not recuperating which is taking a toll on the GRMs. On the other hand, the inventory of middle distillates is still high on floating storages. Hence, only demand revival can help lift up the GRMs. Indian refiners benefitted substantially during Q1FY10 owing to inventory gains. However, during Q2FY10, the refiners will report normalised GRMs due to non-availability of inventory gains.

Singapore Complex GRMs

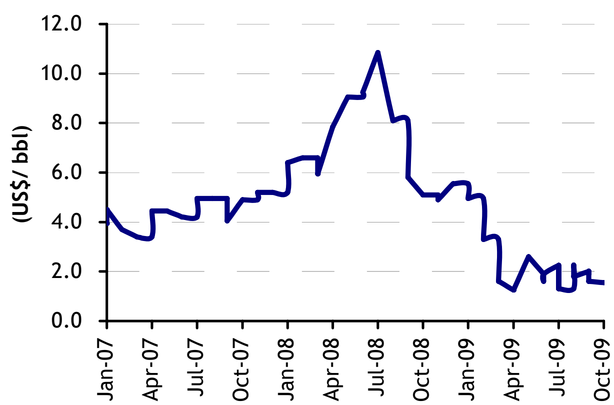


Source: Bloomberg, PL Research

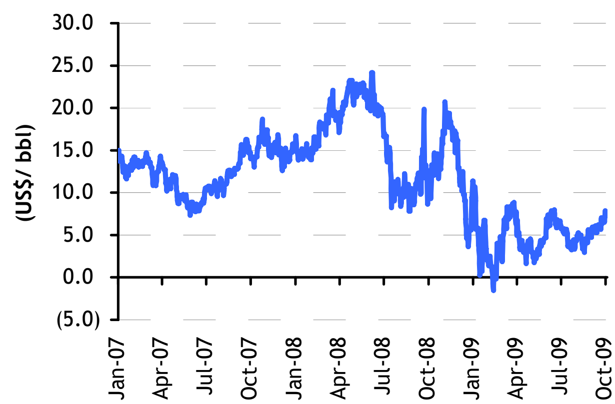
Crude differentials - no benefit to complex refiners

Light-heavy differentials also depicted the same story as that of the GRMs. For Q2FY10, the Arab light-heavy differential averaged at just US$1.8/bbl as against US$1.9/bbl during Q1FY10. However, the WTI-WTS sweet-sour differentials were better off during Q2FY10. WTI-WTS sweet-sour differentials witnessed some recovery from US$1.4/bbl in Q1FY10 to US$1.7/bbl during Q2FY10. Weak crude demand has been impacting the crude differentials since past few quarters. Hence, demand revival remains eminent for improvements of the light-heavy and sweet-sour differentials.

Arab light-heavy differential



WTI-WTS sweet-sour differential

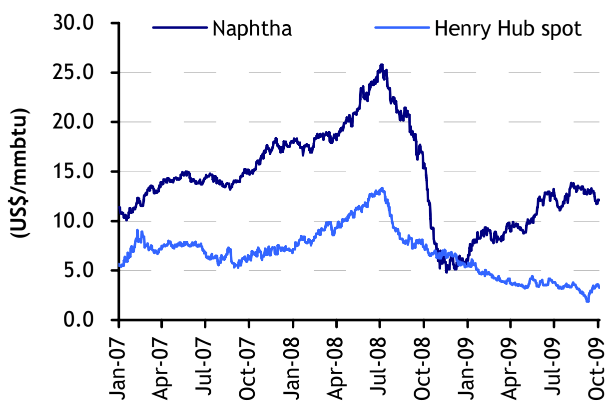


Source: Bloomberg, PL Research

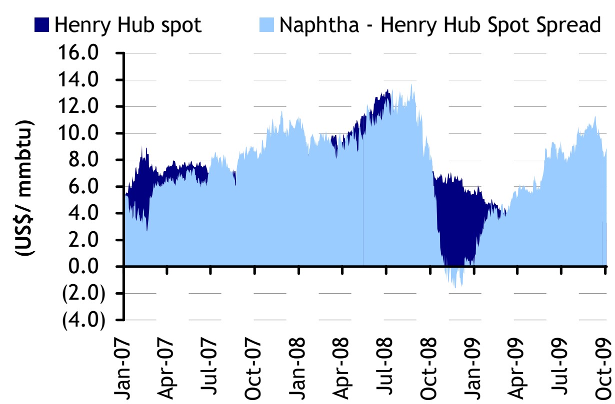
Natural gas - still low

Henry Hub spot natural gas prices plunged at 7-year lows of about US$1.9/mmbtu during September 2009, signifying low gas demand from industrial segment in the US. However, gas prices revived after touching the lows and now are trading closer to US$3.0/mmbtu. Spot natural gas prices, thus, averaged at US$3.1/ mmbtu during Q2FY10 as against US$3.7/mmbtu in Q1FY10. The prices are expected to remain weak in the near term as the US industrial activity has not yet picked up. Spot LNG prices are also keeping at reasonably lower levels of about US$4-6/mmbtu, thus, helping Indian imports of spot LNG.

Henry Hub natural gas price



Naphtha Henry Hub natural gas differential



Source: Bloomberg, PL Research

Top Picks: Indraprastha Gas, HPCL and BPCL

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09	FY10E	FY11E
Net Sales	5,537,748	5,897,423	6,848,043
Growth (%)	*14.5*	*6.5*	*16.1*
EBITDA	809,817	986,370	1,185,505
Margin (%)	*14.6*	*16.7*	*17.3*
PAT	416,442	541,491	656,747
Growth (%)	*(11.1)*	*30.0*	*21.3*
PE (x)	16.8	12.9	10.6

Quarterly Table (Rs m)

	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	QoQ gr. (%)
Net Sales	1,318,662	1,445,581	*(8.8)*	1,065,936	*23.7*
EBITDA	223,440	125,291	*78.3*	192,097	*16.3*
Margin (%)	*16.9*	*8.7*	*8.3*	*18.0*	*(1.1)*
PAT (Excl. Ex Items)	123,945	46,292	*167.7*	107,281	*15.5*

Note: The Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

Reliance Industries

Rating	**Reduce**
Price	Rs2,137
Target Price	Rs1,971
Market Cap. (Rs bn)	3,510.5
Shares o/s (m)	1,642.6

Key Figures (Consolidated) (Rs m)

Y/e March	FY09E	FY10E	FY11E
Net Sales	1,466,086	2,017,130	2,430,537
EBITDA	235,697	408,841	497,392
Margin (%)	*16.1*	*20.3*	*20.5*
PAT	156,727	213,350	268,186
EPS (Rs)	95.4	129.9	163.3
RoE (%)	*15.8*	*17.2*	*18.5*
PE (x)	22.4	16.5	13.1
P/BV (x)	3.1	2.6	2.2
EV / E (x)	15.7	9.1	7.1

RIL is expected to report lower GRMs of US$6.6/bbl (incl. RPL) owing to weak refining environment during the entire Q2FY10. Although, petchem prices remained buoyant during the quarter, the feedstock prices also moved up. Hence, petchem margins are anticipated to be lower sequentially. Average KG basin gas volumes are expected at 31.0mmscmd which will provide fillip to the profitability from oil and gas segment.

Quarterly Table (Standalone) (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	490,351	447,870	*9.5*	320,550	810,901	863,660	*(6.1)*
EBITDA	68,925	64,740	*6.5*	58,210	127,135	125,950	*0.9*
Margin (%)	*14.1*	*14.5*	*(0.4)*	*18.2*	*15.7*	*14.6*	*1.1*
Reported PAT	37,307	41,220	*(9.5)*	36,360	73,667	82,320	*(10.5)*
PAT (Excl. Ex Items)	37,307	41,220	*(9.5)*	36,360	73,667	82,320	*(10.5)*
Operating Metrics							
GRMs (US$/bbl)	6.5	13.4	*(51.5)*	7.5	7.0	14.6	*(51.9)*
Crude throughput (mmt)	7.8	8.2	*(5.0)*	8.0	15.8	16.3	*(3.5)*
Petchem. EBIT (Rs m)	19,577	18,970	*3.2*	20,800	40,377	34,760	*16.2*
Refining EBIT (Rs m)	14,203	27,740	*(48.8)*	11,150	25,353	58,140	*(56.4)*
Oil & Gas EBIT (Rs m)	15,753	6,450	*144.2*	10,080	25,833	11,480	*125.0*

Note: FY10 numbers include KG Basin estimates, Q2FY10 numbers incl. RPL consolidation

ONGC

Rating	**Accumulate**
Price	Rs1,171
Target Price	Rs1,278
Market Cap. (Rs bn)	2,503.7
Shares o/s (m)	2,138.9

Key Figures (Consolidated) (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	1,052,757	966,431	1,052,443
EBITDA	439,122	412,666	450,446
Margin (%)	*41.7*	*42.7*	*42.8*
PAT	197,953	204,021	237,709
EPS (Rs)	92.5	95.4	111.1
RoE (%)	*23.4*	*20.9*	*21.4*
PE (x)	12.6	12.3	10.5
P/BV (x)	2.7	2.4	2.1
EV / E (x)	5.5	5.9	5.4

Total O+OEG sales are expected to jump by over 5% sequentially on the back of higher production of both oil and natural gas. We expect ONGC to share Rs21.8bn subsidy burden for Q2FY10, offering a discount of US$11.5/bbl. Crude oil net realisation, thus, will be flattish at US$58.3/bbl (Q1FY10 - US$58.3/bbl, Q2FY09 - 46.7/bbl).

Quarterly Table (Standalone) (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	159,856	175,918	*(9.1)*	149,454	309,310	376,456	*(17.8)*
EBITDA	104,528	85,977	*21.6*	95,671	200,199	203,547	*(1.6)*
Margin (%)	*65.4*	*48.9*	*16.5*	*64.0*	*64.7*	*54.1*	*10.7*
Reported PAT	57,719	49,004	*17.8*	48,479	106,198	114,011	*(6.9)*
PAT (Excl. Ex Items)	57,719	49,004	*17.8*	48,479	106,198	114,445	*(7.2)*
Operating Metrics							
Crude Sales (MMT)	5.8	5.7	*2.3*	5.5	11.3	11.6	*(3.0)*
Gas sales (BCM)	5.3	5.2	*0.8*	5.1	10.4	10.4	*(0.3)*
Crude gross real. (US$/bbl)	69.8	119.4	*(41.5)*	60.6	122	122	*0.0*
Crude net real. (US$/ bbl)	58.3	46.7	*24.7*	58.3	58	58	*0.0*
Subsidy sharing	21,804	126,630	*(82.8)*	4,290	26,094	224,740	*(88.4)*

Cairn India

Rating	Reduce
Price	Rs257
Target Price	Rs240
Market Cap. (Rs bn)	486.5
Shares o/s (m)	1,896.7

Key Figures (Standalone) (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	14,327	23,746	96,940
EBITDA	9,299	17,407	81,277
Margin (%)	*64.9*	*73.3*	*83.8*
PAT	10,063	53,954	75,197
EPS (Rs)	4.2	5.3	28.4
RoE (%)	*2.6*	*3.0*	*14.8*
PE (x)	60.6	48.3	9.0
P/BV (x)	1.5	1.4	1.2
EV / E (x)	50.0	26.9	5.4

Note: FY09 - 15 months

Cairn's oil and gas production is expected to remain more or less flattish sequentially. However, over 14% sequential jump in crude oil realisations will help improve revenues. We expect average crude realisations at US$68.5/bbl (Q1FY10 - US$60.2/bbl, Q2FY09 - US$116.3/bbl).

Quarterly Table (Standalone) (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	2,329	3,206	*(27.4)*	2,050	4,378	7,243	*(39.5)*
EBITDA	1,116	2,403	*(53.6)*	1,012	2,128	4,697	*(54.7)*
Margin (%)	*47.9*	*75.0*	*(27.0)*	*49.4*	*48.6*	*64.9*	*(16.2)*
Reported PAT	927	2,933	*(68.4)*	454	1,381	4,319	*(68.0)*
PAT (Excl. Ex Items)	927	2,060	*(55.0)*	454	1,381	4,319	*(68.0)*
Operating Metrics							
Crude Sales (bopd)	12,118	11,833	*2.4*	12,204	12,161	12,273	*(0.9)*
Gas sales (mmscfd)	21.5	32.0	*(32.7)*	22.3	21.9	34.1	*(35.8)*
Crude real. (US$/bbl)	68.5	116.3	*(41.1)*	60.2	64.4	121.1	*(46.9)*
Gas real. (US$/ mmscfd)	4.0	4.1	*(2.4)*	4.0	4.0	4.2	*(4.8)*

Note: Extraordinary item - Forex Gains

GAIL

Rating	Accumulate
Price	Rs364
Target Price	Rs372
Market Cap. (Rs bn)	461.8
Shares o/s (m)	1,268.5

Key Figures (Standalone) (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	237,760	259,561	304,698
EBITDA	40,647	49,103	53,595
Margin (%)	*17.1*	*18.9*	*17.6*
PAT	28,037	35,916	38,936
EPS (Rs)	22.1	28.3	30.7
RoE (%)	*20.2*	*22.5*	*21.1*
PE (x)	16.5	12.9	11.9
P/BV (x)	3.1	2.7	2.3
EV / E (x)	10.8	8.8	8.0

We expect GAIL's subsidy burden to jump on account of higher under-recoveries for OMCs during Q2FY10. Petchem prices remained strong during the quarter (about US$1,400/tonne) which will aid the petchem EBITDA expansion. Transmission volumes are expected to jump due to higher KG basin gas transmission.

Quarterly Table (Standalone) (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	62,020	61,726	*0.5*	60,413	122,434	119,033	*2.9*
EBITDA	12,258	14,748	*(16.9)*	10,854	23,113	28,742	*(19.6)*
Margin (%)	*19.8*	*23.9*	*(4.1)*	*18.0*	*18.9*	*24.1*	*(5.3)*
Reported PAT	7,406	10,235	*(27.6)*	6,558	13,964	19,203	*(27.3)*
PAT (Excl. Ex Items)	7,406	10,235	*(27.6)*	6,558	13,964	19,203	*(27.3)*
Operating Metrics							
Nat. gas trans. (mmscmd)	100	82	*22.4*	97	98	83	*18.4*
LPG Transmission (TMT)	730	650	*12.3*	741	1,471	1,266	*16.2*
Petchm. LPG etc. (TMT)	450	436	*3.2*	426	876	886	*(1.1)*
Nat. gas trans. EBITDA	5,670	4,540	*24.9*	5,860	11,530	9,510	*21.2*
LPG Transmission EBITDA	771	710	*8.6*	860	1,631	1,350	*20.8*
Petchm. LPG etc. EBITDA	5,774	9,650	*(40.2)*	4,760	10,534	17,830	*(40.9)*

BPCL

Rating	Accumulate
Price	Rs563
Target Price	Rs600
Market Cap. (Rs bn)	203.5
Shares o/s (m)	361.5

Key Figures (Consolidated) (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	1,365,571	1,226,508	1,375,143
EBITDA	33,767	38,942	39,313
Margin (%)	*2.5*	*3.2*	*2.9*
PAT	6,338	12,950	13,239
EPS (Rs)	17.5	35.8	36.6
RoE (%)	*4.8*	*9.4*	*8.9*
PE (x)	32.1	15.7	15.4
P/BV (x)	1.5	1.4	1.3
EV / E (x)	12.8	9.7	8.5

We expect government support of over Rs28.0bn through oil bonds during Q2FY10 for H1FY10. We expect BPCL to absorb Rs1.9bn under-recoveries. GRMs for the quarter will get impacted adversely due to a decline in the product crack spreads. Also, there will not be any benefit from inventory gains during Q2FY10. Refinery throughput will rise sequentially as during Q1FY10 there was a planned shutdown of Kochi refinery.

Quarterly Table (Standalone) (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	288,003	378,507	*(23.9)*	255,144	543,147	768,982	*(29.4)*
EBITDA	13,318	(21,430)	*LTP*	7,670	20,988	(28,868)	*LTP*
Margin (%)	*4.6*	*(5.7)*	*10.3*	*3.0*	*3.9*	*(3.8)*	*7.6*
Reported PAT	7,981	(26,253)	*LTP*	6,141	14,123	(36,920)	*LTP*
PAT (Excl. Ex Items)	7,981	(26,253)	*LTP*	6,141	14,123	(36,920)	*LTP*
Operating Metrics							
Crude throughput (mmt)	4.9	5.3	*(7.4)*	4.2	9.1	10.3	*(11.6)*
Market sales (mmt)	6.9	6.3	*9.3*	6.9	13.8	13.2	*4.2*
Subsidy from upstream	5,643	34,208	*(83.5)*	1,575	7,218	60,785	*(88.1)*
Oil bonds accrued	27,972	47,824	*(41.5)*	0	27,972	105,484	*(73.5)*

HPCL

Rating	Accumulate
Price	Rs389
Target Price	Rs419
Market Cap. (Rs bn)	131.8
Shares o/s (m)	338.9

Key Figures (Consolidated) (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	1,290,546	1,241,686	1,395,433
EBITDA	32,660	33,284	32,295
Margin (%)	*2.5*	*2.7*	*2.3*
PAT	7,574	10,335	10,406
EPS (Rs)	22.4	30.5	30.7
RoE (%)	*6.9*	*8.8*	*8.3*
PE (x)	17.4	12.7	12.7
P/BV (x)	1.2	1.1	1.0
EV / E (x)	10.2	8.9	8.4

We expect government support of over Rs30.0bn through oil bonds during Q2FY10 for H1FY10. We expect HPCL to absorb Rs2.0bn under-recoveries. GRMs for the quarter will get impacted adversely due to a decline in product crack spreads. Also, there will not be any benefit from inventory gains during Q2FY10.

Quarterly Table (Standalone) (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	278,450	355,221	*(21.6)*	244,362	522,811	702,797	*(25.6)*
EBITDA	16,640	(25,438)	*LTP*	13,262	29,901	(28,958)	*LTP*
Margin (%)	*6.0*	*(7.2)*	*13.1*	*5.4*	*5.7*	*(4.1)*	*9.8*
Reported PAT	9,323	(32,189)	*LTP*	6,491	15,814	(41,070)	*LTP*
PAT (Excl. Ex Items)	9,323	(32,189)	*LTP*	6,491	15,814	(41,070)	*LTP*
Operating Metrics							
Crude throughput (mmt)	4.1	4.2	*(2.1)*	4.1	8.2	7.6	*8.6*
Market sales (mmt)	6.7	6.0	*11.5*	6.8	13.5	12.2	*11.3*
Subsidies	5,900	30,192	*(80.5)*	1,737	7,637	53,766	*(85.8)*
Oil bonds	30,040	42,212	*(28.8)*	0	30,040	93,362	*(67.8)*

Petronet LNG

Rating	**Reduce**
Price	Rs75
Target Price	Rs72
Market Cap. (Rs bn)	56.0
Shares o/s (m)	750.0

Re-gasification volumes will jump by over 38% YoY on account of expanded Dahej terminal and higher spot volumes. Blended re-gasification margins are expected to be higher sequentially. However, lower re-gasification margins for one of the high priced spot cargo will impact the overall margins for spot cargoes.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	84,287	128,189	149,871
EBITDA	9,013	11,653	13,241
Margin (%)	*10.7*	*9.1*	*8.8*
PAT	5,184	5,428	6,394
EPS (Rs)	6.9	7.2	8.5
RoE (%)	*28.8*	*24.9*	*24.4*
PE (x)	10.8	10.3	8.8
P/BV (x)	2.8	2.4	2.0
EV / E (x)	8.0	6.4	5.9

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	28,804	16,549	*74.1*	26,124	54,928	33,008	*66.4*
EBITDA	2,766	1,823	*51.7*	1,818	4,584	3,740	*22.5*
Margin (%)	*9.6*	*11.0*	*(1.4)*	*7.0*	*8.3*	*11.3*	*(3.0)*
Reported PAT	1,365	1,034	*32.1*	1,033	2,398	2,090	*14.7*
PAT (Excl. Ex Items)	1,365	1,034	*32.1*	1,033	2,398	2,090	*14.7*
Operating Metrics							
Contracted LNG (TBTUs)	63.0	67.8	*(7.0)*	62.7	125.7	129.6	*(3.0)*
Spot LNG (TBTUs)	40.5	7.2	*460.9*	36.1	76.6	24.2	*216.3*
Blended regas. margins	29.7	28.4	*4.4*	21.3	25.6	28.4	*(9.7)*
EBITDA/Ton	1,363.0	1,239.9	*9.9*	938.4	1,155.7	1,240.3	*(6.8)*

Gujarat State Petronet

Rating	**Reduce**
Price	Rs80
Target Price	Rs75
Market Cap. (Rs bn)	45.0
Shares o/s (m)	562.1

Transmission volumes are slated to jump from 25.3mmscmd in Q1FY10 to 30.0mmscmd in Q2FY10, backed by higher volumes from Shell, Hazira regasification terminal and increased volumes from KG basin. Currently, GSPL's natural gas transmission volume hovers at about 35mmscmd. Average transmission tariff is also anticipated to be healthy on account of tariff revision during early CY2009.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	4,875	8,464	10,129
EBITDA	4,245	7,633	9,141
Margin (%)	*87.1*	*90.2*	*90.3*
PAT	1,234	1,801	2,114
EPS (Rs)	2.2	3.2	3.8
RoE (%)	*10.5*	*14.0*	*14.6*
PE (x)	36.4	25.0	21.3
P/BV (x)	3.8	3.5	3.1
EV / E (x)	13.1	7.9	6.6

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	2,273	1,186	*91.7*	2,108	4,381	2,381	*84.0*
EBITDA	2,134	1,024	*108.3*	1,980	4,114	2,100	*95.9*
Margin (%)	*93.9*	*86.4*	*7.5*	*93.9*	*93.9*	*88.2*	*5.7*
Reported PAT	866	284	*205.2*	805	1,671	610	*173.9*
PAT (Excl. Ex Items)	866	284	*205.2*	805	1,671	610	*173.9*
Operating Metrics							
Trans. volumes (mmscmd)	29.9	15.6	*92.5*	25.3	27.6	16.8	*64.8*
Avg. trans. Tariff (Rs/ '000scm)	825	829	*(0.5)*	915	866	776	*11.6*

Gujarat Gas

Rating	Reduce
Price	Rs202
Target Price	Rs189
Market Cap. (Rs bn)	25.9
Shares o/s (m)	128.3

GujGas' distribution volumes are expected to jump by over 13% QoQ on the back of spot LNG volumes. The company was procuring about 0.7-1.0mmscmd spot LNG during the quarter benefitting overall distribution volumes. Tariff hike, effected during early CY2009, will aid YoY expansion in EBITDA margins.

Key Figures (Rs m)

Y/e Dec	CY08	CY09E	CY10E
Net Sales	13,013	14,617	16,812
EBITDA	2,367	2,873	3,332
Margin (%)	*18.2*	*19.7*	*19.8*
PAT	1,606	1,831	2,037
EPS (Rs)	12.4	14.2	15.8
RoE (%)	*25.1*	*23.3*	*21.4*
PE (x)	16.3	14.3	12.8
P/BV (x)	3.7	3.0	2.5
EV / E (x)	10.9	8.6	7.0

Quarterly Table (Rs m)

Y/e Dec	Q3 CY09E	Q3 CY08	YoY gr. (%)	Q2 CY09	9M CY09	9M CY08	YoY gr. (%)
Net Sales	4,019	3,246	*23.8*	3,392	10,475	9,704	*8.0*
EBITDA	787	593	*32.8*	757	2,104	1,882	*11.8*
Margin (%)	*19.6*	*18.3*	*1.3*	*22.3*	*20.1*	*19.4*	*0.7*
Reported PAT	503	393	*27.8*	474	1,340	1,284	*4.3*
PAT (Excl. Ex Items)	505	396	*27.6*	476	1,346	1,290	*4.4*
Operating Metrics							
Gas sales (mmscmd)	3.1	2.8	*8.4*	2.7	2.8	3.1	*(8.8)*
Avg. dist. Rate (Rs/scm)	14.1	12.2	*15.4*	13.3	13.36	11.36	*17.6*

Indraprastha Gas

Rating	BUY
Price	Rs161
Target Price	Rs199
Market Cap. (Rs bn)	22.6
Shares o/s (m)	140.0

IGL's CNG volume growth is expected to be marginal at about 4% YoY; however, buoyant demand from household sector will lift the PNG volume growth by over 32% YoY. Revenues, operating margins and PAT are expected to get boost from the CNG price increase effected during June 2009.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	8,528	11,091	16,039
EBITDA	3,001	3,968	5,473
Margin (%)	*35.2*	*35.8*	*34.1*
PAT	1,725	1,907	2,530
EPS (Rs)	12.3	13.6	18.1
RoE (%)	*27.4*	*25.6*	*28.0*
PE (x)	13.1	11.9	8.9
P/BV (x)	3.3	2.8	2.3
EV / E (x)	7.0	5.7	4.5

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	2,558	2,152	*18.9*	2,339	4,897	4,068	*20.4*
EBITDA	968	851	*13.8*	863	1,831	1,615	*13.4*
Margin (%)	*37.9*	*39.5*	*(1.7)*	*36.9*	*37.4*	*39.7*	*(2.3)*
Reported PAT	547	502	*8.9*	483	1,029	939	*9.7*
PAT (Excl. Ex Items)	547	502	*8.9*	483	1,029	939	*9.7*
Operating Metrics							
CNG (mn kgs)	121.5	117.2	*3.7*	120.5	242.0	221.2	*9.4*
PNG (mmscm)	17.6	13.3	*32.3*	17.5	35.1	24.9	*41.0*
CNG (Rs/ kg)	21.0	18.7	*12.1*	19.1	20.0	18.7	*6.9*
PNG (Rs/ scm)	18.5	17.6	*4.8*	18.3	18.4	17.7	*3.7*

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Pharmaceuticals

Domestic pharma market - healthy growth

The domestic pharma market is estimated to have grown around 11.0% during Q2FY10 (it grew by 10.5% in Q1FY10). There was drop in growth rate during last couple of quarters due to inventory rationalization happening due to financial crisis. With the ease of liquidity, introduction of new products, line extensions, and in-licensing deals, there is picking up in domestic growth rate. The domestic pharma market is growing at a steady pace of 13-14% over last 2-3 years and will continue to grow at this rate unless the Government brings more drugs under the purview of price control.

Domestic pharma market (Rs bn)

	Market size (MAT)	*YoY gr. (%)*
Aug'08	332	*12.4*
Sept'08	336	*12.8*
Oct'08	336	*10.6*
Nov'08	338	*10.3*
Dec'08	341	9.8
Jan'09	345	*9.9*
Feb'09	349	*10*
Mar'09	354	*10.1*
Apr'09	357	*10.0*
May'09	360	*10.0*
June'09	365	*11.0*
July'09	368	*11.0*
Aug'09	369	*11.0*
Average	**369**	***10.7***

Source: ORG- MAT data

The domestic pharma market was placed at Rs368.5bn (IMS- ORG MAT Aug-09) and grew around 10.7%.The growth rate of 11% for Q2FY10 is satisfactory. There was lower growth in previous months mainly due to inventory rationalization.

Regional developments

Regulatory re-alignment as per WHO guidelines

The Drug Controller General of India (DCGI) is planning to ramp up its manpower by adding about 170 drug inspectors to take their total number to 200. The move follows the central drug regulator's decision to withdraw powers given to state-level regulators to issue export quality licenses technically called Certificate of Pharmaceutical Products (CoPP). It is aimed at bringing regulations in the pharmaceutical sector in line with guidelines issued by the World Health Organization (WHO). WHO recommends the issue of CoPP and Model Certificate of Good Manufacturing Practices for medicinal products exported to international markets. The grant of these certificates was so far delegated to the State Licensing Authorities by the Central Drug Standard Control Organization (CDSCO) in view of the shortage of manpower. However, it has been observed that the certificates issued by the states are often at variation with the guidelines of the WHO Certification Scheme.

Mandatory registration of CROs to improve transparency

To bring more transparency to clinical trials happening in India, the drug regulator has drafted guidelines for mandatory registration of clinical research organizations (CROs) in the country. The drug regulator had earlier made it mandatory for companies to register all clinical trials taking place in the country. The move is aimed at keeping a tab on organizations undertaking clinical trials, even as multinational pharmaceutical companies are looking to make India the hub for clinical research given the easy accessibility to humans volunteering to take part in the drug trials at cheaper rates. According to the proposed draft rules for registration of CROs, the drug regulator will give licenses for five years to each company. While the drug regulator has retained the powers to cancel licenses issued to CROs, it has allowed the company to appeal within 90 days.

Global developments

USFDA going tough on manufacturers

The USFDA has notified Genzyme Corp that it will re-inspect a key manufacturing plant because the company has not taken sufficient action to correct equipment maintenance and process control problems. Genzyme had received a warning letter from the FDA in February 2009 citing manufacturing deficiencies at the Allston landing manufacturing plant in Boston. The company then took corrective actions and the FDA re-inspected the plant in May 2009. Thereafter, Genzyme received a letter from USFDA indicating that not all actions promised by them had been fully or adequately implemented. The letter said that a new inspection would be required to ensure that corrective actions had been taken.

U.S regulators had investigated possible manufacturing violations by Mylan - the world's third-biggest generic drugmaker. One of the report indicated that workers at Mylan overrode quality controls intended to ensure the safety and efficacy of their prescription drugs. However, FDA cleared the issue in August. Investors worried about possible ramifications related to the FDA's probe of the plant, which is on track to produce 16 billion tablets and capsules this year. It accounts for more than half of Mylan's manufacturing output.

U.S. health regulators warned Bayer over the testing and quality of pharmaceutical ingredients made at its Bergkamen, Germany, facility, The FDA's concerns arose following a March 2009 inspection that raised questions about the drugmaker's ability to monitor and test for quality.

Over the past year, Actavis, KV Pharmaceutical Co, Caraco Pharmaceutical Laboratories and Sandoz (the generic drug unit of Novartis AG) have been cited for problems by the USFDA. Caraco, in particular, is expected to slash more than half of its workforce to align its expenses with the current halt in production, following recent seizure of the company's medicines by U.S health regulators due to repeated manufacturing violations. The timing of the resumption of manufacturing operations depends on the discussions with USFDA and is believed to have no effect on distributed product sales in the US.

Thus, slew of manufacturing deficiencies at generic drugmakers has raised questions about the relative safety of generic products at a time when the government is relying on such products to help reduce healthcare costs.

Patent litigations / settlements

Teva Pharmaceutical Industries (Teva) settled a patent infringement lawsuit with Johnson & Johnson (J&J) over the generic version of Ortho Tri-cyclen Lo birth control pill. As part of the settlement, Teva, which briefly sold its generic version earlier this month before ceasing shipments, has obtained a license to re-enter the market on December 31, 2015 or earlier under certain circumstances. The product's patent is set to expire in 2019, a J&J spokesman said. Ortho Tri-Cyclen Lo had annual U.S sales of about US$400m for the year ended in March 2009.

Litigation against Cephalon Corp by the U.S Federal Trade Commission and others over the drugmaker's payments to delay generic versions of its top-selling medicine will essentially start over after a new judge takes over the case. The delay should help keep the sleep disorder drug Provigil free of generic competition for the foreseeable future. Provigil had global sales of US$988.4m in 2008 (roughly half of the company's total revenue).

Restructuring at Teva and Eli Lilly

Teva Pharmaceutical will close one of its Czech factories by the end of the year, cutting around 400 jobs. Teva employs about 1,700 in the country. Part of the lost jobs would be mitigated by a 1 billion crown ($58 million) investment next year that will boost production at its main plant and create 300 new positions.

Eli Lilly and Co has offered buyouts to 4,000 of its U.S. sales representatives, in hopes several hundred of them will accept the offers ahead of a planned company restructuring. The offers have been extended to representatives in the company's U.S. diabetes, neuroscience and osteoporosis sales forces. Employees who accept the buyout will be offered the company's standard severance package plus an additional four months pay. Lilly employees have been notified that the restructuring, to be announced in November and begin in January, will reduce the size of its sales territories.

Pfizer discloses payment of $2.3bn to settle marketing charges

Pfizer agreed to plead guilty to a federal criminal charge of illegally marketing the painkiller Bextra and will pay $2.3 billion for illegally promoting the sale of that and other medicines for unapproved uses. The settlement disclosed was the largest ever by a drug maker accused of marketing wrongdoing. Pfizer had recorded a $2.3 billion settlement-related charge in the fourth quarter of CY08, but details of the expected agreement weren't previously released.

Abbott buys Solvay's drug unit for $6.6bn

Solvay's drug unit gives Abbott full control on cholesterol treatments Trilipix and Tricor. Sales of Tricor in 2008 were about $1.3bn. Triipix is expected to contribute $200m in 2010. In addition to these branded drugs it gives bigger footprint in emerging market. Almost 70 % of Solvay's sales come from outside US.

Pharma stocks under our coverage - healthy growth

The seven pharma companies under our coverage are likely to report aggregate sales growth of 2.1% on YoY basis and 5.7% on QoQ basis. The marginal growth is because of higher base of Sun pharma (from Protonix FTF opportunity), Ranbaxy, Dishman and Cipla in Q2FY09. The companies under our coverage are likely to report aggregate EBIDTA margin of 22.5% during the quarter, which is quite healthy. The EBIDTA margin is likely to decline by 80bp on YoY basis and improve by 530bp on QoQ basis. Net profit of these companies is expected to grow by 36.6% on YoY basis and 82.1% on QoQ basis. This significant impact is due to changes in Forex gain/Loss of Ranbaxy The pharma companies under our coverage have market cap of Rs 864bn (Rs813bn in Q2FY09) indicating a 33% growth on QoQ basis. The companies under our coverage are trading at 21.4xFY10E earnings and 14.2x FY11E earnings.

Mid-term growth prospects for the Indian pharma companies are intact, following a sharp rise in exports of generic products, a healthy growth rate of around 13% in the domestic market and the scale up of CRAMS contracts by the Indian companies. Moreover, the opening of generic market in Japan is likely to benefit the Indian pharma companies. The export oriented pharma companies are likely to benefit from the 2-3% depreciation of rupee against the dollar during Q2FY10.

Top picks: Glaxo Smithkline Pharma, Dishman Pharma, Lupin and Sun Pharma

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09E	FY10E	FY11E
Net Sales	235,986	246,180	300,702
Growth (%)	*20.0*	*4.3*	*22.1*
EBITDA	50,709	51,072	78,804
Margin (%)	*21.5*	*20.7*	*26.2*
PAT	46,864	39,278	60,957
Growth (%)	*28.9*	*(16.2)*	*55.2*
PE (x)	15.8	18.9	12.2

Quarterly Table (Rs m)

	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	QoQ gr. (%)
Net Sales	61,652	60,394	*2.1*	58,330	*5.7*
EBITDA	13,586	14,061	*(3.4)*	9,299	*46.1*
Margin (%)	*22.0*	*23.3*	*(1.2)*	*15.9*	*6.1*
PAT (Excl. Ex Items)	10,928	12,339	*(11.4)*	3,005	*263.6*

Note: The Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

Sun Pharmaceuticals

Rating	Accumulate
Price	Rs1,429
Target Price	Rs1,436
Market Cap. (Rs bn)	296.1
Shares o/s (m)	207.2

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	42,723	37,429	42,141
EBITDA	18,638	12,779	15,128
Margin (%)	*43.6*	*34.1*	*35.9*
PAT	18,779	12,603	14,872
EPS (Rs)	90.7	60.8	71.8
RoE (%)	*31.6*	*17.4*	*17.9*
PE (x)	15.8	23.5	19.9
P / BV (x)	4.4	3.8	3.3
EV / E (x)	14.2	20.5	16.3

Sun Pharma is expected to show reduction in sales from Rs 11.7bn to Rs 9.9bn (YoY) due to lower sales of pantoprazole. The export sales is expected to show de-growth of 39% (YoY). EBIDTA margin is also expected to decline from 45.7% to 43.7%. Also, net profit is expected to decline by 14.8% from Rs5.3bn to Rs4.5bn (YoY).

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	9,994	11,778	*(15.2)*	7,876	17,870	22,150	*(19.3)*
EBITDA	4,367	5,379	*(18.8)*	1,287	5,653	10,712	*(47.2)*
Margin (%)	*43.7*	*45.7*	*(2.0)*	*16.3*	*31.6*	*48.4*	*(16.7)*
Reported PAT	4,556	5,127	*(11.1)*	1,639	6,195	10,095	*(38.6)*
PAT (Excl. Ex Items)	4,556	5,350	*(14.8)*	1,483	6,039	10,579	*(42.9)*
Operating Metrics							
Domestic Formulations	5,278	4,473	*18.0*	3,129	8,407	8,769	*(4.1)*
Domestic APIs & Others	300	343	*(12.5)*	283	583	586	*(0.5)*
Export Formulations	3,398	6,244	*(45.6)*	3,404	6,802	11,554	*(41.1)*
Export APIs a& Others	1,270	1,025	*23.9*	1,199	2,469	1,814	*36.1*
Total Sales	**10,246**	**12,085**	***(15.2)***	**8,015**	**18,261**	**22,725**	***(19.6)***

Cipla

Rating	Accumulate
Price	Rs276
Target Price	Rs279
Market Cap. (Rs bn)	221.4
Shares o/s (m)	802.5

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	52,590	60,772	72,687
EBITDA	10,142	14,022	16,988
Margin (%)	*19.3*	*23.1*	*23.4*
PAT	7,709	10,370	12,854
EPS (Rs)	9.6	12.9	16.0
RoE (%)	*19.0*	*20.5*	*20.7*
PE (x)	28.7	21.4	17.2
P / BV (x)	4.9	3.8	3.3
EV / E (x)	22.7	15.4	12.6

We expect Cipla to grow by 9.4% (YoY) in sales from Rs 13.5bn to Rs 14.8bn. EBIDTA margin (excl forex adjustments) is expected to improve marginally from 23.3% to 23.6%. The company is expected to show higher financial charge of Rs 99m against Rs 56m in Q2FY09 due to higher working capital requirements. We expect the company to report net profit growth of 79% from Rs1.51bn to Rs2.7bn. The huge growth in net profit is due to forex loss of Rs 1bn in Q2FY09. Excluding Forex loss, net profit is expected to remain at similar levels of Rs 2.58bn as compared to Rs 2.56bn in Q2FY09.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	14,820	13,547	*9.4*	13,760	28,581	25,619	*11.6*
EBITDA	3,492	3,156	*10.7*	3,146	6,638	5,860	*13.3*
Margin (%)	*23.6*	*23.3*	*0.3*	*22.9*	*23.2*	*22.9*	*0.4*
Reported PAT	2,733	1,515	*80.4*	2,418	5,150	2,915	*76.7*
PAT (Excl. Ex Items)	2,589	1,515	*70.9*	2,148	4,736	2,915	*62.5*
Operating Metrics							
Domestic	6,770	5,913	*14.5*	6,519	13,289	11,768	*12.9*
Exports-Formulations	6,305	6,024	*4.7*	5,472	11,777	10,266	*14.7*
Exports-API	1,400	1,240	*12.9*	1,404	2,804	3,013	*(6.9)*
Other op. income	485	522	*(7.1)*	508	993	886	*12.1*
Total income	14,960	13,699	*9.2*	13,902	28,863	25,933	*11.3*

Ranbaxy Laboratories

Rating	Reduce
Price	Rs402
Target Price	Rs324
Market Cap. (Rs bn)	191.9
Shares o/s (m)	477.8

Key Figures (Rs m)

Y/e Dec	CY08	CY09E	CY10E
Net Sales	74,214	71,622	95,327
EBITDA	5,732	5,515	24,118
Margin (%)	*7.7*	*7.7*	*25.3*
PAT	9,206	3,228	17,275
EPS (Rs)	18.9	6.8	36.2
RoE (%)	*25.5*	*6.3*	*22.7*
PE (x)	21.2	59.5	11.1
P / BV (x)	3.9	3.0	2.0
EV / E (x)	38.3	38.1	7.9

The supplying of raw material to Astra Zeneca for Nexium has been delayed by 5-6 months. It was supposed to start in May 2009. The revenue potential due to supply of raw materials is expected to be around $40mn for CY2009.With respect to Europe business, the company is trying to change from higher volume business to higher margin business. This is expected to impact sales in Europe as compared to that in Q3CY08. Due to appreciation of rupee, the company is expected to show forex loss of Rs 5bn against of Rs 5.5bn in Q3CY08. We expect sales to reduce by 6.0% from Rs 18.5bn to 17.4bn (YoY). The company is expected to show marginal improvement in profit from 6.8% in Q2CY09 to 7% in Q3CY09. The company is expected to show net profit (excl. forex adjustments) of Rs 630 mn against loss of Rs 1.6bn in Q3CY08.

Quarterly Table (Rs m)

Y/e Dec	Q3 CY09E	Q3 CY08	*YoY gr. (%)*	Q2 CY09	9M CY09E	9M CY08	*YoY gr. (%)*
Net Sales	17,428	18,532	*(6.0)*	18,791	51,989	54,450	*(4.5)*
EBITDA	950	1,440	*(34.1)*	568	1,540	6,899	*(77.7)*
Margin (%)	*5.4*	*7.8*	*(2.3)*	*3.0*	*3.0*	*12.7*	*(9.7)*
Reported PAT	(4,653)	(3,945)	*17.9*	6,930	(5,334)	(2,348)	*127.2*
PAT (Excl. Ex Items)	407	1,613	*(74.8)*	(3,761)	341	4,869	*(93.0)*
Operating Metrics							
India	4,100	4,000	*2.5*	3,962	11,320	11,251	*0.6*
NA, LA & Canada#	77	134	*(42.5)*	96	269	386	*(30.4)*
EU, Asia Pacific & Others#	141	178	*(20.8)*	145	409	510	*(19.8)*
API & Global Cons. Healthcare#	42	35	*20.9*	48	119	119	*0.1*
FX Loss / (Gain)*	(5,060)	(5,558)	*(9.0)*	10,691	(5,675)	(7,217)	*(21.4)*

** - Not Comparable* *# ($ m)*

GSK Pharma

Rating	Accumulate
Price	Rs1,557
Target Price	Rs1,552
Market Cap. (Rs bn)	131.9
Shares o/s (m)	84.7

Key Figures (Rs m)

Y/e Dec	CY08	CY09E	CY10E
Net Sales	17,122	18,790	20,764
EBITDA	6,142	6,628	7,413
Margin (%)	*35.9*	*35.3*	*35.7*
PAT	4,629	5,165	5,717
EPS (Rs)	54.7	61.0	67.5
RoE (%)	*31.3*	*30.5*	*29.7*
PE (x)	28.5	25.5	23.1
P / BV (x)	8.4	7.3	6.5
EV / E (x)	19.9	18.3	16.0

We expect Glaxo Smithkline Pharma to report growth in sales of 10.7% (YoY) from Rs 4.63bn to Rs 5.13bn. The EBIDTA margin is expected to reduce from 38% to 36.8% for this Quarter due to increase in personal cost and other expenses on account of patented product launches and increasing rural penetration. The company is expected to report net profit growth of 11.3% from Rs1.32bn to Rs1.46bn (YoY).

Quarterly Table (Rs m)

Y/e Dec	Q2 CY09E	Q2 CY08	*YoY gr. (%)*	Q1 CY09	H1 CY09E	H1 CY08	*YoY gr. (%)*
Net Sales	5,134	4,637	*10.7*	4,620	14,364	13,048	*10.1*
EBITDA	1,889	1,764	*7.1*	1,674	5,247	4,858	*8.0*
Margin (%)	*36.8*	*38.0*	*(1.3)*	*36.2*	*36.5*	*37.2*	*(0.7)*
Reported PAT	1,469	1,320	*11.3*	1,243	4,146	3,681	*12.6*
PAT (Excl. Ex Items)	1,469	1,320	*11.3*	1,317	4,040	3,630	*11.3*

Lupin

Rating	BUY
Price	Rs1,170
Target Price	Rs1,386
Market Cap. (Rs bn)	102.9
Shares o/s (m)	88.0

We expect sales of Lupin to grow by 24.5%YoY from Rs 9.3bn to Rs 11.6bn, mainly due to 36% growth in Export Formulations. EBIDTA margin is expected to improve from 19.1% to 19.5%YoY mainly due to reduction in other expenses. The company is expected to show net profit growth of 37% from Rs1.1bn to Rs1.6bn (YoY).

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	38,666	46,139	55,527
EBITDA	7,393	9,274	11,494
Margin (%)	*19.1*	*20.1*	*20.7*
PAT	5,078	6,495	8,210
EPS (Rs)	57.0	73.0	92.4
RoE (%)	*37.0*	*38.6*	*36.6*
PE (x)	20.5	16.0	12.7
P / BV (x)	7.2	5.4	4.0
EV / E (x)	15.5	12.0	9.8

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	11,637	9,343	*24.5*	11,005	22,642	17,966	*26.0*
EBITDA	2,269	1,788	*26.9*	2,091	4,361	3,315	*31.6*
Margin (%)	*19.5*	*19.1*	*0.4*	*19.0*	*19.3*	*18.4*	*0.8*
Reported PAT	1,584	1,157	*37.0*	1,394	2,978	2,277	*30.8*
PAT (Excl. Ex Items)	1,584	1,157	*37.0*	1,427	3,011	2,277	*32.3*
Operating Metrics							
Formulations	10,052	7,396	*35.9*	9,171	19,223	14,142	*35.9*
API	1,500	1,925	*(22.1)*	1,752	3,252	3,889	*(16.4)*
CRAMS	160	160	*0.0*	150	310	242	*28.1*
Total	**11,712**	**9,481**	***23.5***	**11,073**	**22,785**	**18,273**	***24.7***

Dishman Pharma

Rating	BUY
Price	Rs238
Target Price	Rs277
Market Cap. (Rs bn)	19.2
Shares o/s (m)	80.7

We expect Dishman to grow marginally by 3.2% (YoY) from Rs 2.5bn to Rs 2.63bn, mainly due to lower uptake of Eprosartan mesylate from Solvay during the quarter. EBIDTA Margin is expected to improve from 21% to 23.5% (YoY). EBIDTA margin is expected at similar levels QoQ basis. We expect net profit (excl. forex adjustments) to marginally reduce from Rs 340m to Rs 324m (YoY).

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	10,671	11,429	14,256
EBITDA	2,662	2,855	3,662
Margin (%)	*24.9*	*25.0*	*25.7*
PAT	1,462	1,417	2,029
EPS (Rs)	18.2	17.6	25.1
RoE (%)	*20.8*	*17.0*	*19.9*
PE (x)	13.1	13.6	9.5
P / BV (x)	2.7	2.3	1.9
EV / E (x)	9.4	8.3	6.2

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	2,639	2,556	*3.3*	2,278	4,917	4,915	*0.0*
EBITDA	620	534	*16.0*	533	1,152	1,197	*(3.8)*
Margin (%)	*23.5*	*20.9*	*2.6*	*23.4*	*23.4*	*24.4*	*(0.9)*
Reported PAT	324	30	*970.5*	392	715	307	*133.3*
PAT (Excl. Ex Items)	324	340	*(4.9)*	392	716	783	*(8.5)*
Operating Metrics							
CRAMS	1,859	1,805	*3.0*	1,683	3,542	3,630	*(2.4)*
Marketable Molecules (MM)	780	751	*3.9*	595	1,375	1,285	*7.0*
Total	**2,639**	**2,556**	***3.3***	**2,278**	**4,917**	**4,915**	***0.0***

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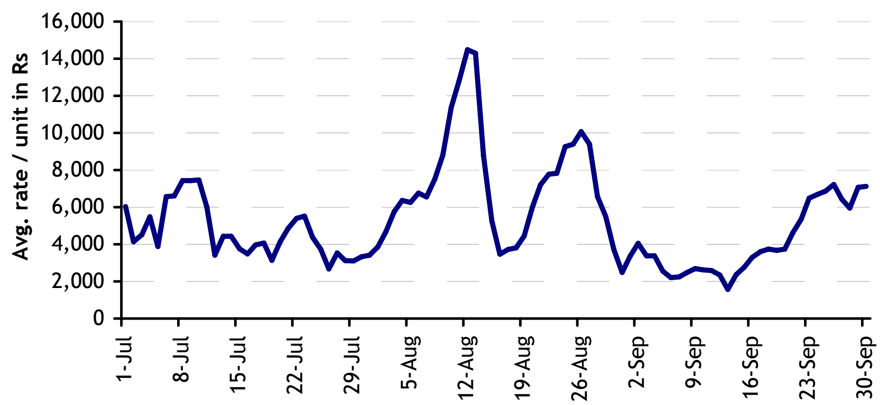
Power

Power deficit continued on account of delayed monsoons and sluggish capacity addition. On account of the spiralling merchant power tariff rates especially in the drought hit areas, Central Electricity Regulatory Commission (CERC) proposed a short term cap on traded power tariffs in the day ahead market at Rs8/unit.

Merchant power traiff



Source: IEX

In order to promote green energy generation, CERC also notified tariff regulations for electricity generated from non-conventional sources. The tariff permitted to a project under these regulations would apply for the whole tariff period of 13 years. The tariff period for solar power is 25 yrs and for small hydro below 5MW is 35 yrs. Tariff would include the following fixed cost components:

(a) Return on equity
(b) Interest on loan capital
(c) Depreciation
(d) Interest on working capital
(e) Operation and maintenance expenses

The normative Return on Equity (RoE) shall be:

a) Pre-tax 19% per annum for the first 10 years.
b) Pre-tax 24% per annum 11th years onwards.

Top Picks: Reliance Infrastructure

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09E	FY10E	FY11E
Net Sales	567,040	658,202	766,619
Growth (%)	24.8	16.1	16.5
EBITDA	131,268	152,907	183,727
Margin (%)	*23.1*	*23.2*	*24.0*
PAT	97,989	107,665	114,586
Growth (%)	*12.9*	*9.9*	*6.4*
PE (x)	24.5	22.3	21.0

Quarterly Table (Rs m)

	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	*QoQ gr. (%)*
Net Sales	157,643	121,347	*29.9*	144,488	*9.1*
EBITDA	35,878	28,052	*27.9*	34,433	*4.2*
Margin (%)	*22.8*	*23.1*	*(0.4)*	*23.8*	*(1.1)*
PAT (Excl. Ex Items)	27,728	19,048	*45.6*	27,734	*(0.0)*

Note: The Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

NTPC

NTPC's Q2FY10 revenues would remain close to Q1FY10 levels as no plant was commercialised in the current quarter.

Rating	Accumulate
Price	Rs209
Target Price	Rs226
Market Cap. (Rs bn)	1,723.3
Shares o/s (m)	8,245.5

Key Figures (Rs m)

Y/e March	FY09E	FY10E	FY11E
Net Sales	441,261	506,574	562,030
EBITDA	126,002	143,873	161,690
Margin (%)	*28.6*	*28.4*	*28.8*
PAT	82,013	89,092	94,456
EPS (Rs)	9.9	10.8	11.5
RoE (%)	*14.9*	*14.8*	*14.4*
PE (x)	21.0	19.3	18.2
P/BV (x)	3.0	2.7	2.5
EV / E (x)	15.1	13.6	12.8

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	123,623	96,614	*28.0*	120,027	243,650	192,009	*26.9*
EBITDA	32,585	25,476	*27.9*	31,757	64,342	49,694	*29.5*
Margin (%)	26.4	26.4	(0.0)	26.5	26.4	25.9	0.5
Reported PAT	22,039	21,105	*4.4*	21,936	43,975	38,370	*14.6*
PAT (Excl. Ex Items)	22,039	15,786	*39.6*	21,936	43,975	33,051	*33.1*
Operating Metrics							
Operating capacity (MW)	30,644	27,850	*10.0*	30,644	30,644	27,850	*10.0*
Avg. Coal PLF (%)	91.0	83.0	*9.6*	90.0	90.0	85.0	*5.9*
Generation (BU)	58.0	43.0	*34.9*	55.5	113.5	94.0	*20.7*

Reliance Power

Rating	Accumulate
Price	Rs163
Target Price	Rs181
Market Cap. (Rs bn)	391.0
Shares o/s (m)	2,396.8

Work is in full swing for Rosa 1 and the first unit is expected to come up in December 2009. Ground work activities for Sasan are on the verge of completion and the first batch of equipments has arrived. Ground work for Krishnapatnam and Butibori has also started.

Key Figures (Rs m)

Y/e March	FY09E	FY10E	FY11E
Net Sales	–	–	10,062
EBITDA	(1,031)	(1,271)	3,153
Margin (%)	*–*	*–*	*31.3*
PAT	2,445	3,570	2,306
EPS (Rs)	1.0	1.5	1.0
RoE (%)	*0.4*	*0.6*	*0.4*
PE (x)	159.9	109.5	169.6
P/BV (x)	2.8	2.8	2.7
EV / E (x)	(289.7)	(353.0)	189.7

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	–	–	–	–	–	–	–
EBITDA	(423)	(196)	*116.4*	(318)	(741)	(369)	*100.6*
Margin (%)	*–*	*–*	*–*	*–*	*–*	*–*	*–*
Reported PAT	1,676	372	*350.6*	2,633	4,309	984	*337.9*
PAT (Excl. Ex Items)	1,676	372	*350.6*	2,633	4,309	984	*337.9*

Reliance Infrastructure

Rating	Accumulate
Price	Rs1,221
Target Price	Rs1,437
Market Cap. (Rs bn)	276.0
Shares o/s (m)	226.1

Reliance Infrastructure has bagged Mumbai Metro Line 2 project in Q2FY10. We expect the contribution of revenues from EPC division to increase on account of robust order book.

Key Figures (Rs m)

Y/e March	FY09E	FY10E	FY11E
Net Sales	125,780	151,628	194,527
EBITDA	6,298	10,305	18,884
Margin (%)	*5.0*	*6.8*	*9.7*
PAT	13,531	15,003	17,824
EPS (Rs)	59.9	55.8	66.3
RoE (%)	*8.1*	*7.8*	*8.0*
PE (x)	20.4	21.9	18.4
P/BV (x)	1.6	1.5	1.4
EV / E (x)	33.8	18.7	12.2

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	34,020	24,732	*37.6*	24,461	58,752	47,635	*23.3*
EBITDA	3,716	2,772	*34.1*	2,994	6,488	5,630	*15.2*
Margin (%)	*10.9*	*11.2*	*(0.3)*	*12.2*	*11.0*	*11.8*	*(0.8)*
Reported PAT	4,013	2,890	*38.9*	3,165	6,903	5,415	*27.5*
PAT (Excl. Ex Items)	4,013	2,890	*38.9*	3,165	6,903	5,415	*27.5*
Revenue Break -Up							
Electricity	22.6	20.0	*12.8*	18.6	41.1	38.4	*6.9*
EPC	11.3	4.3	*159.4*	5.5	16.8	8.8	*90.5*
Others	0.2	0.4	*(47.9)*	0.4	0.6	0.4	*53.8*

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Real Estate

A recovery in the residential real estate which was kick-started by a decline in prices has continued with an increased pace of absorption. The past few months has witnessed a good number of new launches within the mid-income segment. Developers who started with launches in the key metros, have now started launching projects in Tier 2 cities as well.

The response to the new launches has been pretty encouraging. Certain projects like DLF's Gurgaon based city centre project 'Capital Greens' received a stunning response with the entire project being sold out within hours of launch. Developers have introduced interesting products catering to a wider section of the population. For example, in certain cases, apartment sizes have been reduced to increase affordability. With the decrease in home loan rates as well with the recovery in the job market, new launches are getting a good response.

Q2FY10 witnesses price increases

The second quarter of FY10 also witnessed price increase by developers in several key markets. The second phase of DLF's Capital Greens project was launched at a premium to Phase 1.

Developers have also been able to tap the capital markets and strengthen their balancesheet positions. A decent quantum of foreign funds has entered the real estate sector through qualified institutional placements as well as private equity deals.

Developers have used the funds either to replace debt or fund execution of projects. Developers are executing the projects at a fairly decent pace in order to improve liquidity positions. Certain companies are again looking at acquiring land which is available at attractive prices.

Oversupply in the commercial segment continues

The oversupply situation in the commercial real estate segment continues, resulting in increasing vacancies and decreasing rentals and capital values. Taking into account the commercial projects which are under construction, we expect the oversupply situation to continue as this fresh supply continues to hit the market.

Developers are extremely wary of any launches within this segment. In fact, certain developers are looking at converting their commercial projects to mid-income residential projects in order to increase the land bank churn.

On the whole, real estate companies are on the path of recovery through the mid-income residential route which we expect will be the focus for a while to come.

Top picks: None

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09	FY10E	FY11E
Net Sales	25,459	29,218	37,134
Growth (%)	*(23.8)*	*14.8*	*27.1*
EBITDA	16,850	18,397	23,269
Margin (%)	*66.2*	*63.0*	*62.7*
PAT	10,316	12,617	16,502
Growth (%)	*(47.9)*	*22.3*	*30.8*
PE (x)	15.3	12.5	9.5

Quarterly Table (Rs m)

	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	*QoQ gr. (%)*
Net Sales	5,055	7,443	*(32.1)*	4,966	*1.8*
EBITDA	3,741	6,174	*(39.4)*	3,709	*0.9*
Margin (%)	*74.0*	*83.0*	*(8.9)*	*74.7*	*(0.7)*
PAT (Excl. Ex Items)	2,573	4,501	*(42.8)*	2,190	*17.5*

Note: The Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

HDIL

Rating	Accumulate
Price	Rs334
Target Price	Rs355
Market Cap. (Rs bn)	91.9
Shares o/s (m)	275.5

We expect HDIL to report decent earnings growth on a sequential basis on account of a strong decline in interest expense as the company had retired debt of close to Rs14bn. The company's DER, thereby, stood at 0.45:1. We are anticipating majority of the company's revenues from the sale of TDRs during the quarter. The company launched 1.5m sq.ft industrial park at Virar for sale during the quarter at a price of Rs2100/sq.ft.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	17,284	15,849	18,947
EBITDA	13,165	11,504	13,672
Margin (%)	*76.2*	*72.6*	*72.2*
PAT	6,772	7,339	9,262
EPS (Rs)	24.6	19.7	24.9
RoE (%)	*16.8*	*12.4*	*11.9*
PE (x)	13.6	16.9	13.4
P / BV (x)	2.1	1.7	1.5
EV / E (x)	10.1	9.2	7.0

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	3,070	4,776	*(38.2)*	2,954	6,024	10,476	*(42.5)*
Operating Expenses	461	613	*(24.9)*	492	953	1,659	*(42.5)*
EBITDA	2,610	4,163	*(37.3)*	2,461	5,071	8,818	*(42.5)*
Margin (%)	85.0	87.2	(2.2)	83.3	84.2	84.2	0.0
Reported PAT	1,512	2,657	*(43.1)*	1,075	2,587	5,836	*(55.7)*
PAT (Excl. Ex Items)	1,512	2,657	*(43.1)*	1,075	2,587	5,836	*(55.7)*
Break up of Sales							
Project/Land Sales	-	0		-	-	2,499	
FSI Sales	-	1,050		-	-	3,689	
TDR Sales	2,720	3,450		2,700	5,420	3,450	
(M.Sq.ft.)	1.70	1.5		1.80	3.5	1.50	
Land Development & Others	350	276		254	604	838	

Anant Raj Industries

Rating	Accumulate
Price	Rs146
Target Price	Rs165
Market Cap. (Rs bn)	43.0
Shares o/s (m)	294.6

Anantraj is focusing on increasing its land bank in the residential segment. Recently, it acquired a 10.6 acre plot in Manesar which it plans to launch in FY11. It is also about to launch a premium residential project in Hauz Khas, Delhi which is a small 80 unit project. Further, since the company is sitting on a strong cash balance of approximately Rs7bn, it is likely to deploy this money in acquiring more land parcels for residential construction.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	2,518	5,108	8,362
EBITDA	2,207	4,254	6,202
Margin (%)	*87.6*	*83.3*	*74.2*
PAT	2,073	3,251	4,492
EPS (Rs)	7.0	11.0	15.2
RoE (%)	*6.6*	*9.3*	*11.8*
PE (x)	20.7	13.2	9.6
P / BV (x)	1.3	1.2	1.1
EV / E (x)	17.6	9.8	7.7

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	750	1,562	*(52.0)*	858	1,608	3,283	*(51.0)*
Operating Expenses	75	65	*14.6*	64	139	154	*(10.1)*
EBITDA	675	1,497	*(54.9)*	794	1,469	3,129	*(53.1)*
Margin (%)	*90.0*	*95.8*	*(6.1)*	*92.6*	*91.4*	*95.3*	*(4.1)*
Reported PAT	611	1,264	*(51.7)*	717	1,328	2,791	*(52.4)*
PAT (Excl. Ex Items)	611	1,264	*(51.6)*	706	1,317	2,788	*(52.8)*
Break up of Sales							
Ceramic Tiles	18	31		20	38	99	
Rental Income	100	37		92	192	73	
Project Sales					-	1,616	
Land Sales	632	1,494		746	1,378	1,494	

Peninsula Land

Rating	Accumulate
Price	Rs81
Target Price	Rs91
Market Cap. (Rs bn)	22.6
Shares o/s (m)	279.5

The offtake at PLL's residential projects has been quite strong during the quarter. Both its residential projects within the city of Mumbai are due to be completed by December 2009. Execution of the Peninsula Business Park also continues to be on track. PLL has started work on its residential project at Goa and plans to embark on its residential project at Nashik and commercial project at Nagpur in Q3FY10. Besides, a large part of the company's focus has been on identifying new land parcels for acquisition. PLL plans to consolidate its position in Greater Mumbai and its surrounding suburbs with focus on residential projects.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	5,656	8,260	9,825
EBITDA	1,478	2,639	3,394
Margin (%)	*26.1*	*32.0*	*34.5*
PAT	1,471	2,026	2,748
EPS (Rs)	5.8	7.3	9.8
RoE (%)	*14.3*	*16.7*	*18.7*
PE (x)	13.9	11.2	8.2
P / BV (x)	2.2	1.9	1.5
EV / E (x)	16.6	9.8	7.5

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	1,235	1,105	*11.7*	1,155	2,390	2,344	*2.0*
Operating Expenses	778	590	*31.8*	701	1,479	1,419	*4.2*
EBITDA	457	515	*(11.3)*	454	911	925	*(1.5)*
Margin (%)	*37.0*	*46.6*	*(9.6)*	*39.3*	*38.1*	*39.5*	*(1.4)*
Reported PAT	450	580	*(22.5)*	329	779	932	*(16.5)*
PAT (Excl. Ex Items)	450	580	*(22.5)*	410	860	932	*(7.8)*
Break up of Sales							
Ashok Towers	650	370		310	960	1,020	
Swan Mills	100	550		30	130	580	
Peninsula Business Park	430	139		350	780	649	
Centre Point				420	420	-	
Others	55	46		45	100	95	

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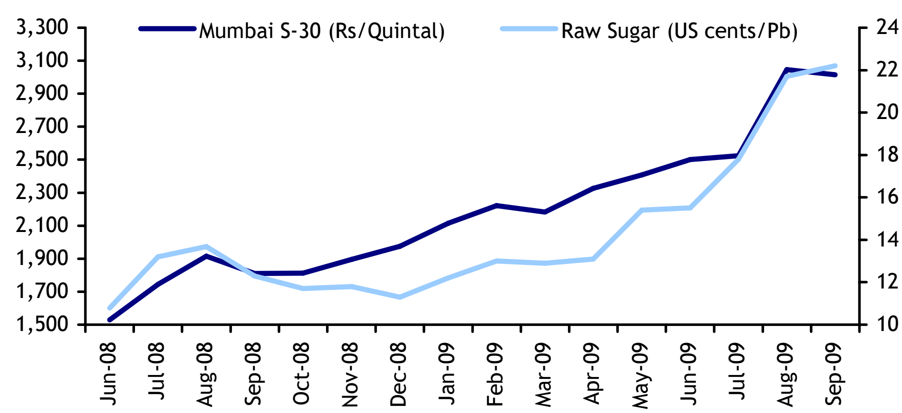
Sugar

Sugar prices rose significantly in Q4FY09 (year ending September) on supply constraints coupled with speculation, both domestically as well as internationally. Domestic sugar prices (Mumbai S-30) increased by 57% - from Rs18.2/kg to Rs28.6/kg YoY. It grew by 18.7% QoQ. Raw sugar prices have increased by 57% - from 13.1US cents/Pb to 20.5US cents/Pb. It grew by 40% QoQ. This has been on the back of expected reduction in sugar supply by major countries like Brazil and India on account of the following factors:

Excess rains in Brazil: Rains in parts of center-south of Brazil, the world's biggest sugar producing regions, were most severe in more than six decades. This is likely to lower the yield of the crop and negatively impact the exportable amount of raw sugar for sugar season starting October 2009.

Drought in India: This led to a revision in the estimation of sugar output for the season 2009-10- from 16-17m tonnes to 15-16m tonnes. This was also one of the factors for a spurt in domestic prices of sugar. As the world's second largest producer and consumer of sugar, India has a huge stake in the sugar sector, thereby impacting international prices.

Rise in demand in India in this quarter due to festival season



Source: Bloomberg, NCDEX

Government takes measures to control prices

Domestic sugar prices did not rise to the same extent as raw sugar prices on a quarterly basis. This has been due to the following measures taken by the government:

- Extending time period of duty free import of raw sugar till June 2010
- **Forcing industrial players to reduce and maintain inventory level of sugar for 15 days:** On August 22, 2009, the government came out with a new order applicable to all users whose average monthly consumption exceeds one tonne. Such bulk consumers have now been directed not to "keep in stock, at any manner, sugar exceeding 15 days of such use or consumption". Even importers of sugar have been barred from holding their cargo in ports for more than 30 days.
- **Reduction in validity period of release orders of white sugar:** In a further bid to force mills to sell more in order to boost open market supplies, the government has reduced the validity period of release orders for white sugar processed from imported raw sugar - from 3 months to 1 month.
- **Change in levy quota and price:** Government is expected to change the levy quota from current 10% to 20%. The levy price of sugar is also expected to change from Rs13/kg to Rs22/ Kg.

The domestic sugar industry is also seeking imposition of production controls on gur manufacturers during the ensuing 2009-10 crushing season to prevent diversion of cane to gur.

Top Picks: Shree Renuka Sugars

Consolidated Sectoral Data

Key Figures (Rs m)

	FY08	FY09E	FY10E
Net Sales	67,695	133,552	153,215
Growth (%)	*19.3*	*97.3*	*14.7*
EBITDA	17,670	37,448	25,361
Margin (%)	*26.1*	*28.0*	*16.6*
PAT	7,198	23,499	14,131
Growth (%)	*NM*	*226.5*	*(39.9)*
PE (x)	17.7	5.4	9.0

Quarterly Table (Rs m)

	Q4 FY09E	Q4 FY08	*YoY gr. (%)*	Q3 FY09	12M FY09E	12M FY08	*YoY gr. (%)*
Net Sales	19,101	15,478	*23.4*	18,309	67,695	56,753	*19.3*
EBITDA	5,420	1,879	*188.4*	4,097	17,670	7,104	*148.7*
Margin (%)	*28.4*	*12.1*	*16.2*	*22.4*	*26.1*	*12.5*	*13.6*
PAT (Excl. Ex Items)	2,883	183	*1,473.0*	1,922	7,198	189	*3,718.5*

Note: The Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

Shree Renuka Sugars

Rating	BUY
Price	Rs187
Target Price	Rs235
Market Cap. (Rs bn)	62.5
Shares o/s (m)	297.0

Key Figures (Rs m)

Y/e Sept	FY09E	FY10E	FY11E
Net Sales	27,851	57,440	62,525
EBITDA	5,544	14,576	10,041
Margin (%)	*19.9*	*25.4*	*16.1*
PAT	3,019	9,793	6,422
EPS (Rs)	9.0	29.3	19.2
RoE (%)	*23.5*	*43.6*	*20.6*
PE (x)	20.7	6.4	9.7
P / BV (x)	3.7	2.2	1.8
EV / E (x)	11.7	(0.3)	(1.3)

We expect 70% growth in revenue from Rs6.3bn to Rs10.7bn (YoY), along side 0.31m tonnes of sugar sale in this quarter against 0.13m tonnes (YoY) at an average realization of Rs27.5/kg against Rs14.5/kg (YoY). We expect alcohol sale to be 20m litres against 12.2m litres (YoY) at average realization of Rs26/litre against Rs22/litre (YoY). We expect the company to sell similar number of units (50m units YoY) at average realization per unit of Rs6.3 against Rs6.5 (YoY). EBITDA margin is expected to improve from 11.8% to 24.6% (YoY). The company is likely to show net profit of Rs1.6bn against Rs385m in Q4FY08.

Quarterly Table (Rs m)

Y/e Sept	Q4 FY09E	Q4 FY08	YoY gr. (%)	Q3 FY09	12M FY09E	12M FY08	YoY gr. (%)
Net Sales	10,597	6,319	*67.7*	8,935	27,851	21,143	*31.7*
EBITDA	2,602	745	*249.3*	1,557	5,544	2,526	*119.5*
Margin (%)	*24.6*	*11.8*	*12.8*	*17.4*	*19.9*	*11.9*	*8.0*
Reported PAT	1,644	385	*327.0*	776	3,019	1,357	*122.5*
PAT (Excl. Ex Items)	1,644	385	*327.0*	776	3,019	1,357	*122.5*
Operating Metrics							
Sugar Sold (mn Tonnes)	0.31	0.13	*134.6*	0.27	0.81	0.47	*72.3*
Avg. Realisation (Rs/Kg)	27.5	14.5	*89.7*	21.3	23.5	16.5	*42.4*
Alcohol sold (mn Litres)	20.0	12.2	*63.9*	15.4	70.0	72.8	*(3.9)*
Avg. Realisation (Rs/Litre)	26.0	22.0	*18.2*	24.4	24.5	21.8	*12.4*

Bajaj Hindustan

Rating	Accumulate
Price	Rs176
Target Price	Rs207
Market Cap. (Rs bn)	33.7
Shares o/s (m)	191.0

Key Figures (Rs m)

Y/e Sept	FY09E	FY10E	FY11E
Net Sales	22,663	49,547	56,820
EBITDA	7,007	13,237	8,206
Margin (%)	*30.9*	*26.7*	*14.4*
PAT	1,650	7,180	3,274
EPS (Rs)	8.6	37.6	17.1
RoE (%)	*10.1*	*29.3*	*11.0*
PE (x)	20.4	4.7	10.3
P / BV (x)	1.6	1.2	1.1
EV / E (x)	8.1	3.2	4.9

We expect a marginal reduction in revenues (YoY) from Rs4.76bn to Rs4.55bn, along side 0.16m tonnes of sugar sale in this quarter against 0.23m tonnes (YoY) at average realization of Rs27/kg against Rs16.45/kg (YoY). We expect alcohol sale to be 7m litres against 32m litres (YoY) at average realization of Rs33/litre against Rs22/litre (YoY). EBITDA margin is likely to improve from 10% to 32.7% (YoY). Interest is also expected to reduce, due to debt repayment, from Rs590.2m to Rs398m (YoY). The company is expected to show net profit of Rs555m against loss of Rs160m in Q4FY08.

Quarterly Table (Rs m)

Y/e Sept	Q4 FY09E	Q4 FY08	YoY gr. (%)	Q3 FY09	12M FY09E	12M FY08	YoY gr. (%)
Net Sales	4,551	4,768	*(4.5)*	3,993	22,663	20,701	*9.5*
EBITDA	1,489	475	*213.7*	1,360	7,007	1,437	*387.7*
Margin (%)	*32.7*	*10.0*	*22.8*	*34.0*	*30.9*	*6.9*	*24.0*
Reported PAT	555	(161)	*LTP*	603	1,650	(1,951)	*LTP*
PAT (Excl. Ex Items)	555	(161)	*LTP*	603	1,650	(1,951)	*LTP*
Operating Metrics							
Sugar Sold (mn Tonnes)	0.16	0.24	*(33.3)*	0.16	0.90	0.98	*(8.2)*
Avg. Realisation (Rs/Kg)	27.0	16.5	*63.6*	23.5	23.0	17.00	*35.3*
Alcohol sold (mn Litres)	7.0	32.0	*(78.1)*	5.6	71.5	101.33	*(29.4)*
Avg. Realisation (Rs/Litre)	33.0	22.0	*50.0*	31.0	23.3	22.05	*5.7*

Balrampur Chini

Rating	BUY
Price	Rs121
Target Price	Rs179
Market Cap. (Rs bn)	30.9
Shares o/s (m)	255.5

Key Figures (Rs m)

Y/e Sept	FY08	FY09E	FY10E
Net Sales	17,181	26,565	33,870
EBITDA	5,119	9,635	7,115
Margin (%)	*29.8*	*36.3*	*21.0*
PAT	2,529	6,526	4,435
EPS (Rs)	9.9	25.5	17.4
RoE (%)	*20.7*	*35.9*	*20.2*
PE (x)	12.2	4.7	7.0
P / BV (x)	2.8	2.0	1.5
EV / E (x)	7.6	3.8	4.2

We expect reduction in revenue from Rs4.39bn to Rs3.95bn (YoY), along side 0.13m tonnes of sugar sale in this quarter against 0.22m tonnes (YoY) at average realization of Rs27.5/kg as compared to Rs17/kg (YoY). We expect alcohol sale to be 14m litres as compared to 19.3m litres (YoY) at an average realization of Rs27/litre as compared to Rs19.6/litre (YoY). EBITDA margin is expected to improve from 15% to 38.7%(YoY). The company is expected to show net profit of Rs827m against loss of Rs41m in Q4FY08.

Quarterly Table (Rs m)

Y/e Sept	Q4 FY09E	Q4 FY08	*YoY gr. (%)*	Q3 FY09	12M FY09E	12M FY08	*YoY gr. (%)*
Net Sales	3,953	4,391	*(10.0)*	5,381	17,181	14,909	*15.2*
EBITDA	1,329	659	*101.6*	1,180	5,119	3,141	*63.0*
Margin (%)	*33.6*	*15.0*	*18.6*	*21.9*	*29.8*	*21.1*	*8.7*
Reported PAT	685	(41)	*LTP*	663	2,529	783	*223.0*
PAT (Excl. Ex Items)	685	(41)	*LTP*	543	2,529	783	*223.0*
Operating Metrics							
Sugar Sold (mn Tonnes)	0.13	0.22	*(40.9)*	0.21	0.66	0.71	*(7.9)*
Avg. Realisation (Rs/Kg)	27.5	17.0	*61.8*	23.0	22.6	16.5	*36.8*
Alcohol sold (mn Litres)	14.0	19.3	*(27.5)*	12.1	55.0	77.0	*(28.6)*
Avg. Realisation (Rs/Litre)	27.0	19.6	*37.8*	26.0	23.3	22.0	*5.9*

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Technology

We are turning more optimistic about the recovery in the demand environment of Indian IT Services companies. In our last quarterly preview, we mentioned that the worst for the Indian IT sector is probably over. Based on the interaction with the management of companies in this quarter, we inferred that the business fundamentals have indeed improved and the companies are witnessing increased RFP and sales queries, giving leads to a quicker-than-expected recovery. We believe that cost cognizance of global companies would drive the growth for outsourcing.

BFSI - brace for the positive surprises: We believe that BFSI, one of the worst performing vertical till the last quarter, is going to lead the growth pack for Indian IT companies. Integration issues after M&A, risk management, and new banking norms would provide opportunities for the Indian IT companies. Top tier Indian IT companies have got 31.0% (as of Q1FY10) of revenue coming from the BFSI vertical. The growth in the other verticals like retail, manufacturing and telecom would be based on the respective strengths of companies.

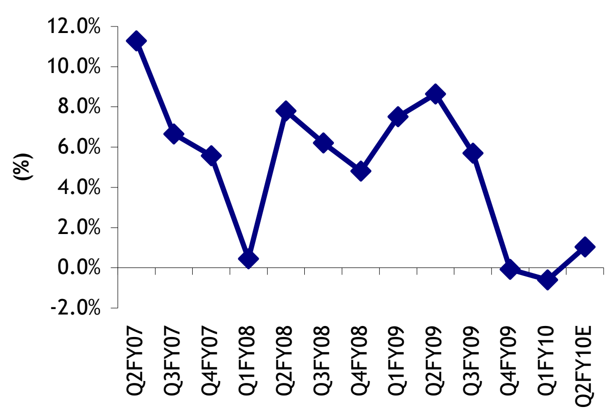
Top-line growth and continued cost-control could surprise at bottom-line: We expect strong cost-control measures like hiring freeze, no pay-hikes, and curb on traveling, along with continued focus on offshore, would help Indian IT companies to maintain their margins. We are factoring 0-2% volume growth and -2-0% pricing increase on QoQ basis. Concerns over the margin erosion after salary increase is over-done and we believe that companies would able to maintain its margin as the growth returns.

Pace of recovery - still a concern: Seasonally strong Q2 could positively surprise us; however we maintain our cautious view for a sharp recovery. CNXIT (NIFTY IT INDEX) performance over the last quarter factors in accelerated recovery. We believe that sales cycle has improved but not in the best of its health. We believe that recent news of increments and promotions is clear indication of improved business environment and a proactive step to contain attrition.

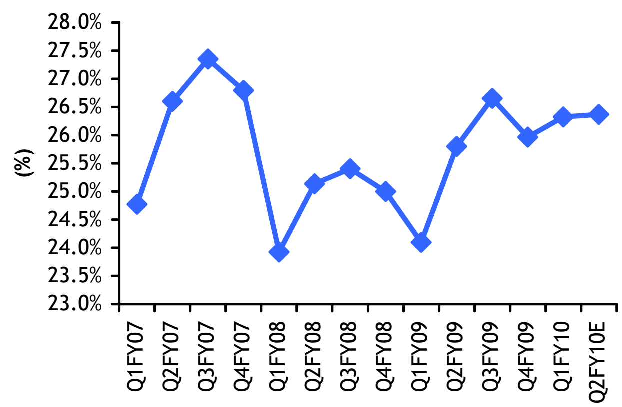
Guidance Table

	Guidance given by the company				Our Estimates		Actuals	
	Q2FY10		FY2010		Q2FY10	FY2010	Q1FY10	FY2009
Infosys Technologies								
Revenue (Rs mn)	53,180	54,130	214,160	217,470	54,966	221,967	54,720	216,930
EPS (Rs)	23.7	24.1	95.0	96.0	25.9	105.8	26.6	104.4
Revenue (USD mn)	1,060	1,080	4,350	4,520	1,088	4,415	1,121	4,663
Patni Computers								
Revenue (USD mn)	163.0	165.0	n/a	n/a	165.9	652.7	161.9	718.9
Wipro								
Revenue (USD mn)	1,035	1,053	n/a	n/a	1,040	-	1,033	4,324

Sector Revenue Growth (QoQ)

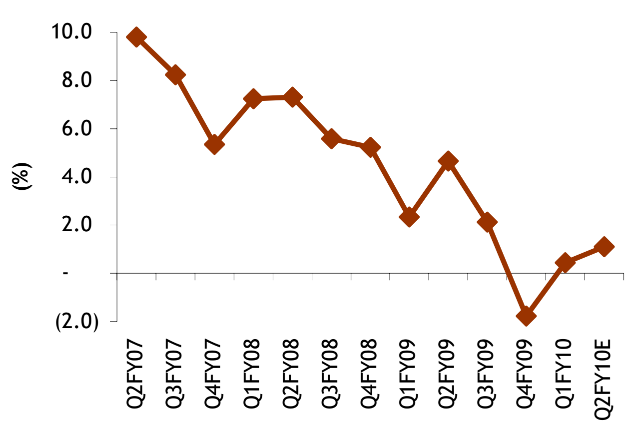


Sector EBITDA margins (QoQ)

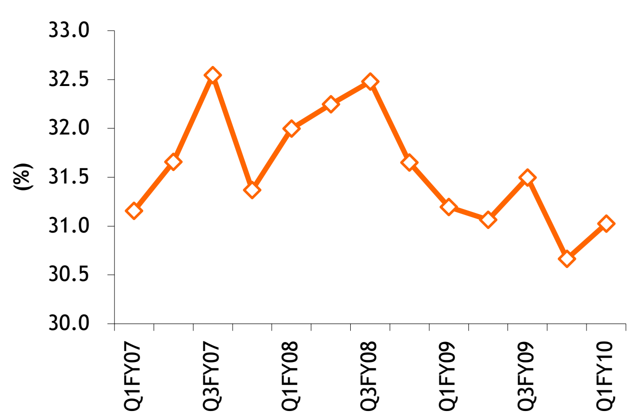


Source: Company Data, PL Research

Sector Volume Growth (QoQ)

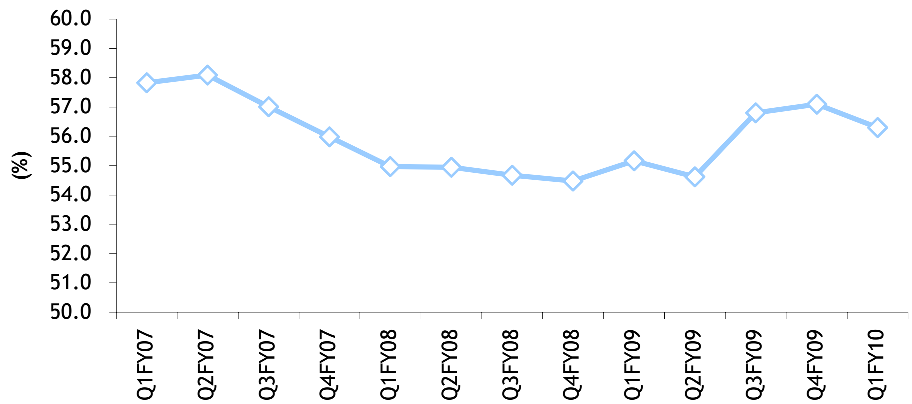


BFSI Sector Growth (QoQ)



Source: Company Data, PL Research

US Revenue Contribution



Source: Company Data, PL Research

Top Picks: TCS and Mphasis

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09	FY10E	FY11E
Net Sales	978,431	1,044,310	1,168,553
Growth (%)	*25.5*	*6.7*	*11.9*
EBITDA	239,848	262,715	292,394
Margin (%)	*24.5*	*25.2*	*25.0*
PAT	178,787	197,617	216,783
Growth (%)	*13.0*	*10.5*	*9.7*
PE (x)	22.4	20.3	(7.9)

Quarterly Table (Rs m)

	Q2 FY10E	Q2 FY09	*QoQ gr. (%)*	Q2 FY10	*YoY gr. (%)*
Net Sales	257,854	255,393	*1.0*	238,142	*8.3*
EBITDA	66,729	66,172	*0.8*	58,801	*13.5*
Margin (%)	*25.9*	*25.9*	*(0.0)*	*24.7*	*1.2*
PAT (Excl. Ex Items)	50,987	50,360	*1.2*	43,950	*16.0*

Note: The Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

Infosys Technologies

Rating	**Reduce**
Price	Rs2,319
Target Price	Rs2,050
Market Cap. (Rs bn)	1,329.6
Shares o/s (m)	573.3

We expect Infosys to report a muted Q2FY10, beating their top-end of guidance for -1.1% QoQ growth. We expect forex movement, volume growth and pricing improvement to contribute 1.5%, 0.0% and -1.0% QoQ growth respectively in INR terms. We expect cost control measures taken by the company to help expand their EBITDA margin despite guided S&M expense increase.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	216,930	221,967	246,652
EBITDA	71,950	74,419	79,695
Margin (%)	*33.2*	*33.5*	*32.3*
PAT	59,880	60,653	62,114
EPS (Rs)	104.4	105.8	108.3
RoE (%)	*37.4*	*29.8*	*25.9*
PE (x)	22.2	21.9	21.4
P / BV (x)	7.3	5.9	5.2
EV / E (x)	17.1	15.9	14.5

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q1 FY10	*QoQ gr. (%)*	Q2 FY09	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	54,966	54,720	*0.4*	54,180	109,686	103,260	*6.2*
EBITDA	18,798	18,680	*0.6*	17,940	37,478	33,470	*12.0*
Margin (%)	*34.2*	*34.1*	*0.1*	*33.1*	*34.2*	*32.4*	*1.8*
Reported PAT	14,869	15,270	*(2.6)*	14,320	30,139	28,290	*6.5*
PAT (Excl. Ex Items)	14,869	15,270	*(2.6)*	14,320	30,139	28,290	*6.5*
Operating Metrics (% QoQ)							
Volume Gr.	-	(0.7)	*0.7*	6.0	(0.7)	9.0	*(9.7)*
Pricing Gr.	(1.0)	1.0	*(2.0)*	(0.4)	-	(0.5)	*0.5*
Currency Effect	1.5	(3.2)	*4.7*	6.0	(1.8)	9.0	*(10.8)*
SW Devp. Cost (% of sales)	53.0	53.3	*(0.3)*	53.4	53.1	55.0	*(1.8)*
SG&A (% of sales)	12.8	12.6	*0.2*	13.5	12.7	13.2	*(0.5)*

TCS

Rating	**Accumulate**
Price	Rs615
Target Price	Rs625
Market Cap. (Rs bn)	1,204.6
Shares o/s (m)	1,957.2

We expect a muted volume growth, 1.0% QoQ pricing decline and favorable forex contribution of 1.3% QoQ for TCS. EBITDA margins are expected to expand by 30bps due to continued cost-control measures. We expect total other income of Rs100m against Rs194m in Q1FY10 due to other income of Rs250m against Rs397m in the last quarter.

Key Figures (Rs m)

Y/e March	FY09E	FY10E	FY11E
Net Sales	278,132	292,480	331,529
EBITDA	71,784	75,297	86,181
Margin (%)	*25.8*	*25.7*	*26.0*
PAT	51,720	57,164	65,870
EPS (Rs)	26.4	29.2	33.7
RoE (%)	*36.9*	*32.5*	*30.4*
PE (x)	23.3	21.1	18.3
P / BV (x)	7.7	6.2	5.0
EV / E (x)	16.4	15.1	13.0

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q1 FY10	*QoQ gr. (%)*	Q2 FY09	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	72,368	72,070	*0.4*	69,534	144,438	136,177	*6.1*
EBITDA	19,834	19,619	*1.1*	18,197	39,453	34,933	*12.9*
Margin (%)	*27.4*	*27.2*	*0.2*	*26.2*	*27.3*	*25.7*	*1.7*
Reported PAT	15,344	15,203	*0.9*	12,615	30,547	27,639	*10.5*
PAT (Excl. Ex Items)	15,344	15,203	*0.9*	12,615	30,547	27,639	*10.5*
Operating Metrics (% QoQ)							
Volume Gr.	0.1	(2.0)	*2.1*	3.0	(1.9)	7.0	*(8.9)*
Pricing Gr.	(1.0)	(1.0)	*0.0*	(1.0)	(2.0)	(1.5)	*(0.5)*
Currency Effect	1.3	-	*1.3*	7.3	1.3	14.1	*(12.8)*
SW Devp. Cost (% of sales)	52.9	53.0	*(0.2)*	53.0	52.9	54.9	*(2.0)*
SG&A (% of sales)	19.6	19.6	*(0.0)*	20.6	19.6	19.4	*0.2*

Wipro

Rating	Reduce
Price	Rs609
Target Price	Rs560
Market Cap. (Rs bn)	885.6
Shares o/s (m)	1,455.4

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	254,564	259,915	286,661
EBITDA	43,930	50,231	54,893
Margin (%)	*17.3*	*19.3*	*19.1*
PAT	34,480	42,144	43,578
EPS (Rs)	23.7	28.9	29.9
RoE (%)	*24.4*	*25.4*	*22.1*
PE (x)	25.7	21.0	20.3
P / BV (x)	10.7	7.8	6.2
EV / E (x)	19.3	17.0	15.1

We expect Wipro to report in-line to their guidance of 1.1% (avg) QoQ growth for Q2FY10. We expect volumes to grow by 1.0% sequentially and pricing to take a hit of 1.0%. Overall IT services revenue is expected to grow by 1.3% sequentially. EBITDA margins are expected to be flat due to conservative hiring and aggressive cost control. However, net profit is expected to grow by 0.8% QoQ due to lower other income.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q1 FY10	QoQ gr. (%)	Q2 FY09	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	63,855	63,188	*1.1*	64,094	127,043	122,811	*3.4*
EBITDA	12,646	12,605	*0.3*	10,867	25,251	23,141	*9.1*
Margin (%)	*19.8*	*19.9*	*(0.1)*	*17.0*	*19.9*	*18.8*	*1.0*
Reported PAT	10,758	10,662	*0.9*	8,224	21,420	18,801	*13.9*
PAT (Excl. Ex Items)	10,798	10,711	*0.8*	8,246	21,509	18,862	*14.0*
Operating Metrics (% QoQ)							
Volume Gr.	1.0	(2.0)	*3.0*	2.2	(1.0)	0.2	*(655.6)*
Pricing Gr.	(1.0)	(1.0)	*0.0*	(2.9)	(2.0)	(3.8)	*(47.4)*
Currency Effect	1.3	-	*1.3*	7.3	1.3	8.6	*(84.8)*
SW Devp. Cost (% of sales)	67.0	67.2	*(0.2)*	67.2	67.1	66.6	*0.7*
SG&A (% of sales)	12.5	12.4	*0.1*	12.5	12.5	12.7	*(1.6)*

HCL Technologies

Rating	Accumulate
Price	Rs335
Target Price	Rs380
Market Cap. (Rs bn)	224.2
Shares o/s (m)	669.9

Key Figures (Rs m)

Y/e June	FY09E	FY10E	FY11E
Net Sales	106,301	123,341	138,165
EBITDA	23,456	26,876	30,727
Margin (%)	*22.1*	*21.8*	*22.2*
PAT	12,776	15,775	19,703
EPS (Rs)	19.1	23.5	29.4
RoE (%)	*28.1*	*27.6*	*26.3*
PE (x)	17.5	14.2	11.4
P / BV (x)	4.6	3.4	2.6
EV / E (x)	10.0	8.2	6.4

Volumes for this quarter are expected to grow by 1.3% QoQ for Q1FY10 due to cross-currency benefit of 1.8% QoQ, volume growth of 1.0% QoQ and pricing decline of 1.3% QoQ. We expect margin erosion of 50bps due to higher employee cost and continued ramp-up in overseas team. We expect net forex loss to be inline with the last quarter.

Quarterly Table (Rs m)

Y/e June	Q1 FY10E	Q4 FY09	QoQ gr. (%)	Q1 FY09	12M FY10E	12M FY09	YoY gr. (%)
Net Sales	29,449	29,085	*1.3*	23,693	123,341	106,301	*16.0*
EBITDA	6,361	6,441	*(1.2)*	5,311	26,876	23,456	*14.6*
Margin (%)	*21.6*	*22.1*	*(0.5)*	*22.4*	*21.8*	*22.1*	*(0.3)*
Reported PAT	4,323	3,303	*30.9*	3,562	15,775	12,776	*23.5*
PAT (Excl. Ex Items)	4,323	3,303	*30.9*	3,562	15,775	12,776	*23.5*
Operating Metrics (% QoQ)							
Volume Gr.	1.0	(2.0)	*3.0*	3.0	15.0	24.1	*(9.1)*
Pricing Gr.	(1.5)	(0.5)	*(1.0)*	2.0	(2.0)	3.0	*(5.0)*
Currency Effect	1.8	-	*1.8*	4.0	3.0	12.0	*(9.0)*
SW Devp. Cost (% of sales)	62.4	62.4	*0.0*	60.6	62.3	61.6	*0.7*
SG&A (% of sales)	16.0	15.5	*0.5*	17.0	15.9	16.3	*(0.4)*

Tech Mahindra

Rating	Reduce
Price	Rs938
Target Price	Rs900
Market Cap. (Rs bn)	122.6
Shares o/s (m)	130.7

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	44,647	46,172	52,285
EBITDA	12,152	11,801	13,204
Margin (%)	*27.2*	*25.6*	*25.3*
PAT	9,519	5,586	7,071
EPS (Rs)	72.8	42.7	54.1
RoE (%)	*63.4*	*28.6*	*28.5*
PE (x)	12.9	21.9	17.3
P / BV (x)	6.3	4.9	3.8
EV / E (x)	9.3	11.5	9.9

Due to GBP appreciation against INR, we expect a positive impact of 2.0% in the revenues since 70% of company's revenues are billed in GBP. Also, we expect stability in the revenue coming from BT (British Telecom) after the ramp-up last quarter. However, higher forex loss due currency depreciation and interest cost due to Satyam acquisition will restrict the growth of net profit to 0.7% QoQ.

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q1 FY10	*QoQ gr. (%)*	Q2 FY09	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	11,353	11,130	*2.0*	11,648	22,483	22,294	*0.8*
EBITDA	2,867	2,805	*2.2*	3,261	5,672	5,674	*(0.0)*
Margin (%)	*25.3*	*25.2*	*0.0*	*28.0*	*25.2*	*25.5*	*(0.2)*
Reported PAT	1,409	1,316	*7.1*	3,027	2,726	3,901	*(30.1)*
PAT (Excl. Ex Items)	1,409	1,401	*0.6*	2,354	2,811	3,986	*(29.5)*
Operating Metrics (USD m)							
Rev. from BT	118.4	118.4	*0.0*	161.8	236.8	289.7	*(18.3)*
PBDIT Telecom Serv. Prov	84.0	84.2	*(0.3)*	87.9	84.1	88.3	*(4.7)*
Rev. from Non BT clients	109.3	109.3	*0.0*	107.8	218.6	251.8	*(13.2)*
SW Devp. Cost (% of sales)	61.5	61.4	*0.1*	59.0	61.5	61.3	*0.2*
SG&A (% of sales)	13.3	13.4	*(0.1)*	13.0	13.3	13.3	*0.0*

Mphasis

Rating	BUY
Price	Rs679
Target Price	Rs720
Market Cap. (Rs bn)	142.3
Shares o/s (m)	209.7

Key Figures (Rs m)

Y/e Oct	7MFY08	FY09E	FY10E
Net Sales	19,065	42,924	51,455
EBITDA	3,884	11,364	13,533
Margin (%)	*20.4*	*26.5*	*26.3*
PAT	2,954	8,962	9,769
EPS (Rs)	14.1	42.7	46.5
RoE (%)	*25.7*	*21.6*	*49.2*
PE (x)	48.2	15.9	14.6
P / BV (x)	12.4	9.9	6.7
EV / E (x)	36.5	12.0	9.6

We expect Mphasis to continue it's earning momentum and hence outperformance in the sector, where revenue is expected to grow 5.0% sequentially led by 4% volume growth and 1% cross-currency benefit QoQ. Margins would cool off a bit (a 20bps dip expected) after sharp improvements QoQ for the last two years. Other income benefit would be Rs26m when compared to Rs32m in Q3FY09.

Quarterly Table (Rs m)

Y/e Oct	Q4 FY09E	Q3 FY09	*QoQ gr. (%)*	Q4 FY08	12M FY10E	12M FY09E	*YoY gr. (%)*
Net Sales	11,608	11,055	*5.0*	NA	51,455	42,924	*19.9*
EBITDA	3,035	2,919	*4.0*	NA	13,533	11,364	*19.1*
Margin (%)	*26.2*	*26.4*	*(0.3)*	*NA*	*26.3*	*26.5*	*(0.2)*
Reported PAT	2,325	2,292	*1.5*	NA	9,769	8,962	*9.0*
PAT (Excl. Ex Items)	2,325	2,292	*1.5*	NA	9,769	8,962	*9.0*
Operating Metrics (% QoQ)							
Application Serv. Gr.	4.5	3.1	NA	NA	NA	NA	NA
Customer Serv. Gr.	45.3	1.0	NA	NA	NA	NA	NA
Transaction Proc Gr.	24.4	9.7	NA	NA	NA	NA	NA
SW Devp. Cost (% of sales)	63.0	63.2	NA	NA	62.8	NA	NA
SG&A (% of sales)	10.9	10.4	NA	NA	10.9	NA	NA

Patni Computers

Rating	Accumulate
Price	Rs432
Target Price	Rs480
Market Cap. (Rs bn)	55.4
Shares o/s (m)	128.4

Key Figures (Rs m)

Y/e Dec	CY08	CY09E	CY10E
Net Sales	31,151	31,467	33,313
EBITDA	5,455	5,682	6,454
Margin (%)	*17.5*	*18.1*	*19.4*
PAT	4,386	4,325	5,150
EPS (Rs)	34.2	33.7	40.1
RoE (%)	*16.3*	*15.9*	*17.0*
PE (x)	12.6	12.8	10.8
P / BV (x)	1.8	1.6	1.4
EV / E (x)	7.5	6.6	5.3

We expect Patni to beat their guidance (US$163-165m) and our estimate of US$165.5m. We expect Patni to expand their margin by 50bps due to cost-control measures. We expect forex loss of US$3.25m against US$4.1m in the last quarter. We expect management commentary on organic and inorganic growth strategy of the company.

Quarterly Table (Rs m)

Y/e Dec	Q3 CY09E	Q2 CY09	*QoQ gr. (%)*	Q3 CY08	9M CY09E	9M CY08	*YoY gr. (%)*
Net Sales	7,913	7,796	*1.5*	7,996	23,474	22,603	*3.9*
EBITDA	1,460	1,366	*6.9*	1,453	4,236	3,926	*7.9*
Margin (%)	*18.4*	*17.5*	*0.9*	*18.2*	*18.0*	*17.4*	*0.7*
Reported PAT	1,124	1,360	*(17.3)*	1,802	3,249	3,794	*(14.4)*
PAT (Excl. Ex Items)	1,124	1,360	*(17.3)*	1,802	3,249	3,795	*(14.4)*
Operating Metrics (% QoQ)							
US$ Rev.	165.9	161.9	*4.0*	183.5	484.2	542.5	*(58.3)*
Apps Devp. & Maint. Gr.	1.0	3.2	*(2.2)*	4.2	(9.2)	8.8	*(18.0)*
Package S/W Impl. Gr.	1.0	3.5	*(2.5)*	(6.4)	(16.9)	18.9	*(35.8)*
Product Eng. Gr.	0.5	2.6	*(2.1)*	(4.8)	(50.4)	(3.6)	*(46.8)*
SW Devp. Cost (% of sales)	62.6	62.8	*(0.2)*	65.6	63.3	67.1	*(3.8)*

Rolta India

Rating	Accumulate
Price	Rs191
Target Price	Rs200
Market Cap. (Rs bn)	31.1
Shares o/s (m)	162.9

Key Figures (Rs m)

Y/e June	FY09E	FY10E	FY11E
Net Sales	13,728	14,171	15,875
EBITDA	4,636	4,810	5,410
Margin (%)	*33.8*	*33.9*	*34.1*
PAT	2,406	1,941	2,310
EPS (Rs)	14.8	11.9	14.2
RoE (%)	*21.2*	*16.9*	*18.0*
PE (x)	12.9	16.0	13.5
P / BV (x)	2.3	2.1	2.0
EV / E (x)	7.8	7.2	6.0

We expect a modest growth for all the three verticals for Rolta wherein GIS growth is 3%, EDS 2% and EICT 1.0% QoQ. We expect the company to maintain its margin. Also, we expect further improvement in the order book and positive commentary from management on the improved demand environment.

Quarterly Table (Rs m)

Y/e June	Q1 FY10E	Q4 FY09	*QoQ gr. (%)*	Q1 FY09	12M FY10E	12M FY09	*YoY gr. (%)*
Net Sales	3,401	3,327	*2.2*	3,461	14,171	13,728	*3.2*
EBITDA	1,148	1,125	*2.0*	1,185	4,810	4,636	*3.7*
Margin (%)	*33.8*	*33.8*	*(0.1)*	*34.2*	*33.9*	*33.8*	*0.2*
Reported PAT	441	657	*(32.8)*	95	1,941	2,406	*(19.3)*
PAT (Excl. Ex Items)	547	512	*6.8*	851	2,363	2,687	*(12.1)*
Operating Metrics (% QoQ)							
GIS segment gr.	3.0	1.0	*2.0*	4.5	11.8	16.8	*(5.0)*
Engineering segment gr.	2.0	(2.0)	*4.0*	7.4	(6.8)	12.6	*(19.4)*
EICT segment gr.	1.0	(5.0)	*6.0*	14.2	(0.8)	87.0	*(87.8)*
SW Devp. Cost (% of sales)	42.3	40.4	*1.9*	37.5	42.4	40.0	*2.4*
SG&A (% of sales)	13.5	13.8	*(0.3)*	10.6	13.6	11.9	*1.6*

KPIT Cummins

Rating	Accumulate
Price	Rs77
Target Price	Rs100
Market Cap. (Rs bn)	6.0
Shares o/s (m)	78.8

We expect a 3.5% QoQ decline in KPIT 's USD revenue after a negative surprise in the last quarter of 17.5% QoQ decline, largely led by pressure in its project-based business. The EBITDA margins are likely to be eroded by 100bps to 20.2% (margins had improved sharply in the H2FY09- from 17.7% to 28.0%).

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	7,932	6,739	7,046
EBITDA	1,834	1,381	1,462
Margin (%)	*23.1*	*20.5*	*20.7*
PAT	659	786	900
EPS (Rs)	8.4	10.0	11.4
RoE (%)	*22.3*	*21.8*	*20.7*
PE (x)	9.2	7.7	6.7
P / BV (x)	1.9	1.5	1.3
EV / E (x)	3.9	5.2	5.0

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q1 FY10	*QoQ gr. (%)*	Q2 FY09	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	1,668	1,728	*(3.5)*	2,010	3,396	3,488	*(2.6)*
EBITDA	338	366	*(7.8)*	390	704	642	*9.6*
Margin (%)	*20.2*	*21.2*	*(0.9)*	*19.4*	*20.7*	*18.4*	*2.3*
Reported PAT	200	224	*(10.7)*	167	424	353	*19.8*
PAT (Excl. Ex Items)	200	224	*(10.7)*	167	424	353	*19.8*
Operating Metrics (% QoQ)							
US$ Rev.	34.8	35.2	*(0.4)*	46.8	70.0	77.8	*(7.8)*
Manufacturing Seg. Gr.	(4.0)	(19.9)	*15.9*	15.3	(11.9)	(3.7)	*(8.2)*
BFSI Seg. Gr.	1.0	0.7	*0.3*	(3.1)	0.9	0.1	*0.8*
Others Seg. Gr.	(0.5)	(8.7)	*8.2*	15.0	(4.6)	(19.9)	*15.3*
SW Devp. Cost (% of sales)	58.2	57.0	*1.1*	58.0	57.6	58.8	*(1.2)*

Geometric

Rating	Sell
Price	Rs47
Target Price	Rs45
Market Cap. (Rs bn)	2.9
Shares o/s (m)	62.5

Volumes and pricing (put together for Q2FY2010) for the company is expected to dip by 1.5% QoQ. We expect a spill-over of last quarter's ramp-downs. EBITDA margin is expected to be inline with the last quarter after improvement of 450bps (on adjusted basis) to 19%. Loss on currency hedging is expected to be around Rs50m (Rs52m in Q1FY10).

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	5,981	5,134	5,572
EBITDA	767	854	836
Margin (%)	*12.8*	*16.6*	*15.0*
PAT	7	283	317
EPS (Rs)	(1.7)	4.5	5.1
RoE (%)	*0.6*	*14.7*	*15.0*
PE (x)	(27.5)	10.3	9.3
P / BV (x)	1.2	1.1	1.0
EV / E (x)	5.0	3.5	3.8

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q1 FY10	*QoQ gr. (%)*	Q2 FY09	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	1,274	1,293	*(1.5)*	1,526	2,567	2,698	*(4.8)*
EBITDA	242	246	*(1.7)*	197	488	376	*29.9*
Margin (%)	*19.0*	*19.0*	*(0.0)*	*12.9*	*19.0*	*13.9*	*5.1*
Reported PAT	47	83	*(43.5)*	47.15	131	245	*(46.8)*
PAT (Excl. Ex Items)	47	85	*(44.7)*	33	132	123	*7.7*
Operating Metrics (% QoQ)							
US$ rev.	26.6	26.6	*(0.0)*	34.7	53.2	60.0	*(6.8)*
Software seg. gr.	59.5	64.6	*(5.1)*	60.0	62.1	60.1	*2.0*
Engineering seg. gr.	34.0	28.6	*5.4*	33.7	31.3	33.6	*(2.3)*
Products seg. gr.	6.5	6.8	*(0.3)*	6.3	6.7	6.3	*0.4*
SW Devp. Cost (% of sales)	59.5	59.2	*0.3*	63.5	59.3	65.5	*(6.1)*

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Telecom

Subscriber net additions pick up pace in Q2FY10: Subscriber net additions continued to be buoyant as ~30m subscribers have been garnered by telcos for the first two months of Q2FY10, a growth of 61% YoY. This was a result of Tata Docomo (Tata's) introductory GSM launch and continuation of strong net additions by Rcom, Vodafone and Bharti Airtel (Bharti). However, this rise in net addition has resulted in increase of dual SIM subscribers and may result in flight of paid minutes from incumbents like Bharti, Vodafone & Idea Cellular (Idea) to the freebies offered by new entrants.

Operator-wise subscriber trends

	Wirless net subscribers at end of (in million)			Net additions btwn Jun'09-Aug'09 (in mn)
	Jun'09	Jul'09	Aug'09	
Bharti Airtel	102.3	105.2	108.0	8.5
Reliance Comm	79.6	82.0	84.1	6.9
Vodafone Essar	76.4	78.7	80.9	6.8
BSNL+ MTNL	53.4	55.0	56.4	4.0
Idea Cellular	47.0	48.5	50.0	4.6
Tata Teleservices	37.1	39.4	42.8	6.3

Source: COAI, AUSPI, PL Estimates

ARPU to be under pressure as new launches intensified competition: New launches by Shyam-Sistema in CDMA & Tata Docomo in GSM brought in aggressive entry startegy plans like per second billing cycle. Life time schemes by various operators were available at Rs 40/Rs 50 which charged local minutes at 60p/min & STD at Rs1/min. Elasticity is expected to pick-up considering the drop in tariffs. However, pressure on realizations was quite evident with charges on Intra-circle & Inter-circle special tariff voucher (STV) packs as low as Rs 0.5/minute by various operators.

Tariff plans of life time schemes offered by various operators

Operator	Subscription charges	Tariff
Bharti, Vodafone *	Recharge Rs 50	Local/STD at 60p/min
Idea *	SIM cost Rs 40	Local/STD at 50p/min
Rcom *	SIM cost Rs 25 + Recharge Rs 46	on-net 30p/min, other local 60p/min, STD Rs 1/min
Tata Docomo	one time charge of Rs 200 with talktime of Rs 184	1p/per second

Source: PL Research *Post 5 months, tariffs for local to be Rs 1/min & STD to be Rs 1.5/minute*

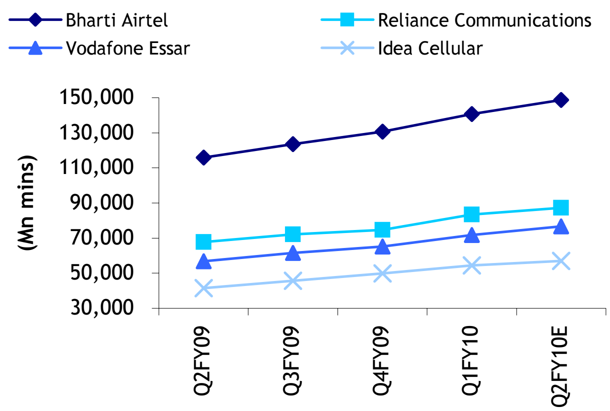
New launches in July-Sept period

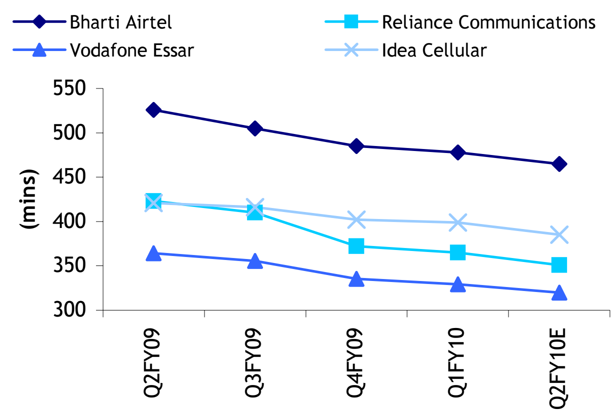
New launches	Circles launced	Circles present post launch
Tata's (GSM)	Chennai, Mumbai. Maharashtra, AP, Karnataka, Tamilnadu, Orissa, MP, Haryana, Kerala	Pan India CDMA + 10 circles GSM
Aircel	Maharashtra	18
Shyam Telelink	Kolkatta, Kerala, West Bengal, Bihar	7

Source: PL Research

MOU to be under pressure due to flight of minutes to new entrants & monsoon seasonality: We expect the MOU for operator's to be under pressure considering seasonally Q2 has the monsoon impact & some flight of minutes to the new launches. Over the last 4 quarters, Incumbents had shown traffic growth of 7-9% CQGR on back of 10-12% CQGR in subscribers.

Wireless traffic growing at 7-9% CQGR expected to slow to 5-6% in Q2FY10





Source: Company Data, PL Research

Key Developments

Bharti-MTN discussions terminated for the second time: India's telecom major Bharti Airtel and South Africa's MTN terminated their talks for a proposed $24-billion equity swap-cum-strategic alliance that could have potentially created the world's third largest mobile phone enterprise on 30th Sept. The proposed deal was called off after the South African authorities declined to accept certain regulatory constraints on the part of both sides. The main hurdle to the deal was dual listing of the post-alliance entity, which the South African authorities were pushing for, but was not permitted by the present Indian regulations.

Reliance Infratel files draft RHP with SEBI for an IPO: Reliance Communications (Rcom) is mulling a 10% sale of Equity in Reliance Infratel (RITL) through an IPO. Rcom which has recently transferred its optical fibre assets to RITL to create greater cost synergies, would hold 85% post the issue. Recently, RITL has signed infrastructure sharing agreements with Etisilat DB Telecom, Aircel & Stel which gives greater visibility over non-captive tenants.

Tata Docomo differentiate product offering by introducing per second billing: Tata Docomo, the GSM venture of Tata Teleservices with Japan's telecom major NTT DoCoMo, has raised heat in the already intensified indian telecom market by launching per second billing. This pay per pulse concept has got overwhelming response amongst customers and tata's have added ~3m subscribers for the first 2 months in their GSM launches.

EGom finalizes the reserve price for 3G & BWA spectrum: EGoM constituted by the Government to supervise the spectrum for 3G telephony, has fixed the reserve price for pan-India 3G spectrum at Rs 3,500 crore. It also decided to allow only five operators to offer the high-speed mobile services in the first phase, where one existing operator - BSNL or MTNL - in their respective circles will be given the spectrum along with four new operators. The auction date is fixed on 7th Dec.

Top picks: None

Consolidated Sectoral Data

Key Figures (Rs m)

	FY09E	FY10E	FY11E
Net Sales	716,668	869,762	995,364
Growth (%)	*32.7*	*21.4*	*14.4*
EBITDA	275,586	335,263	386,159
Margin (%)	38.5	38.5	38.8
PAT	155,288	168,419	187,871
Growth (%)	*19.2*	*8.5*	*11.5*
PE (x)	15.6	14.4	12.9

Quarterly Table (Rs m)

	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	*QoQ gr. (%)*
Net Sales	200,073	173,533	*15.3*	195,056	*2.6*
EBITDA	76,384	66,609	*14.7*	75,730	*0.9*
Margin (%)	*38.2*	*38.4*	*(0.2)*	*38.8*	*(0.6)*
PAT (Excl. Ex Items)	40,764	37,714	*8.1*	45,121	*(9.7)*

Note: The Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

Bharti Airtel

Rating	Accumulate
Price	Rs400
Target Price	Rs420
Market Cap. (Rs bn)	1,541.9
Shares o/s (m)	3,851.8

Bharti continued to add robust subscribers in the first two months of Q2FY10, with a monthly run-rate of ~2.8m subscribers. During Q2FY10, the intensity of competition has picked up with GSM rollout of Tata Docomo and across the board reduction of tariffs in both intra-circle & inter-circle calls. We have considered seasonality impact in MOU and have modelled QoQ decline of 2.7% to 465. However, ARPU is expected to slide by 6.5% QoQ to Rs 261 due to increased competetive intensity. We have not considered any finance charge after the fallout of MTN deal as fees paid to I-Bankers.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	369,615	435,420	488,418
EBITDA	151,041	178,698	204,011
Margin (%)	*40.9*	*41.0*	*41.8*
PAT	84,699	99,301	109,240
EPS (Rs)	22.0	25.8	28.4
RoE (%)	*33.3*	*29.1*	*24.5*
PE (x)	18.2	15.5	14.1
P/BV (x)	5.3	3.9	3.1
EV / E (x)	10.8	9.0	7.6

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	101,904	90,203	*13.0*	99,416	201,320	175,036	*15.0*
EBITDA	42,064	36,717	*14.6*	41,518	83,582	71,938	*16.2*
Margin (%)	*41.3*	*40.7*	*0.6*	*41.8*	*41.5*	*41.1*	*0.4*
Reported PAT	23,572	20,463	*15.2*	25,176	48,748	40,713	*19.7*
PAT (Excl. Ex Items)	23,572	20,463	*15.2*	25,176	48,748	40,713	*19.7*
Operating Metrics							
Subscriber net adds (M)	8.4	8.1	*3.8*	8.4	16.8	15	*8.7*
ARPU in (Rs)	261	331	*(21.1)*	278	270	341	*(20.9)*
MOU in minutes	465	526	*(11.6)*	478	472	530	*(11.0)*

Reliance Comm.

Rating	Accumulate
Price	Rs300
Target Price	Rs320
Market Cap. (Rs bn)	619.6
Shares o/s (m)	2,064.0

RCom garnered subscribers at a monthly rate of 2.3m for the first two months of Q2FY10. We expect EBITDA margins to slow by 80bps QoQ to 39.1% due to competetive intensity and soaring network operating costs. Absolute EBITDA (which has been revolving between Rs23-25bn for last six quarters) is expected to be flat QoQ at Rs24.6bn. During the quarter, company prepaid term loans of Rs 50bn to domestic institutions.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	229,411	284,724	316,673
EBITDA	92,875	115,313	129,836
Margin (%)	*40.5*	*40.5*	*41.0*
PAT	59,082	54,833	59,983
EPS (Rs)	28.6	26.6	29.1
RoE (%)	*18.7*	*15.0*	*14.4*
PE (x)	10.5	11.3	10.3
P/BV (x)	1.82	1.59	1.39
EV / E (x)	9.3	7.7	6.7

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	62,945	56,450	*11.5*	61,452	124,397	109,672	*13.4*
EBITDA	24,637	23,016	*7.0*	24,525	49,162	45,518	*8.0*
Margin (%)	*39.1*	*40.8*	*(1.6)*	*39.9*	*39.5*	*41.5*	*(2.0)*
Reported PAT	13,854	15,309	*(9.5)*	16,366	30,220	30,432	*(0.7)*
PAT (Excl. Ex Items)	13,854	15,309	*(9.5)*	16,366	30,220	30,432	*(0.7)*
Operating Metrics							
Subscriber net adds (M)	6.6	5.3	*25.2*	6.9	13.5	10	*31.7*
ARPU in (Rs)	196	271	*(27.7)*	210	203	277	*(26.6)*
MOU in minutes	351	423	*(17.0)*	365	358	424	*(15.5)*

Idea Cellular

Rating	Reduce
Price	Rs71
Target Price	Rs70
Market Cap. (Rs bn)	230.8
Shares o/s (m)	3,268.9

Idea has added 3m subscribers for first two months of Q2FY10. It has rolled out operations in chennai in July & ground work is ready for planned launch of operations in Kolkatta & West Bengal in october. Margins are expected to slide QoQ by 90bps to 28% building in heightening of competetive intensity & full quarterly impact of Tamilnadu launch.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	101,498	130,088	166,428
EBITDA	28,302	36,691	46,541
Margin (%)	*27.9*	*28.2*	*28.0*
PAT	9,009	11,321	15,156
EPS (Rs)	2.8	3.5	4.6
RoE (%)	*9.8*	*7.7*	*9.9*
PE (x)	25.6	20.4	15.2
P/BV (x)	1.55	1.59	1.44
EV / E (x)	9.3	9.1	7.0

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	30,550	23,034	*32.6*	29,759	60,309	44,769	*34.7*
EBITDA	8,554	6,065	*41.0*	8,599	17,153	13,225	*29.7*
Margin (%)	*28.0*	*26.3*	*1.7*	*28.9*	*28.4*	*29.5*	*(1.1)*
Reported PAT	2,689	1,441	*86.6*	2,971	5,659	4,075	*38.9*
PAT (Excl. Ex Items)	2,689	1,441	*86.6*	2,971	5,659	4,075	*38.9*
Operating Metrics							
Subscriber net adds (M)	4.5	2.2	*101.1*	4.1	8.6	6	*48.7*
ARPU in (Rs)	218	267	*(18.3)*	233	226	266	*(15.2)*
MOU in minutes	385	415	*(7.2)*	403	394	422	*(6.5)*

Tulip Telecom

Rating	Accumulate
Price	Rs959
Target Price	Rs1,168
Market Cap. (Rs bn)	29.7
Shares o/s (m)	30.9

Tulip Telecom is expected to add 21.5k connects for the quarter vis-à-vis 18.1k in Q1FY10. Margins are expected to remain around 24% (flattish QoQ) & revenue contribution from the IP-VPN segment at 84%. In Q1FY10, Tulip had exceptional items of FCCB buyback at discount (Rs 144m) & Forex gains of Rs 159m resulting in PAT of Rs 752m. During Q2FY10, it has bought back FCCB worth USD 11m (total outstanding now at USD98m) at a discount of ~25-30% resulting in gains of Rs 30-40m.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	16,144	19,529	23,846
EBITDA	3,368	4,560	5,771
Margin (%)	*20.9*	*23.3*	*24.2*
PAT	2,498	2,965	3,492
EPS (Rs)	75.9	90.1	106.2
RoE (%)	*44.3*	*32.1*	*24.4*
PE (x)	12.6	10.6	9.0
P/BV (x)	4.1	2.5	1.9
EV / E (x)	11.1	7.6	5.5

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	4,674	3,846	*21.5*	4,429	9,104	7,171	*26.9*
EBITDA	1,129	811	*39.3*	1,088	2,217	1,465	*51.4*
Margin (%)	*24.2*	*21.1*	*3.1*	*24.6*	*24.4*	*20.4*	*3.9*
Reported PAT	649	502	*29.4*	752	1,402	961	*45.8*
PAT (Excl. Ex Items)	649	502	*29.4*	608	1,258	961	*30.8*
Operating Metrics							
Network Int. Rev. (M)	763	1,156	*(34.0)*	742	1,505	2,262	*(33.4)*
No. of connects added ('000)	21.5	20.1	*7.0*	18.1	39.6	20.2	*95.9*
ARPU of IP VPN monthly/connect (Rs)	4,400	4,173	*5.5*	4,651	4,526	23,186	*(80.5)*

Others

Ess Dee Aluminium

Rating	BUY
Price	Rs365
Target Price	Rs476
Market Cap. (Rs bn)	10.1
Shares o/s (m)	27.8

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	4,515	7,305	9,035
EBITDA	1,153	1,717	2,259
Margin (%)	*25.5*	*23.5*	*25.0*
PAT	841	1,061	1,471
EPS (Rs)	30.3	38.1	52.9
RoE (%)	*23.8*	*27.9*	*29.9*
PE (x)	12.1	9.6	6.9
P / BV (x)	3.0	2.4	1.8
EV / E (x)	10.1	6.6	4.8

We expect Sales of Ess Dee Aluminium (EDA) to grow by 15.9% from Rs1.24bn to Rs 1.43bn (YoY) mainly due to additional sales from India Foils Ltd (IFL). However, EBIDTA margin is expected to reduce from 28.3% to 25.1% (YoY) due to ongoing process of integrating IFL. Net profit is expected to reduce by 5.9% from Rs 229m to Rs 216m (YoY).

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	*YoY gr. (%)*	Q1 FY10	H1 FY10E	H1 FY09	*YoY gr. (%)*
Net Sales	1,439	1,242	*15.9*	1,304	2,743	2,310	*18.7*
EBITDA	361	352	*2.7*	326	688	648	*6.1*
Margin (%)	*25.1*	*28.3*	*(3.2)*	*25.0*	*25.1*	*28.1*	*(3.0)*
Reported PAT	216	229	*(5.9)*	176	392	443	*(11.6)*
PAT (Excl. Ex Items)	216	229	*(5.9)*	175	391	443	*(11.8)*
Operating Metrics							
Ess Dee Sales (Standalone)	1,077	1,242	*(13.2)*	1,024	2,101	2,310	*(9.0)*
Operating Profit	297	352	*(15.4)*	278	575	648	*(11.2)*
India Foil Sales	361	-	*NA*	280	641	-	*NA*
Operating Profit	63	-	*NA*	47	110	-	*NA*

FAG Bearings

Rating	Accumulate
Price	Rs473
Target Price	Rs524
Market Cap. (Rs bn)	4.9
Shares o/s (m)	16.6

Key Figures (Rs m)

Y/e Dec	CY08	CY09E	CY10E
Net Sales	7,600	8,823	10,112
EBITDA	1,668	1,524	1,855
Margin (%)	*21.9*	*17.3*	*18.3*
PAT	999	839	1,088
EPS (Rs)	60.1	50.5	65.5
RoE (%)	*26.4*	*19.0*	*20.6*
PE (x)	7.9	9.4	7.2
P / BV (x)	1.9	1.6	1.4
EV / E (x)	4.1	4.6	3.9

We expect sales of Fag Bearings to grow by 2.4% (YoY) due to improvement in the automobile sales volumes. EBITDA margins are expected to improve by 170 bps to 17.2% on a sequential basis due to lower raw material cost. Net Profit is expected to decline by 22.7% (YoY) at Rs233mn.

Quarterly Table (Rs m)

Y/e Dec	Q3 CY09E	Q3 CY08	*YoY gr. (%)*	Q2 CY09	9M CY09E	9M CY08	*YoY gr. (%)*
Net Sales	2,228	2,176	*2.4*	2,024	6,148	5,681	*8.2*
EBITDA	383	513	*(25.3)*	313	1,064	1,252	*(15.0)*
Margin (%)	*17.2*	*23.6*	*(6.4)*	*15.5*	*17.3*	*22.0*	*(4.7)*
Reported PAT	233	311	*(25.0)*	187	557	831	*(32.9)*
PAT (Excl. Ex Items)	233	302	*(22.7)*	187	672	788	*(14.7)*

Phillips Carbon Black

Rating	BUY
Price	Rs174
Target Price	Rs258
Market Cap. (Rs bn)	4.9
Shares o/s (m)	28.3

We expect sales of Carbon Black (CB) segment to rise by 12.3% (in volume terms) from 57861MT to 65000MT (YoY) due to revival in CB cycle as well as start of plant at Mundra. Revenue from power is also expected to increase from Rs 64m to Rs 169m (YoY) due to start of Durgapur power plant from April' 09.EBIDTA margin is expected to improve from 8.4% to 10% (YoY) due to higher contribution in EBIDTA from power segment. Net profit is expected to increase by 19% from Rs 154m to Rs 183m (YoY).

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	11,633	16,032	21,047
EBITDA	(357)	1,518	2,859
Margin (%)	*(3.1)*	*9.5*	*13.6*
PAT	(649)	833	2,084
EPS (Rs)	(23.0)	29.5	73.8
RoE (%)	*(28.4)*	*32.7*	*53.6*
PE (x)	(7.6)	5.9	2.4
P / BV (x)	2.3	1.7	1.0
EV / E (x)	(25.5)	5.9	2.6

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	3,224	3,370	*(4.3)*	2,915	6,138	6,363	*(3.5)*
EBITDA	322	284	*13.1*	270	591	559	*5.8*
Margin (%)	*10.0*	*8.4*	*1.5*	*9.3*	*9.6*	*8.8*	*0.8*
Reported PAT	183	154	*19.0*	206	388	383	*1.5*
PAT (Excl. Ex Items)	183	154	*19.0*	155	338	383	*(11.7)*
Operating Metrics							
Volume of CB sold (MT)	65,000	57,861	*12.3*	61,000	126,000	118,420	*6.4*
Avg. Realisation (Rs/T)	47,000	57,142	*(17.7)*	45,618	46,309	52,728	*(12.2)*
Power (Rs m)	169	64	*165.9*	128	297	130	*128.0*

Country Club

Rating	Accumulate
Price	Rs19
Target Price	Rs18
Market Cap. (Rs bn)	1.6
Shares o/s (m)	80.5

We expect sales of Country club (CCIL) to reduce by 23.4% (YoY) from Rs 1.1bn to Rs 863m mainly due to drastic reduction in average realization per member. Operating margin is also expected to reduce from 33.8% to 19.4% (YoY). Net profit is also expected to reduce by 70% (YoY) from Rs 283m to Rs 81m.

Key Figures (Rs m)

Y/e March	FY09	FY10E	FY11E
Net Sales	4,038	4,719	6,228
EBITDA	986	1,079	1,325
Margin (%)	*24.4*	*22.9*	*21.3*
PAT	652	417	441
EPS (Rs)	7.8	5.0	5.2
RoE (%)	*9.0*	*4.9*	*4.6*
PE (x)	2.5	3.9	3.7
P / BV (x)	0.04	0.04	0.03
EV / E (x)	2.3	1.8	0.7

Quarterly Table (Rs m)

Y/e March	Q2 FY10E	Q2 FY09	YoY gr. (%)	Q1 FY10	H1 FY10E	H1 FY09	YoY gr. (%)
Net Sales	863	1,126	*(23.4)*	734	1,596	2,225	*(28.3)*
EBITDA	167	381	*(56.1)*	143	311	740	*(58.0)*
Margin (%)	*19.4*	*33.8*	*(14.4)*	*19.5*	*19.5*	*33.3*	*(13.8)*
Reported PAT	81	283	*(71.3)*	60	141	484	*(70.8)*
PAT (Excl. Ex Items)	81	283	*(71.3)*	60	141	484	*(70.8)*
Operating Metrics							
No. of members added	12,500	12,000	*4.2*	12,000	24,500	24,052	*1.9*
Avg Realization/ member	55,000	78,000	*(29.5)*	55,000	55,000	78,639	*(30.1)*

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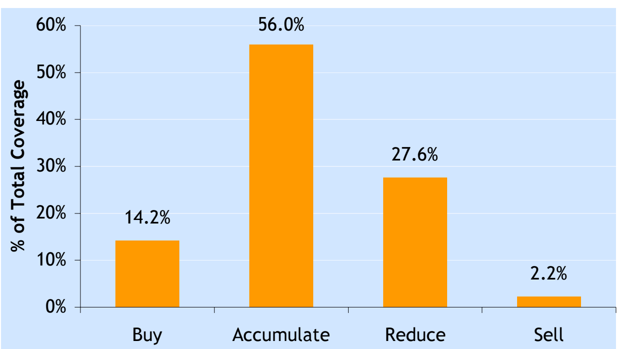
Rating Distribution of Research Coverage



PL's Recommendation Scale

BUY	:	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months	**Sell**	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month	**Trading Sell**	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock	**Under Review** (UR)	:	Rating likely to change shortly