Earnings Preview (Jul-Sep 2010)

IDFC INSTITUTIONAL SECURITIES

India Research

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Q2FY11E earnings highlights

- Sensex expected to post strong earnings growth of 32% yoy

- Earnings growth higher in commodities space, with a modest 10% yoy rise in non-commodities
- EBITDA margins for domestic cyclicals likely to remain steady qoq

- IDFC Universe (ex-Oil&Gas) earnings likely to grow 23% yoy; though growth in non-commodities modest at 14% yoy
- Metals (143% yoy), financials (26% yoy), engineering (15% yoy), retail (20% yoy) to witness strong earnings momentum

- Topline growth, 18% yoy for Sensex and 19% for IDFC Universe - a tad lower than in previous quarters due to higher base

- Sustained earnings growth over FY11 and FY12 – we expect earnings to growth 25% yoy for H2FY11, 27% for FY11 and 20% for FY12
- Earnings to expand as capex theme set to play over the next 12-18 months;

- Maintain Mar-11 Sensex target at 21,500

Sensex earnings growth at ~32% yoy

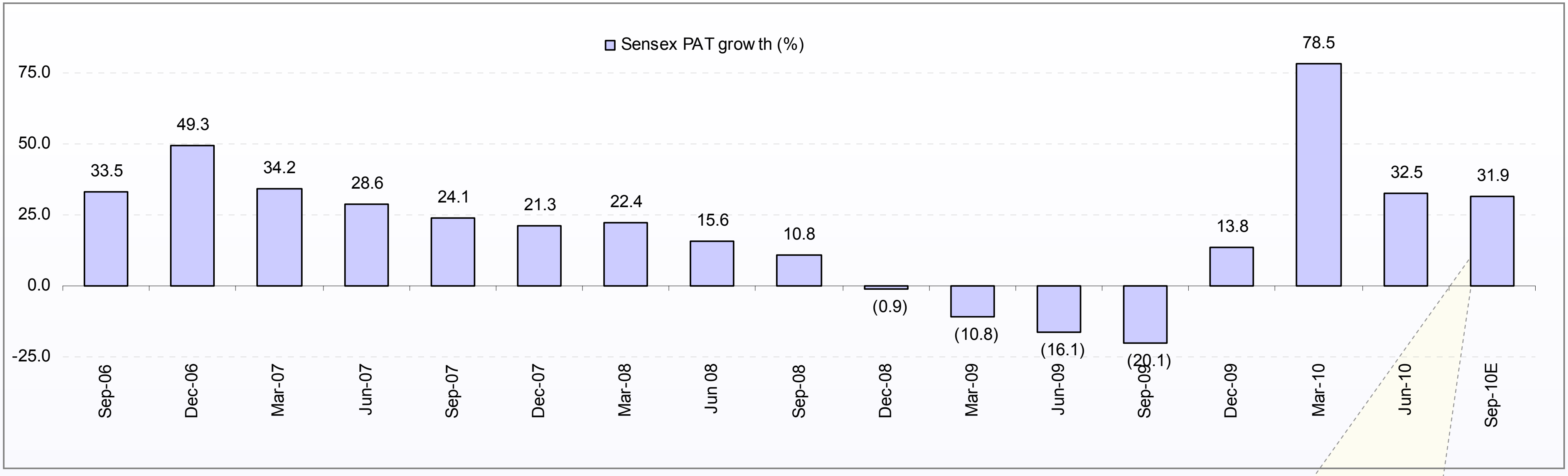
- Commodities drive yoy Sensex profit growth
- Expect strong earnings performance from Financials (22% yoy),Power equipment (24.4%) and Construction (20%)
- Earnings to decline for Cement (-50% yoy), Telecom (-41%) and Real estate(-14%)

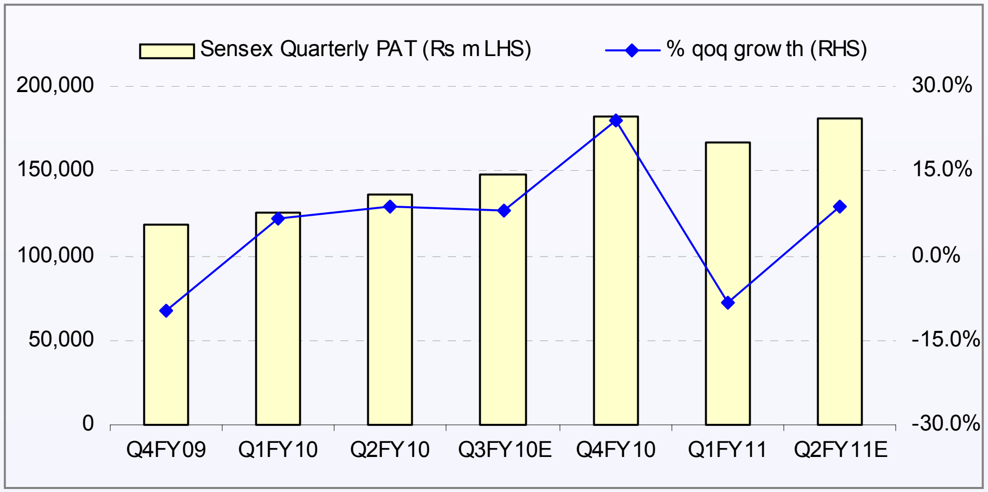
(Rs m - FF adjusted)	Net Sales			EBITDA			Profit After Tax		
Sector	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Automobiles	183,866	141,202	30.2	23,178	20,989	10.4	14,384	13,166	9.2
Cement	9,325	10,832	(13.9)	1,958	3,673	(46.7)	1,211	2,396	(49.5)
Construction	90,953	80,829	12.5	11,994	9,568	25.4	6,855	5,725	19.7
Consumer goods	58,631	51,557	13.7	15,554	14,185	9.6	10,812	9,212	17.4
IT services	100,604	83,565	20.4	30,739	25,840	19.0	23,728	20,303	16.9
Metals	354,363	323,802	9.4	55,397	30,080	84.2	29,027	(1,961)	NA
Oil & Gas	30,134	30,383	(0.8)	17,871	17,669	1.1	7,991	10,179	(21.5)
Petrochemicals	323,457	257,664	25.5	51,895	39,694	30.7	26,947	21,186	27.2
Pharmaceuticals	9,862	8,913	10.7	2,170	1,960	10.7	1,921	1,792	7.2
Power Equipment	28,058	23,188	21.0	4,837	3,953	22.4	3,735	3,003	24.4
Power Utilities	53,668	48,705	10.2	10,423	10,261	1.6	7,132	7,071	0.9
Real Estate	4,921	4,377	12.4	2,251	2,285	(1.5)	943	1,099	(14.2)
Telecoms	71,879	56,284	27.7	24,030	22,122	8.6	6,737	11,503	(41.4)
(Rs m)	NII			Pre-provisioning profit			Profit After Tax		
Financials	84,549	68,306	23.8	77,102	67,197	14.7	40,231	33,082	21.6
Commodities	717,278	622,681	15.2	127,120	91,115	39.5	65,176	31,800	105.0
Non-commodities	686,990	566,927	21.2	202,277	178,360	13.4	116,476	105,955	9.9
Sensex	1,404,268	1,189,608	18.0	329,397	269,475	22.2	181,652	137,755	31.9

Commodities driving Sensex earnings growth; non-commodities earnings growth modest

Q2FY11: Sensex earnings on a healthy trajectory

Rolling quarter Sensex earnings growth





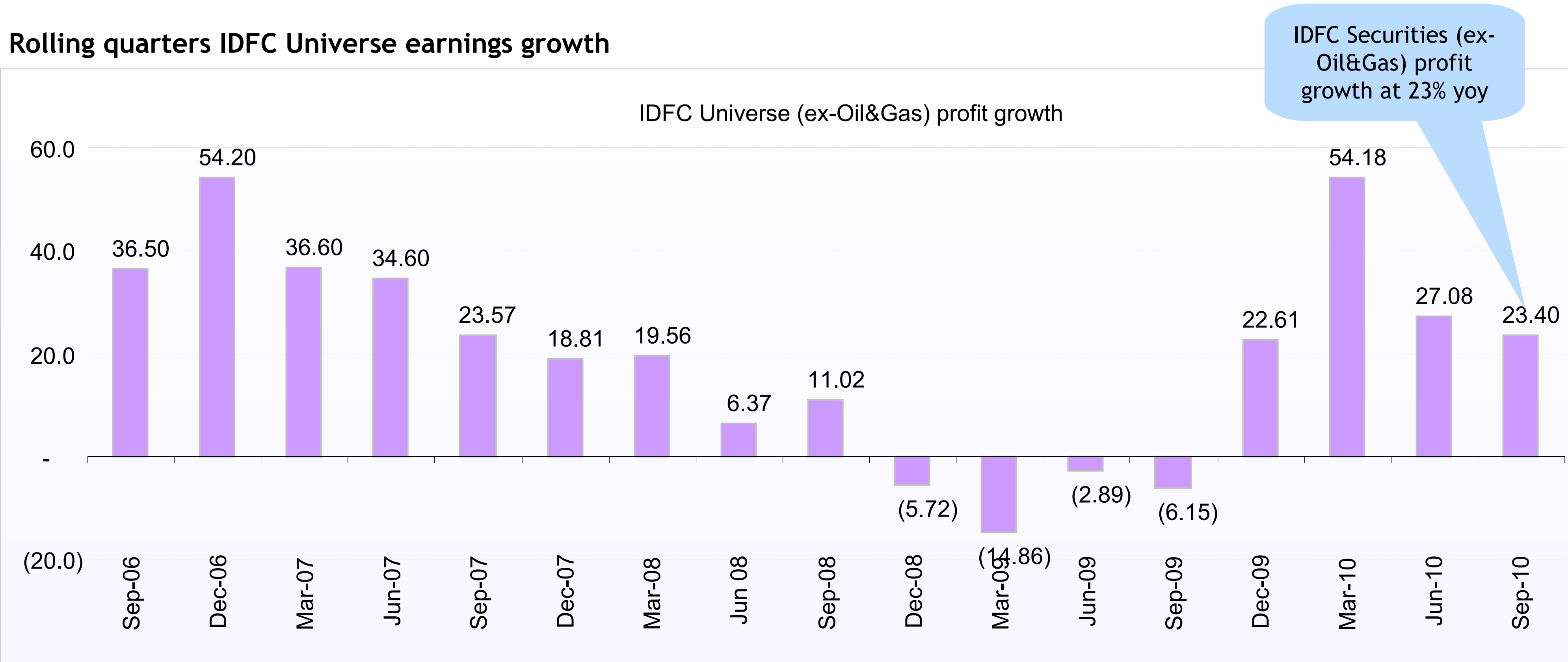
- ✓ After a seasonal decline in Q1FY11, we expect 9% qoq growth in Sensex earnings for Q2FY11 on a low base
- ✓ H2FY11 remains a key monitorable as base effect fades

Earnings growth for IDFC Universe

(Rs m)	Net Sales			EBITDA			Profit After Tax		
Sector	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Alcoholic Beverages	22,125	16,869	31.2	3,692	2,584	42.9	1,550	910	70.3
Auto Components	34,977	25,107	39.3	6,362	4,530	40.5	3,361	2,471	36.0
Automobiles	395,472	297,163	33.1	51,453	44,516	15.6	32,556	27,807	17.1
Cement	70,950	81,049	(12.5)	15,437	25,841	(40.3)	9,954	16,331	(39.0)
Construction	170,918	149,762	14.1	21,483	17,953	19.7	9,769	8,710	12.2
Consumer goods	145,350	124,856	16.4	32,800	29,495	11.2	23,477	20,055	17.1
Education	6,227	6,864	(9.3)	1,583	1,807	(12.4)	769	1,454	(47.1)
Engineering	59,779	51,708	15.6	7,282	7,293	(0.2)	4,918	4,277	15.0
Exchanges	900	856	5.1	470	481	(2.3)	451	2,182	(79.3)
Infra Developers	21,853	21,150	3.3	9,363	8,109	15.5	2,798	2,866	(2.4)
IT services	315,857	267,783	18.0	81,002	71,865	12.7	60,964	52,793	15.5
Logistics	17,324	15,894	9.0	3,542	3,420	3.6	2,574	2,579	(0.2)
Media	32,940	23,046	42.9	9,685	5,612	72.6	4,142	1,866	122.0
Metals	766,105	679,138	12.8	151,674	101,294	49.7	88,605	36,519	142.6
Others	106,650	91,603	16.4	11,708	7,165	63.4	3,475	(1,613)	NA
Pharmaceuticals	120,950	111,745	8.2	25,090	25,448	(1.4)	19,222	18,360	4.7
Pipes	50,046	45,476	10.0	8,581	7,948	8.0	4,822	4,044	19.2
Power Equipment	143,269	123,644	15.9	20,545	17,991	14.2	14,455	12,460	16.0
Power Utilities	245,740	205,915	19.3	53,839	44,260	21.6	30,775	29,359	4.8
Real Estate	36,925	26,274	40.5	17,056	13,949	22.3	9,873	8,106	21.8
Retail	42,956	30,452	41.1	3,800	3,101	22.5	1,565	1,302	20.2
Telecoms	243,732	190,550	27.9	78,096	71,301	9.5	21,560	34,855	(38.1)
Tyre	17,285	15,224	13.5	2,361	2,926	(19.3)	1,012	1,494	(32.3)
(Rs m)	NII			Pre-provisioning profit			Profit After Tax		
Financials	326,797	242,058	35.0	278,235	223,007	24.8	148,236	117,896	25.7
Commodities	1,575,829	1,380,583	14.1	350,818	287,649	22.0	187,508	142,267	31.8
Non-commodities	2,558,073	2,083,999	22.7	728,027	614,761	18.4	402,322	354,235	13.6
IDFC Securities	**4,133,902**	**3,464,582**	**19.3**	**1,078,845**	**902,411**	**19.6**	**589,830**	**496,502**	**18.8**

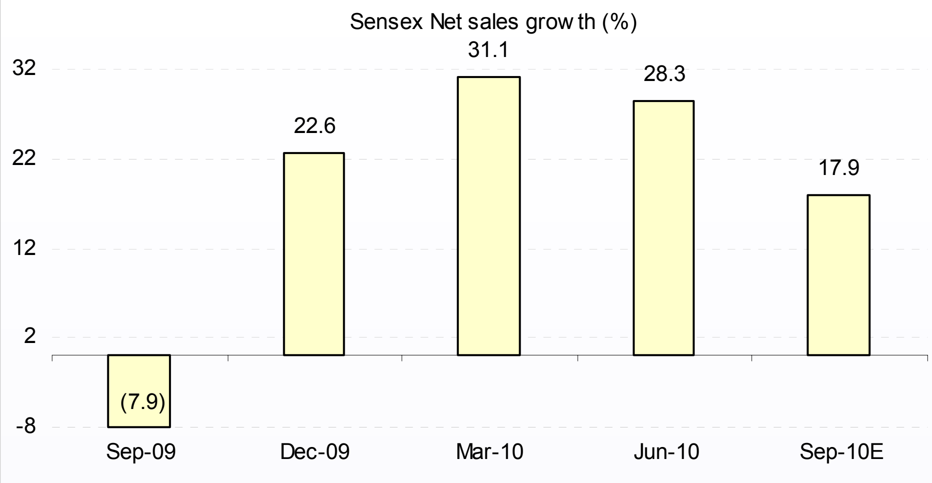
IDFC Universe (ex-Oil&Gas) earnings growth healthy

Rolling quarters IDFC Universe earnings growth



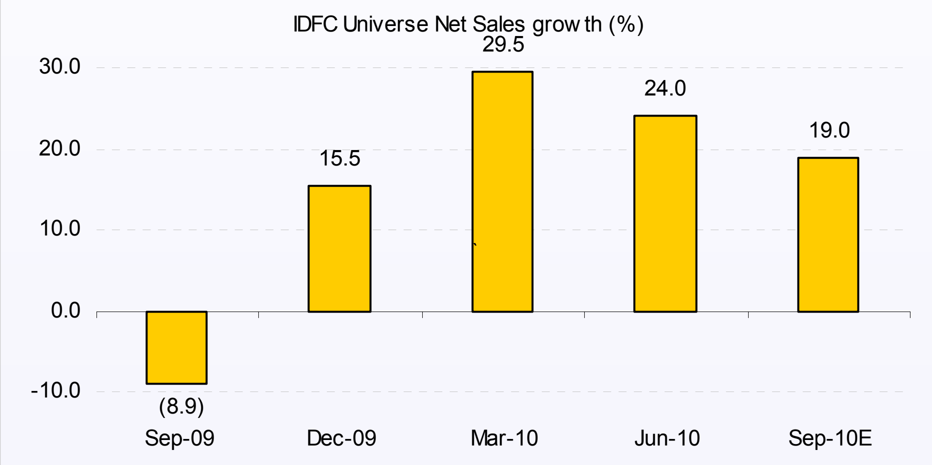
Metals buoy overall earnings (143% yoy); non-commodities profit growth at 14% yoy

Topline performance



Sensex revenue growth at ~18% yoy

- Strong growth in Automobiles (30%) ; telecom revenues to grow ~28% yoy
- Financials to see uptick in NII (24%)
- Petrochemicals to witness strong topline growth (26%)
- Cement (-14%) to witness decline in revenues



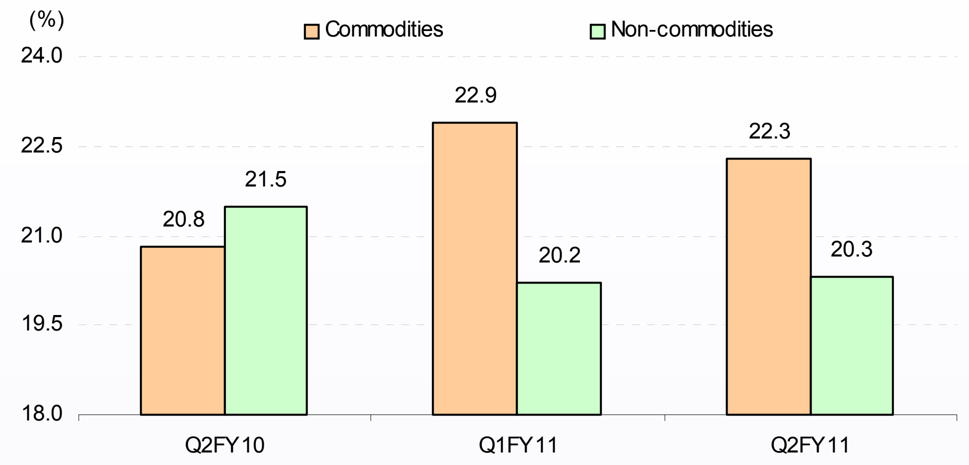
IDFC Universe (ex-Oil&Gas) revenues to grow by 19% yoy

- Strong revenue expansion likely for automobiles (33%) and auto components (39%)
- Financials to sustain strong NII momentum (35%)
- Construction (14%), Engineering (16%) and Power equipment (16%), to see healthy revenue growth
- Retail (41%) and Media (43%) return to growth

Topline growth slows due to base effect

EBITDA margins steady

IDFC Universe EBITDA margins



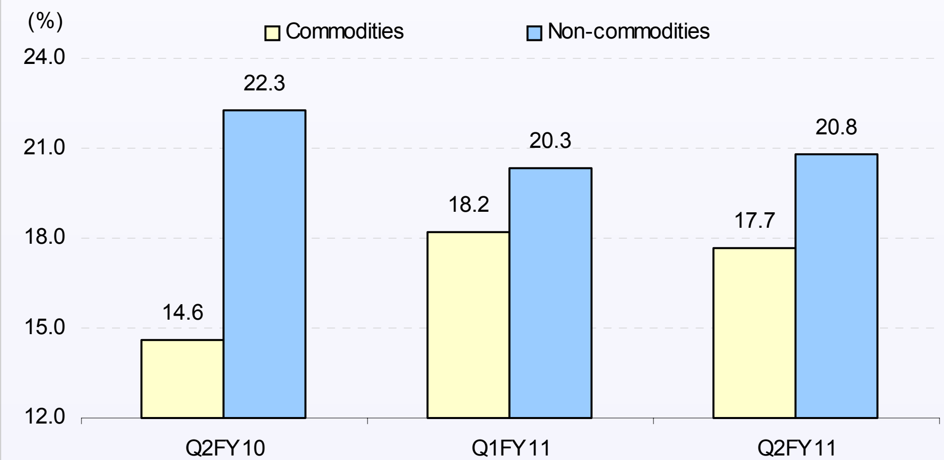
Non-commodities margins steady qoq

- Raw material price pressures visible in Automobiles, Auto components, Consumer Goods
- Lower realizations to impact Cement, Telecom
- EBITDA margins improve for Media companies

Sensex EBITDA margins

Sensex EBITDA margins relatively steady

- EBITDA margins for Commodities (except Cement) margins surge
- Automobiles, Cement EBITDA margins shrink
- IT Services margins likely to remain steady qoq



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IDFC Universe: Winners & Losers

Winners

- **Financials -** Healthy NII growth, asset quality concerns behind
- **Metals -** Strong yoy performance led by improved pricing environment, as well as higher volumes
- **Engineering -** Pick up in execution across companies as also low base effect. Lower interest costs and higher other income led by focus on working capital management and generation of free cashflows
- **Retail -** Retail sector sustains the growth momentum with most of the retailers expected to witness double digit same store sales growth

Losers

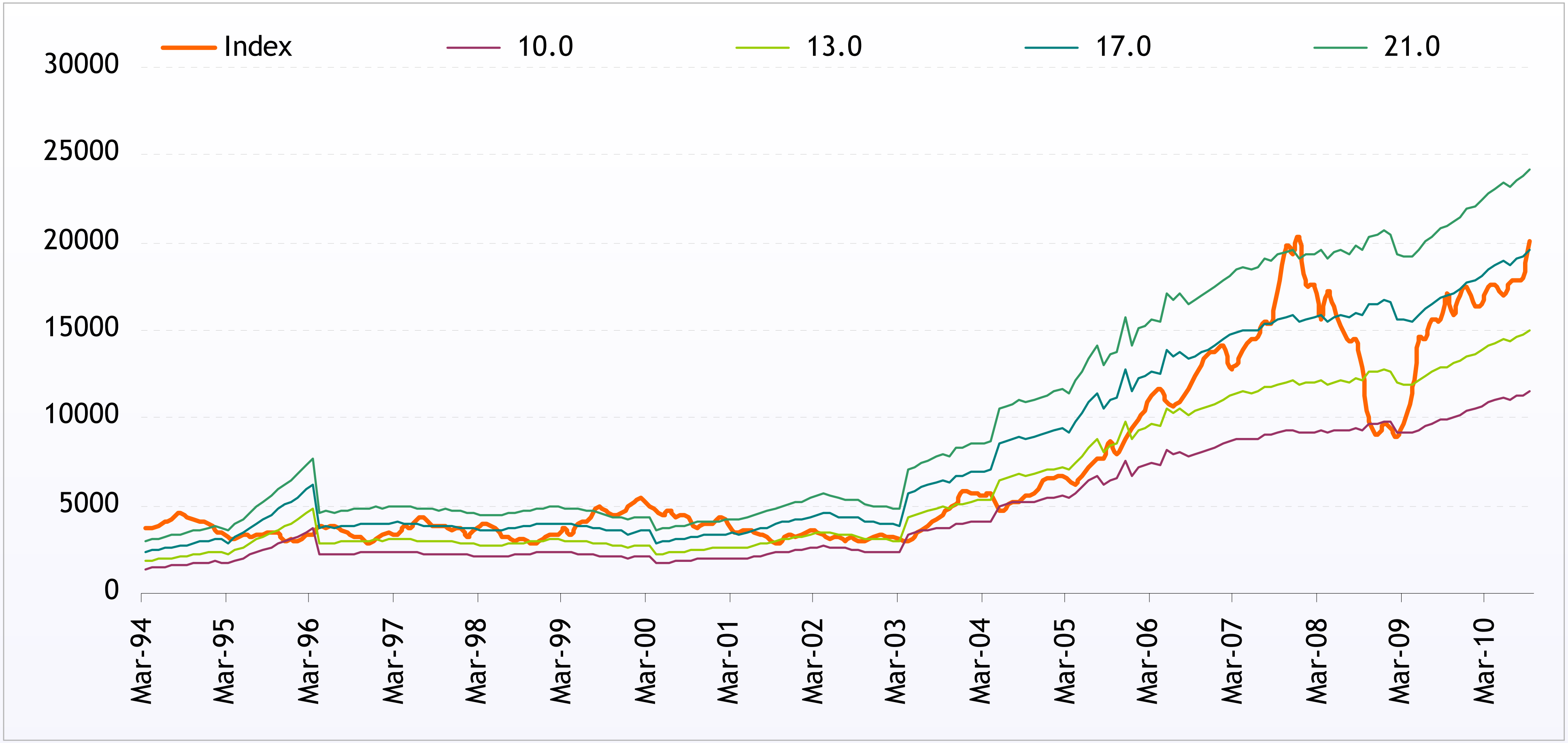
- **Cement -** Weak volumes as well as lower realizations drive down revenues, margins to deteriorate
- **Telecom -** Declining RPM and lower wireless margins to impact profitability

H2FY11 earnings critical for market performance

(%) yoy growth	Net Sales			EBITDA			PAT		
	H2FY11E	FY11E	FY12E	H2FY11E	FY11E	FY12E	H2FY11E	FY11E	FY12E
Automobiles	12.1	17.1	16.0	27.1	23.9	16.5	56.4	29.2	17.5
Cement	15.9	3.7	10.8	30.8	(6.5)	3.2	20.5	(12.5)	(1.2)
Construction	28.8	22.3	26.1	21.0	21.7	40.2	(14.6)	(8.9)	29.1
Consumer goods	14.2	13.8	13.5	18.0	14.1	15.8	10.0	12.8	15.9
Financials	14.1	19.0	19.3	17.1	16.5	18.7	31.4	26.5	24.8
IT Services	18.6	17.8	17.6	18.4	16.4	18.6	20.6	16.3	19.9
Metals	(11.3)	5.4	7.8	(5.2)	35.7	21.2	(16.6)	114.2	27.7
Oil & Gas	30.8	20.6	4.7	36.8	19.4	2.7	100.3	37.3	2.3
Petrochemicals	(10.5)	12.3	10.9	26.5	33.5	12.2	64.0	48.1	14.2
Pharmaceuticals	14.1	11.8	15.0	19.1	12.6	16.9	27.8	17.1	20.6
Power Equipment	24.4	22.2	21.4	28.1	30.3	20.0	34.3	33.7	20.0
Power Utilities	23.5	14.5	15.1	39.4	16.9	24.3	25.6	10.2	19.2
Real Estate	30.2	24.4	22.2	26.8	20.6	32.1	54.9	27.5	33.3
Telecoms	(8.6)	4.4	15.7	(9.3)	(4.7)	18.4	(5.4)	(21.7)	8.8
Sensex	**4.7**	**13.3**	**13.7**	**17.3**	**21.2**	**17.7**	**24.6**	**27.6**	**19.4**

Maintain FY12 Sensex EPS at Rs1,249 (19.4% yoy growth)

Valuations well below historic highs



Sensex trading at attractive valuations of ~16x FY12E (excluding non-consol subs)
Expect Sensex to reach 21,500 by Mar-11

Sector-wise earnings preview (Q2FY11)

Q2FY11 earnings preview

Agri-related

- **Jain Irrigation Systems (JISL)**
  - For Q2FY11, JISL is expected to garner a revenue growth of 14% overall, with MIS business growing at over 24%.
  - Further, agro processing is expected to register a 17-18% growth in the quarter, while pipes segment growth is expected to be subdued.
  - While mix is turning favourable with MIS business growing faster as also agro processing business picking up, we expect EBITDA margins of 22.6% during the quarter.
  - Further, rupee appreciation during the quarter is expected to result in MTM forex profits to the tune of Rs100-150m.
  - Reiterate Outperformer
- **Ruchi Soya Industries**
  - While traditionally being an off season for soya crushing, flow over of stock from previous period and improving parity is expected to keep crushing capacity utilization at 20%+.
  - We expect Ruchi Soya to garner a 15% growth in revenues and EBITDA margins of 3.2% (margins of 2.8% in Q1FY11).
  - We maintain our Neutral stance on the stock

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Jain Irrigation Systems	6,390	5,625	13.6	1,443	1,218	18.5	501	426	17.7
Ruchi Soya	36,695	31,909	15.0	1,174	1,088	7.9	551	483	14.1

Q2FY11 earnings preview

Agri-inputs

United Phosphorus

- ✓ UPHOS's revenues expected to grow by 10%yoy to Rs 12.7bn on a subdued base. Expect EBITDA margins to improve by 102bps yoy to 18% for the quarter as the benefit of lower priced raw material begins to come through

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
United Phosphorus	12,727	11,570	10.0	2,291	1,964	16.6	1,210	888	36.3

Q2FY11 earnings preview

Alcoholic Beverages

- ✓ We expect United Spirits to garner a strong growth of 35% in revenues, on the back of a 16%+ volume growth, change in accounting policy of tie-up units and Shaw Wallace
- ✓ Further, we expect USL to benefit from benign raw material prices yoy, albeit increase in overall costs due to change in accounting policy. We expect USL to garner EBITDA margins of 19.4% in Q2FY11 (17.4% in Q2FY10).
- ✓ We believe re-financing of dollar denominated debt by rupee debt would keep interest costs firm (~Rs1bn in Q2FY11 as against Rs751m in Q2FY10). Thus net profit growth of 71% is expected during the quarter.
- ✓ Radico Khaitan is expected to garner a revenue growth of 30% on the back of a 12%+ volume growth. Radico is expected to benefit from correction in molasses prices in this quarter (as against inventory hit of Rs40m in Q1FY11). Thus, we expect EBITDA margins of 16.0% during the quarter.
- ✓ Improved margins coupled with lower yoy interest costs is expected to result into a 96% growth in net profit to Rs190m in Q2FY11.
- ✓ United Breweries is expected to witness a 21% revenue growth during the quarter with underlying volume growth at ~15%.
- ✓ We expect margins to remain flattish in the quarter on the back of higher ASP spends and packaging material cost pressures. However lower interest costs yoy is expected to underpin a 44% growth in net profit growth for the quarter.
- ✓ We remain bullish on United Spirits, Radico and United Breweries.

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Radico Khaitan	2,432	1,871	30.0	388	319	21.7	191	97	96.2
United Breweries	4,988	4,123	21.0	452	369	22.4	167	117	44.1
United Spirits	14,705	10,876	35.2	2,852	1,896	50.5	1,191	696	71.1

Q2FY11 earnings preview

Automobiles

- ✓ Automobile companies under our coverage space are expected to post a robust 33%yoy topline growth led by sustained volume momentum across product segments
- ✓ For two wheeler companies under our coverage space, higher volumes and price hikes affected in the quarter are likely to boost earnings qoq
- ✓ In case of Maruti, impact of adverse currency (Euro / Yen) movement on margins is likely to be mitigated by higher volumes, increased prices as well as commissioning of gas based furnace at Manesar
- ✓ Commercial vehicle majors (Tata Motors, Ashok Leyland) are likely to post improved operational performance qoq led by higher volumes and prices hikes affected during the quarter; in case of Tata Motors, consolidated earnings likely to be boosted by robust all-round performance; expect JLR earnings to remain robust (we have factored in 14% margins for JLR and about Rs12bn PAT)
- ✓ Led by a robust topline growth and improved margins, we expect automobile companies within our coverage space to post 16%qoq (up 6%yoy) growth in earnings

Company	Key monitorables
Two wheeler majors	Margins likely to be boosted by improved volume offtake and price hikes
Maruti Suzuki	Impact of adverse currency (Euro / Yen) movement on margins is likely to be mitigated by higher volumes, increased prices as well as commissioning of gas based furnace at Manesar
Mahindra & Mahindra	Higher other income likely to boost earnings
Ashok Leyland / Tata Motors	Higher volumes and better realisations to boost margins qoq

Q2FY11 earnings preview

Automobiles

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Ashok Leyland	27,382	15,777	73.6	2,879	1,660	73.4	1,541	892	72.7
Bajaj Auto	40,399	27,932	44.6	8,786	6,365	38.0	6,420	4,028	59.4
Escorts	6,320	6,113	3.4	542	770	(29.7)	289	600	(51.8)
Hero Honda Motors	46,032	40,594	13.4	6,937	7,442	(6.8)	5,844	5,971	(2.1)
Mahindra & Mahindra	55,552	44,853	23.9	8,330	7,680	8.5	6,771	5,915	14.5
Maruti Suzuki	90,497	70,807	27.8	9,869	9,161	7.7	5,816	5,700	2.0
Tata Motors	113,750	79,788	42.6	13,119	10,657	23.1	5,347	7,399	(27.7)
TVS Motor Company	15,540	11,299	37.5	991	780	27.0	528	248	112.9

Q2FY11 earnings preview

Auto Ancillaries

- ✓ Strong OE volume growth and pick up in exports to drive topline growth
- ✓ We expect ancillary companies within our coverage space to post 30%yoy topline growth (up 8%qoq) in Q2FY11
- ✓ For Bharat Forge, ramp up of the non-auto business, sustained demand from domestic auto OEMs and improved export offtake likely to boost earnings qoq
- ✓ In case of Apollo Tyres, impact of rising rubber costs likely to be mitigated by price hikes as well as improved volume offtake (labor issues at Perambra resolved); earnings likely to improve 24%qoq (down 51%yoy) after a dull Q1
- ✓ Sona Koyo's earnings likely to be impacted by adverse currency fluctuations (Yen has appreciated against INR)
- ✓ Led by improved volume offtake from auto OEMs, ancillary companies within are coverage universe are likely to post 11%qoq PAT growth in Q2FY11

Company / Industry	Key monitorables
Bharat Forge	Robust domestic CV offtake and ramp up of non-auto business to boost earnings
Apollo Tyres	Strike at Perambra has been resolved, this coupled with the Chennai plant ramp up as well as price hikes would help mitigate rising rubber cost pressures
Sona Koyo	Adverse currency fluctuations likely to impact margins qoq

Q2FY11 earnings preview

Auto Ancillaries

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Bharat Forge	7,067	4,276	65.3	1,816	1,024	77.3	754	289	160.9
BOSCH	17,506	12,968	35.0	3,326	2,552	30.3	2,178	1,948	11.8
Rico Auto Industries	3,233	2,545	27.0	309	259	19.3	37	(12)	NM
Sona Koyo Steering Systems	2,787	2,004	39.1	287	195	47.2	96	37	155.8
Sundram Fasteners	4,384	3,314	32.3	625	500	25.1	296	209	41.6
Tyres									
Apollo Tyres	12,800	12,203	4.9	1,392	2,001	(30.4)	505	1,021	(50.5)
Balkrishna Industries	4,485	3,021	48.5	969	925	4.8	506	473	7.0

Cement

- ✓ Revenues of cement companies expected to decrease by 12.5% in Q1FY11, led by weak volumes as well as lower realizations
- ✓ EBITDA of our cement universe likely to fall by 40% yoy, led mainly by a 8-12% yoy drop in realisations
- ✓ Pre-exceptional earnings for cement companies under our coverage to also fall sharply by 39% yoy, mainly led by the deterioration in margins
- ✓ We reiterate our Underweight stance on the sector due to oversupply concerns in the domestic market
  - Certain large capacities have already been commissioned, while visibility on other large projects is high
- ✓ Retain Grasim as Outperformer on the back of the cushion to earnings from non-cement businesses

Key Sector monitorables
Industry capacity additions and price trends

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
ACC#	16,954	19,694	(13.9)	3,560	6,679	(46.7)	2,202	4,356	(49.5)
Ambuja Cement#	16,191	16,110	0.5	3,751	4,300	(12.8)	2,064	2,723	(24.2)
Grasim Industries*	9,302	29,838	(68.8)	2,728	10,162	(73.2)	2,569	6,743	(61.9)
UltraTech Cem **	28,504	15,408	85.0	5,398	4,700	14.8	3,119	2,509	24.3

** Excluding Samruddhi ; ** Including Samruddhi; #Q3CY10 estimates*

Q2FY11 earnings preview

Construction

- ✓ Construction companies to report revenue growth of 14% yoy for the quarter
  - Overall execution expected to be sluggish due to prolonged monsoon affecting availability of work sites
  - JPA's revenues to be driven by strong cement volume growth, as well as robust 30% yoy growth in construction revenues
  - Gammon expected to report 28%yoy growth due to strong focus on completion of legacy orders
  - HCC expected to report subdued growth due to weak execution of hydro power projects in J&K caused by law and order issues
- ✓ Operating margins expected to increase 59bps on yoy basis
  - Margins of construction companies expected to fall due to slower execution leading to delayed booking of revenues
  - Expect margins for L&T, which are expected to improve 153bps due to low base effect
- ✓ Interest costs are expected to rise sharply by 20.3% due to increased working capital needs
  - JPA's interest expenses to increase sharply on commissioning of new cement capacities
  - IVRCL also likely to report higher interest costs due to increase in working capital cycle
- ✓ Earnings (pre-exceptional) expected to grow by 12% on yoy basis during the quarter
- ✓ We maintain our overweight stance on the sector with our top picks being JPA, IVRCL, NCC, HCC

Q2FY11 earnings preview

Construction

Company	Key monitorables
Gammon India	Margins, OB growth
HCC	Order backlog growth and margins; execution of hydro power projects in J&K
IVRCL Infrastructures	Revenue growth and margins
Larsen & Toubro	Pvt Sector order execution, Margin improvement and order backlog growth
Madhucon Project	Revenue growth and margins
Nagarjuna Construction	Revenues and Order backlog growth; margins
Simplex Infrastructures	Order execution of private sector orders; Order backlog growth and margins

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Gammon India	12,082	9,439	28.0	1,047	931	12.5	288	354	(18.8)
HCC	8,436	7,811	8.0	993	1,074	(7.5)	41	217	(81.2)
IVRCL Infrastructures	12,381	12,138	2.0	1,203	1,105	8.9	392	488	(19.6)
Jaiprakash Associates	26,493	18,243	45.2	5,837	4,558	28.1	1,382	1,164	18.8
Larsen & Toubro	84,868	78,662	7.9	9,760	7,846	24.4	6,772	5,650	19.9
Madhucon Project	3,668	2,547	44.0	367	286	28.0	100	120	(16.4)
Nagarjuna Construction	11,524	10,670	8.0	1,129	1,089	3.7	460	439	4.7
Simplex Infrastructures	11,465	10,252	11.8	1,147	1,065	7.6	335	279	20.0

Q2FY11 earnings preview

Education

- ✓ Educomp Solutions
  - Q2 is a seasonally weak quarter for Smart Class addition. We expect Educomp to add 3500-4000 Smart Classrooms at an average rate of Rs0.39m.
  - Educomp is expected to report a PAT decline of 60% at Rs457m. However reported numbers are not comparable on a yoy basis as the Q2FY10 numbers include a one time gain of ~Rs650m from the stake sale in its vocational training subsidiary to Pearson.
- ✓ Everonn Education is expected to report a consolidated revenue growth of 15% at Rs842m, EBITDA growth of 8.7% at Rs286m and a flattish PAT growth at Rs118m.
- ✓ NIIT is expected to report a 8% decline in revenues at Rs3.3bn, EBITDA growth of 7% at Rs530m and a PAT (without associate) growth of 7% at Rs193m. While the ILS business (IT + new businesses) is expected to report a robust12% revenue growth, the SLS business is expected to report a 54% decline as Q2FY10 included an outright buy order from Gujarat worth Rs850m.

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Educomp Solution	2,060	2,535	(18.7)	765	1,048	(26.9)	457	1,155	(60.4)
Everonn Systems	842	731	15.2	286	263	8.7	118	118	0.1
NIIT Ltd	3,324	3,598	(7.6)	530	496	6.9	194	181	6.9

Q2FY11 earnings preview

Engineering

- ✓ Engineering companies likely to report 16% yoy growth led by pick up in execution across companies as also low base effect, which had been impacted sharply due to the slowdown
  - Thermax to witness sharp growth of 45% yoy led by pick up in execution and low base effect (2QFY10 revenues had fallen by 15%)
  - AIA to witness 24% revenue growth led by pick up in mining volumes
- ✓ Operating margins to fall led by high base effect
  - Havells margins to improve on back of higher margins in International subsidiary
- ✓ Companies are likely to report lower interest costs and higher other income led by focus on working capital management and generation of free cashflows
- ✓ We expect order backlogs across companies to expand led by pick up in capex cycle
- ✓ Net earnings (pre-exceptionals) for companies to grow by 15% yoy

Company	Key monitorables
AIAE	Mining volumes, realisations & margins
Bharat Electronics, Elecon Engg, Thermax	Order inflow, execution and margins
Carborundum Universal	Abrasive revenues and margins
Havells India	Margins of both domestic and international business
Voltas	Order inflow of international orders

Q2FY11 earnings preview

Engineering

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
AIAE	2,699	2,183	23.6	607	516	17.8	451	420	7.4
Bharat Electronics	14,680	12,991	13.0	2,349	3,201	(26.6)	1,878	2,374	(20.9)
Carborundum Universal	3,758	3,250	15.7	620	586	5.8	289	265	9.1
Elecon Engineering	2,822	2,551	10.6	409	357	14.7	140	108	30.2
Havell India	13,300	13,000	2.3	1,037	650	59.6	474	(333)	NA
Thermax India	9,865	6,804	45.0	1,184	792	49.4	807	541	49.1
Voltas	12,654	10,930	15.8	1,076	1,192	(9.8)	879	904	(2.8)

Q2FY11 earnings preview

Entertainment & Media

- ✓ Strong macro-economic environment and thereby buoyancy in ad spends (albeit a strengthening base) is expected to drive a 22% revenue growth for the Indian media sector. Telecom, FMCG and auto continue to remain the key spenders in Media.
- ✓ Operating leverage coming into play – **EBITDA growth of 57.8%**
- ✓ **Broadcasting:** Growth in revenues expected at 38% and EBITDA growth of 67% during the quarter. ZEEL is expected to garner a 34% revenue growth on the back of strong revival in ad spends and additions of Regional GECs of Zee News
- ✓ **Distribution:** We initiated coverage on the TV distribution space with a bullish stance on the three key players – DEN, Hathway Cables and Dish TV. By 2015, we expect India to reach 48m DTH homes (21m currently) and 38m digital cable homes (3.5m currently).
- ✓ During the quarter, Dish TV is expected to add 0.6m subscribers. Further, we expect the MSOs – DEN and Hathway – to garner a near 24% qoq growth in EBITDA in Q2FY11.
- ✓ Regulatory triggers: In a major positive development for the Indian TV distribution space, the TRAI announced key recommendations in Aug 2010 for the sector including a sunset date of 31st December 2013 for complete migration from analogue to digital cable services. We believe these recommendations by TRAI could potentially underpin faster growth in the overall industry. However, implementation of these recommendations require approval of the I&B ministry, the timeline for which remains uncertain.
- ✓ **Print**: Print players such as HT Media and Jagran are expected to garner a near 16% revenue growth and 18% growth in operational profits. Newsprint have seen an increase during the quarter.
- ✓ During the quarter, Network18 Group announced the restructuring of its group with IBN18 (New TV18) to own all the broadcast properties and Network18 to be the holding company for New TV18, besides having all the non broadcast businesses of the group. This process of restructuring would largely put to rest the concerns pertaining to the complicated ownership structure of the group and bring in transparency.

Q2FY11 earnings preview

Entertainment & Media

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Balaji Telefilms	313	406	(22.8)	(35)	(20)	77.9	(40)	10	-
Dish TV India	3,268	2,573	27.0	341	229	49.2	(719)	(561)	28.0
DEN Networks	2,558	-	-	363	-	-	116	-	-
Entertainment Network	715	984	(27.4)	141	(8)	-	49	(138)	-
HT Media	4,066	3,481	16.8	803	657	22.3	411	315	30.6
Hathway Cables	2,100	-	-	480	-	-	95*	-	-
IBN18 Broadcast	1,925	1,361	41.4	72	(379)	-	(94)	(824)	-
Jagran Prakashan	2,801	2,468	13.5	957	832	15.0	581	503	15.6
PVR	1,233	900	37.0	210	158	33.3	74	64	14.6
Sun TV Network	4,611	3,204	43.9	3,806	2,436	56.3	1,930	1,306	47.8
UTV Software	2,150	2,377	(9.5)	485	201	141.6	425	83	411.5
Zee Entertainment	7,249	5,405	34.1	2,076	1,507	37.7	1,413	1,109	27.4

PBT pre-minority

Q2FY11 earnings preview

Exchanges

Financial Technologies (FTIL)

- ✓ FTIL's quarterly financials are not strictly comparable as the business model has lumpiness due to booking of Exchange solutions during different quarters of the year
- ✓ In Q2FY11, we expect FTIL to garner a strong income stream from exchange solutions with SMX going live. Hence, we expect FTIL to garner revenues of Rs900m in the quarter.
- ✓ Similarly, as Exchange solutions entail higher margins, EBITDA margins are expected to come at 52.2% as against 39.1% in Q1FY11.
- ✓ Importantly, in Q2FY10 FTIL garnered Rs2.4bn as one-time capital gains on the back of divestment of stake in MCX-SX. Thus on a yoy basis reported net profits would be lower.
- ✓ In a recent development, SEBI has rejected MCX-SX's application for starting trading in new products such as equities, interest rate and debt. The rejection is based on two principal grounds – a) FTIL and MCX are persons acting in concert and hence should be considered as a single promoter. This implies that the FT Group (MCX + FTIL) cannot own more than 5% in aggregate. B) Concentration of ownership in the form of warrants is not right in 'spirit'. Further, SEBI has alleged that the divestment of 30% equity to banks and other financial institutions include transactions where FTIL has entered into buyback agreements, which is illegal. The SEBI order is a clear setback for MCX-SX, which we believe was the big near term value creator for FTIL. FTIL would most likely challenge SEBI's order, either at the SAT or the High Court. Fate of MCX-SX remains uncertain and our sense is that FTIL stock will remain under pressure until clarity on the issue.
- ✓ **Rating under review.**

(Rs m)	Net Sales			EBITDA			Adjusted Profit after tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Financial Technologies	900	856	5.1	470	481	(2.3)	451	2,182*	(79.3)

**Includes project divestment income of Rs2.4bn*

Q2FY11 earnings preview

FMCG

- ✓ FMCG Sector expected to witness 16.4% growth in Q1FY11, higher than the 14.8% growth last quarter.
- ✓ While the growth is expected to be driven by a 67% in GCPL (including the impact of the closure of the latest acquisitions), HUL is expected to grow by ~9% on a lower base.
- ✓ With commodity prices firming up on a sequential basis, expect lower expansion in gross margin as against FY10. FMCG sector is expected to continue to re-direct the savings towards higher ASP spends.
- ✓ ITC – During the quarter, we expect cigarettes portfolio to report a 12% growth, impacted by volume decline of ~3-4%. However on a full year basis, we remain confident of a flattish growth (with an upward bias).
- ✓ GCPL – We expect the domestic business to remain under pressure over the next few quarters. Over the last 18 months, GCPL has acquired business with cumulative revenues of ~$370m – Godrej Sara Lee (USD200m insecticide business in India), Megasari (USD120m revenue insecticide business in Indonesia), Tura (USD25m revenue personal care business in Nigeria) and The Issue Group and Argencos (USD45m revenue hair care business in Argencos).

Q2FY11 earnings preview

FMCG

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Colgate-Palmolive	5,506	4,873	13.0	1,060	950	11.5	955	897	6.4
Dabur India	10,077	8,540	18.0	2,039	1,814	12.4	1,566	1,392	12.5
Godrej Consumer	9,649	5,765	67.4	1,756	1,129	55.6	1,289	930	38.6
Hindustan Unilever*	46,086	42,281	9.0	5,807	6,108	(4.9)	4,970	4,285	16.0
ITC	50,840	43,453	17.0	18,072	15,901	13.7	11,896	10,099	17.8
Marico Industries	7,891	6,922	14.0	1,007	950	6.0	732	624	17.2
Nestle India	15,301	13,022	17.5	3,060	2,642	15.8	2,069	1,828	13.2

** Q2FY10 PAT includes a one time loss of Rs1.35bn due to restructuring*

Q2FY11 earnings preview

Financials

- ✓ **Sluggish credit growth:** Bank credit off-take remains muted with an increase of 19.4% yoy (per RBI data dated 10th Sep 2010). Notably, outstanding credit as at the date was lower than the levels of Q1FY11
- ✓ **Healthy net interest income growth…:** NII for our banking universe is expected to increase by ~36% yoy and 5% qoq, benefiting from uptick in margins. While PSU banks' NII is seen increasing at 41% yoy on a low base, private banks (ex-ICICI Bank) and NBFCs are also likely to see a strong 35% and 32% yoy rise, respectively
- ✓ **…aided by continues uptick in NIMs:** Owing to PLR increases affected in Q1FY11, and lagged rise in funding costs, we expect NIMs of our coverage universe to see a ~10-20bp rise sequentially and 35-40bp yoy
- ✓ **Some improvement in CASA:** CASA ratio is expected to witness an uptrend owing to increased focus by banks as well as low systemic deposit rates
- ✓ **Other income to be muted on a high base:** Overall non-interest income to decline by 6% on yoy basis, owing to lower treasury gains
  - While bond gains are likely to be moderate, buoyant markets are likely to aid equity gains. Also, limited MTM depreciation expected for the quarter.
  - Fee income to remain subdued owing to sluggish credit off-take and limited pricing power
- ✓ **Asset quality deterioration to stabilise: Divergent trends for PSU and private banks:**
  - Select PSU banks likely to see elevated slippages from agricultural as also restructured book. Credit costs to remain similar to Q1 levels
  - For private banks we believe that pace of NPA accretion will decelerate
- ✓ Provisions are expected to start trending down, though the decline will be marginal by 7% qoq. Private banks are expected to see ~30% yoy decline in loan loss provisions led by easing asset quality concerns. Relatively, PSU banks can face some pressure though we believe it to be only a short term issue as net impaired loans have peaked in the system.

Q2FY11 earnings preview

Financials

(Rs m)	NII			Operating profit			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Allahabad Bank	8,951	6,033	48.4	7,447	6,498	14.6	3,671	3,336	10.0
Axis Bank	15,888	11,497	38.2	14,282	13,058	9.4	7,124	5,316	34.0
Bank of Baroda	19,525	13,886	40.6	15,465	10,316	49.9	8,977	6,342	41.5
Bajaj Auto Finance	2,431	1,735	40.1	1,413	910	55.2	577	217	165.8
Bank of India	18,022	14,089	27.9	14,177	12,060	17.6	6,978	3,233	115.8
Canara Bank	17,701	13,137	34.7	13,933	14,191	(1.8)	8,160	9,105	(10.4)
Corporation Bank	7,174	5,036	42.5	6,270	5,357	17.1	3,529	2,917	21.0
Dhanlaxmi Bank	579	272	112.7	182	111	64.3	89	63	42.4
HDFC	10,289	7,844	31.2	11,176	9,269	20.6	7,946	6,639	19.7
HDFC Bank	24,951	19,558	27.6	18,779	15,930	17.9	8,999	6,875	30.9
ICICI Bank	20,085	20,361	(1.4)	22,418	24,353	(7.9)	11,860	10,401	14.0
Indian Bank	9,722	7,591	28.1	8,485	5,539	53.2	3,730	3,720	0.3
Indusind Bank	3,131	2,086	50.1	2,443	1,553	57.3	1,382	778	77.6
ING Vysya Bank Ltd	2,400	1,914	25.4	1,465	1,436	2.0	750	535	40.3
LIC Housing Finance	3,170	1,868	69.7	3,172	1,860	70.6	2,286	1,712	33.5
MMFS	2,869	2,325	23.4	1,953	1,630	19.8	973	692	40.6
OBC	10,533	5,610	87.8	8,171	5,050	61.8	3,881	2,709	43.3
PFC	9,142	7,200	27.0	9,192	7,769	18.3	6,940	5,447	27.4
PNB	27,779	20,949	32.6	22,636	16,063	40.9	11,597	9,270	25.1
REC	7,988	5,911	35.1	8,329	6,466	28.8	6,164	4,944	24.7
Shri Ram Transport	7,567	5,296	42.9	5,904	4,185	41.1	3,071	2,075	48.0
Shriram City Union Finance	1,725	1,541	11.9	1,101	1,036	6.3	550	502	9.6
State Bank of India	78,317	56,088	39.6	65,783	48,350	36.1	31,155	24,900	25.1
Union Bank of India	14,070	8,634	63.0	11,326	8,101	39.8	6,150	5,051	21.8
Yes Bank	2,787	1,600	74.2	2,733	1,918	42.5	1,698	1,117	52.0

Q2FY11 earnings preview

Financials

Company	Key monitorables
Allahabad Bank	Treasury gains, NPA provisions
Axis Bank (Ex-UTI Bank)	Fee income growth, NPA provisions
Bajaj Auto Finance	Disbursements, NIMs, provisions
Bank of Baroda	Credit growth, fee income
Bank of India	Slippages, loan growth, NIMs, CASA
Canara Bank	NIMs, treasury gains
Corporation Bank	Loan growth, NIMs, CASA
Dhanlaxmi Bank	Loan growth, NIMs, credit costs
HDFC	Disbursements, spreads, NPA levels
HDFC Bank	Asset growth, NIMs, CASA, fee income growth, NPA provisions
ICICI Bank	NIMs, NPA slippages, CASA
IDBI	Loan growth, margins, slippages, provisions
Indian Bank	Business growth, NPA provisions, restructured assets
IndusInd Bank	Margins, fee income, provisions to shore up coverage ratio
ING Vysya Bank	Loan growth, NIMs, fee income, provisions
M&M Finance	Recoveries, provision expenses, disbursement growth
LIC Housing Finance	Disbursements, margins
Power Finance Corporation	Disbursements, margins
Punjab National Bank	NPA provisions
Rural Electrification Corp	Disbursements, margins
Shriram City Union Finance	Disbursements, expenses, asset quality, loan mix
Shriram Transport	Disbursements, NPA levels, margins
State Bank of India	NIMs, credit off-take, treasury gains, slippages, NPA provisions to shore up coverage ratio
Union Bank of India	Margins, asset growth, net treasury income, asset quality
Yes Bank	Credit growth, CASA levels, margins, fee income

Q2FY11 earnings preview

India Organized Retail

- ✓ Retail sector sustains the growth momentum with most of the retailers expected to witness double digit same store sales growth
- ✓ We are estimating the core retail financials for Pantaloon Retail (value + lifestyle + retail), hence not comparable yoy.
- ✓ While value retail expected to witness low double digit same store growth, lifestyle retail to witness growth in high teens and home solutions upward of 30%
- ✓ PRIL has during the quarter demerged Future Mall Management – the property development, leasing and mall management arm
- ✓ Titan has added ~50 stores during the first half across formats. Growth momentum to remain strong across segments – watches growth expected at 20% and Jewelry at 40%+
- ✓ Gold prices at all time high has not impacted the offtake at Tanishq
- ✓ Provogue has opened ~18 stores in H1FY11 and expected to add 15-20 more in October
- ✓ Prozone's (Provogue's 75% subsidiary) to commence operations at its first mall in Aurangabad in next few days – anchor tenants include Star India Bazaar, Shoppers Stop, Pantaloons, Westside, Sathyam Cineplex, Croma, etc
- ✓ Reiterate Outperformer call on the sector – Pantaloon Retail and Provogue are our top picks

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Pantaloon Retail	25,767	17,770	45.0	2,190	1,901	15.2	489	438	11.6
Provogue India	1,456	1,214	20.0	163	119	37.1	92	88	4.2
Titan Industries	15,733	11,468	37.2	1,447	1,081	33.8	984	776	26.8

**Pantaloon financials for Q4FY10*

Q2FY11 earnings preview

Infrastructure developers

- ✓ Infrastructure developers likely to report marginal 3% yoy rise in revenues
  - A 25.5% yoy growth in cargo handled likely to drive a 42.7% yoy jump in revenues of MPSEZ
  - GVK likely to report marginal 1% yoy growth in revenues, as power plants have reached stable generation stage
  - GMR to see a yoy fall in revenues due to lower power revenues – limited generation from the recently commissioned barge-mounted plant and lower volumes from Chennai plant
- ✓ EBITDA likely to increase by 15%, led by strong profitability of MPSEZ and Gammon Infra's Mumbai Nashik Expressway
- ✓ Earnings growth (pre-exceptional) likely to remain flat yoy during the quarter due to higher depreciation and interest costs for GMR, following commissioning of the Delhi airport

Company	Key monitorables
GMR Infrastructure	Pax growth at Delhi and Hyderabad airport
GVK Power	Pax growth at Mumbai airport
Mundra Port & Special Economic Zone	Cargo volumes
Gammon Infrastructure	Mumbai – Nasik toll collection

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Gammon Infrastructure	915	886	3.3	531	339	56.5	40	76	(47.0)
GMR Infrastructure	11,291	12,067	(6.4)	4,185	3,925	6.6	19	622	(97.0)
GVK Power	4,974	4,923	1.0	1,352	1,508	(10.4)	350	442	(20.8)
MPSEZ	4,672	3,274	43.0	3,296	2,337	41.0	2,389	1,726	38.0

Q2FY11 earnings preview

IT Services

- ✓ USD revenue growth: Tier-1 companies 7-8% qoq; Mid-tier companies: 4-8% qoq
- ✓ Revenue growth to be largely volume driven; Like-on-like pricing is expected to be flat with ~1% cross currency tailwinds
- ✓ Margins likely to be flattish with positive bias except for HCL Tech, Mphasis, TechM and Hexaware (wage related headwinds)
- ✓ Key margin tailwinds from INR weakness, cross-currency tailwinds and lower per capita costs (post fresher hiring)
- ✓ Expect management commentaries to be positive without concrete comments about FY12
- ✓ We maintain our overweight stance on the sector with our top picks being Infosys, TCS in Tier-1 and KPIT Cummins and MindTree amongst mid-caps

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
HCL Technologies	36,903	30,314	21.7	6,372	6,888	(7.5)	3,367	3,014	11.7
Hexaware	2,761	2,632	4.9	210	623	(66.3)	120	414	(70.9)
Infosys Technologies	68,277	55,850	22.3	22,793	19,330	17.9	17,420	15,400	13.1
KPIT Cummins	2,226	1,769	25.8	405	468	(13.3)	226	211	7.1
MindTree	3,760	3,150	19.4	496	659	(24.8)	304	499	(39.1)
Mphasis	13,401	11,322	18.4	3,130	2,931	6.8	2,541	2,449	3.7
Patni Computer	8,333	8,040	3.6	1,615	1,664	(2.9)	1,301	1,169	11.3
Tata Consultancy	89,921	74,351	20.9	26,452	21,342	23.9	21,002	16,239	29.3
Tech Mahindra	12,316	11,418	7.9	2,381	2,925	(18.6)	1,579	1,690	(6.6)
Wipro	77,961	68,937	13.1	17,147	15,035	14.0	13,103	11,707	11.9

Q2FY11 earnings preview

Leisure and Hospitality

Mahindra Holidays (MHRIL)

- ✓ We expect MHRIL to add 4,800 members in Q2FY11 as against 5,981 members in Q2FY10. The lower member addition is attributable to the strategic changes undertaken by MHRIL with respect to member acquisitions, in Q1FY11.
- ✓ Thus, we expect revenues for MHRIL to decline 7% yoy in Q2FY11.
- ✓ With MHRIL's business model exhibiting strong operating leverage, the lower member addition is expected to impact opertional profits. We expect MHRIL to garner an EBITDA of Rs208m in Q2FY11 (Rs374m in Q2FY10).
- ✓ MHRIL has launched its new campaigning product called Terra. The product is targeted at the youth segment and built as a low cost model. Further, MHRIL is now looking to scale the Zest segment in the Western and Northern parts of the country.
- ✓ We maintain our long term bullish stance on MHRIL, with pick up in member additions being the key monitorable in the near term.

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Mahindra Holiday	1,053	1,127	(6.5)	208	374	(44.3)	184	281	(34.5)

Q2FY11 earnings preview

Logistics

- ✓ Logistics companies to report revenue growth of 9% yoy for the quarter
  - Volumes across all companies are likely to increase on yoy basis driven by improvement of international trade and low base effect
  - However qoq volumes likely to witness decline due to JNPT port being shut for few days in August (ship collusion)
  - Concor's revenues to be impacted due to lower realizations in the quarter
- ✓ Operating margins to be impacted during the quarter
  - Low base effect of lower margins to drive strong margin expansion for GDL
  - Allcargo margins to be impacted due to lower margins in CFS operations and MTO segment
- ✓ Higher depreciation and lower other income is likely to drive slower earnings growth in the quarter
- ✓ We maintain our Outperformer rating on GDL

Company	Key monitorables
Container Corporation	Volume growth & Margins
Gateway Distriparks	Volumes and rail business profitability
Allcargo global	Margins of ECU line

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Allcargo #	6,721	4,979	35.0	726	581	25.0	418	364	14.9
Container Corporation	9,274	9,599	(3.4)	2,485	2,534	(1.9)	1,989	2,044	(2.7)
Gateway Distriparks	1,329	1,327	0.0	330	232	42.4	167	172	(3.0)

 # Q3CY10E

Q2FY11 earnings preview

Metals

- ✓ A sequential rise in volumes and improving product mix to offset the decline in realizations for steel companies. We expect a ~Rs3,000 qoq decline in realizations for most of the steel companies in our coverage
- ✓ Cost pressures in terms of raw materials to negatively impact EBITDA/tonne for steel companies
- ✓ Higher volume growth and stable metal prices to result in a sequential rise in revenues for most non ferrous companies. However a rise in fuel cost and other expenditure to partially affect operating margins
- ✓ Iron ore volumes for SesaGoa is expected to be weak (est 1.8mt) on account of monsoons and Karnataka govt. ban. Negative impact of ~15%qoq decline in average spot prices for 58% grade iron ore fines should partially be offset by US$8 decline in ocean freight rates for India-China.

Company	Key monitorables
Hindalco	Product mix in Aluminum business, TC-RC margins in copper business
Hindustan Zinc	Base metal premium, by-product realization, Concentrate sales
Jindal Steel & Power (Consol)	PLF at merchant power operations, metallic sales and sales volume growth in standalone business,
JSW Steel (Consol.)	Improvement in product mix; Higher realizations; Inventory draw down
Bhushan Steel	Upside in volumes; Higher realizations
Monnet Ispat	Capacity utilisation for the steel unit
Nalco	Shortage of linkage coal to alleviate power & fuel exps, volume growth, alumina sales
Sterlite Industries	Base metal premium, TC-RC margins in copper business, profitability in aluminum business
Tata Steel	Volume growth in domestic operations, cost savings at european operations
SAIL	Employee costs, impact of coking coal contracts; Improvement in product mix
SesaGoa	Iron ore volumes and blended realisations

Q2FY11 earnings preview

Metals

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Hindalco Industries	58,193	49,171	18.3	9,972	6,091	63.7	4,562	4,272	6.8
Hindalco Industries (consol)	186,202	155,037	20.1	23,747	23,615	0.6	10,464	12,906	(18.9)
Hindustan Zinc	24,576	18,183	35.2	14,617	10,755	35.9	12,417	9,350	32.8
Jindal Steel & Power	30,794	15,982	92.7	12,206	5,514	121.4	7,674	3,050	151.6
Jindal Steel & Power (consol)	40,850	24,453	67.1	21,055	13,056	61.3	13,697	8,084	69.4
JSW Steel	61,704	43,091	43.2	12,745	9,151	39.3	4,735	3,708	27.7
JSW Steel (consol)	63,754	47,565	34.0	13,099	10,753	21.8	4,060	3,124	30.0
Monnet Ispat	4,047	3,140	28.9	1,003	965	3.9	560	642	(12.8)
National Aluminium Company	15,288	11,430	33.8	5,017	1,056	375.1	3,586	1,594	125.0
SAIL	107,971	100,391	7.6	21,577	23,884	(9.7)	13,695	16,635	(17.7)
Sesa Goa	8,884	5,387	64.9	3,066	1,527	100.8	3,498	1,665	110.1
Sterlite Industries (India)	58,138	60,854	(4.5)	18,585	13,217	40.6	12,404	9,588	29.4
Tata Steel	69,450	56,921	22.0	26,197	19,222	36.3	19,211	9,029	112.8
Tata Steel (consol)	256,395	252,698	1.5	29,908	2,466	NA	14,224	(27,069)	NA

Q2FY11 earnings preview

Pharmaceuticals

- ✓ **Cipla -** Expect sales to grow by 11%yoy with recovery in domestic sales as well as formulations exports.
- ✓ **Ranbaxy -** We expect Ranbaxy to post modest 3%yoy revenue growth with no exclusivity sales for the quarter. Expect Ranbaxy to post EBITDA margins of 7% for the quarter
- ✓ **DRL -** Despite expected sales contribution from Omeprazole, Lotrel & Tacrolimus; we expect sales to post modest 1%yoy growth on back of high base effect.
- ✓ **Lupin -** Expect strong performance due to steady growth across all geographies particularly aided by contribution from Antara and Lotrel in US market
- ✓ **Sun -** Despite expected boost sales contribution from Effexor XR tablets and Exelon despite the high base of last year; we expect Sun to report modest 7% revenue growth. Expect net profits to decline by 15%yoy for the quarter.
- ✓ **Glenmark -** US revenues are key monitorable with Tarka expected to boost sales. LatAm/SRMs sales to be watched for.
- ✓ **Ipca -** Expect strong operating performance in Q2FY11 led by strong topline growth and steady operating margins with expected pick-up in anti-malarial sales.
- ✓ **Piramal -** Expect domestic growth and CRAMS to remain sluggish and continued momentum in Critical Care business
- ✓ **Dishman -** Expect sales to grow by 11%yoy on back of expected improvement in Eprosartan Mesylate sales.
- ✓ **Torrent -** Expect revenues to grow by 12%yoy on back of strong domestic and export formulation sales. Expect net profits to grow by 4%yoy for the quarter due to lower other operating income.

Q2FY11 earnings preview

Pharmaceuticals

Company	Key monitorables
Aventis Pharma	Pick-up in sales; EBITDA Margins
Biocon	Margins; CR revenues; outlook on Insulin
Cipla	Revenue growth especially after subdued growth seen over last two quarter
Dishman Pharmaceuticals	Eprosartan Mesylate sales
Dr Reddys Laboratories	Sales from Lotrel, Tacrolimus and Omeprazole; German sales
Glaxosmithkline Pharma	Revenue growth; new product launches
Glenmark Pharma	US base business revenues and contribution from Tarka sales
IPCA Laboratories	Operating profit growth
Lupin	US business momentum; Regulated market sales
Piramal Healthcare	Minrad sales and Domestic market momentum; CRAMS business outlook
Ranbaxy Laboratories	US business outlook
SUN Pharma	Update on Caraco, Effexor XR and Exelon sales
Torrent Pharma	Domestic and export formulation sales

Q2FY11 earnings preview

Pharmaceuticals

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Aventis Pharma *	2,878	2,499	15.1	675	698	(3.3)	424	471	(10.0)
Biocon	6,763	5,810	16.4	1,353	1,141	18.5	814	742	9.7
Cipla	15,172	13,712	10.7	3,338	3,016	10.7	2,955	2,757	7.2
Dishman Pharmaceuticals	2,414	2,174	11.0	556	498	11.7	234	249	(6.0)
Dr Reddys Laboratories	18,560	18,368	1.0	3,680	2,749	33.9	2,901	2,173	33.5
Glaxosmithkline Pharma *	5,835	5,118	14.0	2,158	1,888	14.3	1,632	1,411	15.7
Glenmark Pharma	7,020	6,025	16.5	1,788	1,684	6.2	1,005	809	24.2
IPCA Laboratories	5,206	4,302	21.0	1,171	1,021	14.7	765	639	19.8
Lupin	13,229	11,147	18.7	2,646	1,641	61.2	1,824	1,604	13.7
Piramal Healthcare	9,505	10,000	(5.0)	1,806	1,774	1.8	1,105	1,062	4.1
Ranbaxy Laboratories *	17,670	17,163	3.0	1,237	2,220	(44.3)	937	1,165	(19.6)
SUN Pharma	11,619	10,882	6.8	3,723	3,503	6.3	3,855	4,538	(15.1)
Torrent Pharma	5,080	4,545	11.8	959	3,615	(73.5)	771	740	4.2

**year ending December, Q3CY10 estimates*

Q2FY11 earnings preview

Pipes

- ✓ Rising crude prices and increasing rig count, indicate higher exploration and development capex impairing future revenue visibility of pipe companies. Global rig count continues to increase sequentially
- ✓ Order book position of pipe companies continue to increase sequentially; growing earning visibility over a few quarters
- ✓ Ebitda margins are expected to rise sequentially coupled with a marginal volume growth
- ✓ Execution of profitable overseas orders. Sustainability of higher ERW margins

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Jindal Saw	14,190	13,705	3.5	3,086	2,562	20.5	1,770	1,464	20.9
Maharashtra Seamless	4,492	4,101	9.5	944	1,072	(11.9)	681	713	(4.5)
PSL	7,612	5,936	28.2	791	685	15.5	270	216	25.0
Welspun Corp	23,752	21,734	9.3	3,760	3,629	3.6	2,101	1,651	27.3

Q2FY11 earnings preview

Power equipment

- ✓ Equipment companies to report an 16% yoy growth in revenues
  - Robust growth in BHEL (+21% yoy), due to strong order backlog
- ✓ Operating margins expected to fall by 15bps
  - BHEL margins expected to improve marginally by 19bps, led by revenues growth and stable costs
  - Margin pressure expected to be continued for ABB and EMCO
- ✓ Earnings growth (pre-exceptional) likely to be at 17.4% yoy during the quarter
  - Crompton's earnings growth to be muted due to lower revenue growth (Euro depreciation) and high base effect of margins
- ✓ We maintain Outperformer on Crompton, Neutral on BHEL and Underperformer on ABB

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
ABB#	15,992	14,538	10.0	1,003	1,223	(18.0)	651	831	(21.6)
Bharat Heavy Electricals	80,165	66,252	21.0	13,820	11,295	22.4	10,671	8,579	24.4
Crompton Greaves	23,065	21,890	5.4	3,183	3,067	3.8	2,070	1,934	7.0
EMCO	2,256	2,014	12.0	194	260	(25.5)	31	94	(66.5)

 # Q3CY10 estimates

Q2FY11 earnings preview

Power transmission

- ✓ Power transmission companies to witness 15% yoy growth in revenues
  - Execution to be slower due to the seasonal monsoons in the quarter
- ✓ Operating margins to fall led by slower execution and change in revenue mix
  - KEC's margins to be lower due to merger of RPG cables
- ✓ Rising interest costs and higher tax rates likely to drive flattish net earnings (pre-exceptionals)
- ✓ Overall, we expect power transmission companies to show a pick up in order inflows
- ✓ We maintain our overweight stance on the sector

Key monitorables
Execution pickup and margins; order intake

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Jyoti Structures	5,400	4,696	15.0	621	505	22.9	230	209	10.0
Kalpataru Power	6,327	5,502	15.0	728	692	5.1	387	369	4.9
KEC International	10,064	8,751	15.0	996	948	5.1	415	446	(6.8)

Q2FY11 earnings preview

Power utilities

- ✓ Utilities to witness 17% yoy growth in revenues
  - NTPC expected to report strong 18% yoy increase in revenues due to generation from capacity additions over the last 12 months
  - Lanco expected to report 14% yoy growth, as higher power segment revenues (commissioning of Kondapalli-II, Amarkantak and Udipi-I) to compensate for fall in construction business revenues
  - KSK expected to report 2.4x yoy growth in revenues due to commissioning of VS Lignite plant and commencement of generation from the 1st 135MW unit of Wardha Warora plant
  - Reliance Infrastructure to benefit from rise in EPC revenues compensating for decline in power division revenues
- ✓ EBITDA to increase by 14%, led by commissioning of new capacities
- ✓ Net earnings (pre-exceptional) for companies to remain flat on yoy basis
- ✓ We maintain our overweight stance on the sector with our top picks being Reliance Infrastructure, Lanco, Adani Power and KSK

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
CESC	10,914	9,490	15.0	2,674	2,100	27.3	1,267	1,260	0.6
KSK Energy Ventures	2,906	1,213	139.7	1,743	764	128.1	801	372	115.1
Lanco Infratech	22,002	19,266	14.2	7,375	3,141	134.8	1,715	1,244	37.9
NTPC	127,463	107,839	18.2	30,983	31,367	(1.2)	19,970	21,121	(5.4)
PTC	32,034	24,582	30.3	292	297	(1.7)	315	309	1.8
Reliance Infrastructure	26,492	25,719	3.0	2,545	2,352	8.2	2,892	2,644	9.4
Tata Power Company	17,543	16,723	4.9	3,856	3,680	4.8	2,004	1,801	11.3

Q2FY11 earnings preview

Real estate

- ✓ We expect muted performance for the quarter as extended monsoon spell impacted construction activity in the NCR and MMR
- ✓ Expect ~21% yoy growth in top line of our sector universe; however qoq growth likely to be negative (~6%)
- ✓ PAT expected to fall by ~10% yoy for our sector universe as higher interest costs and lower realisations impact margins
- ✓ DLF residential volumes to remain subdued due to lack of new launches; commercial leasing expected to witness good traction
- ✓ Unitech residential volumes are also expected to be lower (2-3msf); revenue recognition to remain low due to heavy monsoon & labour constraints (due to Common Wealth Games) in the NCR
- ✓ Expect HDIL to sell ~0.9msf of TDRs in Q1FY11 at an average price of Rs2,800psf; FSI sales in Virar also to boost cashflows
- ✓ Jaypee Infratech to report lower qoq numbers as share of plotted sales come down
- ✓ No new launches by Godrej Properties during the quarter; H2FY11 to witness launches in Mangalore, Chennai and Kochi

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
DLF	19,684	17,509	12.4	9,003	9,138	(1.5)	3,771	4,394	(14.2)
Godrej Properties	653	133	389.7	221	44	405.5	288	447	(35.6)
HDIL	3,570	3,537	0.9	1,989	1,797	10.7	1,648	1,486	10.9
Jaypee Infratech	5,045	NA	-	3,212	NA	-	2,542	NA	-
Unitech	7,973	5,095	56.5	2,631	2,970	(11.4)	1,624	1,779	(8.7)

Q2FY11 earnings preview

Real estate

Company / Industry	Key monitorables
DLF	✓ Proposed listing of DLF Cyber City on Singapore Stock exchange ✓ Progress on non-core asset sales (land plots in Dwarka, TIDCO); launches in mid-income housing segment ✓ Traction in commercial leasing – improvement in leasing transactions
Unitech	✓ Completion and delivery of ongoing projects; momentum of new launches ✓ Traction in Unitech Infra, the de-merged entity – listing timelines, new order announcements etc ✓ Scale-up of Mumbai slum rehabilitation projects post separation with Omkar
HDIL	✓ Relocation of families for MIAL Phase I (expected to start by Dec-10) and acceleration of activity on MIAL Phase II & III post capital infusion (QIP) ✓ Movement in demand and price of TDRs and progress on rental housing project (Virar)
Jaypee Infratech	✓ Timeline for commissioning of Yamuna Expressway and subsequent traffic diversion ✓ Clarity on allotment of Tappal land parcel/alternate parcel in Greater Noida ✓ Completion and delivery of ongoing projects; momentum of new launches (expected in G. Noida & Agra)
Godrej Properties	✓ Expected launches in Chennai, Hyderabad, Kochi and Mangalore in FY11 ✓ Announcement of new JDAs, stake sale in existing projects

Q2FY11 earnings preview

Telecom

- ✓ We expect 2QFY11 to be seasonally weak for telcos; minutes growth should moderate to 5-8%qoq from double-digit growth in the past 2 quarters.
- ✓ Our channel checks suggests circle level promotions have continued which would drive RPM declines of 1-3%qoq.
- ✓ We expect MoU/sub/month to remain flattish due to seasonality, tough subscriber verification norms and cutting down of free minutes on the network.
- ✓ Average 6-8%qoq subscriber growth should largely offset 3-4%qoq ARPU decline leading to low-single digit sequential growth in wireless revenue.
- ✓ Wireless margins are expected to be sequentially weaker due to lower usage. But, Idea should benefit from lower losses in new circles.
- ✓ Bharti (post full quarter consolidation of Africa ops) is expected to report sequential decline in consolidated EBITDA margins and net profits. We estimate Africa operations to report 2QFY11 revenue/EBITDA/Net loss of Rs36.7/Rs8.5/Rs5.5 bn respectively.
- ✓ Rupee appreciation (vs USD) by 3.2% over the last quarter should boost the reported profits on account of forex and derivative gains.
- ✓ Key monitorbles – Minutes growth for Bharti/Idea/RCOM and margins at Africa operations for Bharti.

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Bharti Airtel*	152,740	103,785	NA	51,864	43,007	NA	16,403	22,630	NA
IDEA Cellular	38,363	29,739	29.0	9,439	8,095	16.6	2,312	1,989	16.2
Reliance Communication	52,629	57,026	(7.7)	16,793	20,198	(16.9)	2,845	10,235	(72.2)

** Note: yoy growth for Bharti not comparable due to consolidation of Africa operations from Q1FY11*

Q2FY11 earnings preview

Transportation

- ✓ **Jet Airways**
  - The airline is expected to report an net consolidated loss of Rs1.58bn during the quarter. On the back of seasonal weakness during the second quarter, we expect to see a 5-6% drop across yields and loads on a sequential basis.
  - However, with demand expected to grow 2X supply, we remain bullish on aviation.
  - Jet Airways has approached RBI, seeking permission and certain exemptions inorder to raise ECBs worth $750m inorder to replace the high cost rupee debt with low cost ECB.
- ✓ **GE Shipping**
  - While the shipping business is expected to report a 17% decline, we expect the offshore business to report a 45% growth yoy.
  - The quarter includes gain on sale of ships (Jag Pranam) and a AHTSV vessel (Abha) leading to a gain of ~Rs350m during the quarter as against a gain of Rs538m in Q1FY10.
  - The global economic recovery, and thereby improvement in freight rates remains a key moniterable.
  - The offshore subsidiary has filed for a DRHP. We expect the IPO within the next 1-2 months at a value of $350-400m

Q2FY11 earnings preview

Transportation

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Great Eastern Shipping	6,410	6,627	(3.3)	2,596	1,684	54.2	1,544	1,085	42.4
Jet Airways	31,420	26,258	19.7	1,832	(736)	(348.8)	(1,589)	(5,328)	(70.2)

Q2FY11 earnings preview

Others

- **Nilkamal**
  - In Q2FY10, Nilkamal is expected garner a revenue growth of 26% at Rs3.1bn. Core plastics business expected to garner a 13%+ volume growth and 20%+ value growth and the home furniture retailing business @home expected to garner a 50% revenue growth to ~Rs450m
  - Nilkamal is expected to garner overall EBITDA margins of 11.1% during the quarter, which on a yoy basis would be contraction of ~160bp. This is on the back of raw material prices being at the lowest levels in Q2FY10 and Q3FY10.
  - Further, @home is expected to move into the black in this quarter
  - Maintain Outperformer
- **Sintex**
  - Government's sustained focus on rural infrastructure development along with improving domestic demand visibility, to enhance revenue visibility of Sintex's domestic operations
  - Synergy benefits from over seas operations and management's continuous focus on cost savings to see gradual improvement in operating margins at consolidated level
  - Upside in revenues from Monolithic segment

(Rs m)	Net Sales			EBITDA			Profit After Tax		
	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy	Q2FY11E	Q2FY10	% chg yoy
Nilkamal	3100.0	2462.0	25.9	345.0	314.0	9.9	150.0	131.3	14.2
Sintex	10,104	7,154	41.2	1,849	1,305	41.7	1,008	573	75.9

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